

STATE BUDGET AND THE ECONOMY

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House Finance Committee
1st Regular Session of the 30th Legislature

EXPENDITURE REDUCTIONS TO DATE

“Expenditures have been cut 44% (\$3.5 billion) since FY13....”

Legislative Finance

Expenditures:		FY13	FY17
Operating	-28%	\$5.9 B	\$4.2 B
Capital	-94%	\$1.9 B	\$0.1 B
Total	-44%	\$7.8 B	\$4.3 B



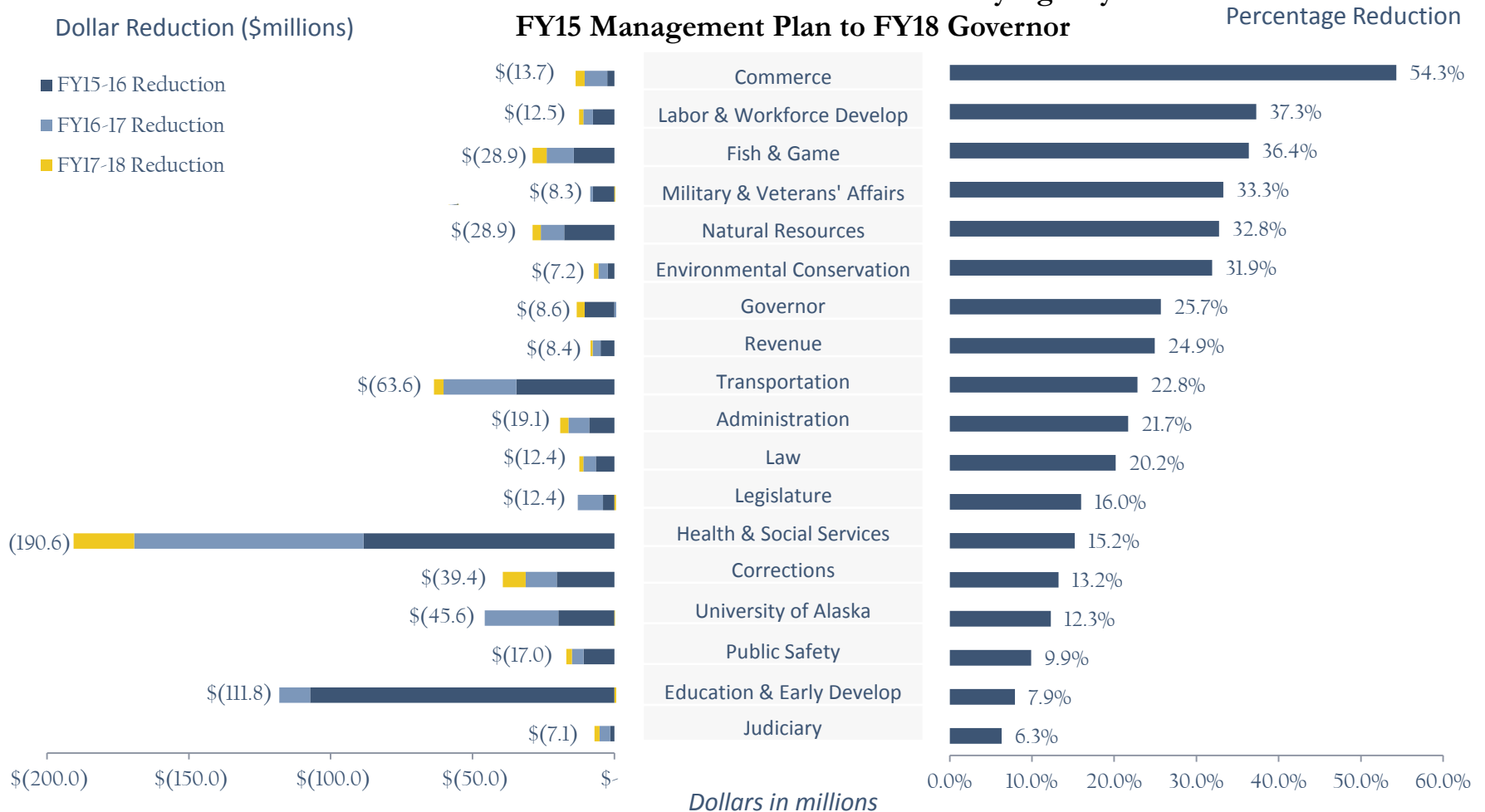
EXPENDITURE REDUCTIONS TO DATE

Expenditure Category	Reductions To Date	FY18 Gov Funding
Capital	\$1.8 B	\$0.1 B
Operating (not including K-12 formula)	\$1.6 B	\$2.5 B
Direct Community Payments:		
PRS/TRS (on-behalf)	\$0.00 B	\$0.2 B
Community Assistance	\$0.03 B	\$0.0 B
School Debt Reimbursement	\$0.01 B	\$0.1 B
Education Funding (K-12 formula)	\$0.10 B	\$1.3 B



EXPENDITURE REDUCTIONS TO DATE

Unrestricted General Fund Reduction by Agency FY15 Management Plan to FY18 Governor



