

SCOMM

142:17

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number:

Bill Version:

HB 143

() Publish Date:

Revision Date/Time (Note if correction):

Dept. Affected:

Revenue 04

Title Policy on General Fund Revenue Shortfall

RDU ALL

Component

Sponsor House Ways and Means

Requester House Ways and Means

Component No.

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES

CHANGE IN REVENUES ()

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

There are no additional administrative costs associated with this bill.

Prepared by: Jerry Burnett

Division: Special Assistant to the Commissioner

Approved by: Tomas Boutin Deputy Commissioner

Agency: Department of Revenue

Phone 465-2302

Date/Time 2/24/05 3:51 PM

Date 2/24/2005

House Bill 143

A Policy on General Fund Revenue Shortfall

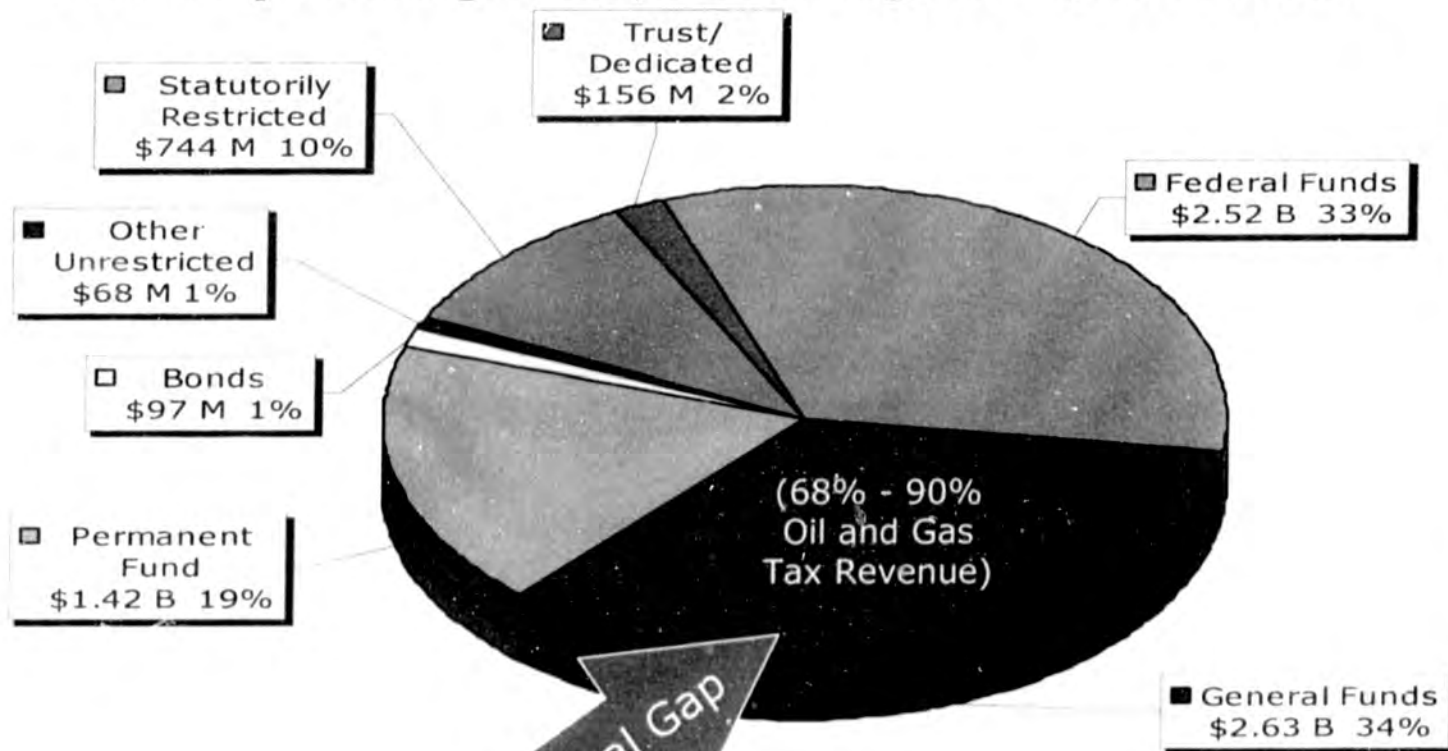
"It is the policy of the State of Alaska that the amounts necessary to cover a projected shortfall in general fund revenue during a fiscal year be appropriated equally from the Constitutional Budget Reserve fund and the Earnings Reserve Account."

AS 37.07.010 *Executive Budget Act*

HB 143
says

Why? Where's the problem?

