

ALASKA · STATE · CAPITOL

Updates on PFD and POMV Legislation

House Ways and Means
Committee
October 22, 2021
Legislative Finance Division

Disclaimer

Scenarios and adjustments in this presentation reflect individual pieces of legislation. Sponsors may intend these bills to be part of a larger package of changes.

Review of Modeling Baselines

- Legislative Finance's fiscal model is designed to show policy makers the longer-term impact of fiscal policy decisions.
- The baseline assumptions are essentially that current budget levels are maintained, adjusted for inflation. Policy changes are then applied against that baseline.
- Our default is to assume that statutory formulas will be followed.

Review of Modeling Baselines (cont.)

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Spring Revenue Forecast.
 - This assumes \$61 oil in FY22, growing with inflation in future years.
 - DNR oil production forecast projects that Alaska North Slope production will increase from 459.7 thousand barrels per day in FY22 to 565.5 thousand barrels per day in FY30.
- For the Permanent Fund, we assume actual FY21 returns and Callan's return assumption, which is 5.86% for FY22 and 6.20% for FY23 and beyond.

Note on Oil Prices

- We are using DOR's spring forecast price of \$61 oil in FY22, growing with inflation in future years. The FY23 forecast price is \$62.
- ANS price has averaged about \$75 since July 1, 2021. As of October 20, the ANS price was \$86.78.
- Brent futures are showing \$80 for June 2022 and an average price of \$76 for FY23, based on an expectation of declining prices through the fiscal year. Based on this price, FY23 revenue would be about \$500 million above the Spring forecast.
- DOR's fall forecast will be released in December in advance of the Governor's budget.

Review of Modeling Baselines (cont.)

Spending Assumptions

- For **agency operations**, these scenarios assume the FY22 enacted budget (including HB 3003) grows with inflation (2.0% per Callan).
- For **statewide items**, the baseline assumes that all items are funded to their statutory levels beyond FY22.
 - This includes School Debt Reimbursement, the REAA Fund, Community Assistance, and oil and gas tax credits. We assume oil and gas tax credits are statutorily funded beginning FY23 until the credit balance is eliminated.
 - For retirement funding, we are using the amounts adopted in the October ARM Board meeting. This includes a reduction of \$55 million in FY23 due to the ARM Board's adoption of a zero rate for the normal contribution to healthcare in FY23. We assume the normal rate is contributed beginning FY24, as the Board indicated this zero rate may be temporary.
 - We also include a baseline Fund Transfers amount that represents the ongoing cost of DEC's Spill Prevention and Response program.
- For the **capital budget**, we assume the enacted FY22 capital budget, growing with inflation.
- For **supplementals**, we assume \$50.0 million per year. This is based on the average amount of supplemental appropriations minus lapsing funds each year.
- For **dividends**, we assume the current FY22 actual PFD of \$739.0 million. We use the PFD calculation from proposed bills beginning FY23.

PFD and POMV Bills In the 32nd Legislature

Constitutional Amendments

- HJR 1 (Rep. Kreiss-Tomkins)
- HJR 7 (Governor Dunleavy)
- HJR 10 (Rep. Tuck)
- SJR 1 (Sen. Wielechoski)
- SJR 18 (Sen. von Imhof)

Statutory Changes

- HB 37 (Rep. Wool)
- HB 73 (Governor Dunleavy)
- HB 202 (Rep. Merrick)
- HB 3002 (Rep. Eastman)
- HB 3008 (House Ways and Means)
- HB 4008 (Rep. Snyder)
- HB 4009 (Rep. Hopkins)
- HB 4010 (Rep. McCarty)
- SB 53 (Senate Finance Committee Substitute)

HJR 1 (Rep. Kreiss-Tomkins)

- Constitutional amendment combining Permanent Fund principal and earnings reserve into a single account
- Establishes limit of draws from Permanent Fund of 5% POMV
- Does not deal with PFD

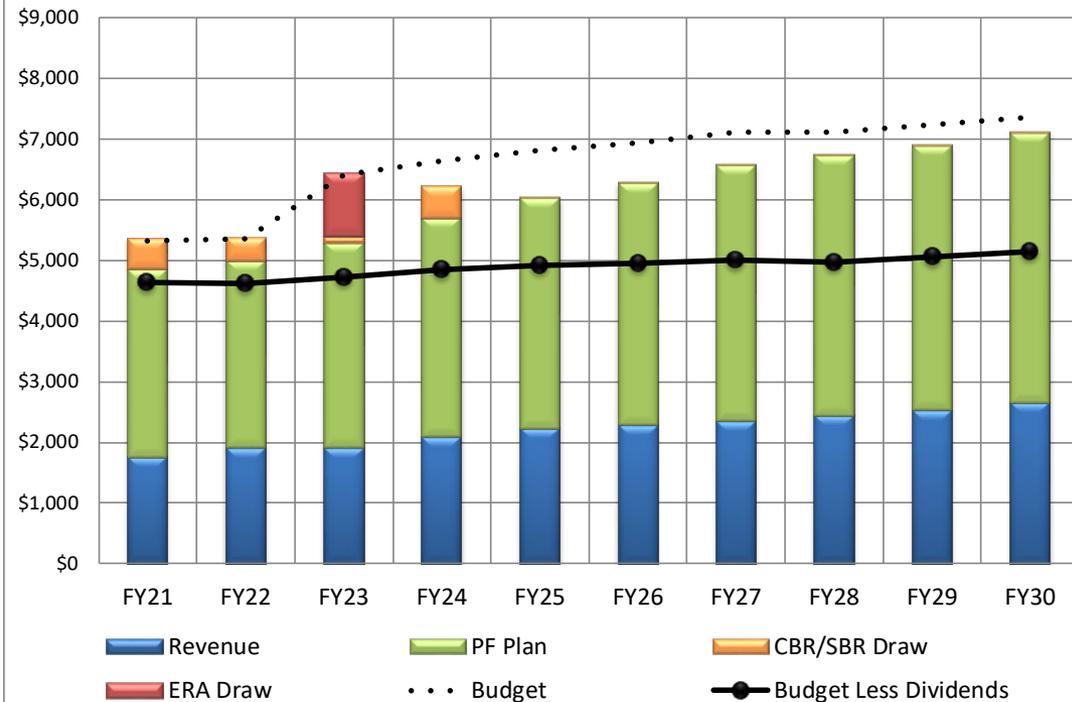
HJR 7/HB 73 (Governor)

- HJR 7 is a constitutional amendment combining Permanent Fund principal and earnings reserve into a single account
- HJR7 establishes limit of draws from Permanent Fund of 5% POMV
- As originally drafted, required that a PFD be paid according to a statute that was approved by the voters (as provided in HB 73)
- Governor revised his proposal, which was introduced as a CS to SJR 6 (the Senate companion). This version provides:
 - Constitutional single Permanent Fund account
 - Limits draws to 5% POMV
 - Sets PFD as 50% of the POMV draw
 - Transfers the PCE fund to the Permanent Fund and adds PCE program as constitutional requirement

