

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

January 18, 2017

9:01 a.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

Representative Colleen Sullivan-Leonard

COMMITTEE CALENDAR

PRESENTATION by the DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT
PRESENTATION: CURRENT TRENDS in the ALASKA ECONOMY

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

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

POSITION STATEMENT: Delivered a PowerPoint presentation on the Current Trends in the Alaska Economy.

ACTION NARRATIVE

[9:01:40 AM](#)

CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 9:01 a.m. Present at the call to order were Senators Stevens, Hughes, Meyer, Gardner and Chair Costello.

Presentation by the Department of Labor & Workforce Alaska:
Current Trends in the Alaska Economy

[9:02:24 AM](#)

CHAIR COSTELLO announced the business before the committee is a presentation by the Department of Labor & Workforce Development (DOLWD) titled "Current Trends in Alaska's Economy." She described the Labor and Commerce Committee as the legislature's committee on the economy. It has responsibilities that range from energy and job training to health insurance, infrastructure, consumer protection and technology. To that end, the committee will start this session with two weeks of hearings on the condition of the state's economy.

She welcomed Commissioner Drygas and highlighted that DOLWD estimates that the state lost 6,800 jobs in 2016 and forecasts an additional decline in 2017. This is reflected in the number of homes for sale and small businesses that are closing. However, bright spots include growth industries such as health care and tourism, companies like Alaska Airlines and Odom Corporation, increased military spending to station F-35 fighter jets in Fairbanks and new oil discoveries on the North Slope.

CHAIR COSTELLO advised that during the next two weeks the committee would hear from policy experts, industry and communities to help sort through the data, the trends and policy options available to the legislature. She invited all Alaskans to join in looking at how to best move Alaska's economy forward. The committee's new Facebook page will provide a venue to participate. She welcomed Mr. Robinson.

[9:06:50 AM](#)

DAN ROBINSON, Chief, Research & Analysis Section, Division of Administrative Services, Department of Labor & Workforce Alaska, opened the presentation explaining that his section produces employment, wage, unemployment rate, and population numbers that provide a unique perspective. "We have an idea how strong they are, how precise they are, when conclusions should be drawn from them and when they shouldn't." He drew an analogy between this work and that of a meteorologist who tells you what the weather is.

MR. ROBINSON displayed a graph of Alaska's employment growth in in the last decade and noted that the 2 percent decline in 2016 translates to the loss of about 6,800 jobs, which is the highest single year job loss since the 1980s. The forecast for 2017 is in the same range. He pointed out that the growth [since 2013] wasn't very strong and that the .4 percent loss in 2009 was mild compared to other states. "We did not see the kind of job loss or other economic distress that most other states did."

Turning to 2016 industry details, he recounted that the oil and gas industry lost 2,800 jobs, a 20 percent decline. The average pay for those jobs is \$120,000 a year, so that represents a loss of \$3.5 billion. Professional and business services lost 1,600 jobs or 5.3 percent. Many of these jobs are tied directly to the oil and gas industry and the capital budget. Construction, which is tied to both oil and gas and the capital budget, lost 1,500 jobs or 8.5 percent. State government lost 1,300 jobs or 5.0 percent. Health care continued to gain in 2016 adding 900 jobs, or 2.6 percent, but it didn't grow as much as it has in past years. The federal government also added 300 jobs, or 2.0 percent, which is an improvement over recent years.

MR. ROBINSON displayed a bar graph of statewide employment changes since 1970 and stated that Alaska earned its boom and bust reputation in the 1970s and 1980s. Employment reached a high point in the mid 1970s with the construction of the pipeline followed by job loss once it was complete, but the outlook wasn't dark. In the 1980s there was strong growth heading into the recession followed by two years of job loss and trauma. He noted that the declines in those years were far less than the current period. He said Alaska was almost a model of stability from 1991 until the current contraction started in 2015. Pointing to the job loss figures in 2016 and the forecast losses in 2017, he explained that the Research and Analysis Section looks forward, not to peg the numbers but to look for things that are driving the growth or lack of growth.

