

HOUSE FINANCE COMMITTEE
January 22, 2009
1:32 p.m.

CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at [1:32:40 PM](#).

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Vice-Chair
Representative Allan Austerman
Representative Harry Crawford
Representative Anna Fairclough
Representative Richard Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

None

ALSO PRESENT

Pat Galvin, Commissioner, Department of Revenue; Cherie Nienhuis, Acting Chief Economist, Department of Revenue; Jerry Burnett, Director, Division of Administrative Services, Department of Revenue; Dan Stickel, Economist, Alaska Department of Revenue; Donna Keppers, Audit Master, Department of Revenue; Senator Stedman; Senator Menard; Representative Guttenberg; Representative Seaton; Representative Kawasaki; Representative Buch

PRESENT VIA TELECONFERENCE

Dudley Platt, Consultant, Department of Revenue

SUMMARY

^REVENUE FORECAST - THE DEPARTMENT OF REVENUE

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Co-Chair Hawker acknowledged legislators and staff present in the room. He explained the role of the finance committee as an appropriation body spending state funds in a budget bill with guidelines and information provided by the revenue department. He added that the present budget will for the fiscal year beginning July 2009 through June 2010.

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Co-Chair Hawker noted the greatest component in determining much of Alaska's revenue is the projection of the price of oil, within the two variables of production volume and market price. He requested Commissioner Galvin present the big-picture components of Alaska's revenue.

PAT GALVIN, COMMISSIONER, DEPARTMENT OF REVENUE, introduced his team including in the audience DAN STICKEL, ECONOMIST, ALASKA DEPARTMENT OF REVENUE and DONNA KEPPERS, AUDIT MASTER, DEPARTMENT OF REVENUE.

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Commissioner Galvin characterized revenue projection as a critical tool in building the state budget. The Commissioner declared his intention to start with the fall forecast showing the layers of information and the building blocks contributing to the forecast. He commented that the budget forecast is a process where the revenue team watched the markets, collected information from experts, then incorporated the data into the revenue forecast to assist the state in the budget making process.

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Co-Chair Hawker acknowledged the loss of Brian Andrews, former Deputy Commissioner of the Department of Revenue and his outstanding contribution to the department and to the state of Alaska.

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Co-Chair Stoltze also recognized the great contributions and friendships of Mr. Andrews.

CHERIE NIENHUIS, ACTING CHIEF ECONOMIST, DEPARTMENT OF REVENUE, provided a PowerPoint presentation, Overview of

the Fall 2008 Revenue Forecast (copy on file). She defined budget making and revenue forecasts as processes incorporating the variables of production, price, and costs/investments (p. 2). She explained that the forecast variables interplay with each other starting at the top with supply and demand.

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Ms. Nienhuis continued that supply and demand is closely related to price which in turn affects production and costs/investments (p. 3). She noted that costs/investments can not be separated from price since the price drives the level of investment that the oil industry is willing to make in producing more oil.

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Ms. Nienhuis began with the production variable noting that production was consistent from the spring forecast. She referred to the "mountain" slide indicating that maximum production was reached in the mid to late 80s (p. 5). The graph refers to the annual North Slope production and the contribution of various other fields broken into "history" and "forecasts". She showed the steep decline from the high of 2 million barrels a day to the low of 700,000 barrels. Ms. Nienhuis reviewed the forecasted Arctic North Slope (ANS) production for FY 09 to FY 2030. The graph showed oil from currently producing projects and those scheduled to go online in the future. She pointed out that the graph indicated a flatter, less steep, decline (p. 6).

Co-Chair Hawker interjected that the committee planned to ask questions during the presentation. He clarified that the numbers calculated as the state's forecast revenues are based on both the current producing projects, as well as, future revenue projections on new or existing fields. Ms. Nienhuis agreed that the official production forecast was broken into several categories including currently producing, under evaluation and under development fields. Ms. Nienhuis cautioned that the production profile could change if variables, such as price, remained low but the figures represented the present best scenario. She indicated that this information comes from interaction within the oil industry.

