

We will begin
shortly. Thank you.



CHANGING FISCAL PRIORITIES

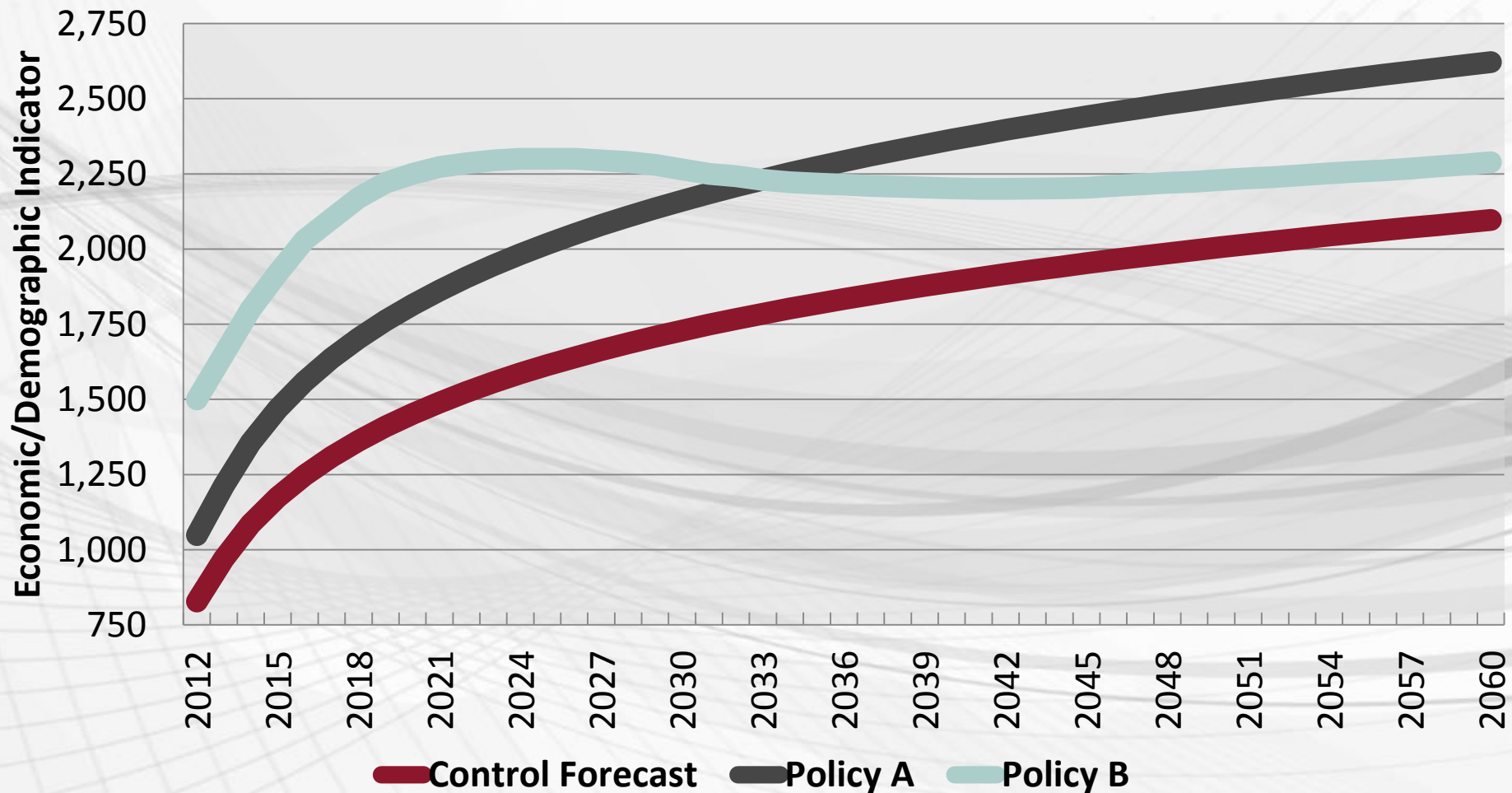
UNDERSTANDING STATE & LOCAL ECONOMIC IMPACTS

REMI WEBINAR
JUNE 8, 2017

*what does **REMI** say? sm*

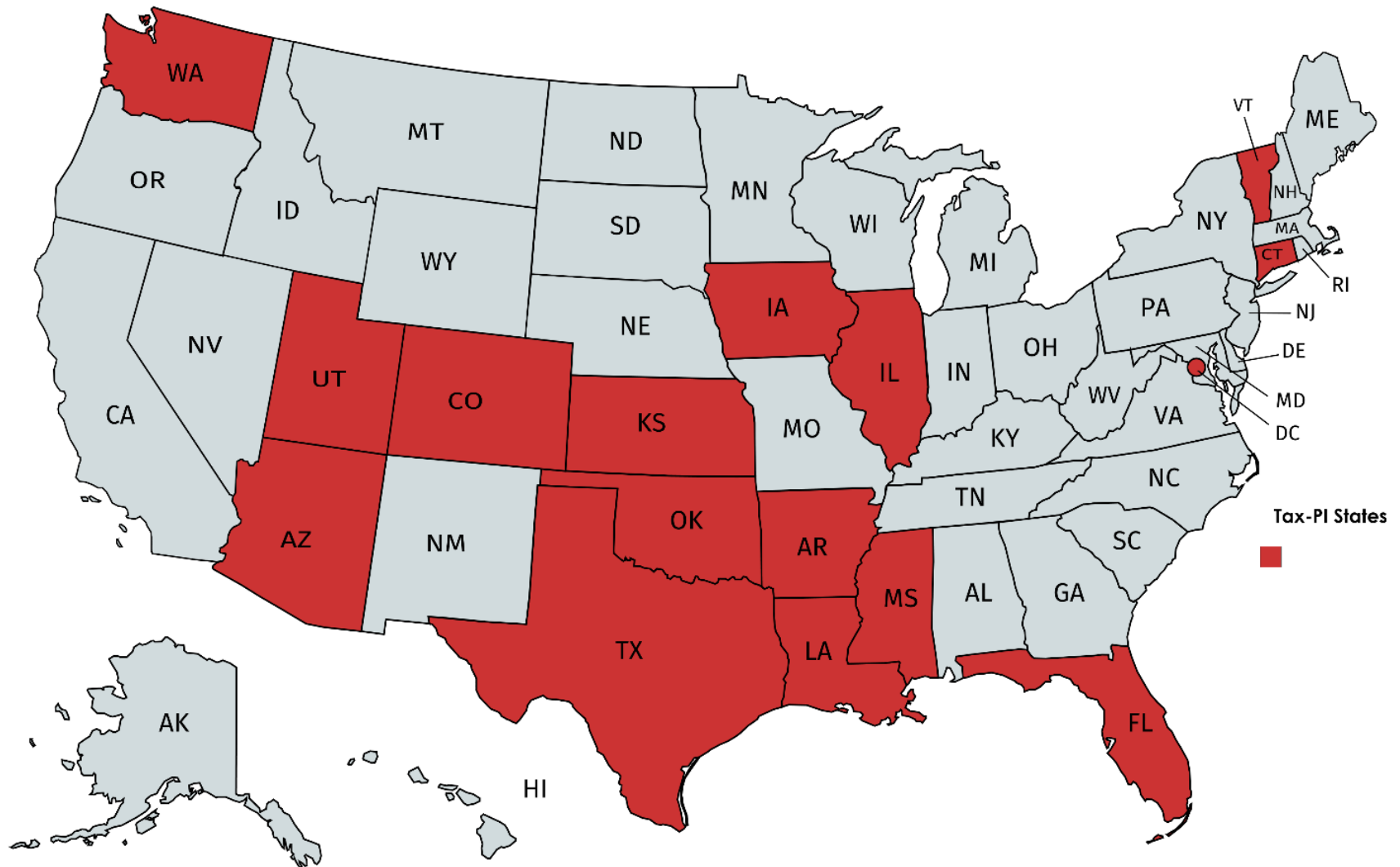
Chris Brown | Manager | Washington, DC

Static vs Dynamic Impacts



what does **REMI** say? sm

Dynamic Economic and Fiscal Analysis in the States



Washington: Aerospace tax credit
Illinois: First-ever dynamic note
Utah: Dynamic note pilot program

