

Alaska Budget Choices

How would you balance the budget?



A report on 2,002 responses from Alaskans
at www.akbudget.com
on the choices they would make to balance Alaska's budget

April 15, 2021

Commonwealth North
Fiscal Policy Study Group

About the Budget Choices Project

During summer 2020 Commonwealth North's Fiscal Policy Study Group discussed the challenge that the Governor and Legislature would face balancing the Fiscal Year 2021 budget. With one-time savings no longer available to help pay for the same level of state services and programs, it appeared even more politically difficult decisions that lay ahead for the 2021 legislative session.

With this in mind, the Study Group developed a series of spending and revenue choices the Governor and Legislature could make in order to fill the then-projected \$1.3 billion deficit. The project went beyond most traditional budget balancing tools by including a narrative about the choices and trade-offs involved with each choice so as to give Alaskans insight into the challenge legislators face as they make these budget decisions.

About the Choices

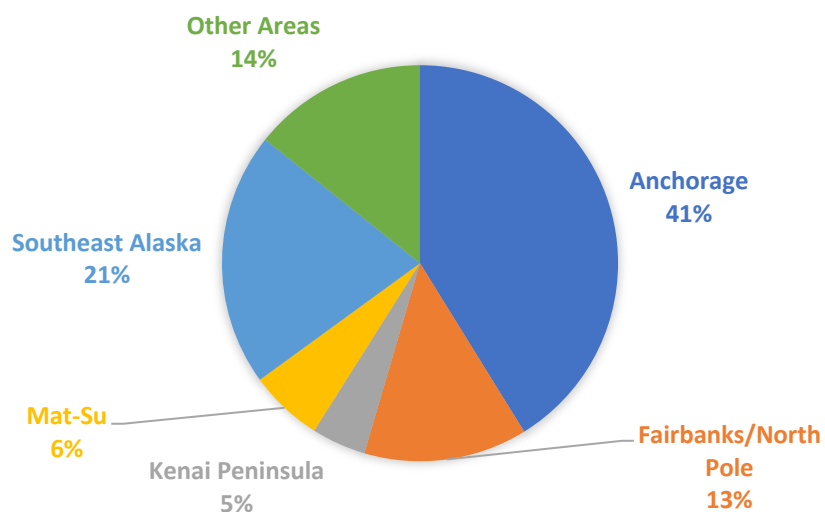
Alaskans were asked to consider ten different sources for revenue, most of which were an existing tax. Two other choices proposed a statewide sales tax and an income tax; another addressed the percent of Permanent Fund earnings used to pay for state services.

For spending, the choices focused on the programs that spend 80% of the state's "unrestricted general funds" (revenue available to pay for any public purpose). A total of 18 programs were listed. For most programs, the choice involved an increase or decrease to funding, or maintaining the current spending level.

About the Responses

A total of 2,008 responses were collected between September 16, 2020 through April 13, 2021. A zip code was the only identifying information collected, which provided a geographic distribution of responses depicted below. IP addresses were used to cull duplicate responses.

GEOGRAPHIC DISTRIBUTION OF RESPONSES



Budget Choices: Spending

The website asked Alaskans to make choices in spending for the following programs:

- K-12
- Early learning
- University of Alaska
- Medicaid
- Senior benefit payments
- Alaska Pioneer Homes
- Mental health and substance misuse
- Children's services
- Permanent Fund dividend
- Corrections
- Public safety
- Prosecutors and public defenders
- Court system
- Fish and game
- Natural resource management
- Transportation
- Governor's office
- Legislature

Budget Choices: Revenues

The website asked Alaskans to make choices among the following revenue sources:

- Corporate income taxes
- Mining license taxes
- Commercial fisheries taxes
- Oil and gas production taxes
- Excise taxes
- Fuel taxes
- Permanent Fund earnings
- Income tax
- Sales tax
- Lottery

In addition, there was an opportunity to offer other revenue and spending choices that did not appear in the above list.

The following pages show the choices Alaskans made to balance the state budget with recurring revenue.

Spending: K-12 Funding

The budget's largest program is K-12 funding; this year the state is spending \$1.3 billion to fund Alaska's schools. The state uses a formula to divide up funds among school districts. It starts with a "Base Student Allocation" (BSA), which was \$5,930 per student last school year. More funding then is added based on a number of factors. A national study put Alaska at third in the nation for K-12 spending per student at \$22,304, which includes local funds.

On One Hand . . .

There is no more important investment Alaska can make than in the education of its children; we need to spend more to ensure they have a brighter future.

On the Other Hand . . .

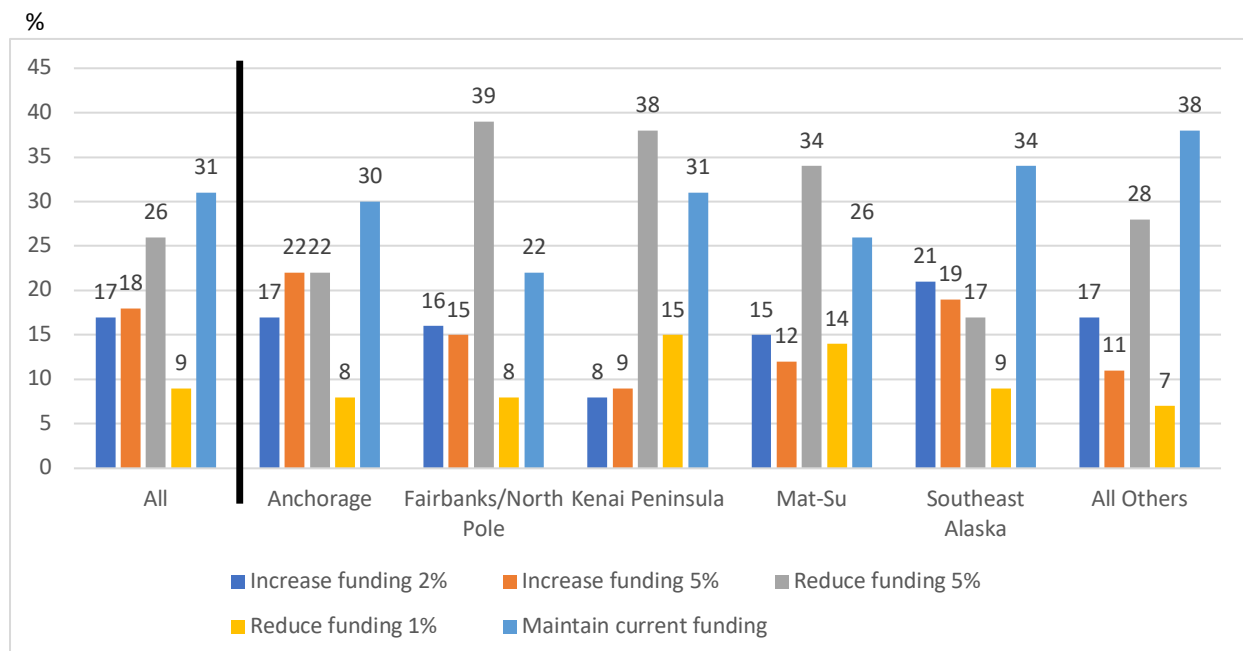
The state is facing really tough budget decisions, and there's no way the state can avoid cuts to the biggest piece of Alaska's budget pie. Alaska is going to have to re-think how education can be delivered at less cost by using technology and school districts working together.

Spending Choices

- Increase funding 2% ~ Spend \$30 million
- Increase funding 5% ~ Spend \$77 million
- Reduce funding 5% ~ Save \$77 million
- Reduce funding 1% ~ Save \$15 million
- Maintain current \$1.3 billion in spending ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Early Learning

The State is spending \$2 million for pre-K/early learning programs. Studies have shown that early education before kids enter kindergarten can improve school readiness. Some Alaska school districts currently offer programs, which are reaching about 10% of Alaska's 4 year-olds.

On One Hand . . .

Some studies show that children who are prepared for school do better; this is a small investment that will give all Alaska's children that same opportunity and reduce more expensive interventions later.

On the Other Hand . . .

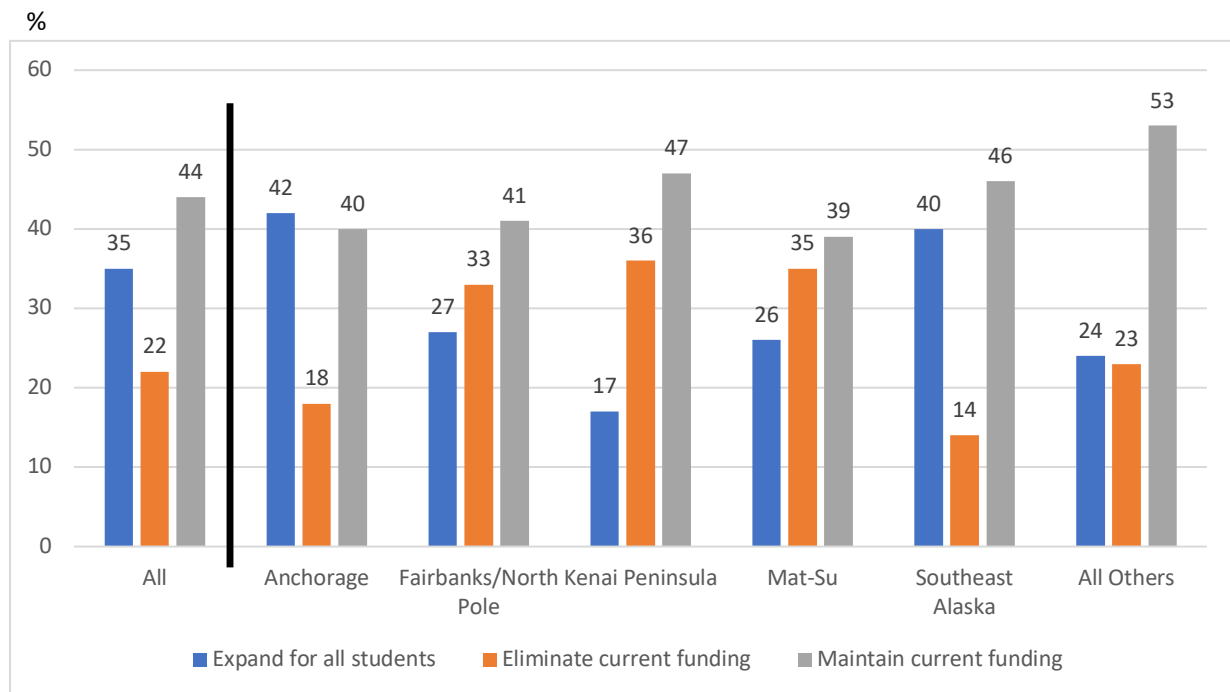
The State simply can't afford to do everything for everybody; the best place for young children to learn is at home where they can get individualized attention.

Spending Choices

- Expand pre-K programs for all students ~ Spend \$17 million
- Cut current funding of pre-K programs ~ Save \$2 million
- Maintain current \$2 million in spending ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: University of Alaska

UA has 15 campuses and training centers around the state that offer a variety of programs from vocational training to doctorates. UA's budget has been cut about \$50 million over the last two years (it currently is \$277 million in state funds) and is slated for another \$20 million cut next year. Student tuition has been annually increasing 5% in recent years.

On One Hand . . .

If we want Alaskans to stay, we need a higher education system that provides opportunities regardless of where you live; that means investing in UA, not tearing it down.

On the Other Hand . . .

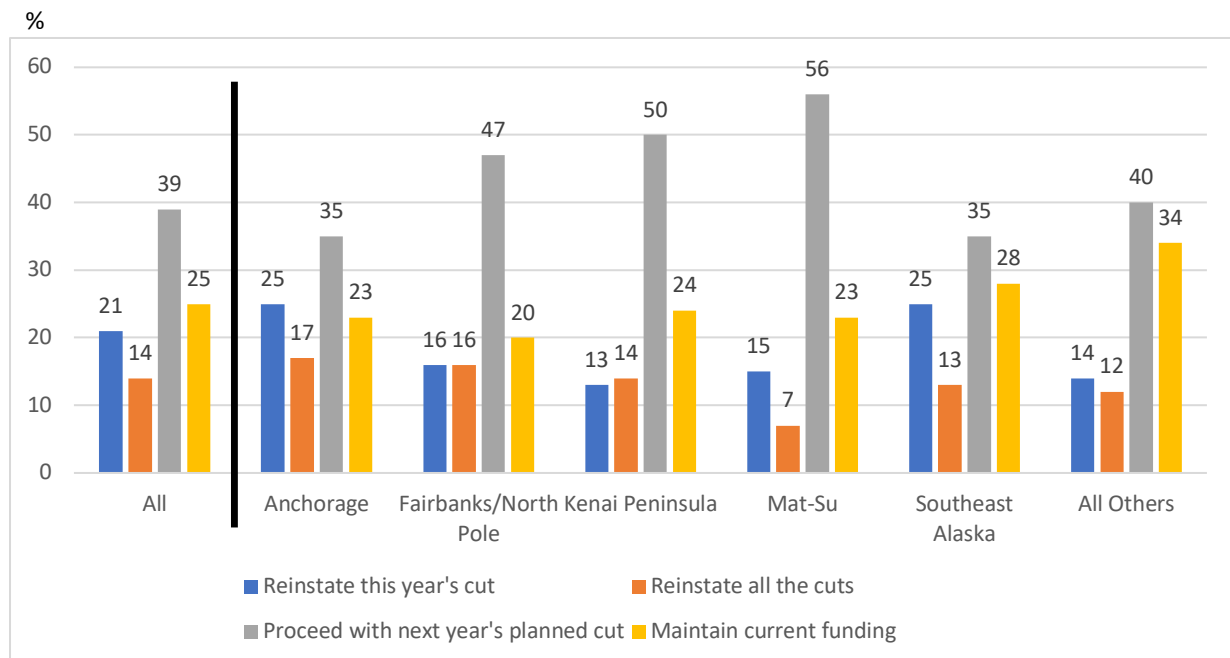
The UA system needs to continue taking a hard look at what it does, and how it does it, in order to find more cost-effective ways to deliver education.

