

A Decade of State Budgets

An old proverb says to “Redeem the Time”, letting us know how precious time is. If you examine the last decade of state budgets, you’ll see a real story of time and timing. In light of the current revenue situation, the future of our budgets is a matter of great concern.

Governor Frank Murkowski’s term ended having almost doubled the state budget over four years, though with surpluses because of the rising price of oil. Governor Sarah Palin took over and with those good prices and the newly enacted punitive tax scheme of ACES had a large increase in her first year’s budget, but with the largest surplus ever. Oil prices then dropped, but her next two budgets maintained that spending level with small surpluses.

From a legislative perspective, the democrats had control of the Senate those three years, and the following three, through a democrat-led coalition. It’s said that in order to get anything done in a divided legislature, you have to spend your way past your differences. That’s exactly what happened, with the Senate becoming the bipartisan spending coalition and driving budgets to ever greater heights. Those three years (FY11-FY13) ended up \$2.6 billion over FY 10 numbers, an increase greater than the FY04 general fund budget.

Sean Parnell had his first budget as governor that year the democrat-led coalition formed. He made record line-item vetoes of \$336 million in FY11 and \$412 million in FY12. In FY13, he cut another \$66 million. At this point, oil revenues started to really decrease because of declining production.

Those six years of liberal dominance in the Senate, from FY08 to FY13, saw an increase of the day-to-day operating budget (no non-formula programs) from \$1.531 billion to \$2.246 billion, an increase of \$715 million. The average spent in the capital budget was \$1.147 billion.

In 2012, the citizens of Alaska pulled together and replaced the spending coalition, with the driving issue being the decline in oil production. The legislature passed oil tax reform, and the voters confirmed their prior vote this last August, upholding the More Alaska Production Act (MAPA). This reform didn’t have any effect on the FY14 and FY15 budgets, but was fortuitously timed since oil prices have just started dropping, and we’re bringing in a lot more money under the low price protection that MAPA gave us than we would have under ACES, to the tune of \$150 million+.

The last two years since the spending coalition was replaced, the day-to-day operating budget increased a scant \$27 million, most of which came from inherited labor contracts. The average of the capital budget for those two years was \$839 million, and a large portion of that was to finish projects partially funded before and to address significant needs that have been ignored up until then, like the UAF Power Plant. The governor worked with the legislature to reduce state spending in FY14 from \$8.0 to \$7.1 billion, and again for FY15, reducing it to \$5.9 billion (reference the Unrestricted General Fund Authorization to Spend, with Supplementals).

There are a few ongoing problems in the budget that will just have to be lived with; formula funding increases, and the debt service payment which went from \$103 to \$243 million per year due to voter

approved bonding packages in 2008, 2010 and 2012. One issue that will start to go away is the \$300 million per year we were paying for ACES tax credits. Also a large fix was done to the PERS/TERS unfunded liability, by paying down the principle by three billion dollars, thereby taking pressure off of the operating budget, with estimates being a savings of \$400 to \$600 million per year. This was critical since those payments had been looking to increase over the next five years to over \$1 billion. Please note, that the FY15 budget didn't include the usual payment for PERS/TERS because of that paydown.

Governor Parnell was in the legislature in the 90s when the oil prices dropped so low as to threaten the state, and was instrumental as co-chair of Senate finance then in getting the budget under control. He showed his foresight this last year, by turning down the Obamacare Medicaid expansion, which while initially paid for by the Federal government, would soon have the State paying a portion that would have put us in dire straits in the future. Recently, Governor Parnell publicly stated the following:

My pledge to Alaskans is that we will continue reducing the state budget so individual Alaskans' liberty and economic opportunity can grow. I will remain the same steady, consistent governor Alaskans can count on.

I can see that the governor's main opponent has gone back and forth on what he will actually do with the budget, with nothing specific except that he would accept the Medicaid increase and its consequences. So what's a fiscal conservative to do? I'll be voting to cut spending by voting for Sean Parnell, a consistent fiscal conservative.