

HOUSE FINANCE COMMITTEE  
March 14, 2024  
1:51 p.m.

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CALL TO ORDER

Co-Chair Johnson called the House Finance Committee meeting to order at 1:51 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair  
Representative Neal Foster, Co-Chair  
Representative DeLena Johnson, Co-Chair  
Representative Julie Coulombe  
Representative Mike Cronk  
Representative Alyse Galvin  
Representative Sara Hannan  
Representative Andy Josephson  
Representative Dan Ortiz  
Representative Will Stapp  
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Adam Crum, Commissioner, Department of Revenue; Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue; Lacey Sanders, Director, Office of Management and Budget, Office of the Governor; Curtis Thayer, Executive Director, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Megan Kohler, Acting Administrative Services Director, Department of Environmental Conservation; Gene McCabe, Acting Director, Division of Water, Department of Environmental Conservation.

SUMMARY

PRESENTATION: SPRING REVENUE FORECAST BY THE DEPARTMENT OF REVENUE

OVERVIEW: FY 25 GOVERNOR'S BUDGET AMENDMENTS BY THE OFFICE OF MANAGEMENT AND BUDGET

Co-Chair Johnson reviewed the meeting agenda.

^PRESENTATION: SPRING REVENUE FORECAST BY THE DEPARTMENT OF REVENUE

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ADAM CRUM, COMMISSIONER, DEPARTMENT OF REVENUE, stated it was one of the first times in a long time that the fall forecast had remained relatively stable. The information had all been posted on the Department of Revenue website.

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DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, provided a PowerPoint presentation titled "Spring 2024 Forecast Presentation: House Finance Committee," dated March 14, 2024 (copy on file). He thanked the committee for the opportunity to present the forecast. He briefly reviewed the agenda on slide 2. He turned to slide 4 titled "Background: Spring Revenue Forecast."

Mr. Stickel turned to slide 5 and reviewed spring forecast assumptions. He noted that the forecast was one possibility in a range of outcomes. He reviewed the slide:

Key Assumptions:

- Investments: Stable growth in investment markets, 7.40 percent annualized rate for remainder of FY 2024 and 7.60 percent for FY 2025+
- Federal: The forecast incorporates known funding as of March 1, 2024, includes updated estimates of potential Infrastructure Investment and Jobs Act funding
- Petroleum: Alaska North Slope oil price of \$84.08 per barrel for FY 2024 and \$78.00 per barrel for FY 2025
- Non-Petroleum: Continued economic growth. 1.6 million cruise passengers yearly, three-year recovery for fishing industry, minerals prices based on futures markets

Mr. Stickel advanced to a visual depiction of total state revenue for FY 23, which had come to \$15.5 billion. Investment earnings and petroleum revenue made up the majority of state revenue. He turned to slide 7 and showed the same information for FY 24.

Mr. Stickel turned to slide 9 titled "Unrestricted Revenue Forecast: FY 2023 and Changes to Two-Year Outlook."

Mr. Stickel looked at the total revenue forecast (FY 23 to FY 25 totals) on slide 10.

Representative Galvin asked if federal revenue included investments in transportation.

Mr. Stickel answered that the forecast included the different federal stimulus bills, and stated that for detail he deferred to the Office of Management and Budget (OMB).

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Mr. Stickel turned to slide 12 titled "Unrestricted Investment Revenue: FY 2023 to FY 2025 Totals." Unrestricted general fund revenue, investment revenue, total unrestricted investment revenue forecast was \$3.7 billion for FY 25.

Representative Hannan asked what the inflation proofing dollar value would be on the particular rate for the Permanent Fund for FY 25.

Mr. Stickel did not have the number on hand. He would follow up.

