

State of Alaska FY2010 Governor's Operating Budget

**Office of the Governor
Office of Management and Budget
RDU/Component Budget Summary**

RDU/Component: Office of Management and Budget*(There is only one component in this RDU. To reduce duplicate information, we did not print a separate RDU section.)***Contribution to Department's Mission**

To ensure the state's financial resources are budgeted and managed in a way that produces results that advance the Governor's priorities.

Core Services

- Prepare, secure its approval, and implement the Governor's Budget.
- Prepare annual 10-year fiscal plan.
- Guide agencies for continuous improvement of services.

End Result	Strategies to Achieve End Result
<p>A: Achieve long-term fiscal stability in the State of Alaska.</p> <p><u>Target #1:</u> Balance expenditures with revenue within a five-year period <u>Status #1:</u> In FY2008, 100% of recurring expenditures were paid for with current year revenues</p>	<p>A1: Reduce reliance on Constitutional Budget Reserve in order to balance budget</p> <p><u>Target #1:</u> No greater than a \$400 million draw from the Constitutional Budget Reserve annually <u>Status #1:</u> There was no general fund shortfall that required the use of the Constitutional Budget Reserve Fund in FY2008</p> <p><u>Target #2:</u> Reduce percentage of general fund budget funded from the Constitutional Budget Reserve from FY2003 level of 20% <u>Status #2:</u> There were no general fund shortfalls in FY2008 that required the use of the Constitutional Budget Reserve</p> <p><u>Target #3:</u> Maintain \$1 billion Constitutional Budget Reserve balance <u>Status #3:</u> \$6.6 billion Constitutional Budget Reserve FY2009 beginning balance, a 229% increase over FY2004</p> <p>A2: Fund initiatives that over time will provide increased revenue to the State</p> <p><u>Target #1:</u> Increase revenue from new initiatives funded during the fiscal year <u>Status #1:</u> Over time the approval of the TransCanada license under the Alaska Gasline Inducement Act (AGIA) will provide new revenue to the state</p> <p>A3: Maintain the State's excellent credit rating</p> <p><u>Target #1:</u> Maintain Aa2, AA+, or AA credit rating <u>Status #1:</u> Aa2, AA+, and AA credit rating</p>

End Result	Strategies to Achieve End Result
B: Departments show improvement towards their performance targets. <u>Target #1:</u> 90% of departmental performance measures are showing annual progress towards achieving desired end results. <u>Status #1:</u> 70% of agencies show progress towards achieving desired results in 2008	B1: Improve the agencies' capacity to link activities to end results <u>Target #1:</u> 98% of agencies have a strategic framework that indicates whether results are being achieved and report, at a minimum, on those measures annually <u>Status #1:</u> Target is achieved in 2008

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> Identify priority programs and projects set out by the Governor Identify, prioritize and fund traditional responsibilities Develop long-range (10-year) fiscal plan Develop and propose appropriate legislation Conduct strategic planning work sessions Collaborate with departments 	<ul style="list-style-type: none"> Produce performance management plans Public outreach Continued performance management training and coaching Research and analyze new service improvement ideas Implement budget software enhancements

FY2010 Resources Allocated to Achieve Results	
FY2010 Component Budget: \$2,560,000	Personnel: Full time 18 Part time 0 <hr/> Total 18

Performance

A: Result - Achieve long-term fiscal stability in the State of Alaska.

Target #1: Balance expenditures with revenue within a five-year period

Status #1: In FY2008, 100% of recurring expenditures were paid for with current year revenues

Percent of Expenditures Paid for by Revenues

Fiscal Year	YTD Total
FY 2010	100% (projected)
FY 2009	100% (projected)
FY 2008	100%
FY 2007	100%
FY 2006	100%
FY 2005	99.1%
FY 2004	96.8%
FY 2003	82%
FY 2002	64.8%

Analysis of results and challenges: Depending upon the average fiscal-year-to-date oil price per barrel by spring 2009, the possibility exists that we may have to reduce or delay expenditures, reduce savings deposits, and/or access reserve funds such as the Constitutional Budget Reserve Fund or Statutory Budget Reserve Fund to cover an unanticipated revenue shortfall.

