

Senate Bill 107

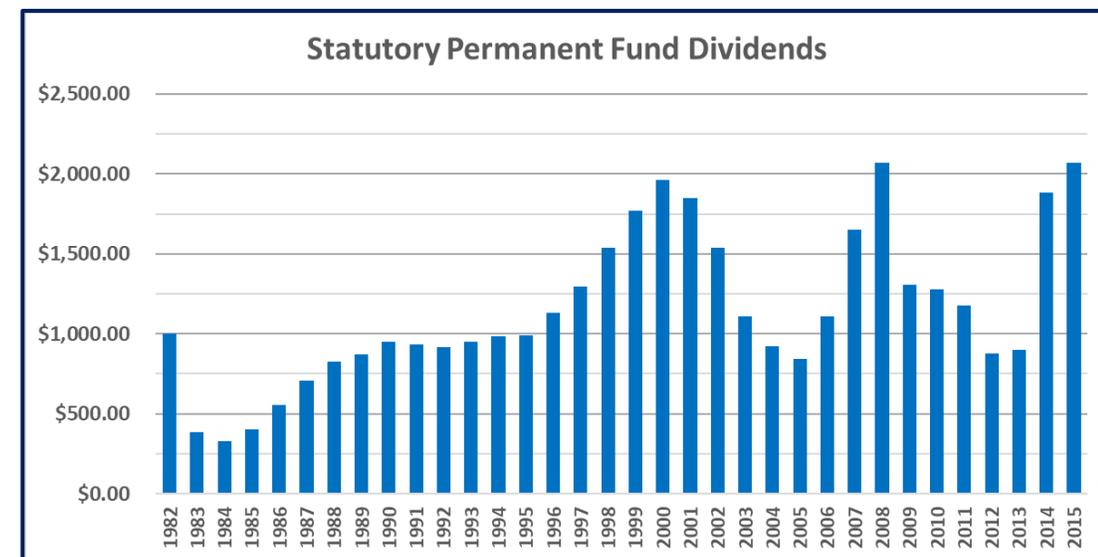
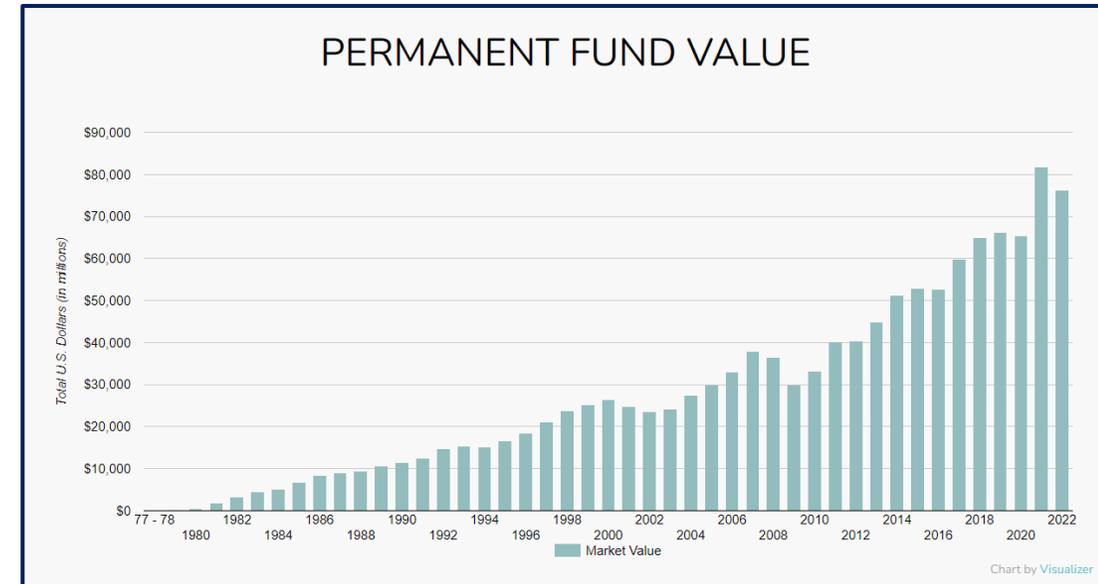
**How We Got Here: Use of Savings to Balance the Budget
Permanent Fund, CBRF, and the POMV**



