

HOUSE FINANCE COMMITTEE

April 5, 2013

1:34 p.m.

1:34:05 PM

CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative Lindsey Holmes
Representative Scott Kawasaki, Alternate
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

Representative David Guttenberg

ALSO PRESENT

Representative Wes Keller, Sponsor; Representative Charisse Millet, Sponsor; Dr. Scott Goldsmith, Institute of Social and Economic Research, University of Alaska Anchorage; Bradford Keithley, Attorney, Oil and Gas Group, Perkins Coie LLP; Representative Beth Kerttula.

PRESENT VIA TELECONFERENCE

Stuart Thompson, Self, Mat-Su.

SUMMARY

HB 31 CONSTITUTIONAL HISTORY CURRICULUM

HB 31 was HEARD and HELD in committee for further consideration.

HB 136 SUSTAINABLE BUDGET REPORTING

HB 136 was HEARD and HELD and referred to a subcommittee for further consideration consisting of the following members: Representative Costello (Chair), Representative Austerman, Representative Holmes, Representative Thompson, and Representative Gara.

CSSB 21(FIN) am(efd fld)
OIL AND GAS PRODUCTION TAX

CSSB 21(FIN) am(efd fld) was SCHEDULED but not HEARD.

#hb31

HOUSE BILL NO. 31

"An Act requiring school districts to develop and require completion of a history of American constitutionalism curriculum segment; and providing for an effective date."

1:35:06 PM

REPRESENTATIVE WES KELLER, SPONSOR, introduced the legislation. The bill would require school districts to create a curriculum segment on the history of American constitutionalism and would require students to complete the course prior to graduation. He acknowledged the potential challenge of voting for an unfunded curriculum mandate. He asserted that the bill represented a special case and would tweak the current American history course curriculum. He believed many schools were already in compliance with the proposed bill and that its implementation would not impose a significant burden on school districts.

Representative Keller explained that the curriculum pertained to the values and documents that had been instrumental in forming the U.S. Constitution; the bill would require the course work to look at American constitutionalism as portrayed in the Declaration of Independence, first state constitutions, Article of Confederation, U.S. Constitution, federalist papers, and the Bill of Rights; the course requirements under the bill

recognized the significance of the documents. He believed the documents were a great gift to mankind; American constitutionalism was a statement on human rights that had been used globally. He referred to the statement that all men are created equal and discussed rights including the freedom of speech. He noted that the rights tended to be taken for granted.

Representative Keller continued that he had introduced the bill in 2011 shortly before the Egyptian president Hosni Mubarak had been removed from office. He recalled that multiple constitutions had been created in Egypt in recent years; he pointed to riots in the streets and the ongoing struggle. He stated that the values of American constitutionalism provided the ability to make decisions related to events occurring in other countries. He pointed to the contrast between a country such as Egypt where rights were determined by the military and the U.S. where rights were inherent.

[1:39:18 PM](#)

Representative Keller continued to discuss rights under the U.S. constitution. He pointed to differences between the U.S. Constitution and the rights in other countries such as China. He elaborated that the people were in charge in the U.S. and authorized government authority. He discussed freedom of religion and expression in the U.S. compared to other countries. He communicated that the intent was not to speak against districts that were not currently teaching the curriculum. He read a quote by Thomas Jefferson:

As we work together to advance cost-effective justice, we must remember that the greatest guarantee of a strong future for all three branches of government is a citizenry that understands and embraces the fundamental principles of democracy.

Representative Keller referred to a past State of the Judiciary speech by Chief Justice Walter Carpeneti. He noted that Chief Justice Carpeneti spent a significant amount of time increasing student awareness. He discussed an online program created by Chief Justice O'Connor. He provided a quote by Chief Justice Carpeneti: "Join me in the effort to instill in our young people the same knowledge and respect for our laws and institutions of our country that we are all privileged to share."

1:43:02 PM

STUART THOMPSON, SELF, MAT-SU (via teleconference), spoke in support of the legislation. He read a statement (copy on file):

Per legislative rules, your committee's responsibility is to evaluate the fiscal efficacy of HB 31. The Education Committee has already evaluated and verified its educational efficacy. So is the American Constitutionalism History Literacy Act financially worth making law? I testify as follows that it is.

The Legislature is charged with competently directing payment of Alaska government bills, and intelligently investing public money in constitutionally established avenues like education. Education is an investment because it can return many times the value of what's put into it. One of the greatest returns education delivers is the individual and cooperative ability to resolve problems that hinder quality of life. This bill addresses chronically unresolved problems of our state and nation by targeting the constitutional illiteracy and the lack of discipline at using our political heritage that propagates them.

These problems include national bankruptcy; runaway national unemployment; national economic addiction to defense spending that makes military adventurism a necessity; a pathetic loss of ability to harness science to stimulate economic diversity; vulnerability to super-corporation bullying and blackmail because they are too big to truly enforce law on or to do without (like the oil companies in Alaska); mediocre skill development of America's people-making corporate, business and individual welfare a necessity; etc. , etc.

