

State of Alaska

FY2019 Budget Overview

Common Wealth North
January 3, 2018

Office of Management and Budget
Pat Pitney, Director

Budget Trend

Agency operating budgets increased by less than one percent from FY2018 driven by:

- Investment in public safety of \$34.0 million
- Higher than anticipated prison population
- Increased formula costs of \$27.2 million for Medicaid

Statewide Items (Debt, Retirement, Credits, etc.) declined 12.6 percent driven by:

- Medicare Part-D Employer Group Waiver Plan (\$25.5 million in savings)
- Exploration Credit Financing (more in a later slide)

Total Operating and Capital reduced by 3.1%

Including the Dividend, total budget is down 1.7% or \$93.1 million

- 30 percent compromise dividend proposed (7.7% above 2018 levels), estimated at 1,216.00/Alaskan. Growing to above \$1,500 in 10-years.

Key Budget Items

Safer Alaska

Public Safety Investments - \$34.0 million; 18 positions

- \$2.9 million for enhanced trooper and prosecutor presence in rural Alaska
- \$18.0 million for substance abuse treatment grants
- \$10.4 million for Corrections prison operations
- \$0.2 million for statewide drug prosecutor
- \$0.6 million Support positions to free trooper time
- \$0.5 million public defender support
- \$1.0 million Anchorage prosecutor/investigator positions

Medicaid

- Medicaid fully funded. (Absent federal funding for Medicaid, total budget goes down by \$122.0 million from FY2018)

Healthcare Authority

- \$1.0 million for continued work towards Healthcare Authority (\$0.75 million) and stakeholder process for broader Alaskan health care strategies (\$0.25 million)

Key Budget Items

Stronger Alaska

Oil and Gas Exploration Credits

- Debt Refinancing
- Statutory calculation would pay credits off in FY2025
- Small producers offered the opportunity to receive payment today at a discount
 - Discount starts at 10%, reduced for additional future royalty interest
- Discount covers state's financing costs (budget neutral)

Alaska Liquefied Natural Gas Pipeline

- Signed 5-party agreement
 - Alaska now has a buyer for the first time
 - Natural gas is available to Alaskans, first and foremost.
 - Over 12,000 jobs and \$2.0 billion in annual economic activity
 - Future revenue stream to the state
- Budget only includes authority to accept third party investor funds but no additional state funds requested.

Key Budget Items

Base Capital Budget

The Governor's FY2019 capital budget prioritizes annual federal match programs, housing, energy, maintenance, and information technology.

	UGF	Total
Federal Match & Leverage	\$ 103.4	\$ 1,108.6
Housing	\$ 15.0	\$ 30.3
Energy	\$ 1.3	\$ 34.2
Maintenance	\$ 16.3	\$ 24.5
Information Technology	\$ 14.0	\$ 87.6
Total	\$ 150.1	\$ 1,285.2

Table in Millions

Key Budget Items

Stronger Alaska

Alaska Economic Recovery Act

- \$800.0 million over 3 years (\$280.0 million in FY2019)
- \$1.4 billion in economic impact with federal, local, and private funds
- Housing, state and school deferred maintenance, and energy projects.
 - Many smaller projects to ensure work is started today, not after years of environmental studies
 - School Maintenance impacts 60+ communities, both rural and urban
 - Does not grow government, takes care of current liabilities
- Funded by a 1.5% wage tax, capped at 2X the PFD amount.
 - Receipts designated for high-value capital projects
 - Sunsets in 2.5 years
- **Creating jobs and getting the economy working is priority 1. Reassess in 2022.**

