

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

February 18, 2005
8:29 a.m.

MEMBERS PRESENT

Representative Bruce Weyhrauch, Chair
Representative Norman Rokeberg
Representative Ralph Samuels
Representative Paul Seaton
Representative Peggy Wilson
Representative Max Gruenberg

MEMBERS ABSENT

Representative Carl Moses

COMMITTEE CALENDAR

HOUSE BILL NO. 52

"An Act relating to adoption and revision of a comprehensive long-range fiscal plan for the State of Alaska."

- HEARD AND HELD

HOUSE BILL NO. 143

"An Act relating to the policy of the state regarding the source of funding used to cover a shortfall in general fund revenue."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 52

SHORT TITLE: LONG-RANGE FISCAL PLAN

SPONSOR(S): REPRESENTATIVE(S) GRUENBERG

01/10/05	(H)	PREFILE RELEASED 1/7/05
01/10/05	(H)	READ THE FIRST TIME - REFERRALS
01/10/05	(H)	W&M, FIN
02/18/05	(H)	W&M AT 8:30 AM CAPITOL 106

BILL: HB 143

SHORT TITLE: POLICY ON GENERAL FUND REVENUE SHORTFALL

SPONSOR(S): WAYS & MEANS

02/14/05 (H) READ THE FIRST TIME - REFERRALS
02/14/05 (H) W&M, STA, FIN
02/18/05 (H) W&M AT 8:30 AM CAPITOL 106

WITNESS REGISTER

KEVIN RITICHE, Executive Director
Alaska Municipal League
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 52.

TADD OWENS, Executive Director
Resource Development Council for Alaska, Inc.
Anchorage, Alaska

POSITION STATEMENT: Testified on HB 52.

ROB CARPENTER, Fiscal Analyst
Legislative Finance Division
Juneau, Alaska

POSITION STATEMENT: Presented the effects of HB 143.

ACTION NARRATIVE

CHAIR BRUCE WEYHRAUCH called the House Special Committee on Ways and Means meeting to order at [8:29:37 AM](#). Representatives Seaton and Gruenberg were present at the call to order. Representatives Rokeberg, Samuels, and Wilson arrived as the meeting was in progress.

HB 52-LONG-RANGE FISCAL PLAN

CHAIR WEYHRAUCH announced that the first order of business would be HOUSE BILL NO. 52 "An Act relating to adoption and revision of a comprehensive long-range fiscal plan for the State of Alaska."

[8:31:35 AM](#)

REPRESENTATIVE GRUENBERG relayed that he and Representative Harris, originally introduced HB 52 during the Twenty-Third legislature and in its previous incarnation it was House Bill 493. The first section of HB 52, contains legislative findings that indicate the areas for which the legislature is responsible, such as: public health and welfare, public education, development of natural resources, public safety,

public facilities, and environmental protection. In order to carry out these responsibilities the legislature must budget a reasonable level of expenditures to finance the operations of state government. There is often a significant disparity between the revenue sources used and the expenditures necessary to maintain a reasonable level of state services, he noted. He related that revenue sources fluctuate and Alaska needs stability. For several years, the legislature has addressed the disparity by drawing against the balance in the constitutional budget reserve fund (CBR), which has been declining to a level that requires the development of a sound fiscal plan. The long-range comprehensive fiscal plan will encourage the discipline necessary to ensure the budget remains balanced and properly planned, which will stabilize the state's economy.

REPRESENTATIVE GRUENBERG said that he was "surprised" that no statute existed requiring the state to adopt and maintain a stable long-term fiscal plan. This legislation would require the legislature to adopt and annually revise a comprehensive long-range fiscal plan to balance state revenue and expenditures for the current and succeeding four years. The plan, he explained, must set out projected revenue available and anticipated expenditures for the operation of state government for each fiscal year. For each fiscal year of projected expenditures that exceed projected revenue, the plan must include proposals to achieve the following: balance the budget, encourage real economic growth and stability, improve the high quality of life, develop natural resources, provide education, maintain public health and safety, and ensure that state government provides services as efficiently as practical, while, reducing state expenditures where possible. Furthermore, the legislature must: protect the principal of the permanent fund in accordance with the constitutional mandate, use the earnings of the fund to provide for inflation-proofing, maintain a strong dividend program, and repay the legislature's legal flexibility to determine the appropriate use of the remaining earnings of the fund. The legislature must examine and plan for ways to raise the necessary revenue for the operation of state government while maintaining a stable tax environment. The plan must contain provisions to maintain the integrity of the CBR, which was established under the constitution to ensure that a prudent minimal balance in the fund remains available to provide funding for emergencies.