Texas: \$75M for Dynamic Notes
Georgia: Income/sales tax tradeoff
Colorado: Income tax reform

Federal Energy Efficiency Deduction



- REMI analyzed the impacts of extending and expanding a tax incentive to encourage energy efficiency in commercial buildings
 - ▣ Section 179D deduction, created in 2005, has expired and been reinstated multiple times over the years
 - ▣ REMI evaluated the effects of: 1. Extension, 2. Expansion to include nonprofits and tribal governments, and 3. Strengthening by increasing deduction to \$3.00 per square foot from \$1.80 and other revisions

Average Annual Economic Impacts for First Ten Years

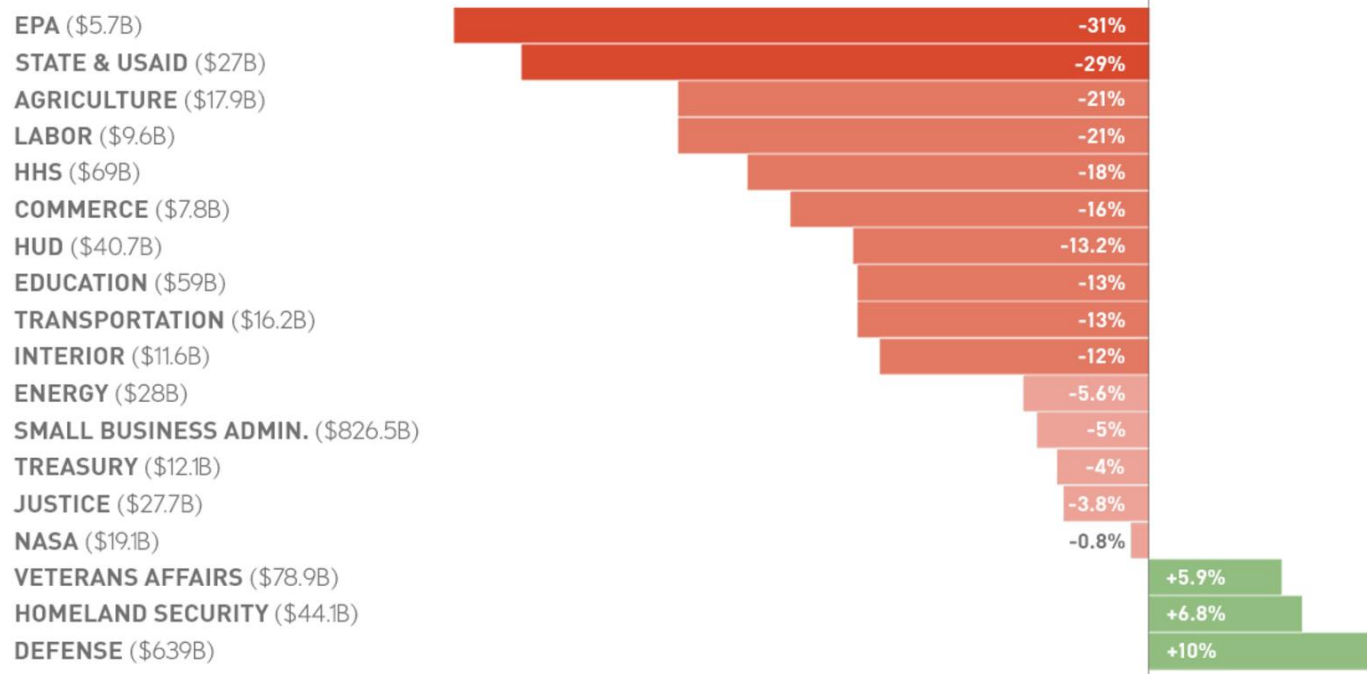
INDICATORS	Strengthen and Modernize	Extension plus Expansion	Extension of Current Law
Jobs	76,529	39,388	40,749
GDP (millions of dollars)	7,398	3,730	3,860
Personal Income (millions of dollars)	5,729	3,017	3,128

