

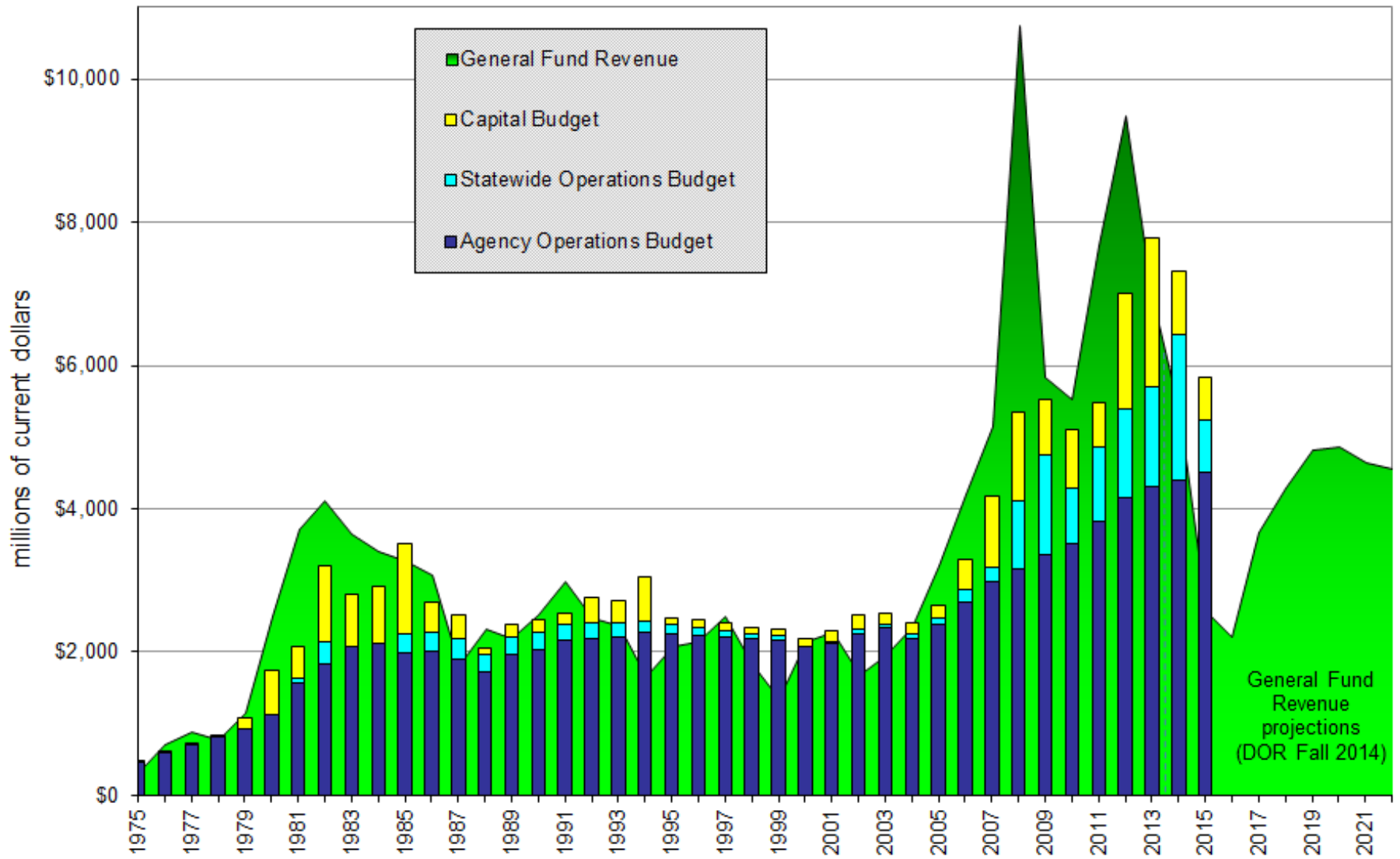
Alaska's Operating Budget: Critical Crossroads, Choices, and Opportunities

