

Fall 2018 Revenue Forecast



Presented by
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Fall 2018 Revenue Forecast



REVENUE FORECAST: 2018 to 2020 Totals

\$ Millions	History	Forecast	
Revenue Type	FY 2018	FY 2019	FY 2020
Unrestricted General Fund			
Oil Revenue	1,941.7	2,211.1	1,688.9
Non-Oil Revenue	466.1	488.5	493.6
Investment Earnings	16.3	2,795.4	3,015.5
Subtotal	2,424.1	5,495.0	5,198.0
Designated General Fund			
Non-Oil Revenue	444.6	416.5	416.3
Investment Earnings	40.1	21.2	47.5
Subtotal	484.7	437.7	463.7
Other Restricted Revenue			
Oil Revenue	484.4	496.1	544.6
Non-Oil Revenue	253.4	245.7	252.5
Investment Earnings	5,576.3	956.5	1,222.3
Subtotal	6,314.0	1,698.3	2,019.3
Federal Revenue			
Oil Revenue ⁽¹⁾	23.7	7.2	11.3
Federal Receipts	3,098.9	3,780.8	3,780.8
Subtotal	3,122.6	3,788.0	3,792.1
Total State Revenue	12,345.4	11,418.9	11,473.1

Source: Department of Revenue – Economic Research

(1) Oil revenue shown in the Federal category includes the state share of rents, royalties and bonuses received from the National Petroleum Reserve in Alaska

Unrestricted Petroleum Revenue Forecast: 2018 to 2020

\$ millions	History	Forecast	
Unrestricted General Fund Revenue	FY 2018	FY 2019	FY 2020
Taxes			
Petroleum Property Tax	121.6	126.1	119.0
Petroleum Corporate Income Tax	67.9	195.0	210.0
Production Tax	749.9	815.4	479.3
Subtotal Taxes	939.3	1,136.5	808.3
Royalties			
Mineral Bonuses and Rents	23.6	21.8	14.5
Oil and Gas Royalties	977.8	1,051.9	865.3
Interest	0.9	1.0	0.7
Subtotal Royalties	1,002.3	1,074.6	880.5
Total Petroleum Revenue	1,941.7	2,211.1	1,688.9