Key Budget Items

Alaska Economic Recovery Act

Investment Category (dollars in millions)	FY19	FY20	FY21	Estimated Economic Impact			
				State	Federal	Local	Total
K-12 Major Maintenance Grant Fund (AS 14.11.007)	\$70.0	\$65.0	\$55.0	\$190.0	\$0.0	\$50.0	\$240.0
UA Deferred Maintenance, Renovation, Repair and Equipment	\$70.0	\$65.0	\$55.0	\$190.0	\$25.0	\$25.0	\$240.0
State Deferred Maintenance, Renovation, Repair and Equipment	\$50.0	\$47.0	\$46.0	\$143.0	\$10.0	\$0.0	\$153.0
Agency Deferred Maintenance, Renovation, Equipment	\$40.0	\$40.0	\$38.0	\$118.0	\$10.0	\$0.0	\$128.0
Pioneer Home Renovations and Repair	\$2.0	\$2.0	\$2.0	\$6.0	\$0.0	\$0.0	\$6.0
Statewide Contaminated Sites Cleanup	\$1.0	\$0.0	\$1.0	\$2.0	\$0.0	\$0.0	\$2.0
Courts Deferred Maintenance, Renovation, Equipment	\$3.0	\$1.0	\$1.0	\$5.0	\$0.0	\$0.0	\$5.0
Legislative Renovation, Projects, and Technology	\$4.0	\$4.0	\$4.0	\$12.0	\$0.0	\$0.0	\$12.0
Critical Infrastructure Repair and Upgrade	\$47.0	\$57.0	\$58.0	\$162.0	\$200.0	\$100.0	\$462.0
Port of Anchorage Phase 1 requires Municipal Match	\$40.0	\$0.0	\$0.0	\$40.0	\$0.0	\$67.0	\$107.0
Highway Match to Maximize Available Federal Funds	\$7.0	\$4.0	\$6.0	\$17.0	\$170.0	\$0.0	\$187.0
Future Maintenance Priorities		\$53.0	\$52.0	\$105.0	\$30.0	\$33.0	\$168.0
Community Needs and Housing Investments	\$43.0	\$36.0	\$36.0	\$115.0	\$60.0	\$30.0	\$205.0
Municipal Harbor Facility Grant Fund Projects	\$10.0	\$10.0	\$10.0	\$30.0	\$0.0	\$30.0	\$60.0
Alaska Energy Authority - Bulk Fuel Upgrades	\$5.0	\$5.5	\$5.5	\$16.0	\$40.0	\$0.0	\$56.0
Emergency Medical Services Match for Code Blue	\$1.0	\$0.5	\$0.5	\$2.0	\$0.0	\$0.0	\$2.0
Weatherization Program	\$15.0	\$10.0	\$10.0	\$35.0	\$8.0	\$0.0	\$43.0
Housing Facility Maintenance Program	\$7.0	\$5.0	\$5.0	\$17.0	\$12.0	\$0.0	\$29.0
Supplemental Housing Development Program	\$3.0	\$3.0	\$3.0	\$9.0	\$0.0	\$0.0	\$9.0
Senior Citizens Housing Development Program	\$2.0	\$2.0	\$2.0	\$6.0	\$0.0	\$0.0	\$6.0
Advancing Existing Projects							
Restart Paused Road Projects							\$100.0
Total	\$280.0	\$270.0	\$250.0	\$800.0	\$295.0	\$205.0	\$1,400.0

Cost Avoidance - Efficiency

Healthcare

- \$25.5 million saved through Employer Group Waiver Plan (shifts retiree health costs to federal Medicare)
- Medicaid fully funded. Absent federal funding for Medicaid, overall budget goes down by \$122.0 million from FY2018.
- Continued work on the Individual Market (HB374). Premiums to fall over 20%
- \$1.0 million for continued work towards Healthcare Authority (\$0.75 million) and stakeholder process for broader Alaskan health care strategies (\$0.25 million)
 - 340,000 lives directly or indirectly covered by the state
 - Total cost of over \$1.4 billion (non-federal healthcare funds in budget)

Cost Avoidance - Efficiency

Healthcare

Potential Health Care Budget Cost Avoidance Projections (millions)	FY2019	FY2020	FY2021
Baseline State Health Care Budget Projection (Current Trend 5.2%)	\$ 1,414.0	\$ 1,487.0	\$ 1,565.0
Sustainable State Health Care Budget Projection (Inflation 2.25%)	\$ 1,414.0	\$ 1,445.8	\$ 1,478.3
Savings Needed (sustainable - current)		\$ (41.2)	\$ (86.7)
Cost Avoidance Strategies			
Implement EGWP CY2019	\$ (25.5)	\$ (51.0)	\$ (51.0)
Health Care Authority savings		\$ (10.0)	\$ (20.0)
Medicaid enrollment declines as economy recovers			\$ (10.0)

Cost Avoidance - Efficiency

Smarter Alaska

Office of Information Technology

The purpose of this centralization is to deliver lower cost information technology services by leveraging the purchasing power of the state as a single organization.

Shared Services

The Shared Services initiative resulted in a ten percent savings to back-office administrative functions during its first year. An additional ten percent savings will be realized in fiscal year 2019.

Facilities Consolidation

The new Facilities Services division strives to place the right maintenance employee at the right facility at the right time to better care for state facilities and realize savings.

Savings from Shared Services and Other Efficiencies (All funds - \$millions)			
	FY2019	FY2020	FY2021
Office of Information Technology	\$ (1.3)	\$ (5.0)	\$ (12.0)
Shared Services of Alaska	\$ (1.0)	\$ (2.0)	\$ (3.0)
Additional Administrative Efficiencies	\$ (0.5)	\$ (1.0)	\$ (2.0)

Transparency and Budget Reform

“We need to get to the point where the largest employer in the state is not sending a pink slip to all of its employees every year....they are not buying houses, cars, etc....”

