

# FY2019 Budget – Press Packet

## Section 1: Budget Overview



### Highlights

- \$818.8 million – Permanent fund dividend (\$1,216)
- \$34 million – Public Safety Action Plan (20 more positions)
  - o \$4.8 million for more troopers and prosecutors
  - o \$18 million for substance abuse treatment
  - o \$10.5 million to address the growing prison population
  - o \$500 thousand for public defenders
- \$691 million – Medicaid (Up \$27.2 million. Enrollment up 34 percent since FY 2015)
  - In FY 2015, Medicaid covered 163,388 people.
  - In FY2017, 218,385 enrolled
  - In FY 2019, expecting more than 225,000 to be enrolled.
- \$245.5 million – Payment for unfunded retirement liabilities (up \$82 million)
- \$1.26 billion – Education (maintains current student base allocation)
- \$150 million – Capital budget (covering just federal matches)

### Reductions and Downward Pressure

The state has 2,800 fewer employees now than three years ago.

The governor's proposed FY 2019 budget has 217 fewer budgeted positions than the FY 2018 budget the legislature passed. The governor's FY 2019 budget has 2,127 fewer positions than in FY 2015. Efficiency measures are expected to reduce another 200 positions over the next several years.

### Is the budget up or down?

Using the methodology proposed by the Budget Transparency Report, which accounts for use of general fund offsets, fund reclassifications, reappropriations, and supplementals, the fiscal year 2019 budget is \$4.7 billion, down from fiscal year 2018's \$4.8 billion.

Agency operating budgets increased by less than 1 percent (below the rate of inflation). This was driven by the investment in public safety of \$34.0 million, a prison population that grew higher than anticipated, and increased formula costs for Medicaid of \$27.2 million. These increases were offset by continued reductions in executive branch agencies.

Permanent fund dividend spending increased 7.7 percent—from \$760 million last year. Capital budget spending decreased 39 percent from last year.

In total, state spending will be down by 1.7 percent.

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## Section 2: Alaska Economic Recovery Plan



### Overview

Alaska’s Economic Recovery Plan puts Alaskans to work, addresses critical infrastructure concerns, and restores confidence to Alaska businesses and investors. The Governor’s deferred maintenance capital package injects \$1.4 billion of economic activity through construction projects across Alaska. Rather than add new debts to our balance sheet, this plan reduces our existing liability by focusing on the growing deferred maintenance obligation at the state and local level.

Jump-starting Alaska’s economy through this three-phase plan depends on our willingness to invest in Alaska’s future by implementing a limited broad-based tax. This three-phase capital package, funded by \$800 million from three fiscal years of a 1.5% payroll deduction, sunsets in fiscal year 2021. The phased approach is shown below.

#### Project Phased Distribution

	FY2019	FY2020	FY2021	Total
<b>K-12 School Maintenance</b>	\$70	\$65	\$55	\$190
<b>University of AK Maintenance</b>	\$70	\$65	\$55	\$190
<b>State Maintenance</b>	\$50	\$47	\$46	\$143
<b>Critical Infrastructure Upgrades</b>	\$47	\$57	\$58	\$162
<b>Community and Housing Support</b>	\$43	\$36	\$36	\$115
<b>State Investment</b>	<b>\$280</b>	<b>\$270</b>	<b>\$250</b>	<b>\$800</b>
<b>Payroll Tax Revenue</b>	\$160	\$320	\$320	\$800

dollars in millions

### Appropriations

The Alaska Economic Recovery Act, submitted to the legislature as part of this budget proposal, includes appropriations totaling \$280 million in FY2019. Followed with appropriation bills of \$270 million and \$250 million for FY2020 and FY2021, respectively. Over that same period, the estimated revenue from the payroll deduction will total \$800 million and will go to fund the capital program. These infrastructure investments will leverage federal and local monies on top of state funds, amounting to a total of \$1.4 billion in economic activity.