Source: Department of Revenue – Economic Research

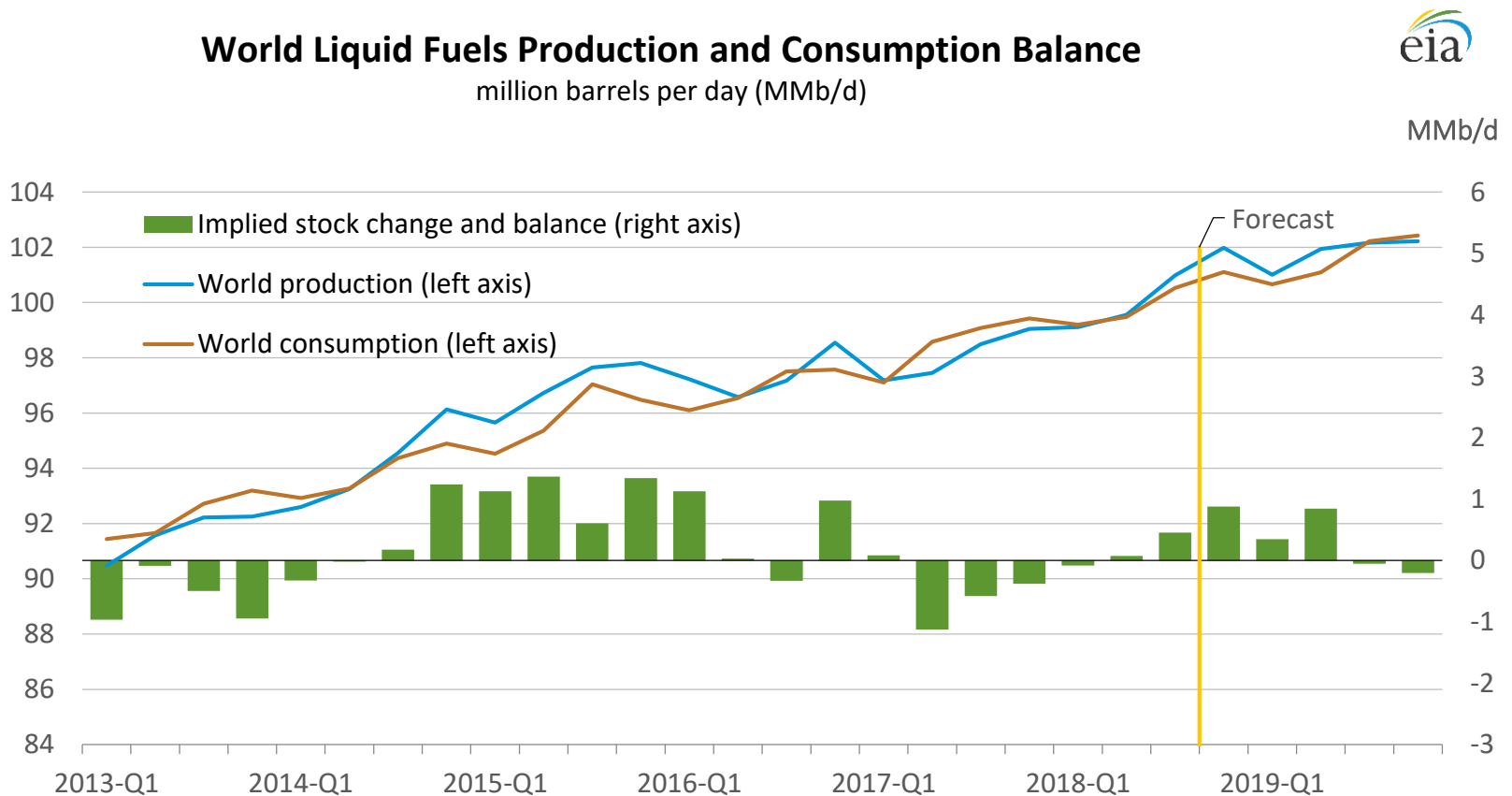
Fall 2018 Price Forecast



CY2018 Oil Market Movement in Relation to DOR Price Forecasting



PRICE FORECAST: Impact of Spare Capacity: Short Term

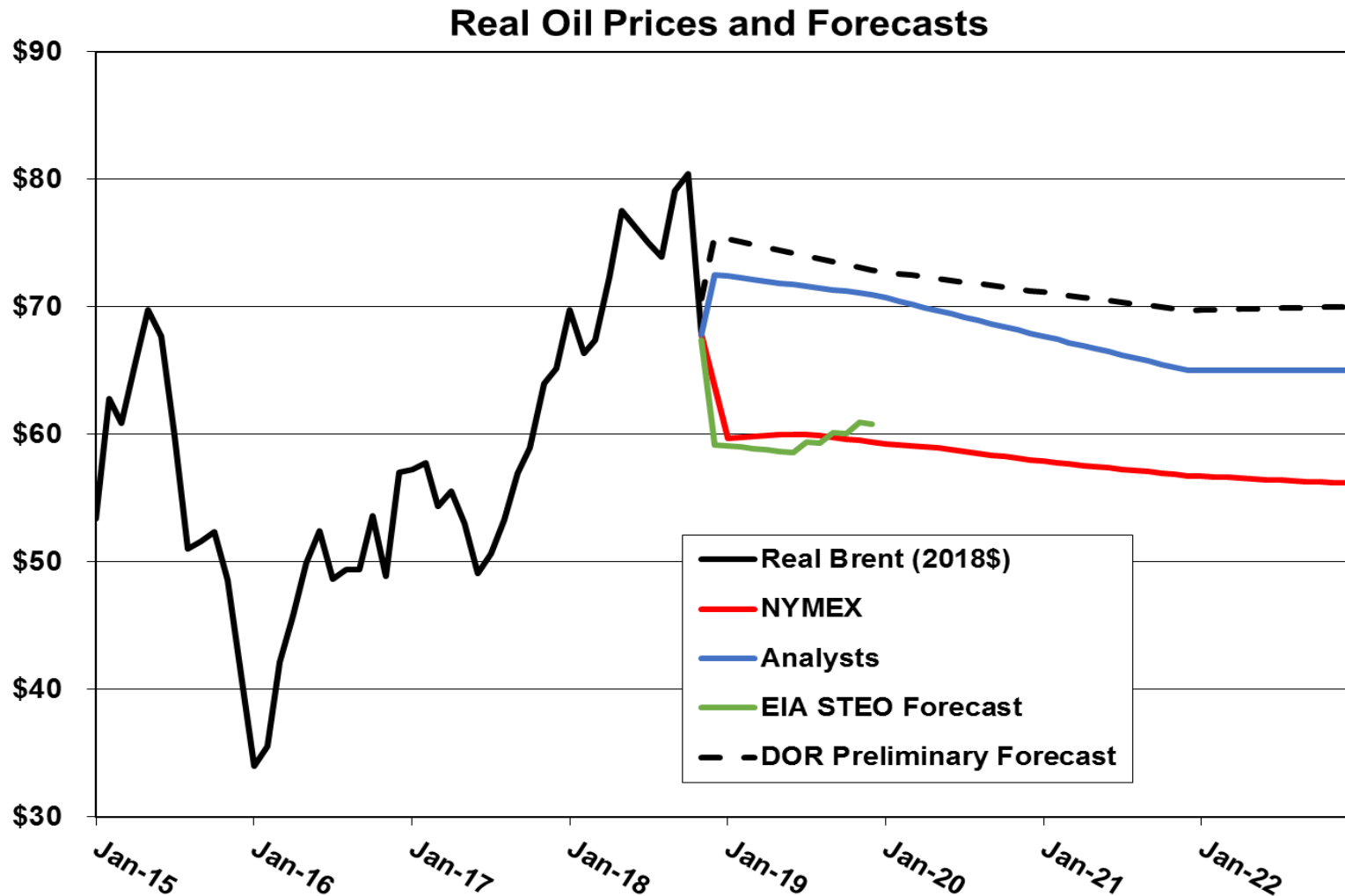


Source: Energy Information Agency, December 2018 Short-Term Energy Outlook

PRICE FORECAST: Differences in Analyst Forecasts

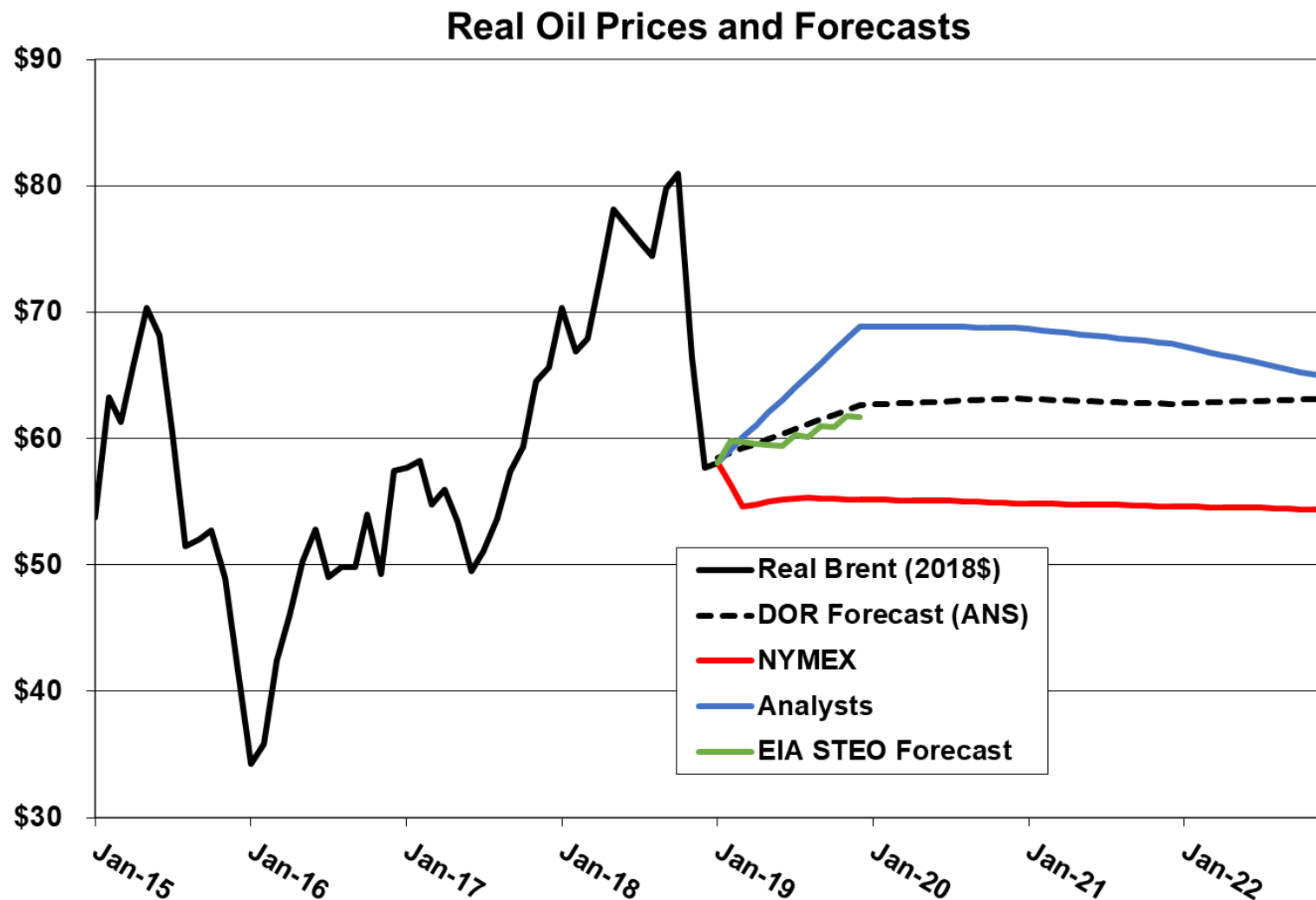
	Demand	Supply
<i>Analyst Low</i> <i>(Short-Term)</i>	Moderate global demand growth	Strong production growth in U.S., Canada, Russia, and Brazil
<i>Analyst High</i> <i>(Short-Term)</i>	Rapid demand growth in India and China	Larger-than-expected supply drop from Iran and Venezuela Loss of production not offset by increases in US and Russia