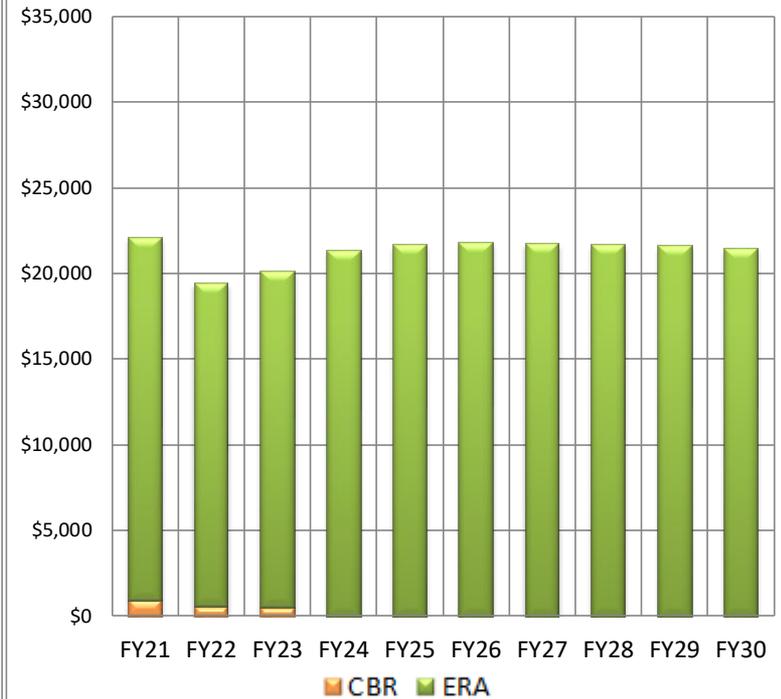
Governor's Constitutional Amendment (CS for SJR 6)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(387)	(1,142)	(972)	(802)	(683)	(563)	(403)	(358)	(283)

**UGF Revenue/ Budget
(\$ millions)**



**Budget Reserves
FY Ending Balance**



Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	6.55%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

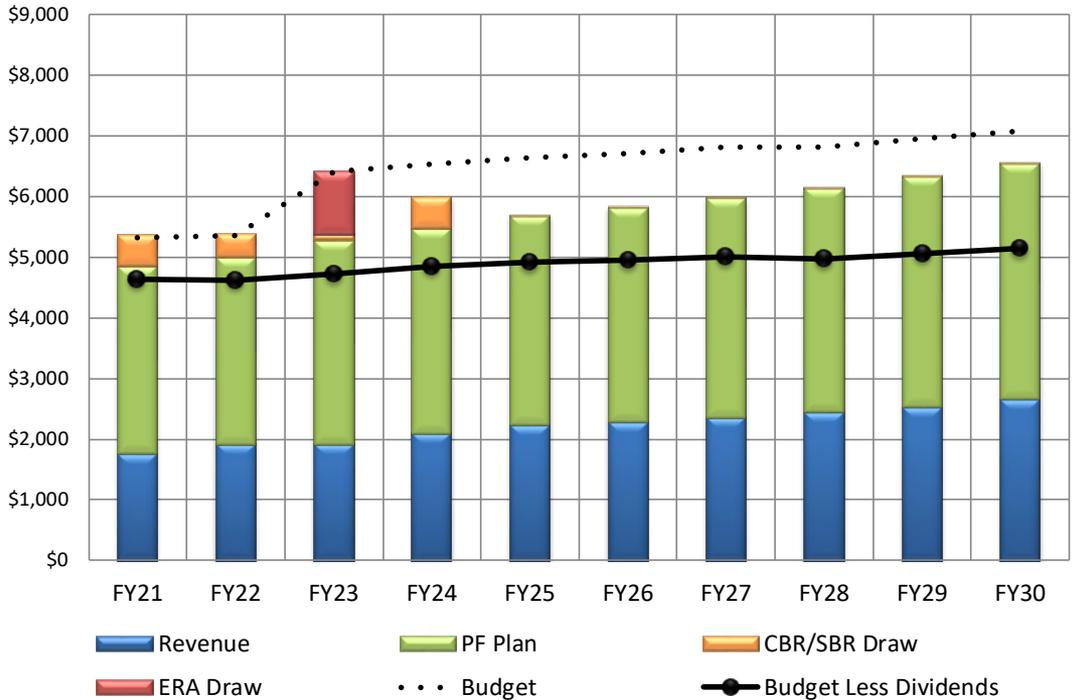
HJR 10 (Rep. Tuck)

- Constitutional amendment retaining two-account structure
- Draws limited to 4% of market value of the fund (no averaging) but may not exceed net income from the fund in the previous fiscal year
- Splits draw 50/50 between PFD and general fund

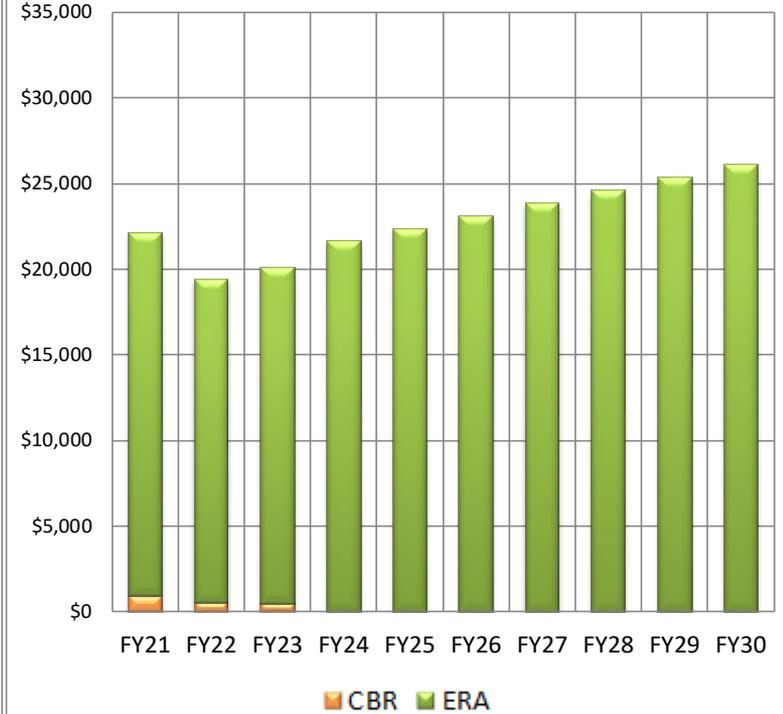
HJR 10 (Rep. Tuck)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(388)	(1,149)	(1,083)	(973)	(913)	(864)	(698)	(645)	(564)

UGF Revenue/ Budget
(\$ millions)



Budget Reserves
FY Ending Balance



Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	6.54%	4.69%	4.55%	4.42%	4.28%	4.29%	4.30%	4.31%

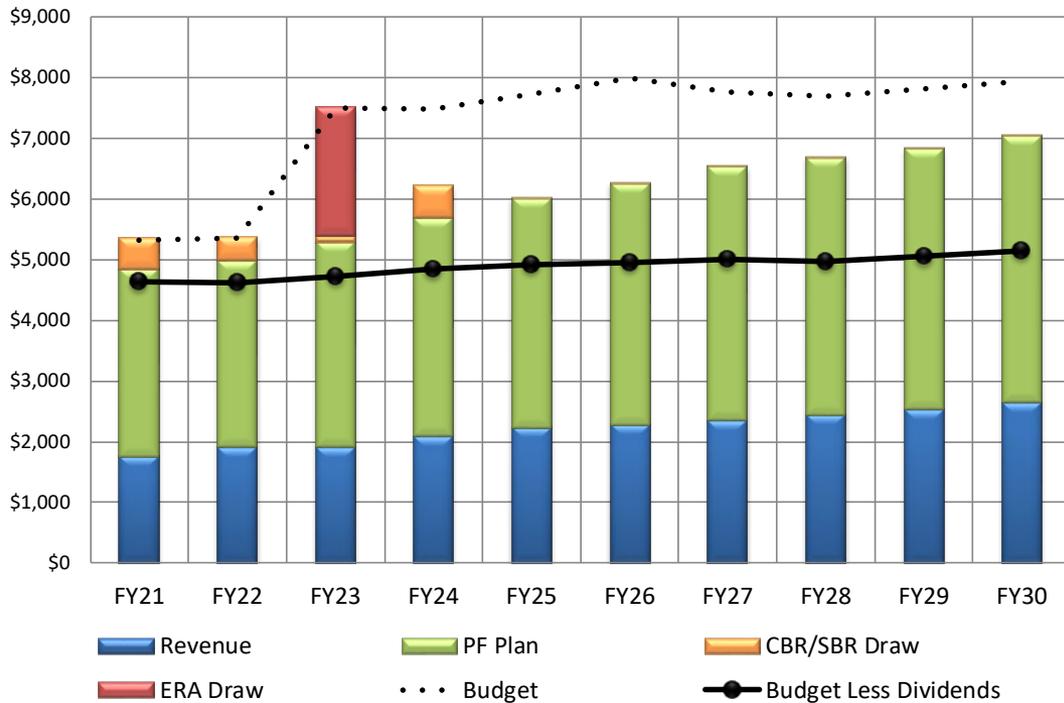
SJR 1 (Sen. Wielechowski)

