

HOUSE FINANCE COMMITTEE
January 23, 2025
1:32 p.m.

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CALL TO ORDER

Co-Chair Josephson called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Andy Josephson, Co-Chair
Representative Calvin Schrage, Co-Chair (via teleconference)
Representative Jamie Allard
Representative Jeremy Bynum
Representative Alyse Galvin
Representative Sara Hannan
Representative Nellie Unangiq Jimmie
Representative DeLena Johnson
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

PRESENT VIA TELECONFERENCE

Adam Crum, Commissioner, Department of Revenue; Dale Yancey, Director, Tax Division, Department of Revenue; Dan Stickel, Chief Economist, Tax Division, Department of Revenue.

SUMMARY

PRESENTATION: REVENUE FORECAST

Co-Chair Josephson reviewed the meeting agenda.

^PRESENTATION: REVENUE FORECAST

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ADAM CRUM, COMMISSIONER, DEPARTMENT OF REVENUE (via teleconference), introduced himself.

DALE YANCEY, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, (via teleconference), introduced himself.

DAN STICKEL, CHIEF ECONOMIST, TAX DIVISION, DEPARTMENT OF REVENUE, (via teleconference), introduced himself.

Commissioner Crum introduced the PowerPoint presentation "Fall 2024 Forecast Presentation: House Finance Committee" dated January 23, 2025 (copy on file).

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Mr. Stickel began on slide 2 which contained an agenda for the presentation. He moved to slide 3 and explained that he would begin with detailing the total state revenue for all categories of designation and then discuss the unrestricted general fund (UGF) portion of the revenue forecast. He had also outlined some detailed assumptions regarding the oil and gas revenue forecast, focusing on elements such as price, production, and lease expenditures.

Mr. Stickel continued to slide 4 and explained that the revenue forecast was released on December 12th, 2024, and was included in the Revenue Sources Book (RSB). The book was an annual publication with detailed information about each of the state's revenue forecasts, sources, and key variables.

Mr. Stickel noted that the department gathered information from a variety of sources, including various state agencies, the state accounting system, and the tax accounting system. He explained that the Department of Revenue (DOR) worked with the Department of Natural Resources (DNR) and reached out to oil and gas companies, incorporating all of the information into models that were maintained for each of the state's revenue sources to produce a 10-year revenue forecast.

Mr. Stickel highlighted that the RSB fulfilled a statutory requirement that the governor provide a revenue forecast for the current fiscal year and upcoming fiscal year. The book also fulfilled a statutory requirement for a long-term

fiscal plan document. He noted that the forecast would be updated later that spring. The most recent RSB as well as revenue forecasts and sources books for the last several decades were published online.

Mr. Stickel continued to slide 5 which contained key assumptions that underlaid the revenue forecast. The forecast represented one plausible scenario within a range of uncertainty and potential outcomes. He explained that some of the key assumptions the department made for investments were a 7.9 percent annual return for the Permanent Fund for the remainder of FY 25 and a 7.65 percent annual return for FY 26 and beyond. The forecast incorporated actual returns through the end of October of a given year. The department then applied the forecast for the remainder of the fiscal year.

Mr. Stickel stated that the department worked with the Office of Management and Budget (OMB) to incorporate known funding as of December 1, 2024. The funding included all known COVID-19 funding, stimulus packages, federal Infrastructure Investment and Jobs Act (IIJA) funding, and similar sources. The oil and gas revenue forecast was based on an oil price of \$73.86 per barrel for North Slope oil for FY 25. The average price figure incorporated actual prices for the first five months of the year and a forecast for the remainder of the year. The forecast for FY 26 was set at \$70 per barrel.

Mr. Stickel explained that the general goal for non-petroleum revenues was continued economic growth. The department assumed that there would be 1.6 million cruise ship passengers every year for the tourism industry, which remained near the strong levels that had been seen the previous year. He explained that 2023 and 2024 were challenging years for the fisheries industry, and the department observed some low prices. The department assumed a five-year timetable for the recovery of fisheries tax revenues from the 2024 values. He relayed that a variety of stakeholders had been consulted to validate that the assumption was plausible. He noted that a recovery in fisheries tax revenues would be gradual.

Mr. Stickel explained that the recovery did not necessarily equal a recovery of the economic impacts of the fisheries industry. He also noted that for mining, the department incorporated futures markets for price projections and

assumed that current mines such as the Red Dog Mine and the Fort Knox Mine would continue operations. He clarified that no major new mines were included. Throughout the revenue forecast, there was a long-term inflation assumption of 2.5 percent.

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Co-Chair Josephson thought that there were favorable return numbers presented on slide 5. He noted that there were concerns about investment returns, specifically in relation to obligations such as the Permanent Fund Dividend (PFD) and the Percent of Market Value (POMV) draw. He asked whether there was any sense that the state was "out of the woods" regarding the risk of falling short on the POMV draw.

Mr. Stickel deferred the question to Commissioner Crum.

Commissioner Crum replied that the 7.9 percent investment return helped, particularly when considering the 2.5 percent assumed rate of long-term inflation. He clarified that in order to ensure stable funding for the POMV, a return rate of 7.5 percent would be required. Therefore, the 7.9 percent return, along with the 7.65 percent assumption for 2026, supported the overall case for the POMV draw.

