

An Employment Projection Comparison of Major Fiscal Plans

A presentation to the Alaska House Finance Committee

May 5, 2017



Overview

We're following the same process we presented in January, but with more realistic scenarios.

- The work is supported by OMB.
- OMB provided the budget data, but did not have any say in the modeling or the results.
- All parties are seeing the information today for the first time.

Alaska's recession is entering its second phase.

We just completed Stage 1 of Alaska's current recession led by the oil industry and allied sectors.

Secondary effects working their way through the economy.

The duration and magnitude of the rest of the recession, all other things being equal, will depend on:

- i) spending reductions by the state of Alaska and/or
- ii) the institution of a broad-based tax structure.

Dynamic Forecasting with the Alaska REMI Model

Comparable to ISER's Man in the Arctic Program (MAP)

Dynamic model which forecasts policy changes over time.

Best in medium to long-term applications (5 – 50 years)

Model at the State and Regional (12) level

Used by Northern Economics for larger projects with dynamic policy implications:

- Shell Offshore

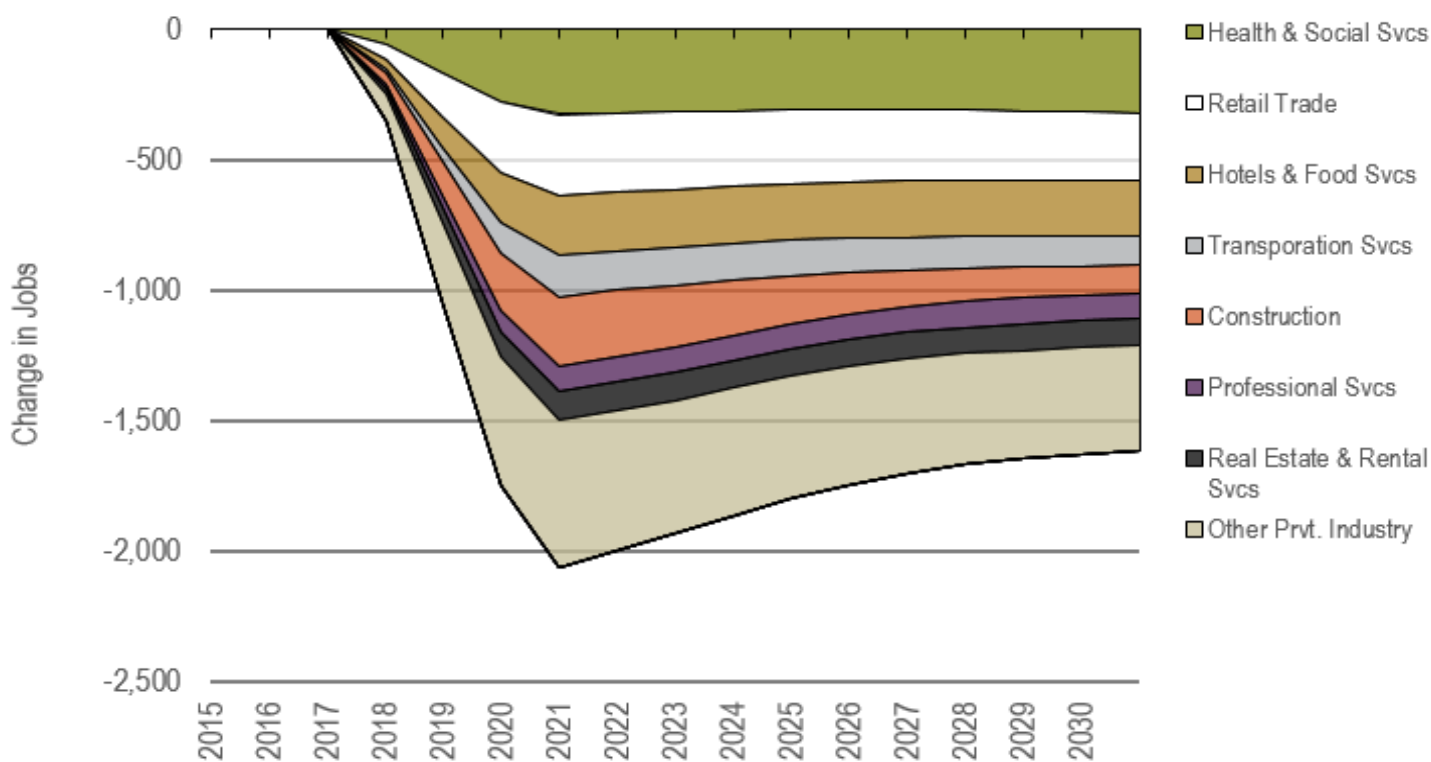
- "Big Gas Pipeline"