Constitutionalism the multi-partisan discipline it engenders and our political heritage represent an overflowing vault of problem-solving riches. Yet this treasure is being treated by our state and nation-using Christ's analogy-like pearls cast before swine. Passing this bill will help create citizens and leaders who are truly capable of ensuring government of the People, by the People, and for the People shall

not perish from this earth from the awful terrorism of ignorance.

Thank you for your attention. On request, I can testify further about constitutional illiteracy and repudiation of our political heritage. Good luck on your deliberations.

[1:46:23 PM](#)

Co-Chair Stoltze CLOSED public testimony.

Representative Gara asked for verification that the curriculum would include every amendment to the Constitution that came subsequent to the original Bill of Rights. He mentioned women's suffrage and the right for 18 year-olds to vote.

Representative Keller replied that all amendments under the Constitution would be covered.

Representative Wilson asked which schools currently had the curriculum and which did not. Representative Keller did not know whether the information had been gathered. He pointed to page 2, line 17 specifying that superintendents would bring the proposal forward for approval by each school board. School boards would set the criteria used to determine whether a student had successfully completed the curriculum. He noted that the bill placed trust and respect in each district's abilities.

Representative Wilson supported the concept, but believed it was important to know which schools were currently teaching the subject; she wanted to ensure the bill was necessary. She asked why the bill did not add the subject to the high school graduation test.

Representative Keller replied that his intent was to leave the standards up to the individual school districts.

[1:50:30 PM](#)

Representative Wilson agreed with leaving the standards up to districts if the bill only mandated adding the curriculum; however, the bill was tied to graduation and she believed there should be consistency. She asked for a

walk through of the implementation including what tests would look like and the approval process.

Representative Keller replied that each school district would have approval authority over the curriculum implementation; the Department of Education and Early Development was not required to monitor the standards. The bill placed trust in history teachers. He was not aware of any other legislative mandated curriculum segments that were a part of the graduation exam.

Representative Costello expressed appreciation for the sponsor's attention to the subject. She communicated a concern related to content standards and read from a copy of the standards "A student who meets the content standard should understand the ideals of this nation as expressed in the Declaration of Independence, the United States Constitution, and the Bill of Rights". She detailed that the standards mentioned various forms of government.

She discussed that the subjects could be introduced to students at any age; some students had the opportunity to go to Washington D.C. to experience the governmental process first-hand. She observed that current content standards allowed teachers to teach at different stages based on the makeup of their classroom. She wondered if making the course a graduation requirement would cause teachers at earlier grade levels to discontinue any teachings on the subject, which would be the opposite of the bill's intention.

Representative Keller answered that there was nothing in the bill that restricted when the course was taught; the superintendent or the school district had to be satisfied that a student had completed a curriculum segment as defined by each district. He believed the bill was complimentary to the current standards.

[1:55:12 PM](#)

Representative Costello relayed that the current system was based on a Carnegie unit (students received Carnegie units for seat time). She wondered how the bill would affect students in high school. She believed that the high school exit exam should be addressed if districts were required to write and teach the material. Additionally, she believed teaching the material was currently required.

Representative Keller responded that he had wanted the maximum amount of flexibility for local school boards. He did not see the necessary connection to the exit exam.

Representative Costello believed the bill would affect schedules in high schools because class requirements would be added. She wondered whether the sponsor had spoken with high school administrators about the issue. Representative Keller answered that the intent was not to add additional time requirements to classes. The segment would be approved by the local school boards; if extra seat time was added it would be the school district's choice.

Representative Costello asked if the sponsor had considered asking DEED to create the curriculum. She believed that requiring districts to create the curriculum could be inefficient and costly. She stated that the curriculum could be created or purchased and was an involved process. She provided an example of the replacement of the math program in Anchorage.

Representative Keller understood the amount of work creating curriculum entailed. He believed some of the districts had adequate curriculum segments in place. He elaborated that the bill had been on the books since 2011 and he had received positive feedback from the school districts. He reminded the committee that there was a significant amount of curriculum that was already complete including the material promoted by Chief Justice Carpeneti and other.

[1:59:21 PM](#)

Representative Kawasaki asked for the definition of curriculum segment. Representative Keller believed the key word was "syllabus," which included a measurement of a student's success. He detailed that the curriculum segments would be packages assembled by teachers to accomplish certain goals; teachers would build lesson plans based on their goals for students.

Representative Kawasaki wondered whether the language in the bill was superfluous if schools already taught on the subject. Representative Keller replied that he had met numerous students who had not been educated on the subject. He noted that some students had not been taught the three

branches of government. He believed the bill would raise attention to the importance of the values included in the founding documents. He clarified that Alaska's schools were not all teaching the subject; however, many of the engaged and good schools were.