[8:37:02 AM](#)

REPRESENTATIVE GRUENBERG, in response to Representative Seaton, related that the expenditures of the state have never surpassed the revenue sources of the state.

[8:37:46 AM](#)

REPRESENTATIVE GRUENBERG, in response to Representative Wilson, said that HB 52 directs the legislature to consider all the revenue sources of the state, such as: the permanent fund, the permanent fund dividend, the CBR, the ERA [Earnings Reserve Account], and the enactment of taxes. How the legislature appropriates those funds is under its jurisdiction, he highlighted.

[8:39:06 AM](#)

KEVIN RITICHE, Executive Director, Alaska Municipal League (AML), relayed that the AML and its members support the proposal for a long-range fiscal plan. He related that many municipalities have a five-year plan to balance the budget. He said, "The only thing more dangerous than planning, is not planning."

[8:39:59 AM](#)

MR. RITCHIE, in response to Chair Weyhrauch, related that many municipalities, like Juneau, try to "look ahead five years."

[8:40:08 AM](#)

MR. RITCHIE, in response to Chair Weyhrauch, said he could not answer whether any ordinance or statute used the term "long-range fiscal plan." He explained that the City and Borough of Juneau had a five-year fiscal plan, but it was not called a "long-range fiscal plan" in the ordinance.

[8:40:36 AM](#)

REPRESENTATIVE ROKEBERG noted that, although he could not recall the exact statute, in his research for balancing the budget he found a statutory requirement existed for a long-range projection.

[8:40:52 AM](#)

REPRESENTATIVE WILSON commented that she has received numerous emails and letters from statewide municipalities and

organizations "begging" the legislature to propose a long term fiscal plan, similar to the proposal of HB 52.

[8:41:29 AM](#)

REPRESENTATIVE ROKEBERG said that the legislature needs to adopt a long-range fiscal plan and not just a bill that talks about it. He expressed concern that the bill would deflect from the urgency to adopt such a plan.

[8:41:41 AM](#)

CHAIR WEYHRAUCH related that a bill is merely "fluff" compared to the substance.

[8:41:53 AM](#)

TADD OWENS, Executive Director, Resource Development Council for Alaska, Inc., said the council has been concerned about the state structural fiscal imbalance for over a decade. Although, the council's board has yet to take a formal position on HB 52, the council is "anxious to work with the legislature on any and all ideas to move the state closer to a long range fiscal plan," he said. This year's budget surplus offers the legislature the opportunity to make "tough decisions" regarding fiscal responsibility over the long term, he noted.

[8:43:33 AM](#)

CHAIR WEYHRAUCH noted that Mr. Owens' position mirrors that of the "Chamber, AARP, and many other [institutions]."

[8:43:40 AM](#)

MR. OWENS, in response to Representative Seaton, relayed that the council's [opinion that] the state is not in a situation where there is no revenue or revenue options to cover the expenditures, rather it's an allocation issue. The council believes that particular steps should be taken to address the long-term fiscal imbalance, such as: budget discipline, uses for the permanent fund earnings for something other than dividends alone, a constitutional amendment for percent of market value (POMV), and, if necessary, the institution of a statewide tax.

[8:46:28 AM](#)

MR. OWEN, in response to Representative Rokeberg, said that the council is wrestling with a long-range comprehensive fiscal plan versus making incremental improvements to the status quo when possible. However the council is willing to work on any idea that would "drive the state forward," he related.

[8:48:17 AM](#)

REPRESENTATIVE GRUENBERG clarified that HB 52 is not an alternative to an actual fiscal plan because both are necessary in order for the state to plan ahead.

[8:48:48 AM](#)

MR. OWENS related that the council wants what is best for the state, and if the combined efforts of both HB 52 and a [long-range] fiscal plan perpetuate that process, then the council supports both actions.

[8:49:15 AM](#)

CHAIR WEYHRAUCH stated that the aforementioned issues are important to consider when attempting to resolve the fiscal gap.

