

Updated Big-Picture Truths Regarding Alaska's Fiscal Challenge

by Cliff Groh

Let's review some enduring truths about Alaska's circumstances.

- The long-term decline in Alaska oil production and the collapse the last two years in world oil prices have combined to create major and continuing challenges for both Alaska's government and Alaska's economy.
- The State of Alaska's oil revenues fell by more than 90 percent in the last four years (Fiscal Year 2012 to Fiscal Year 2016) and are projected to continue to fall during the current fiscal year (FY17). That large reduction in oil revenues is a big problem given that oil revenues provided an average of 90 percent of Unrestricted General Fund revenues for the period of Fiscal Year 2005 through Fiscal Year 2014.
- This sharp drop in revenues has contributed to big structural deficits both this year and in the future. The deficit is approximately \$3.1 billion this year (FY2017), and that number is equal to almost about $\frac{3}{4}$ of the budget (as conventionally defined as Unrestricted General Fund spending).
- The State of Alaska's ability to finance deficits using the Constitutional Budget Reserve Fund—the savings account traditionally used to fill the gap—is going away fast, as that fund will go to zero in less than two years at the current burn rate.
- Although still probably the highest per capita among the states, Alaska's state budget has fallen and continues to fall. As reported by the Alaska Legislative Finance

Division, the total operating and capital budget has been cut by more than 40 percent in the last four years and is now below the level it was eight years ago—without accounting for population and inflation.

- The State of Alaska's top two expenditures are for K-12 education and health and social services.
- Alaskans are the lowest-taxed people in the U.S. Alaska is the only state with no form of state income tax and no form of statewide general sales tax.
- The restructuring of the Permanent Fund earnings system under the most frequently discussed proposals will still likely leave Alaska with a substantial deficit.
- The existence of the Permanent Fund—and even more the Permanent Fund Dividend—make fiscal politics in Alaska more difficult and complex than in other states.
- The Permanent Fund and the Permanent Fund Dividend raise unusual questions of equity, both among classes and among generations.
- Critical questions relevant to the fiscal challenge include “What is the Permanent Fund for?” and “How long do you intend to live in Alaska?”
- Alaska perhaps faces a future of battles in court over levels of government funding.
- Resolving Alaska's fiscal challenge is a question of values as well as a question of numbers.
- Alaska's challenge is psychological or cultural as well as fiscal and political. Alaska needs to move from imagining easy prosperity to find fiscal sustainability in an era likely to feature increasing scarcity.