

HOUSE FINANCE COMMITTEE
January 29, 2003
1:27 P.M.

TAPE HFC 03 - 4, Side A
TAPE HFC 03 - 4, Side B

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 1:27 P.M.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Eric Croft
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Carl Moses
Representative Gary Stevens
Representative Bill Stoltze
Representative Jim Whitaker

MEMBERS ABSENT

None

ALSO PRESENT

Senator Ralph Seekins; William Corbus, Commissioner, Department of Revenue; Hans Roeterink, Executive Director, Alaska Science and Technology Foundation, Anchorage.

PRESENT VIA TELECONFERENCE

None

GENERAL SUBJECT(S):

APPOINTMENT:

William Corbus, Commissioner,
Department of Revenue

FY04 State Revenue Forecast - Department of Revenue

AGENCY OVERVIEWS:

Department of Revenue
Alaska Science & Technology Foundation,
Department of Community & Economic Development

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
		TAPE HFC 03 - 4, SIDE A
000	Co-Chair Harris	Convened the House Finance Committee meeting at 1:27 P.M. A roll call was taken and all members were present.
122	Co-Chair Harris	Referenced the sub-committee member list.
		Appointment Discussion of William Corbus Commissioner for Department of Revenue
226	Co-Chair Harris	In accordance with AS 39.05.020, the Finance Committee reviewed the qualifications of William Corbus, Governor's appointee and recommends that the name be forwarded to a joint session for consideration.
301	WILLIAM CORBUS, COMMISSIONER, DEPARTMENT OF REVENUE	Stated that he was honored that the Governor had recommended him for the position of Commissioner of the Department of Revenue.
420	Commissioner Corbus	Provided background information on his personal history and investment banking. Commissioner Corbus moved to Juneau in 1970. Prior to that, he worked on Wall Street for four years. He added that he had spent 32 years in the electric utility management with Alaska Electric Light & Power Company. He referenced the number of bank boards that he served on and added that he had served on Governor Knowles Highway Gas Pipeline. Additionally, he noted that he has been active on State, civic and charitable activities and held position on several boards and commissions.
625	Co-Chair Harris	Observed situations statewide regarding fiscal concerns of the State.
649	Commissioner Corbus	Commented that he was new on the job and did not have specific recommendations. He noted that he agreed with the Governor's suggestion regarding the oil and gas development and assured that would be an area of focus.
721	Co-Chair Williams	Asked what the State could do to increase revenues in order to address fiscal gap concerns.
819	Commissioner Corbus	Reiterated that the Governor has mentioned oil. He observed that later in

		his testimony, he would review the revenue forecast. The petroleum industry must to be encouraged to keep up their level of investment. He stated that he would discuss what could encourage those companies to make investments to sustain production. At present time, he had no specifics.
920	Representative Hawker	Observed that Commissioner Corbus had an extensive background on public utilities administration and banking. He requested a broader elaboration regarding his qualifications to act as Commissioner of the Department of Revenue.
959	Commissioner Corbus	Replied that he has been following the State of Alaska's financial situation for many years. He advised that his experience on the Alaska Pension Board, State Fiscal Policy Council and other commissions. He acknowledged that as far as leading the Department of Revenue, it would be a formidable task. He added that he had filled leadership positions throughout his life. He noted the qualifications of his staff.
1148	Representative Hawker	Asked for an expansion on the roll that the Department of Revenue would take in the future as part of the new Administration.
1204	Commissioner Corbus	Responded that the mission of the Department of Revenue was to collect money for the State and then invest it. Commissioner Corbus noted that he was more concerned with increasing the collections, which would increase revenues.
1250	Representative Stoltze	stressed that Commissioner Corbus was very qualified for the position of Commissioner of Department of Revenue. He requested for a brief discussion on any foreseeable changes to the Permanent Fund.
1328	Commissioner Corbus	Commented that the Permanent Fund had not had a meeting since the Administration came into office. Commissioner Corbus noted that he did know many of the Board of Trustees and agreed with the allocation approach taken in the past.
1435	Representative Stoltze	Inquired about Commissioner Corbus' opinion on the endowment.
1440	Commissioner Corbus	Replied at this time, he did not.
1503	Representative Croft	Acknowledged that Commissioner Corbus was qualified. He addressed the State's

