

Muddling Through: Alaska's Budget Process in 2021

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Abstract

In 2021, the State of Alaska faced substantial challenges due to the public health and economic impacts of COVID-19. COVID damaged Alaska's state revenues by driving down global oil prices. COVID also harmed the state's economy more broadly, with substantial impacts on some extractive industries and tourism. However, Alaska's budgetary problems—high expenditures and low revenues—long predate COVID and are related to Alaska's historical dependence on fossil fuel extraction for state revenue. Alaska's budget situation has improved somewhat through 2021 as oil prices have risen globally, though this may also complicate budgetary debates in Spring 2022.

Introduction

Like other states, Alaska's 2021 budgeting process was significantly impacted by the COVID-19 pandemic. Though COVID-19 is a new issue for the state (or, new since 2019) the impacts of the pandemic have highlighted and exacerbated existing budgetary dynamics in Alaska. In particular, COVID-19 greatly impacted Alaska's tax revenues by driving down tax receipts on oil and the oil industry, a revenue source the state is greatly dependent upon. The state's broader economy was also deeply damaged; but because Alaska lacks broadly-based statewide taxes like sales taxes or income taxes, the economic slowdown did not impact the state government budget except through the state's oil tax revenues.

As with years past, Alaska's 2021 budget debates have been driven by controversies over revenue sources. With continued low oil prices and declining oil production, the state has been left with a large gap between tax revenues and expenditures. For the past several years, Alaska has filled this gap by spending from its reserve fund earnings, which are substantial. Although some actors—notably Alaska governor Mike Dunleavy (R)—oppose this approach, the state will continue this practice for Fiscal Year (FY) 2022 because alternatives—very large budget cuts; borrowing; statewide sales, income, or property taxes; or spending reserve fund principal—are even more politically unpopular.

Going forward, oil prices have risen somewhat since the end of the Alaskan legislative session in May 2021. Though higher oil prices may help to cushion the state somewhat from continued low revenues, they may also make it more difficult for politicians to resolve differences around spending and revenues in 2022 and beyond.

Alaska in Fiscal Year 2021

The COVID-19 pandemic was as significant an event in Alaska as elsewhere. Alaska's executive branch responded to the emergence of COVID cases in 2020 by resisting public health measures like mask mandates and arguing that restrictive health measures are largely the responsibility of local governments. Many local governments, meanwhile, argued that they lacked the constitutional authority to impose mask mandates and other public health measures and much of the state lacks local governments altogether (Herz 2021). The end result was that many parts of the state lacked the wherewithal to pursue meaningful public health measures. Perhaps as a result, the state was hit hard by the disease, with around 150,000 confirmed cases by November 2021 (in a state with a population around 730,000) with the greatest impacts in Anchorage and surrounding areas and in some rural communities.

On the other hand, Alaska's conservative governor did not attempt to preempt local public health measures, which meant that impacts in some parts of the state had been relatively mild; Juneau, for example, energetically implemented public health measures like a mask mandate early on, and consequently experienced lower case rates. In addition, some rural communities have benefitted from remoteness and have had few or no cases (Alaska Department of Health and Social Services 2021; Juneau 2021). In one notable case, the isolated Southeast Alaska community of Pelican on Chichagof Island, with a population of around 70 residents, seems to have benefitted from substantial cuts to state ferry service in the last several years. While the community was upset to learn they would not receive any ferry service for several months in winter 2020, the gap in ferry service coincided with the late-2020 nationwide spike in cases and likely that gap in ferry service helped to protect the community from the first spike in COVID cases in Fall 2020 and Spring 2021 (Associated Press 2021).

In contrast to the state government's lethargic public health response to the pandemic, Alaska's vaccination rollout was the fastest in the United States, with over 30% of the state's population receiving their first dose by late March, 2021 (Alaska Department of Health and Social Services 2021). Early concerns about the difficulties of vaccination in Alaska's remote, rural communities were unfounded, and problems with vaccine dissemination were quickly overcome (Povich 2021)—instead, differential rates of vaccination across the state showed that the largest barrier to vaccination efforts is vaccine skepticism in conservative communities on the Alaska road system (Alaska Department of Health and Social Services 2021).

