

The Fiscal Year 2008 Budget:

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



Legislative Finance Division

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

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

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

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Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Introduction

As required by law, the Governor released her FY08 budget proposal to the public and the legislature on December 15, 2006. The Legislative Finance Division prepared this Overview of the Governor's proposal and "subcommittee books" for each agency in accordance with AS 24.20.211-231.

In fairness to the Governor, her budget should be viewed as a "work in progress." The period between inauguration and December 15 is short, and the budget should not be expected to be a comprehensive plan at this stage of development. Amendments are to be expected and she has voiced her willingness to work with the legislature to develop a budget that meets the needs of Alaskans.

The Budget as an Expression of Policy

According to a Governor's Office press release, the FY08 budget was presented as a "direct reflection of the Governor's commitment to tax less, spend less, save more, and live within the state's means..." Release of the budget provides an opportunity to see how the Governor expects to implement her policy statements. Each policy point is discussed below.

Tax Less

The Governor mentioned two specific items under this heading: repealing the tax on studded tires and rolling back an increase in business license fees. Although the fiscal impact of the two actions is less than \$6 million in FY08, no one can argue that the budget conflicts with her policy statements.¹ The important tax issue—will the Governor push a sales tax or a personal income tax?—is not addressed in the budget, nor should anyone expect it to be. If and when broad-based taxes are discussed, the discussion will likely come as part of the development of a long-term fiscal plan.

Spend Less

The fiscal summary on page 6 shows that the Governor's general fund operating budget—which is typically what people mean when they refer to "the budget"—is \$413 million *more* than the FY07 budget (excluding \$150 million in unallocated reductions). The capital budget, however, contains nearly \$670 million *less* general funds than the FY07 capital budget. The net result is a general fund budget that is \$285 million below the FY07 level.

As the budget becomes increasingly complicated, comparisons of annual spending become more difficult. Perhaps the important question is not "How much is the proposed budget?" but "How realistic is the proposed budget?"

In this regard, few would argue with conclusions that 1) the proposed capital budget contains little more than the minimum required to match federal funds, and 2) the capital budget is unlikely to exit the legislative process at the proposed minimalistic level. (See the capital budget section of this Overview for a discussion of what is *not* in the capital budget.)

Where the operating budget will end up is less certain. The Governor's proposed \$150 million unallocated reduction of executive branch appropriations is unusual. The Legislative Finance fiscal

¹ On a technical note, the loss of tire tax revenue is reflected in the Governor's fiscal summary, but the loss of business license fees is not. If fees are rolled back, the budget overspends business license revenue by \$3.9 million in FY08.

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summary excludes the unallocated reduction from the FY08 budget request—it is shown as an adjustment on line 27 of the fiscal summary—for several reasons:

- While the unallocated reduction serves the purpose of setting a target level of expenditures, the target will not be achieved until specific reductions are identified.
- An unallocated reduction of such size and scope would raise Constitutional questions regarding the power of appropriation because it gives the Governor too much ability to modify legislative action.
- Using budget targets instead of valid appropriations diminishes the value of comparing budgets from one year to another.

When the Governor identifies specific reductions, they can be counted as the “Governor’s budget” rather than as the “Governor’s target.” At this point, the Governor’s unallocated reduction indicates her target level of spending on the operating budget. Discussion later in this introduction outlines some upward pressures on the budget.

Save More

The Governor’s method of saving more money is a radical shift in policy, particularly from the legislature’s perspective. The policy shift is in *how to save* more than in *how much to save*.

The Governor plans to deposit \$1.3 billion from the **Permanent Fund** Earnings Reserve Account (ERA) to Permanent Fund principal. This is simply a transfer from one savings account to another. Reasons the legislature has avoided such transfers in recent years include:

- Permanent Fund principal cannot be accessed without a Constitutional amendment, so the action locks up money that might be needed for other purposes.
- Money in the ERA needs no protection beyond the historical reluctance to spend it.

Bottom line: with an uncertain future, why reduce flexibility by depositing money into the principal of the Permanent Fund?

The Governor plans to allow the entire FY07 and FY08 surpluses—estimated to be \$1.35 billion and \$640 million, respectively—to be swept into the **Constitutional Budget Reserve Fund** (CBRF). In order to achieve this level of savings, the supplemental budget for FY07 would be limited to \$60 million—far lower than in recent history.

But the real issue is *how* money is saved. The legislature saved over \$800 million of the FY06 surplus, and specifically avoided allowing surplus funds to be swept into the CBRF. While the CBRF is easier to access than the Permanent Fund, some legislators believe the process of obtaining the required supermajority vote causes spending to increase.

Bottom line: savings accounts vary in purpose and flexibility; the CBRF may not be the savings account of choice.

While the Governor supports early funding of education, she plans to drain \$509 million from the **education savings account**. One purpose of the legislature’s deposits to the Public Education Fund was to build the balance so that K-12 education is funded a full year in advance. The final steps in that process are to deposit \$500 million of the FY07 surplus into the Fund and replenish the Fund balance—not drain it—during the FY08 budget process.

The depletion of the education savings account is a major change in policy that could have a significant impact on the FY09 budget. Without the savings account as a source of funding, the FY09 budget will require \$500 million more in general funds for K-12 education than is proposed

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in the Governor's FY08 budget. Effectively, the Governor's education funding plan simply transfers savings from the Public Education Fund to the CBRF in FY08. If FY09 general fund spending is the same as shown in the fiscal summary for FY08, and if FY09 revenue is at the level projected by the Department of Revenue, FY09 general fund appropriations will exceed revenue.

Bottom line: the Governor's plan reverses two years of progress toward pre-funding K-12 education while increasing the probability of needing access to the CBRF in FY09 or FY10.

Live within our Means

While "live within your means" sounds like solid financial advice applicable to every personal, business or government entity, the truth is that a balanced budget is a long-term goal that is unlikely to be met in any particular year. Because state revenue is so dependent on petroleum prices, Alaska's revenue stream is extremely volatile. After surviving several years of budgets in which draws from the CBRF were routine, we have entered a period of budget surpluses.

The Governor clearly does not intend "living within our means" to be interpreted as "spending all available revenue." Undoubtedly, the opposite is true. This policy statement appears to have a long-term perspective: save when times are good (and the state may never again be in as strong a fiscal position as this year) because future conditions may be less favorable.

The legislature has taken a similar view:

- there has been deep concern about adding operating programs that cannot be sustained if revenue doesn't remain at relatively lofty levels, while
- capital projects are seen as one-time items that can fluctuate with revenue
- as long as a large share of the surplus is saved.

"Live within our means" is the least specific of the Governor's policy statements, and may appear to be the one least likely to generate philosophical opposition. However, given the Governor's proposed increases in the operating budget and large reductions in capital spending, there may be a great deal of disagreement about implementation.

Evaluating the Governor's Operating Budget

Agency summaries (operating budget on pages 9 & 10 and capital budget on page 53) provide a quick look at the Governor's proposed budget compared with FY07 spending. Greater detail is available in the discussion of the operating budget (page 7) and the agency write-ups beginning on page 63, and subcommittee members will want to review the detailed agency books available in the Finance Committee rooms.

A summary of Alaska's current fiscal situation follows:

- The available general fund balance from FY07 is \$1.35 billion.
- The Governor plans to deposit the entire FY07 general fund balance in the CBRF, leaving only a \$60 million placeholder for supplemental appropriations. (The \$60 million placeholder may be adequate for supplemental operating needs.)
- In addition to the FY07 surplus, over \$800 million is available in savings accounts.
- FY08 general fund revenue is projected to be about \$1 billion less than in FY07.

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- The Governor plans to increase the operating budget substantially while paring the capital budget to little more than the minimum required for federal match.
- The Governor plans to empty the Public Education Fund of its \$500 million balance.
- The Governor's \$640 million projected surplus in FY08 would turn into a deficit if
 - FY08 funds were used to pay the full cost of FY08 K-12 education (rather than draining the \$500 million savings account)
 - Specific reductions do not replace a \$150 million unallocated reduction proposed by the Governor.
- Proposed spending of federal and other funds mirrors the Governor's general fund budget—operating appropriations increase while capital appropriations decrease.

Despite a “spend less” policy, the Governor proposes reestablishing a program that makes monthly payments to older Alaskans:

- **Alaska Longevity Bonus (\$34 million).** Under the Governor's proposal, qualified seniors who were accepted into the program on or before December 31, 1996 will receive a monthly bonus check. No new applicants will be accepted into the program.

The Governor also proposes continuing or expanding several programs that the legislature did not fund on a continuing basis in FY07:

- **Retirement costs of political subdivisions (\$78 million).** Funding for increased retirement system costs of political subdivisions was approved as a one-time appropriation in FY07. Retirement rate increases are roughly four times as large as the increases that occurred in FY07. Although the State has no legal obligation to pay retirement costs for local governments, the Governor proposes covering the full cost of the increases.
- **Local Government Support (\$48 million).** This program would replace the State Revenue Sharing (SRS) and the Safe Communities (formerly called Municipal Assistance) programs. Since FY 2000, the funding for SRS and Safe Communities was about \$30 million per year. In FY07, the State gave municipalities a one-time appropriation of \$48.1 million of general funds to defray increased energy and other costs.
- **K-12 Formula Adjustments (\$35 million).** Funding was appropriated to school districts in FY07 for School Improvement Grants (\$11.0 million GF) and for Cost Factor Adjustments (\$24.0 million GF). The Governor proposes continuing both programs.

While the Governor unarguably controls budget requests by executive branch agencies, there is often less choice involved in funding agency operations than in funding the grant programs listed above. Major general fund operational increments in the Governor's budget include:

- **State Employee Retirement Costs, Health Costs and Contractual Wage Adjustments (\$185 million).**
- **School District Retirement Costs (\$207 million).**
- **Formula and other programs with costs driven by population, fuel prices and other “hard to control” increases.** These include:
 - Department of Corrections (\$13 million)
 - Department of Education and Early Development (\$6 million)

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- Department of Health and Social Services (\$98 million)
- Department of Transportation & Public Facilities (\$26 million)
- University of Alaska (\$10 million)
- Debt Service (\$20 million).

The nondiscretionary nature of many of the operational increments in the Governor's budget doesn't leave much flexibility for identifying \$150 million in reductions, as the Governor hopes to do. The task of reducing the budget is made more difficult by the exclusion (from the Governor's bill) of several items with high potential costs. These include:

- **An increase in K-12 funding.** Covering retirement cost increases of school districts will cost the State over \$200 million in FY08, yet it puts no more money in the classroom. Given the financial shortages facing many school districts, there will be substantial pressure to increase state aid to school districts.
- **Revising K-12 district cost factors.** The Governor's request for \$24 million for this purpose covers the cost of implementing only one-quarter of the recommended changes. This is the same level of funding as was provided in FY07 on a one-time basis. Full implementation of the recommended reallocation of school aid would cost about \$100 million.
- **Medicaid match changes.** If the federal medical assistance percentage (FMAP), which is the percentage of program expenses reimbursed by the federal government, declines as scheduled, the estimated FY08 cost to Alaska is \$37 million.
- **Unfunded liability of retirement systems.** Although the Governor's budget covers retirement contribution rate increases for school districts and state and local government, it makes no use of the surplus to reduce the unfunded liability of the retirement systems.² The total unfunded liability is about \$7 billion and is expected to increase during the next five years.
- **Capital appropriations.** The proposed capital budget is minimalistic; it contains little more than the amounts required to match federal funds. See the Capital Budget section for details.
- **Fiscal Notes.** The Governor's budget contains no placeholder for the cost associated with new legislation.

On a positive note, there is money available that could be used to make dollar-for-dollar reductions in general fund appropriations. The Governor's budget does not appropriate the \$28 million available in the Capital Income Fund, the \$300+ million available in the "AHFC savings account" and does not use \$40 million of potential return of capital from the Alaska Student Loan Corporation.

² All employer contribution rates reflected in the budget are ten points above the actuarial rates that were designed to eliminate the unfunded liability in 25 years. In this sense, the budget addresses the unfunded liability problem.

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State of Alaska Fiscal Summary (\$ millions)

	FY07 Management Plan with Adjustments				FY08				GF Change
	GF	Federal	Other	Total	GF	Federal	Other	Total	
REVENUE (Excludes Permanent Fund Earnings)									
1 Unrestricted General Fund Revenue (Fall 2006) (1)	4,912.3		299.7	4,912.3	3,936.1		28.1	3,936.1	
2 Bond Proceeds and Other Borrowing (2)			67.2	299.7			86.5	28.1	
3 Net Corporate Dividends (3)			976.5	4,049.3			1,167.2	86.5	
4 Federal and Other Funds		3,072.7				2,558.1		3,725.3	
5 Total Revenue	4,912.3	3,072.7	1,343.5	9,328.5	3,936.1	2,558.1	1,281.8	7,776.0	
APPROPRIATIONS									
6 Operating									
7 Agency Operations (Non-Formula)	3,320.4	1,796.3	1,053.1	6,169.9	3,733.5	1,849.3	1,162.5	6,745.2	413.0
8 Formula Programs	1,551.7	845.1	1,484.6	3,881.4	2,023.7	840.7	1,564.6	4,429.1	
9 Debt Service	1,495.4	911.7	87.5	2,494.5	1,592.4	975.3	92.3	2,660.0	
10 Fund Capitalization	60.3	9.3	251.9	321.5	80.6	11.8	264.5	356.9	
11 Duplicated Authorization (4)	213.1	30.2	24.3	267.6	36.8	21.5	71.0	129.2	
12 Capital									
13 Project Appropriations & RPLs (Revised Programs)	759.9	1,276.5	299.9	2,336.3	91.7	708.9	119.3	919.9	(668.2)
14 Mental Health Projects	722.0	1,276.4	176.9	2,175.3	81.1	708.9	144.3	934.2	
15 Projects Funded with Debt Proceeds	8.0	0.0	6.9	14.9	10.6	0.0	5.3	15.9	
16 Fund Capitalization	0.0	0.0	297.1	297.1	0.0	0.0	26.2	26.2	
17 Duplicated Authorization (4)	29.8	0.1	28.0	57.9	0.0	0.0	0.0	0.0	
18 Supplemental Placeholder (5)									
19 Total Authorization (unduplicated)	60.0	3,072.9	1,353.1	8,506.2	30.0	2,558.1	1,281.8	30.0	(285.1)
20 Unadjusted Surplus (Draw From CBR)	4,140.3				3,855.1			7,665.1	
21 ADJUSTMENTS TO REVENUE	772.0				81.0				
22 Public Education Fund crossing Fiscal Years (6)									
23 Carryforward and Other Adjustments (7)	579.3	0.2	9.5	589.0	509.1		7.5	509.1	
24 Adjusted Total Revenue	5,491.6	3,072.9	1,353.1	9,917.6	4,436.0	2,558.1	1,289.2	8,283.3	(1,055.7)
25 ADJUSTMENTS TO AUTHORIZATION									
26 Governor's Unallocated Reductions (8)					(150.0)			(150.0)	
27 School Construction (9)					89.7			89.7	
28 Total Authorization (unduplicated)	4,140.3	3,072.9	1,353.1	8,506.2	3,794.8	2,558.1	1,281.8	7,515.1	(345.4)
29 Revised Surplus (Draw From CBR)	1,351.4				641.1				
30 Permanent Fund Dividends			878.0	878.0			1,072.0	1,072.0	
31 Permanent Fund Inflation Proofing & Other Deposits			732.0	732.0			2,073.0	2,073.0	
32 TOTAL WITH PERMANENT FUND	4,140.3	3,072.9	2,963.1	10,176.3	3,794.8	2,558.1	4,426.8	10,779.7	(345.4)
33 Notes:									

- (1) Revenue assumptions are from the Fall 2006 Revenue Sources Book. The oil forecast is 0.740 million barrels per day (mbd) at \$59.15 per barrel in FY07 and 0.782 mbd at \$51.25 per barrel in FY08. FY08 general fund revenue is \$25 million higher than shown in the Fall 2006 Revenue Sources Book. DOR reduces revenue by the \$25 million in projected petroleum tax refunds while LFD prefers to show both revenue and the appropriation for refunds.
- (2) The FY07 budget includes \$170.0 million in funding from securitization of the tobacco settlement revenue stream, which reduces future revenue, \$127.2 million in Airport bonds, and \$2.6 million in clean/drinking water bonds.
- (3) Corporate dividends include funds made available to the State by the boards of AHFC, AIDEA, and ASLC. Dividends retained by AHFC for debt service on state capital project bonds are excluded from the stated amount.
- (4) 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.
- (5) This is a placeholder for supplemental operating needs; money for this purpose has not yet been appropriated for FY07 or FY08.
- (6) The Governor's FY08 budget employs the Public Education Fund, savings from the FY06 surplus are spent without replacement.
- (7) Adjustments for FY07 include carryforward of prior-year appropriations. Adjustments for FY08 include: +\$25 million GF for refunds under PPT and -\$1.8 million for fire taxes. Both years include an adjustment for vehicle rental tax receipts.
- (8) The Governor's FY08 budget contains \$150 million in unspecified reductions. The reductions cannot remain unspecified in the final budget.
- (9) Ch 82, SLA 2006 appropriated FY08 funds for school construction. These appropriations were made by the last legislature and are not proposed by the Governor.

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Operating Budget

The fiscal summary provides a “big picture” of the budget, including revenue, debt, transfers, new legislation and capital projects. This introduction to the operating budget focuses on how to put the Governor’s request in perspective.

Comparisons between FY07 and FY08 budgets are complicated for the following reasons:

- The Governor’s bill appropriates the entire balance (approximately \$509.1 million) of the Public Education Fund to support the FY08 K-12 operating budget. The FY08 budget would be \$509 million higher without the use of these prior-year savings.
- The FY07 Management Plan (MP) contains more than \$325 million of “one-time” general fund appropriations. Although one-time items will also be included in the FY08 budget, they will not appear in reports until after the beginning of FY08. This understates the FY08 budget relative to FY07.

COMPARISON DIFFERENCES

Because of the comparison complications, the Governor’s FY08 Budget books (“short forms”) make three comparisons. The advantages and disadvantages of using each of the columns are discussed in the paragraphs below. The following table highlights items included in the columns that are compared to the Governor’s request.

	(GF Only)	Change from Gov Request	% Change
FY 07 Management Plan	\$3,320,431.4	\$263,022.3	7.9%
<i>One-time Items removed</i>	(337,743.9)		
FY 07 Base Budget	\$2,982,687.5	\$600,766.2	20.1%
<i>FY 08 PERS/TRS Cost Increases</i>	141,858.6		
<i>FY 08 Health Cost Increases</i>	5,275.6		
<i>FY08 Contractual Salary Increases</i>	3,493.3		
FY 08 Adjusted Base Budget	\$3,133,315.0	\$450,138.7	14.4%
<i>FY 08 PERS Fund Source Changes</i>	35,778.4		
<i>FY08 Health Costs Fund Source Changes</i>	3.5		
<i>FY 08 Fuel Increments</i>	21,504.5		
<i>FY 08 Governor's GF Increments/Decrements</i>	392,852.3		
FY 08 Governor's Request	\$3,583,453.7		

FY07 Management Plan to the Governor’s request: \$263 million (7.9%): Because the FY07 Management Plan contains many one-time items, this comparison understates the Governor’s request relative to FY07. For example, a one-time appropriation of \$182.7 million to the PCE Endowment is included in the FY07 Management Plan. Removing this one-time item makes it appear that the Governor cut \$182.7 million from her budget in FY08.

However, all one-time items do not necessarily distort budget comparisons. For example, \$24 million in fuel increments, \$35 million in K-12 education grants and \$48 million for local government assistance were in the FY07 Management Plan but were removed from the Base and Adjusted Base columns (because they were intended to be one-time appropriations). The Governor recognizes the difficulty of failing to fund some one-time programs and continued funding them in FY08.

FY07 Base to the Governor’s request: \$600.8 million (20.1%). The FY07 Base column is FY07 Management Plan with one-time items removed. Base-to-Governor provides the best “apples-to-apples” comparison of budgets for different fiscal years. However, the Base-to-Governor comparison

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excludes non-discretionary costs (such as increased retirement and fuel costs) required to maintain the same level of service.

FY08 Adjusted Base to Governor's request: \$450.1 million (14.4%). Adjustments to the base column include incorporation of FY08 nondiscretionary increases that the legislature may accept or reject on a statewide level. Adjusted base is the starting point for subcommittee discussion of the Governor's request.

FY08 Adjusted Base includes increases, totaling \$250.8 million (\$150.4 million of GF), for the three types of salary adjustments below:

- **FY08 Retirement Systems Cost Increases**—The employer PERS and TRS increases for the State total \$239.5 million (\$141.9 million GF and \$97.6 million of Federal and Other Funds). The huge increases are attributable to increases from the FY07 rates to FY08 of over 20 percentage points (from about 23% in FY07 to approximately 44% in FY08).
- **FY08 Contractual Wage Increases for Bargaining Units and Non-Covered Employees**—contractual salary increases (varies by bargaining unit). These total approximately \$4 million statewide (\$3.5 million GF/ \$.5 million Federal Receipts and Other Funds).
- **FY08 Health Insurance Cost Increases for Bargaining Units and Non-Covered Employees**—employer health insurance costs have increased by \$16 per month for many employees. The statewide total is \$7.6 million (\$5.3 million GF/\$2.3 million Federal Receipts and Other Funds).

The Governor's column includes program increments and fund source changes that the legislature may wish to consider on an individual basis.

The following summary tables make the three comparisons discussed above. Note that Agency Summary reports include duplicated fund sources, while the fiscal summary removes these items from the operating portion of the budget. Please see the agency narratives for details on significant issues in each agency's budget.

In addition to summaries of agency budgets, the Overview contains discussions of fund source changes for increased salary costs (general funds replacing federal and "other" fund sources), position changes and details of debt obligations.

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Agency Summary - FY 2008 Operating Budget - Total Funds										
Agency	06Actual	07 CC	07MgtPln	07 Base	Adj Base	Gov	07MgtPln to Gov	07 Base to Gov	Adj Base to Gov	
Administration	240,338.8	259,824.2	278,141.2	256,723.8	270,822.3	562,995.5	284,854.3	119.3 %	292,173.2	107.9 %
Commerce, Community & Economic Dev	133,363.7	152,494.8	200,758.4	151,852.3	158,525.4	207,999.3	7,240.9	37.0 %	49,473.9	31.2 %
Corrections	195,184.2	213,729.7	214,449.3	214,032.9	231,856.5	245,058.6	30,609.3	14.3 %	13,202.1	5.7 %
Education & Early Development	1,113,347.6	571,135.8	1,275,200.0	1,237,340.0	1,241,274.9	1,245,409.8	-29,790.2	-2.3 %	4,134.9	0.3 %
Environmental Conservation	54,137.4	61,249.9	61,498.4	61,351.1	67,074.5	76,721.4	15,223.0	24.8 %	9,646.9	14.4 %
Fish and Game	138,870.0	168,890.4	169,258.1	167,784.3	180,631.3	180,345.8	11,087.7	6.6 %	-285.5	-0.2 %
Office of the Governor	19,763.4	22,118.0	38,253.8	19,357.9	21,332.8	21,329.1	-16,924.7	-44.2 %	-37	0.0 %
Health & Social Services	1,743,158.9	1,974,933.1	1,976,219.0	1,966,913.4	2,000,935.9	2,160,336.1	184,117.1	9.3 %	159,400.2	8.0 %
Labor & Workforce Development	140,224.5	170,133.8	170,610.3	170,169.7	180,289.0	176,892.0	6,281.7	3.7 %	-3,397.0	-1.9 %
Law	78,047.5	65,647.6	66,807.0	64,918.8	72,117.5	73,890.2	7,083.2	10.6 %	1,772.7	2.5 %
Military & Veterans Affairs	40,039.5	43,011.1	43,512.3	42,929.0	44,955.4	46,662.2	3,149.9	7.2 %	1,706.8	3.8 %
Natural Resources	126,498.8	120,062.1	131,309.2	119,302.1	129,072.4	139,120.1	7,810.9	5.9 %	10,047.7	7.8 %
Public Safety	118,174.8	137,633.1	139,147.0	136,151.0	148,905.1	153,034.3	13,887.3	10.0 %	4,129.2	2.8 %
Revenue	187,271.3	214,482.5	218,156.8	214,565.4	221,330.5	263,896.3	45,739.5	21.0 %	42,565.8	19.2 %
Transportation & Public Facilities	480,102.3	479,404.8	489,241.0	479,574.0	522,471.1	544,340.2	55,099.2	11.3 %	21,869.1	4.2 %
University of Alaska	638,053.0	774,108.1	775,433.1	774,261.1	822,166.3	841,174.0	65,740.9	8.5 %	19,007.7	2.3 %
Alaska Court System	66,280.4	70,890.3	76,750.9	76,485.3	85,772.5	89,105.2	12,354.3	16.1 %	3,332.7	3.9 %
Legislature	44,562.8	51,594.5	55,421.8	55,346.8	60,649.8	60,724.8	5,303.0	9.6 %	75.0	0.1 %
Debt Service	299,011.5	324,953.6	321,486.5	321,486.5	321,486.5	356,892.1	35,405.6	11.0 %	35,405.6	11.0 %
Fund Capitalization	1,632,054.7	1,669,104.2	1,874,253.1	1,683,303.1	1,683,303.1	3,274,208.7	1,399,955.6	74.7 %	1,590,905.6	94.5 %
Public Education Fund	0.0	-3,352.6	-3,352.6	0.0	0.0	0.0	3,352.6	-100.0 %	0.0	
Gov's FY08 Spending Reductions	0.0	0.0	0.0	0.0	0.0	-150,000.0	-150,000.0	>999 %	-150,000.0	>999 %
Total - Operating Budget	7,468,485.1	7,542,049.0	8,572,554.6	8,213,848.5	8,484,972.8	10,570,136.7	1,997,581.1	23.3 %	2,356,287.2	28.7 %
General Funds	2,798,480.6	2,312,795.5	3,320,431.4	2,982,687.5	3,133,315.0	3,583,453.7	263,022.3	7.9 %	450,138.7	14.4 %
Federal Receipts	1,526,918.5	1,778,787.9	1,795,429.2	1,785,882.7	1,814,428.5	1,849,267.6	53,838.4	3.0 %	34,839.1	1.9 %
Other	3,143,086.0	3,450,465.6	3,456,694.0	3,445,278.3	3,517,229.3	5,137,414.4	1,680,720.4	48.6 %	1,620,185.1	46.1 %

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Agency Summary - FY 2008 Operating Budget - General Funds												
Agency	06 Actual	07 CC	07 MgtPln	07 Base	Adj Base	Gov	07 MgtPln to Gov	07 Base to Gov	Adj Base to Gov			
Administration	74,233.8	61,560.1	79,873.8	58,725.5	65,342.4	352,525.4	272,651.6	341.4 %	293,799.9	500.3 %	287,183.0	439.5 %
Commerce, Community & Economic Dev	14,518.3	5,241.8	53,486.5	4,988.3	5,704.7	54,438.1	951.6	1.8 %	49,449.8	991.3 %	48,733.4	854.3 %
Corrections	177,601.5	185,052.3	185,771.9	185,355.5	202,539.7	215,704.7	29,932.8	16.1 %	30,349.2	16.4 %	13,165.0	6.5 %
Education & Early Development	886,554.4	319,561.4	1,023,584.1	987,724.1	989,121.7	995,180.6	-28,403.5	-2.8 %	7,456.5	0.8 %	6,058.9	0.6 %
Environmental Conservation	14,261.5	16,196.6	16,445.1	16,297.8	17,845.3	20,928.5	4,483.4	27.3 %	4,630.7	28.4 %	3,083.2	17.3 %
Fish and Game	33,764.2	38,665.2	39,032.9	38,889.8	42,760.7	52,680.3	13,647.4	35.0 %	13,790.5	35.5 %	9,919.6	23.2 %
Office of the Governor	17,732.6	17,785.4	33,359.7	17,833.4	19,694.0	19,839.8	-13,519.9	-40.5 %	2,006.4	11.3 %	145.8	0.7 %
Health & Social Services	677,788.3	748,396.5	748,485.6	743,654.7	762,678.6	861,448.3	112,962.7	15.1 %	117,793.6	15.8 %	98,769.7	13.0 %
Labor & Workforce Development	16,018.5	19,384.7	19,815.1	19,674.5	20,987.5	31,544.9	11,729.8	59.2 %	11,870.4	60.3 %	10,557.4	50.3 %
Law	55,719.7	39,225.7	40,378.7	38,490.5	43,037.2	46,983.5	6,604.8	16.4 %	8,493.0	22.1 %	3,946.3	9.2 %
Military & Veterans Affairs	13,431.0	12,740.9	13,237.9	12,654.6	13,448.4	14,724.9	1,487.0	11.2 %	2,070.3	16.4 %	1,276.5	9.5 %
Natural Resources	65,618.5	58,508.4	68,375.4	58,700.4	63,651.8	74,320.2	5,944.8	8.7 %	15,619.8	26.6 %	10,668.4	16.8 %
Public Safety	93,869.2	104,368.3	105,882.2	103,386.2	114,781.6	118,997.1	13,114.9	12.4 %	15,610.9	15.1 %	4,215.5	3.7 %
Revenue	16,100.3	12,453.4	15,837.1	12,561.8	13,779.1	43,057.4	27,220.3	171.9 %	30,495.6	242.8 %	29,278.3	212.5 %
Transportation & Public Facilities	194,925.1	191,299.7	200,414.5	191,409.5	209,062.4	235,258.9	34,844.4	17.4 %	43,849.4	22.9 %	26,196.5	12.5 %
University of Alaska	249,207.2	279,651.0	280,976.0	279,804.0	321,752.8	331,819.8	50,843.8	18.1 %	52,015.8	18.6 %	10,067.0	3.1 %
Alaska Court System	64,052.5	68,243.4	74,104.0	73,838.4	83,125.6	86,685.8	12,581.8	17.0 %	12,847.4	17.4 %	3,560.2	4.3 %
Legislature	43,944.5	50,912.8	54,740.1	54,665.1	59,968.1	59,936.2	5,196.1	9.5 %	5,271.1	9.6 %	-31.9	-0.1 %
Debt Service	56,817.1	63,727.8	60,260.7	60,260.7	60,260.7	80,605.8	20,345.1	33.8 %	20,345.1	33.8 %	20,345.1	33.8 %
Fund Capitalization	32,322.4	23,172.7	209,722.7	23,772.7	23,772.7	36,773.5	-172,949.2	-82.5 %	13,000.8	54.7 %	13,000.8	54.7 %
Public Education Fund	0.0	-3,352.6	-3,352.6	0.0	0.0	0.0	3,352.6	-100.0 %	0.0		0.0	
Gov's FY08 Spending Reductions	0.0	0.0	0.0	0.0	0.0	-150,000.0	-150,000.0	>999 %	-150,000.0	>999 %	-150,000.0	>999 %
Total - Operating Budget	2,798,480.6	2,312,795.5	3,320,431.4	2,982,687.5	3,133,315.0	3,583,453.7	263,022.3	7.9 %	600,766.2	20.1 %	450,138.7	14.4 %

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Position Comparison

The Governor's FY08 Operating Budget request adds 40 permanent full-time (PFT) positions to the FY07 Base. In addition, 154 PFTs were added during FY07 to the number authorized by the legislature, so the total increase from the authorized level is 194. Overall, the Governor's FY08 statewide budget contains 23,380 total positions (full-time, part-time, and temporary).

