

MIDTERM ELECTIONS – WHAT DO THEY MEAN FOR THE STATES?

Agenda



**Election
Overview**

**Party
Differences**

**Model
Methods**

Simulations

Q&A

Election Overview

Election Overview



- 2018 Midterm elections determined party control of Congress, many governors' offices, and legislative seats
 - 2018: 36 state gubernatorial elections (9 Democrat-held seats, 26 Republican-held seats, 1 Independent seat)
 - 19 incumbents were seeking reelection
 - 17 open races (either the incumbent is term limited, or chose not to seek reelection)
 - Three territories also held gubernatorial elections (two incumbents, one open race)

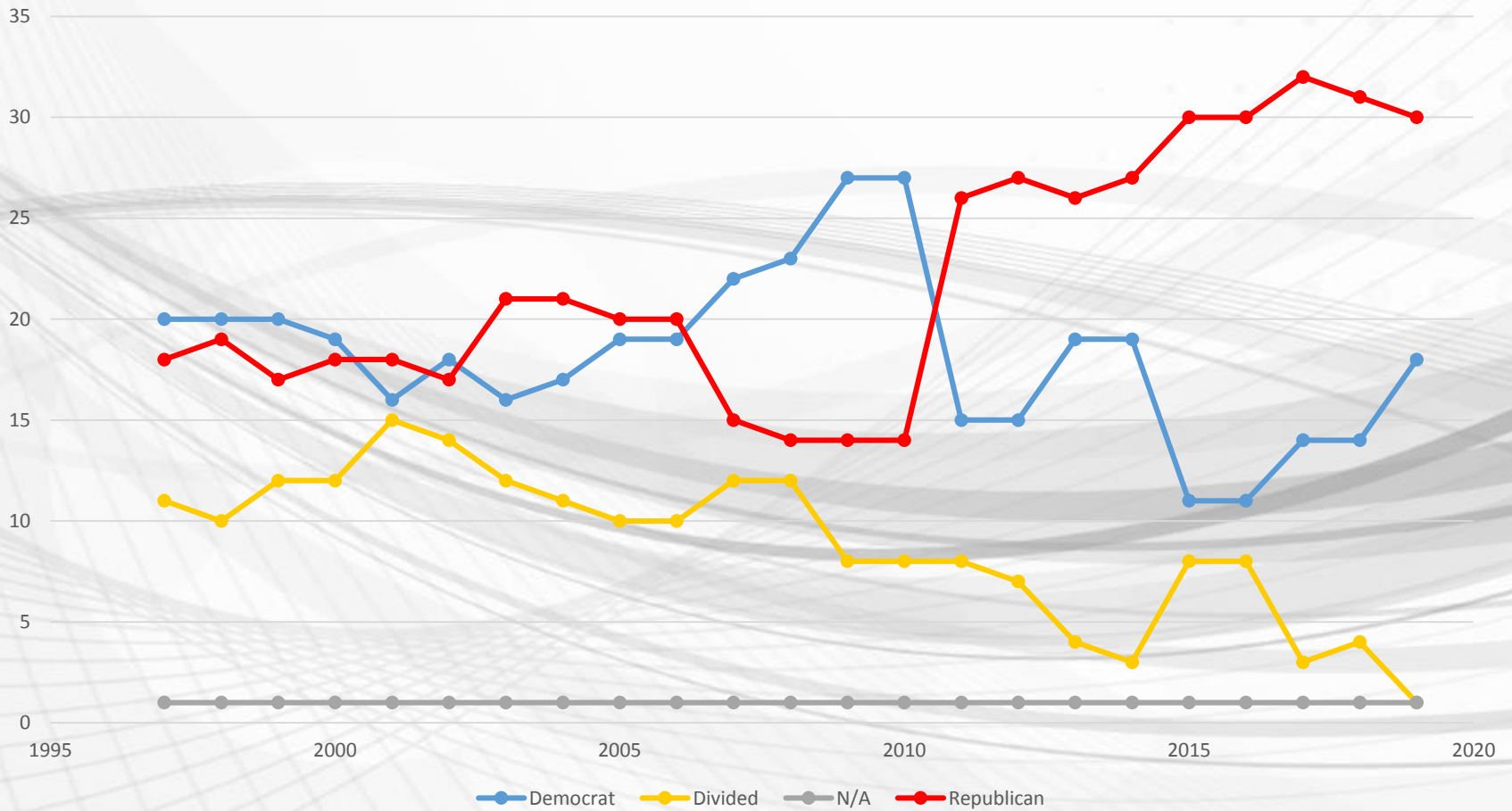
Source: National Governors Association

Midterm Results



- Governorship results: 7 new Democrats and 1 new Republican
- State Control: Political party holding all three pillars (House, Senate, Governor)
 - 21 Republican states
 - 14 Democrat states
 - 13 divided states
- 6 Legislative Chambers flipped to Democrat
- Congress will operate under split party control
 - Republicans hold Senate while Democrats hold the House

Legislative Control (1997-2018)



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Party Differences

Where they Tend



- Taxes
 - Democratic: raise taxes for greater spending
 - Republican: cut taxes to incentivize private sector growth
- Immigration
 - Democratic: pro-immigration
 - Republican: limit immigration to prioritize American citizens
- Infrastructure Spending
 - Democratic: more government spending
 - Roads (urban and rural)
 - Education (public)
 - High speed rural internet
 - Republican: less government intervention
 - Pro-business
 - Labor union restrictions
 - Saving budget

Effect of Party-Switching



- The baseline values in the REMI model generally represent no change in governor party lines
- Simulating effects of states with a new gubernatorial party can be done through campaign-promised policies from governor-elects
- Alaska (I to R) and Wisconsin (R to D) will be the examples used today