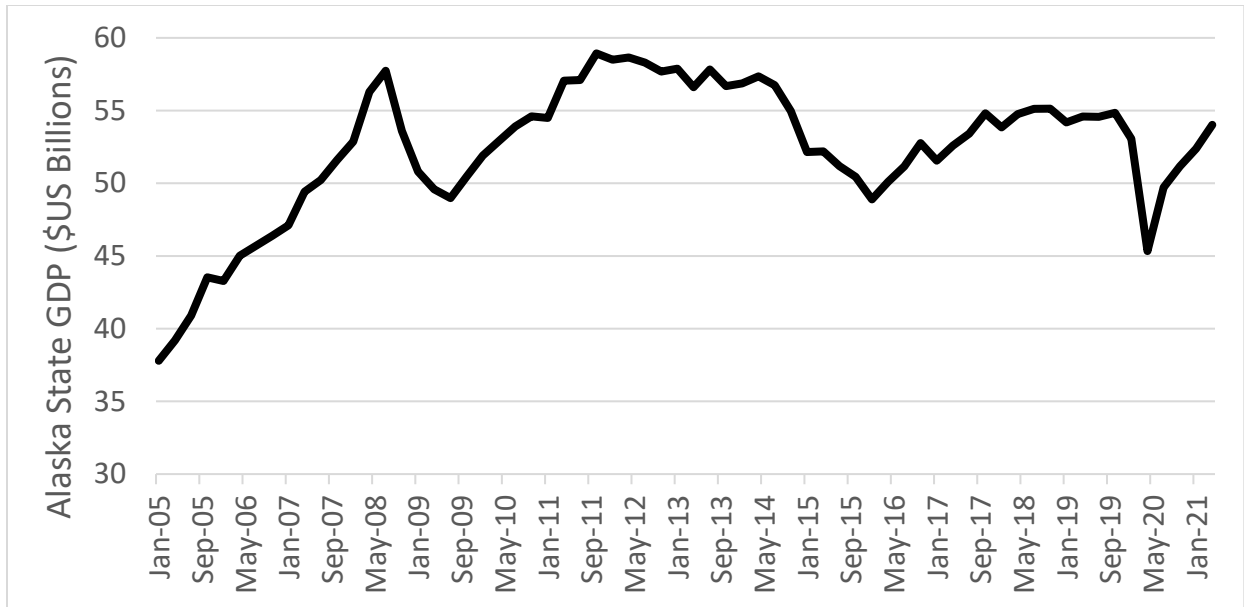


Figure 1: Alaska GDP. Recent declines in oil prices and production have not been associated with large declines in state GDP, likely due to the buffering effects of state government spending. However, the COVID-19 pandemic significantly reduced Alaska’s GDP in 2020¹. Nominal US Dollars.

Alaska’s vaccination efforts were assisted by Native Alaskan tribal health providers who cooperated very effectively with local and state governments to vaccinate both Alaska Native and non-Native demographics. Because of Alaska’s relatively large indigenous population, the state received more vaccine doses in Spring 2021 than other states relative to the small population. Tribal vaccination processes have also been fast and efficient (Lester 2021).

As in other states, the COVID-19 pandemic caused a great deal of harm to Alaska’s economy and to the state government budget. Figure 1 shows how the state’s economy has mostly been relatively resilient to declines in oil prices and production since 2014. However, the pandemic caused a substantial, though apparently short-lived drop in economic activity. The state’s unemployment figures—compared to US unemployment in Figure 2—show that Alaska, like the US as a whole, experienced dramatic increases in unemployment in 2020. In Alaska, unemployment peaked somewhat lower than in the US as a whole and, like the rest of the US, declined relatively quickly once the economy began to reopen.

However, because Alaska lacks broadly backed taxes such as sales, income or property taxes, the state’s recession in 2020 impacts state budgeting primarily through COVID’s impact on global oil prices, not through local effects on the state’s economy.

¹ Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/>. Retrieved Nov. 24, 2021.

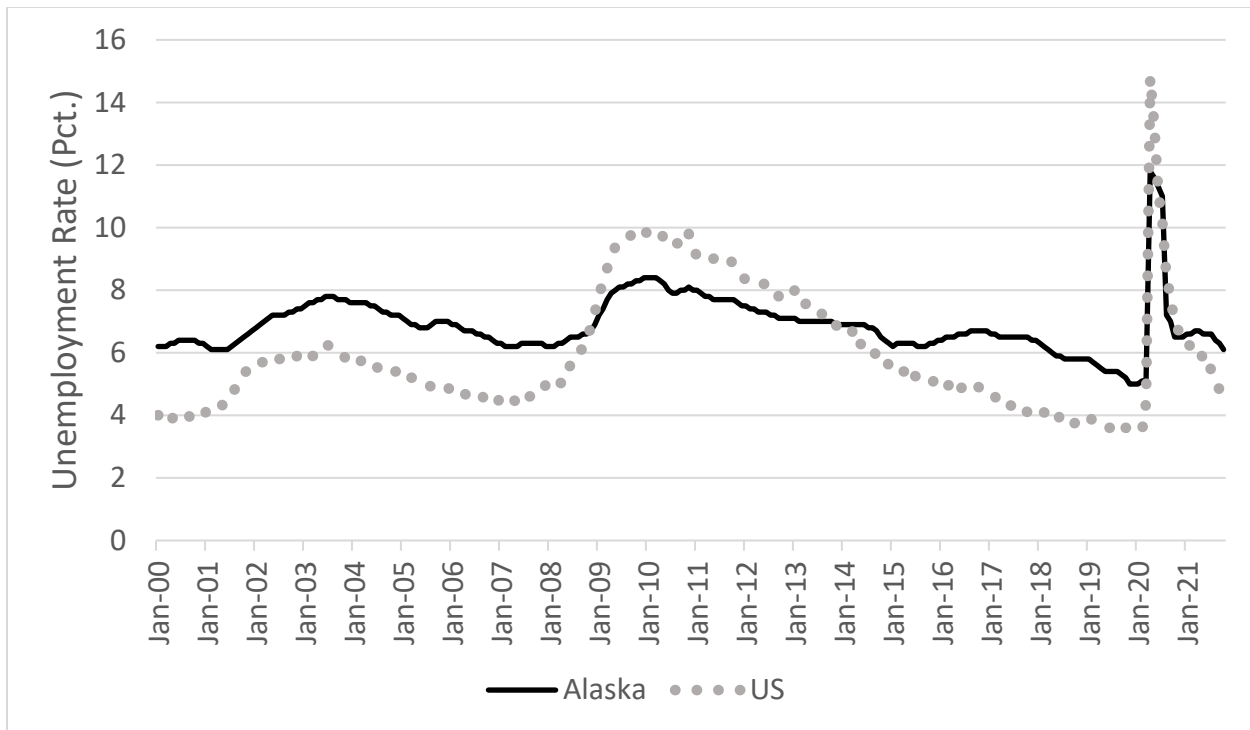


Figure 2: Unemployment Rate in Alaska and the US. In 2020, the COVID-19 pandemic dramatically increased unemployment in Alaska in the same way it increased unemployment in the United States more broadly.

