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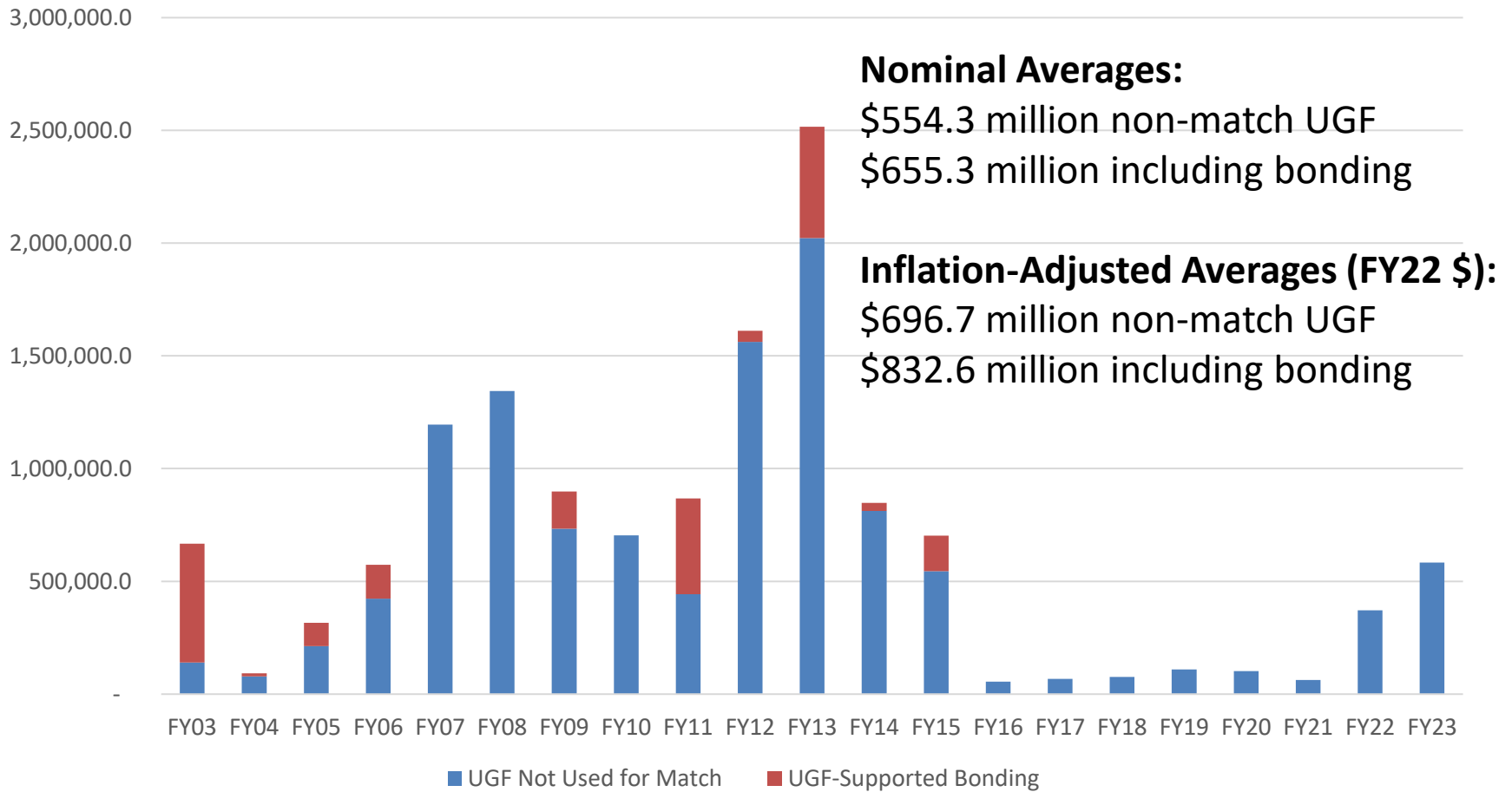
Fiscal Summary Update and Fiscal Scenarios

Senate Finance Committee
March 24, 2023
Legislative Finance Division

Outline

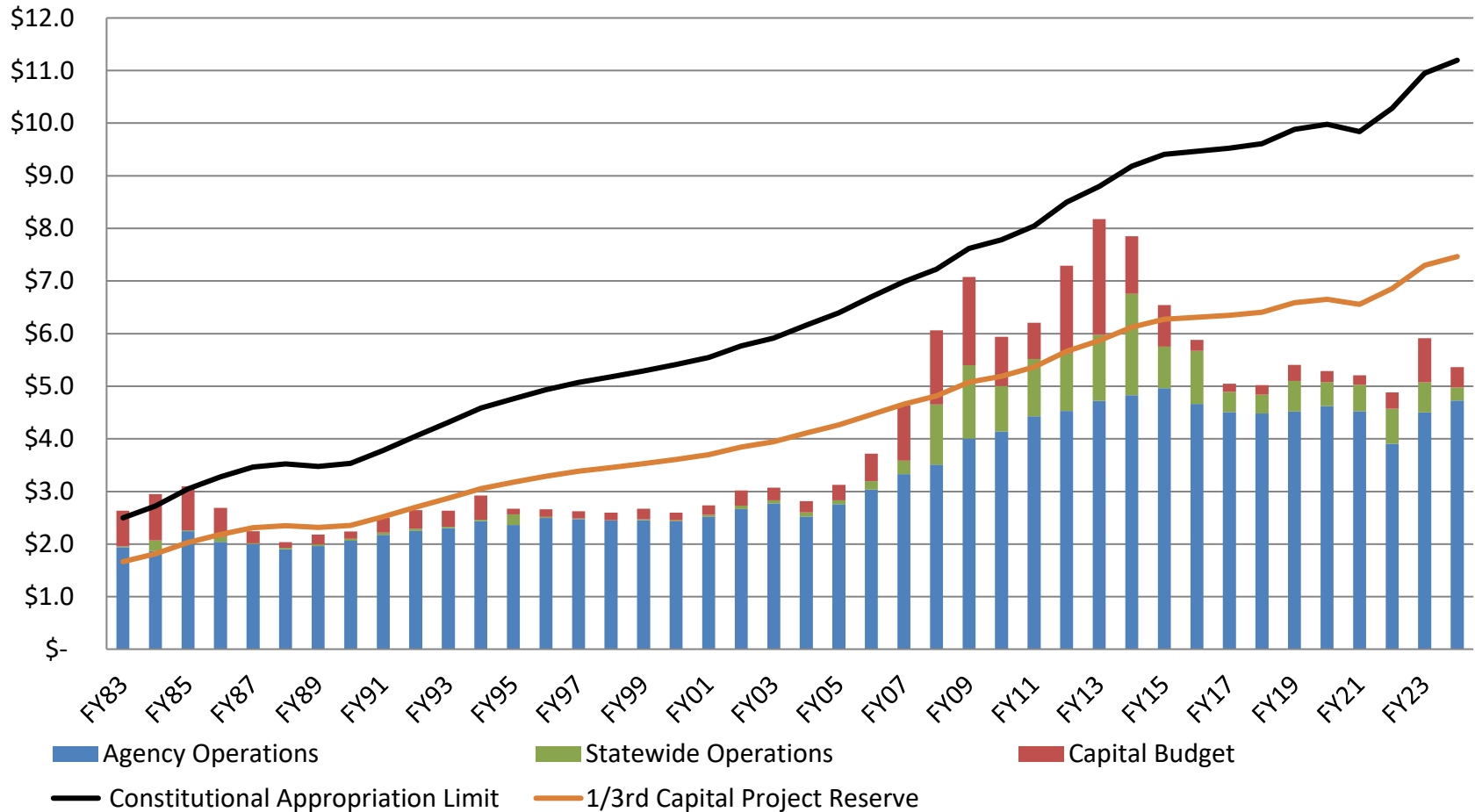
- Response to Questions from 3/21/23 Meeting
- Oil Price Volatility
- Review of Senate Finance Committee Modeling Assumptions
- CBR and ERA Balance
- Updated Fiscal Summaries
- Updated Fiscal Models

Historical UGF Capital Budgets



Constitutional Appropriation Limit

(Article 9, Section 16)
(\$billions)



