

SENATE FINANCE COMMITTEE
March 22, 2022
9:04 a.m.

[9:04:11 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson
Senator Natasha von Imhof
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Roger Holland, Sponsor; Lucinda Mahoney, Commissioner, Department of Revenue; Marcus Frampton, CIO, Alaska Permanent Fund Corporation; Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue.

SUMMARY

SB 132 CONTROLLED SUB. DATA: EXEMPT VETERINARIAN

SB 132 was REPORTED out of committee with seven "do pass" recommendations and with on previously published fiscal note: FN 1 (CED).

SB 235 NO STATE INVESTMENT IN RUSSIAN FEDERATION

SB 132 was HEARD and HELD in committee for further consideration.

PRESENTATION: DEPARTMENT OF REVENUE, SPRING FORECAST

#sb132

SENATE BILL NO. 132

"An Act exempting veterinarians from the requirements of the controlled substance prescription database."

9:05:29 AM

SENATOR ROGER HOLLAND, SPONSOR, presented a brief reintroduction of the bill. He stressed that veterinarians were not required to be HIPPA compliant and should not be required to participate in the prescription drug monitoring program.

9:06:30 AM

Co-Chair Stedman looked at the fiscal note attached to the bill. He read from the analysis:

SB 132 removes the requirement for Alaska-licensed veterinarians to register with the state's controlled substance prescription database, commonly referred to as the Prescription Drug Monitoring Program (PDMP). It also removes the requirement for veterinarians to review the animal owner's/caregiver's prescription history in the PDMP before prescribing, administering, or dispensing a federally scheduled II or III controlled substance, as well as the reporting requirement for submitting data on federally scheduled II - IV controlled substances. Under AS 17.30.200(d)(3), optional access by veterinarians would be permitted.

If the bill passes the following expenses will be incurred: Services: \$1.7 (legal costs to amend regulations, printing, and postage in first year) Professional licensing programs within the Division of Corporations, Business and Professional Licensing are primarily funded by Receipt Supported Services, fund source 1156 Rcpt Svcs (DGF). Licensing fees for each occupation are set per AS 08.01.065 so the total amount of revenue collected approximately equals the occupation's actual regulatory costs.

Senator von Imhof MOVED to report SB 132 out of Committee with individual recommendations and the accompanying fiscal impact note. There being NO OBJECTION, it was so ordered.

SB 132 was REPORTED out of committee with seven "do pass" recommendations and with on previously published fiscal note: FN 1 (CED).

[9:08:01 AM](#)

AT EASE

[9:10:18 AM](#)

RECONVENED

#sb235

SENATE BILL NO. 235

"An Act relating to certain investments of state funds in the Russian Federation and financial institutions profiteering from the Russian Federation's invasion of Ukraine; providing indemnity and immunity for certain investment actions taken in compliance with law; and providing for an effective date."

[9:11:13 AM](#)

LUCINDA MAHONEY, COMMISSIONER, DEPARTMENT OF REVENUE, discussed the presentation, "SB 235 Divestment Regarding Russian Entities" (copy on file). She related that the presentation would provide the committee with an overall bill summary. She said that the intent of the bill was to divest from certain investments in Russia and to establish policies relating to companies that could potentially be profiteering from buying and selling Russian securities on the secondary market. She relayed the general subject matter that would be discussed in the presentation.

[9:13:20 AM](#)

Commissioner Mahoney pointed to slide 2, "Alaskan Russian Investments":

- SB 235 Bill Summary
- Sanctions and Status
- Market Overview
- Treasury Investments
- Actions by Institutional Investors

- Fiduciary Standards
- Questioned and A
- Appendix A Additional slides presented to House State Affairs on 3/10/22

Commissioner Mahoney looked at slide 3, "SB 235 Bill Summary":

- Prohibits investment in and requires divestment of Russian assets in funds subject to AS 37.10.
- Assets include all sovereign debt of the Russian Federation and publicly traded securities of a company identified by the United States Department of Treasury, Office of Foreign Assets (OFAC).
- Provides for a 180 day exit from the assets once identified.
- Divestment is not required for comingled funds, but the fiduciary is required to request that fund managers consider divestment annually on January 31.

Commissioner Mahoney explained that OFAC is a division within the U.S. Treasury that had identified Russian institutions that were close to Vladimir Putin and that has a significant role in the Russian economy and were likely to be financial contributors to the invasion of Ukraine. She shared that all the institutions had been identified in Federal Executive Order 14024, which was issued on February 24, 2022. She said that the state had elected to use this federal guideline to identify the investments that should be divested from; 13 major Russian firms had been identified in the order with the overall goal to be to cripple the core infrastructure of the Russian financial system and inhibit Russia's ability to continue to fund the Ukraine invasion. She said that the as entities were added or deleted to the list defined by OFAC, the state would add or delete those entities from divestment. She spoke to the 180-day exit from identified assets and stated that there was currently no exchange market for the state to conduct a transaction and the valuations were uncertain and volatile. She added that it was unclear how ownership would be transferred or what would occur while the Society for Worldwide International Financial Telecommunications (SWIFT) system was shut down. She shared that a final concern was how the state could be assured that the divested investment would not be transferred to unscrupulous entities.

[9:17:20 AM](#)

Senator von Imhof pointed to the second bullet point on slide 2. She understood the date on which the list of identified assets had been released from OFAC was February 24, 2022.

[9:17:35 AM](#)

Commissioner Mahoney agreed.

[9:17:39 AM](#)

Senator von Imhof asked what day Russia had invaded Ukraine.

[9:17:45 AM](#)

Commissioner Mahoney did not have the information.

[9:17:49 AM](#)

Senator von Imhof believed that the dates were the same, February 24, 2022. She wondered whether OFAC might have had prior knowledge of the invasion to release the list of key divestment securities on the same day of the invasion.

[9:18:25 AM](#)

Commissioner Mahoney continued to address slide 3:

- Precludes the Commissioner of Revenue or other fiduciary from conducting business with banks who are "profiteering" from the Russian invasion of Ukraine.

