THE STATE
of ALASKA
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE
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March 23, 2017

The Honorable Paul Seaton and the Honorable Neal Foster
Alaska State Representatives
Co-chairs, House Finance Committee
State Capitol Rooms 505 and 410
Juneau, AK 99801

Dear Co-Chairs Seaton and Foster:

Attached is a quantitative matrix for HB115 with amendment 13 scenarios, in response to a question on the impact of the draw limit at various trigger amounts, at less than dollar for dollar replacement, and using a shorter forecast period. "Over time, the model demonstrates the positive effect of a draw limit in all cases. Generally, lower trigger amounts and higher offset ratios (closer to $1 for $1 offsets) produce better outcomes."

As I stated in testimony, the administration believes a "draw limit," or something similar, is a necessary component of any framework for using permanent fund earnings. If one assumes that oil price and production will eventually generate higher tax and royalty income for the State, the reason for using the permanent fund earnings as a revenue source may diminish. Through the use of a draw limit which automatically withdraws less and/or contributes more depending upon need, it is possible to temper the swings in general fund revenues caused by swings in oil prices and production. Stabilizing revenues will help create a more efficient budget process, help avoid uncontrollable interruptions to state services, and provide for reliable growth in those state services. In addition a smaller draw on the permanent fund earnings reserve will allow for growth in the permanent fund and stabilize long durability of the plan.

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

Respectfully,

Randall J. Hoffbeck
Commissioner

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Metric Name	Metric Type	HB 115 as of 3/16/17, Full Fiscal Plan, $1.2B draw limit			HB 115 as of 3/16/17, Full Fiscal Plan, $1.5B draw limit		
		100% reduction	75% reduction	50% reduction	100% reduction	75% reduction	50% reduction
Median 2018 BOY Total Fund Balance	Baseline Metric	$55,700	$55,700	$55,700	$55,700	$55,700	$55,700
Median 2026 EOY Total Fund Balance	Sustainable Metric	$70,076	$69,663	$68,893	$69,403	$68,733	$68,266
Real Median 2026 EOY Total Fund Balance	Sustainable Metric	$57,359	$57,021	$56,390	$56,808	$56,260	$55,877
Median 2041 EOY Total Fund Balance	Sustainable Metric	$108,393	$103,490	$100,837	$104,080	$102,198	$97,852
Real Median 2041 EOY Total Fund Balance	Sustainable Metric	$63,545	$60,671	$59,115	$61,017	$59,913	$57,365
Median 2018 Net Payout to General Fund	Baseline Metric	$1,687	$1,687	$1,687	$1,687	$1,687	$1,687
Median 2026 Net Payout to General Fund	Other Metric	$1,723	$1,750	$1,810	$1,784	$1,809	$1,845
Real Median 2026 Net Payout to General Fund	Other Metric	$1,410	$1,433	$1,481	$1,460	$1,481	$1,510
Median 2041 Net Payout to General Fund	Other Metric	$2,824	$2,842	$2,834	$2,834	$2,829	$2,789
Real Median 2041 Net Payout to General Fund	Other Metric	$1,674	$1,685	$1,680	$1,680	$1,677	$1,653
Median 2026 Maximum Payout to General Fund	Other Metric	$3,195	$3,189	$3,178	$3,173	$3,165	$3,142
Real Median 2026 Maximum Payout to General Fund	Other Metric	$2,616	$2,611	$2,601	$2,597	$2,591	$2,572
Median 2041 Maximum Payout to General Fund	Other Metric	$4,973	$4,845	$4,706	$4,840	$4,753	$4,570
Real Median 2041 Maximum Payout to General Fund	Other Metric	$2,915	$2,840	$2,759	$2,837	$2,786	$2,679
Median 2026 Dividend per Person	Other Metric	$1,500	$1,502	$1,495	$1,490	$1,490	$1,477
Median 2041 Dividend per Person	Other Metric	$2,113	$2,057	$1,992	$2,055	$2,018	$1,940
Median Standard Deviation of Payout + UGF Revenue	Stabilizing Metric	$928	$965	$1,053	$944	$995	$1,081
Median Standard Deviation of Payout + UGF Revenue/Average Total UGF	Stabilizing Metric	17.87%	18.31%	19.63%	18.01%	18.76%	20.04%
Cumulative Earning Reserve Fail Rate	Sustainable Metric	0.83%	1.57%	1.99%	1.63%	2.20%	2.95%

The following tables assume HB 115 as of 3/16/2017, plus a draw limit, implemented with a full fiscal plan (no unplanned draws from the earnings reserve).

