

# Economic Impacts of the Vetoes on the Alaska Economy

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## Abstract

On June 28, 2019 Governor Mike Dunleavy announced line-item vetoes totaling \$409 million from the State of Alaska budget for Fiscal Year 2020. These vetoes include significant cuts to the University of Alaska, Medicaid, payments to local governments, public assistance programs, state personnel headcounts, and numerous other categories. The full consequences of these cuts on the state economy, fiscal health, population, and policy outcomes will take years to develop. In this paper, we provide the short term impacts of the cuts, how they interact with the current state of the economy, and a descriptive outlook of the some of the future effects. We find the cuts will result in more than 4,000 jobs lost in the short run and will therefore return the Alaska economy into recession. While the short term losses represent a considerable negative shock to the economy, the consequences of these cuts on long term development could be even more pronounced.

*Keywords:* Economic impacts; Vetoes; Alaska.

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# 1 Introduction

In this briefing, we attempt to estimate the employment effects that may result from the cuts, using an input output model. After subtracting fund transfer vetoes of \$50 million (money transferred from one state fund to another rather than spent) the remaining \$360 million in cuts could result in a loss of about 4,200 jobs in the short run. It is important to note that the actual job losses in the short run could be smaller/larger depending on how agencies and other recipients decide to absorb the losses.

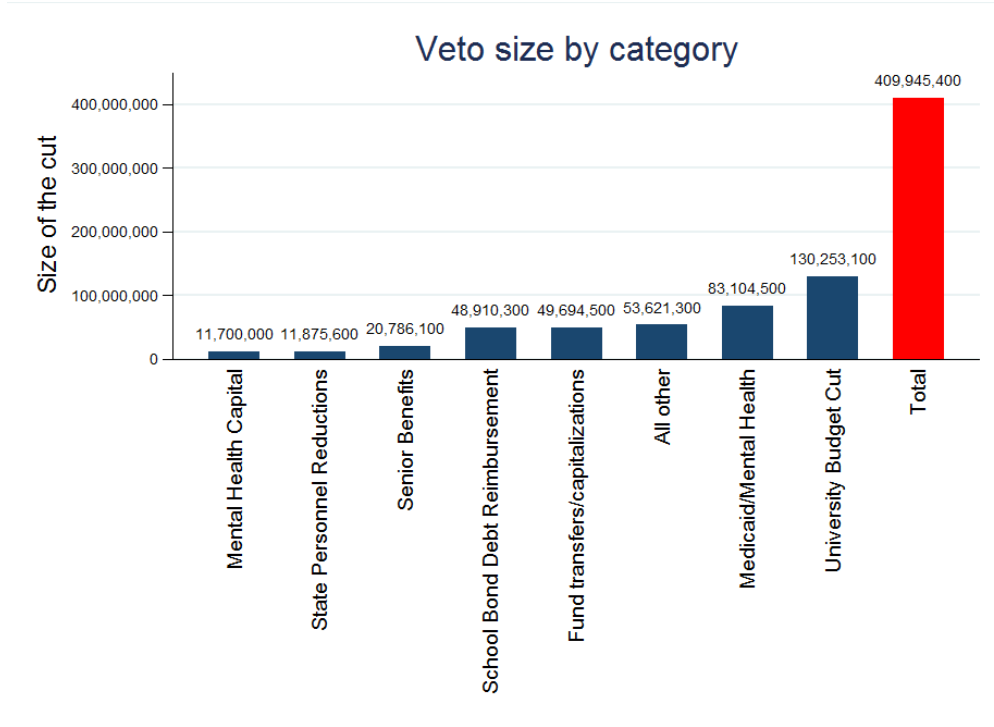
## 1.1 A breakdown of the cuts

Table 1: Table 1: Size of the cut by category

Category	Amount
University Budget Cut	\$130,253,100
Medicaid/Mental Health	\$83,104,500
Senior Benefits	\$20,786,100
School Bond Reimbursment	\$48,910,300
State Personnel Reductions	\$11,875,600
Mental Health Capital	\$11,700,000
All Other	\$53,621,300
Fund Transfers/Capitalizations	\$49,694,500
<b>Total</b>	<b>\$409,945,400</b>

In Table 1 and Figure 1, we show the distribution of cuts by category. The University cuts represent 31.73% of the total vetoes. Medicaid/Mental Health come in second at 20.27% of the total, and school bond reimbursements account for another 12%. These three categories, therefore, represent more than 62% of the overall amount vetoed.

