

HOUSE FINANCE COMMITTEE
January 21, 2005
[1:37:49 PM](#)

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [1:37:49 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly

MEMBERS ABSENT

Representative Eric Croft
Representative Jim Holm
Representative Carl Moses
Representative Bruce Weyhrauch

ALSO PRESENT

Joel Gilbertson, Commissioner, Department of Health & Social Services; William Corbus, Commissioner, Department of Revenue; Tom Boutin, Deputy Commissioner, Department of Revenue; Brett Fried, Economist, Tax Division, Department of Revenue; Janet Clarke, Director, Division of Administrative Services, Department of Health and Social Services

PRESENT VIA TELECONFERENCE

Michael Williams, Chief Petroleum Economist, Department of Revenue, Anchorage; Dan Dickinson, Director, Tax Division, Department of Revenue, Anchorage

GENERAL SUBJECT(S):

**OVERVIEWS:REVENUE PROJECTIONS, DEPARTMENT OF REVENUE
PROPOSED CHANGES IN MEDICAID REIMBURSEMENT /
DEPARTMENT OF HEALTH & SOCIAL SERVICES**

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance

Committee through the 24th Legislative Session, contact 465-6814. After the 24th Legislative Session they will be available through the Legislative Library at 465-3808.

TIME	SPEAKER	DISCUSSION
1:38:14 PM	Co-Chair Chenault	Convened the House Finance Committee meeting to take up discussion on the Department of Revenue, Revenue Projections and the Department of Health & Social Services, proposed changes in the Medicaid reimbursement.
		DEPARTMENT OF REVENUE REVENUE PROJECTIONS
1:39:03 PM	WILLIAM CORBUS, COMMISSIONER, DEPARTMENT OF REVENUE	Provided members with handouts outlining the revenue forecast for the upcoming year. (Copy on File). He introduced his staff, Tom Boutin, Deputy Commissioner, Department of Revenue; Brett Fried, Economist, Tax Division, Department of Revenue; and teleconferenced Michael Williams, Chief Petroleum Economist, Department of Revenue and Dan Dickinson, Director, Tax Division, Department of Revenue in Anchorage.
1:40:39 PM	Commissioner Corbus	Stated that revenue forecasting is important work and that many governmental decisions are based on that forecast. Much work goes into preparing it. He referenced Attachment #1. (Copy on File).
1:42:14 PM	Commissioner Corbus	Referenced the Table of Contents, Page 3, stating that it was the best, "quick and dirty" source book for State finances. He pointed out that Alaska National Wildlife Refuge (ANWR) was the example used throughout the handout.
1:43:59 PM	Commissioner Corbus	Noted tables on the next six pages, while highlighting the Fall forecast. The price projections listed on Table 2-4, Page 10: The price per barrel of oil on 1/20/05 was \$49.71. Commissioner Corbus pointed out price projections for the next several years: <ul style="list-style-type: none"> • FY05 - \$43.61 versus \$28.30 last spring • FY06 - \$34.50 versus \$25.85 last spring • FY07 - \$30.95 versus \$22 last spring • FY08 - FY15 was \$25.50, up \$3.50

		<p>from last spring.</p> <p>The Organization for Petroleum Exporting Countries (OPEC) Price Goal is \$22-\$28 dollars per barrel which compares to the \$28.30 projected from last year.</p>
1:46:23 PM	Commissioner Corbus	Reiterated that OPEC has indicated that oil will be at between \$22 and \$28 dollars per barrel.
1:47:01 PM	Commissioner Corbus	The State is not certain that OPEC will maintain market discipline in that range.
1:47:32 PM	Commissioner Corbus	Addressed the "wild ride" price volatility oil has moved through this past year. Last year, he compared the \$15 dollar drop in 48 days; there was then a rise caused by the anticipated Iraqi war. He remembered a \$15 dollar drop in 37 days in 1991. The price today is approximately \$41 dollars, \$7 dollars higher than a week ago. He acknowledged that projecting prices is difficult and there is great volatility. There has been a change in relationships between prices of oil. When the Department provides a forecast, they use the West Texan Institute (WTI) intermediate code. Alaska sells its oil to the west coast with a differential in that price. Historically, there has been a constant relationship between prices. That relationship does not hold as strong as it had in the past.
1:50:53 PM	Commissioner Corbus	Addressed production and referenced Table 2-6 - By FY2011, new oil developments will be 48.1% of the total production.
1:52:31 PM	Commissioner Corbus	Commented on Table 2-2, highlighting the unrestricted general-purpose revenue conversion years, 2004 through 2006, compared to the \$2.36 billion dollars for FY04. Spring, FY04, is estimated at \$1.96 billion dollars. The higher numbers for FY05 reflect higher oil prices. The total for FY06 is projected at \$2.3 billion dollars. Based on the fall revenue forecast, a surplus of \$653 million dollars is projected given the average price of \$43.51 dollars per barrel.
1:54:23 PM	Commissioner Corbus	Continued, Page 4, Table 2-9 indicates the Capital Budget Reserve (CBR) draw,