Commissioner Mahoney relayed that several weeks ago it had been reported in several media networks that certain Wall Street companies were profiteering from the invasion. She said that under the legislation the state would determine whether banks were profiteering from the invasion and consider seeking alternative financial partners.

[9:20:13 AM](#)

Co-Chair Stedman wondered whether short sales firms working in derivative markets were including in profiteering considerations.

9:20:30 AM

Commissioner Mahoney replied that if the state became aware that companies were profiteering from the invasion the state would conduct due diligence to determine whether to continue to do business with the entity.

9:20:50 AM

Co-Chair Stedman assumed that included large Wall Street firms and large banks.

9:20:56 AM

Commissioner Mahoney replied in the affirmative.

9:21:04 AM

Senator Wielechowski noted that profiteering was defined in the bill as making an excessive or unfair profit. He wondered if the administration was okay with doing business with companies that were making a mediocre profit off the of the invasion.

9:21:28 AM

Commissioner Mahoney replied that the bill did not specifically define profiteering as making a certain percentage. She said that a figure would be established and developed in policy and would reflect the day-to-day changes of the market.

9:22:04 AM

Senator Wielechowski wondered whether the administration would be amenable to the legislature setting policy that making any profit at all off the invasion would be verboten. He asserted that the position of the state should be that no profit at all should be made from the killing of the Ukrainian people.

9:22:28 AM

Commissioner Mahoney replied that the administration would be open to amendments to the legislation.

[9:22:36 AM](#)

Senator von Imhof wondered whether a hedge fund bet long or short on an oil stock - would that be addressed under the legislation.

[9:23:02 AM](#)

Commissioner Mahoney replied that it would depend on whether the stock was involved with funding the invasion, meaning it was a Russian entity that potentially would be profiting to fund the war.

[9:23:23 AM](#)

Senator von Imhof noted that there was a 180-day exit time once assets had been identified. She offered a hypothetical of several traders from Goldman Sachs trading in oil stock and asked whether the state would divest from the bank under the legislation.

[9:23:49 AM](#)

Commissioner Mahoney asked for a restatement of the question.

[9:24:00 AM](#)

Senator von Imhof restated her question. She wanted to understand how far reaching the bill went in terms of determining which companies to divest from.

[9:25:18 AM](#)

Commissioner Mahoney replied that she could not speak to a scenario until she understood the specifics, which were everchanging. She said that the intent was to do due diligence with companies and then determine whether there was a suitable alternative for the services provided by the company.

[9:27:10 AM](#)

Senator von Imhof understood the intent of the bill but felt that the practical evaluation and execution would result in some grey area.

[9:27:35 AM](#)

Commissioner Mahoney assured the committee that she intended to follow the intent of the bill and do her fiduciary duty to the state.

[9:28:00 AM](#)

Co-Chair Bishop spoke of the country's history of divestment during wartime. He stressed that the right thing to do was to divest.

[9:29:08 AM](#)

Senator Wielechowski cited page 4 of the bill and the definition of profiteering as "otherwise seeking financial gain in the purchase or sale of Russian sovereign debt". He cited the bill's definition of Russian sovereign debt, "a debt instrument that is issued by the government of Russia". He pointed out that in other areas of the bill the term "Russian Federation" was used. He wondered whether the use of both "Russian Federation" in some areas, and "Russian Government" in others, was intentional or a drafting error.

Commissioner Mahoney believed that it was a drafting error.

Senator Wielechowski understood that the definition of Russian sovereign debt should read "a debt instrument that is issued by the Russian Federation".

Commissioner Mahoney replied that she would need to research the issue further before providing an answer.

[9:30:03 AM](#)

Senator Wilson discussed the final bullet point on slide 3. He wondered about the vetting process used to determine businesses that might be profiteering or may be doing business with other businesses that might be profiteering.

[9:30:31 AM](#)

Commissioner Mahoney said a questionnaire would be developed for companies reportedly profiteering by the media. The questionnaire would query business practices and associations. Responses to questions would trigger a search

for alternative providers of financial services and could possibly result in the state changing providers.

[9:31:25 AM](#)

Senator Wilson wondered how the legislation would impact the mission of the treasury division.

[9:31:32 AM](#)

Commissioner Mahoney responded that the goal was not to negatively impact or violate current fiduciary duties, but to identify alternative provider of the same service. If no alternative providers were available, the state would continue to work with the entity while communicating dissatisfaction with that entity's profiteering on the invasion in Ukraine.

[9:32:12 AM](#)

Senator Olson asked whether the divestment could be extended to allies of Russia, such as Belarus.

[9:32:32 AM](#)

Commissioner Mahoney stated that the idea had not been considered in the legislation.

[9:32:51 AM](#)

Co-Chair Stedman spoke to Senator Wielechowski's question. He did not think that the treasury had much exposure to Russian investments. He felt that the aggregate dollars that the treasury had under management, compared to the dollars exposed to Russia, were minimal. He thought that those assets could be held in cash.

[9:33:38 AM](#)

Commissioner Mahoney replied that the amount that the treasury had currently invested was \$7 million, which was minimal. She stated that treasury would be impacted by the portion of the bill that addressed profiteering; when the state was buying and selling bonds, they would scrutinize companies that could be potentially profiteering, which she believed was significant.

[9:34:22 AM](#)

Co-Chair Stedman understood that the commissioner was referring to the bond underwriter.

[9:34:50 AM](#)

Commissioner Mahoney replied in the affirmative.

[9:35:09 AM](#)

Co-Chair Stedman understood that when companies went to issue or create bonds, if they had exposure to the Russian Federation, the state would no longer do business with them.

[9:35:45 AM](#)

Commissioner Mahoney reiterated that the state would evaluate whether there was an available alternative company to work with, then may cease doing business with the company.

[9:36:09 AM](#)

Co-Chair Stedman thought that they were discussing two separate issues: buying and selling a bond portfolio and bond issuance. He noted the various bond issuance activities in the state. He requested clarity in the discussion between bond issuance and bond trading.

[9:36:57 AM](#)

Commissioner Mahoney agreed that the issues should be clear. She said that she was not addressing geo bonds or municipal bank bonds but rather the issuance of bonds by various companies throughout the U.S.

