

The Fiscal Year 2019 Budget: Legislative Fiscal Analyst's Overview of the Governor's Request



Legislative Finance Division

www.legfin.akleg.gov

The Legislative Finance Division 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. Per AS 24.20.231 the 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 AS 37.07 (Executive Budget Act);*
- (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;*
- (7) identify the actual reduction in state expenditures in the first fiscal year following a review under AS 44.66.040 resulting from that review and inform the Legislative Budget and Audit Committee of the amount of the reduction; and*
- (8) not later than the first legislative day of each first regular session of each legislature, conduct a review in accordance with AS 24.20.235 of the report provided to the division under AS 43.05.095.*

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Introduction

As required by law, the Governor released his FY19 budget proposal to the public and the legislature on December 15, 2017. 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.

The overview provides a starting point for legislative debate of the Governor's spending and revenue plans. It does not discuss the merits of budget plans; it focuses on outlining the fiscal situation and presenting the budget in a way that provides simple, clear information to the legislature.

ALASKA'S FISCAL SITUATION

1. Excluding potential transfers from Permanent Fund earnings, FY19 unrestricted general fund (UGF) revenue is projected to be approximately \$2.1 billion while proposed UGF spending is nearly \$4.6 billion. That leaves a deficit of approximately \$2.5 billion.
2. While the magnitude of the deficit is smaller than the average for the past four years, the legislature no longer has the option it has exercised in the past. That option is to fill the deficit by drawing money from the Constitutional Budget Reserve Fund (CBR). After years of massive draws, the projected end-of-FY18 balance of the CBR (approximately \$2.2 billion) is no longer sufficient to fill the projected \$2.5 billion FY19 deficit.
3. The Governor intends to reduce the deficit to approximately \$600 million by transferring money from the Permanent Fund Earnings Reserve Account (ERA) to the general fund.
4. The Governor proposes filling the remaining deficit with appropriations from the CBR and the Statutory Budget Reserve Fund (SBR).
5. The Governor proposes both a new (payroll) tax and an increase in motor fuels taxes, but the Governor's spending plan—under which all payroll tax receipts go toward capital projects—still leaves projected deficits of approximately \$600 million annually for the next several years.
6. Filling future deficits with "oversized" draws from the ERA would reduce the real value of the Permanent Fund, leading to declining dividends and to greater difficulty in balancing future budgets. In this context, "oversized" refers to draws that exceed a payout designed to inflation-proof the fund—sometimes referred to as "sustainable draws."

THE FY19 BUDGET

Despite past efforts to improve budget presentation—including producing reports at various levels of detail and splitting appropriations into four categories of funds—there are people who denounce budget reports as “fake news” designed to make budgets appear smaller than they really are.

There is a grain of truth in their concern that budgets are distorted. It is fair to say that budget comparisons between fiscal years are rarely *undistorted*. It is also fair to say that distortions generally work themselves out over time. For example, using \$100 million from the Higher Education Fund to pay retirement costs reduces unrestricted general fund (UGF) spending by \$100 million. But when the Higher Education Fund can no longer be used in lieu of UGF, the strategy comes back to haunt us: UGF spending increases by \$100 million.

In September of 2017, the Legislative Finance Division advised the Finance Committee Chairs that budget choices made during the 2017 legislative session would make it difficult to achieve spending reductions during the 2018 session. Maintaining the level of services provided during FY18 could increase spending (and the FY19 deficit) by over \$300 million.

The Legislative Finance Division did not say that (assuming maintenance of service levels) the FY19 budget *must* increase; it said that unrestricted general fund spending *would* increase unless use of distortion-inducing choices continued into FY19. The primary distortion-inducing choices are:

1. using money from one fiscal year to fund things in another fiscal year and
2. using non-replenishing funds for ongoing expenses.

The Governor recognized the budgetary holes (and that some non-replenishing funds were no longer available), understood the conflict between submitting a straightforward budget and taking heat for increasing apparent spending, and appeared to be committed to presenting the budget in a more transparent way. The Legislative Finance Division was, quite naturally, interested to see how the Governor addressed the situation.

The Governor released a “transparent” budget that shows a reduction of \$150 million from the FY18 budget (unrestricted general funds, with dividends and transfers excluded). Does this mean the Governor found a way to fill the holes and reduce spending by an additional \$150 million? Not exactly. The Governor’s budget misses the mark on transparency; proposed UGF spending in FY19 exceeds UGF spending in FY18.

“Transparency” is in the eye of the beholder, but perhaps all can agree on a few simple goals. The public and the legislature should know

1. how much money is available on a cash flow basis,
2. how much of that available cash is spent (and how much money is added to—or taken from—various savings/reserve/special accounts) and
3. the amount of surplus or deficit, both on a cash flow basis and after transfers to or from reserve accounts.

Arguably, the fiscal summary can, and does, meet these goals. But fiscal summaries are weak in their ability to highlight budget choices that undermine the overarching goal of budget transparency. Appropriations that

1. cross fiscal years,
2. use non-replenishing money for ongoing expenses, or
3. use designated funds for non-designated purposes

are lost in the detail.

The Governor's FY19 budget request contains examples of all these distortion-inducing elements. In addition, the Governor's presentation is complicated by inclusion of revenue measures and fiscal notes (for bills not yet enacted) that make it difficult to separate the budget bills from the Governor's budget plan.

After spending many hours last year explaining the difference between the FY18 budget bill and the budget plan (especially a plan to increase motor fuels taxes), the Legislative Finance Division informed the Office of Management and Budget that the FY19 budget presentation would be different—the fiscal summary would differentiate the budget bills from the budget plan.

The rules for the fiscal summary are simple:

1. The traditional fiscal summary will reflect those items that can/will occur on the basis of a simple majority vote on appropriation bills. (Note that this rule does not prevent the inclusion of supplemental appropriations, use of non-replenishing money or use of designated funds for nondesignated purposes. Those choices can be highlighted but nothing can stop the Governor or the legislature from making them.)
2. A separate section of the fiscal summary will make adjustments for “budget items” that require additional action such as a supermajority vote or enactment of legislation. These items might be more properly termed “budget plans” rather than simple appropriations.

Rather than attempt a line-by-line comparison of the Governor's and the Legislative Finance Division's versions of the fiscal summary, it is more productive to present the Legislative Finance Division's version of the Governor's request, as described by the rules above. The traditional parts of the fiscal summary

1. replace direct expenditures from the constitutional budget reserve fund (CBR) with expenditures from the UGF on grounds that direct spending from the CBR requires a supermajority vote, and
2. remove both revenue and expenditures that require adoption of non-appropriation bills.

This approach improves the ability to see the cash flow deficit as it has traditionally been displayed, as well as providing a clear break between what can be accomplished via standard appropriations and what plans require additional action.

Is spending up or down?

The Governor posed this question and answered it by reporting that the methodology proposed in his Budget Transparency Report shows the FY19 budget is \$4.68 billion, down \$150 million from FY18's \$4.83 billion budget. The Governor's fiscal summary apparently does not follow the rules of the Budget Transparency Report; it shows a \$316 million reduction (from \$4.50 billion to \$4.18 billion). Considering the \$300+ million in budget holes left after the FY17 legislative session, a \$316 million reduction would be nothing short of amazing.

The Legislative Finance Division's version of the fiscal summary (page 8) shows that proposed unrestricted general fund (UGF) spending (before accounting for dividends and transfers) is up \$228 million—from \$4.35 billion in FY18 to \$4.58 billion in FY19 (line 36).

If the legislature were to appropriate the Department of Revenue's FY19 projection of \$206 million to purchase oil and gas tax credits, the increase in UGF spending would be over \$430 million. That number is far more in line with expectations regarding a \$300+ million hole plus a Public Safety Action Plan that increases spending by \$16 million (plus \$18 million as a FY18 supplemental appropriation).

What is the projected cash-flow deficit and how is it filled?

The projected (post dividend, post transfer) deficit for FY19 is \$563 million (line 52). While that is a huge improvement over the \$2.2 billion deficit in FY18, the improvement is due to a \$1.9 billion payout (net of dividends) from the permanent fund earnings reserve account to the general fund.

Normally, the deficit would be the bottom line of the fiscal summary, with an assumption that the deficit would be filled with draws from the CBR and/or the statutory budget reserve fund (SBR) as approved by the legislature. The Governor chose to request \$425 million from the CBR for specific purposes, leaving a deficit of \$138 million to be filled from the \$172 million balance of the SBR. Given the volatility of oil revenue and the potential for FY19 supplemental requests, many people would say the margin of error is too slim for comfort.

That is where the "new" part of the fiscal summary comes into play. It reflects fiscal notes and revenue measures that have been removed from the traditional part of the summary because they are part of the "budget plan" that requires more than simple majority approval of appropriation bills.

A proposed payroll tax and a proposed motor fuels tax increase may seem to provide an adequate safety margin by generating an additional \$200 million in revenue in FY19. However, fiscal notes for proposed legislation would add nearly \$30 million to operating spending, and the proposed economic recovery plan would appropriate \$280 million for capital projects in FY19. In total, the plans erase the slim margin of error and leave an unfunded gap of \$74 million (before FY19 supplemental appropriations) (line 83).

In brief, the payroll tax—originally proposed as a means to reduce the deficit—is now designed solely to increase capital spending. As outlined by the Governor, the economic recovery plan would increase the FY19 deficit—it brings in revenue of \$160 million and appropriates \$280 million—but is deficit neutral over its three-year life.

What's missing from the Governor's proposal?

1. Community Assistance

The legislature revised statutory guidelines (Chapter 43, SLA 2016 (SB 196)) for using earnings of the Power Cost Equalization (PCE) Endowment Fund in order to make excess earnings available for Community Assistance. The revisions said that if endowment earnings in the prior closed fiscal year exceed anticipated PCE program costs, then up to \$30 million of endowment earnings may be appropriated for Community Assistance.

FY16 endowment earnings—potentially available for Community Assistance in FY18—of \$8.9 million were insufficient for FY18 PCE program costs, so no PCE earnings were available for Community Assistance in FY18. Last session, the Governor failed to request—and the legislature failed to add—an alternative \$30 million appropriation required to provide a \$30 million payout to communities in FY19. Without a \$30 million deposit in FY18, the FY19 distribution will be \$20 million.

FY17 endowment earnings were \$112.3 million, making \$30 million available for Community Assistance funding in FY19 (affecting distribution during FY20).

Statutory guidelines suggest the Governor would request

- a supplemental FY18 appropriation of unrestricted general funds to allow a \$30 million community payout in FY19 and
- a \$30 million FY19 appropriation from the PCE endowment to the Community Assistance Fund to provide certainty as communities develop their FY20 budgets.

Instead, the Governor requested a \$30 million FY18 appropriation from the PCE Endowment. While that appropriation provides for a \$30 million community assistance payout in FY19, the FY18 appropriation is unrelated to PCE earnings available in FY19. The Governor's request simply appropriates money from the PCE Endowment, which is use of a designated fund for a non-designated purpose.

The Governor did not appropriate excess FY17 PCE earnings for Community Assistance in FY19, per statutory intent. Without a FY19 appropriation this session, the FY20 payout could fall to \$20 million, so communities would once again be uncertain of the amount of assistance they can build into their FY20 budgets.

2. Retirement Contributions

The Governor requested less for state contributions to retirement systems than was recommended in the actuarial valuation applicable to FY19 contributions. There are well-established actuarial methods for responding to events such as great investment returns and a potential reduction in health care costs. It appears that the Governor's budget accelerated the anticipated benefits of favorable news; requested contributions were reduced by \$25 million for medical cost savings not yet achieved and by an unknown amount for other events. The legislature may wish to explore this issue early in the session.

What's new?

1. The Governor's **Public Safety Action Plan** (PSAP) focuses efforts in four areas:

1. Improving outcomes in the criminal justice system;
2. Identifying public safety resource needs;
3. Improving access to mental health and substance abuse treatment; and
4. Addressing the opioid epidemic and drug trafficking.

The Governor's budget includes \$33.5 million to fund PSAP efforts, \$18 million of which is classified as supplemental spending. Details of the PSAP are presented in the narratives for the departments of Corrections, Public Safety, Law, and Health and Social Services.

2. The Governor proposes two procedural changes:

1. Appropriations of \$425 million (made in section 28) from the **Constitutional Budget Reserve fund** require a supermajority vote. If the required supermajority vote fails, the appropriations are invalid.

The Governor indicated that placing items in section 28 is part of a plan to address the threat of government shutdown due to delay in passing the budget. A simple majority vote on the operating budget will fund core government services. The Governor identified the items in section 28 as minimally disruptive in the event of a supermajority vote failure relatively early in the budget process.

The specific, limited draw from the CBR leaves core services vulnerable if anticipated revenue does not materialize. That situation could require a special legislative session to debate spending reductions versus a second supermajority vote.

2. **Biennial budgeting** has several theoretical advantages over annual budgeting. Experience in other states indicates that the advantages may be more theoretical than practical. Adopting biennial budgeting would require legislation.

3. The Governor proposes legislation for a method of **debt financing for purchases of Oil and Gas Tax Credits** that would replace annual statutory minimum purchases of tax credits—potentially reducing FY19 costs from \$206 million for purchases to \$27 million for debt service costs. The Legislative Finance Division has insufficient information to comment on the merits of debt financing versus cash purchases.
4. The Governor proposes an **Economic Recovery Plan** that spends \$800 million on capital projects during the next three years. The plan is contingent on implementing a broad-based tax that would generate at least \$800 million in revenue during the next three years. See the capital budget overview in this publication for more details.

WHAT IS THE LONG-TERM VIEW?

For those whose focus is on FY19, the fiscal summary (on page 8) provides a concise statement (and comparison) of projected revenue, appropriations and the size of the anticipated deficit. It has the limitation of offering only a short-term view of the budget.

The Legislative Finance Division has developed a model that allows evaluation of spending and revenue options under various assumptions. The model can be used to project long-term impacts of FY19 (and later) budget and revenue actions.

With the understanding that model results are dependent on the revenue, expenditure and earnings assumptions that comprise a scenario, the legislature should be aware that the “base scenario” projects continued deficits of \$600 million or more annually. This *Overview* is not the best venue for reviewing model input or output. The model is mentioned here only to make the point that it is available to legislators—individually or in committees—so that they can become more familiar with long-term fiscal projections and how their actions can affect those projections.

This *Overview* contains more detailed discussions of the proposed FY19 budget:

- Operating budget on page 15 and capital budget on page 89.
- Language sections of operating and capital bills (with analysis) begin on pages 24 and 97, respectively.
- Narratives on individual agency operating budgets begin on page 106.

“Subcommittee Books” and detailed agency binders are available in the Finance Committee rooms.

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

State of Alaska Fiscal Summary--FY18 and FY19 (Part 1)

(\$ millions)

	FY18 Management Plan + Governor's Supplemental					FY19 Governor				Change in UGF			
	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	\$	%
REVENUE	2,865.8	1,002.3	3,868.1	727.6	3,965.5	4,815.4	834.7	5,650.1	741.0	3,670.5	10,061.6	1,949.6	68.0%
Unrestricted General Fund Revenue (Dec 17 Forecast) (1)	2,081.6	-	2,081.6	-	-	2,047.1	-	2,047.1	-	-	2,047.1	-	-
Revenue Adjustments (2)	-	-	-	-	-	(17.8)	-	(17.8)	-	-	(17.8)	-	-
Royalties Beyond 25% Constitutional Dedication (3)	-	-	-	-	-	56.5	-	56.5	-	-	56.5	-	-
Percent of Market Value Payout from ERA for Government	-	-	-	-	-	1,910.7	-	1,910.7	-	-	1,910.7	-	-
Percent of Market Value Payout from ERA for Dividends	-	-	-	-	-	818.9	-	818.9	-	-	818.9	-	-
Transfer from ERA for Dividends (FY18)	760.0	-	760.0	-	0.6	-	-	-	-	-	-	-	-
Carryforward, Repeals, and Reappropriations (4)	24.2	35.0	59.2	727.6	3,964.9	-	-	-	-	-	-	-	-
Restricted Revenue (5)	-	967.3	967.3	-	-	-	-	-	-	3,670.5	5,246.2	-	-
APPROPRIATIONS													
TOTAL OPERATING APPROPRIATIONS	4,220.5	960.5	5,180.9	662.0	2,777.1	4,430.7	796.5	5,227.2	640.9	2,660.1	8,528.3	210.2	5.0%
Agency Operations	3,751.1	912.7	4,663.8	583.1	2,749.5	3,916.4	774.2	4,690.7	587.3	2,632.2	7,910.2	165.3	4.4%
Current Fiscal Year Appropriations	1,783.7	856.5	2,640.2	555.4	926.2	1,825.7	723.1	2,548.8	574.6	921.3	4,044.8	42.0	2.4%
Agency Operations (Non-Formula)	1,255.5	0.5	1,256.0	20.0	20.8	1,249.9	0.9	1,250.8	23.3	20.8	1,274.1	(5.6)	(0.4%)
K-12 Foundation and Pupil Transportation (Formula)	564.2	-	564.2	6.7	1,736.5	691.4	0.9	692.3	7.4	1,584.0	2,283.8	127.2	22.5%
Medicaid Services (Formula)	147.7	55.7	203.4	109.1	312.5	149.4	50.2	199.7	(18.0)	106.0	287.7	1.8	1.2%
Other Formula Programs	-	-	-	1.0	529.3	-	-	-	-	-	-	-	-
Revised Programs Legislatively Approved (RPLs)	-	-	-	786.1	-	-	-	-	772.7	-	772.7	-	-
Duplicated Authorization (non-additive) (6)	-	-	-	-	-	-	-	-	-	-	-	-	-
Statewide Items	469.4	47.8	517.1	79.0	27.6	514.3	22.3	536.6	53.6	27.9	618.1	44.9	9.6%
Current Fiscal Year Appropriations	209.4	18.6	228.0	72.7	5.2	201.6	22.2	223.8	47.2	5.2	278.3	(7.8)	(3.7%)
Fund Capitalization	90.7	0.1	90.8	6.2	22.4	41.7	0.1	41.8	6.4	22.7	70.9	(49.0)	(64.0%)
Community Assistance	8.0	-	8.0	-	-	-	-	-	-	-	-	(6.0)	(75.0%)
Oil & Gas Production Tax Credits	57.0	-	57.0	-	-	39.7	-	39.7	-	-	39.7	(1.0)	(1.7%)
REAA School Fund	40.6	-	40.6	-	-	-	-	-	-	-	-	(7.0)	(17.3%)
Public Education Fund	(17.0)	-	(17.0)	-	-	-	-	-	-	-	-	(0.0)	0.0%
Other Fund Capitalization	2.1	0.1	2.2	6.2	22.4	271.0	0.1	271.1	6.4	22.7	31.2	10.5	65.7%
State Payments to Retirement Systems	163.5	29.0	192.5	-	-	-	-	-	-	-	-	(5.7)	(3.4%)
Judgments, Claims and Settlements	5.7	-	5.7	14.4	-	-	-	-	13.9	-	13.9	-	-
Duplicated Authorization (non-additive) (6)	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CAPITAL APPROPRIATIONS	132.0	28.2	160.2	65.6	1,188.4	150.1	24.7	174.8	100.0	1,010.4	1,285.2	18.1	13.7%
Current Fiscal Year Appropriations	132.0	28.2	160.2	65.6	1,188.4	150.1	24.7	174.8	100.0	1,010.4	1,285.2	18.1	13.7%
Project Appropriations & RPLs	-	-	-	19.6	-	-	-	-	32.6	-	32.6	-	-
Duplicated Authorization (non-additive) (6)	-	-	-	-	-	-	-	-	-	-	-	-	-
Money on the Street (includes all fund sources) (7)	138.0	28.2	166.2	93.4	1,188.4	150.1	24.7	174.8	132.6	1,010.4	1,317.8	12.1	8.7%
Pre-Permanent Fund Authorization (unduplicated)	4,352.5	988.6	5,341.1	727.6	3,965.5	4,580.7	821.2	5,402.0	741.0	3,670.5	9,813.5	228.3	5.2%
Permanent Fund Earnings Reserve	760.0	-	760.0	-	-	818.9	-	818.9	-	-	818.9	58.9	7.7%
Permanent Fund Dividends	760.0	-	760.0	-	-	818.9	-	818.9	-	-	818.9	58.9	7.7%
Inflation Proofing Deposits to Principal from the ERA	-	-	-	-	-	2,393.0	-	2,393.0	-	-	2,393.0	-	-
Inflation Proofing Deposits from ERA to Principal	-	-	-	-	-	(2,393.0)	-	(2,393.0)	-	-	(2,393.0)	-	-
Pre-Transfers Authorization (unduplicated)	5,112.5	988.6	6,101.1	727.6	3,965.5	5,399.6	821.2	6,220.9	741.0	3,670.5	10,632.4	287.2	5.6%
Pre-Transfer Balance to/from the CBR/SBR (8)	(2,246.6)	Revenue Covers	Revenue Covers	56.1% of Appropriations	of Appropriations	(584.2)	Revenue Covers	89.2% of Appropriations	Revenue Covers	89.2% of Appropriations	Revenue Covers	287.2	5.6%
Fund Transfers (9)	(64.6)	13.7	(50.9)	-	-	(21.2)	13.4	(7.8)	-	-	(7.8)	43.4	-67.2%
Current Fiscal Year Transfers	(64.6)	13.7	(50.9)	-	-	(21.2)	13.4	(7.8)	-	-	(7.8)	43.4	-67.2%
Undesignated Reserves (Alaska Housing Capital Corp)	-	-	-	-	-	(21.8)	-	(21.8)	-	-	(21.8)	95.6	-100.0%
Statutory Budget Reserve Fund	(95.6)	-	(95.6)	-	-	14.6	-	14.6	-	-	14.6	-	-
Oil & Hazardous Substance Fund	15.9	2.2	18.1	-	-	-	-	-	-	-	-	-	-
Renewable Energy Fund	-	-	-	-	-	10.5	-	10.5	-	-	10.5	-	-
Vaccine Assessment Account	-	-	-	-	-	-	-	-	-	-	-	-	-
Alaska Capital Income Fund	15.1	-	15.1	-	-	(14.0)	-	(14.0)	-	-	(14.0)	(29.1)	-192.7%
Post-Transfer Authorization (unduplicated)	5,047.9	1,002.3	6,050.2	727.6	3,965.5	5,378.4	834.7	6,213.1	741.0	3,670.5	10,624.6	330.5	6.5%
Post-Transfer Balance to/from the CBR/SBR (8)	(2,192.1)	Revenue Covers	Revenue Covers	56.8% of Appropriations	of Appropriations	(563.0)	Revenue Covers	89.5% of Appropriations	Revenue Covers	89.5% of Appropriations	Revenue Covers	330.5	6.5%

January 6, 2018

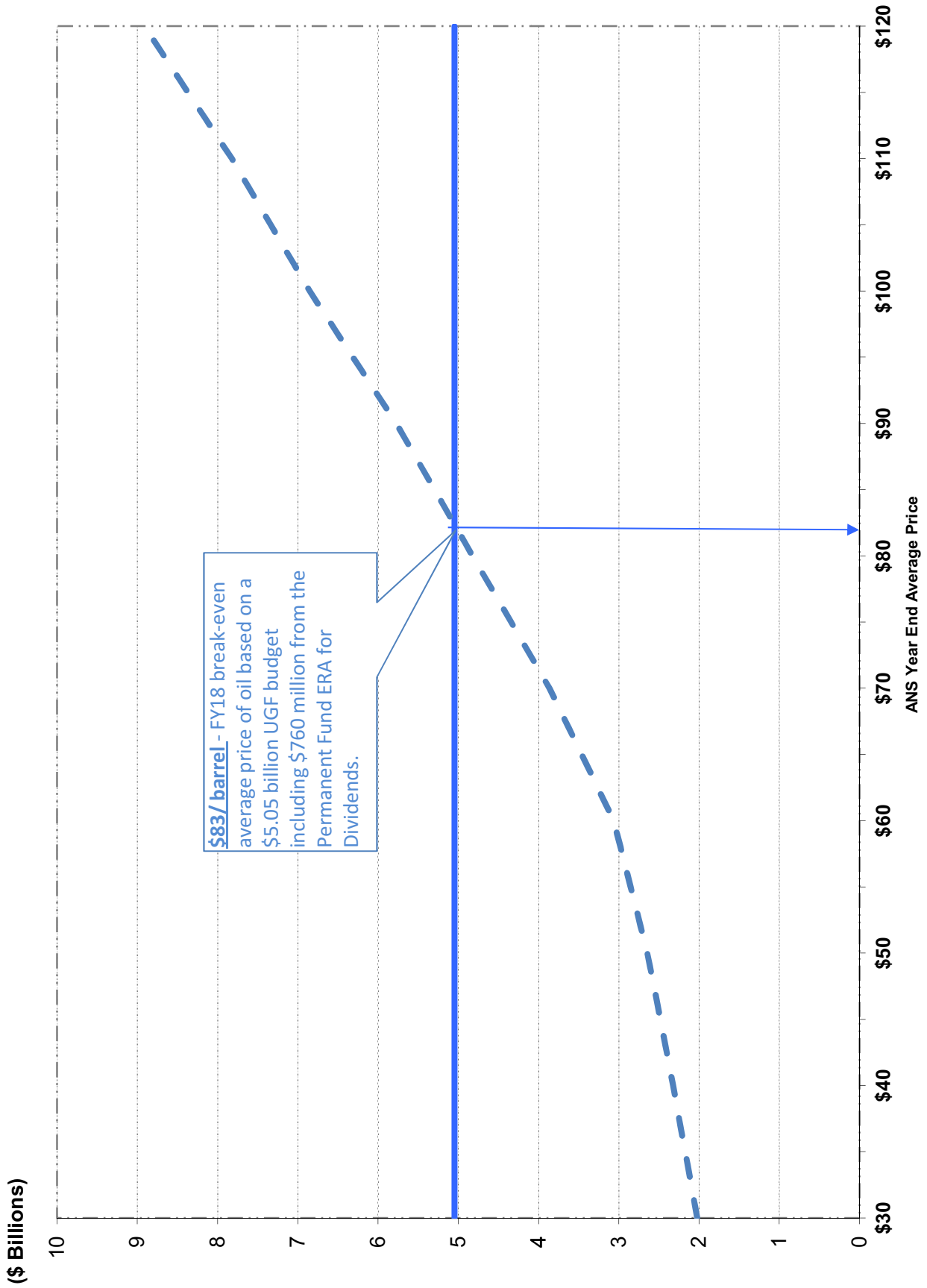
State of Alaska Fiscal Summary--FY18 and FY19 (Part 1)
(\$ millions)

	FY18 Management Plan + Governor's Supplemental					FY19 Governor					Change in UGF			
	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	\$	%
FISCAL YEAR SUMMARY	5,047.9	1,002.3	6,050.2	727.6	3,965.5	10,743.3	5,378.4	834.7	6,213.1	741.0	3,670.5	10,624.6	330.5	6.5%
Agency Operations	3,751.1	912.7	4,663.8	583.1	2,749.5	7,996.4	3,916.4	774.2	4,690.7	587.3	2,632.2	7,910.2	165.3	4.4%
Statewide Items	469.4	47.8	517.1	79.0	27.6	623.7	514.3	22.3	536.6	53.6	27.9	618.1	44.9	9.6%
Permanent Fund Earnings Reserve	750.0	-	750.0	-	-	750.0	818.9	-	818.9	-	-	818.9	58.9	7.7%
Total Operating	4,980.5	960.5	5,940.9	662.0	2,777.1	9,380.1	5,249.6	796.5	6,046.1	640.9	2,660.1	9,347.2	269.1	5.4%
Capital	132.0	28.2	160.2	65.6	1,188.4	1,414.8	150.1	24.7	174.8	100.0	1,010.4	1,285.2	18.1	13.7%
Transfers	(64.6)	13.7	(50.9)	-	-	(50.9)	(21.2)	13.4	(7.8)	-	-	(7.8)	43.4	-67.2%
Supplemental Appropriations (10)	170.1	44.4	214.5	8.1	0.7	223.3	-	-	-	-	-	-	(170.1)	-100.0%
Agency Operations	139.6	0.4	140.0	-	0.7	140.6	-	-	-	-	-	-	(139.6)	-
Statewide Items	0.7	30.0	30.7	-	-	30.7	-	-	-	-	-	-	(0.7)	-
Community Assistance	-	30.0	30.0	-	-	30.0	-	-	-	-	-	-	-	-
Klutina Lake Road	0.4	-	0.4	-	-	0.4	-	-	-	-	-	-	(0.4)	-
Judgments, Claims and Settlements	0.3	-	0.3	-	-	0.3	-	-	-	-	-	-	(0.3)	-
Capital	6.0	-	6.0	8.1	-	14.1	-	-	-	-	-	-	(6.0)	-
Fund Transfers	23.9	14.0	37.9	-	-	37.9	-	-	-	-	-	-	(23.9)	-
IAMHS Fund	23.9	-	23.9	-	-	23.9	-	-	-	-	-	-	(23.9)	-
Renewable Energy Fund	-	14.0	14.0	-	-	14.0	-	-	-	-	-	-	-	-
Governor's Legislation and Supermajority Votes (11)	-	-	-	-	-	-	200.3	-	200.3	-	-	200.3	-	-
Revenue	-	-	-	-	-	-	160.0	-	160.0	-	-	160.0	-	-
Alaska Economic Recovery Act Revenue	-	-	-	-	-	-	40.3	-	40.3	-	-	40.3	-	-
Motor Fuel Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in Expenditures	-	-	-	-	-	-	309.0	8.0	317.0	18.0	98.0	433.0	-	-
Fiscal Note for Public School Trust Fund	-	-	-	-	-	-	(18.0)	-	(18.0)	18.0	-	-	-	-
Fiscal Note for Senior Benefit Payment Program	-	-	-	-	-	-	20.0	-	20.0	-	-	20.0	-	-
Fiscal Note for Oil & Gas Tax Credits Financing	-	-	-	-	-	-	27.0	-	27.0	-	-	27.0	-	-
Alaska Economic Recovery Act Spending	-	-	-	-	-	-	280.0	8.0	288.0	-	98.0	386.0	-	-
Total Revenue with Governor's Legislation	2,865.8	1,002.3	3,868.1	727.6	3,965.5	8,561.2	5,015.7	834.7	5,850.4	741.0	3,670.5	10,261.9	2,149.9	75.0%
Total Auth with Governor's Legislation + Supps	5,218.1	1,002.3	6,050.2	727.6	3,965.5	10,743.3	5,687.4	842.7	6,530.1	759.0	3,768.5	11,057.6	469.4	9.0%
Transfer from CBR (12)	2,352.2	-	-	-	-	-	425.5	-	425.5	-	-	-	-	-
Transfer from SBR (12)	-	-	-	-	-	-	172.4	-	172.4	-	-	-	-	-
Remaining Deficit (12)	-	-	-	-	-	-	(73.8)	-	(73.8)	-	-	-	-	-
										88.2% of Appropriations				

- Notes:
- The Department of Revenue's Fall 2017 oil forecast for FY18 is 0.533 mbd at \$66.00 per barrel; the FY19 forecast is 0.526 mbd at \$67.00 per barrel.
 - There are two adjustments to the revenue forecast due to late corporate dividend announcements: AHFC is reduced by \$12.6 million and AIDEA is reduced by \$5.3 million.
 - The FY18 revenue forecast reflects the minimum (25%) deposit to the Permanent Fund. The forecast for FY19 has an additional \$56.5 million going to the Permanent Fund, while the Governor's budget proposes reducing the deposit to the minimum required, thereby increasing general fund revenue.
 - Carryforward is money that was appropriated in a prior year that is made available for spending in a later year via multiyear appropriations. Repeals increase revenue by reducing prior year authorization. Total carryforward into FY19 will be unknown until the close of FY18. Reappropriations to operating budget funds are counted as UGF revenue.
 - Restricted revenue equals spending for each category. Designated general funds include 1) program receipts that are restricted to the program that generates the receipts and 2) revenue that is statutorily designated for a specific purpose. Other funds have stricter restrictions on usage, and federal funds originate from the federal government and can be used only for a particular purpose.
 - Duplicated authorization is in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds (which includes repayment of principal) will be reflected in future operating budgets.
 - Including duplicated fund sources in the amount of capital spending provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.
 - The post transfer deficit for FY18, estimated to be \$2.2 billion, will be drawn from the Constitutional Budget Reserve. The FY19 deficit will be drawn from the CBR, SBR, and other sources (see note 12).
 - "Fund Transfers" refer to appropriations that move money from one fund to another within the Treasury. Although transfers are not true expenditures, they reduce the amount of money available for other purposes so must be included in the calculation of the surplus/deficit. For reserve accounts, a positive number indicates a deposit and a negative number indicates a withdrawal. When money is withdrawn and spent, the expenditure is included in the operating or capital budget, as appropriate.
 - Typically, supplemental requests are not included in the Governor's December 15 budget submission. The Governor submitted several supplemental items in the operating budget, but has until the 15th day of the legislative session to submit all supplemental requests. The CBR vote for the FY18 budget allowed for up to \$200 million of UGF supplemental appropriations.
 - The Governor's budget includes several items that require additional legislation to enact, which are listed here. In addition, the Governor's budget directly paid for items out of the CBR, which requires a supermajority vote. For clarity, these items are shown as a typical CBR draw.
 - The Governor's budget has a fixed CBR draw of \$425.5 million. The SBR contains \$172.4 million, so draws from it must be limited to that amount. That leaves a remaining deficit of \$73.8 that is unaddressed in the Governor's budget.

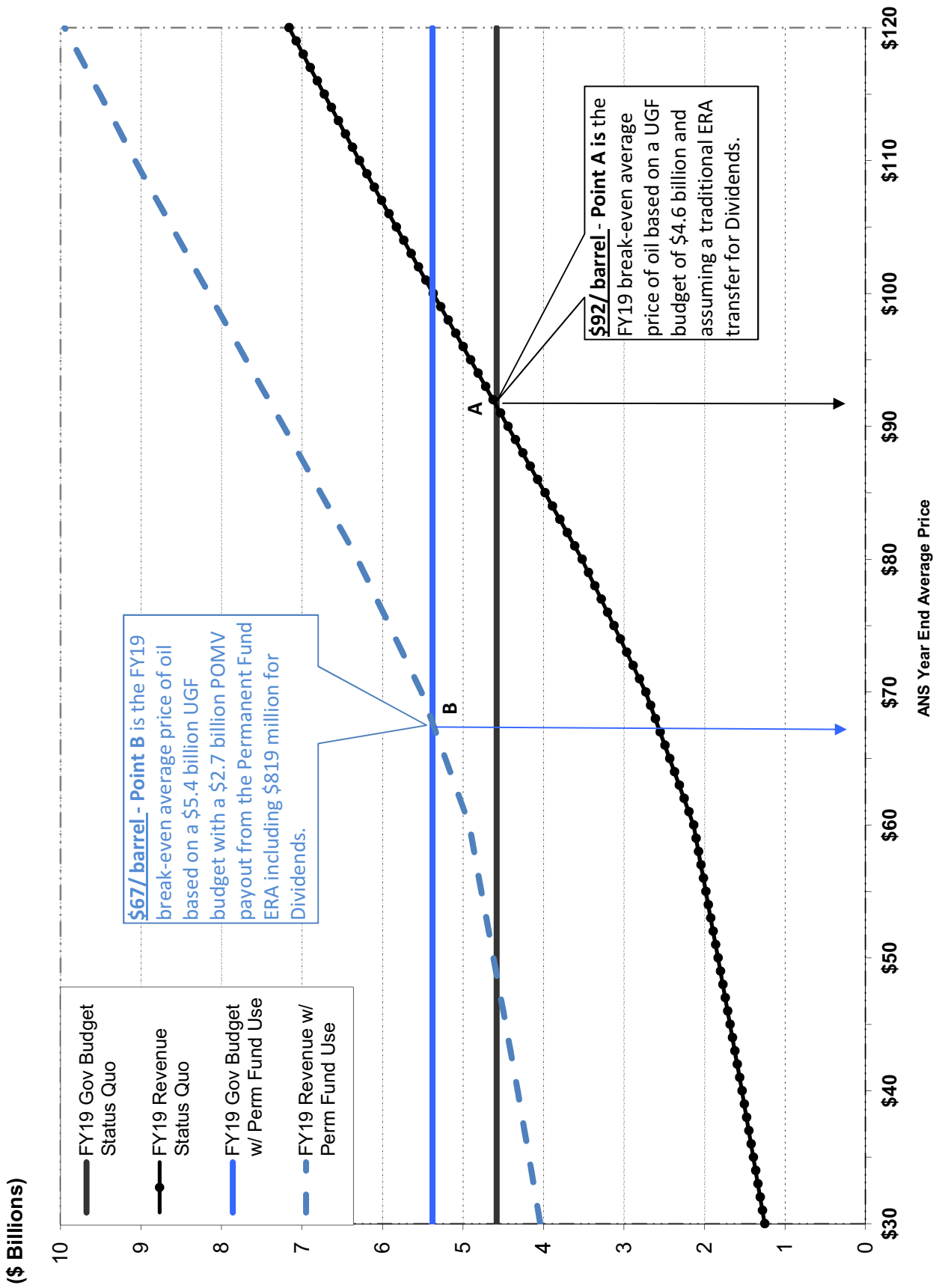
January 6, 2018

FY18 Unrestricted General Fund - Fiscal Sensitivity Overlay



\$83/barrel - FY18 break-even average price of oil based on a \$5.05 billion UGF budget including \$760 million from the Permanent Fund ERA for Dividends.

FY19 Unrestricted General Fund - Fiscal Sensitivity Overlay



State of Alaska Fiscal Summary-- FY18 and FY19 (Part 2)
(\$ millions)

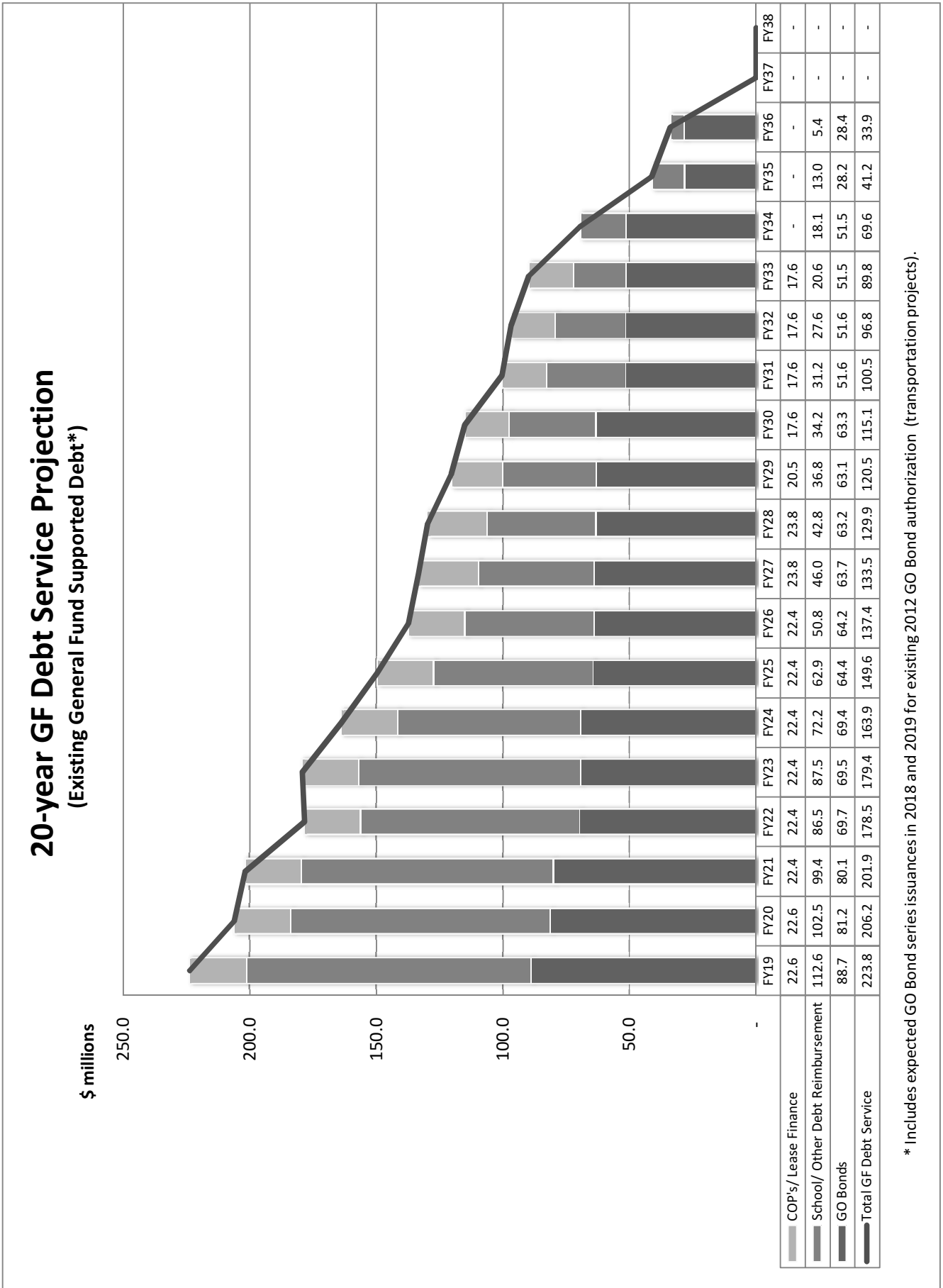
Approximate Balances of Reserve Accounts

	FY18			FY19				
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance
Permanent Fund Principal -- Market Value (no appropriations allowed)	46,970.0	(780.0)	0.0	46,190.0	46,190.0	2,579.9	0.0	48,769.9
Undesignated Reserves	17,477.0	4,591.9	3,230.8	18,838.2	18,838.2	4,212.3	5,781.4	17,269.1
Total Excluding Permanent Fund	4,662.6	206.9	2,472.8	2,396.8	2,396.8	144.3	626.8	1,914.3
Constitutional Budget Reserve Fund (cash) (1)	4,373.3	166.6	2,352.2	2,187.7	2,187.7	116.3	425.5	1,878.5
Statutory Budget Reserve Fund (1)	268.0	-	95.6	172.4	172.4	-	137.5	34.9
Alaska Housing Capital Corporation Fund	21.8	0.2	-	22.0	22.0	-	21.8	0.2
Alaska Capital Income Fund	(0.4)	40.1	25.0	14.7	14.7	28.0	42.0	0.7
Permanent Fund Earnings Reserve Account	12,814.4	4,385.0	758.0	16,441.4	16,441.4	4,068.0	5,154.6	15,354.8
Designated Reserves	1,470.0	1,355.3	1,416.1	1,409.2	1,409.2	1,323.9	1,340.6	1,392.5
Alaska Higher Education Investment Fund	369.8	22.2	52.6	339.4	339.4	22.1	23.5	338.0
Community Assistance Fund	98.0	30.0	38.0	90.0	90.0	-	30.0	60.0
Power Cost Equalization Endowment	1,002.2	60.1	82.6	979.8	979.8	58.8	44.1	994.5
Reserves (Excluding Permanent Fund Principal)	18,947.1	5,947.2	4,646.9	20,247.4	20,247.4	5,536.2	7,122.0	18,661.5
Unrestricted General Fund Appropriations				5,218.1				5,378.4
Years of Reserves (Reserves/UGF Appropriations)				3.88				3.47

(1) The FY18 CBR draw includes the Governor's supplemental items. The FY19 CBR and SBR draws do not include the Governor's legislation.

Operating Budget

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* Includes expected GO Bond series issuances in 2018 and 2019 for existing 2012 GO Bond authorization (transportation projects).

DESIGNATED FUNDING USED FOR NON-DESIGNATED PURPOSES

With few exceptions, the Alaska Constitution prohibits dedication of revenue. The reason for the prohibition is to ensure that all programs compete on equal footing for annual funding. Over the years, the legislature has statutorily designated--not dedicated--some revenue sources for specific purposes. Although it is widely known that the legislature may appropriate designated funding for any purpose, using the funding for other than statutory purposes is typically avoided on grounds that "misuse" conflicts with legislative intent. In response to recent pressure to reduce Unrestricted General Fund (UGF) spending, the legislature and the Governor have replaced UGF with other funds that (typically) don't count as UGF. This tends to distort comparisons of expenditures and can make it difficult to calculate "true UGF" spending.

Legislative Finance tracks fund codes that are used for non-designated purposes. The following categories reflect potential dangers of "misusing" funds:

- (1) Use of **Statutorily Designated Funds** for non-designated purposes--no danger; the legislature can appropriate these funds for any purpose.
- (2) Use of **Program Receipts** outside the program that generates the receipts--mild danger; statute prohibits use of receipts outside the program that generates the receipts.
- (3) Uses **Potentially Violating Federal Law**--risk of lawsuit.

