



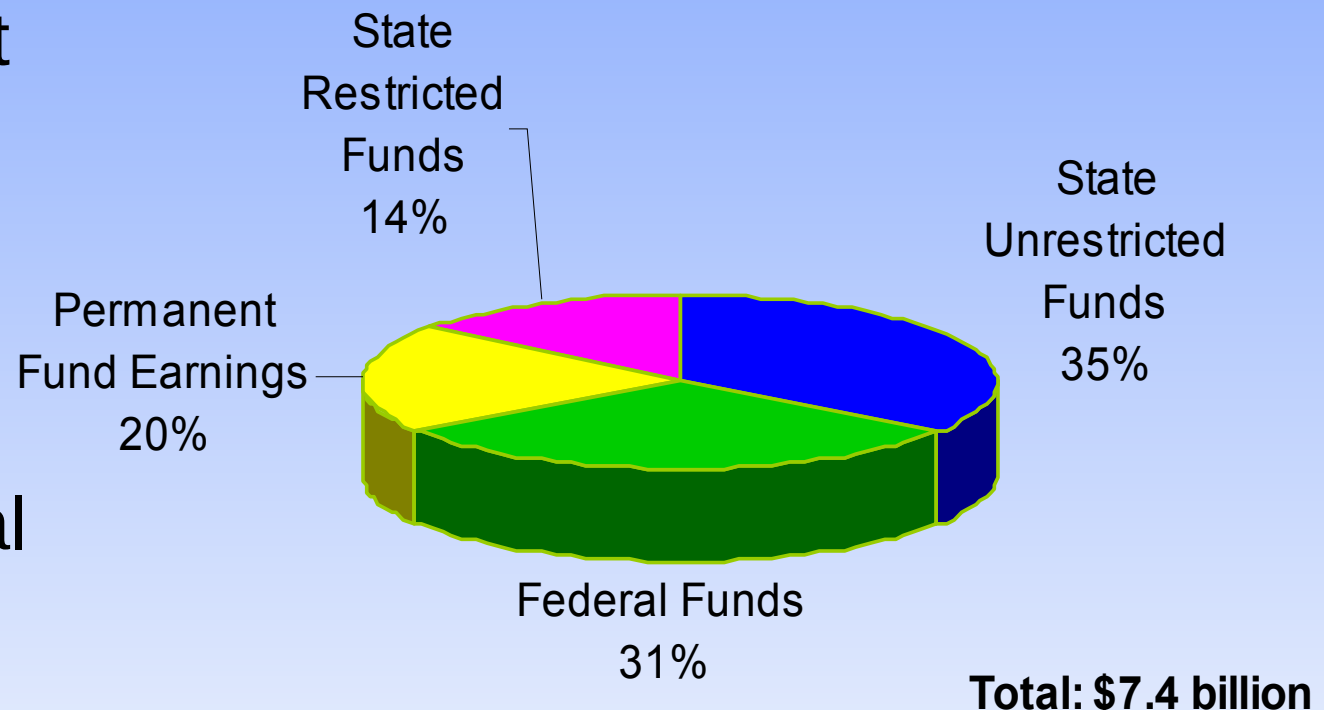
Understanding Alaska State Finances

Institute of Social and Economic Research
University of Alaska Anchorage
February 20, 2003

Topic 1.1 *Where does the money come from?*

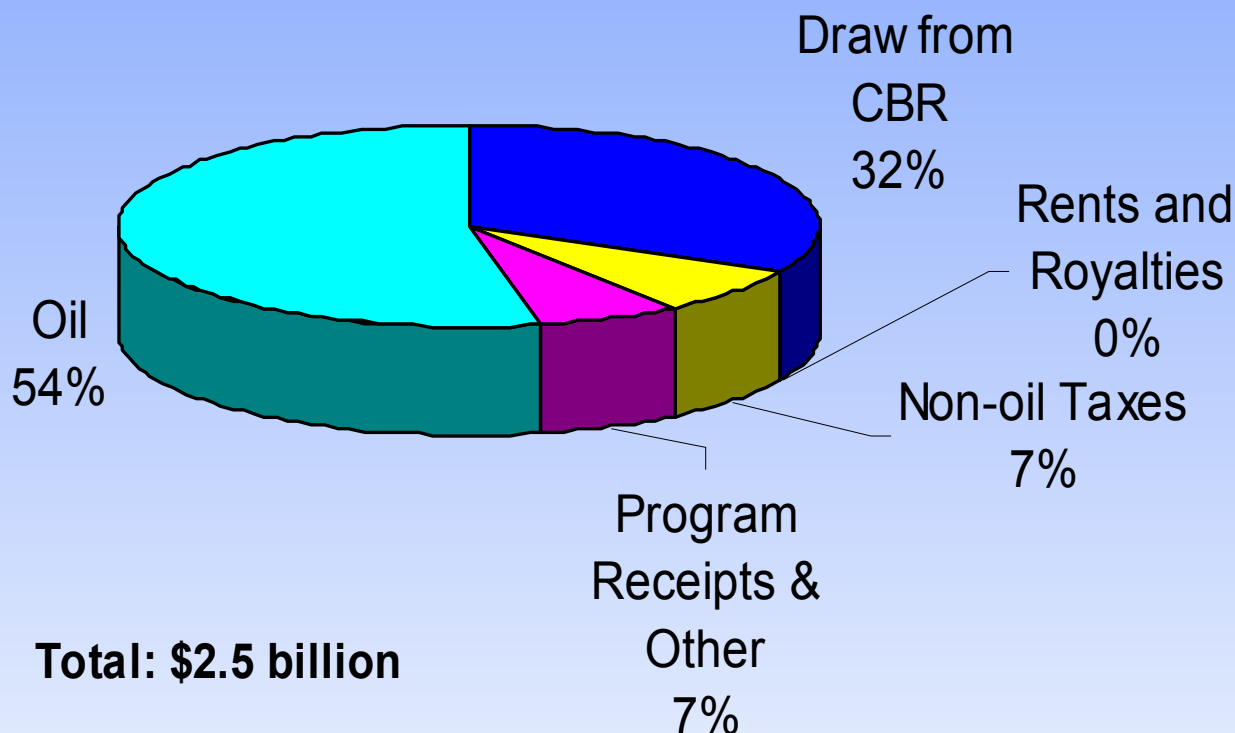
- 1/3 of the state budget is state general purpose funds.
- 1/3 is federal matching funds.

