

Research Summary

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How Does Alaska's Spending Compare?



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Secretary of the Treasury.

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Alaskans have been arguing for years about how much the state government should be spending, ever since low oil prices gouged a big hole in the budget—and the state has been using up its savings to pay the bills. We don't know how much the state should spend: that answer depends on what things Alaskans want to keep, and what they'll pay for them. But we can throw some light on the debate.

We look at spending in various ways: compared with spending in other states—especially oil-producing states with similarities to Alaska—changes in spending over time; and effects of changing oil prices on spending. We also discuss how Alaska's unique spending programs and higher living costs add to the price of government.

To compare across states, we used the U.S. Census Bureau's figures for combined state and local spending, because state and local governments across the U.S. split responsibility for public services in different ways—so one state might pay for things local governments pay for elsewhere.

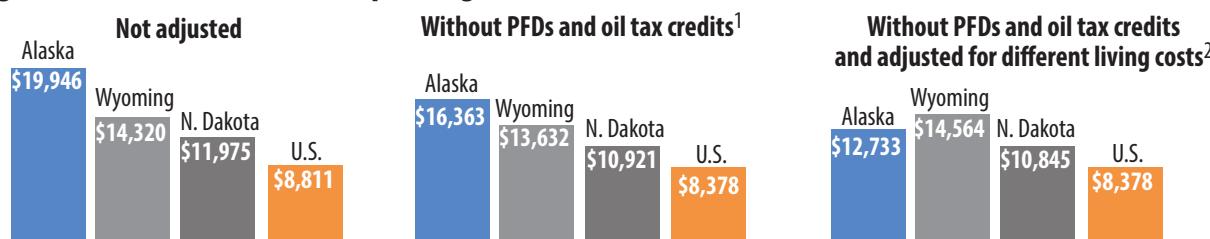
To show changes in Alaska over time, we used the Alaska Legislative Finance Division's figures for appropriations from the Unrestricted General Fund. That's only part of the budget (see Figure 6), but it's the part that pays for general government services, and it's been funded almost entirely by oil revenues since the 1980s—so that's where the budget deficit is.

Figures 1 and 2 show spending comparisons, based on the two sources. (A table on page 4 highlights important differences between them.)

Figure 1 shows that Alaska's 2015 state and local government spending per person—for all types of spending—was more than twice the U.S. average, and significantly more than spending in two other oil-producing states. But no other state makes annual cash payments to all residents, or pays cash oil-tax credits to oil companies, as Alaska still did in 2015.¹ Spending from federal grants is also included in these figures—and Alaska gets twice the U.S. average in federal grants per person (see Figure 7).

We can't adjust for the effects of those larger federal grants. But if you just remove PFDs and oil-tax credits—and take into account Alaska's higher living costs (second and third sets of bars in Figure 1)—the gap narrows. With those adjustments, Alaska's 2015 state and local spending per person was about 50% above the U.S. average, and below Wyoming's.

Figure 1. Total State and Local Spending Per Person in 2015, Alaska, Other Oil States, and U.S. Average

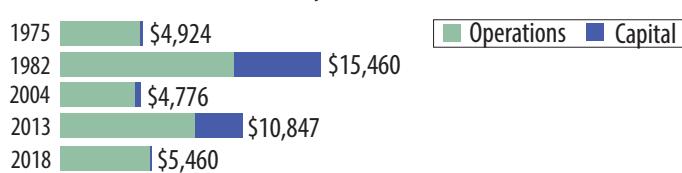


1. General government spending, minus the "Others" category, where the census bureau puts items that don't fit into traditional categories. This "Others" category is many times larger per person in Alaska than elsewhere and appears to be mostly Permanent Fund dividends and tax credits paid to oil companies—which in FY 2015 were hundreds of millions of dollars. Such spending doesn't exist in other states.

2. Adjusted for cost-of-living differences, annual average 2014, reported by the Council for Community and Economic Research. Figures are for cities, not entire states, but they are among the few available measures of how costs differ among states. U.S. =100; Anchorage 128.5; Laramie, Wyoming 93.6; Bismarck, North Dakota 100.7.

