

MINUTES
SENATE FINANCE COMMITTEE
February 14, 2006
9:04 a.m.

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately [9:04:10 AM](#).

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice Chair
Senator Fred Dyson
Senator Bert Stedman
Senator Lyman Hoffman
Senator Donny Olson

Also Attending: DAVID TEAL, Director, Division of Legislative Finance; JAMES ARMSTRONG, Staff to Co-Chair Wilken

Attending via Teleconference: There were no teleconference participants.

SUMMARY INFORMATION

Overview:
Senate Finance Snapshot
Of
The Governor's Budget Proposal

Co-Chair Wilken acknowledged the extensive discussion in the past month about what Governor Murkowski's proposed budget "does and does not do".

[9:05:55 AM](#)

Co-Chair Wilken gave his overview utilizing a presentation titled "Senate Finance Snapshot of the Governor's Budget Proposal, 2/14/06" [copy on file].

Co-Chair Wilken requested Committee members focus on "sustainability" when considering the funding requests.

[9:06:25 AM](#)

Co-Chair Wilken informed that the Governor was requesting 19.49 percent more general funds than the previous year appropriation. Of that, \$210 million, or eight percent of the proposed budget, represents fixed cost increases that include insurance, contracts, debt service and retirement.

[9:07:09 AM](#)

Co-Chair Wilken stated that over \$272 million, or 10.4 percent, of the proposed budget would be allocated for variable cost increases.

[9:07:27 AM](#)

Co-Chair Wilken noted that the FY 06 total appropriation amount would be increased one percent, or \$28 million, to implement legislation sponsored by the Governor.

[9:07:35 AM](#)

Co-Chair Wilken qualified that this amount does not include any funding for capital projects, only operating expenses.

[9:07:56 AM](#)

Co-Chair Wilken remarked that the question is whether such an increase would be sustainable.

[9:08:04 AM](#)

Co-Chair Wilken identified approximately \$17 million is proposed for new foundations, projects and programs.

[9:08:18 AM](#)

Co-Chair Wilken stated that \$60 million is requested to offset non-general fund sources that would no longer be available.

[9:09:02 AM](#)

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Available to Spend - 24th Legislature - 2nd Session
[In millions]

A) FY 06 Surplus (1/10/06 estimate)	\$1,200
B) FY 07 Unrestricted General Fund Revenue	3,139

(Fall Revenue Forecast)	
C) Total General Fund Revenue Available to Spend (our checkbook)	\$4,339
Minus	
Governor Proposed Spending Bills	
D) Operating Budget FY 07 (SB 288 + K-12)	\$3,103.60
Minus	
E) Energy Supplemental FY 06 (SB 232)	52.00
F) Capital Supplemental FY 06 (SB 233)	129.40
G) Regular Supplemental FY 06 (SB 263)	99.90
H) Fast Track Supplemental FY 06 (SB 264)	13.50
Total Supplementals	\$294.80
Minus	
I) Capital Budget (SB 231)	\$432.10
Minus	
J) "Other" - Gas Pipeline Equity FY 07	\$400.00
K) "Other" ~ Legislation (12/15 OMB handout) FY 07	28.00
L) "Other" ~ Budget amendments FY 07	-
Total "Other"	\$428.00
Minus	
M) FY 07 Supplemental (estimate)	\$75.00
Leaves	
O) Savings	\$5.50

[This spreadsheet also contains a column aligned with lines D through O to reflect the actions of the Legislature after consideration of the Governor's proposed spending bills.]

Co-Chair Wilken overviewed this spreadsheet. He noted the total general fund revenue is "seeded" with surplus income for FY 06.

[9:10:14 AM](#)

Co-Chair Wilken stated the purpose of this spreadsheet is to demonstrate the interaction of the amount of revenue available and the amounts the Governor is proposing to spend.

Co-Chair Wilken supported the "mantra" that more funds would be saved for after FY 07.

[9:11:04 AM](#)

Co-Chair Wilken pointed out that the proposed budgets contain no appropriations for firefighting activities.

[9:12:03 AM](#)

Co-Chair Wilken remarked that this Committee, the House Finance

Committee and Governor Murkowski are faced with determining priorities.

Co-Chair Wilken could support expending some of the funds on deferred maintenance projects, as they would prevent additional costs in the future and would not require future funding. However, the governor's proposed budget legislation include all types of spending proposals.

[9:13:38 AM](#)

Co-Chair Wilken noted the \$75 million estimate given for the FY 07 supplemental appropriation is not representative of any calculation. Rather the amount was chosen to represent the assumption that a supplemental appropriation would be necessary.

