



ALASKA · STATE · CAPITOL

# **Fiscal Modeling: SB 107**

## **Senate Finance**

### **Committee Scenarios**

Senate Finance Committee  
March 21, 2023  
Legislative Finance Division

# Outline

- Review of Senate Finance Committee Modeling Assumptions
- Constitutional Budget Reserve Target Balance
- SB 107 Deterministic Model Using Committee Assumptions
- Review of LFD Probabilistic Model
- SB 107 Probabilistic Model Using Committee Assumptions

# Review of Committee Modeling Assumptions

## Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Fall Revenue Forecast.
  - This assumes \$81 oil in FY24, following futures market thereafter.
  - DNR oil production forecast projects that Alaska North Slope production will increase from 503.7 thousand barrels per day in FY24 to 543.3 thousand barrels per day in FY32.
- For the Permanent Fund, we use Callan's return assumption of 7.00% total return in FY23 and 7.05% thereafter.

# Review of Committee Modeling Assumptions (cont.)

## Spending Assumptions

- For **agency operations**, assumes that the FY24 Governor's budget including amendments through 2/14 grows with inflation (2.50%).
- For **statewide items**, assumes that all items are funded to their statutory levels in FY24 and beyond.
  - This includes School Debt Reimbursement, the REAA Fund, Community Assistance, oil and gas tax credits.
- For the **capital budget**, assumes a \$400 million capital budget in FY24, growing with inflation thereafter (2.50%).
- For **supplementals** assumes \$50.0 million per year. This is based on the average amount of supplemental appropriations minus lapsing funds each year.
- For **Permanent Fund Dividends**, assumes 25% of the POMV draw is appropriated for dividends based on SB 107.