Sources: U.S. Bureau of the Census, General Government Expenditures, *State and Local Government Finances*, 2015; Council for Community and Economic Research

Figure 2. Real Appropriations Per Person,* Unrestricted State General Fund (Adjusted for Inflation to 2016 Dollars)



*Alaska population (in thousands): 1975: 384; 1982: 464; 2004: 660; 2013: 736; 2017: 737

Sources: Alaska Legislative Finance, September 2017 (years are fiscal years); Alaska Department of Labor, Research and Analysis

Figure 2 shows another spending measure: state appropriations per person from the Unrestricted General Fund, adjusted for inflation since 1975. Real state spending per person since 1975 was highest in 1982—in the first oil-revenue boom—followed by spending in 2013, in the second oil-revenue boom. In both those years there were large capital budgets. But in 2004, when oil prices were low, and in 2018 (the current fiscal year), when oil prices are still down, spending per person was not much different than in 1975—and capital budgets were very small.

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State and Local Spending Growth

Figure 1 uses the census bureau's 2015 data (the most recent available) to compare state and local spending in Alaska with the U.S. average and with that of two other oil-rich states, Wyoming and North Dakota. Those states are not nearly as big as Alaska, and they don't have hundreds of remote communities. But they are similar in that their budgets rely partly on oil, and they have small populations and relatively large undeveloped areas.

Beyond that 2015 comparison, we analyzed more than 20 years' of state and local spending data—from 1992, the earliest year these data are available online, through 2015—to see how real growth (adjusted for inflation) compared in Alaska and all other states. We looked at growth over that entire time, and at growth during three periods:

- 1992-1999. That was a long period of growth nationwide, before the collapse of the Internet bubble. But not so in Alaska, where economic growth was subdued by low oil prices throughout most of that time.
- 2000-2007.² During this period, many states saw fast growth in their economies and their budgets because of the housing boom. But in Alaska, housing prices increased only modestly in those years.
- 2008-2015. In the early years of this period, most of the country went through the Great Recession that followed the collapse of the housing bubble—and also stressed state and local budgets. But Alaska and other oil-rich states benefited from high oil prices during much of this period, and saw faster growth in public spending.

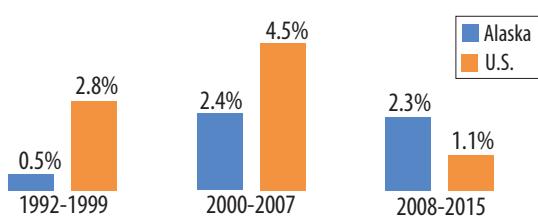
As Figure 3 shows, real (adjusted for inflation) state and local spending grew faster in 41 states than in Alaska from 1992 through 2015.³ (Keep in mind that budget growth partly just reflects growing populations: it costs more to provide public services to more people.)

The fastest growth was in Nevada, where real state and local spending increased 125% from 1992 through 2015, and the slowest was in Hawaii, where spending increased by just 33%. The national average growth was 73%—and Alaska's growth was below that, at 50%. Growth in other oil state was much faster: more than 100% in Wyoming, 116% in North Dakota, and 119% in Texas.

Spending in Alaska grew at a pace considerably below the U.S. average during 1992-1999 and 2000-2007 (Figure 4). It was only in the most recent period, 2008-2015, that spending in Alaska grew faster than the national rate—at an average annual rate of 2.3%, compared with 1.1%.

Alaska and other oil-producing states have economies and finances that are countercyclical to most of the country: they do well when oil prices are high, and poorly when oil prices are low—and their budgets grow faster when oil prices are high.

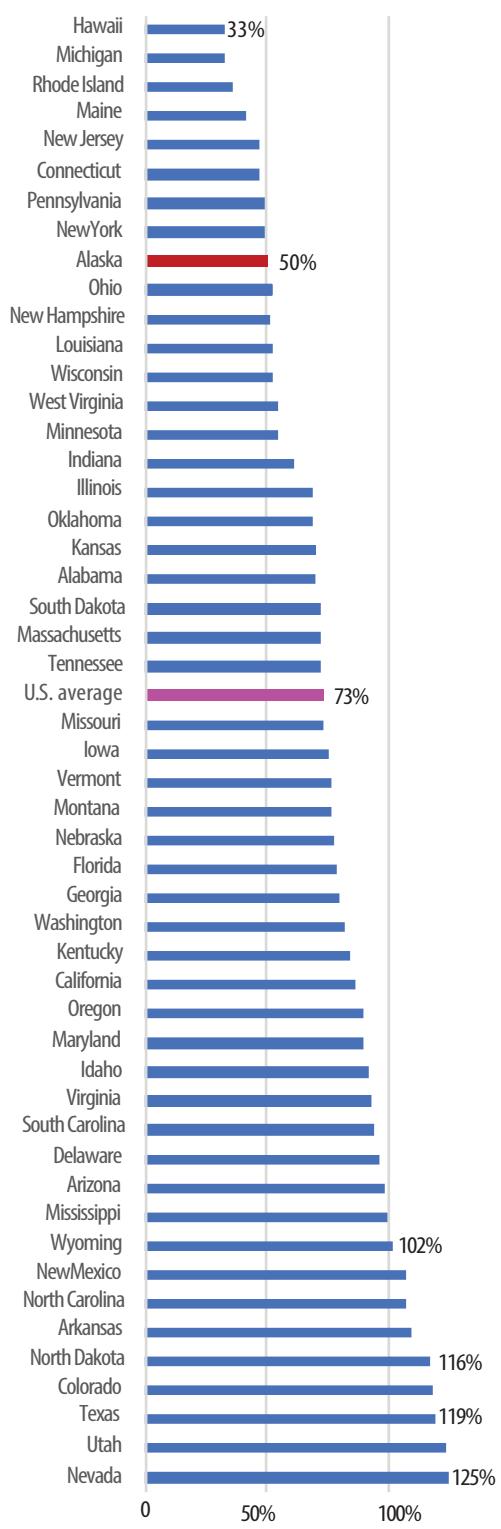
Figure 4. Average Annual Growth in State and Local Spending In Different Periods, Alaska and U.S. Average



