

# Economic Impacts of Alaska Fiscal Options Overview of Draft Report Conclusions

Gunnar Knapp  
Director and Professor of Economics  
Institute of Social and Economic Research  
University of Alaska Anchorage  
[Gunnar.Knapp@uaa.alaska.edu](mailto:Gunnar.Knapp@uaa.alaska.edu)

Prepared for presentation to the  
Senate Labor and Commerce Committee  
March 15, 2016



UAA Institute of Social  
and Economic Research  
UNIVERSITY of ALASKA ANCHORAGE

ISER publications and presentations are solely the work of *individual authors* and should be attributed to them, not to ISER, the University of Alaska Anchorage, or the research sponsors.

This presentation summarizes the conclusions of ISER's draft report  
Economic Impacts of Alaska Fiscal Options (March 11, 2016)

The report is posted on ISER's website:

[www.iser.alaska.edu](http://www.iser.alaska.edu)

References in brackets in the lower-left corner of these slides  
are to pages in the draft report which address the content of the slides.

We invite comments and questions on the draft report.

These should be sent to Gunnar Knapp at:

[Gunnar.Knapp@uaa.alaska.edu](mailto:Gunnar.Knapp@uaa.alaska.edu)

It will be easier to address comments received by March 18, 2016.

We will prepare a final report incorporating  
responses to comments and questions  
by March 25, 2016.

The draft report and this presentation add new analysis and also incorporate minor  
changes from some of the analysis from previous presentations, reflecting additional  
work that we have done and also revisions to some calculations. None of these  
additions and changes substantively affect any of the conclusions that might be drawn  
from previous presentations.

## Presentation Outline

- Study background
- Revenue impacts of taxes and dividend cuts
- Short-run economic impacts of fiscal options
- Regional differences in impacts of fiscal options
- Total economic impacts of reducing the deficit
- Other economic impacts of fiscal options

# Study background

## Study authors

Gunnar Knapp  
Matt Berman  
Mouhcine Guettabi

ISER economics professors

## What we studied, for selected fiscal options . . .

- Revenue impacts of taxes and dividend cuts
  - What share would non-residents pay?
  - What share would be offset by lower federal taxes?
  - What would be the relative impacts on different income groups?
- Short run economic impacts of spending cuts, taxes and dividend cuts. Per hundred million of deficit reduction:
  - What would be the impacts on Alaskans' incomes?
  - What would be the impacts on Alaska jobs?
- Regional economic impacts
  - How would the impacts of different options vary between regions?
- Total economic impacts of reducing the deficit
  - What would the total short-run impacts on income and jobs of reducing the deficit by different amounts?

## Fiscal Options We Studied

Option	Description
Spending cut: workers	Spending cut achieved entirely by reducing state workforce
Spending cut: broad-based	Spending cut achieved by broad range of cuts to state spending
Spending cut: capital	Spending cut achieved by cutting the capital budget
Spending cut: pay	Spending cut achieved entirely by reducing pay of state workers
Income tax: progressive	Constant % of federal income tax liability
Income tax: flat rate	Constant % of federal taxable income
Sales tax: more exclusions	Sales tax excluding food at home, shelter, health care & education
Sales tax: fewer exclusions	Sales tax excluding only health care and education
Property tax	Statewide tax on real and personal property with exclusions for property taxes paid to local governments
Dividend cut	Reducing dividends and using PF earnings that would have gone to dividends for general fund spending
Saving less	Reducing savings of PF earnings that currently are saved in the PF principal (inflation proofing) or added to the PF earnings reserves, and using the money for general fund spending
Excise tax: motor fuels*	Increase in state motor fuels tax
Excise tax: alcohol*	Increase in state alcoholic beverages tax
Excise tax: tobacco*	Increase in state tobacco tax

\* Options for which we analyzed only revenue impacts

We studied only some of Alaska's potential fiscal options

- We studied:
  - Options that are part of the broad political discussion
  - Options we had time, funding and expertise to analyze
- We didn't study
  - Complex options requiring detailed industry-specific expertise
    - Changes to oil credits or oil taxes
    - Changes to other resource industry taxes
  - Changes to how the state delivers services
    - K12 education, University of Alaska, Medicaid, etc.
  - “Re-plumbing” of state finances (SB114, SB128, etc.)



We studied only some of the potential economic impacts of Alaska fiscal options

- We studied:
  - Revenue impacts
  - Short-run economic impacts
  - Total short-run economic impacts on Alaska economy
- We didn't study:
  - Long-run & indirect impacts
- What we could study was limited by:
  - Data
  - Complexity
  - Funding & time
- The impacts we didn't study are important
- This study is only a start at understanding potential economic impacts of fiscal options

We are not advocating for or against any fiscal options or choices

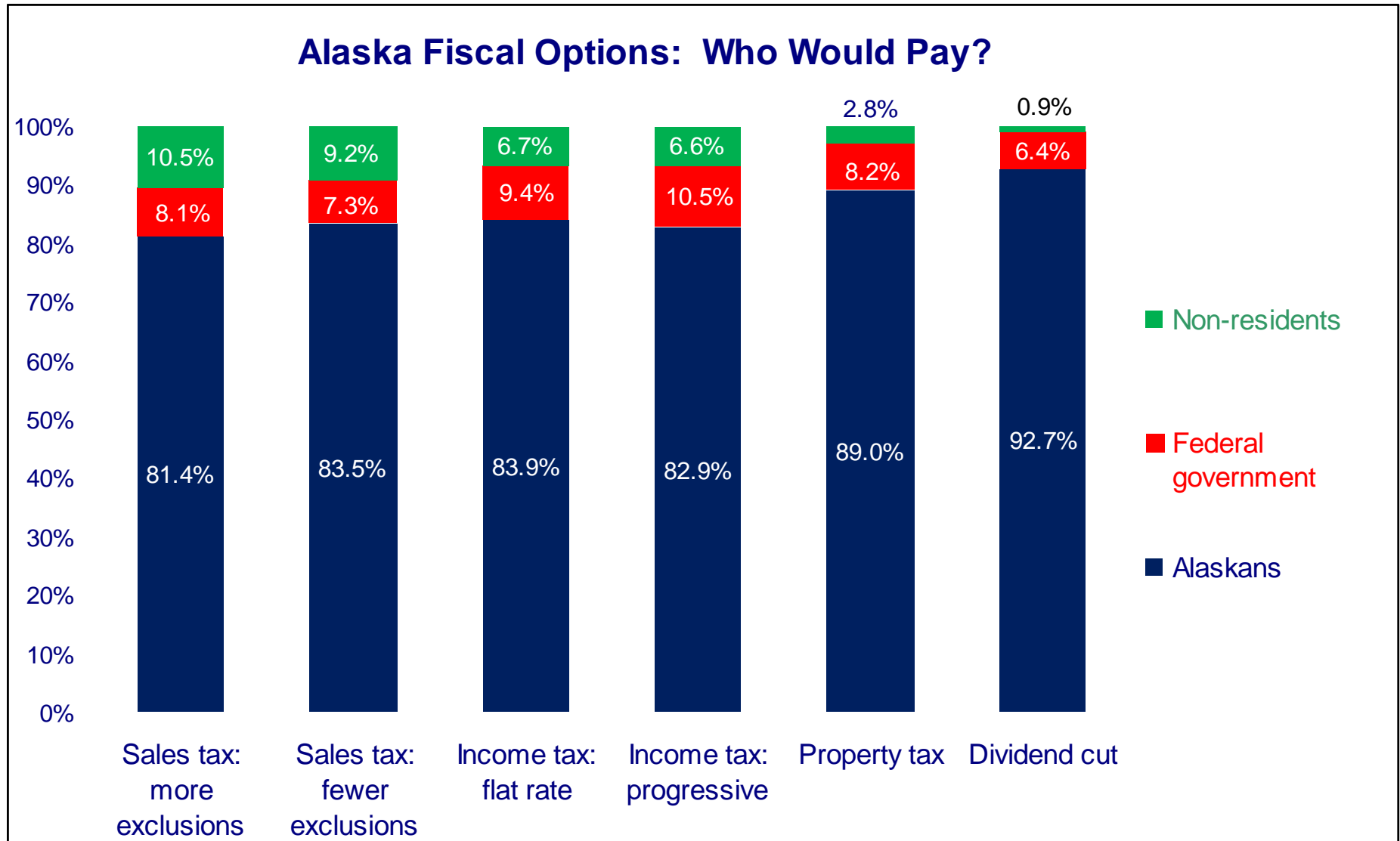
- Our only purpose is to help inform the fiscal discussion
- Our analysis:
  - Is relevant to our fiscal choices
  - Is far from sufficient as a sole basis for arguing for or against any fiscal options

## We prepared this study independently

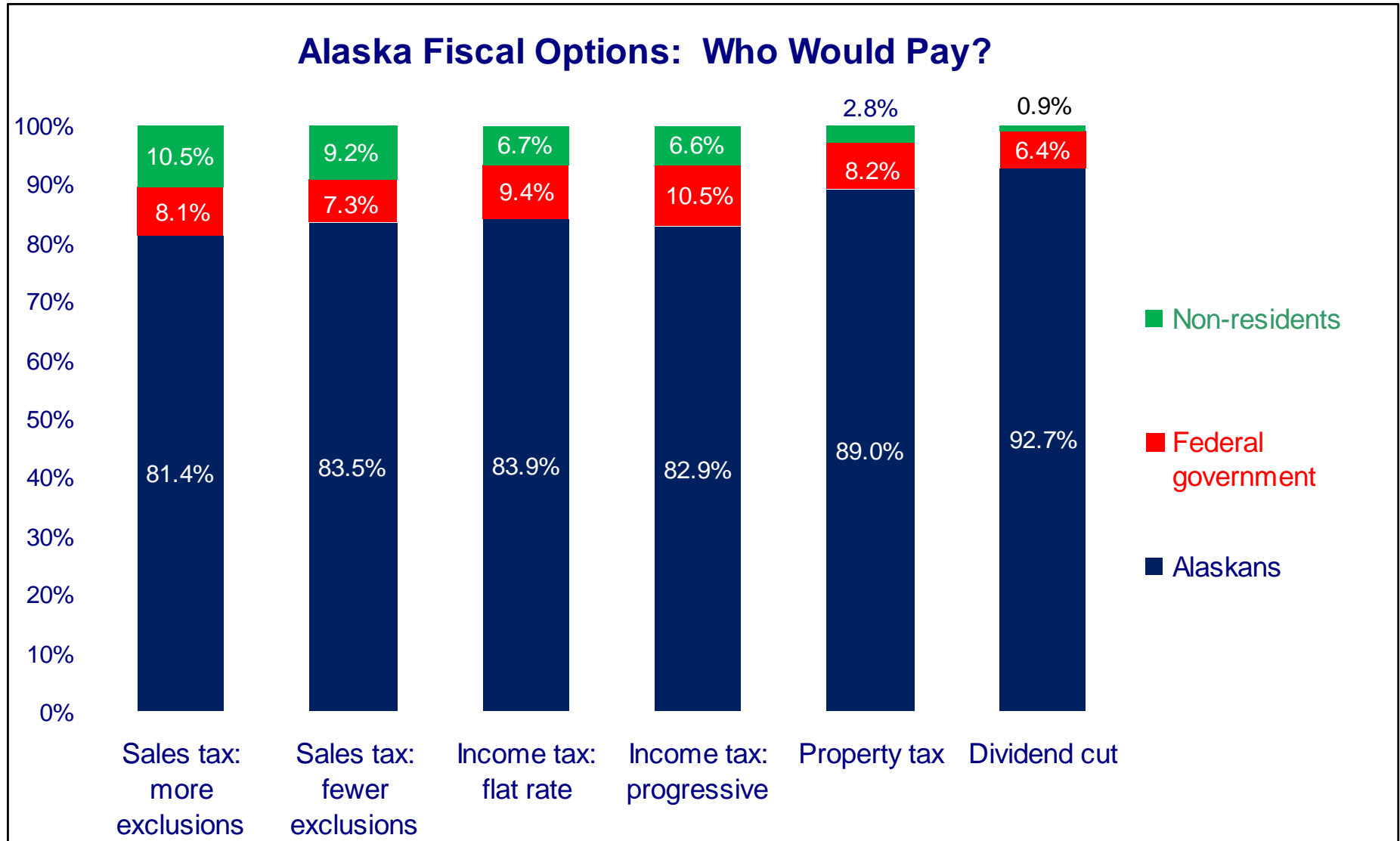
- The Department of Revenue and Office of Management and Budget funded this study
- They had no influence over our study design, analysis or conclusions
- Our findings are only what we report in our report and presentations
  - They are not necessarily what other people say they are