		current fiscal issues. He asked how long longer the State would have with its' current spending from the Capital Budget Reserve (CBR).
1603	Commissioner Corbus	Responded that the only information that he had was the Fall revenue forecast as prepared by the previous Administration. Based on those projections, the CBR was be exhausted by June, 2005.
1705	Representative Croft	Asked how can the State encourage new money out of the oil industry, when the State is on a "3-year" fiscal crash course.
1740	Commissioner Corbus	Responded that he did not have an answer to that at present time. He commented that it is being worked on at this time.
1801	Representative Croft	Questioned that response.
1817	Representative Foster	Commended Commissioner Corbus on his resume and experience. He thanked Mr. Corbus for his willingness to take the position with the Administration.
1850	Co-Chair Harris	Stated that Commissioner Corbus would be confirmed by the House Finance Committee for the position of Commissioner of the Department of Revenue.
		OVERVIEW: DEPARTMENT OF REVENUE
1928	Vice-Chair Meyer	Called the Committee back to order and noted that Co-Chair Williams and Co-Chair Harris would be absent for the remainder of the meeting and that he would be the Chair.
1957	Commissioner Corbus	Noted that the mission of the Department was to collect State funds and invest them. Stated that there are seven divisions within the Department of Revenue. He listed each of those divisions: <ul style="list-style-type: none"> • Administrative Services • Treasury • Child Support Enforcement Division (CSED) • Permanent Fund Division • State Bond Committee/Alaska Municipal Bond Committee • Tax Division • Alcohol Beverage Control Board (ABC)
2053	Commissioner Corbus	Stated that there are approximately 450 full time employees working for the Department. There is an overall budget of approximately \$70 million dollars. Most of that money is a management fee

		for the Permanent Fund and the Pension Fund. \$12.5 million comes from General fund appropriations.
2113	Commissioner Corbus	Listed the other entities within the Department of Revenue for administrative purposes are: <ul style="list-style-type: none"> • Permanent Fund Corporation • Alaska Housing Finance Corporation (AHFC) • Mental Health Lands Trust
2132	Commissioner Corbus	Added that one of the important roles of the Department was to prepare the semi-annual revenue source book.
2205	Commissioner Corbus	Explained that the Tax Division is broken into 9 groups with 88 employees. The groups are: <ul style="list-style-type: none"> • property tax • oil property taxes • economic research • appeals • Audit 1 group • Audit 2 group • Gaming group • Administrative support • Information technology • Operations <p>Oil and gas tax revenues amount to \$945 million dollars for FY02.</p>
2241	Commissioner Corbus	Child Support Enforcement Division (CSED) - mission to establish paternity, determine monthly child support amount, issuing withholding orders, collecting and dispersing payments, and investigating cases of non compliance.
2332	Commissioner Corbus	Historical records indicate good progress in handling complaints over the years.
2356	Commissioner Corbus	Addressed the Permanent Fund Dividend Division. There are 59 permanent employees and 34 seasonal employees. He noted the Division is making progress with people filing applications on-line.
2449	Commissioner Corbus	Referenced the Treasury Division, which consists of the investment staff, cash management group and the controllers group. The Division is responsible for managing \$16 billion dollars. About \$10 billion dollars of that amount is the defined benefit plan for the Alaska State Investment Pension Board. Approximately

