

## ***Sponsor Statement for CSSB25(STA)***

### **“An act relating to the state budget and to planning and reports regarding state finances and operations; and providing for an effective date”**

January 30, 2007

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This bill, if enacted, will require the governor to develop as part of the state budget, and to present to the legislature each January, key elements of a 15-year long-range financial plan for the state of Alaska. The original bill asked for a 25-year forecast, but was reduced to 15 years by the Senate State Affairs Committee.

Many of the decisions made and the actions taken by the governor and the legislature have an enduring and long-range impact on the citizens of Alaska. The bulk of the 2006 legislative session was devoted to revising Alaska’s petroleum severance tax, an action that will have dramatic impacts on state revenues for many years to come. Much of the remainder of the session and two of the special sessions were devoted to debating a fiscal contract for a natural gas pipeline. At the heart of both issues are the state’s revenues for the next 30 to 50 years, and perhaps longer. Additionally, revenues from a natural gas pipeline won’t be realized by the state for perhaps 10 years or more. Yet the governor is currently only required to present a plan for the next fiscal year and a capital improvements plan for the next six years.

Also of long-term concern are the state’s near- and long-term expenses. Last year a consultant hired by the legislature presented a report showing dramatic increases in the state’s Medicaid expenses in the next few years. During the presentation, the consultant stated that if we only looked at the near term we might not see the dramatic changes in store for Alaska in later years. Demographics are changing nationwide. Medical and education costs are forecast to increase substantially, even to the point according to some consultants of the potential of consuming all revenues in some states. How will the Alaska meet these obligations?

Three factors will combine to compound Alaska’s expenditures for Medicaid alone. First, the cost of Medicaid is projected to continue to rise. Second, Alaska is experiencing an influx of senior citizens who, along with Alaska’s aging population, are expected to consume a greater share of Medicaid services. Third, it is likely the federal share of funding Medicaid will continue to decline as the federal government struggles to balance the federal budget. While increasing Medicaid benefits for next year may seem the proper thing for the legislature to do, a long term perspective must be considered because of the compounding effect. In short, the legislature and the governor must consider what Medicaid costs will be five, ten, or twenty years into the future.

## **Sponsor Statement for CSSB 25(STA) (continued)**

PERS and TRS is another issue that necessitates a long-term perspective. Unfunded liabilities such as PERS and TRS cannot be remedied in just a few years. An unfunded liability of just under \$6 billion last year, may soon approach \$10 billion.

In addition, there are substantial deferred maintenance needs, the costs of which continue to grow at a compounding rate. Deferred maintenance for the Department of Transportation and the University alone may soon reach \$1 billion. Unless action is taken soon to arrest the deterioration of Alaska's roads and buildings, this amount will increase at an ever accelerating rate.

The state must have a plan that addresses all these issues, not just for next year, not just for the next six years, but over the long haul.

Alaska Statute 37.07.020 only requires the governor to present to the legislature a budget for the next fiscal year, and a capital improvements program for the next six years. A one-year look ahead does not give the legislature sufficient information to make meaningful decisions, especially if those decisions will impact Alaskans for generations to come.

While no one can accurately forecast 15 years into the future, we can look at trends, and we can make annual adjustments as circumstances change. Brazil has a 40-year energy plan; BP has a 50-year plan for its Alaskan operations; and many Japanese companies have 100-year plans.

Alaskans from all walks of life, from private citizens to government officials, are demanding a long range plan, a plan that everyone can understand, even if they don't agree with the plan. They want to know that their government is responsibly considering the long-term ramifications of decisions and actions. As the chief executive for the state of Alaska it is incumbent upon the governor to have such a plan and to communicate it to all Alaskans. This bill institutionalizes these requirements.