Representative Kawasaki asked if the sponsor knew of any specific school districts that did not teach the Articles of Confederation, the state constitution, Constitutional Congress, Declaration of Independence, and other. Representative Keller answered that his personal experience with students who had not received an education on the subject implied that some schools were not teaching the material.

Representative Kawasaki discussed that the Fairbanks North Star Borough School District currently included constitutionalism in its content standards. He detailed that the standards highlighted the Articles of Confederation and writing and ratifying the new constitution. He added that the National Center for History in Schools specified that children were exposed to the Articles of Confederation in the fifth grade and how to assess accomplishments and failures of the first continental congress in seventh grade, etc. He believed much of the required material listed in the bill was included in current content standards. He added that the one problem was linking the teachings to the graduation requirement.

[2:03:46 PM](#)

Representative Keller was not trying to rewrite content standards. He believed the bill was complimentary and would enhance the teaching of the values included in the founding documents.

Co-Chair Austerman liked the idea of including something on the books that would guarantee the teaching of the U.S. Constitution; however, he was concerned that the bill only dealt with districts. He referred to the Kodiak school system and shared that in the past high school students had been allowed to turn in homework until the end of each quarter even though it had been required earlier in the quarter; he noted that the student would have failed in Anchorage or Mat-Su if they had not turned the homework in on time. He was concerned that without a set standard

throughout the state students transferring from one community to another may not be adequately prepared. Apart from the concern he was supportive of the bill. Additionally, he wondered whether the subjects should be taught in conjunction with Alaska history.

Representative Keller answered that including the subject requirement in statute would provide the opportunity to examine progress in the future. He asked Co-Chair Austerman to repeat the second question.

Co-Chair Austerman reiterated his questions.

Representative Keller replied that the bill did not address students moving from one community to another. He had considered including Alaska history in the requirement, but had elected to leave the language broad. He had not wanted to impose too many mandates.

[2:07:27 PM](#)

Representative Gara asked for assurance that the bill would not prevent teachers from teaching "less proud" moments in U.S. history. He provided an example related to a time when the First Amendment had been interpreted to allow a person to be sent to jail for protesting World War I.

Representative Wes Keller replied that the bill would not [prevent teachers from teaching all aspects of the country's constitutional history]. He stated that the values included in the constitution would provide students with guidelines for critical thinking on what was right and wrong in human government.

Representative Gara pointed to page 2, line 25. He surmised that the subject would be taught in an American history or other similar course. He wondered how to measure whether a student completed the curriculum segment described in Section (a) on page 2 if they received a B grade in the overall course. He asked whether completion of the course would be sufficient. He asked whether there would be a separate disqualifying parameter from graduation based on the specific portion of the course.

Representative Keller replied in the negative. He relayed that the implementation would be up to local school districts; the districts would make a determination on

criteria defining a successful completion of the segment. He did not want the legislature to write the standards.

Representative Gara asked whether the sponsor would have a problem with the addition of clarifying language specifying that a student had to complete the course in which the curriculum was contained.

Representative Keller was opposed to the potential change in language. He believed that the language "completing a course" sounded like seat time; he believed that satisfactorily completing a curriculum was completely different.

[2:11:28 PM](#)

Vice-Chair Neuman mentioned his shared fight for the rights of home school parents. He discussed that some programs allowed parents to choose their curriculum. He detailed that curriculum was bought based on the fact that it met certain grade level standards; however, parents had the right to choose the books they use. He thought the bill may require parents to have curriculum approved by school districts.

Representative Keller answered that curriculum for the Home School Support program had to be approved by the local school board, which had been established in regulation.

Vice-Chair Neuman stated that the IDEA [Interior Distance Education of Alaska] program was different than the Mat-Su program. He stated that the IDEA program was one of the largest home school programs in the state because it allowed parents to choose the curriculum; he did not believe that the school board approved the curriculum or books. He opined that the task would be time consuming.

[2:14:39 PM](#)

Representative Keller replied that the task was large and believed the school boards did approve the home schooling curriculum. He shared that his grandchildren were currently enrolled in the IDEA program; the approval of curriculum was a process that was imposed on the local school districts. He recalled that in recent years there had been debate on the issue focused on how the school boards could approve curriculum that included religious books. He was

confident there was currently a process in place that required school boards to approve home school curriculum.

Co-Chair Stoltze relayed that members wanted to examine some issues related to the legislation. He asked members to work with his office on the bill. He was an advocate of better knowledge curriculums, but he understood that the legislature did not set curriculum; he felt strongly that it was the role of the school boards. He believed the concept would have passed easily if it had been a resolution to the State Board of Education. He believed the legislature had a shoddy record related to setting curriculum and micromanagement of the school boards.

Representative Wilson asked the sponsor to look into which districts already had the curriculum.

