

HOUSE FINANCE COMMITTEE
March 13, 2025
1:35 p.m.

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CALL TO ORDER

called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Andy Josephson, Co-Chair
Representative Calvin Schrage, Co-Chair
Representative Jamie Allard (via teleconference)
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

ALSO PRESENT

Adam Crum, Commissioner, Department of Revenue; Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue.

SUMMARY

PRESENTATION: SPRING REVENUE FORECAST BY THE DEPARTMENT OF REVENUE

Co-Chair Josephson reviewed the meeting agenda.

^PRESENTATION: SPRING REVENUE FORECAST BY THE DEPARTMENT OF REVENUE

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ADAM CRUM, COMMISSIONER, DEPARTMENT OF REVENUE, introduced a PowerPoint presentation titled "Spring 2025 Forecast Presentation: House Finance Committee," dated March 13, 2025 (copy on file). He made brief remarks. He summarized that the FY 2025, projected Unrestricted General Fund (UGF) revenue was essentially unchanged compared to the Fall 2024 forecast due to a slight increase in expected petroleum revenue offset by decreases to expected non-petroleum and investment revenues. He expounded that for FY 2026, projected UGF revenue had decreased by \$70 million, driven by lower revenue and production projections. He thanked the Tax Division, the Economic Research Group, and the Department of Natural Resources for their efforts on the forecast.

Co-Chair Josephson recognized Representative Elam in the room.

DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, began with slide 2 titled "Agenda:"

- 1.Forecast Background and Key Assumptions
- 2.Spring 2025 Revenue Forecast
 - Total State Revenue
 - Unrestricted Revenue
- 3.Petroleum Forecast Assumptions Detail
 - Oil Price
 - Oil Production
 - Oil and Gas Lease Expenditures
 - Oil and Gas Transportation Costs
 - Petroleum Revenue by Land Type

Mr. Stickel turned to slide 4 titled "Background: Spring Revenue Forecast:"

- Released March 12, 2025
- Historical, current, and estimated future state revenue
- Updates key data from Fall Revenue Sources Book

- Official revenue forecast used for final budget process

- Located at tax.alaska.gov

Mr. Stickel addressed slide 5 titled "Spring Forecast Assumptions:"

- The economic impacts of financial and geopolitical events are uncertain; DOR has developed a plausible scenario to forecast these impacts

- Key Assumptions:

- Investments: Stable growth in investment markets, 7.90% for remainder of FY 2025 and 7.65% for FY 2026+

- Federal: The forecast incorporates known funding as of March 1, 2025. FY 2027+ assumed to grow with inflation.

- Petroleum: Alaska North Slope oil price of \$74.48 per barrel for FY 2025 and \$68.00 per barrel for FY 2026.

- Non-Petroleum: Continued economic growth. 1.6 million cruise passengers, five-year recovery for fisheries taxes, minerals prices based on futures markets.

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Representative Stapp noted that all of the financial markets were currently down. He wondered about the impact that might have on the forecast. Mr. Stickel agreed there had been a downturn in financial markets. He elaborated that the economists had incorporated actual investment returns through January, and the 7.9 percent was the assumption that applied beginning in February. He explained how the Permanent Fund returns were calculated. The unrestricted general fund transfer was based on the average ending market value (trailing market average) of the first five years of the last six years. The method smoothed out the volatility and provided more predictability in the revenue forecast.

Mr. Stickel reported that the department worked with the Office of Management and Budget (OMB) to incorporate all known federal funding since the beginning of March for the FY 26 forecast.

Co-Chair Josephson interjected that Representative Allard was present online and Representative Jimmie had joined the meeting.

Mr. Stickel reminded the committee that the forecast presented a scenario within a range of potential outcomes and stressed the uncertainty of any revenue forecast. He pointed out that the 5 year recovery for fisheries taxes only included revenue and not the impacts on jobs or economic impacts.

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Mr. Stickel moved to an illustration on slide 6 titled "Relative Contributions To Total State Revenue: FY 2024:" He noted that the state did not have a personal income tax or state sales tax, therefore, the primary revenue sources were Federal Revenue at 37.2 percent, Investment Earnings at 6.7 percent (including POMV), Petroleum at 18.7 percent, and Other sources of revenue were 7 percent. [Total State Revenue: \$16.3 Billion.]

