

Update on Tax Credits and Revenue Projections



Presented by:

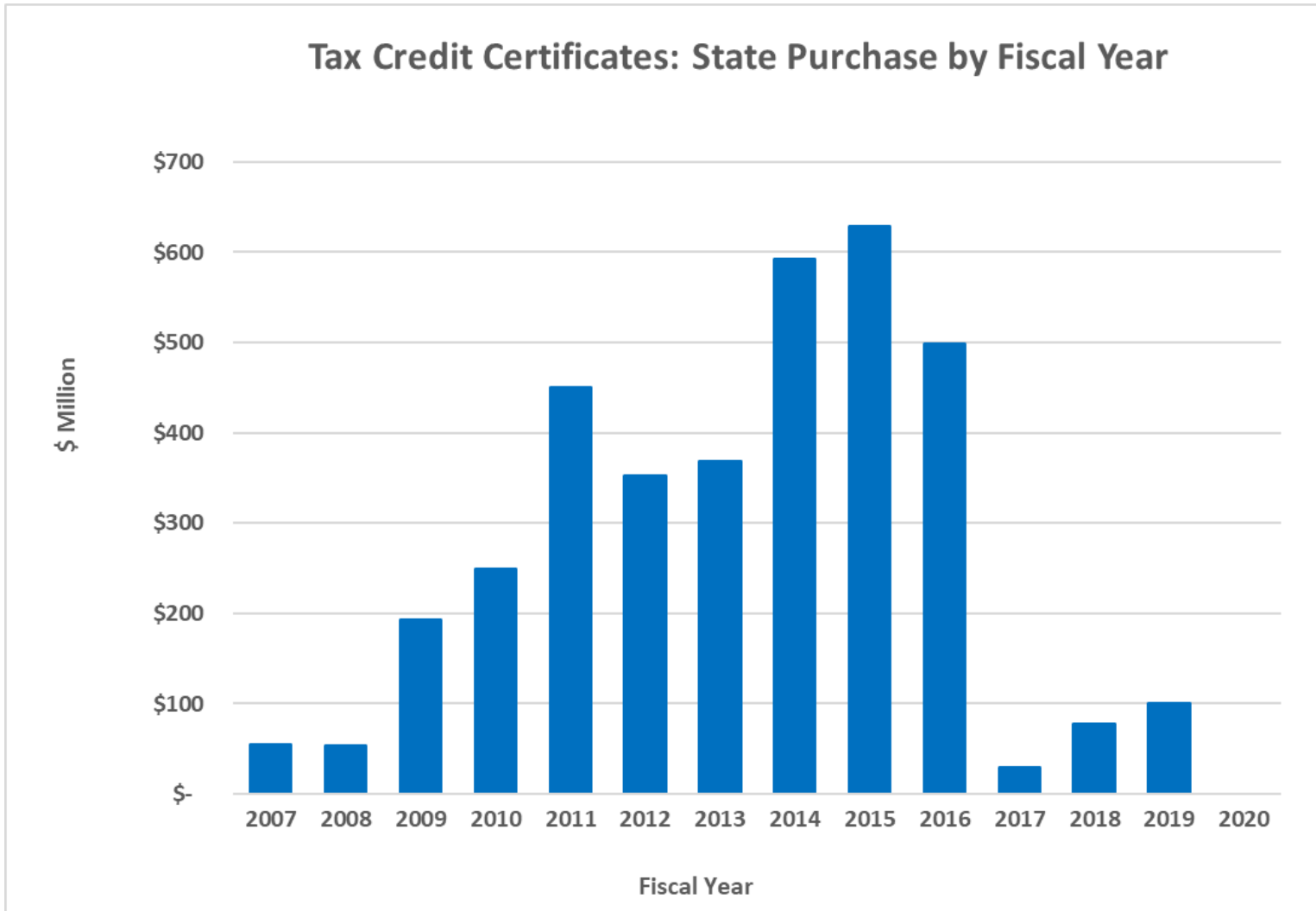
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October 2, 2020

