

# **FY2018 Budget Overview**

## **Senate Finance Committee**

**January 18, 2017**  
**Office of Management and Budget**  
**Pat Pitney, Director**

# Alaska's Budget in Household Terms

## **Income has dropped more than 80%**

- Your annual income dropped from \$80,000 to \$16,000

## **Spending has been reduced 44%**

- You have been able to reduce your rent or mortgage, heat, food, every day travel, and vacations. You stopped building your cabin, stopped remodeling, and you'll keep your old car.
- Expenses have been cut from \$80,000 to \$45,000

## **Savings has one year remaining**

- You had \$130,000 in the bank, but now only \$25,000

## **Investment accounts have been growing steadily**

- You have \$500,000 in an IRA and you need to decide whether to use it and how much you can prudently use

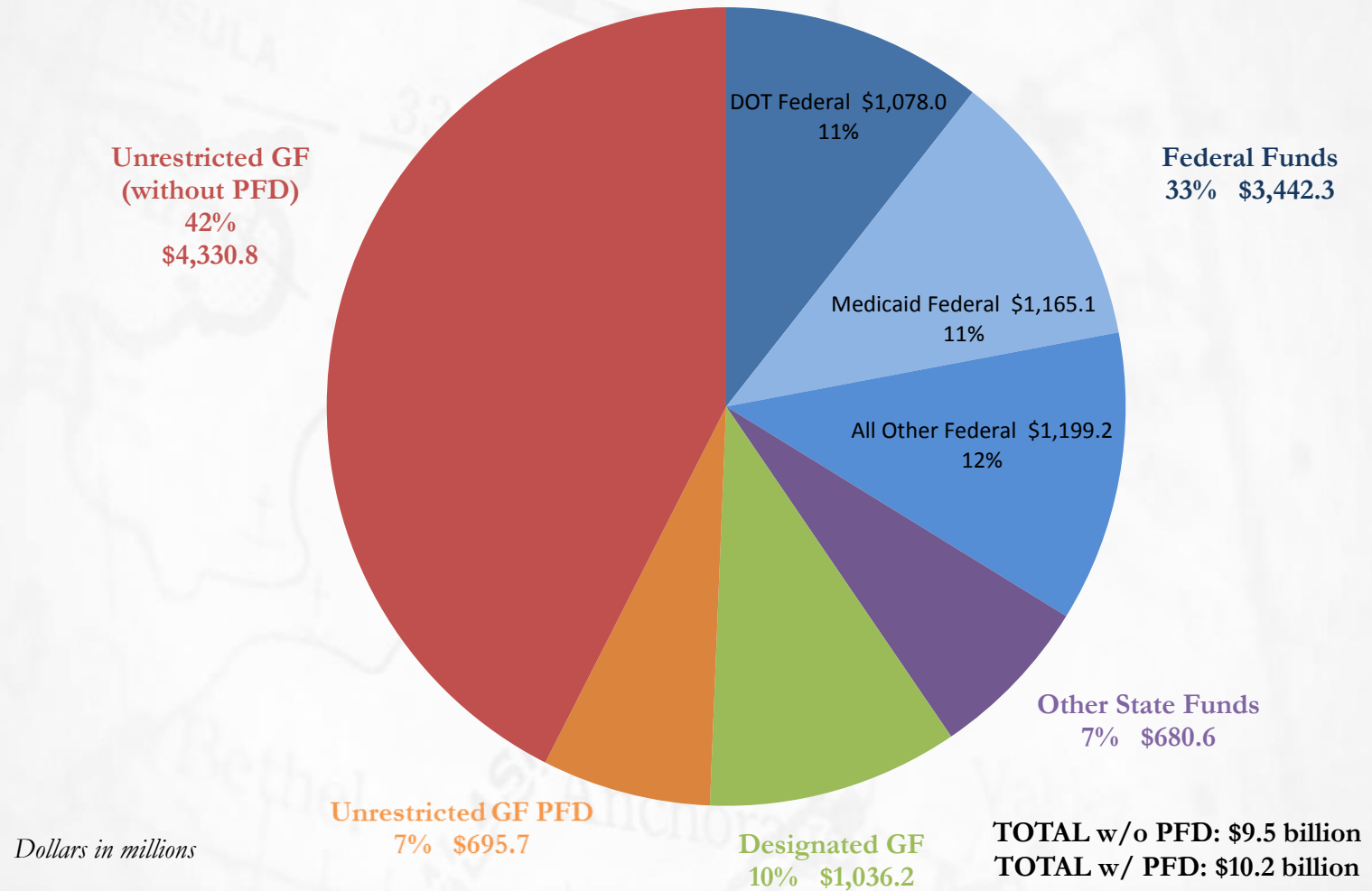
## **An income/spending gap remains**

# Governor Walker's FY2018 Fiscal Plan

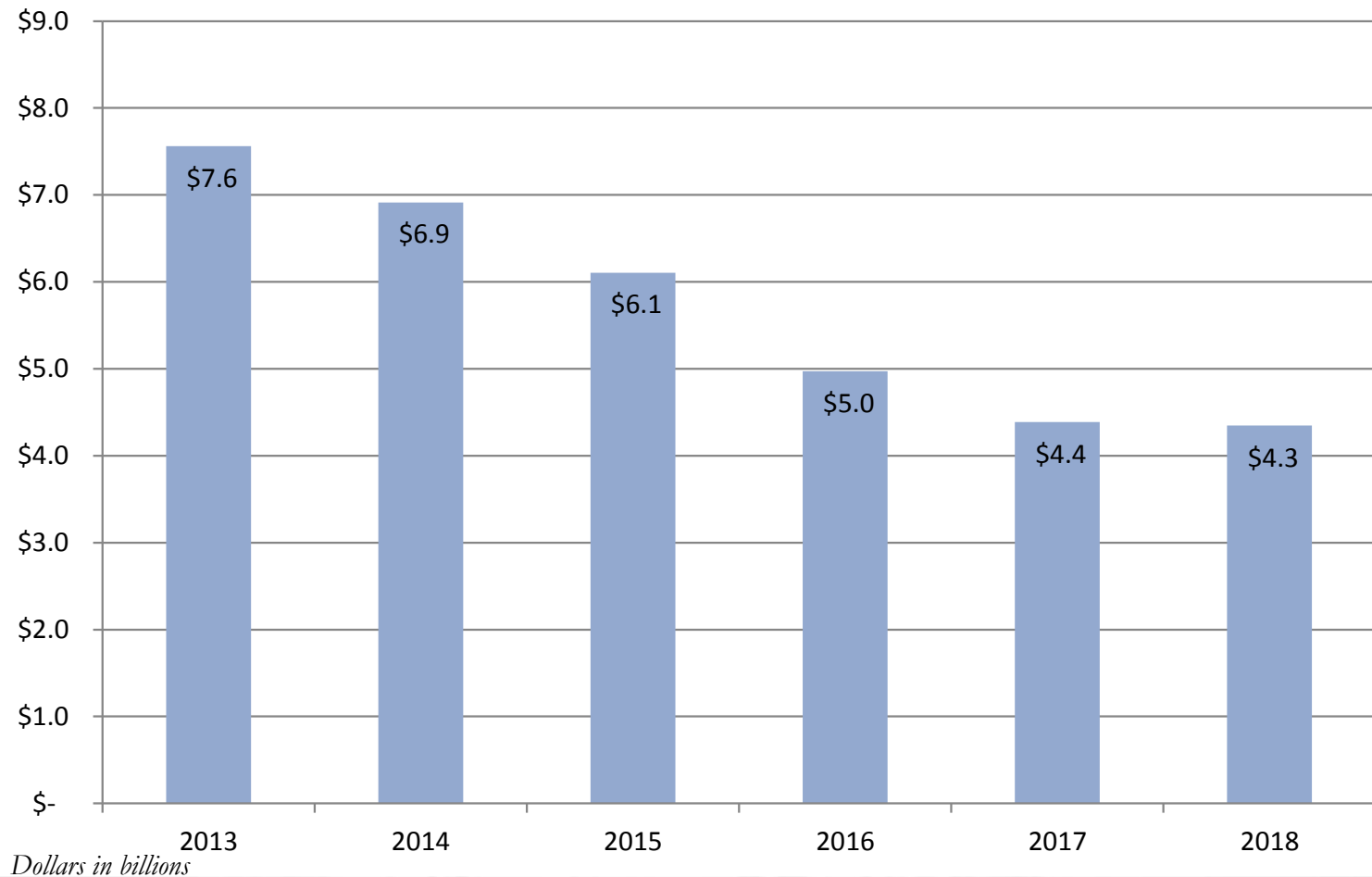
To foster safer communities, resource development, and economic security requires sustainable and balanced budgets long term, and to that end the Governor's FY2018 budget is comprised of three necessary elements:

1. Continue to reduce state spending
2. Draw from Permanent Fund earnings to support vital state services and protect the dividend
3. Generate more revenue

