

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

February 7, 2007

3:42 p.m.

**MEMBERS PRESENT**

Representative Mike Hawker, Chair  
Representative Anna Fairclough, Vice Chair  
Representative Bob Roses  
Representative Paul Seaton  
Representative Peggy Wilson  
Representative Max Gruenberg

**MEMBERS ABSENT**

Representative Sharon Cissna

**COMMITTEE CALENDAR**

PRESENTATION BY THE OFFICE OF MANAGEMENT & BUDGET

**PREVIOUS COMMITTEE ACTION**

No previous action to record.

**WITNESS REGISTER**

JOHN BOUCHER, Senior Economist  
Office of Management & Budget (OMB)  
Office of the Governor  
Juneau, Alaska

POSITION STATEMENT: Presented an overview of state revenue and budget projections.

DAVID TEAL, Legislative Fiscal Analyst  
Legislative Finance Division  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Explained certain revenue terms.

**ACTION NARRATIVE**

**CHAIR MIKE HAWKER** called the House Special Committee on Ways and Means to order at [3:42:08 PM](#). Present at the call to order were Representatives Hawker, Seaton, Fairclough, Roses, Gruenberg, and Wilson.

3:43:08 PM

PRESENTATION BY THE OFFICE OF MANAGEMENT & BUDGET

CHAIR HAWKER announced that the only order of business would be a presentation by a representative from the Office of Management & Budget (OMB)

CHAIR HAWKER reminded the committee that a prior presentation by the Legislative Finance Division showed a potential budget gap in the very foreseeable future of in excess of \$1 billion. He opined that a proactive approach to the fiscal gap is better than a reactive one. Chair Hawker asked the OMB to present possible budget and revenue scenarios which cover at least the next eight years.

3:49:50 PM

[The committee spent a few moments being introduced to visiting youth in the audience.]

3:57:40 PM

JOHN BOUCHER, Senior Economist, Office of Management & Budget (OMB), Office of the Governor, referred to a chart titled, "FY 08 Revenue by Source and Category" which was part of a PowerPoint presentation provided to the committee. This chart shows that of the nearly \$11 billion in state revenue projected for fiscal year 2008 (FY 08), 64 percent, or \$7 billion, is in restricted sources, which include: \$3 billion of federal funds; \$2.9 billion in investment revenue (mostly permanent fund income, and \$1.1 billion in other restricted funds. The largest amount of this "other" category is about \$448 million in royalty oil income, he said. Unrestricted revenues make up about 36 percent, or \$3.9 billion, of the state's projected FY 08 budget.

REPRESENTATIVE SEATON noted that some permanent fund revenues, such as those in the earnings reserve account, are not restricted funds but are available to spend without statutory or constitutional restriction.

MR. BOUCHER agreed that although spending the permanent fund earnings referred to by Representative Seaton is not statutorily restricted, most would agree the State behaves as if there are spending restrictions placed on those earnings. He agreed with an observation by Representative Wilson that the principal of

the permanent fund is protected, but the earnings and the interest are not, although some of the earnings are used for inflation-proofing the fund's principal.

MR. BOUCHER testified that when individuals state that 86 percent of the state's revenue comes from oil production, it is important to know that they are expressing the projected unrestricted oil revenue for that fiscal year as a percentage of unrestricted revenue - not revenue as a whole. When you consider state revenue as a whole, oil accounts for somewhere near 48 percent of all state revenue; this amount decreases to 35 percent if projected federal revenues are included, he said.

MR. BOUCHER agreed with Chair Hawker's clarification that federal revenues include money that can only be spent on certain programs, such as Medicaid.

[4:04:24 PM](#)

DAVID TEAL, Legislative Fiscal Analyst, Legislative Finance Division, Alaska State Legislature, referred to the chart titled, "FY 08 Revenue by Source and Category" to clarify a prior point. He noted it might be easier to understand the issue of restricted versus unrestricted funds by categorizing the unrestricted portion as "unrestricted general fund." The key is that federal revenue is not part of the general fund, because it has restrictions on its use. Federal funds are not general funds, he reminded the committee. Similarly, investment revenue is mostly permanent fund earnings, and the permanent fund is not part of the general fund. It is not that there is a restriction on using permanent fund earnings, said Mr. Teal, it simply that these funds do not meet the definition of unrestricted general funds.

