

# **If You Choose Not to Decide... Alaska's Budgeting Process in 2023**

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## **Abstract**

Alaska in 2023 is experiencing the first results of the new election system—the top-four all-party primary and Ranked Choice Voting. So far, that system seems to be generating results consistent with what advocates expected; a more moderate and collegial policy-making environment, and possibly even more sensible budgetary policy. This, coupled with relatively strong (though declining) oil prices, and abundant sovereign wealth led to a relatively low-drama, low-conflict budgeting process in spring 2023, as well as relatively moderate budgeting outcomes.

## **Introduction**

The typical Alaska state budget story includes lamentation or exultation around oil prices, a discussion of (relatively stable) investment revenue earnings, and a relatively mild touch of culture war politics. For the past several years, to that narrative was added a story about the costs (and benefits!) of the COVID-19 pandemic. This year, however, Alaska is enjoying its first experiment with the results of our new election system which includes a top-four all-party primary much like California's "jungle primary", and a Ranked Choice Voting (RCV) general election.

Supporters of the new election system have argued that the most likely outcome is a more moderate and less contentious legislative process at the state level. Therefore, one result may be a more sensible and predictable budgetary approach with fewer fluctuations, and less dependence on unreliable fossil fuel revenues.

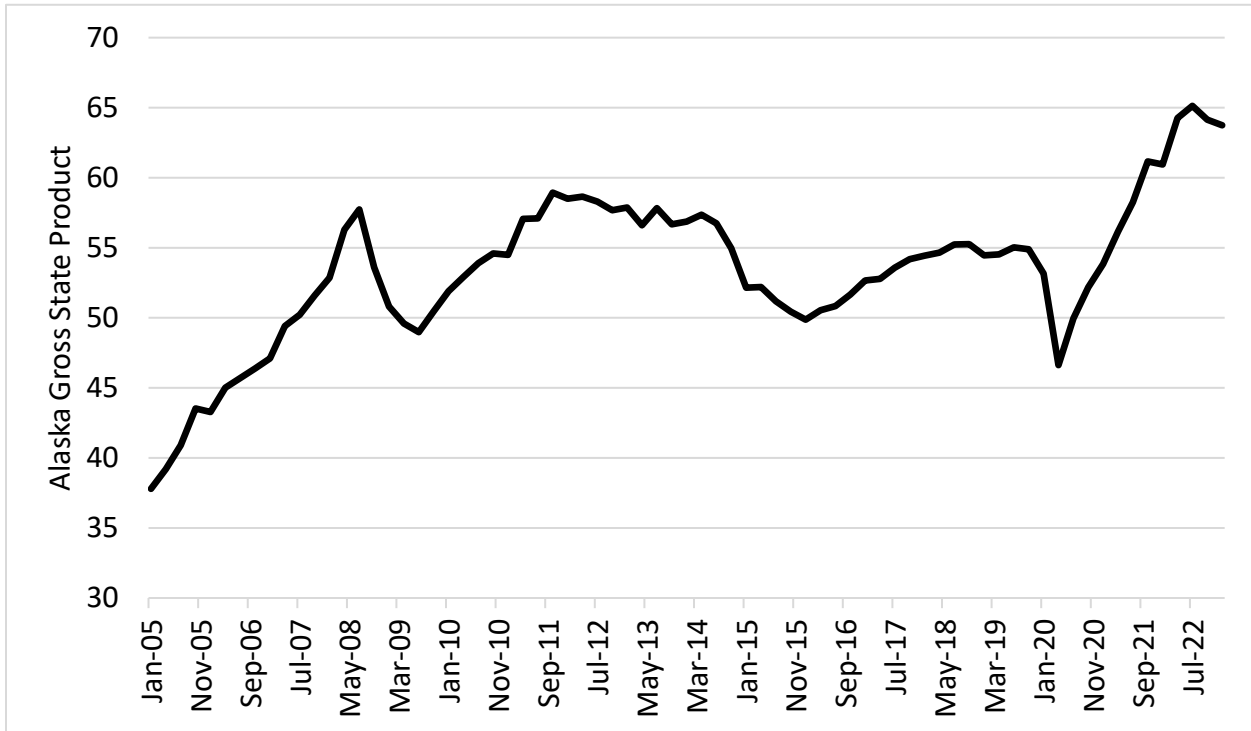
So far consistent with the predictions of top-4/RCV advocates, Alaska's new election system generated comparatively moderate legislative coalitions in fall 2022, and the budgeting process in spring 2023 generated a middle-of-the-road budget with little drama.

The following section provides an overview of the state's economy in the current fiscal year—the economy is growing but that growth has little impact on the state budget. Section three discusses recent political trends and controversies, including what seems to be a more moderate and collaborative policy environment associated with the new election system. I also note the ongoing benefits of federal spending especially associated with Lisa Murkowski's pivotal position in the U.S. Senate. The fourth section discusses the budgeting process. In general, the legislature developed an uncontroversial budget with few notable changes for fiscal year 2024.

## **Alaska's Economy in Fiscal Year 2023**

Alaska's recovery from the COVID-19 pandemic accelerated in 2022, and by spring 2023 the state had returned to something like pre-pandemic normalcy. As global economic activity returned to normal, increasing demand for commodities like oil increased state tax revenues,

boosted Alaska’s economy (see Figure 1), and drove down the unemployment rate (see Figure 2). The result was a relatively generous level of state government spending in Fiscal Year 2022-2023. While oil prices have declined since their peak in summer 2022, revenues remain comparatively healthy, and although the state’s investment revenues have suffered somewhat from recent fluctuations in global financial markets, the Alaska Permanent Fund remains strong (and larger than at any time before 2021).



**Figure 1: Alaska state GDP.** Billions of \$US. Alaska’s recovery from COVID-19 was accompanied by substantial increases in global oil prices and other commodities, leading to substantially higher state GDP<sup>1</sup>.

