

# AN HONEST BUDGET

FISCAL YEAR 2020

SUSTAINABLE, PREDICTABLE, AFFORDABLE

BUDGET OF THE STATE OF ALASKA

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OFFICE OF GOVERNOR MICHAEL J. DUNLEAVY

## **Table of Contents**

<b>Message from Governor Michael J. Dunleavy .....</b>	<b>3</b>
Statewide Procurement Consolidation: .....	5
Human Resources (HR) Consolidation:.....	5
Statewide Investigator Unit: .....	6
AOGCC move to DCCED:.....	6
<b>Governor's Directives: Improved Services and Reduced Costs.....</b>	<b>7</b>
Lab Consolidation:.....	7
Property Disposal.....	7
Rural Airport System: .....	7
Alaska Marine Highway System: .....	7
<b>Statewide Efficiencies and Reforms .....</b>	<b>8</b>
Statewide Travel.....	8
Flattened Pay Increments.....	8
Exempt Position Reform .....	9
<b>DEPARTMENT OF ADMINISTRATION .....</b>	<b>10</b>
<b>DEPARTMENT OF COMMERCE, COMMUNITY, &amp; ECONOMIC DEVELOPMENT .....</b>	<b>11</b>
<b>DEPARTMENT OF CORRECTIONS.....</b>	<b>12</b>
<b>DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT.....</b>	<b>13</b>
<b>DEPARTMENT OF ENVIRONMENTAL CONSERVATION .....</b>	<b>14</b>
<b>DEPARTMENT OF FISH AND GAME .....</b>	<b>15</b>
<b>OFFICE OF THE GOVERNOR.....</b>	<b>16</b>
<b>DEPARTMENT OF HEALTH AND SOCIAL SERVICES .....</b>	<b>17</b>
<b>DEPARTMENT OF LAW .....</b>	<b>19</b>
<b>DEPARTMENT OF MILITARY AND VETERANS AFFAIRS.....</b>	<b>20</b>
<b>DEPARTMENT OF NATURAL RESOURCES .....</b>	<b>21</b>
<b>DEPARTMENT OF PUBLIC SAFETY.....</b>	<b>23</b>
<b>DEPARTMENT OF REVENUE .....</b>	<b>24</b>
<b>DEPARTMENT OF TRANSPORTATION &amp; PUBLIC FACILITIES....</b>	<b>25</b>
<b>UNIVERSITY OF ALASKA .....</b>	<b>26</b>
<b>STATEWIDE ITEMS .....</b>	<b>27</b>





## Message from Governor Michael J. Dunleavy

One promise I made to Alaskans was to present you with a permanent fiscal plan, one in which we tackle our economic challenges and start bringing fiscal responsibility to Juneau. Combined with a series of legislative proposals and constitutional amendments, a major element of that commitment is addressing the state's out-of-control spending.

This year, we're presenting the Legislature with an annual budget that takes an open and straightforward approach. Rather than starting with the bloated budgets of the past and asking ourselves "where do we cut," we did exactly what Alaskan families and small businesses are forced to do when faced with financial hardship. We started from the ground floor and built an annual budget where the amount we spend aligns with the amount we bring in, an approach that built a budget up rather than reducing a budget down.

As we've all seen, for too long, politicians haven't been honest when it comes to the numbers and the seriousness of our fiscal woes. We've seen misleading figures and confusing budget tactics; we've relied on massive amounts of savings and Alaskans' Permanent Fund dividends to grow the size and reach of government — all while never seriously tackling the issue of spending. Today I'm here to say: Those days are over. We can no longer spend what we don't have, and we can't pretend otherwise.

The economic outlook Alaska faces today is dire. After burning through nearly every dollar in the state's savings account — more than \$14 billion during the past four years — we are faced with another \$1.6 billion deficit, and less than a year in reserves. The gradual glide path approach, which lawmakers called for repeatedly since the rapid decline in oil prices, never came to fruition. Oversized budgets and outmatched spending continued with little recourse.

In building this budget, my team and I worked across government to identify efficiencies, duplication and cost savings to restore the core principles of government responsibility. We built a balanced budget in which expenditures do not exceed revenues; a budget that shows Alaskans the realities of where we are and the tough choices that have to be made. We looked for logical constraints on government and built a budget based on these core tenets:

- expenditures cannot exceed existing revenue;
- the budget is built on core functions that impact a majority of Alaskans;
- maintaining and protecting our reserves;
- the budget does not take additional funds from Alaskans through taxes or the PFD;
- it must be sustainable, predictable and affordable.

The foundation of my budget is based on the principle that expenditures cannot exceed revenues. For the first time in decades, our budget will match the money we spend as a state with the revenue we bring in as a state. This year, based on the revenue we have identified and the dollars made available through previously enacted law, we built a budget based on \$4.6 billion in revenue. The differences in funding, the consolidation of core services and the



changes to programs take a serious approach to our financial situation, while reflecting a sincere commitment to put the full amount of the Permanent Fund dividend back into the hands of Alaskans.

Our focus also prioritized the core functions of government, functions that impact a majority of Alaskans. This truth-in-budgeting-approach examined required state obligations, the size and scope of government, services and needs, and resulted in a budget that for the first time gets our fiscal house in order. It includes a number of government-wide initiatives to improve effectiveness and refocus spending, including constraints on government travel, limits on top-tiered government wages, reforms to government procurement and reorganization of staff and departments. While some will describe these and other reforms as drastic, I say to them: Show me a proposal that stops our unsustainable spending trajectory and accounts for our current financial dilemma.

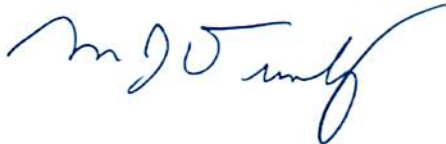
In order to protect what little savings remain, we have prioritized maintaining and protecting what little we have left in reserves. The days of spending everything we have and avoiding the tough decisions for our future must end. If this spend-at-all-cost mentality is allowed to persist, Alaska's economic outlook will only grow darker and the future of the Permanent Fund dividend will diminish by the day.

