THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

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April 8, 2021

The Honorable Click Bishop
Alaska State Senator
Co-Chair, Senate Finance Committee
State Capitol Room 516
Juneau, AK 99801

The Honorable Bert Stedman
Alaska State Senator
Co-Chair, Senate Finance Committee
State Capitol Room 518
Juneau, AK 99801

Dear Co-Chairs Bishop and Stedman,

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue (DOR) regarding the Spring 2021 forecast presentation to the Senate Finance Committee on March 16, 2021. Please see the questions in italics and our responses immediately below the questions.

1. ***What would the Permanent Fund transfer need to be to meet the Governor's Permanent Fund Dividend (PFD) distribution plan?***

The Fiscal Year (FY) 2021 supplemental budget bill includes an additional transfer to meet the statutory dividend for FY 2021. The bill estimates that an additional transfer of $1,225.5 million from the Permanent Fund Earnings Reserve account to the dividend account is necessary for that statutory dividend.

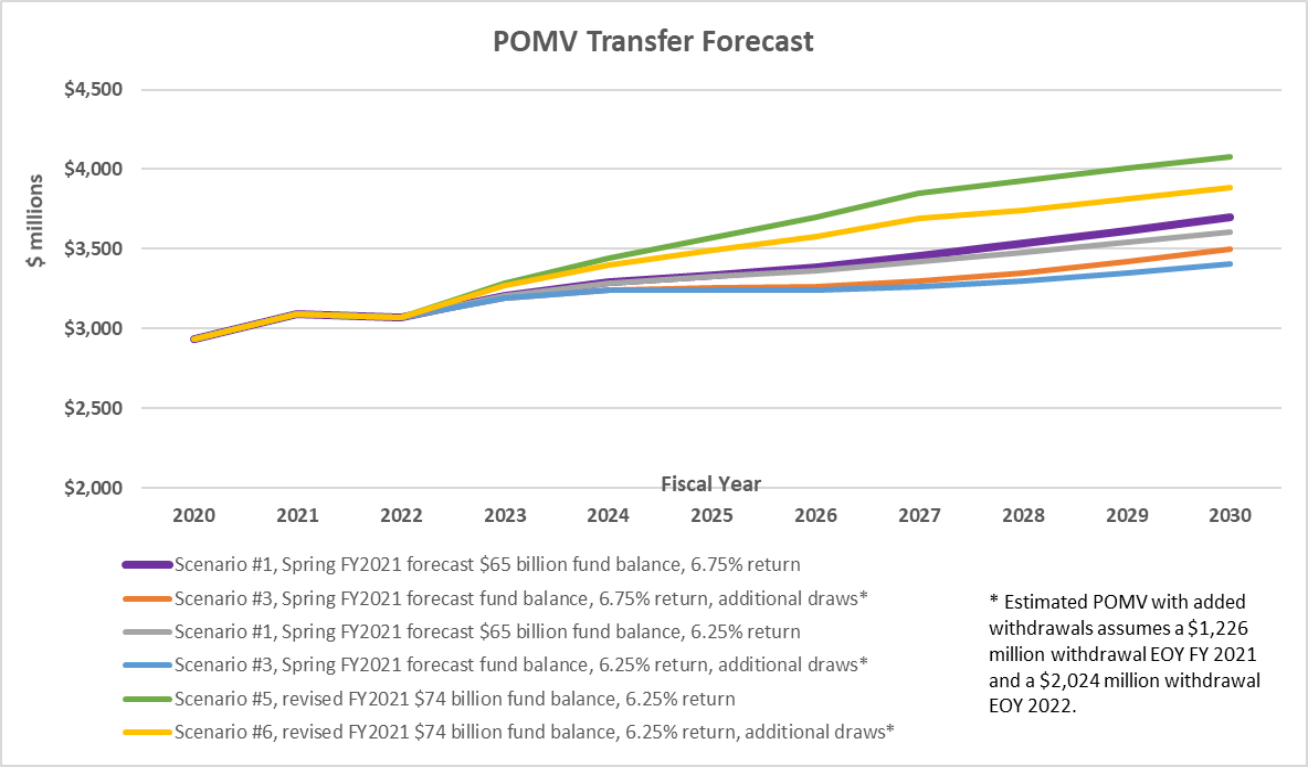
For FY 2022, the statutory estimated statutory dividend amounts to $2,023.9 million. The Percent of Market Value (POMV) transfer for FY 2022 is estimated to be $3,069.3 million.