### *Russia, Ukraine, and Alaska’s Oil*

Soon after the Trans-Alaska Pipeline System began moving oil from the Alaska North Slope in 1977, Alaska repealed its state income tax, relying instead on taxes on oil and the fossil fuel industry. Oil tax revenues have often been around 90% of the state’s tax receipts. Because of the state’s reliance on oil for its tax revenues, Alaska’s budget expands when oil prices and oil production are high, and when production and prices are low the state government’s revenues and expenditures contract. Alaska has experienced several periods of low oil prices since the 1980s, the last of which started in spring 2014 and continued until spring 2020. Alaskan oil has also long since passed peak production—back in 1988—and is now in a period of extended decline (see Figure 3). While oil producers have discovered significant new deposits on Alaska’s North Slope in the last few years and the federal government has recently opened new federal lands to oil production (Friedman 2023), it is unlikely that Alaska oil production will rise much above the current level—around 25% of the 1988 peak.

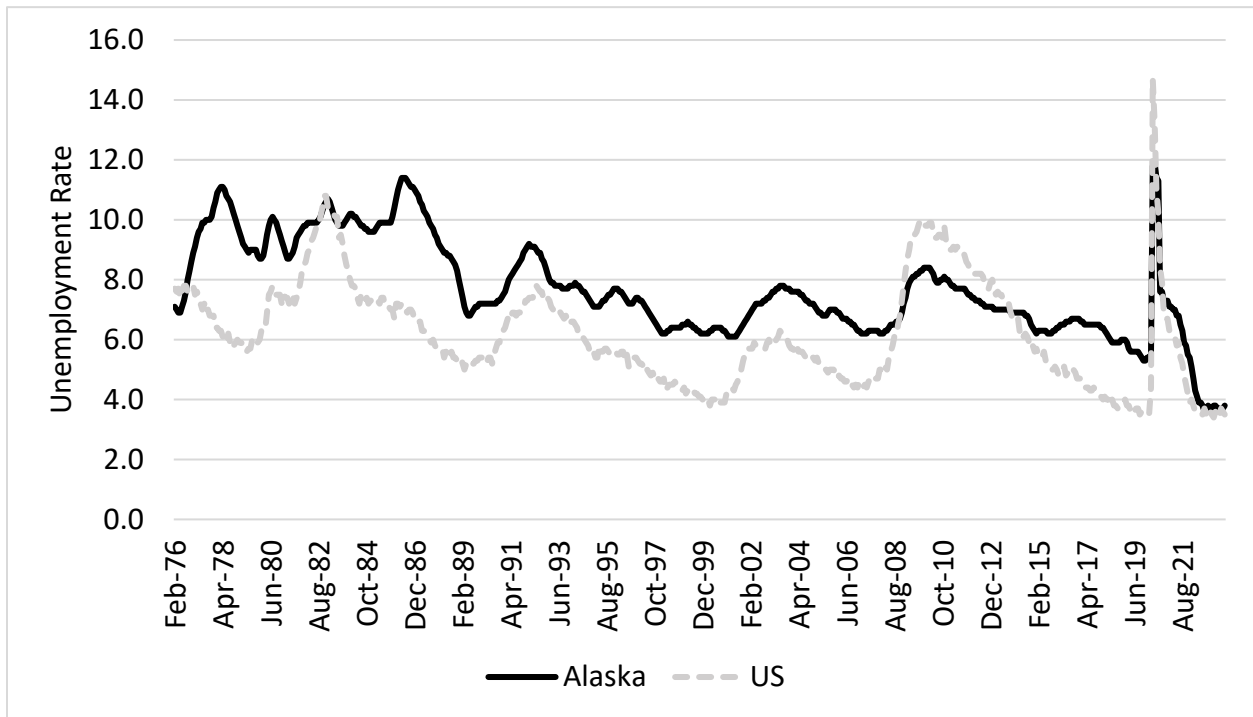
Driven by rebounding global demand for energy, however, prices for Alaska North Slope (ANS) crude increased from around \$12 per barrel in April 2020 to average around \$75 per barrel in

<sup>1</sup> FRED: Federal Reserve Economic Data. <https://fred.stlouisfed.org/> Retrieved March 26, 2023.

November 2021 (see Figure 4). In late June 2022, driven by the international crisis in Ukraine, daily first purchase prices for ANS crude oil spiked to about \$112 per barrel, and high oil prices framed budget discussions in spring 2022. These higher oil prices were good news for Alaska, and very good news for Alaska’s incumbent governor, running for re-election in fall 2022 (see discussion of the Permanent Fund Dividend below) but prices quickly declined after the election and rest around \$85 per barrel of August 2023. This is a healthy price—and Alaska is much less reliant on oil than it was a decade ago—but Alaska in 2023 is in a somewhat more constrained budget environment than it was in 2022.

*Other Resources and Revenues*

Historically, Alaska’s economy has been based on natural resource extraction, including timber, fish, and mining. Timber has not been a significant contributor to the state’s economy for more than two decades. Mining and fishing are still important industries in Alaska but contribute little to state revenues.



