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ISER RESEARCH SUMMARY

Institute of Social and Economic Research, University of Alaska Anchorage Feb. 1989, R. S. No. 41

Where Have All The Billions Gone? – Part II

In the early 1980s, Alaska's legislators and administrators had the pleasant job of spending more and more oil revenue as it flooded into the state treasury. Over the past three years, they've faced the less enviable work of cutting the budget as oil income recedes. Which kinds of spending have declined and which have continued to grow even as low oil prices reduce state revenues?

This research summary updates a 1987 ISER publication that describes how Alaska spent its money during the first half of the 1980s, when high oil prices and the state government's ownership of the huge Prudhoe Bay oil field combined to bring the State of Alaska tens of billions of dollars.¹ This publication adds spending in fiscal 1987 and 1988 – the years since the crash and subsequent instability of oil prices.²

An important point to remember is that these figures include spending done with the state's own revenues and with federal grants.³ Federal aid is mainly restricted to transportation projects, welfare programs, and some education programs. The major – and the most volatile – part of state revenue is oil revenue.

Table 1 shows annual state spending by category from fiscal 1979 through 1988. Figure 1 shows how much spending in each category increased from 1980 to the peak in the mid-1980s, and how much each has declined since. Figure 2 illustrates how the patterns of state spending looked before the advent of big oil revenues, during the boom, and after the crash.

Changes in State Spending, 1986-1988

• *Money for construction projects and special transfers to public corporations, to loan funds, and to the Permanent Fund were the first things to be cut as revenues fell. (See Table 1 and Figure 1.)*

¹ "Where Have All the Billions Gone?" *Alaska Review of Social and Economic Conditions*, February 1987, Institute of Social and Economic Research, University of Alaska Anchorage.

² The current fiscal year is 1989; it will end June 30, 1989. Spending information for that year won't be available until December 1989.

³ In fiscal 1987 and 1988, the State of Alaska received \$456 million and \$443 million in federal grants-in-aid. Total general fund revenues for those years were \$2.3 billion and \$2.8 billion. Almost all spending described in this summary was done through the general fund; some education, transportation, and other spending came through special funds.

• *By fiscal 1988, state capital spending was less than one-quarter of what it had been in 1985 – and much of that capital money was federal aid for transportation projects. In the peak spending year of fiscal 1985, state agencies, municipalities, school districts, and the University of Alaska spent \$1.6 billion in state capital money, as compared with about \$400 million in fiscal 1988.*

• *Transfers to public corporations like the Alaska Housing Finance Corporation (AHFC) and the Alaska Power Authority (APA) all but disappeared in the past two years. The exception was \$50 million transferred to APA in fiscal 1988 for construction of the Bradley Lake dam. Such corporations received \$1.9 billion in state money between fiscal 1981 and 1986.*

• *State transfers to loan funds have dwindled sharply. The student loan program received the largest infusions of general fund money in the past two fiscal years – \$61 million in fiscal 1987 and \$15 million in 1988. The state legislature in 1988 reduced state spending for student loans by creating a corporation to raise loan money through bond sales.*

State loan programs got \$1.2 billion in general fund money from fiscal 1981 through 1986. The money that went to public corporations and loan funds in the early 1980s was not simply spent in the same way, for instance, that state operating money is spent. Much of the money was used to create assets and reserves that continue to be of significant economic value to the state; it's beyond the scope of this review to try to assess that value.

• *Special deposits – beyond those required by law – in the Permanent Fund were discontinued after 1985. Between fiscal 1981 and 1985, the legislature made \$2.7 billion in special deposits in the Permanent Fund. Those special deposits substantially increased the principal of the Permanent Fund and its earning potential.*

• *The heaviest percentage cuts in the state operating budget have been in revenue sharing and other aid to municipalities. Those appropriations have dropped steadily since fiscal 1985 and by 1988 were more than 30 percent less than they had been three years earlier: \$166 million as compared with \$112 million.*

● Some operations spending decreased between fiscal 1986 and 1987, and then increased in fiscal 1988. State agency spending and operating aid to schools increased about 5 percent between 1987 and 1988, and the appropriation for the University of Alaska increased about 1 percent.

