Resource Development Council

Growing Alaska Through Responsible Resource Development

Alaska's Fiscal Crisis

For more than 20 years, RDC has advocated for a long-term fiscal plan, including efforts to limit Unrestricted General Fund spending to a sustainable level, support some use of the Permanent Fund earnings as part of a fiscal plan, and tax policy and incentives that encourage future investment in Alaska's resource industries.

The state's operating budget is on an unsustainable path. Unrestricted General Fund spending has increased 230 percent in 10 years while revenues have fallen.

In a January 2015 poll, 57% of Alaskans said the state should live within its means.

State budget reserves should be used to aid in the transition to a sustainable budget.

New taxes on Alaska industries, while politically easier, risk shrinking our economy, making the long-term revenue picture darker. We need to incentivize economic growth and business investment, which will grow the revenue pie for Alaska.

By increasing taxes on Alaska's resource industries to offset unsustainable spending, the state risks driving new investment and jobs away from Alaska.

Alaska's oil and gas, mining, tourism, fishing and forest industries already account for more than 90 percent of Alaska's General Fund revenues. The mining industry is the largest revenue producer for the Northwest Arctic Borough, and the largest payer of property taxes in the Fairbanks North Star Borough, and the City and Borough of Juneau. The oil industry is the largest property tax payer in the North Slope Borough.

Current Tax Policy

Alaska cannot increase oil production by increasing taxes.

SB 21, the current oil production tax system, is not the cause of our fiscal crisis. Low oil prices, a long-term steep decline in production, and unsustainable state spending are the root causes of today's budget problem.

SB 21 is already bringing in more revenue at current prices than ACES, the previous regime. Because of its higher base tax rate, the new tax law will generate almost $1 billion more in two years at current prices than ACES would have.

At $60 per barrel, under the SB 21 tax policy, total state, federal, and local property taxes take 75 percent of the value of a barrel of oil. The producers take home 25% of the value of a barrel of oil. Alaska is still getting a majority share of the value of our oil.

Tax Credits

Tax credits are still wise policy and are working as intended to attract new and small oil companies to Alaska, while leading to billions in investment. Credits are working in the Cook Inlet, where new companies lured to Alaska by the Cook Inlet Recovery Act have increased oil production 80 percent since 2010.

Many projects on the North Slope and Cook Inlet are moving forward because of tax credits, which are the seed to future production, state revenue, and deposits to the Permanent Fund.

Alaska's current tax system is a major reason Repsol is moving forward with a potentially large discovery on the North Slope which could add tens of thousands of barrels a day into TAPS.

Alaska is receiving more in TOTAL oil revenues than it is paying in credits.

Industry does not receive any credit without real money being spent first. A company must earn credit by first spending millions of dollars to explore, develop and produce oil on exploration or development work that qualifies for a credit.

Tax credits that are being paid out now are primarily received by Cook Inlet producers and small North Slope producers and explorers. Since 2010, when those credits took effect, Cook Inlet production is up 80 percent.

Eliminating tax credits would jeopardize future investments and production, especially by new and smaller companies that have entered the Cook Inlet and North Slope regions.

Permanent Fund Earnings

Permanent Fund earnings need to be part of a long-term, sustainable solution to Alaska's fiscal situation. There is nothing in state law that that prohibits these earnings from being used to support essential services.

Governor Hammond's vision for the Permanent Fund included the eventual use of the fund's earnings to help pay for essential government services. With oil revenues resetting to new, lower levels, the time has come to use some of the earnings to fund services.

Alaska is like a two income household – revenues from its resources and returns on financial investments.

The Governor's own presentation from bond rating agencies on Wall Street assumes availability of Permanent Fund earnings.

Budget cuts and taxes cannot bridge the fiscal gap, Alaska needs to use Permanent Fund earnings, but only in a sustainable manner.

More than $60 billion in financial accounts now generates more income for the state than oil production. Yet we continue to rely mostly on current oil revenues to pay for public services.

University of Alaska economist Scott Goldsmith has proposed using both current revenues and earnings from the state's portfolio of assets to pay for public services.

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