

**02/22/16**

**PRESENTATION:  
FLOW CHARTS &  
MODELING BY  
DAVID TEAL,  
DIRECTOR, LEG.  
FINANCE  
DIVISION**

<TARGET><BILL></BILL><SUBJECT>02-22-16 PRESENTATION  
FLOW CHARTS and MODELING BY DAVID TEAL, DIRECTOR, LEG.  
FINANCE DIVISION</SUBJECT><COMM>HFIN29</COMM></TARGET>

# **A Comparison of Plans to Re-Plumb Alaska's Cash Flow**

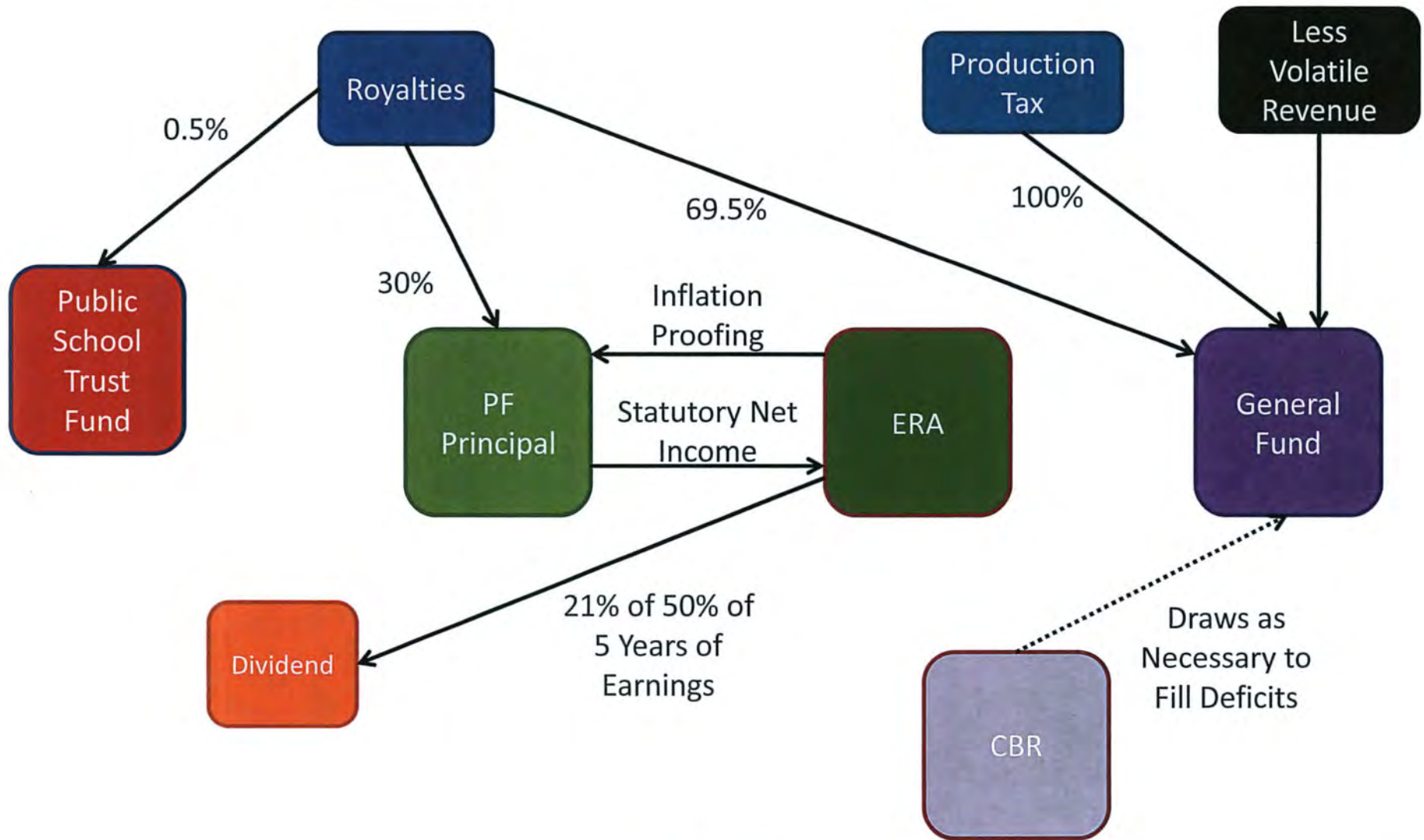
- Cash Flow Diagrams
- Models

House Finance Committee—February 22, 2016

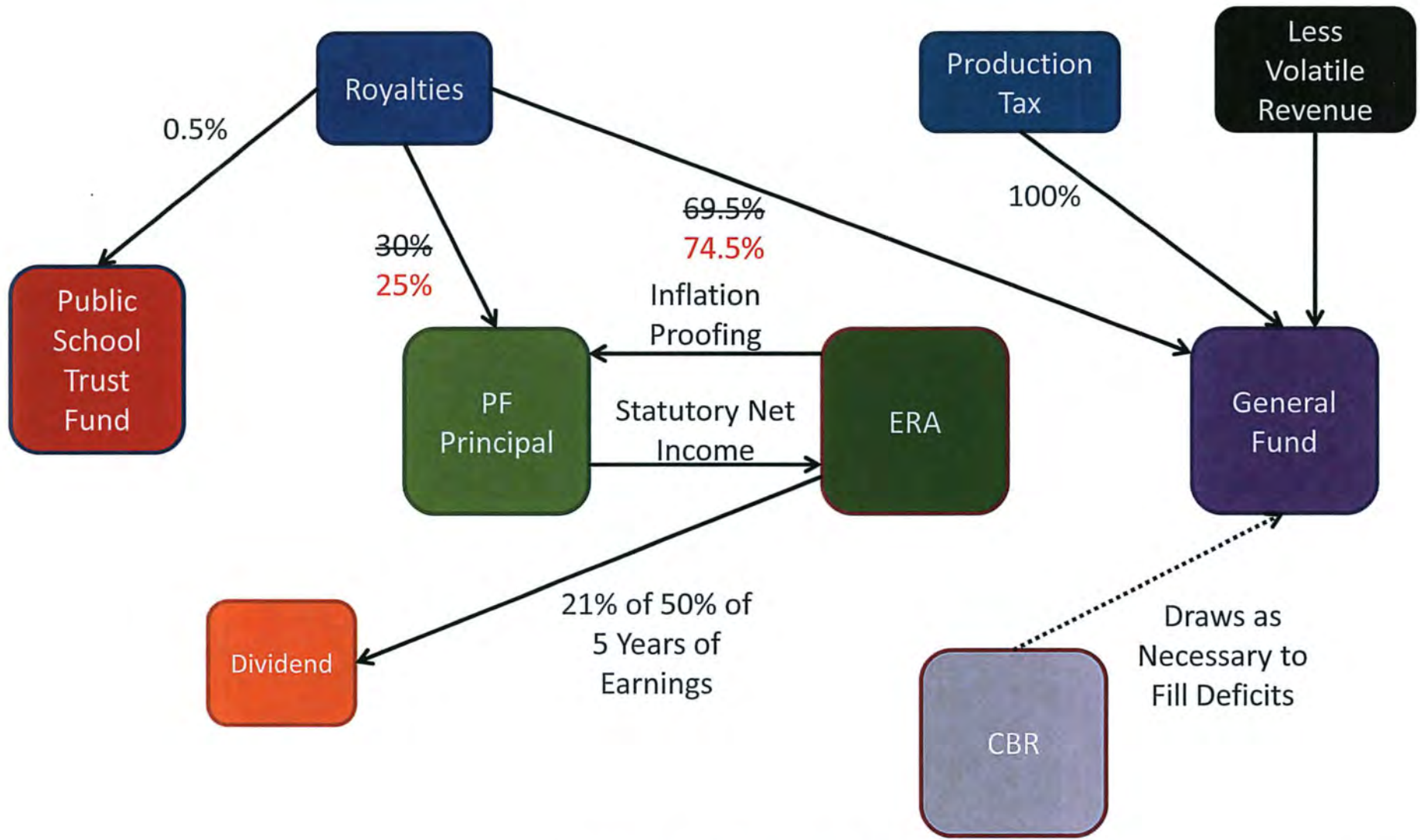
David Teal, Director

