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PFD Fiscal Modeling Scenarios

Senate Finance Committee

September 11, 2021

Legislative Finance Division

Disclaimer

Scenarios and adjustments in this presentation were requested by the Finance co-chairs. LFD is policy neutral and does not endorse a particular fiscal plan.

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.

Review of Modeling Baselines (cont.)

Spending Assumptions

- For **agency operations**, these scenarios assume 50% of vetoes are restored to the FY22 enacted budget. Budgets grow with inflation starting in FY23 (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, oil and gas tax credits. We assume oil and gas tax credits are unfunded in FY22 but statutorily funded beginning FY23 until the credit balance is eliminated.
 - 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.

A Note on Retirement Funding

- LFD's modeling generally uses the ARM Board's most recent officially-adopted contribution schedule, currently the one adopted in June 2021. However, this does not include the impact of FY21 earnings.
- The September ARM Board meeting will adopt updated projections that may resemble DOR's preliminary numbers more closely than the June figures.
- This presentation uses preliminary actuarial analysis presented by DOR in July and used by the Comprehensive Fiscal Plan Working Group. The analysis shows significantly lower retirement contributions than the official June figures ordinarily used by LFD.

A Note on Retirement Funding (cont.)

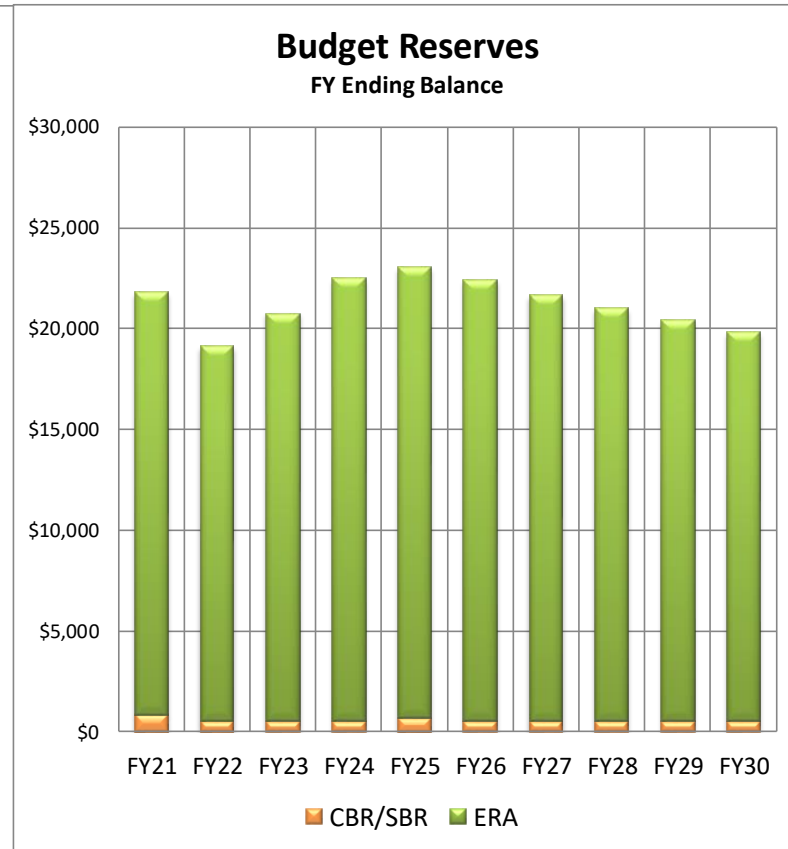
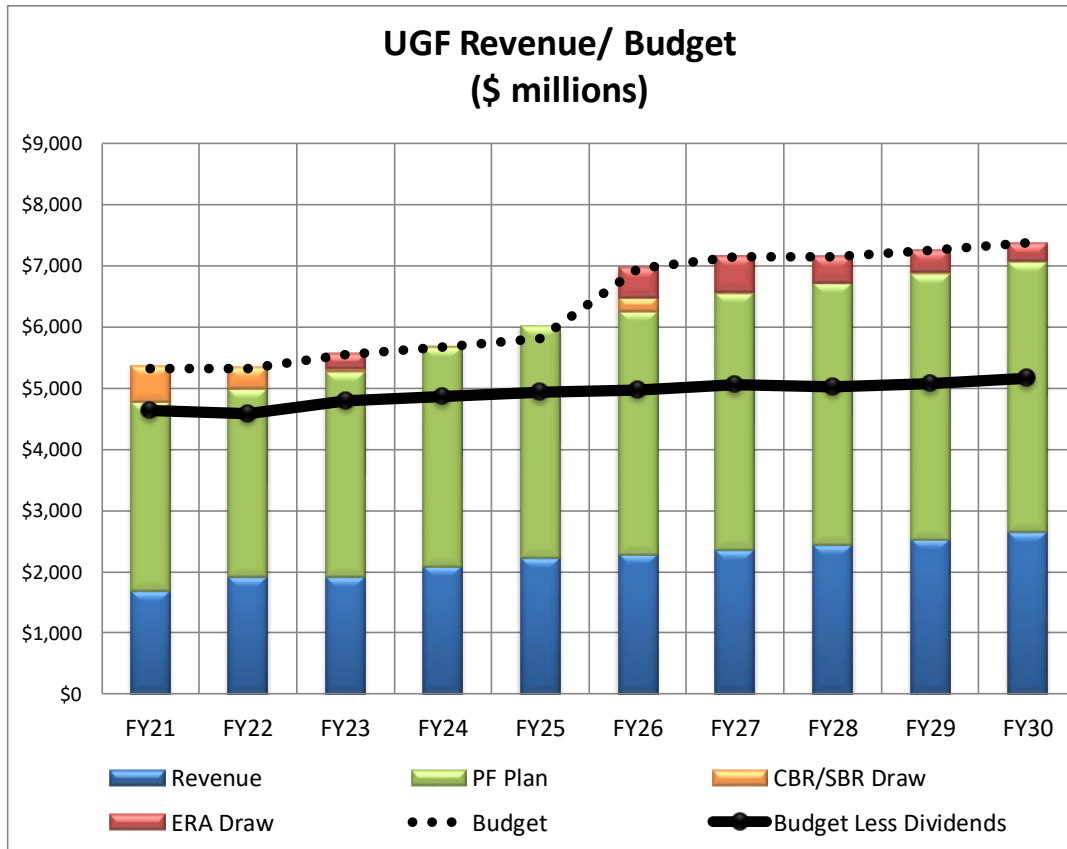
Comparison of previous LFD assumption (June ARM Board adjusted for SB 55) and July draft with FY21 earnings

