

HOUSE FINANCE COMMITTEE  
February 25, 2016  
1:35 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair  
Representative Steve Thompson, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Bryce Edgmon  
Representative Les Gara  
Representative Lynn Gattis  
Representative Scott Kawasaki  
Representative Cathy Munoz  
Representative Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

Representative David Guttenberg

ALSO PRESENT

Gunnar Knapp, Professor, Institute of Social and Economic Research (ISER).

SUMMARY

ANALYSIS: "ECONOMIC IMPACTS OF ALASKA'S FISCAL OPTIONS"

Co-Chair Thompson discussed the meeting agenda.

^ANALYSIS: "ECONOMIC IMPACTS OF ALASKA'S FISCAL OPTIONS"

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GUNNAR KNAPP, PROFESSOR, INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH (ISER), provided a PowerPoint presentation titled "Economic Impacts of Alaska Fiscal Options; Overview of Draft Conclusions" dated February 25, 2016 (copy on file).

He indicated that the first 8 slides were a summary of the study and the conclusions; the details would follow. He briefly mentioned slide 2:

#### Outline

- Summary
- Details
  - Study background
  - Relative contributions of non-residents & the federal government
  - Relative impacts of fiscal options on different income groups
  - Relative impacts of fiscal options on the Alaska economy
  - Total impacts of deficit reduction on the Alaska economy
  - Other impacts

He addressed slide 3:

Studied economic impacts of ten fiscal options:

- Spending cuts (four kinds)
- Taxes (four kinds)
- Dividend cuts
- Saving less
- Not advocating for or against any option

Mr. Knapp addressed slide 4 titled "Fiscal Options We Studied" and discussed the fiscal options and direct economic impacts that ISER had studied.

- Spending cut: workers - Reduce government jobs & pay
- Spending cut: broad-based- Reduce government jobs & pay - Reduce other gov't purchases
- Spending cut: capital - Reduce government capital spending
- Spending cut: pay - Reduce government employee pay
- Income tax: progressive
- Income tax: flat rate - Reduce Alaskans' disposable income

- Sales tax: more exclusions - Partly paid by non-residents
- Sales tax: fewer exclusions - Partly offset by federal tax deductions
- Dividend cut - Reduce Alaskans' income  
Partly offset by lower federal tax
- Saving less - No short-term impacts

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Mr. Knapp turned to slide 5 and addressed who was most affected by the various fiscal options on slide 4. Slide 5:

Who is most affected?

Options and Direct economic impacts

Spending cut: workers - Government workers

Spending cut: broad-based - Government workers  
- Government contractors & their workers

Spending cut: capital - Construction industry & their workers

Spending cut: pay - Government workers

Income tax: progressive - Higher income Alaskans

Income tax: flat rate - Higher income Alaskans

Sales tax: more exclusions - Higher & medium income Alaskans

Sales tax: fewer exclusions - Higher & medium income Alaskans

Dividend cut - Lower income Alaskans

Saving less - Future Alaskans

Mr. Knapp moved to slide 6:

Short-Run Economic Impacts Per \$100 Million Of Deficit Reduction

	Income(millions)	FTE jobs
Spending cut: workers	138	1677
Spending cut: broad-based	115	1260
Spending cut: capital	64	931
Spending cut: pay	143	727
Income tax: progressive	138	776
Income tax: flat rate	138	796
Sales tax: more exclusions	132	771
Sales tax: fewer exclusions	135	793
Dividend cut	150	898
Saving less	0	0

Mr. Knapp explained that FTE meant "full time equivalent."

Mr. Knapp summarized slide 7:

Saving less has no short-term impacts

- All other options affect the economy:
  - Spending cuts
  - Taxes
  - Dividend cuts
- They vary in:
  - Who is most affected
  - Relative magnitude of impacts

Mr. Knapp addressed slide 8:

How fast should we reduce the deficit?

