



COMMONWEALTH
NORTH

Illuminating Alaska's Issues

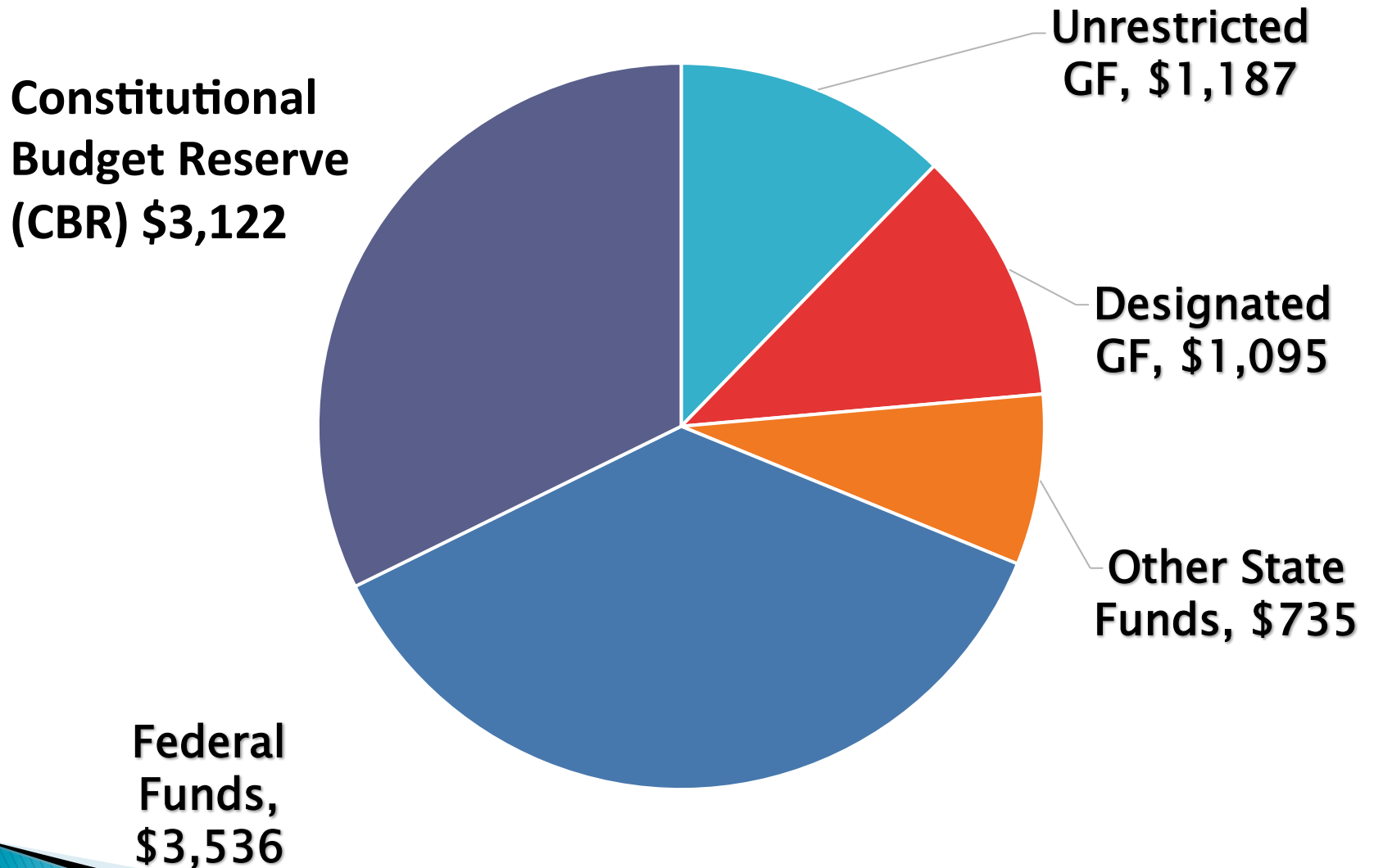
The State's Operating Budget: Critical Crossroads, Choices, and Opportunities - Update