[9:37:14 AM](#)

Senator Wielechowski understood that if Goldman Sachs was found to be profiteering the state would no longer do business with them.

[9:37:38 AM](#)

Commissioner Mahoney explained that if Goldman Sachs was found to be profiteering, the state would try to work with

other managers in a manner that would not compromise the state's fiduciary duty.

[9:38:09 AM](#)

Senator Wielechowski asked what the commissioner meant by "try to".

[9:38:24 AM](#)

Commissioner Mahoney replied that there would be an evaluation of the bond issuance fee structure, and assuming that the fees were the same the state would switch to a non-profiteering company. The bill stated that the state would identify at least three alternative companies to choose from. She reiterated that fiduciary duty would guide the ultimate choice the state would make concerning divestment.

[9:39:01 AM](#)

Senator Wielechowski wondered whether the bill would prohibit the Alaska Permanent Fund Corporation (APFC) or the Alaska Retirement Management Board (ARMB) from profiteering off the of the invasion of Ukraine.

[9:39:15 AM](#)

Commissioner Mahoney replied that the bill excluded, specifically, APFC and ARMB.

[9:39:22 AM](#)

Senator Wielechowski understood that both entities could legally invest in companies that were making chemical weapons, bombing Ukraine, tied to oligarchs, tied to senior political leaders, and making an excess or unfair profit off the war in Ukraine.

[9:39:56 AM](#)

Commissioner Mahoney responded that neither of those entities would do anything to violate U.S. sanctions, but the bill did not specifically address those entities.

[9:40:13 AM](#)

Senator Wielechowski probed whether the commissioner was aware of the APFC investing in companies that were currently in the U.S. Treasury sanction list.

[9:40:21 AM](#)

Commissioner Mahoney replied in the affirmative.

[9:40:34 AM](#)

Senator Wielechowski wondered whether it was appropriate that the APFC and ARMB were investing in at least 17 different companies that were currently sanctioned by the U.S. Treasury because they were tied to oligarchs and senior political figures within the Putin Administration.

[9:40:58 AM](#)

Commissioner Mahoney replied that she did not personally believe it was appropriate. She added that the APFC and ARMB were independent boards, and the governor wanted the bill to address the investments that excluded the two boards.

[9:41:23 AM](#)

Senator Wielechowski understood that the state had roughly \$300 million invested in Russia. He asked how much of that was invested in the APFC and ARMB.

[9:41:39 AM](#)

Commissioner Mahoney replied that there was a summary on slide 13 of the investments. She said that the total investment totaled \$333 million, with most of it being in stocks (\$267 million) which was majority owned by the APFC at \$153 million.

[9:42:33 AM](#)

Senator von Imhof noted that the commissioner had repeated the phrase "compromise fiduciary responsibility" several times and wondered what that meant.

[9:43:08 AM](#)

Commissioner Mahoney replied that it was difficult to answer the question because of the everchanging market. She stressed that the state could not divest from closed markets but they could come a time when the decision could be made about monetization versus growth.

[9:44:11 AM](#)

Senator von Imhof surmised that holding on action with direct investments made sense. She wondered about bond sales. She asked if a bond middleman with ties to Russia offered a sale with minimal fees, versus one who had no Russian ties but who would charge a higher rate, which would the treasury choose.

[9:44:58 AM](#)

Commissioner Mahoney replied that it would be an unusual situation where a bond reseller would offer services for free. She could not respond to the question.

[9:45:26 AM](#)

Co-Chair Stedman spoke to the list of assets mentioned by Senator Wielechowski and wondered about the timeline of purchasing of those assets. He thought more detail on purchases would be helpful.

[9:47:00 AM](#)

MARCUS FRAMPTON, CIO, ALASKA PERMANENT FUND CORPORATION, related that immediately after the invasion of Ukraine the corporation issued a no-buy order on securities. He said that most were securities that had been long held and through external managers.

[9:48:37 AM](#)

Senator Wielechowski spoke to the \$219 million in the APFC and Mental Health reflected on slide 13, and the \$94 million in the ARMB, which together comprised 90 percent of Alaska's investment in Russian assets that would not be affected by the legislation.

[9:49:03 AM](#)

Commissioner Mahoney agreed.

[9:49:35 AM](#)

Commissioner Mahoney discussed slide 4, "SB 235 Bill Summary (continued)":

- May allow investments if not doing so would be inconsistent with applicable fiduciary responsibilities but requires at least three alternative investment opportunities to be considered.
- Excludes Alaska Permanent Fund Corporation (APFC) and the Alaska Retirement Management Board (ARMB), allowing divestment decisions by these entities' boards.
- Exempts those taking divestment actions or inactions, in good faith, from liability for doing so.
- Provides reporting mechanisms to the Legislature as to the divestment activity undertaken.
- Expires on July 1, 2023.

[9:50:40 AM](#)

Co-Chair Bishop surmised that that the anticipation was that the war would be over by 2023.

[9:51:04 AM](#)

Commissioner Mahoney said that was the hope but that the administration would come before the legislature to change the expiration date if need be.

[9:51:13 AM](#)

Senator Wilson understood that it took 180 days to exit the market and the bill expired in 2023. He felt that that would result in only 6 months of divestment. He wondered whether the bill was only posturing.

[9:52:18 AM](#)

Commissioner Mahoney replied that the goal of the bill was to show support to the policies of the federal government. It was a show of solidarity with Ukraine against Russia.

[9:53:17 AM](#)

Senator Wilson understood the intent of the bill.

[9:53:40 AM](#)

Senator von Imhof appreciated the intent of the bill but thought it was unenforceable. She noted that someone was going to buy the assets the that states divested from.

[9:54:48 AM](#)

Co-Chair Stedman assumed the \$219 in assets held by APFC would be at cost He felt that the percent of movement exceeded \$219 million from day to day. He wondered whether the corporation could cut all ties to Russian investment entirely.

Mr. Frampton said that the stocks were currently minimal.

Co-Chair Bishop clarified that he was talking about Russian stocks.

[9:56:31 AM](#)

Mr. Frampton said that Russian stocks were worthless. He thought that the market would develop and offered several what if scenarios to the effect.