AS 39.25 establishes the system of personnel administration within the state and describes the governor's authority to create and appoint positions within the executive branch. Positions (i.e. Position Control Numbers – PCNs) do not necessarily equate to the number of actual employees. More than one person can fill a single PCN, and many PCNs are vacant.

Permanent Full-Time Positions Only				
<u>Agency</u>	07Base	Gov	Change from 07Base to Gov	% Change from 07Base to Gov
Administration	1,028	1,029	1	0.1%
Commerce, Community and Economic Development	511	511	-	0.0%
Corrections	1,502	1,511	9	0.6%
Education and Early Development	306	306	-	0.0%
Environmental Conservation	511	537	26	5.1%
Fish and Game	862	862	-	0.0%
Office of the Governor	155	155	-	0.0%
Health and Social Services	3,307	3,313	6	0.2%
Labor and Workforce Development	901	844	(57)	-6.3%
Law	535	540	5	0.9%
Military and Veterans Affairs	294	294	-	0.0%
Natural Resources	775	789	14	1.8%
Public Safety	822	831	9	1.1%
Revenue	866	872	6	0.7%
Transportation & Public Facilities	3,011	3,018	7	0.2%
University of Alaska	3,967	3,967	-	0.0%
Alaska Court System	724	738	14	1.9%
Legislature	243	243	-	0.0%
Total - All Agencies	20,320	20,360	40	0.2%

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Non-Duplicated State Funding

Traditionally, comparisons of the Governor's operating budget have been made using two "Agency Summary" reports—a report comparing *total funds* (includes all federal, general, and other funds) and a report comparing only *general funds*.

This Overview includes a third report comparing differences in *non-duplicated state funding*. Over the years, several fund sources have moved from the general funds (GF) group to the "other funds" group. Although transferring funding from GF to the Other fund group does not affect total spending, it does make it more difficult to see the true level of state spending.

The *State Funds* report shows all non-duplicated funds except federal receipts. Duplicate counting occurs when money is appropriated more than once. For example, an appropriation of general funds may be used to capitalize the Debt Retirement fund, and money in the Debt Retirement Fund may then be appropriated to pay debt service. Appropriations from the Debt Retirement Fund are classified as "duplicated." Reports using this fund group will not match the appropriations bill because the appropriations bill includes duplicated appropriations.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Agency Summary - FY 2008 Operating Budget - Non-Duplicated State Funds												
Agency	06Actual	07 CC	07MgtPln	07 Base	Adj Base	Gov	07MgtPln to Gov	07 Base to Gov	Adj Base to Gov			
Administration	116,509.3	106,805.3	125,340.5	103,923.1	113,268.6	400,886.3	275,545.8	219.8 %	285.8 %	296,963.2	287,617.7	253.9 %
Commerce, Community & Economic Dev	75,785.8	83,732.3	131,992.9	83,344.7	88,559.1	137,268.7	5,275.8	4.0 %	64.7 %	53,924.0	48,709.6	55.0 %
Corrections	184,635.5	193,815.9	194,535.5	194,119.1	211,430.1	223,576.8	29,041.3	14.9 %	15.2 %	29,457.7	12,146.7	5.7 %
Education & Early Development	910,876.3	349,174.9	1,053,239.1	1,015,379.1	1,017,962.1	1,023,657.4	-29,581.7	-2.8 %	0.8 %	8,278.3	5,695.3	0.6 %
Environmental Conservation	19,730.0	23,983.2	24,231.7	24,084.4	26,363.6	34,169.6	9,937.9	41.0 %	41.9 %	10,085.2	7,806.0	29.6 %
Fish and Game	69,620.1	86,751.4	87,119.1	85,645.3	92,490.2	99,669.6	12,550.5	14.4 %	16.4 %	14,024.3	7,179.4	7.8 %
Office of the Governor	18,354.6	21,316.7	36,929.9	18,556.6	20,433.7	20,579.5	-16,350.4	-44.3 %	10.9 %	2,022.9	145.8	0.7 %
Health & Social Services	752,362.6	813,864.1	814,528.2	809,642.3	830,129.8	930,801.7	116,273.5	14.3 %	15.0 %	121,159.4	100,671.9	12.1 %
Labor & Workforce Development	39,102.3	46,874.9	47,340.9	46,900.3	49,650.2	61,238.2	13,897.3	29.4 %	30.6 %	14,337.9	11,588.0	23.3 %
Law	57,374.1	43,036.7	44,192.3	42,304.1	47,043.5	50,989.8	6,797.5	15.4 %	20.5 %	8,685.7	3,946.3	8.4 %
Military & Veterans Affairs	13,526.2	13,437.5	13,935.3	13,352.0	14,145.8	15,172.3	1,237.0	8.9 %	13.6 %	1,820.3	1,026.5	7.3 %
Natural Resources	90,698.0	90,857.2	101,816.6	90,089.9	97,750.8	109,427.4	7,610.8	7.5 %	21.5 %	19,337.5	11,676.6	11.9 %
Public Safety	98,134.9	111,183.6	112,697.5	109,701.5	121,477.0	125,419.4	12,721.9	11.3 %	14.3 %	15,717.9	3,942.4	3.2 %
Revenue	135,994.5	158,849.8	162,468.9	158,877.5	162,586.3	211,737.8	49,268.9	30.3 %	33.3 %	52,860.3	49,151.5	30.2 %
Transportation & Public Facilities	319,916.8	324,582.5	333,771.3	324,124.3	349,681.0	374,259.1	40,487.8	12.1 %	15.5 %	50,134.8	24,578.1	7.0 %
University of Alaska	460,401.1	548,300.9	549,625.9	548,453.9	595,279.5	612,260.5	62,634.6	11.4 %	11.6 %	63,806.6	16,981.0	2.9 %
Alaska Court System	64,492.6	68,793.7	74,654.3	74,388.7	83,675.9	87,008.6	12,354.3	16.5 %	17.0 %	12,619.9	3,332.7	4.0 %
Legislature	43,944.5	50,912.8	54,740.1	54,665.1	59,968.1	59,936.2	5,196.1	9.5 %	9.6 %	5,271.1	-31.9	-0.1 %
Debt Service	179,342.7	181,609.4	178,142.3	178,142.3	178,142.3	210,124.1	31,981.8	18.0 %	18.0 %	31,981.8	31,981.8	18.0 %
Fund Capitalization	1,599,666.4	1,654,909.5	1,844,059.3	1,658,109.3	1,658,109.3	3,252,731.1	1,408,671.8	76.4 %	96.2 %	1,594,621.8	1,594,621.8	96.2 %
Public Education Fund	0.0	-3,352.6	-3,352.6	0.0	0.0	0.0	3,352.6	-100.0 %		0.0	0.0	
Gov's FY08 Spending Reductions	0.0	0.0	0.0	0.0	0.0	-150,000.0	-150,000.0	>999 %	>999 %	-150,000.0	-150,000.0	>999 %
Total - Operating Budget	5,250,468.3	4,969,439.7	5,982,009.0	5,633,803.5	5,818,146.9	7,890,914.1	1,908,905.1	31.9 %	40.1 %	2,257,110.6	2,072,767.2	35.6 %
General Funds	2,798,480.6	2,312,795.5	3,320,431.4	2,982,687.5	3,133,315.0	3,583,453.7	263,022.3	7.9 %	20.1 %	600,766.2	450,138.7	14.4 %
Other	2,451,987.7	2,656,644.2	2,661,577.6	2,651,116.0	2,684,831.9	4,307,460.4	1,645,882.8	61.8 %	62.5 %	1,656,344.4	1,622,628.5	60.4 %

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Fund Source Changes for Salary Adjustments

Health care costs, contractual salary increases and (particularly) employer retirement contributions will rise dramatically in FY08. There is a two-step process for allocating these cost increases among the various fund sources that pay the salaries and benefits of state employees.

- **Step One: allocate costs in proportion to current funding.** This allocation of costs goes in the *adjusted base* column—meaning that the costs are considered unavoidable and that there will be a single decision to incorporate the costs in the FY08 budget. If the Finance Committee chairmen decide to incorporate the cost increases at a statewide level, subcommittees will not be discussing the associated increments.
- **Step Two: replace “unavailable” fund sources with general funds.** Fund change transactions that reallocate costs among fund sources appear in the *Governor* column—meaning that subcommittees will be discussing the requested fund changes.

The Governor's request replaces \$35.8 million of federal and “other” funds with general funds. There are several reasons a fund source may be replaced. Finance Subcommittees need to examine each agency's fund source changes to determine whether the changes are justified. The following discussion highlights issues around some of the fund source changes, followed by questions subcommittees may want to consider to help them make decisions.

Fund source changes for programs supported by revenue, fund balances, or grants.

- **Revenue.** Many programs are supported by revenue generated by the programs. For instance, fees for use of the State parks are used to support the parks. If salary costs increase, should fees be increased to cover these costs? Or, due to statutory or other considerations, is a fee increase desirable?
- **Funds and accounts with “low” balances.** Some examples are the Fish and Game Fund, Commercial Fisheries Entry Commission receipts, Agricultural Revolving Loan Fund and the Oil/Hazardous Release Prevention & Response Fund. These funds are (or have been) spending at an unsustainable rate.
- **Grants that don't increase when costs increase.** Many grants are a set amount that does not increase as costs increase. Other grants have limits on overhead costs.

Fund source examples for the **revenue, fund balances, and grants** issues:

1002 Fed Rcpts	1027 IntAirport	1109 Test Fish	1180 A/D T&P Fd
1014 Donat Comm	1052 Oil/Haz Fd	1141 RCA Rcpts	1189 SeniorCare
1016 CSSD Fed	1053 Invst Loss	1153 State Land	1194 F&G NonDed
1005 GF/Prgm	1054 STEP	1154 Shore Fish	1201 CFEC Rcpts
1018 EVOS Trust	1055 IA/OIL HAZ	1155 Timber Rcp	
1021 Agric RLF	1076 Marine Hwy	1156 Rcpt Svcs	
1024 Fish/Game	1092 MHTAAR	1157 Wrkrs Safe	

Questions subcommittees should ask concerning the above fund sources:

- Is there a possibility of collecting more revenue for the program/project?
- If a fund balance exists, is it possible (or desirable) to draw more from the fund?
- Should the program absorb the cost of the salary adjustments?
- Should the state use GF for this program?
- Should the State subsidize a program that has been self-sustaining?

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Fund source changes for contractual services.

- **Statutorily Designated Program Receipts (SDPR) (1108)** consists of program receipts for projects initiated by a third party that are outside the scope of an agency's normal business.
 - If a third party is contracting with the state to do something outside the scope of the agency's normal business, should the contract reflect the full costs of doing the third party's work?
- **Interagency (I/A) Receipts (1007)** consists of amounts transferred between appropriations under contractual Reimbursable Service Agreements (RSAs). For example, the Department of Labor (Labor) may contract with the Department of Administration (DOA) for human resources services. Because Labor is primarily funded with federal funds, federal funds are used to pay DOA (it shows in DOA's budget as I/A Receipts). When general funds replace I/A receipts in DOA's budget, the State pays for the federal government's fair share of the cost of providing human resources to Labor.
- **Highways Equipment Working Capital Fund (1026)** are receipts from rental fees and surcharges to various departments for equipment rental, repair and supplies.

The following questions apply to SDPR, I/A, and HwyCapital:

- When the cost of doing business rises, should the agency receiving services pay for the increment with the appropriate fund source?
- Would it be preferable to appropriate GF to the recipient of services rather than the provider of services? An increment in the receiving agency makes the budget clearer.

Fund Source Changes for Capital Improvement Project (CIP) Receipts

- **CIP Receipts (1061)** consist of amounts transferred from capital projects to the operating budget for project operating costs. As a project's operating costs increase, are additional CIP receipts available?

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

ANALYSIS OF THE GOVERNOR'S OPERATING LANGUAGE

Although the Governor submitted separate bills appropriating funds to the Permanent Fund Principal and K-12 support, Legislative Finance combined the bills for reporting purposes. Language sections of all three bills are reviewed below.

Governor's Special Appropriation to Permanent Fund Principal

* **Section 1.** An amount equal to the balance of the earnings reserve account (AS 37.13.145(a)) on June 30, 2007, less \$1,730,000,000, less the amount calculated under AS 37.13.145(c) to offset the effect of inflation on the principal of the permanent fund during fiscal year 2007, less the amount authorized under AS 37.13.145(b) for transfer to the dividend fund (AS 43.23.045(a)) for the payment of 2007 permanent fund dividends, and less the amount under AS 37.13.145(d) that is deposited into the Alaska capital income fund (AS 37.05.565) for fiscal year 2007, is appropriated to the principal of the Alaska permanent fund.

* **Sec. 2.** This Act takes effect June 30, 2007.

In addition to the standard inflation proofing appropriation (estimated to be \$732 million in FY08), this bill appropriates \$1.3 billion from the Earnings Reserve Account to Permanent Fund Principal. These appropriations add more than 7.4% to the Permanent Fund principal's \$27.4 billion FY07 ending balance. Permanent Fund principal cannot be accessed without a Constitutional amendment.

Language Sections of the Governor's FY08 Education Budget

* **Section 1.** (a) The sum of \$395,701,500 is appropriated from the general fund to the public education fund (AS 14.17.300) for the following purposes in the amounts stated:

PURPOSE	AMOUNT
Distribution to school districts, to the state boarding school, and for centralized correspondence study under AS 14.17	\$342,133,000
Transportation of pupils under AS 14.09.010	53,568,500

Subsection a appropriates \$395.7 million of FY08 general funds to the Public Education Fund to partially fund FY08 K-12 education formula programs. The remaining \$509.1 million needed for FY08 costs was appropriated to the Public Education Fund in Ch. 13, SLA 2006 and is available for K-12 education without further appropriation.

(b) The sum of \$32,886,100 is appropriated to the Department of Education and Early Development for distribution to school districts, to the state boarding school, and for centralized correspondence study under AS 14.17 for the fiscal year ending June 30, 2008, from the following sources:

FUND SOURCE	AMOUNT
Federal impact aid for K-12 schools	\$20,791,000
Public school trust fund (AS 37.14.110)	12,095,100

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Subsection b appropriates federal and Public School Trust funds directly to the K-12 formula without going through the Public Education Fund.

(c) The remaining balance of the public education fund (AS 14.17.300) on June 30, 2007, estimated to be \$509,130,000 is for distribution to school districts, to the state boarding school, and for centralized correspondence study under AS 14.17.

Subsection c appropriates the entire FY07 year-end balance of the Public Education Fund for distribution to school districts in FY08.

Legislative Fiscal Analyst Comment: *The depletion of the education savings account is a major change in policy that will have a significant impact on the FY09 budget. Without the savings account as a source of funding, the FY09 budget will require \$500 million more GF than is proposed for K-12 in the Governor's FY08 budget. This issue is discussed in greater detail in the Introduction to this Overview.*

* **Sec. 2.** The sum of \$24,000,000 is appropriated from the general fund to the Department of Education for distribution to each school district in the same amount as was received by that school district during fiscal year 2007 for implementation of a cost factor adjustment.

This section appropriates \$24 million to continue a "one-time" FY07 adjustment to the allocation of formula funds among school districts. The cost factor adjustments were incorporated in statute, and revert to their original values for FY08.

Legislative Fiscal Analyst Comment: *The Governor's method to continue funding for the program is functional but is more fragile than statutory change (she specifies a distribution method that is not stated in statute, but provides for clear allocation of funds). The method allows implementing any portion of the cost factor adjustments recommended in a legislative study (full cost estimated at \$96 million annually).*

* **Sec. 3.** The sum of \$11,000,000 is appropriated from the general fund to the Department of Education for distribution to each school district in the same amount as was received by that school district during fiscal year 2007 for a grant.

This section continues a "one-time" FY07 school improvement grant that allocated \$11 million among school districts.

Legislative Fiscal Analyst Comment: *The Governor's method of continuing funding for the program is functional, but is more fragile than statutory change (she specifies a distribution method that is not stated in statute, but provides for clear allocation of funds).*

* **Sec. 4. RETIREMENT SYSTEM FUNDING FOR SCHOOL DISTRICTS.** (a) It is the intent of the legislature that a portion of the increase in state revenue due to high oil prices be used to assist school districts by paying the fiscal year 2008 estimated increase in school district employer costs resulting from increased employer contribution rates, to reduce the liability to the defined benefit plan of the public employees' retirement system and the defined benefit plan of the teachers' retirement system of school districts that are members of those systems. The appropriations made by (b) and (c) of this section reflect estimates by the Department of Administration, as of September 11, 2006, of the increased employer cost for the school districts resulting from employer contribution rate increases for fiscal year 2008. The appropriations made by (b) and (c) of this section are intended to reduce those increased employer costs, based on current estimates, but might not fully eliminate the increased employer costs because of changes in school district payroll amounts and other factors. The appropriations made by (b) and (c) of this section are one-time appropriations and are not intended to recur for fiscal year 2009.

(b) The following amounts, totaling \$36,981,562, are appropriated from the general fund to

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the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system for each of the following school districts:

DISTRICT	APPROPRIATION
Alaska Gateway	\$ 62,997
Aleutian Region	2,220
Aleutians East Borough	45,357
Anchorage	14,029,111
Annette Island	8,833
Bering Strait	460,844
Bristol Bay Borough	102,327
Chatham	181,375
Chugach	66,159
Copper River	201,638
Cordova	242,057
Craig	104,477
Delta/Greely	194,817
Denali Borough	213,564
Dillingham	129,701
Fairbanks North Star Borough	4,554,638
Galena	188,555
Haines Borough	80,177
Hoonah	41,447
Hydaburg	14,675
Iditarod Area	126,318
Juneau Borough	1,621,027
Kake	36,500
Kashunamiut	97,342
Kenai Peninsula Borough	3,176,094
Ketchikan Gateway Borough	497,958
Klawock	47,419
Kodiak Island Borough	1,064,528
Kuspuk	216,705
Lake and Peninsula Borough	278,601
Lower Kuskokwim	1,057,862

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Lower Yukon	891,330
Matanuska-Susitna Borough	3,069,148
Nenana	60,379
Nome	169,705
North Slope Borough	807,489
Northwest Arctic Borough	483,823
Pelican	1,865
Petersburg	146,276
Pribilof	28,423
Saint Mary's	16,071
Sitka Borough	565,734
Southeast Island	298,122
Southwest Region	227,913
Tanana	4,406
Unalaska	51,268
Valdez	618,069
Wrangell	171,781
Yakutat	11,358
Yukon Flats	40,139
Yukon/Koyukuk	100,376
Yupiit	72,564

(c) The sum of \$170,450,921 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan in the teachers' retirement system for increased costs for school districts.

Section 4 appropriates \$207.4 million to DOA for deposit into school districts' PERS/TRS accounts to cover their entire FY08 retirement cost increases. Subsection a clarifies that this is meant to be a one-time appropriation.

Legislative Fiscal Analyst Comment: *Because this appropriation goes directly to the Department of Administration instead of flowing through DE&ED, budget comparisons will understate Alaska's spending on K-12 education by \$207 million (and overstate the Department of Administration's budget by \$207 million).*

Legislative Fiscal Analyst Recommendation: *The legislature may wish to avoid (as the Governor has) building retirement costs into the Base Student Allocation. However, the legislature may wish to appropriate money for school district retirement cost increases to DE&ED, with language directing the agency to deposit the money in the proper accounts in the Department of Administration. Doing so would more accurately reflect spending on education.*

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* **Sec. 5.** The appropriation made by sec. 1(a) of this Act is to capitalize a fund and does not lapse.

* **Sec. 6.** This Act takes effect July 1, 2007.

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Language Sections of the Governor's FY08 Operating Budget

Section Deleted; appeared in FY07 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, 2007.

***Legislative Fiscal Analyst Comment:** In recent years the legislature has taken steps to reduce the need for routine supplemental appropriations. The intent was to make supplemental operating appropriations only for needs that are truly unanticipated.*

Section Deleted; appeared in FY07 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, 2007.

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

* **Sec. 4. ALASKA AEROSPACE DEVELOPMENT CORPORATION.** Corporate receipts of the Alaska Aerospace Development Corporation received during the fiscal year ending June 30, 2008, 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, 2008.

***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.*

Funding: The estimated impact of this section is zero. Historically, the appropriations to AADC in section 1 have been sufficient.

***Legislative Fiscal Analyst Recommendation:** Although federal receipts comprise much of AADC's funding, the corporation classifies all receipts as corporate receipts. The impact is to overstate "other" funds and understate federal receipts in the state budget. Separation of federal receipts from other corporate receipts would improve budget reporting.*

Sec. 5. 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 fiscal year 2008. During fiscal year 2008, the board of directors anticipates that \$81,412,850 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).

Subsection a specifies the amount of corporate receipts that will be made available to the state as an FY08 dividend payment, but does not appropriate the dividend.

***Legislative Fiscal Analyst Comment:** Ch. 76, SLA 2003 defined AHFC's annual dividend to the State as a percentage of net income of the corporation. For FY08, the formula states that the dividend will be the lesser of \$103 million or 85% of AHFC's FY06 net income. After FY08, the statutory dividend will be the lesser of \$103 million or 75% of net income in the most recently completed fiscal year (AS 18.56.090(c)).*

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(b) A portion of the amount set out in (a) of this section for the fiscal year ending June 30, 2008, will be retained by the Alaska Housing Finance Corporation for the following purposes in the following estimated amounts:

- (1) \$1,000,000 for debt service on University of Alaska, Anchorage, dormitory construction, authorized under ch. 26, SLA 1996;
- (2) \$2,592,558 for debt service on the bonds authorized under ch. 2, SSSLA 2002;
- (3) \$2,546,015 for debt service on the bonds authorized under sec. 4, ch. 120, SLA 2004.

Subsection b makes no appropriation; it informs the legislature that AHFC will retain \$6.14 million of the dividend to pay debt service on various AHFC-financed capital projects authorized by past legislatures. This leaves a net dividend of \$75.3 million (\$20.6 million more than in FY07, due to the retirement of debt authorized in SLA 2000) for the legislature to spend as it wishes.

(c) After deductions for the items set out in (b) of this section, the remainder of the amount set out in (a) of this section is used for the following purposes in the following estimated amounts:

- (1) \$38,880,700 for debt service;
- (2) \$36,393,577 for capital projects.

Subsection c informs the legislature that the Governor is requesting \$38.9 million for debt service and \$36.4 million for capital projects. This subsection is informative only; these appropriations are made elsewhere in the operating and capital budgets.

(d) After deductions for the items set out in (b) of this section and deductions for appropriations for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2008, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

Subsection d appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. The Governor's proposed capital and operating budgets appropriate the entire dividend specified in subsection a.

(e) All unrestricted mortgage loan interest payments, mortgage loan commitment fees, and other unrestricted receipts received by or accrued to the Alaska Housing Finance Corporation during fiscal year 2008 and all income earned on assets of the corporation during that period are appropriated to the Alaska Housing Finance Corporation to hold as corporate receipts for the purposes described in AS 18.55 and AS 18.56. The corporation shall allocate its corporate receipts between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710) in accordance with procedures adopted by the board of directors.

Subsection e appropriates certain FY08 receipts of the AHFC to the corporation and allocates those receipts to the AHFC revolving loan fund, and the senior housing revolving fund.

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

(f) The sum of \$800,000,000 is appropriated from the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710) under (e) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2008, for housing loan programs not subsidized by the corporation.

(g) The sum of \$30,000,000 is appropriated from the portion of the corporate receipts

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appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710) under (e) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2008, for housing loan programs and projects subsidized by the corporation.

(h) 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, 2008.

Subsections f, g, and h appropriate certain FY08 corporate receipts to various housing programs. These amounts establish lending limits for the year. The limits are unchanged from FY07.

* **Sec. 6. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY.** (a) The sum of \$10,000,000 has been declared available by the Alaska Industrial Development and Export Authority board of directors for appropriation as the fiscal year 2008 dividend from the unrestricted balance in the Alaska Industrial Development and Export Authority revolving fund (AS 44.88.060).

(b) After deductions for appropriations made for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2008, 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 \$10 million (the FY07 dividend was \$16.6 million). By statute (AS 44.88.088) the dividend made available should not be less than 25 percent and not more than 50 percent of the base year statutory net income. This year's dividend is near the maximum available by law.

Subsection b appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. Section 19(a)(7) of the Governor's proposed operating budget appropriates the entire \$10 million to the Debt Retirement Fund.

* **Sec. 7. 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, 2008, 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, 2008.

(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 during fiscal year 2008 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 2008 is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.

(d) The income earned during fiscal year 2008 on revenue from the sources set out in AS 37.13.145(d) is appropriated to the Alaska capital income fund (AS 37.05.565).

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Subsection a appropriates funds from the earnings reserve account to the dividend fund for payment of dividends and administrative and associated costs. Earnings in FY08 (as calculated on the last day of the fiscal year) will be used to pay PFDs in FY08 and associated costs throughout FY08.

Funding: The projected amount of dividend transfer for FY08 is \$1.1 billion, including administrative and associated costs. Administrative and associated costs for FY08 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.

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

Funding: The Governor's projected amount of inflation proofing for FY08 is \$765 million.

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

Funding: These deposits to the Permanent Fund do not appear in the bill summary or in Legislative Finance reports because the deposits are constitutionally dedicated rather than appropriated. The Permanent Fund projects that dedicated deposits will be \$448 million during FY08.

Subsection d appropriates FY08 earnings associated with *State v. Amerada Hess* to the Alaska Capital Income Fund. This fund was established in FY05 and has been expended for capital projects.

Funding: The Permanent Fund Corporation's November 2006 estimate of FY08 earnings from *State v. Amerada Hess* is \$28 million.

Legislative Fiscal Analyst Comment: *The Governor's FY08 capital budget contains no appropriations from the Alaska Capital Income Fund.*

* **Sec. 8. ALASKA STUDENT LOAN CORPORATION DIVIDEND.** (a) The sum of \$1,200,000 has been declared available by the Alaska Student Loan Corporation board of directors for appropriation as the fiscal year 2008 dividend.

(b) After deductions for appropriations made for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2008, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

Subsection a informs the legislature that the anticipated FY08 Student Loan Corporation dividend to the state will be \$1.2 million, which is \$700,000 less than the \$1.9 million paid in FY07.

Legislative Fiscal Analyst Comment: *The dividend reduction is due primarily to a decline in education loan interest income. Factors contributing to reduced income include loan consolidation (higher rate loans being consolidated at substantially lower interest rates) and the continuation of the AlaskAdvantage borrower benefit program (provided through interest rate reductions and credits). This year's dividend is calculated as 35 percent of 2006's net income, which is the maximum percentage allowed by law. The total 2006 borrower benefits provided were approximately \$3.5 million, which decreased the 2006 dividend by \$1.2 million (35 percent of the benefit).*

Subsection b appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. Section 1 of the Governor's proposed operating budget appropriates the entire \$1.2 million to the Department of Education and Early Development for the Statewide Mentoring Program.