Legislative Finance Division

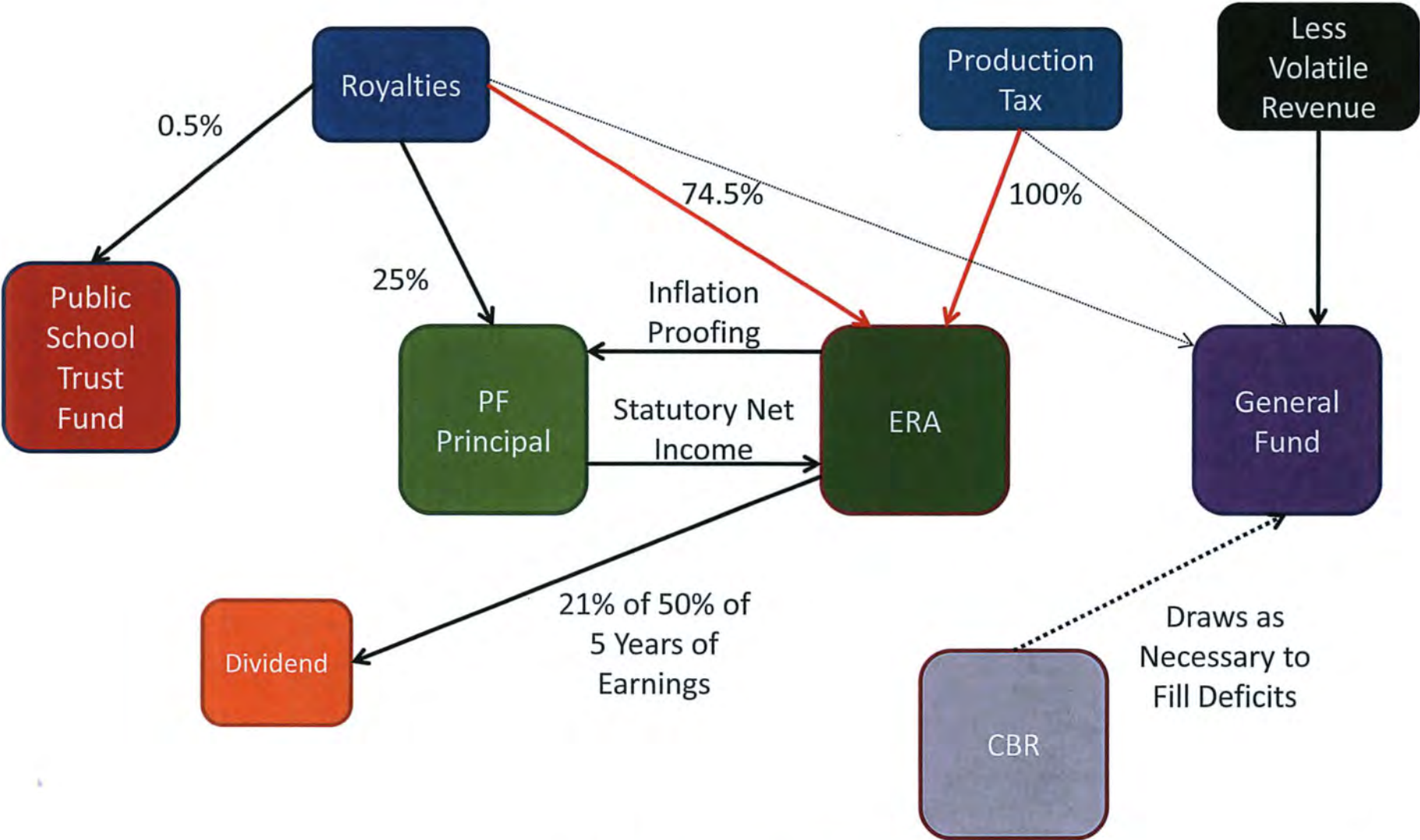
# Current Cash Flow



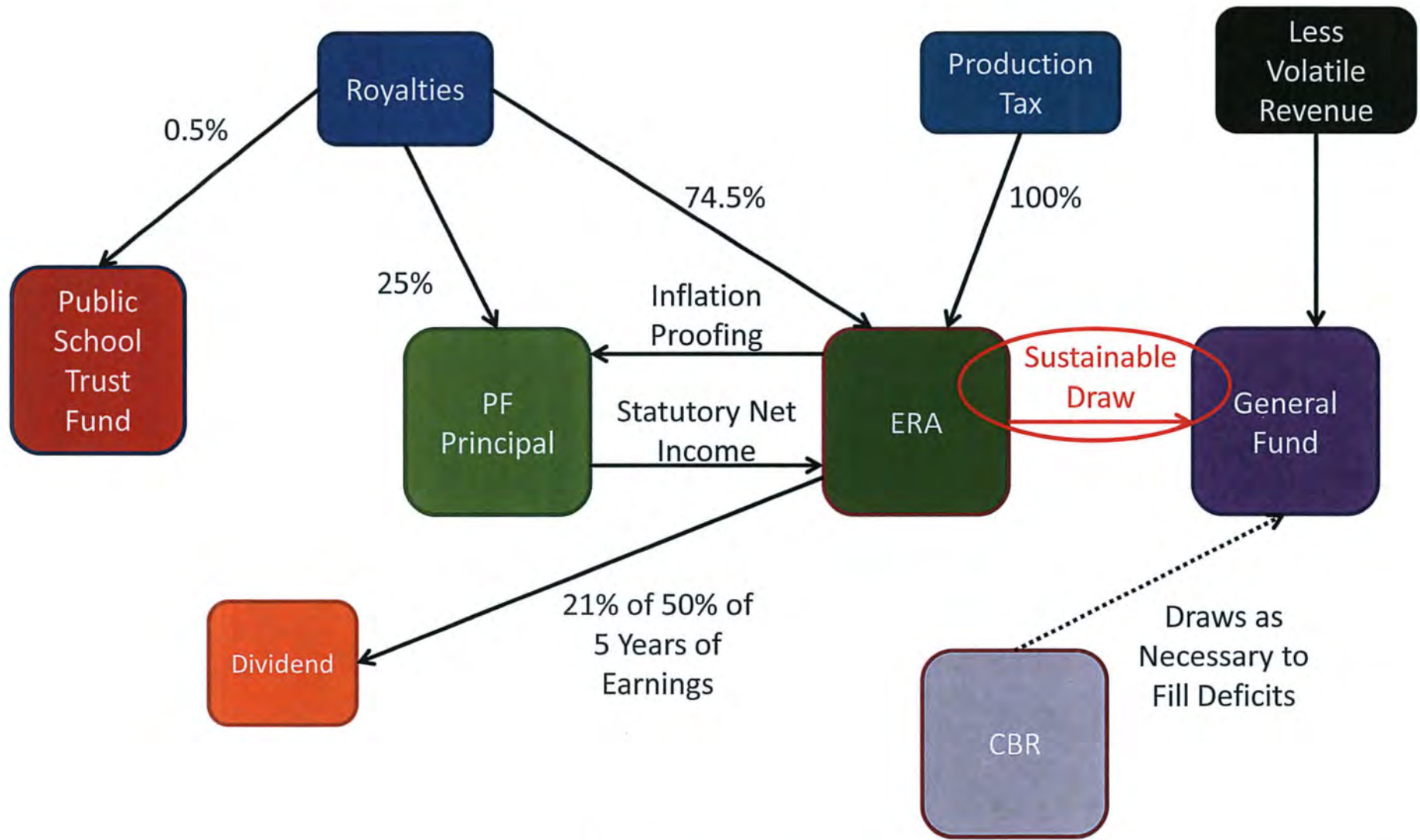
# 1. Change Royalty Percentage (PFPA)



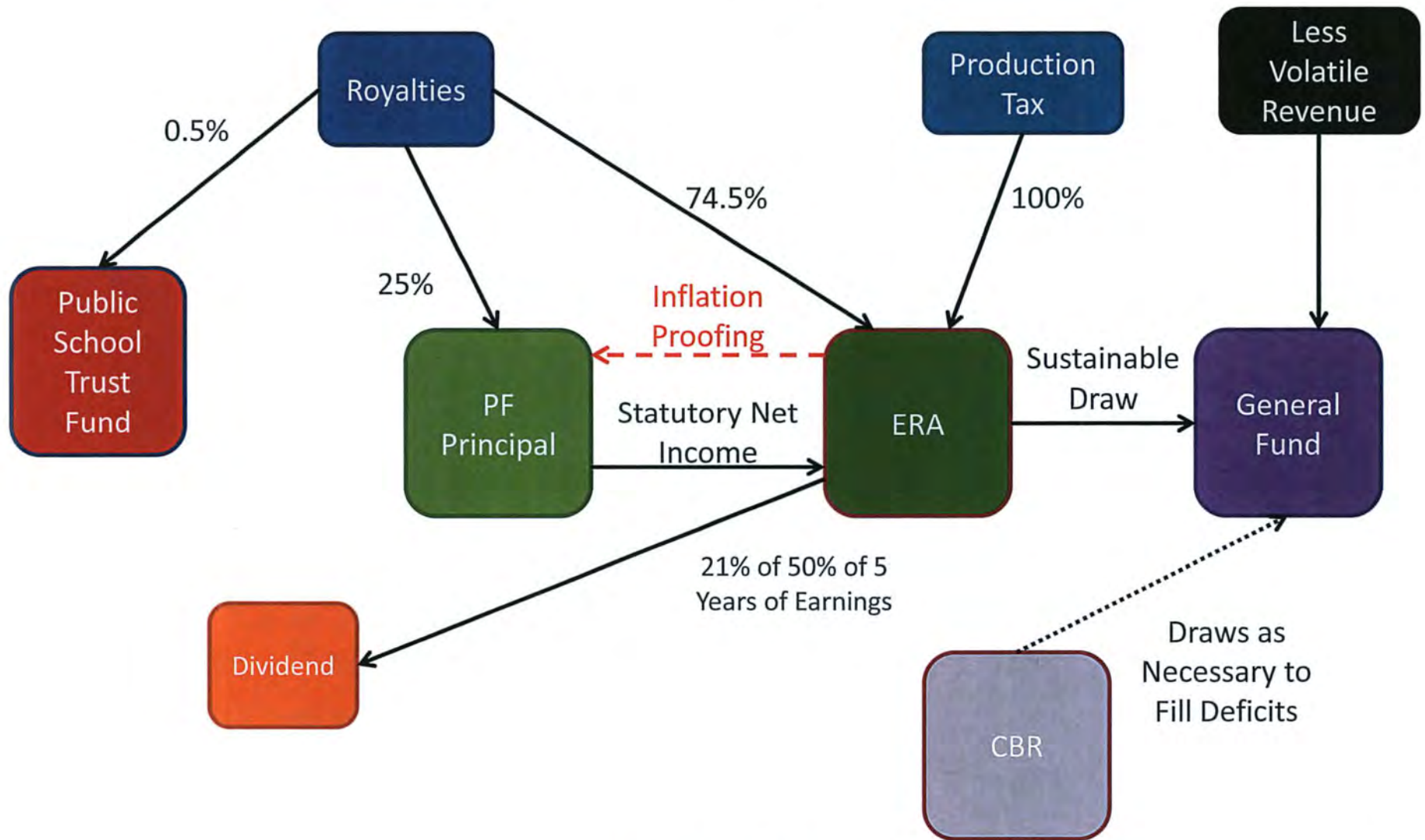
## 2. Re-Route Taxes and Royalties to ERA (PFPA)