HB 143-POLICY ON GENERAL FUND REVENUE SHORTFALL

[8:49:53 AM](#)

CHAIR WEYHRAUCH announced that the next order of business would be HOUSE BILL NO. 143 "An Act relating to the policy of the state regarding the source of funding used to cover a shortfall in general fund revenue."

CHAIR WEYHRAUCH said that HB 143 is intended as a companion bill to SB 88, which establishes that if there were a budget shortfall, the policy of the legislature would be to fill that shortfall using the earnings from the ERA and the CBR. The public should be aware of the state's fiscal deficit and the two funds that can be accessed, he noted.

[8:51:25 AM](#)

ROB CARPENTER, Fiscal Analyst, Legislative Finance Division, provided a Powerpoint presentation on the effects of HB 143. He said that the bill is essentially the same as SB 88, but it was reworded and deals with tax issues. The first slide illustrated

that HB 143 would be appropriated equally from the CBR and the ERA, if there were a shortfall in the general fund.

[8:52:29 AM](#)

MR. CARPENTER presented the slide entitled, "Why? Where's the problem?", that detailed that the fiscal gap of the state budget resides in general fund revenue and appropriations, which is roughly one-third of the budget. Although most don't include the permanent fund in the budget, it is a major component of appropriations for dividends and inflation-proofing, he said.

[8:53:26 AM](#)

MR. CARPENTER, in response to Chair Weyhrauch, reiterated that the majority of the money used from the permanent fund reserve, to operate the capital budget, is for the appropriations of the dividend, which is about \$1 billion per year, and inflation proofing the principle of the permanent fund.

[8:54:07 AM](#)

MR. CARPENTER, in response to Chair Weyhrauch, said that other state government uses for the permanent fund ERA include the following: the Department of Health and Social Services' hold harmless program, and both the Department of Revenue and the Department of Natural Resources for supplementing their budgets for the [work these departments do with] royalty deposits to the permanent fund.

[8:55:36 AM](#)

MR. CARPENTER, in response to Chair Weyhrauch, said that after all the appropriations, inflation proofing, and the permanent fund dividend, the unused amount in the ERA for the fiscal year (FY) 2005 totals about \$2.1 billion. In further response to Chair Weyhrauch, Mr. Carpenter said the ERA's \$2.1 billion could be utilized by a majority vote of the legislature otherwise the \$2.1 billion will be invested in the asset allocation of the permanent fund.

[8:56:11 AM](#)

MR. CARPENTER, in response to Chair Weyhrauch, relayed that the \$2.1 billion is "almost the same amount" as the state's operating budget. In FY 2005, not including supplementals, the state and capital operating budget was \$2.3 billion, he added.

[8:56:59 AM](#)

REPRESENTATIVE ROKEBERG pointed out that, "In October of 2002, the earnings reserve had a negative balance, and had the market not returned, there would not have been sufficient money to pay the dividend."

REPRESENTATIVE WILSON recalled that the ERA had a negative balance two different times.

[8:57:39 AM](#)

MR. CARPENTER, in response to Representative Wilson, agreed to provide the committee with details about the ERA, the CBR, and budget reports detailing expenditures. He added that the Alaska Permanent Fund Corporation provides monthly financial reports that detail the amount of the principal of the fund as well as the ERA.

[8:58:05 AM](#)

REPRESENTATIVE WEYHRAUCH relayed that a joint meeting of the Senate and House Finance Committees' meeting on February 17, 2005, gave the historical review and future prognosis of the ERA.

[8:58:15 AM](#)

MR. CARPENTER presented the slide entitled, "...What's the problem?", which shows the two problems the state faces with the general fund (GF) revenue. [Those problems] are the volatility of the GF and declining projections of the GF in the future.

[8:59:06 AM](#)

CHAIR WEYHRAUCH surmised that the difference between the white bars and the maroon background, on the graph, represents the gap between income and expenditures. If HB 143 became law, the mechanism for having the maroon line meet the top of the white bar would be to split the difference between the CBR and the ERA. The darker blue field on the right-hand side of the graph is assumptions based on a gas pipeline, the development of the Arctic National Wildlife Refuge (ANWR), and other resource development.

MR. CARPENTER agreed with Chair Weyhrauch's understanding of the chart.