#### Estimated Economic Impact

	State	Federal	Local	Total
<b>K-12 School Maintenance</b>	\$190	\$0	\$50	<b>\$240</b>
<b>University of AK Maintenance</b>	\$190	\$25	\$25	<b>\$240</b>
<b>State Maintenance</b>	\$143	\$10	\$0	<b>\$153</b>
<b>Critical Infrastructure Upgrades</b>	\$162	\$200	\$100	<b>\$462</b>
<b>Community and Housing Support</b>	\$115	\$60	\$30	<b>\$205</b>
<b>Advancing Projects</b>				<b>\$100</b>
<b>Total</b>	<b>\$800</b>	<b>\$295</b>	<b>\$205</b>	<b>\$1,400</b>

dollars in millions

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## Section 2: Alaska Economic Recovery Plan



### Investments:

These infrastructure investments will address the University, K-12, and state facility deferred maintenance liabilities. It also provides investments in deferred maintenance for communities, a match for the Port of Anchorage, and continues the harbor matching grants, bulk fuel tank and weatherization programs.

Focusing on deferred maintenance projects gets work started now – not in a decade after years of studies. Investing in deferred maintenance reduces future liability and conveys Alaska’s willingness to take care of its own assets without increasing future costs. The table below provides the listing of the phased distribution by appropriation. The fiscal year 2019 appropriations included in the Alaska Economic Recovery Act represent phase one.

Investment Category	FY19	FY20	FY21	Estimated Economic Impact			Total
				State	Federal	Local	
<b>K-12 Major Maintenance Grant Fund (AS 14.11.007)</b>	<b>\$70.0</b>	<b>\$65.0</b>	<b>\$55.0</b>	<b>\$190.0</b>	<b>\$0.0</b>	<b>\$50.0</b>	<b>\$240.0</b>
<b>UA Deferred Maintenance, Renovation, Repair and Equipment</b>	<b>\$70.0</b>	<b>\$65.0</b>	<b>\$55.0</b>	<b>\$190.0</b>	<b>\$25.0</b>	<b>\$25.0</b>	<b>\$240.0</b>
<b>State Deferred Maintenance, Renovation, Repair and Equipment</b>	<b>\$50.0</b>	<b>\$47.0</b>	<b>\$46.0</b>	<b>\$143.0</b>	<b>\$10.0</b>	<b>\$0.0</b>	<b>\$153.0</b>
Agency Deferred Maintenance, Renovation, Equipment	\$40.0	\$40.0	\$38.0	\$118.0	\$10.0	\$0.0	\$128.0
Pioneer Home Renovations and Repair	\$2.0	\$2.0	\$2.0	\$6.0	\$0.0	\$0.0	\$6.0
Statewide Contaminated Sites Cleanup	\$1.0		\$1.0	\$2.0	\$0.0	\$0.0	\$2.0
Courts Deferred Maintenance, Renovation, Equipment	\$3.0	\$1.0	\$1.0	\$5.0	\$0.0	\$0.0	\$5.0
Legislative Renovation, Projects, and Technology	\$4.0	\$4.0	\$4.0	\$12.0	\$0.0	\$0.0	\$12.0
<b>Critical Infrastructure Repair and Upgrade</b>	<b>\$47.0</b>	<b>\$57.0</b>	<b>\$58.0</b>	<b>\$162.0</b>	<b>\$200.0</b>	<b>\$100.0</b>	<b>\$462.0</b>
Port of Anchorage Phase 1 requires Municipal Match	\$40.0	\$0.0	\$0.0	\$40.0	\$0.0	\$67.0	\$107.0
Highway Match to Maximize Available Federal Funds	\$7.0	\$4.0	\$6.0	\$17.0	\$170.0	\$0.0	\$187.0
Future Maintenance Priorities		\$53.0	\$52.0	\$105.0	\$30.0	\$33.0	\$168.0
<b>Community Needs and Housing Investments</b>	<b>\$43.0</b>	<b>\$36.0</b>	<b>\$36.0</b>	<b>\$115.0</b>	<b>\$60.0</b>	<b>\$30.0</b>	<b>\$205.0</b>
Municipal Harbor Facility Grant Fund Projects	\$10.0	\$10.0	\$10.0	\$30.0	\$0.0	\$30.0	\$60.0
Alaska Energy Authority - Bulk Fuel Upgrades	\$5.0	\$5.5	\$5.5	\$16.0	\$40.0	\$0.0	\$56.0
Emergency Medical Services Match for Code Blue	\$1.0	\$0.5	\$0.5	\$2.0	\$0.0	\$0.0	\$2.0
Weatherization Program	\$15.0	\$10.0	\$10.0	\$35.0	\$8.0	\$0.0	\$43.0
Housing Facility Maintenance Program (AHFC)	\$7.0	\$5.0	\$5.0	\$17.0	\$12.0	\$0.0	\$29.0
Supplemental Housing Development Program	\$3.0	\$3.0	\$3.0	\$9.0	\$0.0	\$0.0	\$9.0
Senior Citizens Housing Development Program	\$2.0	\$2.0	\$2.0	\$6.0	\$0.0	\$0.0	\$6.0
<b>Advancing Existing Projects</b>							
Restart Paused Road Projects							\$100.0
<b>Total</b>	<b>\$280.0</b>	<b>\$270.0</b>	<b>\$250.0</b>	<b>\$800.0</b>	<b>\$295.0</b>	<b>\$205.0</b>	<b>\$1,400.0</b>