● Despite the increases in 1988, spending for state agencies and for education remained below the 1986 highs. The biggest percentage cut after aid to municipalities was in operating money for the University of Alaska, which in fiscal 1988 was 14 percent less than it had been in 1986. Operating aid for Alaska's school districts—which includes the huge foundation program and other kinds of financial aid as well as reimbursement for school construction debt—was about 5 percent less in 1988 than it had been in 1986. Operating budgets of state agencies were down 7 percent from their 1986 levels.

● Cash payments to individuals, and in-kind benefits or services that have cash value to the recipients, have continued to grow throughout the 1980s. Those kinds of state spending—which we collectively call "distributions to individuals" in Table 1 and Figure 1—are of two kinds: those that are based on the need of the recipient, and those that are not. Those programs based on need include public assistance, Aid to Families with Dependent Children, Medicaid, and unemployment benefits. You would expect spending under such programs to increase during a recession, when more people are out of work. Medical costs have climbed rapidly in recent years, which also increases the costs of the Medicaid program.

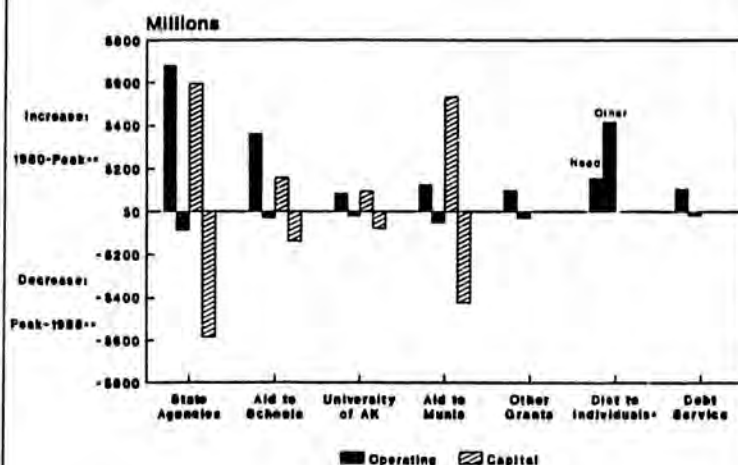
● Cash distributions unrelated to need have grown the fastest in the past two years. Spending for those programs has grown more than spending for welfare and unemployment programs in the past several years. (Figure 1.) The biggest of these is of course the Permanent Fund Dividend program, which in 1988 paid Alaskans \$375 million from the earnings of the Permanent Fund. A much smaller but still substantial distribution program is the Longevity Bonus program, which pays \$250 a month to all those over 65 who have lived in Alaska at least a year. That program paid out \$50 million in fiscal 1988. Another program that does not make payments to individuals but which has cash value to them is the Power Cost Equalization program, which subsidizes the cost of electricity for rural Alaskans. That program cost the state about \$15 million in fiscal 1988.

● Even taking inflation into account, state spending in fiscal 1988 was still nearly double spending in 1980. (See Table 1, last line, "Total Spending in 1988 \$.")

Spending Patterns, 1979-1988

● The distribution of state spending is becoming more like it was before 1981. (Figure 2.)

Figure 1. Growth and Decline of State Expenditures 1980-1988 (Dollar Change)



*Distributions to individuals based on need include primarily welfare and unemployment programs; other distributions include Permanent Fund Dividends, Longevity Bonus payments, and others.

