SENATE FINANCE COMMITTEE
January 24, 2013
9:03 a.m.

9:03:52 AM

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair
Senator Kevin Meyer, Co-Chair
Senator Anna Fairclough, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Bryan Butcher, Commissioner, Department Of Revenue; Bruce Tangeman, Deputy Commissioner, Tax Division, Department of Revenue; William Barron, Director, Division of Oil and Gas, Department of Natural Resources; Angela Rodell, Deputy Commissioner, Treasury Division, Department of Revenue;

PRESENT VIA TELECONFERENCE

SUMMARY

DEPARTMENT OF REVENUE - STATE'S SAVINGS ACCOUNTS UPDATE: OVERVIEW OF FALL 2012 REVENUE FORECAST

^DEPARTMENT OF REVENUE - STATE SAVINGS ACCOUNTS UPDATE. OVERVIEW OF FALL 2012 REVENUE FORECAST

9:04:09 AM

BRYAN BUTCHER, COMMISSIONER, DEPARTMENT OF REVENUE, presented the PowerPoint presentation "Overview of Fall 2012 Revenue and Price Forecast" (copy on file).

Commissioner Butcher turned to slide 2 "Outline.":

- **Fall 2012 Revenue Forecast**
    - o Ten-year overview
    - o Comparison to Spring 2012 Forecast
    - o Total Revenue
    - o Unrestricted Revenue
    - o Oil and Non-Oil Revenue

- **Components of Production Tax Forecast**
    - o Oil Production
    - o Oil Price

Commissioner Butcher discussed slide 4, "Price, Production, State General Fund Unrestricted Revenues FY 2012 - 2022." The blue row showed the projected price forecast over the next 10 years; the expectation was that the price would hover around $108 to $112 bbl., increasing gradually as the years progressed. The yellow row was the production forecast and reflected that production would continue to decline as it had over the past several decades. As a result of the decline the general fund unrestricted revenues were projected to drop as well.

Commissioner Butcher discussed slide 5, "Comparison: Fall 2012 forecast with Spring 2012 forecast." He highlighted that the price of oil was down approximately $1.77 from what had been forecasted in the spring and production was down about 10,000 barrels. The primary reason for the reduction was because at the beginning of the fiscal year the production had been at a lower level than had been anticipated when the data had been collected. He shared several factors that had contributed to the decline: spending on the North Slope was higher than anticipated in spring which had resulted in less revenue coming in from production taxes, corporate taxes were down, and the investment income was several million less than anticipated. He stated that the fall forecast used a slightly higher oil price and 29,000 barrels less were expected in FY 14 than had been anticipated. Higher spending was being forecast on the North Slope than the department had anticipated, which had resulted in a forecast of $678 million less than had been presented. Combining FY 13 and FY 14 resulted in $1.6 billion less in the most recent forecast than had been anticipated in the spring.

9:10:00 AM

Commissioner Butcher stated that an updated spring forecast would come out in April and would include new and unanticipated factors.

Senator Hoffman asked about FY 14 and the justification for the reduction of the 29,000 barrels.

Commissioner Butcher responded that he could not get into the specifics of companies projects. In general project delays and reduced performance expectations had been observed by the department.

9:11:11 AM

Commissioner Butcher discussed Slide 6, "Total Revenue Forecast: FY 12, 13 & 14 (million$)," Which compared the actuals for FY 12 to the forecasts for FY 13 and FY 14. He stated that the forecasted dip in the unrestricted general fund reflected the department's attempt to be conservative about what the state's investment revenue would bring in considering the continued low interest rates. Notably, investment revenue under other restricted revenue reflected actuals of $109 million; the forecast for FY 13 and FY 14 were up over $3 billion thanks to the permanent fund. The permanent fund had a flat year in FY 12 but was expected to increase.

9:13:07 AM

Commissioner Butcher discussed slide 7, "General Fund Unrestricted Revenue." He stated that the majority of the revenue was from the production tax. Approximately $1.5 million could be attributed to the corporate income tax, with property tax averaging $100 million.

Commissioner Butcher discussed slide 8, "Unrestricted Non-Oil Revenue." He said that the total was just over $600 million. He noted that 90 percent of the state budget was paid for by oil revenues.

