

**ALASKA STATE LEGISLATURE  
SENATE LABOR AND COMMERCE STANDING COMMITTEE**

January 19, 2017

1:32 p.m.

**MEMBERS PRESENT**

Senator Mia Costello, Chair  
Senator Shelley Hughes, Vice Chair  
Senator Kevin Meyer  
Senator Gary Stevens  
Senator Berta Gardner

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Senator Natasha von Imhof  
Representative Chris Birch

**COMMITTEE CALENDAR**

PRESENTATIONS: MOVING ALASKA'S ECONOMY FORWARD

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to report.

**WITNESS REGISTER**

JOE BEEDLE, Chairman  
Northrim Bank  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information about moving the Alaska economy forward.

MARK ROMICK, Deputy Executive Director  
Alaska Housing Finance Corporation (AHFC)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented information on Alaska's housing market and economy.

DAN ROBINSON, Chief  
Research and Analysis Section  
Division of Administrative Services  
Department of Labor & Workforce Alaska  
Juneau, Alaska

**POSITION STATEMENT:** Provided information about Alaska's future economy.

MARCUS HARTLEY, President  
Northern Economics  
Anchorage, Alaska

**POSITION STATEMENT:** Presented information about Alaska's economic future.

DR. RALPH TOWNSEND, Director and Professor of Economics  
University of Alaska Anchorage  
Institute of Social & Economic Research (ISER)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented information on moving Alaska's economy forward.

#### **ACTION NARRATIVE**

[1:32:19 PM](#)

**CHAIR MIA COSTELLO** called the Senate Labor and Commerce Standing Committee meeting to order at 1:32 p.m. Present at the call to order were Senators Hughes, Gardner and Chair Costello. She noted that Senator von Imhof and Representative Birch were also attending the meeting.

#### **PRESENTATIONS: MOVING ALASKA'S ECONOMY FORWARD**

[1:33:05 PM](#)

**CHAIR COSTELLO** announced that the committee has been focusing on Alaska's economy. She said this hearing is an opportunity for legislators and the public to better understand Alaska's economy. The committee will recap information from previous hearings and examine policy options available to the state. The goal is to analyze changes in Alaska's economy and learn how to best move Alaska's economy forward.

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**CHAIR COSTELLO** introduced the panelists and thanked the members of the public who have participated in hearings. She pointed out that the Alaska Senate Labor & Commerce Committee has a Facebook

page and the public can ask questions during the discussion through that venue.

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SENATOR GARDNER asked whether someone is monitoring the public's comments.

CHAIR COSTELLO said her staff is doing so.

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JOE BEEDLE, Chairman, Northrim Bank, provided information about moving Alaska's economy forward. He said his presentation is about the need for more certainty in Alaska's economy. He related that Northrim, publicly traded under NRIM, is a highly regulated bank that is registered with the U.S. Securities and Exchange Commission (SEC).

He discussed how Northrim attracts institutional capital. He emphasized that planning does matter. He stressed that the markets look at Alaska's economy, of which the government makes up about 15 percent. When the state needs to raise revenue, taxation becomes an issue. Fiscal leadership matters and the current lack of certainty in the state is a detractor for investment in Alaska. Banks today are seeing less investment and borrowing and finding that customers have less confidence.

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He said the state has been a stimulus to Alaska's economy over the past twenty years and deserves credit. He used a Garfield cartoon to stress that ignorance is not bliss, and the state must address the current financial situation.

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CHAIR COSTELLO welcomed Senator Stevens.

MR. BEEDLE turned to Alaska's economic outlook. He credited state agencies and departments for their work on the economy, as well as ISER's econometric modeling. The state's response to the current economy is vital, but not yet measured. He praised Northern Economics' modeling. He stressed that there has been less investment in the state recently, which has caused a wage and people recession. Currently, there are no economic movers or stimulus and he predicted that the recession would last for three or more years and be the new normal.

He explained that the state's fiscal balance sheet shows net assets are shrinking due to unfunded liabilities and

accumulating tax credits. He emphasized that it is time to use the Permanent Fund and moderated taxes as part of the solution.

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MR. BEEDLE pointed out that rising interest rates and nationalism add risk to Alaska, therefore, the state must recalculate and "take a different turn" in order to move off the financial cliff.

