

HOUSE FINANCE COMMITTEE
January 17, 2006
1:37 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:39:47 PM](#)

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MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Richard Foster
Representative Mike Hawker
Representative Jim Holm
Representative Mike Kelly
Representative Beth Kerttula
Representative Carl Moses
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Reggie Joule

ALSO PRESENT

William Corbus, Commissioner, Department of Revenue; Michael Williams, Chief Petroleum Economist, Department of Revenue; Robynn Wilson, Tax Division, Department of Revenue; Tom Boutin, Deputy Commissioner, Department of Revenue; Dan Stickel, Economist, Department of Revenue; Representative Norm Rokeberg; Representative Ralph Samuels; Representative Jay Ramas

PRESENT VIA TELECONFERENCE

Dudley Platt, Contract Petroleum Geologist, Anchorage

SUMMARY

HB 22 "An Act relating to the terms of legislators, to a 90-day regular session of the legislature, to the date of convening a regular session, and to procedures of legislative committees during the interim; and providing for an effective date."

HB 22 was heard and HELD in Committee for further consideration.

GENERAL SUBJECT(S):

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OVERVIEW: DEPARTMENT OF REVENUE 2005 FALL FORECAST

TIME	SPEAKER	DISCUSSION
1:38:54 PM	WILLIAM CORBUS, COMMISSIONER, DEPARTMENT OF REVENUE	Related that the price of North Slope oil on the West Coast is currently \$61.22 per barrel. The spot price of natural gas is \$8.54. Commissioner Corbus reviewed highlights of the fall forecast from the <u>Fall 2000 Revenue Sources Book</u> (copy on file.) He drew attention to page 10, table 2-6, oil price projections.
1:42:49 PM	Commissioner Corbus	Shared a December press release from OPEC, which stated that the oil market was well supplied and inventory levels were building. He referred to the world supply demand synopsis on pages 33-38. He stated that the Department of Revenue believes that there has not been a structural change in the world supply/demand relationship. He addressed the price volatility of crude oil and the factors that contribute to it. The price differential between West Texas Intermediate (WTI) oil and Alaska North Slope (ANS) oil delivered to the West Coast has stabilized to about \$2.00 per barrel.
1:45:59 PM	Commissioner Corbus	Spoke to the ANS forecast on page 12 and about new oil development on page 13. He pointed out the unrestricted and restricted revenues on page 6.
1:47:56 PM	Commissioner Corbus	Directed attention to page 14, the dwindling Economic Limit Factor (ELF), which adversely impacts production taxes. Page 16 shows that the state still faces a structural deficit. The State of Alaska is starting to predict the price of natural gas, which is also a volatile commodity.
1:50:22 PM	Commissioner Corbus	Noted that Chapter 3, page 19, deals with natural gas price forecasts, but includes no production estimates. Commissioner Corbus concluded that current and projected oil prices are very favorable for FY 06 and FY 07, but will become a financial problem in the long run. The next forecast update will be in April.
1:52:15 PM	Co-Chair Meyer	Referred to page 10, table 2-6, and inquired about the projection that the price will return to \$27.50 by 2009.

1:53:03 PM	MICHAEL WILLIAMS, CHIEF PETROLEUM ECONOMIST, DEPARTMENT OF REVENUE	Referred to the handout <u>Fall 2005 Forecast Rationale For Prices</u> (copy on file.) The graph on the cover shows that the forecast price is above average. Page 2 lists six points explaining why prices will decrease. He related how prices will retard demand, will stimulate additional supplies, and are cyclical.
1:57:20 PM	Mr. Williams	Discussed perceptions in the market today, page 3, and explained the graph on accelerating demand and declining spare capacity.
1:58:58 PM	Mr. Williams	Highlighted page 4, the economic outlook and changes in U.S. gasoline demand after the Iranian crisis. When oil prices increased, demand decreased.
2:00:49 PM	Mr. Williams	Explained the supply side of the oil cost curve on page 5. The graph details the availability of oil as a function of crude oil price per barrel. The quote from the Saudi oil minister shows that his country is on track with production.
2:03:18 PM	Mr. Williams	Highlighted page 6, cyclical crude oil prices, and the effects when perceptions change.
2:04:22 PM	Mr. Williams	Summarized the conclusions on page 7.
2:04:49 PM	Commissioner Corbus	Added that the price of oil drops off to \$27.00 in 2009 because demand will go down. Mr. Williams said there is a specific Department of Revenue policy in place, which determines the long-range forecast every other year.
2:05:54 PM	Co-Chair Meyer	Voiced concern that the production level is decreasing. He requested more information about the amount of revenue obtained from the National Petroleum Reserve-Alaska (NPR-A), versus the east side of the North Slope. He also requested information on exploration credits.
2:06:48 PM	Commissioner Corbus	Pointed out that NPR-A is mostly federal land and the state treasury receives very little royalty share. Most of those revenues are in the form of severance taxes and income taxes.