Commissioner Crum relayed that there had been concerns at a meeting in December about the Earnings Reserve Account (ERA), specifically the distinction between realized and unrealized gains. According to projections, there had been some relief, but the situation was still dependent on ongoing market conditions. He emphasized that he regularly reviewed the issues, both as a commissioner and a trustee on the Alaska Permanent Fund Corporation (APFC).

Commissioner Crum added that there would be an update on the issue in the next meeting, which was scheduled in approximately two weeks.

Representative Hannan asked about the production forecasts from the DNR, noting that there had been some calculation errors that led to over-calculating the anticipated production. Since production directly correlated to revenue, she wondered whether the same calculation error had been present in previous forecasts and if adjustments

had been made to the FY 25 revenue predictions based on the corrected methodology.

Commissioner Crum thought that Mr. Stickel would be better equipped to address the issue of de-risking production forecasts.

Mr. Stickel responded by confirming that the fall forecast prepared by DNR had fully addressed the calculation errors and the corrections had been incorporated into the revenue forecast. He explained that a comparison between the spring and fall revenue forecasts would highlight how the production outlook had changed as a result of the adjustments.

Representative Hannan asked for verification that the same calculation methodology had been used by DOR, but it had been corrected beginning with the spring forecast and moving forward.

Mr. Stickel offered reassurance that the corrected methodology had been incorporated starting with the fall 2024 forecast and the updated revenue predictions were accurate.

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Mr. Stickel continued on slide 6 which offered a graphic of the relative importance of different sources of total state revenue through FY 24. He explained that Alaska did not have a statewide sales tax or personal income tax which meant that the state's revenue generation relied on a "three-legged stool." He noted that federal revenue, investment earnings, and petroleum revenues made up the vast majority of state revenues. All other revenue sources contributed about 7.4 percent of total revenue in FY 24. Other industries contributed a small share of the total state revenue, but the industries were still important in terms of economic impact and employment.

Mr. Stickel continued to slide 7, which included a similar breakdown for the FY 25 forecast. The forecasted total state revenue for FY 25 was \$16.8 billion, with the three top categories of federal revenue, investment revenue, and petroleum revenue contributing about 92 percent of the total revenue for the state. All other sources were

forecasted to contribute just over 8 percent of total state revenue.

Mr. Stickel advanced to slide 9, which summarized some of the key changes to UGF within the revenue forecast. He would explain the changes in more detail on the following slide. He clarified that the UGF revenue was the category of revenue over which the legislature had the most discretion and was often most important in the budget discussions.

Mr. Stickel relayed the department had decreased its FY 25 assumption for oil prices to \$73.86 per barrel for North Slope oil, a deduction of \$4.14, and its FY 26 assumption to \$70, a reduction of \$4. The changes were based on updated information from the futures market. The forecasted average North Slope daily oil production had decreased by about 10,000 barrels per day for FY 25. However, the forecast had been increased by over 12,000 barrels per day for FY 26, bringing the forecast to 469,500 barrels per day.

Mr. Stickel noted that there had been a small increase in the FY 26 forecast for the Permanent Fund POMV transfer. The increase was due to the fund's better-than-expected performance in the final months of FY 24, which had affected the transfer calculation. He explained that because of the way the transfer to the general fund was calculated, the transfer for FY 26 was now known with certainty at approximately \$3.8 billion. When all factors were netted out for total unrestricted revenue, the department had decreased the FY 25 forecast by about \$220 million and the FY 26 forecast by about \$232 million. He noted that the lower oil price assumptions had been the primary drivers behind the decreases.

Co-Chair Josephson asked whether the deficit would be worse in FY 26 because the state had run a surplus in FY 25.

Mr. Stickel responded in the affirmative. He would defer to OMB to provide specific details regarding the surplus and deficit.

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Mr. Stickel advanced to slide 10, which detailed total state revenue from all sources and was the last slide that

discussed total revenues. The presentation would focus on UGF revenues going forward. The slide broke down historical revenue for FY 24, FY 25, and FY 26 into four categories of restriction.

Mr. Stickel clarified that UGF revenues were the revenues that the legislature could appropriate for any purpose and were typically the focus of most budget discussions. He added that the slide also showed designated general fund (DGF) revenues, which were revenues technically available for general appropriation but were customarily used for specific purposes. An example of a DGF revenue was the state's vehicle rental tax revenue, which was deposited into a special sub-account and customarily appropriated for tourism, marketing, and development. There were other restricted revenues, which were revenues that were truly dedicated in how the monies could be used. The legislature did not have much discretion regarding how the restricted revenue funds could be spent. He cited the commercial passenger vessel tax as an example, under which any revenues had to be used in direct support of the cruise ship industry and passengers, as mandated by federal law.