Senate Finance Committee
April 12, 2023

The Permanent Fund, 1977- 2017

- For 40 years, the Permanent Fund mostly grew in the background and was not used for general government in any way
- Half of statutory earnings, defined by formula, were distributed as dividends
- The “other half” could have been used by the state, but was left in the fund
- Therefore, the fund now includes the compounded earnings on the state’s “half” that was not used



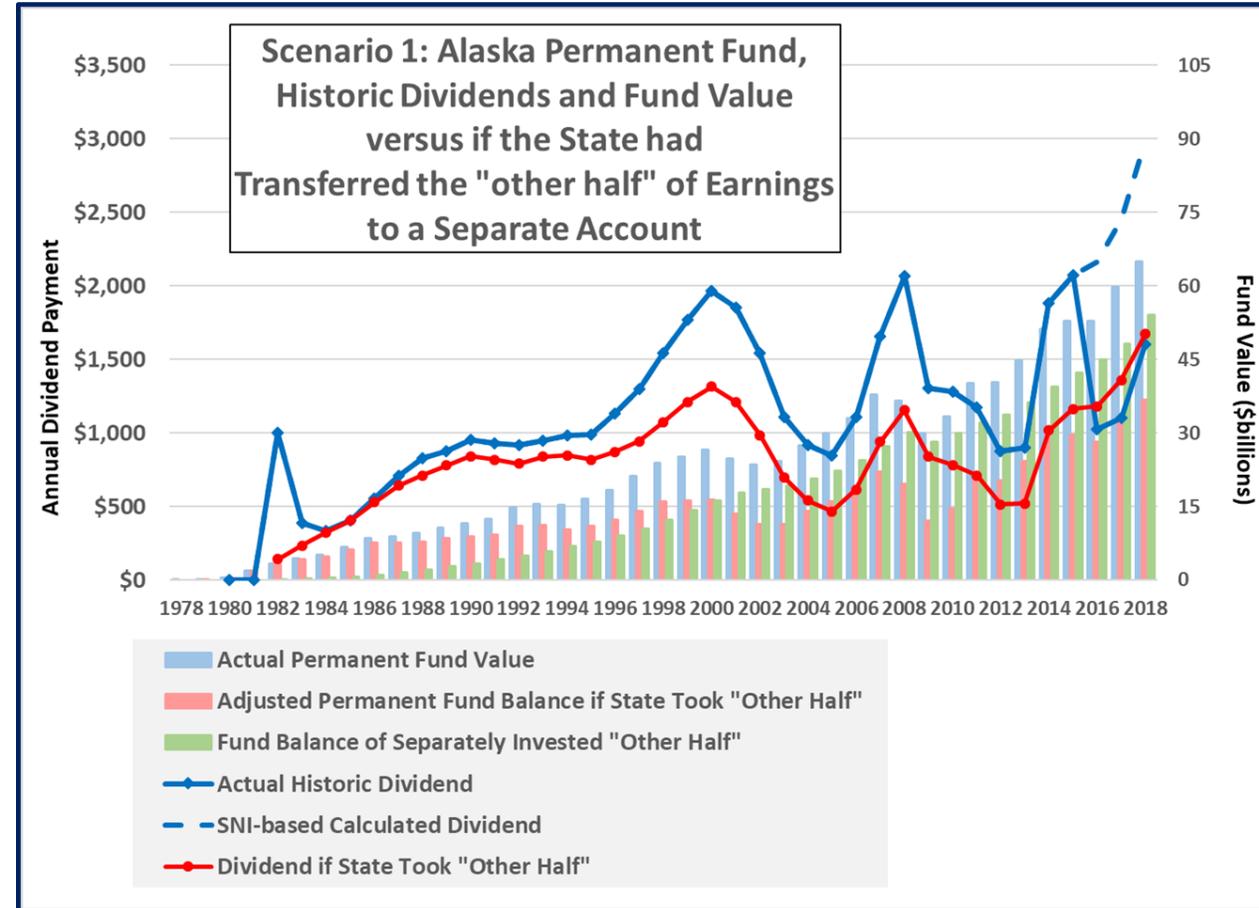
The Permanent Fund, 1977- 2017

- **What would it have been used for?**

- Additional state spending
- Larger PFDs
- Lower oil taxes
- Invested separately in another savings fund

- **2016-2017 Dividend Reduced from formula by veto (2016) or budget action (2017)**

- **2018 Passage of SB26, with a sustainable “percent of market value” draw tied to a five-year lookback fund value**