Based on the will of the people and a sincere belief that we can't tax our way out of these fiscal challenges, my budget proposes no new revenues from Alaskans. While some wish to ignore Alaskans and propose billion-dollar taxes and PFD grabs to close our financial gap, I've made clear that this is out of line with the core beliefs of most Alaskans and the promises I made on the campaign trail.

And finally, our budget takes a sustainable, predictable and affordable approach. We must reset the spending clock and realign expenditures with the realities we face today. We must transform government at its core, right-size spending, eliminate duplication and prioritize programs to match our reality. Though we've been blessed financially in the past, we must establish a government that can weather the storm of low oil prices and save for the next generation of Alaskans.

As your governor, I will always be honest with you. I will treat the people's money with the care and respect it deserves. As the details of my budget proposal are unveiled over the coming days, I ask all Alaskans to consider the alternative. Continuing down the path of oversized budgets, outsized spending and out-of-line priorities will only jeopardize the future of our state. For those demanding more spending, including those in the Legislature, we must respectfully insist: Where will the money come from? We must be honest with ourselves and align our spending with our revenues in order to bring about a brighter future for Alaskans.

Sincerely,



Michael J. Dunleavy  
Governor





## **Administrative Orders: Aligning Programs and Core Services**

In the face of a massive budget deficit and a sincere desire to right size government, Governor Dunleavy looked for agencies to identify potential areas of opportunity for government efficiencies and to reevaluate their scope and responsibilities to ensure programs aligned with core services.

Governor Dunleavy and the Office of Management and Budget considered several longer-term, enterprise-wide initiatives that will positively impact agencies and the state as a whole. These initiatives will be carried out through administrative orders (AOs) and focus on restructuring programs and administrative processes within state government, thereby improving effectiveness, increasing cost savings, and achieving better alignment between programs and department core services.

For example, the AOs will realign the Department of Administration's programs and allow the department to focus on its core mission of providing effective and efficient administrative support to the Executive Branch. All of the AOs will allow agencies to implement innovative and cost-effective improvements more efficiently.

### **Statewide Procurement Consolidation:**

The Dunleavy budget and associated AO calls for the consolidation of procurement across Departments in order to streamline services, create consistency and control over procurement functions and increase accountability.

By Statute, with certain exceptions, procurement is the responsibility of the Department of Administration. However, procurement responsibilities have largely been delegated across all agencies. Currently, there are approximately 100+ non-construction procurement staff throughout state agencies. While current practice of allowing agencies flexibility to purchase for their own needs brings certain positive aspects, the decentralized model has significant drawbacks, including: inconsistent practices, fragmented and hidden spend information, difficulty sharing and implementing practices, and difficulty enforcing procurement policies.

Anticipated benefits include: staff savings and realignment, commodity and contractual savings, standardized and streamlined processes that improve efficiencies, and greater consistency and control.

### **Human Resources (HR) Consolidation:**

The Dunleavy budget and associated AO calls for the consolidation of human resources services in the Department of Administration to streamline services and increase accountability of HR activities. This measure will help align HR staff and result in staff savings and realignment, standardized and streamlined processes that improve efficiencies and cost less; and greater consistency and control in HR decisions and actions that impact the Executive Branch.

### **Statewide Investigator Unit:**

The Dunleavy budget and associated AO will consolidate investigative functions in the Department of Law by reassigning staff from within the Departments of Commerce, Environmental Conservation, Health and Social Services, Labor and Workforce Development, and Revenue. This measure is intended to reduce the cost of the investigations and prosecutions by pooling resources and increasing the accountability on what is investigated.

Investigative functions in civil and criminal entities continue to operate in silos, resulting in resources being deployed in inconsistent manners across programs and without life/health/safety prioritization due to program-dedicated investigators. This proposal more appropriately places investigatory authority in the Department of Law and reduces costs. In the long term, this proposal should result in prioritization of life/health/safety investigations and civil and criminal actions leading to faster response times and greater efficiency.

Under this realignment, investigator staff will support statutory requirements aligned and prioritized under life, health and safety including:

- Environmental crimes that impact human health and the environment;
- Labor and Workforce Development health and safety that impact workers, the public and employers;
- Consumer protection from insurance fraud;
- Financial institutions and business safety and security;
- Tobacco tax stamps and minimum pricing to enforce the Master Settlement Agreement;
- Excise tax;
- Permanent Fund Dividend fraud; and
- Child support non-compliance.

### **AOGCC move to DCCED:**

This AO moves the Alaska Oil and Gas Conservation Commission from the Department Administration to the Department of Commerce, Community and Economic Development. AOGCC's mission is more closely aligned with DCCED and this move will help restore DOA to its core mission, which is to provide support services to departments.





## Governor's Directives: Improved Services and Reduced Costs

In the face of significant fiscal challenges, Governor Dunleavy is focusing on delivering a budget where state expenditures do not exceed revenues. To meet that goal, the Administration identified an overarching need for agencies to reevaluate their scope of responsibility to ensure programs align with the Governor's desire to improve services to Alaska and deliver cost efficiencies across agencies

**Lab Consolidation:** State agencies operate several independent and isolated laboratories. Agencies will investigate options available for consolidating and/or reducing the number of single agency laboratories owned and operated by the State of Alaska, with the intent of consolidating laboratory functions wherever feasible and reducing the State's financial obligation and/or liability. Agencies will also identify efficiencies that can be realized through process improvement. For example, one state-owned lab might contract with another state-owned lab to perform work. Agencies will investigate the possibility of lab consolidation to see if work can be performed in a single lab to reduce administrative processes and costs while increasing efficiency.

