Alaska’s Fiscal Future

Senate Finance Committee

November 9, 2017

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Legislative Finance Division

What has changed since last year?

1. DOR updated the revenue forecast,
2. OMB updated its 10-year expenditure plan, and
3. The Permanent Fund revised its earnings projections.

Defining Success

1. Deficits fade away before the projection period ends
2. No unplanned draws from the ERA (the CBR is not depleted)
3. PF balance keeps pace with inflation
4. PFDs of at least $1,000

Fiscal Model Output

Comparing Revenue and Expenditures in FY18 and FY19 Versions

Revenue

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY19-26
Spring 4% Decline Forecast	2,115	2,123	2,169	2,226	2,263	2,287	2,376	2,478	
Fall Forecast	2,019	2,070	2,165	2,215	2,231	2,252	2,400	2,631	
Spring to Fall	(96)	(54)	(3)	(11)	(32)	(35)	24	153	**(54)**

Expenditures

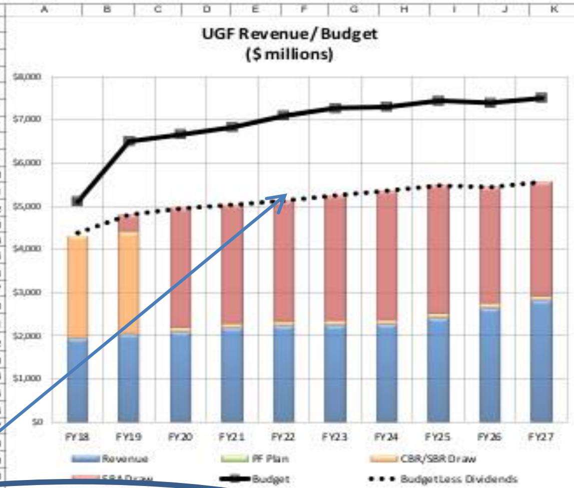
	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	
OMB FY18 Plan	4,723	4,756	4,894	4,992	5,108	5,222	5,341	5,458	
OMB FY19 Plan	4,800	4,950	5,030	5,131	5,248	5,353	5,478	5,436	
FY18 to FY19	77	194	137	139	140	131	138	(22)	**934**

Impact on the Deficit--Spring to Fall

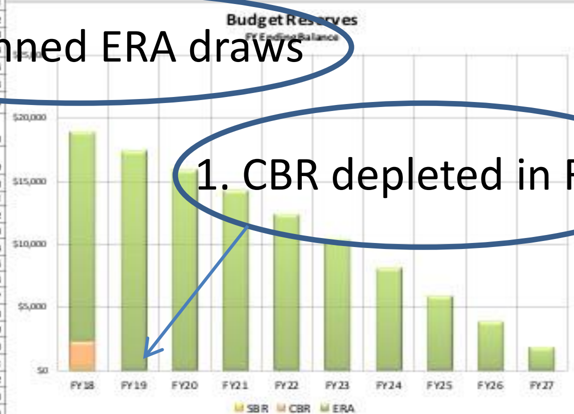
FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	
173	247	140	150	172	166	114	(175)	**988**