State Budget by Source, FY'02



Topic 1.2 *Where do state unrestricted funds come from?*

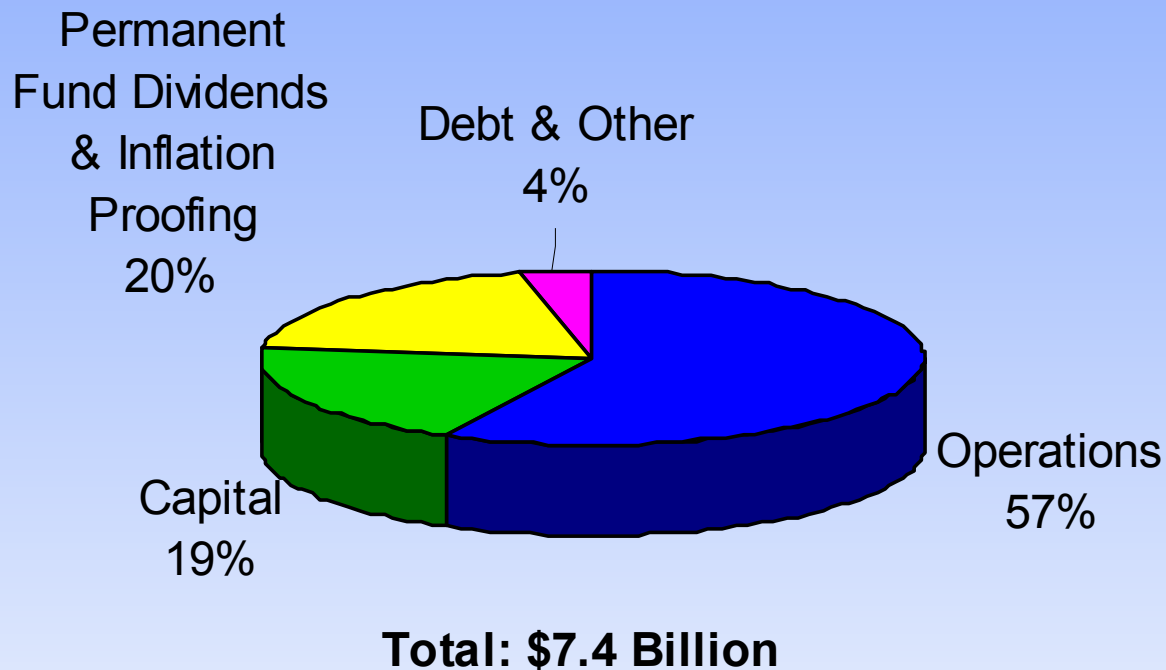
State Unrestricted Fund Sources, FY'02



- More than 1/2 were from oil
- 1/3 came from the Constitutional Budget Reserve

Topic 2.1: *How does the state spend the money?*

State Spending FY02, All Sources

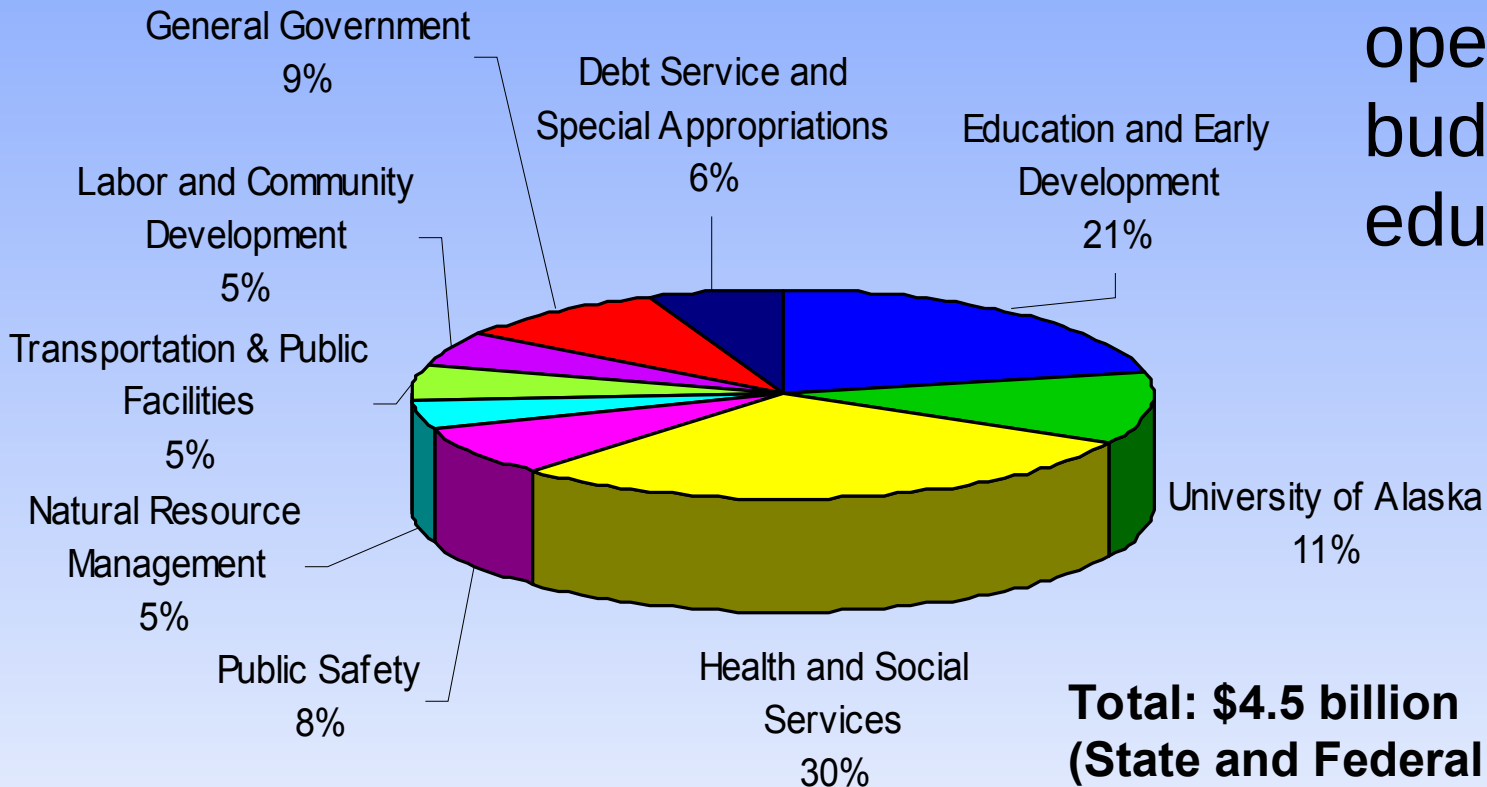


- More than half of all state spending is for general government operations

Topic 2.2: *What is in the operating budget?*

State Operating Budget FY02

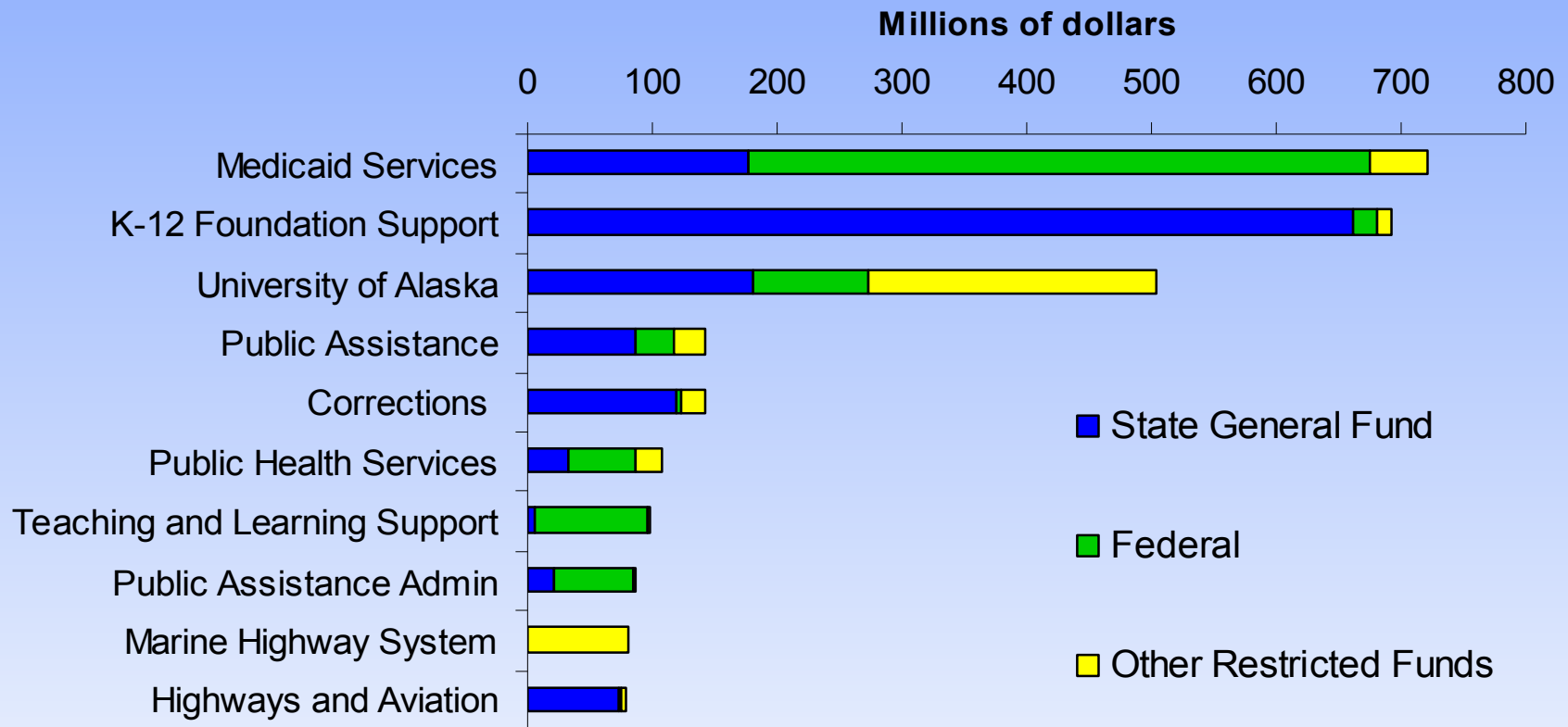
➤ 1/3 of the operating budget is for education.