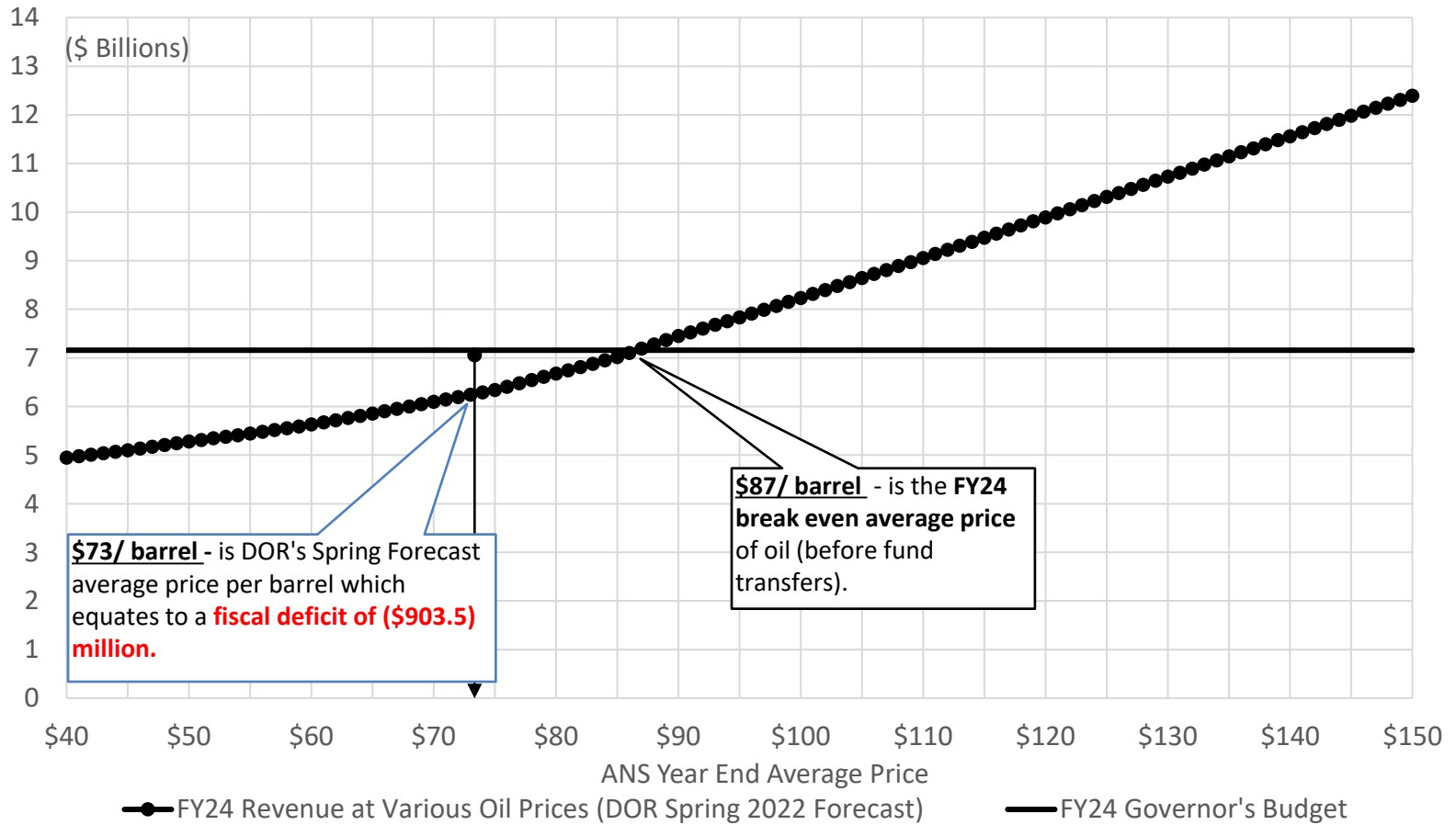
What's Changed Since LFD's 2/23 Fiscal Update

- Spring Revenue Forecast reduced FY23 UGF revenue projection by \$246.3 million and FY24 UGF revenue projection by \$665.0 million.
- This forecast update also caused a decrease of the estimated FY23 tax credit payment by \$29.0 million and an increase of the estimated FY24 tax credit payment by \$13.0 million.
- The Alaska Permanent Fund Corporation provided an updated FY23 statutory net income forecast, reducing the FY23 projection from \$4.6 billion to \$2.5 billion.
 - This reduces the FY24 estimated statutory dividend appropriation from \$2.47 billion to \$2.25 billion, and the estimated payment per recipient from \$3,800 to \$3,450.
 - This also reduces the realized balance of the ERA accordingly.
- The Governor requested an additional \$16.0 million UGF in FY24 in an amendment package submitted on March 7, and an additional \$3.7 million UGF in FY23 an amendment package submitted March 22.

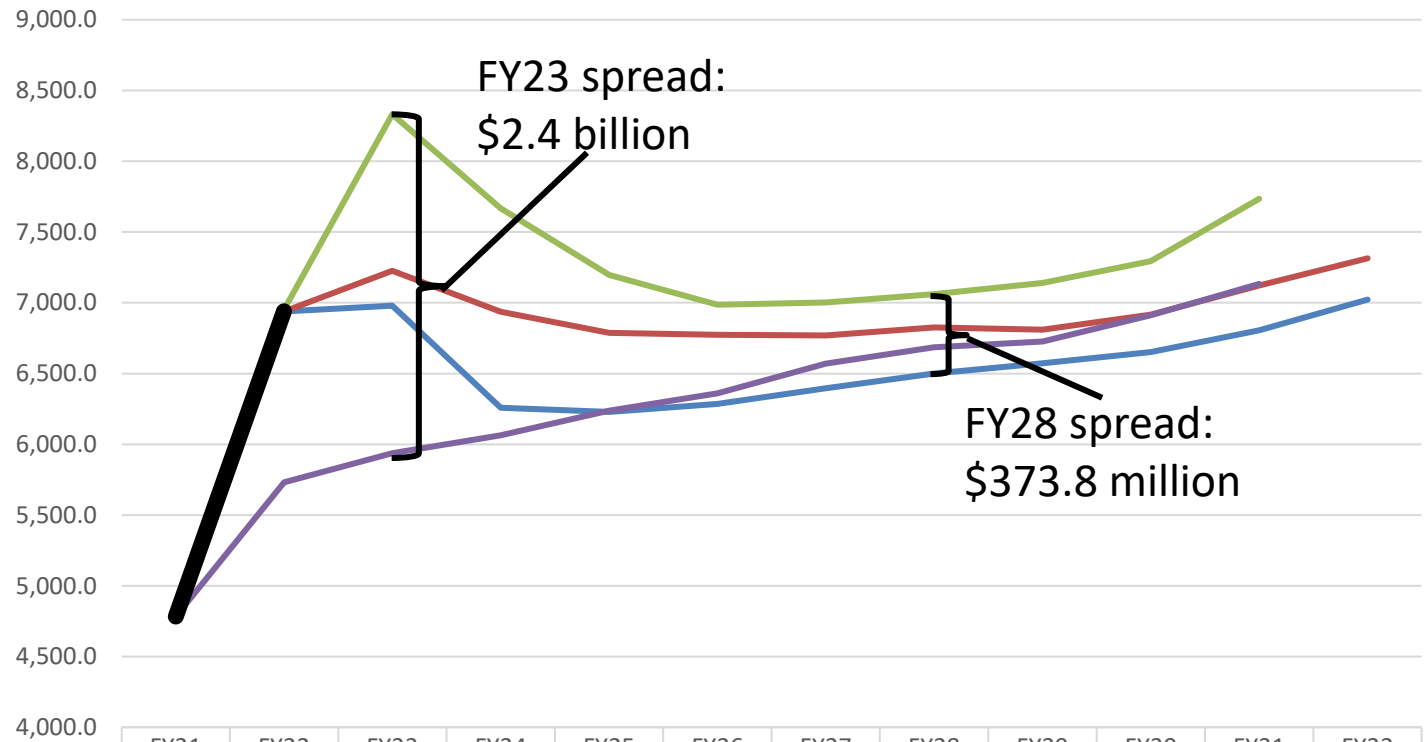
Daily Oil Prices Since 2020



FY24 Sensitivity Graph



Comparison of Recent UGF Revenue Forecasts



	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Spring 2023 DOR Forecast		6,939.2	6,979.5	6,257.3	6,229.3	6,285.4	6,395.2	6,498.9	6,572.0	6,650.9	6,805.6	7,021.6
Fall 2022 DOR Forecast		6,939.2	7,225.8	6,936.2	6,787.4	6,773.3	6,769.4	6,826.2	6,809.7	6,916.5	7,120.8	7,313.6
Spring 2022 DOR Forecast	4,782.8	6,952.7	8,331.0	7,665.7	7,196.4	6,985.5	7,000.7	7,059.6	7,140.0	7,293.2	7,734.2	
Fall 2021 DOR Forecast	4,782.8	5,731.9	5,937.7	6,064.5	6,237.9	6,359.0	6,571.2	6,685.8	6,726.1	6,910.8	7,132.7	
Actual Revenue	4,782.8	6,939.2										

Review of Committee Modeling Assumptions

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Spring Revenue Forecast.
 - This assumes \$73 oil in FY24, following futures market thereafter.
 - DNR oil production forecast projects that Alaska North Slope production will increase from 496.4 thousand barrels per day in FY24 to 542.9 thousand barrels per day in FY32.
- For the Permanent Fund, we are using the February 2023 History and Projections update, which assumes a total return of 7.00% in FY23 and 7.05% in FY24 and beyond. For statutory net income, this update uses a blend of actuals and the low case for FY23 and a 6.90% statutory return assumption in FY24 and beyond.