Mr. Stickel turned to slide 13 titled "Unrestricted Investment Revenue: Percent of Market Value (POMV) Transfer Forecast." He noted the 7.6 percent return for FY 25 and beyond. He remarked that the long term total return was now slightly above inflation. Slide 14 showed detail for the petroleum revenue forecast, and he stressed that the slide was expecting the number to be a bit lower in the next couple of years due to slightly lower oil prices and much higher lease expenditures. Petroleum revenue was expected to be \$2.4 billion in FY 24 and \$2.1 billion in FY 25.

Representative Stapp asked about capital lease expenditures. He noted that the slide showed above \$6 billion per year for the remainder of the forecast period. He stated the book went through 2033. He asked if that was the end of the forecast period.

Mr. Stickel replied it was 2033 or 2034 depending on how it was looked at.

Representative Stapp asked about the production tax.

Mr. Stickel answered that it was the gross minimum floor. Each company had a different expectations, and some but not all companies were expected to be paying at the minimum tax floor.

Representative Stapp looked at the increased production forecast of 10,000 barrels per day.

Mr. Stickel deferred any detailed comments to the Department of Natural Resources (DNR) that produced the production forecast.

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Representative Stapp looked at a 4 cent increase in transportation cost. He asked for the reason.

Mr. Stickel characterized the change as relatively minor.

Mr. Stickel turned to slide 15 and looked at unrestricted non-petroleum revenue: FY 23 to FY 25. The largest of the taxes was the corporate income tax. He explained that the increases were based on continuing economic recovery, excise taxes, fisheries, gambling, mining taxes. He noted the \$461 million non-petroleum revenue in FY 24, increasing to \$517 million in FY 25.

Representative Hannan queried the reason for the gambling tax decrease in FY 25.

Mr. Stickel answered that the calendar year 2023 came in about expectations, but the number of passengers were declining slightly year after year.

Representative Ortiz wondered whether the increase in fish taxes was due to a more "bullish outlook."

Mr. Stickel responded the forecast built in a three year recovery assumption for fisheries. He stated the assumption was naïve and the department hoped it came to pass.

Representative Coulombe observed the decrease in the excise tax. She asked if it changed the marijuana tax.

Mr. Stickel answered that the forecast was based on current law. Marijuana consumption had plateaued. Production taking place was transitioning from the higher tax.

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Representative Josephson asked about the carry forward expenditures, and looked at chapter 8 of the DOR Revenue Sources Book. He asked if it was not a Willow project phenomenon.

Mr. Stickel answered that the department could not speak to specific oil projects. The developer of Willow would carry forward lease expenditures only if the company was spending.

Representative Josephson asked if the numbers at the bottom of the page were more a reflection of Pikka and other fields.

Mr. Stickel replied, "Generally speaking, yes."

Mr. Stickel turned to a chart on slide 17 titled "Petroleum Detail: Changes to Long-Term Price Forecast." He then moved to slide 18 showing how the DOR forecast compared to the futures market, analysts, nominal ANS, and EIA STEO forecast. He pointed out that the forecast was on the conservative end compared to the others.

Representative Galvin asked if the slide was representative of the other markets escalating higher. She looked at the orange line and asked if it was what other forecasters were expecting.

Mr. Stickel answered the orange line was the short term energy outlook released on March 12.

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Representative Galvin asked if the black dotted line reflected the state's forecast. She asked if the DOR forecast was the most conservative.

Mr. Stickel replied affirmatively.

Co-Chair Johnson asked why the energy association figure was higher than everyone else.

Mr. Stickel answered that the particular forecast came out two days earlier, and it sited an expectation of lower inventories and continued supply restraint.

Mr. Stickel moved to slide 19 showing how UGF revenue and POMV transfer. He noted the dollar change in oil price equated to about \$45 million to \$50 million in revenue. He turned to slide 20 showing a chart titled "Petroleum Detail: North Slope Petroleum Production Forecast." Production was expected to remain fairly stable in FY 25, but there was an expectation for increases beginning in FY 27 as new fields were expected to come online including Willow and Pikka.

