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—creating 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 AHFC and 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 Pioneers' Homes 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.

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).
The state spends money from its own sources (like taxes, fees, and investment earnings); from federal funds; and from earnings of the Permanent Fund. No matter where the money comes from, the Alaska Legislature has to approve spending it. The governor proposes budgets and can veto certain spending—but in the end the legislature alone approves spending.

The unrestricted General Fund is often referred to as the “state budget.” It pays for general costs. The state has the most discretion over this money, and there’s always debate about allocating it. Oil revenues pay most GF costs, but oil revenues are only about half what they were in the 1980s. So the state has had a fiscal gap for years and covered it by cutting some expenses and drawing from the Constitutional Budget Reserve (CBR), a special savings account. But the CBR no longer gets new deposits, and by the end of 2002 the state had spent about $5 billion of the CBR, with $2 billion remaining.

In 2002, a third of state spending from its own sources was in funds outside the unrestricted General Fund, up from 10 percent in 1990. This money comes from: (1) activities that support themselves, like the Anchorage and Fairbanks airports, or partly support themselves, like the ferry system; (2) earnings designated for managing the Permanent Fund and other trust funds; (3) income of state corporations (like AHFC) and foundations; and (4) one-time sources, like settlement money from the 1989 oil spill.

Federal funds help Alaska (and all other states) pay budget costs. But the state can only spend that money in specific ways: it can’t, for instance, use federal money to fill the fiscal gap. Federal money pays a share (sometimes almost all) of the costs of specific programs. It also pays a big percentage (the amount varies from year to year) of capital costs. It pays for almost all Alaska’s highway construction and renovation and most airport construction. Federal money became much more important to Alaska’s budget in recent years, making up 30 percent of the total budget in 2002, compared with just 15 percent in 1990.

So far, Permanent Fund earnings have been used only for (1) annual payments—dividends—for all residents; and (2) additions to the fund principal, to protect it from the effects of inflation and increase its size. Voters created the Permanent Fund in 1976, to save a share of the state’s oil income. The fund is invested in stocks, bonds, and real estate. In most years, it earns money. The fund principal is protected by the state constitution (although there is some disagreement about how to measure the principal). But the legislature can spend fund earnings as it chooses.

### Growth in Sources, 1900-2002 ($3.3 Billion)

<table>
<thead>
<tr>
<th>General Fund and Other State Funds</th>
<th>Capital</th>
<th>Operating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted General Fund</td>
<td>$2.37 billion</td>
<td>$2.5 billion</td>
</tr>
<tr>
<td>Fee-Supported and Other State Funds</td>
<td>$226 million</td>
<td>$1.1 billion</td>
</tr>
<tr>
<td>Combined General and Other State Funds</td>
<td>$2.6 billion</td>
<td>$3.6 billion</td>
</tr>
<tr>
<td>Permanent Fund Dividends and Inflation-Proofing</td>
<td>$942 million</td>
<td>$1.5 billion</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital</th>
<th>Operating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Funds</td>
<td>$2.3 billion</td>
</tr>
<tr>
<td>State Sources</td>
<td>$4.1 billion</td>
</tr>
</tbody>
</table>

| Total State Budget | $7.4 billion |

### Budget Growth Adjusted for Inflation and Population Growth, 1990-2002

<table>
<thead>
<tr>
<th>Not Adjusted</th>
<th>Price Adjusted</th>
<th>Price and Population Adj.</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Sources</td>
<td>+38%</td>
<td>+4%</td>
</tr>
<tr>
<td>PFD/Infl.-Proof</td>
<td>+59%</td>
<td>+19%</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>+301%</td>
<td>+200%</td>
</tr>
<tr>
<td>Total Budget</td>
<td>+80%</td>
<td>+35%</td>
</tr>
</tbody>
</table>

- Federal funds increased sharply, even adjusted.
- Dividends and inflation-proofing were up modestly, when adjusted for price and population growth.
- Spending from all state sources combined was just about flat when adjusted for inflation, and down 11 percent when also adjusted for population.

Based on 33% increase in Anchorage consumer price index and 17% population increase (1990 census figures and 2002 state estimate).
Where the Money Comes From and Where It Goes

Where the Money Went ($7.4 Billion)

Operating Spending by Type
(In Millions of Dollars)

- Aid to Schools (Foundation/Pupil Transportation/Other) $862
- Medical Assistance (Medicaid/Other) $719
- University of Alaska $506
- Public Protection (Courts/Troopers/Prisons Attorney General/Public Defender/National Guard/Other) $419
- Public Health/Social Programs (Child/Family/Community Programs) $325
- Transportation (Highways/Airports/Ferry System) $260
- Resource Management (Fish and Game/Natural Resources/Environmental Conservation) $230
- Assistance Programs (Alaska Temporary Assistance/Adult Public Assistance/Other) $202
- Economic Development/Public Corporations (AHFC, AIDEA, Other) $122
- Programs for Older Alaskans (Longevity Bonus, Pioneer Homes, Other) $111
- Asset Management (Permanent Fund/State Retirement/Benefit Funds) $109
- Job Services (Unemployment/Job Training/Vocational Rehabilitation/Other) $108
- Governance (Governor’s Office/Legislature) $61
- Everything Else $208