Adding these figures together (supplemental FY 2021 dividend appropriation, statutory FY 2022 dividend, and FY 2022 POMV transfer) would amount to a total withdrawal of approximately $6,318.7 million from the Earnings Reserve account.

2. ***Provide an updated chart for the POMV transfer forecast. Include the impact of the Governor's proposed additional FY 2021 / FY 2022 transfers on the forecast. Restate with long-term total expectation of a 6.25% return.***

Below please find an updated chart that shows the official Spring 2021 POMV forecast, as well as an alternative scenario requested by the committee. To illustrate the impact of return assumptions and starting fund balance we have also included additional scenarios. The chart shows:

1. Official Spring Forecast POMV forecast – based on a $66.5 billion total fund balance at the end of FY 2021, a 6.75% annual fund return, and no additional withdrawals.
2. Alternative scenario – based on a $66.5 billion total fund balance at the end of FY 2021, a 6.75% annual fund return, and additional FY 2021 / FY 2022 withdrawals totaling $3,249.4 million.
3. Alternative scenario - based on a $66.5 billion total fund balance at the end of FY 2021, a 6.25% annual fund return, and no additional withdrawals.
4. Alternative scenario – based on a $66.5 billion total fund balance at the end of FY 2021, a 6.25% annual fund return, and additional FY 2021 / FY 2022 withdrawals totaling $3,249.4 million.
5. Alternative scenario – based on a $74.2 billion total fund balance at the end of FY 2021 (roughly in line with current fund value), a 6.25% annual fund return, and no additional withdrawals.
6. Alternative scenario – based on a $74.2 billion total fund balance at the end of FY 2021 (roughly in line with current fund value), a 6.25% annual fund return, and additional FY 2021 / FY 2022 withdrawals totaling $3,249.4 million.

