

Fall 2020 Forecast Presentation

Senate Finance Committee

Department of Revenue

January 28, 2021

Agenda

1. Forecast Background and Key Assumptions
2. Fall 2020 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



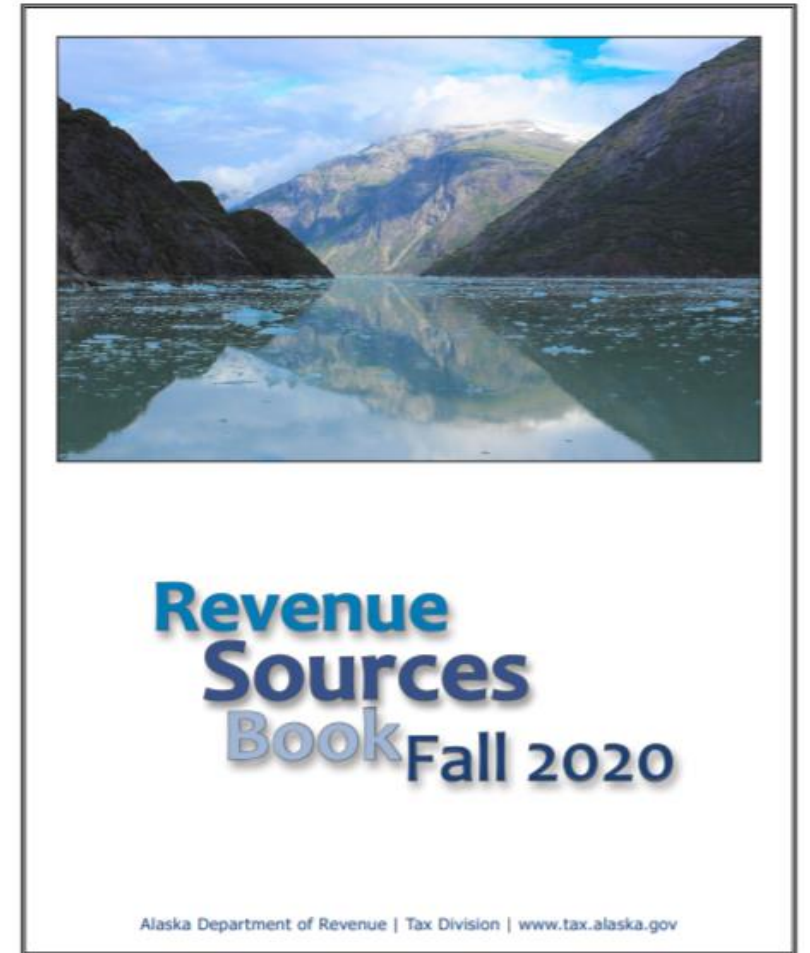
Forecast Background and Key Assumptions

Background: The Revenue Sources Book

1. Historical, current, and estimated future state revenue
2. Discussion and information about major revenue sources
3. Prepared in accordance with AS 37.07.060 (b)(4), and supports long term plan under AS 37.07.020
4. Official revenue forecast used for Governor's budget proposal; updated in spring
5. Located at tax.alaska.gov



AS = Alaska Statute



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: 290,400 in December 2020
 - Down 24,100 (-7.7%) compared to December 2019; 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
 - Compared to 400 for all of 2019
5. Foreclosures: 98 in Q3 2020, 303 for all of 2020 so far
 - Compared to 197 in Q3 2019 and 729 for all of 2019
6. Housing Starts: 1,325 so far in 2020 (through November)
 - Compared to 1,540 through November 2019 and 1,692 for all of 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," Federal Reserve, "Total Wages and Salaries in Alaska, Thousands of Dollars, Quarterly, Seasonally Adjusted Annual Rate" (divided by 4), Alaska Department of Labor and Workforce Development "Research and Analysis Section," American Bankruptcy Institute "Filings by State and Jurisdiction," Alaska Department of Labor "Alaska Foreclosures," Federal Reserve "New Private Housing Units Authorized by Building Permits for Alaska, Units, Monthly, Seasonally Adjusted"

