

Alaska's Operating Budget: Critical Crossroads, Choices, and Opportunities

Commonwealth North

RDC Presentation - March 19, 2015

Bottom Line

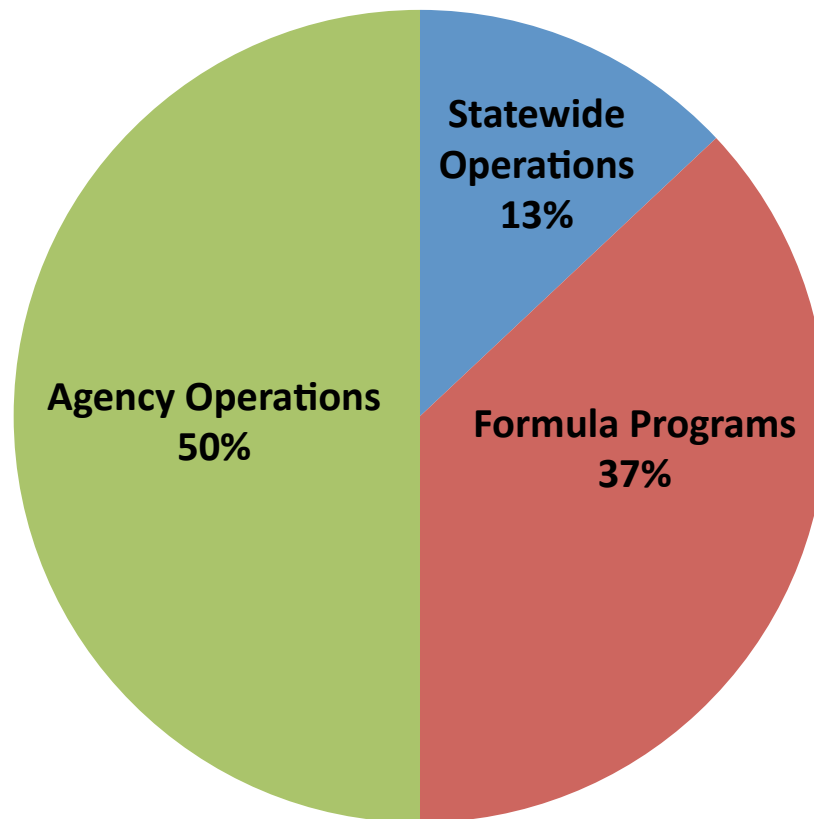
#1. All programs/spending must be examined

#2. All revenue needs to be available to ensure priority services can be funded

#3. Reform budget practices that inhibit achieving #1 and #2

All Spending on the Table

FY 15 Operating Budget - \$6 Billion GF



Formula Programs

Cost Driver: Medicaid

- State provides all optional services
 - Mandatory Services \$933 million
 - Optional Services \$481 million
- Unlike other states, Alaska has not implemented substantial reforms
- Reform is necessary for current services to continue

Recommendations

Formula-driven programs must be examined in terms of policy goals, results being achieved, and cost effectiveness.

Implement Medicaid reforms immediately.

