



Revenue Sources Book 2014 Spring



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of
Revenue

COMMISSIONER'S OFFICE
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April 7, 2014

The Honorable Sean Parnell, Governor of Alaska
P.O. Box 110001
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Dear Governor Parnell:

I am pleased to present to you the Department of Revenue's spring 2014 forecast. The spring forecast is an annual update to the fall forecast of state revenues for you, the Alaska Legislature, and the Alaska public. This update is a collaborative effort among the Department of Revenue, the Alaska Permanent Fund Corporation, and the Office of Management and Budget. A more comprehensive forecast will occur in the fall, which should clarify many of the uncertainties surrounding recent company announcements.

In general, the forecast shows more Alaska oil production, especially in fiscal years 2016 and beyond. However, there are some short-term revisions in our production and revenue forecast that relate to increased drilling activity as well as revisions to planned summer 2014 maintenance on the North Slope. Based on actual production data, we have revised our expectations upward for fiscal year 2014 by 13,600 barrels per day.

The spring forecast for General Fund Unrestricted Revenue for FY 2014, is \$374 million (7.6%) higher and, for FY 2015, is \$9 million (-0.2%) lower than the previous forecast. The remainder of the ten-year forecast shows a modest increase in unrestricted revenue projections. I would like to note that, in both FY 2014 and FY 2015, unrestricted revenue from oil production is higher than the fall 2013 forecast and, importantly, that a slight reduction in the forecast of unrestricted revenue in FY 2015 is due to reductions in expected investment earnings.

The spring forecast for General Fund Unrestricted Revenue is \$5.3 billion for FY 2014 and \$4.5 billion for FY 2015. The actual FY 2013 GFUR totaled \$6.9 billion.

Our production forecast follows a consistent and prudent methodology, and we have incorporated some increase in production relative to the previous forecast. Please note that the spring 2014 forecast is an update of the previous fall 2013 forecast. The full forecast is done in the fall and this is where planned production information from companies is collected. This coming fall 2014 forecast will be the first forecast under the new tax system and the first budget cycle companies can evaluate projects with tax certainty. I expect to see many questions answered between now and then, hopefully resulting in high enough levels of certainty to begin incorporating new production into our revenue forecast.

In order to maintain stable or increasing unrestricted state revenue in the future, we will need to see higher oil prices and/or stable or increased production. I remain firm in my belief that with the More Alaska Production Act, we have a tax regime that can address the one factor we can influence – increased production.

I hope you find the information provided in the spring 2014 forecast to be interesting and useful. We look forward to providing you with a new forecast in the fall of 2014.

Sincerely,

A handwritten signature in blue ink that reads "Angela M. Rodell".

Angela Rodell,
Commissioner

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Executive Summary

General Discussion

The spring forecast is an annual update of the fall forecast of state revenues for the Governor, the Alaska Legislature, and the Alaska public. This update is a collaborative effort among the Department of Revenue, the Alaska Permanent Fund Corporation, and the Office of Management and Budget.

State revenue comes from four major sources:

- oil revenue;
- income from sources other than oil, such as taxes, charges for services, licenses, permits, fines and forfeitures;
- federal revenue; and
- investment revenue, primarily from the Alaska Permanent Fund and the Constitutional Budget Reserve Fund.

General Fund Unrestricted Revenue is now forecast to be \$5.3 billion in fiscal year⁽¹⁾ (FY) 2014 and \$4.5 billion in FY 2015. This forecast represents an increase in expected General Fund Unrestricted Revenue for FY 2014 of \$374 million (+7.6%) compared to the projection in the fall 2013 forecast. FY 2015 is almost unchanged from the previous forecast and the remainder of the

ten-year forecast shows a modest increase in revenue.

The spring forecast for North Slope crude oil production revises expected production in FY 2014 from 508.2 thousand barrels per day to 521.8 thousand barrels per day; an increase of 13,600 barrels per day from the Fall 2013 forecast. This change reflects actual daily production levels that have consistently outperformed what was forecast in the fall of 2013.

The revenue forecast is based on a revised oil price forecast of \$106.61 per barrel versus \$105.68 for FY 2014, based on actual prices realized over the past several months and an overall better market outlook for oil prices. The forecast prices for the remaining years (FY 2015 – FY 2023) are unchanged, because there have been no structural changes or significant change in oil price triggers since the fall forecast. Forecast oil prices remain above \$105 per barrel throughout our forecast period to 2022.