Spending Choices

- They've been through enough, reinstate this year's cut ~ Spend \$20 million
- Reinstall all the cuts ~ Spend \$50 million
- Go forward with next year's planned cut ~ Save \$20 million
- Maintain current \$277 million in spending ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Medicaid

The State's cost for the Medicaid program is \$636 million. In 2015 the State expanded who was eligible for Medicaid health insurance; enrollment this year is expected to be 58,600. The current cost per enrollee is about \$325.00 in state funds plus the state gets another \$7,935 in Federal funds.

While the Federal government mandates certain services be covered under Medicaid, it also has other services considered "optional," which range from dental services, at-home personal care services, to prescription drugs. In some instances, these optional services are less expensive than what would otherwise be a mandatory alternative (i.e. at home compared to a nursing home). Over 90,000 Alaskans have been able to access optional services.

On One Hand . . .

A society's values are reflected in how they treat those in need. It's short-sighted to roll back expansion of Medicaid coverage or eliminate the optional services. If it rolls back the expansion, it may save \$19 million, but it also loses about \$465 million in Federal funds. Alaskans could still access health care by going to hospital emergency departments, which is more expensive and pushes the cost to other payers.

On the Other Hand . . .

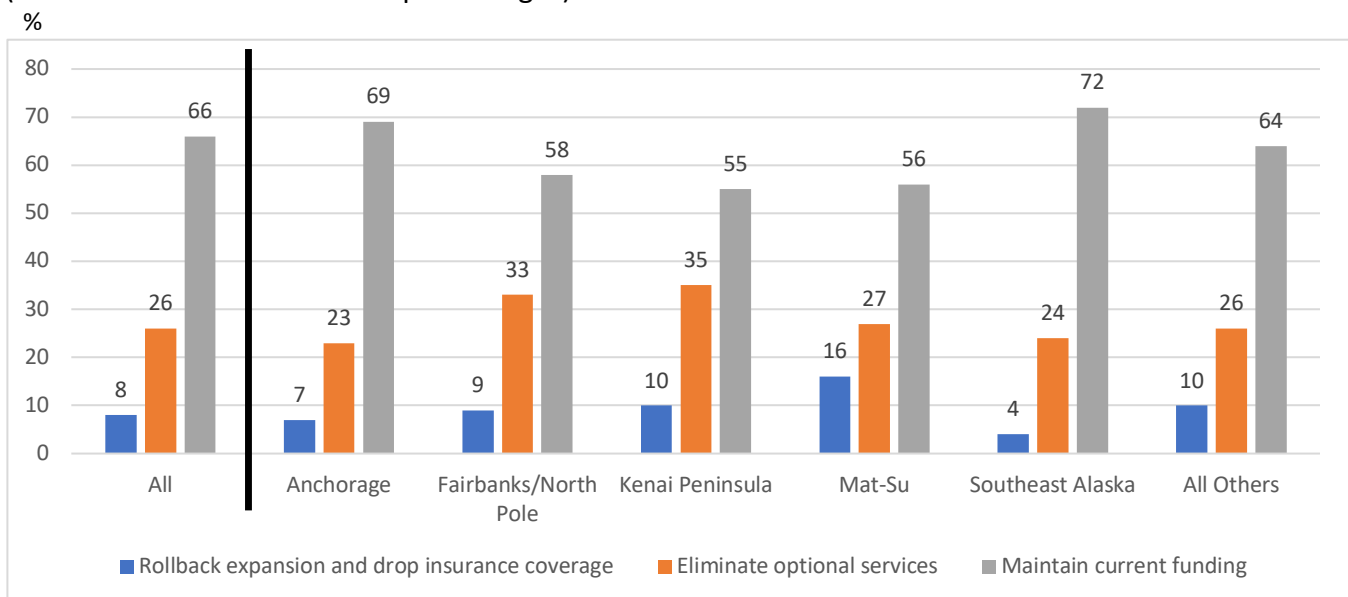
Alaska is the only state in the country that covers all optional Medicaid services. It was nice to do when the State could afford it, but it no longer can.

Spending Choices

- Rollback expansion and drop insurance coverage ~ Save \$19 million
- Eliminate optional services covered by Medicaid ~ Save \$239 million
- Maintain current \$258 million in spending ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Senior Benefits Program

This program provides a monthly stipend (from \$76 to \$550) to about 13,500 seniors that meet Federal poverty guidelines. Individuals earning up to \$27,913 per year (\$37,713 for couples) qualify. This program morphed from the Longevity Bonus (seniors in Alaska at the time of Statehood) and SeniorCare (seniors with low-incomes and limited assets).

On One Hand . . .

These small payments can make a big difference in the lives of Alaska's low-income seniors; helping them with their self-sufficiency is the least the State can do for them.

On the Other Hand . . .

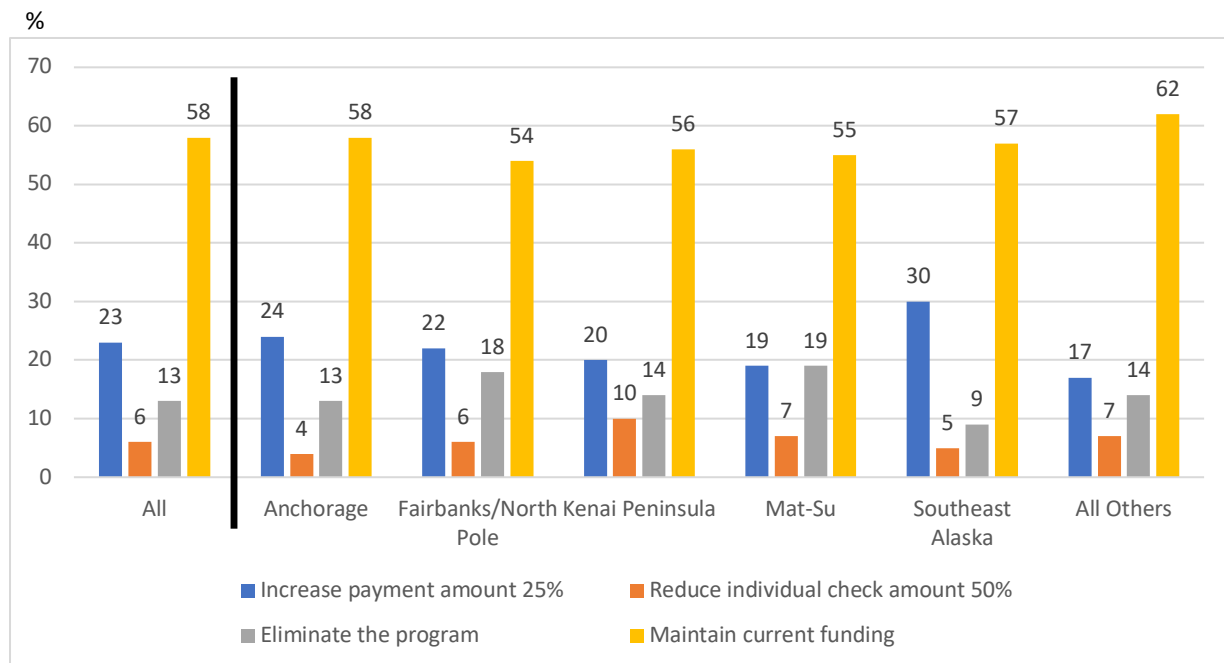
Alaska is an expensive place to live, especially for those on a fixed income. The current benefit amount is extremely low; it's time to help those that need the help.

Spending Choices

- Payments are really low, increase the amount 25% ~ Spend \$5 million
- Reduce individual check amount by 50% ~ Save \$10 million
- Eliminate the program ~ Save \$20 million
- Maintain current \$20 million in spending ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Pioneer Homes

The Alaska Pioneer Home system is six licensed assisted living homes providing care to 440 Alaskans in Anchorage, Fairbanks, Juneau, Ketchikan, Sitka, and Palmer (Veterans and Pioneer Home). The first Pioneer Home opened in 1913 for indigent men. In 1915, an age requirement of 65 years was instituted. Monthly rent ranges from \$2,967 to \$15,000 for which the state pays a monthly subsidy based on income (51% of residents privately cover their cost).

On One Hand . . .

If the homes close, seniors would need to find alternative and possibly more costly privately-owned assisted living facilities, without the benefit of a state subsidy. Not everyone can afford this, nor do many have families that can care for them.

On the Other Hand . . .

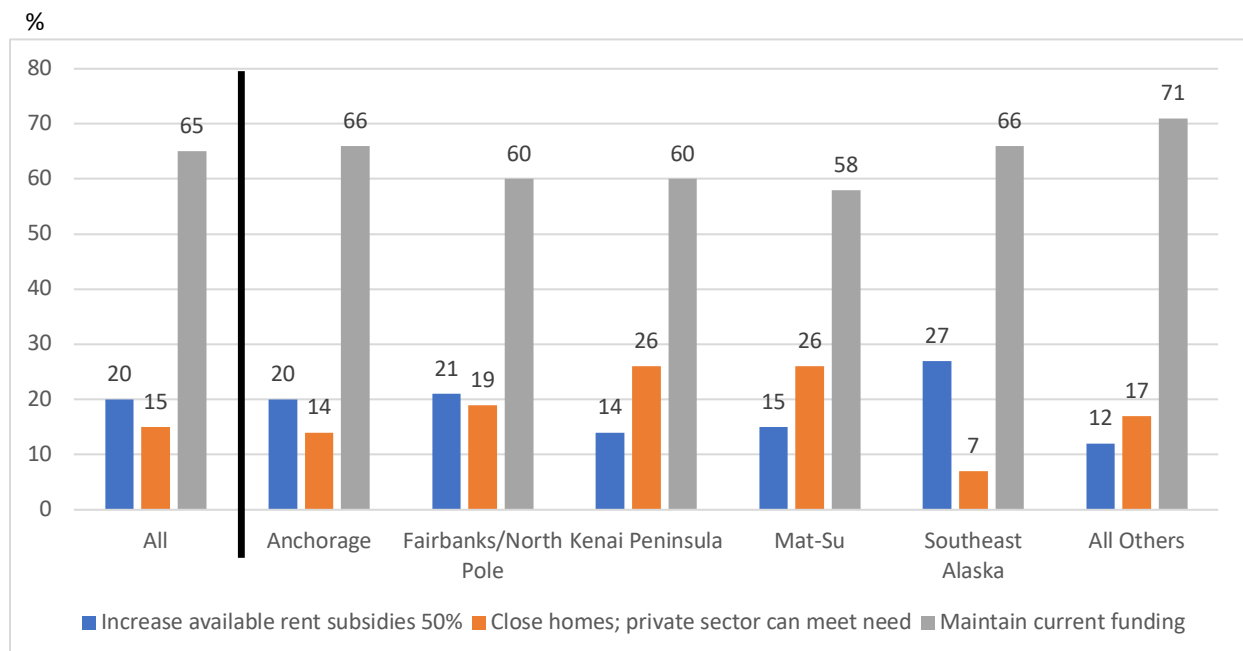
If more funding would be made available for payment assistance, it would help reduce the rent some residents and their families have to personally pay.

Spending Choices

- Increase funding 50% to offer more rent subsidies ~ Spend \$5 million
- Close all homes; the private sector will need to meet this need ~ Save \$10 million
- Maintain current \$40 million in spending ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Mental Health & Substance Misuse

The Behavioral Health Division provides services that range from prevention and screening to brief intervention and acute psychiatric care at API. The State awards \$11 million to organizations to provide mental health and substance misuse services.

On One Hand . . .

If funding is cut, these problems don't go away and some services will still be required and will look to local communities to provide funding and services to respond; also likely to have a higher volume of calls to law enforcement for behavioral health needs.

On the Other Hand . . .

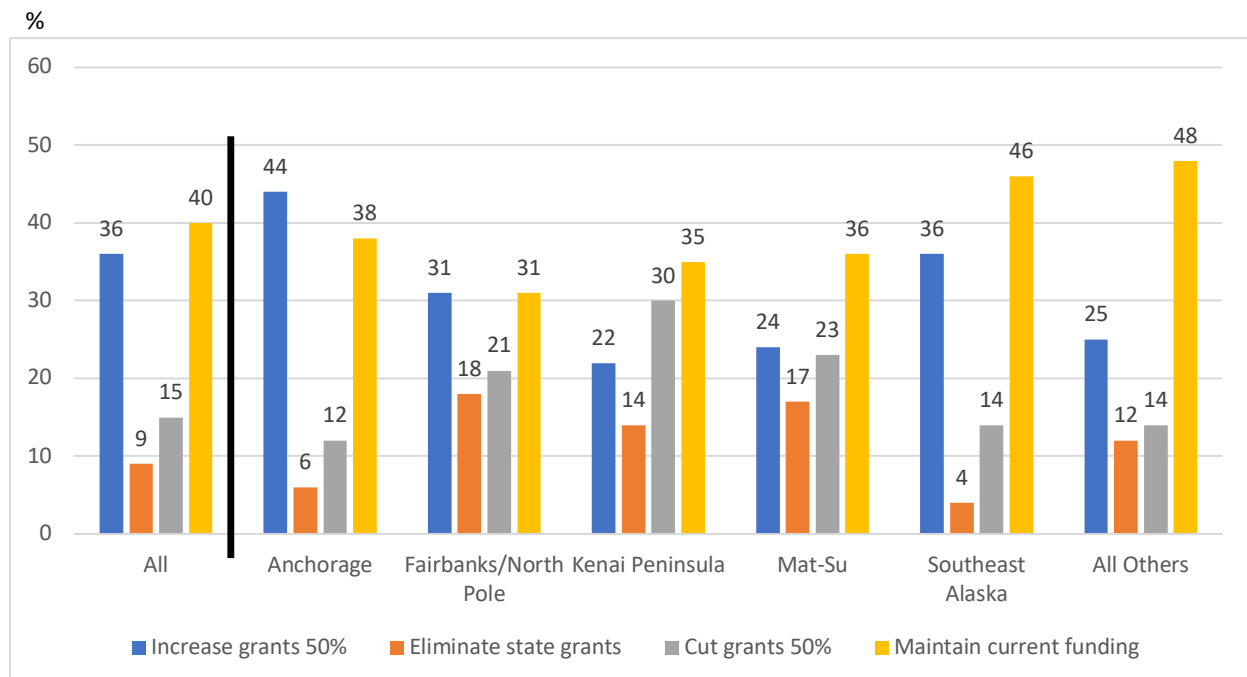
When it comes to human lives, these are really tough choices, but the state can't continue to do all it has been doing. Communities are going to have to figure out how to cope with these tough circumstances.