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* **Sec. 9. DEPARTMENT OF ADMINISTRATION.** (a) The amount necessary to fund the uses of the state insurance catastrophe reserve account described in AS 37.05.289(a) is appropriated from that account to the Department of Administration for those uses during the fiscal year ending June 30, 2008.

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 appropriations by the legislature; and 2) judgment legislation. Delays that could occur with legislative remedies would cause difficulty in situations that require immediate action.*

Funding: This provision has no FY08 fiscal impact; it allows money appropriated elsewhere to be swept into the reserve account but does not increase total appropriations.

(b) The sum of \$1,827,700 is appropriated from the general fund to the Department of Administration, commissioner's office, for distribution to state agencies to offset the increased chargeback rates for enterprise technology services for the fiscal year ending June 30, 2008.

(c) The sum of \$423,900 is appropriated from the general fund to the Department of Administration, commissioner's office, for distribution to state agencies to offset the increased chargeback rates for enterprise technology services for the fiscal year ending June 30, 2008.

(d) It is the intent of the legislature that state agencies receiving money under (b) and (c) of this section will reimburse the money as required by the enterprise technology services federally approved statewide cost allocation plan. The amounts distributed are intended to cover the costs of increased chargeback resulting from fiscal year 2008 operations.

(e) The sum of \$740,100 is appropriated from the general fund to the Department of Administration, commissioner's office, for distribution to state agencies to offset the increased rates for facilities covered by the public building fund for the fiscal year ending June 30, 2008.

(f) It is the intent of the legislature that state agencies receiving money under (e) of this section will reimburse the money as required by the public building fund federally approved cost allocation plan. The amounts distributed are intended to cover the costs of increased rates resulting from fiscal year 2008 operations.

Subsections b, c, & e appropriate about \$3 million in general funds to pay for increases in the ETS chargeback rates and facilities costs. Section b addresses retirement costs of ETS employees and section c addresses rate increases for other reasons. Once the final budgets for ETS and the Public Facilities are determined, the funding will be distributed to the agencies.

Subsections d and f indicate intent that agencies pay for increased costs using the federally approved statewide cost allocation plan.

Legislative Fiscal Analyst Comment: *The implications of the intent language are that:*

- 1. The amounts requested reflect the portion of total collections that agencies will pay with general funds;*
- 2. DOA will distribute general funds to agencies based on the proportion of general funds recovered from each agency via chargeback rates; and*

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3. *Agencies will pay the increased rates with all appropriate fund sources, meaning that the amount collected will exceed the amount of general funds distributed to agencies.*

Legislative Fiscal Analyst Recommendation: *The legislature may wish to ensure that the implications stated above reflect DOA's understanding of the section before approving the language.*

* **Sec. 10.** DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT. (a) The unexpended and unobligated balance of federal money apportioned to the state as national forest income that the Department of Commerce, Community, and Economic Development determines would lapse into the unrestricted portion of the general fund June 30, 2008, under AS 41.15.180(j) is appropriated as follows:

(1) up to \$170,000 is appropriated to the Department of Transportation and Public Facilities, commissioner's office, for road maintenance in the unorganized borough, for the fiscal year ending June 30, 2008;

(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, 2008, 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, 2008.

Subsection 1 appropriates \$170,000 of National Forest Receipts to DOT&PF for road maintenance in the unorganized borough.

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

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

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 the end of the year 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 41.15.180(c) and (d). Section 10 takes money that would otherwise be spent in unorganized areas and appropriates it to local governments.*

(b) The salmon enhancement tax collected under AS 43.76.010 - 43.76.028 in calendar year 2006 and deposited in the general fund under AS 43.76.025(c) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in fiscal year 2008 to qualified regional associations operating within a region designated under AS 16.10.375.

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

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(c) The seafood development tax collected under AS 43.76.350 - 43.76.399 in calendar year 2006 and deposited in the general fund under AS 43.76.380(d) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in fiscal year 2008 to qualified regional seafood development associations.

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

* **Sec. 11.** DEPARTMENT OF CORRECTIONS. If the amount necessary to pay inmate health care costs exceeds the amount appropriated in sec. 1 of this Act, the additional amount necessary to pay inmate health care costs is appropriated from the general fund to the Department of Corrections, inmate health care allocation, for the fiscal year ending June 30, 2008.

This new section appropriates an unlimited amount for Inmate Health Care.

Legislative Fiscal Analyst Comment: There are alternatives to this open-ended appropriation that could avoid supplemental appropriations while encouraging cost control.

Funding: Although the Governor assigns no dollar value to this appropriation, based on a trend line projection, **Legislative Finance estimates the cost of this section to be \$1.9 million.** If the new administration does not control increases, the cost of the language appropriation could be larger.

* **Sec. 12.** DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT. (a) If the amount necessary to pay benefit payments from the fishermen's fund (AS 23.35.060) exceeds the estimates appropriated in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated from that fund to the Department of Labor and Workforce Development, fishermen's fund allocation, for the fiscal year ending June 30, 2008.

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

(b) If the amount necessary to pay benefit payments from the second injury fund (AS 23.30.040(a)) exceeds the estimates appropriated in sec. 1 of this Act, the amount necessary to make those benefit payments is appropriated from the second injury fund to the Department of Labor and Workforce Development, second injury fund allocation, for the fiscal year ending June 30, 2008.

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

(c) If the amount necessary to pay benefit payments from the workers' compensation benefits guaranty fund (AS 23.30.082) exceeds the estimates appropriated in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated from that fund to the Department of Labor and Workforce Development, workers' compensation benefits guaranty fund allocation, for the fiscal year ending June 30, 2008.

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

* **Sec. 13.** DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS. Five percent of the market value of the average ending balances in the Alaska veterans' memorial endowment fund (AS 37.14.700) for the fiscal years ending June 30, 2005, June 30, 2006, and June 30, 2007, is appropriated from the Alaska veterans' memorial endowment fund to the Department of Military

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and Veterans' Affairs for the purposes specified in AS 37.14.730(b) for the fiscal year ending June 30, 2008.

Funding: Endowment payout is expected to be about \$12,400. Proceeds may be used for maintenance, repair and construction of monuments to the military.

* **Sec. 14.** DEPARTMENT OF NATURAL RESOURCES. Federal receipts received for fire suppression during the fiscal year ending June 30, 2008, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2008.

This section 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.

* **Sec. 15.** DEPARTMENT OF PUBLIC SAFETY. (a) The sum of \$1,393,200 is appropriated from the general fund to the Department of Public Safety, division of state troopers, narcotics task force, for drug and alcohol enforcement efforts during the fiscal year ending June 30, 2008.

Subsection a appropriates \$1.4 million in general funds for drug and alcohol enforcement efforts.

(b) If the amount of federal receipts received by the Department of Public Safety from the justice assistance grant program during the fiscal year ending June 30, 2008, for drug and alcohol enforcement efforts exceeds \$1,289,100, the appropriation in (a) of this section is reduced by the amount by which the federal receipts exceed \$1,289,100.

Subsection b is contingency language that requires a dollar-for-dollar reduction of the previous subsection's general funds if DPS receives over \$1.3 million in federal grants for drug and alcohol enforcement efforts.

Legislative Fiscal Analyst Comment: The FY07 operating budget included similar language. Because DPS stated that federal funds were anticipated, the section was expected to have no budgetary impact. Federal funds did not materialize and \$1.4 million GF spending was authorized.

Funding: Because federal receipts did not materialize in FY07, Legislative Finance is estimating the cost of the section to be the full \$1.4 million in general funds.

* **Sec. 16.** DEPARTMENT OF REVENUE. (a) The minimum amount of program receipts received during the fiscal year ending June 30, 2008, by the child support services agency that is required to secure the federal funding appropriated from those program receipts for the child support enforcement program in sec. 1 of this Act is appropriated to the Department of Revenue, child support services agency, for the fiscal year ending June 30, 2008.

Subsection a permits an unspecified amount of program receipts collected by the Child Support Services Division (CSSD) to be spent to capture the federal receipts appropriated in section 1.

Legislative Fiscal Analyst Comment: Because CSSD has sufficient program receipt (and general fund) authority to match anticipated federal receipts, this section is unlikely to have any effect. The section could be deleted, but it does no harm.

Funding: The estimated impact of this section is zero.

(b) Program receipts collected as cost recovery for paternity testing administered by the child support services agency, as required under AS 25.27.040 and 25.27.165, and as collected under AS 25.20.050(f), are appropriated to the Department of Revenue, child support services agency, for the fiscal year ending June 30, 2008.

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

Funding: The department estimates that paternity testing will generate \$43,000 in program receipts.

(c) The amount necessary to issue refunds for capital expenditures and lease bids as provided for in AS 43.55.023(f) is appropriated from the general fund to the Department of Revenue, tax division, for the purpose of making refunds under AS 43.55.023(f) for the fiscal year ending June 30, 2008.

Subsection c is an open-ended appropriation of general funds to the Tax Division in order to pay oil tax refunds. The refunds are capped at \$25 million per applicant per year, but there is no limit on total annual refunds.

Legislative Fiscal Analyst Comment: *The Tax Division's estimate for FY08 refunds is a total of \$25 million. However, the potential amount of the appropriation is nearly \$250 million (14 producer tax returns less the big four producers who are ineligible due to size). Refunds are subject to appropriation.*

Funding: In the Governor's presentation of the budget, the FY08 revenue projection is reduced by \$25 million and there is no transaction for refunds. Rather than netting out the tax refunds, Legislative Finance 1) adds \$25 million to revenue projections and 2) adds a \$25 million appropriation to DOR for refunds.

Legislative Fiscal Analyst Recommendation: *The legislature may wish to appropriate a specific amount for refunds in order to avoid an unexpectedly large appropriation that triggers a draw from the Constitutional Budget Reserve Fund. If refunds exceed the amount appropriated for FY08, the legislature can either make a supplemental appropriation or allow the "refund credit" to roll forward. The credits do not expire.*

* **Sec. 17. UNIVERSITY OF ALASKA.** The fees collected under AS 28.10.421(d) during the fiscal year ending June 30, 2007, 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, 2008.

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

* **Sec. 18. FEDERAL AND OTHER PROGRAM RECEIPTS.** (a) Federal receipts, designated program receipts as defined in AS 37.05.146(b)(3), information services fund program receipts as described in AS 44.21.045(b), Exxon Valdez oil spill trust receipts described in AS 37.05.146(b)(4), and receipts of the Alaska Fire Standards Council described in AS 37.05.146(b)(5) that are received during the fiscal year ending June 30, 2008, 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, 2008, 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, 2008, fall short of the estimates appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.

Subsection a provides unlimited appropriations of the types of receipts listed. Although the appropriations are conditioned on review by the Legislative Budget and Audit Committee, the

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Governor can increase authorization without the approval of the Committee. There is no substantive change from FY07.

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

Subsection c is standard language that automatically limits authorization of federal and other receipts to the amount actually received.

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

* **Sec. 19. FUND TRANSFERS.** (a) The following amounts are appropriated to the debt retirement fund (AS 37.15.011):

(1) the sum of \$5,173,000 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2003A general obligation bonds;

(2) the sum of \$11,788,000 from federal receipts for state guaranteed transportation revenue anticipation bonds, series 2003B;

(3) the sum of \$1,434,700 from Alaska accelerated transportation projects fund bond proceeds for state guaranteed transportation revenue anticipation bonds, series 2003B;

(4) the sum of \$58,134,700 from the general fund;

(5) the sum of \$376,500 from the investment loss trust fund (AS 37.14.300);

(6) the sum of \$38,880,700 from the Alaska Housing Finance Corporation fiscal year 2008 dividend;

(7) the sum of \$10,000,000 from the Alaska Industrial Development and Export Authority fiscal year 2008 dividend.

Subsection a is summarized below.

Total Capitalization of the Debt Retirement Fund			
Subsec	Fund Source	FY08 Debt Service	Details
1	Misc Earnings	5,173.0	Earnings on bond proceeds of the Series 2003A GO Bonds
2	Federal Receipts	11,788.0	Federal receipts to pay Series 2003B GO Bonds
3	Misc Earnings	1,434.7	Earnings on bond proceeds of the Series 2003B GO Bonds
4	General Funds	58,134.7	
5	ILTF	376.5	
6	AHFC Dividends	38,880.7	
7	AIDEA Dividend	10,000.0	
	Total Deposits	125,787.6	

Legislative Fiscal Analyst Recommendation: An effort should be made to ensure that all fund transfers are included in an appropriation bill. The Tobacco Use Education and Cessation Fund (and perhaps a few other funds) have no appropriation capitalizing them. Legislative Finance and

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Legal Services believe that statutory language specifying that a fund is comprised of money from certain sources does not take the place of annual appropriations.

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

(1) the sum of \$100,000 from federal receipts;

(2) interest earned on amounts in the election fund required by the federal Help America Vote Act.

Subsection b(1) and (2) appropriate \$100,000 in federal receipts from the Help America Vote Act, plus interest earned to the election fund.

(c) The sum of \$12,999,400 is appropriated from the general fund to the power cost equalization and rural electric capitalization fund (AS 42.45.100).

(d) 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 any appropriations made to that fund during the fiscal year ending June 30, 2008, are taken into account, is appropriated from the power cost equalization endowment fund (AS 42.45.070) to the power cost equalization and rural electric capitalization fund (AS 42.45.100). 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 \$12,499,817, minus amounts appropriated during the fiscal year ending June 30, 2008, for reimbursement of the costs, estimated to be \$226,200, set out in AS 42.45.085(a)(2) and (3).

Subsections c and d capitalize the PCE Fund with \$13 million in general funds and seven percent of the PCE Endowment (\$12.3 million). This fund capitalization provides the \$26.2 million needed to fully fund the PCE appropriations made in section 1.

Legislative Fiscal Analyst Comment: A FY07 appropriation added \$182.7 million to the PCE Endowment. The Endowment balance (\$370 million) is now sufficient to fund the PCE program at about \$25 million annually in the long run. However, the annual payout is based on a three-year average balance of the Endowment, so general funds will be required through FY10.

The GF share of the PCE program is \$13 million in FY08, and should decline to \$8 million in FY09 and to \$4 million in FY10. By FY11, the impact of the \$182.7 million deposit on the three-year average balance of the Endowment will be fully realized and PCE may be self-supporting at a level of about \$25 million annually.

(e) The sum equal to 25 percent of the amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6508 on or before August 31, 2007, that is appropriated to the Department of Commerce, Community, and Economic Development for fiscal year 2008 capital project grants under the National Petroleum Reserve - Alaska impact grant program, that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality on or before August 31, 2007, and that lapses into the National Petroleum Reserve - Alaska special revenue fund is appropriated to the principal of the Alaska permanent fund from the National Petroleum Reserve - Alaska special revenue fund.

Subsection e (per AS 37.05.530(g)) appropriates 25 percent of the lapsing balance of grants to the permanent fund. No lapsing balance is anticipated.

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

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(f) The sum equal to 0.5 percent of the amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6508 on or before August 31, 2007, that is appropriated to the Department of Commerce, Community, and Economic Development for fiscal year 2008 capital project grants under the National Petroleum Reserve - Alaska impact grant program, that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality on or before August 31, 2007, and that lapses into the National Petroleum Reserve - Alaska special revenue fund is appropriated to the public school trust fund (AS 37.14.110) from the National Petroleum Reserve - Alaska special revenue fund.

Subsection f (per AS 37.05.530(g)) appropriates one-half percent of the lapsing balance of grants to the Public School Trust Fund. No lapsing balance is anticipated.

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

(g) The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6508 on or before August 31, 2007, that is appropriated to the Department of Commerce, Community, and Economic Development for fiscal year 2008 capital project grants under the National Petroleum Reserve - Alaska impact grant program, that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality on or before August 31, 2007, that lapses into the National Petroleum Reserve - Alaska special revenue fund, and that is not appropriated under (e) and (f) 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.

Subsection g (per AS 37.05.530(g)) appropriates the lapsing balance remaining after (f) and (g) to the PCE Fund to fund the PCE Program. No lapsing balance is anticipated.

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

(h) The following revenue collected during the fiscal year ending June 30, 2008, 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)(15));

(3) fees collected at boating and angling access sites described in AS 16.05.050(a)(6) and managed by the Department of Natural Resources, division of parks and outdoor recreation, under a cooperative agreement;

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

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

Subsection h appropriates revenue generated by the named licenses and fees into the Fish and Game Fund. Appropriations from this revenue source use the Fish and Game Nondedicated Receipts fund code (1194) to differentiate these appropriations (which are essentially GF appropriations) from the dedicated portion of the Fish and Game Fund.

Funding: The estimated fiscal impact of this subsection is \$2,125,700.

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(i) An amount equal to the federal receipts deposited in the Alaska sport fishing enterprise account (AS 16.05.130(e)), in an amount up to \$1,463,000, as reimbursement for the federally allowable portion of the principal balance payment on the sport fishing revenue bonds series 2006 is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) to the fish and game fund (AS 16.05.100) for sport fishing facilities intended to directly benefit license purchasers.

The Department may use federal operating receipts as reimbursement for a portion of debt service payments on the "Sportfish Bonds" issued in 2006 (see Section 19(l)). Subsection i clarifies that the Department chooses to use \$1.4 million of current federal funding as reimbursement. No new money is involved.

Legislative Fiscal Analyst Comment: *The Department's action increases flexibility in the use of existing federal receipts by placing federal money in the sport fishing enterprise account. Once there, the money can be used for sport fishing facilities intended to directly benefit license purchasers.*

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

Legislative Fiscal Analyst Comment: *Adding "operating" before "sport fishing facilities" on line 12 would clarify the Department's intent.*

(j) 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, 2007, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2007, estimated to be \$9,845,300, from the surcharge levied under AS 43.55.300.

Subsection j is standard language appropriating (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY07 collections from the 3 cent per barrel surcharge on oil produced in the state.

Funding: The projected balance of subsection (j)(1) is \$2.6 million (the oil and hazardous substance release prevention mitigation account).

(k) 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, 2007, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2007, from the surcharge levied under AS 43.55.201.

Subsection k is standard language appropriating (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY07 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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(l) The sum of \$7,000,000 is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100) to the Alaska fish and game revenue bond redemption fund (AS 37.15.770).

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

(m) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2008, 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;

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

Subsection m appropriates (to the Alaska Children's Trust) net receipts collected during FY08 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 \$45.4 net proceeds from the sale of certificates/plates.

(n) The loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2008, are appropriated to the origination fee account (AS 14.43.120(u)) within the education loan fund (AS 14.42.210) of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

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

Funding: The amount of the loan origination fee is capped by regulation at 5% and set annually by the corporation. It is currently set at 3%. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.

(o) The following amounts are appropriated to the disaster relief fund (AS 26.23.300) from the following sources:

(1) the amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2008;

(2) \$3,000,000 from the general fund.

Subsection o(1) is standard language appropriating federal receipts for disaster relief to the Disaster Relief Fund. The Governor needs no specific appropriations to spend money in the Disaster Relief Fund; money can be spent upon declaration of a disaster.

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

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Subsection o(2) capitalizes the Disaster Relief Fund with \$3 million of general funds.

Legislative Fiscal Analyst Comment: *The funding mechanism for the Disaster Relief Fund could be improved. The Department has worked with Legislative Finance on revisions that may help avoid large supplemental appropriations like the one expected this year.*

(p) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2007, and money deposited in that account during the fiscal year ending June 30, 2008, is appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)) for the fiscal year ending June 30, 2008, for expenditure by the Department of Natural Resources under AS 37.14.820(a).

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

Funding: The agency estimates the amount needed for mine reclamation expenditures is about \$100,000.

(q) The sum of \$4,930,600 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	\$ 821,800
Federal receipts	4,108,800

(r) The sum of \$9,922,600 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	\$1,103,800
Federal receipts	8,268,800
General fund match	550,000

Subsections q and r provide money to develop sewer and water systems in Alaska communities through revolving loan programs. The State typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match federal money.

(s) The sum of \$20,000,000 is appropriated from Alaska Student Loan Corporation receipts to the education loan fund (AS 14.42.210).

Subsection s appropriates \$20 million of corporate receipts to the education loan fund.

Legislative Fiscal Analyst Comment: *Because it would restrict use of corporate assets to a non-loan purpose, the ASLC regards this appropriation as a return of capital to the State. ASLC intends to complete its return of capital to the State in FY08 or FY09 with \$40 million transfer of bond proceeds. Although not stated in the bill, the intent is to capitalize an endowment that would provide annual earnings for scholarships to low income students.*

Legislative Fiscal Analyst Recommendation: *The legislature may wish to view this appropriation as a return of ASLC capital to the general fund combined with an appropriation of general funds to the education loan fund. This perspective clarifies that the language does not merely transfer funds within the ALSC, but is a shortcut way of spending general funds.*

(t) The amount of municipal bond bank receipts determined under AS 44.85.270(h) to be available for transfer by the Alaska Municipal Bond Bank Authority for the fiscal year ending June 30, 2007, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

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

Legislative Fiscal Analyst Comment: *Unrestricted assets of the Bond Bank have declined from \$20*

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million in FY03 to \$5.4 million. The decline is primarily due to reserve requirements associated with a doubling of the amount of outstanding bonds (to \$486 million). However, appropriations of Bond Bank earnings to the debt retirement fund in recent years also contributed to the decline. Reserves are required to ensure the continued ability of the Bond Bank to provide loans for municipal projects.

Funding: The estimated FY08 earnings of the Bond Bank are \$250,000.

(u) The bulk fuel revolving loan fund fees collected under AS 42.45.250(j) from July 1, 1999, through June 30, 2007, estimated to be \$140,600, are appropriated from the general fund to the bulk fuel revolving loan fund (AS 42.45.250).

Subsection u attempts to appropriate fee revenues to the bulk fuel revolving loan fund.

Legislative Fiscal Analyst Comment: *A literal interpretation is virtually impossible—it would involve accounting adjustments from fiscal years that are closed. The associated OMB transaction uses FY08 general funds to capitalize the loan fund.*

Legislative Fiscal Analyst Recommendation: *If the legislature chooses to capitalize the loan fund, the subsection should begin with “An amount equal to...” in order to clarify that this is really an appropriation of FY08 general funds.*

(v) The sum of \$5,335,000 is appropriated from the general fund to the information services fund (AS 44.21.045(a)).

Subsection v appropriates \$5.3 million of general funds to the information services fund to support \$7.8 million of FY08 Information Technology capital projects.

Legislative Fiscal Analyst Recommendation: *If the legislature chooses to capitalize the Information Services Fund for capital projects, coordination would be improved by moving the capitalization language to the bill that makes appropriations from the fund.*

* **Sec. 20. BOND CLAIMS.** 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, 2008, for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond.

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

Funding: The Department of Natural Resources estimates the impact of this section to be \$100,000.

* **Sec. 21. 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, 2008, is appropriated for that purpose to the agency authorized by law to generate the revenue.

Subsection a allows the State to compensate vendors that collect fees on behalf of the State. The provision originally addressed Fish and Game fishing, hunting and trapping license sales in which the vendor retained a portion of the sale. It also applies to several programs in the Department of Administration, Department of Natural Resources and Trial Courts.

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

(b) The amount retained to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2008, is appropriated for that purpose to each agency

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of the executive, legislative, and judicial branches that accepts payment by bankcard or credit card for licenses, permits, goods, and services provided by that agency on behalf of the state, from the funds and accounts in which the payments received by the state are deposited.

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

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

* **Sec. 22. RETIREMENT SYSTEM FUNDING FOR MUNICIPALITIES.** (a) It is the intent of the legislature that a portion of the increase in state revenue due to high oil prices be used to assist municipalities by paying the fiscal year 2008 estimated increase in municipal employer costs resulting from increased employer contribution rates, to reduce the liability to the defined benefit plan of the public employees' retirement system of municipalities that are members of that system. The appropriations made by (b) of this section reflect estimates by the Department of Administration, as of September 11, 2006, of the increased employer cost for the municipalities resulting from employer contribution rate increases for fiscal year 2008. The appropriations made by (b) of this section are intended to reduce those increased employer costs, based on current estimates, but might not fully eliminate the increased employer costs because of changes in municipal payroll amounts and other factors. The appropriations made by (b) of this section to the Department of Administration are for deposit in the relevant municipality's defined benefit plan account in the public employees' retirement system to cover the estimated increased employer costs of that municipality. The appropriations made by (b) of this section are one-time appropriations and are not intended to recur for fiscal year 2009.

(b) The following amounts, totaling \$77,474,718, are appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system for each of the following municipalities:

MUNICIPALITY	APPROPRIATION
Akutan, City of	\$ 4,767
Aleutians East Borough	38,890
Anchorage, Municipality of	31,961,226
Anchorage, Municipality of, Anchorage Parking Authority	138,255
Anderson, City of	671
Atka, City of	12,669
Barrow, City of	11,768
Bethel, City of	160,290
Bristol Bay Borough	217,589
Cordova, City of	768,270
Cordova, City of, Cordova Community Medical Center	226,330
Craig, City of	149,524
Delta Junction, City of	9,462
Denali Borough	21,754
Dillingham, City of	176,558

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Egegik, City of	6,044
Fairbanks North Star Borough	1,859,118
Fairbanks, City of	10,605,484
Fort Yukon, City of	6,217
Galena, City of	70,547
Haines Borough	290,202
Homer, City of	920,042
Hoonah, City of	50,408
Hooper Bay, City of	195
Huslia, City of	21,515
Juneau, City and Borough of	6,309,756
Juneau, City and Borough of, Bartlett Regional Hospital	1,057,795
Kachemak, City of	15,151
Kenai Peninsula Borough	2,190,055
Kenai, City of	1,474,226
Ketchikan Gateway Borough	553,001
Ketchikan, City of	1,921,858
King Cove, City of	69,681
Klawock, City of	7,529
Kodiak Island Borough	818,030
Kodiak, City of	1,651,633
Kotzebue, City of	152,482
Lake and Peninsula Borough	61,137
Matanuska-Susitna Borough	1,706,908
Mekoryuk, City of	242
Mountain Village, City of	532
Nenana, City of	37,928
Nome, City of	531,121
Nome, City of, Nome Joint Utility System	80,548
Noorvik, City of	2,588
North Pole, City of	252,948
North Slope Borough	2,277,832
North Slope Borough, Ilisagvik College	104,751
Northwest Arctic Borough	46,589

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Palmer, City of	662,484
Pelican, City of	25,607
Petersburg, City of	555,874
Petersburg, City of , Petersburg Medical Center	242,983
Quinhagak, City of	442
Saint Paul, City of	146,554
Sand Point, City of	110,925
Saxman, City of	87,052
Saxman, City of, Saxman Seaport	6,600
Seldovia, City of	3,487
Seward, City of	515,914
Sitka, City and Borough of	1,801,580
Sitka, City and Borough of, Sitka Community Hospital	513,360
Skagway, City of	111,124
Soldotna, City of	428,464
Tanana, City of	1,490
Thorne Bay, City of	16,641
Toksook Bay, City of	1,819
Unalakleet, City of	21,841
Unalaska, City of	518,923
Valdez, City of	1,472,746
Wasilla, City of	295,804
Whittier, City of	70,514
Wrangell, City of	752,530
Yakutat, City and Borough of	57,844

Section 22 appropriates \$77.5 million to DOA for deposit into municipalities' PERS accounts to cover their entire FY08 retirement cost increases. Subsection a clarifies that this is meant to be a one-time appropriation.

Legislative Fiscal Analyst Comment: *The State has no legal responsibility for local government retirement costs. This appropriation is a form of municipal assistance and could be combined with the \$48 million requested for local government support in section 1 of this bill. The method for allocating local assistance in FY07 subtracted PERS assistance from a formula-driven total to derive the amount of cash assistance for each community. Because that method adjusted for differences in PERS liability, it was promoted as more equitable than two separate allocations.*

* **Sec. 23. SALARY AND BENEFIT ADJUSTMENTS.** (a) The operating budget appropriations made in sec. 1 of this Act include amounts for salary and benefit adjustments for public officials,

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officers, and employees of the executive branch, Alaska Court System employees, employees of the legislature, and legislators and to implement the terms for the fiscal year ending June 30, 2008, 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) Marine Engineers Beneficial Association, representing licensed engineers employed by the Alaska marine highway system;
- (5) Public Employees Local 71, for the Labor, Trades and Crafts Unit;
- (6) Inlandboatmen's Union of the Pacific, representing the unlicensed marine unit;
- (7) International Organization of Masters, Mates, and Pilots, for the Masters, Mates, and Pilots Unit;
- (8) Public Safety Employees Association, representing regularly commissioned public safety officers;
- (9) Alaska Correctional Officers Association, representing correctional officers;
- (10) Alaska Vocational Technical Center Teachers' Association - National Education Association, representing employees of the Alaska Vocational Technical Center;
- (11) Teachers' Education Association of Mt. Edgecumbe.

(b) The operating budget appropriations made to the University of Alaska in this Act include amounts for salary and benefit adjustments for the fiscal year ending June 30, 2008, for university employees who are not members of a collective bargaining unit and for implementing the monetary terms of the collective bargaining agreements including the terms of the agreement providing for the health benefit plan for university employees represented by the following entities:

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

(c) If a collective bargaining agreement listed in (a) or (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.