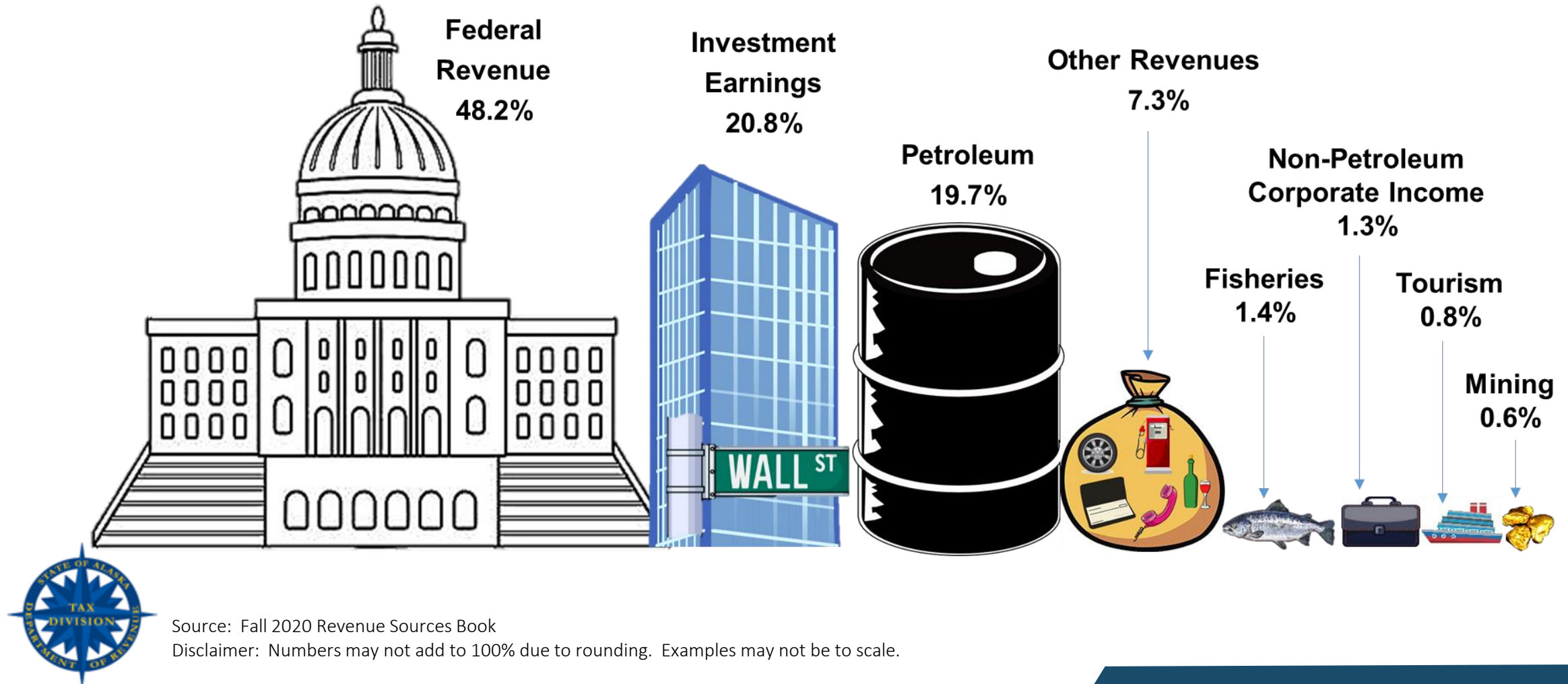
Fall Forecast Assumptions

- 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, 6.75% Permanent Fund returns.
 - Federal: Some CARES Act funds shown in FY 2021, no additional stimulus in FY 2022+.
 - Petroleum: Alaska North Slope oil price of \$45.32 per barrel for FY 2021 and \$48.00 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 2023.



Relative Contributions to Total State Revenue: FY 2020

Total State Revenue: \$8.7 Billion



Fall 2020 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	2,991.2	3,107.1	3,090.2	3.3%	-0.5%
Petroleum Revenue	1,083.1	861.7	808.9	-25.3%	-6.1%
Non-Petroleum Revenue	462.7	363.0	372.8	-19.4%	2.7%
Subtotal	4,537.0	4,331.8	4,271.9	-5.8%	-1.4%
Designated General Fund					
Investment Revenue	33.5	43.2	45.1	34.6%	4.4%
Petroleum Revenue	67.8	44.6	41.4	-39.0%	-7.2%
Non-Petroleum Revenue	385.6	403.2	419.8	8.9%	4.1%
Subtotal	486.9	491.0	506.2	4.0%	3.1%
Other Restricted Revenue					
Investment Revenue	(1,221.5)	922.3	1,190.4	197.5%	29.1%
Petroleum Revenue	537.3	270.1	228.2	-57.5%	-15.5%
Non-Petroleum Revenue	130.2	209.1	222.7	71.1%	6.5%
Subtotal	(554.0)	1,401.5	1,641.3	396.2%	17.1%
Federal Revenue					
Federal Receipts	4,173.0	4,638.6	3,884.2	-6.9%	-16.3%
Petroleum Revenue	16.4	10.8	12.4	-24.3%	15.3%
Subtotal	4,189.4	4,649.3	3,896.6	-7.0%	-16.2%
Total State Revenue	8,659.2	10,873.5	10,316.1	19.1%	-5.1%

Source: Fall 2020 Revenue Sources Book

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).



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	2,991.2	3,107.1	3,090.2
Petroleum Revenue	1,083.1	861.7	808.9
Non-Petroleum Revenue	462.7	363.0	372.8
Subtotal	4,537.0	4,331.8	4,271.9



Source: Fall 2020 Revenue Sources Book

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

		History	Forecast	
		FY 2020	FY 2021	FY 2022
ANS Oil Price (Nominal \$/bbl)	Spring 2020 Forecast	\$51.65	\$37.00	\$41.00
	Fall 2020 Forecast	\$52.12	\$45.32	\$48.00
	Change	\$0.47	\$8.32	\$7.00
Permanent Fund Transfer (\$ millions)	Spring 2020 Forecast	\$2,933.1	\$3,091.5	\$3,048.0
	Fall 2020 Forecast	\$2,933.1	\$3,091.5	\$3,069.3
	Change	\$0.0	\$0.0	\$21.3
Unrestricted Revenue, excluding Permanent Fund Transfer (\$ millions)	Spring 2020 Forecast	\$1,589.2	\$1,152.8	\$1,282.2
	Fall 2020 Forecast	\$1,603.9	\$1,240.3	\$1,202.6
	Change	\$14.7	\$87.5	-\$79.6
Unrestricted Revenue, including Permanent Fund Transfer (\$ millions)	Spring 2020 Forecast	\$4,522.3	\$4,244.3	\$4,330.2
	Fall 2020 Forecast	\$4,537.0	\$4,331.8	\$4,271.9
	Change	\$14.7	\$87.5	-\$58.3



Source: Fall 2020 Revenue Sources Book, Spring 2020 forecast
ANS = Alaska North Slope