# Evaluating Risk: Constitutional Budget Reserve Target Balance

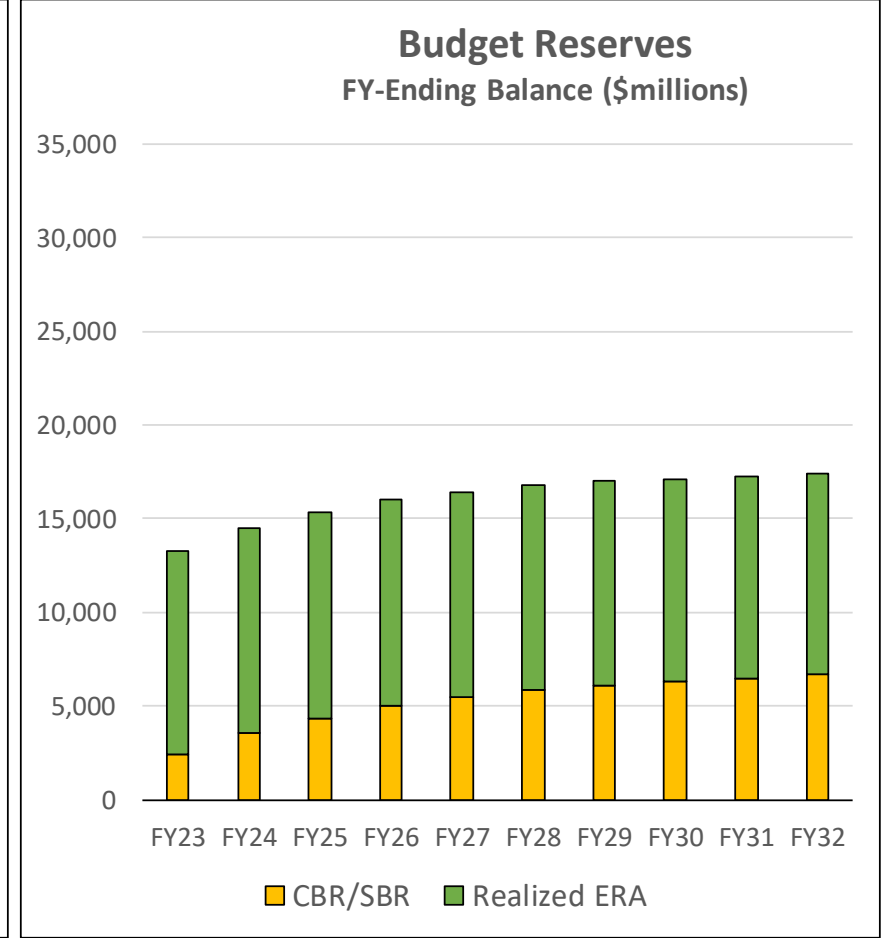
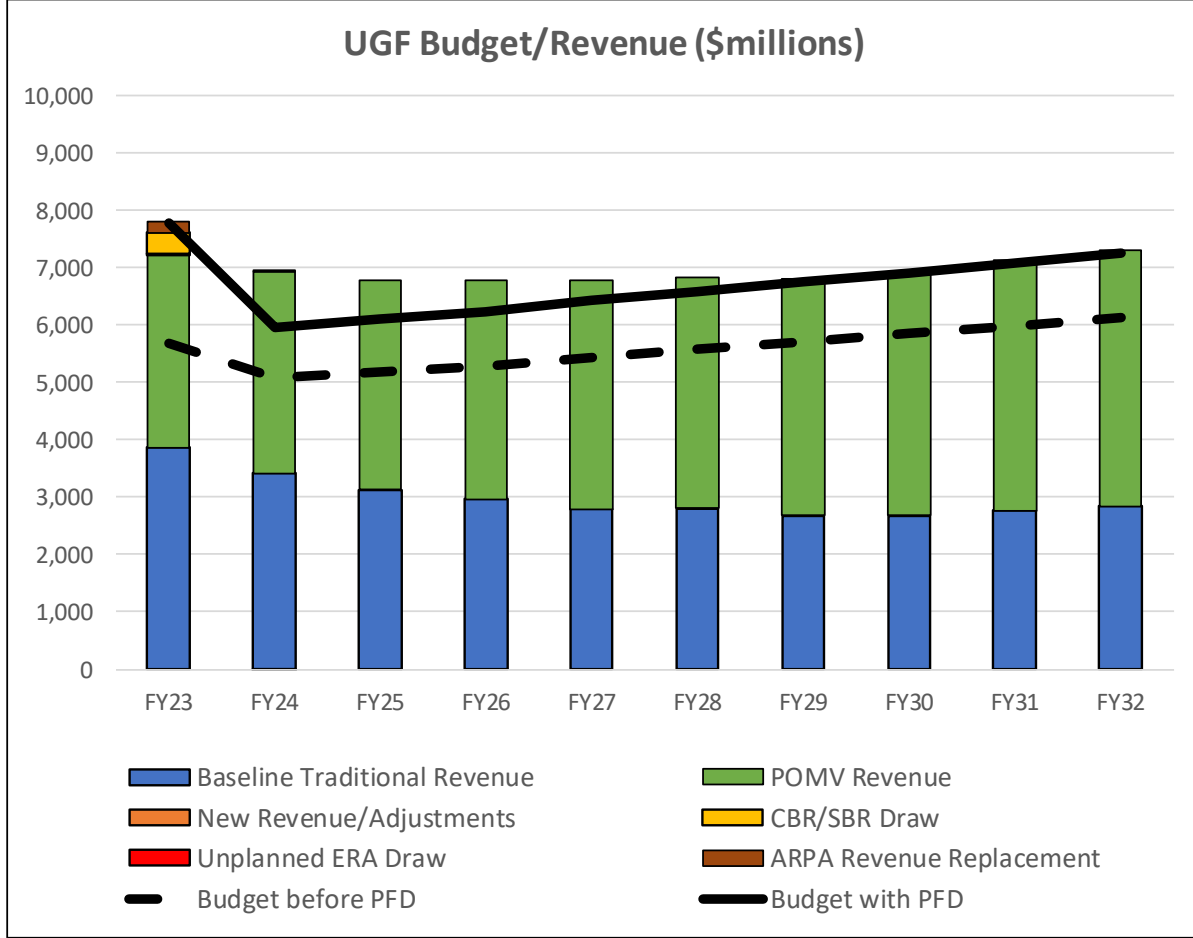
- \$500 million is needed for cashflow. How much is needed as a shock absorber? Alaska does not have a formal reserves target. OMB told this committee that they are targeting \$2 billion in the CBR.
- A challenge in Alaska is that we do not have a structurally balanced budget to start with, so reserves are needed not just as a shock absorber but also to fill structural deficits.
- Many states do have formal reserves targets. For example, Minnesota targets a reserves level such that there is a 95% probability that the budget could be funded for the next two years based on projected revenue volatility.
- Applying the Minnesota rule to Alaska, based on a hypothetical budget that balances at projected revenue for FY24, Alaska would need a CBR balance of \$3.5 billion.

