

SENATE FINANCE COMMITTEE

April 14, 2017

9:04 a.m.

[9:04:43 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Shelley Hughes
Senator Peter Micciche
Senator Donny Olson
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Brittany Hutchison, Staff, Senator Anna MacKinnon; Randall Hoffbeck, Commissioner, Department of Revenue; Senator Cathy Giessel; Senator Bert Stedman; Representative Cathy Tilton; Representative Tammie Wilson; David Teal, Director, Legislative Finance Division; Ken Alper, Director, Tax Division, Department of Revenue; Chantal Walsh, Director, Division of Oil and Gas, Department of Natural Resources; Ed King, Department of Natural Resources.

PRESENT VIA TELECONFERENCE

Heidi Teshner, Director, Administrative Services, Department of Education and Early Development; Patience Frederiksen, Director, Libraries Archives and Museums; Paul Prussing, Acting Director, Division of Student Learning, Department of Education and Early Development; Stephanie Butler, Commission on Post-secondary Education; Miles Baker, Associate Vice President, Government Relations, University of Alaska.

SUMMARY

SB 102 INTERNET FOR SCHOOLS; FUNDING

SB 102 was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Education and Early Development.

SB 103 ED GRANTS/SCHOLARSHIP; INNOVATIVE ED FUND

CSSB 103(FIN) was REPORTED out of committee with "no recommendation" and with one new fiscal impact note from the Department of Education and Early Development; and three forthcoming fiscal notes: two fiscal impact notes from Department of Education and Early Development, and one fiscal impact note from the University.

SB 104 EDUCATION CURRICULUM

SB 104 was SCHEDULED but not HEARD.

PRESENTATION: SPRING REVENUE FORECAST UPDATE

#sb103

SENATE BILL NO. 103

"An Act establishing the Alaska education innovation grant program; eliminating the Alaska education grant program and the Alaska performance scholarship program; redesignating the Alaska higher education investment fund as the Alaska education innovation grant fund; and providing for an effective date."

[9:05:22 AM](#)

Vice-Chair Bishop MOVED to ADOPT proposed committee substitute for SB 103, Work Draft 30-LS0751\U (Glover, 4/13/17).

Co-Chair MacKinnon OBJECTED for discussion.

BRITTANY HUTCHISON, STAFF, SENATOR ANNA MACKINNON, discussed the changes to the bill. She reviewed the Sectional Analysis for Version U (copy on file):

Section 1: AS 14.03

Adds a new section, AS 14.03.128, that establishes the Alaska Education Innovation Grant Fund. School Districts may request a grant under this section for the support of innovative education ideas. The Commissioner of the Department of Education and Early Development (DEED) shall determine annually the amount requested for grants and submit them in their budget for legislative approval.

(b): clarifies that the Commissioner of DEED shall determine the amount required to fund programs, projects and ideas that meet the standards for the innovation grants, set by the department of education.

Section 2: AS 14.43.820(a)

Allows all seniors in 2017 to receive levels 1, 2, and 3 of the APS. After this academic year, students in the graduating class of 2018 or later, must have a GPA of 3.5 or higher, leaving level 1 of the APS in place, effective July 1, 2017.

Section 3: AS 14.43.825(a)

Repeals levels 2 and 3 of the APS, effective July 1, 2017

Section 4: AS 14.43.825(b)

Makes the duration of the Alaska Performance Scholarship available for four years, effective July 1, 2017.

Sections 5-7: AS 14.43.915(a), (b), and (c)

Conforming Language to change the name of the fund from "Alaska Higher Education Investment" to the "Alaska Education Innovation Grant".

Section 8: AS 14.43.915(c)

Removes the current structure of award allocations to qualified applicants for the APS and AEG.
Effective Feb. 1, 2021

Section 9: AS 14.43.915(d)

Conforming language change of the word "accounts" to the word "account"

Section 10: AS 37.14.750(a)

Conforming Language to change the name of the fund from "Alaska Higher Education Investment" to the

"Alaska Education Innovation Grant". This section establishes the purpose of the fund, which is "making grants to school districts to support the Alaska Education Innovation Grant Program."

Section 11: AS 37.14.750(a)

Removes the AEG award appropriation, effective Feb. 1, 2021

Section 12: AS 37.14.750(c)

Clarifies that the commissioner of revenue shall determine the market value of the fund on June 30th for the immediately preceding fiscal year. The commissioner shall identify 5% of this amount as available for appropriation as follows:

- One-third will be for the AEG
- One-third will be for the APS
- One-third will be for the Alaska Education Innovation Grant

This will be the funding allocation for the next 4 years, as the AEG and levels 2 and 3 of the APS are phased out.

Effective Immediately

Section 13: AS 37.14.750 (c)

Changes the funding allocation for the Alaska Education Innovation Grant Fund by:

- One-third will be for the APS
- Two-thirds will be for the Alaska Education Innovation Grant Fund

Effective Feb. 1, 2021

Sections 14-20:

Conforming Language to change the name of the fund from "Alaska Higher Education Investment" to the "Alaska Education Innovation Grant".

Section 21

Repeals the following sections on Feb. 1, 2021.

Article 8: Alaska Education Grant Program

- AS 14.43.400 - Purpose; creation
- AS 14.43.405 - Administration
- AS 14.43.406 - Applicability of other laws
- AS 14.43.415 - Eligibility; priority
- AS 14.43.420 - Limitation on grants

Article 13 General Provisions

- AS 14.43.915(a) - Alaska education grant account

Section 22: Transition: Scholarships for graduating classes before 2018.

A person who has been awarded an APS and is a member of the high school graduating class of 2017 or earlier may continue to receive an annual award.

- Seniors in high school now will get an award for 4 years
- Freshman in college now will get an award for another 3 years
- Sophomores in college now will get an award for another 2 years
- Juniors in college now will get an award for another 2 years.

