

Walker-Davidson Administration FY2020 Budget Summary

Proposed FY2020 Governor's Operating and Capital Budget Explanation

During every gubernatorial transition a draft budget is created and left for the incoming administration. It is always the expectation that an incoming administration will amend the budget left for their consideration by the prior; in light of the Southcentral earthquake disaster, the budget we leave behind is also not the one that our administration would release on December 15.

It is too soon to know the full cost of the Southcentral earthquake. The FY2020 budget priorities will need to shift to respond to infrastructure and life and safety needs caused by the earthquake. Emergency response and repairs to buildings and roads must be funded.

We have heavy hearts, but faith in the Alaska's resiliency in the aftermath of this disaster. Alaskans will pull together, and our optimism for the future of this great state remains steadfast.

This budget reflects the progress that is possible when we work together for the future of our state and her people. Alaskans working hard for Alaskans – that is the legacy we leave, and that is the spirit we know the incoming administration will bring to responding to this tragedy. God bless you all, the Dunleavy administration, and the great State of Alaska.

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The Budget

Creating a budget that reflects our values necessitates setting boundaries for spending that are both sustainable and strategic. While the next administration may choose to change many of the priorities laid out in this document, it is our hope that the guiding principles will survive, creating a framework and shared set of expectations that serve all Alaskans.

The assumptions this budget is built around include the following:

- The state's FY2020 budget is funded without a draw on the Constitutional Budget Reserve (CBR).
- At least \$2 billion should be saved in the Constitutional Budget Reserve (CBR), and a long-term plan established to meet the constitutional repayment of the \$12 billion borrowed from the CBR.
- A responsible Permanent Fund Dividend should be available to Alaskans today to assure the Permanent Fund Dividend is available to all Alaskans in perpetuity.
- A healthy capital budget is essential to Alaska's economy.
- Education should be fully funded.
- Essential public services should be funded to ensure safe and healthy communities and foster a strong economy.

Although this balance is achieved in FY2020 without new revenue measures, Alaska's state budget remains much too dependent on oil price and the oil industry.

Safer Alaska

Public Safety

For too long, public safety initiatives have been fragmented across multiple agencies with little coordination. Our Public Safety Action Plan (PSAP) has brought all the agencies to the same table so we can make seamless policy decisions that improve the safety and quality of life for Alaskans. Through this work, we have made strategic investments to combat the opioid epidemic, encourage recruitment and retention of Village Public Safety Officers (VPSOs) and State Troopers, and enhance our 911 capabilities. This collaborative approach is bringing about real change, but there is substantial work left to be done. To that end, our budget includes funding for 24 more troopers, 5 more prosecutors, establishing a dedicated sexual assault analysis team, and committing \$6.75 million in capital toward centralized 911 dispatch, improving service and response times throughout our state.

Alaska has been reeling from the opioid crisis, and all parties must continue working together to combat the epidemic. We must continue to seek federal dollars, such as the \$10.4 million received in September, to fund this effort.

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The Alaska Psychiatric Institute (API) has substantial capital and operating needs in order to serve as a strategic safety net for our state. It is unacceptable that Alaskans find themselves in prison because of lack of beds at API. This budget includes 82 new positions to increase the level of care and safety of this crucial institution and to enable it to operate at capacity. Looking forward, expansion of the campus will be necessary. The capital budget includes initial funding for planning of the expansion, and this is an item that should be considered for state general obligation bonding in the future.

Preparedness is essential to Alaska's security. Included in the capital budget is \$1.6 million of state funding for planning the National Guard Readiness Center in the Matanuska Susitna Valley. The ALCANTRA readiness center will serve as the mobilization platform during activation of Alaska Army National Guard troops, and provide much needed training space. At construction, the state match will leverage \$34 million federal dollars to build the facility.

Finally, Alaska must respond to the epidemic of missing and murdered indigenous women in our state. Though we do not have an accurate number, preliminary estimates are hauntingly high, up to 1,200. We must be accountable to the women we have lost, and proactive in our approach going forward. To this end, our budget includes two investigators dedicated to cases of missing and murdered indigenous women, and funding to begin the work of identifying and inventorying past cases and analysis of law enforcement's approach.

Stronger Alaska

Capital

Suppressed capital budgets focused on only the most urgent deferred maintenance projects have been an important piece in holding down spending during the recession. Alaska's bond rating was elevated because of our improved fiscal situation, increasing the affordability of borrowing. As Alaska's revenue stream stabilizes, a healthy, sustainable capital budget and more aggressive deferred maintenance schedule must be part of the economic recovery. With billions in deferred maintenance for facilities and schools, a long-term strategy is needed. That is why our proposed budget includes \$230 million in deferred maintenance projects and setting the state on a path toward a consistent deferred maintenance budget. This investment is important to protect the state's assets, invigorate the construction industry, and retain Alaska's workforce, ensuring that when the gas line is built, we have skilled Alaskans ready to do the job.

The \$230 million in deferred maintenance will be put in as part of the FY19 supplemental budget so work can start as soon as the 2019 summer construction season begins. Thanks to higher than anticipated oil prices, the current FY19 budget and all proposed supplemental items can be funded while maintaining the CBR balance well above original expectation. and If oil prices continue the \$75/bbl average, there will be no CBR draw for FY19.

