

**ALASKA STATE LEGISLATURE  
SPECIAL COMMITTEE HOUSE WAYS & MEANS**

January 14, 2005  
8:32 a.m.

**MEMBERS PRESENT**

Representative Bruce Weyhrauch Chair  
Representative Norman Rokeberg (via teleconference)  
Representative Ralph Samuels  
Representative Paul Seaton  
Representative Peggy Wilson  
Representative Max Gruenberg

**MEMBERS ABSENT**

Representative Carl Moses

**COMMITTEE CALENDAR**

OVERVIEW: DEPARTMENT OF REVENUE

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

WILLIAM CORBUS, Commissioner  
Department of Revenue  
Juneau, Alaska

POSITION STATEMENT: Offered an overview regarding the Department of Revenue's fall forecast.

TOMAS H. BOUTIN, Deputy Commissioner  
Department of Revenue  
Juneau, Alaska

POSITION STATEMENT: Presented an overview regarding the Department of Revenue's fall forecast.

DAN DICKINSON, Director of the Tax Division  
Department of Revenue  
Juneau, Alaska

POSITION STATEMENT: Answered questions and further explained the fall forecast during the overview of the Department of Revenue.

#### **ACTION NARRATIVE**

CHAIR WEYHRAUCH called the meeting to order at [8:32:56 AM](#). Representatives Samuels, Seaton, and Wilson were present at the call to order. Representatives Gruenberg and Rokeberg (via teleconference) arrived as the meeting was in progress.

OVERVIEW: DEPARTMENT OF REVENUE

[8:32:56 AM](#)

CHAIR WEYHRAUCH commented that it was a pleasure to have the same group of Representatives working on the House Special Committee on Ways and Means as last year. He announced that the purpose of today's meeting was to have an overview with the Department of Revenue.

[8:33:54 AM](#)

WILLIAM A. CORBUS, Commissioner, Department of Revenue, would be presenting on behalf of the Department of Revenue and he noted the presence of the following from the department: Tomas Boutin, Deputy Commissioner, Department of Revenue, Dan Dickinson, Director of the Tax Division; via teleconference from Seattle, Mike Williams, the new Chief Petroleum Economist replacing Chuck Logsdon, and Brett Fried with Tax Division. He informed the committee that he would be presenting an outline of the Department of Revenue's views on the financial condition of state and the fall revenue forecast.

COMMISSIONER CORBUS conveyed the three financial conditions of the state: the short-term, long-term, and very long-term. He stated that the short-term is relatively good; the long-term is bad, and the very long-term after the pipeline should be good.

[8:37:39 AM](#)

TOMAS H. BOUTIN, Deputy Commissioner, Department of Revenue, commented that the short-term depends on three components: the cash flow, reserves, and liabilities. The fall forecast combined with the fiscal year (FY) 05 budget and with the submitted FY06 budget shows net surplus for the two years. Also in the OMB [Office of Management & Budget] FY06 Governor's

Budget Fiscal Summary the FY06 budget shows a year-to-year spending reduction, so the short-term cash flow looks positive. Mr. Boutin opted to switch topics from fund balances [which refers to budget] to cash balances [which the Department of Revenue depicts to the credit rating agencies and are the measurer of liquidity].

[8:39:15 AM](#)

MR. BOUTIN said that the general fund has a cash balance of about \$290 million and another \$30 million is in a daily-suspended account until reconciliation and some portion of that will be general fund. The Constitutional Budget Reserve (CBR) amounts to \$2.15 billion today and the permanent fund has over \$29.5 billion, which totals a combined liquidity of \$32 billion.

[8:39:36 AM](#)

MR. BOUTIN stated:

What the State Bond Committee and Department of Revenue show the rating agencies for their reserve calculations and their measures of liquidity is a general fund in the CBR balances combined, plus permanent fund earnings reserve; and that we show as a balance available for appropriation. And we compare that along with forecasted revenues and current year in expected budgets and that is the liquidity and reserves that the credit rating agencies, their analysts, have always used for measures of the state's current fiscal health. Short-term liabilities consist of about \$13.8 million annually for debt service on lease debt and \$19.7 million this year and \$31.8 million for FY06 for general obligation debt service. Another 9 million dollars each year is for the so-called GARVEE [Grant Anticipation Revenue Vehicles] bonds, while those have a general obligation pledge with them the debts service is substantially paid by federal receipts. As an aside to the discussion about short-term liabilities, just in case it would come up, total general obligation debt outstanding on last June 30 was \$461.9 million, including those GARVEE bonds, and state lease debt outstanding was another \$203 million and those two combined we ... in the credit rating agencies see ... as our general fund indebtedness.

8:42:04 AM

REPRESENTATIVE GRUENBERG suggested that perhaps a sheet with all the figures would help clarify the Department of Revenue's information.