- Constitutional amendment combining Permanent Fund principal and earnings reserve into a single account
- Establishes limit of draws from Permanent Fund of 5% POMV
- Sets PFD as higher of: (1) current statutory formula; or (2) 50% of the POMV draw

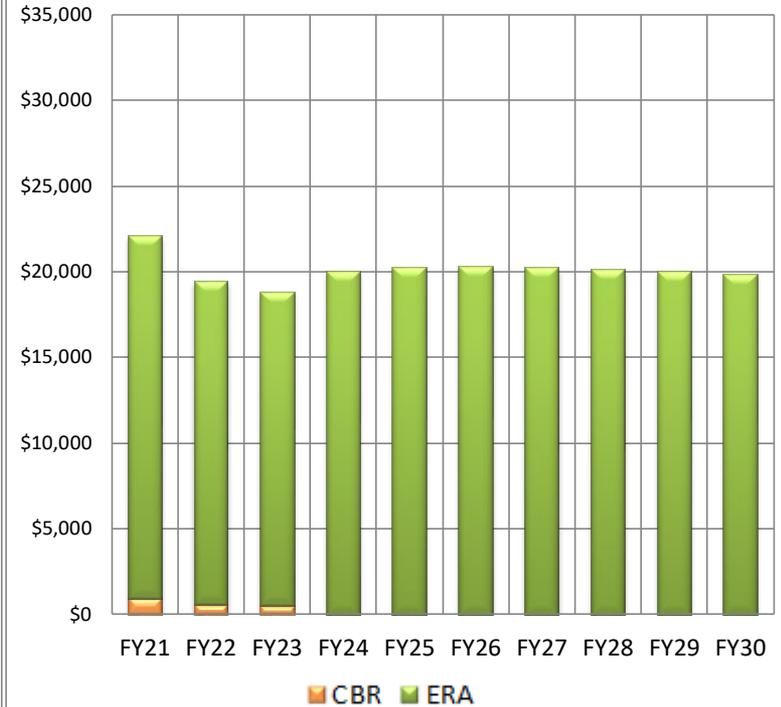
SJR 1 (Sen. Wielechowski)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(387)	(2,225)	(1,808)	(1,736)	(1,746)	(1,241)	(1,026)	(992)	(927)

UGF Revenue/ Budget
(\$ millions)



Budget Reserves
FY Ending Balance



Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	8.16%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

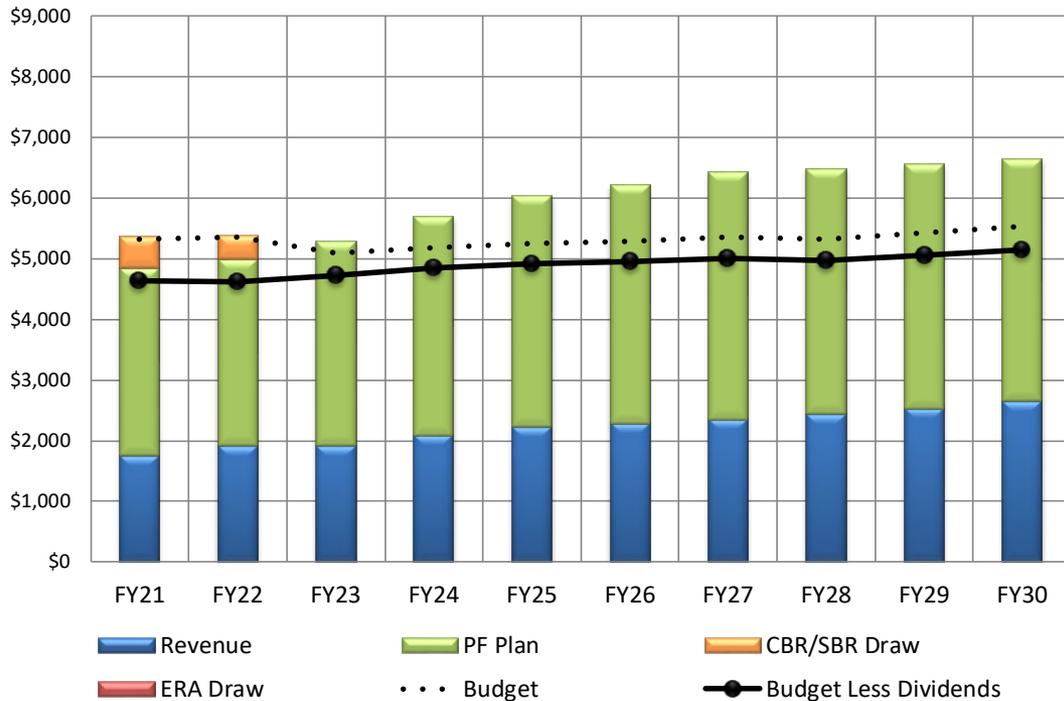
SJR 18 (Sen. von Imhof)

- Constitutional amendment splitting Permanent Fund into two accounts: Permanent Fund and Alaska Resource Ownership Revenue Account (ARORA)
- ARORA established with a transfer equal to the PFDs paid below the statutory level (about \$6.77 billion)
- Royalties currently directed to the Permanent Fund will be split equally between the Permanent Fund and ARORA
- 5% POMV from each fund. Permanent Fund POMV goes to the general fund, ARORA to the PFD fund

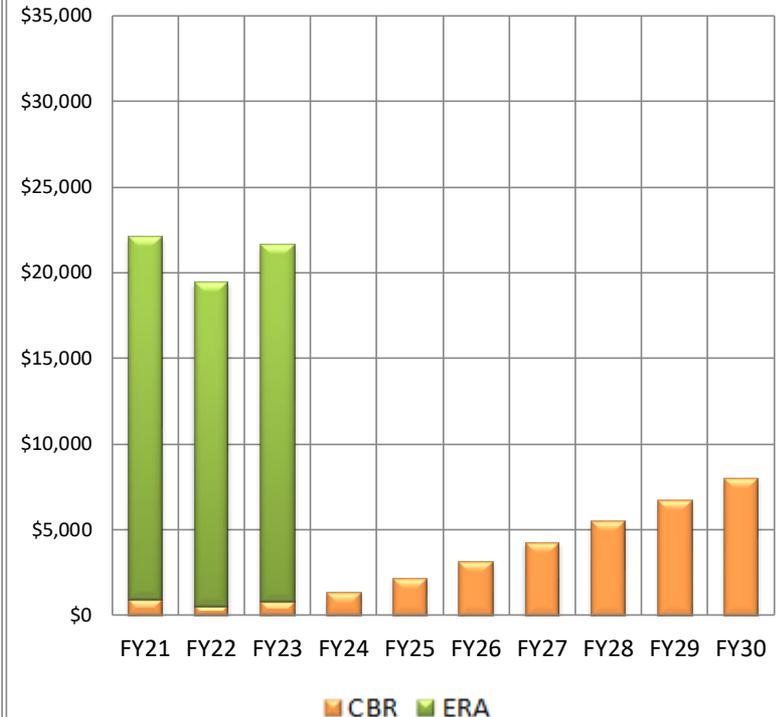
SJR 18 (Sen. von Imhof)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(388)	181	489	767	910	1,053	1,146	1,109	1,081

UGF Revenue/ Budget
(\$ millions)