# Revenue Impacts of taxes and dividend cuts

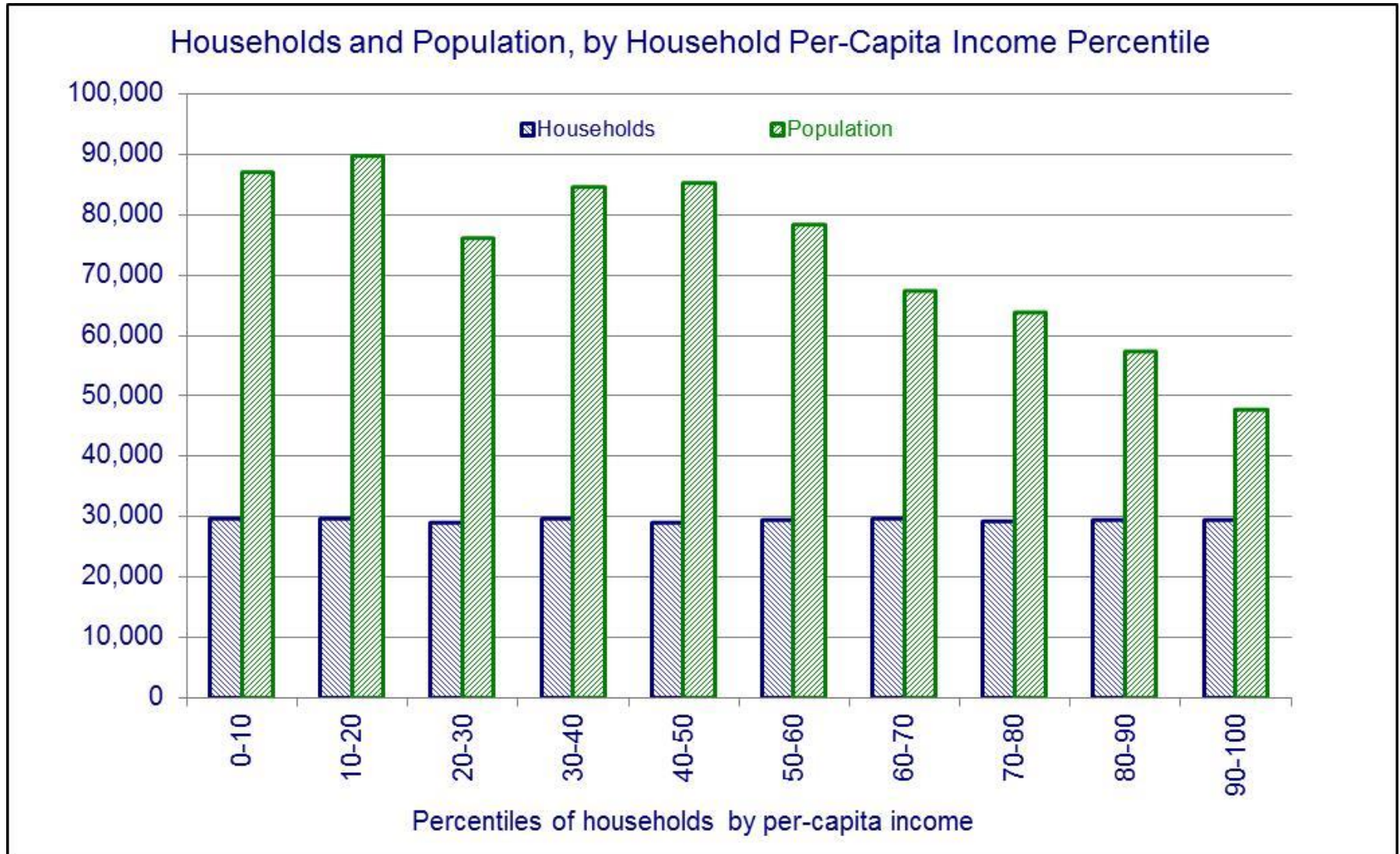
Non-residents would pay about 9-11% of sales taxes  
and about 7% of income taxes



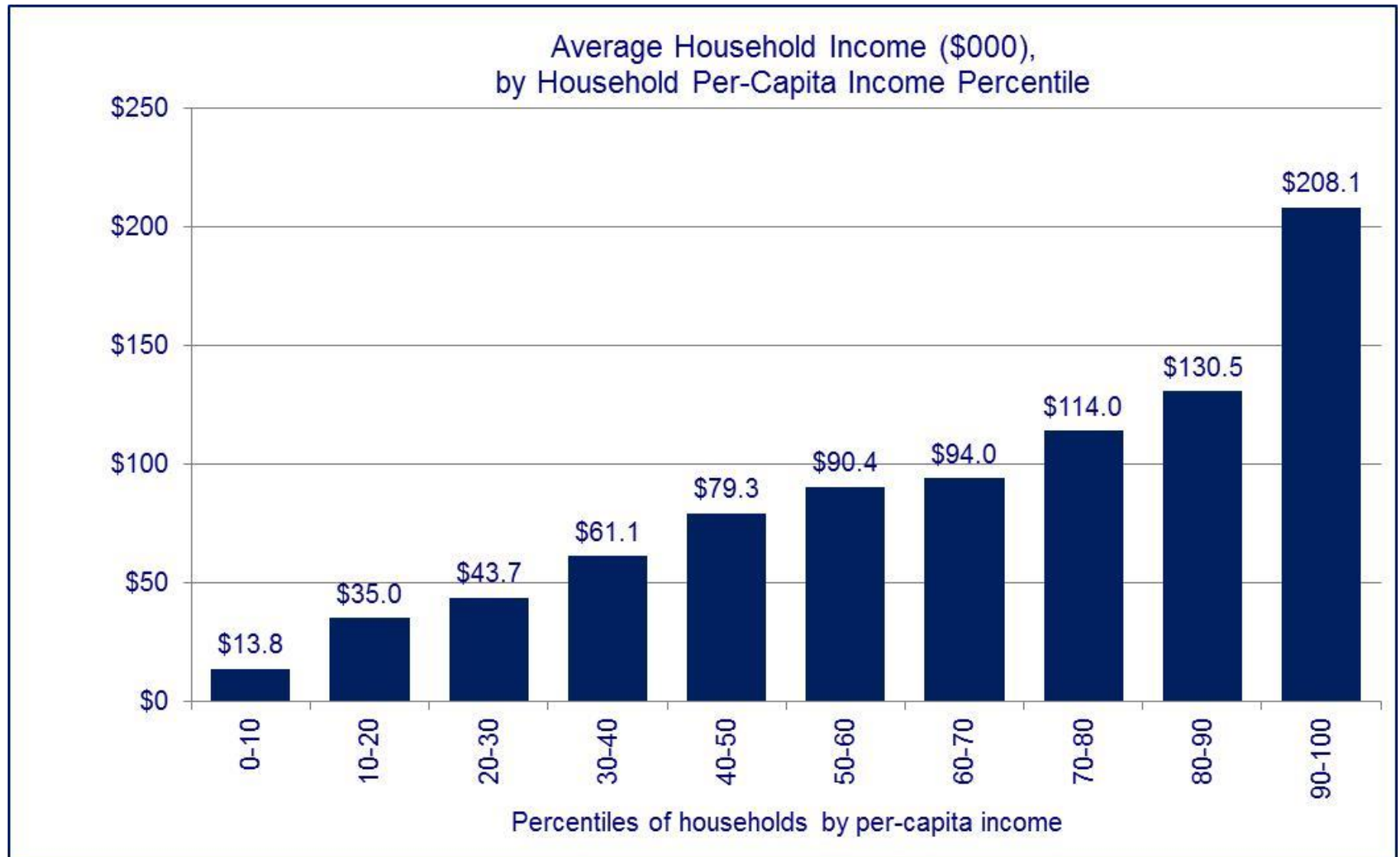
The impacts of state taxes and dividend cuts on Alaskans' incomes would be partially offset by reductions in their federal taxes. Higher-income households who pay higher tax rates would benefit most.



We estimated effects of taxes and dividend cuts for 10 groups of Alaska households, grouped by their per-capita cash income in 2013, from the lowest 10% to the highest 10%

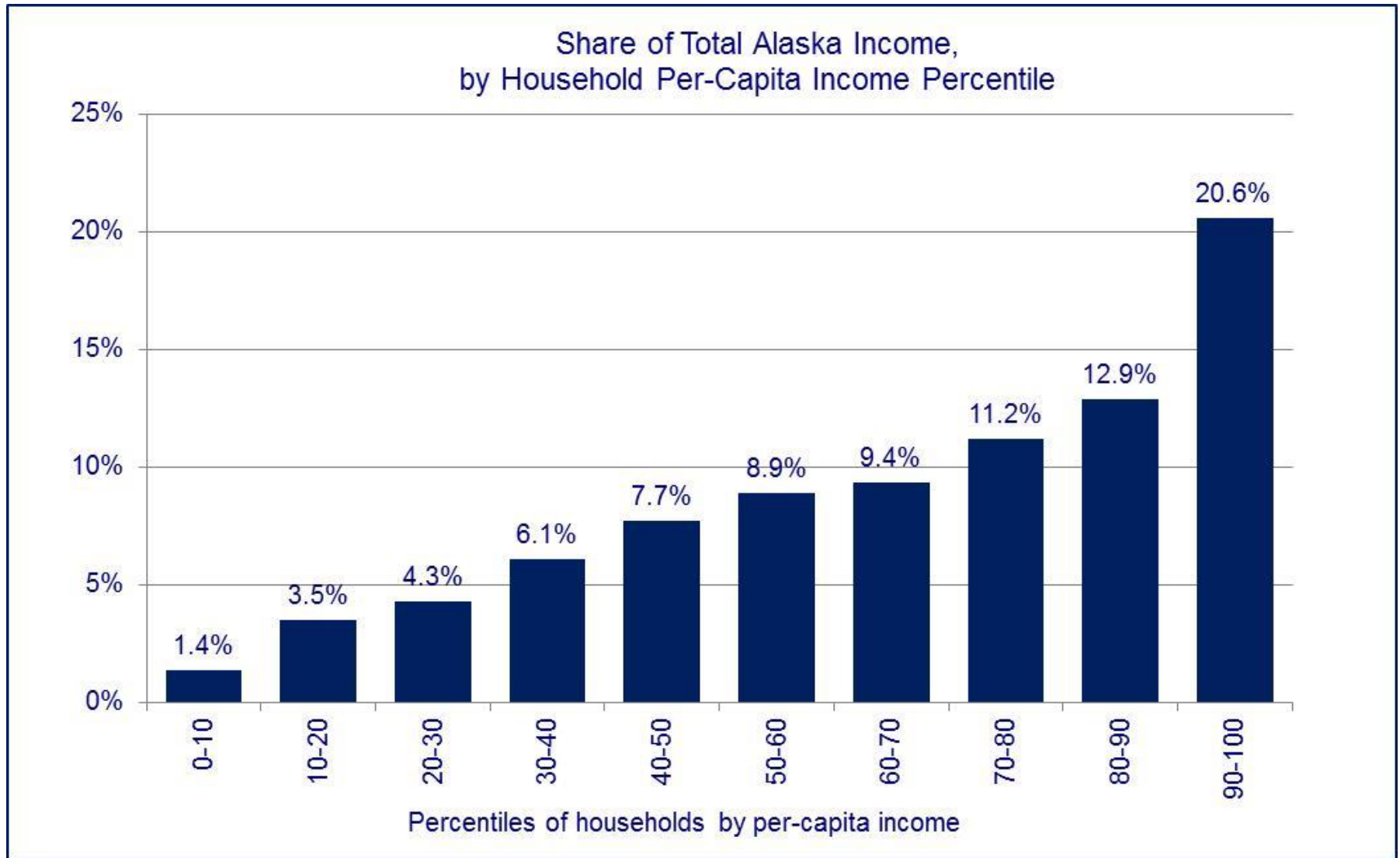


The three lowest-income groups had average household incomes of less than \$45,000.  
The highest-income group had an average household income of more than \$200,000.