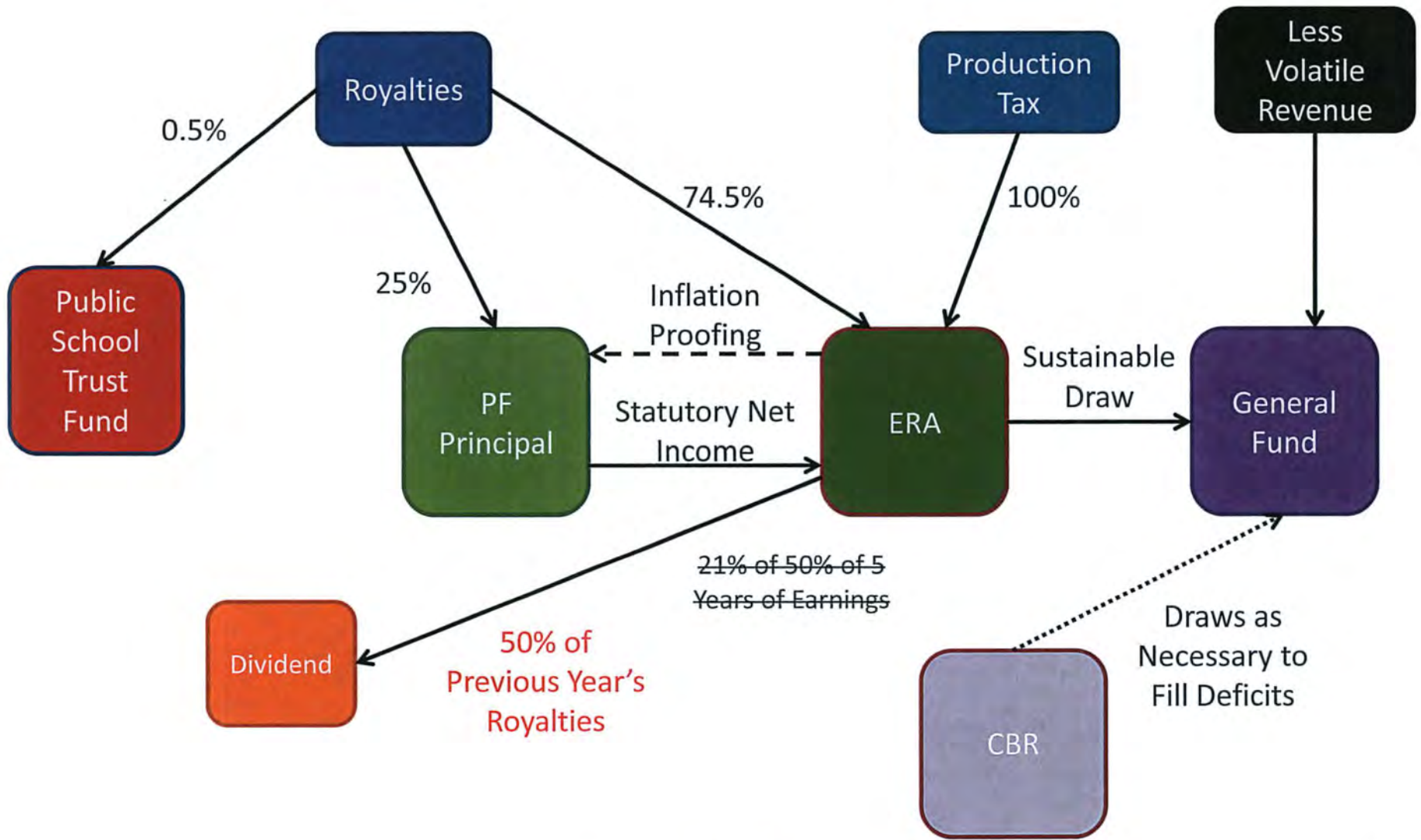
### 3. Add Sustainable Draw from ERA (PFPA)



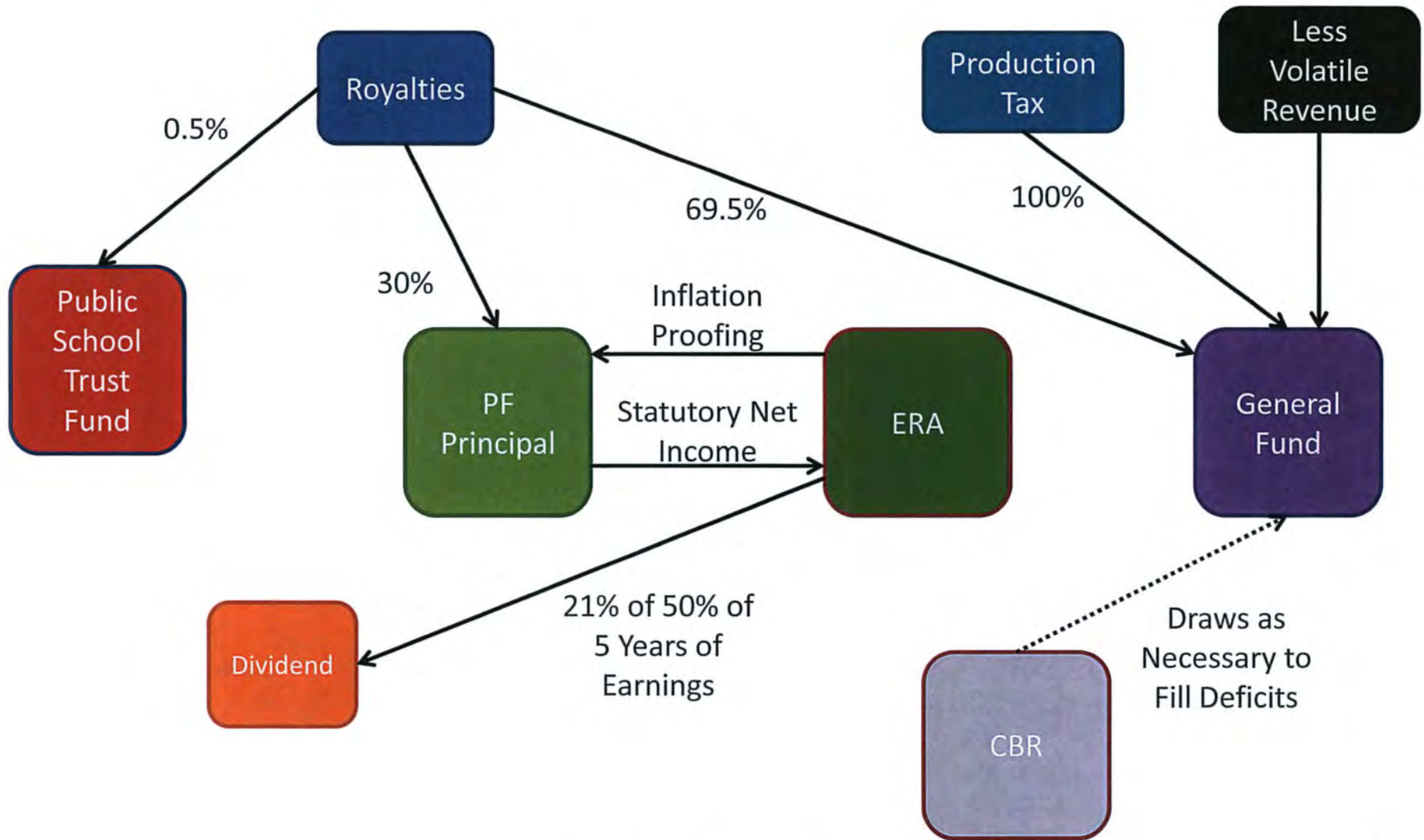
## 4. Change Inflation Proofing to an “Overflow” Mechanism (PFPA)



