

Fall 2020 Forecast Presentation

House Finance Committee

Department of Revenue

February 22, 2021

Agenda

1. Forecast Background and Key Assumptions
2. Fall 2020 Revenue Forecast
 - Total State Revenue
 - Unrestricted Revenue
3. Petroleum Forecast Assumptions Detail
 - Oil Price
 - Oil Production
 - Oil and Gas Lease Expenditures
 - Oil and Gas Credits



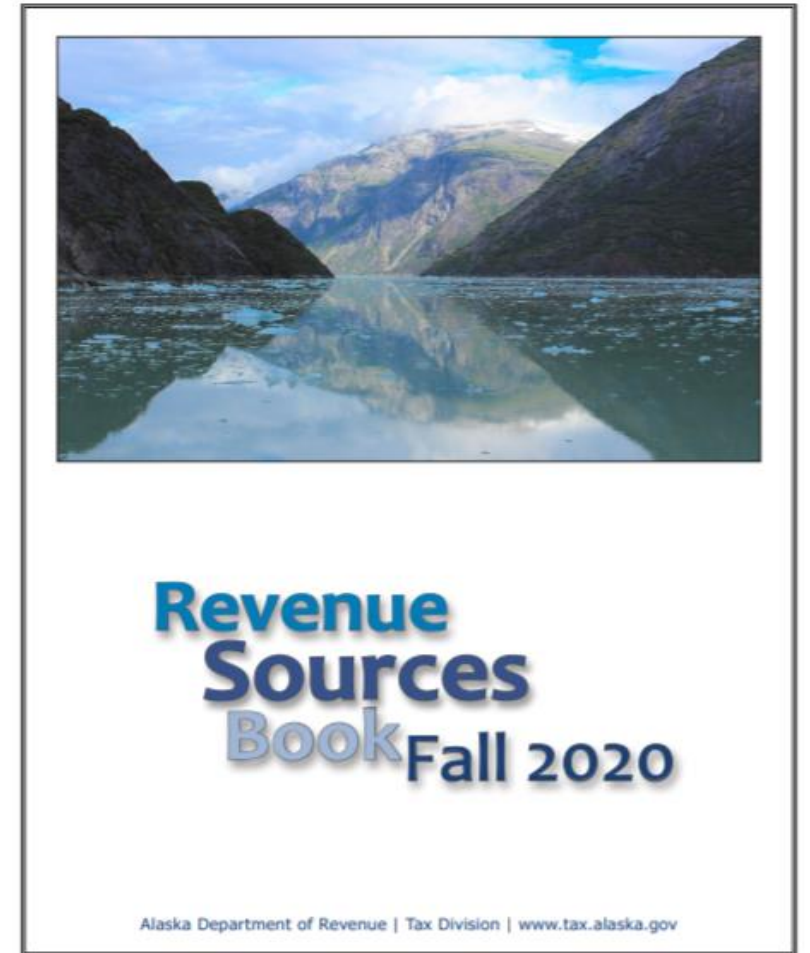
Forecast Background and Key Assumptions

Background: The Revenue Sources Book

1. Historical, current, and estimated future state revenue
2. Discussion and information about major revenue sources
3. Prepared in accordance with AS 37.07.060 (b)(4), and supports long term plan under AS 37.07.020
4. Official revenue forecast used for Governor's budget proposal; updated in spring
5. Located at tax.alaska.gov



AS = Alaska Statute



Key Alaska Economic Indicators

1. Real State GDP: \$50.9 billion in Q3 2020
 - Up 7.2% from Q2 2020, still down 4.9% from Q3 2019
2. Employment: 290,400 in December 2020
 - Down 24,100 (-7.7%) compared to December 2019; heaviest impacts in leisure/hospitality, transportation/warehousing, and oil/gas industries
3. Wages & Salaries (seasonally adjusted): \$21.8 billion in Q3 2020
 - Up 5.2% from Q2 2020 and flat from Q3 2019
4. Alaska Bankruptcies: 313 for calendar year 2020, 19 for January 2021
 - Compared to 400 for all of 2019, 38 for January 2020
5. Foreclosures: 98 in Q3 2020, 303 for calendar year 2020
 - Compared to 197 in Q3 2019 and 729 for calendar year 2019
6. Housing Starts: 1,494 for calendar year 2020
 - Compared to 1,689 for calendar year 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 and Workforce Development "Research and Analysis Section," 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"

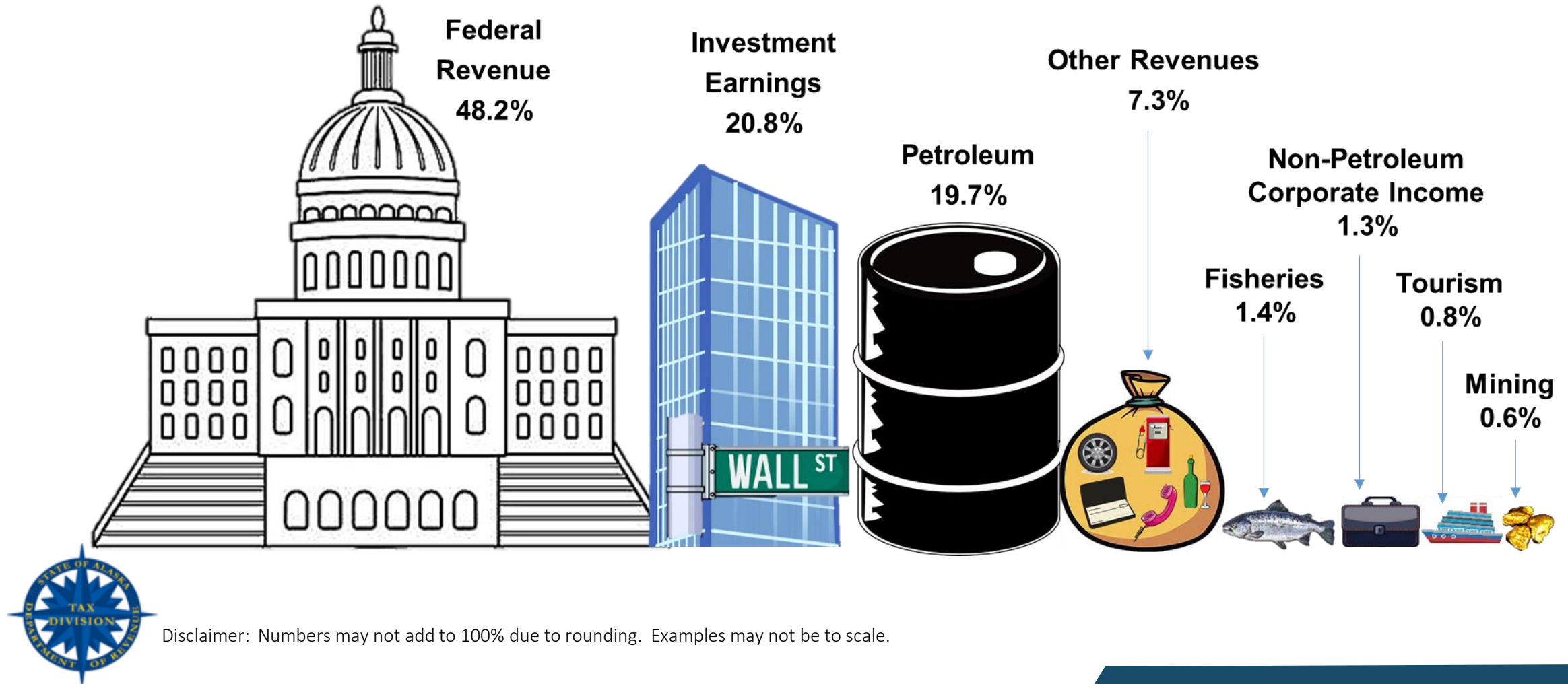
Fall Forecast Assumptions

- The economic impacts of COVID-19 are uncertain; DOR has developed a plausible scenario to forecast these impacts.
- Key Assumptions:
 - Investments: Stable growth in investment markets, 6.75% Permanent Fund returns.
 - Federal: Some CARES Act funds shown in FY 2021, no additional stimulus in FY 2022+.
 - Petroleum: Alaska North Slope oil price of \$45.32 per barrel for FY 2021 and \$48.00 per barrel for FY 2022. No further oil production curtailments.
 - Non-Petroleum: Most economic activity will return to baseline levels by FY 2022, except tourism full recovery by summer 2023.