[9:57:44 AM](#)

Co-Chair Bishop asked whether a market could emerge that would need to be monitored for profiteering.

Mr. Frampton thought the term "profiteering" was subjective.

[9:59:05 AM](#)

Senator Wielechowski took issue with the statement that the bill indicated the state stood with Ukraine. He pointed out that 90 percent of the state's current assets invested in Russia were exempt under the legislation. He stressed that the bill allowed the ARMB and the APFC, through one of the largest sovereign wealth funds in the world, to profiteer from the invasion of Ukraine. He argued that the bill was toothless and wondered why it was being considered.

AT EASE

[10:00:03 AM](#)

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Co-Chair Bishop discussed the timeline to continue the conversation.

[10:01:43 AM](#)

Senator Olson asked whether the presenter agreed with Senator Wielechowski's assessment of the legislation.

Commissioner Mahoney thought that the bill showed unification with the federal government's policies. She believed that all divestments added up. She admitted the divestment amount was small.

Senator Olson noted that 90 percent of the \$7 billion invested in Russia would not be subject to the legislation.

[10:03:06 AM](#)

Commissioner Mahoney said that the \$7 billion would be subject to the profiteering component of the bill.

Co-Chair Stedman though the total was \$7 million.

Commissioner Mahoney clarified that \$7 billion was the total in state assets, \$7 million was the valuation of the investment in Russia.

Co-Chair Bishop requested further clarification.

Commissioner Mahoney clarified that there was \$7 billion invested in total - \$7 million invested in Russia prior to the decline in valuations.

[10:04:27 AM](#)

Commissioner Mahoney pointed to slide 5, "Unprecedented Global Sanctions":

Banks and Financial Services

- Russian Central Bank restrictions imposed by US, UK, Canada and EU
- Swift ban enacted on seven Russian banks

- Sanctions imposed on Sberbank and VTB Bank, Russia's largest banks
- US persons prohibited from investing in new debt or equity issuance from certain OFAC Russian institutions

Oil and Gas

- US bans import of Russian energy products including oil, liquified natural gas, and coal

Corporate

- Over 300 companies have withdrawn from Russia including Boeing, Airbus, Visa, Mastercard, FedEx, UPS, Apple, Netflix, and McDonalds
- Google, Meta (Facebook), and TikTok have blocked Russian state media channels
- BP, Shell, Exxon, and Equinor are divesting from billions in oil and gas developments

Other

- US bans Russian aircraft from US airspace
- Foreign held asset freeze and travel bans for some politicians, officials, oligarchs and family members

Commissioner Mahoney thought the committee was familiar with the current sanctions.

[10:06:43 AM](#)

Commissioner Mahoney looked at slide 6, "Current Status of Russian Equity Investments":

- Russian equities decreased by 53 percent in value in February.
- Trading halted on February 25th for all Russian listed equities.
- Valuations are now highly speculative since they are no longer provided by the market.
- All major stock indexes are taking Russian securities out this month and passive index funds are holding Russian securities at low to no value.

[10:07:26 AM](#)

Commissioner Mahoney discussed slide 7, "International Equity in Russia":

- Most institutional investors invest in a diverse basket of global securities.
- The Morgan Stanley All-Country World Index Investable Market Index (MSCI ACWI IMI) is a common institutional index that incorporates 99 percent of globally publicly traded equities.
- The index is diversified across 48 countries - 23 developed and 25 emerging market- and includes roughly 9,300 securities.
- The index is a reasonable proxy for many institutional investor portfolios

Commissioner Mahoney pointed out the amount of equity benchmark comprised by Russia. She noted that the largest area was in energy.

[10:08:17 AM](#)

Commissioner Mahoney addressed slide 8, "Treasury Russian Equity Investments 1/31/22":

Treasury Russian equity investments 0.23 percent of \$50.6 billion in assets:

State Investments 0.10 percent of \$7.7 billion in assets

- 0.10 percent of state assets had Russian equity exposure on 1/31/22 (\$7.4 million).
- 1 passive/index investment manager.

Defined Benefit Retirement Systems, 0.28 percent of \$33.9 billion in assets

- 0.28 percent of the retirement funds had Russian equity exposure on 1/31/22 (\$93.5 million).
- 7 investment managers 4 active, 3 passive/index.

Participant Directed, 0.15 percent of \$9.0 billion in assets

- 0.15 percent of participant directed assets had Russian equity exposure on 1/31/22 (\$13.4 million).
- 4 investment managers 2 managers active, 2 passive/index funds.
- All of the Russian exposure is through commingled funds where the ARMB is not the direct fiduciary for the funds.

Treasury has directed a halt to the purchase of Russian securities at this time due to illiquidity and risk uncertainty.

[10:09:38 AM](#)

Commissioner Mahoney looked at slide 9, "What are others doing?"

States

- Research and surveys administered by The Pennsylvania Treasurer show that as of 3/12/22, there were a total of 37 states currently looking into or currently freezing state money or pension funds going to Russian companies, investments or oligarchs.
- Other actions taken by other states include the following:
 - Looking into or currently banning state agencies from doing business with Russian state owned firms and subcontractors.
 - Blocking Russian businesses and nonprofits from acquiring property in their state for 1 year.
 - Looking into or ending sister state relationship with Russia.
 - Officially condemned Russia's invasion.
 - Welcoming refugees.
 - Calling on businesses to ban Russian made goods.

Norway Sovereign Wealth Funds

- Norway announced that they are divesting from Russia.
- Russian assets at the end of 2021 made up 0.2 percent of Norway fund (\$3 billion in total).
- Recognize that divestment takes time because they want to ensure sales are not made to sanctioned individuals/entities.

[10:12:01 AM](#)

Senator Hoffman asked about Norway and whether they would stop investing in Russia only for the duration of the war.

Mr. Frampton said that a law had been passed in Norway that banned investment in Russia.

[10:13:06 AM](#)

Senator Wielechowski asked whether the APFC would support an amendment that prohibited the corporation to invest in Russian assets.

Commissioner Mahoney said that such an action would take a vote of the trustees.