# FY2018 Budget by All Fund Sources



# FY2018 Unrestricted General Fund Spending Without Dividends: \$4.3 Billion



# FY2018 Governor's Budget

## Changes From FY2017 Management Plan

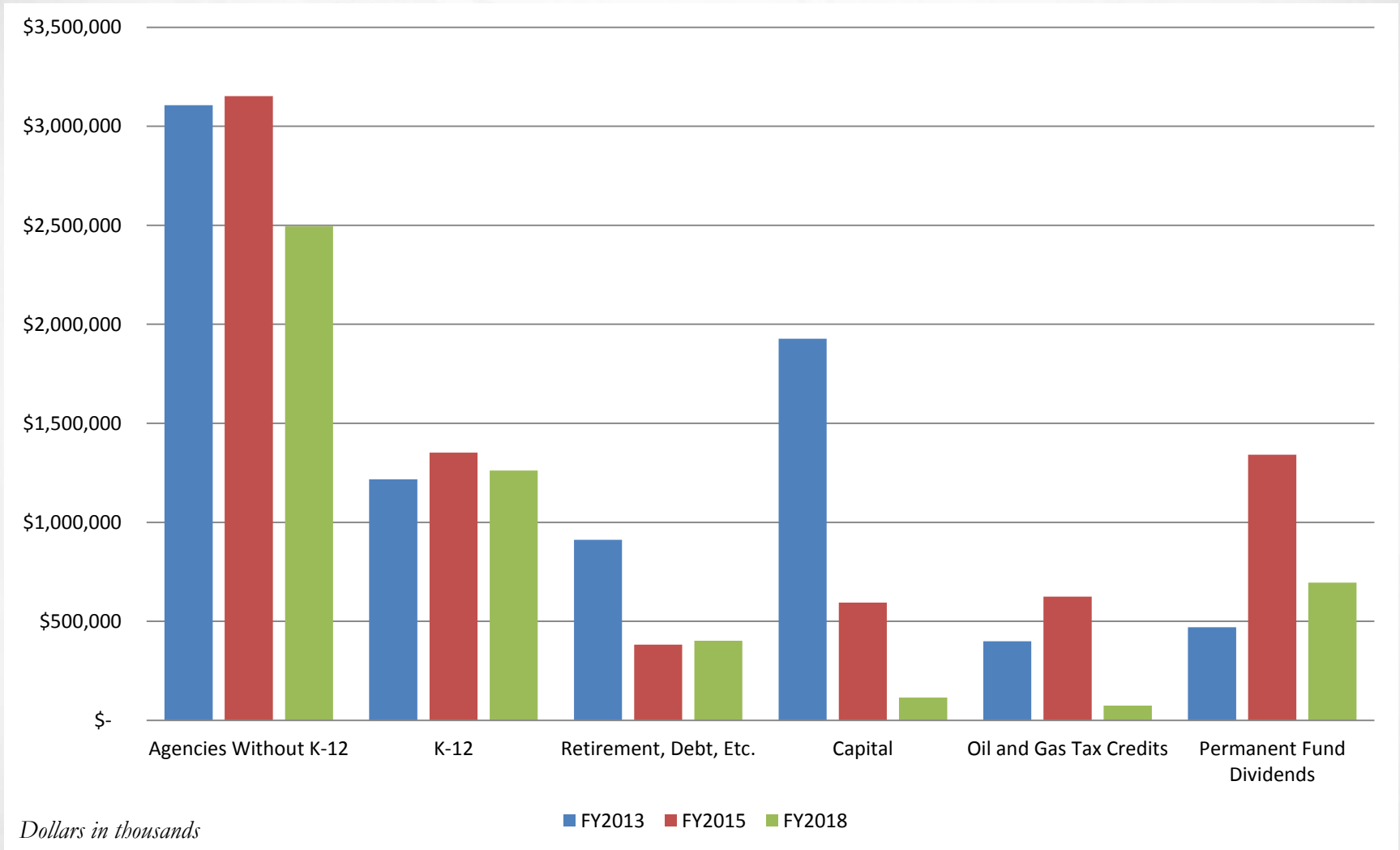
	Unrestricted General Fund	Designated General Fund	Other Funds	Federal	Total
<b>FY2017 Management Plan (Operating)</b>	<b>\$4,262.4</b>	<b>\$1,682.7</b>	<b>\$674.1</b>	<b>\$2,214.6</b>	<b>\$8,833.8</b>
FY2017 Management Plan Total	\$4,358.5	\$1,727.4	\$759.1	\$3,539.8	\$10,384.8
Agency Formula Change	\$4.9	\$(2.2)	\$(2.2)	\$22.4	\$23.0
Agency Non-Formula Change	\$(127.9)	\$ (2.6)	\$ (17.1)	\$(1.4)	\$(149.0)
<i>Statewide Changes</i>					
Debt	\$27.2	\$0.3	\$(31.0)	\$ -	\$(3.5)
Retirement	\$0.0	\$(31.5)	\$ -	\$ -	\$(31.5)
Oil & Gas Tax Credits	\$44.0	\$ -	\$ -	\$ -	\$44.0
Special & Fund Caps	\$5.0	\$41.5	\$0.9	\$(1.3)	\$46.1
<b>FY2018 Operating Reduction</b>	<b>\$(46.8)</b>	<b>\$5.4</b>	<b>\$(49.3)</b>	<b>\$19.7</b>	<b>\$(71.0)</b>
<b>FY2018 Operating Budget</b>	<b>\$4,215.6</b>	<b>\$1,688.0</b>	<b>\$624.8</b>	<b>\$2,234.3</b>	<b>\$8,762.8</b>
FY2018 Total Budget	\$4,330.8	\$1,731.8	\$680.6	\$3,442.2	\$10,185.5
Permanent Fund Dividends	\$695.7	\$(695.7)	\$ -	\$ -	\$ -
<b>FY2018 Budget With PFD</b>	<b>\$5,026.5</b>	<b>\$1,036.2</b>	<b>\$680.6</b>	<b>\$3,442.2</b>	<b>\$10,185.5</b>

