



Impacts of Potential Alaska Fiscal Options

Proposal to the Alaska Department of Revenue

Prepared by
Gunnar Knapp
Director, Institute of Social and Economic Research
Gunnar.Knapp@uaa.alaska.edu
907-786-7717

August 17, 2015

Introduction

The state of Alaska faces a very serious fiscal challenge. Current (FY16) state general fund spending greatly exceeds current and projected future general fund revenues. Alaskans are beginning serious conversations on potential options for addressing this challenge. Broadly, these consist of reducing general fund spending or to increasing general fund revenues.

The 2015 legislative session began a major public debate about options for reducing general fund spending, and revealed the issues that are likely to arise in discussions about further potential budget cuts (and the related questions about the appropriate level of state spending).

An Alaska Department of Revenue (ADOR) White Paper (*Potential Fiscal and Revenue Options for the Walker-Mallott Administration*, June 4, 2015) outlined a wide range of potential revenue options. The Conversations on Alaska's Fiscal Future hosted by the Governor in Fairbanks June 5-7, 2015 suggested some of the issues that are likely to arise in discussions about potential future revenue options.

Clearly one very important question with regard to any option is "how much money could it save or raise"? The continuing discussions about state spending are looking at the relative magnitudes of different components of the budgets and how much it might be possible to cut. Similarly, the ADOR white paper offered preliminary analysis of the "revenue potential" associated with different revenue options. However—as the conversations in Fairbanks clearly showed—Alaskans have a wide variety of other questions about potential fiscal options. Many of these relate to the potential impacts of fiscal options: how might they affect the Alaska economy and Alaskans?

This proposal is for an ISER study of impacts of Alaska fiscal options. The study will estimate, to the extent possible given available data and inherent uncertainties (e.g. future oil prices, a range of potential economic and other impacts of importance to Alaskans.

The total cost of the study would be \$60,000. We would complete a preliminary report by September 19, a draft final report by December 18 (for review) and a final report by January 8.

A Neutral and Objective Study

The study will not advocate for or against any specific fiscal option. Our goal is to inform the Alaska fiscal conversation by providing the best possible objective estimates of the potential impacts of different options, in a way that allows Alaskans to systematically compare these impacts across options.

Study Advisory Group

We will form a study Advisory Group to provide advice about the design of the study (early in the study process) and review (near the end of the study). We will seek to include a range of people and perspectives from across the Alaska political spectrum and will invite recommendations from ADOR, the Governor's office, and the legislative leadership. The purpose of the Advisory Group is specific and limited: to invite input about what kinds of fiscal options the study should consider and what kinds of impacts matter to Alaskans, so as to make the study as useful as possible to the ongoing conversations about Alaska's fiscal choices. The Advisory Group will meet by teleconference on two or three occasions as needed, and members will be invited to provide additional input if they wish. However, the study will be independent and ISER will have responsibility for and control over the study design, analysis and findings.

Coordination with Other Analyses

The Alaska Department of Revenue has begun and will continue analysis of revenue options, focusing in particular on the potential revenue they might generate and issues associated with implementation. We will coordinate with the DOR analysts to ensure that to the extent possible our analyses examine the same options, are based on the same assumptions about how the options would be implemented, and use common terminology.

Similarly, we will seek to coordinate with other state agencies involved in analyses of potential spending cuts or other fiscal options.

Fiscal Options to be Studied

We will seek the advice of the Advisory Group as to which fiscal options the study should focus on. These will likely include:

Spending cuts: \$100 million in cuts to the capital budget (generic and specific types of projects); the operating budget (across the board, generic cuts to specific agencies, specific kinds of spending, e.g. personnel); and deferral and/or elimination of oil tax credit payments.