Senator Wielechowski noted that the commissioner was a trustee on the board and asked whether she would support an amendment.

[10:13:48 AM](#)

Commissioner Mahoney replied that she personally believed that Russian investments would not be a good choice for the board to make at this time.

[10:14:12 AM](#)

Commissioner Mahoney addressed slide 10, "Guiding Statutes for Investing":

- Prudent Investor Rule Summary
 - In addition to other considerations, a fiduciary shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments.
- ARMB/Treasury Statutes
 - AS 37.10.071(c) In exercising investment, custodial, or depository powers or duties under this section, the fiduciary of a state fund shall apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the fund entrusted to the fiduciary. Among beneficiaries of a fund, the fiduciaries shall treat beneficiaries with impartiality.
 - AS 37.10.210(a) Consistent with standards of prudence, the board has the fiduciary obligation to manage and invest these assets in a manner that is sufficient to meet the liabilities and pension obligations of the systems, plan, program, and trusts.
- APFC Statutes

- 37.13.120. Investment responsibilities. (a) The board shall adopt regulations specifically designating the types of income producing investments eligible for investment of fund assets. When adopting regulations authorized by this section or managing and investing fund assets, the prudent investor rule shall be applied by the corporation. The prudent investor rule as applied to investment activity of the fund means that the corporations shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation and management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the fund over time while maximizing the expected total return from both income and the appreciation of capital.

[10:15:32 AM](#)

Co-Chair Stedman looked at the first bullet. He considered the Prudent Investor rule and noted that the committee was not an institutional investor and followed the Prudent Man Rule, which was the forerunner of the Prudent Investor Rule. He shared that the two rules varied as the Prudent Man Rule might consider the divestment from Russian investments something that should happen more immediately - before the implementation of nerve gasses or nuclear weapons by the Russian Federation. He thought that action should be swift and final concerning divestment from Russian assets.

[10:17:43 AM](#)

Commissioner Mahoney suspected that the trustees of both boards would likely agree. She said that public testimony would need to be taken and that the public sometimes testified in favor of divestment from various entities. She wondered where the boards could draw the line about when to divest and remain independent and not influenced by social events. She reiterated that she, personally, was in support of divestment from Russia.

[10:19:26 AM](#)

Co-Chair Stedman thought that there was an obvious difference between a group in society that might want to invest in carbon neutral companies or divest from companies that endangered the environment, and the burning and shelling of entire cities, the bombing of hospitals, and the bombing of bomb shelters full of children. He contended that under those circumstances the decision to divest was not a difficult one.

[10:20:11 AM](#)

Senator von Imhof noted that the APFC had not held a meeting since February 24, 2022. She assumed that there had been meetings with the Department of Revenue and the governor to craft the bill. She wondered whether it made sense that the board might meet to discuss the bill.

[10:20:44 AM](#)

Commissioner Mahoney replied in the affirmative.

[10:20:51 AM](#)

Senator von Imhof asked whether the APFC wanted the legislature to provide guidance to the board regarding divestment from Russian assets.

[10:21:07 AM](#)

Commissioner Mahoney replied that the bill specifically excluded the two funds because of their independent nature and the importance of following statute and maintaining fiduciary duty. She said that there could be trustees that did not have the same opinion as she and the members of the committee. She thought that a meeting could take place for the board to vote on the issue and after the vote the legislature could weigh in on the matter.

[10:22:15 AM](#)

Senator von Imhof recalled the commissioner's comments about public comment on the divestment or investment in environmental or social issues and that the legislature might provide some guidance to the APFC on social investing. She felt that the legislature would oblige in providing guidance to the board.

[10:22:59 AM](#)

Senator Wielechowski agreed with Senator von Imhof's comments and welcomed the possibility of providing guidance to the board some baseline of standards for investment. He asked whether the corporation wanted suggestions from the legislature or would they rather handle to issue in-house.

[10:24:04 AM](#)

Commissioner Mahoney replied that she was one of six trustees but stated that it was an important issue to be discussed by the board. She replied that the board follows the fiduciary duty outlined in statute.

Co-Chair Bishop asked whether APFC quit investing on the day of the invasion of Ukraine, or had they pulled out in advance.

[10:25:20 AM](#)

Mr. Frampton replied that many of the Russian investments were managed by external managers. Those managers had discretion to divest. He did not have exact numbers but shared that Russian values were in decline in January 2022, and that investments had declined soon after the invasion.

SB 235 was HEARD and HELD in committee for further consideration.

[10:26:40 AM](#)

AT EASE

[10:29:16 AM](#)

RECONVENED

Co-Chair Bishop handed the gavel to Co-Chair Stedman. Co-Chair Stedman cited a response letter from the department dated March 10, 2022, that responded to questions from the previous forecast. (copy on file)

^PRESENTATION: DEPARTMENT OF REVENUE, SPRING FORECAST

[10:30:33 AM](#)

DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, discussed the presentation, "Spring 2022 Forecast Presentation Senate Finance Committee" (copy on file).

[10:30:49 AM](#)

Mr. Stickel looked at slide 2, "Agenda":

1. Forecast Background, Economic Indicators, and Key Assumptions
2. Spring 2022 Revenue Forecast
 - Total State Revenue
 - Unrestricted Revenue
3. Petroleum Forecast Assumptions Detail
 - Oil Price
 - Oil Production
 - Oil and Gas Lease Expenditures
 - Oil and Gas Transportation Costs
 - Oil and Gas Credits

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Mr. Stickel pointed to slide 4, "Background: Spring Revenue Forecast":

1. Historical, current, and estimated future state revenue
2. Updates key data from Fall Revenue Sources Book
3. Official revenue forecast used for final budget process
4. Located at tax.alaska.gov

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Mr. Stickel addressed slide 5, "Key Economic Indicators." The slide detailed the indicator units on an annual and quarterly basis. He stated that the GDP had been stable over the last year. The 4th quarter of 2021 will be released on March 31, 2022, and will be the first quarter that reflects higher oil prices. He relayed that employment went up 2 percent in 2021, as well as the first month of 2022. He lamented that the numbers were still down 50,000 from July 2019. He stated that wages and salaries had largely recovered from the pandemic and bankruptcies, foreclosures and mortgage delinquencies were holding at low levels. He

shared that 2021 ended in pre-pandemic levels for housing starts.