Oil: Low prices and possible moderate increases

After the Trans-Alaska Pipeline System began moving oil from the Alaska North Slope in 1977, oil revenues quickly became the most important source of revenue for the State of Alaska, often around 90% of the state’s tax revenues. Because of the state’s reliance on oil for its tax revenues, Alaska’s budget expands when oil prices and oil production are high, and when production and prices are low the state government’s revenues and expenditures contract. Alaska has experienced three periods of contraction since oil became an important driver of the state’s government finances. The first of these (and by far the most dramatic) was in the late 1980s, the second was in the 1990s, and the third started in 2014 (Wright and Hazelton 2017).

While prices for Alaska’s oil varies, they remain much too low to balance Alaska’s state government budget at current levels of spending. In the last year, as a result of the COVID-19 pandemic, global oil prices dropped to their lowest level in over 20 years, to about \$12/barrel. Though prices and resulting state tax revenues have recovered somewhat since then, oil prices remain comparatively low, with spot prices around \$83/barrel in late November 2021.

More important (and, for Alaskans, more worrying) has been a long-term production decline on Alaska’s North Slope; Alaska North Slope crude production peaked in 1988 and has been in decline ever since. While oil producers have discovered significant new deposits on Alaska’s North Slope in the last few years, it is unlikely that Alaskan oil production will rise much above the current level—around 25% of the 1988 peak (see Figure 3). Some Alaskans had hoped that the recent opening of the Alaska National Wildlife Refuge (ANWR) to oil leasing would create additional increases in Alaska oil production but these hopes appear to have been illusory, as no

major oil producers placed bids on ANWR oil leases in the Bureau of Land Management’s 2021 oil lease auction (Bureau of Land Management 2021; Hanlon and Herz 2021).

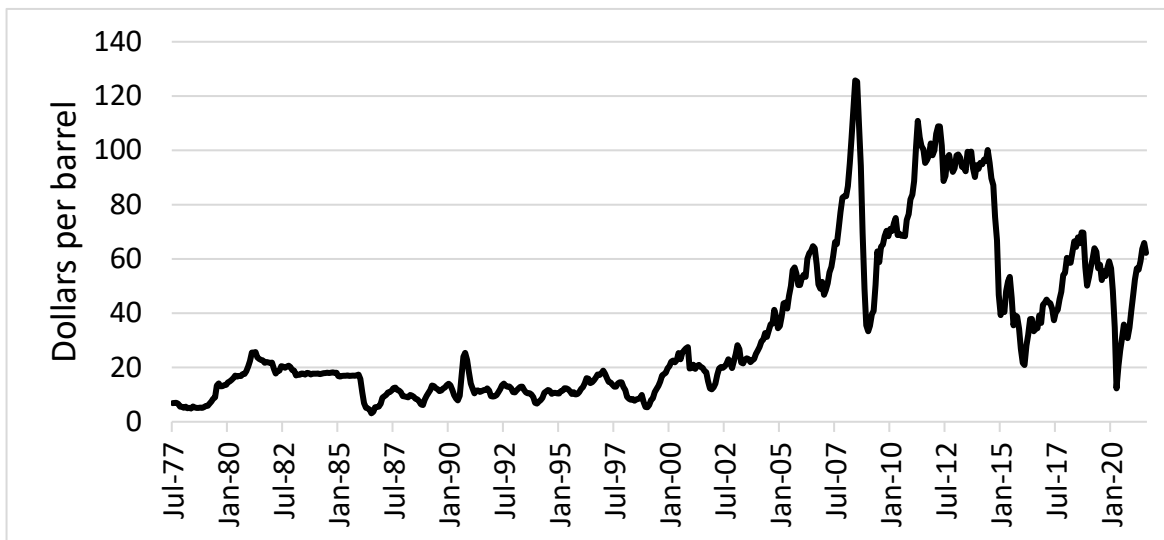


Figure 3: Alaska North Slope Crude First Purchase Price per Barrel, Monthly Average, Nominal US dollars. Between 2002 and 2014, rising and high oil prices masked Alaska’s oil production decline. However, since 2014, dramatic declines in the price of Alaska North Slope crude (and global oil prices) have cut deeply into Alaska’s tax revenues.²

Because the State of Alaska lacks other major sources of revenue—such as an income, property, or sales tax—the decline in oil production combined with relatively low oil prices has led to substantially smaller state revenues since 2014. Since 2014, the state’s biggest political question has been: Given lower revenues from oil, how will the state government balance its budget?

Other Resource Extraction

Historically, Alaska’s economy has been based on natural resource extraction, including timber, fish and mining. However, timber is no longer a major contributor to the state’s GDP. Mining and fishing are still important industries in Alaska but contribute little to state revenues.

As recently as the 1990s, timber harvest was a mainstay of Alaska’s economy, although large-scale forestry was largely limited to Southeast Alaska. In the 1990s, however, several changes led to the collapse of the timber industry in Alaska (Beier, Lovcraft, and Stuart Chapin 2009). Today, timber is no longer a significant employer in any part of the state and does not contribute in a meaningful way to state revenues. The recent repeal of the “roadless rule”—the ban on new road construction in National forests—gave hope to some advocates of a larger Alaska timber industry (Murkowski 2020). However, the ban is being re-imposed under the Biden administration. In any event, the reemergence of timber as an economic force is unlikely given changing global markets, historical over-harvest in Southeast Alaska, and the decline of Federal government subsidies to Alaskan timber firms (Mackovjak 2010).

² US Energy Information Administration. <https://www.eia.gov/> Retrieved March 23, 2021.