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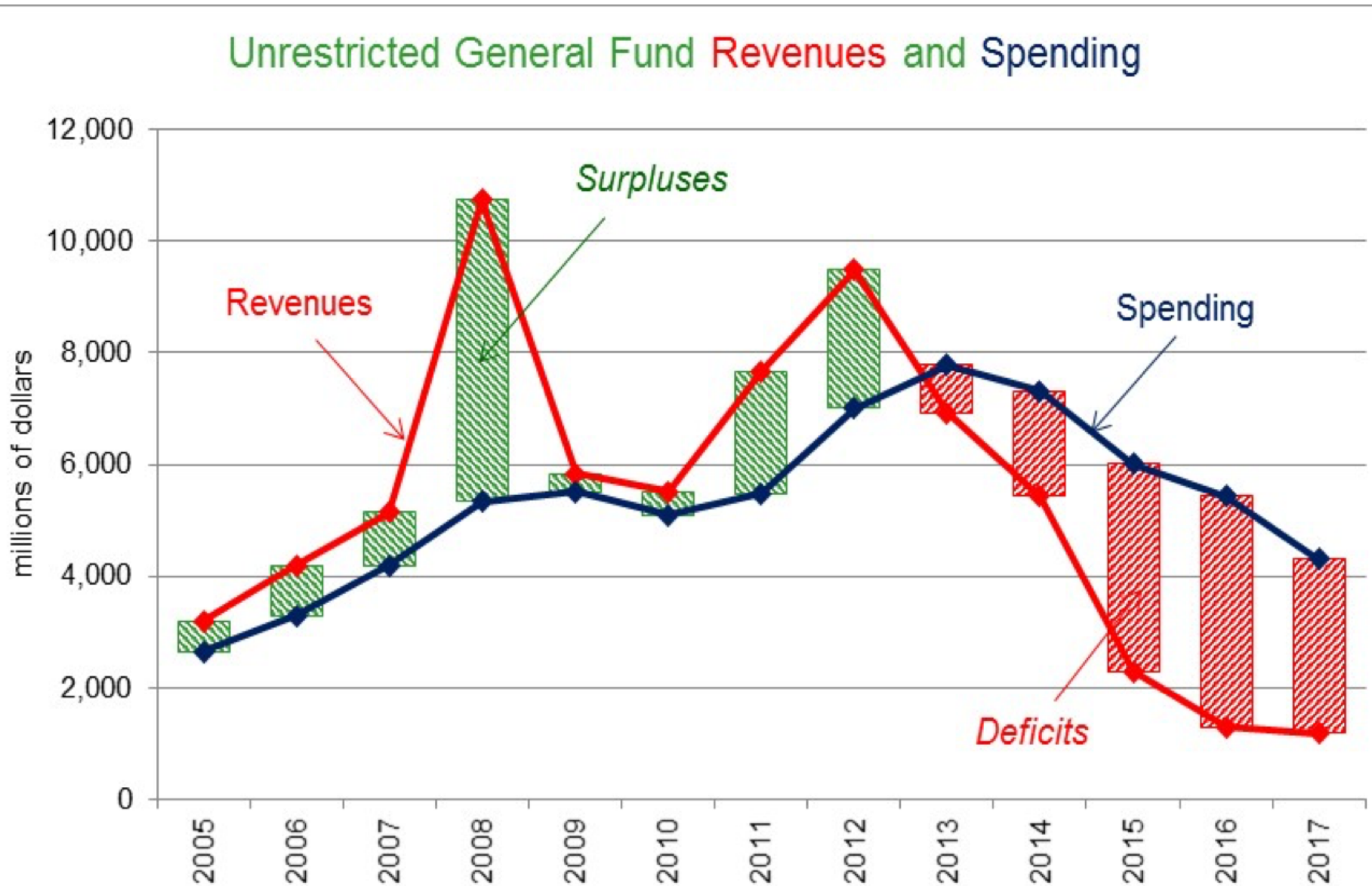
**Resource Development Council
February 16, 2017**

