

SENATE FINANCE COMMITTEE
January 31, 2023
9:00 a.m.

9:00:31 AM

CALL TO ORDER

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

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

John Crowther, Deputy Commissioner, Department of Natural Resources; Adam Crum, Commissioner, Department of Revenue; Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue; Pam Leary, Director, Treasury Division, Department of Revenue; Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Cori Mills, Deputy Attorney General, Office of the Attorney General, Department of Law; Senator Cathy Giessel.

SUMMARY

ADMINISTRATION RESPONSE TO PRIOR MEETINGS

DEPARTMENT OF REVENUE

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF MANAGEMENT and BUDGET

^ADMINISTRATION RESPONSE TO PRIOR MEETINGS: DEPARTMENT OF NATURAL RESOURCES

9:02:20 AM

JOHN CROWTHER, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, (DNR) referred a letter from DNR (copy on file):

Capital expenditures

We understand the Department of Revenue (DOR) provided information responsive to this during and after their hearing on the revenue forecast. Below, we provide information that is publicly available with respect to historical and future expenditures on the North Slope. Although DNR does have access to information regarding capital expenditures of some projects, this information is subject to confidential treatment defined under AS 38.05.035(a)(8)(D).

A. Historical expenditures

DOR reports that the allowable capital expenditure on the North Slope for fiscal year 2022 was \$1.4 billion. Source: Revenue Sources Book, page 44. (source: <http://tax.alaska.gov/programs/documentviewer/viewer.aspx?1761r.>)

B. Future expenditures

For the next two fiscal years, the forecasts for capital expenditures are \$2.3 billion and \$2.7 billion, respectively. (source: Revenue Sources Book, page 44. (source: <http://tax.alaska.gov/programs/documentviewer/viewer.aspx?1761r.>)

Pikka:

Capital expenditures are estimated at \$2.6 billion. Annual operating expenditures are estimated at \$150 million. Source: Santos Media Release (source: <https://www.santos.com/wp-content/uploads/2022/08/Santos-announces-Pikka-FID1.pdf>)

Willow:

ConocoPhillips: Cost to develop estimated at approximately \$8 billion (no breakdown of expenditures into operating and capital) (source:

<https://static.conocophillips.com/files/resources/fact-sheet-willow-final.pdf>)

BLM - Northern Economics Inc. (consultant)'s estimation of Willow expenditures: Drilling capital expenditures range from \$3.6 billion to \$3.9 billion. Facilities capital expenditures range from \$4.5 billion to \$5.4 billion. Operating expenditures range from \$4.6 billion to \$4.9 billion. Source: Willow Master Development Plan, Environmental Impact Statement, Volume 6: Appendices E.8 through E.16, August 2020 (source: https://www.arlis.org/docs/vol1/BLM/2020/1183900266/Willow_MDP_FEIS-v6.pdf)

Other developments:

ConocoPhillips plans to invest \$25 billion of capital for the period 2020 - 2030. (source: <https://www.petroleumnews.com/pntruncate/313099022.shtml>)

No public information is available for capital expenditures for CRU Narwhal CD8, MPU Raven Pad, and KRU Nuna Torok. These were the three other "key future projects" presented on slide 7 of the Department's presentation.

[9:06:47 AM](#)

Senator Bishop wondered whether the drilling plan was over the life of the project.

Mr. Crowther replied that it was a holistic assessment of the project life.

Co-Chair Stedman asked for an overview of the royalty and how it was produced and split.

Mr. Crowther replied that the Willow project was in the Natural Petroleum Reserve-Alaska (NPRA), which was federal lands to the west of the Prudhoe Bay unit. He shared that the royalty percentage was allocated 50 percent between the federal government in the general federal treasury; and 50 percent went to the state of Alaska, but was allocated to the Community Impact Assistance fund primarily under

current state and federal law. He stated that the revenues deposited into that fund went through the legislature and grant application process in local communities on the North Slope.