<i>EIA Forecast</i> <i>(Short-Term)</i>	Steady global demand growth	US crude production rising at a faster rate than previously anticipated
<i>EIA Reference Case</i> <i>(Long-Term)</i>	Moderate demand growth led by non-OECD countries	OPEC production flat U.S. is largest contributor to new non-OPEC production; Somewhat higher price needed to bring on sufficient supply

Brent Forecasts Comparison as of 12/4/2018



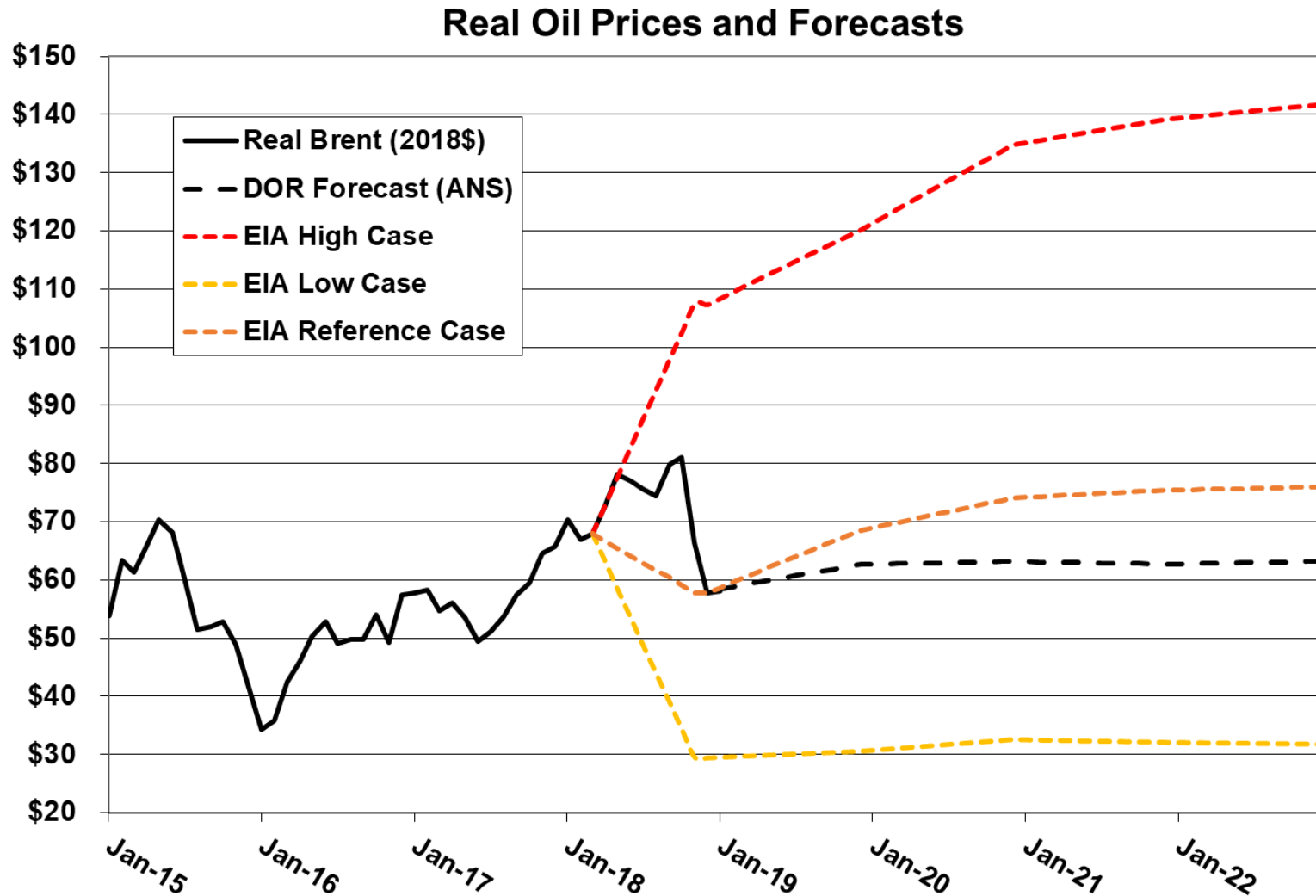
Sources: Analyst forecast is an average of 8-25 firms from a Bloomberg survey as of December 4th, 2018. Futures prices are from the New York Mercantile Exchange (NYMEX) as of Dec. 4, 2018. The U.S. Energy Information Administration (EIA) forecast is from their December 2018 Short-Term Energy Outlook. Forecasts are adjusted using Alaska Department of Revenue's 2.25% inflation assumption.

