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MONEY WATCH

Common Sense For Alaska

The cost of alcoholism to the State of Alaska



It is the policy of the state that alcoholics and intoxicated persons should not be criminally prosecuted for their consumption of

alcoholic drinks and that they should be offered treatment that will allow them to be productive members of society. A participant in a residential drug abuse or alcoholism treatment program may be paid wages for work therapy. The alcohol program may not deduct wages earned by the patient worker for the cost of room, board or services. The chart below shows how the State of Alaska is spending millions of dollars this year to ensure compliance with this policy.

Despite the State of Alaska spending over \$18 million on various Alcohol Programs throughout the state, Alaska's jails are overcrowded with people who were convicted of alcohol related or induced crimes. Are we throwing money at a problem and not really solving the problem?

Source: Alaska Statute 47.37.010 and the Summary of Appropriations FY 95

Manilaq Alcohol and Drug Abuse Services	\$983,100
Norton Sound Alcohol and Drug Abuse Services	540,000
Southeast Alaska Regional Health Corporation Alcohol and Drug Abuse	331,400
Tanana Chiefs Conference Alcohol and Drug Abuse Services	497,500
Tlingit-Haida Alcohol and Drug Abuse Services	11,900
Yukon-Kuskokwin Health Corporation Alcohol and Drug Abuse Services	959,300
Alcohol and Drug Abuse Services Statewide	15,452,000
Total	\$18,775,200

The billion dollar question

At first glance Section 103 appears to be an innocuous section in the last catch-all appropriation bill. But it isn't—it appropriates just over \$1 billion in excess Permanent Fund interest earnings to the corpus of the Fund. If approved by the Governor, this appropriation will greatly influence future budget debates.

While any action that increases the size of the Permanent Fund usually receives applause, this one is receiving mixed reviews. Indications are that the Governor is considering vetoing—or at least reducing the amount. Here are some of the arguments for and against the appropriation:

Putting the money into the Permanent Fund means it can't be spent because there is no way to spend the corpus of the Fund. For the cut-the-budget advocates, this means one less reserve fund to bridge the gap, thereby increasing pressure for budget cuts. Others say it will increase pressure for new revenues

such as taxes and or capping/eliminating the dividend as an alternative to dramatic budget cuts.

With the placement of the Permanent Fund's excess earnings into the Fund corpus (the principal) it will be easier to access the Constitutional Budget Reserve Fund (CBRF). When funds are available from the Permanent Fund's earnings reserve or other reserves, the Legislature must obtain a three-fourths vote of its members (rather than a simple majority) to access the CBRF. If the reserve funds are available, the Majority will have to negotiate with the Minority to get the required three-fourths vote. This gives the Minority tremendous power; in the last session, this "power" cost about \$25 million in increased operating budget spending. But it could also work in reverse—if a Minority insisted on budget cuts, a Majority would have to work to meet their demands.

Source: Fiscal Notes, Cheryl Frasca

Cleary Settlement



In September of 1990, the State of Alaska and prisoners reached a settlement in a case brought against the state over prison conditions. This settlement is commonly known as the Cleary Settlement and laid the groundwork for today's prison system in Alaska. Here are some of the stipulations of that agreement:

MEDICAL AND DENTAL CARE

All inmates shall be entitled to necessary medical, dental and mental health services. Services being provided to inmates include: cleaning of teeth, unlimited replacement of eye glasses, hysterectomies, and AIDS treatment. On the other hand, inmates can refuse to take a TB or a urinalysis test.

The settlement sets up required sick call days in each prison, based on the number of prisoners the institution can house. Sick call days are when qualified health care personnel are available by appointment to the inmates. For example, the Ketchikan prison has an emergency capacity of 53 prisoners; therefore, is required to staff at least three sick call days a week. The FY 95 budget authorized three full-time nurses to be funded at the Ketchikan prison at a cost of \$178,203. Not included in this number are the contractual agreements with other health care professionals such as psychiatrists or doctors.

In FY 95 the state funded 94 full time positions to deliver medical care; numerous private contracts with other health care providers also were funded. The cost of this program to the State of Alaska was \$12,001,200.

MAIL SERVICES

At its expense, the department must provide postage for up to five pieces of mail (weighing up to 2 pounds each) per week, per indigent inmate. If the packages are mailed from Juneau to Anchorage, the cost to the state could run as high as \$800 per year, per inmate. There is currently no tracking mechanism for the cost of this program.

LAW LIBRARY

The Department must ensure that

each inmate is provided regular access to a law library and legal materials within the facility. If the inmate needs materials that are not available at the law library the Department must provide this material within two weeks at no cost to the inmate. The in house law library is required to be open 7 days a week with varying operating hours. There are 13 in house law libraries in Alaska's prisons and one in Arizona for the prisoners Alaska incarcerates there with an annual maintenance cost of about \$55,000 per year. (The cost or the number of cases filed by inmates is not tracked by the Department of Corrections or the Alaska Court system.)

POST SECONDARY EDUCATION

The Department is to provide a post secondary degree program for inmates at seven facilities, along with on-site tutorial assistance and supplemental instruction if needed. The cost of administering this program is paid for by the State of Alaska while inmates are responsible for tuition, enrollment and course material costs. Inmates also are encouraged to apply for grant and student loans and receive assistance in submitting application forms. Certified vocational training also is available in these facilities.

While most of Alaska's prison educational budgets were cut last year, forcing reduced classes and long waiting lists, the Wildwood facility received a substantial increase in its education budget. Nevertheless, the education coordinator at Wildwood decided against instituting another vocational program. As of January 19, there were no waiting lists for classes at Wildwood, except one class that is offered every 3 months.

The Yukon-Kuskokwim pre-trial facility offers vocational training classes that were requested by inmates. In a recent review, the education coordinator at this facility commented that the large turnover in the inmate population makes it difficult for inmates to complete these programs. Perhaps this is why the Cleary Settlement does

not require classes to be offered at any of the pre-trial facilities.

GATE MONEY

The Department must provide at least \$150 of "gate money" upon release of an inmate, in addition to any earnings of the inmate. On April 25, 1994, the Department of Corrections estimated that \$500,000 was spent on gate money annually.

OVERCROWDING

In September of 1994, Superior Court Judge Karen Hunt found the state in contempt of the Cleary Settlement and ordered the state to pay fines for failing to reduce prison crowding. The Department of Corrections is fined \$300 for each day a prison or the statewide total prison population is over emergency capacity. From September '94 to March '95, Alaska was out of compliance 1,307 days at individual prisons and 114 days for the statewide total prison population. As of March 31, 1995, the State of Alaska was fined \$426,300.

STAFFING TO INMATE RATIO

When Alaska's prisons are at capacity the inmate to staff ratio is to be 3.5 inmates for each staff person. Whether due to overcrowding, poor management, or job stress many of Alaska's prisons have problems meeting this ratio without staff using overtime. The Mat-Su pre-trial facility overtime is on the rise and staff sick leave usage is up 20%. The Palmer facility exceeded its allotted overtime by more than 2,500 hours for the first half of FY 1995 and Spring Creek has exceeded the overtime allotment by over 1,600 hours.

A LOW COST ALTERNATIVE

Last year in Alaska the daily cost of incarceration per inmate ranged from

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Privatization of prisons

Privatization of federal, state and local prisons is growing significantly in the lower 48. The primary reason for this move is the reduced cost in housing prisoners. The State of Louisiana, for example, conducted an experiment with two prisons of equivalent size and found that the privately run prison cost 12 percent less than the government institution after one year of operation.

"Contracts with private business can also provide liability protection for city or state government."

The day to day operating cost of incarceration is not the only reason private prisons have become popular. Other considerations such as the cost of training, educational programs, construction costs and legal liability also are helping to turn the tide to private prisons.

Educational stipulations are common in private prison contracts. In many contracts, the private institu-

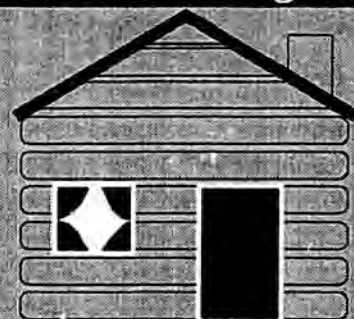
tion must provide more vocational training and educational programs than a public institution provides, but still cost 10 percent less than a comparable state-run facility.

Private prisons also eliminate the need for state or local government to issue new bonds or increase taxes. Private contracting can provide the initial financing to build the prison, while the governmental agency pays nothing until the first inmate is received into the new facility. The private company does not start generating income until the first prisoner is in the cell. This provides an incentive for a shorter construction period.

Contracts with private business can also provide liability protection for city or state government agencies. The contracting company often is responsible for ensuring the entire institutional operation, including liability coverage for civil rights violations and any legal actions filed by the prisoners.

In 1993, one private company's average annual cost to house a prisoner was less than \$15,000. The average cost to house a prisoner in Alaska currently is \$38,894.40 per year.

Second Thoughts



Do you remember the cabin in Southeast Alaska that was built by state employees, with state equipment and materials, on another public employee's land? Well, last winter the Department of Fish and Game solved the problem. The Department signed a quit-claim deed giving full ownership of the cabin to the public employee who owned the land.

Cleary settlement

Continued from page 2

\$145.84 in Ketchikan to \$81.35 in the Palmer facility.

The state has recently entered into a contract with a private prison in Arizona that will house over 200 of Alaska's criminals for less than \$62.00 a day per inmate while meeting all the requirements set out in the Cleary Settlement.

Source: Final Settlement Agreement and Order

Money Watch is published quarterly by Common Sense For Alaska
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The State's fiscal gap — It's real.