FY06 Operating & Capital Budgets - \$7.6 Billion

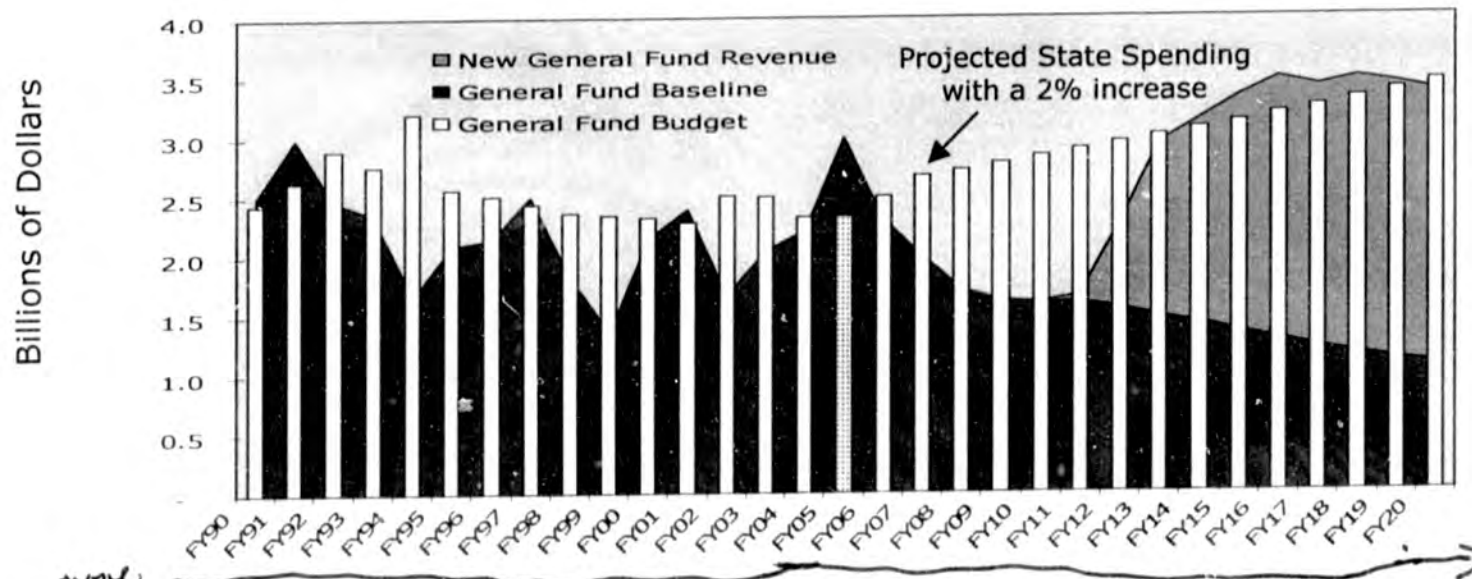


FY06 Budget as proposed by Governor Murkowski

Source: Legislative Finance

Home of the Fiscal Gap

... What's the problem?



\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments.

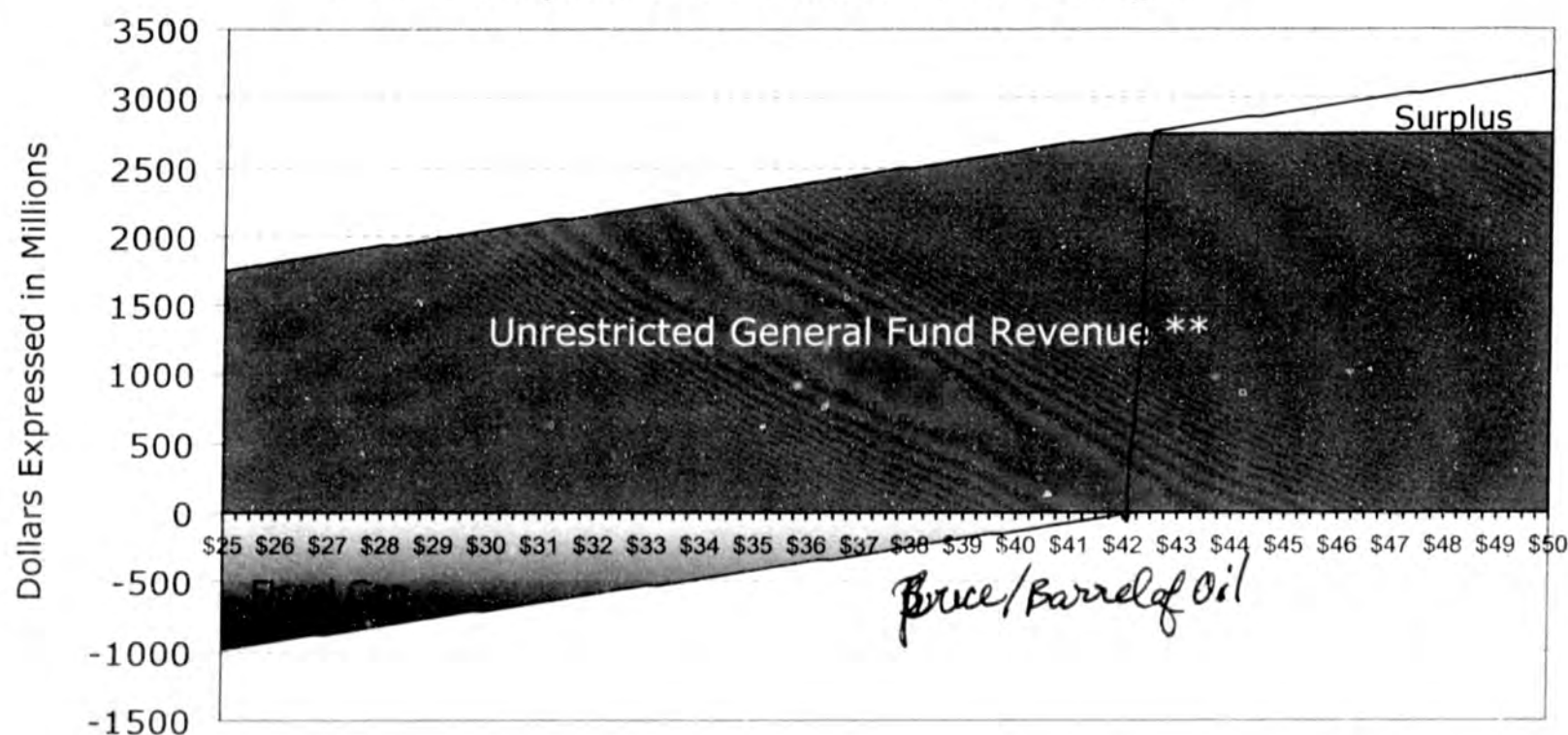
Source: Legislative Finance

General Fund revenue can be less than
General Fund expenditures.