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Co-Chair Hawker questioned the process in actualizing these revenues and what standards were applied.

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Ms. Nienhuis referred to the Revenue Sources Book, Fall 2008, (p. 53), showing the Currently Producing, Under Development, and Under Evaluation categories.

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DUDLEY PLATT, CONSULTANT, DEPARTMENT OF REVENUE, testified via teleconference, and indicated that he took a "bottoms-up" approach to each field. He first requested field information from all the North Slope operators, analyzed the information and then formed his "best guess." Co-Chair Hawker asked if Mr. Pratt could provide more detail on how he arrived at his "best guess" scenario. Mr. Platt explained that the "best guess" could be wrong noting he had missed the fall forecast by about 2000 barrels a day but he reminded the committee that in such forecasts, this guess was considered very close. Co-Chair Hawker asked for further explanation on the standards used in making the cut for outlying years. Mr. Platt indicated that 100 percent of the barrels shown in the graph fall into the operator's business plan but the timing is uncertain. He gave Pt. Thompson as an example of a potential high performing field that will eventually proceed but the exact date is unknown. He explained this uncertainty often results in wrong forecasts. Mr. Platt revealed that his standards are the same used by the oil industry, but he also applies a sophisticated software program in the analysis of long term forecasts.

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Co-Chair Hawker asked for an explanation how the production points were arrived at for Pt. Thompson. Mr. Platt explained that because of the incredible uncertainty and sensitivity in recovering the 200 to 400 million barrels of liquid hydrocarbons from Pt. Thompson coupled with the determination if it is a gas cycling or major gas sale project, resulted in a lot of uncertainty. He disclosed that he gives the project ten years to develop.

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Representative Gara noted that most of the present oil is high tech with high royalties on state land but expressed concerned about some of the future projects that were low revenue, offshore or without a royalty or production tax associated with them.

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Mr. Platt identified the Liberty field scheduled to come online in 2011 as 100 percent federal oil with shared royalties at 27.5 percent, making it an effective royalty of 4 percent. He mentioned the Endicott field net profit sharing will provide the state with some revenue and the National Petroleum Reserve-Alaska (NPR-A) fields, west of the Alpine field, will receive a production tax, but due to the fact it is not state land, the royalties will be less.

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Commissioner Galvin interjected that the revenue projection is based upon the amount of revenue expected from each of these different types of fields. The revenue reflects that there will be limited revenue from fields such as Liberty but the graph also shows the production profile throughout the North Slope.

Representative Gara queried if the revenue projection is for next year. Commissioner Galvin replied it is a ten year forecast. Representative Gara asked if there was an easy way to look at the non-producing fields that are not Prudhoe Bay. Commissioner Galvin remarked that each field would be different with a different royalty rate and cost profile.

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Representative Gara questioned if the royalty rate applied to federal land but not offshore. Commissioner Galvin noted that the production tax applies to the three mile offshore limit. He continued that anything from three to six miles is "shared" federal royalties but no royalties are paid out for anything beyond the six mile boundary. The Commissioner cited the plan to talk with Congress about receiving a similar deal that the Gulf of Mexico enjoys where there is more robust federal revenue sharing with offshore production.

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Ms. Nienhuis added that these new projects will require some capital expense increases, an immediate hit to the production tax revenue, but this will be positive since it indicates further production.

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Ms. Nienhuis pointed out that there was minimal change in the near term for production from the spring forecast.

Ms. Nienhuis moved to the price variable indicating it is a very lengthy process taking in account efforts from many different divisions within the Department of Revenue (DOR), the Office of Management and Budget (OMB) and the Permanent Fund Corporation (PFC), The Forecasting Timeline-Part 1, (p. 8). She reported that the "Delphi" session, held on Oct 7, 2008, provided the best oil price forecast estimate.

Co-Chair Hawker questioned the origin of the word Delphi.

