

ALASKA STATE LEGISLATURE HOUSE FINANCE COMMITTEE

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MEMORANDUM

TO: House Finance Subcommittee Chairs

FROM: Representative Neuman, Co-Chair
House Finance Committee

DATE: January 26, 2016

RE: FY17 Operating Budget Subcommittees

A handwritten signature in blue ink, appearing to be "MN", is written over the "FROM" line of the memorandum.

This memo attempts to provide a fairly high level framework for reviewing the operating budget by the House Finance Operating Budget Subcommittees. This process is meant to increase subcommittee members' understanding of the responsibilities and challenges facing the departments and to prompt policy discussion.

We are facing unprecedented projected budget deficits in FY16 of \$3.8 billion and in FY17 of \$3.5 billion. These deficits are calculated based on 0.500 mbd at \$48.58 per barrel for FY16 and 0.505 mbd at \$56.03 per barrel for FY17. The price of ANS West Coast on January 22 was **\$29.95**.

Please be sure to read the Legislative Fiscal Analyst's Overview of the Governor's Request as soon as possible. The chart and accompanying description on page 22 is particularly illustrative of the budget challenge we face.

Our task is to help chart a course for state government that strikes a balance between the level of government Alaskans need and can afford given the recent volatility of oil prices and the fact that we cannot deplete 100% of our budget reserves.

Subcommittee Budget Review Process

There are six parts to the budget review process:

1. Missions/Core Services/Measures/Results
2. 10-Year Financial Look Back
3. 10-Year Plan
4. Legislative Audit Review
5. Status of Current Year Budget Changes
6. Evaluation of FY17 Budget

These six areas allow a subcommittee to understand:

1. services the department provides, what it costs, and the results Alaskans receive for their investment;
2. budget growth that has occurred over the past ten years;
3. changes the department anticipates in the future;
4. whether there are any outstanding issues identified by Legislative Audit; and
5. how the current year budget changes have been implemented.

Once the subcommittee has looked at the past, looked forward, and looked at the current year, the subcommittee will have gained a solid understanding of the department which will help in their evaluation of the proposed budget.

Results Based Budgeting

Subcommittees are to review each agency's mission, departmental-level core services and measures and look for alignment between them.

In addition to looking for alignment, look for measures that are useful and should be kept, measures that are useful but can be made even more so, measures that aren't useful and should be discarded, and missing measures that should be added. As time allows, review one or more divisions or program areas in our results-based format.

The following are examples of questions to ask of department leadership:

- What is your mission?
- How do agency core services contribute to the mission?
- Who are the beneficiaries/customers of your core services?
- What are your core service outcome performance measures?
- Do you have a balanced set of measures (effectiveness and efficiency) to validate and monitor the state's investment?
- How do you use your results information in your management and/or budget decision-making process?
- How do your program managers utilize their results information?

Departments should be able to provide a minimum of one efficiency measure and one effectiveness measure per department-level core service. Be mindful that only a balanced set of measures provide a clear picture of the results of our investments in government.

As well as the results information your subcommittee will cover, remember to consider how you are going to incorporate the **departmental narratives** into your subcommittee process. Please consider the following:

- For instance, you may want to address **Key Challenges** in conjunction with the FY17 budget changes.
- **Significant Changes in Results to be Delivered in FY17** may make sense to address just before you take up the FY16 budget changes.
- You may want to weave **Major Accomplishments in 2015** into the results presentations.
- As you look at the **Core Services (in priority order)**, think about whether they are appropriate and whether our investment in them is measured accordingly.

As mentioned earlier, by looking at the mission, core services, and measures of each department, subcommittee members should get a good feel for what services the departments provide, what it costs, and what results Alaskans receive for their investment.

10-Year Look-Back

Legislative Finance will prepare and provide to you statewide and departmental graphs that look at historical budget changes since FY2007. (Note: LFD has data going back to 2005 on their website.)

The graphs were designed to give a 'drill down' approach to each agency. They were meant to be a starting point for discussion, with subcommittee chairs having the ability to have further graphs produced to drill down into whatever budget areas so desired. Legislative Finance will produce system generated graphs that show FY17 budget information received from the Office of Management and Budget (OMB).

