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Commentary on SB 114 and the Concept of a Sustainable Budget:

Submitted by Frank McQueary, February 26, 2016

Senate State Affairs Committee

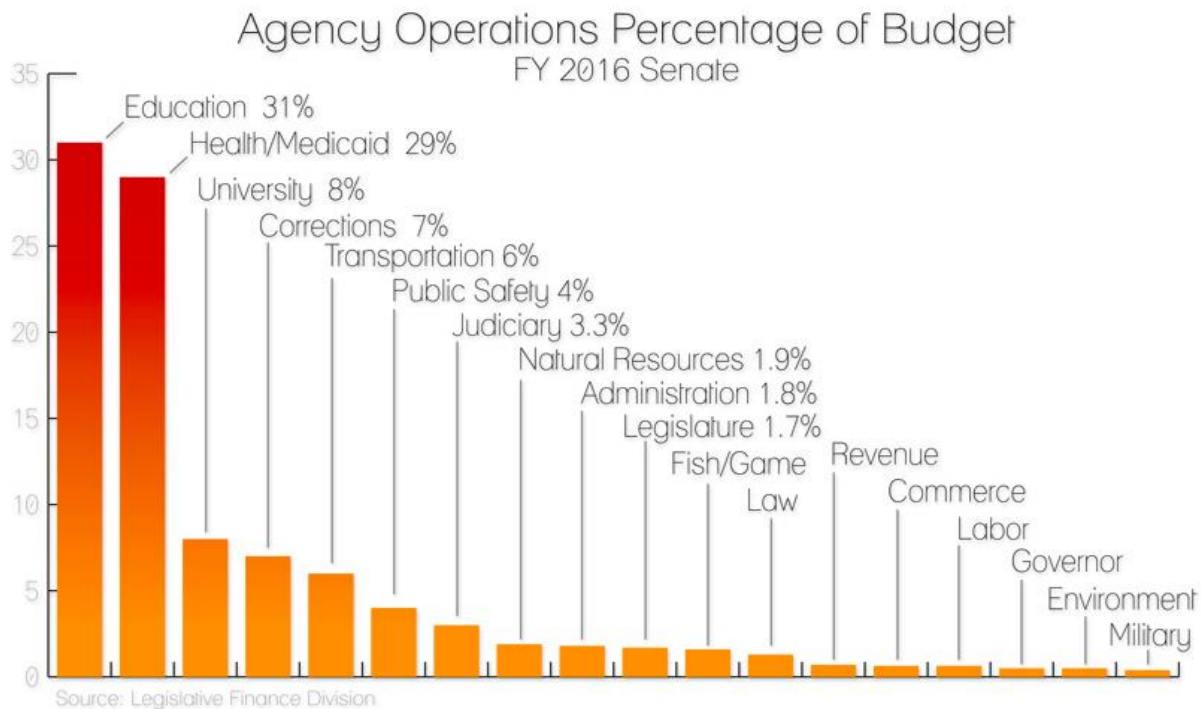
Senator Stoltze, members of the State Affairs Committee, my name is Frank McQueary. Most of you know me, but for those who don't let me briefly summarize my experience and qualifications. Currently I am an owner of a small technology company, the Vice Chair of the Alaska Republican Party and my curriculum vitae includes managing a transportation company multiple times since 1972, working as a VP of Commercial lending in 2 different Alaska banks, a stint with AIDEA in 1981 setting up the small business lending program, a number of years working for a telecommunications company as well as being in the horse boarding and training business simultaneously for 20 of those years. In my younger days, while attending college, I worked summers as a grade checker out of Laborer's Local 341.

The diversity of my experience qualifies me to share some observations with you today.

I wish to speak in favor of SB114 as part of a strategy which will help you ameliorate the economic damage which we will suffer over the next few years as a direct result of the collapse of oil prices and the slowing global economy and I will tell you why it is inherently superior to both the Governor's and Representative Hawker's bills.

The premise of what I wish to propose is that SB 114 alone will help but not solve our current crisis and without additional measures to curb the growth of government we will soon be facing additional crises.

If you will look at the graph below, prepared by your own Legislative Finance Department, you will graphically see what I propose to call "The Little Shop of Horrors: Feed me Seymour" model of government. On the left side of the graph, two of three major impediments to successfully coping with and minimizing the current crisis are very obvious. For as long as I can remember in my 25 year history of pilgrimages to Juneau, Education and Health/Medicaid expenses have been growing and compounding. A third major component of controlling the budget is buried in **all** of the departments: programmatic increases in labor costs.



With each of these three components historically growing and compounding at from 5-15 percent a year the static 2 dimensional budget analyses seen thus far are very deceptive. If your model continues the 5-15 % annual growth in these three components over a short 5 year period it becomes obvious that you will never achieve a “sustainable” budget given current revenue expectations.