Commissioner Butcher turned to slide 9, "Production History and Forecast." The slide provided the breakdown of Prudhoe Bay and the Prudhoe satellite fields. Slide 10, "Production History and Forecast" showed a close-up of more recent history from 2002 to 2022, which was the 10 years that the department was looking forward in their forecast. He noted that the large effect that current legacy fields would have on the department's future forecasts. He said that the projection was that 10 years into the future the majority of the oil will come from legacy fields, with less than 50 percent coming from new fields.

9:15:13 AM

Commissioner discussed slide 12, "Price Forecast Methodology":

- **Four components to price forecast**
    - o DOR oil price forecast session October 2, 2012 with 31 participants from DOR, DNR, DOL, OMB, University, Legislative Finance and outside participants
        - Consider supply, demand, geopolitics, financial markets, outside expert forecasts, etc.
        - Asked to forecast Alaska North Slope (ANS) crude price directly, not to forecast West Texas Intermediate and adjust, as in previous years, due to widening differential of ANS to WTI.
    - o **Energy Information Agency (EIA) forecast**
    - o **New York Mercantile Exchange (NYMEX) – futures market**
    - o **Analyst forecast**
- Forecast is an average of DOR participant forecast from Forecasting Session "blended" (averaged) equally with NYMEX, EIA, and analysts to derive price forecast.

Commissioner Butcher stated that a number of participants from around the state and the country attended the 2012 oil forecast session. The department blended the forecasting session, along with worldwide analyst's forecasts in order to determine price forecast for the next 10 years.

Commissioner Butcher continued to slide 13, "Price Forecasts as of October 2012." The slide illustrated where the price of oil had been over the past 5 years, as well as expert forecasts into the next 5 years. The lines on the graph indicated where different analysts believed the price of oil would land. He noted that the department had received kudos for the conservative price forecasts. He assured the committee that the goal was to forecast not only conservative numbers but accurate numbers.

9:20:07 AM

Senator Hoffman asked if the new approach in methodology would allow for more accurate projections.

Commissioner Butcher felt that the department would continue to improve the projections.

9:20:46 AM

Commissioner Butcher informed the committee that slide 14, "General Fund Unrestricted Revenue Price Sensitivity FY 2013-2013." He stated that the slide dealt with price sensitivities. The slide reflected what the projected production was, as well as how much general fund unrestricted revenue the state could expect to bring in under varying price levels.

Senator Olson asked about slides 9 and 10, which reflected the downslope in production. He queried offshore exploration and the expectation for more oil in TAPS.

Commissioner Butcher responded that the department had discussed offshore drilling; however, there had not been any wells drilled or analysis done for the department to give a solid estimate on when production could begin or the level of production that could result. He noted that there were things on the horizon that has not been included in the forecast because the department lacked the information form industry to make projections.

Senator Olson understood that the department was not anticipating any offshore production before 2022.

Commissioner Butcher clarified that the department did not have enough information from industry to make projections.

Co-Chair Kelly asked about any possible revenue from offshore drilling.

Commissioner Butcher responded that there was not projected revenue from offshore oil. Theoretically, more oil in the pipe would reduce the tariff, which would benefit the state.

9:24:31 AM

Vice-Chair Fairclough asked about future discussion regarding investments.

Commissioner Butcher responded the department would provide a presentation on investments.

9:27:12 AM

BRUCE TANGEMAN, DEPUTY COMMISSIONER, TAX DIVISION, DEPARTMENT OF REVENUE, presented "Oil Production Forecast." copy on file. He noted that oil revenue constituted 90 percent of the state revenue. He said that it was critical that the decision makers from both the executive branch and the legislative branch receive the best available information for short-term budgeting and long-term planning. He discussed slide 2, "Statutory Concerns.":

> AS 37.07.020 (b) – Ten Year Fiscal Plan.
>
> Declares that OMB "must set out **significant assumptions used in the projection with sufficient detail to enable the legislature to rely on the fiscal plan** in understanding, evaluating, and resolving issues of state budgeting,"

Mr. Tangeman discussed slide 3, "Comparing the Production Forecasts Over Time." The slide cross sectioned various forecasts over the last decade and depicted consistently overoptimistic production forecasts. He noted that the lines were close for the first two years, but the years 6 to 10 out illustrated an increased error rate of 40-65 percent. The process that the department had relied on over the past decade needed input from industry in order to formulate the production forecast. The department had noticed that the group of people working on the production forecast had been incomplete. The department had hired a consultant that was a petroleum engineer who spoke to fellow petroleum engineers from industry in order to come up with possible production numbers. At that time the budget people from industry had not been involved in the process, which resulted in the best case scenario evolving into the production forecast; budgets were not being considered.

