

Ten Reasons Why the \$800 Million Alaska Resource Rebate Payment (ARRP) is Not in Alaska's Best Interest

by Alaska Conservation Solutions
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1) The ARRP is very expensive, and not based on a careful analysis of needs, consequences, or alternatives.

Unquestionably, \$800 million is a lot of money. Prior to appropriation, a proposed expenditure of this size demands a very thoughtful examination, including a thorough and careful analysis of needs, consequences, and alternatives. That analysis has simply not been done in the case of the ARRP.

As noted by the Fairbanks Daily News Miner, *"they (the Legislature) need to intervene cautiously by exploring all the ramifications and avoid the temptation to shovel cash willy-nilly to a public increasingly asking for help"* (Fairbanks News Miner, July 9, 2008). The Anchorage Daily News adds, *"Gov. Sarah Palin's Proposal to hand every Eleskan an extra \$1,200 this year was a bad idea when she called it "energy relief." She has since relabeled the \$1,200 payment a 'resource rebate,' but it's still a bad idea* (Anchorage Daily News 7/26/08).

2) The ARRP will be politically difficult, if not impossible, to end so long as energy prices remain high.

We need only look at the Alaska Permanent Fund dividend program and specific entitlement programs to recognize how difficult it is to discontinue or reduce them. With fossil fuel prices projected to continue to increase, and with conservation and energy efficiency measures made to seem less urgent due to the ARRP program, our state will be in a worse position a year from now if we adopt the resource rebate approach. As our dependence on fossil fuels continues to grow, so will our economic hardships. Twelve months from now, it is very unlikely that the legislature would be able to discontinue or significantly reduce the rebate program.

As an editorial in the Fairbanks Daily News Miner further observes, *"the governor's proposal is for one year only. But what about next year and the year after that? Alaskans could come to expect the state will ride to their rescue each year. A sense of entitlement, one arising out of a principle that the state's profits from oil revenue should be shared directly with the masses, could manifest itself. An entitlement program could soon be born."* (Fairbanks Daily News Miner, July 9, 2008)

3) The resource rebate would be subject to federal taxation, so a meaningful proportion of the state's revenues (10% to 35%) will go to the federal government.

The Governor's stated intent is to benefit Alaskans, as the owners of the state's resources. However, because the ARRP would be subject to federal taxation, a significant amount of the payout would in fact be extracted from the state. The federal tax rate is from 10% to 35%, with a large percentage of Alaskans paying 25% (Alaska's per capita income is about \$41,000, which is in the 25% bracket). Does it make sense for up to \$200 million of the state's revenues to go to the federal government in taxes? No.

4) The ARRP disrupts energy-saving responses to price signals and does not promote any positive mid- or long-term energy reduction benefits.

Price signals are crucial. As newspaper and other reports demonstrate, people throughout Alaska are taking actions now to reduce their consumption of energy in response to real-world increased fossil fuel prices. According to Goldman Sachs and others, oil could reach \$150 to \$200 per barrel by the end of the year. This is reality, and we need to adjust to this reality as soon as possible by implementing energy conservation, energy efficiency, and renewable energy options.

If invested towards these shared goals, \$800 million could represent a huge step towards a clean, sustainable and prosperous energy future for Alaskans. Dispersed to individuals, however, \$800 million will mute price signals and energy-saving responses, and potentially increase energy consumption. As State House Finance Committee Co-Chairman Kevin Meyer has noted, people can use their \$1200 to buy whatever they want, including a big screen television. *They might have been holding off on such purchases because of high energy bills, he said. "Now they can buy that TV too."* (Anchorage Daily News, June 21, 2008)

The ARRP contravenes the Governor's 2008 mission to produce "a statewide plan to reduce energy costs, promote energy conservation, and secure long term energy supply solutions for each region of the state."

Again, as the News Miner editorial observes: *"handing out money hardly encourages people to conserve energy. And energy conservation needs to be a practice instilled throughout homes and businesses in Alaska. And there's no guarantee at all that people will spend the \$1,200 payment on energy bills. The state could be giving money away only to still find people in need this winter."* (Fairbanks Daily News Miner, July 9, 2008)

5) The ARRP is not targeted.

The ARRP does not target those most in need. Alaskans are not being affected equally by high fuel prices. To cite just a few examples:

- According to UAA's Institute of Social and Economic Research (ISER), low-income families in Alaska's most remote towns and villages are expected to spend 41 cents out of every dollar they make on power and heat in 2008. In comparison, Anchorage's lowest-income households will spend about 4 cents per earned dollar on energy bills; and well-off Anchorage residents will pay just 2% of their income for home energy use.