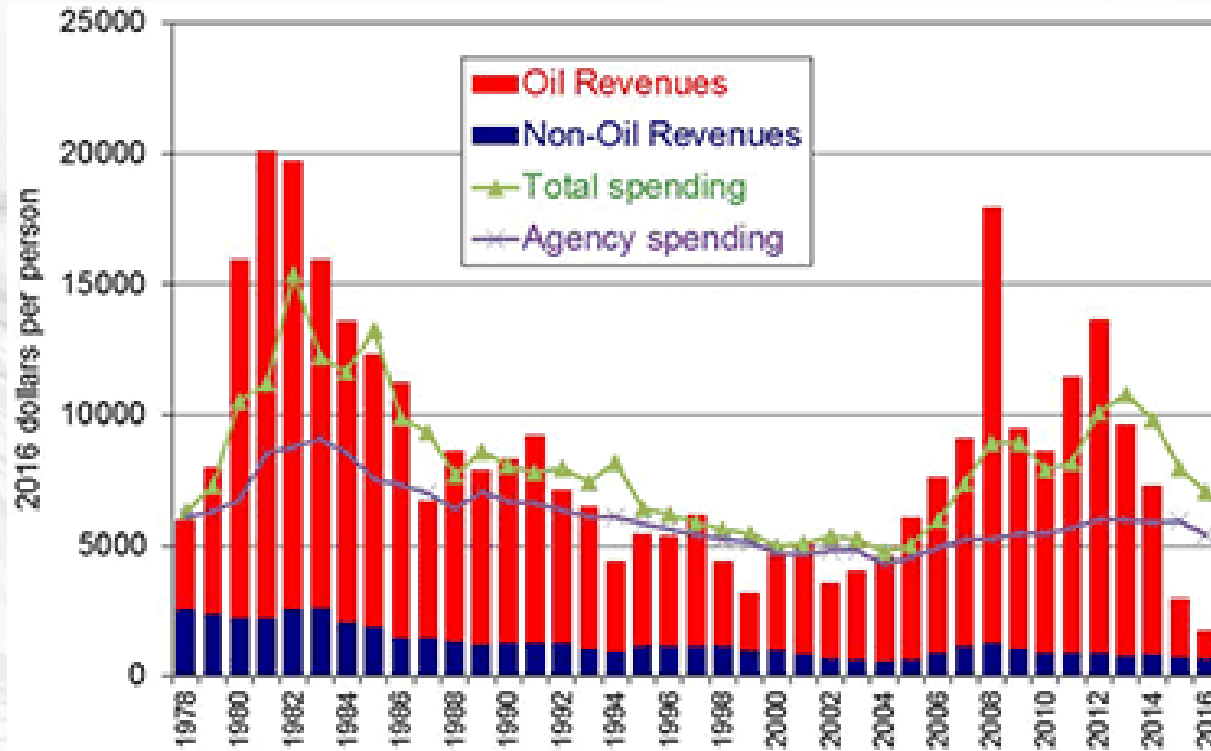
Alaska's Top Issues



- **Oil-Dependent Economy:** The oil & gas industry account for 89% of Alaska's unrestricted revenue stream, allowing the state to have collected \$157 Billion from oil since 1959

Alaska Permanent Fund: Established in 1976 to use oil revenues for investments; dividend payments to citizens have been lower than promised in recent years

Alaska Oil Dependency



Graphic courtesy of Gunnar Knapp, Institute of Social and Economic Research director, University of Alaska, Anchorage.

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Source: E&E News

Permanent Fund Dividend



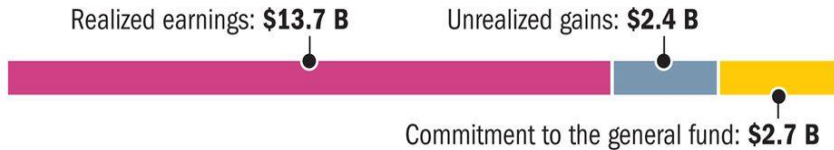
A look at the Alaska Permanent Fund

FY18 total fund assets under management (As of June 30, 2018) **\$64,894,345,000**

Principal **\$46,029,992,000**



Earnings reserve account (ERA) **\$18,864,353,000**



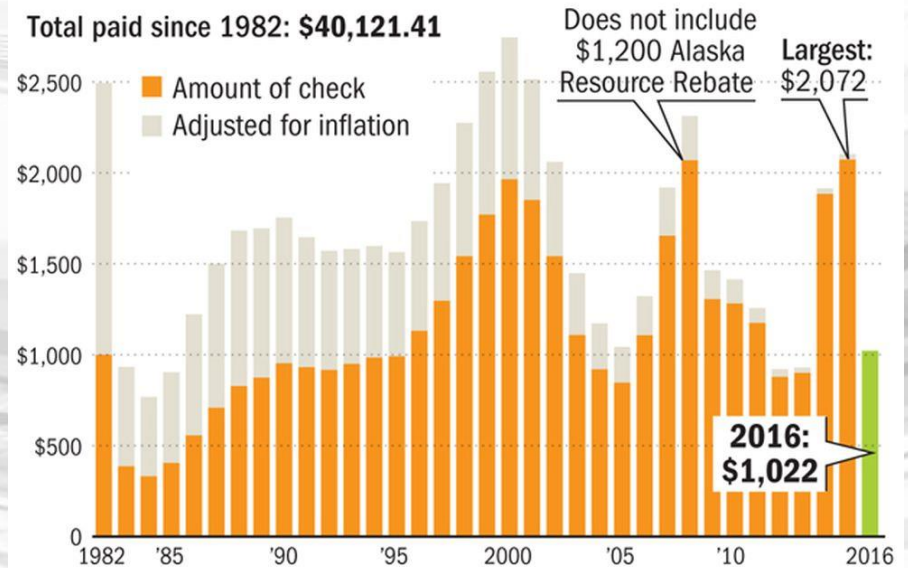
Source: Alaska Permanent Fund Corp.