[9:08:29 AM](#)

Co-Chair Stedman surmised that there was no cash flow into the treasury itself, and the impacted communities applied for grants that would normally exceed the 50 percent royalty.

Mr. Crowther agreed. He stated that, historically, there were not significant revenues in the fund, so the applications sometimes exceeded the availability of funds. He remarked that there was an anticipation that an increasing amount of funds on a regular basis would be going into that fund. He felt that the funds would significantly increase with the Willow project.

Co-Chair Stedman stated that there had been some confusion on the cash flow to the general fund, so he pointed out where the money would be directed in the state's coffers.

[9:10:38 AM](#)

Mr. Crowther continued to refer from the letter from DNR:

Smith Bay development status

Petroleum News reported in May of 2022 that the Smith Bay Company planned to pursue unitization and drilling in 2023. A unit formation application was received by the Division of Oil and Gas in October 2022. It has not been deemed complete, pending data submittals in support of the application, so it has not yet been publicly noticed for comment.

Two wells have been drilled in the Smith Bay lease block, though they have not been tested. The Smith Bay Company has purchased and analyzed seismic surveys for the area in the interest of future exploration. Their stated plan of exploration under the application is to drill during the 2025-2026 winter season. The application cover letter has been attached to this letter.

Senator Bishop wondered whether there was a new company operating the wells.

Mr. Crowther replied that that the current operator was identified as a Smith Bay company, and believed that there were some transactions affecting the ownership and control of the corporate entities managing the prospect. He agreed to follow up with further information.

Mr. Crowther continued to discuss the letter from DNR:

When confidential information becomes public

Information received by DNR and requested to be held public under AS 38.05.035(a)(8)(C) and (D) does not ever become public under law. This includes the information collected from operators in support of production forecasts, as well as any information in support of lease and unit plans of exploration, development, and operations. This longstanding statute is in place to protect sensitive commercial information that would deter investment and activity in Alaska if released.

Data received under the effectively repealed AS 43.55.025 tax credit program is released on a varying schedule (2-10 years). (see available data). DNR anticipates data under the program will continue to be released on a rolling schedule in the years ahead until all periods have expired. Data received by the Alaska Oil and Gas Conservation Commission (AOGCC) for development wells is released one month after completion, or two years after completion for exploration wells. Note that well data for the Smith Bay wells (CT-1 and CT-2) was released in January 2020. (see AOGCC data website). Operators can request extended confidentiality in limited circumstances described in law at AS 31.05.035(c) and applicable regulations.

The Department of Revenue may have tax-related financial data it can release in a limited form in accordance with federal law.

[9:15:59 AM](#)

Co-Chair Stedman noted that there had been concerns about the disclosure rules, so the public can see what is happening with the state funds. He felt that maybe the credit laws could be changed, in the event that the credit discussion occurred in the future.

Mr. Crowther continued with the letter from DNR:

Cumulative volume of future North Slope projects
The sum of the volume wedge for the "Under Evaluation" or "UE" category shown in the chart on slide 14 is 531.9 million stock tank barrels of oil (mmstbo) over 10 years.

[9:20:06 AM](#)

Co-Chair Olson wondered whether the \$19 billion was in reference to only Prudhoe Bay.

Mr. Crowther stated that the undervaluation was meant to capture all projects, including additional development drilling in existing fields.

Mr. Crowther referred to a spreadsheet (copy on file) to compare with the points highlighted in the letter from DNR:

Facility capacity status

Attached please find a table describing facility capacity status of major North Slope units. The following is an explanation of the data collection:

1) The facility throughput limitations with regards to oil, gas, and water are estimated using public information; if not available, are estimated based on historical peak rates from the AOGCC database, in case of the historical production showing decline or flat trends.

2) Some facilities still have upward trends in water or have produced very little water up to date. Historical peak rates might not reflect the true facility capacity, so those estimates are not given (indicated in the table by a question mark).