Budget Reserves
FY Ending Balance



No ERA Overdraws

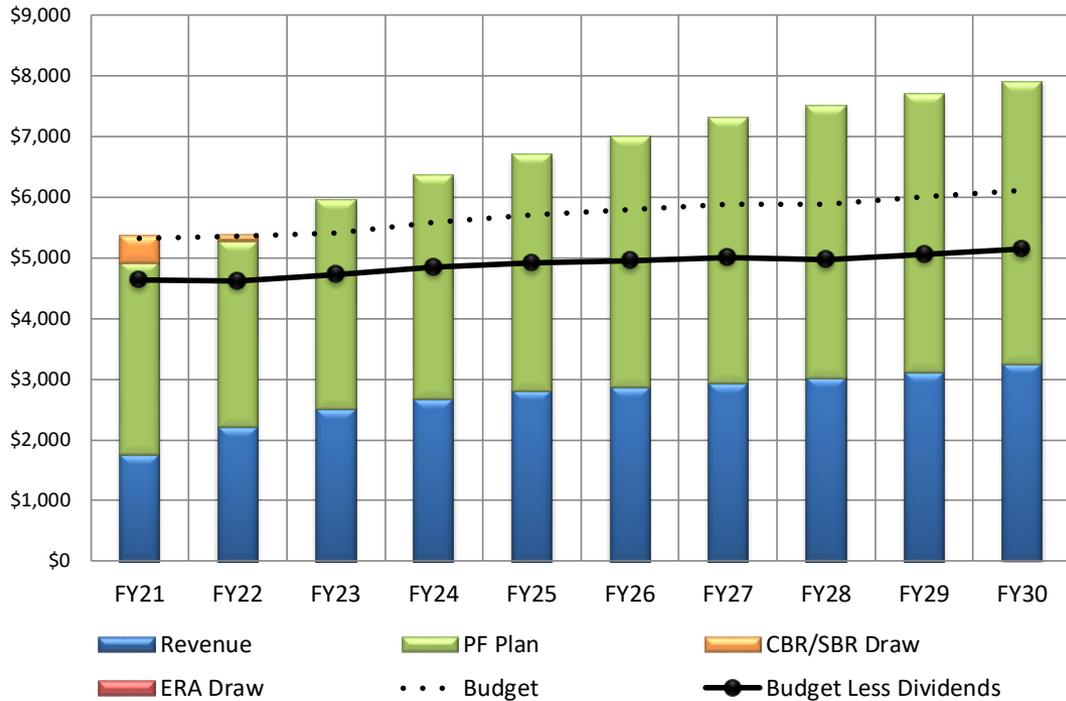
HB 37 (Rep. Wool)

- Retains statutory 5% POMV
- Directs 10% of POMV and 30% of total royalties to the PFD
- Repeals additional statutory 25% of royalties to the Permanent Fund
- Repeals Amerada Hess account (funding source for Alaska Capital Income Fund)
- Establishes a flat income tax of 2.5%
 - Estimated to raise \$580 Million in FY23

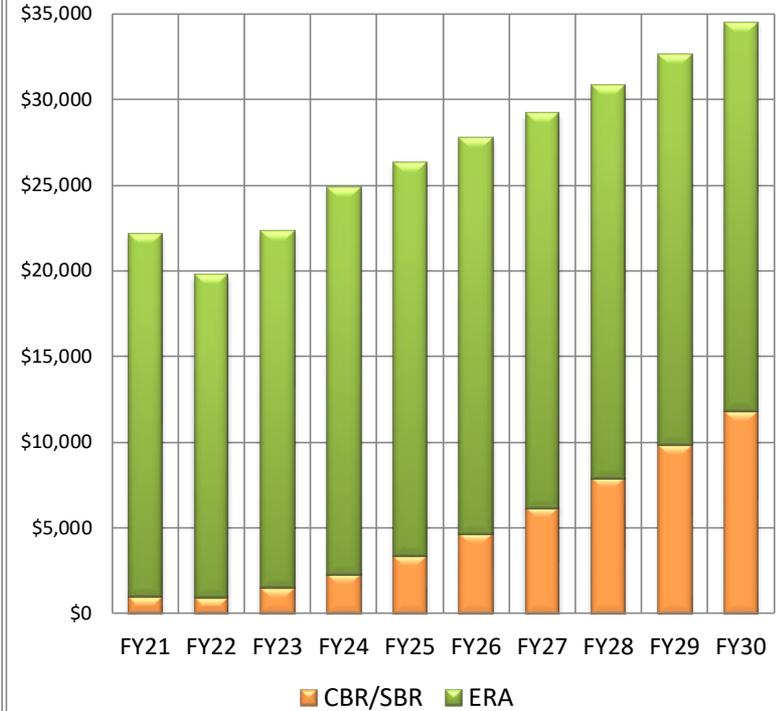
HB 37 (Rep. Wool)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(441)	(97)	520	750	982	1,192	1,413	1,607	1,682	1,770

**UGF Revenue/ Budget
(\$ millions)**



**Budget Reserves
FY Ending Balance**



No ERA Overdraws

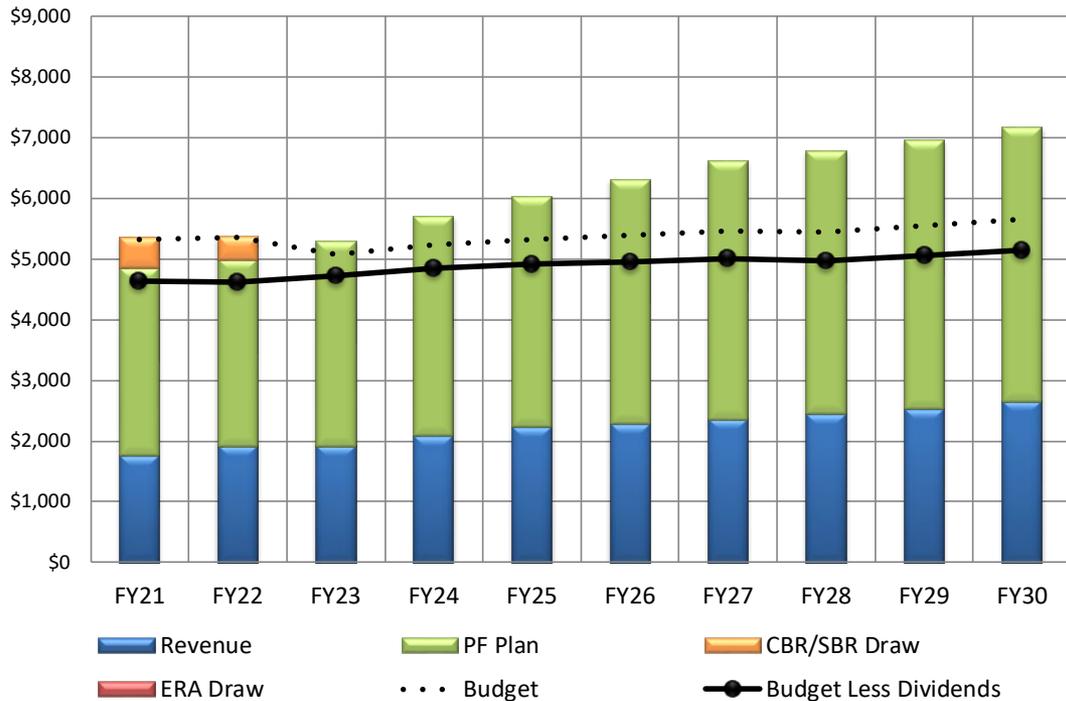
HB 202 (Rep. Merrick)