No POMV Payout

LFD Fiscal Model



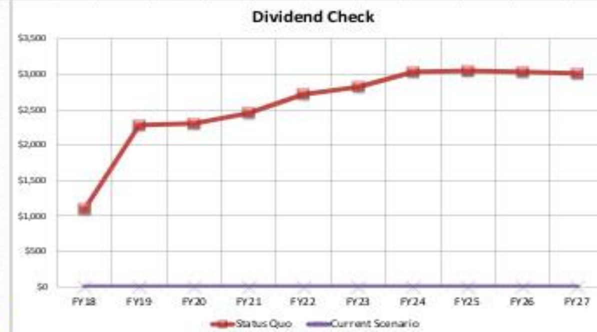
3. Unplanned ERA draws

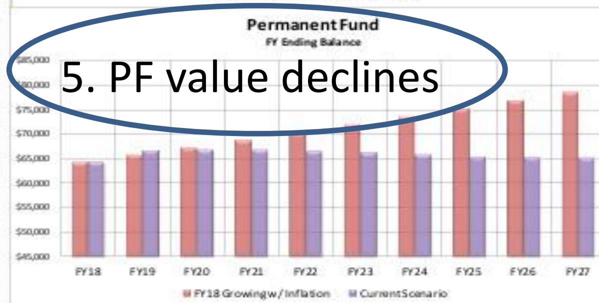


1. CBR depleted in FY19

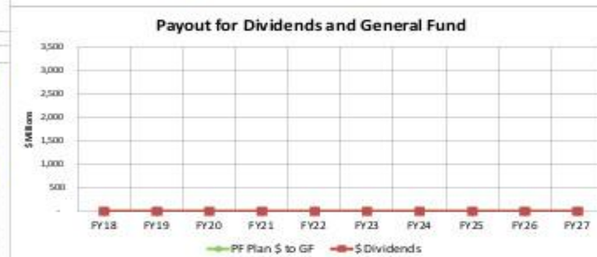
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Reserves	18,927	17,418	15,898	14,269	12,386	10,289	8,109	5,870	3,838	1,809
Surplus/ (Deficit)	-2,385	-2,780	-2,881	-2,865	-2,915	-3,017	-3,101	-3,079	-2,805	-2,756
Remaining CBR Years	1	0	0	0	0	0	0	0	0	0
Deficit Filled	7%	1%	1%	1%	1%	0%	0%	0%	0%	0%
Unplanned ERA Draw	0	405	2,769	2,765	2,815	2,917	3,001	2,979	2,705	2,656

Price Scenario	Fall Forecast
Production	DOR Forecast
COST VARIABLES	
Operating Budget	
Scenario	OMB 10yr Plan
Alternate Growth Rate	1.12%
Budget Change (FY19+)	$ -
Tax Credit Payments	Statutory
Capital Budget (FY19-27)	OMB 10yr Plan
Supplemental Budget	50.0
REVENUE VARIABLES	
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Permanent Fund Plan	**None**
Assumptions	
Inflation Rate	2.25%
PF Investment Return	6.50%
% Realized	89.78%
Population Growth Rate	Labor Stats
CBR Earnings	2.89%
Reserve Priority	CBR
Set Min CBR Balance	0
Use SBR?	1
Plan Specifications	
	Payout
POMV Payout	0.00%
POMV Override	0.00%
Override Ends	0
% Statutory Net Income	0%
Draw Start Year	0
	Dividend
% of Stat Net Income to Div	50%
% of POMV Draw to Div	0%
% of UGF Royalties to Div	0%
Dividend Floor	$ -
Floor Ends	-
Dividend Cap	$ -
Dividend Override	On
	Inflation Proofing
Status Quo Inflation Proofing	1
4x Draw Inflation Proofing	0
POMV Inflation Proofing	0.00%
Inflation Proofing Limit	0
	Other Provisions
Reduce when oil rev exceeds	$ -
Reduce by x%	0%
Royalties to PF	30%





5. PF value declines



	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
$ Dividends	-	-	-	-	-	-	-	-	-	-
PF Plan $ to GF	-	-	-	-	-	-	-	-	-	-
PF Plan %	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Effective Plan %	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Effective Draw %	0.00%	3.28%	6.74%	6.85%	7.17%	7.43%	7.49%	7.52%	7.13%	7.06%

2. Continued deficits

4. ERA depletion

1 1 2 17 LFD Fiscal Model.xlsx

Output Varies by User Inputs

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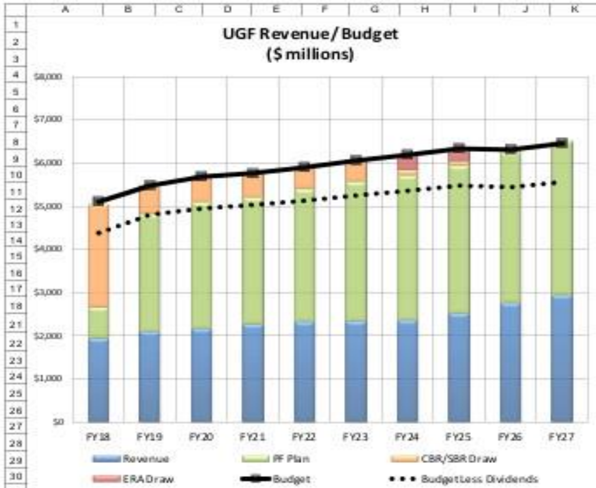
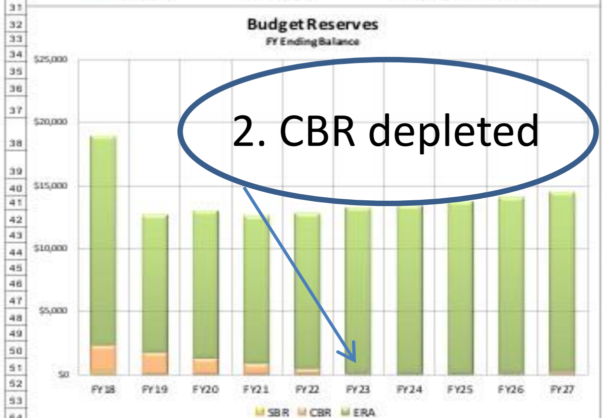
POMV Payout