[8:59:50 AM](#)

MR. CARPENTER, in response to Representative Seaton, clarified that the maroon baseline represents the current revenue received from oil fields and taxes, but the figure does not include the earnings from the permanent fund.

[9:00:31 AM](#)

MR. CARPENTER, in response to Chair Weyhrauch, said that the green diamonds in the FY 06 bar represented FY 05, due to technical difficulties with the computer program.

[9:01:26 AM](#)

MR. CARPENTER, in response to Representative Gruenberg, acknowledged that the 2 percent state spending increase was an assumption necessary to estimate the future budget needs, but in no means relates to actuality.

[9:02:00 AM](#)

MR. CARPENTER related that it was necessary to choose an assumption and the 2 percent assumption rate was chosen based on the inflation rate of 2 percent or 2.6 percent. However, for FY06 and FY07, a baseline figure from 2005, which was about \$2.3 billion, was added to the Teachers' Retirement System (TRS) and Public Employees' Retirement System (PERS) unfunded liability for the following 2 years, and he "threw it at two percent," he explained.

[9:02:38 AM](#)

REPRESENTATIVE ROKEBERG pointed out that last year the committee projections were "leading the pack" with its future projections.

[9:03:15 AM](#)

REPRESENTATIVE GRUENBERG pointed out that the rows to the left of the green diamonds are actual figures and the rows to the right of the green diamonds are projections. He said "And so we don't see, in fact, that the budget has gone up at a 2 percent rate. We've seen it affected and that has been effected by what the legislature itself has done "

[9:04:02 AM](#)

MR. CARPENTER replied, "You could say that."

[9:04:14 AM](#)

REPRESENTATIVE GRUENBERG added "Not entirely, because we're governed by how much money we have and what our needs are, but my point is that we are, to some extent, the masters of our own fate "

[9:04:23 AM](#)

REPRESENTATIVE SAMUELS asked what would be the policy of HB 143 if the CBR is unable to cover its portion. He asked, "Can you go to the earnings reserve, or are you implying that you have to go to a new tax?"

[9:04:42 AM](#)

CHAIR WEYHRAUCH said that structurally the bill does not address whether the CBR cannot cover its portion.

[9:04:51 AM](#)

REPRESENTATIVE SAMUELS asked if "Before the enactment of a new tax," implies that something like a tobacco tax could not be considered as a revenue measure. Could it even be discussed if no money is needed, he also asked.

[9:05:19 AM](#)

CHAIR WEYHRAUCH added that the aforementioned question should be addressed as part of the bill deliberation.

[9:05:25 AM](#)

REPRESENTATIVE WILSON asked if the term "Before the enactment of any new tax," refers to a new tax development or to the addition of a current tax.

CHAIR WEYHRAUCH reiterated that question should be addressed as part of the bill deliberation.

REPRESENTATIVE WILSON commented that the graph fluctuates over the years due to the state not keeping up with inflation.

Therefore, she indicated that that state needs to adjust to keep up with the status quo.

[9:06:27 AM](#)

REPRESENTATIVE ROKEBERG commented that the budget went down due to a lack of revenue and there were extreme amounts of shortfalls of up to \$1 billion per year.

[9:06:47 AM](#)

REPRESENTATIVE SEATON added that the decline should also be attributed to the policies made by the legislature. He highlighted the policy decisions about whether to raise the budget or to streamline government.

[9:08:29 AM](#)

MR. CARPENTER presented the graph entitled, "...and things can change quickly", which details the proposed general fund budget for FY 06. The graph assumes the governor's proposed budget plus \$117.5 million for the FY 06 PERS and TRS costs. The graph assumes the average price of oil needed to "break even" for the GF and where the fiscal gap or surplus would be depending on those oil prices. At \$2.6 billion, the oil prices can "break even" at \$42 per barrel. Higher prices would cause a surplus and lower prices would cause a fiscal gap, he noted.

[9:09:39 AM](#)

MR. CARPENTER, in response to Chair Weyhrauch, said that the graph was for the upcoming FY 06.

[9:09:56 AM](#)

MR. CARPENTER, in response to Representative Gruenberg, related that the bottom of the graph should be labeled price per barrel of oil. For further clarification, he added that the bottom of the graph was the average price throughout FY 06.

