

# GOVERNOR KNOWLES' FY2003 BUDGET IN BRIEF

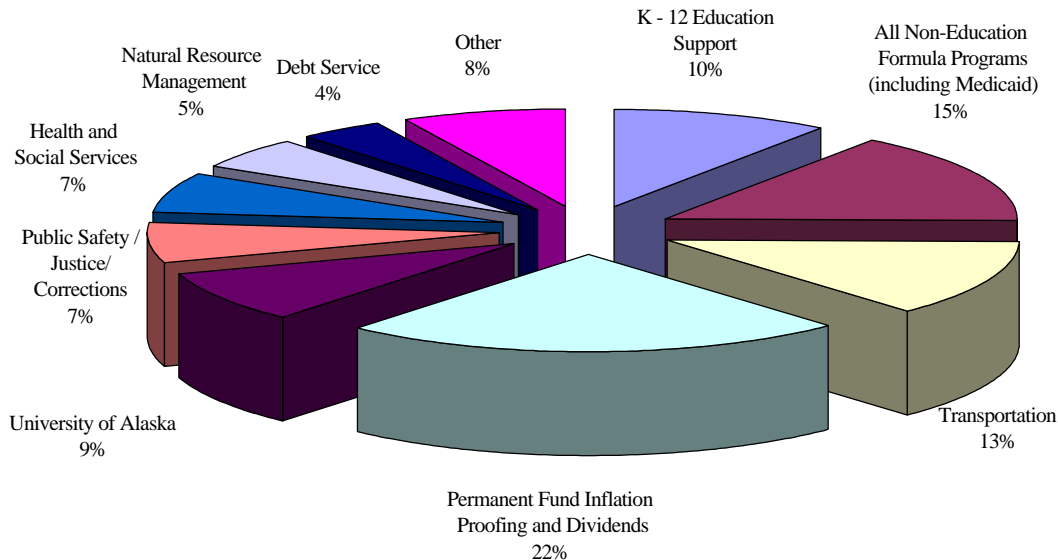
Full Information on the OMB Web Site – <http://www.gov.state.ak.us/omb/akomb.htm>

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## OVERALL BUDGET

- The Governor's FY2003 budget is \$7.3 billion from state general funds, federal funds, corporate receipts, fees, investment income and all other fund sources. This is a \$188.9 million increase over FY2002.
- The general fund budget is \$2.60 billion, a \$179.9 million increase over the current fiscal year. Non-discretionary increases account for almost \$100 million of this increase. Almost \$43 million is to replace non-general fund sources which were known to be available only on a one-time or short-term basis. Another \$57.1 million is needed to maintain the current level of services, including fully funding services that the legislature has funded partially through supplemental appropriations each of the last few years.
- After the Permanent Fund appropriations, payments to school districts for K-12 education account for the largest single program expense at \$741 million.

**FY2003 Governor's Total Funds Budget by  
Expenditure Category: \$7.3 Billion**



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## PER CAPITA SPENDING

- On a real (inflation-adjusted) per capita basis, the level of state general fund spending proposed for FY2003 is \$1,100 lower than it was in FY1979, the first full year of oil flow through the pipeline.

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## OIL PRICE ASSUMPTIONS

- The *Fall Revenue Forecast* projects the average price of oil for FY2003 at \$18.81 per barrel. With this average price and the Governor's proposed budget, a Constitutional Budget Reserve (CBR) draw of \$1.2 billion will be required to balance the FY2003 budget.

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## OPERATING BUDGET

- Non-discretionary replacement of one time or short-term funding with \$42.6 million in general fund dollars will be required. Most of these were known when the FY2002 budget was passed last session.
  - Replacing multi-year federal grants will require \$4.1 million of general funds in Corrections and \$1.2 million in Health and Social Services.
  - \$1.6 million which the Mental Health Trust has provided on an interim basis,
  - New federal restrictions on the Medicaid Proshare funding mechanism require replacement of the \$18.7 million saved this year.
  - The Post Secondary Education corporation dividend which paid for \$2.0 million of the FY2002 university operating increase will be replaced with on-going general fund support in the governor's budget. (The dividend will be used in the capital budget instead.)
  - Because of decreasing general fund support of the Marine Highway System over the last few years and revenue losses due to unexpected events (the Canadian blockade and Columbia fire), the Marine Highway fund will be fully depleted during FY2002. Next year, \$11.1 million that now comes from the Marine Highway fund will have to come from the general fund instead.
  - When the Alaska Science and Technology Foundation was created in the 1980's, its earnings were tapped for University of Alaska funding, supposedly on a one-time basis. With the market down turn, \$2.6 million of ASTF earnings for UA must be replaced.
- \$57.1 million in non-discretionary general fund increases is required to maintain the same level of service as FY2002. The major elements in this category are:
  - paying debt service on state bonds: \$9.3 million;
  - full year funding for new facilities and programs: \$4.7 million, of which \$1.9 million is for the Anchorage jail and \$1.3 million is for statutory assisted living rate increases;
  - meeting contract obligations: \$20.7 million, of which \$14.1 million is for the third year of labor contracts and \$3.3 million is for statutory pupil transportation contract reimbursement;
  - increased fuel and utility costs for road equipment, ferries, Pioneer Homes, etc: \$3.6 million;
  - statewide primary and general election costs: \$1.9 million;
  - statutory program increases: \$2.1 million (\$14.7 million of increases such as adoptions and Medicaid to seniors and the disabled minus \$12.6 million of reductions mostly in statutory K-12 aid and the Longevity Bonus);
  - meeting increased workloads and reducing backlogs: \$14.8 million, of which \$2.7 million is for Corrections and most of the rest is for backlogged inspections and permitting.
- Additional investments are proposed in a few strategic areas:
  - Smart Start / Strong Future for Alaska's Children addresses child safety, health and early education (\$9.2 million general funds, \$4.1 million tobacco settlement funds and \$4.1 million in federal and other funds);
  - Quality Education incorporates the recommendations of the Education Funding Task Force (\$32.7 million, of which \$1.7 million is in the operating budget and the rest is tied to legislation as described below);
  - Alcohol treatment and abuse prevention will reduce future costs from alcohol and drug abuse (\$4.7 million general funds and \$300,000 mental health trust funds);
  - Oil Safety and Development addresses problems of aging infrastructure and increased demand for oil and gas exploration and development permits (\$3.7 million in general funds and \$1.1 from current fee structures);