Review of Senate Finance Committee Modeling Assumptions (cont.)

Spending Assumptions

- For **agency operations**, the first model assumes the Governor's amended budget including amendments through 3/7 grows with inflation (2.50%). Other models assume the House Committee Substitute 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**, we were asked to model three scenarios: the current statute, 50% of the POMV draw, and 25% of the POMV draw

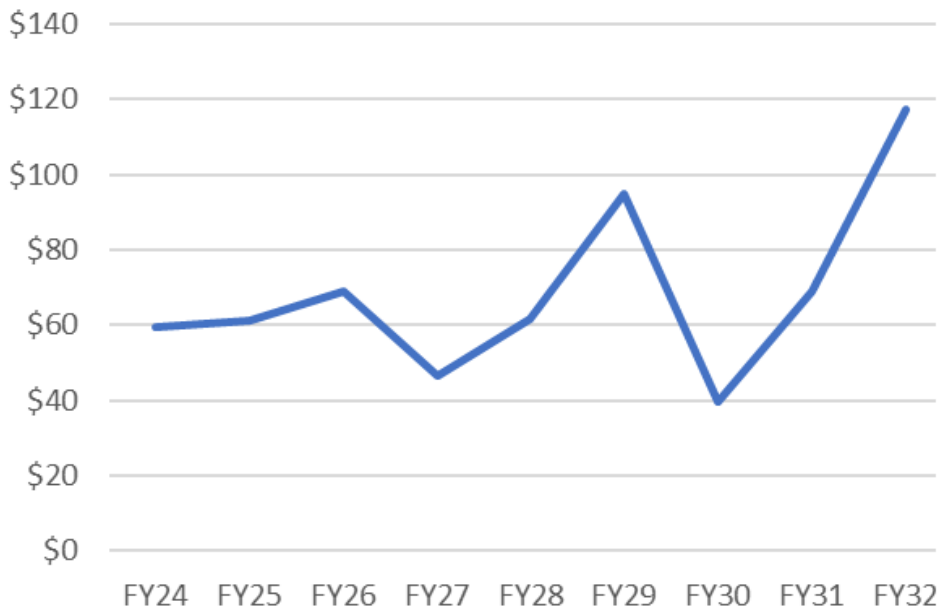
Probabilistic Modeling

- 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

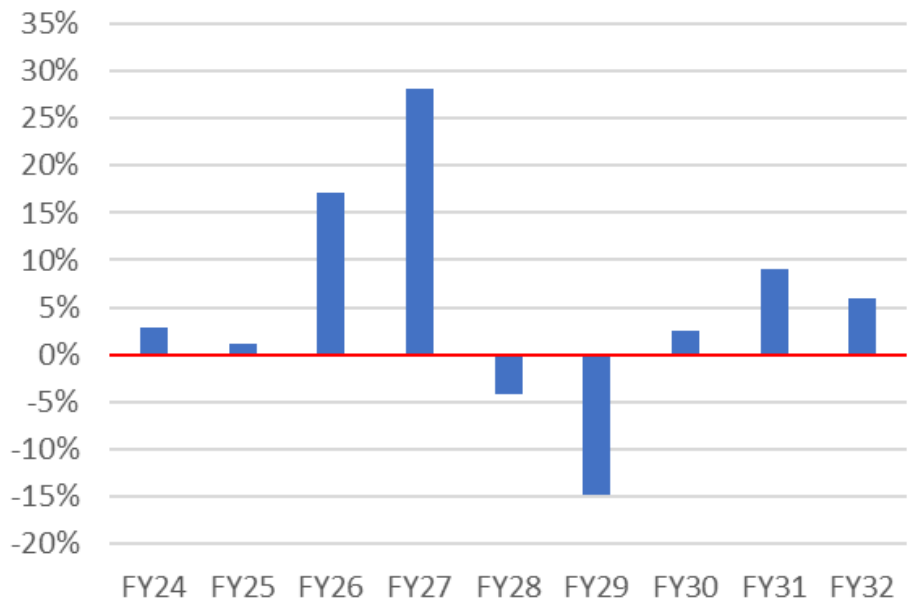
Example: 25th Percentile Result

- Example of a single case, for which 25% of total cases see greater overall deficits.
- Example case has average oil price of \$68.77 and average Permanent Fund return of 5.2%.

Average Oil Price (\$/barrel)



Permanent Fund Total Return



Evaluating Risk: Earnings Reserve Account Balance

- Alaska Permanent Fund Corporation (APFC) provided an updated FY23 statutory net income forecast, reducing the FY23 projection from \$4.6 billion to \$2.5 billion.
- This reduces the FY23 projected realized ending balance of the ERA to \$8.8 billion, compared to a realized balance of \$13.8 billion at the beginning of the year.
- If conditions in FY24 are similar to FY23, the balance of the ERA could fall precipitously.
- At the end of February, \$7.7 billion of the \$11.8 billion of unrealized gains in the Permanent Fund were in Real Estate and Private Equity, which are relatively illiquid assets. Our realized income assumption likely understates the risk of low statutory net income over the near term, meaning that there is an elevated risk of ERA insufficiency compared to our modeling.

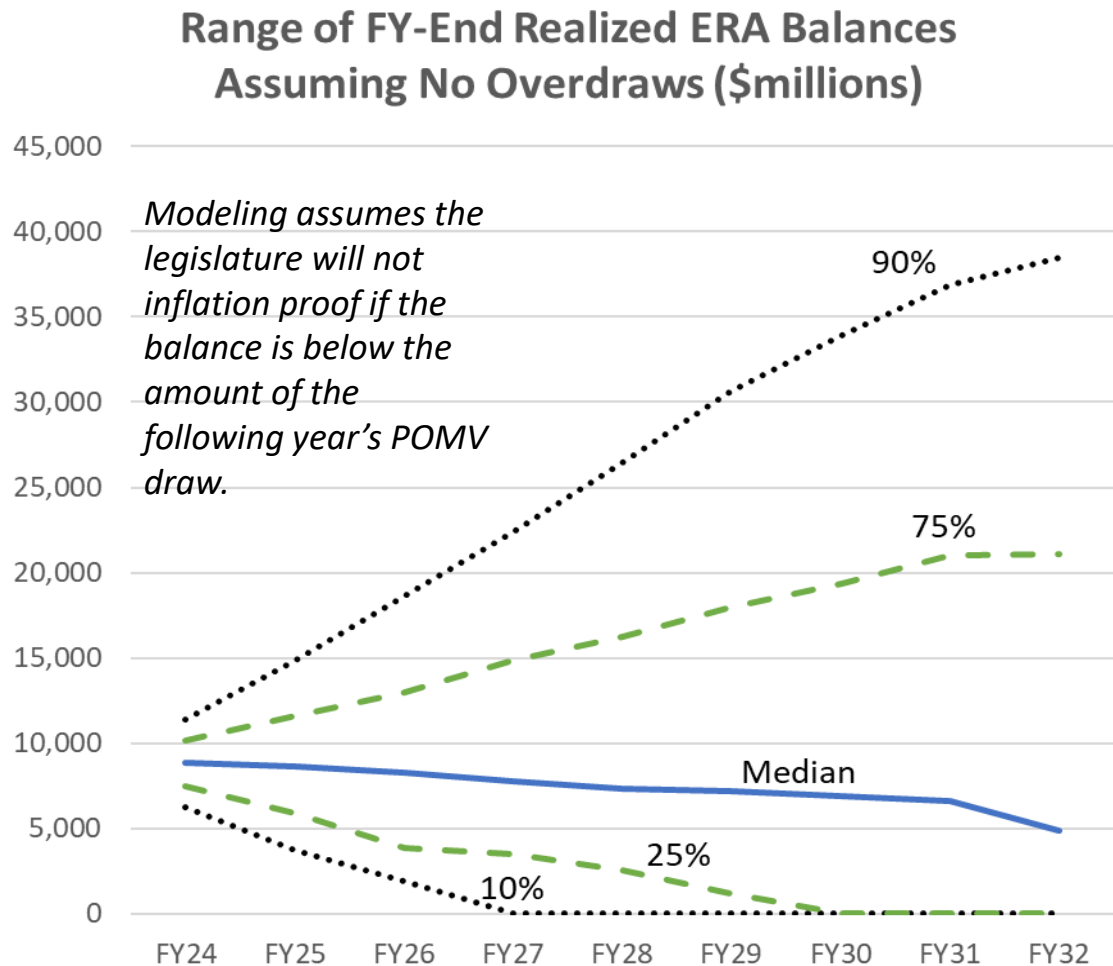
ERA Balance Projections – Forecast and Hypothetical

