

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 86/2

2431 SCOMM 101 LONG RANGE FINANCIAL PLANNING COMMISSION, 1995



Mark Erickson, Accounting Technician, works closely with real estate to account for mortgage activity, provide reports used for management of mortgage portfolios.



Debbie McBride - Secretary, supports accounting section, assists other Treasury personnel with scheduling, spreadsheets.



Doug Grimm - Analyst/Programmer, develops, evaluates, maintains data processing, including communications systems, software and hardware applications maintenance.

DEPUTY COMMISSIONER'S OFFICE

The Alaska State Pension Investment Board was formed during this past year. As of July 1, 1993, the Board assumed the responsibility of investment policies, asset allocation and contract compliance of the retirement funds. Staff from the Deputy Commissioner's office perform the administration functions for the Board.

Cash forecasts are completed through the year to project the cash available to meet the State's obligations. Other projects that need research have been completed in this area.

Marty Lentz - Liaison to the Alaska State Pension Investment Board, communications, packet preparation.



Carolyn Hartsog - Research Analyst responsible for monthly cash forecast, special projects for Deputy Commissioner.



Sandy Parr - Secretary, support for Deputy Commissioner, Debt Manager, Board Liaison, recorder for State Bond Committee.

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101:103

MEMORANDUM

State of Alaska
Office of the Governor
Office of Management and Budget

June 26, 1995

TO: LRFPC Members

FROM: Brad Pierce 
Senior Policy Analyst

SUBJECT: Updated Fiscal Models

The attached packet contains updated versions of the commission's fiscal models. The minor errors pointed out at the mid-June meeting have been fixed. Low, base and high case scenarios developed by varying population, petroleum revenue and Permanent Fund earnings assumptions. All three cases are stated in real (FY 95 dollar) terms. A detailed list of assumptions is included in the packet. Again important points to note:

- Absent any use of fiscal tools other than draining reserves, the Constitutional Budget Reserve (CBR) is empty by FY 99 under the low case scenario; in the mid or base case, the CBR is drained by FY 2000; and in the high case it's drained by FY 2002.
- While the Permanent Fund earnings and expenditures are shown on the same page, they do not figure into the fiscal gap calculation, i.e., they are not brought completely "on budget." This is because use of excess earnings to fill the gap is a major policy decision that the commission has not yet made.
- Base case Permanent Fund earnings assume that the Fund's historical real rate of return of 4.79% continues indefinitely. This is probably an optimistic assumption, since financial markets have been exceptionally strong during the past 15 years.

Post-It™ brand fax transmittal memo 7571		# of pages > 7
To <i>Melissa</i>	From <i>Brad</i>	
Co.	Co.	
Dept.	Phone # <i>465-4677</i>	
Fax # <i>258-9869</i>	Fax # <i>3008</i>	

"DO NOTHING" PROJECTION - HIGH CASE

(FY 95 Dollars)

	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Average Oil Price (\$/bbl.)	16.83	17.21	16.80	17.33	17.71	17.91	18.11	18.31	18.51	18.71
Oil Production (MMb/day)	1.57	1.503	1.487	1.479	1.515	1.450	1.406	1.340	1.275	1.210
REVENUES (\$ Millions):										
PETROLEUM	1,658.7	1,623.7	1,646.7	1,774.2	1,830.4	1,762.1	1,700.1	1,636.3	1,572.5	1,508.7
OTHER SOURCES	332.3	310.2	299.2	279.9	272.9	269.1	264.3	259.5	254.7	249.9
NONRECURRING SOURCES	409.7	188.7	82.5	75.4	88.8	65.7	62.7	59.9	57.1	54.3
TOTAL GENERAL FUND REVENUES	2,400.7	2,122.6	2,028.4	2,129.5	2,192.1	2,096.8	2,027.1	1,955.7	1,884.2	1,812.9
EXPENDITURES (\$ Millions):										
OPERATING - AGENCY	1,198.0	1,087.3	1,100.4	1,126.9	1,153.6	1,166.9	1,179.7	1,192.1	1,204.5	1,216.9
FORMULA	400.8	396.5	408.3	433.0	458.7	471.5	484.1	496.6	509.1	521.6
K - 12 EDUCATION	648.2	632.0	647.8	680.8	715.1	732.9	751.3	770.0	788.7	807.4
INFRASTRUCTURE MAINTENANCE	0.0	0.0	67.1	67.1	67.1	67.1	67.1	67.1	67.1	67.1
DEBT SERVICE	133.0	104.8	79.4	61.0	25.5	15.0	11.5	10.1	8.7	7.3
CAPITAL	156.7	104.2	114.6	121.5	128.8	132.3	135.9	139.4	142.9	146.4
LOANS/TRANSFERS/SUPPS.	32.1	40.4	29.1	26.6	24.3	23.2	22.1	21.1	20.0	18.9
TOTAL GENERAL FUND EXPENDITURES	2,568.8	2,365.2	2,445.7	2,516.8	2,573.1	2,600.9	2,651.7	2,698.6	2,745.5	2,792.4
PROJECTED FISCAL GAP	-168.1	-242.6	-428.3	-387.3	-401.0	-512.0	-624.5	-740.7	-861.3	-979.5
CONSTITUTIONAL BUDGET RESERVE										
BALANCE IF FISCAL GAP	2,005.5	2,156.6	2,117.6	2,086.6	91.5	0.0	0.0	0.0	0.0	0.0
FILLED ENTIRELY WITH CBR										
REMAINING FISCAL GAP						420.5	204.0	740.7	1,041.3	1,341.5
PERMANENT FUND EARNINGS										
PERMANENT FUND NET INCOME	940.0	2,381.5	2,593.2	3,018.1	3,481.4	3,701.5	3,928.8	4,164.2	4,400.6	4,637.0
PERMANENT FUND INFLATION PROOFING	345.0	600.4	611.6	684.8	684.1	697.8	710.3	729.0	747.7	766.4
PERMANENT FUND DIVIDENDS	557.0	677.0	817.9	1,187.2	1,452.2	1,556.9	1,663.3	1,770.9	1,878.5	1,986.1
PF EARNINGS RESERVE BALANCE	1,142.0	2,197.6	3,299.0	5,385.6	7,462.7	8,574.5	9,744.0	10,976.0	12,268.2	13,610.4
PF UNUSED ANNUAL EARNINGS	38.0	1,104.1	1,163.6	1,246.1	1,345.2	1,446.7	1,555.2	1,670.3	1,791.8	1,918.9

Gap w/FF Low

"DO NOTHING" PROJECTION - LOW CASE

(FY 96 Dollars)

