OFFICE OF GOVERNOR BILL WALKER

FY2019 Budget Overview and 10-Year Plan

Office of Management and Budget
December 15, 2017

A Vision for Alaska's Future

The Walker-Mallott administration is releasing a budget for fiscal year 2019 that is designed to rebuild confidence in Alaska and invest in our economy, bolster public safety, and work toward a fiscal plan that protects the opportunities of future Alaskans.

Although we have struggled in recent years to balance the state's budget, we have the resources – natural, financial, and most importantly, human – to get through this rough patch and grow Alaska. Alaska is in a recession now, but our economy is the sum of individual decisions made by businesses and families based on how they feel about the state's future. We must do what we can to bring stability and confidence to Alaska's economy, safety to Alaska's communities, and address long-term public liabilities and deferred maintenance.

Public safety is a critical priority in this budget. If Alaskans don't feel safe in their communities, they won't live, work or invest in them. That's why we are including investments in public safety resources in the budget to tackle crime and address the opioid and drug trafficking epidemic.

Stable funding for education is another vital element in the budget. This is an investment in a critical aspect of our economy – the future workforce. Safe streets and good schools build strong communities that make families willing to ride out tough times. Protecting these foundational public services creates opportunities for entrepreneurial Alaskans to invest, create private sector jobs, and grow our economy.

Balancing Alaska's need for essential public services against a multi-year fiscal deficit means we need to run a smarter, leaner state government. The Walker-Mallott administration is continuing to generate government efficiencies through consolidation and reform. State agency operating costs have already been cut $498 million between FY2015 and FY2018, and the state workforce has shrunk by 2,800 employees between 2014 and 2017. The FY2019 budget continues to reduce the state government workforce and no employees are receiving cost-of-living salary increases. Additionally, the administration is aggressively targeting health care costs in the state budget.

Alaska has the highest unemployment rate in the nation, and we need to get Alaskans back to work building Alaska. The construction industry has been one of the hardest hit during this recession – nearly one in five construction jobs in Alaska has disappeared over the past three years. The budget includes capital construction projects designed to get work started now – not in a decade after years of studies. The deferred maintenance projects proposed in the Alaska Economic Recovery Act aren't simply make-work projects that will increase the state's future costs. In fact, investing in deferred maintenance reduces future liability and conveys that the state is willing to take care of its own assets – without growing the size of government.

Our plan for working toward fiscal stability asks Alaskans to participate as co-investors in the effort by contributing through a limited payroll deduction tax that sunsets in three years. The proceeds from this tax will be used to fund the capital construction projects that will put Alaskans back to work now, and once Alaska's economy is growing and the tax is no longer necessary, it will go away.

Alaska must plan for a future with a smaller, more efficient state government that maintains a basic level of essential services and infrastructure that enable the economy to grow and prosper. This plan ensures we have the right tools to build a **Stronger, Safer**, and **Smarter** Alaska.

Details for the fiscal year 2019 budget and the ten-year fiscal plan required under AS 37.07.020(b)(2) follow.

Click here to move to the 2019 budget summary

Stronger Alaska

Alaska Economic Recovery Plan

The Alaska Economic Recovery Plan will put Alaskans to work, address state and communities' growing deferred maintenance liability, and provide confidence to Alaska businesses and investors. The Governor's deferred maintenance capital package will inject $1.4 billion of economic activity in construction projects throughout the state.

The Alaska Economic Recovery Plan is comprised of three elements described in more detail throughout this document: 1) the limited payroll deduction tax, 2) the Alaska Economic Recovery Act, and 3) the oil and gas tax credit certificates bond financing program.

The limited payroll deduction tax is a three-year 1.5 percent tax on wages and self-employment earnings. The tax will generate revenue from residents and non-resident workers. The maximum tax is capped at twice the amount of the dividend and will sunset in 2021. This revenue will be used to fund the Alaska Economic Recovery Act, legislation to provide $800 million for deferred maintenance work in 60 communities across the state over three years. This investment is contingent upon passage of the payroll tax.

The Alaska Economic Recovery Act, submitted to the legislature, includes appropriations totaling $280 million in fiscal year 2019. It will be followed with appropriation bills of $270 million and $250 million for fiscal years 2020 and 2021, respectively. Over that same period, the estimated revenue from the payroll tax will total $800 million, sufficient to fund the capital projects. This funding will leverage federal and local monies on top of state funds, amounting to a total of $1.4 billion in economic activity.

This investment will address the University, K-12, and state facility deferred maintenance liability. It also provides funding for deferred maintenance in communities, including a match for the Port of Anchorage, and continues the harbor matching grants, bulk fuel tank and weatherization programs.

