1/22/09 REVENUE FORECAST: DEPARTMENT OF REVENUE

<target><bill></bill><subject>1-22-09 REVENUE FORECAST
DEPARTMENT OF REVENUE</subject><comm>HFIN26</comm></target>

Prices. B-1a

Crude Oil and Natural Gas Prices—History[1]

NOMINAL[2]

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
WTI	18.04	14.13	24.82	30.41	23.87	29.47	33.12	47.19	63.01	63.63
ANS West Coast Spot	15.86	12.64	23.27	27.86	21.78	28.16	31.74	43.44	60.80	61.63
ANS Wellhead Wtd Average All Destinations	11.70	8.50	18.94	22.81	17.09	23.10	26.71	38.82	55.33	55.67
Cook Inlet Wellhead	13.76	10.51	21.00	25.88	19.64	24.93	27.85	40.24	57.06	57.31

Henry Hub Natural Gas Prices
($ per million Btu)

FY	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Henry Hub	2.43	1.97	2.64	5.47	2.80	4.62	5.37	6.18	9.20	6.64

REAL 2007 $[3]

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
WTI	22.83	17.59	30.30	35.79	27.21	33.24	36.58	50.47	65.73	63.63
ANS West Coast Spot	20.07	15.73	28.41	32.78	24.83	31.76	35.06	46.46	63.43	61.63
ANS Wellhead Wtd Average All Destinations	14.80	10.58	23.13	26.85	19.48	26.05	29.50	41.52	57.72	55.67
Cook Inlet Wellhead	17.42	13.09	25.64	30.46	22.39	28.12	30.76	43.04	59.53	57.31

Henry Hub Natural Gas Prices
($ per million Btu)

FY	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Henry Hub	3.07	2.45	3.23	6.44	3.19	5.21	5.93	6.61	9.60	6.64

(1) Data from Platt's Oilgram Price Report, Wood McKenzie and Alaska Department of Revenue's prevailing value and tax return data. Historical nominal crude oil and natural gas prices can be found on the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/OilGasPrices.pdf.

(2) Adjustment to "nominal" dollars is required to prepare the crude oil and natural gas price forecasts. Callan Associates Inc.'s inflation rate of 2.75% was used for FY 2008 and beyond. A summary of nominal crude oil and natural gas prices can be found in at the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/OilGasPrices.pdf.

(3) Adjustment to "real 2007" dollars is useful to compare prices across time excluding inflation. These prices data are adjusted to real 2007 dollars based on inflation rates provided by the U.S. Department of Labor, Bureau of Labor Statistics. The data series used is the Consumer Price Index for all Urban Consumers (CPI-U) which can be found at: www.gls.gov/cpi/home.htm. A summary of real 2007 crude oil and natural gas prices can be found in at the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/OilGasPrices.pdf.

FALL 2007

Prices. B-1a

Crude Oil and Natural Gas Prices—History[1][2]

NOMINAL[3]

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
WTI	14.48	25.99	30.05	23.70	29.90	33.73	48.72	64.22	63.35	97.02
ANS West Coast Spot	12.99	24.42	27.54	21.65	28.59	32.36	44.85	62.12	61.60	96.51
ANS Wellhead Wtd Average All Destinations	8.88	19.87	22.56	17.04	23.42	27.46	40.12	56.69	56.20	90.46
Cook Inlet Wellhead	10.84	22.14	25.64	19.37	25.32	28.41	41.72	58.26	57.31	82.26

Henry Hub Natural Gas Prices
($ per million Btu)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Henry Hub	1.98	2.81	5.43	2.76	4.84	5.41	6.26	9.12	6.88	8.30

REAL 2008 $[4]

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
WTI	18.46	32.49	36.22	27.66	34.54	38.16	53.37	68.62	64.88	97.02
ANS West Coast Spot	16.56	30.53	33.19	25.27	33.03	36.60	49.13	66.37	63.08	96.51
ANS Wellhead Wtd Average All Destinations	11.32	24.84	27.19	19.90	27.05	31.06	43.95	60.57	57.02	90.46
Cook Inlet Wellhead	13.82	27.69	30.91	22.61	29.24	32.14	45.70	62.24	58.69	82.26

Henry Hub Natural Gas Prices
($ per million Btu)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Henry Hub	2.52	3.51	6.54	3.22	5.59	6.12	6.85	9.75	7.04	8.30

Production. C-2a

Crude Oil Production—History[1]

(million barrels per day)

FY	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Prudhoe Bay[2]	0.713	0.636	0.571	0.540	0.487	0.433	0.419	0.381	0.340	0.274
PBU Satellites[3]		0.003	0.005	0.007	0.026	0.045	0.052	0.044	0.041	0.043
GPMA[4]	0.192	0.159	0.118	0.089	0.075	0.065	0.061	0.056	0.049	0.037
Kuparuk	0.259	0.240	0.212	0.197	0.176	0.160	0.155	0.142	0.134	0.122
Kuparuk Satellites[5]	0.001	0.025	0.037	0.031	0.039	0.052	0.049	0.051	0.041	0.045
Milne Point[6]	0.053	0.055	0.053	0.052	0.052	0.051	0.051	0.050	0.041	0.033
Endicott[7]	0.062	0.052	0.048	0.037	0.033	0.029	0.029	0.021	0.020	0.017
Liberty										
Alpine[8]				0.038	0.096	0.098	0.099	0.104	0.123	0.105
Fiord[9]										0.009
Nanuq[10]										0.009
NPR-A										
Offshore[11]										
Northstar[12]					0.020	0.059	0.066	0.069	0.056	0.046
Total ANS	**1.279**	**1.170**	**1.044**	**0.991**	**1.004**	**0.993**	**0.980**	**0.917**	**0.845**	**0.740**
Cook Inlet	**0.032**	**0.032**	**0.029**	**0.029**	**0.033**	**0.028**	**0.023**	**0.019**	**0.018**	**0.018**
Total Alaska	**1.311**	**1.202**	**1.073**	**1.020**	**1.037**	**1.021**	**1.004**	**0.936**	**0.863**	**0.758**

(1) A summary of historical crude oil production can be found on the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/AlaskaProduction.pdf.
(2) Includes NGLs from Central Gas Facility shipped to TAPS.
(3) Aurora, Borealis, Midnight Sun, Orion and Polaris.
(4) Lisburne, Niakuk, North Prudhoe Bay State, Point McIntyre, Raven, West Beach and West Niakuk.
(5) Meltwater, Tabasco, Tarn and West Sak.
(6) Includes Sag River and Schrader Bluff.
(7) Includes Badami, Eider and Sag Delta.
(8) Includes Alpine-West and Qannik.
(9) Fiord and Fiord-Kuparuk.
(10) Nanuq and Nanuq-Kuparuk.
(11) Known Offshore includes Nikaitchuq and Oooguruk.
(12) Includes Outer Continental Shelf (OCS) production.

FALL 2007

Production. C-2a

Crude Oil Production—History [1][2]

(million barrels per day)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Prudhoe Bay[3]	0.626	0.571	0.536	0.486	0.429	0.414	0.380	0.335	0.271	0.291
PBU Satellites[4]	0.004	0.005	0.007	0.030	0.045	0.052	0.043	0.041	0.043	0.034
GPMA[5]	0.152	0.113	0.088	0.073	0.065	0.060	0.055	0.048	0.037	0.044
Kuparuk	0.238	0.211	0.197	0.174	0.160	0.154	0.141	0.133	0.121	0.113
Kuparuk Satellites[6]	0.028	0.036	0.031	0.041	0.052	0.049	0.051	0.043	0.044	0.038
Milne Point[7]	0.055	0.053	0.052	0.052	0.051	0.051	0.049	0.041	0.033	0.033
Endicott[8]	0.049	0.043	0.037	0.033	0.029	0.028	0.020	0.021	0.016	0.014
Liberty										
Alpine[9]			0.045	0.096	0.099	0.099	0.105	0.123	0.103	0.079
Fiord[10]									0.011	0.018
Nanuq[11]									0.010	0.019
NPR-A										
Offshore[12]										0.000
Northstar[13]				0.025	0.059	0.066	0.068	0.055	0.045	0.034
Total ANS	**1.150**	**1.033**	**0.993**	**1.010**	**0.991**	**0.974**	**0.911**	**0.840**	**0.734**	**0.716**
Cook Inlet	**0.027**	**0.026**	**0.025**	**0.029**	**0.030**	**0.025**	**0.020**	**0.018**	**0.016**	**0.014**
Total Alaska	**1.177**	**1.059**	**1.018**	**1.039**	**1.021**	**0.999**	**0.931**	**0.858**	**0.750**	**0.730**

[1] In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

[2] A summary of historical crude oil production can be found on the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/AlaskaProduction.pdf.

[3] Includes NGLs from Central Gas Facility shipped to TAPS.

[4] Aurora, Borealis, Midnight Sun, Orion and Polaris.

[5] Lisburne, Niakuk, North Prudhoe Bay State, Point McIntyre, Raven, West Beach and West Niakuk.

[6] Meltwater, Tabasco, Tarn and West Sak.

[7] Includes Sag River and Schrader Bluff.

[8] Includes Badami, Eider and Sag Delta.

[9] Includes Alpine-West and Qannik.

[10] Fiord, Fiord-Kuparuk and Fiord West.

[11] Nanuq and Nanuq-Kuparuk.

[12] Known Offshore includes Nikaitchuq and Oooguruk.

[13] Includes Outer Continental Shelf (OCS) production.

FALL 2008

Figure 7-8. Constitutional Budget Reserve Fund Cash Flows, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
	FY 2008	FY 2009	FY 2010
Beginning Cash Balance CBRF	2,548.4	5,601.2	7,138.3
Beginning Main Account Balance	1,980.7	1,134.0	2,237.0
Earnings on Main Account Balance [1]	140.4	83.0	103.4
Petroleum Tax, Royalty Settlements [2]	438.3	20.0	20.0
Repayment to CBRF (prior year) [3]	74.6	0.0	0.0
(Loan to GF)/Repayment to CBRF (current year) [3]	(1,500.0)	1,000.0	0.0
Ending Main Account Balance	**1,134.0**	**2,237.0**	**2,360.4**
Beginning Special Subaccount Balance	567.7	4,467.2	4,901.3
Earnings on Special Subaccount Balance [1]	(200.5)	(129.7)	391.4
Repayment to Special Subaccount [3]	4,100.0	563.8	146.4
Ending Special Subaccount Balance	**4,467.2**	**4,901.3**	**5,439.1**
Total CBRF Balance	**5,601.2**	**7,138.3**	**7,799.5**

[1] The earnings estimate for the main account is 4.526% and the earnings estimate for the special subaccount is 7.609%. These projections are based on 2008 Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.

[2] Settlement estimates are provided by the Department of Revenue and Department of Law, net of annual Federal Minerals Management Service payments.

[3] Repayment from the General Fund to the CBRF is indicated by a positive dollar amount; Loan from the CBRF to the General Fund is indicated by a negative dollar amount.

ORIGINAL WEB VERSION
FALL 2008

Figure 7-6. Constitutional Budget Reserve Fund Cash Flows, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
	FY 2008	FY 2009	FY 2010
Beginning Cash Balance CBRF	2,548.4	5,601.2	7,531.0
Beginning Main Account Balance	1,980.7	1,134.0	3,193.5
Earnings on Main Account Balance [1]	140.4	83.0	103.4
Petroleum Tax, Royalty Settlements [2]	438.3	20.0	20.0
(Loan to GF)/Repayment to CBRF [3]	2,674.6	1,956.5	146.4
Transfer to Special Subaccount	(4,100.0)	0.0	0.0
Ending Main Account Balance	**1,134.0**	**3,193.5**	**3,463.3**
Beginning Special Subaccount Balance	567.7	4,467.2	4,337.5
Earnings on Special Subaccount Balance [1]	(200.5)	(129.7)	391.4
Transfer from Main Account [3]	4,100.0	0.0	0.0
Ending Special Subaccount Balance	**4,467.2**	**4,337.5**	**4,728.9**
Total CBRF Balance	**5,601.2**	**7,531.0**	**8,192.2**

[1] The earnings estimate for the main account is 4.526% and the earnings estimate for the special subaccount is 7.609%. These projections are based on 2008 Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.

[2] Settlement estimates are provided by the Department of Revenue and Department of Law, net of annual Federal Minerals Management Service payments.

[3] Repayment from the General Fund to the CBRF is indicated by a positive dollar amount; Loan from the CBRF to the General Fund is indicated by a negative dollar amount.

PRINTED VERSION
FALL 2008

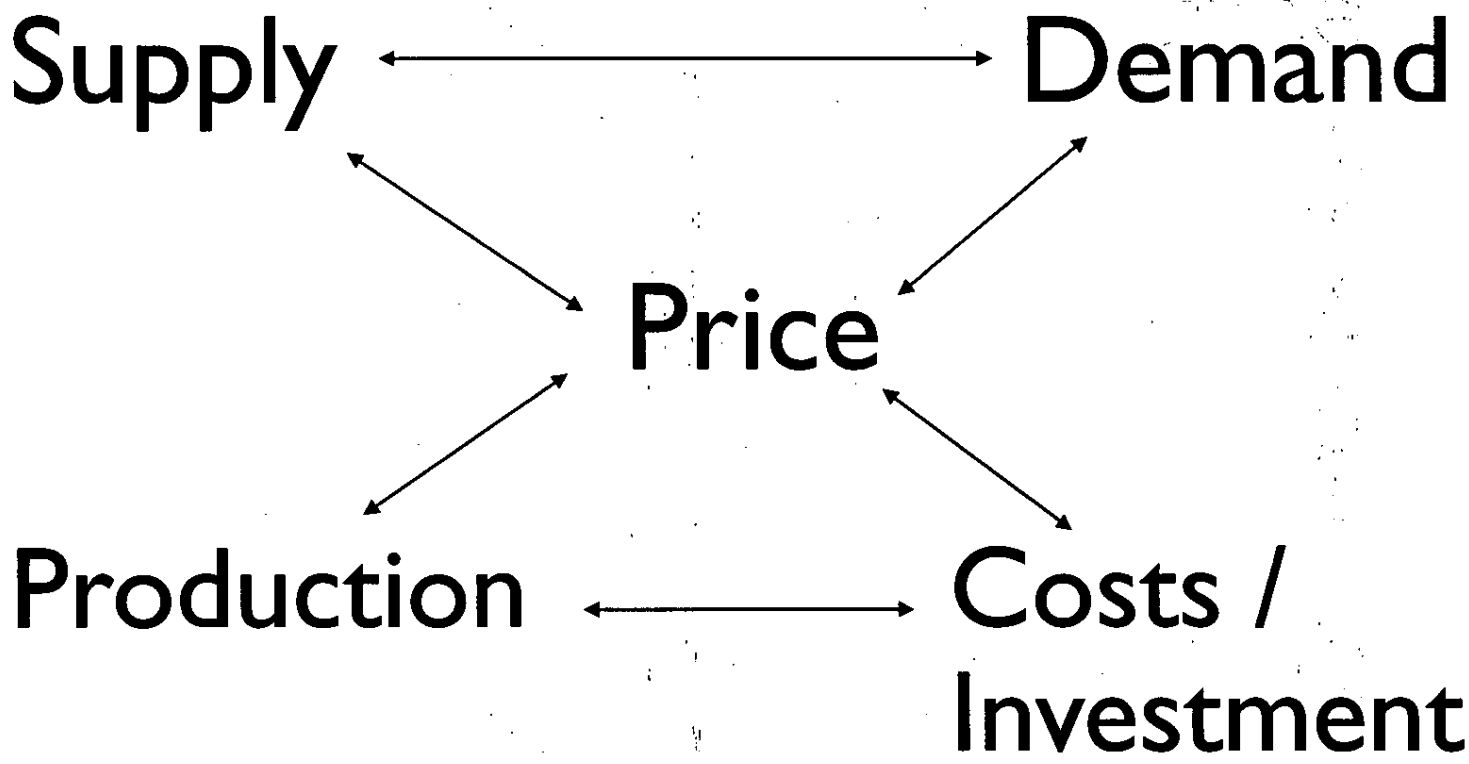
Overview of Fall 2008 Revenue Forecast

Presentation to the
House Finance Committee
January 22, 2009
Alaska Department of Revenue

