

HOUSE FINANCE COMMITTEE
March 7, 2019
1:37 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:37 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Mouhcine Guettabi, Associate Professor of Economics, Institute of Social and Economic Research; Representative Sarah Hannan.

PRESENT VIA TELECONFERENCE

Representative Kelly Merrick

SUMMARY

PRESENTATION: ALASKA ECONOMIC OUTLOOK

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Co-Chair Foster reviewed the meeting agenda. He recognized Representative Sarah Hannan in the audience.

^PRESENTATION: ALASKA ECONOMIC OUTLOOK

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MOUHCINE GUETTABI, ASSOCIATE PROFESSOR OF ECONOMICS, INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH, shared that he had a Ph.D. in economics with a specialization in regional economics from Oklahoma State University and had worked for Institute of Social and Economic Research (ISER) since 2012. His primary role was conducting economic forecasts and impact analyses and understanding the dynamics of the Alaska economy. Additionally, he studied healthcare markets and costs. He relayed he would address a 2016 analysis by ISER that looked at the economic impacts of a few fiscal options to potentially close the budget [gap]. He also intended to apply the estimates to the governor's proposed budget.

Mr. Guettabi addressed a PowerPoint presentation titled "Budget Options: What are the short term effects," dated March 7, 2019 (copy on file). He provided a presentation outline on slide 2. The presentation would address what had been done in the original analysis; potential short-term impacts and caveats; the potential simulative effects that would stem from higher dividends; and on a macro level, whether the oil induced recession was over and what the state could potentially expect if the current changes were implemented in terms of when the recession would actually end. He would give context by providing numbers from Alaska's most severe recession, which occurred in the 1980s.

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Mr. Guettabi turned to slide 3 and addressed the report he had previously referenced titled "The Short-run Economic Impacts of Alaska's Fiscal Options." The report was authored by Gunnar Knapp, Matthew Berman, and himself. He emphasized that the report focused on the short-term impacts and underscored that the analysis did not give any window into the long-term ramifications of the proposed changes (whether regarding quality of life, quality of services, the extent of the outmigration, or the potential attractiveness of the business environment). The discussion

would focus on the ramifications from, for example, removing \$100 million in government spending from the economy. He would follow the reduction through the economy to determine the total affect.

Mr. Guettabi was not simply interested in the number of jobs would potentially be reduced if six people were laid off, but in how removing \$100 million from K-12 would impact vendors working with K-12 and how it influenced spending by teachers, administrators, janitors, and people potentially who worked for the vendors. Total employment affect pertained to the combination the direct effects (the layoff or number of jobs lost as a result of the direct cut), indirect effects (the losses to vendors or suppliers, and induced effects (losses or gains in the case of the dividend as a result of household spending). He elaborated that people spent more or less money as a result of the proposed changes and the goal was to follow the dollars throughout to determine the employment effects.

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Co-Chair Wilson asked for the distinction between short-term and long-term for the current discussion purposes.

Mr. Guettabi replied that short-term was about 1 to 1.5 years. He explained it encompassed a timeframe before significant outmigration occurred, before wages started changing, and before firms started making adjustments.

Vice-Chair Ortiz asked if there was a definition of short-run.

Mr. Guettabi replied that short-run was essentially the time period before behavioral adjustments kicked in.

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Mr. Guettabi moved to slide 4 and addressed conclusions from the original March 30, 2016 ISER study. He acknowledged that obviously the world had changed a bit since that time. The report had concluded that any option that potentially took money out of the pocket of Alaskans, whether through a tax, a reduction in government, or a reduction in the Permanent Fund Dividend (PFD), would have short-term negative consequences. There were various options available to balance the budget including a tax,

reduction in PFD, or a cut in government, but all would result in taking money from different people or factions of the economy and would all have some version of a negative short-term effect. The exception was the use of savings (second bullet), which also had a tradeoff because it potentially put pressure on the Permanent Fund and jeopardized long-term returns. He explained there were variations in the negative short-term effects depending on who money was taken away from. He used an income tax and sales tax as an example and detailed that a portion of the tax would be borne by nonresidents. Whereas, reducing the PFD took money from Alaskans - low income Alaskans tended to spend a significant portion of their money. He summarized that all of the options would hurt, but the amount of hurt varied.

Mr. Guettabi continued that the deficit had been \$3 billion, and a significant portion had been solved with the percent of market value (POMV) [draw from the Permanent Fund Earnings Reserve Account (ERA)] and shifting away from oil revenues as the largest source of revenues to a more stable funding stream.

Vice-Chair Ortiz asked if there was a difference in the impact on the economy between taking money from individuals through a tax and injecting funds to individuals.

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Mr. Guettabi asked for clarification on the question. He wondered if Vice-Chair Ortiz was asking whether the negative effect of a tax increase equal in size to the positive [of injecting funds to individuals].

Vice-Chair Ortiz stated the positive effect.

Mr. Guettabi answered that he was treating them in a symmetric fashion related to the short-term (the period of time before there were behavioral responses).