Figure 1: Size of the cuts by category



## 2 Employment effects of the cuts

In Table 2, we show how the cuts presented in Table 1 translate to job losses. Direct employment refers to the immediate job losses within the organization subject to loss of funds. Multiplier effects cause further job losses referred to as indirect and induced jobs as the organization buys fewer goods and services and households suffering from loss of income spend less money in the economy. Total employment includes these jobs as well as the direct jobs. As the largest line item veto at over \$130 million, the University of Alaska would account for over 40% of the total job losses according to our analysis. Since 55% to 65% of the University operating budget goes to personnel, direct job losses would be necessary. Other cuts would have similar, if somewhat smaller, ripple effects on employment in Alaska. Medicaid reductions, for instance, would result in health care providers receiving less revenue, forcing them to cut costs by laying off workers. The Senior Benefits Program, which provides monthly payments of up to \$250 to low-income senior citizens, supports

household purchases of groceries and other staples that would be reduced. Reduction in school bond debt reimbursement paid to local governments would likely cause them to raise taxes, effectively reducing household consumption and revenue for the businesses that depend on it.

Table 2: Direct and Total Employment Losses by Category

Category	Direct Employment Losses	Total Employment Losses
University Budget Cut	1,300	<b>2,024</b>
Medicaid/Mental Health	575	<b>890</b>
Senior Benefits	–	<b>141</b>
School Bond Reimbursement	–	<b>313</b>
State Personnel Reductions	68	<b>124</b>
Mental Health Capital	101	<b>149</b>
All Other	–	<b>576</b>
Fund Transfers/Capitalizations	–	–
<b>Total</b>	<b>1,943</b>	<b>4,217</b>

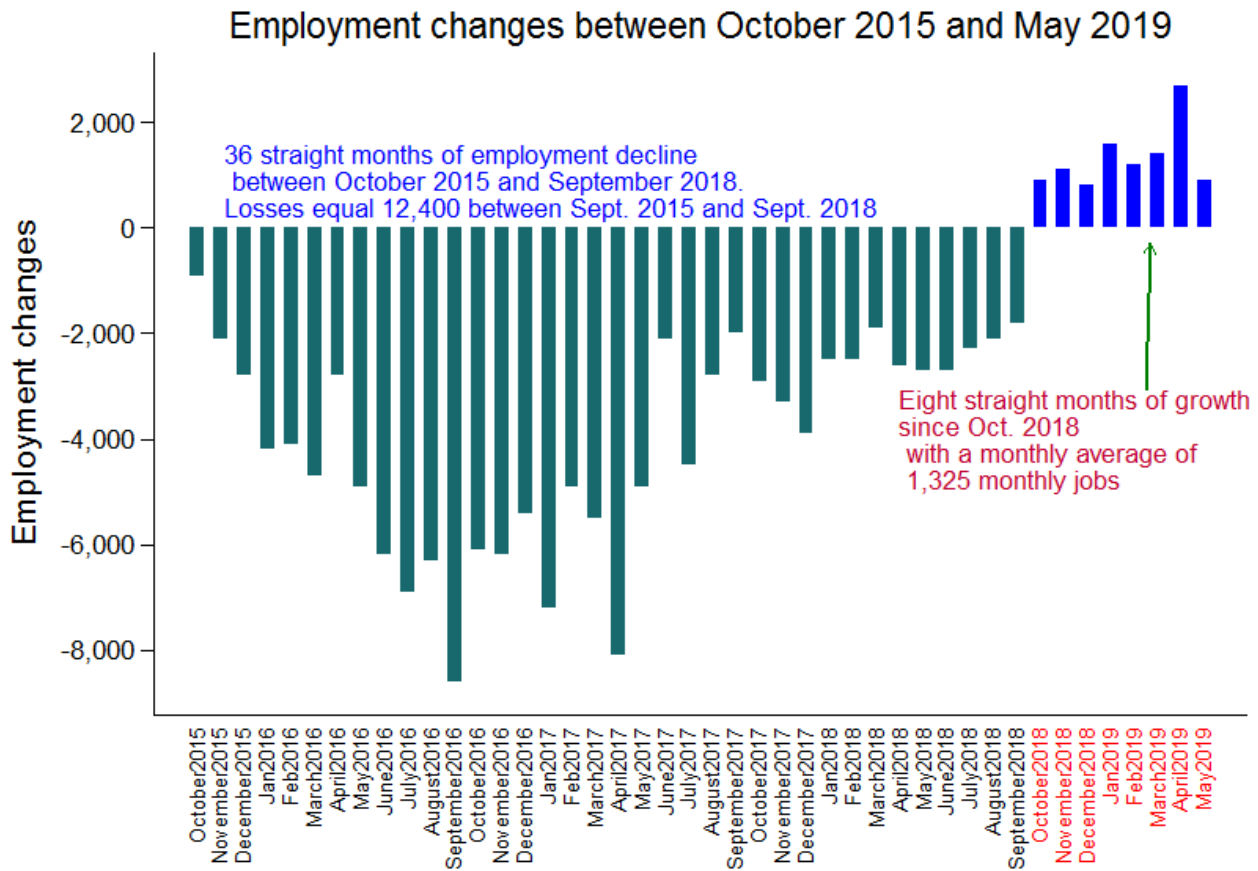
### 3 How strong is the Alaska economy?

