

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

February 22, 2023

6:01 p.m.

MEMBERS PRESENT

Representative Ben Carpenter, Chair
Representative Jamie Allard
Representative Tom McKay
Representative Kevin McCabe
Representative Cathy Tilton
Representative Andrew Gray
Representative Cliff Groh

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

PRESENTATION(S): ALASKA'S ECONOMY

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JONATHAN WILLIAMS, Chief Economist and Executive Vice President
of Policy

American Legislative Exchange Council
Anchorage, Alaska

POSITION STATEMENT: Provided a presentation on how fiscal
policies impact state economies.

ACTION NARRATIVE

[6:01:10 PM](#)

CHAIR BEN CARPENTER called the House Special Committee on Ways
and Means meeting to order at 6:01 p.m. Representatives Allard,
Groh, McKay, Gray, Tilton, and Carpenter were present at the
call to order. Representative McCabe arrived as the meeting was
in progress.

PRESENTATION(S) : Alaska's Economy

[6:02:06 PM](#)

CHAIR CARPENTER announced that the only order of business was the Alaska's Economy presentation.

[6:03:21 PM](#)

JONATHAN WILLIAMS, Chief Economist and Executive Vice President of Policy at the American Legislative Exchange Council, began a PowerPoint presentation [hard copy included in the committee packet] by describing the American Legislative Exchange Council (ALEC) on slide 2, "About ALEC," which read as follows [original punctuation provided]:

Founded in 1973

The American Legislative Exchange Council is America's largest nonpartisan, voluntary membership organization of state legislators dedicated to the principles of limited government, free markets and federalism.

Comprised of nearly one-quarter of the country's state legislators and stakeholders from across the policy spectrum, ALEC members represent more than 60 million Americans and provide jobs to more than 30 million people in the United States.

[6:05:19 PM](#)

The committee took an at-ease from 6:05 p.m. to 6:10 p.m. [due to technical difficulties].

[6:10:32 PM](#)

MR. WILLIAMS moved to slide 3, "Budget and Taxes," and outlined the key take-aways from his 15 years of research. He emphasized good tax policy was able to drive economic growth, job creation and in-migration. He stated healthy states had better spending prioritization and were more cost-effective.

MR. WILLIAMS continued to slide 4, "Five Essential Budget Questions," which read as follows [original punctuation provided]:

What is the role of government?

What are the essential services government must provide to fulfill its purpose?

How will we know if government is doing a good job?

What should all of this cost?

When cuts must be made, how will they be *properly* prioritized?

[6:12:40 PM](#)

MR. WILLIAMS displayed a list from slide 5, "ALEC Principles of Taxation," and described the research from the ALEC Tax and Fiscal Policy Task Force. He described simplicity and transparency as straight forward, and expanded on the meaning of neutrality as "it's not [the] government's job to pick winners and losers through tax policy." He further added predictability was important so businesses would be more likely to expand in a state. He emphasized his last point of pro-growth was the most important and was the underpinning of his 15 years of research with Dr. Laffer.

[6:14:31 PM](#)

MR. WILLIAMS said states were directly competing for business development, job creation, and population, and indicators of tax policy were how states were gaining or losing population, such as Alaska losing 6,000 residents in one year because of poor policy. He added that people were "voting with their feet" for more favorable opportunities, lower taxes, "right to work" policies, or school choice policies.

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MR. WILLIAMS, in response to a question from Representative Gray about which other states did not have a personal income tax or a sales tax, stated that eight other states did not have a personal income tax, and four other states did not have a general state level sales tax. He added that out of the states that did not have a state level sales tax, Alaska had the highest local sales tax. In response to a follow-up question from Representative Gray, stated that there was no state that did not have a personal income tax or a sales tax. He added that the states that did not have a personal income tax were the

most successful in population growth, gross domestic product (GDP) growth, and job growth.

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MR. WILLIAMS, in response to a question from Representative Allard about which states that did not have a personal income tax did have a marijuana tax, said that he did not know the number of states, but that the income from marijuana tax was minimal compared to the rest of a state's income.