As the fiscal gap grows, it could cost your family thousands of dollars per year in taxes, just to pay for state government. Common Sense doesn't think that's what Alaskans want.

Common Sense believes we have to do something...and we have to do it now.

Please join us today! The taxes you save may be your own.

NAME _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

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Our minimum dues structure is \$25 for individuals and \$250 for businesses.

Common Sense For Alaska, Inc. is a non-profit 501(c)(4) social welfare organization. Although contributions to Common Sense are not deductible as a charitable contribution, they may be deductible as a business expense. See your accountant.

Road to welfare reform

The first step in welfare reform passed the legislature in the final hours of last year's session. Now the Governor, expressing concern over this welfare reform package, is contemplating vetoing the bill. This comes after two years of debate, numerous compromises between the legislature and the Governor, and hours of public testimony on welfare reform. The contents of the reform package include:

Loss of Licenses

Deadbeat parents would lose their occupational license and Alaska driver's license, if they are \$2,500 behind in their child support payments and/or they have not made eight child support payments in the last 12 months.

Workfare

Workfare would set up pilot programs in Alaska, requiring each member of a welfare family who is over 18 to work at least 21 hours a week at an uncompensated activity or 15 hours of compensated work.

Permanently Ineligible

If a welfare applicant has been convicted of welfare fraud in the United States, he or she becomes permanently ineligible to receive welfare benefits in Alaska.

5-Year Time Limit

A person is not eligible to receive welfare benefits for more than 60

months (5 years) in a lifetime. There are three exceptions to this rule: (1) if the person is physically or mentally unable to perform any gainful activity; (2) if the person is providing care for a child with developmental disabilities; and (3) if, removing the person from the welfare rolls would cause undue hardship. This provision not only takes the Governor's signature, but will need federal approval.

Minors with Children

A minor parent with a child would be required to live with his/her parents or in a household with an adult.

Allowable Cash On Hand

This bill would allow working welfare people to retain more of their earnings as they work toward self sufficiency.

Transportation

A welfare recipient could own a car that is valued up to \$5,000, vs. the current \$1,500 allowable value.

Two-Parent Family

This pilot program would limit most welfare benefits to two years for family units with two parents and set specific benchmarks to ready the family for self-sufficiency.

Self Employment

A welfare recipient would be required to formulate a business plan and submit it to a nonprofit business

development organization for review. If the plan is approved, the welfare recipient has a 36-month grace period to allow the business to generate income. At 12-month intervals the welfare recipient is required to submit records to a nonprofit business development organization for verification and guidance.

Diversion Payments

The State would be able to offer a lump sum payment in place of ongoing financial assistance. Lump sum payments can be applied for once in a 12-month period and would count as income if the family goes on welfare.

Is it time for welfare reform? Or do we need two more years of debate?

State revenues are perched on the edge of a steep and steady decline.

- Do we apply a meat axe approach to cutting the bureaucracy?
- Do we initiate new taxes on Alaskans to sustain state spending at its current pace?
- Or do we initiate reasonable spending cuts now to avoid imposing new burdens on Alaska's citizens?

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MONEY WATCH

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Welfare and reform: Has cost containment arrived?

Among the government reforms that are being vigorously debated across the nation is an overhaul of the welfare system. The federal government spent \$125 billion for 336 separate welfare-related programs last year; Alaska administered four major programs at a cost of \$469 million.

Congress has proposed a significant reduction in federal participation in welfare programs and has proposed, instead, that block grants be issued to the states, along with the responsibility to operate and manage welfare programs.

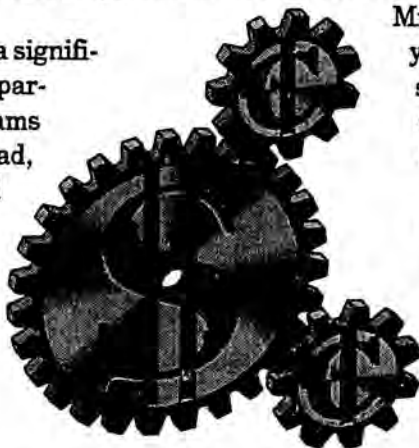
Individual states also are getting into the act

of developing reforms, most notably in Wisconsin and Michigan, where Gov. (Richard) Engler is seen as the "model and maverick" of welfare reform. After winning federal waivers, Engler eliminated general assistance welfare for childless adults in 1991;

Michigan also instituted a two-year maximum for most assistance. Ohio and Wisconsin have adopted similar reforms.

The U.S. House's "Contract with America" proposes similar action nationwide. The Personal Responsibility Act calls for reforms that would:

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Two case studies: A question of eligibility

When Michigan Gov. Richard Engler's administration eliminated general assistance welfare for childless adults in 1991, more than 83,000 individuals became ineligible for AFDC. The reform was among those budget-control strategies that overcame a \$1 billion deficit in 1990 and contributed to a \$275 million revenue surplus four years later, says the Detroit Free Press.

"Eligibility"—determining who will qualify for public assistance—lies at the core of the welfare reform debate.

Welfare Fraud and the Knixes

From state to state, a core of welfare recipients plays a game of lifelong dependency and manipulation of the system.

Take Clint Knix, for example, who worked the Alaska system for nearly two years before being convicted of welfare fraud.

Knix and his family of six arrived in Alaska from California, in 1991 where they'd been living on welfare. Within three months, the Knix family was receiving AFDC, food

stamps and Medicaid assistance from the Alaska Department of Public Assistance, after denying that they had received similar public assistance in California.

At the time they applied for welfare aid in Alaska, the Knixes said they operated a sourdough-starter business. They had two bank accounts—a personal savings and a business checking account—but reported in January 1992 that they closed the business (and the accounts).

From the time they began receiving assistance in October 1991 through May 1992, the Knix couple earned substantial income that was never reported to the State of Alaska.

After receiving public assistance for six months, the Knixes entered a lease/purchase agreement for a 1992 Chevrolet pickup truck, valued at \$21,460, and paid off the vehicle within nine months. During seven months of that period, they received welfare assistance.

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Which budget?

It's that time of year again when the newspapers are full of terms like "capital budget, supplemental appropriation, and formula programs." If

you're confused about these terms, and most of us are,



read on in this issue of Money Watch for a quick (and easy) course in not only what these terms mean, but how and why

Alaska's government gets funded every year.

The Governor's office and the Legislature struggle annually with four basic appropriation bills that add up to total state spending:

By far the largest chunk goes to the **Operating Budget**, the yearly distribution of funds covering the ongoing operations of state programs. Most of these funds support the departments of the Executive Branch, such as the Departments of Law, Administration, Commerce, and so on. However,

more than half of these expenditures are "formula programs," or entitlements governed by law to cover anyone who meets the program's criteria. These programs cannot be reduced simply by a funding cut. The School Foundation program is an example of a major formula program. School enrollments increase each year so the foundation's cost automatically increases each year.

The **Capital Budget** is a spending plan for items exceeding \$25,000 and with a lifespan of longer than one year, such as a state funded construction project.

Deficiencies in a program's funding may happen due to unexpected expenditures. **Supplemental Appropriations** can cover this unexpected spending, but the agency must be able to demonstrate that the supplemental is in the best interest of the state.

Special situations arising out of

needs for special studies, constituent requests or other purposes are covered by a **Special Appropriation** bill. These appropriations are made on a one-time basis and are not included in the calculation of the agency's base budget.

Building the Operating Budget

Getting the budget on its path to finally funding state government starts with its preparation by the Administration. Each year all departments, offices and agencies prepare their budgets for the Governor so that an allowance may be determined for each major state program. This process allows the Governor to interject his own policy "spin," or fiscal emphasis, at the beginning of the process. Final budgets reflecting the Governor's emphasis are prepared by each department and then sent on to the Office of Management and Budget for analysis and recommendations. The

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Two case studies

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Following an investigation by the Welfare Fraud Section of the Attorney General's Office, Knix admitted in February of 1993 that he received \$3,000 to \$5,000 per month from his business and had been on welfare assistance since the mid-1980s in California, Washington, Montana and Alaska.

Knix has been convicted of three Class B felonies for fraud. Under the current regulations Mr. Knix was still eligible to receive welfare after this conviction.

Under the proposed Alaskan welfare reforms, he would have been permanently ineligible for welfare payments after these convictions.

The Case of the Broken Family

Under current Medicaid regula-

tions, state welfare agencies must consider the income needs of a mother and her children, including the unborn child of a pregnant woman.

The Alaska Department of Health and Social Services uses the following scenario as an example for determining Medicaid assistance eligibility under the Medicaid program that is funded equally by the federal government and State of Alaska:

- **Sample household:** A pregnant woman, a child, and the children's natural father.
- **Marital status:** The woman is unmarried.
- **Eligibility determination:** The woman, the child and her unborn child are eligible for assistance, based on her income only. If she were married, the income of both husband and wife would be used to deter-

mine eligibility, regardless of who was the natural father of the children.

Once determined eligible, she qualifies to receive benefits throughout her pregnancy, including a 60-day post-partum period, and the newborn infant is covered for up to one year after birth, without regard to changes in her family income. If she decides to terminate her pregnancy, Medicaid will pay the cost of transportation, lodging and meals for her and a friend to the location of the doctor performing the termination.



Welfare and reform

Continued from page 1

"Discourage illegitimacy and teen pregnancy by prohibiting welfare to minor mothers and denying increased AFDC for additional children while on welfare, cut spending for welfare programs, and enact a tough two-years-and-out provision with work requirements to promote individual responsibility."