Commonwealth North

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May 28, 2015

Unrestricted General Fund Revenues and Budget History



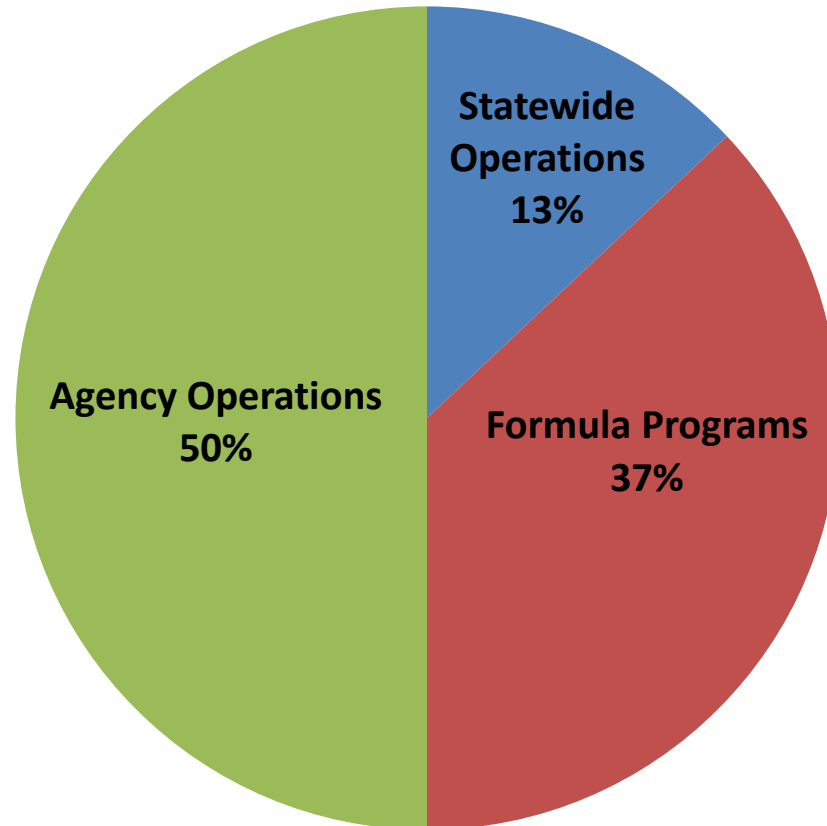
Attachment B

Bottom Line Recommendations

- #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

Scrutinize ALL Spending

FY 15 Operating Budget - \$6 Billion GF



Cost Driver: Formula Programs

(FY 15 State Funds)

- K-12 Education \$1.3 billion
- Health & Social Services \$906 million
- Power Cost Equalization \$41 million
- Other programs \$28.7 million

Formula 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.