**Property Disposal:** The State of Alaska owns or has management responsibility for numerous facilities and properties. It currently has over 1,800 structures on its property inventory, totaling 16 million square feet of space, with a booked property value of ~\$7 billion. Agencies will investigate options available for reducing the State's assets by identifying properties that could be sold, or sold and then leased by the State, in order to realize short and long-term cost savings. For example, two agencies might each own property that is not 100% utilized. Agencies will investigate the possibility of the agencies sharing one property at 100% utilization, and selling the other property. This would save utility and other short-term costs as well as long-term upkeep costs associated with owning property.

**Rural Airport System:** The Department of Transportation & Public Facilities owns or has management responsibility for 237 rural airports located throughout the state; this is the largest aviation system in North America. The department will investigate options for reducing the number of public airports owned and operated by the State of Alaska, with the intent of reducing the State's financial obligation and/or liability, while considering the importance of air travel for many rural communities. For example, DOT&PF will evaluate any rural airports that are located in an area with zero population.

**Alaska Marine Highway System:** The Department of Transportation & Public Facilities currently has 10 ferries serving 35 ports in Alaska, Prince Rupert, B.C., and Bellingham, WA. The AMHS is heavily subsidized by State of Alaska General Funds; its fare box recovery rate in FY2018 was 33.3%. Ridership is trending down; 2018 passenger capacity was 42.6% and vehicle capacity was 51.6%. The department will work with a marine consultant to investigate options available for moving the AMHS towards privatized service or service provided by public/private partnership, with the intent of reducing the State's financial obligation and/or liability. For example, there may be routes where a smaller vessel could provide more reliable and less costly transportation services.

## Statewide Efficiencies and Reforms

### Statewide Travel

The Dunleavy administration is taking a critical view of all travel and has tasked each agency to eliminate nonessential travel regardless of the fund source. Governor Dunleavy has proposed a government-wide realignment to Department level travel, a 50% reduction of FY2018 actual travel costs. In recognition that not all programs will be able to cut their travel in half and still accomplish their mission, certain flexibility measures are built in to meet core functions.

Estimated costs savings are as follows:

- Department of Administration: \$459,100
- Department of Commerce, Community and Economic Development: \$354,200
- Department of Corrections: \$71,200
- Department of Education and Early Development: \$146,000
- Department of Environmental Conservation: \$167,500
- Department of Fish and Game: \$565,400
- Department of Health and Social Services: \$448,600
- Department of Labor and Workforce Development: \$146,700
- Department of Law: \$190,100
- Department of Military and Veterans Affairs: \$103,300
- Department of Natural Resources: \$354,700
- Department of Public Safety: \$103,800
- Department of Revenue: \$53,300
- Department of Transportation and Public Facilities: \$694,100
- Office of Governor: \$618,700

### Flattened Pay Increments

Governor Dunleavy supports the goal of a more sustainable budget by revising the employee pay increment schedule to increase the length between pay increments from every two years to a combination of every two years and then every four years. In addition, this legislative proposal eliminates endless pay increments by establishing a cap on pay increments after an employee has earned the equivalent of 30 full-time years of service.





## Exempt Position Reform

Governor Dunleavy is proposing legislation to authorize a number of reforms for exempt employees, resulting in currently fully exempt employee positions to be placed into partially exempt services so that they can be placed on salary schedules. This effort will reduce the number of “outlier” salaries, reduce overall personnel costs, and also prohibit bonus payments to executives by boards without the approval of the Governor’s office.

This proposal removes the following from the exempt service statutes: all staff besides the executive director of ASMI, AHFC, AIDEA, AEA, APFC, Mental Health trust and land unit, Commercial Fisheries Entry Commission, KABATA, and non-credentialed investment officers.

Additionally, this statute would set a maximum salary of an exempt employee at \$300,000 per year, require creation of exempt positions to be approved by the Director of the Office of Management and Budget (OMB), requires any salary matrixes created for exempt positions to be approved by OMB, and requires OMB approval of all salary increases for exempt employees that do not follow an approved salary matrix.

## DEPARTMENT OF ADMINISTRATION

The mission of the Department of Administration is to provide consistent and efficient support services to state agencies so that they may better serve Alaskans.

### HIGHLIGHTS

- ❖ Fulfills core mission of providing consistent and efficient support services to state agencies while reducing dependence on the federal government.
- ❖ Realigns core services to meet needs of the State of Alaska.
- ❖ Increases authority for statewide support services.

### KEY ITEMS OF INTEREST

- **Withdraw State Grant for the Alaska Public Broadcasting (-\$3,496,100)**
  - Limited resources and the desire to focus on core services are primary drivers of reducing the state's subsidy for public broadcasting.
  - Funding will continue to exist for public broadcasting from federal, local, tribal, and private entities.





# DEPARTMENT OF COMMERCE, COMMUNITY, & ECONOMIC DEVELOPMENT

The mission of the Department of Commerce, Community and Economic Development is to promote a healthy economy, strong communities, and protect consumers in Alaska.

## HIGHLIGHTS

- ❖ Renews focus on aligning core services with reduced dependency on the federal government, identifying business process realignment and efficiencies, and program prioritization.

## KEY ITEMS OF INTEREST

- **Realign Local Government Support and Services (-\$1,000,000)**
  - Support for Alaska's communities is a constitutional requirement. In reviewing departmental expenditures and practices statewide, \$1 million in efficiency opportunities were identified in the Division of Community and Regional Affairs budget to reduce expenditures and dependence on government without a reduction in staffing levels.
- **Withdraw Subsidy to Alaska Legal Services Corporation (-\$450,000)**
  - As part of efforts to reduce dependence on state government, the annual grant to the Alaska Legal Services Corporation (ALSC) is removed. ALSC is subsidized by a variety of sources, including the federal government, tribal organizations, foundations, and the private sector.
- **Reorganize and Consolidate the Division of Economic Development (-\$243,400)**
  - To bring a cabinet level focus to statewide economic efforts, and to streamline economic development in the state, economic development activities will primarily be consolidated and transferred to the Office of the Governor. This will result in the reduction of two positions.
- **Change Accounting of Power Cost Equalization (PCE) Funding (Cost Neutral)**
  - No reduction in funding is proposed. The PCE program provides economic assistance to communities where the cost of energy is too expensive. Instead, the funds will be considered general funds and the programs currently funded using PCE will be funded by general funds going forward.