Section 23: Transition

The Departments of: Education and Early Development, Labor and Workforce Development and the Alaska Commission on Postsecondary Education may adopt regulations to implement necessary changes made by this act. The regulations may only take effect after the law is implemented.

Section 24: Retroactivity

If Sections 2-4 of this Act take effect after July 1, 2017, then sections 2-4 of this act are retroactive to July 1, 2017.

Section 25: Effective Dates

Sections 8, 9, 11, and 13 take effect Feb. 1, 2021.

Section 26: Effective Date

Except as provided in section 25 of this Act, this Act takes effect immediately.

[9:09:01 AM](#)

Senator Micciche asked if there was a typographical error (typo) in the sectional analysis or in the bill that stated that juniors in college would get an award for another two years.

Ms. Hutchison confirmed that there was a typo, and juniors in college would only receive the award funding for one more year if the bill were to pass.

Co-Chair MacKinnon WITHDREW her objection. There being NO OBJECTION, it was so ordered. The CS for SB 103 was ADOPTED.

Vice-Chair Bishop MOVED to ADOPT Amendment 1:

Following "repealed" 2
Delete "February 1" 3
Insert "May 30" 4

Page 16, line 8 6
Following "July" 7
Delete "1" 8
Insert "30" 9

Page 16, line 9 11
Following "July" 12
Delete "1" 13
Insert "30" 14

Page 16, line 10 16
Following "effect" 17
Delete "February 1" 18
Insert "May 30"

Co-Chair MacKinnon OBJECTED for discussion.

Ms. Hutchison stated that the conceptual amendment was requested by the Alaska Postsecondary Education Commission to better align the effective dates with its current processes and deadlines. She detailed that the amendment changed all February 1, 2021 effective dates to May 30, 2021; and changed all July 1, 2017 effective dates to July 30, 2017.

Co-Chair MacKinnon WITHDREW her OBJECTION. There being NO further OBJECTION, it was so ordered. Amendment 1 was ADOPTED.

Co-Chair MacKinnon set SB 103 aside.

^PRESENTATION: SPRING REVENUE FORECAST UPDATE

[9:11:16 AM](#)

RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, discussed the presentation "Revenue Sources Book - Spring 2017" (copy on file). He thanked the committee for the opportunity to update the committee on the spring update to the Fall Revenue Forecast; with numbers updated by additional data received since the previous fall. He

referred to speculation by the other body that the department had withheld information in order to direct the discussion on the state's fiscal situation; and stated that it was not true. He emphasized that the department had been committed to providing the best information possible as timely as possible.

Commissioner Hoffbeck continued that the department had the forecast in final draft a month previously. He stated that there was always some risk in presenting information prior to receiving tax returns at the end of March, due to lack of data. The department had recognized that it would have to issue advisory bulletin 2017-01, that dealt with how cashable tax credits could be treated. He had directed staff to return and rework the numbers to show the impacts of the tax returns and the advisory bulletin; rather than put out preliminary numbers that would then be substantially changed.

Co-Chair MacKinnon recognized members in attendance.

[9:14:01 AM](#)

Commissioner Hoffbeck showed slide 4, "FORECAST CHANGE: Production Tax Revenue Highlights":

- Oil price forecasts up by 7% for FY17. Post FY 2018 unchanged from fall forecast
 - Long-term prices (FY 2025+) expected to settle around \$70-75 real
- Oil production forecasts up by 7% for FY17. FY18 forecast increased by 1%.
 - Long-term forecast decreased slightly (~ 2% per year)
- Unrestricted revenue forecast increased due to higher oil price and production forecasts

Commissioner Hoffbeck informed that slides 5 and 6 broke down the forecast numbers by year. He turned to slide 5, "FORECAST CHANGE: Comparison from Fall 2016 Forecast for FY 2017." He noted that the oil price had gone from \$46.81 in the fall 2016 forecast to \$50.05 in the spring 2017 forecast. There had been a 7 percent change. Production went from 490,000 barrels to 523,000 barrels a day, which signified a 7 percent increase. Based on new data, the lease expenditures and transportation costs had been reduced within the department's calculations. The net

affect was that Unrestricted General Fund (UGF) petroleum revenue for the current fiscal year would go from \$967 million to \$1.158 billion, which signified an approximately 20 percent increase in revenues for FY 17.

Co-Chair MacKinnon referred to the 'ANS Deductible Lease Expenditures' line, and asked if the information was related to the department's advisory bulletins. She wondered if the deductible lease costs were based on price, or something internal.

Commissioner Hoffbeck stated that the line was not impacted by the recent advisory bulletin, but was actual lease expenditure information that was provided by industry and was lower than what was anticipated.

Commissioner Hoffbeck viewed slide 6, "FORECAST CHANGE: Comparison from Fall 2016 Forecast for FY 2018," which showed the table from the previous slide, updated with data for FY 18. He pointed out that the fall 2016 oil price forecast went from \$54, and it was unchanged. The price was consistent with current prices and with futures one year out. The price was also consistent with what the department was seeing from other price forecasting entities.

Commissioner Hoffbeck noted that the production forecast went from 455 bbls/day to 459 bbls/day. He noted that staff from the Department of Natural Resources would be available to discuss the production forecast in greater detail. He noted there were slightly higher deductible lease expenditures and transportation costs in the forecast, and reported an UGF increase of \$179 million in FY 18. He explained that the difference in UGF was primarily driven by the advisory bulletin and the way cashable credits were being treated, since fewer credits would be used against tax liability. He noted that if the department had issued the forecast a month previously, the number would have been closer to \$62 million versus the \$179 million reflected on the slide. The difference was indicative of the kind of change that prompted the department to rework the numbers before presenting to the legislature. He added that 50,000 bbls/day was worth \$100 million in revenue.