what does **REMI** say? sm

<https://www.aia.org/press-releases/89731-study-documents-major-job-growth-from-energy>

- \$4.3T in cuts over 10 years
- 13% reduction in discretionary spending over 10 years
- 7% reduction in mandatory spending over 10 year
- Non-Defense Discretionary = 13% of federal budget
- Discretionary Spending equals 26% of federal budget

BREAKING DOWN TRUMP'S FIRST PROPOSED BUDGET



SOURCE: OFFICE OF MANAGEMENT AND BUDGET

NINA LIN/NBC

A New Foundation for American Greatness



Phase down the use of Overseas Contingency Operations funding ¹	1	-2	-16	-33	-51	-69	-77	-82	-85	-87	-90	-171	-593
Total, reprioritize discretionary spending	-3	25	-13	-63	-113	-152	-185	-214	-243	-271	-299	-316	-1,528
Debt service and indirect interest effects	—*	*	*	-1	-5	-12	-24	-38	-55	-76	-101	-18	-311
Total proposals in the 2018 Budget	-3	29	-3	-96	-185	-287	-394	-480	-573	-715	-858	-542	-3,563
Effect of economic feedback	*	-2	-24	-63	-102	-153	-213	-267	-333	-408	-496	-345	-2,062
Total deficit reduction in the 2018 Budget	-3	27	-28	-159	-288	-440	-607	-747	-906	-1,124	-1,354	-887	-5,625
Resulting deficit/surplus (-) in the 2018 Budget	585	603	440	526	488	456	442	319	209	176	110	-16	2,351
Percent of GDP	3.2%	3.1%	2.2%	2.5%	2.2%	2.0%	1.8%	1.3%	0.8%	0.6%	0.4%	-0.1%	3,150