- Retains statutory 5% POMV
- Directs 30% of total royalties to the PFD

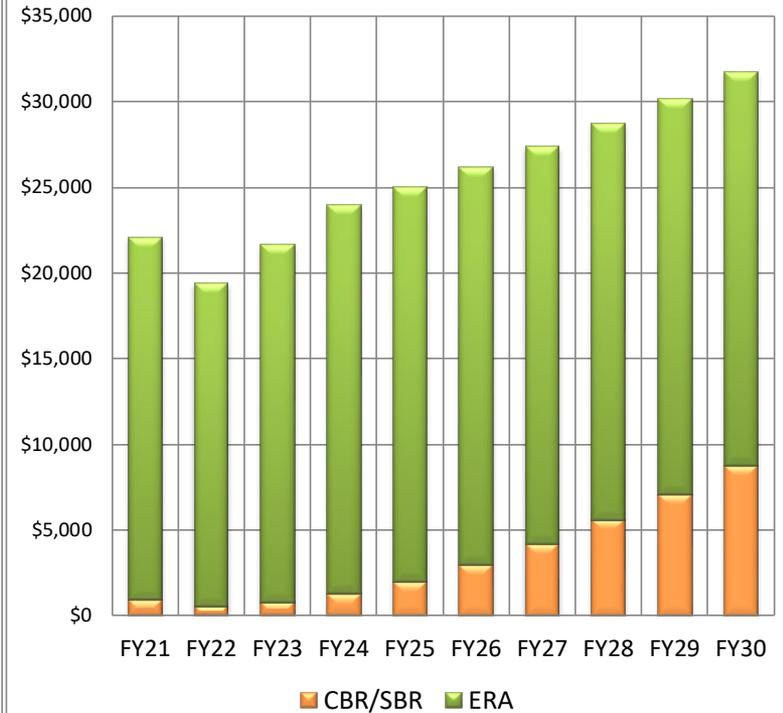
HB 202 (Rep. Merrick)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(387)	193	444	686	900	1,124	1,310	1,378	1,481

UGF Revenue/ Budget
(\$ millions)



Budget Reserves
FY Ending Balance



No ERA Overdraws

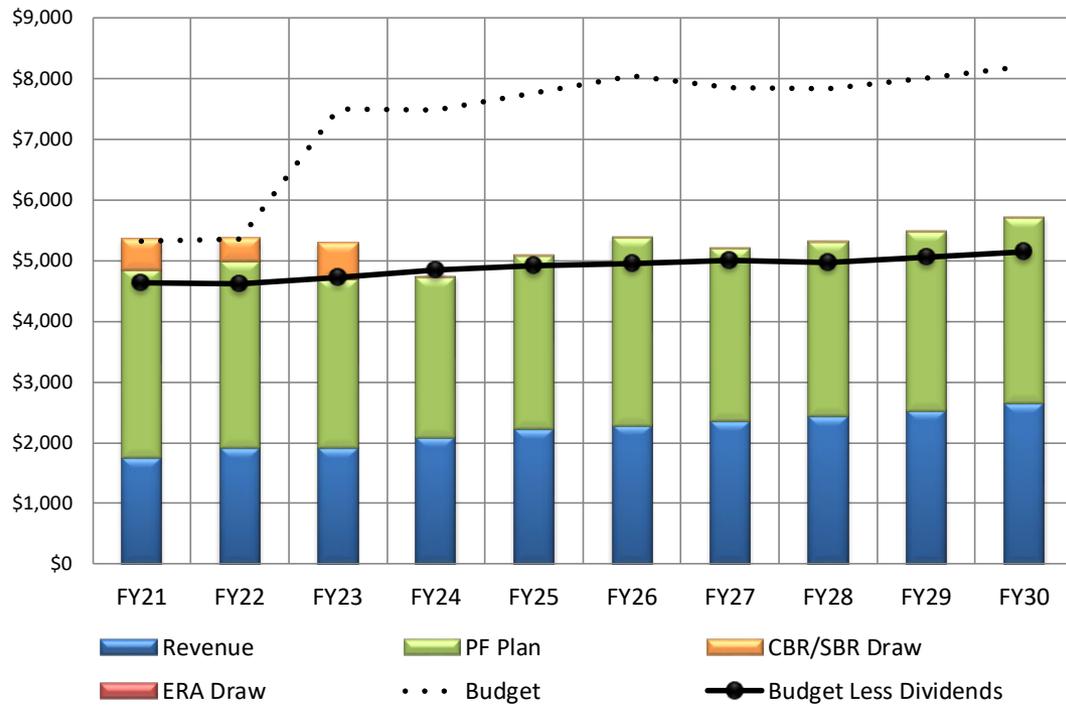
HB 3002 (Rep. Eastman)

- Repeals statutory POMV draw
- Retains statutory PFD formula

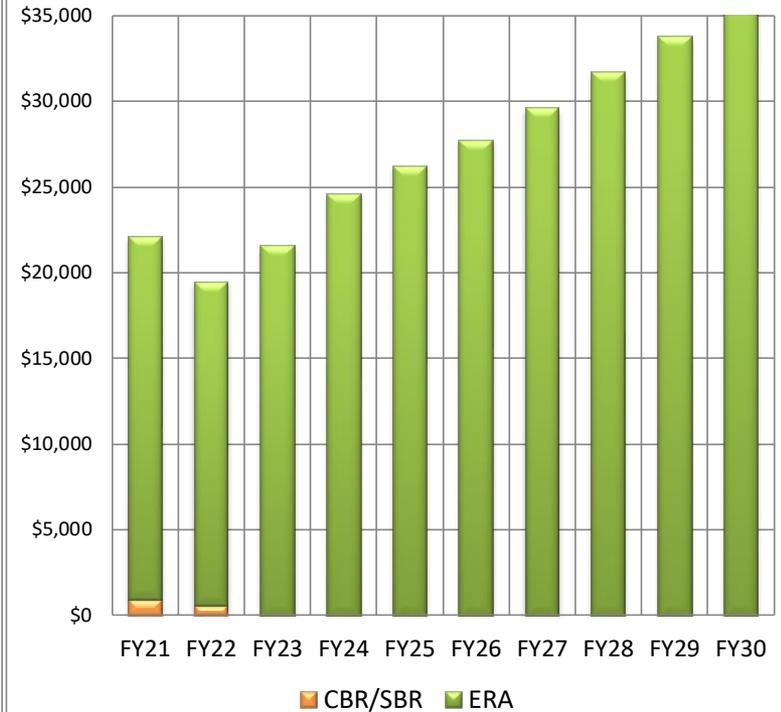
HB 3002 (Rep. Eastman)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(387)	(2,822)	(2,772)	(2,699)	(2,679)	(2,671)	(2,548)	(2,538)	(2,502)

**UGF Revenue/ Budget
(\$ millions)**



**Budget Reserves
FY Ending Balance**



Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	4.11%	3.66%	3.73%	3.83%	3.31%	3.23%	3.24%	3.24%

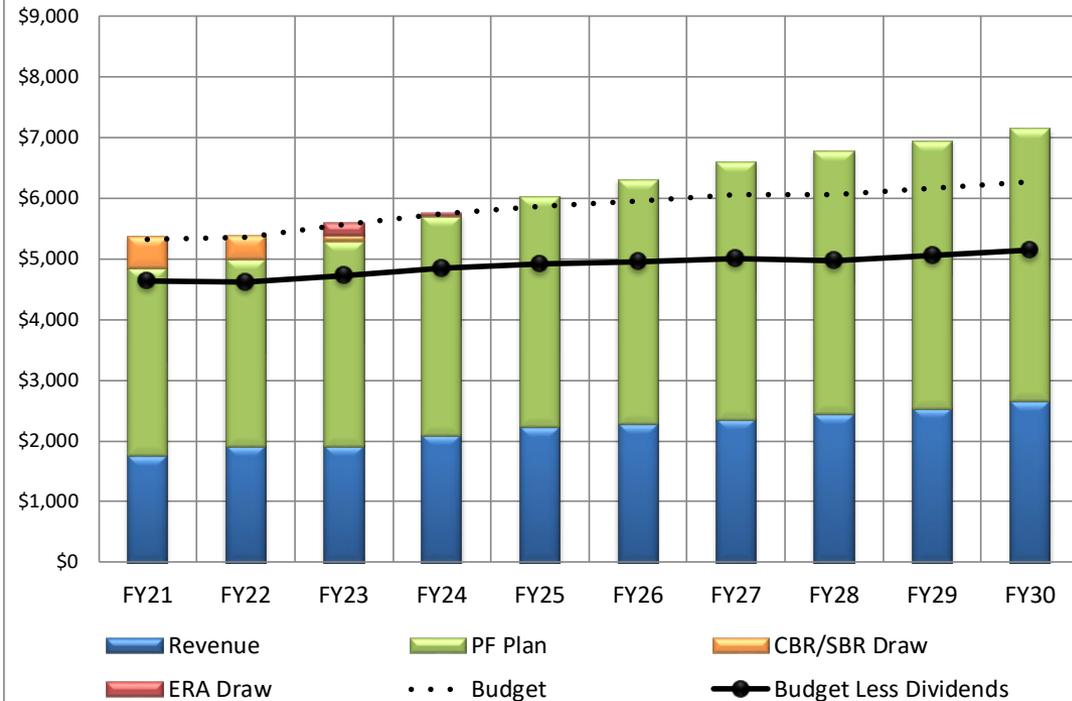
HB 3008 (House Ways and Means)