Commissioner Hoffbeck read slide 7, "Spring 2017 Total Revenue Forecast." He stated that the remaining slides would put background behind the first set of slides.

[9:18:38 AM](#)

Commissioner Hoffbeck discussed slide 8, "REVENUE FORECAST: 2016 to 2018 Unrestricted General Fund (UGF) Revenue," which depicted a summary of the various non-petroleum revenues. He noted that the department was now forecasting \$1.646 billion in revenues for FY 17; which was up from \$1.4 billion in the fall 2016 forecast. For FY 18, the department forecast \$1.831 billion in revenues, which was up from \$1.6 billion in the fall 2016 forecast.

[9:19:13 AM](#)

AT EASE

[9:21:20 AM](#)

RECONVENED

Co-Chair MacKinnon asked to go back to slide 6. She thought she had heard the commissioner state that 50,000 bbls/day equated to \$100,000.

Commissioner Hoffbeck clarified that 50,000 barrels per day equated to \$100 million in new revenue.

Vice-Chair Bishop asked at what price of oil was 50,000 bbls/day equal to \$100 million.

Commissioner Hoffbeck confirmed that 50,000 barrels per day equated to \$100 million when oil was priced \$54/bbl.

Commissioner Hoffbeck reviewed slide 9, "REVENUE FORECAST: Revenue Available for Appropriation":

- Useful for outside analysts not familiar with Alaska's budget conventions
- Better reflects ability of state to meet its obligations
 - Alaska has a budget framework that restricts certain revenue based on constitution, statute, or customary practice
 - The ability of the state to meet its obligations is not fully reflected by the UGF revenue category
- All revenue subject to appropriation for any purpose can be used by the legislature to fund government services or obligations, including:
 - Constitutional Budget Reserve Fund

o Earnings Reserve of the Permanent Fund

Commissioner Hoffbeck stated that slide 9 was an overview of total revenue available for appropriation, which did not fit well into discussion on a fiscal plan. He stated that the department had started to include the slide in all budget presentations to give a better picture of total state revenue to pay for government services.

Commissioner Hoffbeck spoke to slide 10, "REVENUE FORECAST: 2016 to 2018 Totals to Appropriate," with a data table that showed total revenue subject to appropriation for FY 17 was \$5.35 billion, and for FY 18 would be \$5.8 billion. He stated that the biggest difference between the two years was the realized earnings of the Alaska Permanent Fund.

[9:23:04 AM](#)

AT EASE

[9:23:38 AM](#)

RECONVENED

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, referred to slide 10. He questioned whether people unfamiliar with Alaska's reserves would understand the state's ability to continue to fund its budget. He referred to available revenue; which counted investment earnings of the Constitutional Budget Reserve Fund (CBR), and the realized earnings. He wondered why the full reserve balance was not counted as available to spend.

Commissioner Hoffbeck stated that a decision had been made as to how the information was presented, and the administration wanted to present the ongoing revenues that were available. He considered that if the entire balances of the funds were put in the totals, it would show a huge amount that could not be duplicated year after year. He offered to present the information to include the total balances of the funds.

Mr. Teal stated that when the Legislative Finance Division (LFD) had presented the its view of state revenue, it had included realized earnings, but only that portion of earnings that were scheduled to be paid out to the General Fund (GF). He thought revenue available to spend should reflect only the payout rather than the full balance of the fund.

Co-Chair MacKinnon asked the commissioner to comment on any assumptions in the revenue forecast that were not currently in statute.

Commissioner Hoffbeck believed that everything that was in the revenue forecast complied with existing state statute. He stated that there were assumptions that the revenues from the Permanent Fund were available for appropriation, even though they were not currently being used that way. He stated that he would inform the committee after checking with his staff if anything varied from what he stated.

Co-Chair MacKinnon asked the commissioner to confirm if there were any other assumptions, as the legislature had not used the ERA before.

[9:27:12 AM](#)

Co-Chair Hoffman asked if there was a change in presentation that was different than past years.

Commissioner Hoffbeck responded that the department had started to present in the current manner the previous year, in response to push back the department had received in New York, where people had been focused on UGF revenues. He had to explain every year that there were additional funds for appropriation. The numbers were included in the Revenue Sources Book to provide an official document that showed the complete data for when the department was talking with bond rating agencies and other entities. He asserted that he was happy to work with LFD to find a format that everyone was comfortable with. He emphasized that the slide format was not an indication of any change in how the state was doing business, but rather was intended to show how much money was available for appropriation when talking to outside entities.

Co-Chair Hoffman thought the matter should be explicated in a footnote, because the way it was presented on the slide did not provide the total picture.

Commissioner Hoffbeck stated that slide 9 had been an explanation, and there was an entire section within the Revenue Sources Book that explained the reasons behind the format.

Co-Chair MacKinnon stated that the committee had received the presentation documents with very little time to review the information.

Senator von Imhof asked if Commissioner Hoffbeck felt as if he might change the way he presented the Permanent Fund earnings in future Revenue Sources Books if the state moved to a Percent of Market Value (POMV) revenue source.

Commissioner Hoffbeck answered in the affirmative, and stated that the department would parse out the numbers to show any statutory provisions.

Commissioner Hoffbeck turned to slide 12, "PRODUCTION FORECAST: ANS Details," which showed the numerical values behind the spring 2017 ANS Oil production forecast. He furthered that the 2017 official production forecast number was 523,686 bbls/day; while the 2018 forecast number had a 12 percent decline to 459,863 bbls/day. He stated that DNR would discuss the decline, but had not done a new forecast for the fall. The department had updated the spring production numbers based on year-to-date production, but would not do an entirely new forecast until fall 2017. He informed that the 2018 forecast number was a "stale" number, and DOR wanted to make note of the 50,000/bbl increase equating to \$100 million.

Co-Chair MacKinnon asked if the number was stale the previous year when the spring forecast had been presented.