FY 17 Budget Revenues \$9.7 Billion

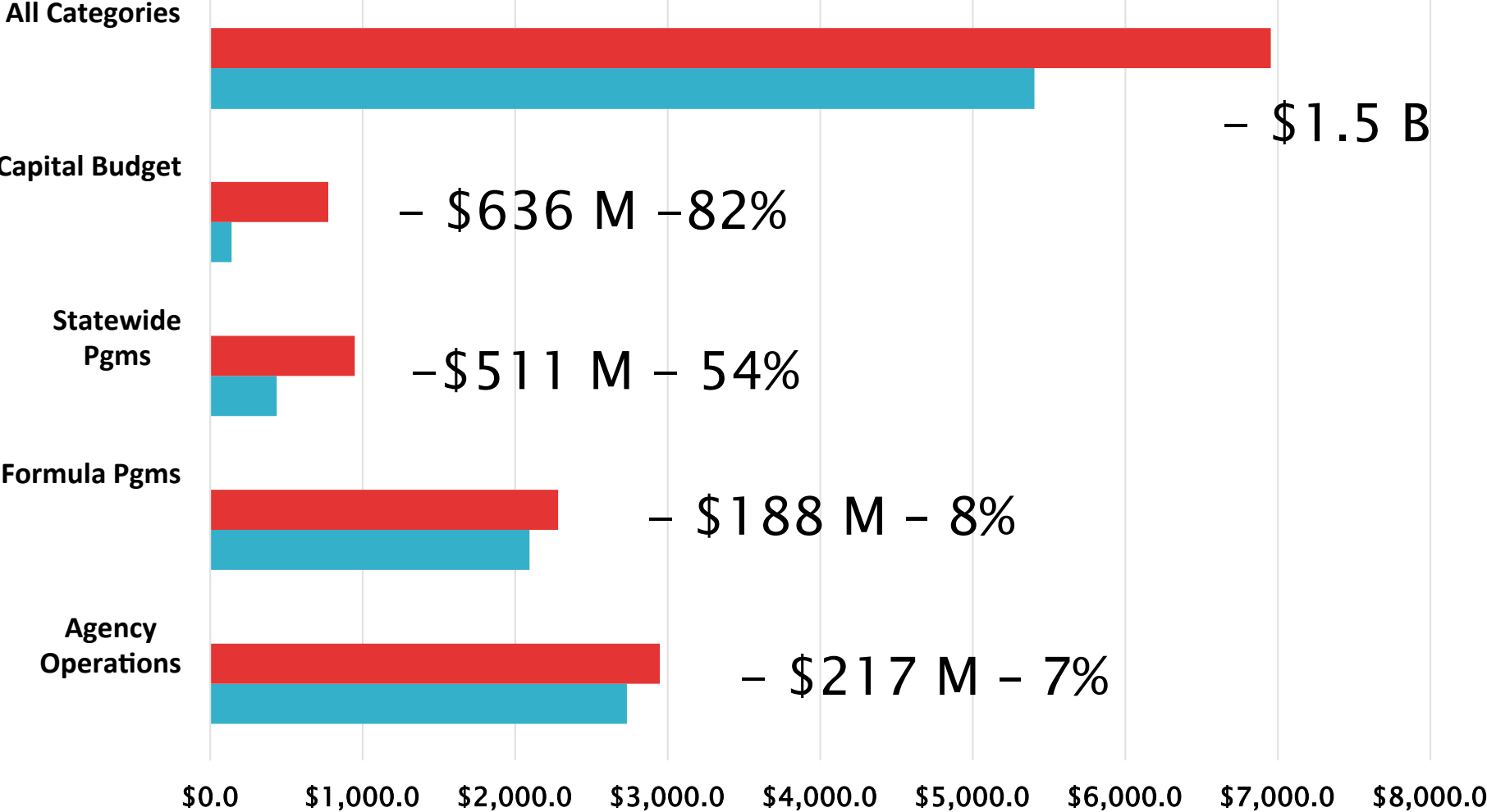


In millions

Structural Nature of Budget Challenge



How Much Has Spending Been Cut?