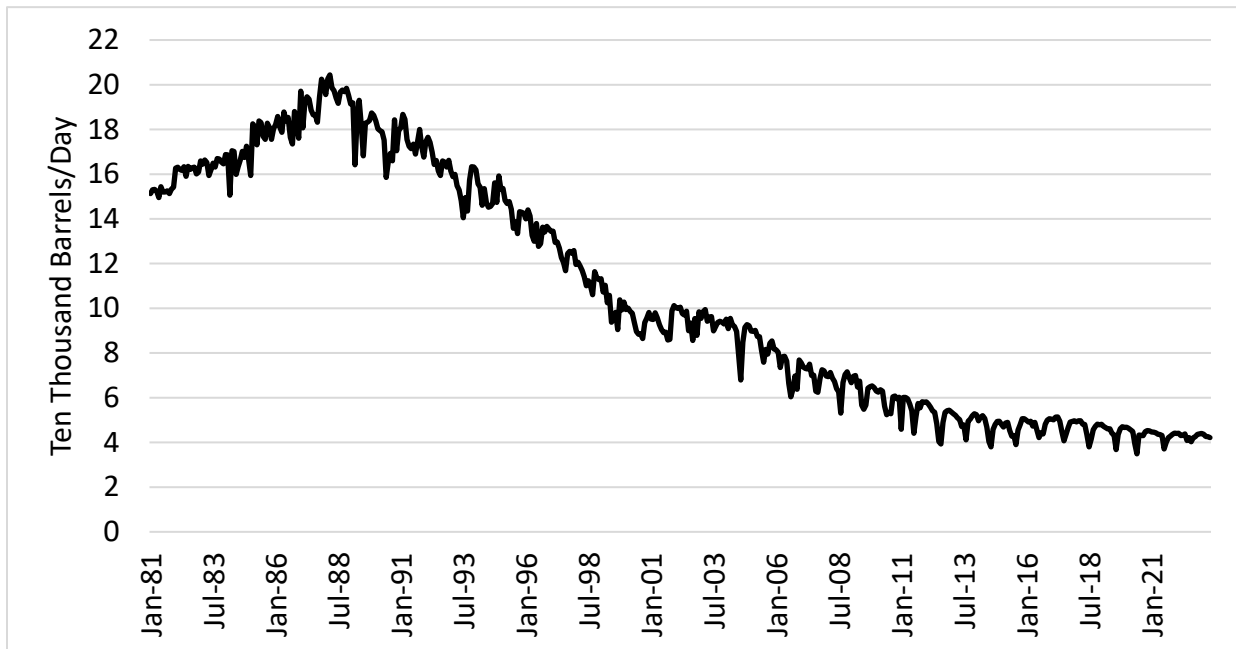
*Figure 2: Alaska and U.S. unemployment rates. Unemployment declined rapidly in Alaska in the wake of the COVID pandemic, and unemployment in spring 2022 is lower than any time on record<sup>2</sup>.*

As recently as the 1990s, timber harvest was a mainstay of Alaska’s economy. In the 1990s, however, Alaska’s timber industry collapsed (Beier, Lovcraft, and Stuart Chapin 2009). Today, timber is no longer a significant employer in any part of the state and does not contribute in a meaningful way to state revenues. During the Trump administration, the repeal of the “roadless rule”—the ban on new road construction in the Tongass National forest—led some advocates to predict the re-emergence of a larger Alaska timber industry (Murkowski 2020). However, the rule was re-imposed under the Biden administration. In any event, the recovery of timber as an

<sup>2</sup> FRED: Federal Reserve Economic Data. <https://fred.stlouisfed.org/> Retrieved March 27, 2023.

economic force is unlikely given changing global markets, historical over-harvest in Southeast Alaska, and the decline of Federal government subsidies to Alaskan timber firms (Mackovjak 2010).

In general, Alaska’s commercial and sport-fishing industries are healthy. In 2022 (the most recent year for which data is available), commercial fisheries landings declined by about 400 million pounds over the previous year. This places landings well below the higher levels of the previous decade, but Alaska’s fishing yields remain high by historical standards and substantially higher than the period before 1990 (see Figure 5). Conservationists and fishers have expressed concern about particular species in some areas including Bering Sea and Bristol Bay crab fisheries, and several salmon fisheries (Friedman 2023; Rogerson 2022b; Rosen 2022; Ross 2022). However, fisheries remain an important employer in Alaska and contribute much to the state’s economy, especially locally in some coastal areas. However, fishing contributes little to state government revenues—state government generates only around one percent of its revenue from taxes on Alaska’s fisheries (Alaska Department of Revenue 2023, 202).



**Figure 3: Alaska oil production.** Alaska’s oil production peaked in 1988 and has been declining ever since. Current production levels are about 25% of the 1988 peak<sup>3</sup>.

### Tourism

Tourism has historically been a very important part of the Alaska economy, although it contributes little to state government revenues. Tourism in Alaska was almost non-existent in 2020 and remained greatly curtailed in 2021. It substantially recovered in 2022 with the end of the pandemic and will break records in 2023.

Cruises to Alaska—the largest source of tax revenue in tourism for the state—were cancelled entirely in 2020, greatly harming many communities in Southeast Alaska. The cruise season for 2021 also started quite late because of COVID’s impacts on the cruise industry (Brooks 2021;

<sup>3</sup> U.S. Energy Information Administration. <http://www.eia.gov> Retrieved March 25, 2023.

Stremple 2021; Yeginsu 2021). However, early projections for a strong 2022 season proved accurate, with cruise ship visitation nearly recovering to pre-pandemic peaks (Juneau Port Director reports final 2022 visitor tally 2022). Other forms of tourism also boomed, with independent travelers visiting in record numbers. 2023 had an even busier summer tourism season, likely breaking records (DeMarban 2022, 2023; Symmes 2023).

For purposes of state budgeting, however, cruise ship visitation is not important. Cruise ship visitors on larger ships (more than 250 berths) pay a state head tax of \$34.50 per person and the state taxes income from gambling on passenger vessels at around 33%. However, the legislation under which these taxes were passed specifies that most of these revenues are transferred to municipalities to provide services to the cruise industry, and the State of Alaska only generated about \$2.5 million from head taxes in 2017, a strong year for cruise tourism (Alaska Department of Revenue 2021). Other state revenues from tourism are larger, including revenue from the Alaska Railroad, the state ferry system, vehicle rental taxes, and other taxes. Even as tourism rebounds in 2022 and 2023, total state revenues from tourism are not a significant proportion of Alaska’s state government budget.