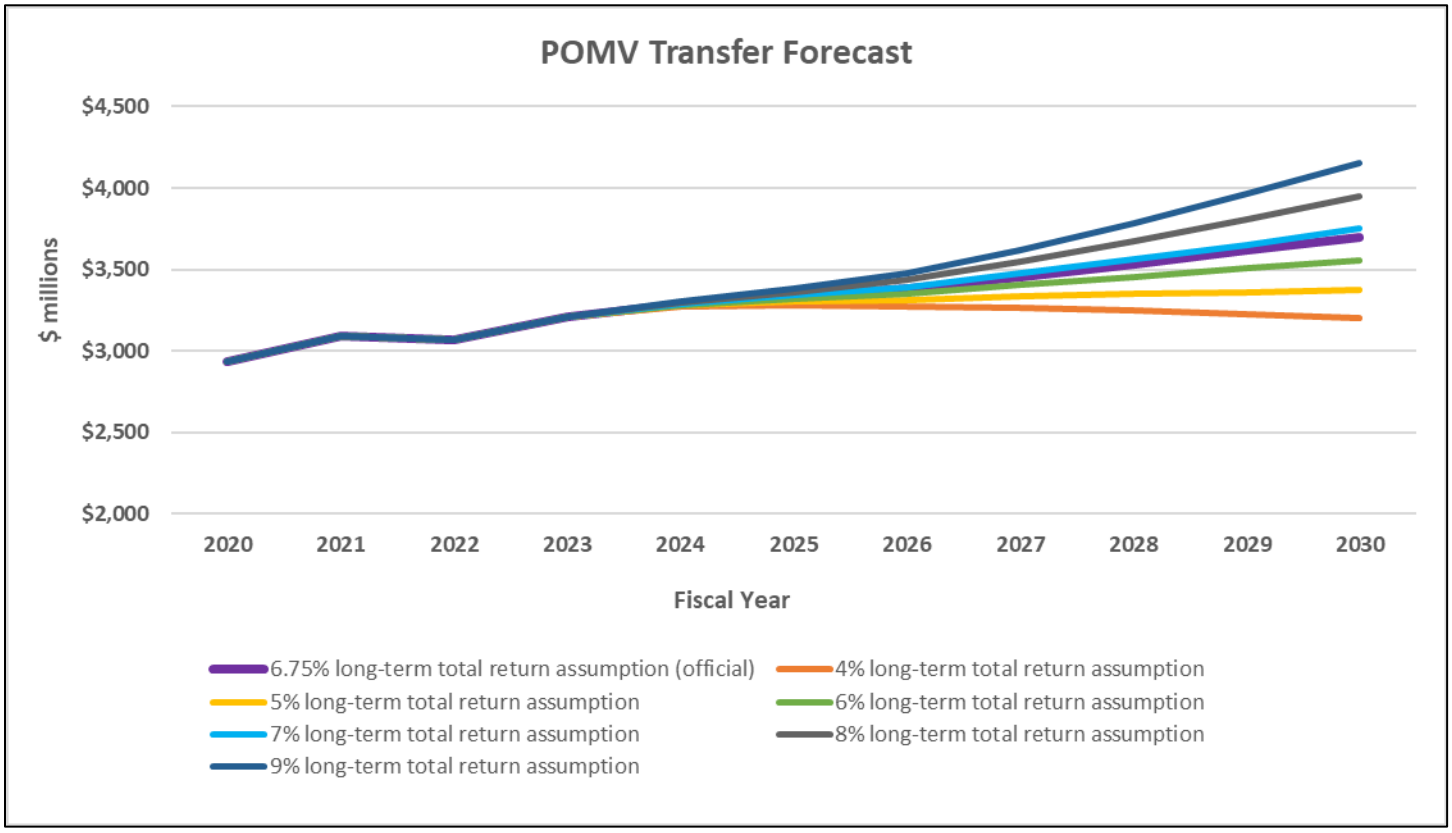


The Alaska Permanent Fund Corporation (APFC) will review and potentially change its long-term total return assumption in July 2021, as they do annually.

It is important to note that the potential reduced long-term return coincides with the fact that the FY 2021 fund performance has meaningfully exceeded projections thus far this year. Incorporating that fact, the estimated POMV (as shown in Scenarios 5 and 6) could actually exceed the Spring 2021 forecast even with a lower long-term total return and the Governor's additional proposed withdrawals in FY 2021 / FY 2022.

3. Provide different scenarios for potential Permanent Fund return assumptions in the forecast.

Below, please find a chart that illustrates how the Percent of Market Value (POMV) transfer forecast would vary with a range of long-term total return assumptions, holding all else equal. Note, all of these scenarios assume a $66.5 billion fund balance at the end of FY 2021, consistent with the Spring 2021 forecast; actual fund value currently exceeds that amount.