A1: Strategy - Reduce reliance on Constitutional Budget Reserve in order to balance budget

Target #1: No greater than a \$400 million draw from the Constitutional Budget Reserve annually

Status #1: There was no general fund shortfall that required the use of the Constitutional Budget Reserve Fund in FY2008

Amount Drawn From the Constitutional Budget Reserve (in millions)

Fiscal Year	YTD Total
FY 2010	\$0.0 (projected)
FY 2009	\$0.0 (projected)
FY 2008	\$0.0
FY 2007	\$0.0
FY 2006	\$0.0
FY 2005	\$34.9
FY 2004	\$10.8
FY 2003	\$498.1
FY 2002	\$884.3

Analysis of results and challenges: Depending upon the average fiscal-year-to-date oil price per barrel by spring 2009, the possibility exists that we may have to reduce or delay expenditures, reduce savings deposits, and/or access reserve funds such as the Constitutional Budget Reserve Fund or Statutory Budget Reserve Fund to cover an unanticipated revenue shortfall.

Target #2: Reduce percentage of general fund budget funded from the Constitutional Budget Reserve from FY2003 level of 20%

Status #2: There were no general fund shortfalls in FY2008 that required the use of the Constitutional Budget Reserve

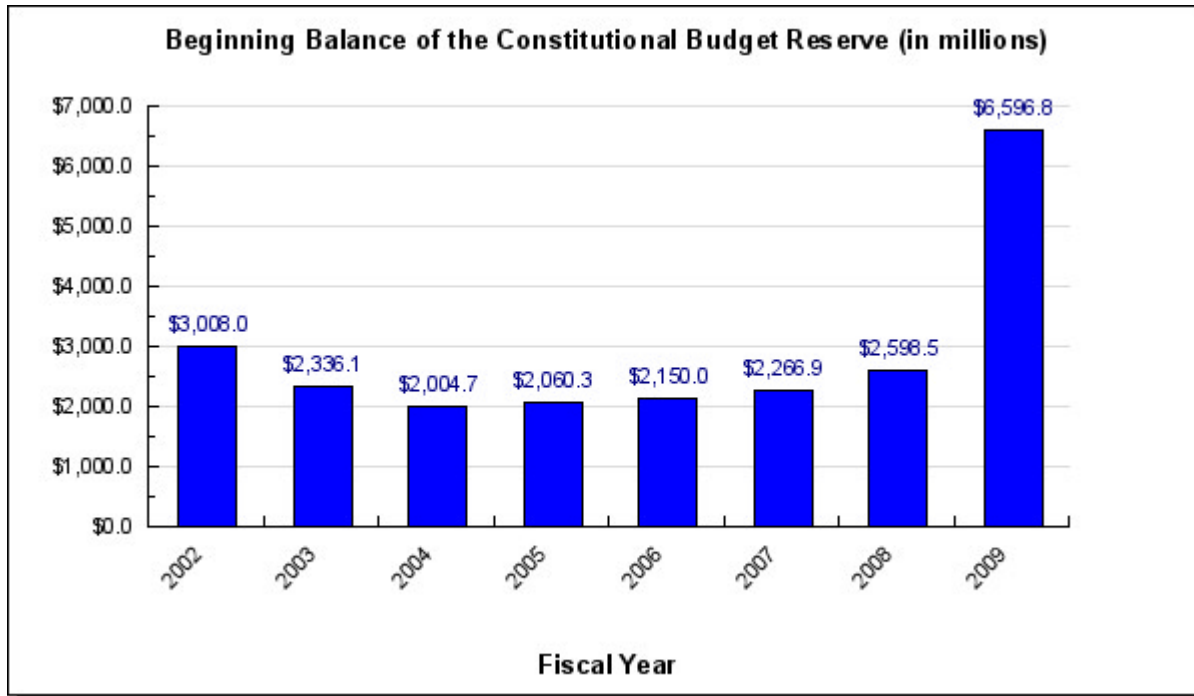
Budget Percentage Funded from Constitutional Budget Reserve

Fiscal Year	YTD Total
FY 2010	0% (projected)
FY 2009	0% (projected)
FY 2008	0%
FY 2007	0%
FY 2006	0%
FY 2005	.01%
FY 2004	.5%
FY 2003	20%

Analysis of results and challenges: Depending upon the average fiscal-year-to-date oil price per barrel by spring 2009, the possibility exists that we may have to reduce or delay expenditures, reduce savings deposits, and/or access reserve funds such as the Constitutional Budget Reserve Fund or Statutory Budget Reserve Fund to cover an unanticipated revenue shortfall.

