

SENATE FINANCE COMMITTEE  
February 2, 2012  
9:07 a.m.

9:07:16 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:07 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Lesil McGuire, Vice-Chair  
Senator Johnny Ellis  
Senator Dennis Egan  
Senator Donny Olson  
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Senator Betty Davis; Darwin Peterson, Staff, Senator Bert Stedman; Bryan Butcher, Commissioner, Department of Revenue; Bruce Tangeman, Deputy Commissioner, Department of Revenue.

PRESENT VIA TELECONFERENCE

Lenny Dees, Audit Master, Department of Revenue.

SUMMARY

SB 9 RAISE COMP. SCHOOL ATTENDANCE AGE/TRUANCY

SB 9 was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Education and Early Development.

SB 53 COMMISSION ON THE STATUS OF WOMEN

CSSB 53(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Office of the Governor.

SB 137 SUICIDE AWARENESS & PREVENTION TRAINING

SB 137 was REPORTED out of committee with a "do pass" recommendation and with a zero fiscal note from the Department of Education and Early Development.

SB 160 BUDGET: CAPITAL

SB 160 was SCHEDULED but not HEARD.

SB 161 APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 161 was SCHEDULED but not HEARD.

SB 162 APPROP: MENTAL HEALTH BUDGET

SB 162 was SCHEDULED but not HEARD.

DEPARTMENT OF REVENUE:

FY 13 Revenue Forecast

State Savings Account and Budget Reserves  
Overview

#sb9

SENATE BILL NO. 9

"An Act relating to compulsory school attendance; and relating to the crime of contributing to the delinquency of a minor."

[9:08:23 AM](#)

SENATOR BETTY DAVIS, introduced SB 9 and stated that the bill would change the compulsory age from 16 to 18 years old. Currently, anyone who was 16 years of age could drop out of school. The legislation would raise the age to insure that students either stayed in school until they were 18 or graduated early.

Senator Olson asked if there was a change to the required entry age. Senator Davis responded in the affirmative and added that at the present time, a child was not required to

be in school until they were seven years of age; the bill would change the mandatory entry age to six years old.

Co-Chair Stedman discussed a fiscal note from Department of Education and Early Development in the amount of \$14.8586 million in general funds for the estimated increase in the foundation formula.

[9:10:14 AM](#)

Co-Chair Hoffman MOVED to report SB 9 out of committee with individual recommendations and the attached fiscal note. There being NO OBJECTION, it was so ordered.

SB 9 was REPORTED out of committee with a "do pass" recommendation and a new fiscal impact note from the Department of Education and Early Development.

#sb53

SENATE BILL NO. 53

"An Act reestablishing the Alaska Commission on the Status of Women; and relating to the purpose and powers of the Alaska Human Relations Commission."

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Co-Chair Hoffman MOVED to ADOPT the proposed committee substitute for SB 53, Work Draft 27-LS0107\M (Martin, 1/31/12) as a working document.

Co-Chair Stedman OBJECTED for the purpose of discussion.

DARWIN PETERSON, STAFF, SENATOR BERT STEDMAN, discussed two changes in the work draft. Language had been inserted into lines 12 and 13 that specifically designated that one of the commission's public members not only had to be a single mother, but also must be the head of a household with a child in it. He noted that the language had been added to address concerns raised by Senator McGuire. The second change on page 2, lines 27 through 31 was added in response to a concern raised by Co-Chair Hoffman that the commission could become "urban centric"; language had been inserted into these lines that required the meetings to be held on a rotating basis across the state and that no consecutive meetings could be held in the same region of the state.

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Co-Chair Stedman WITHDREW his OBJECTION. There being NO FURTHER OBJECTION, Work Draft 27-LS0107\M was ADOPTED.

Senator Davis explained that the bill recreated the Alaska Commission on the Status of Women and that it would enable the state to monitor women's successes in order to gather important information. She offered that the changes in the committee substitute made the legislation better.

Co-Chair Stedman discussed a fiscal note from the Office of the Governor in the amount of \$515,400 in general funds for travel per diem and staff positions.

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Co-Chair Hoffman MOVED to report CSSB 53(FIN) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSSB 53(FIN) was REPORTED out of committee with a "do pass" recommendation and a new fiscal impact note from the Office of the Governor.

#sb137

SENATE BILL NO. 137

"An Act requiring suicide awareness and prevention training for certain school personnel."

Senator Davis stated that SB 137 would provide training in recognizing the signs of suicide to administrators, teachers, and other school district employees throughout the state. She urged the passage of the bill and observed that the fiscal note, which had previously reflected a \$60,000 request, was now a zero fiscal note.

Co-Chair Stedman thanked Deputy Commissioner Morse for his timely response to the committee's request to find cheaper training alternatives and indicated that the Commissioner's efforts had resulted in the zero fiscal note.

[9:16:49 AM](#)

Co-Chair Hoffman MOVED to report SB 137 out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 137 was REPORTED out of committee with a "do pass" recommendation and with a zero fiscal note from the Department of Education and Early Development.

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AT EASE

9:17:21 AM

RECONVENED

^DEPARTMENT OF REVENUE: FY 13 REVENUE FORECAST

9:21:58 AM

BRYAN BUTCHER, COMMISSIONER, DEPARTMENT OF REVENUE (DOR), presented the "overview of fall 2011 revenue forecast" (copy on file) and discussed the slide on page 2 titled "outline for presentation."

- Fall 2011 Revenue Forecast for FY2012 and 2013
  - Total Revenue
  - Unrestricted Revenue
  - Non-Oil Revenue
- Components of Production Tax Forecast
  - Oil Production Forecast
  - Oil Price Forecast
  - Lease Expenditures Forecast/Oil Company Spending
  - Tax Credits

Commissioner Butcher discussed the slide on page 4 titled "FY 12 and FY 13 total revenue." He explained that the slide was a "big picture view" of the total state revenue for FY 12 and FY 13. The forecast showed total state revenues of \$16.5077 billion for FY 12 and \$16.5151 billion for FY 13. He furthered that the slide was inclusive of state revenue from all sources.

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Co-Chair Stedman queried if the oil revenue figures under the unrestricted and restricted categories represented the net or gross of the 20 percent capital costs. Commissioner Butcher replied that the figures represented the net revenue.

