



POLICY BRIEF

ALASKA
POLICY FORUM

Debunking the Myth of Alaska's "40% Budget Cuts"

Alaska state spending, particularly the spending sustaining state government, needs to be reined in. Some argue everything that can be cut has been cut—even claiming the state budget has been cut by 40 percent (or more), since Fiscal Year 2013. Our recent analysis shows the 40 percent claim does not tell the full story and detracts from the conversation around excessive state spending. In reality, the actual spending reductions are far from substantial. Alaska Policy Forum's examination of total state spending and the cost of state government over the years finds that politicians have used smoke and mirrors to mislead Alaskans concerning budget cuts and spending.

STATE SPENDING VERSUS THE BUDGET

First, it is important to distinguish between the budget and what we mean by state spending. The budget is an enacted bill that is passed for every fiscal year (July 1 to June 30) by Alaska's legislature. It includes the Operating Budget and the Capital Budget. Total state spending, on the other hand, is all of the money that the state spends from state funds. This includes the Operating Budget, the Capital Budget, and supplemental spending, which is money spent after the enacted budget has been passed—when more is spent than has been budgeted. State spending includes expenditures from three different funds: the Undesignated General Fund (UGF), the Designated General Fund (DGF), and "Other" state funds. In addition, we also examine state spending in two major categories: Agency Operations and Statewide Items, which will be explained later in the analysis. For the sake of clarity, in this report state spending excludes federal receipts, the Permanent Fund Dividend (PFD), and fund transfers.

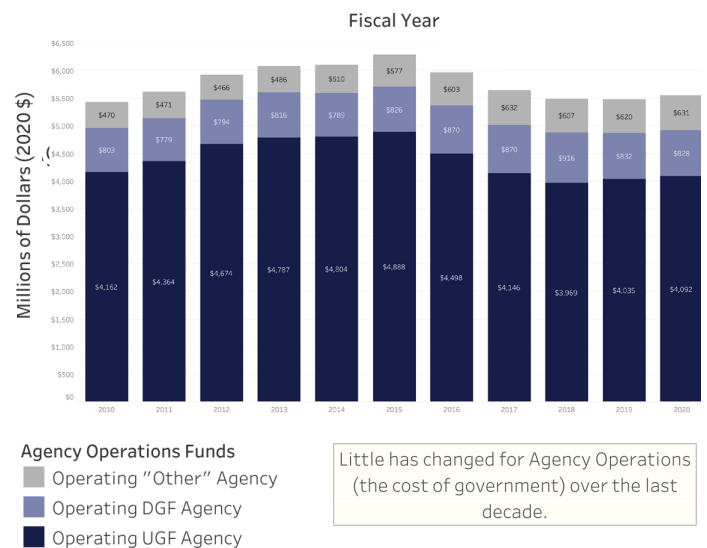
Often, when discussing the state budget, politicians will actually be referring only to the UGF portion of the budget. This is where the claim regarding a 40 percent decrease comes from. Without diving into the details, a glance at UGF history does show an approximately 40 percent decrease between FY 2013 and FY 2020. However, there are two other portions to the budget, the DGF and “Other” state funds – and some politicians fail to mention the spending increases that occurred during this same time period. Additionally, it would be clearer to distinguish between the Operating Budget and the Capital Budget, rather than focusing on the three funds separately.

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Supplemental spending can end up being a sizeable portion of total state spending, but is not often included in budget or spending discussions. At the very least, budget discussions should focus on the entire amount the state spends: the Operating Budget plus supplemental spending, not just the UGF portion of the enacted budget. Politicians should not be able to shift spending from one fund to another, and claim that the budget has been reduced.

UNDESIGNATED GENERAL FUND

Before we further discuss total state spending, we will look at the UGF portion of state spending (supplemental included) more closely, and examine what happened between FY 2013 and FY 2020. All dollar amounts are from the Fiscal Summaries published by the Legislative Finance Division for the State of Alaska and are inflation-adjusted to 2020. UGF is split into three categories: the Capital Budget, Statewide Items, and Agency Operations. In this case, Statewide Items and Agency Operations are categories of the Operating Budget. Interactive graphs corresponding to the different state spending categories we examine in this analysis are provided below.



The bulk of UGF reductions between FY 2013 and FY 2020, about \$2 billion, were made to the Capital Budget. However, showing self-restraint by not funding large, one-time projects is not the same as cutting the annual, recurring cost of government. While refraining from spending money the state does not have on one-time projects is a good first step to reducing the budget and total state spending, making

meaningful cuts to recurring expenses, particularly to the Operating Budget and Agency Operations, is what will move the needle on long-term fiscal restraint.

Many of the alleged UGF cuts in Statewide Items between FY 2013 and FY 2020 are just the result of fancy accounting rather than meaningful decreases. A more detailed examination of Statewide Items expenditures from all three funds will be discussed in another section of this analysis.

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The largest portion of UGF spending is on Agency Operations, or the money that is used to keep state government running. There was a decrease of 14.5 percent between FY 2013 and FY 2020 in UGF Agency Operations expenditures. However, at the department level, all 18 departments except for Corrections saw increases in funding through the DGF and “Other” state funds at the same time as the UGF reductions. This is simply shifting expenses from one fund to another fund. Additionally, some UGF appropriations were shifted to federal funding sources, which this report does not examine, such as expenses under the expansion of Medicaid. But federal funding is taxpayer dollars, and simply having our bills paid by the federal government instead of our state general fund does not lead to an overall reduction in the size or scope of government. A more detailed look at total

Agency Operations expenditures from all three funds will also be provided in this analysis.