He said that more job loss is predicted in oil and gas in 2017, but at about half the rate as 2016. Early data also shows there will be reduced losses in construction and professional and business services. However, the downstream effects of oil and gas and state government declines indicate larger losses in the retail trade, restaurants and banks. Health care is the only sector that is forecasted to grow in 2017, but not much.

[9:14:51 AM](#)

MR. ROBINSON explained that the Research and Analysis Section identifies a recession as three consecutive quarters of job loss. He displayed a chart from the U.S. Bureau of Labor Statistics and National Bureau of Economic Research showing six national recessions since the 1970s. He pointed out the national job loss at the end of the 2000 period was about 4.5 percent while the job loss in Alaska was less than .5 percent. By comparison, Alaska has had just three significant recessions in that time, one in the 1970s, the 1980s, and in 2009.

[9:17:13 AM](#)

CHAIR COSTELLO noted that Representative Colleen Sullivan-Leonard had joined the committee.

MR. ROBINSON reviewed the duration of the three Alaska recessions. In the 1970s the recession lasted eight quarters, from the 3rd quarter of 1976 to the 2nd quarter of 1978. In the 1980s the recession lasted nine quarters, from the 1st quarter of 1986 to the 1st quarter of 1988. The last recession lasted just three quarters, from the 2nd quarter of 2009 to the 4th quarter of 2009. Alaska started losing jobs in the 4th quarter of 2015 so the current recession has been ongoing for six quarters. Following this basic pattern, there will likely be job growth sometime in 2018.

Addressing the depth of the recession, he said more than 15,000 jobs were lost in the 1970s and the losses were similarly deep in the 1980s. The economy was smaller then, so the change would be even bigger on a percent basis. In 2009, job losses were modest.

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MR. ROBINSON said this recession is different than the 1980s in several respects. The population is older now and has roots, so people are less likely to pick up and leave. Another difference is that the pre-recession economy was nowhere as hot as the 1970s and 1980s, especially the construction and banking sectors. Alaska also has significantly larger savings and oil production is declining. The way things are similar to the 1980s is that the state is still very dependent on oil and gas and the federal government, including the military. Alaska will feel it if something happens to either of these. He said, "I can't think of another state that would be as dependent on a few things."

[9:24:13 AM](#)

MR. ROBINSON displayed a line graph of the population trends from 1970 to 2015 and pointed out that population losses in both

the 1970s and 1980s came after the job losses and didn't drop as far as the employment lines, because people don't move right away when they lose their jobs. This was seen when the pulp mills closed in Southeast. People tried to hang on. From the 1990s forward, the population and employment lines are similar. The 2009 numbers reflect population gains because the economy in Alaska was stronger than the national economy. "We lost jobs in 2009 but we gained people." Through 2016 there hasn't been significant population loss, but that may be still to come.

[9:26:15 AM](#)

MR. ROBINSON discussed a recent press release titled "Natural Increase Fueled Small Population Gain for Alaska in 2016." The increase was about one-third of 1 percent. The Matanuska-Susitna Borough grew the most, adding 2,645, and the City and Borough of Juneau lost the most, losing 398 people. In general, net migration is something to watch because it's a reflection of whether it's good to be here or if opportunities are better elsewhere, he said. In the current period, there are four years in a row of net losses to migration. He said the numbers aren't large, but it's definitely worth watching.

He displayed a graph showing the net number of people who have come and gone from Alaska in the 2010 to 2015 time-period, pointing out that the only group that is consistently gaining is 20-year-old people. Alaska has things to offer young people and this has been the case for a long time. In the decade before this there were also gains of young children and Alaska consistently gained more young children and 20-, 30- and early 40-year-olds than it lost. During that time there has also been a consistent net loss of people who are 50 and older and those who are college age. He discounted the notion that losing college-age people is a brain drain saying it's more complicated than that because a lot of 20-year-old people are also moving to Alaska.

Displaying a chart showing population numbers from 1970 to 2016, he said the point is to show that population doesn't change quickly. Even the periods of population loss are fairly short-term and mild. In the 1980s, for example, the worst single-year loss was 15,000 people. There is speculation that losses will reach 100,000 in this current period, but that would be far outside the norm. "It could happen, but we don't believe that it will happen."