**Total: \$4.5 billion
(State and Federal Funds)**

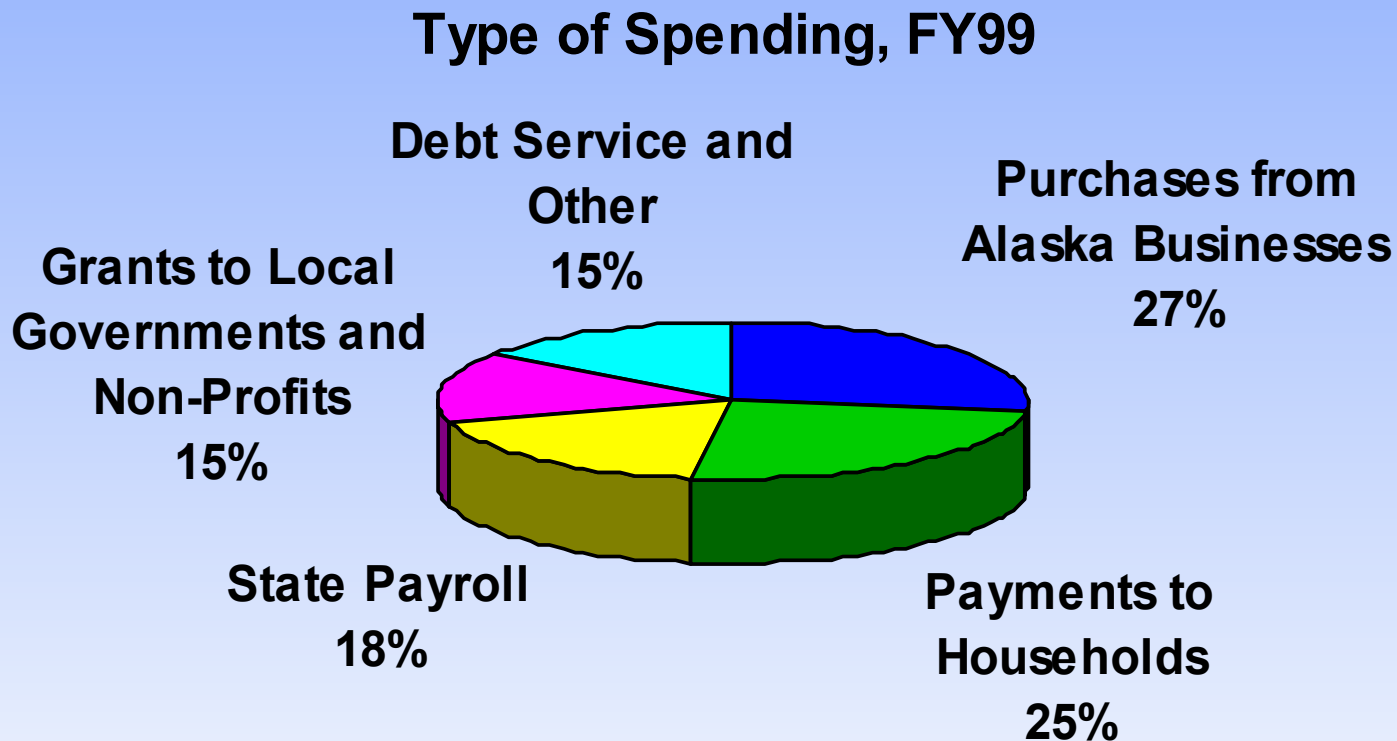
Topic 2.3: *What are the largest operating programs?*

FY02 Operating Budget -- Ten Largest Programs



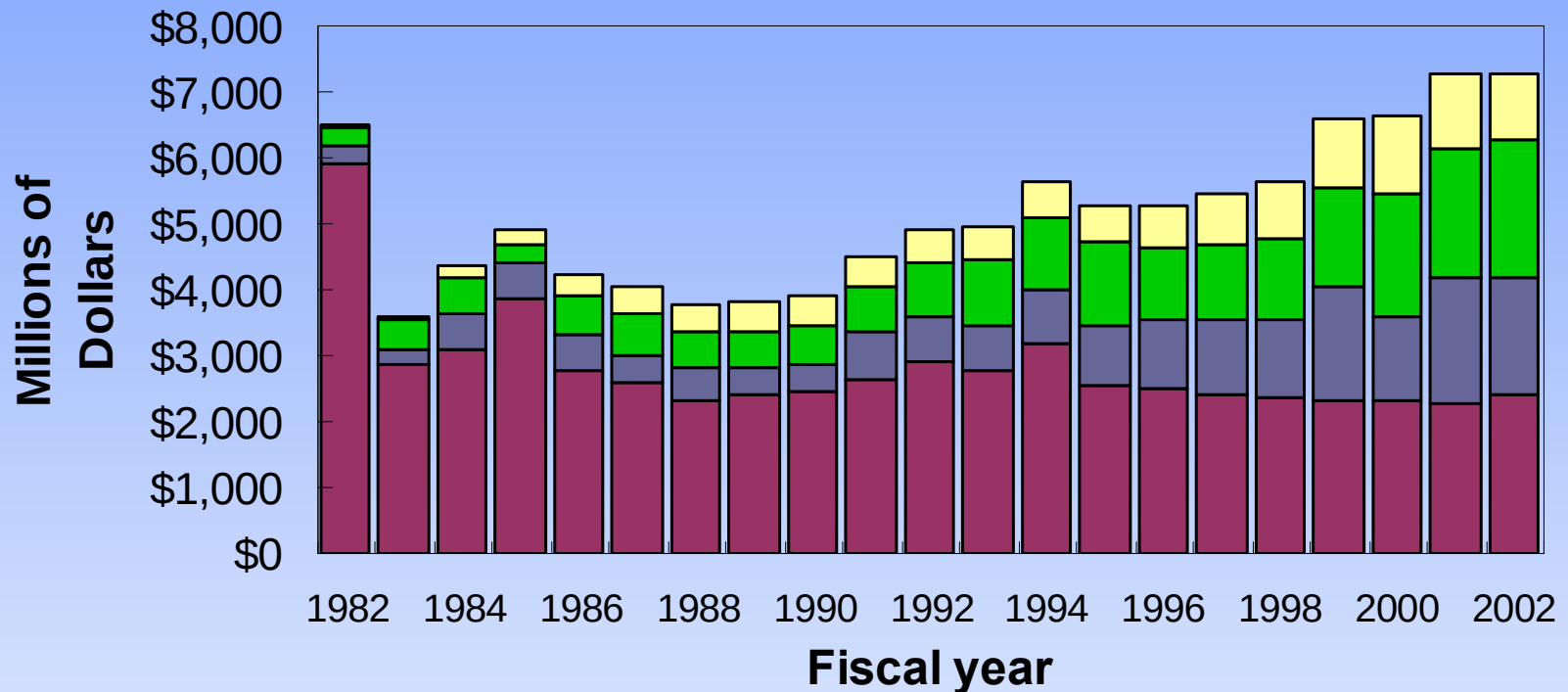
Topic 3: *Who gets the money?*

- Two thirds of total state spending (all funds) goes directly to Alaska businesses, households and local governments.



