

Focus on the FY2002 Budget:

The Cost of Maintaining Existing Services Next Year

\$80.6 million more in general funds required

Each year, critical issues such as child protection have received special attention, and eventually more funding, in the state budget. This year's budget will have its own challenges and initiatives. For instance:

- Alaska is working to secure a gas pipeline that meets our standards of "Doing it Right";
- TB and hepatitis A have become major health problems in both urban and rural Alaska;
- Drunk driving and other alcohol-related deaths have received state-wide attention; and
- High school qualifying exam scores are highlighting education needs.

Unfortunately, the effort required to maintain basic levels of service or prevent back-sliding is rarely as compelling or well understood as new initiatives. But there's a cost to staff and operate projects already approved by the Legislature, or to continue important programs lawmakers funded only with one-time sources of revenue. Those needs are just as great and require additional resources, too.

Final numbers are being put together for the FY2002 budget, but this outlines why \$80 million more in state general funds will be needed in FY2002 just to maintain the same level of services Alaskans receive today. The numbers below are still approximate and not yet final.

Paying Debt Service on State Bonds: \$28.5 million

Smaller general fund budgets in recent years were achieved partly by financing capital projects with bonds rather than cash: schools, courts, university deferred maintenance, ports and harbors, etc. Since bond payments don't start until at least a year later, the budget impact is delayed. School debt reimbursement has required \$50-90 million in each of the last five years. Reserves and one-time funds used to pay most of this debt, but those have now been exhausted by years of budget cuts. Nearly \$30 million more general funds will be needed for bond payments next year. (See attached detail.)

Annualizing Projects that Started in FY2001: \$6.8 million

Facilities that open part way through this fiscal year need full funding next year. Additional months for the Anchorage, Mat Su and Ketchikan juvenile detention centers will cost \$1.4 million, the Anchorage Public Health Lab needs \$300,000 and the Kenai and Bethel Health Centers will require \$183,000. First year operations of the new Anchorage jail will increase the budget by \$3.4 million. Similar annualization is needed for staff authorized for part of last year such as the pathologist investigating child deaths and Whittier ferry terminal workers (\$80,000).

Meeting Statutory and Contract Obligations: \$23.6 million

As population grows, so does the cost of services the state must provide to all who qualify by statute. Medicaid will increase nearly \$13 million next year, largely to serve 650 more seniors and disabled whose care is particularly costly. Last year's law raising rates for assisted living adds \$1.4 million; foster care and adoptions, another \$2.6 million. Even with the Longevity Bonus program phase-out and use of welfare savings, the net increase for all statutory formula programs other than K-12 aid will be almost \$14 million.

University labor contracts and other compensation increases will require \$5.1 million. For the executive, legislative and judicial branches, a net increase of approximately \$2 million will be needed to fund the second year of contracts negotiated last session. Another \$2 million is needed to fully fund the state's many contractual leases with the private sector.

Maintaining Services When One-time or Short-term Funding Ends: \$15.3 million

Some one-time funds were used to cut the current general fund budget, but they don't reduce the on-going need for services such as pupil transportation and the maintenance of state highways and airports. These were funded in FY2001 with a special supplemental AIDEA dividend of \$4.4 million which can't be repeated and more than \$1.7 million in depreciation funds for facility maintenance and vehicle/ heavy equipment purchases which simply shifts the problem to the future.

Legislative plans to use \$2.2 million in federal funds for the Infant Learning Program wait list, subsidized adoptions, and alcohol and drug abuse grants could not be implemented due to federal restrictions. A highly successful program to find permanent homes for children in state custody more than 2 years was initially funded for 18 months; without an on-going \$1.6 million, the time children remain in custody will start climbing again.

Because of decreasing general fund contributions to the Marine Highway Fund and revenue losses due to unexpected events such as the Canadian blockade and Columbia on-board fire, the fund will be depleted during the next fiscal year. The additional \$1.8 million needed next year to maintain ferry services will bring the total general fund amount back to the level of the early 1990's.

Covering Other Basic Cost Increases for the Same Service Level: \$2.2 million

When AT&T launches a new satellite to carry the state's emergency broadcasting system, university distance learning, public radio and ARCS, the state will have to pay AT&T \$1.6 million more for the same service. Maintenance of the state's microwave system for emergency communications is costing about \$650,000 more than can be appropriately recovered from rates for other state telecommunications services.