Forecast	
FY22 Ending ERA Realized Balance	13,816.0
FY23 POMV Draw	(3,361.0)
FY23 Inflation Proofing Transfer - 8.0% Inflation	(4,164.0)
FY23 Statutory Net Income Projection	2,475.0
FY23 Ending ERA Realized Balance	8,766.0
FY24 POMV Draw	(3,526.0)
FY24 Inflation Proofing Transfer - 2.5% Inflation	(1,420.0)
FY24 Statutory Net Income Projection (Official Forecast)	5,140.0
FY24 Ending ERA Realized Balance	8,960.0

Hypothetical	
FY22 Ending ERA Realized Balance	13,816.0
FY23 POMV Draw	(3,361.0)
FY23 Inflation Proofing Transfer - 8.0% Inflation	(4,164.0)
FY23 Statutory Net Income Projection	2,475.0
FY23 Ending ERA Realized Balance	8,766.0
FY24 POMV Draw	(3,526.0)
FY24 Inflation Proofing Transfer - 6.0% Inflation	(3,408.0)
FY24 Statutory Net Income Hypothetical (Matching FY23)	2,475.0
FY24 Ending ERA Realized Balance	4,307.0

ERA Balance Modeling – ERA Risk without Overdraws

- This modeling likely understates the risk of ERA insufficiency because of the difficulty of modeling statutory net income and inflation.
- It is presented to provide context for future probabilistic slides showing fiscal plans with



Short Fiscal Summary – GovAmend with Spring Forecast

	(\$ Millions) (Non-duplicated Funds)	FY23 Mgt Plan + Gov Supps	FY24 Governor	Change in UGF	
		UGF	UGF		
1	Revenue	6,993.2	6,257.3	(735.9)	-10.5%
2	UGF Revenue (DOR Fall 2022 Forecast)	3,865.2	3,410.1	(455.1)	-11.8%
3	Spring Forecast Adjustment	(246.3)	(665.0)	(418.7)	170.0%
4	POMV Draw	3,360.6	3,526.1	165.5	4.9%
5	Misc/Adjust/Non-UGF Revenue	13.7	(13.9)	(27.6)	
6	Appropriations	7,751.0	7,160.8	(590.2)	-7.6%
7	Operating Budget	5,319.8	4,611.1	(708.7)	-13.3%
8	Agency Operations	4,220.8	4,239.5	18.7	0.4%
9	Statewide Items*	996.8	371.6	(625.2)	-62.7%
10	Supplemental Appropriations	102.2	-	(102.2)	
11	Capital Budget	750.9	303.6	(447.3)	-59.6%
12	Current Year Appropriations	735.1	303.6	(431.6)	-58.7%
13	Supplemental Appropriations	15.8	-	(15.8)	
14	Permanent Fund	1,680.3	2,246.1	565.8	33.7%
15	Permanent Fund Dividends**	1,680.3	2,246.1	565.8	33.7%
16	Pre-Transfer Surplus/(Deficit)	(757.8)	(903.5)		
17	Net Fund Transfers	(536.6)	(2.8)		
18	Post-Transfer Surplus/(Deficit)	(221.2)	(900.7)		
				Reserve Balances (EOY)	
				FY23	FY24
SBR				-	-
CBR				2,253.0	1,430.9
ERA				8,766.0	8,960.0

* Includes \$420.1 million FY23 Energy Relief Payment.

** Estimated updated based on 3/21/23 APFC History and Projections

Short Fiscal Summary – GovAmend with Spring Forecast, SFIN Modeling Assumptions

(\$ Millions) (Non-duplicated Funds)		FY23 Mgt Plan + Gov Supps	FY24 Governor/ SFIN	Change in UGF	
		UGF	UGF		
1	Revenue	6,993.2	6,257.3	(735.9)	-10.5%
2	UGF Revenue (DOR Fall 2022 Forecast)	3,865.2	3,410.1	(455.1)	-11.8%
3	Spring Forecast Adjustment	(246.3)	(665.0)	(418.7)	170.0%
4	POMV Draw	3,360.6	3,526.1	165.5	4.9%
5	Misc/Adjust/Non-UGF Revenue	13.7	(13.9)	(27.6)	
6	Appropriations	7,751.0	7,287.2	(463.8)	-6.0%
7	Operating Budget	5,319.8	4,641.1	(678.7)	-12.8%
8	Agency Operations	4,220.8	4,239.5	18.7	0.4%
9	Statewide Items* (+Comm. Assist.)	996.8	401.6	(595.2)	-59.7%
10	Supplemental Appropriations	102.2	-	(102.2)	
11	Capital Budget	750.9	400.0	(350.9)	-46.7%
12	Current Year Appropriations (+96.4m)	735.1	400.0	(335.1)	-45.6%
13	Supplemental Appropriations	15.8	-	(15.8)	
14	Permanent Fund	1,680.3	2,246.1	565.8	33.7%
15	Permanent Fund Dividends**	1,680.3	2,246.1	565.8	33.7%
16	Pre-Transfer Surplus/(Deficit)	(757.8)	(1,029.9)		
17	Net Fund Transfers	(536.6)	(2.8)		
18	Post-Transfer Surplus/(Deficit)	(221.2)	(1,027.2)		

* Includes \$420.1 million FY23 Energy Relief Payment.