The FY19 Governor's budget request contains a total of \$33.9 million of fund sources identified as outside the statutory purpose (vs. \$62.6 million appropriated in FY18). In addition, the Governor requested \$44.4 million of FY18 supplemental appropriations outside of the statutory purpose. In order to align appropriations with statutory intent, the legislature would need to take the following actions:

- replace the fund sources with UGF (or other appropriate fund sources);
- change statute to align funding sources with current usage;
- decrement all funding appropriated for non-statutory purposes; or
- use certain funds in the statutorily intended year.

Funding Categories

Category 1. Funds Not Used for Statutorily Designated Purposes. Various legislatures have statutorily designated some revenue sources (including endowments or other funds created by the legislature) for specific purposes. Since no legislature can bind a future legislature, the revenue/funds can be appropriated for any purpose at any time.

Fund Code	Fund Code Name	19Gov	FY18 Supp
1021	Agricultural Revolving Loan Fund (DGF)	75.0	-
1066	Public School Trust Fund (Other)	125.4	-
1076	Alaska Marine Highway System Fund (DGF)	3,287.4	-
1087	Municipal Capital Project Matching Grant Fund (DGF)	-	400.0
1134	Fish and Game Criminal Fines and Penalties (DGF)	400.0	-
1168	Tobacco Use Education and Cessation Fund (DGF)	102.9	-
1169	Power Cost Equalization Endowment Fund Earnings (DGF)	-	44,000.0
1180	Alcohol and Other Drug Abuse Treatment & Prevention Fund (DGF)	1,018.0	-
1200	Vehicle Rental Tax Receipts (DGF)	8,510.5	-
1216	Boat Registration Fees (DGF)	196.9	-
1226	Alaska Higher Education Investment Fund (DGF)	5,816.0	-
1248	Alaska Comprehensive Health Insurance Fund (DGF)	1,000.0	-

Category 2. Program Receipts Used Outside the Program that Generates the Receipts. Per AS 37.05.144, program receipts may be appropriated "to state agencies to administer the programs generating the program receipts, to implement the laws related to the functions generating the program receipts, or to cover costs associated with the collection of the program receipts."

Per statute, "program receipts" means fees, charges, income earned on assets, and other state money received by a state agency in connection with the performance of its functions. AS 37.05.146(b) lists program receipts that are to be accounted for separately, with appropriations from these receipts not made from the unrestricted general fund.

The FY19 Governor's budget request contains appropriations of program receipts that are appropriated to divisions for work not "in connection with the performance of its functions."

Fund Code	Fund Code Name	19Gov	FY18 Supp
1105	Permanent Fund Corporation Gross Receipts (Other)	8,670.0	-
1201	Commercial Fisheries Entry Commission Receipts (DGF)	3,933.4	-

Category 3. Fund Sources Used for Purposes that may Violate Federal Law. In the following cases, limitations on use of revenues/funds are not merely designated uses proposed by the legislature; federal law limits use of certain receipts under the Interstate Commerce clause of the U.S. Constitution. Appropriations of the following fund codes may violate federal limits, leaving expenditures subject to legal challenge.

Fund Code	Fund Code Name	19Gov	FY18 Supp
1166	Commercial Passenger Vessel Environmental Compliance Fund (Other)	437.8	-
1205	Berth Fees for the Ocean Ranger Program (Other)	308.0	-

**2018 Legislature - Operating Budget
Allocation Summary by Fund Code - Governor Structure**

Numbers and Language Misused Fund Transactions

Allocation	[1] 19GovAdj	[2] GovSupp 12/15
Administration		
Centralized Admin. Services		
Retirement and Benefits		
1248 ACHI Fund (DGF)	1,000.0	0.0
Allocation Total	1,000.0	0.0
Appropriation Total	1,000.0	0.0
Agency Total	1,000.0	0.0
 Commerce, Community & Econ Dev		
Community and Regional Affairs		
Community & Regional Affairs		
1216 Boat Rcpts (DGF)	196.9	0.0
Allocation Total	196.9	0.0
Appropriation Total	196.9	0.0
Agency Total	196.9	0.0
 Education & Early Dev		
Mt. Edgecumbe Boarding School		
Mt. Edgecumbe Boarding School		
1087 Muni Match (DGF)	0.0	400.0
Allocation Total	0.0	400.0
Appropriation Total	0.0	400.0
 Libraries, Archives & Museums		
Library Operations		
1226 High Ed (DGF)	2,581.4	0.0
Allocation Total	2,581.4	0.0
 Live Homework Help		
1226 High Ed (DGF)	138.2	0.0
Allocation Total	138.2	0.0
Appropriation Total	2,719.6	0.0
 Alaska Postsecondary Education		
WWAMI Medical Education		
1226 High Ed (DGF)	3,096.4	0.0
Allocation Total	3,096.4	0.0
Appropriation Total	3,096.4	0.0
Agency Total	5,816.0	400.0

**2018 Legislature - Operating Budget
Allocation Summary by Fund Code - Governor Structure**

Numbers and Language Misused Fund Transactions

Allocation	[1] 19GovAdj	[2] GovSupp 12/15
Environmental Conservation		
Environmental Health		
Laboratory Services		
1166 Vessel Com (Other)	437.8	0.0
1205 Ocn Ranger (Other)	308.0	0.0
Allocation Total	745.8	0.0
Appropriation Total	745.8	0.0
Agency Total	745.8	0.0
 Fish and Game		
Commercial Fisheries		
SE Region Fisheries Mgmt.		
1201 CFEC Rcpts (DGF)	547.0	0.0
Allocation Total	547.0	0.0
Central Region Fisheries Mgmt.		
1201 CFEC Rcpts (DGF)	415.3	0.0
Allocation Total	415.3	0.0
AYK Region Fisheries Mgmt.		
1201 CFEC Rcpts (DGF)	536.5	0.0
Allocation Total	536.5	0.0
Westward Region Fisheries Mgmt		
1201 CFEC Rcpts (DGF)	491.3	0.0
Allocation Total	491.3	0.0
Statewide Fisheries Mgmt.		
1134 F&G CFP (DGF)	400.0	0.0
1201 CFEC Rcpts (DGF)	1,943.3	0.0
Allocation Total	2,343.3	0.0
Appropriation Total	4,333.4	0.0
Agency Total	4,333.4	0.0
 Law		
Civil Division		
Commercial and Fair Business		
1168 Tob ED/CES (DGF)	102.9	0.0
Allocation Total	102.9	0.0

**2018 Legislature - Operating Budget
Allocation Summary by Fund Code - Governor Structure**

Numbers and Language Misused Fund Transactions

Allocation	[1] 19GovAdj	[2] GovSupp 12/15
Law (continued)		
Civil Division (continued)		
Natural Resources		
1105 PF Gross (Other)	2,616.5	0.0
Allocation Total	2,616.5	0.0
Appropriation Total	2,719.4	0.0
Agency Total	2,719.4	0.0
Natural Resources		
Oil & Gas		
Oil & Gas		
1105 PF Gross (Other)	4,095.1	0.0
Allocation Total	4,095.1	0.0
Appropriation Total	4,095.1	0.0
Fire, Land & Water Resources		
Mining, Land & Water		
1105 PF Gross (Other)	1,864.3	0.0
Allocation Total	1,864.3	0.0
Appropriation Total	1,864.3	0.0
Agriculture		
Agricultural Development		
1021 Agric RLF (DGF)	75.0	0.0
Allocation Total	75.0	0.0
Appropriation Total	75.0	0.0
Parks & Outdoor Recreation		
Parks Management & Access		
1200 VehRntlTax (DGF)	3,013.2	0.0
Allocation Total	3,013.2	0.0
Appropriation Total	3,013.2	0.0
Agency Total	9,047.6	0.0
Revenue		
Taxation and Treasury		
Tax Division		
1105 PF Gross (Other)	94.1	0.0
Allocation Total	94.1	0.0

**2018 Legislature - Operating Budget
Allocation Summary by Fund Code - Governor Structure**

Numbers and Language Misused Fund Transactions

Allocation	[1] 19GovAdj	[2] GovSupp 12/15
Revenue (continued)		
Taxation and Treasury (continued)		
Treasury Division		
1066 Pub School (Other)	125.4	0.0
Allocation Total	125.4	0.0
Appropriation Total	219.5	0.0
Mental Health Trust Authority		
Mental Health Trust Operations		
1180 A/D T&P Fd (DGF)	500.0	0.0
Allocation Total	500.0	0.0
Appropriation Total	500.0	0.0
Agency Total	719.5	0.0
Transportation		
Administration and Support		
Commissioner's Office		
1076 Marine Hwy (DGF)	283.0	0.0
Allocation Total	283.0	0.0
Statewide Admin Services		
1076 Marine Hwy (DGF)	1,122.6	0.0
Allocation Total	1,122.6	0.0
Info Systems and Services		
1076 Marine Hwy (DGF)	815.5	0.0
Allocation Total	815.5	0.0
Human Resources		
1076 Marine Hwy (DGF)	270.7	0.0
Allocation Total	270.7	0.0
Statewide Procurement		
1076 Marine Hwy (DGF)	707.6	0.0
Allocation Total	707.6	0.0
Southcoast Support Services		
1076 Marine Hwy (DGF)	43.0	0.0
Allocation Total	43.0	0.0
Appropriation Total	3,242.4	0.0

**2018 Legislature - Operating Budget
Allocation Summary by Fund Code - Governor Structure**

Numbers and Language Misused Fund Transactions

Allocation	[1] 19GovAdj	[2] GovSupp 12/15
Transportation (continued)		
Highways/Aviation & Facilities		
Southcoast Region Facilities		
1076 Marine Hwy (DGF)	45.0	0.0
Allocation Total	45.0	0.0
Central Highways and Aviation		
1200 VehRntlTax (DGF)	4,999.2	0.0
Allocation Total	4,999.2	0.0
Northern Highways & Aviation		
1200 VehRntlTax (DGF)	498.1	0.0
Allocation Total	498.1	0.0
Appropriation Total	5,542.3	0.0
Agency Total	8,784.7	0.0
Judiciary		
Therapeutic Courts		
Therapeutic Courts		
1180 A/D T&P Fd (DGF)	518.0	0.0
Allocation Total	518.0	0.0
Appropriation Total	518.0	0.0
Agency Total	518.0	0.0
Fund Capitalization		
Fund Caps (no approp out)		
Community Assistance Fund		
1169 PCE Endow (DGF)	0.0	30,000.0
Allocation Total	0.0	30,000.0
Appropriation Total	0.0	30,000.0
Agency Total	0.0	30,000.0
Fund Transfers		
OpSys DGF Transfers (non-add)		
Renewable Energy Fund 1210		
1169 PCE Endow (DGF)	0.0	14,000.0
Allocation Total	0.0	14,000.0
Appropriation Total	0.0	14,000.0
Agency Total	0.0	14,000.0
Statewide Total	33,881.3	44,400.0

Language Sections of the Governor's FY19 Operating Budget

DELETED SECTION: Legislative Intent Regarding Supplemental Appropriations

It is the intent of the legislature that the amounts appropriated by secs. 1 - 4 and 22 - 44 of this Act are the full amounts that will be appropriated for those purposes for the fiscal year ending June 30, 2018.

Legislative Fiscal Analyst Comment: In recent years the legislature has taken steps to reduce the need for routine supplemental appropriations. The purpose of this deleted section was to emphasize that supplemental operating appropriations are expected to be limited to needs that are truly unanticipated. Similar supplemental intent language has been retained in recent Governor's budget requests.

This section loses relevance with the inclusion of open-ended appropriations such as that found in section 14, which essentially make supplemental appropriations that will cover all FY19 program costs. This (deleted) language is intended to resolve the conflict between two operating budget philosophies: "manage your program to fit your budget" and "spend as much as you believe is necessary to run your program."

Sec. 4. COSTS OF JOB RECLASSIFICATIONS.

The money appropriated in this Act includes the amount necessary to pay the costs of personal services because of reclassification of job classes during the fiscal year ending June 30, 2019.

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 reclassifying 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.

DELETED SECTIONS: FY17 Supplemental Appropriations (sections 12-21)

Legislative Fiscal Analyst Comment: The Governor typically submits a separate bill requesting supplemental appropriations. Late in the 2017 legislative session, several supplemental appropriations were rolled into the operating bill. The appropriations applied only to FY17 and were deleted by the Governor.

The Governor's operating bill includes several FY18 supplemental requests. Supplemental requests are typically submitted as a group by the 15th day of each session, as outlined in AS 37.07.070 and AS 37.07.100.

Sec. 5. ALASKA AEROSPACE CORPORATION.

Federal receipts and other corporate receipts of the Alaska Aerospace Corporation received during the fiscal year ending June 30, 2019, that are in excess of the amount appropriated in sec. 1 of this Act are appropriated to the Alaska Aerospace Corporation for operations for the fiscal year ending June 30, 2019.

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

Funding: In FY19, the estimated impact of this section is zero. In recent years, general fund appropriations to AAC were reduced and ultimately eliminated in FY16. There are no changes to the level of authorization requested in the FY19 Governor's budget.

Sec. 6. ALASKA HOUSING FINANCE CORPORATION.

(a) The board of directors of the Alaska Housing Finance Corporation anticipates that \$29,445,800 of the adjusted change in net assets from the second preceding fiscal year will be available for appropriation for the fiscal year ending June 30, 2019.

Subsection (a) is not an appropriation; it merely specifies the amount of corporate receipts that will be made available to the State as a return of capital (commonly called a dividend). The amounts available for dividends in FY16, FY17, and FY18 were \$8.7 million, \$25.9 million, and \$30.5 million, respectively.

Legislative Fiscal Analyst Comment: The statutory dividend is the lesser of \$103 million or 75% of the Alaska Housing Finance Corporation's (AHFC) change in net assets in the most recently completed fiscal year [AS 18.56.089(c)]. AHFC's net income declined precipitously after 2008 due to a declining market share as federal mortgage programs offered mortgages at low rates.

(b) The Alaska Housing Finance Corporation shall retain the amount set out in (a) of this section for the purpose of paying debt service for the fiscal year ending June 30, 2019, in the following estimated amounts:

- (1) \$1,000,000 for debt service on University of Alaska, Anchorage, dormitory construction, authorized under ch. 26, SLA 1996;**
- (2) \$7,217,995 for debt service on the bonds described under ch. 1, SSSLA 2002;**
- (3) \$3,788,481 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 \$12 million of the FY19 dividend in order to pay debt service on three capital projects for which AHFC issued debt on behalf of the State, as authorized by past legislatures—leaving \$17,439,324 of the dividend available for appropriation.

(c) After deductions for the items set out in (b) of this section and deductions for appropriations for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2019, is appropriated to the general fund.

Subsection (c) appropriates any unappropriated portion of the dividend to the general fund. After subtracting the debt service listed in subsection (b), the net dividend is \$17,439,324. The Governor's request spends \$17.2 million of the dividend for capital projects, leaving a \$239,324 appropriation to the general fund.

Legislative Fiscal Analyst Comment: The entire net dividend (\$17.4 million) is identified as unrestricted general fund revenue. However, the language in subsection (c) allows AHFC to retain (and invest) dividends until the money is required to cover expenses associated with capital projects funded by dividends. Investment earnings contribute to the bottom line of AHFC.

While appropriating the entire net dividend to the general fund would allow investment earnings to accrue to the general fund rather than to AHFC, the corporation has successfully argued for retention of the current method of accounting for dividends.

(d) All unrestricted mortgage loan interest payments, mortgage loan commitment fees, and other unrestricted receipts received by or accrued to the Alaska Housing Finance Corporation during the fiscal year ending June 30, 2019, and all income earned on assets of the corporation during that period are appropriated to the Alaska Housing Finance Corporation to hold as corporate receipts for the purposes described in AS 18.55 and AS 18.56. The corporation shall allocate its corporate receipts between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under procedures adopted by the board of directors.

Subsection (d) appropriates certain FY19 receipts of AHFC to the corporation and permits the corporation to allocate those receipts to the AHFC revolving loan fund and the senior housing revolving fund.

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

(e) The sum of \$800,000,000 is appropriated from the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (d) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2019, for housing loan programs not subsidized by the corporation.

(f) The sum of \$30,000,000 is appropriated from the portion of the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund

(AS 18.56.710(a)) under (d) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2019, for housing loan programs and projects subsidized by the corporation.

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

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

Sec. 7. ALASKA PERMANENT FUND CORPORATION.

Legislative Fiscal Analyst Recommendation: The order of subsections could be changed to be consistent with logical cash flows. a) dedicated revenue, b) POMV payout, c) dividends, d) capital income fund, e) inflation.

(a) The amount required to be deposited under art. IX, sec. 15, Constitution of the State of Alaska, estimated to be \$295,500,000, during the fiscal year ending June 30, 2019, is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.

Subsection (a) identifies an amount of oil revenue flowing into the Permanent Fund. Because the constitution mandates that 25% of royalties be deposited in the Permanent Fund, that revenue (estimated to be \$295.5 million) flows directly to the Permanent Fund. Dedicated deposits to the Permanent Fund are excluded from general fund revenue and from appropriations reported by the Legislative Finance Division. Arguably, appropriation of dedicated revenue is not necessary, but it does no harm and the language is informative.

Legislative Fiscal Analyst Comment: In addition to mandated deposits, AS 37.13.010(a)(2) calls for an additional 25% of royalties from oil fields newer than 1979 to be deposited in the Permanent Fund. The non-mandated deposits (estimated to be \$56.5 million) require an appropriation. The Governor's bill eliminates non-mandatory deposits of royalty income to the Permanent Fund, adding approximately \$56.5 million of royalty income to general fund revenue.

(b) An amount equal to 30 percent of the appropriation made in (d) of this section, estimated to be \$818,876,520, is appropriated from the general fund to the dividend fund (AS 43.23.045(a)) for the payment of permanent fund dividends and for administrative and associated costs for the fiscal year ending June 30, 2019.

Subsection (b) appropriates approximately \$818.9 million from the general fund to pay dividends and associated expenses in FY19. This equals 30% of the \$2.7 billion transfer

from the Earnings Reserve Account (see subsection (d) below) to the general fund and will provide a dividend of about \$1,216 per person.

Legislative Fiscal Analyst Comment: Mechanically, subsection (d) should precede subsection (b)—the percent of market value (POMV) payout should go to the general fund before moving the money from the general fund to the dividend fund.

(c) The income earned during the fiscal year ending June 30, 2019, on revenue from the sources set out in AS 37.13.145(d), estimated to be \$28,000,000, is appropriated to the Alaska capital income fund (AS 37.05.565).

Subsection (c) appropriates FY19 earnings associated with the *State vs. Amerada Hess* settlement (that are held within the Permanent Fund) to the Alaska capital income fund. The capital income fund was established in FY05 and is customarily appropriated for capital projects.

Legislative Fiscal Analyst Comment: The *Amerada Hess* settlement resulted in the creation of a “fenced off” portion of the Permanent Fund that was intended to ensure that Alaska juries would not be personally affected (via PFDs) by lawsuits involving revenue to the Permanent Fund.

New Subsection

(d) An amount equal to five and one-quarter percent of the average market value of the Alaska permanent fund, for the first five of the preceding six fiscal years, including the fiscal year ending June 30, 2017, and including the earnings reserve account established under AS 37.13.145, but not including that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District), estimated to be \$2,729,588,400, is appropriated from the earnings reserve account (AS 37.13.145) to the general fund for the fiscal year ending June 30, 2019.

Subsection (d) makes a \$2.7 billion POMV payout from the Earnings Reserve Account to the general fund.

Legislative Fiscal Analyst Comment: The fiscal summary shows this transfer from the Earnings Reserve Account (ERA) as unrestricted general fund revenue. Similar language was requested last year, but the legislature failed to agree to appropriate a POMV payout from the ERA.

Legislative Fiscal Analyst Recommendation: The appropriations in subsections (b) and (d) need not be stated as estimates; they are calculations intentionally based upon known data.

New Subsection

(e) After money is transferred to the general fund under (d) of this section, the amount calculated under AS 37.13.145(c), as the statute read on January 1, 2018, estimated to be \$1,450,000,000, is appropriated from the earnings reserve account (AS 37.13.145) to the principal of the Alaska permanent fund to offset the effect of inflation on the principal of the Alaska permanent fund during the fiscal years ending June 30, 2016, June 30, 2017, and June 30, 2018.

Subsection (e) makes FY19 inflation proofing transfers from the earnings reserve account to principal for the years FY16 through FY18.

Legislative Fiscal Analyst Comment: FY16 and FY17 are closed years (for accounting purposes) and the amount of inflation proofing for those years should be a calculation based on known numbers. In essence “The sum of x is appropriated from the ERA to principal for inflation proofing.”

New Subsection

(f) After money is transferred under (d) and (e) of this section, the amount calculated under AS 37.13.145(c), as that statute read on January 1, 2018, estimated to be \$943,000,000, is appropriated from the earnings reserve account (AS 37.13.145) to the principal of the Alaska permanent fund to offset the effect of inflation on the principal of the Alaska permanent fund during the fiscal year ending June 30, 2019.

Subsection (f) makes inflation proofing transfers from the earnings reserve account to principal for FY19.

Legislative Fiscal Analyst Comment: FY18 and FY19 are not closed, and language referring to the statutory formula is appropriate.

Legislative Fiscal Analyst Recommendation: Inflation proofing is a complex issue, particularly in times of fiscal uncertainty. If the legislature believes the merits outweigh the dangers, they may wish to appropriate a set amount for FY16 and FY17, and have separate subsections for FY18 inflation proofing (which will occur on June 30, 2018) and FY19 inflation proofing (which will occur on June 30, 2019).

New Subsection

(g) The sum of \$168,573,300 from permanent fund receipts generated by permanent fund investments is appropriated to the Department of Revenue, Alaska Permanent Fund Corporation, for investment management fees and operations of the Alaska permanent fund.

Subsection (g) moves Permanent Fund Corporation operating appropriations from section 1 (numbers) to a language section.

Legislative Fiscal Analyst Recommendation: Language appropriations are generally reserved for complex situations requiring more information than can be provided in section 1. This appropriation does not require language; the appropriation could be moved to section 1. If the language remains, the words “for the fiscal year ending June 30, 2019” should be added.

The pros and cons of a single allocation will need to be weighed by the Finance Committees. The current structure provides immediate transparency in regard to how much of the budget is specifically set aside for external investment management fees. Impact of consolidation on the corporation should be minimal, as the current budget structure provides ample flexibility to move money between allocations.

Moving an appropriation to the language section of the bill may be a more significant action than consolidation of allocations. Budgeting via language would effectively remove the APFC budget from subcommittee discussion, as the language sections have traditionally been the purview of the Co-chair’s office.

Sec. 8. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY.

(a) The sum of \$4,792,000 has been declared available by the Alaska Industrial Development and Export Authority board of directors under AS 44.88.088 for appropriation as the dividend for the fiscal year ending June 30, 2019, from the unrestricted balance in the Alaska Industrial Development and Export Authority revolving fund (AS 44.88.060).

Subsection (a) informs the legislature that the anticipated annual Alaska Industrial Development and Export Authority (AIDEA) corporate dividend to the State will be \$4.8 million. Dividends for FY17 and FY18 were \$6.3 million and \$12.3 million, respectively. By statute (AS 44.88.088), the dividend made available should not be less than 25 percent and not more than 50 percent of the base year statutory net income. This year’s dividend is the maximum available by law.

New Subsection

(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, 2018, is appropriated to the general fund.

Subsection (b) appropriates any “unused” portion of the dividend to the general fund.

Legislative Fiscal Analyst Comment: The subsection should refer to June 30, 2019, if it is retained—see recommendation below.

Legislative Fiscal Analyst Recommendation: The Governor's budget does not appropriate any of the \$4.7 million dividend, so the entire dividend is appropriated to the general fund. Deleting subsection (b) would have no impact if subsection (a) made an appropriation as follows:

The sum of \$4,792,000, which has been declared available by the Alaska Industrial Development and Export Authority board of directors under AS 44.88.088 for appropriation as the dividend for the fiscal year ending June 30, 2019, is appropriated from the unrestricted balance in the Alaska Industrial Development and Export Authority revolving fund (AS 44.88.060) to the general fund.

Similar language was adopted by the legislature for FY18.

If subsection (b) is retained, the language should be corrected to read "After deductions for operating and capital appropriations are made, any remaining...".

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 for the fiscal year ending June 30, 2019.

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

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

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

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

(b) The amount necessary to fund the uses of the working reserve account described in AS 37.05.510(a) is appropriated from that account to the Department of Administration for those uses for the fiscal year ending June 30, 2019.

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

Funding: This provision has no fiscal impact; it allows money appropriated elsewhere to be transferred to and spent by the Department of Administration, but it does not increase total appropriations.

The FY19 estimated amount required for working reserves is \$47.5 million, a decrease of \$2.9 million from actual usage in FY18.

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

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

(c) The amount necessary to have an unobligated balance of \$5,000,000 in the working reserve account described in AS 37.05.510(a) is appropriated from the unencumbered balance of any appropriation enacted to finance the payment of employee salaries and benefits that is determined to be available for lapse at the end of the fiscal year ending June 30, 2019, to the working reserve account (AS 37.05.510(a)).

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

Legislative Fiscal Analyst Comment: This section re-emphasizes the State's authority to scoop lapsing balances to the working reserve account described in AS 37.05.510. The language may not be necessary, but it does no harm.

The provision first appeared in FY17. At that time, it appeared that the administration hoped to scoop lapsing funds to balance cash inflow with cash outlay without increasing contribution rates. Working reserve contribution rates were increased for FY18, but executive branch agencies did not request funds to pay the cost increases. It appears that the administration hopes to use both higher cash inflows and lapsing balances on the personal services line to ensure that the balance of the fund is sufficient to cover expenses.

(d) The amount necessary to have an unobligated balance of \$10,000,000 in the group health and life benefits fund (AS 39.30.095), after the appropriations in (b) and (c) of this section, is appropriated from the unencumbered balance of any appropriation that is

determined to be available for lapse at the end of the fiscal year ending June 30, 2019, to the group health and life benefits fund (AS 39.30.095).

Funding: This provision has no fiscal impact; it allows money appropriated elsewhere to be transferred to the Group Health and Life Benefits Fund, but it does not increase total appropriations.

Legislative Fiscal Analyst Comment: In FY17, the Governor requested a deposit of \$20 million UGF into the Group Health and Life Benefits Fund. The fund balance was declining rapidly due to an increase in insurance claims and was anticipated to be exhausted by the end of FY17.

The legislature appropriated \$7.5 million UGF into the fund and accepted non-UGF increments associated with increasing the employer rates for AlaskaCare members. Employer rates did not increase at the beginning of FY17. As of June 30, 2016, the unobligated balance of the Group Health and Life Benefits Fund was \$6.2 million.

AlaskaCare employer rates increased effective January 1, 2017 from \$1,346 to \$1,555 – an increase of \$209 per month per employee for the remainder of FY17. Supplemental requests were approved to cover the cost increase for the second half of FY17. The FY18 operating budget included salary adjustment increases for a full year.

In addition to employer cost increases, employee rates increased across all plans effective January 1, 2017 and are scheduled to increase again January 1, 2018. The changes in employer and employee rates will increase the balance of the fund; however, projections of the fund balance are imprecise because future insurance claims are unknown.

(e) The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, estimated to be \$150,000, is appropriated to the Alaska Oil and Gas Conservation Commission for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond for the fiscal year ending June 30, 2019.

Subsection (e) permits the Alaska Oil and Gas Conservation Commission (AOGCC) to collect on a performance bond, should that action become necessary.

Legislative Fiscal Analyst Comment: AOGCC reported some difficulty in working with an operator during FY13 and requested the language as a precautionary measure. Until FY13, similar language was not considered necessary because there was little concern that reclamation efforts would be required. Similar language in section 18(c) applies to the Department of Natural Resources.

(f) If the amount necessary to cover plan sponsor costs, including actuarial costs, for retirement system benefit payment calculations exceeds the amount appropriated for that purpose in sec. 1 of this Act, after all allowable payments from retirement system fund sources, the amount, estimated to be \$0, is appropriated from the general fund to the Department of Administration for that purpose for the fiscal year ending June 30, 2019.

Subsection (f) appropriates general funds to pay for costs of retirement system benefit calculations that exceed the amount appropriated to the Department of Administration in section 1.

Legislative Fiscal Analyst Comment: Actuarial costs for retirement systems are typically paid by the applicable retirement trust funds. Similar language was added in FY18 and was intended to address actuarial costs associated with bills introduced by the legislature. Those costs may not be payable from the retirement trust accounts.

The FY18 appropriation would apply to costs incurred through June 2018, raising questions about the need for subsection (f) during this legislative session.

Legislative Fiscal Analyst Recommendation: If there is a desire to address the issue at this time, clarify the language to pay specifically for actuarial costs associated with bills introduced by the legislature. The FY18 language was clear in that regard.

New Subsection—SUPPLEMENTAL APPROPRIATION

(g) The sum of \$453,500 is appropriated from the general fund to the Department of Administration, legal and advocacy services, public defender agency, for public defenders for the fiscal year ending June 30, 2018.

Subsection (g) is a FY18 supplemental request.

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 on June 30, 2019, under AS 41.15.180(j) is appropriated to home rule cities, first class cities, second class cities, a municipality organized under federal law, or regional educational attendance areas entitled to payment from the national forest income for the fiscal year ending June 30, 2019, 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, 2019.

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

Legislative Fiscal Analyst Comment: National Forest Receipts consist of national forest income received by the Department of Commerce, Community and Economic Development (DCCED) for the portion of national forests located within the unorganized borough. By law, 75 percent of the income is allocated to public schools and 25 percent for maintenance of public roads in the unorganized borough.

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

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

(b) If the amount necessary to make national forest receipts payments under AS 41.15.180 exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make national forest receipt payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, national forest receipts allocation, for the fiscal year ending June 30, 2019.

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

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

Legislative Fiscal Analyst Comment: Although the National Forest Receipts program was scheduled to sunset in FY08, the program continued to be reauthorized for several years. In FY17, the Secure Rural Schools program was not extended by Congress so National Forest Receipt Payments reverted to the original distribution formula of about \$600,000.

Historical National Forest Receipt revenue levels are:

- FY10 - \$18,590,500
- FY11 - \$15,857,600
- FY12 - \$15,381,800
- FY13 - \$13,878,300
- FY14 - \$12,173,600
- FY15 - \$11,668,100
- FY16 - \$9,871,300
- FY17 - \$533,453
- FY18 Estimate - \$600,000

Legislative Fiscal Analyst Recommendation: Retain subsections (a) and (b) despite the outlook for FY19. If there is no program, the language does no harm; if the program is reauthorized, Alaska will be ready to distribute money to communities.

(c) If the amount necessary to make payments in lieu of taxes for cities in the unorganized borough under AS 44.33.020(a)(20) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make those payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, payment in lieu of taxes allocation, for the fiscal year ending June 30, 2019.

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

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

(d) An amount equal to the salmon enhancement tax collected under AS 43.76.001 - 43.76.028 in calendar year 2017, estimated to be \$6,950,000, and deposited in the general fund under AS 43.76.025(c) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in the fiscal year ending June 30, 2019, to qualified regional associations operating within a region designated under AS 16.10.375.

Funding: These "pass-through" amounts (estimated to be nearly \$7 million) are excluded from Legislative Finance Division reports on the operating bill.

(e) An amount equal to the seafood development tax collected under AS 43.76.350 - 43.76.399 in calendar year 2017, estimated to be \$2,150,000, and deposited in the general fund under AS 43.76.380(d), is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in the fiscal year ending June 30, 2019, to qualified regional seafood development associations for the following purposes:

- (1) promotion of seafood and seafood by-products that are harvested in the region and processed for sale;**
- (2) promotion of improvements to the commercial fishing industry and infrastructure in the seafood development region;**
- (3) establishment of education, research, advertising, or sales promotion programs for seafood products harvested in the region;**
- (4) preparation of market research and product development plans for the promotion of seafood and their by-products that are harvested in the region and processed for sale;**
- (5) cooperation with the Alaska Seafood Marketing Institute and other public or private boards, organizations, or agencies engaged in work or activities similar to the work of the organization, including entering into contracts for joint programs of consumer education, sales promotion, quality control, advertising, and research in the production, processing, or distribution of seafood harvested in the region;**
- (6) cooperation with commercial fishermen, fishermen's organizations, seafood processors, the Alaska Fisheries Development Foundation, the Fisheries Industrial Technology Center,**

state and federal agencies, and other relevant persons and entities to investigate market reception to new seafood product forms and to develop commodity standards and future markets for seafood products.

Funding: These "pass-through" amounts (estimated to be \$2.15 million) are excluded from Legislative Finance Division reports on the operating bill.

(f) The amount necessary, estimated to be \$32,355,000, not to exceed the amount determined under AS 42.45.085(a), is appropriated from the power cost equalization endowment fund (AS 42.45.070(a)) to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, power cost equalization allocation, for the fiscal year ending June 30, 2019.

Subsection (f) appropriates money from the Power Cost Equalization Endowment fund to the Alaska Energy Authority (AEA) for the Power Cost Equalization (PCE) program. As of June 30, 2017, the endowment fund balance was \$1.023 billion.

Funding: Total program cost is projected to be \$32.4 million in FY19—\$5.5 million less than the level of funding appropriated in FY18.

Legislative Fiscal Analyst Comment: During the 2016 legislative session, Chapter 43, SLA 2016 (SB 196) adopted statutory guidelines for uses of excess earnings of the PCE Endowment fund. The amount of excess earnings is determined by subtracting anticipated PCE program costs from earnings in the most recently closed fiscal year. Seventy percent of the excess earnings are available for appropriation as follows:

- 1) First, up to \$30 million is allocated to the Community Assistance program.
- 2) Second, up to \$25 million is allocated to Rural Energy programs.

FY16 endowment earnings were \$8.9 million – \$29.7 million below FY18 estimated program costs of \$38.6 million. No excess earnings were available for the Community Assistance or Rural Energy Programs in FY18.

FY17 endowment earnings were \$112.3 million, making \$30 million available for Community Assistance funding in FY19 (affecting distribution to communities during FY20) and \$25 million available for energy programs in FY19. The Governor's budget request includes a total of \$25 million for the following energy programs:

- 1) \$11 million – FY19 capital project to AEA for Rural Power Systems Upgrades
- 2) \$14 million – FY18 supplemental fund transfer to the Renewable Energy Grant Fund (section 25(e))

DELETED SUBSECTIONS: Alaska Reinsurance Program

The sum of \$55,000,000 is appropriated from the Alaska comprehensive health insurance fund (AS 21.55.430) to the Department of Commerce, Community, and Economic Development, division of insurance, for the calendar year 2017 reinsurance program under AS 21.55 for the fiscal years ending June 30, 2017, and June 30, 2018.

The sum of \$55,000,000 is appropriated from the Alaska comprehensive health insurance fund (AS 21.55.430) to the Department of Commerce, Community, and Economic Development, division of insurance, for the reinsurance program under AS 21.55 for the fiscal years ending June 30, 2018, June 30, 2019, June 30, 2020, June 30, 2021, June 30, 2022, and June 30, 2023.

Legislative Fiscal Analyst Comment: The deleted sections are no longer required; note that the fund is repealed as of June 30, 2018 and that FY18 language appropriated money through FY23. In theory, the State is finished appropriating general funds for the reinsurance program.

The expectation is that general funds available through FY23 will be supplemented by federal receipts—see subsection (g).

Legislative Fiscal Analyst Recommendation: The repeal of the fund leaves a question: does the estimated \$54.4 million balance of the fund automatically return to the general fund, or does it remain in limbo?

Based on experience, it is best to appropriate the June 30, 2018 balance of the Alaska comprehensive health insurance fund (AS 21.55.430) to the general fund or for other purposes. Note that a \$25 million payment from Premera to the State is available to offset future reinsurance costs. This suggests that \$25 million of the available balance could be used for other purposes without generating concerns about the State's commitment to continuing the reinsurance program.

Note: the Governor proposes using \$1 million from the fund in FY19—after the fund is repealed—for conducting health care studies. The studies are not included in purposes designated by statute.

(g) The amount of federal receipts received for the reinsurance program under AS 21.55 during the fiscal year ending June 30, 2019, is appropriated to the Department of Commerce, Community, and Economic Development, division of insurance, for the reinsurance program under AS 21.55 for the fiscal years ending June 30, 2019, June 30, 2020, June 30, 2021, June 30, 2022, and June 30, 2023.

Subsection (g) is an open-ended appropriation that allows FY19 federal receipts to be spent any time through FY23.

New Sections—SUPPLEMENTAL APPROPRIATIONS

Sec. 11. DEPARTMENT OF CORRECTIONS.

(a) The sum of \$10,447,600 is appropriated from the general fund to the Department of Corrections, population management, institution director's office, for facility operations for the fiscal year ending June 30, 2018.

(b) The sum of \$10,341,500 is appropriated from the general fund to the Department of Corrections, health and rehabilitation services, physical health care, for inmate health care costs for the fiscal year ending June 30, 2018.

Subsections (a) and (b) are requests for FY18 supplemental appropriations.

Legislative Fiscal Analyst Comment: Roughly half the amount requested is attributable to the lack of an FY18 increment corresponding to a \$10 million FY17 appropriation from the Power Project Fund, leaving an as-yet-unfilled hole in the department's FY18 operating budget.

The remainder of the request is attributable to anticipated savings under SB 91—the criminal justice reform bill—that failed to materialize. Prisoner counts declined by less than half of the number anticipated. See the Department of Corrections narrative (in this publication) for details.

Sec. 12. DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT.

New Subsection—SUPPLEMENTAL APPROPRIATION

(a) The sum of \$400,000 from the municipal capital project matching grant fund (AS 37.06.010) is appropriated to the Department of Education and Early Development, Mt. Edgecumbe boarding school, for maintenance and operation of the Mt. Edgecumbe Aquatic Center for the fiscal years ending June 30, 2018, and June 30, 2019.

Subsection (a) is a FY18 supplemental, multi-year appropriation.

Legislative Fiscal Analyst Comment: Merit of the appropriation aside, subsection (a) raises questions on many levels. The subsection

- is—at least in part—an FY19 operating increment disguised as a supplemental appropriation (the amount is more than sufficient for FY18),
- may provide insufficient funding for FY19 yet leaves a balance in the grant fund,
- uses a non-recurring fund source for recurring operating expenses, and
- funds operating expenses with a capital grant code designed to issue grants to municipalities.

See the Department of Education and Early Development narrative in this publication for additional information.

New Subsection—SUPPLEMENTAL APPROPRIATION

(b) Section 20, ch. 2, 4SSLA 2016, is amended to read:

Sec. 20. DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT. The sum of \$300,000 is appropriated from the general fund to the Department of Education and Early Development, education support services, executive administration, for multi-year funding for [DEDICATED TO] a temporary position

or contract personnel and other expenses relating to P.L. 114-95 (Every Student Succeeds Act) for the fiscal years ending June 30, 2017, [AND] June 30, 2018, and June 30, 2019.

Subsection (b) extends a FY17/FY18 appropriation through FY19.

DELETED SUBSECTION: FY18 ASLC Dividend

The sum of \$1,200,000, declared available by the Alaska Student Loan Corporation board of directors for appropriation as the dividend for the fiscal year ending June 30, 2018, is appropriated to the general fund.

Legislative Fiscal Analyst Comment: The Alaska Student Loan Corporation (ASLC) did not declare a dividend for FY19. Per AS 14.42.295, the board may elect to pay the State a return of contributed capital (i.e., a dividend) if the corporation's net income is equal to or exceeds \$2 million. For the year ending June 30, 2017, the corporation's change in net position was a net loss of \$354,000.

DELETED SUBSECTION: U-med Road Reapprop to Public Education Fund (FY17)

The unexpended and unobligated balance, estimated to be \$17,000,000, of the appropriation made in sec. 1, ch. 16, SLA 2013, page 12, lines 20 - 25 (Anchorage, U-Med district northern access - \$20,000,000) is reappropriated to the public education fund (AS 14.17.300).

Legislative Fiscal Analyst Comment: This non-repeatable appropriation allowed a reduction of FY18 capitalization of the Public Education Fund, but results in an offsetting FY19 unrestricted general fund increment of approximately \$17 million (which is partially offset by an anticipated decline in student count). Capitalization of the Public Education Fund in FY19 appears in section 24.

Sec. 13. DEPARTMENT OF FISH AND GAME.

(a) An amount equal to the dive fishery management assessment collected under AS 43.76.150 - 43.76.210 in the fiscal year ending June 30, 2018, estimated to be \$500,000, and deposited in the general fund, is appropriated from the general fund to the Department of Fish and Game for payment in the fiscal year ending June 30, 2019, to the qualified regional dive fishery development association in the administrative area where the assessment was collected.

Funding: These "pass-through" amounts, estimated to be \$500,000, are excluded from Legislative Finance Division reports on the operating bill.

(b) After the appropriation made in sec. 24(t) of this Act, the remaining balance of the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund

(AS 16.05.100), not to exceed \$500,000, is appropriated to the Department of Fish and Game for sport fish operations for the fiscal year ending June 30, 2019.

Subsection (b) appropriates up to \$500,000 from the Alaska sport fish enterprise account in the Fish and Game Fund to the Department of Fish and Game for the Division of Sport Fish operations *after* appropriations in section 22(t) for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds have occurred. [For more information on appropriations from this account, see comments under section 22(t).]

Sec. 14. DEPARTMENT OF HEALTH AND SOCIAL SERVICES.

New Subsection

(a) If the amount necessary to fund medical assistance services required under Title XIX of the Social Security Act exceeds the amount appropriated in sec. 1 of this Act, the additional amount necessary to fund medical assistance services required under Title XIX of the Social Security Act, estimated to be \$0, is appropriated from the general fund to the Department of Health and Social Services, Medicaid services, for the fiscal year ending June 30, 2019.

Subsection (a) is an open-ended appropriation that funds all general fund costs of Medicaid.

Legislative Fiscal Analyst Comment: Similar language included last year applied to FY17, not to the current fiscal year. That language was specifically intended to end the recent practice of delaying provider reimbursement, effectively shifting costs to the following fiscal year. The appropriation successfully encouraged the payment of FY17 liabilities in FY17, thus allowing FY18 to start cost calculations with a clean slate.

At this stage in the budget process, an open-ended appropriation may be a sign of danger. A \$100 million FY18 UGF supplemental indicates that Medicaid costs are growing much faster than expected and/or that Medicaid was severely underfunded in FY18.

The Governor's request for FY19 UGF Medicaid costs includes \$100 million to match FY18 authorization plus \$27 million for cost increases expected in FY19. Subsection (a) provides incentive to understate anticipated costs (in order to restrain apparent spending).

Ideally, cost projections should fully fund program costs and appropriations should match projections. That method provides the clearest picture of program costs. Routine supplemental appropriations are a poor second choice, since supplemental costs sometimes slide under the radar. An open-ended appropriation at the beginning of a fiscal year leaves the legislature with limited knowledge/control of program costs.

New Subsection

(b) If the amount of federal receipts received during the fiscal year ending June 30, 2019, for Medicaid services are greater than the amount appropriated in sec. 1 of this Act, the

additional amount of federal receipts received, estimated to be \$0, is appropriated to the Department of Health and Social Services, Medicaid services, for the fiscal year ending June 30, 2019.

Subsection (b) provides an open-ended appropriation of federal receipts for Medicaid.

Legislative Fiscal Analyst Comment: Although the concerns expressed under subsection (a) may apply to open-ended appropriation of federal receipts, federal costs are generally subject to less scrutiny than state costs. The practical impact of subsection (b) may be to eliminate RPLs.

SUPPLEMENTAL APPROPRIATION

(c) If the amount necessary to fund medical assistance services required under Title XIX of the Social Security Act exceeds the amount appropriated in sec. 1, ch. 1, SSSLA 2017, page 70, line 28, the additional amount necessary to fund medical assistance services required under Tile XIX of the Social Security Act, estimated to be \$92,986,000, is appropriated from the general fund to the Department of Health and Social Services, Medicaid services, for the fiscal year ending June 30, 2018.

Subsection (c) provides an open-ended UGF appropriation to cover FY18 Medicaid costs.

Legislative Fiscal Analyst Comment: See comments under subsection (a).

New Subsection—CONTINGENT SUPPLEMENTAL APPROPRIATION

(d) If the amount necessary to fund the Children's Health Insurance Program under Title XXI of the Social Security Act exceeds the amount appropriated in sec. 1, ch. 1, SSSLA 2017, page 70, line 28, the additional amount necessary to fund services for the Children's Health Insurance Program under Title XXI of the Social Security Act, estimated to be \$7,014,000, is appropriated from the general fund to the Department of Health and Social Services, Medicaid services, for the fiscal year ending June 30, 2018.