Target #3: Maintain \$1 billion Constitutional Budget Reserve balance

Status #3: \$6.6 billion Constitutional Budget Reserve FY2009 beginning balance, a 229% increase over FY2004



Methodology: Data available on the Department of Administration, Division of Finance's website. The amounts reflected here are the result of the following calculation from the Division of Finance document: "beginning balance" less "subfund balances appropriated back" less "direct appropriations: Treasury operations".

Beginning Balance of the Constitutional Budget Reserve (in millions)

Fiscal Year	YTD Total
FY 2009	\$6,596.8
FY 2008	\$2,598.5
FY 2007	\$2,266.9
FY 2006	\$2,150.0
FY 2005	\$2,060.3
FY 2004	\$2,004.7
FY 2003	\$2,336.1
FY 2002	\$3,008.0

A2: Strategy - Fund initiatives that over time will provide increased revenue to the State

Target #1: Increase revenue from new initiatives funded during the fiscal year

Status #1: Over time the approval of the TransCanada license under the Alaska Gasline Inducement Act (AGIA) will provide new revenue to the state

Amount of Projected Revenue Increases due to New Initiatives (in millions)

Fiscal Year	YTD Total
FY 2009	Long-term impact \$315.1
FY 2008	\$1,600.0
FY 2007	\$1,270.0
FY 2006	\$276.1
FY 2005	\$175.4
FY 2004	\$70.1

Analysis of results and challenges: The statement "long-term impact" for FY09 relates to the approval of the license to TransCanada under the Alaska Gasline Inducement Act (HB 3001 now Ch. 3, 4SSLA 2008). The \$315.1 reflects the proceeds from the general obligation bonds (Ch. 30, SLA 2008) that were approved by voters in the November 2008 general election.

The amount for FY08 reflects the estimated \$1.6 billion in new revenue from implementation of oil and gas tax amendments made in HB 2001.

The amount for FY07 reflects \$1.1 billion from implementation of the petroleum production tax that was effective April 1, 2006 and \$170 million from tobacco bond refinancing.

The amount for FY06 reflects \$191.1 million, a full year of the ELF adjustment, and \$85 million in Alaska Student Loan Corporation bond proceeds.

The amount for FY05 reflects \$55.4 million due to the partial year implementation of the economic limit factor (ELF) adjustment, \$45 million in Alaska Housing Finance Corporation bond proceeds, and \$75 million in Alaska Student Loan Corporation bond proceeds.

The amount for FY04 reflects several fee and license increases.

A3: Strategy - Maintain the State's excellent credit rating

Target #1: Maintain Aa2, AA+, or AA credit rating

Status #1: Aa2, AA+, and AA credit rating

State of Alaska's Credit Rating Moody's/Standard & Poor's/Fitch

Fiscal Year	Rating by Entity	Outlook by Entity
FY 2010	Aa2/AA+/AA (projected)	Stable/Stable/Stable (projected)
FY 2009	Aa2/AA+/AA	Stable/Stable/Stable
FY 2008	Aa2/AA/AA	Stable/Stable/Stable
FY 2007	Aa2/AA/AA	Stable/Stable/Stable
FY 2006	Aa2/AA/AA	Stable/Stable/Stable
FY 2005	Aa2/AA/AA	Stable/Stable/Stable
FY 2004	Aa2/AA/AA	Negative/Stable/Stable
FY 2003	Aa2/AA/AA	Negative/Stable/Stable

Analysis of results and challenges: Alaska currently has the second and third most positive credit ratings. Standard & Poor's upgraded Alaska's credit rating from AA to AA+ on March 27, 2008.