Increasingly, reforms are being tied to the concept of "workfare"—requiring those able to either work, attend school, enter a job training program, or perform volunteer community work for 20 hours per month, for example, as a condition to receiving welfare assistance. Further, as Engler has grappled with the system, he has urged Capitol Hill to adopt his state's approach, such as offering child care and transportation assistance to encourage the return to the workplace, providing work incentives, and increasing the amount of money a welfare recipient may earn without losing benefits.

Alaska's legislature may be joining the reformers this year. SB 98, introduced in the Senate in February, would overhaul Aid to Families with Dependent Children (AFDC). Among other

provisions statewide, it would reduce levels for AFDC by 7%, establish a 30-day residency requirement to receive AFDC, and require teen parents to live in adult-supervised arrangements to qualify for AFDC.

Under SB 98, called the "Personal Responsibility Act of 1995," the State of Alaska would request a federal waiver to create a trial program to implement a broad range of reforms. (See box).

Meanwhile, House Bill 78 would provide incentives for work. Waivers would be requested from the federal government for a trial program that would increase the limit on the number of hours a welfare recipient could work without losing all eligibility for assistance, and remove some of the penalty for other income in the family. It would also increase the allowable value of a car to \$5,000 and puts into place a time limit on some welfare benefits.

Gov. Tony Knowles also has proposed revisions to welfare statutes. His program emphasizes employment training and self-sufficiency related services and requires community work activities. He also would cap the number of years an individual could re-

Provisions of SB 98

- Places a 5-year limit on most AFDC payments.
- Sets a 2-year time limit for AFDC payments for recipients assigned to a JOBS program, workfare activity, or job placement track.
- Imposes a penalty for failure to keep an AFDC child in school or quitting a job held at the time a person applied for AFDC.
- Prohibits AFDC for additional children after the first birth if parent was receiving assistance.
- Restricts AFDC and adult public assistance to U.S. citizens.
- Establishes a workfare program.
- Individuals convicted of welfare fraud in any jurisdiction would be permanently ineligible for Alaska AFDC or adult public assistance.

main on AFDC and restrict AFDC participation for recipients who are under 18 to remain with their parents or a secure environment.

Coupled with state block grants, reforms such as those being considered in Washington are intended to cut federal costs. If federal welfare reform becomes law, the states will have the opportunity to enact their own reforms, without the necessity to seek waivers for reform initiatives.

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As the fiscal gap grows, it could cost your family thousands of dollars per year in taxes, just to pay for state government.

Common Sense doesn't think that's what Alaskans want.

Common Sense believes we have to do something...and we have to do it now.

Please join us today! The taxes you save may be your own.

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Which budget?

Continued from page 2

budget is further scrutinized in the Governor's office by the Budget Review Committee before being submitted as an appropriation bill to the legislature in early January.

The legislative review process of the appropriation bill formally begins with assignment of the bill to the House Finance Committee. Subcommittees are formed to hold hearings by department so that public testimony may be heard, and affording department heads the opportunity to appear and defend their budget requests. To speed up the process, the Senate Finance Committee conducts concurrent hearings. Budget realignments as a result of these hearings are reflected as amendments by the House Finance Committee. This substitute bill is forwarded to the House floor for a vote. After passage, the bill is sent over to the Senate for its formal action.

The entire budget process is a source of much wrangling and horse trading both in and out of the public view.

Meanwhile, the Senate Finance Committee completes its analysis and prepares a Senate Committee version

of the bill, which is sent to the Senate floor for a vote. Since the budget process is highly politicized, it is very time consuming. For efficiency, three members each from the House and Senate are appointed to review both House and Senate versions of the substitute appropriation bill. This Conference Committee works out the differences between the two bills and sends its committee substitute bill to the floor of both houses for passage.

After passage, it is forwarded to the Governor, who has four options:

- Sign it in its entirety;
- Veto the entire bill and send it back to the Legislature;
- Let the bill become law without his signature; or
- Use the line item veto to reduce the bill and then sign it into law. The line item veto is a central feature of the system of checks and balances in the appropriation bill. It gives the governor a major role in limiting state spending.

After becoming law, the Office of Management and Budget forwards the final version of the bill to the corresponding departments which are charged with living within the funding levels provided. Each fiscal year begins July 1.

State revenues are perched on the edge of a steep and steady decline.

- Do we apply a meat axe approach to cutting the bureaucracy?
- Do we initiate new taxes on Alaskans to sustain state spending at its current pace?
- Or do we initiate reasonable spending cuts now to avoid imposing new burdens on Alaska's citizens?

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MONEY WATCH

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Personnel services consume 30% of the operating budget

Public employees cost Alaska one billion dollars in 1993

Personnel services for state government consumed over \$1 billion dollars last year. This is the largest single operating cost of state government.

To negotiate this billion dollar investment, the state has a 12-member Labor Relations Section. On the other side of the table, seven major and four minor employee bargaining units have 42 management and technical staff available to them. Nine of the eleven unions also have the benefit of the union business leave bank, for which members receive pay and benefits while on bona fide union business.

Common Sense for Alaska supports fair wages and benefits for state employees, but believes there must be a balance between the needs of the public and the demands of the public sector unions. Here are just a few of the benefits public servants receive:

Paid time off

After working for the state for one year a public servant receives from 7.2 weeks to 9.7 weeks time off with pay. An employee with 10 years of service to the state receives a minimum of 9.6 weeks to over 20 weeks of time off with pay. (Total time off with pay includes all sick



leave, holidays and vacation or annual leave time).

Work weeks

The normal work week for six of the eleven state unions is only 37.5 hour week. The equivalent of 662 full time jobs could be eliminated if the work week was converted to a 40 hour work week for the current 10,607 members.

A recent salary survey compared State of Alaska employees to employees in the private sector of Alaska, Municipality of Anchorage, Federal government, and the states of Washington, California and Oregon. The survey found that state employees were the only employees who received overtime after a scheduled 37.5-hour work week, according to a salary survey compiled by the Alaska Department of Labor.

Continued on back page

\$100 doesn't go far, or does it?

Each \$100 increase in the benefit package per employee for the General Government Unit (GGU) Employees Union contract costs the state almost \$1 million dollars per year.

The GGU represented over 8,450 public servants last year, costing the State over \$429 million. Workweeks of 37.5 hours, yearly merit increases, and legal trust funds are a large percentage of the GGU benefit package.

The GGU's normal workweek consists of 37.5 hours, at which time overtime begins at the rate of 1.5 times the employee's hourly rate. The difference between a 37.5 hour workweek and a 40 hour workweek for a work force of

Continued on page 2

Monthly salaries and benefits for six public servants.

Juneau	Governor	Gov's Office	\$8,625.66
Anchorage	Aircraft Pilot I	Public Safety	\$8,721.83
Fairbanks	Attorney IV	Law	\$9,921.41
Kodiak	State Trooper	Public Safety	\$12,332.17
Anchorage	Staff Psychiatrist	Health & Social Services	\$12,735.33
Anchorage	Director	Health & Social Services	\$14,494.16

This information is not available for the Legislative and Judicial Branch or the Ferry System. Source: OMB

How much is too much?

The 66 state employees in the Inland Boatmen's Union (IBU) cost the state over \$29 million last year, 70 percent of which were personnel benefit costs. Take the time to compare your bonuses, work schedule, and health insurance to the benefits IBU members currently receive:

- Cash bonuses provided by the state include the Absentee Control Incentive Program (or cash-in of sick leave) and the vacation cash-in program. These two programs enable employees to receive up to 204 times their hourly rate per year.

- IBU members receive an annual pass for passage on the Alaska Marine Highway System for the member (current or retired), member's dependents, and personally-owned vehicle after the member has received pay for one week a month for two years.

- The IBU work schedule is one 84-hour work week on duty (seven consecutive days) and one week off duty (seven consecutive days). A full time employee with 10 years of service to the state working fifteen 84-hour work weeks per year is eligible for fifteen weeks off duty without pay and over 21 weeks off duty with pay. This includes vacation, sick leave, and holiday time.

- The IBU health insurance package includes general health, vision, dental, prescription drugs; marriage counseling, parent/child relationship counseling, financial counseling; depression, managed mental health, treatment of obesity and substance abuse counseling, at a cost to the state of \$5,082 per year, per employee. The deductible for this insurance is \$250 per union member and \$500 for family members.

- The IBU employees are the only state employees who receive full-time health and leave benefits for part-time work. How much is too much?

WHO SENDS THE MONEY?



This year, Alaska state government is funded until March 14 by:

non-oil corporate taxes	insurance premium taxes
alcohol taxes	gaming taxes
aviation fuel taxes	estate taxes
highway fuel taxes	gravel sales
marine fuel taxes	timber sales
tobacco taxes	airport fees
business license taxes	ferry system fees
fish taxes	court system fines

The other 292 days are funded by oil money.

How many new taxes will our elected officials add to this list as oil revenues continue to decline? Now is the time for responsible fiscal planning.

State revenues are perched on the edge of a steep and steady decline, yet spending has continued to increase.



- Do we apply a meat axe approach to cutting the bureaucracy?
- Do we initiate new taxes on Alaskans to sustain state spending at its frantic pace?
- Or do we initiate reasonable spending cuts now to avoid imposing new burdens on Alaska's private sector?

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\$100 doesn't go far

Continued from page 1

7,732 employees is 19,330 hours or the equivalent of 483 full time jobs.

Yearly increases in wages are based on merit and cost of living increases. Theoretically, merit increases are awarded if an employee receives a performance evaluation of acceptable or better and has demonstrated a progressively greater value to the state.

In reality, for example, an arbitrator found that an employee who was on approved sick leave for almost six months of the rating period (1 year) must be considered for an merit increase. In the vast majority of instances, the fact that an employee has reached the merit anniversary date (1 year of service) means that the "duration" aspect of progressively more valuable service has been satisfied.