Subsection (d) appropriates the amount of UGF needed to pay FY18 benefits under the Children's Health Insurance Program (Denali Kid Care).

Legislative Fiscal Analyst Comment: Without Congressional reauthorization, the state match rate would increase from 12% to 50%. A change in the match rate is expected to increase state costs by \$7 million for the remaining half of FY18.

Lacking corresponding contingent language for FY19, it appears that the Governor's request for Medicaid costs in FY19 does not include a \$14 million increase in children's health insurance costs.

New Subsection—SUPPLEMENTAL APPROPRIATION

(e) Federal receipts received during the fiscal year ending June 30, 2018, for Medicaid services, estimated to be \$0, are appropriated to the Department of Health and Social Services, Medicaid services, for the fiscal year ending June 30, 2018.

Subsection (e) provides open-ended FY18 supplemental appropriation of federal receipts.

New Subsection—SUPPLEMENTAL MULTI-YEAR APPROPRIATION

(f) The sum of \$18,000,000 is appropriated from the general fund to the Department of Health and Social Services, division of behavioral health, for a program to develop substance use disorder services for the fiscal years ending June 30, 2018, June 30, 2019, June 30, 2020, and June 30, 2021.

Subsection (f) is part of the Governor's Public Safety Action Plan.

Legislative Fiscal Analyst Comment: During the 2016 session, the department received a \$6 million UGF multi-year supplemental appropriation (FY16-FY19) to combat Substance Use Disorders [Sec. 9, Ch. 1, 4SSLA 2016 (HB 257)]. The department has received few applications for grants, reportedly due to infrastructure costs associated with starting up these types of programs. Of the \$6 million, \$4.9 million was unspent through FY17 and was carried forward into FY18.

The department has indicated that obtaining \$3 million in late FY18 for grantee start-up costs may put money in the hands of grantees a few months earlier than obtaining a FY19 appropriation. As requested, the entire \$18 million will appear as a FY18 appropriation. Most of the \$18 million is expected to be expended in FY19 and beyond.

The legislature may wish to explore whether the existing \$6 million appropriation could be used to meet current needs—thereby reducing the need for additional appropriations.

DELETED SUBSECTION: FY17 lapse carryforward to FY18 for Public Assistance

The unexpended and unobligated balances, not to exceed \$500,000, of any Department of Health and Social Services appropriations that are determined to be available for lapse at the end of the fiscal year ending June 30, 2017, are reappropriated to the Department of Health and Social Services, public assistance, public assistance field services, for the fiscal year ending June 30, 2018.

Legislative Fiscal Analyst Comment: The legislature added this section to the budget in response to a potential shortfall in FY18 funding for public assistance. The department did not transfer funds under this section and did not ask for increments in the FY19 budget.

DELETED SUBSECTION: FY18 Nome Youth Facility

The sum of \$1,693,900 is appropriated from the general fund to the Department of Health and Social Services, juvenile justice, Nome Youth Facility for the fiscal year ending June 30, 2018.

Legislative Fiscal Analyst Comment: The legislature added this section to the budget in response to the department's proposal to close the Nome Youth Facility. In compliance with legislative intent, the \$1.7 million remains in the FY19 base budget.

Sec. 15. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT.

(a) If the amount necessary to pay benefit payments from the workers' compensation benefits guaranty fund (AS 23.30.082) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from the fund to the Department of Labor and Workforce Development, workers' compensation benefits guaranty fund allocation, for the fiscal year ending June 30, 2019.

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

Funding: The estimated impact of this section is zero; the \$774,900 appropriation in section 1 is expected to be sufficient.

(b) If the amount necessary to pay benefit payments from the second injury fund (AS 23.30.040(a)) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to make those benefit payments is appropriated for that purpose from the second injury fund to the Department of Labor and Workforce Development, second injury fund allocation, for the fiscal year ending June 30, 2019.

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

Funding: The estimated impact of this section is zero; the \$3,244,800 appropriation in section 1 is expected to be sufficient.

(c) If the amount necessary to pay benefit payments from the fishermen's fund (AS 23.35.060) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from that fund to the Department of Labor and Workforce Development, fishermen's fund allocation, for the fiscal year ending June 30, 2019.

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

Funding: The estimated impact of this section is zero; the \$1,387,100 appropriation in section 1 is expected to be sufficient.

(d) If the amount of contributions received by the Alaska Vocational Technical Center under AS 21.96.070, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, and AS 43.77.045 during the fiscal year ending June 30, 2019, exceeds the amount appropriated for the Department of Labor and Workforce Development, Alaska Vocational Technical Center, in sec. 1 of this Act, the additional contributions are appropriated to the Department of Labor and Workforce Development, Alaska Vocational Technical Center, Alaska Vocational Technical Center allocation, for the purpose of operating the center, for the fiscal year ending June 30, 2019.

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

Funding: The estimated impact of this section is zero; the \$3,339,200 appropriation in section 1 is expected to be sufficient.

New Section—SUPPLEMENTAL APPROPRIATIONS

Sec. 16. DEPARTMENT OF LAW.

(a) The sum of \$322,000 is appropriated from the general fund to the Department of Law, civil division, deputy attorney general's office, for the purpose of paying judgments and settlements against the state for the fiscal year ending June 30, 2018.

(b) The amount necessary, after application of the amount in (a) of this section, to pay judgments awarded against the state on or before June 30, 2018, is appropriated from the general fund to the Department of Law, civil division, deputy attorney general's office, for the purpose of paying judgments against the state for the fiscal year ending June 30, 2018.

Subsection (a) appropriates the amount required to pay judgments and claims known as of December 2017. **Subsection (b)** is an open-ended appropriation for judgments (but not settlements) that occur during the remainder of FY18.

Legislative Fiscal Analyst Comment: Similar language is typically submitted as part of the Governor's supplemental request. There is no compelling reason to include the language in the operating bill.

Sec. 17. DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS.

(a) Five percent of the average ending market value in the Alaska veterans' memorial endowment fund (AS 37.14.700) for the fiscal years ending June 30, 2016, June 30, 2017, and June 30, 2018, estimated to be \$11,300, is appropriated from the Alaska veterans' memorial endowment fund (AS 37.14.700) to the Department of Military and Veterans'

Affairs for the purposes specified in AS 37.14.730(b) for the fiscal year ending June 30, 2019.

Subsection (a) appropriates the payout from the endowment to the Department of Military and Veterans' Affairs. The payout may be used for maintenance, repair, and construction of monuments to the military.

New Subsection—SUPPLEMENTAL APPROPRIATION

(b) The sum of \$94,100 is appropriated from the general fund to the Department of Military and Veterans' Affairs, office of the commissioner, to preserve and protect Department of Defense investment in Alaska for the fiscal year ending June 30, 2018.

Subsection (b) is a FY18 supplemental request.

Legislative Fiscal Analyst Comment: This request funds a Special Assistant to work with Department of Defense (DOD) and other key stakeholders on the issue of military base closures. There is no compelling reason to include the language in the operating bill.

The Budget Control Act of 2011 affects ongoing discussions of base closures. New BRAC (Base Realignment and Closure) authorization is currently being considered by the United States Congress for execution in federal fiscal year 2021. The Governor's budget also includes a FY19 request for \$161,400 UGF for this purpose.

New Subsection—SUPPLEMENTAL APPROPRIATION

(c) The sum of \$884,000 is appropriated to the Department of Military and Veterans' Affairs, air guard facilities maintenance, for the maintenance and operation of eight C-17 aircrafts for the fiscal year ending June 30, 2018, from the following sources in the following amounts:

- (1) \$221,000 from the general fund; and**
- (2) \$663,000 from federal receipts.**

Subsection (c) is a FY18 supplemental request.

Legislative Fiscal Analyst Comment: There is no compelling reason to include the language in the operating bill.

C-130 aircraft operations are being reduced throughout the United States Air Force, with older ones being retired and not replaced. Alaska lost eight C-130 aircraft that supported the 176th Wing and provided assistance with search and rescue missions. To offset the loss, the Active Duty Air Force transferred eight C-17 aircraft to the Alaska Air National Guard (AKANG) in May 2017. These newly gained aircraft remain federal property but will be maintained and operated by the AKANG. Furthermore, the State of Alaska accepted responsibility for Facilities Operations/Maintenance for three buildings, totaling 480,000 square feet, supporting C-17 operations. These buildings were previously federally funded and now will be partially paid for by the State.

Five new full-time positions (added in the FY18 Management Plan) and funding to support Facilities Operations/Maintenance of three buildings are being requested and are split between federal funds (75%) and general fund match (25%).

Sec. 18. DEPARTMENT OF NATURAL RESOURCES.

(a) The interest earned during the fiscal year ending June 30, 2019, on the reclamation bond posted by Cook Inlet Energy for operation of an oil production platform in Cook Inlet under lease with the Department of Natural Resources, estimated to be \$150,000, is appropriated from interest held in the general fund to the Department of Natural Resources for the purpose of the bond for the fiscal years ending June 30, 2019, June 30, 2020, and June 30, 2021.

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

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

(b) The amount necessary for the purposes specified in AS 37.14.820 for the fiscal year ending June 30, 2019, estimated to be \$30,000, is appropriated from the mine reclamation trust fund operating account (AS 37.14.800(a)) to the Department of Natural Resources for those purposes for the fiscal year ending June 30, 2019.

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

Legislative Fiscal Analyst Comment: This section may not be required but does no harm; the appropriation contained in section 25(1)—an internal transfer of funds from the income account to the operating account—appears to satisfy the appropriation requirement of AS 37.14.800(b). Once that internal transfer occurs, expenditures require no further appropriation per AS 37.14.820.

Funding: The agency estimates the amount needed for mine reclamation expenditures is about \$30,000. The money is spent in the Claims, Permits and Leases allocation for reclamation of land use permits and leases on state lands.

(c) The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, estimated to be \$50,000, is appropriated to the Department of Natural Resources for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond for the fiscal year ending June 30, 2019.

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

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

Legislative Fiscal Analyst Comment: Similar language in section 9(e) applies to the Department of Administration.
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(d) Federal receipts received for fire suppression during the fiscal year ending June 30, 2019, estimated to be \$8,500,000, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2019.

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

(e) If any portion of the federal receipts appropriated to the Department of Natural Resources for division of forestry wildland firefighting crews is not received, that amount, not to exceed \$1,125,000, is appropriated from the general fund to the Department of Natural Resources, fire suppression preparedness, for the purpose of paying costs of the division of forestry wildland firefighting crews for the fiscal year ending June 30, 2019.

Subsection (e) appropriates unrestricted general funds to replace federal funds in the event that federal grant funding fails to fully materialize. The department supports three "Hotshot" professional firefighting crews at \$375,000 each through competitive federal grants. Competition for this federal funding has increased, and this language ensures that the department can retain these crews by using general funds if Alaska does not secure federal grants.

Funding: The maximum expected impact of this section is \$1,125,000 of unrestricted general funds.

Legislative Fiscal Analyst Comment: Beginning in FY19, the Legislative Finance Division reports contingent appropriations at their maximum value. The Office of Management and Budget (OMB) reports a zero value for this appropriation.

Sec. 19. DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES.

New Section—SUPPLEMENTAL MULTI-YEAR APPROPRIATION

The sum of \$350,000 is appropriated from the general fund to the Department of Transportation and Public Facilities for survey activities along Klutina Lake Road for the fiscal years ending June 30, 2018, June 30, 2019, and June 30, 2020.

Legislative Fiscal Analyst Comment: There has been long-standing litigation between the State and Ahtna, Inc. regarding Klutina Lake Road. The current lawsuit originated in 2008 when Ahtna sued the State alleging action by the State along the unpaved road constituted a trespass. The State counterclaimed, asserting that Federal Revised Statute 2477 affirmed the existence of a state right-of-way. Both parties agreed to the existence of a current public road but disagreed on the width of the road and the scope and extent of the State's property interests in the road. Resolving this dispute through arbitration has failed and a new trial date will be scheduled by the court.

In an effort to ensure that the State is able to provide for the public's ability to continue using the road to access outdoor activities while respecting Ahtna's concerns surrounding potential impacts to private property rights, and land and resource management, survey activities will be performed by the department. The department will perform a right-of-way survey along this route to define the exact limits of the public interest right-of-way. This survey will result in detailed right-of-way maps for the Klutina Lake Road and will be used to work towards a resolution in the dispute with Ahtna, Inc.

DELETED SUBSECTIONS: FY18 Transportation Maintenance Fund Backstop Language

If the balance of the special aviation fuel tax account (AS 43.40.010(e)) is insufficient to fully fund the appropriations made in sec. 1 of this Act from the special aviation fuel tax account (AS 43.40.010(e)), the amount of the shortfall is appropriated from the general fund to the Department of Transportation and Public Facilities for the same purposes for the fiscal year ending June 30, 2018.

If the balance of the transportation maintenance fund (AS 43.40.045) is insufficient to fully fund the appropriations made in sec. 1 of this Act from the transportation maintenance fund (AS 43.40.045), the amount of the shortfall is appropriated from the general fund to the Department of Transportation and Public Facilities for the same purposes for the fiscal year ending June 30, 2018.

(c) The amounts appropriated in sec. 1 of this Act from the transportation maintenance fund (AS 43.40.045), estimated to be \$0, are appropriated from the general fund to the Department of Transportation and Public Facilities for the same purposes for the fiscal year ending June 30, 2018.

Legislative Fiscal Analyst Comment: The deleted provisions—which applied because a motor fuels tax increase was not enacted in FY18—replaced designated motor fuel tax revenue with unrestricted general funds.

The Governor proposed a motor fuels tax increase again in FY19, but did not build the proceeds into the budget. The deleted provisions are no longer applicable; fiscal notes associated with the tax legislation will address new revenue and expenditures.

Sec. 20. OFFICE OF THE GOVERNOR.

The sum of \$1,847,000 is appropriated from the general fund to the Office of the Governor, division of elections, for costs associated with conducting the statewide primary and general elections for the fiscal years ending June 30, 2019, and June 30, 2020.

Legislative Fiscal Analyst Comment: Beginning in FY17, the cost of holding elections every two years was divided in half to reduce volatility in the final authorized budget of the Office of the Governor while allowing for sufficient funding to conduct elections. Note that section 20 appropriates money for a two-year period, so money not spent in FY19—expected to be nearly all of the FY18 and FY19 appropriations—will be available in FY20.

Sec. 21. BANKCARD SERVICE FEES.

(a) The amount necessary to compensate the collector or trustee of fees, licenses, taxes, or other money belonging to the state during the fiscal year ending June 30, 2019, is appropriated for that purpose for the fiscal year ending June 30, 2019, to the agency authorized by law to generate the revenue, from the funds and accounts in which the payments received by the state are deposited. In this subsection, "collector or trustee" includes vendors retained by the state on a contingency fee basis.

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

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

(b) The amount necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2019, is appropriated for that purpose for the fiscal year ending June 30, 2019, to each agency of the executive, legislative, and judicial branches that accepts payment by bankcard or credit card for licenses, permits, goods, and services provided by that agency on behalf of the state, from the funds and accounts in which the payments received by the state are deposited.

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

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

DELETED SUBSECTION: Department of Law Restitution Payments

The amount necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2018, is appropriated for that purpose for the fiscal year ending June 30, 2018, to the Department of Law for accepting payment of restitution in accordance with AS 12.55.051 and AS 47.12.170 by bankcard or credit card, from the funds and accounts in which the restitution payments received by the Department of Law are deposited

Legislative Fiscal Analyst Comment: All bankcard or credit card service fees paid by the Department of Law are covered under subsection (b).

Sec. 22. 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, 2019, estimated to be \$0, is appropriated from the general fund to the Department of Revenue for payment of the interest on those notes for the fiscal year ending June 30, 2019.

Subsection (a) appropriates general funds to pay interest on any revenue anticipation notes that may be issued during the year. This is precautionary language; revenue anticipation notes have not been issued by the State for at least 30 years, and may never have been issued.

Legislative Fiscal Analyst Comment: No notes are expected to be issued in FY19.

(b) The amount required to be paid by the state for the principal of and interest on all issued and outstanding state-guaranteed bonds, estimated to be \$0, is appropriated from the general fund to the Alaska Housing Finance Corporation for payment of the principal of and interest on those bonds for the fiscal year ending June 30, 2019.

Subsection (b) appropriates general funds to pay principal and interest on state-guaranteed bonds (veteran's mortgage bonds) if the revenue stream from the mortgage loans is insufficient to make those payments. The primary purpose of the state general obligation pledge is to gain tax-exempt status for the bonds, but it also enhances the credit pledge and marketability of the bonds. The veteran's mortgage bonds have achieved the best credit rating (triple A) on their own and there have been no draws upon the State's general obligation pledge for payment. 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 amount necessary for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2019, estimated to be \$1,590,500, is appropriated from interest earnings of the Alaska clean water fund (AS 46.03.032(a)) to the Alaska clean water fund revenue bond redemption fund (AS 37.15.565).

(d) The amount necessary for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2019, estimated to be \$1,655,700, is appropriated from interest earnings of the Alaska drinking water fund (AS 46.03.036(a)) to the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565).

Subsections (c) and (d) appropriate the interest earnings of the clean water and drinking water funds to their respective bond redemption funds. Both funds are capitalized annually with federal receipts and drinking and clean water bond receipts [see sections 24(n)-(q)]. The federal receipts require a state match. Federal rules permit investment earnings of the loan funds to be used to pay debt service as well as to make loans.

These subsections avoid general fund match appropriations by taking advantage of the ability to use earnings on the funds to pay debt service. Alaska issues short-term bonds (secured by the assets of the loan fund) and uses the proceeds to meet the required federal match. The bonds are then paid off with "restricted" earnings. Effectively, earnings are used to match federal receipts.

(e) The sum of \$2,510,506 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2019, for payment of debt service on outstanding debt authorized by AS 14.40.257 and AS 42.45.065, respectively, for the following projects:

AGENCY AND PROJECT	APPROPRIATION AMOUNT
(1) University of Alaska	\$1,215,650
Anchorage Community and Technical College Center	
Juneau Readiness Center/UAS Joint Facility	
(2) Alaska Energy Authority	
(A) Kodiak Electric Association	943,676
(Nyman combined cycle cogeneration plant)	
(B) Copper Valley Electric Association	351,180
(cogeneration projects)	

Subsection (e) appropriates \$2.5 million to the University and the Alaska Energy Authority for reimbursement of debt service on projects authorized in Chapter 115, SLA 2002 (HB 528).

Legislative Fiscal Analyst Comment: The projects listed in subsection (e) are only a portion of the projects eligible for debt reimbursement. The Governor moved several projects to section 28(a). The \$2 million appropriated in section 28 for reimbursement of municipal debt comes directly from the Constitutional Budget Reserve Fund (CBR) and requires a supermajority vote.

(f) The amount necessary for payment of lease payments and trustee fees relating to certificates of participation issued for real property for the fiscal year ending June 30, 2019, estimated to be \$2,892,650, is appropriated from the general fund to the state bond committee for that purpose for the fiscal year ending June 30, 2019.

Subsection (f) appropriates \$2.9 million for trustee fees and to make payments on Certificates of Participation (COPs) for the Alaska Native Medical Center housing project [authorized in Chapter 63, SLA 2013, (SB 88)]. The Alaska Native Medical Center project is the only outstanding COP.

(g) The sum of \$3,303,500 is appropriated from the general fund to the Department of Administration for the purpose of paying the obligation of the Linny Pacillo Parking Garage in Anchorage to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2019.

Subsection (g) appropriates \$3.3 million for a lease-purchase obligation associated with a downtown Anchorage parking garage.

(h) The following amounts are appropriated to the state bond committee from the specified sources, and for the stated purposes, for the fiscal year ending June 30, 2019:

A total of \$88.65 million general funds and \$4.85 million federal funds are appropriated for debt service on general obligation bonds. Comparable FY18 numbers are \$84.9 million general funds, and \$4.85 million federal receipts.

(1) the sum of \$58,400 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2009A general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A;

(2) the sum of \$26,300 from the investment loss trust fund (AS 37.14.300(a)), for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A;

(3) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A, after the payments made in (1) and (2) of this subsection, estimated to be \$7,875,700, from the general fund for that purpose;

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

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

(4) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A, estimated to be \$2,194,004, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Build America Bond credit payments due on the series 2010A general obligation bonds;

(5) the sum of \$8,700 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2010A general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A;

(6) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A, after payments made in (4) and (5) of this subsection, estimated to be \$4,552,235, from the general fund for that purpose;

(7) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010B, estimated to be \$2,227,757, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Qualified School Construction Bond interest subsidy payments due on the series 2010B general obligation bonds;

(8) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010B, after the payment made in (7) of this subsection, estimated to be \$176,143, from the general fund for that purpose;

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

Legislative Fiscal Analyst Comment: The 2010 general election authorized issuance of \$397 million in bonds to finance educational facilities. The Department of Revenue issued \$200 million of bonds in three series in 2010, taking advantage of federal stimulus programs. Series A were issued using Build America Bonds (receiving an original 35% federal subsidy on interest expense); Series B were issued as Qualified School Construction Bonds (receiving a federal subsidy on interest expense of nearly 100%); and Series C were issued as standard tax exempt bonds (paid off in 2015). All authorized bonds are not sold at the same time because IRS rules (for tax exempt status) require complete expenditure of bond proceeds within three years of bond issuance. Bonds are issued in specific series as cash is needed for projects. Sequestration subsequently reduced the federal reimbursement rates on the Series A and Series B bonds, reducing the effective subsidy to near 32.5% and 93%, respectively.

(9) the sum of \$11,100 from the State of Alaska general obligation bonds, series 2012A bond issue premium, interest earnings, and accrued interest held in the debt service fund of

the series 2012A bonds for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2012A;

(10) the amount necessary, estimated to be \$28,755,900, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2012A, from the general fund for that purpose;

Series 2012 bonds refinanced the 2003A bonds:

- 2003A general obligation bonds were authorized by voters in 2002 for construction of schools and university facilities (\$236.8 million) and for transportation projects (\$124 million); and
- Series 2003B general obligation bonds were authorized by voters in 2002 for road construction (\$102.8 million).

Legislative Fiscal Analyst Comment: Although the 2003B bonds were issued with a general obligation pledge by the State, they are more appropriately referred to as GARVEE bonds. The majority of the debt service was paid using eligible federal-aid highway formula funding coupled with a state matching component derived from investment earnings on the borrowed money prior to expenditure. The 2003B bonds were fully repaid on July 15, 2013.

(11) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013A, estimated to be \$427,658, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Qualified School Construction Bond interest subsidy payments due on the series 2013A general obligation bonds;

(12) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013A, after the payments made in (11) of this subsection, estimated to be \$33,180, from the general fund for that purpose;

(13) the sum of \$452,900 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2013B general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013B;

(14) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013B, after the payment made in (13) of this subsection, estimated to be \$15,716,225, from the general fund for that purpose;

The remaining 2010 authorization of \$197 million was used when 2013A and 2013B bonds were sold. Series 2013A and 2013B general obligation bonds were authorized by voters in 2010 for educational facilities.

Legislative Fiscal Analyst Comment: The Department of Revenue issued two series of bonds to fund the balance of the 2010 Act and take advantage of the State's remaining Qualified School Construction Bond allocation. Series A were issued as Qualified School Construction Bonds (receiving a federal subsidy on interest expense of 100%); and Series B were issued as standard tax exempt bonds. All authorized bonds are sold at

this time. Sequestration subsequently reduced the federal reimbursement rates on the Series A by 7.2 points, reducing the effective subsidy to about 93%.

(15) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2015B, estimated to be \$4,721,250, from the general fund for that purpose;

Subsection 15 appropriates an estimated \$4.7 million from the general fund for payment of debt service on series 2015B Bonds. The 2015B bonds refinanced a portion of the 2009A bonds for savings; increased 2015B debt service is more than offset by reductions to 2009A debt service.

(16) the sum of \$3,400 from the State of Alaska general obligation bonds, series 2016A bond issue premium, interest earnings, and accrued interest held in the debt service fund of the series 2016A bonds for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016A;

(17) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016A, after the payment made in (16) of this subsection, estimated to be \$11,104,725, from the general fund for that purpose;

(18) the sum of \$1,249,100, from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2016B general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016B;

(19) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016B, after the payment made in (18) of this subsection, estimated to be \$9,703,400, from the general fund for that purpose;

Subsections 16, 17, 18, and 19 appropriate an estimated \$22.1 million from the general fund for the payment of debt service on series 2016A and 2016B Bonds.

Legislative Fiscal Analyst Comment: On January 5, 2016, the State Bond Committee authorized the issuance of 2016A General Obligation Bonds in the amount of up to \$160 million to refinance Series 2015A Bond Anticipation Notes (BANs), and a 2016B General Obligation (GO) Bond Anticipation Note to fund up to \$150 million for additional costs of the 2012 Transportation Act projects.

The BAN program has been used due to the uncertainty and often delayed project expenditure expectations on transportation projects, thereby avoiding the cost of having higher interest, long-dated borrowed funds idle in the project fund, and complying with IRS project expenditure requirements.

New Subsection

(20) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2018A, estimated to be \$4,000,000, from the general fund for that purpose;

Subsection 20 appropriates an estimated \$4 million from the general fund for payment of debt service on Series 2018A Bonds.

Legislative Fiscal Analyst Comment: The 2018 issue uses approximately half of the \$110 million of remaining 2012 GO Bond authorization for transportation projects. The 2018A bonds will require debt service of \$4 million per year for 20 years.

(21) the amount necessary for payment of trustee fees on outstanding State of Alaska general obligation bonds, series 2009A, 2010A, 2010B, 2012A, 2013A, 2013B, 2015B, 2016A, 2016B, and 2018A, estimated to be \$3,000, from the general fund for that purpose;

Subsection 21 appropriates an estimated \$3,000 for trustee fees on all outstanding GO Bonds.

Legislative Fiscal Analyst Comment: These fees have previously been included in the debt service appropriation for each series of bonds. Trustee fees have been separated from other costs of issuing debt because they are annual costs that last for the life of the bonds. Most other costs of issuing debt are one-time costs paid at closing. That may change if rating agencies are successful in their effort to make their fees annual rather than one time.

(22) the amount necessary for the purpose of authorizing payment to the United States Treasury for arbitrage rebate on outstanding State of Alaska general obligation bonds, estimated to be \$200,000, from the general fund for that purpose;

Subsection 22 appropriates money that must be remitted to the federal government when earnings on the proceeds of tax-exempt bonds exceed interest costs. This appropriation applies primarily to the extraordinarily low interest rate 2013C Bond Anticipation Notes. The provision is also likely to apply to the 2014A Qualified School Construction Bonds. The payment of these funds is offset by prior year investment earnings.

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

Subsection 23 is intended to prevent construction delays by permitting short-term borrowing from the general fund.

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

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

(i) The following amounts are appropriated to the state bond committee from the specified sources, and for the stated purposes, for the fiscal year ending June 30, 2019:

(1) the amount necessary for debt service on outstanding international airports revenue bonds, estimated to be \$5,200,000, from the collection of passenger facility charges

approved by the Federal Aviation Administration at the Alaska international airports system;

(2) the amount necessary for debt service and trustee fees on outstanding international airports revenue bonds, estimated to be \$398,820, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Build America Bonds federal interest subsidy payments due on the series 2010D general airport revenue bonds;

(3) the amount necessary for payment of debt service and trustee fees on outstanding international airports revenue bonds, after payments made in (1) and (2) of this subsection, estimated to be \$31,997,949, from the International Airports Revenue Fund (AS 37.15.430(a)) for that purpose; and

(4) the amount necessary for payment of principal and interest, redemption premiums, and trustee fees, if any, associated with the early redemption of international airports revenue bonds authorized under AS 37.15.410 - 37.15.550, estimated to be \$10,000,000, from International Airports Revenue Fund (AS 37.15.430(a)).

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

Legislative Fiscal Analyst Comment: The Alaska International Airport System (AIAS) and the State Bond Committee sold series 2016A and 2016C bonds on January 13, 2016 and series 2016B and 2016D bonds on January 28, 2016 to refinance \$258 million of outstanding revenue bonds (Series 1999A, 1999C, 2003B, 2006A, 2006B, 2006D, and 2009A) for the dual goals of achieving \$17.14 million of present value savings and lowering annual debt service by extending the amortization of the bonds by four years. The System plans to pay for future cash defeasances of approximately \$57 million between FY18 and FY19.

The transaction is the culmination of a restructuring plan put in place in 2010 to lower debt service of the AIAS from approximately \$49.5 million to \$30 million annually to maintain the System's competitive advantage in the international cargo market and keep the cost per enplaned passenger as low as possible. Following the transaction, cumulative debt service is approximately \$29.7 million per year after FY17. The refunding bonds received the same ratings from Fitch and Moody's as previous airport bonds - A+/ Stable and A1/Stable, respectively.

(j) If federal receipts are temporarily insufficient to cover international airports system project expenditures approved for funding with those receipts, the amount necessary to prevent that cash deficiency, estimated to be \$0, is appropriated from the general fund to the International Airports Revenue Fund (AS 37.15.430(a)), contingent on repayment to the general fund, plus interest, as soon as additional federal receipts have been received by the state for that purpose.

(k) The amount of federal receipts deposited in the International Airports Revenue Fund (AS 37.15.430(a)) necessary to reimburse the general fund for international airports system

project expenditures, plus interest, estimated to be \$0, is appropriated from the International Airports Revenue Fund (AS 37.15.430(a)) to the general fund.

Subsections (j) and (k) were added to the FY17 and FY18 budgets during the 2016 legislative session. The language addresses a potential cash-flow deficiency related to federal international airport projects and allows for temporary general fund borrowing and repayment. Subsection (j) appropriates general funds contingent upon repayment (plus interest). Subsection (k) appropriates the amount of federal receipts to repay the general fund.

(l) The amount necessary for payment of obligations and fees for the Goose Creek Correctional Center, estimated to be \$16,373,575, is appropriated from the general fund to the Department of Administration for that purpose for the fiscal year ending June 30, 2019.

Subsection (l) appropriates funds to pay lease costs for the Goose Creek Correctional Center. The Mat-Su Borough issued bonds for the Goose Creek Correctional Center, which the State leases.

Legislative Fiscal Analyst Comment: In common language, the contract with the Mat-Su Borough is a lease, but terms of the contracts are such that the Governmental Accounting Standards Board's (GASB) rule #34 classifies them as capital leases. Further, the State's future lease payments were securitized in a Matanuska Lease Revenue Bond issuance that was authorized by law. This means that a default on lease payments could affect the State's credit rating. Because of the potential impact on credit rating, the obligation is categorized as "subject to appropriation" debt.

(m) The sum of \$22,200,000 is appropriated from the School Fund (AS 43.50.140) to the Department of Education and Early Development for state aid for costs of school construction under AS 14.11.100 for the fiscal year ending June 30, 2019.

Subsection (m) appropriates money from the School Trust fund 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).

Legislative Fiscal Analyst Comment: The amount of this appropriation is limited to the amount available from the School Fund. Full reimbursement of municipal debt requires an additional \$85.6 million. That amount is appropriated in section 28(e) from the Constitutional Budget Reserve Fund (CBR) and requires a supermajority vote.

Funding: Per the DOR Fall 2017 Revenue Sources Book, FY19 cigarette tax collections (School Fund) are projected at \$17.2 million, down from \$21.3 million in FY17 and \$17.8 million (projected) in FY18. Collections in FY17 came in above forecast; the extra balance is used in FY19. As cigarette tax revenues decrease, the general fund portion of school debt reimbursement increases.

(n) The amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) during the fiscal year ending June 30, 2019, estimated to be \$6,372,100, are appropriated to the state bond committee for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds, for early redemption of those bonds.

Subsection (n) appropriates the majority of a surcharge levied on sport fish licenses authorized under Chapter 94, SLA 2005—and appropriated to the bond redemption fund in section 24(t) and (u) of this bill—for payment of sport fish hatchery debt. Annually, up to \$500,000 of the surcharge may be retained for sport fish operations. That amount is appropriated to the Department of Fish and Game in section 13(b).

The appropriation in subsection (n) typically exceeds the required debt service payments due on the bonds, allowing the bonds to be paid off ahead of schedule.

Legislative Fiscal Analyst Recommendation: Placing an “and” in the final clause would clarify that the appropriation is intended to refer to both scheduled payments and “early redemption” payments. The legislature made that change in FY18.

Sec. 23. FEDERAL AND OTHER PROGRAM RECEIPTS.

(a) Federal receipts, designated program receipts under AS 37.05.146(b)(3), information services fund program receipts under AS 44.21.045(b), Exxon Valdez oil spill trust receipts under AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund under AS 19.65.060(a), receipts of the University of Alaska under AS 37.05.146(b)(2), receipts of commercial fisheries test fishing operations under AS 37.05.146(c)(21), and receipts of the Alaska Aerospace Corporation that are received during the fiscal year ending June 30, 2019, 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).

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

Funding: Although requests for approval to spend additional receipts will almost certainly be received, there is no way to determine where the increases will be, how much they will be, or what fund sources would be appropriate.

Legislative Fiscal Analyst Recommendation: Delete the reference to receipts of the Alaska Aerospace Corporation; unanticipated receipts of the corporation are appropriated in section 5. The legislature made that change in FY18.

(b) If federal or other program receipts under AS 37.05.146 and AS 44.21.045(b) that are received during the fiscal year ending June 30, 2019, exceed the amounts appropriated by this Act, the appropriations from state funds for the affected program shall be reduced by the excess if the reductions are consistent with applicable federal statutes.

Subsection (b) reduces state authorization when unanticipated money is received for projects funded with state funds and when federal statutes allow a reduction of state funds. There is no formal process for tracking potential reductions.

(c) If federal or other program receipts under AS 37.05.146 and AS 44.21.045(b) that are received during the fiscal year ending June 30, 2019, fall short of the amounts 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.

Sec. 24. FUND CAPITALIZATION.

(a) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2019, estimated to be \$23,300, are appropriated to the Alaska children's trust grant account (AS 37.14.205(a)):

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

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

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

Subsection (a) appropriates (to the Alaska Children's Trust grant account) net receipts collected during FY19 from sales of heirloom birth certificates, heirloom marriage certificates, and Trust license plates.

Legislative Fiscal Analyst Comment: Before FY12, these receipts were deposited to principal; the Children's Trust board may now spend from the grant account without further appropriation.

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

(b) The amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2019, estimated to be \$9,000,000, is appropriated to the disaster relief fund (AS 26.23.300(a)).

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

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

(c) The sum of \$2,000,000 is appropriated from the general fund to the disaster relief fund (AS 26.23.300(a)).

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

Legislative Fiscal Analyst Comment: Disasters—and their costs—are unpredictable. However, note that appropriating too little to the fund will prompt a supplemental funding request in the future. The balance of the fund as of November 2017 was about \$5 million.

(d) 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, 2018, estimated to be \$0, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

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

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

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

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

New Subsection—SUPPLEMENTAL APPROPRIATION

(f) The sum of \$30,000,000 is appropriated from the power cost equalization endowment fund (AS 42.45.070) to the community assistance fund (AS 29.60.850) for the fiscal year ending June 30, 2018.

Subsection (f) capitalizes the Community Assistance fund with Power Cost Equalization Endowment funds in FY18, allowing a FY19 payout of \$30 million instead of \$20 million.

Legislative Fiscal Analyst Comment: The legislature revised statutory guidelines (Chapter 43, SLA 2016 (SB 196)) for using earnings of the Power Cost Equalization (PCE) Endowment Fund in order to make excess earnings available for Community Assistance. If endowment earnings in the prior closed fiscal year exceed anticipated PCE program costs, then up to \$30 million of endowment earnings may be appropriated for Community Assistance.

FY16 endowment earnings—potentially available for Community Assistance in FY18—of \$8.9 million were insufficient for FY18 PCE program costs, so no PCE earnings were available for Community Assistance in FY18. Last session, the Governor failed to request—and the legislature failed to add—an alternative \$30 million appropriation required to provide a \$30 million payout to communities in FY19.

FY17 endowment earnings were \$112.3 million, making \$30 million available for Community Assistance funding in FY19 (affecting distribution during FY20).

The Governor did not appropriate FY17 excess PCE earnings for Community Assistance in FY19, as outlined in statute. Without a FY19 appropriation, communities will once again be uncertain of the amount of assistance they can build into their FY20 budgets.

Subsection (f) provides for a \$30 million community assistance payout in FY19, but the appropriation is unrelated to PCE earnings available for FY19. Subsection (f) simply takes money from the PCE endowment, which is use of a designated fund for a non-designated purpose.

Deleted Section: Oil & Gas Tax Credit Fund

The sum of \$57,000,000 is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028). It is the intent of the legislature to end the state oil and gas tax credit purchase program during the fiscal year ending June 30, 2018, and not to purchase transferable tax credit certificates for expenditures incurred on or after January 1, 2018, or to pay refunds or payments for expenditures incurred on or after January 1, 2018.

Legislative Fiscal Analyst Comment: The Governor proposed a method of debt financing for Oil and Gas Tax Credits (see section 28(b)).

With the enactment of debt financing legislation, concerns regarding statutory minimum purchases—\$206 million in FY19—could be eliminated and language similar to the deleted section would not be necessary.

Legislative Finance Division has insufficient information to comment on the merits of debt financing versus cash purchases.

(g) The sum of \$1,171,677,400 is appropriated from the general fund to the public education fund (AS 14.17.300) for state aid for public school funding for the fiscal year ending June 30, 2019.

(h) If the appropriation made in (g) of this section is insufficient to provide the full amount of state aid calculated under the school funding formula under AS 14.17.410(b), the amount necessary to fund the total amount calculated under AS 14.17.410(b) is appropriated from the general fund to the public education fund (AS 14.17.300).

Legislative Fiscal Analyst Comment: Alaska's foundation program is typically funded via UGF capitalization of the Public Education Fund. Money flows from the fund to school districts (without appropriation) according to the K-12 foundation formula.

Subsections (g) and (h) are intended to fully fund the foundation formula for FY19 K-12 education. However, the language doing so is oddly structured. If the amount needed is less than \$1.17 billion, money will remain in the Public Education Fund at the end of the year.

The UGF deposit required to fully fund the formula in FY19 is about \$12 million more than in FY18. That amount is the net result of replacing a non-repeatable \$17 million reappropriation, reducing funding by \$5 million due to both a declining student count and increasing use of the Public School Trust Fund.

The Governor's budget uses \$23,337.4 from the Public School Trust Fund for the Foundation Formula, which is \$18 million more than can be used under current statutes. Without legislation, the UGF capitalization of the fund will increase by \$18 million. See the Department of Education and Early Development narrative (Item 10) in this publication.

Legislative Fiscal Analyst Recommendation: Revert to language similar to that used in prior years:

The amount necessary to fund the total amount of state aid calculated under the public school funding formula under AS 14.17.410(b) for the fiscal year ending June 30, 2019, estimated to be \$1,171,677,400, is appropriated from the general fund to the public education fund (AS 14.17.300).

(i) The sum of \$78,184,628 is appropriated from the general fund to the public education fund (AS 14.17.300) to fund transportation of students under AS 14.09.010 for the fiscal year ending June 30, 2019.

(j) If the appropriation made in (i) of this section is insufficient to provide the full amount to fund transportation of students under AS 14.09.010, the amount necessary to fund the total amount calculated under AS 14.09.010 is appropriated from the general fund to the public education fund (AS 14.17.300).

Legislative Fiscal Analyst Recommendation: Revert to language similar to that used in prior years (see comments under subsections (g) and (h)):

The amount necessary, estimated to be \$78,184,628, to fund transportation of students under AS 14.09.010 for the fiscal year ending June 30, 2019, is appropriated from the general fund to the public education fund (AS 14.17.300).

(k) The amount necessary to pay medical insurance premiums for eligible surviving dependents of certain peace officers or firefighters who die in the line of duty and the Department of Public Safety's costs associated with administering the peace officer and firefighter survivors' fund (AS 39.60.010) for the fiscal year ending June 30, 2019, estimated to be \$48,000, is appropriated from the general fund to the peace officer and firefighter survivors' fund (AS 39.60.010) for that purpose.

Subsection (k) deposits general funds into the Peace Officer and Firefighter Survivor' Fund for FY19.

Legislative Fiscal Analyst Comment: Chapter 14, SLA 2017 (HB 23) established this fund to provide payments for certain medical insurance premiums for surviving dependents of certain peace officers and firefighters who die in the line of duty. The fiscal note attached to the legislation estimated the annual cost to pay these premiums would be \$70,100.

New Subsection

(l) The amount of statutory designated program receipts received by the Alaska Gasline Development Corporation during the fiscal years ending June 30, 2018, and June 30, 2019, is appropriated to the Alaska liquefied natural gas project fund (AS 31.25.110).

Subsection (l) allows the Alaska Gasline Development Corporation (AGDC) to collect revenue from outside investors and deposit it into the fund for use on the Alaska liquefied natural gas (AKLNG) project.

New Subsection

(m) The unexpended and unobligated balance as of June 30, 2018, of the in-state natural gas pipeline fund (AS 31.25.100), estimated to be \$12,000,000, is appropriated to the Alaska liquefied natural gas project fund (AS 31.25.110).

Subsection (m) transfers the balance of the in-state natural gas pipeline fund to the AKLNG project fund.

Legislative Fiscal Analyst Comment: AGDC assumed leadership of the AKLNG project in January 2017 for the development of the natural gas infrastructure required to move gas from the North Slope to Cook Inlet.

Administrative Order 274 directs AGDC to ensure work on the Alaska Stand Alone Pipeline Project will also benefit the AKLNG project and, therefore, determined that at the conclusion of FY18 it will no longer be necessary to have two separate funds for tracking purposes.

(n) The amount of federal receipts awarded or received for capitalization of the Alaska clean water fund (AS 46.03.032(a)) during the fiscal year ending June 30, 2019, less the amount expended for administering the loan fund and other eligible activities, estimated to be \$7,598,400, is appropriated from federal receipts to the Alaska clean water fund (AS 46.03.032(a)).

(o) The amount necessary to match federal receipts awarded or received for capitalization of the Alaska clean water fund (AS 46.03.032(a)) during the fiscal year ending June 30, 2019, estimated to be \$1,583,000, is appropriated from Alaska clean water fund revenue bond receipts to the Alaska clean water fund (AS 46.03.032(a)).

(p) The amount of federal receipts awarded or received for capitalization of the Alaska drinking water fund (AS 46.03.036(a)) during the fiscal year ending June 30, 2019, less the amount expended for administering the loan fund and other eligible activities, estimated to be \$6,086,290, is appropriated from federal receipts to the Alaska drinking water fund (AS 46.03.036(a)).

(q) The amount necessary to match federal receipts awarded or received for capitalization of the Alaska drinking water fund (AS 46.03.036(a)) during the fiscal year ending June 30, 2019, estimated to be \$1,648,200, is appropriated from Alaska drinking water fund revenue bond receipts to the Alaska drinking water fund (AS 46.03.036(a)).

Subsections (n), (o), (p) and (q) provide money to develop sewer and water systems in Alaska communities through revolving loan programs. The State typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match federal money. See sections 22(c) and (d) for further discussion.

Legislative Fiscal Analyst Comment: In FY16, the legislature replaced specific appropriation amounts with open-ended language.

(r) The amount received under AS 18.67.162 as program receipts, estimated to be \$70,000, including donations and recoveries of or reimbursement for awards made from the crime victim compensation fund (AS 18.67.162), during the fiscal year ending June 30, 2019, is appropriated to the crime victim compensation fund (AS 18.67.162).

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

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

(s) The sum of \$1,078,500 is appropriated from that portion of the dividend fund (AS 43.23.045(a)) that would have been paid to individuals who are not eligible to receive a permanent fund dividend because of a conviction or incarceration under AS 43.23.005(d) to the crime victim compensation fund (AS 18.67.162) for the purposes of the crime victim compensation fund (AS 18.67.162).

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

Legislative Fiscal Analyst Comment: Beginning in FY12, PFD Criminal Funds were concentrated in only two appropriations—the Crime Victim Compensation Fund and Inmate Health Care in the Department of Corrections. The intent was to minimize the many confusing fund source changes (swapping GF and PFD Criminal Funds) caused by year-to-year volatility in the amount of funding available. The Department of Corrections was intended to be the only agency with a variable amount of PFD Criminal Funds.

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

The legislature has discretion in choosing an amount to appropriate to the CVCF; there is no statutory direction. The amount appropriated for this purpose over the past few years has been:

- FY13: \$1,798,000
- FY14: \$1,116,400
- FY15: \$1,502,700
- FY16: \$1,510,000
- FY17: \$1,411,400
- FY18: \$1,022,500

The Governor’s request of \$1,078,500 is \$56,000 more than was deposited into the CVCF in FY18, despite a reduction of \$41.6 in available funding. The Department of Corrections budget shows a \$97.6 reduction in PFD Criminal funds.