		lasting until February 2011, assuming the price and production information presented and the \$2.3 billion dollar budget. Commissioner Corbus referenced Table 2-8, looking into the future, understanding that the State still has a long run structural financial problem that needs to be addressed in matching reoccurring revenues with reoccurring expenses.
1:58:44 PM	Commissioner Corbus	Addressed the actual year to date, futures for the remainder time. He pointed out that the futures for FY06 are significantly higher than \$34.50. The next update for the Department will be April, 2005.
2:00:01 PM	Representative Joule	Questioned the idea of "not trusting" OPEC projections.
2:01:26 PM	Commissioner Corbus	Commented that OPEC has stated that they are considering reevaluating the proposed price range. The Department anticipates that change.
2:01:57 PM	Representative Joule	Referenced Page 2, & asked when that information would be factored into the projection. Commissioner Corbus responded that ANWR was not included in that table. The full impact of ANWR will not be felt until after 2020.
2:02:44 PM	DAN DICKINSON, DIRECTOR, (TESTIFIED VIA TELECONFERENCE), TAX DIVISION, DEPARTMENT OF REVENUE, ANCHORAGE	Explained the process of preparing a forecast every six months. He acknowledged that it is usually wrong. The Department does attempt to provide a reasonable model for determining price formation in the specified time period. An average is created using a "best guess" scenario. A similar process is used for a long-term forecast. It is important not to change the long-term numbers resulting from recent news. He emphasized that there is a tendency to be overly optimistic or pessimistic during ups and downs.
2:06:28 PM	Mr. Dickinson	Referenced Page 10 and how Alaska North Slope (ANS) is priced relative to West Texas Intermediate (WTI) prices. In the last six months, the differential has moved up about \$6 dollars, which is extraordinary. That information causes concern when determining a forecast. He referenced Attachment #3. (Copy on File). The graph indicates the absolute percentage error in

		forecasting oil prices for the next year's budget cycle. The graph indicates a new price relationship between WTI and ANS.
2:09:31 PM	Mr. Dickinson	Acknowledged that there are questions regarding the historical norms for the forecast. It is important to note the volume indicated on Page 12. The graph indicates about 30 different producing areas, which added together provides the information. Production is divided into three categories: <ul style="list-style-type: none"> • Producing fields at this time; • Production coming from current development; and • Items under evaluation.
2:12:51 PM	Mr. Dickinson	Spoke to the bizarre period occurring in early January in the North Slope with warmer temperatures, resulting in not getting as much oil out of the ground at 12,000 barrels per day, a small number. He outlined the four areas of revenue: <ul style="list-style-type: none"> *Federal numbers provided by Office of Management and Budget (OMB; *Investment numbers; and *Other revenues.
2:14:31 PM	BRETT FRIED, ECONOMIST, TAX DIVISION, DEPARTMENT OF REVENUE	Page 37, Table 5-1, listed the other revenues except for the federal and investment listings. The unrestricted revenues are broken into different categories. He referenced Table 5-2, the other tax, pointing out the actual FY04 and projected FY05-FY06 figures. Page 41, Table 5-2, referencing the alcohol beverage tax, \$16.3 million dollars projected. From there, the column drops down to restricted taxes. 50% of the tax from the alcohol beverage tax goes into the prevention treatment fund. The cigarette column indicates projected numbers also into FY07. The reason for the increase in cigarette tax revenue, is that the tax was increased to \$1.60 as of January 1 st . The corporate income tax changed with the creation of the Job Assistance Act, which changed how long taxpayers could claim their losses, from five to two years. He identified fish taxes.
2:19:32 PM	Mr. Fried	Explained the "other tax" category.