- Susitna-Watana

- Recession Policy Forecasting

- JBER Force Reduction

JBER Force Reduction Example



Note: Assumes the full 2,630 soldier reduction in the 4-25th

Source: Developed by Northern Economics using the Alaska REMI Model.

Comparisons

Progressive Income Tax

\$5.15B Unrestricted General Fund (FY 2018);

Dividend of \$1,250;

Progressive income tax starting in January 1, 2019.

No Broad-based Tax

\$4.83B Unrestricted General Fund (FY 2018);

Dividend of \$1,000;

\$185M in cuts in FY 2019;

K-12 is 5%, 4%, 3% cuts.

No broad-based taxes.

Northern Economics does not advocate for any of the fiscal plans.

Our purpose is always to help society make better, more informed decisions.

Appropriate Interpretation

The analysis does look at:

- Expected aggregate economic trends resulting from the scenarios all other things being equal;
- Population trends all other things being equal;
- Geographic distribution of job losses.

The analysis does not say anything about:

- Providing the optimal mix of services;
- Government efficiency or inefficiency;
- Right-sizing;
- Plan sustainability;
- The value of lost or gained services.

Bigger does not always mean better; efficiency is not good for everyone.

Caveats and Assumptions

USEIA Oil Price Forecast

No strong recovery

Additional assumptions

Nominal dollar projections

No major positive or negative economic movers

Presumes signature of the recent oil royalty legislation

60% of the PFD is spent immediately and 40% is saved

Assumes long-term historical PFD of \$1,700 (real)

