

SENATE FINANCE COMMITTEE  
January 25, 2016  
9:09 a.m.

[9:09:45 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:09 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Randall Hoffbeck, Commissioner, Department of Revenue; John Tichotsky, Chief Economist, Tax Division, Department of Revenue.

SUMMARY

^PRESENTATION: 2015 FALL FORECAST AND STANDARD and POOR REPORT

[9:10:18 AM](#)

RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, discussed the PowerPoint presentation, "Alaska Department of Revenue: Fall 2015 Revenue Forecast Presentation," (copy on file).

[9:11:20 AM](#)

Co-Chair Kelly recognized former Speaker of the House John Harris in the room.

Commissioner Hoffbeck discussed Slide 3, "Structure of Revenue FY 2013, FY 2014, FY 2015." The slide contained a pie chart for each respective year. Each chart detailed the change in restricted and unrestricted general fund dollars from FY 13 to FY 15. He relayed that it was unlikely that unrestricted revenues, as currently defined, would be a 50 percent ever again. He said that the recent revenue sources book would reflect a breakdown of restricted revenues that were available for appropriation; investment earnings that had not historically been part of the annual appropriation, but were available for appropriation.

[9:12:46 AM](#)

Commissioner Hoffbeck discussed Slide 5, "Methods: What Do We Forecast at DOR?":

#### **Mostly Petroleum and Non-petroleum Revenue**

- We directly forecast **Petroleum Revenue**
  - the largest component, accounting for 75% of state unrestricted revenue in FY 2015
  - "Petroleum Revenue" includes severance taxes, royalties, corporate income tax, and all other revenue from oil companies
- We directly forecast **Non-petroleum Revenue**
- We use someone else's forecast for **Investment Revenue**
- We use the Federal Revenue authorized for spending as the forecast
  - It is typically 20%-30% more than actually gets spent.
- DOR compiles all different revenue streams and compiles them in the annual Revenue Sources Book

Commissioner Hoffbeck noted that moving forward, oil and gas tax, revenue, and royalties would be considered at a smaller percentage of the state's overall revenue.

[9:14:16 AM](#)

Commissioner Hoffbeck moved to Slide 6, "Oil Revenue Forecasting,":

#### **Three Factors for Production Tax Revenue Forecast**

REVENUE = (Net value \* Tax Rate) - Credits taken against liability<sup>1</sup>

Net value = (Price\*Production) -Costs

1.Price

2.Production

3.Costs

1.Capital expenditures

2.Operating expenditures

3.Transportation cost

1DOR also forecasts refundable credits, but these are paid out of the General Fund and do not appear in the revenue forecast.

[9:14:50 AM](#)

Commissioner Hoffbeck moved to Slide 7, "Fall 2015 Highlights,":

- Input changes relative to the 2015 Spring Forecast.
  - Oil price forecasts have been reduced for all years in the forecast.
    - Long term prices now expected to settle around \$50 -\$70 real.
  - Capital expenditures forecasts have been reduced for all years in the forecast.
  - Oil production forecasts have been reduced for all years in the forecast.
  - Correspondingly, unrestricted revenues have been revised downward.
- Revenue impacts largely due to change in oil price assumptions.
- Lease expenditure (or investment) in the oil fields expected to decline, which will lead to less expected "new" production in the future.
  - Many projects have been deferred until oil prices improve.

[9:15:29 AM](#)

Vice-Chair Micciche wondered how the department defined the term "long term" on slide 7.

Commissioner Hoffbeck replied that for the purposes of the forecast, "long term" indicated more than three years out. He furthered that because of the lowered price point, projects had been deferred until oil prices improved, which

meant less lease expenditure and more downward pressure on new production until investments were made.

[9:16:25 AM](#)

JOHN TICHOTSKY, CHIEF ECONOMIST, TAX DIVISION, DEPARTMENT OF REVENUE, discussed Slide 9, "Production History and Forecast," noting that there was a plateau expected in the declining oil production.

