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To: [Senate Finance Committee](#)
Subject: FW: HB 69, SJR 6 - HJR 7
Date: Thursday, June 10, 2021 4:57:58 PM

From: Tom Boutin

Sent: Friday, June 4, 2021 7:49 AM

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Subject: HB 69, SJR 6 - HJR 7

Good morning,

I think I understand how difficult it is to reach the required number of votes beyond enacting a budget for the coming year. However I am skeptical that another \$3 billion, this time from the Permanent Fund, should be used to meet ongoing state operations in excess of expected recurring revenues. Most of us lament the past spending down of reserves and feel we have too little to show for that spending. However I don't deride spending federal relief money in order to avoid spending down the Permanent Fund.

Given the tremendous amounts of federal spending in Alaska, now and over the coming few years, no one can convince me that a \$3 billion Permanent Fund withdrawal is needed for the sake of our economy. I see that \$3 billion as much like a smoker intending to finally quit but deciding to first buy another three cartons of cigarettes. Can you honestly believe that smoker will quit when those 3 cartons have been smoked?

I do not believe that there is an economic stimulation component to the PFD amount decision now nor in the next few years. If anything we run the risk of overheating Alaska consumption through transfer payments such that we will suffer all the more when the federal spending eventually subsides. There is no case to be made that the Alaska economy has saved too much or produced too much, but by any measure we consume far too much made anywhere but in Alaska and we

export too little that the world wants to buy.

I know the Senate Finance Committee has forthrightly said this year, and more than once, that the state operating budget has not been reduced. I am grateful for your accuracy and candor. My belief is that the operating budget can and must be reduced before removing even more from the state economy to support government. Without first reducing the budget every fiscal decision will be continually pulled back and forth in every election, possibly with persistent ballot measures. To make decisions that last there must first be honest reductions in state spending.

I think that the recent experience with tele-education offers a genuine alternative to a material part of school foundation formula spending. Education results, as measured by test scores show me that education dollars have been badly misspent for quite some time and spending should be reduced. (I was the first in my family to attend high school, and my first day at the University of New Hampshire was the very first time I had seen a college or university, so I do not easily conclude that education spending can be tempered.) I also question whether Medicaid spending must continue to rise without regard to a state's ability to pay, and I wonder if corrections and public safety interest groups cannot find cost savings if one day challenged to do so. I believe that several hundred million dollars can be taken out of the BSA, Medicaid, corrections and public safety, and at least in the case of the BSA and Medicaid we would see improved results.

I also believe that fiscal disparities across the state need to be addressed as part of any fiscal plan or else that plan will not last. I pay \$15 a day in property tax for my single-family residence, and I pay a 5 percent sales tax here in Juneau to support local government services including education and public safety. People in surrounding communities like Funter Bay, Tenakee Springs, Pelican, Elfin Cove and Gustavus receive education and public safety from state government, largely avoiding paying local taxes. Would working Alaskans pay a state income tax in order to provide local government services to communities that choose to depend entirely on state spending? Should they?

The Alaska economy that brings dollars into the state is very small and narrow. While oil production fell by seventy-five percent our population grew by half. During that same time we lost an integrated forest products industry that employed 4,000. The balance of our remaining producing economy consists of six small to medium mines, a somewhat subsidized commercial salmon industry that now largely ships fish in the round, and a very seasonal cruise ship tourism industry. Because we have almost no manufacturing industry and no agricultural industry we depend entirely on that small and narrow private sector plus federal spending to pay for all the goods we consume, all 740,000 of us.

Any basic economics textbook will tell us why we have had to spend down savings to maintain state services; our consumption is too large for our production. Taxing that remaining production to further maintain state services cannot help but chip away at whatever comparative advantage our few producing industries have.

It's true that a sales tax would help dampen consumption, particularly of goods we import, and therefore would not be nearly as harmful to our economy as an income tax. The existence of the

Permanent Fund Dividend further argues against an income tax since so few Alaskans itemize and in any event there is a cap on the amount of income tax that can be deducted from income in calculating federal income tax while the PFD is taxed as ordinary income. I cannot imagine a state policy that would be less efficient for an economy than a PFD concurrent with a state income tax. Income redistribution brings the added societal costs of reducing autonomy and self-reliance.