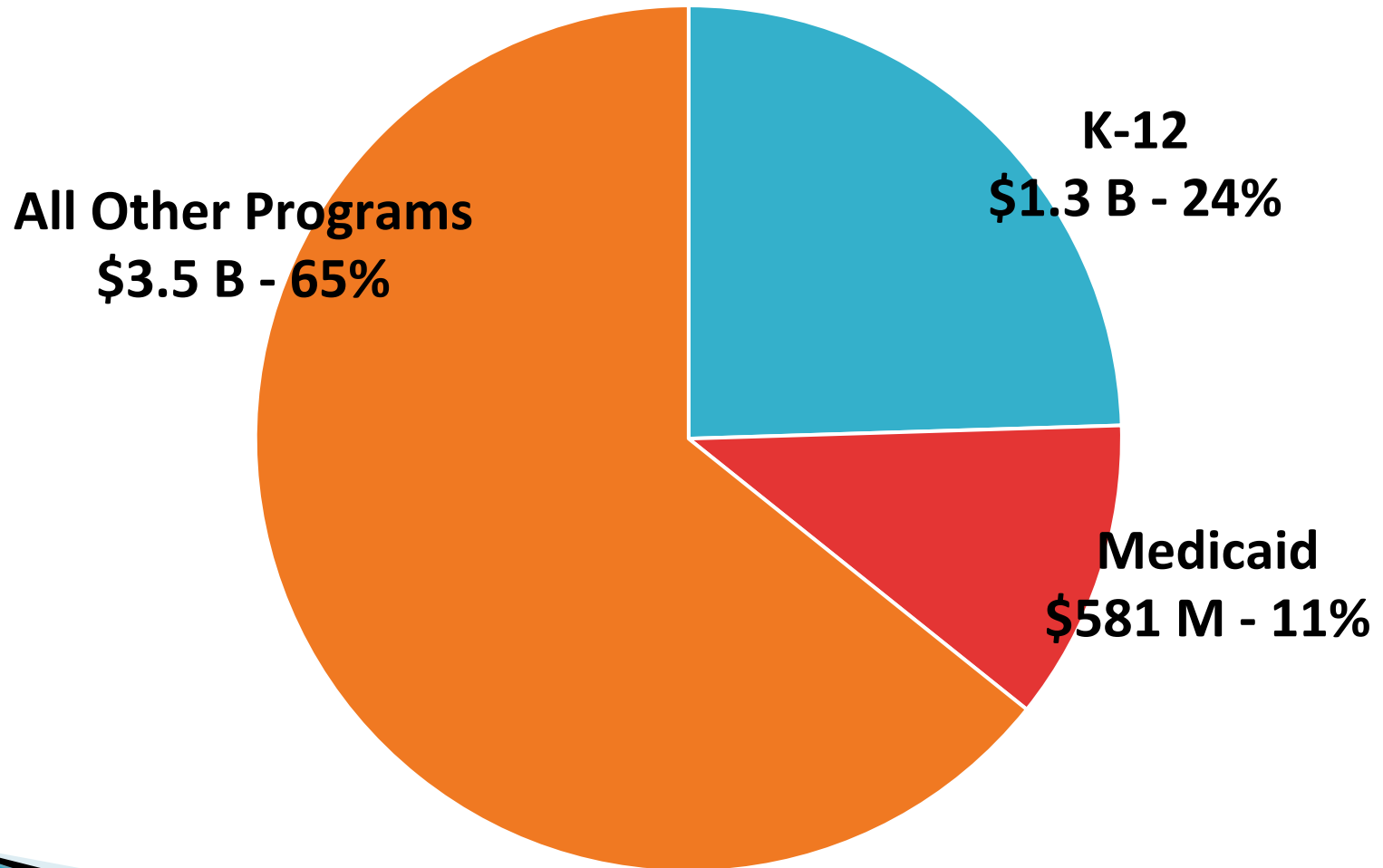


Total General Funds (UGF & DGF)

■ FY 15 ■ FY 17

Cost Drivers: Formula Programs

FY 17 Total General Fund Operating Budget – \$5.4 billion



Formula Cost Driver: Medicaid

	FY 15 Actuals	FY 18 (Gov Proposed)	Difference
General Funds	\$ 673.1	\$ 580.6	\$ (92.5)
Other Funds	8.0	11.9	3.9
Federal Funds	900.7	1,165.0	264.3
Total	\$ 1,581.8	\$ 1,757.5	\$ 175.7

Optional Services
(50% state funds)

<u>FY 13</u>	<u>FY 16</u>	
\$480 M	\$530 M	+\$ 50 M

Medicaid Recommendation: Implement Reforms

- ▶ Reform/cost containment legislation approved 2016 session
 - Estimated \$278 M GF savings through FY 22
- ▶ Limit Medicaid optional services
- ▶ Assess impact of potential Federal changes/reduced funding
 - To reduce potential increase for state GF, evaluate adjusting Medicaid reimbursement rates so closer to Medicare

Formula Cost Driver: K-12 Funding

- Statewide enrollment relatively flat recent years
- Alaska is one of top two states in K-12 spending even after adjusting for regional differences in cost of living
- In spite of this level of investment:
 - Alaska among bottom states in K-12 achievement (NAEP, AP scores)
 - Below average for high school graduation rates
 - Student achievement on nationally normed tests is flat to declining when compared to other states, adjusted for social/economic status
- Augenblick study for Legislature concluded:
 - Overall spending on education not correlated with student performance
 - Spending on direct instruction was correlated to student performance

K-12 Funding Recommendation

- ▶ Refocus K-12 funding so district's share is tied to number of teachers in the classroom instead of number of students
- ▶ Reduce overall state funding 1 to 3% a year for four years
 - New formula will make teachers in classrooms the priority
 - Require reallocation of funds from admin / operations to classroom
 - Incentives for consolidation of support functions, alternative ways to deliver services through outsourcing