MR. BOUCHER referred to the chart titled, "General Fund Revenue versus Appropriations" and stated that the predictions on this chart assume the price of oil will be around \$45 to \$50 per barrel through 2013, and then will stay between \$40-45 per barrel through 2015. The FY 08 proposed budget is based on a projected oil price of \$51.25 per barrel. Production for FY 08 is forecast to average 782,000 barrels a day, and stay within about 5 percent of that number until 2015, when production is predicted to fall off to about 737,000 barrels a day, he said.

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REPRESENTATIVE GRUENBERG asked whether the oil production projections include consideration of the effects of possible pipeline downtime, accidents, or deterioration of oil production facilities.

MR. BOUCHER stated that he believes the Department of Revenue (DOR) has made allowances in its fall 2006 "Revenue Sources Book" to account for any effects increased oil production facility maintenance requirements will have on future oil production and transportation.

MR. BOUCHER pointed out that the chart titled, "ANS Production Forecast by Category to FY 17" illustrates uncertainty for projects that are not actually under development at this time. The certainty that a new oil development will come into production goes down for projects that are still being evaluated by the producer, he reminded the committee.

MR. BOUCHER then referred to a pie chart titled, "Components of 'Other' Revenue FY 08," which details the components of the revenues shown on the chart titled, "FY 08 Revenue by Source and Category." This pie chart shows that corporate income taxes are predicted to account for almost three-fourths of the state's unrestricted general fund, or \$345 million, in FY 08.

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CHAIR HAWKER asked which of these components of "other" income could be increased to help make up for less future oil production revenue.

MR. BOUCHER replied that some of these areas could increase incrementally, but it would be difficult to get \$1 billion more in state revenue from any of these other categories.

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MR. BOUCHER explained the chart titled, "The Revenue 'Gully' Between Today and a Gasline," shows a possible revenue scenario that he prepared using data from the DOR's "Interim Findings and

Determination" dated 11/16/2006 and its fall 2006 "Revenue Sources Book." This scenario, which goes until FY 20, predicts the effect of a gas pipeline on state revenues using the assumed price for gas of \$5.50 per million British Thermal Unit (BTU) delivered to the Chicago market. If one assumes revenue from a gas pipeline is at least 10 years out, this predication shows a "revenue gully" between today and the completion of a gas pipeline, he explained. This gully is potentially manageable with draws from the Constitutional Budget Reserve Fund (CBR), if the state is able to maintain a flat state spending scenario until the gas pipeline begins. However, if the gas pipeline comes on line later, or if spending is higher than planned, there may be a gap between revenue and spending, warned Mr. Boucher. This gap could be paid with draws from the CBR, he said, reminding the committee that some projections predict the CBR can last until 2020, while other projections predict the CBR will run out of money earlier than that.

[4:19:20 PM](#)

CHAIR HAWKER noted that in view of other revenue projections, it may be difficult to keep state spending flat.

MR. BOUCHER agreed with Representative Seaton's observation that the Legislative Finance Division's scenario assumes a higher operating budget than is assumed by OMB. This difference in spending projections explains the different budget lines shown on the chart titled, "Two Spending Scenarios - With Assumed Gas Revenue."

[4:20:55 PM](#)

REPRESENTATIVE WILSON observed that the reality of flat funding means that certain cost increases are not being met, which results in actual cuts to services.

MR. BOUCHER agreed that holding to flat spending in the future would mean a significant change in state spending patterns. He went on to say that projected permanent fund income is shown on the chart titled, "Permanent Fund Statutory Net Income versus General Fund Petroleum Revenue 1976-2017." The income from the permanent fund may someday exceed revenue from petroleum revenue sources. If growth from the permanent fund proceeds as predicted, permanent fund earnings will give the state some

spending options that other states are envious of, said Mr. Boucher. He reminded the committee that the legislature has played a large part in funding our various savings accounts.

MR. BOUCHER stated that this administration is taking steps to examine state spending, a difficult but potentially valuable task.

[4:27:31 PM](#)

REPRESENTATIVE SEATON asked whether the chart titled "Two Spending Scenarios - With Assumed Gas Revenue," includes permanent fund appropriations and expenditures.

MR. BOUCHER responded that it does not.

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means adjourned at [4:29:54 PM](#).