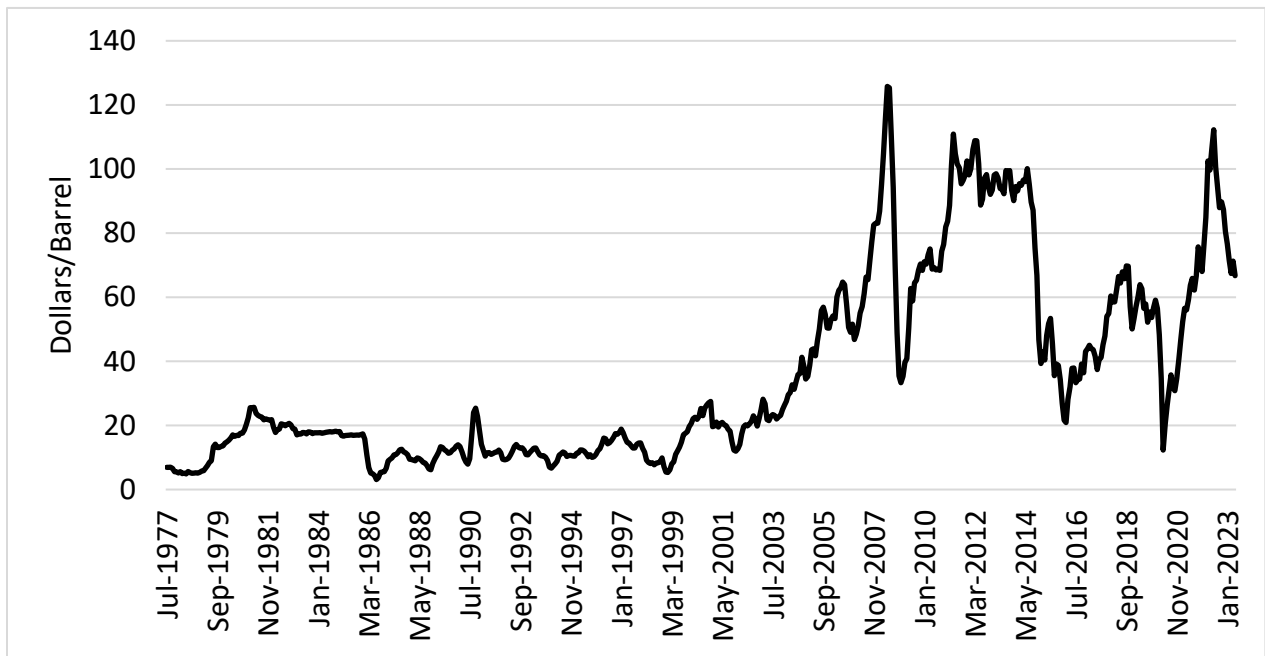


Figure 4: Alaska North Slope crude first purchase price (dollars per barrel). Oil prices spiked in 2022 due to a recovering global economy and the crisis in Ukraine, but have now returned to lower levels<sup>4</sup>.

### Alaska’s Reserve Funds

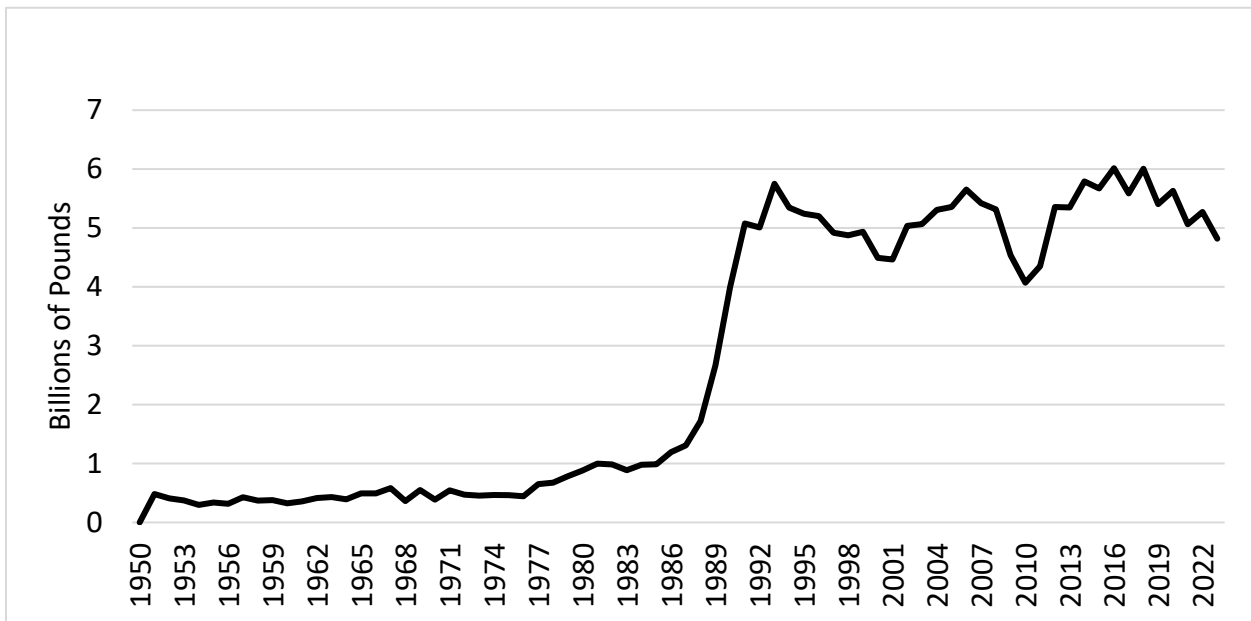
Although Alaska is not unique among U.S. states in its ownership of sovereign wealth funds, Alaska’s investment funds are uniquely large. The most well-known of Alaska’s several investment funds, the Alaska Permanent Fund, is currently valued at roughly \$78 billion<sup>5</sup>. The second-largest, the Constitutional Budget Reserve (CBR) was once substantial as well, but spending has depleted the fund’s balance, from around \$12 billion in 2013 to about \$1 billion in 2021 (see Figure 6).

<sup>4</sup> U.S. Energy Information Administration. <http://www.eia.gov> Retrieved March 25, 2023.

<sup>5</sup> Real-time data on the Permanent Fund is available at [apfc.org](http://apfc.org). This figure retrieved on August 23, 2023.

