Cash Flow under HB245

Legislative Finance Division

Sec 7

Reduces royalties dedicated to the permanent fund from new oil fields (post 1980) from 50% to the constitutional minimum of 25%. That increases general fund revenue by about $50m annually depending on the price of oil.

Sec 8

Deletes the definition of income available for distribution. That formula was based on earnings during the preceding 5 years.

Sec 9

(b) Replaces the earnings-based “available for distribution” formula in section 8 with a POMV calculation. The nominal payout to the general fund is 5.25%, but the effective payout will be about 4.8% (in the long-term) if the permanent fund corporation’s projections regarding real earnings of 5% and inflation of 2.25% are realized. The effective payout is lower than the nominal 5.25% payout because the payout is based on the average balance during the past 6 years.

POMV Payout Calculation for FY17

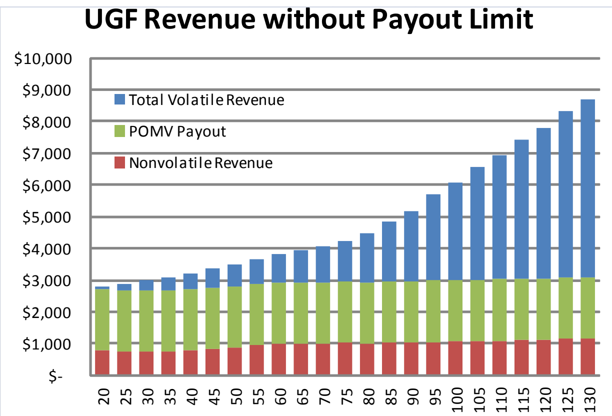
Fiscal Year	Year End Balance (Dec 2015 PF Forecast)	Average Balance in First 5 of Preceding 6 Years	5.25% Payout Based on Average Balance	Effective Payout Based on FY16 Balance
FY10	33,255			
FY11	40,140			
FY12	40,333			
FY13	44,853			
FY14	51,214			
FY15	52,800			
FY16	52,081			
FY17	54,388	45,868	2,408	4.62%

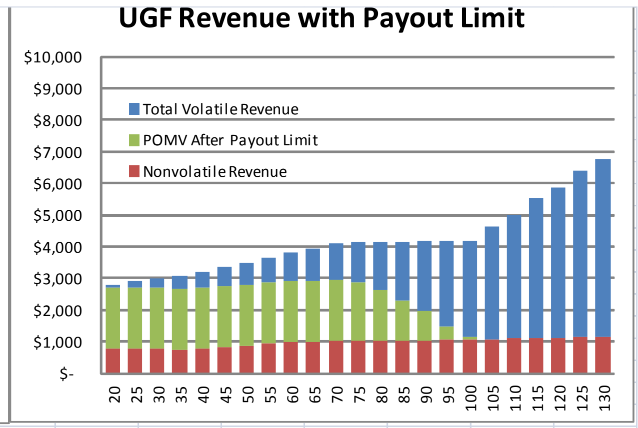
(c) Ensures that 20% of the payout goes to dividends. Under the Spring forecast, that will be about $500 to $600 million annually. The remaining 80% of the payout is subject to a dollar for dollar reduction as oil revenue rises above $1.2 billion (adjusted for inflation). The impact of the payout limit is:

1. Zero when oil is below about $75/bbl. ($75 oil generates about $1.2 billion in production taxes and royalties (after reserving 20% of royalties for dividends).

2. The payout is reduced by a dollar for every dollar of oil revenue (less the 20% portion of royalties that goes to dividends) between $1.2 billion and about $3.1 billion. The reduction occurs at oil prices between about $75/bbl and $100/bbl as shown in the graph below.
3. When oil prices are above about $100/bbl, the POMV payout is reduced to zero and additional oil revenue is spendable. General fund revenue available to spend will be lower (relative to revenue without a limit) by about $2 billion.

The limit will change over time depending on inflation and oil production.





Note: POMV payout limited dollar for dollar beyond revenue of $1.2 billion.
Note: Using FY17 revenue under Spring Forecast. Excludes dividends of $685 million.

Sec 10

(e) Allows an appropriation from the earnings reserve account (ERA)—where permanent fund earnings accumulate—to the general fund. The allowable appropriation is reduced by the payout limit if oil prices are sufficiently high. The amount of this appropriation that is reserved for dividends is unaffected by the payout limit.

(f) Outlines an inflation proofing methodology. If the ERA balance is “comfortably high”—defined as four times the maximum allowable payout—then the excess balance may be appropriated to the permanent fund principal.

Sec 11

Provides for dividends comprised of

1. 20% of the POMV payout described in section 8 (AS 37.13.140(b)). This amount is not reduced by the payout limit in AS 37.13.140(c)

plus

2. An amount equal to 20% of prior year royalties deposited in the general fund.