

# Representative Mike Hawker

## Alaska State Legislature



*Session:*

State Capitol  
Juneau, AK 99801  
907 465-4949 office  
907 465-4979 fax

*Interim:*

716 W 4<sup>th</sup> Avenue  
Anchorage, AK 99501  
907 269-0244 office  
907 269-0248 fax

*Chair:*

House Special Committee on  
Ways and Means

*Member:*

House Finance Committee  
Legislative Budget  
& Audit Committee

*House District 32:*

Eagle River  
Anchorage  
Glen Alps  
Rainbow  
Indian  
Bird  
Girdwood  
Portage  
Whittier  
Sunrise  
Hope

December 19, 2008

Governor Sarah Palin  
PO Box 110001  
Juneau, AK 99811-0001

Dear Governor Palin:

Thank you for providing the fiscal year 2010 state budget proposal you made public on December 15. It is my understanding the assumptions underlying your proposal includes revenue for that period based on prices for Alaska North Slope oil deliveries to the West Coast averaging \$74.41 a barrel. Many, if not most, professional economic analysts believe that the actual average prices will be significantly less than that.

Goldman Sachs has predicted U.S. crude prices of \$45 for the remainder of 2009. The U.S. Energy Information Agency is predicting \$51 and Merrill Lynch has suggested that prices may go as low as \$25 before beginning a gradual recovery. Yesterday, the market for U.S. crude futures showed prices trading below \$60 a barrel until June 2010. Alaska deliveries to the West Coast conventionally trade at some degree less than the U.S. benchmark crude price.

Today, Alaska oil is trading below \$30. Based on your proposed general fund spending of approximately \$5 billion, oil prices during the entire fiscal year 2010 have to average somewhere above \$65 a barrel to avoid a budget deficit. If oil prices average only \$40 we will be facing a deficit of approximately \$3 billion. At \$50 dollars that deficit will still likely approach \$2 billion.

No one can accurately predict the future of these markets. However, the consensus of opinion among the best economic minds in the country indicates that basing the state budget for 2010 on \$74.41 a barrel is certainly aggressive. I am concerned that it may also be imprudent. It is important the budget

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process be open and transparent to the Alaska public. Introducing budget bills founded on the unlikely hope of a rapid return to high oil prices is contrary to that principle and inconsistent with a responsible and productive budget dialog between the branches of government and with the Alaska people.

Accordingly, I ask that you re-evaluate your revenue projections and the budget you proposed on December 15. I will greatly appreciate your providing amendments before the beginning of the legislative session that reasonably reflect world market conditions and their likely consequence on Alaska economics during the 2010 fiscal year. We must conduct a public dialog that anticipates both the most difficult and the most optimistic circumstances. I believe your initial budget proposal provides the optimistic benchmark for that discussion. I look forward to receiving a revision to your initial proposal that presents your vision for addressing the more difficult circumstances where the state may well realize two to three billion dollars less general fund revenue than was anticipated in that budget.

I look forward to working with your administration as we develop the 2010 budget and present the reality of Alaska's fiscal circumstances to the public as openly and truthfully as possible.

Respectfully,

A handwritten signature in black ink, appearing to read "Mike Hawker". The signature is stylized and cursive.

Mike Hawker

cc: Mike Nizich  
Karen Rehfield