

# State of Alaska

## FY2019 Budget Overview

Office of Management and Budget  
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Alaska State Hospital & Nursing Home Association

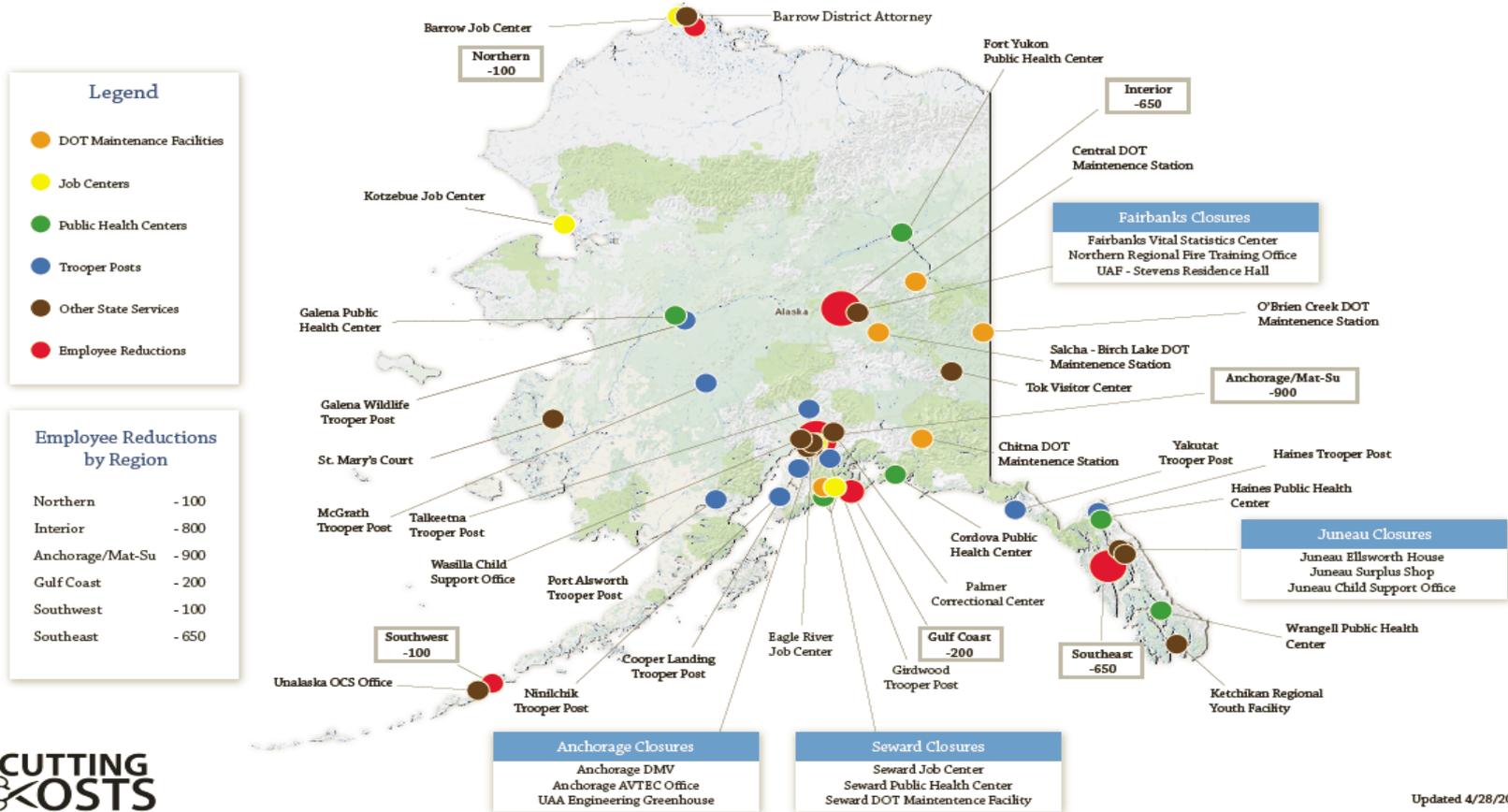
February 27, 2018

# State Fiscal Overview in Household Terms

- Income has dropped **70%** from \$80,000 to \$23,600
- Spending has been reduced **41%** from \$80,000 to \$47,300
  - You stopped building your cabin, stopped remodeling, you'll keep your old car, and take backpacking weekends instead of to Disney.
  - You have moved to a smaller apartment and you stopped eating out.
- The **\$190,000** in the bank is now **\$27,200**. Gone by end of the year.
- Retirement accounts have increased **39%** over this time.
- You have \$720,000 in an IRA and you need to decide to use it and how much you want to use? But will it last your lifetime?