The focus on deferred maintenance projects is designed to get work started now – not in a decade after years of studies. The deferred maintenance projects proposed in the Alaska Economic Recovery Act aren't simply make-work projects that will increase the state's future costs. In fact, investing in deferred maintenance reduces future liability and conveys that the state is willing to take care of its own assets.

The Walker-Mallott administration takes immense pride in Alaska having one of the best trained construction workforce in the country. By putting these skilled individuals to work now, they will stay in Alaska and the be ready for even bigger construction projects. With renewed certainty in the economy and a trained workforce up to the task, Alaska will be ready for future development, such as the Alaska Liquefied Natural Gas Project, development of the Arctic National Wildlife Refuge (ANWR) '1002' region, and other promising opportunities on the horizon.

Oil and Gas Credits

To encourage exploration and development on the North Slope, and in preparation for the opening of promising fields such as the Arctic National Wildlife Refuge (ANWR) '1002' region and National Petroleum Reserve-Alaska (NPR-A), Governor Walker plans to use a debt-financing mechanism to pay off oil and gas exploration tax credits more quickly than if we only made the statutory formula payment to the industry.

Oil companies in Alaska today are asset-rich but cash-poor. Smaller oil companies are sitting on billions of dollars in untapped potential. Paying off these credits sooner gives oil companies the capital necessary to make strategic investments that bring new fields online, create jobs, and buoy the state general fund with royalty and tax money to support government services.

Thanks to the legislature preventing the state from assuming additional future credit liability with last year's passage of HB 111, and the promising development opportunities on the horizon, the administration wants to give the oil industry the certainty that they need to invest in future petroleum development. For many credit holders, the delay in payment has limited their ability to obtain financing for viable oil exploration and development projects. To reduce uncertainty, restore confidence and put Alaskans back to work, the administration proposes to buy back all credits at a modest discount.

The state will finance this early, discounted buy-back by selling bonds. The debt financing cost over the lifetime of the debt will be offset by the discount taken by oil companies who are eager to receive their cash now, rather than on the schedule set by statutory formula. This makes the plan deficit-neutral, and it allows the state to make smaller debt payments up-front – a good thing during a budget deficit.

Click Here for More information

Alaska Liquefied Natural Gas Pipeline

A gasline will bring much needed economic development to the state, generating over 12,000 jobs for Alaskans, and circulating $2 billion in the state economy each year. Completing the liquefied natural gas pipeline project to ensure the earliest possible new revenue stream is a critical investment in Alaska's future fiscal health.

With buy-in at the highest level, including the support of the Presidents of the U.S. and China, the Alaska LNG project is progressing forward. What makes this effort so promising is that, for the first time ever, Alaska has a customer. China is already Alaska's top trade partner for seafood, minerals, timber, and energy. In just a few short years, China will be the largest consumer of natural gas in the world, and they'll be buying from Alaska.

Financing structures are beginning to emerge as well. The Bank of China is developing a framework for lending the state funds for construction of the pipeline. This is the fourth largest bank in the world with a proven track record of financing LNG projects all over the world. The fiscal year 2019 budget for Alaska Gasline Development Corporation includes authority to accept funds from third party investors, but requires no additional state funding.

A key priority for the administration is ensuring that natural gas is available to Alaskans, first and foremost. Gas will be sold all over the world, but Alaska residents will get the gas first and remain majority owners of the pipeline.

Maximizing Natural Resource Development Opportunities

The horizon holds many exciting opportunities for developing Alaska's natural resources that will create jobs, grow Alaska's economy, and generate additional state revenue. The Department of Natural Resource's oil production forecast incorporates many of these prospect fields, including Pikka, Nuna, Mustang, Greater Mooses Tooth, Willow, Moose Pat, Moraine and Liberty, on a risk-weighted basis. The "high case" production forecast is meant to capture this upside potential in oil development, representing an additional 150 million barrels of production over the next ten years, raising our production throughput in ten years by 100,000 barrels per day over current estimates, and producing $100 million more revenue annually at current price estimates. Additionally, excitement over recent discoveries is encouraging further exploration, which is likely to result in even more discoveries over the next several years.

The likelihood of an ANWR '1002' area lease sale has increased dramatically over the past few months as Congress has acted favorably toward this option. The ANWR '1002' area is estimated to hold billions of barrels of oil and, once developed, has the potential to contribute hundreds of thousands of barrels of oil per day to pipeline throughput. For reference, current base revenue estimates in the out-years assume 500,000 barrels of oil per day. Under the current federal proposal, half of the federal receipts from these '1002' lease sales would accrue to the state.

The mining sector is another place for optimism. Alaska is rich with valuable minerals; specifically, over a trillion dollars' worth of gold, copper and zinc, plus significant amounts of rare earth minerals. Advancing prospects such as Donlin Gold and Livengood will reach production in the next decade, creating thousands of good jobs for Alaskans and as much as $100 million in annual revenues to the state.

