

HOUSE FINANCE COMMITTEE
March 6, 2019
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Tammie Wilson, Co-Chair
Representative Jennifer Johnston, Vice-Chair
Representative Ben Carpenter
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick
Representative Dan Ortiz, Vice-Chair (via teleconference)
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton

MEMBERS ABSENT

None

ALSO PRESENT

Dan Robinson, Research Chief, Research and Analysis Section, Department of Labor and Workforce Development; Ed King, Chief Economist, Office of Management and Budget, Office of the Governor; Donna Arduin, Director, Office of Management and Budget, Office of the Governor; Representative Steve Thompson.

PRESENT VIA TELECONFERENCE

Representative Dan Ortiz

SUMMARY

PRESENTATION: ECONOMIC IMPACT ANALYSIS OF THE GOVERNOR'S PROPOSED FISCAL PLAN

PRESENTATION: POTENTIAL ECONOMIC IMPACTS OF POLICY CHANGES,
EMPLOYMENT TRENDS

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Co-Chair Foster reviewed the meeting agenda.

^PRESENTATION: POTENTIAL ECONOMIC IMPACTS OF POLICY
CHANGES, EMPLOYMENT TRENDS

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DAN ROBINSON, RESEARCH CHIEF, RESEARCH and ANALYSIS SECTION, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, introduced himself. He detailed that the agency produced many of the economic statistics seen in numerous places, including publications on the Department of Labor and Workforce Development's (DLWD) website. He elaborated that the agency was responsible for producing data on wages, employment, wage rates, unemployment rates, population, and migration. The agency worked with federal statistical partners, including the U.S. Census Bureau and primarily the Bureau of Labor Statistics to produce data.

Mr. Robinson explained that the department had different levels of control over the data, as the federal government made some of the rules for how the data was produced. Even when the agency had little control, it still had significant familiarity. The agency's expertise was understanding the details of the data. The agency published its data in the Alaska Economic Trends publication, which was intended to be useful and accessible to smart, non-specialists; the publication was not targeted at Ph.D. level economists or other groups. He hoped the committee members were readers of the publication.

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Mr. Robinson provided a PowerPoint presentation titled "Alaska's Economy: Insights from Current and Historical Data" dated March 6, 2019 (copy on file). He began with a bar chart on slide 2 showing the components of population change for Alaska from 1947 to 2018. He detailed that the blue bars represented natural increase (births minus deaths), which had been a steady positive over time. He pointed out there had been a bigger positive in the 1980s

when there had been a younger population (a higher percentage of the population in childbearing years) that resulted in a higher natural increase. He noted that the natural increase was decreasing in recent years as the average age of the state's population was increasing.

Mr. Robinson continued to address slide 2. The orange bars represented net migration change (the number of people who came to Alaska minus the number of people who left Alaska). He addressed several themes depicted on the slide. First, he highlighted that the military had significantly impacted Alaska's economy and population in the past, present, and future. Second, oil and gas had an outsized impact on migration flows and economic growth. He noted there had occasionally been some giveback when the pipeline was done. He thought a better example was the oil bust - when oil had buoyed the economy and had gotten too hot, things had fallen apart and there had been some negative years in the 1980s. Third, the relationship between Alaska's economy and the U.S. economy had some influence on migration flow. For example, there had been net migration gains in Alaska during the Great Recession because its economy was better than the U.S. economy. More recently, the U.S. economy had been strong, while Alaska had experienced a recession.

Mr. Robinson explained that the agency's primary use to the public was not in telling the future. The agency did forecast employment, which he would discuss later in the presentation, but the agency primarily provided a good reading of current and historical economics and some of the things that were driving the trends. He noted it was difficult to identify what drove trends because there were myriad things happening in the economy all of the time.

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Mr. Robinson moved to slide 4 and reviewed three plus years of job losses. He detailed that in late 2015, the state had begun to lose jobs, precipitated by the oil price plunge. He reported that it had been 39-plus months and the most recent data showed the state was still losing jobs. He elaborated that losses were relatively minor since the summer of 2018. He kept thinking job growth would begin, but it had not yet occurred.

Co-Chair Foster acknowledged Representative Steve Thompson in the audience.

Representative Sullivan-Leonard asked what jobs were still at a loss at present.

Mr. Robinson answered that oil and construction were beginning to grow again, though not yet significantly. He reported that healthcare had continued to grow through the entire period. There were a handful of other sectors that were also starting to grow. He explained that one year ago almost all sectors (excluding healthcare) had been stagnant, but at present it was more of a mix.

Representative Knopp looked at the peak of job losses between 2016 and 2017. He asked if the chart showed quarterly information or other.

Mr. Robinson replied that the bars on slide 4 showed monthly data compared to the same month one year earlier. The first red bar was October 2015, which showed there were 700 fewer jobs than in October 2014.

Representative Knopp highlighted the peak loss of 8,400 jobs. He asked for verification that the chart showed a gain of 2,400 jobs the following month. He pointed out the job loss on the chart was not cumulative, but no job growth was shown. He was trying to understand the chart.

Mr. Robinson agreed. He explained that Alaska's economy was very seasonal. He elaborated that similar comparisons in other states tended to be done with seasonally adjusted data. He relayed it was difficult to seasonally adjust Alaska's data; therefore, the agency tended to use the same month previous year lookback. As long as the bars were red, the state was continuing to lose jobs. He expounded that losses could get smaller, but it was not the same thing as growth.

Representative Knopp asked for verification the chart was a year-to-year comparison for prior months. Mr. Robinson replied in the affirmative.

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Mr. Robinson turned to slide 5 and addressed that losses/gains had varied throughout the state. He clarified that the data was by place of work. For example, the chart showed that 4,200 jobs had been lost on the North Slope,

but he advised members to keep in mind that most of those people did not live on the North Slope (most of the individuals throughout the state and about one-third lived outside the state). Anchorage had lost the largest number of jobs at 6,084. He highlighted that on a percentage basis, the North Slope job loss was the largest. Mat-Su stood out because it had not lost jobs over the three-year period (it briefly fell below one year ago levels) but had added about 770 jobs (450 were healthcare and 150 were local government). Mat-Su was the outlier in the state in terms of strong population growth. He likened Mat-Su to healthcare, it just continued to grow. He noted that growth always resulted in healthcare and local government growth.

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Mr. Robinson pointed out that for the first time in the state's history there had been migration losses in six consecutive years (slide 6). He shared that the losses were not particularly large (the losses in the 1980s had been much higher, particularly on a percentage basis). The longest consecutive period of job loss in the past had been four years. Slide 6 showed how large Alaska's migration flows were. He elaborated that for many years, Alaska had the largest migration flows among states (the second largest was Nevada).

Mr. Robinson highlighted there was a strong pull to Alaska and a push away from Alaska. He noted that Hawaii was similar in that it was a big move to Alaska, whereas it was not necessarily a big move from New York to New Jersey. The data showed mathematical growth, but information also showed insight into the decisions people made about their desire to live in a place and how important jobs were to driving the numbers. There had not been a big increase in people leaving, but there had been a big decrease in people coming. He referenced his use of the word big and noted that the numbers were not enormous.

Representative LeBon asked if the numbers included military coming in and out of the state.

Mr. Robinson answered that the data included military members who defined Alaska as their primary state of residence. He clarified that some military stationed in Alaska may identify another state as their real home.

Representative LeBon asked how typical it was for a new military member or family to declare Alaska their primary home.

Mr. Robinson replied that the agency included military and their dependents. He would follow up more specifically on the question at a later time. He explained that the population of Alaska was significantly impacted by active duty military, which suggested that most military were included in the data. He added that the way the agency tracked and identified residency in other context was asking people whether Alaska was their primary residence. He thought there was some nuance with military and would follow up.

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Mr. Robinson advanced to slide 7 and addressed a bar chart showing employment by state from November 2015 to November 2018. He reported that Alaska's economy had underperformed the country and every other state over the three-year period of job loss. Other states that had not performed particularly well over the period included North Dakota and Wyoming. He detailed that Wyoming had the smallest population in the country and North Dakota used to have a smaller population than Alaska, but its current population exceeded Alaska's by about 20,000. He noted the other state with a smaller population than Alaska was Vermont. He elaborated that North Dakota and Wyoming depended heavily on natural resources (oil and coal) to drive their economies.

Representative Josephson remarked that the slide was noteworthy because the other producing states had suffered as Alaska had. He noted there were two approaches to Alaska's recession - one approach was to intervene in some way to incentivize growth. He asked if Alaska had been frequently been off-cycle from other locations. He referenced the Great Recession [beginning in 2009] and noted that Alaska had not suffered. He asked for detail.

Mr. Robinson answered that Alaska had independent drivers from the U.S. He used large scale manufacturing in the U.S. as an example. He elaborated that when the U.S. was losing millions of manufacturing jobs there had been no impact on Alaska because it had never had that kind of employment. High oil prices were the most consistent example of

something that was good for Alaska, bad for the U.S., and sometimes bad for Alaskans due to high diesel and other transportation costs. For the state as a whole, high oil prices brought in substantial revenue, but had a negative impact on the U.S. He reported that Alaska was not counter-cyclical and did not lag consistently enough to expect it to continue. He believed a better way to look at the issue was to recognize that Alaska had different drivers.

