

Common Wealth North

What would a private company do if faced with such a short fall?

Although the budget problems facing Alaska cannot be resolved only by cutting the budget that doesn't mean we shouldn't reduce spending in an effort to lower the need for funds. This is especially true when you realize our budget has grown over 100% in just a few years. Yes, we must also be aggressive in enabling economic development and diversification (they have 'talked' about this since the 1970's) but done little – because they don't know how. This morning I will only focus on a couple budget reduction options that, from a management and not partisan perspective that are real, possible, even probable.

How do we provide a responsible level of services to the citizens of Alaska at a responsible cost given our loss of income?

These options are suggested by **Ric Davidge, MPA** - one of five team leaders/authors of the Budget Book by United for Liberty provided the legislature in 2016. His point of view is his own, but based on public and private management training and experience that attempts to be nonpartisan.

If Alaska, which is after all mostly a 'service provider' in our economy, were a private service company, what options would we have in the face of a sharp income reduction?

Now, I know this is a hard stretch for some, but let's consider at least some of the private sector solutions when confronted with this reality. And, let's start with some reasonable limitations on our choices:

But wait a minute. What's the difference, really, between a public entity and a private one?

- In the private sector you work for self and profit. A generalization, but basically true.
- In the public sector you work '*in the public interest*'. It's in almost every law you find.

So, let's get started:

1. We don't want to go out of business – no shut down.
2. We don't want to lay off a lot of workers we have invested in. First of all, it's not a smart strategy and the economic impacts across AK could be harmful.
3. For the most part our employees are not excited about structured layoffs. Often your most recent hires are the ones you need, due to current events.
4. Can we take a temporary action, that is agreeable to a majority of our employees, and still keep the doors open at least 5 days a week? After all, we do provide important services to tens of thousands of Alaskans.
5. Let's complicate our choices by accepting that we do have a labor agreement, maybe not quite as restrictive as the 13 public sector state labor contracts/agreements, but there are unions involved-an important qualifier in our process considerations
6. Let's also recognize that we have 'constitutionally mandated services' we are obligated to provide, however the amount of spending on each is negotiable with the legislature or board of directors.

Some facts we need to work with: According to the most recent national studies, AK has the highest per capita number of state employees of any state. **28,858** or 392 state employees per 10K population. So, this – labor, is **THE** cost driver for almost every state program/function.

What can we do to seriously reduce 'costs'?

1. Stop all overtime – most of it anyway.
 - a. Not easy in government because law enforcement for example is often pulled into court or other duties on overtime. So, we will have to allow some overtime for public safety. But did you know, just one example, that the Dept of Public Safety has 80 FTE that have never been filled - for a decade? Where is that money?
2. Stop all travel and associated expenses including conferences and training.
 - a. You have to use the phone, email, Go-to-Meeting, or Skype, and buy a transcript.
3. Stop all employee programmed raises or step increases or bonuses
 - a. There is no legal requirement that bonuses be provided, but there are some contractual step progressions you can't stop unless you legislate. But you have to know how to count votes and some legislators don't.
4. Freeze all benefits – no automatic increases until there is a change in income
 - a. The legislature can control this by simply cutting or not increasing the budget in this area.
5. What about eliminating FTE authorizations that are not filed within 90 days of their authorization/funding? There are positions that are authorized but not funded – why?
 - a. Some estimate that there are up to 4,000 unfilled FTE positions in state government
 - b. How are these funds used if the positions are not filled? They call them sub-funds? Why?
 - c. Now some of these are authorized but not funded, but the legislature MUST demand full reporting on the status of FTEs and if funded but not filled, the funds should laps in 90 days.
6. Stop, or at least seriously limit, any new hires – allow only those 'critical' to health and safety.
 - a. This is really the responsibility of management. The legislature can try and force this by providing a detailed PERA definition of Class One, no right to strike employees and only fund those.
7. Cut to a four-day work week (state employees now work 37.5 hours a week consistent with their contracts), allowing half of each program area to select either Friday or Monday as their day away from work. (this would mean a reduction of only 5.5 hours a week and would require union negotiations, but as long as the majority of employees agreed – we should be able to get there)
BTW- the current contract from the largest group of state employees allows a four-day work week.
 - a. This would cut spending about 20% across the board – at least in our labor costs. That's a **savings of \$500,000,000 in the first year** according to legislative finance. Yes, likely some will leave, but that's what we have to do in the private sector. Now, in my direct experience as a public manager, this option was successful and when we returned to the standard weekly hours, a number of employees chose not to return, but rather remain at 32 hours a week. Why? Because they had acquired another part time job or just wanted to continue to spend more time with their families. The surprise was that productivity actually increased – we got more done per hour than we did at 37.5 hours a week.
 - b. Could this instigate a strike? Maybe the marine unions, trades and crafts, but the rest can fake a strike. In the private sector, we would just shut the doors and consider relocating to a stronger economy. Hard to do with a service company, but many are doing it.
 - c. What about reducing the **number** of services/programs we provide? This is common practice in the private sector often going back to core functions that have a good ROI. In the public sector do we have discretion to do that? What about the legislature/board of directors/shareholders? Would they approve such service/program reductions if proposed?

8. Stop all equipment purchases unless they are essential to public safety.
 - a. The state has hundreds of vehicles that are set up on a cycle for new purchases – extend that a year of two.
9. Surplus all vacant/unused state buildings and put the income into the general fund, and provide a report on these results to the next legislature.

Governance Choices:

1. The first bill to pass the legislature MUST be the state's operating budget. This would remove most of the corruption/trading on the budgets process and get this key action done – first. Some states now have a two-year budget cycle with the second year focusing on all other legislation.
2. The state's operating/capital budgets should be 'presented' in two forms. The '**constitutionally mandated functions**' budget, and then all other '**discretionary**' functions budget. This would help Alaskan's understand what is 'required' by our constitution and what is clearly 'discretionary'.
3. The people should amend our AK constitution to change the required $\frac{3}{4}$ vote now necessary to access the Constitutional Budget Reserve (CBR), requiring a majority vote in both houses, when the budget income is less than the previous year.
4. Alaska is now over 50 years old. It's time to require the establishment of local governments in what is called the unorganized borough. No longer should the legislature function as the governance body for these communities. The Legislature should mandate uniform local government with taxing powers so that all local governments are fully responsible for their own public services in their respective communities – now a burden on the state. It is likely some financial transition will be necessary, but the role of the state in funding and providing these services must rest on the local community, not just the state. This was the original design and those communities that care for themselves now are harmed with a loss in state funding or sharing because of those who refuse.
5. Eliminate public sector 'supervisor' bargaining units. All supervisors should be in the Classified Service of State Employees. They must meet minimum qualifications, like a management degree (I know a crazy idea), and have a specific job description. PERA never contemplated supervisors and confidential employees being in a bargaining unit. The current system corrupts the clearly implied and essential 'management' function and discretion of supervisors.
6. Take a serious look at property tax reforms with the idea of limiting the local share of oil and gas property taxes to no more than 10 mils. The state legislature should contract out this study.
7. The legislature/governor should commission an independent study on the possible privatization of some state services. Are there any that make fiscal and service sense over time?
8. Pass a new law that requires separate accounting from all industries that are on state land under state agreements so that we again know what is actually going on. The repeal of this some years back was a mistake. (Senator Rick Halford)

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