Safer Alaska

Public safety is a critical priority in this budget. If Alaskans don't feel safe in their communities, they won't live, work or invest in them. That's why the budget includes investments in public safety resources in the budget to tackle crime and address the opioid and drug trafficking epidemic. Public safety is a core function of government and needs to be swiftly addressed. That's why the fiscal year 2019 budget contains funding increases for public safety.

Since 2011, crime has been steadily increasing across Alaska. Crime statistics from 2016, the most recent year available, starkly highlight the gravity of the ongoing public safety problem. To address these trends, Governor Walker tasked the state's public safety agencies with evaluating the rise in crime and developing a Public Safety Action Plan. The plan focuses efforts on improving outcomes in the criminal justice system, identifying public safety resource needs, improving access to mental health and substance abuse treatment, and addressing the opioid and drug trafficking epidemic. With current budgets and staffing, the public safety agencies can only be reactive, not proactive. To combat the root causes of the rise in crime, the state must build-up its public safety resources and continue to enhance both federal and local public safety partnerships, especially in rural Alaska.

This budget funds the Public Safety Action Plan and other public safety initiatives with $34 million in fiscal year 2019 to shore up critical public safety resources and build Alaska's substance abuse treatment capacity. Rural law enforcement is a priority in the plan, and this budget calls for $3 million in funding for enhanced trooper and prosecutor presence in rural Alaska. Crime statistics are going up, and although everyone in the state is feeling it, trends noted by the Department of Law show that rural Alaska has been hit particularly hard at a time when the number of sworn officers per capita is at a ten-year low. Anchorage has also been hit hard, with a record number of homicides in 2017. That is why the budget also proposes adding two prosecutors to the Anchorage office.

Beyond its rural outreach initiatives, the Department of Public Safety is establishing a crime reporting unit that will streamline the crime reporting process, make better use of trooper resources, and serve as a data-sharing hub for law enforcement agencies across the state to enhance interagency communication and coordination. Better crime data and analytics capacity will lead to better outcomes across the criminal justice and public safety systems – helping law enforcement become more proactive in combatting crime.

Finally, the opioid epidemic requires acute intervention from both public health and public safety agencies. This budget continues to fund a four-year $18 million grant program for expanding substance use disorder treatment capacity at the community level. This initiative aims to take another step in building out a comprehensive continuum of care for substance abuse treatment services, including outpatient services, intensive case management, residential treatment, medically-monitored sobering centers, Medication Assisted Treatment (MAT), withdrawal management (detoxification) services and recovery support. Additionally, a prosecutor has been added in Anchorage to lead and coordinate statewide drug prosecution efforts. Because of the urgency of the opioid crisis, the new statewide prosecutor was established this year, which took resources away from other types of prosecutors. To continue these statewide drug prosecution efforts, a new position in the Anchorage area is funded in the fiscal year 2019 budget.

Public safety is a critical budget priority and will remain an area of investment in future years, particularly as the opioid epidemic spreads. The Public Safety Action Plan initiatives and other public safety funding will provide a solid foundation to building a safer and stronger Alaska.

Criminal Justice and Public Safety Spending Plan ($ thousands)			
	FY2019	**FY2020**	**FY20201**
Department of Public Safety	$3,650.6	$2,500.0	$2,500.0
Department of Law	$1,163.2	$500.0	$500.0
Department of Corrections	$10,447.6	$8,000.0	$8,000.0
Department of Health and Social Services	$18,000.0*	$10,000.0	$5,000.0
	**FY18 supplemental*		
Department of Administration	$453.5	-	-

Health Care

The Walker-Mallott administration is aggressively pursuing strategies to reign in health care cost growth in the state budget while ensuring state employees and public assistance beneficiaries have appropriate access to quality care. Health care spending has been one of the largest and fastest growing areas in the state budget, and cost containment efforts continue to ensure that the rising costs of health care don't displace other spending priorities.

AlaskaCare Initiatives

The AlaskaCare employee plan realized significant savings in 2017 by modestly increasing employee premiums, adjusting plan benefits and pursuing greater provider discounts. State contributions to employee health plans will remain flat in calendar year 2018 because of these changes. Further cost saving measures are slated for the 2018 plan year, continuing downward pressure on employee health costs.

The AlaskaCare retiree plan will implement the Medicare Part-D Employer Group Waiver at the beginning of the 2019 plan year, which increases the Medicare subsidy to the retiree health plan for prescription drug coverage. This change is estimated to result in significant savings to not only the retiree health trust, but also to the state payment to PERS/TRS retirement accounts. Preliminary estimates indicate that these savings will amount to $25.5 million in fiscal year 2019 and up to $51 million in subsequent years.