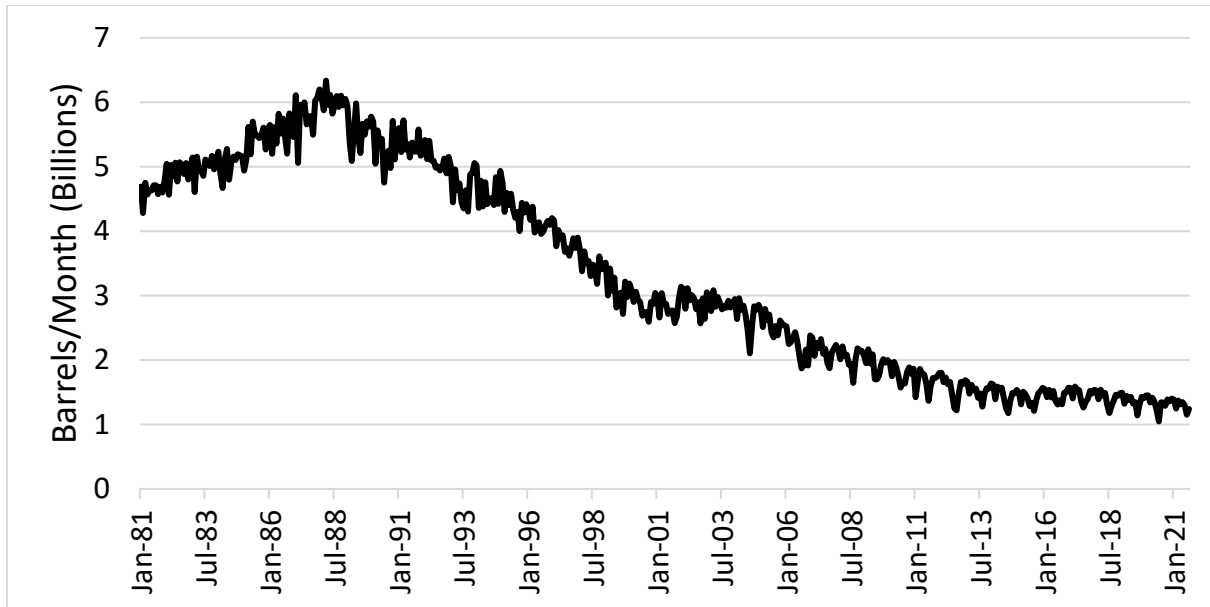


Figure 4: Alaska North Slope Oil Production. Oil production in Alaska has been on the decline for more than three decades and is currently about a quarter of peak production in 1988³.

In general, Alaska’s commercial and sport-fishing industries are healthy. In 2020 (the most recent year for which data is available), the value of commercial fisheries landings were the lowest in a decade. However, both the volume and value of commercial fish harvest remain substantially higher than in prior periods⁴. Conservationists and fishers have expressed concern about particular species in some watersheds, notably Halibut in Southeast Alaska and King Salmon on the Yukon River (Earl 2020; Rosen 2020), but fisheries remain an important employer in Alaska and contribute much to the state’s economy, especially locally in some coastal areas such as Southeast Alaska, Bristol Bay and Prince William Sound. Regardless, fishing contributes little to state government revenues—Alaska generates only around 6.5% of its revenue from taxes on fisheries⁵.

Tourism

Tourism has historically been a very important part of Alaska’s economy, although it contributes little to state government revenues. In 2020, however, tourism to Alaska was almost completely absent as a result of the COVID-19 pandemic, and the 2021 tourism season was also curtailed.

Cruises to Alaska—the largest source of tax revenue in tourism for the state—were cancelled entirely in 2020, causing great financial harm to many communities in Southeast Alaska. The cruise season for 2021 was greatly improved but started quite late, for reasons related to COVID; until summer 2021, the US-Canada border was largely closed to travelers (Stremple 2021a).

³ US Energy Information Administration. <https://www.eia.gov/> Retrieved March 23, 2021.

⁴ National Marine Fisheries Service Commercial Landings data. <https://www.st.nmfs.noaa.gov>. Retrieved Nov. 24, 2021.

⁵ Here, “fisheries” is defined broadly, to include most taxes on the seafood industry and commercial and sport fishery taxes and fees. Data from <http://www.tax.alaska.gov/programs/programs/reports/>. Retrieved March 23, 2021.

This is a problem for the Alaska cruise industry because under Federal law—specifically, the Jones act and Passenger Vessel Services Act (PVSA)—non-US flagged vessels cannot carry cargo or passengers between US ports. Most cruise ships in US waters are not US flagged (many carry Liberian or Panamanian flags of convenience), but the cruise industry typically finds its way around PVSA rules by scheduling short stops in Canada, typically in Prince Rupert, British Columbia. With the border closed, such a stop was not possible. In order to re-open the cruise industry in Alaska, the Alaska congressional delegation sponsored legislation in April 2021 which created a temporary exemption from the PVSA for Alaska-bound cruises (Brooks 2021e; Stremple 2021b; Yeginsu 2021). The end result was a short though lucrative cruise season, and the cruise industry retains great hope for a booming 2022 cruise season (Maguire 2021).

For purposes of state budgeting, however, low cruise ship visitation is not an important issue. Cruise ship visitors pay a state head tax of around \$32 per person on commercial passenger ships with more than 250 berths, and around 33% on income from gambling aboard passenger vessels. However, the legislation under which these taxes were passed specifies that most of these revenues are transferred to municipalities to provide services to the cruise industry, and the State of Alaska only generated about \$2.5 million from head taxes in 2017, a strong year for cruise tourism (Alaska Department of Revenue 2021). Other state revenues from tourism are larger, including revenue from the Alaska Railroad, the state ferry system, vehicle rental taxes, and other taxes. Some of these revenues are rebounded somewhat in 2021 as travelers began to return to the state, but even so, total state revenues from tourism are not a significant proportion of Alaska's state government budget.