A significant point of interest is that in the forecast period of FY 2014 through FY 2023, oil revenue is expected to contribute less than 90% of all unrestricted revenue, although revenues from oil production will continue to dominate as a major

contributor, forecast to be 82% to 89% of General Fund Unrestricted Revenue. State revenues will continue to be sensitive to oil price and oil production, as well as the cost of production. The state requires high oil prices (~\$100 per barrel) and/or stable or increasing production, in order to maintain stable or increasing state revenue.

In FY 2013, total state revenue from all sources amounted to \$15.8 billion. Prior to FY 2013, only FY 2011 total state revenue exceeded last year's revenue with a record \$19.5 billion, attributable to high oil prices and strong investment performance. Total state revenue for FY 2014 is also expected to be almost \$15 billion.

The totals of some tables in this publication may not equal the sum of components due to rounding.

⁽¹⁾ Alaska's fiscal year runs from July 1 through June 30.

Table 2-1: Total State Revenue, by restriction and type

	(\$ millions)		
	History	Forecast	
	FY 2013	FY 2014	FY 2015
Unrestricted Revenue Sources			
Unrestricted General Fund Revenue			
Petroleum Revenue	6,352.0	4,697.9	3,945.9
Non-petroleum Revenue	551.6	485.0	511.5
Investment Revenue	28.1	121.1	65.5
Federal Revenue	0.0	0.0	0.0
Unrestricted General Fund Revenue	6,931.7	5,304.0	4,522.9
Restricted Revenue Sources			
Designated General Fund Revenue			
Non-petroleum Revenue	298.3	337.2	318.0
Investment Revenue	40.5	57.6	31.3
Subtotal Designated General Fund Revenue	338.8	394.8	349.3
Other Restricted Revenue			
Petroleum Revenue	1,032.5	761.7	726.6
Non-petroleum Revenue	185.2	214.0	213.6
Investment Revenue	4,937.3	5,288.4	3,638.7
Subtotal Other Restricted Revenue	6,155.0	6,264.1	4,578.9
Federal Revenue			
Petroleum Revenue ⁽¹⁾	3.6	4.0	3.5
Federal Receipts	2,383.2	2,964.5	3,112.9
Subtotal Federal Revenue	2,386.8	2,968.5	3,116.4
Total Restricted Revenue	8,880.6	9,627.4	8,044.6
Total State Revenue	15,812.3	14,931.4	12,567.5

⁽¹⁾ Oil revenue shown in the Federal category includes the State share of rents, royalties, and bonuses received from the National Petroleum Reserve - Alaska, as provided by federal law.

Table 2-2: Unrestricted General Fund Revenue, by type and detail

	(\$ millions)		
	History FY 2013	Forecast FY 2014 FY 2015	
Unrestricted Petroleum Revenue			
Petroleum Taxes			
Petroleum Property Tax	99.3	99.6	97.4
Petroleum Corporate Income Tax	434.6	463.8	463.7
Oil & Gas Production Tax	4,050.3	2,417.1	1,754.4
Subtotal Petroleum Taxes	4,584.2	2,980.5	2,315.5
Royalties (including Bonuses, Rents, & Interest)			
Mineral Bonuses & Rents	19.0	20.1	13.0
Oil & Gas Royalties	1,748.4	1,696.3	1,616.4
Interest	0.4	1.0	1.0
Subtotal Royalties	1,767.8	1,717.4	1,630.4
Unrestricted Petroleum Revenue	6,352.0	4,697.9	3,945.9
Unrestricted Non-petroleum Revenue			
Non-petroleum Taxes			
Excise Tax			
Alcoholic Beverage	19.8	20.0	20.3
Tobacco Product – Cigarette	32.2	30.4	28.9
Tobacco Product – Other	12.6	13.7	14.1
Insurance Premium	52.4	54.4	56.4
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel	41.9	41.3	40.7
Vehicle Rental	8.4	8.3	8.4
Tire Fee	1.4	1.4	1.4
Subtotal Excise Tax	168.9	169.7	170.4
Corporate Income Tax	112.5	87.9	127.1
Fisheries Tax			
Fisheries Business	19.2	22.1	21.2
Fishery Resource Landing	5.5	5.3	4.8
Subtotal Fisheries Tax	24.7	27.4	26.0
Other Tax			
Charitable Gaming	2.5	2.4	2.4
Estate	0.0	0.0	0.0
Large Passenger Vessel Gambling	6.0	6.0	6.0
Mining	46.7	44.8	41.9
Subtotal Other Tax	55.2	53.2	50.3
Subtotal Non-petroleum Taxes	361.3	338.2	373.8