[9:17:27 AM](#)

Mr. Tichotsky moved to Slide 10, "ANS Production Forecast Comparison." The slide offered a comparison of fall 2015 and spring 2015, which were nearly identical, and primarily driven by price.

[9:17:38 AM](#)

Mr. Tichotsky moved to Slide 11, "ANS Oil Production Forecast,":

- **Volumes from Developed Reserves (Currently Producing):**
  - Oil from wells that are in production and following typical reservoir engineering optimization without major investment.
  - These volumes are from projects already in place and thus remain unadjusted for risk.
- **Volumes from Undeveloped Reserves and additional/accelerated Developed Reserves:**
  - Oil from projects that will add incremental oil to existing fields or will bring new fields into production.
  - Must have senior management approval and be allocated funds in the company's budget.
  - These volumes are risk-adjusted for commercial uncertainty.
- **Volumes from Contingent Resources:**
  - Oil from projects that are likely to occur in the future, but have not met the requirements of the previous category.
  - Oil reserves must be known and recovery is technically possible with current technology.

- o These volumes are more strongly risk-adjusted due to the commercial uncertainty and other risks.

- **DR + UDR + CR = Unrisked Investment Case**

[9:18:22 AM](#)

Mr. Tichotsky moved to Slide 12, "ANS Production Forecast," which contained a line graph illustrating Alaska North Slope production forecasted through 2025. He relayed that it was possible that the decline could continue, but the department expected the actual line to land between the highest and lowest investment cases.

[9:19:30 AM](#)

Vice-Chair Micciche asked to revisit Slide 10. He wondered how much of the production increase that was indicated on the graph was unrisked and adjusted expected beyond 2017.

Mr. Tichotsky replied that the uptick in the spring shown on the graph had been due to a higher price environment. He said that in a lower price environment, short-term pullback would be seen. He furthered that oil companies had provided fairly accurate projections five years out, but their view dropped off beyond the five year mark. He said that the department was doing the production forecast because it needed to produce a revenue forecast. The further out in the future the projections, the less certainty in the predictions.

[9:22:05 AM](#)

Vice-Chair Micciche appreciated the conservative nature of the department's predictions for price and production levels.

[9:22:27 AM](#)

Mr. Tichotsky discussed Slide 14, "ANS Production Forecast," which contained a stacked area graph that forecasted ANS production through 2025.

[9:23:44 AM](#)

Mr. Tichotsky discussed Slide 16, "Alaska North Slope Crude West Coast Price," which contained a line chart detailing the fall of oil prices between January 2014 and January 2016.

[9:24:23 AM](#)

Mr. Tichotsky moved to Slide 17, "Alaska North Slope West Coast, West Texas Intermediate and Brent Crude Prices 2009 through 2016", which contained a line chart. He commented that and commented that the state had not seen prices so low since 2001 - 2002. He added that the three oil price markers: West Texas Intermediate (WTI), Alaska North Slope Crude (ANS), and Brent have less than a dollar difference in price between them. He explained that physical impediments had contributed to the low prices.

[9:26:03 AM](#)

Mr. Tichotsky moved to Slide 18, "Key Oil Price Drivers":

- Supply & Demand
- There are two main factors to monitor
  - Global spare capacity, since it is both a reflection of supply and demand. In other words, the Organization of Petroleum Exporting Countries (OPEC) spare capacity (flipping a switch) is key.
  - Cost of developing new oil supply.
- Current Events
  - Weak global demand.
  - Cost of supplying the marginal barrel has decreased dramatically.
  - OPEC (Saudi Arabia) maintains market share and accepts lower prices.
  - Cost of supply has fallen as new sources have been defined and developed.
    - Oil shale is a prime example.

[9:26:55 AM](#)

Mr. Tichotsky discussed Slide 19, "OPEC's view of supply and demand...", which contained a combo chart, based on questions the committee had asked in 2015. He relayed that OPEC predicted an uptick in the requirement for OPEC crude.

[9:27:37 AM](#)

Mr. Tichotsky moved to slide 20, "It's about spare capacity...", which contained a line chart and a bar graph. The line chart detailed global production and consumption of crude oil and other liquids from 2011 to 2017, in million barrels per day. The bar graph illustrated the implied stock change from 2011 to 2017, in million barrels per day.