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Mr. Robinson considered why the state had not been growing. He moved to a bar chart on slide 9 showing the employment percent change in oil dependent states from 2015 to 2018, which included Wyoming, North Dakota, and Alaska. He recognized that Alaska was very different from Wyoming and North Dakota, but it had strong similarities. He pointed out that Wyoming and North Dakota had downturns during the same timeframe as Alaska, but the depth of their losses were substantially more than Alaska's. He relayed that Wyoming had resumed growth in mid-2017 and North Dakota had resumed growth in early 2018, whereas, Alaska was 39 months into its recession (if there had been any growth it was very minimal).

Mr. Robinson moved to slide 10 and showed a comparison in employment percent change in Alaska between the 1985 to 1988 period and the 2015 to 2018 period. He highlighted the 1980s recession had been deeper and shorter. He pointed to the left of the line graph and explained that the state had been growing rapidly in the early 1980s, which was part of the reason for the depth of the recession. Oil prices had played the biggest role in the recession in the 1980s and in recent years. He noted the almost mirror image of the degree the state went into the recession in the 1980s compared to the degree it came out of the recession. He noted the same was somewhat true with the current recession; the state had been growing modestly as it went into the recession and the trajectory indicated when the recession ended it would not be with a roar.

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Vice-Chair Johnston looked at the comparisons and remarked that North Dakota had a relatively new oil play. She thought it was interesting to see how similar the graphs were between Alaska and North Dakota (slide 9).

Mr. Robinson agreed. He underscored that North Dakota's oil industry was very young and was akin to Alaska's oil industry in the 1980s. He noted it was difficult to isolate oil in data for different states, but North Dakota had gone from about 7,000 jobs in the category including oil and gas to 30,000 very rapidly; it had subsequently lost about half that number rapidly, but that number had replenished. He characterized North Dakota's oil industry as young, volatile, quick to arrive, and quick to go away. He noted that Alaska's oil jobs had not gone away quickly.

Co-Chair Wilson asked how the number of government workers (state and federal) in Alaska compared to numbers in Wyoming and North Dakota.

Mr. Robinson answered that the agency had written about the topic a couple of years earlier. In response to a similar request, the agency had updated the data to be as current as possible. He reported that for state and local government jobs per capita, Alaska had ranked third, Wyoming had ranked number one, he was almost certain North Dakota had ranked second. He remarked that Alaska's state government did much of the work that local county governments did in other states. The agency had looked at state and local government jobs separately and had joined them together to rank them. He would be happy to share the information.

Co-Chair Wilson referenced North Dakota's young oil industry and thought it would be interesting to see whether its government would increase the same way Alaska's had. She asked if the other states had seen the same kind of budget issues in the last five years as Alaska had.

Mr. Robinson replied that he was not a budget expert. He shared that he had many of the same questions in the past. He relayed that going into the recession, North Dakota had collected about \$2 billion from state income and sales taxes. He noted that Wyoming only had a sales tax. He continued that spending data had been more difficult to understand. Broad-based sales tax was the smaller of the two, but combined with income tax, the taxes had generated about \$2 billion before the recession; the revenue had dropped to around \$1.1 billion and was beginning to rebound.

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Co-Chair Wilson asked if there was a comparison between government and private sector job loss in the other states. She noted that in the past there had been incentives to move businesses across state lines in the Lower 48. She remarked that the same thing did not take place in the government sphere.

Mr. Robinson replied that the information would be easy to get. Unlike oil, which was harder to isolate in the state data, public and private sector data was easy to obtain. He would follow up with the information.

Mr. Robinson turned to a pie chart on slide 11 showing the length of 259 state recessions from 1961 to 2016. He defined a recession as a broad-based economic downturn. He discussed that when oil prices fell and it appeared Alaska would head into a recession, the agency had looked at the extended period of time where states had suffered some kind of extended downturn period. He pointed to the chart and detailed that 259 times states had lost jobs for at least nine months compared to year-ago levels; of the 259 times, 17 percent of the time job growth resumed in less than a year and 58 percent of the time it had resumed in less than two years. He detailed that 75 percent of the time, state downturns last two years or less; 93 percent of the time, state downturns lasted three years or less. Alaska's current recession was shown in red, reflecting a loss of jobs for over three years. The one time a state had lost jobs for a longer period was Michigan in the 2000s due to job loss in the auto industry. He noted that the auto industry was not gone, but the old way of making cars was gone.

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Mr. Robinson moved to slide 12 and addressed the percentage of time states were adding jobs from 1961 to 2016. He pointed out that Alaska had been growing in 89 percent of the months over the 55-year period. During the same period, the U.S. had grown at 82 percent. Michigan had seen the smallest growth at about 67 percent. He informed the committee that the default status of an economy was job growth. Throughout the history of the U.S. and Alaska even more so, showed that growth was normal. He elucidated that if the percentages were recalculated to include the past

four years, because it was a long period of time, it would not change significantly, and Alaska would still be at 84 percent.

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Mr. Robinson addressed why the state's recession was lingering on slide 13. The reason the agency had researched why recessions sometimes last longer was to gain insight into Alaska's economy. He shared that when recessions extended beyond three years there was typically a fairly specific reason. He cited Oregon as an example and reported that in the early 1980s the state had been losing its timber industry for good. He highlighted Michigan and Connecticut as other examples. He elaborated that there had been a period when Connecticut had been losing manufacturing, defense spending, and its financial sector simultaneously. He likened the situation to a hypothetical scenario where gold, zinc, and salmon prices all fell at the same time in Alaska; the declines were unrelated, but it may be enough to push numbers negative.

Mr. Robinson addressed the first bullet on slide 13 on uncertainty related to foundational questions about the amount of state government Alaska would have and how it would pay for it. One of the agency's conclusions had been that when oil prices fell and the state started to lose jobs, it looked like it would precipitate the need for a structural change in how Alaska did state government. For years, oil had paid the states bills.

Mr. Robinson addressed sustainability and discussed oil production, revenue, and the growth in population; it had appeared at some point the state would have to wrestle with the what it was currently facing around the size of government, dividends, and taxes. Savings had given the state some time, but as the state was navigating difficult political and economic questions it created uncertainty, which brought the economy down. The second bullet on the slide was more concrete - the state had made some subtractions from its economy. He pointed out that anytime money was taken out of an economy, growth was less likely.

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Mr. Robinson addressed the third question: "Are we coming out of our recession?" on slide 14. He reported that jobs

were the primary measure over time of economic health because they represented many things and went with many of the other economic metrics. He looked at a line chart on slide 15 showing a recovering economy. The chart included gross domestic product (GDP), the value of all of the goods and services produced in Alaska. He explained it meant the value of the state's oil. He clarified that GDP was not reflective of value remaining in Alaska; it was the value that originated in Alaska. He detailed that some of the value went to shareholders of oil companies; there was significant leakage of the value to other locations. He noted the volatility of GDP on the chart. The metrics on the chart all represented over-the-year percent change. The straight black line at 2 percent represented average inflation over the 2006 to 2018 period. He pointed out that GDP had been up for several quarters (the most recent data was through the third quarter of 2018). He did not have any doubt that the trajectory would continue to go up. He remarked that the number may flatten out somewhat due to oil prices; production was flat, and oil moved the numbers around more than anything else.

Mr. Robinson addressed the wages line shown in green on slide 15. He reported that wages had been up above inflation for a couple of quarters. Personal income was based on wages plus income from investments and included dividends, interest, rent, and transfer payments (social security, unemployment insurance, and the Permanent Fund Dividend). All three of the metrics shown on slide 15 gave strong signs of the state coming out of recession.

Co-Chair Wilson asked whether cutting government services or taking more out of the Permanent Fund Dividend (PFD) and money going to communities had a bigger impact on recession.

Mr. Robinson answered that it depended. He stated that the dividend was very specific and concrete. He explained that what really mattered was how government spending was cut. He used K-12 education as an example and asked the committee to consider what would happen if it received a \$100 million budget cut by taking all of the money out of teacher salaries. Another end of the spectrum would be the discontinuation of any activity related travel or art supplies. He explained that the net impact on jobs between the two scenarios would be very different.

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Co-Chair Wilson discussed that the first year the PFD had been reduced, it had been reduced abruptly, it had not resulted in a reduction in spending because people knew they would receive the dividend again the following year. She discussed how the dividend impacted the state's economy. She wondered whether the dividend had more impact on the recession. She reasoned that under Mr. Robinson's example, people did not know whether they would have a job the next day, which meant they would not spend money in the same way. She observed that both scenarios took money out of the local economy.