* \$500 million or less

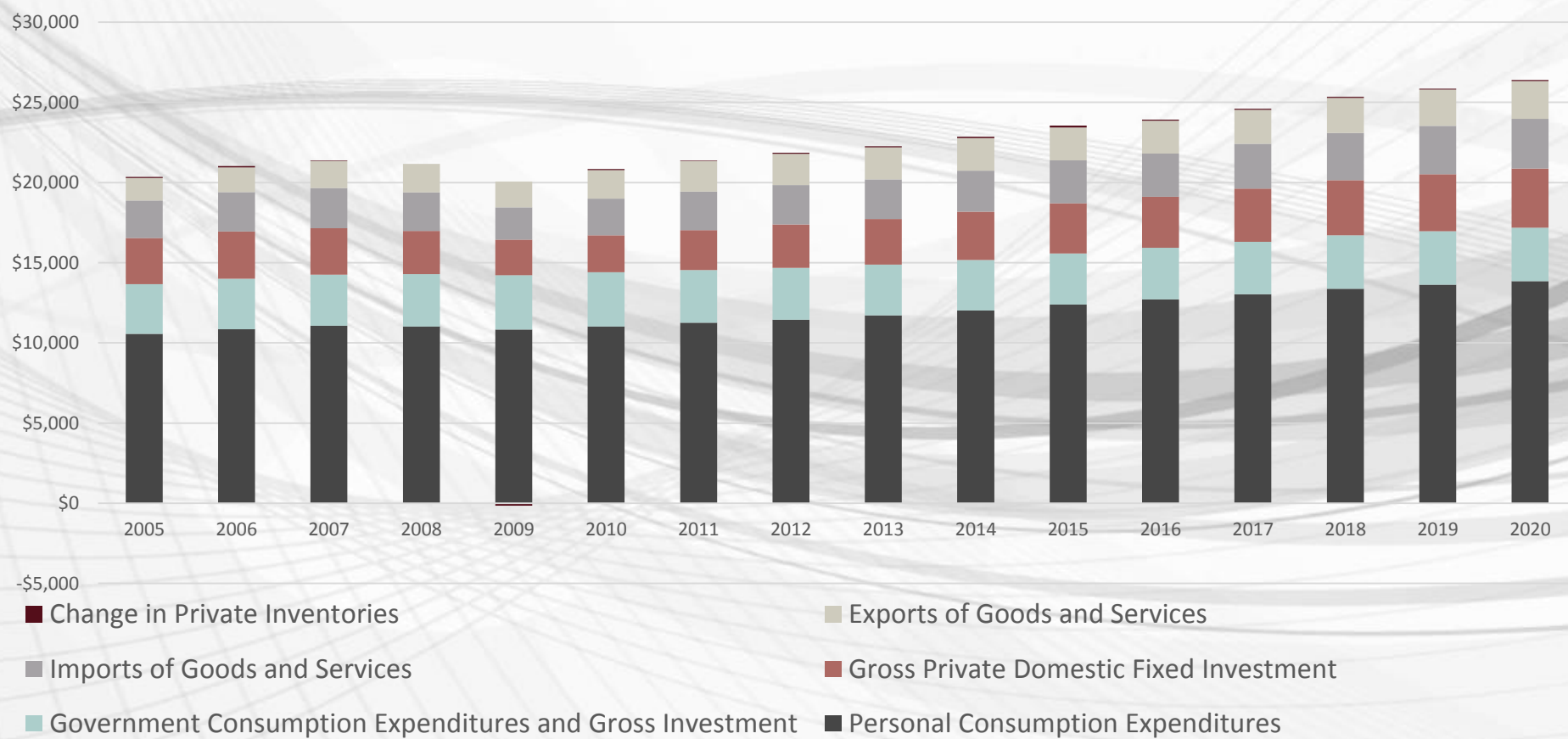
¹ Reductions associated with OCO are relative to the BBEDCA baseline and are based on notional placeholder amounts that are consistent with a potential transition of certain OCO costs into the base budget while continuing to fund contingency operations. The placeholder amounts do not reflect specific decisions or assumptions about OCO funding in any particular year.

SUMMARY TABLES

- CBO potential real GDP 1.6%-1.7% annually
- Budget assumes 3% GDP Growth
- U6 Unemployment peaked around 17% in 2010 now at 8.4%