[9:28:49 AM](#)

Co-Chair Kelly asked for further clarification on the slide.

Mr. Tichotsky explained that previously, the supply of oil that could come online quickly represented 30 percent of the total demand. This made it easy to control the price. Today, the marginal supply was thin, which would result in price volatility into the future. He pointed out to the committee that when the green bars on the bar graph dropped below zero, which meant that demand outpaced supply, driving up the price.

Mr. Tichotsky stated that if production surpassed consumption, the price of oil would fall. He noted that the bottom graph then reflected how much extra oil was on the market.

[9:30:45 AM](#)

Senator Dunleavy asked whether the impact of a weak, or strong, American dollar on the price of oil, would be discussed.

Mr. Tichotsky replied that the impact of a strong or weak U.S. dollar was considered, but was not an overriding factor. He said that the need to track currency had been non-existent. He reiterated that forecasts were difficult when using volatile oil prices.

[9:32:33 AM](#)

Mr. Tichotsky stated that while the price of oil could go down further, the investment dropped off for marginal oil suppliers, curtailing supply.

[9:33:35 AM](#)

Senator Bishop thought Slide 20 was important. He surmised that the 25 to 30 percent oversupply in the mid-1980s was now less than 2 percent. He offered that a slight disruption could cause a price shift because there was no spare capacity.

Mr. Tichotsky concurred.

[9:34:36 AM](#)

Senator Olson queried the time lag between production and consumption that affected the overall price per barrel.

Mr. Tichotsky responded that the time lag was a moving number. He stressed that people were trying to nail down a number worldwide. He stated that the current price environment was unpeccented.

[9:35:33 AM](#)

Co-Chair MacKinnon offered her insight on the actions of Saudi Arabia in the global oil market. She added that Iran was flooding the market with an additional million barrels per day.

Mr. Tichotsky confirmed that the number was 500,000 barrels per day.

[9:36:23 AM](#)

Co-Chair MacKinnon referred to Slide 19. She and wondered whether the state was confident in OPEC's projections. She queried whether those projections offered the state a realistic picture of the future oil market.

Mr. Tichotsky replied that a Harvard economist was slated to testify before the committee on another subject in the future, and would speak more in-depth on Saudi Arabia. He felt that Saudi Arabia had failed to accurately predict the current price of oil. He noted that Slide 19 reflected the view of Saudi Arabia with standard economics; when energy prices were low, demand increased. He mentioned that "gas guzzling" vehicles, and the vehicle heavy populations of China and India had contributed to high demand. He explained that the increase in supply was due to breakthroughs in technology over the last decade.

[9:38:43 AM](#)

Co-Chair MacKinnon wondered whether China was advancing at the same pace in coal usage, rather than considering the switch to a cleaner fuel, such as natural gas. She understood that a large portion of the market consisted of aviation fuel.

Mr. Tichotsky explained that electricity markets had relied on renewables for over a decade. He said that the demand for coal-fired electricity in the U.S. had decreased and had been replaced by cheap, natural gas. He said that Asia had been reluctant to move into nuclear energy. Germany had rejected nuclear energy, but bought coal-fired electricity from Poland. He relayed that the U.S. currently produced less carbon emissions than Europe. He lamented that there were unintended consequences related to the various sources of energy that could not be predicted. He said that aviation fuel was an important component, but automobile transportation fuel drove the market.

[9:42:19 AM](#)

Co-Chair Kelly wondered whether changes in the market had been anticipated when the Iran sanctions were lifted.

Mr. Tichotsky referred back to Slide 20, which showed how 500,000 barrels per day affected production and consumption.

Co-Chair Kelly said that he had heard that Iran could produce 2 million barrels per day, and higher.

Mr. Tichotsky said that he could not speak to those numbers.

Co-Chair Kelly remarked on the growth of India and its lack of a middle-class. He asked whether it was anticipated that India would play a large part in drawing the world out of recession.

