THE STATE
of ALASKA
GOVERNOR BILL WALKER

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February 1, 2018

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

Dear Co-Chairs Foster and Seaton:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue (DOR) during Commissioner Fisher and Chief Economist Dan Stickel's presentation to the House Finance Committee on January 19, 2018 regarding the Fall 2017 revenue forecast. Please see questions in italics and our responses immediately below the questions. Additionally, this letter clarifies one misstatement made during the presentation.

1. *Representative Guttenberg asked how the recently announced settlement of TAPS tariffs might affect future transportation costs.*

   There are two aspects to the recent Trans Alaska Pipeline System (TAPS) settlement. The first is an agreement on historical TAPS tariff rates for the period of 5/29/2011 to 12/31/2015. The second establishes an agreed upon model to calculate yearly maximum tariff rates for Calendar Year (CY) 2016 onwards.

   Agreement regarding historical tariffs will necessitate refiling of prior year production taxes and royalties, resulting in additional state revenue. The fall 2017 revenue forecast included an estimate of associated revenue as part of the FY 2019 revenue estimate. The estimated impact was $150 million in additional liability most of which would be offset by credits, leaving $25 million in net general fund revenue. With the finalized settlement, revenue from refiled returns is now expected to be at least $165 million before purchased credits are applied. These final numbers will be incorporated into the spring 2018 forecast.

   Preliminary analysis of the new tariff ceiling for CY 2016 and beyond suggests a decrease of around $1 in the effective tariff rate in CY 2016 and similar effects on the tariff rates going forward. At the fall 2017 price forecast, each $1 change in value translates to about $30 million to $40 million of additional unrestricted revenue, therefore this change is expected to increase potential unrestricted revenue by about $30-40 million per year beginning in FY 2018. These revenue impacts are preliminary and will be refined and incorporated into the spring 2018 forecast.

2. *Representative Guttenberg asked how the TAPS settlement affected the change between Spring and Fall, and Preliminary and Fall forecasts.*

   See response to question #1. Estimated unrestricted revenue in FY 2019 was increased by $25 million due to the potential settlement in the final fall forecast; this settlement was not incorporated into either the preliminary fall or spring 2017 forecasts.

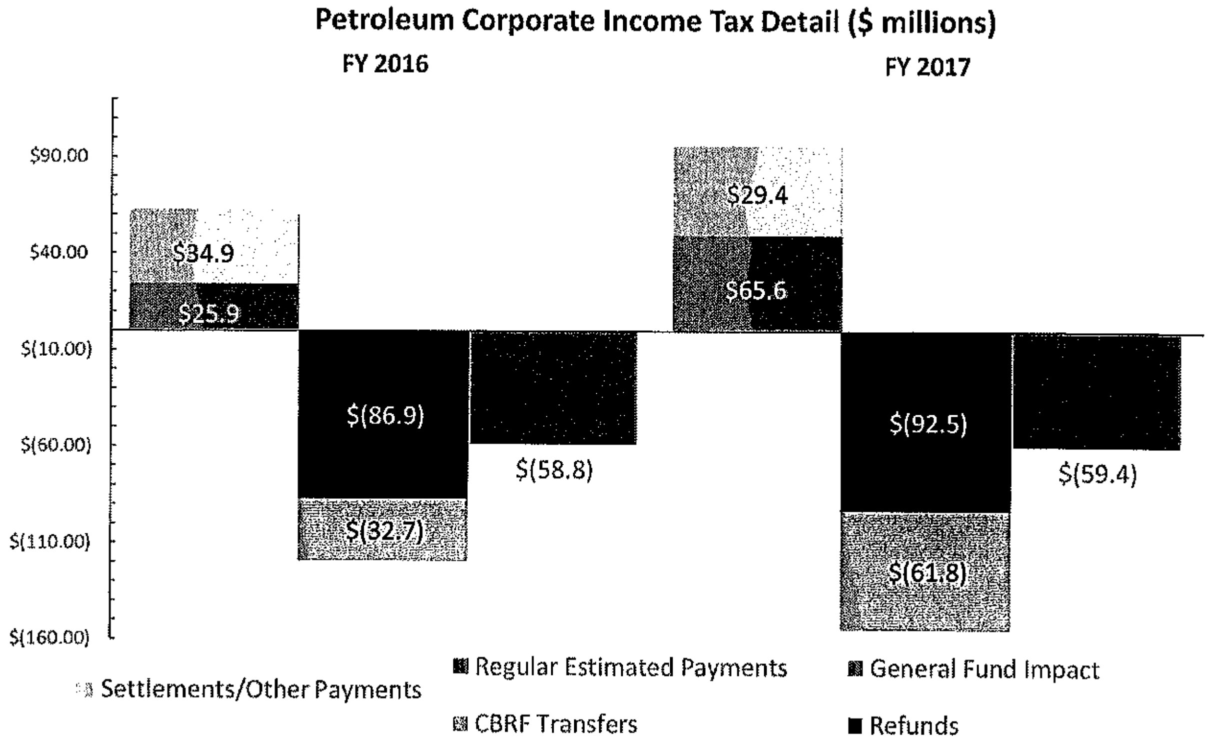
3. *Co-chair Seaton asked why FY17 Corporate Income Tax from petroleum companies was negative.*