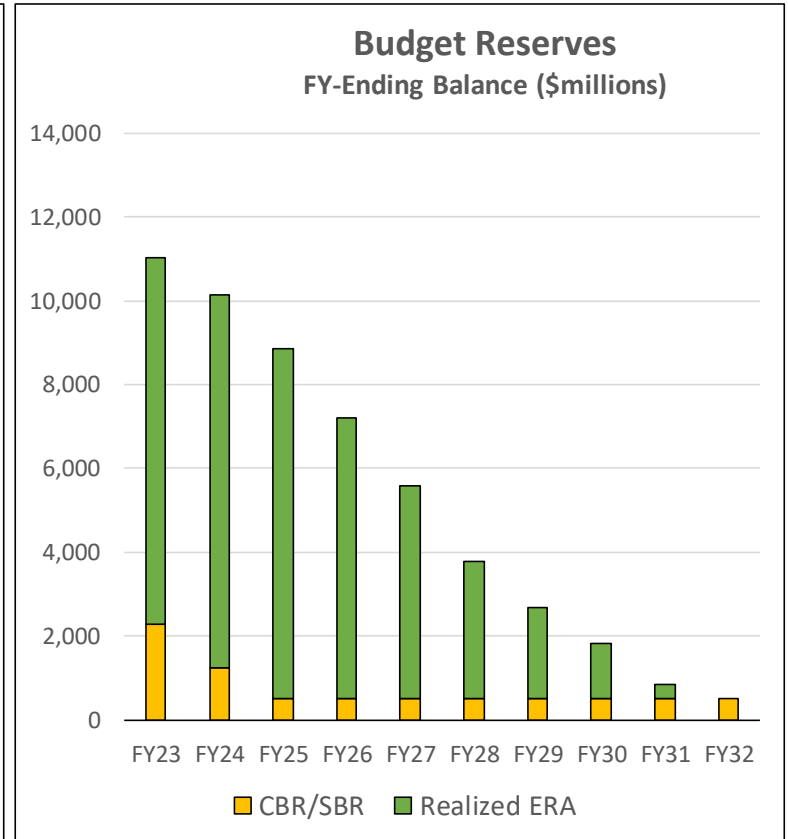
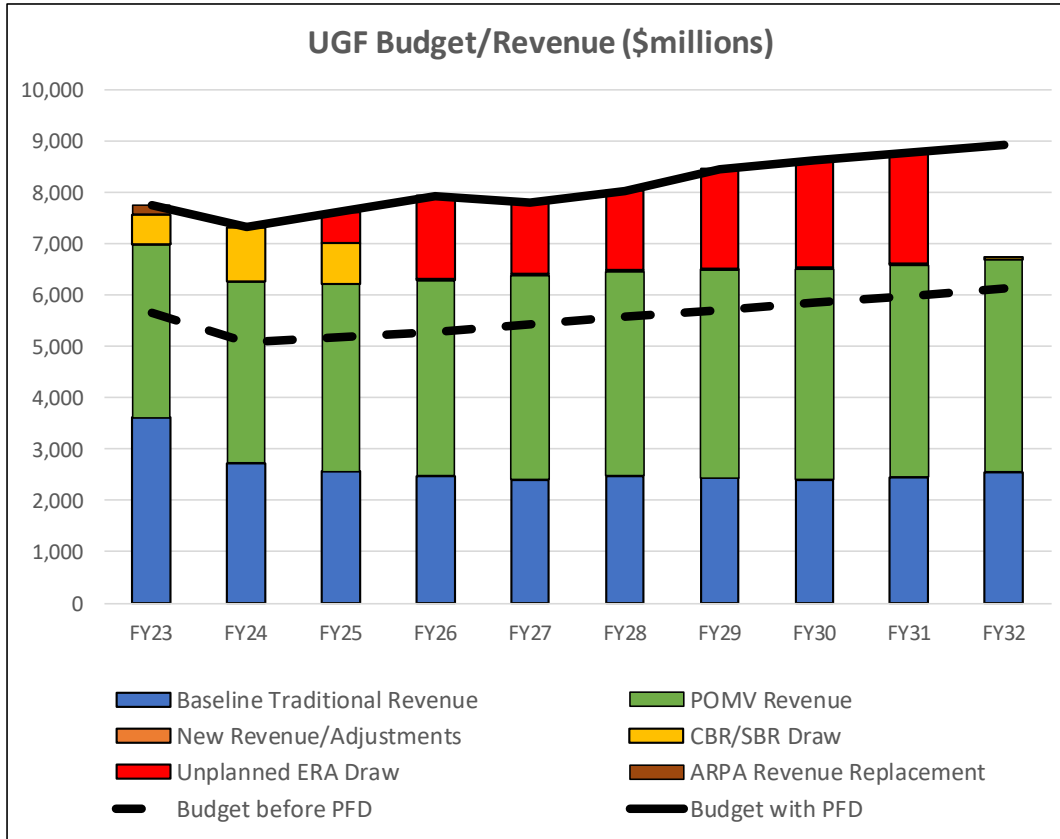
** Estimated updated based on 3/21/23 APFC History and Projections

Reserve Balances (EOY)		
	FY23	FY24
SBR	-	-
CBR	2,253.0	1,304.5
ERA	8,766.0	8,960.0

Senate Finance Baseline Budget Statutory PFD

APFC Returns: 7.05% FY24+
Oil Price: DOR Spring FC
Agency Ops: Governor Amended Budget,
 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
	(758)	(1,080)	(1,387)	(1,654)	(1,425)	(1,565)	(1,967)	(2,121)	(2,201)	(2,230)



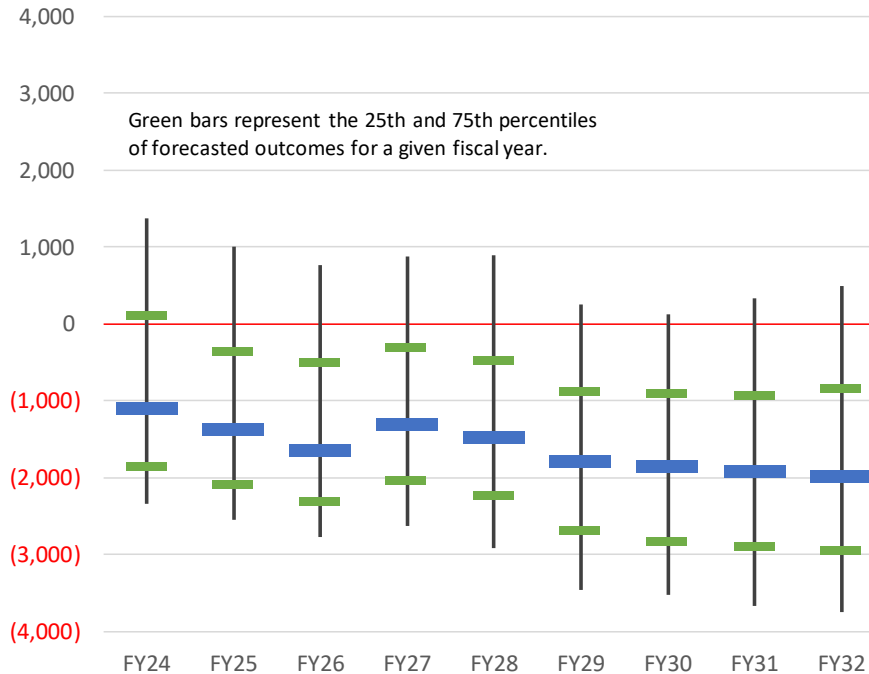
	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Effective POMV Draw Rate	5.00%	5.00%	5.83%	7.12%	6.75%	6.92%	7.39%	7.54%	7.62%	5.00%
PFD/Person	\$3,284	\$3,448	\$3,724	\$4,054	\$3,601	\$3,722	\$4,178	\$4,210	\$4,224	\$4,221

Senate Finance Baseline Budget Statutory PFD

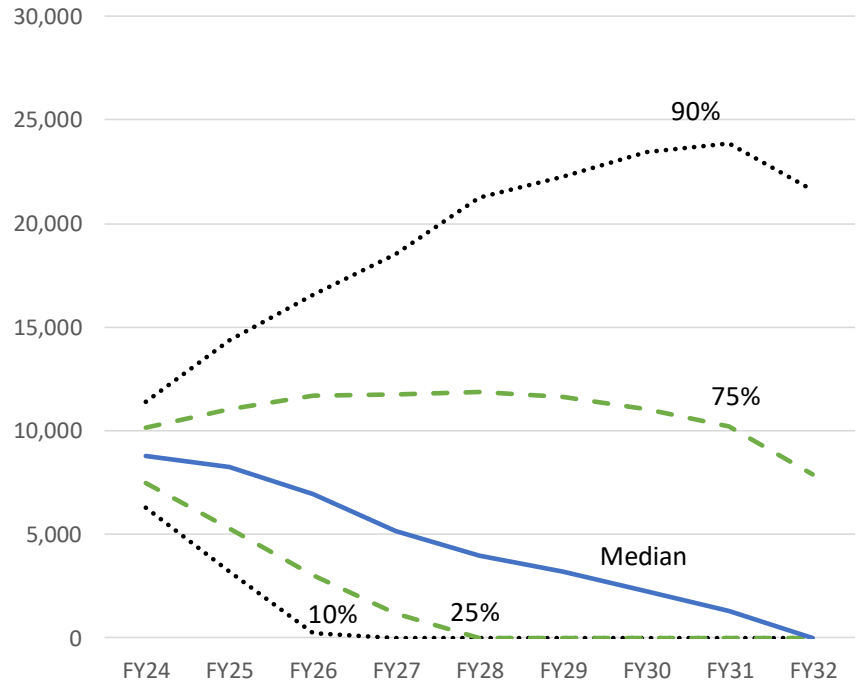
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Agency Ops: Governor Amended Budget,
 2.5% Growth
Statewide: \$30m Comm. Assist FY24+
Capital: \$400m FY24, 2.5% Growth

Median	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Surplus/(Deficit)	(1,094)	(1,368)	(1,651)	(1,309)	(1,469)	(1,793)	(1,847)	(1,910)	(1,975)

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



Range of FY-End Realized ERA Balances (\$millions)



CBR Balance Probabilities	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
CBR below \$3.5 billion	84%	85%	89%	88%	90%	91%	92%	93%	93%
CBR at/below \$500 million	14%	47%	59%	65%	65%	72%	75%	76%	75%