Mr. Tichotsky expressed that he was more informed regarding Chinese markets, but mused that if India could develop a middle-class, that drove automobiles, that consumption could spur economic growth.

Co-Chair Kelly asked about the portion of demand taken up by the petrochemical industry.

Mr. Tichotsky replied that he did not know.

[9:45:03 AM](#)

Vice-Chair Micciche believed that all commodities experienced volatility as one point or another; he asserted that market instability always lurked under the surface. He pondered whether instability was always temporary in a commodity price.

Mr. Tichotsky countered that stability was also temporary. He said that the markets were constantly shifting between stability and instability. He relayed that short-term equilibriums could be created, but concurrently there were long-term changes. He related that traditional, conventional oil had decreased, but due to technology, hydrocarbons had been recognized as a resource. He said that more hydrocarbons were accessible at economic prices. He shared that hydrocarbons were a great way to store and move energy, which was why they remained prevalent in spite of emissions issues.

[9:48:04 AM](#)

Vice-Chair Micciche asserted that when thinking about filling in the fiscal gap, short-term ideas could suffice. He guessed that there would be a period of relative stability at some time in the future. He contended that savings had to be conserved for as long as possible, but at some point the price of oil would rise.

Mr. Tichotsky thought that the volatility and instability were the two things that could be counted on. He said that the bigger economic problem for Alaska was that the state's budgetary and revenue system revolved around oil price volatility.

[9:50:03 AM](#)

Senator Hoffman referred to the recent climate change summit in Paris where many countries had signed off on an agreement to curb the use of fossil fuels, which he understood lacked any real ability to effect change. He

wondered whether the agreement would affect the price structure.

Mr. Tichotsky shared that when Germany rejected nuclear power, Europe used and produced electricity with more carbon emissions. He added that the U.S. had reduced its reliance on coal by switching to natural gas, which produced less greenhouse gasses. He reiterated that unintended consequences and advancements in technology would define the future rules of the how the oil markets worked globally.

[9:52:02 AM](#)

Senator Dunleavy lamented that, in his brief time at the table, oil price projections had never been accurate. He wondered whether the state should budget well under the predictions. He understood that the FY17 budget was forecast at \$56 per barrel.

Commissioner Hoffbeck clarified that the forecast was \$50, \$56 had been used for FY16. He stated that DOR had always endeavored to be conservative in its predictions.

Mr. Tichotsky stated the he was wild about a probabilistic view of the world, one with ranges of possibilities. He said that with commodity prices, the ranges were broad; realistic numbers could range anywhere from \$15 per barrel to \$120 per barrel. He relayed that deterministic prices were only good if there was certainty about what would happen next in the market, if there was uncertainty it would be better to understand the range of possibilities and be mostly right, than to be exactly wrong. He concluded that if the view was too deterministic, disallowing the ranges to inform a worldview, the result would be exactly wrong and not mostly right.

[9:56:51 AM](#)

Mr. Tichotsky moved to Slide 22, "Consensus view that the distribution is wide," and commented that the graphs reflected that crude oil prices remained relatively low through 2016 and 2017.

[9:57:50 AM](#)

Mr. Tichotsky moved to Slide 24, "'What if the oil price is...'" for the remainder of FY 2016," he offered that the settling price could be anywhere from the mid-fifties to the thirties.

[9:58:38 AM](#)

Mr. Tichotsky discussed slide 25, "Historical ANS West Coast FY Oil Price Bands: Annual Average and Official SPRING 2015 Forecast".

[9:59:17 AM](#)

Mr. Tichotsky moved to Slide 28, "COMPARISON-SPRING 2015 VS. FALL 2015 FORECASTS," noting that oil prices were currently 25 percent lower than the earlier forecast. The ANS oil production was 4 percent lower, and had been driven by anticipated prices. The projected revenue forecast between the spring and the fall showed at negative \$605 million. The numbers for FY 17 had been driven by price.

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Mr. Tichotsky moved to Slide 29, "CONTRIBUTORS OF CHANGE IN FY2016 REVENUE FORECAST," and said that the state was getting over 500,000 barrels per day - into the next several years.