FY 2017 collections from petroleum corporate tax consisted of several components. The majority of our corporate taxpayers file on a calendar year basis and make estimated tax payments throughout the year. Therefore, some of the FY 2016 estimated payments are for taxes due in FY 2017. Petroleum corporate tax returns filed in FY 2017 were mostly net loss returns and requested refunds for any estimated taxes paid. The Division also paid several large refunds for prior year amended returns filed by petroleum corporate taxpayers in FY 2017. Amended returns are filed by taxpayers to correct a prior return and can increase or decrease the tax liability for that year. However, the revenue impact is accounted for in the year the returns are filed. Additionally, in years in which a company has a net operating loss, the state permits companies to "carry back" that loss to certain previous periods, decreasing the liability for those years, and triggering a refund for those previous tax years. For instance, FY 2017 refunds were applied for in the fall of 2016, based on estimated taxes paid in Calendar Year 2014. Finally, accounting adjustments transferred a large amount of funds to the Constitutional Budget Reserve Fund (CBRF) in FY 2017. The CBRF transfers represent funds that should have been transferred in previous fiscal years but had not been.

The table and graphic below demonstrate the General Fund Impact for FY 2017 as well as FY 2016 which also saw negative net collections for petroleum corporate tax. It should be noted that these negative collections were a temporary phenomenon resulting from rapidly declining oil prices; DOR forecasts a return to positive corporate tax revenue for FY 2018 and beyond.

Petroleum Corporate Income Tax Detail ($ millions)

	FY 16		FY 17	
Payments	**$**	**60.8**	**$**	**94.9**
Regular Estimated Payments	*$*	*25.9*	*$*	*65.6*
CBRF Payments	*$*	*34.9*	*$*	*29.4*
Refunds	**$**	**(86.9)**	**$**	**(92.5)**
Carry Forward/Back Credits	*$*	*(7.8)*	*$*	*(50.6)*
Return Refunds / Other	*$*	*(79.1)*	*$*	*(41.9)*
CBRF Transfers	**$**	**(32.7)**	**$**	**(61.8)**
Current Year Payments	*$*	*(3.8)*	*$*	*(42.2)*
Prior Year Payments	*$*	*(28.9)*	*$*	*(19.6)*
General Fund Impact	**$**	**(58.8)**	**$**	**(59.4)**



4. *Representative Gara asked a question on the relationship between higher production tax forecast and higher credits. Specifically, what is the net change between the spring and fall forecast, using the statutory formula?*

   For FY 2019, the spring forecast estimated $264.5 million in production tax and a statutory credit appropriation of $46 million. The fall forecast estimates $338.8 million in production tax revenue and a statutory credit appropriation of $206 million.

   The net production tax received, after subtracting the statutory appropriation, would yield $218.5 million under the spring forecast and $132.8 million under the fall forecast.

5. *Clarification of Permanent Fund return assumption.*

   During the hearing, Co-chair Seaton noted that slide 28 indicated a 6.95% Permanent Fund return, as opposed to the 6.5% return being assumed by the Alaska Permanent Fund Corporation (APFC). We incorrectly stated that the fall forecast was based on the 6.95% assumption. In fact, the slide footnote was incorrect. The forecast is based on a 6.5% median expected return, consistent with APFC's current forecasts.

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

Sincerely,

Mike Barnhill

Michael A. Barnhill
Deputy Commissioner

c: Sheldon Fisher, Commissioner
Ken Alper, Director Tax Division
Paul Strickler, Department of Revenue
Daniel Stickle, Department of Revenue