2026 fund size	Draw limit trigger ($ billions)					
% reduction	1.2	1.4	1.6	1.8	2.0	No draw limit
100%	$ 70,076	$ 69,468	$ 68,971	$ 68,284	$ 68,354	$ 66,463
90%	$ 69,849	$ 69,409	$ 68,594	$ 68,387	$ 68,181	
80%	$ 69,550	$ 68,771	$ 68,529	$ 68,260	$ 67,782	
70%	$ 69,579	$ 68,918	$ 68,095	$ 67,799	$ 68,006	
60%	$ 68,883	$ 68,598	$ 67,944	$ 68,072	$ 67,767	
50%	$ 68,893	$ 67,999	$ 67,741	$ 67,792	$ 67,581	
Median values from probabilistic model, in millions						

2041 fund size	Draw limit trigger ($ billions)					
% reduction	1.2	1.4	1.6	1.8	2.0	No draw limit
100%	$ 108,393	$ 105,510	$ 102,905	$ 100,723	$ 100,016	$ 90,280
90%	$ 107,280	$ 104,481	$ 102,108	$ 101,071	$ 99,532	
80%	$ 105,184	$ 103,092	$ 100,962	$ 100,549	$ 98,898	
70%	$ 103,509	$ 101,854	$ 99,815	$ 98,965	$ 98,124	
60%	$ 102,747	$ 101,418	$ 98,984	$ 98,236	$ 96,893	
50%	$ 100,837	$ 98,928	$ 97,535	$ 96,862	$ 96,650	
Median values from probabilistic model, in millions						

2026 dividend	Draw limit trigger ($ billions)					
% reduction	1.2	1.4	1.6	1.8	2.0	No draw limit
100%	$ 1,500	$ 1,501	$ 1,488	$ 1,479	$ 1,483	$ 1,462
90%	$ 1,506	$ 1,496	$ 1,486	$ 1,475	$ 1,479	
80%	$ 1,502	$ 1,494	$ 1,484	$ 1,486	$ 1,475	
70%	$ 1,496	$ 1,486	$ 1,482	$ 1,477	$ 1,475	
60%	$ 1,493	$ 1,481	$ 1,481	$ 1,479	$ 1,472	
50%	$ 1,495	$ 1,479	$ 1,483	$ 1,472	$ 1,479	
Median values from probabilistic model, per-person dividend						

2041 dividend	Draw limit trigger ($ billions)					
% reduction	1.2	1.4	1.6	1.8	2.0	No draw limit
100%	$ 2,113	$ 2,078	$ 2,027	$ 2,010	$ 1,974	$ 1,814
90%	$ 2,102	$ 2,054	$ 2,010	$ 2,011	$ 1,981	
80%	$ 2,070	$ 2,037	$ 2,002	$ 1,985	$ 1,958	
70%	$ 2,045	$ 2,012	$ 1,976	$ 1,962	$ 1,940	
60%	$ 2,026	$ 1,988	$ 1,962	$ 1,944	$ 1,929	
50%	$ 1,992	$ 1,949	$ 1,946	$ 1,932	$ 1,927	
Median values from probabilistic model, per-person dividend						

ER failure rate	Draw limit trigger ($ billions)					
% reduction	1.2	1.4	1.6	1.8	2.0	No draw limit
100%	0.83%	1.39%	1.85%	2.45%	2.61%	8.17%
90%	1.23%	1.43%	2.04%	2.72%	2.99%	
80%	1.29%	1.61%	2.40%	2.97%	3.16%	
70%	1.47%	2.20%	2.38%	2.65%	3.74%	
60%	1.74%	2.05%	2.89%	3.38%	3.78%	
50%	1.99%	2.64%	3.13%	3.49%	3.86%	
Cumulative failure rate of the earnings reserve over 24 years						