2:20:06 PM	Vice-Chair Stoltze	Asked about the drop in motor fuel tax.
2:20:33 PM	Mr. Fried	Stated that FY04 number was high resulting from assessments from previous years. There were big assessments in those years resulting in a higher amount.
2:21:01 PM	Representative Hawker	Referenced the tobacco taxes and asked if that had been factored into the proposed numbers. Mr. Fried responded that it was not factored into the forecasts. There was more revenue in FY04 when it went into effect. The Department is not sure of what the source is of the additional revenue. The future could indicate more revenue with the increase in the tax rate.
2:22:36 PM	MICHAEL WILLIAMS, DR, TESTIFIED VIA TELECONFERENCE, CHIEF PETROLEUM ECONOMIST, DEPARTMENT OF REVENUE, ANCHORAGE	Provided an overview of his personal background qualifications, earning a doctorate in economics from a university in Colorado. He stressed that he has been involved in the energy field since his graduation in the early '80's.
2:25:29 PM	Dr. Williams	Spoke to the expansion of crude oil production within the world market. He reiterated that OPEC has been discussing raising the price ceiling. He emphasized that there is a growing oil demand. Currently, there is a "sellers market".
2:27:04 PM	Dr. Williams	Touched upon the differential concern. He mentioned the hurricanes that happened in the Gulf of Mexico, knocking our many production platforms. That produced a "sweet" crude oil and the market needed additional crude oil. The heavier crude oils were brought from oils in the middle East, causing the differential to expand. He spoke to price volatility. He pointed out that there has been a 5% change per day since early January and offered to address that change. He commented on the absolute changes. The daily changes in January have averaged about 1.9%. On average, the price change averaged 77 cents per barrel per day. He pointed out that this months volatility was similar to

		that occurring in past years and results from people's perspective of the future.
2:30:43 PM	Dr. Williams	U.S. Energy reported a rise in the crude oil stock prices. The world oil system is affected by production capacity and how that relates to a stable system. He added that there is little spare crude oil capacity but at the same time, the international projection is an increased demand which is stressing the international system. He stated that there is political volatility in a number of world situations. He predicted that the crude oil prices would remain volatile.
2:33:11 PM	Commissioner Corbus	Stated that would complete the presentation from the Department of Revenue.
2:33:34 PM	Co-Chair Meyer	Asked if \$500 million dollars was a safe windfall prediction. Commissioner Corbus explained that he was reluctant to say a "revised projection". It is anticipated at this time, and would be approximately \$150 million below.
2:34:30 PM	Co-Chair Meyer	Asked about any new revenue measures being considered by the Department.
2:35:07 PM	Commissioner Corbus	Replied that the Office of the Governor is evaluating alcohol taxes. He added that the Percent of Market Value (POMV), the Administration supported it last session. Currently, the Administration still considers it to be "On the Table" with other proposals to take advantage of the Permanent Fund, addressing long-term fiscal problem.
2:36:44 PM	Co-Chair Meyer	Mentioned the Amerada-Hess dividends being a separate consideration. He applauded the work provided by the Department in determining the oil forecasting. He stated that the State could control the oil production and how that is increased statewide. He inquired about dissatisfaction of the oil companies with the administrative order to change the tax cut and asked how it could impact future production.
2:37:58 PM	Commissioner Corbus	Replied that the Administration has been "heavily supportive" of the oil industry to increase production. He noted line items, which have boosted that industry. The Administration stated that the situation at Prudhoe

