

SB

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SB 256

was referred to the
Senate Finance
Committee

Hearing(s) were held

The bill did not move
from Committee

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January 12, 2004

The Honorable Gene Therriault
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Therriault:

The operating budget bill delivered today contains my proposal for the 2005 fiscal year.

The Fiscal Year 2005 operating budget marks the administration's second opportunity to demonstrate its commitment to fiscal discipline. Our budget plan is straightforward: control spending, make government smaller and more effective, stabilize revenues over the short-term, and increase revenues over the long-term.

The proposed budget is built on one principle: that we must take responsibility today for Alaska's tomorrow. Jobs, hope, and accountability are the reasons for the administration's work to align state spending in a way that promotes economic development and jobs in Alaska and provides hope for the future to our younger generations.

The administration set two parameters within which it built the proposed Fiscal Year 2005 budget: spend less than this year and use no more than \$400 million from the state's reserve account. This later limit is important because over the last 13 years the state has spent more than \$5 billion from this reserve in order to prop up spending at a level the state otherwise could not afford. When we took office the rate of withdrawals from the reserve account was projected to deplete the reserve by February 2006.

Today there is less than \$2 billion in the reserve. It would be irresponsible to continue spending-as-usual and run the reserve account down to zero. Currently 84 percent of state revenue comes from oil and gas. The reserve was set up to serve as a buffer against swings in oil prices. Without such a cushion, dramatic revenue drops would mean dramatic mid-year reductions in state-supported services. To prolong the life of the reserve, the

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administration is prudently using it so it will last longer and serve as a "bridge" to the day when increased revenue is realized from natural resource development. Because of our fiscal discipline, the reserve account is extended to January 2008. But it also is important that the reserve maintain a balance of at least \$1 billion to serve as a cushion against oil price fluctuations. Based on our spending and revenue proposals, the reserve is expected to drop to \$1 billion in July 2006.

Spending more than we can afford has created unrealistic expectations of what government can and should provide and has created services that can't be supported over the long-term unless new revenues are found. This uncertainty has discouraged private business from making serious investments in Alaska.

Until new state revenues are generated, we ask all Alaskans to recognize that we must share the responsibilities—and make sacrifices—to put the state on course.

In developing the Fiscal Year 2005 proposed budget, every department engaged in a process of self-examination in which it got down to the basics:

- Why does the department and program exist—what is its mission?
- Does each program effectively contribute to achieving the department's mission?
- What results are programs supposed to be getting—and are they?
- How efficient is the program in using public dollars to get these results?

This process, called "Missions and Measures," was initiated by the Legislature several years ago. My administration has built on the Legislature's work and expanded it into a management tool. We recognize that these frameworks not only communicate to Alaskans the "bang for the buck" that the state receives, but they also provide program managers with feedback on a program's effectiveness, where changes may be needed to improve services, and just as importantly, which programs should be stopped because they are not effective. In addition to reporting these results to the Legislature as part of the annual budget process, we also will report to Alaskans throughout the year via the State of Alaska's home page on the World Wide Web.

The spending proposed in Fiscal Year 2005 also reflects policy priorities and increases the state's investment in areas of traditional responsibility—protecting the public's safety and education:

- Enforcing the Laws: Twenty Troopers, six criminal prosecutors, and six public defenders are added to improve the safety of communities throughout the state;
- Protecting the Vulnerable: Twenty social workers and nine civil attorneys, including attorneys for Child in Need of Aid, sexual and violent assault, juvenile delinquency, and human services cases, are added to increase the state's protection of those who are most vulnerable; and
- K-12 foundation formula is funded at the higher per student funding level approved by the Legislature last session. In addition, local school districts are reimbursed for school construction debt and the pupil transportation program is funded at the level required by law.

The top priority for this administration is to develop Alaska's natural resources in order to generate state revenue and create jobs to support the quality of life that we want not only for those who are in Alaska today, but also for those that will be here in the future. Economic growth is the best way to balance a budget. If the economy is growing and expanding thanks to policies that encourage job creation and innovation, Alaskans will be able to better provide for their families and communities. The administration has built a budget that encourages private investment.

But the receipt of revenues from resource development takes time—it took eight years for the state treasury to get revenues from Prudhoe Bay. While we diligently work to develop these resources, we must have "bridge financing" to assist in getting us to when these new revenues will start to flow into the treasury. Our reserve account serves as this "bridge" and must be prudently used between now and then.

Investment in our resource departments is necessary as we expand our development efforts. The proposed budget adds key staff to the Department of Natural Resources Oil and Gas Division to aggressively work on the gas line, an expedited Alaska Peninsula oil and gas lease sale, opening of National Petroleum Reserve-Alaska, and further streamlining of our permit process.

The Department of Environmental Conservation also is proposing to assume primacy for issuance of Clean Water Act permits from the federal government. Not only will this mean Alaskans are making decisions instead of outside bureaucrats, but we will be able to have more responsive decision-making that advances resource development and protects the environment.

In terms of spending level, the proposed operating budget is about the same level as the current year. To maintain flat spending, a total of \$145 million in reductions had to be taken in order to cover unavoidable increases, which include:

- Retirement system costs of an additional \$29 plus another \$5 million in unemployment insurance and workers' compensation increases;
- Medicaid, foster care, and other formula-driven program increases that went up \$62 million due to higher medical care costs and increased caseloads; and
- State debt service obligations that increased \$42 million, of which \$13 million is to reimburse school districts for locally approved school construction (bringing the program's total cost to \$79 million), and another increase of \$27 million to pay for school construction and transportation bonds approved by voters in 2002.

In spite of reductions to cover these increases, the departments are making every effort to maintain the current level of direct services. This is not to say there will not be changes in how services are delivered to Alaskans—but no roads will close in winter nor will any state parks close.

To manage reductions, departments were asked to identify how to achieve administrative-type savings. Human resource functions have been consolidated in the Department of Administration instead of being spread out across 15 departments. Not only will this result in a savings of \$640,000, there are other efficiencies including consistent management administration of personnel law, labor contracts, and policies.

The Department of Corrections is consolidating administrative responsibilities to save over \$760,000 while the Department of Health and Social Services has reorganized and continues to reduce layers of mid-management. The Department of Administration has led an enterprise-wide information technology (IT) review that resulted in creation of IT standards and

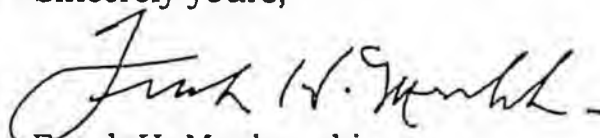
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coordination of technology within and between departments. The standards will translate into at least a five percent savings in computer purchases. Improved IT coordination will mean the results of technology investments are shared between programs and departments, thereby avoiding future costs. A new decision-making board is tasked with making IT investment decisions from an enterprise-perspective and a group of technology professionals has been tasked with offering enterprise-wide advice.

In terms of the number of state employees, the proposed budget deletes 409 full-time positions, of which 69 percent (283) currently are vacant. Elimination of vacant positions represents an effort to have the budget better reflect the actual level of resources (both dollars and staffing) necessary to deliver program services, which is important in a cost/benefit analysis.

In terms of revenues, the state is enjoying higher oil prices. But in spite of this, the administration's overall proposed spending for Fiscal Year 2005 requires an additional \$75 million (this is above the \$400 million from the state's reserve account.) To protect prudent use of the state's reserve, the administration will be introducing several measures to generate additional revenues.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Frank H. Murkowski". The signature is fluid and cursive, with a long horizontal stroke at the end.

Frank H. Murkowski
Governor

Enclosure