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Mr. Tichotsky discussed Slide 30, "CONTRIBUTORS OF CHANGE IN FY2017 REVENUE FORECAST," stating that it was based on a belief that the price would recover. He asserted that the price would drive the system, increased production was not anticipated.

[10:01:05 AM](#)

Mr. Tichotsky moved to Slide 31, "NORTH SLOPE CAPITAL EXPENDITURE FORECAST CHANGE". He related that less capital expenditures were expected due to oil prices. He said this would have a positive effect on revenues because capital expenditures are deductible. He relayed that the less money that was spent on capital expenditures in the present meant less opportunity for production in the future. He noted that operating expenditures between the spring and fall reflected the lower price environment.

[10:02:03 AM](#)

Commissioner Hoffbeck discussed Slide 34, "Net Tax Credits vs. Production Tax," explaining that it was an updated version of a slide shown to the committee the previous year.

[10:02:37 AM](#)

Commissioner Hoffbeck discussed Slide 35, "Unrestricted Oil Revenue\* and Tax Credits", which showed the net tax credits versus unrestricted oil revenue and included petroleum property tax, petroleum CIT, production tax, oil and gas hazardous release, oil and gas conservations, rents, and royalties.

[10:03:03 AM](#)

Co-Chair MacKinnon requested a chart with the information on Slide 35 from the previous ten years.

Commissioner Hoffbeck agreed to provide the information.

[10:03:29 AM](#)

Mr. Tichotsky addressed Slide 37, "Fall 2015 Total Revenue Forecast," explaining that both investment and petroleum revenues were volatile. He noted that federal funding was a steady source of revenue.

[10:04:44 AM](#)

Mr. Tichotsky addressed Slide 38, "FY 2017 General Fund Unrestricted Revenue, with Price Sensitivity," and pointed out how the curve increased exponentially with the price of oil above \$80 bbl.

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Mr. Tichotsky discussed Slide 39, "Total Revenue Forecast - FY 2015 & 2016," which he described as a traditional way of looking at the state's forecasted revenue. He noted that unrestricted revue was projected to fall between \$1 billion to \$2 billion.

[10:06:44 AM](#)

Mr. Tichotsky discussed Slide 40, "A New View of Revenue". The slide reflected a categorization of what was subject to appropriation. He pointed out to the committee that the number was considerably larger than on the previous slide.

[10:07:28 AM](#)

Mr. Tichotsky discussed Slide 41, "General Fund Unrestricted Revenues: Non-petroleum". He relayed that there was a lot of volatility in mining license tax. He reminded the committee the revenue related to oil eclipsed all non-petroleum sources of revenue.

[10:08:33 AM](#)

Commissioner Hoffbeck commented that the information on Slide 41 did not assume any changes within the current tax structure.

[10:08:47 AM](#)

Vice-Chair Micciche asserted that, given the current oil prices, the state was in better shape under SB 21 than they would have been under Alaska's Clear and Equitable Share (ACES). He asked whether Mr. Tichotsky had been involved as an economist in the evaluation of the effects of changing tax credits.

Mr. Tichotsky responded that his group produced the data for all of the discussions on tax, as well as looking into investment revenues. He said that the detailed elements of those discussions would be revealed over the course of the legislative session. He said that he had been focused on the sovereign wealth portion of the analysis and that other economists in his group had been working diligently conducting analysis and running models. He said that the current situation was a perfect storm, all the financial issues were extremely pressing, and huge amounts of data had been collected and boiled down in order to be presented as simply as possible to the committee.

[10:11:35 AM](#)

Senator Hoffman wondered whether Mr. Tichotsky was working to justify Governor Walker's revenue measures proposals.

Mr. Tichotsky replied that Governor Walker's proposals and legislation was very data-driven and relied very heavily on the information produced by economic research.

[10:12:20 AM](#)

Senator Dunleavy asked whether there had been an RFP put forward contracting a study to examine the sovereign wealth concept.

