

# ISER Research on Alaska's State Operating Budget

Gunnar Knapp  
Director and Professor of Economics  
Institute of Social and Economic Research  
University of Alaska Anchorage

Prepared for  
Commonwealth North Study Group  
on the State Operating Budget  
September 11, 2014

# ISER has done many studies of state spending over the years . . .



University of Alaska, Anchorage, Institute of Social and Economic Research February 1987, Vol. XXIV, No. 1

## Where Have All the Billions Gone?

### INTRODUCTION

All of us who lived in Alaska in the first half of the 1980s enjoyed the state government's oil money. The state subsidized the mortgages on our houses. State aid to local governments cut our property taxes. State construction grants paid for everything from paving the roads in front of our houses to building new ice skating arenas or community centers in our towns. The state loaned some of us money at below-market interest rates so we could go to college or buy fishing boats. If we lived here at least six months, we collected hundreds of dollars in direct cash payments from the earnings of the Permanent Fund. And so on.

When oil prices were high, the State of Alaska took in and spent a great deal of money: we calculate state general fund expenditures from fiscal 1981 through fiscal 1986 at about \$26.1 billion. Of that total, the legislature deposited \$2.7 billion in the Permanent Fund. Those voluntary contributions to the Permanent Fund, together with mandatory shares of petroleum revenues that go directly to the fund and fund earnings that the legislature incorporated into the principal, brought the Permanent Fund balance to more than \$7.5 billion in early 1987.<sup>1</sup> That very substantial fund balance is evidence that the State of Alaska did not simply spend all its petroleum revenues.

But it did spend about \$23.4 billion—in the neighborhood of \$50,000 for every Alaskan—in a variety of ways. And although the evidence of state spending is everywhere, determining just how much money the state spent and for what purposes is difficult.

<sup>1</sup>The legislature's vote in June 1986 to incorporate the undistributed earnings into the principal of the fund can also be considered a kind of voluntary contribution.

In January 1987, when Alaska's new governor, Steve Cowper, delivered his first annual address on the state's budget, he said that lack of correlation between the state's budget, accounting, and cash management systems had created an "information gap which makes it difficult to ascertain our fiscal bearings."<sup>2</sup> In other words: it's tough to tell how much we have spent because the state's various record-keeping systems don't match.

In this publication we try to trace how the state spent its money in the first half of the 1980s, before oil prices crashed and brought state revenues tumbling down with them. When we refer to "the first half of the 1980s," we mean specifically fiscal years 1981 through 1986, which were the years of high state spending. (The state's fiscal year runs from July 1 to June 30—so, for example, fiscal year 1981 was from July 1980 to June 1981.) We use fiscal years 1979 and 1980 as benchmarks against which to measure spending in the halcyon days that followed. We do not mean to depict state spending in 1979 and 1980 as representing either

<sup>2</sup>Annual Budget Message by the Honorable Steve Cowper, Governor of the State of Alaska, before a joint session of the First Session of the Fifteenth Alaska Legislature, January 22, 1987.

*Editor's Note: This publication describes state general fund spending from fiscal 1979 through 1986—from just before the petroleum windfall to last year's oil price crash. We summarize broad categories of spending for the whole period and for individual years. We discuss major changes in the magnitude and nature of state spending during the first half of the 1980s. We also provide, in a concluding appendix, line-item details on individual expenditures in each year from 1979 through 1986.*



## ISER FISCAL POLICY PAPERS

No. 2, October 1989

Institute of Social and Economic Research

University of Alaska Anchorage

## Facts and Fables of State Spending

Alaska's state government was suddenly and surprisingly rich in the early 1980s. We quickly learned to spend rich. And the best part about our overnight wealth was that it came at virtually no cost to us as individuals.

Not only did oil revenues from Prudhoe Bay development pay the bill for almost all state operations over the past decade, there were enough revenues left over to pick up some of the costs of local governments, repeal state personal income taxes, create a huge state savings account, and pay all Alaskans annual cash dividends.

Now we're facing the reality of much smaller petroleum revenues in the next decade—see the adjacent box. Many Alaskans think cutting the state budget will be fairly easy: we'll just "cut the fat" that bloated the budget in the 1980s.

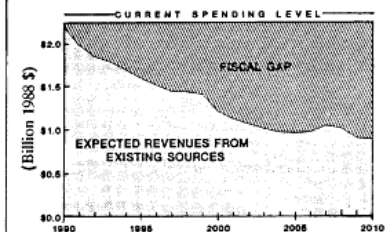
But as we'll make clear in this analysis, cutting the budget will by no means be easy. What some Alaskans regard as spending for "fat" others see as spending for essential services or entitlements. Many things contributed to the high spending of the past decade, and whatever is cut from the budget will hurt some Alaskans.

To make budget decisions, Alaskans need to know how the state actually spent its money in the 1980s. Many of the facts about high state spending have become obscured by fables about where the money went. This paper reveals the facts and discloses the fables about state spending in the 1980s and assesses how those facts will make budget cutting tough.

One important point that tends to get lost in all the talk about big spending is that even *before* Alaska was oil rich, our state government spent two to three times the average of other states. So the increased state spending fueled by oil revenues over the past decade started from a base that was already substantially above that of other states.