Table 2-2: Unrestricted General Fund, by type and detail (continued from previous page)

	(\$ millions)		
	History	Forecast	
	FY 2013	FY 2014	FY 2015
Charges for Services			
General Government	13.2	14.6	14.6
Natural Resources	5.6	7.6	7.6
Other	9.6	7.6	7.6
Subtotal Charges for Services	28.4	29.8	29.8
Fines & Forfeitures	15.8	10.4	10.4
Licenses & Permits			
Alcoholic Beverage Licenses	0.9	0.9	0.9
Motor Vehicle	38.2	40.2	40.2
Other	2.8	2.6	2.6
Subtotal Licenses & Permits	41.9	43.7	43.7
Rents & Royalties			
Mining Rents & Royalties	14.1	13.3	13.4
Other Non-petroleum Rents & Royalties	10.6	8.8	8.8
Subtotal Rents & Royalties	24.7	22.1	22.2
Miscellaneous Revenues and Transfers			
Miscellaneous	63.6	15.2	15.2
Alaska Housing Finance Corporation	9.5	0.0	0.3
Alaska Industrial Development & Export Authority	0.0	20.7	10.7
Alaska Municipal Bond Bank Authority	0.0	0.9	0.9
Alaska Student Loan Corporation	1.2	0.0	0.0
Alaska Energy Authority	0.1	0.0	0.0
Alaska Natural Gas Development Authority	0.1	0.0	0.0
Mental Health Trust	0.0	0.0	0.0
Unclaimed Property	5.0	4.0	4.5
Subtotal Transfers	79.5	40.8	31.6
Unrestricted Non-petroleum Revenue, except federal and investment	551.6	485.0	511.5
Investment Revenue			
Investments	26.7	119.6	64.0
Interest Paid by Others	1.4	1.5	1.5
Unrestricted Investment Revenue	28.1	121.1	65.5
Total Unrestricted Revenue	6,931.7	5,304.0	4,522.9

Table 2-3: Restricted Revenue, by type and category

	(\$ millions)		
	History	Forecast	
	FY 2013	FY 2014	FY 2015
Designated General Fund Revenue			
Non-petroleum Revenue			
Taxes	52.3	47.9	47.1
Charges for Services	202.9	247.1	234.1
Fines and Forfeitures	17.6	14.5	9.1
Licenses and Permits	0.2	0.2	0.2
Rents and Royalties	3.7	4.6	4.6
Other	21.6	22.9	22.9
Subtotal	298.3	337.2	318.0
Investment Revenue			
Investments - Designated GF	2.6	3.4	2.5
Other Treasury Managed Funds	37.9	54.2	28.8
Subtotal	40.5	57.6	31.3
Restricted Designated General Fund Revenue	338.8	394.8	349.3
Other Restricted Revenue			
Oil Revenue			
Royalties to Alaska Permanent Fund & School Fund (includes Bonuses & Rents)	855.9	741.7	706.6
Tax and Royalty Settlements to CBRF	176.6	20.0	20.0
Subtotal	1,032.5	761.7	726.6
Non-petroleum Revenue			
Taxes	76.5	74.7	74.4
Charges for Services	40.8	70.9	70.9
Fines and Forfeitures	24.5	24.3	24.1
Licenses and Permits	29.2	29.8	29.8
Rents and Royalties	8.0	7.5	7.6
Other	6.2	6.8	6.8
Subtotal	185.2	214.0	213.6
Investment Revenue			
Investments - Other Restricted	5.2	6.9	5.1
Constitutional Budget Reserve Fund	618.2	888.1	471.9
Alaska Permanent Fund (GASB) ⁽¹⁾	4,313.9	4,393.4	3,161.7
Subtotal	4,937.3	5,288.4	3,638.7
Other Restricted Revenue	6,155.0	6,264.1	4,578.9

⁽¹⁾ Both realized and unrealized gains and losses are included per GASB 34 as interpreted by the Finance Division of the Department of Administration in its *Comprehensive Annual Financial Report*.