Spending Choices

- Problems are really bad; more services are needed--increase grants 50% ~ Spend \$5.5 million
- Eliminate state grants; communities will have to pick up the slack ~ Save \$11 million
- Cut grants 50%; communities will have to share more in the cost ~ Save \$5.5 million
- Maintain current \$11 million ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Children's Services

The State spends \$54 million for social workers responsible for child protective services and \$40 million for foster care and subsidized adoptions. Foster care subsidies are paid to families to assist with the care of children placed with them; rates are augmented for a child with special needs.

On One Hand . . .

Alaska's budget problem is so big that every program needs to do what it can to save money. Social workers could use technology to streamline case management and do virtual visits in order to save some money and still provide services.

On the Other Hand . . .

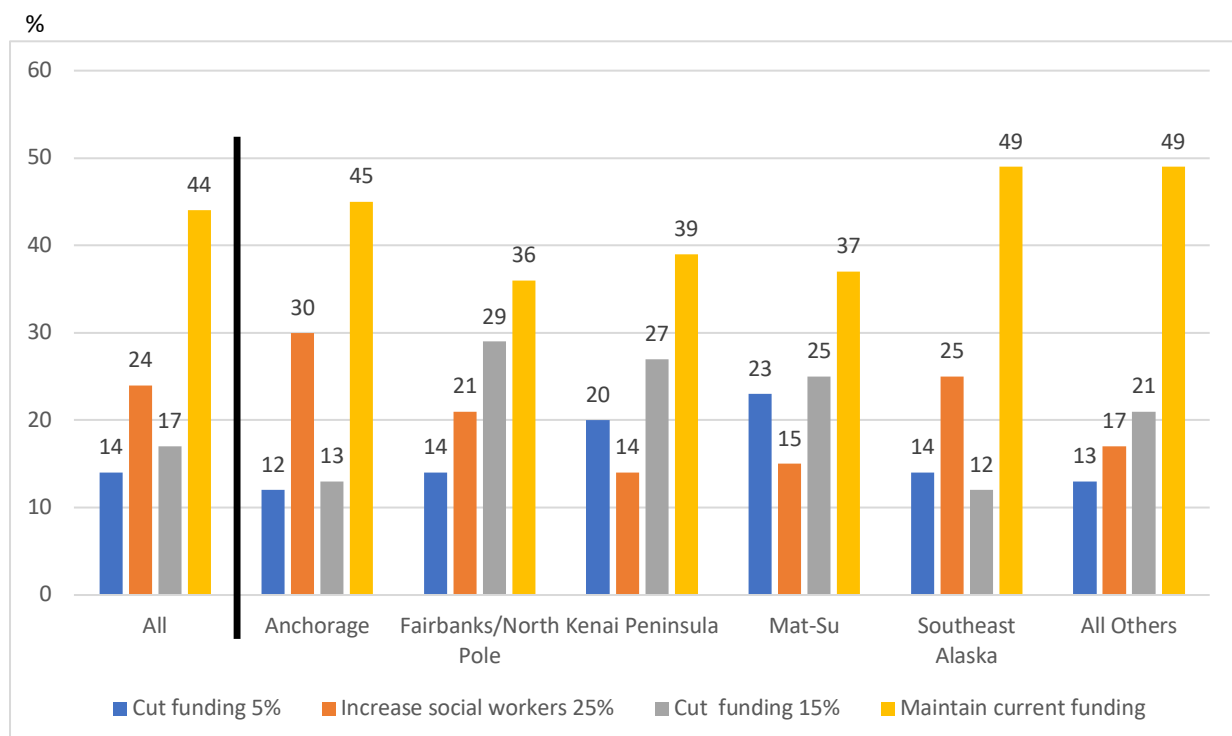
Cuts here will impact the ability of social workers to timely respond to children-in-need; cutting back foster care rates can reduce the number of families that can afford to foster children, resulting in fewer children being placed.

Spending Choices

- Vulnerable children need to be protected, but savings still needs to be found; cut 5% ~ Save \$2.5 million
- Times are bad and more children need to be protected; increase social workers 25% ~ Spend \$14 million
- Churches and communities need to do more to protect, house children; cut 15% ~ Save \$6 million
- Maintain current \$94 million in spending ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Permanent Fund Dividend

Since the early 1980's, the state has paid citizens a dividend based on a formula tied to the Fund's earnings. To save more of the earnings, in recent years the state has not used the traditional formula to calculate the dividend amount, which resulted in smaller dividends.

In 2018 a new formula was approved that says 5% of the Fund's earnings goes to the state's general fund to help pay for state services as well as the dividend (prior to this, earnings had only been used for dividends). In practice, the individual dividend amount no longer is based on a prescribed formula; instead, legislators decide each year how much can be spent for dividends, just as it does in funding other programs. The total cost for this year's dividend was \$680 million, which is about one-third what it otherwise would have been if the traditional formula had been followed.

On One Hand . . .

The PFD may not be in the Constitution, but it should be. If Alaskans don't get their PFDs, it means the money is going for more government. It's expensive to live in Alaska and the PFD is one way to make it easier to afford, especially for low-income families.

On the Other Hand . . .

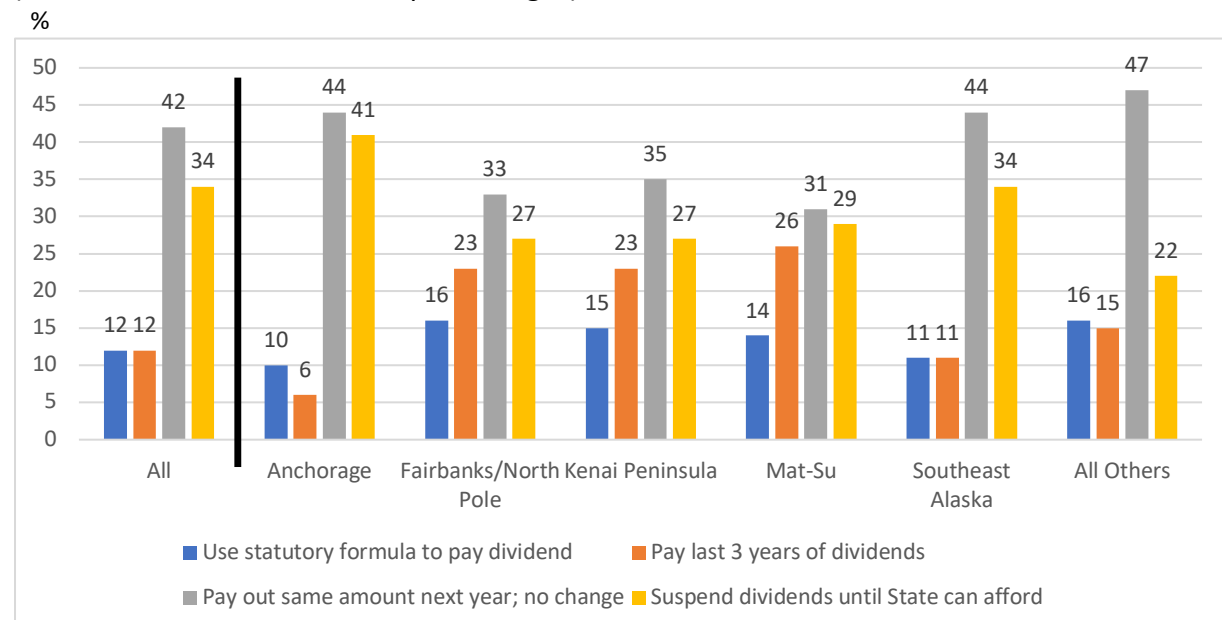
Critical state services need to be funded first; the State can pay a dividend when it can afford it. It also makes no sense for the state to look at imposing an income or sales tax and then turn around and hand out PFDs.

Spending Choices

- Use the statutory formula to pay next year's dividend ~ Spend \$1.2 billion
- Pay Alaskans the full dividend from the past three years ~ Spend \$2.2 billion
- Pay out the same amount next year as this year ~ No change
- Suspend dividends until the State can afford them ~ Save \$680 million

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Corrections

Corrections' budget is \$339 million; it operates 12 correctional centers, halfway houses, and probation/parole services. With increasing pressure to take action against growing crime, Alaska's prisons currently are at around 90% capacity. Last year Alaska's cost per prisoner was about \$169/day; Outside private facility costs were 42% less (\$98/day). The department also provides pre-trial court-order supervision for 1180 Alaskans.

On One Hand . . .

Alaska needs to have more prison space; if they do the crime, they need to serve the time, even if means sending prisoners Outside plus opening Palmer.

On the Other Hand . . .

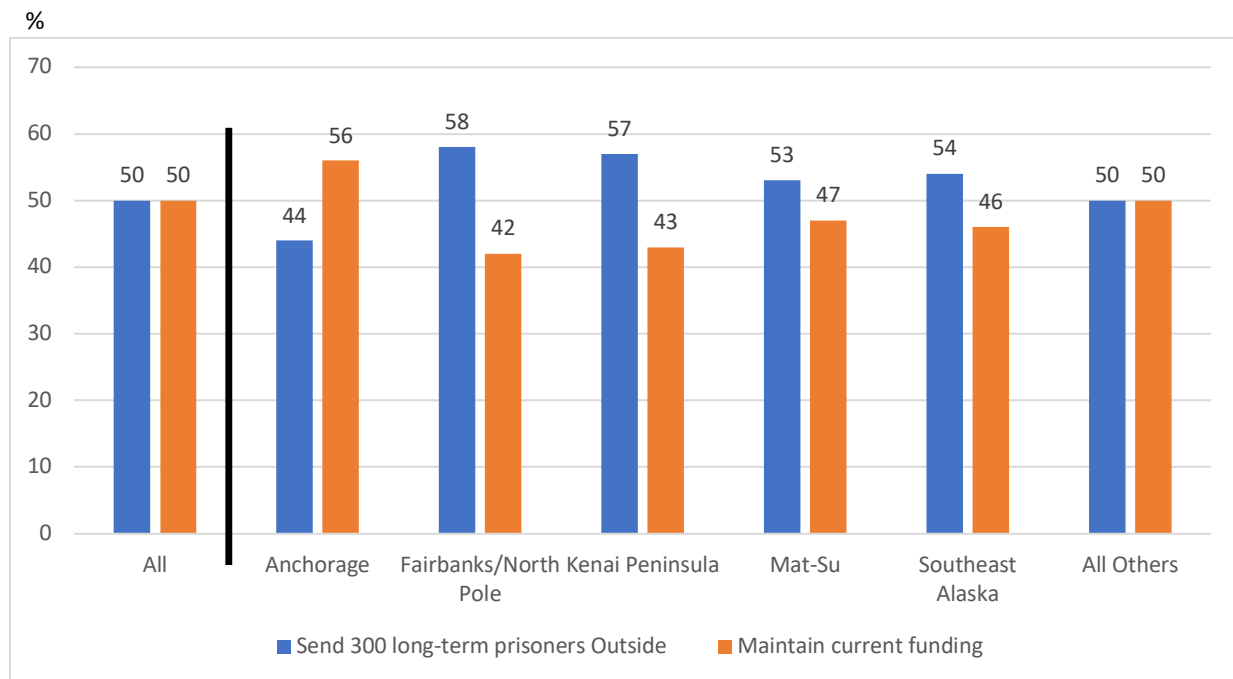
Alaska has sent prisoners Outside and then stopped; families can't visit, and, in the end, it costs more when they return to Alaska with hardened criminal skills and gang tactics they learned Outside.

Spending Choices

- Send 300 long-term prisoners Outside – Save \$8 million
- Maintain current \$339 million in spending; no change

The Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Public Safety

About 88% of the Department of Public Safety's \$180 million budget is for the Alaska State Troopers (\$147 million) and Village Public Safety Officers (\$11 million). The department also operates the Crime Lab (\$6 million) and provides \$22 million for the Council on Domestic Violence and Sexual Assault. Alaska has one of the nation's highest rates for domestic violence. The Council awards grants for emergency shelter, victim assistance, and battery intervention programs.

On One Hand . . .

Every community that can, needs to do their share to provide police protection. Some local governments have taken on police responsibility; others have chosen to have State Troopers be their police department. Those with a tax base need to step up and help pay the State for the cost of Troopers in their area.

On the Other Hand . . .

