

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

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**The Alliance**  
**Mat Su Energy & Industry Update Forum**  
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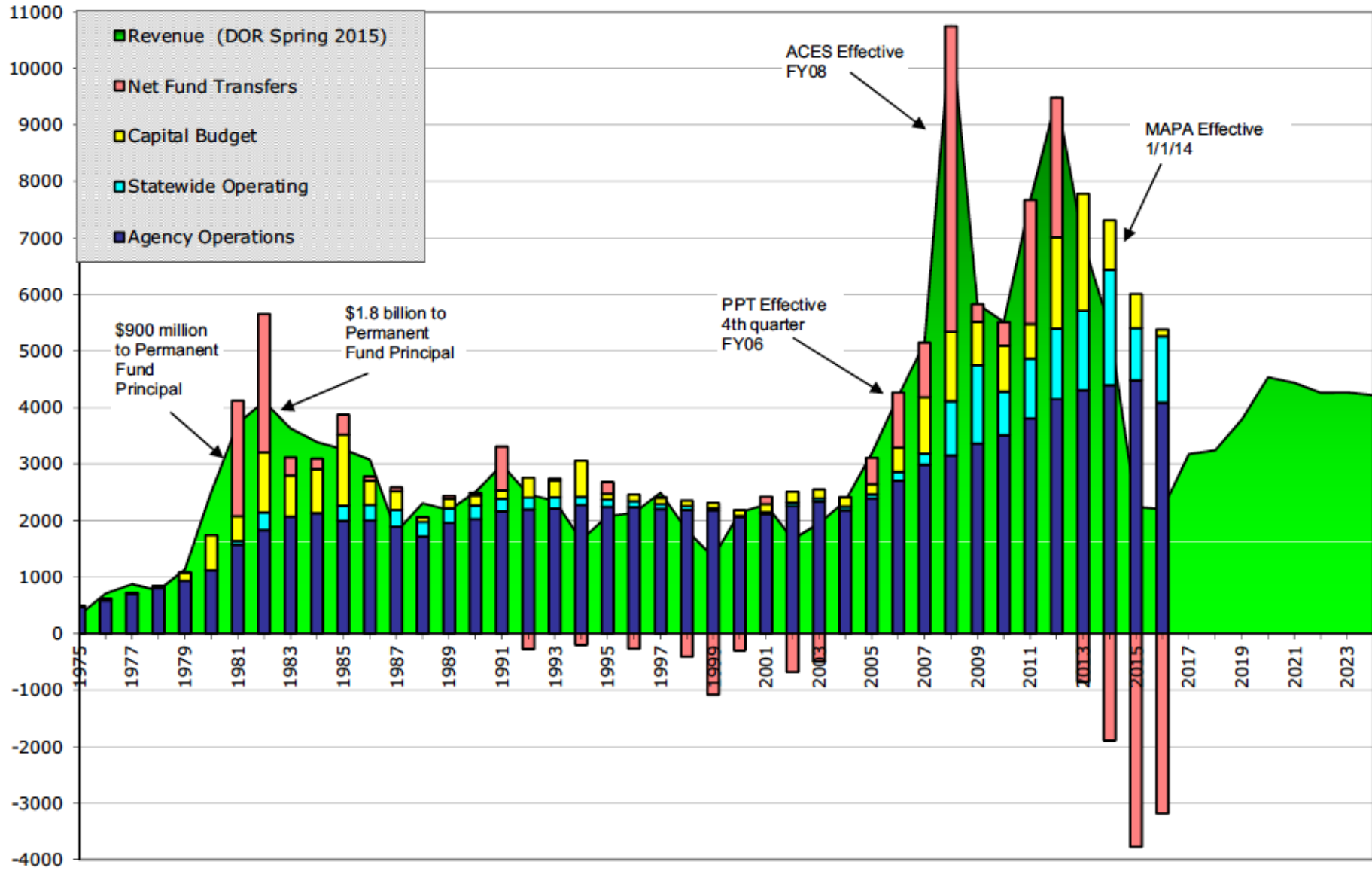
# About CWN . . .