	FY.95	FY.96	FY.97	FY.98	FY.99	FY.00	FY.01	FY.02	FY.03	FY.04
Average Oil Price (\$/bbl.)	16.20	14.97	14.39	13.92	13.92	13.63	13.50	13.36	13.22	13.11
Oil Production (MMbbl/day)	1.574	1.503	1.429	1.293	1.293	1.163	1.11	1.069	1.011	1.011
REVENUES (\$ Millions):										
PETROLEUM	1,487.0	1,275.7	1,248.0	1,159.1	1,159.1	1,014.3	940.1	882.7	829.4	829.4
OTHER SOURCES	288.2	281.7	252.7	254.0	254.0	258.8	258.0	259.2	260.7	260.7
NONRECURRING SOURCES	409.7	193.0	86.3	82.9	82.9	79.4	77.7	76.0	74.3	74.3
TOTAL GENERAL FUND REVENUES	2,184.9	1,750.3	1,586.0	1,495.9	1,495.9	1,352.5	1,275.8	1,217.8	1,164.4	1,164.4
EXPENDITURES (\$ Millions):										
OPERATING - AGENCY	1,198.0	1,111.7	1,125.0	1,192.2	1,192.2	1,179.4	1,193.0	1,206.1	1,219.8	1,219.8
FORMULA	400.8	405.4	412.5	426.7	426.7	441.0	448.1	455.2	462.1	462.1
K - 12 EDUCATION	648.2	646.2	662.3	695.9	695.9	731.1	749.4	768.1	787.3	787.3
INFRASTRUCTURE MAINTENANCE			70.2	70.2	70.2	70.2	70.2	70.2	70.2	70.2
DEBT SERVICE	133.0	107.1	83.0	67.0	67.0	29.5	17.7	13.9	12.6	12.6
CAPITAL	156.7	106.5	119.8	123.9	123.9	129.1	130.2	132.2	134.2	134.2
LOANS/TRANSFERS/SUPPS.	32.1	41.3	29.4	28.2	28.2	27.0	26.4	25.9	25.3	25.3
TOTAL GENERAL FUND EXPENDITURES	2,368.8	2,418.2	2,502.3	2,584.1	2,584.1	2,608.3	2,635.8	2,671.6	2,719.8	2,719.8
PROJECTED FISCAL GAP	-373.9	-667.9	-916.2	-1,088.1	-1,088.1	-1,255.8	-1,359.2	-1,453.7	-1,546.1	-1,546.1
CONSTITUTIONAL BUDGET RESERVE										
BALANCE IF FISCAL GAP	2,005.5	1,765.1	1,258.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FILLED ENTIRELY WITH CBR				593.9	593.9	1,255.8	1,359.2	1,453.7	1,546.1	1,546.1
REMAINING FISCAL GAP										
PERMANENT FUND EARNINGS										
PERMANENT FUND NET INCOME	940.0	161.5	157.2	153.8	153.8	164.9	164.8	163.8	162.7	162.7
PERMANENT FUND INFLATION PROOFING	345.0	283.9	287.6	76.4	76.4	85.5	84.6	82.7	80.9	80.9
PERMANENT FUND DIVIDENDS	557.0	456.2	343.2	76.4	76.4	79.4	80.2	81.0	80.9	80.9
PF EARNINGS RESERVE BALANCE	1,142.8	540.4	55.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PF UNUSED ANNUAL EARNINGS	38.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Office of Management and Budget

8/26/95 10:28

LRFPC Fiscal Models

Assumptions for Base Case:

- 1) Department of Revenue *Spring 1995 Revenue Sources Book* base case price scenario.
- 2) Base case oil production scenario.
- 3) Petroleum revenues include oil and gas severance and property taxes, bonus sale receipts and royalties.
- 4) Other revenue sources includes all nonpetroleum revenues (including petroleum corporate income tax).
- 5) Nonrecurring sources includes adjustments for taxes that are simply pass throughs and revenues from sources that cannot be counted on from year to year. FY 96 includes revenue adjustments of \$110.1 million, \$70 million AHFC dividend and \$17 million from AIDEA. For FY 97 onward, the base case assumes \$40 million in revenue adjustments and a \$50 million annual AHFC dividend.
- 6) Total general fund revenues are the sum of lines (3 thru 5).
- 7) Agency operations includes general fund operational spending for government functions that are not driven by formulas set in statute. Projections are based on inflation plus population growth.
- 8) Formula programs (other than education) are combined and projected to grow at inflation plus population growth.
- 9) K - 12 education is projected to grow by an annual 2.5% enrollment rate of increase plus inflation.

- 10) Infrastructure maintenance is based on the following assumptions estimated from a 1990 survey of facilities managers that detailed the ratio of funded to unfunded maintenance and estimates from DOTPF staff on unfunded maintenance needs of other forms of infrastructure:

Facilities	
Maintenance	\$3.3 million
Renewal/Replacement	20.7
Highways	16.0
Aviation	4.5
Harbors	4.0
Ferries	2.6
 Total additional annual M & O needs	 51.1
 Deferred Maintenance	 22.1
(15 yr. program to address \$331 million backlog)	
 Grand Total	 \$73.2

Maintenance in out years is projected to grow at the rate of inflation.

- 11) Debt service schedule assumes no new debt issues. Alaska's debt service schedule is based on the "Prudhoe Curve" of future revenues.
- 12) Capital expenditures for FY 96 are those passed by the legislature but do not include Governor's vetoes. For FY 97 and beyond, capital spending assumptions correspond to Knowles administration targets based on the following assumptions adjusted for inflation plus population:
- | | |
|-----------------------------------|-------------------|
| School construction priority list | \$25 million |
| Local sanitation priority list | 40 |
| Capital matching grants | 20 |
| Transportation federal match | 40 |
|
Grand Total |
\$125 million |
- 13) Loans, transfers and supplementals assume no new supplementals after FY 96 and increase with inflation and population.
- 14) Total general fund expenditures is the sum of (7 thru 13).
- 15) Projected fiscal gap for general funds only = (6) - (14).
- 16) Constitutional budget reserve balance includes a \$350/yr. BP settlement for FY 96 and 97; FY 96 - 99 assumes \$150 per year in additional settlements.

- 17) Remaining fiscal gap shows the general fund difference between revenues and expenditures after the CBR has been entirely spent by FY 2000.
- 18) Permanent Fund net income was computed from the APF future earnings model using DOR Revenue Sources assumptions referred to in (1).
- 19,20) Permanent fund inflation proofing and dividends estimates were developed from the APF future earnings model (see separate sheet of Permanent Fund assumptions).
- 21) Permanent Fund earnings reserve balance is computed via the APF future earnings model.
- 22) Unused annual earnings is the remainder of PF earnings minus inflation proofing and dividends (18) - (19 + 20). These have not been included in the fiscal gap calculation since using PF earnings to balance the fiscal gap is a major policy call that has yet to be made by the commission.

FAX COVER

TO:
ALL MEMBERS
LONG RANGE FINANCIAL PLANNING
COMMISSION

FROM:
MELISSA FOUSE
STAFF, LONG RANGE FINANCIAL PLANNING
COMMISSION

PHONE: 258-8165
FAX: 258-9869

*Thurs am:
Base case charts w/ shading
please replace.*

"DO NOTHING" PROJECTION - BASE CASE

(FY 95 Dollars)

	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>
Average Oil Price (\$/bbl.)	16.84	16.04	15.67	15.92	15.91	16.00	16.09	16.17	16.26	16.35	16.43
Oil Production (MMbbl/day)	1.574	1.503	1.457	1.418	1.375	1.342	1.304	1.246	1.195	1.146	1.103
REVENUES (\$ Millions):											
PETROLEUM	1,580.8	1,430.6	1,452.0	1,482.4	1,464.5	1,431.8	1,397.7	1,327.8	1,271.3	1,220.3	1,165.3
OTHER SOURCES	312.2	292.5	276.0	273.9	274.0	273.3	272.3	271.4	270.1	268.8	267.7
NONRECURRING SOURCES	409.7	191.4	84.9	82.2	79.7	77.2	74.9	72.6	70.3	68.2	66.1
TOTAL GENERAL FUND REVENUES	2,302.7	1,914.5	1,812.9	1,838.5	1,818.2	1,782.3	1,744.9	1,671.7	1,611.7	1,557.3	1,499.1
EXPENDITURES (\$ Millions):											
OPERATING - AGENCY	1,198.0	1,102.5	1,115.8	1,129.2	1,142.7	1,156.4	1,169.7	1,183.2	1,196.2	1,208.7	1,220.8
FORMULA	400.8	402.1	411.7	421.6	431.7	442.1	452.3	462.7	472.8	482.8	492.4
K - 12 EDUCATION	648.2	640.8	656.9	673.3	690.1	707.4	725.1	743.2	761.8	780.8	800.3
INFRASTRUCTURE MAINTENANCE			69.0	69.1	69.1	69.2	69.2	69.2	69.2	69.2	69.2
DEBT SERVICE	133.0	106.2	81.6	74.5	64.5	43.6	27.8	16.5	12.9	11.5	10.6
CAPITAL	156.7	105.6	117.8	120.7	123.6	126.5	129.4	132.4	135.3	138.2	140.9
LOANS/TRANSFERS/SUPPS.	32.1	41.0	29.4	28.5	27.6	26.8	25.9	25.1	24.3	23.6	22.8
TOTAL GENERAL FUND EXPENDITURES	2,568.8	2,398.3	2,482.2	2,516.7	2,549.3	2,572.0	2,599.4	2,632.3	2,672.5	2,714.7	2,757.1
PROJECTED FISCAL GAP	-266.1	-483.8	-669.3	-678.2	-731.1	-789.6	-854.4	-960.5	-1,060.8	-1,157.4	-1,258.0
CONSTITUTIONAL BUDGET RESERVE											
BALANCE IF FISCAL GAP	2,005.5	1,949.0	1,639.6	957.0	249.2	0.0	0.0	0.0	0.0	0.0	0.0
FILLED ENTIRELY WITH CBR											
REMAINING FISCAL GAP						540.4	854.4	960.5	1,060.8	1,157.4	1,258.0
PERMANENT FUND EARNINGS											
PERMANENT FUND NET INCOME	940.0	1,182.6	1,215.2	1,247.2	1,281.4	1,332.9	1,368.3	1,403.6	1,437.7	1,472.1	1,506.0
PERMANENT FUND INFLATION PROOFING	345.0	412.7	420.5	426.7	433.0	453.2	460.0	466.8	473.5	479.3	485.9
PERMANENT FUND DIVIDENDS	557.0	558.3	564.7	561.9	575.6	613.7	631.3	649.8	668.0	686.8	703.1
PF EARNINGS RESERVE BALANCE	1,142.0	1,320.5	1,511.3	1,724.2	1,942.9	2,150.0	2,359.9	2,574.1	2,790.9	3,010.8	3,235.1
PF UNUSED ANNUAL EARNINGS	38.0	211.7	230.0	258.6	272.8	266.1	277.0	287.0	296.1	305.9	317.1

