

Spring 2021 Forecast Presentation

House Finance Committee

Department of Revenue

March 16, 2021

Agenda

1. Forecast Background and Key Assumptions
2. Spring 2021 Revenue Forecast
 - Total State Revenue
 - Unrestricted Revenue
3. Petroleum Forecast Assumptions Detail
 - Oil Price
 - Oil Production
 - Oil and Gas Lease Expenditures
 - Oil and Gas Credits



Forecast Background and Key Assumptions

Background: Spring Revenue Forecast

1. Historical, current, and estimated future state revenue
2. Updates key data from Fall Revenue Sources Book
3. Official revenue forecast used for final budget process
4. Located at tax.alaska.gov



Key Alaska Economic Indicators

1. Real State GDP: \$50.9 billion in Q3 2020
 - Up 7.2% from Q2 2020, still down 4.9% from Q3 2019
2. Employment: 287,900 in January 2021
 - Down 23,000 (-7.4%) compared to January 2020; heaviest impacts in leisure/hospitality, transportation/warehousing, and oil/gas industries
3. Wages & Salaries (seasonally adjusted): \$21.8 billion in Q3 2020
 - Up 5.2% from Q2 2020 and flat from Q3 2019
4. Alaska Bankruptcies: 313 for calendar year 2020, 39 cumulatively for 2021 (through February)
 - Compared to 400 for all of 2019
5. Foreclosures: 98 in Q3 2020, 303 for calendar year 2020 (through Q3)
 - Compared to 197 in Q3 2019 and 729 for entire calendar year 2019
6. Housing Starts: 1,494 for calendar year 2020
 - Compared to 1,689 for calendar year 2019
7. Delinquency Rates: 1.4% for mortgages 30-89 days delinquent, .4% for mortgages 90+ days delinquent at end of fiscal year 2020 (as of June 2020)
 - Compared to 1.5% for mortgages 39-89 days delinquent, .4% for mortgages 90+ days delinquent at end of fiscal year 2019

Note: Quarters on this slide are based on Calendar Year, i.e., Q1 = Jan-Mar, etc.



Sources: Federal Reserve, "Total Real Gross Domestic Product by Industry for Alaska, Millions of Chained 2012 Dollars, Quarterly, Seasonally Adjusted Annual Rate," "Total Wages and Salaries in Alaska, Thousands of Dollars, Quarterly, Seasonally Adjusted Annual Rate" (divided by 4), "New Private Housing Units Authorized by Building Permits for Alaska, Units, Monthly, Seasonally Adjusted,"; Alaska Department of Labor and Workforce Development "Research and Analysis Section," "Alaska Foreclosures,"; American Bankruptcy Institute "Filings by State and Jurisdiction,"; Consumer Finance "Mortgage Performance Trends"

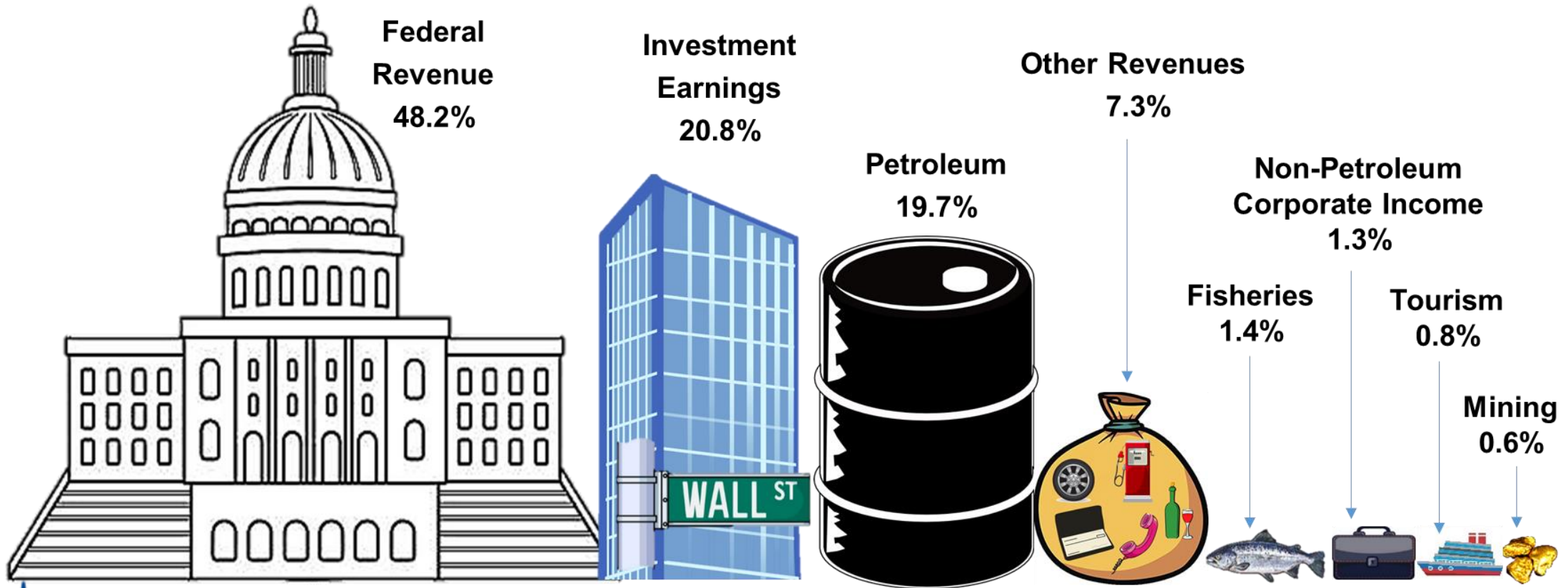
Spring Forecast Assumptions

- The economic impacts of COVID-19 are uncertain; DOR has developed a plausible scenario to forecast these impacts.
- Key Assumptions:
 - Investments: Stable growth in investment markets.
 - Federal: The forecast incorporates stimulus funding through February 2021, it does not include potential new stimulus passed in March 2021.
 - Petroleum: Alaska North Slope oil price of \$53.05 per barrel for FY 2021 and \$61.00 per barrel for FY 2022. No further oil production curtailments.
 - Non-Petroleum: Most economic activity will return to baseline levels by FY 2022, except tourism full recovery by summer 2024.



Relative Contributions to Total State Revenue: FY 2020

Total State Revenue: \$8.7 Billion



Disclaimer: Numbers may not add to 100% due to rounding. Examples may not be to scale.