8:42:16 AM

MR. BOUTIN obliged Representative Gruenberg's request. Mr. Boutin asserted:

Another long-term liability, but one of a very different nature than debt, is the unfunded pension liabilities and total unfunded liabilities for PERS [Public Employees' Retirement System] and TRS [Teachers' Retirement System], as of 6/30/03 was \$4.959 billion. Final topic in the area of liabilities is the credit ratings; credit ratings are a direct measure of the state's financial condition. The three credit ratings agencies track state revenues and budget process and maintain regular contact with the State Bond Committee and Department of Revenue. They receive formal presentations from Governor Murkowski and/or members of the cabinet three or four times a year. The state general obligation ratings are AA from Standard and Poors, AA II from Moody's, and a AA from Fitch Ratings. To varying degrees the ratings anticipate a so-called fiscal solution. And so, if you will, a fiscal plan that has yet to be adopted is already discounted in the rating, and by fiscal solution I mean a plan that matches recurring revenues with expenditures, the rating agencies anticipate one will be adopted...Based on their belief that the state will have no choice but to adopt one and if the state didn't adopt one after say a current year and forecasted year of significant decline then, I think, the ratings would start to reflect that there wouldn't be a fiscal plan, whereas the ratings today reflect that the rating agencies expect that there will be one.

8:45:19 AM

MR. BOUTIN described that Moody's Investors Services Global Credit Research Rating Update 19 NOV 2004 states that "conservative financial management and adoption of structural

fiscal reforms are vital" to maintaining the state's high rating.

MR. BOUTIN stated that the short-term is strong and "The fiscal decisions made by the Governor have been recognized by the credit rating agencies that have followed the state's credit since statehood."

[8:48:00 AM](#)

COMMISSIONER CORBUS turned to the long-term outlook for the state:

The state has a long-term structural financial problem. Regular reoccurring revenues are expected to be less than reoccurring expenditures. That has been the case most of the time, as we look back, over the last 10 years. Just to illustrate, we would like to refresh your memory about the history of the Constitutional Budget Reserve Fund. This fund was established in 1990 by a constitutional amendment from settlements from oil, tax, and royalty litigation. The idea was that during poor revenue years through the state, mainly when the price of oil is down, that we would borrow from the Constitutional Budget Reserve. And during good revenue years, years of high oil prices, that we would repay the constitutional budget reserve. Unfortunately it has not quite worked out that way; during the last 10-year period 7 out of 10 years we borrowed out of the Constitutional Budget Reserve. The state in total has deposited \$5.6 billion into the Constitutional Budget Reserve from oil settlements and has earned an additional \$1.6 billion. During this time frame it has drawn out a total of \$5.1 billion, such that the CBR today equals \$2.1 billion. It is safe to say that when the CBR was set up that it was intended that we would still be at this \$5 billion level, but we find ourselves at the \$2 billion that the administration has been successful at keeping it at the level for the last several years but over time it has been depleted. And looking to the future the outlook for the CBR is not good. This administration has exercised strong fiscal discipline and the price of oil certainly has helped, so that we do find that the life of the CBR has been extended from some of the earlier projections/predictions. But as we'll discuss in the fall revenue forecast, the

fund is predicted to be depleted sometime between September of 2009 and April of 2010, depending on the spending level that you assume, we're assuming somewhere between \$2.4-\$2.5 billion per year to come up with those parameters.

[8:51:35 AM](#)

COMMISSIONER CORBUS related that Governor Murkowski will under no circumstances, allow the CBR to fall below a minimum of \$1 billion, which is necessary to cover the volatility of price of oil. A budget is based on the certain projected price of oil. If the price is less then revenues would be less. Another \$400 million is general capital for the general working fund, he mentioned.

[8:53:26 AM](#)

COMMISSIONER CORBUS directed attention to the option of the percent of market value (POMV) which is still available for the legislature's consideration. He encouraged the legislature to reconsider the POMV.

In closing he offered to answer any questions on the Department of Revenue's outlook of fiscal conditions.

[8:57:45 AM](#)

CHAIR WEYHRAUCH asked:

You reviewed generally that the state's financial condition appeared to be good in the short-term, bad in the mid-term, and good in the long-term with some major assumptions related to the gas and the ANWR development. The bad in the mid-term I did not get as much information on that. Are we just to believe that it's going to be bad in the mid-term because we don't have reoccurring sources of revenue to meet reoccurring sources of obligations, and does it also assume that we aren't going to address the long-term liability on PERS and TERS? And we are not going to address these other issues?

[8:58:33 AM](#)

MR. BOUTIN stated that the short answer to Representative Weyhrauch's question was yes. Pension liabilities are being

addressed with payments and contributions. There will be long-term changes in the defined benefit programs for new hires, so the unfunded pension liabilities are being addressed. Recent pension fund investment earnings have been more favorable than they were during the 24-30 month bear market. He mentioned that in discussions with credit rating agencies the Department of Revenue focuses on the current year and coming year for the revenue forecast.