# Spending: State Budget Overview

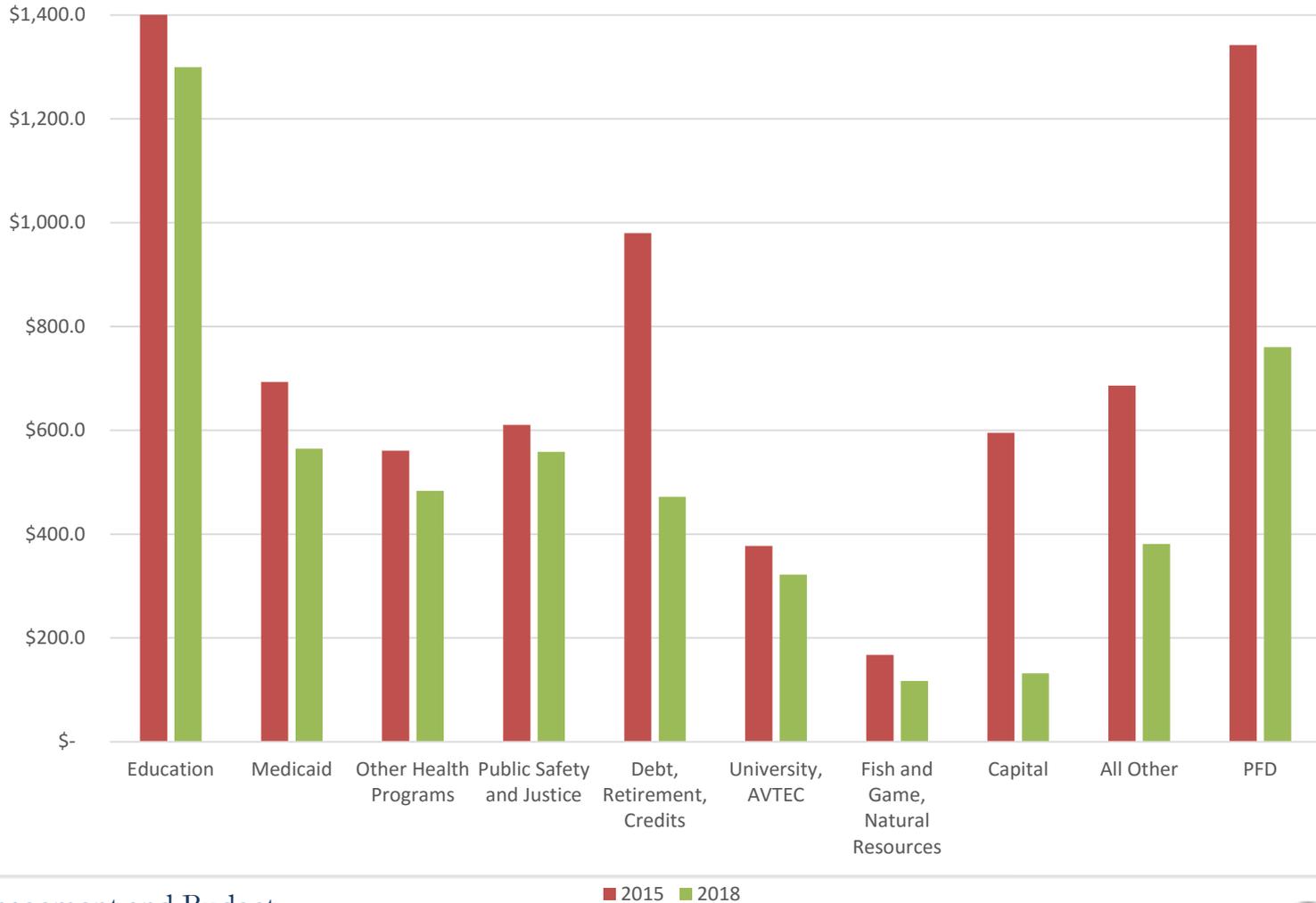
## Closed State Facilities



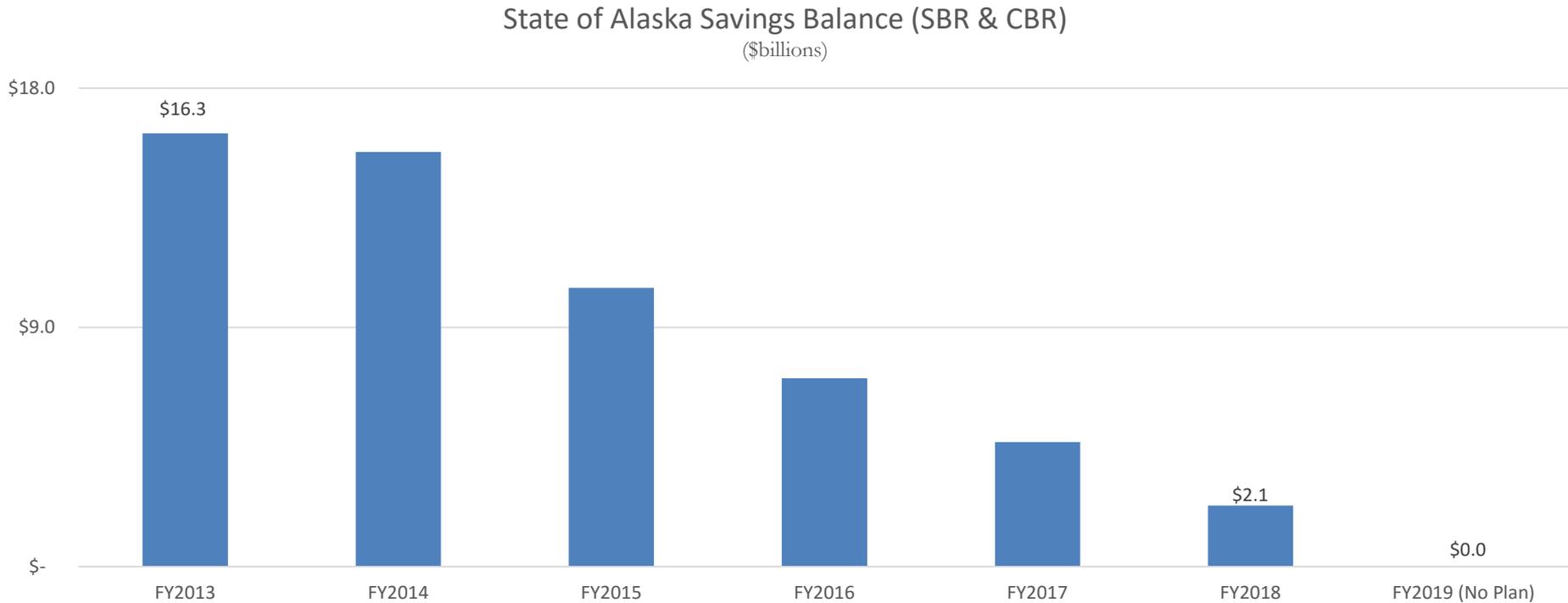
Updated 4/28/2017

# Spending: State Budget Overview

## State Budget Reductions Since Coming into Office



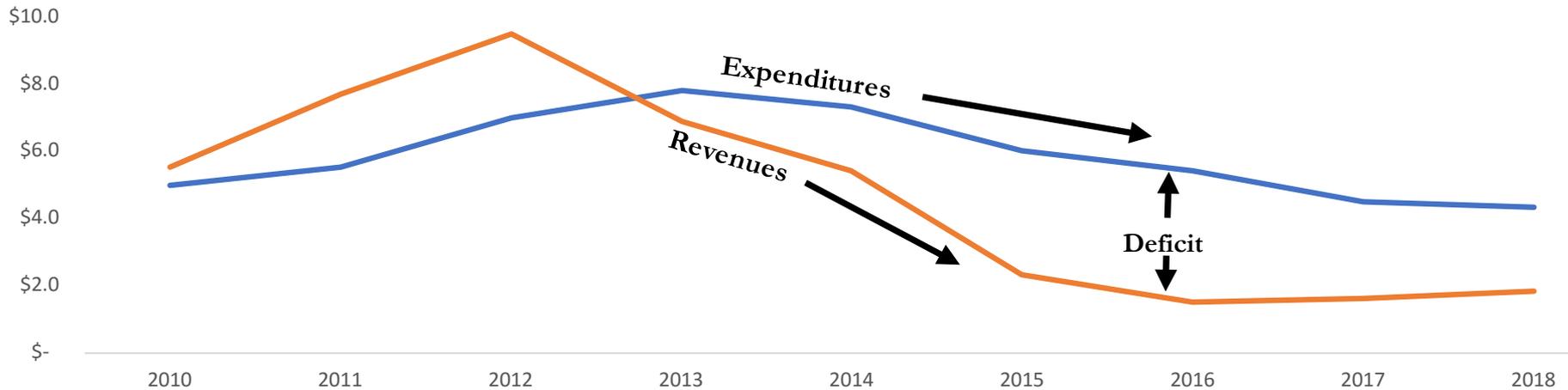
# Savings: State Budget Overview



- Alaska has the most volatile revenue of any state
- Ongoing fiscal gaps deplete the state's reserves
- Maintaining sufficient savings is prudent to hedge against low oil prices, stock market volatility or other unforeseen events

# Spending: State Budget Overview

FY2010-2018 State Revenue and Expenditure (Without Dividend)  
(\$Billions)



Substantial budget reductions have been made (41 percent since FY2013 - \$3.2 billion), but revenues have declined by 70 percent during that time.