Capital Spending by Type
(In Millions of Dollars)

- Highway, Bridge Construction/Renovation $546
- Airport Construction/Improvement $207
- Rural and Urban Utility Projects $97
- Grants to Municipalities/Unincorporated Places $76
- University of Alaska Construction/Renovation $51
- AHFC Projects $33
- Deferred Maintenance/Repairs State Facilities $26
- Other Projects $242

Spending from Permanent Fund Earnings
(In Millions of Dollars)

- PFDs $926
- Inflation-Proofing $602
- Debt Service/Special Appropriations $1.5 billion
- Permanent Fund Dividends and Inflation-Proofing $1.5 billion
- Operating Spending $4.2 billion
- Capital Spending $1.4 billion

Notes about figures
Debt service on general obligation bonds and special appropriations are included in operating costs in "Growth in Sources." In "Where the Money Went," individual capital project costs do not total precisely to total capital costs. Budget figures evolve over the year, and unduplicated capital budget figures are very difficult to trace precisely. But the breakdowns by type provide a reliable picture of what kinds of capital projects were in the state's 2002 budget and how they were financed.

Sources of budget numbers
2002: Legislative Finance Division, Fiscal Summary FY02/FY03, FY02 authorized budget, plus supplemental appropriations, and enacted capital budget; Alaska Permanent Fund Corporation; Alaska Department of Revenue, Revenue Sources, Fall 2002
1990: Legislative Finance Division, FY 1990 actual operating budget and enacted capital budget; Summary of Appropriations, FY 1990; Alaska Permanent Fund Corporation. Excel spreadsheets with actual and authorized operating budgets and enacted capital budgets from 1983-2002 are on Legislative Finance Division's Web site, www.legfin.state.ak.us

The fiscal year from July 1, 2001 to June 30, 2002. Budget numbers exclude nearly $790 million in appropriations that for various accounting reasons are sometimes duplicated—counted twice—in budget figures.
People and businesses pay fees for enterprises like ferries, the university, and airports, and for everything from licenses to leases. Management fees for state retirement systems and for trust funds (mainly the Permanent Fund) also increased, as did earings of public corporations like the Alaska Housing Finance Corporation (AHFC). Those earnings mainly pay for corporation operating costs, but the state has also recently used earings of AHFC, AIDEA, and the Science and Technology Foundation to help pay general expenses.

Unrestricted General Fund spending for major population-driven programs grew 60 percent. Alaska's overall population grew about 17 percent, but numbers of Alaskans in some population-driven programs grew much more. Numbers of school children grew 22 percent, persons receiving Medicaid climbed nearly 150 percent (and medical costs soared), numbers of prisoners grew 90 percent, and the Adult Public Assistance caseload (low-income older and disabled Alaskans) grew 117 percent.

State General Fund Spending for School Foundation, Pupil Transportation, Medicaid, Prisons, and Adult Public Assistance

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>$64</td>
<td>$335</td>
</tr>
<tr>
<td>Transportation</td>
<td>$84</td>
<td>$578</td>
</tr>
<tr>
<td>Other</td>
<td>$328</td>
<td></td>
</tr>
<tr>
<td>Total:</td>
<td>$667</td>
<td>$1,106</td>
</tr>
</tbody>
</table>

Federal funds leaped from $574 million to $2.3 billion. The biggest increases were for building transportation projects and funding Medicaid, but programs throughout the budget saw more federal money.

What's in the General Fund and What Isn't?

With few exceptions, Alaska's constitution requires income from a "state tax or license" to be kept available for broad purposes rather than being reserved for specific purposes. So a big share of state tax and royalty income goes into the General Fund. But a number of special-purpose funds do exist—the Permanent Fund, created by constitutional amendment, is the largest.

And from 1990 to 2002, the state also increasingly divided the General Fund itself, taking some spending from the "unrestricted" part—which the legislature can appropriate largely as it chooses—and shifting it into dozens of subfunds that are still technically part of the General Fund but are reported separately.

Alaskans disagree about reasons for that shifting, but one reason was to make growth in the unrestricted General Fund—which is where the deficits are—appear smaller.

At least $325 million spent from special subfunds in 2002 would have come from the unrestricted General Fund in 1990. That includes $135 million from about a dozen funds supported by fees. The state also used General Fund revenues to create funds intended to earn enough interest to become self-supporting. Those include the Power Cost Equalization Fund (which helps pay rural electricity costs) and the debt service fund (which repays debt on the state's general obligation bonds). Both those funds were partly subsidized by unrestricted General Fund revenues in 2002. Also, the ferry system was shifted to its own fund in the 1990s. In 2002, the ferry system paid almost two-thirds of its operating budget with fees and the rest was subsidized with General Fund revenues. This isn't a complete accounting of the new funds, but it includes the largest.

The authors thank Cheryl Frasca and Brad Pierce of the Office of Management and Budget; David Teal, Rob Carpenter, and Anna Kim of Legislative Finance; Larry Persily and Brett Fried of the Department of Revenue; Annalee McConnell, formerly with OMB; and Katie Eberhart and Lexi Hill of ISER. Errors are, of course, the authors' responsibility.