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25 year

General

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25 Year General Fund History

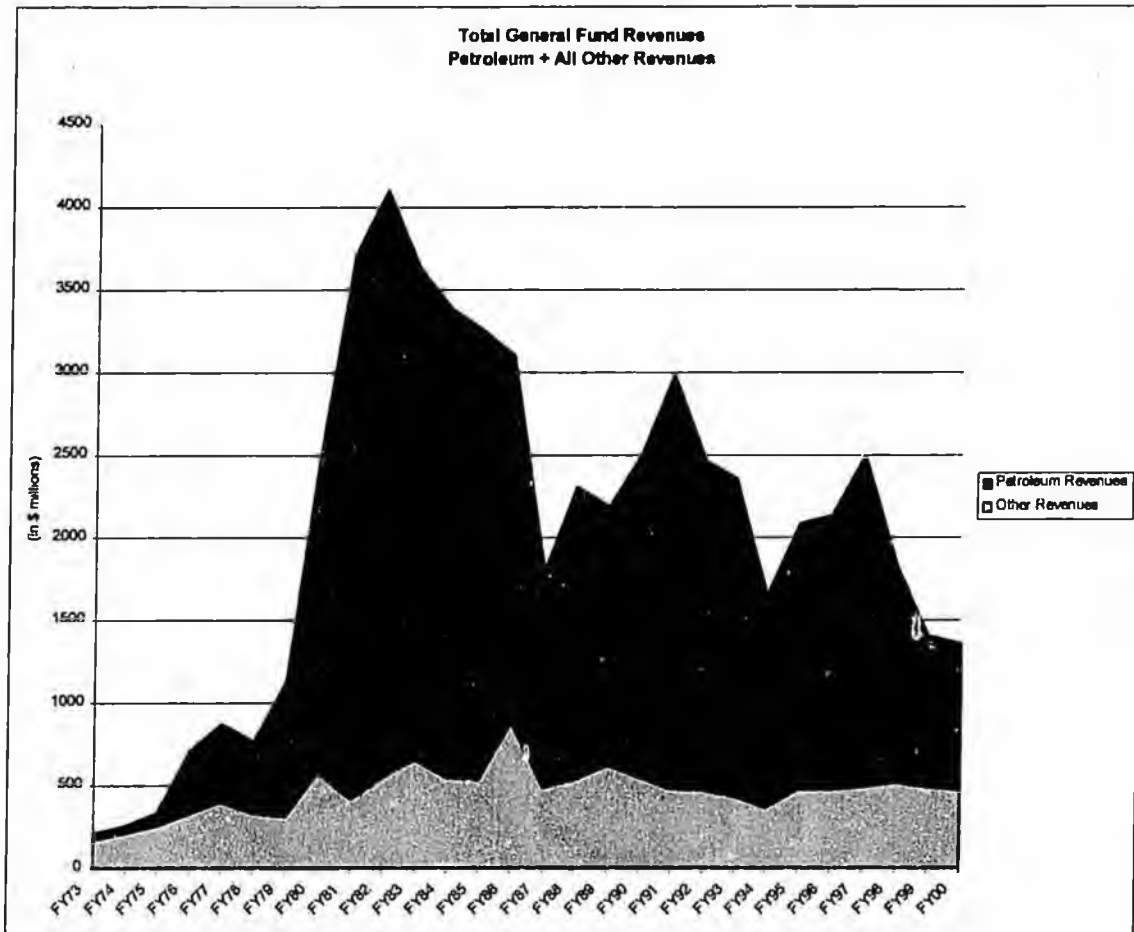
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Oil Revenues as Part of Alaska's Overall Revenue

The following graph (Figure 1) illustrates the volatility of oil and gas property taxes, severance taxes, corporate income tax, and rents and royalties on Alaska's total revenue.