Spring 2021 Revenue Forecast

Total Revenue Forecast: FY 2020 to FY 2022 Totals and Percent Change from FY 2020

\$ Millions	History	Forecast		Percent Change	
Revenue Type	FY 2020	FY 2021	FY 2022	FY 2020 - FY 2022	FY 2021 - FY 2022
Unrestricted General Fund					
Investment Revenue - Alaska Permanent Fund	2,933.1	3,091.5	3,069.3	4.6%	-0.7%
Investment Revenue - Other Investments	58.1	22.1	20.8	-64.2%	-5.9%
Petroleum Revenue	1,083.1	1,160.8	1,286.5	18.8%	10.8%
Non-Petroleum Revenue	454.8	389.0	355.0	-22.0%	-8.8%
Subtotal	4,529.1	4,663.5	4,731.5	4.5%	1.5%
Designated General Fund					
Investment Revenue	33.5	42.7	45.1	34.6%	5.6%
Petroleum Revenue	67.8	57.0	55.4	-18.3%	-2.7%
Non-Petroleum Revenue	433.3	401.8	431.2	-0.5%	7.3%
Subtotal	534.6	501.5	531.7	-0.5%	6.0%
Other Restricted Revenue					
Investment Revenue (2)	(1,242.0)	899.1	1,174.9	194.6%	30.7%
Petroleum Revenue	537.3	300.0	327.7	-39.0%	9.2%
Non-Petroleum Revenue	125.3	198.2	204.7	63.3%	3.3%
Subtotal	(579.4)	1,397.3	1,707.2	394.7%	22.2%
Federal Revenue					
Federal Receipts	4,173.0	5,068.1	4,056.5	-2.8%	-20.0%
Petroleum Revenue	16.4	11.4	13.8	-15.6%	21.7%
Subtotal	4,189.4	5,079.5	4,070.3	-2.8%	-19.9%
Total State Revenue	8,673.7	11,641.7	11,040.8	27.3%	-5.2%



Note: Petroleum revenue shown in the Federal category includes the state share of rents, royalties, and bonuses received from the National Petroleum Reserve - Alaska (NPR-A).
 Restricted Investment Revenue includes: total realized and unrealized earnings from the Alaska Permanent Fund less the POMV transfer, Constitutional Budget Reserve Fund investment revenues, and Other Restricted Investments.

Unrestricted Revenue Forecast: FY 2020 to FY 2022 Totals

\$ Millions	History	Forecast	
Revenue Type	FY 2020	FY 2021	FY 2022
Unrestricted General Fund			
Investment Revenue - Alaska Permanent Fund ¹	2,933.1	3,091.5	3,069.3
Investment Revenue - Other Investments	58.1	22.1	20.8
Petroleum Revenue	1,083.1	1,160.8	1,286.5
Non-Petroleum Revenue	454.8	389.0	355.0
Subtotal	4,529.1	4,663.5	4,731.5



¹Percent of Market Value (POMV) Transfer

Unrestricted Revenue Forecast: FY 2020 and Changes to Two-Year Outlook

		History	Forecast	
		FY 2020	FY 2021	FY 2022
ANS Oil Price (Nominal \$/bbl)	Fall 2020 Forecast	\$52.12	\$45.32	\$48.00
	Spring 2021 Forecast	\$52.12	\$53.05	\$61.00
	Change	\$0.00	\$7.73	\$13.00
Permanent Fund Transfer (\$ millions)	Fall 2020 Forecast	\$2,933.1	\$3,091.5	\$3,069.3
	Spring 2021 Forecast	\$2,933.1	\$3,091.5	\$3,069.3
	Change	\$0.0	\$0.0	\$0.0
Unrestricted Revenue, excluding Permanent Fund Transfer (\$ millions)	Fall 2020 Forecast	\$1,603.9	\$1,240.3	\$1,202.6
	Spring 2021 Forecast	\$1,596.0	\$1,572.0	\$1,662.2
	Change	(\$7.9)	\$331.7	\$459.6
Unrestricted Revenue, including Permanent Fund Transfer (\$ millions)	Fall 2020 Forecast	\$4,537.0	\$4,331.8	\$4,271.9
	Spring 2021 Forecast	\$4,529.1	\$4,663.5	\$4,731.5
	Change	(\$7.9)	\$331.7	\$459.6



ANS = Alaska North Slope

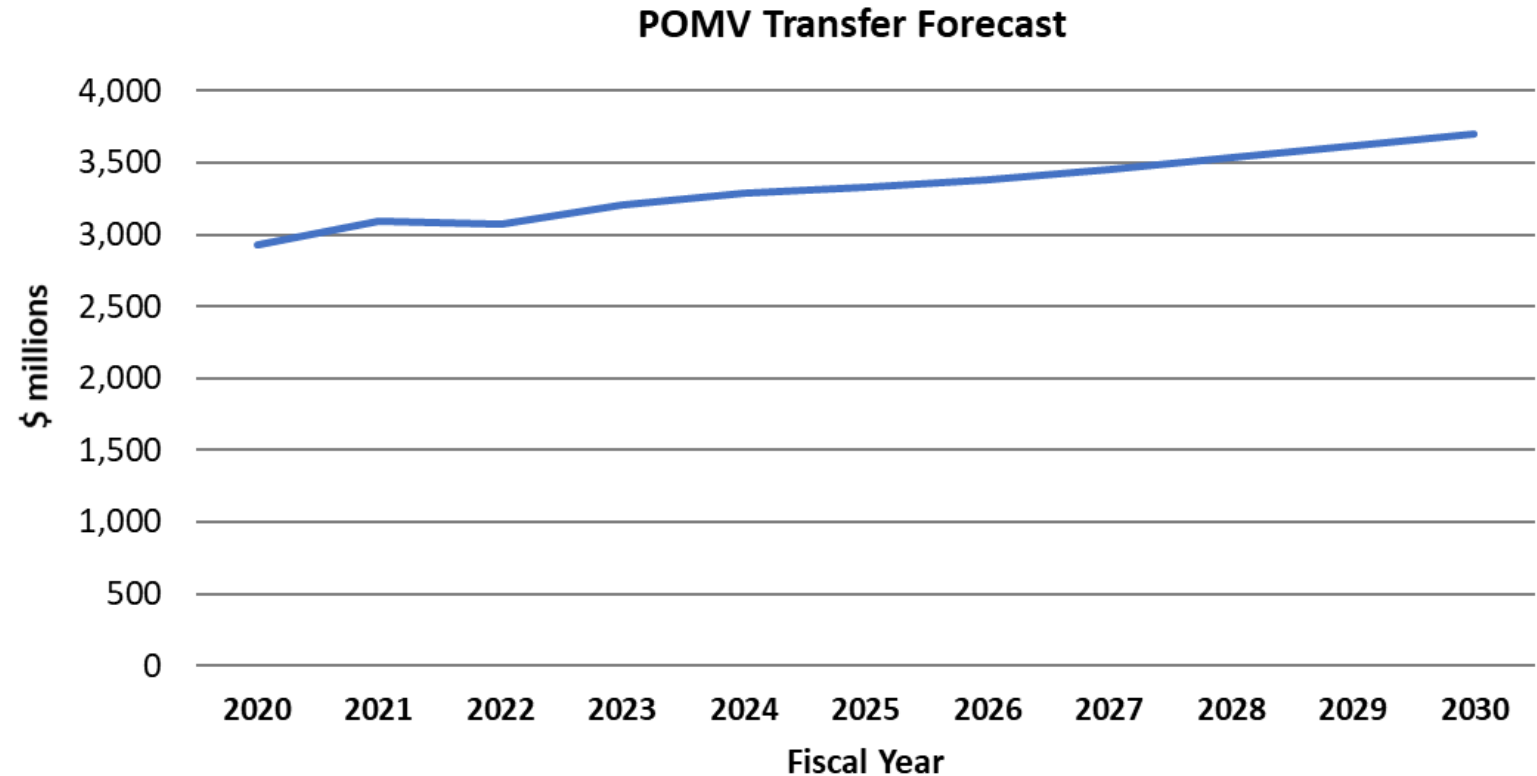
Unrestricted Investment Revenue: FY 2020 to FY 2022 Totals

\$ Millions	History	Forecast	
	FY 2020	FY 2021	FY 2022
Unrestricted General Fund Revenue			
Investment Revenue			
Alaska Permanent Fund	2,933.1	3,091.5	3,069.3
Investments	58.1	22.1	20.8
Total Unrestricted Investment Revenue	2,991.2	3,113.6	3,090.1



Unrestricted Investment Revenue: Percent of Market Value (POMV) Transfer Forecast

- The statutory POMV rate changes to 5% beginning FY 2022.
 - For FY 2019 – FY 2021 this rate was 5.25%.
- Forecast assumes Permanent Fund's long-term total return expectation of 6.75%.
- Differing Permanent Fund returns and petroleum deposits could significantly alter actual POMV.



