THE STATE
of ALASKA
GOVERNOR BILL WALKER

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February 10, 2017

The Honorable Neal Foster and the Honorable Paul Seaton
Alaska State Representatives
Co-chairs, House Finance Committee
State Capitol Rooms 410 and 505
Juneau, AK 99801

Dear Co-Chairs Foster and Seaton:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue (DOR) during our presentations to the House Finance Committee on February 2 and 3, 2017, regarding the Alaska Permanent Fund Protection Act (APFPA). Please see questions in italics and our responses immediately below the questions.

1. *What are the projected future dividends under each of the Permanent Fund proposals on slide 25? Include the spreadsheets that back up the graphs.*

   Answer is forthcoming.

2. *Provide a spreadsheet that shows how the POMV calculations work in the model for the current version of the APFPA.*

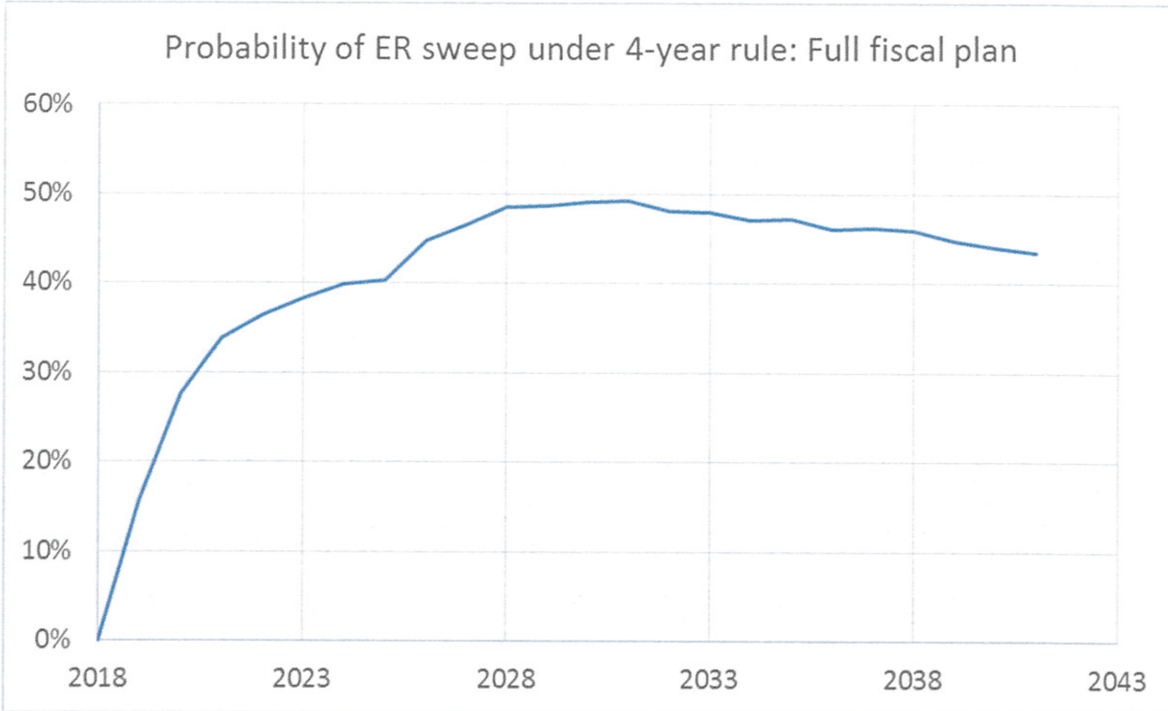
   DOR will soon release a public version of the APFPA model and will notify the House Finance Committee when it is available.