## DEPARTMENT OF CORRECTIONS

The mission of the Department of Corrections is to provide secure confinement, reformatory programs, and a process of supervised community reintegration to enhance the safety of Alaska communities.

### HIGHLIGHTS

- ❖ The budget allows the department to continue to provide secure confinement at a reduced cost by utilizing institutions out of state for inmates with more than 10 years remaining on their sentences. This is projected to reduce costs by \$12.8 million while maintaining public safety.
- ❖ Reduces the system's capacity to more closely align with the average daily inmate count by closing a portion of one institution.
- ❖ Provides ongoing support for reformatory programming for inmates such as substance abuse treatment, sex offender treatment, and vocational and educational programming to prepare inmates for a successful life after they are released.

### KEY ITEMS OF INTEREST

- **Authorize out of state contract beds, close of sentencing portion of Wildwood Correctional Center, and transfer at least 500 long-term prisoners out of state**
- **(-\$18,802,500).**
  - Due to lower operating costs, correctional facilities outside of Alaska are able to provide secure confinement at less cost than highly-expensive prison beds in Alaska. It costs approximately \$150 per day to house a criminal in Alaska, compared to just \$95 per day in the Lower 48.
- **Reform Duplicative Services, Close Professional Conduct Unit (-\$1,199,700).**
  - The Department of Public safety is responsible for criminal investigations. The Professional Conduct Unit was unnecessarily duplicating the work of the Department of Public Safety.



# DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT

The mission of the Department of Education and Early Development is to ensure quality standards-based instruction to improve academic achievement for all students.

## HIGHLIGHTS

- ❖ The Governor's proposed FY20 budget includes a number of significant changes to the department's budget, which if passed by the Legislature, would become effective July 1, 2019.
- ❖ The Department will continue to work with stakeholders to support school districts in providing an excellent education for every student.
- ❖ Focuses on core programs, including the effective and efficient management of state, federal, and other funding through comprehensive fiscal and administrative services.

## ITEMS OF KEY INTEREST

- **Reduction to the Foundation Funding Formula Program (-\$269,396.9)**
  - Outspending other States has not benefited Alaska's students nor improved the educational system. This reduction reflects that reality. The Department of Education will work with school districts to rethink existing processes in an effort to achieve better outcomes.
- **Withdraw One-Time Future Funding to School Districts (-\$30,000,000)**
  - Sustainable budgeting is difficult to achieve with forward-funding that is not driven by a formula. To target education funding to the upcoming fiscal year, the one-time FY2020 funding is being withdrawn.
- **Reforms to Pre-Kindergarten Programs and Grants (-\$16,847,700)**
  - The consolidation of Pre-Kindergarten programs maintains and prioritizes the department's most important functions: serving Alaskan school districts and K-12 students.
- **Withdraw funding for the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) Medical Education Program (-\$3,096,400)**
  - The WWAMI program has not proven effective at meeting the demand for new physicians, despite a significant state investment over the years. Diminishing returns of this program are not sustainable in the current fiscal environment.
  - Only half of WWAMI borrowers are physicians practicing in Alaska and the percent of graduates practicing in Alaska continues to decrease.

## DEPARTMENT OF ENVIRONMENTAL CONSERVATION

The Department of Environmental Conservation's core mission is to protect human health and the environment.

### HIGHLIGHTS

- ❖ Continued focus on excellent permitting that protects public health and environmental health, with no reductions being made to critical environmental and public health programs.
- ❖ Prioritizing the issuance of timely, well-written, legally defensible permits that facilitate resource development and economic growth.

### ITEMS OF KEY INTEREST

- **Withdraw Funding for Dairy Regulation Subsidy (-\$179,600)**
  - Alaska's once-vibrant dairy industry included up to 65 dairies at one time.
  - With only one operating bovine dairy today, the state can no longer afford to subsidize the industry.
  - The FDA-required regulatory program requires significant state subsidization.
- **Repeal Ocean Ranger Program (-\$3,426,000)**
  - The Ocean Ranger program was created in 2006 to conduct expensive, 24/7 monitoring of the cruise industry, funded by a fee on vessels and passengers.
  - Cruise ships can continue to be monitored at significantly less cost. WE treat Alaska cruise ships differently than any other permitted site. The same high environmental standards can be achieved without this expensive and burdensome program.
  - Intense monitoring and inspection of cruise ships will continue to ensure strict compliance with waste water permits. There will be no impacts on the regulation of cruise ships.
- **Personnel Realignment: Economist III (-\$124,300)**
  - In 2014, legislation passed which required the department to conduct an economic analysis of regulations prior to being promulgated. The department was required to pay for an economist to do these analyses. Subsequently, the legislature quit funding the economic analyses. Therefore, it's currently an unfunded mandate.
  - Regulations promulgated by the department are already subject to public review and comment.





## DEPARTMENT OF FISH AND GAME

The mission of the Department of Fish and Game is to protect, maintain, and improve the fish, game, and aquatic plant resources of the state, and manage their use and development in the best interest of the economy and the well-being of the people of the state, consistent with the sustained yield principle.

### HIGHLIGHTS

- Restores focus on core priorities and services.
- Reorganizes and consolidates programs to reflect current workloads while maintaining effective services.
- Realigns personnel to match state's overall fiscal constraints.