Co-Chair Stoltze reiterated his request for members to work with his office on anything related to the legislation.

Representative Keller thanked the committee for its time.

HB 31 was HEARD and HELD in committee for further consideration.

[2:19:08 PM](#)

AT EASE

[2:23:05 PM](#)

RECONVENED

#hb136

HOUSE BILL NO. 136

"An Act requiring the governor's fiscal plan to include certain information."

[2:23:27 PM](#)

Co-Chair Stoltze noted that the committee had a strong interest in fiscal policy.

REPRESENTATIVE CHARISSE MILLET, SPONSOR, communicated that the bill addressed that the state would be in deficit spending in the current year. She relayed that the Office of Management and Budget (OMB) 10-year fiscal plan indicated that the state would go into deficit spending in

2020; the plan did not take SB 21 (oil tax reduction legislation) into account. She credited Dr. Scott Goldsmith with the Institute of Social and Economic Research for developing the legislation. She had worked with others on determining the fiscal health of the state in the past year. She remarked that budgets were based off of revenues and not what was necessarily responsible spending for the state. She communicated that the bill looked more holistically at the budgets; she hoped the legislature would not always base budgets on the amount of incoming and outgoing revenues. She believed there would be a substantial change in revenue due to the decline in the Trans-Alaska Pipeline System (TAPS), which did not account for a potential oil tax change that she supported. She relayed that the bill was not a mandate on spending, but was a recommendation from the governor's office on a sustainable long-term spending plan.

[2:26:51 PM](#)

Co-Chair Stoltze remarked that the spring revenue forecast was not as "rosy" as the fall revenue forecast had been.

DR. SCOTT GOLDSMITH, INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH, UNIVERSITY OF ALASKA ANCHORAGE, provided a PowerPoint presentation titled "Implementing a State Fiscal Plan: Step 1 Tracking Maximum Sustainable Yield" (copy on file). He relayed that the presentation was based on a more detailed report he had provided at a joint House and Senate Finance Committees meeting a couple of weeks earlier. He equated the state fiscal plan to a road map for the future that would help the state to live within its means and to have the necessary resources to provide expected public goods and services for the long-term. The current problem facing the state was its unsustainable spending growth path; the presentation looked at the problem via the state general fund (GF) into the future.

Dr. Goldsmith addressed slide 1 titled "The Problem: Unsustainable Spending Growth." The black line represented the growth in state GF spending; the green [aqua] area represented the state's oil revenues, which made up 95 percent of its GF revenue. The chart highlighted that spending continued to increase whereas oil revenues would continue to decline. The red area reflected the state's cash reserve (Constitutional Budget Reserve (CBR) and Statutory Budget Reserve (SBR)), which was preventing a gap

between revenue and spending in the short-term; growing expenditures would be funded by reserves for a limited number of years. He emphasized that without forward thinking the depletion of the state's reserves would come as potentially a \$4 billion to \$5 billion shock to the budget in a single year. He noted that the state had been unable to identify other sources of revenue to take the place of declining petroleum revenues in the long-term; the graph showed revenues from new oil and gas, which were not sufficient to offset the decline in the face of continued state spending growth.

Mr. Goldsmith continued that when the fiscal gap opened up the state's ability to fund public expenditures would be constrained and additional strain would be placed on the economy. He expounded that the setback was not likely to be temporary in nature in contrast to a 1980s recession; in the absence of other revenue sources the state would be riding the oil decline curve down into the future.

[2:31:38 PM](#)

Dr. Goldsmith turned to slide 2 titled "The Solution." He suggested that the problem could be addressed by changing how the state thought about oil revenues. He believed it was important to recognize and manage the state's petroleum wealth like a depletable asset owned by all Alaskans. Subsequently, the way to manage the asset was straightforward and relatively simple. He stated that it would be necessary to determine the value of the asset, how much could be spent, and how to invest it for a maximum return.

Dr. Goldsmith moved to slide 3 titled "Petroleum Wealth of the "Owner State"." He discussed that the value of the state's petroleum asset was composed of current money in the bank and remaining oil in the ground, which he estimated at approximately \$150 billion. He elaborated that the money in the bank represented money already collected from petroleum; depending on the market the value could fluctuate, which he estimated to be slightly over \$60 billion (the money was comprised of the Permanent Fund Dividend balance, CBR, and SBR). The second asset was the value of the revenues from oil and gas remaining in the ground that would be collected in future years. He estimated the remaining oil and gas was worth approximately \$89 billion; the amount reflected the net present value of

future revenues and was a combination of known conventional oil (\$67 billion) and other oil and gas (\$22 billion).

[2:36:09 PM](#)

Representative Edgmon asked for clarity related to the presentation. He referred to a past presentation by Dr. Goldsmith reflecting that one-third of Alaska's spending came from the government; the fact was not included in the presentation. Dr. Goldsmith replied that the goal was to provide background on a rationale for HB 136.