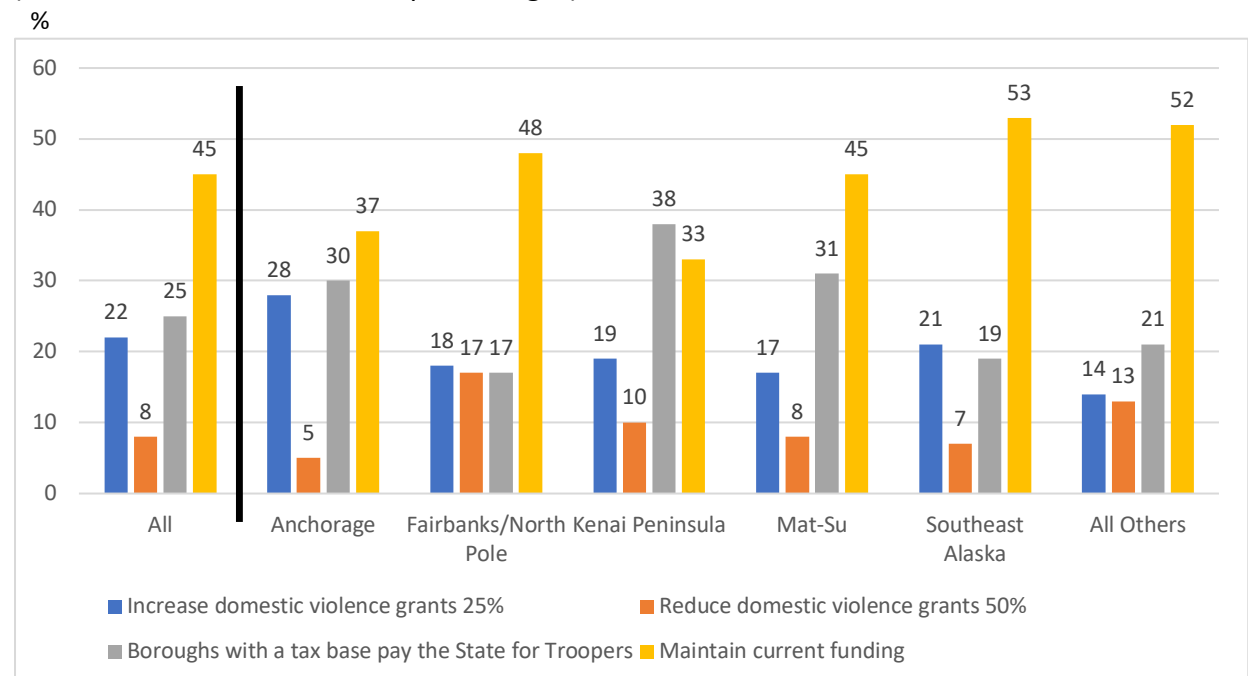
Domestic violence/sexual assault programs help Alaska's most vulnerable. If the funds are cut, the problems don't go away; the last thing we should do is pull the rug out by closing emergency shelters and helping victims.

Spending Choices

- Increase domestic violence grants 25% ~ spend \$5.5 million
- Reduce domestic violence grants 50% ~ Save \$11 million
- Boroughs with a tax base need to pay the State for Troopers ~ Save 32 million
- Maintain current \$180 million in spending ~ No change

The Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Public Defender & Office of Public Advocacy

The Law Department's Criminal Division prosecutes violations of state criminal law committed by adults and a large portion of the serious crimes committed by juveniles. Its budget is \$31 million. The Public Defender (PD) Agency and Office of Public Advocacy (OPA) provide court-directed legal advocacy and guardian services to vulnerable Alaskans and constitutionally mandated legal representation to indigent clients; its budget is \$55 million. As crime increases and more arrests made, their workloads increase.

On One Hand . . .

Alaska's tough on crime stance means more arrests, more trials. The PDs don't get to decide how many cases they get; the court orders them to represent accused lawbreakers. If Alaskans want a law-and-order system, it needs to fund those that go to court to carry out justice; otherwise, what's the point.

On the Other Hand . . .

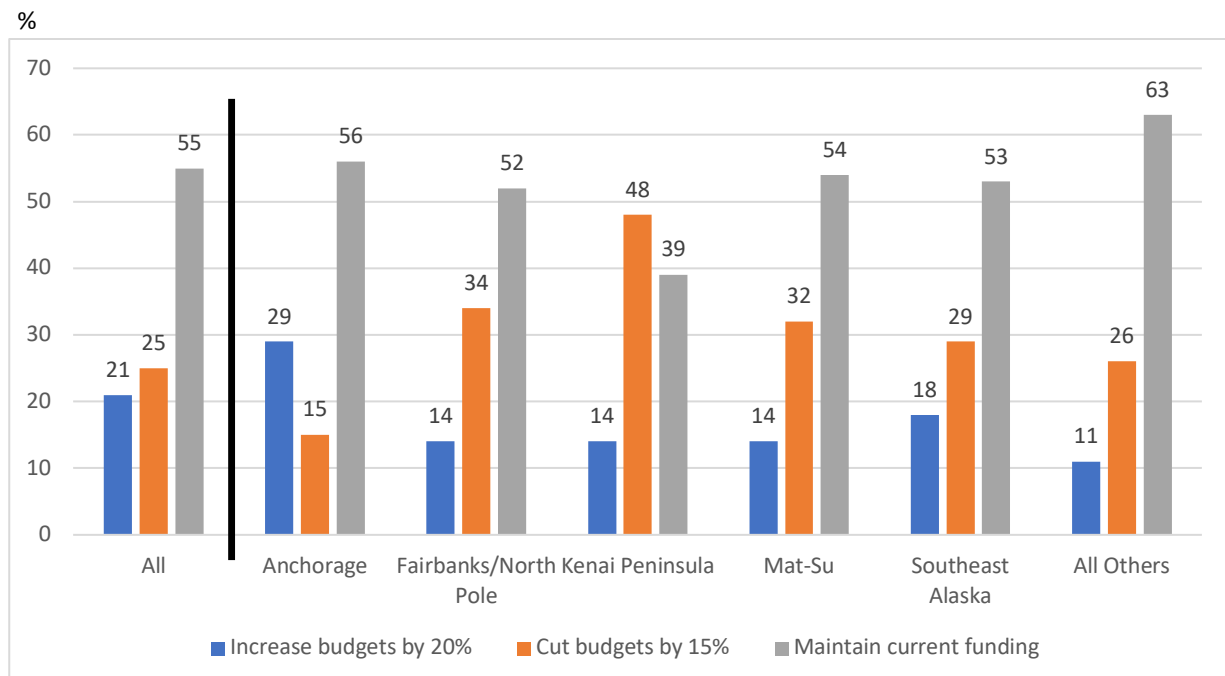
Everybody needs to figure out how to do more with less by streamlining case management, limiting delays, and if necessary, deferring prosecution for some crimes in order to reduce caseloads.

Spending Choices

- Increase budgets by 20% ~ Spend \$18,000,000
- Cut budgets by 10% ~ Save \$8,000,000
- Maintain current \$86 million in spending; no change

The Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Courts System

The Court System's \$111 million budget includes operation of the state's appellate, trial, and therapeutic courts. Offices and courtrooms are located in 40 communities throughout the State. With increased attention on crime, the Court system's number of cases also increases.

On One Hand . . .

Further budget cuts will mean that court offices will further reduce the hours they are open for trials and for the public to conduct business, which includes getting a marriage license, to going to small claims court, to paying a fine, to getting a divorce.

On the Other Hand . . .

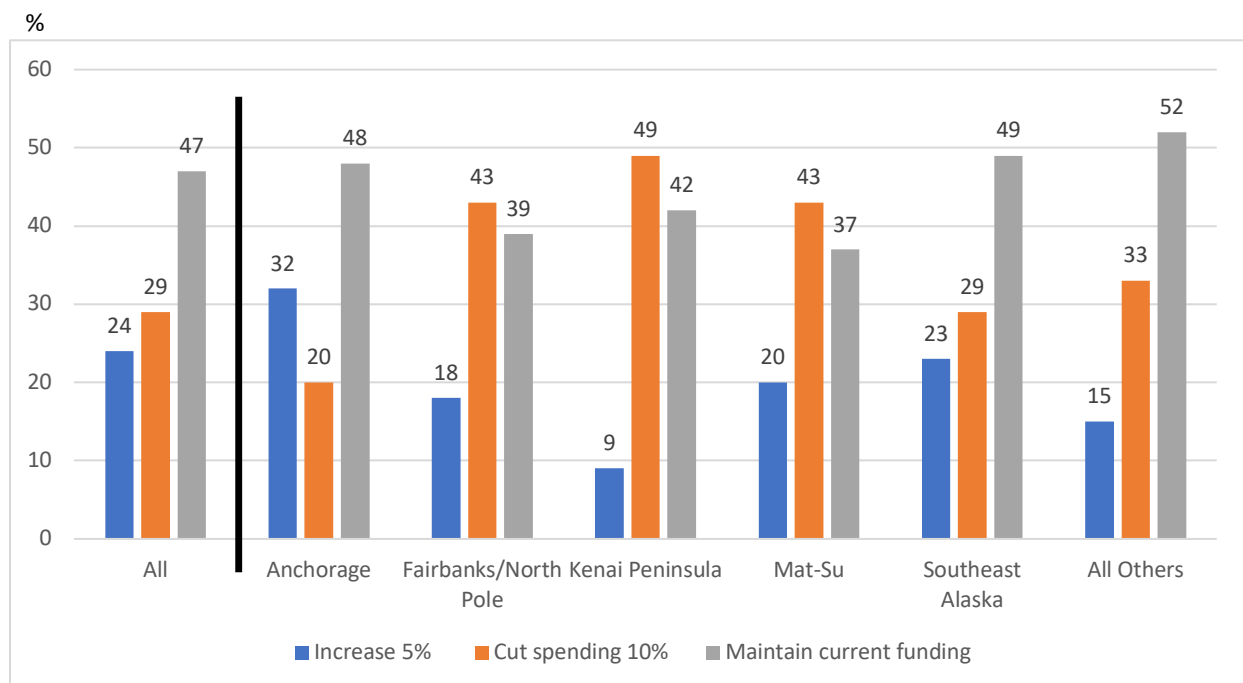
Every part of government needs to find ways it can meet its responsibilities with less money, which may mean Alaskans get used to court offices being closed more hours during the week.

Spending Choices

- Increase 5% so offices can be open 5 days a week ~ Spend \$6 million
- Cut the budget 10% across the board ~ Save \$11 million
- Maintain current \$111 million in spending ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Fish & Game

Out of the Department's \$51 million budget, the largest share (\$31 million) goes to manage commercial fisheries. While fisheries-related taxes bring in \$45 million in revenue, more than half of that revenue is redistributed to local governments. If the State retained these revenues, it would fully cover management costs. Other department programs are almost fully self-supporting through license and permit fees.

On One Hand . . .

It's not fair to local communities for the state to stop sharing tax revenue with them; local governments shouldn't have to pay for the impact the industry has on its community.

On the Other Hand . . .

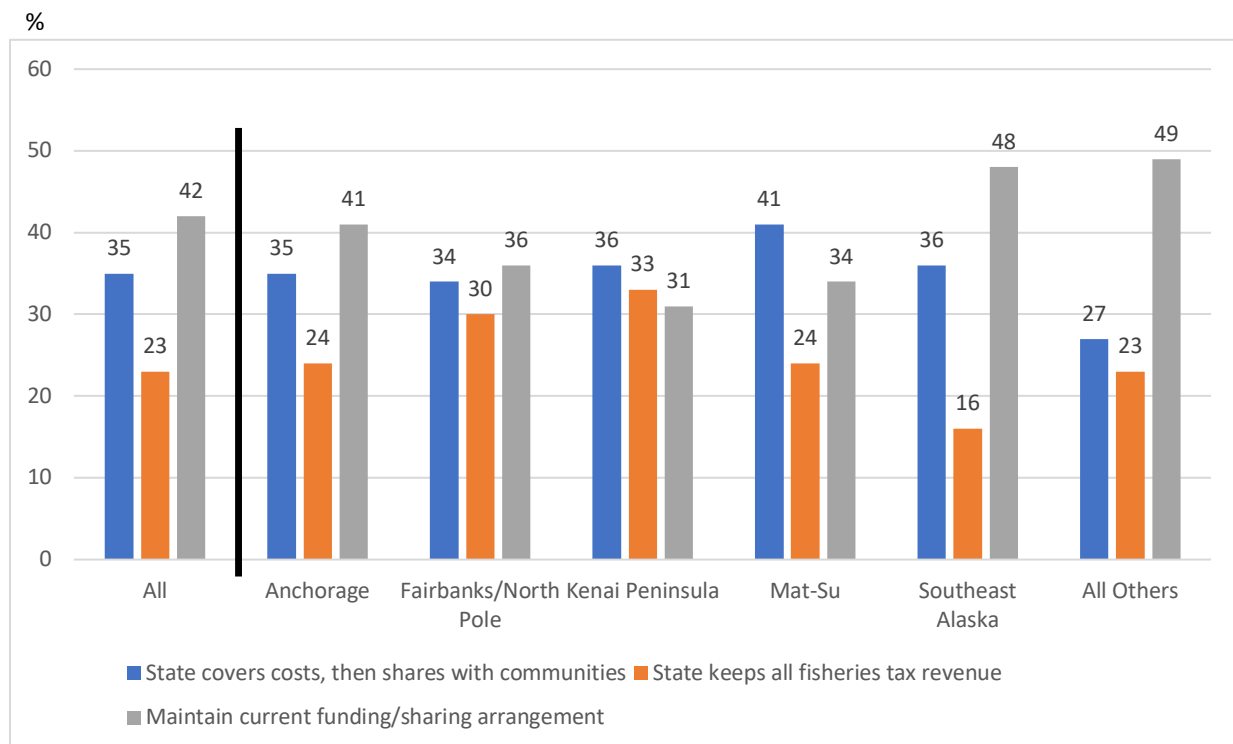
To have healthy, viable fisheries the State needs revenue to manage them; that means the State needs to hold on to the revenue it is currently collecting from commercial fisheries.