New revenues: most of the revenue options identified in the ADOR June 2015 White Paper, as well as selected other options suggested by the Advisory Group or identified by ISER

Note, as stated above, that the fiscal options to be studied will not represent in any way an endorsement of either the practicality or desirability of these options. Rather, they will only

Impacts to be Studied

We will seek the advice of the Advisory Group as to which impacts the study should focus on. In general, however, our plan is as follows.

We will study three broad types of impacts:

- Economic impacts: Impacts on numbers of jobs and total incomes of Alaskans, by sector (private and public), industry and region
- Distributional impacts: Impacts on incomes of Alaskans by income group, including (a) relative share of total change in income borne by different groups; and (b) relative change in income by group.
- Demographic impacts: Impacts on total Alaska population and migration to and from Alaska, as well as population by region and migration among regions.

We will study impacts on two different time scales:

- Short-run impacts: impacts which would occur in the year of implementation)
- Long-run impacts: impacts which would occur over a longer-time period (5, 10 and 20 years after implementation) in response to longer-term feedback loops in the economy, such as changes in investment.

We will conduct three types of impact analyses:

- Absolute impacts of fiscal options: These will estimate the economic, distributional and demographic impacts associated with each fiscal option. Note that in general “bigger” fiscal options—those which reduce spending or increase revenues by bigger amounts” (e.g. an income tax which raises \$655 million) will tend to have larger impacts than “smaller” fiscal options (e.g. an across-the-board “school tax” which raises \$100 million).
- Relative impacts of fiscal options: These will estimate the *relative* economic, distributional and demographic impacts per \$100 million saved or raised by each fiscal option. Note that relative impacts may differ, potentially substantially, for different fiscal options. For example, the impacts of raising \$100 million through an income tax might be very different than the impacts of raising \$100 million through a school tax—in ways that are not necessarily obvious or intuitive.
- Cumulative impacts of fiscal options: These will estimate the combined impacts of combinations of options. Note that while the purpose of estimating absolute and relative impacts is primarily to help in thinking about which options might be better choices (or less painful choices), the purpose of estimating cumulative impacts is primarily to help in

thinking about how fast to move towards closing the fiscal gap, and what the total impacts of different combinations of spending cuts and revenue options might be.

We will also examine two aspects of the incidence of fiscal options:

- Revenues collected from non-residents. Some revenue options have the potential to collect significant revenues from non-Alaska residents working in or visiting Alaska. These include, for example, income taxes, sales taxes and fisheries taxes. To the extent possible given existing data, we will estimate the extent of potential revenues which would be collected from non-residents.
- Federal income taxes paid by Alaskans. Some fiscal options may affect the extent of federal income taxes paid by Alaskans. For example, state income taxes would be deductible from federal income taxes, so the total tax burden of a state income tax on Alaskans would be less than their state income tax payments. Put differently, the federal government would “help” to pay for state income tax by reducing Alaskans’ federal taxes. In contrast, sales taxes would not be deductible. As another example, because many Alaskans pay taxes on Permanent Fund Dividends, reductions in dividend payments would be partially offset by reductions in Alaskans’ federal taxes.

Methodology

We will use a range of methodologies to develop the best possible estimates of impacts, given the limits of available data and inherent uncertainties (e.g. future oil prices). These will include (but are not limited to):

- Review of major findings of ISER’s past extensive analysis of impacts of fiscal options (numerous studies done during the 1980s, 1990s and early 2000s)
- Updating of past ISER analyses, applying similar methodologies to current data
- Review of other (non-ISER) analyses of impacts of Alaska fiscal options
- Review of available literature on impacts of fiscal options in other states, as well as the theoretical literature on this topic
- Use of IMPLAN and other I-O modeling approaches to estimate short-term economic impacts of options
- Application of ISER’s Alaska Economic and Demographic Model to estimate short-and long-term economic and demographic effects of options by region
- Use of IRS income data to estimate distributional impacts.

Limits to the Analysis

Some options and impacts are much easier to analyze than others. In general, short-term impacts are easier to analyze than long-term impacts, given the complicated feedback loops over time between state spending and revenues, the private economy, investment and economic development, and population and migration.