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Mr. Stickel pointed to slide 6, "Spring Forecast Assumptions":

- The economic impacts of COVID-19 and geopolitical events are uncertain; DOR has developed a plausible scenario to forecast these impacts.
- Key Assumptions:
 - o Investments: Stable growth in investment markets, 5.86 percent for FY 2022 and 6.20 percent for FY 2023+.
 - o Federal: The forecast incorporates stimulus funding as of March 1, 2022, includes updated estimates of IIJA funding.
 - o Petroleum: Alaska North Slope oil price of \$91.68 per barrel for FY 2022 and \$101.00 per barrel for FY 2023.
 - o Non-Petroleum: Continued economic growth. 75 percent of capacity assumption for 2022 cruise season, minerals prices based on futures markets.

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Mr. Stickel looked at slide 7, "Relative Contributions to Total Revenue: FY 2021:

Total State Revenue: \$29.8 Billion

Investment Earnings; 65.8 percent
Federal Revenue: 25.4 percent
Petroleum: 5.4 percent
Other Revenues: 2.6 percent
Non-Petroleum Corporate Income: 0.4 percent
Fisheries: 0.3 percent
Tourism: 0.1 percent
Mining: 0.1 percent

Mr. Stickel discussed slide 8, "Relative Contributions to Total State Revenue: FY 2023:

Total State Revenue: \$16.4 Billion

Petroleum: 31.4 percent
Federal Revenue: 31.2 percent
Investment Earnings: 30.0 percent

Other Revenues: 4.7 percent
Non-Petroleum Corporate Income: 0.8 percent
Fisheries: 0.7 percent
Tourism: 0.6 percent
Mining: 0.5 percent

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Senator von Imhof remarked that slide 8 and slide 7. She wondered what had been included in the \$29.8 billion revenue total on slide 7.

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Mr. Stickel replied that there was a detail on slide 11.

[10:37:07 AM](#)

Mr. Stickel looked at slide 10, "Unrestricted Revenue Forecast: FY 2021 and Changes to Two-Year Outlook". The slide summarized the key changes between the fall 2021 and spring 2022 revenue forecasts. He said that Alaska North Slope Oil (ANS) price increased by approximately \$16/bbl for FY 22 and \$30/bbl for FY 23, which was related to continued recovery and stabilization in the oil markets as they recovered from the pandemic. He added that the Russian invasion of Ukraine had cause oil prices to spike just as the spring forecast was being finalized. He related that the total forecast of UGF had increased by \$1.2 billion in FY 22, and \$2.4 billion for FY 23 - driven by the increase in oil price.

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Co-Chair Stedman queried the data point for where the price would be to be above or below the revenue projection.

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Mr. Stickel replied that for FY 22 the forecast incorporated 8 months of actual prices through the end of February 2021. He furthered that the average of March through June was in the range of \$114/bbl.

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Co-Chair Stedman understood that the \$114/bbl was used on the performance side as a benchmark for revenue projections for FY 22.

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Mr. Stickel replied in the affirmative.

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Senator Hoffman thought that the current price of oil was \$108/bbl. He understood that the U.S. was no longer importing Russian oil and that the NATO Nations were considering following suit. He wondered whether the oil forecast remained the same with the exit of the NATO Nations.

[10:40:07 AM](#)

Mr. Stickel replied that his forecast was based on the futures market. He said that the issue would be addressed on future slides.

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Mr. Stickel looked at slide 11, which looked at the total state revenue for FY 21 and the forecast for FY 22 and FY 23. He said the unrestricted general fund (UGF) would be discussed for most of the presentation. The slide included UGF, designated general fund (DGF), Other Restricted Revenue, and Federal Revenue. Total State revenue in FY 21 was \$29,765.6. He said that FY 22 and 23 were projected to be \$15,783.1 and \$16,435.4 respectively. He noted the FY 21 had two significant one-time impacts of the banner year of the return on the permanent fund and federal stimulus money.

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Co-Chair Stedman noted the permanent fund was calculated on a five-year basis at 5 percent of market value and varied from year to year. He thought that this footnote could be added to the slide.

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Senator von Imhof asked whether the \$16.2 billion in investment revenue was realized or unrealized.

[10:43:02 AM](#)

Mr. Stickel replied that it was both. He explained that the transfer to the general fund from the permanent fund, 5.25 percent of the trailing average market value for 2021, was shown a UGF - and gains above and beyond that transfer was shown as other restricted general fund revenue.

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Senator von Imhof understood that unrealized meant that the fund had gained on paper but had not been sold to realize the gain. She thought an FY 20 column would reflect a significant market drop due to Covid-19.

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Mr. Stickel replied that the spring FY 20 forecast had reflected downward markets, which rebounded towards the end of the fiscal year.

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Mr. Stickel looked at slide 12, "Unrestricted Revenue Forecast: FY2021 to FY 2023 Totals", which detailed the four main sources for unrestricted revenue: Investment Revenue - Alaska Permanent Fund, Investment Revenue - Other Investments, Petroleum Revenue, Non-Petroleum Revenue, their history and forecast for FY 22 and FY 23.

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Mr. Stickel pointed to slide 13, "Unrestricted Investment Revenue: FY 2021 to FY 2023 Totals". The slide detailed the investment sources - the largest of which was the Alaska Permanent Fund, but also included other investments totaling \$3,120.9 historically, and \$3,064.6 and \$3,376.6, respectively, for FY 22 and FY 23.

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Mr. Stickel pointed to slide 14, "Unrestricted Investment Revenue: Percent of Market Value (POMV) Transfer Forecast":

- Permanent Fund total return for FY 2021 of 29.7 percent.
- The statutory POMV rate changed to 5 percent beginning FY 2022.
 - For FY 2019 -FY 2021 this rate was 5.25 percent.
- Forecast assumes Permanent Fund's long-term total return expectation of 6.20 percent for FY 2023+; 5.86 percent for FY 2022.
- Differing Permanent Fund returns and petroleum deposits could significantly alter actual POMV amounts.

