HCS SB 26 / HB 115 / HB 111
Fiscal Plan

House Finance Committee
May 1, 2017
David Teal, Director, Legislative Finance Division
## Budget Reductions Since FY13

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Agency Operating Budgets</th>
<th>Statewide Items</th>
<th>Agency Ops</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY13</td>
<td>$7.8 billion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY14</td>
<td>$7.3 billion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY15</td>
<td>$6.0 billion</td>
<td></td>
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</tr>
<tr>
<td>FY16</td>
<td>$5.8 billion</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>FY17</td>
<td>$4.3 billion</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>FY18 House</td>
<td>$4.4 billion</td>
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</tr>
</tbody>
</table>

### Total Agency Operating Budgets, Statewide Items and Capital Budget Compared to Revenue

(UGF Only--$billions)

- **Capital**
- **Statewide Items**
- **Agency Ops**
- **Revenue**
End-of-Year Budget Reserve Balances, FY07-FY18
($billions)

Assumptions:
- Traditional withdrawal from the CBR.
- FY16-FY18 estimates based on the DOR Spring 2017 Forecast.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Statutory Budget Reserve Fund (SBR)</th>
<th>Constitutional Budget Reserve Fund (CBR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY07</td>
<td>-</td>
<td>8.0</td>
</tr>
<tr>
<td>FY08</td>
<td>1.0</td>
<td>8.1</td>
</tr>
<tr>
<td>FY09</td>
<td>1.0</td>
<td>8.2</td>
</tr>
<tr>
<td>FY10</td>
<td>1.2</td>
<td>9.2</td>
</tr>
<tr>
<td>FY11</td>
<td>2.6</td>
<td>10.3</td>
</tr>
<tr>
<td>FY12</td>
<td>5.2</td>
<td>10.6</td>
</tr>
<tr>
<td>FY13</td>
<td>4.7</td>
<td>11.6</td>
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<tr>
<td>FY14</td>
<td>2.8</td>
<td>12.8</td>
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<tr>
<td>FY15</td>
<td>0.3</td>
<td>10.2</td>
</tr>
<tr>
<td>FY16</td>
<td>0.3</td>
<td>6.8</td>
</tr>
<tr>
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<td>0.3</td>
<td>4.6</td>
</tr>
<tr>
<td>FY18</td>
<td>0.3</td>
<td>2.2</td>
</tr>
</tbody>
</table>
What Does A Solution Look Like?

1. Healthy Reserve Balances?
   – No less than $2.5 billion in the CBR?
   – An Earnings Reserve Account (ERA) that is stable/growing?

2. A Sustainable Budget?
   – A balanced budget? How fast? How big?
   – Time for a phased approach? How much time?

3. A Healthier Economy?
What Does HCS SB 26 Do?

Provides:

1. A Payout from the ERA to the General Fund (that greatly reduces the deficit and revenue volatility)
2. A Payout from the ERA for Dividends
3. A Payout (Revenue) Limit
4. Additional Royalties to the General Fund
5. Conditional Links to a Broad-based Tax and Oil Tax/Credit Reform
Baseline HCS SB 26

UGF Revenue/ Budget ($ millions)

Price Scenario
- Spring Forecast
- FY10

COST VARIABLES
- Operating Budget
  - Scenario: OMB 10yr Plan
  - Target cut (FY18+): $ -

Statewide Budget
- Tax Credit Payments: Statutory
- Capital Budget (FY19-26): 160.0

REVENUE VARIABLES
- Sales Tax: n
- Income Tax: n
- Motor Fuel Tax: n
- Oil Tax Legislation: n

Permanent Fund Plan: SB 26 House

Assumptions
- Inflation Rate: 2.5%
- FF Investment Return: 6.5%
- % Realized: 69.76%
- Population Growth Rate: Labor Stats
- CBR Earnings: 2.6%

Plan Specifications

Payout
- POMV/Payout: 5.00%
- POMV Override: 5.26%
- Override Ends: 10
- % Statutory Net Income: 0%
- Draw Start Year: 17

Dividend
- % of Stat Net Income to Div: 0%
- % of POMV Draw to Div: 0%
- % of UGF Royalties to Div: 0%
- Dividend Floor: $1,250
- Floor Ends: 10
- Dividend Cap: $ -
- Override Dividend: Off

Status Quo Inflation Proofing
- 4k Draw Inflation Proofing: 1
- POMV Inflation Proofing: 0.25%
- Inflation Proofing Limit: 1

Other Provisions
- Reduce when all rev exceeds: $1,400
- Reduce by: 80%
- Royalties to PF: 25%

Payout for Dividends and General Fund

Dividends
- General Fund: 1,692, 1,784, 1,735, 1,328, 1,521, 1,914, 2,028, 2,084
- Dividends: 89, 83, 879, 906, 922, 646, 972, 996, 1,027

Budget Reserves
- FY Ending Balance

Years to Exhaust CBR:
- FY19: 8
- FY20: 7
- FY21: 4
- FY22: 3
- FY23: 2
- FY24: 2
- FY25: 2
- FY26: 2

Reserves
- FY19: 16,291
- FY20: 16,240
- FY21: 15,589
- FY22: 15,363
- FY23: 15,112
- FY24: 14,834
- FY25: 14,281
- FY26: 14,033

Deficit
- FY19: -751
- FY20: -809
- FY21: -776
- FY22: -770
- FY23: -746
- FY24: -781
- FY25: -799
- FY26: -787

Deficit Filled:
- FY19: 70%
- FY20: 70%
- FY21: 71%
- FY22: 71%
- FY23: 72%
- FY24: 72%
- FY25: 73%
- FY26: 73%

Legislative Finance Division
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HCS SB 26 w/ $250 million Capital Spending, HB 115 and HB 111

Price Scenario, Spring Forecasted Production

**Cost Variables**
- Operating Budget
- Scenario: CMG 10yr Plan
- Target Cut (FY19-): $ -
- Statewide Budget
- Tax Credit Payments
- Statutory
- Capital Budget (FY16-26): 250.0

**Revenue Variables**
- Sales Tax
- Income Tax: HB 115
- Motor Fuel Tax
- Oil Tax Legislation: HB 111 (House)

**Permanent Fund Plan SB 26 House**
- Assumptions:
  - Inflation Rate: 2.25%
  - PF Investment Return: 6.9%
  - % Realized: 80.78%
  - Population Growth Rate: Labor Stats
  - CBR Earnings: 2.85%

**Plan Specifications**
- Payout:
  - POMV Payout: 6.06%
  - POMV Override: 5.22%
  - Override Ends: 18
  - % Statutory Net Income: 0%
  - Draw Start Year: 17

- Dividend
  - % of Stat Net Income to Div: 0%
  - % of POMV Draw to Div: 33%
  - % of UGF Royalties to Div: 0%
  - Dividend Floor: $ 1,250
  - Dividend Gap: $ -

- Inflation Proofing
  - Status Quo Inflation Proofing: 0
  - POMV Inflation Proofing: 0.22%
  - Inflation Proofing Limit: 1

**Other Provisions**
- Reduce when oil revenue exceeds $ 1,400
- Reduce by x5: 50%
- Royalties to PF: 29%