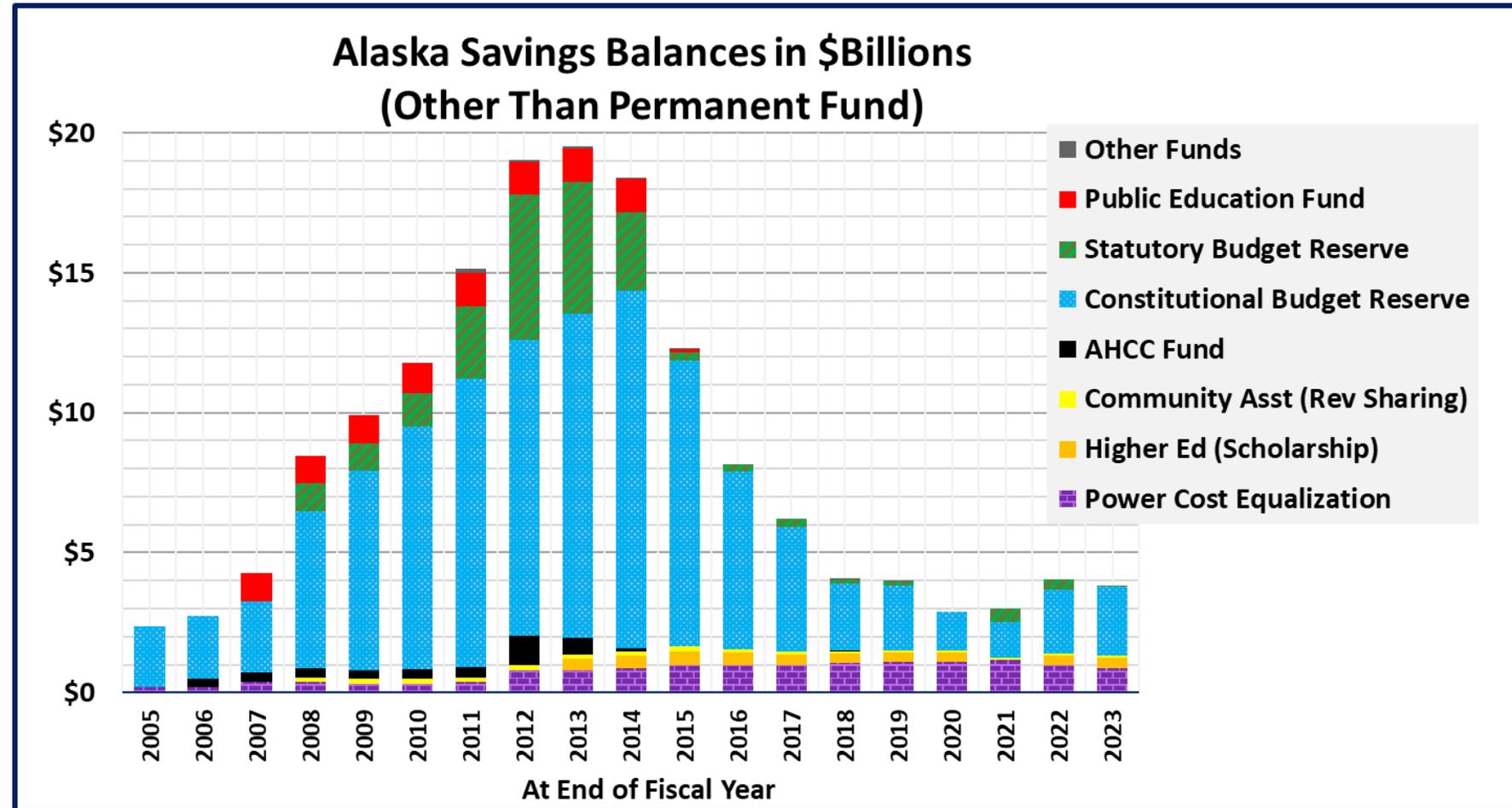


Constitutional Budget Reserve History

- 1977-1990: Multiple lawsuits between state and oil industry regarding pipeline tariffs, royalty valuation, and petroleum taxes
- 1990: As these cases were settling, Art. IX, Sec. 17 passed as a place to hold settlement funds apart from general revenue
 - Two methods to draw funds: by simple majority or by supermajority
- 1994, *Hickel v. Halford*, Supreme Court greatly limited possibility for simple majority draw, making the "3/4 vote" necessary in almost all cases
- 1994-2005, annual budget balancing draws totaling \$5.5 billion
- 2006-2010, budget surpluses were used to pay back full amount
- 2011-2013, no CBRF draws; budget surpluses saved elsewhere
- 2014-2017, draws totaling about \$11 billion

Constitutional Budget Reserve History

- 2018-2021, ongoing concern of balance hitting zero
- 2022-2023, small repayments due to:
 - Failure of “reverse sweep”
 - FY22 surplus after spring '22 price spike
 - Veto of SBR deposit passed last session



POMV, Dividends, and Year End Balances 2018-2028

Since the Passage of SB26: Percent of Market Value
Two Scenarios Going Forward (50/50 and 75/25)