[9:10:26 AM](#)

MR. CARPENTER, in response to Representative Wilson, confirmed that the graph shows that the oil price will have to remain at \$42 per barrel for an entire year in order to prevent a deficit or a surplus. The projections also assume the governor's budget, he added.

[9:10:54 AM](#)

MR. CARPENTER, in response to Representative Wilson, said that the price of oil yesterday was around \$41 to \$42 per barrel.

[9:11:06 AM](#)

REPRESENTATIVE WEYHRAUCH asked why the blue field [referring to the same graph] labeled "Unrestricted General Fund Revenue," shows a diminishing line towards the left.

MR. CARPENTER explained that the blue field diminishes because if the state were to average \$25 per barrel for the year, there would be \$1.6 billion in revenue, which would be roughly \$1 billion less than the expenditures.

[9:12:03 AM](#)

REPRESENTATIVE GRUENBERG inquired as to the "statistically projected" price of oil for FY 06.

MR. CARPENTER replied that the Department of Revenue establishes the revenue projections, which estimates \$32 to \$35 per barrel [in FY 06]. In further response to Representative Gruenberg, Mr. Carpenter said that he has never seen a standard deviation chart with the price of oil projections for an entire year.

[9:13:24 AM](#)

REPRESENTATIVE ROKEBERG pointed out that sensitivity charts are available through the Department of Revenue.

[9:13:41 AM](#)

MR. CARPENTER for clarification purposes asked Representative Gruenberg if he was interested in the volatility of oil prices.

REPRESENTATIVE GRUENBERG clarified that he was interested in the statistical assumptions for figuring what the probabilities are that the state will have the Department of Revenue's assumed average oil price.

[9:14:07 AM](#)

REPRESENTATIVE ROKEBERG commented that the Department of Revenue does not do sensitivity charts for the aforementioned data, but

it does the correlation charts between the budget and the price of oil.

[9:14:36 AM](#)

REPRESENTATIVE SEATON commented that the aforementioned data was presented to the committee during a previous meeting regarding the percentage of time and the accuracy of oil projections by the state and the other entities that project oil prices.

[9:15:23 AM](#)

MR. CARPENTER presented the slide entitled, "...and they have", which details that the CBR has been used to fill the fiscal gap 8 out of 12 years. Furthermore, approximately \$5.5 billion has been withdrawn to balance the budget. The state has deposited \$5.6 billion into the CBR and earned \$1.6 billion in interest, he related.

[9:16:02 AM](#)

CHAIR WEYHRAUCH clarified that \$5.6 billion has been deposited back into the CBR by the oil settlement monies. Thus, the money deposited is independent of the legislature because it is independent of any appropriations out of the CBR.

[9:16:38 AM](#)

MR. CARPENTER related his belief that the \$5.6 billion seems to be \$1 billion off because he recalled the liability of the CBR to be \$6.5 billion.

[9:16:46 AM](#)

MR. CARPENTER, in response to Chair Weyhrauch, said that the deposits into the CBR have been ongoing since 1999.

[9:16:56 AM](#)

MR. CARPENTER presented the next slide entitled, "...for example", which shows the CBR balances and the draws incurred. The maroon columns represent the continuing balance, the blue columns represent the actual draw to balance the budget, and the green line is an average draw. In FY 99, the state borrowed over \$1 billion, he noted.

CHAIR WEYHRAUCH commented that the green line shows a steady level average draw.

MR. CARPENTER added that the price value is a stabilized average as opposed to a rolling average.

[9:18:01 AM](#)

REPRESENTATIVE GRUENBERG pointed out that the green "average" draw is an arithmetic mean draw rather than a median. He asked what the median draw would be.

MR. CARPENTER responded that he did not have the answer to that question.

[9:18:33 AM](#)

MR. CARPENTER presented the slide entitled, "Potential Future Oil and Gas Revenue." The light blue area shows the baseline general fund revenue on decline, the line above it shows the general fund budget increasing, and the areas to the far right are resource development projections. He said that the problem years will occur from 2006 to 2013. The assumptions of a 2 percent growth are calculated in these projections, he added.

[9:19:46 AM](#)

REPRESENTATIVE WILSON commented that this graph shows that unless the legislature is willing to take action soon, in the next couple of years, it will not be fun to be a legislator.