Commissioner Hoffbeck replied in the affirmative. He said he was waiting for the appropriate hearing to present the data.

Senator Dunleavy asked whether Mr. Tichotsky's work was similar to the requested study.

Mr. Tichotsky specified that the MacKenzie Group had evaluated the modeling that had been done by the department and had offered criticism and feedback on their work.

[10:13:24 AM](#)

Co-Chair MacKinnon asked whether Mr. Tichotsky could share success or failure rates on the models that had been run for Governor Walker's sovereign wealth plan.

Commissioner Hoffbeck interjected that after the \$3.3 billion draw proposed in the governor's model, the chances of the ERA going to zero within a 24 year period of time would be at 30 percent. He explained that the four-year review period had been embedded in the bill so that the draw could be modified before the account reached zero. He asserted that the four-year review brought the failure rate to near zero.

Co-Chair MacKinnon asked whether the failure rate had been based on a 6.5 percent rate of return for all funds.

Commissioner Hoffbeck thought that the percentage was 6.9; the MacKinzie Group had felt that 6.5 was not an adequate assumption.

[10:15:23 AM](#)

Senator Hoffman asked whether the numbers assumed that inflation proofing would continue

Mr. Tichotsky replied that inflation proofing was implicit in the sovereign wealth fund worked - a set amount would be drawn, which would allow the permanent fund to retain its value in real terms. He said that the concept of having a sustainable draw meant that inflation had been taken into account.

[10:16:11 AM](#)

Co-Chair MacKinnon understood that there would not be a deposit made that would be specifically described as inflation proofing.

Mr. Tichotsky clarified that taking the \$3.3 billion draw accounted for inflation, but a specific amount of money would not be set aside specifically to inflation proof.

[10:16:48 AM](#)

Senator Bishop understood that inflation proofing was already embedded in the formula.

Mr. Tichotsky replied in the affirmative.

[10:17:35 AM](#)

Co-Chair MacKinnon asked whether the department could provide the previous year's rate of return on the permanent fund.

Commissioner Hoffbeck thought it was in the 3 or 4 percent range.

Co-Chair MacKinnon said that the current legislation had a specific appropriation amount for inflation proofing. She stated that because of the asset allocation already in place the state was inflation proofing by investment strategy.

[10:19:25 AM](#)

Commissioner Hoffbeck referred to the report completed by Standard and Poor's Ratings Services, "Alaska; Appropriations; General Obligation; Moral Obligation" (copy on file). He relayed that the report had come out after the rating service downgraded the stew from an AAA to an AA plus. He highlighted that Moody's and Fitch had yet to

follow suit, resulting in a split rating for the state. He said that the ratings were metrics driven and that the state had generally fallen outside of those metrics. He said that the state should have received lower ratings in the past, but had not due to its substantial savings. He explained that the state had experienced several years of low oil prices, which had resulted in the use of some of the savings; use of the savings had been expected, but the concern of Standard and Poor was the state's financial stability going forward in the volatile oil market. He relayed that low oil prices, and not the level of state debt, had driven the downgrade. He stated that the rating service had noted the state's substantial savings account could provide opportunity to turn the problem around. He related that Standard and Poor had pointed specifically to the current legislative session as the time to bring the negative outlook to stable. He stressed that Standard and Poor had left the door open for the state to solidify its rating, but they had made it clear that action had to be taken to close the deficit during the current legislative session.

[10:22:05 AM](#)

Co-Chair MacKinnon asked whether the commissioner had influenced the language used in the report. She felt that all of the language targeted the legislature, which she found curious. She understood that the legislature was in charge of appropriation, but she had never seen a rating agency target the legislature while supporting the Governor's proposal.

Commissioner Hoffbeck was unable to provide insight on the language used in the document. He relayed that the person who wrote the report had participated in a budget workshop in Girdwood, AK during the summer of 2015. He said that Standard and Poor had been more engaged, and had asked more questions, than the other rating agencies.

[10:23:49 AM](#)

Co-Chair MacKinnon asserted that the commissioner had been in discussions with credit raters prior to the TransCanada buyout proposal. She asked whether policy discussions had occurred during that time.