Representative Edgmon hoped the information would be factored into the overall picture. He remarked that the state was also facing an uncertain future related to federal funding.

Dr. Goldsmith agreed. He explained that the presentation looked at the state's ability to fund the GF. He remarked that any problems that may arise with declines in federal grant assistance was an additional issue.

[2:38:11 PM](#)

Dr. Goldsmith continued on slide 4 titled "How Much Can We Spend Today: GF Maximum Sustainable Yield." He drew attention to his estimated \$149 billion petroleum asset "nest egg" for FY 14. He addressed how much could be drawn from the asset (while maintaining value for future generations) if it was managed for maximum return. The calculation used the value of the nest egg at \$149 billion multiplied by an annual real draw rate of 4 percent (a 5 percent real rate of return minus 1 percent reinvested). The 5 percent rate of return was a Permanent Fund Corporation target; the 1 percent reinvested recognized that the number of Alaskans was growing at approximately 1 percent per year. Using the calculation the maximum sustainable yield (MSY) draw equaled \$6 billion. To determine the annual sustainable GF expenditure it was necessary to subtract the Permanent Fund Dividend account (estimated at \$1 billion in FY 14) and add the share of GF spending financed from non-petroleum revenues (estimated at \$0.5 billion in FY 14); the GF MSY equaled \$5.5 billion. He explained that the figure represented the amount that could be spent under current conditions out of the GF in FY 14 without passing a fiscal burden on to future generations. He elaborated that the fiscal burden would be a reduction

in the nest egg size and a tax burden or a reduction in the ability of future generations to spend public revenues at the current rate.

[2:42:09 PM](#)

Dr. Goldsmith moved to slide 5 titled "Maximum Sustainable Yield: Nest Egg Growth." He explained that over time the value of oil and gas in the ground would decline because the supply would continue to diminish; however, financial assets would offset the decline due to a reinvestment of the funds. The chart showed that the financial asset would increase at a rate of 1 percent per year, which coincided with the population growth rate; therefore, the value of the nest egg would remain constant over the long-term. Additionally, there would be an increasing ability to fund the GF over time.

Dr. Goldsmith turned to slide 6 titled "Maximum Sustainable Yield: General Fund Growth." He pointed to the chart on the left and explained that petroleum revenues were shown in black, financial earnings were displayed in blue, and the red represented non-petroleum revenues. The size of the draw available to fund the GF would grow at the same rate as the nest egg growth. The chart on the right showed that the nest egg would grow at an annual rate of 4 percent, which would slightly offset inflation and population increases. He noted that the chart suggested a target or spending cap from the nest egg (petroleum asset). He pointed to the non-petroleum revenues (red line on the left graph), which represented 5 percent of the total GF revenues at present; there was no reason the revenues could not be expanded through taxation or another means. The graph showed no fiscal gap; the projection would remain viable into the future indefinitely.

[2:47:07 PM](#)

Dr. Goldsmith pointed to four basic components of MSY implementation on slide 7:

- Manage financial assets for maximum long term return
- Establish monitoring system to track Nest Egg value, set MSY target, and track progress towards sustainability

- Gradually transition to GF Maximum Sustainable Yield level
- Proactively participate in management of petroleum in the ground for maximum return

Dr. Goldsmith elaborated that the state was currently managing its financial assets for long-term return. The establishment of a monitoring system was proposed in HB 136. He turned the presentation over to his colleague.

[2:48:53 PM](#)

BRADFORD KEITHLEY, ATTORNEY, OIL AND GAS GROUP, PERKINS COIE LLP, shared his intent to explain the legislation. He provided detailed information about his work background; he had worked on oil related issues for 35 years.

[2:53:43 PM](#)

Mr. Keithley pointed to slide 1 and saw a problem related to future generations of Alaskans; the revenue stream would be much smaller and it would be necessary to increase taxes or live with a reduced state government role in order to maintain the current quality of life. He discussed that the oil and gas industry looked at a state's fiscal system and potential problems going forward when deciding to invest. He was troubled by the chart because oil and gas investors looked out 10 to 20 years for the life of a revenue stream. He elaborated that the fiscal cliff shown on slide 1 occurred in the middle of major investments the state wanted to attract. He was concerned about the state's attractiveness to long-term, large scale investment due the current fiscal system.

Mr. Keithley responded to a question from Co-Chair Stoltze. He detailed that investors looked at where the state derived revenue currently and in the future. He did not believe there were many places to derive revenue from in Alaska. He remarked that Dr. Goldsmith had done other studies on the amount of tax that would have to be put on fish or gold. He stressed that there were not sources of revenue that would sustain the type of spending and state government that had been created. He stated that the sustainable budget approach on slide 6 was essentially a retirement account. The approach recognized that the current oil revenue stream needed to benefit the present and future generations; it was necessary for the income to

sustain the state for the short and long-term, which could be accomplished by setting money aside in a revenue producing "retirement" account. The approach allowed the state to put a portion of its current revenue stream in a retirement account, which would provide a revenue stream for a viable standard of living in the future.