Representative Galvin asked if the information had been adjusted since the fall.

Mr. Stickel replied there had been some minor adjustments, which were addressed on the following slide.

Representative Hannan was interested in the low case forecast scenario. She asked if it presumed a field would not come online.

Mr. Stickel deferred detailed questions to DNR. Assumptions were made about what sort of oil would come from new oil. Willow and Pikka had not yet produced so the answer was unknown. He cited Badami as an example where production was much lower than expected. Conversely, on a high case where fields produced more oil than expectations.

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Mr. Stickel turned to slide 21 and noted there were very small changes between the fall and spring production forecasts. He remarked that going into the long term, the forecast increased its confidence of the Willow project. There was a higher chance of the production coming online.

Representative Stapp thought the chart illustrated an interesting point. He noted that unrestricted petroleum revenue in FY 23 was the same as production in FY 25. He stated there was a 200,000 difference in production. He asked why there was no reduction in the Trans-Alaska Pipeline System (TAPS) throughput, and stressed the expected tariff cost to decrease fairly significantly.

Mr. Stickel answered that they did expect the tariff cost to decrease, He stated that in terms of unrestricted petroleum revenue for FY 25, there were two reasons revenue did not follow production. He remarked on the reduction of the value of oil for production tax purposes. Willow was on federal land as opposed to state land, which impacted the royalty.

Representative Stapp asked about royalties. He pointed to Pikka coming online in FY 29. He thought it was a state project.

Mr. Stickel answered that Pikka was located on state and private land, and about 65 percent was on state land.

Representative Stapp observed the royalty revenue was close to the same as in FY 24. He asked about a material difference.

Mr. Stickel responded that the department could follow up with more detailed assumptions. Generally, they were looking at a similar amount of state royalties and unrestricted share. An increase in share of production would be attributable to non-state land.

Co-Chair Johnson noted that Representative Cronk had joined the meeting.

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Co-Chair Johnson looked at slide 19 and asked for clarification.

Mr. Stickel answered that every dollar increase in oil equated to \$45 million to \$50 million in revenue.

Mr. Stickel turned to a chart on slide 22 showing North Slope allowable lease expenditures. He then advanced to

slide 23 related to transportation costs. He stressed that the costs were deductible for the purposes of calculating the production tax, net tax, the tax floor, and royalty. Marine costs had been increasing in recent years and were expected to stabilize, and the TAPS tariff was expected to decrease by the end of the forecast period as revenue from new fields offset the cost. He moved to slide 24 and discussed tax credits for purchase.

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Representative Josephson expected to have hearings related to oil tax on Cook Inlet. He asked if it was about \$40 million in royalty revenue from Cook Inlet.

Mr. Stickel answered that the Cook Inlet royalty revenue was included in the forecast. He believed it was higher than \$40 million. He did not have the breakout on hand.

Representative Josephson asked about the future Cook Inlet projects.

Mr. Stickel replied there was a detailed breakout for Cook Inlet that he would provide.

Co-Chair Edgmon thanked Mr. Stickel for the presentation. He asked about the \$198 million for the FY 24 and FY 25 forecast.

Mr. Stickel responded it was \$198.5 million collectively.

Co-Chair Edgmon asked how much of the amount was for the POMV.

Mr. Stickel answered that he did not have the number on hand.

Commissioner Crum answered that the department would follow up with the information.

Co-Chair Edgmon thought it was presumably about half of the \$198 million.

Co-Chair Johnson thanked the presenters.

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^OVERVIEW: FY 25 GOVERNOR'S BUDGET AMENDMENTS BY THE OFFICE OF MANAGEMENT AND BUDGET

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LACEY SANDERS, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, provided a PowerPoint presentation titled "Office of Management and Budget: FY2025 Governor's Amended Budget," dated March 14, 2024. The governor's amendments had been transmitted to the legislature the previous day. She began on slide 2 with an updated FY 25 fiscal summary.