### KEY ITEMS OF INTEREST

- **Adjust the Scope of Management of Special Areas Wildlife Viewing (-\$280,000)**
  - This adjustment will affect five of the state's 32 designated Special Areas. Historically, these areas have received money from private funding sources in addition to government allocations.
  - Responsibilities like maintaining, managing, monitoring, and protecting wildlife and habitats will continue.



## OFFICE OF THE GOVERNOR

Governor Dunleavy's core priorities are public safety, job creation and economic growth, developing Alaska's natural resources in a responsible manner, achieving a permanent fiscal plan for Alaska, protecting the Permanent Fund Dividend program, and restoring trust in government.

### **KEY ITEMS OF INTEREST**

- **Centralize Administrative Services Directors in the Office of Management and Budget funded through Interagency Receipts (+\$2,706,300)**
  - Administrative Order 302, signed by Governor Dunleavy on December 5, 2018, reassigned the Administrative Services Director positions from the following departments to the Office of Management and Budget: Administration; Commerce, Community and Economic Development; Corrections; Education and Early Development; Environmental Conservation; Fish and Game; Health and Social Services; Labor and Workforce Development; Law; Natural Resources; Public Safety; Revenue; and Transportation and Public Facilities.
  - This change record transfers the positions from their respective agencies to the Office of Management and Budget
  - Costs associated with these positions will be billed to their respective agencies to the Office of Management and Budget.
- **Budget 50% of Budget Analyst Positions with Interagency Receipts (Cost Neutral)**
  - Budget Analysts in OMB provide direct, cost-allocable services to state agencies. This change record converts 50% of their cost to interagency receipts from the agencies they serve.





## DEPARTMENT OF HEALTH AND SOCIAL SERVICES

The mission of the Department of Health and Social Services is to promote and protect the health and well-being of Alaskans.

### HIGHLIGHTS

- ❖ Identifies opportunities for reform, privatization and additional entrepreneurialism.
- ❖ Reduces dependence on state funds to create a sustainable budget.
- ❖ Allows for the consolidation and realignment of programs.

### KEY ITEMS OF INTEREST

- **Implement Alaska Pioneer Homes Rate Increase and Create Alaska Pioneer Homes Safety Net (-\$18,178,000)**
  - With the reduction in state revenues, state financial support has decreased but operational costs have become increasingly challenging to meet. As a result, the Alaska Pioneer Homes will increase rates on new residents to close the gap between the actual cost of providing services and current rates.
  - Funding has been added to assist residents who may not be capable of paying the increased rate and ensure these residents remain in the homes. Current residents, who pay approximately 60% of the true cost of services, will be held harmless by the rate increase.
- **Explore Privatization of the Alaska Psychiatric Institute (Budget neutral)**
  - Major deficiencies of the Alaska Psychiatric Institute have been identified by federal and state authorities. Immediate steps are needed to protect patients and staff. As a result, the department will begin the process of privatizing the Alaska Psychiatric Institute in FY2020. The removal of positions from the budget reflects the department's intent to ultimately transfer operational responsibility to a private entity. The safety of both the patients and the staff is the primary focus of this initiative.
  - The Department of Corrections, the Alaska Courts, local jails, and law enforcement entities will all recognize improvements achieved through this effort with the stabilization of the facility and services provided.
- **Eliminate Youth Detention and Treatment in Nome Youth Facility (-\$2,000,000)**
  - With 18 full-time staff and 64 youth detained in FY18, the Nome Youth Facility is significantly underutilized compared to other facilities. As a result, treatment and detention services will be moved to other youth facilities in the state.
  - Two full time and one on-call non-permanent Juvenile Justice Officer positions would remain at the facility to assist with secure escorted transports to Anchorage, Bethel, or Fairbanks facilities as well as secure escorted transports back to court hearings in Nome. When escort transports are not necessary, the positions would assist with transitional services for youth stepping down from

secure institutional treatment and residential treatment back to their home communities.

- **Reduce Maintenance of Effort Required by Reducing Adult Public Assistance Payments (-\$14,700,000)**
  - The state cannot afford to match federal funds at current levels.
  - In an effort to create a sustainable budget, Alaska will revert the Adult Public Assistance payments to previous standards.
- **Change Maintenance of Effort to Reduce Alaska's Obligation (-\$17,172,000)**
  - Reduce dependence on state funds to create a sustainable budget.
  - The Department will seek opportunities to reduce its obligations regarding the Temporary Assistance For Needy Families (TANF) program, including reducing the federal award to the state and exploring alternative fund sources as a substitute.
- **Public Assistance Administrative Efficiencies (-\$2,400,000)**
  - The division will realize administrative efficiencies from consolidated lease space, efforts to minimize paper filing systems, systems improvements through collaborative efforts with Code for America, and staff retention to reduce costs associated with training.
- **Repeal of Senior Benefits Program (-\$19,986,100)**
  - With the state facing a large budget deficit, and in an effort to reduce dependence on state funds, this program is being repealed to contain costs.
- **Implement Medicaid Cost Containment Measures and Reform Initiatives (-\$225,000,000)**
  - Alaska's Medicaid program, in its current form, is not financially sustainable. Expenditures per enrollee are among the highest in the country and the Alaska Medicaid program provides coverage for approximately 28 percent of Alaska's population.
  - In order to achieve financial sustainability, accessibility, and affordability, the Department of Health and Social Services will implement a combination of cost savings and containment measures to achieve this spending realignment:
    - Implementation of Diagnosis Related Group (DRG) and Resource Utilization Group (RUG) payment structures across eligible facility types; provider rate and inflation changes;
    - Implementation of utilization management for certain designated services;
    - Increased travel pre-authorization and review;
    - Streamlining pharmacy payment and coverage initiatives;
    - Review of eligibility determinations; and
    - Implementation of cost containment measures outlined in AS 47.07.036.
- **Eliminate Adult Dental Medicaid Benefits (-\$27,004,500)**





- Unsustainable spending requires prioritization and realignment of Alaska's Medicaid program. Withdrawal of the adult dental benefit allows limited funds to be prioritized toward emergency dental services.