He stated that Northrim Bank's position encourages, as a budget solution, additional reduced spending, increased taxes, and use of the Permanent Fund over three-to-five years to provide long-run positive impacts through a return of business confidence and a stabilized climate for private capital investment. He mentioned several positive trends in possible changes in the federal administration regarding resource development. Growth in tourism and healthcare have already provided some opportunities. He concluded that there are tools the state can use during this fiscal crisis.

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SENATOR STEVENS asked Mr. Beedle for his opinion of the best approach for keeping jobs in Alaska: budget cuts, use of Permanent Fund earnings, or income tax. He noted that Northern Economics suggested that the best approach to keeping both population and jobs was to use Permanent Fund earnings.

MR. BEEDLE replied that Northrim supports the use of all those tools. The Permanent Fund would provide immediate revenue, whereas the others need time for implementation and regulation writing. He stressed that the implementation of taxes must be minimal, growing to moderate and less than municipal and state markets elsewhere. Northrim pays 9.4 percent income tax and high new taxes would disadvantage the bank.

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SENATOR GARDNER asked what the acronym "CEDS" means.

MR. BEEDLE explained that it is a statewide Comprehensive Economic Development Strategy (CEDS) coined by the U.S. Economic Development Administration (EDA) [to allow state community leaders and the private sector to create an environment for regional economic development.] Alaska does not have a current CEDS; it is outdated, resulting in the inability for Alaska Regional Development Organizations (ARDORS) to apply for grants. He provided an example related to the Port of Anchorage. He

stressed that Alaska's economic engine needs the most attention when developing its CEDS.

SENATOR GARDNER asked for more information about the words "not mush - need material meaningful employment/investment" found on the "Need a Plan" slide.

MR. BEEDLE explained that though cottage industry and small agriculture are wonderful, there must be meaningful growth from entrepreneurial investment and meaningful capital and operating investments - "movers." Today's focus needs to be on getting jobs back.

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SENATOR GARDNER related that the Senate president said he is comfortable with the state being on the edge of a precipice because it holds down spending. She inquired if Mr. Beedle agrees or if uncertainty is a drag on investment decisions.

MR. BEEDLE commented that it is a difficult time and there is so much uncertainty, that any amount of certainty is going to help. He cautioned that the state cannot wait for the "cliff" to get steeper and it needs to act now in moderation over a period of years. He opined that there needs to be a gradual decline with a soft landing.

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SENATOR HUGHES thanked Mr. Beedle for the presentation. She addressed the net depreciation of infrastructure assets and the administration's decision to put several projects on hold. She asked if that was a good decision.

MR. BEEDLE said he is not qualified to answer. He suggested the benefits of looking at unrestricted assets and general fund. The unrestricted ones have shrunk tremendously. The balance sheet is shrinking, and the income statement is showing a loss, which is very dangerous on two counts.

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MARK ROMICK, Deputy Executive Director, Alaska Housing Finance Corporation (AHFC), presented information on Alaska's housing market and Alaska's economy. He offered to provide statistical information on the housing market should the committee desire it. He said AHFC is a reactive industry and has a big impact on the market. According to the Bureau of Economic Analysis, it's about 10 percent of the gross state product - between \$3 billion and \$5 billion. For every 100 homes that are built, about \$30

million in wages, \$6 million in taxes, about 400 direct jobs are produced. Additionally, about \$6 million in purchases are made which equal about 78 additional jobs.

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MR. ROMICK agreed with Mr. Robinson's comments at the previous meeting that there are no major signs of problems in the housing industry. Alaska is well below the national average for delinquencies and foreclosures. Today, Alaska is in a different place regarding housing than in the 1980s because there has been no housing bubble. Permitting has been anemic and there has not been a lot of new inventory in the market resulting in stability.

He said the housing market varies across the state; there are regional differences. The forecast from the real estate community is that most markets are in moderate to mild activity and last year was stable.

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CHAIR COSTELLO welcomed Senator Kelly. She stressed the importance of the committee's role in facing economic challenges and opportunities.

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MR. ROMICK related that there is a strong need for affordable housing in Alaska, particularly in rural areas. He discussed how safe and quality housing relates to health care costs.

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MR. ROMICK said housing funding at the federal level has been stable. Several areas may change under the new administration. He referred to the possibility of deregulation at the federal level and unknowns about Freddy Mac and Fanny Mae.

