

The second session of the 27th Alaska Legislature is scheduled to begin Tuesday, January 17, 2012. It is shaping up to be a “challenging” session with the Governor and Legislature far apart on several major issues.

The Governor is committed to reducing taxes on the oil industry; the Senate strongly opposes any changes to the current tax structure. The Governor supports depositing surplus revenues into the Constitutional Budget Reserve savings account, the House and Senate wants to spend the surplus to build much needed infrastructure in the state.

On December 15, 2011 the Governor released his proposed operating and capital budget. I have outlined some highlights below:

On the revenue side: Alaska has nearly \$13 billion in savings, not counting the Permanent Fund. Ninety two percent of Alaska’s revenues are attributable to oil. The Governor based his budget on a per barrel price of \$109. The proposed FY 2012 budget will leave additional surplus revenues of \$3.7 billion. The Legislature is likely to add at least \$1 billion of this surplus to the savings account and utilize most of the remaining revenue to fund priority capital projects.

The operating and capital budgets total \$12.1 billion with \$6.4 billion coming from state general funds, The proposed general fund budget is \$612 million (8.7%) less than the current year. Most of this reduction comes from reduced capital budget spending, as the proposed operating budget increases 4.2 percent.

The Operating budget – details of the 4.2 percent increase

- The Office of Management and Budget is eliminating 289 vacant full-time and part-time positions in FY 2013. The move will allow the state to better absorb new positions coming online with the completion of the Goose Creek Correctional Center.
- Goose Creek Correctional Center opens—increasing operating costs by \$29 million.
- The budget forward funds and fully funds K-12 public education and pupil transportation.
- \$8 million is appropriated to the Performance Scholarship Fund. To date more than 2,000 Alaska students have qualified for the Alaska Performance Scholarship program
- Unfunded Pension Liability—Increasing by \$131 million, for a total of \$610.5 million. Several legislators support addressing the unfunded liability while the state is awash in revenues.
- Medicaid Formula Costs—Increasing by \$131 million total, 45 million of General Fund. Most of the increase is driven by federal mandates.

- Employee labor contracts increasing by \$66 million total, \$34 million of this increase is General Fund.
- Funding for 16 law enforcement officers across this state, additional funding for domestic violence shelters and housing for victims.

Capital Highlights

The proposed capital budget totals \$1.8 billion, including \$882 million in state general funds. Below are some of the projects funded in the Governor's capital budget.

One billion dollars is appropriated for infrastructure projects including roads and airports, the marine highway, municipal water and sewer projects, harbors, and deferred maintenance.

- **Roads to Resources (\$28.5 million)** – This appropriation includes funding for access to the Ambler Mining District, Umiat-Foothills West, a western access route through Tanana, the Klondike Industrial Use Highway, and other resource roads. The funding will be used for project definition, permitting, environmental work, and right-of-way acquisition.
- Alaska Marine Highway – Funding to build new Ferry - \$60 million
- State Museum, library and archives – rehabilitation - \$20 million
- Rural power system upgrades - \$13 million
- Ketchikan bridge replacements - \$9 million
- Matsu Borough road bond package match - \$20 million
- Seward Heavy equip diesel shop - \$6 million
- Renewable energy grants - \$25 million
- Weatherization - \$30 million
- Home energy rebates - \$20 million
- Bulk fuel & rural power systems - \$15 million
- Full funding for power cost equalization - \$38 million
- New school in Emmonak \$35 million
- New school Koliganet \$25 million
- Bethel Youth Facility upgrade - \$10 million
- Nome State office building - \$10 million
- Friends of Jesse Lee Home _\$5 million

- Copper River Native Association Health Clinic - \$6 million
- \$24 million for the school major maintenance account.

Statewide Ports

Governor Parnell is proposing a \$350 million general obligation bond package for the following port projects throughout the state:

- Port of Anchorage \$200 million
- Matanuska-Susitna Borough - Port MacKenzie Rail Extension \$110 million
- City of Seward – Community Development Quota Home Port \$10 million
- Bristol Bay Borough Port Improvements -- \$10 million
- City of Emmonak Port Improvements -- \$10 million
- Ketchikan Gateway Borough – Ward Cove Port Improvements \$10 million

.

.