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## Section 2: Alaska Economic Recovery Plan



The deferred maintenance projects included in the plan will impact more than 60 communities statewide. More information on the deferred maintenance project listings or additional project information for the FY19 Alaska Economic Recovery Act appropriations can be found online at OMB FY2019 Budget: Alaska Economic Recovery Plan Overview.

K-12 Major Maintenance Grant Fund (AS 14.11.007)

UA Deferred Maintenance, Renovation, Repair and Equipment

State Deferred Maintenance, Renovation, Repair and Equipment

- Agency Deferred Maintenance, Renovation, Equipment
- Pioneer Home Renovations and Repair
- Statewide Contaminated Sites Cleanup
- Courts Deferred Maintenance, Renovation, Equipment
- Legislative Renovation, Projects, and Technology

Critical Infrastructure Repair and Upgrade

- Port of Anchorage Phase-One (requires municipal match)
- Highway Match to Maximize Available Federal Funds

Community Needs and Housing Investments

- Municipal Harbor Facility Grant Fund Projects
- Alaska Energy Authority - Bulk Fuel Upgrades
- Emergency Medical Services Match for Code Blue
- Weatherization Program
- Housing Facility Maintenance Program (AHFC)
- Supplemental Housing Development Program
- Senior Citizens Housing Development Program

# FY2019 Budget – Press Packet

## Section 2: Alaska Economic Recovery Plan



### Funding Mechanism

Under Governor Walker’s Alaska Economic Recovery Plan, a payroll deduction—collected over three years—would generate \$800 million, which projects to create well over 1,000 jobs for Alaskans. According to [ISER](#), each \$100 million spent on capital projects generates more than 750 jobs.

The limited payroll tax proposal for funding the Alaska Economic Recovery Act is structured as the proposal Governor Walker introduced in September for the fourth special legislative session, except that it will be earmarked solely to fund the deferred maintenance projects described above. The proposal taxes 1.5 percent of wages earned by Alaskans and non-resident workers, capped at \$2,200 or twice the previous year’s permanent fund dividend amount—whichever is higher. For example, a person who earned \$50,000 would pay \$750 in payroll tax and receive a PFD.

About fifteen percent of the revenue collected from the tax is projected to come from [non-resident workers, who in 2015 earned more than \\$2.7 billion](#). Under this proposal, Alaskans would pay the lowest taxes on a nationwide basis. *(For more information, see: OMB FY2019 Budget: Limited Payroll Deduction Tax Bill Summary)*

**Estimated Impact of Capped Payroll Tax**

Total Wages and Self-Employment Income	Tax Obligation	Permanent Fund Dividend	Net Tax Payment
\$25,000	\$375	\$1,100	(\$725)
\$50,000	\$750	\$1,100	(\$350)
\$75,000	\$1,125	\$1,100	\$25
\$100,000	\$1,500	\$1,100	\$400
\$150,000	\$2,200	\$1,100	\$1,100
\$200,000	\$2,200	\$1,100	\$1,100

*Example from October, 2017*

### Oil Tax Credit Payment Proposal:

Following the Legislature’s passage of HB111, ending the flawed cash credit program, Governor Walker asked the Department of Revenue to further explore options for expediting payment of outstanding oil and gas exploration tax credits.