Oil and Gas Revenue Forecast Variables

- Production
- Price
- Costs / Investment

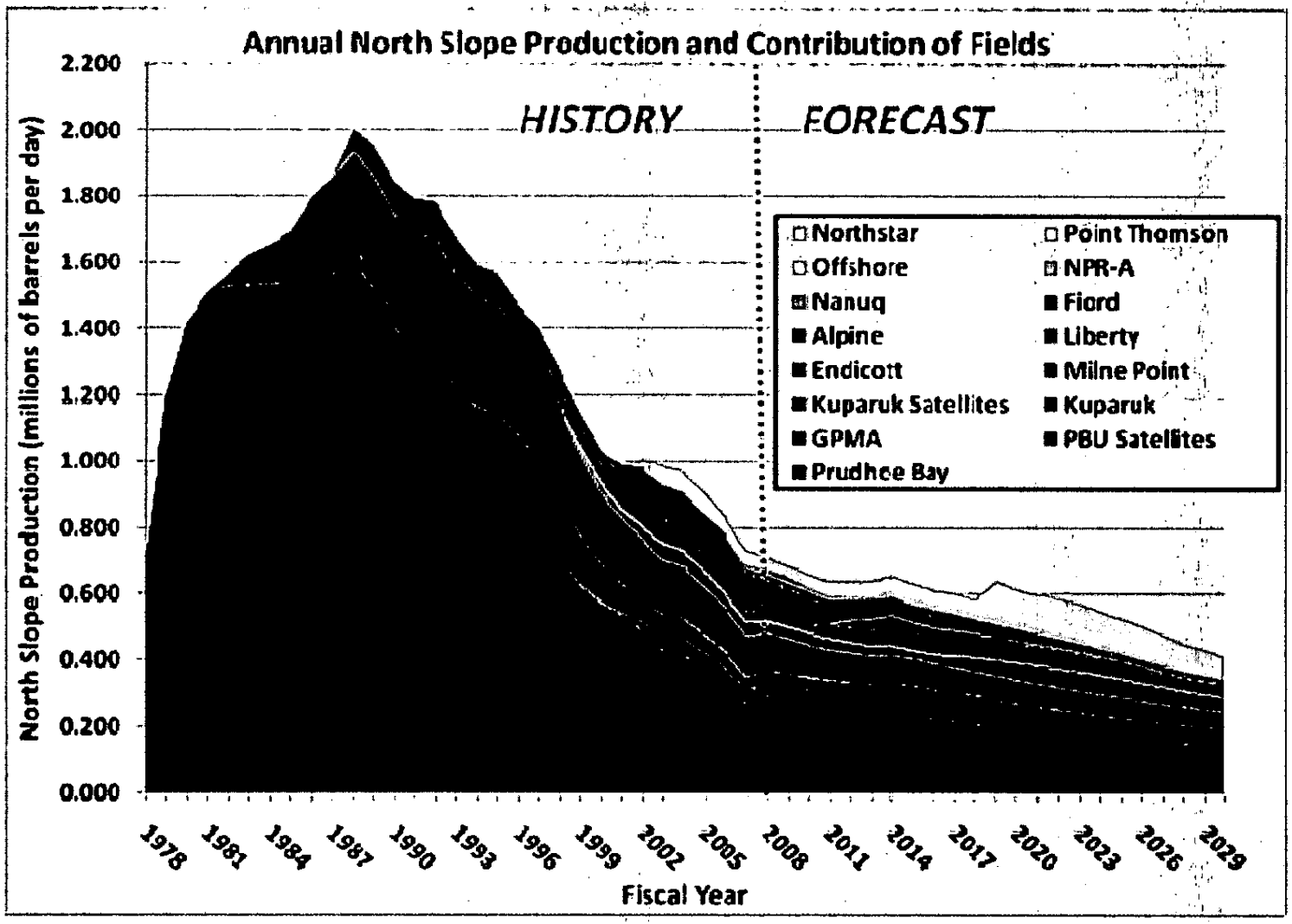
Interdependency of Forecast Variables



Oil and Gas Revenue Forecast Variables

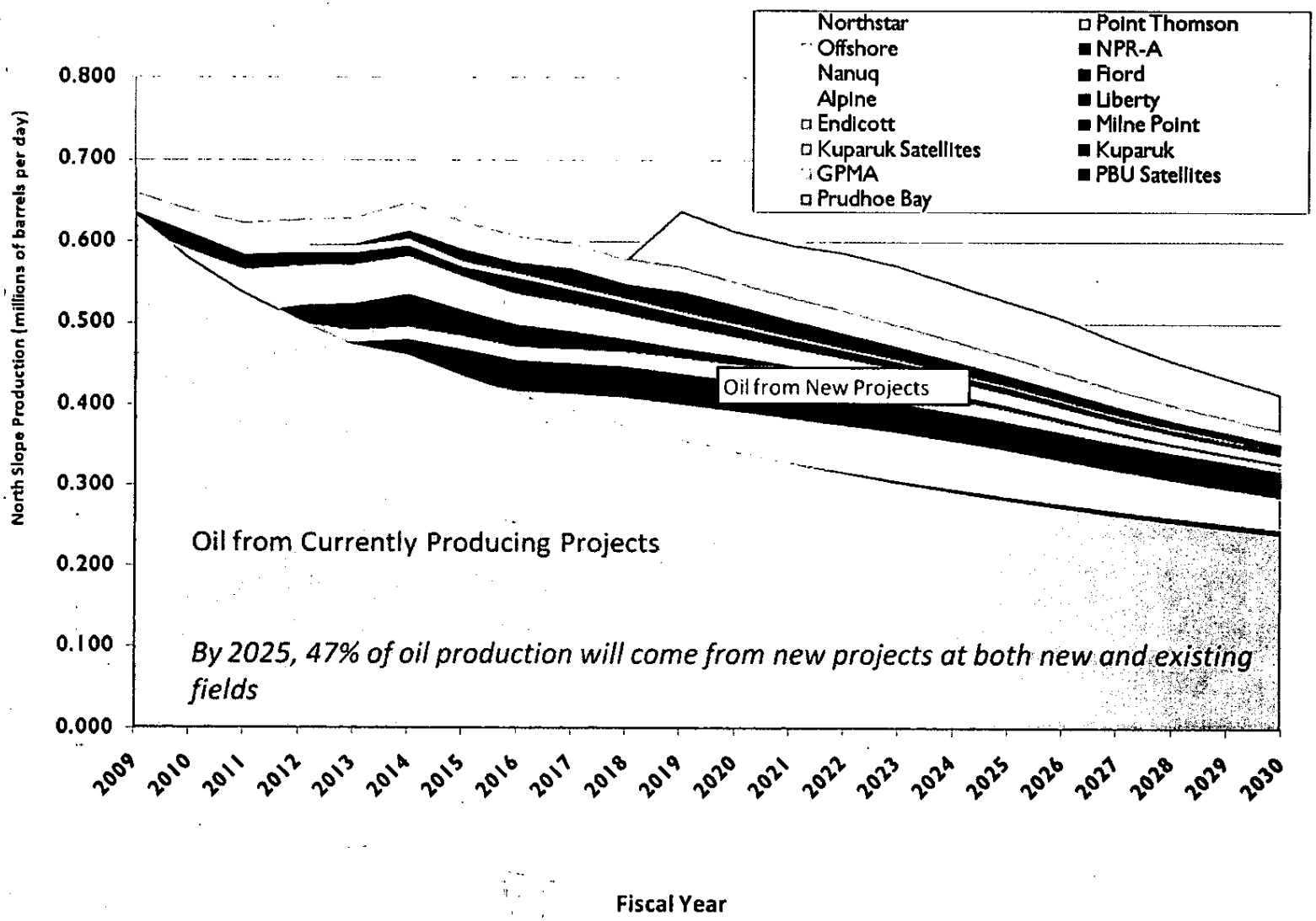
- Production
- Price
- Costs / Investment