Ms. Nienhuis indicated the term was developed by the Rand Corporation in the 60s and 70s. She clarified that the revenue department uses a modified Delphi, a bit different from the model used by the Rand Corporation. She continued that after the "Delphi" session, the department compiles and reviews the current year's revenues, then a production forecast is finalized by Mr. Platt after consultation with the oil industry. This year's price forecast was finalized on November 6, 2008.

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Representative Fairclough asked for clarification on how the reserve calculation was used for Pt. Thompson in the formula for production. Mr. Dudley indicated that the Pt. Thompson estimate evolved over twenty five years starting with Exxon but changed from linking it with major gas sales containing one production profile to a gas cycling project with a completely different projection profile and recovery. He indicated that the proposal submitted in 2008 by Exxon is not the scenario used but one more indicative of not cycling the gas. Mr. Dudley signified he based his estimate of 275 million barrels of reserve after discussions with Alaska Oil and Gas Conservation Commission

(AOGCC) and the Department of Revenue. He revealed that confidential information has been garnered from the industry over the past 10 to 20 years. Mr. Dudley remarked that based on all his information that there were 275 million barrels, starting in FY 2019, with production starting at 65,000 barrels, declining by 7 to 8.5 percent per year.

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Representative Fairclough questioned if his calculation of barrels was based on a balance sheet line. Mr. Platt indicated that it was not. Representative Fairclough reported that when she attended an Exxon presentation on the Pt. Thompson field it was indicated that the oil could not be recovered under the pressure and wondered if this information had been given to Alaska Oil and Gas Conservation Commission (AOGCC) to make the determination.

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Commissioner Galvin remarked that he did not have that particular information but the issue in regard to whether it would be a gas blow-down or a gas cycling project is part of the current controversy. He was not aware of AOGCC having a pending decision. Co-Chair Hawker indicated that AOGCC will be with the committee in a future meeting and this question could be directed toward them. Commissioner Galvin asserted that Mr. Platt makes his own assessments based on confidential data on the nature of the field and the type of production profiles that he would see coming out of that type of field. He contended that questions regarding the likely production scenario would be best directed elsewhere.

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Ms. Nienhuis continued with her presentation. She noted that after finalizing the oil price forecast the revenue department finalizes the costs forecasts (p.8). She disclosed that cost information is received from the North Slope operators which is incorporated into the forecast, then the department looks into the longer term production forecast to determine if more production is brought online how that will impact the cost structure. She reported that on November 11, 2008 the unrestricted revenue forecast was finalized incorporating the three previous variables and

the prior fiscal years actual revenues. This model is then given to the Treasury department and the OMB for their input. Ms. Nienhuis indicated that the Permanent Fund Corporation (PFC) makes their best estimates based on what the DOR believes will be the royalties. She reported that on November 14, 2008 the Department of Revenue gave their summary to Office of Management and Budget.

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Ms. Nienhuis continued that on November 18, 2008 the DOR prepared the narrative and the tables for the Revenue Sources Book (p. 9), with the final forecast on December 9, 2008. She added that on December 15, 2008 the Governor's office released their budget.

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Co-Chair Hawker referred to the timelines as benchmark events and questioned if the DOR ever returned to reevaluate decisions when world situations change. He provided an example that the price forecast was finalized on November 6, 2008 and between that date and the forecast release date, the world experienced a calamitous change. Co-Chair Hawker wondered if there was a process for going back and revisiting a benchmark after such an event or was it on a committed track.

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Commissioner Galvin remarked that it becomes a question of cost benefit. He reiterated that the process is a sequence of events with information obtained feeding into one part of the process that will then affect the next part of the decision making process rather than something set in stone. The Commissioner emphasized that there are firm dates when a revenue projection must be made and when the Governor must roll out the budget. He agreed that this year changes in the financial world did affect the process but there was a point when the process could not look back but had to move on in order to complete the process. Co-Chair Hawker understood the practical dilemma of a statutory deadline in the process.