We will have to greatly reduce the deficit soon

- We can't avoid economic impacts
- The smoothest transition is a significant start this year
- Not making major progress this year would have a big impact
  - Further credit rating downgrades
  - Loss of business confidence
  - Reduced private investment
- Fully closing the deficit this year would have a big impact
  - Economy is already-weakened
- Neither extreme is best

- Doing nothing this year
- Doing everything this year

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Representative Kawasaki referred to slide 8 related to the statement that the smoothest transition was to do something significant. He asked for suggestions. Mr. Knapp suggested that the legislature demonstrate the state's ability to solve the problem and work towards a real solution. He detailed that in order to avoid negative impacts it was necessary to formulate a plan.

Representative Wilson believed the Lower 48 had already gone through what Alaska was currently experiencing economically. Mr. Knapp replied that in some ways the statement was true. He explained that during the great recession many states faced deficits and had to make "painful adjustments" that included budget cuts and taxes. He stressed that no other state faced deficits on the scale facing Alaska; however, no other state had savings or the Permanent Fund like Alaska, which offered the state options.

Representative Wilson referenced slide 5. She asked for a definition of low, mid, and high income. Mr. Knapp replied that he would come back to the question in a later slide.

Representative Gara cited the job loss figures on slide 6. Mr. Knapp deferred the question to later slides. Representative Gara asked whether a \$500 million reduction would multiply the job loss number in the number by 5 times. Mr. Knapp replied in the affirmative and would come back to the question in a later slide.

Mr. Knapp addressed slide 10:

Study status . . .

- Presentation summarizes draft results
  - Draft full report available soon
  - Further analysis planned over next month, to address
    - Comments
    - Questions
  - Final report in March

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Mr. Knapp looked at slide 11:

What we studied

- Relative contributions to fiscal options of non-residents & the federal government
- Relative impacts of fiscal options on different income groups
- Relative impacts of fiscal options on the Alaska economy
- Total impacts of deficit reduction on the Alaska economy
- Other impacts:
  - Many, varied and important
  - Described but not analyzed

Mr. Knapp addressed slide 12:

What we didn't study

Options with complex effects which are difficult to predict, including potential changes to:

- oil taxes
- oil tax credits
- cuts to specific programs
- how the state delivers services
  - K12 education, University of Alaska, Medicaid, etc.
- "re-plumbing" of state finances (SB114, SB128, etc.)

Mr. Knapp addressed the relative contributions of non-residents and the federal government on slides 13 and 14. Slide 14 titled: "Non-residents would pay about 7 percent to 11 percent of sales taxes and about 7 percent of income taxes" included a bar chart showing how much non-residents and the federal government would pay in sales taxes, income taxes or by a dividend cut. The data was based on reducing the deficit by \$100 million. He detailed that between 7 percent and 11 percent of the sales tax revenue and 7 percent of income tax revenue would be paid for by non-residents depending on the amount of exclusions. The ability to be precise regarding sales tax was limited because there was not good data on the total spending coming from non-residents in Alaska. He turned to slide 15 titled "The federal government would help "pay" for taxes

and dividend cuts—because our federal income taxes would be lower. Higher-income households who pay higher tax rates would benefit most." He summarized that the federal government would help pay for taxing Alaskans or cutting PFD's because the federal income taxes would be lower in those scenarios. The chart depicted that the average effect at the different rates at which Alaskans were taxed was 7 percent; the federal government paid for 7 percent of the deficit reduction. He deduced that the federal government was helping to pay wealthy Alaskans because the more an individual was taxed the more the federal government "helps" if the state takes money away from an individual.

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Representative Edgmon asked whether the analysis had broken out the impact based on various areas of the state and how a dividend cut would affect businesses. Mr. Knapp replied that he would answer the questions later in the presentation.

Representative Gattis deduced that the wealthier Alaskans paid a higher federal tax rate and would in turn pay more taxes but she did not understand how the scenario helped with state imposed taxes. Mr. Knapp provided a hypothetical scenario about a high income Alaskan who was taxed at 25 percent in federal income tax. He stated that if the individual's income was reduced by lost PFD income or paying state taxes than the amount of income lost would reduce his federal taxes by 25 percent. Representative Gattis surmised that the federal income tax was progressive, therefore the less income the less income tax paid on a percentage basis. Mr. Knapp replied that "it was a small compensation."