Senator Bishop asked whether industry had alerted the department that they would be making turn around changes in production.

WILLIAM BARRON, DIRECTOR, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, responded that each summer the North Slope producers did turnarounds at various flow station or general gathering centers. This was done because production was typically lower in the summer than in the winter. He could not specifically address whether the companies had informed the state that the turnaround was occurring, but it would be intuitive that the department should expect it.

Senator Bishop asked if the testifier was an engineer or a geologist.

Mr. Barron responded that he was a petroleum engineer.

Mr. Tangeman discussed the quotes on slide 4, "Legislative Direction.":

Request for improved production forecast that better incorporates variables:

- “Is it possible for the department to come forward with a plan for providing more accountability to the productions forecasts?” … “I’m looking at a graph, from your department, that shows the forecast, starting in 2001 to 2010, and it seems that the trend is that the department is optimistic in its forecast of the production. I’m wondering if you take into account, relooking at how you are assessing, how you’re figuring out what the forecast will be.”
- Rep. Costello, House Finance Committee, February 18, 2011

- “What I am asking is that I be given something that will give me more confidence that the projections that we see are, not necessarily 100% accurate, but that they have taken into account everything that they can, and we’ve got the best shot we can get.”
- Rep. Doogan, House Finance Committee, February 18, 2011

Mr. Tangeman relayed that the questions had led to a discussion about the department, the Department of Natural Resources and the Division of Oil and Gas working together on the forecasting process.

9:34:44 AM

Mr. Barron addressed slide 5, "Forecast Errors by Years in Advance being Forecast." He described the spider diagram which detailed the various errors by year in the production forecasts. He called attention to the diagram and noted that the outward spiral gained uncertainty and error with each passing year. He stated that he was not surprised by the diagram given the past forecasting methods.

9:36:46 AM

Mr. Barron discussed slide 6, "Department of Revenue Response.":

- Addressing consistent over-estimation of production began in 2009.

- In 2012, a DOR team analyzed past forecasts comparing them to actual production.
  - This developed a reasonable range of “confidence bands” for future production.

Mr. Barron explained that slide 7, "Historical Production", illustrated a statistical measure standard deviation. He noted that a change of scale had been made on the "Y" axis; it was not a logarithmic scale. He stated that typically engineers looked at production forecasting and production decline in a semi-log manner; if the decline was exponential it would be linear on a semi-log exhibit. If it were a hyperbolic, it would still be closer to representing a straight line than what would be reflected in a Cartesian plot.

Co-Chair Kelly admitted that he could not follow the testifier's specific language.

Mr. Barron said that changing the scale allowed for a clearer understanding of decline. He added that the green dotted line was a confidence range using production decline from 1992-2011. The other interval, the purple dotted line, used the 2002-2006 confidence range of production decline. He stated that the flattening was a comparison of Alpine and Prudhoe Bay. He stated that there were four tranches to the equation, but that in a production forecast only three were addressed.

9:40:23 AM

Mr. Barron detailed slide 8, "Components of the Production Forecast."

- Currently Producing (“Old Oil”):
  - Oil from wells that are in production and following typical reservoir engineering optimization without major investment.

- Under Development (UD):
  - Oil from projects that will add incremental oil to existing fields or will bring new fields into production.
  - Project must have senior management approval and be allocated funds in the company’s budget.
- Under Evaluation (UE):
  - Oil from projects that are likely to occur in the future, but have not met the requirements of the previous category.
  - Requires that oil reserves are known and recovery is technically possible with current technology.

Under Development + Under Evaluation = “New Oil”

These definitions are not equivalent to those used by the Society of Petroleum Engineers (SPE) or Securities & Exchange Commission (SEC) and should not be used as such

9:44:02 AM

Mr. Barron noted that the fourth tranche was not included in any production forecasts. He explained that exploration was so speculative that it would not be wise to include in any forecast of production. He listed that the work being done by Shell, Repsol, and Great Bear was exploratory.

Senator Dunleavy asked whether the forecasts dealt with oil that the state would receive revenue from; were off-shore and other fields included in the forecasts.

Mr. Barron responded no. He offered the example of the exploratory work being done by Repsol. Repsol had several wells already drilled which were still categorized as exploration activities. If after the winter drilling season the company felt that it was a project that would move forward then the company would issue a forecast the following year that would be classified under the evaluation category.