Co-Chair Stedman observed that in the past, the Finance Committee had encouraged DOR to present the gross revenue produced in the state and to "net out the 20 percent credit." He stated that he would like DOR to present the state's financial picture in its entirety or footnote the slides, so that the gross could be seen without having to do calculations. He observed that most people probably did not realize that the figures on the slide represented the net revenue. Commissioner Butcher indicated that DOR would do so in the future.

Commissioner Butcher discussed the slide on page 5 titled "FY 12 and FY 13 General Fund unrestricted revenue" and stated that it represented unrestricted revenue broken down by the following sources: royalties, production tax, corporate income tax, property tax, and non-oil revenue. The slide showed that the state received between one-half to two-thirds of its total unrestricted revenue from production tax, and approximately one-quarter from royalties; about 92 percent of the revenues were oil related, while around 8 percent were non-oil related.

Commissioner Butcher spoke to the slide on page 6 titled "FY 12 and FY 13 unrestricted non-oil revenue detail" and explained that the slide broke down the unrestricted, non-oil revenue by its source as follows: corporate income, mining, insurance premiums, tobacco, motor fuel, other taxes, and revenue generated off investments. The slide estimated non-oil revenues at \$712.6 million in FY 12 and \$721.7 million in FY 13.

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Co-Chair Stedman asked for further explanation on slide 5 and queried if the \$8.2177 billion in total unrestricted funds for FY 13 included the approximately \$1 billion in royalties that were going to the Permanent Fund. Commissioner Butcher replied that it did not. Co-Chair Stedman observed that there were about \$9.2 billion in total oil revenues relative to \$721 million from all other

sources and noted that the public should be aware of the "magnitude" of the two numbers.

Commissioner Butcher presented the slide on page 7 titled "components of production tax calculation." and explained that the main components of the production tax calculation were the level of production, the price, the lease expenditures, and what tax credits were received and administered by DOR towards oil production.

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Commissioner Butcher explained the slides on pages 9 and 10 titled "three categories of forecasted production."

- Currently Producing: Includes base production and enhanced recovery production from investment in rate enhancing activities (perforations, stimulations, well workovers, gas and water injection support).
- Currently Under Development: New projects that are currently funded or awaiting project sanction in near future.
- Currently Under Evaluation: Includes technically viable projects in the stage where engineering, cost, risk and reward are being actively evaluated. Unfunded but are considered to have a high chance of being brought to fruition.

Commissioner Butcher stated that the first category examined the wells and fields that were currently producing and that it involved making forecasts on where production would continue to go over the next ten years. He added that the second category consisted of new projects that were in development and were working towards production. He stated that the third category was the most speculative of the three and was the most difficult to figure out. He pointed out that DOR wanted to factor in what appeared to be a development that would occur, but that it did not want to become too speculative and include something that may not be realized. He cited shale oil on the North Slope as an example of a development that was in its early stages and was not factored into the forecast; projects like these had not yet been deemed economical. He added that due to the speculative nature of some of these potential developments, DOR did not always include them in its forecasts.

Commissioner Butcher discussed slide on page 11 titled "factors that affect production forecasting."

- GEOLOGY
  - Rock type and formation characteristics
  - Depth, thickness, pressure
  - Oil & gas characteristics (oil gravity, viscosity, water content, etc.)
  
- DEVELOPMENT PLAN
  - Well density and development rate
  - Well bore size and completion technique
  - Artificial lift and enhanced oil recovery
  - Facilities & surface operations
  
- COMMERCIAL
  - Project economics
  - Oil price and market conditions
  - Government Policy: access, regulation, taxation
  
- PRODUCTION PROFILE
  - History stage of 11  
History, depletion
  - Use production profile to extrapolate trends
  
- TIMING

Commissioner Butcher stated that timing was very unpredictable and difficult to control and observed that the price of oil at the point of production was a critical timing factor.

Commissioner Butcher explained the slide on page 12 titled "forecasted ANS production FY 2011-2021." He indicated that 10 years was the farthest out that DOR was comfortable forecasting to. He stated that the currently producing portion of the graph made up the bulk of the production in the near years and that the under development category was layered on top of that. The under evaluation category represented the smallest portion and would occur a number of years out. He concluded that projects that were under evaluation and not yet under development would take quite a few years to reach production.

[9:32:10 AM](#)

BRUCE TANGEMAN, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, discussed the slide on page 13 titled "ANS production." He stated that the slide was also a chart that was included on page 39 of the Revenue Sources Book. The third column over was a new column that DOR had included. The currently producing, under development, and under evaluation categories were combined to determine the total Alaska North Slope (ANS) production; the calculation of decline or incline would be based on those three columns combined. He opined that DOR had been overly optimistic in the past with its production forecasting and stated that the third column had been added to put another sideboard on the discussion. Although the far right column was DOR's official forecast, there were varying degrees between columns regarding how confident DOR was with forecasting the category. He furthered that DOR was confident with forecasting the currently developing category, but that it was less confident with the under development projects because they were more speculative. He stated that all three columns would require additional capital and operating expenditures; the under development category would be funded to certain level, but it might not be fully funded. He explained that the under evaluation category was even more speculative and that it would require additional capital in order to be projected accurately. He offered that the third column enabled a discussion about the change in percentage from the prior year and that it would help DOR determine what production would ultimately be.

Co-Chair Stedman queried how much weight DOR put on constraints that were placed on processing facilities. Mr. Tangeman answered that the currently producing category was forecasted on a well for well basis and that it reflected what was actually being produced. He stated that for the under development and under evaluation categories, the state relied heavily on information gathered from producers and that it was assumed that constraints were included in the producer's forecast.

[9:35:29 AM](#)

Co-Chair Stedman stated that in the future, the committee would take a look at constraints on the processing facilities of the North Slope oil producers. He noted that some producers were water constrained or gas constrained, but that they should be oil constrained. There would be a

presentation in the Senate the following day dealing with the issue of constraints on producing facilities. He queried what impact the constraints would have on production forecasting and expressed concerns that there was potential for "bottlenecks" in the Prudhoe Bay and Kuparuk oil fields. He noted that the potential bottlenecking was "above ground", but that DOR's projections were "below ground." Commissioner Butcher replied that DOR would look into the issue of constraints for the committee. He furthered that DOR's production forecasts had historically been optimistic and that the department was trying to figure out how to present a more accurate forecast. He explained that DOR received its forecasting information from the operators and that it appeared as though operators tended to give a more optimistic view of production; as a result, the state had seen overly optimistic forecasts. He concluded that DOR was doing everything it could to ascertain how to deliver a more accurate forecast.