(t) The amount required for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2019, estimated to be \$4,304,500, 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) for that purpose.

(u) After the appropriations made in sec. 13(b) of this Act and (t) of this section, the remaining balance of the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100), estimated to be \$2,067,600, 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) for early redemption of outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2019.

(v) If the amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) in (u) of this section are less than the amount required for the payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2019, federal receipts equal to the lesser of \$102,000 or the deficiency balance, estimated to be \$0, are appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) for the payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2019.

Several subsections appropriate funding to pay Sport Fish Hatcheries debt service, trustees fees and early redemption of the bonds. The following outlines the mechanics of the surcharge/debt service:

- (1) All proceeds from a surcharge levied on sport fishing licenses are deposited into the enterprise account within the Fish and Game Fund (F&G Fund). At present, temporarily holding money associated with the revenue bonds is the only purpose of the account.
- (2) **Subsection 24(t)** transfers the amount required to make the minimum required debt service payments from the enterprise account to the bond redemption account.
- (3) **Subsection 22(n)** appropriates the amount necessary (estimated to be \$6.37 million) from the Alaska Fish and Game Revenue Bond Redemption Fund to the State Bond Committee to pay the minimum debt service, trustee fees, and for early redemption of the sport fish hatchery bonds.
- (4) Once the amount required to make the minimum debt service payment is transferred, **subsection 13(b)** appropriates the balance of the enterprise account (not to exceed \$500,000) from the enterprise account to Sport Fish so it can be used for sport fish operations.

(5) **Subsection 24(u)** transfers any remaining balance in the enterprise account (including earnings) to the bond redemption account to be used for early redemption of the bonds.

(6) If proceeds from the surcharge are insufficient to make the required debt service payments, **subsection 24(v)** is intended to clarify that the department may use up to \$102,000 of current federal operating funding as reimbursement for debt service payments on sport fish revenue bonds.

Funding: Total debt service appropriations are \$6.3 million appropriated in subsection 22(n). The FY19 required debt service payment is estimated to be \$4.3 million, with an additional \$2 million for early redemption of the bonds.

(w) An amount equal to the interest earned on amounts in the election fund required by the federal Help America Vote Act, estimated to be \$35,000, is appropriated to the election fund for use in accordance with 42 U.S.C. 15404(b)(2).

Subsection (w) allows the Election Fund to retain interest earned. The purpose of the fund is to provide states with money for election administration improvements (primarily equipment and accessibility aids).

Sec. 25. FUND TRANSFERS.

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

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

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

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

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

Legislative Fiscal Analyst Recommendation: Remaining balances should not be appropriated to the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer active. The intent of AS 37.05.530(g)(3) would be most closely followed by appropriating remaining balances to the Power Cost Equalization Endowment Fund [AS 42.45.070(a)]. AS 37.05.530(g) should also be revised. As noted, no lapsing balance is anticipated.

(b) The loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2019, are appropriated to the origination fee

account (AS 14.43.120(u)) within the education loan fund (AS 14.42.210(a)) of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

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

Funding: The amount of the loan origination fee is capped by regulation at 5% and set by the corporation. The Alaska Commission on Postsecondary Education set the origination fee at 0% for FY18, and has no plans to introduce a fee in FY19. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.

Deleted Subsection: FY17 Community Quota Entity RLF Balance to AMHS

(d) The unexpended and unobligated balance on June 29, 2017, of the community quota entity revolving loan fund (AS 16.10.345), estimated to be \$9,404,219, is appropriated to the Alaska marine highway system fund (AS 19.65.060).

Legislative Fiscal Analyst Comment: The deleted appropriation brought the balance of the loan fund to zero. The loan program terminated June 30, 2017. The Department of Commerce, Community and Economic Development removes all associated funding in the FY19 budget.

Deleted Subsection: Civil Legal Services Fund

(e) An amount equal to 50 percent of punitive damages deposited into the general fund under AS 09.17.020(j) for the fiscal year ending June 30, 2017, estimated to be \$1,000, is appropriated from the general fund to the civil legal services fund (AS 37.05.590) for the purpose of making appropriations from the fund to organizations that provide civil legal services to low-income individuals.

Legislative Fiscal Analyst Comment: The amounts affected by this appropriation are small, and language to capitalize the fund is added to the budget intermittently.

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

(1) the balance of the oil and hazardous substance release prevention mitigation account (AS 46.08.020(b)) in the general fund on July 1, 2018, estimated to be \$1,200,000, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2018, estimated to be \$6,080,000, from the surcharge levied under AS 43.55.300; and

Subsection (c)(1) and (2) appropriate (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY18 collections from the four cent per barrel surcharge on oil produced in the State.

Amendments effective April 1, 2006 changed the per barrel surcharge from \$0.03 to \$0.04.

(3) the amount collected for the fiscal year ending June 30, 2018, estimated to be \$7,000,000, from the surcharge levied under AS 43.40.005.

Subsection (c)(3) appropriates revenue collected by the motor fuel surcharge to the Oil and Hazardous Substance Release Prevention Account.

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

(1) the balance of the oil and hazardous substance release response mitigation account (AS 46.08.025(b)) in the general fund on July 1, 2018, estimated to be \$700,000, not otherwise appropriated by this Act; and

(2) the amount collected for the fiscal year ending June 30, 2018, from the surcharge levied under AS 43.55.201, estimated to be \$1,520,000.

Subsection (d) appropriates (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY18 collections from the \$0.01 per barrel surcharge on oil produced in the State. Amendments effective April 1, 2006 changed the per barrel surcharge from \$0.02 to \$0.01.

Legislative Fiscal Analyst Comment: Per AS 43.55.221(d), the surcharge is suspended when the balance of the response account exceeds \$50 million. The Commissioner of the Department of Revenue reported that the surcharge was suspended effective January 1, 2013. The surcharge was re-imposed effective July 1, 2013, and remains in place today. In the report for the quarter ending September 30, 2017, the balance was \$41.6 million. The fund is not expected to exceed \$50 million in FY19.

New Subsection—SUPPLEMENTAL APPROPRIATION

(e) The sum of \$14,000,000 is appropriated from the power cost equalization endowment fund (AS 42.45.070) to the renewable energy grant fund (AS 42.45.045) for the fiscal year ending June 30, 2018.

Subsection (e) capitalizes the Renewable Energy Fund with PCE Endowment Funds effective in FY18.

Legislative Fiscal Analyst Comment: The legislature revised statutory guidelines (Chapter 43, SLA 2016 (SB 196)) for using earnings of the Power Cost Equalization (PCE) Endowment Fund in order to make excess earnings available for Community Assistance and rural energy programs. If endowment earnings in the prior closed fiscal year exceed anticipated PCE program costs, then up to \$30 million of endowment earnings may be appropriated for Community Assistance and up to \$25 million for rural energy programs. The FY17 earnings are not available for appropriation until FY19.

As drafted, the \$14 million appropriation is unrelated to PCE earnings available for FY19. Subsection (e) simply takes money from the PCE endowment in FY18, which constitutes use of a designated fund for a non-designated purpose.

Given that \$11 million of available FY17 PCE endowment earnings is appropriated for capital energy projects in FY19 and the FY18 deposit to the renewable energy fund is not actually spent until FY19, it appears that the FY18 appropriation is simply an error in timing.

Legislative Fiscal Analyst Recommendation: The effective date should be changed to July 1, 2018 and the fiscal year reference should be changed to June 30, 2019.

New Subsection—SUPPLEMENTAL APPROPRIATION

(f) The sum of \$23,918,200 is appropriated from the general fund to the Alaska marine highway system fund (AS 19.65.060) for the fiscal year ending June 30, 2018.

Legislative Fiscal Analyst Comment: During the FY18 budget process, there was an attempt to capitalize the AMHS fund with \$30 million in FY17. The supplemental deposit was reduced to about \$6.1 million because there was insufficient FY17 UGF available to fully implement the supplemental appropriation. This left the AMHS about \$10 million short of the amount required to provide the planned level of service in FY18.

Subsection (f) makes a \$23.9 million deposit to the AMHS fund in FY18 in order to leave the fund balance at the level intended by the legislature. See the Department of Transportation & Public Facilities narrative in this publication for more details.

(g) The vaccine assessment program receipts collected under AS 18.09.220, estimated to be \$10,500,000, are appropriated to the vaccine assessment account (AS 18.09.230).

Subsection (g) appropriates an estimated \$10.5 million of GF/Program Receipts (from vaccine assessments) to the Vaccine Assessment Account. Legislation passed in 2014 [Chapter 30, SLA 2014 (SB 169)] established a statewide immunization program. The purpose of the program is to monitor, purchase, and distribute vaccines to providers approved by the Department of Health and Social Services who agree to provide those vaccines to state residents.

Legislative Fiscal Analyst Comment: The FY18 estimate was reduced from \$31.2 million to \$10.5 million (a reduction of \$20.7 million). The reduction was based on actual collections totaling \$9.5 million in FY16. FY17 actual collections totaled \$10.3 million.

(h) The unexpended and unobligated balance on June 30, 2018, estimated to be \$827,630, of the Alaska clean water administrative income account (AS 46.03.034(a)(2)) in the Alaska clean water administrative fund (AS 46.03.034) is appropriated to the Alaska clean water

administrative operating account (AS 46.03.034(a)(1)) in the Alaska clean water administrative fund (AS 46.03.034).

(i) The unexpended and unobligated balance on June 30, 2018, estimated to be \$603,560, of the Alaska drinking water administrative income account (AS 46.03.038(a)(2)) in the Alaska drinking water administrative fund (AS 46.03.038) is appropriated to the Alaska drinking water administrative operating account (AS 46.03.038(a)(1)) in the Alaska drinking water administrative fund (AS 46.03.038).

The Department of Environmental Conservation (DEC) has been collecting a 0.5% fee on all loans made from the clean water and drinking water funds since December 2000. The June 30, 2014 balances of the administrative funds were \$7.3 million and \$4.2 million for the clean water and drinking water administrative funds, respectively.

Beginning in FY15, the department began requesting what is expected to be an annual appropriation from the income account to the operating account, making money available to administer the clean water and drinking water programs. Because the appropriations in **subsections (h) and (i)** simply transfer money within the clean water and drinking water administrative funds, no transactions are shown in the budget. Appropriations from the operating accounts to allocations in DEC appear in section 1.

Funding: The Governor's budget uses \$1,245.4 of Clean Water funds and \$458.4 of Drinking Water funds in FY19. At the end of FY18, the balance of the Clean Water Administrative Fee Account was \$6.0 million and the balance of the Drinking Water Administrative Fee Account was \$4.8 million.

(j) An amount equal to the interest earned on amounts in the special aviation fuel tax account (AS 43.40.010(e)) during the fiscal year ending June 30, 2019, is appropriated to the special aviation fuel tax account (AS 43.40.010(e)).

Subsection (j) authorizes the aviation fuel tax account to retain earnings. The amount of interest earned is expected to be negligible. This appropriation is in response to an FAA requirement that all airport revenue (including earnings on revenue) be spent on the airport system.

(k) The amount equal to the revenue collected from the following sources during the fiscal year ending June 30, 2019, estimated to be \$1,032,500, is appropriated to the fish and game fund (AS 16.05.100):

(1) range fees collected at shooting ranges operated by the Department of Fish and Game (AS 16.05.050(a)(15)), estimated to be \$500,000;

(2) receipts from the sale of waterfowl conservation stamp limited edition prints (AS 16.05.826(a)), estimated to be \$2,500;

(3) fees collected for sanctuary access permits (AS 16.05.050(a)(15)), estimated to be \$130,000; and

(4) fees collected at boating and angling access sites managed by the Department of Natural Resources, division of parks and outdoor recreation, under a cooperative agreement authorized under AS 16.05.050(a)(6), estimated to be \$400,000.

Subsection (k) appropriates revenue from a variety of sources to the Fish and Game Fund.

Legislative Fiscal Analyst Comment: Because the boating and angling access sites were constructed with F&G Funds, the federal government has indicated that facility user fees must be appropriated to the F&G Fund.

(l) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2018, and money deposited in that account during the fiscal year ending June 30, 2019, estimated to be \$30,000, are appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)).

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

Funding: The agency projects a transfer of approximately \$30,000. The authorization to spend will go to the Mining, Land and Water allocation [see section 18(b)].

Sec. 26. SALARY AND BENEFIT ADJUSTMENTS.

(a) The operating budget appropriations made in sec. 1 of this Act include amounts for salary and benefit adjustments for public officials, officers, and employees of the executive branch, Alaska Court System employees, employees of the legislature, and legislators and to implement the monetary terms for the fiscal year ending June 30, 2019, of the following ongoing collective bargaining agreements:

- (1) Alaska State Employees Association, for the general government unit;**
- (2) Alaska Vocational Technical Center Teachers' Association, National Education Association, representing the employees of the Alaska Vocational Technical Center;**
- (3) Confidential Employees Association, representing the confidential unit;**
- (4) Public Safety Employees Association, representing the regularly commissioned public safety officers unit.**

(b) The operating budget appropriations made to the University of Alaska in sec. 1 of this Act include amounts for salary and benefit adjustments for the fiscal year ending June 30, 2019, for university employees who are not members of a collective bargaining unit and to implement the monetary terms for the fiscal year ending June 30, 2019, of the following collective bargaining agreements:

- (1) University of Alaska Federation of Teachers (UAFT);**

- (2) Alaska Higher Education Crafts and Trades Employees, Local 6070;
- (3) Fairbanks Firefighters Union, IAFF Local 1324;
- (4) United Academic - Adjuncts - American Association of University Professors, American Federation of Teachers;
- (5) United Academics - American Association of University Professors, American Federation of Teachers.

Subsections (a) and (b) appropriate no money; they specify that various salary adjustments are funded with money appropriated in section 1. The list changes from year to year, depending on which employees are affected by salary and benefit adjustments.

Legislative Fiscal Analyst Comment: Legislative adoption of subsections (a) and (b) is equivalent to legislative approval of bargaining agreements with the listed organizations.

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

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

Subsections (c) and (d) appropriate no funding; they ensure that funding is removed from the budget if collective bargaining unit agreements listed in subsections (a) and (b) are not ratified.

Sec. 27. SHARED TAXES AND FEES.

(a) The amount necessary to refund to local governments and other entities their share of taxes and fees collected in the listed fiscal years under the following programs is appropriated from the general fund to the Department of Revenue for payment to local governments and other entities in the fiscal year ending June 30, 2019:

REVENUE SOURCE	FISCAL YEAR COLLECTED	ESTIMATED AMOUNT
Fisheries business tax (AS 43.75)	2018	\$25,900,000
Fishery resource landing tax (AS 43.77)	2018	6,300,000

Electric and telephone cooperative tax (AS 10.25.570)	2019	4,200,000
Liquor license fee (AS 04.11)	2019	900,000
Cost recovery fisheries (AS 16.10.455)	2019	100,000

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

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

(b) The amount necessary, estimated to be \$100,000, to refund to local governments their share of an aviation fuel tax or surcharge under AS 43.40 for the fiscal year ending June 30, 2019, is appropriated from the proceeds of the aviation fuel tax or surcharge levied under AS 43.40 to the Department of Revenue for that purpose.

Subsection (b) ensures that the Department of Revenue has the authorization to disburse the local government share of aviation fuel taxes.

Legislative Fiscal Analyst Comment: Note that the subsection specifically identifies proceeds of the aviation tax as the source of the payments.

The 40% share of aviation tax proceeds retained by the State is dedicated to airport operating and capital expenses. Fund Code 1239 – Aviation Fuel Tax was created in the 2016 session to track budgeted Aviation Fuel Tax revenue.

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

(c) The amount necessary to pay the first seven ports of call their share of the tax collected under AS 43.52.220 in calendar year 2017 according to AS 43.52.230(b), estimated to be \$17,000,000, is appropriated from the commercial vessel passenger tax account (AS 43.52.230(a)) to the Department of Revenue for payment to the ports of call for the fiscal year ending June 30, 2019.

Subsection (c) appropriates \$17 million of Commercial Vessel Passenger “Head” Tax receipts to the first seven ports of call.

Funding: These “pass-through” taxes are excluded from Legislative Finance Division reports on the operating bill.

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

The current allocation of the head tax to ports of call directs almost \$25 per passenger to Juneau and Ketchikan, which impose local head taxes that are deducted from the \$34.50 state tax. That leaves about \$10 per passenger to be allocated to five ports of call other

than Juneau and Ketchikan. Essentially, the amount allocated to ports of call exceeds revenue for every ship with four or more ports of call (including Juneau and Ketchikan).

The FY18 end-of-year balance of the Commercial Vessel Passenger Account is estimated to be \$1.9 million. The Department of Revenue's 2017 Fall Revenue Forecast estimates FY19 revenue as \$19.5 million and the pass-through amount as \$17 million. The FY19 Governor's capital budget request includes a grant for \$600.0 to the Marine Exchange of Alaska; leaving a balance of \$4 million available for appropriation. Past projections of revenue and distribution to communities have been unreliable.

(d) If the amount available for appropriation from the commercial vessel passenger tax account (AS 43.52.230(a)) is less than the amount necessary to pay the first seven ports of call their share of the tax collected under AS 43.52.220 in calendar year 2017 according to AS 43.52.230(b), then the appropriations made in (c) of this section shall be reduced in proportion to the amount of the shortfall.

Subsection (d) is intended to prorate pass-through funding to the first seven ports of call if revenue is less than the calculated amount of pass-through.

Legislative Fiscal Analyst Comment: While the need to prorate is unlikely, the section does no harm.

New Section

Sec. 28. MISCELLANEOUS APPROPRIATIONS.

(a) The sum of \$2,020,572 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Transportation and Public Facilities for the fiscal year ending June 30, 2019, for payment of debt service on outstanding debt authorized by AS 29.60.700 for the following projects:

PROJECT	APPROPRIATION AMOUNT
(1) Matanuska-Susitna Borough (deep water port and road upgrade)	\$709,113
(2) Aleutians East Borough/False Pass (small boat harbor)	162,179
(3) City of Valdez (harbor renovations)	207,150
(4) Aleutians East Borough/Akutan (small boat harbor)	234,348
(5) Fairbanks North Star Borough (Eielson AFB Schools, major maintenance and upgrades)	338,287

**(6) City of Unalaska (Little South America
(LSA) Harbor) 369,495**

Subsection (a) includes items that are normally included in section 22 (debt and other obligations) and paid with UGF.

(b) The amount necessary to pay interest on a financing mechanism that is established for the purpose of retiring oil and gas tax credit certificates, estimated to be \$27,000,000, is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

Subsection (b) replaces an appropriation that normally appears in section 24 (fund capitalization) and is paid with UGF.

Legislative Fiscal Analyst Comment: The Governor proposed a method of debt financing for Oil and Gas Tax Credits that would replace statutory minimum purchases of tax credits—\$206 million in FY19.

Legislative Finance Division has insufficient information to comment on the merits of debt financing versus cash purchases.

(c) The amount necessary for state aid for costs of school construction under AS 14.11.100, after the appropriation made in sec. 22(m) of this Act, estimated to be \$85,857,300, is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Education and Early Development for the fiscal year ending June 30, 2019.

Subsection (c) appropriates money from the CBR 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).

Subsection (c) replaces an appropriation that normally appears in section 22 (debt and other obligations) and is paid with UGF.

(d) The sum of \$39,661,000 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the regional educational attendance area and small municipal school district school fund (AS 14.11.030(a)).

Subsection (d) appropriates CBR \$39.6 million to the Regional Educational Attendance Area and Small Municipal School District (REAA) School Fund, which was created to assist in funding school construction projects in regional education attendance areas. Per the consent decree and settlement agreement of *Kasayulie vs. State of Alaska*, the creation of the fund and adoption of the funding mechanism set forth in AS 14.11.025 provides a remedy for perceived constitutional violations.

Legislative Fiscal Analyst Comment: Although created in Chapter 93, SLA 2010, this fund did not become effective until July 1, 2012 (FY13). The enabling language is similar to that of the School Construction Fund (AS 14.11.005) and the Major Maintenance Grant Fund (AS 14.11.007), with the exception that statutory guidelines establish annual appropriations to the REAA Fund. In addition, the School Construction Fund and the Major Maintenance Grant Fund have matching requirements and the REAA Fund does not.

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

The consent decree for the *Kasayulie vs. State* case required the Governor to include funding for two REAA schools in his FY13 capital budget. Both the Emmonak school (\$36.1 million) and the Koliganek school (\$24.9 million) were included. Both appropriations eventually used general funds and showed as allocations under the school construction grant fund. FY13 appropriations for rural school construction exceeded the \$35.5 million that met the guidelines of AS 14.11.025.

The REAA School Fund was used directly to pay for FY14 school construction in Nightmute (\$33 million) and Kuinerramiut (\$13.2 million). In addition, \$25 million was appropriated from the REAA Fund for the Kwethluk School.

Kwethluk received an additional \$31.5 million in FY15. The FY15 budget also included \$9 million from the REAA fund for a school in St. Mary's School District (plus an additional \$2.8 million UGF).

In FY16, \$38.8 million was deposited into the REAA School Fund and there were no appropriations from the fund, leaving a fund balance of \$38.7 million.

In FY17, \$31.2 million was deposited into the fund (after a veto of \$10.4 million by the Governor), and \$7.1 million was appropriated to the Bethel Regional High School Central Kitchen and Multipurpose Addition, leaving a fund balance of \$62.8 million.

In FY18, \$40.6 million was deposited into the fund. Per a February 2016 Attorney General opinion, DEED can spend money in the fund without appropriation. The Legislative Finance Division no longer reports expenditures for rural school construction.

(e) The sum of \$135,219,000 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system as an additional state contribution under AS 39.35.280 for the fiscal year ending June 30, 2019.

(f) The sum of \$128,174,000 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution under AS 14.25.085 for the fiscal year ending June 30, 2019.

(g) The amounts appropriated in (e) and (f) of this section are reduced proportionately by the amount of savings associated with the implementation of the Medicare part D employer group waiver plan, estimated to be \$25,500,000.

Subsections (e), (f) and (g) include items that are normally included in a section specific to retirement contributions.

Legislative Fiscal Analyst Comment: The amounts appropriated in subsections (e), (f) and (g) are less than the amounts of state assistance required to meet FY19 recommended contributions (see June 2016 actuarial valuations) for PERS and TRS.

During recent years, Alaska's public retirement systems accrued a multi-billion dollar unfunded liability due to a combination of investment losses, escalating health care costs, modification of actuarial assumptions and capped contribution rates. Beginning in FY06, the State began making direct contributions to retirement systems in order to stabilize employer contribution rates while reducing unfunded liability.

State assistance costs were over \$700 million in FY14 and were projected to exceed \$1 billion by FY17. A \$3 billion cash infusion—along with legislative changes—in FY15 reduced the need for state assistance to about \$216 million in FY17.

In FY17, the legislature appropriated \$89.8 million from the Alaska Higher Education Investment Fund to the PERS and TRS State Retirement Payments. It was anticipated that the State's required contribution would decline from FY17 to FY18 by \$89.8 million and the use of endowment funds would not be necessary in future years.

The State's required contribution did not decline as much as anticipated. The Governor followed the legislature's lead with his FY18 request to pay retirement costs with an appropriation of \$58.3 million from the Alaska Higher Education Investment Fund for retirement costs.

There are established rules for responding to events such as great investment returns and a potential reduction in health care costs. It appears that the Governor's budget accelerated the expected benefits of favorable news; requested contributions were reduced by \$25 million for medical cost savings not yet achieved and by an unknown amount for other events. The legislature may wish to explore this issue early in the session.

Deleted Subsection: Legislative Intent regarding retirement funding

It is the intent of the legislature that the fiscal year 2019 budget for state retirement assistance not contain funding from the Alaska higher education investment fund (AS 37.14.750).

Legislative Fiscal Analyst Comment: The appropriations in subsections (e), (f) and (g) comply with this intent.

(h) The sum of \$4,909,000 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Administration for deposit in the defined benefit plan account in the judicial retirement system for the purpose of funding the judicial retirement system under AS 22.25.046 for the fiscal year ending June 30, 2019.

Subsection (h) is the amount determined by the State's actuaries to meet required contribution levels for the judicial retirement system. A similar appropriation is normally included in a section specific to retirement contributions.

(i) The sum of \$851,686 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Military and Veterans' Affairs for deposit in the defined benefit plan account in the Alaska National Guard and Alaska Naval Militia retirement system for the purpose of funding the Alaska National Guard and Alaska Naval Militia retirement system under AS 26.05.226 for the fiscal year ending June 30, 2019.

The appropriation in **subsection (i)** is the amount determined by the State's actuaries to meet required normal contribution levels of the Alaska National Guard and Alaska Naval Militia Retirement System. A similar appropriation is normally included in a section specific to retirement contributions.

Legislative Fiscal Analyst Comment: The system is unique in that contributions are based on the anticipated cost of annual benefits rather than on a rate applied to current payroll. The normal cost increased by \$16,200 in FY19.

Deleted Subsection: Past Service Retirement Costs

The sum of \$71,736 is appropriated from the general fund to the Department of Military and Veterans' Affairs for deposit in the defined benefit plan account in the Alaska National Guard and Alaska Naval Militia retirement system as an additional state contribution for the purpose of funding past service liability for the Alaska National Guard and Alaska Naval Militia retirement system under AS 26.05.226 for the fiscal year ending June 30, 2018.

Legislative Fiscal Analyst Comment: The retirement system had a funding ratio of 115% as of June 2016, so payment of past service costs is no longer required.

(j) The sum of \$1,806,400 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Administration to pay benefit payments to eligible members and survivors of eligible members earned under the elected public officer's retirement system for the fiscal year ending June 30, 2019.

Subsection (j) is the amount determined by the State's actuaries to pay benefits earned under the Elected Public Officer's Retirement System (EPORS). A similar appropriation is normally included in a section specific to retirement contributions.

(k) The amount necessary to pay benefit payments to eligible members and survivors of eligible members earned under the Unlicensed Vessel Personnel Annuity Retirement Plan, estimated to be \$0, is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Administration for that purpose for the fiscal year ending June 30, 2019.

Subsection (k) is the amount determined by the State's actuaries to pay benefits earned under the Unlicensed Vessel Personnel Annuity Retirement Plan (UVPARP). A similar appropriation is normally included in a section specific to retirement contributions.

Legislative Fiscal Analyst Comment: During the 2016 legislative session, retirement funding for UVPARP was moved from section 1 under the Department of Administration's budget to a language section under State Retirement Payments. In FY17, the actual cost was \$30,000.

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

Legislative Fiscal Analyst Comment: Subsection (l) indicates that appropriations made in section 28 require a supermajority vote. If the required supermajority vote fails, the appropriations are invalid.

The Governor indicated that placing items in section 28 is part of a plan to address the threat of government shutdown due to delay in passing the budget. A simple majority vote on the operating budget will fund core government services.

The Governor identified the items in section 28 as minimally disruptive in the event of a supermajority vote failure relatively early in the budget process.

Sec. 29. RATIFICATION OF SMALL AMOUNTS IN STATE ACCOUNTING SYSTEM. The appropriation to each department under this Act for the fiscal year ending June 30, 2019, is reduced to reverse negative account balances in amounts of \$1,000 or less for the department in the state accounting system for each prior fiscal year in which a negative account balance of \$1,000 or less exists.

Section 29 allows departments to use money appropriated for FY19 to clean up small negative account balances (or ratifications) from prior fiscal years. This section removes the need for minuscule ratifications.

Sec. 30. CONSTITUTIONAL BUDGET RESERVE FUND.

(a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2017 that are made from subfunds and accounts other than the operating general fund (state accounting system fund number 1004) 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 those funds were transferred.

Subsection (a) is “sweep reversal language” that restores money from funds and accounts that are swept into the constitutional budget reserve (CBR) fund at year-end. The Constitution requires that several year-end general fund and subaccount balances be used to repay withdrawals from the constitutional budget reserve (CBR) fund.

Legislative Fiscal Analyst Recommendation: The date should be changed to “fiscal year 2018.” The language is intended to apply to money swept into the CBR at the end of fiscal year 2018 and replaced on the first day of FY19.

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

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

Deleted Subsections: CBR

(b) If the unrestricted state revenue available for appropriation in fiscal year 2018 is insufficient to cover the general fund appropriations that take effect in fiscal year 2018 that are made in this Act, as passed by the Thirtieth Alaska State Legislature in the Second Special Session and enacted into law, the general fund appropriations that take effect in fiscal year 2018 that are made in CCS HB 59, as passed by the Thirtieth Alaska State Legislature in the First Special Session and enacted into law, and the general fund appropriations that take effect in fiscal year 2018 that are made in a version of Senate Bill 23 or a similar bill, as passed by the Thirtieth Alaska State Legislature and enacted into law, the amount necessary to balance revenue and the general fund appropriations made in this Act, as passed by the Thirtieth Alaska State Legislature in the Second Special Session and enacted into law, the general fund appropriations that take effect in fiscal year 2018 that are made in CCS HB 59, as passed by the Thirtieth Alaska State Legislature in the First Special Session and enacted into law, and the general fund appropriations that take effect in fiscal year 2018 that are made in a version of Senate Bill 23 or a similar bill, as passed by the Thirtieth Alaska State Legislature and enacted into law, is appropriated to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

(c) If, after the appropriation made in (b) of this section, the unrestricted state revenue available for appropriation in fiscal year 2018 is insufficient to cover the general fund appropriations that take effect in fiscal year 2018, the amount necessary to balance revenue

and general fund appropriations, not to exceed \$200,000,000, is appropriated to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

(d) The unrestricted interest earned on investment of general fund balances for the fiscal years ending June 30, 2017, and June 30, 2018, is appropriated to the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska). The appropriation made in 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 years ending June 30, 2017, and June 30, 2018, in anticipation of receiving unrestricted general fund revenue.

Legislative Fiscal Analyst Comment: The deleted language provides headroom to draw up to \$200 million for supplemental appropriations. Without similar language in the FY19 budget, a revenue shortfall or the need for supplemental funding could trigger a second supermajority vote to cover FY19 expenditures.

Subsection (d) provides the ability to borrow money from the CBR to meet short-term cash flow needs. Omitting the language could cause the State to issue revenue anticipation notes.

Deleted Section: FY17 Fiscal Note for Alaska Reinsurance Program

Sec. 46. Section 2, ch. 3, 4SSLA 2016, page 47, lines 23 - 27, is repealed.

Legislative Fiscal Analyst Comment: The deleted language repealed an appropriation made in FY17. The language is no longer applicable.

New Section

Sec. 31. STATUTORY BUDGET RESERVE FUND.

If the unrestricted state revenue available for appropriation in the fiscal year ending June 30, 2019, is insufficient to cover general fund appropriations that take effect in fiscal year 2019, the amount necessary to balance revenue and general fund appropriations is appropriated from the budget reserve fund (AS 37.05.540(a)) to the general fund.

Subsection (a) makes an open-ended appropriation from the Statutory Budget Reserve (SBR) to fill a potential FY19 deficit.

Legislative Fiscal Analyst Comment: The amount of the appropriation is limited to the balance of the SBR, which is approximately \$172 million.

The balance could be insufficient to fill the FY19 deficit if revenue is less than expected.

The fiscal summary in this publication shows that the Governor's budget is about \$75 million short of filling the projected FY19 deficit after using the full balance of the SBR.

Sec. 32. LAPSE OF APPROPRIATIONS.

The appropriations made in secs. 6(c), 7, 8(b), 9(d), and 24 - 26 of this Act are for the capitalization of funds and do not lapse.

Section 32 ensures that money deposited into various funds will not lapse at the end of FY19.

Deleted Subsections: Lapse of Appropriations from last year

Deleted 47(a), (c) and (d)

Legislative Fiscal Analyst Recommendation: Restore language associated with capital appropriations and grants, if applicable.

Sec. 33. RETROACTIVITY.

The appropriations made in sec. 1 of this Act that appropriate either the unexpended and unobligated balance of specific fiscal year 2018 program receipts or the unexpended and unobligated balance on June 30, 2018, of a specified account are retroactive to June 30, 2018, solely for the purpose of carrying forward a prior fiscal year balance.

Section 33 is standard language to ensure that revenue attached to appropriations or allocations with carryforward language does not lapse at the end of FY18.

Sec. 34. CONTINGENT EFFECT.

(a) The appropriations made in sec. 28(a) - (k) and sec. 30(a) of this Act are contingent upon an affirmative vote of three-fourths of the members of each house of the Thirtieth Alaska State Legislature during the Second Regular Session.

Legislative Fiscal Analyst Comment: The language is not necessary; sections making appropriations from the CBR include language noting the requirement for a supermajority vote.

(b) The appropriations made in sec. 1 of this Act for the Department of Health and Social Services, public assistance, senior benefits payment program is contingent on passage by the Thirtieth Alaska State Legislature and enactment into law of a version of House Bill 236 or a similar bill extending the senior benefits payment program.

Legislative Fiscal Analyst Comment: The Senior Benefits Payment Program sunsets at the end of FY18 unless legislation extends its life. HB 236 (which currently resides in the House Health and Social Services Committee) would extend the program to FY22.

Legislative Fiscal Analyst Recommendation: The appropriation for Senior Benefits should be removed from section 1, and subsection (b) should be eliminated. Fiscal notes are the preferred method of addressing appropriations that are contingent on passage of a bill.

Sec. 35. Sections 9(g), 11, 12, 14(c) - (f), 16, 17(b), 17(c), 19, 24(f) and (m), and 25(e) and (f) of this Act take effect June 30, 2018.

Sec. 36. Sections 33, 34, and 24(l) of this Act take effect immediately under AS 01.10.070(c).

Sec. 37. Except as provided in secs. 35 and 36 of this Act, this Act takes effect July 1, 2018.

Capital Budget

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Capital Budget

The Governor's December 15th budget release includes a traditional capital budget (totaling \$1.3 billion) along with a separate capital bill (totaling \$386 million) that is contingent on passage of a payroll, income or other broad-based tax. The Governor's capital requests are summarized in the table below.

(thousands)	FY18 Supp	FY19	Traditional Budget Total	Contingent Bill	Total Proposed Capital
Administration	-	4,950.0	4,950.0	-	4,950.0
Community & Economic Dev	8,125.0	44,403.3	52,528.3	57,000.0	109,528.3
Corrections	-	1,600.0	1,600.0	-	1,600.0
Education & Early Dev	-	-	-	70,000.0	70,000.0
Environmental Conservation	-	82,318.7	82,318.7	1,000.0	83,318.7
Fish and Game	-	18,500.0	18,500.0	-	18,500.0
Governor	-	87,601.7	87,601.7	41,000.0	128,601.7
Health & Social Services	-	2,789.4	2,789.4	3,000.0	5,789.4
Military & Veterans Affairs	-	8,600.0	8,600.0	-	8,600.0
Natural Resources	-	30,950.0	30,950.0	-	30,950.0
Public Safety	-	1,083.9	1,083.9	-	1,083.9
Revenue	-	30,200.0	30,200.0	34,000.0	64,200.0
Transportation & Public Fac	6,000.0	972,218.7	978,218.7	87,000.0	1,065,218.7
University of Alaska	-	-	-	86,000.0	86,000.0
Judiciary	-	-	-	3,000.0	3,000.0
Legislature	-	-	-	4,000.0	4,000.0
Total	14,125.0	1,285,215.6	1,299,340.6	386,000.0	1,685,340.6
Unrestricted General (UGF)	6,000.0	150,063.8	156,063.8	280,000.0	436,063.8
Designated General (DGF)	-	24,696.1	24,696.1	8,000.0	32,696.1
Other State Funds (Other)	8,125.0	100,028.7	108,153.7	-	108,153.7
Federal Receipts (Fed)	-	1,010,427.0	1,010,427.0	98,000.0	1,108,427.0

Historically speaking, the general funds proposed in the traditional capital budget (i.e., the "FY19 Capital Budget") fall in line with recent years (from FY16 forward). The additional "contingent" capital bill would take infrastructure investment in the state to a level more than twice the amount spent in each of the past three years (see Graph 1 on the next page).

As illustrated in the graph, the years FY06-FY15 saw unprecedented capital investment. During that ten-year span, over \$25 billion of state and federal funding was appropriated for capital projects - including nearly \$10 billion of unrestricted general funds.

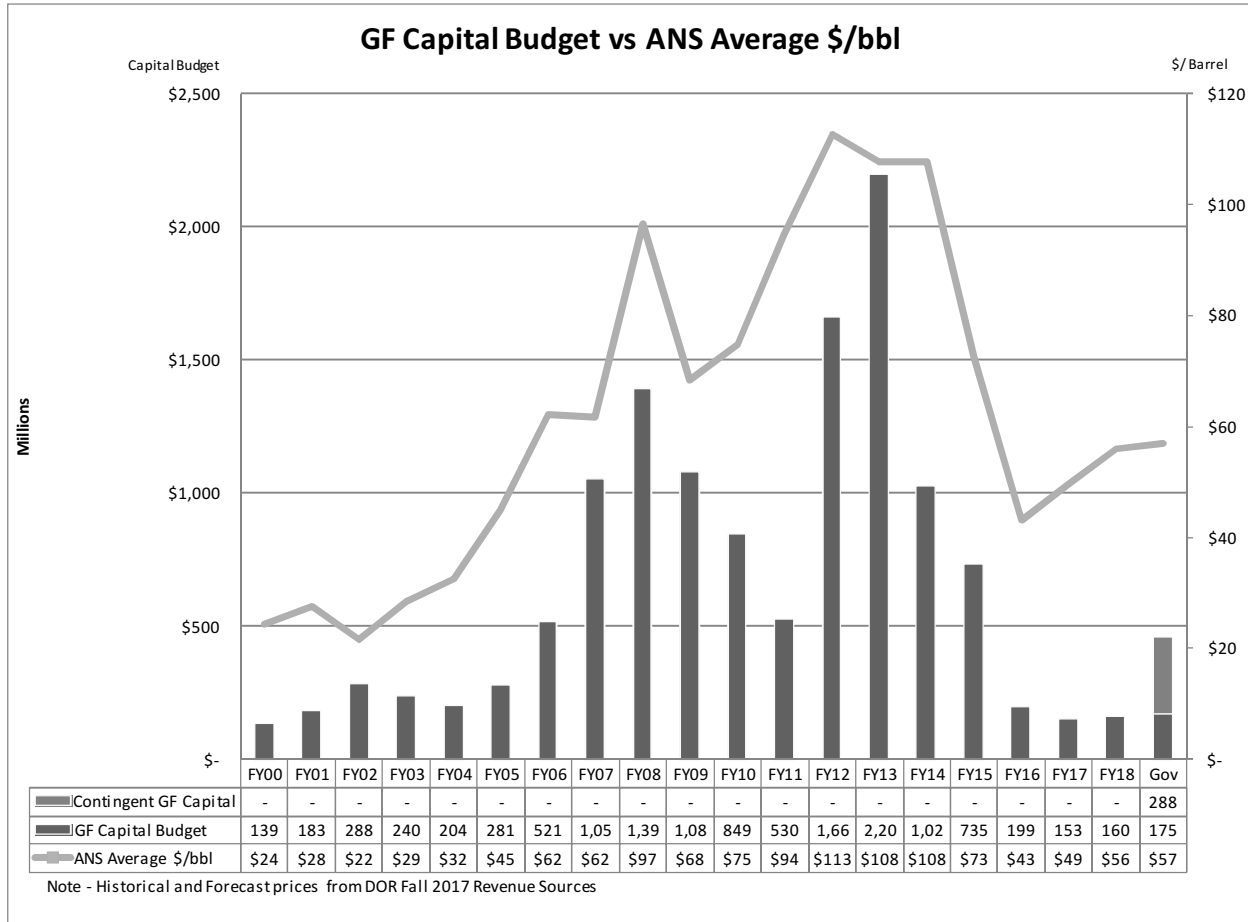
FY19 Traditional Capital Budget

The FY19 Capital budget request is, as usual, comprised of various programs and projects that leverage federal funding. The largest among them include:

- Department of Transportation and Public Facilities (DOT&PF) **Surface Transportation Program** - \$600 million Federal-Aid Highway Funds matched with \$58 million of state funds (~9% match rate);
- DOT&PF **Airport Improvement Program** - \$140 million Federal Aviation Improvement Program funds matched with \$10.8 million of state funds (6.25% match rate); and

- Department of Environmental Conservation (DEC) **Village Safe Water/ Wastewater Infrastructure Program** - \$52 million of federal receipts matched with \$12 million state funds.

Graph 1



In addition, the governor has included projects for energy, information technology, housing programs, natural resource development/conservation, and a minimal amount for deferred maintenance. A few project highlights are itemized below:

Energy

- **Alaska Energy Authority (AEA) Round IX Renewable Energy Project Grants – \$11 million Renewable Energy Funds (DGF).** The Legislature has not capitalized the Renewable Energy Fund since 2015. The Governor proposes appropriating \$14 million from the Power Cost Equalization (PCE) Endowment Fund to the Renewable Energy Fund in FY18 (see the discussion in section 25(e) of the Operating Language section in this publication).
- **AEA Rural Power System Upgrades - \$21.9 million (\$11 million PCE Endowment Earnings; \$10.9 million Federal Receipts).** The Denali Commission will provide federal

funding requiring between 20-50% match (depending on the distress level of the community).

Transportation

- **DOT&PF Alaska Marine Highway System (AMHS) Vessel Overhaul - \$13.5 million UGF.** This request is higher than the typical \$11-12 million annual appropriation AMHS receives for vessel maintenance and overhaul.

Legislative Fiscal Analyst Comment: The Governor's request also includes a \$6 million FY18 supplemental request for an AMHS vessel overhaul, annual certification and shoreside facilities rehabilitation.

Information Technology

- **Statewide Information Technology (IT) Projects - \$87.6 million (including \$14 million UGF).** The Governor proposed a package of IT projects "to improve the State's retirement, financial, and health programs." A single appropriation with eight project allocations is proposed - including a negative \$1.6 million UGF "Project Savings" allocation.

Legislative Fiscal Analyst Comment: Negative capital allocations are unusual, if not unprecedented. The intent of the negative allocation is to indicate potential savings—which will be absorbed by unspecified projects in this appropriation.

Although operating appropriations occasionally include negative amounts and unallocated reductions, the operating budget process allows the legislature to see where the reductions occur(ed). This is not the case with the capital budget.

Legislative Fiscal Analyst Recommendation: Eliminate the negative project and reallocate the \$1.6 million UGF "Project Savings" to the other projects in the "Statewide Information Technology Projects" appropriation. This eliminates the negative capital project with no downside, because money can be moved administratively between allocations as needed.

Natural Resource Development

- **National Mineral Security Program – 3DEEP: \$16 million (\$1 million G/F Match, \$15 million Federal Receipts).** This ten-year project will continue geologic mapping of the State and create new data for development of critical minerals and rare earth elements (REE) in regard to national security.

Further capital project details can be found on the Legislative Finance Division website. Project highlights are included with each agency narrative in this publication.

Proposed Contingent Capital Bill

As mentioned, the Governor proposed a capital bill totaling \$386 million (\$288 million general funds) contingent on passage of a payroll, income or other broad-based tax. His specific tax proposal is for a 1.5% payroll tax that would generate \$160 million in year one (1/2 year collections due to effective date) and \$320 million each year after. The tax would sunset after three years (generating a total of \$800 million) at which time the legislature could choose whether or not to extend the tax.

All revenue from the tax would be collected in the “Alaska Economic Recovery Tax Account” within the general fund. The balance of the fund may be appropriated for “*capital projects and grants, including construction, repair, and deferred maintenance of local government and state public facilities, municipal impact grants, community grants, housing programs and grants, and energy efficiency programs.*”

Project highlights include:

- **Port of Anchorage Reconstruction - \$40 million UGF.** The Municipality of Anchorage is expected to provide the additional \$67 million estimated to be needed for Phase I reconstruction.
- **School Major Maintenance Grant Fund - \$70 million UGF.** The state’s share of the current school major maintenance fund CIP priority list totals \$143 million for 84 project listings. This appropriation is expected to fund the top 41 projects on the list.
- **Statewide Agency Deferred Maintenance, Renovation, Repair, and Equipment - \$40 million UGF.** Last session the legislature appropriated \$20 million to the Office of the Governor in a similar manner with intent that the Governor use the funding to address the state’s highest priority deferred maintenance needs.
- **University of Alaska Deferred Maintenance, Renovation, Repair, and Equipment - \$70 million UGF.** University infrastructure accounts for over \$1 billion of the \$1.6 billion total deferred maintenance backlog.