Mr. Stickel then discussed federal revenue, which was reflected as entirely restricted revenue due to the federal government's specific restrictions on how the funds provided to the state must be used. He provided the total revenue breakdown, stating that for FY 24, total state revenue from all sources had been \$16.3 billion, with forecasts of \$16.8 billion for FY 25 and \$15.7 billion for FY 26. The unrestricted portion had been \$6.6 billion for FY 24, and it was forecasted to be \$6.2 billion for both FY 25 and FY 26.

Co-Chair Josephson asked what accounted for the substantial decrease in federal receipts.

Mr. Stickel responded that federal revenue had been supported by a variety of stimulus packages, including COVID-19 relief funds, IIJA funds, and the Inflation Reduction Act (IRA). He noted that the state had been receiving between \$3 billion and \$4 billion per year. He explained that the decrease in federal revenue from FY 25 to FY 26 was due to a tapering off of the stimulus funds; however, \$5.8 billion in federal revenue was still considered a robust level of federal support.

Representative Stapp asked for more information about the production taxes. He noted that the FY 26 production tax revenue was forecasted to decrease nearly every year until 2034. He assumed that it was because companies paid minimal taxes.

Mr. Stickel replied that the reason for the decline in production tax receipts was due to a combination of lower oil prices and dramatically higher spending by companies investing in major new developments. He explained that the production tax was essentially a net profits tax with a gross minimum tax floor. The forecasted lower oil prices, combined with higher spending, reduced the tax base for the net profits share of the calculation. He did not know the exact number of companies paying above the gross minimum tax floor, but he confirmed that multiple companies were expected to be paying above the minimum tax floor, while others were expected to pay at or below the minimum tax floor.

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Representative Stapp asked for clarification on what the minimum tax was.

Mr. Stickel explained that the production tax consisted of a net profits tax with a 35 percent nominal rate and a per taxable barrel credit that could be applied against the tax. Additionally, there was a gross minimum tax floor, which was 4 percent of gross value at most oil prices. He explained that the basic production tax calculation involved a company calculating the 35 percent net profits tax, adjusted by per taxable barrel credits, down to the gross minimum tax floor.

Representative Stapp asked if ConocoPhillips was paying the 4 percent minimum tax because of the Willow project. He wondered if Hilcorp was not investing as much as Conoco. He wondered how long Conoco should be expected to pay the minimum tax.

Mr. Stickel responded that he could not speak to specific companies due to taxpayer confidentiality. However, the tax fundamentals indicated that, at current oil prices, each producer had a different portfolio of producing operations, investments, and developments. He emphasized that to the extent a producer invested in major developments, producers

would likely be subject to the minimum tax floor, depending on each company's individual portfolio of operations and investments.

Co-Chair Josephson commented that previous bills had reformed the ability for a company to pay less than the 4 percent minimum floor. He asked if there were exceptions to the rule.

Mr. Stickel responded that he was unsure how detailed the committee wanted him to get on the production tax calculation. He relayed that there was an entire presentation available that covered the detailed order of operations for the production tax calculation and he could present it to the committee at a later date if it desired. The per taxable barrel credits consisted of a sliding scale credit available for general production and a separate \$5 per barrel credit available for new production, which was referred to as gross value reduction eligible production. If a company used sliding scale credits, the company would not pay below the minimum tax. However, if a company chose to forego sliding scale credits or was ineligible for the credits, it could use the \$5 per barrel credits to pay below the minimum tax. He noted that for a new entrant or a company with significant operations from new fields or in a low-price environment, there was an option to pay below the minimum tax floor.

Co-Chair Josephson asked if there would be enough time to go into the details of the order of operations.

Mr. Stickel responded that it could be scheduled for another time if needed.

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Mr. Stickel advanced to slide 11 which gave a high-level overview on the total unrestricted revenue forecast and its three primary components. He noted that investment revenue was currently the largest source of unrestricted revenue, contributing about \$3.7 billion in FY 24, with forecasts of \$3.8 billion for FY 25 and \$3.9 billion for FY 26. The primary share of the revenue came from the POMV from the Permanent Fund, which had begun in 2019. Petroleum revenue generated about \$2.5 billion of unrestricted revenue in FY 24, with forecasts of \$1.8 billion in FY 25 and \$1.7 billion in FY 26. Finally, non-petroleum revenue sources

were forecasted to contribute about \$584 million in FY 25 and about \$587 million in FY 26.

Mr. Stickel moved to slide 12. He explained that the next couple of slides would drill down into each category of the unrestricted revenue, starting with investments. He mentioned that the Permanent Fund transfer alone was expected to account for between 59 percent and 64 percent of unrestricted revenue over the 10-year revenue forecast.

Mr. Stickel explained that the funds represented by the transfer were both to support the state budget and to pay the Permanent Fund Dividend (PFD). The transfer was \$3.5 billion in FY 24, and \$3.7 billion was forecasted for FY 25 and \$3.8 billion for FY 26. In addition, there was a modest amount of other UGF revenue, which primarily represented earnings on cash balances of the general fund. The UGF revenue amount contributed about \$150 million in FY 24, and it was projected to decrease to \$88 million in FY 26, reflecting an expected reduction in interest rates on cash.

Co-Chair Josephson asked whether any Constitutional Budget Reserve (CBR) income stayed with the CBR.