Representative Stapp asked the department to include the tax other industries pay to municipal governments in the future. Mr. Stickel asked if it was a comment or a request. He shared that the Department of Commerce, Community and Economic Development (DCCED) published a document that included information regarding local taxes. Representative Stapp clarified that the public did not think the state received any revenue at all from the other sources via the depiction on the slide. He clarified that municipalities did actually tax a lot of the companies listed.

Co-Chair Foster cited federal revenue. He thought he recently saw Alaska had been named the number one state for its dependency on federal dollars. He noticed that in FY 24 federal revenue was 37 percent and jumped to 41 percent in FY 25. He asked if it was per capita or total and asked for comment. Mr. Stickel acknowledged that he saw the same data and noted that the state received more federal money than it paid to the federal government. He expounded that federal revenue was a key source of funding for Alaska and

was thought to be stable but there was some concern over coming uncertainty.

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Representative Hannan requested the actual dollar amounts along with the percentages on slide 6. She wanted to determine if growth in the percentage was due to growth in the industry or due to a decrease in other industries like petroleum. She asked if mining earnings increased from FY 24 to FY 25 or if the percentages shifted. Mr. Stickel answered that DOR was projecting an increase in mining revenue from FY 24 to FY 25. He projected an increase in mining license tax. He would provide the dollar figures.

Representative Johnson followed up on Co-Chair Foster's question. She noted that every year there was some type of uncertainty. She asked if there was a factor included in the forecast showing uncertainty. She wondered about more uncertainty related to federal revenue due to the recent federal level changes compared to past years.

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Mr. Stickel responded that federal funding was experiencing a period of uncertainty for better or worse; there were potential risks and also exciting opportunities being discussed. He indicated that the division did include a sensitivity analysis in their investment revenue and petroleum revenue projections.

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Mr. Stickel turned to slide 7 titled "Relative Contributions To Total State Revenue: FY 2025." [Total State Revenue: \$17.4 Billion] He reiterated that federal revenue, investment earnings, and petroleum were the highest sources of revenue and other sources of revenue were roughly 9 percent. He highlighted Slide 9 titled "Unrestricted Revenue Forecast: FY 2024 and Changes to Two-Year Outlook." The chart showed FY 24, FY 25 and projected FY 26 numbers. The forecasted decrease for oil was \$2.00 bbl. in FY 26. The production forecast increased modestly for FY 26 to 469.5 bbl. from 466.6 in FY 25. The Permanent Fund Transfer (PF) transfer showed no change to the FY 26 forecast due to the trailing market average. The UGF change

in FY 26 was a \$70 million decrease in the forecast due to the \$2 decrease in the price of oil.

Representative Galvin asked how certain the department was in the projected oil price. Mr. Stickel answered that there was always uncertainty around oil prices. He informed the committee that every \$1.00 change in the price of oil equated to \$35 million UGF revenue.

Co-Chair Foster considered the fall forecast from 2024 for FY 25. He relayed that the hope was at the time that the oil price may be up a bit to around \$71 in the spring. He voiced that the oil price drop to \$60 currently was substantial. He emphasized that an oil price decrease by \$2.00 was significant.

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Mr. Stickel advanced to slide 10 titled "Total Revenue Forecast: FY 2024 To FY 2026 Totals." He noted the charts showed revenues from all sources. He reported that in FY 24 the total was roughly \$16.3 billion and was forecasted at \$17.4 billion and \$15.9 billion in FY 26. The income was broken down by UGF, Designated General Fund (DGF), Other Restricted Revenues, and Federal Revenues. He noted that the remainder of the presentation was focused on UGF. He discussed slide 11 titled "Unrestricted Revenue Forecast: FY 2024 To FY 2026 Totals." The chart showed the three main sources of income: federal revenue, investment earnings, and petroleum revenue.

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Mr. Stickel reviewed slide 12 titled "Unrestricted Investment Revenue: FY 2024 to FY 2026 Totals." He delineated that total UGF revenue was 3.67 billion in FY 24 and projected to be \$3.77 billion in FY 25 and \$3,88 billion in FY 26, with the largest share from the POMV transfer from the PF to General Fund (GF).