Statewide Deferred Maintenance Backlog

Deferred maintenance is generally defined as maintenance that has been deferred to a later time, usually as a consequence of insufficient funding. The most recent estimates by the Office of Management and Budget (OMB) continue to show a statewide deferred maintenance backlog totaling over \$1.6 billion (see following table).

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Deferred Maintenance by Agency (millions)						
	2014	2015	2016	2017	2018	Difference 2017-2018
Administration	59.3	45.7	67.8	60.2	56.7	(3.5)
Corrections	74.6	65.9	59.4	45.7	38.5	(7.2)
Court System	6.8	6.9	8.7	7.7	5.3	(2.4)
Education & Early Development	16.7	15.0	16.5	20.7	21.2	0.5
Environmental Conservation	0.2	0.3	0.0	0.0	0.0	0.0
Fish and Game	1.4	1.4	1.4	1.0	2.2	1.2
Health & Social Services	25.2	18.2	24.2	29.1	27.8	(1.3)
Labor & Workforce Development	21.3	15.0	11.9	12.9	15.7	2.8
Military & Veterans Affairs	46.5	48.2	27.2	0.0	60.0	60.0
Natural Resources	75.5	73.2	70.2	73.2	71.0	(2.2)
Public Safety	6.2	6.6	5.3	2.0	1.7	(0.3)
Transportation & Public Facilities	515.2	459.0	435.0	346.5	302.5	(44.0)
Airports	50.2	51.6	77.6	69.4	71.0	1.6
Harbors	15.9	9.5	14.5	15.2	12.9	(2.3)
Facilities	32.8	24.4	27.3	21.1	18.9	(2.2)
Highways	403.9	360.0	302.0	237.8	196.6	(41.2)
AMHS Vessels/Terminals	12.4	13.5	13.6	3.0	3.1	0.1
University of Alaska	1,203.0	1,091.2	1,080.6	1,008.8	1,061.3	52.5
Total	2,051.9	1,846.6	1,808.2	1,607.8	1,663.9	56.1

The Parnell administration implemented a plan to appropriate \$100 million in each of five years in order to reduce the deferred maintenance backlog. The legislature approved nearly all of the funding and the backlog had been declining. However, since FY16, appropriations for deferred maintenance have significantly declined and, for the first time in five years, the backlog appears to have increased.

While the source of funding in the Governor's proposed (contingent) deferred maintenance bill will undoubtedly be debated, steady and significant deferred maintenance funding is hard to argue against. Several points are worth mentioning in this regard.

1. With a focus on deferred maintenance and a consistent funding stream, agencies had become better at identifying and estimating the cost of projects.
2. As projects are addressed and removed from the backlog, new projects are identified and added.
3. With sustained funding, the backlog was decreasing.
4. Even assuming zero growth in new projects, the existing backlog will cost more to address over time as inflationary pressures increase the cost of construction. Furthermore, the longer projects are delayed, the further they fall into disrepair and the more they cost to complete.

Legislative Fiscal Analyst Comment: Fully eliminating the backlog is not feasible nor necessarily desirable. However, continuing to address the backlog will save money in the long-run. Deferred maintenance should continue to be discussed by the legislature.

The numbers in the deferred maintenance backlog table should be considered approximations. Until the State adopts a definition for deferred maintenance, estimates of the deferred maintenance backlog will remain rough. The Federal Accounting Standards Advisory Board (FASAB) provides a model definition for "maintenance" that could be utilized.

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

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

Surface Transportation Program (STP) and Airport Improvement Program (AIP) – Single Appropriations without Allocations

DOT&PF had been proposing to do away with allocations in the appropriations for the Federal STP and AIP programs for several years in order to gain administrative efficiencies and provide a more accurate representation of DOT&PF’s capital budget. That action took place for the first time in the FY18 capital budget and a similar budget structure is proposed for FY19.

To be eligible to receive funding in either the STP or AIP program, a project must appear on a federally approved capital improvement plan. For highways, this means the Statewide Transportation Improvement Program (STIP). For rural airports, it means the Airport Improvement Program (AIP). These plans follow federal requirements for project ranking and public involvement and, historically, determined the allocations that made up the appropriations.

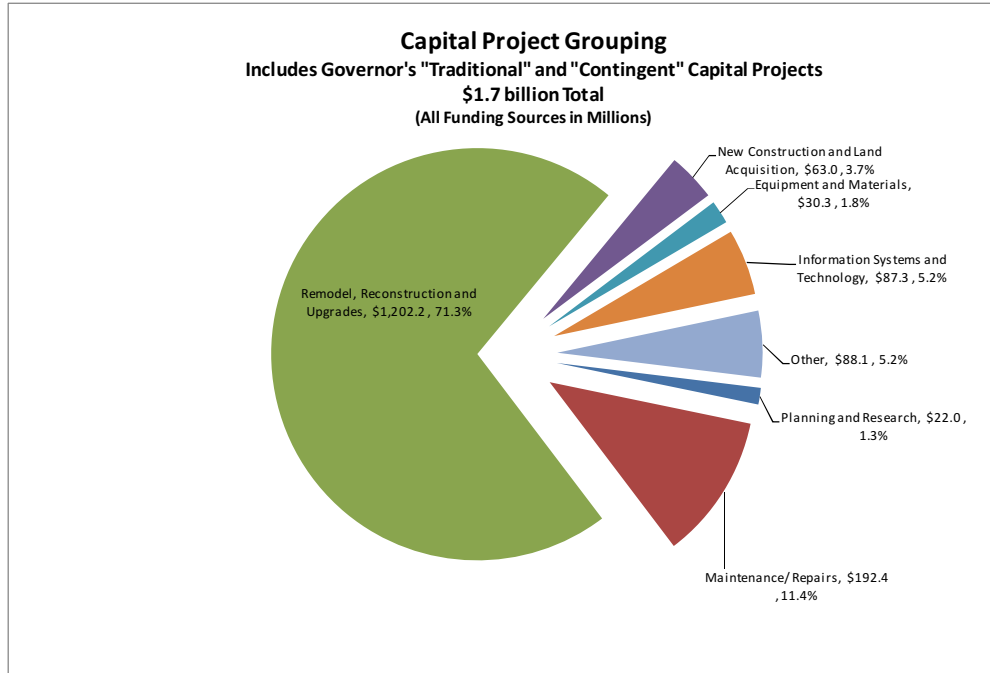
Prior to the elimination of program allocations, DOT&PF carried surplus authorization in these programs to account for an average 30% increase in project costs and to ensure that there was room to redirect \$100 million of excess federal obligations from completed projects. One of the department’s objectives is to minimize the risk of losing federal funds to another state due to the inability to redirect federal money to other eligible projects.

The ability to redirect approved legislative authority to projects that have insufficient authority provides DOT&PF with the flexibility necessary to manage the capital improvement program. Previously, in order to obtain that flexibility, DOT&PF would reserve (by over budgeting) and retain excess federal legislative authority that otherwise could lapse. As a result of this practice, there was over \$2.1 billion of unobligated, unencumbered federal authority on DOT&PF’s books (some more than ten years old).

Legislative Fiscal Analyst Comment: The FY18 capital budget also included language consolidating the majority of old STP and AIP projects still on the books. This new language will allow DOT&PF to clean-up and lapse old federal expenditure authority for more efficient federal funds management.

Project Groupings and Categorization

The pie chart below groups capital projects. The groupings are a mutually exclusive set. This allows the Legislative Finance Division to prepare a Project Group Summary report that reflects the entire capital budget without duplication. As with any task of grouping, subjectivity exists.



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

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

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

In addition to project groupings, a more detailed breakdown of projects into categories or types is done by OMB and Legislative Finance in order to provide further insight into the project appropriations. Below is breakdown of the proposed budgets by project category. Again, subjectivity may exist.

	FY18 Supp	FY19	Traditional Budget Total	Contingent Bill	Total Proposed Capital
Construction	-	911,036.1	911,036.1	132,000.0	1,043,036.1
Deferred Maintenance	-	5,035.0	5,035.0	134,000.0	139,035.0
Economic Assistance	-	15,150.0	15,150.0	-	15,150.0
Energy	-	34,230.0	34,230.0	35,000.0	69,230.0
Equipment / Commodities	-	29,349.4	29,349.4	1,000.0	30,349.4
Information Systems	-	87,291.7	87,291.7	-	87,291.7
Life / Health / Safety	8,125.0	72,464.8	80,589.8	1,000.0	81,589.8
Parks / Recreation	-	3,100.0	3,100.0	-	3,100.0
Renewal and Replacement	6,000.0	24,800.0	30,800.0	81,000.0	111,800.0
Renovation and Remodeling	-	1,050.0	1,050.0	2,000.0	3,050.0
Research / Studies / Planning	-	30,750.0	30,750.0	-	30,750.0
Water / Sewer / Solid Waste	-	67,958.7	67,958.7	-	67,958.7
Workforce Development	-	3,000.0	3,000.0	-	3,000.0
	14,125.0	1,285,215.7	1,299,340.7	386,000.0	1,685,340.7

Language Sections of the Governor's FY19 Capital Budget

Sec. 7. FEDERAL AND OTHER PROGRAM RECEIPTS.

Federal receipts, designated program receipts under AS 37.05.146(b)(3), information services fund program receipts under AS 44.21.045(b), Exxon Valdez oil spill trust receipts under AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund under AS 19.65.060(a), receipts of the University of Alaska under AS 37.05.146(b)(2), receipts of commercial fisheries test fishing operations under AS 37.05.146(c)(21), and receipts of the Alaska Aerospace Corporation that are received during the fiscal year ending June 30, 2019, 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).

Section 7 provides open-ended appropriations of the types of receipts listed. Although the appropriations are conditioned on review by the Legislative Budget and Audit Committee (LB&A), the Governor can increase authorization for listed fund sources without the approval of the Committee. Similar language in the operating budget applies only to appropriations in the operating bill.

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

Sec. 8. INSURANCE CLAIMS.

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

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

Section 8 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. 9. NATIONAL PETROLEUM RESERVE - ALASKA IMPACT GRANT PROGRAM.

The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530(a)) under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 by August 31, 2018, estimated to be \$1,378,346, 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.

Section 9 appropriates the entire amount received (estimated to be \$1.4 million for FY19) from the revenue shared by the federal government from sales, rentals, bonuses, and

royalties on leases issued within the NPR-A to the NPR-A Impact Grant Program. Grants are awarded to municipalities impacted by oil and gas development in the NPR-A. AS 37.05.530(g) states that receipts not appropriated as grants are to be distributed as follows: 25% to Permanent Fund Principal, 0.5% to the Public School Trust Fund, and any remaining amount to the Power Cost Equalization and Rural Electric Capitalization Fund.

Legislative Fiscal Analyst Comment: Recent capital bills contained a list of grantees and the projects to be funded. Providing this information allows it to be entered into the budget system so that it is available for future queries regarding grants.

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

Remaining balances should not be appropriated to the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer active. The intent of AS 37.05.530(g)(3) would be most closely followed by appropriating remaining balances to the Power Cost Equalization Endowment Fund [AS 42.45.070(a)]. AS 37.05.530(g) should also be revised.

New Reappropriation Section—Supplemental Appropriations

Sec. 10. DEPARTMENT OF ENVIRONMENTAL CONSERVATION.

The unexpended and unobligated general fund balances, not to exceed \$200,000, of the following appropriations are reappropriated to the Department of Environmental Conservation for project administration of water quality enhancement, water supply, sewage, and solid waste facilities grants to municipalities:

(1) sec. 1, ch. 16, SLA 2013, page 63, lines 24 - 26, and allocated on page 63, lines 27 - 30 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants (AS 46.03.030), Fairbanks North Star Borough, Pioneer Park sewer and water improvements - \$983,250);

(2) sec. 1, ch. 16, SLA 2013, page 63, lines 24 - 26, and allocated on page 64, lines 11 - 12 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants (AS 46.03.030), Palmer, steel water main replacement - \$3,090,000);

(3) sec. 1, ch. 18, SLA 2014, page 51, lines 21 - 22, and allocated on page 51, line 33, through page 52, line 3 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants (AS 46.03.030), Petersburg wastewater system improvements - \$1,765,548).

Legislative Fiscal Analyst Comment: Section 10 appears to reappropriate capital money for operating purposes. This practice is generally discouraged because of the budget distortion caused by using one-time money for recurring operating costs.

Ideally, leftover money from completed capital projects should be administratively lapsed or reappropriated to other capital projects.

New Reappropriation Section—Supplemental Appropriations

Sec. 11. DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES.

(a) The unexpended and unobligated balances, estimated to be a total of \$137,565, of the following appropriations are reappropriated to the Department of Transportation and Public Facilities for Adak Airport operations and maintenance:

(1) sec. 58(c), ch. 3, FSSLA 2005, page 136, line 25 (Alaska capital income fund, industrial roads - \$3,300,000), estimated balance of \$21,474; and

(2) sec. 13, ch. 29, SLA 2008, page 159, lines 9 - 11 (Department of Transportation and Public Facilities, Knik-Goose Bay Road, Fern Street improvements - \$1,200,000), estimated balance of \$116,091.

(b) The unexpended and unobligated balance of the appropriation made in sec. 1, ch. 17, SLA 2012, page 133, line 28, and allocated on page 133, lines 29 - 30 (Department of Transportation and Public Facilities, roads to resources, Ambler mining district - \$4,000,000), estimated to be \$22,744, is reappropriated to the Department of Transportation and Public Facilities for Adak Airport operations and maintenance.

(c) The unexpended and unobligated general fund balances, estimated to be a total of \$582,295, of the following appropriations are reappropriated to the Department of Transportation and Public Facilities for Adak Airport operations and maintenance:

(1) sec. 1, ch. 3, FSSLA 2005, page 67, lines 15 - 16 (Department of Transportation and Public Facilities, statewide, airport lease lots development - \$2,000,000), estimated balance of \$35,825;

(2) sec. 1, ch. 3, FSSLA 2005, page 68, line 11, and allocated on page 68, lines 16 - 18 (Department of Transportation and Public Facilities, statewide federal programs, commercial vehicle enforcement program - \$1,500,000), estimated balance of \$300,000;

(3) sec. 4, ch. 3, FSSLA 2005, page 97, lines 20 - 21, and allocated on page 98, lines 19 - 22, as amended by sec. 33(c), ch. 29, SLA 2008, and by sec. 43(r), ch. 18, SLA 2014 (Department of Transportation and Public Facilities, congestion, mitigation and safety initiative, Kodiak, Rezanoff Drive rehabilitation lighting and intersection safety improvements), estimated balance of \$14,689;

(4) sec. 1, ch. 82, SLA 2006, page 107, line 12, and allocated on page 107, lines 32 - 33 (Department of Transportation and Public Facilities, transportation initiative, Kodiak, Pasagshak Road paving - \$5,090,000), estimated balance of \$7,951;

(5) sec. 1, ch. 30, SLA 2007, page 79, lines 16 - 19 (Department of Transportation and Public Facilities, Anchorage, Dowling Road extension/upgrade, Minnesota Drive to Abbott Loop Road - \$5,000,000), estimated balance of \$16,732;

(6) sec. 20(n), ch. 30, SLA 2007 (Department of Transportation and Public Facilities, central region materials laboratory OSHA compliance - \$977,000), estimated balance of \$7,652;

(7) sec. 42(i), ch. 30, SLA 2007, as amended by sec. 41(d)(24), ch. 38, SLA 2015 (Department of Transportation and Public Facilities, grinding and repavement of Beaver Loop, Gaswell

Road, Funny River Road, and Sterling Highway from Mackie Lake intersection to Soldotna), estimated balance of \$32,271;

(8) sec. 4, ch. 29, SLA 2008, page 7, lines 15 - 17 (Department of Transportation and Public Facilities, Chignik Lagoon, airport safety improvements - \$4,000,000), estimated balance of \$4,776;

(9) sec. 10, ch. 29, SLA 2008, page 78, lines 31 - 33, as amended by sec. 32(a), ch. 16, SLA 2013 (Department of Transportation and Public Facilities, striping and marking performance improvements - \$1,000,000), estimated balance of \$13,365;

(10) sec. 13, ch. 29, SLA 2008, page 158, lines 29 - 32 (Department of Transportation and Public Facilities, Glacier Highway roundabouts and sidewalks, Fritz Cove Road to Harbor Drive - \$750,000), estimated balance of \$31;

(11) sec. 1, ch. 43, SLA 2010, page 3, line 26, and allocated on page 4, lines 12 - 14 (Department of Transportation and Public Facilities, highways and facilities, Southeast region headquarters, elevator installation - \$450,000), estimated balance of \$96,050;

(12) sec. 7, ch. 43, SLA 2010, page 37, lines 6 - 8 (Department of Transportation and Public Facilities, Nome State Office Building design and construction - \$2,000,000), estimated balance of \$34,526;

(13) sec. 1, ch. 5, FSSLA 2011, page 101, line 25, and allocated on page 101, lines 28 - 29 (Department of Transportation and Public Facilities, roads to resources, Ambler mining district - \$1,250,000), estimated balance of \$6,279;

(14) sec. 1, ch. 17, SLA 2012, page 132, line 32, through page 133, line 3 (Department of Transportation and Public Facilities, intersection improvements study, Caribou and Boniface - \$100,000), estimated balance of \$1,329;

(15) sec. 1, ch. 17, SLA 2012, page 133, lines 10 - 12 (Department of Transportation and Public Facilities, northern region material site reconnaissance - \$250,000), estimated balance of \$2,297;

(16) sec. 7, ch. 17, SLA 2012, page 167, lines 19 - 20 (Department of Transportation and Public Facilities, Chugiak, pedestrian safety improvements - \$500,000), estimated balance of \$5,162; and

(17) sec. 27(e), ch. 17, SLA 2012, (Department of Transportation and Public Facilities, traffic signal modifications at the intersection of the Parks Highway and Pittman Road), estimated balance of \$3,360.

(d) The unexpended and unobligated balances of the appropriations made in sec. 10, ch. 29, SLA 2008, page 76, lines 25 - 26, as amended by sec. 16(b), ch. 38, SLA 2015 (Department of Transportation and Public Facilities, Glenn Highway rut repairs - \$11,500,000) and sec. 1, ch. 18, SLA 2014, page 63, line 4, and allocated on page 63, lines 12 - 13, as amended by secs. 14(d) and 27(g) and (h), ch. 1, TSSLA 2017 (Department of Transportation and Public Facilities, economic development, Knik Arm Bridge project development), estimated to be a total of \$4,541,537, are reappropriated to the Department of Transportation and Public Facilities for the commuter rail concept.

Legislative Fiscal Analyst Comment: Subsections (a) through (c) appear to be reappropriations of capital money for operating purposes. This practice is generally discouraged because of the budget distortion caused by using one-time money for recurring operating costs.

Ideally, leftover money from completed capital projects should be administratively lapsed or reappropriated to other capital projects.

Legislative Fiscal Analyst Recommendation: If Alaska is to continue operating the Adak airport, necessary funds should be requested in the operating budget.

Sec. 12. LAPSE.

(a) The appropriations made in secs. 1, 4, and 9 - 11 of this Act are for capital projects and lapse under AS 37.25.020.

Legislative Fiscal Analyst Comment: The capital project lapse provision under AS 37.25.020 was amended during the 2014 session by Chapter 61, SLA 2014 (HB 306). The new lapse provision was modeled after the lapse provision for Grants to Municipalities (AS 37.05.315) whereby “substantial and ongoing work” must have begun within five years of the effective date of the appropriation. As long as substantial and ongoing work continues, the capital appropriation will not lapse. Previous to this change, capital appropriations were effective for the “life” of the capital project. This provided excessive ambiguity and allowed agencies to retain funding for capital projects with little, or no, legislative oversight.

(b) The appropriation made in sec. 8(1) of this Act is for the capitalization of a fund and does not lapse.

(c) A grant awarded in this Act to a named recipient under AS 37.05.316 is for a capital project and lapses under AS 37.05.316 unless designated for a specific fiscal year.

Legislative Fiscal Analyst Comment: This provision ensures that grants to named recipients are treated as capital projects. Prior to including this provision, Department of Commerce, Community and Economic Development included grants in their operating budget, thereby distorting the amount spent on day-to-day operations.

Sec. 13. Sections 10 and 11 of this Act take effect June 30, 2018.

Section 13 identifies that sections 10 and 11 take effect prior to the end of FY18. All reappropriations of prior capital project funding take effect so as to avoid the potential lapse of funding.

Sec. 14. Sections 4 - 6 of this Act take effect immediately under AS 01.10.070(c).

Section 14 identifies that the projects in section 4 are FY18 supplemental capital projects effective immediately upon enactment of the bill.

Sec. 15. Except as provided in secs. 13 and 14 of this Act, this Act takes effect July 1, 2018.

Agency Narratives and Funding Summaries

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Administration

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$99,212.3			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	1,297.6			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoed</i>	-			
FY18 Management Plan (GF only)	\$100,509.9	\$1,297.6	1.3%	
<i>One-time Items Removed</i>	(1,511.6)			
<i>Fiscal Note One-Time Items</i>	(33.6)			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	224.0			6
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	136.7			
FY19 Adjusted Base Budget (GF only)	\$99,325.4	(\$1,184.5)	-1.2%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's UGF Increments/Decrements/Fund Changes</i>	3,091.5			
FY19 Governor's Agency Request (GF only)	\$102,416.9	\$3,091.5	3.1%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocations			\$3,091.5	
Retirement and Benefits	246.0	1,246.0	1,000.0	1
Business Transformation Office	300.0	800.0	500.0	3
Purchasing	1,254.7	1,392.7	138.0	3
Office of Public Advocacy	25,133.8	26,133.8	1,000.0	4
Public Defender Agency	24,955.4	25,408.9	453.5	4
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	231,871.0	234,901.5	3,030.5	2,4,5
Federal Funds (all allocations)	3,924.9	3,900.0	(24.9)	
Total Non-General Funds (all allocations)	\$235,795.9	\$238,801.5	\$3,005.6	
Position Changes (From FY18 Authorized to Gov)	1,182	1,224	42	
PFT	1,142	1,189	47	4,7
PPT	14	10	(4)	7
Temp	26	25	(1)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	4,950.0	-	4,950.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$4,950.0	\$0.0	\$4,950.0	

Department of Administration

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

- legal, advocacy, and regulatory services;
- family support; and
- enterprise support services.

The department also oversees the Division of Motor Vehicles and the 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).

BUDGET SUMMARY

The FY19 Department of Administration general fund operating budget submitted by the Governor on December 15, 2017 is \$3,091.5 (3.1%) above the FY19 Adjusted Base [an increase of \$1,453.5 Unrestricted General Funds (UGF) and \$1,638.0 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

SIGNIFICANT BUDGET CHANGES

- 1. Retirement and Benefits – Alaska's Health System: \$1 million ACHI Fund (DGF).** The Governor's request includes two one-time increments tasking the Division of Retirement and Benefits (DRB) to take the lead as follows:
 - **Stakeholder Engagement for Alaska Health System Reform – IncOTI: \$250.0 ACHI Fund (DGF).** Participate in a stakeholder process to develop a plan for Alaska's health care system to improve population health and the patient care experience while reducing the per capita cost. The process will include members from the legislature, state agencies, and the provider community and is tasked with producing actionable recommendations. Existing Division staff will manage the \$250.0 in Alaska Comprehensive Health Insurance Funds (ACHI) and may pursue contracts with other entities. DRB staff will also be responsible for contract management and tracking work product. The Office of Management and Budget will continue to serve as a liaison among departments on broad health care reform efforts.
 - **Evaluate Consolidated Purchasing and Health Care Cost Reduction Strategies – IncOTI: \$750.0 ACHI Fund (DGF).** Evaluate and execute strategies to reduce the growth of state health care spending across state agencies and other public payers. The Governor's one-time increment may be used to procure actuarial and legal analysis for coordinated administration and purchasing across state agencies and public payers for health services. These analyses may also be used to implement recommendations from the Health Care Authority feasibility studies required by SB74

(Medicaid Reform: Telemedicine; Drug Database). DRB staff will be responsible for managing this \$750.0 one-time increment and may pursue contracts with other entities.

Legislative Fiscal Analyst Comment: Per AS 21.55.430(b) the legislature may appropriate the Alaska Comprehensive Health Insurance (ACHI) fund to the Department of Commerce, Community and Economic Development to fund the Reinsurance Program. These one-time uses of the fund do not meet statutory guidance for the use of the fund. This item has been flagged as a non-designated use of a designated fund.

In addition, this fund is scheduled to be repealed as of June 30, 2018. See section 10 (Deleted subsections: Alaska Reinsurance Program) of the Operating Language for additional discussion on this issue. The legislature may wish to consider a more appropriate funding source.

2. **Health Plans Administration – Administrative Fee Increases Due to Medicare Part D Employer Group Waiver Plan Participation: \$3.75 million Group Health and Life Benefits Fund (Other).** The AlaskaCare retiree health plan currently files for federal subsidies for Medicare eligible retirees through the Retiree Drug Subsidies. Aetna contract negotiations were recently completed and the Division of Retirement and Benefits estimates an increase to the administrative fees of \$3.75 million beginning January 1, 2019, for the six-month period remaining in FY19. This increment is linked to a cost shift from the State to the federal government. Over time, as the waiver reduces the state share of the cost of drugs for retirees, employer contributions to retirement systems will decline by \$50 million to \$60 million annually.
3. **Shared Services of Alaska (SSoA) Receipt Increases: \$638.0 GF/Program Receipts (DGF).** The following allocations within the SSoA request additional receipt authority:
 - **Business Transformation Office – Debt Collection and Vendor Fees: \$500.0 GF/Prgm (DGF).** Responsibility for debt collection has been transferred to SSoA from the Department of Law and the Permanent Fund Dividend Division. GF/Program Receipts support this effort and are derived from a 5% assessment on debt collections and vendor fees assessed on statewide contracts.
 - **Purchasing – State Surplus Property Sales Growth: \$138.0 GF/Prgm (DGF).** The sale of surplus property has increased and is projected to continue to increase with additional marketing efforts through FY19. Additional receipt authority is requested to align the budget with projected revenue collection.
4. **Legal and Advocacy Services Appropriation: \$1,734.0 Total [\$1,453.5 UGF/ \$280.5 MHTAAR (Other)] and 10 New PFT Positions.** The Governor’s request includes four increments for Public Guardian Support and Public Defense Support to Reduce Delay, Litigation, and Case Costs. Specific increments are as follows:
 - **Office of Public Advocacy**
 - **Public Guardian Position Support – IncT (FY19-FY23): \$86.7 MHTAAR (Other).** Public guardians provide guardianship and/or conservatorship services for vulnerable Alaskans who are found by the court to be in need of a protective order. Alaska has been identified as having among the highest caseloads (100:1)

in the country. These funds would be used to add an additional public guardian position.

- **Public Guardian Personal Services Support – Inc: \$1 million UGF and 10 PFT positions.** The additional public guardian support would allow the Office of Public Advocacy to hire nine Public Guardians and one Guardian Ad Litem. While caseloads would remain higher than the national recommended maximum, the addition of staff is the start of an effort to provide the resources needed to properly manage the affairs of each ward over time.
- **Public Defender Agency**
 - **Holistic Defense Model in Bethel – IncOTI: \$193.8 MHTAAR (Other).** Funds will be used to implement the Holistic Defense model in Bethel, in a partnership between the Public Defender Agency and the Alaska Legal Services Corporation. The model addresses a defendant’s criminal legal needs for a criminal attorney, a social worker to address unmet social support needs, and a civil legal aid attorney to work with the team to address any civil legal needs, addressing obstacles to successful reintegration with the hope of reducing future criminal activity.
 - **Public Defense Support to Reduce Delay, Litigation, and Case Costs – Inc: \$453.5 UGF.** The Public Defender Agency’s current caseloads exceed the American Bar Association guidelines for maximum ethically permissible caseloads. This increment will allow the Agency to fill three positions for public defense and will aid in meeting its legal obligations. The overall result will be less delay, litigation, and case costs. (An identical increment is included in the Governor’s FY18 Supplemental Request.)

MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS

5. **Shared Services of Alaska (SSoA) – Lease Cost Reduction: (\$1 million) I/A Rcpts (Other).** Costs are projected to decrease as the Leases staff works with customer agencies to make the most efficient use of leased space and continue to shrink agency footprints wherever possible. This decrement reduces lease funding to align with projected FY19 costs.
6. **Affordable Care Act Mandatory Fees: \$224.0 UGF.** The Patient Centered Outcome Research Institute (PCORI), created as part of the Affordable Care Act, imposes a fee for self-insured health plans to fund the PCORI trust fund. Payment of the fee for the active health plan is administered by the Division of Finance [\$55.0 UGF – IncT (FY17-FY21)]; while the Division of Retirement and Benefits administers the retiree health plan fee [\$169.0 UGF – IncT (FY14-FY20)]. Because the PCORI fees are in effect for a set period of time, Legislative Finance Division shows the costs as Temporary Increments (IncT) each fiscal year.
7. **Agency Position Transfers.** The Governor’s FY19 DOA Budget also includes significant position realignment (without funding) due to phased consolidation of cross-department services and information technology centralization:
 - **Agency Transfers Out (ATrout):** (54) Total Positions (50 PFT/ 4 PPT). A variety of positions are transferred from the Department of Administration to the Departments of

Transportation and Public Facilities, Environmental Conservation, Natural Resources, Public Safety, and the Governor's Office.

- **Agency Transfers In (ATrin):** 89 Total Positions (88 PFT/ 1 PPT). Twelve PFT positions are transferred in for Shared Services of Alaska program alignment from four departments. Centralized Office of IT program alignment transfers in 76 PFT and 1 PPT from nine departments.

ORGANIZATIONAL CHANGES

There are no significant organizational or structural changes requested by the department in FY19.

CAPITAL REQUEST

The Governor's FY19 Department of Administration capital budget totals \$4.95 million [Public Building Fund (Other)]. No general funds are requested. The single DOA capital project is:

- **Public Building Fund Deferred Maintenance, Renovation, Repair and Equipment: \$4,950.0 Public Building Fund (Other).** This project will continue to address deferred maintenance needs in the State Office Building, the Dimond Courthouse, the Atwood Building, the Fairbanks Regional Office Building, the Linny Pacillo Parking Garage and Office, the Palmer State Office Building, and the Alaska Geologic Materials Building.

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Commerce, Community, and Economic Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See
FY18 Conference Committee (GF Only)	\$149,811.7			
<i>FY18 Fiscal Notes</i>	32.6			
<i>CarryForward</i>	35,000.0			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoed</i>	-			
FY18 Management Plan (GF only)	\$184,844.3	\$35,032.6	23.4%	
<i>One-time Items Removed</i>	(91,624.4)			
<i>Fiscal Note One-Time Items</i>	(32.6)			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	118.1			
FY19 Adjusted Base Budget (GF only)	\$93,305.4	(\$91,538.9)	-49.5%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	(37,855.0)			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	33,174.9			
FY19 Governor's Agency Request (GF only)	\$88,625.3	(\$4,680.1)	-5.0%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			(\$4,680.1)	
Banking & Securities	3,680.2	3,964.0	283.8	1
Investments	5,297.4	5,259.1	(38.3)	
Alcohol and Marijuana Control	2,219.0	3,793.4	1,574.4	2
AEA Power Cost Equalization	37,855.0	32,355.0	(5,500.0)	4
Alaska Seafood Marketing Institute	1,000.0	-	(1,000.0)	5
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	58,277.6	57,044.5	(1,233.1)	
Federal Funds (all allocations)	20,361.5	21,111.5	750.0	3
Total Non-General Funds (all allocations)	\$78,639.1	\$78,156.0	(\$483.1)	
Position Changes (From FY18 Authorized to Gov)	517	505	(12)	
PFT	512	500	(12)	
PPT	-	-	-	
Temp	5	5	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	152.0	-	152.0	
Maintenance and Repairs	415.0	-	415.0	
Remodel, Reconstruction and Upgrades	15,030.5	10,900.0	25,930.5	
New Construction and Land Acquisition	6,817.5	1,378.3	8,195.8	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	3,710.0	6,000.0	9,710.0	
TOTAL CAPITAL	\$26,125.0	\$18,278.3	\$44,403.3	

Department of Commerce, Community, and Economic Development

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

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

The department consists of core agencies including the Divisions of Banking & Securities; Corporations, Business and Professional Licensing; Community and Regional Affairs; Insurance; and Economic Development. Various corporate agencies are also part of the department, including the following: Alaska Industrial Development and Export Authority; Alaska Energy Authority; Alaska Gasline Development Corporation; Alaska Railroad Corporation; Alcohol and Marijuana Control Office; Alaska Seafood Marketing Institute; and the Regulatory Commission of Alaska.

BUDGET SUMMARY

DCCED's FY19 general fund operating budget submitted by the Governor on December 15, 2017 is \$4,680.1 (5%) *below* the FY19 Adjusted Base [a *decrease* of \$474.6 Unrestricted General Funds (UGF) and \$4,205.5 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

PROGRAM EXPANSION

- 1. Banking and Securities Increases: \$283.8 GF/Program Receipts (DGF) and 1 PFT Position.** The Governor's request includes two increments for the Division of Banking and Securities:
 - **Licensing and Regulatory Management Database Hosting and Support: \$180.4 GF/ Program Receipts (DGF).** In FY15, the division entered into a contract using a capital appropriation to purchase a licensing and regulatory management system to replace multiple department maintained databases and spreadsheets. This database is a single repository for managing and tracking filings, examinations, and enforcement cases and is the division's primary database. Annual hosting and support is needed to maintain functionality of the software. The capital appropriation funding for the initial purchase, development, and implementation is exhausted, and the division does not have sufficient operating receipt authority to cover the on-going hosting and support costs.
 - **Financial Examiner I/II for Alaska Native Claims Settlement Act Filings and Support: \$103.4 GF/Program Receipts (DGF).** Per AS 45.55.139, the division is required to receive various proxy-related filings from Alaska Native Claims Settlement

Act (ANCSA) corporations and shareholders. ANCSA, passed in 1971 and amended in 1988, exempted ANCSA corporations and securities from federal securities laws. Accordingly, the division is the only regulatory agency or consumer protection agency with oversight of or involvement with these filings. The filings, reports, proxy solicitations and statements are significant because they can be used to influence the board elections, management direction, and ultimately the financial profitability of Alaska's regional and village Native corporations through election-related balloting.

A Financial Examiner I/II position is requested to maintain service levels for ANCSA filings and requests for information. According to the department, overall ANCSA candidate and corporate filings increased over 300% in FY17 – from 399 in FY16 to 1,212 in FY17. In addition, requests for investigation because of alleged untrue or misleading information (AS 45.55.160) have increased 62% over the last year, from 29 to 47.

MAINTENANCE OF SERVICES

- 2. Alcohol and Marijuana Control Office – FY19 Marijuana Regulation Funding: \$1,574.4 Total [\$525.4 UGF/ \$1,049.0 GF/Program (DGF)].** The FY19 Governor's request continues the same level of total funding for the implementation of marijuana regulation activities as was appropriated in FY17 and FY18. The FY19 budget request is consistent with the expectation that state UGF support would decline as the program matures. Total funding, by fiscal year, is as follows:

- FY17 Appropriation – IncOTI \$100.0 GF/ Program Receipts and \$1,474.4 UGF
- FY18 Appropriation – IncOTI \$525.4 GF/ Program Receipts and \$1,049.0 UGF
- FY19 Governor's Request - IncOTI \$1,049.0 GF/ Program Receipts and \$525.4 UGF

The department anticipates that the Alcohol and Marijuana Control Office will be fully self-supporting by FY20.

- 3. Alaska Energy Authority Rural Energy Assistance – Rural Alaska Energy Needs & Infrastructure: \$750.0 Federal Receipts.** The Alaska Energy Authority (AEA) has been seeking alternative funding sources to replace lost state funding. AEA Rural Energy Assistance's UGF has been reduced by \$861.0 (49.6%) since FY16. In FY19, AEA is requesting federal authority to receive funding via a Memorandum of Understanding (MOU) with the Denali Commission, the Department of Energy Office of Indian Energy, and the United States Department of Agriculture Rural Utility Service. The increase in federal funding will assist AEA in continuing to meet rural community energy needs, including technical assistance and operator training.

FUNDING REDUCTIONS

- 4. Alaska Energy Authority – Power Cost Equalization (PCE) Program: (\$5,500.0) PCE Endow (DGF).** The Alaska Energy Authority (AEA) is requesting a total of \$32,355.0 for the PCE program in FY19. This is a \$5.5 million reduction in the estimated level of funding compared to FY18. Power Cost Equalization program payments are expected to decline in FY19 because of lower fuel costs. Program costs are also

impacted by the "PCE floor" calculated by the Regulatory Commission of Alaska. In FY17, because of increases in the cost of power in urban Alaska, the PCE floor was raised, reducing the number of communities eligible for residential reimbursement and lowering the overall cost of the program. As of June 30, 2017, the endowment fund balance was \$1.023 billion.

Legislative Fiscal Analyst Comment: The request is merely a projection of costs; language in the operating budget bill appropriates, from the PCE Endowment fund, the amount necessary to pay for the PCE program under the statutory formula. See additional comments under section 10(f) in the discussion of Operating Language in this publication.

FY17 earnings were \$112.3 million, which is more than sufficient to cover FY19 PCE program costs.

- 5. Alaska Seafood Marketing Institute (ASMI) – Eliminate All General Funds: (\$1,000.0) G/F Match (UGF).** During the 2016 session, the legislature included intent language that the Alaska Seafood Marketing Institute (ASMI) develop a plan to phase out reliance on unrestricted general funds by FY19. During the 2017 session, the legislature accepted a request to replace \$1 million UGF (half of the \$2 million in the FY17 budget) with Statutory Designated Program Receipts (SDPR), leaving \$1 million of UGF in the FY18 budget. The FY19 request eliminates all remaining UGF. ASMI's budget will be funded primarily with SDPR collected from the industry-determined seafood marketing assessment (AS 16.51.120), currently set at 0.5 percent of the value of seafood products.

Legislative Fiscal Analyst Comment: At the end of FY17, ASMI had a carryforward balance of \$19.1 million SDPR. ASMI's FY19 requested level of authorization (\$16.1 million) exceeds projected FY18 revenue (\$8.2 million) by about \$7.6 million. In FY17, ASMI spent \$9.3 million of the \$15 million SDPR appropriation. If ASMI spends the amount authorized, the reserve balance could be depleted by the end of FY20.

The legislature may want to work with ASMI to ensure ASMI's budget is sustainable. The ASMI board consistently sets annual spending plans lower than the level of appropriate authorization, and ASMI has expressed a desire to maintain excess authorization in order to address an emergency or the loss of federal funding part way through the fiscal year. However, ASMI can request additional SDPR authorization through the Legislative Budget and Audit (LB&A) review process.

OTHER ISSUES

- 6. Multi-Year Funding – Reinsurance Program.** During the 2016 legislative session, two multi-year appropriations were approved for the Alaska Reinsurance program. The program went into effect on January 1, 2017 and is operated on a calendar year basis.
- \$55 million Alaska Comprehensive Health Insurance (ACHI) Fund (DGF) for FY17-FY18 (multi-year) for calendar year 2017
 - \$20 million was expended in FY17 and \$35 million is available for FY18.
 - \$55 million ACHI Fund for FY18-FY23 (multi-year) for calendar years 2018 through 2023
 - It is unknown how much of this appropriation will be carried forward into FY19. The amount can be determined at the end of FY18 (June 30, 2018). With approval

of the 1332 Federal Waiver, it was anticipated that annually \$11 million would be needed to match approximately \$44 million of federal receipts.

- Federal Open-ended Appropriations. The FY18 budget and the FY19 Governor's request include open-ended, multi-year appropriations that allow the Division of Insurance to collect and expend all federal receipts related to the Alaska Reinsurance Program.

7. Professional Licensing Programs within Corporations, Business and Professional Licensing. The November 2017 Professional Licensing report shows that several boards continue to have fees that are not set on a cost recovery basis. However, progress continues to be made by the department to reverse biennium deficits and recover negative carryforward balances. At the end of FY17, 13 of 41 (32%) professional licensing programs had a deficit; in FY13, 29 of 37 (78%) had a deficit. The department continues to utilize a standardized methodology for setting fees as each licensing program comes up for renewal.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL REQUEST

The Governor's FY19 Department of Commerce, Community and Economic Development capital budget request totals \$44.4 million (\$3.725 million UGF/ \$22 million DGF/ \$400.0 Other/ \$18.3 million Federal Receipts). A summary of the projects follows:

- **Alaska Energy Authority – Rural Power Systems Upgrades:** \$21.9 million [\$10.9 Federal Receipts/ \$11 million PCE Endow (DGF)]
- **Alaska Energy Authority – Electrical Emergencies Program:** \$330.0 UGF
- **Community Block Grants:** \$6,060.0 [\$6 million Federal Receipts/ \$60.0 G/F Match (UGF)]
- **National Petroleum Reserve – Alaska Impact Grant Program:** \$1,378.3 National Petroleum Reserve Fund (Fed)
- **Alaska Energy Authority – Round IX Renewable Energy Project Grants:** \$11 million Renewable Energy Funds (DGF)

Legislative Fiscal Analyst Comment: Per statutory guidelines established during the 2016 legislative session (AS 42.45.085), \$25 million is available from the Power Cost Equalization (PCE) Endowment Fund for FY19 energy programs. The Governor's budget request includes a total of \$25 million for the following energy programs:

- 1) \$11 million – FY19 capital project to AEA for Rural Power Systems Upgrades
- 2) \$14 million – FY18 supplemental fund transfer to the Renewable Energy Grant Fund (section 25(e))

Legislative Fiscal Analyst Recommendation: The legislature should make the transfer in section 25(e) effective in FY19 to follow statutory guidelines.

- **Grants to Named Recipients (AS 37.05.316)**

- **Alaska Travel Industry Association - Tourism Marketing and Development:** \$3 million UGF
- **Hope Community Resources, Inc. - Upgrades to Housing to Meet State Licensing Requirements:** \$85.0 UGF
- **Inter-Island Ferry Authority:** \$250.0 UGF
- **Marine Exchange of Alaska - Alaska Vessel Tracking System Upgrades and Expansion:** \$400.0 Commercial Vessel Passenger Tax (Other)

The Governor's "Alaska Economic Recovery Plan" includes \$45 million UGF from the proposed Alaska Economic Recovery Act account and \$12 million Federal Receipts for DCCED capital projects in FY19.

- Alaska Energy Authority – Bulk Fuel Upgrades: \$17 million Total (\$5 million UGF/ \$12 million Federal Receipts)
- Grant to Municipalities: Anchorage – Port of Anchorage: \$40 million UGF

Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.

Department of Corrections

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$275,509.6			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoed</i>	-			
FY18 Management Plan (GF only)	\$275,509.6	\$0.0	0.0%	
<i>One-time Items Removed</i>	-			
<i>Fiscal Note One-Time Items</i>	(6,042.4)			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	253.0			
FY19 Adjusted Base Budget (GF only)	\$269,720.2	(\$5,789.4)	-2.1%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	27,955.5			
FY19 Governor's Agency Request (GF only)	\$297,675.7	\$27,955.5	10.4%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Appropriation			\$27,955.5	
Population Management	210,833.9	228,323.9	17,490.0	1,3
Health and Rehabilitation Services	35,894.6	46,360.1	10,465.5	2,4
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	25,599.9	25,735.9	136.0	4
Federal Funds (all allocations)	7,695.9	7,695.9	-	
Total Non-General Funds (all allocations)	\$33,295.8	\$33,431.8	\$136.0	
Position Changes (From FY18 Authorized to Gov)	1,899	1,895	(4)	
PFT	1,899	1,895	(4)	
PPT	-	-	-	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	1,600.0	-	1,600.0	5
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$1,600.0	\$0.0	\$1,600.0	

Department of Corrections

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

BUDGET SUMMARY

The FY19 Department of Corrections general fund operating budget submitted by the Governor on December 15, 2017 is \$27,955.5 (10.4%) above the FY19 Adjusted Base [all Unrestricted General Funds (UGF)] and \$22,166.1 (8%) above the FY18 Management Plan. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

FUNDING INCREASES

- 1. Population Management/Variations allocations – Reverse a Portion of Projected SB 91 Savings: \$16,490.0 UGF.** Per the SB 91 fiscal note, the total projected savings in FY19 as a result of SB91 is \$24.7 million. However, the Governor's FY19 budget reflects total savings of only \$8.3 million, leaving a net increase of \$16.5 million. The budget requests restoring unachieved SB 91 savings are highlighted below.

- Population Management/Variations Allocations: Restore \$10,447.6 of the \$18.7 million UGF reductions made to the FY18 budget.
- Population Management/Institution Director's Office: Restore \$6 million of unachievable FY19 reductions proposed in SB 91 Fiscal Notes.