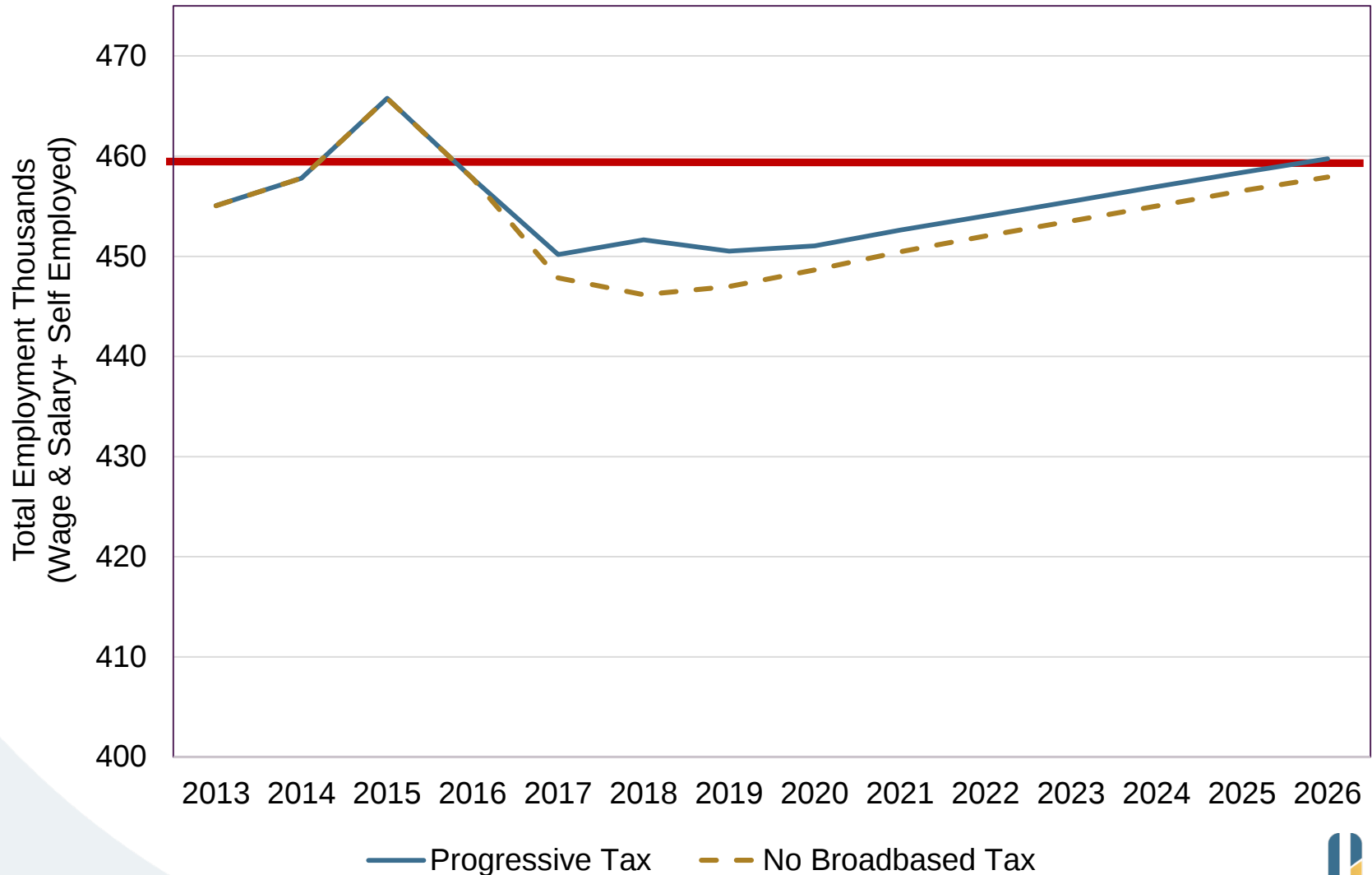
All losses compared to 2016 employment

All Forecasts are Wrong

"Forecasts create the mirage that the future is knowable"

-Peter Bernstein

2017-2026 Employment Forecasts



How Can This Be?

Mitigating Factors for the w/Tax Plan

15-20% of total tax hit rebated to federal tax itemizers (~\$100M-\$140M)

With Tax Plan includes a higher dividend payment (~175M)

Not all of the tax increase would have gone into the Alaska private sector. There will be reductions from savings & outside expenditures.

Net effect is somewhere <\$400M.

Compounding Factor of the W/O Tax Plan

Cuts would largely take the form of reduced employment, which has a relatively high in-state economic multiplier.

A man in a dark suit, red shirt, and dark tie is shown from the chest up. Instead of a head, there is a large, intense fire burning out of his neck area. His right hand is raised towards the fire. The background is a dark, textured wall.

When is a \$700 million tax hit not a \$700 million tax hit?