Potential Health Care Budget Cost Avoidance Projections (millions)			
	FY2019	FY2020	FY2021
Baseline State Health Care Budget Projection (current trend 5.2%)	$ 1,414.0	$ 1,487.0	$ 1,565.0
Sustainable State Health Care Budget Projection (inflation 2.25%)	$ 1,414.0	$ 1,445.8	$ 1,478.3
Savings needed (sustainable - current):		$ (41.2)	$ (86.7)
Cost avoidance strategies			
Implement EGWP CY2019	$ (20.0)	$ (50.0)	$ (50.0)
Health Care Authority savings		$ (10.0)	$ (20.0)
Medicaid enrollment declines as economy recovers			$ (10.0)

Medicaid

Alaska's Medicaid program provides essential health coverage to low- and moderate-income Alaskans. With nearly 200,000 lives covered by the program, Medicaid is the biggest health plan in Alaska and a critical element of the state's health care system. Medicaid is also one of the largest components of the state budget; a trend that is common across all states.

Medicaid enrollment has grown substantially in recent years driven by two concurrent and equally significant factors: Medicaid expansion, which broadened eligibility requirements for adults; and Alaska's statewide recession, which heightened demand for social assistance as families suffer from slow business, reduced work hours and lost jobs. Because the federal government pays for nearly all of services covered by Medicaid expansion, recession-driven growth in the regular, non-expansion Medicaid program has been far costlier to the state treasury.

In 2016, the administration partnered with the legislature to pass extensive reforms to the Medicaid program designed to drive efficiencies, improve program outcomes and reduce the per-enrollee cost of care. Although enrollment growth has driven up total costs for the program, reforms implemented by SB74 and other efficiency measures resulted in over $100 million in avoided costs in fiscal year 2017. These savings are expected to grow as the Department of Health and Social Services continues to implement reforms, although upward pressure on demand for public assistance will continue as Alaska's economy remains in a recession.

Alaska Reinsurance Program

Alaska's reinsurance program was established in 2016 to bring stability to the state's ailing individual and small-group insurance market. Monthly premiums in the individual market, which were already the highest in the country, were slated to increase more than 40 percent in 2017. The stabilizing impact of the reinsurance program, which the federal government agreed to partially fund, led to an increase in benchmark premiums by less than 10 percent in 2017 and a reduction of over 20 percent in 2018. While there is much more to be done to address Alaska's high health care costs, the reinsurance program has provided some relief to Alaska families who obtain health coverage on the individual market.

Health Care Authority

The legislature directed the Department of Administration to conduct a series of studies that evaluate the feasibility and estimate the cost savings from establishing a consolidated public employer health care authority. The studies identified that the State of Alaska, school districts and political subdivisions either directly or indirectly fund health benefits for more than 340,000 covered lives at a total cost of over $2.0 billion. Health benefit coverage for this population is highly fragmented, with over 100 different health plans offered through various bargaining units, employers and Medicaid.

The studies estimated varied levels of savings based on the degree of interruption to the status quo. On the conservative end, savings attained by consolidating health plan management and pooled purchasing for all State of Alaska, school district and political subdivision employees and dependents were estimated to be a 2.4 percent cost reduction from the baseline growth projection in five years. More aggressive interventions resulted in higher savings estimates. A public employer health care authority that pursues reference-based pricing, accelerates health plan tiering and implements value-based benefit plan design is estimated to save up to 7.5 percent in five years compared to baseline projected growth.

The State of Alaska can't afford to ignore an opportunity to reduce health care cost growth in the budget, but setting up a health care authority in Alaska will take time to implement in a way that doesn't unfavorably distort the health care market or harm public employees. The fiscal year 2019 budget includes funding to continue to assess the potential benefits of consolidated health plan management among public employers. This may include AlaskaCare and other public employee plans making an initial, voluntary step toward pooled purchasing of health plan services like third-party plan administration or pharmacy benefits management.

While there is a clear need to contain health care cost growth in the state budget, Governor Walker recognizes the importance of addressing Alaska's health care system holistically. The challenges posed by the prohibitive costs of care aren't faced by the public sector alone – businesses, non-profits and individuals are forced to make tough choices about the risks they're willing to take with their health and finances. This is why the governor's budget includes funding directed toward building a health care system work that works for all Alaskans.

Smarter Alaska

K-12 Education

Alaska's students attend schools in a land of unique opportunity and challenge. Providing an excellent education in Alaska's context requires 53 districts, some of which are larger in land area than many states.

For far too long, Alaska's schools have ranked in the bottom tier of our country in both academic achievement and graduation rate. In 2015, Alaska ranked lower than 41 states in fourth grade reading and lower than 29 states in fourth grade math. In the 2016-2017 school year, the statewide four-year graduation rate for Alaska high schoolers was 78 percent – lower than the national average.