[9:31:47 AM](#)

MR. ROBINSON displayed a pie chart showing the sources of the \$41.5 billion of Alaska personal income in 2015. The largest piece, 67 percent, comes from earnings. Most of this is wage and salary, but it also includes self-employment income. Dividends, interest, and rent make up 17 percent and transfer receipts 16 percent. Transfer receipts are defined as money for which people have done no work. This includes the permanent fund dividend, Medicaid, Medicare, Social Security and unemployment insurance. Transfer receipts from the federal insurance programs are below the national average due to fewer seniors, but the PFD brings the total back to the national average.

The trend in personal income from 2010 to the current period is generally upward, showing no sign of trouble yet. That is important, he said, because there is a very large decline in gross domestic product (GDP) over that same period. The 20 percent decline from \$62 billion to \$50 billion over the 2012 to 2016 period is large, but the economy hasn't shrunk that much. The value of GDP for Alaska tends to be volatile specifically because of oil, he said. "In 2012 the mining category was about one-third of our GDP." He said few if any states have such dependence on a single piece of their GDP.

[9:35:42 AM](#)

MR. ROBINSON reviewed the following takeaways:

- Alaska is in the midst of moderate job loss on a scale of mild, moderate, severe.
- Alaska's population through 2016 remains relatively stable, although there has been four straight years of net losses to migration.
- Personal income has dipped, but not dramatically.
- The value of what's produced in the state (GDP) has dropped significantly. He noted that the end of the GDP graph shows a modest uptick that corresponds with the modest increase of oil prices.

He said he didn't discuss housing but could report that there is no sign yet of major trouble in the housing market. By contrast, there were 2,000 foreclosures per quarter at the peak of the recession in the 1980s. In the most recent quarter there have been just 200 foreclosures. But this doesn't mean that it doesn't deserve attention, he said. Houses are staying on the market longer and prices aren't increasing, but there aren't major signs of weakness.

MR. ROBINSON offered to answer questions.

[9:37:33 AM](#)

CHAIR COSTELLO said she read the report on economic trends and appreciates the good work that was done to produce the data and the report. She then asked Mr. Robinson to comment on the seeming disparity between the report that said that Alaskans have less disposable income than they have had and his statement that there is no big sign of trouble in the housing market. She asked if she was being pessimistic while he was optimistic because there are more homes for sale in her neighborhood than in years past and she's aware of people who fear that their child won't return to Alaska after college because of the lack of economic opportunity.

MR. ROBINSON said the personal income measure is the broadest possible measure of income, and it includes transfer payments. It's captured if somebody is collecting unemployment insurance, Medicare, Medicaid or Social Security. You would see losses if you were to look specifically at wages. There is good wage data through the 2nd quarter of 2016, and there is a distinct downturn. He touched on that when he talked about the losses in oil and gas jobs. "Wages have declined and that's part of what explains the projected losses in retail, trade and banking."

Lending activity is the closest indicator of impending trouble with housing, and that has decreased. While it seems as though there are a lot of houses on the market, the recent data does not reflect a large increase in people leaving Alaska or houses on the market. He acknowledged that houses are staying on the market longer and the data lags. "It's possible that even now, what you're seeing is something that we'll see down the road in the data." In the 1980s things changed very quickly but that's not the case right now. We've seen this coming, partly because of the budget and partly because of oil prices, and we're still heading into something, he said. The depth of the recession is unclear, but so far it's slow and fairly measured.

CHAIR COSTELLO referred to the earnings piece of the personal income chart and asked him to comment on the value of entrepreneurs and whether legislators are doing enough to help small business growth.

MR. ROBINSON pointed out that earnings includes both wages and salary and self-employment income. [Total earnings] is about \$28 billion and the entrepreneurial piece is about \$3.5 billion. He didn't know if enough is being done to help small business but it's important because it's an incubation for wage and salary

employment. Bill Gates, for example, is an entrepreneur and he's also the employer of thousands of wage and salary employees.

CHAIR COSTELLO reminded listeners of the Senate Labor and Commerce Committee Facebook page and encouraged everyone to submit any questions they may have.

[9:45:10 AM](#)

SENATOR MEYER asked Mr. Robinson if he's an economist.

MR. ROBINSON replied he is an economist, but looks upon what he does as a data producer more than an academic economist.