- Purpose: advance understanding of significant public policy issues affecting Alaska and to assist in their resolution
- Co-founded by former Governors Hickel and Egan in 1979
- Non-partisan, non-profit supported by membership and underwriters of events

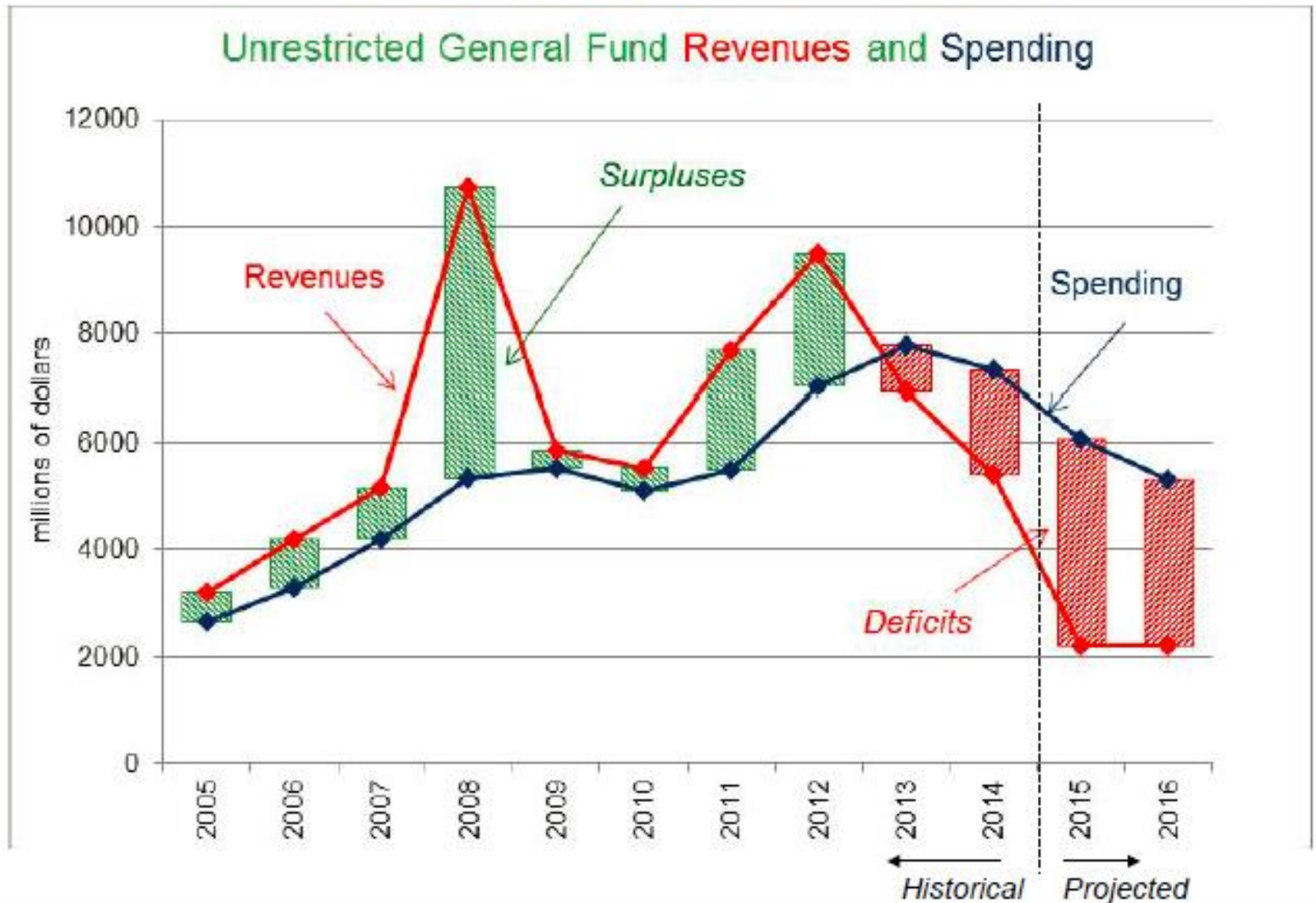
# CWN Fiscal Policy Work

- “Long Term Economic Sustainability for the State of Alaska” (Feb 2013)
- “Alaska’s Oil Investment Tax Structure, Establishing a Competitive Alaska” (March 2011)
- “At a Crossroad: The Permanent Fund, Alaskans, and Alaska’s Future” (Dec 2007)
- “Permanent Fund Earnings: A Cornerstone for Fiscal Certainty” (May 1999)
- “Alaska’s Asset Portfolio: Managing for Maximum Return” (Dec 1998)
- “Balancing Responsibilities: The Role of State Government” (June 1997)

