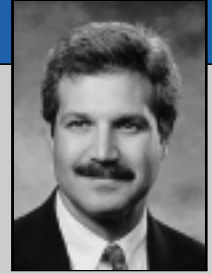




SENATOR DAVE DONLEY
R-ANCHORAGE

SENATE FINANCE COMMITTEE

Co-Chairs' 2001 Budget Report



SENATOR PETE KELLY
R - FAIRBANKS

Education Funding, Budget Discipline and Development of Long-Term Fiscal Plan 2001 Priorities

As Co-Chairs of the Senate Finance Committee this year, it was our task to maintain fiscal discipline and build on the strong foundation created by the successfully completed Republican Five-Year Budget Plan. The Senate Republicans are committed to continuing Alaskans' enjoyment of the lowest state taxes in the nation. Accordingly, the Republican Majority maintained fiscal discipline while providing for the constitutional priorities of education, public safety and public health.

Education Funding

A historic year for education in Alaska!

- ★ State education funding increased by more than \$50 million.
 - **Increased K-12 funding by over \$34 million** - including the largest increase to the education funding formula in over 10 years (SB 174, sponsored by the Senate Finance Committee)
 - **Doubled funding for Learning Opportunity Grants** for exam preparation, supplies & books from \$6.1 million to \$12.2 million
- ★ Increased funding for pupil transportation to reduce local taxes
- ★ Increased funding for charter schools and allowed more schools
- ★ Increased funding for the University of Alaska by over \$16 million
- ★ Funded school maintenance and construction statewide (3 new schools and 32 major maintenance projects)
- ★ Provided local tax relief for K-12 education

Public Safety Funding **Alaskans Protected**

- ★ Increased funding by \$1,560,000 for 6 more Alaska State Troopers
- ★ Added \$320,000 for 2 more Fish and Wildlife Protection officers
- ★ Increased funding by \$250,000 for statewide forensic crime lab support, funding three new positions including an additional DNA testing specialist
- ★ Added \$50,000 for Avalanche Safety Public Education
- ★ Increased training and benefits for Village Public Safety Officers and improved probation services in rural Alaska (SB 145, sponsored by Senator Rick Halford, R-Chugiak)
- ★ Authorized construction of a new private prison to prevent prison overcrowding (HB 149, sponsored by Representative Mike Chenault, R-Soldotna)
- ★ Funded new statewide youth correction facilities necessary to fight juvenile crime

Public Health Funding **Essential services funded**

- ★ Increased funding for essential medical services
- ★ Added \$700,000 to address Fetal Alcohol Syndrome prevention efforts
- ★ Allocated \$3 million for Tobacco Prevention and Control
- ★ Provided \$225,000 for additional emergency service personnel
- ★ Authorized construction of new Alaska Psychiatric Institute facility (HB 76, sponsored by Representative Norman Rokeberg, R-Anchorage)

Fiscal Discipline

Budget discipline and development of a new long-term fiscal plan

- ★ **Continued results-based budgeting to ensure government fiscal accountability**
- ★ Passed an operating budget **\$60 million below the governor's request** and \$7 million below last year's budget in total state funds when adjusted for population and inflation
- ★ Created an overall budget that is simpler, easier to understand and more accurately represents spending than past years' budgets
- ★ The Senate passed two Constitutional Amendments **to improve the budget process and encourage fiscal discipline** (see pages 2 & 3)
 - **SJR 23, a new and effective state constitutional spending limit** (sponsored by Senator Dave Donley, R-Anchorage)
 - **SJR 24, an important reform of how the Constitutional Budget Reserve works** (sponsored by the Senate Finance Committee)
- ★ The Senate passed three major cost saving proposals and began work on four others (see pages 2 & 3)

For more information and articles, visit:
www.akrepublicans.org/22ndleg/senfinance.shtml
or www.legfin.state.ak.us/



2001 Senate Finance Committee: (clockwise from top) Co-Chairs Dave Donley and Pete Kelly, Loren Leman, Vice-Chair Jerry Ward, Gary Wilken, Donnie Olson, Lyman Hoffman, Alan Austerman and Lyda Green.

Developing a New Long-Range Fiscal Plan

The first step in any long-range fiscal plan should be continued reform for more efficient government. After the hundreds of millions of dollars in reductions in state spending over the past five years only challenging spending reductions still remain. Alaska statutory formulas and provisions guide most state spending, so significant reform requires statutory changes. **This year the Senate Finance Committee introduced a package of legislation designed be the first step in developing a new long-range fiscal plan for Alaska.** These nine pieces of legislation have the potential of saving over \$12.5 million the first year and over \$100 million within 10 years. The individual proposals and projected savings are summarized below and on the next page.

