

Economic Impacts of Alaska Fiscal Options Overview of Draft Conclusions (concluding slides)

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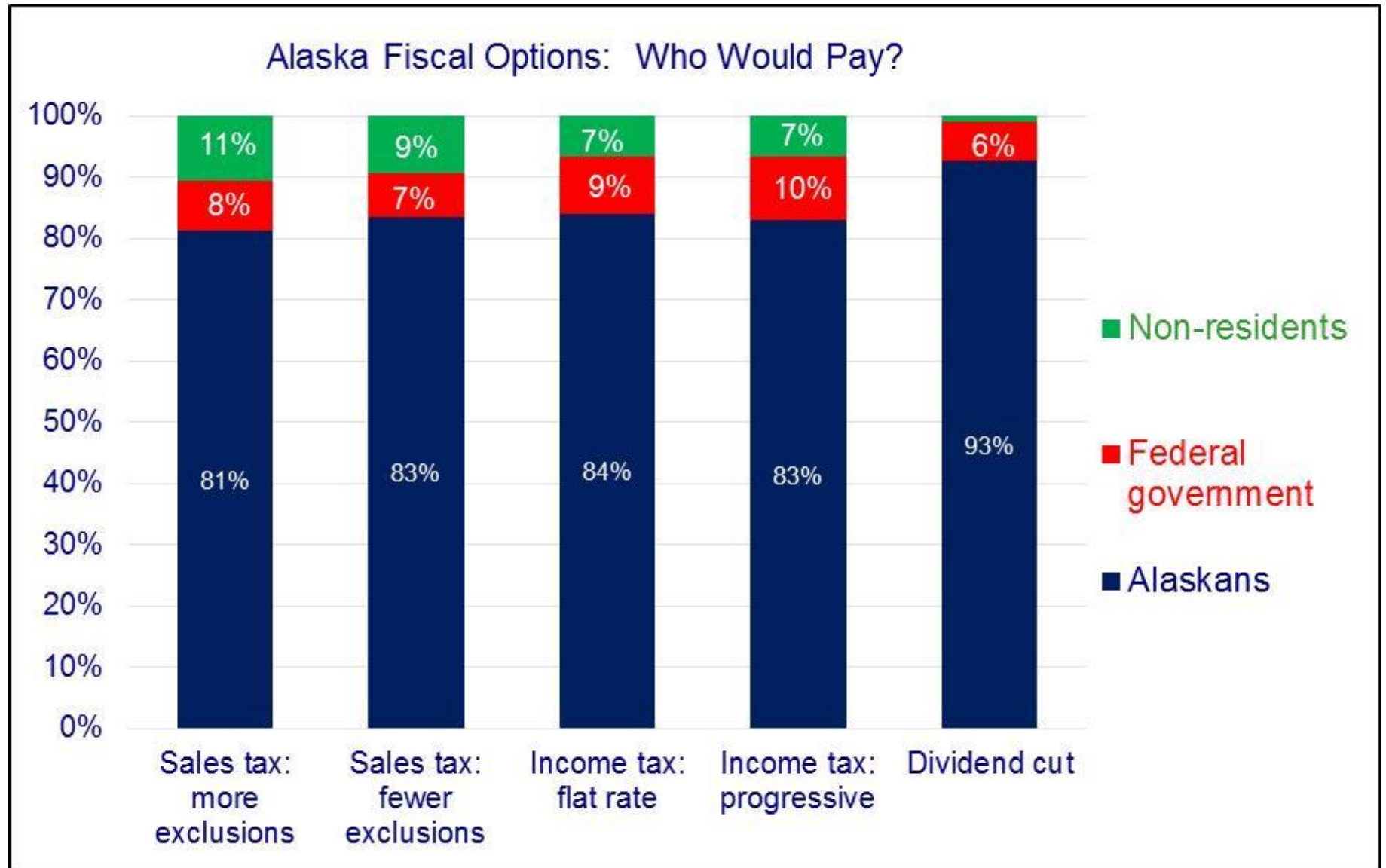


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Relative contributions of non-residents & the federal government