SENATOR MEYER mentioned Alaska's three-legged economic stool and the 300 federal jobs added in 2016 and asked what type of jobs those were.

MR. ROBINSON replied the declines in Forest Service jobs have stopped and there is normal population-based progression, but it's more a factor of federal money to Alaska than jobs. Alaska receives more federal money than almost any other state. The military is a large factor, particularly in Fairbanks.

SENATOR MEYER asked if he had factored in a "Trump effect." He asked if keeping jobs in America and being tough on immigration might result in more migration from Alaska to the states where the jobs are created.

MR. ROBINSON said it would be speculative at this point, but Alaska does get a lot of international migration so there is potential for a small effect, particularly short term.

SENATOR MEYER asked if the lack of oil production makes the outlook bleaker compared to the 1980s when production was close to two million barrels/day.

MR. ROBINSON replied he would not use that term, but the data does show that dependence on that piece of the economy has diminished. He added that it's difficult to force diversity, but it's already happening because of production decline.

SENATOR MEYER asked if the good-paying oil jobs are being replaced with retail jobs.

MR. ROBINSON said it's not a this-for-that exchange just as timber jobs really weren't replaced by jobs in tourism. It's that one sector went away, and another grew. The economy is more

mature now so there are more service sector jobs, including health care, but retail jobs depend on the things that bring money into the state then circulate and create the other jobs. That's why it's important to keep an eye on the drivers. It's what Alaska produces that the world markets want that creates the other jobs.

[9:51:41 AM](#)

SENATOR GARDNER asked what impact out-of-state workers have and if there has been growth or a reduction in recent years.

MR. ROBINSON said the 1970s had high employment growth that didn't translate to nearly as high population growth, meaning there were a lot of non-resident workers. The department tracks information about non-resident workers through permanent fund dividend eligibility, and the recent trend has been slightly up.

SENATOR GARDNER asked if the 20-year-old population is coming from out-of-state adventure seekers or if it's young Alaskans returning after completing school in other states.

MR. ROBINSON replied it's a mix of new and returning.

SENATOR GARDNER asked if he thinks that timely and decisive action by the legislature to develop a fiscal plan could have changed the trajectory of the slide into recession.

[9:54:24 AM](#)

MR. ROBINSON said it can't be quantified with any precision, but there is no question that uncertainty has an economic cost. When there's a lack of confidence in the economy and big problems being wrestled with, it's hard to see normal growth resuming. That was true for the U.S. economy during the housing crisis. When things are unsettled businesses don't invest and people don't leave to seek a better job.

[9:55:31 AM](#)

SENATOR STEVENS commented that everything you said seems to apply to urban Alaska, but he isn't so sure it applies to villages and the moderate sized communities in rural Alaska. He also asked about the impact of altering the permanent fund dividend based on geographic location. The PFD seems to be important in Anchorage and important but not crucial in the communities he represents, but crucial for people living in the villages. He asked Mr. Robinson to reflect on those two issues.

MR. ROBINSON agreed it's important to keep in mind that the larger population areas are the drivers of the state macro indicators, not rural areas that have very high unemployment rates or areas that have a single-driver economy such as fishing or tourism. He agreed with the second point about the critical importance of the PFD in rural Alaska. "The lower income you are the larger factor the PFD is on you and your local economy." He said a pie chart for just rural Alaska would show a far larger percentage of personal income comes from transfer receipts than other sources.

CHAIR COSTELLO commented that Alaska is difficult to characterize in one pie chart.

SENATOR HUGHES commented that President-elect Trump is talking about increasing transportation infrastructure and she feels it's important that Alaska show an appetite for that. She asked if the data the Research and Analysis Section produces is passed along to the federal government and if the start date of the recession has been pinpointed.

MR. ROBINSON explained that it's a cooperative federal/state data collection system. The state receives funding from the U.S. Bureau of Labor Statistics to generate unemployment rates and job numbers. Some data is produced based on the permanent fund dividend and that is state specific. The department also works closely with the U.S. Census Bureau to ensure that population numbers are counted correctly. To the second question, he said the U.S. Bureau of Economic Research only dates national recessions, but the wide-spread economic distress we're seeing now is the broad definition of a recession. "We've dated that beginning at the 4th quarter of 2015 so we're fairly deep into the measurement period," he said.