He emphasized two points from yesterday's presentation. He recalled Mr. King's comments on the multiplying effects of economic change such as the loss of a home, versus a reduction in income. He described the chain of events in both situations. He emphasized the interconnectedness of geography.

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CHAIR COSTELLO thanked Mr. Romick. She asked Mr. Robinson about the Department of Labor & Workforce Development's research on economic trends. She recalled that the industries that were hit first and hardest were the oil and gas and construction industries. She said the statement by Mr. Romick that there are

no problems in the housing industry seems to be a contradiction to that.

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DAN ROBINSON, Chief, Research and Analysis Section, Division of Administrative Services, Department of Labor and Workforce Development, provided information about Alaska's future economy. He emphasized that some of the research data is speculative because there is a lag in data sets. He pointed out that previous vulnerabilities in the housing market no longer exist at the state and federal levels. Another part is the "age structure" and how it relates to job loss. The state has not seen large scale population loss, only a net loss to migration of about 15,000 to 20,000 people, compensated for by natural increases in population. He gave an example of a worker who retired and stayed in Juneau and an oil worker who retired and stayed in Alaska. The population is older, and more people are in the position to stay in Alaska, which wasn't true in the 80s. "Age structure" job loss does not equal population loss.

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CHAIR COSTELLO noted the arrival of Senator Meyer. She opened the discussion to panel members' questions.

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MR. ROBINSON asked Mr. Beedle what affects capital investment in Alaska and what might revitalize the downward trends.

CHAIR COSTELLO asked if Mr. Hartley would like to answer. She restated the question.

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MARCUS HARTLEY, President, Northern Economics, presented information about Alaska's economic future. He said investors want a certain level of certainty before making an investment. The lack of state decision-making is bad for investors.

CHAIR COSTELLO asked what affects consumer investment.

MR. BEEDLE addressed the question from an enterprise viewpoint. He brought up the potential for relief of regulations by a new national administration as an example of a positive effect on the banking business. He spoke of carpetbaggers in the early days of Alaska. Resource development in mining is an example of an opportunity with stability. The opportunity to tax is a concern depending on the level of taxation. Honoring commitments

is important. Investors are looking to the state to create a stable fiscal plan.

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CHAIR COSTELLO recalled Senator Stevens' comment on the state's not honoring its oil tax credit commitments. She asked for an elaboration on that idea.

MR. BEEDLE used the example of the surety of federal government personal income tax refunds to show stability in the market. He said AHFC is a conduit for the U.S. Treasury to provide tax credits for low income housing. Northrim Bank then buys tax credits that become equity investments for low income housing developers. Northrim has invested over \$20 million in those tax credits over the last five years and gets to offset tax liability over fifteen years. Northrim needs certainty that there will be a deduction on their tax return every year. Those are bankable and exchanged on the market. In contrast, the state's tax credits are now not exchangeable on the market, which is a problem. He said it is both a challenge and an opportunity for the oil companies and the state to negotiate a different strategy.

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CHAIR COSTELLO asked Dr. Townsend if he had anything to add.

DR. RALPH TOWNSEND, Director and Professor of Economics, University of Alaska Anchorage, Institute of Social & Economic Research (ISER), presented information on moving Alaska's economy forward. He addressed problems related to uncertainty regarding the oil tax credits. The size of the debt is so large that it is causing uncertainty for the industry and for state government. This needs to be solved.

He said the state's budget is a big problem in that it is recognized as not sustainable by economists. This will have to change soon because delaying the decision will cause job losses which will cause a crisis in the housing market. There need to be adjustments on the revenue side. They could be broad-based taxes or an adjustment to the Permanent Fund. He provided examples of the negative impact on businesses if nothing is done. He said there are consequences with either decision, but it is important that a decision is made so that businesses can come up with a plan.

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CHAIR COSTELLO recalled that a question was asked about which option gets the state farther down the road with the least amount of pain to the economy. The answer was savings - using the Permanent Fund in some way. She asked the panel members if they agree with that.

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DR. TOWNSEND clarified that the answer was given in the context of solving the problem during the next year or two. He agreed that, in the short run, savings is the least painful option. In the long run, the state needs to look at what is important in government; decisions that get the state government Alaskans want. In the medium term, the goal should be to manage the macroeconomic impacts on the state's economy in a way to minimize the disruption to the economy. In the long run, all those solutions need to be considered; the question is the timing. He suggested using the constitutional budget reserve and earnings reserve funds to manage a transition from the current situation to one that has readjusted how to finance government. He advised closing the fiscal gap this year over time, not all at once.

