

SENATE FINANCE COMMITTEE
January 20, 2023
9:00 a.m.

[9:00:56 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:00 a.m.

MEMBERS PRESENT

Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair
Senator Jesse Kiehl

ALSO PRESENT

Adam Crum, Commissioner, Department of Revenue; Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue; Colleen Glover, Director, Tax Division, Department of Revenue; Senator Cathy Giessel.

SUMMARY

^REVENUE FORECAST - DEPARTMENT OF REVENUE

[9:02:07 AM](#)

ADAM CRUM, COMMISSIONER, DEPARTMENT OF REVENUE, introduced himself. He recalled that he was previously the commissioner of the Department of Health and Social Services (DHSS). He stated that his goal as the commissioner of Department of Revenue (DOR) was to bring stability to the department.

Co-Chair Stedman requested the commissioner's finance background.

Commissioner Crum stated he was an entrepreneur, but had most recently served as commissioner for the Department of Health and Social Services, which split into two departments during his tenure.

Co-Chair Stedman stated that there would be flexibility granted to Commissioner Crum, because he was new to the position.

Commissioner Crum introduced the testifiers that would participate in the presentation.

[9:05:05 AM](#)

DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, introduced himself.

Co-Chair Stedman requested background information.

Mr. Stickel discussed his professional background and history with DOR.

[9:05:57 AM](#)

COLLEEN GLOVER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, introduced herself.

Mr. Stickel discussed the presentation, "Fall 2022 Forecast Presentation; Senate Finance Committee Department of Revenue January 20, 2023" (copy on file). He pointed to slide 2, "Agenda":

1. Forecast Background and Key Assumptions
2. Fall 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
4. Oil and Gas Production Tax Audit Update

Mr. Stickel looked at slide 4, "Background: Fall 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

Mr. Stickel addressed slide 5, "Fall 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:
 - Investments: Stable growth in investment markets, 7.00 percent for FY 2023 and 7.05 percent for FY 2024+.
 - Federal: The forecast incorporates stimulus funding as of December 1, 2022, includes updated estimates of IIJA funding.
 - Petroleum: Alaska North Slope oil price of \$88.45 per barrel for FY 2023 and \$81.00 per barrel for FY 2024.
 - Non-Petroleum: Continued economic growth. 90 percent of capacity assumption for 2023 cruise season, minerals prices based on futures markets.

[9:11:52 AM](#)

Co-Chair Stedman queried the potential comfort level of the \$88 per barrel which was in the current projection, with the possibility of the state "going under water."

Mr. Stickel replied that there was an updated revenue estimated, and the oil price was largely on track and the futures market.

Mr. Stickel discussed slide 6, "Relative Contributions to Total State Revenue: FY 2022":

Total State Revenue: \$8.7 Billion

Federal Revenue: 79.6 percent

Petroleum: 47.0 percent

Other Revenues: 8.3 percent

Non-Petroleum Corporate Income: 1.4 percent

Fisheries: 1.5 percent

Tourism: 0.8 percent
Mining: 0.8 percent
Investment Earnings (39.4 percent)

Mr. Stickel highlighted slide 7, "Relative Contributions to Total State Revenue: FY 2023":

Total State Revenue: \$15.4 Billion

Investment Earnings: 33.5 percent
Federal Revenue: 32.0 percent
Petroleum: 27.5 percent
Other Revenues: 4.4 percent
Non-Petroleum Corporate Income: 0.8 percent
Fisheries: 0.7 percent
Tourism: 0.6 percent
Mining: 0.4 percent

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Mr. Stickel addressed slide 9, "Unrestricted Revenue Forecast: FY 2022 and Changes to Two-Year Outlook." He noted that the table showed changes between the two recent forecasts. He noted the decrease in oil price in FY 23 and FY 24. He remarked that the Spring Forecast was released just as the war in Ukraine was beginning, so there was uncertainty at that time. He stated that the expected transfer for FY 24 had been reduced from that forecast. He noted the numbers within the chart on the slide. He remarked that the slide did not show oil production, which showed a slight decrease.