POMV = Percent of Market Value

Unrestricted Petroleum Revenue: FY 2020 to FY 2022 Totals

\$ Millions	History	Forecast	
Unrestricted General Fund Revenue	FY 2020	FY 2021	FY 2022
Taxes			
Petroleum Property Tax	122.9	122.2	114.9
Petroleum Corporate Income Tax	-0.2	25.0	25.0
Oil and Gas Production Tax	285.1	311.0	376.2
Subtotal Taxes	407.9	458.2	516.1
Royalties			
Mineral Bonuses and Rents	19.6	25.9	20.1
Oil and Gas Royalties	660.3	676.7	750.2
Interest	-4.6	0.0	0.0
Subtotal Royalties	675.3	702.7	770.4
Total Petroleum Revenue	1,083.1	1,160.8	1,286.5



Unrestricted Non-Petroleum Revenue: FY 2020 to FY 2022 Totals

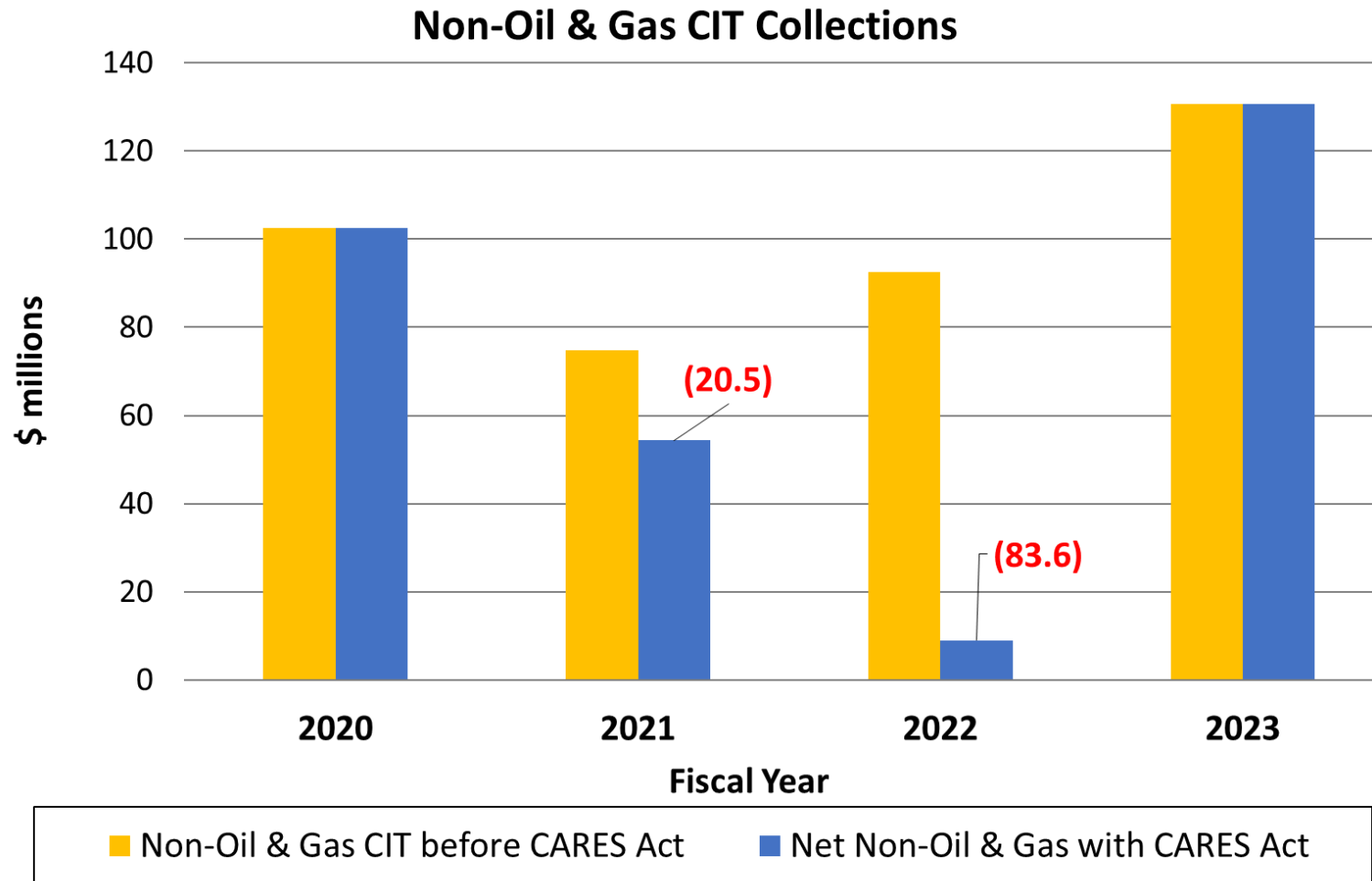
\$ Millions	History	Forecast	
Unrestricted General Fund Revenue	FY 2020	FY 2021	FY 2022
Taxes			
Non-Petroleum Corporate Income	102.4	55.0	10.0
Mining License Tax	36.8	33.9	45.1
Marijuana	6.4	7.1	8.0
Tobacco	41.4	38.2	37.2
Motor Fuel (Refined Fuel Surcharge)	6.9	6.1	6.7
Insurance Premium Tax	58.4	59.0	56.9
Fisheries Taxes	33.9	18.8	20.0
Other Taxes	37.4	23.8	24.3
Subtotal Taxes	323.5	241.9	208.2
Other	131.3	147.1	146.8
Total Non-Petroleum Revenue	454.8	389.0	355.0



Other Taxes category includes Alcoholic Beverage Tax, Electric / Telephone Cooperative, Tire Fees, Charitable Gaming Tax, and Large Passenger Vessel Gambling Tax.

Other Unrestricted Non-Petroleum Revenue category includes Charges for Services, Fines & Forfeitures, Licenses and Permits, Rents & Royalties, and Miscellaneous Revenue & Transfers.