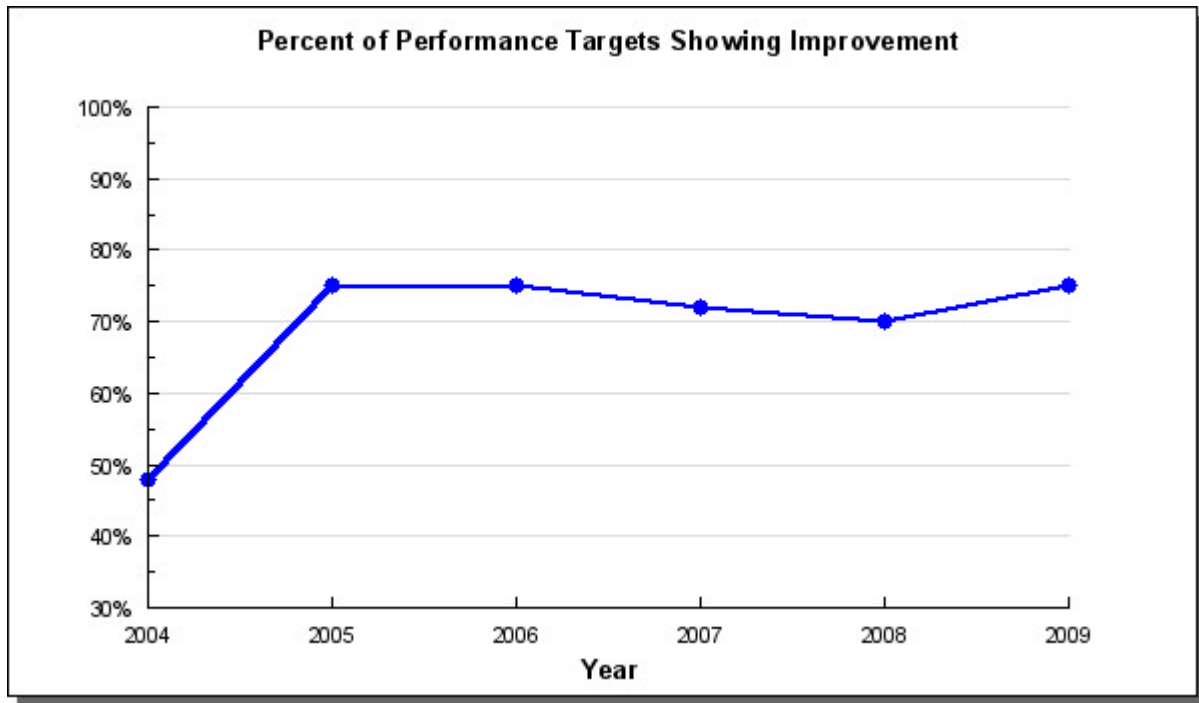
The range of outlooks run from Positive, Stable, Negative, Credit Watch. A "Credit Watch" outlook is indicative of an upcoming rating decrease. The impact of a one step rating change is an interest rate change of 10-50 basis points (or 0.1% to 0.5%).

It is unlikely that Alaska's credit rating will improve to the highest level for several reasons: lack of a comprehensive fiscal plan, narrow revenue base (oil production), and debt repayment capacity. The fact, however, of the existence of the Permanent Fund makes Alaska unique in the credit markets.

B: Result - Departments show improvement towards their performance targets.

Target #1: 90% of departmental performance measures are showing annual progress towards achieving desired end results.

Status #1: 70% of agencies show progress towards achieving desired results in 2008



Analysis of results and challenges: The 2009 percentage is a projected percentage.