Mr. Guettabi turned to slide 6 [there was no slide 5 in the presentation] and addressed the tools used to develop the ISER study. The study followed money through the economy and used a standard input/output model that captured the linkages across Alaska's economic sectors. He clarified that it was an actual model of Alaska's economy that captured how much given sectors varied against one another,

how much households spend, and what kind of things they spent money on. The model helped understand how shocks to any sector or household income reverberate through the economy. For example, in the private economy, the method was typically used to understand the economic impact of a large construction project. He used a current construction "renaissance" in Fairbanks as an example and explained the tools were used to understand the economic ramifications of such an injection. He furthered that the model considered how much money was taken from different households or the amount of reductions or increases to government that were being captured. The study followed the ripple effects in the economy and considered the immediate, indirect, and induced effects.

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Mr. Guettabi moved to slide 7 and addressed how the effects were estimated. He shared that he was often asked why the employment effects of cutting government spending were larger than those resulting from cutting the dividend. He explained that a cut in government spending had a direct reduction of a job and the spending associated with the job. In the income case (sales or income taxes), individuals experienced income shock and therefore they spent less money. There were jobs that were lost, but the initial income shock resulted in the ripple effects or spending reductions.

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Mr. Guettabi turned to slide 8 and addressed important limitations. He explained that the analysis had used what ISER termed as generic cuts rather than following a specific proposal. He referenced the second bullet point and reiterated his earlier statements that the analysis focused on the short-term and did not account for potential outmigration, prices, or wage rates. He elaborated that those items occurred in the medium to long-term. He highlighted that understanding the long-term ramifications was arguably much more important than understanding the short-term effects; however, the ability to forecast long-term ramifications was limited.

Vice-Chair Johnston asked if generic cuts used the mean average of the whole employee pool.

Mr. Guettabi replied that ISER used several ways. The first related to layoff of government workers and used the average pay of government workers. Another case removed government services, which was an amalgamation of a few different functions. A third option cut the pay of government workers. He concluded that it was not a specific K-12 or University; it was a combination of the items.

Vice-Chair Johnston asked for verification that all three went into the generic cuts.

Mr. Guettabi replied that they were modeled separately. The rule of thumb was that every \$100 million in cuts resulted in a loss of about 1,000 jobs.

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Mr. Guettabi stated that the devil was in the details and many things were unknown including the actual size of the cuts, how the cuts would be absorbed, how communities would respond to the loss in local government revenues, and how the University would respond. The questions were important, and it was not yet known whether changes would be in layoffs, pay, or any of the above. There was a great deal of uncertainty about how much, if, or what type of cuts would actually take place.

Mr. Guettabi advanced to a chart showing estimated job losses per \$100 million of deficit reduction across various options. The first four options were classified as government related and the remainder were income related including the dividend and several modeled taxes. The darker green bars associated with each option represented a low estimate and the lighter green represented a high estimate. One of the reasons the employment losses from cuts to government were large was due to the loss of the job and the income associated with the job. It was important to note that across the income options, the amount of revenue raised fell on nonresidents in some cases (e.g. taxes), which resulted in fewer short-term economic impacts.

Representative Josephson relayed that the previous day the committee had heard an economist [from the Office of Management and Budget (OMB)] talk about that individuals would make adjustments in their lives and seek other employment. He highlighted a proposed cut of 18 staff

within the Division of Agriculture under the Department of Natural Resources. He presumed the individuals would be unemployed for at least a day and some of the individuals would hopefully get other jobs. He asked if the ISER study factored those things into account or whether those items fell into the long-term category.

Mr. Guettabi responded that the study looked at ramifications from making cuts. He could not forecast how long someone would be unemployed. He noted that the backdrop was that Alaska had been in a recession for 39 months.

Vice-Chair Johnston noticed that slide 9 specified a 3 percent and 4 percent sales tax as options. She how ISER defined the flat rate income tax option on the slide.

Mr. Guettabi replied that the study had used a broad definition for income tax and had taken the same share of income across household groups.

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Mr. Guettabi moved to a chart on slide 10 showing estimated income losses per \$100 million of deficit reduction. He highlighted that PFD cuts resulted in the largest income losses because they fell on residents only - almost all other options fell on nonresidents to a certain extent. He detailed that in the modeling exercise, the high case assumed that households, depending on income bracket, saved some of their income, paid federal taxes, and spent the remainder in the economy. Whereas, the low case included some adjustments to account for how much of the spending actually occurred in Alaska.

Mr. Guettabi addressed income losses from government reductions and underscored that \$1 of compensation included retirement and health insurance; therefore, removing the \$1 did not mean that it did not hurt the individual, but the share of the \$1 spent was lower because it included some non-wage/non-spendable items.

Mr. Geuttabi moved to slide 11 and addressed effects of government cuts. He detailed that the employment graph [slide 9] included four government options. He intended to address three of the options and removed capital spending from the equation. He explained that when averaging

government layoffs, pay cuts, and broad-based state cuts, every \$100 million deficit reduction resulted in approximately 1,080 jobs lost in the short run.

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Co-Chair Wilson asked if he was meaning government would lose 1,000 jobs or the entire sector would lose the jobs. She reasoned that although the state was not providing services with the \$100 million, it did not necessarily cut the money from the economy because there may or may not be a tradeoff pertaining to the whether the private sector saw a need for whatever the government had taken out. She was trying to determine how to justify discontinuing a service. She wondered if it meant the state had to determine whether the private sector would pick a service up if it was cut from government. She wondered if that level of detail was needed to fully understand the impact of the proposed budget reduction.

