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. 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 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. 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. (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.

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 $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.

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4 Figures do not include spending for Permanent Fund dividends. 5 Adjusted 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.
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.

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