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Representative Stapp pointed to the five year average for the Permanent Fund performance percent of market value and noted that the 5 percent POMV exceeded the average earnings of the fund when adjusted for inflation. Mr. Stickel answered that he had not looked at it specifically.

Mr. Stickel underlined slide 13 titled "Unrestricted Investment Revenue: Percent Of Market Value (POMV) Transfer Forecast:"

- Permanent Fund total return for FY 2024 of 7.90%
- \$80.8 billion fund value as of 1/31/25
- 7.90% return assumption for remainder of FY 2025
- Long-term total return expectation of 7.65% for FY 2026+
- 5.0% annual POMV transfer

Mr. Stickel pointed to the graph that spanned 10 years to 2035. He noted that he worked with the Alaska Permanent Fund Corporation (APFC) to obtain the data. He indicated that the data showed "a fairly stable transfer forecast." He did not have the effective inflation adjusted draw rates and offered to provide it to the committee.

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Mr. Stickel summarized slide 14 titled "Unrestricted Petroleum Revenue: FY 2024 To FY 2026 Totals:" The chart depicted the Oil and Gas Production Tax, the Petroleum Corporate Income Tax, and the Petroleum Property Tax that applied to all oil and gas properties in the state. He reported that the local share of petroleum property tax totaled \$500 million per year, which equated to 2 percent, or a 20 mills tax rate and the state received the remainder. The petroleum taxes generated \$1.3 billion in FY 24 and was projected at a little under \$900 million in FY 25 and under \$800 million in FY 26. The Royalty revenue was expected to be roughly \$1 billion in FY 25 and \$800 million in FY 26. The total Unrestricted Petroleum revenue was predicted at \$1.9 billion in FY 25 and \$1.6 billion in FY 26.

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Representative Stapp stated he was having difficulty putting the forecast assumptions together. He reviewed the results from the Spring 2025 Revenue Forecast (copy on file) showing stagnant petroleum revenue and price from FY 2026 through FY 3032, with increased production and

capital, operating, and lease expenditures decreasing. He wondered why revenue would decrease under the assumptions. Mr. Stickel pointed to page 16, Appendix A-3 of the forecast showing a breakdown of the different sources of revenue. He explained that much of the new oil production was from federal lands with less royalty revenue unlike existing production. The production tax included some incentives for new production offering tax credits and gross value reduction, which allowed a tax reduction for the first three to seven years of production from a new field. In addition, there were impacts from carried forward annual losses that were earned by investments in new fields used to decrease future production taxes. He noted these details were the reason for the stagnant revenues for production tax and much of the benefit of the new production would occur at the end or beyond the time encompassing the revenue forecast.

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Co-Chair Josephson asked whether Conoco could use its Net Operating Losses (NOL) in productive fields and if it was the reason for the decreased revenue. Mr. Stickel could not speak to specific companies. He relayed that if a company were to incur an NOL it would earn a carry forward loss eligible to reduce taxes in future years.

Representative Galvin alluded to two bills in the other body. She asked about the per barrel difference in revenue if one bill was to pass. She reported that another bill changed the corporate structure for the LLC oil and gas companies. She asked if either bill would affect future revenue if adopted. Mr. Stickel believed she was referring to SB 112 [Oil & Gas Production Tax] and SB 113 [Apportion Taxable Income; Digital Business, 09/27/2025, Vetoed By Governor]. The department had prepared fiscal analyses and fiscal notes but had not released an analysis based on the Spring Revenue Forecast only on the Fall 2024 forecast. The division was in the process of updating them. He expected that revenue would be a bit lower than the fall forecast.

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Representative Galvin asked for details regarding the SB 112 and SB 113 numbers. Mr. Stickel answered that he was prepared to speak to the baseline revenue forecast and not the bill analysis. He offered to follow up.

Co-Chair Josephson recollected some revenue data from the bill hearings and relayed it to Representative Galvin.