3. *Which oil and gas tax credits does the APFPA model account for?*

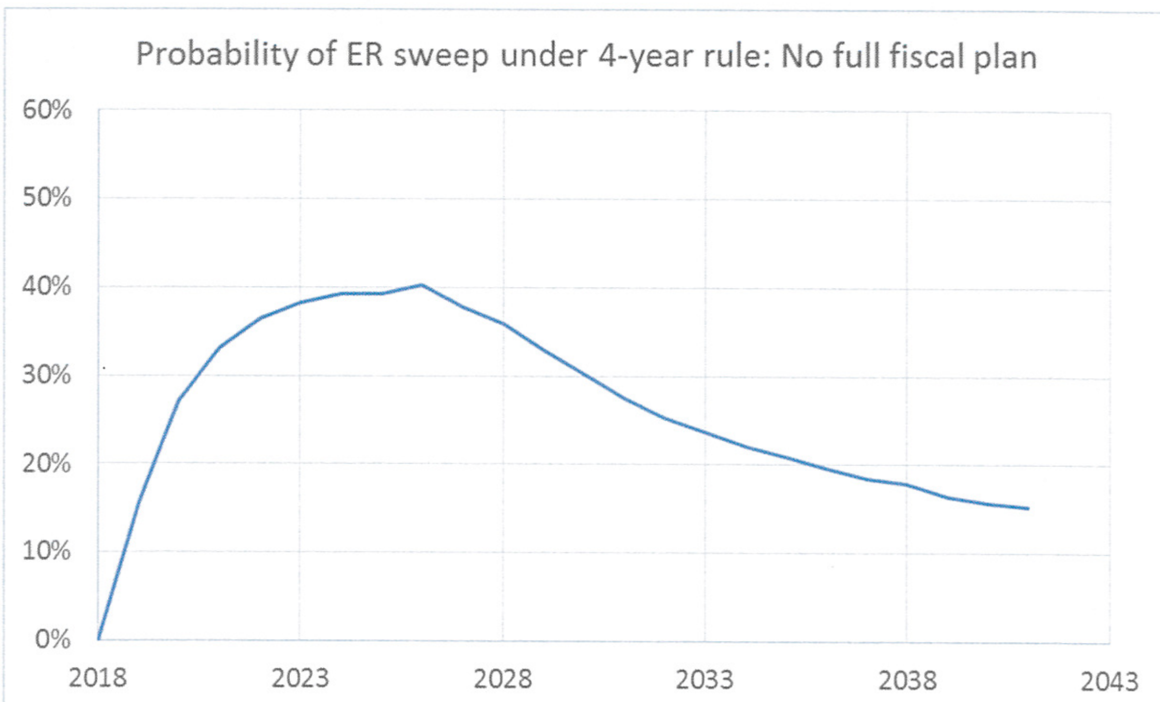
   The APFPA model includes all credits taken against tax liability, including per-barrel credits and net operating loss credits. It does not account for credits repurchased by the state.

4. *How long will it take to reach a scenario where the value of the earnings reserve is four times greater than the annual draw? Will this be an ongoing situation?*

   In the deterministic case according to the APFPA model, assuming a full fiscal plan, the earnings reserve balance will exceed four times the annual draw every fiscal year starting in FY 2025. Of course, there is a wide variety of possible outcomes. The following graph shows the probability of an earnings reserve sweep in each fiscal year assuming a full fiscal plan.



In the deterministic case according to the APFPA model, assuming no full fiscal plan and the extended OMB 10-year plan (discussed in question 7), the earnings reserve balance will exceed four times the annual draw from FY 2025 through FY 2029, but then drop back below. Again there is a wide range of possible outcomes, but the chance of an earnings reserve sweep in later years is considerably reduced with no full fiscal plan, since earnings reserve funds will be needed to cover continued budget deficits. The following graph shows the probability of an earnings reserve sweep in each fiscal year assuming no full fiscal plan.



5. *The APFPA includes a limit of $1.2 billion on production tax and royalties, above which the POMV draw would be reduced dollar-for-dollar. Provide modeling of alternate values of this limit, e.g., $1.5 or $1.7 billion, including the spreadsheets that back up the graphs.*

   Answer is forthcoming.

6. *Provide a matrix of projected per-person dividend amounts under different oil price and production scenarios.*

   Here is a matrix of estimated dividends in calendar year (CY) 2017, under the APFPA, based on different levels of oil price and production. Price and production are taken as fiscal year (FY) 2017 averages.