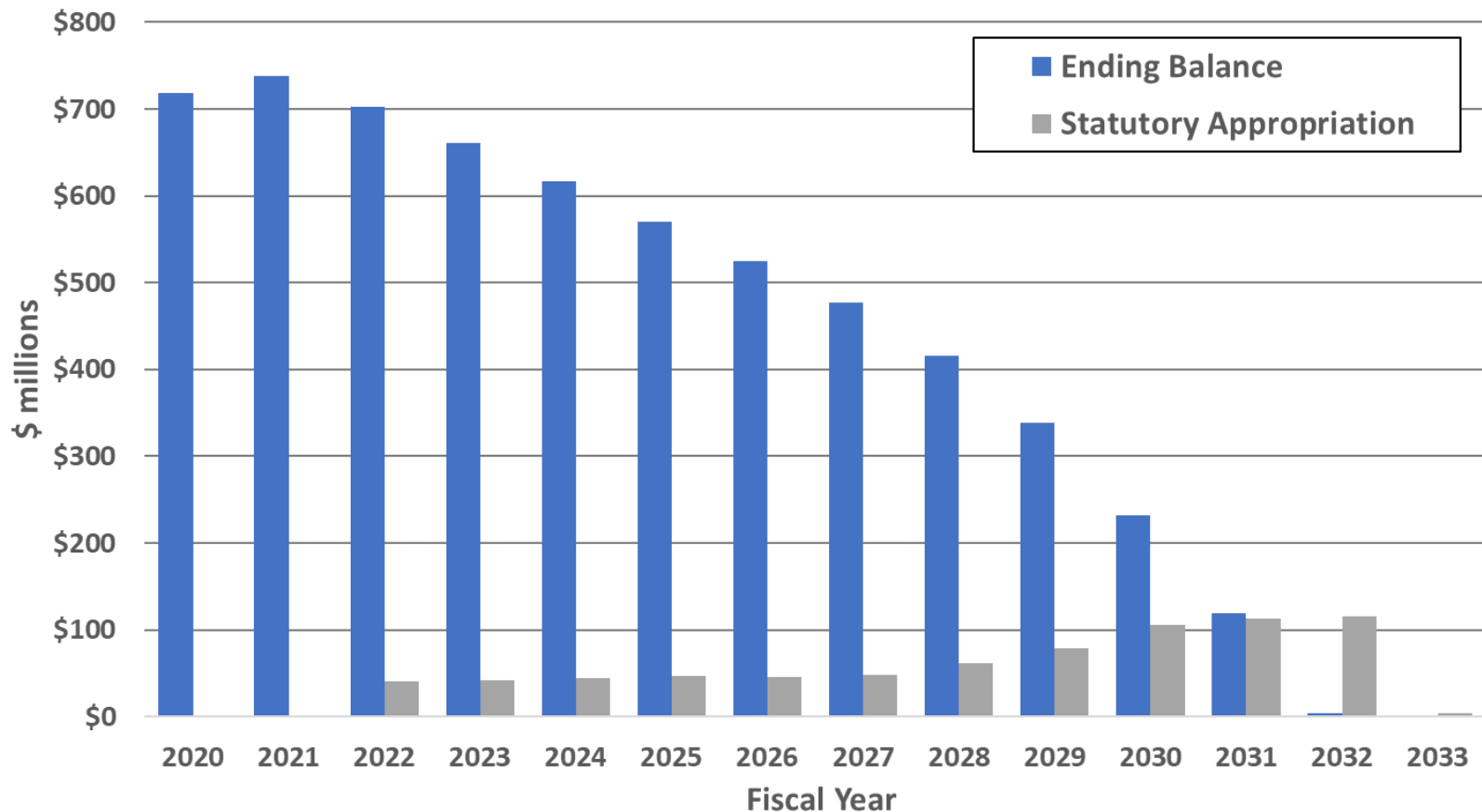
Tax Credit Certificates Historical Purchases



Source: Spring 2020 Revenue Forecast, Fall 2015 Revenue Sources Book

Tax Credit Certificates for Purchase Status

Ending balance of credit certificates available for purchase,
assuming statutory appropriation for FY 2022+