Spending Choices

- State covers its management costs first, then shares what's left with communities ~ Save \$11 million
- State keeps all fisheries tax revenue to cover management costs ~ Save \$24 million
- Maintain current \$31 million in spending ~ No change

The Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Natural Resource Management

The Department of Natural Resources manages all state-owned land, water, and natural resources (except for fish and game). This year about 47% (\$31 million) of its \$66 million budget is for fire preparedness and fighting. It primarily covers the "fixed costs" for staffing and contracts for fire fighting equipment just in case there are fires. Each year the actual cost to fight fires is funded after the fact. In FY 19, the total state cost for fire suppression was \$124 million.

On One Hand . . .

The State's the only one in a position to fight these huge fires; making cuts here would be disastrous—not only for protecting property, but public health too.

On the Other Hand . . .

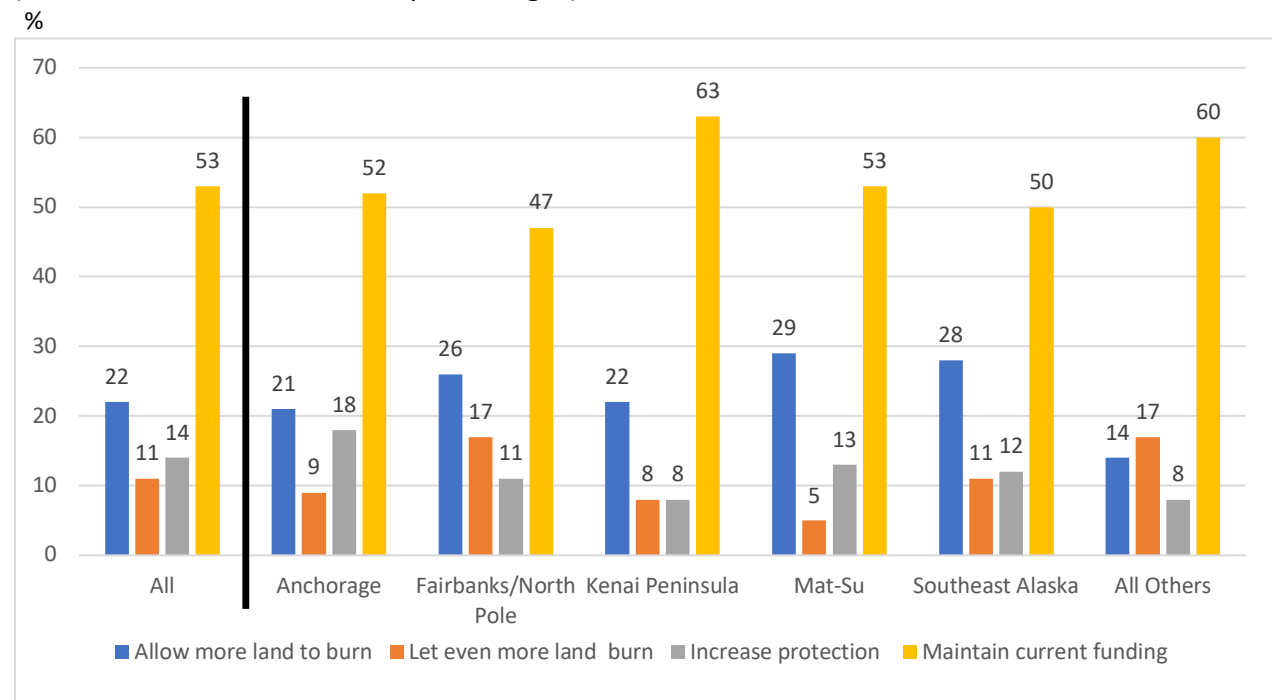
The State needs to re-think what fires it fights so it can save some money, even if it may mean the loss of some private property.

Spending Choices

- Allow more land to burn to save ~ Save \$5 million
- Let even more land and structures burn ~ Save \$25 million
- Protection from fire is critical, increase 25% ~ Spend \$8 million
- Maintain current \$31 million in spending ~ No change

The Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Transportation

The Department of Transportation and Public Facilities (DOT/PF) has responsibility for state roads, airports, state-owned buildings, and the ferry system. About 43% of its \$150 million budget funds operation and maintenance of airports and highways, and 36% goes to operate the Alaska Marine Highway System.

On One Hand . . .

One of the State's major responsibilities is ensuring a safe transportation system. The State needs to do better at keeping up with repairs to keep systems safe. For many coastal communities, the ferry IS the highway and the State has already invested heavily in the system. It's time to transition it to a state-owned corporation, a model that works for the railroad, housing, and other functions, and stop the political tinkering that has crippled the system.

On the Other Hand . . .

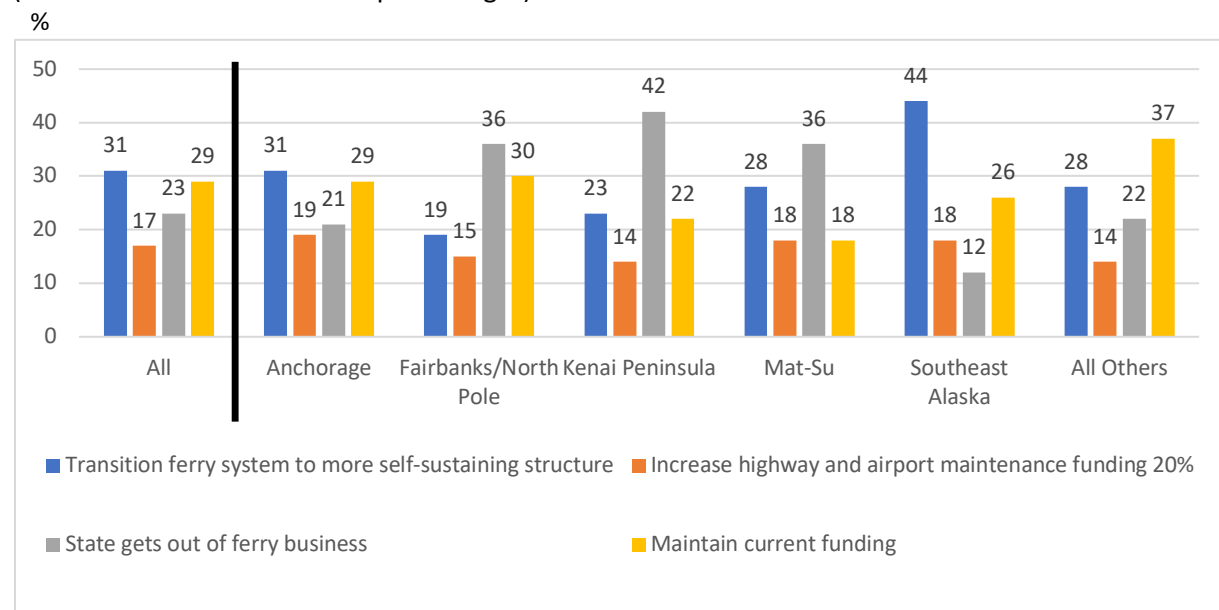
It's time to get the state out of the ferry business. It can't even keep the vessels it already has running. The whole system costs too much and doesn't pay enough of its own way.

Spending Choices

- Transition ferry system to a more self-sustaining structure ~ Spend \$10 million
- Highway and air safety have to be a top priority; increase funding 20% ~ Spend \$13 million
- State shouldn't be in the ferry business; get out of it ~ Save \$54 million
- Maintain current \$119 million in spending ~ No change

The Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Governor's Office

The Governor's office budget of \$24 million includes funding for the Human Rights Commission (\$2.2 million); Office of Management and Budget (\$2.4 million); Lt. Governor's office (\$1.1 million) and Elections (\$5.5 million); and operation of the Governor's office itself (\$11.4 million), which includes rent and staff for regional offices.

On One Hand . . .

Every aspect of government has to do its share of belt tightening, especially starting at the top.

On the Other Hand . . .

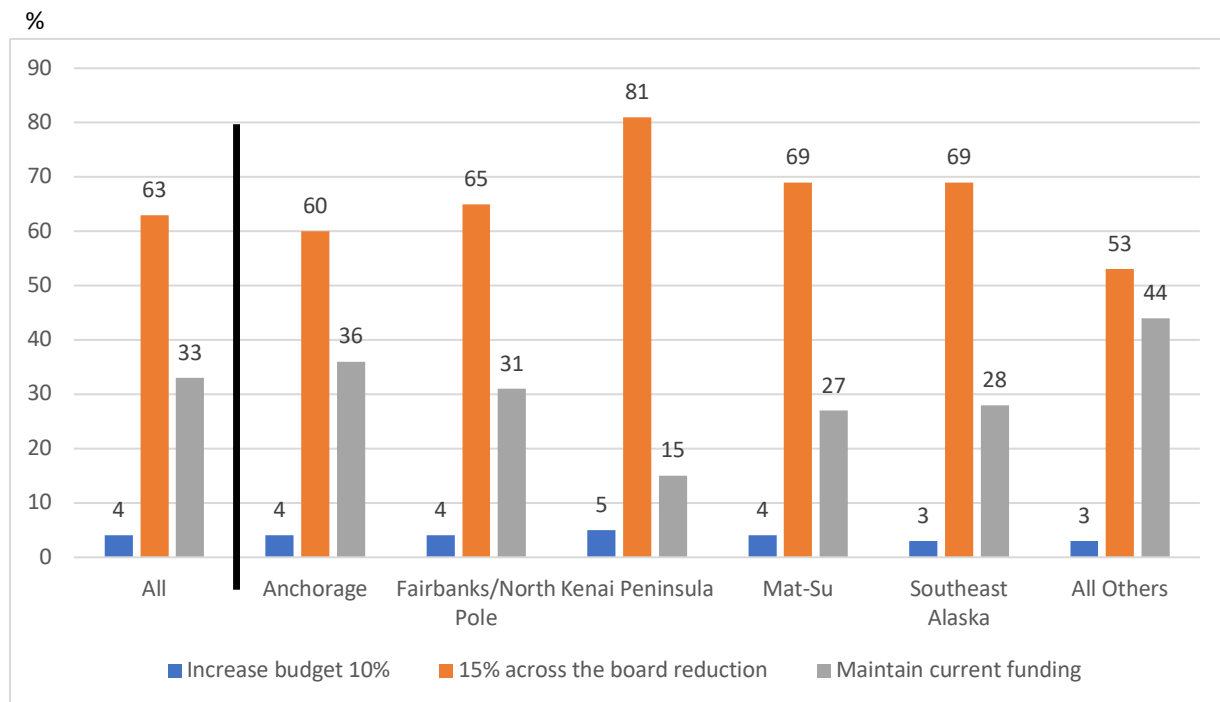
Regional offices are a good way for the Governor to keep in touch with what's really going on in communities; open more.

Spending Choices

- Add more regional offices; increase budget 10% ~ Spend \$1 million
- 15% across the board reductions ~ Save \$3.6 million
- Maintain current \$24 million in spending ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Spending: Legislature

The Legislature's overall budget is \$67 million; 44% of it supports operation of the Legislature while in session. Budget and Audit Committee has a \$14.4 million budget primarily for Legislative Audit and the Legislative Finance Division. Another \$24 million pays for support services, which includes Legal and Research Services (\$4.6 million); Ombudsman (\$1.3 million); and administrative support (\$12.4 million) such as the Legislative Information Offices (LIOs).

On One Hand . . .

If programs that provide direct services to Alaskans are getting cut, so should the Legislature's.

On the Other Hand . . .

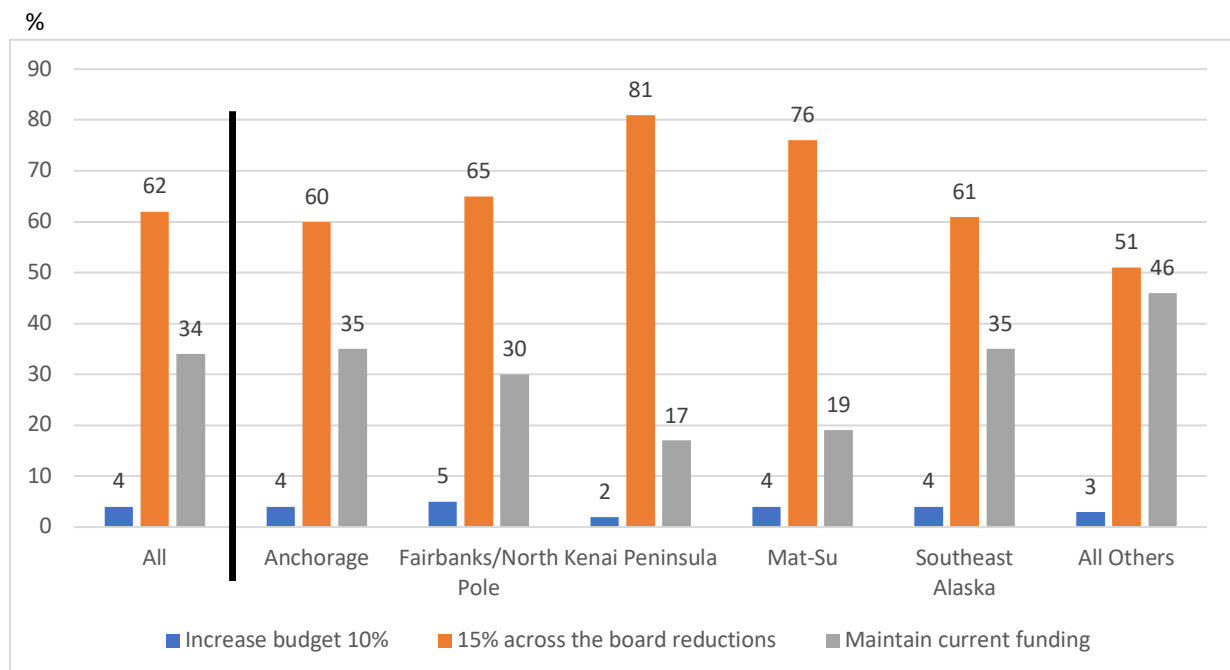
The Legislature is facing critical decisions about the direction Alaska is going to take and Alaskans need to be able to have access to them, especially while they are in Juneau; opening more LIOs will help Alaskans stay connected.