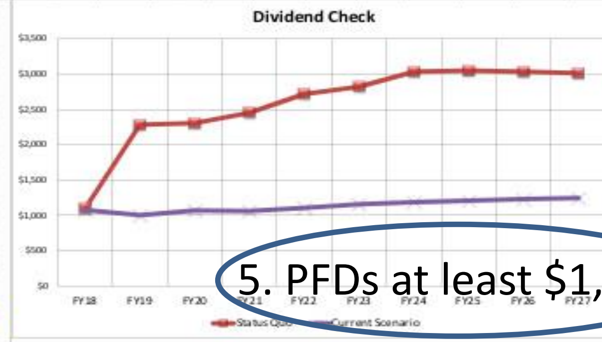
LFD Fiscal Model

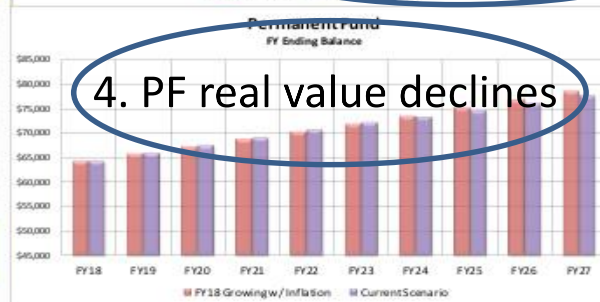


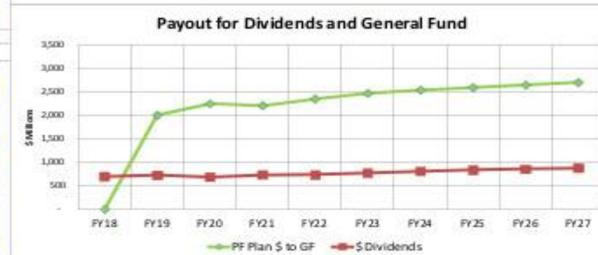


	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Reserves	18,927	12,644	12,994	12,579	12,771	13,254	13,401	13,716	14,048	14,478
Surplus/ (Deficit)	-2,385	-670	-601	-572	-509	-497	-494	-403	-66	41
Remaining CBR Years	1	3	2	1	1	0	0	0	1	*
Deficit Filled	7%	76%	79%	80%	83%	84%	84%	87%	98%	100%
Unplanned ERA Draw	0	0	0	0	0	0	360	303	0	0

Price Scenario		Fall Forecast
Production		DOR Forecast
COST VARIABLES		
Operating Budget		
Scenario		OMB 10yr Plan
Alternate Growth Rate		1.12%
Budget Change (FY19+)	$	-
Tax Credit Payments		Statutory
Capital Budget (FY19-27)		OMB 10yr Plan
Supplemental Budget		50.0
REVENUE VARIABLES		
Sales Tax		n
Income Tax		n
Motor Fuel Tax		n
Permanent Fund Plan		**SB 26 Senate**
Assumptions		
Inflation Rate		2.25%
PF Investment Return		6.50%
% Realized		89.78%
Population Growth Rate		Labor Stats
CBR Earnings		2.89%
Reserve Priority		CBR
Set Min CBR Balance		0
Use SBR?		1
Plan Specifications		
		Payout
POMV Payout		5.00%
POMV Override		5.25%
Override Ends		20
% Statutory Net Income		0%
Draw Start Year		19
		Dividend
% of Stat Net Income to Div		0%
% of POMV Draw to Div		25%
% of UGF Royalties to Div		0%
Dividend Floor	$	1,000
Floor Ends		20
Dividend Cap	$	-
Dividend Override		On
		Inflation Proofing
Status Quo Inflation Proofing		0
4x Draw Inflation Proofing		1
POMV Inflation Proofing		0.00%
Inflation Proofing Limit		0
		Other Provisions
Reduce when oil rev exceeds	$	1,200
Reduce by x%		100%
Royalties to PF		25%







