

# Alaska's Financial Dilemma

[Dermot Cole, Alaska Dispatch News, August 23, 2015](#)

An ominous [statement from Standard & Poor's](#) [2] and the stubborn slide in oil prices should leave no doubt in anyone's mind that the state needs to be looking at new revenue sources now, instead of waiting until the easily accessible financial reserves are gone.

Legislators who are predicting that only spending cuts will happen in 2016 – and that significant actions are unlikely because it is an election year – should realize that continued inaction accelerates the arrival of a real crisis.

I take it as a positive and encouraging sign that the House Finance Committee meets [Monday at 10:30 a.m. in Anchorage](#) [3] to hear reports from the Walker administration and the Institute of Social and Economic Research to [update lawmakers on presentations](#) [4] that have been made across the state. If oil prices remain close to where they are today, the state may need another half-billion dollars or more from savings this year to pay for things like schools, road work and jails.

We have a chance to do something about this in an orderly fashion, but the window of opportunity is closing.

Legislators should be making plans now for hearings and public sessions this fall to involve the public in what will be a difficult transition.

The challenge is to transfer the generalized discussion of spending and taxation to the specific – how much of a cut is going to be made to particular programs and what new taxes would cost for individuals and industries.

S&P, the ratings agency, said if state government fails to institute big changes in spending and revenue in the next

year, look for the bond rating to slip, a sign that anyone lending money to Alaska should expect a higher interest rate because of increased financial instability.

“Relying solely on spending cuts to close the fiscal deficit would necessitate that lawmakers oversee a dramatic downsizing of the scope of state government in Alaska,” the report from S&P said. “It’s more likely, in our view, that policymakers will need to pursue a mix of sustained spending restraint and some form of revenue enhancement.”

The agency warned that if new revenue is not in the mix, expect a decline in the state bond rating in the years to come, which is a red flag that should wake everybody up.

The state needs other sources of revenue, including new taxes, some Permanent Fund earnings and revisions to the oil tax system. The best bet for a solution that works is a combination that spreads the pain as widely as possible.

Focusing on just one or two elements is sure to spark enough opposition to kill anything that lets one or more groups off the hook. A plan that looks only at raising oil taxes, or only capping Permanent Fund dividends, or only instituting an income tax is going to create multiple coalitions of opposition. Plus, the underlying arithmetic makes it clear that nothing but a combination of unpopular actions will come close to filling the gap and doing the least damage to the economy.

The prevailing attitude in the Legislature is that spending cuts are the only thing that need to be addressed at this moment, but that ignores the reality of the \$3 billion hole in the budget. Lawmakers trying to delay facing the difficult choices are increasing the economic threat.

Most of the money going to pay for general fund government operations – everything from schools to State Troopers – is coming from savings. Alaska has nearly \$60 billion in the

bank, but unless elected officials readjust the system, we run the risk of stumbling into an economic collapse. The Constitutional Budget Reserve could be gone within two or three years, which would leave the Permanent Fund earnings reserve as the only sizable account to pay for government.

Last spring the [state predicted that oil prices](#) [5] would be about \$66 a barrel this year and higher after that. But oil prices now are about \$20 per barrel below that amount. If these lower prices continue, state revenues will not be the \$2.2 billion predicted in the spring, but closer to \$1.7 billion or lower.

Statewide polling shows that Alaskans are ready to debate the specifics of increased revenues and the consequences of decreased spending. For elected officials, this is no time for procrastination.