KEVIN POWELL / Anchorage Daily News

Graphic courtesy of Alaska Permanent Fund Corp. & Anchorage Daily News.

Permanent Fund dividend amounts

Total paid since 1982: **\$40,121.41**



KEVIN POWELL / Alaska Dispatch News

Graphic courtesy of Alaska Dispatch News.

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Source: Anchorage Daily News

Alaska – Promised Policies



□ Governor-elect Mike Dunleavy (R):

□ Promise to “pay Alaskans back the money owed to them”:

- Dividends would total \$3,733 per eligible Alaskans (includes payment and repayment)
- Will prioritize spending on public safety, education, transportation, and natural resources management

□ Opposition Mark Begich (D):

□ Also sought to increase dividend amounts, but not based on traditional formula

- Wanted to raise dividends to \$2100 (2018) and put a portion of PF’s market value in education spending
- Open to raising revenues through introducing income, sales, and/or corporate tax



Image of Mike Dunleavy
courtesy of Alaska Senate
Majority



Wisconsin's Top Issues

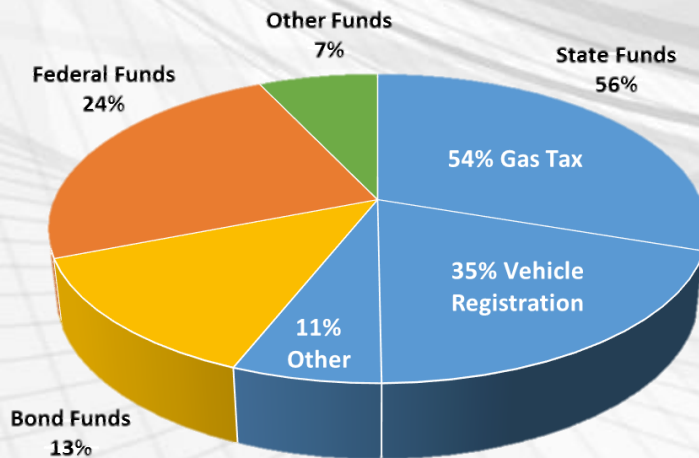


Education and Labor

- Passing of Act 10 resulted in decrease in compensation for public sector workers
 - Median compensation and benefits for Wisconsin's teachers decreased by 8.2%, and 18.6% respectively in immediate year following Act 10
 - Median compensation dropped 12.6% (2015-2016) since the passing of Act 10

Transportation

- Wisconsin's segregated transportation fund does not meet demanded funding
 - Narrow funding options have been stagnant, while maintenance costs rise
 - Puts state at disadvantage compared to other states who derive funding from additional revenue sources



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Sources: Center for American Progress Action Fund, Transportation Development Association

Wisconsin – Promised Policies



- **Governor-Elect Tony Evers (D)**
 - Proposes \$15.4 Billion in state support for K-12 school (up 12.3% from \$13.7 Billion in 2017-2019)
 - Has promised to repeal Walker’s Act 10: Wisconsin Budget Repair Bill (2011)
 - Supports legalization of medical marijuana and raising minimum wage over time to \$15/hour, indexed to inflation
 - Tax Reform:
 - Proposing a 10% tax cut for individuals making under \$100,000/year and families making under \$150,000/year
 - Capping Walker’s previous 7.5% credit for manufacturers and agricultural producers to \$300,000 in annual income
 - Will reduce this credit’s cost to the state from \$334 Million in 2018-2019 to \$40 Million per year
- **Opposition Scott Walker (R):**
 - \$5000 tax credit for Wisconsin college graduates committing to live in state for 5 years
 - Increasing refundable homestead tax credit for people over age 62 by 50%
 - \$30 Million increase in spending on worker training and education initiatives



Image of Tony Evers
courtesy of Tony Evers For
Wisconsin



Image of Scott Walker
taken by Gage Skidmore

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Sources: 2019-21 Biennial Budget Request,
Wisconsin State Journal, AP News