EXPENDITURE REDUCTIONS TO DATE

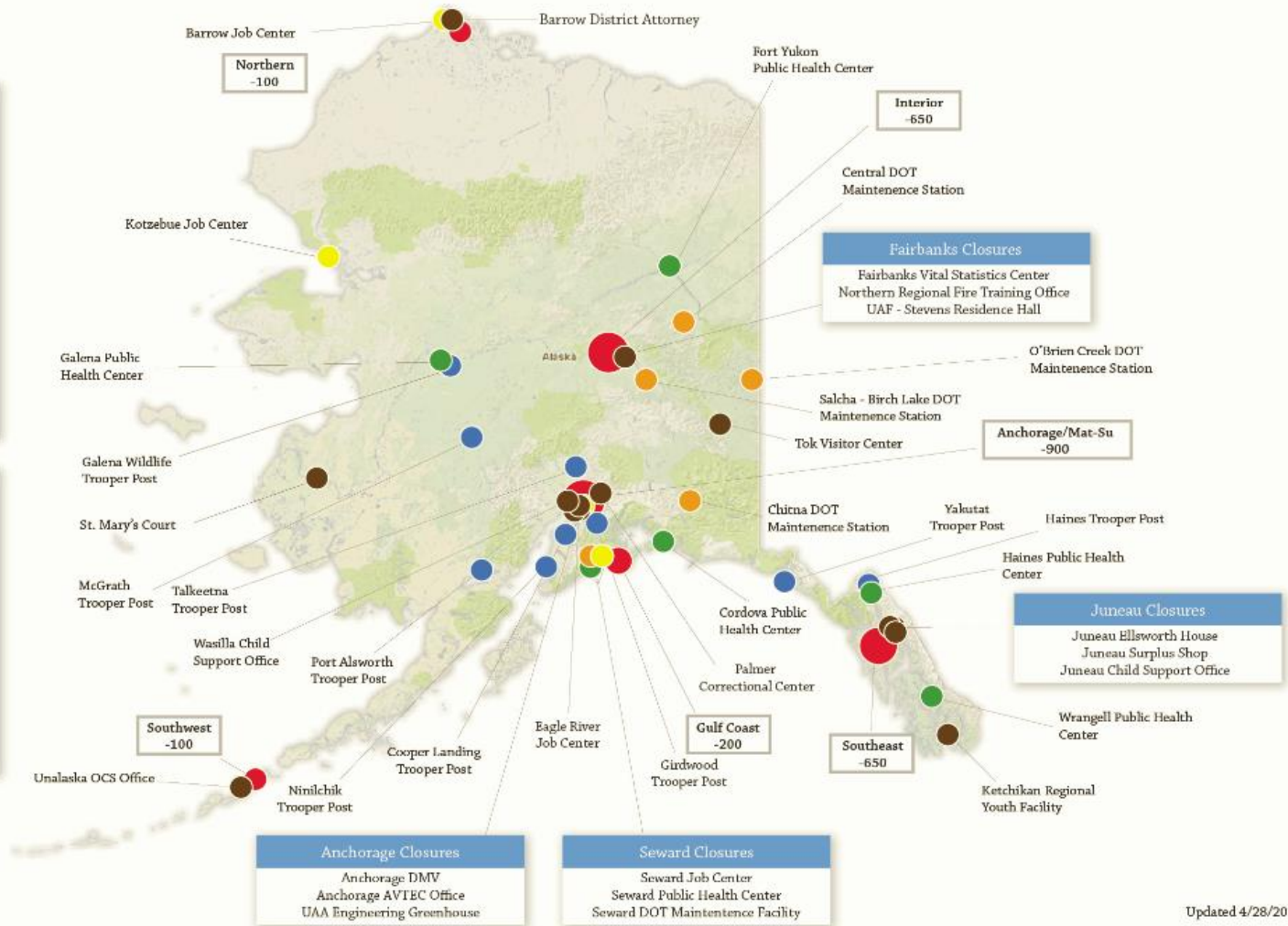
Closed State Facilities

Legend

- DOT Maintenance Facilities
- Job Centers
- Public Health Centers
- Trooper Posts
- Other State Services
- Employee Reductions

Employee Reductions by Region

Northern	-100
Interior	-800
Anchorage/Mat-Su	-900
Gulf Coast	-200
Southwest	-100
Southeast	-650



PER CAPITA SPENDING

Factors Influencing Alaska's Per Capita Spending:

- PFDs
- County Programs
- Unique Alaskan Programs
- Health Insurance
- Education
- Fuel/Energy
- Oil and Gas Credits
- Travel

Per Capita Spending (State Dollars - UGF, DGF, Other)		
Rank	State	Per Capita (GF/Other)
50	Nevada	2,656.83
49	Florida	2,688.14
48	New Hampshire	2,730.60
47	Missouri	2,795.46
46	Indiana	2,873.79
-	US Average	4,804.29
5	Hawaii	7,940.48
4	North Dakota	8,485.67
3	Delaware	8,645.66
2	Alaska	9,096.80
1	Wyoming	11,269.31



RIGHT SIZE OF GOVERNMENT

Cost Driver	Per Capita Cost
Permanent Fund Dividends	\$1,022.00
County Programs	\$516.31
Unique Alaska Programs	\$1,205.32
Higher Wages	\$105.00
Health Insurance Costs	\$148.00
Oil & Gas Credits	\$100.00
Education	\$623.31
Fisheries	\$165.04
Resource Management	\$42.37
Fuel	\$13.20
Total	\$3,940.86

- After adjusting for Alaska-specific conditions, per-capita spending is within 7.2% of the national average.