Commissioner Hoffbeck stated that the previous spring the department had been using a contract forecaster, and was not sure if the department had been given a full update in the spring. The data had been updated but a new forecast had not been completed.

[9:31:57 AM](#)

AT EASE

[9:32:26 AM](#)

RECONVENED

Senator von Imhof thought the information on slide 12 was important to present correctly. She referred to the DOR website, which tracked daily oil production. She noted that production had been well above 500,000 bbl/day from September 1, 2016 to the present. She referred to the

commissioner's comments about the stale number, and observed that there were live numbers tracked daily.

Commissioner Hoffbeck showed slide 13, "PRODUCTION HISTORY," which had a line graph demonstrating the last three years of oil production. He thought the graph demonstrated that biggest driver of the increased production in the early part of the year was the lack of a major turnaround in the late summer of 2016. He noted that FY 17 had started with a head start (as shown on the red line on the graph) where the other two prior years on the graph had significantly reduced production during turnaround maintenance in the summer. He noted that the red line stayed below the prior year's production until the month of December. When DNR was doing its forecast, the production was largely below the line, while the annual average was higher because of the lack of the significant maintenance turnaround. He stated that it wasn't until September that there was new increased production. He thought that the industry had even outperformed its own production forecasts. He stated that the red line was already starting to turn as it headed into the warmer season on the North Slope; and production normally fell as it warmed up. He informed that there was a recognition of substantially more production than was currently being forecast.

Senator von Imhof wondered about a drop in oil production in the coming summer. She asked the commissioner if he communicated with oil companies as part of the forecast analysis, and if he asked about anticipated maintenance or foreseeable problems.

Commissioner Hoffbeck answered in the affirmative, and specified that the forecast was an annual process, and the department communicated with companies as it prepared the fall forecast. He continued that the department had not had significant contact to update the current forecast. He deferred to DNR, who primarily calculated the production forecast.

[9:36:26 AM](#)

Senator Micciche agreed that it was a particularly important time not to include a stale number in the spring forecast. He stated that there had been two years of increased production for the first time in 14 years. He

thought a 12 percent decline had never occurred other than an operational decline in 2006. He thought the committee could speak with DNR to identify an adjustment that be used by the committee to be more helpful in identifying an expected gap for FY 18 and beyond. He thought actuals should be risked-out instead of leaving a stale number in the assumption. He wanted to identify a better solution for which numbers could be conservatively used in committee.

Co-Chair MacKinnon explained that on slide 12, the administration had reflected a 2 percent increase of the official forecast, and the 2017 number showed an increase in production. When the 2018 official forecast was examined, there was only a few current months included in the projection, and it was an un-updated (or "stale") number. She thought that when there was a spike of 7 percent showing in the current figures, it was distorting the difference between 2017 and 2018 numbers. She furthered that even though the figures showed a 12 percent decline, there was better 2017 performance to consider.

Commissioner Hoffbeck discussed slide 14, "PRODUCTION FORECAST: ANS," which showed the relative impact of currently producing fields versus those under development and evaluation. He stated that the big driver for the data was fields that were already online and producing. Although there were new fields being developed, they were largely a skin on top of production from major fields.

[9:40:12 AM](#)

Commissioner Hoffbeck reviewed slide 15, "PRODUCTION FORECAST: Excluded from Forecast":

Characteristics:

- Unknown first-oil date/estimated greater than 5 years
- Discovery (contingent resource) or just prospects (prospective resource)
- Uncertain finances (e.g., sourcing for private equity)
- Facilities incomplete or nonexistent
- Projects in Appraisal
- Technological Uncertainty
- Environmental/Permitting Uncertainty
- Economic Uncertainty

Examples: Pikka, Ugnu, Placer, Tofkat, Pt Thomson
(MGS or full-cycling), Liberty, Fiord West, Smith Bay

Commissioner Hoffbeck thought slide 15 was important; and that it addressed the issue of projects that had been announced, yet fell outside the parameters of the forecast. He thought it was important to consider that some of the fields listed on the slide could come online somewhere within the 5 to 7-year horizon.

Co-Chair MacKinnon asked if the types of fields listed on the slide had been previously included in the forecast.

Commissioner Hoffbeck stated that the projects would not have been included in prior forecasts. He stated that past forecasts (that were done by another entity) had included such projects, but that they had been adjusted to compensate for risk. He thought the practice had created an over-forecast in the midterm, because most of the fields were delayed. Rather than use the risking process, DOR made the decision to remove the prospective fields from the parameters of the report.

Co-Chair MacKinnon appreciated the explanation and the conservative approach to price and production. She relayed that the committee had looked at decades worth of estimations by the department to evaluate forecasts. She commented on the inaccuracy of forecasts, and was concerned that the forecast was distorted on the low side. She referred to an internal discussion the previous fall relating to price and production, and thought that there might not be confidence in the forecast numbers.

Commissioner Hoffbeck discussed slide 17, "PRICE FORECAST: Nominal ANS Price Distribution" which showed a line graph and a data table depicting the adjustment that was made on the price forecast. The price matrix had been developed in DOR's fall price forecasting session; the numbers that were produced in the fall Revenue Sources Book were represented by the 50 percent line on the graph. There had been an almost \$5 bump in oil price almost immediately after the figures were published, which he attributed to Saudi Arabia reaching agreement to reduce production. The department had moved the forecast for FY 17 down to the 60 percent line, but had left the rest of the graphs consistent with the fall forecast numbers. He thought that the fall forecast might be overly optimistic, although the numbers were

consistent with what other price forecasters had published. He thought the \$60/bbl price was a difficult price point to pierce.