Mr. Stickel responded in the affirmative and relayed that the CBR income was considered restricted revenue.

Representative Johnson commented that the state had a surplus when the budget was completed the previous year but it now appeared to have a slight deficit. She asked if Mr. Stickel could address the deficit.

Mr. Stickel responded that he did not have the budget documents in front of him but explained that oil prices had been slightly stronger since the release of the forecast, which could potentially offer some relief. He added that a future slide would address the point further.

Representative Galvin asked for more information about the 2023 investment revenue forecasts. She noted that the earnings had been severely underestimated in the fall of 2023 and contributed to a much larger share of total state revenue compared to the forecast made in the fall of 2023. She requested additional information regarding why the investments performed better than anticipated.

Commissioner Crum replied that the state had experienced an unexpected boost in the stock market. He explained that the state's data for the RSB had been processed through October 30, 2023, but in November and December, there had been what was referred to as the "Santa rally." The rally led to a gain of over 20 percent in the stock market, which significantly impacted the state's budget and investments. He relayed that it was one of the major changes between the fall forecast and the spring update in 2024.

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Representative Galvin agreed that the "Santa rally" was something that could not have been predicted and asked for Mr. Stickel's perspective on how often such events occur. She acknowledged that she hoped for similar events but also wanted to be responsible in her expectations. She wondered whether the event was a major factor behind the forecasted 2025 and 2026 revenue, which was more positive than expected, though still below her hopes.

Commissioner Crum replied that the "Santa rally" had affected all of the state accounts, including the Alaska Retirement Management Board (ARMB), APFC, and other accounts. He explained that the "magnificent 7," which were a group of seven major corporations such as Alphabet and Apple, had been largely responsible for the market gains.

Commissioner Crum explained that the investment world continually debated whether the gains were sustainable or if the gains represented a bubble. A significant shift was that the largest corporations in the world were currently driving the market gains. The situation was different from past market bubbles, where the highest gainers typically had limited market share. The belief at the time was that the floor for the investments might have been continually resetting, reflecting a new market dynamic.

Mr. Stickel added that the uncertainty around investment returns highlighted the challenges in revenue forecasting. While investment returns could be volatile, the way the Permanent Fund transfer was structured provided a level of certainty. The transfer was based on a trailing market average of the first five of the last six fiscal years, offering more stability than oil and gas revenue, which was subject to fluctuations throughout the year.

Commissioner Crum added that in public discussions, the breakdown of the state's budget was 55 percent from earnings investments and 37 percent from oil and gas. The shift marked a significant move forward for the state. He clarified that while the total dollar amount for the transfer from the Permanent Fund to the general fund was known, the state's treasury and the Permanent Fund had worked together to time the transfer appropriately. Funds from accounts generating interest were not withdrawn until they were needed, maximizing the growth of the corpus and realized gains throughout the year.

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Representative Johnson noted that the Legislative Finance Division (LFD) had reported that there was a \$156 million deficit. She emphasized the need to reconcile the figure with the state's projections.

Mr. Stickel continued to slide 13 which detailed the POMV transfer from the Permanent Fund to the general Fund through FY 35. The forecasted transfer would exceed \$3.5 billion each year, increasing steadily to nearly \$5 billion by FY 35, which would be approximately \$3.8 billion in current dollar terms. The estimate assumed a 7.65 percent long-term annual return for the Permanent Fund, based on the POMV calculation derived from the trailing market average.

Mr. Stickel moved to slide 14, which showed unrestricted petroleum revenue actuals for FY 24, along with the forecast for the next two years. He explained the four primary sources of petroleum revenue. The first was the oil and gas production tax, which was a severance tax on oil and gas. The production tax was based on a net profits tax calculation with a gross minimum tax floor. At current oil prices, some companies were expected to pay above the minimum tax floor. The production tax was forecasted to generate \$563 million in FY 25 and decrease to \$441 million in FY 26.

Mr. Stickel relayed that next source was the corporate income tax, which was levied on qualifying oil and gas corporations operating in the state. The tax applied to certain companies doing business in Alaska and was forecast to generate \$210 million in FY 25 and \$250 million in FY 26. The third source was the petroleum property tax, which

had been levied on all oil and gas property within the state. The tax had been a relatively stable revenue source and had generated just over \$130 million per year for the state.

Mr. Stickel explained that there had also been a significant municipal contribution that was not shown in the chart which exceeded \$500 million per year to municipalities from oil and gas property taxes. The largest source of unrestricted state revenue from oil and gas had been state royalties, which represented the state's ownership share of oil and gas produced on state land and had brought in approximately \$1.15 billion in FY 24. Forecasted amounts were \$942 million for FY 25 and \$898 million for FY 26. He noted the figures represented only the UGF portion of gas and oil royalties. An additional portion of the royalties had been deposited into the Permanent Fund and the school fund.

Representative Stapp noted that the chart on slide 14 showed that while the petroleum corporate income tax had been increasing, the revenue from production tax and royalties had been declining. Typically, the only way to increase corporate tax revenue would be through higher profits made by corporations because the rate for the corporate tax remained constant. He asked why the petroleum corporate income tax revenues had increased while production and royalty rates had decreased.