		Bay was unique.
2:41:12 PM	Mr. Dickinson	Interjected, that there was a tax credit available for exploration. There are five companies that are looking at that credit at this time. He added, that the companies want to know what their tax will be before they invest. They can apply for an advanced ruling before they invest through regulation. He stressed that option is available before making a major investment and added that the biggest consideration is the price to the oil companies in order that it is attractive. There are concerns that can be controlled and will be through advanced rulings.
2:43:51 PM	Co-Chair Meyer	Understood that the ruling would be retroactive and asked if heavy oil would then be excluded. Co-Chair Meyer voiced his concern with that.
2:44:35 PM	Commissioner Corbus	Understood the concern with the "heavy oil" issue and that the Department was available to meet with the owners of those fields to discuss their concerns. He pointed out that there are administrative remedies.
2:45:11 PM	Co-Chair Meyer	Asked when the additional revenue would be available. Commissioner Corbus thought that revenue would be available immediately by February 1 st . Mr. Dickinson interjected that the actual payment would be one month delayed and would start the last day of March.
2:46:13 PM	Co-Chair Meyer	Recommended the State's need to diversify in planning long-range fiscal issues. He spoke to the Percent of Market Value and other reasonable revenue generating measures.
2:46:56 PM	Vice-Chair Stoltze	Referenced the section addressing business licenses and asked if that had met the expectation for increased revenue.
2:47:48 PM	Mr. Fried	Pointed out that information was included in the Charge for Services section. Mr. Dickinson interjected that was listed on Page 42, footnote #2.
2:48:16 PM	Mr. Fried	Stated that he would get back to the Committee regarding if the increase would meet the expectations. Vice-Chair Stoltze noted that he had voted for that concern and now was "upset"

		that he had. He requested more information.
2:49:20 PM	Representative Hawker	Questioned if it was the intent that the Percent of Market Value proposal would raise revenues. He recalled that was not the purpose of that proposal but rather to protect the Permanent Fund. He requested clarification. Commissioner Corbus acknowledged that the Percent of Market Value is for the protection of the fund, however, it could open up opportunities to make funds available to fund government.
2:50:24 PM	Representative Hawker	Asked if it would make more opportunities than currently available. Commissioner Corbus responded that the Legislature has the authority to access the Permanent Fund, but historically has chosen not to do that.
2:51:06 PM	Representative Hawker	Understood those comments to mean that the Legislature does in fact have the authority to access the earnings reserve and that had not been changed in any way. Commissioner Corbus agreed.
2:51:27 PM	Representative Kelly	Asked about the Internal Revenue Service's (IRS) letter regarding drilling and if it could be changed by the Governor or the Legislature.
2:51:53 PM	Mr. Dickinson	Replied that there are conditions under which that letter could be changed but there would have to be good reason to. In response to concerns voiced by Vice Chair Stoltze, he stated that the letter establishes conditions to be met. In FY03, the revenues generated were \$2.1 million from business licenses.
2:53:00 PM	Co-Chair Chenault	Noted that would conclude the presentation from the Department of Revenue.
		Department of Health & Social Services Proposed Changes in Medicaid Reimbursement
2:54:59 PM	JOEL GILBERTSON, COMMISSIONER, DEPARTMENT OF HEALTH & SOCIAL SERVICES,	Provided the Committee with a handout, Attachment #5. (Copy on File). He introduced Janet Clarke, Director, Division of Administrative Services, Department of Health and Social Services.
2:56:59 PM	Commissioner Gilbertson	Medicaid currently insures about 128 thousand Alaskans. That budget exceeds

		<p>\$1 billion dollars in total federal funding in FY06. There is some volatility in the State's match rate. Federal Medical Assistance Percentage Program (FMAP) was calculated annually, using a three-year average of per capita income, to determine if the State is a wealthier or poorer state, which then determines the amount paid by the federal government. Alaska historically has been a 50/50 state. There are some services paid by Medicaid that are "enhanced" Medicaid services. Examples of that are the State's children's health insurance program and the breast and cervical cancer services. He added that 100% reimbursement is received for the Alaska Natives.</p>
<p>3:00:13 PM</p>	<p>Commissioner Gilbertson</p>	<p>Pointed out that up until 1997, the Medicaid match rate for Alaska has been 50% federal and 50% State. In 1997, Senator Frank Murkowski argued for the core formula to enhance Alaska's Medicaid match rate for three years. That provided a 9.8% increase for three years. Costs for providing care in Alaska are much higher than other states. When that sunset, the formula continued to be flawed. In 2001, another piece of legislation won passage, again by Senator Murkowski, which adjusted the formula for a period of five years. The result is an enhanced match rate for the State of Alaska. That sunsets on October 1st, 2005 and reverts back to the underlying formula calculation for the State. It will result in a drop of 7.5 points, caused by the 5-year sunset and the fact that the per capita income has increased statewide.</p>
<p>3:03:52 PM</p>	<p>Commissioner Gilbertson</p>	<p>Stated that a major change will occur October 1st, 2005, and includes a change to the manner in which per capita income is determined for the nation. It will include employer contributions to employee retirement plans. Such an adjustment means \$53 million dollars for per capita income. The State Administration has an obligation to fix this problem in statute. For FY06, the Administration has chosen not to fund</p>