# FY2018 Governor's Budget

## Changes from FY2017 Management Plan

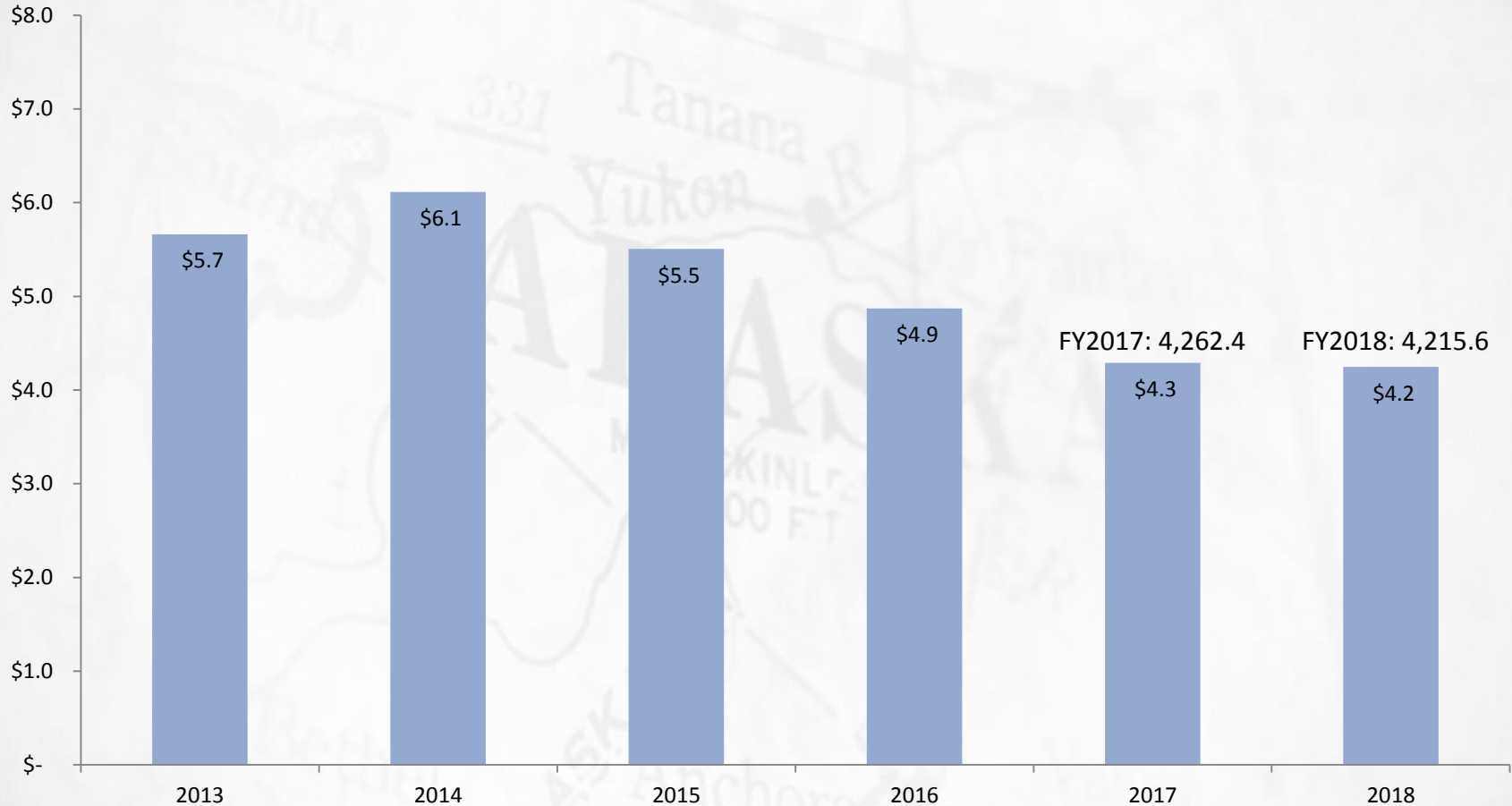
	Unrestricted General Funds (\$thousands)
Agency Reductions	(\$88,640.8)
Agency Additions	\$49,539.9
Fund Source Changes	(\$83,901.4)
<b>Agency Operating Subtotal</b>	<b>(\$123,002.7)</b>
Oil Tax Credits, Debt Service, REAA	\$76,212.2
<b>Operating Budget Subtotal</b>	<b>(\$46,790.1)</b>
Capital Additions	\$19,100.0
<b>Total Change in Budget</b>	<b>(\$27,690.1)</b>

# Spending on Major Items FY2013 Compared to FY2018





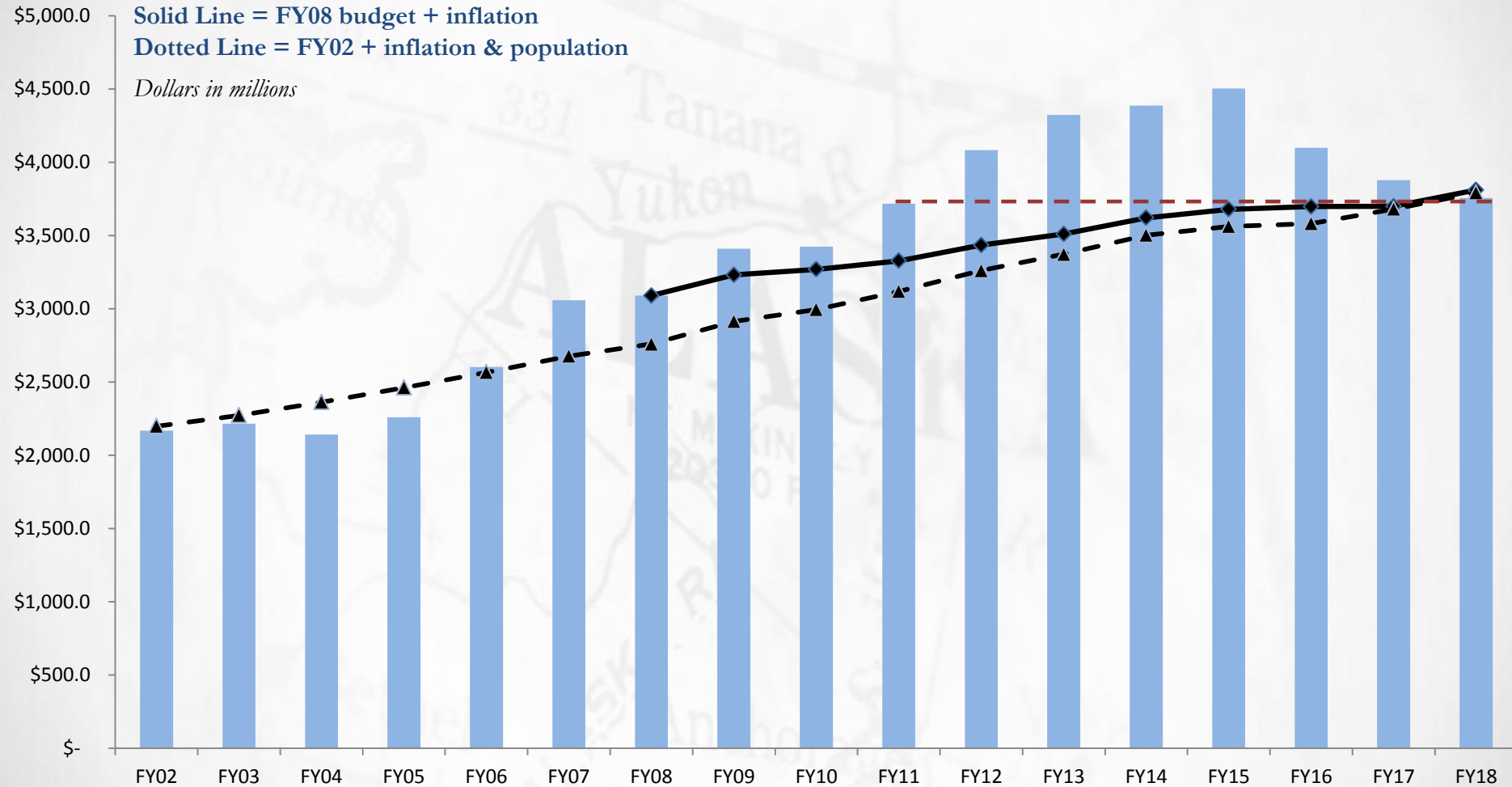
# FY2018 Unrestricted General Fund Operating Spending Without Dividends: \$4.2 Billion