Mr. Robinson shifted focus to the PFD. He shared that the agency had looked hard for employment impact and it was difficult to see a positive or negative impact of the PFD. He clarified it did not mean that when the PFD got bigger or smaller that Alaskans did not get richer or poorer. In terms of impact on the economy, the pertinent question was how Alaskans spent the PFD, whether they spent the money, and whether they spent it in Alaska. He thought it probably changed over time. For example, if a person thought they may be likely to lose their job, they would be much more likely to spend the PFD on credit card bills than taking a trip.

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Vice-Chair Johnston discussed that in 2008 there had been a PFD and an additional dividend to reflect the high cost of heat. She recalled the total amount had been about \$3,300. She thought it would be interesting to see how it had impacted labor. She noted that it had been a time when the state was not in a recession and had been rich with jobs. She stated that the market had been tumbling, but Alaska had not.

Mr. Robinson answered that he would address the issue on an upcoming slide.

Representative Knopp observed that in the 2009 timeframe on slide 15 GDP, wages, and personal income went in the same direction; however, in 2015/2016 GDP dropped, but wages and personal income increased. He asked for details on the difference.

Mr. Robinson replied that in the period highlighted by Representative Knopp, oil prices fell, which had an outsized impact on GDP. Around 2011, about \$20 billion of the state's \$60 billion GDP was tied to oil; a few years later that \$20 billion had become \$5.6 billion (oil had gone from one-third of the state's GDP to about one-tenth over a very brief period). He explained that plunge was nowhere near matched by declines in wages or personal income, which measured money that stayed in Alaska. He pointed out that in 2008, when a large PFD and resource rebate had been distributed, personal income had increased, while wages had not. The large dividend amounted to an extra \$1.1 billion in personal income going into the economy (the total had been \$2.2 billion, but it had been \$1.1 billion more than the previous year). He explained it was a nice example of what a supersize dividend may do to an economy (with the caveat that all time periods were different).

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Mr. Robinson relayed that with several formal exceptions, the agency primarily produced current data and examined trends, with the goal of being relevant to questions about how the state's economy worked and how changes in one area impacted other areas. He moved to the agency's 2019 employment forecast on slide 16. He noted that the agency developed the forecast at the end of each year for January publication. He shared that initially the 2019 forecast had been for growth, but at the time the forecast had been developed there had been no talk of a \$1.6 billion budget cut. The forecast projected a decline of 200 state government jobs. The assumption had been that the existing downward pressure on government jobs would remain in place.

Mr. Robinson noted that the state had taken the first big step of solving its budget issue with the percent of market value (POMV) revenue stream; however, there was still work to be done and no reason to expect that suddenly state job numbers would jump back up. He reiterated that at the time of the forecast, there had been no notion of the \$1.6 billion budget cut. He stressed the importance of the issue for chronology. He did not want anyone to say DOL had said that a \$1.6 billion job cut would not stop the state from growing in 2019.

Mr. Robinson considered the agency's forecasting accuracy with a line chart on slide 17. He relayed that generally, the agency had a fairly good sense of where the economy was headed. In 2009 and 2016, the forecast identified that employment would stop growing. He pointed out that there were enough factors going on that the agency did not always get the forecast to the tenth of a percentage point, but it was fairly close. He explained that economies and jobs did not move the way oil prices did; they moved fairly slowly within a fairly narrow band. He added that the current recession had been shallow, and changes had been slow moving.

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Mr. Robinson moved to slide 18 and continued to address that the proposed budget would change the forecast. He highlighted items that would change in the forecast had the department had known there was a possibility for budget cuts of the proposed magnitude. He did not know how significant the changes would be because the agency did not yet know the details or the likelihood that the [governor's proposed] changes would go into effect. Forecast changes would include local and state government, leisure and hospitality (locals would spend less), healthcare, retail trade (a measure of confidence and the amount of disruption in an economy), total private sector, and total nonfarm employment.

Mr. Robinson turned to slide 19 and addressed Vice-Chair Johnston's previous point. He highlighted that in 2007 there had been a PFD of about \$1,600. In 2009, the statutory formula had produced a number of \$2,069. He elaborated that oil prices and revenue had been very high. Alaskans had been suffering from high oil prices and the decision had been made by the administration and legislature to return \$1,200 of the revenue back to Alaskans in the form of a resource rebate; effectively increasing the PFD from \$1,600 to \$3,200. The slide showed a line chart of Alaska employment by month for 2007 (blue line) and 2008 (red line). Sometime in August, legislation had passed that would add the resource rebate would be added to the statutory formula; the specific amounts were announced in September and the PFD had been distributed in October as always. The slide did not show a discernable employment impact, but it did not mean that Alaskans were not \$1.1 billion richer overnight. He expounded that the

increase almost certainly increased retail sales and college savings funds and reduced credit debt. He communicated that the department had looked at the issue over the years because of its importance.

Mr. Robinson moved to slide 20 and addressed the study of the PFD's short-term job impact of the higher dividend. The slide included a chart showing retail trade employment by month for 2007 (blue line) and 2008 (red line). He pointed to a small temporary employment boost from the higher dividends. He detailed that 2008 began above the year-ago levels. He reminded members the time period was just before a short, very deep recession for the U.S. He reviewed that the numbers dropped below the year-ago levels in the summer of 2008, popped back up in October, and decreased again a few months later. He cautioned members against putting too much weight on the results because of the numerous factors impacting the economy. He explained that impacts of the dividend, even large dividends, were not visible in the agency's data.

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Co-Chair Wilson asked for an update of slide 18 with the governor's proposed amended FY 20 budget. She thought the information on the slide had been calculated prior to the governor's amended budget.

Mr. Robinson asked if Co-Chair Wilson was requesting updated figures based on the governor's amended budget.

Co-Chair Wilson replied in the affirmative.

Mr. Robinson answered that the request would require an all hands on deck approach for months and it would mean the agency would stop producing the current data. The agency had never done something like that. He explained the agency publications were a bit like the [Department of Revenue] Revenue Source Book; there was a schedule and long process that included art and science. He gave a hypothetical scenario where the legislature gave the agency \$300,000 to stop its current work and make the changes based on the governor's amended budget. He underscored that the agency did not yet have nearly enough of an understanding about what the budget would do and where. The level of cuts to the University and the Alaska Marine Highway System (AMHS) was new territory.

Co-Chair Wilson stated that if the legislature had \$300,000, she would be happy to give it to the agency, but that was not the case. She respected the answer and noted the difficulty facing the legislature in the short period of time. She relayed that she read the Alaska Economic Trends book religiously. She did not know how the legislature could make some of the decisions it was facing, without having the data. She understood that it would take a lot to make the changes to the data. She would appreciate if there was even a shot the agency could take at the data without receiving the additional money. She noted jobs lost in the oil industry and the consideration of taxes on the fishing industry. She asked if merely discussing the changes impacted the private business world and jobs based on what may happen.

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Mr. Robinson replied that it may be helpful to think of the items as additions or subtractions to the state's economy. For example, if the dividend was reduced by \$1 billion, it would be an extraction from the state's economy. Although, even then it would be important to consider where the money was coming from and where it would go next - there were partially offsetting economic forces. He used taxes as another example and explained that if a tax was implemented that generated \$1 billion in revenue, the revenue source was known. He elaborated that a sales tax would come from resident and nonresident consumers and an income tax would come from resident and nonresident income earners. He explained the taxes represented an extraction from the state's economy; what was done with the revenue would offset the money taken out of Alaskans' pockets.

Co-Chair Wilson considered companies putting hundreds of millions of dollars into projects in Alaska that evaluated projects with spreadsheets showing what they would get. She pointed to the numerous times the state's oil tax structure had been changed over time. She wondered how the changes impacted jobs, especially on the oil fields. She remarked that the oil production had been higher in the past and it seemed like everyone was on hold at present. She asked how to create incentive to go after high paying jobs to create an environment where individuals could live.

Mr. Robinson responded that uncertainty was likely the key anchor the state was dragging. He elaborated that

businesses and individual consumers did not like uncertainty; it made them conservative in their spending and less likely to invest. He cited research indicating that annually between \$200 million and \$600 million in private capital investment did not happen because of uncertainty. He elaborated the difficulty of developing a five-year and ten-year plan because there was uncertainty about Alaska's future tax structure. He did not believe the dividend had a big impact on companies' willingness to invest in Alaska, albeit it was possible. He spoke to answering foundational questions about the type of state Alaska would be. For example, how much would be spent on K-12, the University, public safety, healthcare, and other.

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Co-Chair Wilson pointed to the inability for the legislature to get data. She emphasized the enormity of the decisions before the legislature. She stated that the issue was about employment in addition to services. She thought the information was needed in order to understand the consequences of cuts when making budgetary decisions.

Representative Josephson looked at slide 20 of the presentation related to retail trade employment by month in 2007 and 2008. He observed that when the PFD had been doubled it seemed discernable improvement in retail trade employment for a couple of months. He was trying to gauge the value of that thing, which he observed was coincidentally moving into the holidays at the time. He considered the Institute of Social and Economic Research's (ISER) studies that showed a loss of about 1,600 jobs per \$100 million, which would suggest 16,000 jobs lost statewide and possible outmigration. The dividend resulted in 700,000 people spending the money as opposed to 16,000 individuals earning a living that paid a mortgage and all other costs of living. He asked Mr. Robinson to help make sense out of the different findings.