## **DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT**

The mission of the Department of Labor and Workforce Development is to provide safe and legal working conditions and to advance opportunities for employment.

### **HIGHLIGHTS**

- ❖ There are no significant changes to this department's budget.

## **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.

### **HIGHLIGHTS**

- ❖ Protecting Alaskans is the first priority.
- ❖ Consolidating and transferring investigators into the Department of Law will result in efficiencies, prioritization for life, and health and safety investigations.
- ❖ A suite of legislative proposals, including the Governor's efforts to repeal and replace SB91, is designed to drive crime rates down.

### **KEY ITEMS OF INTEREST**

- There are no significant changes to the department's budget, however, prosecutorial resources are included in fiscal notes associated with legislative proposals.

## DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

The mission of the Department of Military and Veterans Affairs is to provide military forces to accomplish military missions in the state and around the world; provide homeland security and defense; emergency response; veterans' services; and youth military style training and education.

### HIGHLIGHTS

- ❖ Reforming the nonessential footprint of the department while remaining able to accomplish any mission.
- ❖ Prioritize readiness, relevance, and retention.

### KEY ITEMS OF INTEREST

- **Withdraw Funding for Alaska State Defense Force (ASDF) (-\$210,900)**
  - The ASDF is a volunteer force that performs readiness functions. This funding was added in FY19, and the program previously functioned without state funding.
- **Personnel Realignment: Special Assistant to the Commissioner (-\$161,100)**
  - A special Assistant position to the Commissioner, previously based in Washington, D.C., was created by the Department and duplicates the work of existing employees and is no longer necessary.
- **Withdraw Duplicative Funding for Local Emergency Planning Committee (-\$300,000)**
  - Due to duplication of efforts and non-essential spending, funding for this component is being withdrawn.





## DEPARTMENT OF NATURAL RESOURCES

The mission of the Department of Natural Resources is to conserve and maximize the use of Alaska's natural resources consistent with the public interest.

### HIGHLIGHTS

- ❖ Reprioritizes focus on core services to meet responsibility to develop natural resources to benefit the people of Alaska.
- ❖ Shrinks the non-essential footprint through consolidation and efficiencies.
- ❖ Protects Alaskans, their homes and infrastructure through adequate wildfires funding.
- ❖ Maintains the highest priority programs in Division of Agriculture, while consolidating lower priority programs.

### KEY ITEMS OF INTEREST

- **Recorder's Office Consolidation and Efficiencies (-\$408,000)**
  - The Recorder's Office will build upon consolidation efforts started in FY2016 and FY2018 by closing the Fairbanks, Kenai, Juneau, and Palmer Recording offices. Customers can continue to record electronically using Electronic Recording (e-Recording). Currently 55% of documents are e-Recorded, and 70% of revenue is brought in via e-Recording.
  - This FY2020 budget reduction builds on streamlining and efficiencies made in previous budgets. Five positions will be deleted and another seven positions will be relocated to Anchorage.
- **Increase Wildland Fire Suppression Activity to 38% of Long-Term Average Costs (+\$8,400,000)**
  - Increases the funding available for wildland fire suppression by \$8,400,000, bringing the balance up to \$13,641,000. Reduces the need for supplemental budget requests in low fire years. In more active fire years the emergency declaration could be prepared later in fire season, keeping staff focused on extinguishing wildfires.
- **Delete Programs in Agricultural Development (-\$1,667,100)**
  - These actions allow the Department of Natural Resources to focus on its core mission, and preserves the most important programs in the Division of Agriculture:
    - Phytosanitary Timber Inspections
    - Invasive Plant and Pest Program
    - Seed Production, Cleaning and Testing Program
    - Agricultural Land Sales Program
- **Eliminates programs in the North Latitude Plant Material Center (-\$990,800)**

- **Eliminates the Agriculture Revolving Loan Fund (-\$421,700)**





## DEPARTMENT OF PUBLIC SAFETY

The mission of the Department of Public Safety is to ensure public safety and enforce fish and wildlife laws.

### HIGHLIGHTS

- ❖ In an effort to make progress towards ensuring that Alaska has enough State Troopers, this budget will fund increased salaries for all levels of Alaska State Troopers to improve retention and recruitment efforts and fill the more than 40 vacant State Trooper positions.
- ❖ Increase funding by more than \$4 million of federal Victims of Crime Act grants and other non-general funds for services to victims of violent crime, particularly domestic violence and sexual assault in rural Alaskan communities.
- ❖ Align funding and historic expenditures within the VPSO program.

### KEY ITEMS OF INTEREST

- **Align Village Public Safety Officer Funding (-\$3,000,000)**
  - Appropriating more money to the VPSO program than can be expended year after year does not improve public safety in rural Alaska. In an effort to ensure that we are using Alaskans dollars effectively each year, the VPSO program's budget was adjusted to match projected expenditures based on historical averages. .
- **Reverse State Support for Civil Air Patrol (-\$302,300)**
  - This was a one-time appropriation from FY19.

## DEPARTMENT OF REVENUE

The mission of the Department of Revenue is to collect, distribute and invest funds for public purposes.

### HIGHLIGHTS

- ❖ Business process realignment through efficiencies gained from structural reorganization and increased use of online PFD application.
- ❖ Reduces regulatory burdens, including the deregulation of small charitable gaming -- a practice undertaken in other states for small-value gaming receipts.