Brent Forecasts Comparison as of 1/3/2019



Sources: Analyst forecast is an average of 8-27 firms from a Bloomberg survey as of Jan. 3, 2019. Futures prices are from the New York Mercantile Exchange (NYMEX) as of Jan. 3, 2019. The U.S. Energy Information Administration (EIA) forecast is from their December 2018 Short-Term Energy Outlook. Forecasts are adjusted using Alaska Department of Revenue's 2.25% inflation assumption.

EIA Cases from 2018 Annual Energy Outlook



Sources: U.S. Energy Information Administration 2018 Annual Energy Outlook and December 2018 Short-Term Energy Outlook. Forecasts are adjusted using Alaska Department of Revenue's 2.25% inflation assumption.

Market Activity Around RSB Publication

- Early October: Four year peak in oil prices, responding to scarcity fears and rising demand
- Mid October: Worry over inventory gluts leads to steady price fall for over two months
- Early December: OPEC pledges 1.2 MMb/d cut
 - Leads to largest fall in OPEC output in two years, as Saudi cuts begin
- U.S. stockpiles continue to grow
 - Nationwide inventories ~7% higher than five year average
- Uncertainties remain for 2019: forecast prices decreasing from bullish peak in early October

Forecast Changes from November	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Average all Brent Forecasters 11/21/2018	\$73.82	\$73.01	\$71.49	\$69.95	\$71.52	\$73.13	\$74.78	\$76.46	\$78.18
Average all Brent Forecasters 1/3/2019	\$70.30	\$70.37	\$71.85	\$72.11	\$70.81	\$72.41	\$74.04	\$75.70	\$77.41
CHANGE	\$(3.52)	\$(2.64)	\$0.36	\$2.16	\$(0.71)	\$(0.72)	\$(0.74)	\$(0.76)	\$(0.77)
NYMEX WTI Forecast 11/21/2018	\$60.65	\$61.15	\$61.06	\$61.17	\$61.85	\$62.80	\$63.59	\$64.00	\$64.06
NYMEX WTI Forecast 1/3/2019	\$55.32	\$56.43	\$57.40	\$58.40	\$59.45	\$60.49	\$61.29	\$61.82	\$61.97
CHANGE	\$(5.33)	\$(4.72)	\$(3.65)	\$(2.76)	\$(2.40)	\$(2.31)	\$(2.30)	\$(2.18)	\$(2.09)

Source: Department of Revenue – Economic Research, Analyst forecast is an average of 8 to 27 firms from a Bloomberg survey as of Jan. 3, 2019. Futures prices are from the New York Mercantile Exchange (NYMEX) as of Jan. 3, 2019.