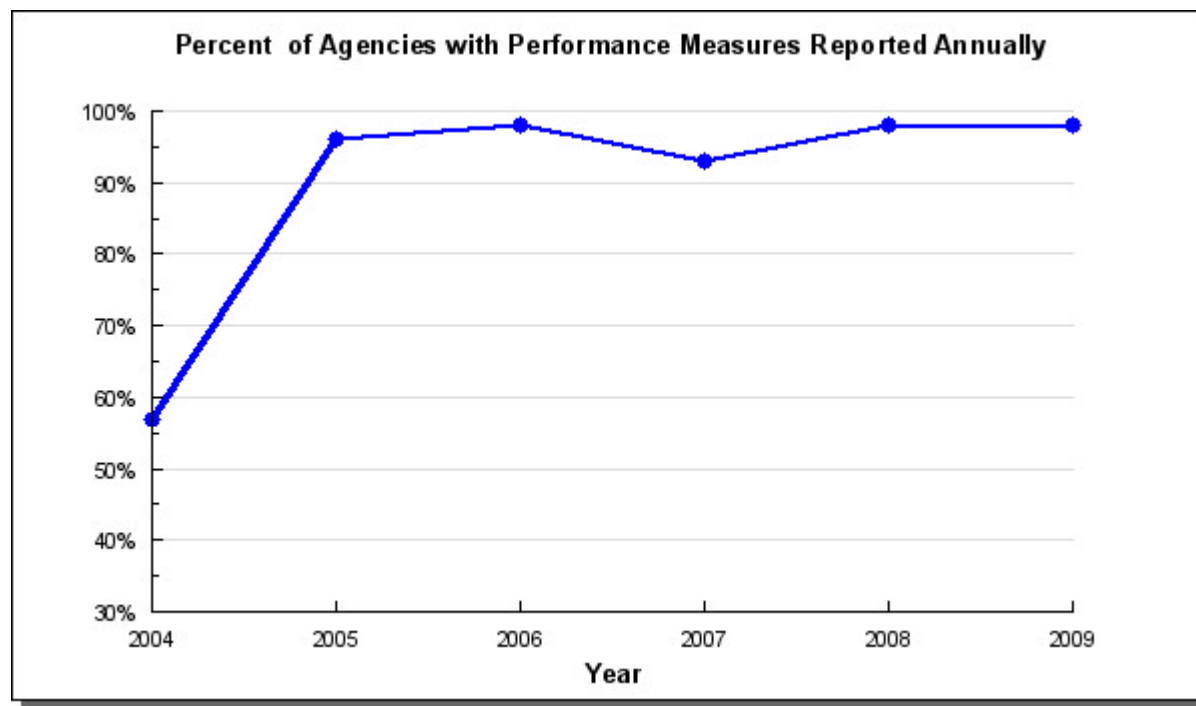
During 2008, OMB implemented improvements that enhance the performance framework to provide a better understanding and presentation on what of value is brought to the public by each agency, and what the status is on moving towards accomplishing that value. The public can now view one page summaries of statewide performance indicators, and of agency desired end results with the associated target status. A methodology field was also added to the data presentations and will allow for easier comparability with national, state or other data sets.

In addition, OMB conducted statewide trainings to increase the agencies' capacity to link their strategies and end results to the budget. Over 400 employees, representing all state agencies, attended the trainings. This was a significant increase over prior years' attendance of 100 to 200 employees.

B1: Strategy - Improve the agencies' capacity to link activities to end results

Target #1: 98% of agencies have a strategic framework that indicates whether results are being achieved and report, at a minimum, on those measures annually

Status #1: Target is achieved in 2008



Analysis of results and challenges: The 2009 percentage is a projected percentage.

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Key Component Challenges

- Regardless of the price of oil, the state needs to balance its budget while maintaining stability for the Alaska economy and reliable services for Alaskans.
- Continue to work to implement more effective results-based budgeting and decision making.

Significant Changes in Results to be Delivered in FY2010

Newly enacted ch. 86, SLA 2008 requires the Office of management and Budget to prepare a 10-year fiscal plan. The executive summary of the first 10-year plan was released December 15, 2008. The plan must balance the budget between sources and uses of funds, provide for essential state services, and protect Alaska's economic stability.

Four principles provide guidance for spending and savings strategies represented in the plan:

- Responsibly Develop Alaska's Natural Resources

- Strategy: Facilitate Gas Line Development
- Strategy: Facilitate Other Oil and Gas Development
- Strategy: Facilitate Other Natural Resource Development
- Live Within Our Means
- Control the Growth of Government
- Save for Future Generations of Alaskans
 - Strategy: Preserve and Grow The Permanent Fund
 - Strategy: Build Reserves When Possible, Use Them Judiciously When Necessary
 - Strategy: Forward Fund When Appropriate
 - Strategy: Focus Investment

The FY2010 plan is a starting point, not the answer. It should initiate a dialogue about the future fiscal health of Alaska with the Legislature and Alaskans.

