

SENATE FINANCE COMMITTEE

March 7, 2019

9:01 a.m.

9:01:37 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 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

Senator Cathy Giessel; Senator Mia Costello; Senator Gary Stevens; Mouchine Guettabi, Economist, Institute of Social and Economic Research; Ed King, Chief Economist, Office of Management and Budget; Bruce Tangeman, Commissioner, Department of Revenue.

PRESENT VIA TELECONFERENCE

Joe Riggs, Appointee, Alaska Mental Health Trust Authority

SUMMARY

PRESENTATION: ECONOMIC OVERVIEW OF GOVERNOR'S PROPOSED OPERATING BUDGET

CONFIRMATION HEARING: JOE RIGGS, ALASKA MENTAL HEALTH TRUST AUTHORITY (AMHTA)

Co-Chair Stedman informed that the committee would continue to hear an economic overview of the governor's proposed budget. He discussed scheduling. He expected that the ISER presentation would take most of the two hours allotted for the morning portion of the meeting.

Co-Chair Stedman stated that the committee would reconvene in the afternoon to consider the confirmation of Mr. Joe Riggs.

[9:04:45 AM](#)

^PRESENTATION: ECONOMIC OVERVIEW OF GOVERNOR'S PROPOSED OPERATING BUDGET

MOUCHINE GUETTABI, ECONOMIST, INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH, informed that he was an associate professor of economics at the Institute of Social and Economic Research (ISER). He was a regional economist by training and had a PhD from Oklahoma State University. He had been with the institute since 2012. He described that regional economics looked at the economic impacts of development and included doing economic forecasts for the state. He had recently developed a program to look at the socio-economic effects of the Permanent Fund Dividend (PFD).

Mr. Guettabi continued to discuss his background. He did research on health economics and healthcare costs. He was part of a team in 2016 that considered the potential economic impacts of a few of the fiscal options. He continued that ISER had used fairly generic options, investigating how a potential shock to government jobs or the PFD would ripple through the economy. He cautioned that there was a tremendous amount of uncertainty inherent in looking at impacts. He would use the 2016 study as a basis for his interpretation of the potential economic ramifications of the governor's proposed budget for FY 20.

Mr. Guettabi discussed the presentation "Budget options: What are the short term effects?" (copy on file).

Mr. Guettabi showed slide 2, "Outline":

A little bit of background
Some basics

Short term impact of the proposed budget
Short term employment effects of the cuts
Short term employment effects of the higher dividends

What is the current state of the economy?
Is the recession over?
1980's recession
Final thoughts

Mr. Guettabi commented that he would discuss the extent to which the proposed reductions would add to the recession. He commented that the state was at a stage which if the oil recession extended a year or two (and more jobs were lost) it could become Alaska's biggest recession.

[9:08:18 AM](#)

Mr. Guettabi turned to slide 3, "Background":

In 2016, at the request of the Alaska Department of Administration, UAA's Institute of Social and Economic Research's Gunnar Knapp, Matthew Berman, and Mouchine Guettabi provided an analysis of the economic impact of various state budget options, "The Short-run Economic Impacts of Alaska's Fiscal Options."

The analysis focused on the short term impacts and therefore should not be used to evaluate the long run impacts of the budgetary decisions. I will mainly apply these 2016 estimates to the Governor's FY2020 budget to provide an assessment of the near term employment impacts.

Mr. Guettabi noted that the report was dated March 30, 2016. Mr. Guettabi emphasized that the study focused on short-term effects, which could be described as a year to a year and a half. He emphasized that the effects took place before firms decided to do things differently, before people started out-migrating, and before wages changed. He explained that the study was concerned with ancillary effects of economic impacts; which followed money in its different permutations of income, spending, and other areas. He used the example of a teacher whose job had been cut.

Mr. Guettabi displayed slide 4, "What were our conclusions from the original study?":

- Different ways of collecting money from Alaskans affect those with lower and higher incomes in significantly different ways.

- Anything the state does to reduce the deficit will cost the economy jobs and money. But spending some of the Permanent Fund earnings the state currently saves would not have short-run economic effects. Saving less would, however, slow Permanent Fund growth and reduce future earnings.

- Because the deficit is so big, the overall economic effects of closing the deficit will also be big.

Mr. Guettabi explained that people in different income brackets spent different portions of income. He discussed the concept of residuary adjustment made to the analysis. He discussed how the concept would affect an income tax. He noted that there was a trade-off: in order to close the budget gap, money had to be taken from someone. He suggested that every option aside from spending savings would result in taking money from the economy and would have a negative consequence.

Mr. Guettabi noted that because the budget was so big, anything that was done would have negative consequences. In 2016, ISER had warned that the state should not try to close the deficit all at once because of concern with amount of pressure that would be put on the economy. He thought the conclusion still held because the deficit was very large and if the state was too aggressive it could potentially have negative consequences on the economy.

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Co-Chair von Imhof thought it was the job of an economist to understand the interplay of a series of choices. She commented on the complexity of economic analysis. She asked about the second bullet point on slide 4, which suggested saving less would slow Permanent Fund growth and reduce future earnings. She thought that in comparison to other choices such as an income tax or sales tax, the matter became relative and more tolerable. She hoped future slides would not contain isolated statements that might not provide context.

Co-Chair von Imhof continued her remarks. She asked if the deficit was large.

Mr. Guettabi stated that the presentation had thus far addressed conclusions from the 2016 study, which did not include discussion of the size of the deficit. The study had not yet addressed the percent of market value (POMV) draw from the Permanent Fund. He thought it could be argued that the size of the deficit had shrunk because the state was relying more on the fund. He qualified that the slide was taken to give context about the conclusions of the study from 2016.

Mr. Guettabi continued to address Co-Chair von Imhof's question. He did not disagree with Co-Chair von Imhof in that economic choices were relative. He argued that economists were good at analyzing reality rather than how things should be. He stated that ISER had been careful in highlighting that the only option that did not have negative consequences was to use savings.

[9:17:14 AM](#)

Senator Hoffman thought the administration was trying to solve the budget equation in one year. He referenced his comments from the previous day. He asked if the deficit would better be addressed over two or three years. He thought the committee and the legislature needed to consider the question.

Senator Bishop referenced Co-Chair von Imhof's comments. He suggested that the legislature had solved 80 percent of the problem the previous year, and the deficit was between \$300 and \$400 million, and not \$1.6 billion.

[9:19:00 AM](#)

Senator Shower asked if Mr. Guettabi argued that taking from savings did not affect the economy. He asserted that the largest source of revenue was earnings from the Permanent Fund. He thought there would be an impact. He did not want the public to take away the idea that taking from savings would not impact the state.

Mr. Guettabi answered in the affirmative. He stated that there were trade-offs; when money was taken from savings

there was less base to grow and therefore long-term returns were impacted.

Mr. Guettabi discussed slide 6, "What tools did we use?":

- To analyze the short term impacts, we relied on a standard input output model which captures linkages across Alaska's economic sectors. This allows us to determine how changes or "shocks" to any sector, or household income reverberate through the economy.

- The technique is therefore very useful in estimating how a change in spending or income attributable to a particular industry or government policy "ripples" through the economy as a result of further changes in spending flows between industries and households.

Mr. Guettabi reiterated that he wanted to analyze the downstream effects of economic changes. He explained that he would discuss direct, indirect, and induced effects of budget cuts and job loss. He discussed an example of the University of Alaska. He described induced effects as an aspect of employment and income effects.

Mr. Guettabi reviewed slide 7, "How are the effects estimated?":

- It is important to explain that the total effects we estimate for both government cuts and higher PFDs include direct, indirect, and induced effects.

- For a change in income, through a higher a PFD, there are no direct employment effects because the PFD represents an income shock.

- There are, however, induced effects because households spend a portion of their checks which result in retailers employing additional people.

- For a significant number of government cuts, the person laid off loses his or her job which represents a direct effect, and then the economy experiences further employment losses due to the decreased spending.

Mr. Guettabi contended that people were always surprised to hear that the employment effects from cutting government

were larger than employment effects from cutting the PFD. His discussed the effects of government cuts rather than the income shock of cutting the PFD.

[9:23:11 AM](#)

Senator Micciche recalled that the previous year the Senate had constructed and passed a spending limit. He thought Mr. Guettabi's recommendation was to solve the problem over time rather than all at once. He asked for Mr. Guettabi to describe the time frame he was referring to.

Mr. Guettabi was referring to ISER's recommendation at the end of the 2016 study. At the time, the institute had felt the economy was fragile and therefore the potential consequences from imposing a tax or cutting \$3 billion from government would have too big a negative effect on the economy. An alternative would be to make a three-year plan to eliminate uncertainty, but also mitigate the negative consequences the economy would feel and give the economy time to settle back and grow again.

Co-Chair von Imhof asked how the economic effects were estimated. She asked what percentage of the PFD (under ISER's model) was assumed to be spent in the state. She listed expenses such as vacations, federal taxes, college, and online purchasing.