*Dollars in billions*

# Unrestricted General Fund Agency Operating Budgets

## FY2002 – FY2018 in Nominal Dollars



# Budget Guidance to Agencies

Among the issues that departments were asked to consider as they evaluated their budgets:

- Is it required by a constitutional mandate?
- Is it required by a legislative mandate?
- Does it leverage other resources?
- Does it pay for itself or make money for the state?
- How utilized is the service?
- What is the impact on the statewide economy?
- How effective would it be to privatize or be absorbed by another agency? Would it be less expensive if privatized?

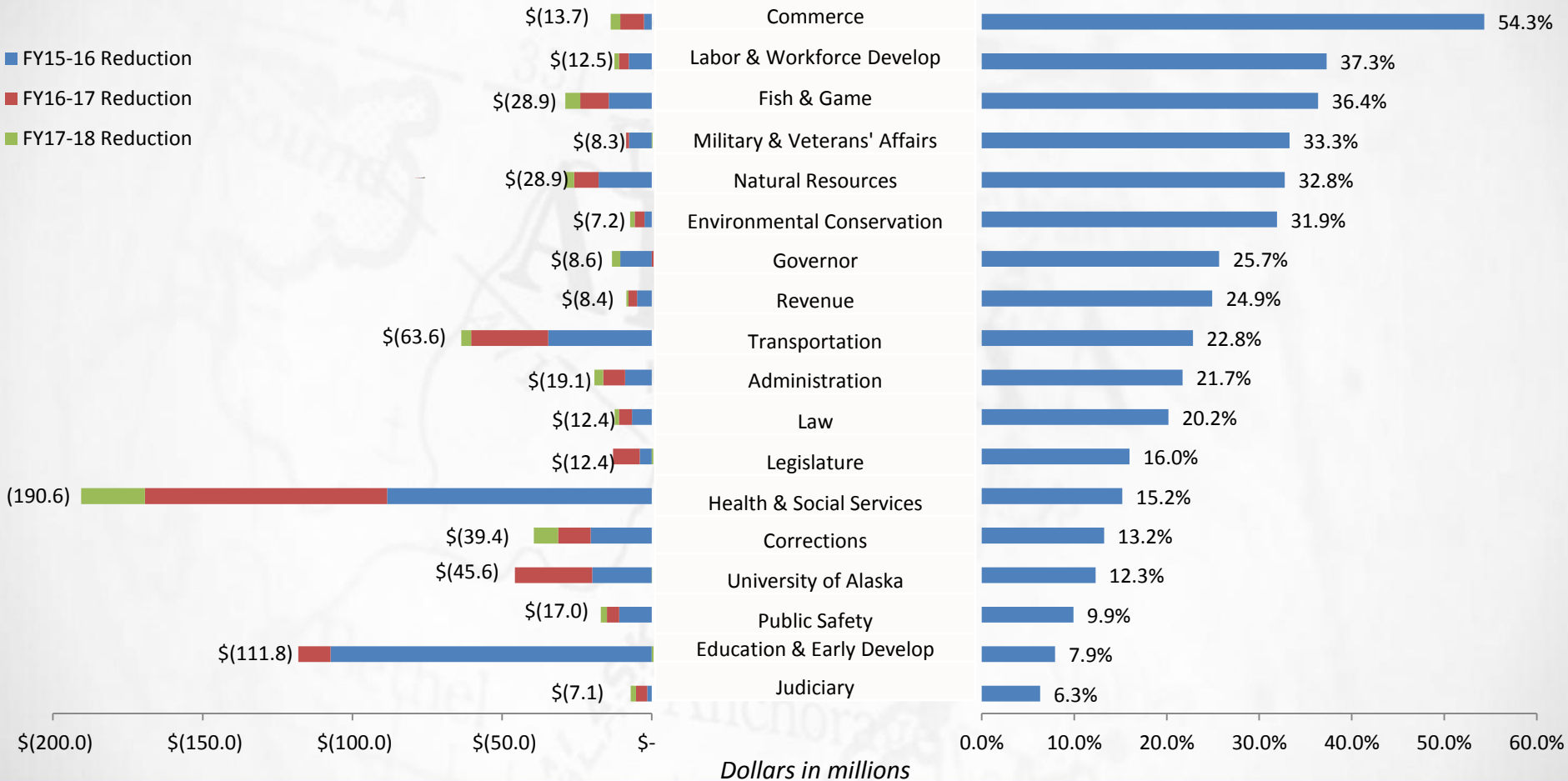
# All Agencies Are Making Reductions

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

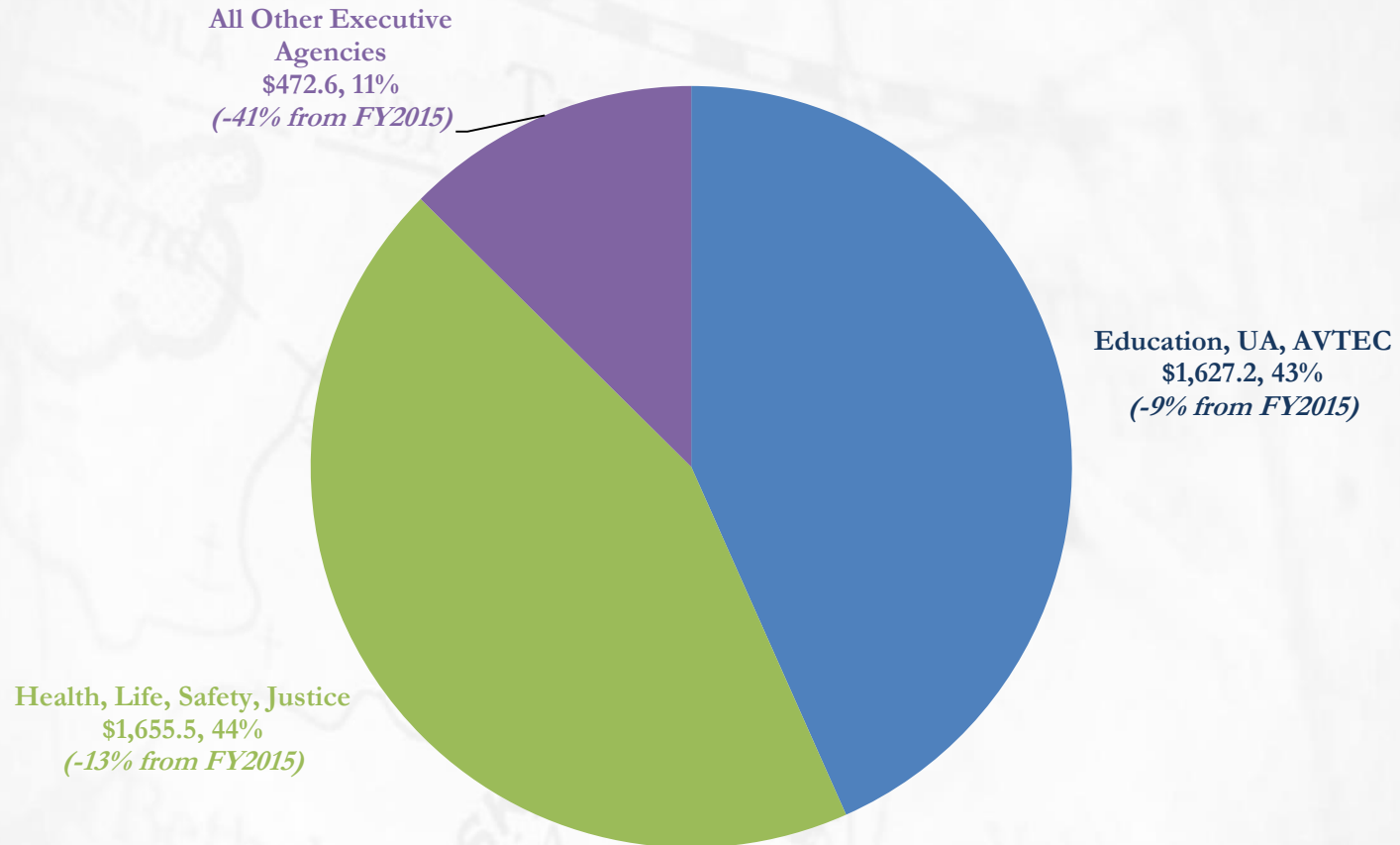
Percentage Reduction

Dollar Reduction

■ FY15-16 Reduction  
■ FY16-17 Reduction  
■ FY17-18 Reduction



# FY2018 Unrestricted General Fund Agency Operating Budget Reflecting Priorities



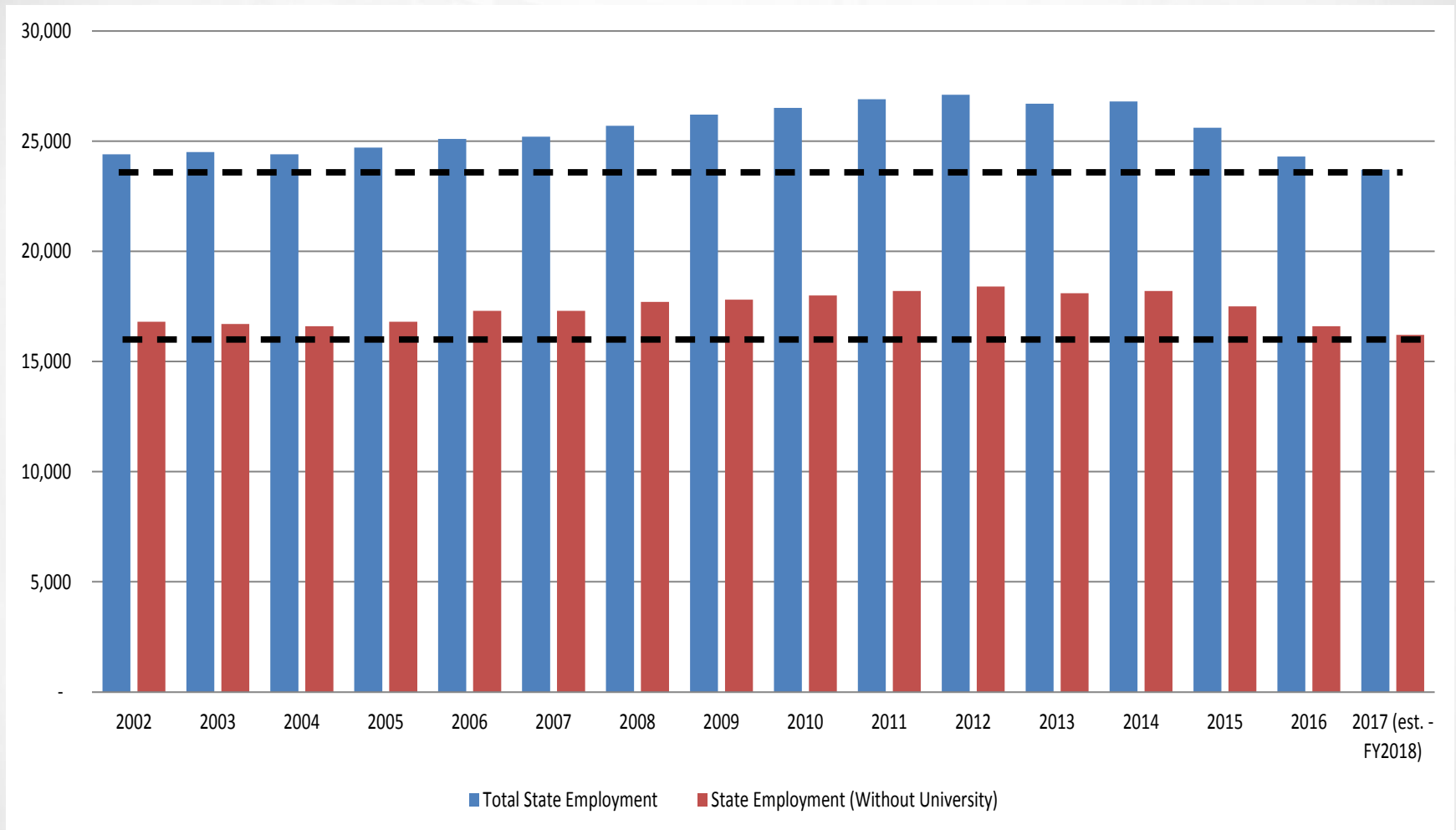
*Dollars in millions*

**TOTAL Agency: \$3.8 billion**

# Ongoing Cost Containment Efforts Continue to Reduce Spending

- 2500 fewer state employees since FY2015
- State employee savings through eliminated pay increases, furloughs, and healthcare cost passed to employees
- Executive branch travel reductions