For the last several years, earnings from Alaska’s Permanent Fund and CBR have been greater than revenues from taxes on oil, and the state’s Permanent Fund earnings have been an important source of revenue for the state budget for several years. Before 2014, Alaska used investment earnings from the Permanent Fund exclusively to pay Alaska’s famous Permanent Fund Dividend (PFD) check, a payment paid equally to all Alaska residents annually, typically in early October. However, for the last several years, Alaska has drawn on the investment earnings from the Permanent Fund, and, to a lesser extent, the CBR to fund government programs and infrastructure. One result has been smaller dividends, a politically unpopular choice.

Although the principal of the Permanent Fund is protected in Alaska’s Constitution, there is no restriction on the legislature’s ability to use fund earnings. On the other hand, the Permanent Fund dividend is very popular and is viewed as an entitlement by many Alaskans (Goldsmith 2012b). Arguably, this is consistent with the goals of the dividend program—some have argued that the PFD was primarily a tool to create a constituency which would fight to protect the permanent fund (Hammond 2012). Certainly, the permanent fund dividend has been fabulously successful if this was the goal (Goldsmith 2012a). Although the fund is under-researched, there is also some evidence that it has a stimulatory effect on Alaska’s economy and is an important factor in reducing economic inequality in Alaska, which is currently the lowest of any state. Recent work also strongly suggests that the PFD has significantly reduced poverty in Alaska (Berman and Reamey 2016). Consequently, many state politicians fear the political and macroeconomic consequences of reducing or eliminating the dividend by spending fund earnings.



**Figure 5: Commercial fisheries landings in Alaska.** Though landings remain lower than the decade before 2019, landings were up in 2021 and remain at healthy levels, especially compared to the period before 1990<sup>6</sup>.

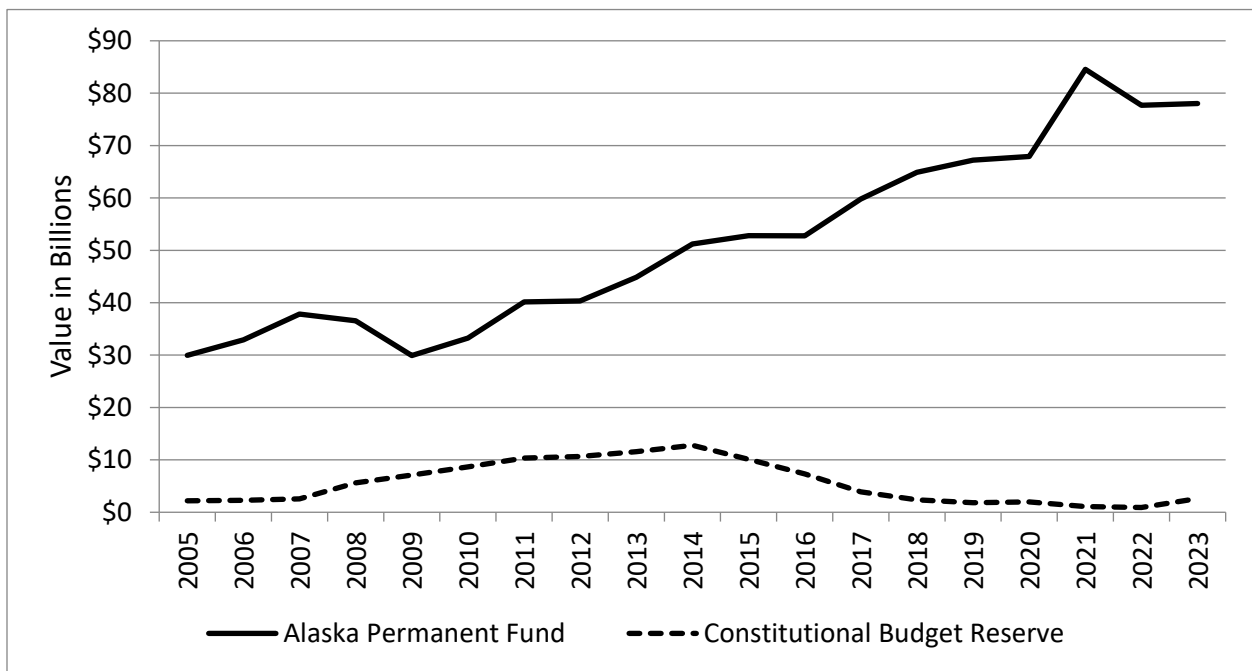
Benefits of a large PFD notwithstanding, the legislature has drawn on Permanent Fund earnings to fill the state’s deficit for the last several years, withdrawing a given percentage of the fund’s value each year to pay for state government projects and operations (several years ago the

<sup>6</sup> National Marine Fisheries Service Commercial Landings data. <https://www.st.nmfs.noaa.gov>. Retrieved Mar. 27, 2023.

legislature enacted into statute a proposal to withdraw 5.25% of the fund’s value each year). The remainder of the state’s budget expenses have been largely paid for with a combination of taxes on oil and federal government transfers (Groh 2019).

As noted above, the other use of the Alaska Permanent Fund has been to fund Permanent Fund Dividend (PFD) checks which are distributed equally to most Alaskan residents, typically in October of each year. Despite the state government’s recent reliance on Permanent Fund earnings, the 2022 PFD was unusually large—around \$3,200 per person (LaPonsie 2022). Unsurprisingly, many Alaskans prefer the larger amount and are unconvinced that the benefits of a smaller dividend are worth the cost.

In the past, Governor Mike Dunleavy has advocated for a larger PFD, though his budget proposals are—to put it mildly—controversial. For example, during the spring 2021 budget cycle, the governor’s budget submitted to the legislature called for a roughly \$5,000 PFD which would be paid for in part by funding government with a large draw on the constitutionally-protected portion of the principal of the Alaska Permanent Fund (Brehmer 2021); notably, the governor has elsewhere expressed public opposition to most other forms of revenue generation including broadly-based taxes such as an income or sales tax or increased taxes on the oil industry.



**Figure 6: Alaska's reserve funds.** Though the legislature has spent much of Alaska's Constitutional Budget Reserve Fund, the Alaska Permanent Fund continues to grow, albeit with some decline in value after 2021<sup>7</sup>.