Mr. Keithley remarked on the necessity of putting savings aside while income was coming in. The approach shown on the chart showed the state beginning to draw on the earnings from the account in FY 19. He noted that the approach would build a sustainable long-term fiscal environment for Alaska. He stated that in order to successfully accomplish the strategy it would be necessary to reduce the state's current level of take. He compared a reduction in take to a fisherman's take of fish in Bristol Bay in order to ensure sufficient fish in the future. He detailed that HB 136 would start an information stream that would allow the legislature to evaluate the state's effort towards developing a sustainable budget; the bill did not mandate and did not instruct on spending levels. He stated that the bill was a first try at making the calculation; however, modifications were recommended. He believed the committee had a CS for the bill.

[3:01:52 PM](#)

Mr. Keithley spoke to a CS [the committee did not have the CS at present] and explained that it went through Dr. Goldsmith's calculation; it resulted in an annual MSY figure. The bill would insert a new section in statute to include the calculation of a MSY budget in the governor's annual 10-year fiscal plan. He detailed that the figure for FY 14 was \$5.5 billion.

Co-Chair Stoltze handed the gavel to Co-Chair Austerman.

Mr. Keithley addressed slide 8 titled "Track Nest Egg and GF MSY." The calculation added the CBR and SBR balance to the Permanent Fund Dividend balance to equal the financial assets. The value of the petroleum in the ground (net present value of future earnings stream off of oil) was added to the financial assets to reach the nest egg (revenue producing retirement account). The nest egg was multiplied by 4 percent (the yield off of the retirement account to obtain the MSY). Non-petroleum GF revenues were added and the Permanent Fund Dividend was subtracted to

reach the GF MSY (\$5.5 billion if calculated for the current year). The MSY was the amount that could be spent on an annual basis in perpetuity (with the remaining funds put into savings). He reiterated that the bill would insert a new section in statute to include the calculation of a MSY budget in the governor's annual 10-year fiscal plan; expenditures exceeding the sustainable yield meant that funds were taken away from future generations.

[3:06:44 PM](#)

Mr. Keithley expounded that the bill would provide the legislature with a sustainable yield number to use when discussing budgets in the future.

Co-Chair Austerman pointed to the current TAPS decline and an increase in natural gas in the Lower 48. He stated that in the worst case scenario a natural gasline would not be built in Alaska. He wondered how the absence of a gasline would impact the calculations. He asked if the state would live off of its savings.

Dr. Goldsmith replied that his calculation for the value of the oil and gas remaining in the ground included a component for marketing the state's natural gas; his built in assumptions were that it would not occur for many years and that it would not be the fiscal jackpot that some may expect. As a result, the discounted net present value was relatively modest. He expounded that conditions in oil and gas markets would continue to evolve, which would impact the value placed on revenues for remaining oil and gas; the changes had a relatively modest impact on the calculation of the GF MSY spending level at present. He guessed that if any revenues were netted from the commercialization of gas from the calculation it would drop the MSY calculation to \$5 billion in FY 14. He furthered that the MSY was not that sensitive to assumptions made about future oil and gas revenues. He elaborated that the calculation forced the state to think critically and consistently about what future oil and gas revenues the state was likely to collect in future years rather than relying on speculations beyond the Department of Revenue's 10-year forecasts; 10-years was about the time the state would be running out of financial reserves in the CBR and SBR.

[3:11:36 PM](#)

Representative Millet added that OMB did not factor gas into its 10-year projections; the forecasts were based on oil price and production.

Representative Holmes spoke in support of the legislation. She noted that the bill did not mention oil revenue. She wondered if oil revenue was calculated into the net present value calculation. Dr. Goldsmith replied that oil revenue was included in the first year of revenues in the net present value calculation.

Representative Holmes pointed to page 2, lines 22 and 23 related to the SBR. She understood that the state constitution clearly separated principal versus interest for the Permanent Fund Dividend and the budget reserve fund. She wondered if there was a clear distinction on principal for the SBR. Mr. Keithley replied that the number was intended to be the balance of the SBR, the Permanent Fund Dividend, and the CBR. He expounded that the funds were viewed as retirement accounts that would produce revenue in the future.

Representative Holmes reiterated her support for the legislation. She did not believe the state was currently in a sustainable financial position. She pointed to slide 6 and remarked that she supported the idea of sustainable services in the future; however, she was concerned about creating a "trust fund society."

Dr. Goldsmith believed the consideration was important. He stated that managing the assets to address the needs of future generations would become increasingly challenging in the future as revenues were progressively derived from financial assets. He addressed the trust fund concern.