Unrestricted Investment Revenue: FY 2020 to FY 2022 Totals

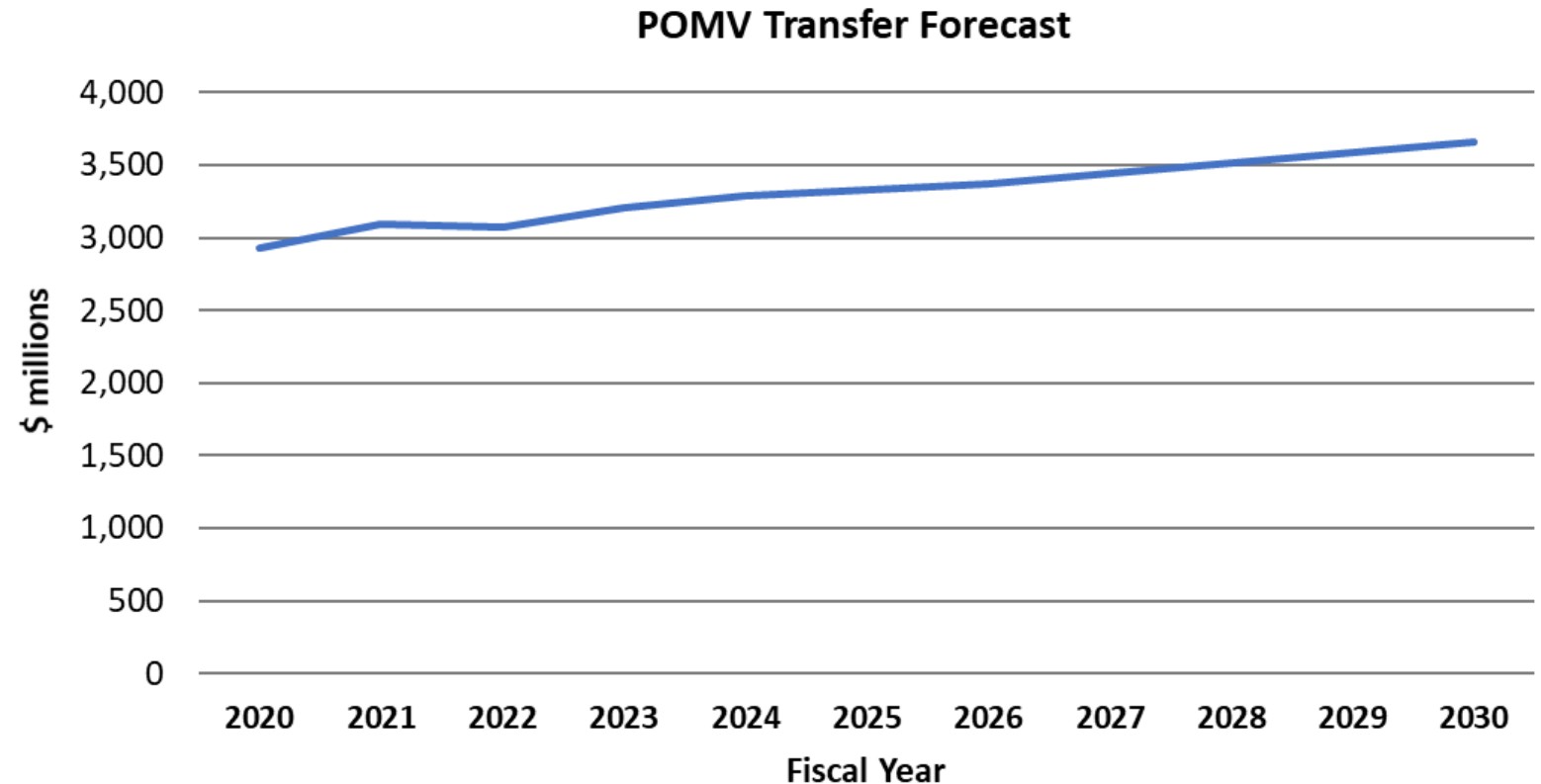
\$ Millions	History	Forecast	
Unrestricted General Fund Revenue	FY 2020	FY 2021	FY 2022
Investment Revenue			
Alaska Permanent Fund	2,933.1	3,091.5	3,069.3
Investments	58.1	15.6	20.9
Total Unrestricted Investment Revenue	2,991.2	3,107.1	3,090.2



Source: Fall 2020 Revenue Sources Book

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.



Source: Fall 2020 Revenue Sources Book
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	115.7	113.2
Petroleum Corporate Income Tax	-0.2	5.0	-20.0
Oil and Gas Production Tax	285.1	171.8	163.3
Subtotal Taxes	407.9	292.5	256.6
Royalties			
Mineral Bonuses and Rents	19.6	17.9	17.9
Oil and Gas Royalties	660.3	551.3	534.4
Interest	-4.6	0.0	0.0
Subtotal Royalties	675.3	569.2	552.3
Total Petroleum Revenue	1,083.1	861.7	808.9



Source: Fall 2020 Revenue Sources Book

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	30.0	25.0
Mining License Tax	36.8	30.4	43.3
Marijuana	6.4	7.2	8.0
Tobacco	41.4	38.4	37.9
Motor Fuel (Refined Fuel Surcharge)	6.9	6.3	6.5
Insurance Premium Tax	58.4	59.6	56.9
Fisheries Taxes	33.9	19.5	20.8
Other Taxes	37.4	24.5	30.0
Subtotal Taxes	323.5	215.9	228.4
Other	139.1	147.1	144.4
Total Non-Petroleum Revenue	462.7	363.0	372.8

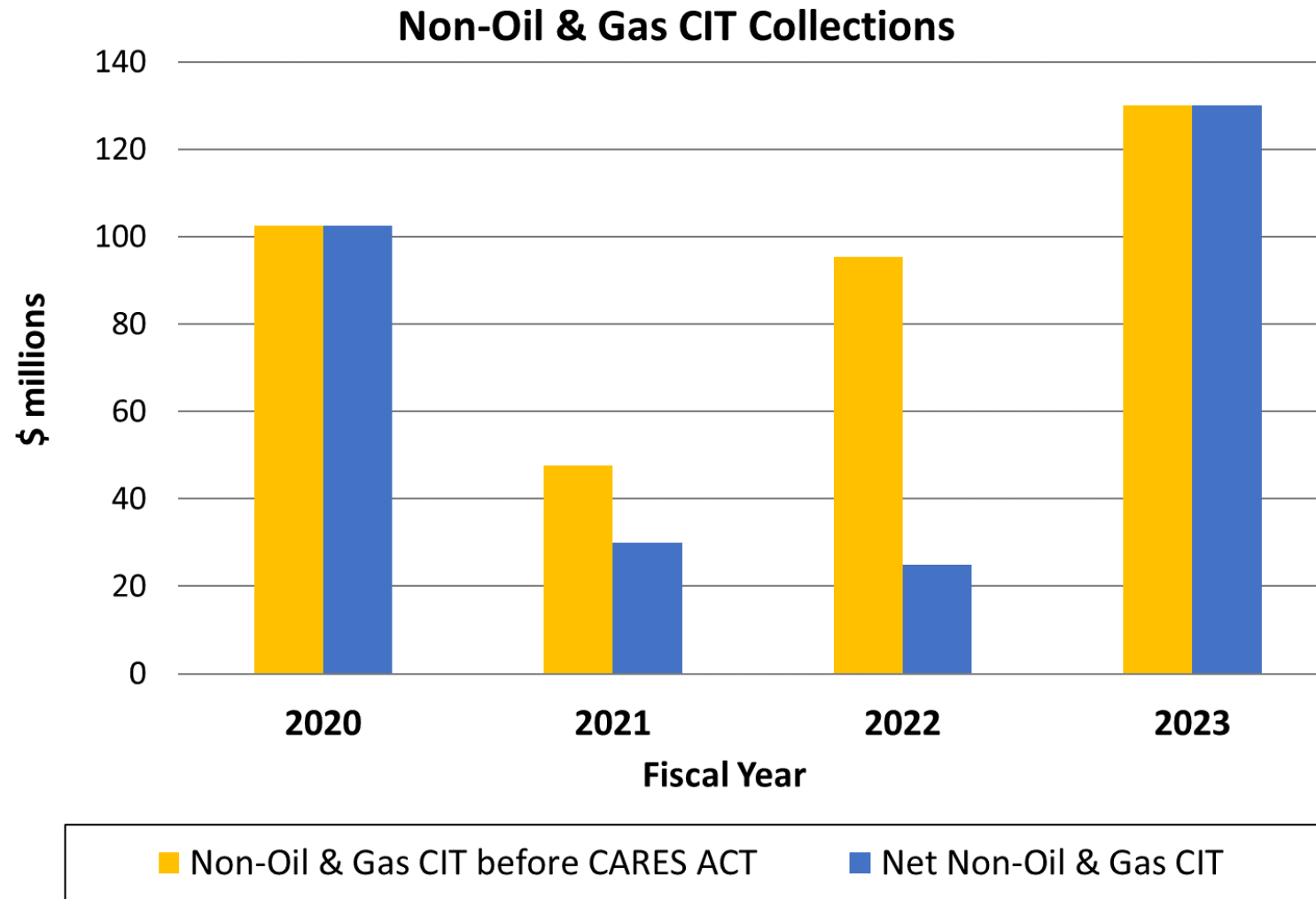


Other Taxes category includes Alcoholic Beverage Tax, Electric / Telephone Cooperative, Tire Fees, Charitable Gaming Tax, and Large Passenger Vessel Gambling Tax.