9:45:51 AM

Mr. Barron discussed slide 9, "The concept of Risk"

- "Risk is the probability of an event occurring and the potential impact of that occurrence.
- "Good E&P business decisions require assessment of both technical and non-technical risk"
- "The ability to convey the relative riskiness of various O&G projects in a consistent manner is an elusive and desirable goal."

Mr. Barron stated that the industry was trying to send the message that as the time reached further out there was less confidence in the production profile.

9:46:46 AM

Mr. Barron addressed slide 10, "Accounting for the Risks Appropriately"

- “**Currently Producing**” oil **was not** risked in this forecast

- The “**New Oil**” portion of the forecast was adjusted for these risks starting in FY2015

- The “**Under Evaluation**” portion of the forecast was risked at a greater rate than “**Under Development**”

- **Technical and Non-Technical** risk must be considered

Mr. Barron stated that the DOR consultant had examined all of the production profiles and had built them up from the ground up, well by well, and rolled it into an aggregate at the participating field level. The field graphs were examined for reasonability; the currently producing levels were reasonable.

Mr. Tangeman interjected that the process that DOR had followed did not apply to FY 13 or FY 14. The forecast applied to FY 15.

Senator Hoffman asked how fracking impacted the production forecasting and the accounting of risk.

Mr. Barron stated that hydraulic fracturing was very common in the field today. Roughly 25 percent of all wells in the state had been hydraulically fracture stimulated. He stated that the practice would not impact the forecasts because it was a common occurrence.

Senator Dunleavy understood that the fracking in the state was not associated with shale oil.

Mr. Barron explained that the fracking was a method used by the industry for over 100 years and had improved over time. While it was typically associated with shale it was a common approach to increase production from classic sand-stone formations and carbonates.

Senator Dunleavy asked if the state presently had any shale oil on line.

9:49:48 AM

Mr. Barron said that shale oil was not included in the forecast because it would be classified as an exploration component.

Mr. Barron relayed that there were technical and non-technical risks. He noted that the longer it took for projects to progress the lower the confidence levels in the project.

Co-Chair Meyer thought that it was important to point out that it was highly speculative that drilling for shale oil would work in the Arctic. He highlighted that the drilling for shale oil in Alaska would be significantly more difficult than in the lower 48.

Mr. Barron declared that shale oil continued to hold promise, but the risk was so great that it would be virtually unseen in the forecast.

Mr. Tangeman stated that the potential for shale was applicable, but the infrastructure was not yet available. He stated that the price of oil needed would need to rise to make drilling for shale oil economically viable.

Co-Chair Meyer recalled that Great Bear had issued a press release that stated they had stopped drilling activity for the time being. He understood that in planning for new oil the department would meet with the producers in an effort to ascertain each company's five-year plan for existing fields.

Mr. Barron concurred that the first step was to gather each company's gross production data. He said that the preview of the data allowed for preparation of a forecast. He relayed that the engineers tended to be optimistic regarding forecasting sessions.

9:55:32 AM

Mr. Tangeman interjected that discussions with other explorers also occurred so that the department could assess where the companies were in the process.

Mr. Barron discussed slide 11, "Risk Factor 1: Delays." The slide charted historical predictions of new fields coming on line. He read a quote from the slide:

> "Over 35% of projects are over budget and exceed cycle time by over 10%"
> -Booze Allen & Hamilton

He shared that the quote was an industry statement and was not Alaska specific, but he highlighted the point that overtime things tended to cost more and were usually delayed; the slide illustrated that point.

9:58:00 AM

Mr. Barron detailed slide 12, "Risk Factor 2: Performance Deviates from Expectations." The slide listed the various projects along with their varying levels of success.

Senator Dunleavy said that the oil associated with Prudhoe Bay had exceeded predictions over the years.

Mr. Barron agreed.

Senator Dunleavy furthered that the majority of the projects that were further out had underperformed.

Mr. Barron replied that there were many projects that had been successful, but just as many that had not.

Senator Dunleavy asked whether Prudhoe Bay producing more than projected had played into the overall projections of oil production.

Mr. Barron replied that the increase of the stabilization of production had been included in the statistical assumption.

10:01:00 AM

Senator Dunleavy understood that the overproduction of Prudhoe Bay became the norm for projecting.

Mr. Barron agreed.

Mr. Tangeman added that if Revenue Source books from previous years were examined it would be found that by year 10 it was nearly a 50/50 mix of old oil and new oil. He said that the current revenue source book changed the numbers to approximately 75/25; more of the total oil was coming from the currently producing section. The department recognized the upside of the under-development/under evaluation, but it was not being assumed that the oil would come on line by year 10.