Representative Holmes clarified that she did not believe the sponsor or presenters were advocating a trust fund as an economic plan. Dr. Goldsmith pointed to Alaska's fiscal past and noted that the state already had a trust fund society that had been living for 35 years off of the petroleum generated assets with no taxes.

Mr. Keithley added that the purpose of the legislation was to treat future generations the same as the current population. Additionally, the goal was to ensure that a portion of the oil asset was available for future generations to enjoy the same quality of life as current

residents. The oil available currently would be converted into a financial asset that would generate a revenue stream into the future. Future generations would not be treated any differently than the current population.

Representative Holmes believed the shared goal was to continue to work on diversifying the state's revenue sources given that oil and gas would not be available forever. She observed that the bill provided a way to continue the oil and gas revenue into the future. She pointed to discussions related to other economic development including mining, fisheries, value-added, intellectual, and more.

[3:19:36 PM](#)

Representative Kawasaki wondered how the calculation for oil in the ground had been made on slide 3. He asked if the calculation was based on the current tax structure.

Dr. Goldsmith replied that the calculation came from two sources. The known conventional oil was based on a Department of Revenue forecast, which covered anticipated petroleum revenues 10 years into the future. He had used an assumption to account for production occurring after 10 years for known oil sources primarily on the North Slope between the Canning and Colville Rivers on state lands. He had created the assumption for other oil and gas based on the kind of unconventional oil and gas it may be and the location it may be found; assumptions included Alaska National Wildlife Refuge (ANWR), the National Petroleum Reserve Alaska (NPRA), and the Outer Continental Shelf (OCS). Other assumptions included shale, viscous, and heavy oils and gas estimates. He stated that revenue would not be seen from the other oil and gas sources for at least 10 years. He noted that revenues from OCS may not be seen for 20 years. He explained that the net present value was relatively modest for a revenue stream 10 years into the future with a reasonable discount rate.

[3:23:09 PM](#)

Dr. Goldsmith relayed that he had created many assumptions that did not currently exist elsewhere. He hoped DOR and OMB would also develop their own estimations.

Representative Kawasaki asked how the value for oil in the ground had been derived on slide 3. He wondered what tax regime had been used to set the net present value. Dr. Goldsmith replied that he had used DOR projections for production revenues on state lands. He relayed that the tax system was different on non-state land particularly on OCS; the state did not share in the production, property, and income tax or royalties; therefore, under current law the state received minimal revenue from the areas. He had used the current fiscal regime and had applied straight forward assumptions on take per barrel (knowing the current take per barrel). He recognized that non-conventional oil would be more expensive to produce and potentially at a lower quality; therefore, the take per barrel would most likely be less.

Representative Kawasaki asked for verification that DOR figures and the current tax structure had been used to arrive at the \$90 billion net present value shown on slide 3. Dr. Goldsmith answered that DOR figures had been used to determine the \$67 billion known conventional oil figure. He had compiled the \$22 billion figure (related to other oil and gas that fell beyond DOR's 10-year projection) on his own.

Representative Kawasaki noted that the committee was currently considering other legislation that would change the tax system, which would significantly alter the amounts shown on slide 3. Dr. Goldsmith replied that a change in the tax system could alter the figures. He relayed that the calculation looked at revenues over the long-term. He elaborated that the future revenue stream forecast would need to be redone if the impact of a tax change was incorporated into the analysis. He noted that a change may or may not result in enhanced revenues in the future. He stated that factoring in a change in tax structure would not only look at how much would be lost in the short-term.

Co-Chair Austerman handed the gavel to Co-Chair Stoltze.

Representative Kawasaki pointed to the \$67 billion figure (slide 3) and asked whether the number for the [10-year] period would decrease significantly if the current tax structure was changed. Dr. Goldsmith replied that the number could be less or more depending on how the change impacted long-term revenues from future production. He

agreed that the savings would be smaller if the assumption was that future revenue would not change.

3:28:01 PM

Representative Millet interjected that Representative Kawasaki's scenario assumed production would never increase. She relayed that it was necessary to assume that the changes in the tax structure would increase production and that oil prices would not increase or decrease. She stated that there could be increased investment on the North Slope if less tax was collected [from producers].

Representative Kawasaki noted that the revenue could be lower [under a new tax system]. He stated that the proposal dealing with oil and gas tax revenues was to use a portion of the "In the Bank" fund (slide 3) at present. He surmised that using a portion of the funds would erode the \$149 billion asset.

Dr. Goldsmith responded that any spending of money in the bank or petroleum revenues above the \$5.5 billion would erode the nest egg. He added that erosion to the nest egg would occur if the spending exceeded \$6 billion.

3:30:00 PM

Representative Gara pointed to slide 1. He referenced an article where ConocoPhillips stated that its legacy fields (Prudhoe Bay and Kuparuk) were likely facing a 3 percent decline curve as opposed to a 6 percent decline into the future. He wondered whether the presentation had used a 3 percent decline curve or the 6 percent decline used in the DOR fall 2012 revenue forecast.