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Commissioner Galvin indicated the DOR sought a balance in the public rollout noting that rolling out multiple revenues and numbers would confuse the public regarding the process.

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Ms. Nienhuis interjected that this was the most compressed timeline she had worked with during her tenure. Commissioner Galvin added that the November 6, 2008 date was not the original date but a point-of-no-return date to agree on a price.

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Ms. Nienhuis elaborated on the Delphi session (p.10). She indicated that in this modified Delphi technique, fifty groups were invited to participate with eventually twenty nine participants providing twenty eight forecasts. During the Delphi topics included the fundamentals of supply and demand, geopolitics, financial markets, and analyst expectations. Ms. Nienhuis remarked that on Oct 7, 2008, the price of oil averaged \$92.85, still a high range. Ms. Nienhuis showed on the graph price forecasts available at Delphi from the Energy Information Association (EIA), Merrill Lynch, New York Mercantile Exchange (NYMEX), Goldman Sachs, and the Bloomberg Analysts Average. (p. 11).

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Co-Chair Hawker stated that there are thirty three participants in the Bloomberg report and wondered if it was possible to get this information directly. Ms. Nienhuis indicated the information was provided by a subscription service that is available at the Department of Treasury.

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JERRY BURNETT, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, indicated it could be made available to the committee.

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Ms. Nienhuis reiterated that in the five months between July and December there was an 80 percent drop in oil prices (p. 12). She showed that historically the two most

volatile years in oil prices proved to be 1991 and 2008(p. 13).

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Co-Chair Hawker agreed with the difficulty in preparing oil price forecasts during this volatile time but he was surprised to read in the introductory letter to the Governor that "This price forecast assumes that the financial crisis experienced in the U.S. is relatively short-lived, and the economy returns to a more stable state within one or two years." (Revenue Source Book, Fall 2008). Co-Chair Hawker did not believe this reflects the real volatile nature of this unprecedented deviation level and wondered if this was a conscious decision.

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Commissioner Galvin acknowledged that there is an unprecedented volatility existing but he believed the quoted section provided an insight to the public on what can be fulfilled and what can not. He explained that when this letter was being prepared there was an acknowledgment that the world financial situation was changing but a lag time in information still existed. The Commissioner elaborated that it was necessary to gage where the world and U.S. economies were going and how that would play into price projections over the next two years. He expressed the necessity of making assumptions about the state of the economy, the length of the difficult times, and a time when demand might increase. The department brought in a low forecast "if" scenario with the recognition that the economy may continue to struggle. He reported that when the cover letter was written the price of oil was \$90 to \$100 per barrel so the letter was trying to describe why the department was estimating at \$74 per barrel. The Commissioner stressed that this was not an intention to downplay the volatility of price but to link the price to the national economy.

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Co-Chair Hawker referred to the chart on page 12 showing the dramatic 2008 downturn and believed that when the report was released on the 15th, it should have been emphasized that there could be a stronger volatility more prominently included in the report.

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Commissioner Galvin defended his forecast noting that every time a revenue forecast is published there is a false sense of precision. It is an exercise in describing an incredible range of possibilities and a pinpoint on where it may be. He remarked that in the future the cover letter would include a more precise description of the false precision.

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Co-Chair Hawker believed it was a disservice to the public not acknowledging the volatility more precisely. Commissioner Galvin noted that it has been wrong every year but usually in a higher amount.

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Representative Crawford acknowledged the oil price changes over the years. He referred to the chart on page 12 and indicated if the figures went back to 1973 it would reflect tremendous hikes and drops in price followed by about a 10 year recovery. He suggested that a longer timeline chart could help everyone make better predictions.

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Commissioner Galvin agreed that the historic nature is a factor in looking at the world today to draw conclusions. He also indicated that the supply and demand functions are different today than during similar price spikes in the early 70s, making it difficult to replicate data from an earlier time period. The Commissioner remarked that there are experts who predict that oil prices may stay at the \$30 a barrel for years but others who think that oil may rise again soon to \$100 a barrel. He added that new projections for the current year will be provided within a week and an update for next year will be forthcoming in February with the Governor's amended budget.