During the past year, over 100 Alaskans met in five communities to rethink our system of public education. Guided by over 1,000 responses to a statewide survey, students, parents, educators, community leaders and legislators worked together to develop a shared vision for a renewed commitment to Alaska's students. These three commitments will guide and inspire the specific strategies and action-plans throughout the system:

1) Increase Student Success: Success will be identified using multiple measures as part of a rich and varied curriculum;
2) Cultivate Safety and Well-Being: All schools will be safe and nourish student well-being
3) Support Responsible and Reflective Learning: Students, families, tribes, educators and communities will participate in educational opportunities

The Walker-Mallott administration embraces the importance of equitable educational opportunities for all students in the state. As a result, the fiscal year 2019 budget supports PreK-12 education and University of Alaska programs to improved academic achievement and create opportunities for Alaska's future workforce. Building on the work of Alaska's Education Challenge, the Department of Education is leading a shared vision for an excellent education every day. The governor's budget also includes funding for pre-elementary school programs to ensure all students are ready for kindergarten and beyond.

The Alaska Economic Recovery Act directs $70 million to school maintenance projects in fiscal year 2019. Schools across the state will receive funding to ensure that students are educated in safe facilities that are conducive to the learning process.

University of Alaska

Education extends beyond the K-12 system, which is why the fiscal year 2019 budget is also providing support to our university system. Alaska's land-, sea- and space-grant system has the potential to develop Alaska's next great leaders, workers and business owners. Alaska boasts the only arctic university in the United States, and the UA system's three universities with extended community campuses and learning centers serve nearly 31,000 full- and part-time students. This budget continues to fund UA operations at a sustainable level.

Investing in University of Alaska infrastructure is a key element of the Alaska Economic Recovery Act, which includes $70 million for deferred maintenance projects at UA campuses and facilities across the state.

Budget Reform and Transparency

Governor Walker is proposing legislation that would make changes to the budget process itself. In the first year of each two-year legislative cycle, two budget bills will be passed – one for each of the next two fiscal years. This process is known as biennial budgeting.

This change is intended to reduce the inefficiency, ineffectiveness, and uncertainty that have plagued the current annual budget process. A biennial budget will ensure that spending bills are passed in a timely fashion and that government employees, teachers, university staff, and other public servants are not given layoff notices every June. The process of planning for potential government shutdowns has an adverse impact to the public and the economy. Agency staff should be focused on serving the public to the best of their ability rather than planning for potential government shutdowns and diverting resources away from their core missions.

Additionally, passing two budgets in a single year frees up time during the second year of a legislative cycle to focus on public policy issues that impact everyday Alaskans such as public safety, health and social services, education, and cost-saving initiatives.

A second element of the budget reform bill delivers an incentive for government leaders to get their work done on time. As part of this bill, the governor won't receive his or her salary or per diem if the budget is not published on December 15th, and legislators will forfeit their per diem and their salary will be withheld for each day they don't pass a budget after the 90th day of session.

The budget reform bill will be accompanied with a budget transparency report to the Alaska legislature outlining significant usage of one-time sources, supplemental funding for future years and other budget strategies to help the public in comparing state spending from year to year.

Shared Services and Other Efficiencies

Although significant reductions have already been made to the budget, it is anticipated that state spending will remain highly constrained into the future. By necessity, the state continues to look for administrative efficiencies and other common-sense reforms to ensure that Alaskans are receiving the best value possible from their government.

<u>Shared Services of Alaska</u>

The Shared Services organization provides back-office administrative functions common to all state agencies. This organization model builds a smarter Alaska by reducing administrative costs, improving service quality, and enabling the effective delivery of front-line state services. By aggressively looking for savings in administrative functions agencies will have additional resources to focus on their core missions, rather than accounting, payroll, travel, and other side functions that detract from the agencies' core mission.

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.

Through partnerships with every agency, Shared Services will be focused on delivering a single, standardized approach for processing all business transactions. This standardization will bring cost savings through efficiency and enabling state agencies to focus on their core missions.

Information Technology Consolidation

The Office of Information Technology (OIT) was created to better align the State of Alaska's IT

Savings from Shared Services and Other Efficiencies ($ millions)			
	FY2019	**FY2020**	**FY20201**
Office of Information Technology	$(1.0)	$(5.0)	$(12.0)
Shared Services of Alaska	$(1.0)	$(2.0)	$(3.0)
Additional Administrative Efficiencies	$(0.5)	$(1.0)	$(2.0)

organizations. 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.

Consolidating and taking an enterprise-level approach to the management of information systems will result in significant savings for agencies over time. Centralizing IT services such as customer support, data storage, data visualization, network and security, and telecommunications will drive efficiencies and enable agencies to focus on their priorities.