Office of Management and Budget

6/29/95 9:22

"DO NOTHING" PROJECTION - HIGH CASE

(FY 95 Dollars)

	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Average Oil Price (\$/bbl.)	16.63	17.21	16.69	17.18	17.33	17.52	17.71	17.91	18.11	18.31	18.51
Oil Production (MMbbl/day)	1.57	1.503	1.487	1.491	1.479	1.513	1.515	1.459	1.406	1.349	1.292
REVENUES (\$ Millions):											
PETROLEUM	1,658.7	1,623.7	1,648.7	1,744.0	1,774.2	1,816.8	1,830.4	1,762.1	1,700.1	1,636.3	1,563.6
OTHER SOURCES	332.3	310.2	289.2	282.6	279.9	276.4	272.9	269.1	264.3	259.5	254.7
NONRECURRING SOURCES	409.7	188.7	82.5	78.9	75.4	72.0	68.8	65.7	62.7	59.9	57.2
TOTAL GENERAL FUND REVENUES	2,400.7	2,122.6	2,020.4	2,105.4	2,129.5	2,165.2	2,172.1	2,096.8	2,027.1	1,955.7	1,875.5
EXPENDITURES (\$ Millions):											
OPERATING - AGENCY	1,198.0	1,087.3	1,100.4	1,113.6	1,126.9	1,140.5	1,153.6	1,166.9	1,179.7	1,192.1	1,204.0
FORMULA	400.8	396.5	408.3	420.5	433.0	445.9	458.7	471.5	484.1	496.6	508.8
K - 12 EDUCATION	648.2	632.0	647.8	664.0	680.6	697.6	715.1	732.9	751.3	770.0	789.3
INFRASTRUCTURE MAINTENANCE	0.0	67.1	67.1	67.1	67.1	67.1	67.1	67.1	67.1	67.1	67.1
DEBT SERVICE	133.0	104.8	79.4	71.4	61.0	40.7	25.5	15.0	11.5	10.1	9.2
CAPITAL	156.7	104.2	114.6	118.0	121.5	125.2	128.8	132.3	135.9	139.4	142.8
LOANS/TRANSFERS/SUPPS.	32.1	40.4	29.1	27.9	26.6	25.4	24.3	23.2	22.1	21.1	20.1
TOTAL GENERAL FUND EXPENDITURES	2,568.8	2,365.2	2,446.7	2,482.5	2,516.8	2,542.3	2,573.1	2,608.9	2,651.7	2,696.5	2,741.3
PROJECTED FISCAL GAP	-168.1	-242.6	-426.3	-377.1	-387.3	-377.1	-401.0	-512.0	-624.5	-740.7	-865.8
CONSTITUTIONAL BUDGET RESERVE											
BALANCE IF FISCAL GAP	2,005.5	2,156.6	2,117.6	1,610.0	1,086.6	492.5	91.5	0.0	0.0	0.0	0.0
FILLED ENTIRELY WITH CBR											
REMAINING FISCAL GAP								420.6	204.0	740.7	865.8
PERMANENT FUND EARNINGS											
PERMANENT FUND NET INCOME	940.0	2,381.5	2,593.2	2,803.3	3,018.1	3,269.3	3,481.4	3,701.5	3,928.8	4,164.2	4,409.2
PERMANENT FUND INFLATION PROOFING	345.0	600.4	611.6	623.0	634.8	670.7	684.1	697.8	710.3	723.0	735.0
PERMANENT FUND DIVIDENDS	557.0	677.0	817.9	962.2	1,137.2	1,349.3	1,452.2	1,556.9	1,663.3	1,770.9	1,878.8
PF EARNINGS RESERVE BALANCE	1,142.0	2,197.6	3,269.0	4,342.1	5,395.6	6,406.5	7,462.7	8,574.5	9,744.0	10,976.0	12,277.8
PF UNUSED ANNUAL EARNINGS	38.0	1,104.1	1,163.6	1,218.1	1,246.1	1,249.3	1,345.2	1,446.7	1,555.2	1,670.3	1,795.5

Office of Management and Budget

6/29/95 9:19

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P. 01

FAX NO. 9074853008

ALASKA OMB-DIRECTOR

JUN-29-95 THU 08:25

Gap w/PF Low

"DO NOTHING" PROJECTION - LOW CASE

(FY 95 Dollars)

	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>
Average Oil Price (\$/bbl.)	16.20	14.97	14.39	14.12	13.92	13.77	13.63	13.50	13.36	13.22	13.08
Oil Production (MMbbl/day)	1.574	1.503	1.429	1.363	1.293	1.224	1.163	1.11	1.059	1.011	0.963
REVENUES (\$ Millions):											
PETROLEUM	1,497.0	1,275.7	1,249.0	1,214.6	1,159.1	1,084.2	1,014.3	940.1	882.7	829.4	772.3
OTHER SOURCES	288.2	261.7	252.7	252.2	254.0	255.7	256.8	258.0	259.2	260.7	262.1
NONRECURRING SOURCES	409.7	193.0	86.3	84.5	82.8	81.1	79.4	77.7	76.0	74.3	72.7
TOTAL GENERAL FUND REVENUES	2,194.9	1,730.3	1,588.0	1,551.3	1,495.9	1,421.0	1,350.5	1,275.8	1,217.8	1,164.4	1,107.2
EXPENDITURES (\$ Millions):											
OPERATING - AGENCY	1,198.0	1,111.7	1,125.0	1,138.6	1,152.2	1,166.0	1,179.4	1,193.0	1,206.1	1,218.8	1,231.0
FORMULA	400.8	405.4	412.5	419.6	426.7	434.0	441.0	448.1	455.2	462.1	469.0
K - 12 EDUCATION	648.2	646.2	662.3	678.9	695.9	713.3	731.1	749.4	768.1	787.3	807.0
INFRASTRUCTURE MAINTENANCE			70.2	70.2	70.2	70.2	70.2	70.2	70.2	70.2	70.2
DEBT SERVICE	133.0	107.1	83.0	76.5	67.0	45.8	29.5	17.7	13.9	12.6	11.6
CAPITAL	156.7	106.5	119.8	121.9	123.9	126.0	128.1	130.2	132.2	134.2	136.2
LOANS/TRANSFERS/SUPPS.	32.1	41.3	29.4	28.8	28.2	27.6	27.0	26.4	25.9	25.3	24.7
TOTAL GENERAL FUND EXPENDITURES	2,568.8	2,418.2	2,502.3	2,534.4	2,564.1	2,582.9	2,608.3	2,635.0	2,671.6	2,710.5	2,749.8
PROJECTED FISCAL GAP	-373.9	-687.9	-914.2	-983.1	-1,068.1	-1,161.9	-1,255.8	-1,359.2	-1,453.7	-1,546.1	-1,642.6
CONSTITUTIONAL BUDGET RESERVE											
BALANCE IF FISCAL GAP	2,005.5	1,765.1	1,256.9	336.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FILLED ENTIRELY WITH CBR											
REMAINING FISCAL GAP					593.9	1,161.9	1,255.8	1,359.2	1,453.7	1,546.1	1,642.6
PERMANENT FUND EARNINGS											
PERMANENT FUND NET INCOME	940.0	161.5	157.2	154.0	153.6	165.9	164.9	164.8	163.8	162.7	161.6
PERMANENT FUND INFLATION PROOFING	345.0	283.9	287.6	104.2	76.4	86.5	85.5	84.6	82.7	80.9	80.8
PERMANENT FUND DIVIDENDS	557.0	456.2	343.2	104.2	76.4	79.3	79.4	80.2	81.0	80.9	80.8
PF EARNINGS RESERVE BALANCE	1,142.0	540.4	55.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PF UNUSED ANNUAL EARNINGS	38.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Office of Management and Budget