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Commissioner Galvin mentioned that the DOR must decide on an oil price number and make it the official one. Representative Crawford agreed the oil price process was difficult but believed if the available information had

been viewed over a longer time frame there would be a visible historical pattern shown. He noted on the chart that it should have been more obvious that the high price of oil could not be sustained.

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Ms. Nienhuis maintained that today's oil prices are viewed differently from the 70s. She contended that oil markets today are more global, with the example of Asia and China starting to utilize more petroleum products. She stressed that although the role of the U.S. is still large, it has been diminished. Ms. Nienhuis emphasized that "easy" oil is increasingly getting scarcer and that the world was looking to more unconventional supplies with increased costs. Representative Crawford agreed that worldwide production was accelerating and influences are different today but he reasoned that if the prices go up, at some point, they must come down. Commissioner Galvin reminded the committee that the chart reflected the actual not the projected price and that was trying to keep within historic expectations.

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Representative Salmon questioned if the DOR was predicting that oil prices would drop off gradually or drop down drastically. Commissioner Galvin answered that the price of oil changes with the times. He pointed out that the price is determined for the year, not daily. The spring forecast was for \$80 a barrel, even though the actual price at the time was \$120 barrel. The Commissioner signified that each price is set for a six month period, whether it goes up or down.

Representative Gara offered that projections in oil prices have often been wrong. He believed the report was not focused on what the price of oil would be but a budget that would range from June 2009 until July 2010.

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Representative Gara wondered what the relevance of a projected oil price would be on budget decisions that are months away.

Co-Chair Hawker noted that a budget has to be moved out of the House Finance Committee by the first week in March

therefore the process is to receive the best possible information in order to work with the administration to make decisions providing an open, transparent and truthful discussion of the state's fiscal circumstances.

Representative Gara asked the Commissioner, regarding the presented budget, how close the forecast is to what is being spent in the budget from the administration's perspective. Commissioner Galvin asserted that the department would not provide an inappropriately optimistic or pessimistic projection but reiterated that the only relevance of the revenue projection is to provide a tool for the budget making process. The Commissioner stressed that when providing the fall number then combining it with the spring projection, both pieces of information would be used to make decisions on spending levels. He emphasized that the goal of the department is to work with the committee to provide an updated revenue number to work on spending. He remarked that a new number would be provided in a week for the budget effective in July.

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Co-Chair Hawker remarked that the DOR explains how the money is collected but OMB determines how that information is utilized for the budget.

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Ms. Nienhuis continued with the presentation moving to the price forecasts that were available as of November 6, 2008, when the final forecast was decided (p. 14). She described how the forecast came to be with a blending of various inputs (p. 15). She moved to how the DOR formed their price forecast (p. 16). Ms. Nienhuis remarked that all forecasts were weighed equally to arrive at the FY 2009 average price of \$77.66.

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Co-Chair Hawker reiterated that the price amount came from the Delphi process and it predated the economic change in the world. Commissioner Galvin emphasized that the department went through the normal process but then adjusted their figures as the world rapidly changed.

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Ms. Nienhuis continued the presentation recapping the price forecasts for the fall showing the Bloomberg Analyst Survey for January through March of 2009 (p. 18). She pointed out that the dates at the bottom showed the dates when the forecasts were made. Ms. Nienhuis illustrated another view of the same period on the following graph showing outside company's forecasts in October and early November (p. 19).

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Ms. Nienhuis moved to the last revenue forecast variable, costs. She explained that cost forecasting is a recent process therefore cost data information is limited. Ms. Nienhuis remarked that twice a year the department asks operators on the North Slope to give their best estimate regarding cost structure. This information coupled with the trends as far as costs of production combine to make the DOR best estimates (p. 22). She indicated that capital expenditures are treated differently in that they are given a credit that signifies the interest in production on the North Slope. Ms. Nienhuis continued with Lease Expenditures per Barrel (p. 23). She explained that the Capital Expenditures (CAPEX) per barrel is for projects on the horizon as well as current producing projects. She moved to the next graph showing the historical and projected North Slope investment of reported, not audited, expenditures (p. 24).