Relative Contributions to Total State Revenue: FY 2020

Total State Revenue: \$8.7 Billion



Fall 2020 Revenue Forecast



THE STATE
of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

Total Revenue Forecast: FY 2020 to FY 2022 Totals and Percent Change from FY 2020

\$ Millions	History	Forecast		Percent Change	
Revenue Type	FY 2020	FY 2021	FY 2022	FY 2020 - FY 2022	FY 2021 - FY 2022
Unrestricted General Fund					
Investment Revenue - Alaska Permanent Fund	2,933.1	3,091.5	3,069.3	4.6%	-0.7%
Investment Revenue - Other Investments	58.1	15.6	20.9	-64.0%	34.0%
Petroleum Revenue	1,083.1	861.7	808.9	-25.3%	-6.1%
Non-Petroleum Revenue	462.7	363.0	372.8	-19.4%	2.7%
Subtotal	4,537.0	4,331.8	4,271.9	-5.8%	-1.4%
Designated General Fund					
Investment Revenue	33.5	43.2	45.1	34.6%	4.4%
Petroleum Revenue	67.8	44.6	41.4	-39.0%	-7.2%
Non-Petroleum Revenue	385.6	403.2	419.8	8.9%	4.1%
Subtotal	486.9	491.0	506.2	4.0%	3.1%
Other Restricted Revenue					
Investment Revenue	(1,221.5)	922.3	1,190.4	197.5%	29.1%
Petroleum Revenue	537.3	270.1	228.2	-57.5%	-15.5%
Non-Petroleum Revenue	130.2	209.1	222.7	71.1%	6.5%
Subtotal	(554.0)	1,401.5	1,641.3	396.2%	17.1%
Federal Revenue					
Federal Receipts	4,173.0	4,638.6	3,884.2	-6.9%	-16.3%
Petroleum Revenue	16.4	10.8	12.4	-24.3%	15.3%
Subtotal	4,189.4	4,649.3	3,896.6	-7.0%	-16.2%
Total State Revenue	8,659.2	10,873.5	10,316.1	19.1%	-5.1%



Note: Petroleum revenue shown in the Federal category includes the state share of rents, royalties, and bonuses received from the National Petroleum Reserve - Alaska (NPR-A).
 Restricted Investment Revenue includes: total realized and unrealized earnings from the Alaska Permanent Fund less the POMV transfer, Constitutional Budget Reserve Fund investment revenues, and Other Restricted Investments.

Unrestricted Revenue Forecast: FY 2020 to FY 2022 Totals

\$ Millions	History	Forecast	
Revenue Type	FY 2020	FY 2021	FY 2022
Unrestricted General Fund			
Investment Revenue - Alaska Permanent Fund ¹	2,933.1	3,091.5	3,069.3
Investment Revenue - Other Investments	58.1	15.6	20.9
Petroleum Revenue	1,083.1	861.7	808.9
Non-Petroleum Revenue	462.7	363.0	372.8
Subtotal	4,537.0	4,331.8	4,271.9



¹Percent of Market Value (POMV) Transfer

Unrestricted Revenue Forecast: FY 2020 and Changes to Two-Year Outlook

		History	Forecast	
		FY 2020	FY 2021	FY 2022
ANS Oil Price (Nominal \$/bbl)	Spring 2020 Forecast	\$51.65	\$37.00	\$41.00
	Fall 2020 Forecast	\$52.12	\$45.32	\$48.00
	Change	\$0.47	\$8.32	\$7.00
Permanent Fund Transfer (\$ millions)	Spring 2020 Forecast	\$2,933.1	\$3,091.5	\$3,048.0
	Fall 2020 Forecast	\$2,933.1	\$3,091.5	\$3,069.3
	Change	\$0.0	\$0.0	\$21.3
Unrestricted Revenue, excluding Permanent Fund Transfer (\$ millions)	Spring 2020 Forecast	\$1,589.2	\$1,152.8	\$1,282.2
	Fall 2020 Forecast	\$1,603.9	\$1,240.3	\$1,202.6
	Change	\$14.7	\$87.5	-\$79.6
Unrestricted Revenue, including Permanent Fund Transfer (\$ millions)	Spring 2020 Forecast	\$4,522.3	\$4,244.3	\$4,330.2
	Fall 2020 Forecast	\$4,537.0	\$4,331.8	\$4,271.9
	Change	\$14.7	\$87.5	-\$58.3



ANS = Alaska North Slope

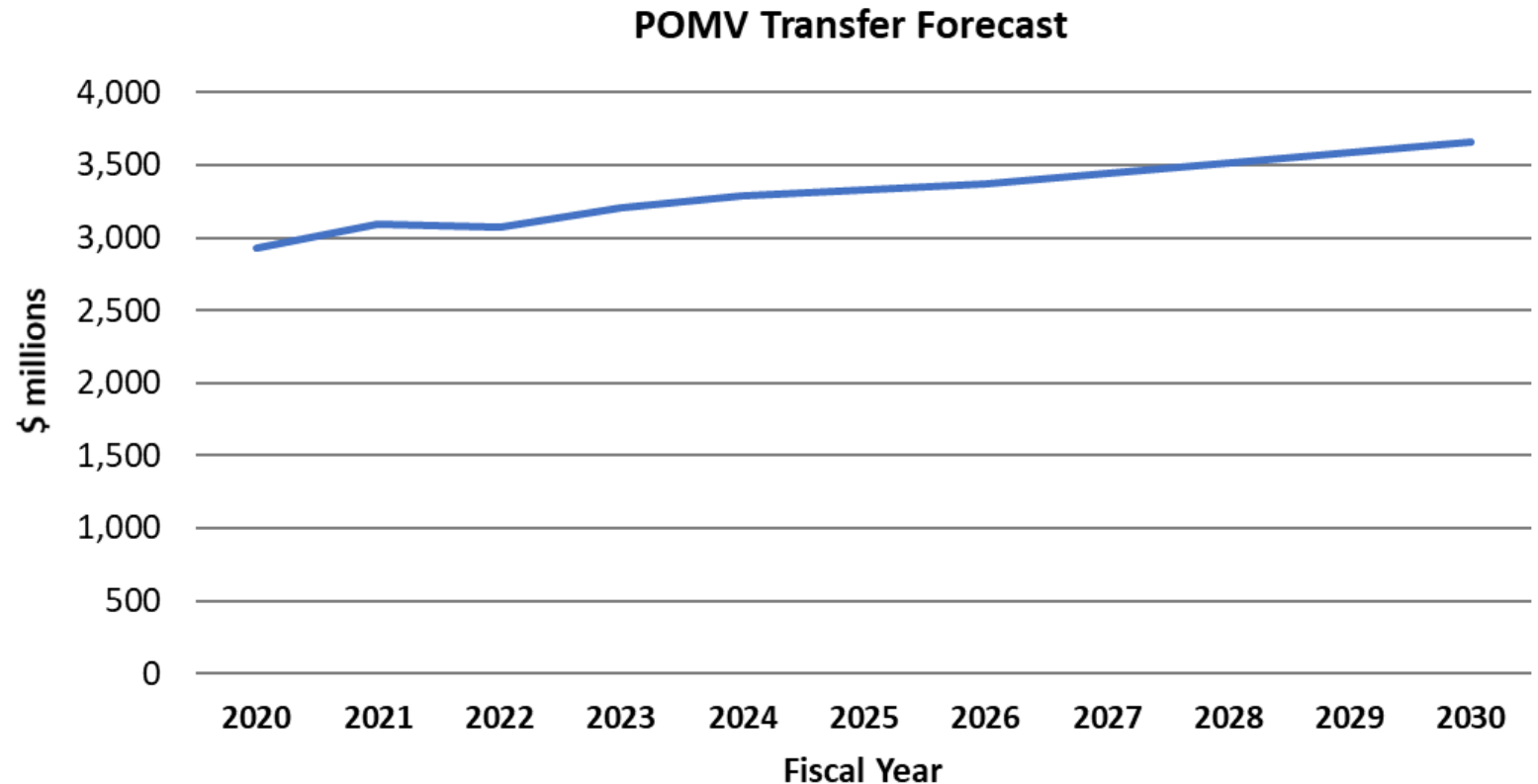
Unrestricted Investment Revenue: FY 2020 to FY 2022 Totals