Also bear in mind that Alaska's population

### PROJECTED STATE FISCAL GAP\* (Difference Between Revenues and Current Spending)



\*Adjusted for inflation, state government revenues from existing sources will drop 50 percent between now and 2000, leaving a difference of \$1 billion between current spending and existing revenues. That substantial gap can only be closed by spending cuts, tax increases, use of reserves, or some combination of the three.

This is the second in a series of ISER Fiscal Policy Papers examining aspects of state government spending. We intend these papers to focus the attention of state officials and of Alaskans in general on the serious budget crisis we face, and on the necessity for dealing with it soon.

The authors are Oliver Scott Goldsmith, Lee Gorsuch, and Linda Leask. Teresa Hull prepared the graphics, and Alexandra Hill and M.L. Madden helped analyze the data.

The ISER Fiscal Policy Papers series is financed by a grant from ARCO Alaska.

# FISCAL POLICY PAPERS

Number 13 • May 2003

## Alaska's Budget: Where the Money Came From and Went, 1990-2002

By Scott Goldsmith, Linda Leask, and Mary Killorin

Alaska's state budget increased from \$4.1 billion in 1990 to \$7.4 billion in 2002. But who paid for that budget growth? We know the state's oil revenues dropped by about half in the past decade—creating big holes in the budget—and Alaska has no personal income or other broad-based taxes.

Keep in mind that the state has several sources of money, although oil revenue has been the single biggest state source for 20 years. Fees, interest income, and non-oil taxes also pay for some spending. So does the federal government.

The budget deficits are in the unrestricted General Fund, which is financed mostly by oil revenue—but oil revenue is down, because oil production is half what it used to be. Savings from an account called the Constitutional Budget Reserve covered \$5 billion in deficits since 1990. The state kept deficits from being even larger by cutting or at least holding steady General Fund revenues for programs ranging from resource management to municipal revenue sharing. But what about the \$3.3 billion in budget growth from 1990 to 2002?

- More than half the budget growth was in federal money, which pays just for designated expenses.
- Nearly 20 percent of growth was from Permanent Fund earnings, used to pay dividends and protect the fund from inflation.
- The remaining 30 percent of growth was financed by other state sources, especially fees from people and businesses and higher earnings of AHFC and other public corporations.

Those changes in sources of money also meant changes in spending patterns in the past decade:

- Programs driven by population growth and inflation, like aid to schools and Medicaid, garnered a bigger share of unrestricted General Fund revenue.
- Many programs came to rely more on federal funds—which the state has less flexibility in spending.
- Many programs became more self-supporting—paying more of their costs with fees. Examples range from Pioneers' Homes to the University of Alaska to fish and game programs.
- Total spending for most programs grew, despite tight General Fund revenues, because of growing fees or federal funds. But some—like highway maintenance—saw little change, because they rely largely on General Fund revenues but are not tied to population-based formulas.

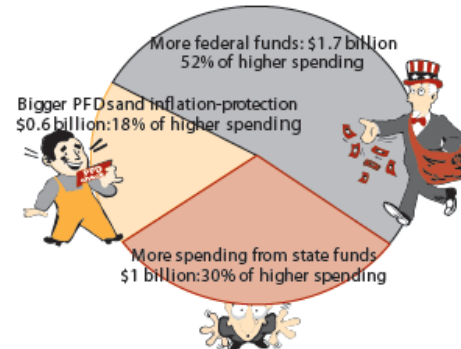
This paper was funded by a grant from the University of Alaska's Fiscal Policy Research Fund. For a detailed picture of the state budget, see ISER's new Web site, A Citizen's Guide to the Budget, at <http://citizensguide.uaa.alaska.edu>

- And if we take inflation and population growth into account, spending from state money sources dropped about 10 percent for every Alaskan from 1990 to 2002. But real per capita spending from federal funds leaped 150 percent.
- The state created many new funds outside the unrestricted General Fund. At least \$325 million spent from new funds in 2002 would have come from the unrestricted General Fund in 1990. People disagree about why those new funds were created (see page 4), but an important reason was to minimize growth in the part of the budget that has deficits.
- About 48 percent of the increased spending from 1990 to 2002 went to capital costs, 34 percent to capital costs, and 18 percent to Permanent Fund dividends and inflation protection.