Co-Chair Stedman noted that Alaska had large quantities of heavy oil and wondered how it was factored into the forecast. Commissioner Butcher replied that heavy oil was not included in the forecast because it was not yet viewed as economic. He stated that it would be part of Alaska's future, but that it was so premature and distant that determinations about the timing or the scope of heavy oil production could not accurately be made. He added that DOR had discussions regarding heavy oil every year.

Mr. Tangeman furthered that while DOR did not forecast the production side of heavy oil, it had forecasted expenditures regarding heavy and shale oil.

[9:39:51 AM](#)

Senator McGuire inquired if the data provided by the producers was vetted by individual departments. She referenced Commissioner Butcher's previous comments regarding an operator's tendency to be overly optimistic about its future activities, and queried if the data from producers was vetted with Department of Natural Resources (DNR). Mr. Tangeman responded that DOR gathered publicly available information, as well as information from the DNR. DOR's forecasts relied heavily on data from the Alaska Oil and Gas Conservation Commission (AOGCC), particularly regarding the currently producing segments, because AOGCC

had a firm handle on the thousands of currently producing wells.

Senator McGuire admitted that it [DOR's process] made sense for projects that were under development, but noted that projects that under evaluation would be hard to prognosticate. She wondered how data from producers regarding projects that were under evaluation was vetted. Commissioner Butcher replied that DOR met with AOGCC and DNR to determine where the permitting process was at and that DOR looked at "our best estimate". He noted that information came from a variety of companies that were operating in Alaska and that as a result, some information was more reliable than others; larger companies tended to be more accurate in their reporting information than the smaller ones were. He added that that DOR looked at the information with a "skeptical eye" to insure that it was not repeating the optimism of a specific company.

Mr. Tangeman furthered that this was part of the speculative nature of projects that were under evaluation or under development. He explained that DOR dealt with the possible versus the probable and that DOR looked with the developers and the industry to see whether the project was not only probable, but that it would also have the necessary capital to be brought on line.

Co-Chair Hoffman asked if his interpretation of slide 13 was correct and queried if there were no projects under development in FY 11. Commissioner Butcher responded that because FY 11 had passed, everything in that time period had either produced or not produced; as a result, there was no number for under development for that year.

Co-Chair Hoffman noted that in 2012, there was a slight increase to 26,000 barrels per day (bbl/d) and that by 2017, there was more than a six fold increase to 180,000 bbl/d [in reference to the under development column on slide 13]. He observed that it appeared that at least until 2017, new oil would be increased and added to the pipeline. Commissioner Butcher replied that the oil field Liberty was under devolvement, but that it had been delayed; Liberty was scheduled to come on line between 2015 and 2016. He stated that Liberty was a good example of an under development project that was expected to come on line, but was being pushed back for various reasons that were out of DOR's control.

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Co-Chair Stedman pointed out the linear decline in slide 13's currently producing column and wondered how the state would get the estimated 7 billion barrels in oil reserves to market if the producing potential was being driven to zero. He queried if there was a possibility of leaving billions of barrels of oil in the ground and asked what the future held for Alaska's oil. Commissioner Butcher responded that the forecast did not take that aspect into account and that DOR simply compiled data as "we see it". He furthered that DOR would be unable to answer that question. He added that eventually, Alaska would be at the point of zero production, but that DOR did not believe it would be in the next 10 years; he hoped it would be many decades into future.

Mr. Tangeman pointed out that if things went as planned, as the state approached the "bottom line", there would be new projects that were under development and under evaluation. He furthered that 10 years into the future, there could be new technology available to help bring heavy and shale oil on line. He concluded that the under development and under evaluation categories would continue to be a number going forward, but that different segments of the North Slope might be supplying those two columns.

Co-Chair Stedman asked what DOR's views were on the North Slope Basin. Commissioner Butcher replied that the reserves in the basin were plentiful and that information from DNR suggested that if federal lands were included, there were "tens of billions of barrels" of conventional oil, "tens of billions of barrels" of heavy oil, and potentially the same amount of shale oil left in the basin. He offered that the question facing the state was at what point is technology able to bring those areas on line economically. He furthered that the price of oil was a major factor regarding economics and that a higher price generally meant that oil was more economical. He recalled that when oil prices rose to near \$150 a barrel, other renewable energy sources had taken the place of oil for many uses. He concluded that if the price of oil were at \$200 a barrel over a number of years, the world might be facing a different reality for oil in terms of what it was used for; it was an uncertain future not only regarding technology and the price of oil, but also what role oil will play.

Co-Chair Stedman stated that even if DOR used \$100 per barrel of oil as a baseline and did not account for reserves that were technically unachievable, that it still did not answer the question regarding the amount of feasible reserves in Alaska's basin. He inquired what DOR's or DNR's opinions were regarding the amount of reserves in Alaska's basin that were feasible today. Commissioner Butcher responded that there was a roughly estimated 30 billion to 40 billion barrels of conventional oil on the North Slope if the Outer Continental Shelf (OCS), the Arctic National Wildlife Refuge (ANWR), and the National Petroleum Reserve-Alaska (NPRA) were included. He added that about 70 percent of the state lands in that area had been minimally explored and that the estimate could be too high or too low. He spoke about the uncertain nature of oil geology and warned that the estimate might be inaccurate unless more exploration was conducted.

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Co-Chair Stedman recalled that when Alaska's oil basin was originally opened, the estimate was for about nine and a half billion barrels and that court work had been done, which had estimated that there were seven to eight billion barrels left; he asked if the estimate numbers were "ballpark" accurate. Commissioner Butcher replied that the numbers were ballpark accurate regarding the oil on state lands; however, much of the potential development was in the federal waters of the OCS and the state would not gain taxes or royalties off of it. He mentioned that the state could gain benefits from development on the OCS as follows: more throughput to the pipeline, better operation from the pipeline due to more flow, a lighter mix of fluids in line to help move heavy and viscous oils, and the possible passage of a revenue sharing bill with the federal government. He added that the revenue sharing bill still had to pass congress and that DOR did not have any control over what happened to the legislation; the state's potential for federal revenue could be greater in the future.