In general, the hardest options to analyze are those which may affect future investment and Alaska economic development, such as changes to oil tax credits, oil tax progressivity, resource taxes (e.g. fisheries, mining, tourism)—because these effects are inherently uncertain.

For all impacts, we will provide “best available estimates” along with a discussion of the relative level of certainty or uncertainty about their magnitude.

Study Management and Staff

The study will be directed by ISER Director Gunnar Knapp. Other researchers will include (but not be limited to) ISER economists Matthew Berman and Mouhcine Guettabi. ISER Professor Emeritus Scott Goldsmith will provide advice but will not charge this project for his time. We may subcontract with other researchers for some of the project analysis.

Study Timeline and Reports

September 1	Form Advisory Group; submit project plan for review
September 19	Preliminary report based on review of previous studies and available literature
Early December	Draft final report for review by Advisory Report
Start of legislative session	Final report completed
Legislative session	Briefings on report findings as requested

Other Potential Impacts of Fiscal Options

The impacts of fiscal options proposed for analysis in this study are by no means all of the potential impacts important for and of interest to Alaskans. We developed the proposal based on the assumption that a budget of \$60,000 would be available for the study, and that the types of impacts we propose to study are those which would (a) be of greatest interest to Alaskans; and (b) would be most straightforward to study.

With additional funding, there are a wide variety of other impacts that we could also study, potentially in collaboration with other researchers. These include but are not limited to the impacts of different fiscal options on:

- Federal revenues (e.g. impacts related to matching requirements for federal spending)
- Future state spending obligations (e.g. effects of capital spending cuts on future operations and maintenance obligations, effects of education cuts on future corrections spending, etc.)
- Alaska local government revenues and spending obligations
- Short-term and long-term real estate markets
- Short-term and long-term credit ratings and business confidence

If the Department of Revenue or other potential funders are interested, we could prepare an additional or supplementary proposal for studying these or other impacts.

Alternatively or in addition, if additional funding were available to support more staff time, we could expand the scope of the analysis to study some impacts in greater detail.

Study Budget

The total cost of the study would be \$60,000. Details of the budget are in the table on the following page.

Budget for ISER Study on Impacts of Potential Alaska Fiscal Options

ISER staff hours, by task	Knapp	Guettabi	Berman	Senior research professional	Junior research professional	Total
Project planning & management	16					
Advisory group	16					
Development of assumptions for analyses	8	16				
Review of earlier ISER analyses	16					
Short-run economic impact analyses using input-output modeling		60		20	20	
Long-term economic and demographic modeling using ISER Alaska Economic and Demographic Model		60		10	10	
Distributional impacts analyses			60	40	40	
Report writing	24	20	20			
Presentations on report findings	12					
Total ISER staff hours	92	156	80	70	70	
ISER staff rates						
Base rate (hourly)	\$101.40	\$56.85	\$86.83	\$31.01	\$25.94	
Leave percent	17.30%	13.70%	13.70%	20.90%	21.00%	
Benefits percent	28.50%	28.70%	28.70%	41.00%	45.70%	
Full hourly rate (salary plus benefits)	\$152.85	\$83.19	\$127.06	\$52.86	\$45.73	
Total staff costs, before overhead	\$14,061.75	\$12,977.59	\$10,164.74	\$3,700.37	\$3,201.20	\$44,105.65
Travel (a)						\$600.00
Services (b)						\$250.00
Commodities (c)						\$3,050.00
Total direct costs						\$48,005.65
Facilities & administration rate						25%
Facilities & administration cost						\$12,001.41
Total cost						\$60,007.06

(a) Assumes \$800 for one round-trip flight to Juneau and one night lodging and per diem.

(b) Assumes \$50 for long distance telephone and \$200 for teleconference fees.

(c) \$3050 for IMPLAN 2012 software update needed for analysis.