For five years, communities have been paid the same rate for housing state prisoners in their jails; \$400,000 will help address significant cost increases over that time. Private sector dormitory services for Mt. Edgecumbe High School have gone up \$200,000. A 15% salary increase for Village Public Safety Officers (\$828,500) is needed to help reduce high turnover.

Some of this year's costs can come out of next year's budget. For instance, there is no general election in FY2002 (\$1.6 million) and various start-up costs do not have to be continued.

Reducing Backlogs and Meeting Increased Workloads: \$4.2 million

Successful economic development requires timely processing of permits, access to accurate land status records and other state data, and many other services that have deteriorated because of staff cuts, increased demand and the inability to move to new technologies widely used by the private sector. Increasing general funds to address these problems doesn't add new service, it simply makes existing services work the way they should. To meet industry needs, backlogs must be reduced in water use permits (\$300,000), habitat permitting for oil and gas projects (\$100,000), oil field unitization (\$400,000) and land records (\$130,000).

The proven Alcohol Safety Action Program (ASAP) which screens and monitors treatment for DWI and other misdemeanor offenders has been cut back to such a degree that long wait lists are holding up resolution of child protection proceedings, drivers license reinstatements and the like. About \$1.4 million is needed to make a dent in the backlogs. Cutting a workers' compensation hearing officer in last year's budget saved \$100,000 but increased the time injured workers have to wait for hearings from three months to four and a half.

To increase ridership and revenues, the Marine Highway needs \$200,000 to supplement its meager \$50,000 marketing budget which is far below the standard for other publicly owned systems. Increased safety training and longshoring requirements add another \$220,000.

Other workload increases are for youth detention facility overcrowding, patrolling the nation's largest state park and doing preventative maintenance on state buildings.

Increased General Funds Needed to Maintain Current Services: \$80.6 million

Focus on the FY2002 Budget:

Debt Obligations and Revenue Sources

	FY2001	FY2002	Increase or (Decrease)
Obligations			
School Debt Reimbursement (estimated maximum)	52,818.9	57,020.5	4,201.6
Lease Finance (FY2001: \$12,857.8; FY2002: \$12,430.0)			
Palmer Airport Fire Facility	767.7	766.8	(0.9)
Spring Creek Correctional Facility	4,035.4	4,021.6	(13.8)
Palmer Courthouse	414.4	415.8	1.3
Kenai Courthouse	562.8	563.0	0.3
Court Plaza Building	445.3	0.0	(445.3)
Anchorage Times Building	790.3	789.7	(0.6)
Soldotna DOT Maintenance Facility	631.9	637.3	5.4
Anchorage Health Lab	2,235.5	2,261.3	25.8
Fairbanks Courthouse	2,890.5	2,894.5	4.0
Trustee Fees	84.0	80.0	(4.0)
Anchorage Jail	0.0	3,555.7	3,555.7
Atwood Building	3,541.4	3,535.2	(6.2)
AHFC Debt (Pre HB281)	34,992.5	37,988.0	2,995.5
AHFC Debt (HB281 - UofA, AHFC, ...etc.)	0.0	6,000.0	6,000.0
Tobacco Settlement Bonds (schools)	0.0	10,512.5	10,512.5
Total Debt Obligations	<u>104,210.6</u>	<u>131,041.9</u>	<u>26,831.3</u>
Revenue Sources			
Cigarette Tax (schools)	29,337.3	29,049.1	(288.2)
AHFC Dividend (debt)	50,000.0	50,000.0	0.0
Debt Retirement Fund Balance	7,100.8	0.0	(7,100.8)
Appropriation to Bond Committee	2,450.0	0.0	(2,450.0)
K-12 Lapse	400.0		(400.0)
Tobacco Settlement (schools)		10,512.5	10,512.5
Known and anticipated reduction to debt and/or increased revenue	1,991.9		(1,991.9)
General Funds Required	12,930.6	41,480.3	28,549.7
Total Revenue Sources	<u>104,210.6</u>	<u>131,041.9</u>	<u>26,831.3</u>

Note: In addition to the items listed above, the Alaska International Airport System and State corporations such as AHFC and AIDEA also issue and pay for debt for corporate purposes. Also, the Alaska Clean Water Fund and Alaska Drinking Water Fund are capitalized in part from debt that is paid from their respective fund earnings.