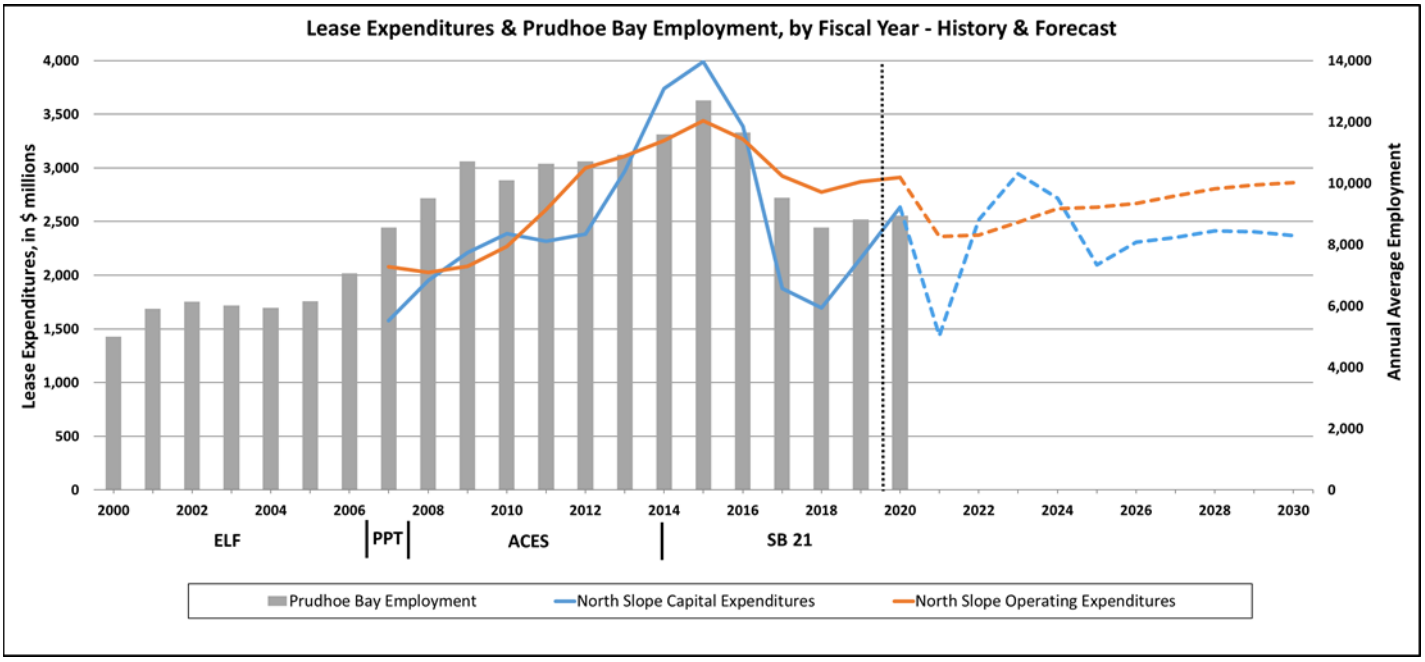


4. ***Estimate the difference in oil and gas corporate income tax revenues to Alaska based on a "separate accounting" method compared to the current apportionment method.***

The attached analysis provides an estimate of the potential difference in oil and gas corporate income tax between a separate accounting method and the actual tax paid based on the apportionment method that is currently in statute. This analysis aggregates estimated impacts for the top corporate income taxpayers over several recent tax years.

5. ***Restate the lease expenditure slide, showing production tax regimes and employment numbers going back to 2000, as well as history and forecast of capital and operating expenditures.***

The below chart shows lease expenditures from FY 2007 – FY 2020 as well as the Spring 2021 10-year projection (left axis). Note, DOR only collected reliable lease expenditure data beginning with FY 2007 and the introduction of a "net" production tax regime. The chart also shows Prudhoe Bay employment as provided by the Department of Labor and Workforce Development. Finally, at the bottom of the chart, the timing for each production tax regime is indicated. For purposes of this chart, the lease expenditure estimates, and employment data are on a fiscal year basis.



6. ***Provide information about oil and gas tax credits that have been sold in secondary markets.***

As of the Spring 2021 forecast, the total value of credits eligible for state purchase at the end of FY 2021 is estimated to be $739.0 million. Of these, an estimated $319.4 million, or 43% of total credits

available for state purchase, have been assigned to third parties including banks and financial institutions. These assignments are limited to those through the Department of Revenue under AS 43.55.029. We believe there are similar type of assignments or collateral arrangements that are outside of the Department's program. We do not have details on those agreements, and they are not included in the number provided.

As of the Spring 2021 forecast, a total of $3.65 billion has been spent by the state on the purchase of tax credit certificates since FY 2007. In addition, an estimated $198.8 million of tax credits have been transferred (traded on secondary markets) to taxpayers for use to offset tax liabilities.

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

Sincerely,

Colleen Glover
Tax Division Director

Attachment:
Separate Accounting Analysis for Corporate Income Tax (2021.03.19)