Southeast Banker

Transparency and Budget Reform

Defining the Problem – Consequences of an untimely budget

- Employees and teachers receive layoff notices (reduced morale)
- Ferries cannot publish their schedule (foregone revenue)
- Agency staff focusing on government shutdown, not service to Alaskans

Budget Reform Legislation

- If a budget is not passed by legislative day 91:
 - Legislative salaries withheld, per diem forfeited
- If the Governor fails to submit the budget by December 15th
 - Forgo salary and per diem
- Shift to biennial budgeting
 - During the first session of each 2 year cycle, 2 budgets are passed
 - During the second session, a supplemental true-up is passed
 - More time to tackle policy issues
 - Avoid lengthy budget negotiations each year

Budget Transparency

- Work with Legislative Budget and Audit Committee to codify reporting rules.
 - Avoid fiscal-year shifting, and other opaque budget strategies

Transparency and Budget Reform

	FY2019 Capacity Budget	FY2019 CBR Items	FY2019 Budget
Agency Non-Formula	\$ 1,824.6	\$ -	\$ 1,824.6
Agency Formula	\$ 2,092.7	\$ -	\$ 2,092.7
Total Agency Operating	\$ 3,917.3	\$ -	\$ 3,917.3
	\$ -	\$ -	\$ -
Debt Service	\$ 113.7	\$ 87.9	\$ 201.6
Retirement	\$ -	\$ 245.5	\$ 245.5
Oil and Gas Tax Credits	\$ -	\$ 27.0	\$ 27.0
REAA School Construction	\$ -	\$ 39.7	\$ 39.7
Fund Capitalization	\$ 2.0	\$ -	\$ 2.0
Statewide	\$ 115.8	\$ 400.0	\$ 515.8
Capital Projects	\$ 150.1	\$ -	\$ 150.1
Total Budget	\$ 4,183.1	\$ 400.0	\$ 4,583.1

- Provide the legislature with the tools necessary to pass a timely budget
- Agency budgets fully funded with existing revenue, ERA draw and SBR
- Certain statewide items CBR-funded (school debt/REAA, retirement, exploration credits)
 - While inconvenient, late passage will not disrupt schools or government services

Transparency and Budget Reform

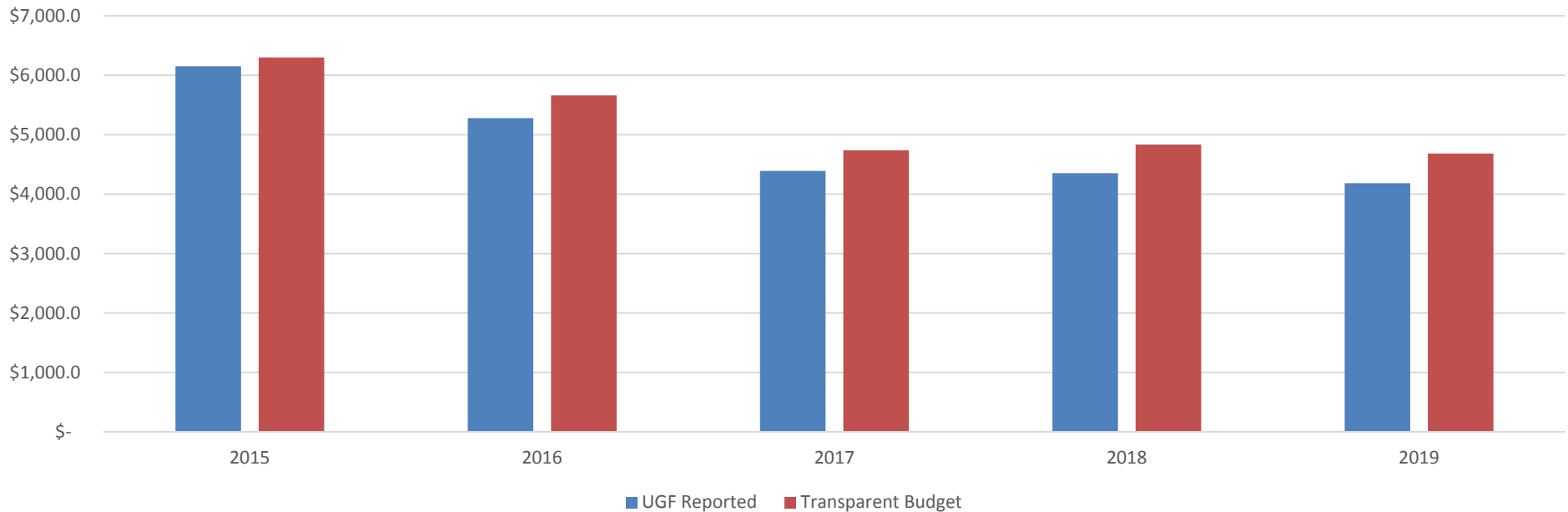
	Transparent Budget			Transparent Budget - Change			
	FY2015	FY2018	FY2019 Proposed	FY2015 to FY2019		FY2018 to FY2019	
				(\$)	(%)	(\$)	(%)
Agency Operations	\$ 2,277.3	\$ 1,900.2	\$ 1,894.1	\$ (383.3)	-16.8%	\$ (6.1)	-0.3%
Education Formula	1,307.4	1,287.6	1,285.3	(22.0)	-1.7%	(2.3)	-0.2%
Medicaid Formula	723.0	664.2	691.4	(31.6)	-4.4%	27.2	4.1%
Other Formula	177.8	135.6	139.3	(38.4)	-21.6%	3.7	2.8%
Total Agency	4,485.5	3,987.6	4,010.1	(475.4)	-10.6%	22.5	0.6%
Tax Credits, Debt, Retirement, Etc.	966.4	591.0	516.8	(449.6)	-46.5%	(74.3)	-12.6%
Total Operating	5,451.9	4,578.6	4,526.9	(925.0)	-17.0%	(51.8)	-1.1%
Capital	846.7	255.0	156.0	(690.6)	-81.6%	(98.9)	-38.8%
Total Operating and Capital	6,298.6	4,833.6	4,682.9	(1,615.7)	-25.7%	(150.7)	-3.1%
Transfers	101.1	15.9	14.6	(86.5)	-85.6%	(1.3)	-8.2%
Dividend	1,070.0	760.0	818.9	(251.1)	-23.5%	58.9	7.7%
Total Budget with Dividend	7,469.6	5,609.5	5,516.4	(1,953.3)	-26.1%	(93.1)	-1.7%
Alaska Economic Recovery Act	-	-	280.0	280.0	-	280.0	-