Per DOC, the reductions were unachievable; FY18 budget reductions (totaling \$18.7 million) were based on reducing inmate population by 1,257 starting on July 1, 2017. As of September 30, 2017, the daily average population has been reduced by an average of 530—with an offender population that is starting to increase.

Legislative Fiscal Analyst Comment: The Governor included an FY18 supplemental request (totaling \$10,447.6 UGF) in his December 15th budget submission.

DOC's cost projections exclude the impacts of enacting SB 54 (Ch 1, 4SSLA 2017). Since SB 54 reversed some of the reforms in SB 91, additional costs are likely.

The department indicates that if the monthly average population count exceeds the general capacity of 4,644 inmates during FY19, the department will initiate the process of re-opening the Palmer Correctional Center. As of December 29, 2017, the monthly average is 4,311. Startup costs for the Palmer Correction Center are estimated to be about \$7.5 million plus 50 new positions.

- 2. Health and Rehabilitation Services/ Physical Health Care: Add Authority to Cover Known Shortfalls and Increased Health Care Costs: \$10,341.5 UGF.** The Department of Corrections is required to provide and pay for health care

services for all offenders. According to the department, this request is needed to provide the following services:

- **Personal Services: \$2,547.8 UGF.** The request includes overtime for 24-hour medical coverage, expanded medical coverage for a detox unit at the women's facility and non-perm sub-fill position costs to cover nursing shortages due to position vacancies.
- **Services: \$6,418.7 UGF.** Funding in the services line includes hospital and doctor's fees, laboratory costs, nursing contracts for provider coverage due to position vacancies and non-institutional medical treatments, such as dialysis, chemotherapy and radiation, etc.
- **Commodities: \$1,375.0 UGF.** This shortfall is primarily related to an increase in pharmaceutical costs as well as routine medical supply cost increases. One of the higher cost drugs is used to treat Hepatitis C (\$73,900 per offender for a three month regimen). Approximately 20% of the offender population has Hepatitis C, compared to only 1% of the general population. Currently, treatment is provided to higher risk inmates that, without treatment, would die or deteriorate rapidly.

Legislative Fiscal Analyst Comment: Given the fact that DOC received a \$10 million supplemental in FY17, it was no surprise that the Governor included an FY18 supplemental request for a similar amount in his December 15th budget submission. The FY19 budget request is about 3% higher than FY17 actual expenditures.

3. **Facility-Capital Improvement Unit – Annual Facility Maintenance and Repair: \$1 million UGF.** The Department of Corrections is responsible for 150 state-owned buildings with an estimated replacement value of \$818 million. Per OMB, DOC's 2018 total deferred maintenance backlog totals \$38.5 million. This request increases UGF in this allocation from \$104.8 to \$1,104.8. According to the department, this on-going funding will allow DOC to address the most urgent maintenance and repair needs for essential fire and life safety, environmental, utility infrastructure, security and operational systems.
4. **Replace Permanent Fund Criminal Funds in Health and Rehabilitation Services/Physical Health Care: Net Zero Change [\$124.0 UGF and (\$124.0) PFD Criminal Funds (Other)].** PFD Appropriations in Lieu of Dividends to Criminal (PFD Criminal) funds are available for appropriation because convicted felons and third-time misdemeanants are ineligible to receive a Permanent Fund Dividend (PFD). Because available funding depends on the amount of PFDs and the number of affected inmates, the amount of available PFD Criminal funds is volatile. For FY19, the Department of Revenue calculated the amount available for appropriation to be \$12.6 million (\$41.6 less than in FY18). Of the \$12.6 million available, \$11.5 million is requested in DOC/Physical Health Care and \$1.1 million is requested in the Crime Victim Compensation Fund.

Legislative Fiscal Analyst Comment: Historically, funding requests reflecting the volatility in available PFD Criminal Funds have been reflected in Physical Health Care. The Governor's FY19 request replaces \$124.0 of PFD criminal fund with UGF in DOC yet increases the amount appropriated to the Crime Victim Compensation Fund by \$56.0.

CAPITAL REQUEST

- 5.** The Governor's FY19 capital request for the Department of Corrections totals \$1.6 million UGF for security upgrades at the Yukon Kuskokwim Correctional Center (YKCC).

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Education and Early Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$1,325,840.1			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	199.4			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoes</i>	-			
FY18 Management Plan (GF only)	\$1,326,039.5	\$199.4	0.0%	
<i>One-time Items Removed</i>	(1,649.4)			3
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	32.0			
FY19 Adjusted Base Budget (GF only)	\$1,324,422.1	(\$1,617.4)	-0.1%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	(5,634.2)			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	1,049.3			
FY19 Governor's Agency Request (GF only)	\$1,319,837.2	(\$4,584.9)	-0.3%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			(\$4,584.9)	
Foundation Program	1,176,466.6	1,171,677.4	(4,789.2)	9,10
Pupil Transportation	79,029.6	78,184.6	(845.0)	9
Special Schools	3,563.9	3,558.2	(5.7)	9
Student and School Achievement	5,821.6	5,880.7	59.1	1
Early Learning Coordination	8,286.2	9,486.2	1,200.0	3
Professional Teaching Practice	303.0	258.8	(44.2)	4
Library Operations	6,976.6	6,840.7	(135.9)	5
Museum Operations	1,653.7	1,548.1	(105.6)	6
WWAMI Medical Education	3,014.8	3,096.4	81.6	8
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	62,439.1	64,462.0	2,022.9	7
Federal Funds (all allocations)	251,346.1	251,090.2	(255.9)	
Total Non-General Funds (all allocations)	\$313,785.2	\$315,552.2	\$ 1,767.00	
Position Changes (From FY18 Authorized to Gov)	298	283	(15)	
PFT	279	266	(13)	
PPT	15	13	(2)	
Temp	4	4	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$0.0	\$0.0	\$0.0	

Department of Education and Early Development

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

- distribute public school funding to school districts and other educational institutions;
- provide fiscal accountability, compliance and oversight;
- develop, implement, and maintain school effectiveness programs; and
- maintain active partnerships for Pre-K through 20 and lifelong learning.

The department also houses commissions and boards (including the Professional Teaching Practices Commission, and the Alaska Commission on Postsecondary Education) and is responsible for Mt. Edgecumbe High School; Mt. Edgecumbe Boarding School Facilities Maintenance; Father Andrew P. Kashevaroff Facilities Maintenance; Alaska State Council on the Arts; and Alaska State Libraries, Archives and Museums.

BUDGET SUMMARY

The FY19 Department of Education and Early Development's general fund operating budget submitted by the Governor on December 15, 2017 is \$4,584.9 (0.3%) *below* the FY19 Adjusted Base – a \$4,445.5 (0.3%) *decrease* in Unrestricted General Funds (UGF) and a \$139.4 (0.5%) *decrease* in Designated General Funds (DGF). Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

PROGRAM EXPANSION

- 1. Student and School Achievement – Increase for the Development, Updating and Adoption of New Science Standards: \$100.0 UGF (One-Time Item).** The Governor's request includes a one-time increment (IncOTI) of \$100.0 UGF for the development of new science standards. While most state standards were revised in 2013, science standards were last changed in 2006. According to the department, the current standards do not comply with the federal Every Student Succeeds Act. This funding will be used to pay for stakeholder meetings and updates to regulations.
- 2. Mount Edgecumbe Boarding School – Multi-year Supplemental Appropriation for Operating and Maintenance of the Mount Edgecumbe High School Aquatic Center (FY18-FY19): \$400.0 Muni Match (DGF).** Construction of the Mount Edgecumbe High School Aquatic Center is scheduled to be completed in February of 2018. In FY18, the department received \$100.0 of one-time money for warm storage of the pool, but does not have the estimated \$583.0 per year to operate the facility. These funds would be used to provide start-up funds to begin operations. In future years, the department intends to pay for 65% of ongoing costs through fees and other sources of funding.

Legislative Fiscal Analyst Comment: The Municipal Capital Project Matching Grant Fund has not been used since FY04 and this project does not meet statutory guidance for the use of the fund. This item has been flagged as a non-designated use of a designated fund.

Legislative Fiscal Analyst Recommendation: The legislature should appropriate the balance of the Municipal Capital Project Matching Grant Fund to the general fund and change the fund source to UGF. Using a DGF fund code for a non-designated purpose hides the true size of the budget and distorts comparisons.

- 3. Early Learning Coordination – Restore Funding for Additional Early Learning Programs Support: \$1,200.0 UGF.** In FY18, the legislature appropriated \$1,200.0 UGF as a one-time item to continue funding early learning programs that were previously funded through the Moore vs. State settlement. This funding was used to provide grant support to nine districts, serving a total of 434 children. The Governor's budget request adds the funding to the base budget in FY19.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 4. Professional Teaching Practices Commission – Remove Funding for Position Deleted in FY18 Management Plan: (\$44.2) GF/Program Receipts (DGF).** In the FY18 Management Plan, the department consolidated administration of the Professional Teaching Practices Commission with Student and School Achievement and deleted a Secretary position. A portion of the funding for that position will be used to support the shared position in Student and School Achievement, and the remainder (\$44.2) is eliminated in the Governor's FY19 budget.
- 5. Library Operations – Reduce School Broadband Access Grant (School BAG) Funding to Align with Anticipated Expenditures: (\$135.9) Higher Education Fund (DGF).** The School BAG program helps schools bring their broadband speeds to 10 mbps, with the remaining costs being paid for by the federal E-Rate program. This reduction would bring the FY19 budget in line with actual demand for grants in previous years.

Legislative Fiscal Analyst Comment: Using the Higher Education Investment Fund to pay for the Broadband Access Grant is a non-designated use of the fund. See item 11 below.

- 6. Museum Operations – Eliminate Support for Museum Operations Grant-in-Aid Program: (\$105.6) UGF.** The Museum Operations Grant-in-Aid program began in 1981, and typically awards 25-30 small grants to local museums and tribal cultural centers around the state. These grants are often matched by the beneficiary at a 1:1 ratio.
- 7. Alaska Commission on Postsecondary Education – Reduce Funding Associated with Four Positions Deleted in FY18 Management Plan: (\$401.2) Interagency Receipts (Other), and (\$401.2) ASLC Receipts (Other) within the ASLC/Loan Servicing component.** The FY18 Management

Plan eliminated four vacant positions due to efficiencies identified by ACPE. This decrement in the FY19 budget eliminates the funding for those four positions. ACPE does not expect any reduction in services as a result of this reduction.

- 8. WWAMI Program Contractual Increase: \$81.6 Higher Education Fund (DGF).** The WWAMI (Washington, Wyoming, Alaska, Montana, and Idaho) Program is a multi-state agreement with the University of Washington's School of Medicine. The Governor's budget includes a request for an increase of \$81.6, based on the anticipated FY19 program contractual obligation.

Legislative Fiscal Analyst Comment: Using the Higher Education Investment Fund to pay for WWAMI is a non-designated use of the fund. See item 11 below.

OTHER ISSUES

- 9. Fully Funded the K-12 Formula and Pupil Transportation: \$1.3 billion.** The Governor's budget fully funds the K-12 Formula and Pupil Transportation Formula and does not propose any changes for this item. The change in the estimate (a decrease of \$5.6 million of UGF) from FY18 reflects only a change in the projected student count. The statutory base student allocation is \$5,930.
- 10. Public School Trust Fund Amounts Contingent on Legislation: \$18 million.** The Governor's budget appropriates \$28 million from the Public School Trust Fund: \$4,662.6 for Mount Edgecumbe Boarding School, and \$23,337.4 for the Foundation Formula. However, based on current statutes, the Department of Revenue recommends spending only \$10 million from the fund. Two pieces of legislation (SB 96 and HB 213) propose changing the fund's statutes to allow a larger draw. If one of these bills is enacted, \$28 million could be sustainably drawn from the fund. Without a bill, however, UGF for the Foundation Formula would be increased by \$18 million to make up the difference.
- 11. Use of Higher Education Investment Fund for Non-Designated Purposes: \$5,816.0 DGF Total.** The Higher Education Investment Fund (code 1226) is considered a designated fund source. By statute, the fund is to be used for the Alaska Performance Scholarships and the Alaska Education Grant programs, including the cost of administering the latter program. However, beginning in the FY16 budget, the fund has been used for a variety of non-designated purposes. In the FY19 Governor's budget, it is being used for the following non-designated purposes in DEED:
- \$2,581.4 for School Broadband Access Grants (School BAG);
 - \$138.2 for Live Homework Help; and,
 - \$3,096.4 for WWAMI Medical Education.

All of the above items would normally be funded with UGF. In FY17 and FY18, additional Higher Education funds were also appropriated to the state retirement system.

Legislative Fiscal Analyst Comment: After the draws from the fund in FY18, the end-of-year balance of the fund is estimated to decline to \$338.0 million, down from a peak of \$458.7 million in FY15 (before non-designated draws began). Current draws on the fund are unsustainable over the long term - the balance is projected to decline by about \$1.5 million per year - and do not allow room for inflationary growth in the scholarship programs.

Legislative Fiscal Analyst Recommendation: The legislature should use the Higher Education Investment Fund only for designated purposes, or should eliminate it altogether and deposit the remaining balance in the general fund. Using it unsustainably for non-designated purposes distorts the true size of the UGF budget.

ORGANIZATIONAL CHANGES

The department changed its budget structure in two significant ways:

1. The Education Support Services and Teaching and Learning Support appropriations were combined into the Education Support and Administrative Services appropriation.
2. The State Facilities Maintenance appropriation is renamed State Facilities Rent. Funding in the State Facilities Maintenance allocation is transferred to the new Mount Edgecumbe Boarding School Facilities Maintenance allocation and the new Andrew P. Kasheveroff Facilities Maintenance allocation. This change will make it easier to track operations spending for the two DEED-owned facilities.

CAPITAL REQUEST

Although the Department of Education and Early Development does not have any capital projects in the FY19 capital budget bill, the Governor's "Alaska Economic Recovery Plan" includes \$70 million UGF from the proposed Alaska Economic Act account for the Major Maintenance Grant Fund, which would pay for the top 39 projects on the priority list. Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Environmental Conservation				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$39,575.9			
FY18 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	-			
FY18 Management Plan (GF only)	\$39,575.9	\$0.0	0.0%	
One-time Items Removed	-			
Fiscal Note One-Time Items	-			
Fund Source Change	-			
Temporary Increments (IncTs)	-			
Maintenance Increments (IncMs) and Increments	-			
FY19 Contractual Salary Increases	91.6			
FY19 Adjusted Base Budget (GF only)	\$39,667.5	\$91.6	0.2%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY19 Governor's GF Increments/Decrements/Fund Changes	33.8			
FY19 Governor's Agency Request (GF only)	\$39,701.3	\$33.8	0.1%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			\$ 33.8	
Administrative Services	2,079.8	2,015.7	(64.1)	1
State Support Services	2,471.3	2,399.2	(72.1)	2
Environmental Health	7,890.1	8,060.1	170.0	3
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	18,448.7	17,418.7	(1,030.0)	
Federal Funds (all allocations)	23,937.1	23,070.6	(866.5)	
Total Non-General Funds (all allocations)	\$42,385.8	\$40,489.3	\$ (1,896.50)	
Position Changes (From FY18 Authorized to Gov)	489	486	(3)	
PFT	488	485	(3)	
PPT	-	-	-	
Temp	1	1	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	200.0	-	200.0	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	5,032.0	20,900.0	25,932.0	
New Construction and Land Acquisition	7,548.0	31,350.0	38,898.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	17,288.7	-	17,288.7	
TOTAL CAPITAL	\$30,068.7	\$52,250.0	\$82,318.7	

Department of Environmental Conservation

The Department of Environmental Conservation (DEC) is responsible for protecting human health and the environment.

BUDGET SUMMARY

The FY19 Department of Environmental Conservation general fund operating budget request submitted on December 15, 2017 shows a \$33.8 (0.1%) increase from the FY19 Adjusted Base, with an Unrestricted General Fund (UGF) *decrease* of \$136.2 (0.9%) and a Designated General Fund (DGF) increase of \$170.0 (0.7%). Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 1. Administrative Services – Reduce Administrative Costs through Process Redesign and Efficiency Measures: (\$64.1) UGF.** The department will improve operational efficiency by reviewing and redesigning administrative processes. This may result in shifting some work from Administrative Services to other divisions.
- 2. State Support Services – Reduce Funds for Juneau Building Lease: (\$72.1) UGF.** In FY18, DEC renegotiated its office space lease in Anchorage, yielding savings that resulted in a decrement of \$185.5 UGF. The department plans to renegotiate its Juneau lease agreement and reduce expenses by \$72.1 UGF in FY19.
- 3. Environmental Health – Solid Waste Management and Drinking Water Fee Studies: \$170.0 GF/Program Receipts (DGF).** Increased fees as a result of ongoing fee studies in Environmental Health are projected to bring in additional general fund program receipt revenue in FY19. The new fee revenue will help offset an anticipated decline of \$451.0 in federal and interagency funds in FY19.

ORGANIZATIONAL CHANGES

DEC consolidated four allocations into the new Environmental Health allocation: Environmental Health Directors, Food Safety and Sanitation, Drinking Water, and Solid Waste Management. The UGF in this division has been reduced by 31.5% and 27 positions since FY15, and the consolidated administrative structure will reduce the administrative burden for the smaller division.

DEC also consolidated the Water Quality and Facility Construction allocations into the Water Quality Infrastructure allocation. This division has reduced UGF by 48.3% and eliminated 30 positions since FY14, its highest year of funding. As with Environmental Health, the consolidated structure will reduce the administrative burden on the division.

CAPITAL REQUEST

The Department of Environmental Conservation's FY19 capital budget, which totals \$82.3 million (\$26.4 million UGF/ \$500,000 DGF/ \$3.1 million Other State Funds/ \$52.3 million Federal Funds), includes the following:

- **Flint Hills Settlement: \$14,360.0 UGF.** In FY17, the State reached a \$20 million settlement on the Flint Hills sulfolane release that contaminated drinking water in the North Pole area. The department received \$5.7 million in FY17-18 for this settlement, and the remaining \$14.4 million is required in FY19.

Legislative Fiscal Analyst Comment: The prior appropriation for the settlement was in the operating budget under Judgments, Claims and Settlements. This appropriation is in the capital budget because this phase of the settlement will pay for the construction of a pipeline system over the course of multiple fiscal years.

- **Clean Water Capitalization Grant – Subsidy Funding: \$587.7 Alaska Clean Water Fund (Other).** The federal Clean Water Capitalization Grant requires states to issue a portion of the funding as subsidies (a loan forgiveness process).
- **Drinking Water Capitalization Grant – Subsidy Funding: \$2,041.0 Alaska Drinking Water Fund (Other).** The federal Drinking Water Capitalization Grant requires states to issue 30% of the funding as subsidies (a loan forgiveness process).
- **Cook Inlet Pipeline Infrastructure Assessment: \$200.0 Oil/Haz Fund (DGF).** A series of leaks from Cook Inlet Pipelines heightened concerns about the 60-year-old pipeline infrastructure in Cook Inlet. This project would pay for a site inventory, integrity/risk assessment, and to develop reduction measures for this infrastructure.
- **Home Heating Oil Tank Spill Assistance Pilot Project: \$300.0 Oil/Haz Fund (DGF).** This project is a pilot program to assist residential responsible parties in responding to home heating oil releases.
- **Village Safe Water and Wastewater Infrastructure Projects:**
 - **First Time Service Projects: \$38.9 million Total [\$7,248.0 G/F Match (UGF)/ \$300.0 Statutory Designated Program Receipts (Other)/ \$31,350.0 Federal Receipts].**
 - **Expansion, Upgrade, and Replacement of Existing Service: \$25.9 million Total [\$4,832.0 G/F Match (UGF)/ \$200.0 Statutory Designated Program Receipts (Other)/ \$20,900.0 Federal Receipts].**

These requests provide financial and technical assistance to rural communities to plan, design, and construct water and sewer system improvements. Of the total amount, 60% will provide first-time service to communities and 40% will be used for expansions, upgrades, and replacements of existing service.

The Governor's "Alaska Economic Recovery Plan" includes \$1.0 million UGF from the proposed Alaska Economic Recovery Act account for Statewide Contaminated Sites Cleanup in FY19. This funding would be used to clean up contaminated sites owned by the State or without a responsible party. Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Fish and Game				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$65,413.9			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoes</i>	-			
FY18 Management Plan (GF only)	\$65,413.9	\$0.0	0.0%	
<i>One-time Items Removed</i>	-			
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	100.7			
FY19 Adjusted Base Budget (GF only)	\$65,514.6	\$100.7	0.2%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	(1,443.0)			
FY19 Governor's Agency Request (GF only)	\$64,071.6	(\$1,443.0)	-2.2%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			(\$1,443.0)	
SE Region Fisheries Management	8,884.6	8,784.6	(100.0)	1
Central Region Fisheries Management	8,689.7	8,289.7	(400.0)	1
Statewide Fisheries Management	13,165.6	12,465.6	(700.0)	2
Commercial Fisheries Entry Commission	3,457.4	3,315.4	(142.0)	2
Sport Fisheries	2,020.1	1,970.1	(50.0)	
Wildlife Conservation	1,948.5	1,898.5	(50.0)	
Boards of Fisheries and Game	1,234.8	1,233.8	(1.0)	1
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	68,653.0	66,419.3	(2,233.7)	1,2,3
Federal Funds (all allocations)	67,141.2	66,922.0	(219.2)	1
Total Non-General Funds (all allocations)	\$135,794.2	\$133,341.3	(\$2,452.9)	
Position Changes (From FY18 Authorized to Gov)	1,501	1,456	(45)	
PFT	837	827	(10)	4
PPT	641	622	(19)	3
Temp	23	7	(16)	3
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	3,500.0	3,500.0	
Maintenance and Repairs	500.0	-	500.0	
Remodel, Reconstruction and Upgrades	1,500.0	-	1,500.0	
New Construction and Land Acquisition	750.0	2,250.0	3,000.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	4,000.0	6,000.0	10,000.0	
TOTAL CAPITAL	\$6,750.0	\$11,750.0	\$18,500.0	6

Department of Fish and Game

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

Core Services:

- **Management:** Provide opportunities to utilize fish and wildlife resources; expand existing and develop new programs to increase harvest opportunities; protect and improve habitat and access to fishing and hunting opportunities and resources; protect the state's sovereignty to manage fish and wildlife resources; optimize participation in hunting and fishing activities; improve harvest monitoring and assessment.
- **Stock Assessment and Research:** Ensure sustainability and harvestable surplus of fish and wildlife resources; improve existing fish and wildlife stock assessment and research capabilities; expand stock assessments; invest in new technologies; anticipate changing conditions (e.g., climate change, invasive species).
- **Customer Service and Public Involvement:** Provide accurate and meaningful information to all customers and involve the public in management of fish and wildlife resources; enhance public communications materials and delivery; improve Boards of Fisheries and Game and other regulatory processes; increase publication in scientific literature; improve management and scientific reporting; improve licensing/permitting services; improve education and viewing programs within the department.

BUDGET SUMMARY

The FY19 Department of Fish & Game general fund operating budget as submitted by the Governor on December 15, 2017 is \$1,443.0 (2.2%) *below* the FY19 Adjusted Base [a *decrease* of \$100.0 Unrestricted General Funds (UGF) and a *decrease* of \$1,343.0 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

1. Departmental Reductions to Align FY19 Overall Spending Plan: (\$3,475.6) Total [(\$219.2) Federal Rcpts/ (\$501.0) DGF/ (\$2,755.4) Other].

The Governor's FY19 request includes several reductions in receipt authority to align allocations with anticipated receipts and FY19 needs. By reducing uncollectible authority, this action will "true up" individual budgets and will provide a better comparison to actual expenditures. Following are the department's reductions:

- **Commercial Fisheries (\$2,897.4)**
 - Southeast Region Fisheries Management – (\$655.9) Total [(\$100.0) Test Fish (DGF)/ (\$159.9) I/A Rcpts (Other)/ (\$396.0) CIP Rcpts (Other)]

- Central Region Fisheries Management – (\$901.5) Total [(\$400.0) Test Fish (DGF)/ (\$501.5) CIP Rcpts (Other)]
- AYK Region Fisheries Management – (\$400.0) CIP Rcpts (Other)
- Westward Region Fisheries Management – (\$340.0) Total [(\$40.0) I/A Rcpts (Other)/ (\$300.0) CIP Rcpts (Other)]
- Statewide Fisheries Management – (\$600.0) Total [(\$100.0) I/A Rcpts (Other)/ (\$500.0) CIP Rcpts (Other)]
- **Statewide Support Services (\$578.2)**
 - Commissioner’s Office – (\$69.8) Federal Receipts
 - Boards of Fisheries and Game – (\$66.0) Total [(\$1.0) GF/Prgm Rcpts (DGF)/ (\$45.0) I/A Rcpts (Other)/ (\$17.1) CIP Rcpts (Other)/ (\$2.9) Stat Desig (Other)]
 - Advisory Committees – (\$27.4) Total [(\$23.5) Federal Receipts/ (\$3.9) I/A Rcpts (Other)]
 - Habitat – (\$289.1) Total [(\$89.1) I/A Rcpts (Other)/ (\$200.0) CIP Rcpts (Other)]
 - EVOS Trustee Council – (\$125.9) Federal Receipts

2. Reduce Commercial Fisheries Entry Commission Receipt Authority to Avoid Over Appropriation of Funds: (\$142.0) Net Total [(\$1,242.0) CFEC Receipts (DGF)/ \$700.0 Fish and Game Fund (Other)/ \$400.0 F&G CFP (DGF)]. Total revenue of the Commercial Fisheries Entry Commission (CFEC) for FY19 is estimated to be \$7,411.0. In order to avoid over appropriating CFEC receipts, the Statewide Fisheries Management allocation will utilize one-time funding sources in FY19. Reducing the amount of CFEC receipt authority brings the total budget in line with projected revenues.

- **Statewide Fisheries Management**
 - Decrement \$1,100.0 CFEC Rcpts (DGF)
 - One-time Increment (IncOTI) \$700.0 Fish/Game (Other) and \$400.0 F&G CFP (DGF)
- **Commercial Fisheries Entry Commission**
 - Decrement \$142.0 CFEC Rcpts (DGF)

Legislative Fiscal Analyst Comment: Program receipts may be used to administer the program generating the receipts, implement the laws related to the functions generating the receipts, or cover the cost of collecting the receipts (AS 37.05.144). They may not be used directly for programs other than the program that generates the receipts. Arguably, CFEC receipts in excess of CFEC needs should go to the general fund rather than be appropriated for purposes other than CFEC operations. Legislative Finance Division (LFD) includes CFEC receipts in a report of funds used for non-designated purposes (see the summary on Designated Funding Used for Non-Designated Purposes in this publication for more details).

Discussions on the use of Fish & Game Criminal Fines & Penalties Fund (code 1134) are ongoing. The department notes that although the Fish and Game Criminal Fines and Penalties account was deactivated in FY06, a balance of \$414.0 remains in the fund available for appropriation. LFD notes that this code is inactive, and that associated revenue and balances could be transferred to the general fund. While there is no harm using the remaining balance of this fund, LFD generally discourages use of one-time funding for on-going operational uses. This creates a hole in future budgets.

3. **State Subsistence Research – Delete Long-Term Vacant Positions and Funding: (\$278.3) Total [(\$78.3) I/A Rcpts/ (\$200.0) CIP Rcpts] and (2) PPT/ (2) Temp positions.** A total of four long-term vacant positions are deleted, three in Fairbanks and one in Dillingham. Approximately \$12.0 of general funds associated with the deleted PCNs is retained to cover increased core services costs. The decremented I/A Rcpts and CIP Rcpts reduces unrealizable receipts in the allocation.
4. **Statewide Support Services – Transfer Out 15 PFT Positions from the Department to Support Statewide Centralized Services.** Budget authority is retained by the department to pay for a service agreement with the Office of Information Technology (OIT) for the cost of the transferred positions. Savings are anticipated in future fiscal years as further realignment occurs.
 - Transfer full-time Procurement Specialist V located in Juneau to the Department of Transportation to provide procurement and support services.
 - Transfer Commodity Staff (14 PFT positions) to the Department of Administration for Centralized OIT Program Alignment.

STRUCTURE CHANGES

5. **Merged the Wildlife Conservation Special Projects Allocation into Wildlife Conservation Allocation.** The Governor's request transfers \$13,164.8 and 41 positions (25 PFT/ 16 PPT) from the Wildlife Conservation Special Projects allocation to the Wildlife Conservation allocation to increase efficiencies. With this action, the Special Projects allocation is zeroed out. No other structural changes were made by the department for FY19.

CAPITAL REQUEST

6. The Governor's FY19 Department of Fish and Game capital budget totals \$18.5 million (\$6.75 million Other/ \$11.75 million Federal Receipts). Projects requested include:
 - **Pacific Coastal Salmon Recovery Fund:** \$3.5 million Federal Receipts;
 - **Sport Fish Hatchery Facility Upgrades and Improvements – Crystal Lake:** \$1.5 million Fish/Game Funds (Other);
 - **Sport Fish Recreational Boating and Angler Access:** \$3 million [\$2,250.0 Federal Receipts/ \$750.0 Fish/Game Funds (Other)];

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

- **Vessels and Aircraft Maintenance, Repair and Upgrades:** \$500.0 Fish/Game (Other); and
- **Wildlife Management, Research and Hunting Access:** \$10 million total [\$6 million Federal Receipts/ \$4 million Fish/Game (Other)].

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Office of the Governor				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$24,982.8			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	3,340.1			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoed</i>	-			
FY18 Management Plan (GF only)	\$28,322.9	\$3,340.1	13.4%	
<i>One-time Items Removed</i>	(5,187.1)			
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	-			
FY19 Adjusted Base Budget (GF only)	\$23,135.8	(\$5,187.1)	-18.3%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	1,847.0			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	-			
FY19 Governor's Agency Request (GF only)	\$24,982.8	\$1,847.0	8.0%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Appropriation/Allocation			\$1,847.0	
Elections/ Elections	3,517.8	5,364.8	1,847.0	1
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	838.3	838.3	-	
Federal Funds (all allocations)	205.0	230.0	25.0	
Total Non-General Funds (all allocations)	\$1,043.3	\$1,068.3	\$25.0	
Position Changes (From FY18 Authorized to Gov)	153	157	4	
PFT	133	137	4	
PPT	-	-	-	
Temp	20	20	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	310.0	-	310.0	
Information Systems and Technology	44,029.7	43,262.0	87,291.7	
Other	-	-	-	
TOTAL CAPITAL	\$44,339.7	\$43,262.0	\$87,601.7	

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 state statutes. The Governor's Office oversees the Office of Management and Budget and the Division of Elections. The Alaska State Commission for Human Rights and the Redistricting Board are included in the Governor's Office for budgetary purposes.

BUDGET SUMMARY

The FY19 Office of the Governor general fund operating budget is \$1,847.0 (8%) above the FY19 Adjusted Base and \$3.34 million (11.8%) *below* the FY18 Management Plan [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

MAINTENANCE OF SERVICES

- 1. Statewide Primary and General Elections: \$1,847.0 UGF (Multi-year for FY19 and FY20).** Beginning in FY17, the cost of holding elections every two years was divided in half in order to reduce volatility in the final authorized budget of the Office of the Governor while allowing for sufficient funding to conduct biennial elections. Note that section 20 of the Governor's operating bill appropriates money for a two-year period, so money not spent in FY19 will be available in FY20. Similarly, money not spent in FY18 will be available in FY19.

OTHER BUDGET ITEMS

- 2. Multi-Year Funding: \$2,388.7 UGF.** During the FY17 and FY18 budget process, prior year lapsing balances in the Governor's Office were reappropriated for "Costs Associated with State Government Efficiency Efforts and to Pursue Economic Development." In both cases, the reappropriated money was made available through FY19. About \$5.0 was spent for these purposes in FY17.

Any of the \$2.4 million that is not spent during FY18 will be available in FY19, but that amount does not yet appear in the FY19 budget (because the amount will not be known until June of 2018). The legislature may wish to work with the Governor's Office on this issue; the money could be used in place of new requests that meet the purposes of the reappropriated money.

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL BUDGET

The Office of the Governor's FY19 capital budget totals \$87.6 million (\$14 million UGF/ \$310,000 DGF/ \$30 million Other State Funds/ \$43.3 million Federal Funds) for Statewide Information Technology Projects as follows:

- Alaska's Resource for Integrated Eligibility Services Enhancement: \$36,786.5 Total [\$8,939.7 UGF/ \$27,846.8 Federal Receipts].
- Health Information Technology Care Management Solution: \$8,160.0 Total [\$960.0 UGF/ \$7,200.0 Federal Receipts].
- Integrated Resource Information System (IRIS) Upgrade: \$4,500.0 UGF.
- Medicaid Management Information System Upgrade: \$4,692.0 Total [\$552.0 UGF/ \$4,140.0 Federal Receipts].
- Retirement Systems Information Technology Modernization Project: \$30 million Total [Various Retirement System Funds (Other)].
- Senior and Disabilities Services System Upgrade: \$4,712.0 Total [\$636.9 UGF/ \$4,075.2 Federal Receipts].
- State Parks Electronic Fee Stations: \$310.0 GF/Prgm (DGF).
- Statewide Information Technology Project Savings: (\$1,558.9) UGF.

The Governor's "Alaska Economic Recovery Plan" includes \$41 million UGF from the proposed Alaska Economic Recovery Act account and \$1 million Federal Receipts for Statewide Deferred Maintenance, Renovation, Repair, and Equipment in FY19. As of 2018, the backlog of deferred maintenance projects statewide is estimated to be \$1.7 billion, an increase of \$50 million from 2017. This funding would be used to reduce the backlog. Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Health and Social Services

All Dollars in Thousands

	(GF Only)	Change	% Change	See
FY18 Conference Committee (GF Only)	\$1,122,142.6			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	4,894.5			1
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoed</i>	-			
FY18 Management Plan (GF only)	\$1,127,037.1	\$4,894.5	0.4%	
<i>One-time Items Removed</i>	(8,025.2)			
<i>Fiscal Note One-Time Items</i>	(21,689.3)			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	757.9			
<i>Maintenance Increments (IncMs) and Increments</i>	1,693.9			
<i>FY19 Contractual Salary Increases</i>	823.0			
FY19 Adjusted Base Budget (GF only)	\$1,100,597.4	(\$26,439.7)	-2.3%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	143,630.4			
FY19 Governor's Agency Request (GF only)	\$1,244,227.8	\$143,630.4	13.1%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Appropriation			143,630.4	
Children's Services	93,100.0	94,058.7	958.7	3
Public Health	68,776.6	68,401.6	(375.0)	6
Senior and Disabilities Services	31,151.9	36,677.0	5,525.1	2,12
Medicaid Services	554,792.1	692,313.7	137,521.6	2
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	117,155.2	123,145.7	5,990.5	2
Federal Funds (all allocations)	1,463,477.9	1,884,983.0	421,505.1	2,3,4,5
Total Non-General Funds (all allocations)	\$1,580,633.1	\$2,008,128.7	\$427,495.6	
Position Changes (From FY18 Authorized to Gov)	3,541	3,513	(28)	
PFT	3,411	3,390	(21)	
PPT	47	44	(3)	
Temp	83	79	(4)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	1,050.0	-	1,050.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	1,388.6	350.8	1,739.4	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$2,438.6	\$350.8	\$2,789.4	

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 activities:

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

BUDGET SUMMARY

The Governor's FY19 Department of Health and Social Services general fund operating budget request is \$143,630.4 (13.1%) above the FY19 Adjusted Base [an increase of \$143,578.0 Unrestricted General Funds (UGF) and an increase of \$52.4 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

PROGRAM EXPANSION

1. **Requests in the Department of Health and Social Services Related to the Public Safety Action Plan (PSAP): \$18 million UGF (FY18-FY21).** To address a steady increase in both property and violent crimes, Governor Walker asked public safety agencies to evaluate the causes of increased crime and to recommend an action plan. The Public Safety Action Plan is the result of this request.

(<http://law.alaska.gov/pdf/admin/PublicSafetyActionPlan.pdf>)

The PSAP focuses efforts in four main areas:

1. Improving outcomes in the criminal justice system;
2. Identifying public safety resource needs, particularly for rural communities;
3. Improving access to mental health and substance abuse treatment; and
4. Addressing the opioid epidemic and drug trafficking.

The Governor's budget includes \$33.5 million to fund PSAP efforts in the following departments:

- Department of Corrections: \$10,447.6 UGF to address a growing prison population;
- Department of Law: \$1,163.2 UGF for 5 prosecutors and 3 support staff;
- Department of Public Safety: \$3,850.6 UGF and 10 positions; and

- **Department of Health and Social Services: \$18 million (FY18-FY21) for substance use disorders grant funding.**

Part III of the Governor's PSAP addresses how improved mental health and substance abuse services can reduce the number of individuals entering the criminal justice system. The \$18 million multi-year (FY18-FY21) supplemental funding requested to expand substance use disorder (SUD) services will address gaps in the continuum of care identified by local communities as follows:

- **\$3 million** for grantee start-up costs to assist development of local infrastructure necessary to provide programs;
- **\$4.5 million** for medically monitored withdrawal management (“detoxification”) services;
- **\$1.5 million** for ambulatory withdrawal management (individuals who do not require inpatient withdrawal management);
- **\$4.5 million** for residential and outpatient substance use disorder treatment and recovery maintenance services;
- **\$3 million** for sobering centers or 72-hour substance misuse crisis evaluation services; and
- **\$1.5 million** for housing assistance and supports.

Legislative Fiscal Analyst Comment: During the 2016 session, the department received a \$6 million UGF multi-year supplemental appropriation (FY16-FY19) to combat Substance Use Disorders [Sec. 9, Ch. 1, 4SSLA 2016 (HB 257)]. The department has received few applications for grants, reportedly due to infrastructure costs associated with starting up these types of programs. Of the \$6 million, \$4.9 million was unspent through FY17 and was carried forward into FY18.

The department has indicated that obtaining \$3 million in late FY18 for grantee start-up costs may put money in the hands of grantees a few months earlier than obtaining a FY19 appropriation. As requested, the entire \$18 million will appear as a FY18 appropriation. Most of the \$18 million is expected to be expended in FY19 and beyond.

The legislature may wish to explore whether

- the available portion of the existing \$6 million appropriation could be used to meet current needs—thereby reducing the need for additional appropriations;
- a capital grant is a more appropriate means of funding this program—capital grants offer similar flexibility without distorting year-to-year operating budget comparisons.

2. **Medicaid Services.** The FY19 Governor's budget can be compared in two ways. The traditional method used by the legislature compares the FY19 Request to the FY18 Management Plan. This comparison reflects an increase of \$127.6 million UGF, \$737.5 MHTAAR (Other), and \$418.9 million Federal Receipts. The following table highlights significant FY19 changes that occur in the Medicaid budget.

FY19 Budget Changes to Medicaid Services (excludes MHTAAR)				
FY19 Medicaid Projection Increments				
Allocation	UGF	DGF	Federal	Total
Behavioral Health Medicaid Services	\$ 18,743.1		\$ 27,353.7	\$ 46,096.8
Adult Preventive Dental Medicaid Services	\$ 5,391.0		\$ 5,963.3	\$ 11,354.3
Health Care Medicaid Services	\$ 111,350.2	\$ 10.0	\$ 359,660.8	\$ 471,021.0
Senior and Disabilities Medicaid Services	\$ 13,658.4			\$ 13,658.4
sub-total FY19 Medicaid Projections	\$ 149,142.7	\$ 10.0	\$ 392,977.8	\$ 542,130.5
Third year Medicaid Reform; Telemedicine; Drug Database Ch. 25 (SLA 2016) SB 74				
Allocation	UGF	DGF	Federal	Total
Behavioral Health Medicaid Services	\$ 330.0	\$ 375.0	\$ 5,032.5	\$ 5,737.5
Health Care Medicaid Services	\$ (9,916.7)	\$ 42.4	\$ (2,716.7)	\$ (12,591.0)
Senior and Disabilities Medicaid Services	\$ (12,378.5)		\$ 23,621.6	\$ 11,243.1
sub-total Third Year SB 74 Changes	\$ (21,965.2)	\$ 417.4	\$ 25,937.4	\$ 4,389.6
Net FY19 Increases Over FY18 Mgmt. Plan	\$ 127,177.5	\$ 427.4	\$ 418,915.2	\$ 546,520.1

An alternative comparison to FY18, similar to comparisons included in the Governor's FY19 budget presentation, incorporates the following FY18 budget items:

- \$100 million UGF supplemental (requested), and
- \$525 million Federal Receipts (approved by the Legislative Budget and Audit Committee on November 9th, 2017, RPL #06-08-0367).

When the FY18 RPL and the Governor's FY18 \$100 million dollar UGF supplemental request are added to FY18 before comparing FY18 to FY19, general funds are \$27.6 million above and federal authority is \$106 million *below* anticipated FY18 costs.

Legislative Fiscal Analyst Comment: The Governor's \$100 million dollar UGF FY18 supplemental request includes \$93 million for regular Medicaid funding and \$7 million for the Children's Health Insurance Reauthorization Act [CHIPRA (also known as Denali KidCare)]. As of 1/9/18, Congress had not re-authorized the federal CHIPRA program. If re-authorization does not occur, the federal reimbursement rate for eligible children will decline from the enhanced rate of 88% to the regular Medicaid rate of 50%. This reduction in federal match would result in a projected \$7 million shortfall for the remaining half of fiscal year FY18.

Although the Governor's request includes \$7 million for FY18, it does not appear to contain the approximately \$14 million that would be needed to replace lost federal funding in FY19 (assuming the program is not reauthorized by Congress). Additional information on CHIPRA funding allotments can be found at:

<https://www.macpac.gov/publication/federal-chip-funding-when-will-states-exhaust-allotments/>

However, there are other considerations. In addition to FY19 increases stated above, the Governor also included two open-ended language items (one for unrestricted general funds and one for federal receipt authority, both "estimated to be \$0"), to cover Medicaid costs that exceed the Governor's request (see additional comments under section 14 in the discussion of Operating Language in this publication).

Legislative Fiscal Analyst Comment: Similar language included last year applied to FY17, not to the current fiscal year. That language was specifically intended to end the recent practice of delaying provider reimbursement, effectively shifting costs to the following fiscal year. The appropriation successfully encouraged the payment of FY17 liabilities in FY17, thus allowing FY18 to start cost calculations with a clean slate.

At this stage in the budget process, an open-ended appropriation may be a sign of danger. A \$100 million FY18 UGF supplemental indicates that Medicaid costs are growing much faster than expected and/or that Medicaid was severely underfunded in FY18.

The Governor's request for FY19 UGF Medicaid costs includes \$100 million to match FY18 authorization plus \$27 million for cost increases expected in FY19. Open-ended language provides incentive to understate anticipated costs (in order to restrain apparent spending).

Ideally, cost projections should fully fund program costs and appropriations should match projections. That method provides the clearest picture of program costs. Routine supplemental appropriations are a poor second choice, since supplemental costs sometimes slide under the radar. An open-ended appropriation at the beginning of a fiscal year leaves the legislature with limited knowledge/control of program costs.

The Legislative Finance Division is working with the Office of Management and Budget and the department to gain a better understanding of the underlying assumptions used to derive Alaska's Medicaid projections.

MAINTENANCE OF SERVICES

- 3. Children's Services/Front Line Social Workers - Fully Fund 31 Positions Added in FY18: \$1,440.5 Total (\$481.8 Federal Receipts/ \$958.7 UGF).** To account for recruitment delays in FY18, the legislature added 75% of funding needed -- \$2,425.7 UGF and \$1,435.5 federal receipts -- for 31 new PFT positions. These positions were added to reduce excessive caseloads of new workers, extend training to a more appropriate level, and add mentors and supervisors. The department contends that this request fully funds these new positions in FY19.

Legislative Fiscal Analyst Comment: As of December 31, 2017, 28 of the 31 positions have been hired with start dates ranging from October 2017 to February 2018. The final three positions are at varying levels of recruitment.

- 4. Children's Services/ Front Line Social Workers – Increased Federal Authority Due to Amendment to Public Assistance Cost Allocation Plan (PACAP): \$6.5 million Federal Receipts.** Additional authority is requested to reflect the department's ability to claim additional Title IV-E federal receipts for foster care, adoption, and guardianship programs and for indirect costs in the Children's Services Management allocation.

Title IV-E funding is the largest federal funding stream for child welfare activities and helps fund services provided to children that have been removed from families and are considered "needy". Additional Title IV-E federal funding is available to the Office of Children's Services for the following reasons:

- OCS has implemented systems to better capture Title IV-E activities;
- the allocation methodology for Family Resource activities was changed from a penetration rate to a blended rate; and
- four activities associated with training were approved for an enhanced match of 75% versus 50%.