Mr. Guettabi replied it was a good question about how the private sector would respond to the cuts. Currently, the discussion was about removing a certain amount of money from the economy. He considered whether they should be thinking about the cuts as absolute reductions or whether private sector would step up and cover some of the losses. Additionally, he considered whether there was even an understanding of the potential reaction to the losses from the private sector. He did not know how quickly the private sector would potentially replace the spending. He had been asked earlier in the day what signals would potentially lead to the belief that reductions were not real and there was someone else waiting in the wings to cover them. He did not know where the potential recovery of some of the losses would come from.

Co-Chair Wilson reasoned that Mr. Guettabi was speaking to the \$100 million in real numbers. She provided a hypothetical scenario where a department was cut by 50 employees, but only 30 of the positions had been funded. She thought they would have to know how much of the reductions represented real dollars and what portion existed but was never funded.

Mr. Guettabi agreed. He reiterated his earlier statement that the devil was in the details and the details in Co-Chair Wilson's example were the details that mattered. He

elaborated that knowing how the cut was implemented, whether it included layoffs and/or pay cuts, how it was done, and how much a person earned were all immensely important. The ISER analysis only helped provide an understanding of the potential aggregate effects.

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Mr. Guettabi moved to slide 12 and addressed the goal of the presentation. He stated that most of the conversation had focused on the state reductions, whereas, he thought about the economy as a whole. He was trying to understand the economic ramifications from all of the proposed changes, including how much money would be injected into the economy as a result of the higher PFD or removed from the economy as a result of the cuts. He clarified that cuts encompassed loss in federal dollars, local government revenues, and operating spending. He explained that injections meant injections as a result of using the statutory formula instead of the capped PFDs (the first payback of the PFDs). He stated that he would be making assumptions that committee members may agree or disagree with. There was uncertainty about how communities would respond and how people would spend or save PFDs.

Mr. Guettabi moved to a bar chart on slide 13 showing reductions in spending. He noted that the data used the numbers presented by the Legislative Finance Division (LFD) on February 26 to show how much the state was using in reserves and whether or not the reduction was \$1.6 billion. He elaborated that there seemed to be a fairly unambiguous reduction of \$650 million in operating budget reductions (shown in blue); \$420 million in local government revenues through the oil and gas property tax and \$28 million reduction in fish tax for a total of \$448 million (shown in red); and a loss of \$500 million in federal matching dollars (shown in green). He stated that the slide showed the amount of money that would get pulled out of the economy in the short-run.

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Representative Josephson remarked that the \$500 million in foregone federal revenue currently resided in Washington D.C., not Alaska. There was no penalty directly applied to Alaska residents' income stream. He thought it was especially damaging money to forego because it acted much

like the ERA POMV that buttressed the economy. He explained the funds did not reflect a subtraction from something else the state would have done.

Mr. Guettabi thought of federal dollars as basic dollars stimulating the economy including jobs. He was not necessarily making a judgement on the value of the dollars. His point was that there would be fewer dollars because of the loss in federal match as a result of the cuts to Medicaid. He agreed that federal dollars did not negatively affect Alaskans; the money came from the outside and a loss in federal funds would mean losing a source that did not necessarily influence Alaskans in any way.

Vice-Chair Johnston looked at the local government reductions that were shifted to the state [shown in red on slide 13]. She noted that the money would not necessarily leave the economy or the job market; it would fill a hole in the budget. She asked if ISER called the shift a job loss or more of a fund transfer.

Mr. Guettabi answered that in absolute terms someone was losing the \$448 million. He did not know how communities would respond - whether they would raise taxes, spend less, use savings, default on bonds, or other. In absolute terms, the state would be getting the money, but someone would be losing it. Arguably if the money was left in communities would have had an additional \$448 million in bank accounts and the economy.

Co-Chair Wilson stated that the \$500 million was only if the federal dollars actually existed. She stated many times federal receipts were funds the state hoped to receive. She continued that perhaps the state had been matching the funds for a long time, but the federal dollars had never actually come, and the state ended up spending the matching portion. She stated the fiscal impact depended on whether the federal funds were real dollars.

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Mr. Guettabi replied that it was his understanding that the federal funds [on slide 13] reflected real funds the state had been receiving. He detailed that most of the funds were associated with Medicaid dollars.

Representative Carpenter asked for verification that because the \$448 million was coming from local government reductions, someone was losing the money.

Mr. Guettabi replied in the affirmative. He stated that someone was losing the money.

Representative Carpenter asked who was losing the money with the loss of \$500 million in federal dollars.

Mr. Guettabi replied that the federal funds were used for payments to hospitals, physicians, and people in the healthcare industry. He explained a reduction in \$500 million would result in layoffs in the healthcare industry.

Representative Carpenter understood where the local government reductions came from. Alternatively, he wondered who was losing the \$500 million coming into the state's economy. He asked where the federal money came from. He asked if it was a free source of money.

Mr. Guettabi answered that the money came from the federal government. He explained that if the state lost the federal funds, there would be \$500 million less flowing into the state's economy.