- Retains 5% POMV draw
- Directs 25% of POMV draw to the PFD

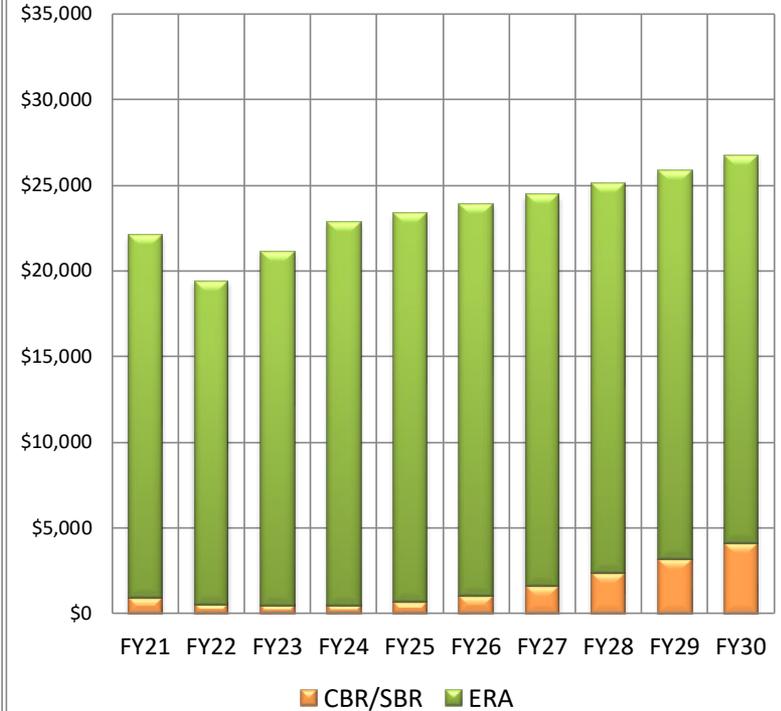
HB 3008 (House Ways and Means)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(387)	(301)	(73)	153	328	511	696	766	861

**UGF Revenue/ Budget
(\$ millions)**



**Budget Reserves
FY Ending Balance**



Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	5.30%	5.06%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

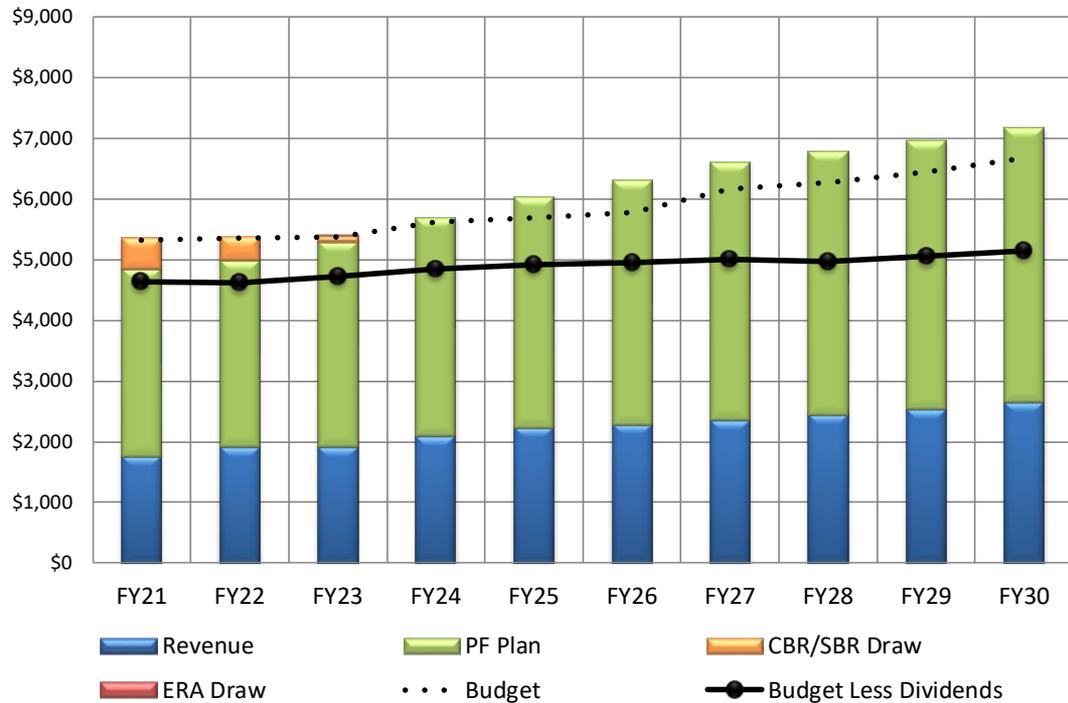
HB 4008 (Rep. Snyder)

- Retains 5% POMV draw
- Directs 50% of POMV draw to the PFD, reduced by the 5-year average gap between non-POMV UGF revenue and non-PFD UGF spending.

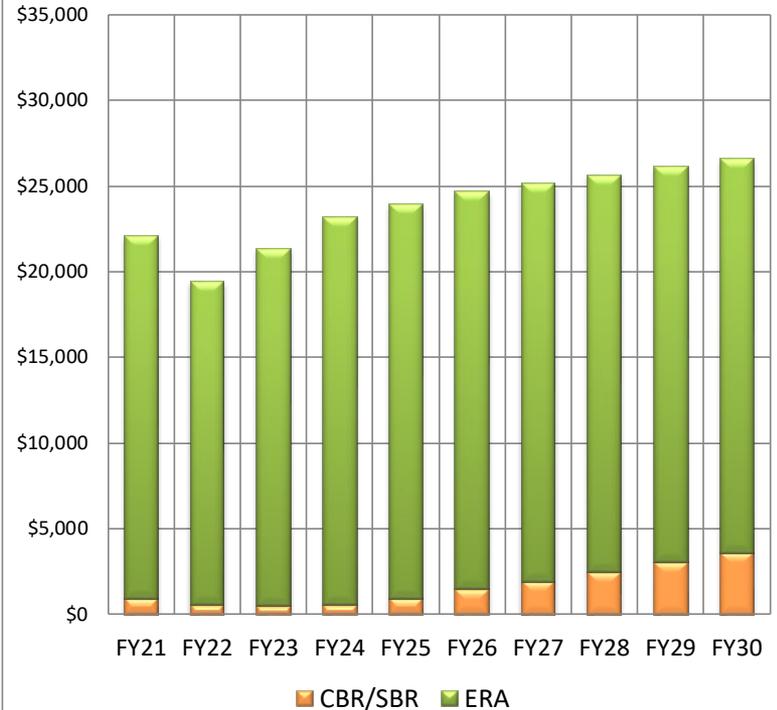
HB 4008 (Rep. Snyder)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(387)	(104)	46	325	512	416	491	492	467