The Alaska Budget Transparency Report corrects for budget strategies to show a more accurate trend:

- Reclassification of unrestricted revenues to designated or other
- Other general fund offsets
- Retroactive budget items (i.e. multi-year supplemental appropriations)
- Supplemental items
- Reappropriations

Transparency and Budget Reform

Operating and Capital - UGF and Transparent Budget Comparison



Common budget strategies understate total spending authorization

- In FY2015 spending was understated by \$148.0 million
- In FY2018 spending was understated by \$481.0 million

Revenue for Operating and Base Capital

Existing Revenue expectation: \$2.0 billion

Compromise Permanent Fund Protection Act: (30% dividend): \$2.0 billion

Other Revenues: \$40 million

CBR/SBR: \$477.4 million

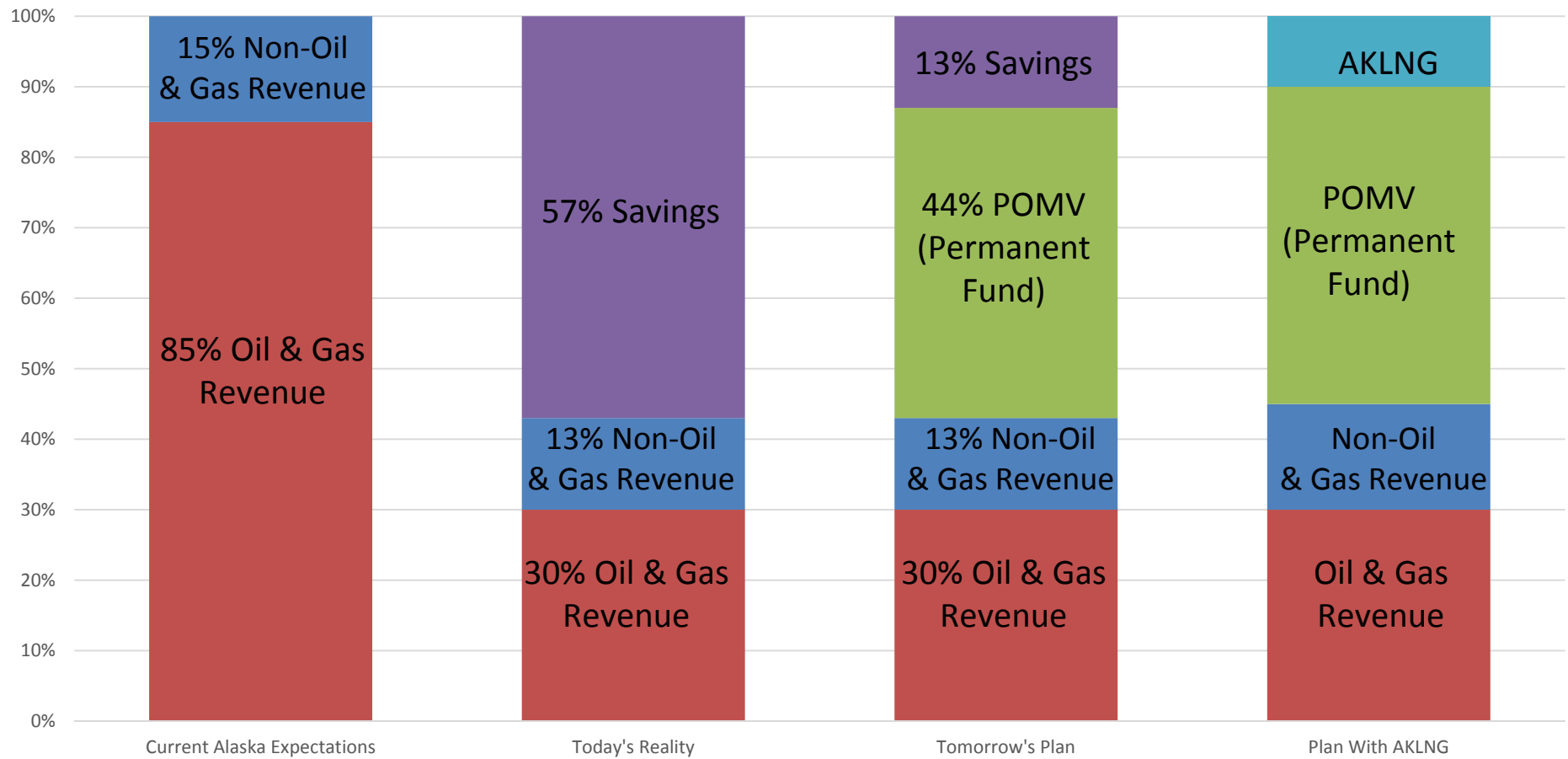
- Narrowing the gap reduces uncertainty
- Alaska Economic Recovery Act to addresses the recession
- Reassessment needed when temporary tax expires
 - Savings anticipated to be depleted in FY2025
 - Reassess in FY2022 given current oil price/production levels, success of efficiencies, market returns, etc.

Ten Year Strategy

FY2019-FY2028 Budget Projection (\$millions)						