As part of the Alaska Economic Recovery Plan, we propose to pay off the remainder of our outstanding future-obligations to independent oil and gas exploration companies at a modest discount rate in fiscal year 2019. To fund payment of these outstanding credits, the state will issue bonds. The credit holders will be paid at a discount that covers the cost of borrowing. By paying these obligations, at no additional expense to the state or burden on the treasury, we’ll put this chapter behind us and help give small operators confidence to in Alaska. *(For more information, see: OMB FY2019 Budget: Tax Credit Certificates Bond Financing Program Summary)*

# FY2019 Budget – Press Packet

## Section 3: Budget Reform



**Alaska’s budget process is broken...** In recent years, budget gridlock has cost the state millions in legislative overtime, devalued the citizens’ mandate for a 90-day session, and put the state on the brink of government shutdown.

Due to budget gridlock, Alaska now takes the most time to produce the least legislation at the highest per capita costs of any Legislature in the country. Many Alaskans believe we cannot fix our fiscal problem without first fixing our broken budget process.

This legislation adds consequences, through loss of pay and per diem, if the Governor or the Legislature fail to complete their budget work by statutory deadlines. This legislation also makes Alaska’s budget process biennial, simultaneously reducing costs to the state and uncertainty for Alaskans. In tandem, the plan seeks to improve budget transparency.

**Consequences for Failure:** First, this legislation requires the Legislature to pass a budget by the 90-day deadline set by Alaskans in 2006. Otherwise, beginning on day 91 of the legislative session, legislators would forfeit per diem and have salary withheld until budget passage. Likewise, if the Governor failed to publish a budget by December 15, he/she would receive no salary for each overdue day.

Failure to finish budget work on time hurts Alaskans. School districts lose any certainty over their budgets and are forced to send pink slips to teachers. State agencies must send layoff notices to employees. Fisheries openings, ferry schedules, and project permitting are all thrown into chaos. This plan creates consequences and removes de facto incentives for inaction. <sup>1</sup>

**A Biennial Budget:** This plan establishes a biennial rather than annual budget. The Governor would introduce a complete budget prior to the start of each legislature to fund the next two fiscal years. The Legislature would pass two budgets for the next two years by day 90 of the first session. While the Legislature could still review policy legislation, its primary focus during its first session would be the budgets. During its second session, the Legislature would be able to focus on policy bills with far less time devoted to supplemental spending and budget amendments.

A biennial budget would increase legislative efficiency, avoid weaponizing the budget in election years, reduce economic uncertainty, shift staff time from budget preparation to financial management, and enable longer-range fiscal planning for state and local government. <sup>2</sup>

**Budget Transparency:** In tandem with the above legislation, the Administration will work with the Legislative Budget and Audit Committee to produce the Alaska Budget Transparency Report, to better assist the public in understanding the trend of state spending over time. Past years have seen use of strategies that artificially reduce general fund spending. Clearly accounting for these strategies is essential to enable an accurate public understanding of state spending over time. *See OMB: FY2019 Budget Transparency Report.*

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<sup>1</sup> California is one example that shows the effectiveness of this approach. Voters in California, disgusted by legislative gridlock, approved an initiative (Proposition 25) requiring its legislature to pass a budget on time or forfeit pay for each day of delay. The results speak for themselves. From 1980 to 2010, twenty-five budgets passed late. In 2008, the budget was 100 days late. In 2011, the first year under Proposition 25, the budget was passed 12 days late, **and on time every year since.**

<sup>2</sup> This is not a partisan issue. At the federal level, congressional leaders from both sides, including Speaker of the House Paul Ryan (R-WI), support moving the federal budget from annual to biennial.