

State of Alaska

Bill Walker, Governor

Office of Management and Budget

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MEMORANDUM

To: Commissioners, Executive Directors, and Administrative Services Directors

Cc: Scott Kendall, Grace Jang, Darwin Peterson, John Hozey

From: Pat Pitney, Director
Office of Management and Budget

Date: August 15, 2017

Subject: FY2019 Budget Development and 10-Year Fiscal Plan Instructions

This memorandum provides guidance for the FY2019 budget development and 10-year fiscal plan process and includes:

- (1) Overarching expectations
- (2) 10-year fiscal plan development
- (3) FY2019 budget development
- (4) FY2019 budget development deliverables
- (5) Department/OMB Heads Up Meeting (HUM) guidance

Unless otherwise noted, all information is due four days in advance of early to mid-October department budget heads up meetings with OMB.

1) Overarching expectations

- Provide for a Safer, Smarter, Stronger Alaska
 - Describe budget changes reflecting the Governor's priorities (FY2019 proposed reductions, reallocations and increments):
 - A Safer Alaska: Building Resilient Communities
 - A Smarter Alaska: Innovative and Modernized Education Delivery, and Smart Government
 - A Stronger Alaska: Fueling Economic Development
 - Demonstrate quantitatively how program and service delivery has become more efficient since FY2015. Use program outcomes, as well as budget and personnel changes to demonstrate efficiencies.

- Document progress on implementing the changes allowed in Medicaid reform and criminal justice reform as well as savings as a result of other recent reform legislation.
- Continue and accelerate implementation of efficiency measures. Document progress to date and additional implementation in the FY2019 budget on departmental and cross departmental organizational efficiencies and changes, including shared services and consolidations of IT and facilities maintenance.
- Prioritize programs and services for continuation, reallocation, elimination, or enhancement. Departments are asked to review their service priority matrix submitted last year and use it as a tool for completing the program questions below. Instructions and a copy of each department's service priority matrix from last year will be sent on or before August 31st.
 - What high priority programs will be maintained?
 - How will the delivery of the priority programs change (or has it changed) to provide the best value to Alaskans and the Alaska economy given budget constraints?
 - What lower priority programs could be terminated or allowed to sunset to reallocate resources to enhance a higher priority program?
 - What are specific impacts to Alaskans and the Alaska economy of the program and service changes – within the Governor's Safer, Smarter, Stronger framework?
 - What system or process efficiencies are being implemented? (Including department's participation in shared services and function consolidations as well as inter-departmental efficiencies.) Quantify changes from FY2015.
 - What services can be privatized or are currently being studied for privatization?
 - What facilities are recommended to be sold, transferred, or decommissioned?
 - What boards/commissions are recommended to be deleted or consolidated?
 - What positions are being deleted or restructured? (Focus on expanded span of control, identify and explain any supervisory position with fewer than five direct reports.)
 - What statutory changes or legislation could reduce or eliminate program costs or limit the scope of department responsibility?

2) **10-year fiscal plan development**

For context, below is statutory language relative to budget development:

The plan's primary goal is to inform Alaskans on the State's long-term fiscal situation given the circumstances that are known today. The intent is to provide the public with the knowledge of the state's long-term fiscal outlook which will in turn inform spending decisions by putting them into a long-term context.

It is a statutory requirement that expenditure projections must balance to the available revenue sources over the 10-year period. OMB will use the Department of Revenue's 10-year revenue projections when the Fall 2017 forecast is released in early December, as well as revenue proposals

similar to those proposed in FY2018. Even with revenue proposals, departments should consider the significantly constrained revenue picture in evaluating future planning needs.

For the 10-year plan, provide the top three or four issues that will impact your department's budget three to seven years beyond FY2019. Also provide your assessment of how non-general fund revenues are expected to change over the course of the next five years and why. Later in the fall, departments will be sent their one-page section of the 10-year plan for review and update based on OMB information and the issues and revenue information provided by the department. Similar to the prior two years, the departmental section of the 10-year plan will include one page for each department which will include a pie chart of the department's FY2019 Governor scenario budget by funding source and a short forecast for each funding type for the subsequent 10-year period.

For examples, see the last several years' 10-year plans on OMB's website under Information-Reports/10-year plans.

3) FY2019 budget development

Below are the operating budget changes that commissioners are being asked to submit for the FY2019 operating budget development process. Given that department UGF budgets have been reduced by 17 percent since FY2015, and that some FY2018 items have been short-funded or funded using one-time funding sources, reducing total department UGF and DGF spending will be unlikely. However, continued reductions at the program level will be required to offset other increases. To provide the Governor with available budget choices to minimize the FY2019 increases, below are sections to include in your department's FY2019 scenario.

- 1. Component Level Impact** – Describe the tangible, specific changes necessary to meet a five percent or higher reduction for each budget component within your department and resulting change in business or program elimination required to accommodate the reduction.
- 2. Priority Requirements** – Describe the two to four highest priority increments needed and how those address the Governor's Safer, Smarter, Stronger priorities. Clearly link these increments to the component level reductions that would accommodate the necessary level of reallocated funding. New initiatives will be highly scrutinized and must tangibly address key priorities or reduced future costs.
- 3. Known Shortfalls** – Describe known areas of FY2018 one-time funding (i.e., AHMS) that need to be replaced, known formula increases (i.e., Medicaid), and other known FY2018 shortfalls that need to be corrected in FY2019 (i.e., Corrections).

Capital Budget:

OMB anticipates the FY2019 capital budget will be constrained; however, the state's capital budget is a key tool for stabilizing the Alaska economy. Focus departmental capital requests linking to the Governor's Safer, Smarter, Stronger priorities; demonstrating return on investment and leveraging non-state resources.