Critical Takeaways

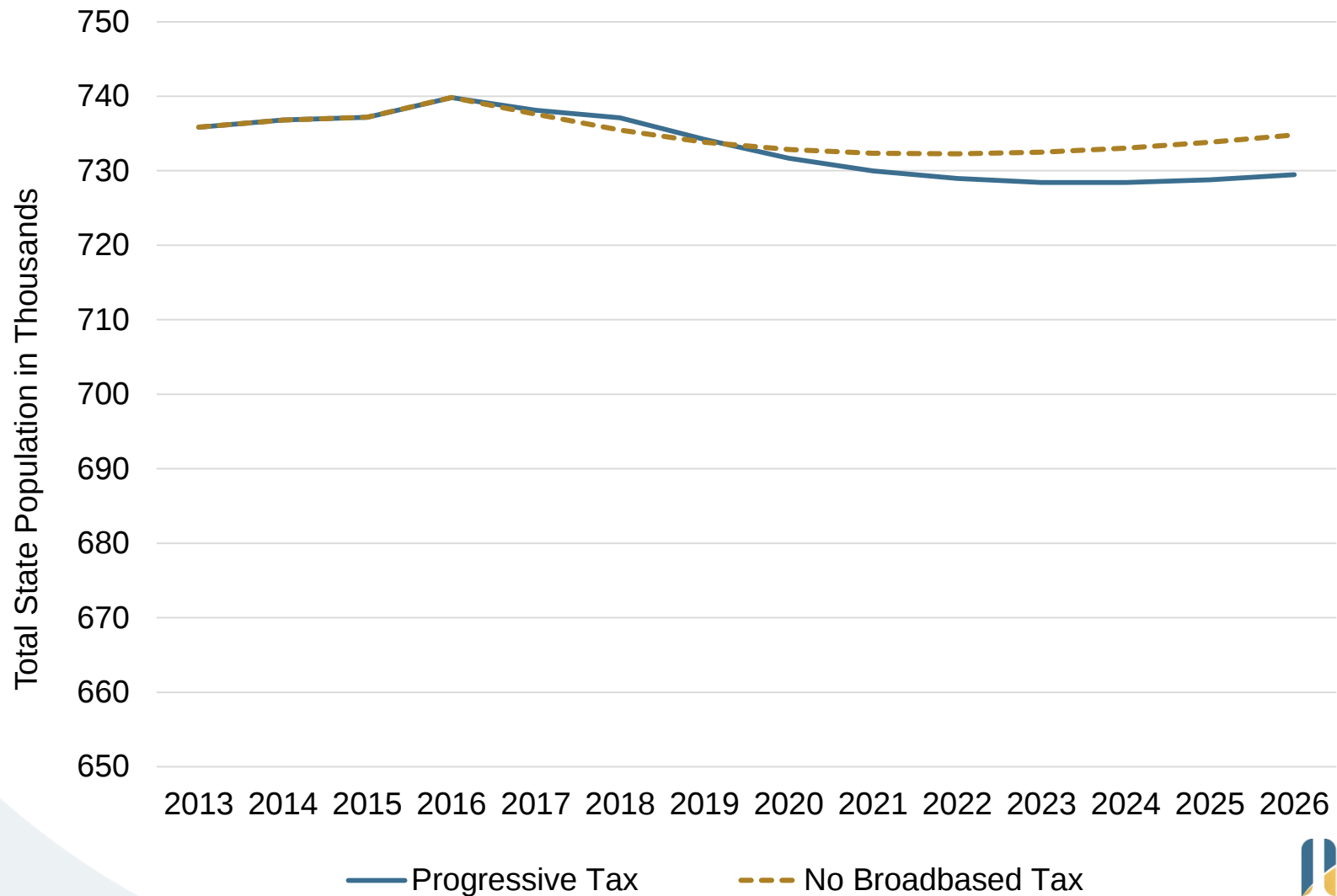
Eliminating the federal deduction of local/state taxes would increase the relative economic cost of the Progressive Tax Plan.

Reducing the dividend without a corresponding reduction in taxes increases the relative economic cost of the Progressive Tax Plan.

If Alaskans spend more of their PFDs in-state than we estimate, then the relative cost of the Without Tax Plan is higher.



2017-2026 Population Forecasts



Summary Results: 2017-2026

Employment Near Term

Progressive Tax:

- -7,000 jobs from 2016 and employment bottoms out in 2017.

No Broad-based Tax:

- -11,500 to 12,000 jobs from 2016 and Employment bottoms in 2018 to 2019.

Expect one more year (2018) of recession under the No Broad-based Tax plan.

Employment 2026

Progressive Tax:

- Employment exceeds 2016 several thousand jobs by 2026.

No Broad-based Tax:

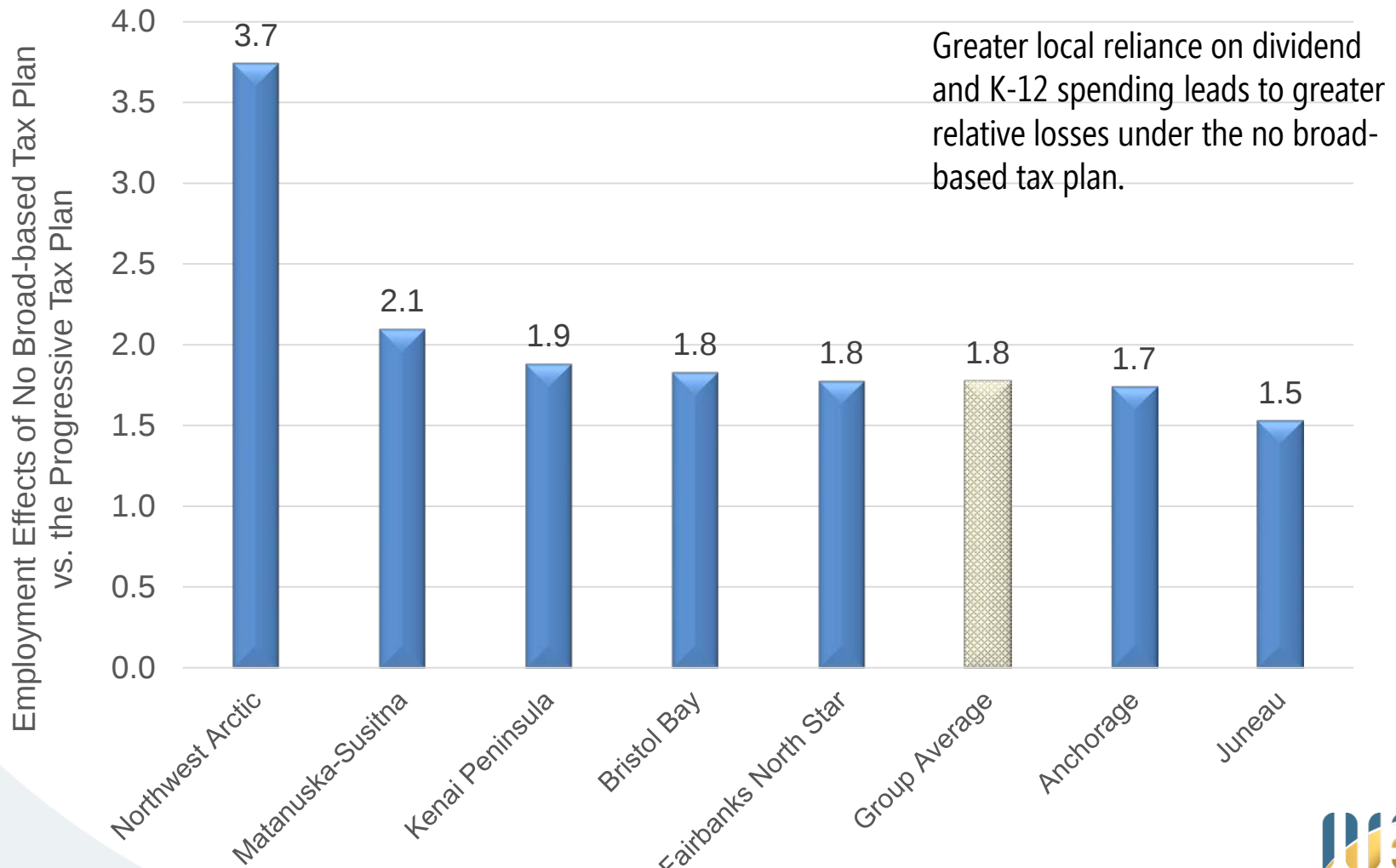
- Employment around 2016 levels.

Under the Progressive Tax Plan, employment levels should return to the 2016 levels 2-3 years earlier than under the No Broad-based Tax Plan. Both plans still short of 2015 peak employment levels by 2026.