MR. WILLIAMS, in response to a follow-up from Representative Allard about boroughs that had sales taxes, restated that Alaska had the highest local sales tax of any state that did not have a state-level sales tax.

[6:24:01 PM](#)

MR. WILLIAMS, in response to a question from Representative Groh about Alaska having the lowest tax incidence in the U.S. as reported by the District of Columbia and the Tax Foundation, said it depends on how the tax incidence is measured. He added the incidence of corporate tax averaged through Alaska was high compared to the rest of the nation, because of the large tax burdens on oil and gas companies. He further stated that ALEC measured the tax incidence differently than the Tax Foundation, which ranked Alaska as the third best business tax climate, compared to ALEC ranking Alaska as the 21st. He emphasized that a large factor for some businesses was if the state was a "right to work" state or not.

[6:26:30 PM](#)

MR. WILLIAMS, in response to a question from Representative Groh as to whether the people of Alaska paid the tax burden placed on oil companies, stated the research showed the consumer pays the taxes placed on energy-related products.

[6:27:12 PM](#)

REPRESENTATIVE MCCABE asked if the taxes applied to stock dividends as income would also be considered a tax to the people for the statutorily required dividend that Alaska had to take each year on its mineral wealth.

MR. WILLIAMS responded by stating that ALEC had not held a position on that unique aspect of Alaska.

[6:28:30 PM](#)

MR. WILLIAMS, in response to a question from Representative Gray that asked if ALEC supported the permanent fund dividend (PFD) or other cash transfers from states, said that ALEC had not held a position on the PFD.

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MR. WILLIAMS moved to slide 6, "Pro-Growth Reforms in States," and outlined the shift from policymakers to make their states more competitive, as seen in five states that had introduced flat personal income tax in 2022 and many other states that had reduced personal income tax rates. He added that California was too reliant on volatile revenue, such as capital-based taxes, and had about a \$25 billion budget shortfall that year.

[6:33:02 PM](#)

MR. WILLIAMS continued to discuss the issue that many states were reliant on federal aid, the American Rescue Plan Act and other pandemic relief, and that states saw a budget surplus following the 2017 Tax Cuts and Jobs Act. He emphasized some states had fallen behind others by not implementing competitive tax policy.

[6:35:01 PM](#)

MR. WILLIAMS skipped to slide 10, "9 Lowest CIT States vs. 9 Highest CIT States," and highlighted Alaska as having the ninth highest corporate income tax rate across the U.S. He emphasized the efforts to reduce or eliminate corporate income tax were bipartisan in North Dakota, Connecticut, and Colorado. He moved to slide 12 and stated the taxes placed on businesses are eventually paid by people, through lower wages, lower investment returns, or inflation on the cost of products.

[6:40:04 PM](#)

MR. WILLIAMS displayed slide 13, "Threats to Economic Competitiveness," which read as follows [original punctuation provided]:

Overreliance on volatile forms of taxation

Overreliance on federal funds

Lack of spending restraint

Out-of-control debt growth

[6:42:13 PM](#)

MR. WILLIAMS, in response to a question from Representative McCabe about what the average Alaskans' effective tax rate was, said he would have to defer to someone who had done the calculations.

MR. WILLIAMS, in response to a question from Representative Groh about whether Wyoming was a high growth state since it had neither a corporate income tax nor a personal income tax, stated Wyoming was facing many issues due to coal having been more regulated by the government.

MR. WILLIAMS, in response to a follow-up from Representative Groh about how Kansas factored into the analysis from Mr. Williams, said he had done a study following the Kansas tax reforms and saw the tax cuts had been beneficial, but the increased spending and the loss of federal subsidies had unbalanced the budget.

[6:46:08 PM](#)

MR. WILLIAMS, in response to a question from Representative Groh and Chair Carpenter about Alaska and Wyoming having low tax rates and low economic growth, and whether there was data to support economic growth and institutional tax, said Alaska and Wyoming were outliers for states that did not have a personal income tax. He stated the U.S. had seen increased economic growth over 15 or 25 year averages in states that had lowered taxes and prioritized spending. He added that Alaska had high corporate income tax and was not a "right to work" state.