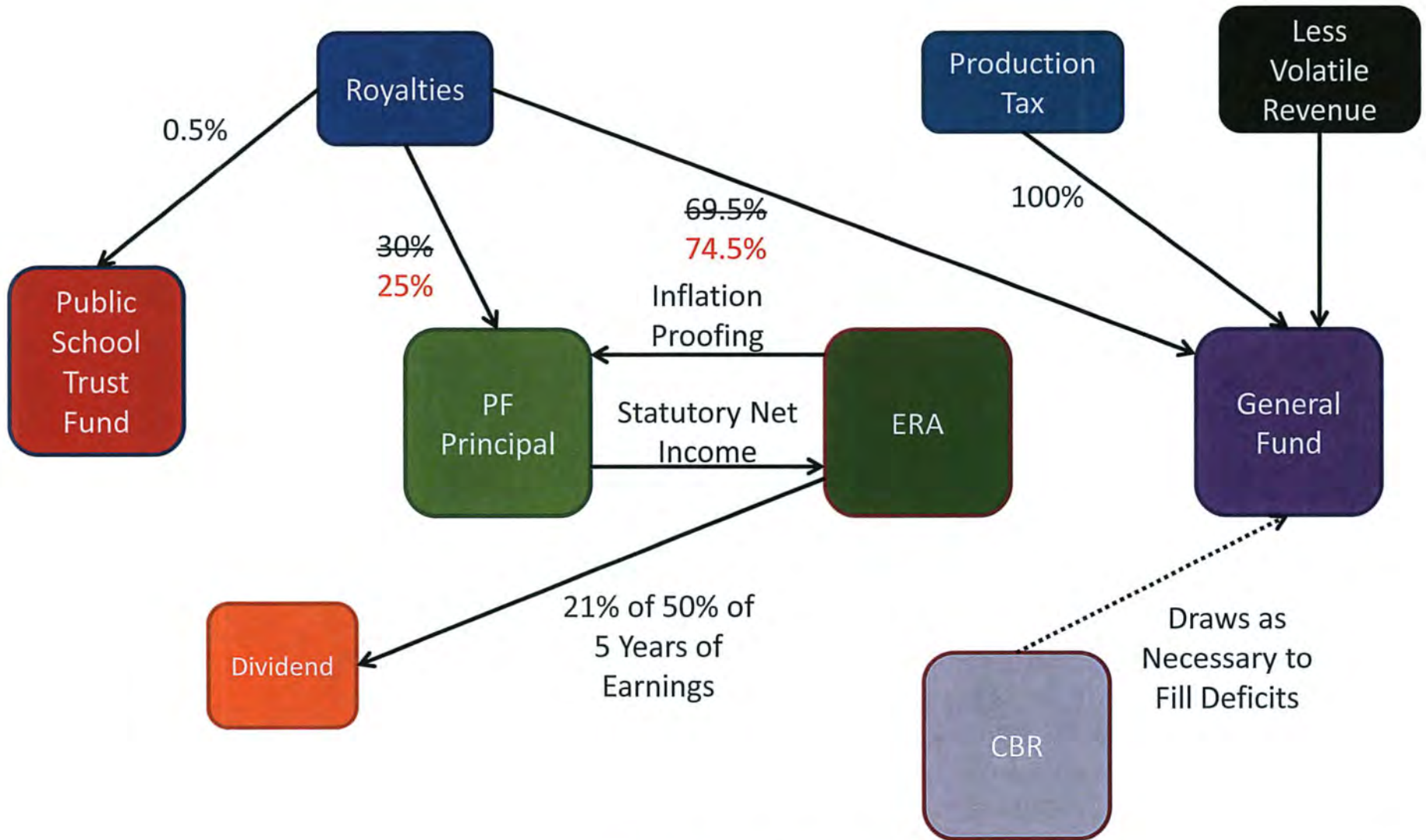
# 5. Change Dividend Source and Calculation (PFPA)