Funding: This section appropriates no money; it specifies that various salary adjustments are funded with money appropriated in section 1.

* **Sec. 24. 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 2008:

REVENUE SOURCE	FISCAL YEAR COLLECTED
Fisheries business tax (AS 43.75)	2007

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Fishery resource landing tax (AS 43.77)	2007
Aviation fuel tax (AS 43.40.010)	2008
Electric and telephone cooperative tax (AS 10.25.570)	2008
Liquor license fee (AS 04.11)	2008

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

* **Sec. 25. 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, 2008, is appropriated from the general fund to the Department of Revenue for payment of the interest on those notes.

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

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

(b) The amount required to be paid by the state for principal and interest on all issued and outstanding state-guaranteed bonds is appropriated from the general fund to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2008, for payment of principal and interest on those bonds.

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

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

(c) The sum of \$31,148,600 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.

(d) The sum of \$11,400 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, 2008, for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2003A.

Subsections c and d appropriate \$31.1 million from the debt retirement fund and \$11,400 from bond premiums and interest, respectively, to pay debt service on series 2003A general obligation bonds. The bonds were authorized by the voters in 2002 for construction of schools and university facilities.

(e) The sum of \$13,222,700 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.

(f) The sum of \$56,300 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, 2008, for

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payment of debt service and trustee fees on outstanding state-guaranteed transportation revenue anticipation bonds, series 2003B.

Subsections e and f appropriate \$13.2 million from the debt retirement fund and \$56,300 from premiums and interest, respectively, to pay debt service on series 2003B state guaranteed transportation revenue anticipation bonds. The bonds were authorized by voters in 2002 for road and harbor construction/renovation.

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

(g) The sum of \$49,085,700 is appropriated to the state bond committee for the fiscal year ending June 30, 2008, 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)	\$45,885,700
Passenger facility charge	3,200,000

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

(h) The sum of \$831,800 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, 2008.

(i) The sum of \$1,109,800 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, 2008.

Subsections h and i appropriate the interest earnings of the clean water and drinking water funds to their respective bond redemption funds. Both funds are capitalized annually with federal receipts for drinking and clean water bond receipts (see sections 19(q) and (r)). The federal receipts require a state match. Federal restrictions on the loan funds, however, limit their use to making loans and paying debt service. This section takes advantage of the ability to use the funds to pay debt service. Issuing short-term bonds (secured by the assets of the loan fund) allows the "restricted" earnings of the funds to be used to pay off the bonds. Essentially, the earnings of the funds are used as match.

(j) The sum of \$11,170,100 is appropriated from the Alaska debt retirement fund (AS 37.15.011) to the state bond committee for the fiscal year ending June 30, 2008, for trustee fees and lease payments relating to certificates of participation issued for real property.

Subsection j 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.

(k) The sum of \$3,467,100 is appropriated from the general fund to the Department of Administration for the fiscal year ending June 30, 2008, for payment of obligations to the Alaska Housing Finance Corporation for the Robert B. Atwood Building in Anchorage.

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Subsection k 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.

(l) The sum of \$5,102,000 is appropriated from the general fund to the Department of Administration for the fiscal year ending June 30, 2008, for payment of obligations and fees for the Anchorage Jail.

Subsection l appropriates \$5.1 million 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: *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.*

(m) The sum of \$94,997,000 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)	\$70,497,000
School fund (AS 43.50.140)	24,500,000

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

(n) The sum of \$10,459,010 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2008, for payment of debt service on outstanding debt authorized by AS 14.40.257, AS 29.60.700, and AS 42.45.065, respectively, for the following projects:

AGENCY AND PROJECT	APPROPRIATION AMOUNT
(1) University of Alaska	\$1,411,900
Anchorage Community and Technical College Center	
Juneau Readiness Center/UAS Joint Facility	
(2) Department of Transportation and Public Facilities	
(A) Nome (port facility addition and renovation)	127,625
(B) Matanuska-Susitna Borough (deep water port and road upgrade)	752,926
(C) Aleutians East Borough/False Pass (small boat harbor)	101,841
(D) Lake and Peninsula Borough/Chignik (dock project)	117,357
(E) City of Fairbanks (fire headquarters station replacement)	869,790
(F) City of Valdez (harbor renovations)	225,338
(G) Aleutians East Borough/Akutan (small boat harbor)	282,740
(H) Fairbanks North Star Borough (Eielson AFB Schools, major maintenance and upgrades)	356,625

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(3) Alaska Energy Authority

(A) Kodiak Electric Association (Nyman combined cycle cogeneration plant)	912,972
(B) Cordova Electric Cooperative (Power Creek hydropower station)	4,313,120
(C) Copper Valley Electric Association (cogeneration projects)	331,926
(D) Metlakatla Power and Light (utility plant and capital additions)	654,850

Subsection n appropriates \$10.5 million to various state agencies for reimbursement to municipalities and public entities for debt service on projects authorized in Ch. 115, SLA 2002 (HB 528). This level of reimbursement is a little higher than that enacted for FY07 (\$10.2 million). The level of reimbursement is discretionary.

(o) The sum of \$7,000,000 is appropriated from the Alaska fish and game revenue bond redemption fund (AS 37.15.770) to the state bond committee for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds. \$1,703,556.24 of the amount appropriated will provide for early redemption of the bonds.

Subsection o appropriates the majority of the surcharge levied on sport fish licenses authorized under Ch 94, SLA 2005—and transferred to the bond redemption fund in Section 19(l) of this bill—for payment of debt service on bonds issued for sport fish hatchery development. The appropriation exceeds the debt service due on the bonds, allowing the bonds to be paid off ahead of schedule.

(p) The sum of \$3,443,000 is appropriated from the general fund to the Department of Administration for the fiscal year ending June 30, 2008, for payment of obligations to the Alaska Housing Finance Corporation for the Robert B. Atwood Building parking garage in Anchorage.

Subsection p appropriates \$3.4 million for obligations associated with the soon-to-be-constructed parking garage for the Atwood building. AHFC issued debt for the construction of the garage in an arrangement similar to that used to purchase the Robert B. Atwood building; revenue bonds are secured by the building itself and by lease payments from the State. The State will own the building at the end of the lease.

* **Sec. 26. CONSTITUTIONAL BUDGET RESERVE FUND.** (a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2007 that are made from subfunds and accounts other than the operating general fund (state accounting system fund number 11100) by operation of art. IX, sec. 17(d), Constitution of the State of Alaska, to repay appropriations from the budget reserve fund are appropriated from the budget reserve fund to the subfunds and accounts from which they were transferred.

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

(b) Unrestricted interest earned on investment of the general fund balances for the fiscal year ending June 30, 2008, is appropriated to the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska). The appropriation made by this subsection is intended to compensate the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for any lost earnings caused by use of the fund's balance to permit expenditure of operating and capital appropriations in the fiscal year ending June 30, 2008, in anticipation of receiving unrestricted general fund revenue. The amount appropriated by this subsection may not exceed an amount equal to the earnings lost by the budget reserve fund as the result of the use of money from the budget reserve fund to permit

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expenditure of operating and capital appropriations in the fiscal year ending June 30, 2008, in anticipation of receiving unrestricted general fund revenue.

Subsection b appropriates general fund earnings to the CBRF as compensation for earnings lost by the CBRF as a result of draws to meet the Treasury's cash flow requirements.

(c) The sum of \$245,700 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 increased operating costs related to management of the budget reserve fund for the fiscal year ending June 30, 2008.

Subsection c appropriates \$245,700 from the budget reserve fund to the Department of Revenue, Treasury Division, for investment management fees for FY08.

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

Subsection d stipulates that appropriations made from the CBRF must be approved by at least three-quarters of the members of each house of the legislature.

(e) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2007, estimated to be \$1,351,200,000, made from the operating general fund (state accounting system fund number 11100) by operation of art. IX, sec. 17(d), Constitution of the State of Alaska, are to repay appropriations from the budget reserve fund.

(f) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2008, estimated to be \$642,700,000, made from the operating general fund (state accounting system fund number 11100) by operation of art. IX, sec. 17(d), Constitution of the State of Alaska, are to repay appropriations from the budget reserve fund.

Subsections e and f are not appropriations. They simply restate the Constitutional provision that available general funds are automatically swept into the CBRF to repay the State's liability for past draws.

Legislative Fiscal Analyst Comment: *The bill contains no language appropriating funds from the CBRF to cover any shortfall in unrestricted revenue (i.e., the CBR draw).*

* **Sec. 27. NONLAPSE OF APPROPRIATIONS.** The appropriations made by secs. 5(d), 6(b), 7(d), 8(b), 19, 25(h), and 25(i) of this Act are for the capitalization of funds and do not lapse.

* **Sec. 28. RETROACTIVITY.** Those portions of the appropriations made in sec. 1 of this Act that appropriate either the unexpended and unobligated balance of specific fiscal year 2007 program receipts or the unexpended and unobligated balance on June 30, 2007, of a specified account are retroactive to June 30, 2007, solely for the purpose of carrying forward a prior fiscal year balance.

* **Sec. 29.** Sections 17 and 28 of this Act take effect June 30, 2007.

* **Sec. 30.** Except as provided in sec. 29 of this Act, this Act takes effect July 1, 2007.

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Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Capital Budget

The Governor's FY08 capital budget of \$920 million is approximately \$1.4 billion less than was appropriated for capital projects in FY07. Total state funds³ amount to \$212 million, of which \$92 million are general funds. Federal funds total \$709 million.

This budget should be considered a "bare bones" work in progress. It contains little more than the minimum level of state funds required to match available federal funding. In that regard, it should be analyzed not only by what *is* included, but by what *is not* included. Numerous capital needs statewide are not addressed. Some of the significant issues are discussed below.

SIGNIFICANT ISSUES

Federal Funding

A major concern of the Department of Transportation and Public Facilities, and what should be a concern for the entire state, is the uncertainty of the Federal-Aid Highway Program. Projections by the Bush Administration and the Congressional Budget Office show that revenue to the Highway Trust Fund⁴ will be less than the projected outflow from the fund by 2009. In order to avoid this, Congress may increase fuel taxes or, more likely, reduce appropriations.

To resolve the remaining funds needed for FFY 2007 Congress has indicated they will approve a third and final Continuing Resolution, at the 2006 funding level. This will result in a \$3.4 billion reduction in highway funds relative to the level authorized in the federal transportation act (SAFETEA-LU). DOT&PF estimates this will result in approximately \$40 million in Alaska projects being delayed. It is unclear if this will have any effect on the more than 100 earmarks that are scheduled to receive funding during each of the five years authorized by SAFETEA-LU.

Another concern specific to Alaska is that Senator Ted Stevens is no longer the Chair of the Senate Appropriations Committee. This could have a dramatic effect on the level of federal funding Alaska receives in the future. Alaska is a donee state (receives far more in federal revenue than it contributes in federal taxes), and may need to contribute more to the rehabilitation and construction of its roads.

School Construction/ Major Maintenance

In recent years the legislature has made considerable progress on school construction and maintenance needs. Last session, a total of \$187.9 million was appropriated. Nearly half of that funding (\$89.7 million), however, does not become effective until FY08. Even with this recent attention, the Department of Education and Early Development's construction and major maintenance priority lists include projects with a total cost of \$921.4 million.

Human Resources/ Payroll System Replacement

In FY06, \$20 million was appropriated for the replacement of the statewide human resources and payroll systems. However, the procurement process was stopped when it became obvious that the appropriation was insufficient to complete the project. The status of the project is unclear, other than the fact that substantially more funding will be required to complete it.

³ Total state funds are net of duplicated fund sources.

⁴ The Highway Trust Fund is the depository for the federal fuel tax and is the primary fund source of the Federal-Aid Highway Program.

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Deferred Maintenance

Deferred maintenance is piling up state-wide. Usually addressed to some extent each year, the backlog reported by agencies remains extensive—totaling over \$950 million. While it is unreasonable to expect this back-log to be addressed in a single year, an annual appropriation addressing the issue could be considered prudent. Recent estimates reported by agency are in the following table:

Deferred Maintenance by Agency (millions)	
Administration	
Public Building Fund (PBF) Facilities	72.8
Non-PBF Facilities	5.3
University of Alaska	400.0
Transportation & Public Facilities	
Rural Airports	25.0
Harbors	15.0
Facilities	34.0
Highways	218.8
AMHS Vessels	36.0
Health & Social Services	
Pioneers' Homes	5.8
Other	7.7
Military & Veterans Affairs	8.7
Corrections	50.3
Natural Resources	58.0
Labor & Workforce Development	10.6
Fish and Game	3.5
Public Safety	2.1
Total	953.6

Alaska Land Mobile Radio

The Alaska Land Mobile Radio has received a combination of state and federal funding over the last several years totaling over \$32.4 million. An additional \$3 million was identified in the FY07 budget process as an anticipated need in FY08. Money for ALMR does not appear in the current budget.

AMHS Vessel Overhaul

The Alaska Marine Highway System (AMHS) is required by the United States Coast Guard to annually dry dock its eleven vessels for inspection. Overhaul of the vessels is required each year to receive a Certificate of Inspection which certifies safe and proper conditions aboard the vessels. Typically, \$4 to \$5 million of general funds has been appropriated each year for required overhauls. This funding is not in the current budget and is necessary for AMHS to operate in FY08.

Statewide Facilities

Recent budgets have included significant facilities maintenance funding for buildings in the Public Building Fund. While this is a worthwhile investment, other state facilities throughout the state are not receiving the same level of attention. The Department of Transportation and Public Facilities operates and maintains over

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600 facilities statewide outside the Public Building Fund. Several of their buildings are in poor physical condition and some need to be replaced⁵. This disproportionate funding allocation may need to be addressed soon, if not in FY08.

Perhaps consolidation of state facilities maintenance should be examined. The Department of Transportation and Public Facilities has the statutory responsibility for facility maintenance. The Department of Administration took over Juneau facilities maintenance during the creation of the Public Building Fund several years ago. Perhaps consolidation would extend the success of the Public Building Fund to other facilities.

Matanuska-Susitna Jail Construction

The Matanuska-Susitna Jail is a major construction project in the early stages of design. The \$350 million project is being financed by the Mat-Su Borough and will be secured by a long-term lease to the state. The Alaska Housing Finance Corporation is assisting in the planning stage through procurement of a design/builder. They are requesting \$30 million of receipt authority (provided by the Mat-Su) for costs associated with this process.

University of Alaska

The University of Alaska Board of Regents' FY08 capital plan totals over \$431 million, of which \$332 million is state funds. The Regents' top priority is \$43.7 million to maintain existing facilities and equipment. In addition, the University has a \$400 million deferred maintenance backlog that they hope the legislature will address with appropriations of approximately \$67 million per year for six years.

Potential Capital Budget Funding Sources

The proposed capital budget does not appropriate the investment earnings from the Amerada Hess Settlement, which flow annually into the **Alaska Capital Income Fund**. This fund was set up as a recurring source of funds for capital projects. Earnings are projected to be \$28 million each year.

Alaska Student Loan Corporation bonds are another source of potential funding not appropriated in the proposed capital budget. The ASLC planned to return \$40 million of bond proceeds to the State during FY08. This funding source is currently questionable, however, and will need to be discussed during the legislative session (see Debt Obligations).

⁵ These buildings include the Jim River (Dalton Highway) Maintenance Station, the East Fork Maintenance Station, and the Nome Warm Storage Building.

Language Sections of the Governor's FY08 Capital Budget

* **Sec. 4. ALASKA SPORT FISH HATCHERY CONSTRUCTION.** The amount earned by the investments of the Alaska sport fishing construction account of the fish and game fund (AS 16.05.130(f)) for the period April 26, 2006, to June 30, 2007, after any payment required under 26 U.S.C. 148, not to exceed \$3,300,000, is appropriated from the Alaska sport fishing construction account (AS 16.05.130(f)) to the Department of Fish and Game for construction and renovation of sport fish hatcheries.

This section appropriates investment earnings on bond proceeds (held in the construction account) to the department for additional construction/renovation of sport fish hatcheries.

***Legislative Fiscal Analyst Comment:** The bond resolution identifies new facilities to be constructed, but does not limit the use of earnings to these specific projects. While not essential, the legislature may wish to receive (and provide) more specific information about the projects to which these earnings are directed.*

* **Sec. 5. 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).

Subsection a lists types of receipts that are appropriated subject to review by the Legislative Budget and Audit Committee. There is no change from FY07.

***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, test fisheries receipts and corporate receipts of the Alaska Aerospace Development Corporation.*

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

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

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

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

***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.*

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* **Sec. 6. 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.

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

* **Sec. 7. NATIONAL PETROLEUM RESERVE - ALASKA IMPACT GRANT PROGRAM.** (a) The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6508 by August 31, 2007, estimated to be \$40,000,000, is appropriated from that fund to the Department of Commerce, Community, and Economic Development for capital project grants under the National Petroleum Reserve - Alaska impact grant program.

(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 Commerce, Community, and Economic Development and an impacted municipality by August 31, 2007, lapses into the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530(a)) on September 1, 2007.

Section a appropriates an estimated \$40 million of federal receipts for the National Petroleum Reserve-Alaska impact grant program.

Section b clarifies that, after all meritorious grants have been funded, the remaining NPR-A funding lapses into the NPR-A special revenue fund (AS 37.05.530).

Funding: Because the entire \$40 million is expected to be distributed as grants, the estimated value of section b is zero.

Legislative Fiscal Analyst Comment: Although no funding is expected to lapse, any funding that lapses into the NPR-A fund is appropriated in Section 19(e)-(g) of the Governor's operating budget bill as follows: 25% to Permanent Fund Principal, ½% to the Public School Trust Fund, and any remaining amount to the Power Cost Equalization and Rural Electric Capitalization Fund.

* **Sec. 8. RURAL ELECTRIFICATION REVOLVING LOAN FUND; ELECTRICAL EMERGENCIES PROGRAM.** Notwithstanding AS 42.45.020(g), the balance of the rural electrification revolving loan fund (AS 42.45.020) on June 30, 2007, estimated to be \$90,000, is appropriated to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, for the electrical emergencies program.

This section is effectively a general appropriation; it makes a FY07 supplemental appropriation of the balance of the Rural Electrification Revolving Loan fund to AEA before the receipts are deposited into the general fund. The balance consists of the loan payments on the remaining loans outstanding. These loan payments totaled approximately \$330,000 annually until recently, when several loans accounting for over 70% of the outstanding balance were paid in full. The remaining loan payments will total approximately \$90,000 until 2020, when they will drop to approximately \$65,000.

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Legislative Fiscal Analyst Comment: *The difference between the \$330,000 which had been collected annually and the \$90,000 collected in FY06 was appropriated from the general fund. A general fund appropriation for this purpose is not included in this budget.*

* **Sec. 9. LAPSE.** (a) The appropriation made by sec. 6(1) of this Act is for the capitalization of a fund and does not lapse.

(b) The appropriations made by secs. 4, 6(2), 7(a), and 8 of this Act are for capital projects and lapse under AS 37.25.020.

This section states that the projects lapse under AS 37.25.020 which provides that the appropriation is for the life of the project. The belief that capital appropriations have a five-year lapse is a common misunderstanding.

* **Sec. 10.** The appropriation made by sec. 8 of this Act takes effect June 30, 2007.

This effective date makes the \$90,000 appropriation for electrical emergencies (in section 8) a FY07 supplemental appropriation.

* **Sec. 11.** Except as provided in sec. 10 of this Act, this Act takes effect July 1, 2007.

Capital Budget Summary									
Agency	All Funds (Includes MH)			FY08 Governor by Fund Group					
	FY07 Enacted	FY08 Governor	Change 07-08	General Funds	Other State Funds	Duplicated Funds	Nonduplicated State Funds	Total	Federal Funds
Administration	17,370,000	650,000	(16,720,000)	-	10,985,000	10,335,000	650,000		
Commerce, Community & Economic Dev	281,275,516	119,262,802	(162,012,714)	1,870,000	17,606,401	1,800,000	17,676,401		101,586,401
Corrections	5,400,000	-	(5,400,000)	-	-	-	-		-
Education and Early Development	110,384,431	-	(110,384,431)	-	-	-	-		-
Environmental Conservation	105,633,445	71,444,000	(34,189,445)	15,235,999	500,000	-	15,735,999		55,708,001
Fish and Game	9,252,000	7,353,500	(1,898,500)	-	4,336,800	-	4,336,800		3,016,700
Office of the Governor	25,400,000	22,000,000	(3,400,000)	-	100,000	100,000	-		22,000,000
Health and Social Services	43,571,600	26,956,700	(16,614,900)	13,821,300	750,000	-	14,571,300		12,385,400
Labor and Workforce Development	3,401,000	1,079,000	(2,322,000)	329,000	-	-	329,000		750,000
Law	260,000	-	(260,000)	-	-	-	-		-
Military and Veterans Affairs	26,215,500	11,400,000	(14,815,500)	800,000	1,000,000	1,000,000	800,000		10,600,000
Natural Resources	49,735,700	27,290,300	(22,445,400)	50,000	5,963,200	-	6,013,200		21,277,100
Public Safety	17,953,289	7,250,000	(10,703,289)	-	-	-	-		7,250,000
Revenue	56,670,450	89,632,600	32,962,150	-	66,829,960	117,000	66,712,960		22,919,640
Transportation & Public Facilities	1,397,125,951	511,399,800	(885,726,151)	59,588,000	58,542,981	43,106,981	75,024,000		436,375,800
University of Alaska	113,240,000	24,150,000	(89,090,000)	-	9,150,000	-	9,150,000		15,000,000
Legislature	2,300,000	-	(2,300,000)	-	-	-	-		-
Alaska Court System	10,249,300	-	(10,249,300)	-	-	-	-		-
Fund Capitalization	57,909,500	-	(57,909,500)	-	-	-	-		-
Total - Capital Budget	2,333,347,682	919,868,702	(1,413,478,980)	91,694,299	175,764,342	56,458,981	210,999,660		708,869,042
General Funds	759,855,874	91,694,299	(668,161,575)						
Other State Funds	299,921,840	119,305,361	(180,616,479)						
Federal Receipts	1,273,569,968	708,869,042	(564,700,926)						

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Debt Obligations

The state's debt obligations⁶ for FY08 total \$260.5 million. These obligations include required debt service on state capital project debt and discretionary debt reimbursement to non-state entities (i.e., school debt and capital project debt reimbursements to municipalities). Total state debt service to maturity is approximately \$4.3 billion.

GO Bonds

Required debt service for state general obligation bonds is \$44.4 million. Series 2003A (schools/university/roads/harbors) bonds are expected to require approximately \$31 million per year until 2024. Series 2003B (roads) bonds are expected to require nearly \$13.5 million per year until 2014. Series 2003B bonds are also referred to as GARVEE transportation bonds that can be repaid with up to 90% federal highway funds. Debt service to maturity for all GO bonds is approximately \$580 million.

Lease-Purchase Financing

Debt service on Lease-Purchase contracts requires \$23.2 million in FY08. Of this amount, \$11.2 million is for Certificates of Participation (COPs). Payments for Spring Creek Correctional Center ended in FY07, thereby lowering debt service by \$857.0 from FY07 and \$3.85 million from FY06 and prior years. Other lease-purchase payments include the Atwood Building (\$3.5 million) and the Anchorage Jail (\$5.1 million).

SB 317 (Chapter 47, SLA06) authorized the Alaska Housing Finance Corporation to issue bonds not to exceed \$44 million, including the cost of issuance, to finance the construction of a parking garage near the Atwood Building. The Department of Administration would enter into a long-term lease for state use of the garage. The deal is structured nearly identically to that of the Atwood Building. Under terms of the contract, the state would own the garage outright upon termination of the debt. Issuance of the bonds is expected in early 2007. The Governor's FY08 budget contains the first debt service payment of \$3.4 million.

Airport Bonds

Outstanding International Airport Revenue Bonds of \$644.7 million require approximately \$50 million in annual debt service. SB 153 (Chapter 28, SLA05) increased the maximum allowable principal to \$812.5 million (from \$534.5 million). Additional bonds totaling \$344.6 million were issued in four series in February of 2006. One of the series included a refinance of two earlier series.

Municipal Debt Reimbursement

School Debt Reimbursement is budgeted at \$95 million--\$70.5 million from the Debt Retirement Fund and \$24.5 million from the School Fund. HB 13 (Chapter 41, SLA06) extended the deadline (previously Oct 31, 2006, now November 30, 2008) to gain voter and Department of Education approval in order to qualify for state reimbursement. The statewide cap of \$192 million was also removed, making the program wide open. Assuming appropriation at the 100% level, the state's portion of the total debt service to maturity is currently over \$1.4 billion.

Port, harbor and power project debt reimbursement authorized under HB 528 (Chapter 115, SLA 2002) is proposed at \$10.5 million. A total of \$103 million of principal reimbursement was authorized in 2002. Outstanding debt service to maturity is currently \$70.6 million.

⁶ In this context, state debt obligations refer to debt issued by the state, or on behalf of the state, for capital projects. It excludes any debt issued by state corporations or the university used for programmatic functions. Although most debt service paid by the state is subject to appropriation, some is more discretionary than others.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Sport Fish Hatchery Bonds

Senate Bill 147 (Chapter 94, SLA05) authorized the issuance of \$69 million in bonds for construction and renovation of sport fishing facilities. The bonds are secured by a surcharge applied to sport fishing licenses. These bonds were issued in April of 2006 with a nominal 20-year term based on a worst case scenario surcharge collection. Before issuance, a Memorandum of Understanding was negotiated with the Department of Fish and Game whereby not more than \$500,000 of the revenue generated by the license fee each year would be used for F&G operational costs. This negotiated amount was placed in the bond documents, thereby precluding any additional use. The projected revenue stream is expected to exceed the annual minimum debt service (including the \$500.0 for operations) thereby repaying the bonds in approximately 14 years. Seven million dollars are budgeted for debt service in FY08 while the nominal debt service required is only \$5.3 million.

AHFC/NTSC Bonds

Several times in recent years, the Alaska Housing Finance Corporation (AHFC) has issued debt on behalf of the state. The current debt service to maturity is approximately \$232 million. The annual debt service on these bonds has been withheld from the annual dividend paid to the state by AHFC. This, in effect, makes the payment of this debt service "off budget" because the state incurs a reduction in revenue rather than making an appropriation for debt service. The amount to be retained by AHFC for debt service is dropping from \$32 million in FY07 to \$6.2 million in FY08.

Similar diversion of revenue occurs with debt issued on behalf of the state by the Northern Tobacco Securitization Corporation (NTSC). In 2000 and 2001, the state sold 80% of the annual revenue stream (approximately \$16.8 million of the \$22.5 million available) from the Tobacco Master Settlement Agreement to NTSC. The state used the proceeds for capital projects. The debt service on the bonds issued by NTSC is paid for with the tobacco settlement revenue diverted from the state. HB 381(Chapter 35, SLA06) authorized leveraging an additional \$170 million of the tobacco settlement revenue stream. Both original series were refinanced and the term was extended to 30 years.