Co-Chair Stedman asked why the Permanent Fund transfer had not seen fluctuation and queried the mechanics of the lookback.

Mr. Stickel stated that that the Permanent Fund transfer to the general fund was based on the average ending value of the first five of the last six fiscal years, therefore it was 5 percent of that average ending value. He stated that the transfer for FY 24 was known with certainty.

Co-Chair Stedman assumed that roughly 46 percent of UGF was stable and predictable.

Mr. Stickel agreed.

Mr. Stickel looked at slide 10, " Total Revenue Forecast: FY 2022 to FY 2024 Totals." He stated that revenues were categorized into four parts: Unrestricted General Fund (UGF), Designated General Funds (DGF), Other Restricted Revenue, and Federal Revenue.

Mr. Stickel highlighted slide 11, "Unrestricted Revenue Forecast: FY 2022 to FY 2024 Totals." He stated that investments are some of the largest sources of unrestricted revenue along with petroleum. He stated that investments contributed just under \$3.1 billion of UGF in FY 22. He remarked that the forecast for FY 23 was \$3.4 billion, and the forecast for FY 24 was \$3.5 billion.

Mr. Stickel discussed slide 12, "Unrestricted Investment Revenue: FY 2022 to FY 2024 Totals." He stated that the slide showed the detail of the investment portion of unrestricted revenue. He stated that the Permanent Fund transfer was expected to account from between 43 and 62 percent of unrestricted revenue in the ten-year forecast period.

Senator Wilson recalled the in the DNR portion of the Revenue Source Book, and wondered whether there was a table that addressed the management fees associated with the retirement and benefits.

Commissioner Crum agreed to provide that information.

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Mr. Stickel pointed to slide 13, "Unrestricted Investment Revenue: Percent of Market Value (POMV) Transfer Forecast":

- Permanent Fund total return for FY 2022 of -1.32 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 7.05 percent for FY 2024+; 7.00 percent for FY 2023.
- Differing Permanent Fund returns and petroleum deposits could significantly alter actual POMV amounts.

Co-Chair Stedman requested the inflation component.

Mr. Stickel replied that the inflation assumption in the forecast was 2.25 percent.

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Co-Chair Stedman assumed that the forecast would remain horizontal on the graph.

Mr. Stickel agreed.

Co-Chair Stedman asked there be an update provided to the committee on inflation integration.

[9:25:36 AM](#)

Mr. Stickel discussed slide 14, "Unrestricted Petroleum Revenue: FY 2022 to FY 2024 Totals." He noted the four primary sources of unrestricted petroleum revenue. He noted the state corporate income tax. He recalled that there was a provision of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Co-Chair Stedman recalled that the corporate income tax federal alterations, and asked how those changes affected the state.

Mr. Stickel replied that there was a tax code provision that adopts the federal tax code. He remarked that a change in the federal income tax would be automatically change the state corporate income tax code.

[9:30:21 AM](#)

Co-Chair Stedman recalled that the change applied to all corporations, and was not specific to one particular industry.

Mr. Stickel agreed.

Co-Chair Stedman appreciated the delineation of the royalty split between restricted, unrestricted, and property tax revenue.

Mr. Stickel looked at slide 15, "Unrestricted Non-Petroleum Revenue: FY 2022 to FY 2024 Totals." He remarked that the largest component was taxes.

Senator Wilson asked about the decline in the mining license tax.

Mr. Stickel replied that a modest decrease was expected because of the expectation that mineral prices would moderate, along with cost pressures within the industry.

Senator Bishop wondered whether the downturn could be attributed to the price of fuel.

Mr. Stickel replied in the affirmative.

[9:34:55 AM](#)

Mr. Stickel highlighted slide 17, "Petroleum Detail: Changes to Long-Term Price Forecast." He stated that the futures market was used as the basis for the oil price forecast, which would result in a timely methodology for the forecast. He stated that there was an inflation adjustment from 2030 to the future. He noted that the later years in the forecast showed only a decrease of \$2 per barrel. He reiterated that the Spring forecast was made at a time of volatility in Ukraine.