The Permanent Fund and Other Reserves

Although Alaska is not unique among the states in its ownership of sovereign wealth funds, Alaska's investment funds are uniquely large. The most well-known of Alaska's several investment funds, the Alaska Permanent Fund, is currently valued at roughly \$81 billion⁶. The second-largest, the Constitutional Budget Reserve (CBR) was once substantial as well, but spending has depleted the fund's balance, from around \$12 billion in 2013 to about \$1 billion in 2021 (see Figure 5).

The Alaska Permanent Fund

For the last several years, earnings from Alaska's Permanent Fund and CBR have been greater than revenues from taxes on oil, and the state's Permanent Fund earnings have been an important source of revenue for the state budget for several years. Before 2014, Alaska used investment earnings from the Permanent Fund exclusively to pay Alaska's famous Permanent Fund Dividend (PFD) check, a payment paid equally to all Alaska residents annually, typically in early October. However, for the last several years, Alaska has drawn on the investment earnings from the Permanent Fund, and, to a lesser extent, the CBR to fund government programs and infrastructure. One result has been lower dividends; PFD checks have been around \$1200 per person for each of the last several years but if the state was not reliant on Permanent Fund earnings revenue, dividends would otherwise have been more than twice as large.

⁶ Real-time data on the Permanent Fund is available at apfc.org. This figure retrieved on Nov. 24, 2021.

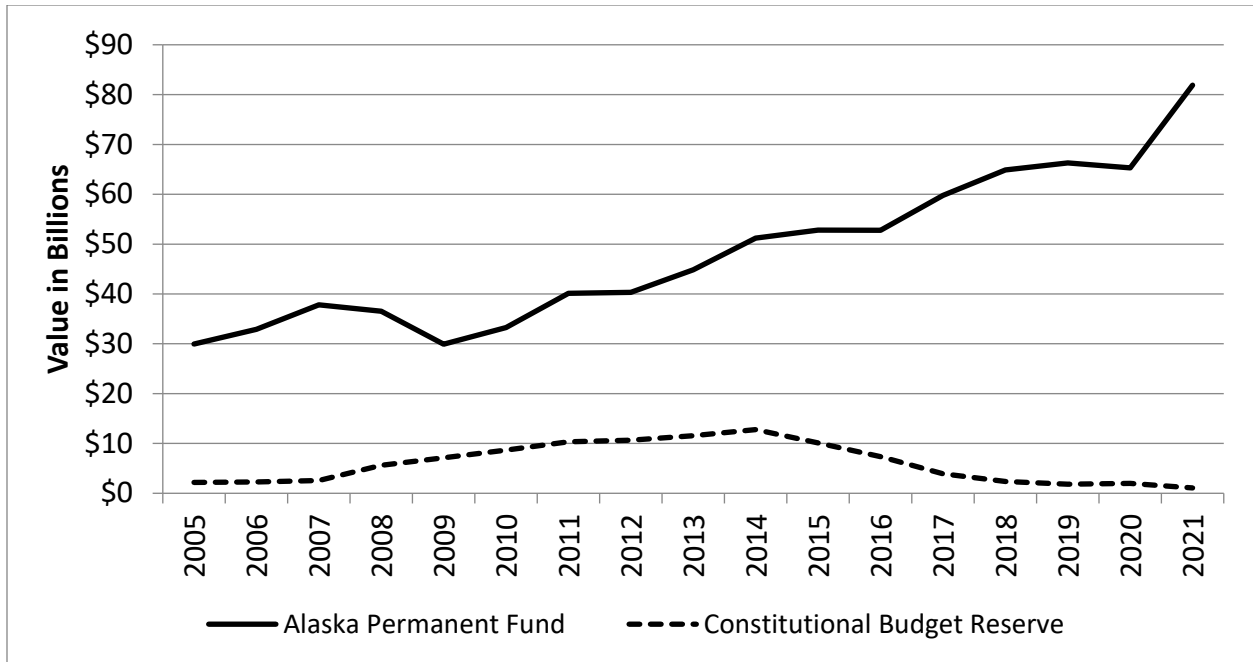


Figure 5: Alaska’s Sovereign Wealth Funds. While Alaska’s Constitutional Budget Reserve has been depleted by repeated large draws since 2014 and an inability to effectively invest fund principal, the Permanent Fund has continued to grow, albeit with some stagnation in 2019 and 2020. In 2021, the value of the fund averaged around \$84 billion, though the current value in November 2021 is somewhat lower, around \$80 billion⁷. Nominal US dollars.

Although the principal of the Permanent Fund is protected in Alaska’s Constitution, there is no restriction on the legislature’s ability to use fund earnings. On the other hand, the Permanent Fund dividend is very popular, and is viewed as an entitlement by many Alaskans (Goldsmith 2012b). Arguably, this is consistent with the goals of the dividend program—some have argued that the PFD was primarily a tool to create a constituency which would fight to protect the permanent fund (Hammond 2012). Certainly, the permanent fund dividend has been fabulously successful if this was the goal (Goldsmith 2012a). Although the fund is under-researched, there is also some evidence that it has a stimulatory effect on Alaska’s economy and is an important factor in reducing economic inequality in Alaska, which is currently the lowest of any state. Recent work also strongly suggests that the PFD has significantly reduced poverty in Alaska. Consequently, many state politicians fear the political and macroeconomic consequences of reducing or eliminating the dividend by spending fund earnings (Berman and Reamey 2016).

Benefits of a large PFD notwithstanding, the legislature has drawn on Permanent Fund earnings to fill the state’s deficit for the last several years, withdrawing a given percentage of the fund’s value each year to pay for state government projects and operations (several years ago the legislature enacted into statute a proposal to withdraw 5.25% of the fund’s value each year). The remainder of the state’s budget expenses have been largely paid for with a combination of taxes on oil and federal government transfers (Groh 2019).