Also, given the limited ability to make new investments, commissioners are asked to evaluate the oldest departmental capital projects relative to current and future department needs. The FY2019 capital budget is an opportunity for departments to move on from old projects in favor of higher priorities.

The Office of the Governor received \$20 million in FY2018 for statewide deferred maintenance needs. It is OMB's intent to use this appropriation to fund the highest priority maintenance projects with a focus on projects that can be implemented immediately. OMB will engage departments through a separate process early this fall to determine the best use of the appropriation. Deferred maintenance priorities not accommodated in FY2018 will be taken into consideration for FY2019 deferred maintenance funding. At this time, it is envisioned that deferred maintenance funding will be requested as a block for the executive branch similar to the appropriation in FY2018.

Beyond these items, OMB will consider specific projects aimed at improving operational efficiencies resulting in a return on investment equal to the cost of the project within the first five years of implementation. Clearly demonstrate how delivery of programs and services can be improved to provide the best value to Alaskans while also lowering the cost of program delivery.

It is critical that departments continue to actively manage their capital projects and understand the internal capacity required to properly manage this portfolio. FY2017 capital appropriation status report data shows 3,616 open capital appropriations. Of those, 71 percent (2,579) will be at least five years old by the end of FY2018. Attached is an Excel spreadsheet containing two preliminary capital reports showing:

- 1) FY2014 and older projects with no expenditure financial activity since the FY2017 Capital Appropriation Status Report (CASR) published on 1/31/2017; and
- 2) FY2010 and older projects.

OMB is considering a repeal package to include these projects effective 6/30/2018 unless specific exemption is granted.

The Office of Information Technology (OIT) will review all information technology-related capital budget proposals. The review will entail engaging with departments to understand the requirements, design and planning, and whether opportunities may exist within the current or future footprint that could lessen the required funds.

4) FY2019 budget development deliverables

The FY2019 initial scenario will include all the change records required of the three operating budget sections above. Departments must submit the list below to OMB four days in advance of the department meeting in early to mid-October unless noted. For all scenarios, FY2018 Authorized is the current level of service budget baseline.

1. **FY2019 budget change records and capital project descriptions:** Submitted in ABS to OMB four days prior to the department meeting. Provide only one ABS scenario and use the subcategory field to identify the change record relative to the three sections above.

2. **Service priority matrix:** Excel document and instructions attached and discussed on page two.
3. **Maintenance of PCNs:** In ABS, by November 1, 2017, prior to finalizing the budget submission, all vacant positions not slated for hiring in the short-term will be removed.
4. **10-year plan:** In an MS Word document, provide the top three or four issues that will impact your department's budget three to seven years beyond FY2019. Also provide your assessment of how non-general fund revenues are expected to change over the course of the next five years and why.

As in previous years, OMB will work directly with key department contacts for projections on certain statewide items (do not include them on your fiscal plan scenarios). These items include projections of debt payments, all fund capitalizations, future bargaining unit terms, direct appropriations to retirement systems, municipal revenue sharing, and oil and gas tax credits.

After the October meetings, more guidance may be provided to improve information on the FY2019 budget and 10-year plan.

5) Department/OMB HUM guidance - early to mid-October

Do not travel for these meetings. If you reside in Juneau, please join us in the OMB conference room, otherwise phone and or video conference is adequate. It is possible follow-up meetings will be required with a limited audience and will be arranged on a case by case basis. Meetings on select topics of particular budget or policy interest will also be scheduled separately. For example, separate meetings may be scheduled for the Alaska Marine Highway System, Medicaid, criminal justice, education and training, etc. and may involve several departments.

Commissioners are asked to present the FY2019 proposed budget actions described in the three operating sections. OMB's preference is that these meetings will include the budget change proposals for the departments' independent agencies – if the Commissioner is not including other entities (APFC, AIDEA, AHFC, etc.) in the departmental meeting, please communicate that with your OMB analyst.

For planning purposes, please cover each of the following topics (~ 10-15 minutes each):

- a) How has the department changed organizationally since FY2015 (include cross-department efficiencies, revenue, spending reductions, or consolidation)? What are the issues or high risk areas/projects in FY2018 and anticipated in FY2019? What statutes, policy or regulation changes should be considered to alleviate some of the budget pressure?
- b) Using the service priority matrix submitted, highlight the most important items to accomplish in FY2019. Focus on impacts to the public over impacts to the department, while highlighting both. Clearly demonstrate how delivery of programs and services address a Safer, Smarter, Stronger Alaska.

- c) Using the change records/capital projects submitted in ABS, discuss the specific operating changes and capital project proposals and the amount, fund source, and number of positions. Include any fee/revenue, organizational, policy, and specific statute/regulation changes needed. Be able to differentiate between reductions to state services versus reductions to services provided by non-state entities (grants/contracts).
- d) Discuss any critical high-risk deferred maintenance needs, available capital balances, and fund/account balance issues.
- e) Discuss any potential supplementals and measures being taken to avoid them.
- f) Conclusion. Additional information, opportunities, or final thoughts regarding the department budget proposal.

You will be contacted by OMB Executive Assistant, Tabitha Williams, to schedule your department budget meeting. If you have questions regarding the FY2019 budget development instructions, please contact your OMB budget analyst.

cc: OMB ABS Contacts

Materials to be distributed to departments:

- Deferred Maintenance prioritization process request - by August 20
- Program priority template and department matrix - by August 31
- Departmental page of 10-year plan for review - by November 15