Representative Carpenter pointed out that someone was paying for the \$500 million to come into the state's economy.

Mr. Guettabi replied it was the federal government.

Representative Carpenter asked about the impact of \$500 million coming into the state's economy from the federal government. He reasoned that someone was paying the taxes. He stated the money was not free.

Mr. Guettabi replied that if Representative Carpenter was suggesting that the money was being taken out of some other program in federal dollars, he agreed that money was scarce, and the money would have potentially been allocated to something else or the size of government would get reduced.

Representative Carpenter stated that the larger issue was receipt of \$500 million in federal funds with no impact to the economic base or community on a state or federal level.

He stated it was shown as a large chunk of guaranteed money that could be lived with. He stressed there was a cost associated, but they were not considering where it was coming from.

Co-Chair Foster thought Representative Carpenter was saying the federal money was coming from taxpayers and was asking about that impact.

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Co-Chair Wilson thought Representative Carpenter was asking the impact if taxpayers were not paying extra tax for the \$500 million to come in. She assumed it would mean the federal tax liability would be less because the federal government did not need it, which she would find refreshing. She thought the question was that if a taxpayer was not having to pay in for the \$500 million whether it would change the economy.

Mr. Guettabi answered that Representative Carpenter and Co-Chair Wilson were correct that he was not looking at the potential savings to individuals if foregoing the \$500 million would mean taxpayers would pay less federal tax. He was not taking that into account.

Vice-Chair Johnston stated it was necessary to realize the state brought in more federal dollars than it paid out to the federal government. She did not believe residents paid close to \$500 million in income taxes.

Representative Knopp expounded on the question by Representative Carpenter. He asked if it was fair to say there would be no economic impact locally if the federal government did not change their tax laws and remained status quo. He reasoned "if we were going to pay it regardless if we got it back, there would be no economic benefit," unless the federal tax structure rates changed. He thought a change in the federal tax structure would be needed to make the scenario beneficial.

Mr. Guettabi stated his understanding of the question. He thought Representative Knopp was saying that if getting the \$500 million meant an increase in tax liability by Alaskans, there would be no gain by receiving the \$500 million.

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Representative Knopp clarified his point that there would be an impact to Alaska's economy if it did not receive the \$500 million in federal funds. He reasoned that if the state did not receive the funds and the federal tax rate did not change, there would be no economic benefit by not receiving the federal funds. He was responding to an earlier statement that there was no free money. He explained that the state could give the funding back to the federal government, but [without a federal tax structure change] Alaskan taxpayers would still be sending money to the federal government anyway. He emphasized there was no economic benefit to not taking the money.

Mr. Guettabi did not disagree.

Representative Josephson highlighted that if the state did not have the \$500 million, people would get sick, go to the hospital, and insurance premiums would rise. He explained that people would receive care when it was an emergency rather than preventative and someone would pay for the care.

Mr. Guettabi stated that if the loss in federal dollars potentially resulted physicians or clinicians laying off people or seeing fewer Medicaid patients or other patients, which somehow resulted in people using emergency rooms, overall costs would increase. He reported that the use of emergency rooms had been found to increase overall costs. He continued that if the reductions potentially changed behavior and resulted in overuse of emergency rooms, it was not a good thing in any environment where the state was already paying a \$3,000 healthcare premium over the national average.

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Mr. Guettabi moved to slide 14 specifying that the ISER report excluded school debt reimbursement and debt service, capital budget reserves, and use of reserves. He referenced the LFD presentation that had shown \$70 million in school debt reimbursement and debt service; the items had not been factored into the presentation due to large uncertainties around how the issue would be handled. He noted that the FY 20 capital budget was about \$188 million lower than the FY 19 budget. Additionally, the LFD presentation had shown the

state was using about \$352 million in reserves. The presentation did not factor in the use of savings because it did not take money from anyone; therefore, it did not have short-term negative effects.

Mr. Guettabi turned to a bar chart on slide 16 [there was no slide 15] and considered the employment impacts. He intended to use employment numbers he had presented earlier in the presentation by applying them to the reductions. He used the estimate of 1,086 jobs lost per loss of \$100 million. The blue bar used a \$650 million reduction in agency operation spending and multiplied the figure by the 1,086 jobs lost per \$100 million. He noted the chart treated the local government revenues as actual losses [red bar]. He considered that perhaps certain communities had savings and maybe they would not spend all of that money so the reductions would not be true reductions. He explained that the figures likely showed an upper bound of the potential effects if the funds were treated as genuinely coming out of the economy. He continued that if communities had the capacity to potentially raise taxes, the losses would not be as large - the job losses would be closer to 3,000 instead of 4,865. He noted that the capacity to raise taxes varied between communities.

Mr. Guettabi addressed the bar showing projected employment losses resulting from the loss of federal dollars (shown in green). He reported that for every \$100 million lost in federal funds there was a loss of about \$1,000 jobs. The slide showed the potential jobs removed from the economy in the short-run if ISER's 2016 estimates were applied to the money that would no longer be circulating in the economy.