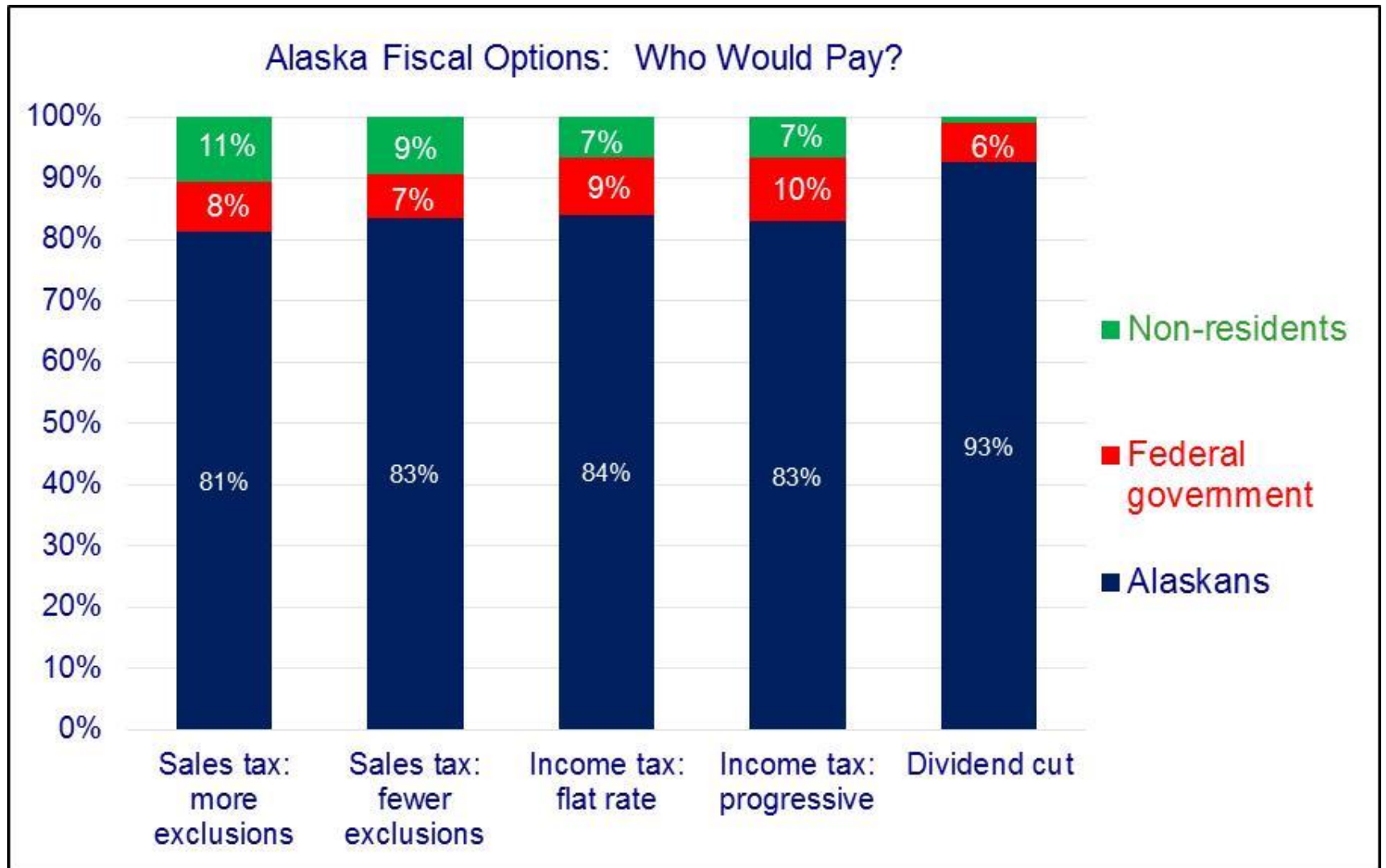
(revised slides—correcting slides 14 & 15
of February 29 presentation for a
calculation error discovered when
thinking about a committee member's question)

Non-residents would pay about 9-11% of sales taxes and about 7% of income taxes



The impacts of state taxes and dividend cuts on Alaskans' incomes would be partially offset by reductions in their federal taxes.

Higher-income households who pay higher tax rates would benefit most.



Total impacts of deficit reduction on the Alaska economy

(revised slides-replacing slides 41-57 of
February 29 presentation)

How fast should we reduce the deficit?

What can we do to reduce the economic impacts?

We have lost billions of dollars of oil revenue
which used to pay for most of state government.

We will have to adjust to having much lower oil revenues.

We will have to reduce the deficit.

Reducing the deficit will significantly impact Alaska's economy

We will experience significant economic impacts of adjusting to lower oil revenues.

- Impacts of spending cuts we've already made:
 - Impacts of capital budget cuts on construction industry
 - Delayed because capital projects take several years
 - Actual capital spending will decline as money from past large capital budgets runs out
- Impacts of future adjustments we will have to make
 - Spending cuts
 - Taxes
 - Dividend cuts

We will have a smoother economic adjustment to lower oil revenues if we make significant progress this year than if we:

- Fully close the deficit this year
- Fail to make significant progress this year

Potential short-run impacts of reducing the deficit by \$1, \$2 and \$3 billion

Potential Total Short-Run Economic Impacts of Deficit Reduction

Option	Share of option in deficit reduction					
Spending cut: workers	100%					
Spending cut: broad-based		100%	50%	50%	33%	25%
Income tax: progressive			50%		33%	25%
Dividend cut				50%	33%	25%
Saving less						25%
Total job impacts of reducing deficit by:						
\$1.0 billion	17,000	13,000	10,000	11,000	10,000	7,000
\$2.0 billion	34,000	25,000	20,000	22,000	20,000	15,000
\$3.0 billion	50,000	38,000	31,000	32,000	29,000	22,000
Total income impacts (\$ millions) of reducing deficit by:						
\$1.0 billion	1,400	1,200	1,300	1,300	1,300	1,000
\$2.0 billion	2,800	2,300	2,500	2,700	2,700	2,000
\$3.0 billion	4,100	3,500	3,800	4,000	4,000	3,000

In 2014, there were about 367,000 full and part-time jobs in Alaska.