2:07:21 PM	DUDLEY PLATT, CONTRACT PETROLEUM GEOLOGIST, ANCHORAGE	Added that the three positive effects of NPR-A production are corporate income tax, the possibility of no severance tax, and firmer wellhead prices. He related that he makes production forecasts using confidential information provided by the Department of Revenue and by the oil industry. He pointed out forecast limitations. He noted that he has provided forecasts twice a year since 1989.
2:10:11 PM	Mr. Platt	Explained that the largest impact on oil forecasts is the timing of new developments. For example, the delay in the timing of Port Townsend until FY 2016 is a delay of 100,000 barrels per day. He gave other examples of timing delays.
2:15:17 PM	Co-Chair Meyer	Asked how many exploratory wells are being drilled this year and whether exploration credits helped. Mr. Platt replied that the investment tax credit worked in several situations.
2:17:12 PM	Representative Hawker	Inquired about the increasingly steeper production decline curve. He wondered what proactive steps could be taken to change this decline.
2:19:06 PM	Commissioner Corbus	Pointed out that the governor's office and the Department of Revenue are working on that problem and a presentation will be made soon.
2:20:02 PM	Representative Hawker	Noted that he was troubled by the solution of increasing tax rates on a declining production.
2:20:57 PM	Representative Hawker	Referred to the current oil price forecast and estimated that it is now larger than \$57.30 per barrel. Commissioner Corbus replied that to date the price is averaging just over \$60 per barrel. Representative Hawker concluded that the state may be looking at another \$150-\$200 million surplus. Commissioner Corbus countered that production is down a bit from the estimation.
2:22:56 PM	Co-Chair Chenault	Asked for more information about the biggest reason for production loss. He wondered what affect the BP well shut-in had on production.
2:23:52 PM	Mr. Platt	Termed the BP announcement of their well shut-in a special situation. It had a large impact on production decline. He said he assumes that this

		type of situation is not a one-time deal and it is factored into the forecast.
2:25:29 PM	Co-Chair Chenault	Requested more information regarding page 34, the perception of a lack of crude oil production capacity and refining capacity.
2:26:30 PM	Mr. Williams	Explained that the number of refineries has been cut, but capacity has increased and upgrading units have been added.
2:28:00 PM	Representative Stoltze	Asked for more information about the business tax.
2:28:52 PM	DAN STICKEL, ECONOMIST, DEPARTMENT OF REVENUE	Directed Representative Stoltze to page 51, table 5-3. Representative Stoltze rephrased the question to refer to business license fees.
2:30:17 PM	Dan Stickel	Pointed out that page 52 shows the business license fees. Representative Stoltze requested a clearer way to track this tax.
2:31:52 PM	Commissioner Corbus	Referred to page 85, appendix A-3, for a further breakdown of licenses and permits.
2:32:54 PM	Representative Stoltze	Asked for an explanation of the different earnings rates shown in the footnote on page 67.
2:33:38 PM	TOM BOUTIN, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE	Clarified that the subaccount was set up as a separate part of the Constitutional Budget Review Fund (CBRF), invested for a time horizon of five years or longer, in a more volatile asset allocation, but projected to bring in a higher return. The timing was unfortunate, but it is now in the black. Commissioner Corbus added that that information is part of the PFD report.
2:36:17 PM	Representative Hawker	Noted that Robynn Wilson, who replaces Dan Dickinson, is a qualified, competent professional
2:38:01 PM	Representative Hawker	Reported that the spring forecast of the CBRF general fund appropriation of \$2.6 billion is now up to \$3 billion in the fall forecast. He inquired if the legislature should take this shift increase of general fund obligations into account.
2:39:18 PM	Commissioner Corbus	Replied no. He referred to table 2-15, on page 18, a matrix of CBRF options. He suggested that the table could be expanded to include higher spending

		levels. Representative Hawker asked if the increase in general fund appropriations is a fundamental shift in philosophy. He inquired if it would have been more appropriate to show a spike in general fund appropriations and then a retrenchment back to a sustainable level.
2:41:03 PM	Commissioner Corbus	Explained that the Department of Revenue does projections and not budgets. He suggested not reading anything into the footnote to table 2-13. Representative Hawker asked if the \$3 billion number came from the Office of Budget and Management.
2:41:54 PM	Mr. Williams	Responded that OMB did provide the number.

[2:47:20 PM.](#)

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HOUSE BILL NO. 22

"An Act relating to the terms of legislators, to a 90-day regular session of the legislature, to the date of convening a regular session, and to procedures of legislative committees during the interim; and providing for an effective date."

[2:48:18 PM](#)

REPRESENTATIVE RALPH SAMUELS, CO-SPONSOR, introduced HB 22. He explained that the most important reason to pass the bill from the House Finance Committee would be to get more people involved in the political process. He claimed that the current amount of time - 120 days - was a difficult amount of time for committee members to meet due to other job obligations. A shorter session would make for a better public process. He believed that the timing would allow internal changing of the rules and better participation of the public. The change would make legislators more responsive to constituents.

Representative Samuels referenced the fiscal note and the savings to the state. He mentioned the 'branches of power' opposition, the argument that power would go to the executive branch if there were a shorter session. He pointed out that legislators could call a session at any time.