New Debt/ Other Issues

- In continuation of their "Return of Capital" initiative, the Alaska Student Loan Corporation was working with the Murkowski administration on an additional \$60 million to be transferred to the state in FY08. Of this, \$40 million would be new bond funding available for capital projects and \$20 million would capitalize an education endowment (Section 19(s) of the Gov's operating bill) of which the annual earnings would be available for scholarships for low-income students. However, the quality of assets originally proposed as collateral has deteriorated as a result of the popularity of a loan refinancing program. The loan refinancing program carried with it certain credit qualifications which in turn removed a considerable portion of the credit-worthy assets from that portfolio. The remaining assets in the portfolio are some of the least valuable, and the situation may jeopardize the bond issue as originally proposed. The \$40 million from bond proceeds appears as revenue in the Fall Revenue Forecast, but is not currently used for capital projects in the Governor's budget. The sale of bonds is currently being reevaluated.
- The Mat-Su Borough may issue debt in FY08 for the **Mat-Su Jail**. Debt of \$350 million is expected to be secured entirely by a long-term lease to the State⁷. Details regarding the jail (including a jail location and a design builder) are not yet final, so the timing of the debt issue and the debt service schedule is uncertain. Debt payments are expected to be about \$20 million per year for 20 years.
- Chapter 160, SLA 2004 authorized the cities of Dillingham and Kodiak to receive \$2 million each from the proceeds of state certificates of participation to be used to upgrade, expand, or replace jail

⁷ This type of debt structure is called a capital lease. Default on a lease payment to the borough would affect the credit rating of the State.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

facilities. A local match of at least \$1.5 million is required. The City of Kodiak has indicated interest in this funding, but a COP for the jail may need to be combined with COPs for other purposes because issuing a COP of \$2 million would be cost prohibitive.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Debt Summary Table				
(thousands)	FY07	FY08Gov	07 to 08	Comments
Alaska Debt Retirement Fund (ADRF)				
Capitalization				
General Funds	41,491.9	58,134.7	16,642.8	
Federal Receipts	9,295.1	11,788.0	2,492.9	
Investment Loss Trust Funds	12.7	376.5	363.8	
Municipal Bond Bank Receipts (Earnings)	250.0	-	(250.0)	
AHFC Dividend	17,441.7	38,880.7	21,439.0	
AIDEA Dividend	16,649.5	10,000.0	(6,649.5)	
ASLC Dividend	-	-	-	
GO Bond Interest - Series 2003A (Misc. Earnings)	6,829.8	5,173.0	(1,656.8)	
GO Bond Interest - Series 2003B (Misc. Earnings)	2,367.0	1,434.7	(932.3)	
Total	94,337.7	125,787.6	31,449.9	
Cashflow				
Beginning Balance (6/30/06)	28,877.9	0.1	(28,877.8)	FY07 includes a \$26 million FY06 supplemental capitalization
Capitalization	94,337.7	125,787.6	31,449.9	
Total Available	123,215.6	125,787.7	2,572.1	
Current Yr. Appropriations	(123,215.5)	(126,038.4)	(2,822.9)	
Available balance	0.1	(250.7)		This shortfall is listed as an FY08 beginning balance by OMB
DEBT SERVICE/ REIMBURSEMENT				
ADRF Debt Payments				
GO Bonds -Schools/Roads (Series 2003A)	31,470.9	31,148.6	(322.3)	
GO Bonds -GARVEES (Series 2003B)	11,662.0	13,222.7	1,560.7	
Certificates of Participation (COPs)	13,147.6	11,170.1	(1,977.5)	
Fairbanks Virology Lab	2,649.0	2,295.9	(353.1)	
DEC Environmental Health Lab	1,368.9	1,348.6	(20.3)	
API Replacement	1,636.4	1,629.5	(6.9)	
Spring Creek Correctional Facility	874.2	-	(874.2)	
2005A Refunding	6,594.1	5,871.1	(723.0)	
Trustee Fees	25.0	25.0	-	
School Debt Reimbursement	66,935.0	70,497.0	3,562.0	
Subtotal	123,215.5	126,038.4		
Other Debt Payments (including GF)				
GO Bonds -Schools/Roads (Series 2003A)	44.5	11.4	(33.1)	GO Bond Premium and Interest
GO Bonds -GARVEES (Series 2003B)	1,860.1	56.3	(1,803.8)	GO Bond Premium and Interest
International Airport Revenue Bonds	45,426.3	49,085.7	3,659.4	IARF and PFC's
Clean Water Fund Bonds	1,539.3	831.8	(707.5)	ACWF Receipts
Drinking Water Fund Bonds	1,075.3	1,109.8	34.5	ADWF Receipts
Atwood Building	3,467.1	3,467.1	-	GF
Atwood Parking Garage	-	3,443.0	3,443.0	GF
School Fund - School Debt Reimbursement	27,000.0	24,500.0	(2,500.0)	School Fund
Sport Fish Hatchery Revenue Bonds	8,219.0	7,000.0	(1,219.0)	Sport Fish License Surcharge
GF - Capital Project Reimbursement (HB 528)	10,209.9	10,459.0	249.1	GF
Anchorage Jail (Capital Lease)	5,091.8	5,102.0	10.2	GF
AHFC State Capital Project Bonds	31,935.0	6,138.6	(25,796.4)	Diverted AHFC Dividends
NTSC Tobacco Settlement Bonds (off budget)	14,900.0	23,300.0	8,400.0	Diverted Tobacco Settlement Revenue (to NTSC)
Subtotal	150,768.3	134,504.7	(16,263.6)	
TOTAL DS/ Reimbursement	273,983.8	260,543.1	(13,440.7)	
Debt Payments by Type				
GO Bonds	45,037.5	44,439.0	(598.5)	
Lease-Purchase Financing	21,706.5	23,182.2	1,475.7	COP's, Atwood Building/ Garage, Anchorage Jail
Revenue Bonds	53,645.3	56,085.7	2,440.4	International Airport, Sport Fish
Debt Reimbursement	104,144.9	105,456.0	1,311.1	School Debt, Municipal Capital Debt
Corporate Debt for State Capital Projects	46,835.0	29,438.6	(17,396.4)	AHFC, NTSC
Short Term Financing	2,614.6	1,941.6	(673.0)	Clean and Drinking Water
Not included in OMB Summary				

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Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Comprehensive Integrated Mental Health Program

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

- People with mental illness;
- People with developmental disabilities;
- People with chronic alcoholism;
- People with Alzheimer's disease and related disorders.

The Trust

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

- provide a cash payment of \$200 million into a newly created mental health trust fund;
- establish a Trust Authority;
- return the principal of the trust fund to the Authority; and
- perpetually use the income of the trust to pay for trust administration costs and ensure improvements and continuation of the integrated, comprehensive mental health program.

Chapter 6, SLA 1994 appropriated \$200 million to the mental health trust fund from the following sources:

Mental health trust income account	\$33,000.0
DNR mental health trust income in the general fund	\$11,700.0
Proceeds from sale of DNR land sale contract portfolio	\$25,000.0
Budget reserve fund	\$130,300.0

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

Management of the Trust: The Permanent Fund Corporation 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 program funding.

A unique provision of the settlement grants the Authority the power to spend mental health trust income without legislative approval. This provision does not, however, remove the legislature from spending decisions. Most of the Trust's spending plan allocates substantial dollars to state agencies. State agencies require legislative authorization to expend the funds which necessitates the legislature's involvement.

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 or the bill approved by the legislature differ from those proposed by the Authority, the bills must be accompanied by a report explaining the reasons for the differences from the Trust's recommendations.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

The Mental Health Trust generates revenue from the investment earnings on the \$200 million trust, land sale/lease proceeds, and land use royalties. Mental Health Trust income, identified in the appropriation bill as MHTAAR or Mental Health Trust Authority Authorized Receipts, provides approximately \$10 million per year for CIMHP funded programs and mental health trust administrative costs. Other state funds and federal funding are typically included in the CIMHP. These might include general funds, AHFC Dividend funds, and Alcohol and Other Drug Abuse Treatment & Prevention Funds.

The Authority 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 allocation of state funding is similar to the process that applies to other state 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 Trust Authority sources of income for annual spending include:

- a percentage of net asset value of the Trust Fund Corpus (Principal);
- lapsed funds from the prior year;
- income from the Trust's account in the treasury; and
- income from rents, fees, purchase contract interest, and 15% of timber sales from the Trust Land Management.

The Trustees approved five focus areas for the FY08 budget cycle, with the goals affecting significant system changes in the areas of:

- Affordable, Appropriate Housing for Trust Beneficiaries;
- Bring the Kids Home;
- Justice for Persons with Disabilities;
- Trust Beneficiary Group Initiatives; and
- Workforce Development

The Trust spends a percentage of its total cash assets each year. The "payout" percentage in FY07 was 4.0% and remains unchanged in FY08.

Moving Forward, Alaska Comprehensive Integrated Mental Health Plan 2006-2011

The Trust presented its *Moving Forward, Alaska Comprehensive Integrated Mental Health Plan for fiscal years 2006-2011*. *Moving Forward* focuses on the status of Trust beneficiaries in four result areas: health, safety, quality of life and economic security, and detailing plans for and providing services to Alaskans whose lives have been impacted by mental illness, alcoholism, developmental disabilities and dementias. Further the plan focuses on prevention of disabling conditions themselves. *Moving Forward* results from work between the Alaska Department of Health and Social Services, the Alaska Mental Health Trust Authority, and other state agencies, boards and commissions (AS 47.30.660).

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Statewide Total Appropriations for Mental Health Programs

	FY03	FY04	FY05	FY06	FY07 Budget	AMHTA FY08 Request	FY08 Gov
State-Controlled	133,999.9	117,388.9	111,554.1	114,437.6	127,712.4	142,779.1	137,834.5
MH Trust	10,224.7	9,846.0	10,056.5	11,566.1	13,184.5	14,423.3	14,130.8
Total Operating	144,224.6	127,234.9	121,610.6	126,003.7	140,896.9	157,202.4	151,965.3
State-Controlled	1,300.0	3,785.3	3,300.0	9,049.2	12,200.0	17,900.0	13,600.0
MH Trust	3,313.0	3,352.1	4,080.0	3,100.0	2,650.0	2,500.0	2,300.0
Total Capital	4,613.0	7,137.4	7,380.0	12,149.2	14,850.0	20,400.0	15,900.0

OPERATING

The net increase in state-controlled operations from FY07 is approximately \$10.1 million (primarily due to retirement and health insurance increases). Significant changes occurred in the following allocations:

Department of Health and Social Services

Pioneer Homes	\$1,561.8
Services for Severely Emotionally Disturbed Youth	\$3,574.0
Alaska Psychiatric Institute	\$2,334.7
Adult Preventative Dental Medicaid Services	\$1,000.0

The Governor's Request does not include the entire Alaska Mental Health Trust Authority recommendation. The total operating budget was *cut* by \$5.2 million mainly in GF/Mental Health funds. Overall, according to the Trust Authority, recommendations were amended to include: no new programs; no expansion of existing programs; and the continuation of prior initiatives.

CAPITAL

The Governor's FY08 Capital Budget Request for Mental Health programs is \$4.5 million below the Alaska Mental Health Trust Authority's request (\$4.3 million GF/MH and \$200.0 MHTAAR). The Governor's capital expenditures *all funding sources* total \$15.9 million. This is an increase of nearly \$1.1 million from FY07. Below are some of the significant single projects:

MH Southcentral Foundation Eklutna Residential Psychiatric Treatment Center-Match for Bring the Kids Home (ED 16)	\$7.0 million
MH Cost Share Match for Bring the Kids Home (ED 99)	\$1.0 million
MH Deferred Maintenance and Americans with Disabilities Act Improvement Grants to Service Providers and for Trust Beneficiaries (ED 99)	\$2.0 million
AHFC Homeless Assistance Program (ED99)	\$1.5 million
AHFC Beneficiary and Special Needs Housing (ED 99)	\$1.75 million

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Agency Narratives and Funding Summaries

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Administration				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$61,560.1			
FY07 Fiscal Notes	792.5			
Reappropriations	5.5			
Special Appropriations	18,581.9			
Multi-Years (from prior fiscal years)	927.8			
Agency Transfers	(1,994.0)			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$79,873.8	\$18,313.7	29.7%	
One-time Items removed	(20,412.4)			2
Transfers between Agencies (nets zero statewide)	(735.9)			4
FY 07 Base Budget (GF only)	\$58,725.5	(\$21,148.3)	-26.5%	
FY 08 PERS/TRS Cost Increases	6,585.8			
FY 08 Health Cost Increases	31.1			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$65,342.4	(\$14,531.4)	-18.2%	
FY 08 PERS Fund Source Changes	208.9			6
FY08 Health Costs Fund Source Changes	1.6			
FY 08 Fuel Increments	44.4			
FY 08 Governor's GF Increments/Decrements	286,928.1			
FY 08 Governor's Request (GF only)	\$352,525.4	\$287,183.0	439.5%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			286928.1	
DOA Leases	3,060.4	3,129.8	69.4	
Office of the Commissioner	2,156.6	3,320.6	1,164.0	3
Property Management	529.7	573.7	44.0	
Retirement and Benefits	439.7	285,352.4	284,912.7	1, 2
Administration State Facilities Rent	552.6	1,349.2	796.6	4
Elected Public Officers Retirement System Benefits	1,778.1	1,878.1	100.0	
Violent Crimes Compensation Board	469.0	214.4	(254.6)	
Alaska Public Offices Commission	860.2	956.2	96.0	5
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	2,857.1	2,857.1	0.0	
Other funds (all allocations)	202,412.3	207,613.0	5,200.7	
Total Non-General Funds (all allocations)	205,269.4	210,470.1	5,200.7	
Position Changes	1,082	1,083	1	
PFT	1,028	1,029	1	5
PPT	27	27	0	
Temp	27	27	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		
(no GF Capital Projects Requested in FY2008)				

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Administration

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

- finance and accounting;
- payroll;
- information technology;
- human resources;
- labor relations;
- 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 Administrative Hearings. The department also oversees administrative functions of four independent boards and commissions (the Alaska Public Broadcasting Commission, the Alaska Public Offices Commission, the Alaska Oil and Gas Conservation Commission, and the Violent Crimes Compensation Board).

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **School district retirement costs: \$207.4 million GF.** Cost increases in the defined benefit plans for the public employees' retirement system (PERS) (\$37.0 million General Fund) and the teachers' retirement system (TRS) (\$170.4 million General Fund) for school district employees are directly appropriated to those accounts in the Retirement and Benefits allocation.

***Legislative Fiscal Analyst Comment:** By directly appropriating retirement costs associated with school district employees, DOA's budget is overstated by \$207 million. (and the Department of Education & Early Development is understated by that amount). The legislature may wish to appropriate money for school district retirement cost increases to DE&ED, with language directing the agency to deposit the money in the proper accounts in the Department of Administration. Doing so would more accurately reflect spending on education and likely gain more public support.*

2. **Retirement costs of political subdivisions: \$77.5 million GF.** Funding for increased retirement system costs of political subdivisions was approved as a one-time appropriation in FY07. The \$18.6 million appropriation is backed out of the base budget in FY08 reports. Beginning in FY08, the 5% cap on annual rate increases for employer contributions to retirement systems has been eliminated. The result is that FY08 retirement rate increases are roughly four times as large as the increases that occurred in FY07. The Governor proposes covering the full cost of the increases, appropriating \$77.5 million to the defined benefit plan accounts in the public employees' retirement system for 74 municipalities throughout the State. This is in addition to a local government revenue sharing program under the Department of Commerce, Community and Economic Development.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

3. **Statewide chargeback rates: \$1,164.0 GF.** The Office of the Commissioner is requesting Enterprise Technology Services cost increases (\$423.9 General Fund) and Public Building Fund increases (\$740.1 General Fund) that will in turn be allocated to customer agencies in order for each department to pay increased FY08 chargeback rates. In ETS, funding increases are needed for increased costs of software maintenance contracts, utility consumption, support costs, and database management. Public Facilities increases are attributable to services increases such as janitorial contracts, building security contracts, property management fees, heating fuel, HVAC maintenance, and other cost increases associated with maintaining buildings.

Legislative Fiscal Analyst Comment: *In theory, this method of paying for unavoidable cost increases is the best approach because it involves rate increases that will apply to fund sources other than general funds. This theory implies that I/A receipts collected from customers should exceed the amount of general funds distributed to customers.*

4. **State occupied space.** The General Services Division intends to **transfer the Dimond Courthouse from the non-Public Building Fund group of facilities to the Public Building Fund** within the State Owned Facilities appropriation. DOA anticipates that this will result in improved maintenance, operations, and capital improvements to the facility. The primary tenants, the Department of Law and the Court System, will be required to pay annual tenant rent. The FY08 Governor's budget transfers a total of \$649.3 in General Funds to those tenants to ameliorate the chargeback (Law- \$283.8; Courts-\$365.5).

Additional facility costs related to the newly acquired **Palmer State Office Building** have prompted a **\$796.6 General Fund increment** request in the Administration State Facilities Rent allocation. This funding would provide the operating costs for the vacant space within this building until it becomes occupied.

5. **Alaska Public Offices Commission: \$96.0 GF.** Perhaps significant only because it was specifically mentioned in the Governor's release of the budget, a full-time Anchorage Investigator is added to the staff at the Alaska Public Offices Commission in FY08. This position will be responsible for conducting investigations into alleged violations of the four disclosure laws APOC administers and will also serve as the lead enforcement staff member.
6. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Commerce, Community and Economic Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$5,241.8			
FY07 Fiscal Notes	98.5			
Reappropriations	-			
Special Appropriations	48,093.2			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	53.0			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$53,486.5	\$48,244.7	920.4%	
One-time Items removed	(48,498.2)			
Transfers between Agencies (nets zero statewide)	-			
FY 07 Base Budget (GF only)	\$4,988.3	(\$48,498.2)	-90.7%	
FY 08 PERS/TRS Cost Increases	715.2			
FY 08 Health Cost Increases	1.2			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$5,704.7	(\$47,781.8)	-89.3%	
FY 08 PERS Fund Source Changes	273.6			4
FY08 Health Costs Fund Source Changes	(0.2)			4
FY 08 Fuel Increments	-			
FY 08 Governor's GF Increments and Decrements	48,460.0			
FY 08 Governor's Request (GF only)	\$54,438.1	\$48,733.4	854.3%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			48,460.0	
Office of Economic Development	103.4	163.4	60.0	5
Local Government Support	-	48,100.0	48,100.0	1
AEA Technical Assistance	100.7	400.7	300.0	3
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	28,236.7	28,236.7	0.0	
Other funds (all allocations)	124,310.6	125,324.5	1,013.9	2
Total Non-General Funds (all allocations)	152,547.3	153,561.2	1,013.9	
Position Changes	515	515	0	
PFT	511	511	0	
PPT	3	3	0	
Temp	1	1	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)	1,870.0			
Alaska Energy Authority Projects	1,200.0			
Community Block Grants	70.0			
Community Development Grants	600.0			

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Commerce, Community and Economic Development

The Department of Commerce, Community and Economic Development (DCCED) provides a wide range of development services to private businesses and aids in protecting the public by regulating certain industries and provides services to communities. The department

- provides general assistance and access to capital markets for businesses,
- coordinates numerous state loan programs,
- manages programs aimed at key economic sectors such as electric power generation, tourism, aerospace, mining, and fishing,
- participates in the domestic and international marketing of Alaskan products and visitor attractions,
- regulates banking, securities and corporations, insurance, occupations and public utilities,
- provides services to local governments and unincorporated communities in the form of grants and direct technical assistance, and
- administers programs offering assistance in the areas of government and financial management, utility management and power cost equalization, energy development, public planning processes, land use planning, and capital project planning.

SIGNIFICANT ISSUES

Legislative Fiscal Analyst Comment: *The Governor indicated that she would like to reduce the fees for business licenses to \$25 per year (from \$100). Doing so would reduce business license revenue by \$4.45 million (from \$5.9 million to \$1.4 million). If the fees are reduced, the Governor's budget would overspend receipts by approximately \$3.9 million in FY08. The revenue reduction would be about one-third of the budget for Community Assistance and Economic Development. A decision will need to be made to replace the funding in affected programs with general funds or reduce services provided by these programs.*

The following notes correspond to numbers on the preceding spreadsheet.

1. **Local Government Support: \$48.1 million GF.** The agency's largest increment would fund a program replacing the State Revenue Sharing (SRS) and the Safe Communities (formerly called Municipal Assistance) programs. According to the agency, the distribution method for this funding has not yet been determined but will probably differ from existing statutory formulas for the State Revenue Sharing and Safe Communities programs.

Since FY 2000, the funding for SRS and Safe Communities was about \$30 million per year. In FY07, the state gave municipalities a one-time appropriation of \$48.1 million of general funds to defray increased energy and other costs.

2. **Power Cost Equalization: \$866.0 PCE Funds.** This increment fully funds the PCE formula program at \$26.2 million and accounts for the majority of the \$937,300 increase in "other" funds in the Department. Although it may appear that increases in PCE program expenditures do not affect general funds, about half (\$13 million) of the FY08 PCE Fund capitalization comes from general funds.

Due to a FY07 appropriation of \$183 million to the PCE Endowment, the GF share of PCE should decline to \$8 million in FY09 and \$4 million in FY10. By FY11, the impact of the \$183 million deposit on the three-year average balance of the endowment will be fully realized and PCE Endowment earnings are expected to generate about \$25 million annually.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

For more information on the Power Cost Equalization program, please see the discussion on Sections 19(c)-(g) in the "Language Sections of the Governor's FY08 Operating Budget" in this publication.

3. **Assistance for bulk fuel tank farm operators: \$300.0 GF.** The Alaska Energy Authority is requesting a \$300,000 general fund increment to provide technical assistance to bulk fuel tank farm operators and to address maintenance and repair issues. This increment will increase the funding for this allocation from \$100,700 to \$400,700 (a 297.9% increase). The technical assistance will include ongoing, facility-specific training. The agency states that this increment will help reduce long-term repair and replacement costs by extending the useful life of facilities and reduce local fuel costs by reducing fuel loss from leaks and spills.

Legislative Fiscal Analyst Comment: A FY06 supplemental request for this amount and purpose was denied by the Legislature.

4. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.

CAPITAL BUDGET

In addition to almost \$1.9 million in general funds for capital projects (see spreadsheet on previous page), DCCED is requesting **\$1.6 million (1/2 business license receipts and 1/2 federal funding) for the Manufacturing Extension Program.** The Manufacturing Extension Program (MEP) is a nationwide network of not-for-profit centers in nearly 350 locations nationwide, whose sole purpose is to provide help to small and medium sized manufacturers.

Legislative Fiscal Analyst Comment: If approved, almost \$2.9 million of state funds (\$4.3 million total funds) will have been appropriated for this program over a three-year period—yet, as of 12/29/06, only \$800,000 had been spent or obligated (leaving \$2.1 million still available). Because this appears to be an ongoing program, an operating budget appropriation may be more appropriate.

ORGANIZATIONAL CHANGES

A new Local Government Support (allocation) has been added (see Significant Issues note #1).

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Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Corrections				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$185,052.3			
FY07 Fiscal Notes	324.4			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	395.2			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$185,771.9	\$719.6	0.4%	
One-time Items removed	(416.4)			
Transfers between Agencies (nets zero statewide)	-			
FY 07 Base Budget (GF only)	\$185,355.5	(\$416.4)	-0.2%	
FY 08 PERS/TRS Cost Increases	15,324.5			
FY 08 Health Cost Increases	4.1			
FY08 Contractual Salary Increases	1,855.6			
FY 08 Adjusted Base Budget (GF only)	\$202,539.7	\$16,767.8	9.0%	
FY 08 PERS Fund Source Changes	385.6			5
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	254.4			
FY 08 Governor's GF Increments/Decrements	12,525.0			
FY 08 Governor's Request (GF only)	\$215,704.7	\$13,165.0	6.5%	
FY08 Governor's Increments, Decrements and Fund Changes	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Less Fuel Increments and Fund Changes for PERS and Health Costs				
Allocation			12,525.0	
Research and Records	268.0	448.0	180.0	4
Fac-Capital Improvement Unit	444.0	679.4	235.4	1
Offender Habilitation Programs	2,740.3	3,467.7	727.4	3
DOC State Facilities Rent	142.4	242.5	100.1	
Out-of-State Contractual	20,726.6	28,832.0	8,105.4	1
Institution Director's Office	627.8	927.8	300.0	4
Inmate Transportation	1,928.7	2,018.7	90.0	4
Anchorage Correctional Complex	19,031.0	19,099.8	68.8	
Combined Hiland Mountain Correctional Center	10,170.3	10,260.3	90.0	4
Fairbanks Correctional Center	9,448.1	10,703.6	1,255.5	1
Statewide Probation and Parole	12,793.6	13,264.8	471.2	3
Parole Board	669.7	794.7	125.0	1
Inmate Health Care	25,208.4	27,604.5	2,396.1	2
Existing Community Residential Centers	9,218.0	7,598.1	(1,619.9)	4
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	4,764.4	4,695.6	(68.8)	
Other funds (all allocations)	24,166.8	24,658.3	491.5	
Total Non-General Funds (all allocations)	28,931.2	29,353.9	422.7	
Position Changes	1,510	1,519	9	
PFT	1,502	1,511	9	
PPT	8	8	0	
Temp	0	0	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Corrections

The mission of the Department of Corrections is to protect the public by incarcerating and supervising offenders. The Department is responsible for public safety through the administration of correctional services including:

- twelve prisons and jails that provide secure incarceration, electronic monitoring and rehabilitation programs for felons and misdemeanants;
- community residential center beds and offender supervision program;
- 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 that makes all parole related decisions.

SIGNIFICANT ISSUES

The following paragraphs correspond to numbered notes on the proceeding spreadsheet.

1. **Prison population** increases continue to drive departmental costs upward. The State prisoner population typically exceeds 110% of approved institutional emergency capacity. With increased law enforcement by local and state agencies, the Department has no expectation of a decline in the offender population. The Department addresses the prison population issue with several increments.
 - **Increase contractual beds from 900 to 1,250 beds: \$8,105.4 GF.** The increase includes a \$1.13/bed/day rate increase at the Red Rock Arizona Contract Facility that houses Alaska's overflow prisoners.
 - **Add funding for 19 positions at the Fairbanks Correctional Center: \$1,255.5 GF.** In FY07, prisoner counts averaged 47.51% above emergency capacity. The positions requested include 13 correctional officers, one Assistant Superintendent, one Administrative Clerk, one Criminal Justice Technician, two Maintenance staff, and one Food Service Technician.
Legislative Fiscal Analyst Comment: The positions were established during FY07 but were not specifically funded. A supplemental appropriation may be requested.
 - **Build a new Mat-Su Prison: \$235.4 GF.** Although construction has not yet begun, the Superintendent III and Physical Plant Manager funded by this increment will have input in all phases of design and construction of the facility.
 - **Increase Parole Board activity: \$125.0 GF.** The request identifies increases in the number of parole hearing hours, travel costs to parole hearings at the Arizona facility, and utility and supply costs.
2. **Inmate health care** cost increases are partially due to increased nursing salaries based on a market-based pay study, and partially due to the rise in inmate population. Several nurse job classifications received a two-range increase effective September 15, 2006. The department received funding for a one-range increase and is now requesting \$439.0 GF to cover the second range increase.

Legislative Fiscal Analyst Comment: Language Section 11 in the Governor's request gives Inmate Health Care unlimited general fund authorization. The Governor assigns no dollar value to this appropriation. Based on trend line projection, Legislative Finance estimates the cost of this section to be \$1.9 million. Inmate health costs have risen rapidly in recent years; if the new administration does not control increases, the cost of the language appropriation could be larger. There are

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

alternatives to this open-ended appropriation that could avoid supplemental appropriations while encouraging cost control.

3. **Current Sex Offender and other legislation** prompt requests for increases in probation/parole officers and the Offender Habilitation program.
 - **Eight probation/parole officers: \$471.2 GF.** Two positions are requested (in response to SB 218) to manage increasing sex offender caseloads. SB 218 relates to periodic polygraph testing of all sex offenders on probation or parole. The Department also requests one additional probation officer for each new superior court judge added by SB 237. Two positions will be located in Anchorage, two in Palmer, one in Kenai and one in Fairbanks.
 - **Polygraph examination costs: \$591.0 GF.** Due to SB 218 (see description above), the department requests additional funding to cover examination costs of sex offender parolees.
4. **Institutional operating cost increases include:**
 - **Electricity costs: \$300.0 GF.** The department is facing cost challenges due to the increased price of electricity needed to maintain many of the 24/7 correctional centers statewide.
 - **Prisoner transport: \$90.0 GF.** The department's request increasing the number of contract beds from 900 to 1,250 would result in additional transports to/from the Arizona Contract Facility.
 - **New water system: \$90.0 GF.** The Hiland Mountain Correctional Center's well water system was decommissioned and demolished per instructions from the Environmental Protection Agency. The Department is in the process of connecting the facility to the Anchorage Water and Wastewater Utility system.
 - **Research and Records: \$180.0 GF.** This increment would fund three positions to complete the File Imaging project. The project was initiated with a one-time budgeted item in FY07 and is continuing in FY08 as a budgeted item. There are approximately 3,500 boxes of medical and criminal records stored at the Anchorage Central Office (Diplomacy Building) and Anchorage Correctional Complex. These records are being imaged to reduce storage space.
 - **The Department's cost increases are partially offset by the replacement of general funds with PFD Criminal funds** for operating Community Residential Centers. An additional \$1.6 million of Permanent Fund Dividend (PFD) Criminal Funds are available for appropriation due to 1) the increased number of convicted felons and third time misdemeanants who are ineligible to receive a PFD and 2) the increase in the amount of the FY07 PFD.
5. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.

ORGANIZATIONAL CHANGES

The departmental appropriation structure has decreased from five appropriations to three. The Institutional Facilities and Probation and Parole appropriations have been combined with the Administration and Operations appropriation (formerly the Administration and Support appropriation).

The Correctional Industries Product Cost allocation has been renamed the Prison Employment Program as a result of the passage of SB 310 – Employment of Prisoners (Ch. 58, SLA06).