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Ms. Nienhuis continued with FY 2009 Total Revenue chart which included both restricted and unrestricted revenue (p. 25). The total projection is for \$13.5 million, split evenly between restricted and unrestricted revenue. Co-Chair Hawker asked for an explanation for the public on restricted and unrestricted revenues which were presented in the next slide (p. 26). Ms. Nienhuis pointed out that the DOR classifies restricted revenue as the use of revenue restricted by the constitution, state or federal law, trust or debt restrictions, or customary practice. Unrestricted revenue is available for general appropriation discussed in the revenue forecast. Ms. Nienhuis continued to Sources of Unrestricted Revenue which included oil (property tax, corporate income tax, production tax, royalties), investment earnings and other non-oil revenue (taxes, charges for services, fine and forfeitures, licenses, and

permits, rents and royalties) (p. 27). She noted that until recently 25 percent of royalties were deposited in the permanent fund and .5 percent in the school fund but that changed with the repeal of HB11 and now some of the royalties are being paid at a higher amount to the permanent fund.

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Commissioner Galvin elaborated that this refers to an automatic mechanical repeal based on when the bill was passed. There was a provision in the bill that stated that once the affect in the reduction in the investment of the permanent fund affected the calculation of the dividend having a \$20 impact on the amount of the dividend, the bill would automatically be repealed and the amount returned to the original distribution, where those leases issued after 1980 would be at 50 percent. These include the more recent lower producing leases, not the larger ones.

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Co-Chair Hawker reiterated that 25 percent to the permanent fund is in the constitution but the legislature moved it up to 50 percent for new leases when there was a lot of money on the table. It reverted to the constitutional formula but the legislature provided that if it ever affects the dividend by \$20, no matter what the financial circumstances of the state, the extra money would be put back into the permanent fund. Co-Chair Hawker requested the benchmark number for how much this would affect the money taken from the legislature's ability to appropriate this year. Mr. Burnett remarked that over the years it has averaged a little over \$100 million a year but with the current oil prices it may be different. Co-Chair Hawker remarked that a reasonable benchmark would be \$100 million off the table into unrestricted revenue.

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Ms. Nienhuis continued with the next graph indicating the FY 2009 Revenue Overview (General Fund Unrestricted Revenue) (p. 28) followed by the FY 2009 Non-Oil Revenue Detail (p. 29). Ms. Nienhuis then presented the FY 2009 Revenue Forecast Comparison with the spring 2008 and fall 2008 forecasts (p. 30).

Commissioner Galvin directed attention to the oil price at \$77 a barrel which reflected both the summer prices (2008) at over \$120 per barrel and the short term, January to March (2009), prices in the low \$60s. Because the summer prices were no high, it averaged the price for the FY 09 year back up to \$77 per barrel. The Commissioner indicated that the next projection will be much lower than the fall forecasts because the DOR will be averaging in the lower prices of more recent months.

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Commissioner Galvin recounted that all forecasters have reduced expectations in the projection of oil prices.

Ms. Nienhuis interjected that the production taxes are not that different from the spring forecast, even though the price came down. She elaborated that the anomaly of having a production tax with a progressive component shows a different set of revenues as the price changes, magnifying the revenue when prices are high. The progressive surcharge built into the production tax magnifies the revenue in high priced months which make it impossible to take an average for the year and arrive at the same amount that you would if looking at each month separately and adding them together. Co-Chair Hawker agreed this is an important point in understanding this year's budget and forecast.

Ms. Nienhuis explained that in the current fiscal year the department works in months, followed by quarters, then years. Co-Chair Hawker gave an example that in the beginning of a fiscal year the price spiked to a huge number, then lowered in other months, but at the end of the year it averaged \$74 per barrel. He remarked that this number is different than if it had averaged \$74 every month. Ms. Nienhuis agreed.