... and things can change quickly

"For the Good or for the Bad"

FY06 Proposed General Fund Budget *



* Assumes the Governor's proposed budget plus \$117.5 million for FY06 PERS/TRS costs and \$80 for new legislation/supplemental.

** Includes revenues not directly affected by fluctuations in oil prices. Assumes DOR Fall 2004 production projection of .932 million barrels per day

Source: Legislative Finance

. . . and they have

**ALASKA CONSTITUTION
ARTICLE IX**

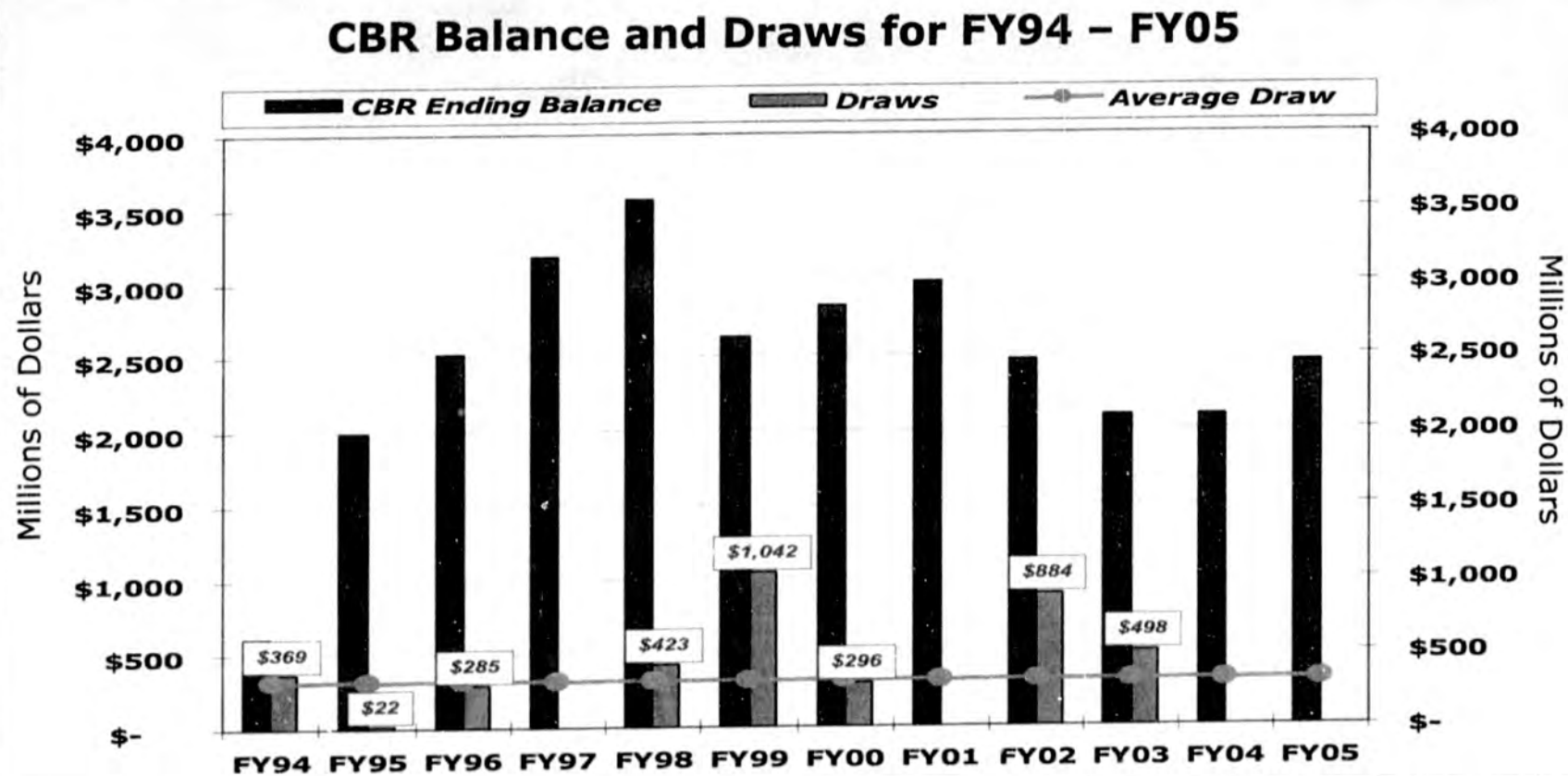
Section 17. Budget Reserve Fund (a)

There is established as a separate fund in the State treasury the budget reserve fund. Except for money deposited into the permanent fund under Section 15 of this article, all money received by the state after July 1, 1990, as a result of the termination, through settlement or otherwise, of an administrative proceeding or of litigation in a State or federal court involving mineral lease bonuses, rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments of bonuses, or involving taxes imposed on mineral income, production, or property, shall be deposited in the budget reserve fund. . . . Money may be appropriated from the fund only as authorized under (b) or (c) of this section.

Voters approved amendment in 1990.

- The CBR has been used to fill the fiscal gap 8 out of 12 years.
- Approximately \$5.5 billion has been withdrawn.
- The state has deposited into the CBR \$5.6 billion and earned \$1.6 billion in interest.