Legislative Fiscal Analyst Comment: Because the department received federal approval for the amendment on May 2, 2017, the Legislative Budget and Audit (LB&A) Committee approved a \$6.5 million RPL for FY17. The FY19 request adds federal receipts to the FY19 base budget; an FY18 supplemental budget request for additional federal authority is likely.

- 5. Alaska Pioneer Homes/Pioneer Homes: \$525.0 Federal Receipts.** By maintaining a minimum 75% veteran occupancy, the Alaska Veterans and Pioneer Home in Palmer is certified as a residential veteran's home facility by the Veterans Administration (V.A.). As such, the Alaska Veterans and Pioneer Home in Palmer bills the V.A. for veterans that occupy the home.

The division is working with the V.A. to receive certification that acknowledges the level of care being provided at the Alaska Veterans and Pioneer Home in Palmer is at a higher level of service than domiciliary care. This certification will allow the Alaska Veterans and Pioneer Home to be reimbursed at a higher daily rate for up to 14 residents (\$46.25 per day to \$107.16 per day with an anticipated one percent market basket rate adjustment in October 2018). The division anticipates receiving the certification in the spring of 2018.

Legislative Fiscal Analyst Comment: The subcommittee may wish to discuss a possible UGF reduction to offset the increase in federal funds.

FUNDING REDUCTIONS

- 6. Public Health/ Chronic Disease Prevention and Health Promotion—Reduce Tobacco Use Education and Cessation Fund Authority: (\$375.0) Tob ED/CES (DGF).** The Tobacco Use Education and Cessation Fund primarily supports the Tobacco Prevention and Control program and receives annual deposits of about \$9 million, composed of approximately one-third cigarette taxes (received monthly) and two-thirds tobacco master settlement agreement (received annually in April). Appropriations from this fund have previously been reduced by \$746.4 in FY14 and \$400.0 in FY15, bringing available funding to \$1,521.4 (or 13.7 percent of the fund's \$11.1 million starting point). Without reductions in spending, current projections indicate that the program is expected to run into cash flow issues by FY20 and will be facing a shortfall by FY21.

ORGANIZATIONAL CHANGES

- 7. New Senior and Disabilities Community Based Grants Allocation (Senior and Disabilities Services Appropriation).** The following three allocations were consolidated into the new Senior and Disabilities Community Based Grants allocation for grant services that serve the same, or similar, populations:

- Senior Community Based Grants;
- Community Developmental Disabilities Grants; and
- Senior Residential Services.

- 8. Transfer Community Health Grants Allocation to Emergency Programs Allocation (Public Health Appropriation).** According to the department, incorporating Community Health Grants into the Emergency Programs allocation will provide for greater financial accountability and program transparency because the Emergency Programs component has programmatic and fiscal oversight of the functions of the Community Health Grants program.
- 9. Transfer Assessment and Planning Allocation into Administrative Support Services Allocation (Departmental Support Services Appropriation).** All funding supports a single contract that provides planning, assessment, and forecasting activities for the Alaska Medicaid program. The management and support of this contract is housed within the division's Administrative Support Services Medicaid unit. The transfer of this authority aligns the contract with the personal services that support the activities.
- 10. Deletion of the Federal Performance Bonus Allocation.** Due to a significant nation-wide decline in federal performance bonus funding over the past few years, the FY19 request decrements \$5.3 million of the \$6 million of uncollectible funding, transfers the remaining \$700.0 of federal unrestricted authority to the Administrative Support Services allocation for Alaska Psychiatric Institute renovations, and zeroes out the federal "Performance Bonus" allocation.

Legislative Fiscal Analyst Comment: The Children's Health Insurance Program Re-authorization Act of 2009 (CHIPRA) established a five-year federal "Performance Bonus" program for states to support the enrollment and retention of eligible children in Medicaid (the federal program ended in FY13).

OTHER ITEMS

- 11. Replace UGF with General Fund Match: Net Zero Change (\$130,519.4) UGF/ \$130,519.4 GF/Match (UGF).** For the past few years the Legislative Finance Division has recommended that the department more accurately reflect general funds that match federal funds. The FY19 budget includes \$130,519.4 in fund changes from UGF to General Fund Match in the following appropriations:

Replacement of UGF with GF Match	
Appropriation	
Behavioral Health	\$ 1,271.8
Children's Services	\$ 8,419.9
Public Assistance	\$ 58,516.9
Public Health	\$ 31,140.5
Senior & Disabilities Services	\$ 17,256.7
Departmental Support Services	\$ 13,913.6
Total	\$ 130,519.4

12. SB 74 Medical Assistance Reform (aka Medicaid Reform) Update. During the 2016 legislative session, the legislature passed legislation that added a number of Medicaid reform requirements to AS 47.05.270. Some of the requirements are included below:

- Behavioral health system reform
- Expanding the use of telehealth
- Enhancing fraud prevention, detection, and enforcement
- Reducing the cost of home and community-based services for behavioral health, senior, and disabilities services
- Redesigning the Medicaid payment process
- Pharmacy initiatives
- Referrals to community and social support services
- Electronic distribution of Explanation of Benefits (EOBs) to Medicaid recipients
- Enhanced care management

SB 74 requires the department to submit an annual report to the legislature by November 15 of each year on the status of the statutorily required reforms. The *AK DHSS Annual Medicaid Reform Report* can be found at:

http://dhss.alaska.gov/HealthyAlaska/Documents/redesign/FY-2017_Annual_Medicaid_Reform_Report.pdf

The FY19 Governor's budget restores \$5,425.1 UGF in the Senior and Disabilities Services Appropriation associated with unachievable savings projections under Medicaid Reform (SB 74).

13. Extend Senior Benefits Payment Program Scheduled to Sunset in FY18: \$19,986.1 UGF. HB 236 (which currently resides in the House Health and Social Services Committee) would extend the Senior Benefits Payment Program sunset clause to FY22. The program provides low-income seniors with modest cash assistance to pay for expenses like food, heating, electricity, transportation and prescription medication. Without action, the program will end in FY18.

14. Potential FY17 UGF Over-expenditures: For FY17, DHSS reported spending \$5.8 million UGF more than was authorized. According to the department, the majority of over-expenditures are associated with encumbrances that have been paid with UGF in anticipation of federal reimbursement. The department indicated it does not believe these FY17 over-expenditures will require ratifications.

Note, however, that FY16 reported actual expenditures were \$7.5 million above authorization. The Division of Legislative Audit subsequently identified six appropriations with potential FY16 over-expenditures totaling \$10.7 million UGF. Subcommittees may wish to have the department address the issue of over-expenditure / supplemental appropriation / ratification.

CAPITAL PROJECTS

The Governor's budget proposes a total DHSS capital budget of \$2.8 million, which is comprised of \$2.44 million of state funds and \$350.8 of federal funds. The three projects requested are listed below.

- **Office of Children's Services Safety and Support Enhancements: \$1,239.4 Total [\$350.8 Federal Receipts/ \$888.6 (UGF)].** Child protective services employees in Alaska are increasingly subjected to verbal abuse, including threats of death or harm. In extreme cases, employees have been physically assaulted by Office of Children's Services' clients. Funding will primarily address office and building safety (e.g. security enhancements, moving some field offices, etc.) and upgraded mobile equipment for Child Welfare professionals.
- **MH Essential Program Equipment: \$500.0 Total [\$250.0 MHTAAR (Other)/ \$250.0 AHFC Dividends (UGF)].** This is a periodic competitive capital grant project administered by the Department of Health and Social Services. Funds allow grantees to purchase durable goods (snow blowers, kitchen equipment, therapeutic equipment, etc.) that are essential to the core services and programs offered to clients. This capital project is offered every other year, and applications for grant funds consistently exceed funds available.
- **MH Home Modification and Upgrades to Retain Housing: \$1,050.0 Total [\$750.0 AHFC Dividends (UGF)/ \$300.0 MHTAAR (Other)].** This is a competitive capital grant program that provides housing modifications for persons with special needs in order to help people remain in their homes, thus reducing costs of providing supported housing or moving to institutional housing.

The Governor's "Alaska Economic Recovery Plan" proposes the following:

- **\$1 million UGF from the proposed Alaska Economic Recovery Act account for Emergency Medical Services Match for Code Blue Project.** This project supports community purchases of essential emergency medical response equipment. Funding is granted to communities and can generate matching funds of up to \$4 million in federal, local, and private funding; and
- **\$2 million UGF for Pioneer Homes Renovations and Repairs.**
 - \$747.3 UGF from the proposed Alaska Economic Recovery Act account for renovation work at the Anchorage Pioneer Home to provide additional capacity for individuals with Alzheimer's Disease or Related Dementia and complex behaviors; and
 - \$1,252.7 UGF from the proposed Alaska Economic Recovery Act account for structural upgrades to the Ketchikan Pioneer Home.

Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Labor and Workforce Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$57,284.4			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoes</i>	-			
FY18 Management Plan (GF only)	\$57,284.4	\$0.0	0.0%	
<i>One-time Items Removed</i>	-			
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	63.8			
FY19 Adjusted Base Budget (GF only)	\$57,348.2	\$63.8	0.1%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	(1,137.7)			
FY19 Governor's Agency Request (GF only)	\$56,210.5	(\$1,137.7)	-2.0%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			(\$1,137.7)	
Leasing	2,828.9	2,687.5	(141.4)	5
Labor Market Information	1,271.6	1,265.2	(6.4)	6
Workers' Compensation Appeals Commission	443.8	421.6	(22.2)	6
Second Injury Fund	3,415.5	3,244.8	(170.7)	6
Fishermen's Fund	1,460.0	1,387.1	(72.9)	6
Mechanical Inspection	2,276.2	2,162.6	(113.6)	6
Workforce Services	804.7	758.3	(46.4)	6
Workforce Development	16,062.6	15,714.9	(347.7)	4,6
Unemployment Insurance	871.8	828.3	(43.5)	6
Alaska Vocational Technical Center	10,135.0	9,962.1	(172.9)	3,4
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	20,355.2	17,002.1	(3,353.1)	1,3,6
Federal Funds (all allocations)	84,515.7	73,897.1	(10,618.6)	3,6
Total Non-General Funds (all allocations)	\$104,870.9	\$90,899.2	(\$13,971.7)	
Position Changes (From FY18 Authorized to Gov)	775	754	(21)	
PFT	710	691	(19)	2
PPT	58	51	(7)	2
Temp	7	12	5	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$0.0	\$0.0	\$0.0	

Department of Labor and Workforce Development

The Department of Labor and Workforce Development (DOLWD) is responsible for providing safe and legal working conditions and advancing employment opportunities. To accomplish these goals the department provides the following core services:

- statutory and regulatory assistance and enforcement to protect Alaska's workers;
- workforce development to support Alaska hire and economic development; and
- income replacement for injured, unemployed, and permanently disabled workers.

BUDGET SUMMARY

The FY19 Department of Labor and Workforce Development general fund operating budget submitted by the Governor on December 15, 2017 is \$1,137.7 (2%) *below* the FY19 Adjusted Base [a *decrease* of \$391.9 Unrestricted General Funds (UGF) and a *decrease* of \$745.8 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

MAINTENANCE OF SERVICES

1. Mental Health Trust Projects in Support of Workforce Programs: \$200.0 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).

The following Department of Labor and Workforce Development programs are included in the Governor's FY19 request:

- **Commissioner and Administrative Services/ Labor Market Information: \$75.0 MHTAAR (IncOTI).** These funds will be used to produce a biannual health care workforce profile and needs assessment and to develop tools and analyses to better understand and monitor workforce issues; and
- **Employment and Training Services/ Workforce Services: \$125.0 MHTAAR (IncT FY16-FY19).** This increment will provide funds for a liaison between the Division of Employment and Training Services and the Department of Corrections. The position will collaborate with various partner programs and stakeholders to identify and make available services and opportunities aimed at reducing recidivism.

2. Transfer Commodity Staff to the Department of Administration for Centralized Office of Information Technology Program Alignment: (8) Total Positions (7 PFT/ 1 PPT). The Department of Administration created a centralized Office of Information Technology (OIT) in order to better align the State of Alaska's Information Technology (IT) organizations. The purpose of this centralization is to deliver the lowest cost for commodity services by leveraging the purchasing power of the State as a single organization; and realigning department IT organizations to a Chief Information Officer responsible for all statewide technology-related strategy and operations. In FY19, the Department of Labor and Workforce Development is transferring eight positions to the centralized OIT as part of the second phase of organizational implementation. Further realignment of IT staff is planned throughout FY19 and FY20.

Budget authority is retained by DOLWD to pay for a service level agreement with OIT for the cost of the transferred positions.

3. Fund Changes to Maintain Programs: Net Zero Change [(\$250.5) UGF/ \$250.5 GF/Prgm (DGF)/ \$260.0 I/A Rcpts (Other)/ (\$260.0) Fed Rcpts].

The following two allocations will replace UGF with DGF and Federal Receipts with Interagency Receipts in order to maintain operations and align budgets with available funding:

- **Alaska Vocational Technical Center** – Switch (\$250.5) UGF for \$250.5 GF/Prgm Rcpts (DGF). Due to additional revenue initiatives at the Alaska Vocational Technical Center (AVTEC), such as a new Penn Foster partnership and increased tax credit donations, five percent of the UGF in the AVTEC budget can be replaced with program receipt budget authority without negatively impacting services.
- **Vocational Rehabilitation Administration** – Switch (\$260.0) Fed Rcpts for \$260.0 Interagency Receipts (Other). The Vocational Rehabilitation Administration allocation reflects a change in revenue authority to match anticipated expenditures. Previously unbudgeted internal I/A Receipts will now be shown as budgeted.

FUNDING REDUCTIONS

4. Technical and Vocational Education Program (TVEP) Adjustment: (\$520.6) VoTech Ed (DGF).

The Technical and Vocational Education Program (TVEP) is a diversion of 0.16 percent of employee contributions to the unemployment insurance trust fund. The receipts are transferred to a separate account in the general fund and, subject to appropriation, are used to support vocational training centers around the State. Taxable wages have declined and a reduction in TVEP authority is required to avoid overspending the fund. Legislative appropriations occur in several departments and have been based on a formula set by statute (AS 23.15.820 – 23.15.850). TVEP reductions in the Department of Labor and Workforce Development affect the following allocations:

- Employment and Training Services/ Workforce Development – (\$347.7); and
- Alaska Vocational Technical Center/ Alaska Vocational Technical Center – (\$172.9).

5. Commissioner and Administrative Services/ Leasing – Savings as a Result of Space Consolidation Efforts and Efficiencies to Meet Budgetary Constraints: (\$141.4) UGF.

Since FY15, the department's UGF funding for lease costs has been reduced by 27% (\$1.1 million). The department has significantly reduced its leased space in Anchorage, Juneau, Kenai, and Eagle River through lease consolidations, and closed its Bethel and Kotzebue offices. The department continues to review leases for further consolidation opportunities. Due to these efforts, UGF is reduced in FY19 to align the budget with anticipated expenditures.

6. Other Reductions to Align Authority with Anticipated Needs: (\$14,522.4) Total [(\$475.7) DGF/ (\$3,688.1) Other/ (\$10,358.6) Fed Rcpts].

In addition to the \$141.4 UGF cut for Leasing and the \$520.6 TVEP (DGF) cut, the Department of Labor & Workforce Development decremented \$14.5 million in other funding to align anticipated revenue collections with anticipated FY19 spending.

ORGANIZATIONAL CHANGES

There are no significant organizational or structural changes requested by the department in FY19.

CAPITAL REQUEST

No capital projects are included for the Department of Labor and Workforce Development in the Governor's FY19 Capital budget submission.

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Law				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$52,026.6			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	1,465.2			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoed</i>	-			
FY18 Management Plan (GF only)	\$53,491.8	\$1,465.2	2.8%	
<i>One-time Items Removed</i>	(1,465.2)			4
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	58.3			
FY19 Adjusted Base Budget (GF only)	\$52,084.9	(\$1,406.9)	-2.6%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	1,163.2			
FY19 Governor's Agency Request (GF only)	\$53,248.1	\$1,163.2	2.2%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			\$1,163.2	
Second Judicial District	1,202.4	1,417.1	214.7	1
Third Judicial: Anchorage	7,176.0	7,649.1	473.1	1
Fourth Judicial District	5,627.3	5,937.8	310.5	1
Criminal Appeals/Special Litigation	4,175.2	4,340.1	164.9	1
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	31,632.3	31,309.2	(323.1)	2,3
Federal Funds (all allocations)	1,492.4	1,492.4	-	
Total Non-General Funds (all allocations)	\$33,124.7	\$32,801.6	(\$323.1)	
Position Changes (From FY18 Authorized to Gov)	503	500	(3)	
PFT	503	500	(3)	
PPT	-	-	-	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$0.0	\$0.0	\$0.0	

Department of Law

The mission of the Alaska Department of Law is to prosecute crime and provide legal services to state government for the protection and benefit of Alaska's citizens. The department represents the State in:

- protecting the safety and physical and financial well-being of Alaskans;
- fostering the conditions for economic opportunity and responsible development and use of our natural resources;
- protecting the fiscal integrity of the State; and
- promoting and defending good governance.

The Criminal Division protects the public by prosecuting 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 management of the department.

BUDGET SUMMARY

The FY19 Department of Law general fund operating budget as submitted by the Governor is \$1,163.2 (2.2%) above the FY19 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

PROGRAM EXPANSION

- 1. Requests in Department of Law Related to the Public Safety Action Plan (PSAP): \$1,163.2 UGF and 8 PFT Positions.** To address a steady increase in both property and violent crimes, Governor Walker asked public safety agencies to evaluate the causes of increased crime and to recommend an action plan. The Public Safety Action Plan (<http://law.alaska.gov/pdf/admin/PublicSafetyActionPlan.pdf>) is the result of this request. The PSAP focuses efforts in four main areas:
 1. Improving outcomes in the criminal justice system;
 2. Identifying public safety resource needs, particularly for rural communities;
 3. Improving access to mental health and substance abuse treatment; and
 4. Addressing the opioid epidemic and drug trafficking.

The Governor's budget includes \$33.5 million to fund PSAP efforts in the following departments:

- Department of Corrections: \$10,447.6 UGF to address a growing prison population,
- **Department of Law: \$1,163.2 UGF for 5 prosecutors and 3 support staff (discussed below),**
- Department of Public Safety: \$3,850.6 UGF and 10 positions, and

- Department of Health and Social Services: \$18 million of substance use disorders grant funding.

Individual department narratives will highlight budget items related to the Public Safety Action Plan. The Department of Law's PSAP related requests are highlighted below.

Criminal Division Allocation	Description	UGF	Prose- cutors	Support Staff
Second Judicial District	Add a Prosecutor in Kotzebue	214.7	1	0
Third Judicial District: Anchorage	Add Prosecutors and Support Staff in Anchorage	473.1	2	2
Fourth Judicial District	Add Prosecutor and Support Staff in Bethel	310.5	1	1
Criminal Appeals/Special Litigation	Establish Statewide Drug Prosecutor in Anchorage	164.9	1	0
Law FY19 Total		1,163.2	5	3

Compared to the FY18 Management Plan, the above increment requests increase UGF in the Criminal Division's budget by 4.4 percent.

FUNDING REDUCTIONS

- 2. Criminal Division/ Second Judicial District – Delete Uncollectible Receipt Authority: (\$184.5) SDPR (Other).** Because an agreement between the Department of Law and the North Slope Borough to fund a second prosecutor in Utqiagvik (formerly known as Barrow) was not renewed in FY16, FY17 or FY18, the authorization to receive the funding is being deleted.
- 3. Civil Division/ Regulatory Affairs Public Advocacy – Delete Uncollectible Receipt Authority: (\$138.6) ISPF-I/A (Other).** According to the department, the authorization to receive and expend In-State Natural Gas Pipeline Inter-Agency Receipts funding is no longer necessary because the funding was associated with an in-state natural gas pipeline project that is no longer being pursued.

OTHER BUDGET ITEMS

- 4. Civil Division/ Natural Resources – Multi-Year Funding for Outside Counsel, Experts and the State's Share of Interim Remedial Actions in the North Pole Area. \$1,465.2 UGF.** The Department of Law's budget has included multi-year appropriations for outside counsel for non-gasline and North Pole Remedial Action since FY13. All but \$1,465.2 of the appropriations was expended prior to FY18.

Any of the \$1.46 million that is not spent during FY18 will be available in FY19, but that amount does not yet appear in the FY19 budget (because the amount will not be known until June of 2018).

ORGANIZATIONAL CHANGES

There are no significant organizational changes in the Department of Law's FY19 budget request.

CAPITAL BUDGET

No capital projects are included for the Department of Law in the Governor's FY19 Capital budget submission.

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Military and Veterans' Affairs

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$16,377.8			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Veto</i>	-			
FY18 Management Plan (GF only)	\$16,377.8	\$0.0	0.0%	
<i>One-time Items Removed</i>	-			
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	21.8			
FY19 Adjusted Base Budget (GF only)	\$16,399.6	\$21.8	0.1%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	593.3			
FY19 Governor's Agency Request (GF only)	\$16,992.9	\$593.3	3.6%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			\$593.3	
Office of the Commissioner	2,897.9	3,270.2	372.3	1,2
Air Guard Facilities Maintenance	1,671.7	1,892.7	221.0	3
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	10,206.7	10,206.7	-	
Federal Funds (all allocations)	30,778.5	30,691.5	(87.0)	
Total Non-General Funds (all allocations)	\$40,985.2	\$40,898.2	(\$87.0)	
Position Changes (From FY18 Authorized to Gov)	272	279	7	
PFT	269	277	8	2,3
PPT	2	2	-	
Temp	1	-	(1)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	8,600.0	8,600.0	
TOTAL CAPITAL	\$0.0	\$8,600.0	\$8,600.0	

Department of Military and Veterans' Affairs

The Department of Military and Veterans' Affairs (DMVA) provides military forces to accomplish military missions in the state and around the world; provide homeland security and defense; emergency response; veterans' services; and youth military-style training and education.

BUDGET SUMMARY

The FY19 Department of Military and Veterans' Affairs general fund operating budget request submitted by the Governor on December 15, 2017 is \$593.3 (3.6%) above the FY19 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/ PROGRAM EXPANSION

1. **Office of the Commissioner – Rural Engagement – Expand the Alaska State Defense Force: \$210.9 UGF.** According to the department, this request to expand rural participation in the Alaska State Defense Force (ASDF), a voluntary element of the Alaska Organized Militia, will increase rural community emergency capacity and resiliency, and assist in meeting Alaska's needs in a changing Arctic.

Because the National Guard force structure is dictated by federal authorities, a request for increased troop strength requires considerable lead time. The goal for the ASDF over the next three-to-five years is to expand to a battalion comprised of an 81-member headquarters in Bethel and three 77-person companies. Each of the companies would be comprised of 4 or 5-person Scout teams from across Western Alaska, but initially concentrated in the Yukon-Kuskokwim Delta region.

Requested funding will be used to form and equip an initial force composed of the headquarters team and one company of Scouts. State funding is necessary because federal regulations prohibit using federal funding for the ASDF.

Legislative Fiscal Analyst Comment: In FY17, the legislature denied a similar request for \$1.3 million UGF to expand rural participation in the ASDF and a capital request for \$1 million UGF to purchase equipment supporting the new Bethel Scout Battalion. In FY18, the legislature denied an identical request for \$210.9 UGF to expand the ASDF.

2. **Office of the Commissioner – Special Assistant Position to Address Potential Base Realignment and Closure (BRAC): \$161.4 UGF and 1 PFT Position.** The Budget Control Act of 2011 affects ongoing discussions of base closures. New BRAC authorization is currently being considered by the United States Congress for execution in federal fiscal year 2021. This request adds a Special Assistant to improve situational awareness of important developments pertaining to Congressional action and can assist the department in responding. According to the department, this position will be part of a coherent engagement strategy with Department of Defense (DOD) and other key stakeholders (federal military senior officials, Congressional Delegation (CODEL), local base retention groups, and members of the public) to preserve, protect, and potentially grow (DOD) investment in the State of Alaska. The Governor's budget also includes a

supplemental request for \$94.1 UGF. The department identified the position's start date as December 1, 2017.

3. **Air Guard Facilities Maintenance – Funding to Support C-17 Operations: \$884.0 Total [\$663.0 Federal/ \$221.0 G/F Match (UGF)] and 5 PFT Positions.** C-130 aircraft operations are being reduced throughout the United States Air Force, with older ones being retired and not replaced. Alaska lost eight C-130 aircraft that supported the 176th Wing and provided assistance with search and rescue missions. To offset the loss, the Active Duty Air Force transferred eight C-17 aircraft to the Alaska Air National Guard (AKANG) in May 2017. These newly gained aircraft remain federal property but will be maintained and operated by the AKANG. Furthermore, the State of Alaska accepted responsibility for Facilities Operations/Maintenance for three buildings, totaling 480,000 square feet, supporting C-17 operations. These buildings were previously federally funded and now will be partially paid for by the State.

Five new full-time positions (added in the FY18 Management Plan) and funding to support Facilities Operations/Maintenance of three buildings are being requested and are split between federal funds (75%) and general fund match (25%). The Governor's budget also includes a supplemental request for an identical amount.

ORGANIZATIONAL CHANGES

The FY19 budget request includes consolidation of the National Guard Military Headquarters allocation into the Office of the Commissioner allocation. The National Guard Military Headquarters consists of two Division Directors who serve as Assistant Adjutants General (ATAG) for the Department of Military & Veterans' Affairs. The FY19 request transfers the two ATAGs and associated funding to the Office of the Commissioner where the Adjutant General's position is located.

CAPITAL REQUEST

The Governor's FY19 Department of Military and Veterans' Affairs capital budget totals \$8.6 million Federal Receipts. A summary of the projects follows:

- **National Guard Counterdrug Support: \$100.0 Federal Receipts.** The National Guard Counter Drug Support Program is federally funded and supports law enforcement agencies in drug enforcement operations, assists in training Law Enforcement Officers, and provides community-based drug awareness programs. This funding is primarily used for technological support, supplies and/or facility improvements to the program.
- **State Homeland Security Grant Programs: \$8,500.0 Federal Receipts.** The State of Alaska receives Homeland State Security Grants from the U.S. Department of Homeland Security for two programs:
 - **The State Homeland Security Program** supports state and local efforts to prevent terrorism and other catastrophic events. Funding is utilized for equipment acquisition and deployment, development of homeland security and/or emergency management plans, and to conduct training and exercises for first responders.
 - **The Pre-Disaster Mitigation Grant Program** provides resources to assist states, tribal governments, and local communities in efforts to implement a sustained natural hazard

mitigation program. A portion of the funding is utilized to update or develop hazard mitigation plans for the State or local jurisdictions. The remainder is nationally competitive for hazard mitigation projects. Under this program, the Port of Anchorage was selected to receive funding for a fuel terminal relocation and seismic resilience project. This program requires a 25% non-federal cost-share, which is funded by local jurisdictions for competitive projects or through funds from state disaster declarations.

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Natural Resources				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$90,420.2			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	7,303.5			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoes</i>	-			
FY18 Management Plan (GF only)	\$97,723.7	\$7,303.5	8.1%	
<i>One-time Items Removed</i>	(7,405.5)			
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	182.4			
FY19 Adjusted Base Budget (GF only)	\$90,500.6	(\$7,223.1)	-7.4%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	1,125.0			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	(152.0)			
FY19 Governor's Agency Request (GF only)	\$91,473.6	\$973.0	1.1%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			\$973.0	
Project Management & Permitting	942.3	895.3	(47.0)	4
Information Resource Management	3,233.4	3,183.4	(50.0)	5
Facilities	2,717.9	2,592.9	(125.0)	6
Oil & Gas	8,709.8	9,209.8	500.0	1
Mining, Land & Water	23,155.9	22,623.9	(532.0)	7
Forest Management & Development	3,283.0	3,385.0	102.0	2
Fire Suppression Activity	5,973.0	7,098.0	1,125.0	
Agricultural Development	1,524.6	1,660.7	136.1	3
North Latitude Plant Material Center	1,670.3	1,609.2	(61.1)	9
Agriculture Revolving Loan Program Administration	496.7	421.7	(75.0)	
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	38,001.6	35,616.5	(2,385.1)	5
Federal Funds (all allocations)	25,345.3	25,144.3	(201.0)	3
Total Non-General Funds (all allocations)	\$63,346.9	\$60,760.8	(\$2,586.1)	
Position Changes (From FY18 Authorized to Gov)	907	900	(7)	
PFT	629	624	(5)	3, 5, 7, 9
PPT	214	215	1	2
Temp	64	61	(3)	7
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	1,800.0	15,300.0	17,100.0	
Maintenance and Repairs	200.0	4,700.0	4,900.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	5,750.0	1,250.0	7,000.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	150.0	1,800.0	1,950.0	
TOTAL CAPITAL	\$7,900.0	\$23,050.0	\$30,950.0	

Department of Natural Resources

The Department of Natural Resources' (DNR) mission is to develop, conserve and maximize the use of Alaska's natural resources consistent with the public interest. Core services include:

- Fostering responsible commercial development and use of state land and natural resources, consistent with the public interest, for long-term wealth and employment;
- Mitigating threats to the public from natural hazards by providing comprehensive fire protection services on state, private, and municipal lands, and through identifying significant geologic hazards;
- Providing access to state lands for public and private use, settlement, and recreation; and
- Ensuring sufficient data acquisition and assessment of land and resources to foster responsible resource and community development and public safety.

BUDGET SUMMARY

The FY19 Department of Natural Resources general fund operating budget as submitted by the Governor on December 15, 2017 is \$973.0 (1.1%) above the FY19 Adjusted Base. Unrestricted General Funds (UGF) are *down* by \$727.0 (-1.2%), but Designated General Funds (DGF) are up by \$1,700.0 (5.5%). Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. **Oil & Gas – Funding for Reservoir Modeling Contractual Services and Software Licensing: \$500.0 UGF.** The Governor's budget includes \$500.0 UGF for reservoir modeling. The department had received a capital project for this purpose in FY09, but the remaining balance of that appropriation was re-appropriated in FY17. Reservoir modeling is used by DNR to audit producers' work and resolve disputes. Of the total, \$250.0 is a one-time increment for contractual services and the remaining \$250.0 is for the ongoing cost of software licensing.
2. **Forest Management & Development – Restore Forester in Haines: \$102.0 UGF and 1 PPT Position.** In the FY18 budget, the legislature approved a one-time increment to support a part-time forester position in the Haines State Forest, which allowed the Forestry office in Haines to remain open. The Governor's budget requests that the funding continue and be added to the base budget. This position maintains 46 miles of roads in the Haines State Forest and facilitates timber sales.
3. **Agricultural Development – Increase State Veterinarian Program Funding: \$176.8 Total [\$61.1 UGF/ \$75.0 Ag Revolving Loan (DGF)/ \$40.7 Federal Receipts] and 1 PFT Position.** The Governor's budget includes two increases to the State Veterinarian program. The first is an increment of \$101.8 (\$61.1 UGF, \$40.7 Fed) for a Development Specialist position. The second is an increment of \$75.0 of Agriculture Revolving Loan Fund receipts to support a State Veterinarian position

that was created by reclassifying a vacant Natural Resource Manager position. According to the department, the new State Veterinarian program in the Division of Agriculture will serve as a liaison with the agriculture, meat and dairy industries with the intent to expand in-state food production.

Legislative Fiscal Analyst Comment: This increment is a non-designated use of the ARLF. AS 03.10.040(b) designates the Agricultural Revolving Loan Fund to be used only for the cost of administering Chapter 10 (the Agriculture Revolving Loan Act) and for the operations of the Board of Agriculture and Conservation.

There is an existing Office of the State Veterinarian in the Department of Environmental Conservation, and the Department of Commerce, Community and Economic Development employs Development Specialists to promote local industry. The legislature should examine this increment to ensure that it does not duplicate existing efforts.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 4. Office of Project Management & Permitting – Develop Cost Accounting Method to Appropriately Bill Overhead Costs: (\$47.0) UGF.** The Office of Project Management and Permitting will develop a cost accounting method that will allow the agency to bill industry for overhead costs. This will reduce UGF spending by \$47.0, replacing it with additional statutory designated program receipts (Other) using existing authority.
- 5. Information Resource Management – Delete Geographic Information Systems (GIS) Analyst: (\$82.3) Total [(\$50.0) UGF/ (\$32.3) Interagency Receipts (Other)] and (1) PFT Position.** Information Resource Management will eliminate an entry-level GIS analyst position and reassign duties to other positions. This is the only entry-level GIS position in the agency, possibly creating recruitment problems in the future.
- 6. Facilities – Lease Savings from Atwood Building Consolidation: (\$125.0) UGF.** DNR will reduce its footprint in the Atwood Building in Anchorage by 23,000 square feet, reducing lease costs.
- 7. Mining, Land & Water – Multiple Reductions and Utilization of New Revenue: (\$532.0) Total [(\$1,532.0) UGF/ \$1,000.0 GF/Program Receipts (DGF)] and (3) PFT/ 1 Temporary Positions.** The Division of Mining, Land & Water will reduce UGF spending through several measures:
 - **Replace Unrestricted General Funds with Program Receipt Authority: (\$1,000.0) UGF/ \$1,000.0 GF/Program Receipts (DGF).** Program Receipt revenue has increased in the division, and this fund change utilizes a portion of that revenue to offset UGF spending. Since excess program receipt revenue lapses to the general fund, this change does not impact the budget deficit.
 - **Reduce Administrative Support: (\$80.0) UGF, (1) PFT.** The implementation of Shared Services of Alaska is anticipated to reduce DNR's overall administrative workload. An Administrative Assistant II position will be deleted, along with associated funding.

- **Northern Region Permits and Easements Reduction: (\$107.0) UGF, (1) PFT.** The department had difficulty filling a Natural Resources Specialist III position located in Fairbanks, and will eliminate it and associated funding. This may increase the division's permitting backlog.
 - **Unified Permit Program Reduction: (\$245.0) UGF.** The department received an increment for the Unified Permit Program in FY18, with the expectation that the amount would decrease in subsequent years. Consistent with that plan, the department will reduce UGF spending by \$245.0 as a phase of the permitting program is completed. While the increment was given as GF/Program Receipts (DGF), the department will reduce general funds to continue utilizing its program receipt revenue.
 - **Native Allotment Program: (\$100.0) UGF, (1) PFT, 1 Temporary Position.** UGF funding for the Native Allotment Program will be replaced with a \$100.0 federal grant using existing receipt authority, and the existing permanent full-time position will be converted to a temporary position.
8. **Geological & Geophysical Surveys – Replace General Fund with Program Receipt Authority: Net Zero Change [(\$200.0) UGF/ \$200.0 GF/Program Receipts (DGF)].** The department began charging fees for the release of seismic data that was given to the State as part of tax credit applications. The division will utilize the new fee revenue to offset UGF.
9. **North Latitude Plant Material Center – Delete Agronomist Position and Associated Funding: (\$101.8) Total [(\$61.1) UGF/ (\$40.7) Federal] and (1) PFT position.** This position is currently vacant. Due to difficulty recruiting, the position will be removed and responsibilities spread to other positions in the department.
10. **Parks & Outdoor Recreation – Reduce Unrestricted General Funds Due to Fee Increases: Net Zero Change [(\$500.0) UGF and \$500.0 GF/Program Receipts (DGF)].** The department proposed a regulatory package to increase user fees, which is expected to increase fee revenue by \$600.0. The Governor's budget uses \$500.0 of this anticipated revenue to offset UGF.

OTHER ISSUES

11. **Multi-Year Funding in the Commissioner's Office – Arctic Strategic Transportation and Resources.** During the 2017 legislative session, a multi-year appropriation was approved for the Arctic strategic transportation & resources (FY17-FY20). The original appropriation was estimated to be \$7,303.5. The funding was appropriated after July 1, 2017 and retroactively dated to FY17, so the entire amount was carried forward into FY18. The department estimates it will spend 30% of the funding in FY18. The final amount will be determined at the end of FY18 (June 30, 2018) and added to FY19 authorization at that time.

ORGANIZATIONAL CHANGES

There were no major organizational changes in FY19.

CAPITAL BUDGET

The DNR FY19 capital budget totals \$30.95 million (\$1,450.0 UGF, \$750.0 DGF, \$5,700.0 Other State Funds, and \$23,050.0 Federal Receipts). The budget includes mostly ongoing projects that do not require general funds, including the Abandoned Mine Lands Reclamation Federal Program and the Federal and Local Government Funded Forest Resource and Fire Program Projects. In addition, the Exxon Valdez Oil Spill Trustee Council is proposing to purchase a parcel of land near Valdez for \$5,200.0 EVOS Civil Settlement funds (Other). The appropriations that require general funds are:

- **National Historic Preservation Fund: \$550.0 [\$400.0 Federal Receipts/ \$150.0 G/F Match (UGF)]:** This project provides funding for historic preservation programs and projects.
- **National Mineral Security Program - 3DEEP: \$16,000.0 [\$15,000.0 Federal Receipts/ \$1,000.0 G/F Match (UGF)].** This is a ten-year project to geologically map the state at a 1:100,000 scale, create new geophysical survey data, upgrade historical surveys, and publish the resulting data and reports. The grant has a 25% matching requirement, which will be met with \$1,000.0 of state matching funds as well as existing capital projects and in-kind support.
- **Snowmobile Trail Development Program and Grants: \$250.0 Snow Machine Registration Receipts (DGF).** Snow machine registration receipts are used to fund snowmobile trail development grants to nonprofit organizations.
- **National Recreational Trails Federal Grant Program: \$1,700.0 [\$1,500.0 Federal Receipts/ \$200.0 GF/Program Receipts (DGF)].** The National Recreational Trails Federal Grant Program provides grants to government and community organizations for trail development and improvement projects statewide.
- **State Parks Public Use Cabins: \$300.0 GF/Program Receipts (DGF).** This project would fund the construction of five new public use cabins in high demand areas. These projects are expected to have a payback period of less than five years.
- **USGS Statemap Grant to Spur Mineral Investment and Exploration: \$600.0 [\$300.0 Federal Receipts/ \$300.0 G/F Match (UGF)].** This is a federal grant from the US Geological Survey to produce geologic mapping of the Tanacross area, aimed at enhancing mineral exploration.

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Public Safety				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$167,896.8			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoed</i>	-			
FY18 Management Plan (GF only)	\$167,896.8	\$0.0	0.0%	
<i>One-time Items Removed</i>	-			
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	129.7			
FY19 Adjusted Base Budget (GF only)	\$168,026.5	\$129.7	0.1%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	3,573.0			
FY19 Governor's Agency Request (GF only)	\$171,599.5	\$3,573.0	2.1%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Appropriation			\$3,573.0	
Fire & Life Safety	3,983.1	4,183.1	200.0	1
Alaska State Troopers	120,154.1	122,862.1	2,708.0	1
Statewide Support	16,492.6	17,157.6	665.0	1
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	14,090.0	11,217.0	(2,873.0)	4,5
Federal Funds (all allocations)	12,169.1	16,487.6	4,318.5	2,3,5
Total Non-General Funds (all allocations)	\$26,259.1	\$27,704.6	\$1,445.5	
Position Changes (From FY18 Authorized to Gov)	842	833	(9)	
PFT	816	804	(12)	
PPT	18	18	-	
Temp	8	11	3	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	1,083.9	1,083.9	7
TOTAL CAPITAL	\$0.0	\$1,083.9	\$1,083.9	

Department of Public Safety

The mission of the Department of Public Safety (DPS) is to ensure public safety and enforce fish and wildlife laws. The department's core services include the following items:

- perform criminal and traffic law enforcement and investigations;
- manage and perform search and rescue operations for lost and missing persons;
- provide wildlife law enforcement and investigations;
- provide support to rural law enforcement entities;
- provide security to the Alaska Court System, transport inmates to and from court and between correctional institutions, and perform extradition of wanted persons to and from the State;
- provide criminal laboratory and forensic services, administer the statewide Breath Alcohol Program, maintain Alaska's DNA identification system, and provide expert testimony in court proceedings;
- maintain accurate and complete Alaska criminal records and information for use by law enforcement agencies in Alaska and elsewhere; and
- manage building and fire codes (development, adoption, interpretation, and review), conduct building plan reviews of commercial buildings and 4-plex and larger housing units, conduct fire and life safety inspections of priority facilities, and provide law enforcement for the investigation of fires for the crime of arson and property crimes involving fire.

BUDGET SUMMARY

The FY19 Department of Public Safety (DPS) general fund operating budget as submitted by the Governor on December 15, 2017 is \$3,573.0 (2.1%) above the FY19 Adjusted Base [an increase of \$3,645.9 Unrestricted General Funds (UGF) and a *decrease* of \$72.9 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

PROGRAM EXPANSION

- 1. Requests in the Department of Public Safety Related to the Public Safety Action Plan (PSAP): \$3,850.6 Total (\$3,725.6 UGF, \$125.0 DGF), 8 PFTs and 2 Non-Perm Positions.** To address a steady increase in both property and violent crimes, Governor Walker asked public safety agencies to evaluate the causes of increased crime and to recommend an action plan. The Public Safety Action Plan (<http://law.alaska.gov/pdf/admin/PublicSafetyActionPlan.pdf>) is the result of this request. The PSAP focuses efforts in four main areas:

1. Improving outcomes in the criminal justice system;
2. Identifying public safety resource needs, particularly for rural communities;

3. Improving access to mental health and substance abuse treatment; and
4. Addressing the opioid epidemic and drug trafficking.

The Governor's budget includes \$33.5 million to fund PSAP efforts in the following departments:

- Department of Corrections: \$10,447.6 UGF to address a growing prison population,
- Department of Law: \$1,163.2 UGF for 5 prosecutors and 3 support staff,
- **Department of Public Safety: \$3,850.6 UGF and 10 positions (discussed below),** and
- Department of Health and Social Services: \$18 million of substance use disorders grant funding.

The Department of Public Safety's PSAP related requests are highlighted below.

- A. Alaska State Troopers (AST) Detachments – Improve Law Enforcement Access to Rural Communities: \$2 million UGF.** DPS is requesting \$2 million of UGF in the travel line to improve response times to emergency calls and to increase proactive policing activities. According to DPS, proactive policing deters criminal activity by increasing police presence in communities and engaging with the public. For the troopers, proactive policing in rural Alaska requires traveling to villages within the region to attend community/village council meetings or events, meet with village/tribal leaders, conduct presentations at the local schools, and other “non-enforcement” type activities that serve to bolster the public’s trust and relationship with the troopers.

Legislative Fiscal Analyst Comment: As the table below illustrates, the FY19 Governor’s request significantly expands the AST Detachments’ travel line. The FY19 travel line is \$789.1 (31%) above FY14 actual travel expenditures.

AST Detachments	09Actuals	14Actuals*	19Gov
Total Budget	47,592.0	71,431.6	74,242.1
AST Detachments' Travel Line	1,558.5	2,587.1	3,376.2
% of Travel to Overall Budget	3.27%	3.62%	4.55%

*Excluding FY19, FY14 was the peak year for AST Detachments' travel expenditures.

- B. Alaska Bureau of Investigation – Add Criminal Investigators in Bethel and Anchorage for Domestic Violence and Sexual Assault (DVSA) Related Investigations: \$570.6 UGF and 2 Non-Permanent Positions.** Two new State Trooper/Investigator non-permanent positions will provide assistance to the Department of Law on DVSA investigations and enforcement. The positions will be embedded in the Department of Law and will focus on providing follow-up investigative activities specific to domestic violence, sexual assault, and sexual abuse of minor cases.
- C. Alaska Wildlife Troopers (AWT) Aircraft Section – Add Two Aircraft Pilot II Positions to Support Law Enforcement Service in Rural Alaska: \$335.0 UGF and 2 PFT Positions.** The AWT Aircraft Section operates one King Air 350 airplane and two Airbus Astar helicopters. The King Air 350 is used to transport

personnel and/or prisoners and the Astar helicopters are the primary search and rescue helicopters in southcentral Alaska and Fairbanks.

Currently, four AWT Aircraft Section staff are capable of operating these aircraft. Due to regularly scheduled days off, annual leave and pilot rest requirements, requests for services from the Aircraft Section are regularly denied. According to the department, the additional Aircraft Pilot II positions would allow the department to staff both the helicopter and fixed wing aircraft nearly seven days per week and provide a broader level of service to rural Alaska.