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Mr. Robinson answered that part of the answer was timing. He explained that anytime money went into an economy it would create economic growth over some time horizon. He clarified that the fact there was no discernable blip in the agency's data, did not mean there was no employment impact (especially longer-term). He clarified that he was

not saying there was no impact on employment; it merely did not show a discernable impact over the short-term period.

Representative Josephson asked about the loss of employment vis a vie the dividend not being doubled.

Mr. Robinson explained that anything modeled was built on historical relationships. For example, when a given amount of increased wages went into an economy, there was an assumption that a given amount of employment increased. The dividend was special in that way. He listed several ISER economists and shared that the individuals knew Alaska's economy well. He believed the best answer to avoid people thinking the agency and ISER had contradictory conclusions was the time horizon and the possibility that because the numbers were so large and specific, a visible blip could be expected.

Mr. Robinson provided a couple of examples with discernable employment impact. He highlighted the 1964 earthquake, the Exxon Valdez oil spill, and Medicaid expansion were all visible and showed employment increase in DOL's data. He referenced the stimulus as another item looked at by DOL, but he did not recall the results. He explained there was a short list of items that were big enough to have a discernable employment impact.

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Vice-Chair Johnston asked Mr. Robinson to share his background with the committee.

Mr. Robinson replied that he had a degree in economics and in law. He had spent time working for economic consultants doing energy related work for the U.S. Department of Energy in Washington D.C. Additionally, he had worked for the McDowell Group for a couple of years in Juneau. He elaborated that he had not practiced law since 2001 and had been doing economic work for DOL since 2001 with the exception of the time he spent working for the McDowell Group.

Representative LeBon commented that when he had worked as a banker, he had used the Economic Trends publication to help calculate the bank's allowance for loan and loss. He detailed it was a quarterly calculation and the FDIC [Federal Deposit Insurance Corporation] had appreciated the

analysis. He thanked Mr. Robinson for the work. Separately, he was frequently asked why the state did not implement a state income tax to tax North Slope workers from out of state. He asked how much new revenue a tax would bring in.

Mr. Robinson qualified that an income tax was a policy decision. He answered that how much an income tax would generate would depend on the tax rate. He used the opportunity to highlight data the agency produced annually. He detailed that about 20 percent of all workers in Alaska were nonresidents; in the oil industry, the number had been as high as 37 percent a few years ago and had dropped to 34 percent in 2017 (the most recent data available). The agency also had information about the wages that went to residents and nonresidents. He offered to provide the report to the committee.

Representative LeBon asked if Mr. Robinson had stated that out of state workers accounted for 18 or 20 percent of the employment in Alaska.

Mr. Robinson clarified the data was a bit different than employment; it reflected workers. He explained that DLWD tallied all of the people worked in the state over a calendar year; of that group, 80 percent were residents and roughly 20 percent nonresidents. The data used the PFD definition of residency, which was rigorous and required an individual to live in Alaska for a full calendar year.

[2:34:31 PM](#)

Representative Carpenter referenced earlier questions by Co-Chair Wilson. He rhetorically asked whether the legislature should pass a budget and then updated the forecasts to see what it would do. He thought it would put the cart before the horse. He thought of no better tool for legislators to use than science and data to help understand what a transformational budget would look like. The governor had asked the legislature to pass a budget that would change the size and scope of state government, which appeared to put a burden on local governments to pick up some of the things the state had previously paid for. He questioned whether it was even plausible. He could think of no better person than Mr. Robinson and his agency to get the data. He did not like the answer that the agency could not do the work.

Mr. Robinson shared the frustration when considering the sequence. The agency was not the economic expert on economic modeling of scenarios; it was rarely work performed by the agency. He remarked that they would wrestle with the issue in 2020 when looking ahead. He clarified that the work referred to by Representative Carpenter was a separate type of work performed by ISER that considered "if this, then what" scenarios using sophisticated economic models that were constantly under construction. He explained that his section was responsible for "meat and potatoes" information on the number of jobs. He elaborated that trying to understand what was moving them was a task that could never be completed with 100 percent satisfaction. He characterized the process as part science, part art.

Mr. Robinson recalled at the beginning of the recession long-time people familiar with Alaska's economy projected that the state may lose 100,000 jobs. At the time he had disbelieved the idea and thought that people had temporarily forgotten Alaska's history because it had been out of the range of possibilities. He had also considered that it could be possible because many things were possible. The extent to which it was possible to know the response of the economy to the decisions facing the legislature was very limited. He stated it was conceptual and broad-based. No one would be able to predict with a lot of precision what would be the impact would be of cutting a department's budget by a given amount.

[2:38:22 PM](#)

Representative Knopp remarked on the testimony that 80 percent of the state's workers were residents and 20 percent were nonresidents. He asked if the percentage had ever been gauged for seasonal employment. He referenced discussion on an income tax and high wage earners. He considered combining employment information for the hospitality, fishing, and other seasonal industries. He wondered if the percentage of instate versus out of state workers was significantly impacted based on the season. Additionally, he asked about a state income tax. He noted his concern that there were not people available to be hired. He wondered if an income tax would be detrimental to the state's workforce, particularly to the seasonal workforce. He stated that the hospitality, Alaska Railroad, and others utilized the seasonal workforce.

Mr. Robinson addressed the seasonality of nonresident workers. The department had quarterly employment wage data and the agency published a report that included the worker count by quarter. He highlighted that nonresident workers were more likely to work one, two, or three quarters of the year, whereas, resident workers were more likely to work all four quarters (especially when looking at construction, seafood processing, and other similar jobs). He would provide the report to the committee.

Mr. Robinson addressed Representative Knopp's second question. He communicated that many of the decisions the legislature faced in terms of solving the structural issues were policy choices. He noted that all of the items had different economic impacts. For example, taxes created less of an incentive to do whatever it was that was being taxed; however, taxes paid for federal, state, and local government. He sometimes wondered whether people believed given options were more powerful in the economy than they really were. Conceptually, he recommended considering how much of an extraction something was from the economy, where it came from, and where the money was going. For example, he considered a tax on high income earners versus low earners. He pointed out that a low earner's income was more likely to be spent and circulated into the economy, whereas the money of a higher earner was more likely to be saved and not circulated. He concluded there were numerous important questions, most of which were not economic, but a policy preference.

[2:42:00 PM](#)

Representative Josephson spoke to the past passage of SB 26 [Permanent Fund legislation passed the legislature in 2018], which had introduced a new source of income into the economy that was anomalous and had never happened before. He suspected the action had done the state some good. He asked for Mr. Robinson's opinion.

Mr. Robinson replied "Absolutely." He detailed that the action had done some good in several ways. He noted there was an exchange between short-term and long-term. First, the action had brought in an annual amount of \$2.5 billion to \$3 billion that had been on the sidelines into the state's economy. Second, the action had diversified the state's revenue flow. Instead of being really tied into oil, the investment was tied to national and international

markets and the ability for managers to generate money based on how the world was doing. Third, the action went a long way towards solving the structural problem of state government, albeit not all of the way.

Representative Sullivan-Leonard looked at slide 5 that showed the total job loss or gain across Alaska since 2015. She asked if there was an ability to breakdown where the workers lived who worked in the North Slope. She highlighted that workers were not North Slope residents.

Mr. Robinson replied in the affirmative. He detailed it was in the report he had mentioned. About one-third of the individuals did not live in Alaska. Very few of the workers lived in Southeast Alaska and many lived in Fairbanks, Anchorage, Mat-Su, and the Kenai Peninsula Borough. He explained the areas were oil and gas fields suppliers and had people with connections to the industry. Additionally, it was easier to get to the slope from Fairbanks and Anchorage easier than from Bethel or Nome and other areas in the state.

[2:44:52 PM](#)

Representative Sullivan-Leonard asked Mr. Robinson to follow up with the breakdown. She remarked that a large percentage of the Mat-Su population worked on the North Slope and when many of the individuals had returned home, some of the jobs available had all been in retail. She highlighted the available jobs were not the livable wage jobs the individuals had on the slope.

Representative Merrick asked whether the one-third of North Slope workers [from out of state] were taking jobs from Alaskans or if the state did not have the workforce to support the industry.

Mr. Robinson replied that the slope jobs were high wage jobs and filling positions with Alaskans benefit the state. He discussed that the state could tailor and think about the training done (e.g. university curriculum) to maximize the number of Alaskans in the jobs. He highlighted the freedom of the two-week on, two-week off schedule that allowed individuals to live anywhere. Some of the workers were former Alaskans who decided it was cheaper to live in Spokane or Houston for example. He discussed that people sometimes acted like there was a "taking" that happened

when a nonresident worker showed up on the slope. He stated, "Kind of." In 16 of the past 20 years, when the number of resident workers increased, the number of nonresident workers also increased. Most recently, both numbers had decreased. The data strongly suggested that it was not "there are 10,000 jobs, are they going to Alaskans or non-Alaskans," but that there was an oil and gas industry trying to make money and do its work and companies hired whoever was qualified to do the work.