		<p>\$2 billion dollars is for the defined contributions of the State. The general funds included to about \$1 billion dollars. The Constitutional Budget Reserve fund totals about \$2 billion dollars and there is various group funds bringing the total to about \$16 billion dollars. The Commissioner of Department of Revenue has fiduciary responsibility for a portion of that money. The other \$12 billion dollars, the ASPIB has the fiduciary responsibility for. The Department of Revenue follows a defined process for the investment funds. The investment options are important. He added that outside consultants are used to build market assumptions and establish an asset allocation mix, which follows a mathematical model looking at the overall return of the fund versus the risks associated with it. The performance of the fund is measured through these benchmarks.</p>
2752	Commissioner Corbus	<p>Commented that CSED and PFD touch more Alaskans personally than the other divisions.</p>
2819	Commissioner Corbus	<p>He spoke to the Bond Committee. That Committee is responsible for selling the State's general obligation bonds and administers the State's debt. The Alaska Municipal Bond Bank helps communities to settle tax-exempt bonds.</p>
2913	Commissioner Corbus	<p>Spoke to the Alcohol Control Board (ABC) Board. He noted that the Department does not have much responsibility for that board. The Governor appoints that board with staggered terms. The Department does not have much responsibility for that Board. They are responsible for enforcing the State's liquor laws. Commissioner Corbus noted that he had been the Chairman of the Governor's transition team. He added that the Department is "well-run" with many dedicated employees.</p>
3030	Commissioner Corbus	<p>Concluded that he looked forward to working with the Legislature.</p>
3046	Vice-Chair Meyer	<p>Referenced the oil price forecast summary contained in the packet. (Copy on File).</p>
3109	Commissioner Corbus	<p>Noted that he would highlight that handout later when he discussed the revenues forecast.</p>

3135	Representative Stoltze	Asked if there was serious consideration moving Post Secondary Education out of Department of Revenue.
3136	Commissioner Corbus	Replied that he had not heard that discussed. He noted that the Department manages those funds for them, however, they are the ones that make the investment decisions.
3158	Representative Stoltze	Referenced CSED noting that the sunset legislation was coming up. Representative Stoltze asked if there was a change in philosophy between the administrations.
3125	Commissioner Corbus	Responded that legislation would be introduced to address the sunset. Did not know about the details of the philosophical issues.
3241	Representative Stoltze	Regarding CSED, he asked if PFD's were a big portion of that collection.
3300	Commissioner Corbus	Explained that he had seen graphs indicating that collections increase at the time of the distribution of the PFD.
3325	Representative Stoltze	Asked about moving CSED into another department because of periodic enforcement issues. He asked if there had been any active consideration regarding that concern.
3359	Commissioner Corbus	Replied that issue had been brought to the attention of the Department and that no decision had been made. He noted that he had not heard of the possibility of a transfer to another department.
3433	Vice-Chair Meyer	Thought that there are not enough ABC inspectors. He asked if there would be new members added to that Board.
3459	Commissioner Corbus	Replied that he did not know what was in next year's budget. He offered to get back to the Committee regarding that concern.
		DOR FORECAST PRICE FOR ANS CRUDE OIL
3612	Commissioner Corbus	Noted that the forecast document had been prepared by the previous Administration. (Copy on File). The forecast is prepared semi-annually.
3703	Commissioner Corbus	Discussed that the Department does actively consult members of the Industry and other departments regarding the proposed numbers. He added that within the Department of Revenue, the tax Division plays a very important role.
3739	Commissioner Corbus	Noted that the Fall forecast this year took a more optimistic out look at the