- Alaska excels at leveraging federal dollars. Dollars not serving as match typically reside in life/safety functions such as public safety, road maintenance, corrections, etc.
- Further reductions pose a challenge. Many cost drivers represent valuable programs.
- Need smart reform to bend the cost curve.
 - Health Care
 - Education
 - Energy Efficiency



SENATE FY2018 REDUCTIONS COMPARED TO GOV AMEND

	FY2018 Gov Amend To Senate	From FY2015 \$	From FY2015 %
DHSS	\$(39.1)	\$(229.6)	-18.3%
DEED & K-12	\$(71.0)	\$(182.8)	-13.0%
Transportation	\$(53.6)	\$(186.6)	-67.0%
University	\$(22.0)	\$(67.6)	-18.2%
All Other Agencies	\$0.4	\$(262.3)	-22.1%
Agency Operating	\$(185.2)	\$(928.8)	-20.6%
Other Items	\$(17.0)	\$(519.4)	-53.9%
Total Operating	\$(202.1)	\$(1,448.2)	-26.5%



SENATE ASSIGNED PERSONNEL REDUCTIONS

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	Personnel Reduction	Department Senate Reduction	
		From FY2015 \$'s	From FY2015 %
University	\$(5.7)	\$(67.6)	-18.2%
Pioneer Homes (DHSS)	\$(5.7)	\$(229.6)	-18.3%
Division of Finance (DOA)	\$(1.3)	\$(18.6)	-21.6%
Civil Division (Law)	\$(0.8)	\$(13.8)	-22.6%
Commissioner's Office (DNR)	\$(0.3)	\$(28.9)	-32.9%
Tax Division (DOR)	\$(0.5)	\$(8.9)	-26.4%
All Other	\$(2.4)		
Total	(\$16.8)		