Cost Driver: Employee Salaries & Benefits

77 lay offs

FY 17 Compared to 14

# of Positions		Full Time	Part Time	Non-Perm	Total
FY 14		20,441	1755	613	22,809
FY 17		19,200	1598	417	21,215
<i>Difference</i>		<i>-1,241</i>	<i>-157</i>	<i>-196</i>	<i>-1,594</i>
Cost	UGF	DGF	Other	Federal	Total
FY 14	\$1,188.0	\$254.3	\$476.9	\$276.7	\$2,195.9
FY 17	\$985.4	\$347.2	\$509.2	\$276.9	\$2,118.7
<i>Difference</i>	<i>-\$202.6</i>	<i>\$92.9</i>	<i>\$32.3</i>	<i>\$0.2</i>	<i>-\$77.2</i>

Cost Containment Recommendations

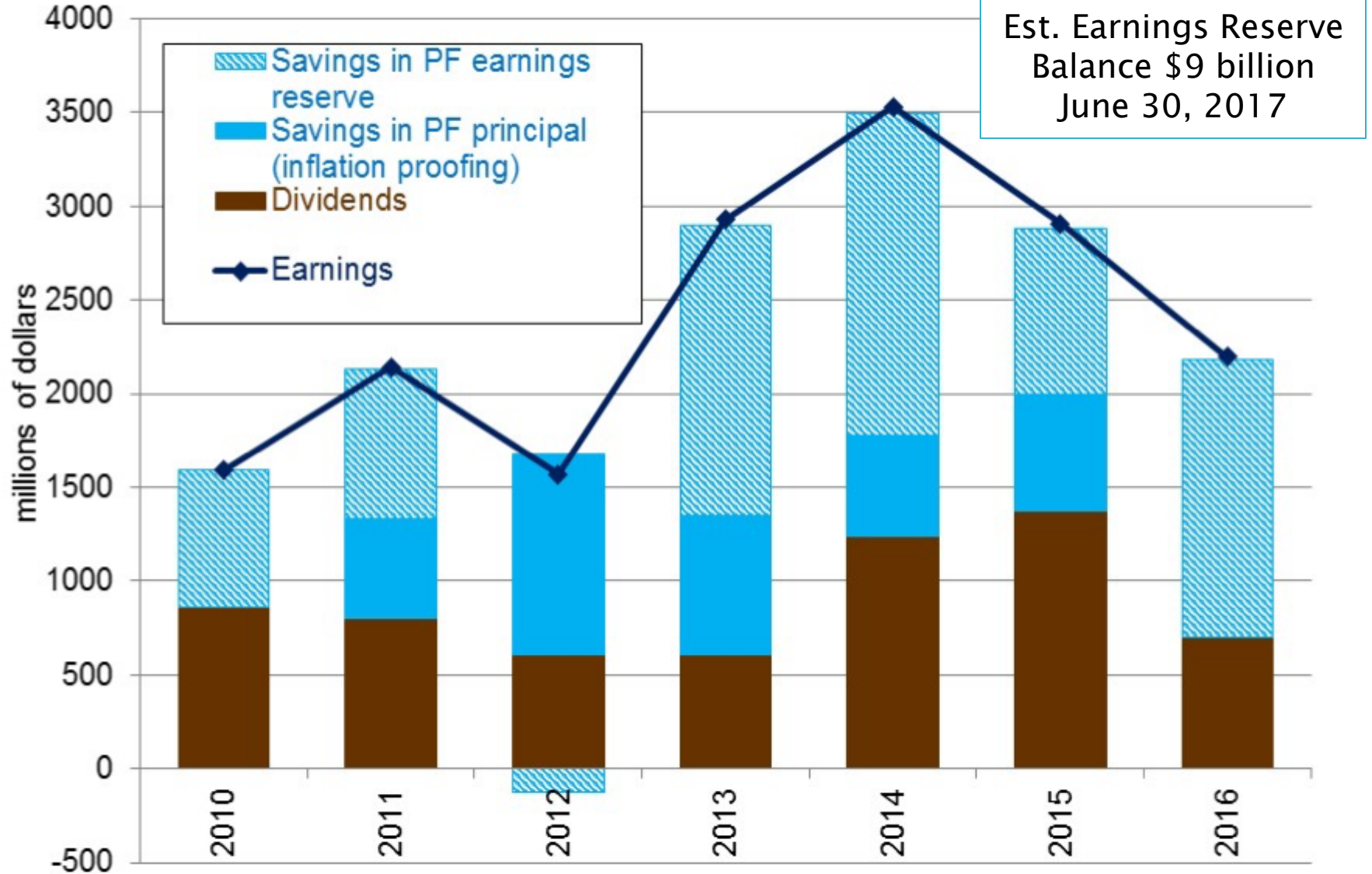
- ▶ Contain automatic pay increases
 - Four new CBAs (representing 11,000 FT employees) - 0% COLA
- ▶ Employees pay toward cost of health insurance
 - With new contract now pay \$30/month
 - Cost increased \$209/employee/month to \$1,555 per month
- ▶ Health care savings
 - Alaska Regional Hospital contract -- “volume discount” savings
 - Increased cost to employee if go to out-of-network providers
- ▶ New Recommendation:
 - Amend Public Employees Relations Act to remove health care as a mandatory subject of bargaining