Source: U.S. Bureau of the Census, *State and Local Government Finances, 1992-2015*

Figure 3. Real Growth, Combined State and Local Spending, 1992-2015

(Adjusted for Inflation to \$2015)



Source: U.S. Census Bureau, *State and Local Government Finances, 1992-2015*

Why Does the State Have a Budget Deficit?

As we said earlier, the hole in the state budget is in the Unrestricted General Fund, which pays for most general government services and has been funded mostly by oil revenue for 35 years. Figure 5 makes clear what happened: the rise and fall of oil revenues.

Alaska has been through two periods of booming oil revenues. In the 1980s, the boom was due to a combination of higher oil prices and rising oil production. In more recent times, from about 2005 to 2013, oil production was down, but oil prices reached record highs—before dropping around 80%, as oil prices plummeted.

What Else is in the Budget?

The Unrestricted General Fund (UGF) is the biggest, and most volatile, part of the state budget—and people often speak of it as if it's the entire state budget. But it's important to know what else is in the budget—because the census bureau counts all spending, from all funds, when calculating state spending. Figure 6 shows that the budget includes not only the UGF but other state funds, as well as federal grants.

Those grants make up a significant share of the budget—about \$3.4 billion in 2018. The federal government mostly designates how the state can spend that money. And Alaska gets twice as much as the national average in federal grants per person (Figure 7)—which drives up state spending in Alaska, compared with that in other states.

In fiscal year 2018 (which ends in June 2018) the UGF is about \$4.5 billion. The legislature is paying for much of that spending from state savings. Oil revenues—even though they have shrunk—are covering most of the rest. The biggest non-oil revenue sources are corporate income and excise taxes.

State funds outside the UGF are mostly reserved for specific purposes—as Figure 6 describes—but the legislature has some leeway in appropriating money from the Designated General Funds. Money for Permanent Fund dividends is transferred from the PF earnings reserve.

What's Changed in Recent Years?

Census bureau figures for state and local spending this year won't be available for a couple of more years. But when they are published, we should see a drop in spending—because UGF state spending is down several billion dollars since 2013.

Figure 8 shows that real (adjusted for inflation) UGF spending has been dropping every year since peaking in fiscal year 2013, when the state had plenty of money.

Much, but not all, the decline has been in the capital budget, which was nearly \$2 billion in FY 2013 but is under \$150 million in FY 2018. State agencies have also seen cuts of several hundred million dollars, and the state has cut its UGF spending for tax credits to oil companies and special contributions to employee retirement funds.⁴

Still, even though spending is down, the state has used an average of about

Figure 5. Unrestricted General Fund Petroleum Revenues, FY 1975-2018

(In Millions of Dollars)



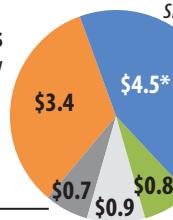
Source: Alaska Legislative Finance, September 2017

Figure 6. What's in the State Budget?

(FY 2018 Appropriations, in Billions of Dollars)

Federal Funds
The federal government says how the state can use this money.

Other State Funds
These are reserved for specific purposes. They include receipts from state corporations, other programs, and bonds.



This is where the state budget deficit is, because it is funded mostly by oil revenues—which are a small fraction of what they were a few years ago.