- University investment will continue the revitalization underway (\$17 million); and
- \$1.8 million for avalanche safety, addressing environmental contaminants, and implementing the Millennium Agreement on State-Tribal relationships and Tolerance Commission recommendations.
- Veterans' initiatives are within the totals shown below for legislative proposals.

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## **LEGISLATIVE PROPOSALS WITH FY2003 BUDGET IMPACTS**

- Funding for improvements in K-12 education and veterans services are included in the overall \$179.9 million general fund increase although they will be in fiscal notes to legislation proposed by the Governor rather than the appropriations bills. These are:
  - Education Funding Task Force-recommended changes to increase the K-12 foundation formula funding and to improve student assessment and school performance at \$30.2 million; and
  - Veterans' housing at the renamed Pioneers' and Veterans' Homes which will require \$2.7 million general funds and generate \$2.6 million in fees, and a study of additional veterans' housing needs for \$250,000. Also, \$125,000 will match private contributions for an endowment to maintain veterans' memorials around the state.

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## **CAPITAL BUDGET**

- The Governor's proposed capital budget is \$925 million in total funds, \$247 million less than in FY2002. The general fund capital dollars are \$114 million, the same level as this year.
- Federal funding accounts for \$681 million or three-fourths of the capital budget, most of which is directed to highway, airport, sewer, water and sanitation projects. The current year federal funding level is \$923 million. As the federal funding picture becomes clearer, the amount of federal funds authorized for capital projects will undoubtedly increase.

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## **BOND PROPOSALS – NO FY2003 BUDGET IMPACT**

- To help erase large backlogs in needed infrastructure and take advantage of extremely favorable interest rates, several bond proposals are recommended. These projects would be authorized this session but debt payments would not begin until FY2004.
  - School construction and major maintenance –voter approved general obligation bonds for \$212 million with \$109 million going to construct 7 schools and \$101 million for 81 major maintenance projects;
  - Deferred maintenance, replacement of facilities that can't be repaired cost-effectively, ADA compliance and limited expansion of a few state facilities and veterans' housing – \$135.6 million in certificates of participation;
  - Accelerated transportation bonds for highways and ferries – \$425 million in GARVEE bonds to reduce general fund match requirements by \$62 million over the 18 year life of the bonds;
  - Harbor upgrades and transfers to municipal ownership – revenue bonds for \$39 million backed by existing marine motor fuel taxes; and,
  - Replacement seafood and food safety lab – \$11.5 million in certificates of participation.
- Even when debt payments peak in FY2008, the total level of debt will be less than in FY1981 and one-third of the FY1987 peak.