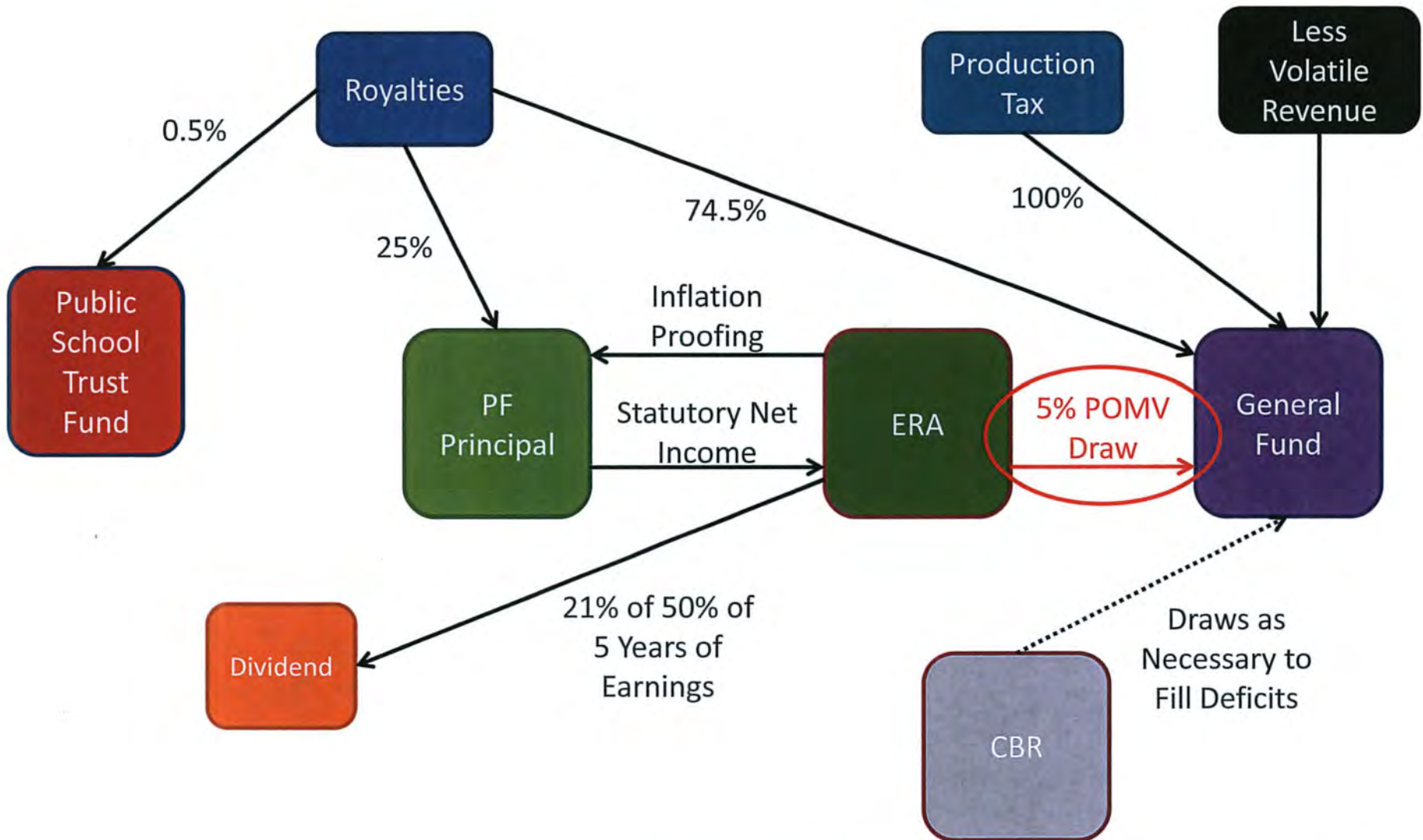
# Current Cash Flow



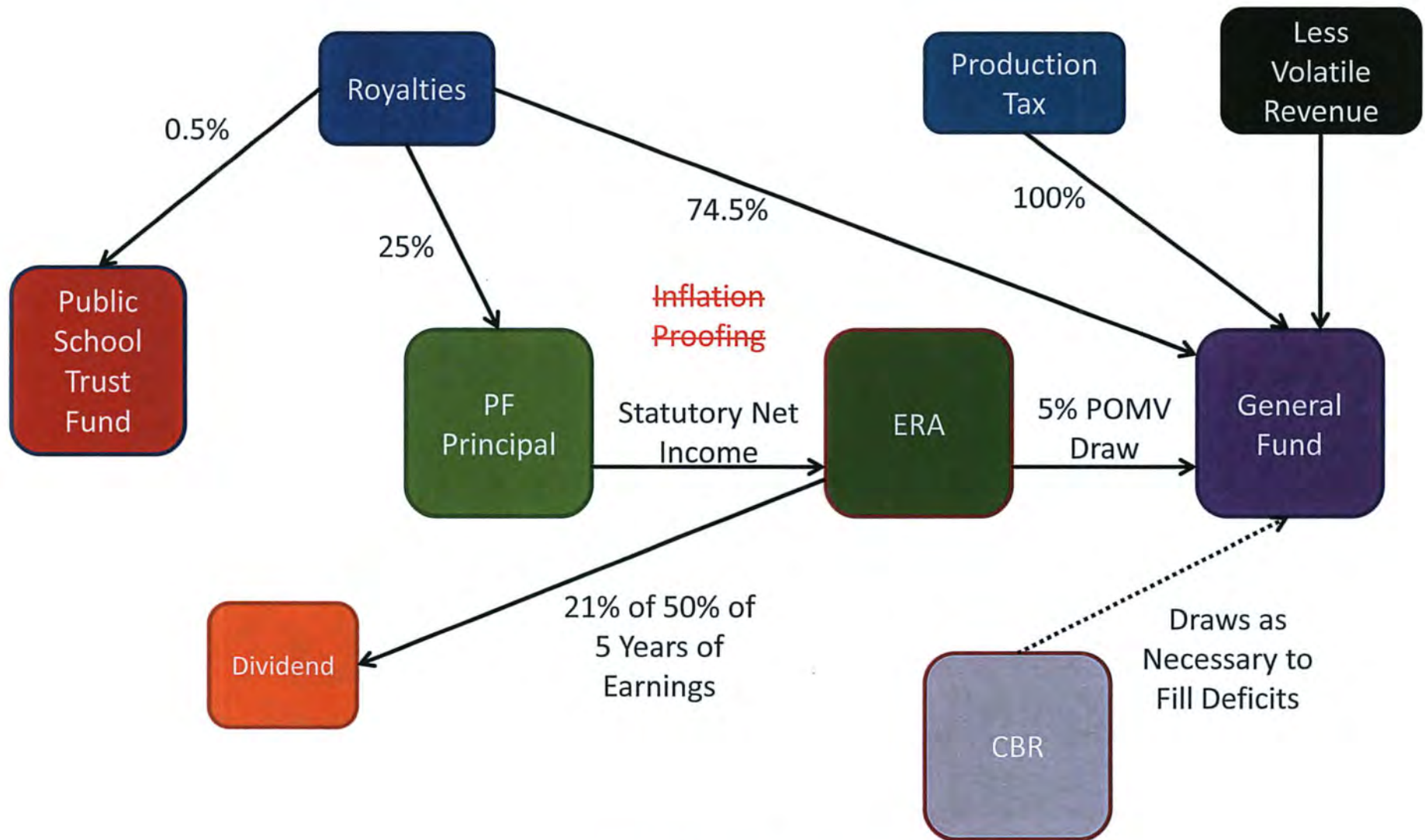
# 1. Change Royalty Percentage (SB114 / HB303)