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Commissioner Galvin repeated that the department was not expecting the price to at this figure for all four quarters so the model shows a price for each quarter. Co-Chair Hawker added that this is no longer a single variable.

Ms. Nienhuis concluded that this year experienced a record level of oil price volatility but when the price forecast was made it was within the ballpark of other outside

forecasts (p. 31). She added that there were minimum production level changes from the previous forecast but that lower prices now will impact future costs and investments.

Ms. Nienhuis presented the Historical Production and Price Changes as of fall 2008 (p. 32). She noted that changes were made in revenue forecasting from "cash basis" to "accrual" accounting. She noted that when deposited cash reflects the amount of existing revenue, as opposed to accrual accounting that is not recorded until it is earned. She noted that cash accounting resulted in \$1.2 billion, thought it be for FY 09, being attributed to FY 08. The decision was made to change the accounting to the accrual method so that it would be in alignment with state financial documents.

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Co-Chair Hawker asked if there was any disclosure on the change. Ms. Nienhuis remarked that disclosure was made after being asked to do so.

Mr. Burnett referred to the error on page 84 of the draft of the Revenue Sources Book that showed a loan to the general fund that did not occur. The original reason it was shown was in FY 08 the legislature appropriated \$2.6 billion to the Constitutional Budget Reserve (CBR) but the Commissioner decided to move that, plus \$1.5 billion from the CBR to the subaccount of the CBR. Mr. Burnett commented that this was the first time money had been moved from the main to sub account of the CBR since 1998. Co-Chair Hawker requested information on the sub account.

Mr. Burnett explained that the constitutional budget reserve has a main account and, for investment purposes, a sub account. The sub account is money invested in fixed income and equities but not to be spent for approximately five years. The main account can be used in a shorter time line as it is more liquid and available for spending.

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Mr. Burnett recounted that when the Revenue Sources Book was first put together, there was no column reflecting the transfer to the sub account but this was corrected before being sent to the printer. Co-Chair Hawker noted this was

simply an accounting mistake in the web version. Mr. Burnett agreed. He also noted that a correction was made regarding the \$400 million deposit to the CBR which was not accounted for in the first version. Commissioner Galvin interjected that this was not an accounting mistake but poorly recorded in revenue book.

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Commissioner Galvin summed up the presentation.

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Representative Crawford wondered how the subaccount has performed as opposed to main account. Commissioner Galvin reiterated that the main account is short term and not risked money but the sub account is at fifty-fifty. Mr. Burnett did not have exact numbers but revealed that the two accounts have a total of just under \$7 billion with approximately \$1 billion unrealized loss currently in the sub account.

Representative Kelly asked what was changed in the asset allocation and by whom. Mr. Burnett replied that this is the responsibility of the Commissioner of Revenue combined with input from investment staff.

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Commissioner Galvin stressed that the asset allocation for the main and sub account is set by the commissioner with staff consultation but the strategy is in conjunction with the finance co-chairs. He explained that when the asset allocation meets the investment strategy with no change then the strategy remained the same. Representative Kelly questioned if the lever the Commissioner controlled is the liquidity not market timing. Commissioner Galvin agreed that the department does not try and guess the market. Representative Kelly asked if the Commissioner and finance co-chairs would be a looking at the asset allocation. The Commissioner indicated that there would be several items reviewed during the discussions. Commissioner Galvin agreed to give the public and the committees a better idea of the purpose and function of the two accounts.

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Representative Austerman asked when the money was moved. Mr. Burnett replied that all of the money was moved April 2008. He added that when the \$2.6 billion was deposited to the CBR by the legislature last spring, the intent language was in the budget. Representative Kelly asked if that intent language related to the liquidity future. Mr. Burnett agreed that it was.

Co-Chair Hawker thanked the Commissioner.

#

ADJOURNMENT

The meeting was adjourned at 3:32 PM.