Spending Choices

- Add 10% for more LIOs to access legislators ~ Spend \$7 million
- 15% across the board reductions ~ Save \$10 million
- Maintain current \$67 million in spending ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Revenue: Corporate Income Taxes

Alaska taxes corporate income at graduated rates ranging from 0% to 9.4% divided over ten tax brackets. There are 18,000 non-oil and gas businesses that are paying about \$75 million in Corporate Income Taxes (CIT) this year.

On One Hand . . .

No one ever wants to pay more taxes, but businesses benefit from the state having a healthy economy, which includes quality state services; they need to pony up and pay more in taxes to help.

On the Other Hand . . .

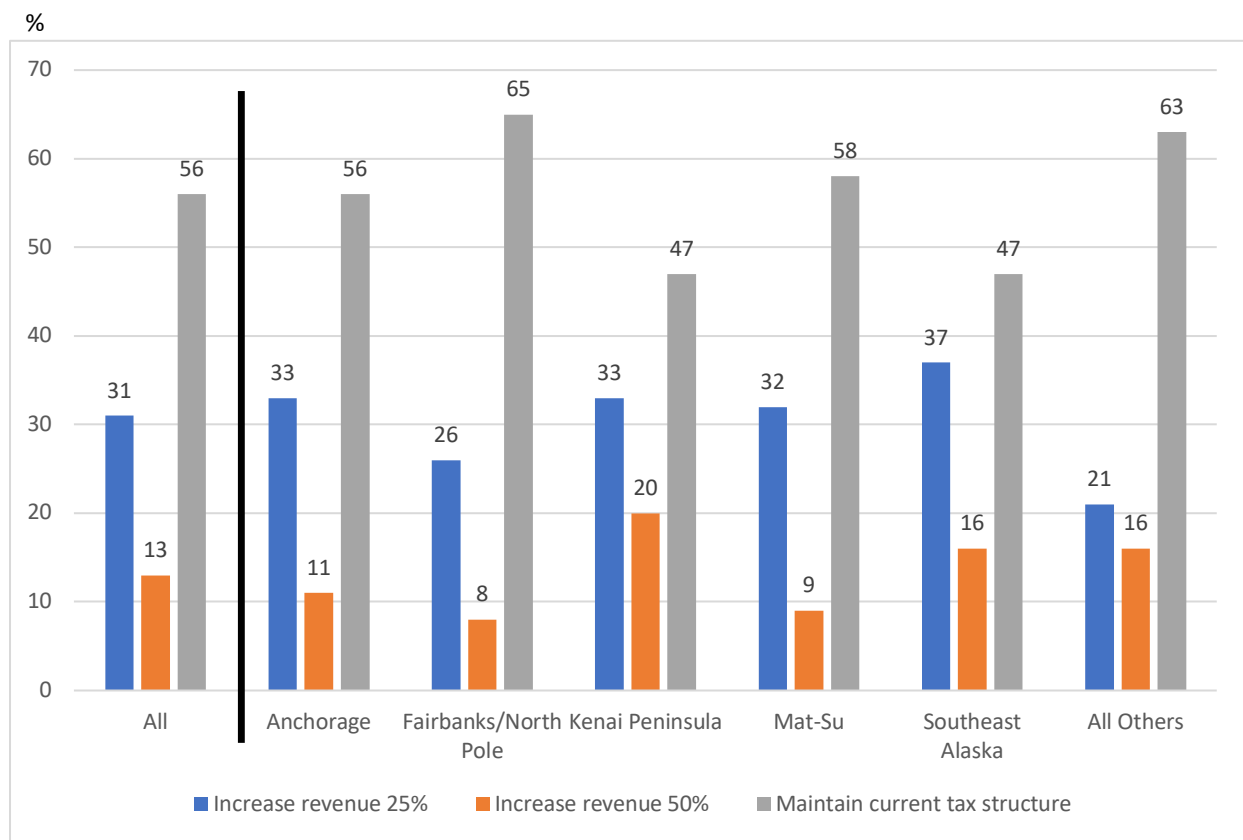
If taxes on businesses get too high, they may leave the state and take their jobs with them. Alaska already has one of the highest corporate income taxes in the nation. Instead, we need to incentivize businesses to come to Alaska, and higher taxes are not how you do that.

Revenue Choices

- Increase CIT revenue 25% ~ Make \$19 million
- Increase CIT revenue 50% ~ Make \$38 million
- Maintain current tax structure ~ No Change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Revenue: Mining Taxes

The Alaska Mining License Tax (AMLT) is assessed on any mining operation with a net income exceeding \$40,000. The six large mines in Alaska pay the majority of the AMLT (about \$40 million this year) as well as rents, leases, royalties, corporate income tax, motor fuel tax, local property tax, etc.

On One Hand . . .

Alaska needs to diversify its revenues and oil isn't the only natural resource our state has; it's time that mining pays more toward state services.

On the Other Hand . . .

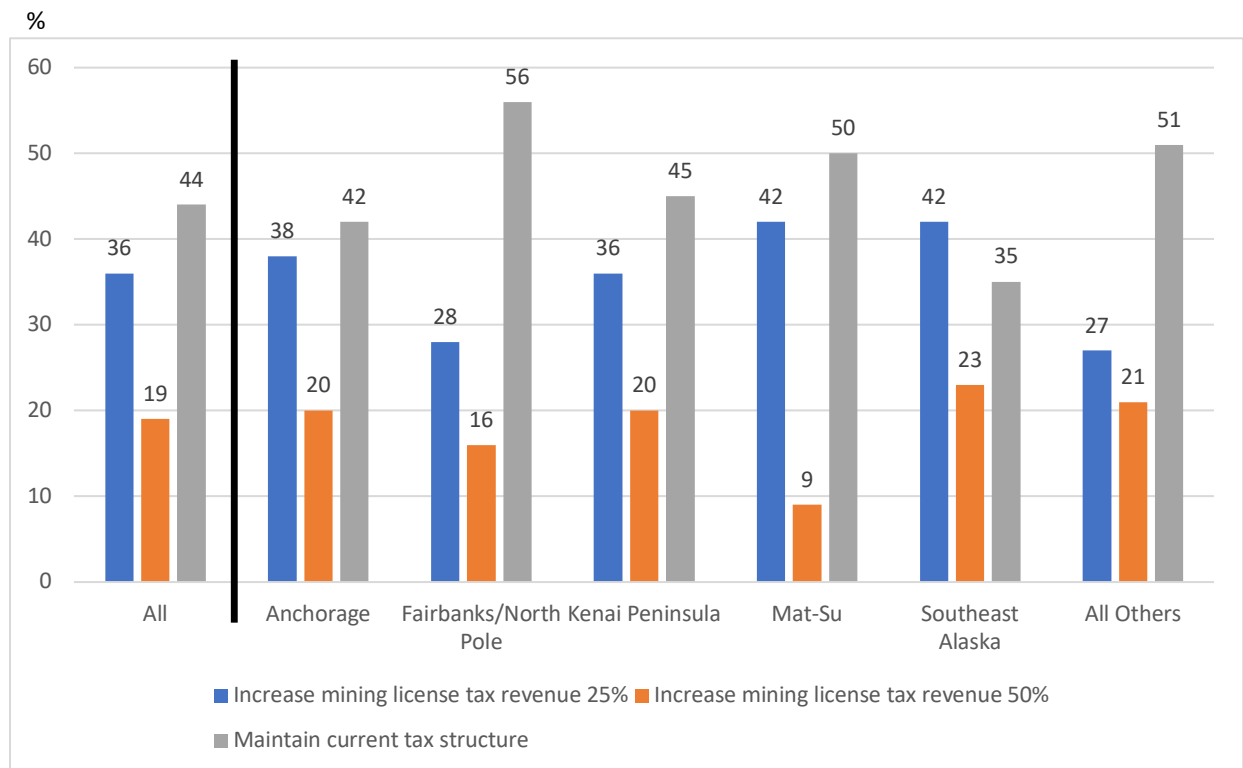
The mining industry operates on low margins; tax increases like this have the potential to decrease the industry's competitiveness in a global market and discourage new investment in existing mines or development of new ones.

Revenue Choices

- Increase revenue from mining license taxes 25% ~ Make \$10 million
- Increase revenue from mining license taxes 50% ~ Make \$20 million
- Maintain current tax structure ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Revenue: Commercial Fisheries Taxes

Commercial fisheries pay about \$172 million in combined taxes, fees and self-assessments to manage fisheries. This includes local fish taxes assessed by local communities, as well as State fish taxes that the legislature directs to be shared with local governments. The value of fish taxes collected is tied to the value of fish, which means state revenue goes up and down with fish volume and global markets.

Of the amounts collected, about \$60 million is “unrestricted general funds.” Of this, the State keeps \$20 million to help manage the fisheries; \$24 million goes to local governments; and \$16 million goes toward specific projects and marketing. The Fisheries Business Tax is the largest revenue generator (FY 21 forecast of \$35 million). The State could keep new revenue from any future increase, instead of sharing with local communities.

On One Hand . . .

Oil isn’t the only natural resource our state has; Alaska needs to diversify its revenues and it’s time that fisheries pay more toward state services

On the Other Hand . . .

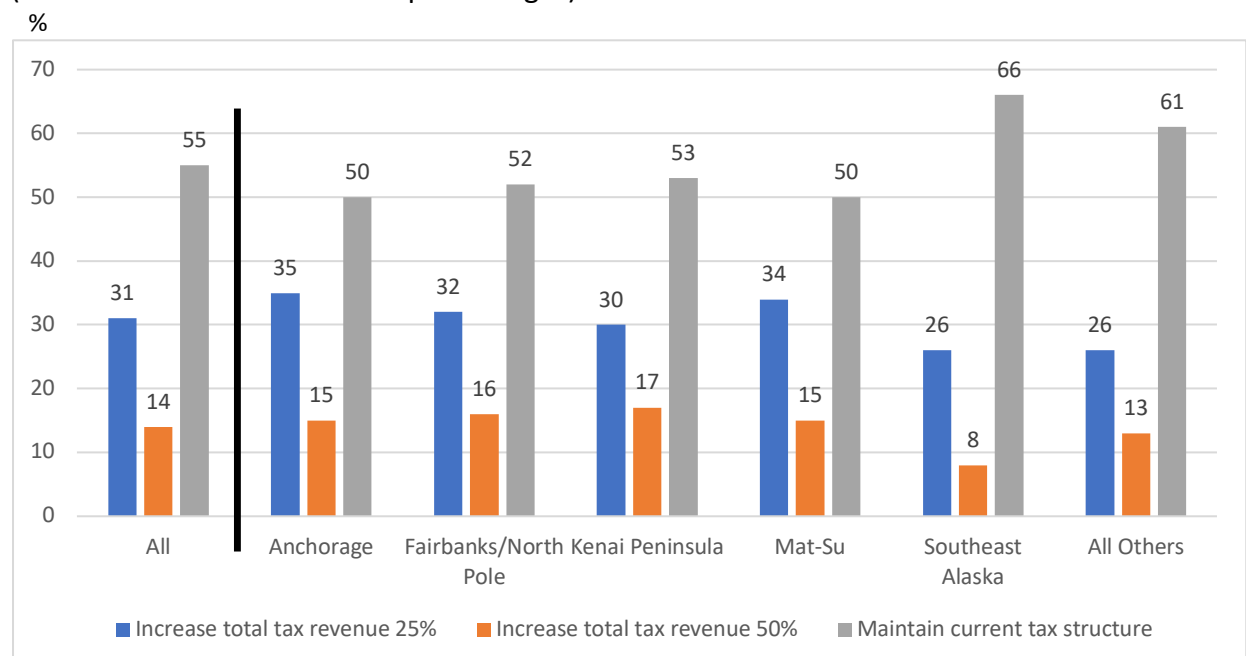
Just like oil, the price for Alaska fish is determined by a global market; raising taxes increases costs, which will limit ability to afford new investment in product development, diversification, and emerging fisheries. The result is a decrease in the competitiveness of Alaska fisheries in the marketplace.

Revenue Choices

- Increase total tax revenue 25% ~ Make \$9 million
- Increase total tax revenue 50% ~ Make \$18 million
- Maintain current tax structure ~ No Change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Revenue: Oil & Gas Taxes

Oil and gas producers in Alaska pay a production tax, conservation surcharges, and royalties on each barrel of oil. They also pay a corporate income tax as well as a property tax that is shared with local governments where oil and gas infrastructure is located (\$446 million was paid last year to local governments). The state constitution requires that at least 25% of all oil and gas royalties go into the Permanent Fund; the remainder goes to the state's general fund. Last year, when oil prices averaged \$69/barrel, all revenues totaled \$2.4 billion; this year with an expected price of \$37/barrel, \$936 million is expected, of which \$207 million is going to the Permanent Fund.