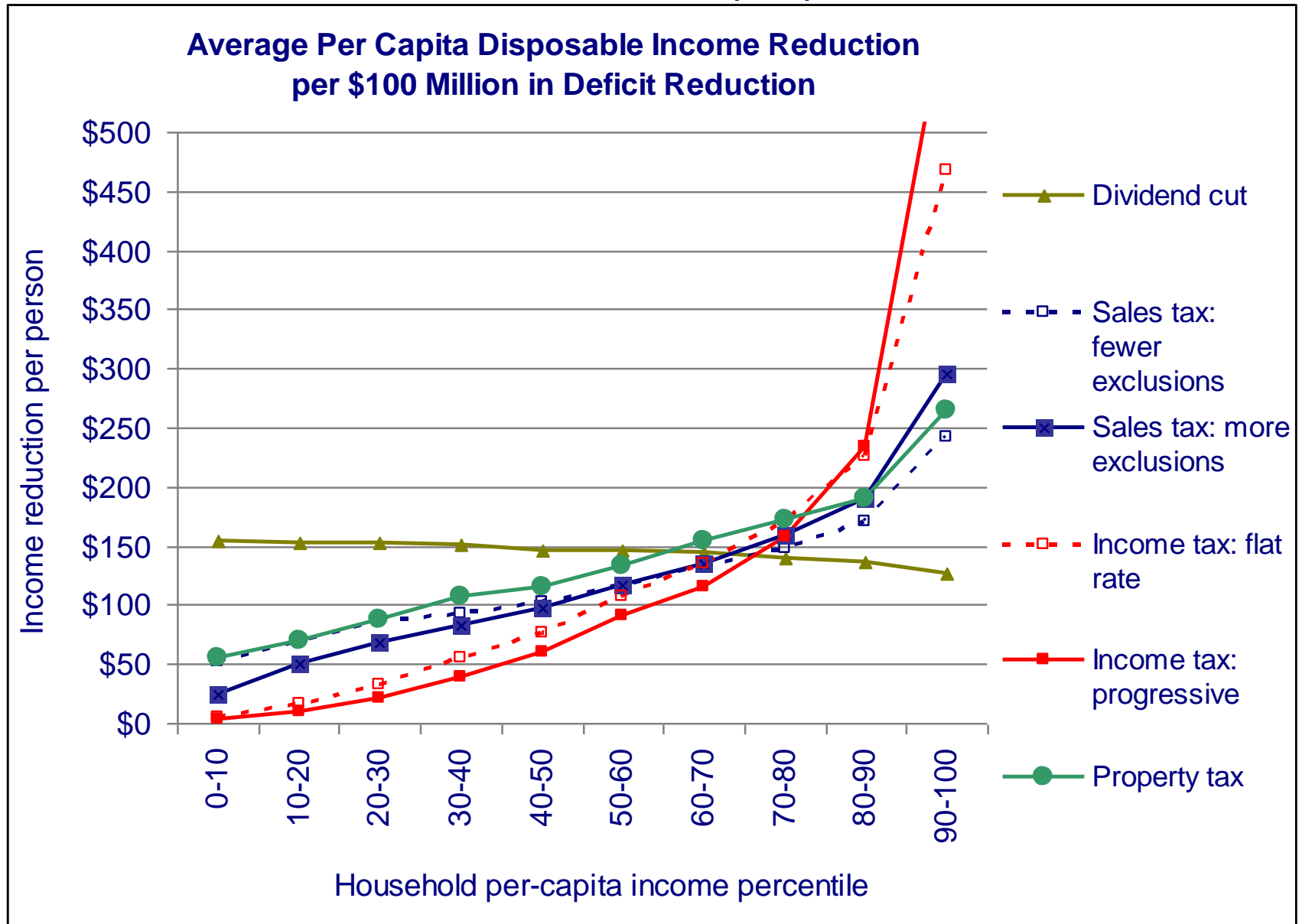




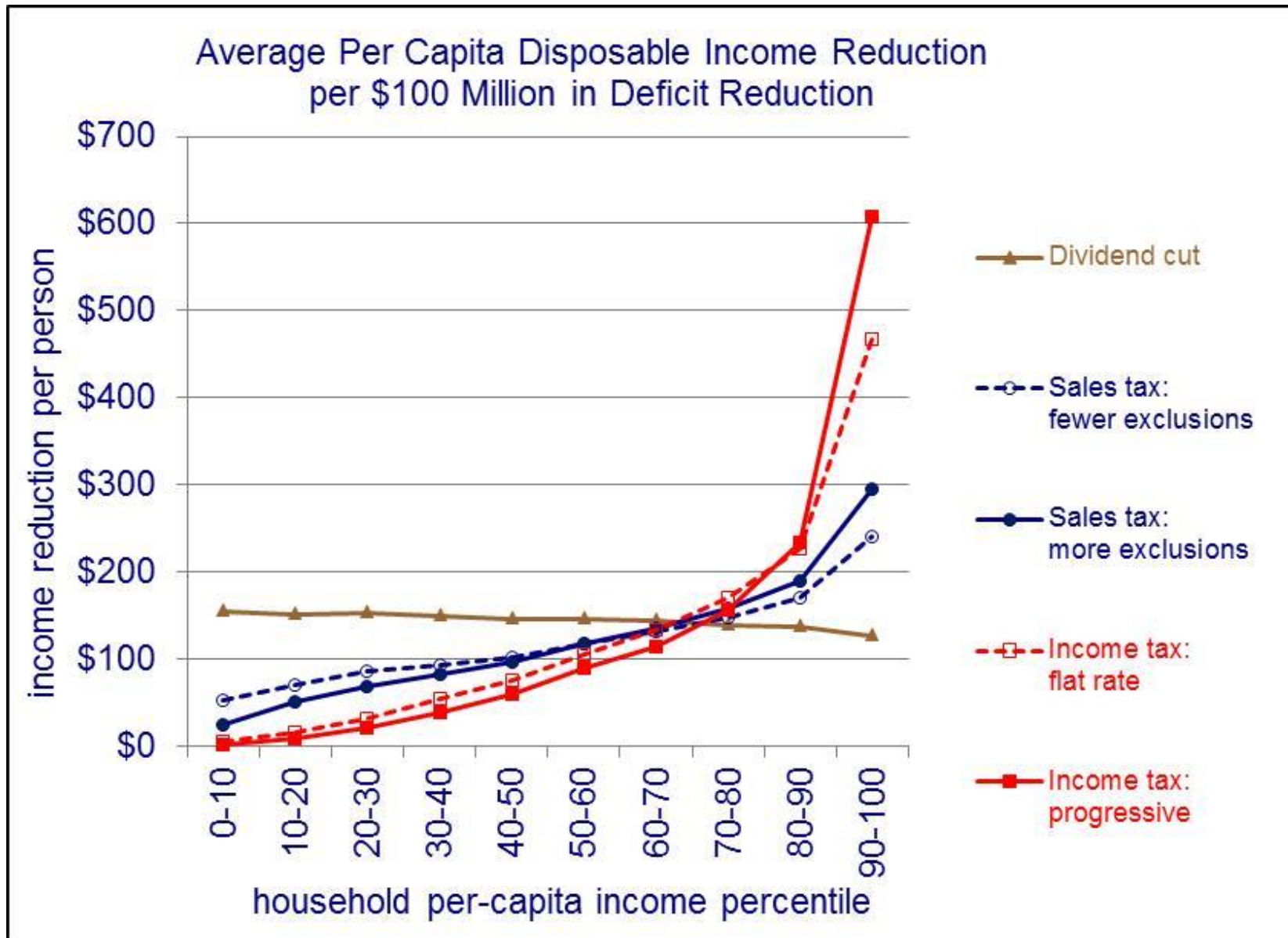
The share of the highest income group in total income (21%) was almost as high as the shares of the bottom five groups combined (22%).



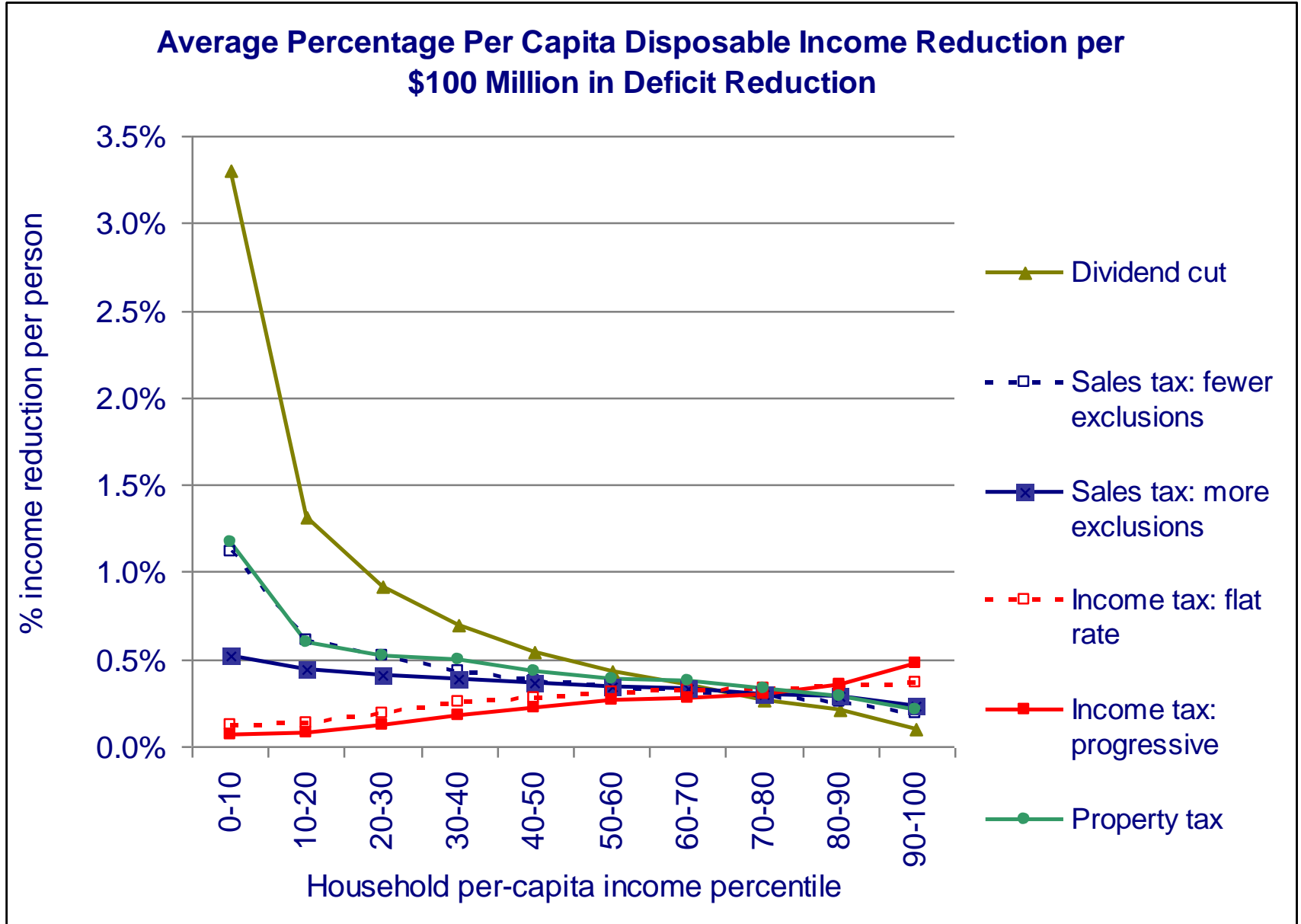
## How options affect different groups: income reduction per person