		price of oil than the previous forecasts. For many years prior to this forecast, the Department of Revenue was looking at long run, the price being between \$17.50 - \$18.50 range. That had been the average since 1986 through 2002. In the Fall forecast, that was switched and now looks back over a shorter time period, 53 months. That placed oil at \$22 dollars a barrel. He stressed that was a significant change. It was concluded that OPEC had a handle on controlling the market management. Prior to that, the feeling was that the discipline was not there. OPEC has been responsible for the success for the past number of years. He highlighted the process
4040	Commissioner Corbus	Continued, transportation costs are estimated around \$5 - \$5.50 dollars per barrel, which includes the tariff on the taps, oil pipeline. The price is then predicted and the gross revenue is determined. He added that there are four types of taxes are collected: <ul style="list-style-type: none"> • property taxes • severance taxes • royalty taxes • corporate income taxes
4148	Commissioner Corbus	Addressed production. The estimated oil in the ground is about 63 billion barrels. To date, 14 billion barrels has been taken out of the ground and shipped out. It is estimated that by 2010, there will be another 8.5 billion barrels will be recovered. That will require investment by the oil companies.
4302	Commissioner Corbus	Referenced Page 12, Table 1 in the handout. (Copy on File). The chart provides the projected ANS Production from discovered producing fields in the millions of barrels.
4423	Representative Croft	Inquired if there would really be 8 billion gallons by 2010.
4444	Commissioner Corbus	Indicated that was a mistake and that number is the amount that they ultimately expect to recover.
4506	Commissioner Corbus	Stated that it is expected that there will be 1 million barrels per day until 2007. In 2008, there will be other oil coming in from Pt. Thompson. By the year 2010, 27% of the production will come from new sources that have been

		discovered and are not currently producing. New discoveries could be made and will add to production until after 2010.
4604	Commissioner Corbus	Addressed oil price. He stated that the price is reflected by the supply and the demand, which affect the industry. He noted that included in the packet, is a one-page sheet of the forecast for three years. (Copy on File).
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4635	Commissioner Corbus	Pointed out how in the fall of 2002, the outlook for the price of oil has jumped.
4614	Commissioner Corbus	Addressed how the State of Alaska is currently doing with the price of oil. Because of the strike in Venezuela, the price has been cut adding the prospect of war with Iraq. In the forecast for FY03, it is estimated that the average price is up \$1.25 per barrel. That is good news for the State Treasury.
4444	Commissioner Corbus	Commented that the basic concern is the unrestricted revenues. Referenced Page 49 of the forecast.
4344	Commissioner Corbus	Referred to Page 49, which illustrates the unrestricted and restricted costs of oil. Page 51, addresses the unrestricted oil revenues. The projected revenues from 2003, of \$1.468 billion trailing off to \$1.20 by 2010.
4237	Representative Croft	Questioned why NPRA was restricted. He referenced Page 49 - The use of "unrestricted" and "restricted". He questioned if the projected forecast had ever been right.
4156	Commissioner Corbus	Acknowledged the question but did not know the answer but would get back to the Committee regarding that concern.
4109	Commissioner Corbus	Mentioned that other revenue source for the State come from corporate income taxes, and a myriad of other taxes such as estate tax, alcohol tax, and earning investment.
4000	Representative Stoltze	Asked about the alcohol tax. He asked how long until it actually "kicks in".
3936	Commissioner Corbus	Commented that he did not know but would get back to the Committee regarding that concern. He referenced the non-oil revenues summarized on Pages 3 & 32 of the Forecast.
3905	Vice-Chair Meyer	Observed that the estimate of oil revenue is decreasing, while NPRA production is

		increasing. He noted that the price of oil would have to be at \$40 dollars per barrel to balance the budget gap. The forecast does not indicate anything close to that.
3732	Commissioner Corbus	Emphasized the need for new development in time for the development to come to fruition. The estimates do not include new production.
3623	Representative Whitaker	Questioned if Commissioner Corbus did accepted the methodology and assumptions used by the previous Administration. He suggested that the current baseline was unacceptable.
3548	Commissioner Corbus	Stated that he did agree with the previous Administration's assumptions, however, emphasized that the new team is just beginning their process.
3504	Representative Joule	Questioned the overall health of the Teacher and Public Retirement System (PERS & TERS).
3409	Commissioner Corbus	Replied that he had not attended any board meetings of that contingency but acknowledged that there are some general concerns because of the cuts to the stock market.
3337	Representative Croft	Asked if Alaska National Wildlife Refuge (ANWR) could save the State if it came on line 'tomorrow'. Would it produce enough, before the State runs out of money.
3313	Commissioner Corbus	Commented that ANWR was not included in the 2010 projection. He stated that he would get back to the Committee regarding that concern. Testimony concluded.
		Alaska Science and Technology Foundation
3201	HANS ROETERINK, EXECUTIVE DIRECTOR, ALASKA SCIENCE AND TECHNOLOGY FOUNDATION (ASTF)	Provided members with an information packet regarding Alaska Science and Technology Foundation (ASTF). (Copy on File). He provided a brief personal history.
2919	Mr. Roeterink	Noted that ASTF was funded in 1988 with the goal to establish a foundation and economic base to grow the economy and as a counterpoint against the erosion of oil. There are three elements that must be in place for growth: <ul style="list-style-type: none"> • Education • Partners • Projects/technology/knowledge
2702	Mr. Roeterink	Observed that Alaska Manufacturers' Association (AK/MA), one of their