Model Methods

Modeling Logic

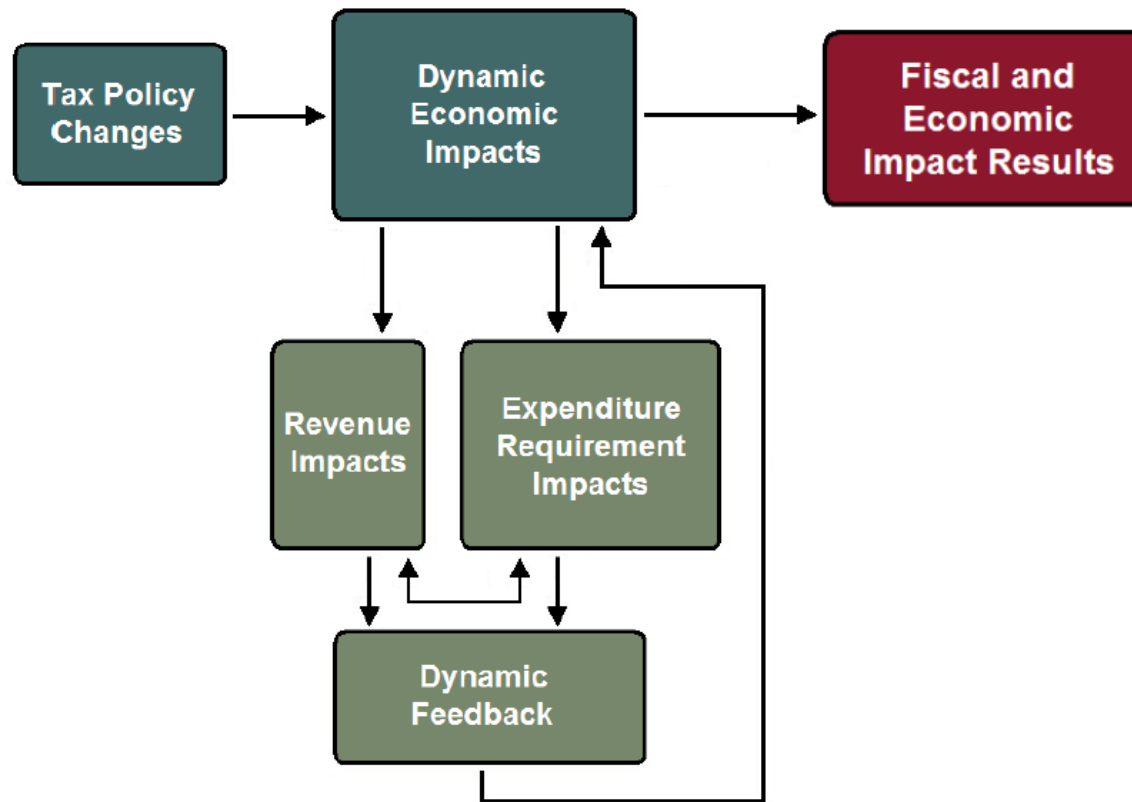


- Modeling done with Tax-PI
 - ▣ Contains all operations from PI+
 - ▣ Unique 'Budget' function
 - Based on 2017 comprehensive financial reports for states
 - Links revenue/expenditure line items to macroeconomic factors
- Compared campaign promises to baseline trajectory
 - ▣ Forecasting bounded from 2018 to 2030
- Prioritized conservative estimates

Tax-PI Structure



Tax-PI Model Structure Overview



Simulations

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Alaska Policy Variables



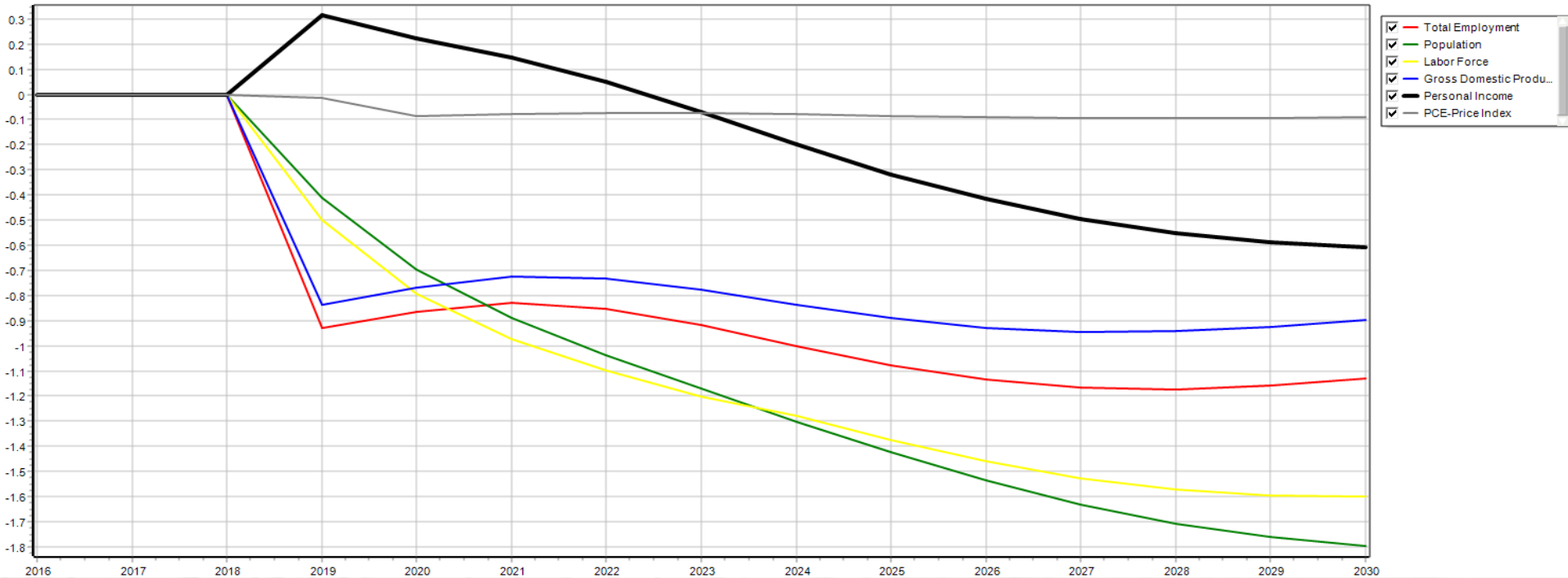
- Expenditure Changes
 - Double PFD expenditures in state budget
 - Reflects dividend change from \$1,600 to \$3,733
 - Expenditure cuts to balance increased dividend payments
- Transfer increase matching increase in PFD expenditures
 - Accounts for the dividend change's implementation into personal income and spending in Alaska

Alaska General Change



Category	Units	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Employment	Thousands (Jobs)	0.00%	0.00%	0.00%	-0.93%	-0.87%	-0.83%	-0.85%	-0.92%	-1.00%	-1.08%	-1.14%	-1.17%	-1.17%	-1.16%	-1.13%
Population	Thousands	0.00%	0.00%	0.00%	-0.41%	-0.70%	-0.89%	-1.04%	-1.17%	-1.30%	-1.42%	-1.53%	-1.63%	-1.71%	-1.76%	-1.80%
Labor Force	Thousands	0.00%	0.00%	0.00%	-0.50%	-0.79%	-0.97%	-1.10%	-1.20%	-1.28%	-1.37%	-1.46%	-1.53%	-1.57%	-1.59%	-1.60%
Gross Domestic Product	Billions of Fixed (2009) Dollars	0.00%	0.00%	0.00%	-0.84%	-0.77%	-0.72%	-0.73%	-0.78%	-0.84%	-0.89%	-0.93%	-0.95%	-0.94%	-0.93%	-0.90%
Personal Income	Billions of Current Dollars	0.00%	0.00%	0.00%	+0.32%	+0.22%	+0.15%	+0.05%	-0.07%	-0.20%	-0.32%	-0.42%	-0.50%	-0.55%	-0.59%	-0.61%
PCE-Price Index	2009=100 (Nation)	0.00%	0.00%	0.00%	-0.01%	-0.09%	-0.08%	-0.08%	-0.08%	-0.08%	-0.08%	-0.09%	-0.09%	-0.09%	-0.09%	-0.09%