Unrestricted General Funds

This is money the legislature can spend as it chooses.

* Includes supplemental appropriations

Permanent Fund Dividends
This money is transferred from the Permanent Fund earnings reserve.

Designated General Funds

The legislature has some leeway in spending these, but they are typically reserved for specific purposes, including loan and other funds.

Source: Alaska Legislative Finance, *Fiscal Summary FY 2018* plus Governor's Supplemental Appropriations

Figure 7. Federal Grants per Person, 2016

\$4,374

\$2,067

U.S. average Alaska

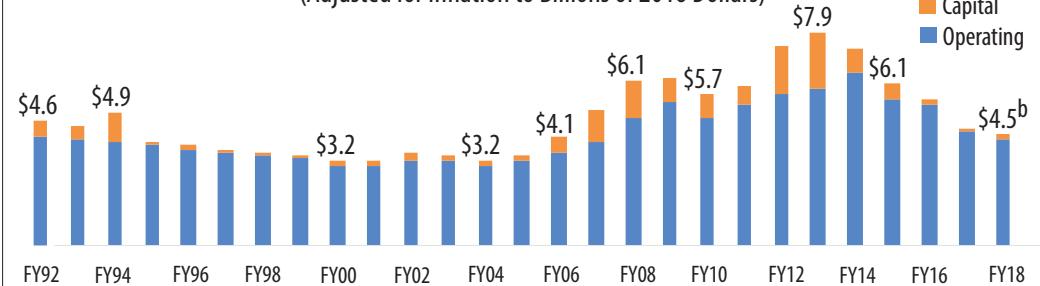
Source: USAspending.gov

\$3 billion a year to cover shortfalls in the UGF for the past several years. Unlike other states (including other oil states), Alaska has few sources of general revenue other than oil. The current legislature will likely consider whether to use some Permanent Fund earnings to help fill the gap, and the governor has proposed using a combination of PF earnings and a payroll tax.

Figure 9 (back page) compares how much state tax Alaskans and other Americans pay per capita. In 2016, Alaskans paid less state tax per person than anyone—\$514, compared with a U.S. average of \$2,600. In other oil states, Wyoming residents paid nearly \$1,700 and North Dakota residents \$2,700.

Figure 8. Real Appropriations from Unrestricted State General Fund, a FY 1992-2018

(Adjusted for Inflation to Billions of 2016 Dollars)



^aFigures do not include spending for Permanent Fund dividends. ^bAdjusted to include the governor's supplemental FY 2018 appropriations.

Source: Alaska Division of Legislative Finance, *Budget History*, September 2017, and FY 2018 *Fiscal Summary* plus Governor's Supplemental Appropriations

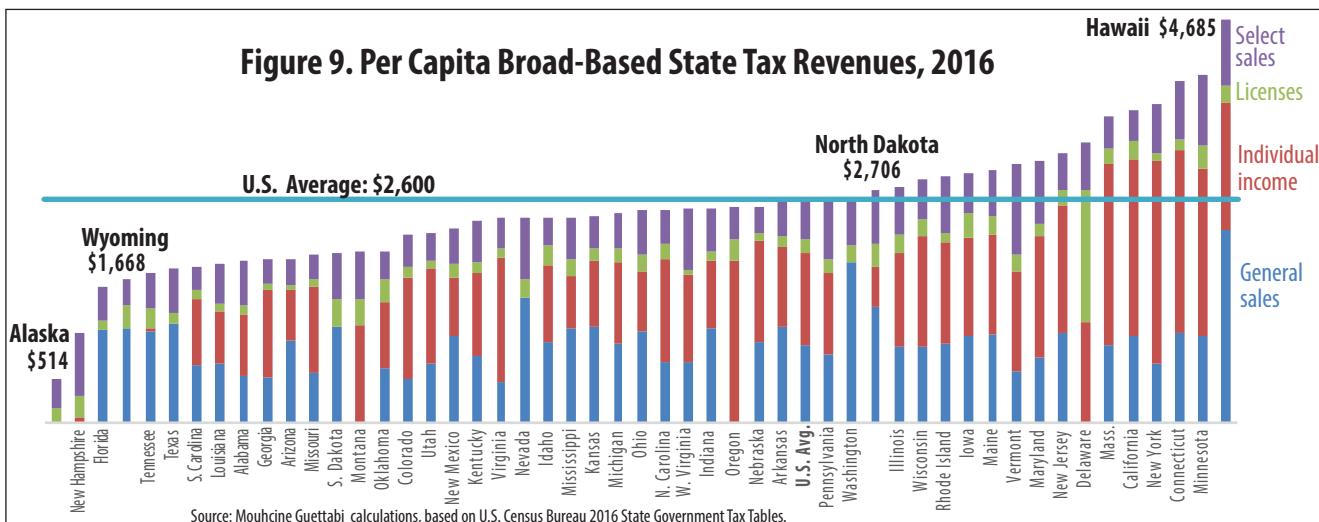


Table 1. What Are the Major Differences in Sources for Alaska State Spending Figures?