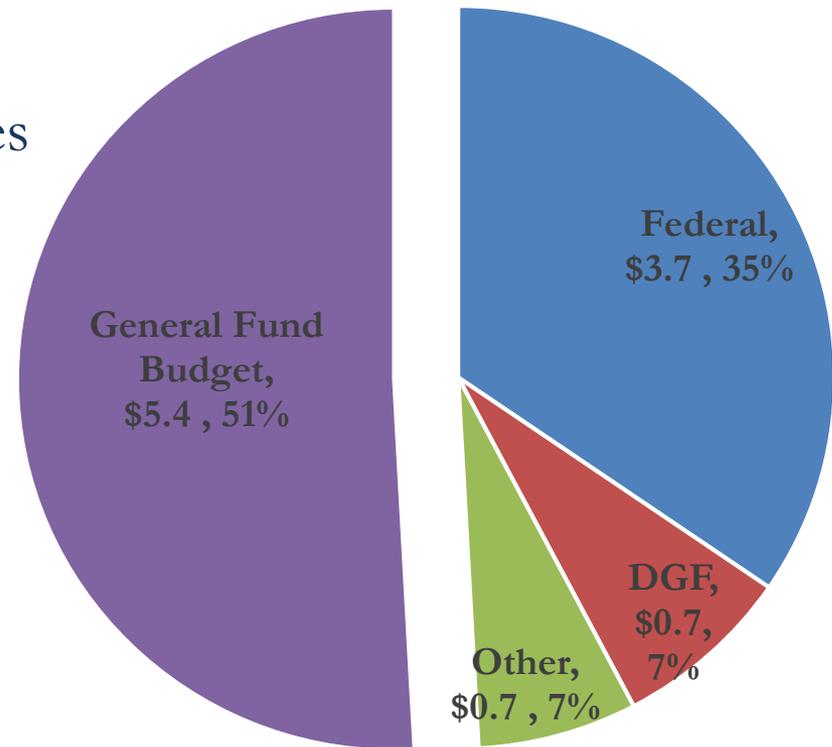
FY2019 deficit of \$2.5 billion.

# State Budget Overview

The total state budget is \$10.6 billion, and comprises:

- Federally funded programs
- Service generated revenue
- State funded programs and services

**Only 50%** of the budget is state spending which impacts the deficit.



# State Budget Overview

More than 50% of the state-funded share of the budget is sent as direct payments to communities, providers, oil companies, and individuals.

Payments are for items such as:

- Medicaid payments to providers (on behalf of enrollees)
- K-12 Schools
- Retirement payments (on behalf of communities and schools)
- School debt reimbursement
- Senior benefits
- Public assistance
- Foster care
- Oil and gas tax credits
- Permanent Fund Dividends

Less than 50% of state funded budget is spent on government services like troopers, road maintenance, ferries, airports, prisons, the legislature, Pioneer Homes, the courts, the governor's office, fish and game, etc.

# Cost Avoidance - Efficiency

## Smarter Alaska

### Office of Information Technology

The purpose of this centralization is to deliver lower cost information technology services by leveraging the purchasing power of the state as a single organization.

### Shared Services

The Shared Services initiative resulted in a ten percent savings to back-office administrative functions during its first year. An additional ten percent savings will be realized in fiscal year 2019.