The value of production tax collected is tied to the price of oil, which means state revenue goes up and down along with the world price of oil. Last year the state collected \$587 million from oil and gas production taxes, but this year it has dropped to \$114 million primarily due to low oil prices caused by decreased demand/oversupply in the world market.

On One Hand . . .

We've got an extremely fragile economy right now and the world is experiencing record low oil prices. Making it more expensive for the oil industry to do business in Alaska is the last thing we should do if you want that industry, and its jobs, around in the future.

On the Other Hand . . .

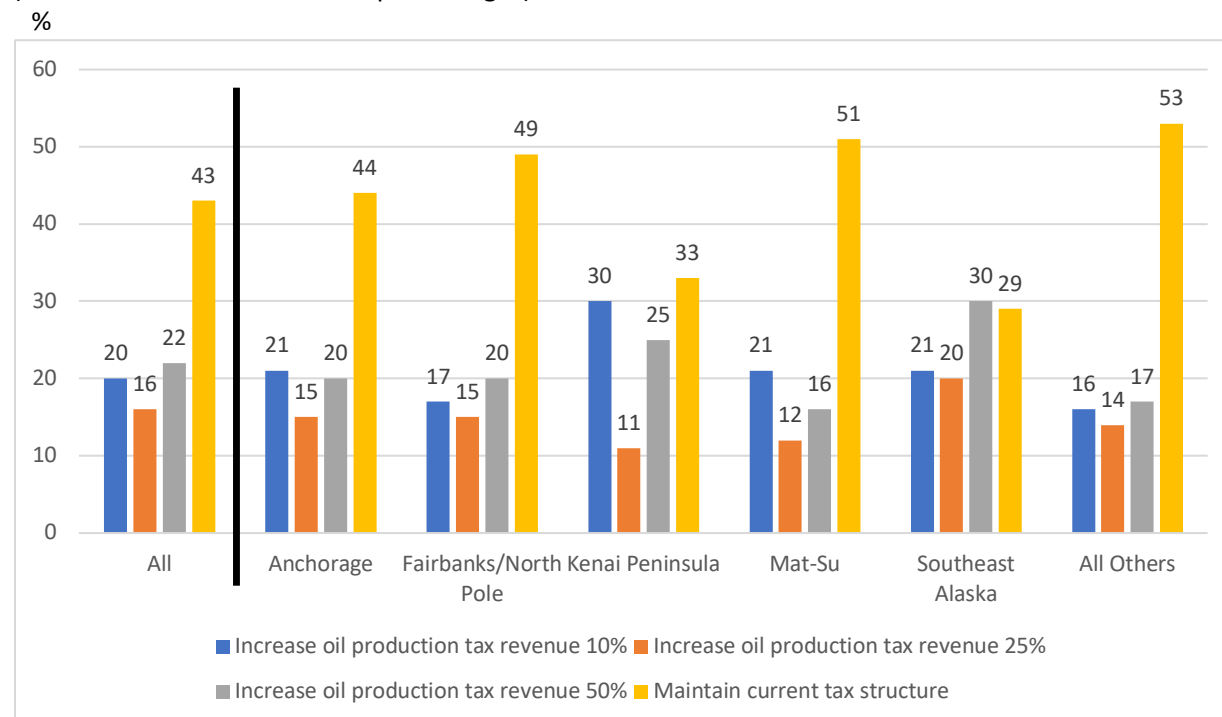
It's Alaskans' oil, not the oil companies; Alaskans should get the maximum benefit from this resource.

Revenue Choices

- Increase revenue from oil production tax 10% ~ Make \$11 million
- Increase revenue from oil production tax 25% ~ Make \$28 million
- Increase revenue from oil production tax 50% ~ Make \$57 million
- Maintain current tax structure ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Revenue: Excise Taxes

Alaskans pay \$124 million in excise taxes (aka “sin” taxes” on tobacco, alcohol, marijuana). Of this amount about half of the revenue goes to the state’s general fund; the rest is designated by law to particular programs. Any new increase could have all new revenue go to the general fund.

On One Hand . . .

If you play, you pay. it’s about time that users pay up and help cover more of the state’s health care and public safety costs due to use/mis-use.

On the Other Hand . . .

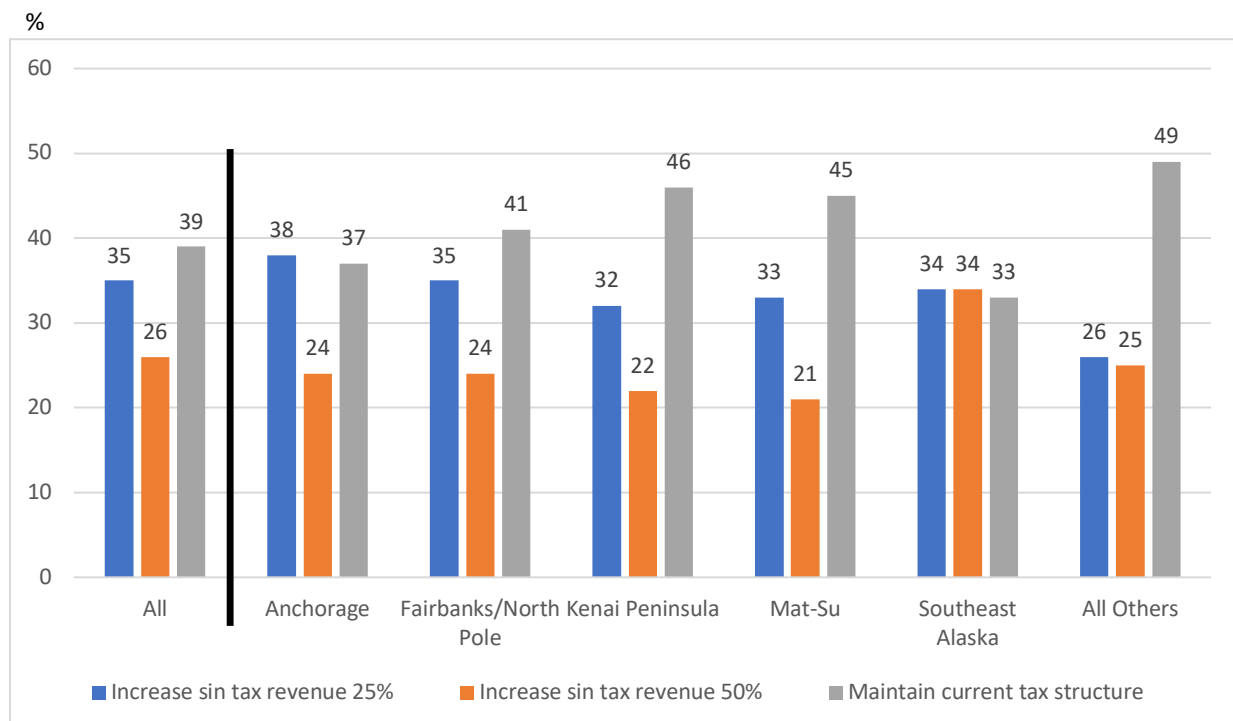
Given all that is going on, now is not the time to raise taxes on one of the last things Alaskans are getting to enjoy!

Revenue Choices

- Increase revenue from sin taxes 25% ~ Make \$31 million
- Increase revenue from sin taxes 50% ~ Make 62 million
- Maintain current tax structure ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Revenue: Fuel Taxes

The state's fuel taxes will raise \$43 million this year. The highway fuel tax is \$0.08 per gallon; marine is \$0.05/gallon; and aviation gasoline is \$0.047/gallon. Airport fuel revenue goes to fund airports; marine fuel tax revenue helps fund harbors; and highway taxes go to the Department of Transportation. Alaska has the lowest motor fuel taxes in the United States.

On One Hand . . .

This is a user fee. Those that drive, fly, and boat should pay more.

On the Other Hand . . .

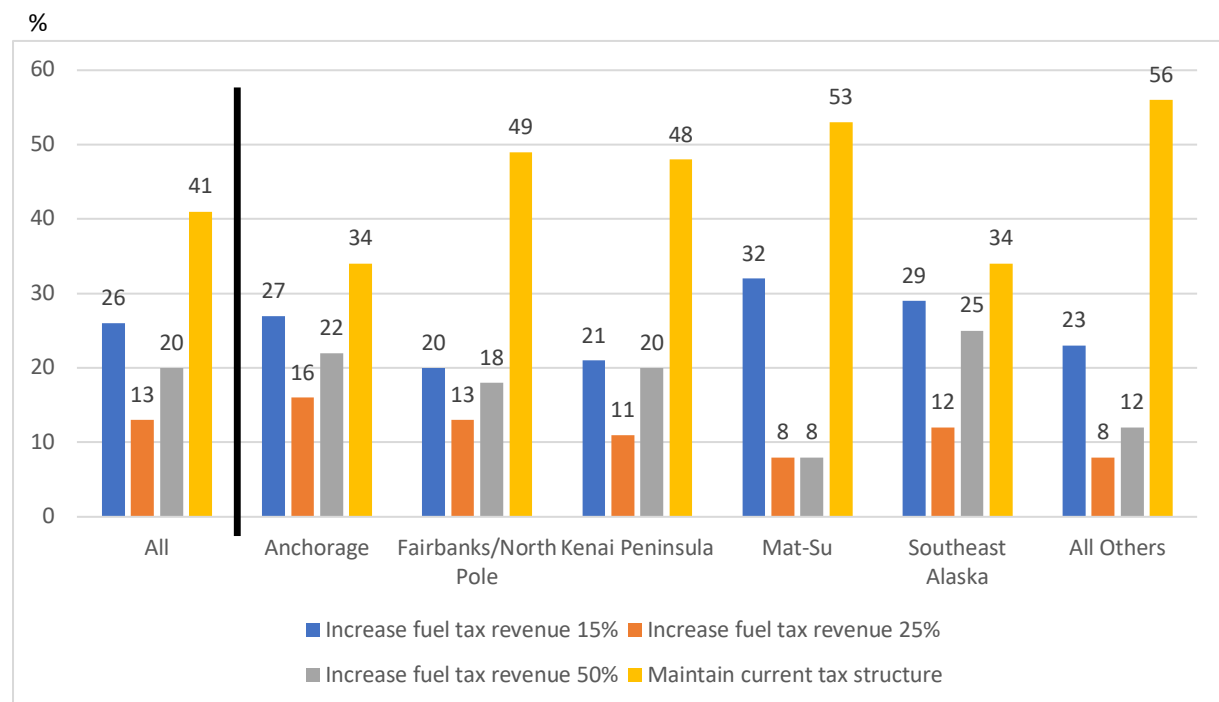
These are regressive taxes; this is no time to increase a tax that will touch the pocketbook of all Alaskans, especially low-income families.

Revenue Choices

- Increase revenue from fuel taxes 15% ~ Make \$6 million
- Increase revenue from fuel taxes 25% ~ Make \$31 million
- Increase revenue from fuel taxes 50% ~ Make \$62 million
- Maintain current tax structure ~ No change

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Revenue: Permanent Fund Earnings

The Alaska Permanent Fund has grown to a value of \$66 billion. A 2018 law prescribes how much of the Fund's earnings can be made available annually to help pay for state services and dividends. This law limits the annual amount to about 5% of its earnings, which is the amount financial experts said balances protection of the Fund's future earning power with helping meet the state's revenue needs. This year the payout was \$2.7 billion; next fiscal year it will be \$3 billion. Based on these commitments, the earnings reserve account will have an estimated balance remaining of \$5.3 billion. Every \$1 billion in earnings spent, means \$50 million less will be available each year going forward to help pay for services and dividends.

On One Hand . . .

The Fund was intended as a "rainy day fund" to help pay for state services; if ever there was a rainy day, it's now. The state really needs the money to pay dividends and services that only the state can provide.

On the Other Hand . . .

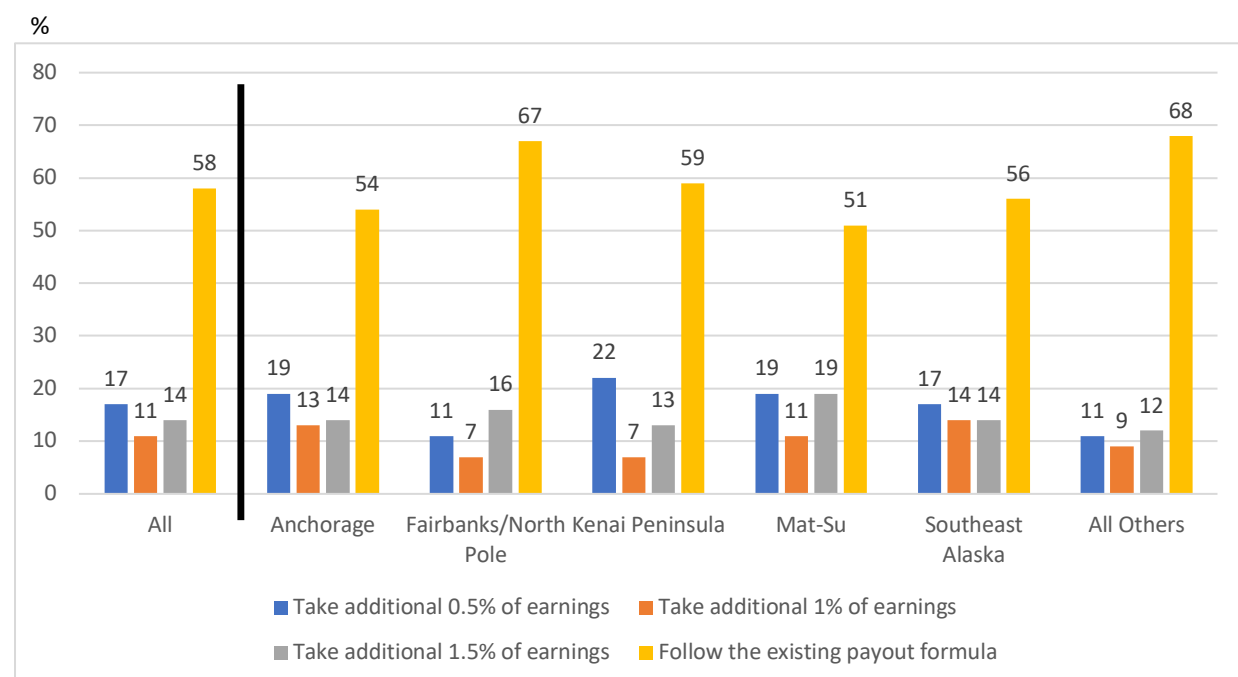
It's time Alaska learns to live within its means; increasing the payout just means more money to government and that's the last thing we need.