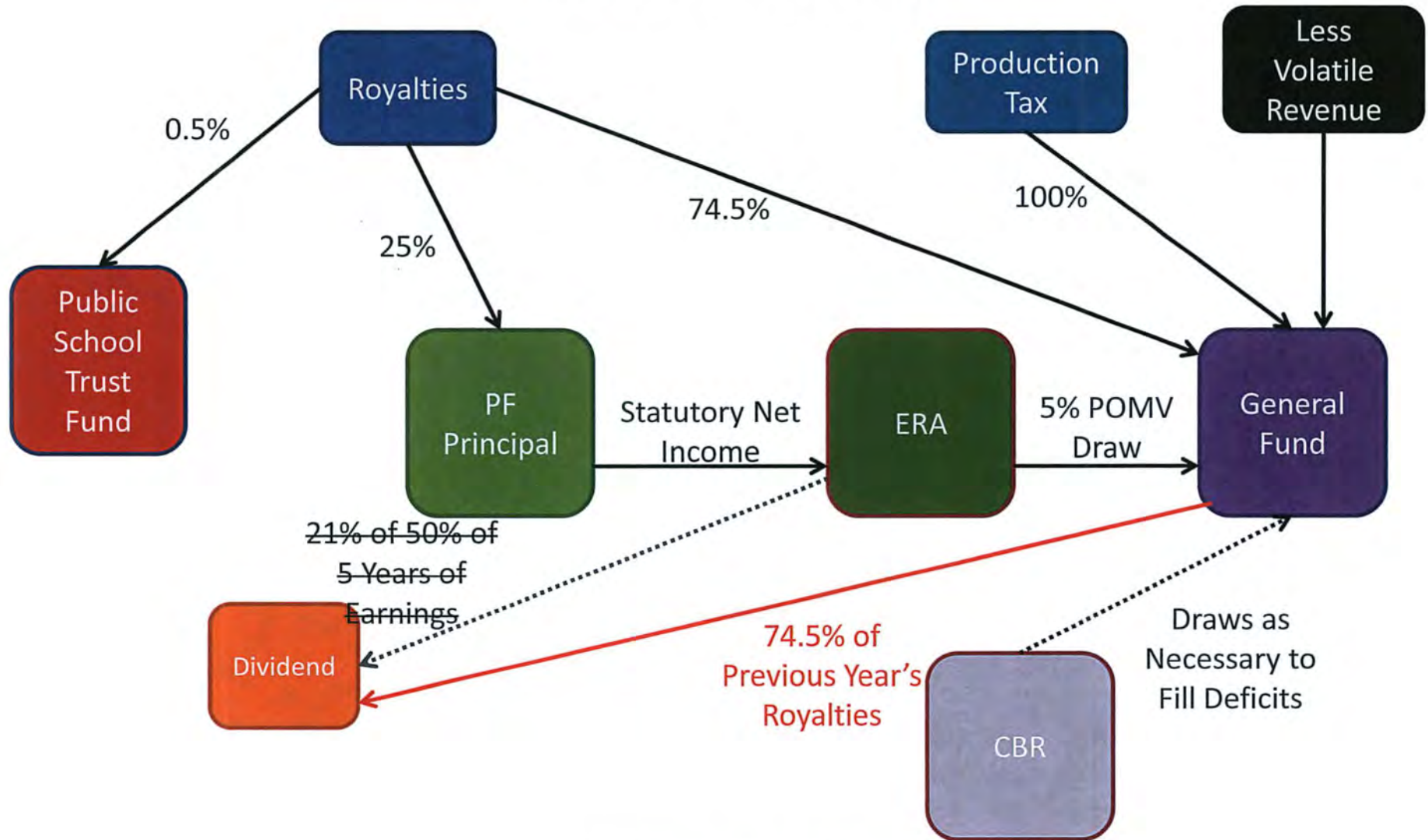
## 2. Add POMV Payout (SB114 / HB303)



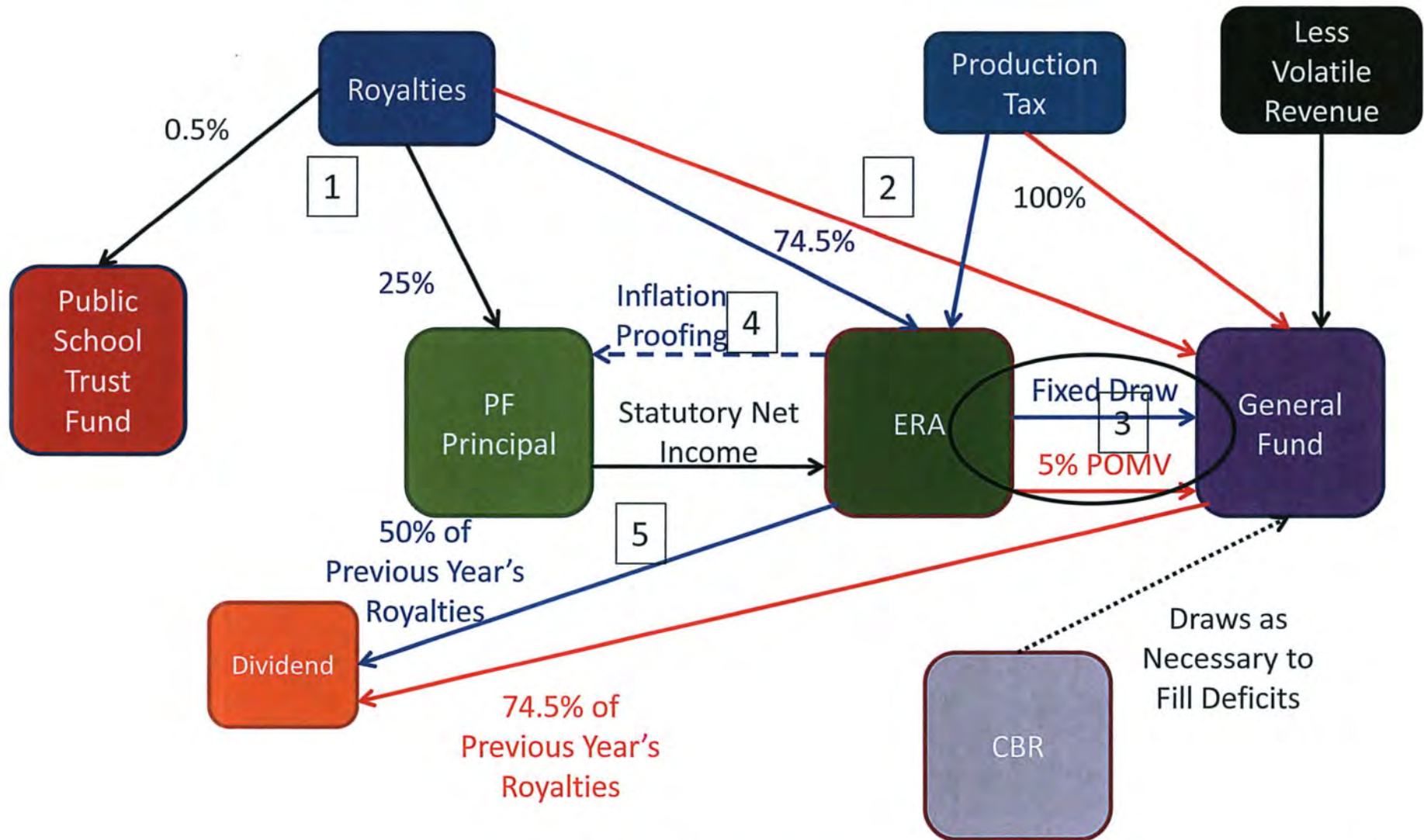
### 3. Remove Inflation Proofing (SB114 / HB303)