... for example

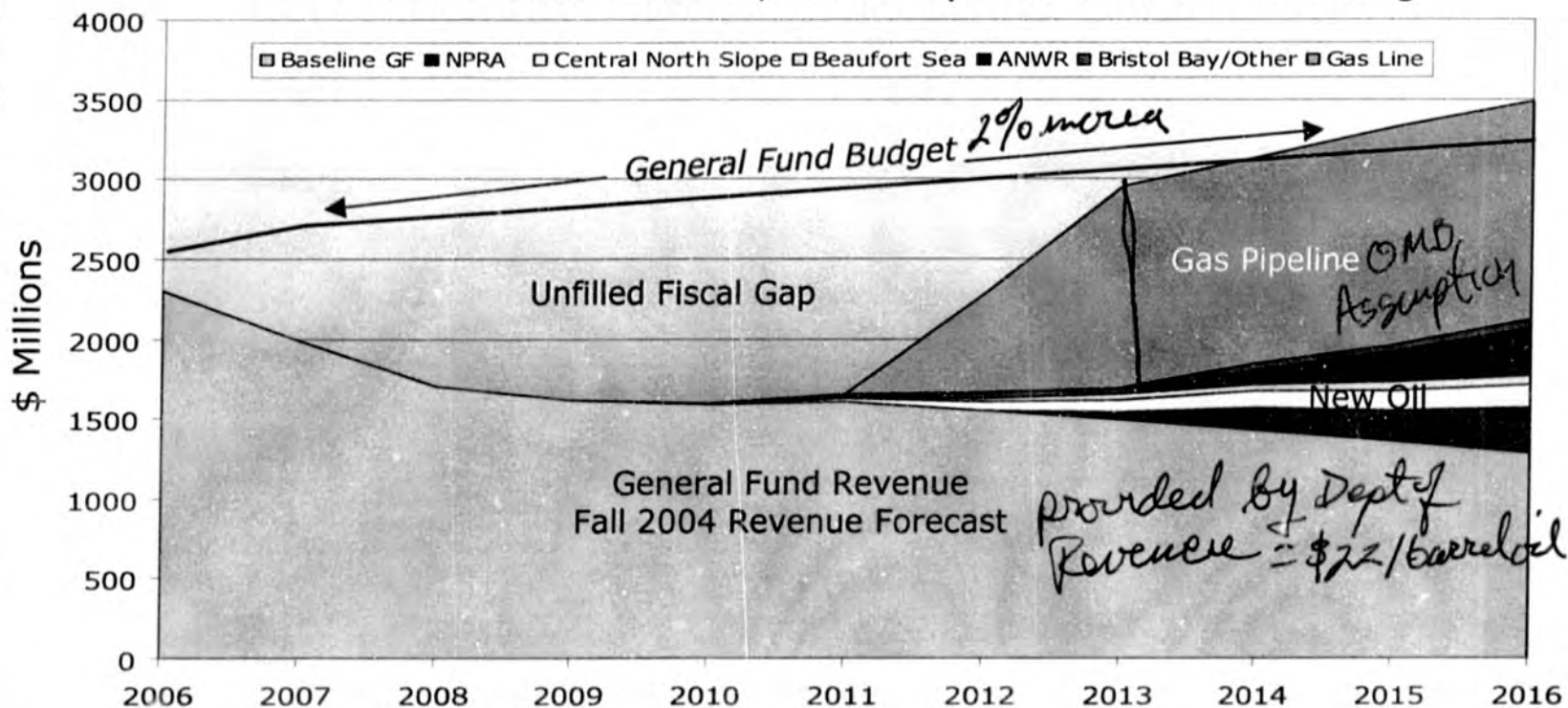


Source: Legislative Finance

- Draw 8 out of 12 years
- Average draw \$318 M
- Current balance \$2.1 B

Potential Future Oil and Gas Revenue

Fall 2004 Revenue Forecast, FY06 Proposed General Fund Budget



\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments. Base is inflated by 2%.

Source: Office of Management and Budget

Several Pots of Money



Reduce State Spending
(Save a \$, Earn a \$)

Income Tax
(\$600 M)



Corporation Tax
(\$50-\$100 M)



Other Revenue
(Tobacco Tax, Alcohol Tax,
Fisheries Tax, Car Rental
Tax, Studded Tire Fee, etc.)



Sales Tax
(\$200-\$300 M)

Alaska Perm Fund Financial Projections
December, 2004

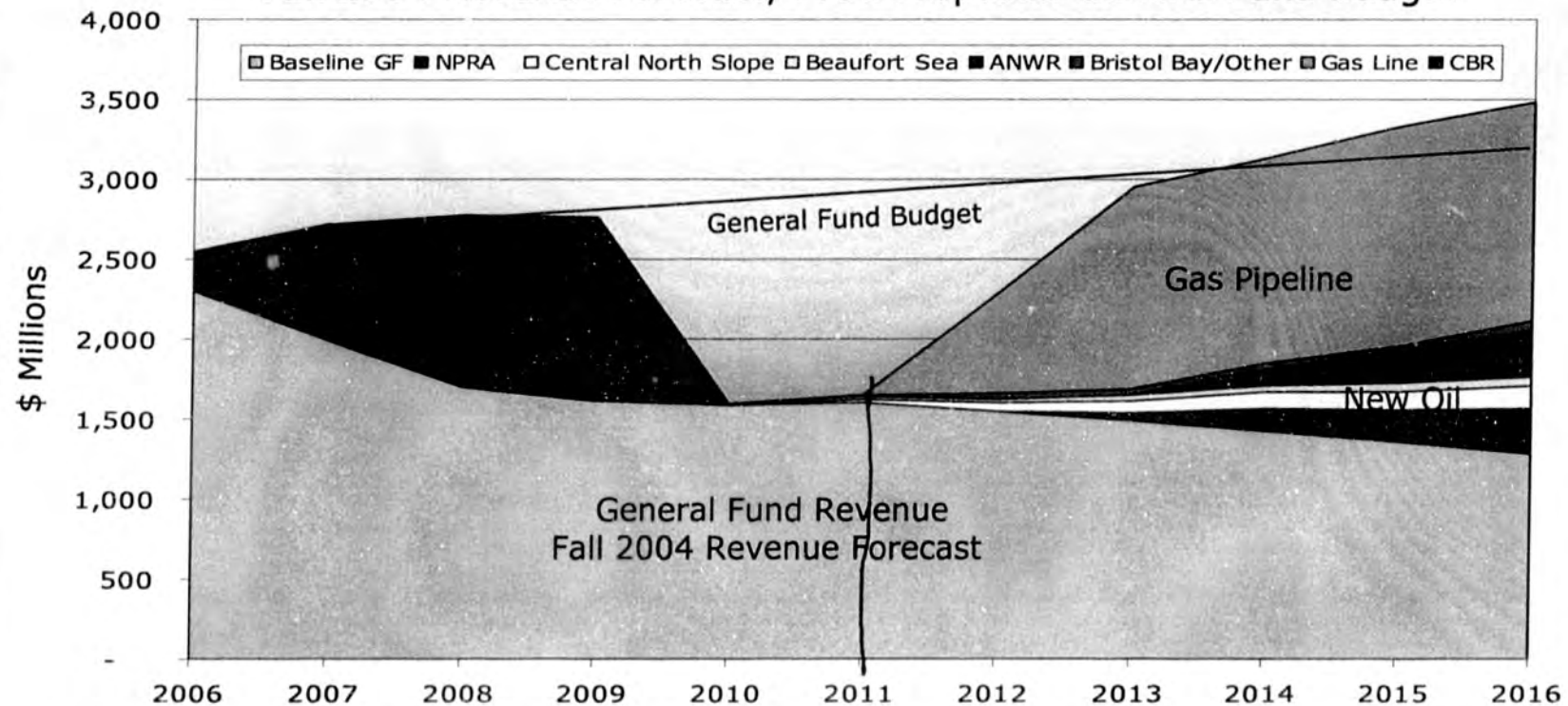
CBR
(\$2.1 B)
(Constitutional Budget Reserve)