### Facilities Consolidation

The new Facilities Services division strives to place the right maintenance employee at the right facility at the right time to better care for state facilities and realize savings.

### Health Care Reform

The State of Alaska spends \$1.4 billion annually on health care and covers 340,000 lives directly or indirectly.

Early successes including:

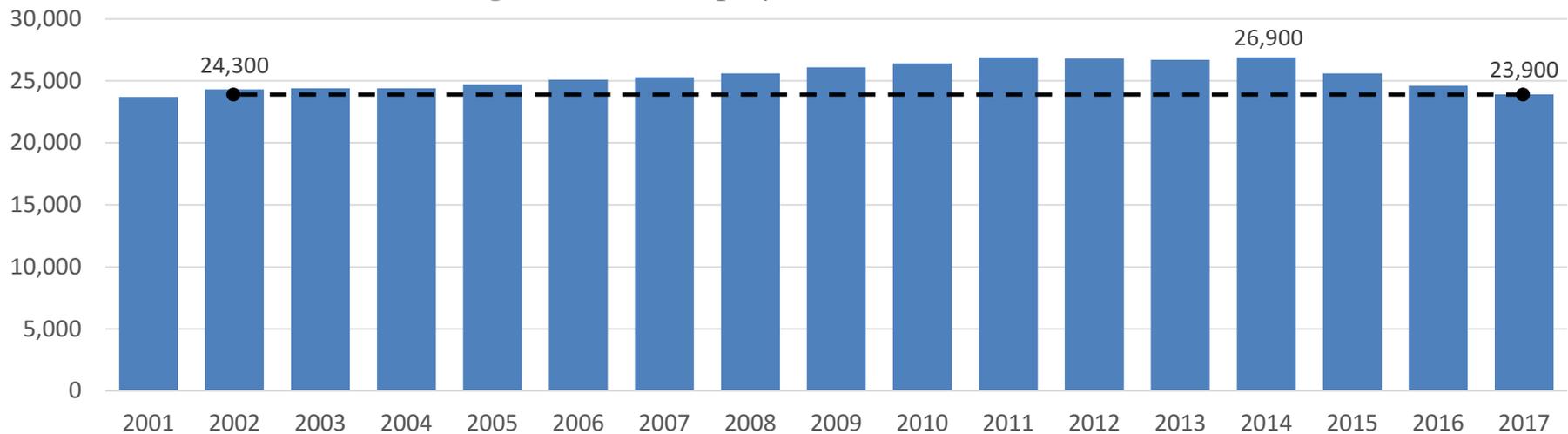
- \$25.5 million in savings through Medicare Part-D Employer Group Waiver Plan (EGWP).
- Continued work on the individual market (HB374). Monthly premiums to fall over 20%
- \$1.0 million allocated to continued work towards health care authority (\$0.75 million) and stakeholder process for broader Alaska health care reform strategies (\$0.25 million)

# State Employment Reductions

## State government employment below 2002 levels

- There were 3,000 fewer state government employees in November 2017 than the same month in 2014, the year state government employment peaked.
- State government employment is at its lowest level in 16 years, since 2002. Over this period, Alaska's population has grown 15%.

State government employment, November 2001 - 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Note: Total includes University

# Cost Drivers – Health Care

Health care costs funded directly and indirectly in state budget

<b>Fiscal Year 2019</b>	<b>All state funds</b>
<b>Employer health plan contributions for employees</b>	<b>\$650,500.0</b>
Employer health plan contribution (all branches)	\$223,500.0
State employee workers compensation	\$25,000.0
University health plan contribution*	\$30,000.0
School District and local government health plan contribution*	\$310,500
PRS/TRS Retiree Health Contribution**	\$61,500.0
<b>Individual market</b>	<b>\$13,000.0</b>
Alaska Reinsurance Program***	\$13,000.0
<b>Direct state program health care costs</b>	<b>\$750,000.0</b>
Medicaid	\$705,000.0
Inmate/Juvenile Justice Health	\$45,000.0
<b>Total Spend</b>	<b>\$1,413,500.0</b>

\*Estimates based on trend projection from PRM Group Health Care Authority Feasibility study

\*\*Payments estimate based on average contribution to retiree health trust

\*\*\*Share of state funded payments from reinsurance fund based on actuarial projection