[9:20:11 AM](#)

REPRESENTATIVE ROKEBERG added that was the case in 1989 and 2001, when the legislature was drawing down \$800 million to \$1 billion per year from the CBR because the price of oil had plummeted.

[9:20:25 AM](#)

MR. CARPENTER, in response to Representative Seaton, said that the price of oil, calculated in the general fund revenue projections, is provided by the Department of Revenue. The long term projection is \$22 per barrel, and there is a three year horizon of what the price is going to be, and then it goes to a five-year average.

[9:21:11 AM](#)

MR. CARPENTER, in response to Representative Seaton, relayed that production is an issue because it is in decline, so the price would probably have to increase to coincide with the growth in the budget.

[9:21:46 AM](#)

REPRESENTATIVE SEATON commented that it is important for the committee to know the different scenarios of the underlying assumptions that cause a fiscal gap.

[9:22:13 AM](#)

MR. CARPENTER, in response to Chair Weyhrauch, said that the projection of 2 percent comes from the Finance Division, the projections of \$22 per barrel and the green field labeled, "Gas Pipeline" both come from the Department of Revenue.

[9:22:30 AM](#)

MR. CARPENTER presented the slide entitled, "Several Pots of Money." The slide details the various options and funds available to deal with the fiscal gap. The options are as follows: reducing state spending, using the permanent fund earnings, and creating an income tax, a corporate income tax, and a sales tax.

[9:23:20 AM](#)

CHAIR WEYHRAUCH commented that the sales tax assumes that it could generate \$200 to \$300 million.

MR. CARPENTER, in response to Chair Weyhrauch, said that the corporate tax is a potential tax and the figures labeled, "Other Revenues" and "CBR," are in existence.

[9:23:50 AM](#)

REPRESENTATIVE ROKEBERG inquired as to the source of the figures, because they are inconsistent with some of the previous studies done by the committee.

[9:24:15 AM](#)

MR. CARPENTER related that the projections are assumed at the 1 percent level by the Department of Revenue.

REPRESENTATIVE ROKEBERG added that the projections are at the high ranges from the past forecasts.

[9:24:41 AM](#)

CHAIR WEYHRAUCH added that the committee will have to revisit that information at another date.

MR. CARPENTER commented that the projections were provided as examples and general ranges of the types of revenue that the state could produce.

CHAIR WEYHRAUCH related that the chart merely intends to show the ways to fill the gap, the margin between revenues and expenses, [but] may not provide the exact figures.

[9:25:22 AM](#)

REPRESENTATIVE ROKEBERG said:

That is exactly the point because these are max sized figures: income tax, corporate tax, [and] sales taxes ... the high side here shows \$1 billion The legislature, as a matter of policy, could choose to implement the maximum amount of taxation as a burden to the public and we still only come up with something around \$1 billion, and our general revenue is \$2.3 [billion] going to \$2.6 [billion] over night. Some thing that people need to be aware of [is] even if we taxed ourselves to death we still couldn't pay our bills ... The question in Alaska is can we afford ourselves.

[9:26:01 AM](#)

CHAIR WEYHRAUCH reiterated for clarification purposes that the aforementioned sentiment relates that Alaska has a structural problem.

REPRESENTATIVE ROKEBERG said that the state can't balance the budget on other conditions alone, and the key element is the resource revenue.

[9:26:17 AM](#)

REPRESENTATIVE WEYHRAUCH opined that the state would either have to have "some serious revenue source" or there would have to be a fundamental change made to the current system of government.

[9:26:28 AM](#)

REPRESENTATIVE ROKEBERG agreed.

[9:26:37 AM](#)

REPRESENTATIVE GRUENBERG commented that the projection assumptions for Alaska show the production of oil in decline. He asked if there was similar analysis on the Middle East's oil production.

MR. CARPENTER said he is unable to answer that question.

[9:27:38 AM](#)

REPRESENTATIVE WILSON pointed out that the legislature has to "be careful," because if it were to enact any of the options, presented before the committee, it could be taking \$1 billion out of the economy.

[9:28:19 AM](#)

CHAIR WEYHRAUCH relayed that Alaska has a structural problem between its expenditures and its earnings.

[9:28:45 AM](#)

MR. CARPENTER presented the slide entitled, "...why not just the CBR?", which shows the current \$2.1 million remaining and the projected 2 percent growth in the general fund appropriations. According to these projections, the state could be out of money by 2009, he said.