... why not just the CBR?

Potential Future Oil and Gas Revenue

Fall 2004 Revenue Forecast, FY06 Proposed General Fund Budget

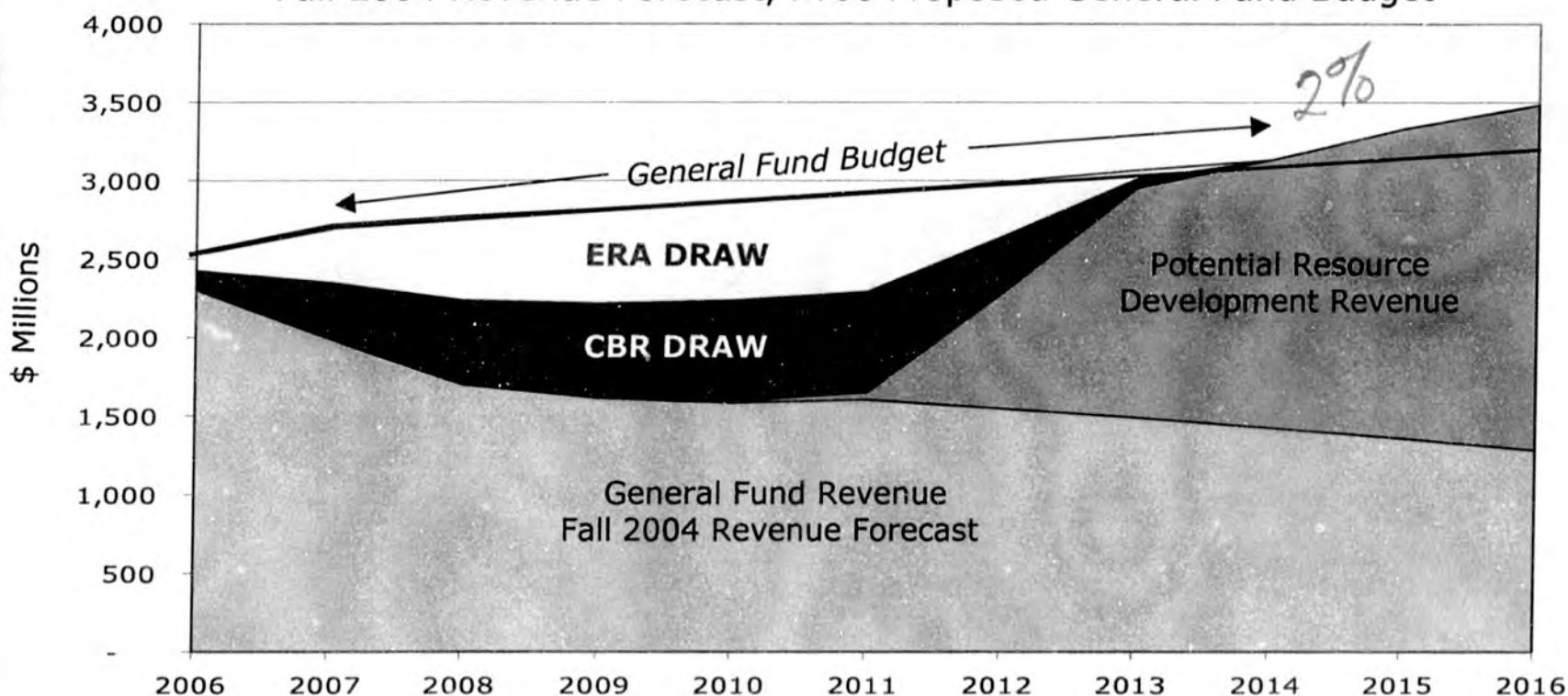


\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments. Base is inflated by 2%.

Source: Legislative Finance and OMB (Based-on Fall 2004 Revenue Forecast)

Potential Future Oil and Gas Revenue

Fall 2004 Revenue Forecast, FY06 Proposed General Fund Budget



\$2.3 B. General Fund base budget with FY06 & FY07 PERS unfunded liability adjustments. Base is inflated by 2%.

Source: Legislative Finance and OMB (Based on Fall 2004 Revenue Forecast)

... but can we?