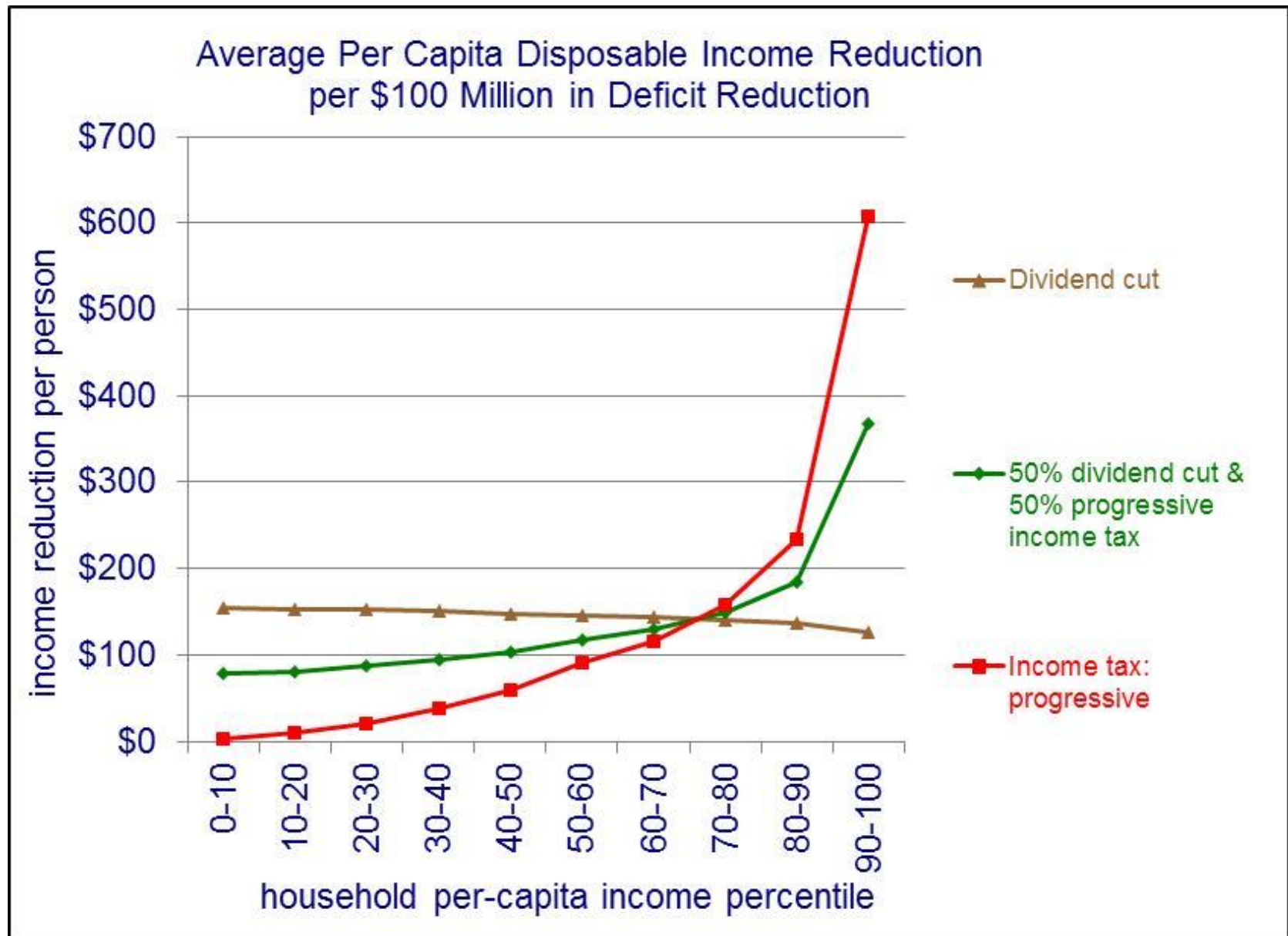
Dividend cuts cost lower-income households more  
--because less of their dividends go to federal taxes.



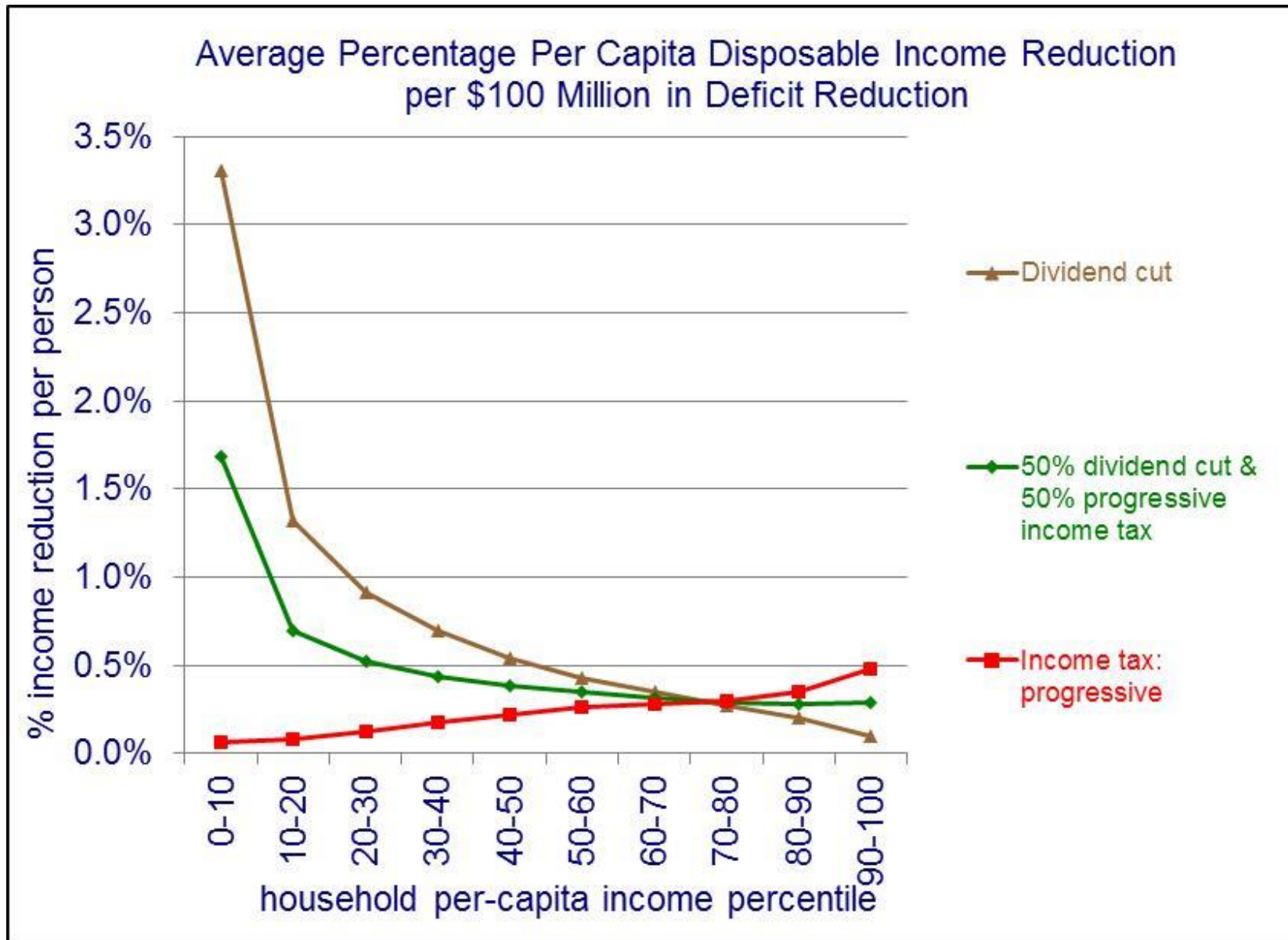
## How options affect different groups: percentage income reduction per person



Combinations of options would have intermediate effects on households of different income levels.



Combinations of options would have intermediate effects on households of different income levels.



# Short-run economic impacts of fiscal options

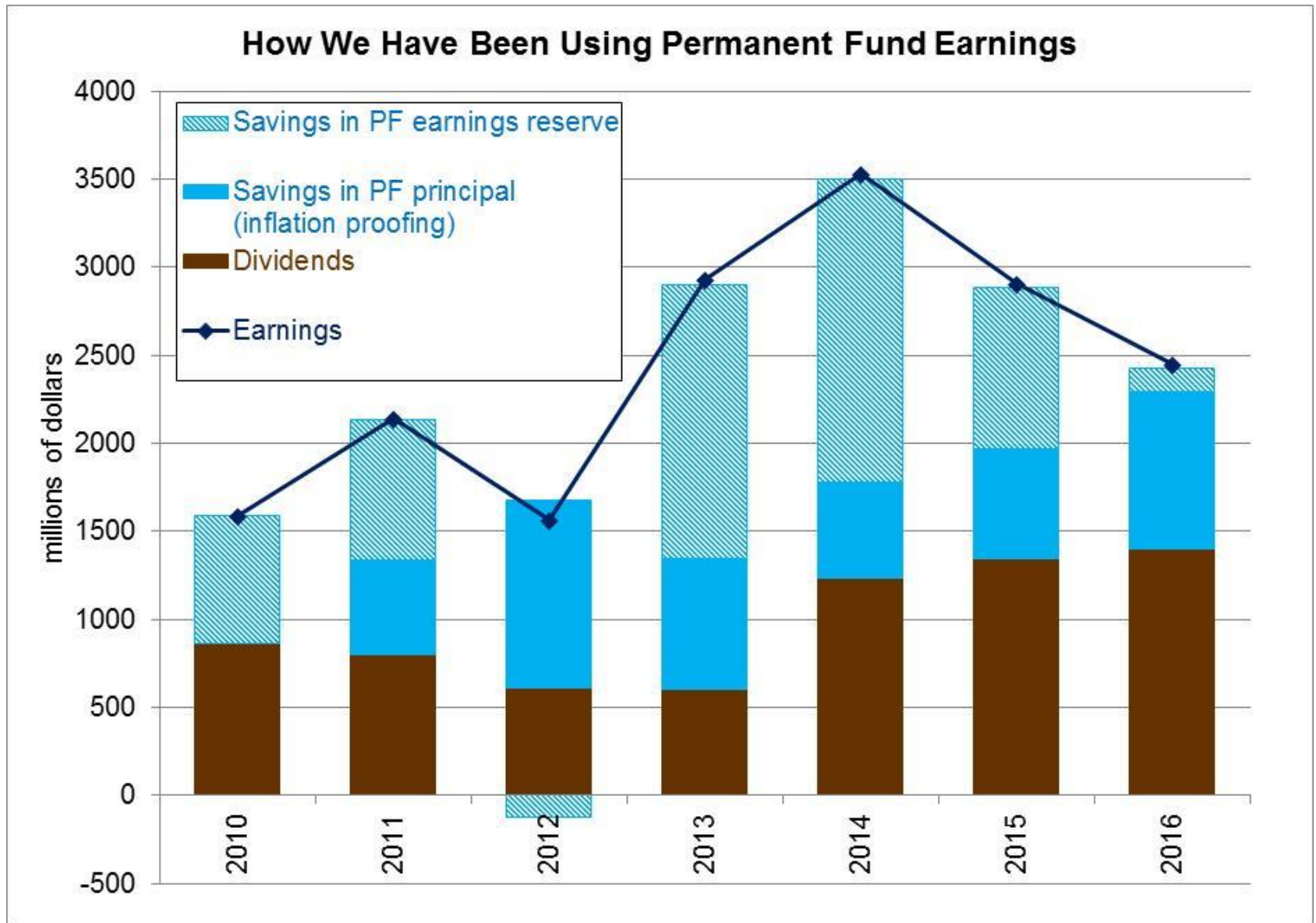


Saving less (and using the money to fund government) would have no short-run economic impacts on the Alaska economy.

- Options for saving less include:
  - Reducing inflation-proofing transfers to PF principal
  - Adding less to the PF earnings reserve
- Saving less would not:
  - take *any* money out of the economy
  - have *any* short-run impacts on jobs or income
- But it would reduce:
  - our future investment earnings
  - how much savings we leave for future Alaskans



From 2010 to 2015, we saved an average of \$1.4 billion annually of Permanent Fund realized earnings



Spending cuts, taxes, and dividend cuts  
would have significant short-run economic impacts.