Co-Chair Stedman stated that the committee was spending extra time dealing with public perceptions and offered that there were instances where Alaska's populace was intentionally delivered with misinformation. He related that the committee had spent considerable time discussing

the future of Alaska and how the state would maintain fiscal responsibility while still meeting its needs. He stated that his impression of what DOR was saying was that the state did not need to prepare for the imminent shutdown and removal of the Trans-Alaska Pipeline System (TAPS). He pointed out that if there were seven billion to eight billion barrels left in the basin, that preparing for the shutdown of TAPS would not be a "fruitful" exercise and queried whether this would be an accurate assessment. Commissioner Butcher responded that Co-Chair Stedman was correct and that DOR had never asserted that the pipeline would shut down as a result of low throughput. He added that as the throughput in TAPS dropped, it would become more costly to transport oil through the line; however, DOR had never taken the position that the pipeline would shut down in 10 or 20 years.

Co-Chair Stedman queried if DOR would recommend that the state spend time dealing with probable outcomes, rather than focusing on improbable outcomes. Commissioner Butcher responded that Co-Chair Stedman was correct and that DOR was optimistic that the state would make decisions that would result in improving its future.

Mr. Tangeman offered that the future for Alaska did look bright. He referenced new pipeline activity in the Lower 48 and the large reserves of oil on the North Slope, and shared that he hoped the negative numbers on the right hand column [in reference to slide 13] would turn positive.

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Senator McGuire applauded the big picture, realistic look that the forecast brought. She wondered if there had been any discussion with the producers regarding improving or expanding facilities on the North Slope in order to provide better access for developing Prudhoe Bay. Commissioner Butcher indicated that DNR would be better able to respond to the question and explained that DOR did not focus much on what occurred prior to production. He added that DOR would look into the matter and would determine if facilities were an issue.

Mr. Tangeman spoke to slide 14 titled "production forecast-improvements in methodology" and stated that it reflected some improvements in the way DOR was forecasting production.

- Created standardized reporting forms for production and reserve forecasting information.
- Petroleum Engineer and Petroleum Economists compiled the forecast information instead of reinterpreting data previously received.
- For first time, department received down time estimates requested historically and never provided.
- Followed up and met second time with industry to confirm department's assumptions and ensure forecast results were reasonable with the companies' projections.
- Production forecasting requires consideration of each project's geology, development plans, commerciality, production profiles, decline curves and timing.
- Department uses extensive well and field specific data acquired from producers, AOGCC, and DNR.
- New field development is very important in mitigating decline rates.

Mr. Tangeman related the importance of having a standardized reporting form for production and reserve forecasting, and that the first attempt at using the forms the prior interim had been successful. He stated that implementing the standardized forms had been a learning curve for both DOR and the private sector, but that it had initialized the process through which private companies would know their reporting requirements. The new forms also meant that DOR would be receiving standardized information from companies. He furthered that down time estimates may not have been included in the past, but that they were included now; he indicated that the estimates may not be important, but that DOR was going through a learning process in order to ascertain what was needed to achieve the most accurate forecast possible.

Mr. Tangeman explained the slide on page 15 titled "conclusion on production."

- Production forecasting requires consideration of each project's geology, development plans, commerciality, production profiles, decline curves and timing.
- Department uses extensive well and field specific data acquired from producers, AOGCC, and DNR
- New field development is very important in mitigating decline rates.

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Senator Thomas referenced overly optimistic production projections and proprietary information concerns regarding the sources of DOR's data. He queried if it would be prudent to change the language in some of the state's leases, or have the state take a more active role in the evaluation of properties in order to get a better concept of the actual potential for development. Commissioner Butcher replied that it was not something that DOR had actively discussed. He added that DOR received the information that it needed from the companies and that much of the information was confidential. He added that it was not something that DOR had considered, but that it was something that it could think about in the future.

Mr. Tangeman followed up the question and shared that DOR relied heavily on AOGCC because it had well by well data that covered thousands of wells. DOR's current production forecaster did a well by well analysis for the decline curves in the currently producing sections. AOGCC provided real time information that was critical for the production forecaster to use in establishing the currently producing column. He furthered that DOR was very comfortable with the results and the type of analysis that its forecaster was using; the production forecaster's fall of 2009 forecast for the fall of 2011 regarding the Kuparuk oil field was within 39 barrels a day. He acknowledged that this was a short sample period, but that it "bodes" well for DOR's longer-term projections. He added that the next six, seven, or eight years would determine if those projections were accurate, but that he thought that DOR was on the right track.

Senator Thomas asked what percentage of the land in the projections was federal. Mr. Tangeman replied that the forecast included only state lands and did not project OCS or ANWR; the projections were inclusive of projects that were under development or under evaluation that DOR felt it had a good handle on, which would be coming on line in the next ten years.

Senator Thomas asked if it would be fitting to refer to the production as "state ANS production". Mr. Tangeman responded in the affirmative.

10:03:07 AM

Co-Chair Stedman asked for a clarification on slide 12. He asked if the y axis was in the right starting point for FY 12. Mr. Tangeman responded that the average production for 2011 was 603,000 bbl/d and that due to the monthly highs and lows, analyzing the chart on a month to month basis was problematic. He believed that the 574,000 bbl/d average for 2012 was probably the top of the under development line, currently. He added that on a month by month basis, the state might be over 600,000 bbl/d and bellow.

Co-Chair Stedman inquired if 575,000 bbl/d was the number reflected for 2013. Mr. Tangeman responded that 574,000 bbl/d was the average for 2012 and that 555,000 bbl/d was the projection for 2013.

Commissioner Butcher responded to an earlier question by Senator Thomas and clarified that there was one federal development that was included in the forecast; the Northstar oil development was currently factored in the projections and the Liberty oil field, which was another federal water development, was also factored in a few years out. He directed the committee's attention to page 39 of the Revenue Sources Book and stated that there was a slide on the page that showed taxable barrels; he furthered that this showed that virtually all production, with the exception of a small amount, reflected barrels of oil that were taxable by the state. He concluded that the number of federal barrels would get larger when Liberty came on line.

Co-Chair Hoffman queried how much time the administration spent researching and pushing the oil producers on the issue of when it became economically viable to extract the oil. He referenced the current oil price of \$110 a barrel

and asked if DOR reviewed the leases and evaluated the economics to make oil companies produce, as required by the leases. He believed that pursuing this approach would result in additional barrels of oil in the pipeline. Commissioner Butcher replied that DNR would be better suited to provide an answer regarding that aspect of leases and that DOR did not have an answer to the question. He offered that there would probably be more insight regarding the currently producing areas than there would be for exploration side of the issue. He stated that many of the billions of estimated barrels of oil on the North Slope were yet to be found through exploration, but that much of oil was found in areas that were being developed. He reiterated that DNR could provide insight on the matter.