### ITEMS OF KEY INTEREST

- **Personnel Realignment: Gaming Positions (-\$212,200)**
  - The department is reducing its budget in an effort to work within the existing resources available and align with statutory requirements. Duties will be absorbed by other positions within the division, where possible.
  - Accompanying bill to deregulate charitable gaming.
- **Personnel Realignment: Vacant Position (-\$78,600)**
  - The department is reducing its budget in an effort to work within the existing resources available. Duties will be absorbed by other positions within the division, where possible.
- **Repeal Local/ Municipal Oil and Gas Property Tax Intercept (\$440,000,000)**
  - This legislative proposal would repeal the ability for municipalities to levy tax on oil and gas, exploration, production and pipeline transportation property.
  - Municipalities that previously levied property tax on such oil and gas properties would no longer be able to intercept these funds from state taxes.
  - The proposal results in increased general fund revenues, from vital properties of statewide economic importance, to be appropriated to municipalities around the state and support of vital state programs.



# DEPARTMENT OF TRANSPORTATION & PUBLIC FACILITIES

The mission of the Department of Transportation and Public Facilities is to keep Alaska moving through service and infrastructure.

## HIGHLIGHTS

- ❖ Preserves projects and activities that extend the life of existing infrastructure, including infrastructure repair, vehicle management, bridge preservation, and vessel/terminal preservation.
- ❖ Supports safe and efficient movement on existing infrastructure, including snow and ice management, operate certificated airports, and intelligent transportation systems.
- ❖ Creates opportunities for private/public partnerships that will save Alaskans money, prioritize resources and reshape existing services.
- ❖ Consolidation and reorganization to deliver lower cost services and maintenance.

## KEY ITEMS OF INTEREST

- **Align Expenditures for Rural Airport Maintenance (-\$46,900)**
  - Reduce the cost of rural airport maintenance on seldom used airports. The airports that will be affected by these changes are duplicative, serve fewer than five residents, or are now connected by road.
- **Alaska Marine Highway Transition (-\$95,629,500)**
  - By developing a private/public partnership the Alaska Marine Highway System will continue to provide service to Alaskans. The solely state-operated model is has failed to provide cost-effective or reliable service, and it is time to consider new governance models.

## UNIVERSITY OF ALASKA

The University of Alaska inspires learning, and advances and disseminates knowledge through teaching, research, and public service, emphasizing the North and its diverse peoples.

### HIGHLIGHTS

- ❖ Allows the UA system to focus on core programs and educational services
- ❖ Strongly encourages the University to focus its attention on community campuses as a means to improve low rates of retention and graduation and prioritize program delivery.
- ❖ Community campuses have a more efficient cost structure. Compare:
  - University Campus UGF cost/FTE: \$25,336/student
  - Community Campus UGF cost/FTE: \$8,210/student
- ❖ Offsets changes in State funding with increased receipt authority.

### KEY ITEMS OF INTEREST

- **Withdraws the state subsidy for University of Alaska System wide Campuses (-\$154,339,100)**
  - Tuition at the three system wide campuses was decreased due to higher state funding compared to community campuses. This reduction in funding reflects a lower subsidy for the three campuses in Anchorage, Fairbanks and Juneau.
- **Increase Subsidy for University of Alaska Community Campuses (+\$20,410,600)**
  - Encourages the University to focus its funding on instruction in community campuses to increase retention and graduation rates for students required to take remedial coursework
- **Transfer funding to University of Anchorage Community and Technical College and Alaska Southeast School of Career Education (Cost Neutral)**
  - Reallocate university funding to return to the community campus approach of delivering higher education.



## STATEWIDE ITEMS

### HIGHLIGHTS

- ❖ Increases State of Alaska General Fund revenues by repealing municipalities' ability to receive State oil and gas property taxes.
- ❖ Ends the preferential treatment of these funds to make the state budget more transparent and honest.
- ❖ 50% of alcohol taxes will now be directed to municipalities as a form of community assistance to fund substance abuse treatment programs
- ❖ Lowers the state's overall debt by repealing the school bond debt reimbursement program.

### KEY ITEMS OF INTEREST

- **Transfer Balance of Community Assistance Fund to General Fund (-\$60,000,000)**
  - These funds will remain in the General Fund and be available for further appropriation in alignment with essential government services.
  - The Community Assistance program will continue to be funded at \$30,000,000 annually with general funds.
    - Capital debt
    - Quasi dedicated funds
- **Repeal Local/ Municipal Oil and Gas Property Tax Intercept (\$420,381,900)**
  - This legislative proposal would repeal the ability for municipalities to levy tax on oil and gas, exploration, production and pipeline transportation property.
  - Municipalities who previously levied property tax on such oil and gas properties would no longer be able to intercept these funds from state taxes.
  - The proposal results in increased general fund revenues, from vital properties of statewide economic importance, to be appropriated to municipalities around the state and support of vital state programs.
- **Repeal of School Bond Debt Reimbursement Program**
  - The State of Alaska has a moratorium in place for any new school bond debt reimbursement
  - The State of Alaska currently has a moratorium in place until FY21 for new projects
  - These bonds were all issued as GO bonds of the municipality
  - Voters were required to be informed of the tax impact if the state withdraws funding
  - The state has withdrawn some of the funding for statutory debt reimbursement in the past (1983, 1986, 1987, 1988, 1989, 1990, 1991, 2016).

**State of Alaska - Office of Management and Budget**  
**Fiscal Year 2020 Fiscal Summary - February 13, 2019**



**FY2019 Management Plan  
plus Supplemental**

**FY2020 Governor's Amended Budget**

Revenues	General Fund	Other Restricted	Federal	FY2019 Total	General Fund	Other Restricted	Federal	FY2020 Total
General Fund Revenue	2,833.8	-	-	2,833.8	2,311.4	-	-	2,311.4
Fund Withdrawal	1,871.8			1,871.8	989.1			989.1
Restricted Revenue	1,102.3	844.5	4,002.1	5,948.8	932.8	1,224.5	3,266.7	5,424.0
Revenue from Fiscal Notes	-			-	420.4			420.4
<b>Total Revenue</b>	<b>5,807.8</b>	<b>844.5</b>	<b>4,002.1</b>	<b>10,654.4</b>	<b>4,653.6</b>	<b>1,224.5</b>	<b>3,266.7</b>	<b>9,144.8</b>