Short Fiscal Summary – House Operating Budget Committee Substitute

	(\$ Millions) (Non-duplicated Funds)	FY23 Mgt Plan + Gov Supps	FY24 GovAmd+	FY24 GovAmd/ HCS1*	Change in UGF	
		UGF	UGF	UGF		
1	Revenue	6,993.2	6,257.3	6,271.2	13.9	0.2%
2	UGF Revenue (DOR Fall 2022 Forecast)	3,865.2	3,410.1	3,410.1	-	0.0%
3	Spring Forecast Adjustment	(246.3)	(665.0)	(665.0)	-	0.0%
4	POMV Draw	3,360.6	3,526.1	3,526.1	-	0.0%
5	Misc/Adjust/Non-UGF Revenue	13.7	(13.9)	-		
6	Appropriations	7,751.0	7,160.8	6,689.1	(471.7)	-6.6%
7	Operating Budget	5,319.8	4,611.1	4,622.4	11.3	0.2%
8	Agency Operations	4,220.8	4,239.5	4,220.8	(18.7)	-0.4%
9	Statewide Items**	996.8	371.6	401.6	30.0	8.1%
10	Supplemental Appropriations	102.2	-	-	-	
11	Capital Budget	750.9	303.6	303.6	0.0	0.0%
12	Current Year Appropriations	735.1	303.6	303.6	0.0	0.0%
13	Supplemental Appropriations	15.8	-	-	-	
14	Permanent Fund	1,680.3	2,246.1	1,763.0	(483.1)	-21.5%
15	Permanent Fund Dividends	1,680.3	2,246.1	1,763.0	(483.1)	-21.5%
16	Pre-Transfer Surplus/(Deficit)	(757.8)	(903.5)	(417.9)		
17	Net Fund Transfers	(536.6)	(2.8)	(2.8)		
18	Post-Transfer Surplus/(Deficit)	(221.2)	(900.7)	(415.1)		
					Reserve Balances (EOY)	
					FY23	FY24
					SBR	-
					CBR	2,253.0
					ERA	8,766.0

* HCS1 column includes GovAmend capital budget and supplementals, HCS1 operating budget

** FY23 Includes \$420.1 million Energy Relief Payment.

*** Estimated forward-funding is pro-rated to the amount available after other appropriations.

March 22, 2023

Short Fiscal Summary – House Operating Budget Committee Substitute, SFIN Modeling Assumptions

	(\$ Millions) (Non-duplicated Funds)	FY23 Mgt Plan + Gov Supps	FY24 GovAmd+	FY24 GovAmd/ HCS1/SFIN	Change in UGF	
		UGF	UGF	UGF		
1	Revenue	6,993.2	6,257.3	6,271.2	13.9	0.2%
2	UGF Revenue (DOR Fall 2022 Forecast)	3,865.2	3,410.1	3,410.1	-	0.0%
3	Spring Forecast Adjustment	(246.3)	(665.0)	(665.0)	-	0.0%
4	POMV Draw	3,360.6	3,526.1	3,526.1	-	0.0%
5	Misc/Adjust/Non-UGF Revenue	13.7	(13.9)	-		
6	Appropriations	7,751.0	7,160.8	6,785.5	(375.3)	-5.2%
7	Operating Budget	5,319.8	4,611.1	4,622.4	11.3	0.2%
8	Agency Operations	4,220.8	4,239.5	4,220.8	(18.7)	-0.4%
9	Statewide Items**	996.8	371.6	401.6	30.0	8.1%
10	Supplemental Appropriations	102.2	-	-	-	
11	Capital Budget	750.9	303.6	400.0	96.4	31.8%
12	Current Year Appropriations (+\$96.4m)	735.1	303.6	400.0	96.4	31.8%
13	Supplemental Appropriations	15.8	-	-	-	
14	Permanent Fund	1,680.3	2,246.1	1,763.0	(483.1)	-21.5%
15	Permanent Fund Dividends	1,680.3	2,246.1	1,763.0	(483.1)	-21.5%
16	Pre-Transfer Surplus/(Deficit)	(757.8)	(903.5)	(514.3)		
17	Net Fund Transfers	(536.6)	(2.8)	(2.8)		
18	Post-Transfer Surplus/(Deficit)	(221.2)	(900.7)	(511.5)		

Reserve Balances (EOY)		
	FY23	FY24
SBR	-	-
CBR	2,253.0	1,820.2
ERA	8,766.0	8,960.0

* HCS1 column includes GovAmend capital budget and supplementals, HCS1 operating budget
 ** FY23 Includes \$420.1 million Energy Relief Payment.
 *** Estimated forward-funding is pro-rated to the amount available after other appropriations.

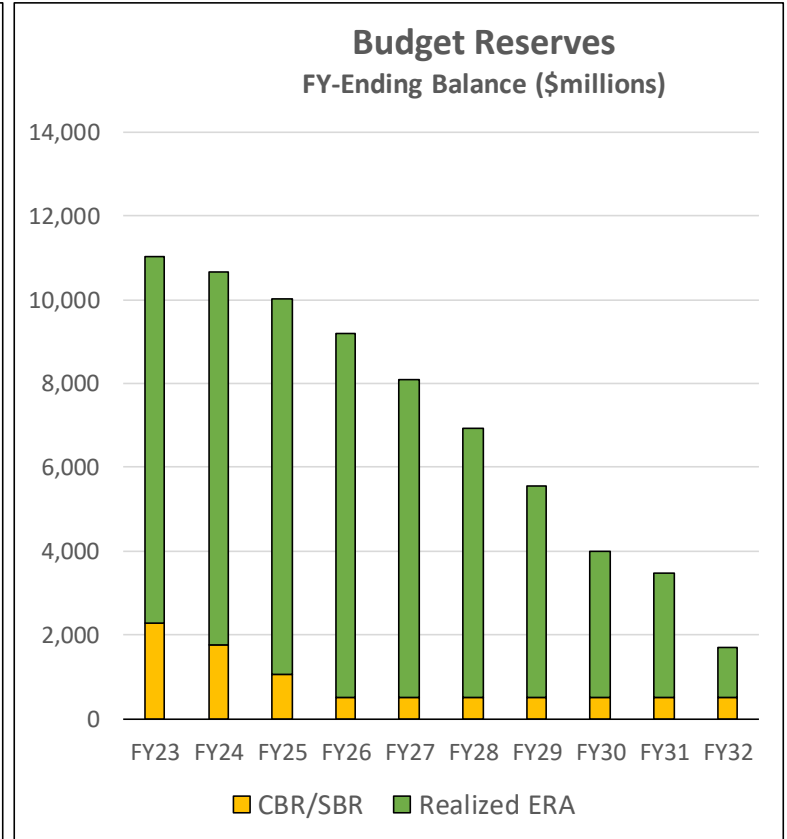
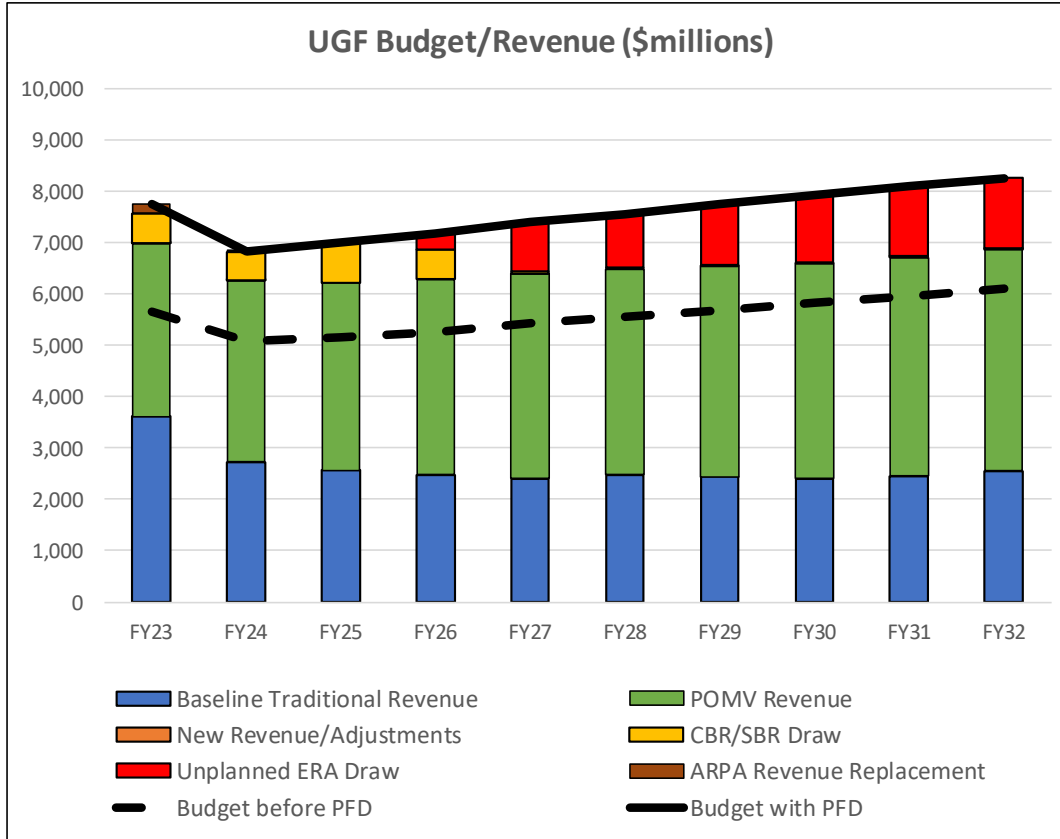
March 22, 2023