DESIGNATED GENERAL FUND AND “OTHER” STATE FUNDS

When talking about total state spending, DGF and “Other” state funds should be included along with UGF. While there was a small decrease in the Capital Budget DGF expenditures, DGF Statewide Items increased, and DGF Agency Operations saw no meaningful changes. The net change between FY 2013 and FY 2020 DGF expenditures increased incrementally by \$7 million.

Additionally, spending from “Other” state funds increased by \$224 million. To put that dollar amount in perspective, it equates to 38 percent growth in seven years, even when disregarding a large \$3 billion one-time transfer to PERS/TRS pension funds in FY 2015. While total expenditures from “Other” state funds are on a much smaller scale than DGF and UGF expenditures, this portion of the budget still belongs in the state spending discussion, particularly if it is going to continue growing.

STATEWIDE ITEMS

Statewide Items, comprising all three funds, include debt service payments, fund capitalization, state retirement contributions, and tax credit purchases. Statewide Items decreased between FY 2013 and FY 2020, although most of the changes occurred by FY 2017. The Statewide Item UGF decreases, approximately \$1.1 billion, were a result of some debt payments being completed, some appropriations

shifting to the DGF and “Other” state funds, and a large transfer in FY 2015 to pension funds. The large transfer to pension funds in FY 2015, approximately \$3 billion to PERS/TRS, is considered a contributing factor to the \$1.1 billion decrease because it helped cut the smaller, annually recurring payments into the pension funds, at least temporarily.

True cuts to Agency Operations equate to only 8.8 percent.

AGENCY OPERATIONS

As was discussed previously, UGF Agency Operations expenditures decreased by approximately 14.5 percent between FY 2013 and FY 2020. DGF and “Other” state fund Agency Operations expenditures increased over that same time period, however. DGF Agency Operations expenditures increased by 1.4 percent and “Other” state fund Agency Operations increased by almost 23 percent. Taking these increases into consideration, the true Agency Operations cuts equate to 8.8 percent. In short, nothing of consequence has changed for Agency Operations (the cost of government) over the last decade.

CAPITAL BUDGET AND OPERATING BUDGET

Now that we have covered some of the details of what makes up state spending, the question remains: what about the total state budget amounts? A portion

of the Capital Budget, UGF expenditures, has already been discussed. Total state spending on the Capital Budget, including expenditures from all three funds, was cut from \$2.5 billion in FY 2013 to \$297 million in FY 2020. That is a sizeable reduction, and the state is to be applauded for this first step in fiscal restraint.

However, being responsible by not investing in capital projects is not the same as reducing the ongoing annual budget. As one Alaskan economist describes it: “thinking about a smaller capital budget as a ‘budget cut’ is a little odd. For example, you don’t say your household budget for electronics went up when you buy a new TV. Rather, you consider it a one-time purchase with no expectation it will be in the next budget. Canceling your cable would be a budget cut. Deciding not to buy a second television doesn’t really fit that same definition.” The same logic applies to a purchase that you finance rather than buy outright, like projects funded by Alaska’s Capital Budget.

Alaska’s Operating Budget should function the same way as the Capital Budget, as a zero-based budget.

The Operating Budget, on the other hand, is the recurring, annual cost to the state to run government and pay for services. As discussed earlier in this analysis, Operating Budget expenditures decreased by \$1.4 billion, mainly due to cuts from Statewide Items. The overall Operating Budget was reduced by approximately 18.5 percent between FY 2013 and FY 2020.

One reason politicians find it easier to make cuts to the Capital Budget is because it starts over at zero every year. The Operating Budget, on the other hand, begins at the previous fiscal year's dollar amount, and each year's budget negotiations primarily center around increases to the base budget. Government agencies approach the annual budget process asking for more funding rather than justifying the amount of money they have already been appropriated. To address this issue, the Operating Budget should function the same way as the Capital Budget, as a zero-based budget.

CONCLUSION

When examining total state spending by fund, major category, and budget, we find that total state spending between FY 2013, one of the highest spending years, and FY 2020 did decrease. However, the majority of the cuts were made to the Capital Budget rather than the Operating Budget. In fact, the Operating Budget only declined by about 18.5 percent. Additionally, Agency Operations, the cost of state government, decreased by only 8.8 percent.

To be fair, there are statutes and regulations in place that prevent state-funded programs from being eliminated. Rather than dealing with these and ending full programs, Alaska instead cut funding for specific items. State spending cannot be meaningfully

reduced by simply trimming program and agency budgets. The legislature must do the hard work of repealing those laws which ensure the status quo or even programmatic increases in spending in order to create a responsible and sustainable budget.

**Alaska's Operating Budget only
declined by 18.5 percent
between FY 2013 and FY 2020.**

While Alaska has made strides to reduce state spending by cutting the Capital Budget, the size and expense of state government have changed very little—and funding government is a large portion of state spending. To make lasting, sustainable changes to state spending, reductions to the Operating Budget and Agency Operations must be made, including changes to our laws.

This is not something we suggest lightly, or claim will be easy. Reducing the size of government and government spending is never a simple task. But Alaskans know hard work and sacrifice better than anyone. Significantly decreasing overall state spending will only benefit Alaskans in the long run and create a prosperous Alaska for generations to come.

Contact Alaska Policy Forum to Learn More

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