A View of Alaska's Budget Choices if …

…there is no action by the Legislature or if only the permanent fund restructure (SB128) is passed but no taxes

Governor Walker's plan balances the state's budget within two years through a combination of continued spending cuts, sustainable use of permanent fund earnings, and modest tax increases.

Absent legislative action to implement the components necessary for the balanced and sustainable budget, below are two budget scenarios showing what a state budget would be when Alaska is faced with reducing spending to meet available revenue. One is the "No Action Plan" and requires a state budget of $1.5 billion revenue. This revenue level assumes an optimistic $55/bbl price of oil, increasing over time to offset production declines. The other is the "SB128 but No Tax Plan" and assumes a budget of $3.4 billion, $1.5 billion current revenue at $55/bbl plus $1.9 billion, the amount expected if SB128 passes the legislature, but no other revenue measures. The CBR will be completely depleted in FY18 without new revenue measures. In FY19, Alaska could be facing these scenarios.

No Action Plan:

The CBR will be completely depleted in FY18. After that, Alaska's current revenue structure will produce approximately $1.5 billion in unrestricted general funds (UGF), assuming oil price returns to $55/bbl. Petroleum based tax and royalty at $55/bbl produce about $950 million and all other taxes; corporate, excise, fees, and investment income, are $550 million. Table 1. on page 3, shows an example of what the budget by agency would need to be to fit within the available $1.5 billion revenue. Below are observations and impacts of a $1.5 million spending:

- The budget would be one-third of the current FY17 budget and only one-quarter of the FY15 budget.
- Most government agency operating budgets would be 10 to 20% of current levels, a level similar to state spending experienced in the late 1960's.
- School funding would be reduced to 32% of the current $1.25 billion, dropping to $400 million.
- Local education employment would fall from the current 24,400 to an estimated 10,000 statewide.
- The Alaska Performance Scholarship and Power Cost Assistance would end in FY19.

- Medicaid and other health formula funding would be reduced by 25% to maintain as much federal coverage as possible.
- All other health programs would be shut down, privatized, or significantly reduced. These include senior benefits, child care benefits, homeless assistance, victim's assistance, housing programs, pioneer homes, health clinics, public health labs, etc.
- Fish and Game, Environmental Conservation, and Natural Resources combined would have $18 million in operating revenue compared to $134 million total in FY17. This represents less than 10% of the FY15 funding level.
- Transportation's operating budget would be less than $40 million compared to the $218 million. Road maintenance and ferry service would end for some segments and be significantly curtailed on others. Many of the 240 state maintained airports would be closed, and the rest would have reduced operations.
- The legislature would have a budget of $11.6 million compared to the current $64 million 15% of FY15. The current budget is just over $1M per legislator, it would drop to $193,000 per legislator.
- There would be no 'on behalf' retirement payments, no school debt reimbursement, and no community revenue sharing, shifting all those costs to local governments.
- There would be no rural school construction funding or rural school maintenance.
- Most prisons would be closed, and prisoners either released early or send to out of state facilities as a result of funding at 25% of current level.
- Public safety would be 25% of current level, leaving most areas without trooper presence.
- The capital budget would be less than $20 million costing the state federal highway match funding.
- AVTEC and most University campuses would loss all state funding. Any campuses remaining campuses would receive one-third or less of current revenue.
- Up to 50% of state and university facilities would need to be sold or shuttered.
- State Library and Museum facilities would operate only at the level that could be sustained by earned revenue and fund raising.
- State employment would drop by an estimated 12,000 employees (25,000 total, ~13,000 UGF funded, cut 70% of UGF employees, and cut 25% of state employees on other fund sources due to lack of matching funds).
- The drop in state and education employment plus the reduction in Medicaid would precipitate significant reduction in health care spending compounding overall state job losses.
- The amount spent for the Permanent Fund Dividend would nearly match the total state budget.