They would *all* take significant amounts of money out of the economy.

But they would do so in different ways,  
with different impacts on different Alaskans  
and different relative impacts on public and private employment.

## How we compared relative impacts of spending cuts, taxes, and dividend cuts

- Standard “economic impact analysis” using IMPLAN model
- Impacts per \$100 million of deficit reduction
- “Low” and “high” impact estimates
  - Based on different assumptions about how changes in income affect spending and “multiplier impacts”
  - “Low” and “High” assumptions estimated from different data sources
  - Earlier presentations presented “high” impact estimates
  - “Low” impact estimates slightly smaller, same relative impacts

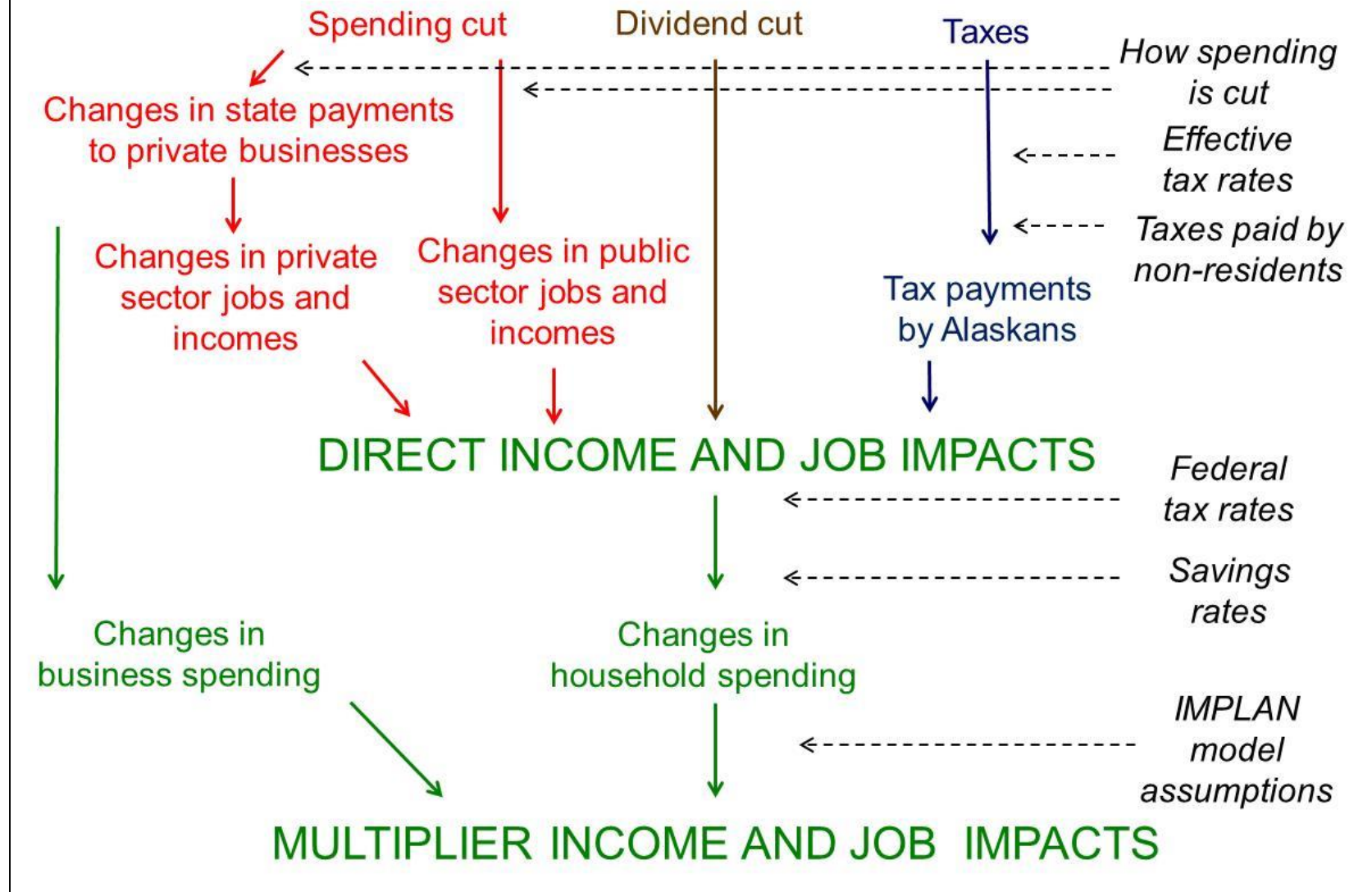
Economic impacts of **spending cuts** depend on what is cut  
What is cut affects:

- Direct impacts on workers' incomes and jobs
  - Government workers
  - Contractor workers
- Impacts on contractor sales and spending
- Impacts of reductions in state services
  - Infrastructure development and maintenance
  - Resource management (fish catches, mine permitting)
  - Transportation (Marine Highway service, road plowing, etc.)
  - Quality of social services (schools, health care, parks, etc.)

*You can't generalize about economic impacts of **spending cuts**.  
Our estimates illustrate a range of potential impacts.*

# Input-Output Modeling Methodology for Estimating Short-Run Economic Impacts of Fiscal Options

## MAJOR ASSUMPTIONS



## Calculating economic impacts: direct income impacts

### Short-Run Economic Impacts per \$100 Million of Deficit Reduction

Option	Direct earned income (\$ millions)	Direct other income (\$ millions)	<i>Why the direct income impact is less than \$100 million</i>
Spending cut: workers	95		<i>Not all of the cut is to worker pay</i>
Spending cut: broad-based	67		"
Spending cut: capital	42		"
Spending cut: pay	100		
Income tax: progressive		93	<i>Non-residents pay part of the tax</i>
Income tax: flat rate		93	"
Sales tax: more exclusions		89	"
Sales tax: fewer exclusions		90	"
Property tax		97	"
Dividend cut		99	<i>Some dividend recipients leave</i>
Saving less		0	

## Calculating economic impacts: multiplier income impacts

**Short-Run Economic Impacts per \$100 Million of Deficit Reduction**

Option	Income Impacts (millions of \$ of income)			
	Direct earned	Direct other	Multi- plier	Total
Spending cut: workers	95		43	138
Spending cut: broad-based	67		48	115
Spending cut: capital	42		22	64
Spending cut: pay	100		43	143
Income tax: progressive		93	45	138
Income tax: flat rate		93	46	138
Sales tax: more exclusions		89	44	133
Sales tax: fewer exclusions		90	45	135
Property tax		97	48	146
Dividend cut		99	50	149
Saving less				0



**Pay cuts** have a smaller multiplier impact than **dividend cuts**  
because more of pay goes to federal taxes and savings

# Calculating economic impacts: job impacts

## Short-Run Economic Impacts per \$100 Million of Deficit Reduction

Option	Job Impacts (FTE jobs)		
	Direct	Multi- plier	Total
Spending cut: workers	962	715	1677
Spending cut: broad-based	504	754	1260
Spending cut: capital	506	425	931
Spending cut: pay		727	727
Income tax: progressive		786	786
Income tax: flat rate		798	798
Sales tax: more exclusions		775	775
Sales tax: fewer exclusions		795	795
Property tax		854	854
Dividend cut		892	892
Saving less			0

Job impacts are biggest for **cutting government workers** because they include direct losses of government jobs

Taxes and **dividend cuts** have only multiplier impacts on jobs.



## Short-Run Economic Impacts per \$100 Million of Deficit Reduction (High Scenario)

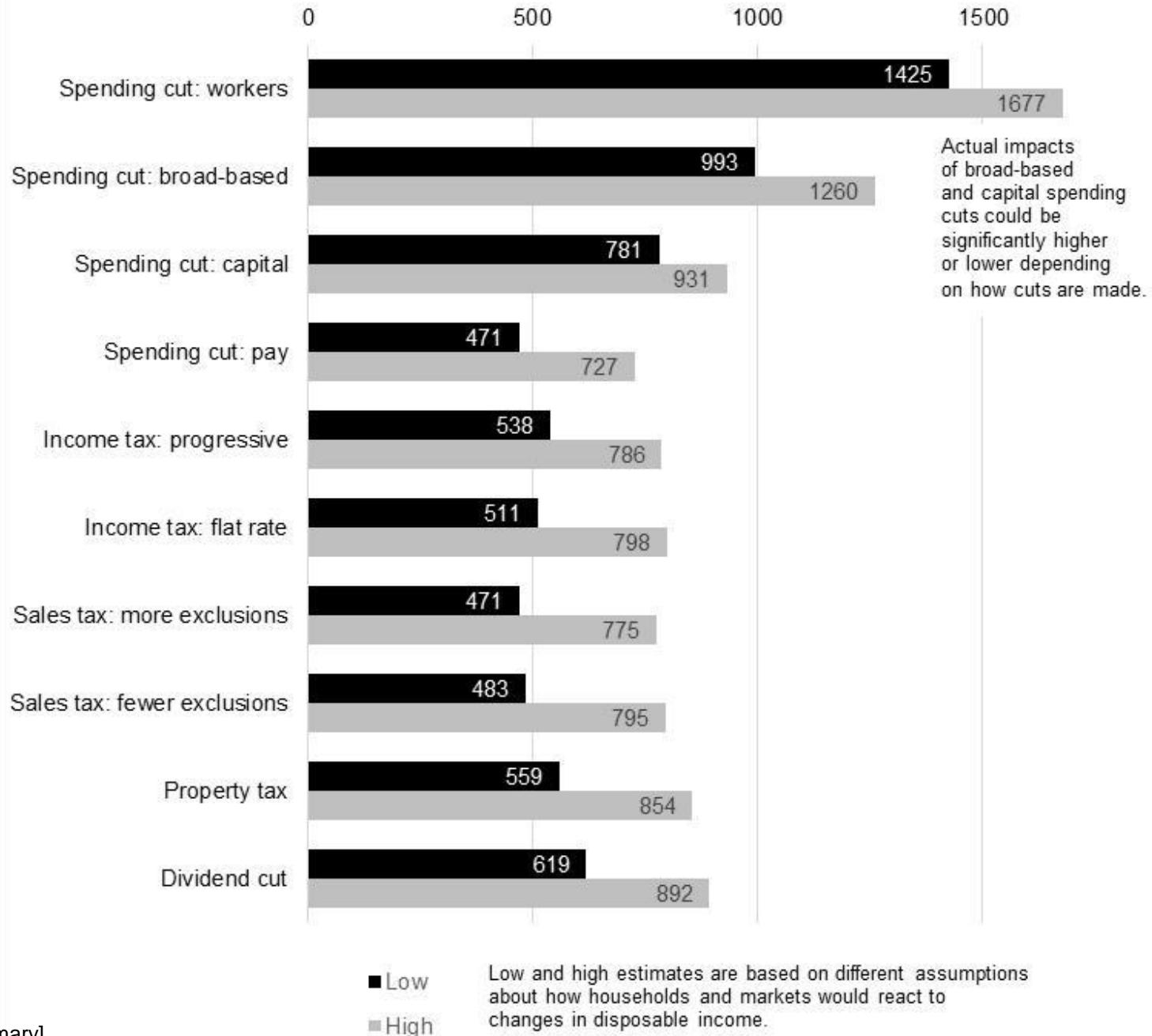
Option	Income Impacts (millions of \$ of income)				Job Impacts (FTE jobs)		
	Direct earned	Direct other	Multi- plier	Total	Direct	Multi- plier	Total
Spending cut: workers	95		43	138	962	715	1677
Spending cut: broad-based	67		48	115	504	754	1260
Spending cut: capital	42		22	64	506	425	931
Spending cut: pay	100		43	143		727	727
Income tax: progressive		93	45	138		786	786
Income tax: flat rate		93	46	138		798	798
Sales tax: more exclusions		89	44	133		775	775
Sales tax: fewer exclusions		90	45	135		795	795
Property tax		97	48	146		854	854
Dividend cut		99	50	149		892	892
Saving less				0			0

