

Public forum will ask how Alaska's fiscal future can live with less

Gunnar Knapp and Cliff Groh, October 1st, 2014, Alaska Dispatch News

The debate over oil taxes and recent annual state budget deficits of more than \$1 billion have drawn attention to one of the most important and difficult challenges facing Alaska: how we will balance falling oil revenues with growing demands and obligations for state spending.

In recent years oil revenues have accounted for about 90 percent of the state's unrestricted general fund revenues which pay for most state government services, capital projects, and debt and retirement obligations. Although nothing about the future is certain, it's very likely that our oil revenues will decline in the future – because it's very likely that oil production will fall, and that oil prices won't rise enough to make up for the decline.

Alaska's North Slope oil production has been falling for a quarter century – at an average annual rate of 6 percent per year for the past ten years – because production from new fields isn't enough to offset the decline in production from existing fields. Optimistic forecasts are that new investment might keep North Slope oil production level for a few years – but it's a lot more likely that production will fall.

For most of the past decade, the effects of falling oil production on state oil revenues were offset by a dramatic increase in oil prices – from \$45/barrel in 2005 to \$113/barrel in 2012 – as well by as tax changes which increased the state's share of oil production value. But we can't count on oil prices to keep rising. Oil prices are

driven by global oil supply and demand, and new technologies are driving big increases in global oil production – including production from Lower 48 states. This year's revenue forecast assumed an average price of \$105/barrel, but last week prices were about \$95/barrel. For every dollar fall in the average annual oil price, Alaska loses about \$90 million in oil revenues.

Regardless about how optimistic you are about future Alaska oil production or prices, it would be foolhardy to deny that our future state oil revenues could decline significantly, or that we need to think about the choices lower oil revenues could force us to face.

Read more [here](#).