		partners, has a mission to enhance the fisheries.
2556	Mr. Roeterink	Stressed the need to create an environment that would allow growth for the future. In order to move forward, the State should pick areas that the State is good at and use new technology, and telecommunications to enhance growth.
2319	Mr. Roeterink	Observed that lumber grading, SciFish and Alaska FreshCut, an Anchorage company, have benefited from that approach.
2153	Mr. Roeterink	Addressed how ASTF can help grow industry, through an efficient, clear process. Mr. Roeterink presented the Committee with a list of projects that ASTF has participated in. He explained that the intent is to concentrate with fewer projects with more direction and monitoring.
1913	Mr. Roeterink	Spoke to funding. He observed that the Board approved 5% of the market value concept to limit distributions, to protect a smooth distribution of monies by ASTF in the future. He referred to University funding by ASTF. He observed that \$2.3 million dollars had been appropriated to the University. He suggested that other sources be found in order to continue that funding.
1527	Representative Stoltze	Asked for more information regarding University funding.
1439	Mr. Roeterink	Explained that a \$2 million dollar appropriation to the University does not allow ASTF direction as to how the funding and how it would be spent. Research is key to moving forward.
1326	Representative Croft	Asked if ASTF was prohibited from taking an equity position.
1305	Mr. Roeterink	Responded that they are prohibited.
1255	Representative Stevens	Spoke in support of AK/MA. He thought that was within the Department of Community and Economic Development Division.
1222	Mr. Roeterink	Explained that AK/MA was started by ASTF and then "spun off". He noted that the ASTF share of the funding has decreased from 50% to 20% percent as the percentage of their other funds has increased.
1023	Representative Hawker	Questioned if ASTF grants require a repayment.
957	Mr. Roeterink	Grantees must repay 1.5 percent if that agency remains in the State. They pay

		three times that amount if they leave the State.
928	Representative Hawker	He noted that the overhead rate is approximately 20 percent. He asked if community investment should be more or less aggressive.
841	Mr. Roeterink	Explained that core needs require 4 - 5 staff members. He noted that ASTF could administer more money, if it were available, with their current staff. He stressed that the State needs growth outside of oil.
650	Representative Hawker	Summarized that Mr. Roeterink felt that ASTF is operating efficiently. He asked the outstanding commitment for match money by partners.
607	Mr. Roeterink	Estimated the outstanding commitments total about \$2 million dollars, leaving approximately \$1 to \$1.2 million left for investment this year. The funds are part of the Permanent Fund.
521	Representative Whitaker	Asked the total long-term liability for ASTF, currently allocated to programs.
441	Mr. Roeterink	Did not know the exact amount but estimated between \$3 - \$5 million dollars. There are some long-term commitments that have been made.
419	Representative Stevens	Asked for more information on the success of the surimi industry.
400	Mr. Roeterink	Noted that the surimi grantee has been successful and is selling \$70 to \$80 million dollars of product per year. It is a very successful endeavor.
360	<u>ADJOURNMENT</u>	The meeting was adjourned at 3:14 P.M.