Mr. Stickel responded that there were two factors contributing to the increase in the petroleum corporate income tax. First, the outlook for worldwide income was based on projections of earnings estimates. Analysts had forecasted some increased profitability within the oil and gas sector. Additionally, there had been some refunds of prior-year taxes in FY 25. The combination of a growing tax base and one-time issues rolling off the books for the corporate income tax had accounted for the increase. The declines in production tax royalties were primarily due to a lower price outlook. The production tax had also been affected by significantly higher expected company spending.

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Representative Stapp asked whether any potential refunds for the corporate income tax could be expected in the near future.

Mr. Stickel clarified that everything the division was aware of had already been incorporated into the forecast. Corporate income tax had been a volatile tax and forecasting it had been challenging. One of the most significant impacts on corporate income tax in recent years had been the effects of the COVID-19 recession, which had had substantial impacts on the oil and gas industry. However, the division believed the impacts had been fully worked through the calculations.

Representative Stapp asked when a rebound in revenues from production and royalties could be expected.

Mr. Stickel relayed that there was a specific slide later in the presentation that would touch on the subject. He explained that the RSB also contained a 10-year outlook for the revenues, specifically in Appendix A-3. Production tax revenues were forecasted to remain relatively steady over the next 10 years, with some increases projected in the early 2030s.

Representative Stapp understood that the next significant increase in production tax revenue was expected around FY 33. The production tax revenue was projected at \$441 million in FY 26, and it would decrease gradually in the subsequent years, reaching \$428 million in FY 33 and \$541.7 million in FY 34.

Mr. Stickel relayed that the projections reflected the expected oil price outlook, which he would discuss on a coming slide.

Representative Johnson asked whether the petroleum property tax applied only to the unorganized boroughs.

Mr. Stickel responded that the state's petroleum property tax applied to all petroleum property in the state at 20 mills. A credit was allowed for municipal taxes that had already been paid, meaning that the state received the amount that was left over between the 20 mills and the municipal rate for property within a municipality. For property in the unorganized borough, the state received the entire share. A table in Chapter 6 of the RSB was referenced to break out the state versus municipal impacts.

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Co-Chair Josephson noted that the vote on the Willow resolution had been unanimous and asked whether the department still believed there was a "triple win" in the long run that was beneficial for labor, the oil and gas industry, and the treasury, particularly in the 2030s.

Commissioner Crum responded in the affirmative. He elaborated that an analysis had been conducted for Willow, which had been posted on the division's website. The analysis was to be updated, as the prior record of decision had allowed only three pads, but the new federal administration was changing it to five pads. The department was working with partners to update the analysis while respecting any taxpayer confidentiality requirements. Although it might take a few years to see cash flow become positive for the state, it was already positive for local communities. The North Slope Borough was collecting its property tax and as soon as the royalties started coming in, the mitigated communities across the North Slope would receive 50 percent of the royalties and the federal government would take its share. He emphasized that the project represented significant job creation and economic development.

Co-Chair Josephson asked whether the addition of extra pads would result in more production.

Commissioner Crum responded that the department would need to update its analysis based on whether the affected company chose to change its model, which would impact production. He clarified that the addition of new pads would also mean new infrastructure.

Representative Hannan asked which assets were accounted for under the petroleum property tax. She asked whether mechanisms existed that would allow a petroleum company to circumvent property tax obligations by creating a subsidiary or contracting out the work. In such a scenario, she suggested that the company might no longer own the well and would no longer be required to pay property tax.

Mr. Stickel replied that the property tax applied to any exploration, production, and pipeline transportation property in the state, and it was levied at the property owner level. In some cases, the property owner was a different entity than the producer of the oil and gas.

Commissioner Crum added that the property tax was collected based on the identification of the property owner, regardless of the corporate structure.

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Representative Galvin noted that according to the projections and forecasts for FY 25 and FY 26, the state was expected lose significant revenue due to oil and production taxes. She understood that a significant portion of the decrease was due to the state's decision to encourage other development through credits in the next few years. She asked if the department had considered how much a \$5 increase in the price of oil would change the projected \$400 million loss.

Mr. Stickel responded that the decrease from FY 24 to FY 25 was largely attributed to the lower price forecast. He explained that the average North Slope oil price in FY 24 was over \$85 per barrel, while the forecasted price was \$73.86 per barrel for FY 25, and \$70 per barrel for FY 26. The department estimated that roughly each \$1 change in the oil price equated to about \$35 million in unrestricted revenue. He added that with a \$5 price increase, the change could amount to around \$150 million.

Representative Galvin remarked that that while she understood the reasons behind the decline, she was hoping to get a better sense of how much the situation could improve based on the uncertain oil prices. She was aware that changes in credits could not happen in time for the next year. She asked how drastically the situation could change depending on the unknowns, particularly the price of oil.

Mr. Stickel responded that in addition to the information he had shared, Appendix A-1 of RSB provided dollar amounts based on \$10 increments.

Representative Galvin reiterated her desire to better understand how changes in oil prices could impact the revenue outlook.

