

## **The Simple Truth State of the State Budget**

**By Representative Lora Reinbold**

The conversation around the state budget hasn't been exactly truthful. The "cuts" have been exaggerated in an attempt to gain public support for "revenue options", i.e. taking your money!

The current state budget is comprised of an Operating Budget of \$8.08 billion and a Capital Budget of \$1.55 billion, for a total State Budget of \$9.63 billion. For the budget wonks, this is the Fiscal Year 2017 (FY17) "enacted" budget. The enacted budget is the final budget after the Governor exercises veto power on the legislature's approved "Conference Committee" budget, and does not include supplemental budget requests. Current and historical budgets are readily available at the State Office of Management and Budget website: ([www.omb.alaska.gov](http://www.omb.alaska.gov)).

The easy, but not necessarily wise, "cuts" have been made. Significant budget cuts have been made to the Capital Budget, the budget that funds infrastructure. Typically these are one-time expenditures for building necessary public facilities like schools, roads, bridges, airports, etc. The FY17 Capital Budget is \$392 million lower than the enacted FY15 Capital Budget of \$1.94 billion, representing a 20% reduction. Arguably, these are not really "cuts" because Capital Budgets are constructed from the ground up, and represent discrete investments in tangible public facilities. Unlike cuts to the Operating Budget, reductions to the Capital Budget are not necessarily sustainable, and they do not reduce expenditures in future budget cycles.

The Operating Budget defines the annual spending plan or, simply put, the cost of the operating state government every year. The budget discussion should focus on managing the operating budget, simply because it is an ongoing annual expense that is taking a big bite out of savings every year. When the Executive Branch claims they have made cuts, look closer. Taking a part of your Permanent Fund Dividend is not a cut to agency operations, rather it's a cut to your pocketbook.

The Operating Budget is broken down between "Agency Operations", essentially the cost of running state government (14 departments, the University of Alaska, the Legislature, the Governor's office and the Court system), and "Statewide Operations". In the enacted FY17 Budget, "Agency Operations" total \$7.50 billion, or 93% of the total State Operating Budget. The remaining 7% (\$0.58 billion) of the Operating Budget is for "Statewide Operations" paying primarily for debt service (\$0.28 billion) and payments to the State Retirement fund (\$0.22 billion).

The Office of Management and Budget reports "Agency Operations" has been reduced from \$7.75 billion in FY15 to \$7.50 billion in FY17. The Governor's FY 18 plan calls for reducing spending on "Agency Operations" to \$7.40 billion. The data, easily accessible to the public, indicate that savings of only 3.3% (\$258 million) have been achieved during the first 2 years of the Walker Administration. If the Governor's FY18 plan is enacted, an additional reduction of 1.3% (\$101 million) is anticipated.

So you ask, how can this be? Many public figures are reporting 20%, 30% and even 40% budget cuts! Well to be honest, it's misleading at best! Here's why. The "cuts" are relative to an artificial high in FY15 when Governor Parnell wisely appropriated \$3 billion to pay down the state retirement plan obligation. The \$3 billion was simply a transfer of funds from the Constitutional Budget Reserves to "Other" funds. This one time "expenditure", was included in the Total Operating Budget (Statewide Operations), creating the artificially high FY15 of \$11.8 billion.

Additionally, when the budget wizards spin a story about large budget cuts, they are referring only to Undesignated General Fund (UGF) spending. The UGF is a "funding source", think of it as an account, and only represents a fraction (52% in FY17) of the state operating budget. The Governor's FY 18 budget proposal calls for a total Operating Budget of \$8.07 billion, with \$4.22 billion in "UGF" spending.

Focusing attention on only one portion of the budget can lead to misguided perceptions, and unusual budgeting behavior. The OMB data indicated that the enacted plan for UGF spending on Agency Operations was reduced by 14% from FY15 to FY17, while at the same time all other funding sources increased, with the Designated General Fund (DGF) up by 18%, Other State Funds up by 10% and Federal Funds up by 10%.

It's time to start being honest with the public about spending their money. Let's not forget every dollar that funds government comes out of the private sector's pocket. We need to start talking about Total Operating Cost, and not one isolated budget funding source, e.g. the Undesignated General Fund (UGF). The public deserves better and should demand honesty, and clarity when discussing the State Budget.

Managing the State Budget, by targeting reduction in only one area of the budget is not the way that a responsible business would look at the cost of running their organization. And certainly their shareholders would not tolerate such behavior. The total operating cost of State Government must be considered.

Before we consider "other revenue" sources, i.e. taking your money in the form of new taxes, or restructuring the Permanent Fund to feed government, we must reduce our spending. Our spending is significantly above the national average. Compared to our own historical spending, our Operating Budget is still about \$1 billion high compared to a 2006 benchmark adjusted upward for inflation and population growth. Additionally, Alaska spends nearly 3 times the national average per capita according the Kaiser Family foundation.

If we are to seriously address the issue, we must be transparent and talk about total operating costs, and the necessary level of State Services. We need to conduct, with the assistance of experts, serious benchmarking to demonstrate what a normal level of State spending looks like. Only then, can we gain the public trust, that government is not squandering the wealth of the State of Alaska.