Unrestricted Revenue Forecast: Non-Oil & Gas Corporate Income Tax (CIT)



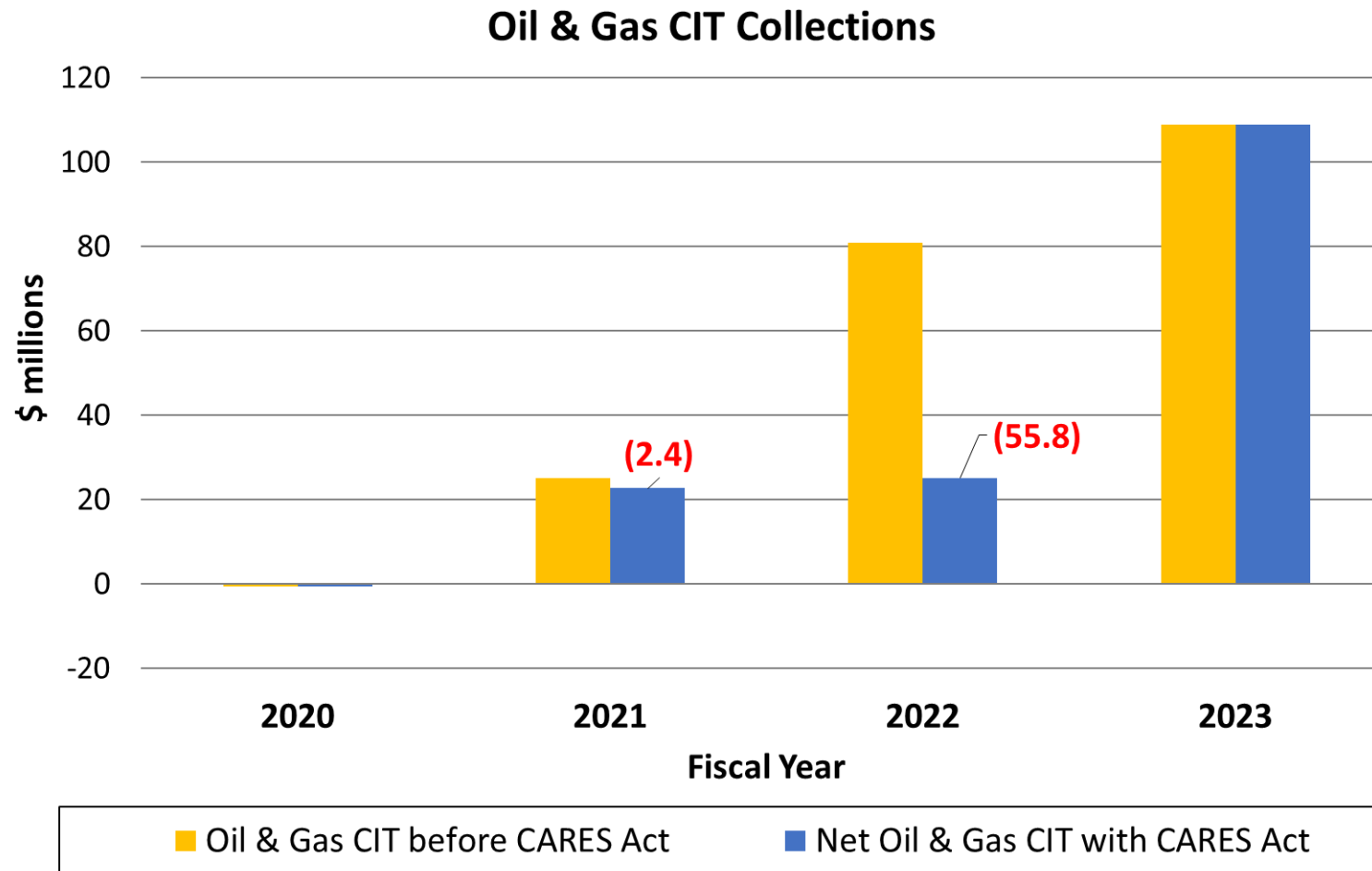
**Forecasted CARES
ACT Impacts to
Non-Oil and Gas
Corporate Income Tax
Revenue**
Refunds = **\$104.1
million**

NOTE: Numbers in red indicate anticipated CIT refunds as a result of the federal CARES Act provisions.

CIT = Corporate Income Tax. CARES Act = Coronavirus Aid, Relief, and Economic Security Act, passed by Congress late March 2020.



Unrestricted Revenue Forecast: Oil & Gas Corporate Income Tax (CIT)



**Forecasted CARES
ACT Impacts to Oil
and Gas Corporate
Income Tax Revenue**
Refunds = **\$58.2**
million

NOTE: Numbers in red indicate anticipated CIT refunds as a result of the federal CARES Act provisions.

CIT = Corporate Income Tax. CARES Act = Coronavirus Aid, Relief, and Economic Security Act, passed by Congress late March 2020.