# Senate Finance Baseline Budget

## 25% of POMV to PFD

**APFC Returns:** 7.05% FY24+  
**Oil Price:** DOR Fall FC  
**Agency Ops:** Governor Budget w/ amendments through 2/14, 2.5% Growth  
**Statewide:** \$30m Comm. Assist FY24+  
**Capital:** \$400m FY24, 2.5% Growth

Surplus/(Deficit) (\$millions)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
	(537)	975	689	537	336	248	70	4	41	63



	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
<b>Effective POMV Draw Rate</b>	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
<b>PFD/Person</b>	\$3,284	\$1,304	\$1,377	\$1,428	\$1,492	\$1,500	\$1,538	\$1,576	\$1,614	\$1,653

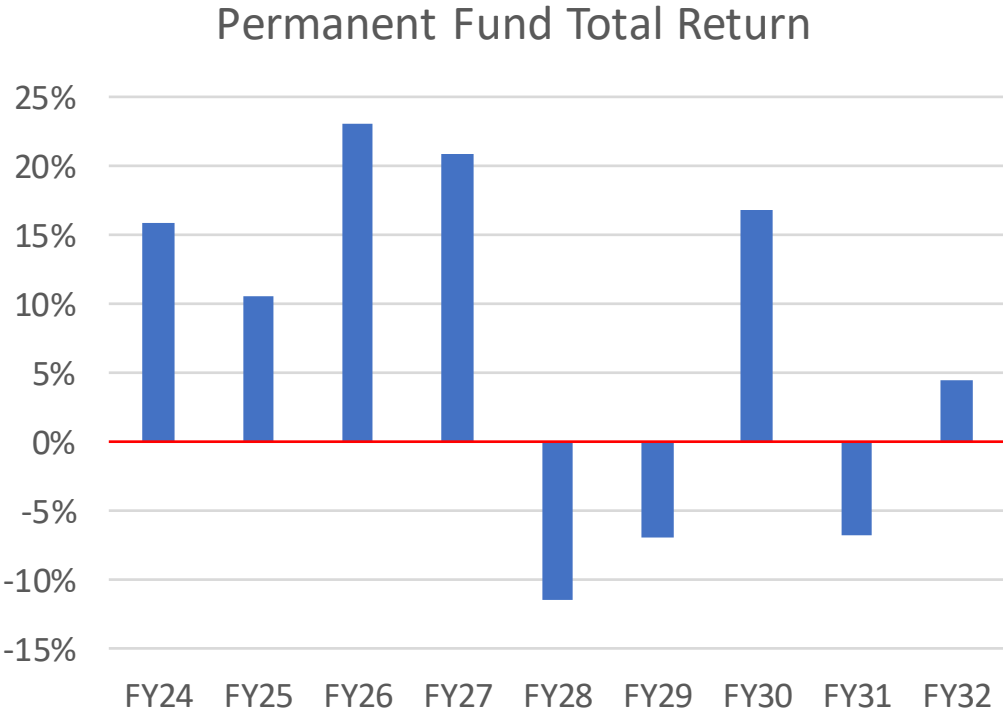
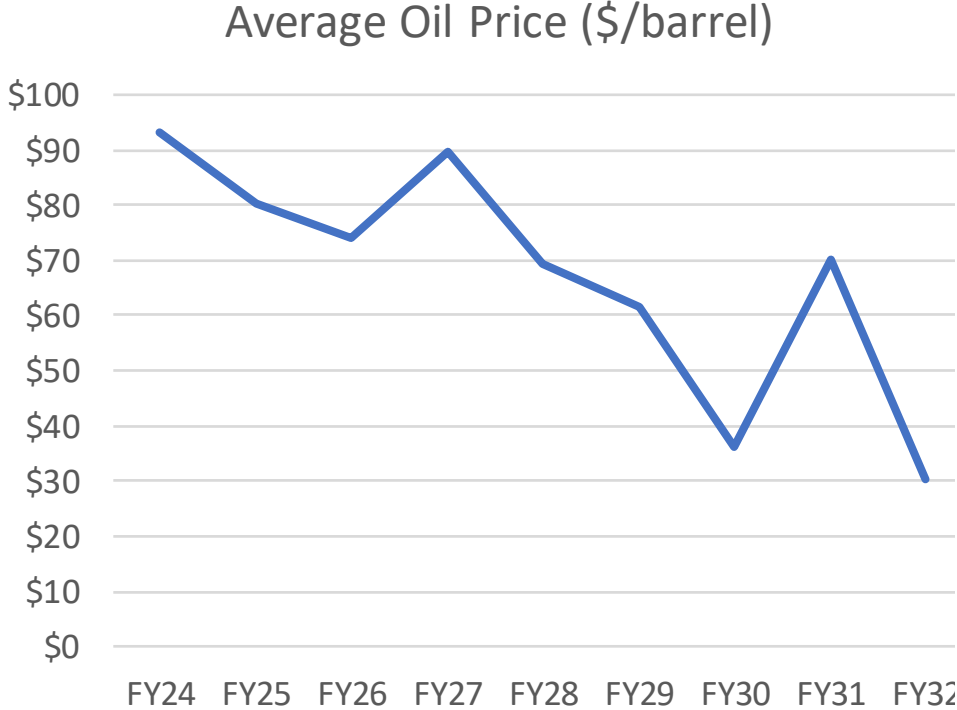