**Most operating expenditures peaked in fiscal 1986, most capital expenditures in fiscal 1985. Distributions to individuals have increased throughout the 1980s and therefore show no decline.

o Special spending made up about 11 percent of state spending in fiscal 1987 and 1988—but almost all that special spending consisted of Permanent Fund dividends. If we exclude Permanent Fund dividends, which didn't exist before fiscal 1983, special spending in recent years would be just about the same as it was in 1979 and 1980—less than one percent of total spending. During the years of high revenues, special spending made up 30 percent of total spending. (We define special spending as spending for items outside traditional government functions—transfers to public corporations and loan funds, extra deposits in the Permanent Fund, large one-time expenditures, and Permanent fund dividend payments.)

o State agencies accounted for about 40 percent of total spending in fiscal 1987 and 1988. Between fiscal 1981 and 1986, when special spending was soaring, spending by state agencies themselves accounted for only about 30 percent of total spending. In 1979 and 1980, before the advent of big oil revenues, state agency spending made up more than half of all spending.

o Aid to municipalities—both operating and capital—is on the decline. It made up 8 percent of state spending in the two most recent fiscal years, as compared with 11 percent between 1981 and 1986. Still, aid to municipalities remains almost three times higher than it was at the start of the 1980s, when it made up just 3 percent of state spending.

Table 1
State Expenditures,^a Standard and Special, FY 1979-1988
(Operating and Capital, \$millions)

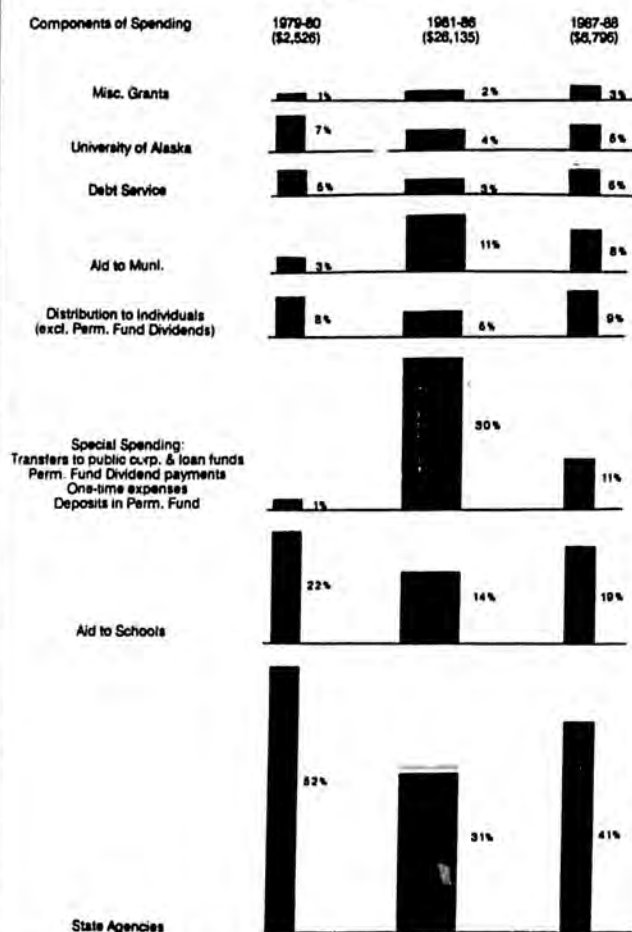
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
State Agencies^b										
Operating	\$431	\$493	\$647	\$868	\$996	\$1041	\$1146	\$1175	\$1033	\$1089
Capital	152	226	295	251	293	289	820	416	399	234
Total	\$583	\$719	\$942	\$1119	\$1289	\$1330	\$1966	\$1591	\$1432	\$1323
Aid to Schools^b										
Foundation Program	181	205	255	345	409	423	467	492	415	437
Bond Debt Reimb.	22	24	38	38	56	90	93	106	116	109
Other Financial Support	52	54	52	62	62	66	54	46	53	66
Capital Aid	15	7	28	65	42	76	164	48	45	26
Total	\$270	\$290	\$373	\$510	\$569	\$655	\$778	\$692	\$629	\$638
University of Alaska^b										
Operating	75	86	108	128	148	158	168	169	144	146
Capital	8	6	8	19	26	49	101	46	11	22
Total	\$83	\$92	\$116	\$147	\$174	\$207	\$269	\$215	\$155	\$168
Aid to Municipalities^b										
Operating	32	41	117	164	166	166	166	155	121	112
Capital	4	6	89	310	347	353	539	257	208	116
Total	\$36	\$47	\$206	\$474	\$513	\$519	\$705	\$412	\$329	\$228
Other Grants & Programs^b	\$18	\$16	\$23	\$69	\$74	\$84	\$116	\$99	\$86	\$86
Transfers to and Other GF Expenditures for Public Corporations^c										
APA	--	--	14	120	196	137	95	173	5	61
AHFC	4	4	557	265	150	--	--	--	--	--
AIDA	--	--	173	9	22	1	1	1	1	1
Alaska Railroad	--	--	--	--	--	--	35	--	--	--
Total	\$5	\$12	\$768	\$395	\$369	\$140	\$135	\$175	\$6	\$62
Loan Fund Transfers^c										
Enterprise	4	15	145	236	66	205	330	76	61	18
Other	--	--	96	4	--	--	2	2	--	--
Total	\$4	\$15	\$240	\$240	\$66	\$205	\$332	\$78	\$61	\$18
Distrib. to Individuals Perm. Fund Dividends^c										
Other ^b	99	107	143	177	189	231	279	294	292	305
Total	\$99	\$107	\$143	\$177	\$667	\$418	\$439	\$504	\$587	\$680
Deposits in Perm. Fund & Other GF Expenditures for Permanent Fund^c	--	--	\$900	\$801	\$402	\$303	\$301	\$3	\$3	\$4
Debt Service^b	\$60	\$70	\$97	\$94	\$143	\$166	\$175	\$164	\$162	\$157
One-Time Expenditures^b										
ANCSA Payment			293							
Rainy Day Acct			350							
Income Tax Refund & Other Refunds			162	4	5	2	1	2		
Other					\$40				<1	
Total			\$805	\$4	\$45	\$2	\$1	\$2	<1	
Total Spending (current \$)	\$1158	\$1368	\$4613	\$4030	\$4311	\$4029	\$5217	\$3935	\$3450	\$3364
Total Spending (1988 \$)	\$1619	\$1735	\$5416	\$4484	\$4711	\$4231	\$5348	\$3958	\$3456	\$3364