# Unrestricted General Fund Revenue/ Budget History (millions)

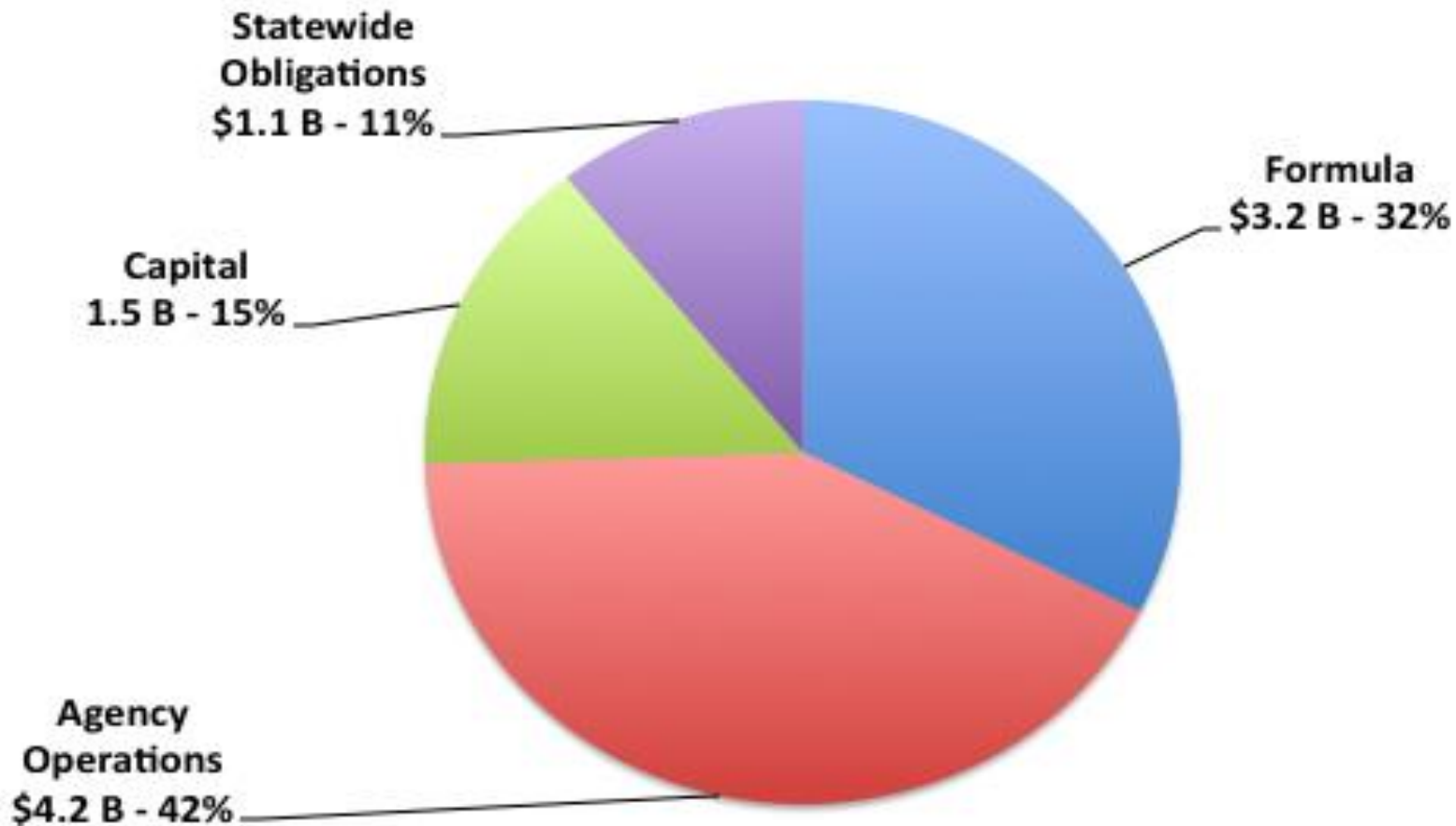


From 2005 to 2012, even though spending was rising, we ran big General Fund surpluses. Since 2013 we have been running big General Fund deficits.



