

SENATE FINANCE COMMITTEE

March 6, 2019

9:02 a.m.

[9:02:05 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Click Bishop  
Senator Lyman Hoffman  
Senator Peter Micciche  
Senator Donny Olson  
Senator Mike Shower  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Dan Robinson, Chief of Research and Analysis, Department of Labor and Workforce Development; Ed King, Chief Economist, Office of Management and Budget; Donna Arduin, Director, Office of Management and Budget; Bruce Tangeman, Commissioner, Department of Revenue; Senator Cathy Giessel; Senator Mia Costello; Senator Gary Stevens; Senator Chris Birch.

SUMMARY

^ECONOMIC OVERVIEW OF GOVERNOR'S PROPOSED OPERATING BUDGET

[9:06:42 AM](#)

DAN ROBINSON, CHIEF OF RESEARCH AND ANALYSIS, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, discussed the presentation, "Alaska's Economy: Insight from Current and Historical Data" (copy on file). He stated that the bulk of

his work was related to producing economic data. That work was done with federal partners. He noted that he was non-partisan and policy neutral.

Mr. Robinson highlighted slide 2, "The long view of AK population change."

Mr. Robinson addressed slide 3, "First Question: How healthy is our economy?"

Mr. Robinson looked at slide 4, "Three plus years of job losses."

Mr. Robinson highlighted slide 5, "Losses/gains have varied throughout state":

Total Job Loss or Gain by Alaska Area since 2015

Boroughs and census areas, based on the first three quarters of each years 2015 to 2018

[9:14:48 AM](#)

Senator Micciche wondered the metric only included the first three quarters.

Mr. Robinson replied that it was the most current data for 2018 in order to make the consistent comparisons.

Mr. Robinson addressed slide 6, "Six years of migration-related losses."

Co-Chair Stedman asked whether the resident and non-resident were parsed out. He noted the job impacts on the North Slope.

Mr. Robinson replied that "residents" were in the census definition. He stated that Alaska had between 35 and 40 percent of the oil and gas were not residents. He furthered that percentage dropped from 37 percent in 2016 to approximately 33 percent when the job losses began.

Co-Chair Stedman looked at slide 5, and noted 4248 in the North Slope.

Mr. Robinson corrected that the number referred to jobs.

Co-Chair Stedman wondered whether some of those jobs were filled by non-residents.

Mr. Robinson replied in the affirmative.

Senator Micciche assumed that outmigration was the same migration. He surmised that the residents could be eligible for the Permanent Fund Dividend (PFD).

Mr. Robinson replied that the census definition of residency was used in the slide.

[9:20:14 AM](#)

Senator Micciche asked whether the department had collected data related to who was leaving Alaska.

Mr. Robinson replied in the affirmative. He spoke specifically to those working in the oil and gas industry.

Mr. Robinson discussed slide 7, "We rank 50th in job growth from 2015-18."

Mr. Robinson highlighted slide 8, "Second question: What's been the problem?"

Mr. Robinson looked at slide 9, "Can we just blame oil?"

Co-Chair Stedman remarked that Wyoming was a coal state, so he did not feel it was a fair comparison.

Mr. Robinson replied that Wyoming was a natural resources state.

[9:25:42 AM](#)

Co-Chair Stedman wondered whether Wyoming had the same natural resource ownership structure as Alaska.

Mr. Robinson replied that Wyoming did not have the same structure.

Co-Chair Stedman noted that Alaska was the only state that owned its subsurface.

[9:26:59 AM](#)

Mr. Robinson replied in the affirmative.

Mr. Robinson addressed slide 10, "One more comparison..."

Mr. Robinson discussed slide 11, "A study of state-level recessions."

Mr. Robinson discussed slide 12, "A study of state-level recessions."

Mr. Robinson looked at slide 13, "So why is our recession lingering?"