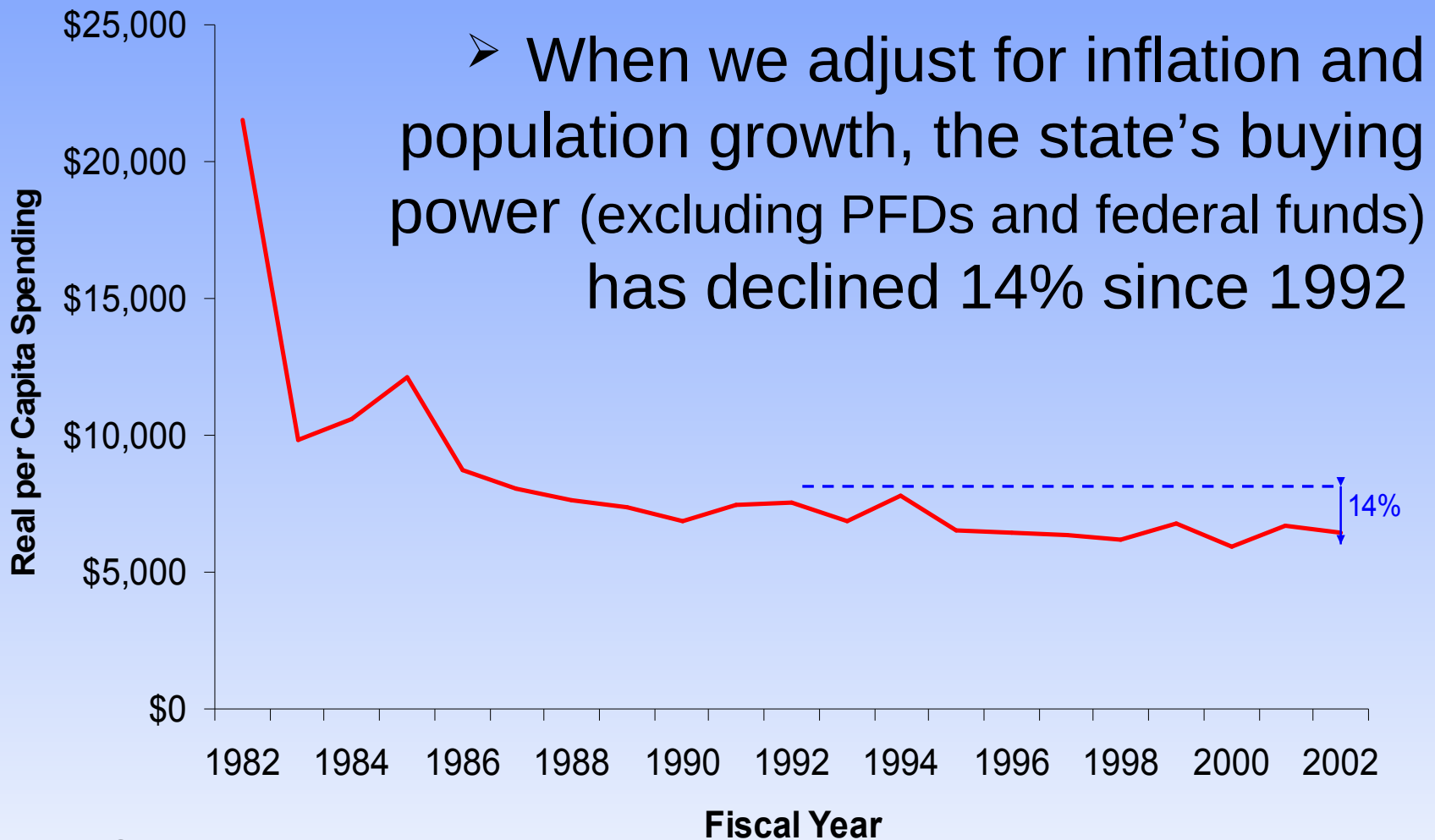
Topic 4.1: *How has state spending changed over time?*

State Spending, 1982-2002



- Permanent Fund Dividends
- Federal Funds
- State Restricted Funds
- State Unrestricted General Funds

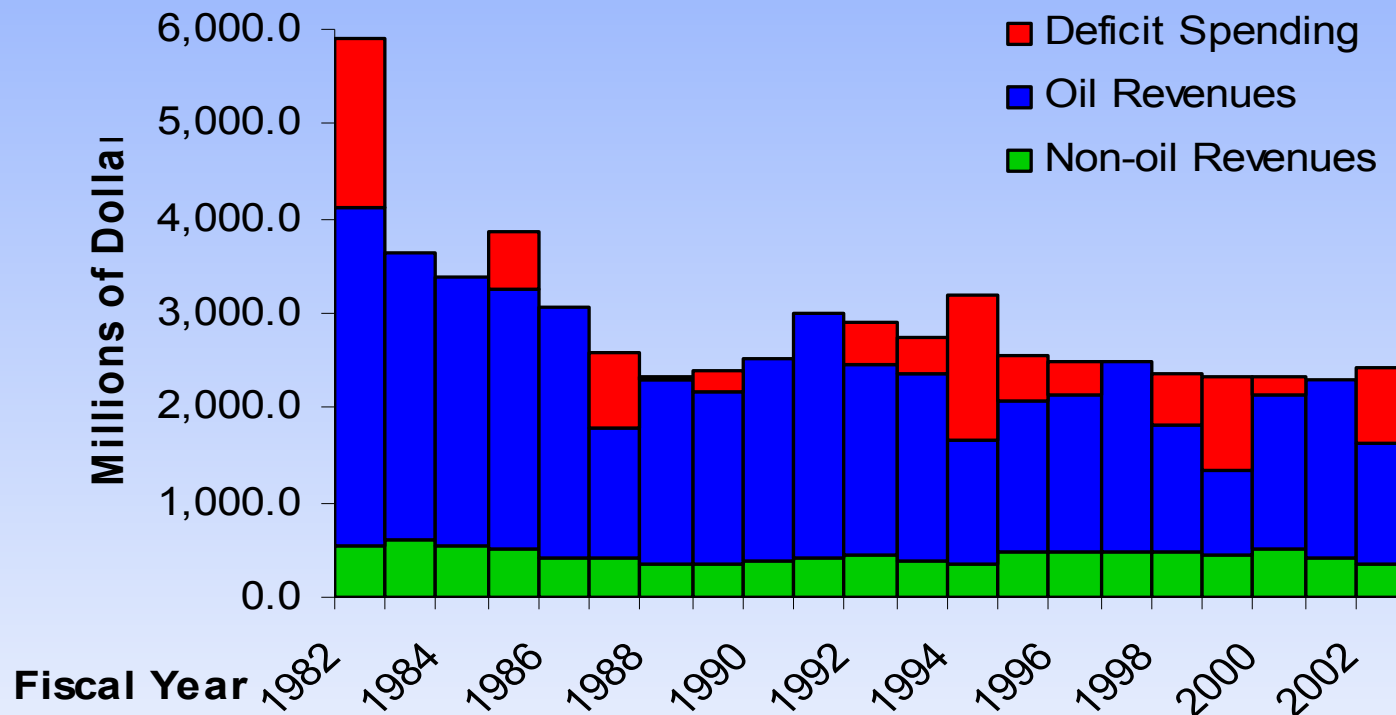
Topic 4.2: *How has real, per person state spending changed?*