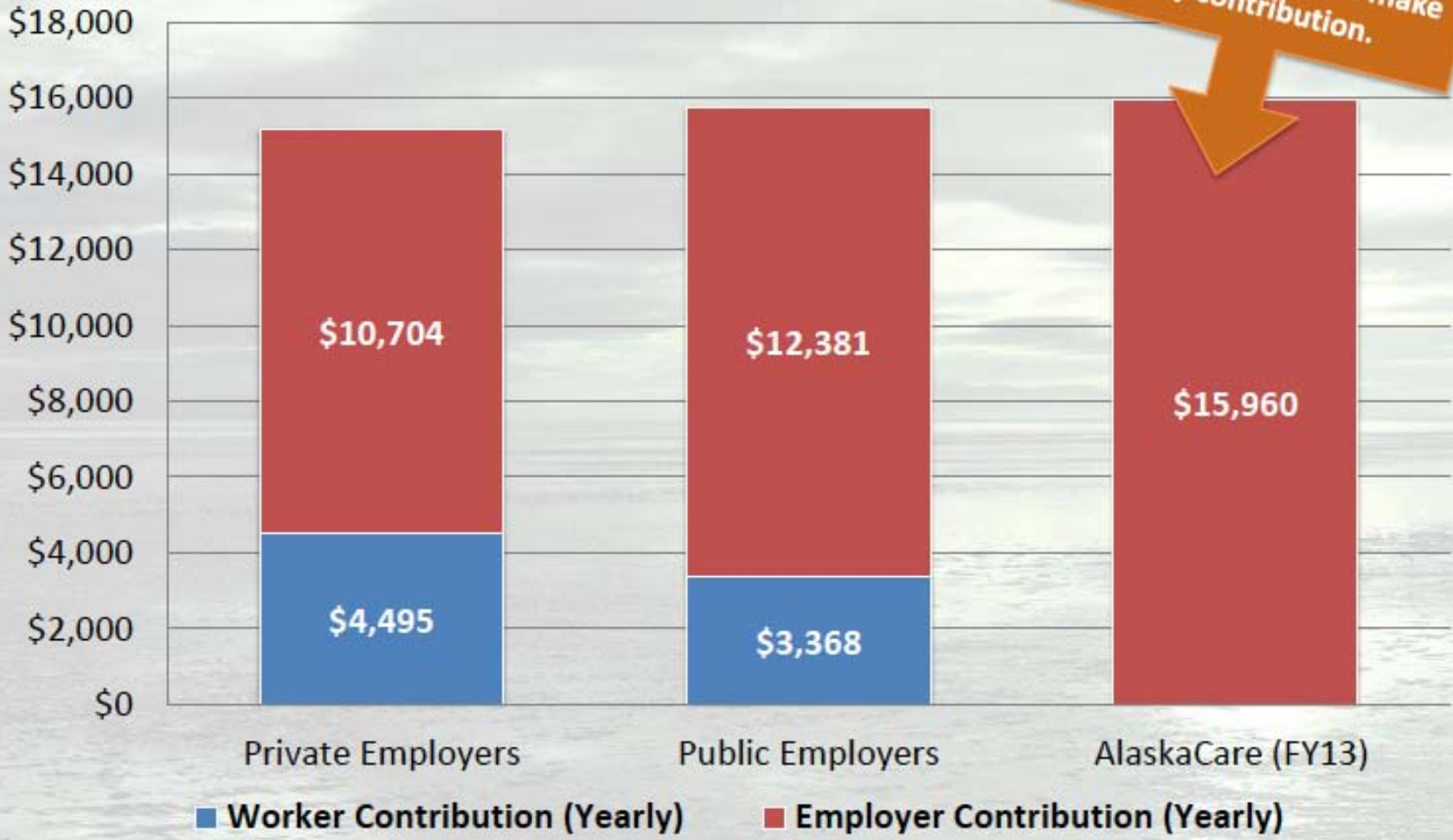
Cost Driver:

Health Care Costs for State Agencies

- Alaska health care costs among highest in nation
- Agency Operations - \$935 million in FY 15
 - Retirees \$492 million
 - Active employees \$372 million
 - Inmates \$44 million
 - Workers Comp \$27 million
- Cost for active employees increased 218% since 2001

Worker and Employer Premium Contributions for Family Coverage / Economy Plans (2012)

Participants in the economy plan don't make any contribution.



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2012.