- Reduced and consolidated leases

# FY2002 – FY2017 State Employees



Source: Department of Labor and Workforce Development

# Position Reductions

Positions Deleted since FY2015	
Executive Branch Agencies	1,252
Courts	45
University	664
Legislature	14
State Corporations	71
Marine Highways	213
<b>Total</b>	<b>2,259</b>

46% of proposed position reductions were filled as of this fiscal year in the following locations

Most of these positions will be vacated by 7/1/2017



# Ongoing Cost Containment Efforts

## Complex State Policy Considerations

- Justice Reform
- Health Care
  - Medicaid expansion
  - Medicaid reform
  - Employee health plans
  - Healthcare authority feasibility
  - Private health insurance market
- Education
  - System reform process

# Ongoing Cost Containment Efforts

## K-12 Education

K-12 UGF formula is 29% the UGF budget

K-12 UGF formula \$1.26 B

Base student allocation, in AS 14.17.470,

FY15 \$5,830

FY16 \$5,880

FY17 \$5,930

FY18 \$5,930

- From FY2017, \$6.2 million increase due to increased student counts and decrease in the Public School Trust Fund
- Education Commissioner Johnson is beginning an education system reform process

# Ongoing Cost Containment Efforts

## Reorganizations

- Shared Services
- Information Technology (IT) Consolidation