Dividend Payout per Person (CY 2017)				
Oil price (FY 2017)	Current Production	+100,000 barrels/day	+200,000 barrels/day	+300,000 barrels/day
$30	$885	$907	$928	$950
$40	$936	$968	$999	$1,031
$50	$987	$1,029	$1,070	$1,111
$60	$1,038	$1,090	$1,141	$1,192
$70	$1,089	$1,151	$1,212	$1,273
$80	$1,141	$1,212	$1,283	$1,354
$90	$1,192	$1,273	$1,354	$1,435
$100	$1,243	$1,334	$1,425	$1,516
$110	$1,294	$1,395	$1,496	$1,597
$120	$1,345	$1,455	$1,566	$1,678
$130	$1,396	$1,516	$1,637	$1,758
$140	$1,446	$1,577	$1,708	$1,839
$150	$1,497	$1,638	$1,779	$1,920

   This analysis uses the following assumptions:
   - The POMV payout from the Permanent Fund in FY 2018 is $2,518 million.
   - Dividend payments equal 20% of the POMV payout plus 20% of 74.5% of total petroleum royalties, as stipulated in the APFPA.
   - Price and production actuals since the beginning of FY 2017 are not incorporated, i.e., the $30 case assumes the average oil price for the whole fiscal year is $30.
   - Number of CY 2017 dividend recipients is 642,357.
   - CY 2017 dividend overhead costs are $8 million.

7. *What are the exact budget forecasts used in the "extended OMB 10-year plan" budget assumptions in the APFPA model?*

   In the APFPA model, DOR used the budget forecast from the OMB 10-year plan for FY 2018 through 2027. The OMB numbers in millions of dollars are as follows:

FY 2018	4,346.20
FY 2019	4,409.90
FY 2020	4,403.90
FY 2021	4,569.30
FY 2022	4,771.00
FY 2023	4,895.30
FY 2024	5,014.70
FY 2025	5,162.70
FY 2026	5,289.50
FY 2027	5,421.00

After FY 2027, DOR assumed the budget will grow at 2.25% per year, which is Callan Associates' official inflation rate forecast.

8. *Why is the Constitutional Budget Reserve (CBR) balance of $4.4 billion in the APFPA model different than the number in the OMB 10-year plan?*

   When the 10-year plan was produced, final revenue and expenditure data for FY 2016 was still being compiled and OMB was forced to use the stated deficit at the time the enacted budget was passed. Since then OMB has worked with Legislative Finance Division to reconcile the differences to reach a more accurate figure. Fortunately the deficit decreased from $3.9 to $3.7 billion due to revenue above what was projected, settlements and earnings of $261.1 came in for FY 2016 (earlier estimated at $85.5) and the operating budget was under-spent by $92.5 million. In FY 2018 a projected $99 million in settlements and earnings above the previous estimate account for an additional difference. These updated figures account for the approximately $700 million difference between the 10-year plan and the current estimate.

9. *Explain the need for greater appropriations to the Department of Corrections for inmate health care.*

   The Department of Public Safety and Corrections, Physical Health Care appropriation is an amount based on the total amount of Permanent Fund Dividends that would have been paid to individuals had they not been determined ineligible due to criminal activities, outlined in AS 43.23.005(d), in the preceding calendar year, qualifying year for the dividend.

   For FY 18, the Permanent Fund Dividend Division estimated that 12,342 individuals would have otherwise been eligible had they not been denied a dividend solely because they were sentenced or incarcerated. Accordingly, the total amount that would have been otherwise paid to these individuals is $12,613,524.00 (12,342 individuals multiplied by $1022.00). The amount calculated for appropriation would be $25,387,484 utilizing a dividend amount of $2057.00.

Although the amount estimated for appropriation is based on a calculation that is generated by the Permanent Fund Dividend Division using the Department of Corrections data, the Department of Corrections can address how these funds are allocated and any potential impacts.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

Randall Hoffbeck
Commissioner