[10:07:39 AM](#)

Co-Chair Stedman observed that in the future, the committee would be asking the question of what else might become feasible under current terms or as result of alterations.

Commissioner Butcher discussed the slide on page 17 titled "price forecast methodology."

- Oil Price Forecasting Session held October 3, 2011, included 26 Participants from DOR, DNR, DOL, OMB, University, Legislative Finance and outside participants
- Forecasting Session Presentations included supply, demand, geopolitics, financial markets, outside expert forecasts, etc.
- FY 2011-2016: Average of participant forecast from Forecasting Session blended equally with NYMEX, EIA, and analysts to derive price forecast.
- Beyond FY 2016: Constant real price, 2.5% inflation
- Change in ANS-WTI differential methodology due to widening differential

Commissioner Butcher recalled that several decades ago, the chief economist for DOR would produce an estimate on the oil price for the current fiscal year and out years; there were a lot of questions as to how the estimate was done and

how DOR had reached its conclusions. He related that the Senate Finance Committee used to hire the Cambridge Energy Research Associates in order to give another view of what the oil price would be. He indicated that a few years prior, DOR had changed the way it was forecasting the price of oil to a more transparent and open route.

Commissioner Butcher pointed out that DOR had held meetings with rating agencies, which had resulted in an upgrade by Standard & Poor's (S&P); one of the positive aspects of the state's forecasting, which was pointed out by S&P in particular, was the conservative price forecasting. In the last 6 or 7 years, there was only one year that the price of oil was under what DOR had forecasted. He stated that the rating agencies could see that the state was not intentionally over inflating its forecasted price to increase revenue.

Commissioner Butcher related that another new focus of the forecast was trying to determine the significance of the change in ANS crude prices compared to the price of West Texas Intermediate (WTI) oil; the differentials had changed considerably in the last year. Experts across the world based their estimates on what the price of Brent [another classification of crude] and WTI oil was, but did not look specifically at ANS. He stated that DOR had always looked at what the WTI price was and that the price of ANS tended to be \$2 dollars a barrel under WTI. He shared that around a year prior, the price of ANS had "shot up", but that WTI's price did not; at one point, ANS crude was selling for \$28 a barrel premium of WTI. He pointed out that the shift in price differentials was unexpected and that a good portion of the oil price forecasting session was spent trying to analyze the change. He related that the consensus was that the price differential between ANS and WTI would narrow; the question was whether the price of WTI would rise to match ANS, or whether ANS would fall to match the WTI price. He stated that the "glut" of oil in the central U.S. tended to be the explanation regarding the cause of the differential between the ANS and WTI prices; there were not enough pipelines to get the oil to market and as a result, the region had more oil than it could get rid of. He furthered that most of the experts believed that there would be more pipelines coming on line in the central U.S. over the next several years and that the difference in price between ANS and WTI would shrink. He added that it

was expected that primarily, the price of WTI would rise to match ANS.

[10:14:45 AM](#)

Commissioner Butcher explained the slide on page 18 titled "ANS-WTI oil price differential" and noted that the WTI price was represented by the zero line. He pointed out that the price of ANS crude tended to be just a little under WTI, but that the price differential had "skyrocketed" in ANS's favor about a year ago. He concluded that about a month prior, the price of ANS crude had dropped to around \$4 to \$6 premium of WTI, but that the price had recently risen back up to around \$12 to \$13 premium of WTI crude.

Commissioner Butcher discussed the slide on page 19 titled "ANS-WTI oil price forecast differential methodology."

- Forecast the Brent-WTI Differential using futures
  - Use the Brent-WTI futures spread
- Forecast the ANS-Brent Differential using history
  - Use an assumption based on the historical ANS-Brent differential
- Taken together these make the ANS-WTI Forecast
  - $(\text{Brent-WTI}) + (\text{ANS-Brent}) = \text{ANS-WTI}$
  - Brent-WTI = \$26, ANS-Brent = -\$1
  - $\$26 + -\$1 = \$25$
- This differential narrows over time (currently \$16 per barrel) averaging \$18.41 for FY 2012
- Differential peaked at ~\$29 during Sept 2011; dropped to a low of ~\$7 for a few days at end of December 2011; has climbed to ~\$13 today
- RSB uses a differential of \$18.41 for FY 12 and as of January 30, 2012 the average differential FY-to date was \$18.22

Commissioner Butcher explained that the differential between ANS and WTI crude prices had been expanding over the last month and that depending on what occurred in the next five months, it would be a dollar or so off the projection.

Co-Chair Stedman explained to the public that the Finance Committee had moved away from WTI a few years prior and had been using Brent in its forecasts. He noted that it was good that there was not a difference in opinion with Commissioner Butcher on the state's forward pricing models.

Commissioner Butcher related that DOR had spent quite a bit of time discussing the difference between comparisons to Brent and comparisons to WTI.

Senator Thomas asked for a clarification and queried if the "glut" of oil in Cushing, Oklahoma had resulted in an increase to the price of west coast ANS. He further inquired if the price change had been a result of the regions' inability to distribute oil or because someone had taken advantage of the market. Commissioner Butcher responded that the shift was more due to WTI's price being depressed than it is was due to ANS going up. He furthered that currently, ANS and Brent tended to have a \$1 price difference in terms of the European, Alaskan, and west coast markets. The price of WTI had been coming back up more than ANS had been falling. He stated that he had made a blanket statement about [the Lower 48] not having pipeline capacity, which had been larger focus; however, there had been many ideas regarding the cause of the discounted WTI price. He stated that one reason for the drop in the WTI price was that refineries in the central U.S. had been altered to deal with thicker oil instead of the lighter oil that had been refined in the past. Once the shale oil became available, producers were left with refineries that were unable to refine the lighter oil to the same degree as the heavy oil. As a result, there were refineries that were being over used and there were some that were not being used at all. He observed that it had taken a few years for the industry to adapt to the new type of oil production in the U.S.

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Commissioner Butcher spoke to the slide on page 20 titled "price forecasts as of October 2011" and stated that the

slide showed a snapshot of oil price forecasts from DOR and other experts. He related that the different world analysts tended to be much more optimistic than everyone else on what the price would be. He shared that NYMEX's price forecast was usually more optimistic than DOR's in the short-term, but that it was more pessimistic in the out years. He concluded that DOR's price forecast tended to fall in the middle and that the state's forecasting was in line with what other experts expected the price to be.