[9:14:13 AM](#)

Senator Stedman commented that the submission of four supplemental bills was "rather unusual". He assumed that the information on the spreadsheet does not contain any "double counting" of funding requests included in the governor's proposed FY 07 operating budget.

[9:14:39 AM](#)

Co-Chair Wilken replied that the figures are listed "as presented". He was unaware of any duplication.

[9:14:51 AM](#)

DAVID TEAL, Director, Division of Legislative Finance testified that he had not identified any duplication. He noted that the requests made in the FY 06 supplemental requests could be appropriated July 1, 2006 and included in the FY 07 operating budget.

[9:15:31 AM](#)

JAMES ARMSTRONG, Staff to Co-Chair Wilken, furthered that the items included in the FY 06 Capital Supplemental would likely be included in amendments to the other supplemental requests if denied in the original legislation.

[9:15:57 AM](#)

Senator Hoffman commented that the proposed profit-sharing production tax (PPT) would likely change the figures represented on

the spreadsheet. He understood the tax would be made retroactive to January 2006 and would provide an additional \$2 billion.

[9:16:38 AM](#)

Senator Stedman asked the source of the estimate of the \$1.2 million FY 06 surplus, given the numerous variables including oil prices.

[9:17:11 AM](#)

Co-Chair Wilken affirmed the estimates are "very much in flux". The amounts listed on the spreadsheet are derived from the Department of Revenue's revenue forecast of January 10, 2006 and the Governor's proposed budget submitted on December 15, 2005.

[9:17:41 AM](#)

Mr. Teal added that the \$1.2 billion surplus estimate is based on the projected oil prices of \$49 for FY 07 and \$57 for FY 06. The revenue forecast committee is scheduled to meet this week and the estimates would be revised. He predicted the FY 06 projected surplus could increase \$150 million and the FY 07 forecasted revenue could increase by as much as \$500 million.

[9:18:33 AM](#)

Co-Chair Wilken stressed the importance of the relationship between the revenues and the proposed spending.

[9:18:44 AM](#)

Senator Bunde reemphasized his concern with the approval of any supplemental capital appropriations. This would create a new budget category.

[9:19:29 AM](#)

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[Flow chart comprised of five boxes interrelating and with dollar amounts reflected in millions:

Income

FY 06 Surplus (1/10/06 estimate)	\$1,200
FY 07 Unrestricted General Fund Revenue	3,139
Total Revenue	\$4,339

FY 2006	
Gas Pipeline Equity	\$400
FY 06 Energy Supplemental (SB 232)	52
FY 06 Capital/Deferred Maintenance (SB 233)	129.4
FY 06 Regular Supplemental (SB 263)	99.9
FY 06 Fast Track Supplemental (SB 264)	13.5
FY 07 Legislation	28
Subtotal	\$772.8
FY 2007	
FY 06 Base Operating	\$2,620
FY 07 Fixed Operating Increases	210
FY 07 Variable Operating Increases	273
FY 07 Operating Total	\$3,103.6
FY 07 Supplemental (estimate)	75
FY 07 Capital (12/15/05)	432
Subtotal	\$3,611
FY 2008	
Education Fund	\$0
Debt Retirement Fund	0
Subtotal	\$0
Out Years	
Permanent Fund Earnings Reserve	
Constitutional Budget Reserve	
Permanent Fund Principal	
Subtotal	\$0
Total Proposed Spending	\$4,333.5
Savings	5.5
Surplus	0.0]

Co-Chair Wilken stated that this flow chart makes the situation more graphic. Choices are available due to the surplus. The unanticipated additional income could be expended on any of the four categories of: FY 06, FY 07, FY 08 and Out Years. This policy call would not be made during this meeting.

Co-Chair Wilken was not concerned whether the revenue was FY 06 surplus. This exercise assisted him in understanding "forward" and "early" funding.

[9:23:01 AM](#)

Senator Bunde relayed observations predicting one scenario in which the revenue and budgetary needs for FY 08 could result in a deficit.

[9:23:45 AM](#)

Co-Chair Wilken agreed, noting he would address this matter later in the presentation.

[9:24:05 AM](#)

Senator Stedman remarked that the FY 08 revenue forecast must be reviewed. Gauging future oil prices is difficult.