\$ Millions	History	Forecast	
Unrestricted General Fund Revenue	FY 2020	FY 2021	FY 2022
Investment Revenue			
Alaska Permanent Fund	2,933.1	3,091.5	3,069.3
Investments	58.1	15.6	20.9
Total Unrestricted Investment Revenue	2,991.2	3,107.1	3,090.2



Unrestricted Investment Revenue: Percent of Market Value (POMV) Transfer Forecast

- The statutory POMV rate changes to 5% beginning FY 2022.
 - For FY 2019 – FY 2021 this rate was 5.25%.
- Forecast assumes Permanent Fund's long-term total return expectation of 6.75%.
- Differing Permanent Fund returns and petroleum deposits could significantly alter actual POMV.



POMV = Percent of Market Value

Unrestricted Petroleum Revenue: FY 2020 to FY 2022 Totals

\$ Millions	History	Forecast	
Unrestricted General Fund Revenue	FY 2020	FY 2021	FY 2022
Taxes			
Petroleum Property Tax	122.9	115.7	113.2
Petroleum Corporate Income Tax	-0.2	5.0	-20.0
Oil and Gas Production Tax	285.1	171.8	163.3
Subtotal Taxes	407.9	292.5	256.6
Royalties			
Mineral Bonuses and Rents	19.6	17.9	17.9
Oil and Gas Royalties	660.3	551.3	534.4
Interest	-4.6	0.0	0.0
Subtotal Royalties	675.3	569.2	552.3
Total Petroleum Revenue	1,083.1	861.7	808.9



Unrestricted Non-Petroleum Revenue: FY 2020 to FY 2022 Totals

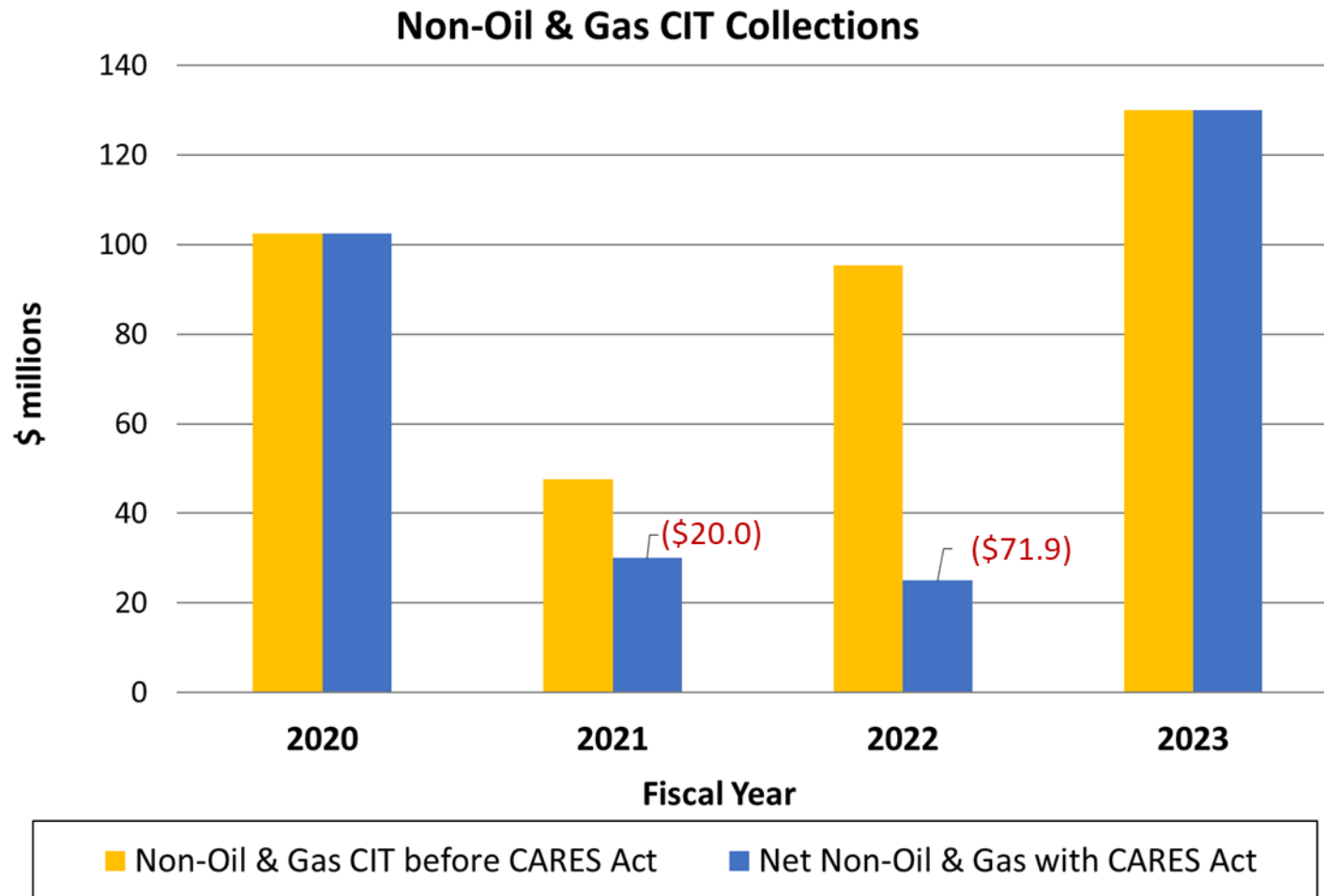
\$ Millions	History	Forecast	
Unrestricted General Fund Revenue	FY 2020	FY 2021	FY 2022
Taxes			
Non-Petroleum Corporate Income	102.4	30.0	25.0
Mining License Tax	36.8	30.4	43.3
Marijuana	6.4	7.2	8.0
Tobacco	41.4	38.4	37.9
Motor Fuel (Refined Fuel Surcharge)	6.9	6.3	6.5
Insurance Premium Tax	58.4	59.6	56.9
Fisheries Taxes	33.9	19.5	20.8
Other Taxes	37.4	24.5	30.0
Subtotal Taxes	323.5	215.9	228.4
Other	139.1	147.1	144.4
Total Non-Petroleum Revenue	462.7	363.0	372.8



Other Taxes category includes Alcoholic Beverage Tax, Electric / Telephone Cooperative, Tire Fees, Charitable Gaming Tax, and Large Passenger Vessel Gambling Tax.