Mr. Guettabi turned to a table on slide 17 showing a breakdown of employment losses from reductions. The reductions included \$650 million from the operating budget, \$448 million from local governments, and \$500 million in federal dollars. He pointed out there was a question about how localities would absorb the losses - he did not believe anyone had a good sense about what portion of the losses would be covered by reductions, tax increases, or the use of savings.

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Representative Sullivan-Leonard looked at the state operating budget reductions showing a total job loss of

7,059 [slide 16]. She asked if the figure could be broken down to show which area of the state would have the largest loss.

Mr. Guettabi explained he had not done a regional analysis because the budget had been out for several weeks and he was trying to apply previous research to calculate some of the figures. He confirmed that if ISER had more information about how the cuts would potentially be implemented, he would have the ability to do a regional assessment that would potentially be more informative.

Mr. Guettabi looked at slide 18 and addressed how much each borough would have to raise taxes in order to replace state aid. For example, the North Slope Borough would lose \$372 million and would need to generate a tax of \$35,972 per person in order to replace lost revenues. The numbers in red showed the tax necessary to replace lost revenues. He clarified that the slide did not claim the method would be used by the borough. The data used the potential losses in oil and gas property taxes and divided them by the population.

Representative Knopp observed that the slide used the entire population for the Kenai Borough including children. He noted that the number was significantly more than the number of taxpayers.

Mr. Guettabi replied in the affirmative. He advanced to slide 20 [there was no slide 19] and addressed the short-term economic effects of higher PFDs using ISER's 2016 analysis. Under the proposed budget, Alaska residents would receive \$2,932 (if the statutory formula was used) instead of the \$1,800 that they would have received if the dividends were capped. Alaskans would receive an additional \$1,061 to pay back for previous capped dividends. He explained that it would mean each person would receive an increase of about \$2,193, which translated into an additional \$1.348 billion in the economy if 615,000 people received the PFD.

Vice-Chair Ortiz asked if the number included an average federal income tax of 20 percent.

Mr. Guettabi replied that the data only included the overall amount of money of money being sent to people before removing taxes. The data showed how much more money

people would have in their bank accounts if the checks were sent out. He noted that the figure was in addition to what the PFD would have been.

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Mr. Guettabi advanced to a bar chart on slide 21 and looked at additional dollars in people's bank accounts due to higher PFDs. The additional dollars resulting from using the statutory formula would be about \$696 million and the additional dollars due to the payback dividend would be about \$652 million, which totaled \$1.34 billion. He noted the increases were marginal, meaning above and beyond what the dividend potentially would have been.

Mr. Guettabi moved to a bar chart on slide 22 and considered the short-term impacts of the higher PFD. He reported that the original ISER analysis found that for every \$100 million increase in the PFD, the average number of added jobs was 725 in the short-term. The chart showed the added money to the average increases per \$100 million. He explained that the chart factored in the increases from using the statutory formula and from the payback [dividend]. The result was 9,700 jobs in the short-term as a result of the larger injection.

Mr. Guettabi briefly referenced a table on slide 23 that provided a breakdown of the calculation used on slide 22.

Co-Chair Wilson referenced the PFD data used and asked if there was historical data available as well. She thought it would depend on the money that remained in Alaska versus money that was spent online or put in savings accounts.

Mr. Guettabi replied that the analysis treated the PFD as an income injection. The analysis projected the number of jobs that would get created if residents received the additional money (including assumptions about savings and taxes). There was a separate paper that included the exercise Co-Chair Wilson was asking about - it looked at how employment in the months following the [PFD] distribution change as a result in the variation of the size of the PFD from 1990 to present. The analysis used real employment fluctuations in response to changes in the size of the PFD.

Mr. Guettabi advanced to a bar chart on slide 24 showing employment changes from declines in state spending, loss of local government revenues, federal revenues, and employment gains from higher PFDs. He explained that the economy would have 7,000 fewer jobs if the proposed changes were put together. The number included the 9,700 jobs added through PFD gains, and \$16,000 jobs lost as a result of the losses from spending reductions. He clarified that the number was not solid, there were uncertainties surrounding how people spent their PFDs (i.e. if they spent the PFD and how much they spent). He noted there was uncertainty about what type of reductions were actually taken from the changes in operating budget, local government, and federal funds.

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Representative Knopp noted that the previous day Ed King, Chief Economist, OMB had presented a chart showing the effects of an injection into the economy and the growth of jobs. He noted a specific timeframe had not been included. He shared that Mr. King had reported that how fast and deep the waves were depended on the rate the money left the market. He wondered whether numerous short-term injections (that lasted a quarter or six months at the rate the money left the market) caused significant damage to the economy. He detailed that injections resulted in a spike in the economy annually. He asked if the injections were harmful to the economy and caused uncertainties.

Mr. Guettabi answered that from the perspective of an economist anything potentially adding uncertainty was bad for households and businesses. He did not know it to be the case that PFDs created uncertainty. There was uncertainty about the exact PFD amount, but people could fairly easily determine the amount if the statutory formula was used. He shared that it was hard for him to think about injections of money into the economy as a bad thing. He noted that the state was in an environment where it was trying to determine how to allocate scarce resources. He explained that the types of jobs gained, and the types of jobs lost were not necessarily the same thing. He detailed that job gains resulting from the PFD were in the retail sector, paid about \$2,600, and lasted about three months compared to government jobs that paid an average of \$4,700 per month. He thought the exercise was useful to think about impacts on employment, but "a job is not a job, is not a

job." He did not believe the yearly fluctuation resulting from the [PFD] injections created economic uncertainty.