ANS Production, History & Forecast



Source: Fall 2008 Revenue Sources Book

Forecasted ANS Production, FY 2009 - 2030

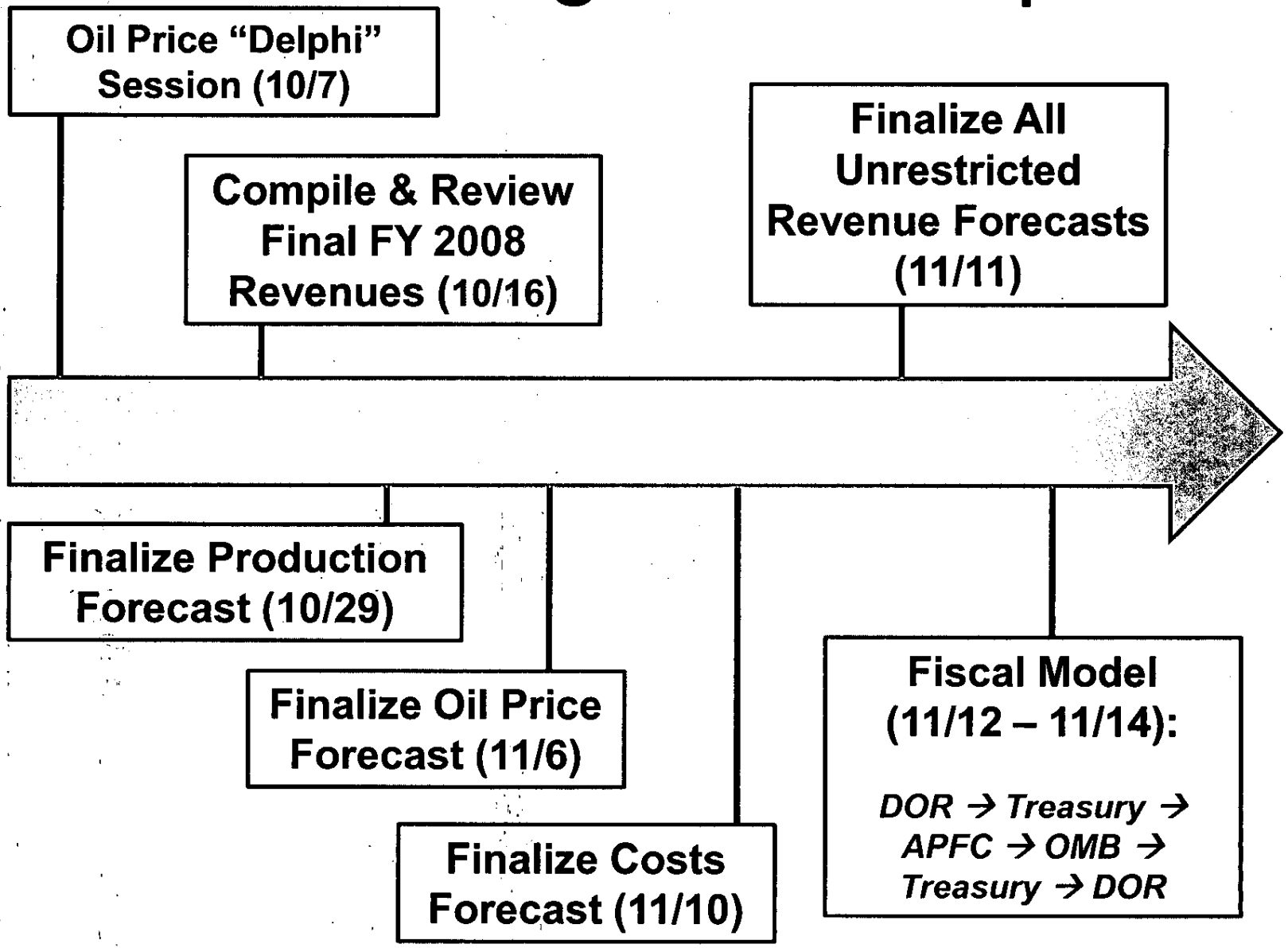


Source: Fall 2008 Revenue Sources Book

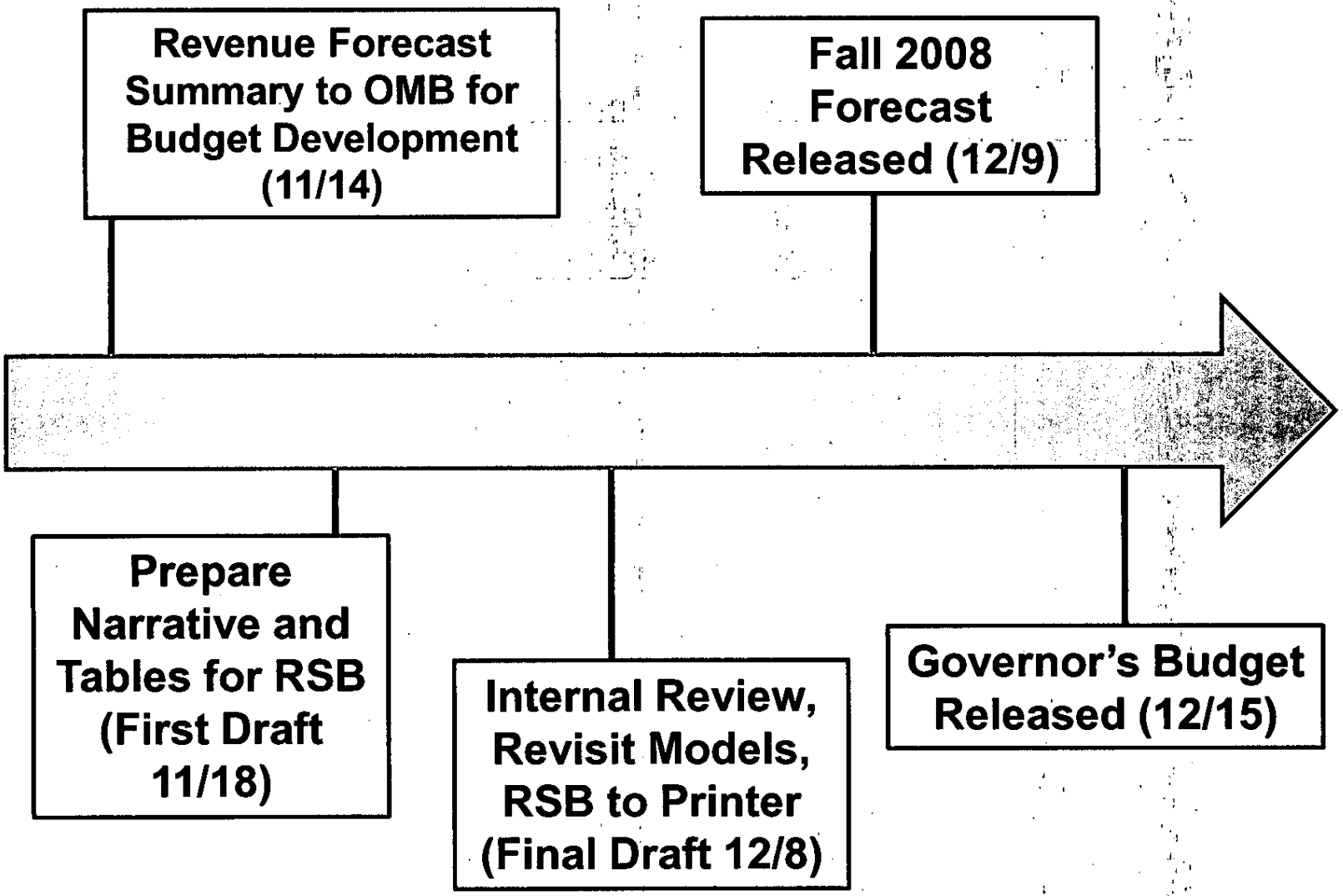
Oil and Gas Revenue Forecast Variables

- Production
- Price
- Costs / Investment

The Forecasting Timeline – part I



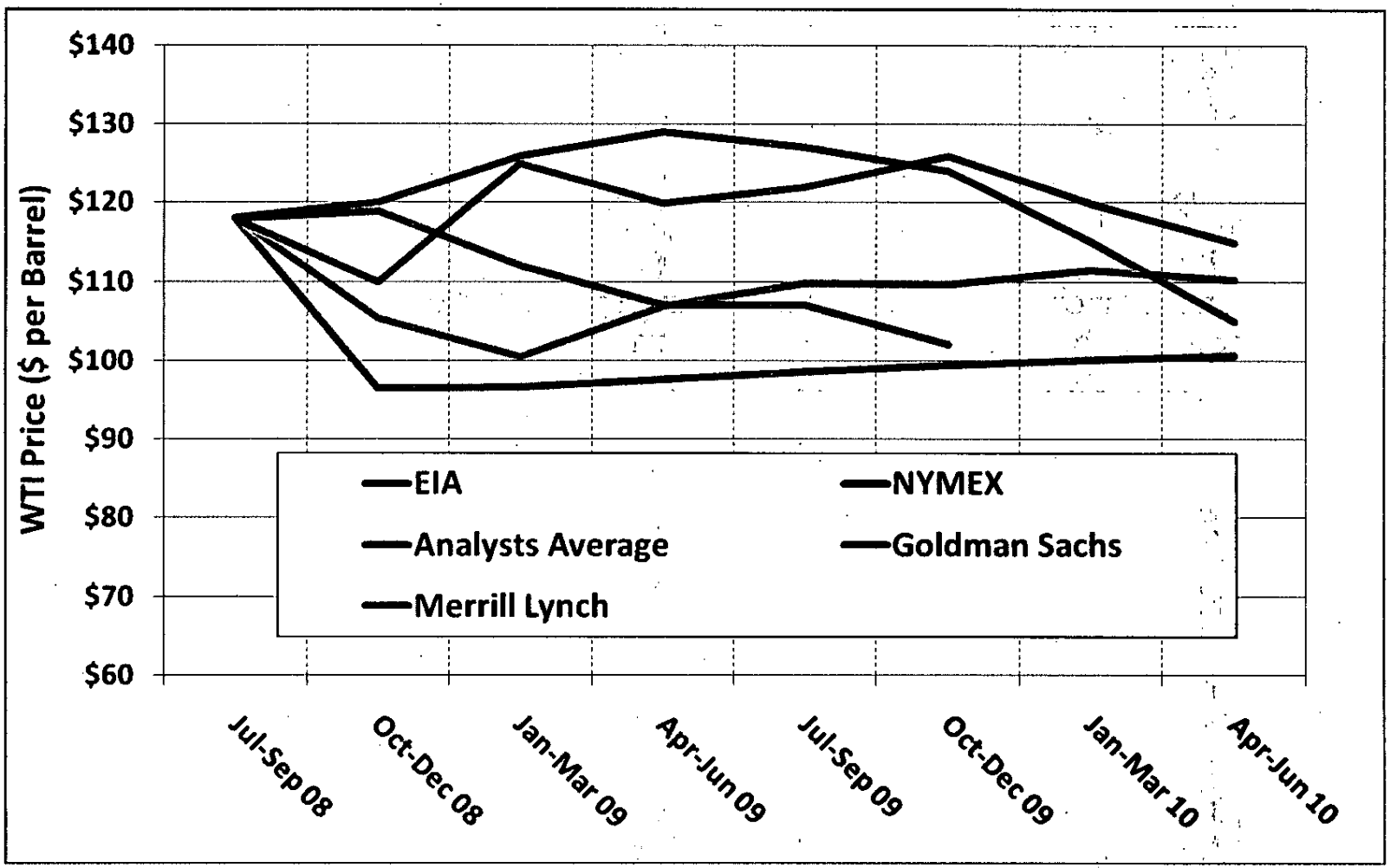
The Forecasting Timeline – part II



The "Delphi" Session

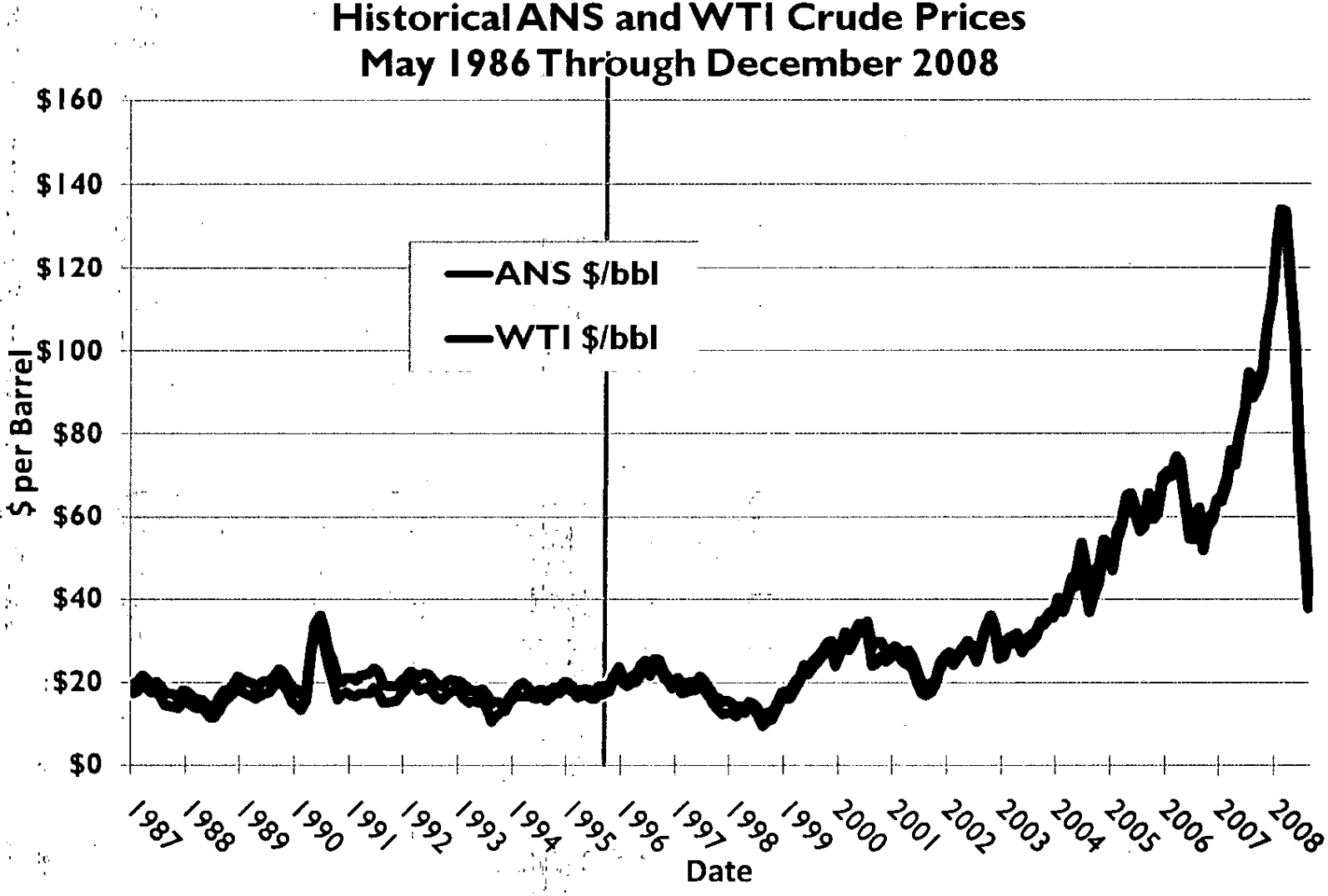
- **Modified "Delphi" technique**
- **Oct 7, 2008: Prices averaging $92.85**
- **Expanded Invitee List: 50 Invitees, 29 Participants from DOR, DNR, DOL, OMB, University, Legislative Finance, Legislature, outside participants**
- **Presentations: Fundamentals (supply & demand), geopolitics, financial markets, analyst expectations, etc.**
- **28 forecasts received; Delphi forecast is the "median" forecast of the participants**

Price Forecasts Available At Delphi



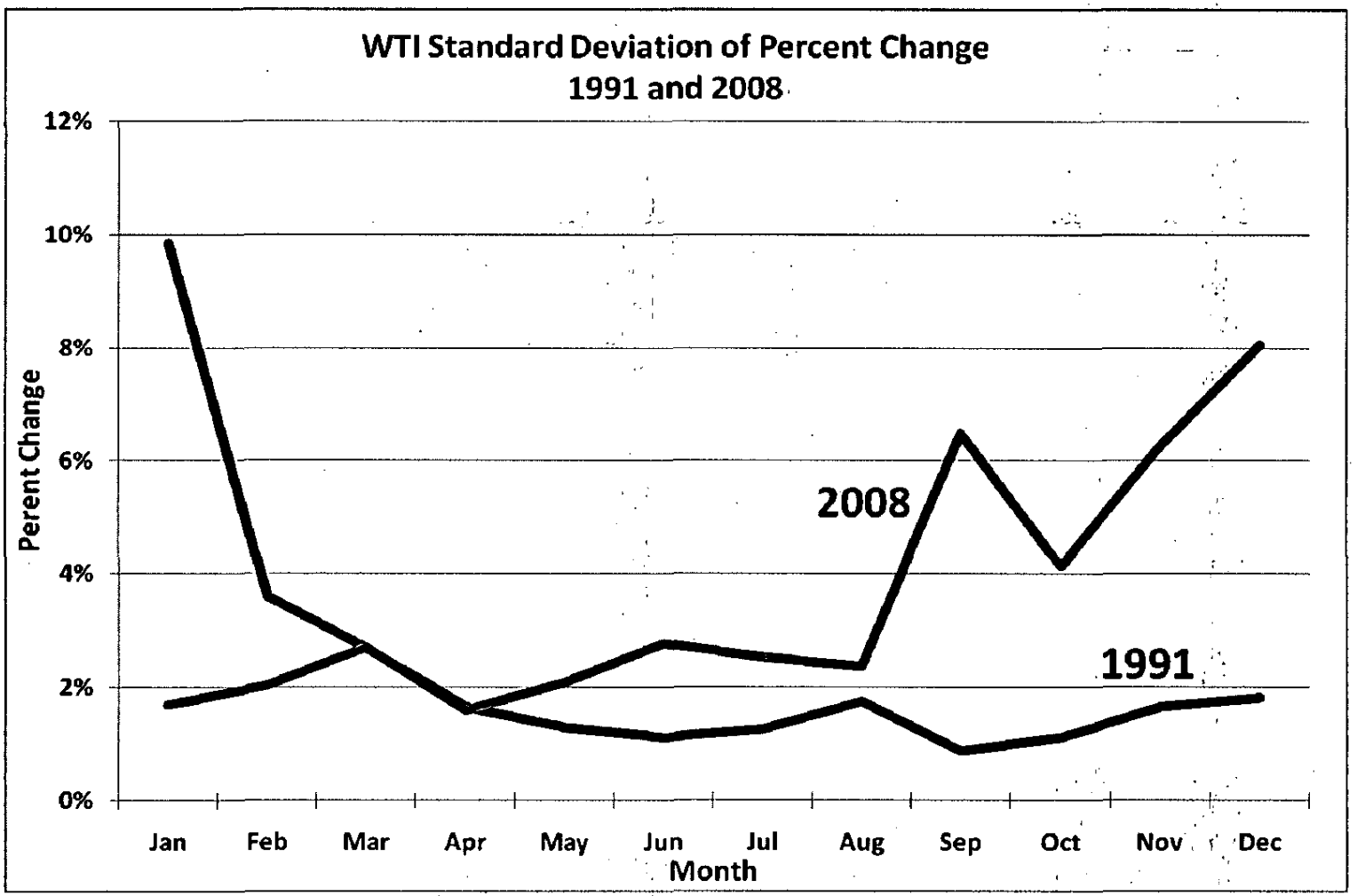
Sources: Bloomberg, New York Mercantile Exchange, Energy Information Agency
Note: Only Analyst Average, EIA and NYMEX were presented at Delphi. Merrill Lynch and Goldman Sachs were included in Analyst Average.