Mr. Knapp addressed slide 17 which depicted the relative impacts of fiscal options on different income groups. The slide included a chart that "estimated effects of taxes and dividend cuts for 10 groups of Alaska households, grouped by their per-capita income in 2013, from the lowest 10 percent to the highest 10 percent." He highlighted that the highest income households had a lot more income than the lowest income households. He turned to slide 18 which depicted that the highest income group had an average income of over \$200 thousand and the three lowest income groups had average incomes of less than \$45,000. He shared that the distribution of income in Alaska was "relatively

more equal" than the country as a whole or in any other state.

Representative Gara asked for clarity regarding the income disparity as represented on the slide. Mr. Knapp answered that the top 10 percent of households had an average income of over \$200 thousand and the bottom income group included households with incomes of zero or households with incomes of \$30 thousand.

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Mr. Knapp turned to slide 19 titled "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%)." He explained that the graph represented the share of total income earned in Alaska by household per-capita income in percentiles. He stated that the bottom group earned 1 percent of total income.

Representative Wilson asked what sources of income was included in the data and wondered whether PFD's and welfare program money was included. Mr. Knapp would defer to his colleague for the details. Representative Wilson wondered what the income difference was between the income from public assistance and the income from a minimum paying job part-time job. Mr. Knapp did not know. He relayed that the data was available but his study did not find it germane. Representative Wilson thought it was relevant to know where the funding was coming from in order to base tax or dividend reduction decisions on. Mr. Knapp offered to find out how detailed the income data was and follow up.

Vice-Chair Saddler asked about the source of the data on slide 18. Mr. Knapp replied that the data was based on Internal Revenue Service (IRS) and Bureau of Census American Community Survey data. Vice-Chair Saddler asked whether the income was in "cash" and did not include public benefits. Mr. Knapp replied that he was not sure; it was in the technical data.

Representative Edgmon referred to a conversation with the Division of Public Assistance and remembered that at least 25 percent of the Alaskan population received some type of public assistance. He wondered whether the analysis on slide 18 included the data. Mr. Knapp believed it would be counted as income but was not sure. He would follow up on

the question. Representative Edgmon replied that there were "a lot" of people in need in the state. He was not attempting to call the analysis into questions.

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Mr. Knapp turned to slide 20 titled "How options affect different groups: income reduction per person. He illuminated that the graph represented how much income per person per household was affected by the different options.

Representative Gattis thought that it was difficult to have the discussion without defining what income was being taxed. She wanted to know whether public benefits were being counted as income. Mr. Knapp responded that regardless of the definition the information was merely ranking the 10 groups of income and depicting the amount of income loss by the various deficit reduction options; the sources of income were irrelevant. Representative Gattis stated that she respectfully disagreed and stated that if a person did not have income the state was not going to take income tax from a low income group. Mr. Knapp responded that the red line on the graph representing the lowest income group was zero which represented paying zero income tax. Representative Gattis repeatedly questioned whether the income included public benefits and felt that the information was critical.

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Representative Gattis asked for an "at ease" to determine the answer. Mr. Knapp agreed to contact a colleague for clarification.

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Mr. Knapp continued with slide 21. He elucidated that the brown line on the graph represented a dividend cut. In the highest income group a dividend cut was not actually taking away quite as much income because their tax burden would be reduced due to receiving less income. A \$150 dividend cut reduced the lowest income group's income by \$150 because they do not pay taxes. He underlined slide 21 titled

"Dividend cuts cost lower-income households more - because less of their dividends go to federal taxes" that graphed the data. He added that at the other extreme income taxes [red lines] removed "quite significant" amounts of income from the highest income households but no or negligible amounts of income from the lowest income households. He noted that the sales tax scenarios were "intermediate" in their affects.

Vice-Chair Saddler requested clarification regarding the graph. He stated that the bottom line represented "household per-capita income percentile" and the y axis represented "income reduction per person" and wondered whether he should use multiplication. Mr. Knapp replied that the bottom line depicted "a scale of the income level of a household" categorized by per-capita income. Vice-Chair Saddler asked for further clarification regarding whether the x axis represented per-capita meaning individual income or household income. Mr. Knapp responded that the x axis represented per-capita income. He explained that a household of 2 earning \$50 thousand had a per-capita income of \$25 thousand each. Vice-Chair Saddler asked whether a per-capita dividend reduction was represented the same on the chart; a household of 4 represented the \$150 dividend reduction times 4. Mr. Knapp answered in the affirmative.