# Probabilistic Modeling

- LFD has two versions of the fiscal model: a linear model which assumes that revenue matches DOR's forecast, and a probabilistic model that shows the impact of revenue volatility
- The probabilistic model allows for variation in three variables:
  - Oil prices (using a range centered around DOR's forecast)
  - Oil production (using the range between DNR's "high" and "low" production forecast)
  - Permanent Fund investment returns (using the ranges developed by Callan for APFC)
- This leaves out potential variation in non-oil revenues and inflation

# Example: 25<sup>th</sup> Percentile Result

- Example of a single case, for which 25% of total cases see greater overall deficits.
- Example case has average oil price of \$67.20 and average Permanent Fund return of 7.4%.





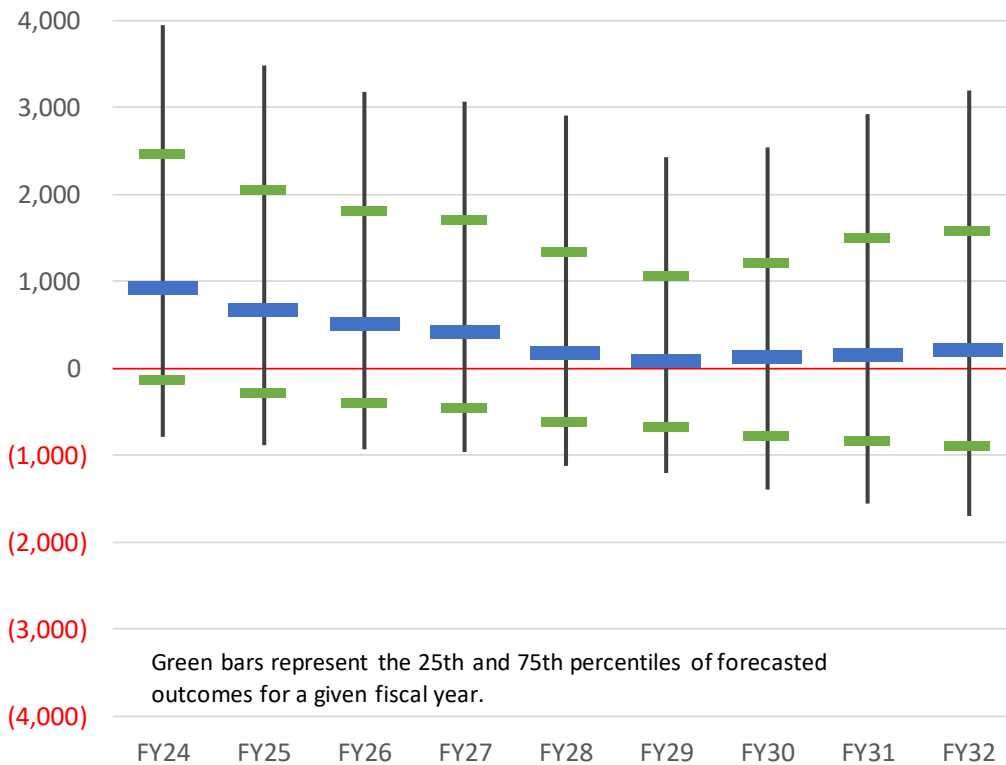
# Senate Finance Budget

## 25% of POMV to PFD

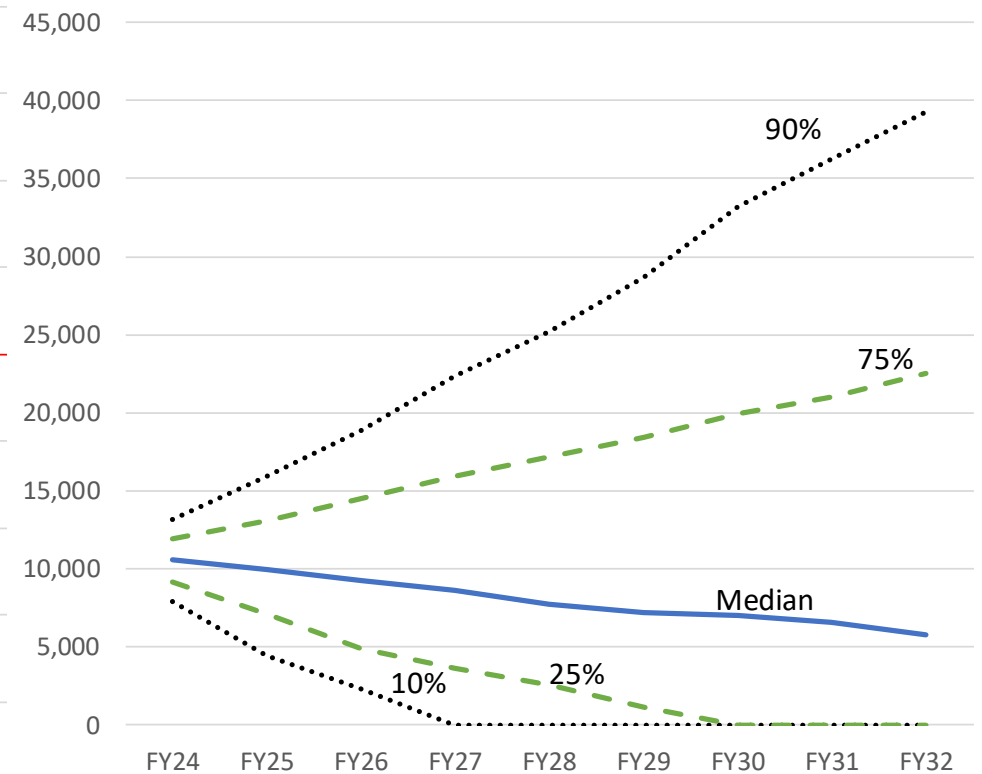
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Median Surplus/(Deficit)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
	937	673	521	418	173	77	128	160	204

Surplus/(Deficit) by Fiscal Year (\$millions)



Range of FY-End Realized ERA Balances Assuming No Overdraws (\$millions)



CBR Balance Probabilities	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
CBR below \$3.5 billion	44%	27%	20%	16%	15%	15%	16%	17%	18%
CBR at/below \$500 million	0%	1%	1%	1%	2%	3%	4%	6%	7%

# Questions?

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