Oil Price Volatility – 80% decline in 5 months



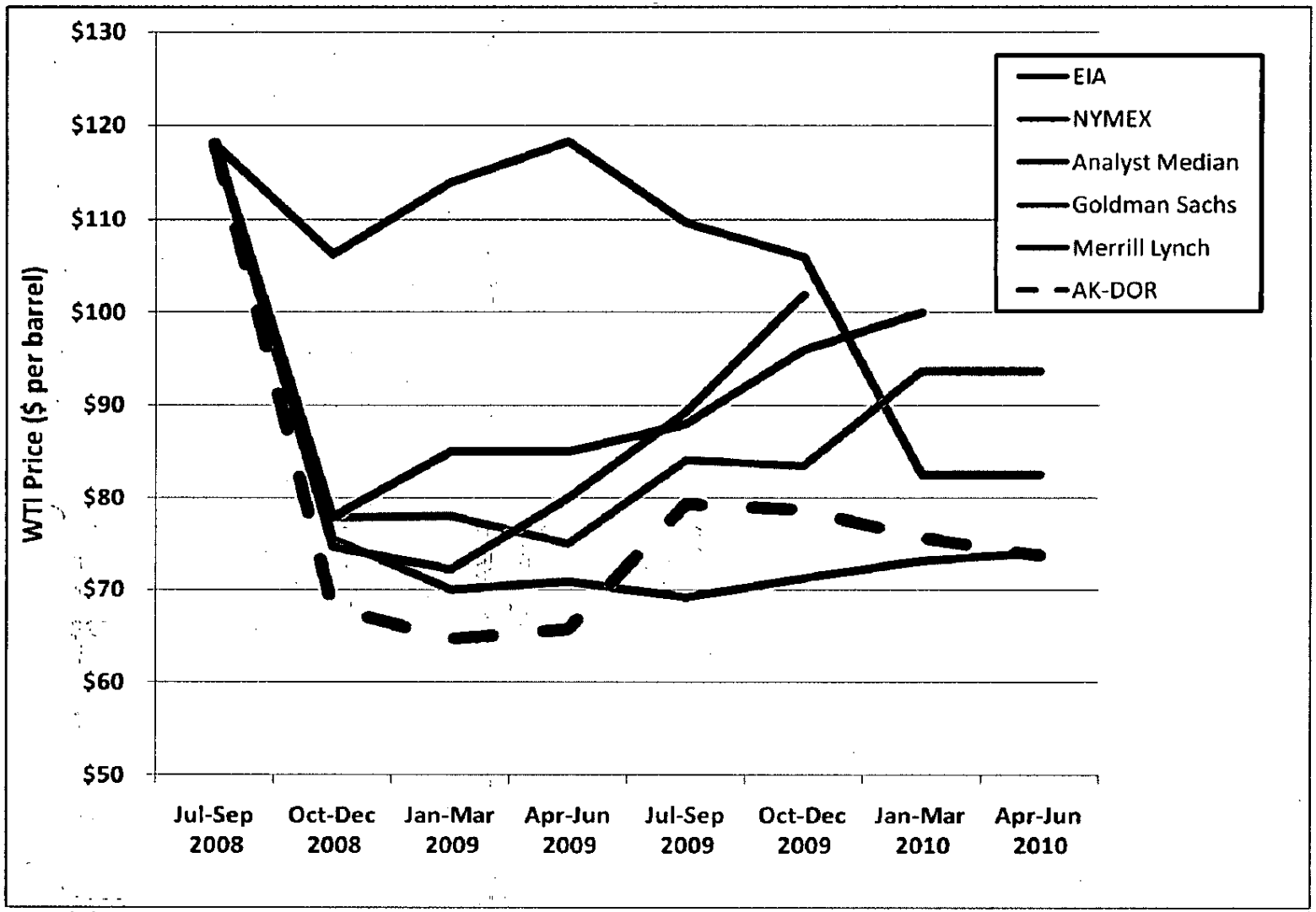
Source: Reuters, Bloomberg

Oil Price Volatility – Two of the Most Volatile Years in History



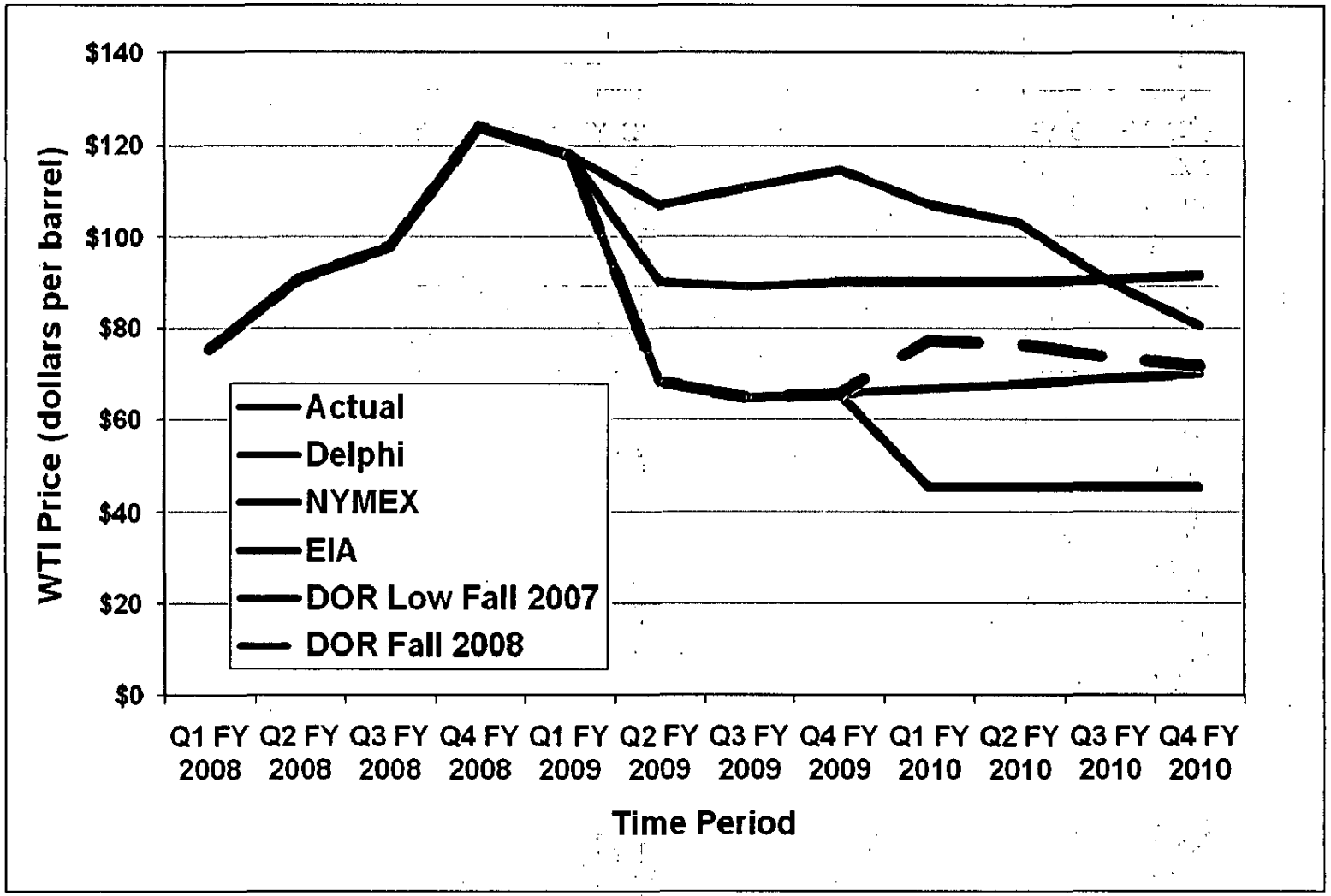
Source: Reuters, Bloomberg, DOR Analysis

Price Forecasts as of 11/6/2008



Source: Bloomberg, Wall St Journal, Energy Information Agency

Our Forecast Was a Blend…



Source: EIA, NYMEX, Alaska Department of Revenue

How Did We Get to Our Price Forecast?

WTI in Real $	Delphi Median Oct 7, 2008	NYMEX Oct 24, 2008	EIA Oct 2008	DOR Fall 2007 Low Scenario	Official Fall 2008 Forecast	Explanation
1st Quarter FY 09	118.05	118.05	118.05	118.05	118.05	Actual prices
2nd Quarter FY 09	90.00	68.16	107.00	–	68.16	NYMEX price, dated Oct 24, 2008
3rd Quarter FY 09	89.00	64.76	110.90	–	64.76	
4th Quarter FY 09	90.00	65.78	114.80	–	65.78	
FY 09 Average	***96.76***	***79.19***	***112.69***	***118.05***	***79.19***	
1st Quarter FY 10	90.00	66.80	107.10	45.28	77.30	Average of Delphi, NYMEX, EIA, and Fall 2007 Low
2nd Quarter FY 10	90.00	67.89	103.20	45.28	76.59	
3rd Quarter FY 10	90.50	69.02	90.00	45.28	73.70	
4th Quarter FY 10	91.50	70.06	80.50	45.28	71.84	
FY 10 Average	***90.50***	***68.44***	***95.20***	***45.28***	***74.86***	

*Note: Revenue forecasts for FY2009 included one more month of actual prices, which changed the ANS FY2009 average price to $77.66.

Source: Alaska Department of Revenue

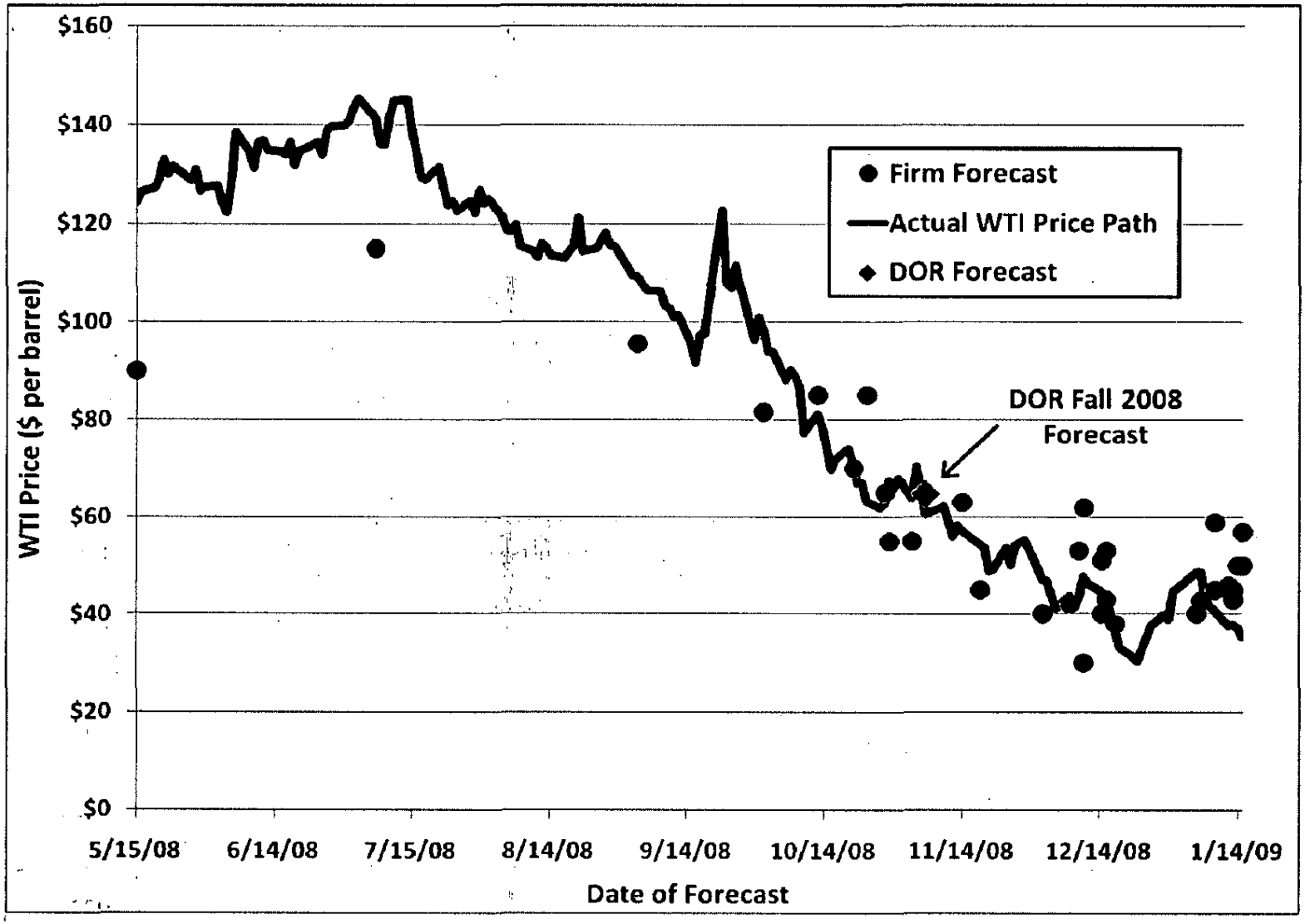
Fall 2008 DOR Oil Price Forecast

	Nominal $		Real $	
	WTI	ANS	WTI	ANS
1st Quarter FY 2009	118.05	115.55	118.05	115.55
2nd Quarter FY 2009	68.16	65.66	68.16	65.66
3rd Quarter FY 2009	64.76	62.26	64.76	62.26
4th Quarter FY 2009	65.78	63.28	65.78	63.28
FY 2009 Average	***79.19***	***76.69***	***79.19***	***76.69***
1st Quarter FY 2010	79.42	76.92	77.30	74.86
2nd Quarter FY 2010	78.70	76.20	76.59	74.16
3rd Quarter FY 2010	75.73	73.23	73.70	71.27
4th Quarter FY 2010	73.81	71.31	71.84	69.40
FY 2010 Average	***76.92***	***74.41***	***74.86***	***72.42***

*Note: Revenue forecasts for FY2009 included one more month of actual prices, which changed the ANS FY2009 average price to $77.66.