6/29/95 9:21

MEMORANDUM

State of Alaska
Office of the Governor
Office of Management and Budget

June 15, 1995

TO: LRFPC Members

FROM: Brad Pierce 
Senior Policy Analyst

SUBJECT: Updated Fiscal Models

The attached packet contains updated versions of the commission's fiscal models. As requested, we have produced a new base case that includes a maintenance component and Permanent Fund earnings and expenditures. High and low cases are developed around the base case – by varying petroleum price and production assumptions as well as the inflation rate and Permanent Fund earnings – to establish a range of probability for planning purposes. All three cases are stated in nominal and real (FY 95 dollar) terms. A detailed list of assumptions is included in the packet. Important points to note:

- Absent any use of fiscal tools other than draining reserves, the Constitutional Budget Reserve (CBR) is empty by FY 99; in the mid or base case the CBR is drained by FY 2000; and in the high case it's drained by FY 2002.
- While the Permanent Fund earnings and expenditures are shown on the same page, they do not figure into the fiscal gap calculation, i.e., they are not brought completely "on budget." This is because use of excess earnings to fill the gap is a major policy decision that the commission has not yet made.
- Base case Permanent Fund earnings assume that the Fund's historical real rate of return of 4.79% continues indefinitely. This is probably an optimistic assumption, since financial markets have been exceptionally strong during the past 15 years.

"DO NOTHING" PROJECTION - BASE CASE

(Nominal Dollars)

	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
1 Average Oil Price (\$/bbl.)	16.84	16.52	16.62	17.42	17.97	18.84	19.34	20.06	20.81	21.59	22.39
2 Oil Production (MMbbl/day)	1.574	1.503	1.457	1.418	1.375	1.342	1.304	1.246	1.195	1.146	1.103
REVENUES (\$ Millions):											
3 PETROLEUM	1,580.8	1,473.4	1,540.2	1,622.3	1,653.8	1,668.3	1,680.3	1,647.0	1,627.1	1,611.5	1,587.8
4 OTHER SOURCES	312.2	301.3	292.8	290.8	309.4	318.4	327.4	336.7	345.7	355.0	364.7
5 NONRECURRING SOURCES	409.7	197.1	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0 AHFC
6 TOTAL GENERAL FUND REVENUES	2,302.7	1,971.8	1,923.0	2,012.1	2,053.1	2,076.6	2,097.8	2,073.7	2,062.8	2,056.5	2,042.5
EXPENDITURES (\$ Millions):											
7 OPERATING - AGENCY	1,198.0	1,135.5	1,183.5	1,235.8	1,290.4	1,347.4	1,406.2	1,467.6	1,530.9	1,596.2	1,663.4
8 FORMULA	400.8	414.1	436.7	461.4	487.5	515.1	543.7	573.9	605.2	637.5	671.0
9 K - 12 EDUCATION	648.2	660.0	696.7	738.9	779.3	824.2	871.6	921.8	974.9	1,031.1	1,090.5
10 INFRASTRUCTURE MAINTENANCE			73.2	75.5	77.9	80.4	83.0	85.6	88.3	91.1	94.0
11 DEBT SERVICE	133.0	109.4	86.6	81.5	72.8	50.8	33.4	20.5	16.5	15.2	14.4
12 CAPITAL	156.7	108.8	125.0	132.1	139.5	147.4	155.6	164.3	173.2	182.5	192.0
13 LOANS/TRANSFERS/SUPPS.	32.1	42.2	31.1	31.2	31.2	31.2	31.2	31.1	31.1	31.1	31.1
14 TOTAL GENERAL FUND EXPENDITURES	2,568.8	2,470.0	2,632.9	2,754.3	2,878.6	2,996.5	3,124.7	3,264.9	3,420.2	3,584.8	3,756.4
15 PROJECTED FISCAL GAP	-242.1	-498.3	-709.9	-742.2	-825.5	-919.8	-1,027.0	-1,191.2	-1,357.4	-1,528.2	-1,713.9
CONSTITUTIONAL BUDGET RESERVE											
16 BALANCE IF FISCAL GAP FILLED ENTIRELY WITH CBR	2,005.5	2,007.3	1,797.4	1,205.2	529.7	0.0	0.0	0.0	0.0	0.0	0.0
17 REMAINING FISCAL GAP						900.1	636.8	1,191.2	1,357.4	1,528.2	1,713.9
PERMANENT FUND EARNINGS											
18 PERMANENT FUND NET INCOME	940.0	1,218.0	1,289.0	1,365.0	1,447.0	1,553.0	1,645.0	1,741.0	1,840.0	1,944.0	2,052.0
19 PERMANENT FUND INFLATION PROOFING	345.0	425.0	446.0	467.0	489.0	528.0	553.0	579.0	606.0	633.0	662.0
20 PERMANENT FUND DIVIDENDS	557.0	575.0	599.0	615.0	650.0	715.0	759.0	806.0	855.0	907.0	958.0
21 PF EARNINGS RESERVE BALANCE	1,142.0	1,360.0	1,603.0	1,887.0	2,194.0	2,505.0	2,837.0	3,193.0	3,572.0	3,976.0	4,406.0
22 PF UNUSED ANNUAL EARNINGS	38.0	218.0	244.0	283.0	308.0	310.0	333.0	356.0	379.0	404.0	432.0

\$106 gap
35% fm
CBR

"DO NOTHING" PROJECTION - BASE CASE

(FY 95 Dollars)

	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>
Average Oil Price (\$/bbl.)	16.84	16.04	15.67	15.92	15.91	16.00	16.09	16.17	16.26	16.35	16.43
Oil Production (MMbbl/day)	1.574	1.503	1.457	1.418	1.375	1.342	1.304	1.246	1.195	1.146	1.103
REVENUES (\$ Millions):											
PETROLEUM	1,580.8	1,430.6	1,452.0	1,482.4	1,464.5	1,431.8	1,397.7	1,327.8	1,271.3	1,220.3	1,165.3
OTHER SOURCES	312.2	292.5	276.0	273.9	274.0	273.3	272.3	271.4	270.1	268.8	267.7
NONRECURRING SOURCES	409.7	191.4	84.9	82.2	79.7	77.2	74.9	72.6	70.3	68.2	66.1
TOTAL GENERAL FUND REVENUES	2,302.7	1,914.5	1,812.9	1,838.5	1,818.2	1,782.3	1,744.9	1,671.7	1,611.7	1,557.3	1,499.1
EXPENDITURES (\$ Millions):											
OPERATING - AGENCY	1,198.0	1,102.5	1,115.8	1,129.2	1,142.7	1,156.4	1,169.7	1,183.2	1,196.2	1,208.7	1,220.8
FORMULA	400.8	402.1	411.7	421.5	431.7	442.1	452.3	462.7	472.8	482.8	492.4
K - 12 EDUCATION	648.2	640.8	656.9	673.3	690.1	707.4	725.1	743.2	761.8	780.8	800.3
INFRASTRUCTURE MAINTENANCE			69.0	69.1	69.1	69.2	69.2	69.2	69.2	69.2	69.2
DEBT SERVICE	133.0	106.2	81.6	74.5	64.5	43.6	27.8	16.5	12.9	11.5	10.6
CAPITAL	156.7	105.6	117.8	120.7	123.6	126.5	129.4	132.4	135.3	138.2	140.9
LOANS/TRANSFERS/SUPPS.	32.1	41.0	29.4	26.5	27.6	26.8	25.9	25.1	24.3	23.6	22.8
TOTAL GENERAL FUND EXPENDITURES	2,568.8	2,398.3	2,482.2	2,516.7	2,549.3	2,572.0	2,599.4	2,632.3	2,672.5	2,714.7	2,767.1
PROJECTED FISCAL GAP	-266.1	-483.8	-669.3	-678.2	-731.1	-789.6	-854.4	-960.5	-1,060.8	-1,157.4	-1,254.0
CONSTITUTIONAL BUDGET RESERVE											
BALANCE IF FISCAL GAP	2,005.5	1,949.0	1,641.4	956.5	251.4	0.0	0.0	0.0	0.0	0.0	0.0
FILLED ENTIRELY WITH CBR						538.2	316.2	960.5	1,060.8	1,157.4	1,254.0
REMAINING FISCAL GAP											
PERMANENT FUND EARNINGS											
PERMANENT FUND NET INCOME	940.0	1,182.6	1,215.2	1,247.2	1,281.4	1,332.9	1,368.3	1,403.6	1,437.7	1,472.1	1,506.0
PERMANENT FUND INFLATION PROOFING	345.0	412.7	420.5	426.7	433.0	453.2	460.0	466.8	473.5	479.3	485.9
PERMANENT FUND DIVIDENDS	557.0	558.3	564.7	561.9	575.6	613.7	631.3	649.8	668.0	686.8	703.1
PF EARNINGS RESERVE BALANCE	1,142.0	1,360.0	1,603.0	1,887.0	2,194.0	2,505.0	2,837.0	3,193.0	3,572.0	3,976.0	4,404.0
PF UNUSED ANNUAL EARNINGS	38.0	211.7	230.0	258.6	272.8	266.1	277.0	287.0	296.1	305.9	317.1