Total income was about \$40 billion. Total wage income was about \$27 billion.

Fully closing the deficit this year could have a significant impact on an already weakened economy

- We are already experiencing impacts of:
 - Oil industry job losses
 - Lower oil industry investment
 - State capital budget reductions
 - Mining industry downturn
 - Low salmon prices
- The future impacts of these negative factors are uncertain
- They would be increased by large:
 - Spending cuts
 - New taxes
 - Dividend cuts

BUT . . .

Government can't permanently support an economy by running deficits.

We can't avoid significant further economic impacts
of adjusting to lower oil revenues.

We can only delay them by drawing down our savings.

We can't delay them very long.

Delay has significant negative economic consequences.

Negative economic consequences of
continuing very large deficits
without a clear plan for how to fix them . . .

- Further draining of reserve funds
 - Lower future investment earnings
 - Future Alaskans are paying for our deficits
- Unavoidable future impacts spread over an even shorter time
 - Fewer short-term options
 - Time lag for new taxes to generate new revenue
- Certain further downgrading of Alaska's credit rating

Negative economic consequences of
continuing very large deficits
without a clear plan for how to fix them soon . . .

- Further-rising business and household uncertainty about:
 - Future state services
 - Future taxes
- Further-falling confidence in whether Alaska can:
 - Make the tough choices we face
 - Achieve sustainable, stable and predictable state spending and revenues
 - Be a state where businesses want to invest
 - Be a state where Alaskans want to work, live and call home
- Reduced business and household investment
- Effects on public and private employee morale, turnover & recruitment

Can we measure these consequences precisely? NO
Are they real and important? YES

We will have a smoother economic adjustment to lower oil revenues if we make significant progress this year.

- Significant progress means:
 - Major real reduction in the deficit
 - Consensus on a plan for
 - What else we will need to do
 - When we will do it
 - Demonstrating political ability to make needed adjustments
 - Perception of significant progress by businesses and households
- Significant progress is not:
 - Continued uncertainty about how we will stabilize our finances
 - Continued doubt about whether we can

Other impacts of fiscal options

All of our fiscal options have many other potential impacts
beyond those that we studied

- Indirect
- Longer-term
- Harder to estimate
- Potentially much more important to Alaska's future

Examples of other potential impacts of **spending cuts** . . .

- Increases in local taxes in response to shifted responsibilities
- Increases in user fees in response to budget cuts
 - university tuition, marine highway fares, park fees, etc.
- Loss of matching federal revenues—multiplying the impacts of cuts
- government services affecting the economy
- Economic impacts of reduced capital budgets
 - infrastructure & future resource development
 - future costs of deferred maintenance
- Impacts on government & university workforce
 - Morale and quality of workers
 - Turnover

Examples of other potential impacts of **spending cuts** . . .

- Economic impacts of reduced services
 - Reduced tourist travel on Marine Highway
 - Reduced ADFG research on fisheries management leading to more conservative management & lower catches
 - Higher transportation costs and times due to reduced snow-plowing and road maintenance
 - labor markets
 - Whether young Alaskans stay in Alaska to attend college
 - Effects on “quality of life” and how hard it is to find and keep good employees
 - Migration from rural villages if schools are closed
 - Higher potential future costs
 - Of education if early childhood services are cut?
 - Of crime and corrections if education is cut?
 - Of health care if primary health care services are cut?
 - Of social service costs if people leave villages

Examples of other potential impacts of **income taxes** . . .

- Incentives for
 - businesses to invest
 - Individuals to invest
- Wage rates needed to attract workers
 - Costs of fish processing labor
 - Impacts on fish prices & fishermen

Examples of other potential impacts of sales taxes . . .

- Administrative costs
- Impacts on local government sales tax collections
- Higher impacts in higher-cost rural communities
- Impacts on visitor spending

Example of other potential impacts of dividend cuts . . .

- Wages people need to earn to live in Alaska
 - Effects on wage rates
- Ability of Alaskans to
 - Purchase gear needed for subsistence
 - Accumulate wealth
- Incentives for people to move to or leave Alaska
 - Particularly larger or poorer families

Examples of other potential impacts of fiscal choices . . .

- Effects on labor markets
- Effects on Alaska population
 - Effects on costs of providing government services
- Effects on real estate markets
- Effects on the type of people who want to live in Alaska
- Effects on equity of Alaska income distribution
- Extent to which Alaskans have “skin in the game” and interest in restraining state spending
- Extent to which Alaskans support preserving and growing the Permanent Fund

Alaska's fiscal choices will significantly affect
Alaska's future economy and society.

We should think not only about their short-term economic impacts
but also about their longer-term economic and social impacts.