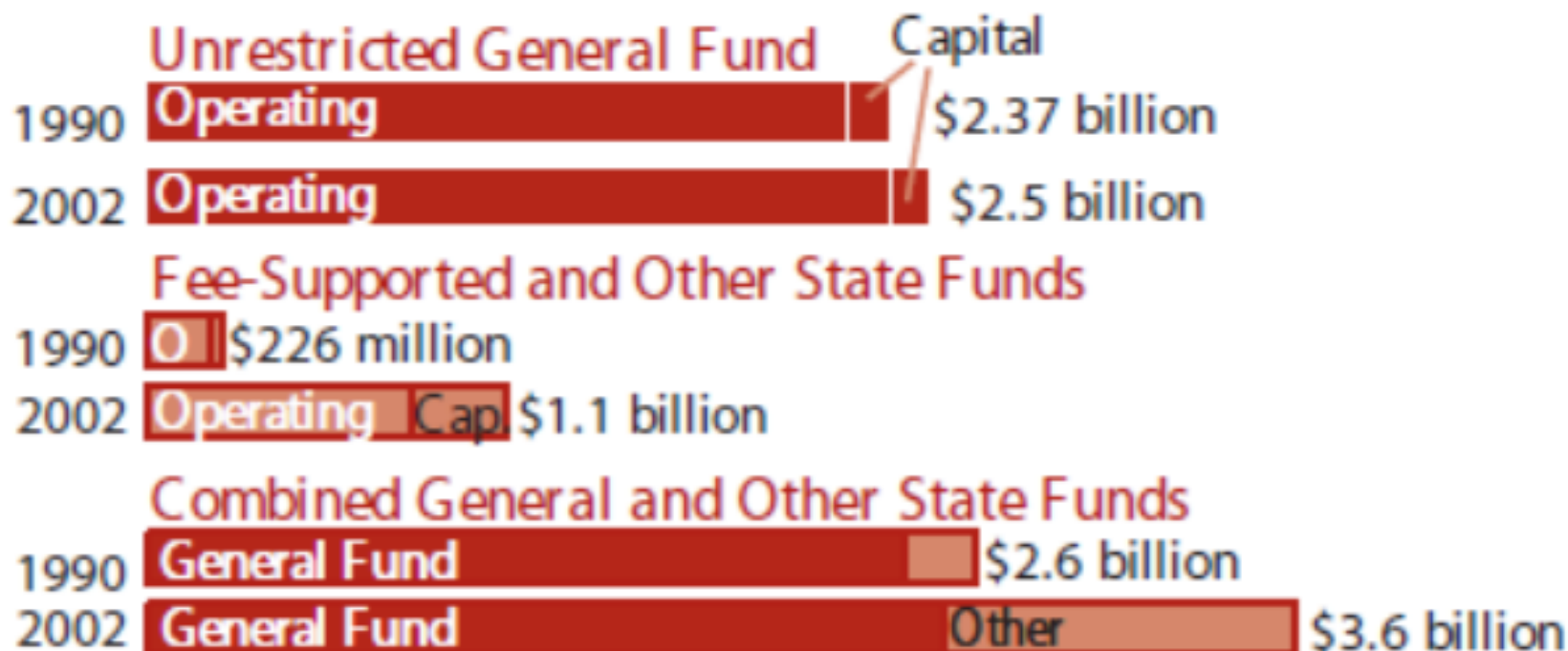
These are our main findings about how the state budget changed between 1990 and 2002. The back page details some of those changes. Pages 2 and 3 describe the budget as of 2002: where all the money came from and went.

This paper is just descriptive: we don't mean to imply that particular changes were good or bad, or that some programs got too much or not enough money. It's part of a larger effort to help Alaskans understand the budget (see box above).

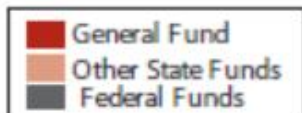
### Where Was the \$3.3 Billion Growth, 1990-2002?