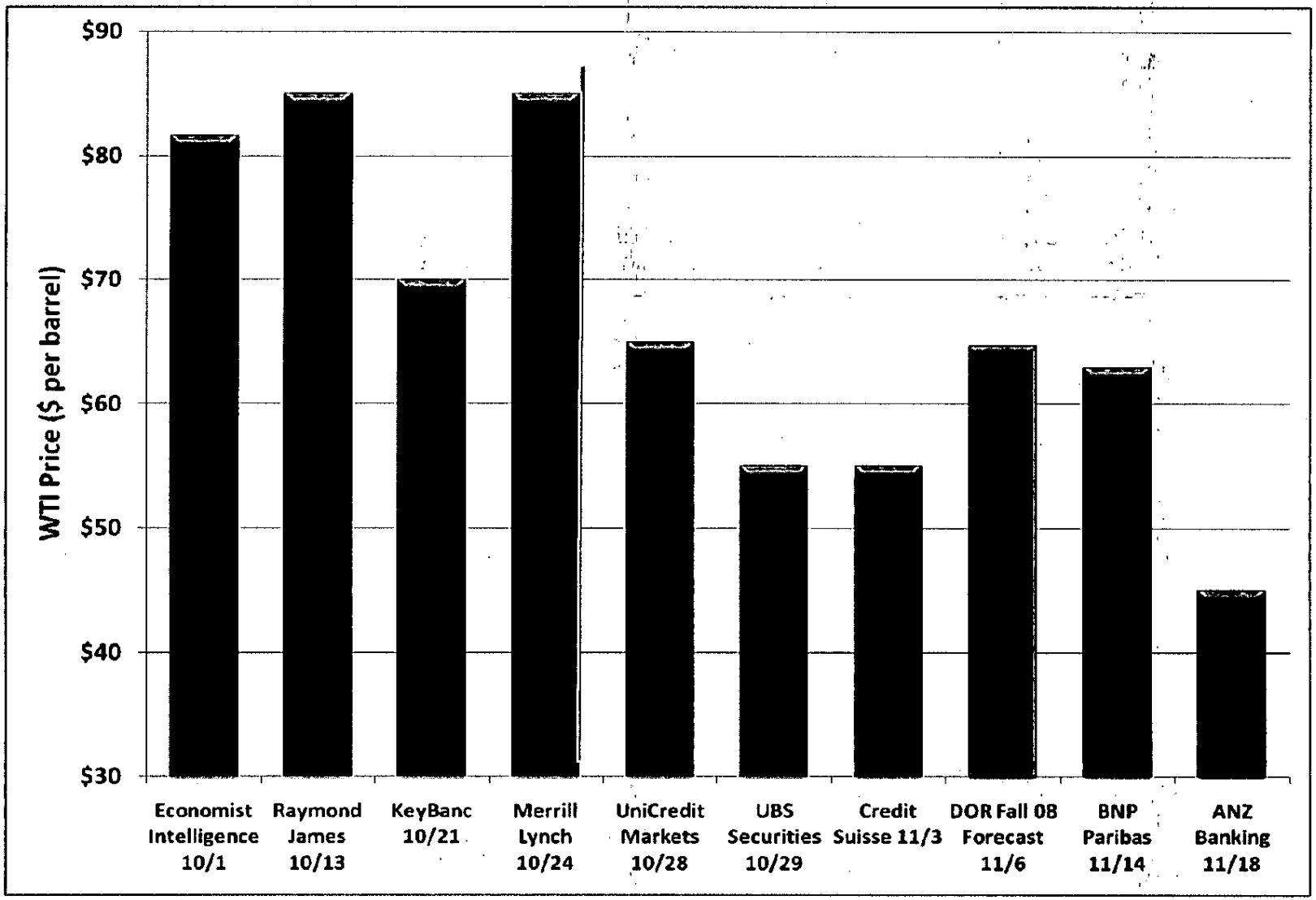
Source: Fall 2008 Revenue Sources Book

Price Forecasts for Jan-Mar 2009



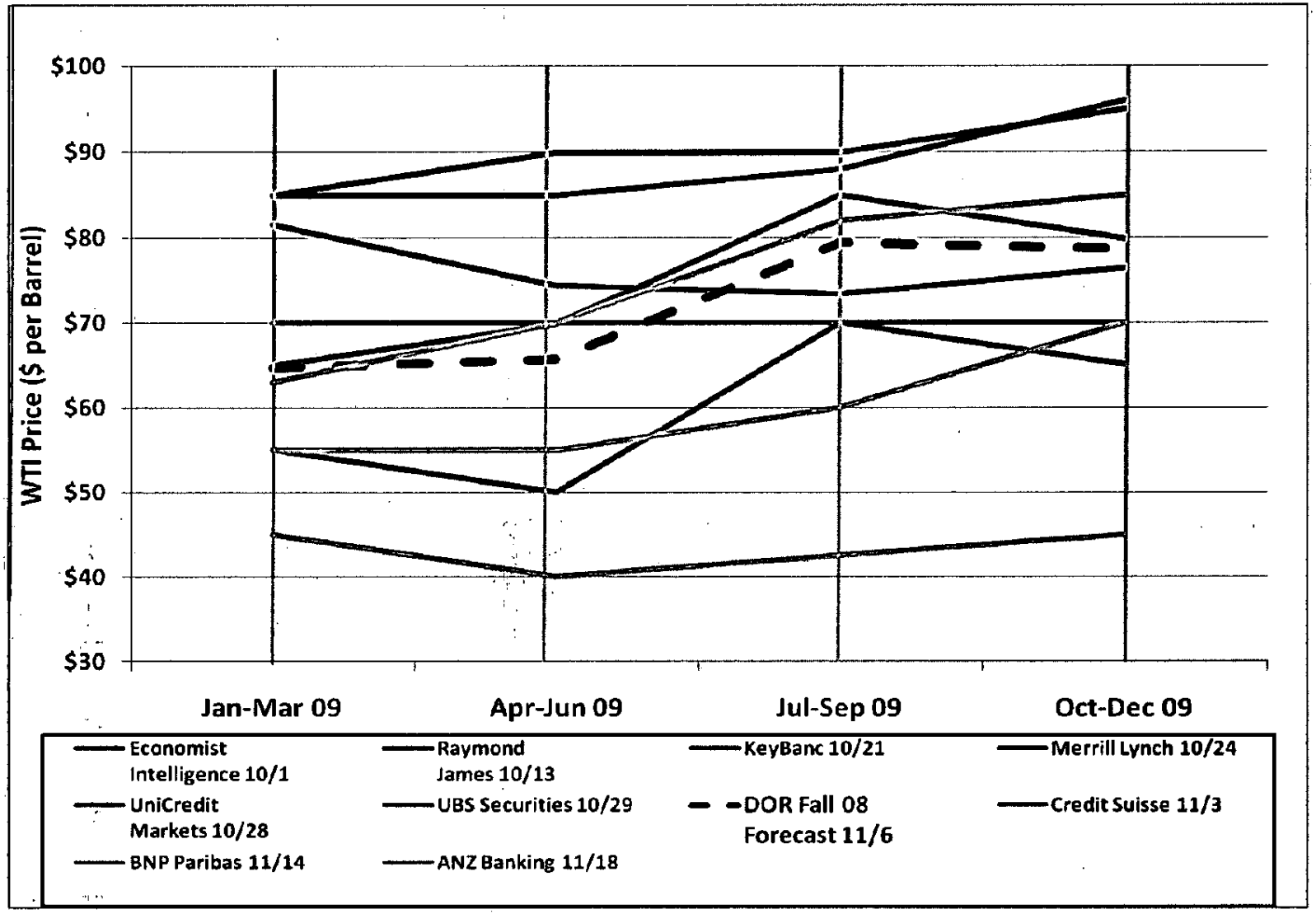
Source: Bloomberg Analyst Survey

Price Forecasts for Jan-Mar 2009



Source: Bloomberg Analyst Survey

Price Forecasts for Calendar 2009

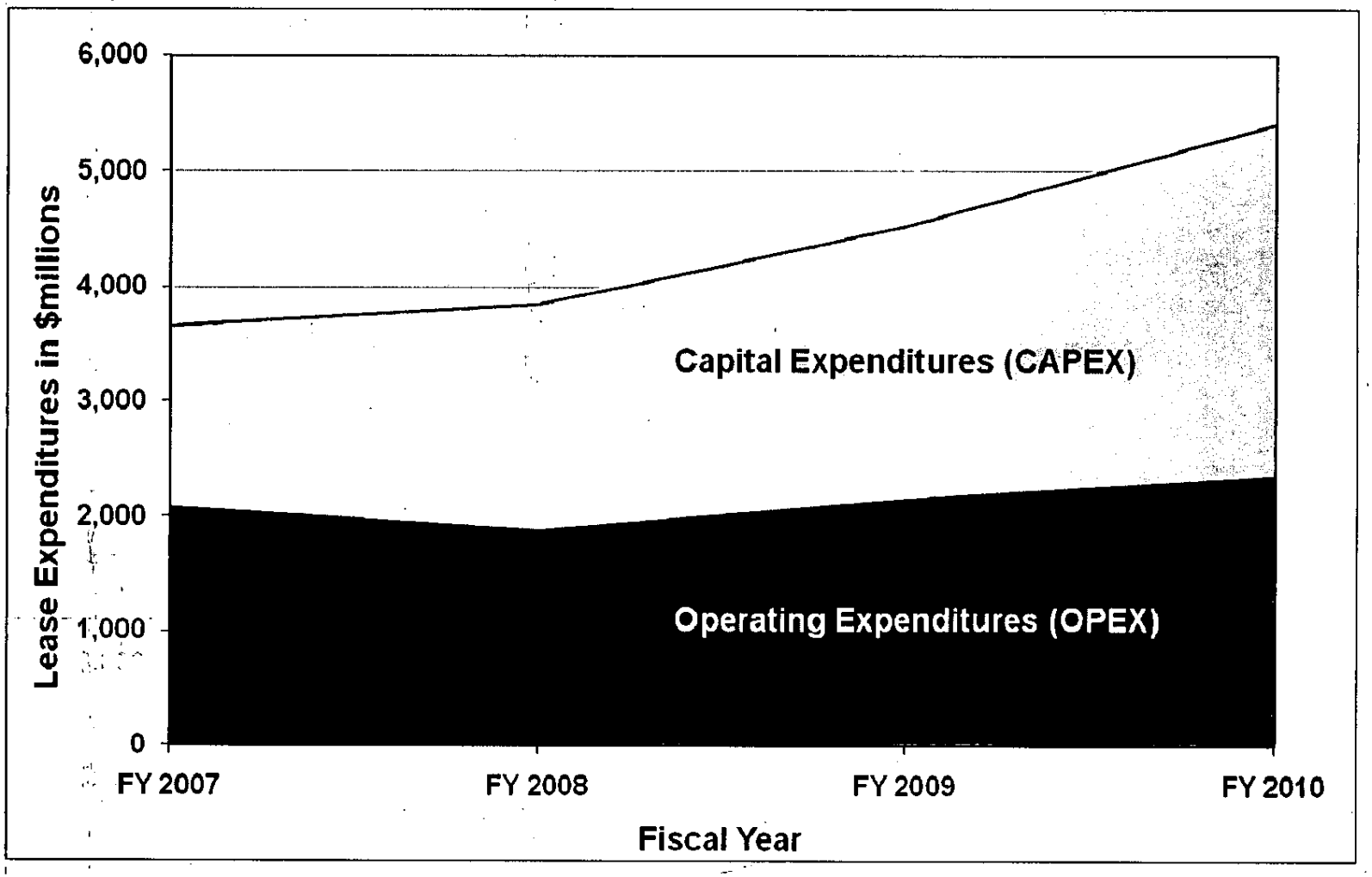


Source: Bloomberg Analyst Survey

Oil and Gas Revenue Forecast Variables

- Production
- Price
- Costs / Investment

Lease Expenditures (Costs)



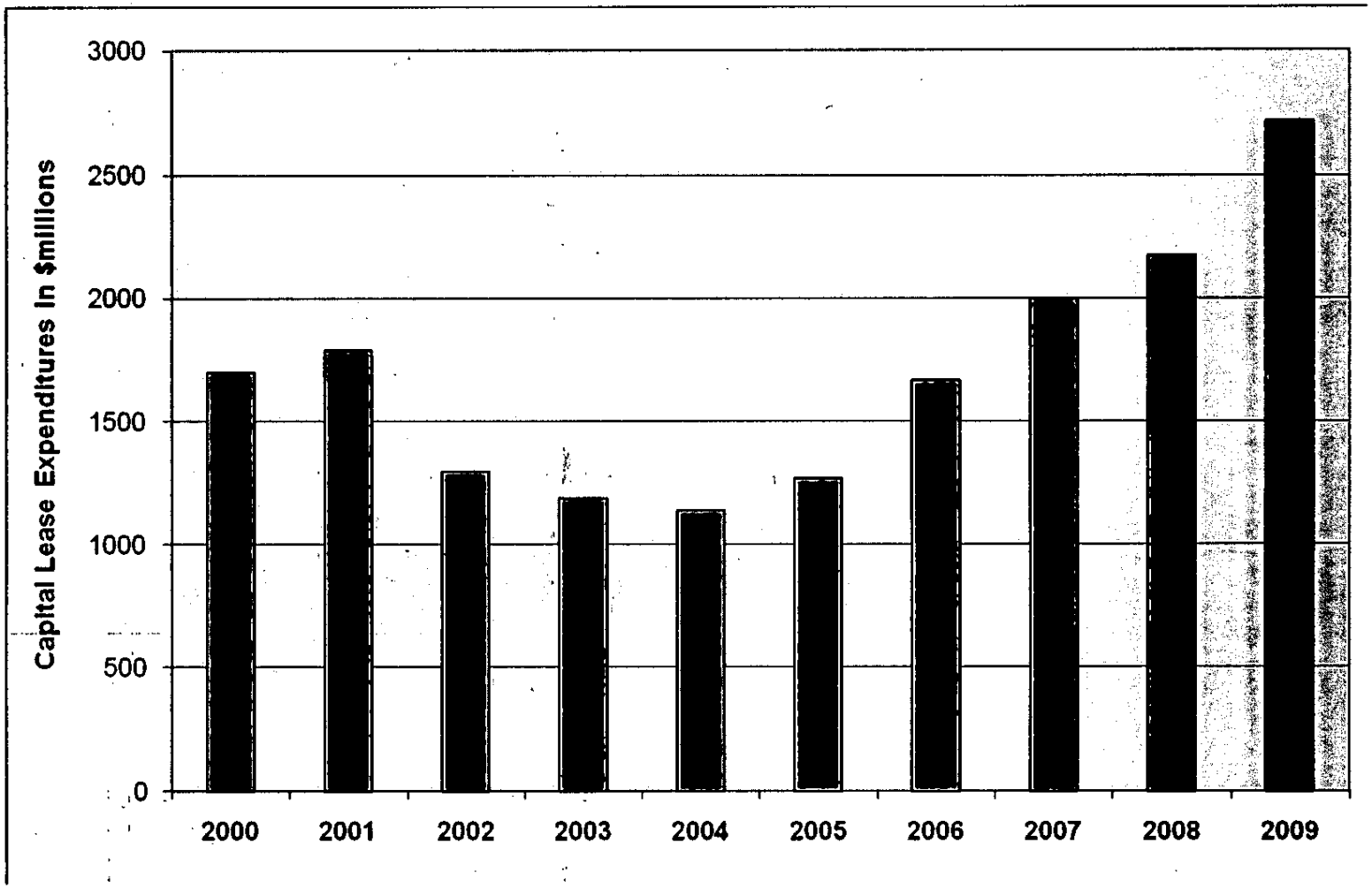
Source: Alaska Department of Revenue

Lease Expenditures per Barrel

	FY 2007	FY 2008	FY 2009	FY 2010
Lease Expenditures ($ millions)				
Operating (OPEX)	2,081	1,881	2,153	2,352
Capital (CAPEX)	1,578	1,967	2,379	3,052
Production (barrels per day)	739,702	715,950	688,880	664,557
Lease Expenditures per barrel ($)				
OPEX per barrel ($)	7.71	7.20	8.56	9.70
CAPEX per barrel ($)	5.84	7.53	9.46	12.58

Source: Alaska Department of Revenue

North Slope Investment
(Historical and Projected)



Source: Alaska Department of Revenue

FY 2009 Total Revenue

	$ Millions
Unrestricted Revenue	
Oil Revenue	6,051.4
Other Revenue (except Federal & Investment)	484.1
Investment Earnings	215.9
Subtotal Unrestricted	6,751.4
Restricted Revenue	
Oil Revenue	759.8
Other Revenue (except Federal & Investment)	634.4
Investment Earnings	2,799.7
Federal Revenue	2,523.4
Subtotal Restricted	6,717.4
Total Revenue	13,468.8

Source: Fall 2008 Revenue Sources Book, Page 6

Restricted vs. Unrestricted Revenues

- **All revenue is classified as either "Restricted" or "Unrestricted"**
- **All amounts in the presentation are Unrestricted Revenue only.**
- **Restricted = Use of this revenue is restricted by constitution, state or federal law, trust or debt restrictions, or customary practice.**
- **Unrestricted = Revenue available for general appropriation. This is the amount typically discussed in budget context.**

Sources of Unrestricted Revenue

- **Oil – Property tax, Corporate Income Tax, Production Tax (ACES), Royalties.**
  - ***Oil will make up 89% of unrestricted revenue in FY 2009***
- **Investment Earnings – On General Fund**
- **Other Non-Oil – Taxes, Charges for Services, Fines and Forfeitures, Licenses and Permits, Rents and Royalties, Miscellaneous**

FY 2009 Revenue Overview
(General Fund Unrestricted Revenue)

	$ Millions	Share of Total
Royalty - Net PF / SF	1,755.1	26.0%
Production Tax	3,588.8	53.2%
Corp Income Tax	635.0	9.4%
Property Tax	72.5	1.1%
Subtotal Oil Revenue	**6,051.4**	**89.6%**
Non-Oil Revenue	700.0	10.4%
Total Revenue	**6,751.4**	**100.0%**

Source: Fall 2008 Revenue Sources Book, Pages 4 & 5

FY 2009 Non-Oil Revenue Detail

	$ Millions	Share of Total
Taxes		
Corporate Income	160.0	22.9%
Mining	41.3	5.9%
Insurance Premium	48.5	6.9%
Tobacco	45.4	6.5%
Motor Fuel	6.8	1.0%
Other Taxes	62.3	8.9%
Subtotal Taxes	**364.3**	**52.0%**
Investments	**215.9**	**30.8%**
Other *	**119.8**	**17.1%**
Total Non-Oil	**700.0**	**100.0%**

*Other includes Charges for Services, Fines and Forfeitures, Licenses & Permits, Rents & Royalties, and Miscellaneous non-oil revenues.