Senate Joint Resolution 23

Sponsored by Senator Dave Donley, R-Anchorage

SJR 23 reduces the existing constitutional spending limit and restricts increases to ensure future fiscal discipline. The existing spending limit has grown to \$6 billion—twice the amount of total state spending in FY 2000. SJR 23 changes the limit to \$3.1 billion and limits its growth to ½ of the cumulative change in population and inflation. SJR 23 passed the Senate and is currently in the House Judiciary Committee.

Senate Bill 180

Sponsored by the Senate Finance Committee

SB 180 places all state employees under a new geographic pay differential formula to more accurately reflect cost-of-living differences across the state. This adjustment would save the state \$183,600 per year initially and \$312,000 per year after 6 years. SB 180 is currently in the Senate Rules Committee.

Senate Joint Resolution 24

Sponsored by the Senate Finance Committee

SJR 24 amends the process for withdrawing funds from the Constitutional Budget Reserve (CBR) and requires a 3/4 vote of the Legislature only when spending exceeds the prior year's level. Currently, a 3/4 vote is needed to approve any withdraw from the CBR. Please see article on the opposite page for more information on this important cost saving measure. SJR 24 passed the Senate and is currently in the House Judiciary Committee.

Senate Bill 181

Sponsored by the Senate Finance Committee

SB 181 follows auditors' recommendations to close a state housing program that has outlived its usefulness. The AHFC Housing Assistance Loan Fund provides loans below market rate loans to only certain areas of the state. Eliminating this program could increase state revenue by \$500,000 annually. SB 181 is currently in the Senate Finance Committee.

Republican Majorities Hold Line against Democratic spending proposals

During the 2001 legislative session, Republicans rejected a total of \$246 million in proposed extra state spending proposed by Democrat minority legislators. Had all the proposed minority amendments been approved, general fund expenditures for the operating budget would have increased by \$49.1 million from the previous year and the capital budget would have increased by \$196.9 million.

Increased state spending proposed through minority amendments for each fiscal year since 1997 is listed below:

	Operating Budget	Capital Budget	Total
2002	\$363,892,616	\$196,870,851	\$560,763,467
2001	\$314,763,966	\$51,008,522	\$365,772,488
2000	\$231,626,078	\$23,237,666	\$254,863,744
1999	\$139,037,928	\$1,420,000	\$140,457,928
1998	\$48,542,705	\$5,719,314	\$54,262,019
1997	\$14,135,690	\$2,193,322	\$16,329,012
Total	\$1,111,998,983	\$280,449,675	\$1,392,448,658

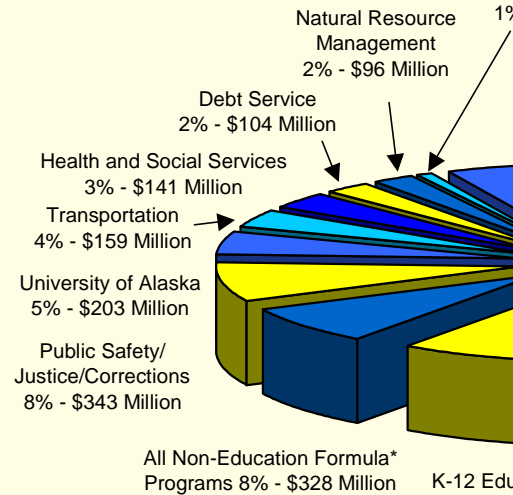
As the figures show, Alaska's budget gap would be significantly greater if all of this excess spending had been added to the budget. Instead, the Republican Majorities improved Alaska's fiscal health by implementing general fund spending reductions totaling over \$175 million. When inflation and population growth are factored in, state general fund spending has been reduced by over \$600 million.

Reducing general fund spending and holding down spending increases helped limit the necessary withdraws from the Constitutional Budget Reserve (CBR). This extended the life of the fund and allowed it grow from \$2.2 to \$2.5 billion. Had minority amendments been adopted, the CBR would only total \$1.3 billion today. Annual contributions were also made to the Permanent Fund, which has grown from \$15.7 to \$25.3 billion.

All of this was accomplished without Governor Knowles' proposed massive new income tax, new general statewide taxes, reducing your Permanent Fund Dividends or using the Permanent Fund.

The State of Alaska Budget Geared Fiscal Year 2002

Where the money goes



*Formula programs are based in statute and guaranteed. Non-education formula programs include: Medicaid, Sharing, Foster Care, Elected Officials Retirement, Shared Services, etc.