Dr. Goldsmith replied that the diagram on slide 2 reflected DOR's fall 2012 forecast.

Co-Chair Stoltze stated that the tax debate would be held at a later time.

Representative Gara communicated that he had numerous questions related to the presentation.

3:31:01 PM

AT EASE

[3:31:10 PM](#)

RECONVENED

Representative Munoz asked whether \$1.5 billion would be put into savings if spending stayed within the \$5.5 billion MSY for FY 14. She surmised that some serious changes would be required.

Mr. Keithley replied that the savings would be the difference in revenues above the \$5.5 billion figure.

Representative Munoz asked what the savings would need to be in order to contribute sufficient revenue to the \$5.5 billion given the current decline in oil revenues. Dr. Goldsmith replied that it was necessary to determine how much the state could afford to spend; anything above that amount needed to go into savings. He stated that the issue was complicated because the saved amount varied each year based upon the amount of petroleum revenue taken in and how large the financial asset had become.

[3:34:06 PM](#)

Mr. Keithley added that any revenues above \$5.5 billion would need to go into savings to achieve the sustainable nest egg.

Representative Munoz asked how a value could be placed on the petroleum in the ground when there was significant uncertainty about when the asset would be extracted. Dr. Goldsmith replied that uncertainty was apparent every time the calculation was made because a slightly different answer was generated. He detailed that he had used a process that was used by the business world to value assets for potential purchase.

Mr. Keithley asked the committee to think of the state as a producer. He relayed that producers routinely calculated the net present value of their estimated future revenue stream; the Securities Exchange Commission (SEC) reports the values provided by producers. The process used in the presentation estimated the value [of petroleum in the ground] on the net present value of the state's future revenue stream. He added that the calculation used the DOR projections for the first 10 years.

[3:35:54 PM](#)

Representative Costello appreciated the bill. She asked for the assumptions used in calculating some of the figures used in the presentation. Dr. Goldsmith answered that many of the assumptions were outlined in a document titled "Maximum Sustainable Yield FY 2014 Update" (copy on file).

Representative Costello understood that the bill would not place limits on the legislature's ability to appropriate funds. She surmised that the bill would require that information specifying funds at the state's disposal would be provided to the legislature, with a percentage of the funds designated for spending. She asked for verification that the information would be fluid and updated annually.

Dr. Goldsmith replied in the affirmative. He compared it to the value of personal assets fluctuating over time for a variety of reasons. The value of the nest egg would vary over time; the bill provided a method for keeping track of the value.

Representative Holmes pointed to page 2, line 15, which related to the amount projected to be available for spending from the GF. She wondered whether the bill should specify that the amount was available for spending from state assets from the following fiscal year.

[3:38:52 PM](#)

Mr. Keithley replied that the language related to the amount of unrestricted general fund spending that would result in the sustainable number long-term.

Representative Holmes surmised it did not matter which fund source the money would come from. She observed that there could be years where there were not sufficient unrestricted general funds. She wondered whether it would be more appropriate to use less specific language such as "state assets" or "state funds."

Mr. Keithley agreed and would take the consideration into account.

Representative Gara requested to ask some questions. Co-Chair Stoltze replied that the questions would need to wait for another time.

3:40:27 PM

AT EASE

3:41:47 PM

RECONVENED

Co-Chair Stoltze relayed his intent to refer the bill to a fiscal policy subcommittee for the interim consisting of members: Representative Costello (Chair), Representative Austerman, Representative Holmes, Representative Thompson, and Representative Gara. He relayed that all House Finance Committee members were invited to participate.

Representative Gara asked to be removed from the subcommittee. Co-Chair Stoltze acknowledged Representative Gara.

Representative Millet thanked the committee for hearing the legislation.

HB 136 was HEARD and HELD and referred to a subcommittee consisting of the following members: Representative Costello (Chair), Representative Austerman, Representative Holmes, Representative Thompson, and Representative Gara.

#sb21

CS FOR SENATE BILL NO. 21(FIN) am(efd fld)

"An Act relating to the interest rate applicable to certain amounts due for fees, taxes, and payments made and property delivered to the Department of Revenue; providing a tax credit against the corporation income tax for qualified oil and gas service industry expenditures; relating to the oil and gas production tax rate; relating to gas used in the state; relating to monthly installment payments of the oil and gas production tax; relating to oil and gas production tax credits for certain losses and expenditures; relating to oil and gas production tax credit certificates; relating to nontransferable tax credits based on production; relating to the oil and gas tax credit fund; relating to annual statements by producers and explorers; establishing the Oil and Gas Competitiveness Review Board; and making conforming amendments."

CSSB 21(FIN) am(efd fld) was SCHEDULED but not HEARD.

#

ADJOURNMENT

3:45:37 PM

The meeting was adjourned at 3:45 p.m.