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

Source: Fall 2020 Revenue Sources Book

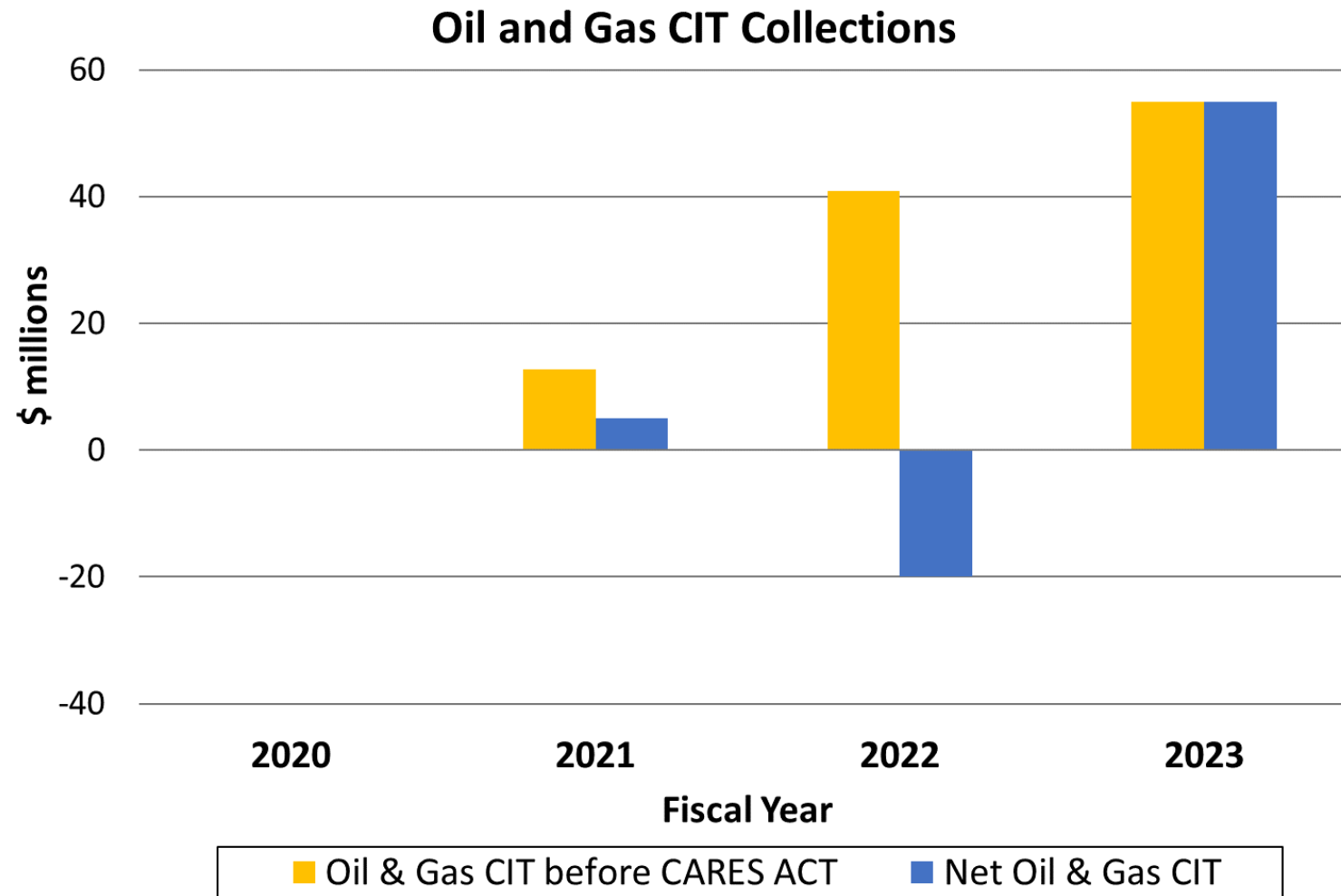
Unrestricted Revenue Forecast: Non-Oil & Gas Corporate Income Tax (CIT)



Source: Fall 2020 Revenue Sources Book

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)