[9:24:35 AM](#)

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Governor's Proposed FY 07 GF Increases
\$ millions

[Bar graph depicting the amount proposed for agencies as follows:

Health and Social Services	\$143.9
Education and Early Development	89.0
Fund Capitalization	55.1
Transportation and Public Facilities	44.7
University of Alaska	41.7
Debt Service	21.6
Corrections	13.7
Administration	13.1
Fish and Game	10.2
Public Safety	10.1
Labor and Workforce Development	8.6
Natural Resources	7.6
Alaska Court System	5.8
Office of the Governor	4.0
Commerce, Community and Economic Dev	3.3
Environmental Conservation	3.2
Law	2.4
Legislature	2.1
Military and Veterans Affairs	1.7
Revenue	0.8]

Co-Chair Wilken stated this graph answers the question of "where the money is going."

[9:25:18 AM](#)

Senator Bunde asked whether any portion of the aforementioned amounts represents fixed increases or if the entire amounts represent discretionary spending.

[9:25:28 AM](#)

Co-Chair Wilken replied that the information represents all general fund spending.

[9:25:33 AM](#)

Senator Dyson asked if supplements for the Public Employees Retirement System (PERS) and the Teachers Retirement System (TRS) are included in these figures.

[9:25:47 AM](#)

Senator Stedman responded that funding is included for the PERS/TRS targeted mandatory funding. However, the amount requested by the governor is significantly less than the amount necessary to meet the "targeted rate".

[9:26:23 AM](#)

Senator Stedman stated that although the listing of the amounts requested for each agency is helpful, seeing the percentage increases was "alarming". He recalled being told that the budget of the previous year was a "catch up year" to offset several years of minimum increases. However, the proposed FY 07 appropriation is another 13 percent increase over last year.

[9:27:10 AM](#)

Co-Chair Wilken indicated he had additional information on this that he would provide to members.

[9:27:38 AM](#)

Senator Bunde expressed interest in reviewing a comparison of the requested funding increases to fixed cost increases.

[9:28:00 AM](#)

Co-Chair Wilken remarked that the fixed cost increases were unavoidable and required.

[9:28:09 AM](#)

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Alaska North Slope Production Forecast
[Spreadsheet listing the following:

Fiscal Year: 2000
Total ANS: 1.040

Fiscal Year: 2001
Total ANS: 0.991

Fiscal Year: 2002
Total ANS: 1.004

Fiscal Year: 2003
Total ANS: 0.991

Fiscal Year: 2004
Total ANS: 0.980

Fiscal Year: 2005
Currently Producing: 0.917
Total ANS: 0.917

Fiscal Year: 2006
Currently Producing: 0.815
Under Development: 0.051
Total ANS: 0.866

Fiscal Year: 2007
Currently Producing: 0.724
Under Development: 0.114
Under Evaluation: 0.005
Total ANS: 0.843

Fiscal Year: 2008
Currently Producing: 0.658
Under Development: 0.138
Under Evaluation: 0.035
Total ANS: 0.831

Fiscal Year: 2009
Currently Producing: 0.602
Under Development: 0.146
Under Evaluation: 0.086
Total ANS: 0.834

Fiscal Year: 2010
Currently Producing: 0.555

Under Development: 0.149
Under Evaluation: 0.128
Total ANS: 0.832

Fiscal Year: 2011
Currently Producing: 0.514
Under Development: 0.145
Under Evaluation: 0.194
Total ANS: 0.853

Fiscal Year: 2012
Currently Producing: 0.479
Under Development: 0.136
Under Evaluation: 0.231
Total ANS: 0.846

Fiscal Year: 2013
Currently Producing: 0.449
Under Development: 0.127
Under Evaluation: 0.242
Total ANS: 0.853

Fiscal Year: 2014
Currently Producing: 0.423
Under Development: 0.121
Under Evaluation: 0.244
Total ANS: 0.788

Fiscal Year: 2015
Currently Producing: 0.400
Under Development: 0.118
Under Evaluation: 0.242
Total ANS: 0.762

Fiscal Year: 2016
Currently Producing: 0.380
Under Development: 0.114
Under Evaluation: 0.306
Total ANS: 0.800

The fiscal years 2007 through 2011 are highlighted

A notation reads as follows

Some of the oil forecasted in the Under Development and Under Evaluation categories are from new projects in fields currently producing.]

Co-Chair Wilken explained this spreadsheet is based on information

provided by the Department of Revenue and demonstrates the history and the future of oil production. He noted the reduced production of approximately 160,000 barrels per day from the fiscal year 2000. Fortunately, production is estimated to be approximately 840,000 barrels per day for the next five years. However, the decline is significant and "obviously, the less you pump the less you make."

[9:29:20 AM](#)

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Trouble Ahead...???