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Representative Hannan reported that the state recouped the difference between the amount a municipal government was taxing up to the 20 mills limit. She asked if any local governments taxed at the 20 mills rate for Petroleum Property Tax and if so, whether the state received anything. She wondered what limited municipalities from charging the full 20 mills. Mr. Stickel was unable to answer the question related to what prohibited municipalities from charging 20 mills. He cited Appendix 6-9 of the 2024 Fall Revenue Sources Book that broke out the difference between the gross tax and the local share in FY 24; only the City of Valdez taxed at 20 mills. He deduced that if all municipalities taxed at 20 mills the state would lose a significant share of revenue. However, half of the property tax state revenue was from unorganized boroughs and there were no local municipal taxes. The state would retain around \$62 million based on that scenario.

Co-Chair Josephson asked if the tax was measured from July 1 to July 1 of each year. Mr. Stickel answered that the corporate income tax was an annual tax typically based on a calendar year. He surmised the question was related to extending the petroleum tax not only to C corporations but also to non-C corporations and what would be the impact on revenue. He noted that the forecast predicted production from non-C corporations would decline over the time horizon of the forecast but expected C corporation production to increase. The anticipated non-C corporate revenue would decline over the ten year forecast.

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Mr. Stickel examined slide 15 titled "Unrestricted Non-Petroleum Revenue: FY 2024 to FY 2026 Totals." He indicated that many of the unrestricted sources had designated components that were not shown on the slide. The largest source of revenue was from Non-Petroleum Corporate Income Tax at \$177 million in FY 24, predicted to be \$210 million

in FY 25, and \$235 million in FY 26 for non-petroleum corporate income tax. He highlighted the Mining License Tax where the state paid a net refund of \$1 million. He expected it to rebound to over \$33 million in FY 25. The subtotal was \$357.6 million in FY 24 and \$457.2 predicted in FY 2026. He noted that the Other category contained miscellaneous revenues.

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Representative Hannan cited the Excise Taxes (alcohol, marijuana, tobacco, etc.) decreasing in FY 26. She asked if it was a result in a decline in marijuana tax. Mr. Stickel replied that the division predicted a slight decline in several of the excise taxes. He noted that marijuana use had increased but there was a shift away from bud and flower yielding the highest marijuana tax rate. Therefore, he anticipated modest declines in marijuana tax revenue in FY 25 and FY 26. In addition, the division identified declines in alcohol consumption; assuming the trends of moderation continued, the tax revenue would decline. Finally, there was a continued shift away from taxable tobacco products like cigarettes and towards nicotine delivery methods that were not taxable such as vaping. Representative Hannan referenced the Large Passenger Vessel Gambling Tax. She wondered why there was a predicted decline.

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Mr. Stickel replied that the forecast in FY 25 was based on the passenger counts in 2024 where many ships were over full capacity at over 1.7 million passengers. The forecast assumed the ships would sail at capacity therefore, predicting a slight reduction in the tax revenue.

Co-Chair Foster referred to the revenue breakout in excise taxes in the revenue sources book. He noted that alcohol tax revenue was \$19.3 million, and tobacco was \$14.9 million. He commented that he had initially thought that the marijuana tax would be a huge windfall for the state but was predicted at \$6.6 million in FY 26.

Representative Johnson asked if marijuana was the state's biggest agricultural product. Mr. Stickel did not know the answer but acknowledged that it was a significant industry in the state. Representative Johnson guessed that it was.

She considered other agricultural products and deduced that they did not bring in as much tax revenue. Mr. Stickel stated that as far as a specialized tax on an agricultural product it created significant revenue. He noted that there was no farming tax. The \$6.6 million for FY 26 reflected the general fund (GF) share, which was only 25 percent of the tax collected. The remainder went to designated general funds.

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Representative Galvin noted there was a bill related to e-cigarettes. She wondered how it may impact the forecast if adopted. Mr. Stickel answered that if the tobacco tax was expanded there was a band of uncertainty around the estimate because the division lacked data regarding the tax base. He did not expect a large change based on prior fiscal analyses. Representative Galvin asked if Mr. Stickel knew the number. Mr. Stickel replied in the negative.

Co-Chair Foster pointed out that he was unaware of the marijuana tax revenue breakdown between GF and DGF. He calculated an additional 75 percent to the state's share of \$6.6 million and noted the total was \$26.4 million. He maintained his belief that the tax was smaller than originally anticipated.