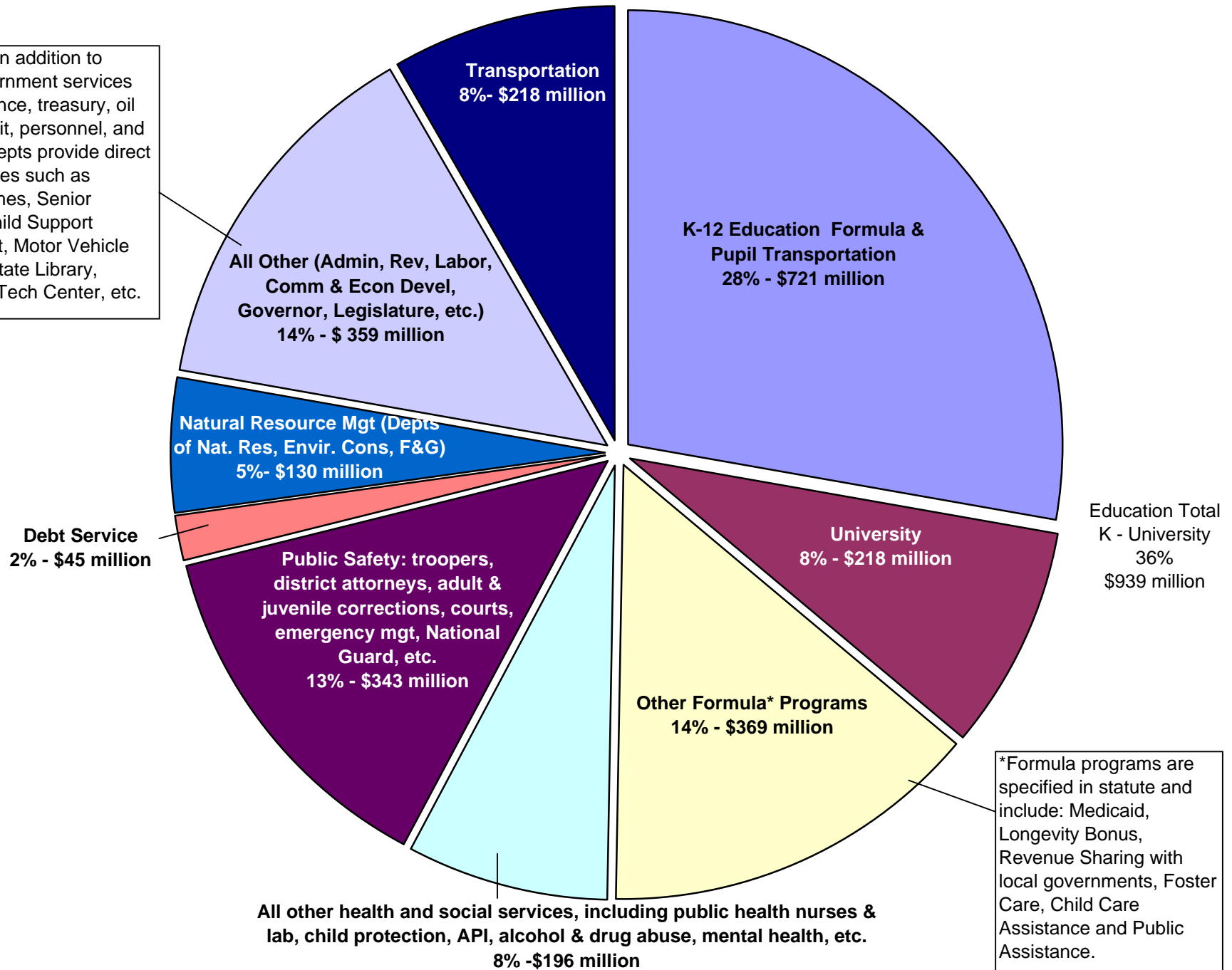
## Major Changes in General Funds from FY2002 to FY2003

	Increase over <u>FY2002</u>
<b>Non-discretionary cost increases</b>	
Replace lost federal and other funds	42,653.6
Debt service	9,285.0
Full year of facilities/programs authorized last year	4,702.0
Contracts (exec. branch labor costs shown here – UA, courts, legislature amounts are below)	20,710.9
Fuel and utility increases	3,566.2
Elections	1,864.9
Statutory program increases	2,099.5
Meet increased workloads and reduce backlogs	14,851.7
<b>Non-discretionary Subtotal</b>	<b>99,733.8</b>
<b>Governor's Initiatives in the Budget and Legislation</b>	
Smart Start / Strong Future	9,205.3
Quality Education (including legislative fiscal notes)	32,905.0
Alcohol	4,695.1
Oil Safety & Development	3,702.0
University	16,989.8
Veterans (legislative fiscal notes)	3,039.7
Avalanche safety, tribal-state Millennium Agreement, Tolerance Commission recommendations	1,763.9
<b>Initiatives Subtotal</b>	<b>72,300.8</b>
<b>Miscellaneous adjustments and legislation</b>	130.6
<b>Capital budget (includes Court System's \$2.7m request)</b>	0.0
<b>Fund Capitalizations</b>	1,326.8
<b>Bond proposals</b>	no debt in FY03
<b>Executive Branch Budget and Legislative Proposals</b>	<b>173,492.0</b>
<b>Legislature and Court System Operating Budgets</b>	<b>6,431.2</b>
<b>Complete FY2003 Proposal</b>	<b>179,923.2</b>

# How General Funds are Used in the Governor's FY2003 Budget

## Combined Capital and Operating Total: \$2.6 Billion

**\*\*All Other:** In addition to central government services such as finance, treasury, oil and gas audit, personnel, and law, these depts provide direct public services such as Pioneer Homes, Senior Services, Child Support Enforcement, Motor Vehicle Licensing, State Library, Alaska Voc Tech Center, etc.



\*Formula programs are specified in statute and include: Medicaid, Longevity Bonus, Revenue Sharing with local governments, Foster Care, Child Care Assistance and Public Assistance.