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MR. BEEDLE agreed. He said the earnings reserve provides a hedge - use the Permanent Fund at 4.5 to 5 percent today - implement taxes with effective dates that will make a difference later.

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MR. HARTLEY did not agree that using the Permanent Fund is better than the institution of a broad-based tax. He opined that the Permanent Fund should be used to get through the current crisis along with an income tax. He gave an example of out-of-state workers that receive Alaska's dollar resources. He posited a state income tax could get some of that money. He used oil workers as an example.

SENATOR STEVENS agreed that fishing crew members don't pay taxes. He asked whether they would also pay their own state tax.

MR. HARTLEY said Washington has a sales tax, but not an income tax. Oregon has an income tax. He suggested an income tax could be constructed so that out-of-state workers would pay it. He believed that the sales tax is regressive; an income tax is more progressive.

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SENATOR MEYER recalled from yesterday's Department of Labor and Workforce Development presentation that 20 percent of Alaska's workforce is from out of state. He maintained that 80 percent of workers who live in Alaska would be penalized. He suggested that a sales tax could be variable to target tourists. He said his concern with both taxes is the need to hire 50 to 60 state employees to manage them.

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MR. HARTLEY said he sees room for both the Permanent Fund draw and an income tax. He commented that in rural areas the PFD may be a large part of a person's income and a cut to it would be disproportionately felt.

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CHAIR COSTELLO noted that a question was posed on the committee's Facebook page. The question pointed out that local businesses pay local property and sales tax and hire Alaskans. These businesses face competition from internet sales. The question is whether the state should develop a policy to capture some of those transactions.

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MR. ROBINSON responded that any question regarding the impact on the economy is guided by what the money is doing now. The internet issue is a policy call. However, if the Permanent Fund is used in the short term, because it is not being used now but is being saved, it will have less of an impact on the economy. Any income or sales tax also results in a small impact on the economy. He said the specifics are less of an economic concern than the uncertainty surrounding the budget.

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DR. TOWNSEND commented on the internet sales tax question which he imagined at some point would be resolved. He gave an example comparing internet tax with a state sales tax. He suggested making the tax broad based and low. He also recommended having a broader definition of "income." He said it is not necessary to have a large tax if it is broad enough.

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SENATOR MEYER asked if the panel agrees that oil and gas jobs have an 8-to-1 effect on the economy or if they believe it's the 3-to-1 ratio that ISER stated yesterday.

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MR. HARTLEY thought the multiplier might have been an output multiplier related to jobs-to-jobs.

DR. TOWNSEND said it was an income multiplier.

MR. HARTLEY thought it was confusing. He explained that economic output multipliers are the total number of sales or spending generated from a particular job. In Alaska, a very good economic multiplier might be 2 or 3. Jobs-to-jobs multipliers are much higher.

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SENATOR MEYER asked what the multiplier effect would be of a state employee job.

DR. TOWNSEND thought it would be 1.7 to 1.9, however, specific jobs, such as professional employees, have relatively high multipliers because they are buying local services. Multipliers for a retail trade are lower because those employees are earning lower incomes and spend their money on food and big box stores - out-of-state businesses.

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CHAIR COSTELLO requested a comprehensive list of multipliers which will be available to legislators and the public.

SENATOR HUGHES referred to previous presentations regarding funding solutions and the degree of harm to job production. Most harmful was use of the Permanent Fund, then income tax, followed by sales tax with exclusions. More regressive solutions are more harmful than less regressive solutions. She said she is hearing that the panel members are leaning toward using the Permanent Fund and income tax, as opposed to enacting a sales tax.

She recalled from Dr. Knapp's presentation yesterday that non-residents would pay a larger portion of sales tax than they would an income tax. She said she has heard that reducing budgets are better for the economy than taxing. She referred to the Reagan era where lowering taxes stimulated the economy. She stressed the importance of new capital investment. She asked whether the panel recognizes the thinking that is opposite of their presentations and how what happened during the Reagan era can be explained.