Mr. Guettabi stated he would show high and low estimates. In the high scenario, he removed taxes and savings by household income bracket. He explained that people who were low income were assumed to spend everything. Going up in the income distribution, the calculation removed federal taxes and savings. In the low scenario, ISER considered a consumer expenditure survey and looked at how change in income affected expenditures.

Co-Chair von Imhof hoped ISER looked at actual data within its estimation. She considered a presentation from the previous day that suggested that jobs remained the same after a high PFD. She asked if Mr. Guettabi was considering Department of Labor and Workforce Development (DOLWD) jobs over different years (and different PFD sizes) to help formulate estimates.

Mr. Guettabi explained that ISER had a paper that looked at the causal effect of the dividend on labor market

fluctuations; which estimated the number of jobs gained after PFD distribution. His analysis being presented looked at how changes in income affected spending. The analysis looked at how giving money or taking money away from people influence the number of jobs and the amount of income in the economy. He was happy to provide the paper, which had looked specifically at how variations in the size of the PFD influence employment in the months after distribution.

[9:28:24 AM](#)

Mr. Guettabi spoke to slide 8, "Some important limitations":

- Our ability to analyze impacts of spending cuts is limited by uncertainty about how they would be implemented. Therefore our analysis uses generic cuts.
- Our analysis focuses on the short run and therefore does not account for potential behavioral adjustments in spending, wage rates, prices, or migration to and from Alaska. The best way to interpret our estimates is to say that they reflect immediate income and jobs losses resulting from less/more money circulating in the economy.
- Most importantly, these changes do not provide us with guidance on the long term ramifications of the changes in services, quality of education/life, and the attractiveness of the business environment.
- The devil is in the details.

Mr. Guettabi showed slide 9, "Employment losses from deficit reduction measures," which showed a bar graph entitled 'Estimated Job Losses per \$100 Million of Deficit Reduction.' He explained that the graph showed a high and low option depending upon how people spent money. He qualified that the first four options on the graph were government options, and the remaining options were income options. He thought the takeaway was clearly that if a job was eliminated through a government cut, the job was lost as well as the spending that occurred as a result of the job. He noted that the burden of a PFD cut was borne by residents. He stated that the conclusions of the estimates would be applied to his analysis of the governor's budget.

Co-Chair von Imhof looked at slide 9 and gleaned that a decrease in government spending per \$100 million had a bigger detrimental effect on jobs than a smaller dividend.

Mr. Guettabi answered in the affirmative.

Co-Chair von Imhof asked if there were comparable choices, it would have less economic impact on the economy if the state reduced the amount of the dividend by a few hundred million and instead invested the funds into state jobs.

Mr. Guettabi answered "yes."

[9:31:52 AM](#)

Senator Micciche recalled the previous day there had been criticism of the ISER study. There had been claims that the study was only considering short-term impacts; and there was a claim that in the real world, the economy adjusted to change to "fill the void" that was left. He asked for Mr. Guettabi to comment.

Mr. Guettabi was not sure what "fill the void" meant. He stated that he had been very transparent that he was discussing short-term effects. He continued that long-term effects were unknown and were considerations that were beyond the scope of the study. He was not sure what the criticism of the analysis was. He was happy to address specific concerns about how ISER got to the numbers or what were the shortcomings about thinking about job effects. He was not trying to suggest that the short-term was the most important dimension; or that thinking of job effects was the most important. He stated that how much potential damage was done to the economy in the short run to alleviate budgetary pressures was but one part of the equation.

Senator Wielechowski asked for an explanation of the numbers on slide 9. He wondered if the numbers were specific to the state.

Mr. Guettabi stated that everything on the slide was Alaska-specific. Tax numbers used were from multiple data sources and from an Alaska-specific input-output model. For the PFD, ISER had treated it as an income-shock and used different household brackets. For state workforce and the capital budget, ISER used Alaska-specific content and

followed the dollars from the initial cut to the "end of the road." He was happy to provide more details on the mechanics.

[9:35:53 AM](#)

Senator Wielechowski asked if Mr. Guettabi could address slides from the administration.

Mr. Guettabi had not seen the entire presentation from the Office of Management and Budget (OMB) the previous day. He thought the question of how responsive employment was to government spending. He thought the way the administration showed the equation was not how one would ask the question. In causal analysis, counter-factual information was considered to hypothesize what employment have been if government spending had stayed at a certain same level. He thought it was a simplified version of the world to consider the correlation between budgetary spending and employment without accounting for other macro-economic indicators. He suggested resisted reaching conclusions based on an overcomplication of the relationship.

Senator Hoffman looked at slide 9. He asked Mr. Guettabi about the level of state pay cut that was considered. He pondered that a combination of cutting state workers' pay, a flat income tax, and a 4 percent sales tax (at the low end) would equal cutting the state work force at the low end.

Mr. Guettabi estimated that for every \$100 million, if you cut the pay of state workers, the state would lose between 459 and 727 jobs.

Senator Hoffman asked at what level was ISER looking at the low end and high end of cutting state worker's pay.

Mr. Guettabi stated that the average pay of government workers was \$50,000; and ISER had used an average worker that earned between \$50,000 and \$75,000 as a basis for the analysis.

[9:39:15 AM](#)

Co-Chair Stedman thought Senator Hoffman had been asking if a flat rate income tax could be added to a 2 percent property tax to determine effects.

Mr. Guettabi thought one could certainly add up the items; ISER had not considered implementing multiple options. In coming up with an overall amount of money that could be raised, one could add the amounts.

Senator Shower considered the capital budget, and how the data was put together for slide 9. He asked if Mr. Guettabi made an assumption about the often temporary jobs that were typical of capital projects.

Mr. Guettabi reiterated that the study looked at short-term effects.

Mr. Guettabi referenced slide 10, "Income losses from deficit reduction measures," which showed a bar graph entitled 'Estimated Income losses per \$100 Million of Deficit Reduction.' He emphasized that for every \$100 million, the graph showed how much money in income would be lost in the economy. He made the point that a dollar in compensation contained retirement and benefits. When the dollar of income was cut, some of the dollar did not actually make it into the economy. His reasoning showed that one of the reasons it appeared was that cuts from government options resulted in fewer income impacts.

Mr. Guettabi considered the income effects from the PFD, which were the largest because all the burden was borne by residents. He questioned how much expenditure was lost. He noted that a portion of the expenditures were typically undertaken by non-residents. In each of the options save for the government and PFD options, someone else was bearing some of the burden; so it was possible to raise the same amount of money without losing as much of the expenditure.

[9:43:13 AM](#)

Mr. Guettabi turned to slide 11, "What are the effects of government cuts?"

- The employment graph shows that for each \$100 million government related cut, we would expect about 1,086 jobs to be lost.
- This estimate is an average across three scenarios: Government layoffs, broad-based state cuts, and pay

cuts for government workers. State government layoffs would result in the greatest job losses: between 1,414 jobs and 1,677 jobs. We estimate broad-based cuts to result in losses ranging between 980 and 1,260 jobs. Pay cuts would result in job losses ranging between 459 and 727 jobs.

Mr. Guettabi stated that his slide would pivot towards the governor's proposed budget and the potential economic effect of the proposed cuts. He mentioned the rule of thumb that for every \$100 million in cuts, there was a loss of 1,000 jobs.

Mr. Guettabi reviewed slide 12, "What is the goal of the summary?"

- This summary attempts to assess the short term employment impacts from the decreases in spending, and increases in the PFDs.

- Given that we are interested in understanding the aggregate economic effects, we need to take into account how the proposed changes influence state spending, local government revenues, federal funds, and households.

Mr. Guettabi highlighted that it was important to think beyond cuts in thinking about economic effects and think about loss of local government revenues and federal dollars. He thought it was important to consider how much money was being pulled out of the economy, and how much money was being added to the economy as a result of the proposed changes.

Co-Chair von Imhof thought it mattered very much where the reductions took place. She used the example of laying off workers rather than purchasing less equipment. She hoped that Mr. Guettabi would talk about his statement.

Mr. Guettabi apologized for his lack of clarity. He stated that his comment alluded to his belief that the state needed to be exhaustive in how it accounted for how much money was being pulled out of the economy irrespective of whether it was coming from the state, the federal government, or a loss in local government revenues. He qualified that the bullet point and his statement were not about consequences, but rather an accounting of losses.

9:48:00 AM

Mr. Guettabi spoke to slide 13, "Describing the cuts," which showed a bar graph representing reductions in spending using numbers from the Legislative Finance Division (LFD). He thought LFD's presentation had demonstrated very well what was a cut and what was not a cut. He characterized the estimated reductions on the graph as a cornerstone of the conversation. He had heard differing information about potential federal funds lost through reductions to Medicaid and other programs.

Mr. Guettabi displayed slide 14, "What is not included?":

- School debt reimbursement and debt service.
- Capital budget reductions.
- Use of reserves

Mr. Guettabi thought (according to LFD's presentation) that there was an estimated \$70 million in school debt reimbursement and debt service. He stated there was more use of reserves than was initially understood, and the use of reserves was not used in thinking about economic impacts as the use of reserves did not have a short-term negative effect on the economy.