- Department of Transportation Optimize Project Delivery

# Statewide Obligations

- Oil and gas: Statutorily required amount increased to \$74 million
  - School debt reimbursement and REAA funding: Restored veto, FY2018 increase \$40 million
  - Retirement payments on behalf of municipalities and school districts: Amount is based on an actuarial rate which is predicted to grow significantly in coming years
- 
- Community assistance: Per legislation, payout has been reduced by 50% since FY2015, will continue to require a \$30 million annual appropriation to maintain current payout level
  - Maintaining private insurance viability: Keeps insurance costs low for individuals purchasing insurance through private market and enables current insurer to remain in Alaska, \$55 million

# Examples of Direct State Funding

	School Formula	Pupil Transportation	School Debt	PERS/TRS On Behalf	Community Assistance	Total
Anchorage	\$ 331.5	\$ 22.6	\$ 44.9	\$ 62.4	\$ 9.3	\$ 470.7
Mat-Su	\$ 168.3	\$ 16.9	\$ 22.8	\$ 17.0	\$ 3.3	\$ 228.3
Fairbanks	\$ 119.5	\$ 12.3	\$ 13.1	\$ 14.8	\$ 3.2	\$ 162.9
Kenai	\$ 81.1	\$ 8.1	\$ 3.1	\$ 9.7	\$ 1.8	\$ 103.8
Juneau	\$ 37.7	\$ 3.1	\$ 12.3	\$ 6.5	\$ 1.3	\$ 60.9
Nome	\$ 8.8	\$ 0.5	\$ 0.3	\$ 0.9	\$ 0.2	\$ 10.7
Bristol Bay	\$ 1.3	\$ 0.4	\$ -	\$ 1.2	\$ 0.3	\$ 3.2
Tanana	\$ 1.0	\$ 0.1	\$ -	\$ 0.1	\$ 0.1	\$ 1.3