Fiscal Year 2008 (Estimated Fiscal Summary)
[Spreadsheet indicating the following in millions:

FY 07 Base Operating	\$3,103
Assumes Governor's FY 07 proposed operating budget is adopted	
FY 08 Fixed Operating Increases	\$220
Assumes 7% fixed cost increase. (PERS/TRS, Health Insurance, Debt Service & Fund Capitalization, Contracts)	
Estimated Major FY 08 Variable Operating Increases	\$150
Medicaid ~ \$50 million K-12 formula ~ \$50 million Agencies/U of A increments ~ \$50 million	
FY 08 Operating Total	\$3,473
FY 07 Supplemental (estimate)	\$75
Estimated Placeholder (this year FY 06 = \$294 million)	
FY 08 Capital	\$133
Minimum GF Match for Federal road funds	
Total FY 08 Spending	\$3,681
FY 08 Revenues	\$3,000
Estimated at \$49 dollars per barrel @ .831 barrels/day (Dept. of Revenue Fall Forecast)	
Surplus?	\$0
Assumes no carryforward (surplus) from FY 07	
Surplus/Deficit	(\$681)]

Co-Chair Wilken remarked that these are valid assumptions. The amounts listed on the spreadsheet are conservative and incorporate the increases in which the legislature has no control, \$150 million in increases for other programs and a capital appropriation of nothing more than the amount necessary to provide matching funds for federal projects. The FY 07 Governor's proposed budget is \$450

million out of balance. No surplus funding would be available because it would all have been appropriated in FY 06 and FY 07.

[9:32:38 AM](#)

Co-Chair Wilken acknowledged that some of the figures shown could be challenged, however, most are "conservative at best".

[9:33:14 AM](#)

Mr. Teal affirmed the figures are nearly accurate.

[9:33:21 AM](#)

Senator Stedman commented on the eight percent fixed rate of growth. Although it is primarily formula based, it must be reduced eventually.

[9:33:50 AM](#)

Co-Chair Wilken recalled when he first was elected to the legislature and efforts were made to implement relatively minor cost containment measures for the Medicaid program. The lawmakers received significant pressure to not eliminate services. One of the services under consideration was reimbursement of prescription eyeglasses and understandably, many people argued to the importance of their ability to have corrected vision.

[9:34:16 AM](#)

Senator Bunde calculated that a deficit could occur even if \$2 billion was generated from a change to tax on oil production.

[9:35:01 AM](#)

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Projected Fiscal Gap/Surplus at Various Year-End Average ANS Crude Prices

\$3.1 Billion FY 07 General Fund Operating Budget with FY 03 - 08 Breakeven Points added

[Graph detailing Dollar Per Barrel of Oil ranging from \$25 to \$69 with FY 03 through FY 08 indicated, and the amount of GF Revenue, Fiscal GF Gap and Fiscal Surplus ranging from (\$2 million) to \$5 million for each price.

Notations read:

Current Price: 1/10/06 \$60.62/bbl
Average price to date: 1/10/06 \$59.05/bbl - \$1.2 billion surplus
Assumes \$60 million placeholder for supplemental appropriations.
Unrestricted GF Revenue required for government operations, includes revenues not directly affected by fluctuations in oil prices. Assumes DOR Fall 2005 Revenue Forecast.]

Co-Chair Wilken remarked that this graph demonstrates the importance of sustainability.

Co-Chair Wilken clarified that the variegated red, orange and yellow "Fiscal GF Gap" field on the colored graph should be red up to the point of zero to indicate the deficit. Technical difficulties prevented the accurate portrayal.

Co-Chair Wilken acknowledged that some would project that oil prices would remain at \$60 per barrel. However, he and others predicted the prices would decrease to an average of \$40 per barrel. He cautioned against "praying to the oil gods that prices would stay high."

Co-Chair Wilken stressed the need to rely on the information and experts. If prices did not remain relatively high, the legislature would again be forced to consider taxes on residents, visitors and services.

[9:40:23 AM](#)

Senator Bunde asked about historical budget increases before FY 03.

[9:40:55 AM](#)

Co-Chair Wilken replied that the issue could be studied.