The slide showed a chart of the estimated percent of market value (POMV) transfer to the general fund over the next 5 years.

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Mr. Stickel looked at slide 15, "Unrestricted Petroleum Revenue: FY 2021 to FY 2023 Totals". He listed the main sources of the taxes, Petroleum Property Tax, Petroleum Corporate Income Tax, and the Oil and Gas Production Tax. He said that the CARES legislation had allowed companies to carry back certain losses for 2018, 2019, and 2020, which Alaska adopted into the tax code. He estimated \$2.4 million in FY 2021, and \$79.4 million in FY 22 for the CARES act refunds, which were baked into the forecast. He expected positive income for corporate income tax moving forward. He thought that given the higher price forecast it was expected that the production tax revenue would be higher over the next two fiscal years.

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Senator Wielechowski wondered if the production corporate income tax in FY 22 and FY 23 would change if all the operating oil companies on the North Slope were exclusively C corporations.

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Mr. Stickel replied that roughly 70 percent of oil and gas production in the state was from C corporations, so the expected change would be that the total revenue would be higher by approximately \$100 million per year.

[10:49:08 AM](#)

Co-Chair Stedman asked what number for the price of oil was used in the C corp/S corp calculation.

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Mr. Stickel replied that the figure would be based on the Spring Forecast.

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Co-Chair Stedman understood that was \$101/bbl for FY 22 and FY23.

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Mr. Stickel replied that there was not a company-specific confidential detail that would be subject of the tax. They would scale up to 100 percent what the department was forecasting for the companies that represented 70 percent of production, which was projected at \$340 million.

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Senator Wielechowski remarked that the department had testified earlier that S corp provisions were costing the state between 80 and \$100 million under the old forecast of \$71/bbl oil. He felt at higher per barrel oil costs would increase the expense to the state for S corps.

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Mr. Stickel agreed to provide that information.

[10:50:45 AM](#)

Mr. Stickel pointed to slide 16, "Unrestricted Non-Petroleum Revenue: FY 2021 to FY 2023 Totals", which outlined some of the sources of non-petroleum revenue. Mr. Stickel shared that the largest component of non-petroleum revenue was taxes, and the slide detailed the FY 21 through FY 23 numbers on the following:

- Fisheries Taxes
- Insurance Premium Tax
- Marijuana
- Mining License Tax
- Motor Fuel (Refund Fuel Surcharge)

Non-Petroleum Corporate Income
Tobacco
Other Taxes

Mr. Stickel relayed that Corporate Income Tax was typically the largest funding source on the non-petroleum side. He noted that estimates for CARES act allowance for carry-back losses on non-petroleum revenue were expected at \$6.7 million in FY 21, \$79.5 million in FY 22. He said that the stat expected only \$15 million in corporate income tax in FY 22, growing to \$125 million in FY 23. He noted that strong mineral prices suggested a significant increase in mining taxes in FY 23.

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Co-Chair Bishop wondered whether the Cruise Ship Gambling Tax would be included in "Other Taxes".

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Mr. Stickel responded that that tax was in the unrestricted category and would fall under the "Other Taxes" column.

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Senator Hoffman asked whether the elimination of the Motor Fuel Tax required passage of legislation to implement the zero tax.

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Mr. Stickel clarified that the Motor Fuel (Refined Fuel Surcharge) line reflected only the Refined Fuel Surcharge, which was not expected to go to zero - but to be reclassified from unrestricted to designated.

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Mr. Stickel discussed slide 18, "Petroleum Detail: Changes to Long-Term Price Forecast", which was a comparison of the fall and spring forecasts. He noted a change had been made in the forecasting of oil prices in fall 2022; two years of features market outlook had previously been used to forecast, the shift in the fall had been to use features market outlook for as many years as was available. He

shared those prices had fluctuated since the forecast had been produced.

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Co-Chair Stedman remarked that there would be a significant difference in the calculations due to the volatility of the market.

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Senator von Imhof wondered how long the price would remain above \$100/bbl. She asked whether \$101/bbl had been used in the projections while the market was so historically volatile.

[10:56:04 AM](#)

Mr. Stickel noted that \$101/bbl was an average over the fiscal year. He said that monthly average prices had been incorporated and the market suggested that prices would start the fiscal year over \$100/bbl and end under \$100/bbl. He agreed there was significant uncertainty surrounding the forecast and the current time-period was one of the most volatile since the beginning of the pandemic. He characterized the forecast as a "most likely within a range of uncertainty."

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Senator Hoffman understood that 600,000 barrels per day had had been previously purchased in Russian oil. He wondered how significant the ending of purchasing of Russian oil was and whether the state would eventually resume the relationship with Russia.

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Mr. Stickel remarked that there was no explicit forecast of Russian crude and Russian crude purchases. He said that the run-up in prices since April 2020 there had been a situation where demand had rebounded strongly from the pandemic while supply had been slower to catch up with the demand. This had been the fundamental driver behind increased oil prices and the Russian situation had added to the equation.

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Senator von Imhof believed that a fiscally conservative approach would be to spend conservatively in FY 23.

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Co-Chair Stedman discussed the timeline for the duration of the meeting. He hoped Mr. Stickel could remain to finish the presentation.

Mr. Stickel stated he was happy to oblige.

[11:00:03 AM](#)

Mr. Stickel pointed to slide 19, "Petroleum Detail: Nominal Brent Forecasts Comparison as of March 21, 2022". He noted that the slide had been update the previous day to incorporate the most recent future market projections as of close of business. He pointed out to the committee the state's proximity to the futures market projections.

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Co-Chair Stedman spoke of fluctuating oil prices and asked whether the numbers on the slide would change if the oil price went down \$20 in the next two weeks - or were the futures markets static.

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Mr. Stickel agreed that there had been a lot of volatility around the numbers for FY 22 and FY 23. He said that the later years looked more stable at a price hovering in the \$70/bbl.

[11:02:05 AM](#)

Mr. Stickel looked at slide 20, "Petroleum Detail: UGF Relative to Price per Barrel (without POMV): FY 23". He offered that the side explored the question of how higher or lower oil prices would affect the UGF.