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Vice-Chair Johnston asked if there was any way of looking at the PFD as universal basic income. She wondered if it was possible to use some of the theory behind universal basic income to inform projections.

Mr. Guettabi responded that ISER had a research program looking at the socioeconomic impacts of the PFD because it had been approached by people who were thinking about universal basic income. He explained that countries, states, and Silicon Valley were very interested in the PFD. The research agency had looked at the PFD's impacts on child obesity, crime, and labor. Additionally, ISER planned to begin a few papers looking at the impacts on healthcare usage. He noted that the dividend was not big enough to be basic, but it was universal. Realistically, no state could pay more than the dividend provided in Alaska. Whatever model was implemented would likely be the same scale as the PFD.

Representative Josephson stated that in some respects 7,000 did not seem like that many, but it was the equivalent of everyone in Seward and Homer including infants. He believed Mr. Guettabi was indicating that the types of jobs [created by a larger PFD] were inferior in terms of the quality of life they provided.

Mr. Guettabi clarified that the long-term nature of the jobs that would be lost was different than those that would be created. He explained that jobs that would be created would be temporary retail jobs and the wages would be lower than wages of jobs that were lost.

Representative Josephson stated that much had changed since 1982 and speculated that every legislator would like to pay a \$2,100 dividend. He stated that if the amount was affordable there would be few reasons to not pay it. He discussed that some of the public had adjusted to a lower dividend because of the former administration's veto of the higher PFD in 2016 and the legislature's refusal to override the veto, in addition to the legislature's own actions in the last two years. He thought that the full dividend (albeit statutorily prescribed) was a phantom

until it happened. He wondered if there was any way to calculate the economic impact. He stated that the public may believe there would be a larger dividend because of the new administration, but they may also realize that politics could get in the way. He did not believe it could be a shock to most Alaskans to not receive a full dividend.

Mr. Guettabi that he did not have a complete answer to the question related to expectation of the size of the PFD and how it potentially influenced how people spent or did not spend their dividends. He communicated that there was quite a bit of work that tried to isolate whether or not expected income was treated differently than an unexpected surge in money. He did not know what Alaskans thought about the size of the PFD and whether the expectation was real or not. He reported there was uncertainty about the extent that the current recession and governor's proposed budget changes would influence how much of the dividend would make it into the economy. He did not know if the number was more or less, but the current environment had a non-negligible amount of uncertainty, which impacted behavior at the business and individual level. He clarified that the analysis did not gauge those factors.

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Vice-Chair Ortiz understood that the 7,146 in job losses was an estimate [slide 24]. He asked if the actual number was equally likely to be higher or lower.

Mr. Guettabi answered there were two potential sources of uncertainty. First, which of the factors [on slide 24] actually happened including whether the dividend was paid back and whether communities lost local revenues. He continued that the number would be negative regardless of how much uncertainty existed on both sides. He did not know whether the number was between 5 and 10 or 3 and 15. Directionally, it appeared that the combination of the factors would result in negative short-term consequences. He clarified that the amount of money the proposed changes would take out of the economy, regardless of actions taken, would lead to negative short-term effects.

Representative LeBon asked if ISER had ever given economic thought to a change in the program where quarterly distributions were made as opposed to an annual lump sum distribution. He wondered if it would change behaviors. He

mentioned Mr. Guettabi's testimony related to the increase in retail employment following the October PFD distribution. He asked if people would spend the PFD money differently.

Mr. Guettabi replied that ISER had received the question numerous times because a number of states and countries considering universal basic income were thinking about the proper structure. He reported that ISER had limited insight about how people would change their behaviors. He noted there were other programs to learn from - there had been changes in the schedules of [indecipherable] payments and other types of transfers that potentially provide insight on how people spend the money and whether or not money was fungible (i.e. whether the injection was treated the same way as regular wages). Currently, he did not have a complete answer regarding how much of the money would go into retail and savings.

Mr. Guettabi referenced a crime paper produced by ISER and reported that in the weeks following the distribution of the PFD, substance use crimes increased slightly, and property crimes decreased slightly. On an annualized basis, the numbers were very small. One of the takeaways of the specific analysis was that spreading out the payments throughout the year could potentially remove the slight increase in substance use crime, while continuing to see a small reduction in property crime. He underscored that the data was crime specific and did not say anything broadly about the program. He reiterated that the effects identified by the analysis were very small.

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Representative LeBon noted that the dividend program had changed substantially over the years. He recalled when paper checks and long lines at the bank. He remarked that the paper piece of the program had all but disappeared due to automatic deposits. He thought it could be modified to a quarterly program and speculated that most of the money would be spent in Alaska on necessities versus on a new snow machine.