Commissioner Butcher discussed the slide on page 21 titled "fall 2011 DOR oil price forecast" and stated that it provided a snapshot of the actual prices for FY 11, the projected price for FY 12, and the projected prices from FY 13 through FY 16. He noted that the right column showed the nominal numbers and that the column on the left reflected the real numbers if the 2.5 percent inflation rate was taken into account.

Mr. Tangeman addressed the slide on page 23 titled "lease expenditure forecast methodology."

Request capital and operating lease expenditure projections from North Slope unit operators in the fall and the spring of each year in writing for the next five years from the current year

- Meet with and request spending projections from companies that are not currently producing but have announced drilling and/or development plans
- Review and coordinate with production forecast regarding anticipated developments outside the five year time horizon received from operators
- Update long-term capital and operating expenditure projections based on new information

Mr. Tangeman pointed out that the first bullet point was a larger segment of what the state was currently dealing with and that the tax credit system had generated a lot of interest "in this area". He said that DOR needed to take into account the capital and operating expenditure

projections of companies that were not currently producing but had development or drilling plans.

Mr. Tangeman explained the slide on page 24 titled "forecasted North Slope expenditures, FY 2012 - FY 2016" and noted that some new explorers were not producers yet, did not have a tax liability, but were included in the chart; the red bars in particular represented these explorers. He pointed out that the slide was a forecast, but that the next several slides would enable the committee to look back at capital and operating expenses in order to see what had actually occurred. He warned that the slide 24 showed out year growth, but that it was just a forecast.

Mr. Tangeman discussed the slide on page 25 titled "historical actual expenditures, FY 2007 - FY 2011."

Co-Chair Stedman directed the presentation back to the slide on page 24. He requested that DOR provide a breakdown of the expectations provided by the industry. He also wanted the projections to be shown with a one year delay. Mr. Tangeman replied that DOR would provide the information.

Co-Chair Stedman recalled that during the testimony the prior year, there had been a significant difference between some of the discussions and the documents that were submitted. He wanted to be sure that everyone agreed on the information in front of the committee. Mr. Tangeman reiterated that DOR would provide that information and that DOR had gone from a gross tax to a net tax five years ago. He furthered that DOR was receiving new information and that it was learning process.

Mr. Tangeman discussed the slide on page 25 titled "historical actual expenditures, FY 2007 - FY 2011" and stated that it showed some of the actual expenditures that had taken place. He pointed out that the actuals could be used to form some assumptions going forward and that under the net tax system, looking back at actuals was not an option. He stated that the full impact of ACES was "probably" considered by the industry later in FY 09 when decisions were being made about capital programs. He furthered that in FY 10, the capital expenditures had peaked and that operating expenditures had surpassed capital expenditures in FY 11.

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Co-Chair Stedman inquired if the capital expenditures could be broken down into categories and requested DOR to prepare a document showing a running total of capital expenditures dealing with the state's tax credits. He also requested the cash value on the immediate deduction of capital expenditures and noted that the figure was close to \$1 billion per year, but that it was rarely talked about. He explained that in the future, he was interested in having the committee track expenditures that were going into the oil basin, the incremental increase in oil and production, and the resulting net revenue to the treasury; furthermore, he wanted to compare the net revenue to the state's costs to see if Alaska, from a cash flow perspective, was moving forwards or backwards. He directed DOR to include the production decline, the approximately \$4 billion in state credits, and the immediate write-off of capital expenditures when it prepared the document. Commissioner Butcher replied that DOR would be happy to prepare the requested document for the committee.

Mr. Tangeman addressed the slide on page 26 titled "FY 2011 & FY 2012 wellhead values, north slope capex and opex" and stated that DOR had just received the data for December the prior day. He explained that the slide showed where the state currently was in FY 12 compared to FY 11 regarding its capital expenses, operating expenses, and wellhead values. He pointed out that although the wellhead values for FY 11 and FY 12 were consistent, the values for the first six months of FY 12 were 39 percent higher than in FY 11. He explained that the chart on the bottom left showed that as of December, the North Slope capital expenditures were down 13 percent when compared to FY 11. He pointed out that the bottom right chart showed that in FY 12, the operating expenditures on the North Slope were up 19 percent when compared to FY 11. He concluded that the slide updated the capital and operating expenditures through December of 2011.

Commissioner Butcher asked if Lenny Dees could address the last few slides.

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LENNY DEES, AUDIT MASTER, DEPARTMENT OF REVENUE (via teleconference), discussed the slide on page 28 titled

"credits applied against production tax liability, by fiscal year(\$M)." He explained that the slide showed the amount of tax credits that had been offset against production tax liabilities since the inception of Petroleum Profits Tax (PPT) and ACES. He added that DOR had estimated the last two years on the chart because it had not received final true up for those years. He pointed out that DOR projected that by late FY 12, there will have been a total of \$2.5 billion in credits that were deducted against tax liabilities.

Co-Chair Stedman asked for a definition of "deducted against tax liabilities". Mr. Dees clarified that the statutes allowed for oil producers to deduct certain credits for expenditures against their tax liability. He explained that the first line on the slide reflected Capital Expenditure Credits, through which a company could deduct 20 percent of the amount of certain capital expenditures against its production tax liability. He stated that the second line represented Transitional Investment Expenditure (TIE) Credits. He further explained that TIE Credits were available to most companies in 2007 to 2008; TIE Credits enabled a producer to deduct expenditures that were accrued during the 5 years prior to the onset of PPT if the expenditures would have qualified as capital expenditures under the PPT and ACES statutes. He stated that the third line was for companies that had tax liabilities, but produced less than 50,000 barrels of oil per day; in this case, the statutes allowed for a small producer credit in the amount of the \$12 million per year. The fourth line reflected exploration activities that met certain requirements under Section 43.55.025 of the Alaska State Statutes; producers could claim a 30 percent or 40 percent tax credit for those activities. Mr. Dees explained that the main point of slide 28 was to show the amount of money that the producers withheld from the state as a result of tax liability reducing credits. He furthered that if the tax credits had not existed, the funds depicted on slide would have come to the state in the form of tax liabilities.

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Co-Chair Stedman asked if Mr. Dees could make some footnotes to the slide on page 28 that were similar to the ones on page 29. Mr. Dees responded in the affirmative.