⁷ Data from the Alaska Permanent Fund Corporation, apfc.gov, and the Alaska Department of Revenue, treasury.dor.alaska.gov/Investments/Constitutional-Budget-Reserve.aspx. Accessed March 21, 2021.

As noted above, the other use of the Alaska Permanent Fund has been to fund Permanent Fund Dividend (PFD) checks which are distributed equally to most Alaskan residents, typically in October of each year. The PFD program is one which is enormously popular in Alaska and many Alaskans, including politicians in both major parties, are strongly protective of PFDs. Although the state government's use of Permanent Fund revenues to fund government operations have not eliminated PFD checks—in the last several years, PFDs have been around \$1200—checks would be closer to \$3000 per person if the state was not relying on the permanent fund as a source of government funding. Unsurprisingly, many Alaskans prefer the larger amount and are unconvinced that the benefits of a smaller dividend are worth the cost.

Alaska's governor, Mike Dunleavy, has advocated for a larger PFD, though his proposals on how to fund government if the state does not use permanent fund earnings are—to put it mildly—controversial. For example, during the Spring 2021 budget cycle, the governor's budget submitted to the legislature called for a roughly \$5000 PFD which would be paid for in part by funding government with a large draw on the constitutionally-unprotected portion of the principal of the Alaska Permanent Fund (Brehmer 2021b); notably, the governor has elsewhere expressed public opposition to most other forms of revenue generation including broadly-based taxes such as an income or sales tax or increased taxes on the oil industry.

Although Dunleavy is a conservative Republican, advocacy for a larger PFD is not limited to the Republican party in Alaska; several prominent Democrats also advocate for a larger dividend check, typically arguing that budgetary deficits should be paid for by increasing taxes on the oil industry. These seem to be minority positions, however, and most of the state's legislators in both parties seem to support the use of Permanent Fund earnings to fund government, if only as a way to postpone the imposition of taxes.

Unsurprising, then, that Alaska's FY 2022 budget again funds Alaska's large gap between tax revenues and expenditures with a draw from Permanent Fund earnings, significantly supplemented by revenue from the Federal government. Indeed, although debates over the future of the Permanent Fund will no doubt continue into the foreseeable future, it seems unlikely that the state will return to the pre-2015 methods of funding state government almost exclusively from oil taxes, but neither will we soon implement broadly-based taxes such as income, property, or sales taxes.

The Constitutional Budget Reserve

The second largest of Alaska's funds is the Constitutional Budget Reserve (CBR), which was a receptacle for surplus revenues from multi-state lawsuits against US tobacco firms and Alaska's lawsuit against Exxon-Mobil in the wake of the 1989 Exxon Valdez oil spill. The fund was created in 1990 and quickly depleted in the 1990s when the state used the fund to fill a deficit similar to the one Alaska faces today. However, when oil prices rose again in the mid-2000s, the state replenished the CBR with oil tax revenues. Alaska has used CBR funds to balance its budget most years since 2014. However, the CBR can only be spent with the approval of three quarters of each legislative chamber. In some years, this has given legislative minorities—who can withhold support for expenditures from the CBR—greater leverage over the budget than they would otherwise hold. Many years, this three quarters vote has been used by minorities to bargain for appropriations which would otherwise have been left out of the budget. In 2021, the legislature was unable to marshal the required three quarters vote in both chambers so the CBR

remained untouched for the moment. Unfortunately, because of the budgetary uncertainty of the last several years, the CBR—which is typically managed as a sovereign wealth fund—also remains uninvested and sits without earning significant revenue (Alaska Department of Revenue Treasury Division 2021).

Partisanship and Politics in 2021

A Controversial Governor

Alaska's current governor, Republican Mike Dunleavy, was elected in an unusual three-way gubernatorial race in 2018 in which he competed against Democratic former US Senator Mark Begich and Independent incumbent governor Bill Walker. In a two-way race, Walker might have beaten Dunleavy, but facing Dunleavy's challenge to his right and Begich's to his left as well as a late-breaking sexual harassment scandal in the Lieutenant Governor's office, Walker withdrew from the race late in the Fall and Dunleavy was victorious over the relatively unpopular Begich (Zak and Hanlon 2018).

Dunleavy's 2019 budget proposals were quite radical, including large cuts to most state agencies. The most notable of these budget reductions included the effective elimination of Alaska's state ferry system—often the only access for coastal communities off the road system—substantial reductions to the state's retirement home facilities (the so-called "Pioneer Homes"), and cuts to the University of Alaska system that would have likely led to the closure of several UA campuses (Brooks 2019b).

In the end, negotiations between the Governor and Legislature and the emergence of an energized gubernatorial recall campaign led to budgets in both 2019 and 2020 with substantial cuts to the University of Alaska (though much smaller cuts than Dunleavy initially proposed) but few other large cuts and significant increases in some areas, notably public safety (Brooks 2019a). The total size of Alaska's state government budget has remained largely unchanged despite ongoing divisive debates about revenues and expenditures. In 2021, Governor Dunleavy proposed a budget with few major changes in expenditures besides a proposal (only one of several over the last few years) to fund a large (roughly \$3000) PFD. The gubernatorial budget proposal would have paid for this large dividend by spending down some of the constitutionally unprotected portion of the Permanent Fund principal.

A Divided Legislature

Legislative elections in 2020 also led to interesting outcomes. 2020 primaries led to a rightward swing in the Alaska Republican party, with a number of conservative legislators replaced on the general election ticket by even more conservative candidates. (Brooks 2020). Some left-wing commentators feared that this presaged a rightward shift in the state's politics overall. However, in November 2020 the Republican party lost seats in the State House while Democrats retained their existing seats in the State Senate. The combination of a more conservative and fractious Republican party (especially in the Senate) and a smaller Republican caucus in the House likely led to a weakening of Republican bargaining power in the legislature overall.