This report was prepared by Co-Chairs Senator Dave Donley and Representative Tom Alford.

This publication was released by the Senate Finance Committee to inform the public of the committee's activities during the legislative session.

Senate Bill 182

Sponsored by the Senate Finance Committee
 SB 182 encourages accuracy and accountability in the budget process by requiring program benefits to be paid based on actual funding levels rather than statutory suggested levels. The potential savings to the state if SB 182 is enacted will vary depending on individual program funding levels. SB 182 is currently in the Senate Finance Committee.

Senate Bill 183

Sponsored by the Senate Finance Committee
 SB 183 adopts a uniform standard for the payment of attorneys' fees for litigants, including public interest litigants. Courts retain the authority to award higher fees on a case-by-case basis. Potential savings could average over \$100,000 annually based on current fees being paid out. SB 183 passed the Senate and is currently in the House Judiciary Committee.

Senate Bill 184

Sponsored by the Senate Finance Committee
 SB 184 allows, but does not require, local government contributions to the Village Safe Water Program. If local governments chose to contribute even just five percent, state savings of \$2,700,000 annually could be realized. SB 184 passed the Senate and is currently in the House Community and Regional Affairs Committee.

Senate Bill 185

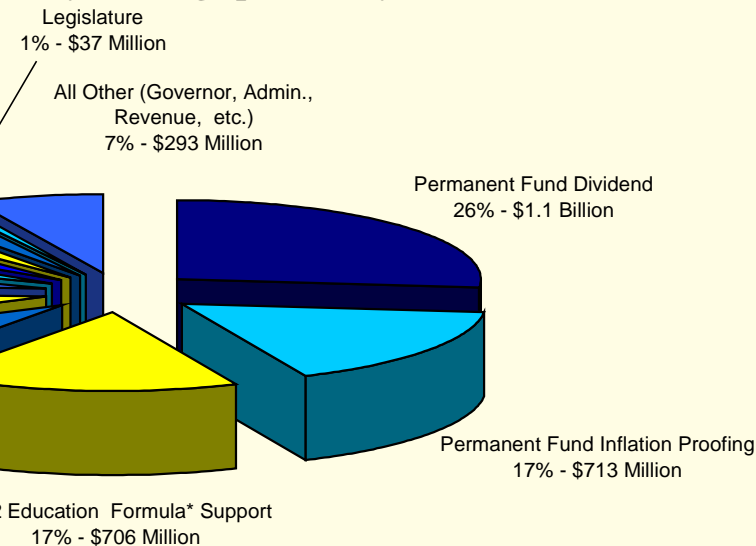
Sponsored by the Senate Finance Committee
 SB 185 revises the formula under which Power Cost Equalization is paid and adjusts the amount of electricity eligible for subsidy to more accurately reflect current power usage and encourage energy conservation. State expenditures could be reduced by as much as \$9,000,000 per year under this legislation. SB 185 is currently in the Senate Finance Committee.

Senate Bill 186

Sponsored by the Senate Finance Committee
 SB 186 limits a municipality's allowable bonded indebtedness to \$15,000 per resident. This would increase state revenues by over \$100 million a year within ten years. State revenues will increase because oil and gas property tax revenues, currently collected by certain high debt municipalities, will revert back to the state. SB 186 passed the Senate and is currently in the House Community and Regional Affairs Committee.

Fiscal Plan Legislative Status:
The legislative response to this fiscal package has been very positive. Five proposals have already passed the Senate and are under consideration in the House. The remaining four bills are progressing through the Senate.

General Fund and Permanent Fund Spending Year 2002 - \$4.3 Billion money is being spent this year:



guarantee a specific level of benefits to qualified recipients. Medicaid, Adult Public Assistance, Longevity Bonus, Revenue Shared Fisheries Business Tax and Temporary Assistance. Donley and Senator Pete Kelly and does not necessarily represent the views of any other senators.

Finance Committee, produced at a cost of \$.034 per copy to inform the 2001 legislative session, and printed in Anchorage, Alaska.

Constitutional Budget Reserve Vote Used to Force Increased State Spending

The Constitutional Budget Reserve (CBR) was established in 1990, and has been used to help fill the gap between state revenues and expenditures. When the CBR was created, the original intent was that funds could be withdrawn with a simple majority vote to help cover a budget deficit as long as current spending did not exceed the previous year's spending, but a three-quarters vote of the Legislature would be necessary to withdraw any funds in excess of the previous year's spending.