***An Alaskan's
Guide to the Permanent Fund***

The Fund would help create an investment base to continually generate future income. When oil ran out, Alaska would still have a major source of state revenues. Alaskans could use these revenues to pay the costs of basic government services, or for whatever purposes future generations of Alaskans decided.

Each year, the Fund would channel a significant portion of the oil revenues away from the legislature. Less state income reduces the opportunity for excessive state spending.

The Fund would transform non-renewable oil wealth into a renewable source of wealth for future generations of Alaskans.

Yes, We Can!!!!

The Earnings Reserve Account, a result of wise investment of our Permanent Fund, has been and still is available to the legislature by a simple majority vote of 21-11.

PF financial projections say . . .

ALASKA PERMANENT FUND FUND FINANCIAL HISTORY & PROJECTIONS as of December 31, 2004

Projections will extend ten years, and are based on best available information (\$ in millions)

*As of Dec. 2004, statutory net income is trending to end the fiscal year more than 25% below the mid case.

Reserved Fund Balance - Principal										Unreserved Fund Balance										TOTAL FUND BALANCE	
FY	FY-Begin Contrib. Balance	Appropriations ⁽¹⁾	Dedicated State Revenues	Inflation Proofing	FY-End Balance Contributions	Unrealized Gain (Loss)	FY-End Balance	FY-End Reserved Balance	Acct. Net Income ⁽²⁾	Statutory Net Income ⁽³⁾	Distributions of Statutory Net Income			Realized Earnings Account			FY	FY-End Balance			
						Net Change					Dividends	Inflation Proofing	General Fund	Net Change							
77-98	0	6,734	6,250	5,533	18,517	3,971	3,971	22,288	20,683	18,667	7,589	5,533	268	1,389	1,389	77-98	1,389				
99	18,517	41	155	288	19,001	(430)	3,541	22,544	2,148	2,544	1,045	288	3	1,201	2,590	99	2,590				
00	19,001	264	326	423	20,014	(12)	3,529	22,543	2,249	2,222	1,172	423	3	382	2,972	00	2,972				
01	20,014	8	339	686	21,047	(2,146)	1,383	22,430	(924)	1,199	886	4	5	(988)	2,264	01	2,264				
02	21,047	(23) ⁽²⁾	258	602	21,884	(878)	505	22,389	(617)	257	926	602	5	(1,248)	1,136	02	1,136				
03	21,884	354 ⁽³⁾	398	352	22,988	601	1,106	24,094	963	355	691	352	0	(1,035)	100	03	100				
04	22,988	(339) ⁽⁴⁾	353	524 ⁽⁵⁾	23,526	1,909	3,015	26,541	3,434	1,502	581	170 ⁽⁶⁾	0	759	859	04	859				
05	23,526	19	476	624	24,645	(2,996)	19	24,664	(1,509)	1,468	502	624	0	342	1,201	05	1,201				
06	23,526	21	476	624	24,647	(2,022)	993	25,640	(94)	1,907 [*]	548	624	0	735	1,594	06	1,594				
Mid	23,526	27	476	624	24,653	(453)	2,562	27,215	2,048	2,474	608	624	0	1,242	2,101	07	2,101				
05	23,526	28	476	624	24,654	1,069	4,084	28,738	4,187	3,090	672	624	0	1,794	2,653	08	2,653				
06	23,526	31	476	624	24,657	2,125	5,140	29,796	5,765	3,609	727	624	0	2,239	3,118	09	3,118				
06	24,653	21	356	650	25,681	180	2,742	28,423	2,190	1,988	690	650	0	648	2,749	10	2,749				
07	25,681	23	312	676	26,691	191	2,834	29,625	2,328	2,114	885	676	0	553	3,302	11	3,302				
08	26,691	24	245	700	27,660	202	3,136	30,796	2,457	2,231	1,082	700	0	448	3,750	12	3,750				
09	27,660	26	231	725	28,643	212	3,348	31,991	2,578	2,340	1,170	725	0	445	4,195	13	4,195				
10	28,643	28	230	751	29,651	223	3,571	33,222	2,701	2,451	1,168	751	0	532	4,727	14	4,727				
	29,651	30	231	777	30,689	234	3,805	34,494	2,834	2,570	1,229	777	0	564	5,291	15	5,291				
	30,689	32	224	804	31,740	246	4,051	35,799	2,972	2,694	1,290	804	0	600	5,891	12	5,891				
	31,740	34	215	831	32,829	258	4,308	37,137	3,114	2,822	1,352	831	0	639	6,531	13	6,531				
	32,829	37	206	859	33,930	270	4,579	38,509	3,263	2,956	1,417	859	0	680	7,210	14	7,210				
	33,930	39	195	887	35,051	284	4,862	39,914	3,417	3,094	1,484	887	0	722	7,933	15	7,933				
Assum.		321	2,919	8,284		1,847			29,901	27,732	12,375	8,284	0	7,074							
10%																					
25%																					
Mid																					
25%																					
10%																					
FY 2006-2015																					

Assum.	Total Return - Inflation	Total Real Return	Statutory Return
10%	5.26%	2.60%	-7.86%
25%	-0.14%	2.60%	-2.74%
Mid	7.61%	2.60%	5.01%
25%	15.35%	2.60%	12.75%
10%	20.58%	2.60%	17.98%
FY 2006-2015	7.61%	2.60%	5.01%
			7.04%

Income year-to-date as of December 31, 2004

FY05 Statutory net income	
Interest, dividends, real estate & other income	\$ 419.4
Realized gains on the sale of invested assets	404.8
Less operating expenses	(22.6)
Statutory net income	\$ 801.6

FY05 GAAP (accounting) net income	
Statutory net income	\$ 801.6
Adjustment for unrealized gains (losses) on invested assets	1,571.6
Accounting net income (loss)	\$ 2,373.2