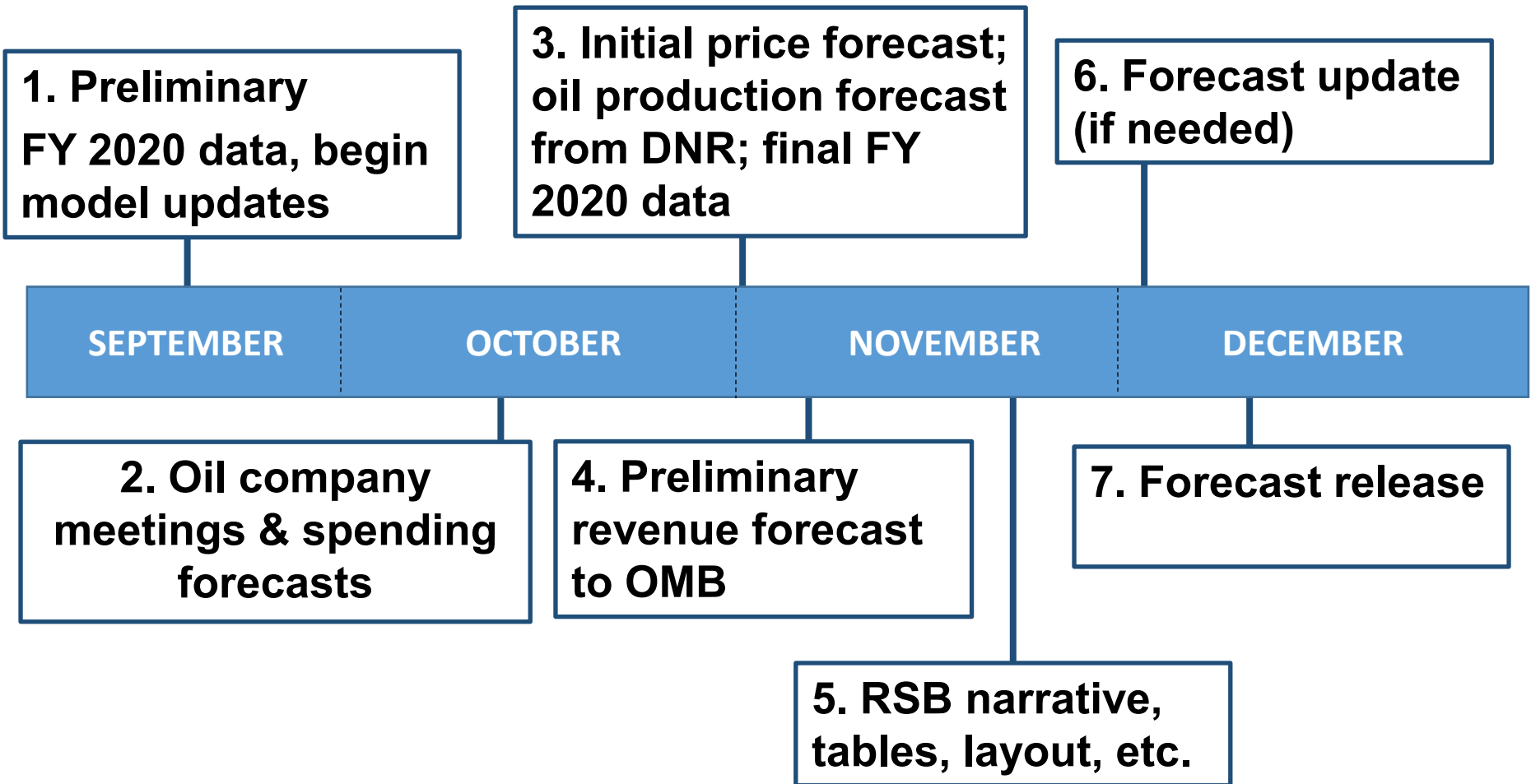
Note: Per AS 43.55.028, statutory appropriation is 10% of production tax levied, before credits, when ANS price forecast is \$60 or higher. Statutory appropriation is 15% of production tax levied, before credits, when ANS price forecast is below \$60. Does not include changes in company behavior or credit transfers beyond FY 2020 as a result of making no appropriation or only making statutory appropriation.

Source: Spring 2020 Revenue Forecast

Revenue Outlook: Major Changes Since Spring 2020 Forecast

- Spring Forecast released April 6, 2020
- Investment Revenue: Markets back near all-time highs
 - Slightly improved outlook for POMV for FY 2023+
- Federal Revenue: Stimulus funding via the CARES Act and other avenues
 - \$5.6 billion impact to Alaska so far
- Petroleum Revenue: Volatile prices and production
 - Oil price below zero in late April; now slightly above forecast
 - Oil production was curtailed due to lack of storage and low prices; has since been restored but some drilling still suspended
- Non-Petroleum Revenue: 2020 tourism season lost, impacts of COVID-19 across many economic sectors
 - Fairly consistent with the scenario laid out for CY 2020.
 - CARES Act made changes to corporate income tax
- Unrestricted Revenue: Outlook little changed from Spring Forecast