Other Unrestricted Non-Petroleum Revenue category includes Charges for Services, Fines & Forfeitures, Licenses and Permits, Rents & Royalties, and Miscellaneous Revenue & Transfers.

Unrestricted Revenue Forecast: Non-Oil & Gas Corporate Income Tax (CIT)



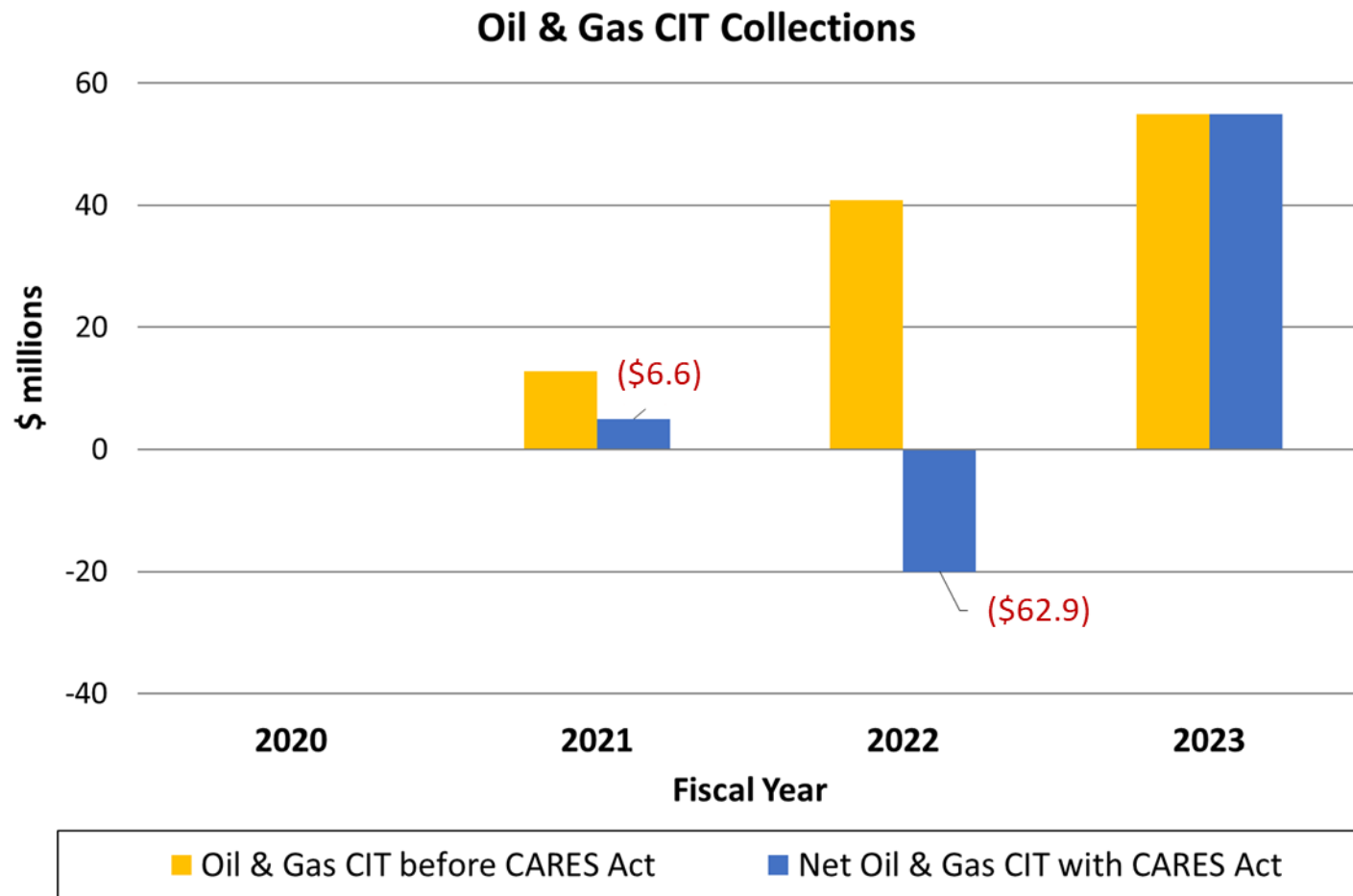
**Forecasted CARES
ACT Impacts to
Non-Oil and Gas
Corporate Income Tax
Revenue**
Refunds = **\$91.9
million**

NOTE: Numbers in red indicate anticipated CIT refunds as a result of the federal CARES Act provisions.

CIT = Corporate Income Tax. CARES Act = Coronavirus Aid, Relief, and Economic Security Act, passed by Congress late March 2020.



Unrestricted Revenue Forecast: Oil & Gas Corporate Income Tax (CIT)



**Forecasted CARES
ACT Impacts to Oil
and Gas Corporate
Income Tax Revenue**
Refunds = **\$69.5**
million

NOTE: Numbers in red indicate anticipated CIT refunds as a result of the federal CARES Act provisions.

CIT = Corporate Income Tax. CARES Act = Coronavirus Aid, Relief, and Economic Security Act, passed by Congress late March 2020.