[9:29:17 AM](#)

CHAIR WEYHRAUCH clarified that based on this chart the CBR funds would run out by 2009.

MR. CARPENTER added that the chart includes general fund revenue projections that are currently maintained at \$43 per barrel.

CHAIR WEYHRAUCH reiterated, for clarification purposes that this chart does not account for the earnings reserve of the permanent fund.

[9:29:52 AM](#)

MR. CARPENTER, in response to Representative Seaton, clarified that the chart is based on actual revenue projections by the Department of Revenue and the current long term forecast for the oil price at \$25.50.

[9:30:45 AM](#)

CHAIR WEYHRAUCH asked if the gas pipeline chart shows a realistic climb in revenue.

[9:31:15 AM](#)

REPRESENTATIVE SAMUELS relayed that it takes a lot of gas to fill a pipeline, approximately \$100 million worth of gas. He said that he is unable to tell if the graph is detailing an expansion. He asked from where the 2011 gas pipeline money projections were outlined.

[9:31:57 AM](#)

REPRESENTATIVE ROKEBERG opined that the graph's sloping curve could be a result of the provisions of the Stranded Gas Act. He said "And what we, [the legislature] would be voting on, assuming there would be some start-up, front-loaded concessions there to [give incentive to] the development, because we understand ... when they turn on the pipe there is going to be a pretty big dump. That [sloping curve] could also reflect the decrease in North American prices."

[9:32:42 AM](#)

CHAIR WEYHRAUCH said that the public needs to understand this slide shows that if the legislature remains inactive, and it uses the CBR, the state will still be out of money. He said, "Every year ... the line moves out on the constitutional budget reserve simply because their bacon's been saved by oil taxes or something else, because the projections on the complete draw down is zero of the constitutional budget reserve [has] always been based on some sort of static scenario."

[9:33:21 AM](#)

MR. CARPENTER, in response to Representative Seaton, replied that the graph did not incorporate the general fund revenue from the administrative order on the economic limit factor (ELF) in Prudhoe Bay. Therefore, for FY 06 there is an additional \$150 billion of general fund revenues not incorporated into the graph.

[9:34:34 AM](#)

CHAIR WEYHRAUCH added that the effect of the ELF, or an administrative change to the ELF and production, is all unknown because we are currently in a "rhetorical phase."

[9:34:49 AM](#)

MR. CARPENTER presented the slide entitled, "Potential Future Oil and Gas Revenue." The slide depicts what would happen if the legislature was to draw 50 percent from the ERA, in addition to filling the fiscal gap with 50 percent from the ERA, and 50 percent from the CBR. Theoretically, the aforementioned assumptions extend the life of the CBR and fill the fiscal gap completely, he added. A majority vote is all that is required to access the ERA.

[9:36:16 AM](#)

REPRESENTATIVE GRUENBERG asked if a majority vote would be 21 in the House and 19 in the Senate.

CHAIR WEYHRAUCH clarified that a majority vote would be 21 in the House and 11 in the Senate.

[9:36:33 AM](#)

MR. CARPENTER presented the next slide entitled, "PF financial projections say...". The chart is from the Permanent Fund Corporation's website showing the monthly financial projections on realized and unrealized earnings. The Permanent Fund Corporation projections are based on where it plans to be in the future and what occurred in the past, he added.

[9:37:04 AM](#)

REPRESENTATIVE ROKEBERG asked if the meeting with Callan and Associates indicated any provisions in the projected returns.

CHAIR WEYHRAUCH recalled that the Callan and Associates meeting only reiterated what it has said in the past.

[9:37:39 AM](#)

MR. CARPENTER presented the slide entitled, "How much less is my PFD if the Legislature draws \$250 M from the ERA each year?". The slide is a grid chart, showing the fiscal gap range in the left column, and the next column shows the ERA draw in millions, He noted that the ERA is to be filled by half the amount of the fiscal gap. The large part of the graph shows the fiscal years ahead if the legislature enacts the draws from the ERA. For example, the chart shows that if in year five [after the enactment] there was a \$250 million draw to balance the budget, then there would be a \$30 additional difference in the permanent fund dividend check.

[9:39:32 AM](#)

MR. CARPENTER, in response to Representative Wilson, related that the grid chart takes into account the growth of the permanent fund.