[9:44:51 AM](#)

Commissioner Hoffbeck moved to slide 18, "PRICE FORECAST: Impact of other prices in FY 2017," which showed a data table depicting ANS Price Sensitivity. As of the beginning of March, the price of oil was \$51.81/bbl. If the oil price averaged \$50 per barrel for the rest of the year, the year's average would be \$49.31/bbl. He discussed the forecast price based on various oil prices averaged into the total for the year.

Commissioner Hoffbeck showed slide 19, "PRICE FORECAST: Historical ANS West Coast Price 2015+," which showed a line graph. He pointed out a flattening (with a little more certainty) for the previous five months, which was a significant change from what had been seen in several years. He thought Oil Producing and Exporting Countries (OPEC) was having some success in controlling oil price with its production.

Commissioner Hoffbeck turned to slide 21, "COST FORECAST: North Slope Capital Lease Expenditures," which showed a line graph with updated data from producers and developers. He noted that capital expenditures were a little less in the near term, but peaking higher in 2019 and 2020 before dropping back to the forecasted line.

Commissioner Hoffbeck reviewed slide 22, "COST FORECAST: North Slope Operating Lease Expenditures," which depicted a line graph. He pointed out operating lease expenditures at a higher level going in to FY 18.

Commissioner Hoffbeck discussed slide 24, "CREDITS FORECAST: Compared with Production Tax," which showed a bar graph showing credits against the production tax. The slide showed the severance tax component. He commented that the state was above the line on revenues from severance taxes. He explained that the data assumed the statutory appropriation, and the adjusted appropriation with the new forecast would be \$76 million for FY 18. After the statutory appropriation, the state would be left with approximately \$1.04 billion in unpaid credit certificates by the end of FY 18.

Co-Chair MacKinnon commented that the administration had caused the backlog of tax credits, after the governor had twice vetoed the legislatures attempt to pay the credits.

Senator Hughes referred to slides 24 and 25, and noted that the slides combined Cook Inlet with North Slope tax credits. She understood that the figures were combined to look at the overall revenue picture, but thought it was misleading because of different tax regimes. She asked if the commissioner could discuss the information while separating out Cook Inlet from the North Slope information.

[9:48:23 AM](#)

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, informed that more than 95 percent of the revenue originated from the North Slope. He continued that a little more than half of the earned tax credit obligation was for Cook Inlet, specifically on the cashable credit side. The credits that were used to offset cash liability were almost entirely from the North Slope, because there was more liability on the North Slope. He stated that because slides 24 and 25 dealt primarily with revenue, there would not be a dramatic change by removing Cook Inlet data; as opposed to looking at how credits were earned or total credit obligation analyses.

Co-Chair Hoffman referenced the \$1 billion liability at the end of FY 18, and wondered if it would change if SB 26 [2017 legislation that proposed restructuring the Permanent Fund and provided for a spending cap] were to pass. He wondered if the administration would have a different approach to the tax credits and pay more than the statutory minimum.

Commissioner Hoffbeck stated that the previous year the governor had proposed a credit payoff of \$1 billion as part of a total fiscal package. He thought the governor had not wavered from his desire to pay off the credits if he had a full fiscal package. He thought the governor would be looking at something more than SB 26 to be able to pay off the credits. He mentioned components such as tax measures that the governor would consider as part of a total fiscal package. He asserted that the governor saw the tax credit liability as a way to interject money into the economy and into the oil patch, but felt as though there needed to be a

solid fiscal basis to make payments beyond what was statutorily required.

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Commissioner Hoffbeck turned to slide 25, "CREDITS FORECAST: Compared with Unrestricted Petroleum Revenue," which showed a bar graph that looked at the credits against unrestricted petroleum revenue including royalties, property tax, and corporate income tax.

Commissioner Hoffbeck read slide 26, "Spring 2017 Advisory Bulletin."

Mr. Alper reviewed slide 27, "REVENUE FORECAST: Advisory Bulletin Impacts":

- DOR Advisory Bulletin (2017-1)
 - Clarification of existing regulation regarding the application of per taxable-barrel credits for non-GVR oil (024(j))
 - If a company applies 024(j) credits, they cannot use other credits to reduce below minimum tax
 - A company can forego their use of the 024(j) credits and use other credits to reduce below minimum tax (if allowed)
 - Estimated Impacts:
 - 2014 to 2016 Tax Years: ~ \$50 - \$100M tax due to the State
 - 2017 and 2018 small UGF increases
 - Credit transfers decrease in FY 2018, thus less are used against tax liability. This increases both tax revenue and balance of credits outstanding.

Mr. Alper spoke to slide 27, and recounted that the department had learned it had been giving some contradictory information. There had been lack of clarity as to the sequencing of use of credits. He informed that the statutory provision (that applied to the application of per taxable-barrel credits for non-GVR oil) hardened the minimum tax floor to the per-taxable-barrel credit that was passed as part of SB 21. He stated that some taxpayers had used the credit to get down to the minimum tax level, and then used other credits to go further and pay as low as zero. After reading the regulations in deeper detail, the department had found that it was clearly stated that if one

was using other credits in addition to the per-barrel credit, it was not possible to go below the hardened floor.

Mr. Alper continued discussing the advisory bulletin and slide 27. The department had realized that it needed to publish the advisory bulletin before the 2016 taxes were due. The provision took effect January 1, 2014; so businesses might have to correct 2014 and 2015 taxes. He relayed that there was a 6 to 7 page advisory bulletin, which was a relatively technical memo that explained how companies must use credits in combination. It provided an option (quite relevant given low oil prices in recent years) so companies could forego per-barrel credits and reduce taxes to zero. He thought realistically that as the price of oil approached a few dollars within the break-even point, the amount of per-barrel credits earned could be quite minimal or even zero.

Mr. Alper continued discussing slide 27, noting that there was a few dollars' worth of amended returns, mostly having to do with small producer credits. In the fall forecast the department had looked at \$100 million worth of older credits being sold to major companies and used to offset taxes; the amount had come out of the forecast.