Fiscal Year	POMV		PFD		End-Year CBRF+SBR Balance (\$millions)	PFD		PFD % of POMV		End-Year CBRF+SBR Balance (\$millions)
	Draw (\$millions)	Approp. (\$millions)	Amount	PFD % of POMV		Approp. (\$millions)	Amount	PFD % of POMV		
2019	\$2,723	\$1,024	\$1,600	38%	\$2,466	\$1,024	\$1,600	38%	\$2,466	
2020	\$2,933	\$1,069	\$1,606	36%	\$1,377	\$1,069	\$1,606	36%	\$1,377	
2021	\$3,091	\$680	\$992	22%	\$1,760	\$680	\$992	22%	\$1,760	
2022	\$3,069	\$739	\$1,114	24%	\$2,626	\$739	\$1,114	24%	\$2,626	
2023	\$3,361	\$2,100	\$3,294	62%	\$2,253	\$2,100	\$3,294	62%	\$2,253	
2024	\$3,526	\$1,763	\$2,700	50%	\$1,820	\$882	\$1,300	25%	\$2,701	
2025	\$3,665	\$1,833	\$2,800	50%	\$1,152	\$916	\$1,350	25%	\$2,949	
2026	\$3,811	\$1,906	\$2,900	50%	\$365	\$953	\$1,450	25%	\$3,114	
2027	\$3,989	\$1,995	\$3,050	50%	(\$555)	\$997	\$1,500	25%	\$3,190	
2028	\$4,023	\$2,012	\$3,100	50%	(\$1,529)	\$1,006	\$1,500	25%	\$3,222	

Past

Future
\$4.7 billion
difference
in 5 years

Source: Legislative Finance; historic fiscal summaries and data presented 3/24/23
(assumptions include \$400 million capital budget, no increase to BSA)

What If the Senate Version of SB26 Had Passed?