Co-Chair Stedman asked if the three items listed on the slide were an economic stimulus or suppressant.

Mr. Guettabi noted that the use of reserves was an example of what Co-Chair von Imhof had mentioned. The use of reserves cushioned the economic shock.

Co-Chair Stedman asked about debt service for schools.

Mr. Guettabi had not considered debt service for schools and would have to think about how communities would respond to it. He did not know how to model debt service for schools, and it had not been clear to him how it would be absorbed.

9:52:12 AM

Senator Micciche pondered "trickle-down economics," and how the private sector rushed in. In the reduction of the deficit, there was no cut to income tax or corporate tax.

He discussed the increased local taxes and wondered how the private sector filled the void when there was not a positive effect.

Mr. Guettabi thought there was no expansionary component of the proposed budget except for the larger PFD. He thought one could potentially argue that reaching a fiscal solution eliminated uncertainty, which potentially improved economic conditions. He thought it was also possible to say that cuts were a negative signal to businesses and to households, and hiring would fall. He stated that dividends were a simulative component that added more money into the economy, but quite a bit of money was being taken out through reductions. He agreed with Senator Micciche's assessment.

[9:54:00 AM](#)

Mr. Guettabi showed slide 16, "What are the employment impacts?" which showed a bar graph considering employment reductions from declines in state spending, loss of local government revenues, and federal revenues. He explained that when losing \$650 million in agency operations, the amount multiplied times 1,086 signified 7,000 jobs lost. He qualified that he was treating the loss of local government revenues as an actual reduction in economic activity, as he did not know how communities would potentially replace the dollars.

Mr. Guettabi discussed the assumption that if communities were able to raise taxes to replace the \$448 million, the job losses would be lower. He questioned whether communities had the capacity to replace the reduction but reasoned that it was not possible.

Co-Chair von Imhof hoped that Mr. Guettabi's analysis of local government reductions considered how the North Slope Borough spent its tax. She pondered whether the borough spent or saved the funds. She wanted to see a more complex analysis of what would happen. She thought the fourth leg of the equation was the Permanent Fund. She wanted to see a fourth color on slide 16 to address potential job loss from a lack of a PFD. She thought the comparison was the lever by which the legislature was evaluating the budget.

Mr. Guettabi asked for Co-Chair von Imhof to explain what part of the Permanent Fund she was referring to.

Co-Chair von Imhof reiterated that she had asked about how much did the North Slope utilize its money. She asked how much the bars on the graph would shrink if the PFD was decreased.

Co-Chair Stedman clarified that the reference to the North Slope borough was referencing the property tax. The borough received a substantial portion of the property tax. He thought the other part of the question dealt with the PFD coming out of the percent of market value (POMV), which was capped at 5.25 percent.

Co-Chair von Imhof confirmed that she was considering the PFD portion of the Permanent Fund.

[9:59:33 AM](#)

Mr. Guettabi stated that it was true that the borough saved some of its money. He wanted to provide a sense of scale of the effects. The budget proposal had come out three weeks ago, and ISER had not evaluated every element. He thought there was a great deal of value in having the information on the slide as a conversation starter. He did not know how each borough would respond to losses from local government reductions. He speculated but could not comment as to how likely certain outcomes would be. He thought the slide offered a realistic perspective if boroughs could not replace the dollars from declines in the three areas on the slide. He stated that a later slide would address how communities responded to the cuts would determine the size of the actual job losses.

Mr. Guettabi affirmed that the dividend was part of the equation. He had tried to structure the presentation by focusing on separate pieces. He thought adding a PFD bar to the graph would be a useful exercise.

Mr. Guettabi referenced slide 17, "Table: Employment losses summary from reductions," which showed a data table.

Co-Chair Stedman looked at the slide and asked how many total jobs were in the state.

Mr. Guettabi informed that the state had about 330,000 jobs.

Senator Micciche thought Co-Chair von Imhof brought up a good point. He thought using a 2016 study as a basis required additional consideration the impact of the PFD and broad-based tax on jobs included in slides 13 and 16.

Senator Olson commented that the North Slope Borough budget was very complex and included bonding capability. He remarked that SB 57 [a bill that proposed repealing the credit for municipal payments against the state levy of tax on oil and gas exploration, production, and pipeline transportation property], would be implemented for a long time while savings were short term.

[10:04:30 AM](#)

Mr. Guettabi turned to slide 18:

- The North Slope borough would need to impose a tax equaling 35,972 dollars per person in order to replace the lost revenues.

Table: Oil and gas property taxes

Mr. Guettabi thought the slide clarified the scale of proposed reductions by population of each borough to understand how much in taxes each borough would have to raise to replace the funds. He emphasized that he was not supporting a course of action, but thought the exercise was one way to think about the scale of numbers being discussed.

Co-Chair Stedman asked if there was an estimated 5 percent loss of statewide employment.

Mr. Guettabi answered in the affirmative. He stated he had yet to talk about potential employment gains from higher dividends.

Senator Bishop referenced the capital budget and thought there was a tremendous amount of deferred maintenance in the state. He thought the numbers on the slide could be bigger since there had been a flat capital budget for five years, and liability of state assets increased every year. He commented that there had been jobs in the capital budget and there was a multiplier with construction dollars that

went through the economy. He asked if Mr. Guettabi agreed or disagreed.

Mr. Guettabi agreed that there was a significant amount of deferred maintenance, and that the capital budget was immensely important for the long-term health of the state. He thought addressing the \$2 billion of deferred maintenance was a necessary step to ensure the long-term welfare of the state.

10:07:36 AM

Senator Wielechowski asked to go back to slide 17. He wondered who to believe. He referenced a chart in the previous day's presentation by OMB; which had a slide that analyzed jobs and state spending from 1990. The slide had concluded that there was no relationship between state spending and jobs in Alaska. He asked if Mr. Guettabi agreed with the information. He asked why he should believe Mr. Guettabi's information and not OMB's information.

Mr. Guettabi disagreed with OMB's assessment. He thought when considering the causal effect of government spending on employment, he would not simply run a regression that controlled for population and inflation as OMB had. Instead, he would consider a "counter-factual," to look at what employment would be in the absence of spending. He suggested there was plenty of methods to capture the positive relationship between government spending and employment. He stated he would be happy to share additional literature on the topic.

Chair Stedman asked for shorter and more precise answers to members' questions.

Mr. Guettabi showed slide 19, "Outline":

- A little bit of background
 - Some basics

- Short term impact of the proposed budget
 - Short term employment effects of the cuts
 - Short term employment effects of the higher dividends

- What is the current state of the economy?
 - Is the recession over?

1980's recession

Final thoughts

Mr. Guettabi stated he would try and walk the committee through the marginal increases in the dividend as a result of the proposed budget.

Mr. Guettabi reviewed slide 20, "What about the PFD?":

- Under the proposed budget, Alaska residents will receive \$2,932 instead of the \$1,800 that they would have received if the dividends were capped.
- This year, too, most Alaskans will receive an additional 1,061 dollars to pay back for previous capped dividends.
- This will result in a per-person increase of about \$2,193, which translates into an additional \$1.348 billion in the economy if 615,000 people receive the PFD.

Mr. Guettabi showed slide 21, "Added dollars due to higher PFDs," which showed a bar graph depicting the additional amount of money that would be in peoples' bank accounts as a result of using the PFD statutory formula rather than capped dividends. Additionally, the bar graphs showed the additional dollars that would be in people's bank accounts as a result of the payback dividend.

[10:11:13 AM](#)

Mr. Guettabi spoke to slide 22, "What are the short-term impacts of the higher PFDs?" The slide showed a bar graph. He calculated that if the high and low options were averaged, then \$100 million in dividends resulted in 725 additional jobs. He applied the formula to the additional dollars he referenced earlier, and the result (using the statutory formula) resulted in about 5,047 jobs and the one-time dividend payback resulted in 4,730 additional jobs.

Mr. Guettabi referenced slide 23, "Table: Employment gains summary from higher PFDs." The slide showed the calculation of employment gains using both the statutory formula and the proposed dividend pay-back.

Co-Chair Stedman asked if the jobs referenced were permanent, full-time jobs.

Mr. Guettabi stated that more recent analysis indicated that the jobs would last about 3 months.

Co-Chair von Imhof referenced a DOLWD presentation from the previous day that suggested that data did not support the conclusion that the dividend made large changes in the economy.

Senator Micciche felt like the North Slope Borough Oil and Gas Property Tax monies could be translated directly into jobs. He had read a report from the administration that suggested that more than 90 percent of PFD distribution did not get into the Alaska economy. The report had also suggested that changes in the PFD had no relationship to changes in the number of jobs.

Co-Chair Stedman thought the question might better be addressed to the author of the report.

Senator Micciche asked what method Mr. Guettabi was using to interpret the dollars into jobs.

Mr. Guettabi restated that ISER treated the PFD as an income injection that resulted in jobs through spending. He continued that ISER had good evidence through recent analysis that there was a causal relationship between variation in the size of the PFD and employment. He referenced an input-output model. He stated that there was no good information as to how Alaskans used the PFD.