A merit increase ranges from 2.5 percent to 7.3 percent per year. Add to that a cost of living increase of 3.57 percent: GGU members received 6.07 percent to 10.87 percent in wage increases last year. More than 94 percent of GGU members received both types of pay increases.

GGU members also have the benefit of a legal trust fund that may be used for child custody matters, buying a home, will preparation, preparing a trust and numerous other personal legal matters. The employer (the State) has no voice in the amount or type of service provided by the trust. With 8,450, members the cost to the State of Alaska of the Legal Trust is \$807,000 per year.

Government is not driven by supply and demand as in the private sector. Private business reduces the work force, becomes more efficient, increases productivity and becomes more competitive when times are hard. In the private sector, guaranteed work schedules and wage increases are a function of the profit margin and benefits such as legal trust funds are virtually unknown. Perhaps it is time for Alaska's biggest business, State Government, to look at Alaska's smaller businesses for the answers to its fiscal problems.

Is the gap an illusion?

While it may seem like a cliché by now, nothing is more fundamental to Common Sense's thinking than the certainty of an Alaska fiscal gap crisis.

It's just a question of when.

So why does the legislature not act on what seems so obvious to so many? Looking at recent state spending and revenues one might think that there is no problem. (See chart).

This chart has an expenditure bar and a revenue bar for each of five fiscal years. The spending bar is broken into operating, "normal" capital, and "special" capital funds. And even though capital appropriations are considered as one time expenditures only, more than \$300 million has been treated as a regular budget expense over the past few years. Thus "special" capital is for those projects that are probably one-time only: in 1994 the \$275 million in school construction falls into the special category.

The revenue bar is also made up of three parts: yearly revenue from taxes and royalties, carry forward and settlement dollars, and savings accounts. Since Alaska cannot print money, the revenue bar must always appear to be higher than the expenditure bar.

One might look at this chart and think that things don't look as bad as Common Sense seems to portray. Spending is less than total revenues, and so it would seem that the state is not having to borrow money to pay its bills. Further, operating budgets seem flat and are close to ongoing revenues. But if you look carefully at this chart, knowing that oil production is declining, things look very ominous, indeed.

In 1990, the state had enough yearly income to cover all of its expenses. With the higher oil prices resulting from the gulf war, the picture seemed even brighter in 1991. But for the last three years, revenues have been much lower and the state has systematically been spending its savings to fund the capital budget. In a sense, Alaska has been making withdrawals from its savings accounts that could be used in the future to run government when the oil revenues fall short. Unless prices rebound, the legislature will, in 1995, have to start turning over more and more rocks to find the money needed to feed its burgeoning bureaucracy.

Is the fiscal gap a delusion? No it isn't. It's just a question of how long the state can spend its savings while leading us to the inevitable crash when the money runs out.

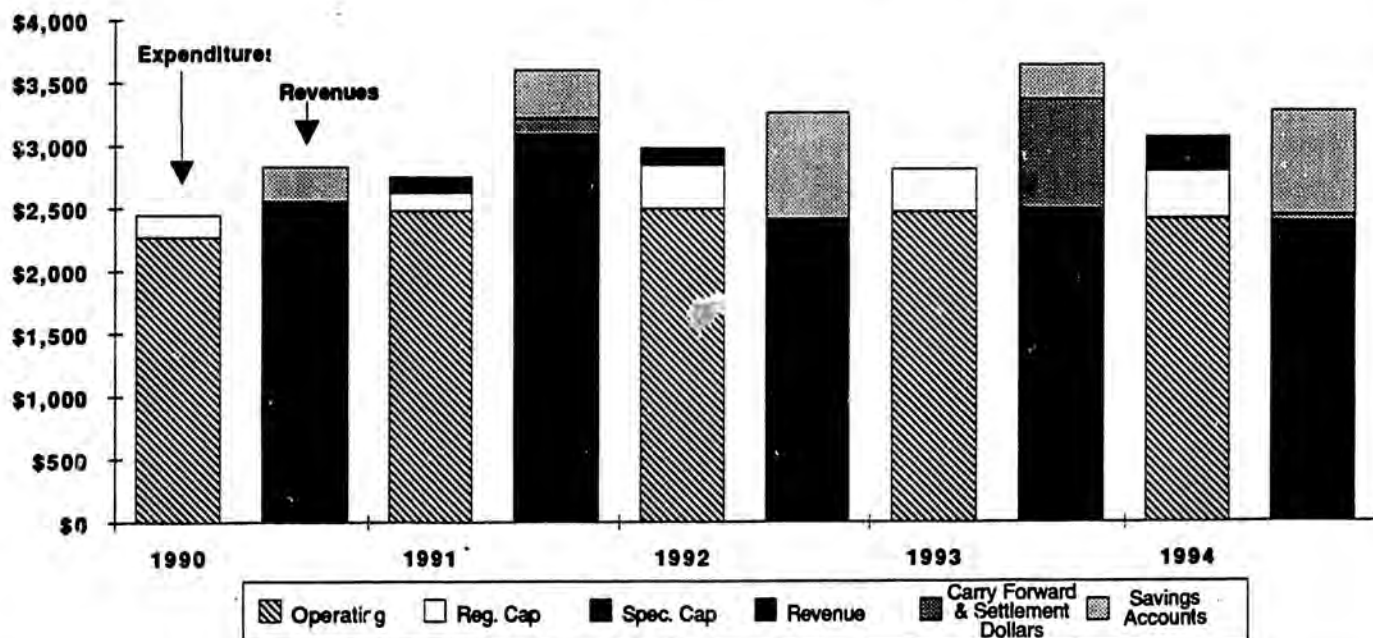
WHAT IS THE CONSTITUTIONAL BUDGET RESERVE?

The Constitutional Budget Reserve fund is to be a depository for certain money the state receives from mineral revenue lawsuits or administrative disputes. It was touted as the first step Alaskans could take to effectively control state spending and a major step towards a long-term spending plan for the state. It was placed on the November 1990 ballot and was passed statewide by a 2:1 margin. Appropriations from the budget reserve requires a three-quarters vote by both branches of the Legislative body. And all money spent from the Constitutional Budget Reserve fund must be returned to the fund.

In April 1992, the Alaska Attorney General released an opinion that allowed the administration to deposit into the general fund proceeds of certain tax and mineral revenue disputes.

Common Sense for Alaska supports the two lawsuits that the Senate majority and former Gov. Steve Cowper have brought against the administration.

Alaska Spending and Revenue



The State's fiscal gap. It's real.

As the fiscal gap grows, it could cost your family thousands of dollars per year in taxes, just to pay for state government. Common Sense doesn't think that's what Alaskans want.

Common Sense believes we have to do something...and we have to do it now.

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Public employees

Continued from page 1

Cash Bonus

All eleven unions have provisions for cash bonuses; allowing members to cash in vacation and/or sick leave. Payments range from 5 days to 4.8 weeks of the member's daily wages. In addition to this, two unions receive annual payments of 84 hours of their hourly rate per year after seven years of service to the state. In demonstrated hardship cases, the employer may authorize payment for accrued but unused annual/vacation leave in excess of the standard payment.

In light of the current fiscal problems state government is undergoing, how much longer can we afford these types of benefits? Are you willing to pay additional taxes to provide them?

WASTE STOPPERS?**Alaska searches for the perfect pine cone**

On January 24, 1991, Governor Hickel announced the 'Waste Stoppers' 800 phone line. The phone line was set up to reward Alaskans who found ways to reduce spending in state government.

On June 1, 1992, caller number 573 reported "massive waste" in the state fire suppression program, specifically in the Delta Junction office. The caller said the Forestry Office used a helicopter to drop employees to pick pine cones.

Response by the State was as follows, "The helicopter used in 1990 for pine cone harvest was obtained through normal procurement which included solicitations from eight helicopter aviation companies...as part of the Division of Forestry's reforestation program. The project was accomplished in four days using only 21 hours of the 35 hours of flight time ordered."

This suggestion was deemed "not a problem" by the administration.

Source: OMB Waste Stopper Hotline Program Report, page 18

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MONEY WATCH

Common Sense For Alaska

Territorial benefit

Pioneers Homes: \$30 million in costs

The first Pioneers Home was established in Sitka in 1913 for "indigent prospectors and others who have spent their years in Alaska." In 1957 the doors of the homes were opened to women and Native Alaskans. Currently there are six state-supported Pioneers Homes which offer a comfortable, secure home for a maximum of 605 residents.

There are numerous differences between long-term care facilities in the private sector and the Pioneers Homes. Perhaps the most notable difference is that 85% of the cost of operating the Pioneers Homes is funded by the state. In private nursing homes, the patients are required to pay the full cost of care until the patients' resources are depleted, at which point they typically can qualify for Medicaid. The state and federal government jointly bear the cost of care for Medicaid recipients.

The Alaska Department of Administration conducted a cost-benefit analysis addressing Pioneers Homes operation as it relates to federal Medicaid certification requirements. Among its findings:

DISCRIMINATION

The Pioneers Homes would be unable to receive Medicaid certification from the federal Office of Civil Rights, because our Pioneers Home regulations require a 15 year continued residency in Alaska.

This issue was addressed in 1992 by Palmer Superior Court Judge Beverly Cutler, who ruled in the case of one applicant that "the residency requirement for admission to an

Alaska Pioneers Home is unconstitutional under the equal protection clause of the United States and Alaska Constitution."

The state of Alaska was expected to adopt emergency regulations in early December which reduce the residency requirements from 15 years to one year for admission. These regulations will be in place in early 1994.

COST OF CARE

To qualify for Medicaid, the Pioneers Homes would have to adopt a fee-for-services structure based on the full cost of care and on the financial resources of the patients.