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Representative Stapp considered the vape tax. He asked if people purchasing vape products on military installations would be subject to the tax. Mr. Stickel was not certain, but he believed there were exemptions.

Representative Hannan interjected that she was carrying the bill, and the military bases were exempt from alcohol and cigarette taxes.

Co-Chair Josephson asked if the mining license tax was historically closer to \$100 million. Mr. Stickel answered in the positive and recalled that in the mid-2000's mineral prices were high. He expounded that the mining license tax was a net profit based tax and currently costs in mining had increased substantially impacting profitability.

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Mr. Stickel noted that the remainder of the slides pertained to oil and gas. He turned to slide 17 titled "Petroleum Detail: Changes To The Long Term Forecast." The graph depicted the 10-year forecast from the Fall 2024 versus the Spring 2025 forecasts. Mr. Stickel discussed that FY 2025 had trended modestly higher than the prior forecast and beginning in FY 2026, the forecast was slightly decreased.

Co-Chair Schrage asked about any trends that may impact petroleum prices or production. Mr. Stickel answered that some of the past recessions had been preceded by oil price increases. However, there was not always a correlation between recession and oil prices.

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Mr. Stickel turned to slide 18 titled "Petroleum Detail: Nominal Brent Forecasts Comparison as of March 11, 2025." He detailed that the slide showed a price comparison between the Spring 2025 Revenue Forecast and other forecasters' predictions for the price of oil. The division's forecasted oil prices were the same as other forecasters; in the \$65 to \$71 range.

Mr. Stickel illuminated slide 19 titled "Petroleum Detail: UGF Relative to Price per Barrel (without POMV): FY 2026." He pointed out that the slide contained a sensitivity analysis regarding revenue changes if the forecasted price was different than actual prices. He reminded the committee that each \$1 change in ANS oil price equated to about \$35 million in revenue. The graph portrayed the potential range of uncertainty and included a high and low range of prices.

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Mr. Stickel looked at the 10-year outlook of oil production on slide 20 titled "Petroleum Detail: North Slope Petroleum Production Forecast." He offered that the slide included high and low case scenarios. Oil production was expected to be stable over the next several years due to natural declines in the legacy fields offset by additional development in other fields. An increase was expected to begin in 2029 due to new filed production. He addressed slide 21 titled "Petroleum Detail: Changes To The North Slope Petroleum Production Forecast." The graph represented expected changes to production from the Fall 2024 forecast.

The slide showed the most recent data of actual production and trends by field, which discovered only modest changes.

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Mr. Stickel reviewed Slide 22 titled "Petroleum Detail: North Slope Allowable Lease Expenditures." The graph showed how allowable lease expenditures had changed over the past 10 years representing the cost of production that was deducted in the net profits tax calculation and represented the oil companies' investment. He reported that capital expenditures were over \$4 billion in 2024 for North Slope oil, which would increase to \$5 billion in FY 2025 and would stabilize to around \$3.4 million around 2031. He noted that large investments were currently in progress in new fields and in existing units. He indicated that operating expenditures were \$2.9 billion in FY 24 and slight increases were anticipated as new fields came online.

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Representative Johnson asked if the state allowed the same kind of tax credits on Natural Petroleum Reserve-Alaska (NPRA) land as anywhere else. Mr. Stickel answered in the affirmative and relayed that in terms of the oil and gas production tax, for the North Slope, north of 68 degrees, the same tax applied regardless of the landowner.

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Mr. Stickel addressed slide 23 titled "Petroleum Detail: North Slope Transportation Costs." He delineated that the graph represented total transportation costs from the field through any feeder pipelines to the TransAlaska pipeline to Valdez and on to the west coast via tanker. The cost of getting oil to market was about \$10.53 bbl. in FY 24 and was predicted to decrease to under \$10.00 bbl. through FY 34 due to the anticipated increase in production dividing the cost among a greater number of barrels.

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Mr. Stickel addressed slide 24 "State Petroleum Revenue by Land Type." The chart addressed how different components of the tax system related to state petroleum revenue by land type.

Co-Chair Josephson stated that it was not the news he was hoping for. He thanked the presenters. He reviewed the schedule for the following meeting.

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ADJOURNMENT

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The meeting was adjourned at 2:38 p.m.