### Summary of Fiscal Options & Estimated Impacts per \$100 Million of Deficit Reduction

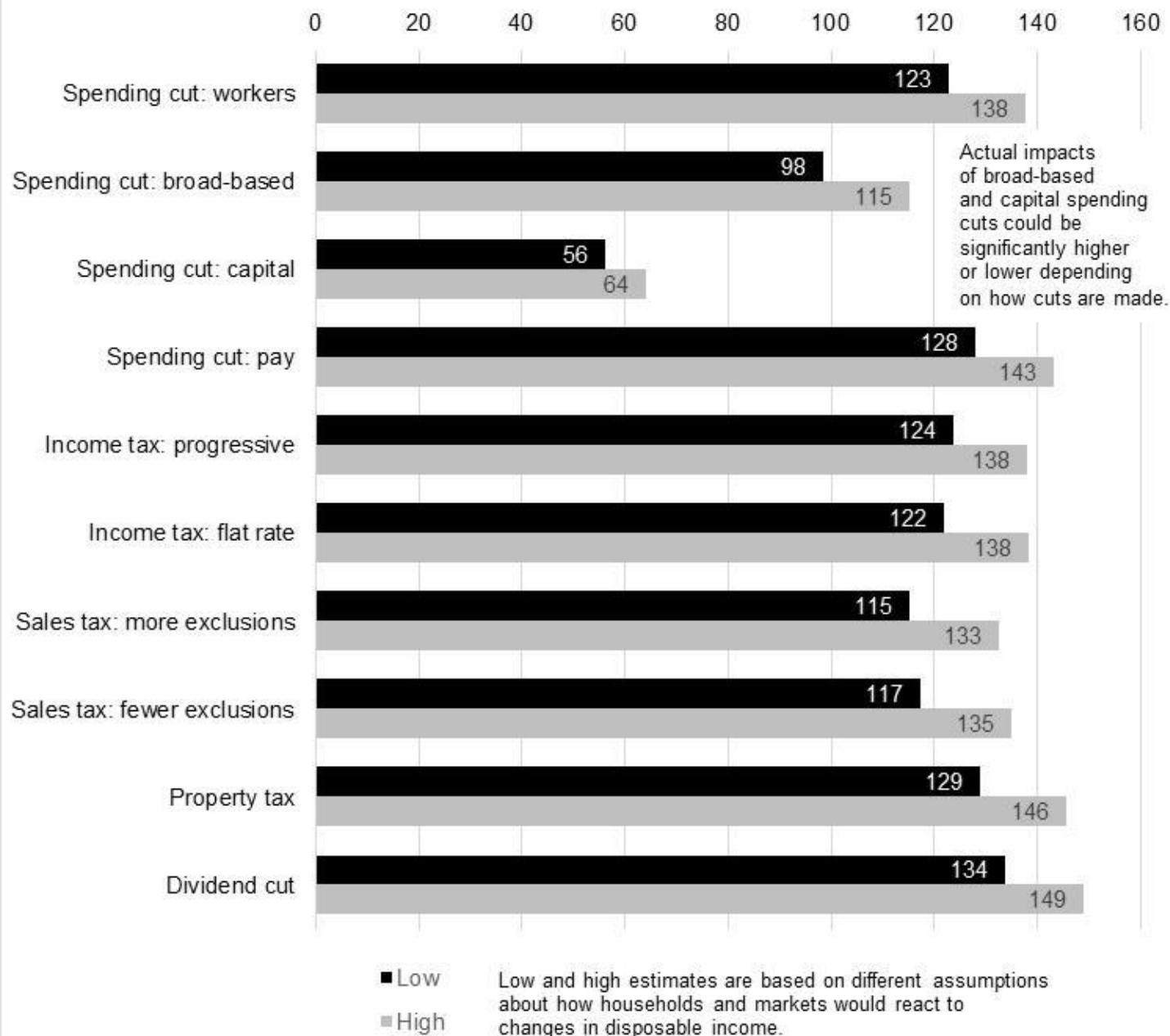
Fiscal Option	Direct economic impacts	Who would be most affected	Short-run income impacts (\$ millions)	Short-run job impacts (FTE jobs)
Spending cut: workers	Reduce gov't jobs & pay	Gov't workers	123 - 138	1425 - 1677
Spending cut: broad-based	Reduce gov't jobs & pay Reduce other gov't purchases	Gov't workers Gov't contractors & workers	98 - 115	993 - 1260
Spending cut: capital	Reduce gov't capital spending	Construct. ind. & workers	56 - 64	781 - 931
Spending cut: pay	Reduce gov't employee pay	Gov't workers	128 - 143	471 - 727
Income tax: progressive	Reduce Alaskans disposable income	Higher income Alaskans	124 - 138	538 - 786
Income tax: flat rate			122 - 138	511 - 798
Sales tax: more exclusions		Medium & lower income Alaskans	115 - 133	471 - 775
Sales tax: fewer exclusions			117 - 135	483 - 795
Property tax			129 - 146	559 - 854
Dividend cut	Reduce Alaskans' income	Lower income Alaskans	134 - 149	619 - 892
Saving less	No short-term impacts	Future Alaskans		

Note: The numbers shown for income and job impacts represent low and high estimates of impacts based on different assumptions about how households and markets would react to changes in disposable income.

# Estimated Job Impacts per \$100 Million of Deficit Reduction (FTE jobs)



**Estimated Income Impacts per \$100 Million of Deficit Reduction (\$ millions)**



The economic impacts of reducing the deficit will depend on what combination of options we use.

**Short-Run Economic Impacts per \$100 Million of Deficit Reduction**

	Total impacts of each option		Impacts of a combination of options		
	Income (\$ millions)	FTE jobs	% of deficit reduction	Income (\$ millions)	FTE jobs
Spending cut: workers	138	1677			
Spending cut: broad-based	115	1260	25%	29	315
Spending cut: capital	64	931			
Spending cut: pay	143	727			
Income tax: progressive	138	786	25%	34	197
Income tax: flat rate	138	798			
Sales tax: more exclusions	133	775			
Sales tax: fewer exclusions	135	795			
Property tax	146	854			
Dividend cut	149	892	25%	37	223
Saving less	0	0	25%	0	0
Combination of options	101	735		101	735

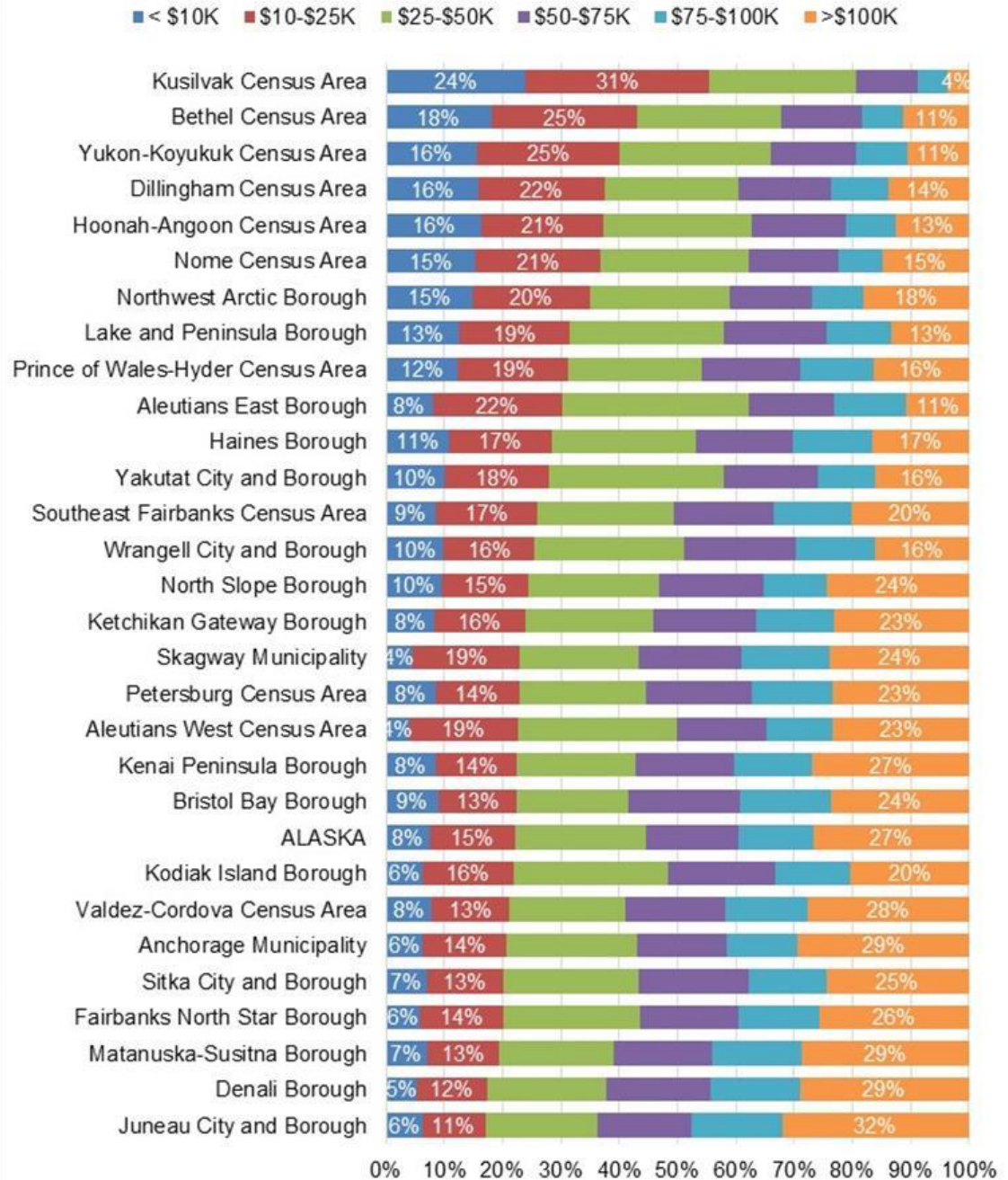
**Examples of Ranges of Estimated Economic Impacts Per \$100 Million of Deficit Reduction  
Resulting from Selected Potential Combinations of Fiscal Options**

Examples of potential combinations of options	Option	Two options						Three options				Four options
	Spending cut: workers											
	Spending cut: broad-based	50%	50%		50%			33%	33%	33%		25%
	Spending cut: capital											
	Spending cut: pay											
	Income tax: progressive	50%		50%			50%	33%		33%	33%	25%
	Income tax: flat rate											
	Sales tax: more exclusions											
	Sales tax: fewer exclusions											
	Property tax											
	Dividend cut		50%	50%		50%		33%	33%		33%	25%
	Saving less				50%	50%	50%		33%	33%	33%	25%

Range of estimated impacts	<b>Total income impact (millions of \$ of income)</b>											
	Low scenario	111	116	129	49	67	62	119	77	74	86	89
	High scenario	127	132	143	58	74	69	134	88	84	96	101
	<b>Total jobs impact (FTE jobs in Alaska)</b>											
	Low scenario	765	806	578	496	309	269	716	537	510	386	537
	High scenario	1023	1076	839	630	446	393	980	717	682	560	735

