

Alaska: Governor takes controversial steps to resolve \$4 billion deficit



David M. Kall | Monday, October 17, 2016

Alaska is one of just a handful of states that imposes no income tax on its residents, along with Florida, Nevada, South Dakota, Texas, Washington and Wyoming. This makes the Last Frontier's dependence on oil that much more perilous as the fall in oil revenues wreaks havoc on its economy. Though other oil producing states, like Texas, Wyoming, New Mexico and Louisiana, are also under pressure, Alaska's burden is made heavier by the fact that so much of its operating revenue is made up from oil revenues. A January 2016 S&P report titled [Collapsing Oil Prices Seep Into State Credit Profiles](#) revealed that for fiscal years 2016 and 2017, 79 and 67 percent of Alaska's operating revenues come from oil. When we [addressed](#) this in early February, we noted that Gov. Bill Walker had proposed an income tax to help mitigate the state's losses. Since then, the Governor has taken other additional, though controversial, steps toward the same end.

For instance, in June, he [vetoed](#) \$1.29 billion from the budget bills on the grounds that the legislature had passed their budgets for fiscal years 2016 and 2017 without any way to pay for them. The Governor also ordered a stop to \$250 million of spending on transportation projects. He said, "[w]e have a \$4 billion deficit, which means the status quo is not on the menu. Despite the legislature's inaction, I'm still going to make sure Alaskans get a sustained permanent fund dividend."

Contending that "[d]uring the 149 days legislators were in regular, extended and special sessions, the legislature reduced [the budget by] \$400 million, solving 10 percent of the problem and leaving 90 percent of the work undone," the Governor also vetoed these line-items:

- Providing for a Permanent Fund Dividend (PFD) check of \$1,000 per person by reducing the \$1.362 billion PFD appropriation to \$695.6 million;
- Reducing the \$430 million appropriation for oil tax credits to the Governor's original proposal of \$30 million, the statutory minimum requirement;
- Reducing department spending by \$38 million;
- Reducing the University of Alaska's budget by an additional \$10 million;
- Reducing education funding by an additional \$58.3 million.

The Permanent Fund Dividend

Voters created the Permanent Fund, known formally as the [Alaska Permanent Fund](#) (APF) in 1976, as the Alaska pipeline construction neared completion. They did so

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by approving a constitutional amendment that established a dedicated fund, composed of at least 25 percent of all mineral lease rentals, royalties, royalty sales proceeds, federal mineral revenue-sharing payments and bonuses. The principal of the APF may only be used for income-producing investments, while the earnings may be spent for any public purpose. Most of the APF's spending has been on an annual dividend to qualified Alaskans, which the legislature appropriates on June 30 of each year.

In September, Gov. Walker [announced](#) the 2016 dividend amount of \$1,022 that 643,000 Alaskans would receive by check, starting October 6, 2016. Last year's dividend amount of \$2,052 was the highest ever. The previous five dividends were of varying amounts, as follows:

2014: \$1,884.00
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2013: \$900.00
2012: \$878.00
2011: \$1,174.00
2010: \$1,281.00
”

In his announcement, the Governor also pointed out that the state has lost over 80 percent of its income over the past two years, resulting in a deficit of more than \$4 billion. Though last year's dividend resulted in an “historic” \$1.33 billion payout, the veto of part of the legislature's dividend appropriation was necessary because it would have exceeded total projected revenues. “We have been drawing down on our savings at a rate of \$12 million a day. If we do not fix Alaska's budget soon, we will have burned through the money available for future dividend checks...”

Oil and gas tax subsidies

Another part of Alaska's solution lies in reducing the generous subsidies that oil and gas companies receive. [Bloomberg](#) reported that in June, [legislation](#) cut [tax credits](#) that have saved oil and gas explorers almost \$1 billion a year since 2007. After that, Gov. Walker froze \$430 million in rebates, and continues to seek additional reductions. Naturally, the oil companies push back, asserting that this is no time to cut taxes. The three big producers in the North Slope, BP PLC, ConocoPhillips and Exxon Mobil Corp., have already reduced spending and cut more than 500 jobs over the past year, because the global drop in prices has made Alaska's expensive crude particularly unappealing.

A January 2016 Office of Management and Budget [10-Year Plan](#) (Plan) highlighted the continuing volatility of the price of oil. In June 2014, it was \$113 per barrel. By November 2015, it had dropped to \$42 per barrel, with forecasts of \$50 and \$56 per barrel for fiscal year 2016 and 2017. Although a 10-year projection forecasts prices in the \$80 per barrel range, economists remark that “[f]orecasting oil price is like spinning a lottery wheel. Alaska can just as easily face oil prices in the range of \$25-\$40 per barrel.”

This is why Alaska's expenditures have dropped from \$8 billion in 2013 to \$6 billion in 2015 to \$5 billion in 2016, and why continued reductions are necessary. At present, revenue is less than 40 percent of spending.

Litigation

Despite the budgetary pressures, a current state senator, Bill Wielechowski (D), along with two former Republican lawmakers, [sued](#) Gov. Walker in mid-September for his decision to cut this year's dividend. The suit seeks declaratory and injunctive relief, essentially asking the court to require distribution of the full statutory amount of the dividend. Gov. Walker [responded](#) by seeking expedited review, expressing awareness that his “decision to veto the dividend appropriation has not been popular. It was an action I did not make lightly. It was necessary, however, to keep the nearly \$667 million in the earnings reserve account to ensure PFDs for future generations of Alaskans.”

Oral arguments were held on October 4, 2016, but the court has not yet ruled on the Governor's motion despite the October 6, 2016, date set for distribution of the dividend checks.



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Team member bio