Opinions

Alaskans' fair share of petroleum revenue

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Oil well 10 at BP's drill site L3 on Alaska's North Slope. (Loren Holmes / Alaska Dispatch News)

The state of Alaska's annual budget for general funds it may spend without restriction is $5 billion, while its current revenues are only $1 billion. The resulting $4 billion deficit threatens the quality of life and economic future of all Alaskans. To resolve this massive deficit, we need the political will to reduce spending and increase revenues to sustainable levels.

This $4 billion deficit is primarily the result of the recent and dramatic decreases in petroleum revenues to the state. While Alaskans support budget cuts to ensure the state is operating efficiently, the recent and dramatic decreases in petroleum revenues are simply too great to be offset with budget cuts alone. As has been accurately observed, if the state were to lay off every employee, there would still be a substantial deficit. Accordingly, some additional revenues are necessary.

There are three potential sources for additional revenues: (1) petroleum revenues; (2) nonpetroleum revenues; and (3) funds redirected from our savings and permanent fund. While there are good reasons to raise additional revenues from all three potential sources, any conversation concerning additional revenues should begin with whether we are receiving a fair share of petroleum revenues today.

The conversation should begin with petroleum revenues for two compelling reasons. First, the recent reductions in our petroleum revenues are the primary reason for our current budget deficit. And, second, the Alaska Constitution requires us to optimize our natural resources for the benefit of all Alaskans.

To frame this issue properly, petroleum revenues the state may spend without restriction have declined from $8.9 billion in 2012 to $1.7 billion in 2015, or by 81 percent. In particular, production taxes have declined from $6.1 billion in 2012 to $.4 billion in 2015 or by 93 percent. Further considering the growth in paid credits, petroleum revenues after credits have declined from $8.5 billion in 2012 to $1.1 billion in 2015 or by 87 percent. Going from petroleum revenues after credits that cover 170 percent of our state's $5 billion operating budget to petroleum revenues that cover only 22 percent in three years is not tenable and needs to be substantively addressed.

There are three reasons why our petroleum revenues have declined so precipitously in the past three years: (1) the price of crude oil has declined, (2) the production of crude oil has declined, and (3) the percentage share of the petroleum revenues received by the state has declined.

Arguably, petroleum revenues to the state should decline when the price of crude oil and production decline so we all share proportionately in the pain of hard economic times. That said, while price and production declines are driving a significant reduction in our petroleum revenues, those declines are not driving the majority of our current deficit. Even with price and production declines taken into consideration, the state would have close to sufficient petroleum revenues to balance our budget if it had simply maintained our historical percentage share of petroleum revenues.

Stated differently, much of our current budget deficit is best explained by the state's recent decisions to accept a smaller percentage of petroleum revenues than at any time in our modern history.

In 2012, for example, crude oil production was 590 thousand barrels per day at an average market price of $112.65 (West Coast) per barrel or $24 billion was received by the producers. Of this amount, the state's petroleum revenues net of credits were $8.5 billion or 35 percent. In stark contrast, in 2015, production was 519.5 thousand barrels per day at an average market price of $72.58 (West Coast) per barrel or $13.8 billion was received by the producers. Of this amount, the state's petroleum revenues net of credits was only $1.1 billion or 8 percent.

Stated differently, the state's percentage of petroleum revenues has decreased from 35 percent of gross revenues received by the producers to 8 percent in three years. Were the state to have received the same percentage share of gross revenues in 2015 as it received in 2012 (35 percent), the state's petroleum revenues in 2015 would have been $4.8 billion and the state's budget would have been very close to balanced.

Viewed more broadly over the past decade (2006-2014), petroleum production has averaged 664.8 thousand barrels per day at an average price of $87.36 (West Coast) or an average of $21.2 billion of gross revenues received by the producers.

During this past decade, the state's petroleum revenues averaged $6.2 billion (before paid credits). Comparatively, in 2015, the state's petroleum revenues were $1.7 billion (before paid credits). Stated differently, the state's petroleum revenues (before paid credits) have gone from $6.2 billion or 29 percent of gross revenues received by the producers over the past decade to $1.7 billion or 12 percent in 2015. When the rapid growth in credits is also considered, this comparison becomes even worse for the state.

Simply stated, Alaskans cannot afford to continue to take so much less than our historic percentage share of petroleum revenues. More to the point, the state's historic percent share of petroleum revenues represents our fair share, and we should work to maintain our historic fair share.

If we are able to find the political will to maintain our historic share, Alaskans will share more proportionately with the producers in the pain of the recent downturn, will be closer to a balanced budget, and will preserve our Permanent Fund and savings for future generations. Maintaining our historic share of petroleum revenues should be an important goal for all Alaskans and an important part of our conversation over our current budget deficit.

***Correction**: Because of an editing error, an earlier version of this column incorrectly reported the amount of decline in production taxes between 2012 an 2015. Production taxes declined from $6.1 billion in 2012 to $.4 billion in 2015, not to $4 billion.*

About this Author

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Robin Brena is a longtime oil and gas attorney who served as the chairman of the Oil and Gas Subcommittee for the Walker administration transition team.