- ISER estimates that the median annual power and heating costs for an Anchorage family is about \$2,700, compared to about \$4,900 for midsize towns and cities and \$7,600 for remote rural villages.
- If a family of four is making \$150,000 per year, and if that family's total energy costs have increased by a total of \$750 per year, should the government be providing that family an additional \$4,800 per year? As a recent news report notes, *"Some legislators, including Anchorage Democratic Rep. Mike Doogan, oppose sending everyone a check regardless if they need it. They've said it should be based on how much money a person makes and where they live."* Doogan is quoted as saying, *"Frankly, I'm not convinced everybody in Alaska needs help with their energy costs."* (Anchorage Daily News, June 21, 2008)
- The proposed \$1200 payout would be given to everyone, regardless of whether their electricity is generated by fossil fuels that have increased in price, or if their electricity is generated by low-cost hydroelectric power. It would be given to everyone, regardless of whether or not they drive any sort of vehicle. It would be given to people of all ages, from infants to the elderly, with no consideration given to an individual's actual need for such assistance. *"The governor's payout carries such a big price tag because it includes two big classes of check-cashers who don't need the money: those who are reasonably well off, and children. Including dependent children is just plain silly. Children do not pay energy bills...For the well-to-do, higher energy prices are little more than an annoyance (Anchorage Daily News 7/26/08).*
- A family of four, no matter what its income level, does not have four times the energy costs of a single person. To give each person in the state a flat \$1200 amounts to a much greater windfall for those whose energy expenses are already lower because they are shared with other household members.

6) Alaskans will be receiving their Permanent Fund Dividend checks in the fall, and can apply some of this income to their energy expenditures, especially since the amount of the dividend is anticipated to increase and the check arrives before winter. Moreover, the distribution of two state checks (the PFD and the ARRP) within a short period of time could have undesirable social consequences.

The 2007 PFD payout was \$1,654, and the 2008 distribution is expected to be higher. For a family of five, the PFD payout in 2007 was \$8,270. It will be closer to \$10,000 this year. Some of these revenues can be used for energy cost relief for this fall and winter. If passed, the ARRP would be arriving at approximately the same time when individuals and families are already receiving PFD checks from the state.

The Voice of the Times observes, *"we object in principle to another free-money program...the state's dollar giveaways also tend to bring new people to the state, people whose primary motivation is not to become Alaskans but to get the free checks."* The VOT also notes, *"we will be surprised if many legislators have the courage to vote against it."* (Voice of the Times, June 20, 2008)

7) The ARRP will be negatively perceived in Washington, DC, with potentially adverse and costly consequences.

All states are suffering from higher fuel and other costs; Alaska is not unique. There are many issues before Congress that can either benefit Alaska or not, including sharing of off-shore oil revenues, appropriations, and allocations under a Lieberman-Warner or similar bill. If Alaska is perceived as "awash in money" and "just giving it away" this could have serious, expensive consequences to individuals and the state as a whole.

"It could be harder for Alaska to get federal assistance for projects and programs if people in the Lower 48 think the state is the spoiled rich kid on the block, legislators said." (Anchorage Daily News, June 21, 2008)

8) Common resources should be invested for the common good.

The source of the funding for the ARRP payments is the surplus the state is receiving because of high oil prices and last year's oil tax increases. As such, this surplus is community property, and for logical, civic, and moral reasons it should be invested in community projects, rather than as a windfall bonus to individuals. The state has many serious needs that the surplus could effectively address.

Referring to the proposed special dividend, Rep. Mike Doogan notes, "The resources are owned in common, not individually, and the revenue is to be used to pay for government goods and services." (Anchorage Daily News, July 13, 2008)

9) The ARRP communicates, by example, a series of bad messages to other states and nations, as well as to future generations; it is short-term, expensive, entitlement-inducing, non-targeted, and unfair.

How we address the current situation is a teachable moment for our children. Will we adopt a short-term, expensive, entitlement-inducing, politically-opportunistic, non-targeted, and unfair approach? Or will we provide focused assistance that accomplishes numerous short-, mid- and long-term goals? We have an option and an opportunity, either to benefit our children's future or not. Which will it be?

As Senator Murkowski notes, "unless Alaska wants to risk conditioning its citizens to expect ever rising state energy handouts, the only prudent course is to convert the current oil-fed windfall into new renewable power sources that will pay dividends for decades" (Juneau Empire 7/13/08).

10) There are many better ways to provide short-, mid- and long-term energy cost relief to Alaskans.

It is important to note that Governor Palin herself is relying on others to refine and improve her energy cost relief proposal: *"Lawmakers will be expected to provide better remedies, better solutions." (Juneau Empire, June 22, 2008)*

The attached Energy Relief Savings and Efficiency Plan (ERSEP) would help Alaskans transition promptly and cost-effectively to the realities of substantially increased fossil fuel prices. The ERSEP provides numerous suggestions for win-win solutions that will quickly save Alaskans money through energy conservation and energy efficiency. All of these strategies will result in lower energy use not only in the short-term, but also in the mid- and long-term, thus saving Alaskans money for years to come. In addition to the monetary benefits from reducing our fossil fuel energy use, there are many other advantages, including energy security and independence, decreasing our carbon footprint, reducing emissions of other pollutants, and improving our health.

As Rep. Harry Crawford has said, *Palin's new plan... lacks enough emphasis on providing long-term, affordable, renewable energy for Alaskans such as hydroelectric, geothermal and wind power. "This \$1,200 is not going to make a long-term difference in their lives."* (Anchorage Daily News, June 21, 2008)

But the prudent investment of this \$800 million could.