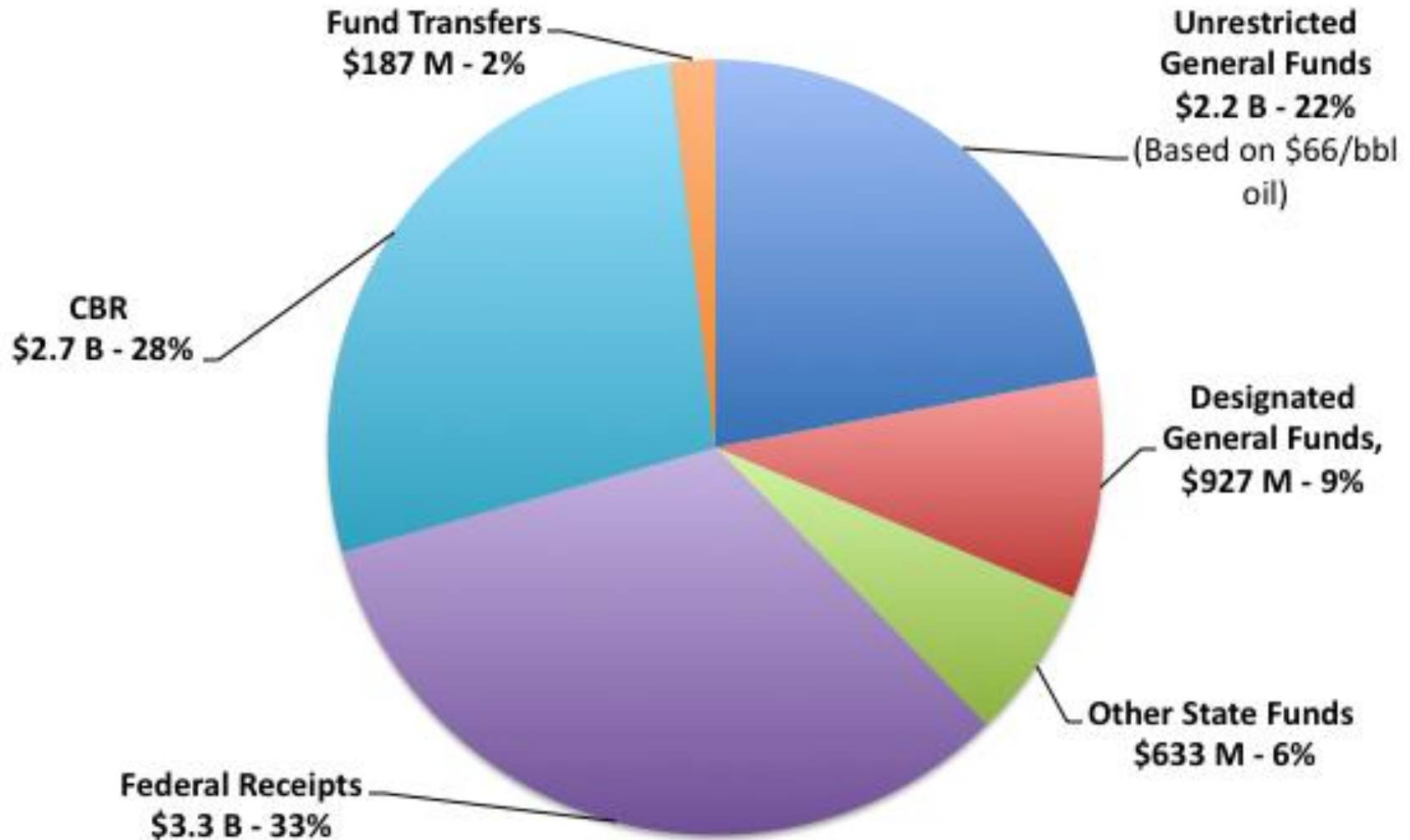
# Budget 101: What \$\$ Spent On

**FY 16 Spending - \$10 Billion  
All Fund Sources**



# Budget 101: Where \$\$ Comes From

FY 16 Budget Revenue Sources - \$10 Billion

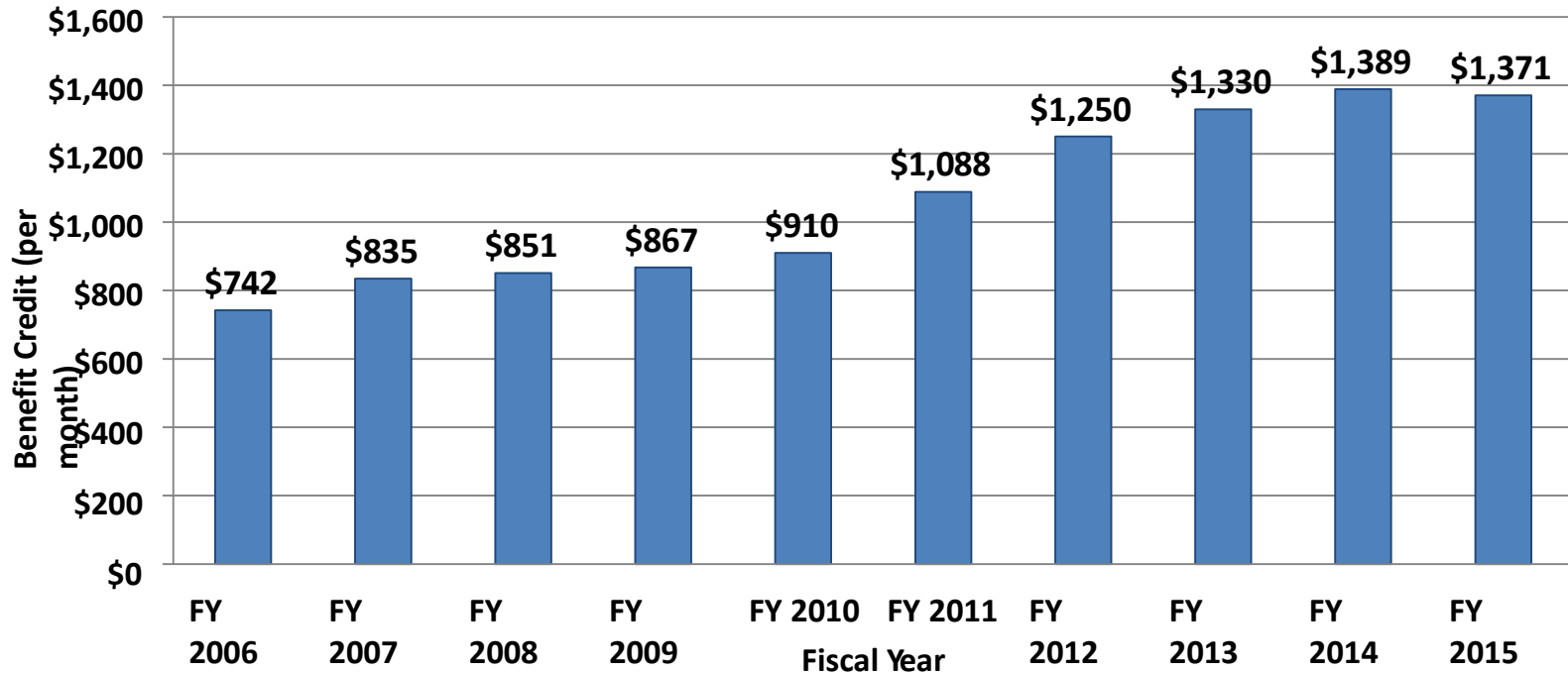


# Cost Driver: Employee Health Care Costs

- Agency Operations - \$935 million in FY 15 budgeted for health care
  - Retirees \$492 million
  - Active employees \$372 million
  - Inmates \$44 million
  - Workers Comp \$27 million
- Cost for active employees increased 218% from 2001 to 2014