SPEND NOT ACCOUNTED FOR IN UGF

SENATE VERSION FY2018

Spend Not Accounted as FY2018 UGF

Medicaid*	\$17.5	Senate short funding w/o formula change
Medicaid	\$15.0	OMB communicated formula shortfall
Marine Hwy*	\$44.0	Senate AMHS fund balance depletion (one-time)
K-12 funding*	\$17.0	House and Senate re appropriation U-Med (one-time)
PERS/TRS	\$58.3	Senate and Gov use of HEF (one-time)
	\$151.8	FY18 Total

Anticipated FY2019 Increases

Medicaid	\$30.0 (min)	Increased eligibility due to economy and inflation
PERS/TRS	\$114.0	ARMB expected retirement payment increase
Debt Service	\$5.0	Increase due to FY2012 GO Bonds
	\$300.8	FY18 and FY19

*Differ from Governor Amend

\$300M in FY19 to stay status quo



A POSSIBLE \$750M REDUCTION SCENARIO

AN ADDITIONAL 17% REDUCTION

FY2018 Gov to \$750M	FY2018 Gov to \$750M	From FY2015 \$, %	FY22 Nominal, FY Compare
DHSS	\$(107.6)	\$(298.2), -23.8%	\$955.5, FY2011
DEED & K-12	\$(195.6)	\$(307.4), -21.8%	\$1,101.5, FY2009
Transportation	\$(100.0)	\$(232.9), -83.6%	\$45.7, FY2005*
University	\$(60.6)	\$(106.2), -28.6%	\$264.4, FY2006
All other agencies	\$(15.0)	\$(277.8), -23.4%	\$910.7, FY2009
PERS/TRS on behalf	\$(126.0)	\$(126.0), -100.0%	\$0.0
School debt reimbursement	\$(97.4)	\$(107.3), -100.0%	\$0.0
Oil and Gas Tax Credits	\$(27.8)	\$(578.8), -92.6%	\$46.2
Capital	\$(20.0)	\$(499.6), -84.6%	\$97.0, Late 90's
Total Reduction	\$(750.0)	\$(2,494.9), -41.0%	\$3,582.9

*Normalized for motor fuel taxes ~\$69.3 million



ADDITIONAL EXPENDITURE REDUCTION IMPACT SCENARIOS

Current Level of Direct Payment to Municipalities

<u>Community</u>	<u>Education Formula</u>	<u>School Debt Assistance*</u>	<u>Retirement Assistance*</u>	<u>Community Assistance</u>	<u>Total</u>
Anchorage	\$344.2	\$44.9	\$46.9	\$9.3	\$605.1
Juneau	\$40.9	\$12.3	\$5.6	\$1.3	\$284.6
Mat-Su	\$185.1	\$22.8	\$14.9	\$2.8	\$675.3
Fairbanks	\$126.8	\$13.1	\$13.2	\$1.0	\$257.8
Ketchikan	\$25.0	\$2.7	\$2.6	\$0.4	\$89.3
Nome	\$8.8	\$0.3	\$0.8	\$0.2	\$10.1
Statewide Total	\$1,249.1	\$116.0	\$184.3	\$38.0	\$1,587.4