^PRESENTATION: ECONOMIC IMPACT ANALYSIS OF THE GOVERNOR'S PROPOSED FISCAL PLAN

[2:47:30 PM](#)

ED KING, CHIEF ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR noted that he is an economist and not a policy person. He had not built the budget and directed policy related questions to others in the administration. He explained that when talking about macroeconomic impacts, it related to how the state economy was impacted. He clarified macroeconomic impacts pertained to the state as a whole, not the individuals living in the state. There was a difference between the economy doing well and some people in the economy doing worse and others doing better. He did not want to belittle the impacts affecting individuals and he was not saying that the impacts did not occur.

Mr. King identified a difference between economic impacts and societal impacts; the impact to social wellbeing was different than the economic impacts. He noted that those things were often confused, especially when talking about things like government services. He explained that government services, by nature, were designed to improve social wellbeing, which may not be captured in things like gross domestic product (GDP). He highlighted the importance of considering that there was much more information surrounding the conversations than the economic data only.

[2:49:48 PM](#)

Mr. King provided a PowerPoint presentation titled "Macroeconomic Impact of Fiscal Options" dated March 6, 2019 (copy on file). He mentioned the Institute of Social and Economic Research (ISER) report "Short-Run Economic Impacts of Alaska Fiscal Options," dated March 30, 2016,

shown on slide 2. He intended to discuss what the report meant, how the numbers had been created, and what the numbers did and did not imply. He moved to slide 3 and provided an illustration showing how a 10x multiplier effect worked. He explained that economic impacts occurred not just because of the initial injection or withdraw from the economy.

Mr. King explained that the initial injection - whether it was \$100 million or \$1 billion - when put in the pockets of the people, the people went out and did things with the money. As people spent the money, businesses collected the money, which created additional needs for labor. In turn, businesses hired staff or increased the hours of existing staff and those individuals spent their bigger paychecks on things like movies, restaurants, and other. He explained that the cycle continued; the money was not only spent once - it flowed through the economy in a fluid structure.

Mr. King clarified that when discussing economic impacts or an economic impact analysis like ISER's, it included all of the impacts to the economy over all time. He stated the discussion was not about what would happen the following day; it was about the total impacts. He explained that it may take months, years, or decades for the impacts to ripple through the economy. He cautioned it was important to be careful when hearing a number like \$100 million had a 1,000 job impact. He explained it did not mean 1,000 jobs the following day or following year, it meant 1,000 jobs total; it could take some time before the effects materialized.

Mr. King noted it was important to remember that once money stopped being spent, the initial injection went away and all that remained was the rippling effects. He elucidated that as soon as an injection of cash ended, the economy would contract back to its normal levels. If the goal was to improve the economy in a structural way, the spending had to occur repeatedly (e.g. \$1 billion every year instead of \$1 billion in the current year only). He continued that if the threshold for whether or not cuts could be made to the budget or a change in government spending was that it could do no harm to the economy, the spending could never be discontinued. Once money was put into a budget it would have a positive impact and as soon as the money was removed, it would have a negative impact. He stated it was necessary to be careful when talking about how the impacts

flowed through the economy because it was not possible to ever step back down if the negative consequences were not acceptable.

[2:52:59 PM](#)

Co-Chair Wilson asked if Mr. King was saying that to keep the economy going it would be necessary to continue increasing the budget.

Mr. King answered that if the desire was to maintain the same level of economic activity it was necessary to maintain the same level of spending. As soon as spending reduced, the economy would contract back to its new level.

Co-Chair Wilson considered whether it was the administration's philosophy that the state was not only decreasing government spending because some of the government spending would be picked up by the private sector. For example, several years earlier the Department of Transportation and Public Facilities had been planning to contract design out to the private sector. She thought it was likely the work would have been picked up to some extent, meaning the spending would not have been lost. She wondered how the legislature was supposed to understand things that would get picked up by the private sector versus things that perhaps should never have been [provided by the government] and would come out to a different form in the private sector.

Mr. King agreed it was the other side of the equation. He stated it was necessary to always think about where the money was coming from and about the consequences that followed. He considered an economic analysis where \$1 billion was taken from the economy and everything else was held constant, which resulted in everything falling apart. He explained it was not how things actually worked in the real world. When the money was pulled from the economy in one way and injected in another way (e.g. through privatization, PFD payments, or reducing taxes) it was necessary to look at all of the impacts in concert, not only one piece of the equation.

Co-Chair Wilson surmised the committee could not make the informed decision on the proposed budget cuts without the economic analysis the legislature had been requesting since beginning the budget process.

Mr. King replied he would consider what the alternative options were. He stated that if he was the decision maker facing a similar decision and he did not like the outcome, he would consider what the alternative options were and what their impacts would be. He understood the legislature's desire was to have specific numbers showing the consequence of a given option. He stated it was an impossible task. He relayed it was necessary to look at the other options and their associated impacts and to choose the least bad option. The best that could be done, under the circumstances, was look at the relative impact of the options and not the precise number. He stated that ISER's report had done a good job laying out what the relative impacts looked like. He reviewed that the report had stated budget cuts were the least bad option, PFD cuts were the worst option, and taxes fell somewhere in the middle depending how they were structured.

Co-Chair Wilson did not want to just pick the least bad option. She wanted to make an informed decision. She underscored that without having the analysis from the entity proposing the budget, the committee may as well take a dart and shoot at various numbers on a wall to make a decision. She asked Mr. King what questions he would ask to make the right decision based on facts if he was sitting in her seat.

[2:57:21 PM](#)

Mr. King replied that he would consider the costs and benefits of the services and whether there was willingness to take the money out of the economy in one form in order to provide the services in another. He would not approach the situation by thinking that because all of the options had negative consequences, he would not choose any of them. He stated it was not an option.

Co-Chair Wilson asked the administration to provide the detail an analysis on all of the governor's proposed decreases.

Representative Knopp spoke about the socioeconomic impacts of the one-time financial injection to the economy on slide 3. He asked if the one-time injection would create a false economy or sine wave in the structure shift. He provided a scenario where there was \$1 billion injected into the

state's economy on a quarterly basis. He wondered if it would create a vicious cycle. He observed that the one-time injection would do more harm than good compared to a slow, steady growth. He asked for Mr. King's thoughts.

Mr. King answered that one-time injections were usually things a government did in order to stimulate the economy and get out of a recession. He referenced tax rebates at the federal level as an example. Alaska did not have many one-time injections. He explained that the PFD was not considered a one-time injection because it was recurring (it was a structural shift and the economy adjusted to the expectation of the money; because the amount moved every year there was some volatility). How quickly the money moved through the economy was one important part of the equation. How the money was injected into the economy, whether it was once every month, quarter, or year, would have different impacts on how people evaluated their financial circumstances.

[3:00:01 PM](#)

Representative Knopp agreed the key was how quickly the money moved through the market. He elaborated that because the injection only occurred once per year, he believed the money moved far too quickly. He thought the injection was unhealthy and that it created a false economy.

Vice-Chair Johnston noted the ISER report had been published in 2016 and budget adjustments had been made since that time.

Mr. King agreed.

Representative Josephson thought back to January 2016 and recalled the criticism of the previous administration was its panoply of taxes on every industry with no production of impacts of all of the proposed taxation. He believed the criticism, broadly speaking, was fair. He was making the same criticism at present. He did not believe he was comparing one unknown to another unknown. He knew what a \$4.3 billion budget would produce in benefits and how it would impact the state's treasury. However, he did not know what it would mean, for example, to remove \$400 million from the North Slope or have large class sizes that were unprecedented or require local governments to raise their

mill rates. Therefore, he viewed the impact wearily. He asked for comment.

[3:02:36 PM](#)

Mr. King understood the desire to have numbers. He thought that through the process the legislature should ask questions that generated some of the numbers. He stated that the people with that data should provide it to the legislature. He reported significant work was currently being done to evaluate what the impacts looked like and how to transition from the previous year to the proposals for next year. He explained the work was substantial and took a lot of time. He pointed out that if the legislature was going to reject the proposed reductions, it was necessary to consider where the money would come from. How the gap between current revenues and proposed expenditures was covered would have consequences that would need to be evaluated.

Representative Josephson remarked that there did not seem to be much discussion about the broad swath in the middle - where there was a sharing of concepts and an appreciation in the value of increasing the dividend (perhaps not increasing it up to its statutory requirement) and not reducing the budget by \$1.6 billion. He considered a budget that included "a little less experimentation and a little more a la carte," where a bit was selected from each category. He asked if the administration had considered the idea. He recognized there were infinite possibilities.

Mr. King answered there were an infinite number of combinations to achieve a solution. The administration's proposal was one proposal to reach a solution. He elaborated that the proposal was the only solution available to do any analysis on. He hoped it would be possible to have the conversations as the process proceeded.