Representative Samuels referred to the "Length of Legislative Session in 27 Other States" (copy on file.) He maintained that it is possible for the legislature to finish

its work in 90 days. He pointed out that the "rule changes" had been discussed in the House State Affairs Committee.

[2:52:36 PM](#)

REPRESENTATIVE NORMAN ROKEBERG, CO-SPONSOR, added that he has introduced the bill five different times. The separation of powers issue is one of the key arguments against the legislation. He maintained that a minor revision of the uniform rules, which would allow interim committees to move legislation between committees, would overcome that concern. The legislators would be able to stay in their communities longer. Many legislatures throughout the country have shorter sessions and allow for interim committee hearings. He explained how that process might be possible in Alaska.

Representative Rokeberg stated that the legislature is the voice of the people. Any money savings would be minimal, and any restriction of legislative power would be minimal with a statutory change and a rules change.

Co-Chair Meyer pointed out a savings of \$650,000 indicated in the latest fiscal note.

Representative Stoltze asked if the location of the legislature was a bigger factor for most people deciding to run.

[2:57:12 PM](#)

Representative Samuels thought if the legislature were held in his area, more folks would run. Location plays a large part, but he recommended getting more done in the interim and during a shorter session.

Representative Rokeberg noted that he has a bill that would address the concerns of Representative Stoltze.

Representative Stoltze asked if a shorter session would require an adjustment of the uniform rules.

Representative Rokeberg noted that the matter has been considered. There would be a companion House concurrent resolution added to the bill, which would adopt changes in the uniform rules. If the bill moves forward in the current state, he would recommend adopting a companion bill. That would be a judgment call. He did not think it was necessary for the public to testify.

Representative Stoltze said he did not support changing the public notice requirements. He asked if hearings might affect the capital move issue.

[3:02:00 PM](#)

Representative Rokeberg recommended that the Juneau legislation support the bill because it would help to keep the capital in Juneau.

Representative Samuels pointed out that the 30-days' notice of a meeting held during the interim was discussed in the original bill, as was the ability to vote telephonically during the interim.

Representative Stoltze commented that if a bill passes through the initiative process, the legislature would have the ability to act to make the necessary changes. He thought there was merit to taking this issue to the ballot box. He wondered if a statutory change was constitutional.

Representative Rokeberg responded that the initiative system does not take all those considerations into account.

Representative Stoltze mentioned that there are separation-of-power issues, but he stated support for the bill.

Representative Holm pointed out that the system used in Alaska to determine appropriations to the various departments uses the Budget Review Unit (BRU) process. He questioned if a line item process might be better used to determine appropriations in a 90-day session.

Representative Rokeberg stated that he did not have a position on that. He suggested it might be better suited for a biannual budget process. He noted concern however, with oil price volatility.

Representative Samuels agreed with Representative Rokeberg.

[3:08:06 PM](#)

Representative Holm asked if state employees would have more power in controlling information presented to the legislature in the shortened 90-day cycle.

Representative Rokeberg thought they could and he expressed opposition to the idea. He pointed out that the interim meeting is an extension of the power of the committee chairs to conduct their business. He reiterated the concern about location.

[3:09:43 PM](#)

Representative Foster pointed out that in eighteen years he has experienced seventeen special sessions, and 120 days is not enough time to complete business. He commented on not having enough time to get the votes in a shorter session.

He spoke against extending the session. He emphasized the importance of representing the people and not running one's own business.

Representative Samuels agreed, but referred to the internal politics of waiting until the last minute and special sessions, which won't change.

[3:13:12 PM](#)

Representative Joule noted that for 120 days the 60 legislators are available to the public, and a shorter session would limit this accessibility.

Representative Samuels related that there are only about six or seven constituents that choose to have access to him during session. He did agree that those who do come to Juneau do have access to all of the members at one time.

Representative Joule pointed out that his constituents get to see all of the legislators during the session, and he gets to see other legislators' constituents.

Co-Chair Chenault predicted that a lot less legislation would be passed during a shorter session. He opined that it might be difficult to pass a budget within a 90-day session.

Representative Rokeberg debated the idea that fewer bills would be passed during a shorter session.

Representative Samuels noted an exception during an election year.

[3:21:27 PM](#)

Representative Kerttula spoke to the personal sacrifice made by legislators and the need to focus on making life easier for them. She spoke against a shorter session. She offered that, "No good business gets done after 10:00 p.m." She encouraged continued efforts to make life easier for the members.

[3:24:46 PM](#)

REPRESENTATIVE JAY RAMRAS, CO-SPONSOR, explained the graph entitled "Qualification Status" (copy on file.) He reported that this issue has been introduced 24 times. He shared the valuable experience of traveling across Alaska to collect 45,300 signatures for the ballot initiative. He offered to answer questions.

Co-Chair Meyer attended to housekeeping issues.

Co-Chair Meyer spoke to the conflict of interest ruling from last year. The committee's policy is that members are not required to bring up conflict of interest until on the House Floor.

HB 22 was heard and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 3:35 PM.