- **(The House version had similar provisions, including a 67/33 POMV split, although all were removed by the conference committee)**
- 75/25 Split
- If certain oil revenue (production tax plus UGF portion of royalty) exceeds \$1.2 billion, POMV is reduced dollar for dollar by the amount over that
 - The reduction comes from the GF portion, not the dividend portion
- When the ERA exceeds four times the current year's POMV, the amount in excess of this sweeps to the principal (replaces inflation proofing)
 - Internal to the fund, so does not impact this analysis
- Appropriation cap of \$4.1 billion, plus capital budget and PFD, less debt service, plus inflation from 7/1/16

What If the Senate Version of SB26 Had Passed?

#1: Adjust for 75/25 PFD Back to FY2019

Fiscal Year	POMV Draw (\$millions)	PFD Approp. (\$millions)	PFD Amount	PFD % of POMV	Adjustment to Savings Balance (\$millions)	Status Quo CBR+SBR	Adjusted CBR+SBR
2019	\$2,723	\$681	\$1,000	25%	\$343	\$2,466	\$2,809
2020	\$2,933	\$733	\$1,100	25%	\$336	\$1,377	\$2,056
2021	\$3,091	\$773	\$1,150	25%	(\$93)	\$1,760	\$2,346
2022	\$3,069	\$767	\$1,150	25%	(\$28)	\$2,626	\$3,184
2023	\$3,361	\$840	\$1,250	25%	\$1,260	\$2,253	\$4,071

#2: Petroleum Revenue Clawback

Production Tax	UGF Royalty	Total	POMV Reduction	Adjusted CBR+SBR
\$587	\$1,111	\$1,698	\$498	\$2,311
\$277	\$675	\$953	\$0	\$1,558
\$381	\$729	\$1,110	\$0	\$1,848
\$1,802	\$1,259	\$3,061	\$1,861	\$825
\$1,468	\$1,220	\$2,688	\$1,488	\$224

#3: Adjustment for Appropriation Cap

CPI vs. 2017	Budget Cap	Actual Budget	Required Cut?	Adjusted CBRF
104%	\$4,284	\$4,464	\$180	\$2,491
103%	\$4,236	\$4,435	\$199	\$1,937
108%	\$4,443	\$4,401	\$0	\$2,227
111%	\$4,554	\$4,755	\$201	\$1,405
114%	\$4,668	\$5,068	\$400	\$1,204

And then:

- How would budgets have changed?
- Future POMV adjustments due to clawback
- Etc.

What CSSB107(FIN)\Y Does

- Establishes the 75/25 Split (25% of POMV to dividends)
- Sets a “trigger” by which the split increases to 50/50 (50% of the POMV to dividends):
 - If, in any year starting in 2026, the legislature passes at least \$900 million in new revenue, the POMV split increases to 50/50
 - Must be new, annually recurring revenue, versus what was in statute as the law read on January 1, 2023
 - The condition must be agreed to by both the Commissioner of Revenue and the Director of Legislative Finance
 - If this doesn't happen by 2037, the condition expires and the 75/25 remains

Potential additional amendments to the POMV

- Modify the “trigger” (for the switch from 75/25 to 50/50)
 - Different revenue amount than \$900 million
 - Add multiple “steps” of new revenue where the POMV split would change gradually
- Add additional “triggers”
 - Minimum savings amount
 - Condition to passing some other legislation
- Add additional pieces from SB26
 - “Clawback” / volatility piece (POMV reduced when oil revenue is high)
 - Automatic sweep from ERA to Principal when ERA hits certain size

THANK YOU



Feel Free to Call or Email with Any Questions

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