[3:04:57 PM](#)

Mr. King continued with slide 3. He continued that when talking about injections into the economy, it was necessary to consider where the money was coming from. He explained that if certain impacts were desired, they would have to come from some money that was sitting on the sideline being injected into the economy. He explained that if money was

being taken out of the economy in order to inject it into the economy, it was necessary to look at both of the affects. It was not possible to look at one side of the equation. He underscored that it was not possible to build the economy by taking money out of the economy, just like it was not possible to fill out a swimming pool by taking a bucket of water out of it and pouring it back in. All of the facts had to be considered.

Representative LeBon asked about the best way for the private sector to create money in the economy.

Mr. King replied that the economy grew by population growth or resource growth (i.e. labor, capital, and natural resources). He elaborated that deploying new resources created economic growth or the productivity and efficiency of existing resources could be increased. An economy either increased because there were more people or resources, or the existing people became richer. The economy created value finding resources and combining them with labor and transforming it into something with a higher value that people wanted. The economy was always finding ways to improve the value of the things it has, which was how money was generated. The government had the sideboards for society to work through and the infrastructure for the economy to function, but it did not have the capacity to generate value in the way the private sector could.

[3:07:11 PM](#)

Representative LeBon highlighted the importance of the private sector banking community in Alaska. He shared that he had spent 42 years working in the industry. He detailed that if a bank originated a new commercial loan to a borrower, it created the money in the sense that it was new to the economy. He detailed that the bank did not pull the money from the public sector or print it in the basement; it was creating new money. He stressed the importance of a vibrant banking community to the private sector. When he had worked in the industry there had not been many loans to government, 99 percent had been to private sector businesses. The confidence of those businesses to borrow money in Alaska was paramount to the state's future and its success. He asked Mr. King if he agreed that a strong private sector was incredibly important.

Mr. King did not disagree.

3:09:02 PM

Mr. King moved to slide 4 and addressed the proper way of thinking about the impacts of the ISER report. He had heard a tendency for people to look at the report and say that \$100 million meant 1,000 job losses or \$100 million in taxes meant a given number of job losses or \$100 million in PFD meant a given impact. He acknowledged the temptation to dismiss the options given the negative numbers they presented and to stick with the status quo. He explained it was not an accurate way of using the report. He elaborated it was necessary to create a scenario, such as the governor's proposal. He stressed that if a proposal increased spending by \$100 million, it was necessary to ask where the money would come from. There were benefits from the additional money being spent on government, but there were negative consequences in the area the money came from (i.e. a tax, PFD cut, or savings accounts).

Mr. King underscored that as comparisons were made it was not prudent to only look at one side of the equation. He moved to slide 5 and provided comments on the ISER report. He spoke to the high quality of the report and thought it was unfortunate that some of the information in the report was misconstrued. He cautioned readers to be careful when drawing conclusions about the report. He stated that one of the talking points related to job numbers. He wanted people to understand that when talking about job numbers there were different ways that economists talked about jobs. He detailed that jobs were talked about in terms of head counts where an oil field worker and a retail cashier counted as one job each. He explained that those positions had different impacts on the economy and calling them equal was not necessarily the best way of thinking about what the impacts were. He referenced seasonally adjusted jobs or full-time equivalent jobs and pointed out the importance of being consistent in the definition of a job and not drawing false conclusions.

Mr. King spoke to the importance of making realistic comparisons. He explained it was not prudent to compare spending versus 2019 or PFD payments versus 2019 and think it was the conclusion. He stated it was necessary to create a scenario that worked for FY 20 and compare it to an alternative scenario that worked for FY 20. He elaborated that comparing scenarios to the previous year did not

generate valuable information. He underscored that discussion about economic impacts referred to impacts over multiple time periods. He cautioned against confusing the timing of the impacts.

[3:12:48 PM](#)

Mr. King continued to the second point on slide 5: "The ceteris paribus assumption only holds in a synthetic environment." He clarified the phrase meant that economic modeling forced everything to stay constant and the impact was plucked out of the model. The assumption was static and did not allow for the participants in the economy to adjust to the changes made in the economy. He provided an example about static thinking. He noted the importance of being careful when talking about what a computer output generated compared to the expectation of what would actually happen as the scenario unfolded in the real world. Even though the impact analyses were relevant and generated important numbers, they did not necessarily translate into the types of impacts one would expect to see when the numbers came out.

Mr. King stated that a projected 10,000 job impact may end up being a 100 or 200 job impact once all of the impacts were accounted for. He clarified it did not mean that the 1,000 people had not been impacted. He acknowledged that whatever those individuals had to do to get through the difficult period would be negative and important. However, from the perspective of the entire economy, as the individuals were finding new jobs, drawing off of savings, and making other decisions to replace the income, the static assumption made by the model that spending went to zero when a person lost their job did not necessarily reflect what actually happened when a person lost their job. He explained that the outputs of the models overstated the indirect impacts actually seen in the economy.

[3:15:20 PM](#)

Mr. King continued with slide 5 and defined a model as a simplification of reality. He explained that models endeavored to provide insight on the relative impacts of a decision, not instruction on what to do. He elaborated that a model would not to choose a specific option, but it would identify whether one option was better than another. A model would not specify the exact number, but it would

specify the rankings of the options. He continued there were impacts other than economic that needed to be considered. For example, the value to society was generated by the service provided, which was not necessarily captured in an impact analysis and was worthy of conversation. He elaborated that it was not an easy concept to measure. For example, it was difficult to measure the value of a road not having a pothole. He elaborated that one option was obviously better than the other, but it was difficult to place value on the difference and identify how much one would be willing to pay.

Mr. King stated there was very good information in the ISER report, especially the relative rankings between the options provided. He believed the strength in the report was in how different options impacted different regions and different people. He believed there was valuable insight in the report that he would use if he was analyzing the proposals.

Mr. King turned to a chart showing UGF Surplus/Deficit on slide 7. The slide represented the historical difference between revenues and expenditures and projecting forward. The chart highlighted the deficit between revenues and expenditures. The chart showed the state's multibillion deficit for the past several years, which had been filled by spending from the state's savings accounts. Looking forward, the deficits were not going away, but savings accounts were. There was a need to address the ongoing structural issue.

Co-Chair Foster handed the gavel to Co-Chair Wilson.

Representative Josephson asked for verification that the slide did not reflect the drawdown from the percent of market value (POMV).

Mr. King responded affirmatively. The chart included revenues generated from state activities and did not include draws from savings accounts. He detailed that deficits in the past four years had been filled via draws from the Constitutional Budget Reserve (CBR). He acknowledged that future draws from the Permanent Fund Earnings Reserve Account (ERA) would offset some of the deficit, but they constituted draws from savings.

Representative Josephson clarified that the POMV draws were sustainable draws from savings under a structured model.

Mr. King agreed but countered that the draws were not revenues generated from unrestricted general funds (UGF). The draws did help solve the deficit problem, but they were still transfers from the ERA to the General Fund. The point was that the difference between revenues and expenditures was how much money the state was collecting through its state activities versus how much it needed to spend to provide a given level of service.

[3:19:14 PM](#)

Representative Josephson explained that everyone understood the need for a structured draw [from the ERA] was due to a gap in revenue. He stated that it went without saying that the draws were designed to fill the gap in revenue, hopefully in perpetuity. He added that the draws were partly a reflection of a lack of political will to raise other revenue.

Mr. King agreed. He stated that the bill [SB 26 passed in 2017] allowed transfers from the ERA to fill the deficit. He elaborated that allowing the spending of some of the revenues for the purpose of the General Fund rather than for the growth of the Permanent Fund or payment of PFDs, was a conscious decision made by the legislature, but it did not change the fact that it was a draw from a savings account.

Representative Knopp remarked that Mr. King was referring to the transfer as a draw from savings but not an additional revenue source. Historically, people put away \$1 million, drew 4 percent in retirement and lived on the funds forever. He stated it could be a draw from savings, but it could also be a revenue source. He found it interesting that Mr. King kept referring to the ERA transfer as a draw from savings and not a new form of revenue. He stated the draw was structured and sustainable. He asked why it was not being considered as a different form of revenue.

Mr. King answered that the money spent from the ERA did not impact the problem any differently than spending money from the CBR. He stated that it was still a draw from activity that was not generated by the state. He elaborated the

money was not from taxes, royalties, or anything the state was doing. He continued that the revenues generated from the Permanent Fund belonged to the Permanent Fund. He contended that the fact the legislature gave itself permission to use some of the funds for the General Fund did not change the fact that the funds were generated from the Permanent Fund.

Representative Knopp highlighted that while the funds may not be revenue from activity the state was currently doing, it was revenue from activity the state had done in the past.

Mr. King agreed that the money was revenue, but not General Fund revenue.

[3:22:04 PM](#)

Mr. King moved to a chart on slide 8 showing the FY 19 ten-year plan. Expenditures were shown in red and revenue was shown in green. He elaborated that green bars were divided into oil revenue (bottom), non-oil revenue (middle), and the allowable transfer from the ERA after the PFD was paid (top). He pointed out that even with the allowed draw from the POMV, if the PFD statute was followed, there would be a \$1.6 billion deficit that needed to be filled in FY 20 in some way.