Mr. Dees discussed the slide on page 29 titled "transferable tax credits certificated claimed by fiscal year(\$M)." He stated that companies that were not yet producing and were still in the exploration or development stage could submit a tax credit application to DOR for a Transferable Tax Credit Certificate. Slide 29 showed the applications that DOR had received since the inception PPT and ACES from companies that did not yet have production tax liabilities, but that still wanted to participate in the credit program. He stated that DOR had received about \$1.7 billion in applications for Transferable Tax Credits Certificates. He pointed out that the left column showed a breakdown of the different credit types and noted that there were footnotes on the slide that referenced statutes. He listed the different categories of credits in the far left column.

Mr. Dees discussed the slide on page 30 titled "credits applied against production tax liability, by fiscal year." He explained that the first line showed that \$1.5 billion in credits had been issued out of the \$1.7 billion in applications. He explained that under Section 43.55.028 of the Alaska State Statutes, the credits could be converted to a cash refund by the state because most of the companies that were applying for transferable certificates did not have production tax liabilities. The second line showed that the state had paid out about \$1.3 billion in return for the certificates through 2012.

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Co-Chair Hoffman asked if the information on slides 28, 29, and 30 had been audited. Commissioner Butcher replied that DOR conducted a "table audit" before a tax credit was paid out, but that a more thorough review was done during the same time that a company was audited for its larger production taxes.

Co-Chair Hoffman queried how many companies had gone through a thorough audit under the new tax structure. Commissioner Butcher replied that the audit for 2006, which was trued after the first quarter of 2007, had been completed and that DOR was currently working on the 2007 audit, which was trued up at the end of the first quarter of 2008. He stated that DOR was within its statutory guidelines for completing the audits, but that it would like to "catch up" on them. He added that DOR felt that it

was making progress towards completing audits more efficiently. He pointed out that the state's transition from a gross to a net tax had been difficult for auditors and companies to adjust to and offered that DOR expected a more streamlined process now that most of the transition was over. He also mentioned that DOR had hired some new auditors.

Co-Chair Hoffman wondered if DOR needed additional dollars in order to get the Department "caught up" with the backlog of audits. Commissioner Butcher replied that he could talk to the division more about funding. He explained that DOR expected that the tax database revenue system would make a huge difference in the department and furthered that the database had been funded in the prior fiscal year at \$34.7 million. He added that DOR expected to get the first programs of the database in place in approximately two years and that all the tax types should be included in 2 to 5 years. He concluded that DOR believed that the database would replace a lot of the manual work that auditors were doing and would greatly decrease the time it took to complete the audits.

Co-Chair Stedman mentioned that the FY 12 data had potential Cook Inlet credits and that there were projections for FY 13. He requested column targets for FY 13 so that the committee was not only looking at the history, but also the next fiscal year.

Senator Thomas requested that DOR provide a single number for the total amount of the credits that had been taken, as well as total of the expected credit requests from 2008 till the present time. Mr. Tangeman replied that the \$4 billion that Co-Chair Stedman had referenced earlier was the estimate through 2012 and that the estimate through 2013 was just under \$5 billion.

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Co-Chair Stedman requested DOR to adjust the estimate to reflect the immediate write-off of capital expenditures.

Mr. Dees discussed slide 31 titled "production tax credits" and stated that it was a graphical depiction of the total credits that had been earned and taken against production tax liability. He explained that the numbers for slide 31 were found on slide 32.

Mr. Dees explained the slide on page 32 "production tax credits." He stated that the slide showed that the total production tax credit impact through FY 12 was about \$4 billion. He added that the top line for FY 12, which was the tax credit certificate line, would probably grow by another \$200 million; the anticipated growth would be due to an expected increase of applications when companies submitted their final true ups in March of 2012.

Co-Chair Stedman inquired what the projection was for the production credit impact in FY 13 and referenced page 31 of the Revenue Sources Book. Mr. Dees replied that the projection for FY 13 was \$875 million.

Co-Chair Stedman noted that the committee would spend more time addressing tax credits in the future and requested that DOR present the slide with the FY 13 projections added in. Mr. Dees responded that DOR would make the requested changes.

Senator Thomas asked for a brief explanation of the declining values of the potential petroleum property taxes on slide 5 and pages 90 and 91 of the Revenue Sources Book. He inquired if the declining values were due to the Judge Gleason decision. Commissioner Butcher replied that DOR would get back to the committee with a response.

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Co-Chair Stedman stated that if there was a difference of opinion within DOR [regarding Senator Thomas' question], that the department could provide projections and potential outcomes. He added that a good portion of the funds [from property taxes] were going to the communities and that the net effect to the state was not linear. He requested DOR to include the effect of the funds going to the communities in future presentations. Commissioner Butcher responded that DOR would make the requested changes.

^DEPARTMENT OF REVENUE: STATE SAVINGS ACCOUNT AND BUDGET RESERVES OVERVIEW

Commissioner Butcher stated that the presentation would give the committee a general idea of what the prior fiscal year had looked like and what was happening during the current fiscal year. He introduced Angela Rodell, the new Deputy Commissioner of the Tax Division for the Department

of Revenue, and remarked that her background as a financial advisor gave her a great familiarity with Alaska's state funds.

Commissioner Butcher presented "an update on the state's savings accounts overview." (copy on file)

Commissioner Butcher discussed the slide on page 3 titled "General Fund and other non-segregated investments". He indicated that in 2011, the short-term investments did poorly, but that long-term investments did well. He pointed out that the world had gone through a recession in the latter half of 2008 through 2009, but that the Permanent Fund, the retirement funds, and the Constitutional Budget Reserve had made in excess of 21 percent. He explained that coming into FY 12, there had been a sizable drop in the U.S. and world stock markets regarding uncertainty over the debt in Europe and that the state's long-term investments had lost a considerable amount. He furthered that the state's investments had rebounded a great deal in the second quarter of FY 12, but that the state had a ways to go to get back to where it was before FY 11. He stated that the General Fund and other non-segregated investments (GeFONSI) were a mix of short to intermediate investments and that liquidity was very important to the fund. He added that the forecast for GeFONSI was 3.2 percent, but that the actual number for FY 11 was 1.72 percent due to low investment yields. He concluded that in the current fiscal year to date, GeFONSI was at a little less than 1 percent.

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Commissioner Butcher spoke to the slide on page 4 titled "Constitutional Budget Reserve (CBR) Fund (main & sub)" He explained that the CBR was separated into two categories, which were invested differently. The main fund was invested more conservatively, while the sub fund was invested for a long-term return. He stated that the main fund had a return of 2.64 percent in FY 11 and that the sub fund had a return of 21.13 percent; however, in the current fiscal year to date, the main fund had a return of 2.08 percent and the sub fund was at negative return of 4.07 percent. He explained that the drop in the investment returns was reflective of changes in the markets during the first half of FY 12.