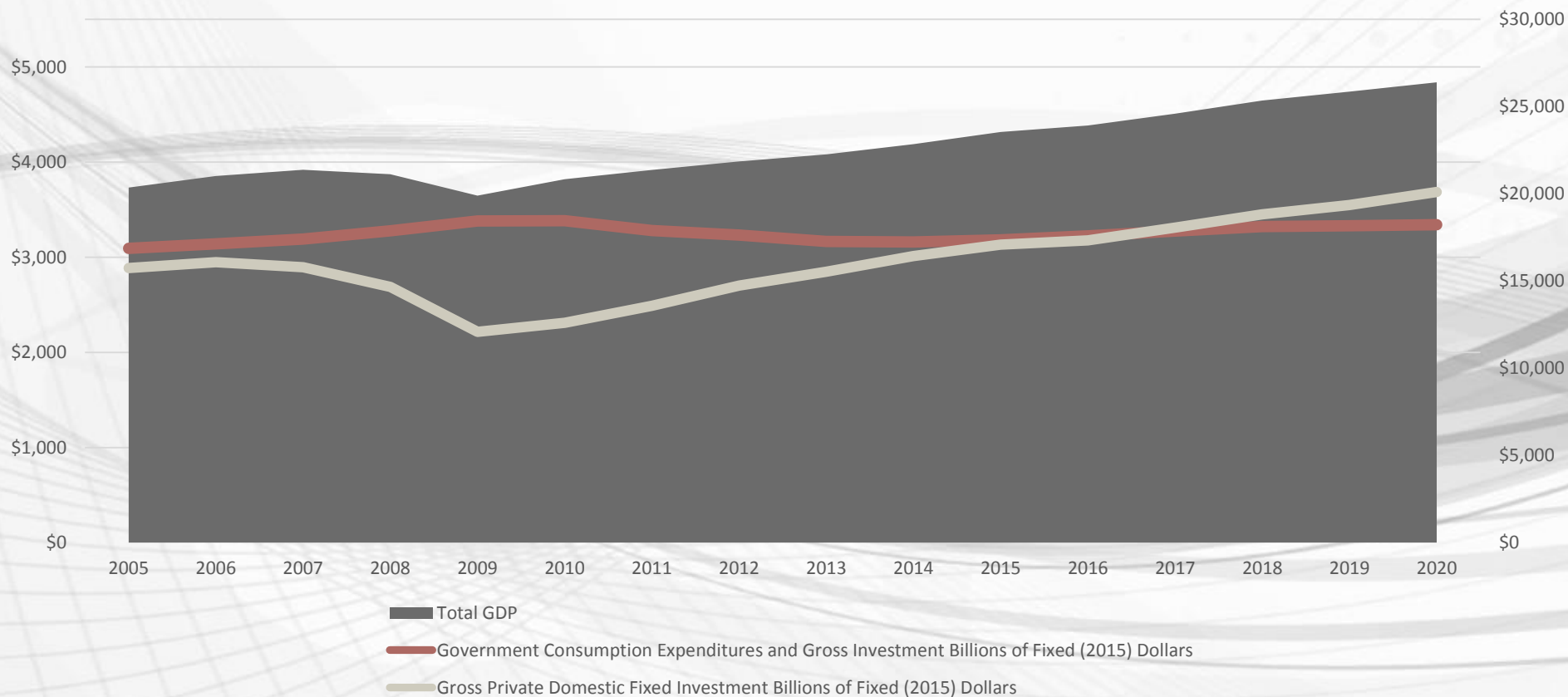
what does REMI say? sm

GDP by Component (\$Billions 2015)



what does REMI say? sm

Fixed Private Investment and Government Consumption (\$Billion 2015)



Defense Impacts



- *Using a Multiregional Forecasting and Simulation Model to Gauge the Effects of the Military Buildup on State Economies, 1981-1985* – George Treyz, et al
 - This study was one of the earliest multiregional models for evaluating the impacts of national policy on a regional level.
 - The paper describes the effects of the defense buildup under President Reagan on the 50 states, plus D.C.

Regional Impacts



Employment Effect of Military Buildup as a Percent of Total Employment

Region	1981	1983	1984	1985
New England	1.48%	1.94%	2.70%	3.23%
Mideast	.80%	1.45%	1.70%	2.13%
Great Lakes	.52%	.90%	1.19%	1.18%
Plains	.70%	1.12%	1.73%	2.22%
Southeast	.57%	1.51%	1.53%	2.02%
Southwest	.31%	.86%	1.30%	1.82%
Rocky Mountains	.57%	.88%	1.27%	1.44%
Far West	1.46%	2.76%	3.11%	3.25%

Military Less Civilian Spending Alternative



Employment Effect of the Military Less the Civilian Spending Alternative as a Percent of Total Employment

Region	1981	1983	1984	1985
New England	.44%	.11%	.50%	.43%
Mideast	-.21%	-.33%	-.39%	-.48%
Great Lakes	-.53%	-.94%	-1.00%	-.98%
Plains	-.21%	-.47%	-.13%	-.09%
Southeast	-.39%	-.19%	-.46%	-.46%
Southwest	-.66%	-.84%	-.69%	-.65%
Rocky Mountains	-.36%	-.73%	-.61%	-.90%
Far West	.51%	1.07%	1.13%	.78%