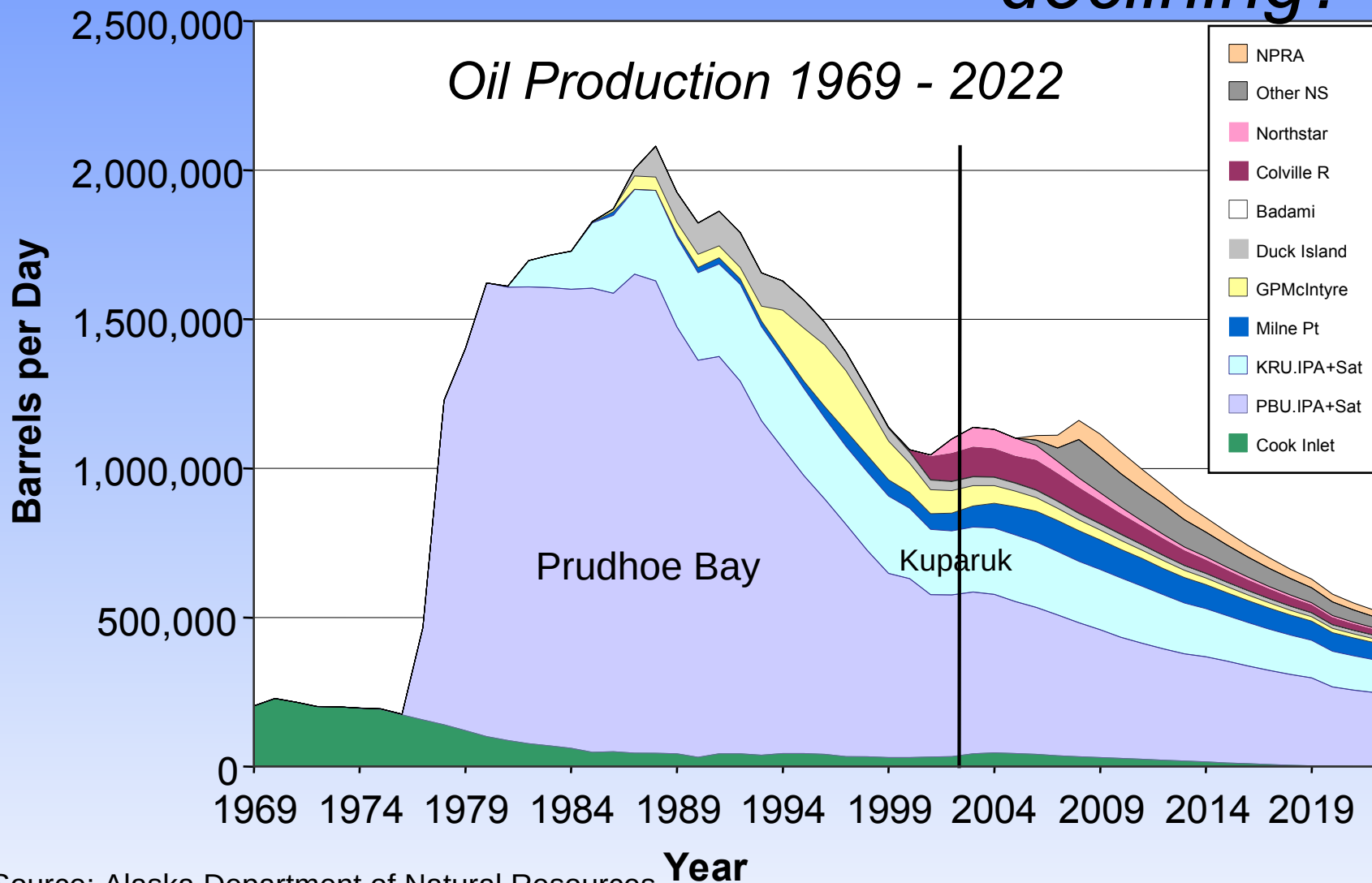
Topic 5.1: *Why is there a budget deficit?*

- 80% of unrestricted revenues are from oil
- Oil revenues are declining

State Unrestricted GF Revenues and Spending



Topic 5.2: *Why are oil revenues declining?*



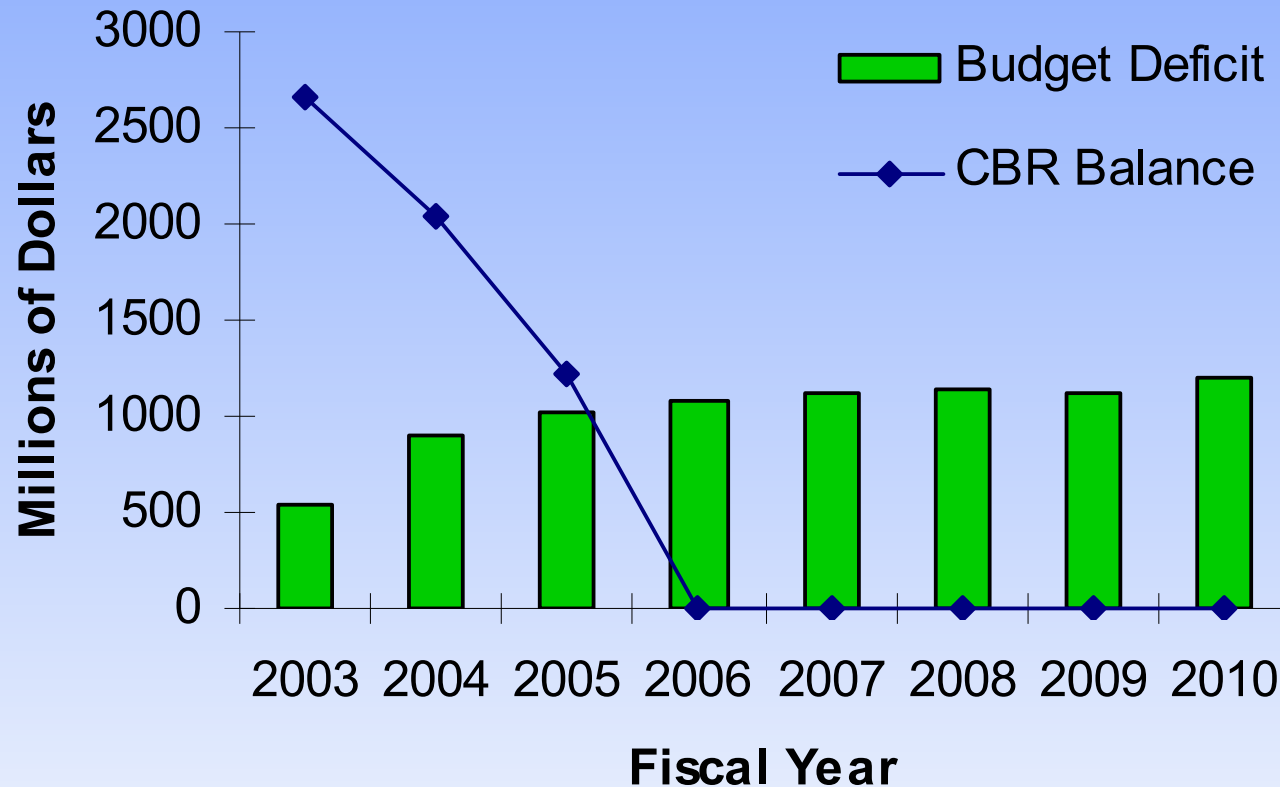
Source: Alaska Department of Natural Resources

Topic 6.1: *How does the state cover the deficit?*

- The budget deficit has been covered by funds withdrawn from the Constitutional Budget Reserve Fund.
- The CBR has \$2 billion.

Topic 6.2: *When will the CBR run out of money?*

Projected Budget Deficits and CBR Balances



Source: Alaska Department of Revenue Fall 2002 Revenue

Sources

Topic 7: *What can we do about the deficit?*

- Budget cuts
- Economic development
- Business or excise taxes or user fees
- Permanent Fund earnings
- Sales or income taxes

Topic 8.1: *What would happen if we just cut the budget?*

- The \$900 million deficit is 1/3 of the state General Fund budget
- Small cuts will not close the gap
- Large cuts would eliminate essential services and entitlements

Topic 8.2: *How would cuts affect the state's economy?*

On average, every \$1 million in state budget cuts will cost:

- \$900 thousand in federal funds;
- 10 state and local government jobs
- 8 private sector jobs.