3) Production from fields with multiple facilities is aggregated to field level due to the interconnectivity between facilities and no clear way of assigning production volumes from certain wells to a specific facility for a given period. For example, Prudhoe Bay Unit.

4) Estimation of facility capacity is based on historical peak rates and so may not reflect the real nameplate capacities of the respective facilities and fields, but rather our best estimate if the facility could deliver those volumes historically. These rates may or may not be achievable under present conditions. Furthermore, operators may remove equipment from service if their forecast shows historically high rates may never be achieved again, and it is not cost-effective to keep them in service.

Co-Chair Stedman wondered whether it was possible to increase 500,000 barrels a day to 1 million barrels per day with the current constraints.

Mr. Crowther replied that there were a variety of factors to ensure optimization of output.

Co-Chair Stedman surmised that a factor could be because of the mix of oil and gas in the output.

Mr. Crowther agreed.

Co-Chair Stedman asked for a rundown of the facility limitations.

Mr. Crowther addressed the column on the slide that related to the facility limitations. He stated that gas and water were constrained in the Prudhoe Bay field. He remarked that the operations of managing both gas and water in a field were significantly complex in a facility like Prudhoe Bay. He remarked that water management required a variety of steps, and each step could be affected by many factors.

Co-Chair Stedman wondered whether the Prudhoe Bay processing facilities had been enhanced by an increased flow of oil.

Mr. Crowther replied in the affirmative.

Mr. Crowther explained continued to address the limitations on the facilities.

[9:33:21 AM](#)

Co-Chair Stedman asked that the presentations include the facility limitations. He felt that it was important to understand the complicated factors that go into oil production and output.

Mr. Crowther agreed.

[9:34:21 AM](#)

AT EASE

[9:36:17 AM](#)

RECONVENED

^ADMINISTRATION RESPONSE TO PRIOR MEETINGS: DEPARTMENT OF REVENUE

[9:37:15 AM](#)

ADAM CRUM, COMMISSIONER, DEPARTMENT OF REVENUE, introduced himself.

[9:38:06 AM](#)

DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, discussed the presentation, "Fall 2022 Forecast Presentation Follow-up Senate Finance Committee" (copy on file). He highlighted slide 2, "Unrestricted Investment Revenue: POMV Transfer Forecast, Inflation Adjusted."

Co-Chair Stedman noted the lowering of the actual purchasing power.

Mr. Stickel replied that examining the issue in real terms showed that the percent of market value (POMV) would be fairly stable, whereas the nominal terms showed an increase over time.

Co-Chair Stedman stated that it would be better to focus on the increase, because expenditures were expected to increase.

Mr. Stickel pointed to slide 3, "Unrestricted Investment Revenue: POMV Transfer Forecast, High and Low Case." He stated that the slide showed a high and low case for the transfer. He remarked that the forecasted distribution of potential returns was provided by the Permanent Fund Corporation investment consultant, Callan and Associates. He stated that the numbers had been run through a statistical analysis, which generated a ninetieth and tenth percentile for potential transfers to the general fund. He noted that the low case had a flat transfer in nominal terms, and the high case had an transfer growth even more than the official forecast. He noted that it was still a fairly stable revenue source as it related to a more volatile source such as oil revenue.

[9:40:03 AM](#)

Co-Chair Stedman wondered why there was no divergence for FY 24.

Mr. Stickel stated that the POMV calculation was based on the ending balance of the permanent fund in the first five of the last six fiscal years. He explained that using a five-year average provided stability to the transfer to help filter out some of the volatility.

Co-Chair Stedman felt that it was an important concept as it relates to predictability of the budget. He noted that the POMV was roughly half of the revenue.

Senator Wilson wondered why the low case scenario looked higher than the forecast from the previous slide.

Mr. Stickel replied that comparing slides 2 and 3 showed a separate representation of nominal versus real terms.