Source: Fall 2008 Revenue Sources Book, Pages 8 & 9

FY 2009 Revenue Forecast Comparison

	Spring 08 Forecast	Fall 08 Forecast	*Change from Spring to Fall*
Revenues:			
Royalty	2,011.7	1,755.1	*-12.8%*
Production Tax	3,651.3	3,588.8	*-1.7%*
Corp Income Tax	693.6	635.0	*-8.4%*
Property Tax	59.1	72.5	*22.7%*
Non-Oil	707.7	700.0	*-1.1%*
Total Revenue	**7,123.3**	**6,751.4**	*-5.2%*
Key Forecast Inputs:			
Oil Prices $/bbl	85.73	77.66	*-9.4%*
Production mmbd	0.689	0.689	*0.0%*
Costs/Investment	4677.00	4526.00	*-3.2%*

Note: Revenues and Costs are in $ Millions

Source: Spring 2008 Forecast and Fall 2008 Revenue Sources Book

Conclusions

- Record level oil price volatility
- Price forecast in "ballpark" when issued
- Minimum production level changes from previous forecast
- Lower prices likely to impact future costs and possibly investment

Historical Production and Price Changes as of Fall 2008

Change in Revenue Forecasting from "cash basis" to "accrual" accounting

- Timing Issue: Production, prices, and revenue received in July for June production changed from June to July
- Necessary due to significant monthly variation in oil revenues
- Shift in fiscal year affected historical production and price, not revenue
- Greater accuracy in reporting
- Alignment with state financial documents

Change to RSB Figure 7-6

Figure 7-6 Constitutional Budget Reserve Fund Cash Flows, FY 2008 and Forecasted FY 2009-2010 ($million)

	First Version		
	History	Forecast	
	FY 2008	FY 2009	FY 2010
Beginning Cash Balance	2,548.4	5,601.2	7,138.3
Beginning Main Account Balance	1,980.7	1,134.0	2,237.0
Earnings on Main Account Balance(1)	140.4	83.0	103.4
Petroleum Tax, Royalty Settlements(2)	438.3	20.0	20.0
Repayment to CBRF (prior year)(3)	74.6	0.0	0.0
(Loan to GF)/Repayment to CBRF (current year)(3)	(1,500.0)	1,000.0	0.0
Ending Main Account Balance	**1,134.0**	**2,237.0**	**2,360.4**
Beginning Special Subaccount Balance	567.7	4,467.2	4,901.3
Earnings on Special Subaccount Balance(1)	(200.5)	(129.7)	391.4
Repayment to Special Subaccount(3)	4,100.0	563.8	146.4
Ending Special Subaccount Balance	**4,467.2**	**4,901.3**	**5,439.1**
Total CBRF Balance	**5,601.2**	**7,138.3**	**7,799.5**

(1) The earnings estimate for the main account is 4.526% and the earnings estimate for the special subaccount is 7.609%. These projections are based on 2008 Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.
(2) Settlement estimates are provided by the Department of Revenue and Department of Law, net of annual Federal Minerals Management Service payments.
(3) Repayment from the General Fund to the CBRF is indicated by a positive dollar amount; Loan from the CBRF to the General Fund is indicated by a negative dollar amount.

	Final Version		
	History	Forecast	
	FY 2008	FY 2009	FY 2010
Beginning Cash Balance	2,548.4	5,601.2	7,531.0
Beginning Main Account Balance	1,980.7	1,134.0	3,193.5
Earnings on Main Account Balance(1)	140.4	83.0	103.4
Petroleum Tax, Royalty Settlements(2)	438.3	20.0	20.0
(Loan to GF)/Repayment to CBRF(3)	2,674.6	1,956.5	146.4
Transfer to Special Subaccount	(4,100.0)	0.0	0.0
Ending Main Account Balance	**1,134.0**	**3,193.5**	**3,463.3**
Beginning Special Subaccount Balance	567.7	4,467.2	4,337.5
Earnings on Special Subaccount Balance(1)	(200.5)	(129.7)	391.4
Transfer from Main Account(3)	4,100.0	0.0	0.0
Ending Special Subaccount Balance	**4,467.2**	**4,337.5**	**4,728.9**
Total CBRF Balance	**5,601.2**	**7,531.0**	**8,192.2**

(1) The earnings estimate for the main account is 4.526% and the earnings estimate for the special subaccount is 7.609%. These projections are based on 2008 Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.
(2) Settlement estimates are provided by the Department of Revenue and Department of Law, net of annual Federal Minerals Management Service payments.
(3) Repayment from the General Fund to the CBRF is indicated by a positive dollar amount; Loan from the CBRF to the General Fund is indicated by a negative dollar amount.

Alaska State Legislature
HOUSE FINANCE COMMITTEE
Agenda
1:30 PM

Thursday, January 22, 2009

Revenue Forecast - Department of Revenue

Pat Galvin, Commissioner, Department of Revenue
Jerry Burnett, Deputy Commissioner, Division of Treasury, Department of Revenue
Cheryl L Nienhuis, Acting Chief, Revenue Economist, DOR

Questions in Juneau:
Dan Stickel, Economist, Alaska Department of Revenue - Tax Division
Donna Keppers, Audit Master, Department of Revenue

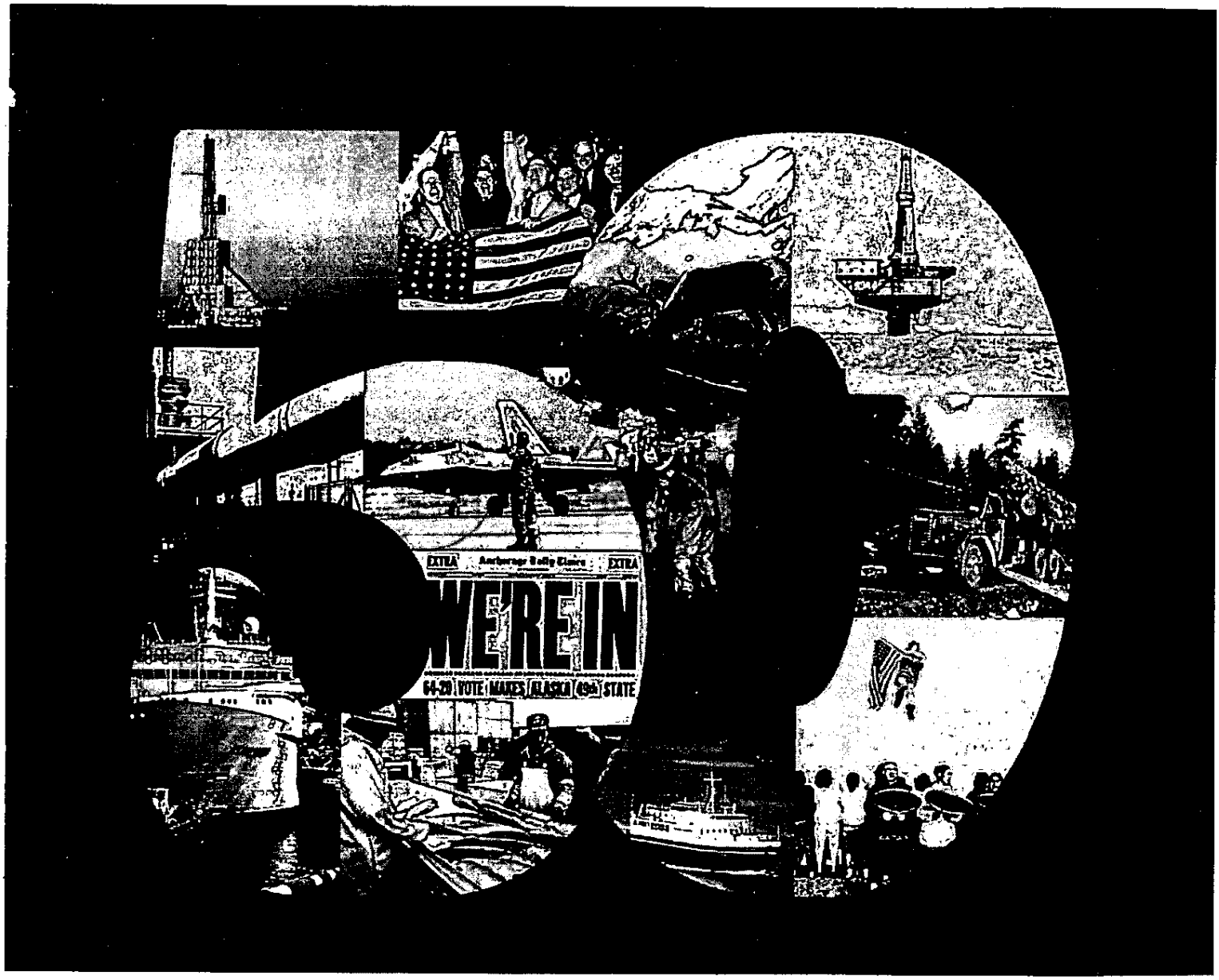
Teleconference for Questions:
Dudley Platt, Production Forecast Engineer, DOR

Stedman
Kawasaki
Guttenberg
Buch

P53-1 i book

Revenue Sources Book

Alaska Department of Revenue – Tax Division



50 Years of Statehood Edition

FALL 2008

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008

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STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

Sarah Palin, Governor

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www.revenue.state.ak.us

December 9, 2008

The Honorable Sarah Palin, Governor of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001

Dear Governor Palin:

This letter accompanies the Department of Revenue's Fall 2008 *Revenue Sources Book* (RSB). The RSB is a resource document presented to you, the Alaska Legislature, and the Alaska public that includes an accounting of state revenues received in Fiscal Year 2008 and projections for FY 2009 through FY 2018.

This *Revenue Sources Book* includes the four components of restricted and unrestricted oil revenue, as well as non-oil and other revenue sources. To celebrate Alaska's 50th anniversary, we have also included a special chapter on Alaska's revenue history, titled "Fifty Years of Revenue." This publication is the end product of a collaborative effort between Department of Revenue Tax Division and Treasury, the Permanent Fund Corporation, and the Office of Management and Budget.

Fiscal Year 2009 may be one for the record books when it comes to oil price volatility. Alaska North Slope (ANS) crude oil prices started out the year at close to $133 per barrel, but dropped precipitously down to less than $50 per barrel in November, a 63% decrease in only four months. We forecast ANS prices to level off for the remainder of the fiscal year in the $62 per barrel range, closing out the fiscal year at $77.66 per barrel when all twelve months are averaged. For FY 2010, we project an average price over the entire year of $74.41.

Our medium term outlook calls for increased stability in oil prices, with FY 2011 and FY 2012 at $71.65 and $72.57, respectively, and in the mid-$70 range through FY 2015. Our long term ANS crude oil price forecast for FY 2016 and beyond did not change from our Spring 2008 forecast price of $78.51, increasing at the projected rate of inflation. This price forecast assumes that the financial crisis experienced in the U.S. is relatively short-lived, and the economy returns to a more stable state within one to two years.

Production of ANS crude oil is expected to finish out FY 2009 averaging about 689,000 barrels per day, a 3.8% decline from FY 2008. For FY 2010, we forecast production to decline to 665,000 barrels per day, 3.5% lower than the previous year. At least part of the decrease in volume is due to company plans that call for significant facility and pipeline downtime in the summer of 2009, reducing production.

The steeper production decline from existing fields is expected to be offset by production coming from new fields. It is anticipated that Nikaitchuq will produce its first crude oil in FY 2010. Ongoing development at the new Oooguruk field will continue to add production. New development is also expected in the Colville River Unit (Alpine) and exploration is ongoing in the National Petroleum Reserve-Alaska (NPR-A).

Total unrestricted revenue in FY 2009 is forecast to be $6,751.4 million, of which 90% is attributable to oil production. In FY 2010, we are forecasting total unrestricted revenue to be $5,275.4 million, of which 88% is attributable to oil. Non-oil sources will contribute $700 million and $648 million of those unrestricted totals, respectively.

It is possible that the state will receive a Trans Alaska Pipeline System (TAPS) tariff settlement during FY 2009 in the amount of approximately $175 million. Any payment made pursuant to this settlement will likely be deposited in the Constitutional Budget Reserve Fund (CBRF). Due to the uncertainty of the timing of this payment, we have not incorporated this revenue source into this publication.

We hope you find the information provided in the Fall 2008 *Revenue Sources Book* to be useful. Our next forecast for FY 2009 and FY 2010 will be provided in the Spring of 2009.

Sincerely,

Patrick Galvin
Commissioner

In Memoriam

Brian Andrews

Brian Andrews and his son Brandon were lost August 9, 2008 while returning from Young's Lake on Admiralty Island in Brian's floatplane. In spite of extensive air, water and ground searches of the area, no sign of Brian, Brandon or the plane has been found.

Brian Andrews was appointed Deputy Commissioner on January 10th, 2007. Brian had more than 30 years of private and governmental financial investment and management experience in Alaska. His experience included management positions in banking, credit union and broker-dealer industries. Brian worked as Branch Manager or Assistant Manager at Merrill Lynch and then Smith Barney. Prior to that, he spent ten years working for the Department of Revenue in positions including Comptroller, Debt Manager, and Deputy Commissioner for Treasury.

Brian was a 48 year resident of Alaska. Over those 48 years he lived in ten different Alaskan communities. He appreciated and understood the diversity and "spirit" of Alaska.

Brian received his BBA from Colorado State University in 1974. He furthered his education with public administration graduate level course work through the University of Alaska. He achieved the Certified Investment Management Analyst (CIMA) designation in 2005. Brian held the series 3, 7 and 8 SEC licenses, the NASD series 63 and 65 licenses and was a licensed insurance agent with the State of Alaska.

Brian was a board member of Wildflower Court, a non-profit organization dedicated to senior citizen care. Brian was an involved member of various civic and club organizations in Juneau. Brian is survived by his wife Joyce, another son, and a daughter.

Brian's great sense of humor, positive attitude, and dedication will be missed by all.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008

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Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008

Commissioners of the Department of Revenue

Patrick Galvin
2007-present

William Corbus
2002-2006

Wilson Condon
1995-2002

Laraine Derr
1994

Darrel Rexwinkel
1991-1994

Lee E. Fisher
1990-1991

Hugh Malone
1986-1990

Mary Nordale
1984-1986

Robert Heath
1983-1984

Thomas Williams
1979-1982

Sterling Gallagher
1974-1979

Eric E. Wolforth
1970-1972

George Morrison
1968-1970

Ron Rettig
1967

Robert Stevenson
1963-1967
1972-1974

Peter Gatz
1958-1962

1. Introduction

General Discussion

The purpose of the semi-annual Revenue Sources Book is to provide the governor, legislature and citizens of the state a summary of our past collections of state revenue and a forecast of future revenue. Revenues are categorized into four major components: oil revenue, revenue from sources other than oil, federal revenue and investment revenue.