# Regional differences in economic impacts of fiscal options

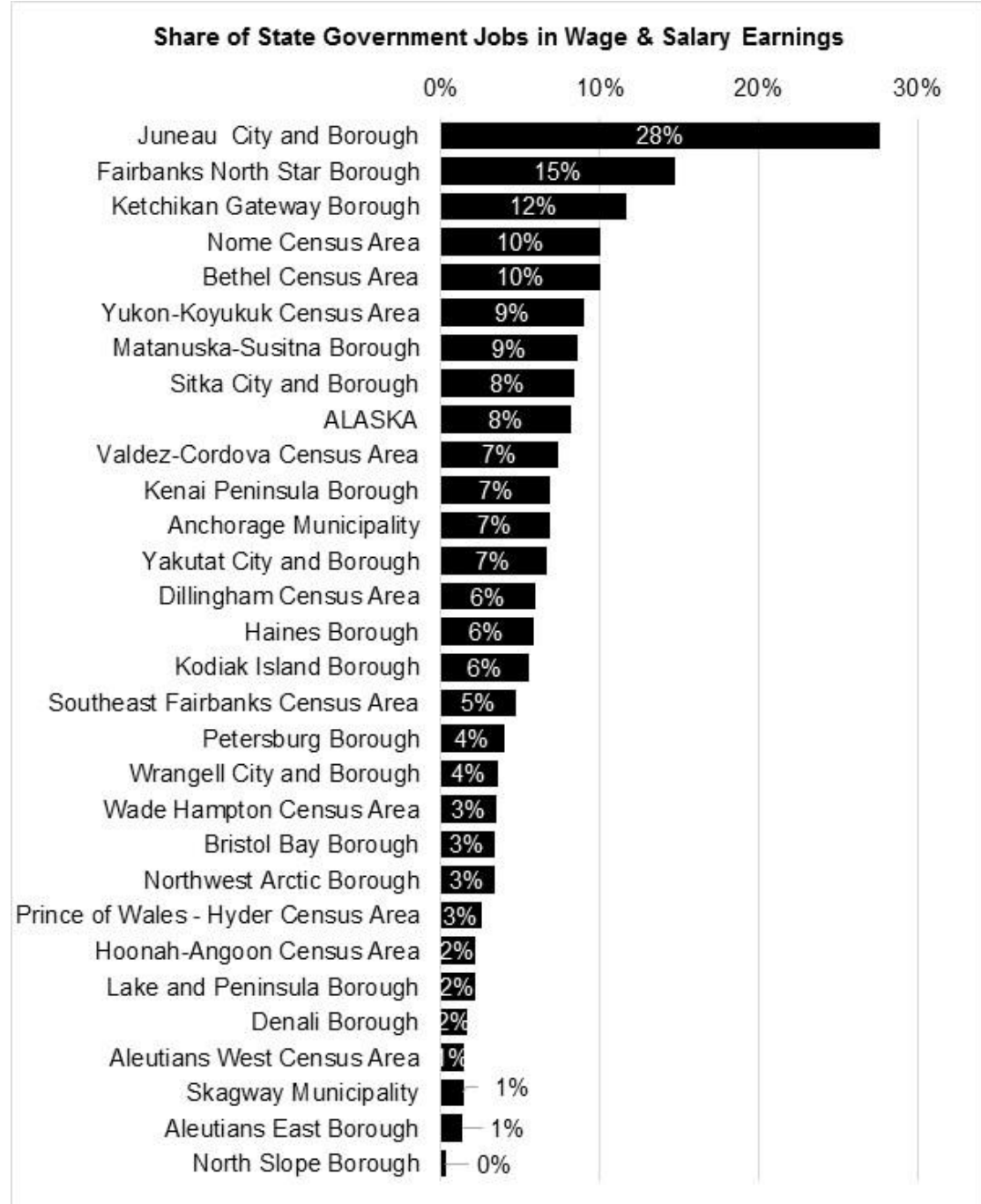
Share of Total 2013 Federal Income Tax Exemptions,  
by Adjusted Gross Income Group and Alaska Census Area



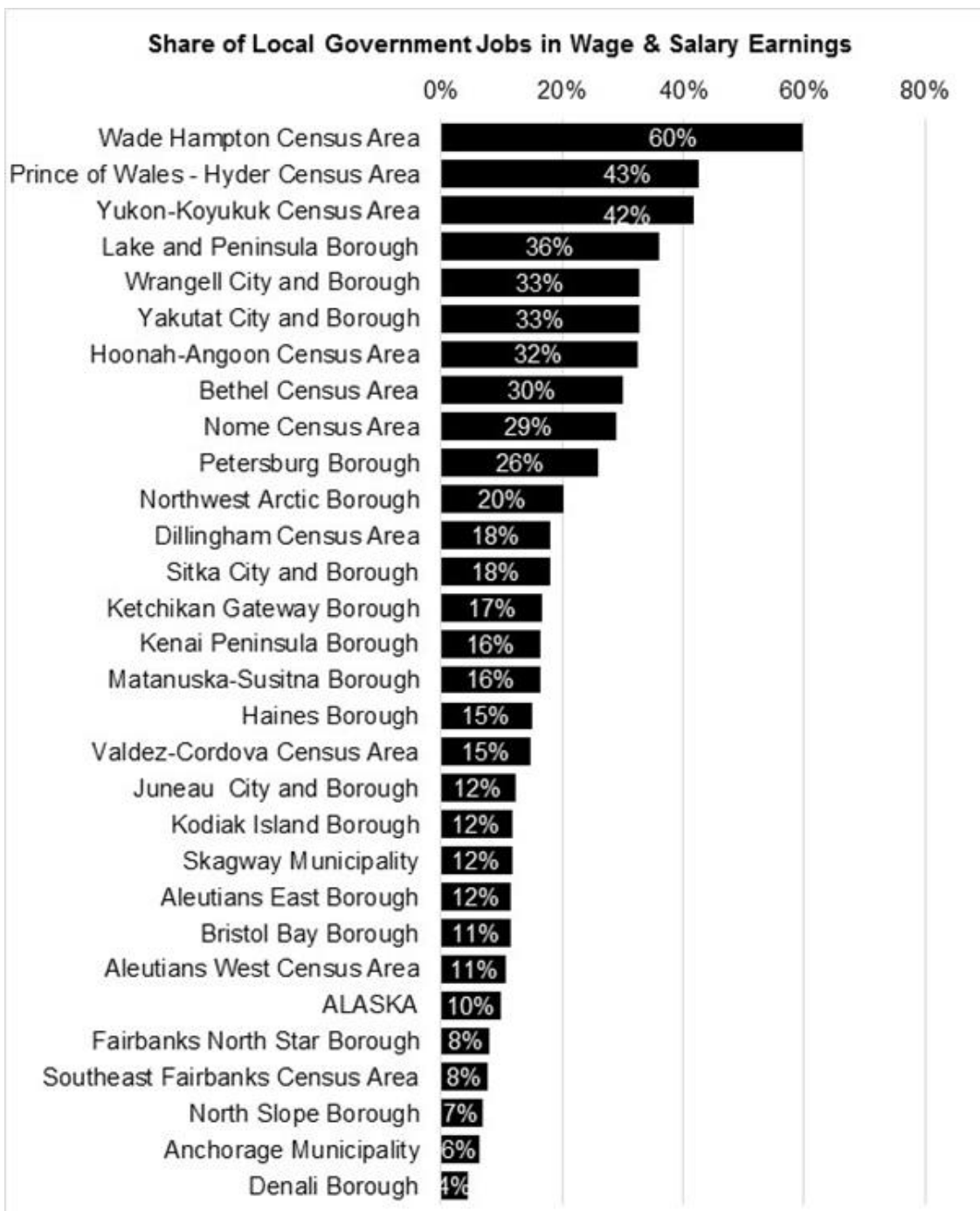
Income distribution  
varies for different  
regions of Alaska



Regional economic impacts of state spending cuts would depend on how important state government jobs and income are in the regional economy. Some regions are much more dependent than others.



Regional economic impacts of cuts to revenue sharing, K-12 education, and other ways that state spending helps fund local government would depend on how important local government jobs are in the regional economy. Some regions are much more dependent than others.



# Total economic impacts of reducing the deficit

# Estimated income and job impacts of reducing the deficit by different amounts using different options

**Estimated Impacts of Reducing the Deficit by Selected Total Amounts Using Different Potential Combinations of Fiscal Options**

		Two options						Three options				Four options
Combinations of fiscal options	Spending cut: broad-based	50%	50%		50%			33%	33%	33%		25%
	Income tax: progressive	50%		50%			50%	33%		33%	33%	25%
	Dividend cut		50%	50%	0%	50%		33%	33%		33%	25%
	Saving less				50%	50%	50%		33%	33%	33%	25%
Estimated impacts of reducing deficit by \$100 million	Income: Low scenario	111	116	129	49	67	62	119	77	74	86	89
	Income: High scenario	127	132	143	58	74	69	134	88	84	96	101
	Jobs: Low scenario	765	806	578	496	309	269	716	537	510	386	537
	Jobs: High scenario	1,023	1,076	839	630	446	393	980	717	682	560	735
Estimated impacts of reducing deficit by \$500 million	Income: Low scenario	555	580	643	246	334	309	593	387	370	429	445
	Income: High scenario	633	660	717	288	372	345	670	440	422	478	503
	Jobs: Low scenario	3,826	4,029	2,892	2,481	1,547	1,345	3,582	2,686	2,551	1,928	2,687
	Jobs: High scenario	5,116	5,380	4,196	3,150	2,230	1,966	4,898	3,587	3,411	2,798	3,673
Estimated impacts of reducing deficit by \$1.0 billion	Income: Low scenario	1,110	1,160	1,286	492	668	618	1,185	773	740	858	889
	Income: High scenario	1,265	1,320	1,434	576	745	690	1,340	880	844	956	1,005
	Jobs: Low scenario	7,652	8,057	5,784	4,963	3,094	2,690	7,164	5,371	5,102	3,856	5,373
	Jobs: High scenario	10,232	10,761	8,393	6,300	4,461	3,932	9,795	7,174	6,821	5,595	7,346
Estimated impacts of reducing deficit by \$1.5 billion	Income: Low scenario	1,665	1,740	1,930	738	1,002	927	1,778	1,160	1,110	1,286	1,334
	Income: High scenario	1,898	1,981	2,152	864	1,117	1,035	2,010	1,320	1,265	1,434	1,508
	Jobs: Low scenario	11,479	12,086	8,676	7,444	4,641	4,034	10,747	8,057	7,652	5,784	8,060
	Jobs: High scenario	15,348	16,141	12,589	9,450	6,691	5,898	14,693	10,761	10,232	8,393	11,019
Estimated impacts of reducing deficit by \$2.0 billion	Income: Low scenario	2,220	2,320	2,573	984	1,337	1,236	2,371	1,547	1,480	1,715	1,778
	Income: High scenario	2,531	2,641	2,869	1,152	1,489	1,379	2,680	1,761	1,687	1,913	2,010
	Jobs: Low scenario	15,305	16,114	11,568	9,926	6,188	5,379	14,329	10,743	10,203	7,712	10,747
	Jobs: High scenario	20,464	21,521	16,785	12,600	8,921	7,864	19,590	14,348	13,643	11,190	14,693
Estimated impacts of reducing deficit by \$2.5 billion	Income: Low scenario							2,964	1,933	1,850	2,144	2,223
	Income: High scenario							3,350	2,201	2,109	2,391	2,513
	Jobs: Low scenario							17,911	13,428	12,754	9,640	13,433
	Jobs: High scenario							24,488	17,934	17,053	13,988	18,366
Estimated impacts of reducing deficit by \$3.0 billion	Income: Low scenario							3,556	2,320	2,220	2,573	2,667
	Income: High scenario							4,020	2,641	2,531	2,869	3,015
	Jobs: Low scenario							21,493	16,114	15,305	11,568	16,120
	Jobs: High scenario							29,385	21,521	20,464	16,785	22,039

Note: Units for income impacts are millions of dollars. Units for job impacts are FTE jobs. Table omits combination of options and total deficit reduction which would require reductions of more than \$1 billion from any single option. Table calculated by extrapolating from the estimated impacts of reducing the deficit by \$100 million shown in Table III-7.

## How big is Alaska's economy?

### Selected Estimates of Alaska Income and Employment, 2014

Income (\$ millions)	Personal income	39,793
	Earnings by place of work	30,059
	Wages and salaries	20,683
Employment (jobs)	Total full-time and part-time employment	465,130
	Wage and salary jobs	367,291
	Other jobs	97,839

Source: Bureau of Economic Analysis, SA30 Economic Profile (updated September 30, 2015), [www.bea.gov](http://www.bea.gov).