"DO NOTHING" PROJECTION - LOW CASE

(Nominal Dollars)

	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Average Oil Price (\$/bbl.)	16.20	15.29	15.03	15.06	15.16	15.31	15.49	15.66	15.84	16.02	16.20
Oil Production (MMbbl/day)	1.574	1.503	1.429	1.363	1.293	1.224	1.163	1.11	1.059	1.011	0.963
REVENUES (\$ Millions):											
PETROLEUM	1,497.0	1,303.0	1,303.1	1,293.4	1,259.9	1,202.8	1,150.2	1,089.5	1,045.6	1,004.2	965.8
OTHER SOURCES	288.2	267.3	263.7	268.6	276.1	283.6	291.2	299.0	307.0	315.6	324.4
NONRECURRING SOURCES	409.7	197.1	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
TOTAL GENERAL FUND REVENUES	2,194.9	1,767.4	1,656.7	1,651.9	1,625.9	1,576.4	1,531.4	1,478.5	1,442.6	1,409.8	1,379.1
EXPENDITURES (\$ Millions):											
OPERATING - AGENCY	1,198.0	1,135.5	1,173.7	1,212.4	1,252.3	1,293.6	1,337.4	1,382.7	1,428.8	1,475.7	1,523.4
FORMULA	400.8	414.1	430.4	446.8	463.8	481.4	500.1	519.4	539.2	559.5	580.4
K - 12 EDUCATION	648.2	660.0	691.0	722.0	756.3	791.3	829.0	868.5	909.9	953.2	998.7
INFRASTRUCTURE MAINTENANCE			73.2	74.7	76.3	77.8	79.6	81.3	83.1	85.0	86.8
DEBT SERVICE	133.0	109.4	86.6	81.5	72.8	50.8	33.4	20.5	16.5	15.2	14.4
CAPITAL	156.7	108.8	125.0	129.8	134.7	139.8	145.3	150.9	156.6	162.5	168.6
LOANS/TRANSFERS/SUPPS.	32.1	42.2	30.7	30.6	30.6	30.6	30.7	30.6	30.6	30.6	30.6
TOTAL GENERAL FUND EXPENDITURES	2,568.8	2,470.0	2,610.5	2,698.8	2,786.9	2,905.4	2,955.3	3,053.8	3,164.7	3,281.7	3,402.9
PROJECTED FISCAL GAP	-242.1	-702.6	-953.8	-1,046.9	-1,161.0	-1,299.0	-1,424.0	-1,575.3	-1,722.1	-1,871.9	-2,032.7
CONSTITUTIONAL BUDGET RESERVE											
BALANCE IF FISCAL GAP	2,005.5	1,802.9	1,349.1	482.2	0	0	0.0	0.0	0.0	0.0	0.0
FILLED ENTIRELY WITH CBR					558.8	1,289.0	1,424.0	1,575.3	1,722.1	1,871.9	2,032.7
REMAINING FISCAL GAP											
PERMANENT FUND EARNINGS											
PERMANENT FUND NET INCOME	940.0	165.0	164.0	164.0	167.0	164.0	187.0	191.0	194.0	197.0	200.0
PERMANENT FUND INFLATION PROOFING	345.0	290.0	300.0	111.0	83.0	98.0	97.0	98.0	98.0	98.0	100.0
PERMANENT FUND DIVIDENDS	557.0	466.0	358.0	111.0	83.0	98.0	90.0	93.0	96.0	98.0	100.0
PF EARNINGS RESERVE BALANCE	1,142.0	552.0	58.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PF UNUSED ANNUAL EARNINGS	38.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

"DO NOTHING" PROJECTION - LOW CASE

(FY 95 Dollars)

	<u>FY 95</u>	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>
Average Oil Price (\$/bbl.)	16.20	14.97	14.39	14.12	13.92	13.77	13.63	13.50	13.36	13.22	13.08
Oil Production (MMbbl/day)	1.574	1.503	1.429	1.363	1.293	1.224	1.163	1.11	1.059	1.011	0.963
REVENUES (\$ Millions):											
PETROLEUM	1,497.0	1,275.7	1,249.0	1,214.6	1,159.1	1,064.2	1,014.3	940.1	882.7	829.4	772.3
OTHER SOURCES	288.2	261.7	252.7	252.2	254.0	255.7	256.8	258.0	259.2	260.7	262.1
NONRECURRING SOURCES	409.7	193.0	86.3	64.5	82.8	51.1	79.4	77.7	76.0	74.3	72.7
TOTAL GENERAL FUND REVENUES	2,194.9	1,730.3	1,588.0	1,531.3	1,495.9	1,371.0	1,350.5	1,275.8	1,217.8	1,164.4	1,107.2
EXPENDITURES (\$ Millions):											
OPERATING - AGENCY	1,198.0	1,111.7	1,125.0	1,138.6	1,152.2	1,163.0	1,179.4	1,193.0	1,206.1	1,218.8	1,231.0
FORMULA	400.8	405.4	412.5	419.6	426.7	434.0	441.0	448.1	455.2	462.1	469.0
K - 12 EDUCATION	648.2	646.2	662.3	678.9	695.9	713.3	731.1	749.4	768.1	787.3	807.0
INFRASTRUCTURE MAINTENANCE			70.2	70.2	70.2	70.2	70.2	70.2	70.2	70.2	70.2
DEBT SERVICE	133.0	107.1	83.0	76.5	67.0	45.8	29.5	17.7	13.9	12.6	11.6
CAPITAL	156.7	106.5	119.8	121.9	123.9	126.0	128.1	130.2	132.2	134.2	136.2
LOANS/TRANSFERS/SUPPS.	32.1	41.3	29.4	28.8	28.2	27.6	27.0	26.4	25.9	25.3	24.7
TOTAL GENERAL FUND EXPENDITURES	2,568.8	2,418.2	2,502.3	2,534.4	2,564.1	2,582.9	2,606.3	2,635.0	2,671.6	2,710.5	2,749.8
PROJECTED FISCAL GAP	-373.9	-687.9	-914.2	-1,003.1	-1,068.1	-1,181.9	-1,255.8	-1,359.2	-1,453.7	-1,546.1	-1,642.6
CONSTITUTIONAL BUDGET RESERVE											
BALANCE IF FISCAL GAP	2,005.5	1,765.1	1,256.9	336.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FILLED ENTIRELY WITH CBR					593.9	1,151.9	1,255.8	1,359.2	1,453.7	1,546.1	1,642.6
REMAINING FISCAL GAP											
PERMANENT FUND EARNINGS											
PERMANENT FUND NET INCOME	940.0	161.5	157.2	154.0	153.6	155.9	164.9	164.8	163.8	162.7	161.6
PERMANENT FUND INFLATION PROOFING	345.0	283.9	287.6	104.2	76.4	86.5	85.5	84.6	82.7	80.9	80.8
PERMANENT FUND DIVIDENDS	557.0	456.2	343.2	104.2	76.4	79.3	79.4	80.2	81.0	80.9	80.8
PF EARNINGS RESERVE BALANCE	1,142.0	540.4	55.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PF UNUSED ANNUAL EARNINGS	38.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