These graphs and other data are (or will be) available on Legislative Finance's website under the Analysis Tools tab: <http://www.legfin.akleg.gov/BudgetAnalysisTools/LY2016/DisplayReports.php>

10-Year Plan

OMB has posted an Executive Summary of the 10-Year Plan and department-level details on their website. <https://www.omb.alaska.gov/html/budget-report/fy2017-budget/proposed.html>

Accountability Check

Subcommittee chairs should work with the Legislative Audit Division to review audit findings their departments may have had in the past few years. The website below lists the audits released during 2015 and prior years. Each subcommittee chair should review the State of Alaska Single Audit for FY14, to determine if their departments have new or outstanding recommendations made by Legislative Audit. Look to see if the department agreed or disagreed with the audit recommendations and whether or not they have complied or are in the process of complying. Contact Kris Curtis (465-3830) to schedule a subcommittee presentation on any new or outstanding recommendations.

Keep in mind that Legislative Audit is very busy with the newly implemented agency performance review process, so make sure that you use their time judiciously. Only request them to attend a subcommittee meeting when you have specific questions or concerns about an audit. <http://legaudit.akleg.gov/audits/>

Status of Current Year Changes

Legislative Finance will soon provide each subcommittee with an updated status of current year increments, decrements, and fiscal notes. Subcommittees should look to see if the agencies have followed through with what they said they were going to do concerning any current year budget changes. If you find something that seems out of line, please bring it to the attention of the Co-Chair.

In addition, each subcommittee should review the soon-to-be-available Legislative Finance memorandum on Agency Responses to FY16 Legislative Intent Language.

Both items will be posted on the Legislative Finance website under the Analysis Tools tab.

Evaluate FY17 Budget

After completing the first five budget review topics, subcommittee members should have a broader, more complete understanding of what agencies do, why they do it, how much it costs, and the results of our investments. You'll get a good look at past investments, challenges the agencies see ahead, have an accountability check and get an update on current year changes before discussing any new investment or reduction in agency programs.

Increments should also be viewed in our results-based format. Have past investments in the programs looking for new increments provided Alaskans with the desired results? If not, why not? Is there a different method to get a better return on our investment?

All new requested programs/initiatives should be coded as a One-Time Increment (IncOTI) or as a Temporary Increment (IncT); exceptions must be discussed in advance with the Co-Chair. The Legislative Finance Division usually re-categorizes increment requests, but subcommittee chairs should be sure to review.

In addition to the proposed departmental unallocated reductions, be aware that departments are absorbing significant costs that may not be easily identified. For example, departments generally do not include funding requests for merit increases for staff though there are usually a few program exceptions. For example, the statewide estimate of the merit increases absorbed in the FY15 budget was \$32.7 million. Departments may also be planning to absorb various core services costs such as risk management, lease costs, and other charges.

Subcommittees should be asking themselves what are the core agency programs/functions, and what level of service can Alaskans afford? Departments have been requested to provide a list of programs with position counts, budget (UGF and Total Funds), and statutory or regulatory authorization.

In addition, subcommittees should review regulations proposed by the agency for necessity and cost implications on those regulated. Any concerns should be brought to the agency's attention prior to adoption of the regulatory proposal.