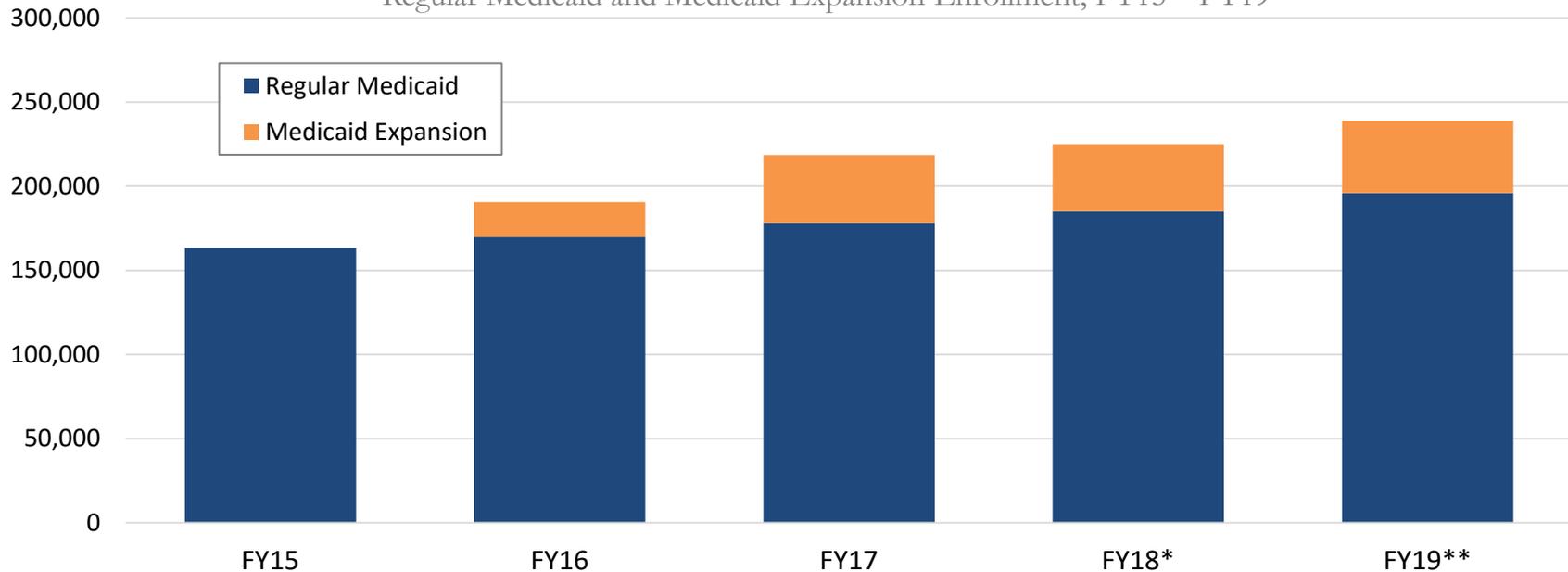
# Cost Drivers – Health Care

## Medicaid enrollment increases due to statewide recession

- Medicaid will provide health coverage for 75,000 more Alaskans in FY19 than FY15
- 32,500 of these new enrollees are in the regular Medicaid program
- The state UGF cost for Medicaid is \$691 million in FY19, compared to \$693 million in FY15

\*Medicaid UGF, DGF, Other \$703 m in FY15 and \$705 m in FY19

Regular Medicaid and Medicaid Expansion Enrollment, FY15 – FY19



\*FY18 estimated annual unduplicated Medicaid enrollment

\*\*FY19 forecast annual unduplicated Medicaid enrollment

# Key Budget Items

## Safer Alaska

### Public Safety Investments - \$34.0 million; 18 positions

- Enhanced trooper and prosecutor presence in rural Alaska, substance abuse treatment grants, statewide drug prosecutor

## Medicaid

- Medicaid fully funded (covers 75,000 more Alaskans including 42,500 expansion at virtually the same cost to the state as in FY2015 (\$691 million))

## Health Care

- \$1.0 million for continued work towards health care authority (\$0.75 million) and stakeholder process for broader Alaska health care reform strategies (\$0.25 million)

## Stronger Alaska

### Oil and Gas Exploration Credits

- Deficit neutral debt refinancing
- Explorers offered payment today, at a discount (starting at 10%) instead of waiting

### Alaska Liquefied Natural Gas Pipeline

- Signed 5-party agreement. Natural gas is available to Alaskans, first and foremost
- 12,000 jobs and \$2.0 billion in annual economic activity, Future revenue stream to the state

# Key Budget Items

## Base Capital Budget

The Governor's FY2019 capital budget prioritizes annual federal match programs, housing, energy, maintenance, and information technology.