Petroleum Forecast Assumptions Detail

Petroleum Detail: Changes to Long-Term Price Forecast

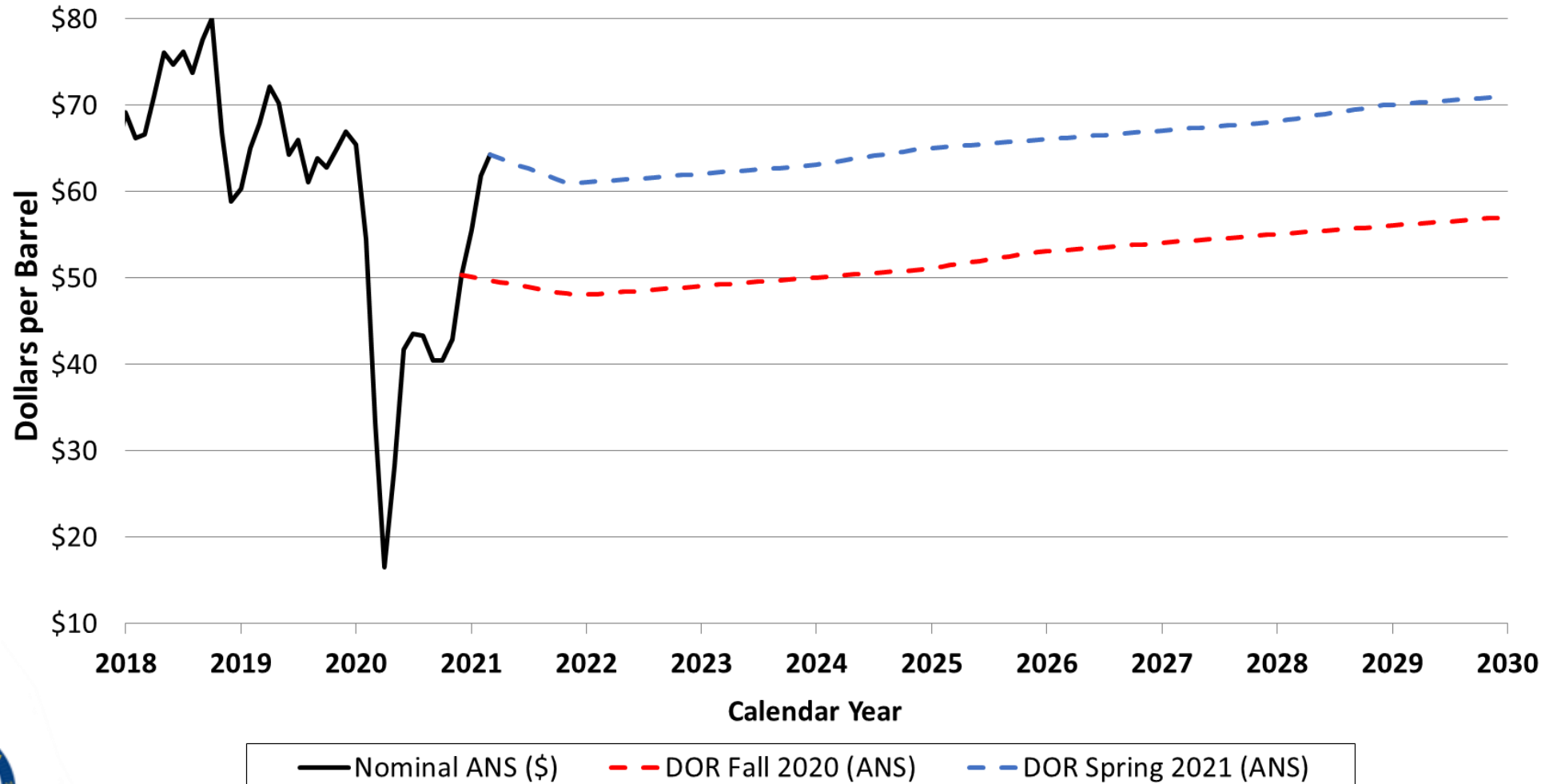
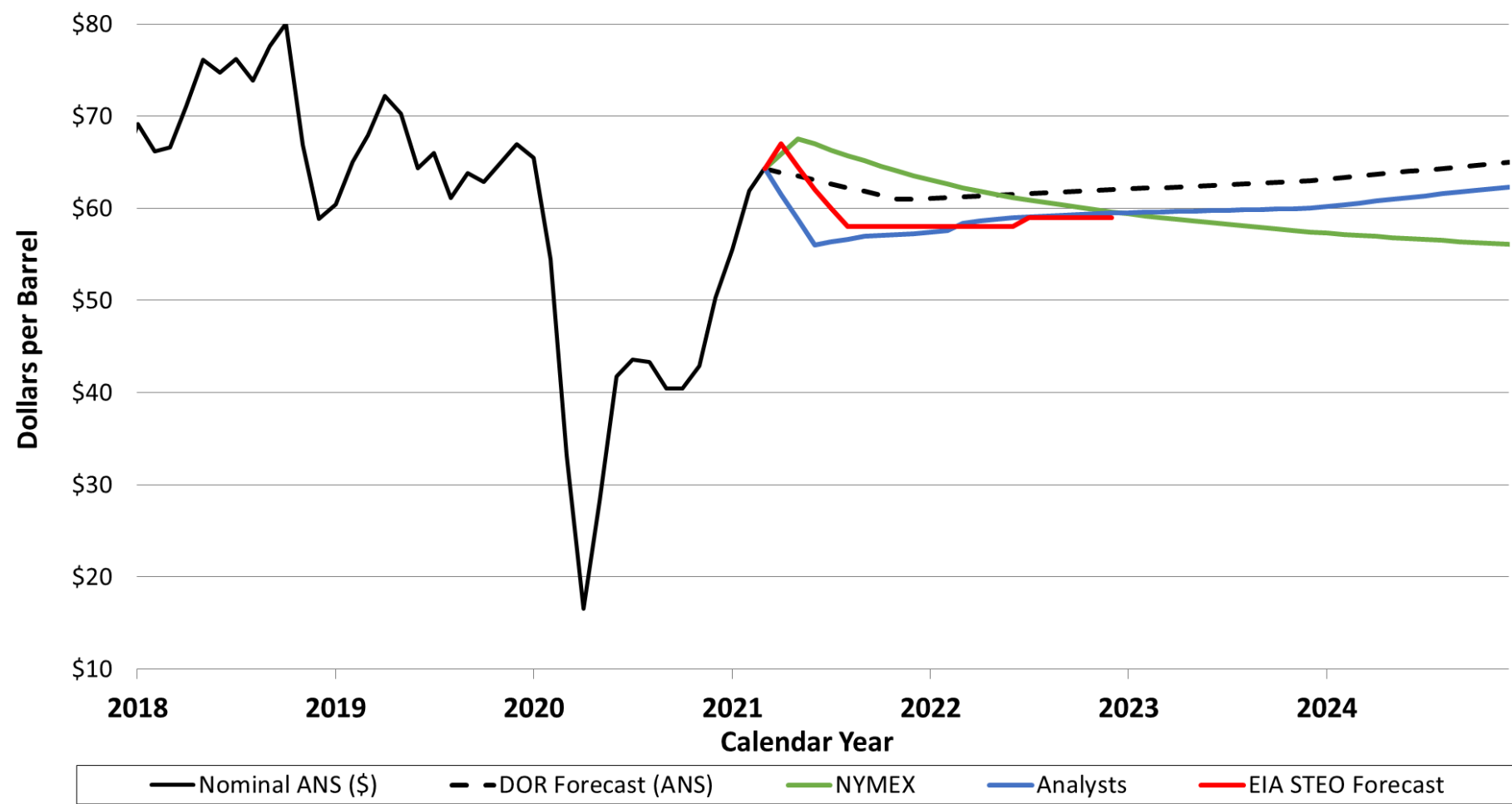


Chart shows monthly average prices.

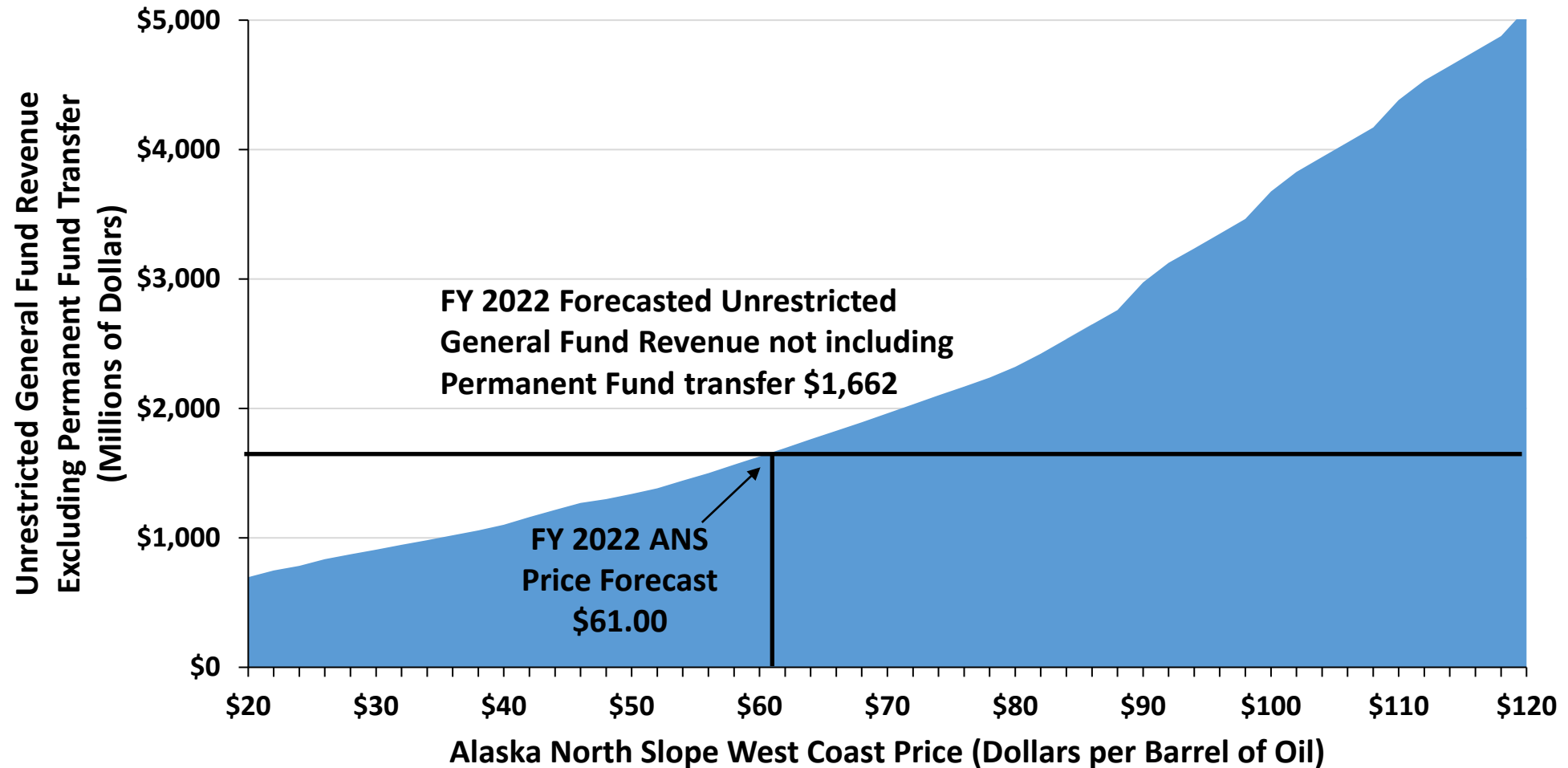
Source: DOR Fall 2020 Revenue Sources Book, Spring 2021 Forecast