Representative Sullivan-Leonard asked to hear from the OMB director. She considered the takeaway specifying that the state had a structural fiscal problem, not a temporary budget problem. She asked for detail on the takeaway, especially as it related to the chart on slide 8.

DONNA ARDUIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, was trying to understand the question. She stated what Mr. King had outlined was from the previous ten-year plan showing a mismatch between revenues and expenditures (including the draw from the ERA).

Representative Sullivan-Leonard asked how the administration had developed the particular chart (on slide 8) showing a structural fiscal problem.

Ms. Arduin asked if Representative Sullivan-Leonard was asking for the data sources.

Representative Sullivan-Leonard replied in the affirmative.

Ms. Arduin deferred the question to Mr. King.

Mr. King replied that the red bars on slide 8 represented the FY 19 ten-year plan. He explained the chart showed the trajectory the state was on if a change was not made. The governor's ten-year plan, which would come out the following week, aligned revenues with expenditures.

[3:25:03 PM](#)

Representative Josephson agreed that the chart reflected what would happen if a change was not made, but it did not consider any other sort of reform (i.e. any other sort of revenue, taxation, a more modest PFD); it was purely status quo. He remarked that the information was not especially creative in terms of problem solving.

Mr. King replied that the slide was not intended to be creative. The slide was intended to communicate that a problem existed that would not go away on its own. He clarified that the slide was not intended to offer up any type of solution; there was a gap that needed to be filled. There were multiple ways to fill the gap including cutting the PFD, cutting the budget, raising taxes, and drawing more from savings. The point of the slide was to illustrate that the problem did not solve itself.

Co-Chair Wilson believed everyone at the table already understood that. The committee was looking forward to Mr. King's analysis of what the governor's proposed budget would do to the economy.

Mr. King turned to slide 9 and stated there were multiple options, all of which had consequences. He remarked that it did not matter how the problem was solved, there would be a negative consequence associated. He stated that if the standard for passing a budget was to do no harm, he reported that the option was off the table. He detailed that a reduction in spending would result in job losses and a reduced level of services; raising taxes would result in lost economic activity and a lower standard of living; cutting the PFD would impact different people and was a more regressive form of increasing taxes, which would result in a lower standard of living; and drawing savings

by going deeper into the ERA would solve the near-term problem, with long-term consequences. He reiterated that any solution needed to address the existing structural issue. Despite \$3 billion in budget cuts over the past four years, the problem had not been solved. He stressed that it needed to be solved.

[3:27:59 PM](#)

Mr. King moved to a chart on slide 10 titled "The 'Avoid Budget Cuts and Taxes' Scenario." The slide reflected the FY 19 budget going forward including inflation and population growth. He noted that the chart did not account for the fact that every legislature would react differently to the circumstances; however, the chart gave insight into the magnitude of the problem and the solution the scenario would generate. He stated that the legislature could cover the \$1.6 billion deficit with PFD cuts in the current year, which would leave a dividend of approximately \$400 or \$500.

Mr. King continued that if the same strategy was used the following year, factoring in budget growth and fund growth, the dividend would be around \$400 and the following year it would be about \$300. Eventually, all of the POMV would be consumed by budget growth and there would be nothing left to distribute. At that point, if the budget still could not be cut and the same level of growth was maintained, something would need to be done. If taxes and budget cuts were off the table and PFD cuts were no longer an option, the only remaining tools were to dip into savings and later to increase taxes.

Vice-Chair Johnston what rate of inflation had been used in the assumptions.

Mr. King replied 2.25 percent.

Vice-Chair Johnston asked what population increase had been used in the assumptions.

Mr. King replied 1 percent.

Vice-Chair Johnston noted she had seen a presentation by Mr. King related to the Permanent Fund. She relayed that while she did not always agree with some of Mr. King's modeling in the presentation, the basic premise was that he felt the Permanent Fund was growing at such a rate that by

taking smaller PFDs the fund would grow to such an extent that future generations would not have to pay anything.

Mr. King replied that the graph (on slide 10) used the assumptions used by the Alaska Permanent Fund Corporation (APFC). The chart showed a draw down rate at the 6.55 percent return.

Vice-Chair Johnston asked for verification that the 6.55 percent reflected the top of APFC's stress test.

Mr. King replied in the negative. He clarified that the mid-bull case for APFC earnings average was 6.55 percent.

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Vice-Chair Johnston asked for verification that the modeling [shown on slide 10] was on the 6.55 percent even though the structured draw was on something else.

Mr. King replied that the total fund balance generating the POMV was shown in the background of the chart and was earning 6.55 percent. The ERA balance was growing at 6.4 percent because some unrealized gains occurred. He relayed that if the Permanent Fund did a stellar job and beat its forecast, many of the problems took on a different shape. For example, if APFC earned 10 percent per year it would be necessary to consider if the state was saving too much money. Currently, the best numbers available were those provided by APFC and the chart reflected the scenario under those assumptions.

Co-Chair Wilson expressed confusion about the presentation topic. She thought the presentation was the economic impact analysis for the governor's fiscal plan. She did not believe that was what was being presented. She stated there was no one at the table who did not understand the need to decrease the budget. She did not believe there were any taxes currently on the table or that had been proposed. She wondered if there was some place in the presentation where Mr. King would provide the economic impact of the governor's budget.

Mr. King replied that no one knew the answer to the question including ISER and others. He stated that no one knew exactly how the future would unfold. He wished he could provide an answer to the question. He relayed that

the proposals were all being evaluated by the departments and local impacts were being assessed by local communities. He did not have the information.

Co-Chair Wilson stated it was the administration's presentation. She relayed the committee had been told that the presentation was the economics of the proposed budget. She communicated that most of the information being presented was something the committee members already knew. She asked if there was some place in the presentation where Mr. King would help the committee better understand the economic impact of the proposed budget.

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Ms. Arduin replied that earlier in the presentation Mr. King had talked about the value of the distributional analysis - the relative ranking of one option versus another. She believed that was the direction Mr. King was going with the presentation. He had highlighted there were a limited number of options and the presentation showed what happened in certain options where there was an economic issue and the state would run out of money or turn to taxes. She noted that Mr. King had been discussing that each option had a different weighting. She asked Mr. King to return to the beginning of his presentation where he had stated that some options had more of an economic impact than others. For example, budget reductions versus cutting the PFD versus taxes.

Co-Chair Wilson stated that with due respect, the committee was the House Finance Committee responsible for financial matters. She stated that the [governor's] proposed budget included approximately \$1.1 billion cuts and \$600 million from local communities. She appreciated the desire to show the committee the range of possibilities, but she believed that first the committee needed to know what the budget would do to the economy.

Representative Carpenter highlighted that slide 17 was titled "Impact of Proposed Budget."

Co-Chair Wilson asked to advance to slide 17.

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Mr. King complied. He reported there were [economic] consequences that needed to be compared with something else. He underscored that the conversation could not simply be whether a cut could or could not be made. He stressed that the conversation needed to be broader (i.e. what the option was if the cuts were not made). He could not tell the committee what the budget impact of the proposed budget would be because he did not have anything to compare it to.

Co-Chair Wilson countered that it was the administration's budget. She asked if Mr. King worked for the administration.

Mr. King responded affirmatively. He stated that anytime a relative impact was considered it had to be compared to another option. He stated that if the legislature's proposal was different than the governor's, they could talk about what the differential impacts of the proposals looked like. There was not currently another proposal to compare the governor's budget to. He informed the committee that it was improper to compare the proposed budget to FY 19 because it was not a realistic scenario.

Co-Chair Wilson asked what the governor's budget had been compared to.

Mr. King replied that there had been nothing to compare it to.

Co-Chair Wilson responded, "So the administration just put this out with no comparison."

Vice-Chair Johnston diverged from the subject and remarked that she believed the ten-year plan would be helpful for the committee. She asked for verification that Mr. King would be working on it.

Mr. King replied affirmatively.

Mr. King spoke to the volatility of the state's budget from year to year on slides 18. He noted there had been a 20-year period where there had not been many changes in the budget. He stated that the proposed budget was not necessarily dramatic in terms of historic volatility of year-to-year budgets. He turned to a chart on slide 19 illustrating how the job market had reacted to changes in the budgets [from FY 90 to FY 16]. He relayed that when

comparing the expected impact of increased spending did not show the corresponding impact in the type of magnitude the ISER report would suggest. He explained that static model outputs did not necessarily translate directly to what real data looked like. He elaborated that when someone talked about \$1 [\$100] million impact resulting in 1,000 job losses, it was true in the model, but it did not necessarily mean it was true in reality.