Co-Chair Stedman requested DOR to provide the net investment and unrealized gains to the CBR. He related that it would be helpful to know what the state had started with in the CBR. Commissioner Butcher responded that DOR would be happy to provide the information.

Co-Chair Stedman directed DOR to discuss its internal structure with the committee. Commissioner Butcher replied that DOR had been meeting quarterly with its chief investment officer, taking minutes, and reviewing documents and that there was transparency throughout the process. He indicated that DOR would be willing to release documents from the quarterly meetings.

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Co-Chair Stedman stated that there should be documentation in the file showing DOR's process. Commissioner Butcher replied that DOR would provide the information in the future.

Commissioner Butcher spoke to the slide on page 5 titled "Power Cost Equalization (PCE) fund." He related that the forecast for the fund was for 7 percent and that it was a fairly aggressive investment; as a result, the fund had returned just over 22 percent in FY 11. He pointed out that the fund was down about 4 percent in the current fiscal year.

Co-Chair Hoffman asked if the \$716 million on the slide included the \$400 million in appropriations. Commissioner Butcher replied in the affirmative.

Co-Chair Hoffman noted that during "that period" there was a loss of \$36 million instead of a return of 21 percent to the PCE fund and queried what the cause of the loss was. He offered that the assertion of a 21 percent return in FY 11 was untrue. Commissioner Butcher responded that while the slide showed the returns, it also included transfers for PCE payments out of the fund. He furthered that DOR could provide the committee with more details about the breakdown of returns and transfers out of the fund.

Co-Chair Stedman requested DOR to provide a monthly breakdown of the PCE Fund's returns and transfers; he explained that it would enable the committee to match the timing of the fund's cash flows with its returns.

Commissioner Butcher responded that DOR would provide the requested information.

Co-Chair Hoffman further requested that DOR include the positive or negative rates of return to the fund. Commissioner Butcher indicated that DOR would be happy to do so.

Co-Chair Hoffman queried if DOR anticipated a 7 percent rate of return to the PCE fund for the next fiscal year. Commissioner Butcher responded that the fund was invested for a 7 percent return. Co-Chair Hoffman clarified that his question was if DOR expected to realize the return or not. Commissioner Butcher responded that he was unsure of what would happen in the next 7 months of the fiscal year.

Co-Chair Hoffman inquired if rate of return was set too high and if it should be adjusted to a lower, more realistic rate, such as 5.5 percent. Commissioner Butcher replied that 7 percent was historically achievable, but that the volatility of the market over the last 5 or 6 years had made it a harder rate of return to achieve than 5.5 percent.

Co-Chair Stedman clarified that one issue was that the payout rate was too high to sustain the PCE fund in the long-term; furthermore, the payout rates drove the rate of return targets higher in order to prevent erosion of the fund's principle. He further explained that the target rate of return was too high and that there was too much risk exposure. He pointed out that the operating and capital budgets had returns closer to 4.25 percent to 4.75 percent and that there was a concern that the statute within PCE, which set the rate at 7 percent, was inadequate.

Co-Chair Hoffman offered that DOR should have realized the issue regarding PCE's payouts and rate of return and that it should have come forward with modifications to the program. He referenced a recent infusion into the PCE fund and stated that the legislature felt that the fund should be at a sustainable rate of return. Commissioner Butcher responded that DOR would come forward with a recommendation.

[10:59:17 AM](#)

Commissioner Butcher spoke to the slide on page 6 titled "public school trust fund (principle and income accounts)." He stated that the principle made about 17 percent in FY 11 and that it was up slightly in the current fiscal year. The principle was invested with moderate risk, but the income from the fund was invested with low risk for liquidity purposes.

Co-Chair Stedman indicated that the time allotted for the meeting was almost out and requested an accelerated walkthrough of the remaining slides.

Commissioner Butcher explained the slide on page 7 titled "PERS & TRS." He stated that the slide showed a breakdown of the PERS and TRS retirement investments. He explained that due to the timing of transfers, the returns between the two funds never matched exactly. Both PERS and TRS returned a little over 21 percent in FY 11 and were both down a little under 5 percent in the current fiscal year. He noted that there were questions regarding why the high returns to the funds in FY 11 did not "close the gap" in the unfunded liability; he explained that the actuaries had forecasted a rate of return of 8.25 percent for the two funds, but that the Alaska Retirement Management Board (ARMB) had determined that the target rate should be at a more conservative figure of 8 percent. He furthered that the adjusted target rate of return had resulted in a less "rosy" investment picture than before the change.

Co-Chair Stedman commented that Callan Associates and the ARMB would be in front of the committee in several weeks and that the subject would be covered in more detail at that time.

Commissioner Butcher spoke to the slide on page 8 titled "APFC." He stated that the Alaska Permanent Fund Corporation (APFC) had experienced a return on investments of a little over 20 percent in FY 11. He pointed out that APFC had peaked with a market value of \$40 billion, before its decline in 2008. He furthered that the APFC value was currently at \$38.6 billion and that although the fund was healthy, it had not fully recovered from the recession of 2008.

Co-Chair Stedman commented that the APFC would also be in front of the committee after the ARMB.

Commissioner Butcher spoke to the slide on page 10 titled "FY 2012 investment revenue forecast." He stated that the slide detailed the investment revenue forecast. The left side depicted the FY 11 actual returns on investments from the funds. The right side showed the FY 12 forecast's actuals through December 31, 2011 and the estimated forecast numbers for the second half of FY 12. He noted that Permanent Fund had generated revenue of just under \$7 billion in FY 11, but that the fund was down almost \$2 billion in the current fiscal year. He furthered that DOR expected the Permanent Fund to rebound in the next 6 months, but that the forecast was still for a net reduction in FY 12.

Co-Chair Hoffman requested that DOR provide the committee with a report of the Permanent Fund earnings reserve account for the last 5 years. He offered that at one time the reserve account was under \$1 billion, but that it was currently in excess of \$2 billion. Commissioner Butcher replied that the DOR would provide the requested information.

Co-Chair Stedman discussed the agenda for the following meeting.

#  
ADJOURNMENT  
[11:03:37 AM](#)

The meeting was adjourned at 11:04 AM.