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Representative Wilson stated that the middle of the chart seemed to be affected by all of the item reductions. She reasoned that the middle class appeared to be the most affected group. Mr. Knapp interpreted that the 70 to 80 percentile "was a wash" and that sales taxes, income taxes, or dividend reductions cost the group the same. However, in the low income groups dividend cuts had a big impact on income and in the high income groups income taxes had a large impact on income. Representative Wilson wanted to know how all of the reduction measures together would affect the income groups. Mr. Knapp replied that he would address the question in a later slide.

Mr. Knapp turned to slide 22 titled "How options affect different groups: percentage income reduction per person." The data was based on \$100 million in deficit reduction. He explained that the graph portrayed that a dividend cut had a "significant" effect on low income households as a

percentage of income. The graph was a different way to look at the data.

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Representative Gara asked whether the effects were correspondingly greater if dividends were cut by \$800 million. Mr. Knapp replied in the affirmative and stated that the effect would be multiplied by whatever the factor was.

Mr. Knapp turned to slide 23 titled "Combinations of options would have intermediate effects on households of different income levels." He related that if deficit reduction measures combined a 50 percent dividend cut and 50 percent in income tax than the effect on households would be the average of the two effects applied individually. Various combinations of options would result in a particular level of relative impacts on different income groups based on how percentages were set; the total effect of combinations could be crafted to make desired impacts. He briefly addressed slide 24 titled "Combinations of options would have intermediate effects on households of different income levels." He mentioned that the graph illustrated the same point as the percentage of income effects.

Vice-Chair Saddler asked whether the analysis modeled various combinations to determine where the effects were the most equally distributed. Mr. Knapp answered that it depended on the definition of "equal." He exemplified that a dividend cut represented an "absolute" equal amount and a sales tax would be the most representative of equal percentage amounts.

Mr. Knapp turned to slide 25 titled "Income distribution varies for different regions of Alaska." He explained that the relative effect of the different deficit reduction measures depended on population varied by region. The chart depicted that a higher income region would be relatively more impacted by an income tax and a lower income region would be relatively more impacted by a dividend cut. He noted slide 26 titled "Relative impacts of fiscal options on the Alaska economy." He moved to slide 27:

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

Mr. Knapp addressed a graph on slide 28 titled "From 2010 to 2015, we saved an average of \$1.4 billion annually of Permanent Fund realized earnings." He pointed out that the blue line at the top of the bars depicted the realized earnings over the years [2010 through 2016] which varied "quite a bit." The brown section of the bars represented dividends and the darker blue section portrayed the amount saved. He suggested that some of the savings could be spent sustainably to reduce the deficit without a short-term economic impact other than the PFD would grow less.

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Mr. Knapp addressed slide 29:

All our other fiscal options— cutting spending, cutting dividends, and increasing revenues— 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.

Representative Kawasaki thought the legislature needed to talk about how to get out of a recession faster and long-term recovery. Mr. Knapp answered that the study did not cover the question, but the topic was very important. He elucidated that measures should include creating favorable conditions for economic growth and investment by inducing a stable fiscal system that promoted certainty. The measures included: removing burdensome regulations, create necessary infrastructure, provide government services, and targeted investments. He cautioned against doing nothing out of fear

of harming the economy. Representative Kawasaki agreed that a balancing act was necessary. He wanted to pin point measures that would impact the longer-term goal of a stable economy in the future. Mr. Knapp replied that the way the state would come out of a recession faster was through establishing confidence that Alaska was a state people wanted to live and do business in. He maintained that the threshold would be driven by the private sector so conditions needed to be created to stimulate confidence. He acknowledged that his answer was "vague."

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Representative Kawasaki shared an antidote to relay his concerns regarding the long-term effects of the economic downturn.

Vice-Chair Saddler opined that whether or not the state was in a recession was not germane to the discussion and that the solution was to create new wealth, keeping a low tax structure and not pulling money out of the private economy for government spending.