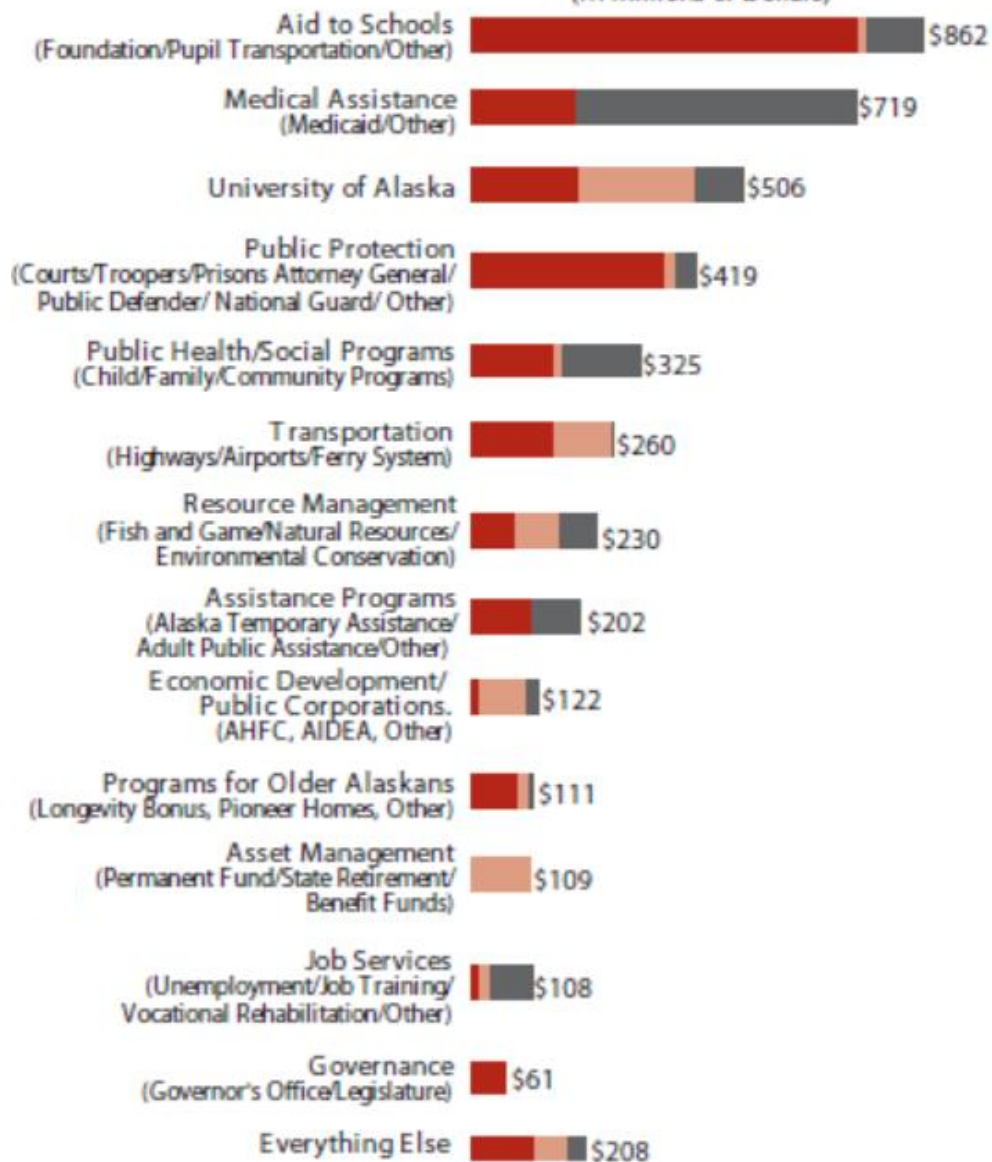
## General Fund and Other State Funds







### Operating Spending by Type (In Millions of Dollars)



## Budget Growth Adjusted for Inflation and Population Growth, 1990-2002

	Not Adjusted	Price Adjusted	Price and Population Adj.
State Sources	+38%	+4%	-11%
PFD/Infl.-Proof	+59%	+19%	+2%
Federal Funds	+301%	+200%	+157%
Total Budget	+80%	+35%	+15%

- Federal funds increased sharply, even adjusted.
- Dividends and inflation-proofing were up modestly, when adjusted for price and population growth.
- Spending from all state sources combined was just about flat when adjusted for inflation, and down 11 percent when also adjusted for population.

Based on 33% increase in Anchorage consumer price index and 17% population increase (1990 census figures and 2002 state estimate).

## I SER is currently planning an Alaska fiscal policy research program for the next year

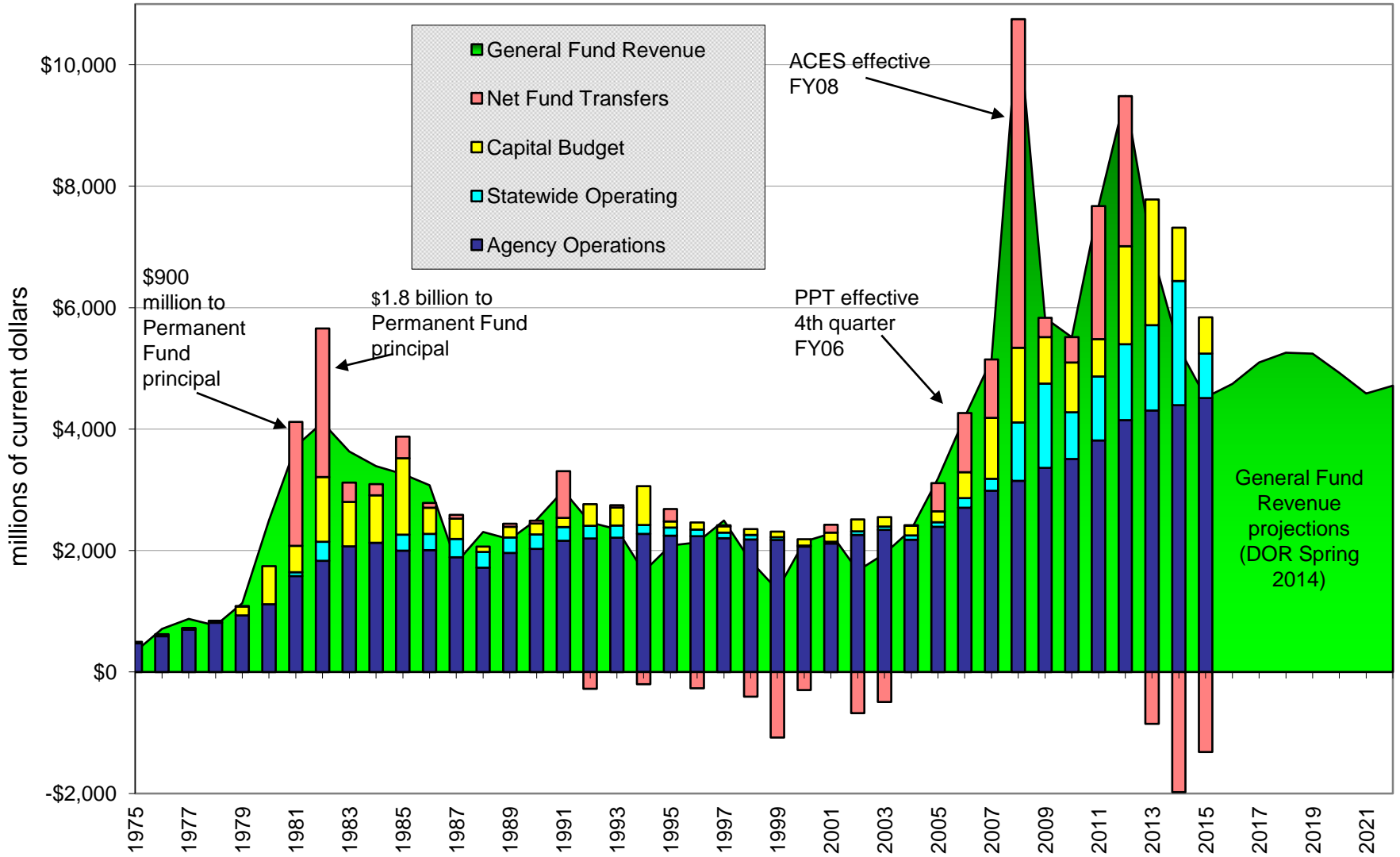
- Updating of earlier analyses:
  - What factors have driven state spending?
  - How does Alaska state spending compare with other states?
- Potential new analyses:
  - Operating cost implications of capital expenditures
  - Implications of health care costs for state expenditures . . .
  - Options for solving the “Alaska Disconnect”
- Choices of analyses will be based on:
  - Relative need for and interest in the questions
  - Relative urgency of questions
  - Relative potential for research to shed light on the issue
  - Availability of funding
  - Availability of I SER staff and potential collaborators