Subcommittee Administration and Operation

1. Subcommittee chairs will establish the time and location of their subcommittee meetings. Notices of each meeting must be provided to the Chief Clerk by 4:00 p.m. Thursday for the following week and to my office (Pete Ecklund and Joan Brown). You will need to reserve a committee room for subcommittee meetings. If you want to reserve the House Finance Committee room, contact Darrell Breese in my office at 465-2679. Each chair shall establish their subcommittee's procedures, quorum, and meeting requirements.
2. Each subcommittee chair is responsible for contacting departments and establishing the agenda and implementing the Subcommittee Budget Review Process described in this document for each agency. Subcommittee chairs are encouraged to work cooperatively with agency staff and their legislative finance budget analysts while planning the number of and the agenda for each meeting. Coordinate your meeting schedule with the Administrative Services Director of each of your assigned department budgets to take advantage of when agency staff will be in Juneau on other business and be available for subcommittee purposes. Avoid having a department incur travel expenses solely for subcommittee business.
3. The subcommittee process described in this document should be the minimum or base covered. Subcommittees should delve into program and other areas of interest more deeply to ensure members have a good understanding of department programs, functions, and results as time allows.
4. A fiscal analyst from the Legislative Finance Division is assigned to each subcommittee to assist in crafting the department's budget. Please include your respective fiscal analyst in the budget process as much as possible and in any emails sent to the subcommittee and/or department. It is also helpful to include the OMB analyst assigned to your department in any budget-related emails.
5. The primary resource document for subcommittee work is the budget 'short form' or 'subcommittee' book prepared by Legislative Finance. The books are all available in the HFC 5th floor copier room.
6. Other legislative branch resources at your disposal are Legislative Research, Legislative Legal Services and Legislative Audit. In addition, the Legislative Finance and OMB websites offer a wealth of information related to the proposed budget as well as archives of budget history that may be relevant to subcommittee work.
7. Please post subcommittee documents on BASIS, whether prepared by members, the agency or the Legislative Finance Division staff.
8. Please use the teleconference network when possible for testimony from out- of-town witnesses. Use this form to schedule a teleconference:
http://intranet.akleg.gov/lfo/teleconference_form.php
 - It can be helpful to keep a copy of the teleconference confirmation email for your records.
 - Call the Juneau L.I.O. at 465-4648 for assistance.

- Subcommittee meetings are not generally taped or transcribed. Please note that if you have a meeting teleconferenced, there is an audio recording. You may contact the Juneau L.I.O. to access those recordings.
 - Also note that committee rooms are equipped with webcams. When you have a meeting teleconferenced, your meeting will be streamed live over the Internet - unless you request otherwise on the teleconference form.
9. If you are having any problems in/with your subcommittee, please bring them to my attention as soon as possible so any issues can be resolved.
 10. The House Finance Committee staff will provide coffee in the House Finance Committee room during regular working hours. Contact Helen Phillips at 465-6258 if you would like coffee available for weekend, evening or early morning meetings.

Subcommittee Requirements and Work Product

1. After completing the first five topics of the subcommittee budget review process, subcommittees should then examine both the monetary details and the intent language specific to the operating budget of their assigned departments.
2. Subcommittees should review all transactions between the Adjusted Base and the Governor's budget request.
3. Subcommittees should also consider each agency from a programmatic view. Be cognizant of programs that may be related to those in another agency.
4. The Governor's budget amendments are due on the 30th legislative day, February 17th. Subcommittees are to evaluate those amendments with the same level of scrutiny as other requests and **keep me advised of which amendments the subcommittee intends to adopt.**
5. Subcommittees that encounter an issue of particular controversy or other difficulty should bring the matter to my attention possible removal from the subcommittee's evaluation and for examination by the Finance Committee as a whole.
6. Operating budget bill language items are not under the purview of subcommittees. Any suggestions for changes to appropriations in the language sections of the operating budget bill should be brought to my attention prior to subcommittee close-out.
7. The agency budgets should be reported out of the subcommittee at a date to be negotiated with leadership. In the meantime, the preliminary plan is to have subcommittees closed no later than 5:00 p.m., February 26, 2016.
8. Subcommittee chairs should use the Budget Action (BA) sheets provided by Legislative Finance to communicate the subcommittee's intentions regarding budget items to Legislative Finance. Legislative Finance will use the BA sheets to prepare the reports and documents necessary for subcommittee close-out.

9. In addition to the BA sheets and the associated reports that you will need as you close-out your subcommittee, you will also need to prepare a subcommittee narrative that outlines the highlights of action taken in subcommittee. The narratives will be posted on Legislative Finance's website to help the public understand the subcommittee's decisions and the reasons for those decisions.