	2019	2020	2023	2024	2027	2028
Total Budget (with dividend)	\$ 5,416.6	\$ 5,611.9	\$ 6,077.6	\$ 6,211.7	\$ 6,606.8	\$ 6,687.5
Current Revenues	\$ 2,047.1	\$ 2,063.2	\$ 2,275.2	\$ 2,297.1	\$ 2,838.8	\$ 2,954.0
Permanent Fund Protection Act	\$ 2,785.7	\$ 2,978.5	\$ 3,250.0	\$ 3,347.1	\$ 3,585.8	\$ 3,660.7
Motor Fuels Tax	\$ 40.3	\$ 81.2	\$ 83.0	\$ 83.7	\$ 86.1	\$ 87.0
Gasline Revenues	\$ -	\$ -	\$ -	\$ -	\$ 250.0	\$ 250.0
Re-Assess in 2022 - to maintain minimum \$1B CBR			\$ 332.1	\$ 346.5	\$ -	\$ -
Total Revenue	\$ 4,939.2	\$ 5,122.9	\$ 5,940.3	\$ 6,074.3	\$ 6,760.7	\$ 6,951.7
Deficit	\$ (477.4)	\$ (489.0)	\$ (137.3)	\$ (137.3)	\$ 153.9	\$ 264.2
Savings Balance (CBR/SBR)	\$ 1,876.4	\$ 1,549.0	\$ 1,000.0	\$ 1,000.0	\$ 1,460.4	\$ 1,879.1
PF Total Value	\$64,697.6	\$66,083.3	\$ 70,419.7	\$ 71,813.0	\$ 76,190.6	\$ 80,127.1
Per Person Dividend (\$/person)	\$ 1,215.98	\$ 1,294.24	\$ 1,383.01	\$ 1,413.36	\$ 1,475.53	\$ 1,505.47

- Future resource development may be able to provide for a balanced budget
- Savings will be depleted before that point is reached

Diversifying Revenues



For more information on the budget



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