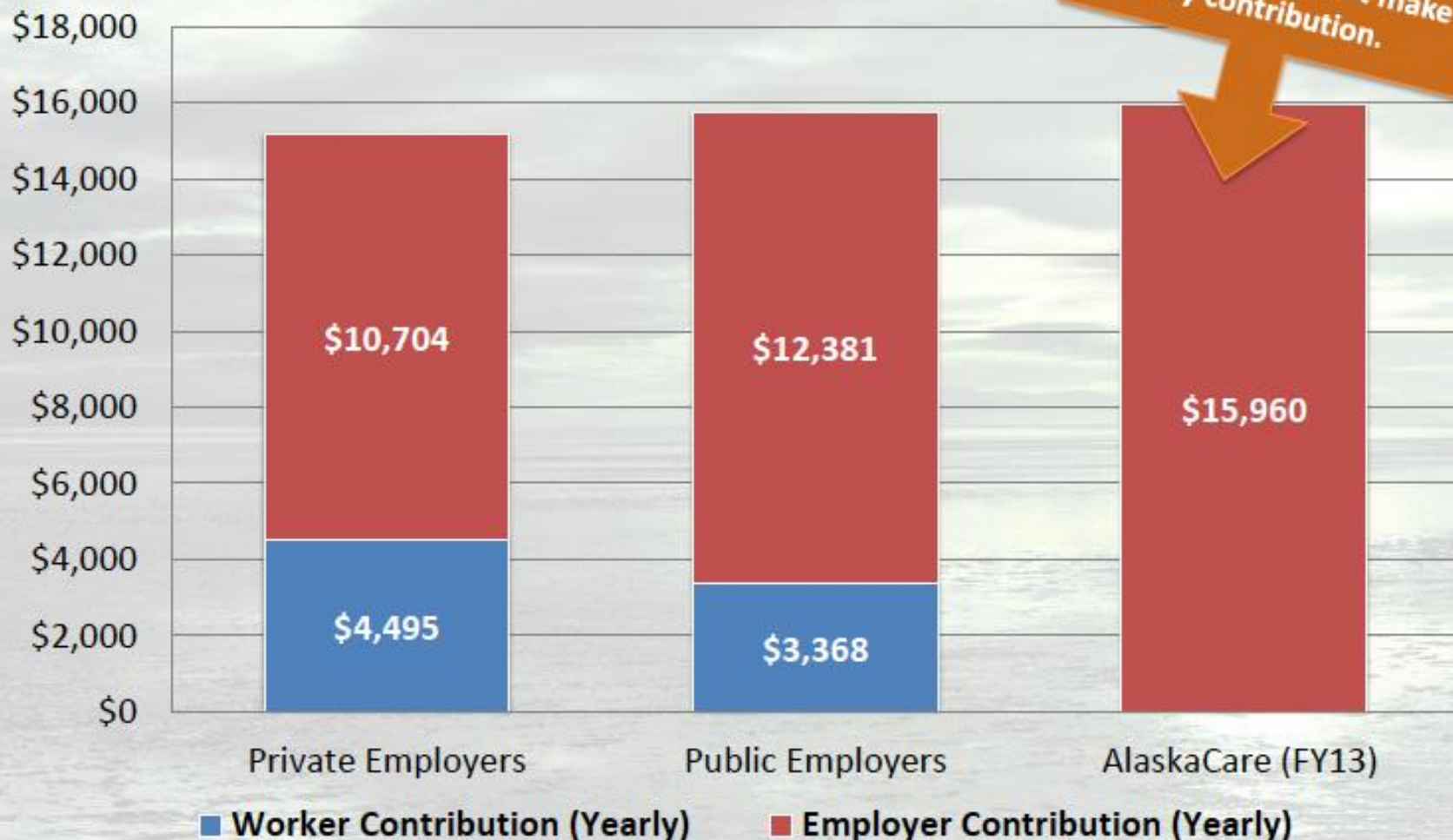
# Monthly Health Insurance Benefit Credit



- Average annual growth of 7%
- Almost doubled in 10 years
- Recent effort to proactively management of costs
- FY 2015 -- beginning to bend the curve down

