THE STATE
of ALASKA
GOVERNOR BILL WALKER

Department of Revenue
COMMISSIONER'S OFFICE
State Office Building
333 Willoughby Avenue, 11th Floor
PO Box 110400
Juneau, Alaska 99811-0400
Main: 907.465.2300
Fax: 907.465.2389

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The Honorable Charisse Millett
Alaska State Representative
House Minority Leader
State Capitol Room 404
Juneau, AK 99801

The Honorable Lance Pruitt
Alaska State Representative
State Capitol Room 415
Juneau, AK 99801

Honorable Representative Millett and Representative Pruitt:

The following analysis is in response to several requests for modeling HB 192. For sake of efficiency the Department of Revenue (DOR) has combined the modeling requests into a single response. The base modeling is similar to that in our analysis of CSSB 26 except for the following differences found in HB 192:

- Includes intent language re. $600 million in cuts over 4 years
- Does not reduce royalties to the principal of fund
- 5.25 percent of market value (POMV) the entire time (no step down to 5%)
- Total POMV divided 50-50 between UGF and dividend (instead of 75-25 in CSSB 26)
- No provision for $1,000 dividend for first two years
- Includes provision re. Alaska Permanent Fund Corporation procurement

In addition DOR was asked to model the plan with the alternative production and budgetary considerations listed below. Since these additional considerations limit the usefulness of the modeling when comparing the results with other Permanent Fund restructuring proposals, DOR has also included forecasts for HB 192 absent the budget reductions and increased production:

(1) Increased production, specifically

- In FY22, increase production by 50k bbls; then,
- In FY23, increase production by another 50k bbls (total increase from 22 to 23 is 100k bbls); and
- Carry that 100K additional production through the modeling horizon (add 100k bbls to existing forecast after FY23)

(2) Different budget assumptions

- $600 million in cuts over 4 fiscal years and
- A flat budget thereafter (no increases for inflation)

In order to provide the multiple scenarios modeled in a concise manner, the results are being presented as line graphs representing the median results without the range of potential outcomes shown in the "box and whisker plots" found in the more detailed modeling presentations. It should be noted that the lines representing a full fiscal plan assume no ad hoc draws on the Earnings Reserve Account (ERA). This can only be accomplished under HB 192 if the $1.2 billion (plus capital and debt service payments) deficit remaining, after use of the Permanent Fund earnings, can be fully closed. As noted on slide 5, failure to fully close that deficit could result in up to an 85.5% chance of ERA failure under this plan.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

Randall Hoffbeck
Commissioner