## 4. Change Dividend Source and Calculation (SB114 / HB303)



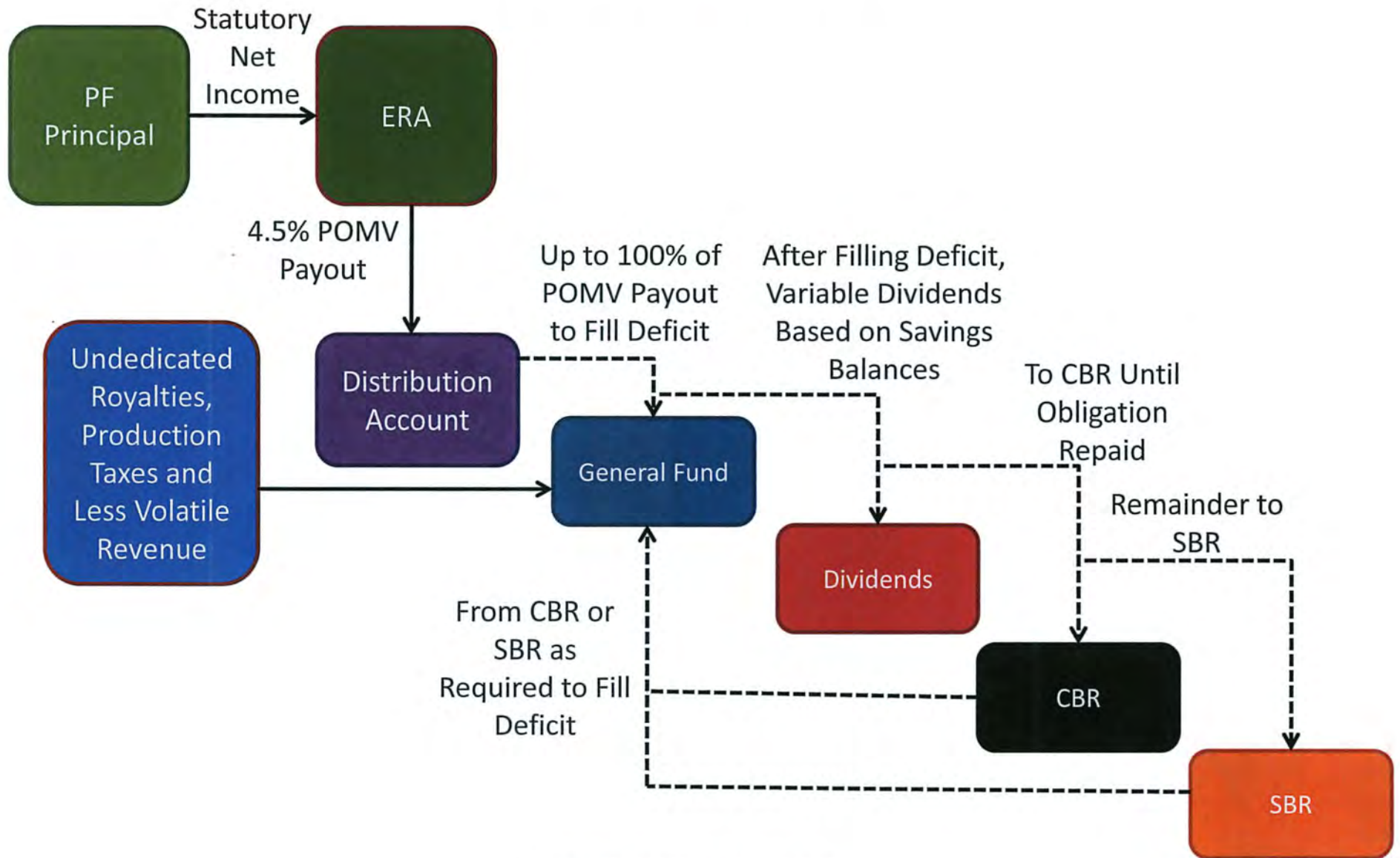
# PFPA vs. SB114 / HB303



# PFPA vs. POMV: Which is Better?

1. A fixed draw is highly dependent on actually attaining the projected rates of return and projected oil revenue.
2. Those projections look forward 20 years--hence the need for review of sustainability of the draw.
3. We are not very good at projecting rates of return, and even worse at projecting oil revenue.
4. POMV looks backwards 5 years and the payout is based on actual events rather than on projections.
5. Ask yourself this question: Is your hindsight better than your foresight?
6. Lest that question appears to be one-sided, note that POMV fails the stability test—if royalties and production tax revenue jump \$4b and fill the deficit without the need for a payout, the payout still occurs and there would be a tendency, or at least a possibility, of spending the windfall.
7. Is there a hybrid that offers the comfort of hindsight offered by POMV and the stability of PFPA?

# HB 224 Cash Flow



# Decision Points