Fall 2018

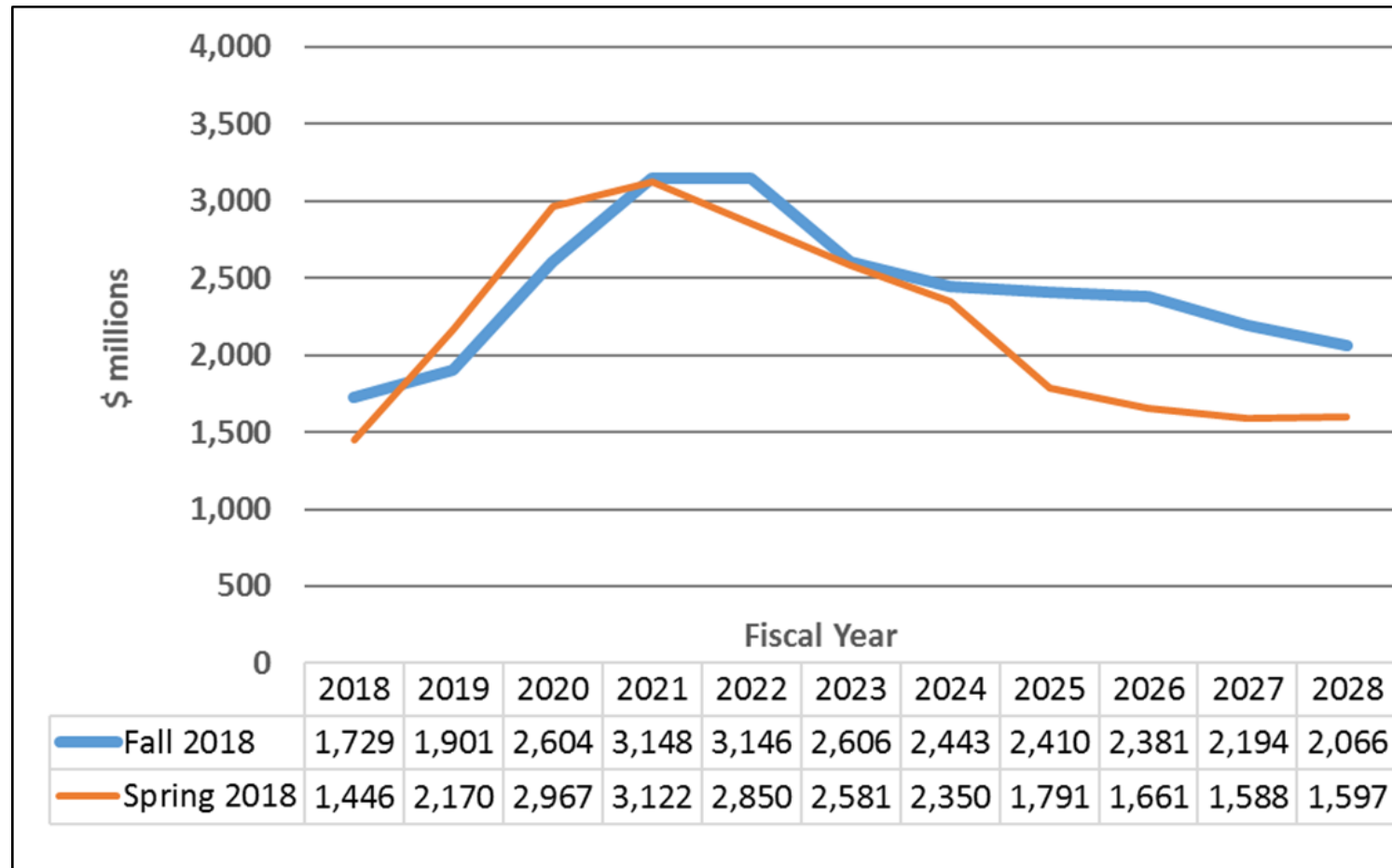
Cost Forecast



Lease Expenditures - Overview

- Costs of production and transportation (i.e. lease expenditures) are deductible against gross revenues to calculate net taxable revenues.
 - If a company has insufficient revenues (i.e. net operating loss), remaining lease expenditures can be carried into a future tax year.
 - Capital costs are not depreciated for production tax.
 - This means that taxes are reduced by development costs prior to production, but are then higher once production starts.
- If 35% of the net taxable revenues are less than 4% of the gross revenues, the minimum tax is due.
 - This implies that the marginal tax rate on a dollar of cost savings is 35% when above the minimum tax and 0% when below the minimum tax.

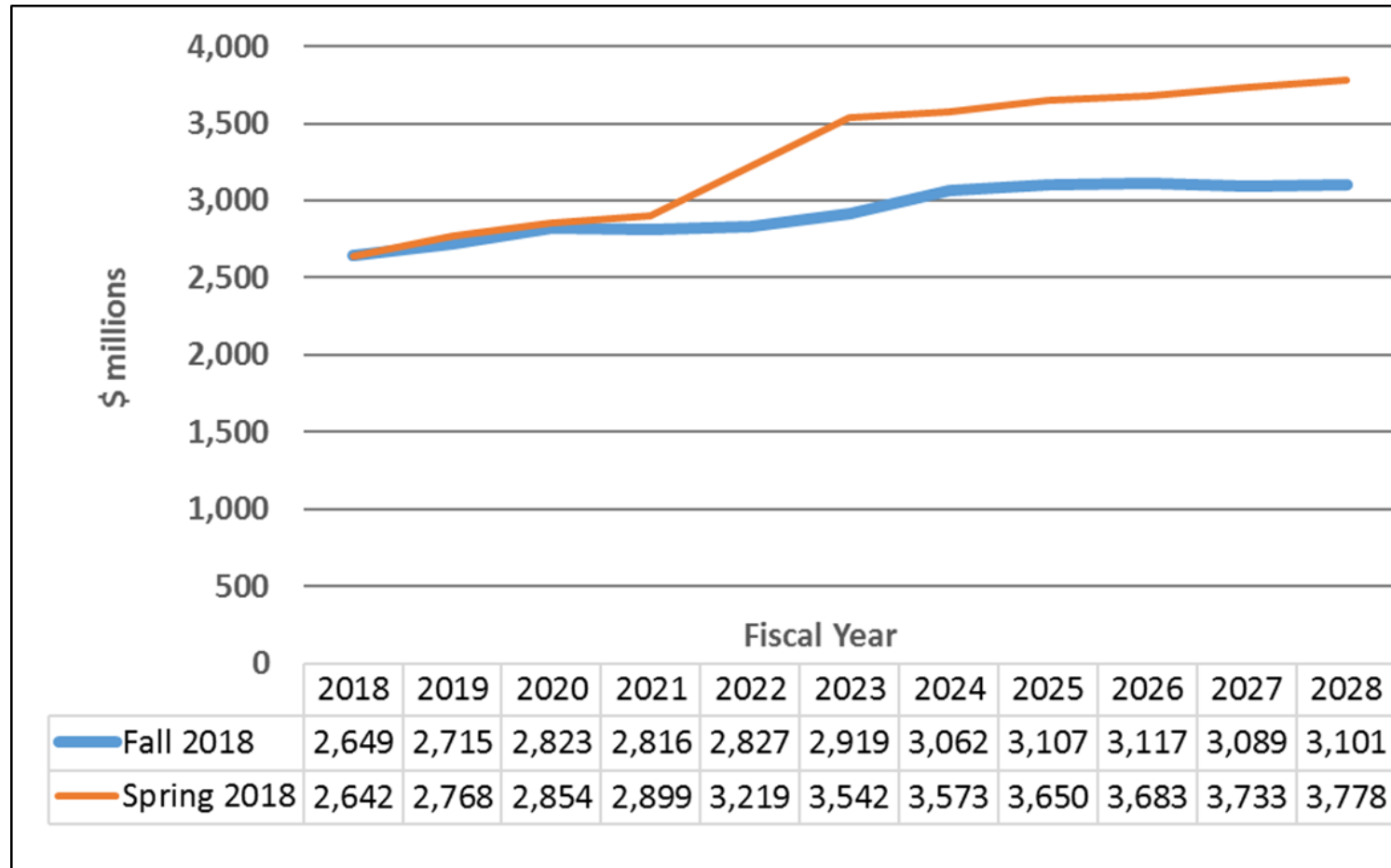
COST FORECAST: North Slope Capital Lease Expenditures