Facilities Maintenance Consolidation

The State of Alaska is transitioning from the current decentralized method of facilities maintenance to the new consolidated method. By centralizing this function within the Department of Transportation and Public Facilities, the process of maintaining public facilities can become more effective and efficient. With added accountability between the Department of Transportation and Public Facilities (as the service provider) and customer agencies (the facilities owner), the process of maintaining these building will become more streamlined and result in savings. A pilot phase is planned for FY2019 beginning with the facilities in Juneau, with other locations to follow in subsequent budget cycles.

Initial savings will be realized through the elimination of duplicative information systems, less travel associated with a more coordinated statewide approach to maintenance, and fewer contractor payments as 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.

Lean Kaizen Processes

Kaizen is a process improvement technique that focuses on reducing wasteful and unnecessary steps that can be all too common in a bureaucracy or large organization. Kaizen facilitators help agencies map out processes like procurement, accounts payable, billing, or collection and find ways to eliminate steps and reduce the overall time it takes to complete work. Since late 2016, thirteen agencies or process teams have held a kaizen. As an example, the statewide accounts payable kaizen, which included finance officers from twelve departments, resulted in a 67 percent reduction in process steps, 72 percent fewer decisions and 75 percent fewer loopbacks. Other kaizen events have been held on processes that include facilities maintenance, payroll, material site sales, procurement, and recruitment.

Climate Change

Alaska is America's Arctic, and dramatic changes in our climate impact Alaskans and the land and waters that provide sustenance and economic activity. The budget makes strategic investments in alternative energy projects such as wind, solar and hydroelectric. Although Alaska has tremendous energy resources, Alaskans in rural communities face some of the highest energy costs in the nation. Investing in Alaska's renewable energy potential will allow for increased energy independence and sustainability, particularly in rural Alaska. Reducing energy costs for Alaskans while minimizing Alaska's carbon footprint is a key part of building a smarter Alaska.

The budget includes $11 million for grants to renewable energy projects in rural Alaska that have been carefully evaluated by Alaska Energy Authority. These grants include funding toward three hydroelectric power systems, three heat recovery systems, and two wind energy projects around the state. An additional $8.4 million is available for rural power systems upgrades to help aging rural power infrastructure operate more efficiently, which can reduce fuel usage and emissions.

Governor Walker has charged state agencies to lead by example by ensuring state-owned buildings are operating efficiently to save money and energy. A collegial energy-efficiency contest between thirty-six state-owned buildings in 2017 resulted in a sufficient reduction in energy use to power 230 homes for a year.

The administration released an administrative order on climate change strategy in October 2017, directing the state to develop a collective, strategic response to climate change and to implement climate-related policies. This directive aligns with the administration's vision to work toward diversifying Alaska's economy and transitioning toward the use of more renewable energy.

Revenue

Use of Permanent Fund Earnings

Over 40 years ago, voters approved a constitutional amendment to create the Alaska Permanent Fund (Article IX, Section 15). The balance of the fund is now over $62.0 billion. By drawing on the Permanent Fund in a responsible, formula-driven manner, the Permanent Fund can live up to its name and provide funding for vital government services and dividends for generations to come.

The Permanent Fund Protection Act, as passed by both the House and Senate and currently under deliberation, implements an earnings reserve draw that will be used to pay for the Permanent Fund Dividend and supplement general fund revenues to preserve current government service levels and limit the taxes imposed on residents and businesses. With the passage of the PFPA, fiscal year 2019 will be the first year in which a significant portion of the budget is funded through investment earnings, rather than oil revenues and savings.

A remaining legislative decision point is what portion of the total draw should be distributed among Alaskans via the Permanent Fund Dividend. Governor Walker is proposing a compromise dividend of 30 percent of the draw – halfway between the Senate's 25 percent and House's 30 percent proposals. The 2018 dividend is projected to be approximately $1,216 per Alaskan and will grow with the value of the Permanent Fund.

With the passage of SB26 providing for a structured draw from Fund earnings, $2.0 billion in additional revenue will be available to fund state services in fiscal year 2019. This draw is projected to grow with the value of the fund, ensuring that valuable state services and dividends are preserved for generations to come.

The Walker-Mallott administration believes that the Permanent Fund Dividend is essential aspect of life in Alaska. It bolsters the private sector economy by encouraging spending throughout the state and provides Alaska households with the means to save for college and fill their fuel tanks before winter. Ensuring that the dividend program remains intact and is preserved for future generations is a core tenet of any fiscal solution.

Additional Sources of Revenue

Even with the structured use of Permanent Fund Earnings, a small deficit will persist. Without additional revenues, the state's primary savings accounts, the Constitutional Budget Reserve (CBR) and the Statutory Budget Reserve (SBR) could be depleted in just a few years. Once they are depleted, there will be pressure to take ad-hoc draws from the Permanent Fund, which will erode the value of the fund over time. Excessive draws reduce the amount that future generations of Alaskans will earn from the Fund, resulting in less available revenue for government services and Dividends.