An important question is the extent to which these cuts will impact the overall economy and its fragile recovery. Before providing a look forward, we revisit the Alaska economy’s performance over the last three years. As a result of the severe oil price decline, Alaska has experienced its longest recession -3 years- when it had employment losses every month between October 2015 and September 2018. The cumulative losses between September 2015 and September 2018 amounted to 12,400 jobs.<sup>1</sup> Since October 2018, the Alaska economy seems to have turned the corner and employment has been positive for eight straight months. Relative to the same eight month span last year, employment is averaging about 1,325 more jobs.<sup>2</sup> The level of employment as of May 2019 is still, however, 11,600 below what it was in May 2015. Therefore, while the economy has come out of the recession it is still far from a full employment recovery.

<sup>1</sup> Source: Alaska Monthly Employment Statistics.

<sup>2</sup>This does not mean that the economy is adding 1,325 jobs every month. It simply means that the employment in, for example, March 2019 is 1,325 higher than March 2018.

Figure 2: Employment changes between October 2015 and May 2019



## 4 What do the cuts mean for the recovery?

For illustration purposes, we show how the average growth in the last eight months relative to the same period last year compare with the direct cuts that will be implemented at the University of Alaska. This is before taking into account the other direct losses, as well as the indirect and induced losses in the economy.

Figure 3: Employment change between October-May 2019 relative to UA direct job losses