# US EMPLOYER & EMPLOYEE CONTRIBUTIONS

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



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

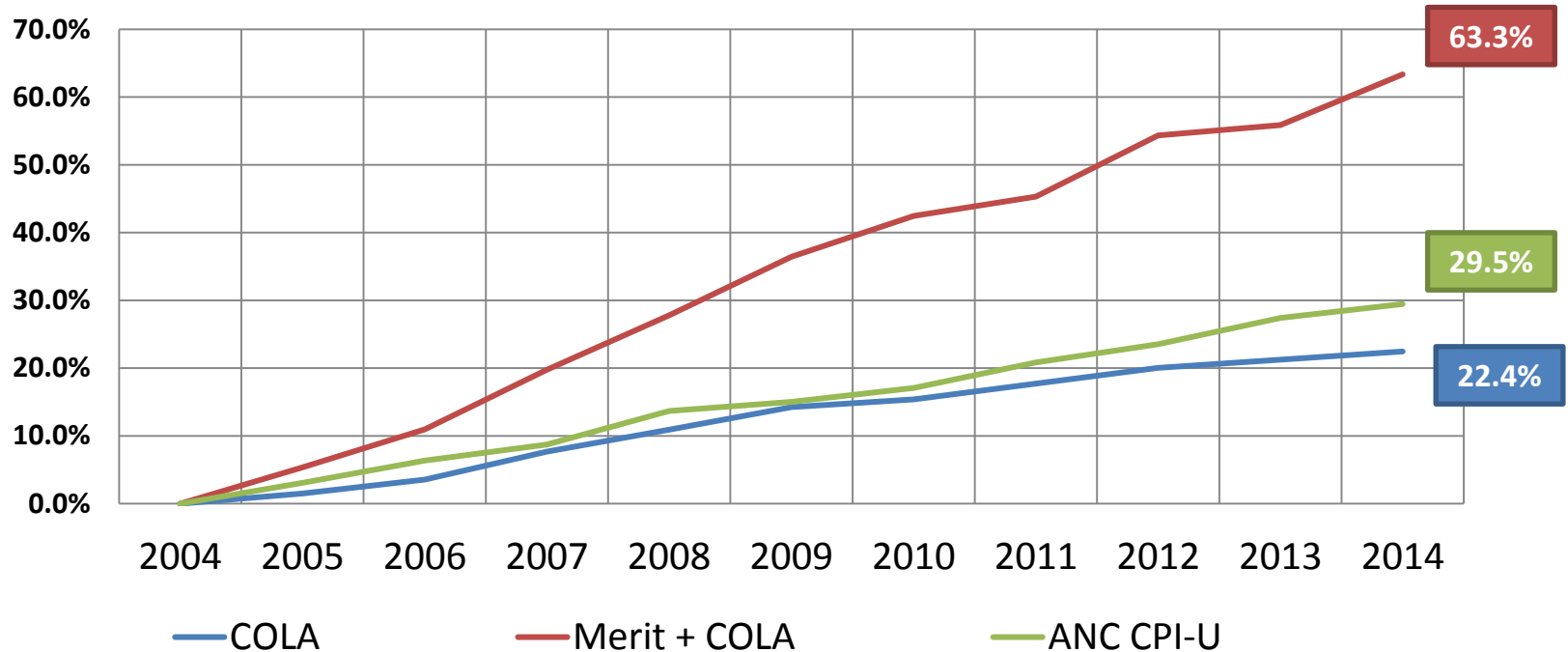
# Cost Driver: State Employee Annual Salary Increases

- 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

For typical employee over first 10 years,  
combined COLA + Merit/Pay Increment results in  
an approximate **63% increase** in hourly wage  
*(e.g. move from \$40,000 to \$65,000 over 10 Years)*

Mid- Level Professional Salary Adjustments (COLA & MERIT)  
Range 16 GGU Salary Schedules eff July 2004-2014



# Timely for Negotiated Savings

- Most employee-related costs negotiated through collective bargaining process
- Negotiations currently underway for 80% of workforce:
  - AK State Employee Association - 9000 employees
  - AK Public Employee Association - 2428 employees