Senate Finance Baseline Budget

50% of POMV to PFD

APFC Returns: 7.05% FY24+
Oil Price: DOR Spring FC
Agency Ops: House CS1, 2.5% Growth
Statewide: House CS1 FY24+
Capital: \$400m FY24, 2.5% Growth

Surplus/(Deficit) (\$millions)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
	(758)	(564)	(768)	(887)	(1,020)	(1,074)	(1,196)	(1,328)	(1,386)	(1,394)



	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Effective POMV Draw Rate	5.00%	5.00%	5.00%	5.40%	6.23%	6.30%	6.42%	6.55%	6.59%	6.58%
PFD/Person	\$3,284	\$2,689	\$2,795	\$2,898	\$3,026	\$3,037	\$3,102	\$3,157	\$3,202	\$3,238

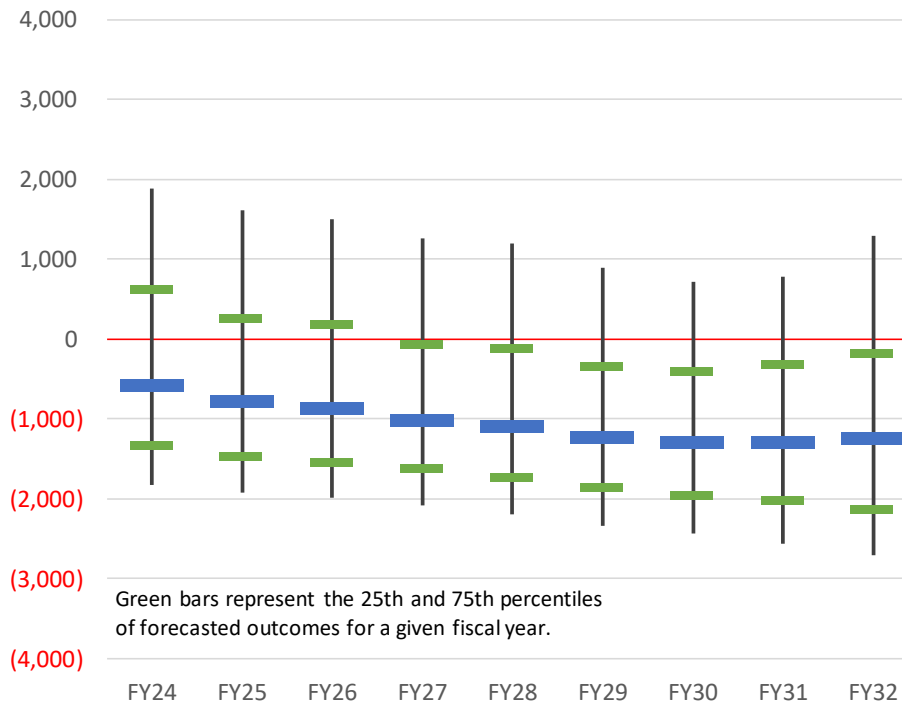
Senate Finance Baseline Budget

50% of POMV to PFD

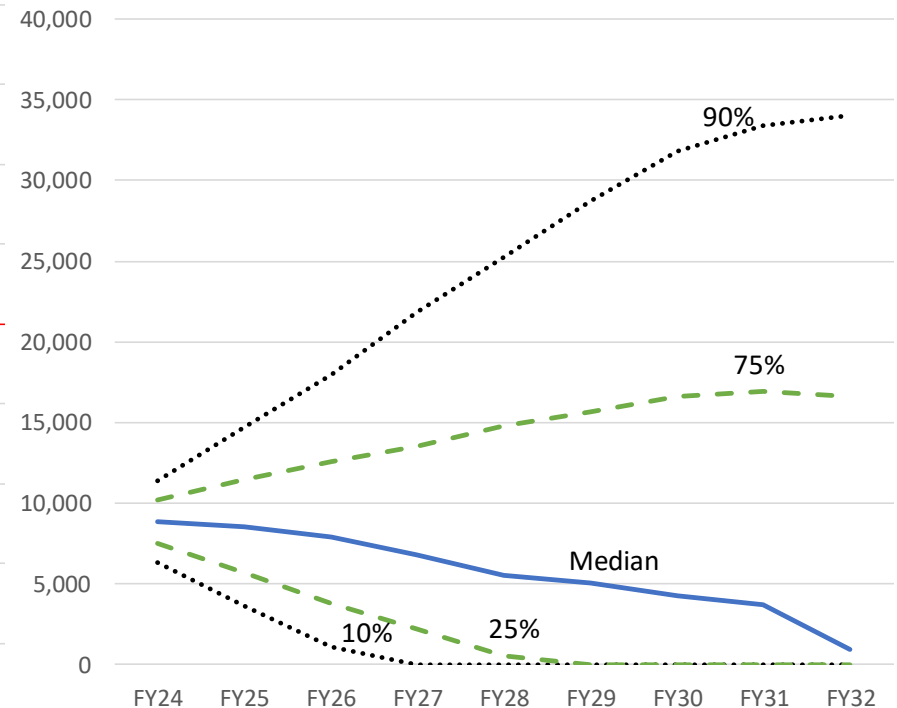
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Median	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Surplus/(Deficit)	(579)	(785)	(867)	(1,013)	(1,086)	(1,223)	(1,293)	(1,285)	(1,249)

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



Range of FY-End Realized ERA Balances (\$millions)