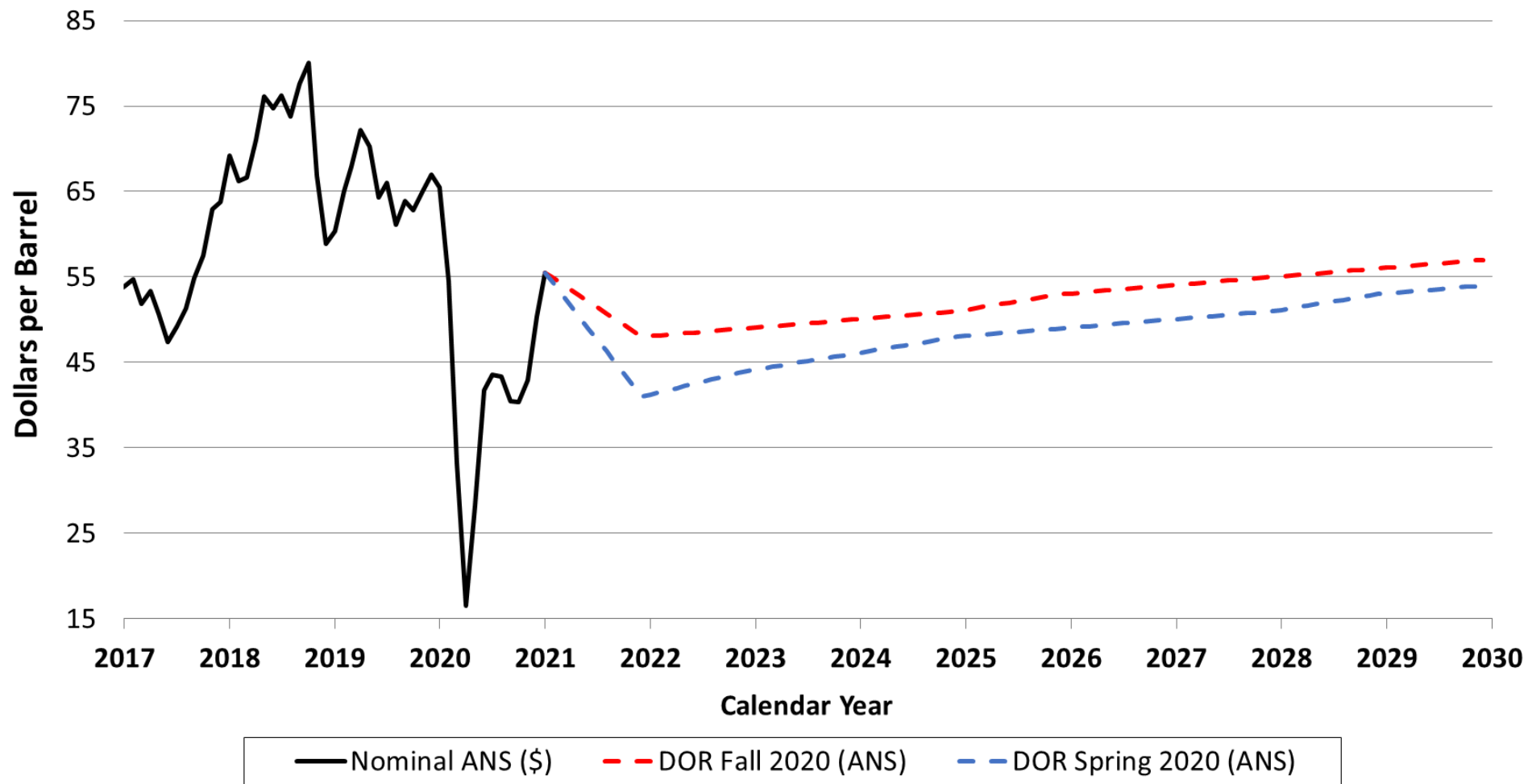
Source: Fall 2020 Revenue Sources Book

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

GF = General Fund.