[6:49:03 PM](#)

MR. WILLIAMS, in response to a question from Chair Carpenter about which individual taxes had an impact on business investment in the economy, stated that the most important taxes to reduce were capital-based taxes, while sales and property taxes had less impact on business investment than capital-based taxes.

[6:51:29 PM](#)

MR. WILLIAMS, in response to a question from Representative Allard asking how education choice had played into Alaska's loss of population, said that he believed education choice had played a large role as an outcome of the pandemic. He added that West Virginia, Arizona, Iowa, and Utah had already made moves to increase education choices.

[6:54:49 PM](#)

MR. WILLIAMS, in response to a request from Chair Carpenter for data comparing migration and education policies, stated he did not have the data on hand as the policies were too new for data to be collected.

[6:56:45 PM](#)

REPRESENTATIVE GRAY commented on slide 10, "9 Lowest CIT States vs. 9 Highest CIT States," and he compared the migration data from 2013 to 2022 and noted Wyoming and Ohio had lost working age population, and Iowa, New Jersey, Delaware, and Oregon had gained working age population in contradiction to Mr. Williams.

MR. WILLIAMS responded the new census data had shown Oregon losing population, and the population it was gaining was primarily from states with higher tax burdens. He added that Oregon did avoid a sales tax, and it was gaining retirees from high tax states like California.

[7:00:04 PM](#)

MR. WILLIAMS, in response to a question from Representative Gray about whether Alaska should have reduced its military as it was a federally funded program, stated his research was looking at federal aid, of which the military was not a part. He brought up slide 15 and 16 and compared the average funding makeup of a state's budget in 1992 and 2020, and he commented on the increase in federal funds.

MR. WILLIAMS, in response to a follow-up question from Representative Gray about whether it was acceptable for Alaska to accept federal infrastructure funds or federal match funds, said many were one-time funds, had strings attached, or had maintenance costs associated with the funds.

[7:04:06 PM](#)

MR. WILLIAMS, in response to a question from Chair Carpenter about what the relationship between reliance on federal funds and the stability of a state's budget, stated that it was a challenge for states to decide how to manage federal aid due to the incentives that came with federal aid. He emphasized Utah, and the commission it had, which created a contingency plan in case federal funds were reduced, and outlined how programs would be re-managed in response to less federal funding.

[7:08:07 PM](#)

REPRESENTATIVE MCCABE remarked on Alaska's roughly \$12 billion budget being comprise of \$7 billion of federal funds, and that Alaska was "way upside down" with the federal funds it receives.

CHAIR CARPENTER stated Representative McCabe's comment was outside the scope of the presentation, and he recalled from a previous presentation from the Department of Revenue (DOR) that Alaska received about a third of its revenue from federal funds.

[7:09:33 PM](#)

MR. WILLIAMS, in response to a question from Representative Groh about whether Alaska was over reliant on the fluctuating revenue of oil, turned to slide 14, "State Tax Revenue Volatility," and described the most volatile revenue being corporate income tax, compared to personal income or sales tax, averaged across all 50 states.

[7:11:37 PM](#)

MR. WILLIAMS, in response to a question from Representative Gray about Alaska only having a corporate income tax, which was the most volatile, and whether adding a personal income or a sales tax would stabilize Alaska's budget, said he would not advocate for the creation of a personal income tax. He noted that the addition of taxes to previous states had stalled the economies, and he advised that the focus should be on reducing spending.

[7:13:46 PM](#)

REPRESENTATIVE ALLARD asked whether the data was deceiving as the borough taxes in Anchorage had relied on fuel and alcohol sales tax.

CHAIR CARPENTER clarified that the graph was intended to focus on the state level.

MR. WILLIAMS added that the data he presented focused on the three main revenue sources for states, and did not focus on the lesser revenue sources.

[7:15:02 PM](#)

CHAIR CARPENTER stated the committee was looking to stimulate economic growth in Alaska and address unstable revenue sources, and he asked whether the committee should look at how its legislation might affect local municipalities.

MR. WILLIAMS said it was important to look at how changes in revenue or spending structure could affect boroughs.