"DO NOTHING" PROJECTION - HIGH CASE

(Nominal Dollars)

	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Average Oil Price (\$/bbl.)	16.63	17.97	18.20	19.61	20.69	21.89	23.17	24.54	25.98	27.51	29.12
Oil Production (MMbbl/day)	1.574	1.503	1.487	1.491	1.479	1.513	1.515	1.459	1.406	1.349	1.292
REVENUES (\$ Millions):											
PETROLEUM	1,658.7	1,695.6	1,798.0	1,990.1	2,118.5	2,270.1	2,394.9	2,414.0	2,438.9	2,457.9	2,459.3
OTHER SOURCES	332.3	323.9	315.4	322.5	334.3	345.4	357.0	368.6	379.1	389.7	400.8
NONRECURRING SOURCES	409.7	197.1	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
TOTAL GENERAL FUND REVENUES	2,400.7	2,216.6	2,203.4	2,402.7	2,542.8	2,705.5	2,841.9	2,872.7	2,908.0	2,937.7	2,950.9
EXPENDITURES (\$ Millions):											
OPERATING - AGENCY	1,198.0	1,135.5	1,200.0	1,270.8	1,345.7	1,425.0	1,509.3	1,598.6	1,692.3	1,790.6	1,893.7
FORMULA	400.8	414.1	445.3	479.8	517.0	557.1	600.2	645.9	694.4	745.9	800.3
K - 12 EDUCATION	648.2	660.0	706.5	757.7	812.7	871.7	935.6	1,004.1	1,077.7	1,156.7	1,241.4
INFRASTRUCTURE MAINTENANCE			73.2	76.6	80.2	83.9	87.8	92.0	96.3	100.8	105.6
DEBT SERVICE	133.0	109.4	86.6	81.5	72.8	60.8	33.4	20.5	16.5	15.2	14.4
CAPITAL	156.7	108.8	125.0	134.7	145.1	156.4	168.5	181.3	194.9	209.4	224.6
LOANS/TRANSFERS/SUPPS.	32.1	42.2	31.7	31.0	31.8	31.0	31.8	31.8	31.7	31.7	31.7
TOTAL GENERAL FUND EXPENDITURES	2,568.8	2,470.0	2,668.3	2,832.9	3,005.3	3,179.7	3,366.5	3,574.1	3,803.9	4,050.3	4,311.7
PROJECTED FISCAL GAP	-168.1	-253.4	-464.9	-430.3	-462.5	-471.2	-524.7	-701.5	-895.9	-1,112.6	-1,361.8
CONSTITUTIONAL BUDGET RESERVE											
BALANCE IF FISCAL GAP	2,005.5	2,252.1	2,287.2	2,006.9	1,694.4	1,223.2	698.5	0.0	0.0	0.0	0.0
FILLED ENTIRELY WITH CBR											
REMAINING FISCAL GAP								3.0	895.9	1,112.6	1,361.8
PERMANENT FUND EARNINGS											
PERMANENT FUND NET INCOME	940.0	2,487.0	2,828.0	3,199.0	3,604.0	4,085.0	4,555.0	5,071.0	5,636.0	6,255.0	6,935.0
PERMANENT FUND INFLATION PROOFING	345.0	627.0	667.0	711.0	758.0	838.0	895.0	956.0	1,019.0	1,086.0	1,156.0
PERMANENT FUND DIVIDENDS	557.0	707.0	892.0	1,099.0	1,358.0	1,686.0	1,900.0	2,133.0	2,386.0	2,660.0	2,955.0
PF EARNINGS RESERVE BALANCE	1,142.0	2,295.0	3,565.0	4,955.0	6,443.0	8,005.0	9,764.0	11,747.0	13,978.0	16,487.0	19,311.0
PF UNUSED ANNUAL EARNINGS	38.0	1,153.0	1,269.0	1,390.0	1,488.0	1,561.0	1,760.0	1,982.0	2,231.0	2,509.0	2,824.0

"DO NOTHING" PROJECTION - HIGH CASE

(FY 95 Dollars)

	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Average Oil Price (\$/bbl.)	16.63	17.21	16.69	17.18	17.33	17.52	17.71	17.91	18.11	18.31	18.51
Oil Production (MMbbl/day)	1.57	1.503	1.487	1.491	1.479	1.513	1.515	1.459	1.406	1.349	1.292
REVENUES (\$ Millions):											
PETROLEUM	1,658.7	1,623.7	1,648.7	1,744.0	1,774.2	1,816.6	1,830.4	1,762.1	1,700.1	1,636.3	1,563.6
OTHER SOURCES	332.3	310.2	289.2	282.6	279.9	276.4	272.9	269.1	264.3	259.5	254.7
NONRECURRING SOURCES	409.7	188.7	82.5	78.9	75.4	72.0	68.8	65.7	62.7	59.9	57.2
TOTAL GENERAL FUND REVENUES	2,400.7	2,122.6	2,020.4	2,105.4	2,129.5	2,165.2	2,172.1	2,096.8	2,027.1	1,955.7	1,875.5
EXPENDITURES (\$ Millions):											
OPERATING - AGENCY	1,198.0	1,087.3	1,100.4	1,113.6	1,126.9	1,140.5	1,153.6	1,166.9	1,179.7	1,192.1	1,204.0
FORMULA	400.8	396.5	408.3	420.5	433.0	445.9	458.7	471.5	484.1	496.6	508.8
K - 12 EDUCATION	648.2	632.0	647.8	664.0	680.6	697.6	715.1	732.9	751.3	770.0	789.3
INFRASTRUCTURE MAINTENANCE	0.0		67.1	67.1	67.1	67.1	67.1	67.1	67.1	67.1	67.1
DEBT SERVICE	133.0	104.8	79.4	71.4	61.0	40.7	25.5	15.0	11.5	10.1	9.2
CAPITAL	156.7	104.2	114.6	118.0	121.5	125.2	128.8	132.3	135.9	139.4	142.8
LOANS/TRANSFERS/SUPPS.	32.1	40.8	29.1	27.9	26.6	25.4	24.3	23.2	22.1	21.1	20.1
TOTAL GENERAL FUND EXPENDITURES	2,568.8	2,365.2	2,446.7	2,482.5	2,516.8	2,542.3	2,573.1	2,608.9	2,651.7	2,696.5	2,741.3
PROJECTED FISCAL GAP	-168.1	-242.6	-426.3	-377.1	-387.3	-377.1	-401.0	-512.0	-624.5	-740.7	-865.8
CONSTITUTIONAL BUDGET RESERVE											
BALANCE IF FISCAL GAP	2,005.5	2,156.6	2,117.6	1,810.0	1,086.6	492.5	91.5	0.0	0.0	0.0	0.0
FILLED ENTIRELY WITH CBR								420.6	204.0	740.7	865.8
REMAINING FISCAL GAP											
PERMANENT FUND EARNINGS											
PERMANENT FUND NET INCOME	940.0	2,381.5	2,593.2	2,803.3	3,018.1	3,260.3	3,481.4	3,701.5	3,928.8	4,164.2	4,409.2
PERMANENT FUND INFLATION PROOFING	345.0	600.4	611.6	623.0	634.8	670.7	684.1	697.8	710.3	723.0	735.0
PERMANENT FUND DIVIDENDS	557.0	677.0	817.9	962.2	1,137.2	1,349.3	1,452.2	1,556.9	1,663.3	1,770.9	1,878.8
PF EARNINGS RESERVE BALANCE	1,142.0	2,197.6	3,293.9	4,375.2	5,447.7	6,468.3	7,534.7	8,663.0	9,844.6	11,089.3	12,404.5
PF UNUSED ANNUAL EARNINGS	38.0	1,104.1	1,163.6	1,218.1	1,246.1	1,249.3	1,345.2	1,446.7	1,555.2	1,670.3	1,795.5