Mr. Knapp moved to slide 30:

How we compared relative impacts of other fiscal options

- Standard "economic impact analysis" using IMPLAN model
- Impacts per \$100 million of deficit reduction

Mr. Knapp addressed the calculation of economic impacts: direct income impacts on slide 31. He explained that the model estimated "direct income impacts" that he defined as identifying the groups and quantifying the direct income impacts by the action or measure undertaken. The slide depicted that the direct income impacts of spending cuts took income away from state workers, business workers, and lowered payments to businesses. Dividend cuts directly impacted Alaskan's income and taxes "took money from Alaskans but were offset by non-resident taxes. He addressed slide 32.

Short-Run Economic Impacts per \$100 Million of Deficit Reduction [per Option per (\$ millions)]

- Spending cut: worker - \$95 million in direct earned Income
- Spending cut: broad-based \$67 million in direct earned income
- Spending cut: capital \$42 million in direct earned Income
- Spending cut: pay - \$100 million in direct earned Income

Why the direct income impact is less than \$100 million - Not all of the cut is to worker pay

- Direct other income (\$ millions) Why the direct income impact is less than \$100 million
- Income tax: progressive - \$93 million in direct other income
- Income tax: flat rate - \$93 million in direct other income
- Sales tax: more exclusions - \$89 million in direct other income
- Sales tax: fewer exclusions - \$90 million in direct other income

Why the direct income impact is less than \$100 million - Non-residents pay part of the tax

- Dividend cut - \$99 million in direct other income

Why the direct income impact is less than \$100 million - Some dividend recipients leave

- Saving Less - \$0

Mr. Knapp explained that the effects of spending cuts impacted direct earned income, which represented how much less people were earning as a result of spending cuts. Broad - based and capital spending cuts impacted direct income less because more of the spending cut was attributed to purchasing less as opposed to cutting pay. He stated that depending on what was cut, the reductions could come

entirely out of people's income or less so. He reiterated that dividend cut had the highest direct effect on Alaskans income. Taxes had less of a direct impact on income because part of the taxes was being paid by non-residents.

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Mr. Knapp highlighted slide 33 titled "Calculating economic impacts: multiplier income impacts." He offered that the multiplier income impacts referred to the impacts on the entire economy due to the fact that people had less income and less money to spend in the private economy as a result of the reductions.

Representative Wilson believed that government competed with private industry. She thought that the analysis implied that if the government does not provide jobs or services they would "just go away" and would not be "picked up by the private industry." Mr. Knapp did not agree. He communicated that government services were paid by income and sales taxes in state's that imposed them; "people were paying for government out of their own pockets." In a state like Alaska, that received its revenue from oil companies, job creation did not reduce the private economy and added to the private economy. Oil revenue had enabled Alaska to create a much larger government sector and the fact that the state was able to use oil revenue to grow government had not come at the expense of the private sector. In Alaska, a job cut doesn't free up money in the economy to create a private job; the job is eliminated.

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Representative Wilson used energy as an example. She believed that due to government assistance and grants to electric companies or entities other businesses lost opportunities to provide the same services because they can't compete with the government creating an uneven playing field via the grant money. She also thought public universities directly competed with private institutions that did not receive state funding. Mr. Knapp replied that her point was valid. He elaborated that "to the extent government was doing things that the private sector could provide" the government was replacing what the private sector could have done. However, there were a lot of government services that the private sector was not willing

or able to replace and cuts in those areas created job loss.

Mr. Knapp turned to slide 34 that provided a chart depicting multiplier income impacts based on "short-run economic impacts per \$100 million of deficit reduction." He highlighted the following from Slide 23:

- Spending cut: workers - \$95 million in direct earned income impacts + \$43 million in multiplier impacts totaling \$138 million.
- Spending cut: broad-based - \$67 million in direct earned income impacts + \$48 million in multiplier impacts totaling \$113 million.
- Spending cut: capital - \$42 million in direct earned income impacts + \$22 million in multiplier impacts totaling \$64 million.
- Spending cut: pay - \$100 million in direct earned income impacts + \$43 million in multiplier impacts totaling \$143 million.
- Dividend Cut - \$99 million in direct other income impacts + \$51 million in multiplier impacts totaling \$150 million.

Mr. Knapp noted that the multiplier effect would be felt in the private sector and the largest multiplier effect impact was cutting the dividend.

