

GOVERNOR KNOWLES' FY2003 EXECUTIVE BUDGET OVERVIEW

[HTTP://WWW.GOV.STATE.AK.US/OMB/03OMB/BUDGET](http://www.gov.state.ak.us/omb/03omb/budget)

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. Of this amount, \$99.7 million is needed to maintain the current level of services.
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OPERATING BUDGET

- The proposed general fund operating budget contains \$57 million in non-discretionary general fund increases to maintain the same level of service as FY2002. An additional \$43 million in general fund dollars is required to replace one time or short-term funding sources.
 - Additional investments are proposed in five areas, each of which is described in detail in the Governor's Initiatives section.
 - 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);
 - Alcohol treatment and abuse prevention to reduce future costs stemming 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); and
 - University of Alaska investments continue the revitalization of our state university (\$17 million); and
 - Smaller amounts are proposed for avalanche safety, addressing the effects of environmental contaminants, implementing the Millennium Agreement on State-Tribal relationships and Tolerance Commission recommendations.
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CAPITAL BUDGET

- The Governor's FY 2003 proposed capital budget is \$925 million in total funds, which is \$247 million less than FY 2002. 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 and Congress finishes work on the FFY2002 budget, the amount of federal funds authorized for capital projects will undoubtedly increase.

BONDS AND OTHER LEGISLATIVE PROPOSALS WITH BUDGET IMPACTS

- To help erase large backlogs in needed infrastructure and take advantage of extremely favorable interest rates, several bond proposals are recommended.
 - School construction and major maintenance –voter approved general obligation bonds for \$200 million with \$100 million of that amount to be appropriated in FY2003;
 - Deferred maintenance, replacement of facilities that can't be repaired cost-effectively, ADA compliance and limited expansion of a few state facilities – \$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.
- Funding for improvements in K-12 education and veterans services will be in fiscal notes to legislation proposed by the Governor. 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 in FY2003. In addition, the Governor is proposing to expand veterans' housing with \$4 million of the \$135.6 million in certificates of participation mentioned above and \$6 million federal funds. The type of housing will depend on a \$250,000 study of veterans' housing needs in the capital budget. The capital budget also includes \$125,000 to match private contributions for an endowment to maintain veterans' memorials around the state.

OIL PRICE TRENDS

- 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.

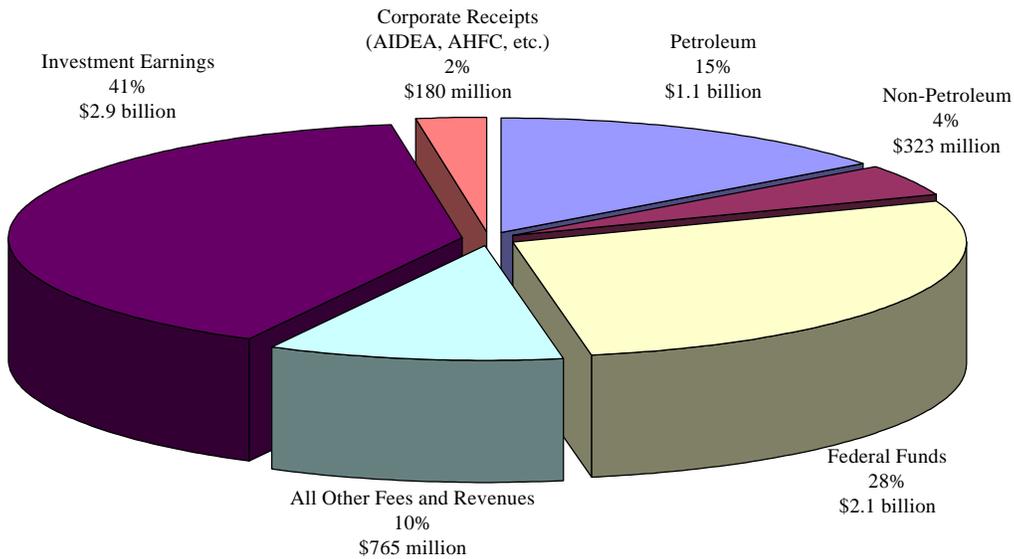
FEDERAL REVENUE

- Federal funds for Federal Fiscal Year 2002 (October 1, 2001 – September 30, 2002), comprise more than a quarter of the state's total budget. The largest categories of federal