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Representative Ortiz looked at the category labeled surplus and deficit. He asked if it was minus \$250 million.

Ms. Sanders replied affirmatively.

Representative Galvin asked if \$206 million were mostly federal receipts the state did not receive. She asked if it was healthcare or transportation.

Ms. Sanders would speak to the amount in a few slides.

Representative Hannan looked at the deficit of \$862 million. She asked what the PFD calculation was included.

Ms. Sanders answered that the governor's budget included a full statutory PFD.

Representative Ortiz asked if the \$250 million should be added to the \$862 million.

Ms. Sanders asked if Representative Ortiz was referring to the surplus for the waterfall and CBR deposit.

Representative Ortiz agreed.

Ms. Sanders explained that with the divide between a PFD and CBR, there would still be a small balance.

Representative Ortiz asked about the deficit of \$862 million.

Ms. Sanders clarified they were two separate years.

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Ms. Sanders addressed the governor amend requests on slide 3. She pointed to the Department of Administration (DOA) and the Department of Commerce, Community and Economic Development (DCCED). She remarked on the state receiving a notification from the US Department of Energy the AEA was selected to receive a federal grant of \$206.5 million, which required matching funds.

Co-Chair Edgmon asked about the \$206 million in GRIP money. He asked if the state would be better off focusing on energy in the second half of the session.

CURTIS THAYER, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, replied AEA had been in negotiations with the federal government, and pointed out that the federal government would fund as the state provided funding.

Co-Chair Edgmon asked if fully funding the match would enhance the state's ability to access additional grants.

Mr. Thayer answered that he had not asked the question of the Department of Energy (DOE), but noted that they were different silos in the department. He did not know how funding one would impact another.

Co-Chair Edgmon stated his belief there was a one shot opportunity, and felt that the vision had gone "from zero to 60." He wanted to ensure the state put more skin in the game to maximize the opportunity.

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Representative Stapp asked about future GRIP awards, and asked if the state could supplant federal funds.

Mr. Thayer responded that he was not entirely sure how to answer the question. The GRIP awards required an equal match. It was not possible to use other federal funds as match.

Representative Stapp clarified his question.

Mr. Thayer answered it was best to wait to receive the award prior to requesting the match.

Representative Hannan was hearing Mr. Thayer say that the \$206 million GRIP funding was secure.

Mr. Thayer responded that the short answer was yes. He explained the request would look at narrowing down the cost assessments, and the federal agency wanted to see a line of sight on the projects.

Representative Hannan queried the distribution process.

Mr. Thayer replied that the federal money would come on a reimbursable basis after the state provided match funds.

Ms. Sanders resumed reviewing slide 3 beginning with the Department of Environmental Conservation (DEC) and the Department of Military and Veterans Affairs (DMVA). She noted the federal requirements for information technology, and pointed to transitioning away from the Office of Information Technology to oversee its own positions. She remarked that the item was also reflected later on a supplemental slide.

Co-Chair Johnson asked if the \$429.7 million for DOA was a supplemental request.

Ms. Sanders answered it was a request for supplemental and add to the base going forward, but stated that the four positions would be added to the base budget.

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Ms. Sanders continued to review slide 3 and the Department of Transportation and Public Facilities (DOT/PF), which included salary adjustments. She remarked that police and fire negotiations were completed for the upcoming fiscal year.

Representative Josephson asked about the \$5.2 million in DCCED. He asked if it was seed money to fund positions.

Ms. Sanders answered it would go to administrative staff.

Ms. Sanders turned to slide 4 and discussed capital governor amend requests. She began with DOA, DCCED, and DMVA. She remarked that the formula grant program provided funding, and that the GF match portion would remain the same, she stated that the second portion for DCCED was \$12.7 million associated with the GRIP match.

Representative Ortiz stated his understanding there had been an appropriation of \$250,000 in past years for the inner island ferry authority. The amount was not included in the FY 24 budget or the FY 25 budget.

