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

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

(UGF Only--$billions)

<table>
<thead>
<tr>
<th></th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18 House</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>$7.8 b</td>
<td>$7.3 b</td>
<td>$6.0 b</td>
<td>$5.8 b</td>
<td>$4.3 b</td>
<td>$4.4 b</td>
</tr>
<tr>
<td>Statewide Items</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Agency Ops</td>
<td></td>
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</tbody>
</table>

Legislative Finance Division
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></th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory Budget Reserve Fund (SBR)</td>
<td>-</td>
<td>1.0</td>
<td>1.0</td>
<td>1.2</td>
<td>2.6</td>
<td>5.2</td>
<td>4.7</td>
<td>2.8</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Constitutional Budget Reserve Fund (CBR)</td>
<td>7.8</td>
<td>8.2</td>
<td>8.3</td>
<td>9.2</td>
<td>10.3</td>
<td>10.6</td>
<td>11.6</td>
<td>12.8</td>
<td>10.2</td>
<td>6.8</td>
<td>4.6</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

Price Scenario
Production: Spring Forecast
P10

COST VARIABLES
Operating Budget
Scenario: OME 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: 5.9%
% Realized: 69.76%
Population Growth Rate: Labor Stats
CRR Earnings: 2.69%

Plan Specifications
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.: 33%
% of UGF Royalties to Div.: 0%
Dividend Floor: $ 1,250
Floor Ends: 10
Dividend Cap: $ -
Dividend Override: Off

Status Quo Inflation Proofing
Cash Draw Inflation Proofing: 1
POMV Inflation Proofing: 0.25%
Inflation Proofing Limit: 1

Reduce when overall rev exceeds: $ 1,400
Reduce by x%: 83%
Royalties to PF: 25%

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

Price Scenario Production FY19

COST VARIABLES
- Operating Budget Scenario OMV 10yr Plan Target out (FY19+) $ -
- Statewide Budget
- Tax Credit Payments Statutory
- Capital Budget (FY16-26) 260.0

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 6.95%
- % Realized 80.78%
- Population Growth Rate Labor Force
- CBR Earnings 2.96%

Plan Specifications
- POMV Payout 9.60%
- POMV Override 5.25%
- 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 $1,260
- Floor Ends 18
- Dividend Gap $ -
- Dividend Override Off

Status Quo Inflation Proofing
- 1
- 1
- 1

Reduce when oil exceeds $1,400
- Reduce by x1% 50%
- Royalties to PF 29%

Other Provisions

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