Topic 9.1: *Will economic development solve the problem?*

- other than oil, Alaska resource industries are small and marginal

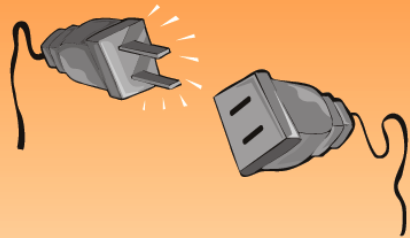
Revenues From Oil and Other Industries, 2001



Source: Alaska Department of Revenue

Topic 9.2: *How much does a new job cost government?*

- New jobs cost state and local governments more than they generate in tax revenues.



How Much Does A New Job Cost State and Local Governments?

State and local government costs of new job:	_____	\$6,300
State and local revenues from new job:	_____	\$5,200
Net cost to governments for a new job:	_____	\$1,100

Note: Calculation assumes the new job is in Anchorage and does not require any new public infrastructure. The disconnect would be larger under other assumptions.

Sources: ISER map database; ISER calculations

Topic 9.3: *What about raising oil revenues ?*

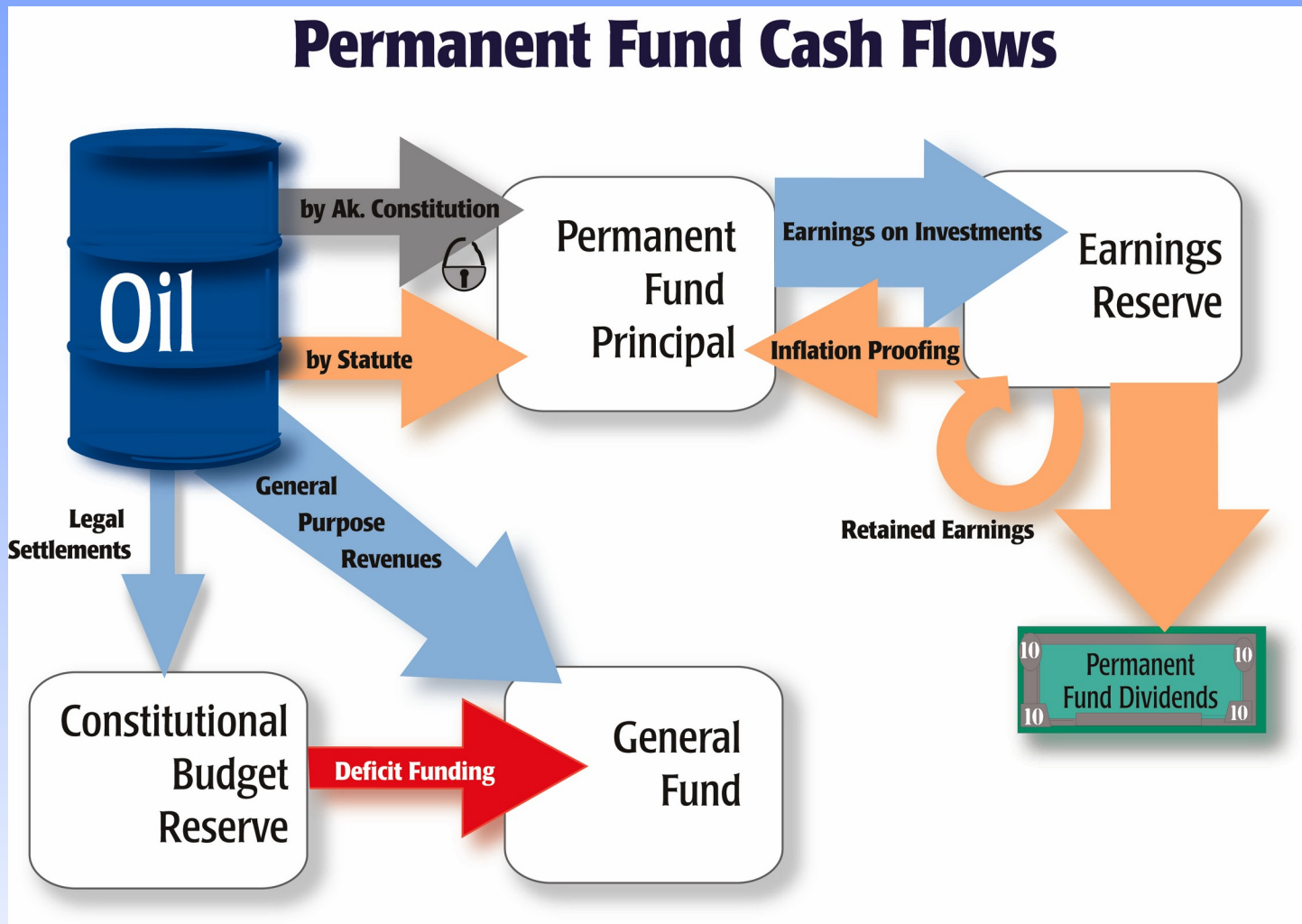
- ◆ A ten percent increase in production by 2010 might raise \$100 million in revenues
- ◆ New discoveries take years to produce
- ◆ The state receives less than half as much production tax per barrel of new oil as from Prudhoe Bay
- ◆ Major new taxes would discourage investment in new fields

Topic 10: *Can we raise user fees and excise taxes?*

- Increasing excise taxes and user fees would raise less than \$100 million.

	(in millions)
Raise gas taxes to match Rhode Island	\$63.0
Levy cruise ship passenger fees of \$25	\$17.5
Increase user fees five percent	\$16.0
Total new revenues	\$96.5

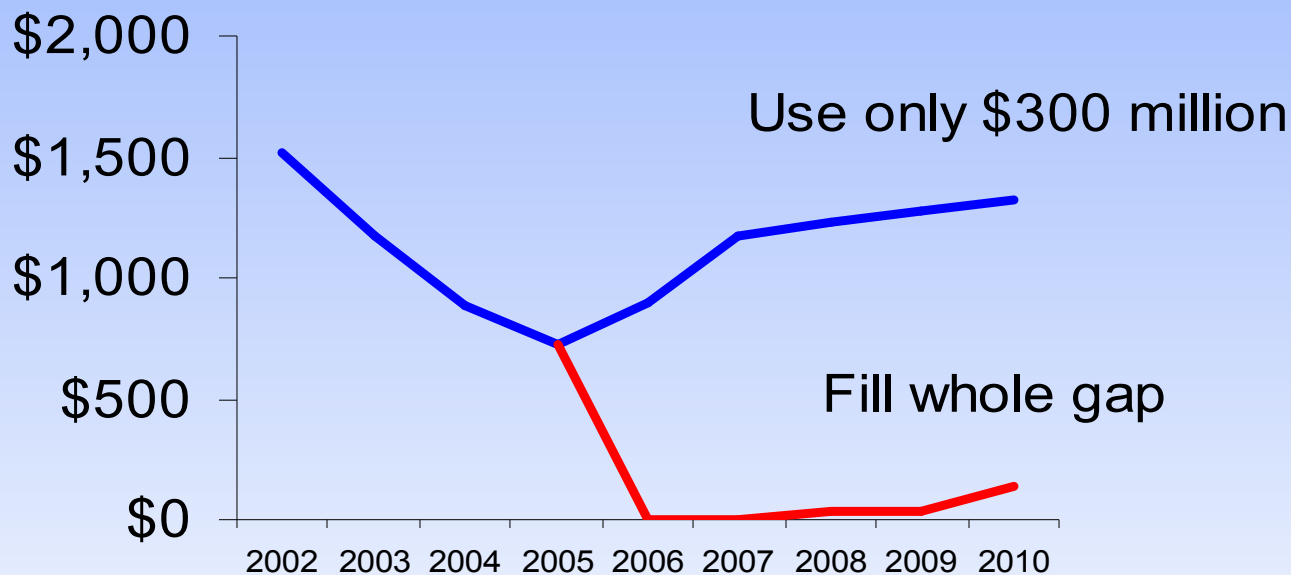
Topic 11.1: *What about using earnings from the Permanent Fund?*