Petroleum Detail: Nominal Brent Forecasts Comparison as of March 9, 2021



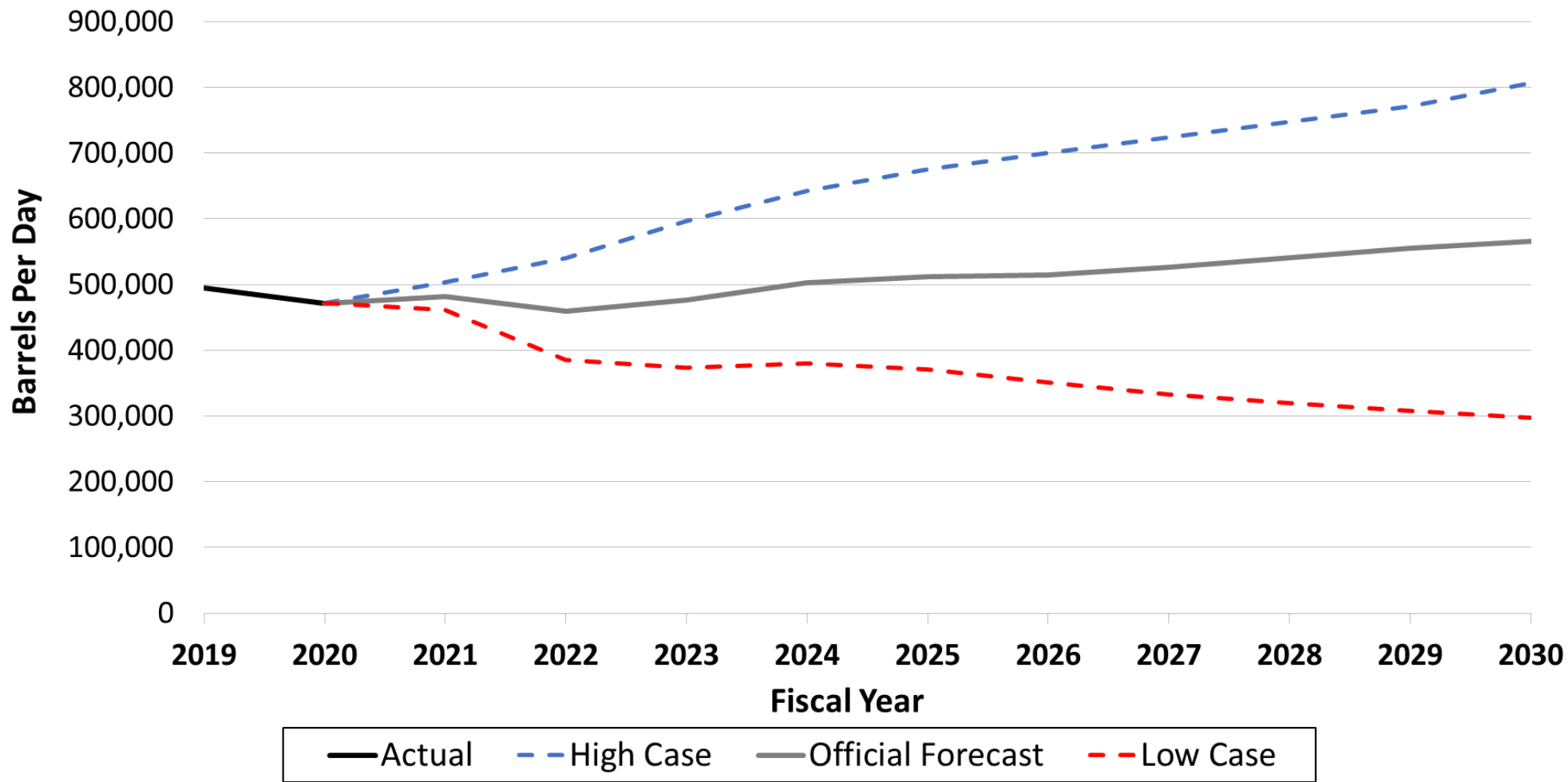
Source: Analyst forecast is the median forecast of 7-39 firms from a Bloomberg survey as of 3/9/2021. Futures prices are from the New York Mercantile Exchange (NYMEX) as of 3/9/2021. The U.S. Energy Information Administration (EIA) forecast is from their March 2021 Short-Term Energy Outlook. Chart shows monthly average prices.

Petroleum Detail: UGF Relative to Price per Barrel (without POMV): FY 2022



Notes: Assumes official forecasted North Slope production of 459,700 barrels per day. Near the forecasted ANS price, a \$1 decrease in price leads to an approximately \$25 million change in UGF revenue, and a \$1 increase leads to an approximately \$35 million change in UGF revenue.

