

# To Protect the Dividend and Revive Alaska's Economy, Consider Taxes

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Mouhcine Guettabi, an economist with the Institute for Social and Economic Research, has warned that uncertainty about Alaska's fiscal future has a cost of its own. The resulting caution among prudent investors discourages productive development and economic growth.

Now it appears that many Alaskans are leaving the state for greener pastures. Under normal conditions, populations grow, but during the past four years, Alaska's population has declined.

Our legislators' current push to fund the education budget and avoid pink slips for teachers highlights their recognition of the economic cost of uncertainty. Good for them!

Legislative action – or inaction – can have an inordinate impact on Alaska's fiscal future, as it did on May 8, 2018, when legislators adopted Senate Bill 26, Alaska's Percent of Market Value, or POMV, endowment system. Then they pulled together to put annual draws from the Permanent Fund Earnings Reserve Account on a sustainable basis – just in time to replace steep declines in petroleum revenue.

This year, POMV yielded \$3.7 billion, or about 70% of the state's spendable revenue. It is expected to produce a similar stream of revenue in the future – provided the spending limits of the law are followed.

People often have trouble understanding how important it is to

avoid POMV overdraw. Jennifer Johnston, former state representative, put it well. She said POMV turned the Permanent Fund into “a perpetual self-licking ice cream cone.” Overspending makes the ice cream cone melt and eventually disappear. Conversely, by putting more money into the Permanent Fund Earnings Reserve, the Legislature can make the ice cream cone grow.

This year, the Legislature may be able to resolve the difficult issue of “the split” of POMV earnings, i.e., the percentages for state services and for dividends. In her recent commentary, Sen. Natasha von Imhof proposed a different approach that would pay the dividend from a source outside of POMV “using 100% of the oil royalties deposited into the Permanent Fund each year.” She commented, “This is something the state can afford over time and is truly the fair share calculation.” Her concept could solve the issue.

But, even if the entire amount of POMV revenue is available for state services, the Legislature will need other resources to pull the economy out of the current recession.

Fortunately for the short run, Alaska has received a flood of federal money this year with more to come in 2022. Tim Bradner’s recent commentary did a good job of describing the inflow from Washington, D.C. – about \$5 billion last year through the CARES Act and this year, probably another \$3 billion, plus more if President Joe Biden’s infrastructure bill is adopted. So now federal money is alleviating personal hardship and briefly stimulating the economy in the same way as the state dividend.

Also encouraging is support by Gov. Mike Dunleavy and legislators on both sides of the aisle for state bonding for infrastructure projects. Improvements to the ferry system, roads, airports, bridges, and the like would address deferred maintenance and a backlog of needed capital improvements throughout Alaska.

In the process, new jobs would be created and Alaska's economy reinvigorated. Optimally, projects that have been identified and designed by the state would be "shovel-ready" when and if President Joe Biden's Build Back Better plan passes.

But, for a lasting solution to Alaska's fiscal crisis, and for long-term economic stability and prosperity, we must consider taxes.

Today's Legislature is facing fiscal deficits that have been intensifying for at least nine years. All available sources for discretionary spending have been drained. Alaska's rainy-day fund, the Constitutional Budget Reserve, or CBR, that maintains the state's ability to adjust and respond to emergency situations, is owed about \$12.9 billion.

State services have already been cut to bare bone.

As a source of additional revenue, a state sales tax has been given the most consideration. But a statewide sales tax would be particularly hard on rural Alaskans where prices are high, and cash is scarce. It would be on top of municipal sales taxes in many locations.

By standards of fairness, the clear winner is a progressive income tax, like the one that supported our state in the early days. Only those who can well afford to pay would be taxed. Taxing income earned in Alaska by outside residents is also fair. Alaska residents pay taxes to other states where they earn income, but currently, this is a one-way street.

Legislators have repeatedly considered taxation as a source of ongoing revenue. In the meantime, the fiscal crisis intensifies. A tax law enacted this year will take a year and a half to produce revenue.

By buckling down and truly collaborating, the 32nd Alaska State Legislature could take steps that will pull us out of our current recession and launch Alaska on a stable and

prosperous fiscal future.

**Janet McCabe** has been following Alaska's fiscal issues since she and her husband, David, came to Alaska in 1964. She is a member of Alaska Common Ground and Commonwealth North.