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Mr. Stickel advanced to slide 15 which detailed key non-petroleum unrestricted revenue sources. He explained that taxes made up the largest component of the sources. Among non-petroleum taxes, the corporate income tax was typically the largest, generating a little over \$177 million in FY 24. The department was forecasting \$210 million in FY 25 and \$230 million in FY 26. The forecasts were based on expected broad-based increases in company profitability and factored in some recovery in sectors like fisheries and mining, as well as increased payments from industries such as tourism.

Mr. Stickel explained that the department was expecting that some of the losses and negative impacts from the COVID-19 recession were beginning to roll off the books, which would result in increased payments from industries like tourism. He added that other significant taxes included the mining license tax, insurance premium taxes, fisheries taxes, and excise taxes. The negative \$1 million shown on the slide for the mining license tax in FY 24 was due to a combination of one-time issues, including prior-year refunds paid in FY 24, as well as weak mineral prices, particularly for zinc, which was one of the state's largest minerals. Despite the situation, the department expected a rebound to \$45 million in FY 25.

Mr. Stickel relayed that in total, the non-petroleum revenue sources were expected to contribute about \$440 million per year in each of the next two years. He explained that additional sources of non-petroleum revenue included things like licenses and permits, charges for services, minerals, rents, and royalties, as well as dividends from state-owned corporations and other revenues.

Co-Chair Josephson asked if revenues were designated.

Mr. Stickel responded that the slide showed only the unrestricted portion of the non-petroleum revenues. There were a significant amount of designated and dedicated revenues as well.

Representative Allard understood that the fisheries business tax and the fisheries resource landing tax were levied on the processors of the fisheries resource. She asked if the taxes were applied at the 3 percent value rate.

Mr. Stickel responded that half of the fisheries taxes were shared with municipalities, generally before tax credits, with the remaining half accruing to the state. The revenue figure provided represented only the retained state share of those taxes.

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Representative Bynum expressed concern about the impact of oil prices and production on the state's revenue, particularly considering its significant role in shaping the budget. He noted that investment income was also an important component, noting that while the S&P 500 had experienced significant growth in FY 24, the state's investment funds had grown at a much lower rate of around 7.9 percent. He asked for further clarification on the impact on investment income. Although he was aware that the presentation was an overview, he thought that the public likely had questions about the difference between their own investment fund growth and the state's professionally managed fund.

Commissioner Crum explained that part of the investment strategy for APFC was to minimize risk while ensuring modest gains. He emphasized that the strategy had been crucial in reducing volatility because the PFD was vital for the state. The corporation's investment approach had been governed by the prudent investor rule and aimed at maximizing risk-adjusted returns. There was a consistent dialogue between trustees, investment staff, and external consultants like Callan. He explained that while the fund sought to achieve competitive returns, there had been a strong focus on maintaining stability and mitigating risk, particularly considering that the Permanent Fund directly supported the state's unrestricted general fund through the POMV draw. The goal had been to avoid major fluctuations that could negatively impact the ERA, which was crucial when it came time to pay out the fund. The strategy had been deliberate and was designed to ensure a diversified portfolio that generated returns under various market conditions.

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Representative Stapp asked for more information about the current management fees for APFC on an annuitized basis.

Commissioner Crum responded that he did not have the exact number off the top of his head but noted that it had not varied much. He estimated that it was approximately \$198 million for the corporation.

Representative Stapp asked for more information about charitable gaming tax revenue. He acknowledged that it was a relatively small amount but wondered if the new casino in Eklutna might impact projections.

Commissioner Crum replied that the department had not conducted an analysis on it because the latest information suggested that the casino would be operational by the end of 2025, which would result in only partial-year data for analysis. He explained that with the gaming tax revenue in the range of three million dollars, it could fluctuate marginally, but it was unlikely to reach \$20 million for state revenue.

Co-Chair Josephson expressed his hopes that the new casino might help with his dream of a light rail to the Mat-Su.

Representative Hannan asked Mr. Stickel about the mining license tax. She noted that while the revenue was projected to grow to \$45 million in FY 25, it was expected to drop to \$25 million in FY 26. She asked why the mining license tax appeared to be volatile during the period.

Mr. Stickel replied that the mining license tax was based on net income, which made it inherently volatile. He clarified that the forecasting model took into account the expected production levels, mineral prices, and costs for each of the major mines in the state. The revenue for FY 25 was expected to primarily reflect calendar year 2024's production, with modest mineral prices and increasing costs expected to drive the decline to \$25 million in FY 26.

Representative Hannan noted that alcohol, marijuana, and tobacco excise taxes appeared to be declining, despite expectations that tourism would drive higher consumption. She asked why the revenue from excise taxes was expected to decline.

Mr. Stickel responded that excise taxes were a complex topic. He noted that alcohol consumption had leveled off in recent years and flat consumption was projected to be flat going forward. He also explained that there had been a

shift away from taxable nicotine products like cigarettes towards non-taxable nicotine products such as e-cigarettes and nicotine pouches. There had also been a shift in consumption toward lower-tax marijuana products, even as overall marijuana use was expected to slowly increase.