Petroleum Forecast Assumptions Detail

Petroleum Detail: Changes to Long-Term Price Forecast

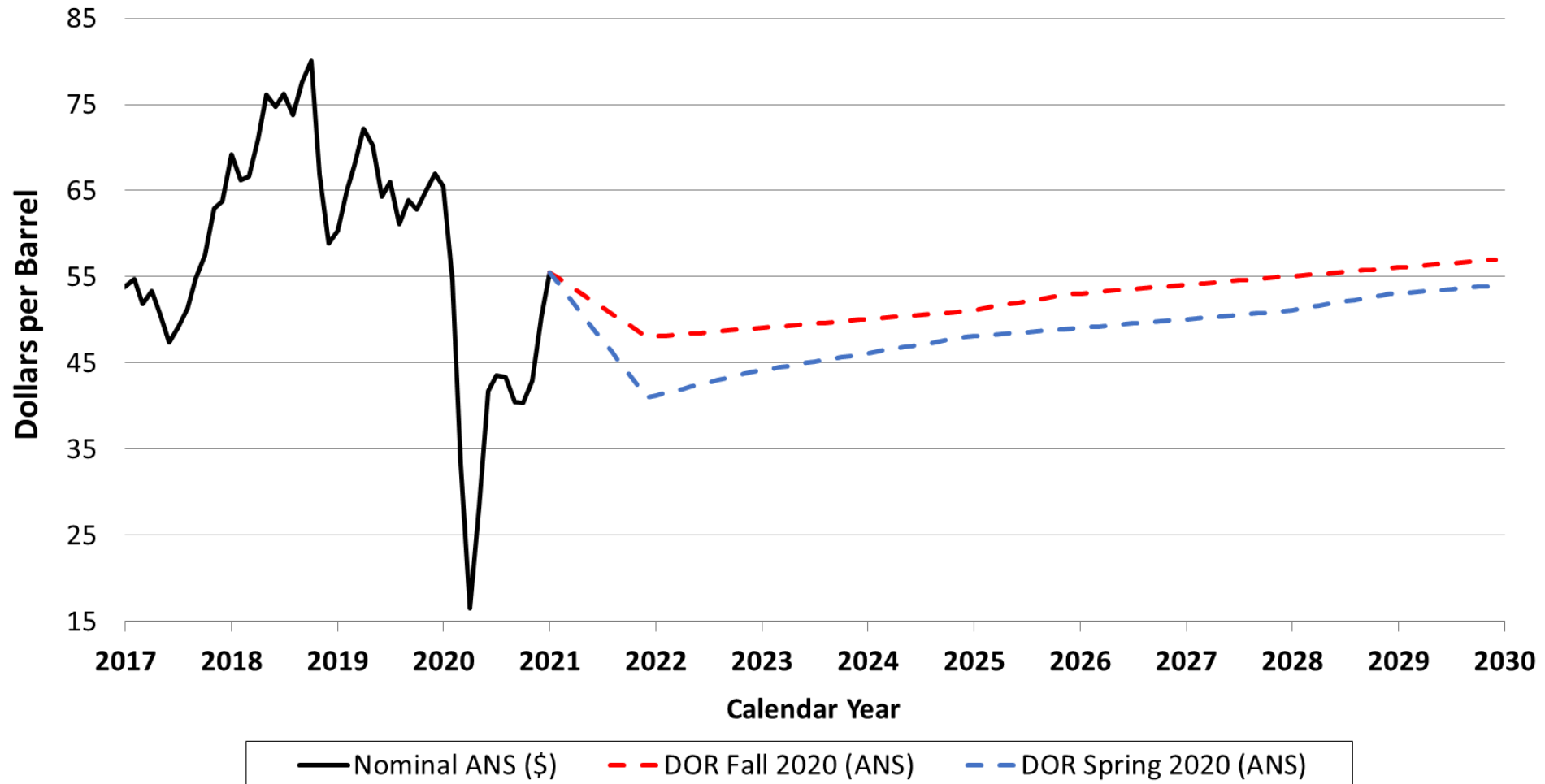
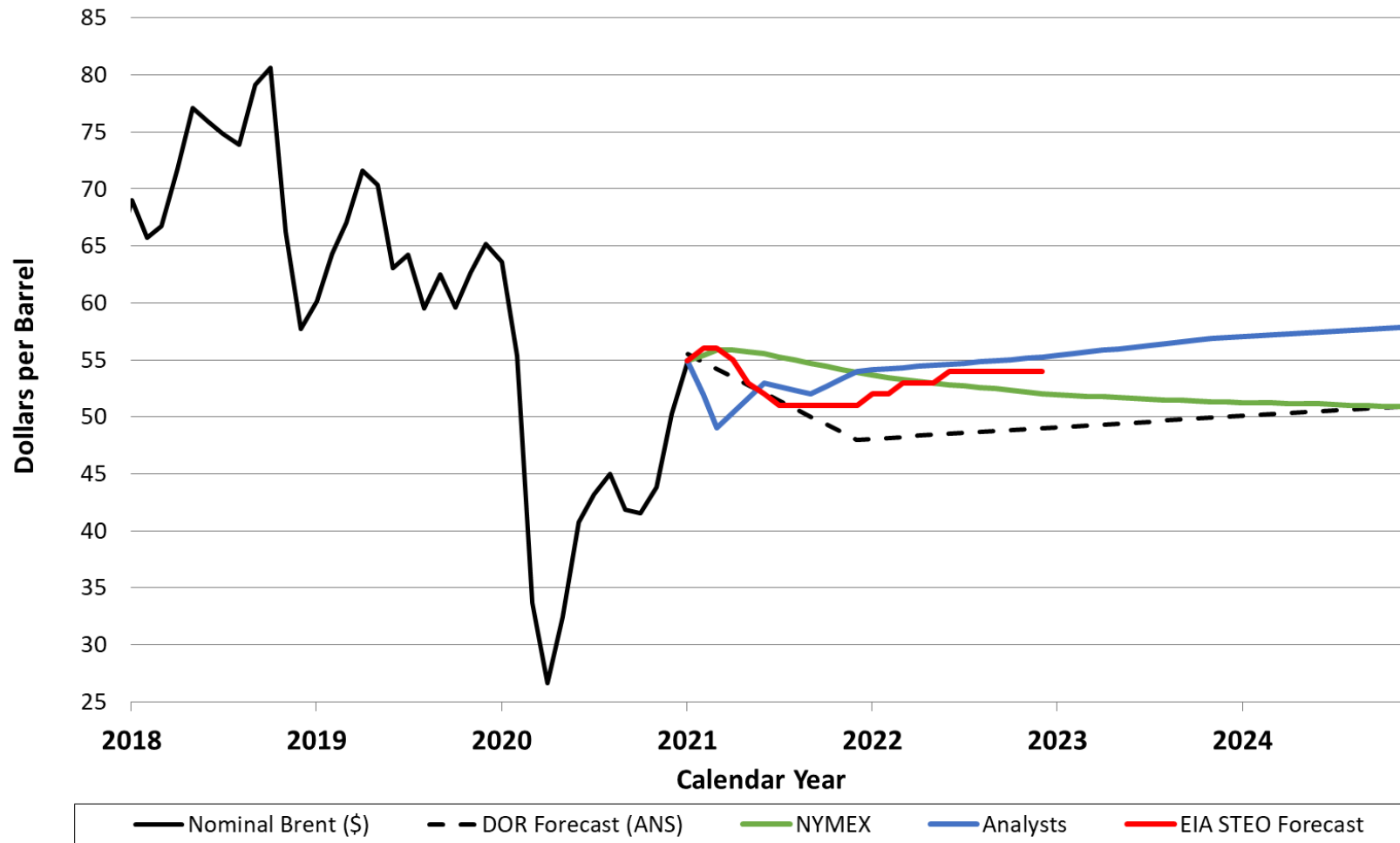


Chart shows monthly average prices.