Co-Chair Stedman thought the earlier part of the question would be addressed later in the afternoon.

Senator Bishop asked if Mr. Guettabi could reconfirm that the jobs were long term or short term.

Mr. Guettabi stated that the jobs were short-term.

[10:16:03 AM](#)

Mr. Guettabi discussed slide 24, "Let's put all numbers together," which had a bar graph and summarized previous slides. He stated that ISER was agnostic about the length

of the jobs. The slide added up the employment effects (using the 2016 study) and considering the macroeconomic effect employment in the short run.

Co-Chair Stedman asked what the slide showed.

Mr. Guettabi stated that the slide showed that on aggregate, the state would lose more than 7,000 jobs even after accounting for the simulative effect of the PFD. The slide also accounted for the job losses that would come from cutting agency operation, loss of federal dollars, and potential loss of jobs from the loss of local government. Between 2015 and 2018, the state lost between 12,500 and 13,000 jobs.

Co-Chair Stedman estimated that the job loss was a little over 2 percent of the workforce. He observed that the upper bars showed job gains in the shorter term on the chart. He observed that the lower bars were negative numbers and showed longer term effects.

Mr. Guettabi answered in the affirmative.

Senator Wilson asked if ISER's analysis took into effect the over \$500 million in increased federal spending for military services in Alaska.

Mr. Guettabi answered in the negative.

Senator Wilson asked how the funds would offset the negative effects (such as the green bar) on the slide.

Mr. Guettabi did not know the exact nature of the jobs but stated that if the federal funding was similar it would offset the job loss.

Senator Bishop asked if the estimated job loss of 7,146 was immediate. He assumed ISER had no way of forecasting what the long-term effect would be on the economy.

Mr. Guettabi answered in the affirmative.

Senator Hoffman asked about the average salary in the state.

Mr. Guettabi stated the average salary of government workers was about \$47,000.

Senator Hoffman asked about the aggregate amount of money for the estimated 7,146 jobs lost.

Mr. Guettabi estimated that the average wage in the state was close to \$50,000, multiplied by approximately 7,000 would be close to \$35 million.

Senator Hoffman thought the loss would be for decades.

Mr. Guettabi reminded that the estimated total job loss on the slide were short-term jobs and would potentially be on top of jobs already lost.

[10:20:16 AM](#)

Senator Wielechowski asked if all the estimated job losses were for short term jobs.

Mr. Guettabi stated that the whole analysis was short-term.

Senator Micciche asked if the study divided the job losses from the PFD by four.

Mr. Guettabi stated that the slide showed real numbers that were not adjusted for the length of time.

Mr. Guettabi turned to slide 25, "A few notes about the comparison":

- It is important to note that the jobs created from the stimulative effects of the PFDs may be different than the ones lost through government cuts.
- Additionally, the employment effects of the PFD may be short lived. Our recent (yet to be published) work shows that the employment effects are concentrated in the three months post distribution.
- There is also the question of how uncertainty may influence household spending patterns.
- On the spending reduction side, there is significant uncertainty about how communities will respond and if/how much federal spending the state will actually forgo.

Mr. Guettabi discussed the average salaries for government jobs and retail jobs and thought it was important to consider if short-term jobs replaced the type of jobs that were lost through government cuts. He pointed out that it was not known whether households would spend in the same way as done in the past. He thought the environment was rife with uncertainty.

Senator Wielechowski tried to understand how the jobs were all short term. He asked if Mr. Guettabi was saying that if the proposed budget was passed then three months later the state would bounce back and not have job losses.

Mr. Guettabi answered in the negative. He emphasized that the analysis indicated the immediate effects of the proposed cuts.

[10:24:04 AM](#)

Mr. Guettabi referenced slide 27, "Alaska employment outlook, which showed a bar graph considering employment growth in Alaska. He stated that he would present an economic forecast that did not account for the potential losses from the proposed budget, but he thought the forecast provided context. The state had been in recession for about three years; with 1.82 percent of jobs lost in 2016, and 1.25 percent of jobs lost in 2017. He did not have final numbers for 2018 but believed the state will have lost about .7 or .8 percent of its jobs.

Mr. Guettabi continued his remarks on the Alaska employment outlook. He had done an analysis a couple of months previously, comparing Alaska to other energy states. The conclusion was that Alaska was the only state still in recession and still struggling. His forecast for 2019 had been that the economy was going to stabilize, and that it would be the first year the state would potentially gain jobs. The gains in jobs were still fairly low. He clarified that none of the data on the slide took into account any significant reductions in government spending. Even in the absence of reductions, it would take the state between four and five years to recover all the jobs that it had lost between 2015 and 2018.

Co-Chair Stedman mentioned the estimated loss of 2 percent of jobs.

Mr. Guettabi stated that if the state was to lose the estimated 7,146 jobs; the reductions in 2019 would be just as significant as what was lost in 2016 in the worst year of the recession.

Mr. Guettabi reviewed slide 28, "What is the current state of the economy?":

- Since the start of the recession, the state lost 1.82% of its jobs in 2016 and another 1.25% in 2017.

- While we only have preliminary data, we expect employment to decline by 0.8% in 2018. Before the announced cuts, our forecast for 2019 showed positive growth equaling close to 0.8%. Between 2019 and 2025, we anticipated employment growth to average 0.68% per year.

Mr. Guettabi reiterated that he had expected the recession to end in 2019. As a result of the changes, it appeared the recession would go on longer as a result of the negative pressure on employment in the short run.

[10:27:41 AM](#)

Mr. Guettabi spoke to slide 29, "Short summary of employment losses":

- The state lost between 12,500 and 13,000 jobs between 2015 and 2018.

- The projected job losses from the spending cuts, higher PFDs, loss of federal dollars, and loss of local government revenues would potentially result in an additional 7,000 jobs lost.

- If that happens, this recession-oil induced plus spending reductions-would potentially be Alaska's most pronounce done.

Mr. Guettabi discussed the compound effect of the lost jobs between 2015 and 2018 in combination with the estimated 7,149 jobs as a result of declines in state spending. He discussed the 1980s recession, which he thought was important for context. Many people had been surprised about how well the housing market had held up during the 1980s recession. He thought some of the job loss had been

absorbed by non-residents, and that the economic floor of Alaska was much higher. He thought the current recession, if it resulted in out-migration, could spread to the housing market.

Co-Chair Stedman asked if Mr. Guettabi was referring to the 1980s recession.

Mr. Guettabi answered in the affirmative. The 1980s had seen a significant housing shock. He stated that the 2015 recession, induced by oil price decline, had not seen a housing effect. He reiterated that some of the job losses in the most recent recession were absorbed by non-residents. If there were more job losses added (mostly borne by residents) the recession could spread to the housing market.

Co-Chair von Imhof stated she had some consternation when a presenter made extreme statements after stating that there were many assumptions and that a dynamic model was being discussed. She thought Mr. Guettabi was describing an extremist view. She wanted to see a mixture of different possible outcomes. She wanted to see more variation and discussion of uncertainty. She pointed out that it was not possible to control human behavior.

Mr. Guettabi stated that the amount of uncertainty in the previous slide was immense. It was known that the aggregate effects of the proposed changes would result in some job losses, but it could be less than estimated. He stated he was presenting the committee with what he considered as objective an assessment of the information that ISER currently had. He thought clearly how households and communities spent money would affect the numbers. He appreciated the caution raised by Co-Chair von Imhof.

[10:32:41 AM](#)

Senator Micciche stated that there were factors missing in the study and thought there was potential for things to be worse. He did not think that Mr. Guettabi plugged in the price of uncertainty of industry investment in the state. He thought there was a giant target on industry. He asked if there was potential for the economic forecast to be worse if the uncertainty continued.

Mr. Guettabi stated that the previous year he had calculated that for every year of uncertainty, the state lost between \$200 million and \$600 million in investment. He had considered the years when there had been considerable debate over the POMV draw and use of the Permanent Fund. He hoped to have more information to do a specific assessment of each of the pieces.

Co-Chair Stedman followed up to ask about private enterprise and backfilling job loss. He discussed the oil industry, which was run off international economics and was not affected by what happened in the state. He thought the tax policy seemed like it would stay as-is for the foreseeable future. He mentioned the fishing industry, which was also not affected by what happened in the state economically. He asked how industry could backfill the jobs and how long it would take.

Mr. Guettabi reiterated that the question of backfilling was one of vision rather than analysis. He did not understand the elements that would encourage investment. He thought there was uncertainty due to lack of knowledge as to the size and placement of budget cuts. He thought it was hard to see how the backfilling might occur. He continued that even in the absence of the proposed reductions, his forecast data looked at very slow growth of .8 percent gain in jobs total, and DOLWD was forecasting half of the amount.

[10:36:31 AM](#)

Senator Wielechowski asked if the industry uncertainty in Alaska was greater than in other resource extraction countries with dictators that routinely confiscated assets, assassinated workers, faced civil wars, and raised or lowered taxes at the whim of a dictator.

Mr. Guettabi answered "no."