Table 1. Budget Choices Alaska Would Face at $1.5B (in thousands)

Revenue Level		1.5 Billion		
	FY2017 Budget	Total Budget	Percent of FY2017	Percent of FY2015
Basic Administration (Gov, Admin, Revenue)	$ 120,066	$ 21,611.9	18%	14%
Legislature	$ 64,676	$ 11,641.7	18%	15%
Courts	$ 106,614	$ 19,190.4	18%	17%
Transportation	$ 218,336	$ 38,890.8	18%	14%
Education (Formula)	$ 1,248,790	$ 400,000.0	32%	30%
Education (Non Form)	$ 35,694	$ 5,000.0	14%	9%
Capital	$ 96,137	$ 17,304.7	18%	3%
DNR&Fish&Game&DEC	$ 134,474.8	$ 17,481.7	13%	9%
All Other Governemnt Functions	$ 102,580.4	$ 13,335.5	13%	7%
Debt	$ 182,192	$ 90,693.9	50%	41%
Retirement on Behalf Payments	$ 134,419	$ -	0%	0%
State Employer Share of Retirement	$ -	$ 40,124.4		
Oil & Gas Credits	$ 32,000	$ -	0%	0%
Corrections	$ 266,372	$ 66,593.0	25%	22%
Public Safety	$ 156,255	$ 39,063.6	25%	23%
H&SS Medicaid and Other Formula	$ 724,131	$ 543,097.9	75%	63%
H&SS Operations and Grants	$ 354,214	$ 99,761.1	28%	26%
Transfers / REAA / Community Revenue	$ 62,491	$ -	0%	0%
University	$ 324,884	$ 76,209.0	23%	21%
Total	$ 4,364,324	$ 1,500,000	34%	25%

The cost shift to communities would be significant. Table 2. shows the impact of the cost shifting to communities of varying sizes assuming a total state budget of $1.5 billion. As the largest community, Anchorage would face a $332 million state revenue reduction, equating to 65% of Anchorage's current property tax revenue. This compared to the FY17 vetoes of $14.8M.

Table 2. Revenue Loss Communities Face with No Action Plan (in thousands)

	Eliminate On Behalf Retirement Payments		Eliminate Urban School Debt Assistance	Fund K-12 Formula at $400 million		Total at $1.5 Billion Revenue
Community	(Muni)	(SD)	School Debt	Pupil Trans	Foundation	Total
Anchorage	$ 4,828.6	$ 37,993.9	$ 44,852.8	$ 15,630.3	$ 229,034.0	$ 332,339.6
Mat-Su	$ 518.7	$ 13,314.0	$ 22,779.2	$ 11,630.5	$ 116,232.6	$ 164,475.0
Juneau	$ 928.1	$ 4,075.8	$ 12,302.3	$ 2,134.8	$ 25,735.9	$ 45,176.7
Kodiak	$ 266.5	$ 1,873.4	$ 5,515.5	$ 1,407.9	$ 18,526.4	$ 27,589.7
Kake	$ -	$ 122.0	$ -	$ 19.9	$ 1,272.8	$ 1,414.7

The SB128 but No Tax Plan:

Alaska's current revenue structure will produce approximately $1.5 billion in unrestricted general funds (UGF) if oil price returns to $55/bbl. If the Senate Bill 128 (Permanent Fund Protection Act) is passed in its current form, state revenue will increase by ~$1.9 billion and provide total UGF of $3.4 billion. Table 3. on page 5, shows an example of what the budget would need to be to fit within $3.4 billion revenue. Below are observations and impacts of a $3.4 million spending:

- The budget would be 78% of the current FY17 budget and just over half, 56%, of the FY15 budget.
- Most government agency operating budgets would be cut an additional 25% from the current levels and operate at 40-60% of the FY15 level.
- School funding would be reduced to 80% of the current $1.25 billion, dropping to $1.0 billion.
- Local education employment would see 3,000 to 5,000 fewer employees from the current 24,400.
- Medicaid and other health formula funding would be reduced by 10% to protect federal coverage.
- All other health programs would see an additional 25% reduction, impacting senior benefits, child care benefits, homeless assistance, victim's assistance, housing programs, pioneer homes, health clinics, public health labs, etc.
- Fish and Game, Environmental Conservation, and Natural Resources combined would have $100 million in operating revenue compared to $134 million total in FY17. This represents about 59% of the FY15 funding level. Higher fees for permitting and inspections would be expected.
- Transportations operating budget would be $163 million compared to the $218 million. Road maintenance and ferry service would be curtailed. Many of the 240 state maintained airports would be closed or have reduced operations.
- The legislature would have a budget of $48.5 million compared to the current $64 million over 60% of FY15. The current budget is just over $1 million per legislator, it would drop to $800,000 per legislator.
- There would be no 'on behalf' retirement payments, no school debt reimbursement, and no community revenue sharing shifting those costs to local governments.
- The Alaska Performance Scholarship and Power Cost Assistance will be reduced and eliminated within 5 years.
- There would be no rural school construction funding and minimal rural school maintenance.
- Corrections would be reduced an additional 10%. Two or possibly three prisons would be closed and some prisoners will be housed out of state.