Appropriations	General Fund	Other Restricted	Federal	FY2019 Total	General Fund	Other Restricted	Federal	FY2020 Total
Agency Operations	4,952.2	613.1	2,719.9	8,285.2	4,008.0	940.5	2,202.6	7,151.1
Statewide Operations	807.2	154.8	64.9	1,026.9	437.6	238.3	36.5	712.4
<b>Total Operating</b>	<b>5,759.4</b>	<b>767.9</b>	<b>2,784.8</b>	<b>9,312.1</b>	<b>4,445.6</b>	<b>1,178.9</b>	<b>2,239.1</b>	<b>7,863.5</b>
Capital	331.0	76.6	1,217.2	1,624.8	143.4	69.3	1,027.7	1,240.4
Fiscal Notes	-	-	-	-	44.2	(23.6)	-	20.5
<b>Total Appropriations</b>	<b>6,090.4</b>	<b>844.5</b>	<b>4,002.1</b>	<b>10,936.9</b>	<b>4,633.2</b>	<b>1,224.5</b>	<b>3,266.7</b>	<b>9,124.4</b>

<b>Surplus/(Deficit)</b>	<b>(282.6)</b>	<b>-</b>	<b>-</b>	<b>(282.6)</b>	<b>20.4</b>	<b>-</b>	<b>-</b>	<b>20.4</b>
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**Office of Management and Budget - FY2020 Governor's Amended Budget**  
**Debt Obligations and Revenue Sources - February 13, 2019**



1	Debt (\$ thousands)	FY2019	FY2020	Inc/(Dec)
2	School Debt Reimbursement (estimated maximum per school districts)[A]	106,057.3	0.0	(106,057.3)
3	<b>Lease Finance (Certificates of Participation)</b>			
4	Alaska Native Medical Center Housing	2,892.2	2,891.7	(0.5)
5	Trustee Fees	0.5	0.5	0.0
6	<b>Subtotal Lease Finance</b>	<b>2,892.7</b>	<b>2,892.2</b>	<b>(0.5)</b>
7	General Obligation Bonds- (Series 2009A)	7,960.4	7,915.2	(45.2)
8	General Obligation Bonds- (Series 2010AB)	9,158.8	9,158.8	0.0
9	General Obligation Bonds- Transportation, Education and Museum (Series 2012A)	28,767.0	17,635.2	(11,131.8)
10	General Obligation Bonds- (Series 2013AB)	5,630.0	16,630.4	11,000.4
11	General Obligation Bonds- (Series 2015B)	4,721.3	4,721.3	0.0
12	General Obligation Bonds- (Series 2016AB)	22,060.6	21,755.0	(305.6)
13	General Obligation Bonds- (Series 2019A))	0.0	5,000.0	5,000.0
14	Trustee Fees for General Obligation Bonds	3.0	3.0	0.0
15	Expenses incidental to the sale and issuance of GO bonds transportation projects	643.7	0.0	(643.7)
16	Arbitrage Rebate	200.0	200.0	0.0
17	Oil and Gas Tax Credit Purchase Program	27,000.0	0.0	(27,000.0)
18	Linny Pacillo Parking Garage	3,303.5	3,303.5	0.0
19	HB528- University	1,215.7	0.0	(1,215.7)
20	HB528- DOTPF for Municipal Projects	2,020.6	0.0	(2,020.6)
21	HB528- AEA for Power Projects	1,294.9	0.0	(1,294.9)
22	Mat-Su Borough Goose Creek Correctional Center	16,372.6	16,372.3	(0.3)
23	Trustee Fees for Jail Construction	1.0	1.0	0.0
24	Clean Water Fund Revenue Bonds	1,590.5	3,094.0	1,503.5
25	Drinking Water Fund Revenue Bonds	1,655.7	2,006.0	350.3
26	Sport Fish Hatchery Revenue Bonds	6,372.1	6,136.8	(235.3)
27	International Airport Revenue Bonds	47,596.7	40,614.1	(6,982.6)
28	<b>Total Debt [B]</b>	<b>296,518.1</b>	<b>157,438.8</b>	<b>(139,079.3)</b>
29	<b>Fund Sources</b>			
30	General Funds	192,200.0	98,453.9	(93,746.1)
31	General Obligation Bonds - capital project fund interest	1,769.1	2,238.7	469.6
32	General Obligation Bonds - debt service fund interest	14.5	45.8	31.3
33	General Obligation Bonds - ARRA bond subsidies	4,849.5	4,849.5	0.0
34	Investment Loss Trust Fund	26.3	0.0	(26.3)
35	General Obligation Bonds	643.7	0.0	(643.7)
36	School Fund (Cigarette Tax)	21,800.0	0.0	(21,800.0)
37	Clean Water Fund interest earnings	1,590.5	3,094.0	1,503.5
38	Drinking Water Fund interest earnings	1,655.7	2,006.0	350.3
39	Fish and Game Revenue Bond Redemption Fund	6,372.1	6,136.8	(235.3)
40	International Airports Revenue Fund	41,997.9	35,015.3	(6,982.6)
41	AIAS 2010D Build America Bond federal interest subsidy	398.8	398.8	0.0
42	International Airports passenger facility charge	5,200.0	5,200.0	0.0
43	Alaska Comprehensive Health Insurance Fund	18,000.0		
44	<b>Total Fund Sources</b>	<b>296,518.1</b>	<b>157,438.8</b>	<b>(121,079.3)</b>

**Notes**

[A] The estimate for School Debt Reimbursement in FY2019 was adjusted by \$2m.

[B] Includes duplicated authorization of \$10.3M in FY2019 and \$11.2M in FY2020.

In addition to the items listed above, State corporations such as AHFC (including Northern Tobacco Securitization Corporation bonds) and AIDEA also issue and pay for debt for corporate purposes.