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DR. TOWNSEND addressed the issue of residents versus non-residents paying sales taxes and income taxes. He maintained

that who pays the taxes is determined by how federal income tax is deducted. Higher income individuals itemize more often, and an income tax will generate more reductions than a sales tax. He thought there would be small differences between the amounts collected from out-of-state residents from sales taxes versus income taxes, unless the sale tax is narrowly targeted. How a sales tax is designed will determine who is paying it. He pointed out that, "How you take \$100,000 million out in taxes doesn't make a big impact, in the short run at least, in terms of total employment." There are small differences. Sales tax is typically more regressive. Income tax is typically more progressive. He concluded that the economic impact is probably a wash on the economy except for the distributional impact.

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DR. TOWNSEND noted that the use of the Permanent Fund is different. He said ISER assumes that a very large percentage of the PFD is spent. Dr. King found that only 60 percent of the PFD is spent in a given year. In that case the distributional consequences are quite different. He maintained that the difference between a tax change and a PFD change is largely distributional; the impact on the economy is less important than the distributional effect.

He turned to the subject of Reagan-era tax cuts. He pointed out that the tax cuts were financed primarily by larger federal deficits. Alaska cannot run permanent deficits the way the federal government can. He recommended Alaska decide whether to create a big government to propel the economy forward in the short run. He maintained, "We want to pay for the government we want." He emphasized keeping the long view in mind when paying for services.

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SENATOR STEVENS gave an example of a cutback in fisheries resulting in a reduction in catch due to not having enough resource data.

DR. TOWNSEND agreed the example makes the point that government workers provide services. The question is what the appropriate amount of services is. He used child protection services as another example.

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SENATOR HUGHES restated the question on how to explain the economic growth during the Reagan administration.

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MR. BEEDLE pointed out that individuals in Alaska do not pay a sales tax or income tax so it is hard to create a stimulus, which was the case with President Reagan. In the case where oil tax was reduced, oil was incentivized and there was a return to the state. That investment slowed the decline and has produced some new finds. Fiscal policy involves taxes and how the state spends money. Today, an added tax could take away from Alaska's economy. Another important aspect of taxes is having a broad tax base. The greater the tax base, the assessed value, the less impact. Diversity of income sources is key.

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CHAIR COSTELLO thanked the presenters and asked them to offer final comments.

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MR. ROBINSON suggested thinking in conceptually broad strokes. He said to ask what the money is currently doing. He gave an example of a small multiplier for someone out of state compared to someone living in Palmer. He said models are simplifications and he advised members to think broadly about how the money is being spent and recirculated.

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MR. ROMICK concluded that, from a housing perspective the scenario that has the least impact on people's investment decisions in the housing market will create the greatest stability in the housing market.

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MR. HARTLEY summarized that it's important to make decisions and try to eliminate the uncertainty about how to fix Alaska's fiscal house. He agreed with Dr. Townsend's comment that the distributional effects may be more important than the overall economic effects. He said who must pay the money matters almost as much as what the money does in the economy. He favored a more progressive tax versus regressive taxes.

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MR. BEEDLE commented that the potential for 2 percent drops for three years is disheartening, but it may also be a new normal at a different plateau. He emphasized that it is not debilitating for the state and the concept of Alaska resetting back to a stable new plateau is okay. It is time to pay, however.

He suggested that the earnings reserves should be viewed as a bird in the hand - cash in hand - and it is available to use and can be used immediately. All the options are difficult, but the difference between them are marginal. Job losses from each one did not vary by more than 25 percent.

He said the state can be healthy again. Going back to a citizen-supported government is critical. Delaying the decisions will hurt the economy.

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DR. TOWNSEND offered three points. Alaska needs to realize that it faces fiscal challenges but has opportunity because of the Permanent Fund, unlike other states. It provides opportunities to manage the transition. That fund is part of Alaska's future, probably more than all natural resources combined. Now, Alaska needs to say how the fund will shape the future.

He addressed timeframe to enact a plan. He suggested starting with a five-year plan, which will need ten years of adjustment. The plan isn't cast in stone but provides reasonable expectations of the goal. He stressed that details do matter. He cited the example of managing Medicaid. He cautioned to take the time to understand the many connections and consequences.

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CHAIR COSTELLO outlined the agenda for next week and thanked the members, panelists, and other legislators in attendance.

SENATOR HUGHES expressed appreciation for the discussion. She opined that 2018 is the year the state can "absorb the shock of something more substantial;" 2017 is not the best year to resolve the budget crisis.

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There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce meeting at 3:20 p.m.