Co-Chair Stedman felt that adding in the inflation adjustment would result in a more similar result.

Mr. Stickel agreed to further examine that issue.

Senator Bishop noted that the slide would like much different if there was not the addition of \$9 million into the corpus of the fund.

Mr. Stickel displayed slide 4, "Petroleum Detail: Historical North Slope and Brent Futures Oil Prices." He remarked that the slide showed a comparison of the forecast and several oil price outlook sources.

Co-Chair Stedman stated that the chart was requested because of the common focus on future price. He stressed the consideration of accounting for the possibility of running out of cash.

Mr. Stickel stated that the futures market was best representation of a most likely case, but agreed that it was within a wide range of outcomes due to oil price volatility.

[9:46:54 AM](#)

Co-Chair Stedman noted that there was a desire to see the industry be profitable at \$60 per barrel, but the slide showed profitability at around \$80 per barrel.

Mr. Stickel addressed slide 5, "Petroleum Detail: Oil Price Forecasts." He stated that the slide showed a comparison of the fall forecast to the futures market outlook and an average outlook from industry analysts.

Mr. Stickel looked at slide 6, "Petroleum Detail: UGF Relative to Price per Barrel (without POMV), FY 2024." He stated that the chart showed the sensitivity of UGF revenue relative to oil price.

Mr. Stickel discussed slide 7, "Petroleum Detail: UGF Relative to Price per Barrel (without POMV), FY 2024-FY 2026." He stated that the slide reflected the numbers in slide 6, but in table form.

Co-Chair Stedman recalled that the information was only recently included in the Revenue Sources Book.

Mr. Stickel pointed to slide 8, "Petroleum Detail: Changes to North Slope Petroleum Production Forecast, FY 2020-FY 2026." He shared that the slide showed a more narrow y-axis

with a wider outlook to show the direction of the production forecast in the upcoming five years.

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Mr. Stickel looked at slide 9, "Petroleum Detail: Changes to North Slope Petroleum Production Forecast, FY 2020-FY 2026." He also displayed slide 10, "Petroleum Detail: Capital Lease Expenditures." He stated that the slides were a breakout between deductible and nondeductible expenditures.

Co-Chair Stedman asked about what would happen to the nondeductible expenditures.

Mr. Stickel responded that the deductible lease expenditures were used as part of the current year tax calculation and impact current year tax revenues. He stated that any nondeductible lease expenditures turned into a carryforward annual loss. He stated that those could be used to offset the two-year tax cut.

Senator Bishop noted the seven year timeline for the carryforward loss.

Mr. Stickel explained that the carryforward lease expenditures could be carried forward indefinitely. He stated that the unused items would see a reduction, which was called a "down lift" that reduced them in value by ten percent.

Co-Chair Stedman queried the time value in money on that issue.

Mr. Stickel replied that adjusting for the impacts of inflation or cost of capital would show that the real value of those expenditures decreased over time.

[9:55:27 AM](#)

Co-Chair Stedman stressed that it was in the industry's best interest to use those expenditures sooner rather than later.

Mr. Stickel agreed.

Co-Chair Stedman remarked that there might be questions on the forward accumulation of those credits.

Mr. Stickel addressed slide 11, "Petroleum Detail: Operating Lease Expenditures." He noted that the vast majority of operating expenditures were expected to be considered deductible expenditures, because most of the operating costs were the cost of operating units in current production.

Mr. Stickel pointed to slide 12, "Petroleum Detail: North Slope Allowable Lease Expenditures." He stated that the Department of Labor and Workforce Development (DOLWD) had a current forecast for oil and gas employment. He stated that in FY 23 the forecast was 700 jobs, and a FY 30 forecast showing 9060 jobs.

Commissioner Crum invited Ms. Leary to address the responses.