Motor Fuel Tax

Alaska has one of the lowest motor fuel taxes in the nation. Alaska has had an excise tax on motor fuel since 1945, but the highway tax rate was last increased in 1970; marine rate in 1977. The revenue received by the state from motor fuel taxes has not kept pace with inflation and, with fuel costs at record lows, now is the best time for an increase without harming Alaskans struggling to pay at the pump.

The Motor Fuels Tax, which is currently going through the legislative process, is projected to raise over $60 million once fully implemented. After the first year of implementation, the average cost for each Alaska driver will be only $45 per year. The proceeds of this tax will be deposited into a designated fund called the Alaska Transportation Maintenance Fund and will be used for highway, airport and marine highway maintenance to ensure those paying this tax see a direct benefit to the transportation system they rely on every day.

Limited Payroll Tax

Governor Walker will be introducing legislation for a limited tax of 1.5 percent of wages and self-employment income, targeted to raise $800 million over three years, which will be immediately reinvested in the Alaska Economic Recovery Act deferred maintenance package. A sunset provision will repeal this tax in fiscal year 2021, at which time the legislature will have the opportunity to reassess the needs of the state. Presuming the Governor's efforts to encourage private-sector investment in major oil and gas developments become a reality and budget cost-containment efforts prove successful, Alaska may not need additional revenue in the later part of the next ten years.

To get through the current rough patch, a small draw from savings will be required for the next several years until new revenue from natural resource development can be actualized. While it may be tempting to zero out savings before implementing a tax, it is critical that the state maintain at least $1.0 billion in the Constitutional Budget Reserve. Natural disasters and global recessions are unforeseen. A large earthquake, oil spill, or even damage to the trans-Alaska oil pipeline could cost hundreds of millions of dollars. Maintaining a balance in the CBR allows the state to react to these circumstances as they arise. It is also customary practice for the state to use the CBR for cash-flow management. The ability to borrow from the CBR until revenue is received from taxpayers and the federal government allows the state to avoid interest payments to financial institutions. An estimated $1.0 billion is borrowed and paid back during any given fiscal year.

Implementing a modest tax for three years will address the state deferred maintenance liability, rebuild confidence in Alaska's economy and encourage investment and growth in the state.

Conclusion

This plan provides the elements for a compromise. It maintains vital government services and makes key investments in our economy to stimulate job growth and get Alaska back to work. Under this plan, the State budget will stabilize and Alaskans will enjoy the same level of state services that they do today, all with a growing Permanent Fund Dividend. Acting on this plan today will ensure that revenue measures remain modest and that no Alaskan pays more than his or her fair share.

A fix for Alaska's structural deficit is closer than ever. Once the crucial step of getting our fiscal house in order is made, Alaska must plan for a future with a smaller, more efficient state government that maintains a basic level of services and essential infrastructure that enable the economy to grow and prosper.

Department 10-year outlook will be available at a later date

Appendix tables to follow

Unrestricted General Fund Budget By Major Component ($ Millions)