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Vice-Chair Saddler referred to the multiplier effect. He asked why it mattered. Mr. Knapp exemplified a \$1000 reduction in the PFD causing an Alaskan to spend less money in the economy and therefore, other people spending less causing less spending to ripple through the economy. Vice-Chair Saddler did not believe that the multiplier effect worked as described. Mr. Knapp replied that if he chose not to get a haircut due to less money the barber would also get less money.

Mr. Knapp turned to slide 35 that illustrated calculating economic impacts on jobs. He explained that the chart

contained corresponding numbers on employment impacts. The model tracked how many jobs were associated with the type of spending. He noted that job impacts were the largest when cutting government workers because they were direct losses of government jobs. Slide 35:

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

Option	Job Impacts: Direct	Multiplier	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		776	776
Income tax: flat rate		796	796
Sales tax: more exclusions		771	771
Sales tax: fewer exclusions		793	793
Dividend cut		898	898
Saving less			0

Taxes and dividend cuts have only multiplier impacts on jobs.

Co-Chair Thompson asked members to hold their questions until the end.

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Mr. Knapp discussed slide 36 that contained a chart of economic and job impacts per \$100 million of deficit reduction. He presented slide 37 titled "The economic impacts of reducing the deficit will depend on what combination of options we use." He highlighted that the chart portrayed a scenario of a mix of options and that the percentages could be changed to determine the economic and job impacts of a multitude of mixed options.

Mr. Knapp discussed the economic impacts of spending cuts as shown on slide 38.

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.

Mr. Knapp advanced to slide 39 titled "Regional economic impacts of spending cuts would depend on how important government jobs and income are in the regional economy. Some regions are much more dependent than others." He indicated that the graph depicted that Juneau had the highest percentage of government jobs than anywhere else in the state. Cutting 50 percent of state jobs would have the greatest impact on Juneau. He delineated that a significant share of local government was supported by state spending which included school teachers. In some parts of the state the local government was a larger part of the economy so large education cuts had a larger relative impact. He discussed the "total impacts of deficit reduction on the Alaska economy and considered how fast the deficit should be reduced and what could be done to reduce economic impacts in the following slides. He turned to slide 42:

Regardless of what we do, we will experience impacts of spending cuts we've already made

- Impacts of past 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

Mr. Knapp moved to slide 43:

We can't avoid significant further 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. Adjusting

will significantly impact Alaska's economy—regardless of how we do it.

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Mr. Knapp addressed options for reducing the deficit in some combination of (slide 44):

- Spending cuts
- New taxes on households or businesses
- Dividend cuts
- Saving less

Mr. Knapp turned to slide 45 titled "Potential short-run impacts of reducing the deficit by \$1, \$2 and \$3 billion." He shared that the chart depicted a combination of measures to arrive at some total level of deficit reduction and the impact on jobs and income. The outcomes depended on the combination of factors used. He stated that in 2014, there were about 367,000 full and part-time jobs in Alaska. He moved to slide 46:

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

Mr. Knapp advanced to slide 47 titled "Negative economic consequences of not making significant progress this year":

- Further draining of reserve funds
  - Lower future investment earnings
  - Future Alaskans are paying for our deficits
- Business and consumer uncertainty, resulting in:
  - Reduced business and consumer confidence
  - Reduced investment
- Downgrading of Alaska's credit rating
- Delay in when we could receive new tax revenues
  - Time lag from when taxes are adopted to when they collect revenue

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Mr. Knapp turned to slide 48:

Running deficits rather than adjusting to lower revenues can reduce economic impacts if the reasons for lower revenues are temporary. If the reasons for the deficit aren't temporary, running deficits only delays economic impacts—and has other negative consequences. Government can temporarily support an economy by running deficits. Government can't permanently support an economy by running deficits.