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Co-Chair Stedman asked Mr. Stickle to discuss the expense level and how the state would fare under the governor's fiscal plan for FY 23.

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Mr. Stickel agreed to provide the information to the committee.

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Co-Chair Stedman requested a breakdown of the incremental build up and a prioritization of expenditures.

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Mr. Stickel looked at slide 21, "Petroleum Detail: North Slope Petroleum Production Forecast". He explained that the slide reflected the high and low case oil production for the north Slope over the next 10 years. The slide was created in collaboration with the Department of Natural Resources (DNR), which could speak to any nuances in the production forecast. He shared that the general outlook was expected stable to slightly increased production, reaching 535,000/bbl by FY 2030.

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Co-Chair Stedman asked for further detail on FY 23 and FY 24 and the high and low expected numbers for those years. He noted that FY 23 had a steeper incline on the positive side and thought that the projections could be tracked in real-time. He said that price was of concern to committee members as volume was more easily predicted.

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Mr. Stickel reiterated that a more nuanced discussion on oil prices could be had with DNR. He said that one of the significant contributors to the uncertainty would be the performance of some new developments as well as the timing of those developments.

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Co-Chair Stedman suggested working with the Department of Natural Resources (DNR) on the issue to keep track over the upcoming months.

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Senator Wielechowski noted the significant divergence between the high and low cases on the slide, within a short period of time. He queried what would be required to accomplish 600,000bbl in FY 23 or 400,000/bbl in FY 23.

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Mr. Stickel stated that he would work with DNR to provide further insight to the committee.

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Senator von Imhof opined that there were uncontrollable factors that affected the forecast.

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Mr. Stickel addressed slide 22, "Petroleum Detail: Changes to North Slope Petroleum Production Forecast", which offered a comparison between the spring and fall forecasts. He related that there was very little change in the production forecast from fall to spring.

[11:09:21 AM](#)

Mr. Stickel pointed to slide 23, "Petroleum Detail: North Slope Allowable Lease Expenditures", which showed how allowable lease expenditures for the North Slope had changed over the last decade, as well as the forecast for the next 10 years. He shared that also included was the average annual employment in the industry, this was to illustrate the correlation between company spending in the industry and employment. He said that the expenditures were important because they were part of the production tax calculation and because they were an important measure of investment in the industry for the state. He revealed that the pandemic had led decreased spending in FY 21 due to low oil prices and production curtailments. He noted \$1.5 billion in capital expenditure and \$2.4 of operating expenditure in FY 21. He said that operating expenditures

were expected to remain stable in the current fiscal year and then increase in future years. He said that significant increases in capital expenditures were expected for FY 23 through FY 25, based on new field investments included in the production forecast.

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Senator Wielechowski noted the significant projected jump in capital and operating expenditures. He thought that the projected development forecast remained flat and wondered whether the expenditure was meant to off-set decline due to the pandemic.

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Mr. Stickel replied that over time production would decline in any oil basin. He said that the slide reflected the investment the department projected would be necessary.

[11:12:01 AM](#)

Co-Chair Stedman asked about how the industry reported their expectations of capital expenditures to that were the basis for the department's projections.

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Mr. Stickel replied that companies reported actual lease expenditures on their annual tax returns and filed monthly informational filings. Twice a year in preparation for the forecast, operators were required to produce a 5-year projection of capital and operating costs. He added that the department reached out to producers, key explorers, and development companies as well as examining public information, to develop the aggregated production forecast.

[11:13:09 AM](#)

Mr. Stickel pointed to slide 24, "Petroleum Detail: North Slope Transportation Costs". He stated that the slide showed the cost of getting oil from the North Slope to market. He related that transportation costs impacted the value of oil for both tax and royalty purposes. The forecast was \$9.40/bbl in FY 23 for transportation costs. He said that it was expected that the cost would remain under \$10/bbl in the out years.

[11:14:09 AM](#)

Mr. Stickel discussed slide 25, "Petroleum Detail: Tax Credits for Purchase Detail". He shared that prior to 2016 companies were able to generate the tax credits for various activities and the tax credits could be applied against a liability or turn them into a tax credit certificate available for state purchase. He furthered that the availability to earn the credits for state purchase had been phased out through legislative action in 2016 and 2017. He said at the this point no new credits were being earned that were available for state purchase. He stated that prior to 2016, the legislature had appropriated the full amount required to purchase the outstanding credits. Mr. Stickel continued to discuss slide 25.

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Co-Chair Stedman understood that in FY 23, \$101/bbl oil was being used in the graph on slide 25.

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Mr. Stickel agreed.

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Co-Chair Stedman asked that \$10 increments be applied from \$101/bbl down to \$70/bbl and up to \$110/bbl. He was uncomfortable setting up budget expectations at \$101/bbl. He spoke of a request from the administration in the Operating Budget to add 233 new employees. This did not include the Alaska Marine Highway System (AMHS). He said that all three branches of government had approached the legislature about wage inflation and employee turnover. He related that when all three branches were concerned about the same issue it increased the urgency and pressure. He did not wasn't the financial state of the state to be reliant on the war in Ukraine. He believed that other oil prices should be considered and applied.

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Senator Olson remarked that the tax credits had been a sour issue for many years. He wondered whether there was support from the administration to pay off all the tax credits in

FY 23, since there was steady revenue and federal dollars coming into the state.

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Mr. Stickel recalled that the deputy commissioner of the department that the administration supported making the statutory appropriation.

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Co-Chair Stedman understood that the statutory appropriation would be at \$101/bbl.

Mr. Stickel replied in the affirmative.

Co-Chair Stedman solicited further questions. He thanked Mr. Stickel for the presentation. He discussed slide 2 of the presentation and noted that the bottom two lines on the slide were helpful. He also appreciated the format. He and encouraged that the same format should be used on the summary tables for the fall and spring forecasts.

Co-Chair Stedman discussed housekeeping.

#

ADJOURNMENT

[11:23:25 AM](#)

The meeting was adjourned at 11:23 a.m.