Historically, both chambers of the Alaska legislature have tended to organize majorities by forming a binding caucus in which majority caucus members vote together on the floor on

procedural matters and also on budget bills, and in which disagreements are resolved in closed-door meetings. When majority legislators break with their caucus, especially on budget issues, they typically have been removed from the caucus, usually with a loss of committee seats, leadership positions, staff and office space. In 2020, however, conservative primary victories led to the election of several Republican legislators who ran on—among other issues—opposition to binding caucuses which presumably interfere with legislators’ ability to vote their conscience on some important issues. These victories did not endanger Republican control of the Senate, but did lead to a non-binding caucus, a so-called “caucus of equals” which permitted legislators to break with the majority on budgetary votes (Brooks 2021d). The result has been a much less businesslike chamber with more grandstanding and an usually circus-like atmosphere (Cole 2021). Lacking the tools to force caucus members to vote together, the Senate majority was likely in a substantially weaker negotiating position on budgetary issues vis a vis other actors involved in budget negotiations including the much smaller Democratic Senate minority.

Additionally, Republicans lost House seats in the general election, leading to a session of coalition control of the House of Representatives, though it took nearly 45 days for the House to organize a narrow, 21 seat (out of 40) Democratic-led majority which also includes four Independents and two moderate Republicans (Kitchenman 2021b). Such coalitions are not that unusual in Alaska—the State House was controlled by similar coalitions in 2017-2018 and 2019-2020 and the State Senate was controlled by a Democrat-led coalition (which included six Republicans and nine Democrats, 15 of 20 seats) between 2007 and 2012. The “Independent” members of the majority include two representatives who have long caucused with the Democrats: Dan Ortiz, who represents right-leaning Ketchikan in Southeast Alaska, a former timber town which now relies on fishing and cruise ship tourism, and Bryce Edgmon, who represents a district in rural Southwestern Alaska centered on Dillingham with a large Alaska Native population. Republican Louise Stutes from Kodiak Island has also long caucused with the Democrats in the House. She broke with House Republicans in 2017 to join a Democrat-led majority that, she felt, would better address the state’s budgetary issues and would support the state ferry system, then facing substantial cuts. More recent additions include Independent Calvin Schrage from Anchorage (who ran as the main alternative to a Republican nominee in the 2020 general election in a relatively conservative district), Kelly Merrick, a moderate Republican from Anchorage, and Josiah Patkotak, an Independent who ran in opposition to the Democratic party nominee in a predominantly Native district that contains Alaska’s North Slope and much of Northwestern Alaska, including the communities of Kotzebue and Utqiagvik.

Unlike the Senate Majority, the House Majority multi-party coalition is a binding caucus in the traditional Alaskan mold, and because House Majority leadership is able to use traditional incentives (committee membership and leadership, office space, promises of additional staff, etc.) to hold members to account, the House majority seemed better able to manage its disagreements privately than the Senate. As a result, House majority coalition leadership was apparently able to bargain in the budgeting process more effectively than Republican majority leadership in the Senate, the end result being a somewhat larger operating budget funded primarily through state investment earnings (i.e., Alaska Permanent Fund earnings).

COVID Impacts

The COVID-19 pandemic impacted Alaska’s budgetary politics indirectly and directly. Indirect effects have mostly been limited to the difficulties of holding an in-person legislative session in a

very small capitol building with poor ventilation while reducing risk of exposure to legislators and staff. Though a few positive diagnoses early in the legislative session slowed policy-making for the first few weeks of the session (Brooks 2021b), strong public health controls, including mandatory masking, daily questionnaires and temperature checks, and weekly COVID testing meant that, for the most part, the legislature operated relatively smoothly without too many major issues. The exception was the circus-like environment of the Senate judiciary committee, chaired by prominent anti-masker and vaccine denier Lora Reinbold, who used her committee as something of a bully pulpit for her beliefs. Reinbold was removed from her position as chair of the Senate Judiciary committee in April for using her position to spread COVID misinformation (Bohrer 2021) and she was briefly banned from the Capitol building in March for refusing to follow legislative public health protocols (Kitchenman 2021c). In addition, Reinbold was banned from flying as a passenger by Alaska Airlines, the only major airline which serves Juneau in the winter months. This led to her excusal from Fall special legislative sessions called by the governor (Brooks 2021c).

Perhaps the largest direct effects of COVID are related to Federal stimulus funding due the state through the American Rescue Plan (ARP), passed in March 2021. The state and local governments in Alaska expect to receive roughly \$1.3 billion, including about \$550 million targeted to primary and secondary schools, \$80 million to the Department of Health & Social Services, and another \$40 million for the University of Alaska system (Aina 2021). This is a significant amount for Alaska, equal to about 30% of the state's tax and investment revenues (i.e., excluding other Federal transfers), and these funds were truly essential to many local governments in Alaska, especially those impacted by the collapse of tourism in 2020. For example, the community of Skagway conventionally relies on cruise ship tourism for both its local economy and municipal tax revenue; among other impacts, COVID led to a roughly 95 percent decline in Skagway's local tax revenues for 2020 (Swasey 2021). It would be difficult, then, to exaggerate the beneficial effects of ARP monies for the City of Skagway and many other localities around the state.