[9:56:16 AM](#)

Vice-Chair Bishop commented that he would have taken the \$100 million and paid down the debt.

Commissioner Hoffbeck showed slide 28, "REVENUE FORECAST: Advisory Bulletin Impacts," which showed a line graph entitled 'Spring 2017 Forecast UGF Revenue.' He explained that the graph showed the impact of the spring forecast with and without the guidance of the advisory bulletin. He thought it was possible to identify the \$100 million associated with the provision.

Commissioner Hoffbeck reviewed slide 29, "REVENUE FORECAST: Advisory Bulletin Impacts," which showed a bar graph entitled 'Spring 2017 Forecast Credits Available for Purchase.' The slide showed the forecasted credits available for purchase by year. He noted that 2018 reflected carry-forwards, as well as the net effect of the difference with and without the guidance of the advisory bulletin.

Co-Chair MacKinnon stated that the committee would like to see slide 29 considering the last 20 years, so as to observe what the current administration had done with tax credits.

Commissioner Hoffbeck asked if Co-Chair MacKinnon wanted the information to reflect the 024(j) guidance provision in the advisory bulletin.

Co-Chair MacKinnon asserted that the administration had created a spike, and there had not previously been the same amount of carry-forward. She thought the people of Alaska deserved to know where the problem had happened, and who had contributed to it.

Commissioner Hoffbeck clarified that slide 29 reflected total credits, rather than just the 024(j) provision.

Co-Chair MacKinnon elucidated that her request was to see the information that was presented on the slide exactly, but for the previous 20 years.

Co-Chair MacKinnon thought that the committee wished to discuss production numbers. She asked about the variance in the 12 percent decline rate that was being shown for 2018.

[9:58:54 AM](#)

CHANTAL WALSH, DIRECTOR, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, explained that when Department of Natural Resources (DNR) had done the forecast; it was done for the 2017 and 2018 time-frame. She reminded that it was the first time that DNR had done the forecast. When the forecast was updated to reflect the new numbers in 2017, the forecast was untouched except for substituting in the values for real production data. She reminded that the state finished its second year with incredible flat production on the North Slope. The aging fields had shown virtually no decline. She applauded the producers for the phenomenon; and referenced Kuparuk and Prudhoe Bay, which had seen 4 percent to 6 percent annual declines. She referred to the previous couple of years of very good production, and stated that when the department re-did the forecast, 2017 would play a major part in how the future was forecast.

ED KING, DEPARTMENT OF NATURAL RESOURCES, stated that the department had conducted a forecast in the fall, which had not been updated. He stated that the department would conduct a new forecast the subsequent fall for the next publication. He clarified that the numbers being observed for FY 18 had not been updated, and department did not anticipate a 12 percent decline over the next year.

Co-Chair MacKinnon explained that the committee needed the forecast to plan the budget in the waning days of session. She expressed concern over the 12 percent variance in the forecast. She appreciated DOR supplying updated information. She stated that production would play a huge role in the economic picture used to move forward with legislative decisions. She asked if there was any way to model a forecast reflecting updated production and oil price numbers for a clearer picture.

[10:03:56 AM](#)

Ms. Walsh recognized the need to adjust the 12 percent decline that was calculated from a stale number. She cautioned that it would be rather optimistic to hold flat production for multiple future years, particularly given the recent low oil price. She acknowledged that there had been flat production for two years, but recognized that there had been less spending.

Co-Chair MacKinnon asked Ms. Walsh if there was new technology that contributed to a higher recovery rate.

Ms. Walsh stated that although there was new technology being implemented, she thought the largest contributing factor in the flat production was major companies using smart ways of operating the fields.

Senator Micciche understood the approach being presented. He was concerned with the change in philosophy away from an independent peer review and without an external evaluation of the forecast. He did not believe that the numbers were trying to drive the members towards certain policy decisions. He thought the department had used the same logic the previous year, in asserting that reduced spending was likely to result in lower production. He referenced page 10 of the Revenue Sources Book from fall 2016. He thought it was important to take risk into account. He thought there were many first-time components in the

Revenue Sources Book, including other revenue sources, consumption taxes and income taxes. He stressed the importance of having good numbers at the present time.

[10:07:38 AM](#)

Mr. King contextualized that the process had always been the same, in which the spring update was simply an update to the current fiscal year rather than a new forecast. Past consultants had engaged in the same process. He stated that the current year was different in that the industry was in the position of needing to do more with less, and had done an amazing job. The department would go through the process of examining the data and how to improve forecasting. He was sensitive to the comment by Senator Micciche and thought it was not unreasonable to run the scenarios at different price and production levels. He thought industry examined ranges of numbers and made decisions based on beliefs. He shared that with reduced budgets, the task of producing the forecast was arduous, and the department could not update the forecast monthly as new data came in. He stated that the department was doing the best it could, and was happy to accommodate the committee and improve the process.

Senator Micciche thought there was a significant margin of error in the data. He thought using forecasts to the penny was not a fair comparison.

Co-Chair MacKinnon thought it would be easier to ask that the department model a variation of increments in production. She had the perspective that the forecast was an undervaluing of production in 2017 and 2018.

Ms. Walsh stated that the department would take on the task of providing the committee with forecast data in a range. She wanted to clarify how the department's approach was impacted. She informed that the major oil companies also outperformed their forecast, and the previous years were anomalous.

[10:11:55 AM](#)

Senator Micciche remarked that at some point anomaly became trend. He considered that the statistics were bordering on trend, and thought there was a balance to consider.

Mr. King agreed with Senator Micciche's comments. He commented on the forecast that was made the previous fall, and stated that the department would take new information into account when it updated the forecast. He suggested that DNR did not have the resources to do a full-fledged field-by-field forecast the way it did annually in the fall. He thought having a range of numbers was an excellent idea for the legislature and how it approached budgeting. He reiterated that it was appropriate to look at a range of prices and production levels rather than very specific point estimates.