Economic Summary



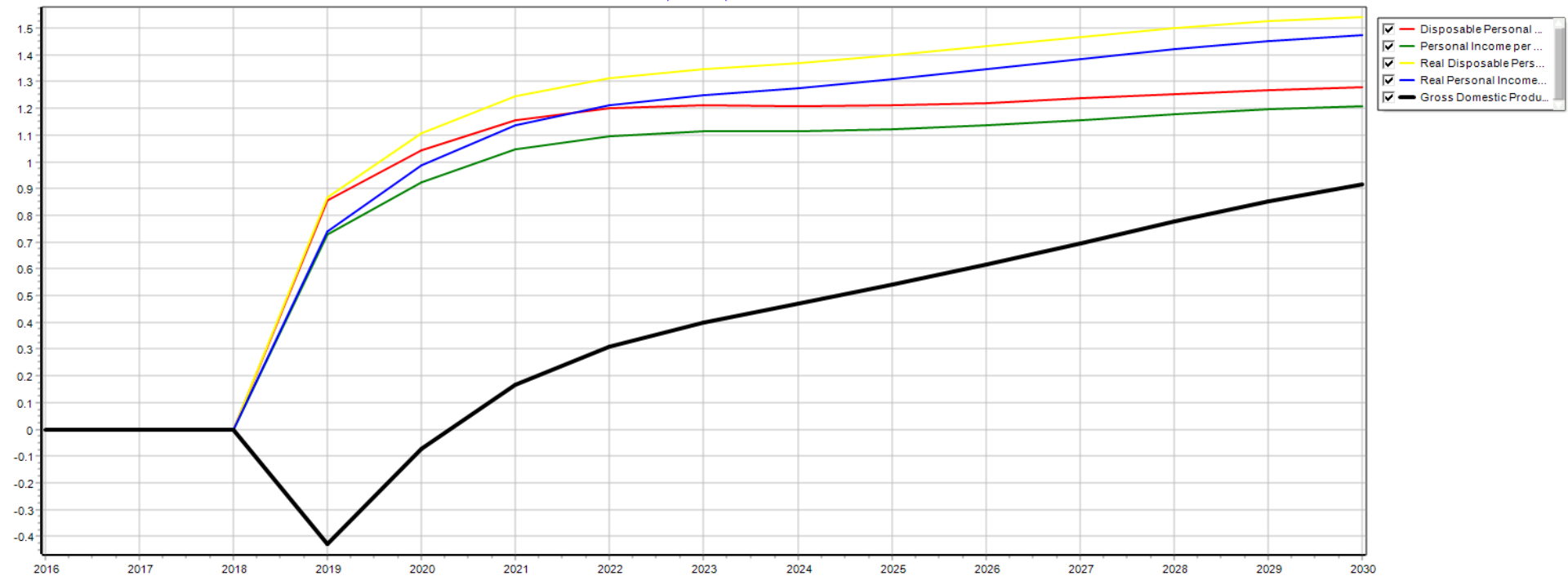
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Alaska Personal Income



Category	Units	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Disposable Personal Income per Capita	Thousands of Current Dollars	0.00%	0.00%	0.00%	+0.86%	+1.04%	+1.16%	+1.20%	+1.21%	+1.21%	+1.21%	+1.22%	+1.24%	+1.25%	+1.27%	+1.28%
Personal Income per Capita	Thousands of Current Dollars	0.00%	0.00%	0.00%	+0.73%	+0.92%	+1.05%	+1.10%	+1.11%	+1.12%	+1.12%	+1.13%	+1.15%	+1.18%	+1.20%	+1.21%
Real Disposable Personal Income per Capita with Housing Price	Thousands of Fixed (2009) Do	0.00%	0.00%	0.00%	+0.87%	+1.10%	+1.25%	+1.31%	+1.35%	+1.37%	+1.40%	+1.43%	+1.47%	+1.50%	+1.53%	+1.54%
Real Personal Income per Capita with Housing Price	Thousands of Fixed (2009) Do	0.00%	0.00%	0.00%	+0.74%	+0.99%	+1.14%	+1.21%	+1.25%	+1.28%	+1.31%	+1.34%	+1.38%	+1.42%	+1.45%	+1.47%
Gross Domestic Product (GDP) per Capita	Thousands of Fixed (2009) Do	0.00%	0.00%	0.00%	-0.43%	-0.07%	+0.17%	+0.31%	+0.40%	+0.47%	+0.54%	+0.62%	+0.70%	+0.78%	+0.85%	+0.92%

Per Capita Concepts



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Alaska Budget Change



Category	Units	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Total Revenues	Millions of Current Dollars	N/A	0.00%	0.00%	-0.23%	-0.42%	-0.38%	-0.41%	-0.51%	-0.65%	-0.80%	-0.92%	-1.00%	-1.04%	-1.04%	-1.00%
Total Expenditures	Millions of Current Dollars	N/A	0.00%	0.00%	-0.23%	-0.42%	-0.39%	-0.42%	-0.53%	-0.67%	-0.80%	-0.91%	-0.99%	-1.03%	-1.03%	-1.00%



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Alaska Overview



- Increased dividend expenditures will likely impact the state budget
- Initial increase in total personal income
- More To Consider
 - Deficits have been covered by permanent fund withdrawals for the last 3 years already
 - Expenditure cuts are sought after already