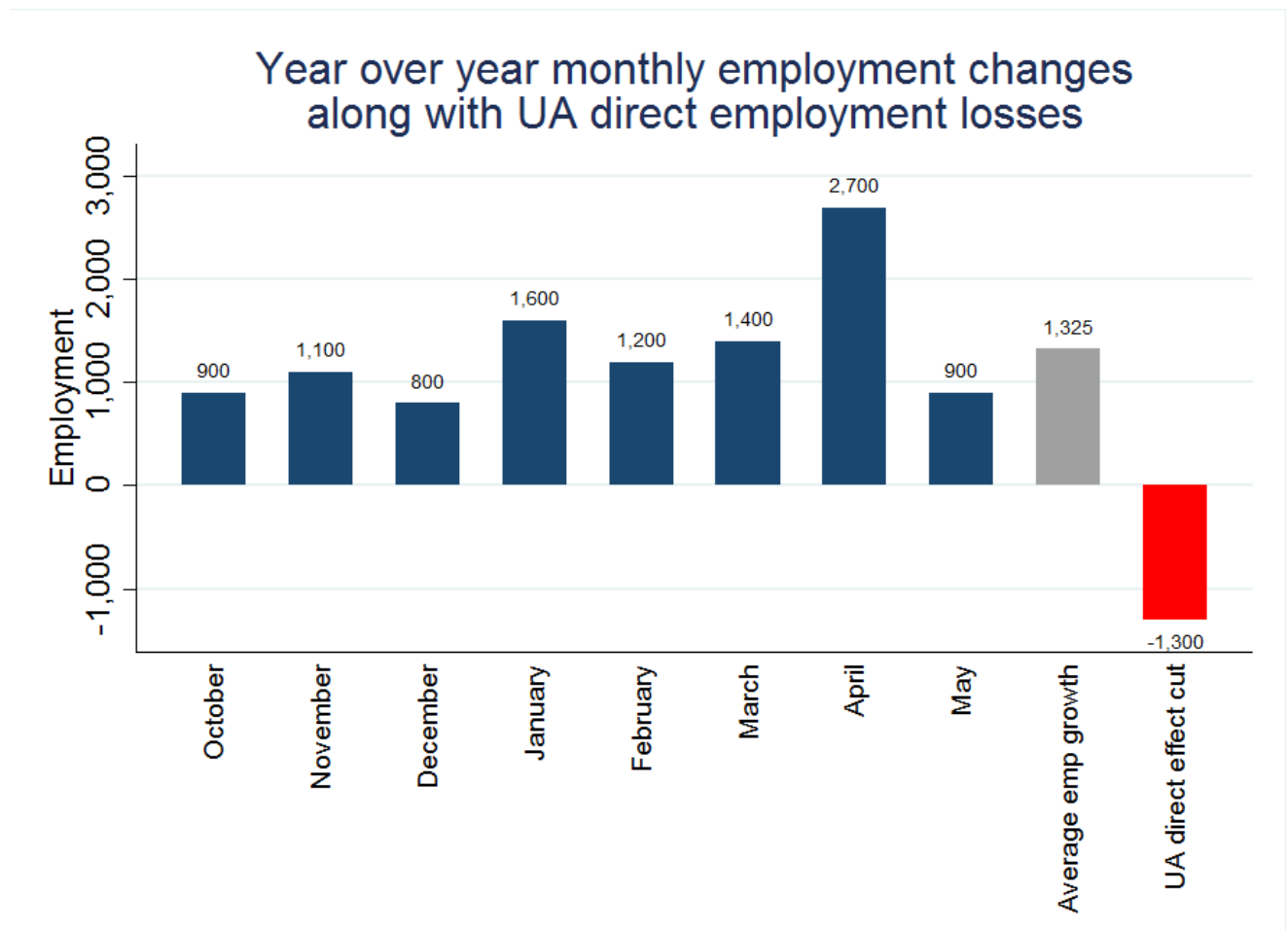
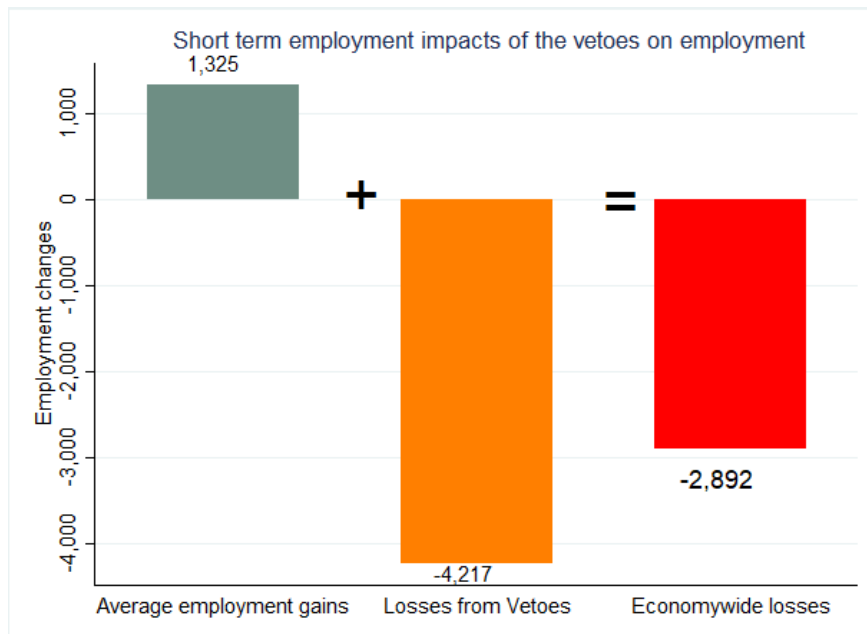


Figure 3 shows that the 1,325 employment gains the state has averaged in the last eight months would be completely offset by the UA direct job losses alone. It is important to note that these losses would take place immediately essentially resulting in the economy slipping back into a recession as soon as August.