# Estimated percentage income impacts of reducing the deficit by different amounts using different options

**Estimated Income Impacts of Reducing the Deficit by Selected Total Amounts Using Different Potential Combinations of Fiscal Options, Expressed as a Share of Estimated Total Alaska Personal Income in 2014 (\$39.8 billion)**

		Two options						Three options				Four options
Combinations of fiscal options	Spending cut: broad-based	50%	50%		50%			33%	33%	33%		25%
	Income tax: progressive	50%		50%			50%	33%		33%	33%	25%
	Dividend cut		50%	50%		50%		33%	33%		33%	25%
	Saving less				50%	50%	50%		33%	33%	33%	25%
\$100 million	Income: Low scenario	0.3%	0.3%	0.3%	0.1%	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%	0.2%
	Income: High scenario	0.3%	0.3%	0.4%	0.1%	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%	0.3%
\$500 million	Income: Low scenario	1.4%	1.5%	1.6%	0.6%	0.8%	0.8%	1.5%	1.0%	0.9%	1.1%	1.1%
	Income: High scenario	1.6%	1.7%	1.8%	0.7%	0.9%	0.9%	1.7%	1.1%	1.1%	1.2%	1.3%
\$1.0 billion	Income: Low scenario	2.8%	2.9%	3.2%	1.2%	1.7%	1.6%	3.0%	1.9%	1.9%	2.2%	2.2%
	Income: High scenario	3.2%	3.3%	3.6%	1.4%	1.9%	1.7%	3.4%	2.2%	2.1%	2.4%	2.5%
\$1.5 billion	Income: Low scenario	4.2%	4.4%	4.8%	1.9%	2.5%	2.3%	4.5%	2.9%	2.8%	3.2%	3.4%
	Income: High scenario	4.8%	5.0%	5.4%	2.2%	2.8%	2.6%	5.1%	3.3%	3.2%	3.6%	3.8%
\$2.0 billion	Income: Low scenario	5.6%	5.8%	6.5%	2.5%	3.4%	3.1%	6.0%	3.9%	3.7%	4.3%	4.5%
	Income: High scenario	6.4%	6.6%	7.2%	2.9%	3.7%	3.5%	6.7%	4.4%	4.2%	4.8%	5.1%
\$2.5 billion	Income: Low scenario							7.4%	4.9%	4.6%	5.4%	5.6%
	Income: High scenario							8.4%	5.5%	5.3%	6.0%	6.3%
\$3.0 billion	Income: Low scenario							8.9%	5.8%	5.6%	6.5%	6.7%
	Income: High scenario							10.1%	6.6%	6.4%	7.2%	7.6%

Note: Table omits combination of options and total deficit reduction which would require reductions of more than \$1 billion from any single option.

# Estimated percentage job impacts of reducing the deficit by different amounts using different options

**Estimated Income Impacts of Reducing the Deficit by Selected Total Amounts Using Different Potential Combinations of Fiscal Options, Expressed as a Share of Estimated Total Alaska Personal Income in 2014 (\$39.8 billion)**

		Two options						Three options				Four options
Combinations of fiscal options	Spending cut: broad-based	50%	50%		50%			33%	33%	33%		25%
	Income tax: progressive	50%		50%			50%	33%		33%	33%	25%
	Dividend cut		50%	50%		50%		33%	33%		33%	25%
	Saving less				50%	50%	50%		33%	33%	33%	25%
\$100 million	Income: Low scenario	0.3%	0.3%	0.3%	0.1%	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%	0.2%
	Income: High scenario	0.3%	0.3%	0.4%	0.1%	0.2%	0.2%	0.3%	0.2%	0.2%	0.2%	0.3%
\$500 million	Income: Low scenario	1.4%	1.5%	1.6%	0.6%	0.8%	0.8%	1.5%	1.0%	0.9%	1.1%	1.1%
	Income: High scenario	1.6%	1.7%	1.8%	0.7%	0.9%	0.9%	1.7%	1.1%	1.1%	1.2%	1.3%
\$1.0 billion	Income: Low scenario	2.8%	2.9%	3.2%	1.2%	1.7%	1.6%	3.0%	1.9%	1.9%	2.2%	2.2%
	Income: High scenario	3.2%	3.3%	3.6%	1.4%	1.9%	1.7%	3.4%	2.2%	2.1%	2.4%	2.5%
\$1.5 billion	Income: Low scenario	4.2%	4.4%	4.8%	1.9%	2.5%	2.3%	4.5%	2.9%	2.8%	3.2%	3.4%
	Income: High scenario	4.8%	5.0%	5.4%	2.2%	2.8%	2.6%	5.1%	3.3%	3.2%	3.6%	3.8%
\$2.0 billion	Income: Low scenario	5.6%	5.8%	6.5%	2.5%	3.4%	3.1%	6.0%	3.9%	3.7%	4.3%	4.5%
	Income: High scenario	6.4%	6.6%	7.2%	2.9%	3.7%	3.5%	6.7%	4.4%	4.2%	4.8%	5.1%
\$2.5 billion	Income: Low scenario							7.4%	4.9%	4.6%	5.4%	5.6%
	Income: High scenario							8.4%	5.5%	5.3%	6.0%	6.3%
\$3.0 billion	Income: Low scenario							8.9%	5.8%	5.6%	6.5%	6.7%
	Income: High scenario							10.1%	6.6%	6.4%	7.2%	7.6%

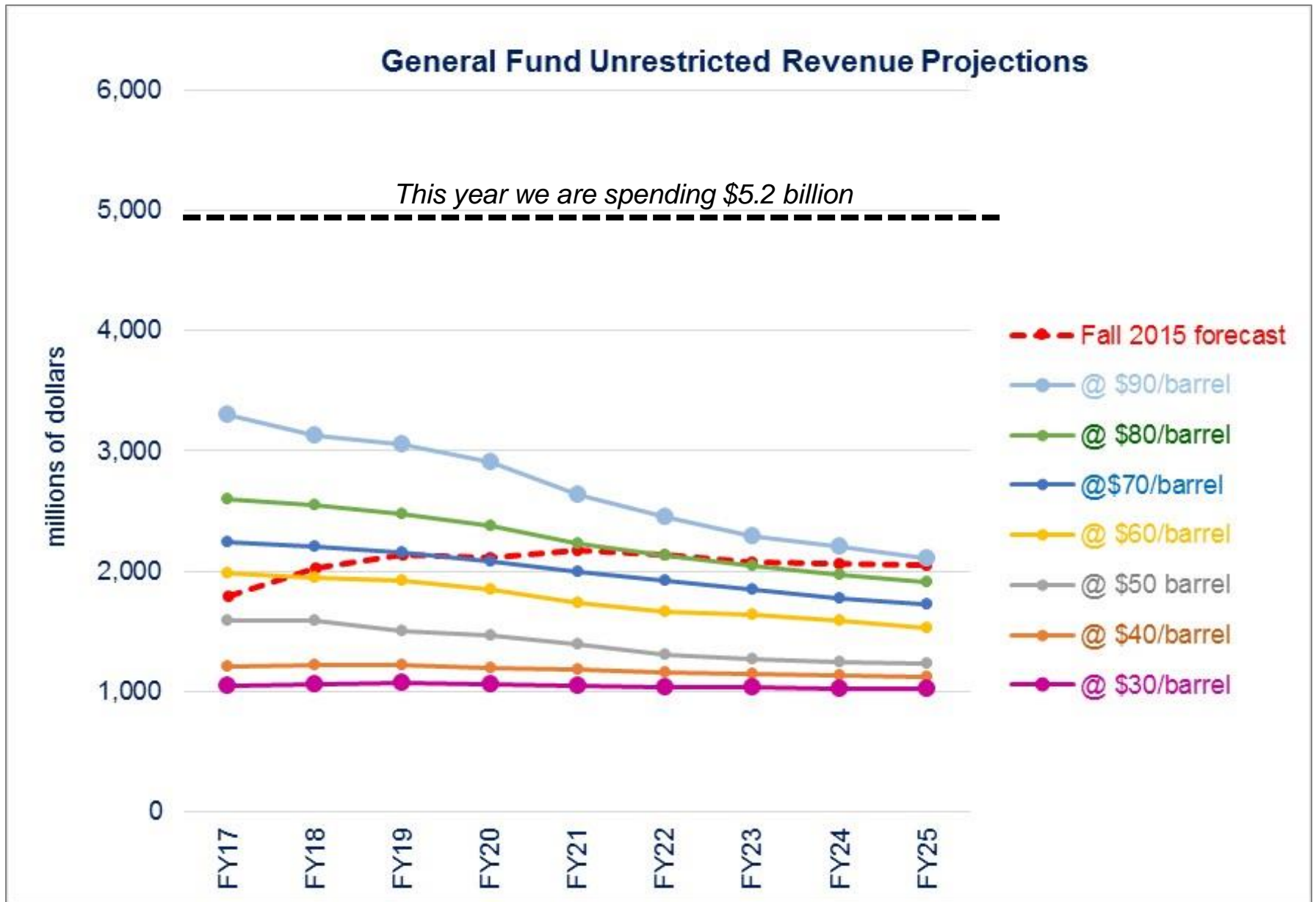
Note: Table omits combination of options and total deficit reduction which would require reductions of more than \$1 billion from any single option.

## How much do we need to reduce the deficit?

- A very important question
- We didn't study it
- The answer depends in part on what you assume about:
  - Future oil revenues
  - How much we are willing to draw down our savings



# Alaska Department of Revenue projections for general fund revenues . . .



We can't sustain **general fund spending** over time that is more than our unrestricted **general fund revenues**.

**This year (FY16) we are spending  
\$5.2 billion for government**

**Over the next 10 years our general fund revenues  
from current sources will probably be about \$1.5-\$2.5 billion.**

We will have to reduce the difference between our **general fund spending** and our **general fund revenues** by between \$2.7 and \$3.7 billion

*How much and how fast we will have to reduce it depends on our future revenues and how far we are willing to draw down our savings.*

We have lost billions of dollars of oil revenues.

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

## How fast do we need to reduce the deficit?

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 . . .***

Not making significant progress towards closing the deficit this year—and planning for how we will close the rest of it—would also have significant negative economic consequences.

- Increasing business and household uncertainty about:
  - future state spending, state services and taxes
  - whether Alaska will remain a good place to invest and live
- Reduced business and household investment
- Negative effects on public and private employee morale, turnover and recruitment
- Certain further downgrading of Alaska's credit rating.

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

Our economic adjustment to lower oil revenues will be smoother if

- We substantially reduce the deficit this year
- We clearly demonstrate this year to Alaskans, businesses, and investors that:
  - we can and will finish closing the deficit
  - make needed further changes to spending, revenues and uses of Permanent Fund earnings to achieve sustainable state finances
- Reduce business and household uncertainty about future state spending and how we will pay for it
- Build confidence in Alaska's fiscal future.

# Other economic impacts of fiscal options

We studied only some of the potential economic impacts  
of Alaska fiscal options

- We didn't study long-run & indirect impacts
- The impacts we didn't study are important
- This study is only a start at understanding potential economic impacts of fiscal options
- Many other questions remain to be answered
- Our study briefly lists—but does not analyze—some of the other potential economic impacts of spending cuts, taxes, and dividend cuts
  - There are many
  - Some could be subjects of full studies



## Other potential economic impacts of spending cuts . . .

- Impacts of reductions in state services?
- Impacts on economic development and future revenues?
- Impacts on future state costs and spending?
- Impacts of cost shifting to local governments and service users?
- Impacts on federal matching funding?
- Impacts on public employee work force?

## Other potential economic impacts of taxes . . .

- Some level of taxes is a “necessary evil,” but:
  - What level is necessary?
  - What kinds are “least evil?”
- Shifting of purchases to non-Alaska retailers?
- Reduced incentives to invest in Alaska?
- Reduced competitiveness of Alaska resource industries?
- Higher labor costs?
- Administration and enforcement costs?
- Public “skin in the game” and more attention to state spending?
- Fixing the “Alaska disconnect” so that growth pays for itself?

## Other potential economic impacts of dividend cuts . . .

- Ability of lower-income Alaskans to live in high-cost rural areas?
- Ability of Alaskans to accumulate wealth for “big-ticket” investments such as homes and college
- Impacts on Alaska wage rates?
- Impacts on how many and what kind of people move to or from Alaska?
- Impacts on extent to which Alaskans feel they have a stake in the Permanent Fund and are committed to growing and protecting it?

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.