Wisconsin Policy Variables



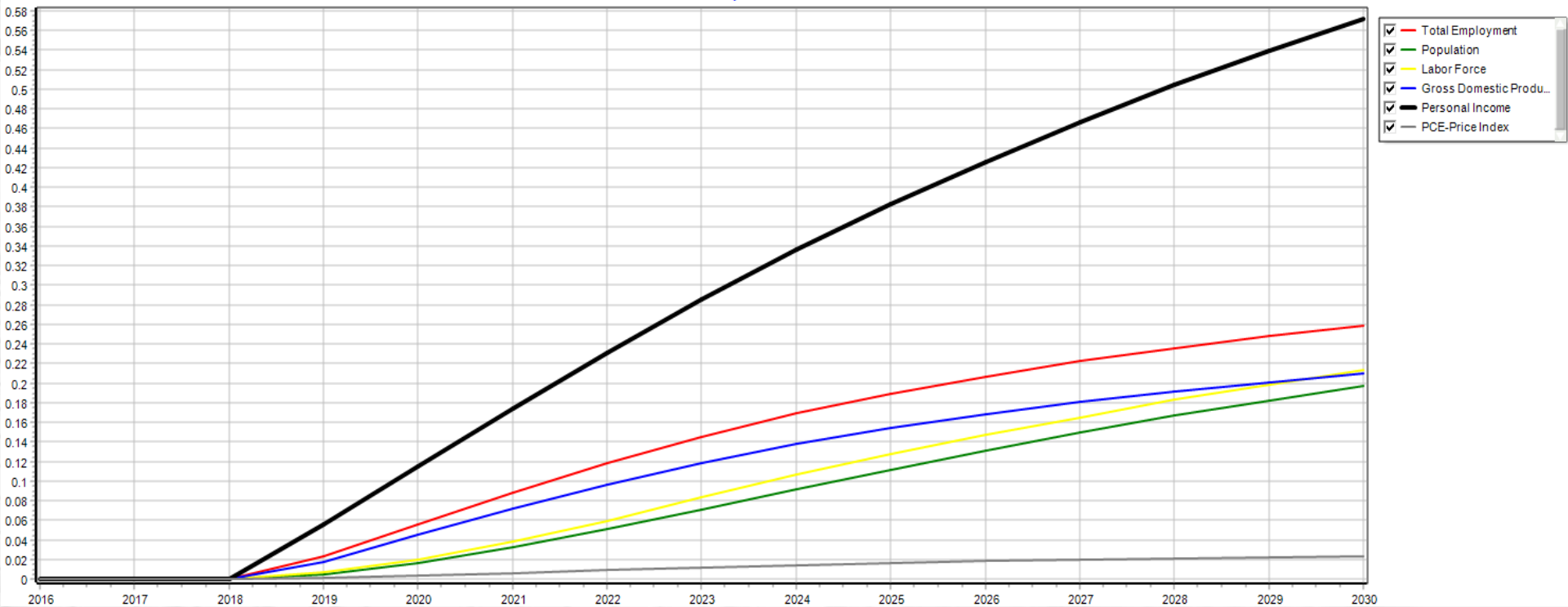
- Legalized Medical Marijuana (MM) variables
 - ▣ Consumer Spending Increase to account for MM sales
 - ▣ Consumer Reallocation for MM sales reducing spending in other industries
 - ▣ Budget Revenue Increase
 - Injection of state revenue from MM tax
- Education variables
 - ▣ Compensation Increase
 - Resulting from higher levels of education
 - ▣ Expenditure Increase
 - Expect additional spending toward education-related budget items under Governor-elect Evers

Wisconsin General Change



Category	Units	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Employment	Thousands (Jobs)	0.00%	0.00%	0.00%	+0.02%	+0.06%	+0.09%	+0.12%	+0.15%	+0.17%	+0.19%	+0.21%	+0.22%	+0.24%	+0.25%	+0.26%
Population	Thousands	0.00%	0.00%	0.00%	+0.00%	+0.02%	+0.03%	+0.05%	+0.07%	+0.09%	+0.11%	+0.13%	+0.15%	+0.17%	+0.18%	+0.20%
Labor Force	Thousands	0.00%	0.00%	0.00%	+0.01%	+0.02%	+0.04%	+0.06%	+0.08%	+0.11%	+0.13%	+0.15%	+0.16%	+0.18%	+0.20%	+0.21%
Gross Domestic Product	Billions of Fixed (2009) Dollars	0.00%	0.00%	0.00%	+0.02%	+0.04%	+0.07%	+0.10%	+0.12%	+0.14%	+0.15%	+0.17%	+0.18%	+0.19%	+0.20%	+0.21%
Personal Income	Billions of Current Dollars	0.00%	0.00%	0.00%	+0.06%	+0.12%	+0.17%	+0.23%	+0.29%	+0.34%	+0.38%	+0.43%	+0.47%	+0.50%	+0.54%	+0.57%
PCE-Price Index	2009=100 (Nation)	0.00%	0.00%	0.00%	+0.00%	+0.00%	+0.01%	+0.01%	+0.01%	+0.01%	+0.02%	+0.02%	+0.02%	+0.02%	+0.02%	+0.02%