# Cost Driver: Formula-Driven Programs

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

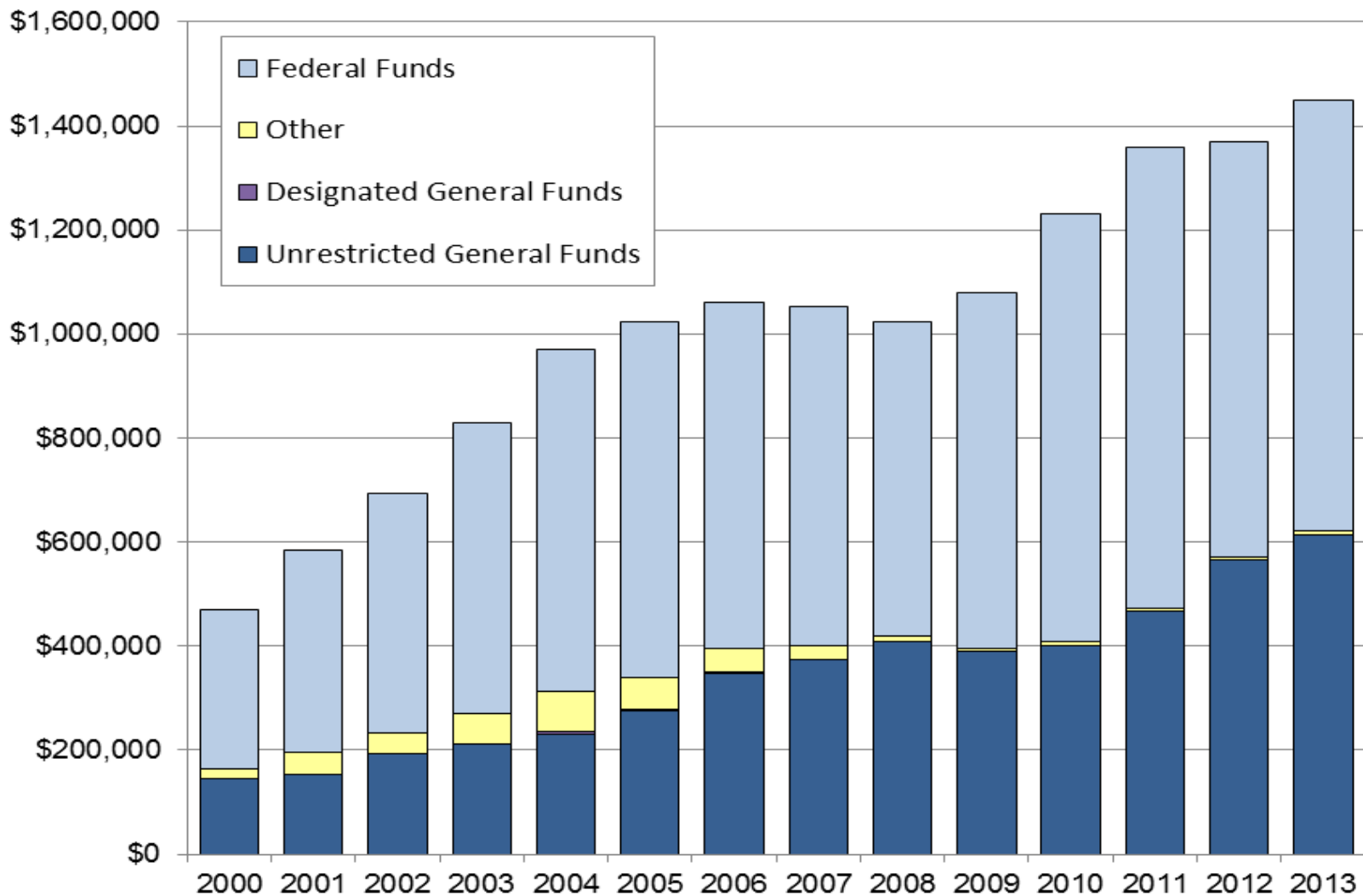
Often considered off the table  
when looking for savings

Amounts are FY 15 state funds; excludes Federal funds

# Formula Cost Driver: Medicaid

- Serves low-income, elderly, disabled population
- State provides all optional services
  - Mandatory Services      \$933 million
  - Optional Services      \$481 million

## Historical Medicaid Expenditure by Fund Source (in thousands)





# Recommendation

- Implement substantial reforms
  - Reforms are necessary for current services to continue
- *2016 Update*
  - *Steps underway to implement reforms*

# Reform Budget Practices

- Ensure value for dollars spent
  - Constitutional requirement? Appropriate government responsibility?
  - 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?

# Reform Legislative Budget Practices & Process

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

# Reform Legislative Budget Practices & Process

- Increase time for budget work
  - Return to Constitution's 120-day session
  - Increase interim work on budget
- Implement contingency plan for mid-year spending reductions when significant drop in revenue

# Reform Governor's Budget Practices & Process

- Governor's Budget Development
  - Convene citizen panels for input into Governor's proposed budget
  - Submit budget earlier
    - Submit in November instead of Dec. 15 so Legislature has more time for its review

# Engage Alaskans in Advancing Solutions

- Statewide dialogue for citizens to understand problem; offer comments on solutions
- Management review by citizen team

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