*School Debt and Retirement Assistance are partially DGF funded



ADDITIONAL EXPENDITURE REDUCTION IMPACT SCENARIOS

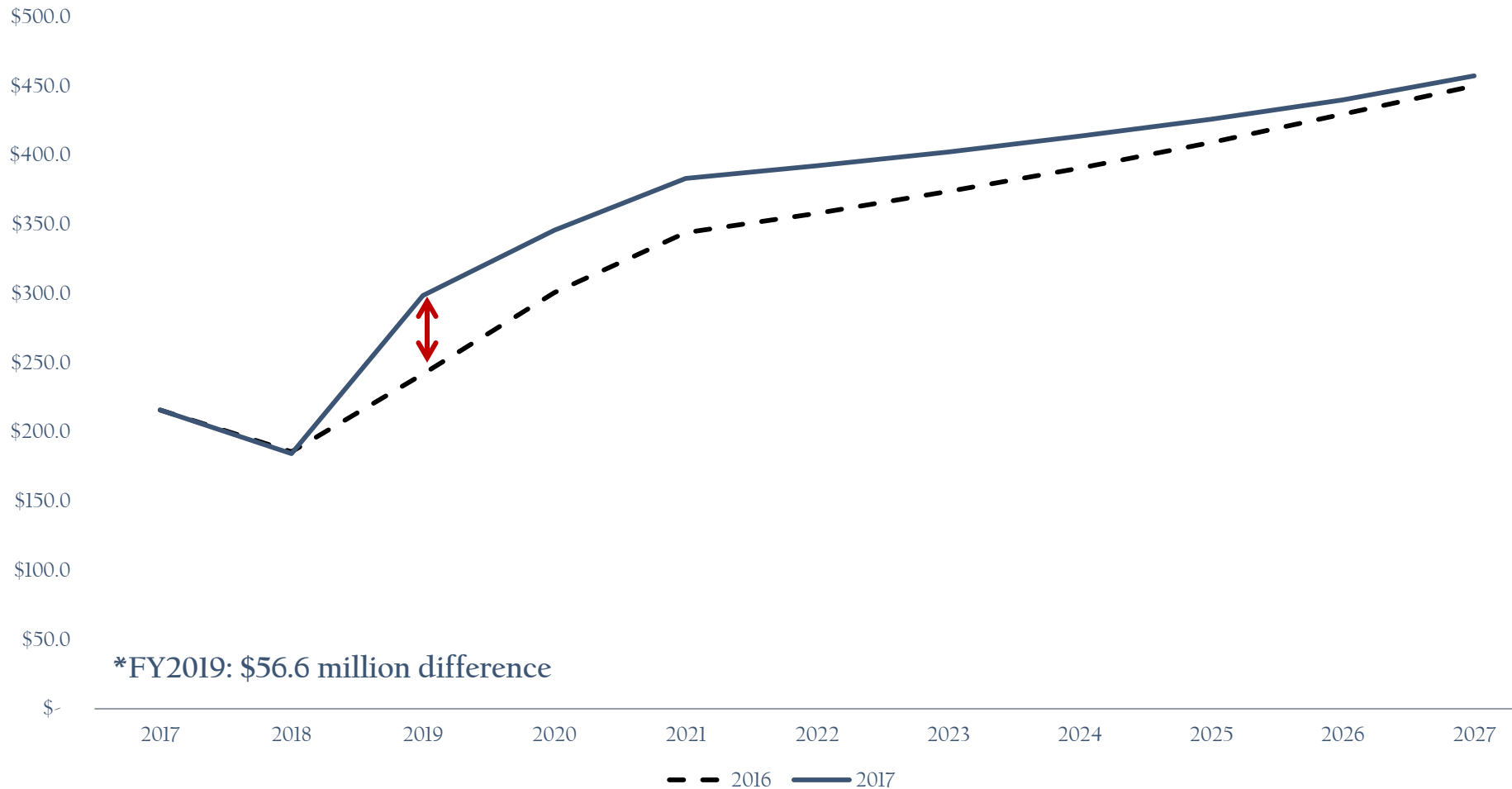
Reduction in Direct Payment to Municipalities

<u>Community</u>	<u>17% Reduction Education Formula</u>	<u>100% Reduction School Debt Assistance</u>	<u>100% Reduction Retirement Assistance</u>	<u>100% Reduction Community Assistance</u>	<u>Total</u>
Anchorage	\$53.8	\$44.9	\$46.9	\$9.3	\$154.9
Juneau	\$6.3	\$12.3	\$5.6	\$1.3	\$25.5
Mat-Su	\$28.2	\$22.8	\$14.9	\$2.8	\$68.7
Fairbanks	\$19.2	\$13.1	\$13.2	\$1.0	\$46.5
Ketchikan	\$3.9	\$2.7	\$2.6	\$0.4	\$9.6
Nome	\$1.4	\$0.3	\$0.8	\$0.2	\$2.7
Total (UGF)	\$195.6	\$97.4	\$126.0	\$38.0	\$457.0