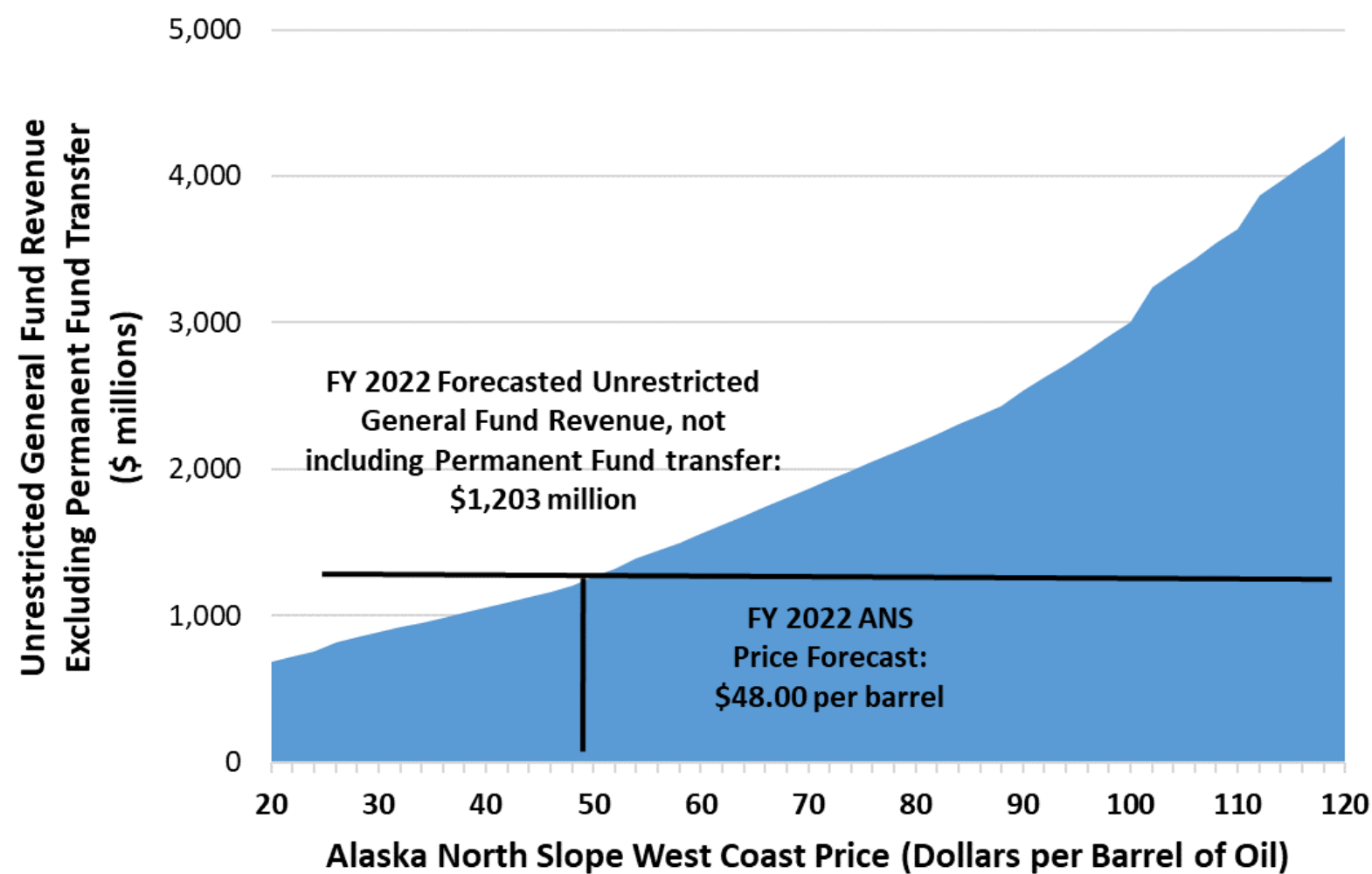
Source: DOR Fall 2020 Revenue Sources Book

Petroleum Detail: Nominal Brent Forecasts Comparison as of January 20, 2021



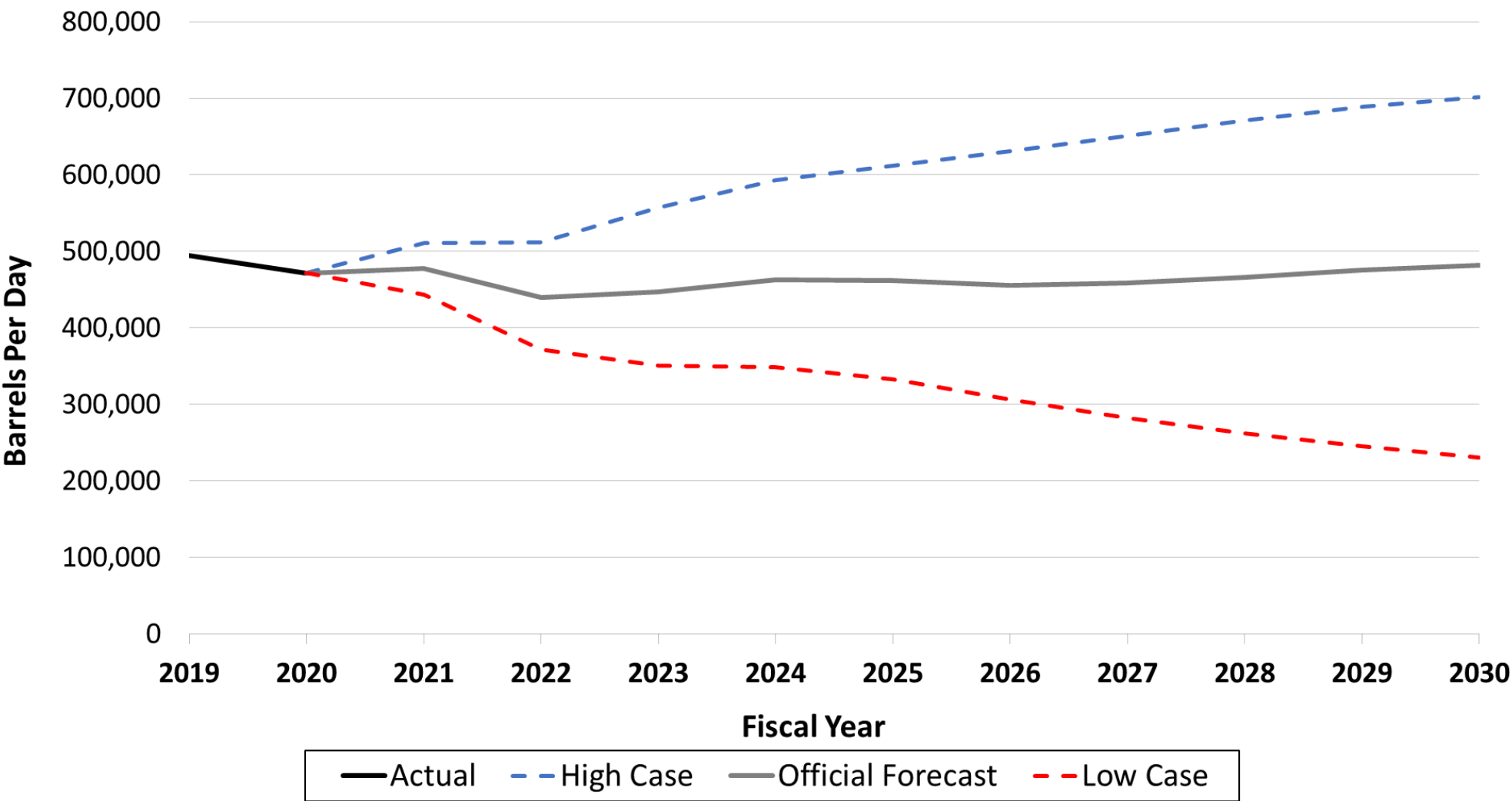
Source: Analyst forecast is the median forecast of 8-45 firms from a Bloomberg survey as of 1/20/2021. Futures prices are from the New York Mercantile Exchange (NYMEX) as of 1/19/2021. The U.S. Energy Information Administration (EIA) forecast is from their January 2021 Short-Term Energy Outlook. Chart shows monthly average prices.

Petroleum Detail: UGF Relative to Price per Barrel (without POMV): FY 2022



Notes: Assumes official forecasted North Slope production of 439,600 barrels per day. Near the forecasted ANS price, a \$1 decrease in price leads to an approximately \$15 - \$20 million change in UGF revenue, and a \$1 increase leads to an approximately \$25 - \$30 million change in UGF revenue.