LRFPC Fiscal Models

Assumptions for Base Case:

- 1) Department of Revenue *Spring 1995 Revenue Sources Book* base case price scenario.
- 2) Base case oil production scenario.
- 3) Petroleum revenues include oil and gas severance and property taxes, bonus sale receipts and royalties.
- 4) Other revenue sources includes all nonpetroleum revenues (including petroleum corporate income tax).
- 5) Nonrecurring sources includes adjustments for taxes that are simply pass throughs and revenues from sources that cannot be counted on from year to year. FY 96 includes revenue adjustments of \$110.1 million, \$70 million AHFC dividend and \$17 million from AIDEA. For FY 97 onward, the base case assumes \$40 million in revenue adjustments and a \$50 million annual AHFC dividend.
- 6) Total general fund revenues are the sum of lines (3 thru 5).
- 7) Agency operations includes general fund operational spending for government functions that are not driven by formulas set in statute. Projections are based on inflation plus population growth.
- 8) Formula programs (other than education) are combined and projected to grow at inflation plus population growth.
- 9) K - 12 education is projected to grow by an annual 2.5% enrollment rate of increase plus inflation.

- 10) Infrastructure maintenance is based on the following assumptions estimated from a 1990 survey of facilities managers that detailed the ratio of funded to unfunded maintenance and estimates from DOTPF staff on unfunded maintenance needs of other forms of infrastructure:

Facilities (\$ thousands)	
Maintenance	\$3.3 million
Renewal/Replacement	20.7
Highways	16.0
Aviation	4.5
Harbors	4.0
Ferries	2.6
 Total additional annual M & O needs	 51.1
 Deferred Maintenance	 22.1
(15 yr. program to address \$331 million backlog)	
 Grand Total	 \$73.2

Maintenance in out years projected to grow at the rate of inflation.

- 11) Debt service schedule assumes no new debt issues. Alaska's debt service schedule is based on the "Prudhoe Curve" of future revenues.
- 12) Capital expenditures for FY 96 are those passed by the legislature but do not include Governor's vetos. For FY 97 and beyond, capital spending assumptions correspond to Knowles administration targets based on the following assumptions adjusted for inflation plus population:

School construction priority list	\$25 million
Local sanitation priority list	40
Capital matching grants	20
Transportation federal match	40
 Grand Total	 \$125 million

- 13) Loans, transfers and supplementals assume no new supplementals after FY 96 and increase with inflation and population.
- 14) Total general fund expenditures is the sum of (7 thru 13).
- 15) Projected fiscal gap for general funds only = (6) - (14).
- 16) Constitutional budget reserve balance includes a \$350/yr. BP settlement for FY 96 and 97; FY 96 - 99 assumes \$150 per year in additional settlements.

- 17) Remaining fiscal gap shows the general fund difference between revenues and expenditures after the CBR has been entirely spent by FY 2000.
- 18) Permanent Fund net income was computed from the APF future earnings model using DOR Revenue Sources assumptions referred to in (1).
- 19,20) Permanent fund inflation proofing and dividends estimates were developed from the APF future earnings model (see separate sheet of Permanent Fund assumptions).
- 21) Permanent Fund earnings reserve balance is computed via the APF future earnings model.
- 22) Unused annual earnings is the remainder of PF earnings minus inflation proofing and dividends (18) – (19 + 20). These have not been included in the fiscal gap calculation since using PF earnings to balance the fiscal gap is a major policy call that has yet to be made by the commission.

PF ASSUMPTIONS - - REVENUES, INFLATION, REAL RATE OF RETURN

DEDICATED REVENUES.

	Low Case	Base Case	High Case
1995	215.15	222.55	227.34
1996	193.51	216.76	244.26
1997	193.78	226.65	259.67
1998	193.34	244.11	295.49
1999	197.01	258.69	327.13
2000	189.19	263.30	357.83
2001	179.60	263.82	377.61
2002	172.19	261.41	385.07
2003	165.36	259.40	393.09
2004	158.93	258.31	399.97
2005	151.37	256.10	403.76
2006	140.44	249.13	400.36
2007	130.40	242.64	394.01
2008	122.49	252.66	389.01
2009	114.23	246.21	379.90
2010	108.33	239.16	371.95

*DOR Revenue Sources Book, Spring 1995.

INFLATION RATE

	Low Case	Base Case	High Case
1995	2.29%	2.91%	3.64%
1996	2.14%	2.99%	4.43%
1997	2.14%	2.99%	4.43%
1998	2.07%	3.18%	4.64%
1999	2.07%	3.18%	4.64%
2000	2.07%	3.18%	4.64%
2001	2.21%	3.18%	4.71%
2002	2.21%	3.18%	4.71%
2003	2.21%	3.18%	4.71%
2004	2.21%	3.18%	4.71%
2005	2.21%	3.18%	4.71%
2006	2.21%	3.18%	4.71%
2007	2.21%	3.18%	4.71%
2008	2.21%	3.18%	4.71%
2009	2.21%	3.18%	4.71%
2010	2.21%	3.18%	4.71%

*DOR Revenue Sources Book, Spring 1995.

REAL RATE OF RETURN (Assumed)

Low Case	Base Case	High Case
-1.00%	4.79%	10.90%

RESULTING NOMINAL RATE OF RETURN (Derived)

	Low Case	Base Case	High Case
1995	1.29%	7.70%	14.54%
1996	1.14%	7.78%	15.33%
1997	1.14%	7.78%	15.33%
1998	1.07%	7.97%	15.54%
1999	1.07%	7.97%	15.54%
2000	1.07%	7.97%	15.54%
2001	1.21%	7.97%	15.61%
2002	1.21%	7.97%	15.61%
2003	1.21%	7.97%	15.61%
2004	1.21%	7.97%	15.61%
2005	1.21%	7.97%	15.61%
2006	1.21%	7.97%	15.61%
2007	1.21%	7.97%	15.61%
2008	1.21%	7.97%	15.61%
2009	1.21%	7.97%	15.61%
2010	1.21%	7.97%	15.61%

*From Brad Pierce & Jim Kelly, 6/13/95.

CASE # 1

8/13/95

"LOW" REVENUES, INFLATION, AND EARNINGS, FY 1996 - FY 2010

PF Status As Of

May-31-1995

GROWTH OF FUND PRINCIPAL						USE OF FUND INCOME							
FY	FY Begin Balance	Appropriations	Dedicated State Revenue*	Inflation-Proofing	FY End Balance	Inflation-Proofing Shortfall	Net Income	Distributions	Inflation-Proofing	General Fund	Reserves Add (Delete)	FY End Balance	FY
78	0		54		54		2			1			78
79	54		84		139		8			7			79
80	139		344		483		32	12		12			80
81	483	900	385		1,769		150	28		28			81
82	1,769	800	400		2,969		368	71		71	59	59	82
83	2,969	400	421	231	4,021		471	108	231	110	185	244	83
84	4,021	300	366	151	4,838		530	175	151		203	557	84
85	4,838	300	368	235	5,741		658	217	235		206	763	85
86	5,741		323	216	6,281		1,021	303	216		501	1,264 **	86
87	6,281	1,264 **	170	148	7,864		1,069	391	148		529	529	87
88	7,864		418	303	8,585		789	424	303		62	591	88
89	8,585		228	360	9,173		868	480	360	4	44	635	89
90	9,173		267	454	9,894		916	487	454	4	(30)	605	90
91	9,894		435	559	10,888		1,030	489	559	4	(24)	581	91
92	10,888		338	477	11,703		1,036	488	477	5	64	645	92
93	11,703	5 ***	315	362	12,385		1,226	532	362	5	320	965	93
94	12,385	6 ***	210	372	12,973		1,098	556	372	11	151	1,117	94
95	12,973	5	250	345	13,573		940	557	345	8	26	1,142	95
96	13,573		194	290	14,058		165	466	290		(590)	552	96
97	14,058		194	300	14,550		164	358	300		(494)	58	97
98	14,550		193	111	14,854	200	164	111	111		(58)		98
99	14,854		197	83	15,135	234	167	83	83				99
00	15,135		189	96	15,420	241	184	88	96				00
01	15,420		180	97	15,697	246	187	90	97				01
02	15,697		172	98	15,967	251	191	93	98				02
03	15,967		165	98	16,230	257	194	96	98				03
04	16,230		159	98	16,487	262	197	98	98				04
05	16,487		151	100	16,739	266	200	100	100				05
06	16,739		140	101	16,980	270	203	101	101				06
07	16,980		130	103	17,214	273	206	103	103				07
08	17,214		122	104	17,440	277	209	104	104				08
09	17,440		114	106	17,660	280	211	106	106				09
10	17,660		108	107	17,875	284	214	107	107				10
Cumulative Totals Projected For FY 1995 - 2010:							3,793	2,659	2,237	8			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 99: ****	1.11%	2.11%	-1.00%
FY 2000 - 10:	1.20%	2.20%	-1.00%

