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Inside Track

Oil Price Decline Hurting Alaska the Most

Although oil-producing states such as North Dakota and Texas are expected to suffer declines in revenues if oil prices continue to drop, other states such as Wyoming, Louisiana, and especially Alaska will feel much more than just a temporary pinch. According to the Standard & Poor's (S&P) Ratings Service,

If lower prices persist through 2015, the economies and finances of the energy producing states — Louisiana, Alaska, Wyoming, New Mexico, Oklahoma and North Dakota — will be put to the test.

Oil and mineral revenues account for a third of Wyoming's budget, one-sixth of New Mexico's, and one-eighth of Louisiana's, while in Texas — the state that, standing alone, would be the eighth-largest oil-producing country in the world — counts on less than five percent of its state budget coming from that industry.

From a growth perspective, nearly 40 percent of North Dakota's growth has come from energy development, growing the state's economy by 20 percent in 2012 and 9.7 percent last year. Almost 60 percent of Oklahoma's growth in 2013 came from the energy sector, while New Mexico, Arkansas, Colorado, and Wyoming all had a higher concentration of growth from energy development than did either Texas or North Dakota. In Wyoming more than 80 percent of the state's growth in 2013 came from energy development, while in Colorado it was more than 40 percent.

Growth is one thing. Revenues from energy are something else entirely, as Alaska is finding out. As Moody's Analytics reviewed The Last Frontier's economic outlook in the face of declining oil prices, it was forced just last month to revise its outlook from "stable" to "negative." This confirmed what S&P noted in its report: 87 percent of Alaska's budget comes from oil and mineral-related activities. Furthermore, the state's 2015 budget was based on oil at $105 a barrel. At this writing, West Texas Intermediate is at $45 barrel — a decline of almost 60 percent.

With that decline, expectations have plummeted that Alaska will have anything like the $6.1 billion it expected to spend. Instead the state's new governor, Bill Walker, is looking at a $3.5-billion shortfall. Oil production has fallen to less than a quarter of what it was in the late 1980s, as old wells drilled back then continue to produce less. Declining sales coupled with the precipitous decline in oil prices have made Walker's first week a difficult one.

Alaska has lived through sharp declines in the past, although nothing like the present one, and the state's fiscally conservative politicians have stashed away about $14 billion in a "rainy day" fund. This is making Walker nervous, however, since (as he notes) drawing the fund down too quickly may exhaust it long before prices go back up, while drawing it down more slowly will force drastic cuts everywhere else. Already he is proposing a cut in government spending of between five and eight percent this year, with a total cut of nearly 25 percent over the next four years if oil prices don't rebound.

He is also publicly testing the waters to see if Alaskans would even consider imposing on themselves an income tax and a sales tax — the state currently has neither — while drumming up support for fast-tracking a long-delayed natural gas pipeline.

Walker, running as an independent, ousted Republican governor Sean Parnell and is already meeting resistance from Republican Speaker of the House Mike Chenault. After reviewing Walker's proposals, Chenault said: "We might agree to disagree. I've tried to keep an open mind and keep all avenues of conversation open, and I'll continue to do that until we either decide that we can make this work, or we can't."

As the price of oil drops, so do expectations in lots of unlikely places, including Alaska.

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