Figure 1



The small spikes in the "other revenues" line are attributed to:

- 1980 Investment earnings
- 1983 Investment earnings
- 1986 Settlement payments

The greatest peak in 1981-1982 was due to extraordinarily high world oil prices that occurred at the same time Alaska's production came onto the market. Alaska was producing 2million barrels per day at that time. Alaska's production level is currently about half and the price per barrel is less than half of the 1982 levels; 1982 = \$34.92/bbl x 2million, 1999 = \$11.58/bbl x 1.17million.

Observations: 1. oil revenue is not stable, 2. downward trend in oil revenue, and 3. concern with stability is no surprise. Various proposals surfaced during the low revenue years - 1987-Permanent Fund Earnings split; 1994-Cremo and Long Range Planning Commission plans; 1999-we are now considering other plans. Attempts to cut off peak revenue by creating "savings" accounts - 1986 the Statutory Budget Reserve was formally created (old rainy day fund); 1990 the Constitutional Budget Reserve

Oil Forecast - Price and Production

In general, Alaska's oil forecasts have been close to actual earnings over the past 15 years. Overall, the Department of Revenue has under-projected oil revenues by \$.82/bbl. (See Figure 2 on the following page.)

Figure 2

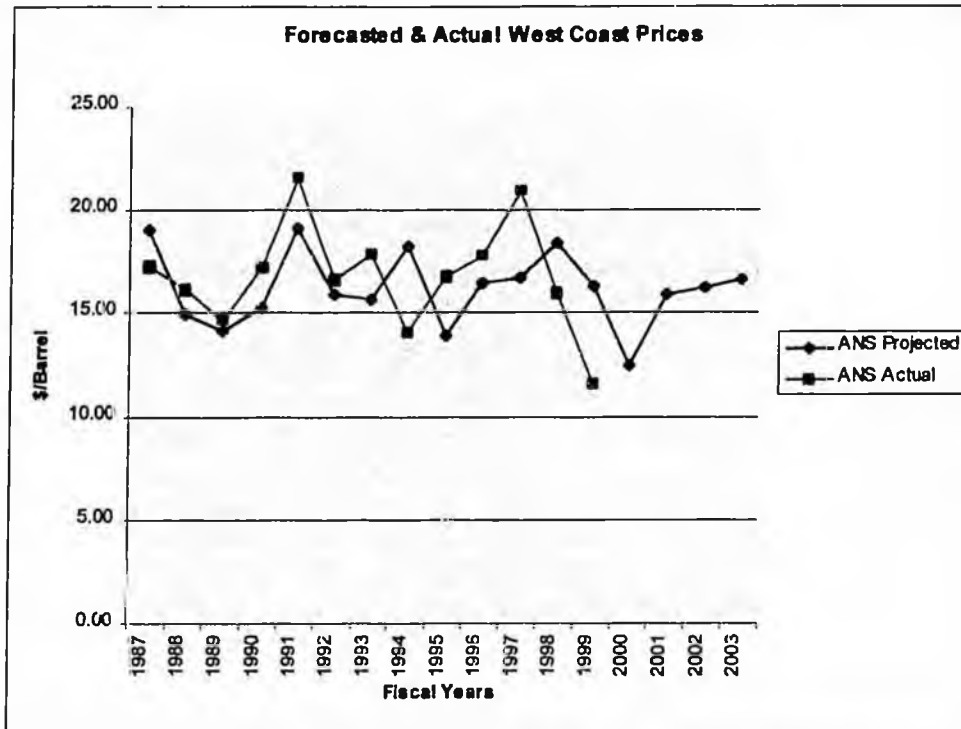


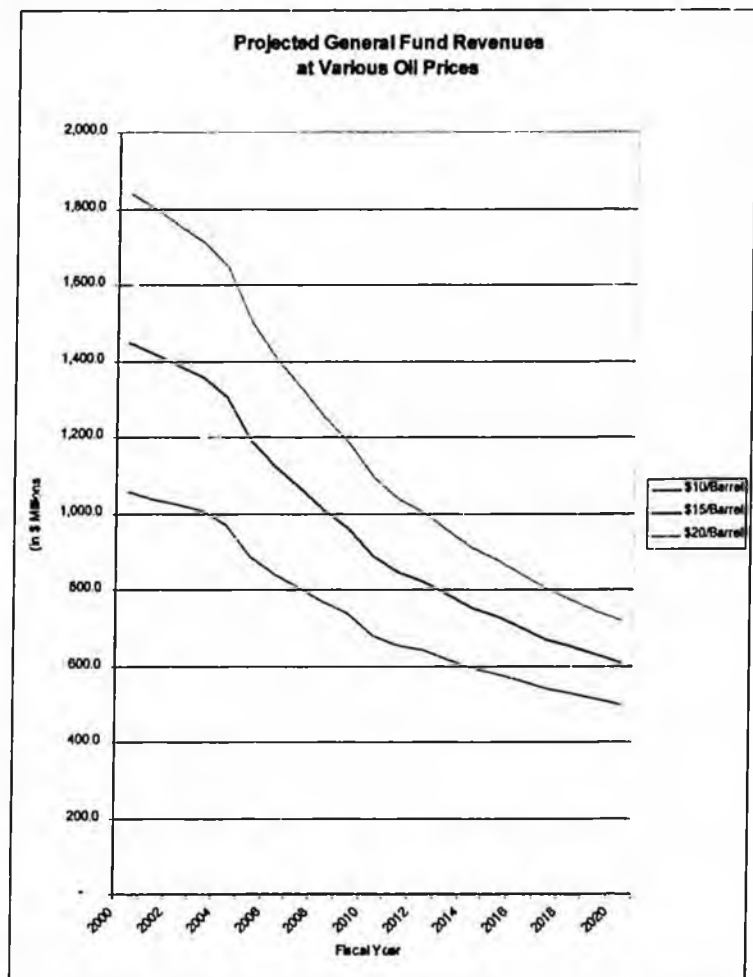
Figure 3

Projected General Fund Revenues at Various Oil Prices (Figure 3) shows the impact on the general fund as oil prices fluctuate between \$10.00/bbl and \$20.00/bbl. The narrowing distance between lines shows that with lower production, the price per barrel has a lesser effect on oil revenues.

You may note that the span between \$10.00/bbl and \$20.00/bbl appears smaller than the span between \$0/bbl and \$10.00/bbl. Other oil revenues, such as corporate income tax, property tax and severance taxes provide additional "oil-related" revenues to Alaska.

The oil projections are based on a sensitivity model provided by the Department of Revenue and are based on the current oil fields life and production expectancy.

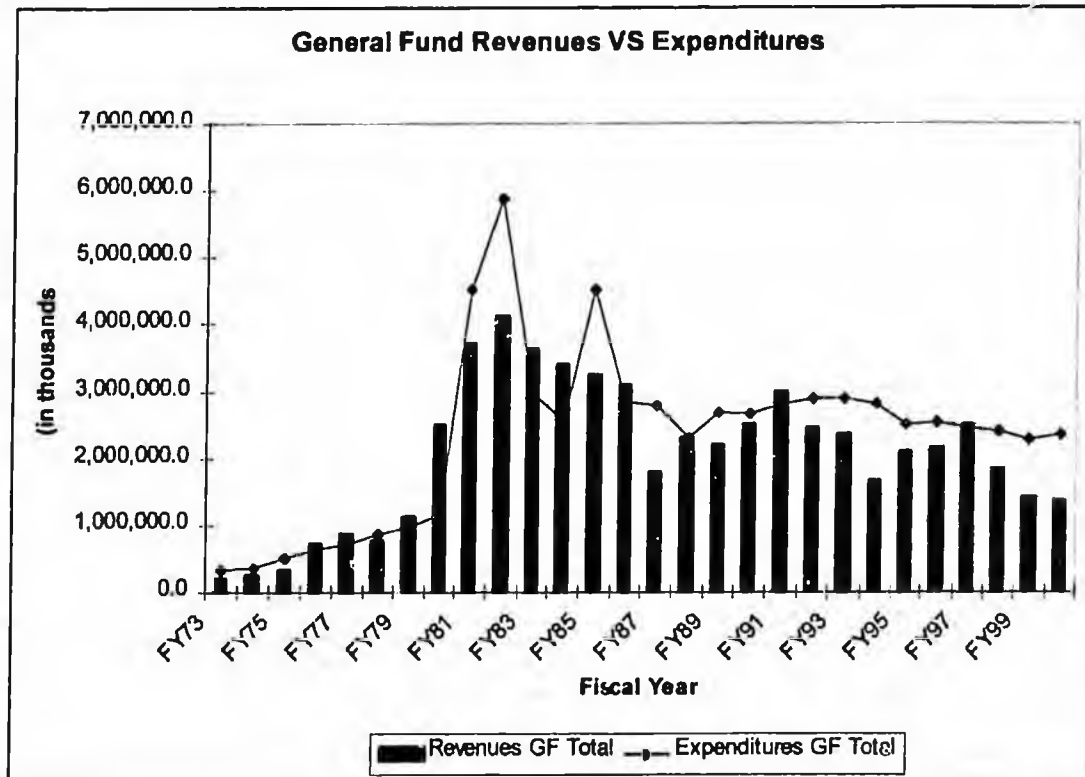
To make \$1.257billion in year 2020, oil prices would have to be \$91.00/bbl as adjusted for 30% inflation (\$45.00/bbl in today's dollars).