FY2019-FY2028 Budget Projection ($millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Agency Operations (Non-Formula)	$ 1,654.6	$ 1,691.8	$ 1,729.9	$ 1,768.8	$ 1,808.6	$ 1,849.3	$ 1,890.9	$ 1,933.4	$ 1,976.9	$ 2,021.4
Agency Operations (Formula)	$ 2,092.7	$ 2,139.8	$ 2,187.9	$ 2,237.2	$ 2,287.5	$ 2,339.0	$ 2,391.6	$ 2,445.4	$ 2,500.4	$ 2,556.7
Future Efficiencies	$ -	$ (8.0)	$ (17.0)	$ (22.0)	$ (31.0)	$ (36.0)	$ (42.0)	$ (45.0)	$ (50.0)	$ (50.0)
Legislature & Courts	$ 170.0	$ 173.9	$ 177.8	$ 181.8	$ 185.9	$ 190.0	$ 194.3	$ 198.7	$ 203.2	$ 207.7
Total Agency	**$ 3,917.3**	**$ 3,997.5**	**$ 4,078.6**	**$ 4,165.7**	**$ 4,251.0**	**$ 4,342.3**	**$ 4,434.8**	**$ 4,532.5**	**$ 4,630.5**	**$ 4,735.8**
Debt*	$ 201.6	$ 191.4	$ 188.9	$ 170.4	$ 177.5	$ 168.3	$ 159.5	$ 153.7	$ 155.7	$ 89.4
Retirement*	$ 245.5	$ 302.7	$ 340.3	$ 349.4	$ 359.3	$ 370.7	$ 383.0	$ 396.9	$ 414.2	$ 430.5
Fund Capitalizations*	$ 41.7	$ 45.6	$ 45.6	$ 45.6	$ 45.6	$ 45.6	$ 45.6	$ 45.6	$ 45.6	$ 45.6
Oil and Gas Credits (Debt Financed)*	$ 27.0	$ 30.0	$ 63.0	$ 90.0	$ 108.0	$ 117.0	$ 117.0	$ 117.0	$ 117.0	$ 117.0
Total Statewide Items	**$ 515.8**	**$ 569.7**	**$ 637.8**	**$ 655.5**	**$ 690.5**	**$ 701.7**	**$ 705.2**	**$ 713.2**	**$ 732.6**	**$ 682.5**
Capital	**$ 150.1**	**$ 153.4**	**$ 156.9**	**$ 160.4**	**$ 164.0**	**$ 167.7**	**$ 171.5**	**$ 175.4**	**$ 179.3**	**$ 183.3**
Budget (before Dividend)	**$ 4,583.1**	**$ 4,720.6**	**$ 4,873.3**	**$ 4,981.6**	**$ 5,105.5**	**$ 5,211.7**	**$ 5,311.5**	**$ 5,421.1**	**$ 5,542.4**	**$ 5,601.7**
Projected Dividend	**$ 818.9**	**$ 876.7**	**$ 875.4**	**$ 915.2**	**$ 957.5**	**$ 985.4**	**$ 1,007.0**	**$ 1,028.4**	**$ 1,049.8**	**$ 1,071.2**
Transfers	**$ 14.6**	**$ 14.6**	**$ 14.6**	**$ 14.6**	**$ 14.6**	**$ 14.6**	**$ 14.6**	**$ 14.6**	**$ 14.6**	**$ 14.6**
Total Budget Authorization	**$ 5,416.6**	**$ 5,611.9**	**$ 5,763.3**	**$ 5,911.4**	**$ 6,077.6**	**$ 6,211.7**	**$ 6,333.1**	**$ 6,464.1**	**$ 6,606.8**	**$ 6,687.5**
Alaska Economic Recovery Act (Offset by Payroll Tax)	**$ 280.0**	**$ 270.0**	**$ 250.0**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Current Revenues	$ 2,047.1	$ 2,063.2	$ 2,155.7	$ 2,218.9	$ 2,275.2	$ 2,297.1	$ 2,426.8	$ 2,641.3	$ 2,838.8	$ 2,954.0
Adjustments	$ 66.1	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Permanent Fund Protection Act	$ 2,785.7	$ 2,978.5	$ 2,975.5	$ 3,109.1	$ 3,250.0	$ 3,347.1	$ 3,427.5	$ 3,507.4	$ 3,585.8	$ 3,660.7
Motor Fuels Tax	$ 40.3	$ 81.2	$ 81.7	$ 82.3	$ 83.0	$ 83.7	$ 84.4	$ 85.2	$ 86.1	$ 87.0
Gasline Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 250.0	$ 250.0	$ 250.0
Re-Assess in 2022 - to maintain minimum $1B CBR				$ 223.8	$ 332.1	$ 346.5	$ 257.0	$ -	$ -	$ -
Total Revenue	$ 4,939.2	$ 5,122.9	$ 5,212.9	$ 5,634.1	$ 5,940.3	$ 6,074.3	$ 6,195.8	$ 6,483.9	$ 6,760.7	$ 6,951.7
Deficit	$ (477.4)	$ (489.0)	$ (550.3)	$ (277.4)	$ (137.3)	$ (137.3)	$ (137.3)	$ 19.9	$ 153.9	$ 264.2
Savings Balance (CBR/SBR)	**$ 1,876.4**	**$ 1,549.0**	**$ 1,140.1**	**$ 1,000.0**	**$ 1,000.0**	**$ 1,000.0**	**$ 1,000.0**	**$ 1,160.2**	**$ 1,460.4**	**$ 1,879.1**
PF Total Value	**$ 64,697.6**	**$ 66,083.3**	**$ 67,571.7**	**$ 69,023.9**	**$ 70,419.7**	**$ 71,813.0**	**$ 73,237.2**	**$ 74,696.4**	**$ 76,190.6**	**$ 77,706.1**
Per Person Dividend ($/person)	**$ 1,215.98**	**$ 1,294.24**	**$ 1,280.94**	**$ 1,330.43**	**$ 1,383.01**	**$ 1,413.36**	**$ 1,434.39**	**$ 1,454.89**	**$ 1,475.53**	**$ 1,505.47**

*In FY2019, these items are partially funded with appropriations from the Constitutional Budget Reserve Fund (CBR). While traditional reports that are focused on unrestricted general funds will exclude these items, they are listed in their full amount on this table. Budget totals exclude reclassification of unrestricted general fund appropriations to designated sources, reappropriations and other offsets. The budget transparency report details these items to reach a $4.7 billion transparent operating and capital budget.