[9:39:48 AM](#)

MR. CARPENTER, in response to Representative Samuels, said that these projections are based only on the current statute for the dividend and not on the POMV.

[9:40:05 AM](#)

REPRESENTATIVE WILSON requested a similar grid chart that would show the effects of POMV.

[9:40:20 AM](#)

REPRESENTATIVE ROKEBERG related that the grid chart would have to include other assumptions because the POMV alone would not change the projections. The POMV is a management tool, but it does not allocate, he added.

[9:40:46 AM](#)

REPRESENTATIVE SEATON related that the committee would like a chart of the projected dividend amounts as well as the influences on the dividend, because under the proposed scenario the dividends would be growing. He reiterated that five years

after enactment of HB 143, the dividend would be a \$30 less than if the legislature did nothing.

[9:41:21 AM](#)

CHAIR WEYHRAUCH added that it is one issue to take \$30 off of last year's dividend which was \$919, but to take \$30 off of \$1,340, it puts it in different terms.

[9:41:38 AM](#)

REPRESENTATIVE ROKEBERG added that "The assumption about 'how many' is already in the other column. You can see the projected dividend amount here, you just have to divide it by what the estimate of recipients is."

[9:41:59 AM](#)

MR. CARPENTER presented the slide entitled, "...how does this compare to status quo?". The chart shows that if the legislature pulled \$250 million each year, the status quo projected, with no draw and the dividend [appropriations] of \$250 million. Therefore, by FY 15 the ERA would have \$110 million left per check.

[9:42:52 AM](#)

REPRESENTATIVE WEYHRAUCH commented that the issue is becoming a "political will issue and not a money issue."

[9:43:05 AM](#)

MR. CARPENTER presented the final slide, which depicts the declining balance of the CBR. The yellow line represents the CBR balance not shared to fill the fiscal gap, and the red line represents the CBR balance shared. The maroon columns are the declining general fund revenue and the purple columns are the increasing general fund budget.

[9:43:35 AM](#)

REPRESENTATIVE ROKEBERG commented that many graphs show no CBR draw and just the ERA.

[9:43:47 AM](#)

MR. CARPENTER pointed out that "\$250 million is one-quarter of one-thirtieth of the earnings power of the permanent fund, so 25 percent of 3 percent If you think about that in a five year averaging change in the dividend ... it is reasonable, to me."

[9:44:36 AM](#)

REPRESENTATIVE ROKEBERG said that not withstanding the lowering impact on the CBR it still exhausts itself by FY 12. He commented that the legislature needs to address: why the state should maintain a budget reserve, what should be the given amount, its relationship to general fund spending, and how the resources are allocated. The different approach addressed in this legislation [HB 143] does not solve the long term problem and actually takes away "cash management and shock absorber tools," he said.

[9:45:26 AM](#)

REPRESENTATIVE SAMUELS said:

Whatever we do to fix this problem, having the least impact on the economy, and if you cut budget ... \$1 billion ... that money ... gets spent here, so it's going to have an impact on the economy As much as people say, if you have a sales tax it's going to come from the tourists or an income tax is going from the out-of-state workers, the reality is broad based taxes they're going to get paid by Alaskans, and that money then comes out of the economy. And if you strip away the politics - which is why POMV made so much sense last year - it's new money, and you're not hurting the economy drastically. And the problem with just waiting for the earnings ... if you do that and you don't make your 7 percent, or if the market completely tanks and there are no earnings, then there we are. And that is what POMV, the whole point of it, was to stabilize the cash flow, and have as little impact on the economy as possible If you strip away the politics, shame on us if we don't fix the problem somehow. And the second thing that has not come up in this, or anything else, is the impact of the federal dollars on our economy, and it could all come together at one time You never can tell when political parties switch and the federal influence will continue to drop, and that will have an impact on our economy [Oil] production is going down ...

so if you just strip away the politics, the problem is certainly fixable

9:47:50 AM

REPRESENTATIVE GRUENBERG added that the federal programs seem to bring in money until the program gets going, and then the money stops.

9:48:05 AM

REPRESENTATIVE SEATON added that everyone is welcome to the House State Affairs Standing Committee meeting that will address PERS and TRS on February 19, 2005, from 9:00 a.m. until 12:00 a.m.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 9:48:33 AM.