Commissioner Hoffbeck replied that he had discussed the state's fiscal situation with Standard and Poor. He said that the agency had asked what might happen with the state's economy, and he had replied that the expectation was that the legislature would act on the fiscal situation. He contended that no information had been introduced to the agency concerning the legislature. He stressed that he simply answered their questions.

Co-Chair MacKinnon found it interesting that the rating agency had not contacted the legislature before preparing their summary.

Commissioner Hoffbeck agreed. He revealed that when the agency had indicated the action that they would be taking, the administration pushed back with the assertion that the legislature had made the appropriate cuts and were working to bridge the fiscal gap. He said that the administration was surprised by the action taken by the rating agency.

Co-Chair MacKinnon understood that there were questions from the rating agency pertaining to the fall revenue forecast update and whether it was too high. She asked whether the commissioner was in talks with the ratings agency about the revenue forecast and offered assurances that it was not overly optimistic.

Commissioner Hoffbeck replied in the affirmative. He added that the ratings agencies worked against influencing policy, which was why they did not communicate directly with the legislature. He reiterated that the administration had been surprised by some of the details within the summary.

[10:28:18 AM](#)

Co-Chair MacKinnon wondered whether the legislature could invite the author of the summary to testify before the committee.

Commissioner Hoffbeck responded that he could not speak for the agency. He offered to broach the subject.

Co-Chair MacKinnon felt that the agency had measured the legislature without talking to them, while pushing legislators to support policies that had yet to be

discussed. She asserted that the language in the summary reflected unfairly on the legislature.

[10:29:20 AM](#)

Vice-Chair Micciche echoed Co-Chair MacKinnon's sentiments. He felt that the downgrade had been unnecessarily preemptive and the report "strangely unconventional." he quoted Page 5 of the summary:

In our view, Alaska has sufficient financial resources to stabilize general fund operations if it can assemble the necessary political will to adopt the necessary changes. We expect this will require asking residents to accept reduced state spending, higher taxes, and, if it is to use investment earnings, a reconstituted -- and lower -- dividend payment.

Vice-Chair Micciche wondered whether the department had looked into whether the summary was an unconventionally political document.

Commissioner Hoffbeck replied that he had not analyzed the document in that manner.

[10:31:03 AM](#)

Vice-Chair Micciche asked whether the policy statements included in the summary could be considered unconventional.

Commissioner Hoffbeck replied that the report contained a better understanding of Alaska's fiscal situation than he had seen in past summaries; other documents had seemed more generic statements on government spending. He stressed that Standard and Poor had done considerable research before crafting the document.

[10:31:55 AM](#)

Vice-Chair Micciche announced that he did not disagree with the report. He queried whether the agency would continue to downgrade the state if the legislature made substantive improvements during the current legislative session.

Commissioner Hoffbeck felt if the state did not make substantial changes its rating would continue to fall. He reiterated that he had been working under the understanding

that the agency would not downgrade the state until after the current legislative session. He felt that the biggest issue was whether the state would be willing to use earnings from investments as part of the fiscal solution.

[10:33:38 AM](#)

Vice-Chair Micciche queried Standard and Poor's definition of "substantive."

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Senator Hoffman thought that an AA plus rating was not so terrible, when compared to the rest of the country.

Commissioner Hoffbeck agreed. He added that the bigger concern was that the state had a negative fiscal outlook into the future.

[10:35:07 AM](#)

Commissioner Hoffbeck could not offer a positive conclusion, and acknowledged that the legislature had difficult decisions to make going forward.

Co-Chair Kelly stressed that the committee was acting with the best interests of Alaskans and would not allow policy to be set by bond raters "somewhere far away". He reiterated that the legislature determines the fiscal policy of Alaska.

[10:36:37 AM](#)

AT EASE

[10:36:59 AM](#)

RECONVENED

Co-Chair Kelly discussed housekeeping.

#

ADJOURNMENT

[10:37:46 AM](#)

The meeting was adjourned at 10:37 a.m.