Trump Tax Outline



- ❑ Cut the corporate rate from 35% to 15%
- ❑ Apply the lower rate to “pass-through” businesses
- ❑ Reduce seven tax brackets to three: 10%, 25% and 35%
- ❑ Eliminate estate tax
- ❑ Treasury Secretary Steven Mnuchin:
 - ❑ “We want to create a system where the average American can do their taxes on a postcard, not a major book.”
 - ❑ Comment echoes House Republicans’ message

SIMPLE, FAIR “POSTCARD” TAX FILING

1	Wage and compensation income	1	
2	Add 1/2 of investment income	2	
3	Subtract contributions to specified savings plans	3	
4	Subtract standard deduction OR	4	
5	Subtract mortgage interest deduction	5	
6	Subtract charitable contribution deduction	6	
7	Taxable income	7	
8	Preliminary tax (from tax table)	8	
9	Subtract child credit	9	
10	Subtract earned income credit	10	
11	Subtract higher education credit	11	
12	Total tax	12	
13	Subtract taxes withheld	13	
14	Refund due / taxes owed	14	

Image: Paul Ryan’s “postcard” tax form (speaker.gov)

House GOP Blueprint



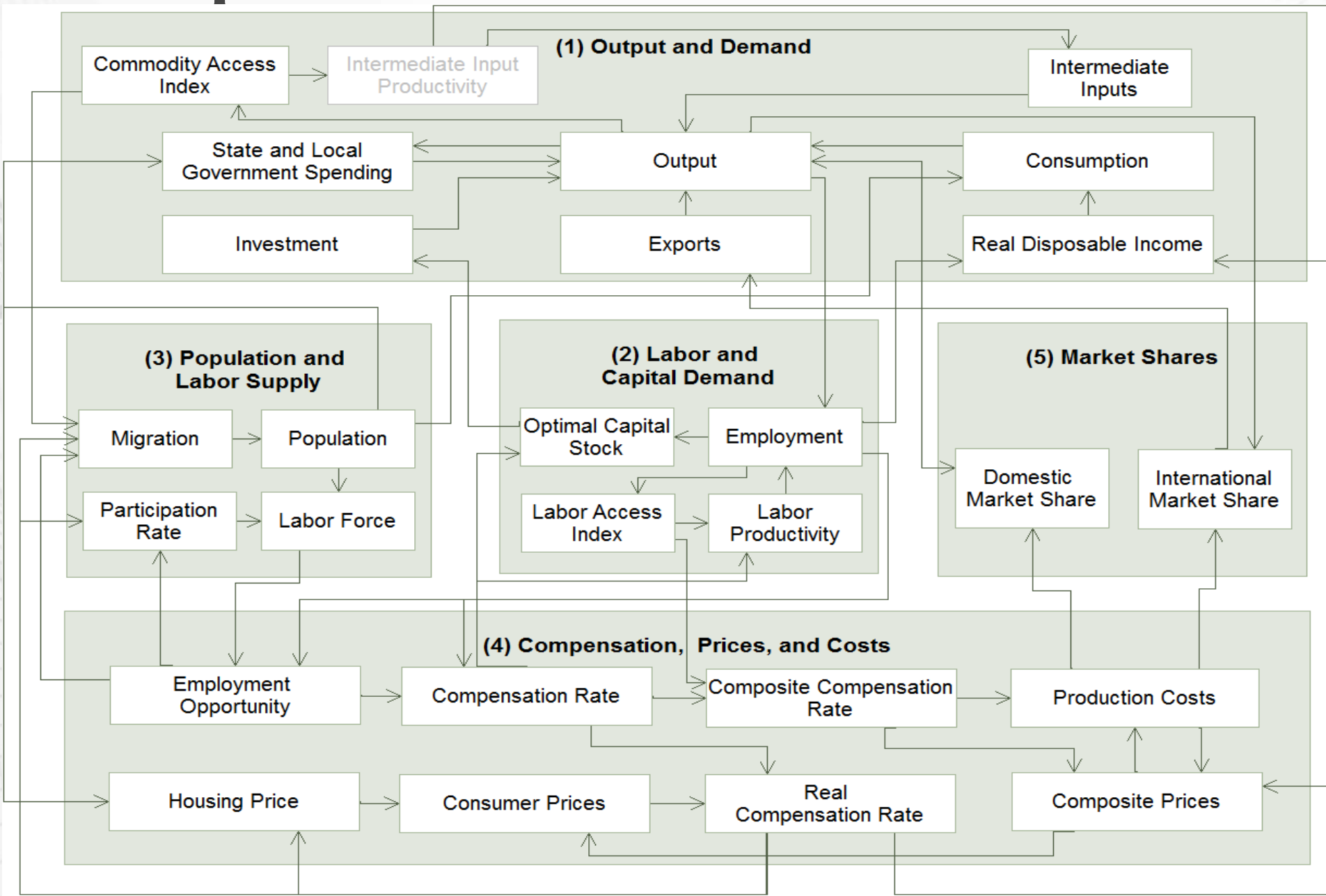
- House Republicans offered a tax proposal in June 2016
 - ▣ Plan created under leadership of Speaker Paul Ryan and Ways and Means Committee Chairman Kevin Brady
 - ▣ Some provisions similar to Trump plan
 - Cuts 7 individual income tax brackets to 3
 - Lowers corporate rate from 35% to 20% - still higher than Trump's 15%
 - ▣ However, it seeks to offset cuts to attempt a more revenue-neutral plan
 - Eliminate many deductions (preserves mortgage interest, charitable deductions)
 - Adds border adjustments exempting exports and taxing import