Oil revenue continues to dominate the unrestricted revenue picture—and is projected to provide more than 84% of General Purpose Unrestricted Revenue through FY 2018. However, North Slope oil production is declining. In FY 2008, Alaska North Slope (ANS) output was 0.716 million barrels per day compared to a peak of 2.01 million barrels per day in FY 1988. While production declined by approximately 64% over that period, the market price of oil increased more than sixfold. For FY 2009, we project ANS oil production will decrease to 0.689 million barrels per day.

Before 2003, the Constitutional Budget Reserve Fund (CBRF) was used to balance the state's budget in 10 of the previous 15 years. Fiscal Year 2008 was a banner revenue year, in which surpluses exceeding $5 billion were deposited in the CBRF. Lower prices in the future, combined with the fall in North Slope crude oil volumes, could lead to future budget shortfalls and draws on the CBRF.

On December 19, 2007, Governor Palin signed into law the oil and gas production tax called Alaska's Clear and Equitable Share (ACES). This tax is designed to encourage investment by the petroleum industry in Alaska, while providing an open, transparent tax system in which both the industry and the people of the state can have confidence that the state is receiving a fair share of the revenue from Alaska's petroleum resources.

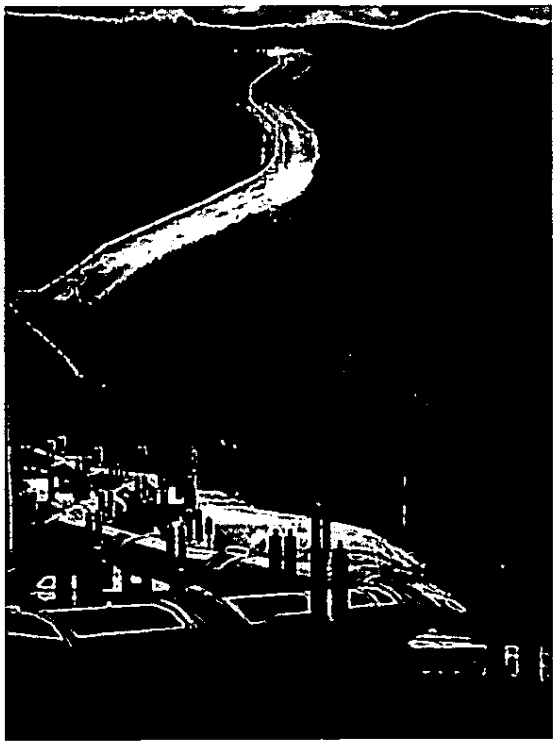
Alaska's total revenue picture also includes earnings from investments in the Permanent Fund and CBRF, federal revenue and other sources, such as taxes, charges for services, licenses, permits, fines and forfeitures. The information provided in this book will provide greater insight not only into the sources of revenue that support the state today, but also into future revenue from potential new sources.

Please note that totals in some tables throughout this publication may not equal the sum of components due to rounding.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008



The Trans Alaska Pipeline

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2. Executive Summary

Total State Revenue

Figure 2-1. FY 2008 Total State Revenue: $13.1 billion

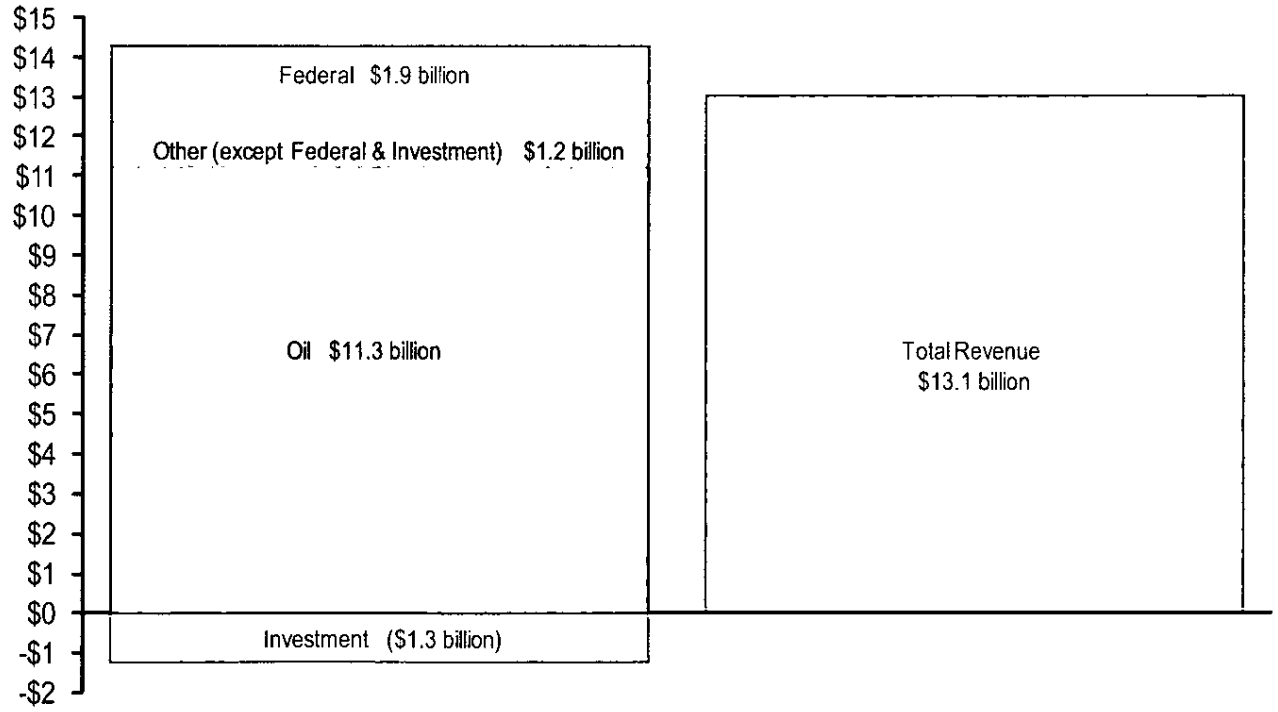

Figure 2-2. Total State Revenue by Major Component, FY 2008 and Forecasted FY 2009-2010 ($ million)

Oil Revenue	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Petroleum Property Tax	81.5	72.5	69.4
Petroleum Corporate Income Tax	605.8	635.0	560.0
Production Tax	6,879.0	3,588.8	2,389.7
Royalties (including Bonuses, Rents, & Interest)	2,446.1	1,755.1	1,607.8
Subtotal	**10,012.4**	**6,051.4**	**4,626.9**
Restricted			
Royalties to Perm Fund & School Fund (includes Bonuses & Rents)	799.1	717.3	734.8
Tax Settlements to CBRF	438.3	20.0	20.0
NPR-A Royalties, Rents & Bonuses	5.2	22.5	7.5
Subtotal	**1,242.6**	**759.8**	**762.3**
Total Oil Revenue	**11,255.0**	**6,811.3**	**5,389.2**

Other Revenue (except Federal & Investment)	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Taxes	433.2	364.3	302.2
Charges for Services	29.3	27.7	28.9
Fines and Forfeitures	8.9	8.3	8.7
Licenses and Permits	38.9	43.9	42.2
Rents and Royalties	15.7	13.4	11.7
Other	26.2	26.5	19.5
Subtotal	**552.2**	**484.1**	**413.2**
Restricted			
Taxes	139.6	138.0	138.4
Charges for Services	246.7	298.5	299.0
Fines and Forfeitures	41.9	37.4	36.7
Licenses and Permits	38.0	40.9	39.2
Rents and Royalties	7.0	10.7	9.9
Other	131.2	108.9	108.9
Subtotal	**604.4**	**634.4**	**632.1**
Total Other Revenue	**1,156.6**	**1,118.5**	**1,045.3**

Figure 2-2. Continued

Federal Revenue

	History	Forecast	
	FY 2008	FY 2009	FY 2010
Restricted	1,902.5	2,523.4	2,523.4
Total Federal Revenue	**1,902.5**	**2,523.4**	**2,523.4**

Investment Revenue

Unrestricted

Investments	226.5	214.6	234.0
Interest Paid by Others	1.3	1.3	1.3
Subtotal	**227.8**	**215.9**	**235.3**

Restricted

Investments	48.9	44.7	53.0
Constitutional Budget Reserve Fund	(60.1)	(46.7)	494.8
Other Treasury Managed Funds	(9.0)	(6.3)	(5.8)
Alaska Permanent Fund (GASB) [1]	(1,463.3)	2,808.0	2,983.8
Subtotal	**(1,483.5)**	**2,799.7**	**3,525.8**
Total Investment Revenue	**(1,255.7)**	**3,015.6**	**3,761.1**
Total Unrestricted & Restricted Revenue	**13,058.4**	**13,468.8**	**12,719.0**

[1] Both realized and unrealized gains and losses are included per GASB 34 as interpreted by the Finance Division of the Department of Administration in its Comprehensive Annual Financial Report.

Figure 2-3. Total State Revenue by Major Component, FY 2008 ($ billion)

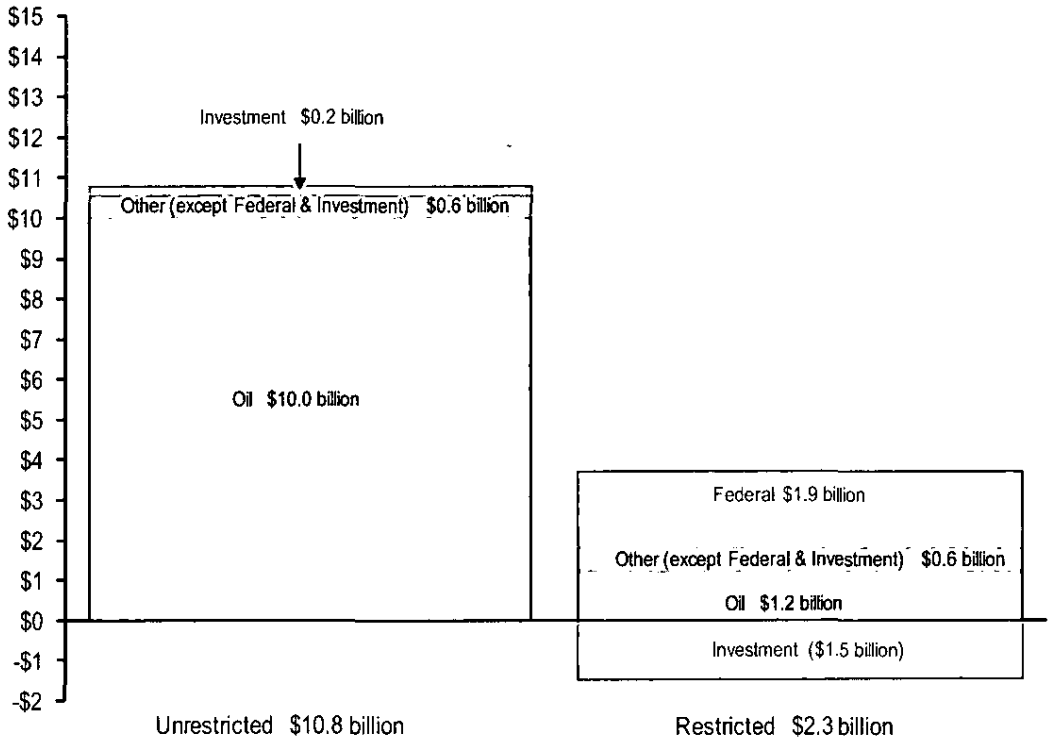

Figure 2-4. Total State Revenue, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Oil Revenue	10,012.4	6,051.4	4,626.9
Other Revenue (except Federal & Investment)	552.2	484.1	413.2
Investment Earnings	227.8	215.9	235.3
Subtotal	**10,792.4**	**6,751.4**	**5,275.4**
Restricted			
Oil Revenue	1,242.6	759.8	762.3
Other Revenue (except Federal & Investment)	604.4	634.4	632.1
Investment Earnings	(1,483.5)	2,799.7	3,525.8
Federal Revenue	1,902.5	2,523.4	2,523.4
Subtotal	**2,266.0**	**6,717.4**	**7,443.6**
Total Unrestricted & Restricted Revenue	**13,058.4**	**13,468.8**	**12,719.0**

Unrestricted Revenue and Restricted Revenue

Throughout this forecast, we report two categories of revenue: General Purpose Unrestricted Revenue (frequently referred to as unrestricted revenue) and restricted revenue. These two types of revenue are based on the two components of the General Fund in the Alaska State Accounting System (AKSAS)—the unrestricted component and the restricted component—with certain adjustments.

General Purpose Unrestricted Revenue (GPUR)

General Purpose Unrestricted Revenue reflects revenue that is not restricted by the constitution, state or federal law, trust or debt restrictions, or customary practice. Most legislative and public debate centers on this category of revenue, and this is the amount generally used for budget planning purposes and designated in budget documents as General Fund revenue. General Purpose Unrestricted Revenue reported in this forecast includes funds deposited into the unrestricted component of the General Fund, with certain adjustments:

- Reductions might include (a) revenue earmarked for specific programs, (b) pass-through revenue for qualified regional aquaculture and dive fishery associations and (c) revenue shared with municipal governments and organizations (e.g., fisheries taxes).
- Additions might include transfers from the unclaimed property trust to the state treasury.

The Department of Revenue uses a three-step process to make its final estimate of General Purpose Unrestricted Revenue.

Step 1. We estimate all revenue for the unrestricted component of the General Fund in AKSAS, as well as certain program receipts, by using our forecast models and obtaining estimates from other state agencies.

Step 2. We then consult the Governor's Office of Management and Budget and Legislative Finance for their input.

Step 3. Finally, following analysis, we adjust our initial projection to derive a forecast of total General Purpose Unrestricted Revenue.

Figure 2-5 on the next two pages sets out FY 2008 General Purpose Unrestricted Revenue and our forecast for FY 2009 and 2010.

Restricted Revenue

Restricted revenue represents any revenue that is not considered General Purpose Unrestricted Revenue. This includes revenue restricted by the constitution, state or federal law, trust or debt restrictions, or customary practice. Restricted revenue reported in this forecast includes money deposited into the restricted component of the General Fund, with certain additions. Additions might include (a) receipts deposited in funds other than the General Fund and (b) receipts that are deposited into the unrestricted component of the General Fund but are restricted by statute or customarily appropriated for a particular purpose or program, such as sharing of fish tax revenue with municipalities.

Article IX, Section 15 of the Alaska constitution requires that at least 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state be placed in the Permanent Fund. Until 2003, Alaska Statute 37.13.010 required the placement of 50% of royalties from certain leases into the permanent fund. House Bill 11, passed by the legislature in 2003, changed the law so that 25% from all leases would be placed into the Permanent Fund, contingent on the impact of this change to the Permanent Fund Dividend. On October 1, 2008, the impact of HB 11 on the Permanent Fund Dividend had exceeded the limitations provided in HB 11, and HB 11 was repealed. As of October 1, 2008, the applicable leases will pay 50% of royalties to the Permanent Fund, while others will pay 25% to the fund. This change will be reflected in this revenue forecast as a decrease in unrestricted revenue and an increase in restricted revenue.