Budget Evaluation

1. Budgets should always be founded on the principle of 'truth in budgeting'. Agencies should ask for what they need and live within the budget they are appropriated. Planned supplemental budgets are inappropriate in all but a few particular circumstances approved by the Co-Chair.
2. Fuel cost increases are not appropriate at the agency level. If necessary, those budget changes are handled through an operating budget language appropriation to the Governor's office for reallocation among the various agencies.
3. New positions should be closely examined. While it is the executive branch's prerogative to create new positions, funding of new positions must be justified to the subcommittee's satisfaction.
4. We anticipate personal services reductions in the Governor's budget. Subcommittees should review the budgets to identify any additional chronically unfilled positions and determine the reason why those positions are vacant. These positions should be monitored and/or possibly eliminated depending upon the circumstances.
5. The Executive Branch is required to report transfers to and from the personal services line item. The Personal Services Transfer Reports for FY09 - FY14, and the first six-month report for FY15 are available on the OMB website under the "Information" tab. However, OMB has not yet posted the most current data. You may need to ask your agency to provide their transfer information. <https://omb.alaska.gov/html/information/personal-services-transfer-reports.html>
6. Supplanting federal or other funds with general funds is discouraged. Reviews should consider whether it is appropriate to continue a program with general funds if a federal program is expiring or being reduced.
7. All Increment transactions (Inc, IncM, IncOTI, IncT) should be carefully examined to determine if the request:
 - a. is absolutely essential to the program as the overall budget will be lower in FY17;
 - b. can be accomplished with existing department resources; or
 - c. is starting a new government function that will not be sustainable in the future.
8. Net-zero fund source changes that use general funds should be given the same consideration as any general fund increment.
9. Items funded with Designated General Funds (DGF) should also be closely examined as unspent DGF lapses into the general fund.

10. New increments should NOT originate from the subcommittee. The subcommittee can recommend increments to me for possible consideration by the full Finance Committee.
11. Subcommittee chairs must receive my prior approval to add statements of Legislative Intent to a department's budget.
12. Fund source changes to supplant "unrealizable" fund sources should be presumed to be problematic. If the original fund source is no longer available, the activity should be considered for curtailment before being supplanted with general funds. There may, however, be exceptions.
13. Agency budgets should not include increases or decreases for anything that requires statutory change. Those increases or decreases should be included in the fiscal notes related to the legislation addressing the statutory change.
14. Any amendments proposed by subcommittee chairs that involve Mental Health Trust Authority Authorized Receipts (MHTAAR) require pre-approval by the Chair of the Department of Health and Social Services subcommittee, Representative Saddler.
15. All state programs have vocal constituencies who are strong advocates for continued and increased state funding of their particular program. Keep in mind the rapid rise in the price of oil needed to balance the budget (\$64 in FY10, \$77 in FY11, \$94 in FY12, \$110 in FY13, \$128 in FY14, \$122 in FY15, \$109 for FY16, and \$113 for the Governor's FY17 budget request) when you are evaluating the budget. Just because a program is popular and has vocal advocates for it, does not mean it is justified to be included in the budget. No core service, program or government function is exempt from an efficiency or reduction review.
16. **At the end of the subcommittee process, please provide a copy of the subcommittee's entire work file to Pete Ecklund in my office.**

Supplemental Budget Request

1. The Governor's FY16 supplemental budget request is due on the 15th legislative day, February 2, 2016.
2. Legislative Finance will update the "status of current year changes" spreadsheet to include Section 1 (numbers section) operating supplemental items for each department.
3. The Governor's supplemental request will be considered by the Finance Committee as a whole in a format and at a time determined by the Co-Chair. Subcommittee chairs, however, should be prepared to discuss agency supplemental requests with the Co-Chair and before the full Finance Committee, but do not take official subcommittee action on supplemental requests.

We have a lot of work to do in a very short period of time. February 26, the preliminary subcommittee close-out deadline, is only Day 39 of this legislative session. I strongly encourage you to follow the Subcommittee Budget Review Process as closely as you can. Doing so will help us review every corner of state government and produce a budget that includes the services Alaskans need and can afford.

Please feel free to contact me or my staff, Pete Ecklund at 465-6867 or Joan Brown at 465-6587, if you have questions or suggestions.

cc: David Teal, Director
Legislative Finance Division

Pat Pitney, Director
Office of Management and Budget