Source: OMB/JF

* Department of Revenue Spring 1995 Low-Case Revenue Forecast.

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

**** Based on capital market assumptions adopted by the Trustees in April 1994.

CASE # 2

6/13/95

"BASE CASE" (MID-CASE) REVENUES, INFLATION, AND EARNINGS, FY 1996 - FY 2010

PF Status As Of

May-31-1995

GROWTH OF FUND PRINCIPAL					
FY	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance
78	0		54		54
79	54		84		139
80	139		344		483
81	483	900	385		1,769
82	1,769	800	400		2,969
83	2,969	400	421	231	4,021
84	4,021	300	366	151	4,838
85	4,838	300	368	235	5,741
86	5,741		323	216	6,281
87	6,281	1,264 **	170	148	7,864
88	7,864		418	303	8,585
89	8,585		228	360	9,173
90	9,173		267	454	9,894
91	9,894		435	559	10,888
92	10,888		338	477	11,703
93	11,703	5 ***	315	362	12,385
94	12,385	6 ***	210	372	12,973
95	12,973	5	250	345	13,573
96	13,573		217	425	14,215
97	14,215		227	446	14,887
98	14,887		244	467	15,598
99	15,598		259	489	16,346
00	16,346		263	528	17,138
01	17,138		264	553	17,955
02	17,955		261	579	18,796
03	18,796		259	606	19,661
04	19,661		258	633	20,553
05	20,553		256	662	21,471
06	21,471		249	691	22,410
07	22,410		243	720	23,373
08	23,373		253	751	24,377
09	24,377		246	783	25,407
10	25,407		239	816	26,461
Cumulative Totals Projected For FY 1996 - 2010:			3,749	9,495	

USE OF FUND INCOME					
Net Income	Distributions		General Fund	Reserves	
	Dividends	Inflation-Proofing		Add (Delete)	FY End Balance
2			1		
8			7		
32	12		12		
150	28		28	59	59
368	71		71	185	244
471	108	231	110	110	354
530	175	151		203	557
658	217	235		206	763
1,021	303	216		501	1,264 **
1,069	391	148		529	529
789	424	303		62	591
868	460	360	4	44	635
916	487	454	4	(30)	605
1,030	489	559	4	(24)	581
1,036	488	477	5	64	645
1,226	532	362	5	320	965
1,098	556	372	11	151	1,117
940	557	345	8	26	1,142
1,218	575	425		217	1,360
1,289	599	446		244	1,603
1,365	615	467		283	1,887
1,447	650	489		308	2,194
1,553	715	528		310	2,505
1,645	759	553		333	2,837
1,741	806	579		356	3,193
1,840	855	606		379	3,572
1,944	907	633		404	3,976
2,052	958	662		432	4,408
2,164	1,012	691		461	4,869
2,280	1,068	720		492	5,361
2,402	1,126	751		525	5,886
2,529	1,186	783		560	6,446
2,661	1,249	816		597	7,043
29,089	13,636	9,495	8		

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 99: ****	7.88%	3.09%	4.79%
FY 2000 - 10:	7.97%	3.18%	4.79%

Source: OMB/JF

* Department of Revenue Spring 1995 Mid-Case Revenue Forecast.

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

**** Based on capital market assumptions adopted by the Trustees in April 1994.

CASE # 3

6/13/95

"HIGH" REVENUES, INFLATION, AND EARNINGS, FY 1996 - FY 2010

PF Status As Of

May-31-1995

GROWTH OF FUND PRINCIPAL						USE OF FUND INCOME							
FY	FY Begin Balance	Appropriations	Dedicated State Revenues*	Inflation-Proofing	FY End Balance	Inflation-Proofing Shortfall	Net Income	Distributions	Inflation-Proofing	General Fund	Reserves Add (Delete)	FY End Balance	FY
78	0		54		54		2			1			78
79	54		84		139		8			7			79
80	139		344		483		32	12		12			80
81	483	900	385		1,769		150	28		28	59	59	81
82	1,769	800	400		2,969		368	71		71	185	244	82
83	2,969	400	421	231	4,021		471	108	231	110	110	354	83
84	4,021	300	366	151	4,838		530	175	151		203	557	84
85	4,838	300	368	235	5,741		658	217	235		206	763	85
86	5,741		323	216	6,281		1,021	303	216		501	1,264 **	86
87	6,281	1,264 **	170	148	7,864		1,069	391	148		529	529	87
88	7,864		418	303	8,585		789	424	303		62	591	88
89	8,585		228	360	9,173		868	460	360	4	44	635	89
90	9,173		267	454	9,894		916	487	454	4	(30)	605	90
91	9,894		435	559	10,888		1,030	489	559	4	(24)	581	91
92	10,888		338	477	11,703		1,036	488	477	5	64	645	92
93	11,703	5 ***	315	362	12,385		1,226	532	362	5	320	965	93
94	12,385	6 ***	210	372	12,973		1,098	556	372	11	151	1,117	94
95	12,973	5	250	345	13,573		940	557	345	8	26	1,142	95
96	13,573		244	627	14,444		2,487	707	627		1,153	2,295	96
97	14,444		260	667	15,370		2,828	892	667		1,269	3,565	97
98	15,370		295	711	16,376		3,199	1,098	711		1,390	4,955	98
99	16,376		327	758	17,461		3,604	1,358	758		1,488	6,443	99
00	17,461		358	838	18,657		4,085	1,686	838		1,562	8,005	00
01	18,657		378	895	19,930		4,555	1,900	895		1,760	9,764	01
02	19,930		385	956	21,270		5,071	2,133	956		1,982	11,747	02
03	21,270		393	1,019	22,683		5,636	2,386	1,019		2,231	13,978	03
04	22,683		400	1,086	24,168		6,255	2,660	1,086		2,509	16,487	04
05	24,168		404	1,156	25,728		6,935	2,955	1,156		2,824	19,311	05
06	25,728		400	1,229	27,357		7,679	3,278	1,229		3,172	22,483	06
07	27,357		394	1,305	29,056		8,495	3,632	1,305		3,558	26,041	07
08	29,056		389	1,385	30,830		9,388	4,019	1,385		3,984	30,025	08
09	30,830		380	1,468	32,678		10,367	4,443	1,468		4,456	34,481	09
10	32,678		372	1,555	34,605		11,439	4,907	1,555		4,977	39,458	10
Cumulative Totals Projected For FY 1995 - 2010:							92,862	38,610	15,998	8			

REALIZED RATE OF RETURN ASSUMPTIONS:

	Nominal	Inflation	Real
FY 95:	6.47%	2.61%	3.86%
FY 96 - 99: ****	15.44%	4.54%	10.90%
FY 2000 - 10:	15.60%	4.70%	10.90%

Source: OMB/JF

* Department of Revenue Spring 1995 High-Case Revenue Forecast.

** Earnings reserve appropriated to Fund principal by the Legislature July 1, 1987.

*** Transferred to principal from earnings reserve account per AS 37.13.145(d).

**** Based on capital market assumptions adopted by the Trustees in April 1994.