For more information see www.apfc.org

Notes to financial results and projections FY77 - FY15:

- Special general fund and earnings reserve appropriations to principal, royalty settlement earnings transferred to principal per AS 37.13.145(d), and other miscellaneous appropriations to principal.
- Final adjustment to principal based on reconciliation of State of AK v. Amerinda Hess et al royalty case.
- FY03 Senate Bill 100 transferred \$354 million from realized earnings account to principal.
- Senate Bill 283 defines the FY03 special appropriation of \$354 as pre FY04 inflation proofing and appropriates the remaining \$170 million needed to fully inflation proof contributions and appropriations in FY04. An additional \$15 million in settlement earnings (earnings above inflation) is appropriated to principal per AS 37.13.145(d).
- Statutory inflation proofing for FY04 is based on the inflation rate of 2.28%, or \$524 million (\$354 million pre inflation proofing plus \$170 million FY04 appropriation).
- Accounting net income is statutory net income plus the net change in unrealized gains (losses) and settlement earnings. Statutory net income is realized earnings less settlement earnings and is used to calculate the annual dividend transfer.
- Total Fund equals reserved fund balance plus the realized earnings account.
- Based on 2004 Callan capital market assumptions and a range of expected returns based on the probability of the return outcomes.
- Based on 2004 Callan capital market assumptions and median expected returns (the mid case). Actual results will vary from projections.

PERFORMANCE SUMMARY		Current Month	Last 3 Months	Fiscal 0 Y-T-D #	Calendar 0 Y-T-D #	Last 12 Months	Last 3 Years	Last 6 Years
(preliminary as of December 31, 2004)								
Alaska CDs	0.18%	0.48%	0.85%	1.55%	1.55%	1.87%	3.12%	
Domestic Fixed Income	0.94%	1.01%	1.13%	4.27%	4.27%	6.11%	7.56%	
Non-Domestic Fixed Income	1.23%	6.74%	10.69%	9.99%	9.99%	12.12%	8.09%	
Domestic Equities	3.57%	10.50%	7.67%	12.12%	12.12%	5.18%	-0.58%	
Non-Domestic Equities	4.25%	14.54%	15.22%	17.81%	17.81%	11.15%	-0.74%	
Real Estate	3.03%	8.82%	14.12%	20.74%	20.74%	15.17%	14.42%	
Absolute Return	N/A	1.90%						
Total Fund	2.77%	8.05%	8.70%	11.39%	11.39%	8.32%	4.56%	
Total Fund Return Benchmark	2.67%	7.90%	8.76%	11.64%	11.64%	8.15%	3.93%	

December 31, 2004

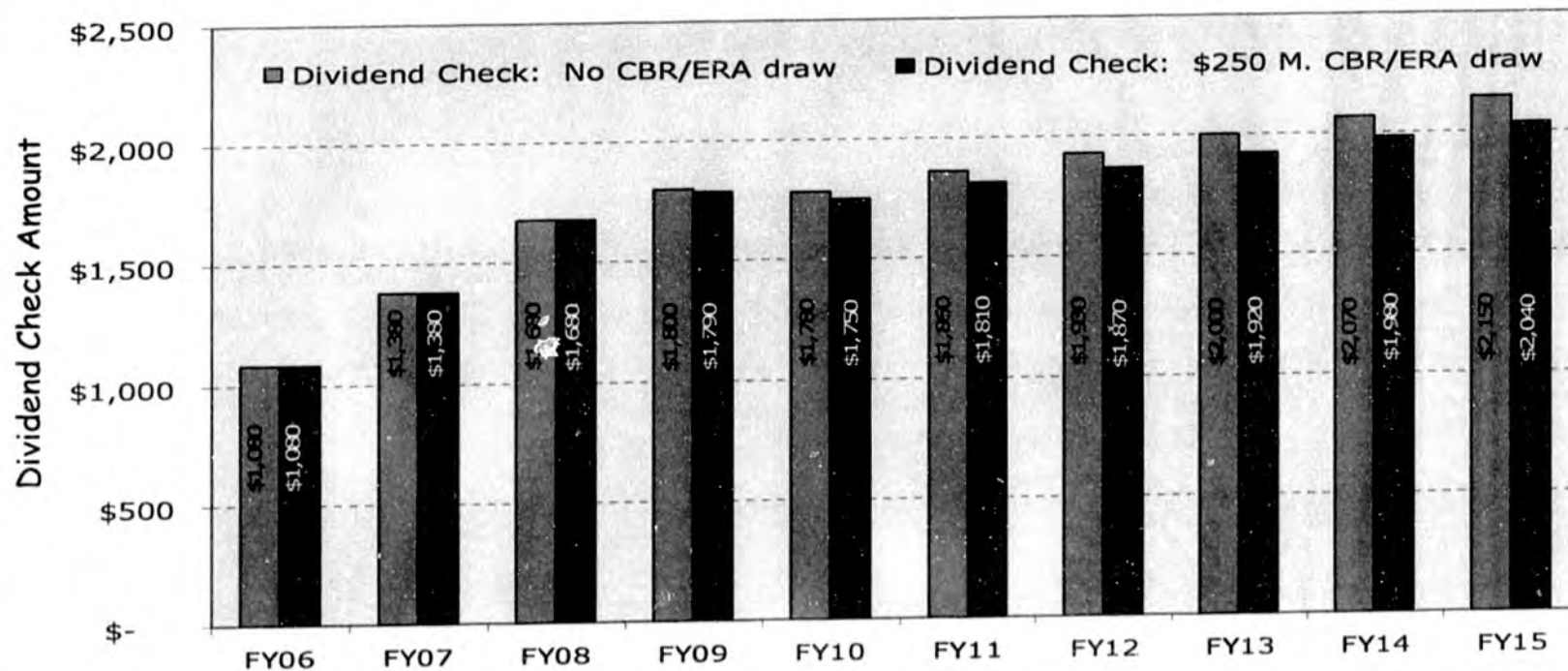
How much less is my PFD if the Legislature draws
\$250 M from the ERA each year?