Mr. Knapp stated that there were many other impacts from fiscal options (slide 49). He moved to slide 50 titled "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

Mr. Knapp addressed slide 51

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

Mr. Knapp moved to slide 52 titled "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

Mr. Knapp moved to slide 53 titled "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

Mr. Knapp mentioned slide 54 titled "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

Mr. Knapp highlighted slide 55 titled "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

Mr. Knapp referred to slide 56 titled "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

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Vice-Chair Saddler turned to slide 38 and asked Mr. Knapp to rank the items listed under impacts of reductions in state services. Mr. Knapp replied that they were only examples; he could not rank them. Vice-Chair Saddler stated that specific ranking would be most valuable. He turned to slide 52. He asked Mr. Knapp to rank the items listed under higher potential future costs of spending cuts. Mr. Knapp responded that he could not rank them. He pointed out that each item was complex and warranted its own study. He included the items in order to provoke considerations about consequences in the face of hard choices. Vice-Chair Saddler used metaphor to state that the situation was complex and difficult decisions had to be made. Mr. Knapp agreed.

Representative Munoz believed that action towards closing the budget gap was very important in the current year. She referred to slide 45 and ascertained that cutting \$3 billion in government workers would cost the economy 50 thousand jobs and with a combination of deficit reduction measures job loss would total 22 thousand. Mr. Knapp replied in the affirmative and reminded the committee that it was impossible to cut the budget \$3 billion by only cutting state workers. Representative Munoz clarified that the job loss impact would be less with a mix of measures. Mr. Knapp pointed out that there were deficit reduction measures that had big impacts and measures to reduce

impacts but all reduction measures would result in significant economic impacts.

3:24:26 PM

Representative Munoz spoke to various negative conditions impacting the state's broader economy besides low oil prices. She asked whether Mr. Knapp had analyzed the impacts of a changing broader economy. Mr. Knapp agreed that there were a lot of negative factors affecting the economy and the timing of low oil prices was not optimal. He mentioned that the Department of Labor and Workforce Development (DLWD) had projected job loss in the current year due to the combined effects of low oil prices, mining and fishing industry lows, federal cuts, etc. He observed that the state's economy was weakened and that people were concerned about the economy. He communicated that even though it was a bad time to impose cuts and taxes there was no choice but to act now. Delaying decisions until the economy was on firm ground was not an option and that inaction would also hurt the economy. He emphasized that timing was unfortunate, but action was needed.

Representative Kawasaki asked whether the chart on slide 45 took into consideration one person working two part-time jobs.

Mr. Knapp answered that the employment data was based on full-time equivalent (FTE); two people each working a part time job would equal one job. Representative Kawasaki pointed to slide 34 related to calculating economic impacts (job impacts) and the multiplier effects. He deduced that the multiplier effect actually gets larger as the deficit reduction was higher. Mr. Knapp responded that he would have to think about the question and discuss it with his colleague. He related that "very large cuts and the way they affect particular industries" and the interactive effects were difficult to predict and thought that the observation was "reasonable."

3:31:18 PM

Representative Edgmon stated that the presentation had helped him better understand Dr. Scott Goldsmith's, (ISER) comments that it was not possible to fix the budget all in one year and that the legislature needed to take major action in the face of a public that did not fully

understand the complexities of the state's budget. He stated that the electorate in Alaska was so diverse and spread out that most would probably never understand how the budget worked. He asked Mr. Knapp whether he agreed. Mr. Knapp answered that he had a difficult time understanding the complexities of the state's budget and that other academics would agree. He stressed that the budget and deficit reduction was very complicated and it was hard to expect an average Alaskan to understand the details.

[3:36:15 PM](#)

Mr. Knapp replied that he was available for questions from committee members or any Alaskan.

Vice-Chair Saddler asked how the state's economy was different since the past recession in the late 1980's. Mr. Knapp replied that the state's economy was quite different from the hard times in the late 1980s. He did not believe the impacts at present would be anywhere near the impacts that were suffered at that time. He relayed that the state's economy was much larger at present and the impacts of removing \$1 billion from the economy would be less. A huge part of the state's economy in the 1980's was related to construction due to a "super-heated" economy. In addition, the savings build up had not been available in the 1980s. The recession had a "sharp and hard" impact on the economy. The situation was concerning, but it was not necessary to go back to those dark days. Presently, a larger economy and the Permanent Fund could soften the impact.

Co-Chair Thompson discussed the schedule for the following week.

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ADJOURNMENT

[3:40:36 PM](#)

The meeting was adjourned at 3:40 p.m.