**UGF Revenue/ Budget
(\$ millions)**



**Budget Reserves
FY Ending Balance**



Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	5.01%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

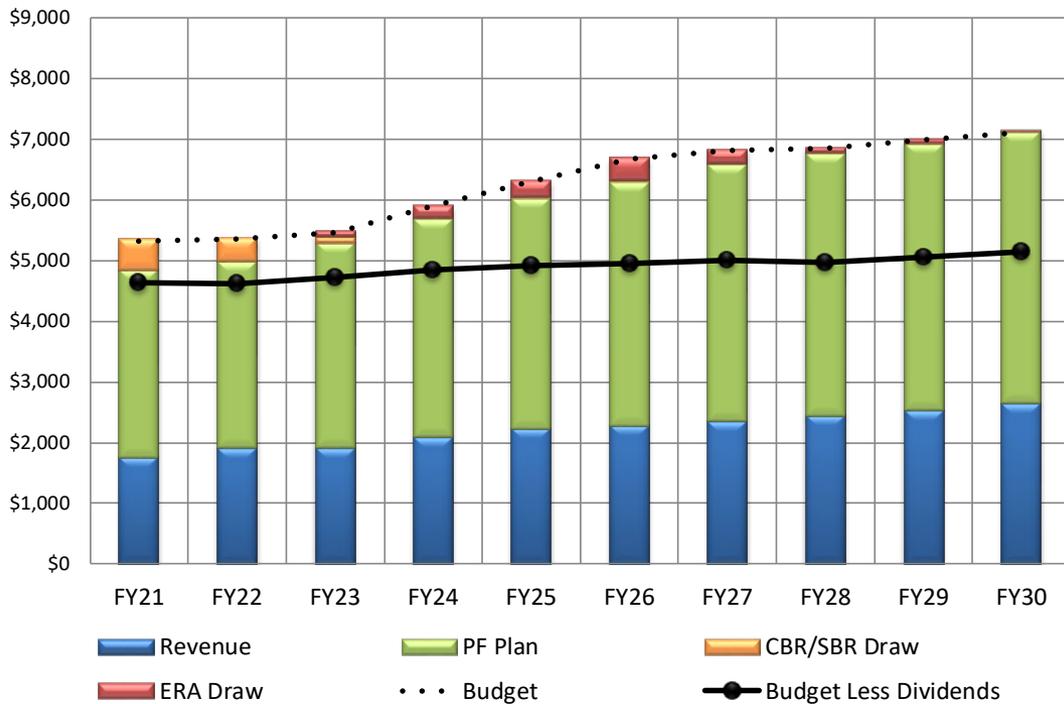
HB 4009 (Rep. Hopkins)

- Retains 5% POMV draw
- Stairstep PFDs
 - FY23: 10% POMV and 35% total oil & gas royalties
 - FY24: 15% POMV and 40% total oil & gas royalties
 - FY25: 20% POMV and 45% total oil & gas royalties
 - FY26+: 25% POMV and 50% total oil & gas royalties

HB 4009 (Rep. Hopkins)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(387)	(200)	(224)	(285)	(396)	(249)	(107)	(86)	(22)

UGF Revenue/ Budget
(\$ millions)



Budget Reserves
FY Ending Balance



Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	5.15%	5.28%	5.35%	5.47%	5.27%	5.10%	5.07%	5.00%

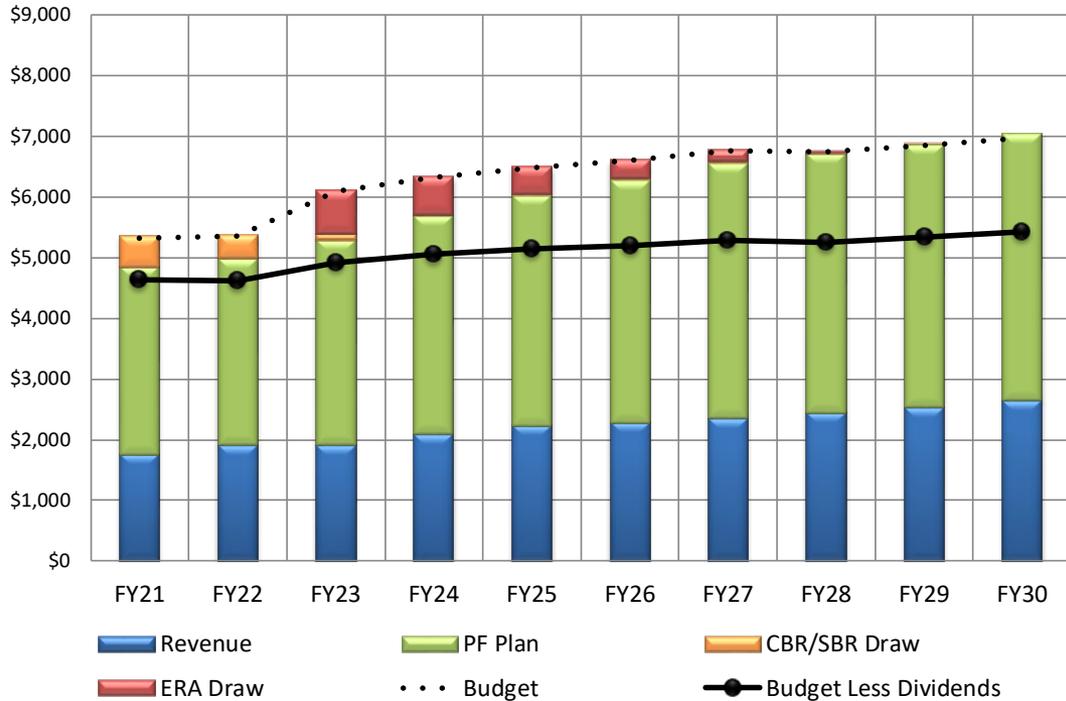
HB 4010 (Rep. McCarty)

- Retains 5% POMV draw
- Directs 35% of POMV draw to the PFD
- Directs 13% of total POMV draw (20% of the 65% that is not directed to PFDs) to capital projects

HB 4010 (Rep. McCarty)

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(387)	(827)	(648)	(467)	(340)	(214)	(53)	(8)	64

UGF Revenue/ Budget
(\$ millions)



Budget Reserves
FY Ending Balance



Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	6.08%	5.86%	5.59%	5.40%	5.23%	5.04%	5.00%	5.00%

SB 53 (SFIN Committee Substitute)

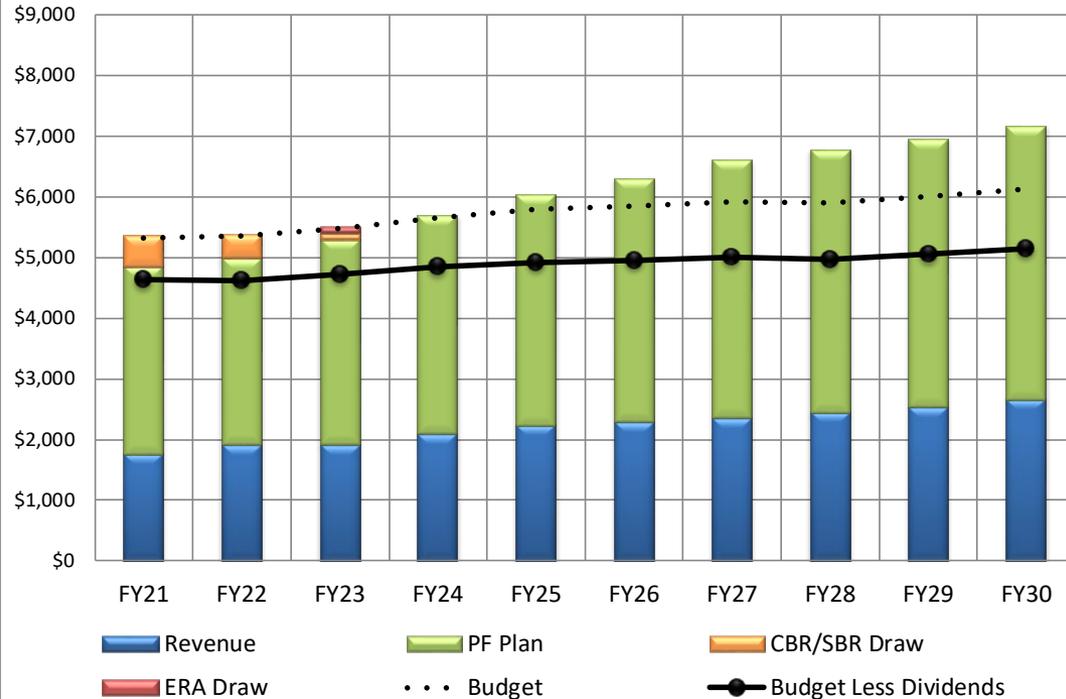
- Retains 5% POMV draw
- Sets PFD at \$1,100 in FY23, \$1,200 in FY24 and \$1,300 in FY25
- If the state implements a new revenue measure generating at least \$700M/year, the PFD becomes 50% of the POMV beginning in FY26
 - Otherwise, the PFD is \$1,300 in FY26, and growing with inflation thereafter

