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Economic Considerations with Revenue Options

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The Alaska economy

- 736,000 people
- \$37 billion in personal income
- \$60 billion in gross domestic product

Macroeconomic considerations with revenue options

- The economy is too big and there are too many moving parts to know with precision the full economic impact of the kinds of new revenue options we're talking about
- *But* there are some key economic concepts to keep in mind ...

“New” money

- There's a certain amount of money circulating or being spent in the Alaska economy; some of the options we'll discuss represent an infusion of money into our economy and some don't

New money

- New money is generally a good thing, but new money \neq free money
 - Complicated contortions to make sure someone else pays taxes instead of Alaskans can have negative impacts on an economy both in the form of uncertainty and unintended consequences (we can drive business away, for example)

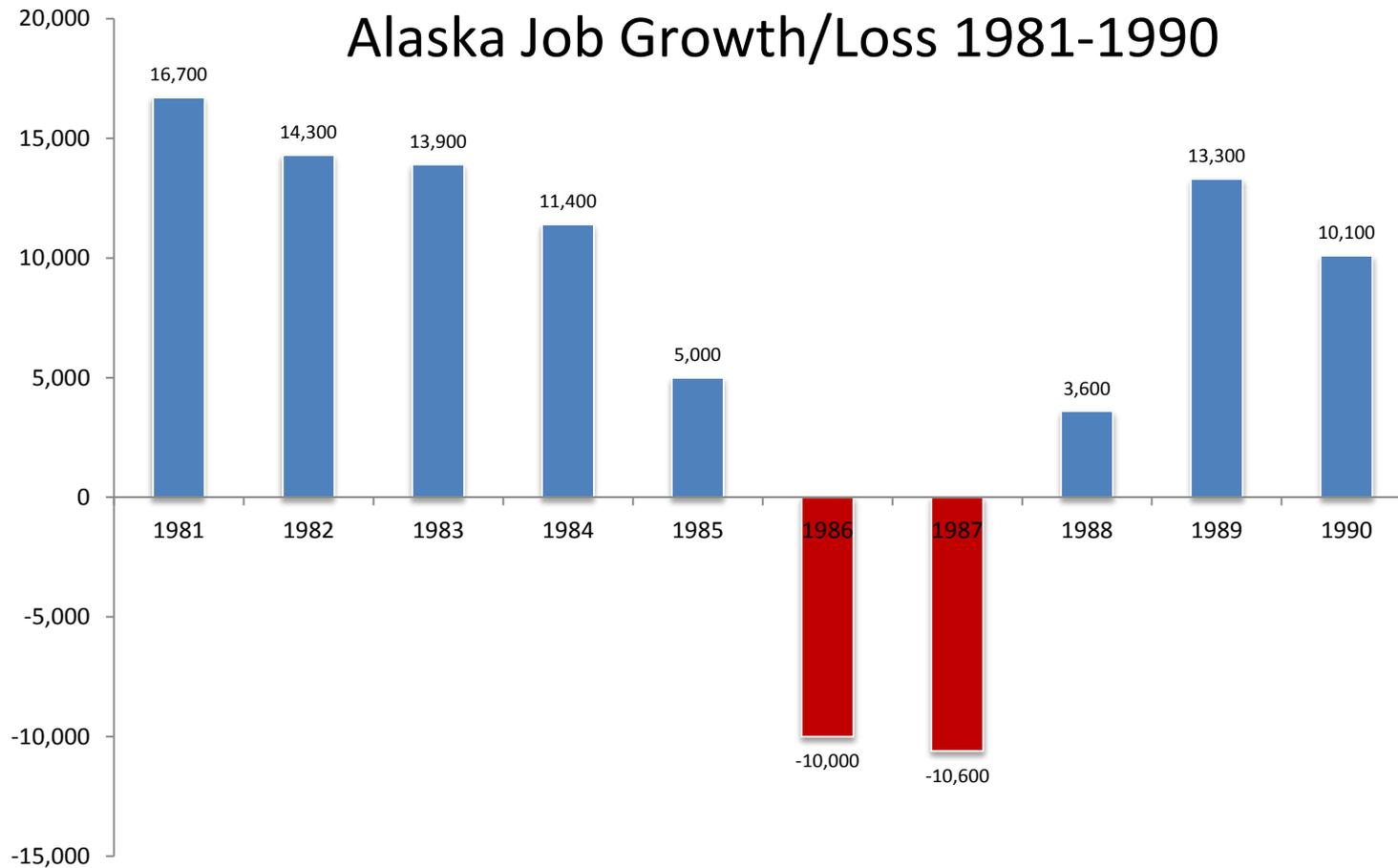
Multiplier effects

- Revenue options differ in terms of their indirect or multiplier effects
 - At one end of the spectrum, an income tax paid by a nonresident working at a remote work site
 - At the other end, eliminating the PFD which tends to get spent in Alaska

The dangers of instability

- Neither consumers nor businesses tend to be very comfortable with uncertainty; it creates extra costs and discourages investment and spending (to say nothing about bond ratings)

Multiplier effects and economic instability in action ...



