Alaska's $3,000,000,000 (Billion) Annual Deficit

Six Points

by former Alaska Senator Joe Paskvan

September 23, 2015

1. Raising $3+ billion in taxes from sources other than oil taxes is nearly impossible.
2. Even at current low oil prices, revenue to Alaska from oil should be $1b to $1.5b more per year. We are living on ACES and dying under SB21
3. We cannot cut $3b from Alaska's operating budget
4. Only about $6 billion in Permanent Fund Earnings Reserve is available for future appropriations- 7/31/2015 Alaska Permanent Fund Accounting
5. The Statutory Budget Reserve has been spent and the Constitutional Budget Reserve will likely be spent by 2018/2019
6. We must be cautious on expecting revenues from the proposed export gas line and revenues from that gas line

Point 1

Raising $3+ billion in taxes from sources other than oil taxes is nearly impossible to raise.

- Alaska's population is about 736,000 and there are many special interest groups within the 736,000 Alaskans
    - Personal income is about $37 billion/year
- Alaska is least taxed state of the 50 states- broad based taxes
    - Analysis of personal income taxes, general sales taxes, selective sales taxes and license fees
    - Average Alaskan pays the State of Alaska a little over $500/year
    - In the United State, the average citizen pays their state over $2000/yr-$2,400 (Revenue Commissioner's slide 17)

Focus on potential of several options for revenue to state:

- Cap dividend at $1200 – raises about $600m
- Alcohol taxes at 10 cents/drink raises $20m
- Mining tax add 3% of net raises $19m
- Double motor fuels tax raises $40m
- State income tax at 15% of federal raises $525m - $550m
    - Do all of the above raises about $1.2b
    - $2b short of balancing the $3b deficit
- Need over $100/bbl oil price under SB21 to balance: unlikely
- In next 3 – 5 years; some say unlikely in next 10 years

Point 2

Even at current low oil prices, revenue to Alaska from oil should be $1 b to $1.5b more per year

- We are living on ACES and dying under SB21
- Tax system is unbalanced— it needs to change
- Need to change to gross tax and eliminate net tax
- Alaska pays at low oil dollars under current net tax but has no reward at high oil dollars – this must change
- A gross tax system without credits should be in place

- In North Dakota and Texas- significantly higher royalty is paid than paid in Alaska
  - Alaska royalty is 12.5%; North Dakota and Texas has royalties as much as double
  - in North Dakota, the higher royalty is for unconventional oil
  - Alaska's royalty is lower on conventional oil—this is backwards
- A fair production tax without credits could give Alaska, even at current low prices, $1b in additional revenue
  - Again-- this would be a gross tax system--- vast majority of jurisdictions in the world and in the United States use gross taxation
  - Gets rid of lawyers/accountants and extensive auditing required with a net tax system
  - And--removes the negative tax effect: Ken Alper, Deputy Commissioner of Revenue speaks to this.
  - Under SB 21, it is absurd to have a negative tax

Point 3

Cannot cut $3b from Alaska's operating budget

- K–12 Education budget totals about $1.3b/year now. Health and social services totals about $1.2b. Those two departments alone comprise about 60% of the total state operating budget
- All other departments: DOT, Corrections, Judiciary, Public Safety, Fish and Game, Law, Military and Veterans Affairs total about 40%
- To cut $500m operating budget would result in significant economic impact upon Alaska.
  - Cutting will occur, but how much blood will be in the streets?
- To cut $1b from the operating budget would result in massive economic impact across Alaska – a staggering economic contraction
  - Institute of Social and Economic Research at UAA estimates for each $1b loss, 9,000 jobs go away
- Added to cuts to operating budget, the loss of capital budgets are likely will result in loss of thousands of construction workers—as many as 15,000 full time job equivalents.
  - Capital budget projects take years from appropriation to actual construction

Alaska is living on ACES; dying under SB21

- When capital project inventory is gone, the jobs will go. Alaska has not yet felt the full impact of this loss of capital budget monies. The lag time from appropriation to construction is still feeding projects to Alaska's workers.
- Going forward, the only capital budget monies will be federal dollars with the minimum necessary matching State of Alaska dollars.
  - Capital budgets will be about $1b and not $3b/year. Alaska will have road building but almost no other capital monies for maintenance, or local roads or other monies.
- Loss going forward of: a) $1.5b/year in capital budget and b) $1b in operating budget would mean, according to iser, loss of 20,000 – 25,000 jobs
- This would have a long term and intense negative impact upon this state
- To avoid a problem of this magnitude, oil taxes must be examined as part of Alaska's fiscal stability.

Point 4

Only about $6b in permanent fund earnings reserve available for future appropriations [7/31/2015—Alaska Permanent Fund Accounting]

There is about $52b in the entire fund. The vast majority, about $ 45b- is classified as "non-spendable"

- The Permanent fund Earnings Reserve is classified as "assigned for future appropriations" and that is about $6b
  - We need the Earnings Reserve to pay full Permanent Fund Dividend
  - Without the Earnings Reserve there will be no Permanent Fund Dividend
- If we still have a deficit and the Constitutional Budget Reserve is spent [by 2018/2019], Permanent Fund Earnings Reserve will be spent by the Legislature
- There will have to be a discussion about what would occur after the $6b Permanent Fund Earnings Reserve are gone and Alaska still has a deficit

Point 5

Statutory budget reserve has been spent and constitutional budget reserve will likely be spent by 2019 – not too far in the distance.

- It was not too long ago, Alaska had about $18b in saving in addition to the Permanent Fund itself
- Those savings are vanishing at a mind boggling rate of $3b to $4b/year
- Savings now equals about $7b
- Fiscal year 2015 ended 6/30/15 with a loss of $4b
- Fiscal Year 2016 (start 7/1/15) estimates a loss of $ 3b at $60/bbl oil price.
  - current price is $50/bbl (barrel)

- When both statutory and constitutional budget reserves are gone, it will be necessary to access the Permanent fund Earnings Reserve
- Those Permanent Fund earnings reserve will only sustain for a couple of years
- Recognize also that there still remains a most sizeable unfunded liability with the PERS/TERS system

Point 6

Caution is urged on the Liquefied Natural Gas (LNG) 800 mile Gas Line Project

- We all have been hearing about large diameter gas line for decades. If successful, 2024 is probably the earliest revenue will accrue to the State of Alaska.
- Alaskans should consider that gas does not bring in revenue like oil can bring in revenue. We need to be cautious in overselling the benefits
- Alaskans must hope there remains a window of opportunity for an Alaskan large diameter export project
  - The AGIA gas pipeline project to the Lower 48 was crushed and has been since 2008 with horizontal drilling and fracking technology now used in the Lower 48. North America does not need Alaska's natural gas.
- With shale gas resources in Lower 48- North America is not a market for Alaska gas, likely for decades
- International LNG projects are stuck at $7 to $8/mmbtu for demand and in $12/mmbtu range for supply cost
  - The demand is the price paid by consumer
  - The supply is the project cost paid by seller
- There is a decoupling of LNG contract pricing from oil pricing; this has produced spot pricing for natural gas in Asia
- Japanese market is primary focus for Alaska LNG
- Alaska is looking at Japan's long range need for a stable LNG supply following Fukishima earthquake -- part of its shift from nuclear power to LNG
- Alaska needs to find buyers of 2.5 to 3bcf/day who will pay sufficient price for profit to the Alaska LNG project
- Alaska needs a profitable export project for revenues, not just an export project
- We need to be cautious as to anticipating the LNG project and revenues to the State of Alaska

Conclusion

- ❖ Oil taxation change must be part of Alaska's fiscal stability.