Fall Forecast Process



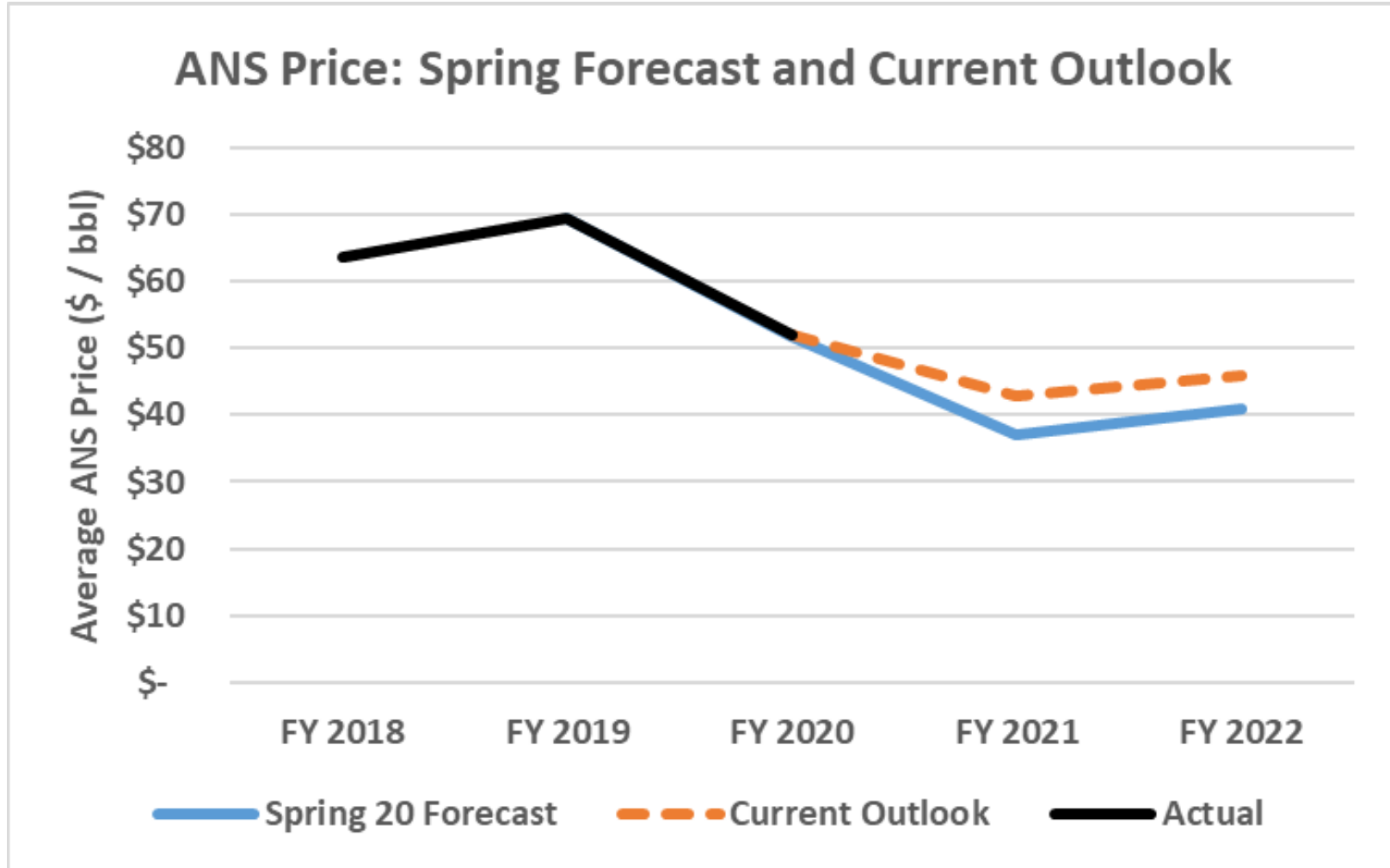
Select Alaska Economic Indicators

- State GDP: \$54.2 billion in Q1 2020
 - Down 1% from Q4 2019; Q2 2020 data released 10/2/20
- Unemployment Rate: 7.4% in Aug 2020
 - Down from 13.5% in April 2020 but up from 6.2% in Aug 2019
- Wages and Salaries: \$5.1 billion in Q2 2020
 - Down 7% from Q1 2020 and down 6% from Q2 2019
- Alaska Bankruptcies: 215 so far in 2020 (through Aug)
 - Compared to 270 through Aug 2019 and 400 for all of 2019
- Foreclosures: 58 in Q2 2020
 - Compared to 185 in Q2 2019 and 729 for all of 2019
- Housing Starts: 899 so far in 2020 (through Aug)
 - Compared to 1,094 through Aug 2019 and 1,695 for all of 2019