The second largest of Alaska’s funds is the Constitutional Budget Reserve (CBR), which was a receptacle for surplus revenues from multi-state lawsuits against U.S. tobacco firms and Alaska’s lawsuit against Exxon-Mobil in the wake of the 1989 Exxon Valdez oil spill. The fund was created in 1990 and quickly depleted in the 1990s when the state used the fund to fill a deficit similar to the one Alaska faces today. However, when oil prices rose again in the mid-2000s, the

<sup>7</sup> Data from the Alaska Permanent Fund Corporation, [apfc.gov](http://apfc.gov), and the Alaska Department of Revenue, [treasury.dor.alaska.gov/Investments/Constitutional-Budget-Reserve.aspx](http://treasury.dor.alaska.gov/Investments/Constitutional-Budget-Reserve.aspx) Retrieved March 29, 2023.

state replenished the CBR with oil tax revenues. Alaska has used CBR funds to balance its budget most years since 2014. However, the CBR can only be spent with the approval of three quarters of each legislative chamber. In some years, this has given legislative minorities substantial leverage. Many years, this three quarters vote has been used by minorities to bargain for appropriations which would otherwise have been left out of the budget.

In 2023, the governor’s operating budget proposal called for a “full statutory PFD” of about \$3,860 per person, though this will undoubtedly be substantially reduced in the legislative budgeting process, especially as dropping oil prices lead to lower revenue estimates for the State of Alaska. The governor’s budget also called for a small withdrawal from the CBR, though legislative majorities declined to draw from the fund in 2023 in order to avoid the necessary  $\frac{3}{4}$  majority vote.

## **Politics and Elections in 2022**

In November 2020, Alaskans voted to approve a ballot referendum which introduced a new election system to all state elections. The new system uses an all-party top-four primary and ranked-choice voting (RCV) in the general election<sup>8</sup>. Advocates of the new system believe that the result will be more moderate politics and more sensible policy. Alaska’s first elections under the new system were in 2022 and because of quirks in the way Alaska handles redistricting, nearly the entire legislature (59 of 60 legislative seats) were elected or re-elected using the new system. In addition, Alaska used the new election system to re-elect Governor Dunleavy, one of Alaska’s two U.S. Senators, and their U.S. Representative. For the most part, predictions about the moderating effects of top-four/RCV seem to be coming true in 2023, though of course controversies persist, and the new elections did not eliminate all of the more extreme politicians.

The ideological shifts which have taken place—seemingly as a result of the new election system—have implications for Alaska’s budgetary politics; legislative budgeting proceeded steadily and with few partisan controversies. Overall, the legislature has also been a bit less of a media circus compared to prior several sessions.

### *A New Election System*

Alaska’s post-2020 election rules involve a two stage election process for all state and federal offices: a single, blanket primary among candidates of all parties, the top four of whom advance to a general election decided by ranked choice voting (RCV). In the subsequent RCV general election, voters rank their preferences. Winning candidates must gain an absolute majority (not just plurality) of votes in the contest; if no candidate earns a majority of voters’ first choice votes, the least popular candidate is eliminated and that candidate’s supporters’ votes are redistributed to their second choice. This process continues until one candidate receives a majority.<sup>9</sup>

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<sup>8</sup> Because the primary system is similar to California’s top-two all-party “jungle primary,” some Alaskan observers have come to call the system the “tundra primary” though the author favors “muskeg primary” as a reflection of the muddiness of Alaska’s politics.

<sup>9</sup> If a ballot to be redistributed lacks further rankings, it becomes inactive and excluded from the count. The winning candidate requires a majority among active ballots, which can be less than a majority of all valid ballots if many voters opt not to rank.



Advocates of this system argue that it will generate more moderate results because of the requirement that victors receive a majority of votes; rather than winning with a relatively narrow plurality, candidates are incentivized to pursue a median voter strategy and therefore more centrist positioning. Alaskan activists suggest that this will better reflect the preferences of independent-minded Alaskan voters. Supporters also suggest that campaigning will be more accommodative and civil; negative campaigning will tend to alienate voters who might otherwise be willing to support candidates as a second or third choice. Finally, because less popular candidates' support will flow to their supporters' second or third choices in the event no candidate receives a majority, voters will be able to vote their conscience without worries about "wasting" their ballot on third-party candidates.

Initially, Alaskans thought they would get their first taste of the new system in the fall of 2022, with the open primary in August and a general election in November. That would have given advocates and state workers plenty of time to educate Alaskans about how elections will work going forward. But in February 2022, Alaska's cantankerous U.S. Representative Don Young died. Under rules laid out in the U.S. Constitution and Alaska's election laws, Young's death meant that Alaska would hold a special election to serve out the remainder of Young's term in summer 2022 and, because Young would have been up for re-election in November 2022, a second regular election for Young's old seat in the fall. Electoral authorities therefore chose to hold the general special election (i.e. second round) on the same day as the regular primary elections (i.e. first round) for other 2022 electoral contests.

Young's death was viewed as a political opening for many aspiring Alaska politicians and 48 candidates ultimately landed on the special election primary ballot, including former governor and vice-presidential candidate Sarah Palin, former state legislator Mary Peltola, and Nick Begich III, grandson of Don Young's predecessor in the House of Representatives. Some national media focused attention on democratic socialist candidate Santa Claus (his legal name), an assembly member from the city of North Pole, East of Fairbanks. Other venerable names included a number former and current state legislators and many other respected current and former politicians.

The special primary ballot also included an unparalleled number of women and people of color. This included several well-respected Alaska Native candidates including Tara Sweeney (Undersecretary for Indian Affairs under Donald Trump), Emil Notti (a venerable Alaska Native activist well-known for his role in Alaska Native land claims struggles) and Mary Peltola.

Ultimately, Mary Peltola was victorious in both the special U.S. House election and her re-election campaign during the regular election in the fall. In other fall races, Alaska re-elected moderate Republican Senator Lisa Murkowski and conservative Republican Governor Mike Dunleavy (who, as noted above, was no doubt greatly aided but the high price of oil and consequent high 2022 Permanent Fund Dividends).