[9:58:19 AM](#)

PAM LEARY, DIRECTOR, TREASURY DIVISION, DEPARTMENT OF REVENUE, discussed a letter from the tax division (copy on file):

1. Provide information about management fees for Treasury-managed funds, similar to the information provided for the Alaska Retirement Management Board (ARMB) and Permanent Fund in the Revenue Sources Book.

According to the Treasury Division, total costs for managing non-ARMB assets in FY 2022 were \$4.0 million. On June 30, 2022, the net asset value of these assets was \$9.4 billion, costs were approximately 4.2 basis points (0.042 percent) of net assets.

Co-Chair Stedman asked for a definition of basis points.

Ms. Leary replied that a basis point was one one-hundredth of one percent.

[10:00:57 AM](#)

AT EASE

[10:02:29 AM](#)

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Ms. Leary referred to the response letter from the DOR (copy on file):

1. Provide historical information on the asset allocation and performance of the Power Cost Equalization fund and additional information to the Co-chairs to assist in evaluating the future investment of the fund.

As requested, Attachment 1 presents 5 years of quarterly target and actual asset allocations as well as quarterly performance compared to benchmarks. Average annual performance over the past 5 years ending was 2.43 percent, slightly ahead of the benchmark of 2.42 percent.

Additionally, to assist in evaluating future investment of the fund, Treasury is preparing information for the Co-chairs on prospective return, risk, and the impact of downside return scenarios on spending using both 3-year smoothing and 5-year smoothing. Treasury just received updated 2023 capital market assumptions and it will take some additional time to incorporate them.

[10:05:17 AM](#)

Co-Chair Stedman remarked that there would be a future presentation on Power Cost Equalization (PCE).

Ms. Leary looked at Item to of the letter:

2. Did the restructuring of airport system debt extend the amortization period? What was this savings due to? Amortization changes, lower interest rates, or something else?

Bond refinancing or refunding are used by state and local governments to achieve debt service savings on outstanding bonds. In some cases, the refunding of bonds can also be issued to removed or bond covenants or to restructure debt service payments. In this case, through authorization from the State Bond Committee and the AIAS, in August 2021, AIAS issued \$85.5

million of Series 2021 A, B, and C revenue refunding bonds, which in conjunction with the contribution of \$40.0 million of cash and prior debt service funds on hand of the AIAS, defeased/refunded \$154.4 million of par of then outstanding AIAS revenue bonds. The transaction resulted in an \$81.8 million gross reduction in total scheduled debt service payments between FY2022 and FY2036 and net present value savings of approximately \$24.9 million associated with the refunding portion. The transaction was structured to frontload maximum benefit of airline rate reductions over the first two years in order to provide immediate pandemic relief support to AIAS customers. The restructuring of outstanding debt of the airport system reduced future debt service payments from FY2022 through FY2036 without extending the amortization. Debt service savings from the restructuring were realized due to lower interest rates, and the cash contributions of the airport system.

Co-Chair Stedman noted that the state did not extend the term.

Ms. Leary pointed to Item 3:

3. Are there any GeFONSI funds that are having problems or are doing really well?

There are currently 185 funds that are invested within the GeFONSI funds. The Treasury manages the GeFONSI as one investment fund and each fund that is allowed to receive earnings by statute is assigned earnings on a daily basis. The Treasury does not, however, analyze how every individual fund within the GeFONSI is being used by agencies. Rather, it is the Division of Finance, the Office of Management and Budget and Legislative Finance that monitor balances to ensure that the funds are not over appropriated.

Co-Chair Stedman noted that there was normally a briefing on the Legislative Finance Division (LFD), to point out any red flags and also fund balances.

Ms. Leary pointed to Item 4:

4. How many other funds have asset allocations like the Alaska Higher Education Investment fund?

There are five funds with the State's highest risk/return asset allocation, and they are the Power Cost Equalization Fund, The Public Schools Trust Fund, The Alaska Higher Education Investment Fund, the Education Endowment Investment Fund, and the Illinois Creek Mining Reclamation Fund. All five funds are invested in the same underlying asset class building blocks, but they are not commingled at the fund level and do not need to have the same asset allocation.