Fiscal Year	LFD	July Draft	Difference	Cumulative Difference
FY23	245,820.5	180,278.0	(65,542.5)	(65,542.5)
FY24	262,417.5	157,301.0	(105,116.5)	(170,659.0)
FY25	275,952.5	134,226.0	(141,726.5)	(312,385.5)
FY26	284,129.5	108,357.0	(175,772.5)	(488,158.0)
FY27	292,908.5	110,158.0	(182,750.5)	(670,908.5)
FY28	302,074.5	112,292.0	(189,782.5)	(860,691.0)
FY29	312,509.5	114,847.0	(197,662.5)	(1,058,353.5)
FY30	323,270.5	117,781.0	(205,489.5)	(1,263,843.0)

Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, 50% of POMV PFD FY26+

Callan forecast for returns

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(595)	(349)	(285)	(20)	176	(710)	(621)	(454)	(387)	(320)

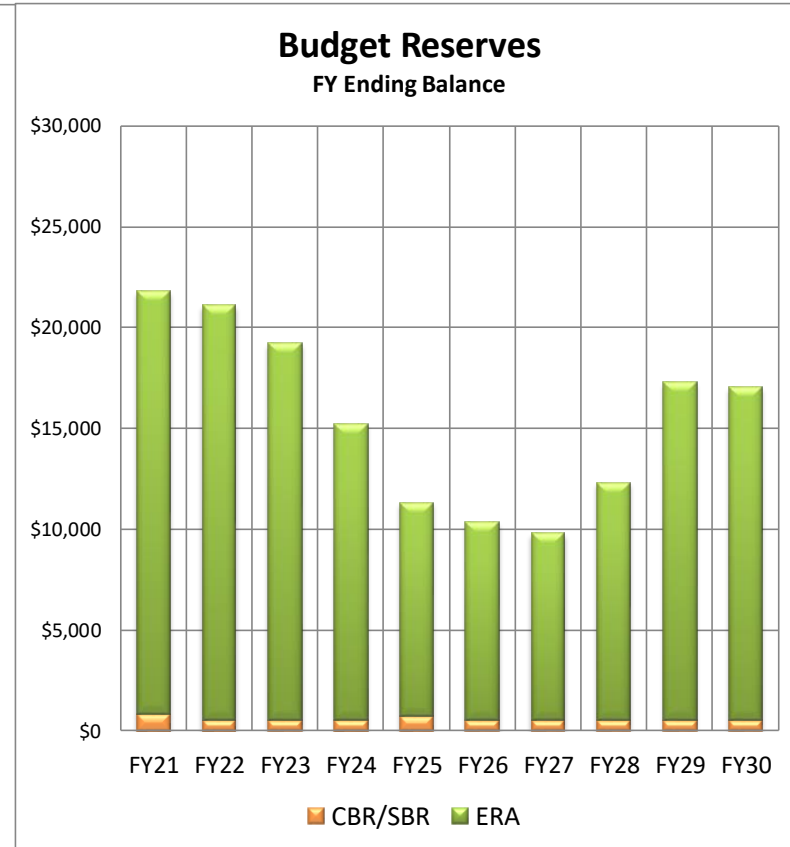
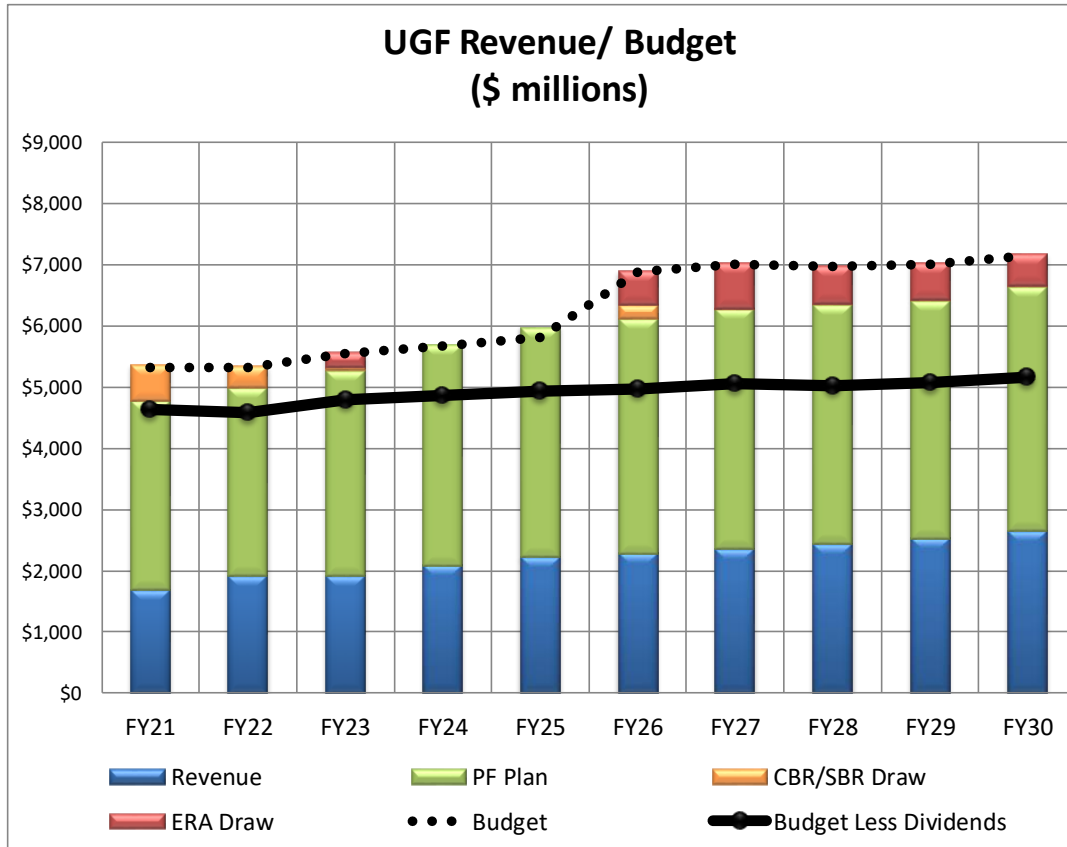


Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	5.35%	5.00%	5.00%	5.61%	5.71%	5.51%	5.42%	5.34%

Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, 50% of POMV PFD FY26+

FY00-08 Returns

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(595)	(349)	(285)	7	151	(783)	(763)	(641)	(617)	(537)

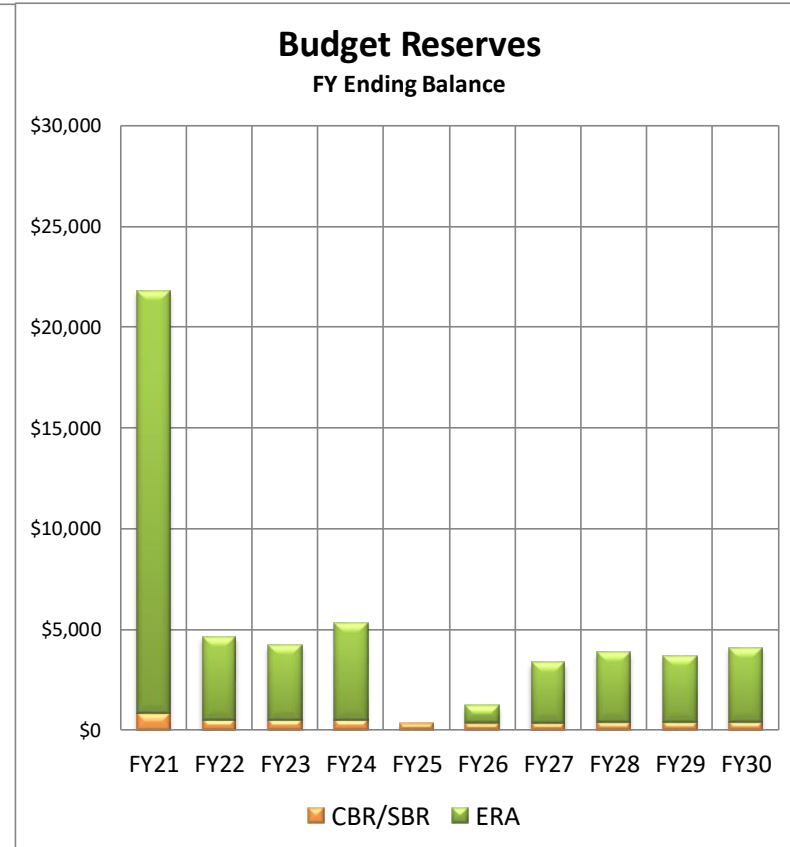
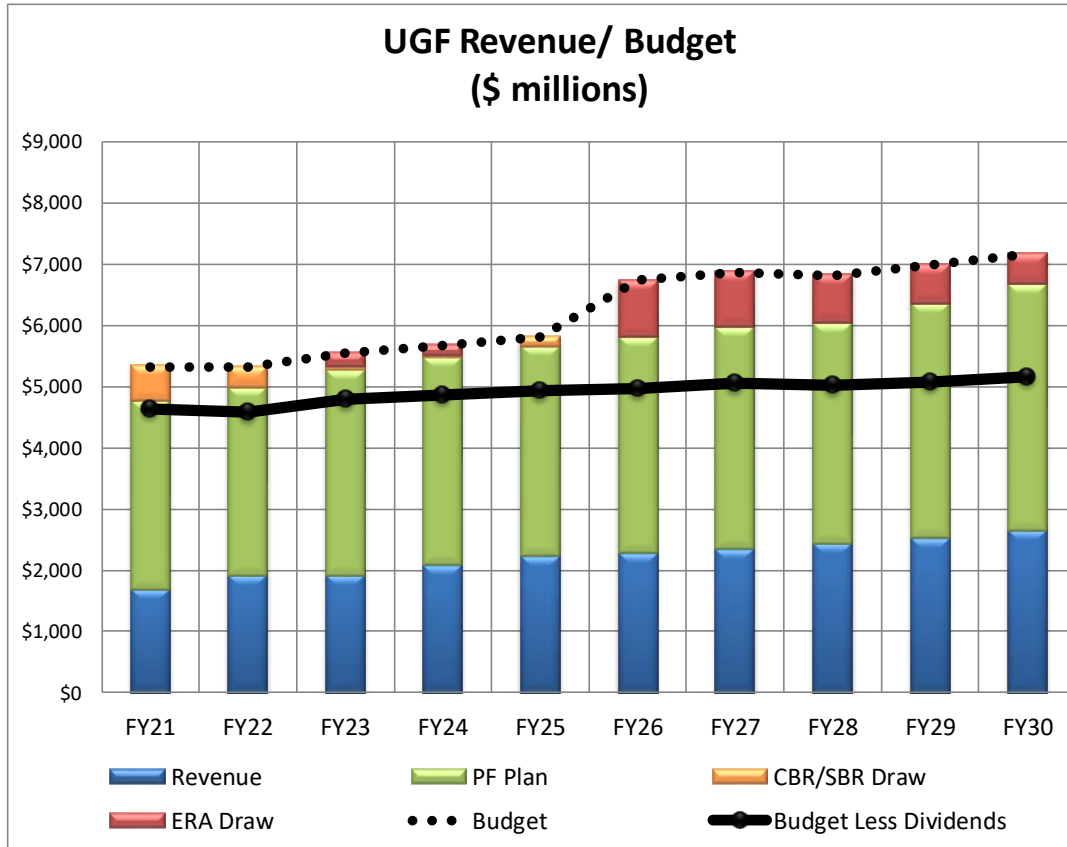


Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	5.35%	5.00%	5.00%	5.73%	5.95%	5.80%	5.77%	5.65%

Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, 50% of POMV PFD FY26+

FY09-17 Returns

Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	(595)	(349)	(285)	(209)	(180)	(929)	(905)	(790)	(646)	(519)

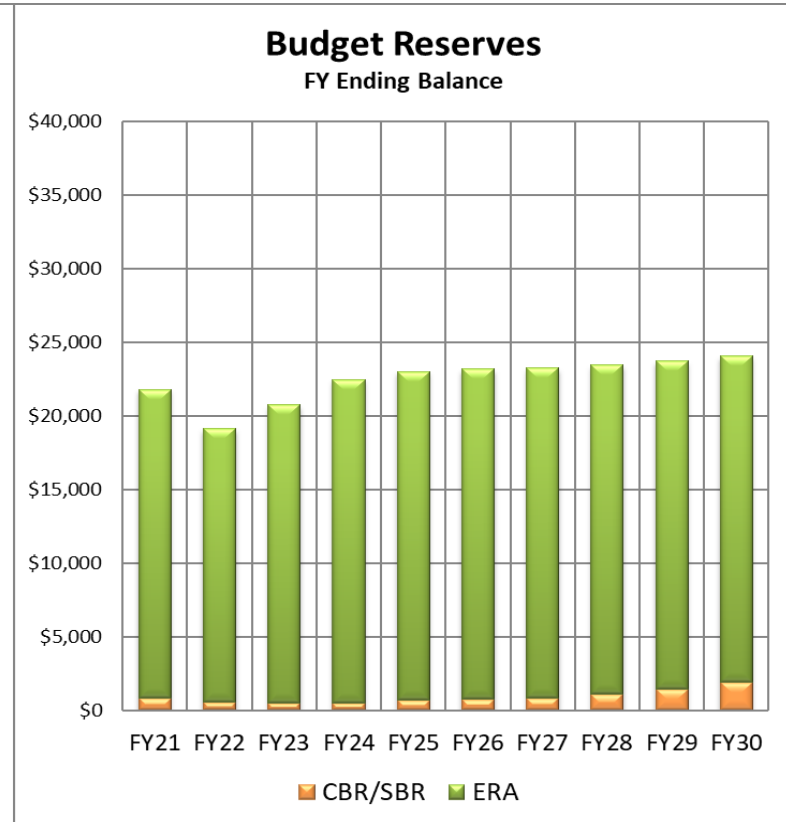
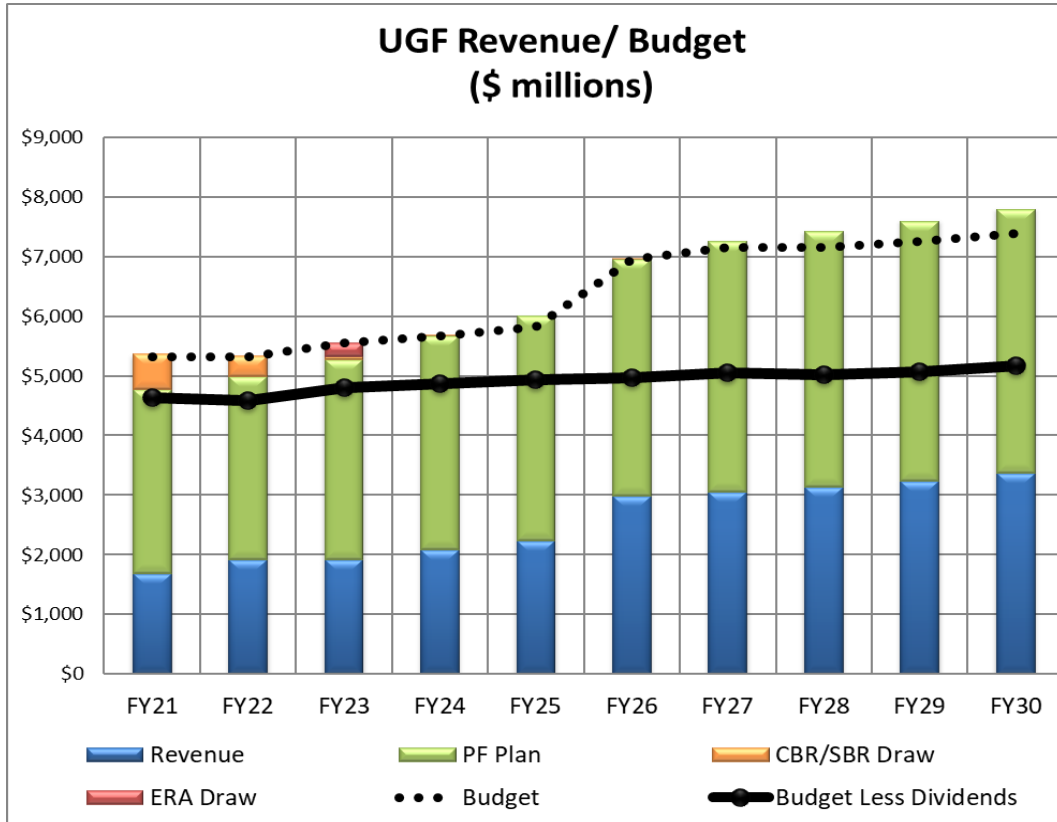


Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	5.35%	5.27%	5.00%	6.31%	6.25%	6.10%	5.84%	5.65%

Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300
FY25, 50% of POMV PFD FY26+; **\$700M New Revenue FY26+**

Callan forecast for returns

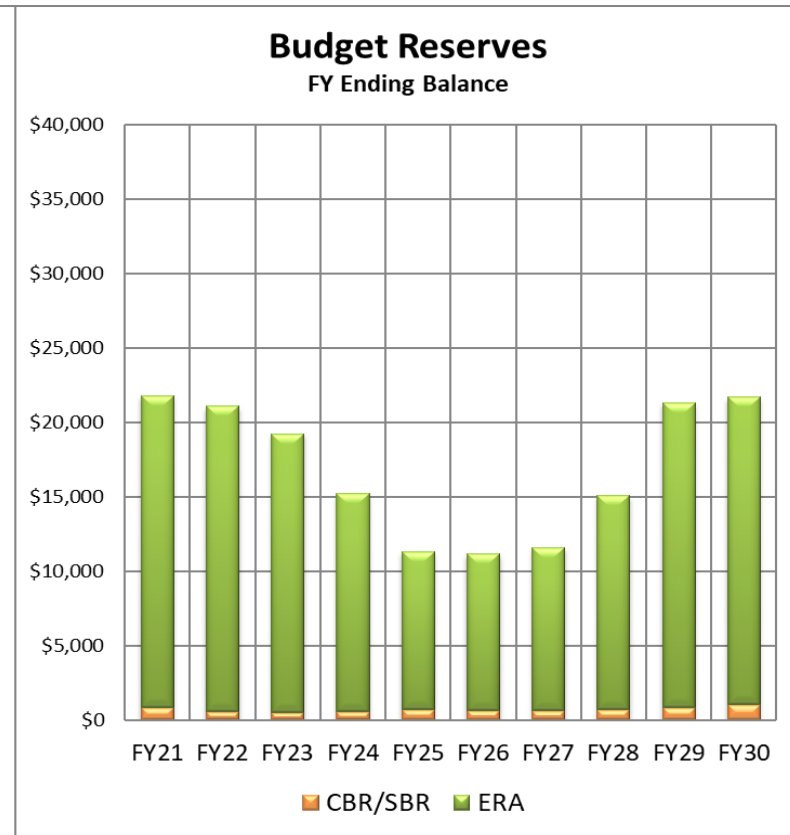
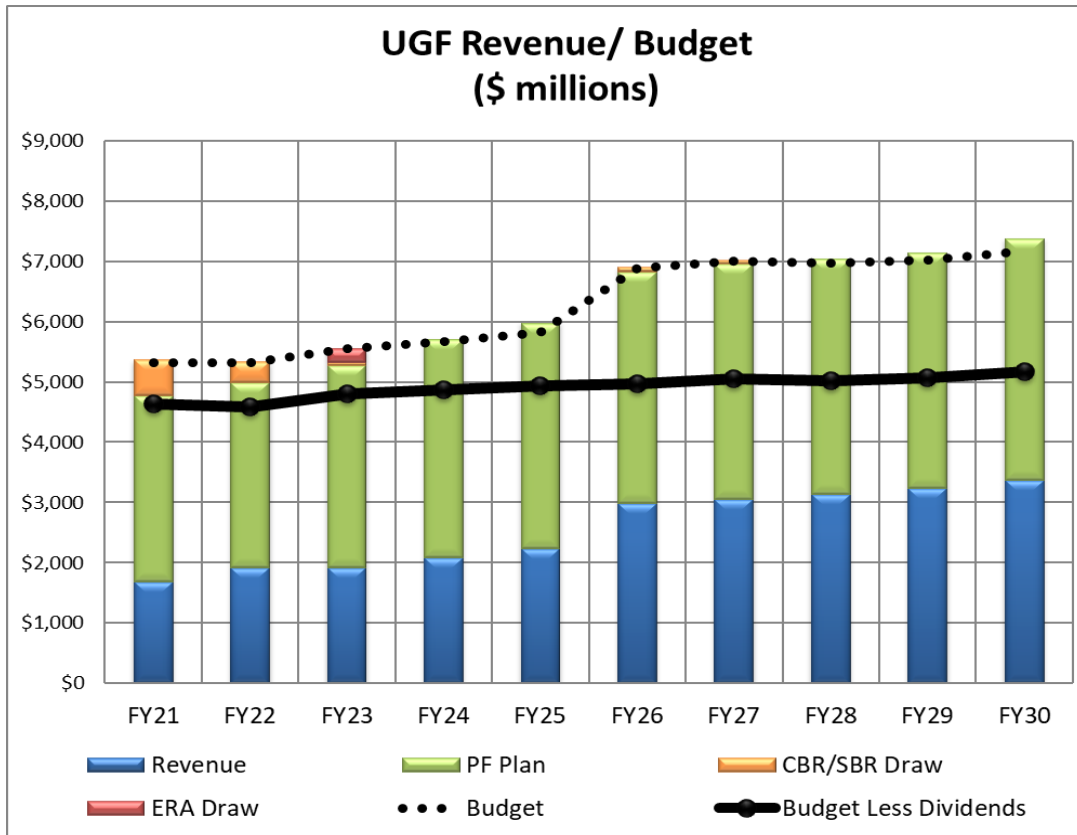
Surplus/(Deficit)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
(\$millions)	(595)	(349)	(285)	(20)	176	(10)	79	249	321	396