Revenue Choices

- Take additional 0.5% of earnings ~ Make \$300 million
- Take additional 1% of earnings ~ Make \$600 million
- Take additional 1.5% of earnings ~ Make \$900 million
- Follow existing payout formula ~ No additional revenue from earnings

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Revenue: Income Tax

Alaska repealed its income tax starting in 1979 when revenue from oil started flowing (at that time it had a progressive tax with brackets from 3 to 14.5%). Currently Alaska is one of seven states without an income tax.

A flat tax is a fixed rate in which everyone pays a percentage of their wage or net earnings (if self-employed). Nine states have a flat tax that ranges from 5.25% in North Carolina to 3.07% in Pennsylvania; the average is 4.49%. Because everyone pays the same percentage, this tax is viewed as regressive because it takes a larger percentage of a low wage earner's income compared to high earners.

A progressive tax is based on the taxpayer's ability to pay. It imposes a lower tax rate on low-income earners than on those with a higher income by creating tax brackets based on income ranges; some states tie the rate to that of a taxpayer's Federal income tax liability.

On One Hand . . .

If Alaska has to have an income tax, a progressive tax is more fair because lower income workers pay less in taxes as a percentage of their income than higher income workers.

On the Other Hand . . .

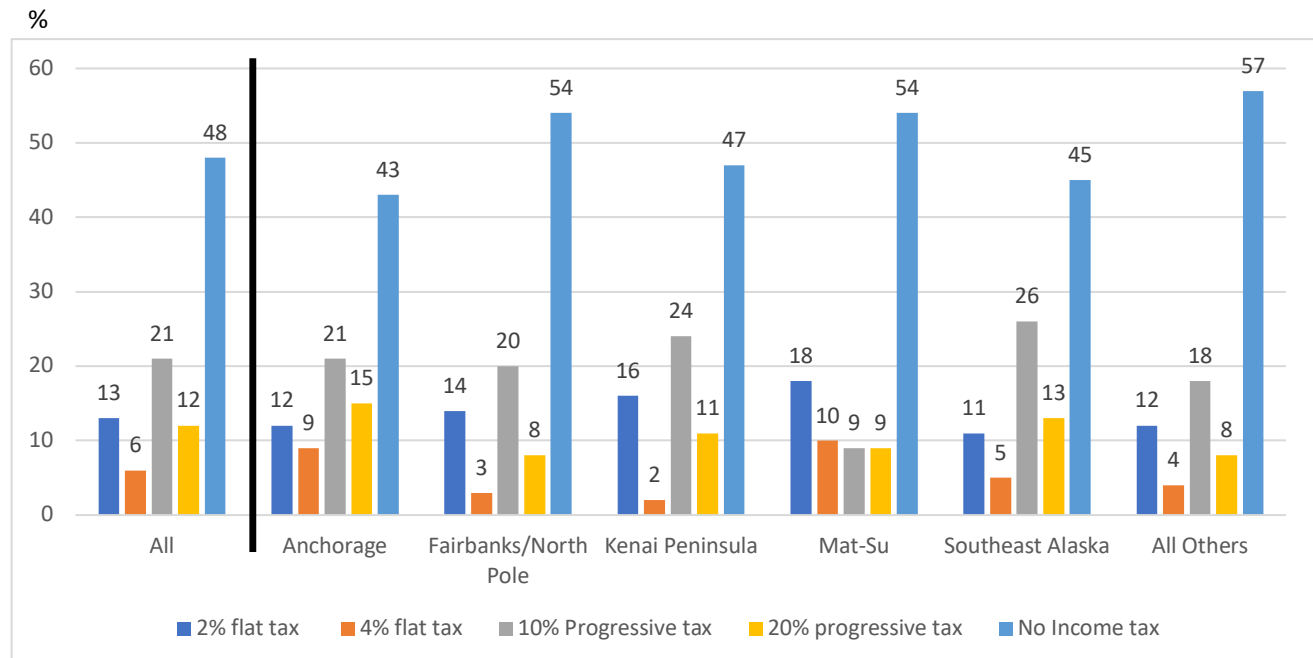
If you give government more money, all we're going to get is more government; we need to keep their hand out of our pockets.

Revenue Choices

- Flat tax 2% with no exemptions ~ Make \$440 million
- Flat tax 4% with no exemptions ~ Make \$880 million
- Progressive tax 10% of Federal tax liability ~ Make \$350 million
- Progressive tax 20% of Federal tax liability ~ Make \$700 million

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Revenue: Sales Tax

Some consider a sales tax a more transparent way for government to collect tax revenue because consumers anticipate and see taxes paid as they purchase goods and services. If the tax applies to all purchases (no exemptions), it is viewed as “regressive” since low income families pay a greater percentage of their income. A total of 45 states have a sales tax in place, with rates from 2.9-7.25%. While Alaska currently has no state sales tax, most local communities do, except for Anchorage and Fairbanks.

The revenue estimates below are for a broad sales tax on the purchase price of sales of goods and services to consumers and businesses with no exemptions.

On One Hand . . .

It’s about time everybody started paying something toward the cost of state services, and that includes tourists and out-of-state workers. At least this tax treats everybody the same; you pay based on what you consume.

On the Other Hand . . .

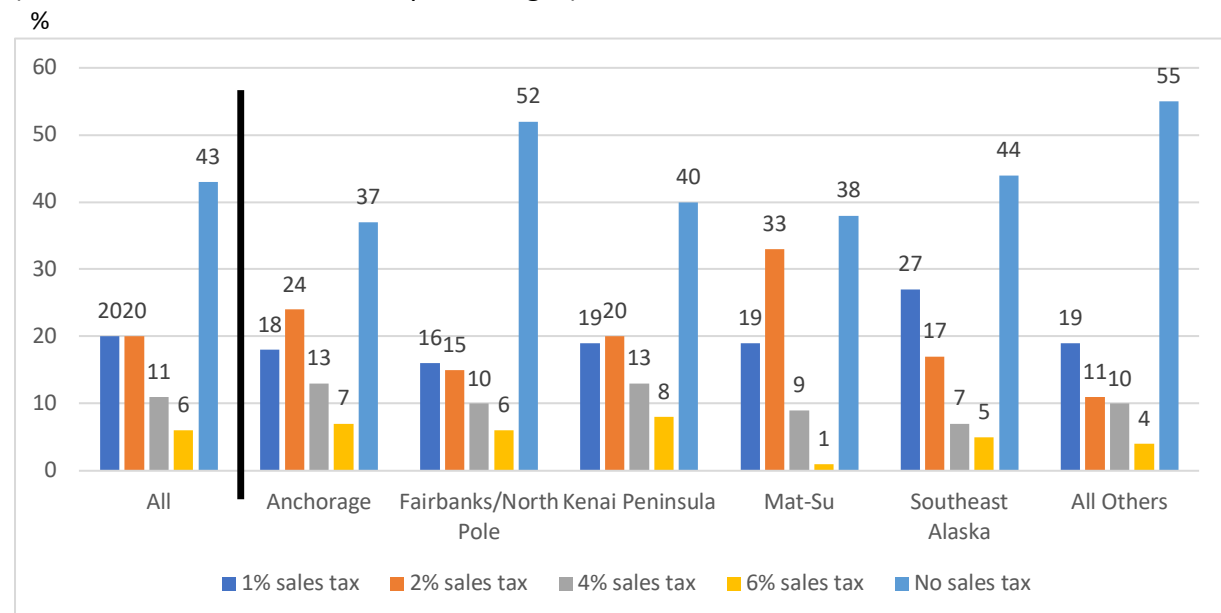
This isn’t fair for those communities that already have a sales tax and have been paying their own way all along. If the combined state and local rate goes too high, it could impact local businesses if residents can take their business elsewhere.

Revenue Choices

- 1% sales tax ~ Make \$250 million
- 2% sales tax ~ Make \$500 million
- 4% sales tax ~ Make \$1 billion
- 6% sales tax ~ Make \$1.5 billion
- No revenue from a sales tax

Choice Alaskans Are Making

(Numbers reflected below are percentages)



Revenue: Lottery

There's several ways the State can generate revenue from this form of gambling. A lottery that offers a drawing only (such as Lotto and Powerball) is estimated to generate about \$5 to \$8 million in revenue. A lottery with both a drawing and instant games (scratch-off) is estimated to generate about \$35 million; a lottery with drawing, instant games, as well as video lottery terminals (video gambling), is estimated to generate about \$135 million.

On One Hand . . .

It's about time the State got on the band wagon and allowed Alaskans to play these games of chance. It's a great way to get needed revenue to the state while giving Alaskans a chance to hit it big; what's not to like?

On the Other Hand . . .

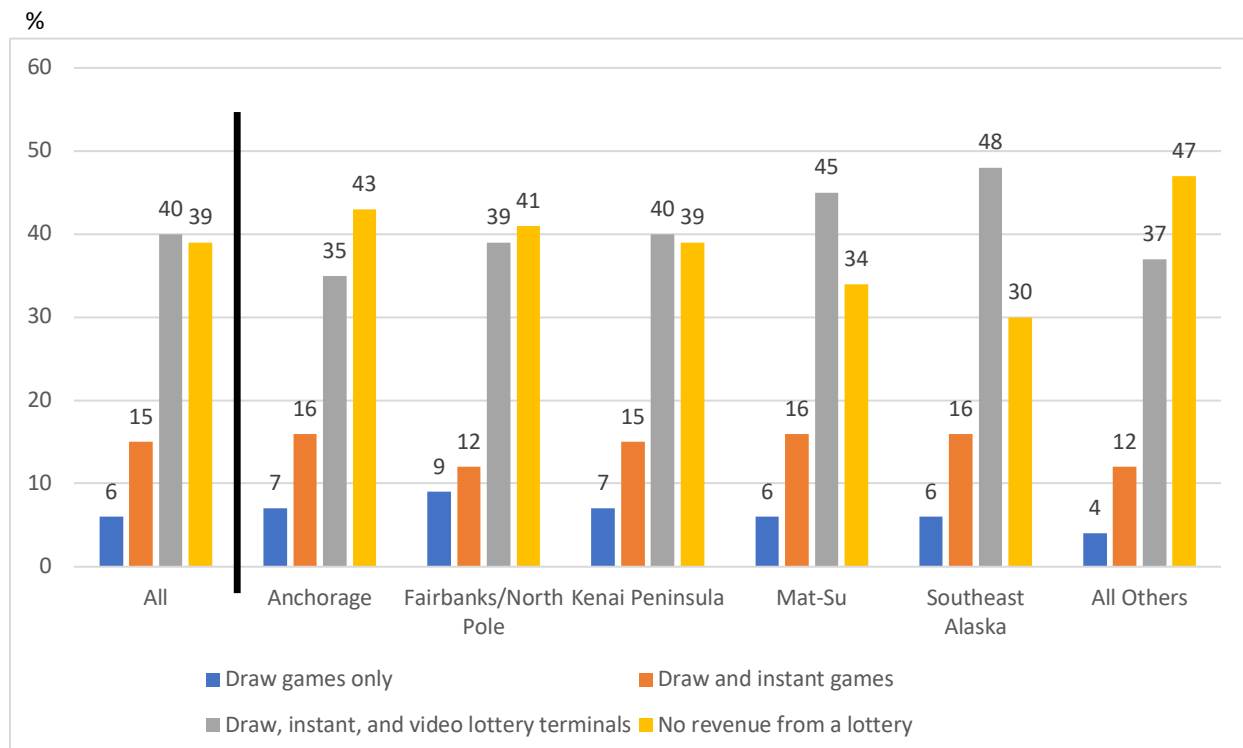
Not everyone has good judgment; there's those that can least afford to gamble that could get caught up trying to hit it big. Also, some communities and non-profits already use bingo and pulltabs to pay for programs; adding more options will reduce their revenue and create another set of problems.

Revenue Choices

- Draw games only ~ \$8 million in revenue
- Draw and instant games ~ \$35 million in revenue
- Draw and instant games and video terminals ~ \$135 million in revenue
- No revenue from a lottery ~ No additional revenue

Choice Alaskans Are Making

(Numbers reflected below are percentages)



About Commonwealth North

Commonwealth North's mission is to advance Alaskans understanding of significant public policy issues and assist in identifying effective solutions. In that process, CWN fills a unique, non-partisan niche that provides Alaskans with access to policy makers, frank dialogue, and continual civic engagement. We bring clarity to issues free from political bias, and advocate for thoughtful, deliberative development of public policy.

Governors Bill Egan and Walter Hickel founded the organization in 1979 to bring together Alaskans who cared about Alaska then and into its future. Having once been political opponents, they united to create a non-partisan environment that continues to bring together some of the most inspiring leaders and thinkers of the day; to study and explore the unique nature of Alaska; to wrestle with the toughest policy issues; and prepare Alaskans to step up to public service.

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