Major Component Accomplishments in 2008

A primary criterion for judging the performance of OMB is how much of the Governor's agenda, as expressed in the annual budget proposal, gets enacted into law. Since the Legislature has the ultimate power of appropriation, passage of the initiatives embodied in the Governor's budget proposal is more important than number targets. The Legislature passed bills that contained six of the Governor's main budget goals:

1. Treated the FY08 general fund surplus as a windfall. One billion dollars was deposited into the Statutory Budget Reserve Fund and three billion dollars was deposited into the Constitutional Budget Reserve Fund.
 2. The Alaska Gasline Inducement Act license was approved, along with \$30 million of the total \$500 million inducement.
 3. A one-time Resource Rebate was passed that distributed a portion of the state's resource wealth to citizens in the form of \$1200 added to the 2008 Permanent Fund Dividend.
 4. Nearly \$450 million was appropriated to lower the employer contribution rates to the Public Employees Retirement System and the Teachers Retirement System, while contributing towards reducing the unfunded liability in those retirement systems.
 5. A general obligation bond bill was passed by the Legislature and subsequently approved by the voters to finance \$315 million of statewide transportation projects.
 6. Local governments received \$60.0 million as a form of revenue sharing.
- Continued to improve the capacity for agencies to align resources with priority service results by enhancing the performance management program.
 - Further refined the performance web site as a communication tool on how public money is being invested to produce results that matter to Alaskans.
 - Made substantial improvements to the online Alaska Budget System used by departments to submit their budgets to OMB.

Statutory and Regulatory Authority

AS 37.07, AS 37.06, AS 44.19.145

Contact Information

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**Office of Management and Budget
Component Financial Summary**

All dollars shown in thousands

	FY2008 Actuals	FY2009 Management Plan	FY2010 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	1,985.2	2,151.1	2,368.0
72000 Travel	26.3	7.0	37.0
73000 Services	87.5	103.5	131.0
74000 Commodities	13.2	9.0	19.0
75000 Capital Outlay	0.0	6.5	5.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	2,112.2	2,277.1	2,560.0
Funding Sources:			
1004 General Fund Receipts	2,112.2	2,277.1	2,560.0
9999 No specific fund source	0.0	0.0	0.0
Funding Totals	2,112.2	2,277.1	2,560.0

**Summary of Component Budget Changes
From FY2009 Management Plan to FY2010 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2009 Management Plan	2,277.1	0.0	0.0	2,277.1
Adjustments which will continue current level of service:				
-Delete One-Time Equipment Cost HB 125 Fiscal Note	-1.5	0.0	0.0	-1.5
-Transfer to Eliminate Annual Carry- Forward Appropriation	225.0	0.0	0.0	225.0
-FY2010 Wage and Health Insurance Increases for Bargaining Units with Existing Agreements	59.4	0.0	0.0	59.4
FY2010 Governor	2,560.0	0.0	0.0	2,560.0

**Office of Management and Budget
Personal Services Information**

Authorized Positions			Personal Services Costs	
	<u>FY2009</u> <u>Management</u> <u>Plan</u>	<u>FY2010</u> <u>Governor</u>		
Full-time	18	18	Annual Salaries	1,586,506
Part-time	0	0	COLA	62,820
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	720,012
			<i>Less 0.06% Vacancy Factor</i>	(1,338)
			Lump Sum Premium Pay	0
Totals	18	18	Total Personal Services	2,368,000

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Admin Support Technician	0	0	1	0	1
Analyst Programmer III/IV	0	0	1	0	1
Analyst/Programmer V	0	0	1	0	1
Chief Analyst	0	0	1	0	1
Chief Budget Analyst	0	0	1	0	1
Director of OMB	0	0	1	0	1
Internal Auditor IV	0	0	1	0	1
Management Analyst	0	0	1	0	1
Management Analyst IV	0	0	1	0	1
OMB Administrative Assistant	0	0	1	0	1
Program Budget Analyst V	0	0	7	0	7
Senior Economist	0	0	1	0	1
Totals	0	0	18	0	18