Fiscal Gap (millions)	ERA Draw (millions)	Fiscal Years Ahead									
		1	2	3	4	5	6	7	8	9	10
200	100	\$0	\$2	\$4	\$7	\$12	\$18	\$25	\$31	\$38	\$44
300	150	\$0	\$2	\$5	\$11	\$18	\$27	\$37	\$47	\$56	\$66
400	200	\$0	\$3	\$7	\$14	\$24	\$36	\$49	\$62	\$75	\$88
500	250	\$0	\$3	\$9	\$18	\$30	\$45	\$61	\$77	\$93	\$110
600	300	\$0	\$4	\$11	\$21	\$36	\$54	\$73	\$93	\$112	\$132
700	350	\$0	\$4	\$12	\$25	\$42	\$63	\$85	\$108	\$131	\$154
800	400	\$0	\$5	\$14	\$28	\$48	\$72	\$98	\$123	\$149	\$176
900	450	\$0	\$6	\$16	\$32	\$54	\$81	\$110	\$139	\$168	\$199
1,000	500	\$0	\$6	\$18	\$35	\$60	\$90	\$122	\$154	\$187	\$221

Source: Legislative Finance (Based on 7.6% rate of return, Perm Fund Financial Projections, Dec. 31, 2004)

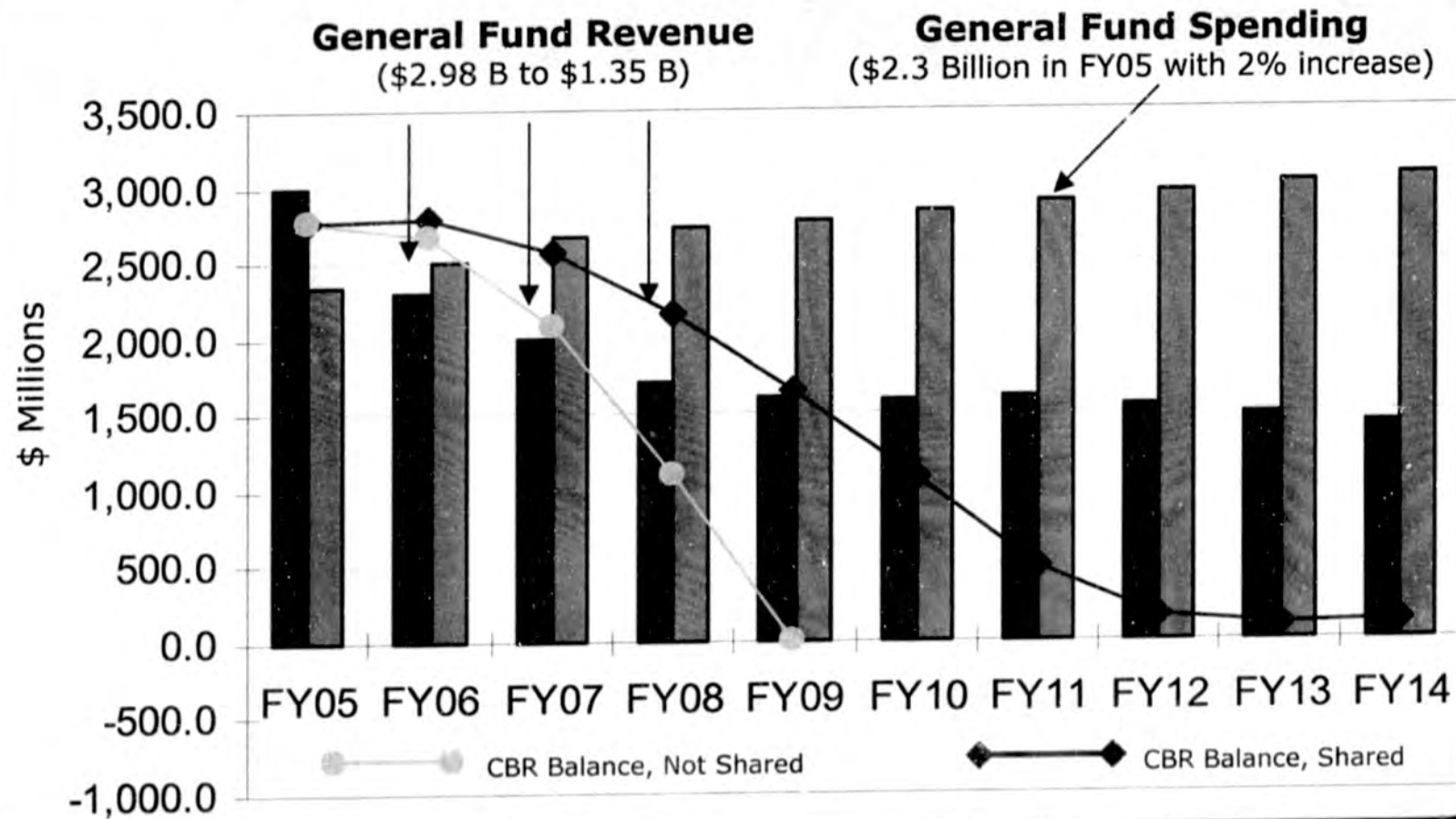
... how does this compare to status quo?

How much less is my PFD if the Legislature draws \$250 M from the ERA every year for 10 years?



Source: Legislative Finance

Answer: In five years, it's 30 less. In ten years, it's \$110 less. 14



Source: Legislative Finance - expected CBR return @ 4.7% plus expected settlements