Within the Pioneers Homes there are three care levels: residential care; assisted living care; and nursing care. Residential care, which is similar to apartment living, costs the state \$1,900 per month per resident while the financially able resident pays \$600 monthly. Assisted living care residents receive help with two or more activities daily, costing the state \$3,000 monthly per resident, while the financially able assisted living resident pays \$700 per month. Nursing care residents require 24 hour care supervised by registered nurses, costing the state \$7,500 monthly per resident, while the financially able resident pays only \$880 per month.

More than 80 percent of all patients in Alaska's nursing homes have their bills paid by the State of Alaska and the federal government through the Medicaid program. In FY 93, the State of Alaska spent approximately \$18,499,910* on 3,441 Medicaid recipients

Continued on page 2

93 weeks or \$129,392

As of November 4, 1993 there were 105 public employees who had accrued more than 34 weeks of vacation time for a total of 4,954 weeks which has a cash value of \$6,931,758.12. State employees have a right to be paid the full cash value of accrued vacation time upon termination.

Cash value is determined by multiplying accrued vacation hours by the employee's hourly rate for a cash payment. The 10 employees with the highest hourly accumulation are listed in the box to the right.

Vacation or cash

	Vacation Weeks	Cash Value
1. Coroner/Public Admin. II	93 wks.	\$129,392.38
2. Fisheries Scientist	83 wks.	\$120,251.16
3. Division Director	80 wks.	\$142,847.69
4. Building Maint. Manager	69 wks.	\$106,753.42
5. Analyst/Programmer	68 wks.	\$98,021.52
6. Special Projects Coord.	66 wks.	\$107,212.00
7. Dep. Commissioner	66 wks.	\$107,031.26
8. Administrative Off II	65 wks.	\$79,887.16
9. Engineer IV	65 wks.	\$112,801.15
10. Committing Magistrate	65 wks.	\$91,075.30

Public employees and the Pioneers Homes

According to Governor Hickel's Organizational Efficiency Task Force Summary Report, approximately \$1 million annually could be saved through the privatization of some of the services provided in the Pioneers Homes throughout the state, as has been done for food services, janitorial services and maintenance services in the Juneau Pioneers Home, resulting in a need for fewer state employees. The Task Force suggestion was rejected by the

Division of Pioneers Benefits, citing that it was not cost effective at present.

Over 80 percent of the budget for the Pioneers Homes is personnel cost. This does not include personnel costs currently incurred in contracted services. The Pioneers Homes employees are represented by three public service unions.

Sources: Governor Hickel's Organizational Efficiency Task Force Summary Report, Summary of Appropriations FY92.

Total Beds vs. Public Employees

Total Beds Occupied in October 1993

	Residential	Assisted Living	Nursing	Total Beds Occupied	Total beds Vacant	Total budgeted full/part time employees
Sitka	38	17	29	84	27	90/18
Fairbanks	37	25	32	94	6	82/20
Palmer	20	30	27	77	5	74/31
Anchorage	102	22	84	208	13	157/43
Ketchikan	5	18	17	40	2	42/22
Juneau	12	10	21	43	6	*31/14
	214	122	210	546	59	476/148

Note that the total number of Pioneers Home employees exceeds the number of beds occupied, with the exception of the Anchorage Pioneers Home.

*Food services, janitorial services and maintenance services in the Juneau Pioneers Home are contracted out.

Pioneers Homes

Continued from page 1

over the age of 65; of this, 816 recipients received care in a nursing home at a total cost of \$15,493,063**. The State of Alaska spent an additional \$30,392,800*** to operate Pioneers' Homes, which cared for 644 older Alaskans.

There are currently 293 Alaskans on the waiting list for the Pioneers Homes and 142 vacant beds in private care facilities throughout the state.

*average per recipient cost of \$5,376

**average per recipient cost of \$18,986

***average per recipient cost of \$47,193

Source: Alaska Pioneers Homes System, Revenue & Expenditures Alternatives, Applicant for admission to the Pioneers Homes, Alaska Medicaid Management Information System Report #MR-0-42-SF4, Alaska Pioneers' Home Occupancy Report.

A look back

The Institute of Social and Economic Research (ISER) has released a November publication entitled, *What We Learned About Alaska's Finances: Findings 1989-1992*. Dr. Scott Goldsmith, the principal author, is an economist with 17 years experience analyzing state finances. One of his conclusions is: "Alaska's state government and economy are in danger because they both rely so heavily on state oil revenue." As someone interested in Common Sense, you will find the publication insightful and timely. For more information call ISER at 786-7710.

State revenues are perched on the edge of a steep and steady decline, yet spending has continued to increase.

- Do we apply a meat axe approach to cutting the bureaucracy?
- Do we initiate new taxes on Alaskans to sustain state spending at its frantic pace?
- Or do we initiate reasonable spending cuts now to avoid imposing new burdens on Alaska's private sector?

If you have an idea for Common Sense For Alaska Newsletter, contact Kym Swift at (907) 276-7648

Efficiency report?

Governor Hickel established the Organizational Efficiency Task Force to investigate cost and operational efficiencies in state government. Here are just a few of the results reported in the Organizational Efficiency Task Force Implementation Progress Report.

Suggestion:	Simplify contracts
Implementation	
Status:	Declined
Comments:	Not considered practical
Suggestion:	The Task Force identified numerous supervisory positions responsible for only two or three individuals; therefore they recommended that all redundant supervisory positions should be downgraded to the highest non-supervisory level, and every effort made to retain the technical skills of present personnel.
Estimated Saving:	Not stated in report
Implementation	
Status:	Declined
Comments:	None reported
Suggestion:	Efforts to privatize the activities of the Alaska Tourism Marketing Council and the Alaska Seafood Marketing Institute should continue.
Estimated Saving:	\$12,000,000 annually
Implementation	
Status:	Declined
Comments:	None reported

Source: Governor Hickel's Efficiency Task Force Implementation Progress Report

A NEGATIVE BALANCE?

While Alaska was still at the peak of oil production, the legislature had the foresight to set up the "470 Fund," a cash reserve for the clean-up of accidental discharges of oil or hazardous substances in Alaska. In 1989, in the wake of the *Exxon Valdez* accident, the statute governing the fund was amended 10 times. Five of the amendments expanded the purposes of the fund and one established a .05¢ per barrel tax on oil. This tax was to be suspended when the spill fund balance reached \$50 million and reimposed when the spill fund balance was below \$50 million.

As of August 20, 1993 more than \$109 million in taxes had been collected and deposited into the oil spill fund; yet, the fund had a negative \$8 million balance.

Money from the 470 Fund has been used for cleaning up state campgrounds, state airports, privately owned greenhouses, and for purchasing new ferries. These are important concerns, but they are not oil spill emergencies. Gov. Walter Hickel's Efficiency Task Force Report has indicated that the liberal use of the 470 Fund appears to have created a pool for operating cash, for the Department of Environmental Conservation rather than being used as it was intended.

As oil production and state revenues continue to decline, the state needs to closely review the present policy on the use of these funds.

Sources: Governor Hickel's Organizational Efficiency Task Force: Summary Report; Department of Administration

THE COMING YEAR

Jan. 10	First day of Legislative session
May 10	The 121st day of Legislative session
June 1	Last day to file for the general election
Aug. 23	Primary for the general election
Sept. 24	Last day to file as a non-partison person in general election
Nov. 8	The general election

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COMMENTS: _____

Checked your oil lately?

It appears the budget is out of line with reality. More than 80% of state revenue is based on the price and amount of oil produced in Alaska. The budget for FY 1994 is based on a barrel of oil selling for \$18.25. For the first five months of FY 1994 the cumulative average for a barrel of oil was \$15.19. For each \$1 decrease in the price of oil the state "loses" \$130 million.



Another component of the forecast is the amount of oil being produced. This year's budget was based on pipeline throughput of 1.746 million barrels of oil per day. Currently the amount of oil traveling down the pipeline is 1.572 million barrels per day. For each percentage point the throughput drops the state "loses" another \$17 million per year.

As of December 6, 1993, the State of Alaska overestimated its projected oil-based revenues by \$400 million.

Source: Oil and Gas Audit Division, Department of Revenue

WASTE STOPPERS?

On January 21, 1992 caller number 614 suggested that all state agencies be required to use "Zip+4" for bulk mailings with a cost saving of 4.8 cents per item mailed. In response, the central mailroom requested and received approval for equipment which can read a nine digit zip code and then sort the mail for bulk mailings. Currently, this equipment is used only by the Longevity Bonus Program. To date, other state agencies that deliver mail to the central mailroom do not use a nine digit zip code and therefore continue to mail at the higher rate for bulk mailings.



Source: OMB, Waste Stoppers Hotline Report, Hotline Program Report.

Appropriation limit

Over the years many states, including Alaska, have established limitations on state government spending, either through independent action on the part of legislatures or in response to constituent demands or initiatives.

In 1982 an amendment to the Alaska Constitution was adopted which put a cap on state appropriations. Constituent desire for restraint in state spending was further reinforced by the Alaska voters in their reaffirmation of the amendment in the 1986 general election.

In fact, Alaska's spending cap has never restrained state spending. The constitutional spending limit is based on the 1982 revenue year, which historically was the peak of oil-boom revenues at \$2.5 billion. State revenues have never since exceeded this level.

Due to the structuring of the Alaska budget cap in 1982 and the changes which have occurred in the Alaska economy, the current constitutional provision is not an effective method for limiting government spending. Given current projections for future state revenues, it is unlikely it ever will be.

Perhaps it is time to revisit this issue and adopt a meaningful appropriation limit that would reflect Alaska's current revenue stream.