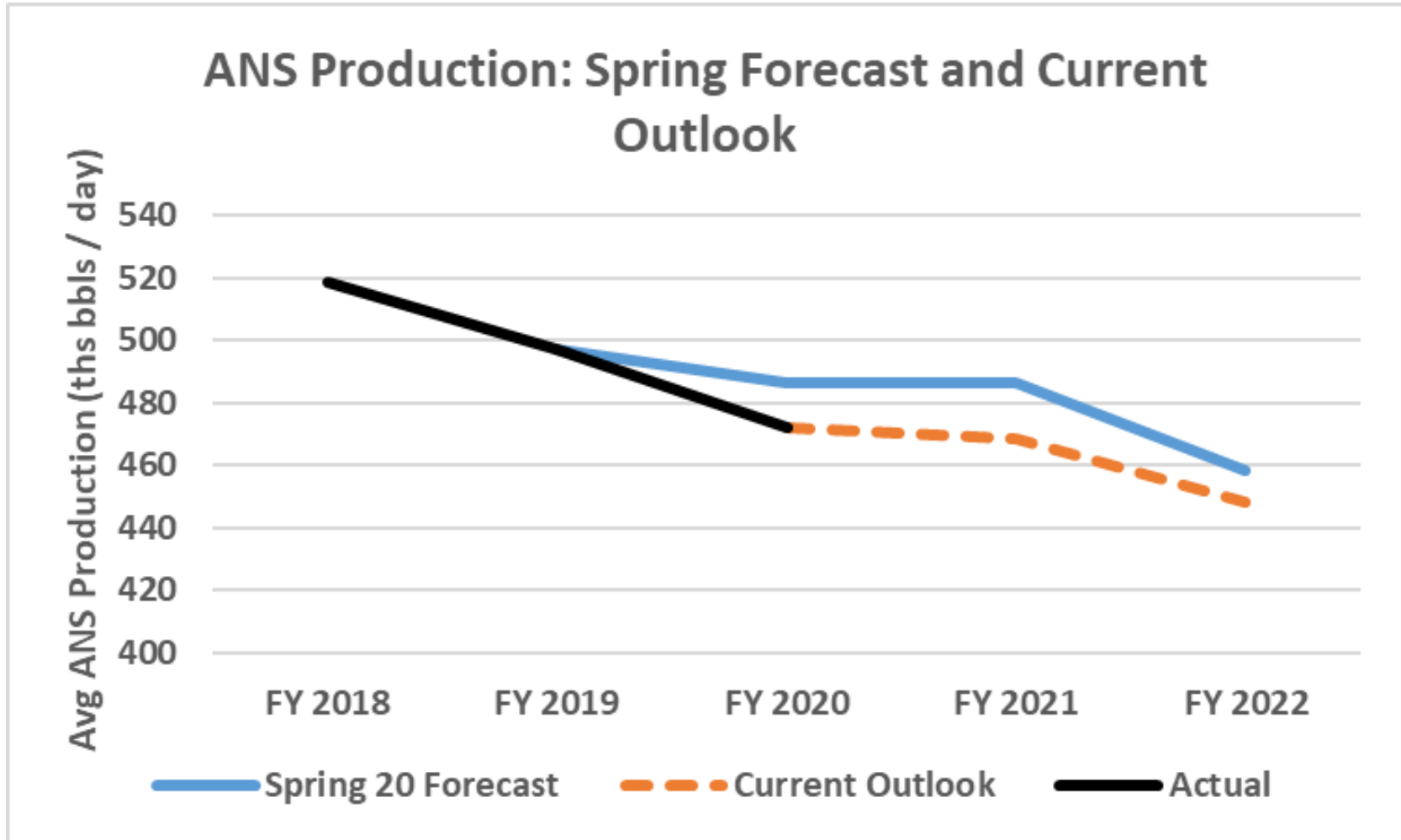
Note: Quarters on this slide are based on Calendar Year, i.e. Q1 = Jan-Mar, etc.

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 "Alaska Labor Force, Seasonally Adjusted," 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"