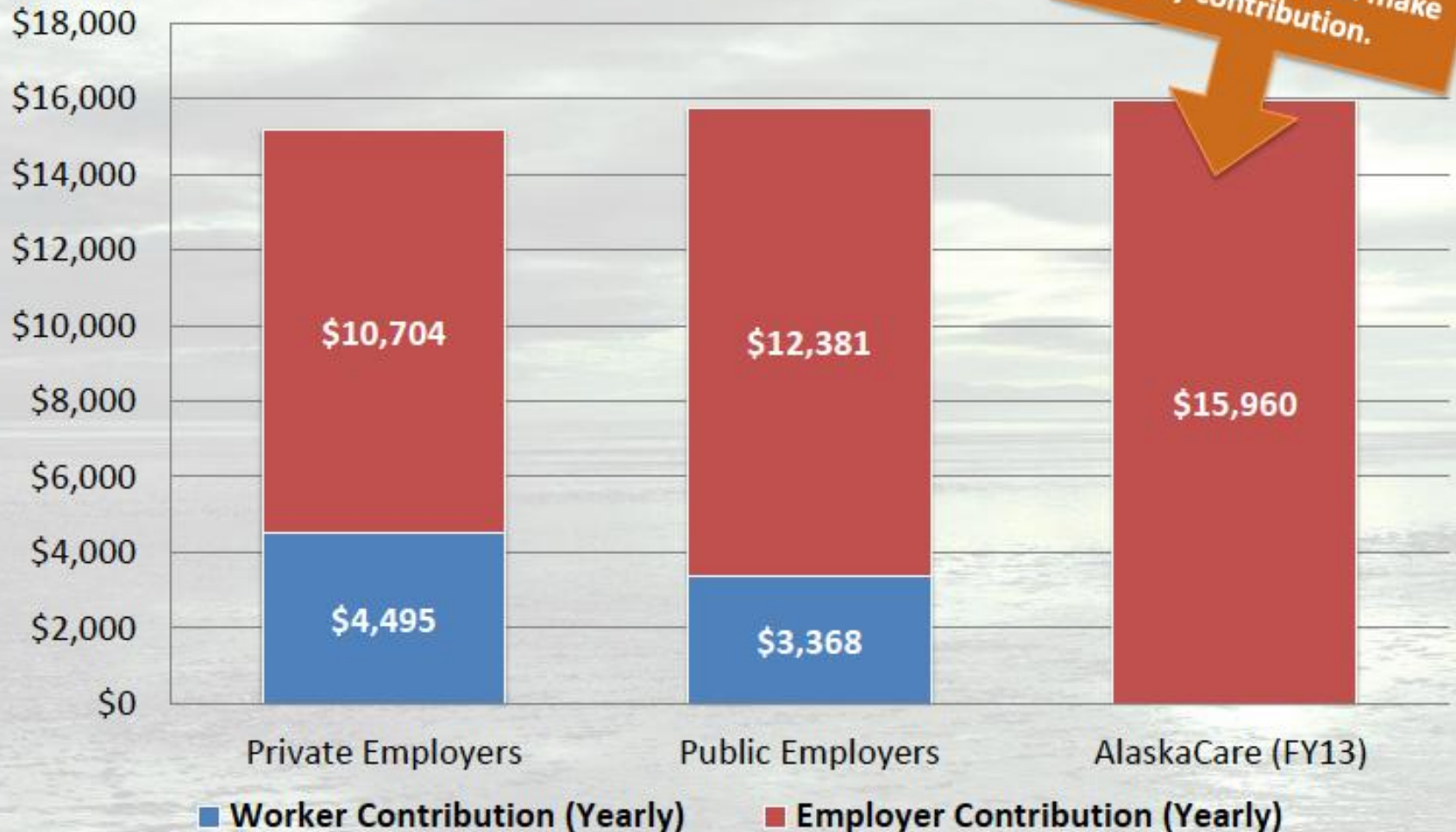
Cost Driver: Health Care Costs

- 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

US EMPLOYER & EMPLOYEE CONTRIBUTIONS

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

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



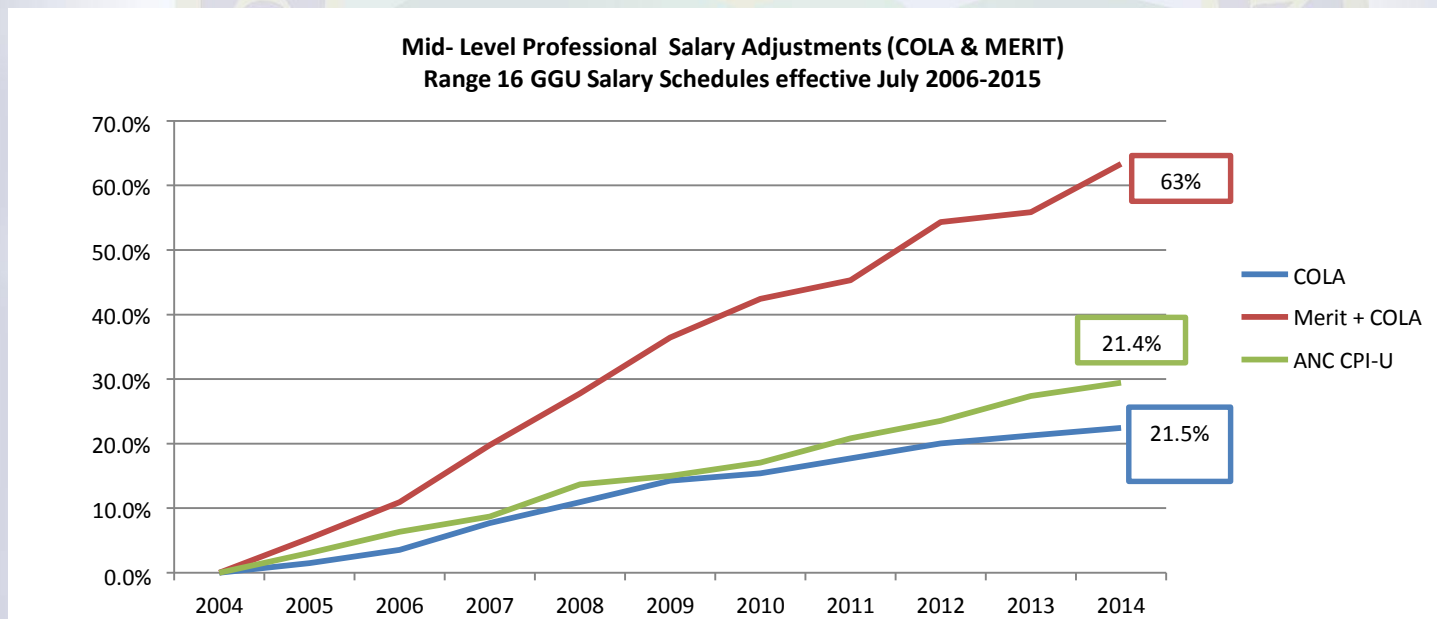
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2012.