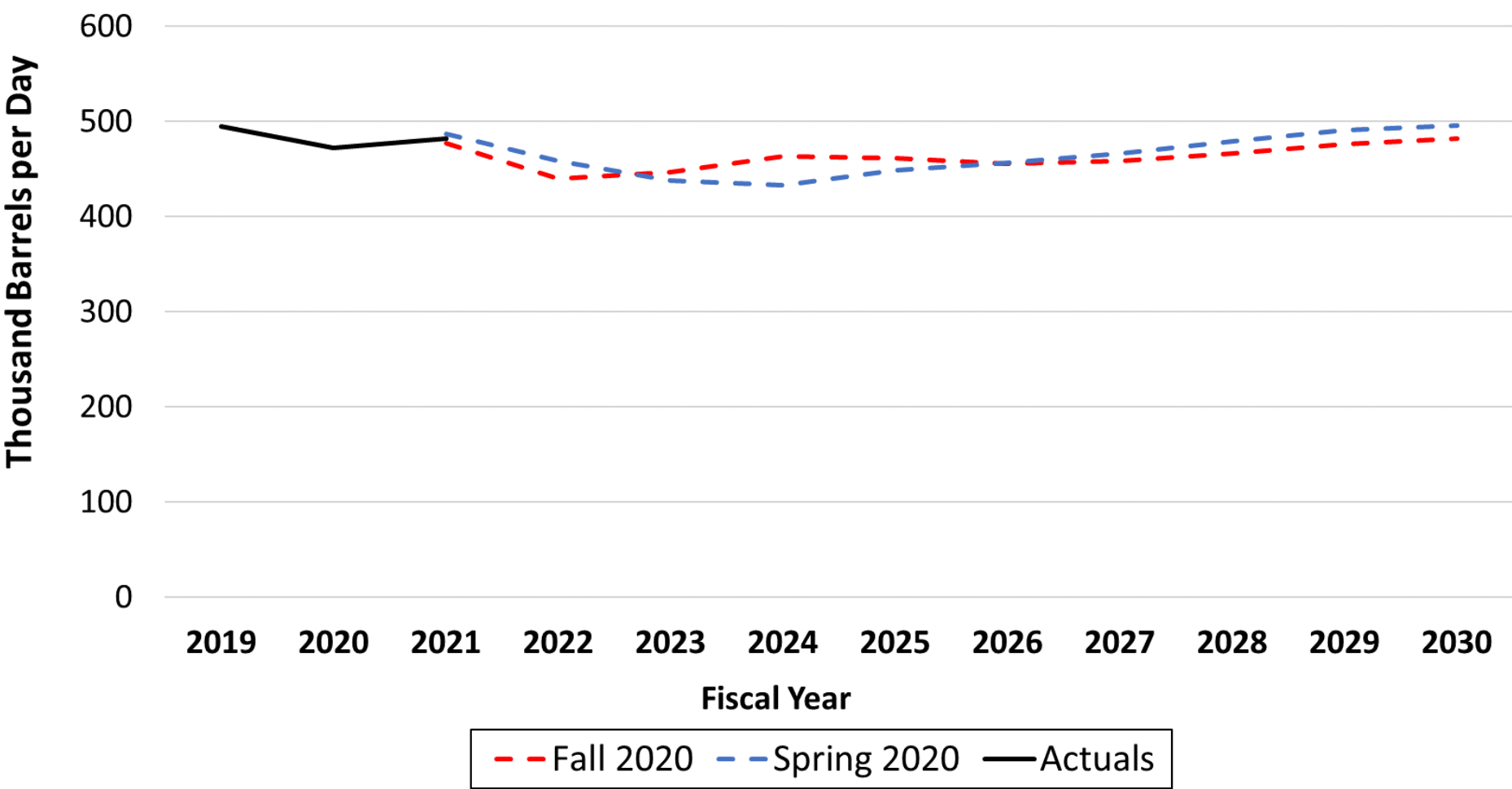
Petroleum Detail: North Slope Petroleum Production Forecast



Note: Fall 2020 Forecast does not include 10,000 barrels per day of NGL shipments from Prudhoe to Kuparuk.