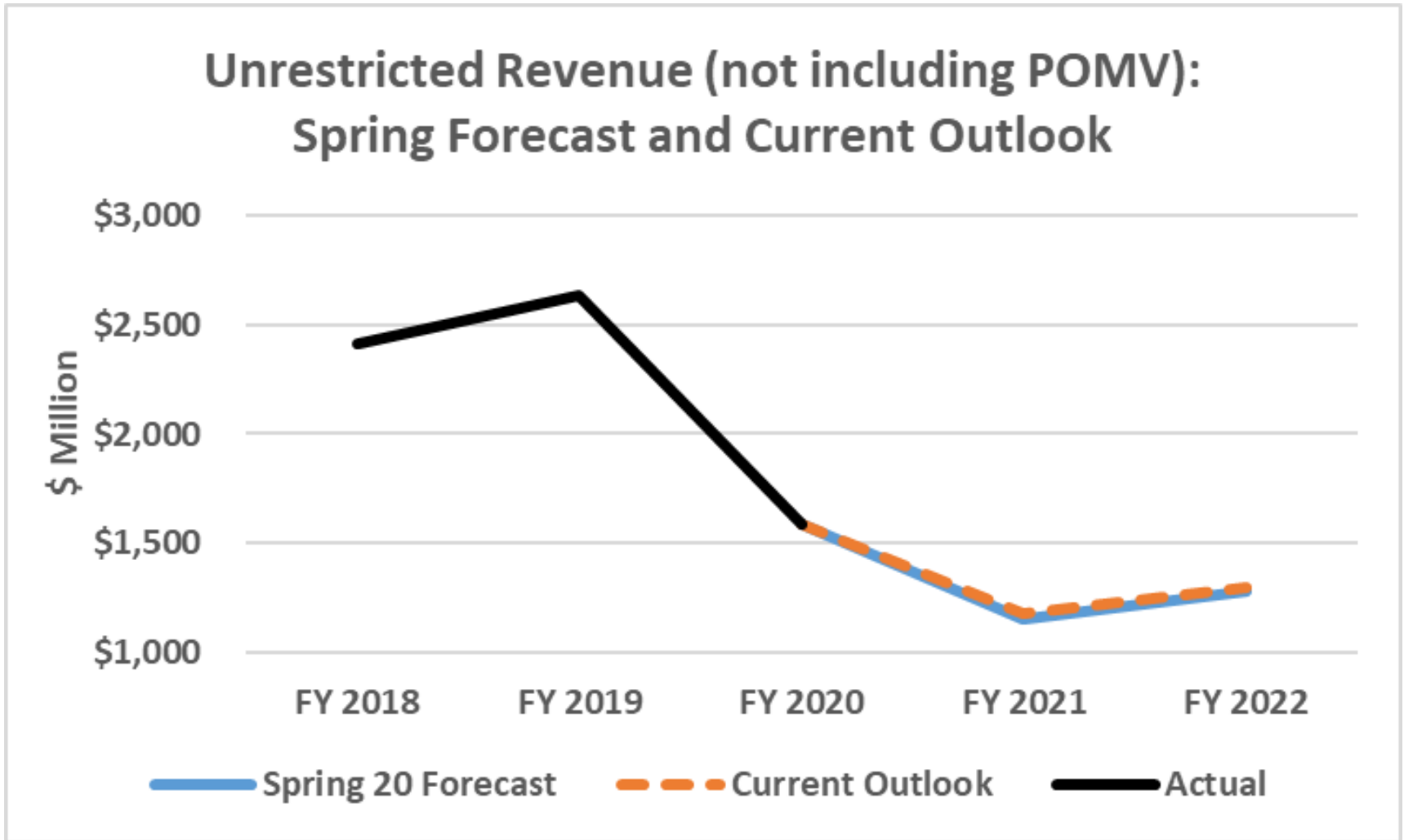
Oil Price Forecast Update



Oil Production Forecast Update



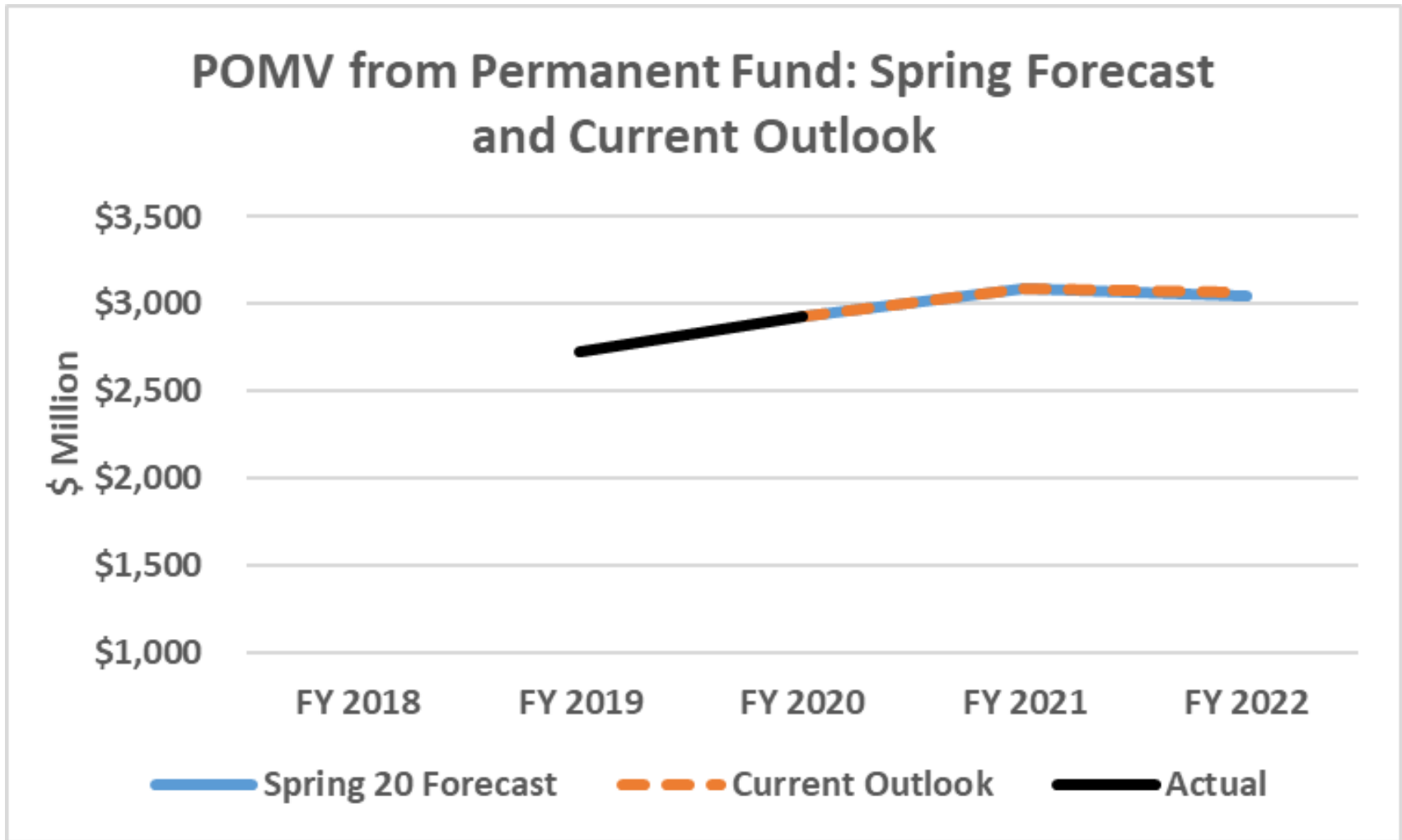
Unrestricted Revenue Forecast Update



Sources: Fall 2019 Revenue Sources Book, Spring 2020 Forecast, Economic Research Group analysis

Note: FY 2020 actual revenue is an estimate and has not been finalized.

POMV Revenue Forecast Update



Sources: Fall 2019 Revenue Sources Book, Spring 2020 Forecast, Alaska Permanent Fund Corporation "History and Projections" 8/31/20
Note: FY 2019 was the first year for the Percent of Market Value (POMV) transfer from the Permanent Fund.

Fall Forecast: Areas of Uncertainty

- The usual uncertainty around oil price, oil production, and the economy, plus...
- COVID-19
- Investment Volatility
- Ballot Measure 1

COVID-19 Uncertainty

- Uncertainty around path of virus, government policy, vaccine timeline, risk aversion, economic recovery
- Investment Revenue: Markets back near all-time highs
 - How will COVID-19 impact markets going forward?
- Federal Revenue: Stimulus funding via the CARES Act and other avenues has helped prop up economy
 - Will there be further federal stimulus / support?
- Petroleum Revenue: Oil prices remain stuck around \$40
 - Will prices and market environment improve enough to support resumed drilling and new projects?
- Non-Petroleum Revenue: CY 2020 tourism season lost, impacts of COVID-19 across many economic sectors
 - What will tourism look like next year or the year after that?
 - How will COVID-19 impact other sectors (mining, fishing, etc.)?
 - How will corporate income tax receipts respond to changes in corporate profits and CARES act provisions?