		that gap and is waiting for the U.S. Congress to fix it. The Administration has been working with the U.S. Congressional delegation to fix the concern before the end of this year's budget cycle.
3:06:49 PM	Representative Hawker	Asked about the loss and whether Alaska was the only state affected. Commissioner Gilbertson responded that every year, there are changes in the Medicaid match rates. Some states go up and some down. Alaska experiences the changes the most and Wyoming is the state next affected by a three-point drop. Representative Hawker commented that there are other states in this predicament and that Alaska does not stand-alone. Commission Gilbertson agreed that other states do have an interest in preventing this reduction. He reiterated that Alaska is the most expensive State regarding delivery of health care services.
3:09:40 PM	Representative Hawker	Requested a definition of FMAP, fair share and pro share issues. Commissioner Gilbertson explained that the FMAP is the Federal Medicaid Assistance Program and deals solely with determining the ratio of Medicaid costs bore by the State and the federal government. It is determined by a three-year average of the State's per capita income as compared to the national per capita income. Fair share is a plan developed in the State of Alaska in FY01, to oversee Medicare and Medicaid to allow for permissive transfer for funds through enhanced Medicaid payments to tribal operated facilities. That plan went through a denial and currently is being litigated by the State of Alaska. Pro share deals with permissive intergovernmental transfers used to pay State's share of the Medicaid match. Private pro share is an approved State plan amendment, submitted by the State of Alaska, in which, the State does make enhanced payments to the private health care system.
3:13:31 PM	Co-Chair Meyer	Questioned if the Department's budget would reflect the reduction to the FMAP. Commissioner Gilbertson

		responded that the Governor's FY06 budget does not include funding for the withdrawal from the federal budget for that amount. It is intended that the U.S. Congressional delegation will be able to "fix" the Medicaid reduction through legislation.
3:14:54 PM	Co-Chair Meyer	Commented that \$53 million dollars is a large risk. Commissioner Gilbertson reiterated the he thought there would be a supplemental requested and granted.
3:15:27 PM	Co-Chair Meyer	Asked how Alaska compared to other states in providing the Medicaid program. Commissioner Gilbertson responded that the Medicaid rates and the amount provided to the provider are fairly high. Facilities are paid based on costs. Alaska rates that go out to the providers are high. He pointed out the eligibility standards and the areas within the State which have authority over its' Medicaid program: *Optional services; *Optional eligible categories; and *Rates
3:17:23 PM	Commissioner Gilbertson	Reiterated that the State has generous programs. He commented on capping benefit services.
3:18:13 PM	Co-Chair Meyer	Asked for an explanation of the Senior Care Program proposed by the Governor.
3:18:44 PM	Commissioner Gilbertson	Responded that the Senior Care Program, which provides supplemental funding for seniors for prescriptive drugs, was passed in the last legislative session and is due to expire on January 1 st , 2006. The Governor intends to propose legislation this session to enhance that program. He listed the criteria for the program, highlighting "Part D" for the prescription drugs. That section has its' own premium for those seniors who are 300% below the poverty line. He added that there is currently proposed legislation in cooperation with the Mental Health Trust, which will provide preventative dental services for seniors.
3:21:57 PM	Co-Chair Meyer	requested more in-depth overview of the proposed program at a future date.

<p>3:22:22 PM</p>	<p>Representative Kelly</p>	<p>Asked if there were guidelines being considered to help people move off and out of the system. Commissioner Gilbertson responded that the Department works aggressively to help promote self-sufficiency through job training skills and other means. For some people, they will never become "self sufficient". This Administration supports maintaining a strong safety net. Commissioner Gilbertson acknowledged that some rural concerns address access and under-serviced issues. Those concerns differ from various sections of the State. He stressed the Department's success rate in moving people out of the program. It has dropped 58%.</p>
<p>3:24:42 PM</p>	<p>Co-Chair Chenault</p>	<p><u>ADJOURNMENT</u> The meeting was adjourned at 3:25 P.M.</p>