Dynamic Estimates



- Tax Foundation:
 - Trump tax plan, as first proposed before election: Increase size of the economy by **6.9 percent** and add **1.8 million** jobs after 10 years
 - Revenue impacts:
 - Static score: **\$4.4 trillion** less revenue over 10 years
 - Dynamic score: **\$2.6 trillion** less revenue over same period
- Tax Policy Center
 - Over first 10 years, revenue would fall:
 - **\$3.1 trillion** under House GOP blueprint
 - **\$6.2 trillion** under Trump campaign proposal

Comprehensive Model Structure



PI+ Scenarios



- What is impact of \$1T Cut in Federal Spending
 - ▣ Federal Civilian
 - ▣ State and Local

- What is growth potential from tax cuts?
 - ▣ -\$500B Corporate
 - Business Costs
 - Dividend Payments
 - ▣ -\$500B Individual
 - Personal Taxes
 - State and Local Tax Deduction

- What are impacts of cuts to discretionary programs and entitlements?
 - ▣ -\$1T or -\$622B?
 - ▣ Direct Impact on govt jobs vs no impact

Static Scenario



- STATIC

- ▣ -\$1T Taxes and -\$1T Government Spending

- -\$1T Tax Cut

- ▣ -\$500B Personal Taxes

- ▣ -\$500B Business Taxes

- Over 10 years

- \$2.1 T in GDP

- \$337B in Revenue (17.7% effective rate) = 34% less needs to be cut

Dynamic Scenario



□ DYNAMIC

▣ -\$1T Taxes and -\$622B Spending

- Production cost variable
 - With Direct Employment Impact

▣ -\$1T Taxes and -\$761B Spending

- Dividend variable
 - With Direct employment impact
 - Without Direct employment impact

Fiscal Policy and Growth



- Dynamic estimates can significantly alter the budget decisions
 - ▣ Hypothetical scenario produces 38% to 24% Offset
- Modeling methodology and inputs can have significant impact on results
 - ▣ Magnitude
 - ▣ Distribution

Thank you for joining! Questions?