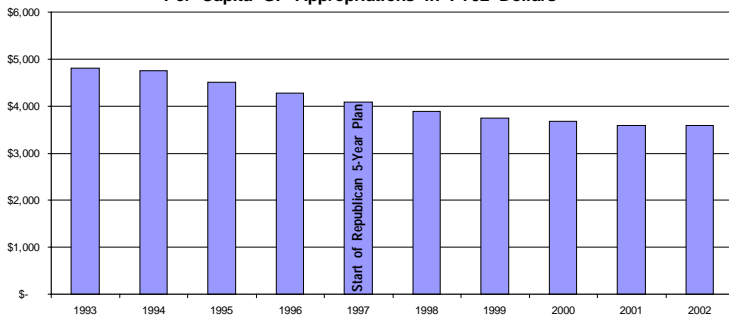
In 1994, the Alaska Supreme Court misinterpreted this provision to require a 3/4 vote to withdraw any funds from the CBR. This creates a situation in which a small minority of legislators can "blackmail" the majority and hold the budget hostage in any year where there is a budget deficit. These legislators can exchange their votes, which are crucial to withdraw CBR funds and balance the state's budget, for approval of increased spending.

The cost this year to access the CBR with a 3/4 super majority vote to balance the budget was nearly \$150 million.

Senate Joint Resolution 24 corrects this bizarre imbalance of spending power by proposing a constitutional amendment that makes it clear a 3/4 vote is not necessary when spending does not exceed the previous year's.

If this resolution passes, the amendment will be placed on the next state general election ballot in fall 2002 for approval by the people of Alaska.

Per Capita State Spending is Going Down
Per Capita GF Appropriations in FY02 Dollars



Per Capita spending graph notes:

- ☛ Consumer Price Index (CPI) and population statistics taken from the Alaska Economic Trends, "The Cost of Living in Alaska", June 2001, Alaska Department of Labor and Workforce Development.
- ☛ Figures are in Fiscal Year 2002 Dollars (i.e. - It would take an appropriation of \$2.86 billion of today's dollars to equate to \$2.37 billion in Fiscal Year 1993.)
- ☛ Population growth for Fiscal Years 2001 and 2002 are assumed to be the same as for Fiscal Year 2000 (.79%).
- ☛ Projected CPI for Fiscal Year 2002 is projected at 3.8% by the Legislative Finance Division.
- ☛ Fiscal Year 2002 budget is \$7 million below Fiscal Year 2001 budget when adjusted for population and inflation.

Anchorage's Share of 2002 State Budget

Anchorage will receive over \$250 million in capital appropriations this year, an increase of over \$45 million from last year. Anchorage will also receive an additional \$54 million in school debt reimbursement. Anchorage will receive over \$231 million in appropriations in the operating budget, a 3% increase from last year.

Transportation Projects

Project	Amount
Anchorage International Airport expansion (revenue bonds to be paid by airlines using the facility)	\$162,644,000
Port of Anchorage improvements	\$6,000,000
Citywide street maintenance and safety upgrades	\$4,000,000
Dowling Road construction	\$4,325,000
C Street Reconstruction - Phase II	\$4,000,000
Lake Hood Airport improvements	\$4,456,000
Campbell Creek Trail Connection	\$3,400,000
Old Glenn Highway rehabilitation	\$3,375,000
Major intersection improvements	\$3,000,000
Knik Arm Crossing (preliminary work)	\$2,600,000
People mover & other transit improvements	\$2,200,000
Huffman Road intersection improvements	\$1,300,000
Willow Crest Elementary School overpass upgrade	\$1,300,000
Other transportation programs and projects	\$4,774,000

Education Funding

The Anchorage School District will receive nearly \$7 million in additional state aid this school year. The legislature also passed HB 101, sponsored by Representative Fred Dyson, R-Eagle River, which will increase funding for and allow more charter schools. The University of Alaska's Anchorage campus will also receive a substantial increase.

	2001	2002
Education Funding (Foundation Formula)	\$196,800,000	\$200,265,886
Learning Opportunity Grants	\$2,278,339	\$4,570,037
Pupil Transportation	\$15,273,491	\$15,983,832
University of Alaska (total state funding)	\$184,136,900	\$197,500,000

Municipal Aid Funding Increased

During the past legislative session, the Senate Finance Committee increased funding for municipal aid in the state operating budget. This was the first increase for the program since 1985. Total Anchorage funding exceeded \$10.5 million which helps reduce taxes on an average home in Anchorage by \$226 annually. This increase will help reduce Anchorage property taxes.

The Senate Finance Committee supported making reductions in state government before cutting state funds to communities like Anchorage.

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