A second issue which impacted the state's budget and economy relates to the state's public health disaster declaration. Like other states, Alaska declared a public health disaster in Spring 2020 in response to rising cases of COVID-19. This declaration, an executive action, was repeatedly renewed through the Summer and Fall while the legislature was out of session. With the legislature in session in January, however, the Governor and legislature agreed that the Governor lacked the authority to renew the declaration without legislative approval. Initially, because the State House lacked a functioning majority coalition, it was unable to act on proposed legislation, making the state ineligible to receive certain Federal funding streams. State and local testing requirements for inbound travelers are also not valid in the absence of a disaster declaration and some testing and vaccination sites were closed (Hollander 2021). After the House organized a majority, it passed disaster legislation originally authored by the executive branch. The senate, however, was unable to muster the needed votes in part because of opposition by the governor's office, which had changed tactics and announced opposition to its own disaster legislation roughly halfway through the session. The Governor's argument, in late Spring, was that COVID cases were low enough that a declaration was no longer necessary. The governor's office also argued that renewing the declaration will harm trust in government and the state's economy (Brooks 2021f). In the end, Alaska was forced to make do without a COVID disaster declaration through much of 2021.

The 2021 Budgeting Process

Each year, the legislature passes separate appropriations bills for operating expenses (recurring expenses) and capital expenses (one-time or short-term expenses). Typically, capital budget expenditures represent infrastructure development and maintenance. In 2021, Alaska's budget was passed through a surprisingly business-as-usual process with relatively little controversy. Major debates, as in past years, were around revenues and the size of the Permanent Fund Dividend. These debates stretched beyond the regular legislative session; the governor called four special legislative sessions in the summer and fall in an attempt to force the legislature to approve his plans for a larger dividend. Ultimately, the most consequential part of the budgeting process may have been the governor's shifting position on the dividend and permanent fund draw.

Operating Budget

For the Spring 2021 budgeting process, the Governor's office proposed an essentially flat budget with few large changes--small surprise, given conflicts over large budget cuts proposed in prior years and long periods of declining budgets. The total size of the operating budget was about \$51 million lower than the enacted budget for the previous year, though most major reductions are in special categories ("special appropriations"), outlined below. The total budget for agency operations increased about three percent for Fiscal Year (FY) 2022 under this proposal.

As in most states, Education, Health & Social Services and the University system are the three largest agencies by far. The FY 22 budget changes these very little, excepting a \$26 million cut to the University system. The reduction is on top of several years of substantial reductions that total about \$70 million to the University of Alaska under a "compact" agreement signed by the governor and University of Alaska Board of Regents in 2019. In subcommittee, the House of Representatives mostly reversed decrements to Education and Health & Social Services leading to an essentially flat budget bill, while the governor's proposals for reductions to the University were sustained. However, COVID stimulus funding substantially blunted the effects of these cuts.

Capital Budget

The enacted capital budget proposal was tiny, though somewhat larger than the last several years, totaling about \$1.9 billion. In such a small budget, there is little of great interest, though funding for water and public sewage in rural areas, airport runway upgrades and other small items are no doubt of great importance to some small communities around the state.

Other Notable Proposals

Governor Dunleavy also introduced a number of proposals to change the state Constitution in ways that would change Alaska's processes of budgeting in important ways. These proposals received little attention, however. Proposals included requiring a statewide referendum on any new taxes or tax increases, protecting the formula for calculating Permanent Fund Dividends in the Constitution and requiring a referendum to make any changes to the PFD, imposing a spending cap on state budget, and creating a new reserve fund which would be easier to access

(i.e., would be accessible after a simple majority vote of the legislature rather than a supermajority) (Office of the Governor 2020).

The legislature failed to act on any of these proposals. In addition, by the end of the regular legislative session in April, the legislature had passed a budget which included funding for only a very small Permanent Fund Dividend (around \$500). Subsequently, the Governor called the legislature back into session four times for special sessions, calling for longer-term fiscal planning and changes to the Permanent Fund Dividend. Ultimately, the legislature compromised on a roughly \$1100 dividend (Brehmer 2021c), but argued that the governor's other fiscal proposals were not sustainable without new taxes. Without a proposal for a sales or income tax, the legislature was reluctant to increase the dividend further (Brooks 2021a).

The legislature was not supportive of other gubernatorial proposals, and although it developed its own working group in an attempt to generate some consensus around the revenue issue, no consensus was forthcoming and the special sessions achieved little besides the compromise measure on the PFD (Brehmer 2021a; Kitchenman 2021a). One little-noticed development of note was that the Governor's position shifted from prior years; initially, Dunleavy called for a "full statutory PFD"—in other words, a Permanent Fund Dividend derived from a statutory formula that dates to the early 1980s. Under this formula, the contemporary PFD would be around \$3000. By October, however, the Governor's position had shifted to a compromise "50/50" proposal in which half the permanent fund draw in any given fiscal year would be used to fund government (Brehmer 2021a).

New Challenges Highlight Ongoing Controversies

In many ways, the debate over Alaska's budgetary issues has changed very little since 2019. Alaska's government spending far exceeds revenue from taxation. To balance the state budget, Alaska has drawn from reserve funds and sovereign wealth fund earnings, but this solution is controversial. Alternatives, however, like income taxes or draconian cuts, are not politically feasible for the moment.

In 2021, the State of Alaska passed a budget with very few deviations from the previous year's budget, funded largely by taxes on oil and investment revenue, though supplemented with federal COVID relief monies. The PFD remained a topic of contention. Notably, however, calls for very large PFDs have been somewhat muted and even the Governor—among the most fervent advocates of large dividends—has accepted that most state revenue will now be drawn from earnings from Alaska's sovereign wealth funds, most notably the Permanent Fund.

Going forward, debate over revenues will of course continue. It seems unlikely, though, that Alaskan politicians will seek to impose broadly-based taxes, efforts to impose dramatic budgets cuts in 2019 largely failed, and Alaska has wisely avoided bonding to fund operating expenses. The only remaining option seems to be the one the state has taken in the last several years. Therefore, it seems most likely Alaska will stay the course for the next several. One potential complication is the impact of oil prices, currently rising, which may increase pressure for larger dividends and make already-challenging budgetary decisions more difficult for politicians in 2022.

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