Source: Department of Revenue – Economic Research

Note: These estimates include lease expenditures by companies that are not expected to have a tax liability.

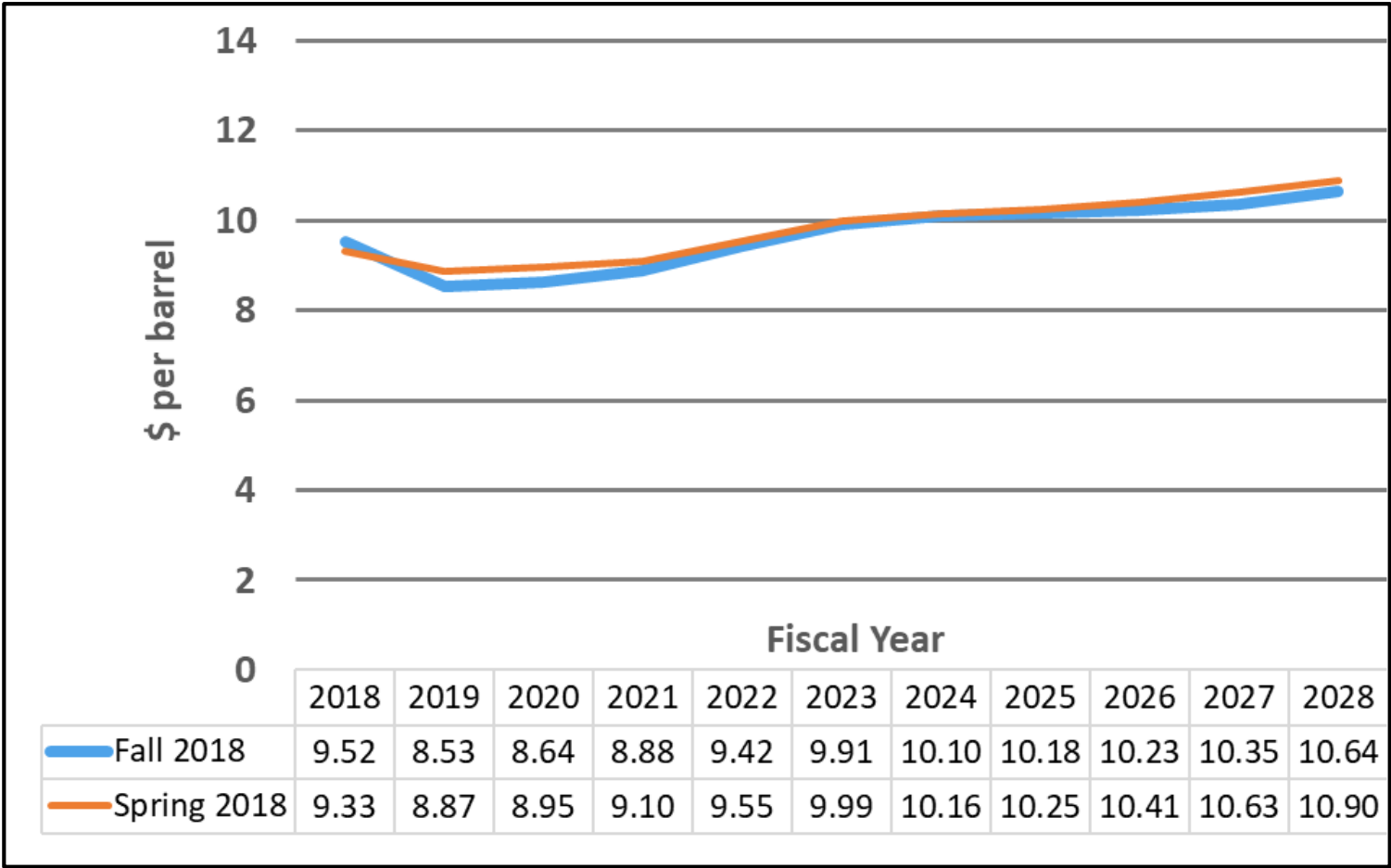
COST FORECAST: North Slope Operating Lease Expenditures



Source: Department of Revenue – Economic Research

Note: These estimates include lease expenditures by companies that are not expected to have a tax liability.