Ongoing deferred maintenance and capital projects will require general obligation bonding in the future. The deferred maintenance included in this budget could be backfilled with a bond in

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2021, and we have proposed investment in facility planning in anticipation of future bond packages.

Diversifying Economy

When we took office, the state was making significant general fund contributions to support the marketing of tourism and seafood. The return on these investments came in the form of increased visitors and additional cruise sailings as well as consistent growth in exports and recognition of our superior wild Alaskan seafood. In 2016 and 2017, Alaskan Seafood was the most commonly mentioned protein brand on U.S. menus. It was a painful choice to cut general fund support when we took office and inherited a fiscal crisis. Today, it is time the state begins to reinvest in the backbone industries of our economy. The \$12 million included for the tourism industry will allow for the revitalization of the Alaska vacation planner and international marketing efforts, as well as a targeted program to assure direct flights from Asia to Alaska. Direct flights will open up new markets, increasing visitors to our state and growing our economy. A \$3.75 million increase for Alaska Seafood Marketing Institute will leverage additional federal monies, allowing for Alaska's seafood to be marketed internationally; this is especially important as the United States remains embroiled in trade disputes with China, Alaska's largest trading partner. These investments will pay dividends for years to come, supporting Alaskan communities, businesses, and families.

We are proposing funding to fortify and streamline the mine permitting process, creating efficiencies in the process while ensuring the state's robust environmental standards are adhered to. As mineral exploration activities around the state increase, we must ensure that a lack of resources in the Division of Mining, Land and Water isn't the obstacle to job growth and economic development.

Gasline

The Alaska LNG Project has made historic progress over the course of this administration and is closer to reality than ever before. The unprecedented agreement signed in November of 2017, when the project was vetted and witnessed by the Presidents of both the United States and China, has set the stage for this longtime Alaskan dream to become a reality. The LNG project will create more than 10,000 jobs in construction and operation, and another 88,000 in indirect opportunities. This budget includes \$22.4 million in additional investment to assure final commercial negotiations and third-party financing.

Smarter Alaska

Administrative efficiency initiatives that began during the fiscal crisis must continue. The process of centralizing functions across departments is well underway, facilities and OIT, and the Department of Administration continues to implement the Shared Services project. Consolidating administrative responsibilities results in efficiencies and savings, and the refinement of these savings is reflected in the budget.

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Today, Alaska is running a smarter, leaner government. There are 2,900 fewer state employees today compared to the same time 2014, and the state workforce is now below its 2002 levels. By directing Commissioners to focus on capturing savings and staff reductions through attrition, the state has successfully reduced filled, non-university positions by over 1,700 with less than ten percent of those positions being reduced via layoff. We are proud of the progress we have made toward a constrained government. This budget does not include deeper cuts in positions, but still holds the line on any non-strategic growth. It is the expectation that Commissioners will continue to carefully evaluate positions as they become vacant, filling only those that are necessary to fulfill the mission and statutory responsibilities of the Department.

Fisheries

We are in a roughly decade-long decline in Chinook salmon production statewide. The Board of Fisheries has designated a number of Chinook salmon stocks as “Stocks of Concern” and the department of Fish and Game has implemented various restrictive management plans to conserve these stocks. This budget includes \$1.85 million dollars for projects that will help us do a better job estimating run size and productivity to ensure we are providing adequate protection for these stocks and providing fishing opportunity where appropriate. In August I declared an economic disaster for the Chignik fisheries region, after the harvest rate was less than .01% of average. We are restoring 6 weeks of weir time for Chignik, as well as continuing funding programs that were funded through now exhausted sub-funds in FY19.

Education

Above all, we must invest in children. We recognize that too many of Alaska’s youth have experienced adverse childhood experiences (ACEs): one out of every two children have at least an ACEs score of one before they begin kindergarten, and one in three Alaska children will be reported to the Office of Children’s Services by the age of eight. Suicide is a leading cause of death for school-aged children in our state. Childhood traumas lead to negative outcomes later in life, increasing social costs and costs to the state. We must tackle this epidemic from every available angle. One of the first steps is addressing concerns with school safety and increasing the availability of school counselors and nurses. This budget includes \$10 million on-going for counsellors and nurses and \$10 million for facility and equipment upgrades. These dollars will be available to districts to meet both innovative and basic safety needs of their students. Our budget also establishes an office of school safety, a priority action item that emerged from the school safety summit.

Our budget fully funds education, and funds the \$30 million in state aid to school districts committed to in the FY19 budget. School major maintenance is funded for both K-12 and the University; it is important we take care of our assets and work to reduce deferred maintenance liability. As we rebound from the fiscal crisis, our first investments must be in our children and ensuring they have the foundation necessary to succeed.

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Timely approval of school budgets provide stability for districts, teachers, and the students they serve. While the state does not currently choose to forward fund education, there is every expectation that the Legislature will pass the budget in the 90-day session.

Conclusion

By restraining growth in agency operations and making strategic investments in public safety, economic growth, and education, we leave a roadmap to a safer, stronger, smarter future for the great State of Alaska.