

Reducing the Deficit

A path forward using our vast cash reserves

Senate Bill 114

Senator Lesil McGuire

A \$4 Billion Deficit

- The legislature has enacted heavy spending cuts over the last 2 years
- The state has several savings accounts, but
 - Revenue models show that if oil prices do not rebound,
 - Those savings will be gone in about 2 years
- We cannot WAIT and HOPE for high oil prices
- The price of inaction now could be disastrous for the state's future

SB 114: The SWAP- Rents and Royalties

- Currently,
 - 25% of all Royalties and Rents from
 - Oil, Gas and Federal Mining revenue
 - Deposited into the Permanent Fund corpus
 - 0.5% of R & R to School Trust Fund
 - 74.5% deposited to General Fund

Spring 2015 Revenue Source Book:

All Royalties: \$1.5 B

25% to PF= \$380M

(School Trust Fund) = 0.5%

74.5% remaining= \$1.12B (General Fund)

SB 114: Rents and Royalties to Dividend

- 74.5% of all R&R would be deposited into the Dividend Fund
 - Spring Forecast 2015= \$1.12B
- No Permanent Fund Earnings would be used for Dividend
- This would be a **\$1,700 Dividend**
 - Based on 2014 accepted PFD applications
- SB 114: puts a floor (guarantee) of \$1,000 Dividends

SB 114: PF Reserve Earnings Account and the General Fund

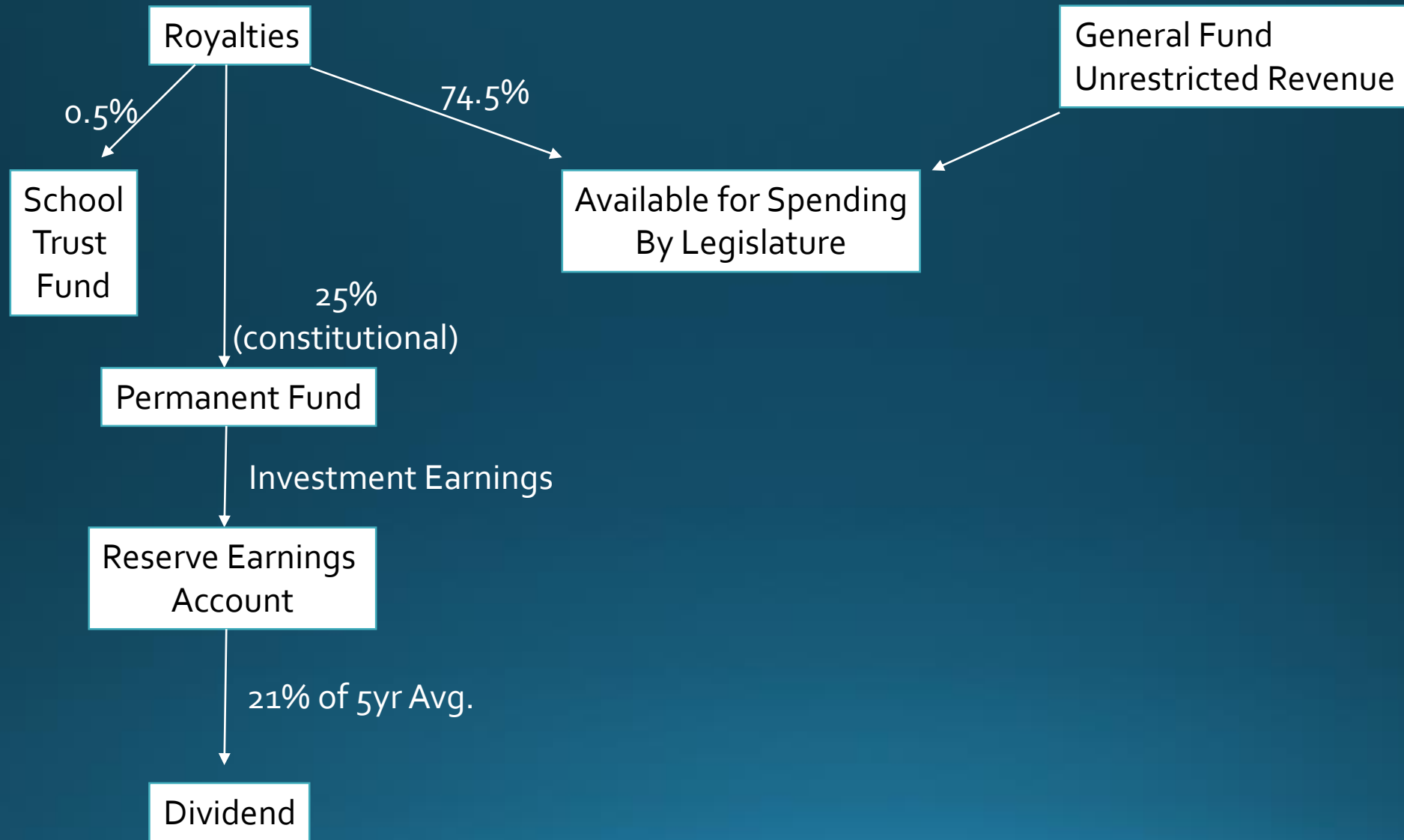
- The exchange for R&R to Dividend Fund:
 - 5% of the total value of the Permanent Fund (Corpus + ERA)
 - Withdrawn from ERA
 - Deposited into General Fund
 - This is often called a Percent of Market Value (POMV) concept
 - Returns on PF investments average more than 5%
 - Thus you inflation proof the PF plus the 25% R&R deposit
 - The PF continues to grow