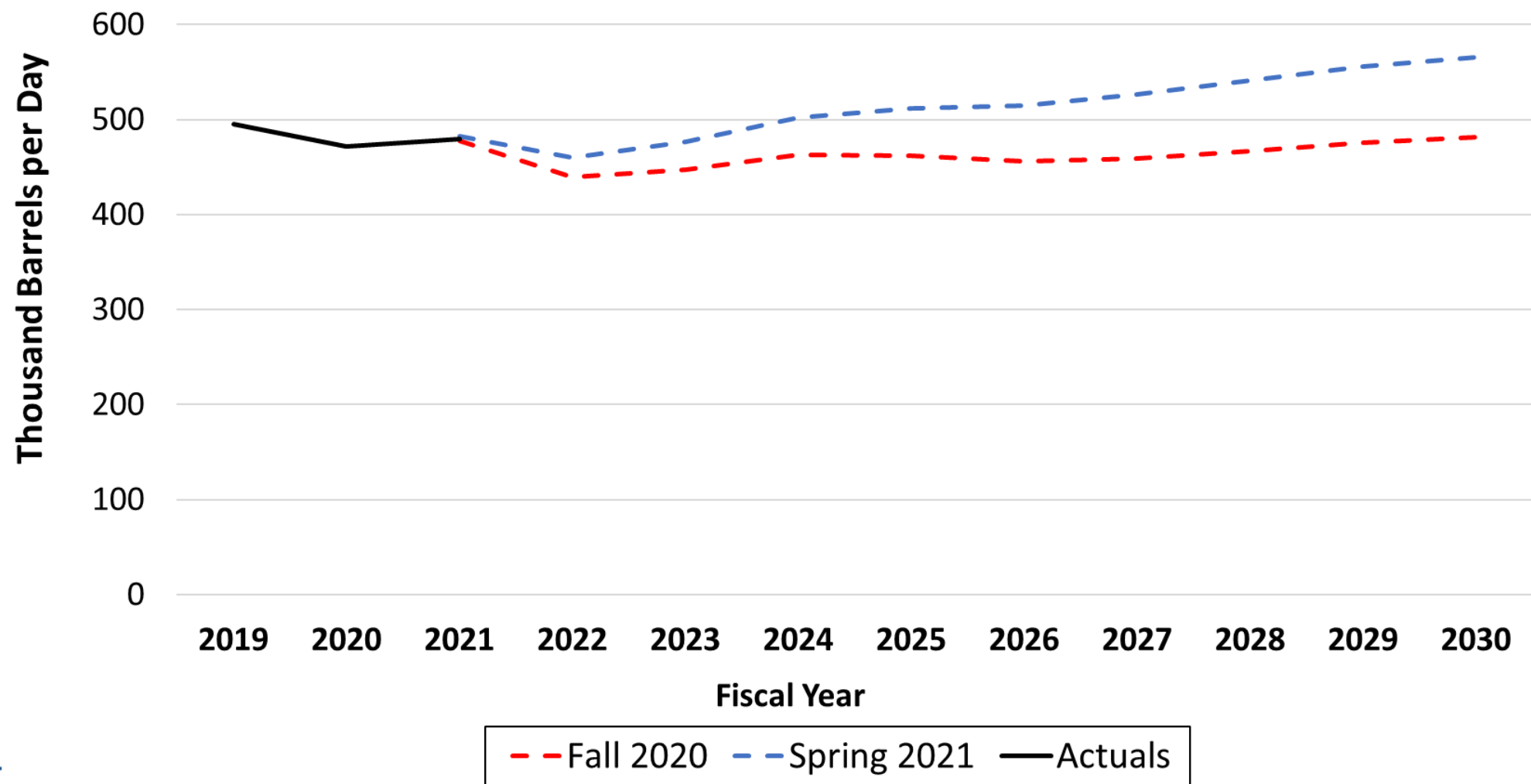
Petroleum Detail: North Slope Petroleum Production Forecast



Note: Spring 2021 Forecast does not include 10,000 barrels per day of NGL shipments from Prudhoe to Kuparuk.



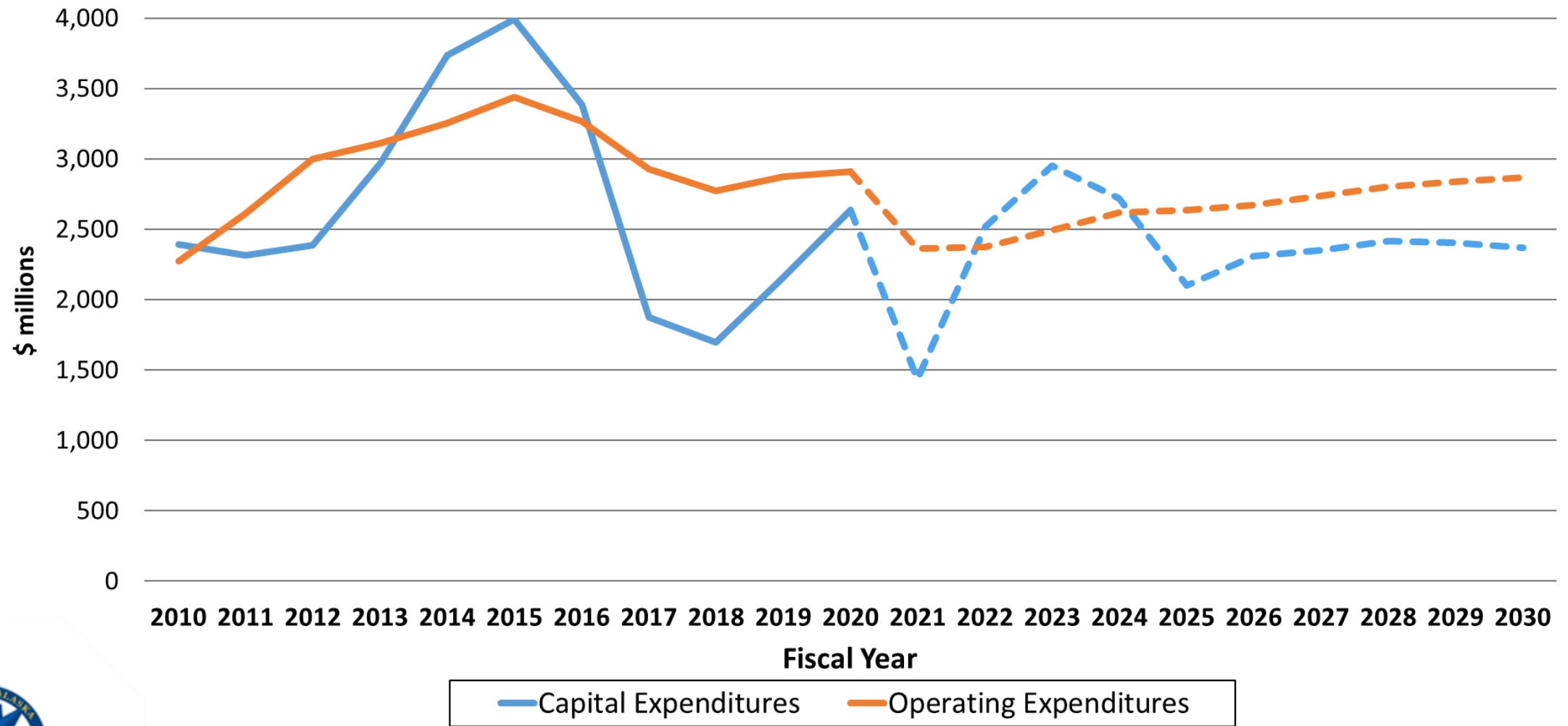
Petroleum Detail: Changes to North Slope Petroleum Production Forecast