Co-Chair Stedman wondered whether the futures market was the sole source of the forecast numbers.

Mr. Stickel replied in the affirmative.

Co-Chair Stedman asked for one-year increment futures market numbers.

Mr. Stickel agreed to provide that information.

Co-Chair Stedman expected that there was no convergence in 2028.

Mr. Stickel stated that the futures market was fairly volatile "in the front months", and calmed in the longer term.

Co-Chair Stedman requested a lookback of the futures market and forecasts beginning in 2019.

Mr. Stickel agreed to provide that information. He reiterated that there was currently a period of uncertainty.

Mr. Stickel pointed to slide 18, "Petroleum Detail: Nominal Brent Forecasts Comparison as of January 17, 2023." He stated that the chart showed the DOR forecast compared to other sources.

Co-Chair Stedman wondered whether there could be a chart outlining the forecast comparison in the near years.

Mr. Stickel agreed to provide that information.

[9:40:33 AM](#)

Mr. Stickel addressed slide 19, "Petroleum Detail: UGF Relative to Price per Barrel (without POMV): FY 2024." He stated that the slide outlined what would happen in the forecast was not met.

Co-Chair Stedman asked that there be an updated version of the slide.

Mr. Stickel stated that there would be an updated version.

Co-Chair Stedman asked for a sensitivity table that had five dollar increments in a \$20 range.

Mr. Stickel remarked that the Revenue Sources Book had some numerics showing price sensitivity to revenue.

Mr. Stickel discussed slide 20, "Petroleum Detail: North Slope Petroleum Production Forecast." He stated that the slide showed the forecast of North Slope oil production over the upcoming ten years, including a high case and a low case.

Co-Chair Stedman remarked that the basin was holding up, so it was unlikely that the state would be at the "bottom" of the projection.

Mr. Stickel agreed.

[9:45:34 AM](#)

Mr. Stickel looked at slide 21, "Petroleum Detail: Changes to North Slope Petroleum Production Forecast." He stated that it was a comparison of the fall production forecast to the prior spring forecast.

Co-Chair Stedman asked that the chart be truncated, because he assumed that the industry provided an update of potential every five years.

Mr. Stickel agreed, and stated that there were meetings with the industry to gather information for the forecast. He stated that the two components were production information and follow up with the industry.

Co-Chair Stedman remarked that shortening the projection to four or five years, there would be a better fit of concentration for the committee. He felt that the chart should also reflect the increase on the North Slope.

Mr. Stickel agreed to provide an updated chart.

Co-Chair Stedman wondered whether production was better than anticipated prior.

Mr. Stickel replied that there were some fields that were coming in stronger than expected, and others that were lighter.

Co-Chair Stedman hoped that the larger fields were seeing a positive net number.

Mr. Stickel stated that in FY 23 there was a slight reduction to the forecast, so the forecast was now that production would increase slightly less than the initial spring forecast.

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Co-Chair Stedman remarked that there was a concern about slowing the natural decline of the fields.

Mr. Stickel stressed that, absent significant work by operators, production was expected a precipitous decline.

Co-Chair Stedman requested that the presentation in the other body incorporate some background related to efforts and expenditures of aging fields.

Mr. Stickel pointed to slide 22, "Petroleum Detail: North Slope Allowable Lease Expenditures." He stated that the slide discussed the ten-year history of allowable lease expenditures.

Senator Bishop wondered whether drilling was captured under capital or operating expenditures.

Mr. Stickel replied that most drilling would be considered a capital expenditure.

Senator Bishop wondered about work over rigs.

Mr. Stickel replied that they would primarily be in capital expenditures, but may also be operating.

[9:55:38 AM](#)

Co-Chair Stedman requested non-deductible expenditures.

Co-Chair Olson wondered whether there was not an anticipation of exploration.

Mr. Stickel replied that the projection of capital and operating expenditures included an assumption that there would be a modest amount of ongoing exploration.