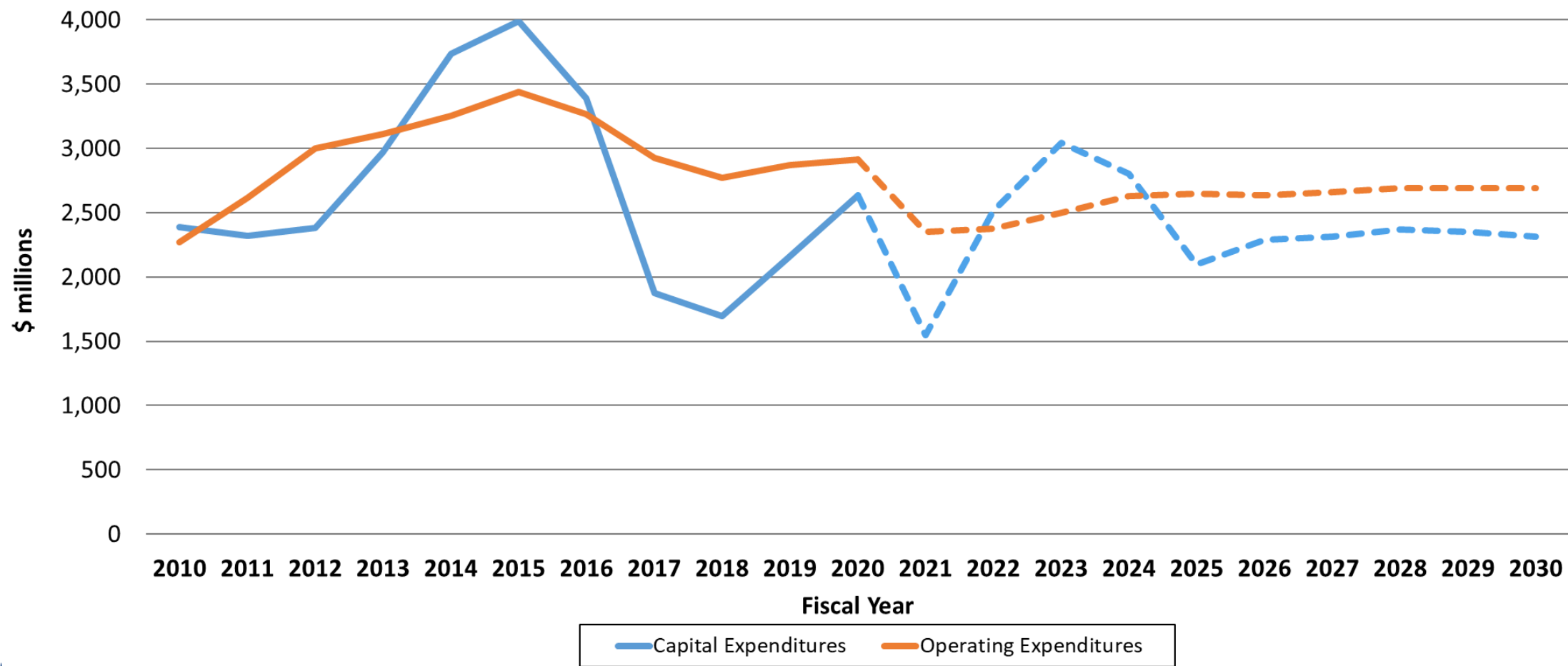


Petroleum Detail: Changes to North Slope Petroleum Production Forecast

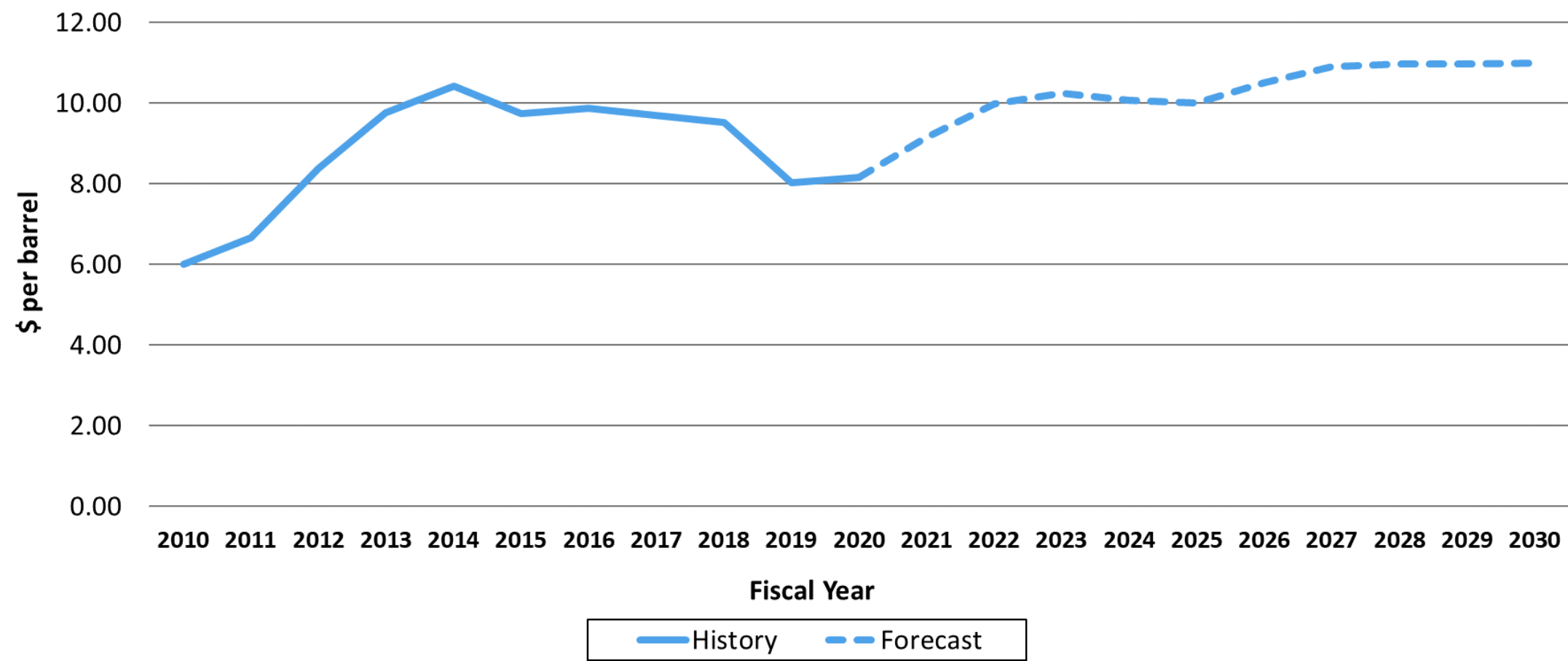


Note: Fall 2020 Forecast does not include 10,000 barrels per day of NGL shipments from Prudhoe to Kuparuk.

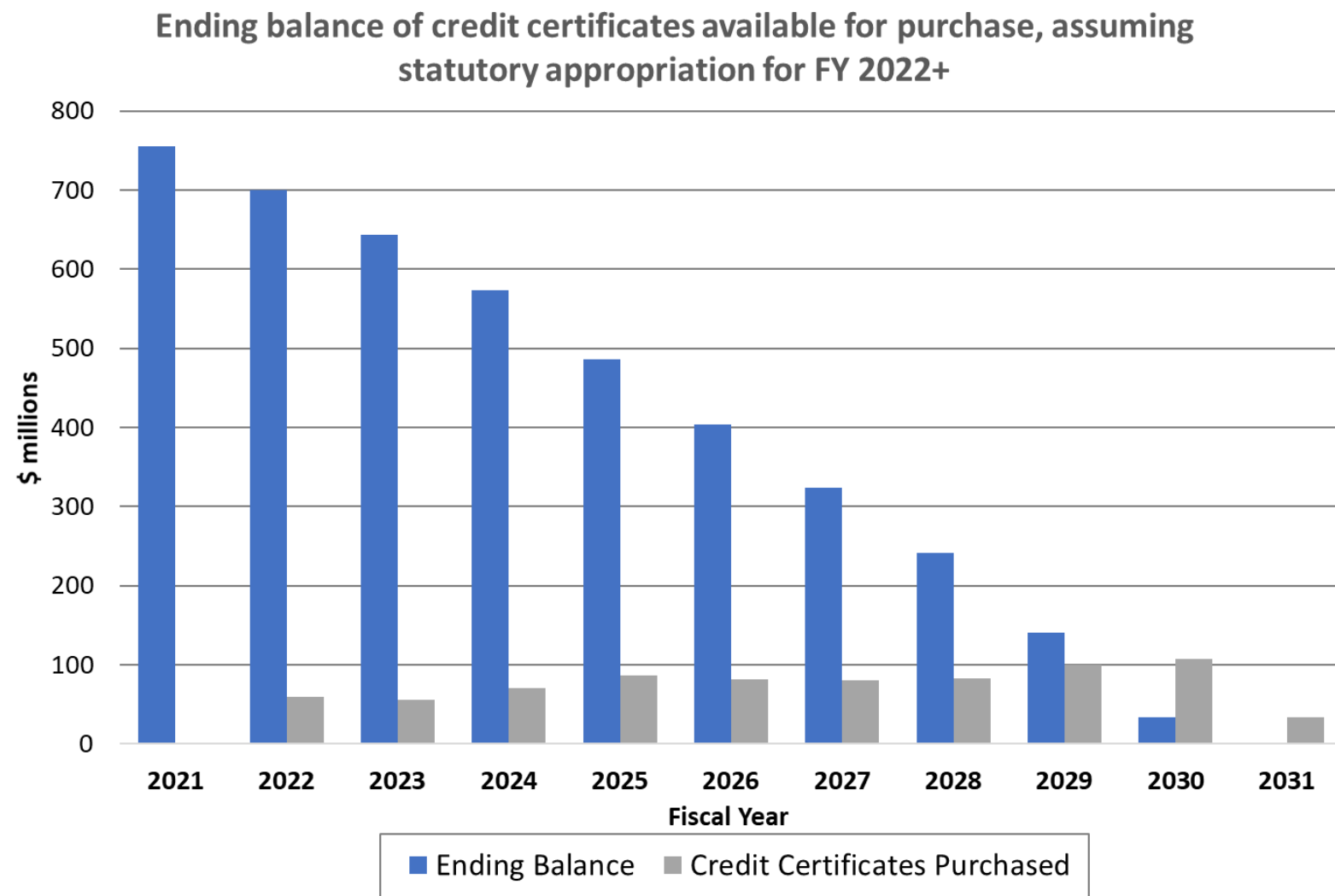
Petroleum Detail: North Slope Allowable Lease Expenditures



Petroleum Detail: North Slope Transportation Costs



Petroleum Detail: Tax Credits for Purchase Detail



Oil & Gas Production Tax Audit Status Report

Oil & Gas Production Tax Audit Update

- Audit Completion and Catchup Plan:
 - 2014 Audits completed 4Q 2020
 - 2015-2017 audits complete by 3Q 2021
 - 2018-2019 audits complete by 1Q 2023
 - Reach and maintain three-year audit cycle by 1Q 2023
- Improvements to Reach Goal
 - Automated processes vs manual processes
 - Ability for taxpayers to use customer portal
 - Stability of workforce
 - Effective two-way communications



THANK YOU

Dan Stickel
Chief Economist
Department of Revenue
daniel.stickel@alaska.gov
(907) 465-3279

Colleen Glover
Director, Tax Division
Department of Revenue
colleen.glover@alaska.gov
(907) 269-1033



dor.alaska.gov