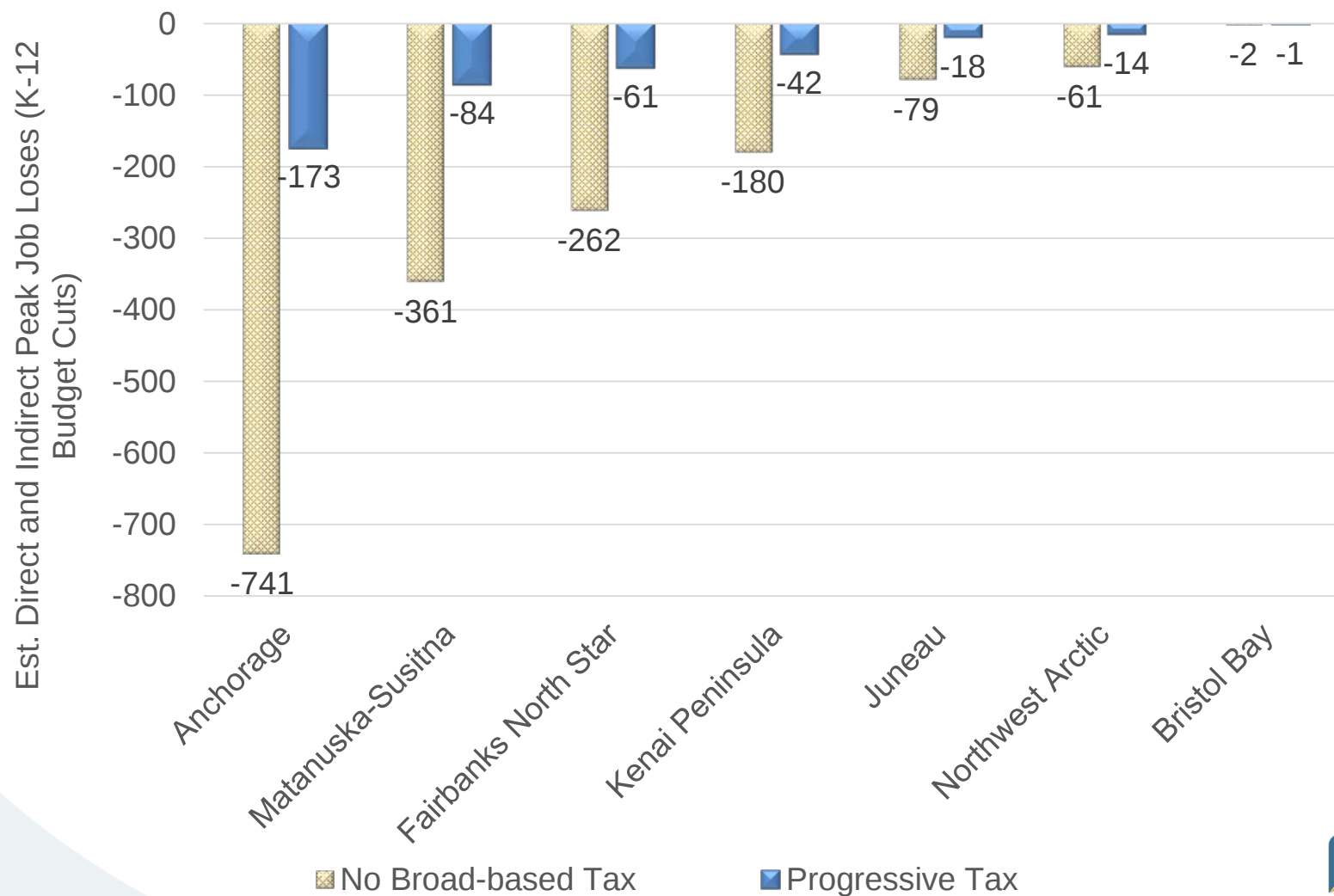
Peak Job Losses by Location

Borough	Progressive Tax		No Broad-based Tax		Peak Loss Multiplier
	N	Percent	N	Percent	
Municipality of Anchorage	-2,900	-1.4	-5,000	-2.4	1.7
Fairbanks North Star Borough	-1,500	-2.6	-2,600	-4.5	1.7
City and Borough of Juneau	-850	-3.6	-1,300	-5.6	1.5
Matanuska-Susitna Borough	-500	-1.4	-1,050	-2.8	2.1
Kenai Peninsula Borough	-350	-1.1	-680	-2.1	1.9
Northwest Arctic Borough	~-25	-0.6	~-80	-2.4	3.7
Bristol Bay Borough	~-5	-0.4	~-10	-0.7	1.8

Loss Multiplier No Tax vs. Tax Plan



K-12 Related Peak Job Losses



Key Takeaways

Both approaches better than January and February modeling.

The Progressive Tax Plan follows ISER's advice in January and February: *If spending is stabilized in FY 2018, then the economy will be in a better position to withstand taxes in calendar year 2019.*

- *Peak job losses are 40% (4,500 jobs) lower;*
- *One less year in the current recession.*

Job losses are roughly spread based on population, but

- Percentage losses are skewed against government-dependent economies.
- Relative losses are skewed against PFD-dependent economies.

Growing past the 2015 employment peak will likely require outside stimulus.

Thank you from the NEI Team!



While only one presents, many hands built this presentation.