### *Bipartisanship in the Legislature*

In state legislative races, Senate moderates were somewhat more successful than in past election cycles, and—in part because of a wave of legislative retirements in spring 2022—the current legislature includes an unusually large class of freshman representatives.

In particular, two upset moderate Republican victories—Cathy Giessel in Anchorage and Jesse Bjorkman on the Kenai Peninsula—led to a bipartisan Senate supermajority organized around the principle of more sustainable budget policies; the Senate coalition includes all nine elected Democrats and eight Republicans, excluding only three conservative Republican Senators (Samuels 2022). This majority coalition proved to be much more moderate than the Republican majority of the 2020-2022 Senate, though the very informal rules of the conservative 2021-2022 Republican Senate majority kept the Senate on the sidelines of budget negotiations in both 2021 and 2022.

Between 2016 and 2020, the Alaska State House was controlled by a similar bipartisan coalition majority, including all the Democrats and Independents in the House plus a few moderate Republicans. In January 2023, legislators announced the formation of another bipartisan coalition, this one controlled largely by Republicans but augmented with several rural Independents and Democrats (George 2023a). Though this coalition is considerably to the right of the Democrat-led House majorities of 2019-2022, it proved to be relatively moderate on budgetary policy, with centrist leadership and a finance committee dominated by relatively moderate voices.

### *Power and Money in Federal Politics*

Historically, Alaska tends to be an above-average recipient of U.S. Federal spending on a per capita basis. For example, in 2014, Alaska was the fourth-highest recipient of federal dollars per capita (about \$15,000) after only Washington D.C. (roughly \$75,000), Maryland (\$15,000), and Virginia (\$16,000), receiving more than 30% more per capita than average (about \$10,200), and about twice the lowest per capita recipients of federal funding (Utah, at \$7300) (Federal Spending in the States 2016). Even by these standards, 2022 and 2023 have been particularly lucrative years for federal spending in Alaska as Lisa Murkowski has used her key position as leverage to extract concessions in infrastructure spending from Senate leadership.

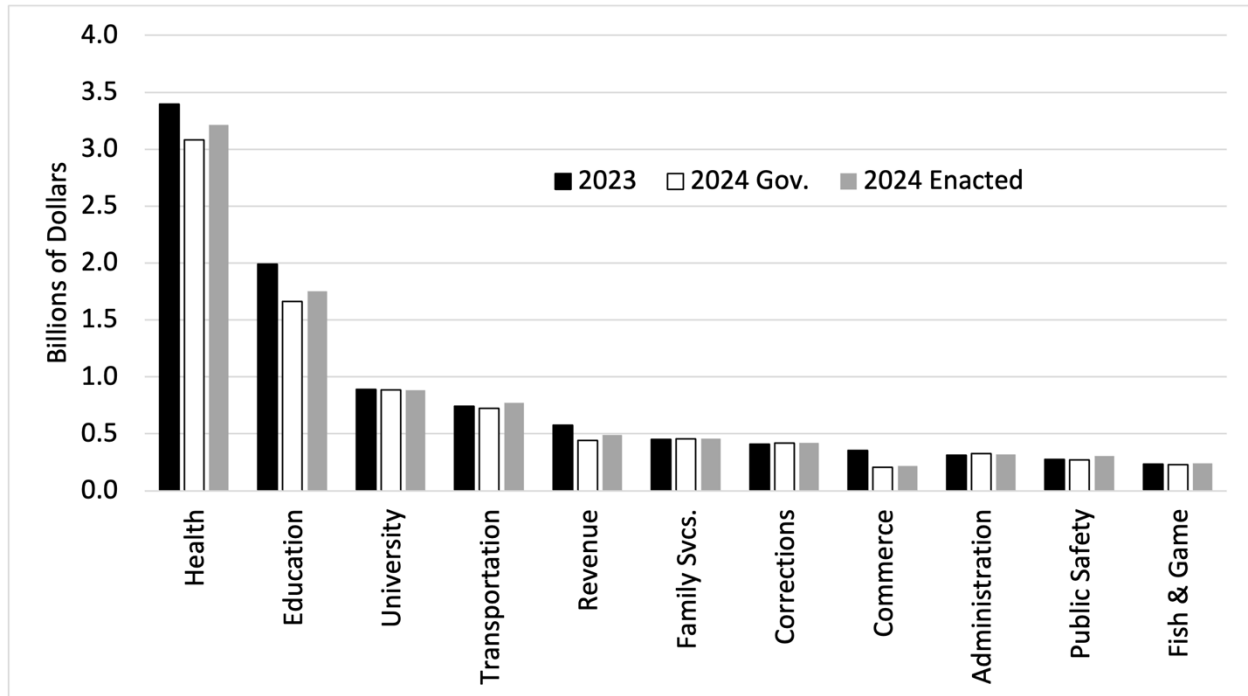
In particular, the 2021 Infrastructure Investment and Jobs Act (IIJA) has brought around \$3 billion in Federal spending to Alaska, which averages out to about \$6200 in spending per Alaska resident (Murkowski Marks One Year of Infrastructure Law 2022; Rogerson 2022a). This included spending on over 300 projects, notably including money to upgrade, build or design several Alaska ferry boats (including an all-electric ferry), expand rural broadband internet, improve airports, roads and bridges, build flood control infrastructure, and expand the state's network of electric vehicle charging stations (O'Hara 2022; Poux 2022; Rogerson 2022a). Perhaps more importantly over the long term, the IIJA increases the amount of federal highway spending which can be used on Alaska ferry operations and maintenance (Alaska to Receive Big Benefits from Infrastructure Package 2021).

### **The 2023 Budgeting Process**

With the House Finance Committee stacked with moderates and the Senate controlled by a bipartisan supermajority, budgeting in 2023 was sensible and predictable. Though both houses debated spending for education, the size of the Permanent Fund Dividend, and other issues, these debates were relatively subdued and technocratic.