Ms. Sanders confirmed the request was not currently included in the capital budget.

Representative Galvin noted GRIP and the first piece of funding. She asked what Alaskans would experience a decline in services, and she asked if there were fewer services.

Ms. Sanders answered that every year the AIDEA board declared a dividend set in statute. She remarked on the requirement of utilizing the dividend for a specific purpose.

Ms. Sanders reviewed the DMVA capital item on slide 4. She noted that there was a match requirement to receive federal receipts. She turned to operating supplemental requests on slide 5.

Co-Chair Johnson asked for a repeat of the information.

Ms. Sanders complied. She moved to operating supplemental requests on slide 5.

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Ms. Sanders moved to the Department of Family and Community Services on slide 5, and the Alaska Pioneer Homes payment assistance grants with a projected lapsing amount of \$1.4 million. She pointed to the Department of Labor and Workforce Development (DLWD), and the Alaska Vocational Technical Center (AVTEC) experienced reduced enrollment since the pandemic. She remarked that AVTEC needed 85 percent enrollment to collect the full tuition, but they did not have the full enrollment, which resulted in a shortfall.

Representative Josephson asked how DNR decided it needed \$19 million.

Ms. Sanders responded that there were around 17 entities DNR worked with on fires.

Representative Hannan felt that \$19 million closer to a smaller supplemental for the fire budget the next year.

Ms. Sanders responded in the negative.

Representative Hannan was hopeful there was a point where they got closer to not having huge supplementals for fire suppression.

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Representative Tomaszewski about the line item of \$95,000.

Ms. Sanders believed the \$95,000 was for the FY 25 fiscal year.

Representative Tomaszewski asked if there would be a supplemental in the next year's budget.

Ms. Sanders responded that DLWD was engaging in a marketing strategy in the hope there would not be a shortfall.

Ms. Sanders continued to review operating supplemental requests on slide 5, and reviewed the special appropriations row.

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Representative Ortiz referenced the ocean ranger fund. He asked if Ms. Sanders was saying that the funds were managed as one fund.

Ms. Sanders responded that when the ballot initiative passed establishing fees for the program, and the two funds were collected from separate sources of revenue but should be in one account.

Representative Ortiz asked about the proposed pathway forward in terms of the use of ocean ranger funds.

Ms. Sanders answered that OMB had worked with DOL to ensure it was not breaking any rules regarding the use of the funds.

Representative Ortiz asked how the ocean ranger funds had been used thus far after the ocean ranger program had ended.

Ms. Sanders deferred the question.

MEGAN KOHLER, ACTING ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, deferred to the acting director for the Division of Water.

GENE MCCABE, ACTING DIRECTOR, DIVISION OF WATER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, replied that since the discontinuation of the ocean ranger program, the funds had been used for the credentialed inspectors to do the environmental inspections.

Co-Chair Johnson asked about special appropriations.

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Ms. Sanders responded there were two settlements related to DNR.

Representative Galvin thought it was a large number over a period of 13 years. She asked for more understanding about the shortfall in the ocean ranger fund. She asked for follow up.

Ms. Sanders highlighted there was a spreadsheet showing the information in the backup.

Representative Hannan emphasized that the backup documents were contrary to testimony.

Ms. Sanders clarified that the clarification would be on the following page.

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Ms. Sanders turned to slide 6 and discussed capital supplemental requests. She then turned to slide 7 and addressed the GRIP plan that was outlined in Attachment G in the packet (copy on file).

Representative Josephson looked at slide 7, and did not see the negotiation for the united auto workers related to R1 funding.

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Ms. Sanders responded that as the negotiations were completed, they were brought to the legislature for ratification.

She reviewed the schedule for the following meeting.

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ADJOURNMENT

[3:42:22 PM](#)

The meeting was adjourned at 3:42 p.m.