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Education & Early Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$319,561.4			
FY07 Fiscal Notes	7,701.8			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	300.0			
Agency Transfers	-			
Misc Adjustments	696,020.9			
FY 07 Management Plan (GF only)	\$1,023,584.1	\$704,022.7	220.3%	
One-time Items removed	(35,860.0)			2
Transfers between Agencies (nets zero statewide)	-			
FY 07 Base Budget (GF only)	\$987,724.1	(\$35,860.0)	-3.5%	
FY 08 PERS/TRS Cost Increases	1,395.6			
FY 08 Health Cost Increases	2.0			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$989,121.7	(\$34,462.4)	-3.4%	
FY 08 PERS Fund Source Changes	583.2			7
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	-			
FY 08 Governor's GF Increments/Decrements	5,475.7			
FY 08 Governor's Request (GF only)	\$995,180.6	\$6,058.9	0.6%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			5,475.7	
Foundation Program	887,699.2	886,263.0	(1,436.2)	1, 2
Pupil Transportation	54,707.2	53,568.5	(1,138.7)	1
Special Schools	3,173.7	3,156.0	(17.7)	
Alaska Challenge Youth Academy	5,449.3	8,234.0	2,784.7	3
Student and School Achievement	6,268.7	6,622.5	353.8	
Statewide Mentoring Program	-	2,700.0	2,700.0	4
Teacher Certification	31.3	52.6	21.3	
Headstart Grants	6,104.0	6,110.0	6.0	
Early Learning Programs	-	1,500.0	1,500.0	5
Mt. Edgecumbe Boarding School	3,615.2	4,086.4	471.2	6
EED State Facilities Rent	1,753.3	1,763.3	10.0	
Archives	848.7	918.7	70.0	
WWAMI Medical Education	1,546.7	1,698.0	151.3	
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	214,741.9	214,382.1	(359.8)	
Other funds (all allocations)	36,828.1	35,847.1	(981.0)	
Total Non-General Funds (all allocations)	251,570.0	250,229.2	(1,340.8)	
Position Changes	345	349	4	
PFT	306	306	0	
PPT	39	43	4	6
Temp	0	0	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		
(no GF Capital Projects Requested in FY2008)				

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Education & Early Development

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

- Provide and evaluate a Comprehensive Student and School Assessment and Accountability System for all students and schools in Alaska that is based on student, school, educator, and culturally responsive standards and state and federal requirements;
- Develop and administer a standards and performance-based educator licensure system to ensure high quality and student achievement;
- Provide and support standards-based professional development and mentoring for Alaska's educators to ensure high quality and student achievement; and
- Secure and award state, federal, and private educational funding to school districts and other educational organizations to result in higher student achievement.

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

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **K-12 Education Formula Funding.** At this time, the Governor has no proposal to increase per-student payments to school districts. Based on DE&ED pupil projections and local funding requirements, the Foundation Program and Pupil Transportation budgets show a combined reduction of \$2.6 million GF from FY2007.

As in FY2006 and FY2007, the Governor submitted a separate bill "making appropriations for state aid to public schools, centralized correspondence study, and transportation of pupils." Section 1(a) of this education bill appropriates \$395.7 million of FY08 general funds to the Public Education Fund to partially fund FY08 formula programs. Legislative Finance reports combine the K-12 bill with other operating appropriations so that year-to-year comparisons are meaningful.

The remaining \$509.1 million of FY08 costs is obtained by draining the Public Education Fund. This savings account contains surplus funds that were set aside by the legislature as part of a plan to fund education one year in advance.

Legislative Fiscal Analyst Comment: *The depletion of the education savings account is a major change in policy that will have a significant impact on the FY09 budget. Without the savings account as a source of funding, the FY09 budget will require \$500 million more GF than is proposed for K-12 in the Governor's FY08 budget. This issue is discussed in greater detail in the Introduction to this Overview.*

Legislative Fiscal Analyst Comment: *A \$207.4 million General Fund increment for school district retirement costs is not reflected in the DE&ED budget. Cost increases in the defined benefit plans for the public employees' retirement system (PERS) (\$37.0 million General Fund) and the teachers' retirement system (TRS) (\$170.4 million General Fund) for school district employees are directly appropriated to those accounts in the Department of Administration instead of flowing through DE&ED. The result is that national and budget comparisons will understate Alaska's spending on*

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

K-12 education by \$207 million (and overstate the Department of Administration's budget by \$207 million).

The legislature may wish to avoid (as the Governor has) building retirement costs into the Base Student Allocation. However, the legislature may wish to appropriate money for school district retirement cost increases to DE&ED, with language directing the agency to deposit the money in the proper accounts in the Department of Administration. Doing so would more accurately reflect spending on education.

2. **K-12 Formula Adjustments: \$35 million GF.** Funding was appropriated to school districts in FY2007 for School Improvement Grants (\$11.0 million GF) and for Cost Factor Adjustments (\$24.0 million GF). DE&ED has requested continuation of this funding as part of the Education package for FY2008.

Legislative Fiscal Analyst Comment: Both grant programs were established for FY07 only. The Governor's method of continuing funding for the programs is functional but is more fragile than statutory change (she specifies a distribution method that is not stated in statute, but provides for clear allocation of funds).

3. **Alaska Challenge Youth Academy (ACYA): \$2.8 million GF.** The academy is operated by the Department of Military and Veterans Affairs and is funded through a Reimbursable Services Agreement with DE&ED. The cost increase is due to enrollment increases and brings the total general fund budget for the ACYA to \$8,234.0.

Legislative Fiscal Analyst Comment: DE&ED's request for GF to transfer to the ACYA appears to be overstated by about \$145.0. The difference is due to a discrepancy in determining the amount of federal matching grants that are subtracted from the amount to be transferred to ACYA.

4. **Statewide Mentoring Program: \$2.7 million GF.** The mentoring program was added to the Teaching and Learning Support appropriation to provide mentoring for new teachers and principals. The legislature supported the \$4.5 million program with a combination of one-time and continuing funds. In FY2008, DE&ED is requesting \$2.7 million in general funds to replace one-time funding from the ILTF and ASLC Dividends. In FY06, the mentoring project involved 381 teachers with less than two years experience and 24 trained mentors in 36 of Alaska's school districts and 169 schools. The project also served 81 principals in 27 school districts across the state.

5. **Early Learning Programs: \$1.5 million GF.** This is a new allocation in the Teaching and Learning Support appropriation. The funding is to implement a program developed and endorsed by statewide stakeholders as well as the State School Board. This program is comprised of four pieces:

- a. Early Learning Guidelines (\$200.0);
- b. Quality Rating System (\$1,000.0);
- c. Development of a Plan for a Statewide System of Voluntary Early Childhood Education (\$150.0); and
- d. Ready to Read, Ready to Learn Administrative and Council Support (\$150.0).

6. **Mt. Edgecumbe Boarding School: \$471.2 GF.** Increments replace interagency receipts that were based on (unrealizable) formula funding and add four permanent, part-time residency/resiliency positions that were previously funded by an Association of Alaska School Boards (AASB) grant that is no longer available. These positions will work as academic tutors and in the areas of leadership and recreation.

7. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.

ORGANIZATIONAL CHANGES

There are two organizational changes within the Department of Education & Early Development. The first is the elimination of the Alaska Challenge Youth Academy (ACYA) as a separate appropriation. The ACYA is now reflected as part of the K-12 Support appropriation group. The second change is the addition of a new Early Learning Programs allocation within the Teaching and Learning Support appropriation.

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

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Environmental Conservation				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$16,196.6			
FY07 Fiscal Notes	-			
Reappropriations	-			
Special Appropriations	62.5			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	186.0			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$16,445.1	\$248.5	1.5%	
One-time Items removed	(123.7)			
Transfers between Agencies (nets zero statewide)	(23.6)			
FY 07 Base Budget (GF only)	\$16,297.8	(\$147.3)	-0.9%	
FY 08 PERS/TRS Cost Increases	1,546.7			
FY 08 Health Cost Increases	0.8			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$17,845.3	\$1,400.2	8.5%	
FY 08 PERS Fund Source Changes	579.1			5
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	61.2			
FY 08 Governor's GF Increments/Decrements	2,442.9			
FY 08 Governor's Request (GF only)	\$20,928.5	\$3,083.2	17.3%	
FY08 Governor's Increments, Decrements and Fund Changes	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Less Fuel Increments and Fund Changes for PERS and Health Costs				
Allocation			2,442.9	
State Support Services	1,401.6	1,454.0	52.4	
Drinking Water	1,635.9	1,938.9	303.0	2
Solid Waste Management	1,351.4	1,346.4	(5.0)	
Water Quality	6,023.6	8,023.6	2,000.0	1
Facility Construction	1,025.8	1,118.3	92.5	3
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	19,954.7	20,165.1	210.4	
Other funds (all allocations)	28,695.4	35,627.8	6,932.4	4
Total Non-General Funds (all allocations)	48,650.1	55,792.9	7,142.8	
Position Changes	516	542	26	6
PFT	511	537	26	
PPT	1	1	0	
Temp	4	4	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		15,236.0		7
Water and Wastewater Infrastructure Projects (HD Various)		15,236.0		

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Department of Environmental Conservation

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

- 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
- provides controls and enforcement to protect citizens from unsafe sanitary practices.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Cruise Ship Initiative: \$5.6 million total, \$2.0 million GF.** In August 2006, Alaska voters passed a Cruise Ship Ballot Initiative that imposes a tax on large cruise ships in order to pay for vessel services. In addition, a \$4 per passenger tax was imposed to provide funds for state-employed marine engineers (Ocean Rangers) licensed by the Coast Guard to observe health, safety and wastewater treatment and discharge operations. Effective December 2006, DEC is required to set up and run the **Ocean Ranger Program**. The total initial cost to implement this program within the Water Quality allocation is estimated at \$5.6 million (\$2.0 million GF and \$3.6 million in Commercial Passenger Vessel Compliance Funds) provided through a \$4/berth head tax. Four permanent, full-time positions are also requested.

Legislative Fiscal Analyst Comment: The \$2 million GF "subsidy" for this program is more than offset by non-designated GF revenue from the state's share of other taxes and fees imposed on vessels.

2. **Primacy for the public drinking water system: \$303.0 GFM, \$302.9 Fed.** For the past several years, federal grant funding has been insufficient to fully implement Alaska's drinking water program. Positions have been cut or held vacant to meet the budget and EPA responded by retaining partial primacy and enforcing their rules upon the state program. In FY2008, additional staff (five permanent, full-time positions) and resources are requested to obtain and maintain full primacy. The department believes that state regulation of public drinking water systems will enhance their performance in protecting the public from unsafe drinking water and preventing outbreaks in regulated facilities. The 2007 legislature proposed a three-year plan for obtaining and implementing primacy and funded the first year (\$564.8 total funds split between GF and Fed) to ensure that Alaska's public water systems will be regulated by the state Drinking Water Program and not the EPA. This request seeks funding for the second year of that three-year plan.
3. **Operator Certification Program: \$92.5 GF Match.** General funds are requested to replace Federal Funds. Until FY2008, this program was 100% funded through a federal grant. That grant has been replaced by one requiring a 50% State match. This change will maintain the current level of service to over 1,000 public water and wastewater utilities and approximately 3,000 currently certified operators, and provides testing services for those hoping to enter the field. According to DEC, funding will ensure that water and wastewater facilities are operated by competent and certified individuals.
4. **Oil and Gas Integrity Management Initiative.** Approximately \$2.0 million in Inter-agency Receipts has been requested in the DEC FY08 budget primarily for the Oil and Gas Integrity Management Initiative. These I/A Receipts will come from the Department of Natural Resources (DNR) through a reimbursable services agreement. In response to aging oil production and

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

transportation infrastructure within the State and as a direct response to the Prudhoe Bay Unit pipeline corrosion and production shut down incidents, a new office--the Oil & Gas Lease Monitoring and Engineering Integrity Coordinator's Office—was created in DNR. The Governor has assigned this office the lead position for coordination of the program but DEC will provide services in two primary areas: (1) inspection, monitoring, and compliance, and (2) environmental planning, design, and consultation. Fifteen new PFT positions are requested as part of this program in DEC.

5. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.
6. **Position changes** from FY08 Adjusted Base reflect an increase of **26 permanent positions**. Full-time positions are added to the following appropriations: Administration (2 PFT); Environmental Health (6 PFT); Spill Prevention and Response (13 PFT); and Water Quality (5 PFT).

CAPITAL BUDGET

7. In addition to operating increases, the department's 2008 total capital request is \$71.4 million, including **\$15.2 million GF, attributable to 23 water and wastewater infrastructure projects throughout the State**. Federal and Other Funds for \$56.2 million also support those projects.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Department of Fish and Game				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$38,665.2			
FY07 Fiscal Notes	-			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	55.5			
Agency Transfers	312.2			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$39,032.9	\$367.7	1.0%	
One-time Items removed	(195.9)			
Transfers between Agencies (nets zero statewide)	52.8			
FY 07 Base Budget (GF only)	\$38,889.8	(\$143.1)	-0.4%	
FY 08 PERS/TRS Cost Increases	3,868.9			
FY 08 Health Cost Increases	2.0			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$42,760.7	\$3,727.8	9.6%	
FY 08 PERS Fund Source Changes	8,291.5			1
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	140.4			
FY 08 Governor's GF Increments and Decrements	1,487.7			
FY 08 Governor's Request (GF only)	\$52,680.3	\$9,919.6	23.2%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			1,487.7	
Wildlife Conservation	3,324.6	4,655.3	1,330.7	3
Administrative Services	2,640.6	2,646.6	6.0	
F&G State Facilities Rent	2,338.5	2,489.5	151.0	
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	63,432.9	62,137.9	(1,295.0)	
Other funds (all allocations)	66,146.2	65,527.6	(618.6)	2
Total Non-General Funds (all allocations)	129,579.1	127,665.5	(1,913.6)	
Position Changes	1,764	1,764	0	
PFT	862	862	0	
PPT	800	800	0	
Temp	102	102	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		
No general fund projects requested				

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Fish and Game

The Department of Fish and Game (DFG) 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. The department also includes the Exxon Valdez Oil Spill Trustee Council, which oversees restoration of the injured ecosystem through the use of the \$900 million civil settlement.

SIGNIFICANT ISSUES

The Department of Fish and Game's FY08 budget request maintains the FY07 level of service. Excluding salary adjustment increases and fund changes for these salary adjustments, total funds increased by less than 1% and general funds increased by only 2.9% from the FY07 budget (most of which is due to general funds replacing a one-time funding source--Investment Lost Trust Funding).

The following notes correspond to numbers on the preceding spreadsheet.

1. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.
2. **Declining Fish and Game Fund Balances.** For many years the Sport Fisheries and Wildlife Conservation appropriations had virtually no general funds in their budgets. Activities were primarily supported by the Fish and Game Fund and federal funds. There was a long-term trend of annual appropriations exceeding annual revenue, which slowly drained surpluses that had accumulated in the Fish and Game Fund.

In recent years, the agency has addressed this decline by:

- spending less than the amounts authorized. For instance, in FY06, Wildlife Conservation spent only \$8.5 million of the \$10.3 million authorized (or 82.3% of its authorization);
- postponing approved capital projects; and by
- requesting general funds for operating costs. In FY06, the legislature recognized that Wildlife's portion of the Fish and Game Fund balance was insufficient to cover increased retirement costs while maintaining services. Rather than cut programs, the legislature decided to appropriate general funds for these increases. For similar reasons, in FY07 the legislature appropriated general funds for both Sport Fisheries and Wildlife Conservation.

However, FY07 operating authorization exceeded FY07 revenue by \$1.8 million for the Sportfish portion of the Fund, and by \$1.2 million for the Wildlife portion of the Fund.

The FY08 budget addresses this decline in the following ways:

- **The Sport Fish Division's** goal is to maintain a balance of \$3.5 million in the Fish and Game Fund by the end of FY10. According to the agency, this balance will provide sufficient funding to cover the July through November timeframe (the division receives its annual Sport Fish Restoration apportionment in November). To maintain this balance, the Sport Fisheries FY08 budget request:

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

- supplants \$1.3 million of Fish and Game Funds with general funds (primarily to pay for PERS and health benefits increases).
- reduces authorization to spend Fish and Game Funds by \$800.0, so that FY08 authorization is approximately equal to anticipated revenue.
- The **Wildlife Division's** FY08 budget request:
 - supplants \$694.5 million of Fish and Game Funds with general funds (primarily to pay for PERS and health benefits increases).
 - reduces authorization to spend Fish and Game Funds by \$374.8.

Legislative Fiscal Analyst Comment: Based on a revenue estimate of \$9.3 million, Wildlife will overspend Fish and Game Funds by approximately \$500.0 in FY08. If Wildlife is to be expected to maintain a fund balance and maintain services, additional general funds will be required.

3. **Replacing one-time fund source: \$1,330.7 GF.** In FY07, \$1,330.7 from the Investment Loss Trust Fund was added to the Wildlife Conservation component to augment survey and inventory activities for wildlife management programs. It was known at the time of the increment that this funding would need to be replaced to maintain the program.

ORGANIZATIONAL CHANGES

There are two budget structure changes in the Department of Fish and Game.

- The Hunter Education Public Shooting Ranges moved from its own appropriation to an allocation under the Wildlife Conservation appropriation.
- The name of the Sport Fisheries Habitat allocation has been changed to Sport Fisheries Research and Restoration.

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Office of the Governor				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$17,785.4			
FY07 Fiscal Notes	737.4			
Reappropriations	2,788.9			
Special Appropriations	24,000.0			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	(11,952.0)			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$33,359.7	\$15,574.3	87.6%	
One-time Items removed	(15,526.3)			4
Transfers between Agencies (nets zero statewide)	-			
FY 07 Base Budget (GF only)	\$17,833.4	(\$15,526.3)	-46.5%	
FY 08 PERS/TRS Cost Increases	1,833.8			
FY 08 Health Cost Increases	26.8			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$19,694.0	(\$13,665.7)	-41.0%	
FY 08 PERS Fund Source Changes	-			
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	-			
FY 08 Governor's GF Increments/Decrements	145.8			
FY 08 Governor's Request (GF only)	\$19,839.8	\$145.8	0.7%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			145.8	
Human Rights Commission	1,791.0	1,810.2	19.2	3
Executive Office	9,714.9	9,793.5	78.6	1
Elections	2,618.2	2,666.2	48.0	2
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	178.8	178.8	0.0	
Other funds (all allocations)	1,460.0	1,310.5	(149.5)	
Total Non-General Funds (all allocations)	1,638.8	1,489.3	(149.5)	
Position Changes	172	172	0	
PFT	155	155	0	
PPT	0	0	0	
Temp	17	17	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Office of the Governor

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

SIGNIFICANT ISSUES

The Governor's request reveals no significant changes in policy.

The following notes correspond to numbers on the preceding spreadsheet.

1. **Contract Increases for Trade Activities: \$78.6 GF.** The Governor's Executive Office is requesting additional funding for increases in existing contracts with Taiwan, Japan, Korea, and China due to anticipated increases in trade activity.
2. **Annual Maintenance Costs for Touch Screen Voting Equipment: \$48.0 GF.** With the incorporation of touch screen voting equipment in every precinct of the State, annual maintenance funds are needed. Full implementation of touch screens was required by the federal Help America Vote Act as of 2006.
3. **Lease Cost Increases: \$19.2 GF.** The Human Rights Commission is requesting additional funding for increased lease costs.
4. **FY07 reduction in one time increments: \$15,526.3 GF.** Funding appropriated on a one-time basis was removed from the FY08 budget, including:
 - a. \$1.8 million in contingency funds;
 - b. \$53.4 for resource development and marketing (including ANWR);
 - c. \$914.0 for gas pipeline development; and
 - d. \$12 million for the additional fuel/utility cost funding. A \$24 million one-time appropriation for increased FY07 fuel costs was to be distributed to agencies in two payouts (\$12 million each). The first payout occurred on October 1, 2006 and this funding was included (and removed) from each receiving agency's base. The second payout is scheduled for distribution on April 1, 2007 and, because the transfer to the appropriate agencies has not yet occurred, the funding appears in the Governor's budget and needs to be removed from the FY08 base.
 - e. \$3.5 million (\$792.2 in GF and \$2.8 million in ILTF) for statewide primary and general election costs.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Health and Social Services				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$748,396.5			
FY07 Fiscal Notes	(815.4)			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	904.5			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$748,485.6	\$89.1	0.0%	
One-time Items removed	(4,854.5)			
Transfers between Agencies (nets zero statewide)	23.6			
FY 07 Base Budget (GF only)	\$743,654.7	(\$4,830.9)	-0.6%	
FY 08 PERS/TRS Cost Increases	18,733.3			
FY 08 Health Cost Increases	6.6			
FY08 Contractual Salary Increases	284.0			
FY 08 Adjusted Base Budget (GF only)	\$762,678.6	\$14,193.0	1.9%	
FY 08 PERS Fund Source Changes	6,177.7			3
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	480.0			
FY 08 Governor's GF Increments/Decrements	92,112.0			
FY 08 Governor's Request (GF only)	\$861,448.3	\$98,769.7	13.0%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			92,112.0	
Longevity Bonus Grants	-	32,200.0	32,200.0	1
Longevity Bonus Hold Harmless	-	1,159.2	1,159.2	1
AK Longevity Programs Mgmt	-	350.0	350.0	1
Pioneer Homes	32,799.1	33,351.6	552.5	8
AK Fetal Alcohol Syndrome Pgm	596.0	1,292.8	696.8	7
Behavioral Health Medicaid Svc	61,154.3	65,883.9	4,729.6	2
Behavioral Health Admin	2,419.0	2,824.0	405.0	4
Svcs/Severely Emotion Dst Yth	5,353.2	8,937.2	3,584.0	4
Children's Services Management	1,697.5	2,349.6	652.1	5
Children's Services Training	419.1	642.7	223.6	5
Front Line Social Workers	23,687.0	25,559.6	1,872.6	5
Family Preservation	1,732.7	2,382.7	650.0	5
Foster Care Special Need	2,460.3	2,801.3	341.0	5
Residential Child Care	4,777.9	4,883.4	105.5	5
Adult Prev Dental Medicaid Svc	219.7	1,309.2	1,089.5	2
Medicaid Services	187,149.0	219,082.5	31,933.5	2
Child Care Benefits	7,020.4	8,568.1	1,547.7	6
Senior/Disabilities Medicaid	127,832.8	136,916.3	9,083.5	2
All Other Programs below \$500.0	34,884.9	35,820.8	935.9	
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	1,078,317.5	1,142,117.6	63,800.1	
Other funds (all allocations)	153,762.1	156,770.2	3,008.1	
Total Non-General Funds (all allocations)	1,232,079.6	1,298,887.8	66,808.2	
Position Changes	3,642	3,648	6	
PFT	3,307	3,313	6	1, 8
PPT	107	107	0	
Temp	228	228	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		13,821.3		

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Department of Health and Social Services

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

- Managing the issuance of longevity bonus payments to eligible individuals (**new in FY08**);
- Providing residential assisted living in a safe environment;
- Providing an integrated behavioral health system;
- Promoting stronger families, and safer children;
- Providing and managing the dental needs of adults enrolled in Medicaid (**new in FY07**);
- Managing health care coverage for Alaskans in need;
- Addressing juvenile crime by promoting accountability, public safety, and skill development;
- Promoting self-sufficiency and providing basic living expenses to Alaskans in need;
- Promoting independence of Alaska seniors and people with physical and developmental disabilities; and
- Providing quality administrative services supporting the Department's programs.

SIGNIFICANT ISSUES

Medicaid is the nation's largest health care program, providing health and long-term services to low-income pregnant women, children, people with disabilities, and seniors. Medicaid is an "entitlement program" created by the federal government, but administered by the state, for those who meet federal income and asset standards and other specific eligibility criteria.

The FY2008 cost increases in Alaska's Medicaid programs are due to:

- Increased utilization by program participants;
- Rising enrollment due to an increasing senior and disabled population; and
- Federally regulated rebasing of payment rates for Medicaid service providers.

The department's challenge is to maintain the delivery of services while program costs and enrollments increase and federal receipts decline. Decreases in federal receipts in FY2008 are attributable to:

- The Deficit Reduction Act (DRA) of 2005, which reverses and limits previously accepted federal reimbursement for foster care service categories. The estimated FY08 cost to Alaska is \$3.8 million GF;
- Reduced availability of federal funding allotments for State Children's Health Insurance (SCHIP). The estimated FY08 cost to Alaska is \$3.9 million GF.

Legislative Fiscal Analyst Comment: *The Federal Medical Assistance Percentage (FMAP), which is the percentage of program expenses reimbursed by the federal government, is scheduled to decline from 58.58% in FFY2007 to 52.48% in FFY2008. The estimated FY08 cost to Alaska of the rate reduction is \$37.1 million GF. The reimbursement rate reduction affects only three quarters of SFY08. The FY09 impact of the rate reduction is expected to be an additional \$13 million. The significance of this issue is that the agency did not request general funds for this purpose. The reason for omitting an increment is that Congress may act to delay or eliminate the scheduled increase. The situation is similar to that of a year ago; Congress postponed the rate reduction very late in the state budget process.*

Significant increases in the Governor's budget are discussed below. Numbering corresponds to notes on the preceding spreadsheet:

1. **Alaska Longevity Bonus program: \$33.7 million GF (including grants, hold harmless & management).** The longevity bonus program was suspended in FY2004

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

when funding was vetoed. Under the Governor's proposal, qualified seniors who were accepted into the program on or before December 31, 1996 will receive a monthly bonus check. No new applicants will be accepted into the program. The proposed FY2008 program is projected to serve 12,631 seniors (based on FY04 DHSS projections).

2. **Medicaid increments: \$46.8 million in GF.** Medicaid increments are included in the Behavioral Health Medicaid Services, Adult Preventative Dental Medicaid Services, Medicaid Services, and Senior/Disabilities Medicaid allocations.
 - **Medicaid Growth: \$18.9 million GF.** This funding request is a result of increased enrollment and utilization of Medicaid services such as inpatient psychiatric hospitals, residential psychiatric treatment centers, outpatient behavioral health services, hospitals, physicians, pharmacy, dental, nursing homes, personal care attendants, and home and community based services;
 - **Disproportionate Share Hospital (DSH) Hospitals Uncompensated Care: \$11.1 million GF.** This increment will allow the department to fully utilize the annual federal allotment of DSH funding. Hospitals that provide a disproportionately high share of care to persons who are uninsured or underinsured may qualify for DSH payments to help offset hospitals' loss of revenue.
 - **Medicaid facility rate rebasing and Medicaid rate increases: \$8.9 million GF.** Federal regulations require the rebasing, or recalculation, of reimbursement rates for facilities at least every four years. Hospitals, nursing homes, and inpatient psychiatric hospital facilities were last re-based in FY2004. DHSS also reviewed and adjusted rates for primary care physician fees and per diem rates for in-state residential psychiatric treatment centers.
 - **Federal reduction in Medicaid ProShare Program, Upper Payment Limit (UPL): \$4.0 million GF.** The ProShare program allows states to make payments to qualifying hospitals for the difference between Medicaid and Medicare reimbursement rates, the difference is called Upper Payment Limit. The UPL helps to compensate hospitals for the cost of providing care to persons who are publicly insured. An audit finding changed the way the department calculates the UPL, which resulted in a UPL allotment lower than DHSS' current ProShare payment level. This funding request fills the gap between the previous ProShare payment level and the current ProShare payment level.
 - **Federal reduction in State Children's Health Insurance Program (SCHIP) allotments: \$3.9 million GF.** As more states have expanded their SCHIP programs, there is less federal money available for Alaska. SCHIP helps uninsured children whose families earn too much to qualify for regular Medicaid but not enough to afford private coverage. The increment replaces a decrease in the amount of federal funds available for the SCHIP program, which is called **Denali KidCare** in Alaska.
3. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.
4. **Bring the Kids Home (BTKH) program: \$4.0 million GF.** The department intends to bring Alaskan children with severe emotional disturbances who are receiving behavioral health care in out-of-state facilities to in-state or community based care facilities. The funding is requested for:
 - Training Residential Aides at the BTKH Training Academy through the University of Alaska;

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- Funding for Level of Care licensing assessment tool to accurately assess youth placements to ensure the appropriate in-state service capacity to place youth in the lowest appropriate level of care;
- Community Behavioral Health Center grants to help reduce the need for residential level services;
- Intensive outpatient treatment and continuing care for youth experiencing a mental illness, a substance abuse disorder, and/or a co-occurring disorder;
- Grant funding for individualized services and start-up funding for group home and community based facilities;
- 15 beds to support Anchorage Crisis Stabilization program;
- Expansion of school-based services; and
- Peer Navigator support which allows parents/students to be hired and assist their peers who are trying to navigate the behavioral health/community based system and their family's resources.

5. The Deficit Reduction Act of 2005 (DRA): \$3.8 million GF.

- Implementation of the DRA is expected to reduce federal reimbursement to DHSS for services that were previously reimbursed. This affects the Children's Services Management, Children's Services Training, Front Line Social Workers, Family Preservation, Foster Care Special Need, and Residential Child Care allocations within the department.
- DRA mandates changes to practices, eligibility determinations, billing and payments, and the On-Line Resources for the Children of Alaska Information Management System. DRA negated Alaska's ability to claim Title IV-E federal reimbursement for services provided to eligible children placed in unlicensed relatives' homes and to children whose eligibility was based on the situation of a relative with whom the child resided within six months of the determination.

6. Child Care Program Caseload Growth: \$1.5 million GF. This funding request is a result of an increase in the number of low-income families who need assistance paying for child care so they can continue to work.

7. Alaska Fetal Alcohol Syndrome Program: \$696.8 GF. This increment will replace federal grant funding for the Fetal Alcohol Syndrome Program (FASP). Federal grant funds for the FASP ended on 9/30/2006 with an anticipated extension of funding through the end of FY2007, pending approval of the Federal budget. Fourteen agencies currently receive funding and provide diagnostic services, development of programs such as job-training, life skills development, statewide prevention messaging, and statewide messaging to educate Alaskans about the dangers of drinking alcohol during pregnancy.