Economic Summary



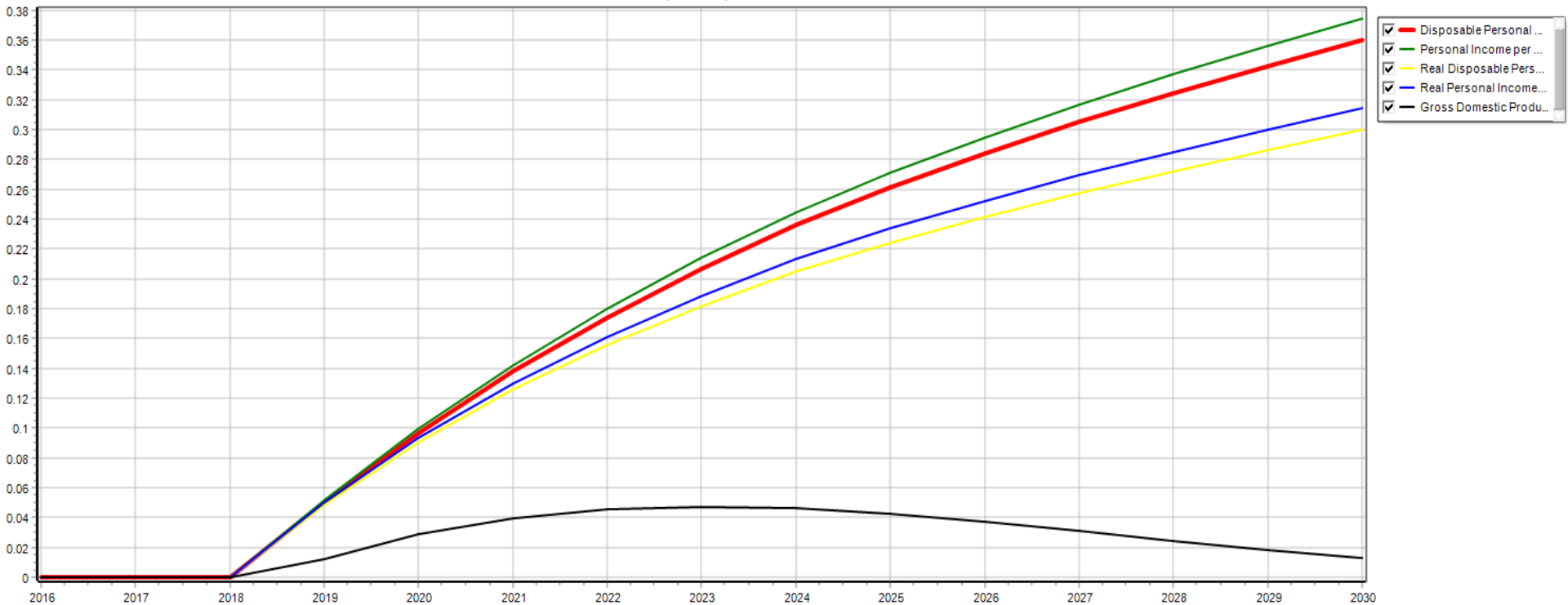
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Wisconsin Personal Income



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Personal Income per Capita	Thousands of Current Dollars	0.00%	0.00%	0.00%	+0.05%	+0.10%	+0.14%	+0.18%	+0.21%	+0.24%	+0.27%	+0.29%	+0.32%	+0.34%	+0.36%	+0.37%
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Real Personal Income per Capita with Housing	Thousands of Fixed (2009) Dollars	0.00%	0.00%	0.00%	+0.05%	+0.09%	+0.13%	+0.16%	+0.19%	+0.21%	+0.23%	+0.25%	+0.27%	+0.28%	+0.30%	+0.31%
Gross Domestic Product (GDP) per Capita	Thousands of Fixed (2009) Dollars	0.00%	0.00%	0.00%	+0.01%	+0.03%	+0.04%	+0.05%	+0.05%	+0.05%	+0.04%	+0.04%	+0.03%	+0.02%	+0.02%	+0.01%

Per Capita Concepts



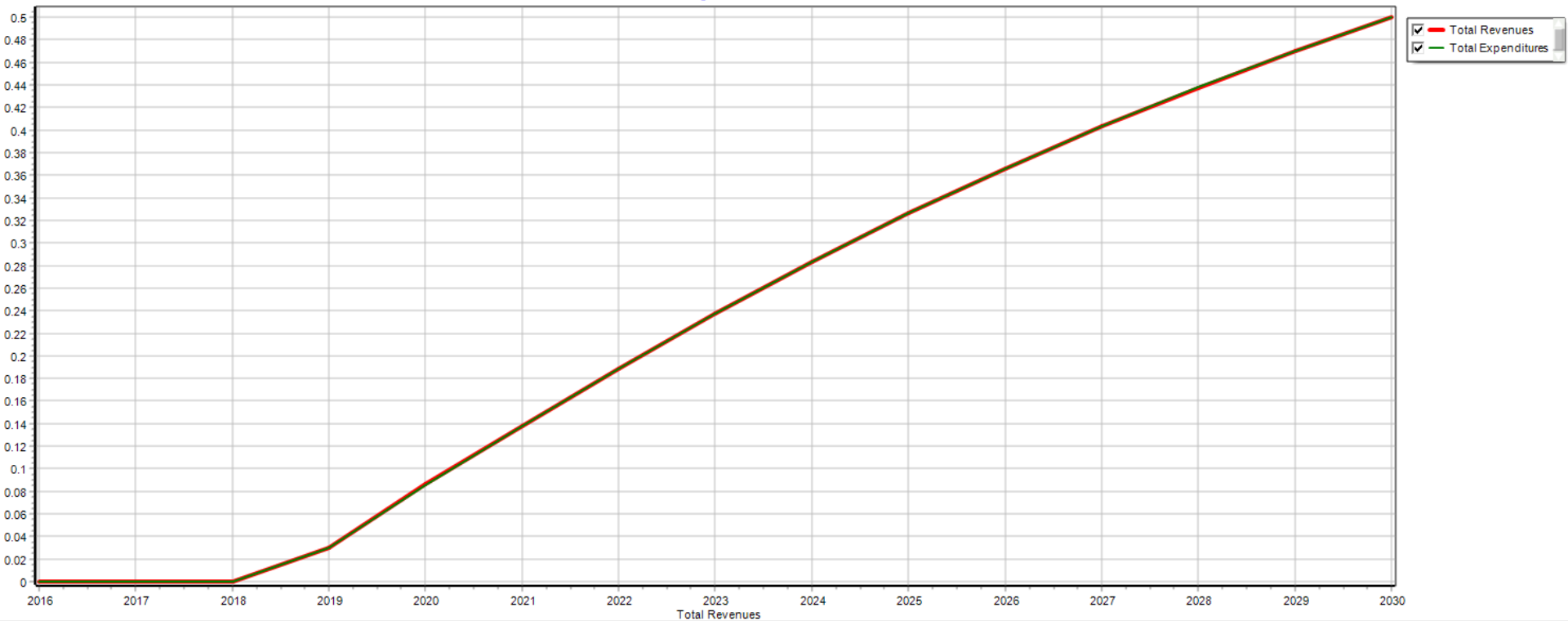
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Wisconsin Budget Change