PERS/TRS ESTIMATES

VARIABLE, GROWTH EXCEEDS INFLATION



ADDITIONAL EXPENDITURE REDUCTION IMPACT SCENARIOS

Community	Total Funding Loss (\$millions)
Anchorage	\$ 154.9
Juneau	\$ 25.5
Mat-Su	\$ 68.7
Fairbanks	\$ 45.5
Ketchikan	\$ 9.6
Nome	\$ 2.7

Property Tax Increase Necessary to Fill Gap	
4.5 Mills	31%
6.0 Mills	56%
6.0 Mills	60%
7.0 Mills	41%
11.8 Mills	71%
10.0 Mills	91%

- To replace this lost revenue, property taxes would need to rise.
- A homeowner with a \$300,000 home would see over \$1700/year in additional property taxes, depending on the location.



REDUCTION IMPACT SCENARIOS

MEDICAID

Direct Medicaid Payments to Providers

<u>Community</u>	<u>Current UGF (FY2016)</u>	<u>\$50.0 million UGF Reduction</u>	
		<u>UGF Reduction</u>	<u>Total Reduction</u>
Anchorage	\$244.3	\$20.6	\$53.8
Juneau	\$28.0	\$2.4	\$6.1
Mat-Su	\$78.9	\$6.6	\$16.5
Fairbanks	\$55.4	\$4.7	\$11.9
Ketchikan	\$15.6	\$1.3	\$3.4
Nome	\$7.2	\$0.6	\$4.4
Total (All funds)	\$594.2	\$50.0	\$141.6



ADDITIONAL EXPENDITURE REDUCTION IMPACT SCENARIOS

Direct Payment to Recipient Programs

Housing Programs

AK Temporary Assistance

Child Care Benefits

Community Developmental Disability Grants

Behavioral Health Prevention/Intervention/Treatment/Recovery Grants

Adult Public Assistance

General Relief Assistance

Food Stamps

Pioneer Home

Senior Benefits

WIC

Foster Care

Subsidized Adoptions

Energy Assistance



ADDITIONAL EXPENDITURE REDUCTION IMPACT SCENARIOS

State Facilities Operating in Communities:

Prisons

Courts

Pioneer Homes

DMV

Public Health Centers

DOT Maintenance Stations

Child Support Offices

University Campuses

State Parks and Campgrounds

Job Centers

Trooper Posts

Juvenile Justice

Ferry Terminals

Airports



ADDITIONAL EXPENDITURE REDUCTION IMPACT SCENARIOS

Known Needs :

Opioid Crisis
Behavioral Health and Substance Abuse Treatment
Capital Project Funding
Deferred Maintenance
Oil and Gas Credit Liability
Health Care Cost Due to Aging Population
Increases for Population Growth



ADDITIONAL EXPENDITURE REDUCTION IMPACT SCENARIOS

Capital Program Spending is already at an unsustainably low level and will likely need to be increased in the very near future.

Agency Operations Spending has already been reduced 28%. Although additional reductions are planned through transitioning to shared services and consolidating program delivery, there is little additional savings that can be achieved without the reduction or elimination of the programs and services that these expenditures support.

Indirect Expenditures are currently being reviewed for modification or elimination. The largest of which is the oil and gas tax credit program which is already constrained to the statutory annual payout formula but has significant accrued liability that eventually will need to be paid through direct payment or reduced revenues.

Direct Payments to municipalities and to program participants represent over 46% of the total state budget. This represents cash out the door to support programs and services statewide.



ADDITIONAL EXPENDITURE REDUCTION IMPACT SCENARIOS

- Just because the State stops funding a program or service doesn't mean that the needs for that service go away. However, the Federal funding match often does go away causing severe collateral damage to the programs, services and the economy.
- Cuts flow down hill. If the State stops funding a program or service the burden often falls to the local governments and then to non-profits, the private sector, or finally to the individual.
- State expenditure cuts that don't recognize on going needs are a "pass through" solution. The expense doesn't go away it just shifts to an ever smaller pool of resources.
- A statewide solution, such as a broad based sales or income tax, broadens the funding for the delivery of programs and services by capturing revenues from out of state workers and visitors.