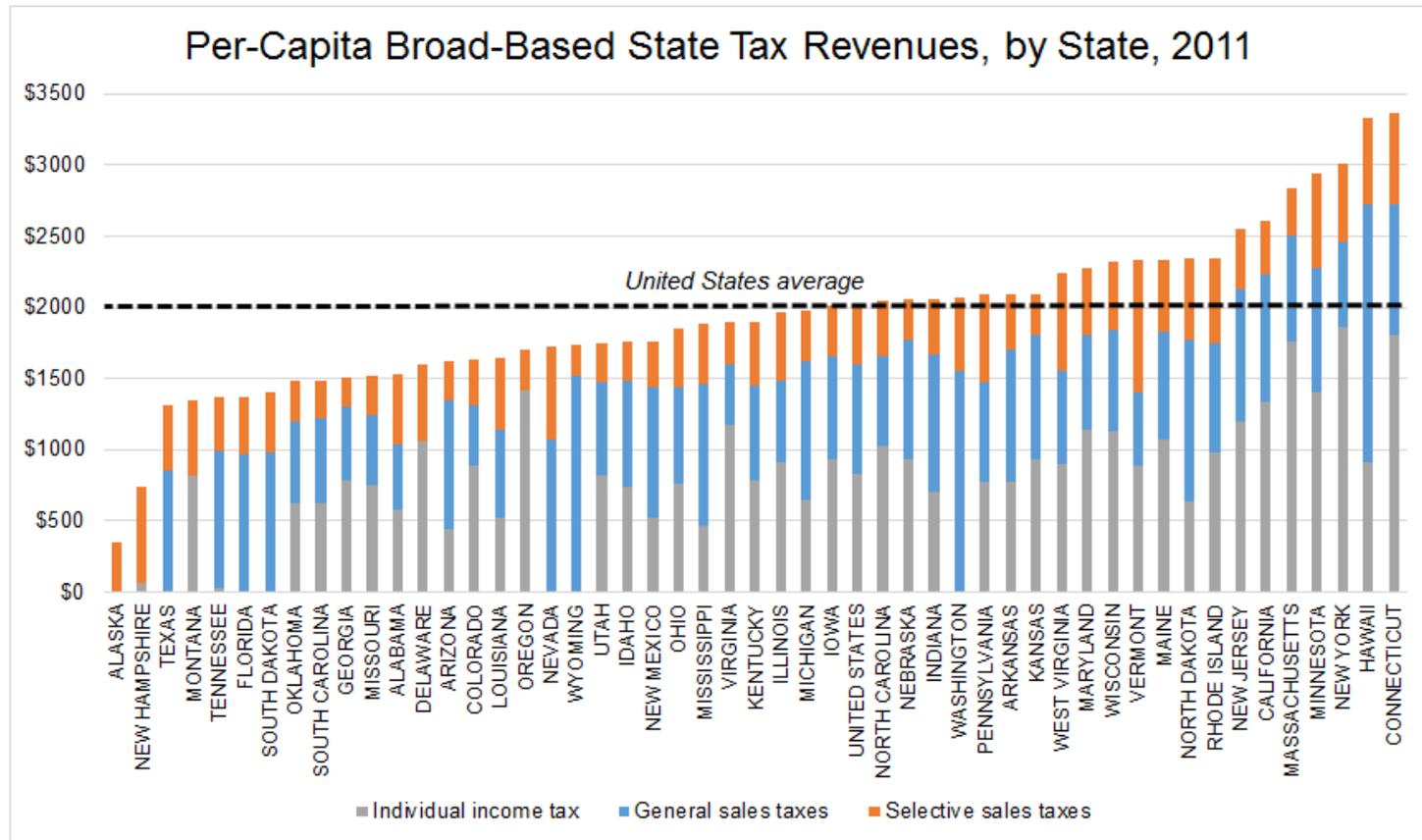
A few thoughts before looking at some of the revenue options ...

1. We have powerful tools in our tool box that other states don't because of our oil-related savings

A few thoughts before looking at some of the revenue options ...

2. Every other state except New Hampshire relies heavily on either a statewide sales tax or a statewide income tax – or both (NH has a statewide property tax among other things)

A few thoughts before looking at some of the revenue options ...



Revenue options: economic impact pros and cons – State Income Tax

- **Pro:** Brings new money into the state to the extent it taxes nonresident workers (about 20 percent of all workers in AK) or is deductible on federal income taxes; lower multiplier than some options and a relatively stable source of revenue
- **Con:** Reduces Alaska households' disposable income and spending

Revenue options: economic impact pros and cons – State Sales Tax

- **Pro:** Brings new money into the state to the extent sales are to nonresidents; relatively stable source of revenue
- **Con:** Many local governments already have sales tax; relatively high multiplier because of direct effect on spending

Revenue options: economic impact pros and cons – Permanent Fund Earnings

- **Pro:** Significant revenue potential; new money to the economy; under endowment model, could be very stable source of revenue
- **Con:** Reduces growth of permanent fund and its earnings value to future generations

Revenue options: economic impact pros and cons – Permanent Fund Dividend

- **Pro:** Significant revenue potential
- **Con:** Larger impact on lower-income Alaskans (often rural) who are more likely to spend dividend in state on goods and services (i.e., high multiplier)

Revenue options: economic impact pros and cons – Oil Tax Increases

- **Pro:** Potential to generate significant additional revenue
- **Con:** Higher taxes and frequent tax changes discourage investment; unpredictable source of revenue (savings can mitigate)

Revenue options: economic impact pros and cons – Miscellaneous Other

- Non-oil and gas taxes (alcohol, fisheries, mining, motor fuel, health care provider, etc.)
- Lottery
 - **Pro:** Add diversity and thus some stability to our revenue
 - **Con:** All of these combined, by DOR's estimates, would generate less than \$200 million

Final thoughts ...

- Alaska has significant economic assets
 - Oil, gas, and mineral wealth, developed and undeveloped
 - Abundant and lucrative fisheries
 - Strong military presence and strategic value (among a long list of other federal interests)
 - Well-developed and growing tourism industry
 - Relatively mature service sector (money circulates more than it used to)

Final thoughts ...

- Economically, from the perspective of a jobs forecaster, the biggest risk is that we will *create* unnecessary costs and uncertainty by delaying a long-term revenue solution
- Confidence matters to an economy and having big, looming economic issues that *aren't* being addressed can do a lot of damage

Thank you

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