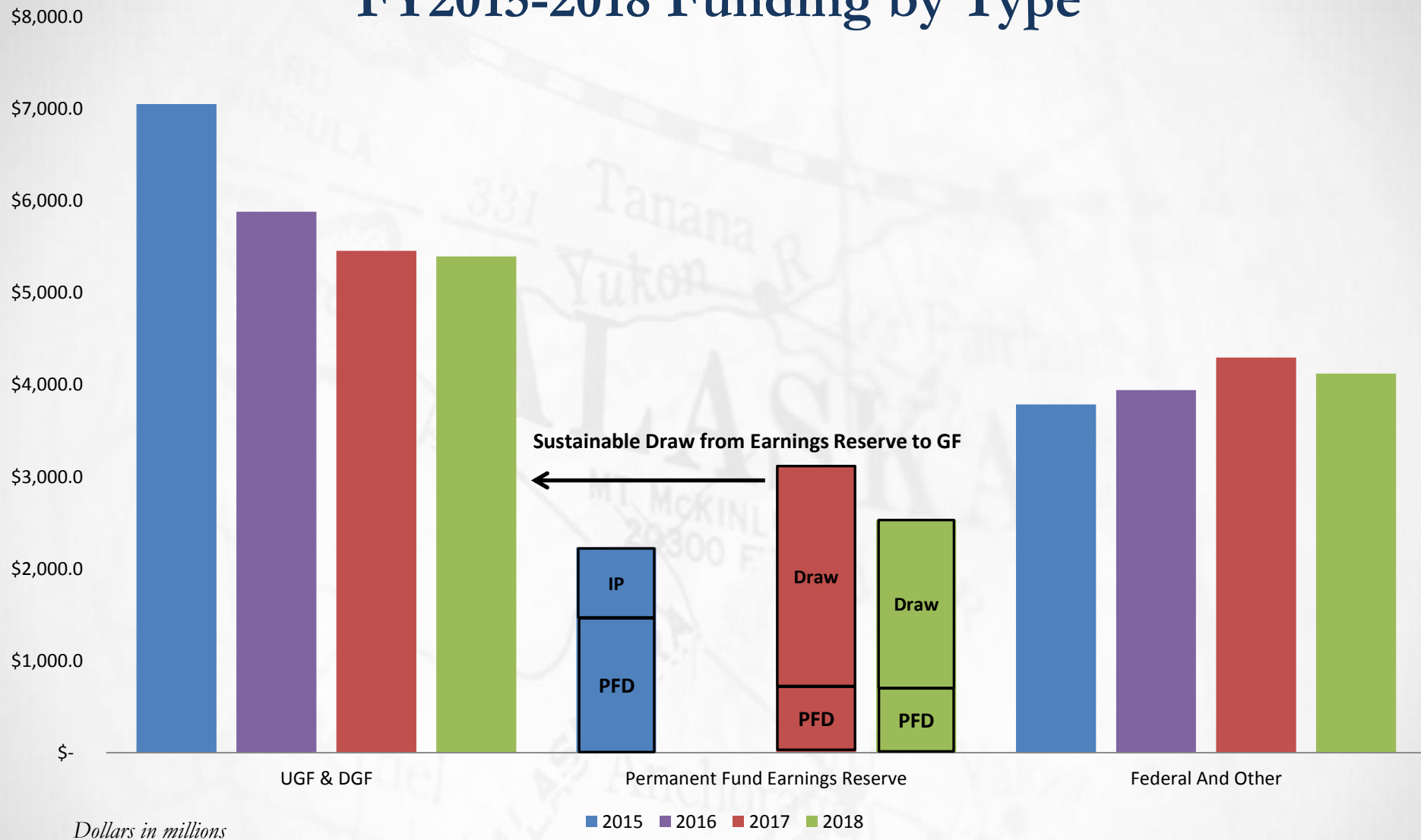
*Dollars in millions*

# Revenue Measures

## FY2018 Governors Proposal

- **Permanent Fund Protection Act**
- **Motor Fuels Tax Increase**

# FY2015-2018 Funding by Type





# Future Reserve Balances

	Governor's Plan (\$B)			Status Quo		
	FY2019	FY2022	FY2027	FY2019	FY2022	FY2027
<b>CBR Balance</b>	\$ 5.5	\$ 6.3	\$ 8.1	\$0	\$0	\$0
<b>ERA Balance</b>	\$ 8.0	\$ 8.0	\$ 8.2	\$ 9.3	\$ 2.3	\$0
<b>Permanent Fund Total</b>	\$ 57.0	\$ 61.5	\$ 69.9	\$ 56.5	\$ 53.2	\$ 43.8

- CBR/SBR savings peaked at \$16.3B in FY2013, after the last five years of deficits, an estimated \$3.8B will exist at the end June 2017.
- Governor's Plan restores CBR and begins sustainable draw on the ERA effective in FY2017.
- With PFPA and Motor Fuels tax the FY2018 CBR draw would be \$892 million.
- Governor's Plan maintains the real value of the Permanent Fund and preserves an adequate emergency balance in the CBR.
- Under status quo the CBR is empty in November 2018 and the ERA is empty in late FY2023. Permanent Fund loses value and corpus would be at risk.



# Additional Materials

- **Condensed Budget Comparison FY2015, FY2017, FY2018**
- **FY2018 Fiscal Summary**
- **OMB Home Page**
  - <https://www.omb.alaska.gov//>

For more information on the budget



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