Cost Driver: Employee Salary Costs

- FY 15 salary increase cost: \$53 million
 - 1% COLA (contractual)
 - 3.5% “merit” annual increase
 - 3.25% “Pay Increments” every two years
- FY 16 COLA is 2.5% for largest unions

BUILT-IN WAGE ESCALATION: COLA + LONGEVITY

Over 10 years, combined COLA + Longevity results in a **63%** increase in hourly wage
≠ promotion increases
(\$40,000 to \$65,000 over 10 Years)



BARGAINING UNITS (BU)

Contracts That Expired on June 30, 2014

Number of Employees

IBU – Inlandboatmen’s Union of the Pacific	624
MEBA - Marine Engineers Beneficial Association	94
MMP - Masters, Mates and Pilots	98

Contracts That Expire on June 30, 2015

ACOA - Alaska Correctional Officers Association	947
LTC - Public Employees, Local 71	1,690
TEAME – Teachers’ Education Association of Mt. Edgecumbe	29

Contracts That Expire on June 30, 2016

ASEA - Alaska State Employees Association	8,303
APEA - Alaska Public Employees Association	2,278
CEA - Confidential Employees Association	188

Contracts That Expire on June 30, 2017

AVTECTA - Alaska Vocational Technical Center Teachers.....	38
PSEA - Public Safety Employees Association	491

Non-Covered - Exempt, Partially Exempt and Excluded1378

Recommendation

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

Negotiate contracts set to expire to identify reoccurring savings.

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 service?

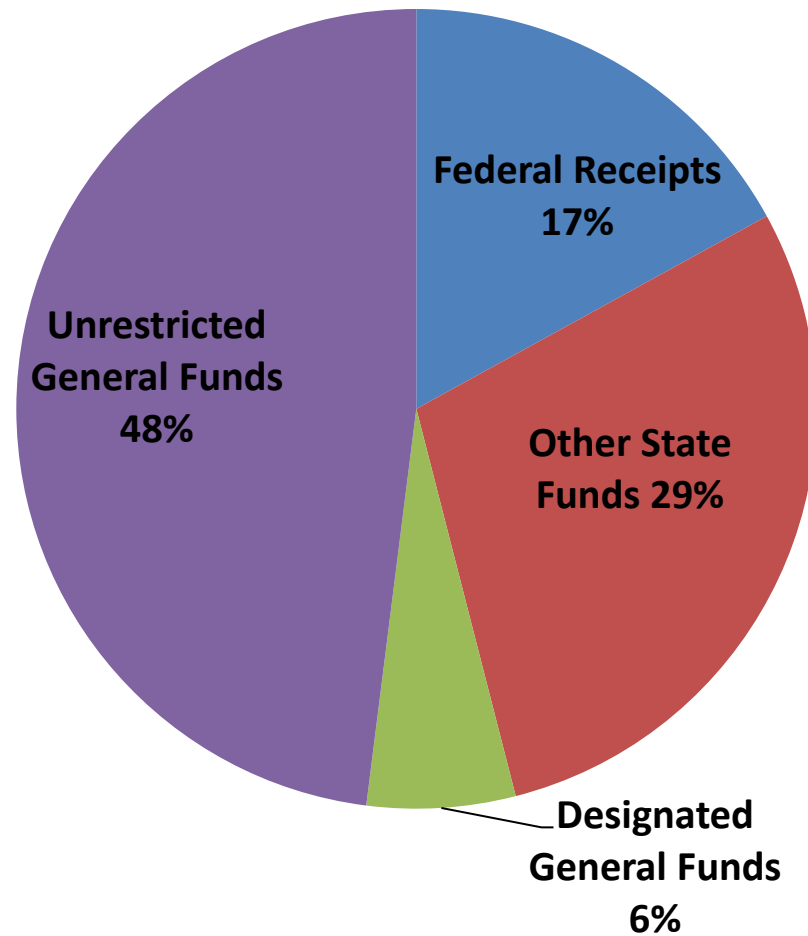
Recommendation

Examine every program's effectiveness and appropriateness; engage citizens in these reviews

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

FY 15 Revenue Sources

\$11.6 Billion



Revenue “Earmarks”

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 maximum revenue is available to fund priority services and responsibilities.

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 can 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 spending reductions when significant drop in revenue

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