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Mr. Stickel moved to slide 17 and detailed the assumptions surrounding the oil revenue forecast, particularly oil prices. The forecast was based on futures market data for as many years as were available, followed by an assumption that prices would rise with inflation. The forecast utilized the futures market through FY 32, offering transparency for the oil price assumptions. He noted that the price forecast showed slight reductions in the forecasted oil price by \$4 per barrel in FY 26 and further reductions for the following years. The forecast was generated using futures data from the last five trading days of November in 2024.

Representative Bynum asked if the graphs on slide 17 were shown on an annualized average basis. He wondered if the historical averages would reflect similar data moving forward.

Mr. Stickel confirmed that slide 17 utilized monthly averages for the historical data. He added that annual average fiscal year prices were available in Appendix B-1 of RSB.

Co-Chair Josephson asked for more information about the significant increase in oil prices in late 2022.

Mr. Stickel responded that he suspected that it was related to the war in Ukraine.

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Mr. Stickel continued on slide 18 which showed how the price forecast compared to various other forecast sources. He added that the department had updated the slide earlier in the week. The comparison was made to the Brent Crude Oil Future Expectations from the U.S. Energy Information Agency and its short-term energy outlook. Additionally, the comparison was made to the current futures markets as of January 21, 2025, as well as an average of analyst

forecasts obtained from Bloomberg. He explained that Brent was used for comparison because it was a comparable crude to North Slope crude oil in terms of quality, and the crude oils typically priced similarly. He thought the good news in the forecast was that the futures markets were suggesting prices over the next year would be slightly higher than what had been included in the fall forecast. However, beyond FY 26, the forecasts generally aligned with other sources, indicating crude prices would be in the \$70 per barrel range, with a variation of \$5 to \$10 per barrel.

Representative Josephson asked if the slide suggested that there might be some good news from the department in mid-March of 2025.

Mr. Stickel responded that if the oil price forecast had been updated at that time, there would have been a modest increase in the forecast.

Mr. Stickel moved on to slide 19 which detailed how the expected revenue for FY 26 could change with different oil prices. He noted that the department had forecasted a price of \$70 per barrel for North Slope oil in FY 26, equating to \$2.4 billion of UGF revenue, excluding the POMV transfer. He explained that for every \$1 change in the oil price, there was a \$35 million change in revenue. If the price increased over \$100 per barrel, the revenue would increase by \$75 million. Conversely, if the price dropped below \$60 per barrel, the change would be around \$25 million per barrel. He attributed the variability to the progressive nature of the production tax system, which had been discussed earlier in the presentation.

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Representative Allard asked to return to slide 15. She noted that Representative Stapp had asked about charitable gaming taxes, which were tied to the potential opening of a casino. She asked how revenue from the casino would be allocated to the state under federal law, particularly since the revenues would not be allocated to her district.

Commissioner Crum asked if Representative Allard was asking about charitable gaming taxes going to her district or just to the state.

Representative Allard clarified that she was asking about revenue coming to the state.

Commissioner Crum explained that the department was working on an updated analysis regarding the potential revenue from the Eklutna tribe's casino. He noted that the situation had been in-flux, with recent developments in the last two weeks adding complexity to the department's understanding of the matter and its authority over the collection of the taxes. Currently, there would be no revenue for the state or for the community in Representative Allard's district if the project went through. He noted that the information was incomplete, as it depended on interpretations of federal letters and other rules that were still emerging. He offered reassurance that the department was actively working on the analysis, but the matter remained unresolved due to the lack of clarity in the legal framework.

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Mr. Stickel continued on slide 20. He stated that the slide was similar to previous slides and it detailed the forecast for North Slope oil production over the next 10 years, including high and low cases. The forecast pointed to stability, with predictions of 460,000 to 470,000 barrels per day for the next few years. The stability was expected to be maintained as natural declines in existing fields were offset by additional drilling. New production from fields like Pikka and Willow, along with smaller developments, would help maintain the overall stability.

Mr. Stickel moved to slide 21, which compared the 10-year oil production outlook to what had been presented in the spring 2024 revenue forecast. The forecast for FY 25 through FY 27 had been slightly reduced compared to the spring forecast, which was a change that had been discussed earlier.

Mr. Stickel moved on to slide 22, explaining that it showed how allowable lease expenditures for the North Slope had changed over the past couple of years, as well as the forecast for the next 10 years. He clarified that allowable lease expenditures were the production costs reported to the department on tax returns, which were deductible in the production tax calculation as part of the net profits tax calculation. The expenditures were also an important barometer of company spending and investment in Alaska. In

FY 24, North Slope capital expenditures reached \$4.2 billion, marking a high watermark over the last several years, while operating expenditures were \$2.9 billion. There had been a continued ramp-up in spending at major new developments such as Pikka and Willow, along with an active exploration season on the North Slope. He noted that it was a busy and active period in the oil industry. For FY 25, the department was forecasting another increase in capital expenditures, with continued high levels of spending on a historical basis over the 10-year forecast. Capital expenditures were expected to stabilize at around \$3.4 billion per year. Conversely, operating expenditures were expected to increase slowly over time due to cost inflation and the operating costs of new fields coming online.