Vice-Chair Bishop associated himself with Senator Micciche's comments, and stated that there should be a disclaimer on slide 12 to reflect the information being discussed about the stale number. He anticipated getting calls from constituents regarding the inaccurate numbers.

Co-Chair MacKinnon expressed appreciation for the information and modelling provided by DNR. She thought a range of numbers provided an opportunity for the committee to speculate on a variety of price and production numbers.

Senator von Imhof discussed modelling and production forecasts as represented in the slide. // She looked at the P10 row on slide 12, and observed that it made sense to do some double checking of the data after 8 months had passed since the initial forecast. She looked at slide 6, and thought running through the numbers with a forecast of 475,000 bbls/day in oil production would be good.

Mr. King thought that Senator von Imhof's estimation of 475,000 to 490,000 was a very likely range in which the coming year's forecast would fall. He thought the change would equate to \$30 million to \$50 million in extra revenue.

[10:17:09 AM](#)

Co-Chair Hoffman commented on slides 5 and 6, and thought that as a result of the spring forecast for 2016 and 2017, the state would see increased revenue of \$370 million.

Senator Micciche clarified that the committee was considering a fiscal plan that was outlined in SB 26, and was concerned that stale numbers would affect the ability to move forward with solutions. He stated that the

modelling demonstrated that SB 26 worked as a fiscal plan; but if production was dropped, there would be a gap. He thought it was clear that no one expected the drop in production for FY 18 that was reflected on slide 24. He emphasized the importance of the forecast numbers.

[10:19:41 AM](#)

AT EASE

[10:20:16 AM](#)

RECONVENED

Co-Chair MacKinnon referred to a DOR press release, which showed \$200 million in increased revenue expected for FY 17, and \$208 million in increased revenue expected for FY 18. She asked the commissioner to describe why the numbers were different than slides 5 and 6 of the presentation.

Commissioner Hoffbeck stated that the difference was that slides 5 and 6 reflected only unrestricted petroleum revenues; while the numbers in the press release reflected total revenue increases.

[10:21:29 AM](#)

AT EASE

[10:36:23 AM](#)

RECONVENED

#sb102

SENATE BILL NO. 102

"An Act relating to funding for Internet services for school districts; and relating to the Alaska higher education investment fund."

[10:36:33 AM](#)

Co-Chair MacKinnon discussed SB 102. She noted that the public hearing had been opened and closed on the bill on April 10, 2017. The bill changed the baseline download speed from 10 megabits per second (Mbps) to 25 Mbps for schools in Alaska.

HEIDI TESHNER, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT (via teleconference), discussed a new fiscal note (OMB component

208). She detailed that within the fiscal note there was \$34,000 requested for FY 18. The amount included \$30,000 for additional contract houses and technical support for reviewing applications. In addition, there was \$4,000 related to legal services costs related to regulation changes. It was projected that the increase from 10 Mbps to 25 Mbps would signify an approximately \$16 million grant to the additional qualifying school districts.

Co-Chair MacKinnon asked why a contractor with an additional fee of \$30,000 was needed to maintain the current program when existing schools already had 10 Mbps of connectivity.

Ms. Teshner understood that currently the contractor was part-time, and the additional funding would go toward processing additional applications after more school districts qualified for funding.

Co-Chair MacKinnon was not sure of the accuracy of the fiscal note. She wondered about the connection of other projects. She reminded that the bill addressed existing schools, and did not include new construction that would require additional confirmation to qualify for funds.

Ms. Teshner stated that the \$30,000 on the fiscal note would be split; with \$15,000 to approve additional applications, and \$15,000 for the expected additional technical support to districts to help with applications.

[10:40:37 AM](#)

Co-Chair Hoffman stated that the Unalaska School District had informed that it could not go to 25 Mbps because of the capacity of satellites.

PATIENCE FREDERIKSEN, DIRECTOR, LIBRARIES ARCHIVES AND MUSEUMS (via teleconference), stated that if Unalaska was already receiving 25 Mbps, it would not be eligible for the enhanced grant that was proposed in the bill. Only districts with under 25 Mbps would be able to apply for the funding.

Co-Chair Hoffman restated that the district currently had 20 Mbps of download, which it shared between the school and the library. He continued that because the district was

receiving the services through the satellite system, it could not expand the connectivity.

Ms. Frederiksen understood that the Alaska Telephone Association had authored a letter of support for the bill, and had guaranteed that every school district could receive up to 25 Mbps with the networking that was in place. Additionally, schools that were receiving internet through satellite would be able to take advantage of the 25 Mbps. She emphasized that she was speaking outside her area of expertise.

Senator Hughes stated that there was rapidly advancing technology that might be able to help with internet connectivity. She understood that a new satellite had been launched recently over the State of Texas, and was giving speeds of 75 Mbps in a spot in Southeast Alaska. She thought the technology was being tested.

[10:44:11 AM](#)

Co-Chair MacKinnon referred to the new fiscal note, and was uncertain why \$30,000 was needed to process grant applications. She thought the expenditure should be for one-time contact rather than recurring contact.

Ms. Frederiksen stated that the e-rate contractor in place reviewed grant applications closely. She specified that the application was a spreadsheet, and the law needed to be followed. She discussed certifying school districts that were receiving less than 10 Mbps. There had been school districts that had sent quotes from internet service providers that showed purchase of 50 Mbps that was split between schools, and the arrangement had not fit the criteria for the law. She discussed the complexity of the extensive e-rate application as it pertained to the criteria of the program. It had taken the e-rate coordinator two full weeks of work to review applications the previous fall. The applications changed each year. She added that the process was intensive and required numerous phone calls, ergo the need for additional funding. She added that the state was going from a \$2.7 million program to a \$16 million program, and the stakes were much higher.