Topic 11.2: *What will happen to my dividend if we use PF earnings?*

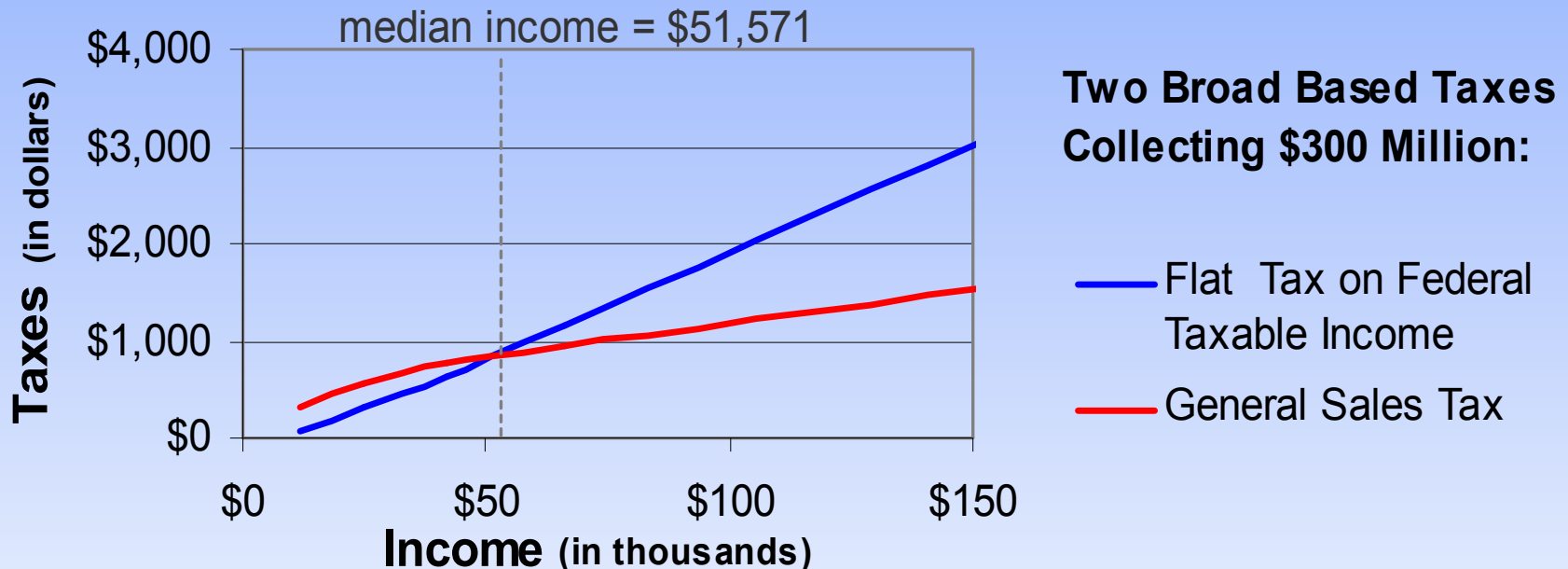
- There are not enough earnings to inflation proof the principal, fill the fiscal gap AND pay dividends.

Projected Dividend if PF Earnings Are Used



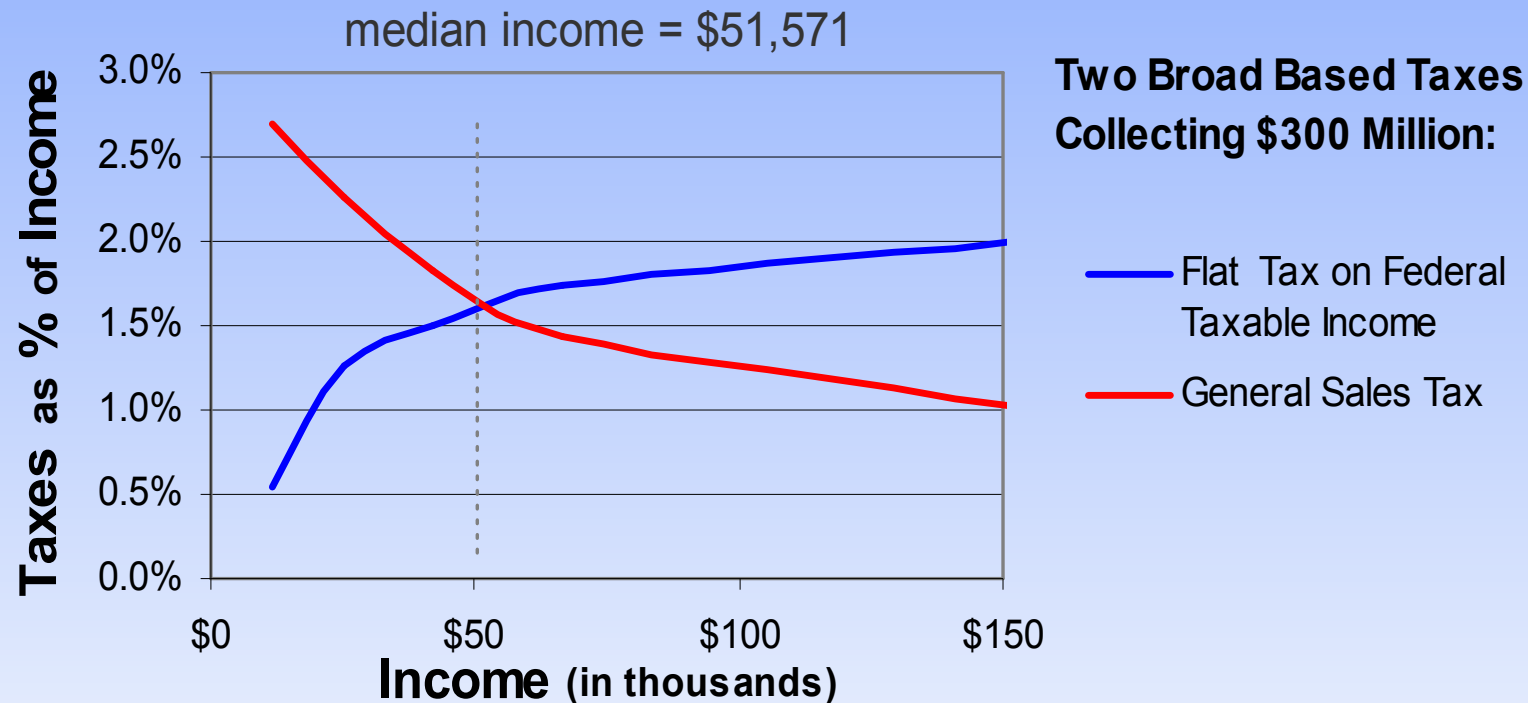
Topic 12.1: *How much would I have to pay with a sales or income tax?*

- Half of Alaskans would pay less in taxes under an income tax than under a sales tax.