Mr. Barron discussed slide 13, "Historical Production." The slide illustrated the bounds of reasonable expectations for future production based on historical production.

10:04:05 AM

Mr. Barron highlighted slide 14, "Applying the refined method." He explained the definitions of each line related to the confidence intervals.

Mr. Barron explained slide 15, "Applying the refined method." The lines on the graph illustrated the historical, forecasted, high case, and low case projections in the un-risked total, FY 13 forecast and currently producing scenarios.

10:06:52 AM

Mr. Barron displayed slide 16, "New Oil share of Total Production." The bar graph reflected a considerably less optimistic forecast for 2012 than had been predicted in 2011.

10:07:34 AM

Mr. Barron discussed slide 17, "Testing the refined method." He explained that the red curve represented the average; and the blue curve represented the new projections made with room for error. He stated that the answer was somewhere in between. He offered that the projection removed 50 percent of the error from what historically would have been included in a forecast.

10:08:49 AM

Mr. Tangeman displayed slide 18, "This will be an ongoing process.":

> …of assessing the risk associated with Under Development and Under Evaluation.
>
> "The ability to convey the relative riskiness of various O&G projects in a consistent manner is an elusive and desirable goal."

> Development and Implementation of an Integrated Risk Assessment Methodology. Cutten, Evoy, Grecu. SPE conference paper 1993

Mr. Tangeman said that the undertaking by the department was to reset a more conservative baseline for decision makers, while recognizing the upside that state resources could possibly provide.

Vice-Chair Fairclough wondered whether the projections were conservative or realistic.

Mr. Tangeman believed both. He stressed that the main concern for the department and the governor was how the process would be viewed by Wall Street and the rating agencies. He noted that the state had maintained its AAA rating with Moody's and SMP; additionally, Fitch advanced the state to an AAA rating in 2013. He quoted an SMP analysis:

> "The state's Department of Revenue has a good track record forecasting year-ahead prices and production levels. A big issue for the state is measuring the long-term rate of oil production decline. Since peaking in 1988, the average annual rate of decline in production has been around 5.5 percent; however, the state's long-term forecast has consistently projected a long-term rate of annual decline of oil production of just under 2.5 percent - or lower. As a result the state's long-term forecast has tended to overestimate actual production levels. With its fall 2012 forecast the Department of Revenue has revised the methodology used to develop its longer-term production forecast. The new approach applies risk factors to discount the projected oil production from oil fields that are still under development or in an evaluations stage. Previously, production estimates and the forecasts from such fields were not adjusted downward to account for their higher level of uncertainty."

Mr. Tangeman stated that the process would be continually reviewed and revised in an effort to craft more accurate projections.

10:12:54 AM

Senator Dunleavy asked if Kuparuk was considered part of Prudhoe Bay when considering the slope curve on the big oil fields.

Mr. Barron replied that Kuparuk was not part of Prudhoe Bay but it was considered part of the Alaska North Slope.

Senator Dunleavy asked whether Kuparuk had exceeded expected production similar to Prudhoe Bay.

Mr. Barron replied that Kuparuk had over-performed from the initial development concepts.

10:13:59 AM
AT EASE

10:19:20 AM
RECONVENED

ANGELA RODELL, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, presented "State of Alaska An Update on the State's Savings Accounts."

Ms. Rodell began with slide 3, "General Fund and other non-segregated investments." She relayed that as of December 31, 2012 the general fund had a balance of approximately $11,670,000. The main portion of the funds, $5.48 billion, was located in the statutory budget reserve. The reserve had nearly doubled since 2011 due to a $1.75 billion deposit made in FY 12, a $250 million deposit made in FY 13 and an additional $805 million from FY 12 surpluses. The additional portion was in the Alaska Housing Finance Corporation (AHFC) and Alaska Housing Capital Corporation (AHCC). She stated that the fund had a moderate risk profile with a short to intermediate investment horizon. The department was expecting a return rate of 1.52 percent for 2012. The projected 10 year rate was 2.87. To date there was a return of 0.37 percent. She opined that short-term cash treasury bills were not yielding any notable return.