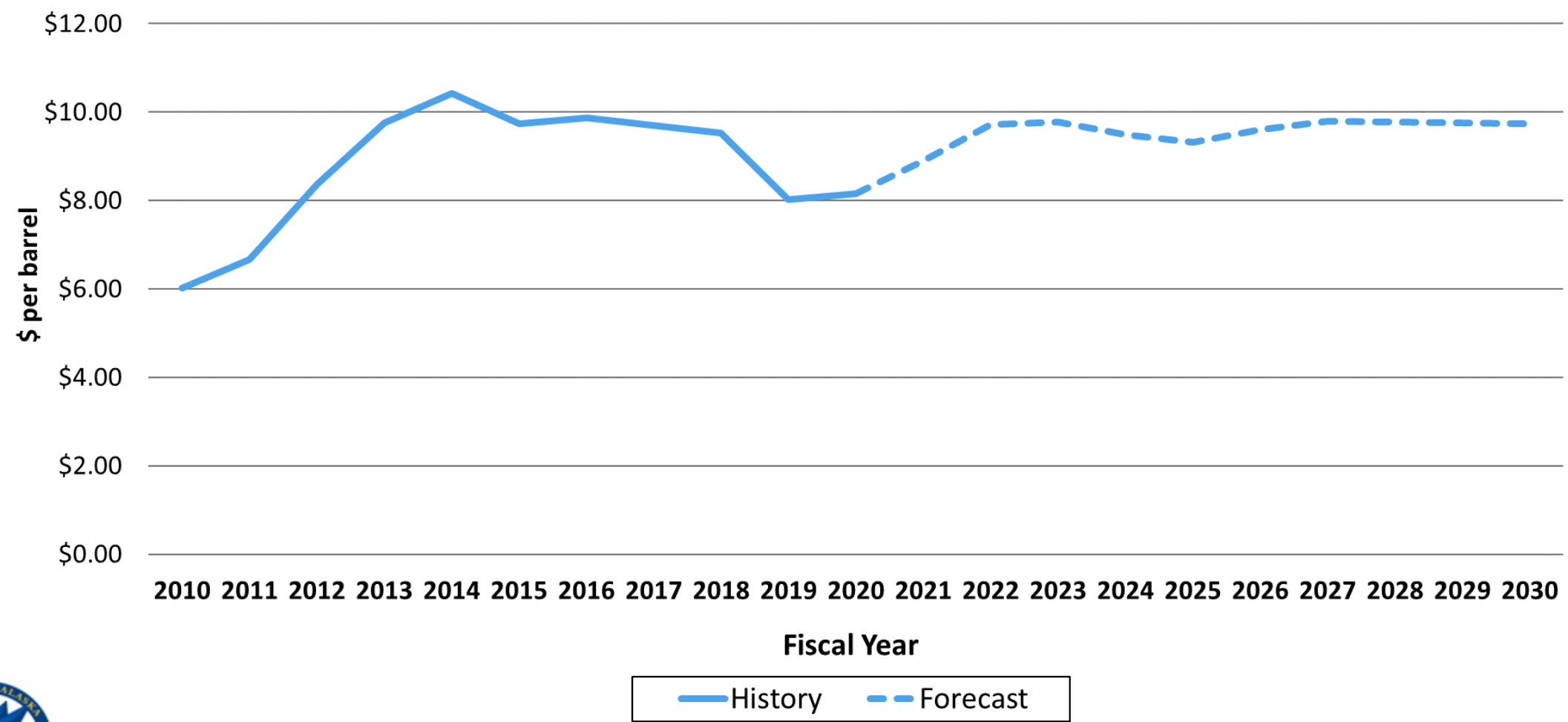
Note: Spring 2021 Forecast does not include 10,000 barrels per day of NGL shipments from Prudhoe to Kuparuk.



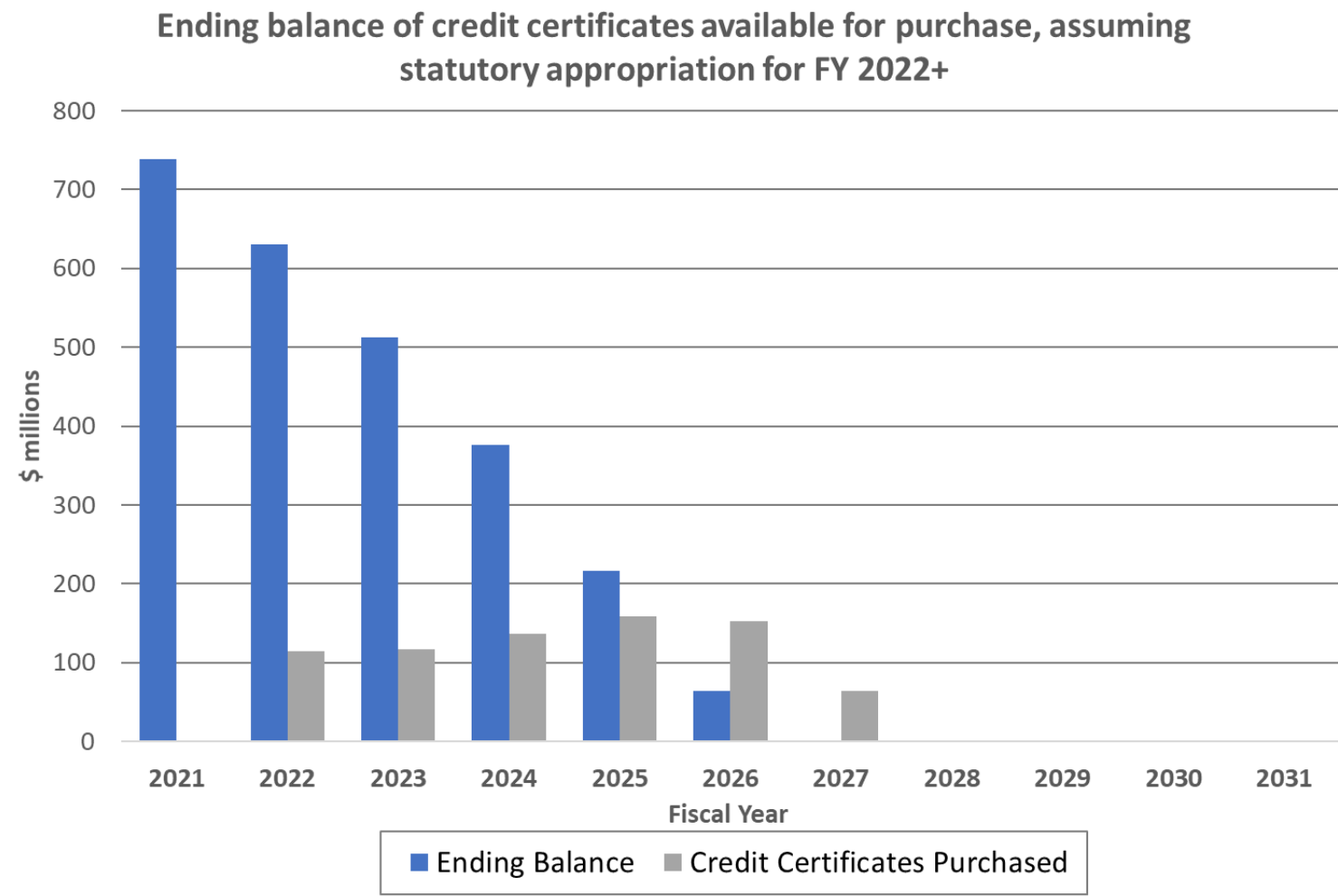
Petroleum Detail: North Slope Allowable Lease Expenditures



Petroleum Detail: North Slope Transportation Costs



Petroleum Detail: Tax Credits for Purchase Detail



Per AS 43.55.028, statutory appropriation is 10% of production tax levied, before credits, when ANS price forecast is \$60 or higher. Statutory appropriation is 15% of production tax levied, before credits, when ANS price forecast is below \$60. Does not include changes in company behavior or credit transfers beyond FY 2021 as a result of making no appropriation or only making statutory appropriation.

THANK YOU

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