^aConsists almost entirely of general fund expenditures. Includes some transportation and education expenditures from other funds. Includes expenditures made with the state's own revenues and federal revenues the state receives.

^bStandard expenditures are spending for traditional government functions.

^cSpecial expenditures include spending for items outside the usual kinds of government spending.

Figure 2
Percentage Distribution of State Spending in the 1980s
 (Combined Operating & Capital in \$ Millions)



● *Aid to schools, by contrast, rose as a proportion of total spending in 1987 and 1988. It made up 19 percent of spending in the most recent years, as compared with 14 percent in the first half of the 1980s. This doesn't mean that the amount of state money going to school districts was shrinking during the years of high spending—quite the opposite was true. What it means is that as overall spending increased and new kinds of spending were added, the very substantial state aid to schools made up a smaller proportion. The State of Alaska has always provided big support for education; in 1979 and 1980, aid to schools made up 22 percent of state spending.*

● *State money for the University of Alaska moved up to 5 percent of total spending in the past two fiscal years. That compares with 4 percent in the years of high revenues. Nevertheless, state spending for the university remained below the 7 percent of total spending it had been at the start of the 1980s.*

● *Grants to non-profit organizations and others have increased steadily as a share of state spending in the 1980s. Such grants increased from 1 percent in 1979 and 1980 to 2 percent in the mid-1980s and 3 percent in the most recent fiscal years.*

Editor's note: More detailed information on state spending is available from ISER. Call 786-7710 or write ISER at the address below and ask for the technical appendix to this Research Summary.

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