Alaska Legislative Finance, Fiscal Summary	U.S. Census Bureau, State and Local Government Finances
<ul style="list-style-type: none"> Reports what the legislature <i>appropriates</i>—that is, approves for spending in a year. Appropriations may be changed later, or spent in a different year. 	<ul style="list-style-type: none"> Reports what is <i>spent</i> each year, for everything the bureau considers state government spending.
<ul style="list-style-type: none"> Uses Alaska's own system for putting appropriations into categories and funds. Other states have their own reporting systems. 	<ul style="list-style-type: none"> Uses standard categories for all states, and decides where to put expenses. That allows comparisons across states, but it's very hard to find out where Alaska's unique types of spending are counted.
<ul style="list-style-type: none"> Does not count money just transferred between state funds, and does not count spending by self-sustaining state corporations or funds. But if the legislature appropriates money to those entities, those appropriations are counted. 	<ul style="list-style-type: none"> Counts spending by the self-supporting Alaska Railroad, may count spending by other self-sustaining entities, and appears to count transfers between funds.
<ul style="list-style-type: none"> Reports Permanent Fund dividend payments and oil-tax credits as separate, identifiable items. 	<ul style="list-style-type: none"> Appears to put PFD payments and oil tax credits in a large catch-all “Others” category, since they don't fit in traditional spending categories. But the census bureau does not confirm that.* <p>*We asked the census bureau a number of times to tell us specifically where it accounts for PFDs and oil-tax credits, but got no answer to that question.</p>

Conclusion

Alaska has historically spent more per person than other states, and the persistent question—especially when the budget is in the red—is how much the state should spend. We don't presume to answer that question, but this paper provides some context for discussions about the budget.

It's no surprise that Alaska's spending moves up and down with oil prices. We found that's also true in other oil-producing states. But the volatility is more dramatic in Alaska, which has little general income other than oil revenues. Overall from 1992 through 2015, Alaska's state and local spending grew much slower than the U.S. average, because oil prices were down for much of that period. It was only in the more recent years, when oil prices reached historic highs, that spending in Alaska grew faster.

Our cross-state comparisons are based on U.S. census data, which is the best available. But as Table 1 shows, there are shortcomings and unknowns about that data. We also know, and as other analysts have noted, that larger federal grants per capita, as well as a number of unique programs, add to Alaska's spending.⁵ The PFD is the largest, but there are others. Alaska also has some self-supporting public corporations. The Alaska Railroad is one, but the census bureau counts its operations spending as state spending—and it may count that of other public corporations as well.

Finally, it's been said before, but it's still true: providing services costs more in a huge state with a harsh climate, few roads, and many small, isolated towns. Operating remote schools is one example. And health-care-costs, which are the highest in the U.S., also drive up spending for governments here.

Endnotes

1. The legislature changed the law in 2017, ending the system of cash tax credits and replacing it with a system that allows oil producers to reduce future taxes.
2. Our analysis does not include 2001 and 2003, because statistics for individual states weren't published.
3. We can also provide, on request, state and local government expenditures for the whole sample (1992-2015) for each of the seven functional categories: Education services, Social services and income maintenance, Transportation, Public Safety, Environment and Housing, Government Administration, Interest on General Debt, and a catch-all category for anything remaining, All Others.
4. Pat Pitney, director, Office of Management and Budget, in *Anchorage Daily News*, December 17, 2017.
5. Those include, among others, Office of Management and Budget, “Analysis of Alaska's Per Capita Budget,” April 2017; and Scott Goldsmith, ISER, Citizen's Guide to the Budget (<http://citizensguide.uaa.alaska.edu>).

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The authors work for ISER: Mouhcine Guettabi is an assistant professor of economics; Trang Tran is a research professional; and Linda Leask is ISER's editor. The findings in this publication are theirs, and shouldn't be attributed to research sponsors, ISER, or the University of Alaska Anchorage. If you have questions, get in touch with Mouhcine Guettabi at mguettabi@alaska.edu or 907-786-5496.