	UGF	Total
Federal Match & Leverage	\$ 103.4	\$ 1,108.6
Housing	\$ 15.0	\$ 30.3
Energy	\$ 1.3	\$ 34.2
Maintenance	\$ 16.3	\$ 24.5
Information Technology	\$ 14.0	\$ 87.6
Total	\$ 150.1	\$ 1,285.2

## Alaska Economic Recovery Act

- \$800.0 million over 3 years/\$1.4 billion in economic impact with federal, local, and private funds
- Housing, state and school deferred maintenance, and energy projects
  - Many smaller projects to ensure work is started today, not after years of environmental studies
  - School maintenance impacts 60+ communities, both rural and urban
  - Does not grow government, takes care of current liabilities
- Funded by a temporary 1.5% wage tax (for 2.5 years), capped at 2 times the PFD amount

# Budget Reform

## Defining the Problem – Consequences of an untimely budget

- Employees and teachers receive layoff notices (reduced morale, increases costly turnover)
- Ferries cannot publish their schedule (foregone revenue)
- Agency staff focusing on government shutdown, not service to Alaskans

## Budget Reform Legislation

- If the Governor fails to submit the budget by December 15<sup>th</sup>
  - Forgo salary and per diem
- If a budget is not passed by legislative day 91:
  - Legislative salaries withheld, per diem forfeited
- Shift to biennial budgeting
  - During the first session of each 2 year cycle, 2 budgets are passed
  - During the second session, a supplemental true-up is passed
    - More time to tackle policy issues
    - Avoid lengthy budget negotiations each year

# Revenue Sensitivity

(\$ billions)

Oil Price Assumption	FY2018		FY2019	
	Revenue	Remaining Deficit	Revenue	Remaining Deficit
Forecast (\$56.00/\$57.00)	\$2.1	(\$2.4)	\$2.0	(\$2.5)
\$50.00/barrel	\$1.9	(\$2.6)	\$1.8	(\$2.8)
\$60.00/barrel	\$2.3	(\$2.2)	\$2.1	(\$2.4)
\$70.00/barrel	\$3.1	(\$1.4)	\$2.7	(\$1.8)
\$80.00/barrel	\$4.1	(\$0.4)	\$3.5	(\$1.1)
\$90.00/barrel	\$5.0	\$0.5	\$4.4	(\$0.1)
\$100.00/barrel	\$6.1	\$1.6	\$5.4	\$0.8

SB26 can produce \$2.7 billion but this amount must be shared between government and dividends.