Table 2-3: Restricted Revenue, by type and category (continued from previous page)

	(\$ millions)		
	History	Forecast	
	FY 2013	FY 2014	FY 2015
Federal Revenue			
Federal Receipts	2,383.2	2,964.5	3,112.9
Oil Revenue			
NPR-A Royalties, Rents and Bonuses	3.6	4.0	3.5
Restricted Federal Revenue	2,386.8	2,968.5	3,116.4
Total Restricted Revenue	8,880.6	9,627.4	8,044.6

Table 4-4: ANS Oil & Gas Production Tax Data Summary

	History	Forecast	
	FY 2013	FY 2014	FY 2015
North Slope Price and Production			
Price of ANS WC (in \$/barrel)	107.57	106.61	105.06
Transit Costs & Other (in \$/barrel)	9.76	9.90	9.82
ANS Wellhead (in \$/barrel)	97.81	96.71	95.24
North Slope Production			
Total ANS Production (in mbbbls/day)	531.6	521.5	495.9
Royalty and federal (in mbbbls/day) ⁽¹⁾	82.7	67.6	63.5
Taxable Barrels (in mbbbls/day)	448.9	453.9	432.4
North Slope Lease Expenditures⁽²⁾⁽³⁾			
Total North Slope Lease Expenditures (in \$ millions)			
Operating Expenditures [OPEX]	3,109.5	3,305.8	2,901.2
Capital Expenditures [CAPEX]	2,947.6	3,657.6	4,847.2
Total North Slope Expenditures	6,057.1	6,963.4	7,748.3
Deductible North Slope Lease Expenditures (in \$ millions)			
Operating Expenditures [OPEX]	2,849.4	3,254.6	2,849.4
Capital Expenditures [CAPEX]	2,074.7	3,368.9	4,416.8
Deductible North Slope Expenditures	4,924.1	6,623.5	7,266.2
State Production Tax Revenue⁽⁴⁾			
Tax Revenue (in \$ millions)	4,050.3	2,417.1	1,754.4
Production Tax Collected per Taxable Barrel	24.7	14.6	11.1
Statewide Production Tax Credits⁽²⁾⁽⁵⁾			
Credits Used against Tax Liability (in \$ millions)	469.0	970.0	940.0
Credits for Potential Purchase (in \$ millions)	359.0	650.0	600.0

⁽¹⁾ Royalty and Federal barrels represent our best estimate of barrels that are not taxed. This estimate includes both state and federal royalty barrels, and barrels produced from federal offshore property.

⁽²⁾ Lease expenditures and credits used against tax liability for FY 2013 were prepared using unaudited company-reported estimates.

⁽³⁾ Expenditure data for FY 2014 and FY 2015 are compiled from company submitted expenditure forecast estimates and other documentation as provided to the the department. Expenditures shown here are shown in two ways: (1) total estimated expenditures including for those companies with no tax liability; and (2) estimated deductible expenditures for only those companies with a tax liability.

⁽⁴⁾ Production tax is calculated on a company specific basis, therefore the aggregated data reported here will not generate the total tax revenue shown. For an illustration of the tax calculation, see Appendix D in the 2013 Fall Revenue Sources Book.

⁽⁵⁾ Production tax credits shown include all production tax credits and all areas of the State. North Slope CAPEX credits are spread out over two years as specified in the ACES production tax. Assumptions for the \$12 million credits for small Alaska producers are included in the table.

Table A-3b: Petroleum Revenue Forecast

(\$ millions)

FY	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Unrestricted Petroleum Revenue										
Petroleum Property Tax	99.6	97.4	99.2	101.1	102.5	103.4	103.9	103.9	103.6	103.1
Petroleum Corporate Income Tax	463.8	463.7	460.8	465.4	456.1	441.9	424.2	400.0	382.1	361.0
Oil and Gas Production Tax	2,408.5	1,746.3	1,914.9	2,245.9	2,413.6	2,421.0	2,212.1	1,971.9	2,111.4	1,743.2
Oil and Gas Hazardous Release	8.6	8.1	8.1	8.0	7.6	7.1	6.6	6.1	5.6	5.1
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil and Gas Royalties-Net ⁽¹⁾	1,696.3	1,616.4	1,647.2	1,649.5	1,635.2	1,604.0	1,488.3	1,386.9	1,373.4	1,250.1
Bonuses, Rents & Interest-Net ⁽¹⁾⁽²⁾	21.1	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unrestricted Petroleum Revenue	4,697.9	3,945.9	4,144.3	4,483.9	4,629.0	4,591.4	4,249.1	3,882.8	3,990.1	3,476.5
Cumulative Unrestricted Petroleum Revenue⁽³⁾	113,297	117,243	121,387	125,871	130,500	135,092	139,341	143,223	147,213	150,690
Restricted Petroleum Revenue										
NPR-A Rents, Royalties, Bonuses	4.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Royalties to AK Permanent Fund	729.5	694.9	703.5	704.7	703.2	689.2	633.8	582.9	583.5	530.4
Royalties to Public School Fund	12.2	11.7	11.9	11.9	11.8	11.6	10.7	9.9	9.9	9.0
CBRF Deposits	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Restricted Petroleum Revenue	765.7	730.1	738.8	740.1	738.5	724.3	668.0	616.4	616.9	562.9
Total Petroleum Revenue	5,463.6	4,676.0	4,883.1	5,224.0	5,367.5	5,315.6	4,917.1	4,499.1	4,607.0	4,039.4