[10:47:35 AM](#)

Ms. Hutchison clarified that the purpose of SB 102 was for every individual school to have the ability to apply for and receive broadband assistance grant funding. Each eligible school could be brought up to an internet download speed of 25 Mbps. The amount would not be divided in a district, but would be for each individual school.

Senator Olson thought there were some schools that did not have the infrastructure to take advantage of the program. He asked how many schools would not be able to take part in the program.

Ms. Hutchison did not have the numbers Senator Olson requested. She referred to a support letter from the Alaska Telephone Association (the umbrella group for all internet service companies), which iterated that current technology and infrastructure was able to deliver 25 Mbps to all schools in Alaska.

Co-Chair MacKinnon commented that infrastructure was not covered in the bill.

Senator Olson asked if there were schools that could not take advantage of the grant funds.

Co-Chair MacKinnon stated that there was no funding to connect schools that were not already connected. She continued that there was another project that was trying to provide services to other communities. She did not have a list of schools that did not qualify, but offered to obtain the information for Senator Olson.

Co-Chair Hoffman MOVED to report SB 102 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 102 was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Education and Early Development.

#sb103

SENATE BILL NO. 103

"An Act establishing the Alaska education innovation grant program; eliminating the Alaska education grant program and the Alaska performance scholarship program; redesignating the Alaska higher education

investment fund as the Alaska education innovation grant fund; and providing for an effective date."

[10:51:00 AM](#)

Co-Chair MacKinnon spoke to CSSB 103(FIN).

PAUL PRUSSING, ACTING DIRECTOR, DIVISION OF STUDENT LEARNING, DEPARTMENT OF EDUCATION and EARLY DEVELOPMENT (via teleconference), discussed a new fiscal note (OMB component 2796). The fiscal note showed funding for staff to run a grant program.

Co-Chair MacKinnon noted that there would be a cost of \$232,600 in FY 18 from the Higher Education Fund Designated General Fund receipts; and in FY 19, there would be a cost of \$228,600 through FY 23. Regulations would need to be re-written.

Co-Chair MacKinnon addressed a new fiscal note (OMB component 2738).

STEPHANIE BUTLER, COMMISSION ON POST-SECONDARY EDUCATION (via teleconference), discussed the new fiscal note (OMB 2738). She regretted that the fiscal note was based on an incomplete understanding of the CS, and was in the process of being re-done. She pointed out that the fiscal note was expressed as a decrement, which was the difference between the FY 18 amount requested and the anticipated cost under the new model in the CS. The anticipated FY 18 decrement would be for \$1.490 million; for FY 19, \$2.638 million; for FY 20, \$3.611 million; for FY 21, \$4.4423 million; and with \$5.150 million for each subsequent fiscal year.

Co-Chair MacKinnon addressed a new fiscal note (OMB component 2990).

Ms. Butler informed that the fiscal note would also be updated. She detailed that it was expected that the decrement regarding the Alaska Education Grant was the difference in the \$5.750 million reflected in the original FY 18 budget and the anticipated costs going forward. The cost going forward for each of the four years of the program phase-out were \$5.130 million in FY 18; and FY 19, \$4.556 million; in FY 20, \$4.070; and in FY 21 \$3.664, after which there would be no costs for the grant.

[10:55:27 AM](#)

Co-Chair MacKinnon referenced a new fiscal note (OMB component 1296).

MILES BAKER, ASSOCIATE VICE PRESIDENT, GOVERNMENT RELATIONS, UNIVERSITY OF ALASKA (via teleconference), reviewed the fiscal note, which was not updated to reflect the recently adopted CS. He furthered that changes to two scholarship programs would affect the revenue that the University of Alaska (UA) received from potential student tuition. He noted that there was not an impact on the UA operating budget at the present time, but there was a projected change in revenue for FY 18. He thought the amendment adopted earlier in the meeting could help the situation. He stated that currently UA received approximately \$14.8 million total between the two programs, which would be phased out over the next several years and reach more of a steady amount from the Tier 1 students as defined in the bill. He had estimated that students receiving the Alaska Education Grant would be much less likely to attend UA were the grant not available, and would phase the students out over the following years. He was not sure how the change to the Alaska Performance Scholarship (APS) would affect UA. He stated that UA received about 98 percent of all the high school students that qualified for the APS.

[10:59:17 AM](#)

Co-Chair MacKinnon stated that UA would have to update the fiscal note if it was to be included in the bill documents going forward. She asked why the fiscal note showed negative numbers in FY 18, which was not affected by the bill.

Mr. Baker considered that based on the timing of the fiscal year, the timing of the academic aid year, and on the effective date of the bill; UA anticipated a couple of the cohorts of individuals that would have otherwise qualified for the scholarship in FY 18 would not have. He asserted that the University would need to examine the CS and the amendment in order to adjust the fiscal note.

Ms. Hutchison commented that after listening to public testimony it was understood that the scholarship helped to keep some of the best and brightest students in Alaska. The

proposed CS kept Level I of the program, which included 54 percent of recipients of APS; and phased out Level II and Level III. She thought the change would help to raise the academic bar for high school students, which had also been requested in public testimony.

Senator Hughes thanked the sponsor and staff for working on the bill.

Co-Chair Hoffman MOVED to report CSSB 103(FIN) out of Committee with individual recommendations and the forthcoming fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 103(FIN) was REPORTED out of committee with "no recommendation" and with one new fiscal impact note from the Department of Education and Early Development; and three new forthcoming fiscal notes: two fiscal impact notes from Department of Education and Early Development, and one fiscal impact note from the University.

[11:02:12 AM](#)

AT EASE

[11:02:20 AM](#)

RECONVENED

Co-Chair MacKinnon discussed the afternoon schedule.

#

ADJOURNMENT

[11:02:50 AM](#)

The meeting was adjourned at 11:02 a.m.