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Tax windfall eyed for savings, but capital budget beckons

It was as if Gov. Sarah Palin asked the Legislature for a nice sensible winter jacket and they sent her a full-length mink parka with a wolverine ruff, seal skin trim, and a catalytic hand warmer in each pocket.

A beaming Palin didn't seem to mind as she walked into the Capitol's third-floor conference room a couple of weeks ago to laud legislators for passing a bill boosting revenue by almost four times more than she had proposed in her "Alaska's Clear and Equitable Share" bill.

At $95 a barrel, Palin's ACES would have raised $650 million more than the Petroleum Profits Tax as it existed until legislators wiped it off the books at their recently completed special session. The mink coat version legislators approved will raise $2.4 billion more.

Testifying to legislators two days before the session ended, Chevron's John Zager recalled that the 'E' in ACES stands for equitable: "Across a broad range of prices [Palin's] bill was generally expected to raise $500 [million] to $600 million more than PPT. The latest revisions to the ACES language, adding the more aggressive progressivity, have raised that number to $1.5 [billion] to $2.0 billion more than PPT. So that's quite an adjustment from what was originally presented as 'fair and equitable.'"

At least one influential legislator agreed. "How could they think if this is OK that that's OK?" wondered House Majority Leader Ralph Samuels, who opposed the legislation.

Asked how she would respond to that question, Palin said she didn't think the bill that passed was all that different. "When I rolled [ACES] out I had said I was so anxious to work with lawmakers to make this even better."

Legislators may have decided, as the special session unfolded, that a higher state take was more equitable. But the big lesson of the session was that the political climate was far more favorable for a tax increase than the governor, the producers and most politicians had guessed. Four factors were at work:

• Veco Corp. A majority of legislators became convinced that corruption played a role in shaping the PPT legislation adopted in 2006. Though the three major producers deny they had anything to do with that, the producers were chief among the corruption's intended beneficiaries. This much is sure: Convicted former Veco chief Bill Allen would not have taken it lightly if his three major customers had called to say they weren't doing business with anyone pushing the envelope of legality in efforts to influence legislation.

• The global bandwagon. As oil prices rose, jurisdictions around the world were boosting their share of oil profits: It is the shortage of their oil - not whatever shortages there may be in oil company capital and expertise - that is propelling the rise in oil prices. It would have been odd if Alaska hadn't jumped on that global bandwagon.

• Bad news. The petroleum industry's public image in Alaska suffered a run of bad news: North Slope oil spills, BP slapped with big fines for price fixing and environmental crimes, Exxon's umpteenth oil spill appeal, all coming as producers posted record profits and households were hit with ever-higher gasoline and heating oil prices.

• Industry disinvestment. Deluged with propaganda about company investments, legislators were dismayed to learn that petroleum industry assets in Alaska were continuing to shrink. In October, when an economic consultant suggested the gas pipeline project promoted in 2006 is no longer viable, Sen. Johnny Ellis, D-Anchorage, asked if maybe that wasn't a good argument for the state to "wise up," increase its share of Alaska oil profits, "and bank that money for the hard times to come."

Legislators on all sides seem to agree on the need for saving. Palin said she too is committed, mentioning a possible forward-funding package for education, deposits to the Alaska Permanent Fund, an appropriation to the constitutional budget reserve, and additional contributions to the state's public employees and teachers retirement funds.

Those will sound good in next year's post session press releases, but the numbers will be hard to interpret. The real story will be found in spending, particularly in the capital budget, where most windfall revenue traditionally gets spent. If next year's capital budget is no bigger than this year's, then the governor and legislators will likely have kept their pledge to save the extra oil revenue. I'm hopeful, but in 35 years of watching Alaska legislatures, I've only seen windfalls saved six times. In the other 29 years everything was spent.

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