SB 53 (SFIN Committee Substitute)

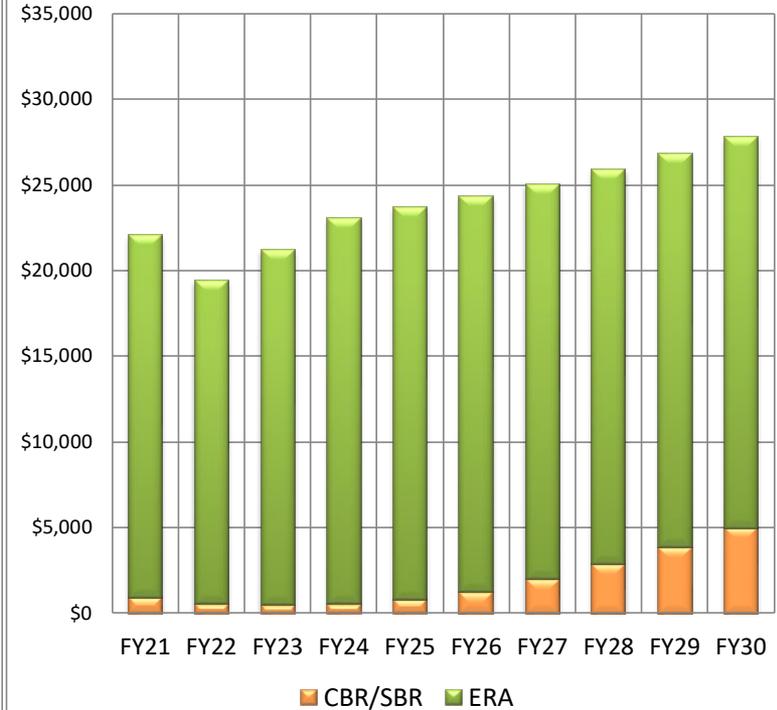
Assuming No New Revenue

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(387)	(206)	14	220	442	663	848	916	1,008

UGF Revenue/ Budget
(\$ millions)



Budget Reserves
FY Ending Balance



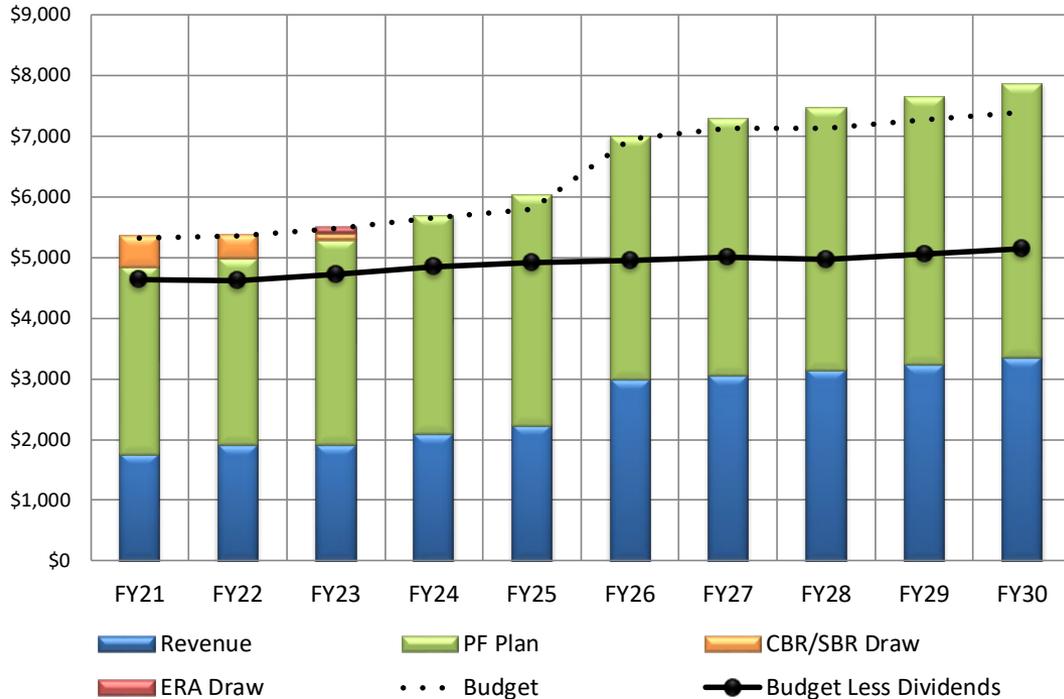
Effective POMV	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Draw Rate	5.25%	5.00%	5.16%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

SB 53 (SFIN Committee Substitute)

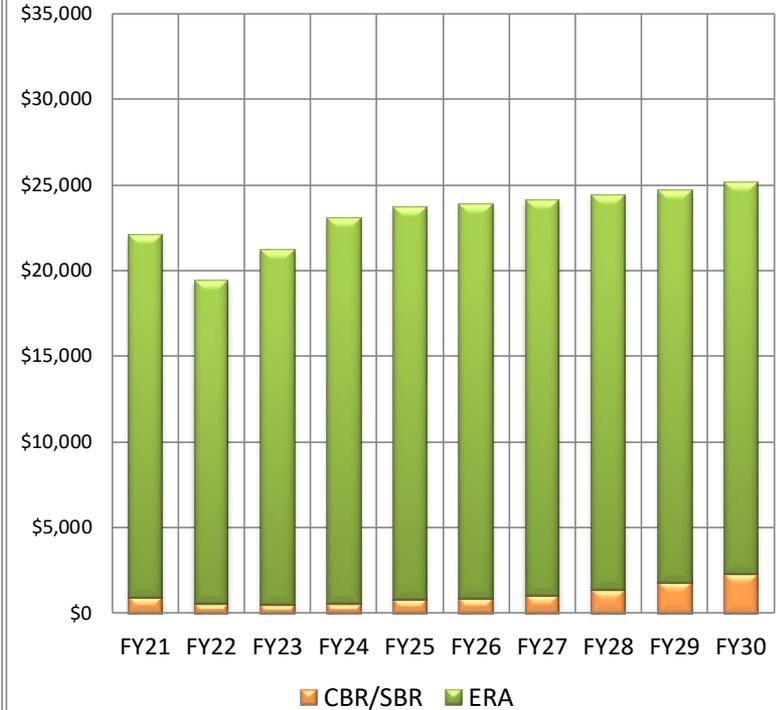
Assuming \$700M New Revenue FY26+

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(509)	(387)	(206)	14	220	26	152	317	368	444

UGF Revenue/ Budget
(\$ millions)



Budget Reserves
FY Ending Balance



Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	5.16%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Questions?

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