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Highway work fails tests; no costs recovered by state

During the winter of 1991-1992, the Glenn Highway from Muldoon Road to Hiland Road experienced rapid deterioration of the road surface. DOT/PF decided to perform the repaving work in-house, instead of issuing bid requests for the work. Standing material and supply contracts were used to provide the asphalt, paving equipment, and crews.

The direct cost of the project totalled approximately \$1.15 million and was paid from FY 92 and FY 93 deferred maintenance funds and FY 93 operating funds. The asphalt supply contractor received \$760,500 of that total.

Alaska Statute 19.10.170 allows the de-



Continued on page 3

Proposed Budget

The goal of Governor Hickel's FY 95 operating budget is to maintain an acceptable level of state services to the public, while Alaskans and our elected officials cope with the long term problem of falling revenues. Here are a few of the proposed budget increases:

	FY 94	FY 95 (Proposed Budget)	Percent Increase
Department of Corrections			
Office of the Commissioner	\$888,200	\$1,180,100	32.9%
Department of Education			
Special Project	0.00	\$85,000	100.0%
Boarding Home Grants	\$230,000	\$355,000	54.3%
Department of Health & Social Services			
Alaska Work Programs	\$2,185,000	\$2,491,800	14.0%
Department of Labor			
Alaska Work Programs	\$153,200	\$401,400	162.0%
Department of Transportation			
Commissioner's Office	\$485,100	\$560,100	15.5%
Engineering Management	\$935,700	\$1,251,000	33.7%
Statewide Engineering	\$1,453,800	\$1,474,300	1.4%
Leasing and Property Management	\$536,000	\$571,500	6.6%
Leasing and Property Management	\$470,400	\$572,900	21.8%
Engineering Management	\$916,200	\$1,002,900	9.5%
Engineering Management	\$651,000	\$739,100	13.5%
University of Alaska			
Statewide Services	\$6,429,000	\$9,901,100	54.0%
Department of Health & Social Services			
Medicaid State Programs	\$1,663,300	\$2,081,700	25.2%
Child Care Benefits	\$1,574,600	\$2,094,200	33.0%

Source: Office of Management and Budget Review, Operating Budget, No Federal Funds

Is Alaska providing "Ivy League" education?

The Department of Education's budget is developed on the basis of a series of factors, including the average number of students in school, the ability of a city or borough within the school district to contribute, the Alaska Native Claims Settlement Act, and other state and federal programs, with additional funding for vocational, special education, and the gifted/talented. The budget then is adjusted by the area cost of living. The school districts listed at the right had the highest per student cost in FY 1992.

In FY 1992, there were 28 students in the Aleutian Region School District, nine students at the Nikolski school and 19 at the Atka school. Operating expenditures for the categories of administration, operation & maintenance, and "other" expenses consumed 62.6% of the total budget, of which 83.9% was state funded. The pupil to instructional staff ratio was 4.1:1.

The North Slope School District had a total enrollment of 1,735 students, attending 9 area schools. The largest portion of this district's revenues is from local support (59.2%), which is nearly double the local support of the

Alaska School Districts	Cost to AK per year per student
Aleutian Region	\$27,896
North Slope	\$21,854
Saint Mary's	\$20,728
Lake & Peninsula	\$19,874
Southwest Region	\$16,663

Anchorage School District. There was a 6.7:1 pupil to instructional staff ratio.

In the Saint Mary's School District there were 128 students enrolled in either Andreafski High School or Elicarvicuar Elementary School. The average salary of the central office staff was \$85,650 per year and for teachers it was \$40,415 per year. There was a 5.9:1 pupil to instructional staff ratio.

Ivy League Colleges	Tuition per year per student
Princeton University	\$17,750
Yale University	\$17,500
Dartmouth College	\$17,334
Harvard University	\$16,454
Stanford University	\$14,280

The Lake and Peninsula School District, for FY 92, had a total enrollment of 522 students. There were 30 instructional buildings and 42 "other buildings" for a pupil to building ratio of 7.3:1. The student to instructional staff ratio was 6.3:1.

There were 9 schools in the Southwest Region School District, which had a total enrollment of 475 students. Enrollment ranged from a low of 2 students at Aleknagik South Shore school, to a high of 151 students at the Togiak school.

In FY 1992, the smallest school district in Alaska was the Aleutian Region District with only 2 schools and 28 students. Statewide there were a total of 56 schools with fewer than 20 students, of which 21 schools had 10 or fewer students. The highest central office staff average salary was \$98,591 per year. There are currently 54 school districts in Alaska.

Source: Profiles of Alaska's Public School Districts, March 1993.

Wisconsin adopts welfare reform

In the State of Wisconsin, a two-tier welfare system will be implemented on July 1, 1994. For the first six months that a new welfare recipient resides there, AFDC benefits would be paid at the same level as that person received prior to moving to Wisconsin, regardless of whether that rate is higher or lower than Wisconsin's. The federal waivers to implement the program were approved on July 27, 1992; the Wisconsin Legislature approved the project on May 20, 1992. This program is designed to stop the immigration from other states which pay lower AFDC payments.

Alaska is currently paying recipients \$1,055 per month in AFDC payments, the highest in the nation. According to the 1993 statistics from the Bureau of the Census, the number of AFDC recipients has grown 600% faster than Alaska's total population.

Are we attracting people here just for the welfare payments? Is this Wisconsin solution one Alaska should adopt?

Source: Gov. Thompson, State of Wisconsin and Bureau of Census

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• Highway work fails test

Continued from page 1

partment to perform construction projects in-house only if the commissioner has determined that it would be in the best interest of the state and that the costs would be less than a bid contract. This written determination was not made for the Glenn Highway repaving project.

Samples of the asphalt used on the highway failed 11 of 13 laboratory tests. However, the department failed to notify the asphalt supplier with the results of the tests. Nor did DOT/PF request him to correct the mix and bring it into conformance with the mix specifications.

Quality controls were designed to ensure that the state receives the product that is bought and paid for. Nevertheless, without the appropriate follow-through, there is little reason to perform the tests. The State did not receive the materials it ordered and, because of the lack of follow-through, little benefit was received from the \$6,000 spent on testing the asphalt samples.

Generally, on bid contracts, discrepancies of this magnitude are resolved through a price adjustment to the amount paid the contractor. However, supply contracts do not include a provision for price adjustment. Price adjustment estimates obtained from the Materials Laboratory disclosed that the adjustment would have been between \$25,000 and \$50,000 if a private contractor supplied the asphalt on a bid contract for this project.

The Commissioner of Transportation attempted to modify department procedures after reviewing a legislative audit of the project. He requested a new position within his department to insure compliance with policies and procedures, asking the department's Attorney General representative for a statute review and possible changes, and reminded regional personnel of existing requirements.

Source: Legislative Audit # 25-4451-94

STUDENT LOAN CONTROLS



The Legislative Audit Division has called for tighter controls in the Alaska Student Loan Program.

In an audit released January 1993, the legislative audit agency commented on the following problems (among others) in the student loan program:

"In 1988, the Alaska Student Loan Corporation was created to allow the sale of tax-exempt revenue bonds to finance the program. The bonds issued in 1988, 1989, 1990, and 1992 were insured by AMBAC Indemnity Corporation. The 1991 issue was insurable, however the underwriter declined the coverage. In 1993 AMBAC declined to insure the offering because of the commission's poor performance of due diligence requirements on loan collections. Over 38% of the current student loans in repayment are past due."

"The student loan program is managed by both the Alaska Commission on Post Secondary Education and the Alaska Student Loan Corporation. Authorities and responsibilities are usually split, but sometimes overlap, between the commission and corporation. The close relationship between the corporation and the commission is evident, however the authority and responsibility for the operation of the student loan program is not. The operation of the student loan program would be more effective and efficient if it were administered by one entity." It probably would be less costly, as well.

Source: Alaska Student Loan Corporation Organizational and Operational Efficiency and Alternatives

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COMMENTS: _____

Lower the expectations

DEC's new user fees are running short of projections, in some divisions at least. The air quality division's air permit section, for example, projected \$1.3 million in new permit fees but will collect under \$500,000. Part of the problem is the learning curve: DEC's regulations on user fees were just adopted in March of 1993 and the agency had no prior experience on which to base estimates. If the trend holds for other divisions, it could mean the legislature may have unrealistic expectations that user fees, paid by businesses or individuals, can replace declining state general funds for DEC, or other state agencies.

The Blue Book

The Blue Book is a bi-annual Department of Education publication that profiles government. Within the book you will find information about state, federal and local governments. You will also find a brief history about Alaska. The State of Alaska sells the book for \$15.

Notwithstanding its bi-annual frequency, the state has personnel costs in the annual budget each year associated with the book.

Source: State of Alaska FY95 Budget

BACK TO THE NEGOTIATING TABLE

The State and Inlandboatman's Union representatives began negotiating a new contract on January 21, 1993. This union includes the unlicensed employees of the Alaska ferry system.

Late last year the union membership voted not to accept the new contract. Here are a few of the benefits from that contract:

Pay increases of up to 3%, for all Union employees

An Alaskan holding the position of waiter/waitress would have earned an hourly rate of \$12.54 and \$18.81 for any overtime. On July 1 of 1994, this pay would have increased again to \$15.45 per hour and \$23.18 for any overtime for the same position.