[10:02:19 AM](#)

SENATOR HUGHES referred to the industry details slide and asked if 1,300 state jobs were actually lost in 2016 or if the numbers refer to positions. She offered her understanding that less than 100 people actually lost their job, the rest were positions that weren't filled when people retired or moved away. "I'm wondering whether you've teased that out and for any of the other industries in the private sector. Are those literally people who've lost their jobs?"

MR. ROBINSON replied the data refers to people in a month who actually receive a paycheck. Economically, these are called jobs

and there were on average that many fewer state government jobs in 2016 than the year before.

SENATOR HUGHES asked if he had any data showing that new dollars are coming into the state.

MR. ROBINSON said he touched on that when he discussed basic sectors. What brings money into the state is of primary importance and secondarily it is the ability to broadly circulate that money. He cited examples of the increase in the 1990s in the retail and health care sectors.

SENATOR HUGHES commented that tourism truly is a bright spot because it brings new money into the state whereas health care is bringing money in but also taking more money out of Alaskans' pockets to create those new jobs. "That seems to be stirring it within the state, which doesn't seem quite as healthy to me," she said.

[10:06:11 AM](#)

SENATOR GARDNER requested that he and other presenters number the pages so it's easier to refer to for questions.

SENATOR MEYER asked if he agrees that the state coffers benefit very little from tourism.

MR. ROBINSON replied it's difficult to answer because the state means the state economy to him and his staff. They focus on wages and jobs and then try to forecast what is happening with those metrics. For example, the cruise ship passenger numbers seem to be growing and that does create a certain number of retail jobs in the areas that get that business.

CHAIR COSTELLO recalled that the tourism industry brings in \$129 million through local and state revenue and the return to the state is 1:35. She described tourism as an unsung hero of Alaska's economy.

SENATOR MEYER asked his opinion on initiating a state income tax because it seems that it would hurt the economy even more. He added that he favors a sales tax because it is consumption based.

[10:11:01 AM](#)

MR. ROBINSON replied anything that extracts money from the economy will have an effect, but it's important to keep in mind

the extent to which the money is respent. Unemployment insurance, for example, tends to be respent to a large extent.

CHAIR COSTELLO asked what impact an income tax has on consumer confidence.

MR. ROBINSON said he doubts that can be precisely measured, but the uncertainty associated with the budget deficit is a far larger factor than the uncertainty of a potential tax.

CHAIR COSTELLO clarified that she is asking if we can expect the economy to grow if we tax people's income.

MR. ROBINSON replied, "What the government does with that money matters for the macro economy."

CHAIR COSTELLO referenced the industry details slide and asked how many private sector and public sector jobs were lost in 2016.

MR. ROBINSON replied state government through 2016 was the only public sector that lost jobs, [down 1,300 jobs or 5 percent]. The private sector losses were substantially larger, particularly in oil and gas. The losses in professional and business services was about the same as the losses in state government.

CHAIR COSTELLO noted that the economic trends report talks about the private sector being hit the hardest and that now government jobs are being lost because of budget reductions.

[10:16:53 AM](#)

SENATOR HUGHES asked if the senior population is seen as a net economic benefit to the state.

MR. ROBINSON replied their income, which largely comes from federal sources, is definitely a benefit to the state.

SENATOR MEYER asked if anyone has evaluated the value of oil tax credits to the economy of the state. "That would be helpful information to us as to whether we continue this program, or we get rid of it."

[10:20:10 AM](#)

MR. ROBINSON replied their evaluation of that would be limited to identifying job growth or decline and then looking at whether the companies are new or not to see what that potentially says

about the future. Whether the cost of the credit outweighs the benefit to the economy would be difficult to evaluate and not something they do.

SENATOR MEYER asked if anyone is attempting to look at that question.

MR. ROBINSON suggested he pose the question to the Institute for Social and Economic Research (ISER) or Norther Economics.

[10:21:18 AM](#)

CHAIR COSTELLO thanked Mr. Robinson for coming before the committee.

SENATOR STEVENS commented that a great take away is that the last 20 years have not been boom and bust.

[10:22:29 AM](#)

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 10:22 a.m.