Ms. Leary looked at Item 5:

5. How exactly is a benchmark decided? Are we using the right ones?

Asset class benchmarks are selected to best represent the risk and return that could be produced by passively investing in each underlying asset class. The State used the following industry-standard benchmarks for each asset class:

The process for selecting these benchmarks was transparent and independent and ultimately the fund fiduciary went through a diligent process to make sure they were the right benchmarks. All of the benchmarks are subject to ongoing scrutiny by compliance, independent consultants, and investment advisors.

Fund benchmarks are calculated using a combination of the asset class benchmarks and each fund's asset class target weights over time. Performance measurement is the responsibility of Treasury's middle office/compliance group and is independent of the investment process.

Co-Chair Stedman asked about the background on the Russell 3000.

Ms. Leary replied that the Russell 3000 were common institutions that were known for index management.

[10:11:11 AM](#)

Co-Chair Stedman surmised that it was 3000 of the largest funds by capitalization.

Ms. Leary agreed.

Co-Chair Stedman stressed that his questions were mostly to provide information.

Ms. Leary stated that the benchmarked asset classes were used as building blocks for the fund.

Co-Chair Olson queried a tolerance used to called it a "missed benchmark."

Ms. Leary replied that Attachment 1 showed the change in target.

[10:15:17 AM](#)

Co-Chair Olson wondered whether it fit into the category of a "basis point."

Ms. Leary replied in the affirmative.

Co-Chair Hoffman wondered whether the terminologies were broadly the same when it comes to "equities."

[10:17:13 AM](#)

Ms. Leary replied that they equated to one another.

Co-Chair Hoffman wondered whether there was also an impact on bonds.

Ms. Leary replied in the affirmative.

Co-Chair Stedman wondered whether there was a difference between global equity and international equity.

Ms. Leary replied that there were different indexes, and global equity was used in the response.

Ms. Leary pointed to Item 6:

6. Which funds have missed benchmarks?

All of the underlying asset classes outperformed for the 1-year ended 12/31/2022. This is not common and is the byproduct of a combination of investment skill and fortuitous cash flow timing.

Both broad market fixed income and short-term fixed income had the highest outperformance and benefited from skillful active investment management by Treasury staff during a difficult market environment. Staff has a long history of adding value by actively managing these portfolios and expects to continue to do so moving forward.

The equity strategies are invested in index funds that are expected to closely track their respective benchmarks. However, cashflow timing can result in modest deviations from the benchmark over time that are outside Treasuries control. During 2022 these differences turned out to be positive, but this is not expected to repeat with frequency. As you can see in the following schedule, relative performance was positive for the 1-year period, but there were some negative deviations over other periods:

At the fund level, GeFONSI II was the only fund that did not outperform since it had a higher level of initial cash due to cash transfers at the start of the fiscal year. All of the other funds benefitted from the outperformance of the underlying asset class building blocks discussed above. The breadth of this outperformance is uncommon. Treasury manages these portfolios with tight risk controls and material underperformance is not expected moving forward, but modest levels of both outperformance and underperformance due to cashflow timing is normal.

[10:20:40 AM](#)

Co-Chair Stedman looked at PCE, he noted the increase in allocation with a reduction in bonds. He wondered whether there was a discussion on making allocations slower or faster depending on the market conditions.

Ms. Leary replied that asset allocations were made at the start of a quarter, and there was an attempt to make those changes as soon as possible.

Co-Chair Stedman queried the trigger of the asset allocation in the first quarter of FY 23.

Ms. Leary replied that the change occurred in response to the legislation.

Co-Chair Hoffman queried the prior investment rule before the prudent investment rule.

