Alaska’s Budget: Where the Money Came From and Went, 1990-2002

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Alaska’s state budget increased from $4.1 billion in 1990 to $7.4 billion in 2002. But who paid for that budget growth? We know the state’s oil revenues dropped by about half in the past decade—crushing big holes in the budget—and Alaska has no personal income or other broad-based taxes.

Keep in mind that the state has several sources of money, although oil revenue has been the single biggest state source for 20 years. Fees, interest income, and non-oil taxes also pay for some spending. So does the federal government.

The budget deficits are in the unrestricted General Fund, which is financed mostly by oil revenue—but oil revenue is down, because oil production is half what it used to be. Savings from an account called the Constitutional Budget Reserve covered $5 billion in deficits since 1990. The state kept deficits from being even larger by cutting or at least holding steady General Fund revenues for programs ranging from resource management to municipal revenue sharing. But what about the $3.3 billion in budget growth from 1990 to 2002?

• More than half the budget growth was in federal money, which pays just for designated expenses.
• Nearly 20 percent of growth was from Permanent Fund earnings, used to pay dividends and protect the fund from inflation.
• The remaining 30 percent of growth was financed by other state sources, especially fees from people and businesses and higher earnings of AHFCand other public corporations.

Those changes in sources of money also meant changes in spending patterns in the past decade:

• Programs driven by population growth and inflation, like aid to schools and Medicaid, garnered a bigger share of unrestricted General Fund revenue.
• Many programs came to rely more on federal funds—which the state has less flexibility in spending.
• Many programs became more self-supporting—paying more of their costs with fees. Examples range from Public Benefits to the University of Alaska to fish and game programs.
• Total spending for most programs grew, despite tight General Fund revenues, because of growing fees or federal funds. But some—like highway maintenance—saw little change, because they rely largely on General Fund revenues but are not tied to population-based formulas.

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• And if we take inflation and population growth into account, spending from state money sources dropped about 10 percent for every Alaskan from 1990 to 2002. But real per capita spending from federal funds leaped 150 percent.
• The state created many new funds outside the unrestricted General Fund. At least $325 million spent from new funds in 2002 would have come from the unrestricted General Fund in 1990. People disagree about why those new funds were created (see page 4), but an important reason was to minimize growth in the part of the budget that has deficits.
• About 48 percent of the increased spending from 1990 to 2002 went to operating costs, 34 percent to capital costs, and 18 percent to Permanent Fund dividends and inflation protection.

These are our main findings about how the state budget changed between 1990 and 2002. The back page details some of those changes. Pages 2 and 3 describe the budget as of 2002: where all the money came from and went.

This paper is just descriptive: we don’t mean to imply that particular changes were good or bad, or that some programs got too much or not enough money. It’s part of a larger effort to help Alaskans understand the budget (see box above).