Cost Driver: Health Care Spend

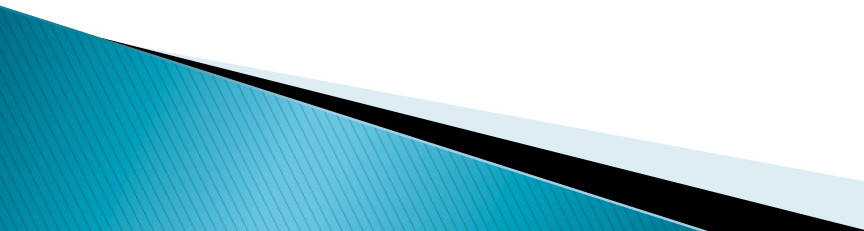
	FY 15	FY 17	FY 17 v 15
Medicaid	\$702.8	\$580.2	\$(122.6)
Retired Employees	491.9	528.5	36.6
Active Employees	371.9	338.6	(33.3)
Inmates	43.7	38.3	(5.4)
Workers Comp	27.2	26.5	(0.7)
Total	\$1,637.5	\$1,512.1	\$(125.4)

All state funds

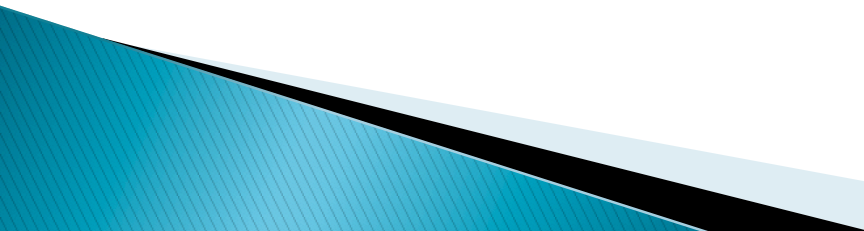
Permanent Fund Earnings and How We Use Them




Permanent Fund Recommendations

- ▶ Support percent of market payout formula
 - ▶ Use earnings to help address revenue shortfall while maintaining dividend—even if results in lower PFD
 - ▶ Fund Management:
 - APFC open offices in Anchorage, out of state financial centers
 - Strengthen / enlarge Board of Trustees
 - Competitive compensation for staff, Trustees
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Operational Efficiencies

- ▶ Consolidate departments
 - Labor & Commerce; Public Safety & Corrections; DEC & DNR
 - ▶ Expand Shared Services initiative
 - Centralize administrative operations into DOA
 - Centralize payment collections
 - Reconsolidate HR
 - ▶ Fully implement Universal Space Management Standards
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Budget Process Reforms

- ▶ Legislature needs more time for thorough budget analysis
 - Governor submit budget to Legislature mid-November
 - Return to 120-day constitutional session limit
 - ▶ Establish Joint Ways & Means Committee
 - Establishes at session start revenue on which that session's budget will be based—a “revenue limit”
 - Review state's forecasting methodology for reliability
 - Fully examine new revenue measures / economic impacts
 - ▶ Strategically review all programs
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Engage Alaskans

- ▶ Review of appropriate, effective programs
 - ▶ Management review of state operations to identify savings, improved service delivery opportunities
 - ▶ Citizen advisory panels during Governor's budget development process
 - ▶ Community-based dialogues about the state's options; responsibilities of the state and as individuals; how the state can fund a shared vision for the future
 - ▶ If all else fails, BRAC-type approval mechanism to enact politically difficult reforms
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