10:22:51 AM

Ms. Rodell discussed slide 4, "Constitutional Budget Reserve Fund (main and sub)." The balance of the main fund on December 31, 2012 was approximately $5.7 billion. The sub fund had a balance of $5.5 billion. She noted that a deposit into the fund of $160 million was made by British Petroleum (BP) per a settlement. The balance of the settlement went to the public school trust fund and the permanent fund corporation. She said that the FY 12 return, to date, was 3.22 percent on the CBR main fund primarily because that fund was kept in intermediate and short-term, low or moderate risk investments. The sub fund had been carved off to take a higher risk profile and had 60 percent in equities, yielding a higher return, but also maintaining a higher volatility.

Ms. Rodell detailed slide 5, "Power Cost Equalization Fund." The fund had a balance of $787 million on December 31, 2013, which was primarily invested in equities and fixed income. The PCE fund had a higher risk profile because there was a 7 percent targeted payout on the fund. The FY 12 return was 7.3 percent.

Ms. Rodell introduced slide 6, "Public School Trust Fund (Principal and Income accounts)" The fund had a current balance of $487 million. She relayed that the interest earning were put in the income fund which had a very low-risk, short investment horizon and the money was then appropriated out to schools for the foundation formula. The fund had 27 percent equity in the principal fund which generated income.

10:26:12 AM

Ms. Rodell discussed slide 7, "PERS and TRS." She stated that both funds had moderate risks. The target actuarial assumed rate of return for both funds was 8 percent and the asset allocations had been designed for that rate of return. A certain amount of cash in low and short-term investments needed to be maintained in order to be able to make benefit payouts. The Balance of the PERS account as of December 31, 2012 was $12 billion, the FY 12 return was .52 percent. She said that the fund was off to a better start for 2013 and had a FYTD of 5.63 percent. The TERS balance as of $5 billion and had a return for 2012 of .59 percent with a FYTD return of 5.68 percent.

10:27:39 AM

Ms. Rodell explained slide 8, "APFC." She stated the corporation had a balance of approximately 44 billion as of

December 31, 2012. The FY 12 return was .02 percent and was currently at 7.34 percent for the FYTD.
Ms. Rodell introduced slide 10, "FY 13 Investment Revenue Forecast." She stated that rather than using the 10 year return assumption on cash of 2.87, the department had looked at actual earnings on cash which was closer to somewhere between .3 and .6; the department was using .6 for the forecast. The slide reflected that some investment income was lower than it had been in the past in order to take into account current market conditions for the short-term market.

Senator Bishop asked what the historical average percent was on the permanent fund return.

Commissioner Butcher responded that the department would provide the information at a later date. He added that the projection of 5 percent was not unrealistic based on history.

10:30:46 AM

Vice-Chair Fairclough whether an allocation on a capital budget appropriation would move into a higher risk pool when moved from long-term investment to short-term investment.

Ms. Rodell stated yes. She noted that if the money was in the general fund it would not change. The risk would only change if the move was out of the CBR.

Vice-Chair Fairclough asked whether the state was experiencing any disadvantage due to the large capital budgets of the past two years; general fund revenue had been used and some of the allocations would not be used for a number of years and should be left as long-term investments.

Commissioner Butcher suggested that Gary Bader could provide a more in-depth answer. He noted that a challenge for the general fund and the retirement fund as well was the balancing act between how much should be kept liquid and how much could be invested long-term.

10:33:22 AM

Ms. Rodell added that the state had approximately 47 percent of the general fund investments in intermediate term bonds which had a one to three year horizon. This was helping to push the yields closer to the one percent mark but when averaged along with the liquidity needs, the state was not seeing a return.

Vice-Chair Fairclough wondered whether the committee should look into the policy decision. She noted that the state was making incremental payments on the PERS and TERS system directly out of the general fund. She asked if the funds were moved into higher risk investments the state could experience a greater rate of return.

10:34:49 AM

Senator Dunleavy asked if the department had any specific concerns over the next five years.

Commissioner Butcher responded that the greatest uncertainty was with the global economy.

10:36:31 AM

Senator Hoffman discussed legislation that had been previously considered that would make deposits into the PERS and TRS funds; primarily, because drastic increases in deposits from the general fund were expected. He understood that the general fund deposits for FY 14 would not be as large as in FY 15, FY16 and FY 17. He wondered if the administration had any solutions to the increasing deposit size.

Commissioner Butcher responded that many options existed. He said that the various solutions were being examined in order to make the most prudent decision going forward.

Senator Hoffman asked whether the department had a time table for when the proposals would come before the legislature.

Commissioner Butcher noted that an ARM board meeting would happen in February.

#
ADJOURNMENT

The meeting was adjourned at 10:38 a.m.