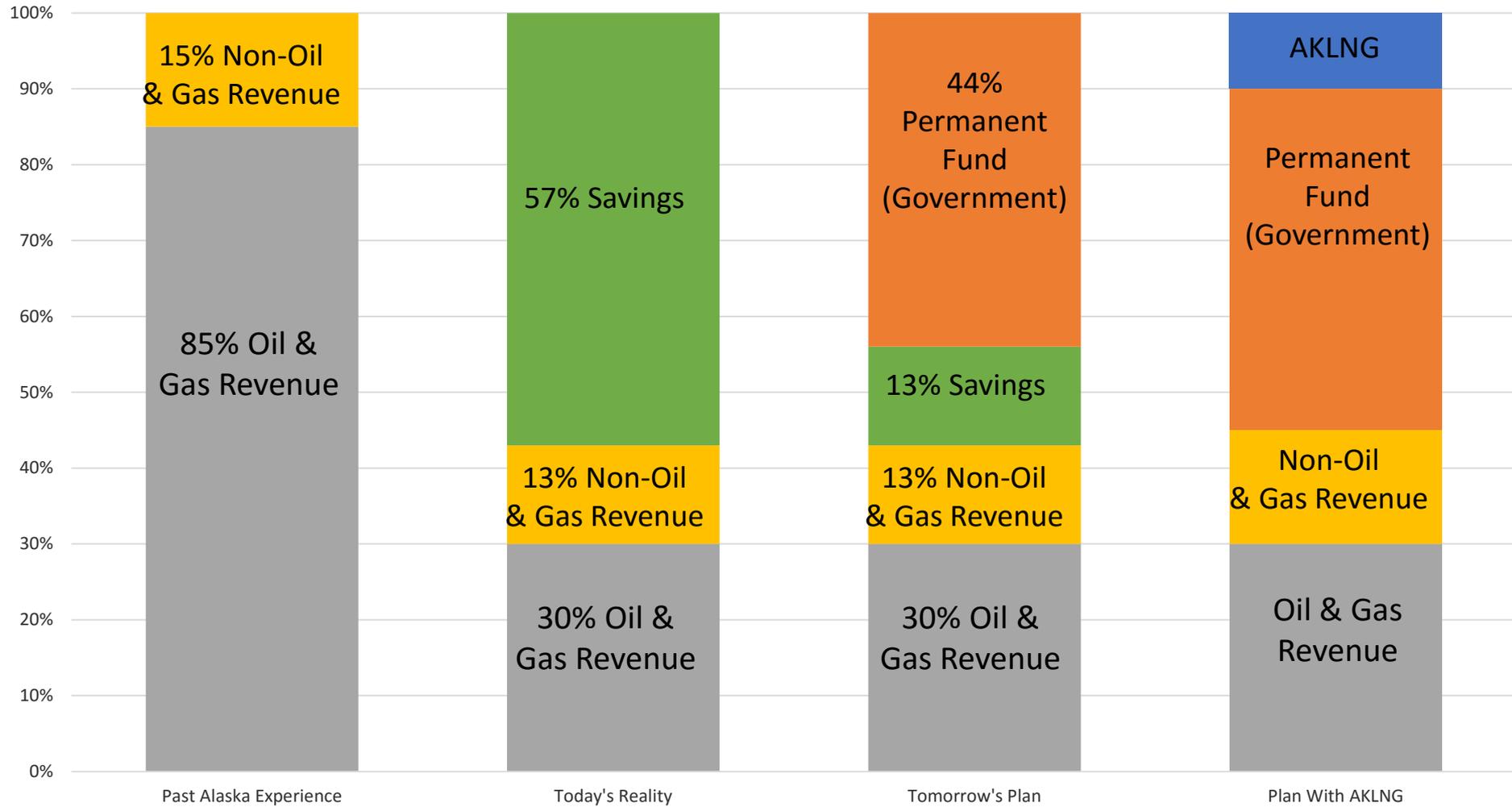
75/25 Split – \$2.1 billion for government/budget balances just above \$65/bbl

70/30 Split – \$2.0 billion for government/budget balances just under \$70/bbl

67/33 Split – \$1.9 billion for government/budget balances at \$70/bbl

ANS West Coast as of 2/5/2018 – \$68.75/bbl

# Diversifying Revenues



# What is Happening in Juneau?

- **House**
- **Senate**
- **SB26**
- **Economic Recovery Act / Payroll Tax**
- **Sales Tax**
- **Constitutional Provisions**
- **New Legislation**

# For more information on the budget

## **Budget Summary:**

[https://www.omb.alaska.gov/ombfiles/19\\_budget/PDFs/FY2019\\_Budget\\_Summary\\_12-15-17\\_V2.pdf](https://www.omb.alaska.gov/ombfiles/19_budget/PDFs/FY2019_Budget_Summary_12-15-17_V2.pdf)

## **Budget Transparency Report:**

[https://www.omb.alaska.gov/ombfiles/19\\_budget/PDFs/FY2019\\_Budget\\_Transparency\\_Report\\_12-15-17.pdf](https://www.omb.alaska.gov/ombfiles/19_budget/PDFs/FY2019_Budget_Transparency_Report_12-15-17.pdf)

## **Tax Credit Financing:**

[https://www.omb.alaska.gov/ombfiles/19\\_budget/PDFs/Tax\\_Credit\\_Certificates\\_Bond\\_Financing\\_Program\\_Summary\\_12-15-17.pdf](https://www.omb.alaska.gov/ombfiles/19_budget/PDFs/Tax_Credit_Certificates_Bond_Financing_Program_Summary_12-15-17.pdf)

## **Budget Reform/Biennial Budgeting**

[https://www.omb.alaska.gov/ombfiles/19\\_budget/PDFs/Budget\\_Reform\\_Summary\\_12-15-17.pdf](https://www.omb.alaska.gov/ombfiles/19_budget/PDFs/Budget_Reform_Summary_12-15-17.pdf)

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ALASKA OFFICE OF  
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