8. Pioneer Homes: \$552.5 GF. Additional funding will be used to:

- provide full year funding for 24 positions that were created in FY07 and funded for nine months.
- fund three positions so the Alaska Veterans & Pioneers Home in Palmer can meet US Department of Veteran's Affairs certification requirements. The positions will manage the ongoing oversight of the programs, audit results and document compliance with standards for quality assurance, safety, staff development and health care management.

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CAPITAL PROJECTS

The agency is requesting **\$13.8 million GF**, \$12.4 million federal funds and \$750.0 other funds for 13 projects, including:

- Eklutna Residential Psychiatric Treatment Center (\$7 million GF/MH).
- Several other mental health projects using \$3.6 million GF/MH.
- Completion of the Medicaid Management Information System (\$1.2 million GF matching \$10.8 million federal);

ORGANIZATIONAL CHANGES

Alaska Longevity Bonus Program: Re-establishment of a program that was last in existence in FY2003. The **Governor's Advisory Council on Faith-Based and Community Initiatives** and the **Office of Faith-Based and Community Initiatives** are new allocations that will work together to address gaps in Alaska's work force development and in health and social services systems.

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Department of Labor & Workforce Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$19,384.7			
FY07 Fiscal Notes	-			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	430.4			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$19,815.1	\$430.4	2.2%	
One-time Items removed	(174.4)			
Transfers between Agencies (nets zero statewide)	33.8			
FY 07 Base Budget (GF only)	\$19,674.5	(\$140.6)	-0.7%	
FY 08 PERS/TRS Cost Increases	1,222.6			
FY 08 Health Cost Increases	1.2			
FY08 Contractual Salary Increases	89.2			
FY 08 Adjusted Base Budget (GF only)	\$20,987.5	\$1,172.4	5.9%	
FY 08 PERS Fund Source Changes	5,823.2			2
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	119.2			
FY 08 Governor's GF Increments/Decrements	4,615.0			
FY 08 Governor's Request (GF only)	\$31,544.9	\$10,557.4	50.3%	
FY08 Governor's Increments, Decrements and Fund Changes	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Less Fuel Increments and Fund Changes for PERS and Health Costs				
Allocation			4,615.0	
Leasing	3,177.7	3,311.3	133.6	
Labor Market Information	1,217.6	1,392.6	175.0	
Wage and Hour Administration	1,504.0	1,674.0	170.0	
Business Services	867.7	4,317.7	3,450.0	3
Alaska Vocational Tech Center	5,701.1	5,787.5	86.4	
Kotzebue Tech Operations Grant	-	600.0	600.0	4
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	100,156.4	93,256.2	(6,900.2)	1
Other funds (all allocations)	53,441.1	52,090.9	(1,350.2)	
Total Non-General Funds (all allocations)	153,597.5	145,347.1	(8,250.4)	
Position Changes	1,037	959	(78)	
PFT	901	844	(57)	1
PPT	113	108	(5)	
Temp	23	7	(16)	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		329.0		
AVTEC Distance Training Network (HD 35)		329.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Labor and Workforce Development

The Department of Labor and Workforce Development (DLWD) is responsible for providing safe and legal working conditions and advancing employment opportunities through the following core services:

- Resolving disputes between organized labor and public employers;
- Administering programs and funds for workers' compensation, second injury, fishermen's fund, and unemployment insurance;
- Providing labor standards and safety programs;
- Providing employment services including job centers; job referral and training, vocational rehabilitation, and technical education; and
- Providing information on the current condition of the state's labor market and economy.

SIGNIFICANT ISSUES

Federal funding for the Department of Labor and Workforce Development has historically ranged from 60% to 70% of the agency's budget. In recent years, federal appropriations for many workforce programs—including employment services, Workforce Investment Act program grants and unemployment insurance—have been reduced.

The Governor's request for substantial increases in general funds mitigates declining federal funds and increasing costs in an attempt to continue to deliver programs that ensure Alaska's workforce is well trained and ready to fill anticipated jobs.

The following notes correspond to the numbers on the preceding spreadsheet:

1. The Department of Labor and Workforce Development has a **net decrease in federal funding in the amount of \$6.9 million in FY08**. Two of the largest reductions in federal funding have occurred in the Employment and Training Services and Unemployment Insurance allocations.
 - In the Employment and Training allocation, **decreases in federal grant funding have resulted in the loss of \$2.8 million of federal funds and the elimination of 34 permanent full-time positions**. The reductions in federal funding have taken place in the Wagner-Peyser and the Re-Employment Services grant programs, and there is also less federal Reed Act funding available. The reductions will reduce services provided to targeted populations (but services available to the general public will still be available to these populations).
 - The Unemployment Insurance allocation is requesting **a decrement of \$2.7 million in federal funds and the elimination of 24 positions**. According to the department, the reduction is due to the completion of one-time special federally funded projects; no direct services to the public will be affected by this decrement.
2. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.
3. **Alaska Youth First Initiative (AYFI): \$3.5 million GF**. The Alaska Youth First Initiative program began in 2005 as an effort to engage high school age youth in career preparation and was funded with **\$850.0 GF in FY07**. This GF request will replace federal funding that ends in FY08 for the federal High Growth Job Training Initiative award. According to DLWD, up to 48,000

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

new jobs will be created in Alaska by 2014 and 8,600 skilled workers will be needed for construction of the gas pipeline. In addition, during the next five years the construction industry will need 1,000 new workers each year. To meet the goal of providing employable youth, the AYFI proposes skill training and certification of employability of 1,000 youth per year. It will also focus on career awareness, pre-vocational training, teacher-industry externships, student internships and summer youth academies.

4. **Kotzebue Technical Center: \$600.0 GF.** The \$600.0 GF increment is replacing \$300.0 of federal funding that is no longer available and \$300.0 of one-time Investment Loss Trust Funding. DLWD provides funding to Alaska Technical Center as a pass-through grant and has no authority over the management of the program.

CAPITAL PROJECTS

The agency is requesting **\$329.0 in GF** and \$750.0 in federal funds for Alaska Vocational Technical Center (AVTEC) Distance Training Network. Funding for this project is comprised of a federal grant from the Economic Development Administration, state match, and in-kind match from AVTEC.

The project will provide video/teleconference equipment and network services that will connect AVTEC with Regional Training Centers across Alaska for distance delivered training. Five or six training centers in rural Alaska will receive distance technology equipment and staff training.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Law				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$39,225.7			
FY07 Fiscal Notes	418.1			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	652.5			
Agency Transfers	82.4			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$40,378.7	\$1,153.0	2.9%	
One-time Items removed	(2,172.0)			
Transfers between Agencies (nets zero statewide)	283.8			
FY 07 Base Budget (GF only)	\$38,490.5	(\$1,888.2)	-4.7%	
FY 08 PERS/TRS Cost Increases	4,511.3			
FY 08 Health Cost Increases	35.4			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$43,037.2	\$2,658.5	6.6%	
FY 08 PERS Fund Source Changes	2,173.1			5
FY08 Health Costs Fund Source Changes	0.5			5
FY 08 Fuel Increments	-			
FY 08 Governor's GF Increments/Decrements	1,772.7			
FY 08 Governor's Request (GF only)	\$46,983.5	\$3,946.3	9.2%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			1,772.7	
First Judicial District	1,949.5	1,991.5	42.0	3
Second Judicial District	1,438.2	1,467.2	29.0	3
Third Judicial: Anchorage	6,210.4	6,213.4	3.0	3
Third JD: Outside Anchorage	4,058.9	4,231.9	173.0	2, 3
Fourth Judicial District	4,748.4	4,818.6	70.2	2, 3
Criminal Justice Litigation	1,495.6	1,592.7	97.1	3, 4
Criminal Appeals/Special Litigation	3,184.2	3,348.0	163.8	1, 3
Collections and Support	883.8	1,026.8	143.0	2
Commercial and Fair Business	1,322.0	1,519.8	197.8	1
Environmental Law	1,152.0	1,424.8	272.8	1
Human Services Child Protection	5,024.1	5,274.9	250.8	1
Timekeeping and Litigation Support	143.6	264.6	121.0	4
Administrative Services	1,213.0	1,219.0	6.0	4
Dimond Courthouse Public Building Fund	283.8	487.0	203.2	2
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	3,013.9	3,013.9	0.0	
Other funds (all allocations)	23,892.8	23,892.8	0.0	
Total Non-General Funds (all allocations)	26,906.7	26,906.7	0.0	
Position Changes	546	552	6	
PFT	535	540	5	1
PPT	11	12	1	1
Temp	0	0	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Law

The mission of the Department of Law is to provide legal services to state government and to prosecute crime. The Department represents the state in

- prosecuting violators of state criminal laws,
- representing the state in legal actions,
- providing legal services in the resolution of tax and royalty disputes,
- providing consumer protection,
- providing legal services for extraordinary proceedings such as oil and gas litigation, and
- advising state agencies in areas of legal concern, including promulgating regulations and drafting legislation.

The Criminal Division protects the public by prosecuting all violations of state criminal law committed by adults and juveniles, and by placing them under appropriate controls. The Civil Division serves the interest of Alaska's citizens by providing legal counsel to the executive branch in all civil actions. The Administrative Services Division provides the core administrative services that are essential to the day-to-day operation of the department and to managing the resources of the department.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. The Department is requesting \$881.4 to expand services as described below:

- **Wildlife Enforcement: \$160.0 GF.** The department requests an Attorney V in Anchorage to prosecute anticipated cases as a result of increased wildlife enforcement. The Boards of Fish and Game, along with the Governor's multi-agency internal work group, concluded that there are not enough wildlife troopers to efficiently enforce wildlife laws. The group plans to add 29 wildlife enforcement officers over the next three years. The department requests this position in order to respond to additional cases requiring prosecution.

Legislative Fiscal Analyst Comment: The Governor's FY08 request for the Department of Public Safety includes five new wildlife enforcement officers, two of them in Fairbanks. Subcommittees may wish to ensure that increments for the two agencies are coordinated.

- **Cruise Ship Initiative: \$470.6 GF.** The department requests two Attorney V positions to perform work associated with the Cruise Ship Initiative. The Cruise Ship Initiative that passed in FY07 creates a new excise tax and makes cruise ship income subject to the state's corporate income tax. The initiative also makes certain cruise ship gaming revenues taxable. One attorney would be under Commercial and Fair Business and one under Environmental Law. The attorney positions would be involved in the development of regulations for collecting the taxes, respond to administrative hearings regarding the collection and enforcement of the taxes, and provide legal advice.
- **Child Protection Caseload: \$250.8 GF.** The department requests two paralegal positions and two Law Office Assistants to assist attorneys in each location with human services and child protection caseload maintenance and organization. Presently, in each of these locations, one attorney is handling the entire child protection caseload and the case load is far above the recommended 100 cases per attorney. Due to the passage of SB 237 in FY07, two new judges and an attorney in Palmer and one judge in Kenai will further increase caseloads in both areas. Funding from the fiscal note for SB237 will allow an additional Law Office Assistant in Palmer.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

2. **Space costs: \$496.2 GF.** The department requests increments totaling \$496.2 to cover increased lease and maintenance costs for several allocations. Lease costs have increased significantly in the last several years. According to the department, divisions have been absorbing the increases by reducing spending in other areas. However, the department claims it is no longer possible or prudent to cover increased costs in this manner. In FY08, the Dimond Courthouse will be included in the Public Building Fund. The Department of Administration transferred \$283.8 GF to Law in order to pay the Fund for occupancy costs, and Law requests an additional \$203.2 for building maintenance costs.
3. **Travel Costs: \$195.8 GF.** The department is requesting increments in several allocations to help support the increased cost of travel associated with trial cases. According to the Department, these increases are needed to avoid economic pressure to settle cases simply to avoid paying the travel costs associated with making witnesses and victims available to testify. Tougher legislation and sentencing guidelines have encouraged felony defendants to go to trial instead of pleading out. This has resulted in longer cases involving increased travel costs. In addition, the Department has to pay additional travel costs due to the increased State meal and incidental expense rate that was raised from \$42 to \$60.
4. **Parking: \$199.3 GF.** The Department of Law claims to be the only department that does not pay parking for its Anchorage employees. The increment would pay for parking spaces for approximately 230 employees.
5. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.

ORGANIZATIONAL CHANGES

A new Dimond Courthouse Public Building Fund allocation has been added to the Administration and Support appropriation.

The Human Services Protection allocation has been renamed Human Services and Child Protection and the Timekeeping and Support allocation has been renamed Timekeeping and Litigation Support. Both allocations are under the Civil Division appropriation.

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Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Military and Veterans Affairs				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$12,740.9			
FY07 Fiscal Notes	-			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	497.0			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$13,237.9	\$497.0	3.9%	
One-time Items removed	(583.3)			
Transfers between Agencies (nets zero statewide)	-			
FY 07 Base Budget (GF only)	\$12,654.6	(\$583.3)	-4.4%	
FY 08 PERS/TRS Cost Increases	791.3			
FY 08 Health Cost Increases	2.5			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$13,448.4	\$210.5	1.6%	
FY 08 PERS Fund Source Changes	1,204.4			5
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	732.1			3
FY 08 Governor's GF Increments/Decrements	(660.0)			
FY 08 Governor's Request (GF only)	\$14,724.9	\$1,276.5	9.5%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			(660.0)	
Alaska Military Youth Academy	918.8	71.8	(847.0)	1
Alaska Emergency Communications	378.1	565.1	187.0	4
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	20,181.9	20,706.9	525.0	2
Other funds (all allocations)	9,120.7	11,230.4	2,109.7	1
Total Non-General Funds (all allocations)	29,302.6	31,937.3	2,634.7	
Position Changes	300	300	0	
PFT	294	294	0	
PPT	4	4	0	
Temp	2	2	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		800.0		
Army Guard Facilities Project (HD 99)		750.0		4
Anchorage Readiness Center Security Compliance (HD 18)		50.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Military and Veterans Affairs

The mission of the Department of Military and Veterans Affairs (DMVA) is to provide Army and Air National Guard military forces, a State Defense Force and a Navy Militia that are fully prepared to protect Alaska from any threat, disaster or emergency. The department accomplishes this mission by providing:

- emergency management;
- homeland security;
- Alaska National Guard command;
- training/education of juveniles through the STARBASE and ChalleNGe programs;
- veterans' assistance and rural Alaska Elder programs; and
- support to other state and federal agencies in suppressing the use of illegal drugs.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Alaska Military Youth Academy formula.** The Alaska Military Youth Academy (AMYA) ChalleNGe program is a military school program for at-risk youth. The program is annually funded by a formula set in statute (AS 14.30.740). General funds are appropriated to the Department of Education and Early Development, and are then transferred to AMYA.

The formula calculation tends to provide the program with either too little funding or too much. In FY06 and FY07, the department requested GF because a one-year lag in the student count causes the formula to underfund the AMYA when students are added. (A platoon was added in FY06).

The ChalleNGe program has no GF funding in FY08, but formula funding is significantly more than is required for operating costs because of recent increases in the base student allocation (in the K-12 formula). The level of funding in FY08 allows AMYA to:

- **Absorb PERS retirement costs.** The Governor's budget pays school district retirement cost increases with a direct deposit to retirement accounts rather than by increasing formula payments to districts. There is no direct deposit for AMYA retirement costs, and no increase in formula funding to cover them. Yet the AMYA has surplus operating funds in FY08.
- **Transfer \$1 million to capital projects.** The department is requesting a transfer of operating money to capital for the "AMYA Deferred Maintenance, Renewal and Replacement Project".

Legislative Fiscal Analyst Comment: *The Legislature may wish to consider revising the method of funding the AMYA ChalleNGe program. Issues to consider include:*

- *Appropriating GF directly to AMYA instead of going through DE&ED.*
- *Revising the formula to*
 - *eliminate the one-year lag in student count, and*
 - *reduce the level of operating funding per student.*
- *Eliminating the formula in favor of annual agency requests, perhaps for capital projects as well as operating funds.*

The Legislature may also wish to consider establishing an appropriation for Youth Programs with separate allocations for the ChalleNGe and STARBASE programs.

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2. **Grant Funding for the ChalleNGe program: \$525.0 Federal.** The increased federal matching grant is based on graduates and reduces DE&ED formula funding dollar for dollar.
3. **Fuel Costs: \$732.1 GF.** The Army Guard Facilities Maintenance allocation has requested an increase of \$638.8 and the Air Guard Facilities Maintenance \$93.3. Federal grants to the Army Guard do not cover additional fuel costs.

Legislative Fiscal Analyst Comment: The department requested but did not receive GF for fuel in FY07 for either allocation.

4. **Alaska Statewide Emergency Communications Satellite Telephone System: \$187.0 GF.** The system, comprised of 700 satellite phones statewide, will be implemented in the Spring of FY07. The FY08 funds will be used for a minimal airtime plan to maintain the telephone's pooled airtime minutes, airtime usage audits and on-going inventory management of the system.
5. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL BUDGET

The agency is requesting \$800.0 GF, \$10.6 million federal funds, and \$1 million other funds for five projects.

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Department of Natural Resources				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$58,508.4			
FY07 Fiscal Notes	356.8			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	9,262.2			
Agency Transfers	248.0			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$68,375.4	\$9,867.0	16.9%	
One-time Items removed	(9,525.0)			
Transfers between Agencies (nets zero statewide)	(150.0)			
FY 07 Base Budget (GF only)	\$58,700.4	(\$9,675.0)	-14.1%	
FY 08 PERS/TRS Cost Increases	4,945.0			
FY 08 Health Cost Increases	6.4			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$63,651.8	(\$4,723.6)	-6.9%	
FY 08 PERS Fund Source Changes	2,214.3			6
FY08 Health Costs Fund Source Changes	1.0			
FY 08 Fuel Increments	110.4			
FY 08 Governor's GF Increments/Decrements	8,342.7			
FY 08 Governor's Request (GF only)	\$74,320.2	\$10,668.4	16.8%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			8,342.7	
Commissioner's Office	1,053.9	1,178.9	125.0	1
Information Resource Mgmt.	2,137.1	2,337.1	200.0	
Oil & Gas Development	7,874.5	9,192.6	1,318.1	3
O&G Lease & Engineering Ofc	-	4,482.9	4,482.9	1
Title Acquisition & Defense	1,819.4	1,585.7	(233.7)	
RS2477 Assertions & Litigation	371.1	276.6	(94.5)	
Forest Management & Develop	3,166.8	3,386.8	220.0	
Geological Development	2,985.6	3,591.4	605.8	5
DNR Facilities Rent & Chrgback	2,290.6	2,528.1	237.5	
Fire Suppression Preparedness	13,478.9	14,960.5	1,481.6	2
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	16,391.8	16,377.5	(14.3)	
Other funds (all allocations)	46,813.5	48,422.4	1,608.9	4
Total Non-General Funds (all allocations)	63,205.3	64,799.9	1,594.6	
Position Changes	1,106	1,117	11	
PFT	775	789	14	1
PPT	252	251	(1)	
Temp	79	77	(2)	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		50.0		
National Historic Preservation Fund Federal Grant Program (HD 1-40)		50.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Natural Resources

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

- Oil and gas development;
- Land, water, and habitat management;
- Forestry and parks management and development;
- Fire preparedness and suppression; and
- Agricultural development and revolving loan fund administration.

SIGNIFICANT ISSUES

The following notes correspond to the numbers on the preceding spreadsheet:

1. Oil and Gas pipeline project continuation: \$4.6 million GF.

- Oil & Gas Lease Monitoring and Engineering Integrity Coordinator's Office (**LMEICO**) is requesting **\$1.5 million GF** for ten new positions. The newly-created LMEICO's mission is to ensure the integrity of Alaska's oil and gas infrastructure and facilitate safe, reliable, and more continuous oil and gas production while maximizing and stabilizing revenues to the state. The first of three planned phases occurred in FY07 and was to address the regulatory gap analysis as well as the initial risk assessment for the Prudhoe Bay Unit. Note: Until the regulatory gap analysis is completed, the full extent of staffing necessary for LMEICO is unknown.

The second of three phases is to occur in FY08 and involves risk assessments on a unit-by-unit basis statewide. LMEICO will evaluate proposed facility designs, operations and maintenance practices to ensure they meet established government and industry standards. Inspections of facility types will be ongoing and corrective actions will be ordered where required.

- **LMEICO** is also requesting **\$3.0 million GF** for the funding needs for some of the designated agencies in complying with Administrative Order No. 229, effective 10/06/06. Administrative Order No. 229 directs designated agencies—Natural Resources, Environmental Conservation, Fish and Game, Revenue, Transportation and Public Facilities, Labor and Workforce Development, and Public Safety—to appoint a liaison officer to coordinate all permitting, authorizations and oversight related to oil and gas production from state leases; to communicate regarding the oil and gas related permitting actions of their agencies and maintain files; to coordinate public notices and public hearing processes; and to coordinate all permitting and compliance actions.

General fund increments in LMEICO appear as Inter-Agency Receipts in the Department of Natural Resources' Division of Mining, Land and Water (ML&W), Office of Habitat Management and Permitting (OHMP), Office of Project Management and Permitting (OPMP), and the Department of Environmental Conservation (DEC). Note: Other Designated Agencies have not identified budgetary needs at this time.

- **The Commissioner's Office** requests **\$125.0 GF** for the continuation of a project assistant to support gas line project workload increases.

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2. Fire Suppression Preparedness: \$1.5 million GF.

- **\$277.2 GF:** This increment for helicopter contractual cost increases is a result of re-bidding for previous contracts for four medium helicopters (\$123.0), two light helicopters (\$103.8), and for upgrading the existing two light helicopters to medium helicopters, which are faster, and more effective in responding to fires (\$50.4).
- **\$234.4 GF:** This increment anticipates contractual cost increases for two large air tankers used for wild land fire suppression. The current contract is up for renewal in the 2nd quarter of FY08 and significant cost increases are expected. Note: The Division of Forestry currently contracts for two Boeing DC-6 air tankers under a five-year, annually renewable, exclusive use contract.
- **\$970.0 GF:** Historically, fires outside the fire season (April 1 to August 31) have been suppressed by permanent full time staff of the Division of Forestry (DOF). When the number or complexity of these fires exceeds the ability of DOF, as has occurred with increasing frequency in recent years, seasonal fire fighters must be called from seasonal leave directly to the fire line. This increment fully funds the fire preparedness activities that must be conducted throughout the period of expected fire activity. Activities include preparing fire apparatus, ensuring warehouse functionality, updating fire equipment inventories, ensuring that dispatch office and technical systems are operational, preparing maps and other documents, ensuring helicopter and fixed wing aircraft contract compliance and fire readiness, and preparing equipment such as pumps and chainsaws for use on fires.

3. Oil and Gas Workload Continuation: GF \$1.3 million. This increment provides continuation of funding that was originally appropriated in FY05 and continued in FY06 and FY07 for the increased oil and gas workload. Alaska North Slope (ANS) gas pipeline commitments and activities have severely impacted the division's resources and the ability to accomplish its day-to-day business. The new Petroleum Profits Tax (PPT) has also added to the division's workload. The twelve positions funded through this increment also work on lease sales, lease administration, unitization, resource evaluation, IT, and permitting/compliance activities.

4. Large Project Permitting: \$650.0 SDPR. Additional Statutory Designated Program Receipts (SDPR) is requested to continue coordinating, reviewing, and permitting of existing FY07 projects and new FY08 projects. The various project areas include hard rock mining, oil and gas, transportation projects, existing Memorandum of Understanding (MOUs), amendments for the Pebble Project for Fish & Game, and pending oil and gas projects.

5. Mapping Alaska's Developable State Lands: \$605.8 GF. This proposed general fund request would supplant uncollectible Inter-Agency Receipts (I/A) and Capital Improvement Project Receipts (CIP) from federally funded programs through the University and DNR's capital projects. Of the 156,000 square miles of Alaska state owned land, approximately 10,000 square miles have been assessed, or mapped, for developable natural resources. According to the department, the increase in the mapping of Alaska's developable resources have lead to a new exploration company entrant in the Cook Inlet Basin, which spent \$1.2 million as a result of new geologic mapping information and marketing by DNR personnel.

6. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

CAPITAL PROJECTS

The agency is requesting **\$50.0 GF**, \$21.3 million federal funds and \$6 million other funds for 21 projects.

ORGANIZATIONAL CHANGES

Oil & Gas Lease Monitoring and Engineering Integrity Coordinator's Office (LMEICO) is a new allocation under the Resource Development appropriation. This allocation's mission is to improve the development and conservation of oil and gas permitting and oversight activities among all state and federal agencies with oil and gas related authority and responsibility.

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Department of Public Safety				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$104,368.3			
FY07 Fiscal Notes	529.9			
Reappropriations	780.0			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	50.0			
Agency Transfers	154.0			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$105,882.2	\$1,513.9	1.5%	
One-time Items removed	(2,496.0)			
Transfers between Agencies (nets zero statewide)	-			
FY 07 Base Budget (GF only)	\$103,386.2	(\$2,496.0)	-2.4%	
FY 08 PERS/TRS Cost Increases	10,129.0			
FY 08 Health Cost Increases	1.9			
FY08 Contractual Salary Increases	1,264.5			
FY 08 Adjusted Base Budget (GF only)	\$114,781.6	\$8,899.4	8.4%	
FY 08 PERS Fund Source Changes	572.6			5
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	-			
FY 08 Governor's GF Increments/Decrements	3,642.9			
FY 08 Governor's Request (GF only)	\$118,997.1	\$4,215.5	3.7%	
FY08 Governor's Increments, Decrements and Fund Changes	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Less Fuel Increments and Fund Changes for PERS and Health Costs				
Allocation			3,642.9	
Fire Prevention Operations	1,191.6	1,200.7	9.1	
Rural Trooper Housing	1,228.9	1,279.3	50.4	1
Narcotics Task Force	915.6	2,314.0	1,398.4	1
Alaska Bureau of Wildlife Enforcement	14,658.7	15,717.6	1,058.9	1
Village Public Safety Officer Contracts	4,883.0	5,446.4	563.4	2
Domestic Violence and Sexual Assault	2,395.8	2,544.8	149.0	3
Alaska Criminal Records and ID	1,677.4	1,815.6	138.2	4
Laboratory Services	3,764.9	4,040.4	275.5	4
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	12,676.5	12,671.3	(5.2)	
Other funds (all allocations)	19,874.4	21,365.9	1,491.5	
Total Non-General Funds (all allocations)	32,550.9	34,037.2	1,486.3	
Position Changes	851	859	8	
PFT	822	831	9	
PPT	17	17	0	
Temp	12	11	(1)	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Public Safety

The Department of Public Safety the State'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 laws,
- provides public protection programs for fire and traffic safety, and
- 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 ISSUES

The following notes correspond to the numbers on the preceding spreadsheet.

1. **Law Enforcement Activities.** The Alaska State Troopers (AST) division is charged with statewide law enforcement, prevention of crime, pursuit and apprehension of offenders, service of civil and criminal process, prisoner transportation, and search and rescue. Increments have been requested as follows:
 - **Narcotics Task Force: \$1,393.2 GF.** Language Section 15 appropriates general funds for drug and alcohol enforcement efforts during FY08 if federal receipts for this purpose are below the FY06 level. According to the department, alcohol and drug enforcement remains a significant challenge, particularly with questionable federal funding.
Legislative Fiscal Analyst Comment: The FY07 operating budget included similar language. Because DPS stated that federal funds were anticipated, the section was expected to have no budgetary impact. Federal funds did not materialize and \$1.4 million GF spending was authorized.
 - **Rural Trooper Housing: \$90.0 (\$50.4 GF, 39.6 SD).** Phase I and II of the project have provided trooper accommodations in Bethel, Emmonak, Unalakleet, Cooper Landing, Iliamna, Northway, Dutch Harbor, Aniak, King Salmon and Dillingham. Phase III of the project will provide additional housing in Dillingham and King Salmon. The Department believes that continuation of this initiative to provide safe, habitable trooper housing in rural communities is critical to AST's ability to fill and retain troopers in rural positions, thus improving public safety services in rural Alaska.
 - **Alaska Bureau of Wildlife Enforcement Officers: \$1,058.9 GF.** As part of a three-year effort to add 29 Wildlife Enforcement Officers, the Department requests funds to add five officers in FY08. Two positions will be located in Fairbanks, one in Yakutat, one in Palmer and one in Soldotna.
2. **Village Public Safety Officer Program (VPSO): \$563.4 GF.** The legislature reduced FY07 funding for the program by \$563.4 and offset the reduction by extending the authorization to spend FY06 money. The carryforward lapses at the end of FY07, and the department requests restoration of the FY07 reduction. The VPSO program was designed to train and employ individuals residing in villages as first responders to public safety emergencies such as search and rescue, fire prevention, emergency medical assistance, crime prevention and basic law enforcement.
3. **Council on Domestic Violence and Sexual Assault (CDVSA).** CDVSA works to reduce the causes and incidence of sexual assault and to alleviate the effects of domestic violence. As

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

of FY06 there were 15 shelters throughout the state that received funding from CDVSA. The CDVSA budget replaces about \$1 million of unrealizable funding sources with PFD Criminal funds.