Vacation Accrual Rates

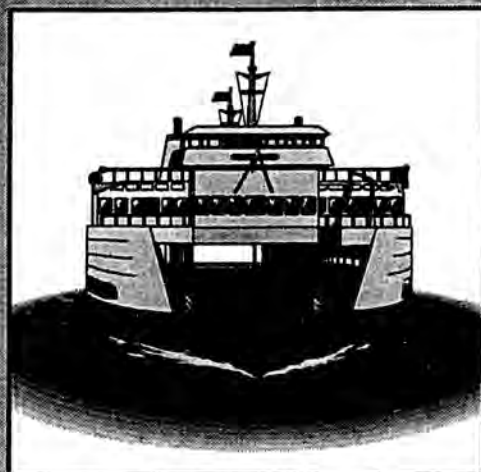
If an employee was hired before April 1, 1985 and had worked 10 or more years, their vacation accrual rate would have been 14 weeks per year. For an employee hired after April 1, 1985 and had worked 5 or more years, the vacation accrual rate would have been 10 weeks per year.

Holidays

There were twelve paid holidays in this contract. Lincoln's Birthday, President's Day, Seward's Day and Alaska Day were four of the paid holidays.

The Inlandboatman's Union is currently working under their old contract, which was highlighted in the first Money Watch newsletter.

Source: Tentative Agreement between State of Alaska and Inlandboatmen's Union 10/29/93.



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Is Alaska ready to rehabilitate the welfare system?

When Congress convenes in January, it is expected that welfare reform will be one of its top priority.

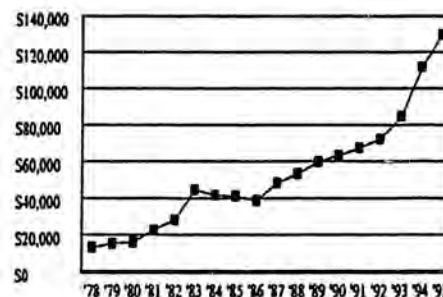
Among the reform initiatives under discussion is a plan to return welfare assistance programs to the states, allowing the states to enact their own welfare reform initiatives. The federal government would provide a base level of funding that would be adjusted annually by population and cost of living changes.

Currently, Alaska 'welfare programs' are overseen by the Alaska Department of Health and Social Services (HSS) and mandated federally. The cost is shared by both federal and state agencies. Alaska's welfare payments are the highest in the nation and the HSS budget is the second largest component of the Alaska state operating budget. The accompanying graph shows the growth in one welfare program in Alaska: Aid to Family with Dependent Children.

A recent survey conducted by the state Department of Health and Social Services indicated that 88% of AFDC recipients in Alaska said they'd rather work than be on welfare. Yet, the current welfare system provides more incentive not to work than to work. For example, if a welfare recipient with one child has total assets in excess of

\$1,500 (including all household goods, any money in a savings or checking account, and a car) and/or earns more than \$821 in any given month, welfare benefits will be reduced.

Aid to Families with Dependent Children
(Thousands of Dollars)



"Workfare" is among the reforms most frequently discussed at the state and national levels. In Alaska's case, there is evidence to suggest that workfare programs could significantly reduce the cost of welfare assistance.

The inherent disincentive for welfare clients to get a job within the current welfare system has already prompted several states to adopt some form of workfare.

Continued on page 2

GOLDEN '?' AWARD

The Golden '?' Award goes to the Department of Fish and Game for the construction of a cabin with public employees, in prime Southeast fishing waters, and on a public employees land (who moon lights as a guide). Now the State of Alaska will be moving the cabin, with public employees and equipment to federal land (pending federal approval). All of this for the Unik River project, a project the State Legislature questioned enough to slash funding.



Source: Legislative committee minutes, Ombudsman's office, CSA member in Southwest Alaska

Hold Harmless for whom?

Did you know that all Alaskans pay directly for welfare benefits? The Permanent Fund Dividend Hold Harmless program replaces welfare benefits with a deduction from your Permanent Fund Dividend (PFD) check. When welfare recipients receive a PFD check, they fail to qualify for welfare. Depending on their individual circumstances and how much other cash they have in subsequent months, they could be disqualified for welfare assistance for up to four months. All welfare benefits paid out during this time are clas-

Continued on page 2

Tally on Alaska's small college campuses

Depending on which campus you choose to attend in Alaska, your college education could cost the state as much as \$52,792 per year. Currently there are 15 college campuses statewide, 12 of which are considered rural or satellite campuses. Here is a sampling of what a legislative audit found regarding those campuses:



Campus	Cost per student per year	Cost per Credit hour	Total Credit Hours Taken	Credit Hours per Faculty
Chukchi	\$52,792	\$1,563	716	239
Kenai	\$9,539	\$281	20,214	469
Kodiak	\$14,608	\$436	5,378	336
Kuskokwim	\$31,295	\$926	4,331	233
Mat-Su	\$5,693	\$168	19,697	711
Northwest	\$26,449	\$780	2,105	270

Source: Legislative Audit #45-4448-94

Hold Harmless for whom?

Continued from page 1

sified to be in a "hold harmless" period. The State of Alaska totals up these welfare payments, divides the amount by the number of PFD checks, and deducts the amount from each dividend check.

Since the first PFD hold harmless deduction in FY 86, which has been estimated by the Department of Revenue at \$6.94 per check, hold harmless expenditures have steadily increased. The FY 94 PFD hold harmless deduction was \$36.45 — more than a 425 percent increase from the original FY 86 deduction.

To manage the "Hold Harmless" program, the Department of Health and Social Services (HSS) must assist the entire

welfare population in Alaska through a tedious application process, monitor what welfare recipients do with their permanent fund dividend, and then as quickly as they become eligible under the federal rules move them back onto the welfare rolls. Originally in 1982, HSS believed that 8 (four-month) seasonal positions could accomplish this effort. Today there are 8 full time positions for this task.

Should working Alaskans be paying for this program from our dividend checks? Or should the Hold Harmless 'program' be funded from other resources? Does this program encourage welfare recipients to stay on the welfare rolls?

Sources: Legislative Audit #06-4457-94 and the Hold Harmless Program manual.

Workfare?

Continued from page 1

For example in Ohio, approximately 25 percent of single mothers on AFDC were required to perform community service work in exchange for the welfare benefits they received. This requirement resulted in an overall reduction in the AFDC single mother caseload of 11.3 percent. There were similar reductions seen in the AFDC-Unemployed Parent program (AFDC-UP), which provides welfare to two-parent families. AFDC-UP required 80 percent of the fathers to participate in workfare, resulting in a 34 percent reduction in the AFDC-UP caseload.

At the same time, the welfare clients have the opportunity to improve their standard of living by allowing them to retain more of their earned income.

Sources: State of Alaska, Department of Health and Social Services, a current welfare client, and Robert Rector, The Heritage Foundation

Where does the money go?

These are line item expenditures from the State of Alaska's accounting system:

Line item	Department of	Total Expenditure	Total Expenditure for all Dept's
Hospitality	Public Safety	\$ 13,314.40	\$ 38,855.07
Advertising	Transportation	\$ 391,126.33	\$ 1,646,031.80
Liquor	Transportation	\$ 114,311.98	\$ 117,006.23
Conventions & Meetings	Environmental Conservation	\$ 944,678.29	\$ 3,856,139.52
Cashing-in of Leave Time	Fish & Game	\$ 417,112.28	\$ 1,176,610.55
Sick Leave	Transportation	\$ 4,876,257.72	\$ 16,807,005.47
Union Business Leave Bank	Public Safety	\$ 95,797.52	\$ 228,801.76
Administrative Travel	Health & Social Services	\$ 1,220,120.50	\$ 4,689,420.68

State revenues are perched on the edge of a steep and steady decline.

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- Or, do we initiate reasonable spending cuts now to avoid imposing new burdens on Alaska's citizens?

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Science in Alaska?

The Alaska Science and Technology Foundation (ASTF) was created in 1988 to acquire new knowledge for diversification of the economic and social base in the State of Alaska through scientific grants. A total of \$100 million was appropriated to the Foundation as an endowment that is managed by the Alaska Permanent Fund Corp.

Nationally, nearly 60 percent of basic and applied scientific research is funded through grants from government agencies, while the development (putting the new knowledge to work) is funded by private industry. The legislation that created the Foundation anticipated that any new knowledge gained through ASTF grants would be developed by private industry in Alaska. The logic was that private industry would respond faster to market forces and make better development decisions than government agencies. Yet, 48 percent of the grants awarded by ASTF have been for development.

According to Legislative Audit the ASTF exceeded their authority in making grants to teachers. Through March 18, 1994, ASTF had awarded 77 teacher grants for a

total of \$338,420. However, very few of these grants funded true original research. These grants have ranged from field trips and science clubs to classroom studies of the Alaska Permanent Fund and a project that is described as "an imaginary lepton in a far galaxy."

Further, ASTF has awarded 'research' grants for the following: a full-body Shower System (\$17,529), Perm Applicator (\$16,282), Beekeeping (\$105,563), and a conference at UAA (\$20,000). It also appears that ASTF has granted funding to pay for manufacturing costs and specific training, such as wild berry production.

Is the Alaska Science and Technology Fund stimulating innovation in Alaska?

Alaska Science and Technology Foundation

Primary Grantee	Total Awards
Alaskan Grantee	\$7,437,618
University of Alaska	4,445,833
Out of State Grantees	1,891,772
Government Agencies	448,408
Teachers	338,420

Source: Legislative Audit #04-4481-94

Money Watch is published quarterly by Common Sense For Alaska
G. Kent Edwards, President • Kym Swift, Executive Director • Phone: 1-907-276-7648

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Common Sense believes we have to do something...and we have to do it now.

Please join us today! The taxes you save may be your own.

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How to send a free public opinion message (POM)...

Public opinion messages are a way for your voice to be speak out in Juneau. Messages cannot exceed 50 words. They must include your name, address, telephone number, and the names of the receiving legislators. These brief messages may be sent from individual members of the public to any or all state Representatives and/or Senators via the state's computer system. To send a POM, call any of the Legislative Information Offices listed here.