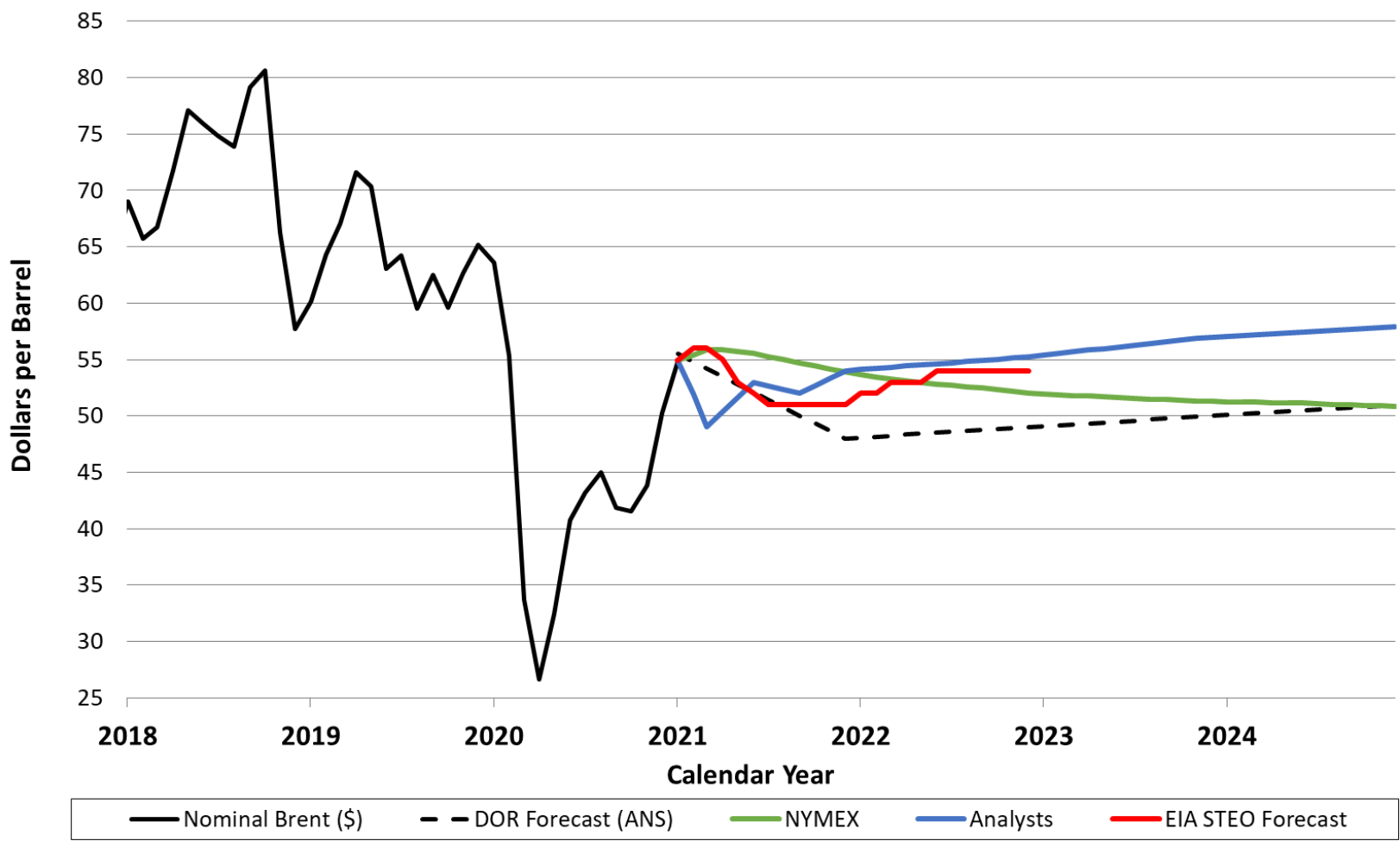
Petroleum Forecast Assumptions Detail

Petroleum Detail: Changes to Long-Term Price Forecast



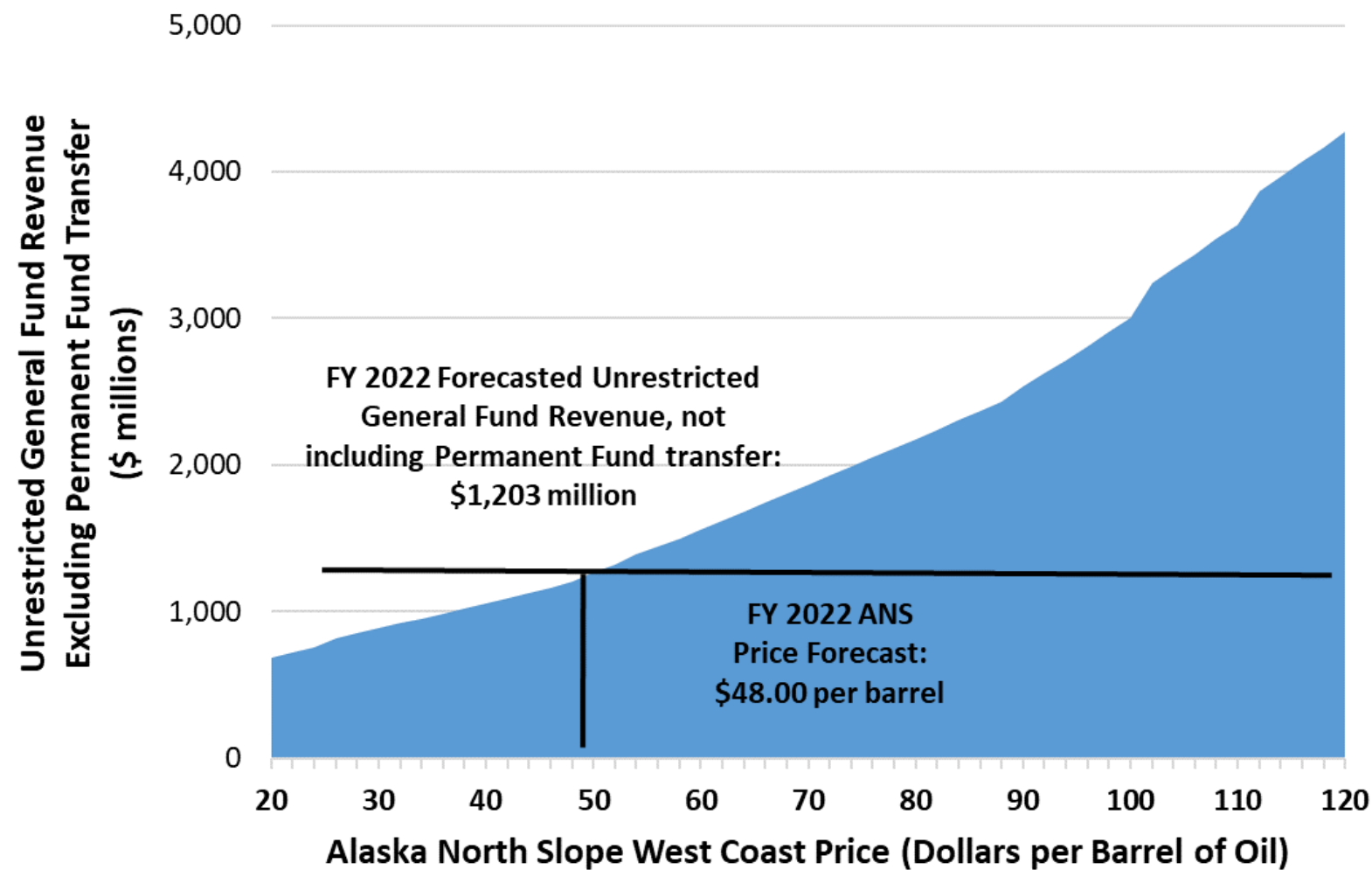
Source: Fall 2020 Revenue Forecast. Chart shows monthly average prices.

Petroleum Detail: Nominal Brent Forecasts Comparison as of 1/20/2021



Source: Analyst forecast is the median forecast of 8-45 firms from a Bloomberg survey as of 1/20/2021. Futures prices are from the New York Mercantile Exchange (NYMEX) as of 1/19/2021. The U.S. Energy Information Administration (EIA) forecast is from their January 2021 Short-Term Energy Outlook. Chart shows monthly average prices.

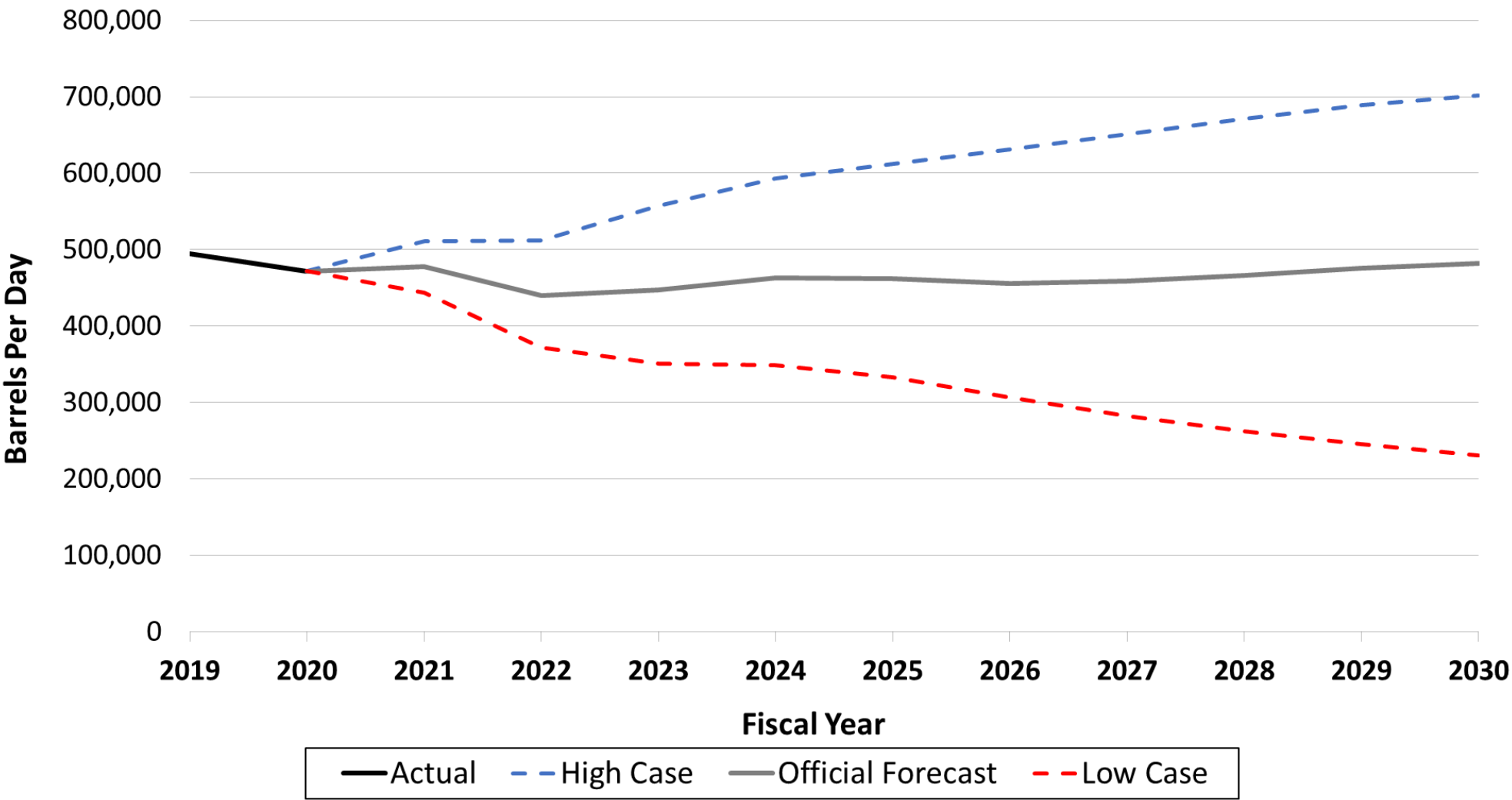
Petroleum Detail: UGF Relative to Price per Barrel (without POMV): FY 2022