Investment Volatility

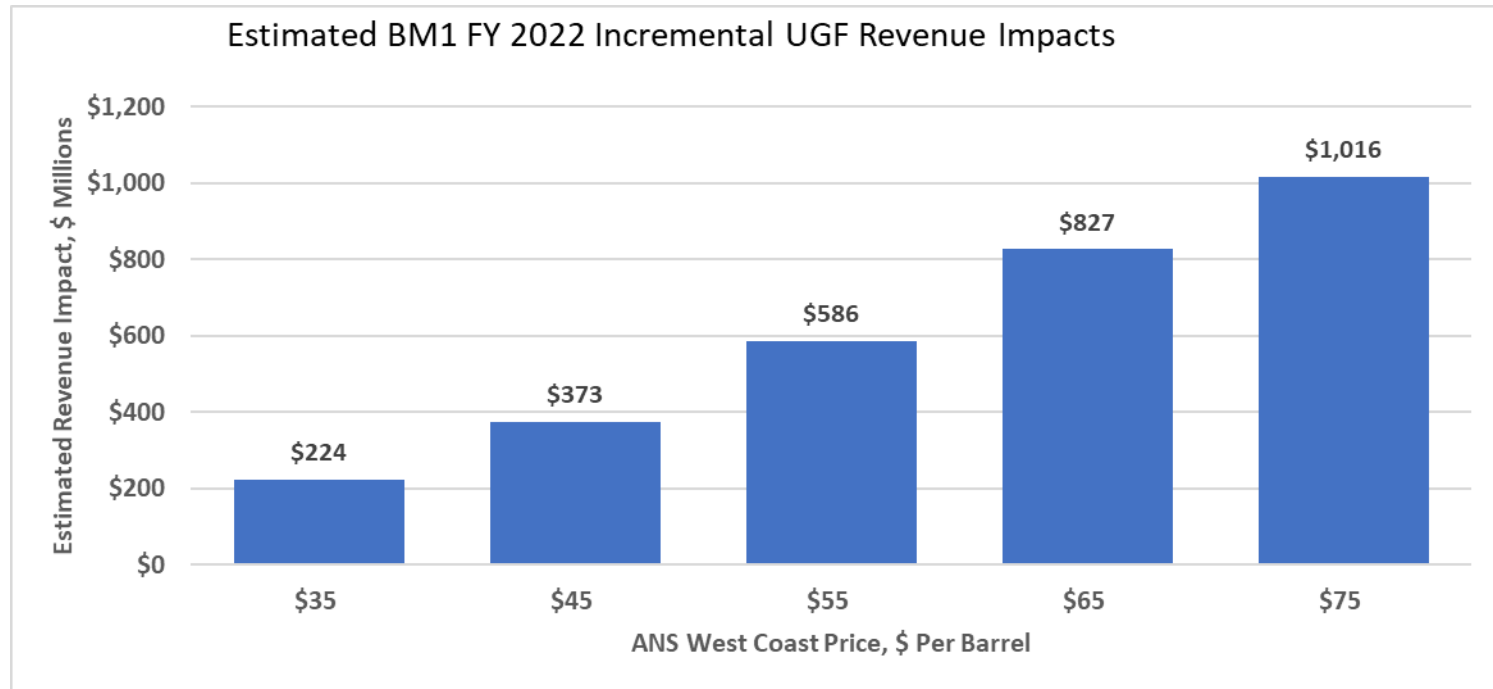
- Investment markets back near all-time highs after temporary plunge in spring: Investments bring volatility
- The state uses diversification and smoothing of fund withdrawals to mitigate some of the risk and limit impact on the state budget
- Individual asset classes highly volatile
 - Large cap equities expected return ranges from -10.7% to 24.7% for one standard deviation
- Permanent Fund mitigates volatility with diversification
 - FY 2021 middle case: \$4.0 billion net income, 6.5% return
 - FY 2021 low case: -\$0.2 billion loss, -0.2% return
 - FY 2021 high case: \$8.7 billion net income, 13.9% return
- State mitigates volatility impact on budget with POMV
 - Permanent Fund draw based on average value for first 5 of last 6 years
 - FY 2021 and 2022 draws are now known and fixed
 - FY 2023 draw could have a \$50 million range based on FY 2021 returns

Ballot Measure 1

- Ballot Measure 1 (BM1) would increase the oil and gas production tax for qualifying North Slope production
 - Imposes a new tax regime involving two alternative taxes depending on which tax is greater on a monthly basis
 - All tax filings and supporting information on this new tax regime a matter of public record
 - Directly impact those areas that produce 40,000 barrels per day of oil and have produced 400,000,000 cumulative barrels
 - Prohibits the application of tax credits, including the per-barrel tax credits, carry forward lease expenditures, and other offsets.
- BM1 would increase state revenue and decrease producer profits
 - DOR has not attempted to evaluate the net impacts of these changes on oil production and the state economy

Ballot Measure 1: Production Tax Revenue

Estimated FY 2022 Production Tax (\$ millions)				
ANS Price (\$/bbl)	Current Law (SB21)	Ballot Measure 1 (BM1)	BM1 Incremental Revenue	Increase (%)
\$35	\$103	\$327	\$224	216%
\$45	\$191	\$564	\$373	196%
\$55	\$260	\$846	\$586	225%
\$65	\$321	\$1,147	\$827	258%
\$75	\$456	\$1,472	\$1,016	223%



Source: DOR "Frequently Asked Questions on Ballot Measure 1," 9/20/2020.

Note: Estimates are based on the Spring 2020 revenue forecast for FY 2022 and assumes no changes in produced oil volume or company investment because of the tax change. BM1 analysis is based on one scenario based on the way the sponsors have described the measure.

Ballot Measure 1: Government & Producer Take

		Impacts of Ballot Measure 1				
Price/BBL	SB21 @ \$35/bbl	\$35/bbl	\$45/bbl	\$55/bbl	\$65/bbl	\$75/bbl
State Take - Taxes	19%	47%	24%	28%	30%	31%
State Take - Royalty	66%	66%	30%	23%	20%	18%
State / Muni Take - Property Tax	27%	27%	9%	5%	4%	3%
Total State / Muni Take	112%	140%	62%	56%	53%	52%
Federal Take	0%	0%	8%	9%	10%	10%
Producer Take	-12%	-40%	30%	35%	37%	38%

Source: DOR “Frequently Asked Questions on Ballot Measure 1,” 9/20/2020.

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THANK YOU

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