4. **Statewide Support: \$340.7 GF.** This division provides support to state and local law enforcement agencies throughout the state. Positions provide information on criminal history, arrest, fingerprint, and DNA information as well as forensic crime scene and laboratory services. Increasing law enforcement efforts have increased the volume of support work. The Department requests the following positions:
 - **Criminal Justice Technician I: \$68.1 GF.** This position will be responsible for fingerprint card processing and in-court disposition processing. The volume of fingerprint cards received over the last 10 years has increased 55 percent, and the number of requests for criminal history background checks for employment or licensing purposes has increased over 120 percent.
 - **Criminal Justice Technician I: \$70.1 GF.** This position will work on the new National Sex Offender Registry as well as assisting to reduce the backlog of sex offender registrations and case audits.
 - **Criminalist II: \$90.0 GF.** This position will be responsible for examining sexual assault and DNA evidence to isolate individual suspects. The position is currently funded with federal receipts that may not be available in FY08.
 - **Criminalist IV: \$112.5 GF.** This position will act as the quality assurance (QA) manager of the crime lab. The lab is accredited by the American Society of Crime Laboratory Directors Laboratory Accreditation Board (ASCLD/LAB) and accreditation requirements mandate a dedicated QA position.
5. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.

ORGANIZATIONAL CHANGES

There were no significant structural changes.

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Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Revenue				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$12,453.4			
FY07 Fiscal Notes	-			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	3,275.3			
Agency Transfers	108.4			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$15,837.1	\$3,383.7	27.2%	
One-time Items removed	(3,275.3)			
Transfers between Agencies (nets zero statewide)	-			
FY 08 PERS/TRS Cost Increases	1,215.0			
FY 08 Health Cost Increases	2.3			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$13,779.1	(\$2,058.0)	-13.0%	
FY 08 PERS Fund Source Changes	1,669.4			5, 7
FY08 Health Costs Fund Source Changes	0.6			
FY 08 Fuel Increments	-			
FY 08 Governor's GF Increments/Decrements	27,608.3			
FY 08 Governor's Request (GF only)	\$43,057.4	\$29,278.3	212.5%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			27,608.3	
Tax Division	10,319.0	37,802.8	27,483.8	1, 2, 3, 4a
Treasury Division	1,514.9	1,639.4	124.5	4b
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	42,994.9	37,095.8	(5,899.1)	
Other funds (all allocations)	163,186.5	183,743.1	20,556.6	6
Total Non-General Funds (all allocations)	206,181.4	220,838.9	14,657.5	
Position Changes	936	942	6	
PFT	866	872	6	
PPT	53	53	0	
Temp	17	17	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Department of Revenue

The Department of Revenue's responsibilities include the following:

- administration and enforcement of Alaska's tax laws;
- management of the state's funds;
- administration of the Permanent Fund Dividend Program;
- collection and distribution of child support
- 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; Alaska Natural Gas Development Authority; and Alaska Retirement Management Board.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. Transferable Tax Credits Refund: Open-ended appropriation of GF.

Section 16(c) of the Governor's operating budget appropriates "the amount necessary to issue refunds for exploration and capital expenditures" to the Tax Division in order to pay oil tax refunds. The refunds are capped at \$25 million per applicant per year, but there is no limit on total refunds.

Legislative Fiscal Analyst Comment: *The Tax Division's estimate for FY08 refunds is a total of \$25 million. However, the potential amount of the appropriation is nearly \$250 million (14 producer tax returns less the big four producers who are ineligible due to size). Refunds are subject to appropriation.*

In the Governor's presentation of the budget, the FY08 revenue projection is reduced by \$25 million and there is no transaction for refunds. Rather than netting out the tax refunds, Legislative Finance shows the \$25 million additional revenue and a \$25 million (DOR's estimate) appropriation for refunds.

Legislative Fiscal Analyst Recommendation: *The legislature may wish to appropriate a specific amount for refunds in order to avoid an unexpectedly large appropriation that triggers a draw from the Constitutional Budget Reserve Fund. If refunds exceed the amount appropriated for FY08, the legislature can either make a supplemental appropriation or allow the "refund credit" to roll forward. The credits do not expire.*

- 2. PPT audits: \$1.4 million GF.** Per the passage of the new Petroleum Profits Tax (PPT as it is commonly referred), eight additional tax auditors and one Tax Technician have been added to the Tax Division. The fiscal note accompanying the PPT bill identified a need for \$829.4 in general funds for these positions. An increment in that amount is requested for FY08. **A supplemental request can be expected for these positions for FY07.** In addition, the fiscal note included \$538.4 in general funds for contractual services and miscellaneous items necessary to implement the tax. There was no appropriation bill available during the special session to which a fiscal note appropriation could have been attached.
- 3. Cruise ship tax initiative: \$626.0 GF.** Additional tax auditors and technicians are needed to administer the cruise ship tax initiative passed in the last election. Six positions and \$626.0 of general funds are proposed for this new mandate. The cruise ship tax initiative imposes an excise tax

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

on cruise ship passengers and taxes the income of gaming or gambling activities on ships in Alaskan waters. Revenue from the tax will more than pay for its administration.

4. **Market based salary increases: \$614.5 GF.** Both the Tax and Treasury Divisions include increments for “market based” salary increases.
 - a. The Tax Division has **already reclassified 34 tax auditor positions** upward two ranges as part of a market based adjustment; **\$490.0 of general funds** is requested for this reclassification.
 - b. The Treasury Division is in the **3rd year of these increases for its investment officers**; \$355.7 is requested for these increases, of which approximately 1/3 (\$124.5) is general funds. Various retirement funds would pay for the remainder.
5. **Increased State match requirements.** Under the Federal Deficit Reduction Act of 2006, the Child Support Services Division is no longer able to use federal incentive payments as state match for other federal funds. **\$1.6 million of general funds will now be required for state match** (34% match rate). The “freed up” federal incentive payments will now help offset the nearly \$2 million retirement rate increase for the Division.
6. **Investment management fees.** External manager fees are increasing with the growth in assets. An additional **\$6.6 million of Permanent Fund earnings** are requested for payment of management fees paid by the Permanent Fund Corporation. Similarly, **\$7.0 million from the various retirement fund earnings** would be used to pay the external managers for the Alaska Retirement Management Board.
7. The Governor’s budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.

CAPITAL BUDGET

The Alaska Housing Finance Corporation has approximately \$36 million in capital projects relating to their housing programs. These proposed projects are funded with the corporation’s annual dividend to the state. AHFC has also become involved with the construction of the Matanuska-Susitna Borough prison. This budget contains \$30 million of Statutorily Designated Program Receipts (Mat-Su Municipal Bond funding) to continue the preparation to solicit design/build contracts for the prison’s construction.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Department of Transportation & Public Facilities				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$191,299.7			
FY07 Fiscal Notes	5.0			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	9,109.8			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$200,414.5	\$9,114.8	4.8%	
One-time Items removed	(9,005.0)			
Transfers between Agencies (nets zero statewide)	-			
FY 07 Base Budget (GF only)	\$191,409.5	-\$9,005.0	-4.5%	
FY 08 PERS/TRS Cost Increases	17,651.0			2
FY 08 Health Cost Increases	1.9			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$209,062.4	\$8,647.9	4.3%	
FY 08 PERS Fund Source Changes	5,621.8			8
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel/ Utility Increments	17,859.7			1
FY 08 Governor's GF Increments/Decrements	2,715.0			
FY 08 Governor's Request (GF only)	\$235,258.9	\$26,196.5	12.5%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			2,715.0	
Internal Review	162.2	259.9	97.7	7
Transportation Management and Security	505.3	517.8	12.5	
Statewide Administrative Services	3,076.3	3,134.3	58.0	
Measurement Standards	2,362.7	2,502.7	140.0	6
Central Region Facilities	4,989.5	5,418.1	428.6	1, 3, 4
Northern Region Facilities	7,764.3	7,843.6	79.3	1, 4
Southeast Region Facilities	1,153.5	1,164.2	10.7	1, 4
Central Region Highways and Aviation	36,775.4	38,010.2	1,234.8	1,4,5
Northern Region Highways and Aviation	53,653.9	54,200.2	546.3	1,4,5
Southeast Region Highways and Aviation	11,434.2	11,532.7	98.5	1, 4
Marine Shore Operations	575.0	583.6	8.6	4
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	3,773.0	3,773.0	0.0	
Other funds (all allocations)	304,013.9	305,308.3	1,294.4	
Total Non-General Funds (all allocations)	307,786.9	309,081.3	1,294.4	
Position Changes	3,553	3,560	7	
PFT	3,011	3,018	7	
PPT	541	541	0	
Temp	1	1	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		59,588.0		
Federal-Aid Aviation State Match		15,000.0		
Federal-Aid Highway State Match		40,000.0		
Other Federal Program State Match		1,638.0		
Corp of Engineers Harbor Program		2,600.0		
Harbor Program Development		200.0		
AMHS Reservations and Manifest System		150.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

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 many 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. 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 ISSUES

Relatively high oil prices and the rise in costs driven by these higher prices is a continuing budgetary concern for the department. Increments for fuel, utilities, and commodities have been added in the three regional Facilities, Highways and Aviation allocations and the Alaska Marine Highway System. Although some funding was added to their base budget in FY07 to address these costs, the majority of the funding came from the special one-time state-wide fuel appropriation (Section 21(b-d), Ch. 33, SLA 2006) that became effective depending on the average price of Alaska North Slope Crude.

Legislative Fiscal Analyst Comment: This "trigger" approach to budgeting does not build the current unusually high oil prices into the base budget. With some fine tuning, this approach may prove to be useful again in FY08. Tuning may be required to fill the entire gap between the price on which the budget is based and the price that actually occurs. DOT&PF may have an insufficient fuel budget even at prices below the trigger values.

The following notes correspond to numbers on the preceding spreadsheet.

1. **Oil Driven Cost Escalation: \$19,045.1 GF.** High oil prices affect the agency in three primary areas: **utilities (\$1,618.0), commodities⁸ (\$1,185.4) and heating/motor fuel (\$16,241.7).** Additional general funds are spread throughout the FY08 budget request to address these cost increases (see table below).

	Commodities	Heating/Motor Fuel	Utilities			
			Electricity	Natural Gas	Water/Sewer	Disposal
CR Facilities	-	59.2	310.4	78.4	8.2	39.8
NR Facilities	-	280.3	315.3	(87.8)	51.0	
SE Facilities	-	33.5	20.8	1.5	14.4	13.2
CR H&A	985.4	(125.5)	427.7	-	-	-
NR H&A	200.0	279.5	373.5	-	-	-
SER H&A	-	114.7	51.6	-	-	-
AMHS Vessel Ops	-	15,600.0	-	-	-	-
Total	1,185.4	16,241.7	1,499.3	(7.9)	73.6	53.0

Legislative Fiscal Analyst Comment: These increments may provide guidance in determining how much money for fuel to include in the base budget and how much money should be provided through an appropriation contingent upon the price of oil.

⁸ Sand, grader blades, tire chains, asphalt, guard rail, etc.

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2. **AMHS Vessel Operations PERS, \$9,861.7 GF:** The PERS Salary adjustment for the Marine Highway System Vessel Operations allocation uses a disproportionate share of general funds. GF is approximately 65% of the Vessel Operations budget, yet the salary adjustment is 100% general funds. Typically, salary adjustments are made in proportion to the funding sources used in the personal services line and **adjusted, if necessary, for uncollectible receipts**. This is done throughout the rest of the DOTPF budget. However, this is not the case in Vessel Operations and these salary adjustments should be in the 65/35 proportion of GF to Marine Highway Funds.

***Legislative Fiscal Analyst Comment:** In this case, 100% GF funding is probably necessary given that additional marine highway revenues are not expected. However, the process should have been followed with a proportionate funding source increase, followed by a fund source change transaction titled "uncollectible receipts." This method was used throughout the remainder of DOTPF and in other agency budgets.*

3. **New Facilities Costs: \$343.5 GF.** Twenty-four new facilities and a facility extension will be added to the **Central Region Facilities** allocation by FY08. Additional operating costs accompany the new buildings. Funding for electricity, heating fuel, water/sewer, insurance and maintenance is requested.
4. **Risk Management: \$320.9 GF.** Risk management premiums are up in various allocations throughout the department, requiring a total of \$693.6 in general funds and International Airport Revenue funds.
5. **Rural Airport Maintenance Contracts: \$225.0 GF.** Upward pressure on rural airport maintenance contracts continues. Last session 1/3 of the contracts in the Central Region received funding for contractual increases. Funding is being requested in FY08 (\$125.0) to address another third of the contracts. The Northern Region is also experiencing these pressures and is requesting \$100.0. A total of 131 contracts exist in the two regions.
6. **Scale/Weigh Station Maintenance: \$140.0 GF.** A back-log of maintenance, repair, and calibrations exists for the weigh stations (\$50.0) and on measurement equipment (\$35.0) owned by the Measurement Standards and Commercial Vehicle Enforcement Division. Funds are also requested for an annual maintenance contract (\$55.0) on the division's proprietary software (CVIEW).

***Legislative Fiscal Analyst Comment:** Funding for the back-logged maintenance (\$85.0) may be better addressed in the capital budget unless the intent is to add continuing funding for maintenance.*

7. **Market-Based Pay Increase: \$97.7 GF.** Per a market-based salary study conducted by the Department of Administration, auditor positions state-wide are being re-classed and the salaries increased in order to attract and retain employees. The **Internal Review** allocation is adjusted upward to reflect these position reclassifications.
8. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for retirement contributions, health benefits, and contractual wage increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 14 for further discussion of this issue.

***Legislative Fiscal Analyst Comment:** The Alaska Marine Highway System (AMHS) had problems closing out FY06; faulty projections for fuel usage and payroll costs resulted in overspending and unpaid bills to several agencies totaling nearly \$500.0. A supplemental request can be expected to cover these costs. Further, FY07 intent language added to the AMHS appropriation stated that they were to operate within budgeted funding. The agency's interpretation of this instruction may be*

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

contrary to legislative intent; the AMHS is spending as if all budgeted receipt authority will be collected. If FY07 revenue comes in near FY06 (\$51.2 million), a supplemental in the range of \$3.5 million general funds can be expected to cover the difference between the revenue budgeted and the amount collected. Additional supplemental funding may also be requested given the numerous repair issues the fleet has incurred this past fiscal year.

CAPITAL PROJECTS

The DOTPF capital budget typically comprises the majority of the funding in the capital budget each year. This year is no exception; DOT&PF's capital budget is over \$540 million. The budget is broken down into three primary appropriations, Statewide Federal Programs (the majority of which is the state's match funding), the Surface Transportation Program (Federal-Aid Highway funding matched at approximately 9%) and the Airport Improvement Program (Federal Aviation Administration funding matched at 5%). Please see the bottom of the agency funding table for a breakdown of the general fund projects including the amounts budgeted as state match.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

University of Alaska				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$279,651.0			
FY07 Fiscal Notes	-			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	1,324.0			
Misc Adjustments	1.0			
FY 07 Management Plan (GF only)	\$280,976.0	\$1,325.0	0.5%	
One-time Items removed	(1,322.0)			
Transfers between Agencies (nets zero statewide)	150.0			
FY 07 Base Budget (GF only)	\$279,804.0	(\$1,172.0)	-0.4%	
FY 08 PERS/TRS/ORP Cost Increases	37,023.3			
FY 08 Health Cost Increases	4,925.5			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$321,752.8	\$40,776.8	14.5%	
FY 08 PERS Fund Source Changes	-			
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	1,602.7			
FY 08 Governor's GF Increments/Decrements	8,464.3			
FY 08 Governor's Request (GF only)	\$331,819.8	\$10,067.0	3.1%	
FY08 Governor's Increments, Decrements and Fund Changes	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Less Fuel Increments and Fund Changes for PERS and Health Costs				
Allocation			8,464.3	
System Reductions/Additions	-	1.0	1.0	
Statewide Services	15,565.0	15,880.1	315.1	
Statewide Networks (OIT)	9,726.3	9,859.2	132.9	
Anchorage Campus	99,705.8	102,281.9	2,576.1	
Kenai Peninsula College	6,888.4	7,035.3	146.9	
Kodiak College	2,798.9	2,863.4	64.5	
Matanuska-Susitna College	4,273.3	4,368.9	95.6	
Prince William Sound Community College	3,035.8	3,115.7	79.9	
Cooperative Extension Service	4,321.6	4,439.0	117.4	
Bristol Bay Campus	1,244.2	1,293.5	49.3	
Chukchi Campus	858.6	882.6	24.0	
Fairbanks Campus	106,236.3	108,661.5	2,425.2	
Fairbanks Organized Research	25,389.2	26,788.6	1,399.4	
Interior-Aleutians Campus	1,666.2	1,728.8	62.6	
Kuskokwim Campus	3,184.4	3,285.3	100.9	
Northwest Campus	1,613.3	1,651.7	38.4	
College of Rural & Community Development	5,127.9	5,274.8	146.9	
Tanana Valley Campus	5,288.9	5,439.9	151.0	
Juneau Campus	21,057.1	21,488.4	431.3	
Ketchikan Campus	2,479.4	2,535.2	55.8	
Sitka Campus	2,894.9	2,945.0	50.1	
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	150,603.6	152,660.9	2,057.3	
Other funds (all allocations)	349,809.9	356,693.3	6,883.4	
Total Non-General Funds (all allocations)	500,413.5	509,354.2	8,940.7	
Position Changes	4,148	4,148	0	
PFT	3,967	3,967	0	
PPT	181	181	0	
Temp	0	0	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		
(no GF Capital Projects Requested in FY2008)				

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University of Alaska

The major goals of the University are to respond to the educational needs of all Alaskans and to enhance Alaska's economy by fostering and promoting the following:

- a high quality postsecondary educational system;
- appropriate vocational education development and training;
- advancement and extension of knowledge, learning, and culture; and
- application of new knowledge and emerging technologies to meet the needs of the State.

SIGNIFICANT ISSUES

According to the University, the program enhancements and growth priorities in the University's FY08 budget are critical to meeting the Board of Regents' goals:

- Preparing Alaskans for Jobs;
- University Research Investment; and
- Accountability.

The University of Alaska Board of Regents requested a total increase of \$106,024.3 (\$69,270.4 in GF and \$36,753.9 in non-GF). The Governor's budget mirrors the Regents' request in the following categories:

- **Retirement Funding**– Total \$40,888.0 (\$37,023.3 GF, \$3,864.7 non-GF)
- **Salary Increases** -- Total \$11,754.7 (\$8,063.3 GF, \$3,691.4 non-GF)
- **Healthcare & Other Benefit Increases** – Total \$7,017.2 (\$4,925.5 GF, \$2,091.7 non-GF)
- **Utilities, Library, and Operating Costs Increases** – Total \$6,089.7 (\$1,602.7 GF, \$4,487.0 non-GF)

The **Governor's request does not include the entire Board of Regents' proposal**. A total of \$39,222.4 was cut from the Board of Regents' FY08 operating budget submission (\$17,255.6 GF and \$21,966.8 non-GF). The Governor eliminated \$2.55 million (of \$2.95 GF requested) for Network Bandwidth, Maintenance and Repair and New Facility Operating Costs. General funds for the following program enhancements were eliminated from the Governor's request:

- **Preparing Alaskans for Jobs** – Total \$9,548.8 (\$6,708.8 GF, \$2,840.0 non-GF)
 - Funding in this category is intended to enhance programs in the health, engineering and construction, and fisheries areas. Existing programs and other high demand fields would also be accommodated and/or strengthened.
- **University Research Investment** – Total \$23,113.9 (\$6,000.0 GF, \$17,113.9 non-GF)
 - According to the University, research funding leverages \$7 externally for every dollar of state funds. This funding request is focused on bio-medical and health research, engineering, transportation and energy programs, as well as funds for studies on climate impact and Alaska's natural resources.
- **Accountability** – Total \$3,000.0 (\$2,000.0 GF, \$1,000.0 non-GF)
 - The Board of Regents submitted two accountability request priorities to the Governor. These included funding for programs emphasizing student success and college readiness as well as academic and program support.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

The preceding spreadsheet categorizes increments by campus. The University's budget request contains far more detail than in the past, permitting greatly enhanced reporting capabilities. Subcommittees may wish to see increments presented in a variety of ways.

In FY08, the University is reflecting no change in budgeted position count.

CAPITAL BUDGET

The Governor *cut* \$407.2 million from the University's FY08 request of \$431.4 million (comprised of \$332.3 million GF and \$99.1 million other funds). Instead of accepting the Board of Regents' top priorities of (1) \$43.7 million GF for annual facilities renewal and replacement requirements and (2) \$11.0 million GF for the BioSciences Facility in Fairbanks, the Governor submitted the University's 2008 capital budget at \$24.2 million, *none of which is GF* (\$15 million in Federal Funds and \$9.2 million in University Receipts).

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Alaska Court System				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$68,243.4			
FY07 Fiscal Notes	5,793.9			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	66.7			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$74,104.0	\$5,860.6	8.6%	
One-time Items removed	(631.1)			7,8
Transfers between Agencies (nets zero statewide)	365.5			5
FY 07 Base Budget (GF only)	\$73,838.4	(\$265.6)	-0.4%	
FY 08 PERS/TRS Cost Increases	9,150.5			
FY 08 Health Cost Increases	136.7			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$83,125.6	\$9,021.6	12.2%	
FY 08 PERS Fund Source Changes	-			
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	100.0			
FY 08 Governor's GF Increments/Decrements	3,460.2			
FY 08 Governor's Request (GF only)	\$86,685.8	\$3,560.2	4.3%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			3,460.2	
Appellate Courts	6,268.0	6,480.4	212.4	1,2,3,6
Trial Courts	66,713.7	69,317.6	2,603.9	1,2,4,5,6,7,8
Administration and Support	8,937.6	9,580.5	642.9	1,3
Commission on Judicial Conduct	344.1	356.9	12.8	
Judicial Council	962.2	950.4	(11.8)	
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	1,675.6	1,675.6	0.0	
Other funds (all allocations)	971.3	743.8	(227.5)	4
Total Non-General Funds (all allocations)	2,646.9	2,419.4	(227.5)	
Position Changes	818	829	11	
PFT	724	738	14	
PPT	61	60	(1)	
Temp	33	31	(2)	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

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. The mission of the Alaska Court System is to provide an accessible and impartial forum for the just resolution of all cases that come before it, and to decide such cases in accordance with the law, expeditiously and with integrity.

There are four levels of courts in the Alaska Court System, each with different powers, duties and responsibilities. The four levels of courts are the Supreme Court, the Court of Appeals, the Superior Court, and the District Court. The Supreme Court and the Superior Court were established in the Alaska Constitution. The District Court was established by state statute in 1959. The Court of Appeals was established by state statute in 1980. Jurisdiction and other areas of the judicial responsibility for each level of court are set out in Title 22 of the Alaska Statutes.

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

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Court System Salary Schedule Revision: \$665.0 GF.** In accordance with AS 22.20.037(c), the Court System is required to conduct an annual salary survey to ensure that court employees receive salaries that are consistent with salaries paid to classified and partially exempt state employees in the executive branch. Based on this survey, the Court System is requesting an additional salary step (commonly referred to as the "G" step) to regain parity with classified employees in the executive branch.

Legislative Fiscal Analyst Comment: The Court System's request for this change has been denied several times.

2. **Improve Public Service: \$664.7 GF.** Increments in Trial Courts (\$634.6) will increase the number of staff available to improve customer service and will extend operating hours for court houses in several communities. The addition of six full-time positions for trial courts operations and the upgrade of an existing position within the appellate courts (\$30.1) will reduce backlogs and improve management of caseloads.

Legislative Fiscal Analyst Comment: In FY07, the Legislature approved 50% (or \$386.0) of Trial Court's \$773.9 request for the same purpose.

3. **Improve Administrative Services: \$609.9 GF.** Courts requests the following positions to provide better service and streamline administrative functions:
 - Three Case Management System (CMS) analysts to develop, support and maintain ongoing conversions of CourtView (the software used for case management) and implement other CMS related initiatives;
 - One contracts and leasing manager to manage leases and other service contracts statewide for the Court System's 42 court facilities;
 - One security manager to oversee security management and public relations statewide;
 - One shop technician in Information Services to support ongoing and new projects using infrastructure technologies supported by technical staff.

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

4. **Therapeutic and Mental Health Courts: \$362.1 GF.** This increment will fund the existing Anchorage based therapeutic courts coordinator and the Palmer mental health courts coordinator. Previously, \$227.5 of these expenses were funded with Mental Health Trust Authority Authorized Receipts (MHTAAR). The additional \$134.6 will support the "Safeguards to Prevent Financial Victimization" program as well as neuropsych evaluations.
5. **Space Costs: \$332.8 GF.** The executive branch has proposed including the Juneau (Dimond) and Palmer Courthouses in the Public Building Fund, making these buildings eligible for improvements that are currently not funded. The Department of Administration transferred \$365.5 GF to Courts in order to pay the Fund for occupancy costs of the Dimond Courthouse, and Courts requests an additional \$332.8 for building maintenance costs.
6. **Equipment and Court Security: \$268.5 GF.** As in recent years, Courts requests increments for Bethel Court Security Screening Services (\$75.0) and lifecycle replacement of computer systems; ergonomically correct workstations and furniture (\$193.5). The increment for Bethel security screening will annualize the appropriation for FY07, when half-year funding was provided.
7. **Anchorage Juror Parking: \$192.0 GF.** Unlike other areas within the state, jurors in the Anchorage area must pay for parking. Previously, parking was available at a reduced rate through an agreement with the Municipality of Anchorage. With the ongoing construction of the new Anchorage Convention Center, the municipal parking spaces were committed to use by state employees in the Atwood Building. For statewide parity in the treatment of jurors, the Court System began providing parking for its jurors in Anchorage and is requesting this amount to continue to provide free parking to jurors.

Legislative Fiscal Analyst Comment: *The Court System requested and received this amount in FY07 as a one time payment—the Convention Center will not be completed in FY08.*

8. **Changes in Juror Compensation: \$69.0 GF.** In FY07, the Court System reduced costs by eliminating first-day jury pay. Courts also eliminated half-day jury pay, which increased costs. The net cost of implementing the jury payment schedule was \$69.0, which the legislature appropriated.

Legislative Fiscal Analyst Comment: *Legislative Finance incorrectly coded the FY07 increment as a one-time cost of modifying software in order to address half-day pay. The increment was backed out of the FY08 base as a one-time item and is up for reconsideration by the legislature.*

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Alaska Legislature				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY07 Conference Committee (GF Only)	\$50,912.8			
FY07 Fiscal Notes	135.0			
Reappropriations	3,563.7			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	54.2			
Agency Transfers	74.4			
Misc Adjustments	-			
FY 07 Management Plan (GF only)	\$54,740.1	\$3,827.3	7.5%	
One-time Items removed	(75.0)			
Transfers between Agencies (nets zero statewide)	-			
FY 07 Base Budget (GF only)	\$54,665.1	-\$75.0	-0.1%	
FY 08 PERS/TRS Cost Increases	5,215.8			
FY 08 Health Cost Increases	87.2			
FY08 Contractual Salary Increases	-			
FY 08 Adjusted Base Budget (GF only)	\$59,968.1	\$5,303.0	9.7%	
FY 08 PERS Fund Source Changes	-			
FY08 Health Costs Fund Source Changes	-			
FY 08 Fuel Increments	-			
FY 08 Governor's GF Increments/Decrements	(31.9)			
FY 08 Governor's Request (GF only)	\$59,936.2	-\$31.9	-0.1%	
FY08 Governor's Increments, Decrements and Fund Changes Less Fuel Increments and Fund Changes for PERS and Health Costs	FY08 Adjusted Base + PERS/HEALTH & FUEL (GF only)	FY08 Governor's Request (GF only)	Change from FY08 Base to FY08 Governor's Request	See Note:
Allocation			(31.9)	
Council and Subcommittees	1,364.4	1,439.4	75.0	
Office of Victims Rights	577.0	470.1	(106.9)	
Non-General Fund Agency Summary	FY08 Adjusted Base + PERS/HEALTH & FUEL	FY08 Governor's Request	Change from FY08 Base to FY08 Governor's Request	See Note:
Federal Funds (all allocations)	0.0	0.0	0.0	
Other funds (all allocations)	681.7	788.6	106.9	
Total Non-General Funds (all allocations)	681.7	788.6	106.9	
Position Changes	521	522	1	
PFT	243	243	0	
PPT	278	279	1	
Temp	0	0	0	
FY08 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		

Legislative Fiscal Analyst's Overview of the Governor's FY08 Request

Alaska Legislature

The Alaska State Legislature sets policy through the adoption of laws and has the power of appropriation as provided in the Alaska Constitution and in state statute. In addition to the sixty members and their office staffs, the legislature includes the following appropriations and allocations:

- Legislative Budget and Audit Committee
 - Legislative Audit
 - Ombudsman
 - Legislative Finance
 - Legislature State Facilities Rent
- Legislative Council (Legislative Affairs Agency)
 - Administrative Services
 - Legal and Research Services
 - Select Committee on Ethics
 - Office of Victims Rights

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. Following tradition, reappropriations of FY06 money into FY07 (\$3.6 million in general funds) remain in the FY08 request.*

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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