Source: Fall 2020 Revenue Sources Book

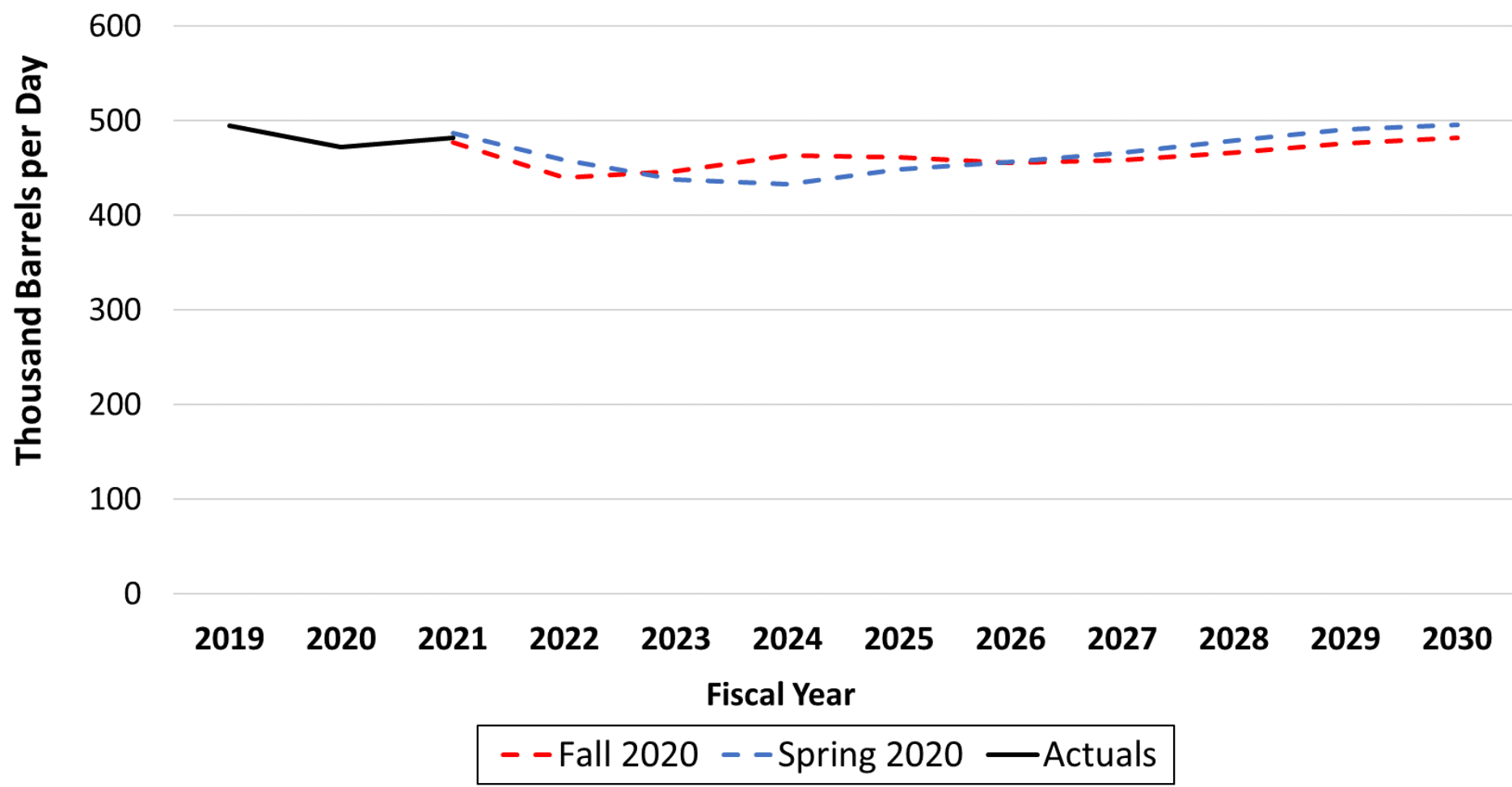
Notes: Assumes official forecasted North Slope production of 439,600 barrels per day. Near the forecasted ANS price, a \$1 decrease in price leads to an approximately \$15 - \$20 million change in UGF revenue, and a \$1 increase leads to an approximately \$25 - \$30 million change in UGF revenue.