Governor Knowles' FY2003 Executive Budget Overview

funding are for construction of highways (\$354 million) and airports (\$119 million), and the Medicaid program (\$583 million).

FY2003 Revenue Sources: \$7.3 Billion Total Funds



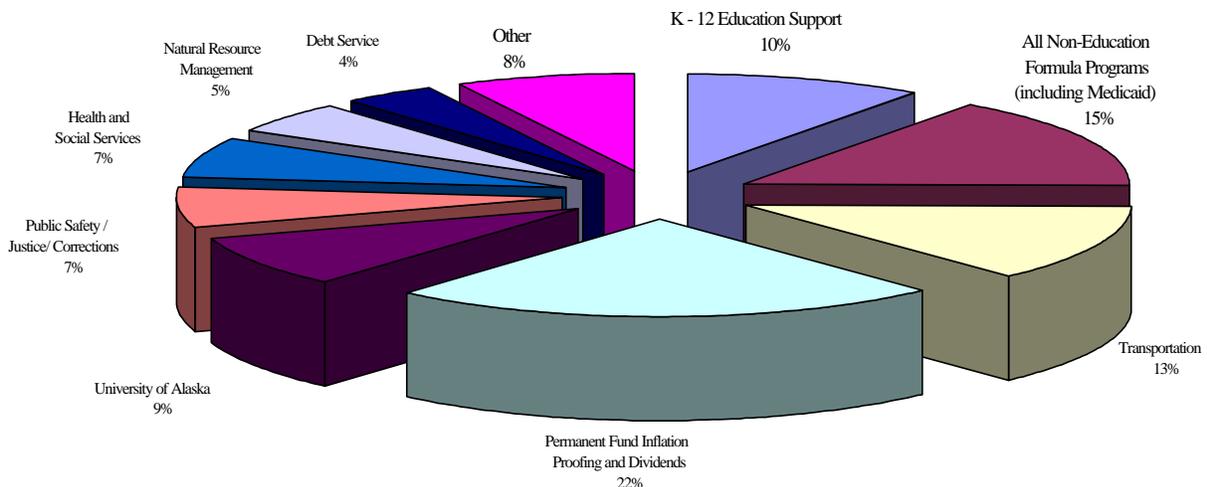
PER CAPITA SPENDING

- 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. However, when Permanent Fund dividends are added in, spending per person in today's dollars is \$320 higher than in FY1979.