	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
$ Dividends	696	726	684	733	735	772	810	838	857	876
PF Plan $ to GF	-	2,004	2,249	2,207	2,351	2,470	2,540	2,591	2,646	2,699
PF Plan %	5.25%	5.25%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Effective Plan %	0.00%	4.25%	4.45%	4.36%	4.47%	4.59%	4.64%	4.68%	4.70%	4.70%
Effective Draw %	0.00%	4.25%	4.45%	4.36%	4.47%	4.59%	5.14%	5.09%	4.70%	4.70%

1. Deficits filled

2. CBR depleted

3. Unplanned draws

4. PF real value declines

5. PFDs at least $1,000

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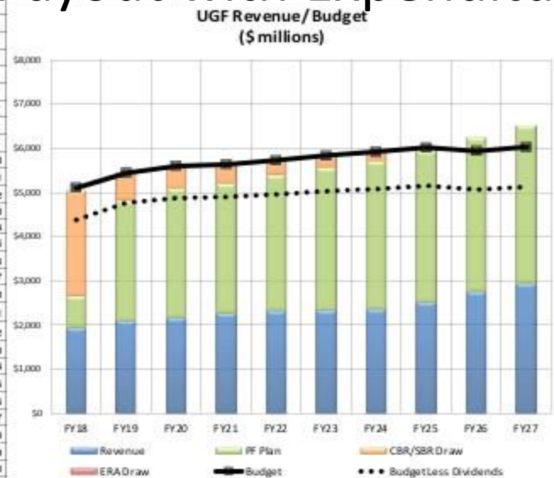
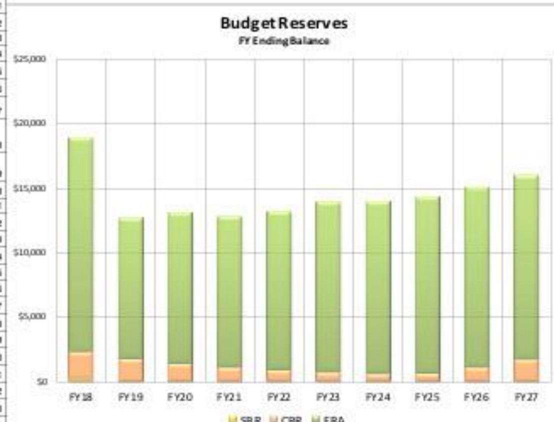
POMV Payout with Expenditures Constrained to Half the Rate of Inflation

LFD Fiscal Model





	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Reserves	18,927	12,681	13,113	12,829	13,203	13,922	13,996	14,347	15,094	16,023
Surplus/ (Deficit)	-2,385	-633	-520	-446	-337	-277	-225	-83	311	477
Remaining CBR Years	1	3	3	2	3	3	3	8	*	*
Deficit Filled	7%	78%	82%	85%	89%	91%	93%	97%	100%	100%
Unplanned ERA Draw	0	0	0	0	0	0	0	0	0	0

Price Scenario	Fall Forecast
Production	DOR Forecast
COST VARIABLES	
Operating Budget	
Scenario	Scenario Rate
Alternate Growth Rate	1.125%
Budget Change (FY19+)	
Tax Credit Payments	Statutory
Capital Budget (FY19-27)	OMB 10yr Plan
Supplemental Budget	50.0
REVENUE VARIABLES	
Sales Tax	n
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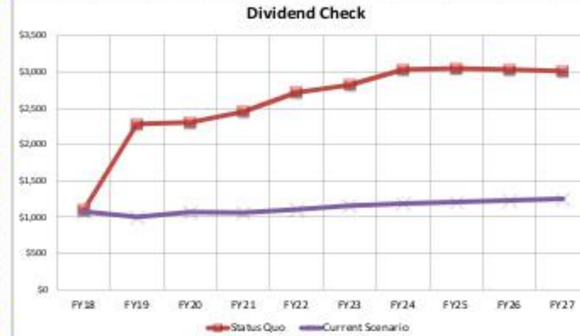
Royalties to PF	25%



	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
$ Dividends	726	684	733	735	772	810	838	857	877	896
PF Plan $ to GF	-	2,046	2,200	2,205	2,315	2,431	2,513	2,572	2,630	2,689
PF Plan %	5.25%	5.25%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Effective Plan %	0.00%	4.25%	4.45%	4.36%	4.47%	4.59%	4.64%	4.65%	4.66%	4.67%
Effective Draw %	0.00%	4.25%	4.45%	4.36%	4.47%	4.59%	4.64%	4.65%	4.66%	4.67%

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