## Operating Budget

As shown in Figure 7, the Governor’s budget proposal to the legislature included significant nominal cuts to agency operations spending in several areas. However, most of these reductions are due to the end of various COVID relief mechanisms. Reflecting the uncontroversial nature of the Governor’s budget, the legislature made few changes to the Governor’s budget proposals, only increasing appropriations for some larger agencies including the Department of Health and Social Services, and the Department of Education (see discussion below).



*Figure 7: Agency operations budget changes from Fiscal Year 2023. This includes Alaska's largest state government agencies. The legislature made only small changes to the Governor's budget proposal.*

The biggest differences between the Governor’s budget and the budget passed out of House Finance in late March had to do with the size of the Permanent Fund Dividend. Governor Mike Dunleavy proposed spending roughly \$2.3 billion on PFDs, which would mean a per-resident payment of roughly \$3,300. The House Finance Committee reduced this amount to \$1.8 billion, which would result in PFD checks of around \$2,800. This figure was further reduced by the Senate before a Conference Committee settled on a PFD of \$1,300 (Treinen 2023). Even this significant reduction—which would have been highly charged in the past—was relatively uncontroversial, with most observers recognizing that the dropping price of oil justified a greatly reduced (though still healthy) dividend.

### *Increased Funding for Education?*

Most funding for public primary and secondary schools in Alaska is provided through a per-student allocation known as the Base Student Allocation (BSA). Because of the relatively low oil prices of the last several years and a preference for relatively high Permanent Fund Dividends, the BSA has remained flat since 2017 at \$5,960. With comparatively high inflation over the last several years, this level of funding has increasingly placed pressure on local school districts—a reality dramatically emphasized by a controversial Anchorage School District proposal to close

six Anchorage elementary schools in fall 2022 (Samuels and Krakow 2023). Legislators in the Senate proposed bills which would increase this per-student amount by \$1,000, increasing total spending on public primary and secondary education by around \$321 million annually (Phu 2023). The more conservative State House reduced this amount to a roughly \$175 million one-time increase in funding—the House’s bill would increase public primary and secondary education funding for a single budget cycle without increasing the BSA (Beacon 2023). The Senate then adopted the \$175 million as an increase to the BSA (Samuels 2023a) which was included in the final budget passed by the legislature, but this increase was reduced by a gubernatorial line-item veto in June to only \$87 million, increasing the BSA by about \$340. This leaves public primary and secondary schools better than they were in the prior fiscal year but still considerably below per-pupil spending in 2017 after adjustments for inflation.

### *Capital Budget*

Alaska’s FY 2024 capital budget is somewhat larger than the last several years at around \$2.76 billion but as in recent years, almost all of this spending is funded by federal government transfers, with only around \$600 million in state contributions. As in the past several years, there is little room for large projects in such a small capital budget and several of the larger projects were discussed above. In addition to those projects associated with the federal Infrastructure Investment and Jobs Act, the Alaska capital budget includes federal disaster funding for climate change related storm damage near Nome on Alaska’s Bering Sea coast, substantial funding for roads, bridges and airports, and spending on badly needed rural sewage and water infrastructure.

### *Taxes on the Horizon?*

Though Alaska hasn’t had broadly-based taxes since the early 1980s, many observers of state politics believe some sort of state-wide tax will become necessary as Alaska’s oil production—and therefore oil revenue—falls. Over the short term, broadly-based taxation generating new state revenues may enable larger permanent fund dividends, potentially turning regressive taxes like sales taxes into a part of a progressive budget package. New taxes would also help to fix Alaska’s perennial fiscal paradox of economic growth leading to larger deficits for the state, because economic growth tends to be associated with population growth and therefore the need for higher state expenditures while generating no new revenues.

Every legislature since 1980—when Alaska repealed its income tax—has considered and ultimately failed to pass new broadly-based taxes. For many years, the reinstatement of the state income tax seemed the most likely new form of taxes (and though more likely than other forms of taxation, still very unlikely). This year, however, a proposal for a small sales tax seemed to get more attention and traction than similar bills in the past.

Conservative Republican Ben Carpenter, who represents a conservative portion of the Kenai Peninsula south of Anchorage, introduced a measure to impose a two percent sales taxes on almost all purchases in the State of Alaska. This proposal would generate around \$750 million of revenue in the current economic climate. Carpenter also proposed a reduction in Alaska’s very high (9.8%) corporate income taxes that would cost the state around \$380 million (George 2023b; Maguire 2023). Passage of a new sales tax seems unlikely over the next year—and Rep. Carpenter’s bill did not receive a single committee hearing in 2023. However, the introduction of a proposal for new taxes by a conservative Republican and with the support of the Governor seems like a shift worthy of attention and a potential harbinger of tax debates in the near future.

## **If You Choose Not to Decide You Still Have Made a Choice?**

As always, Alaska's budget story in 2023 hinges on oil prices, investment revenues, and the trade-offs between government spending and Alaska's Permanent Fund Dividend. Oil prices are high (though declining), investment revenues are strong, and Alaska is experiencing an inflow of federal dollars.

Perhaps more importantly though, Alaska is experiencing the first results of the new election system—the top-four all-party primary and Ranked Choice Voting. So far, that system seems to be generating results consistent with what advocates expected; a more moderate and collegial policy-making environment, and possibly even more sensible budgetary policy.

Compared to the circus-like atmosphere of some recent legislatures, the 2023 legislative session was boring. Despite disagreements over a range of issues, legislators passed a mostly status-quo budget with relatively little controversy. Even conflicts over the Alaska Permanent Fund Dividend were relatively muted and handled by legislative leadership in an apparently collegial and efficient manner.

Though there is some question as to whether Alaska's new election system will survive—a conservative political action committee is sponsoring a referendum to repeal Ranked Choice Voting in 2024—that effort now seems mired in scandal including allegations of fraud and violations of state election law (Brooks 2023; Samuels 2023b). Alaskans may soon have to choose whether to continue with the boring but sensible politics of 2023 or a return to earlier drama. The results of that choice will have important implications for state budgeting going forward.

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