COST FORECAST: North Slope Transportation Costs



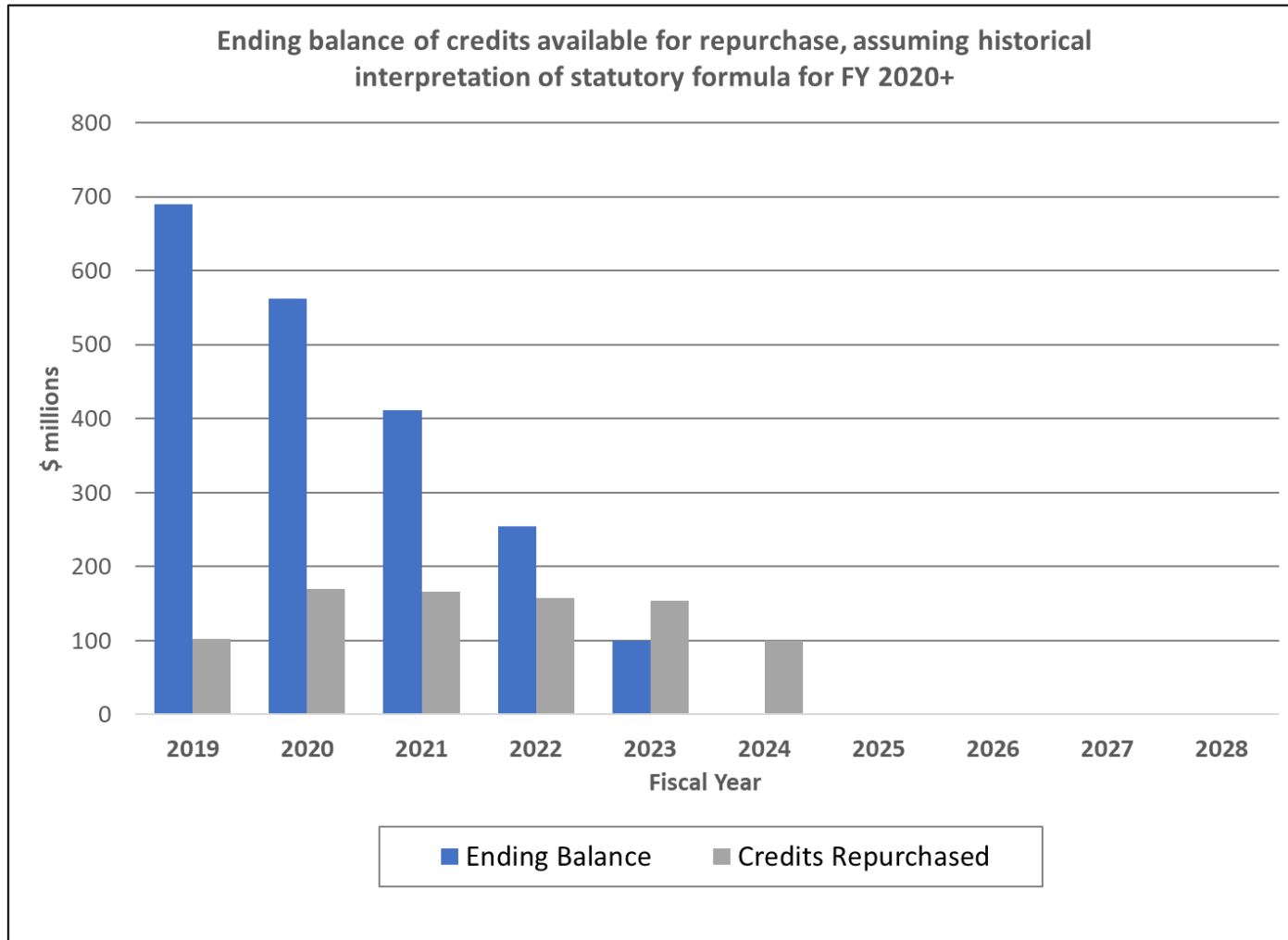
Source: Department of Revenue – Economic Research

Fall 2018

Credits Forecast



Outstanding Tax Credits



Source: Department of Revenue – Economic Research

Per AS 43.55.028, 10% of production tax levied, before credits, when ANS price forecast is \$60 or higher and 15% of production tax levied, before credits, when ANS price forecast is below \$60. Does not include changes in company behavior or credit transfers.

Update on Tax Credit Bonding (HB 331)

- Corporation established last year in House Bill 331 (HB 331).
- Purpose:
 - “to finance under AS 43.55.028
 - (1) the purchase of
 - (A) transferable tax credit certificates issued under AS 43.55.023;
 - (B) production tax credit certificates issued under AS 43.55.025; and
 - (2) the payment of refunds and payments claimed under AS 43.20.046, 43.20.047, or 43.20.053.”
- Authorized to issue up to \$1,000,000,000 in subject-to-appropriation bonds.
- FY 2019, \$27 million appropriated for debt service on any bonds issued by the Corporation. Bond proceeds to be appropriated from Corporation to Commissioner of Revenue for purchases.

Update on Tax Credit Bonding (HB 331)

- The Corporation has not issued any bonds due to litigation.
- Complaint alleged that the subject-to-appropriation bonds authorized in HB 331 violated provisions of the Alaska Constitution on state debt and financing. In June, the State filed a motion to dismiss the complaint.
- The Superior Court granted the State's motion to dismiss on January 2, 2019.
- The State has moved for entry of final judgment. Once the final judgment is entered, the Plaintiff will have 30 days to file an appeal to the Alaska Supreme Court.

Changes from Spring 2018 Revenue Forecast



Changes to 10-Year Unrestricted Revenue Outlook

ANS Oil Price (Nominal \$ per barrel) – Fall 2018 vs Spring 2018

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
Fall 2018	\$67.96	\$64.00	\$66.00	\$67.00	\$69.00	\$70.00	\$72.00	\$74.00	\$75.00	\$77.00
Spring 2018	\$63.00	\$64.00	\$66.00	\$67.00	\$69.00	\$70.00	\$72.00	\$74.00	\$75.00	\$77.00
change	\$4.96	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Unrestricted GF Revenue excluding PF transfer (\$ millions) – Fall 2018 vs Spring 2018

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
Fall 2018	2,772	2,265	2,304	2,254	2,246	2,235	2,238	2,360	2,496	2,669
Spring 2018	2,259	2,276	2,336	2,343	2,401	2,468	2,625	2,783	2,831	2,983
change	513	-12	-33	-89	-155	-233	-386	-423	-334	-314