Mr. Guettabi addressed slide 30, "What about the 1980's?":

- The 2015-current recession has been longer but milder than Alaska's most severe recession which lasted from 1985 to 1987.
- That recession resulted in significant outmigration, and a severe collapse of the housing market.

Mr. Guettabi stated he was one of the first people at the beginning of the oil-induced recession to say that the economy was much more diversified, and had many sources of income that did not exist in the 1980s. He pondered that there had been three years of recession, and now possibly an extension.

Senator Shower asked about the influx of military personnel and the accompanying jobs and construction. He asked if there was a similar correlation in the 1980s.

Mr. Guettabi stated that the 1980s recession was a housing recession with a boom followed by a significant bust. There had also been an oil price component to the recession. He reiterated that the current economy had sources of money that went well beyond the 1980s. He emphasized the difference in economies of the 1990s and the current time. He wanted to be clear that he was not saying "the sky was falling" but that the state had been in its longest recession with potential to go longer.

Mr. Guettabi referenced slide 32, "Employment," which showed a line graph depicting wage and salary employment during Alaska's worst recession. The state had lost close to 19,000 jobs between 1985 and 1987. He reiterated that the recession of the 1980s was still Alaska's most severe recession in terms of job losses.

[10:40:23 AM](#)

Senator Wilson asked if Mr. Guettabi knew the total job number and percentage of jobs lost in the 1980s.

Mr. Guettabi did not have the number available but asserted that 20,000 jobs in the 1980s constituted a much larger share of employment than 20,000 jobs would be in today's economy.

Co-Chair Stedman observed that the chart showed that the 1980s recession had about 8 percent job loss.

Senator Bishop commented that the working people's wages had stayed flat from 1985 to 1990 and there had even been a reduction of wages on the North Slope. He thought the state had experienced the same effect again in the current recession.

Mr. Guettabi discussed slide 33, "Migration," which addressed net migration between 1982 and 1990. He asserted that population had held up well during the current recession. He discussed factors that could influence population stability such as more multi-generational families and housing prices holding up. While the economy was still in recession, there were a lot of positive signs and the state was in the last phase of the recession. The recession had started in oil and gas, had moved to professional and business services and state government, and then moved to household spending sectors. As of 2019, the recession was concentrated in the retail sector. He anticipated that the current recession would stabilize in the current year. He pondered if there would be some out-migration if the recession continued.

Co-Chair Stedman quipped that out-migration would not happen via the Alaska Marine Highway System.

Senator Bishop asked for clarity about the state being in the last phase of the recession, notwithstanding the potential proposed budget reductions.

Mr. Guettabi answered in the affirmative.

Co-Chair von Imhof asked for Mr. Guettabi's recommendation to avoid the fiscal cliff.

Mr. Guettabi turned to slide 34, "Housing":

- The Alaska housing market experienced a long downturn with a significant number of vacancies and foreclosures. According to an ISER analysis from 1988, there were 14,000 vacant housing units in Anchorage alone.
- The Alaska department of labor has also summarized the housing experience in the 1980's stating that "Over 40percent of Alaska banks failed, and Alaska led the nation in bank failure rates for the decade. Foreclosures peaked in1988 at 6,821, and by the end of the decade, more than30,000 foreclosures"

Mr. Guettabi displayed slide 35, "More questions than answers":

- It is important to reiterate that all options to close the budget gaps will result in short term negative consequences. Therefore, it is important to think about the cost of the alternatives.

- The economy is still in a fragile state as it has experienced employment decline for 39 straight months.

- There is still considerable uncertainty on which changes will actually take place.

- While understanding the recessionary effects is necessary, the long run implications are far more important.

- Many of these decisions are about priorities and values.

[10:45:00 AM](#)

Mr. Guettabi addressed Co-Chair von Imhof's question. He thought it was good that the state had many "levers." He mentioned the state's immense savings account and thought the decision to use the POMV to stabilize the economy sent a strong positive signal. He mentioned the fragility of the economy. He cautioned against taking too aggressive of a step in too short of a time. He thought the size of the PFD and the size of government needed to be addressed. He did not have a policy recommendation. He thought a combination of factors would be used over multiple years to avoid damaging the economy and to tell investors there was a long fiscal structure in place.

Senator Micciche thought Mr. Guettabi was justifying some part of his study since he worked for the University, which was proposed to be significantly cut. He asked how Mr. Guettabi separated his research from his love for the University.

Mr. Guettabi pointed out that the study was done in 2016. He stated that ISER prided itself on being objective brokers. He contended that he was an academic that believed in good research that hopefully led to good policy. He stated that any policy that potentially affected the University or ISER would be unfortunate but had absolutely nothing to do with what he had said to the committee.

Senator Olson referenced the question of objectivity and thought all people claimed to be objective. He thanked Mr. Guettabi for the presentation. He relayed that someone had said the previous day's presentation by the administration was like listening to a used car salesman. He referenced earlier remarks about backfilling jobs by the private sector. He harkened back to Calvin Coolidge and Herbert Hoover, who had claimed that the private sector would bail the country out, after which came the Great Depression. He mentioned the trickle-down economics of the Reagan Era. He asserted that the private sector did not have the duty to bail anyone out. He asked if Mr. Guettabi saw the possibility of a depression with unemployment in double-digit numbers and a housing collapse.

Mr. Guettabi reiterated that Alaska's economy was in a fragile state. He questioned where the state's economic recovery would come from; and pointed out that oil and gas had always been and would continue to be a big sector of the state's economy. He had not forecast significant growth even before the proposed cuts. He thought the minimum effect of the proposed cuts was to extend the recession. He did know what the worst-case scenario was, but thought that taking more jobs from the economy in the short term would postpone the state's recovery.

[10:50:48 AM](#)

Senator Olson discussed the fragility of the Alaskan economy and the 2016 study. He asked if Mr. Guettabi saw the state going into an all-out depression.

Mr. Guettabi thought "depression" was too strong of a word and reiterated that there was a considerable amount of uncertainty. He thought putting pressure on an economy in recession potentially extended the recession and made things difficult going forward.

Senator Hoffman recalled consideration of SB 26 [legislation proposing changing the amount of the dividend and establishing the POMV] the previous year and noted that the Senate had eliminated many provisions of the bill. He thought that SB 26 had provided some certainty after stripping out provisions and just retaining the POMV draw after a compromise had been made with the other body. He asked if the state could continue to afford the larger

statutory dividend of \$3,000. He recalled that the Senate had come to the conclusion that the state could not afford the statutory dividend and had come up with a 20-year average PFD in the amount of \$1,100. He questioned whether the state could continue to afford the statutory amount. He stated that the governor (several years ago) felt the state could not afford the statutory dividend and had reduced it.

Senator Hoffman continued his remarks. He thought certainty was needed on the amount of the dividend. He did not think the dividend would be as low as \$1,100. He asked if Mr. Guettabi thought there needed to be certainty on the size of the dividend in order to know the size of the deficit.

[10:55:22 AM](#)

Mr. Guettabi generalized that certainty was good for investors, individuals, legislatures, and for an economy. He recalled that setting the POMV draw at 5.25 was deemed to be sustainable, and his and other's work showed it potentially was. He thought there was a question of allocation. Between 2005 and 2014, 90 percent of General Funds came from oil revenues; and SB 26 potentially solved the problem by guaranteeing the amount of money coming from the fund. He thought Senator Hoffman correctly pointed out that how the \$2.9 billion coming in from the fund was used was clearly important for setting the stage for the size of the deficit and moving forward.

Senator Micciche thought the theory and execution of trickle-down economics was made possible by capital made available through a significant tax cut. He thought the proposed cuts increased taxes. He thought the idea of the private sector stepping in was largely a myth. He thought the state was extremely unique. He asked how to convert other Lower-48 economics to what was possible for decision making in Alaska. He discussed the differences in Alaska. He asked how to "Alaskanize" the analysis.

Mr. Guettabi acknowledged that the state was unique in several different ways. He argued that the state's economy was fairly diversified, but its revenue sources were not. The state had an over-reliance on one source of revenue to pay for government. He thought the state's economy structure had evolved and did not look much different than many others. He pointed out that a lot of money left the state. He opined that when thinking about the state's

economy one must consider the portion of money that left the state, and "plugging the leakage."

Mr. Guettabi thanked the committee for having him and acknowledged that it had a difficult task.

Co-Chair Stedman stated the committee would stand at recess. He discussed the agenda for the afternoon portion of the meeting.

11:00:03 AM

RECESSSED

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RECONVENED

Co-Chair Stedman reminded that the committee would consider the appointment of Joe Riggs to the Alaska Mental Health Trust Authority (AMHTA). He would ask the appointee to discuss his background, education, work history, the position, and his opinion on an AMHTA settlement. He wanted to hear about the appointee's resume.

^CONFIRMATION HEARING: JOE RIGGS, ALASKA MENTAL HEALTH TRUST AUTHORITY (AMHTA)

1:06:28 PM

JOE RIGGS, APPOINTEE, ALASKA MENTAL HEALTH TRUST AUTHORITY (via teleconference), discussed his qualifications. He read from an introductory letter to the committee (copy on file):

Thank you for taking the time to consider my appointment to the Alaska Mental Health Trust Board of Trustees. I realize that you have a busy schedule so I will keep my introduction brief.