- D. Criminal Justice Information System Program – Add One Criminal Justice Specialist and Five Criminal Justice Technician II Positions for Records/Classification Unit: \$595.0 and 6 PFT Positions.** The department states that the new unit will review law enforcement case reports in the Alaska Records Management System (ARMS) for completeness, and work to ensure that data can be used for enhanced crime statistical reporting by all ARMS users. The data will be reported in the National Incident Based Reporting System (NIBRS) format which will allow for more timely and robust crime statistical information for better agency-to-agency and state-to-state crime statistics reporting.
- E. Commissioner’s Office – Statewide Emergency Communications Feasibility Study: \$150.0 UGF (One-time Increment).** DPS is requesting one-time funding to conduct a feasibility study to determine whether creating state-managed centralized dispatch/emergency communication centers (i.e., where 911 calls are answered) would benefit the State more than the existing structure. Currently DPS contracts with both the City of Wasilla and the Kenai Peninsula Borough for its dispatch services.
- F. Fire and Life Safety – Building Inspection and Rural Firefighter Training: \$200.0 Total [\$75.0 UGF and \$125.0 GF/Prgm (DGF)].** The department is requesting funding to conduct fire safety inspections and for rural firefighting training. The State Fire Marshal has stated that 1,500 annual fire safety inspections should occur each year but, due to budget constraints, only 223 were conducted in FY17. This funding would allow DPS to increase inspections and/or increase training for rural firefighters.

<p>Legislative Fiscal Analyst Comment: Given the fact that GF/Program Receipt Authority in the FY19 budget request (\$1,926.7) is \$704.6 higher than the FY17 actual expenditures, the request for another \$125.0 GF/Program Receipts appears to be unnecessary.</p>

- 2. Council on Domestic Violence and Sexual Assault (CDVSA) – Increased Federal Victims of Crime Act Funding to Provide Resources to Community Partners to Better Serve DVSA Victims: \$4,004.8 Federal Receipts.** The Council receives funding from four federal grant programs to provide resources to better serve victims of interpersonal, family and domestic violence and sexual assault. While federal grant funding has increased somewhat for three of the four grants, this increment is requested because grant funding from the Victims of Crime Act has increased dramatically since FFY14 (from about \$1.5 million to more than \$4.6 million in FFY17). This request allows CDVSA to receive and expend the anticipated level of FY19 grant funding.

Legislative Fiscal Analyst Comment: Because federal grant funding was available in FY18 for the same purpose, on November 8, 2017, the LB&A Committee approved an RPL request for \$2 million of federal receipts, bringing the FY18 total grant funding to \$6,716.8.

- 3. Criminal Justice Information Systems Program – Additional Federal Grant Funding to Improve Interstate Accessibility of Criminal History Records Systems: \$1 million Federal Receipts.** The Department of Public Safety is responsible for the state’s central repository of criminal history record information. Federal grant funding from the Criminal Records and Identification Bureau was received to ensure timeliness, accuracy, utility, and interstate accessibility of criminal history records systems and their use for criminal history background checks.

Legislative Fiscal Analyst Comment: Because federal grant funding was available in FY18 for the same purpose, on November 8, 2017, the LB&A Committee approved an RPL request for \$1 million of federal receipts.

FUNDING REDUCTIONS

- 4. Administrative Services – Delete Accounting Technician II and Delete Uncollectible CIP Receipts: (\$100.0) Total [(\$80.0) UGF and (\$20.0) CIP Receipts (Other)] and (1) PFT position.** Administrative Services is deleting a vacant Juneau-based accounting position and is aligning CIP Receipt authority with anticipated revenue collections. The position has been vacant since July 9, 2017 and DPS has distributed the workload to other employees.
- 5. Reduce Uncollectible Funding Sources: (\$3,756.9) Various DGF/Other and Federal Receipts.** In order to more accurately align the DPS budget request with anticipated revenues, DPS decremented a total of \$3.8 million of “hollow authorization” from many of their allocations.

ORGANIZATIONAL CHANGES

- 6. Statewide Information Technology Services.** Funding and positions from the Statewide Information Technology Services allocation were separated into the following two allocations:
- Information Systems: \$2,889.7 and 12 PFT positions
 - Criminal Justice Information Systems Program: \$7,956.3 and 42 PFT positions and 1 Temporary position

The department states that the structure change was needed to more clearly identify the types of services provided within each of these allocations.

CAPITAL REQUEST

The Governor’s FY19 Department of Public Safety capital budget totals \$1,083.9 Federal Receipts and consists of a single project as follows:

7. **Marine Fisheries Patrol Improvements: \$1,083.9 Federal Receipts.** Since FY03, this ongoing joint enforcement agreement with the National Marine Fisheries Service has primarily funded equipment and four positions to work with the Alaska Wildlife Troopers to expand its resource patrols.

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Revenue				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$28,222.4			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoed</i>	-			
FY18 Management Plan (GF only)	\$28,222.4	\$0.0	0.0%	
<i>One-time Items Removed</i>	-			
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	67.3			
FY19 Adjusted Base Budget (GF only)	\$28,289.7	\$67.3	0.2%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	(710.1)			
FY19 Governor's Agency Request (GF only)	\$27,579.6	(\$710.1)	-2.5%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			(\$710.1)	
Treasury Division	3,740.5	3,214.6	(525.9)	2
Unclaimed Property	586.0	515.0	(71.0)	
Child Support Services	7,889.5	7,744.8	(144.7)	3
Long Term Care Ombudsman	463.3	494.8	31.5	
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	269,832.2	287,788.8	17,956.6	1,4
Federal Funds (all allocations)	78,719.3	78,438.3	(281.0)	3
Total Non-General Funds (all allocations)	\$78,719.3	\$78,438.3	(\$281.0)	
Position Changes (From FY18 Authorized to Gov)	863	881	18	
PFT	814	832	18	1
PPT	33	33	-	
Temp	16	16	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	1,000.0	-	1,000.0	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	2,500.0	2,500.0	
New Construction and Land Acquisition	3,950.0	-	3,950.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	12,000.0	10,750.0	22,750.0	
TOTAL CAPITAL	\$16,950.0	\$13,250.0	\$30,200.0	

Department of Revenue

The Department of Revenue's responsibilities include: administration and enforcement of Alaska's tax laws; management of the treasury; administration of the Permanent Fund Dividend Program; collection and distribution of child support; and administrative support to the following independent boards and corporations: Alaska Permanent Fund Corporation; Alaska Housing Finance Corporation; Alaska Municipal Bond Bank Authority; Alaska Retirement Management Board; and the Alaska Mental Health Trust Authority.

BUDGET SUMMARY

The FY19 Department of Revenue (DOR) general fund operating budget submitted by the Governor is \$710.1 (2.5%) *below* the FY19 Adjusted Base [*decreases* of \$639.1 Unrestricted General Funds (UGF) and \$71.0 Designated General Funds (DGF)]. The total operating budget (all funding sources) is \$16.97 million (4.5%) greater than the FY19 Adjusted Base. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

PROGRAM EXPANSION

- 1. Alaska Permanent Fund Corporation (APFC) – Ten New Positions, Supporting Costs, and External Management Fees: \$17.5 million PF Gross Receipts (Other).** The Governor has proposed a FY19 total budget for APFC of \$168.6 million – a \$17.5 million (12%) increase over FY18. The APFC budget is moved from section 1 of the bill (the numbers section) to the Alaska Permanent Fund section in the language portion of the bill. APFC wants to consolidate their two current allocations—APFC Operations and APFC Investment Management Fees—into a single allocation.

Legislative Fiscal Analyst Comment: The pros and cons of a single allocation will need to be weighed by the Finance Committees. The current structure provides immediate transparency in regard to how much of the budget is specifically set aside for external investment management fees. Impact of consolidation on the corporation should be minimal, as the current budget structure provides ample flexibility to move money between allocations.

Moving an appropriation to the language section of the bill may be a more significant action than consolidation of allocations. Budgeting via language would effectively remove the APFC budget from subcommittee discussion, as the language sections have traditionally been the purview of the Co-chair's office. This is not necessarily a negative, but it will need to be considered when weighing the merits of the proposed budget structure.

Comparing the total APFC budget in FY18 to the FY19 request, the increases by budget line-item are as follows:

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

APFC	FY18	FY19Gov	\$ Change	% Change	
Personal Services	\$ 9,600.7	\$ 11,861.2	\$ 2,260.5	24%	10 PFT Positions
Travel	\$ 605.5	\$ 1,203.2	\$ 597.7	99%	
Services	\$ 140,640.1	\$ 154,673.6	\$ 14,033.5	10%	
Commodities	\$ 97.3	\$ 435.3	\$ 338.0	347%	
Capital	\$ 80.0	\$ 400.0	\$ 320.0	400%	
Total	\$ 151,023.6	\$ 168,573.3	\$ 17,549.7	12%	

Ten new Permanent Full-time (PFT) positions are included in the request, comprising \$1.9 million of the \$2.3 million change in Personal Services (the remaining \$362.8 is for merit increases and reducing the vacancy factor). The positions include four Investment Officer/Associates, two Accountants, and four IT/ Administrative Support staff. The additional staff would further the effort of bringing more assets in-house for investment management. This policy of internally managing more assets is intended to save the State a considerable amount over the cost of external investment management.

External management fees still make up the majority (90%) of the APFC budget – totaling \$150.5 million of the \$168.6 million total. Of the requested \$14 million increase to the Services line, \$11.7 million is for additional external management fees as a result of the growing value of the assets under management (management fees are typically charged as a percentage of asset value). APFC estimates that adding \$5.5 million for internal management saves approximately \$8.9 million in external management fees, for a net savings of \$3.4 million (see table).

Cost of Additional External Mgmt. Fees		
	(millions)	FY19
1	External Mgmt. Fees Increase - Status Quo	\$ 20.6
2	External Mgmt. Fees Increase w/ Additional Internal Mgmt.	\$ 11.7
3	Gross Savings (Line 1 less Line 2)	\$ 8.9
4	Cost of Additional Internal Mgmt.	\$ 5.5
5	Net Savings (Line 3 less line 4)	\$ 3.4

Legislative Fiscal Analyst Comment: Additional review and discussion by the Finance Committees should occur in light of the significant changes proposed to both the budget structure and funding level.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- Treasury Division – Reallocation of Resources to Retirement Assets: (\$525.9) UGF.** Included in the Treasury Division allocation is a decrement of \$525.9 UGF due to the continued reallocation of resources toward managing retirement assets.

The division allocates resources based on their federally approved cost allocation plan. With more assets under the management of the Alaska Retirement Management Board (ARMB) (due to growing retirement funds and declining other fund balances managed by Treasury), the ARMB will incur a higher percentage of the costs and the Treasury budget will be further funded by a Reimbursable Services Agreement (RSA). Since the FY16 budget, \$896.3 UGF has been reduced and reallocated toward retirement funds management in the Treasury Division budget.

Legislative Fiscal Analyst Comment: The ARMB has sufficient expenditure authority in their budget and does not require a commensurate increment for the increased RSA with Treasury.

- 3. Child Support Services Division (CSSD) Reductions: (\$425.7) Total [(\$144.7) GF/Match (UGF)/ (\$281.0) Federal Receipts].** Three decrements are included in CSSD totaling \$425.7. A total of \$144.7 G/F Match would be removed, resulting in a loss of \$281.0 of federal receipts (34% state match to 66% federal receipts). Proposed reductions are for physical archival scanning and storage (\$95.0), postage costs related to quarterly statements now sent out once per year (\$330.0), and courier costs as a result of satellite office closures (\$0.7).
- 4. Re-establish the Criminal Investigations Unit (CIU): \$406.9 I/A Receipts.** Last session the Governor's budget included a proposal to move nine criminal investigators to the Department of Public Safety for them to be commissioned as full peace officers. The positions were moved and \$406.9 of I/A Receipts were deleted from the budget. Subsequently, it was determined that moving the positions wasn't the best solution and, in the FY18 Management Plan, the positions were returned to DOR. This increment (more technical than anything) re-establishes the CIU allocation and adds back I/A Receipt authority.

ORGANIZATIONAL CHANGES

There are no significant organizational changes.

CAPITAL REQUEST

The Governor's FY19 Department of Revenue capital budget totals \$30.2 million (\$15.2 million General Funds, \$1.75 million Other State Funds and \$13.25 million Federal Receipts). All of the requested capital projects are to the Alaska Housing Finance Corporation. The requested \$15.2 million of general funds in the Governor's capital budget is 100% AHFC Dividend (UGF). Notable projects include:

- Homeless Assistance Program (Mental Health): \$7.8 million Total [\$6.85 million UGF/ \$950.0 MHTAAR (Other)]
- Teacher, Health, and Public Safety Professionals Housing: \$2.25 million Total [\$1.75 million UGF/ \$500.0 SDPR (Other)]
- Rental Assistance for Victims – Empowering Choice Housing Program: \$1.5 million UGF
- Cold Climate Housing Research Center: \$1 million UGF

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

The Governor's "Alaska Economic Recovery Plan" includes \$27 million UGF from the proposed Alaska Economic Act account and \$7 million Federal Receipts for DOR capital projects in FY19. Notable projects include:

- Weatherization Program: \$18 million Total (\$15 million UGF/ \$3 million Federal Receipts)
- AHFC Facility Maintenance Program: \$11 million Total (\$7 million UGF/ \$4 million Federal Receipts)

Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.

Details of each project can be seen on the Legislative Finance Division website.

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Department of Transportation and Public Facilities

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$277,393.1			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoes</i>	-			
FY18 Management Plan (GF only)	\$277,393.1	\$0.0	0.0%	
<i>One-time Items Removed</i>	(8,622.1)			
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	4,622.1			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	91.8			
FY19 Adjusted Base Budget (GF only)	\$273,484.9	(\$3,908.2)	-1.4%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	2,418.7			
FY19 Governor's Agency Request (GF only)	\$275,903.6	\$2,418.7	0.9%	
FY18 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Appropriation			\$2,418.7	
Administration and Support	14,128.8	14,038.3	(90.5)	
Design, Engineering and Construction	1,959.3	1,604.2	(355.1)	3
Highways, Aviation and Facilities	122,634.3	122,370.5	(263.8)	4
Marine Highway System	134,762.5	137,890.6	3,128.1	2
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	307,129.8	306,846.7	(283.1)	1, 5
Federal Funds (all allocations)	2,066.2	2,066.2	-	
Total Non-General Funds (all allocations)	\$2,066.2	\$2,066.2	\$0.0	
Position Changes (From FY18 Authorized to Gov)	3,433	3,379	(54)	
PFT	2,915	2,912	(3)	3
PPT	350	337	(13)	
Temp	168	130	(38)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	13,500.0	10,000.0	23,500.0	
Remodel, Reconstruction and Upgrades	102,736.1	805,000.0	907,736.1	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	17,300.0	10,000.0	27,300.0	
Information Systems and Technology	-	-	-	
Other	130.6	13,552.0	13,682.6	
TOTAL CAPITAL	\$133,666.7	\$838,552.0	\$972,218.7	

Department of Transportation and Public Facilities

The Department of Transportation and Public Facilities (DOT&PF) is responsible for planning, research, design, construction, operation, maintenance, and protection of state transportation systems and many public facilities. This includes approximately 242 state-owned airports, 5,612 centerline miles of state roads, 731 buildings ranging from maintenance shops to state office complexes, and 21 ports and harbors. In addition, the department owns and operates the Alaska Marine Highway System (AMHS). The department also owns and operates the State Equipment Fleet, which provides full maintenance support and replacement activities for approximately 7,129 light and heavy duty vehicles and attachments for all state agencies.

BUDGET SUMMARY

The FY19 Department of Transportation and Public Facilities (DOT&PF) general fund operating budget submitted by the Governor is \$1.5 million (0.5%) *below* the FY18 Management Plan, but \$2.4 million greater than the FY19 Adjusted Base [an increase of \$43.4 million Unrestricted General Funds (UGF) and a decrease of \$40.9 million Designated General Funds (DGF)]. Significant budget issues are highlighted in the notes that follow and correspond to the numbers in the last column on the preceding spreadsheet.

PROGRAM EXPANSION

- 1. Fairbanks International Airport Increments: \$457.0 International Airport Revenue Funds (Other).** The Governor's budget includes two increments for the Fairbanks International Airport (FIA):
 - **Two new positions for 24/7 Building Maintenance - \$194.7.** The Airport Facilities allocation has an increment for a new journeyman plumber and general maintenance specialist. Current staff work the day shift and after hours issues require costly call-out or overtime pay. In addition, the new baggage handling system will require airport staff for any issues after hours. Recently, Transportation Security Administration (TSA) staff have handled minor issues with the system, but a TSA audit has highlighted that as inappropriate for TSA staff.
 - **Training and Safety Operational Cost Increases - \$262.3.** The Airport Safety allocation includes \$42.0 for Law Enforcement Officer Training previously funded by Alaska Police Standards Council (APSC) sponsorships. Those sponsorships are no longer available given budget reductions to the APSC. In addition, \$220.3 is requested to backfill safety operational costs previously reimbursed by TSA. The reimbursement agreement has been reduced over time from \$500.0 to the current \$131.0 causing a shortfall within the allocation.
- 2. Alaska Marine Highway System (AMHS) Service Level Adjustment: \$3.1 million UGF.** The Governor's FY19 AMHS budget is very similar to the FY18 budget level. While the UGF is up \$3.1 million over the FY19 Adjusted Base, the overall budget is down \$740.7 from the FY18 Management Plan. Several actions took place last session that require explanation:

- The FY18 budget included a one-time fund source change replacing \$40 million of UGF with Alaska Marine Highway System funds.
 - The AMHS fund was capitalized with FY17 supplemental appropriations totaling \$39.4 million to cover the FY18 fund source change. However, a portion (\$23.9) of the supplemental capitalization did not materialize because higher-than-anticipated FY17 Medicaid payments consumed the money intended for the AMHS. The result was a shortfall in the FY18 AMHS budget. This issue was brought to the attention of the legislature shortly after the start of the fiscal year and a supplemental appropriation totaling the \$23.9 million has been requested by the Governor (see section 25(f) of the Operating Language in this publication for additional discussion).

Legislative Fiscal Analyst Comment: The amount of the supplemental appropriation could be reduced. The Governor requested the full amount of the funding used by the Medicaid supplemental, however, as can be seen on Line 49 of the AMHS summary table (at the end of the DOT&PF Agency Narrative), this would give the AMHS fund a projected FY18 year-end balance of over \$13 million. This is not necessarily a negative, but a smaller year-end fund balance could be justified.

- The FY18 budget included a one-time increment of \$4 million from the balance of the Alaska Marine Highway Fund. Even before the capitalization of the fund discussed in the previous bullet, a substantial anticipated FY17 year-end fund balance allowed the legislature to supplant UGF on a one-time basis. The \$4 million appropriation from the AMHS fund was not expected to be repeated in FY19.
- **FY19 Request.** The FY19 operating weeks of service are increasing from 337.7 to 345.9 (8.2 additional weeks). This is primarily the result of a less expensive mix of vessels available to operate in FY19 compared to FY18. Three transactions adjust the funding amounts and sources for the FY19 service level:
 - UGF increments of \$3,994.7 in Vessel Operations and \$369.8 in Vessel Fuel; and
 - A decrement of \$1,236.4 of AMHS Funds in Vessel Operations.

Legislative Fiscal Analyst Comment: The mix of UGF, AMHS Fund expenditure authority, and the projected AMHS year-end fund balance should be considered in budgeting for the Marine Highway System. The budget proposed by the Governor assumes AMHS revenue of \$51.5 million for FY19 (see Line 8 in the summary table) – a \$2.65 million increase over projected FY18. That is also the amount of expenditure authority built into the budget. If revenue were to come in lower than the \$51.5 million (something that looks likely given a similar service schedule and projected FY18 revenue), the expenditure authority from the fund would allow AMHS to utilize any available fund balance (currently projected at over \$13 million, assuming the Governor’s supplemental request of \$23.9 million). As mentioned in the first bullet above, reducing the Governor’s supplemental request may be justifiable; however, the revenue projection for FY19 should be weighed in determining the appropriate fund balance to have in the AMHS Fund.

- A fund source change is included for FY19 relating to elimination of the Winter Driver Discount Program. \$300.0 of UGF is removed and \$300.0 of new AMHS revenue is added to the budget as a result of eliminating the discount. This action was instigated by FY18 legislative intent asking AMHS to consider revisions to all their discounted tariffs.

FUNDING REDUCTIONS

- 3. Eliminate Harbor Program Development Allocation: (\$320.1) UGF and (1) PFT Position.** The Harbor Program Development allocation is being proposed for elimination with the duties of the program being absorbed within Southcoast Region Design and Engineering Services. Grants for the program would still occur (funding is typically provided in the DOT&PF capital budget), but technical support to program applicants will be diminished.
- 4. Highways, Aviation and Facilities – Winter and Summer Overtime Reduction: (\$175.0) UGF.** Two decrements are included in the appropriation for Highways, Aviation and Facilities - the Central Region allocation is reduced \$100.0 and the Southcoast Region is reduced \$75.0. Winter overtime activity will be curtailed in both regions along with summer overtime activity curtailment in the Southcoast Region.

MAINTENANCE OF SERVICES

- 5. Ineligible FAA Planning Costs: Net Zero Change [(\$1,030.0) CIP Receipts (Other)/ \$1,030.0 Rural Airport Receipts (Other)].** Fund source changes occur within the Program Development & Planning and the Statewide Aviation allocations in the amounts of \$653.1 and \$376.9, respectively. A recent FAA audit deemed use of CIP Receipts for Airport Improvement Program planning costs improper. A substitute funding source is needed to comply with the audit and continue required work. Additional airport leasing revenue is available to replace the CIP Receipts and is proposed for FY19.

ORGANIZATIONAL CHANGES

- 6. Establishment of the Division of Facilities Services within the Highways, Aviation & Facilities Appropriation.** In conjunction with the Shared Services of Alaska initiative occurring in all state agencies, DOT&PF is transitioning from decentralized facilities maintenance to the shared services method. Currently, multiple state agencies own facilities, and they all maintain their facilities differently. The goal of centralizing this function within DOT&PF is achieving budgetary savings via more effective and efficient facilities maintenance.

All of the budgeted positions in the three regional Facilities allocations for DOT&PF are transferred to the new Facilities Services allocation. The funding is remaining with the regional allocations for contractual service agreements. In addition, the Juneau facilities managed by the Department of Administration, and Mt. Edgecumbe High School currently managed by the Department of Education and Early Development, will be transferred to the new division.

CAPITAL REQUEST

The DOT&PF capital budget comprises the majority of the statewide capital budget each year. The Governor's FY19 capital budget totals \$972.2 million [\$85.7 UGF/ \$1.1 million DGF/ \$46.8 million Other/ \$838.5 Federal]. Typical programs include the Surface Transportation Program (receipts from

the Federal Highway Administration) and the Airport Improvement Program (receipts from the Federal Aviation Administration). Both programs require state match components that are usually budgeted separately to allow for agency flexibility. The budget also typically has appropriations from the general fund for facility, harbor, airport, highway and Alaska Marine Highway vessel/terminal deferred maintenance, and for the stockpiling of materials for construction.

The FY18 capital budget omitted specific project allocations in both the Surface Transportation and Airport Improvement Programs. That budget structure is again proposed by DOT&PF for FY19. Further discussion of this topic can be found in the Overview of the Capital Budget.

In addition, the Governor's "Alaska Economic Recovery Plan" includes \$87 million (\$17 million UGF from the proposed Alaska Economic Act account and \$70 million in Federal Receipts) for Federal-Aid Highway Project Match Credits, the Surface Transportation Program, and the Municipal Harbor Facility Grant Fund Projects. Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.

The table on the next page provides some history and projections for the AMHS budget and fund balances.

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

1	(thousands)	Actual	Actual	Actual	Actual	Estimated	Governor	Difference
2	Description	2014	2015	2016	2017	2018	2019	FY18-19
3	Service Weeks	376.6	378.3	355.9	329.5	337.7	345.9	8.2
4	Revenue Ratio (AMHS Revenue/ Revenue+UGF)	31%	33%	33%	34%	35%	37%	2%
5								
6	Cash Flow							
7	Operating Sources							
8	AMHS Generated Revenues	50,877.0	53,896.0	47,158.0	45,759.0	48,819.8	51,470.9	2,651.1
9	Restricted Revenues (CIP Rcpts)	892.0	896.0	603.0	659.0	1,850.0	1,852.7	2.7
10	UGF Appropriations (base budget)	111,389.9	107,781.6	94,958.0	89,263.0	42,005.5	86,005.5	44,000.0
11	DGF - Motor Fuel Tax (current statute)	-	-	-	-	3,552.4	3,617.1	64.7
13	Fuel Trigger Appropriation	5,440.1	4,808.4	-	-	-	-	-
14	Excess Fuel Trigger Appropriation	-	7,179.0	-	-	-	-	-
15	Total Sources	168,599.0	174,561.0	142,719.0	135,681.0	96,227.7	142,946.2	46,718.5
16								
17	Operating Uses							
18	Vessel Operations (less fuel)	113,196.0	112,120.0	106,661.0	99,029.0	101,253.6	100,011.9	(1,241.7)
19	Vessel Fuel Base	28,913.6	26,401.0	16,634.0	15,299.2	20,223.6	20,593.4	369.8
20	Fuel Trigger	3,052.4	-	-	-	-	-	-
21	Shoreside/ Other	18,426.0	19,845.0	18,606.0	17,320.0	19,006.8	19,138.0	131.2
22	Operating Expenses	163,588.0	158,366.0	141,901.0	131,648.2	140,484.0	139,743.3	(740.7)
23	Support Services-DOT/DOA	2,434.0	2,431.9	3,280.9	3,280.9	3,287.4	3,202.9	(84.5)
24	Transfer to Capitalization Acct	-	-	-	-	-	-	-
25	Total Uses	166,022.0	160,797.9	145,181.9	134,929.1	143,771.4	142,946.2	(825.2)
26								
27	Operating Suplus/(Deficit)	2,577.0	13,763.1	(2,462.9)	751.9	(47,543.7)	-	
28	Traditional Fund -Draw	-	-	2,462.9	-	47,543.7	-	
29	Remaining Deficit	-	-	-	-	-	-	
30	Capitalization Acct - Draw	-	-	-	-	-	-	
31	Remaining Deficit	-	-	-	-	-	-	
32								
33	Fund Balances							
34	Traditional Fund							
35	BOY Balance	4,568.0	7,145.0	20,908.1	18,445.2	28,661.9	11,118.2	
36	Deposits	2,577.0	13,763.1	-	751.9	6,081.8	-	
37	Transfer From Comm. RLF*	-	-	-	9,464.8	-	-	
38	Supplemental Deposits**	-	-	-	-	23,918.2	-	
39	Subtotal	7,145.0	20,908.1	20,908.1	28,661.9	58,661.9	11,118.2	
40	Withdrawals	-	-	(2,462.9)	-	(47,543.7)	-	
41	EOY Balance	7,145.0	20,908.1	18,445.2	28,661.9	11,118.2	11,118.2	
42								
43	Capitalization Acct							
44	BOY Balance	16,644.0	2,644.0	2,644.0	2,630.1	2,630.1	2,630.1	
45	Deposits	-	-	-	-	-	-	
46	Withdrawals	(14,000.0)	-	(13.9)	-	-	-	
47	EOY Balance	2,644.0	2,644.0	2,630.1	2,630.1	2,630.1	2,630.1	
48								
49	Total Fund Balance	9,789.0	23,552.1	21,075.3	31,292.0	13,748.3	13,748.3	
50								
51	*In FY2017, the Legislature appropriated \$9.4 million to the Marine Highway Fund from the Community Quota Entity RLF. The authority to use							
52	these funds is included in the FY2018 operating budget.							
53	**This supplemental deposit is built into the Governor's budget, but has not been realized yet.							

Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

University of Alaska				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$648,624.9			
FY18 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoed	-			
FY18 Management Plan (GF only)	\$648,624.9	\$0.0	0.0%	
One-time Items Removed	(150.0)			
Fiscal Note One-Time Items	-			
Fund Source Change	-			
Temporary Increments (IncTs)	-			
Maintenance Increments (IncMs) and Increments	-			
FY19 Contractual Salary Increases	-			
FY19 Adjusted Base Budget (GF only)	\$648,474.9	(\$150.0)	0.0%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY19 Governor's GF Increments/Decrements/Fund Changes	(460.2)			
FY19 Governor's Agency Request (GF only)	\$648,014.7	(\$460.2)	-0.1%	
FY18 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			(\$460.2)	
Budget Reductions/Additions - Systemwide	1.0	(459.2)	(460.2)	1
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	86,530.4	86,530.4	-	3
Federal Funds (all allocations)	143,852.7	143,852.7	-	
Total Non-General Funds (all allocations)	\$230,383.1	\$230,383.1	\$0.0	
Position Changes (From FY18 Authorized to Gov)	4,270	4,182	(88)	2
PFT	4,078	3,993	(85)	
PPT	192	189	(3)	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$0.0	\$0.0	\$0.0	

University of Alaska

The major goals of the University are to inspire learning and to advance and disseminate knowledge through teaching, research, and public service (emphasizing the North and its diverse peoples). Core services (in priority order) are as follows:

- Student instruction;
- Research: Advancing knowledge, basic and applied; and
- Service: Sharing knowledge to address community needs.

BUDGET SUMMARY

The FY19 University of Alaska (UA) general fund operating budget submitted by the Governor on December 15, 2017 is \$460.2 (0.1%) *below* the FY19 Adjusted Base [all Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS

- 1. Budget Reductions/Additions – Systemwide – Reduction in Alaska Technical and Vocational Education Formula Funding: (\$460.2) VoTech Ed (DGF).** The FY19 estimated receipts of the Alaska Technical and Vocational Education Program account available for statewide distribution is \$10,947.5. As defined by statute, the University of Alaska receives 45 percent (or \$4,926.4) of total receipts. The FY19 distribution is 8.5 percent less than the FY18 distribution level of \$5,386.6.

The Technical Vocational Education Program (TVEP) is a set-aside of employee contributions to unemployment insurance. The receipts are transferred to a separate account in the general fund and, subject to appropriation, are used to support vocational training centers around the state. Legislative appropriations occur in several agencies and are based on a formula set out in statute [AS 23.15.835(d)]. According to the University, TVEP funding has been instrumental in the University's ability to meet Alaska's workforce training and educational needs and continues to be a key source of funds for that purpose. Individual University campuses submit requests for TVEP funds to the University's Associate Vice President for Workforce Development. A review process occurs to determine which projects/ campuses will receive TVEP funding in each fiscal year.

- 2. University of Alaska Position Deletions.** Between the FY18 Authorized Budget and the FY19 Governor's budget submission, the University deleted a total of 88 positions. Since FY17 Authorized budget, the University has deleted 552 positions (520 PFT/ 32 PPT)—11.7% of their budgeted positions.

Legislative Fiscal Analyst Comment: In addition to position deletions, there are no planned compensation increases for any staff in FY19.

MENTAL HEALTH TRUST FUNDING

- 3. Anchorage Campus: \$1,677.6 Total [All Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other)].** FY19 will be the eleventh year of zero-based budgeting for MHTAAR funding – meaning that all MHTAAR funding in state agencies is removed from state budgets and reconsidered by the Alaska Mental Health Trust Authority (AMHTA). Trustees approve operating and capital budgets and provide annual recommendations to the Governor and the legislature.

The Governor's FY19 request includes eight temporary increment projects (IncT) for the Anchorage Campus, supported by the AMHTA, and related in some way to grants or projects begun in previous years. Since AMHTA reviews and re-approves all mental health projects each year, these are presented for legislative review and approval as well. Those projects are as follows:

- **Workforce – Alaska Area Health Education Centers (AHECs) – IncT (FY18-FY19): \$55.0 MHTAAR.** The AHECs will implement three community-based behavioral health day camps. Locations will include Northwest, Southeast, and the Yukon-Kuskokwim and will concentrate on behavioral health career exploration to encourage and recruit youth into behavioral health occupations. (In FY17, a similar increment included Barrow, the Interior, and Southcentral.)
- **Workforce – Maintain Workforce Director – IncT (FY14-FY19): \$146.1 MHTAAR.** This grant is for a shared workforce development position, administratively housed within the University of Alaska Anchorage, Center for Rural Health and Health Workforce. The position acts as the lead point of contact on all health workforce projects and activities with emphasis and support of Medicaid Expansion, Reform and Redesign, and Criminal Justice Reinvestment.
- **Workforce – The Alaska Training Cooperative – IncT (FY14-FY19): \$984.0 MHTAAR.** The Alaska Training Cooperative (AKTC) will promote career development opportunities for non-degreed professionals, direct service workers, supervisors, and professionals in the behavioral health, home and community-based, and long-term care support services working with AMHTA beneficiaries.
- **Disability Justice – Interpersonal Violence Prevention for Beneficiaries – IncT (FY14-FY19): \$80.0 MHTAAR.** This project is designed to build community behavioral health provider skills and capacity by using a train-the-trainer model to deliver a social skills curriculum to Trust beneficiaries.
- **Disability Justice – Specialized Skills/Services Training on Serving Criminal Justice Involved Beneficiaries – IncT (FY14-FY19): \$72.5 MHTAAR.** This project supports coordination of a two-day, statewide conference focusing on best-practice community treatment modalities, interventions, and supports for serving offenders in the community with cognitive impairments. The project is managed by UA – Anchorage Campus through the Center for Human Development.
- **Disability Justice – Alaska Justice Information Center – IncT (FY18-FY19): \$225.0 MHTAAR.** Funds will be used to support the continued operations of the Alaska Justice Information Center (AJIC). The AJIC collects data from key criminal justice agencies to create an integrated data platform to support many kinds of criminal justice research in Alaska.

- **Housing – Housing Continuum and Assisted Living Targeted Capacity Development – IncT (FY18-FY19): \$50.0 MHTAAR.** These funds will be used in partnership with the Department of Health and Social Services by providing training to caregivers at assisted living homes and supported housing. The grants increase the capacity of these providers to house individuals with intensive behavioral health needs.
- **Beneficiary Employment – Supported Employment Provider Training Infrastructure and Capacity – IncT (FY18-FY19): \$65.0 MHTAAR.** These funds will be used to develop and implement a multi-level approach to benefits counseling and create a statewide system that includes training, credentials and certification for Community Rehabilitation Providers (CRPs) to provide quality employment placement and retention services.

BOARD OF REGENTS' REQUEST

The FY19 Governor's operating budget submitted on December 15th is less than the University Board of Regents' request by approximately \$40 million (of which \$24.5 million is UGF).

ORGANIZATIONAL CHANGES

The Governor's FY19 budget maintains the FY18 single appropriation budget structure for the University of Alaska. The following budget structure changes are included in the FY19 request: the Systemwide Education and Outreach allocation has been zeroed out and all functions moved to other university campuses and the University of Alaska Foundation and Education Trust of Alaska allocations were created. Both of the new allocations are fully funded by University Receipts (DGF).

- **University of Alaska Foundation** – Positions (25 PFT/1 PPT) and funding of \$3.9 million related to the University of Alaska Foundation were transferred out of the Statewide Services allocation in the Governor's FY19 budget request. The Foundation is a separate legal entity with a mission to seek, secure and steward philanthropic support to build excellence at the University of Alaska.
- **Education Trust of Alaska** – Positions (7 PFT) and funding of approximately \$1.5 million related to the Education Trust of Alaska were also transferred out of the Statewide Services allocation in the Governor's FY19 budget request. The Trust was established in 2001 by the UA Board of Regents to implement and manage the Alaska College Savings Program. Currently the Trust offers three college savings plans.

CAPITAL REQUEST

Although the Governor's FY19 capital budget bill doesn't contain any capital project funding for the University of Alaska, the Governor's "Alaska Economic Recovery Plan" proposes \$86 million (\$70 million UGF from the proposed Alaska Economic Recovery Act account, \$8 million University Receipts (DGF), and \$8 million in Federal Receipts) for Facilities Deferred Maintenance/Renewal & Repurposing in the first year of the three-year proposal. The University of Alaska system's deferred maintenance/renewal & repurposing need is over \$1 billion. The Board of Regents' Budget reflected a \$50 million UGF request. Funding for the Alaska Economic

Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Judiciary				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$105,356.6			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoed</i>	-			
FY18 Management Plan (GF only)	\$105,356.6	\$0.0	0.0%	
<i>One-time Items Removed</i>	-			
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	-			
FY19 Adjusted Base Budget (GF only)	\$105,356.6	\$0.0	0.0%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	606.3			
FY19 Governor's Agency Request (GF only)	\$105,962.9	\$606.3	0.6%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			\$606.3	
Trial Courts	81,504.9	82,014.9	510.0	1
Therapeutic Courts	4,729.9	4,826.2	96.3	2
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	1,986.7	2,206.1	219.4	3
Federal Funds (all allocations)	1,225.6	1,225.6	-	
Total Non-General Funds (all allocations)	\$3,212.3	\$3,431.7	\$219.4	
Position Changes (From FY18 Authorized to Gov)	781	782	1	
PFT	739	740	1	2
PPT	37	37	-	
Temp	5	5	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$0.0	\$0.0	\$0.0	

Judiciary

Alaska has a unified, centrally administered, and primarily state-funded judicial system, which consists of three independent entities: the Alaska Court System, the Alaska Judicial Council, and the Alaska Commission on Judicial Conduct. Judiciary's budget is presented in four appropriation requests: the Alaska Court System, Therapeutic Courts, the Alaska Commission on Judicial Conduct, and the Alaska Judicial Council.

There are four levels of courts in the 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.

BUDGET SUMMARY

Judiciary's FY19 general fund operating budget request is \$606.3 (0.6%) above the FY19 Adjusted Base [all Unrestricted General Funds (UGF)]. The Governor transmitted the Judicial branch's operating request to the legislature without modification. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

FUNDING INCREASES

1. Trial Courts – Increases in the Cost of Jury Pay and Jury Travel: \$510.0 UGF. Given the Governor's request for additional prosecutors in the Department of Law's FY19 budget request and other factors, the number of cases going to trial has increased and is expected to continue to increase. The \$510.0 request by Trial Courts is 0.6 percent above the FY18 budget (and 2.5% below FY17 actual expenditures).

- **Jury Pay: \$360.0 UGF.** Costs for jury pay are expected to increase by about \$370.0 between FY17 and FY18. The Court System did not receive an increment for jury pay in FY18. The Court System's FY19 request falls short of FY18 anticipated costs and does not build in cost increases for FY19.
- **Jury Travel: \$150.0 UGF.** To increase the pool of individuals eligible for jury duty in relatively remote areas of the State, jurors may be drawn from a 50-mile radius of these communities. When jurors are required to travel to the hub court, the Court System is required to provide meals and lodging for the duration of their jury service. On average, 81% of all juror travel costs are the result of trials held in Dillingham and Bethel.

Legislative Fiscal Analyst Comment: The Court System is currently assessing whether to submit an FY18 supplemental request to cover unanticipated jury and travel costs of \$525.6.

2. Therapeutic Courts – Add a position in the Anchorage Veterans' Court to Align with National Standards and Address Increased Utilization: \$96.3 UGF, 1 PFT Position. The Anchorage Veterans' Court, which started in 2004,

is a specialized court designed to facilitate the rehabilitation of eligible veterans charged with criminal offenses. In addition to connecting veterans with VA housing, employment, rehabilitation, and treatment services, the Veterans' Court collaborates with prosecutors, defense attorneys, and the Department of Veterans' Affairs to monitor conditions of alternative sentencing plea agreements. According to Therapeutic Courts, these agreements are designed to help eligible veterans succeed in returning to a productive and law-abiding lifestyle.

Currently, non-veterans' and veterans' court cases are distributed among existing Therapeutic Courts staff. This increment request adds funding for a project coordinator position focused on providing services to veterans and to align Veterans' Court practices with recently established national standards. According to Courts, given the Anchorage and Palmer caseload growth, "management of the Veterans' Court is not sustainable using staff who are already stretched too thin."

MENTAL HEALTH TRUST FUNDING

3. Ongoing Mental Health Trust Authority Recommendations – Therapeutic Courts: \$219.4 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other). All MHTAAR funding in state agencies is removed from the adjusted base and reconsidered by the Alaska Mental Health Trust Authority (AMHTA) each fiscal year (zero-based budgeting). The AMHTA's FY19 request of \$219.4 is identical to the amount included in the FY18 budget. MHTAAR funding for the Mental Health Trust Disability Justice Initiative is as follows:

- **\$204.4 IncOTI** – Continue Juneau Mental Health Court funding to provide a therapeutic court alternative for AMHTA beneficiaries. The program's objective is to identify the underlying reasons for an individual's contact with the criminal justice system, and develop and monitor court-ordered treatment plans.
- **\$15.0 IncOTI** – Additional professional training for Therapeutic Court staff.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL REQUEST

Although Judiciary did not request capital project funding in the FY19 capital budget bill, the Governor's "Alaska Economic Recovery Plan" includes \$3.0 million UGF from the proposed Alaska Economic Recovery Act account for deferred maintenance projects in FY19, \$1 million in FY20 and \$1 million in FY21. Per the project description, the \$5 million appropriated over three years will address the majority of the Courts' \$5.3 million deferred maintenance backlog. Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.

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Legislative Fiscal Analyst's Overview of the Governor's FY2019 Request

Alaska Legislature				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY18 Conference Committee (GF Only)	\$64,195.0			
<i>FY18 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoes</i>	-			
FY18 Management Plan (GF only)	\$64,195.0	\$0.0	0.0%	
<i>One-time Items Removed</i>	-			
<i>Fiscal Note One-Time Items</i>	-			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	300.0			3
<i>FY19 Contractual Salary Increases</i>	-			
FY19 Adjusted Base Budget (GF only)	\$64,495.0	\$300.0	0.5%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/Multi Years/Contingent</i>	-			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	412.8			
FY19 Governor's Agency Request (GF only)	\$64,907.8	\$412.8	0.6%	
FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Appropriation/Allocation			\$412.8	
Legislative Council/ Administrative Services	4,558.1	4,970.9	412.8	1,2
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	808.3	808.3	-	
Federal Funds (all allocations)	-	-	-	
Total Non-General Funds (all allocations)	\$808.3	\$808.3	\$0.0	
Position Changes (From FY18 Authorized to Gov)	543	543	-	
PFT	234	234	-	
PPT	309	309	-	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$0.0	\$0.0	\$0.0	

Alaska Legislature

The Alaska State Legislature sets policy through the adoption of laws and has the power of appropriation as provided in the Alaska Constitution and in state statute.

BUDGET SUMMARY

The budget submitted to the Governor is traditionally a preliminary draft that has not been formally approved by legislative leadership. The draft budget is \$712.8 (1.1%) above the spending level authorized for FY18 [\$999.6 Unrestricted General Funds (UGF) and (\$286.8) Designated General Funds (DGF)]. Significant issues are summarized below.

MAINTENANCE OF SERVICES

- 1. Administrative Services – Fund Change to Replace Uncollectible Rental Receipts (from the Legislative Office Building) with UGF: (\$286.8) GF/Program Receipts and \$286.8 UGF.** The Legislature’s lease with Wells Fargo for office space on the third floor of the Legislative Office Building at 1500 W. Benson Blvd in Anchorage expires on June 30, 2018. Wells Fargo is relocating and there is no expectation of rental revenue for the third floor space in FY19. Rental income is used for building maintenance and other operating expenses.
- 2. Legislative Audit Increment Requests: \$412.8 UGF.** Legislative Audit is requesting two increments in FY19:
 - **Use Internal Staff for Audits of Federal Programs of the Department of Health and Social Services: \$262.8 UGF.** Due to staffing shortages in Legislative Audit, the Department of Administration (DOA)/Division of Finance has been contracting out (since FY15) the annual federal compliance audit for the Department of Health and Social Services major federal programs. A total of \$2.25 million has been appropriated for that purpose to DOA’s Division of Finance since FY15. The intent was that Legislative Audit would resume the DHSS audit starting in FY19. This increment reduces Legislative Audit’s vacancy factor to allow the DHSS federal programs to be performed by Legislative Audit staff.

With Legislative Audit conducting the annual audit of DHSS federal programs, the Department of Administration removed all remaining funding for the audits from their FY19 budget.
 - **Review Accounting/Reporting Systems Controls: \$150.0 UGF IncT (FY19-FY21).** Accounting controls must be audited to ensure compliance with standards for the Comprehensive Annual Financial Report (CAFR) and for single audits. Legislative Audit intends to contract for this review due to a lack of internal IT audit expertise, at a cost of \$150.0 annually in each of the next three years. The plan is to contract for the IT audit of internal controls and for training and assistance in developing audit programs that would allow the work to be performed by Legislative Audit staff in the future.

- 3. Committee Expenses – Per FY18 Legislative Intent, Restore a Temporary, Personal Services FY18 Budget Reduction: \$300.0 UGF.** The legislature reduced the personal services budget of the Legislative Budget and Audit Committee by \$300.0 in FY18, with the intent that the reduction be restored to the base budget in FY19.

CAPITAL REQUEST

Although the legislature did not request capital project funding in the FY19 capital budget bill, the Governor's "Alaska Economic Recovery Plan" includes \$4.0 million UGF from the proposed Alaska Economic Recovery Act account for renovation projects and technology improvement in each of the next three years. Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.