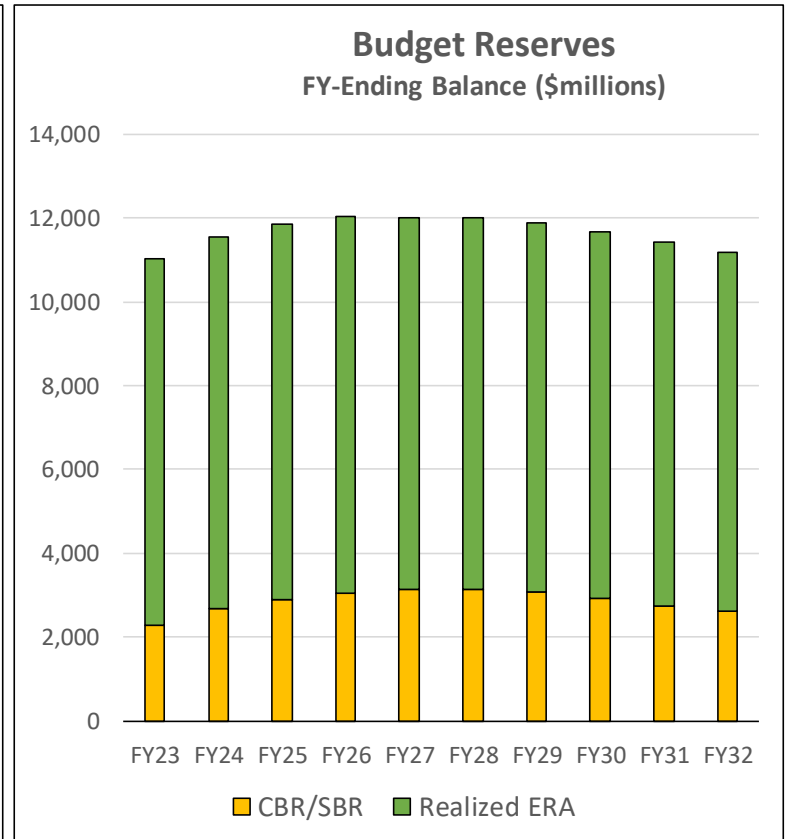
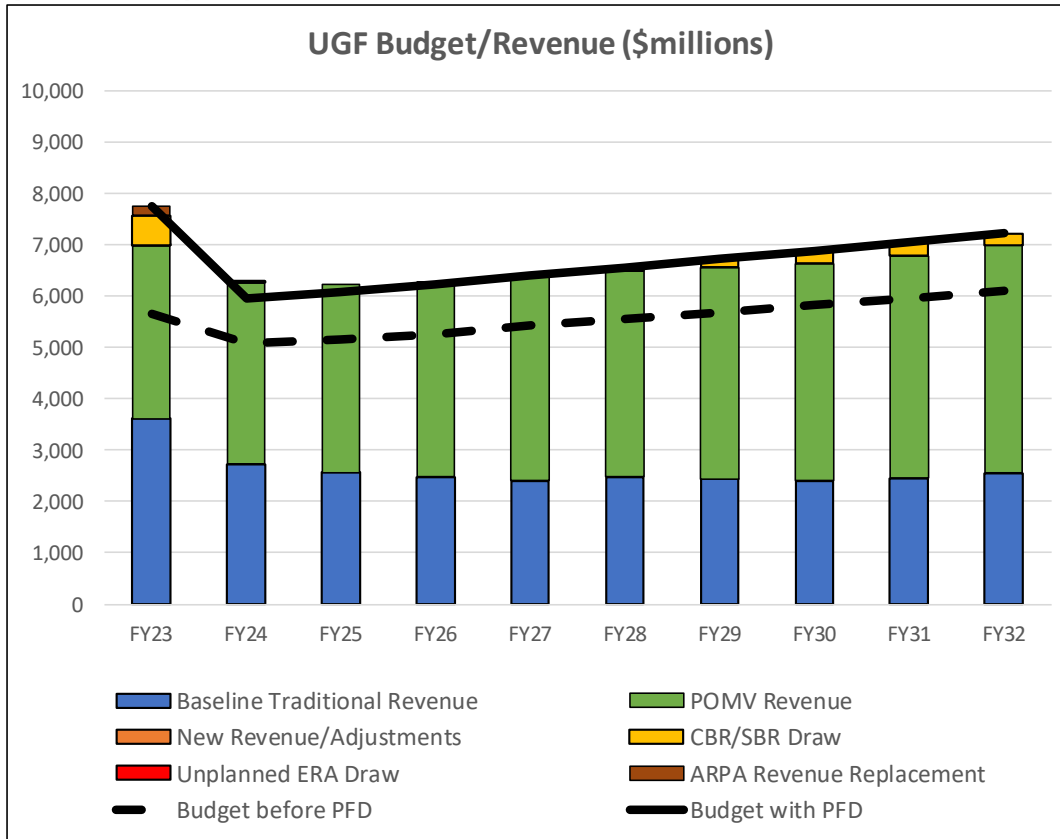
CBR Balance Probabilities	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
CBR below \$3.5 billion	76%	75%	77%	78%	80%	82%	84%	84%	83%
CBR at/below \$500 million	3%	24%	36%	43%	49%	56%	57%	60%	60%

Senate Finance Baseline Budget

25% of POMV to PFD

APFC Returns: 7.05% FY24+
Oil Price: DOR Spring FC
Agency Ops: House CS1, 2.5% Growth
Statewide: House CS1 FY24+
Capital: \$400m FY24, 2.5% Growth

Surplus/(Deficit) (\$millions)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
	(758)	317	148	65	(24)	(68)	(158)	(251)	(263)	(218)



	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Effective POMV Draw Rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
PFD/Person	\$3,284	\$1,304	\$1,377	\$1,428	\$1,491	\$1,498	\$1,535	\$1,571	\$1,608	\$1,645

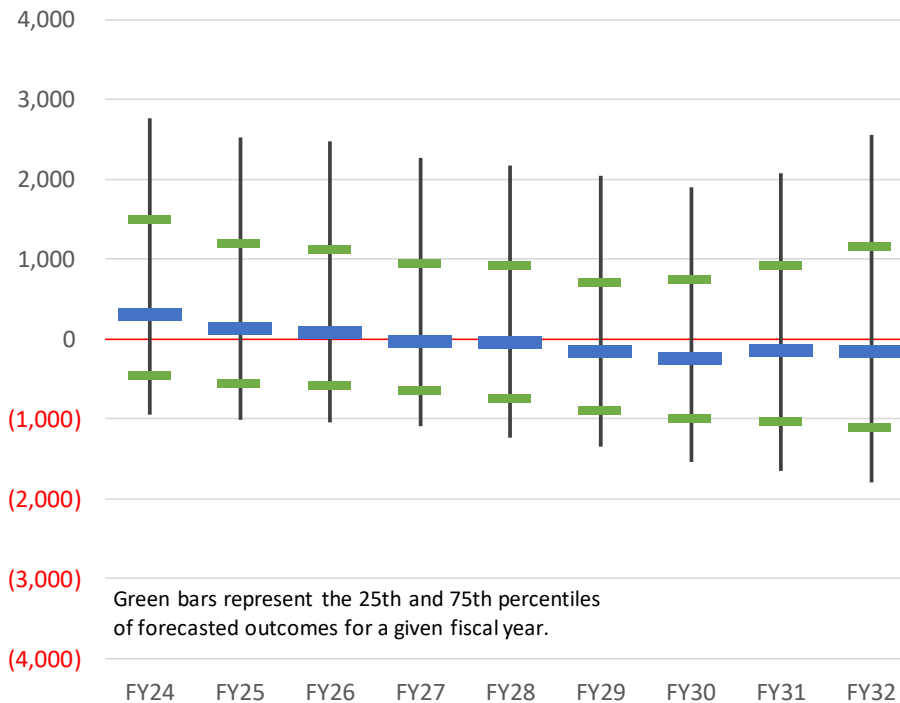
Senate Finance Baseline Budget

25% of POMV to PFD

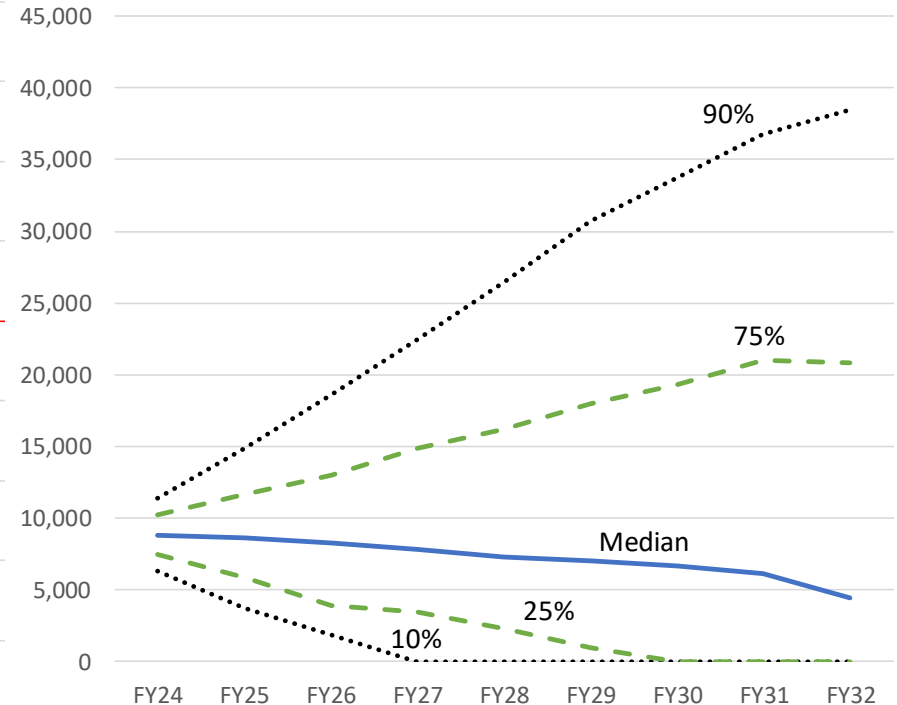
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Capital: \$400m FY24, 2.5% Growth

Median	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Surplus/(Deficit)	303	131	80	(21)	(51)	(148)	(230)	(140)	(152)

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



Range of FY-End Realized ERA Balances (\$millions)



CBR Balance Probabilities	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
CBR below \$3.5 billion	62%	49%	41%	37%	35%	35%	34%	35%	35%
CBR at/below \$500 million	0%	1%	3%	5%	6%	8%	11%	14%	17%

Questions?

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