Cost Driver: Employee Salary Costs

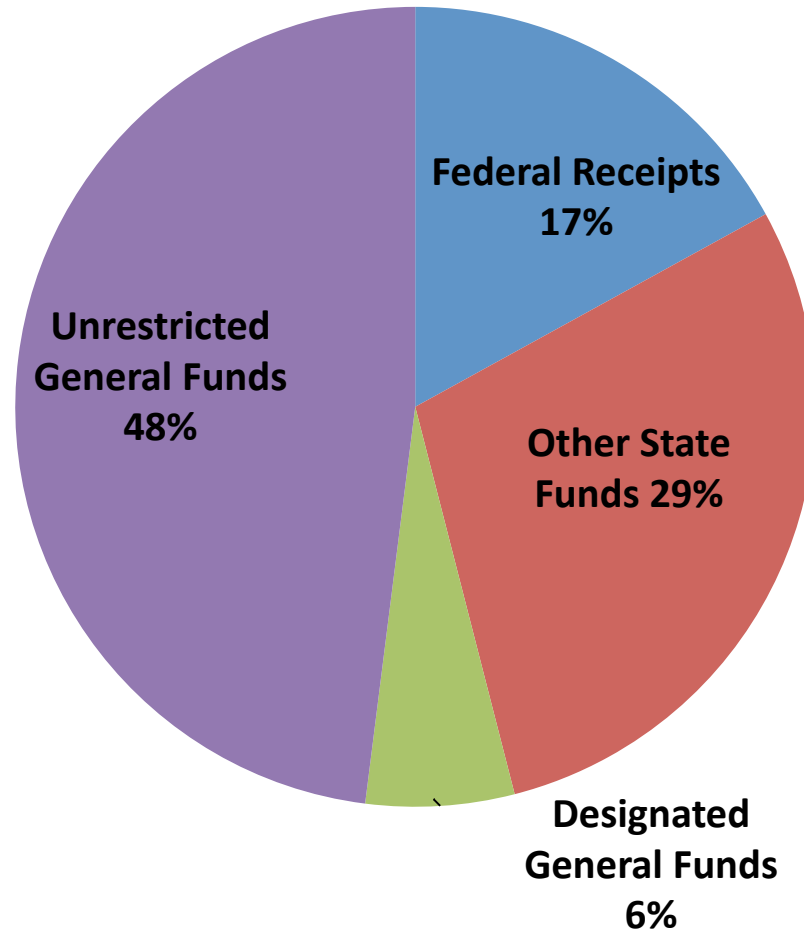
- Budgeted salary increases
 - \$53 million in current year
 - 1% COLA (contractual) \$25 million
 - Merit Increases (statute) \$28 million
 - Next year COLA is 2.5% for largest unions

Recommendation

Re-open negotiations to identify short and long-term savings in salary and benefit costs

FY 15 Revenue Sources

\$11.6 Billion



Earmarks: Designated Reserves

Designated Reserves	FY 15 Projected Year End Balance
Alaska Capital Income Fund	\$13.1
AK Higher Education Investment Fund	\$443.8
Public Education Fund	\$1,261.1
Revenue Sharing Fund	\$172.0
PCE Endowment	\$902.2
Total	\$2,792.2

(in million\$)

Recommendation

Deposit all state revenue in general fund to
ensure all revenue is
available to fund highest priorities

Spending: Ensure Value for Dollars Spent

- Shift focus from incremental changes to identification of appropriate and effective services
 - Constitutional requirement?
 - If so, how effective is the program—what are the results?
 - What’s the cost to deliver those results?
 - Is the State the only entity that can provide the services?

Recommendation

Undertake in-depth review of programs that examines effectiveness and appropriateness;
engage citizens in these reviews

Report results to citizens and use data
to inform budget decision-making

Management Review

- Governors Hammond and Hickel initiated reviews to identify organizational and management efficiencies

Recommendation

Governor establish citizen-led commission to undertake such a review

Overcome Political Hurdles

- Recognize powerful spending lobby protects every dollar

Recommendation

Establish a process similar to BRAC to implement package of recommendations that will be necessary to re-size state programs

Engage Alaskans: Statewide Dialogue

- Important that Alaskans understand the problem before they are willing to accept solutions

Recommendation

Governor, Legislature sponsor series of dialogues so citizens better understand the problem and provide input on the solutions

Budget Practices & Process

Recommendations - Legislature

- Revenue Limit
 - Establish limit on savings used in any one year
 - Provides additional pressure for spending reductions
 - Prolongs availability of savings
- Create Joint Ways & Means Committee
- Deposit all savings in statutory budget reserve
 - Removes $\frac{3}{4}$ vote requirement to access Constitutional Budget Reserve

Budget Practices & Process

Recommendations - Legislature

- Increase time for budget work
 - Return to Constitution's 120-day session
 - Increase interim work on budget
 - Special session(s) devoted to budget work if necessary
- Implement contingency plan for mid-year savings when significant drop in revenue

In the Meantime, Buy Some Time . . .

- Legislature strategically use its power of appropriation
 - Partially fund next year's budget for 7 months at reduced level
 - Provide time for further review of programs
 - Statewide dialogue with Alaskans about choices
 - Early next session Legislature evaluates program changes and approves funding
 - Decisions are informed by program evaluation work and citizen input
 - Give Administration management flexibility through structure of department appropriations

Then There's Politics . . .

- Each recommendation hits up against some political obstacle
- This time really is different
 - Dramatically higher recurring costs
 - Lowest oil production
 - Sizeable savings
- Requires deliberative, thoughtful actions to ensure economic stability and appropriate services continue at a level Alaska can afford

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