- Uncertainty related to foundational questions about the amount of state government we're going to have and how we're going to pay for it
- Economic costs related to some of the measures already taken

[9:32:59 AM](#)

Co-Chair von Imhof looked at the first bullet, and wondered to what degree that it was self-inflicted versus external uncontrollable forces.

Mr. Robinson stressed that typically Alaska's recession was driven by factors outside of its control, such as prices and the cruise industry. He felt that this factor was within Alaska's control.

Co-Chair Stedman queried definition of "recession" within the presentation.

Mr. Robinson replied that there was no formal definition of a state-level recession. He stated that his definition was "over three quarters of employment loss."

[9:35:33 AM](#)

Co-Chair Stedman queried the definition of a federal recession, and why there was a difference.

Mr. Robinson stated that the National Bureau of Economic Research that became the acceptable recession determining committee. There was an examination of employment and

international trade. That organization did not determine and end date for a recession until after approximately nine or ten months later.

Co-Chair Stedman asked whether there was a difference in the state and federal measurement periods.

Mr. Robinson replied in the negative.

Mr. Robinson highlighted slide 14, "Third question: Are we coming out of our recession?"

Mr. Robinson discussed slide 15, "Looks like a recovering economy."

[9:39:56 AM](#)

Co-Chair von Imhof requested the factors used to calculate the gross domestic product (GDP).

Mr. Robinson replied that gross domestic product was the value of all the goods and services produced in the state. He stated that it did not mean that all the value remained in the state.

Co-Chair von Imhof noted the drop in 2015, and she assumed it was the price of oil. Therefore, the total value of the oil being produced at the time relatively remained consistent. She guessed that the large drop was due to oil prices.

Mr. Robinson replied in the affirmative.

Co-Chair Stedman recalled that at oil prices affected the GDP.

Mr. Robinson noted that the category that included oil swung wildly in GDP.

Senator Micciche wondered whether the POMV helped with the state.

Mr. Robinson replied that the state did something very important with the POMV, because there was a new revenue stream that was not directly tied to oil.

[9:45:52 AM](#)

Mr. Robinson addressed slide 16, "Our forecast for 2019 employment, but..."

Mr. Robinson looked at slide 17, "How accurate are our forecasts?"

Mr. Robinson discussed slide 18, "Proposed budget would change forecast."

[9:49:27 AM](#)

Senator Wielechowski noted that ISER had stated that approximately 1086 jobs were lost for every \$100 million in budget cuts. He wondered whether Mr. Robinson agreed with that statement.

Mr. Robinson replied that he could not speak for ISER. He stated that his approach was less from a modeling perspective than from an historical pattern perspective.

Senator Wielechowski queried an impact to the jobs in Alaska with a \$1.1 billion budget cut.

Mr. Robinson remarked that there was a contemplation about how it would be changed, and so he did not want to make an estimate or assertion about the impacts of the individual cuts.

Mr. Robinson looked at slide 19, "Case study of PFD's short-term job impact."

Mr. Robinson highlighted slide 20, "Case study of PFD's short-term job impact."

[9:56:00 AM](#)

Co-Chair von Imhof wondered what would change if the dividend was paid out in smaller payments versus one big sum.

Mr. Robinson replied that the PFD had been studied as universal basic income. He remarked that there was not much study on how the PFD was spent. He remarked that it was not spent to a high degree right away in Alaska.

Senator Bishop commented that it would be nice to analyze where the money went.

Mr. Robinson concluded his presentation.

Co-Chair Stedman stated that there was a request for an analysis about how the dividend was spent.

Mr. Robinson replied that there was a consideration about how the analysis would be done.

[9:59:23 AM](#)

Senator Hoffman looked at slide 7. He noted that the university directly supported 7500 jobs with an annual wage of close to \$350 million. He remarked that when jobs linked to the university, the university supported 15,800 jobs at a total wage of \$630 million. He wondered whether Alaska was further south than what was represented in the slide.

Mr. Robinson replied that it was related to the details about how the budget would impact jobs.

Senator Hoffman stressed that the university was one of the largest employers.