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Representative Josephson asked about slide 18 related to state budget volatility. He referenced the second takeaway on the slide specifying that the proposed budget returned the state to 2005 levels of inflation adjusted spending. He noted that David Teal's [Director, Legislative Finance Division] equivalent look at the data had factored in population growth and Mr. Teal's office had concluded that the budget would return the state to somewhere below 1990s levels. He wondered if the population growth would change the 2005 result [shown on slide 18].

Mr. King replied that he was sure population growth would change the result but did not know to what extent. He could not validate the numbers cited by Representative Josephson, but he offered to follow up.

Representative Josephson moved to slide 19 and believed the slide was trying to show that large cuts did not necessarily make jobs crash, nor did increases make jobs grow. He noted that most of the spike coming down in FY 13 was capital. He detailed that ISER had reported that those job impacts were spread over more years and generated half as many jobs per dollar spent compared to cutting the state workforce. He thought that if the dollars were operating budget dollars and not so significantly capital budget dollars, the analysis could be different.

Mr. King answered there were statewide and capital items within the budgets. The chart [on slide 19] was intended to show the magnitude of the impact changing the budget had on the workforce. The way the budget was increased or decreased would have differential impacts on the economy. He detailed that when talking exclusively about the capital budget, the impacts were likely to be smaller than to education for example. The economy did not react to changes in the timeframe that may be expected from a static output

model. The jobs would be spread over several years, as he had discussed at the beginning of the presentation. He explained that budget impact did not necessarily translate into a spike in jobs immediately after the expense or a loss in jobs immediately after a cut.

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Representative Josephson thought it meant the pain that could be caused to Alaskans could be delayed, which did not assuage his concern.

Mr. King empathized with anyone who lost their job. His point was that the economy did not react as a whole in the way that was as dramatic as some of the numbers he had heard thrown around. He continued on slide 20 and addressed a chart pertaining to the budget impact on total jobs. The chart included operating budget agency operations only and was adjusted for population and inflation growth. He reported that changes in the operating budget agency operations did not create jobs. Historically in Alaska, increasing spending on government programs was not a job creation endeavor. He explained that spending was beneficial and created valuable services, but it was not intended to create jobs. If the goal was to create jobs, it would mean employing individuals who were currently unemployed.

Mr. King elaborated that when government jobs with programmatic services were created, it was not done for the sake of creating jobs and it did not have the effect of creating jobs. He explained that the people within the population who would fill the jobs were coming from somewhere; it merely constituted moving a job from the private sector to the public sector.

Mr. King turned to slide 22 and addressed expected jobs impacts. He stated that everything was up in the air. He noted there was a sense of what the magnitudes may look like - state job losses could range from the low hundreds up to 1,000; it depended how things played out with the privatization proposals. He addressed the education sector and explained that if the school districts reacted by exclusively laying off teachers, the job loss would be around 3,000; however, if the districts lowered healthcare costs, reduced heating bills, aggregated different facilities, or if local governments picked up a higher

portion of the loss, it would mitigate the losses. He stated it was impossible for the administration to say what the impact would be. It was possible to identify things to consider, to understand what drove the different numbers; however, he stated it was not possible to specify the precise outcome of a given action.

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Mr. King continued to review expected jobs impacts on slide 22. He began with the University and shared that he had heard a projected job loss number of about 1,300 and when he had run the numbers, he had come up with a maximum of 1,500 if the University solved the reduction to its budget exclusively by laying off faculty and staff. He stated that if the University raised new revenues to offset some of the losses or increased efficiencies, the job losses would be less. He discussed projected job losses in the healthcare industry and explained that the change to the Medicaid program and payment structure would impact the sector. He characterized healthcare as a growth sector and did not anticipate it would lose jobs, but the rate of growth would slow. He pointed out that regional hospitals and medical providers would be impacted differently, but on a statewide level, the healthcare industry was expected to grow (potentially at a slower rate).

Mr. King reviewed expected job impacts in the trade sector of the economy. There was an expectation the injection from the PFD would spur some additional spending, which would likely result in some additional labor demands. The ISER estimate was approximately 14,000 jobs [per \$100 million], but he did not believe that was tenable. He remarked that it was not proper to compare all jobs because all jobs were not equivalent. He noted that some of the job increases from the trade sectors would be offset by reduced income from people losing jobs elsewhere; however, their behavioral responses would mitigate some of the direct impact because some individuals would retire, some would draw off savings accounts, and some would find other jobs. He clarified it did not mean losing a job was not detrimental, but it did mean that spending patterns would not merely go to zero in perpetuity.

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Mr. King stated that in theory it could be expected that the removal of the uncertainty on how the state would address its fiscal issues, would create certainty for investors and those additional dollars should grow the economy. However, it was not possible to tell what the impact would be.

Representative Josephson could not help but think of the State of Kansas and former Governor Brownback's effort to slash government and reduce taxes. He stressed that the outcome had been a disaster and had not been increased fiscal stability. He remarked that the other plains states had been doing much better. He highlighted that Kansas had done a 180-degree shift from the model and elected a Democrat as governor (which was rare for Kansas). He pointed out that the budget would marry the state to the price of oil. He wondered why industry should not be worried about becoming a target of new taxation to help fund what government would remain.

Mr. King replied that the idea floated in Kansas was a little different than the governor's proposal. He explained there had been an idea that cutting taxes would mean the savings would be reinvested and the reinvestment would generate growth. The governor's proposal was different because there were no taxes being cut. He explained that the governor's proposal would remove uncertainty about how the state would finance its checkbook. As long as there was uncertainty, every person with money who was willing to invest in the state, if they did not know what the taxes looked like they could not know what their returns would look like.

Mr. King continued that as long as the structural problem existed, investors had to assume their returns would be lower than the current tax rate. He elaborated that it was a deterrent to investment; if it was not clear how the state would generate revenues, it was prudent for successful businesses to anticipate that the state would take some of the earnings. Dealing with the uncertainty should generate some stability and some increased investment. He did not know to what extent it was true, but the theory supported the idea.

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Ms. Arduin stated that the Kansas situation had also been one where expenditures had exceeded revenues, which had created uncertainty.

Mr. King advanced to slide 23 and addressed expected impacts of the proposed budget. He reported that the regional impacts would be more pronounced than total state impacts. He believed many legislators were more interested in how the budget would impact their constituents. He explained that at a state level, many of the negatives in one area and positives in another would wash out, which may not be the way legislators were individually viewing the proposals. He stated the same was true at the individual level - all people would be impacted differently. He highlighted different ways impacts could be experienced such as job loss and removing \$10,000 out of the pockets of a family of four. From an economics perspective, a concentrated impact and a spread out impact elsewhere were equal; however, those things were not equal in reality and in individual perceptions.

Mr. King relayed that every available solution to solving the state's fiscal problems would result in job losses, including the governor's proposal. However, he did not believe the employment numbers would change as significantly as had been reported (after the budget passed). He reported that the budget would have negatives and positives; it was necessary to look at all of the effects in concert. The numbers in the model were static that assumed when a person lost their job their income would go to zero, but in reality, people did other things. He was not claiming job loss was preferable. He addressed that many people in Alaska were on the verge of retirement, which had been beneficial during the last recession (the state had not seen the types of consequences it may have anticipated). Moving forward, some of the same impacts would be mitigated by the same effects.

Mr. King discussed that household incomes would be higher [as a result of PFDs] and how Alaskans decided to spend the money would be up to them. He stated that whether the money turned into jobs was not a question the government should be asking. He continued that the government should be asking how it could best provide the quality of life for Alaskans. He explained that giving money to people, by definition improved their quality of life. Taking the money away and spending it on a service also improved quality of

life, but it was necessary to think about how the two things compared to one another.

Mr. King reported that the administration did not know exactly how local governments would react to the budget proposals. If the budget passed, some local governments may raise taxes, make budget cuts, or dissolve. He stated that local governments may raise taxes from the same industries the money was being diverted from. He understood that the Alaska Municipal League was looking at the issue and it was much more equipped to have the analysis. For example, he did not pretend to know the particulars of North Pole. He stated it was much better for communities that were directly impacted to bring forward what they expected the impacts to be and for the administration to weigh the impacts against what it would expect.

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Mr. King stated the analysis was underway but had not been done by his team because the administration did not know how it would play out.

Representative Josephson thought Mr. King had stated that some local governments may dissolve.

Mr. King replied that he had no idea what the local governments would do. He stated it was an option and he did not believe it was not possible, especially for a very small community with less than 50 people. He considered that if a small community was not getting any state support, the benefits of being an organized city may not be as lucrative. He did not know. He stated it was a decision that local governments would have to make. He could not tell the committee how local governments would react.

Representative Josephson stated, "The point is made for me."

Co-Chair Wilson stated the takeaway was that the administration had not done any kind of economic analysis on the proposed budget and what it would do to the state's economy.

Mr. King disagreed. He relayed that the administration had been doing analysis on what different options looked like

and had selected the option that did the least damage to the economy, which was through budget cuts.

Co-Chair Wilson requested the other analyses.

Co-Chair Wilson reviewed the schedule for the following day.

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ADJOURNMENT

3:58:31 PM

The meeting was adjourned at 3:58 p.m.