Mr. Stickel continued by explaining that the later years in the lease expenditure projections were presented on a risked basis. The lease expenditure forecast was correlated with the production forecast produced by DNR. He explained that if there was a risk factor applied to production, the same risk factor was applied to lease expenditures. If all the new fields came to fruition as hoped, both production and spending could be higher than forecasted.

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Mr. Stickel moved to slide 23, which showed how transportation costs had been impacted over the last couple of years, as well as the 10-year forecast. He explained that the key takeaway was that transportation costs were expected to remain stable with oil at around \$10 per barrel. The costs represented the expenses of getting oil to market from the North Slope, typically to the West Coast of the U.S. The biggest components were marine costs and the Trans-Alaska Pipeline (TAPS) tariff, while smaller adjustments included quality bank adjustments, feeder pipeline tariffs, and other minor costs. Marine costs had increased significantly over the past several years due to overall increased fuel costs and price inflation. However, he expected the costs to moderate going forward. On the other hand, the TAPS tariff was expected to decline over the 10-year projection due to the pipeline. With new fields coming online, the cost of operating TAPS would be spread across a higher number of barrels, resulting in a decrease in the charge per barrel.

Co-Chair Josephson asked if slide 23 also related to royalty, as marine costs and tariffs were a key component in calculating royalty.

Mr. Stickel responded in the affirmative. He explained that the transportation costs impacted the gross value calculation for royalty, the gross value calculation for the minimum tax floor, and the net profits calculation for the production tax. He stressed that it was essential to closely monitor transportation costs.

Mr. Stickel moved to slide 24 and explained that petroleum revenues varied by land type and not all oil was the same. He noted that the differences were relevant to ongoing discussions about existing and potential new developments. Historically, most production occurred on state land with a standard state royalty, but some of the major new opportunities were coming from federal land, including the National Petroleum Reserve Alaska (NPR), and potentially from private land within the Arctic National Wildlife Refuge (ANWR). He clarified that production tax, corporate income tax, and property tax were levied on all oil and gas production within the state and within the state's three-mile offshore limit, regardless of who owned the land. However, royalties differed by land ownership. The state received all royalty income for state-owned land within the three-mile limit. For federal land in NPR, the state received half of the royalties, but the funds had to be used to benefit local communities rather than contributing to the state's general fund revenue.

Mr. Stickel explained that the Greater Mooses Tooth development project was an example of NPR production. The Willow development was expected to come online in the next few years. The state would receive a share of the royalties without restrictions for federal waters between three miles and six miles offshore and any production from ANWR or other federal lands, which would contribute to the general fund under current law. For federal waters beyond six miles offshore, there was no direct state revenue benefit. However, the state might benefit indirectly through reduced tariffs on the pipeline system and potentially onshore property or employment related to the production. For private land, such as land owned by Alaska Native corporations like the Arctic Slope Regional Corporation, the state did not receive a direct royalty. However, the state levied a tax on the private royalty interest, which

was 5 percent of the private royalty value for oil and 1.67 percent for gas.

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Representative Stapp asked if it was fair to say that the state would essentially collect zero royalty income from the Willow project, other than the pass-through income. He understood that the 50 percent federal royalty shared with the state would be passed through to the affected municipalities.

Mr. Stickel responded in the affirmative. The state would not receive general fund revenue and 50 percent of federal royalty revenue would be shared and passed through to the impacted municipalities.

Representative Stapp asked whether all lease expenditures would still apply against the production tax for the Willow project.

Mr. Stickel responded in the affirmative.

Representative Stapp asked if it would be possible to calculate the total amount of tax revenue lost through deductions and credits, given that the Willow project would only yield production tax revenue for the state.

Mr. Stickel responded that the department had conducted an in-depth study of the Willow project and had made the findings available online. He added that the study would be updated in the spring, and he confirmed that the state would indeed receive production tax revenue from the Willow project. In addition to production tax, corporate income tax, and property tax, a significant benefit of the Willow project was the impact on pipeline tariffs. He noted that when there was a reduction in the TAPs tariff and some of the feeder pipeline tariffs, it positively impacted both tax and royalty revenue received from several other fields. The details regarding the impacts were outlined in a white paper available on the tax division's website.

Representative Hannan asked for clarification on whether the state would be able to collect property tax from the Willow project or if it would be exempt, especially considering it was on federal land within the North Slope Borough, which already collected property taxes.

Mr. Stickel explained that the state taxes applied to all production within the state, regardless of land ownership. The state levied property taxes on property within the North Slope Borough. The municipal share of the property taxes was allowed as a credit against the state tax, but the state still received a small share of property tax revenue.

Co-Chair Josephson noted that he occasionally saw slides in presentations that had continued value every year, and he thought slide 24 was one of the continuously valuable slides.

Mr. Yancey expressed appreciation for Mr. Stickel's team and the economic research team. He commended the team for gathering data over a short period of time. He was impressed by the professionalism and dedication of the team.

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Co-Chair Josephson reviewed the agenda for the following day's meeting.

ADJOURNMENT

[2:58:02 PM](#)

The meeting was adjourned at 2:57 p.m.