I moved to Alaska just out of high school. I drove up in an old pickup with a backpack, snowboard, and a paramedic's license in hand. I was off on my first summer adventure to be a paramedic on a Cook Inlet oil platform. Like many of us, I stayed. I'm now living in Anchorage, married to a 3rd generation Alaskan, and have two boys ages 10 and 4.

As a Trustee, I consider myself to be more of a generalist. My professional career has taken me down two paths that often intertwined, finance and healthcare.

On the finance side, I was a financial advisor for several years and have reentered the field as an advisor with a major firm. I have experience across the spectrum of financial instruments, portfolio management, trust management, and have access to every tool in the box. Bottom line, I know what fiduciary responsibility means, I can interpret the data, and can even do the math.

On the medical side I have experience across the industry. From seeing first hand as a paramedic to how mental illness and addiction impacts the daily lives of my patients, to standing side by side with healthcare providers to help them maximize patient outcomes while minimizing cost. The latter has taken me across the spectrum of provider specialties and has given me a unique perspective of how our incredibly complicated healthcare system operates.

[1:09:27 PM](#)

Mr. Riggs continued to read from his statement:

But I'd say my greatest experience to prepare me for the role as a trustee is one that I wish I didn't have, nor would I wish it upon anyone. I am the parent to a trust beneficiary, and to my knowledge, the only trustee that can say that. 10 years ago, what should have been one of the greatest days in my life turned into an unexpected and extended stay in the NICU. My son has cerebral palsy. To put it simply, he has brain damage from loss of oxygen during delivery. Many people think that CP is just a motor issue, but with my son his difficulties go beyond motor and into behavioral, learning, sensory processing, and social issues, etc. Every aspect of his life and personality is affected. I can go on, but bottom line is that I have experience as a parent with obtaining services for multiple issues from multiple provider types. Most importantly, I can say that I understand what other parents and caretakers are experiencing. From the overwhelming feeling of finally getting a diagnosis

and figuring out how to obtain services, to knowing what it's like to invest a massive amount of family time, money, and energy to ensure that our children get the best outcomes possible.

My son as also inspired me to get involved in the community by being on the board of the Blood Bank to assist with their fledgling stem cell program and being on the board of Challenge Alaska where my son is on the ski team. Recruiting a trustee with board experience with beneficiary programs who also obtain funding from the trust is difficult due to the required 2 year waiting period from board to trustee. I meet that requirement and gladly bring that experience.

Bottom line is that I consider this position to be the best way for me to serve a community that I'm passionate about and I guarantee that I will be a tireless advocate for our beneficiaries at all times, and at all levels.

I look forward to serving.

Mr. Riggs continued to discuss his qualifications.

[1:12:25 PM](#)

Co-Chair Stedman asked Mr. Riggs to address his resume. He asked if the resume was accurate.

Mr. Riggs stated that his resume was accurate. He qualified that there were some dates that were rounded to the nearest unit of time. He stated he was currently working with Merrill Lynch. He still owned Alaska Healthcare Strategies but had been phasing out of the medical device industry for the previous two years. He had worked with another healthcare distributor firm. He had helped his wife start a medical practice. He discussed his history in the investment business and as a paramedic for the fire department in Fairbanks.

Co-Chair Stedman MOVED to FORWARD the appointment of Joe Riggs in accordance with AS 39.05.080, to a joint legislative session for consideration as a trustee of the Alaska Mental Health Trust Authority (AMHTA).

Co-Chair Stedman informed that the action did not reflect an intent by any of the members to vote for or against the confirmation of the individual during any further sessions.

1:14:40 PM

AT EASE

1:30:17 PM

RECONVENED

Co-Chair Stedman stated the committee would continue to hear a presentation from the Office of Management and Budget (OMB) that was given the previous day. He relayed that the committee had asked for an addition to slide 8 to include the PFD.

ED KING, CHIEF ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET, believed the committee's question was addressed on an upcoming slide. He continued to speak to the presentation from the previous day, "Macroeconomic Impact of Fiscal Options," (copy on file).

Co-Chair Stedman referenced an earlier question from Senator Micciche. He thought the question was best addressed to Mr. King, as it was in reference to an article he had written. He referenced the document "How Important is the PFD to Alaska's Economy?" (copy on file).

1:32:25 PM

Senator Micciche asked to go back to slide 3 of the presentation, "Illustration of a 10x Multiplier Effect*," which had two graphs entitled 'One Time Injection,' and 'Structural Shift.' He quoted the article referenced by Co-Chair Stedman and contrasted it with slide 3. He thought the two pieces of information were contradictory. The paper Mr. King had written over a year ago had indicated that more than 90 percent of PFD payments went outside of the state, and that the multiplier approach (mentioned on the slide) did not pick it up. He thought that Mr. King's previous economic evaluation of the PFD was in line with other economic experts, and the slide was a direct contradiction of the findings from a year previously.

Mr. King did not see the slide as a contradiction to the article. The graph on slide 3 was to show how the economic model used by ISER functioned. He qualified that the

multiplier in Alaska was not a 10x multiplier, which would imply that 10 percent of the money left the state and 90 percent of the money circulated. He stated that the article had discussed how the multiplier was probably the inverse; it was more likely that a large portion of the money left the state than it was to circulate. He asserted that the indirect impacts (whether from the PFD, government spending, or taxes) did not generate the indirect impacts that one would expect if using a larger multiplier.

Mr. King continued to address Senator Micciche's remarks. He made the point that the article stated that PFD's did not show up as jobs. He thought PFD's had a much bigger impact on people's lives than jobs and improved the quality of individual's lives. He thought people missed the bigger picture when too much attention was paid to job numbers. He discussed the comparison of different ways of spending the PFD and emphasized that it was impossible to economically compare. He thought the "numbers being thrown around" did not mean what people thought they meant.

[1:37:10 PM](#)

Senator Micciche thought Mr. King illustrated the 10x multiplier effect and the PFD when he was discussing the effects on the budget. He thought the slide should have a footnote that stated it was theoretical.

Mr. King stated he had labelled the slide as an "illustration" and had not meant to imply that the slide depicted impacts he expected to occur in Alaska. He had tried to define the economic theory behind what happens when you inject money into an economy. He was merely trying to illustrate a theory behind concepts and was not trying to represent what he expected to happen.

Mr. King addressed slide 9, "Fiscal Options":

- Reduce Spending
 - Lost government jobs, lower level of services
- Raise Taxes
 - Lost economic activity, lower standard of living
- Cut PFD
 - Lost economic activity, lower standard of living
- Deplete Assets

- Lower future earnings, bigger future problems

All options hurt, but doing nothing is not an option

Mr. King stated that the slide was to illustrate that there was no solution in which no negative impacts occurred. He thought the impact was a function of the fact that the economy was structurally different than before, and the economy had to adjust to the shock. He thought it was important to build a counterfactual. He thought it was not possible to compare the proposed budget cut to what FY 19 looked like.

[1:40:22 PM](#)

Senator Micciche encouraged the public to consider slide 9. He referenced page 5 of the article authored by Mr. King, which stated that the PFD did not work to stimulate the economy even if theoretical models indicated otherwise. He mentioned other items in the article that indicated that the PFD was a 10 percent benefit with 90 percent leakage. He would have liked to have seen the impacts ranked on slide 9.

Mr. King pointed out that the same was true for all spending. When considering theoretical models and output, and comparing with the data, it was not possible to find the impacts in the data. He used the hypothetical scenario of a science experiment in which it was possible to combine two ingredients in a sterile environment. He concluded that it was not possible to have a sterile environment in the real world where there were outside influences. He thought the economy would adjust to other factors.

Senator Wielechowski could see some consistency in what Mr. King had stated but did not necessarily agree with all he had said. He thought Mr. King was asserting that it was not possible to discern the impacts of the PFD and government cuts; while Mr. Guettabi had thought it was possible to measure the impacts. He considered page 5 of the article, which asserted that of all the tax proposals, a head-tax PFD reduction did have the largest adverse impact on individuals in the economy. The article also stated that the PFD cut was the most likely tax to have flow-through impacts on the economy because it took the most money from the people likely to spend the funds locally. He thought there was some agreement between Mr. King and Mr. Guettabi.

Mr. King thought he was saying the same thing as Mr. Guettabi. He thought Mr. Guettabi was saying that if you could isolate all the other effects, it was possible to see the effects of the economic elements. He thought the impacts did not show in the data. He agreed that the distributional effects of a PFD were very different than the distributional effects to government cuts or taxes. He continued that a PFD cut would take more money from people with lower incomes that were more likely to spend the money locally. He thought the PFD cut would affect those individuals in a more extreme way than other proposals.

[1:45:44 PM](#)

Senator Shower discuss Mr. Guettabi's slide on work force. He thought another of Mr. Guettabi's slide claimed something the inverse. He asked if Mr. Guettabi's slides were aligned with Mr. King's. He thought Mr. Guettabi's presentation focused on job losses but not on the impact of reducing the PFD.