## 4.1 What happens if we account for all the losses?

In Figure 4, we show that the economy would experience losses averaging more than 2,500 jobs even after accounting for the “other” gains unrelated to these cuts. This makes it clear that the economy will dip back into a recession as a result of this shock. It is important to note that this makes the strong assumption that other sectors of the economy will keep growing at the same rate as what they averaged in the last eight months. That is unlikely to happen given the amount of economic uncertainty the state is currently experiencing. In general, the economy would need to grow from “other” sectors at 4,200 jobs or higher to offset the losses we estimate. That level of growth has not occurred since May of 2014, when oil prices were well over \$100 per barrel.

Figure 4: Economy wide employment changes



## 4.2 What can we say about migration?

It is important to note that the job losses resulting from state budget cuts we evaluate will also differ in key respects from the employment declines of the oil driven recession. Many of the jobs lost since 2015 were held by non-locals (like North Slope oilfield workers) with



a limited economic footprint in the state.<sup>3</sup> Jobs in state government or the University of Alaska, on the other hand, are held by residents who often own homes and send their kids to local schools. Additionally, the majority of university employees compete in national markets making the likelihood of out-migration high which can in turn affect housing prices.

## 5 University implications

### 5.1 What are the effects of the cuts on enrollment?

Deming and Walters (2017) find that a 10 percent budget cut reduces enrollment by 3 percent, BA degrees by 4.5 percent, and certs/AAs by 14 percent. Using these estimates, we can conclude that the University of Alaska will lose a considerable number of students, and that the number of degrees and certificates will be affected for years to come.

### 5.2 What about brain drain?

There is a concern that falling enrollment could result in brain drain which would affect the state for years to come. According to the Alaska Commission of Post Secondary Education, a majority of the students who attended postsecondary education chose to enroll in Alaska institutions (53%), while 29% chose to attend out-of-state institutions, and 18% had mixed in-state and out-of-state attendance after high school graduation. Importantly, those who attended Alaska institutions were considerably more likely to remain in state.

## 6 Takeaways and long run considerations

While short-term effects can be estimated through a set of tools familiar to specialists, long-term impacts of fiscal choices are much more variable and complicated to analyze. However, the professional practice of economic development recognizes the importance of education,

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<sup>3</sup>Non-resident employment in the oil sector is around 30% according to the Alaska Department of Labor

human capital, and quality of life. One annual survey of corporate executives finds that the single most important factor when deciding to expand or relocate their firm to a given area is the availability of skilled labor, cited by over 90% of respondents. In the Anchorage Economic Development Corporations Business Confidence Index, four of the top 10 barriers described by businesses relate to workforce cost and availability. Public safety and housing availability are also among the high-ranked barriers. The university cuts harm the ability of employers to hire skilled graduates which will in turn harm Alaskas economic prospects. Should job losses result in out-migration (a near certainty) then the state's already small labor market would shrink further, worsening conditions for businesses. Below, we list a few other considerations worth taking into account:

- An out-migration of seniors caused by loss of Senior Benefit income and Medicaid cuts. A large economic footprint is associated with care for the elderly, employing thousands as nurses and other medical professionals with high wages. These jobs could be lost.
- Declining prospects for technology-led growth, if the University is forced to cut programs in STEM fields like engineering and computer science. The entrepreneurship community has already identified a shortage of programming talent as a major gap.
- A decline in the property tax base for local governments if the real estate market declines. This would jeopardize funding for public schools as well as core services like public safety.
- A spiraling effect at the University as departing faculty take their research grants with them, causing further loss of funding that supports jobs. At the same time, falling enrollments would cause decreasing tuition revenue, forcing increases in costs passed onto students
- Worsening of health care costs due to decreases in Medicaid reimbursements. Private insurance rates could grow as medical providers charge more to make up for lower Medicaid revenue.