SB 114: R&R vs. POMV Swap

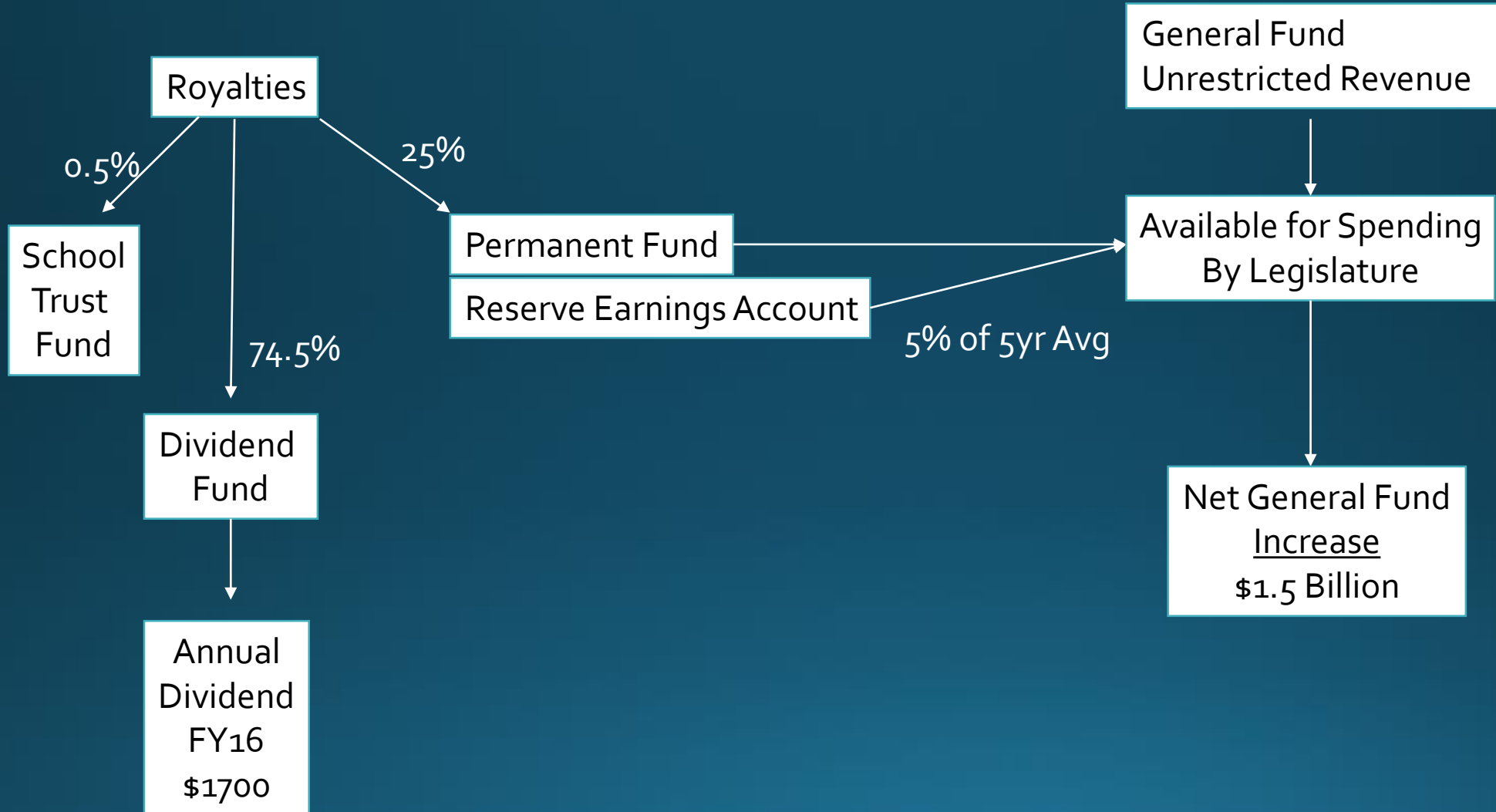
The effect is \$1.5Billion reduction to deficit

- 74.5% of R&R to Dividend Fund for equal Distribution
 - FY16= \$1,701 Dividend
- 5% of Permanent Fund (\$54B) goes to General Fund
 - FY16= \$2.647B – to General Fund
 - FY16= (\$1.652B)- General Fund Reduction from R&R to Dividends
- FY16= \$1.521Billion NET INCREASE TO GENERAL FUND

Current Structure



Proposed Structure Under SB 114



SB 114: The overall effect

- Ties the Dividend directly to Oil & Gas and Mineral production
- Reduces the CBR draw to cover deficit
 - This will extend the life of the CBR several years
- Gives the legislature “breathing room” to consider
 - Additional budget cuts
 - New sources of revenue

This is considered “best practices” by other large endowment funds

SB 114: Our Budget Deficit

- Questions

- Additional Questions:

- Please contact the office of Senator McGuire: 907-269-0250