Effective POMV	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Draw Rate	5.25%	5.00%	5.35%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300
 FY25, 50% of POMV PFD FY26+; \$700M New Revenue FY26+
 FY00-08 Returns

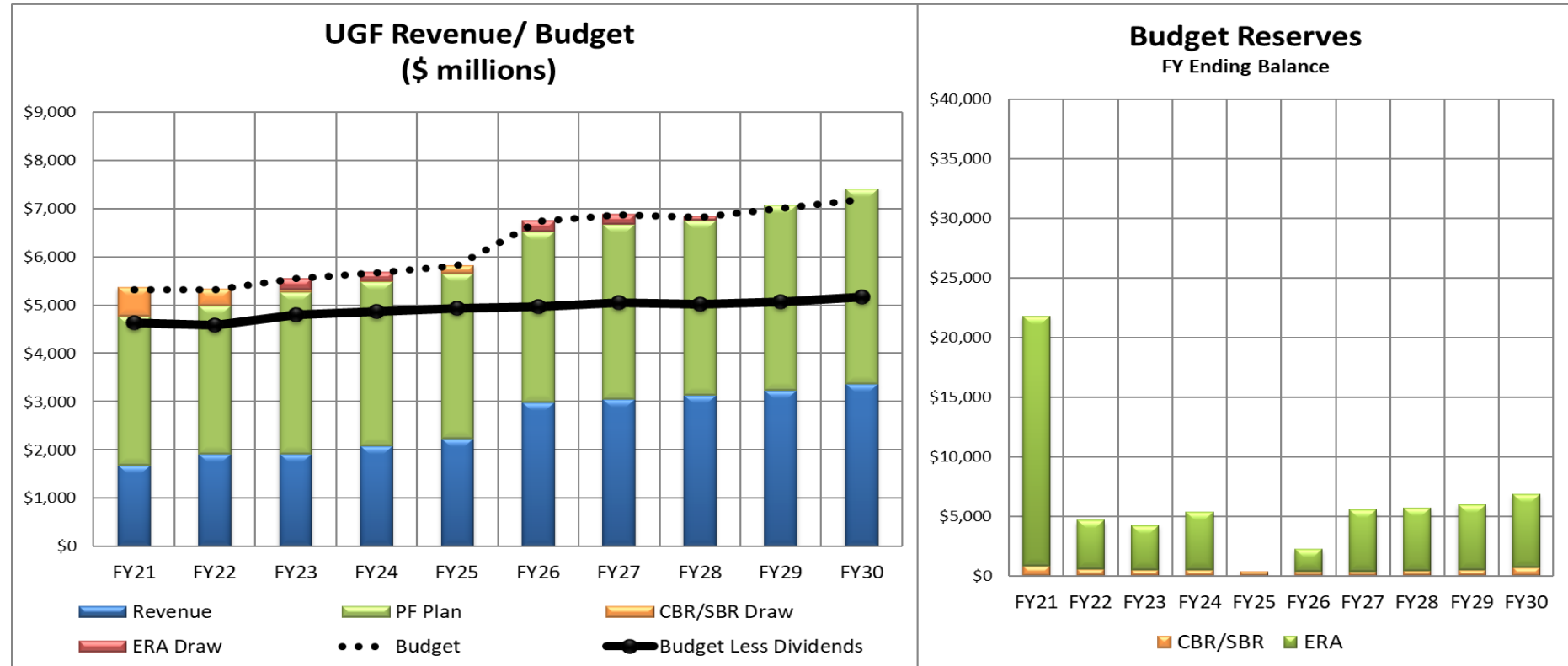
Surplus/(Deficit)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
(\$millions)	(595)	(349)	(285)	7	151	(83)	(63)	62	92	183



Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	5.35%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, 50% of POMV PFD FY26+; \$700M New Revenue FY26+
FY09-17 Returns

Surplus/(Deficit)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
(\$millions)	(595)	(349)	(285)	(209)	(180)	(229)	(205)	(86)	65	204