Mr. Robinson replied that the forecast would have been more in the negative.

Senator Hoffman did not know that the forecast would occur, but was proposed by the administration.

Senator Wielechowski requested a changed forecast under the proposed budget.

Mr. Robinson replied that he had never done that, but agreed to talk about the possibility.

Co-Chair Stedman asked whether it could be included in the presentation.

Mr. Robinson stated that it was not economic modeling, rather it was trend analysis.

[10:04:47 AM](#)

Senator Micciche looked at slide 15, and the possibility of work to get out of the recession. He wondered whether there was a significant destabilization that would cause additional downward response.

Mr. Robinson replied that most of the attention was on the industry's actions.

Senator Micciche wondered whether a 30 percent reduction in state spending would send a signal negative investment signal to industry.

Mr. Robinson replied that it was disruptive.

Co-Chair Stedman felt that it was not an economic stimulus, rather it was an economic retardant.

Mr. Robinson replied that it was accurate.

Co-Chair Stedman encouraged the committee to have decorum during the presentation.

[10:10:59 AM](#)

ED KING, CHIEF ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET, introduced himself.

DONNA ARDUIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, introduced herself.

BRUCE TANGEMAN, COMMISSIONER, DEPARTMENT OF REVENUE, introduced himself.

Mr. King discussed the presentation, "State of Alaska; Office of Management and Budget; Macroeconomic Impact of Fiscal Options; Presentation to the Senate Finance Committee; March 6, 2019; Chief Economist Ed King" (copy on file).

[10:13:38 AM](#)

Mr. King looked at slide 2, "ISER Report." He displayed the Institute of Social and Economic Research (ISER) report.

Mr. King highlighted slide 3, "Illustration of a 10x Multiplier Effect":

Takeaways:

1. It can takes years for the full indirect and induced effects to materialize
2. Stopping an injection always creates the basis for a recession (spending trap)
3. If the injection comes from a draw elsewhere in the same economy, there are offsetting effects

[10:19:29 AM](#)

Mr. King discussed slide 4, "Implied Net Impact of Increasing Spending by Decreasing PFD (per \$100 million)."

Mr. Kind looked at slide 5, "Comments on ISER Report":

- The numbers in the report are commonly misunderstood
  - Be careful when looking at jobs numbers
  - Ensure you are making a realistic comparison
  - Timing matters
- The ceteris paribus assumption only holds in a synthetic environment\*
  - Behavioral responses are important
  - Not all dollars/jobs/programs are equal
- All models endeavor to provide insight, not instruction
- Consider long-term impacts as well
- The comparisons between tax types is valuable
- The strength of this report lays in the distributional analysis

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Mr. King continued to discuss slide 5:

- Be careful when looking at jobs numbers
- Ensure you are making a realistic comparison
- Timing matters
- The ceteris paribus assumption only holds in a synthetic environment\*
  - Behavioral responses are important

- o Not all dollars/jobs/programs are equal
- All models endeavor to provide insight, not instruction
- Consider long-term impacts as well
- The comparisons between tax types is valuable
- The strength of this report lays in the distributional analysis

[10:25:38 AM](#)

Co-Chair Stedman remarked that ISER would be in the committee the following day.

[10:26:06 AM](#)

Mr. King continued to discussed slide 5. He wanted to be sure that people understood the ISER analysis.

Mr. King highlighted slide 6, "The No Change Scenario; Avoiding budget cuts without addressing the structural issue."

[10:29:23 AM](#)

Senator Bishop wondered whether SB 26 solved most of the problem in the previous legislative session.

Mr. King replied that it solved half of the problem.

Co-Chair Stedman felt that the slides should be kept in order.

Senator Bishop agreed that there may be a difference of opinion of how much of the problem had been solved.

Co-Chair Stedman remarked that there was an expectation of roughly \$300 million deficit, because there were more recent favorable issues. He looked at FY 20, which showed a \$1.6 billion deficit with a PFD payout of \$3000. He queried the reason behind the equal lines for FY 19 and FY 20.

