

SCOMM

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Notes prepared and presented to the Long Range Financial Planning
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1. A Review of your administration's attempt to reduce the State Budget-

Cowper was elected on the heels of the oil price collapse in 1986. Sheffield had reduced the state operating budget expenditures through an impoundment action which resulted in a total reduction of approximately \$200 million when all was said and done. Cowper came into office, was briefed on the revenue situation (projected FY87 deficit was ~ \$800 million and the projection for the FY88 budget scenario was essentially the same), and issued his famous press release of "all bets are off". He spent several days personally reviewing the state operating budget and developed a proposal for the FY88 operating budget that he submitted to the Legislature in January that recommended approximately another \$150 million in reductions. The Legislature and the various constituency groups came unglued. At the same time oil prices began to rebound. By March of 1987, the Governor and the legislature had amended the FY88 budget proposal to reflect essentially a continuation of FY87 spending after the Sheffield cutbacks.

By the beginning of August, when the FY89 budget development was begun, the state was in severe recession. The combination of state and local government cutbacks, and the oil industry cutbacks, had reduced property values around the state and resulted in very high unemployment. It became apparent that the best thing that the state government could do under those circumstances was to attempt to provide some underlying stability to the state economy. Until that time, I don't believe that people really understood or appreciated the impact government spending has on the Alaskan economy. In that context, the Governor proposed the "jobs capital budget" and recommended a status quo level of funding for the operating budget for FY89.

Cost control became a primary concern: i.e. the administration reviewed the responsibilities of state and local governments and made concerted efforts to transfer functions which were deemed local government responsibility and being provided by some local governments to the remaining locales. Examples: class III roads, and police protection. Inflation was absorbed. Emphasis was placed upon review of entire programs vs. across-the-board cuts, and an increased focus on user fees was incorporated into the state operations plan. A hard line was taken at the bargaining table with employee unions resulting in essentially no increase to labor

contracts until FY90. Alternate revenue sources were explored, i.e. increase in the motor fuel tax, elimination of ELF, and the Permanent Fund endowment for public schools.

2. What worked for you and what didn't?

The proposed reductions in state government spending to equalize the level of services between the state and the local governments was a difficult battle and not terribly successful. However, there were some achievements. The public school foundation formula was amended to require local tax contributions as a part of the calculation of basic need. The open-ended reimbursement for local government school debt was eliminated. Unfortunately, the two most egregious problems were in Anchorage and Fairbanks, i.e. the class III road maintenance issues (Fairbanks) and the police protection (Anchorage Hillside). Also, both communities received large social service block grants that were targeted for reduction, for the provision of local services that were not funded by the state in any other community. Another proposed change was to pass a statute that required that local governments be responsible for the housing of prisoners prior to arraignment. This was proposed to try to provide some leverage for the state in negotiating contract jail rates and ensure that the local community had a vested interest in maintaining a facility. All of these proposals met with resistance from the legislature. NIMBY.

3. What information was useful in making these reductions? Where did you receive it? Agencies, Public, Past practice, or Political?

The majority of the suggestions and proposals we worked with were developed in conjunction with the agencies.

4. If it didn't work what were the barriers? Why?

A general feeling on the part of the public, reflected by the legislature that the "bureaucracy" could be reduced without any impact upon services being provided at the local level. A lack of sincerity on the part of the legislature to make any of the difficult choices necessary to reduce state government spending or significantly change the service mix to the public, the volatility of the oil prices which seemed to rebound every time things became truly dire, and the availability of reserves and additional tax settlements to fill in the holes.

7. What was your solution to agencies using capital dollars for operations?

We had very small capital budgets and agencies actually had better success getting operating increases in the operating budget than in the capital budget.

8. If you were in charge what would be perfect, possible or would need tweaking?

I believe that it is essential the state develop a contract with local governments that explicitly lays out what services are to be provided at the state level and what will be provided at the local level. Such a contract needs to take into account the size of the local government entity, and the local wealth of the entity. It may also require mandatory borough formation in some parts of the state. The revenue sharing/municipal assistance funding mechanisms need to be redesigned into a single funding mechanism that recognizes services provided at the local level which the state commits to making a priority for state funding once the contract is in place. Delivery of service and funding must be equalized before we exacerbate a serious problem of have and have not communities around the state. Presently, there is no attempt to seriously equalize local wealth. The North Slope Borough is by far and away the wealthiest community in the state and yet we continue to fund state services for the Borough like we would for any other part of the state.

The state also needs to increase the variety of revenues available to fund state government services through additional taxes or alternate uses of the permanent fund income stream and probably a combination of both. State expenditures have been relatively stable over the past 9 years. However, state revenues have not. There appears to be little benefit in looking at approaches like forward funding or biennial budgeting until the revenue side of the equation can be stabilized.

9. How did you figure or allocate what each department would receive under your budget.

We worked from a big picture bottom line- incorporated the "A" list increases and looked at what was left over to allocate to those increases necessary to address the Governor's priorities and the federal requirements.

5. What were the guiding principles in the establishment of your budget?

Because our first and foremost concern was in providing some stability to the economy of Alaska, we were looking at essentially status quo budgets. Agencies began with the prior year funding level as a base, and developed increments for priority needs. The cabinet understood that there was very little new money to be had and essentially used the budget document as a public relations tool to explain what they felt were critical unmet needs. OMB reviewed the budget for technical accuracy including the projections of caseload growth and other cost factors in the formula programs, transfers for any potential policy implications. Increments were divided into two lists: the "A" list consisted of all increments that were funded by non-general fund sources that did not obligate the state to future state GF spending, all GF program receipt increments that were the result of increased spending (i.e. the new program receipts did not exist without the activity for which the increment was being requested), formula program increases where the programs were case/cost factor driven, and new facility increments including highways and aviation. The "B" list consisted of the other increments which the analysts, working in conjunction with the agencies, identified as the highest priority increments for the department and any increments that would have been on the "A" list except for potential policy and/or political implications that the Governor needed to be aware of prior to inclusion in the operating budget proposal.

Governor Cowper had three main areas of concern that he wanted to see improved: public safety, economic development, and environmental operations necessary to either keep control at the state level (i.e. clean drinking water) and for the economic consequences (i.e. seafood inspections). At the same time certain increases were being mandated by the federal government, i.e. welfare reform required the implementation of the JOBS program and required the state to cover in-tact families under AFDC.

6. What parts of your budget never received a look?

None