[9:01:49 AM](#)

DAN DICKINSON, Director of Tax Division, Department of Revenue, if the Arctic National Wildlife Refuge (ANWR) legislation passes in Congress this year it would be 9-10 years before the state starts receiving royalties or severance taxes on a regular basis. The decade during this period is how the mid-term forecast would be defined in the OMB budget.

[9:27:57 AM](#)

COMMISSIONER CORBUS stated that the Organization of Petroleum Exporting Countries (OPEC) standard price goal is estimated to be between \$22-28 per barrel. The current estimate for the OMB budget is \$25.50, which is in the mid-range of OPEC. The current forecast prices were set last October and much has happened since then. Commissioner Corbus claimed currently [the department] is less certain about OPEC maintaining the given price range. In recent times oil prices are hard to predict due to less reliability.

[9:30:00 AM](#)

COMMISSIONER CORBUS provided some reasons for the unpredictability of oil prices:

In 2004, we had a drop of \$18 a barrel over a 49 day period, which is rather substantial but these type of changes in the price of oil are not uncommon as we look back over history. In the build-up for the second Iraqi oil in 2003, we had a \$15 drop over a 48 day period. And back in 1991, in connection with first Iraqi oil we had a drop of \$15 over a 37-day period. And today the price of oil is about \$42, and that is \$8 higher than it was a month ago. Prices are jumping around. It has been said that we are going through a wild ride. The overall factors that have impacted the recent price of oil are... the demand

from China, the second largest consumer of oil and their growth and demand has been spectacular over the last several years; uncertainty on supply side; interruptions in Iraq, Russia threatens strikes in Nigeria; the value of dollar has gone down and has certainly impacted the price of oil, most recently improved the U.S. inventories is one of the reasons cited for a drop in the price of oil, and the fear factor, we'll call it, which is a combination of all the above plus the threat of terrorism have all impacted the volatility in the price of oil.

[9:32:39 AM](#)

COMMISSIONER CORBUS stated that the Alaska oil production forecast is based on currently known reserves. In FY05 there is an estimated average production from the North Slope of about 934,000 barrels daily. By 2013, an average production per day should be about 919,000 barrels. By 2011, new oil developments will account for 48.1 percent of total production.

COMMISSIONER CORBUS related the positive impact ANWR would have on oil production for the state.

[9:40:18 AM](#)

COMMISSIONER CORBUS concluded that the current outlook for the price of oil is very high compared to the past. Commissioner Corbus reminded the committee not to forget that Alaska has a structural long-term financial problem. In fiscal year 2005, the average price of oil has been \$41.84, as it stands the price of oil is \$1.87 below the projected oil price for the fall forecast. Commissioner Corbus suggested that the forecast overall may be optimistic for FY05 oil revenues. The next update for the revenue forecast will be in April of this year, he noted.

[9:47:00 AM](#)

MR. DICKINSON mentioned that the Department of Revenue is forecasting comparable to some of the other high power organizations.

[9:59:18 AM](#)

CHAIR WEYHRAUCH asked each member to comment on the House Special Committee on Ways and Means.

[9:59:56 AM](#)

REPRESENTATIVE GRUENBERG related his belief that it is most important to have an ongoing House Special Committee on Ways and Means. Over 30 states have such a standing House Special Committee on Ways and Means separate from appropriation or finance committees. Representative Gruenberg stressed the importance of having solid long-range fiscal planning for Alaska, and therefore he expressed that the committee is far more proactive than last year. Representative Gruenberg also mentioned that he would like to have regular meetings.

[10:01:17 AM](#)

REPRESENTATIVE SEATON noted his appreciation for being on the House Special Committee on Ways and Means. He expressed interest in reviewing the details of bills for the sake of his constituents as well as the sake of the House.

[10:02:01 AM](#)

REPRESENTATIVE SAMUELS expressed his desire to review how revenue measures will impact the economy of the state.

[10:02:25 AM](#)

REPRESENTATIVE WILSON highlighted the importance of preparedness, and pointed out that the surplus allows the legislature to prepare now so that the economy is not devastated if the price of oil drops.

[10:03:08 AM](#)

REPRESENTATIVE ROKEBERG agreed that the structural long-term debt that Commissioner Corbus presented is accurate. Representative Rokeberg said he would much like to continue working on the committee expenditure forecast. He suggested that the legislature should create a forecasting model for near-term and mid-term expenditures; thus focusing on issues that are going to impact the budget.

[10:04:14 AM](#)

CHAIR WEYHRAUCH related that he looked forward to working with Commissioner Corbus throughout the session. Chair Weyhrauch explained that the House of Representatives started the House

Special Committee on Ways and Means in order to address measures. The committee is committed to looking at the ways currently used to finance government.

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at [10:08:15 AM](#).