- Public safety would be reduced an additional 10% from the current level, leaving some areas without trooper presence.
- The capital budget will remain at the minimal level to meet federal highway and other match requirements at $100 million.
- University funding would be reduced another $80 million likely forcing campus closures and possible divestitures to communities.
- Some state and university facilities would need to be sold or shuttered.
- State employment would drop by another 2,000 employees on top of the 2,100 fewer expected by the end of FY17.

Table 3. Budget Choices Alaska Would Face at $3.4B (in thousands)

Revenue Level		3.4 Billion		
	FY2017 Budget	Total Budget	Percent of FY2017	Percent of FY2015
Basic Administration (Gov, Admin, Revenue)	$ 120,065.9	$ 90,049.4	75%	59%
Legislature	$ 64,676.0	$ 48,507.0	75%	62%
Courts	$ 106,613.6	$ 79,960.2	75%	71%
Transportation	$ 218,336.1	$ 163,752.1	75%	59%
Education (Formula)	$ 1,248,789.9	$ 1,000,000.0	80%	74%
Education (Non Form)	$ 35,693.7	$ 26,770.3	75%	47%
Capital	$ 96,137.1	$ 108,947.1	113%	18%
DNR&Fish&Game&DEC	$ 134,474.8	$ 100,856.1	75%	53%
All Other Governemnt Functions	$ 102,580.4	$ 76,935.3	75%	41%
Debt	$ 182,191.9	$ 90,693.9	50%	41%
Retirement on Behalf Payments	$ 134,419.4	$ -	0%	0%
State Employer Share of Retirement	$ -	$ 40,124.4		
Oil & Gas Credits	$ 32,000.0	$ 32,000.0	100%	5%
Corrections	$ 266,372.0	$ 239,734.8	90%	81%
Public Safety	$ 156,254.5	$ 140,629.1	90%	82%
H&SS Medicaid and Other Formula	$ 724,130.5	$ 651,717.5	90%	75%
H&SS Operations and Grants	$ 354,213.7	$ 265,660.3	75%	68%
Transfers / REAA / Community Revenue	$ 62,491.0	$ -	0%	0%
University	$ 324,883.5	$ 243,662.6	75%	66%
Total	$ 4,364,324.0	$ 3,400,000.0	78%	56%

Even at the increased $3.4 billion budget level, the cost shift to communities would be significant. Table 4. On page 6, shows the impact of the cost shifting to communities of varying sizes assuming a total state budget of $3.4 billion.

Table 4. Revenue Loss Communities Face with the SB128 but No Tax Plan (in thousands)

	Eliminate On Behalf Retirement Payments		Eliminate Urban School Debt Assistance	Fund K-12 Formula at $1.0 billion		Total at $3.4 Billion Revenue
Community	**(Muni)**	**(SD)**	**School Debt**	**Pupil Trans**	**Foundation**	**Total**
Anchorage	$ 4,828.6	$ 37,993.9	$ 44,852.8	$ 5,137.2	$ 75,276.0	$ 168,088.5
Mat-Su	$ 518.7	$ 13,314.0	$ 22,779.2	$ 3,822.6	$ 38,201.9	$ 78,636.3
Juneau	$ 928.1	$ 4,075.8	$ 12,302.3	$ 701.6	$ 8,458.5	$ 26,466.3
Kodiak	$ 266.5	$ 1,873.4	$ 5,515.5	$ 462.7	$ 6,089.0	$ 14,207.1
Kake	$ -	$ 122.0	$ -	$ 6.5	$ 418.3	$ 546.9

Without a broad based statewide tax, these costs will likely be shifted to communities. Using the Mat-Su Borough as an example; the community would need to increase property taxes by 7 mills to cover this lost revenue if they wanted to maintain schools at the current level. If they chose not to maintain school funding, just the debt assistance and 'on behalf' retirement payments equates to an additional 3 mills. In addition to all the other services lost, a Mat-Su Borough resident with a $200,000 home would pay $600 to $1,400 more in property tax; this is very similar to a 1% income tax yet does not include help from non-residents.