Anchorage	258-8111
Barrow	852-7111
Bethel	543-3541
Fairbanks	452-4448
Juneau	465-4648
Kenai Peninsula	262-9364
Ketchikan	225-9675
Kodiak	486-8116
Kotzebue	442-3880
Matanuska-Susitna	376-3704
Nome	747-6276
Sitka	747-6273

WHO WAS MOLLY HOOTCH?

In 1975, Molly Hootch was a rural Alaskan, who wanted a high school education in her home village. Along with Molly Hootch, 27 other high school aged Alaskans joined in the suit against the Alaska State Operated School system, to compel the State of Alaska to provide a high school education in plaintiffs' home communities. At the time of the suit there were no public high schools in Molly Hootch's or the other plaintiffs' rural western Alaska villages.



This case ended in a settlement, which stated that any community with 8 or more secondary age school children had a right to be educated in their home community.

In the following years approximately \$400 million was spent through the School Construction Fund to replace and/or build elementary and secondary schools in rural Alaska. The last high school constructed with these funds was in Oscarville, it had an enrollment of 1 student its first year of operation. Now, 19 years after the court case, these schools are in need of repair and will cost millions to maintain in the future.

Today, Alaska would not be facing these costs if the state had planned ahead. In 1975, the court realized the tremendous cost involved and stated the following: "...the conclusion that a massive school construction program is required may be at variance with the facts. The Small Secondary School Administrative Manual indicates that...in many instances, no special or additional school facilities will be required to provide a secondary program at the community level. Existing elementary schools usually can house additional pupils (secondary pupils) who desire to continue their education in their home communities."

Each aspect of the budget must be scrutinized as the fiscal gap grows. The Department of Education consumes over one third of the budget for the State of Alaska. Clearly, Alaska needs to look at all available alternatives as we begin to plan for the future.

Source: Hootch v. Alaska State-Operated School System, Supreme Court Alaska, May 23, 1975

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MONEY WATCH

Common Sense For Alaska

State cabin give-away?

Alaska Sports Fish Division has built a cabin at State expense on land owned by one of its employees in a prime fishing area. The cabin is being given to the employee. In return, the employee has "orally agreed" to give the State "priority use" between April and mid-November so other division employees can fly out there to use the cabin for a "salmon research project." The cabin cost the State approximately \$9,800 plus transportation of the construction materials to the site. No written land lease has been executed.

The importance of the "salmon project" and the number of years of its likely duration are currently unknown.



The Commissioner of Fish and Game has admitted "Public perception of this transaction could be less than favorable."

There are policies in place as to the procedure to be followed for the State to lease things from others. Six privately owned cabins already exist in the area which State officials have acknowledge

Continued on page 3

TRAVEL MILE BONANZA

The Top 10 per diem individual recipients for the state of Alaska in Fiscal Year 1992 were:

Cliford P. Douglas	\$28,570.18
Greg E. Browning	28,150.42
Mark D. Figley	23,678.00
Jeff Elieff	21,540.00
Fred F. Zharoff	21,339.14
Pierre Boutet	20,258.00
Allan J. Culbreath	19,410.00
Ronald Larson	18,766.66
Jim Duncan	17,793.45
Larry C. Geise	17,400.00

Despite the fact that the State of Alaska pays for the airline tickets, public employees collect the frequent flyer miles and deposit them into their personal mileage account.

The federal government bans this practice, taking the view that accepting such free miles is a misappropriation of public funds.

Source: Office of Management and Budget, and General Services Administration.

How the governors stack up

Article II, Section 15 of the Alaska Constitution reads as follows, "The governor may veto bills passed by the legislature. He may, by veto, strike or reduce any appropriation bills. He shall return any vetoed bill, with a statement of his objections, to the house of origin."

This veto power is a central feature of the system of checks and balances in the constitution. It gives the governor a major role in limiting appropriations and spending.

Governor	Budget Years	Veto ¹ (1993 dollars)
Hammond	FY 1980 to 1983	\$723.0 million
Sheffield	FY 1984 to 1987	\$933.4 million
Cowper	FY 1988 to 1991	\$436.0 million
Hickel	FY 1992 to 1994	\$160.2 million
Current yr. (Hickel)	FY 1995	\$ 2.3 million ²

1. General Fund

2. Total vetoed from FY 1995 State budget, 1994 dollars

Source: Summary of Appropriations, Legislative Finance Committee 1979-1993.

...But who needs a receipt, anyway?

In March of 1994, legislative auditors examined the Oil and Hazardous Substance Release Response Fund. They found: "DEC is often put in the position of having to approve reimbursement for an expenditure for which the department has no way of determining represents a valid project cost."



As an example, the Department of Fish and Game (DFG) requested reimbursement from

DEC for expenditures the DFG could not document. DEC refused. But because the only alternative left to DFG would be to request a supplemental appropriation, DEC staff was directed to pay the request.

Source: Legislative Audit Number 18-4463-94

CALENDAR OF EVENTS

Aug. 23

Primary for the general election

Aug. 23, 5:00 p.m.

Last day to file as a non-partisan person in general election

Nov. 8

The general election



Dangers of dedicating funds

As oil revenues for the state of Alaska decline, and departmental budgets are cut, special interest groups have begun lobbying our elected officials for dedicated funds. These special interest groups support higher taxation as long as the revenue is dedicated to their special interests.

During the Alaska Constitutional Convention of 1956 delegates from around the state debated the concept of dedicating or earmarking funds while framing the Alaska Constitution. Here are four of those delegates' comments regarding earmarking funds:

BARR: "In Colorado, approximately 90% of the tax collections are earmarked. In Texas, 85%, Kansas has over 140 dedicated funds which embrace over 80% of the state revenue. If we leave this up to the legislature, to succeeding legislatures over a period of years, we will end up like poor Texas and Colorado. We won't have anything in the general fund for appropriations."

MCCUTCHEON: "The people of this assembly shouldn't overlook this fact, that the earmarking of funds is the fashion in which higher taxes are foisted upon segments of industry or the public."

HERMANN: "I can recall one occasion in our Territorial history during the war when the road fund had been built up to quite a considerable amount and it was impossible to build roads. There was no material available and no help available and that sum pyramided up to a very considerable amount while at the same time the Territory was borrowing money to meet its monthly obligations."

WHITE: "The end product of any earmarked fund is good but if the end product is good and desirable it is perfectly reasonable to assume that future legislatures will see it the same way and will appropriate sufficient funds to carry out the programs that (were then) being carried out through earmarked taxes."

Convention delegates prohibited the dedication, or 'earmarking,' of funds for specific purposes in Article IX, Section 7 of the Alaska Constitution so that the legislative branch would not tie its own hands in providing for the public needs of the day. (This Article was amended in 1976, to allow the dedication of funds to create the Permanent Fund).

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Cabin give-away?

Continued from page 1

would be suitable for the "project;" however, none of the other cabin owners were contacted by the State to determine their willingness or price for leasing such cabins. No determination was undertaken concerning market value of the land or cabin at issue. Consequently, it is impossible to determine whether the State's needs are being met at the lowest available price. If the Ombudsman's office had not received a complaint from an irate citizen regarding these activities and expenditures, their occurrence likely would not have been made public.

In addition to working for the Alaska Department of Fish and Game, the cabin recipient is also a licensed guide in Southeast Alaska. State officials concluded the employee did not violate the Alaska Executive Branch Ethics Act (AS 39.52) because he did not attempt to "influence" the decisions to build the cabin on his property.

Source: Ombudsman, State of Alaska and CSA members of Southeast Alaska.

"Public perception of this transaction could be less than favorable."

Commissioner of Fish and Game

Who's running anyway?

The best voter is an informed voter. To find out who is running in your district call one of the following Legislative Information offices:

Anchorage.....	258-8111	Ketchikan	225-9675
Barrow	852-7111	Kodiak	486-8116
Bethel	543-3541	Kotzebue	442-3880
Fairbanks	452-4448	Matanuska-Susitna .	376-3704
Juneau	465-4648	Nome	443-5555
Kenai Peninsula	262-9364	Sitka	747-6276

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The friendly skies

A recent State Audit found that more than two-thirds of all travel documents sampled in conjunction with state travel reflected violations of administrative requirements. Since the State spends about \$36 million annually on travel, including per diem (re-



imbursement for meals and housing) it appears that the problem is a significant one.

Forty-three percent of all travel forms sampled for the two year period of the audit lacked proper authorization. Most such authorizations were approved after the fact, rather than before travel as required. Duplicate meal payments of over \$2,000 were uncovered. Over \$18,000 of questioned per diem payments were made to those who stayed at home rather than a hotel. The audit further concluded that travel policies are not clear and are inconsistently applied.

Source: Travel-Related Costs Audit: FY 1991 and FY 1992, Division of Audit and Management Services

HAZARDOUS BUDGET DUTY

The Hazardous Waste Management Program (HWM) in FY 94 has not met its statutory obligations due to unrelated charges assessed against the program.



The HWM program is organizationally located within the Department of Environmental Conservation (DEC). HWM's primary activity is to conduct inspections, monitoring, and providing assistance to the public for the management and disposal of hazardous wastes. Between July 1, 1990 and June 30, 1993 state inspectors assessed more than \$5.3 million in penalties.

According to an October, 1993 audit by the Office of Management and Budget, a number of DEC "activities had been intentionally excluded from the governor's final budget proposal in order for DEC to reach its 'spending target'. Despite having been deleted during the budget consideration process, these programs and activities were again made part of DEC's FY 93 efforts — and were charged to the HWM program."

Due to the unrelated charges assessed against the HWM program, it had no funding to meet its statutory obligations in FY 94.

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