Mr. King replied that the numbers on the slide represented the UGF expenditures versus the UGF revenues.

Co-Chair Stedman stressed care in using acronyms.

Mr. King stated that the UGF was the discretionary funding.

Senator Hoffman assumed that SB 26 was status quo with the draw from ERA.

Co-Chair Stedman queried a definition of SB 26.

[10:35:17 AM](#)

Mr. King explained that SB 26 gave permission for the legislature to transfer money from the ERA to the GF of the state to be used to cover the expenditures in the state. The requirement in that statute was that the transfer for the next fiscal year could not exceed 5.25 percent of the lagging five-year rolling average of the balance of the Permanent Fund. Moving forward, that would be reduced to 5 percent beginning in 2021.

Senator Hoffman wondered whether it was assumed that the dividend be \$1600 per year.

Mr. King replied that the PFD was not UGF in the graph, rather it was an off-book transfer from the ERA to the dividend fund.

Senator Hoffman stated that the governor tied the legislature's hands if they could not consider additional income and other allocations. He felt that the legislature needed to make those considerations.

Mr. Tangeman agreed that the governor presented his solution, and expected the legislature to engage and create their own solutions.

Co-Chair von Imhof wondered how all the proposed cuts would impact the economy across the state, and wondered when that conversation would occur.

Mr. Tangeman replied that the presentation was setting the stage before each unique silos were addressed.

[10:41:50 AM](#)

Co-Chair von Imhof was relieved knowing that the economic impacts were being analyzed. She felt that June 30 at 5pm was a "bright date stamp."

Co-Chair Stedman stated that the different departments would be available to discuss those analyses.

Mr. Arduin stated that the only proposal to analyze was the governor's proposal.

Mr. King looked at slide 8, "Status Quo Fiscal Situation."

Co-Chair Stedman queried the dividend assumption used in the presentation.

Mr. King replied that it was the statutory calculation.

[10:45:19 AM](#)

Co-Chair Stedman wondered whether it increased or decreased the percentage split of the ERA draw.

Mr. King replied that PFD consumed a larger portion of the POMV.

Co-Chair Stedman wondered what would occur if there were no PFD payout.

Mr. King responded that within the first four years the total access to cash would meet or exceed the needed expenditures. He noted that there would eventually be no room.

Co-Chair Stedman asked for that description in a slide.

Senator Olson noted that the revenues appeared to be the same.

Mr. King replied in the affirmative, and was a result of the price and production forecast that did not grow at the same rate of inflation.

Senator Olson noted that part of the POMV would be paid in dividends, and wondered if there was a consideration of the stock market.

Mr. King agreed to provide that information.

Co-Chair Stedman wondered whether there was use of a linear projection.

Mr. King replied that the slide contained public data information.

[10:50:27 AM](#)

Mr. Tangeman furthered that the question of a 2008 scenario would like. He noted that they did not get asked about a more recent scenario with really good returns.

Senator Hoffman wondered whether determining an option that had a dividend that was less than \$3000 and could balance the budget with the CBR.

Ms. Arduin replied that the governor's proposal was to pay the full statutory dividend.

Senator Hoffman recalled that the presenters had stated that the legislature could examine other options to balance the budget. One of those options was using the CBR, and an adjusted PFD. He asked whether the other options were acceptable to the administration.

Ms. Arduin replied that once a full budget proposed budget was in place, Mr. King would provide an analysis of that proposal.

Senator Olson stressed that he wanted answers to the questions.

Co-Chair Stedman stressed that the dividend was statutorily controlled, much like many other funds. He wondered whether the administration intended to make all statutorily required expenditures, or treat the PFD differently.

Mr. King deferred to Ms. Arduin.

Ms. Arduin replied that once there was a final budget, the governor would live within the statutory requirements in the budget.

Co-Chair Stedman discussed committee business.

ADJOURNMENT

[10:56:50 AM](#)

The meeting was adjourned at 10:56 a.m.