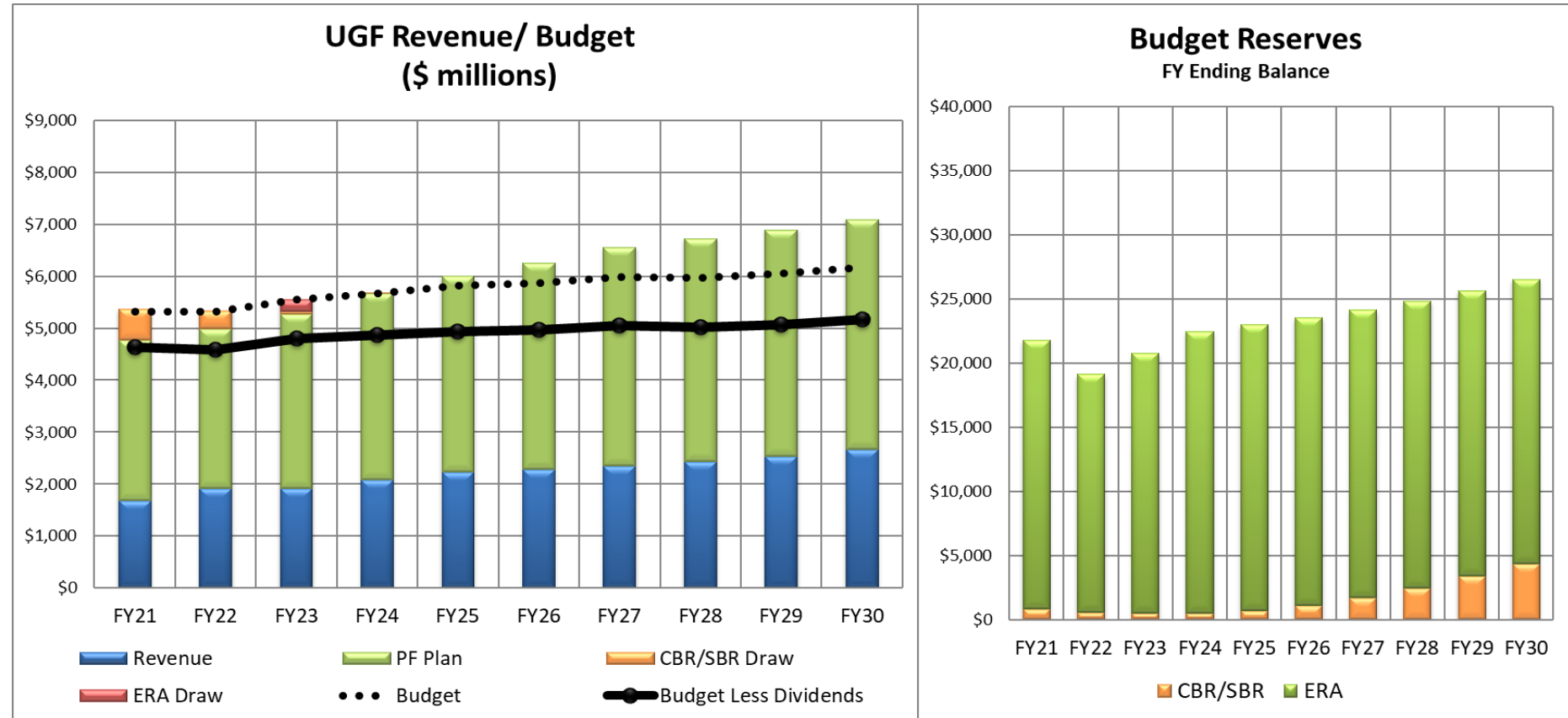


Effective POMV Draw Rate	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	5.25%	5.00%	5.35%	5.27%	5.00%	5.32%	5.28%	5.12%	5.00%	5.00%

Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, \$1,300 PFD growing with inflation FY26+

Callan forecast for returns

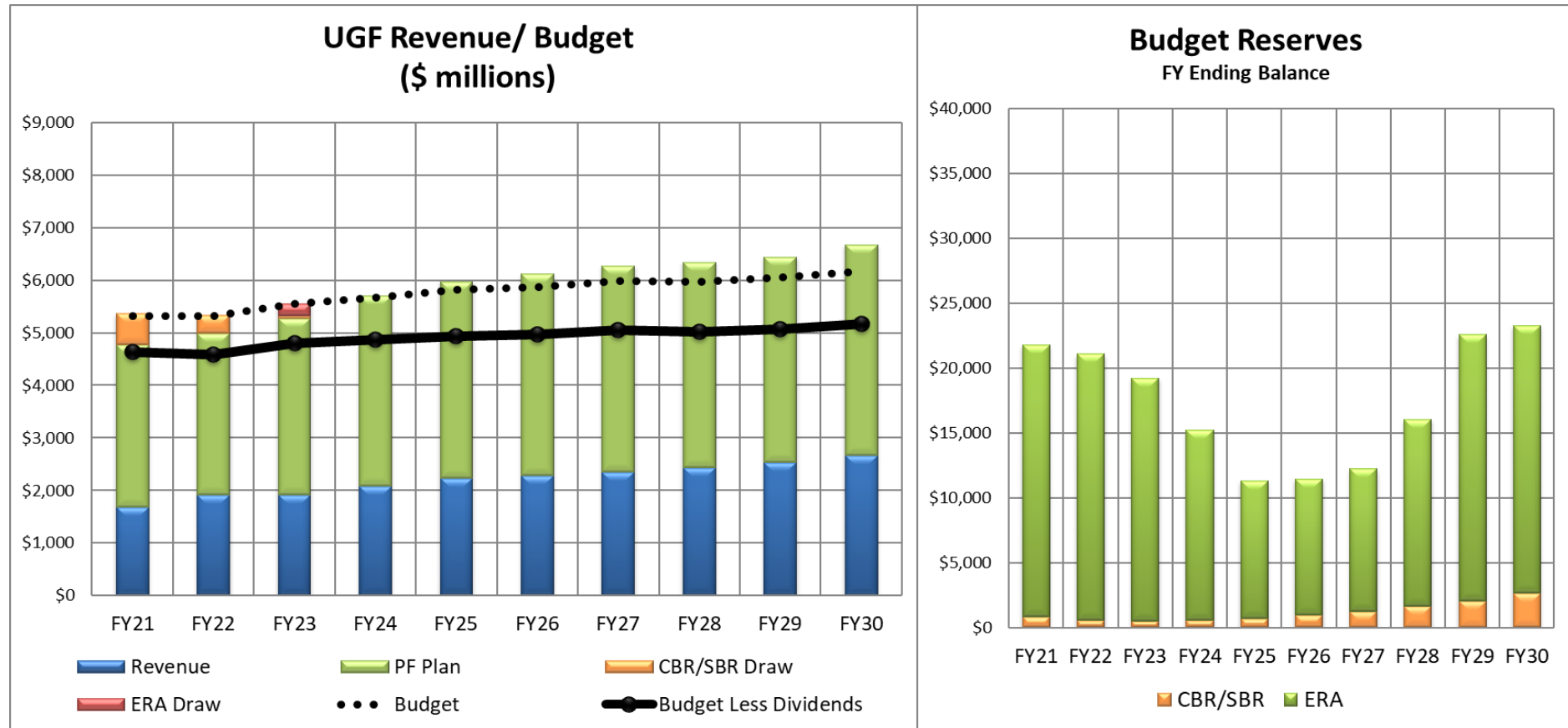
Surplus/(Deficit)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
(\$millions)	(595)	(349)	(285)	(20)	176	369	548	735	824	913