In evaluating any state tax there must be recognition of the 2021 Alaska economy. That economy works but it's fragile. At one time Alaska wages were measurably higher here than in other states. To move here in 1973 I drove a new Dodge Powerwagon pickup that had a full retail price of \$3,640. Cooks, side-roads and the top mechanics in Alaska logging camps were making \$7,000 a month, and a good all-round hand and operator was making \$5,000 or a little more. Wages at canneries were somewhat comparable, partly because of the very long hours during the salmon processing season. I bought a new Dodge pickup a year ago and it cost \$40,000. Few in Alaska, even on the North Slope are now bringing home salaries that have kept pace with inflation. The Alaska wage premium has disappeared, and for that reason alone I think a state income tax would be destructive both immediately and in the long term. Relative wages for Alaskans have dropped and the arithmetic of having so much state and local government no longer works very well.

There are many alternatives to choosing between a sales tax and an income tax. Even as states with one or both of those taxes try to back away from them I think we all can see that the unique circumstances we find in the Alaska economy today recommend neither one. Interest groups that want to see more and more state spending want you to choose between them because they feel an urgency in keeping spending high. It's silly and dishonest to claim that not choosing new taxes somehow dampens the private sector economy.

During the 2021 regular legislative session I heard the Alaska Municipal League and others threaten that state spending on services could be too low to meet constitutional requirements. It makes absolutely no sense to believe that the state constitution requires a minimum level of state services without regard to whether our economy produces enough to afford those services. Our constitution doesn't require a minimum level of state economic output nor does it require that other states ship certain quantities of milk, flour, outboard motors, and pick-up trucks to Alaska; when we cannot pay for it they won't ship it. If any court believes that there is a required minimum level of services then we should ask those judges to find the balance, and possibly those judges can also try dictating that our most productive Alaskans remain here and those most needful of government services relocate to more productive places.

I want to end by summarizing my uneasiness about the Alaska economy. Not only is our economy narrow, especially with respect to producing goods to bring dollars into the state, but it is a flat economy. Today we have anything but a fast-paced, entrepreneurial economy. About 20 years ago I sent a daily business news clips email to clients. Most of the time, and every business day, there was either a Wall St. Journal or a [Bloomberg.com](https://www.bloomberg.com) business story pertaining to some Alaska business or industry. Now it is extremely rare to see one of those stories. In Alaska we talk about the same projects and opportunities for a decade or longer- Ambler, Watana, Donlin, Graphite, rare earths, hemp, cold climate data storage, disease-free seed potatoes etc. etc. – but rarely is something brought into production. Elected officials have broken into the very same story about coming Ted

Stevens International Airport storage space for years, and hardly ever is there a story about any other impending private sector construction. Seldom if ever does a company move here to not depend upon government contracts but hire as many Alaskans as there are employees at even a relatively small state government agency. A new economy has emerged worldwide in the past 20 to 30 years, and Alaska is a consumer but not otherwise a participant.

There seems to be little that government can do about this except reduce the size and scope of government, and our stagnation didn't originate with the Covid pandemic. The government process of lobbyists representing various interests, people helping on election campaigns, and government hiring consultants to evaluate private enterprise proposals doesn't pick private sector winners and losers as well as the free market does, not nearly as well. I see our private enterprise stagnation as a much more foundational problem than the state fiscal gap. The flattening and the lessening of our private sector has been highly correlated with the growth in state and municipal government.

All business people I've spoken with say I would easily win a bet that there is more Class A and B office and retail space in the Anchorage mid-town area that has been vacant for 3 years or longer than there is Class A and B office and retail space in Juneau vacant and occupied combined. Much of that space could be easily and quickly converted to manufacturing or assembly as it has ample parking, 3-phase power, etc. Alaska doesn't lack business capital; our banks have considerable money to lend. Alaska doesn't lack suitable and appropriately zoned industrial land, nor natural resources of supreme variety, quantity and quality. Alaska does not have higher wages nor is it more unionized than many other states. We have a friendly tax environment. Except that government owns most Alaska land and most privately owned acreage is protected from property taxes, and except that Alaskans tend to look to government and to lobby government rather than emanate, originate, launch and establish businesses I cannot explain why we trail other states in new business origination, especially in new businesses employing 100 or more. Whether or not state government spends all its savings a day must come when Alaska has no more state and municipal government than its economy can afford. Saying no to this particular \$3 billion is important.

Thank you for your time. I appreciate the hard work you do for Alaska. Alaskans today are victims of easy decisions in the past to over-spend. That very over-spending grew our demands for more and more government services. We are the spoiled children in a family now experiencing the first years in what may be a prolonged period of diminished circumstances. Self-reliance has been traded away for record amounts of government, always a poor bargain, and now we argue about spending down our remaining savings. You did not cause this problem, and the job of fixing it will likely continue to be thankless and frustrating.

Tomas Boutin
Juneau