Mr. Guettabi moved to slide 25 and discussed the comparison and estimate. He did not want the takeaway to be the 7,146 [job loss projection]; the analysis was an attempt to put the pieces together. He highlighted that the types of jobs

created and lost were not necessarily the same. He reported that ISER's most recent work showed that the effects were fairly concentrated in the months after the [PFD] distribution. He clarified he was only talking about employment effects and was not comparing the value of government services to the value of the PFD. He referenced the question of uncertainty and whether or not it resulted in people spending the money or saving it if they believed they were going to lose their jobs. He emphasized that understanding how communities would potentially respond to the spending cuts was a large piece of the conversation. Additionally, the amount of federal funding the state would lose was also a big question. His understanding was that \$500 million was a good estimate, but it could be larger.

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Mr. Guettabi advanced to a bar chart on slide 27 [there was no slide 26] and discussed the current recession for context about what the numbers meant. The chart showed his forecast prior to the release of the governor's proposed budget and did not include any large reductions or injections. He pointed out that in 2016 the state lost about 1.8 percent of its jobs (actual reductions) and about 1.2 percent of its jobs in 2017. He expected that the final numbers for 2018 would show the state had lost about 0.8 percent of its jobs. Prior to the governor's proposal, he had expected the recession would end in 2019 and the state would gain about 0.8 percent jobs (2,700 or 2,800 jobs) if the economy was not shocked in any way. He highlighted the forecasted bars [shown in red] for 2019 to 2025. He noted his expectation that growth would be small. He explained it would have taken four or five years to recover the 12,500 or 13,000 jobs lost between 2015 and 2018 due to the oil induced recession.

Co-Chair Wilson stated that OMB had testified that the private sector would pick up the slack. She asked if there was anything to show in recent years that it would be true.

Mr. Guettabi replied that he did not know the process through which that would happen. He interpreted it as a vision as opposed to an analysis that showed the private sector would increase spending due to less government spending. He did not understand the process by which there would be elevated levels of spending by reducing government spending.

Co-Chair Wilson thought that if the private sector were to cover for a decline in government spending that it would have already started happening. She pointed out that the chart [on slide 27] did not show that to be the case.

Mr. Guettabi agreed. He looked at the two negative blue bars on slide 27 [for 2016 and 2017] and detailed that the first wave of the recession was oil and gas specific, which had resulted in job loss in professional and business services, construction, and government. Whereas, the current recession was almost retail specific. He elaborated that the state was in the downstream section of the recession where jobs were lost in the high paying sectors and the reductions in spending were making it into retail. While there had been positive turns in oil and gas and construction in the past six months, the increases were still fairly small; the increases had not been large enough to offset losses in retail.

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Representative Josephson thought each job loss would be a case by case analysis. For example, if Division of Motor Vehicles was privatized (which he opposed) people would still need driver's licenses and the private sector would have to fill the need. Whereas, if classes shrunk and a physics teacher was dismissed at the University of Alaska-Fairbanks, there was not a market for private sector for physics professors. He asked if it was fair to say that what the private sector picked up would be entirely dependent on the nature of the work.

Mr. Guettabi agreed. He detailed that if there were measures implemented in order to create private versions of public services, the jobs would be replaced. His prior response had been about whether there was a natural process where lost government services would be picked up by the private sector. He stressed that the economy was very fragile and had been in recession for 39 months. He explained that it was not as though the state had been growing rapidly and an immediate response or recovery could be expected.

Mr. Guettabi turned to slide 28 and addressed the current state of the economy. Since the start of the recession the state had lost 1.82 percent of its jobs in 2016 and 1.25

percent in 2017. He expected to see that employment had declined by 0.8 percent in 2018. Before the governor's proposed cuts had been announced, he had anticipated small positive growth of 0.8 percent (2,700 or 2,800 jobs). He had projected growth going forward to be positive but fairly small. He detailed that the growth would have included a combination of oil and gas activity, stabilization of the retail sector, and positive shocks in Fairbanks due to construction.

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Mr. Guettabi highlighted a short summary of employment losses from 2015 to 2018 on slide 29. He emphasized that if 7,000 jobs were lost due to the proposed changes, the recession could potentially become Alaska's most severe recession. He highlighted that Alaska's most severe recession to date had taken place in the 1980s where the state had lost about 19,000 wage and salary jobs in the space of two years. The current recession had been longer, but milder. He expounded that the current recession had lasted much longer, but when looking at all metrics including stability of the housing market, the number of jobs, and outmigration, the economy had held up well. There were numerous explanations for that. He had argued from the beginning that the floor of economic activity was much higher at present, there was spending by people over the age of 65 that provided a cushion, and there were much larger Native corporations. Those things provided sources of income that allowed the economy to absorb some of the losses. He considered the potential implications if the projected job losses were tacked onto the job losses that had already occurred. He questioned whether there was a potential for the oil induced recession combined with the spending recession to become the state's most pronounced recession.

Representative LeBon stated that one factor that created a collapse in Alaska's economy were very strong capital budgets in the first half of the 1980s that had fueled a level of economic activity that included speculative real estate spending. He pointed out that the banking community had not helped (he had been a banker at the time). He reported there had been aggressive lending and speculative real estate deals and land development loans. He recalled that seven or eight banks had been lost during that period.

He underscored that the current recession was nothing like the one in the 1980s.