Ms. Leary replied that the target at that point when the change was made was that the fund should receive a 5 percent return target, which had been lowered from 7 percent.

[10:25:11 AM](#)

Co-Chair Stedman requested an examination of the fourth quarter to first quarter from FY 21 to FY 22.

Ms. Leary agreed to provide that information.

Co-Chair Hoffman asked for a comparison of the prudent investment rule for the PCE to the investment rules of the permanent fund.

Ms. Leary agreed to provide that information.

Co-Chair Stedman felt that the benchmarks and target returns should be included in that response.

Co-Chair Hoffman looked at Item 4, and wondered whether the categories were in the prudent investment rule. He also asked when the other funds went into the criteria of the prudent investment rule.

Ms. Leary replied that the prudent investment rule was adhered to by the commission of the Department of Revenue (DOR) when reviewing and setting asset allocations for the fund.

Co-Chair Hoffman wondered whether the funds were set by law to follow the prudent investment rule, as was outlined for PCE in the year prior.

Ms. Leary agreed to provide that information.

Co-Chair Stedman asked for a definition of the prudent investment rule.

Ms. Leary replied that the prudent investor rule was written in statute, and detailed how a prudent would invest

a specific fund based on various factors. She agreed to outline the prudent investor rule.

[10:33:20 AM](#)

Co-Chair Hoffman stressed that he and Co-Chair Olson were the most impacted by PCE. He remarked that there was a 20 percent loss to the fund after requiring the prudent investor rule to PCE.

Ms. Leary pointed to Item 7:

7. Provide a copy of the Cash Deficiency MOU.

Cash in the State's General Fund is essential to ongoing day-to-day operations. Without cash in the fund, the State cannot pay its bills and the daily operations of the State come to a halt. The State's daily cash need can be as much as \$200 million in a single day. For purposes of this operating plan, a cash deficiency situation exists any time the General Fund cash balance is projected to, or does, drop below \$400 million and is expected to stay below \$400 million for five days. In the 1990s, the Departments of Law, Revenue, Administration, and the Office of Management and Budget jointly developed a Cash Deficiency Operating Plan to accomplish this goal. This document is updated as needed. The most recent update is provided as Attachment 2.

Ms. Leary pointed to Item 8:

8. Provide timing of the call for POMV disbursement.

The POMV amount and how it will be used to pay out dividends and support operations is known at the start of the fiscal year based on the budget, as approved by the legislature. For fiscal year 2023, \$1.68 billion was transferred on 7/15/22 to pay dividends. The remaining \$1.68 billion will be transferred to the general fund during the second half of the fiscal year and is somewhat dependent on when transfers from the general fund to the CBRF occur. For fiscal year 2024, the total POMV draw will be \$3.52 billion. The Governor's budget reflects \$2.47 billion to be used to pay dividends leaving \$1.05 billion for operations.

The timing of the transfer will again depend on cash projections as the new fiscal year approaches.

Ms. Leary discussed Item 9:

9. The presentation mentioned 14 defined benefit funds. Could you let us know what these 14 funds are?

The 14 defined benefit funds include the following:

Public Employees' Retirement System (PERS)

- Retirement Pension Trust
- Retirement Health Care Trust
- Occupational Death and Disability*
- Police and Fire Occupational Death and Disability*
- Retiree Medical Plan*
- Health Reimbursement Arrangement*

Teachers' Retirement System (TRS)

- Retirement Pension Trust
- Retirement Health Care Trust
- Occupational Death and Disability*
- Retiree Medical Plan*
- Health Reimbursement Arrangement*

Judicial Retirement System (JRS)

- Retirement Pension Trust
- Retirement Health Care Trust

National Guard/Naval Militia Retirement System (MRS)

- Retirement Pension Trust
- *Defined benefit component of the defined contribution plans

[10:38:26 AM](#)

Co-Chair Stedman wondered whether there was reference to the old legislative pension that was only in place for one year thirty years prior.