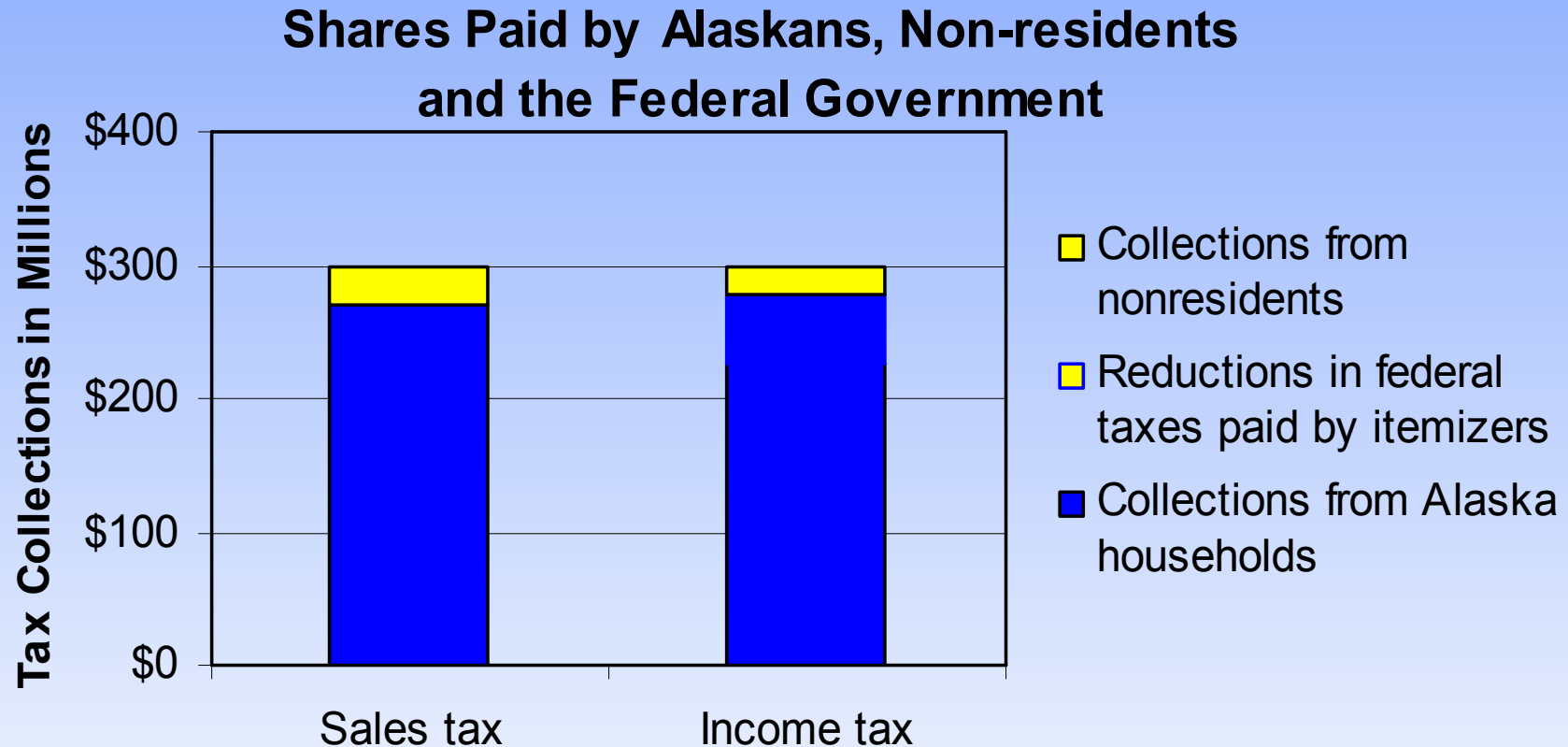
Topic 12.2: *What share of my income would I pay?*

- Lower income people pay a higher percentage of their income in sales taxes.



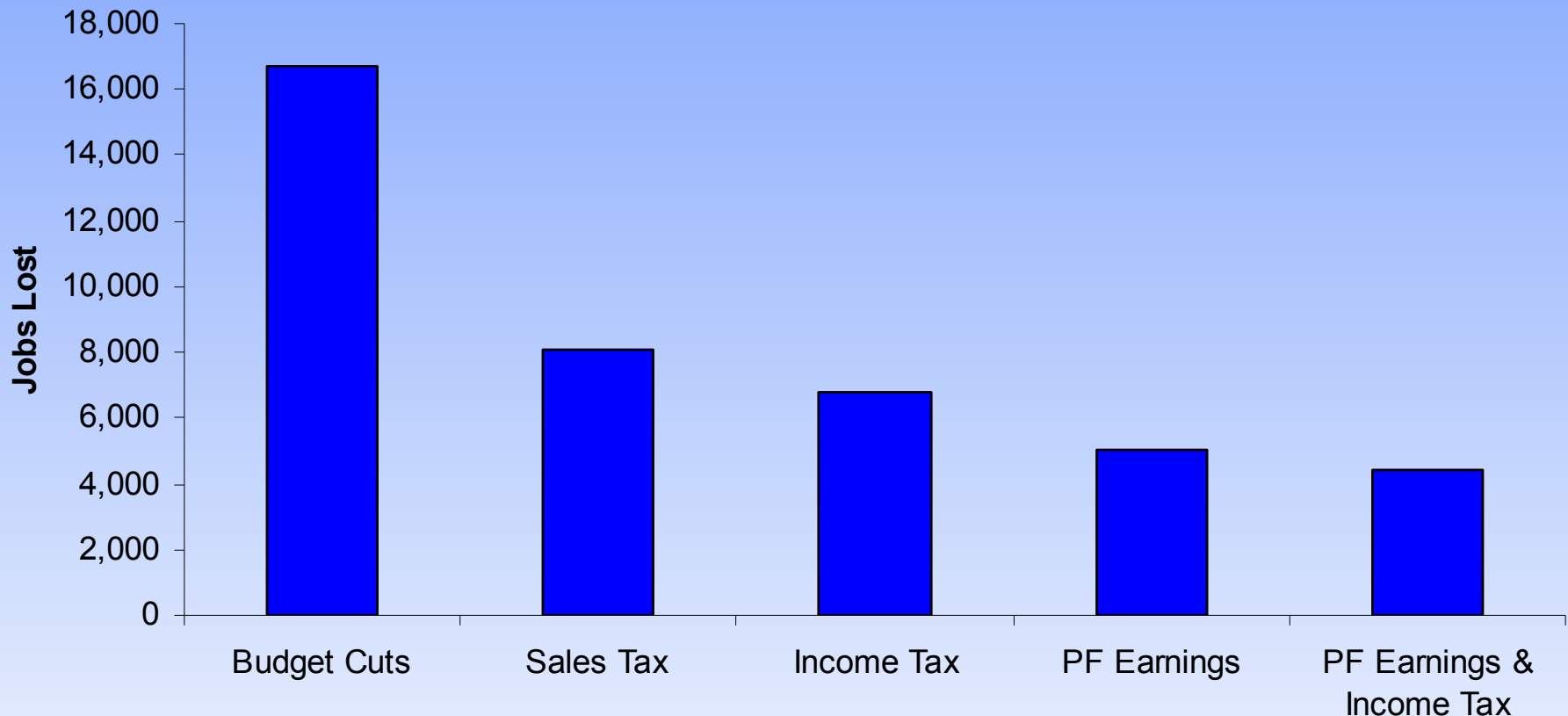
Topic 13: *How much would non-residents and the federal government pay?*

- Alaskans who itemize can deduct state income taxes from their federal tax return.



Topic 14: *How would each alternative affect the state's economy?*

Job Loss from Five Fiscal Policy Alternatives
\$900 million in Cuts, Taxes or PF Earnings



Topic 15: *How would you fill the fiscal gap?*

Budget cuts

**Economic development
and taxes on industry**

**User fees and excise
taxes**

**Permanent Fund
earnings**

Sales taxes

Income taxes

\$900 million

Topic 17: *Where can I go for more information?*

- For comprehensive information, explanation and analysis, look for ISER's forthcoming Citizen's Guide to the Budget Web site
- For current budget numbers see the Legislative Finance Web site:
<http://www.legfin.state.ak.us/>
- For revenue projections and analysis see **Revenue Sources** at: <http://www.tax.state.ak.us/SourcesBook/SOURCES.htm>