## The challenge of communication and explanation . . .

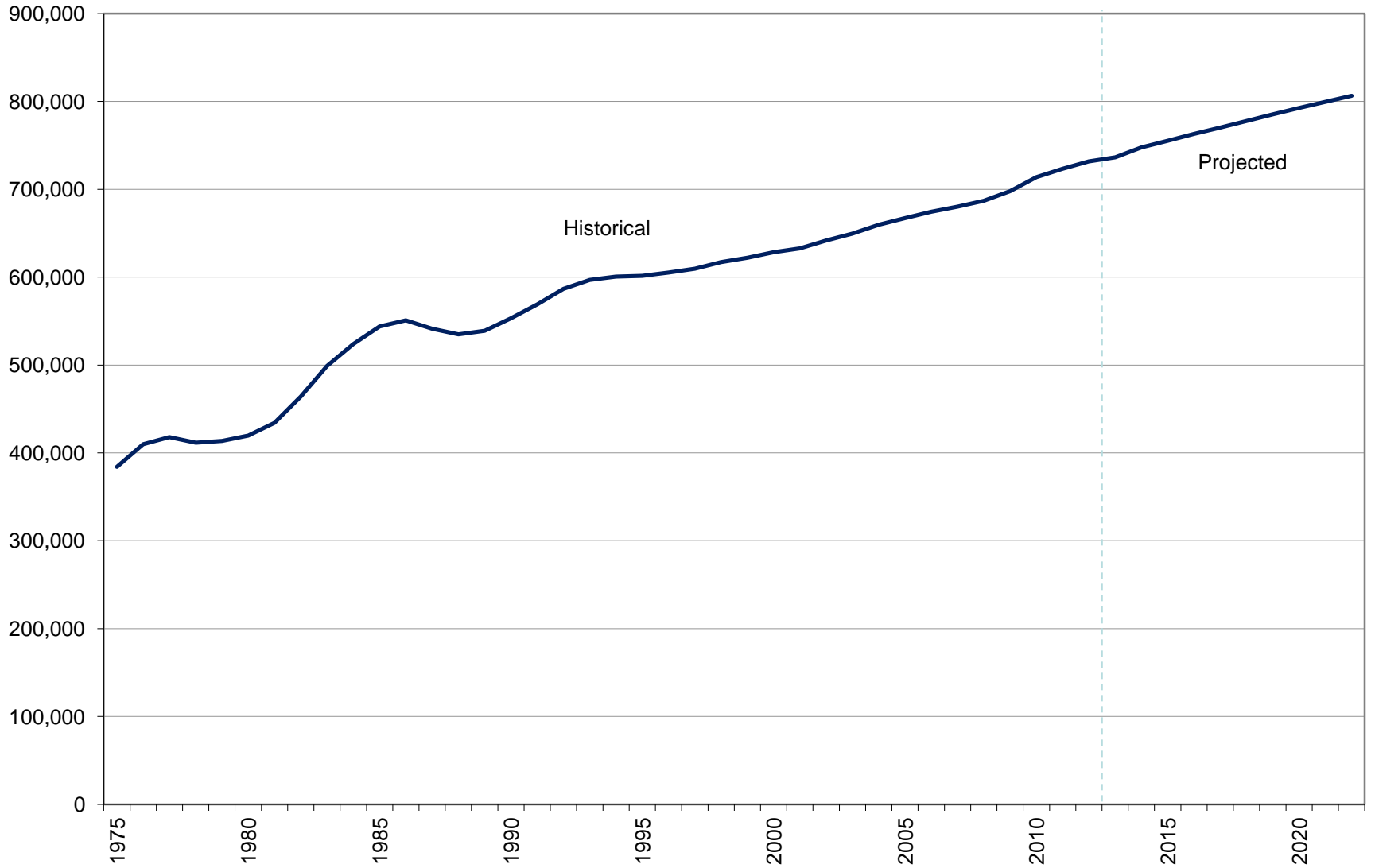
- How to effectively explain issues which are:
  - Complicated
  - Highly politicized
- Getting information out in new ways . . .
  - Websites
  - Social media
  - Videos
  - Apps
  - Does anyone read “reports” any more?