Ms. Leary replied the item related to the occupational death and disability funds for Public Employees' Retirement System (PERS).

Ms. Leary pointed to Item 10:

10. Provide a break down the \$1.37 billion balances on slide 13.

The \$1.37 billion as of June 30, 2022, represents the cash balance of \$910 million in the Constitutional Budget Reserve Fund (CBRF) and \$410 million in the Statutory Budget Reserve (SBR) fund. The accrued balances of these funds in the state's Annual Comprehensive Financial Report (ACFR) available for appropriation on June 30, 2022, are in the process of being audited. Based on discussions with the Division of Finance and Office of Management and Budget (OMB), the accrued balance of the CBRF as of June 30, 2022, is estimated to be \$2.2 billion, resulting from transfers from the general fund to the CBRF for fund surpluses and sweep amounts. The SBR is expected to have an accrued balance of \$370 million as of June 30, 2022

Commissioner Crum looked at Items 11 and 12:

11. Provide a minimum balance or minimum range for the Constitutional Budget Reserve Fund (CBRF).

This is an OMB policy and will be addressed accordingly in their response/presentation.

12. How would rating agencies view a \$500 million CBRF balance?

The rating agencies view of the State's credit rating profile as very unique compared to other States within the U.S due to the State's economic concentration and dependence on a volatile oil and gas industry. That being said, rating agencies have viewed the State's rating outlook as stable/positive due to its financial standing (i.e. low debt profile, reduction in pension obligations and other postemployment benefits obligations including the State's sizeable constitution budget reserve).

^ADMINISTRATION RESPONSE TO PRIOR MEETINGS: OFFICE OF MANAGEMENT and BUDGET

[10:43:30 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself.

[10:45:29 AM](#)

AT EASE

[10:47:23 AM](#)

RECONVENED

[10:47:50 AM](#)

CORI MILLS, DEPUTY ATTORNEY GENERAL, OFFICE OF THE ATTORNEY GENERAL, DEPARTMENT OF LAW, addressed a question about statehood defense:

Senator Olson asked what the success rate is for litigation relating to statehood defense, and what the running total is for such costs.

Currently, Department of Law has many cases still pending in district courts or on appeal, please see attached list of current litigations funded with the multi-year appropriations for Statehood Defense. Out of all these cases four were lost in the district court and are currently on appeal (attachments 3 and 4).

[10:50:22 AM](#)

Co-Chair Olson queried the percentage of decisions made where there was a loss at the district level.

Ms. Mills replied that three were in the appeals court.

Co-Chair Olson stressed that the case was important because it related to local control.

[10:54:14 AM](#)

Co-Chair Hoffman queried the cost related to the case.

Ms. Mills replied that the estimate was approximately \$150,000.

Co-Chair Hoffman wondered why the funds would be asked for now, rather than a supplemental request.

Ms. Mills replied that the success rate on all cases was not yet known, but the navigability cases were generally successful. She stated that it was difficult to know when a case would suddenly be expensive.

Senator Bishop stated that he would ask his question offline.

Senator Kiehl requested approximate price tags on the multiyear needs.

Ms. Mills replied that only certain cases fit within the appropriations. She agreed to provide an estimate.

[10:58:32 AM](#)

Co-Chair Stedman noted that the state defense had many angles. He asked about returning state artifacts.

Ms. Mills agreed to look at the specific language.

Co-Chair Stedman wondered whether there was a new appropriation for \$10 million.

Mr. Steininger replied in the affirmative.

Co-Chair Hoffman noted the change in direction on whether the funds should be included in the operating budget.

Mr. Steininger agreed.

Co-Chair Hoffman felt that the operating budget may be a better approach, in order to fully examine the specifics of the request.

Co-Chair Stedman stated that the remaining responses from OMB would be presented at a later meeting. He discussed the following day's agenda.

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ADJOURNMENT

[11:02:37 AM](#)

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