[7:16:39 PM](#)

MR. WILLIAMS continued with the presentation on slide 20, "States With the Highest In-Migration," which contained in-migration data from July 2021 to July 2022, and which read as follows [original punctuation provided]:

1. Florida (318,855)
2. Texas (230,961)
3. North Carolina (99,796)
4. South Carolina (84,030)
5. Tennessee (81,646)
6. Georgia (81,406)
7. Arizona (70,984)
8. Idaho (28,639)
9. Alabama (28,609)
10. Oklahoma (26,791)

MR. WILLIAMS added the post-pandemic environment had shifted towards more focus on choice in education and more mobility in jobs with remote work. He emphasized all the states on the list had eliminated or reduced personal income tax, or already had low or no personal income tax.

[7:19:34 PM](#)

MR. WILLIAMS continued with slide 21, "States With the Highest Out-Migration," from the same data set as the previous slide, and which read as follows [original punctuation provided]:

1. California (-343,230)
2. New York (-299,557)
3. Illinois (-141,656)
4. New Jersey (-64,231)
5. Massachusetts (-57,292)
6. Louisiana (-46,672)
7. Maryland (-45,101)
8. Pennsylvania (-39,957)
9. Virginia (-23,952)
10. Minnesota (-19,400)

MR. WILLIAMS highlighted that all the states on the list had high tax burdens, and Louisiana and Virginia were the only "right to work" states. He added that remote work allowed individuals to move to lower cost of living states.

[7:20:54 PM](#)

MR. WILLIAMS moved to slide 22, "9 No Income Tax States vs. 9 Highest Income Tax States Net Migration Estimates," which read as follows [original punctuation provided]:

No Income Tax States:

1. Alaska (-6,126)
2. Florida (318,855)
3. Nevada (20,781)
4. New Hampshire (6,303)
5. South Dakota (8,424)
6. Tennessee (81,646)
7. Texas (230,961)
8. Washington (-3,580)
9. Wyoming (2,152)

Highest Out-Migration:

1. New York (-299,557)
2. Oregon (-17,331)
3. California (-343,230)
4. New Jersey (-64,231)
5. Hawaii (-15,212)
6. Minnesota (-19,400)
7. Maryland (-45,101)
8. Vermont (1,141)
9. Delaware (11,826)

MR. WILLIAMS added that the states without personal income tax had net in-migration, with Alaska and Washington having been the only outliers, and the states with high personal income tax had net out-migration, with Delaware having been the only outlier.

[7:22:59 PM](#)

MR. WILLIAMS, in response to a comment from Representative McCabe about the similarity between Alaska and Kansas having minimal income tax, high spending, and out-migration, stated that businesses would look at the expected future tax environment of the state, a primary driver having been overspending of the state's budget. He added there was likely to be a decrease in federal aid to states in the future, which would make it difficult for states to balance budgets without planning.

[7:26:45 PM](#)

MR. WILLIAMS, in response to a question from Representative Groh about the outliers discussed during the presentation, and whether there was a graph to reinforce if they were outliers or not, stated from previous additions of his book, Rich States, Poor States, and from other organizations, graphs depicting the correlations discussed were available.

[7:28:00 PM](#)

MR. WILLIAMS, in response to a comment from Representative Gray on slide 21, "States With the Highest Out-Migration," and the correlation between housing prices and migration over the pandemic being significant, said in addition to housing costs in a state, the quality of life, job opportunities, educational opportunities, and take-home pay all played a role in migration. He added the factor of weather into migration was not as influential as taxes, as California had seen significant out-migration due to its high housing cost from high taxes, despite having great weather.

[7:31:44 PM](#)

CHAIR CARPENTER commented on the importance of addressing the structural imbalance and low performing economy within Alaska, and on how Alaska seemed to be an outlier in many areas. He asked Mr. Williams what he thought to be the most important aspect of Alaska's economy on which the House Special Committee on Ways and Means could focus.

[7:33:22 PM](#)

MR. WILLIAMS highlighted there was no silver bullet to Alaska's issues, and Alaska being unique made cherry picking policies from other states less likely to respond similarly. He added that the high corporate income tax made Alaska unfavorable to businesses, and that regulation reform and union control were low-cost policies to implement to boost economic growth.

[7:36:22 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 7:36 p.m.