⁽¹⁾ Royalties, bonuses, rents and interest rate are net of Permanent Fund Contribution and (CBRF) deposits.⁽²⁾ This category is primarily composed of petroleum revenue.⁽³⁾ The cumulative Unrestricted General Fund petroleum revenue is based on revenue beginning in FY 1959.

Table A-4b: Unrestricted General Revenue Forecast

FY	(\$ millions)									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Unrestricted Petroleum Revenue	4697.9	3945.9	4144.3	4483.9	4629.0	4591.4	4249.1	3882.8	3990.1	3476.5
General Fund Unrestricted Non-petroleum Revenue	606.1	577.0	599.9	613.9	629.1	651.0	676.6	703.3	725.2	754.0
Total Unrestricted General Fund Revenue	5304.0	4522.9	4744.2	5097.8	5258.1	5242.4	4925.7	4586.1	4715.3	4230.5
Total Unrestricted General Fund Revenue from Petroleum	89%	87%	87%	88%	88%	88%	86%	85%	85%	82%

Table B-2: Price Difference from Spring 2013 Forecast

(\$/bbl)

FY	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Spring 2014 Forecast										
ANS West Coast	106.61	105.06	107.69	110.38	115.40	121.19	122.43	123.67	133.00	131.85
Sum of Netback Costs	9.91	9.82	9.62	9.85	10.11	10.54	11.16	11.86	12.62	13.40
ANS Wellhead Wtd Average All Destinations	96.71	95.24	98.07	100.53	105.29	110.65	111.27	111.81	120.38	118.45
Fall 2013 Forecast										
ANS West Coast	105.68	105.06	107.69	110.38	115.40	121.19	122.43	123.67	133.00	131.85
Sum of Netback Costs	10.11	10.03	9.82	10.06	10.34	10.78	11.41	12.11	12.87	13.66
ANS Wellhead Wtd Average All Destinations	95.57	95.03	97.87	100.32	105.06	110.41	111.02	111.56	120.13	118.19
Price change from prior forecast										
ANS West Coast	0.93	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sum of Netback Costs	-0.21	-0.22	-0.20	-0.21	-0.23	-0.24	-0.25	-0.25	-0.25	-0.26
ANS Wellhead Wtd Average All Destinations	1.14	0.22	0.20	0.21	0.23	0.24	0.25	0.25	0.25	0.26
Percent change from prior forecast										
ANS West Coast	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Sum of Netback Costs	-2.0%	-2.1%	-2.0%	-2.1%	-2.3%	-2.2%	-2.2%	-2.1%	-2.0%	-1.9%
ANS Wellhead Wtd Average All Destinations	1.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%

Table C-1: Production Differences from Fall 2013 Forecast

	(mbbls/day)									
FY	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Spring 2014 Forecast										
Alaska North Slope	521.8	495.9	493.5	488.4	464.6	433.3	403.1	371.9	342.8	315.2
Non-North Slope	14.5	11.6	10.4	9.5	8.8	8.1	7.6	7.1	6.6	6.2
Total	536.3	507.5	503.9	497.9	473.4	441.4	410.7	378.9	349.4	321.4
Fall 2013 Forecast										
Alaska North Slope	508.2	498.4	487.6	482.7	459.5	429.1	399.6	368.8	340.1	312.9
Non-North Slope	13.5	11.6	10.4	9.5	8.8	8.1	7.6	7.1	6.6	6.2
Total	521.7	510.0	498.1	492.2	468.3	437.2	407.2	375.9	346.8	319.1
Volume change from prior forecast										
Alaska North Slope	13.6	-2.5	5.8	5.7	5.1	4.2	3.5	3.1	2.7	2.3
Non-North Slope	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	14.6	-2.5	5.8	5.7	5.1	4.2	3.5	3.1	2.7	2.3
Percent change from prior forecast										
Alaska North Slope	2.7%	-0.5%	1.2%	1.2%	1.1%	1.0%	0.9%	0.8%	0.8%	0.7%
Non-North Slope	7.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	2.8%	-0.5%	1.2%	1.2%	1.1%	1.0%	0.9%	0.8%	0.8%	0.7%