Mr. King answered in the affirmative and thought the largest impact on household income was a PFD cut, which ISER said in its report. He thought there was more value in comparing the rank order ISER's analysis rather than the magnitude of the impacts. He thought it was not possible to see the magnitude of the impacts in the data. He discussed hypothetical scenarios to demonstrate that the economy could adjust itself to impacts.

Senator Bishop looked at page 2 of the article, which stated that more than 90 percent of PFD's were spent out of state. He asked what model Mr. King had used.

Mr. King stated that the statement was just an inference from a statistical analysis that he ran of his own model.

Senator Micciche thought there was disagreement in the analysis of how the various choices would affect the state's economy. He thought the income loss was obvious, because there was a one to one ratio. He mentioned ranking the impacts on slide 9. He wanted to understand which of the choices were best, and how each choice effected the economy.

Mr. King wanted to be clear that the best way to talk about the economy was circulation of money. He thought the worst way to talk about the economy was through discussing jobs, because of inconsistency. He mentioned the \$1 billion impact of the PFD in the economy.

[1:50:13 PM](#)

Senator Micciche asked if Mr. King's previous work indicated that when there was \$1 billion injected into the economy, there was a \$100 million impact.

Mr. King clarified that he meant there was a \$100 million impact on top of the \$1 billion that went towards household income. He stated that most of the money did not circulate through local business, but the amount was not trivial.

Mr. King highlighted slide 10, "The "Avoid Budget Cuts and Taxes" Scenario." The slide showed bar graph that depicted a scenario in which there were no budget cuts or additional taxes. He observed that there was enough room in the current year by reducing the PFD to \$400 or \$500, but the following years it would shrink by \$100 and eventually government growth would spend the funds. He pointed out different ideas such as draining savings and summarized that the problem would have to be dealt with eventually.

Co-Chair Stedman thought clearly it was important to pay attention to the next three or four years to start going in the right direction fiscally.

Mr. King showed slide 11, "Alaska's Changing Economy: And how it will shape the reaction to the proposal."

Mr. King looked at slide 12, "Alaska's Gross Domestic Product Mix," which showed two pie charts.

Mr. King highlighted slide 13, "Alaska's Age Distribution Change":

Takeaways:

1. Alaska's population is much older and more rooted than in the past
2. A large number of residents are near retirement age, which will have economic impact

Mr. King observed that current demographics of the state were very different than back in the 1980s. During the 1980s there were many younger people that were mobile and easily left the state during the economic recession. He made the point that the demographics had an important impact on how the economy dealt with change.

[1:54:09 PM](#)

Mr. King discussed slide 14, "Alaska's Changing Population":

- Population growth based solely on aging Alaskans will:
 - Increase demand for healthcare
 - Increase mortality rates
 - Increase out-migration
 - Increase retirement spending
- Labor force projection is stable
 - But jobs forecast is for 17,000 added jobs by 2026
 - Significant labor needs for new oil and mining projects not included in forecast
 - Future labor shortages are likely, which provides seeds for growth
- Child population stable

Mr. King observed that the labor force remained relatively flat. The only age group projected to grow was the retirement age group. The labor force itself was projected to stay stable while the population was expected to grow, which had important ramifications on the economy. The growth in retirement age individuals would increase the demand for healthcare. Net out-migration of the retired age group was expected over time. He pointed out that the net impact of job loss was different according to age groups. He explained that the model assumptions that generated the graphs assumed that spending went to zero when a job was lost. He suggested that if the spending did not go to zero, the indirect effects did not occur, and effects were not as severe as the model would suggest.

Mr. King pointed out that because the labor force was stable while there was a projected increase in jobs (largely in healthcare), the state needed more workers. He thought there were tremendous opportunities for jobs in the state. He discussed retiree spending, which would require

more labor. He thought the state would see a more productive workforce or a pull in economic growth. He thought the picture of being on a precipice economic calamity was not consistent with the demographics of the state.

Senator Shower referenced the number of people that had jobs as shown on the slide. He wondered how to reconcile the number from the ISER presentation earlier in the day.

Mr. King stated that the slide showed the population of people of age to participate in the workforce, but many of the people were voluntarily not working.

[1:58:28 PM](#)

Senator Wielechowski referenced the impact of proposed cuts to education, which he thought would affect the workforce, the likelihood that young families stayed in the state, and the decisions that young people made. He thought the proposed cuts would have a big effect on the future.

Mr. King thought that it was difficult to forecast the effect of the proposed cuts to education. He thought there was a couple of ways that education funding translated to economic activity. He thought the impacts to education were more about the quality to the Alaskan versus the Alaskan economy. He discussed the social value of education and thought it should be considered in the subcommittees. He thought many things could not be measured in the way people wished.

Senator Wielechowski pondered that a young family would leave the state if faced with a choice of 40 to 50 kids in their child's classroom. He wondered if Mr. King was suggesting that someone would fill the family's place.

Mr. King stated that if a job was open and recruiting, it would attract a person that wanted to live in Alaska, and would accept the wage and circumstances. He asserted that the labor market still had a demand for the labor, it just might be a different group of people. He was not suggesting it was not necessary to fund education. He thought it was needed to analyze the quality and value of the monies being spent, and if people were willing to pay the price for the quality of education. He thought it was important to figure the minimum adequate level of education, and then consider

the value of every \$100 million increment above what was adequate in order to reduce class size.

Senator Bishop heard in the Senate State Affairs Committee that the superintendent from Hoonah had said the proposed cuts would cause a school to close. He asked if such impacts had been considered. He understood that Mt. Edgecombe School in Sitka was full.

Mr. King stated that the impacts in individual communities were very important. He posited that when there was a negative impact in one region, and a positive impact in another region, from a statewide perspective it was a wash. He reiterated that the impacts were important and needed to be evaluated but were not in the purview of what he was discussing.

Senator Bishop disagreed.

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Senator Micciche thought it was important to remember that the state was struggling to hire teachers and referenced a bill from the previous year that dealt with teacher retiree rehire. He cited the same issue with law enforcement. He supported the private sector taking over other responsibilities when possible. He referenced "Reaganomics" and cash incentives through a reduction in taxes. He reiterated that the governor's proposed budget would increase local taxes. He asked what would fund the replacement.

BRUCE TANGEMAN, COMMISSIONER, DEPARTMENT OF REVENUE, reiterated his statement from the previous day that the discussion would take multiple meetings. He thought the meeting was venturing into discussion into the proposed budget's effects on the economy. He suggested that the administration return at a later time to present on deeper silos on the different parts of the budget.

Co-Chair Stedman agreed with Commissioner Tangeman's suggestion and expressed a desire to complete review of the slides.

Mr. King addressed slide 15, "Retirement Income Helped Cushion the Impact of Oil Price Crash":

Takeaways:

1. The multiplier effects did not manifest, because people adjusted to the shock without reducing spending;
2. The lack of spending reduction suggests that retirement was a more likely reaction than migration

Mr. King summarized that the slide reflected a recent recession, significant job loss, and a significant reduction in wages. He asserted that he did not see a significant reduction in the amount of money people were spending, which he thought refuted the assumption that job loss resulted in spending going to zero in the last recession. He suggested that there would be less indirect effects than commonly thought as the result of the potential future job losses.

Mr. King looked at slide 16, "Retirement Income Helped Cushion the Impact of Oil Price Crash." The slide showed a graph entitled 'Housing Prices Did Not Crash.' He furthered that housing prices had not recently crashed as they had in the 1980s due to residents with more equity and deeper ties to the community. He thought the state's current economy was much more robust and able to handle more changes than in the past.

Co-Chair Stedman reminded that the state had fairly substantial capital budgets that were intentionally implemented to counter the recession with fiscal stimulus. He reminded that it was difficult to compare Alaska to other states.

Mr. King asserted that the idea of fiscal stimulus to help an economy get out of a recession was sound but could have the effect of lengthening the recession. He thought spending money from savings accounts had lowered the intensity of the recent recession but had extended it and delayed growth. He proposed that when coming out of a recession, it was time to scale back on stimulus efforts.

[2:07:19 PM](#)

Mr. King showed slide 17, "Impact of Proposed Budget."

Mr. King looked at slide 18, "State Budget Volatility":

Takeaways:

1. This proposal is not unprecedented in terms of total spending;
2. This budget returns the state to 2005 levels of inflation adjusted spending

Mr. King summarized that the slide showed that the budget had volatility every year.

Mr. King highlighted slide 19, "Impact of Budget on Labor Market":

Takeaway: Prior increases/decreases did not generate the type of impacts being discussed

Mr. King commented that the data didn't show the kind of impacts in the data that was shown in the model. He explained that it didn't mean the impacts weren't happening, but that there were other factors.

Commissioner Tangeman thought that Dr. Guettabi had cleared up some of the issue. He referenced Dr. Guettabi's summary slide, which had reduced the number of expected job losses to 1,700. He thought there was not a fixed calculation to estimate job losses, but rather a combination of considerations.