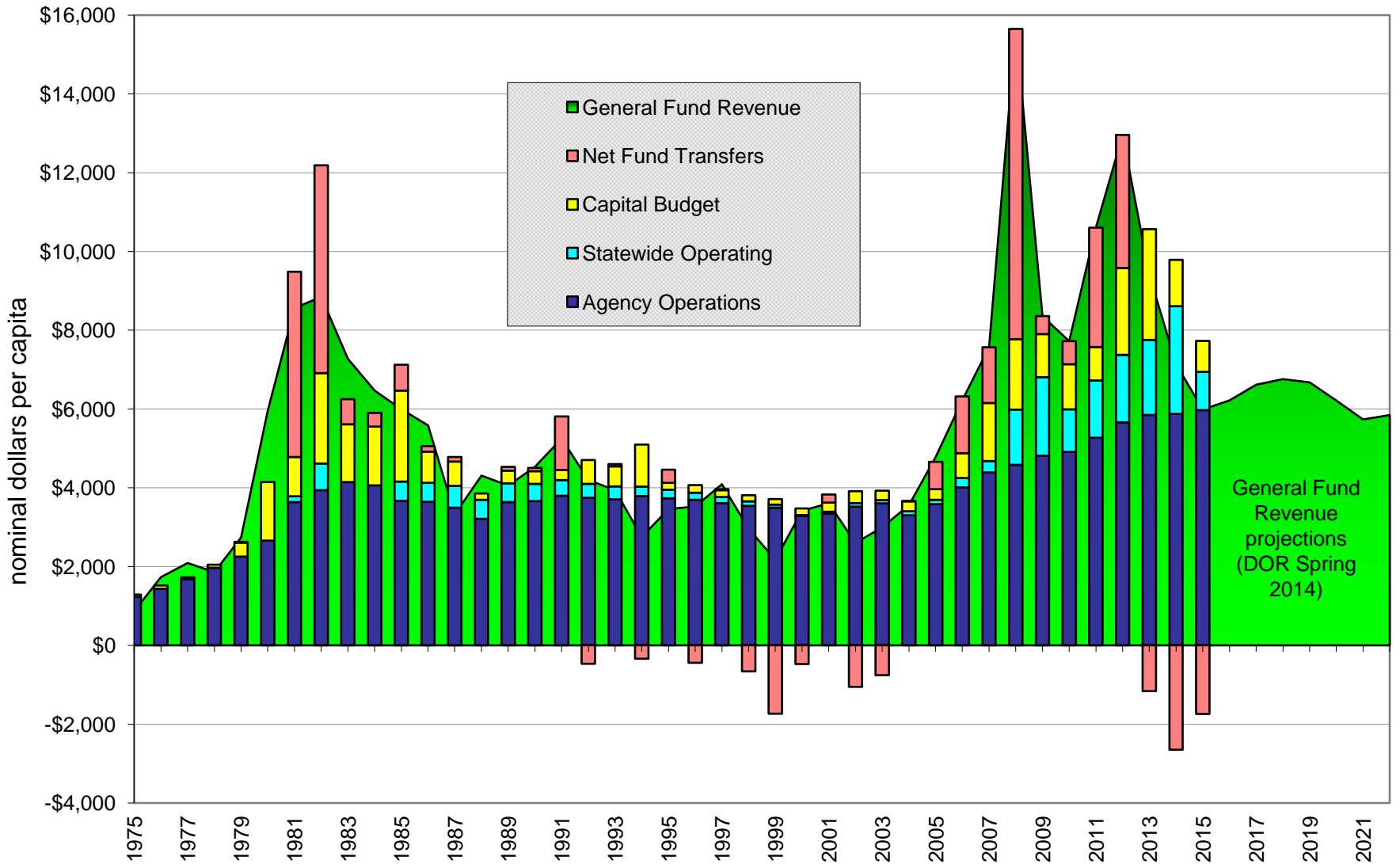
# Unrestricted General Fund Revenues and Budget History