Vice-Chair Johnston spoke to the differences between the current recession and the recession in the 1980s. She discussed that in the 1980s there had been a huge shock to the economy in the 1980s that had gone on for close to ten years. She elaborated that massive wealth had come into the state that had resulted in excessive spending. She discussed that individuals hired in the 1980s were retiring and remaining in Alaska versus moving out of state. She believed there was a maturing of the population.

Mr. Guettabi stated it was difficult to showcase the increased number of multigenerational families in a model. There was more "stickiness" of the population, which made the state better able to absorb some of the shocks. However, he questioned whether it changed if job losses and the recession continued.

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Vice-Chair Johnston thought the stickiness of the population could be fragile if the opportunity for the generations went away (e.g. if the children or grandchildren left the state).

Representative Knopp reported that he disagreed with the ISER report from 2016 and thought information had been left out. He stated that the report had focused on short-term economic impacts to the loss of the dividend. He recalled that everyone had said the worst thing to do to the economy was to shorten dividend checks. He elaborated that the report had not addressed what happened if some of the dividend had to be used to maintain jobs or the impacts of losing some of the jobs. He thought the report was incomplete. He looked at slide 29 that showed additional job losses of 7,000. He understood the losses resulted from the loss of funds for communities. He pointed out that the analysis did not cover how the elimination of the Alaska Marine Highway System would impact economies and people (trickle down effects). He asked for verification that the analysis only touched the surface of the potential economic disaster that could take place.

Mr. Guettabi replied that Representative Knopp was correct that it was an incomplete assessment of the potential

consequences. He emphasized that the analysis was short-term and did not speak to how people would react, how many people would out-migrate, and what would happen to the quality of life or the quality of services. He underscored that the items were much more important than the short-term, but the ISER study and the presentation stopped short of getting there.

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Mr. Guettabi turned to slides 30, 32, and 33 [there was no slide 31] and highlighted that the current economy and the economy in the 1980s were different. He referenced the out-migration and the severity of the 1980s recession and emphasized that the economy was much smaller with only about 260,000 jobs compared to the current number of around 330,000. He stressed that the diversity of the Alaska economy was much more pronounced, but prior to the use of POMV, it did not have a diversified revenue stream. He reiterated that the environments were different, but he believed considering the last severe recession was potentially useful.

Mr. Guettabi noted that the recession in the 1980s had been much shorter and much more severe. There had been a much larger out-migration meaning that the recession lasted longer and impacted the housing market. He explained that recessions typically spread through the housing market, which made it harder to get out of a recession. He elaborated that when housing prices dropped it became hard to get equity out of homes. The situation had not occurred during the current recession - the average housing price had held up well. There had been some out-migration, but not on the scale of the 1980s.

Mr. Guettabi summarized the depth of the housing market downturn in the 1980s on slide 34. There had been a significant number of vacancies and foreclosures. There were clearly different drivers in the two recessions, but the 1980s recession had resulted in significant negative consequences in the short-term and long-term. He reported that ISER did not have a way of forecasting what was to come, but the state had already lost close to 13,000 because of the oil induced recession and it would potentially lose more jobs as a result of the governor's proposed changes.

3:00:40 PM

Mr. Guettabi concluded his presentation on slide 35. He relayed that ISER did not do policy prescription and aimed to provide an objective assessment. He pointed out that all of the options to close the budget gap would take money from somebody and would result in short-term negative consequences. He elaborated that there would be regional and statewide effects. The analysis tried to be as broad as possible. He reminded the committee that the state's economy was still fragile. He shared that he had done a report six months earlier comparing Alaska's recession to other energy dependent states. He highlighted that every other state had already started gaining jobs. He reported that Alaska was already lagging behind prior to any of the proposed budget cuts. He stressed that the job losses were only one element of the equation; how the issue was weighed mattered differently to different people.

Mr. Guettabi relayed there were long-term considerations but understanding how the changes would impact the economy in the short-term was important. There was still considerable uncertainty about which changes would actually take place. He stated that thinking about the long-term implications, which he could not help with, was just as important. He noted that economists were relatively good at answering "what is" as opposed to "what should be." He remarked that he was in no position to talk about what should be.

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Vice-Chair Johnston noted that Mr. Guettabi had told Co-Chair Wilson he may have a follow up with historical information. She wondered if he would present the information during the current meeting.

Mr. Guettabi replied that the document was a yet-to-be published and he offered to share with the committee. He explained that the document had not been made public because it was in the editing stage. He reported that in the three months following the PFD distribution, an additional \$1,000 in the PFD resulted in women with young children working one hour less per week on average. There were no effects on the number of women who work. He shared ISER's assumption that the change had to do with people choosing to spend a bit more time with their children.

There was no change in the number of hours men worked, but for every additional \$1,000, the share of men who work increased by about 1.8 percent. The economy had about 330,000 people and a bit less than half were men, which equaled about 2,800 jobs in the short-run for every \$1,000 increase in the PFD. There were gendered effects, the additional jobs were concentrated amongst men, and the share of men who work increased.

Co-Chair Foster thanked Mr. Guettabi for his presentation. He reviewed the schedule for the following day.

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ADJOURNMENT

[3:06:40 PM](#)

The meeting was adjourned at 3:06 p.m.