Petroleum Detail: North Slope Petroleum Production Forecast



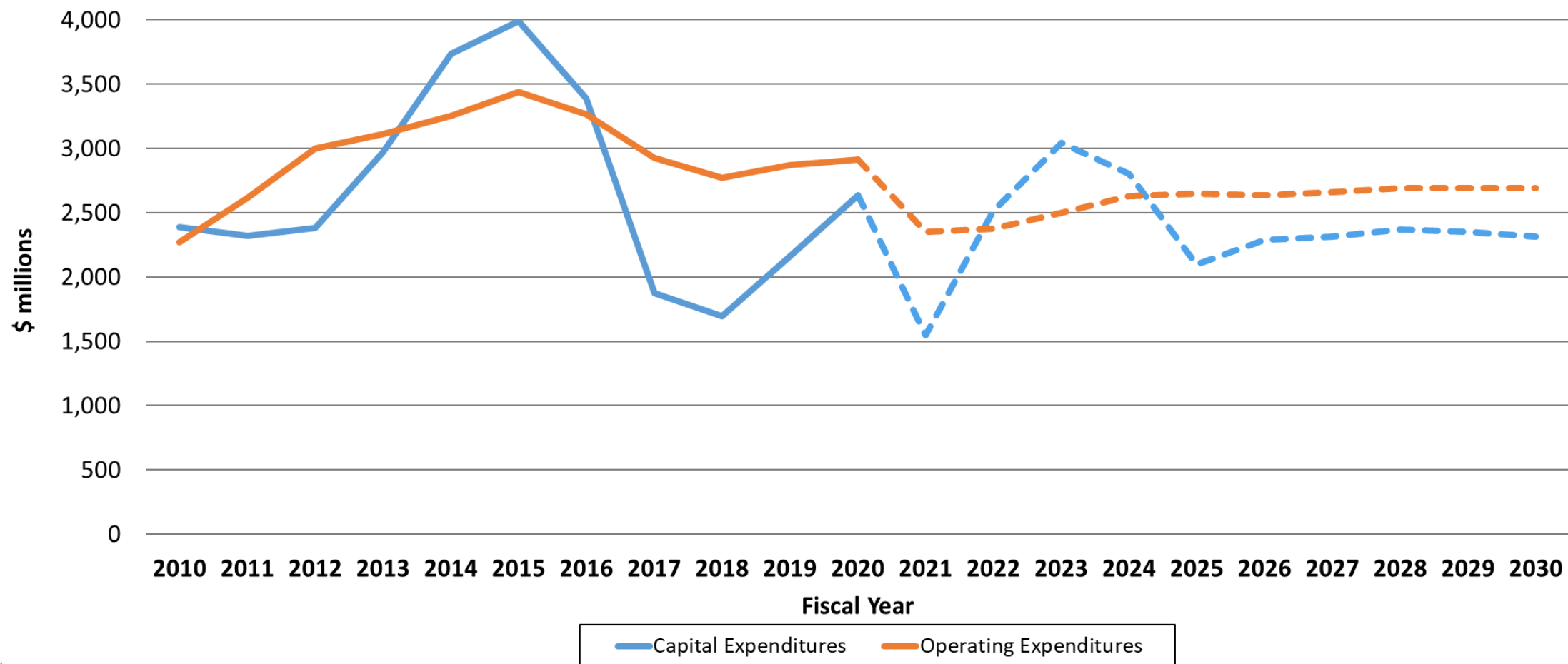
Source: Fall 2020 Revenue Sources Book
Note: Fall 2020 Forecast does not include 10,000 barrels per day of NGL shipments from Prudhoe to Kuparuk.

Petroleum Detail: Changes to North Slope Petroleum Production Forecast



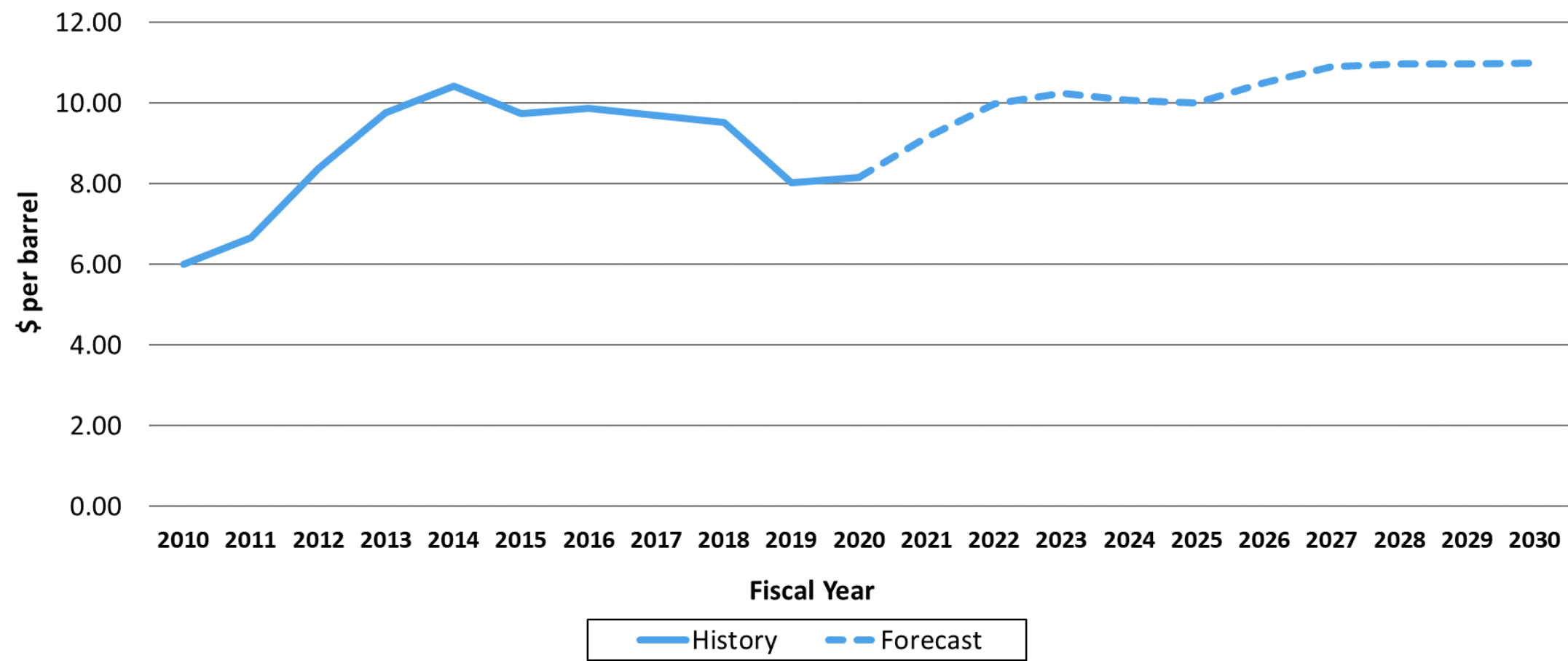
Source: Fall 2020 Revenue Sources Book
Note: Fall 2020 Forecast does not include 10,000 barrels per day of NGL shipments from Prudhoe to Kuparuk.

Petroleum Detail: North Slope Allowable Lease Expenditures



Source: Fall 2020 Revenue Sources Book

Petroleum Detail: North Slope Transportation Costs



Source: Fall 2020 Revenue Sources Book

THANK YOU

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