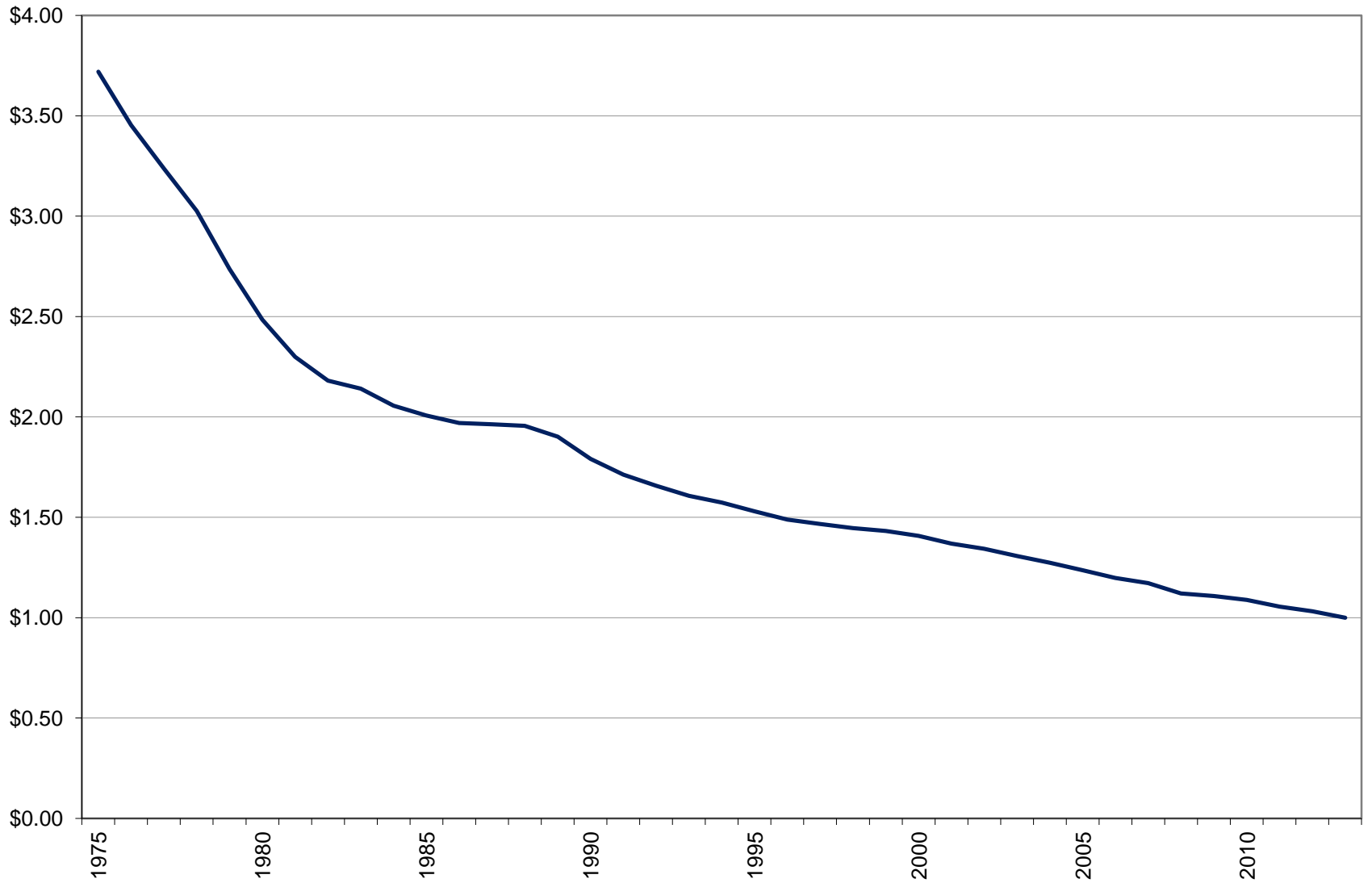
# Alaska Population: Historical and Projected