Unrestricted GF Revenue (\$ millions) – Fall 2018 vs Spring 2018

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
Fall 2018	5,495	5,198	5,394	5,345	5,500	5,596	5,670	5,865	6,074	6,321
Spring 2018	2,259	2,276	2,336	2,343	2,401	2,468	2,625	2,783	2,831	2,983
change	3,236	2,922	3,057	3,002	3,099	3,128	3,046	3,082	3,244	3,338

Source: Department of Revenue – Economic Research

GF = General Fund

Oil & Gas Production (OGP) Tax Audit Status Report



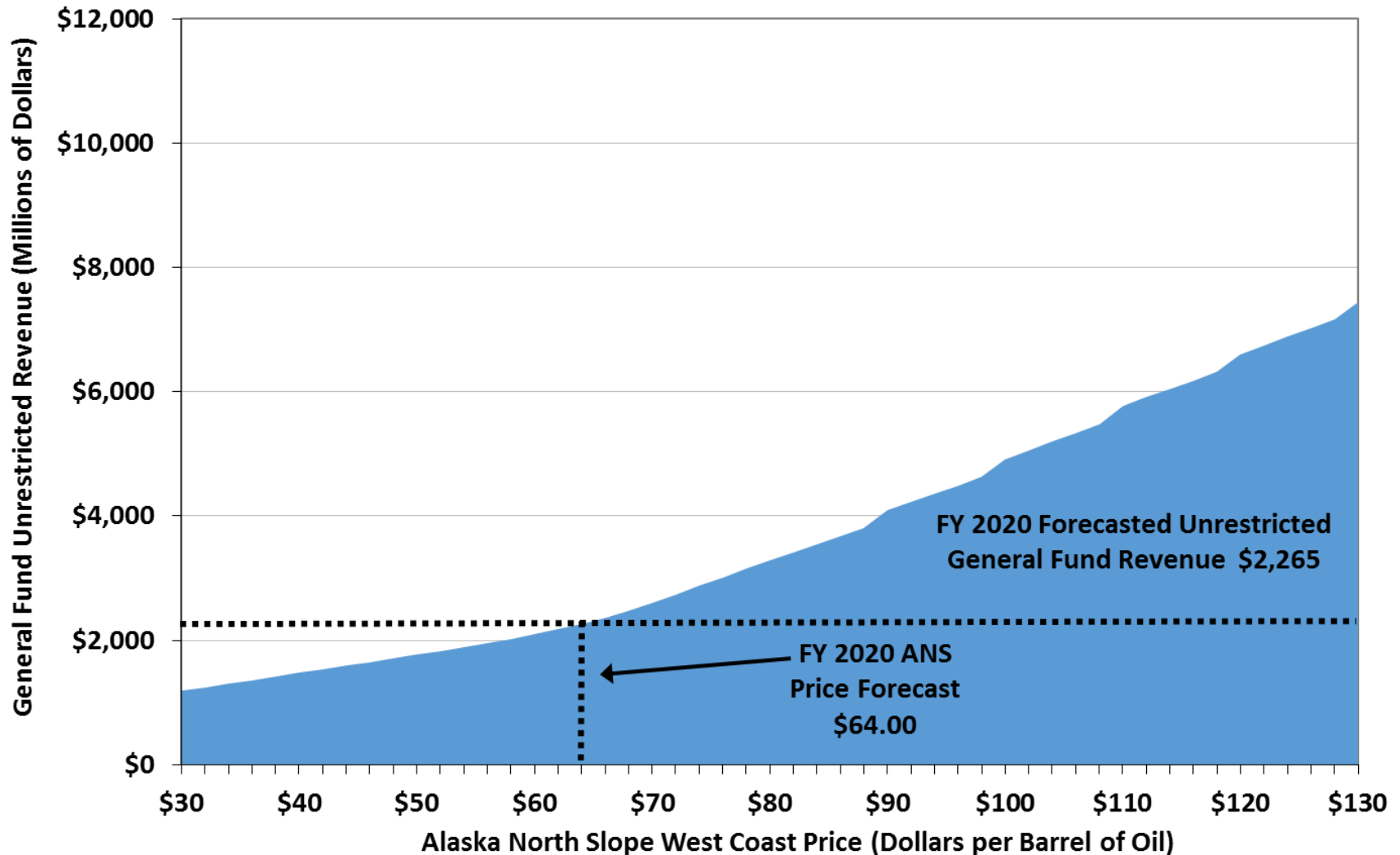
OGP Tax Audit Update

- Thorough audits completed through 2012
 - Previously reviewed all sections of a taxpayer's return
 - Some sections were 100% audited
 - Time consuming, but deemed to be necessary with new tax and new staff
 - Scope was wide and materiality was low – it was a learning process
- Stable tax law provides time to get caught up, plan, and develop better procedures.
- Tax system in place provides better transparency and organization of data.

OGP Audit Improvement Plan

- Reduce Audit Time and Backlog
 - 2013 audits completed in 1st quarter 2019
 - 2014 audits complete in 1st half of 2020
 - 2015-2017 audits complete by 3rd quarter 2021
 - 2018-2019 audits complete by end of 2022
 - Maintain 3-year audit cycle on go-forward basis
- Improve Taxpayer Communication
 - Working on operator sharing agreements
 - Planning additional audit meetings
 - Goal to standardize calculations from taxpayers
 - Clean up regulations
- Maintain & Leverage Tax Revenue Management System (TRMS)
 - Utilize taxpayers' feedback of system improvements
 - Expand on our help documents – external and internal

UGF Relative to Price per Barrel (without POMV), FY 2020



Source: Department of Revenue – Economic Research

Note: Between \$65 and \$75/barrel, a \$1 change in ANS price leads to an approximately \$70 million change in UGF revenue.

THANK YOU

Please find our contact information below:

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