MAJOR SPENDING CATEGORIES

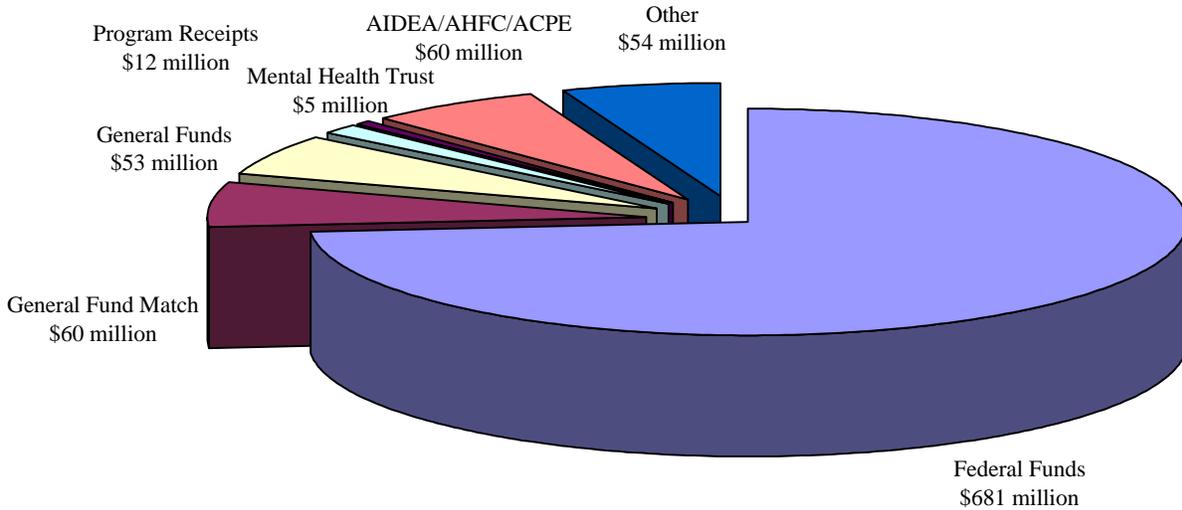
- After the Permanent Fund appropriations, payments to school districts for K-12 education account for the largest single program expense at \$741 million.

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



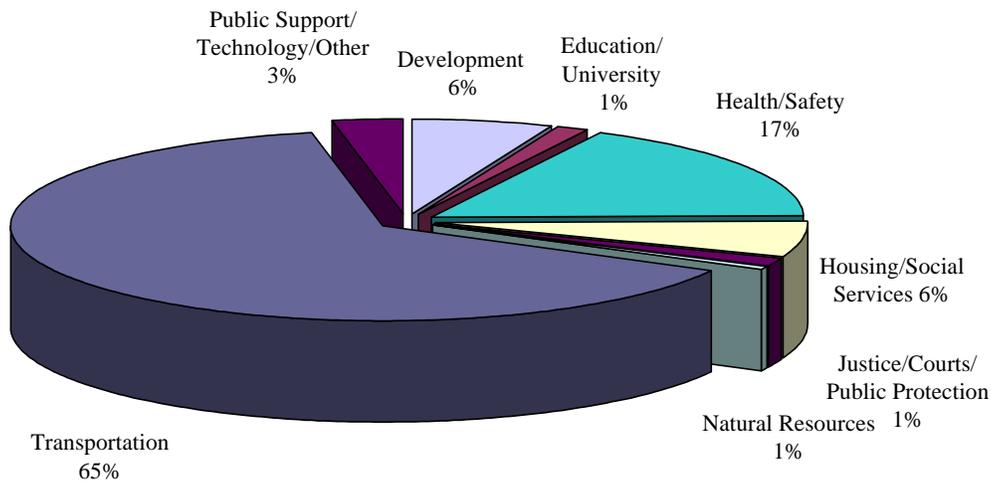
CAPITAL PROJECTS

**FY2003 Governor's Capital Budget
by Fund Source: \$925 Million**



- The main difference between FY2002 and 03 is the \$127 million reduction in international airport construction bond receipts since enough bonds were issued last year to fund the major capital construction needs. The international airport system is a self-sustaining entity funded via landing fees, rental charges and passenger facilities charges.
- Among the types of capital projects, transportation continues to be by far the largest category at \$594 million or two-thirds of the overall capital budget. The next largest category is health and safety at 17%.

**FY2003 Governor's Capital Budget
by Expenditure Category: \$925 million**



FINANCING STATE INFRASTRUCTURE

- The state made the final payment on its outstanding general obligation debt in October 1999. The most recent general obligation (GO) bonds, which require statewide voter approval, were authorized in FY1981: \$289 million for various purposes including transportation, education, water and sewer projects.
- Debt payments on the Governor's bond and COP proposals would not begin until FY2004. Even when they peak in FY2008, the total level of debt will be less than in FY1981 and one-third of the FY1987 peak.

Historical and Projected Debt Service on State-Supported Debt