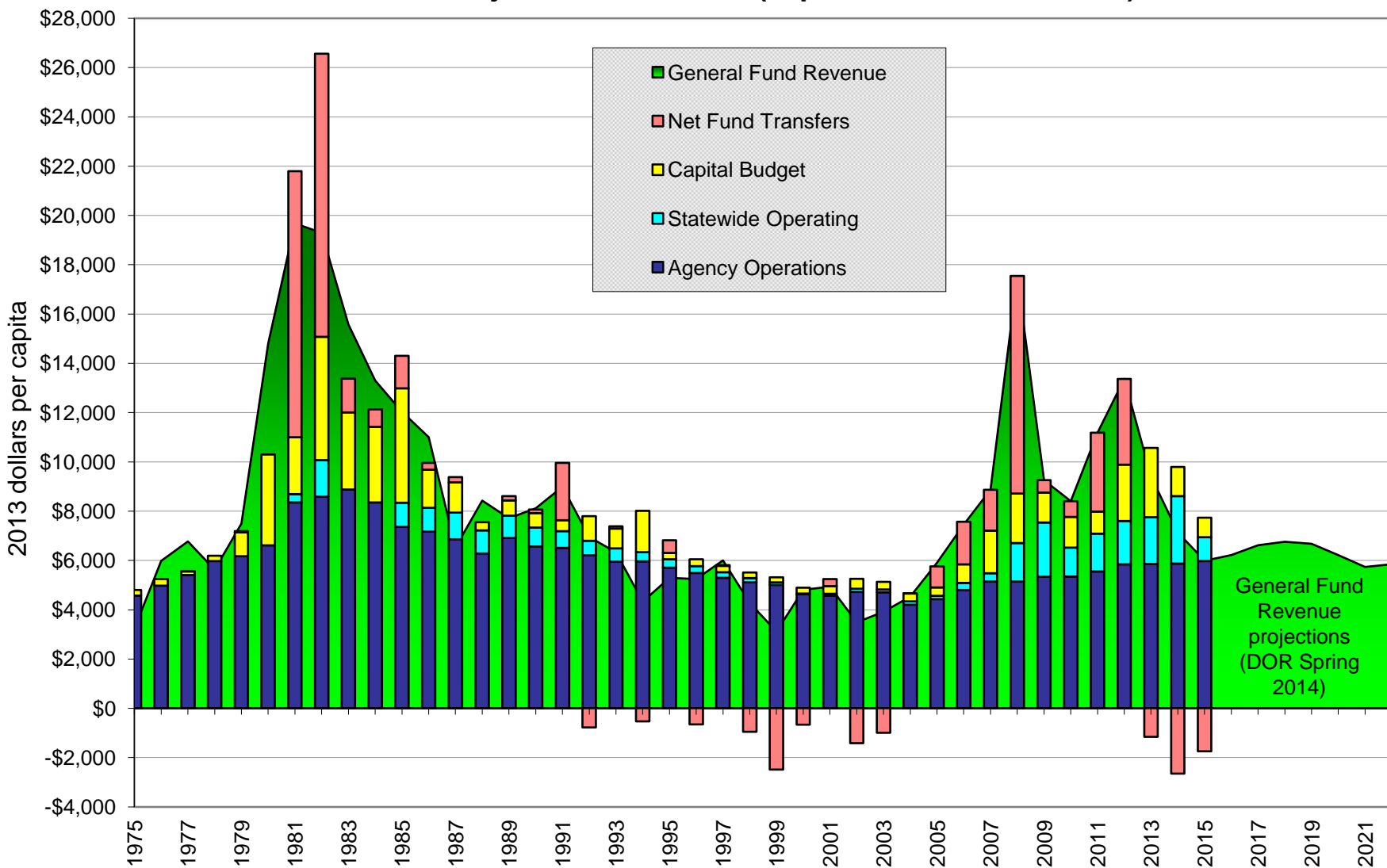
# Per Capita Unrestricted General Fund Revenues and Budget History



### Alaska Inflation 1975-2013: Value of One Historical Dollar in 2013 Dollars



## Per Capita Unrestricted General Fund Revenues and Budget History adjusted for inflation (expressed in 2013 dollars)





### Comparison of Selected Alaska Expenditures with Other States

Expenditure category	Total (\$000)	Per capita (\$)	Alaska rank among US states	Ratio of Alaska per capita \$ to US per capita \$
Total expenditure	\$11,320,127	\$15,663	1	2.43
Intergovernmental expenditure	\$1,723,023	\$2,384	5	1.50
Direct expenditure	\$9,597,104	\$13,279	1	2.74
Current operation	\$6,661,701	\$9,218	1	2.92
Capital outlay	\$1,218,201	\$1,686	1	4.54
Insurance benefits and repayments	\$1,244,060	\$1,721	2	1.67
Assistance and subsidies	\$183,766	\$254	3	1.99
Interest on debt	\$289,376	\$400	4	2.54
Salaries and wages	\$1,774,592	\$2,455	2	3.03
General expenditure, by function:				
Natural resources	\$391,462	\$542	2	7.68
Highways	\$1,412,087	\$1,954	1	5.57
Governmental administration	\$585,703	\$810	1	4.74
Police protection	\$118,154	\$163	1	3.58
Interest on general debt	\$283,836	\$393	4	2.62
Health	\$362,760	\$502	1	2.61
Correction	\$283,764	\$393	1	2.49
Education	\$2,475,486	\$3,425	2	1.80
Public welfare	\$1,917,737	\$2,654	1	1.67
Parks and recreation	\$21,012	\$29	14	1.57

Note: Data are NOT adjusted for cost of living differences between Alaska and the USA.



# ISER FISCAL POLICY PAPERS

No. 2, October 1989

Institute of Social and Economic Research

University of Alaska Anchorage

## Facts and Fables of State Spending

**Table 1**  
**Per Capita Alaska State Spending Compared to U.S. Average**

Fiscal Year	Unadjusted Spending Ratio	Adjusted Spending Ratio	Composition of Extra Spending					Permanent Fund Dividend
			Capital	Payroll	Other <sup>a</sup>	Local Transfers	Interest	
1967	2.8	1.8	49%	36%	14%	0 <sup>b</sup> %	1%	0%
1977	3.1	2.1	34	36	19	6	4	0
1987	4.0	3.1	12	23	25	23	1	16

<sup>a</sup>Other current expenses include spending for programs unique to Alaska and extra spending for programs common to other states.

<sup>b</sup>In FY67 Alaska spent 30% less on transfers to local governments than the average of other states.