Only the combination of **targetted** cuts in the areas of education, medicaid and state labor costs combined with an SB114 type of conversion of the permanent fund will both assure the continuation of permanent fund dividends and give you enough control of the budget to begin to call it sustainable.

As you grapple with these issues constantly remind yourselves that Government does not create wealth. Only the private sector and free market investments do that successfully. The easy cuts were made last year, and unfortunately virtually all capital investment was curtailed. That is the part of government spending which flows into the private sector, ideally providing jobs and the infrastructure necessary to grow our economy.

A government centric bias is inherent in the very Juneau air that you breath. The fact that in your jobs today you are totally focussed on the State budget, rather than the State’s broader economy is a testament to that bias.

When I met with the Governor last week he said he wanted to get outside of the closed loop of government and get other opinions as to how to solve our current dilemma.

What I told him, and what I will tell you, is that an opportunity has been missed. The messaging of what is happening should have been something like this: “Lifeboat Alaska, we are in this together and we will

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get through it together. We will ration our resources wisely and with scrupulous fairness. No one of us will prosper at the expense of the rest.” I told the Governor that he thinks he is captaining a cruise ship rather than a lifeboat and that he had simply moved the crew into the first class cabins and asked the rest of us to move into steerage.

Without any labor contract increases the programatic raises for merit and longevity average between 3-4% per annum. Continued wage inflation in state labor costs, continued exponential growth in Education and Health and Human Services budgets will guarantee the failure of any budget plan.

There is an old adage that “in adversity there is opportunity”.

Your opportunity now is to choose the one plan that converts the Permanent Fund into an endowment while still guaranteeing a significant flow of dividends into the private sector, shoring up the larger economy of the state, while still contributing significantly to closing the state government budget gap. That bill is SB 114.

Why is SB 114 superior to both the Governor’s plan and Representative Hawker’s bill? It is simple two step logic:

1. It guarantees that more dollars are dedicated to dividends, hence leaving a larger gap to close in the budget. What I am proposing is that you do not take the easy way out by taking most of the dividend to fill the gap. This means that you will have to attack the real structural budgetary issue of unrestrained growth in education, health and labor costs. Both the Governor and Hawker’s approaches open the door to eventually taking all of the earnings without solving the problem.
2. SB 114 is more palatable to the public. It signals that you are not trying to solve the gap at their expense while protecting the vested interests of the bureaucracy.

Your real mission is to harness the cancerous growth of Education, Health and Labor costs within state government. As long as you ignore this rapidly growing segment of the budget you will never resolve the budget issue or “right size” government.

IF our education was improving commensurately with its increasing costs and **IF** access to health care was better and less costly, we would have no room to complain. But neither education nor health care access has improved with ever more costly programs. In fact the opposite has happened. When I graduated from East Anchorage High School in 1963, Alaska schools were considered to be among the best in the nation. Now we rank near the bottom. When Governor Walker pushed Medicaid expansion the premise was that more Alaskans would have better access to more affordable health care. Our Medicaid plan has 17 optional “Cadillac” services which are provided at no cost to the very poor. Meanwhile the not so poor have been saddled with large monthly premiums for insurance and have seen their deductibles rise to the point where for all practical purposes they only have major medical coverage. Deductibles of \$5000 to \$9000 are becoming common as more and more people are forced into the world of Obamacare.

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Governor Walker has been aiding and abetting this economically and socially destructive transition and it is time for you as our elected representatives to show courage in correcting the course of government.

1. Cut and Reform Education
2. Cut and Reform Health Systems
3. Remove automatic increases from state employee contracts and ask them to share the pain
4. Pass SB 114.

And remember that unallocated cuts will simply allow bureaucracy to punish both you and the public.

While it is not my intent to get too far into the weeds, I cannot resist making two points: The immediate fiscal problem may not be as critical as alarmists make it out to be: e.g., correcting the overprovisioning for inflation in the permanent fund would free up an additional \$900,000,000 towards this years deficit...

And there are pockets of privilege in State government that need to be rooted out now. One of the more egregious examples being the highly compensated and underworked line haul ferries. Transportation subsidies for highways are calculated in the range of cents per vehicle mile travelled. The subsidy for Alaska Marine Highway line haul ferries is in excess of \$10.00 per vehicle mile travelled. Five years ago the overall subsidy was over \$120,000,000.00 (yes that is millions). That level of subsidy is indefensible and is nothing more than an invincible barrier to competition from the private sector handling the longer runs.

Thank you Mr. Chairman and Members, if you have any additional questions or want more detail or documentation please feel free to contact me at : fmcqueary@gci.net or call me at 907-223-7528.

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