Co-Chair Olson wondered whether the slide included National Petroleum Reserve - Alaska (NPR-A) lands.

Mr. Stickel replied that the lease expenditures shown included all expenditures subject to state production tax.

Senator Bishop requested an employment forecast.

Mr. Stickel replied that DOR did not forecast employment, but the Department of Labor and Workforce Development (DLWD) could provide that information.

Co-Chair Stedman wondered whether the lease expenditures would carry forward as credit.

Mr. Stickel replied that any lease expenditures not applied in the year incurred would be a carried forward annual loss.

Co-Chair Stedman remarked that some of the comments were about background to help those who may not be as familiar with the subject matter.

[10:00:23 AM](#)

Mr. Stickel addressed slide 23, "Petroleum Detail: North Slope Transportation Costs." He stated that the transportation costs were all costs for getting the oil to market, from the well head on the slope to the delivery.

Ms. Glover discussed slide 24, "Petroleum Detail: Tax Credits for Purchase Detail." She stated that the slide displayed a subset of tax credits. She remarked that for FY 23 there was a statutory appropriation amount of \$341 million, and the fall forecast included \$60 million that was a part of the supplemental appropriation from the previous year.

Co-Chair Stedman remarked that there was a hope that the liability would not remain on the credits. He asked about glitches in the current budget that would be contingent on the issue.

Ms. Glover replied that in FY 24, the remaining balance was \$43 million, so there needed to be an appropriation for the \$43 million.

[10:08:02 AM](#)

Co-Chair Stedman wondered whether there needed to be a supplemental to deal with the "clean up."

Commissioner Crum replied that there was an examination of where the numbers would be for the Spring FY 23 forecast, and whether those numbers could be used or whether there needed to be a supplemental request.

Co-Chair Stedman requested language related to the issue, so there could be "clean up" language incorporated in future budgets.

Commissioner Crum agreed to provide that information.

Co-Chair Stedman explained that budgets were created with the best information applied to the estimates.

[10:10:13 AM](#)

Senator Bishop queried the status of the audits in the industry.

Ms. Glover replied with slide 26, "Oil and Gas Production Tax Audit Update":

- Audit Completion and Catchup Plan:
 - All audits through 2017 are complete
 - 2018 and 2019 audits complete by 3Q 2023
 - 2020 audits complete by 4Q 2024
 - Goal is to strive for three-year cycle
- Improvements to Reach Goal
 - Continue to leverage technology
 - Ability for taxpayers to use customer portal
 - Effective two-way communications
 - Consistent audit practices and documentation
 - Stable Tax Regime

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Co-Chair Stedman wondered whether there was effort to focus on cleaning up the backlog.

Senator Bishop surmised that there was not a request for new employees.

Ms. Glover replied that there were some vacancies and turnover, but there was good stability within her division.

Senator Bishop wondered whether that was attributed to the increase in wages that the legislature applied a few years prior.

Ms. Glover was not familiar with the wage increase.

[10:15:31 AM](#)

Co-Chair Stedman surmised that the backlog had been caught up, and there was a point of a fairly routine process.

Ms. Glover agreed.

Co-Chair Stedman stressed that it was good news.

Senator Wilson congratulated Ms. Glover on the accomplishment.

Mr. Stickel looked at slide 29, "State Petroleum Revenue by Land Type." He stated that it was an appendix slide included as a resource for the committee that showed the status of land. He stressed that not oil was the same.

Co-Chair Stedman requested information about NPR-A.

Mr. Stickel replied that the NPR-A was federal land, with some private leases. He stated that half of the federal royalty was shared with the state, and was considered restricted revenue to benefit communities impacted by that development.

Co-Chair Stedman felt that the chart was helpful, and provided information about the oil revenue.

[10:21:46 AM](#)

AT EASE

[10:22:07 AM](#)

RECONVENED

Co-Chair Stedman discussed the following week's schedule.

#

ADJOURNMENT

[10:22:48 AM](#)

The meeting was adjourned at 10:22 a.m.