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

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Resource Development Council
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FY 17 Budget Revenues
$9.7 Billion

- Constitutional Budget Reserve (CBR) $3,122
- Unrestricted GF, $1,187
- Designated GF, $1,095
- Other State Funds, $735
- Federal Funds, $3,536

In millions
Structural Nature of Budget Challenge
How Much Has Spending Been Cut?

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 15</th>
<th>FY 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Categories</td>
<td>$1.5  B</td>
<td>$636 M -82%</td>
</tr>
<tr>
<td>Capital Budget</td>
<td>$511 M -54%</td>
<td></td>
</tr>
<tr>
<td>Statewide Pgms</td>
<td>$188 M -8%</td>
<td></td>
</tr>
<tr>
<td>Formula Pgms</td>
<td>$217 M -7%</td>
<td></td>
</tr>
</tbody>
</table>

Total General Funds (UGF & DGF)
Cost Drivers: Formula Programs

FY 17 Total General Fund Operating Budget – $5.4 billion

- All Other Programs: $3.5 B - 65%
- K-12: $1.3 B - 24%
- Medicaid: $581 M - 11%
# Formula Cost Driver: Medicaid

<table>
<thead>
<tr>
<th></th>
<th>FY 15 Actuas</th>
<th>FY 18 (Gov Proposed)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Funds</td>
<td>$ 673.1</td>
<td>$ 580.6</td>
<td>$ (92.5)</td>
</tr>
<tr>
<td>Other Funds</td>
<td>8.0</td>
<td>11.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>900.7</td>
<td>1,165.0</td>
<td>264.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,581.8</strong></td>
<td><strong>$ 1,757.5</strong></td>
<td><strong>$ 175.7</strong></td>
</tr>
</tbody>
</table>

Optional Services (50% state funds)

<table>
<thead>
<tr>
<th></th>
<th>FY 13</th>
<th>FY 16</th>
<th>+$ 50 M</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$480 M</td>
<td>$530 M</td>
<td></td>
</tr>
</tbody>
</table>
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
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

## FY 17 Compared to 14

<table>
<thead>
<tr>
<th># of Positions</th>
<th>Full Time</th>
<th>Part Time</th>
<th>Non-Perm</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 14</td>
<td>20,441</td>
<td>1755</td>
<td>613</td>
<td>22,809</td>
</tr>
<tr>
<td>FY 17</td>
<td>19,200</td>
<td>1598</td>
<td>417</td>
<td>21,215</td>
</tr>
<tr>
<td>Difference</td>
<td>-1,241</td>
<td>-157</td>
<td>-196</td>
<td>-1,594</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost</th>
<th>UGF</th>
<th>DGF</th>
<th>Other</th>
<th>Federal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 14</td>
<td>$1,188.0</td>
<td>$254.3</td>
<td>$476.9</td>
<td>$276.7</td>
<td>$2,195.9</td>
</tr>
<tr>
<td>FY 17</td>
<td>$985.4</td>
<td>$347.2</td>
<td>$509.2</td>
<td>$276.9</td>
<td>$2,118.7</td>
</tr>
<tr>
<td>Difference</td>
<td>-$202.6</td>
<td>$92.9</td>
<td>$32.3</td>
<td>$0.2</td>
<td>-$77.2</td>
</tr>
</tbody>
</table>

77 lay offs
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

<table>
<thead>
<tr>
<th></th>
<th>FY 15</th>
<th>FY 17</th>
<th>FY 17 v 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>$702.8</td>
<td>$580.2</td>
<td>$(122.6)</td>
</tr>
<tr>
<td>Retired Employees</td>
<td>491.9</td>
<td>528.5</td>
<td>36.6</td>
</tr>
<tr>
<td>Active Employees</td>
<td>371.9</td>
<td>338.6</td>
<td>(33.3)</td>
</tr>
<tr>
<td>Inmates</td>
<td>43.7</td>
<td>38.3</td>
<td>(5.4)</td>
</tr>
<tr>
<td>Workers Comp</td>
<td>27.2</td>
<td>26.5</td>
<td>(0.7)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,637.5</td>
<td>$1,512.1</td>
<td>$(125.4)</td>
</tr>
</tbody>
</table>

All state funds
Permanent Fund Earnings and How We Use Them

Est. Earnings Reserve Balance $9 billion
June 30, 2017
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
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
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
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