General Fund Revenues VS Expenditures

In general, Alaska's spending has followed the pattern of its revenues. As revenue increases so does spending. As revenue decreases, so does spending, but at a slightly lower rate.

Figure 4



Note: General Fund Program Receipts are counted as general fund expenditures but are not included in the state's revenue total.

The **REVENUE** peaks and valleys shown on Figure 4 are almost solely attributable to oil fluctuation.

- **1979- 1982** Oil production increased rapidly from the previous years and extremely high prices
- **1986** Oil prices "crashed" from a projected \$24.64/bbl to \$22.03/bbl. With high production, the slight price drop caused a significant drop in Alaska's revenues
- **1991** The Gulf War brought projected oil prices from \$19.15/bbl to \$21.57/bbl
- **1992** Tax Settlement payments from oil producers increased revenues
- **1994** Oil prices "crashed" from a projected \$18.25/bbl to \$14.05/bbl
- **1997** Unexpected high oil prices from projected \$16.72/bbl to \$20.90/bbl
- **1998** Iraq exports are allowed that drive prices down from projected \$18.44/bbl to \$16.03/bbl
- **1999** Price "crash" brings oil to a new low average price of \$11.58/bbl

The following activities are shown by **EXPENDITURE** peaks and valleys on Figure 4

- **1980** Alaska's first \$1billion operating budget plus \$100million supplemental. Capital budget increased from \$23million to \$86million in 1980
- **1981** Alaska's operating budget increases to \$1.5billion, capital expenditures jump from \$86million to \$900million in general fund spending. Special appropriations of \$2billion are added to 1981's peak.
- **1982** Alaska's operating budget grows by another \$400million and the capital budget declines slightly. Special appropriations are approximately \$3billion (including a \$1.8billion transfer to the Alaska Permanent Fund deposited over four years).
- **1983 and 1984** Drop significantly due to decline in special appropriations spending, however, the operating and capital budgets stay at around \$1.9billion and \$400million respectively
- **1985** Operating budget increases to \$2.3billion and capital jumps to \$1.8billion
- **1986** Oil revenues drop due to a price crash. Overall spending stays relatively stable but drops in FY88 and rebounds in FY89. During this time 1,300 positions were eliminated from the state work force. By 1991 state positions were back to the "pre-layoff" level and have stabilized with minimal growth.
- **1987** The operating budget stayed relatively the same, the capital budget increase \$200million and special appropriations increased \$150million from 1986
- **1988 to 1994** Expenditure peaks and valleys have leveled off
- **1994** Alaska draws from the Constitutional Budget Reserve to offset the decline in revenues
- **1997** An unexpected increase in revenues creates a \$70million general fund surplus
- **1998 to 2000** The Constitutional Budget Reserve is depended upon to "balance" the state's expenditures with its declining revenue source