Co-Chair Stedman asked about the increases in spending shown on slide 19 and thought the vast majority of decrease was capital budget.

Mr. King thought Co-Chair Stedman had made a fair point.

Senator Micciche commented that the slide was scaled on inflation but not population growth.

Mr. King stated that the slide was scaled neither for inflation nor population growth.

Senator Micciche had run the graph with a different scale to see more granularity. He suggested that running the numbers corrected for population growth and inflation showed a very different picture. He thought the slide was worth reviewing with the adjustment and expressed interest in reviewing it with Mr. King.

Mr. King pointed out that the government spending was not the only thing to change over the period on the graph. He

referenced job losses of 12,000 to 13,000; and thought 6,000 to 7,000 of the jobs were directly from the oil companies. Some indirect effect of the job losses was in the data, and some of the job losses were tangential. A small portion represented state job losses as a result of budget cuts. He thought it was not proper to say all of the impacts were attributable to one thing; but there were 1,000 things going on.

Mr. King discussed slide 20, "Budget Impact on Total Jobs":

Takeaway: There is no statistically significant relationship between State spending and jobs in Alaska's history, once controlling for inflation and population growth

Mr. King stated that the point of the slide was to show the correlation of government spending on agency operations versus the number of jobs in the economy on a per capita basis. He thought that the slide showed that government did not create jobs. He asserted that the job of government was not to create jobs.

[2:11:15 PM](#)

Mr. King looked at slide 21, "10-Year Jobs Forecast."

Takeaway: The pre-budget forecast of 17,000 job growth included some expectation of future budget cuts, meaning that simply subtracting those jobs from this forecast is improper

Mr. King noted that the slide showed a graph of the ten-year job forecast as published by DOLWD. He pointed out the fact that healthcare services was the biggest growth sector in the economy largely because of the aging population. He thought aging of people would be unaffected by the budget but that payment for services would be affected; so, he expected that some of the job increases would not occur.

Mr. King continued that the DOLWD forecast had anticipated some reduction in state spending. He noted that the whole forecast would be redone and would paint a different picture. He concluded that the state was not on a precipice of a depression, nor economic calamity that would result from a change in budget. He acknowledged that the proposed

change in budget would have impacts, but it would not destroy the economy.

Co-Chair Stedman thought several communities might disagree with Mr. King's assessment considering that the impact at the local level. He referenced property tax payments and mortgage payments and thought Mr. King's statement was broad. He thought the statement should be taken with a grain of salt.

Mr. King did not want to come off as belittling the impacts on individuals. He informed that there was a difference between microeconomic impacts and macroeconomic impacts. He acknowledged that there would be negative and positive impacts. He thought there was a challenge in balancing focusing on individual impacts versus the big picture.

Senator Wielechowski referenced another article authored by Mr. King the previous year. The article discussed Medicaid, and the challenges and complexity of the issue. The article asserted that the issue had huge ramifications on the economy, the general population, and the budget. The article estimated that there could be savings from cutting optional Medicaid programs in the range of \$100 million. He asked if Mr. King agreed that the proposed Medicaid cuts would have huge ramifications on the economy as he asserted the previous year.

Mr. King stated that he was in "a tricky position" due to his role and asked not to answer the question.

Co-Chair Stedman stated that it was fine for Mr. King not to answer the question. He suggested that the chart on slide 21 be taken with caution because of the magnitude of the budget issue being considered. He expected the chart to be restated and look different after the budget was signed.

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Senator Wielechowski did not know that Mr. King could pass on the question. He thought that Mr. King had made a broad statement that budget cuts by the governor would not impact the economy; yet had said two months previously that cuts to Medicaid would have huge ramifications on the economy.

Co-Chair Stedman understood the question. He wanted to move on.

Senator Wilson thought a more in-depth conversation pertaining to Medicaid would aid in more fully understanding the issue. He thought it was important to understand the waiver program.

Co-Chair Stedman stated that there would be further and more in-depth committee meetings on the topic of the Department of Health and Social Services budget, Medicaid, Medicare, and Alaska Pioneer Homes. He relayed that the commissioner enthusiastically invited himself to the meeting and would be participating.

Senator Micciche discussed the assumption of a \$500 PFD as listed on slide 22. He asserted that no one was assuming a \$500 PFD. He referenced the ISER estimate of 14,272 jobs. He thought Mr. King had found no relationship between PFD payments and changes in jobs.

Co-Chair Stedman asked for Mr. King to address slide 22.

Mr. King addressed Senator Wielechowski's question and clarified that he had not meant to say that there would not be impacts from budget cuts. He stated there would also be impacts from other things, and the net projection of the economy was not as dire as people might want to believe it would be. He was not trying to say contractionary spending had no impact.

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Mr. King addressed slide 22, "Expected Jobs Impacts":

- State Jobs
 - Unclear - depends on privatization efforts
 - Up to 1,000
- Education related jobs
 - Unclear - depends on school board decisions (instruction vs non-instruction vs efficiencies) and change in local contributions
 - Up to 3,000 jobs
- University related jobs
 - Unclear - depends of board of regents decisions (close campuses vs horizontal cuts vs raise revenue)
 - Up to 1,500 jobs
- Healthcare related jobs

- o Unclear - depends on market reaction to changing payment system
 - Industry projected to grow regardless, so slower growth is more likely than net job losses
- Trade related jobs
 - o Injection from larger PFDs will spur more spending and create more labor demand
 - ISER estimate is 14,272 jobs (892 jobs per \$100 million x \$1.6 billion)
 - o Reduced employment from budget reductions will offset part of this increase
 - o Improved fiscal stability should generate additional investment (although timing is uncertain)

Note: Jobs counts are not the best measurement of economic impacts

Mr. King discussed mitigating factors of the expected job impacts of the proposed budget. He thought there were people studying the expected job impacts on the healthcare related jobs, which was a complex issue that warranted close attention. He discussed proposed reductions to the PFD. He did not believe the ISER estimate of trade-related job loss. He thought jobs were not a good measure of how the economy was functioning.

Mr. King spoke to trade related jobs. He thought the topic related to the ability of investors to feel confident enough in Alaska's economy to invest in it. He thought a reduction in uncertainty would generate stability and thereby some investment. He thought the theory supported that a stable environment that had low taxes was going to attract more investment and more economic growth.

Co-Chair Stedman recalled the ISER estimate of 7,000 jobs lost.

Senator Bishop thought there was a lot to discuss. He thought the slide was a rough draft bid proposal. He was stunned with Mr. King's assertion that jobs were not a good indicator of an economy.

Senator Bishop discussed attracting business to the state. He thought industry looked at factors such as the health and quality of schools, the University, crime, roads, and

services. He thought the committee needed to address those factors that would bring business to the state.

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Mr. King showed slide 23, "Expected Impacts":

- Regional impacts will be more pronounced than total State impacts
- Every individual will be impacted differently, regardless of fiscal solution
- There will be initial job losses from smaller budget
 - It will not be 17,000 jobs
- There will also be additional jobs from larger PFDs
- Some job losses will result in retirement, relocation, new employment, and new
 - Net job losses will be smaller than anticipated by static models
 - Indirect effects will be smaller than anticipated as a result
- Household income will be higher, as a result of larger PFDs
 - Alaskans will decide how to best improve their quality of life
- Local governments will replace some spending reductions
 - Mitigates some of the direct effects
 - Brings spending and revenue decisions closer to user groups
- Economic growth will still occur through increased resource development, tourism, military, retirement spending, health care demand, and private investment

Senator Micciche understood the challenge of the short time span in which to create the governor's proposed budget. He thought it had been demonstrated that a cut of \$1.6 billion was not possible so local taxes were shifted to state coffers. He mentioned federal requirements that local governments had to deliver. He thought it was the legislature's job to understand the impacts of the governor's proposal. He wanted to see more evaluation of the impacts of the proposed budget. He acknowledged that the task took time. He asked if the work of analyzing the effects of the proposed cuts was taking place. He thought the budget demonstrated the enormity of the issue for the public. He asked Mr. King if the proposed budget was

illustrative to discuss options and get to a better place. He felt the budget had to be reduced.

Commissioner Tangeman knew that Senator Micciche was referencing the administration when he had said "you guys." He reminded that the Department of Revenue and the economists did not put the budget together, but helped analyze it and continued to look into the details. He thought Senator Micciche's question might be best addressed to OMB.

Senator Wielechowski referenced a sentence on slide 20:

Takeaway: There is no statistically significant relationship between State spending and jobs in Alaska's history, once controlling for inflation and population growth

Senator Wielechowski pointed out that expected job impacts on slide 22 said "unclear." He summarized that Mr. King's position was that it didn't matter what the state did, the budget could be decreased by a couple of billion and it would not have a statistical impact on the economy. He thought the same could be said of the PFD.

Commissioner Tangeman thought Mr. King and Mr. Guettabi had both expressed that all decisions would have consequences and impacts.

Co-Chair Stedman discussed the agenda for the following day.

#

ADJOURNMENT

2:29:58 PM

The meeting was adjourned at 2:29 p.m.