Category	Units	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
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Total Expenditures	Millions of Current Dollars	N/A	0.00%	0.00%	+0.03%	+0.09%	+0.14%	+0.19%	+0.24%	+0.28%	+0.33%	+0.37%	+0.40%	+0.44%	+0.47%	+0.50%

Budget



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Wisconsin Overview



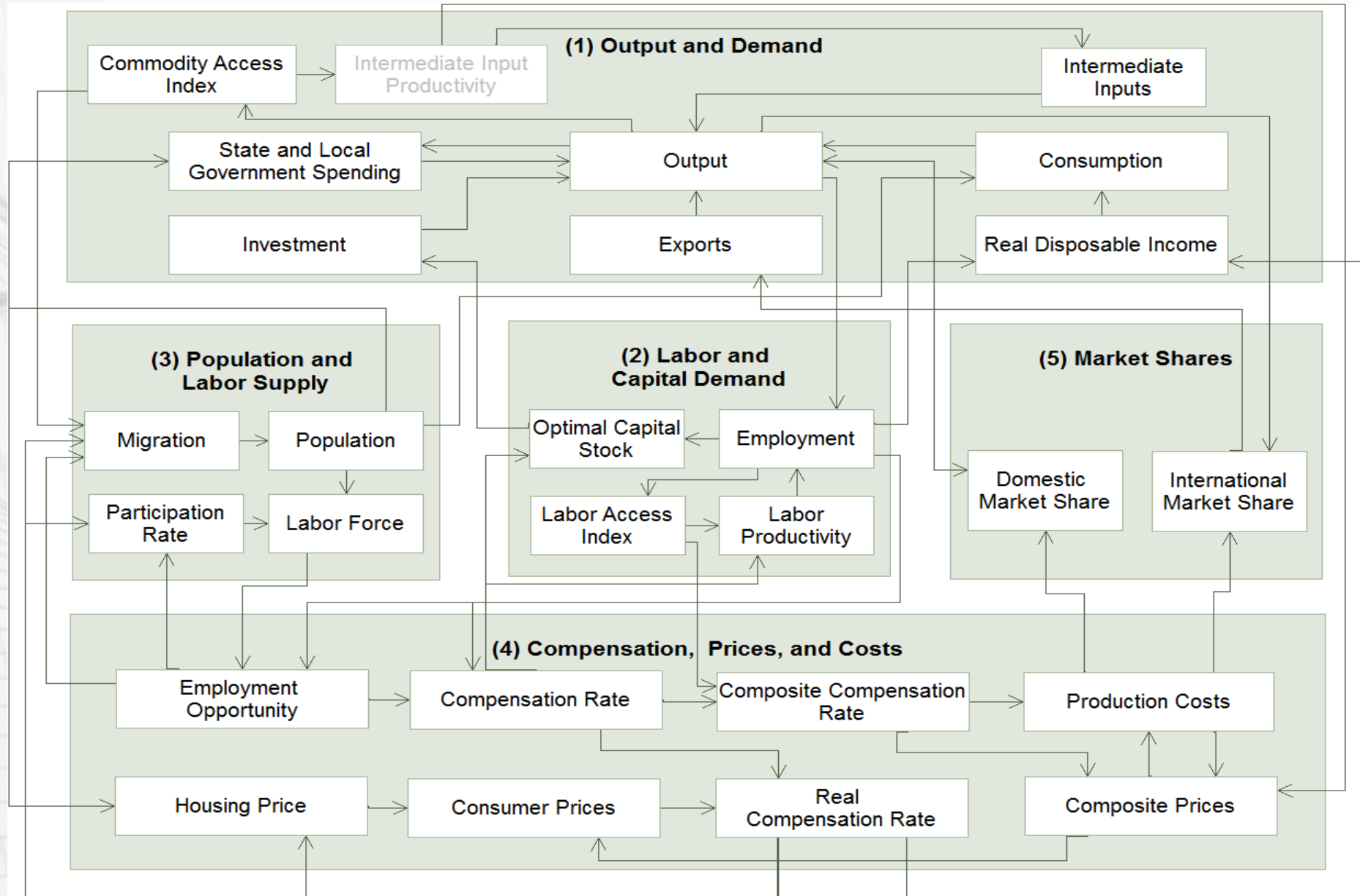
- Legalized MM may not return significant tax revenue at inception
- A more educated local labor force will likely return significant growth in state budget and most macroeconomic factors, but:
 - Unsteady linkage between education spending and educated labor force
 - Additional, high-cost policies like increased minimum wage and transportation spending will significantly lessen growth

Party-Switching Overview



- Changes in gubernatorial party lines will likely yield significant effects to state policymaking
 - Proposed policies depend only open up more debate
- Foreseen complications in demo simulations
 - Modelling campaign promises may not be indicative of realistic policy
 - Several proposed policies have little to no hard numbers

Comprehensive Model Structure





Regional Economic Models, Inc.

Headquarters:
433 West Street
Amherst, MA 01002
(413) 549-1169

District Office
1717 K Street NW
Suite 900
Washington, DC 20006
(202) 469-7861

www.REMI.com

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