[9:41:38 AM](#)

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Alaska General Fund Expenditures

[Graph detailing the expenditures for FY 03 through FY 06 and projected expenditures for FY 07 through FY 15 for seven categories, and the annual breakeven price of oil necessary to fund the steady increases. The FY 03 expenditure and projected FY 14 expenditure are listed for each category in billions as

follows:

Criminal Justice

FY 03: \$.3

FY 14: \$.6

K-12 Funding

FY 03: \$.7

FY 14: \$1.6

University of Alaska

FY 03: \$.2

FY 14: \$.6

Health & Social Services

FY 03: \$.5

FY 14: \$1.0

Resources

FY 03: \$.1

FY 14: \$.2

All Others

FY 03: \$.3

FY 14: \$1.0

Capital Projects

FY 03: \$.1

FY 14: \$.3

The annual breakeven prices of oil are as follows:

FY 03 - \$35.75

FY 04 - \$30.75

FY 05 - \$35.75

FY 06 - not listed

FY 07 - \$55.25

FY 08 - \$56.50

FY 09 - \$60.50

FY 10 - \$65.00

FY 11 - \$70.00

FY 12 - \$75.00

FY 13 - \$80.75

FY 14 - \$86.75

FY 15 - \$93.25

A notation reads:

Projected appropriations increase at the rates of growth experienced from FY 03 to FY 07, except capital is a constant \$300 million. The "breakeven price of oil assumes constant production at the FY 06 level.]

Co-Chair Wilken stated that Mr. Teal provided this information.

[9:42:06 AM](#)

Mr. Teal informed that this graph was prepared in response to questions from legislators about sustained increases. This chart extends the growth rates based on historical increases. The rates are conservative, not solely reflective of the 15 percent growth of the past two years, but rather a nine percent average of the years dating back to FY 03. The growth rates of FY 00 through FY 03 were "fairly flat". Some components increase at different rates and the increases would be sustainable if oil prices increased approximately \$5 per barrel each year and assuming production was unchanged.

[9:44:54 AM](#)

Senator Hoffman remarked, "It's obvious to anyone looking at these charts that there's no way we can cut ourselves out of this problem." One solution, which Governor Murkowski is currently considering is a profit-sharing production tax (PPT). Alaskans must insure the State is receiving its fair share of resource development. British Petroleum reported profits of \$22 billion and Exxon reported \$36 billion. Corporations are profiting significantly from oil in Alaska.

Senator Hoffman noted that \$1 to \$2 billion in additional oil tax revenue is absent from the projections given in this presentation. However, he urged caution because oil prices could still drop and the additional revenue would be insufficient to avoid a deficit. Further savings must be implemented for the future to ensure sustainability. Immediate relief would be realized with the receipt of "our fair share" of taxes. Accomplishing this would be an appropriate goal for this legislative session.

[9:48:29 AM](#)

Senator Stedman stated that oil company profits and assets should not be factored. Rather the State must consider Alaska in relation to the oil reserves in the rest of the world and how other countries divide proceeds between government and industry. The current royalty tax utilized in Alaska is regressive. Other countries have adopted different methods, which creates a competitive environment. He did not begrudge the oil companies for making a profit. They should stay in business to allow for continued oil production in Alaska.

Senator Stedman predicted that the current Economic Limiting Factor (ELF) system of determining royalties would likely be eliminated. He did not disagree with the proposal to make a new tax system retroactive to January 1, 2006.

[9:50:48 AM](#)

Senator Stedman identified the primary issue as the need to save for the State's future. The estimates given in Co-Chair Wilken's presentation are not unreasonable.

Senator Stedman considered the proposed \$400 million investment in a natural gas pipeline to be a savings rather than an expenditure. If the gasline were not constructed, the funds would be returned to the general fund to be appropriated for other purposes.

[9:52:07 AM](#)

Co-Chair Wilken concluded his presentation was intended to explain the situation. Senate Finance departmental subcommittees would begin meetings the following week and budgetary guidelines would be forthcoming soon after. He predicted that the amounts requested by the Governor would not be approved and that some revenue would be put aside as a savings. The subcommittees must ascertain whether the proposed funding increases would serve Alaskans or were proposed only because surplus funding was available. The Finance Committee must consider the possible financial situation for FY 08 and FY 09 so future Committee members would not be forced to address a deficit.

[9:53:45 AM](#)

Senator Hoffman remarked that his intent was not to cause hardship for oil corporations. However they are earning significant profits while needs of Alaskan residents are not being met, including education, consequences of increased fuel costs and municipal revenue sharing. If the PPT were \$2 billion, the companies would still earn a profit of \$56 billion.

[9:55:23 AM](#)

Co-Chair Wilken interjected that the issue of the proposed PPT would be debated in future meetings.

[9:55:57 AM](#)

Senator Bunde opined that Alaskan's "appetite for spending" would encompass any increase in revenues.

[9:56:24 AM](#)

Senator Hoffman agreed.

[9:56:32 AM](#)

Co-Chair Wilken intended for the presentation to make the issue less complicated and more challenging.

[9:56:38 AM](#)

Co-Chair Green thanked Co-Chair Wilken for the presentation.

ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at [9:56:48 AM](#)