Effective POMV	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Draw Rate	5.25%	5.00%	5.35%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, \$1,300 PFD growing with inflation FY26+ FY00-08 Returns

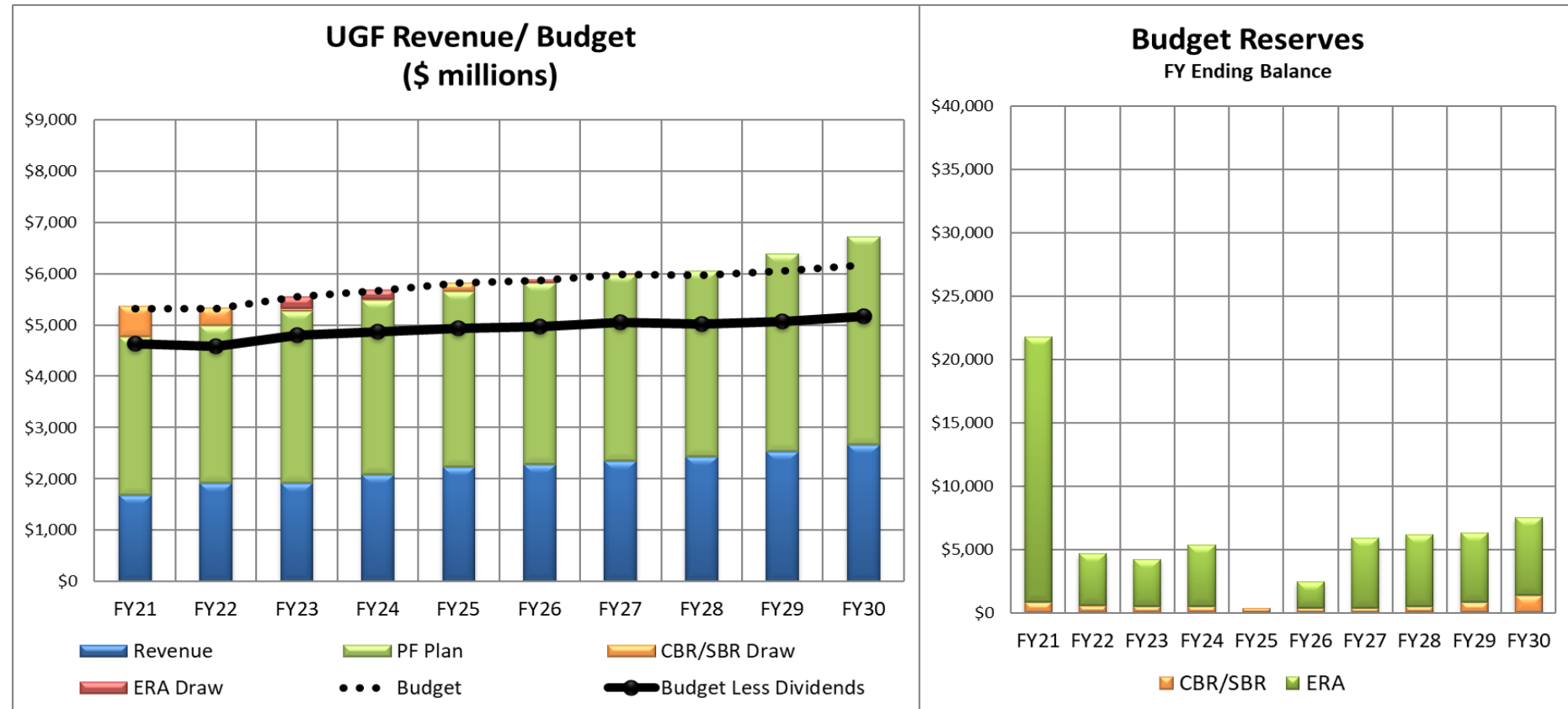
Surplus/(Deficit)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
(\$millions)	(595)	(349)	(285)	7	151	225	264	362	366	488



Effective POMV FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Draw Rate	5.25%	5.00%	5.35%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24,
 \$1,300 FY25, \$1,300 PFD growing with inflation FY26+
 FY09-17 Returns

Surplus/(Deficit)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
(\$millions)	(595)	(349)	(285)	(209)	(180)	(68)	(20)	67	317	538



Effective POMV	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Draw Rate	5.25%	5.00%	5.35%	5.27%	5.00%	5.10%	5.03%	5.00%	5.00%	5.00%

Questions?

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