In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

Figure 2-5. General Purpose Unrestricted Revenue, FY 2008 and Forecasted FY 2009-2010 ($ million)

Oil Revenue	History FY 2008	Forecast FY 2009	Forecast FY 2010
Petroleum Property Tax	81.5	72.5	69.4
Petroleum Corporate Income Tax	605.8	635.0	560.0
Production Tax			
Oil & Gas Production	6,867.3	3,577.8	2,379.2
Oil & Gas Hazardous Release	11.7	11.0	10.5
Subtotal Production Tax	**6,879.0**	**3,588.8**	**2,389.7**
Royalties (including Bonuses, Rents, & Interest)			
Mineral Bonuses & Rents	11.6	6.5	5.1
Oil & Gas Royalties	2,420.6	1,746.6	1,601.3
Interest	13.9	2.0	1.4
Subtotal Royalties	**2,446.1**	**1,755.1**	**1,607.8**
Total Oil Revenue	**10,012.4**	**6,051.4**	**4,626.9**

Other Revenue (except Federal & Investment)

Taxes			
Excise Tax			
Alcoholic Beverages	20.0	19.4	19.9
Tobacco Products – Cigarettes	35.7	35.6	34.2
Tobacco Products – Other	9.2	9.8	10.4
Insurance Premium	47.1	48.5	50.9
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel	41.8	6.8	33.8
Vehicle Rental	8.5	8.5	8.7
Tire Fee	1.5	1.5	1.5
Subtotal Excise Tax	**164.0**	**130.3**	**159.6**
Subtotal Corporate Income Tax	**182.7**	**160.0**	**90.0**
Fish Tax			
Fisheries Business	14.7	17.1	17.6
Fishery Resource Landing	7.9	5.8	6.0
Subtotal Fish Tax	**22.6**	**22.9**	**23.6**

Figure 2-5. Continued

Other Revenue (except Federal & Investment)	History FY 2008	Forecast FY 2009	FY 2010
Other Tax			
Mining	54.4	41.3	19.5
Estate	0.0	0.0	0.0
Large Passenger Vessel Gambling	6.8	6.8	6.8
Gaming	2.7	3.0	2.7
Subtotal Other Tax	**63.9**	**51.1**	**29.0**
Subtotal Taxes	**433.2**	**364.3**	**302.2**
Charges for Services			
General Government	27.0	25.0	26.5
Natural Resources	2.0	2.3	2.1
Other	0.3	0.4	0.3
Subtotal Charges for Services	**29.3**	**27.7**	**28.9**
Subtotal Fines & Forfeitures	**8.9**	**8.3**	**8.7**
Licenses & Permits			
Alcoholic Beverage Licenses	1.0	1.0	1.0
Motor Vehicle	36.0	40.4	38.7
Other	1.9	2.5	2.5
Subtotal Licenses & Permits	**38.9**	**43.9**	**42.2**
Rents & Royalties			
Other Non-Petroleum Rents & Royalties	7.8	4.7	4.7
Coal Royalties	7.9	8.7	7.0
Subtotal Rents & Royalties	**15.7**	**13.4**	**11.7**
Other			
Miscellaneous	11.2	20.0	13.0
Unclaimed Property	15.0	6.5	6.5
Subtotal Other	**26.2**	**26.5**	**19.5**
Total Other Revenue (except Federal & Investment)	**552.2**	**484.1**	**413.2**

Investment Revenue

Investments	226.5	214.6	234.0
Interest Paid by Others	1.3	1.3	1.3
Total Investment Revenue	**227.8**	**215.9**	**235.3**

Grand Total Unrestricted Revenue	**10,792.4**	**6,751.4**	**5,275.4**

Crude Oil Price Forecast

Oil revenue is projected to provide more than 84% of forecasted General Purpose Unrestricted Revenue through FY 2018. Three elements are critical to the oil revenue forecast: price, volume and to a lesser extent lease expenditures.

There is no price for Alaska crude oil on the New York Mercantile Exchange (NYMEX) [1] or other commodity exchanges. The spot price of Alaska North Slope (ANS) crude oil is calculated by subtracting a market differential from the spot price of West Texas Intermediate (WTI). Platts, Reuters, Dow Jones Energy Service and Bloomberg each estimate that market differential and report a daily spot price for ANS.

All of Alaska's oil production is delivered to refineries on the U.S. West Coast (including Alaska and Hawaii). Consequently, Alaska's royalty and production tax revenue depends in large part on the average market price of ANS crude oil at U.S. West Coast refining centers.

Figure 2-6 shows crude oil prices for FY 2008 and the Department of Revenue's forecast of prices for the 10-year period beginning with the current fiscal year FY 2009 and continuing through FY 2018. The oil price forecast is based both on a subjective assessment of market dynamics and trend analysis by participants at a Department of Revenue price forecasting seminar and other commercial price forecasting sources.

Figure 2-6. Nominal WTI, ANS West Coast and ANS Wellhead, FY 2008 and Forecasted FY 2009-2018 ($ per barrel)

Fiscal Year	WTI	ANS West Coast	ANS Wellhead
2008	97.02	96.51	90.46
2009	79.79	77.66	71.84
2010	76.91	74.41	68.93
2011	74.15	71.65	66.05
2012	75.07	72.57	66.67
2013	76.05	73.55	67.48
2014	76.74	74.24	68.04
2015	76.32	73.82	67.48
2016	81.01	78.51	72.06
2017	83.24	80.74	74.09
2018	85.53	83.03	76.35

[1] The NYMEX futures market is one source for a WTI quote. A daily WTI spot quote could also be determined by a reporting service's daily assessment of the WTI spot market.

Figure 2-7 shows: (1) the monthly ANS West Coast market price from November 2003, through October 2008, (2) the 60-month moving average of the ANS West Coast market price for the same period and (3) estimated ANS futures price for December 2008 to December 2013.

The figure illustrates a number of issues with respect to oil prices:

- Month-to-month crude oil price volatility—monthly ANS West Coast prices during this time period ranged from $29.11 per barrel to $133.78 per barrel.
- The 60-month moving average is $64.64 per barrel and has more than tripled since 2003.
- The derived futures market price from November 2008 shows prices that are dramatically lower from July 2008 record highs and lower than the 60-month moving average.

We project that over the medium term, ANS oil prices will average $72.57 per barrel in FY 2012, $73.55 per barrel in FY 2013 and $74.24 per barrel in 2014 in nominal dollars. Over the long run, ANS oil prices are projected to average $78.51 per barrel in FY 2016, then increase at 2.75% per year, based on inflation.

Figure 2-7. Monthly Nominal ANS West Coast and Futures Market Oil Prices ($ per barrel)

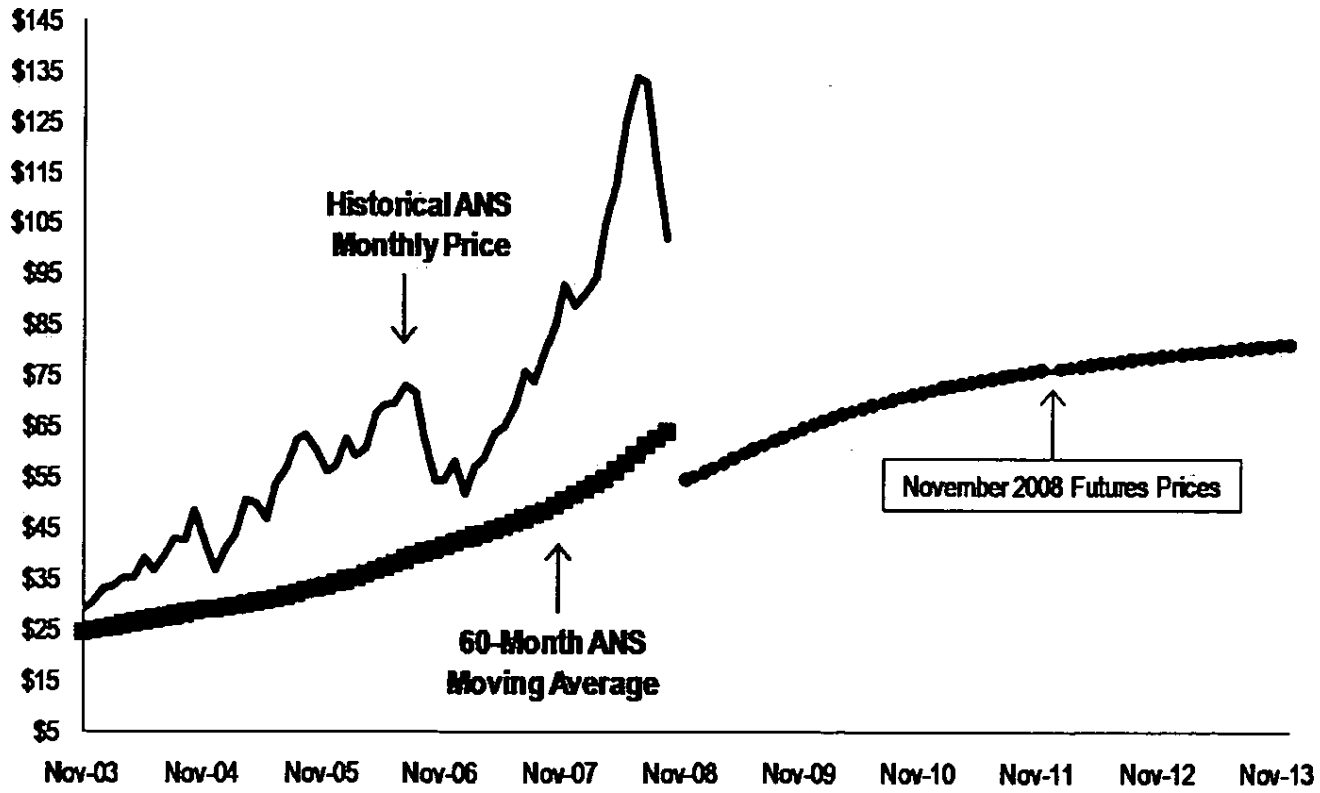

Figure 2-8. Alaska Crude Oil and NGL Production, FY 2008 and Forecasted 2009-2010 (million barrels per day)

	History	Forecast	
Alaska North Slope	**FY 2008**	**FY 2009**	**FY 2010**
Prudhoe Bay [1]	0.291	0.282	0.268
Aurora	0.009	0.008	0.007
Borealis	0.010	0.013	0.015
Midnight Sun	0.002	0.002	0.001
Orion	0.009	0.011	0.013
Polaris	0.003	0.005	0.005
Lisburne	0.010	0.009	0.010
Niakuk	0.005	0.004	0.003
Point McIntyre	0.029	0.026	0.025
Raven	0.001	0.001	0.001
Kuparuk	0.113	0.105	0.096
Meltwater	0.003	0.002	0.002
Tabasco	0.003	0.003	0.002
Tarn	0.016	0.014	0.014
West Sak	0.016	0.018	0.019
Milne Point [2]	0.020	0.021	0.020
Schrader Bluff	0.013	0.011	0.011
Endicott [3]	0.014	0.015	0.014
Badami	0.000	0.000	0.000
Alpine [4]	0.079	0.068	0.063
Fiord [5]	0.018	0.019	0.020
Nanuq [6]	0.019	0.019	0.012
Oooguruk	0.000	0.006	0.013
Nikaitchuq	0.000	0.000	0.004
Northstar	0.034	0.028	0.026
Total Alaska North Slope	0.716	0.689	0.665
increase/decrease from prior period	(0.018)	(0.027)	(0.024)
% change from prior period	(2.5%)	(3.8%)	(3.5%)
Total Cook Inlet[7]	**0.014**	**0.013**	**0.012**
increase/decrease from prior period	(0.002)	(0.001)	(0.001)
% change from prior period	(10.2%)	(10.1%)	(7.0%)
Total Alaska[7]	**0.730**	**0.701**	**0.676**
increase/decrease from prior period	(0.020)	(0.028)	(0.025)
% change from prior period	(2.1%)	(3.9%)	(3.6%)

[1] Includes NGLs

[2] Includes Sag River and Ugnu-Milne Point

[3] Includes Eider and Sag Delta

[4] Includes Qannik

[5] Includes Fiord-Kuparuk

[6] Includes Nanuq-Kuparuk

[7] Percent change calculation may vary from calculation using production amounts due to rounding

Crude Oil Production Forecast

Alaska North Slope crude oil production peaked at 2.01 million barrels per day in FY 1988 and has steadily declined since. We anticipate volumes will decline by 3.8% in FY 2009 to about 0.689 million barrels per day (see Figure 2-8), due in part to increased planned and unplanned maintenance on aging North Slope facilities, flowlines, pipelines and wells. For FY 2010, we project a 3.5% decrease in North Slope production due primarily to delays in heavy oil development. More discussion of the Fall 2008 oil production forecast can be found in Section 4. Also, a detailed production forecast is included in the appendices of this forecast.

Crude Oil Expenditures Forecast

A third component of production tax revenue forecasting is the forecast of expenditures. Under the new ACES production tax, companies are allowed to deduct certain lease expenditures from the gross value of their production before applying the tax rate. Future tax collections, therefore, are dependent not only on the oil price and the level of production, but on the cost of that production. Costs of production may include fixed and variable operating expenses, such as the costs of labor and the expense to run facilities, and they may include costs to acquire production equipment or to drill a well—usually deemed to be capital expenses. A portion of capital expenses is also allowed as a credit against the ACES production tax.

Lease expenditures for the exploration for and production of crude oil have risen over the two-year period that they have been reported. In FY 2007, over $3.6 billion was spent producing and exploring for oil on the North Slope. Although we have not received complete information for FY 2008, we estimate lease expenditures to total approximately $3.8 billion. In FY 2009, lease expenditures are estimated to total $4.5 billion. We estimate that FY 2010 lease expenditures will total over $5 billion.

Long-Term Unrestricted Revenue Outlook

Using the price, volume and lease expenditure components developed for this fall forecast, Figure 2-9 summarizes the department's forecast of total General Purpose Unrestricted Revenue through FY 2018.

Figure 2-9. Total General Purpose Unrestricted Revenue, FY 2008 and Forecasted FY 2009-2018 ($ million)

Fiscal Year	Unrestricted Oil Revenue	Unrestricted Other Revenue (except Federal & Investment)	Unrestricted Investment Revenue	Total Unrestricted Revenue	Percent From Oil
2008	10,012.4	552.2	227.8	10,792.4	93%
2009	6,051.4	484.1	215.9	6,751.4	90%
2010	4,626.9	413.2	235.3	5,275.4	88%
2011	3,693.5	427.8	235.3	4,356.6	85%
2012	3,803.0	444.0	235.3	4,482.3	85%
2013	3,730.9	451.7	235.3	4,417.9	84%
2014	4,266.8	462.0	235.3	4,964.1	86%
2015	3,888.1	472.9	235.3	4,596.3	85%
2016	4,036.1	487.4	235.3	4,758.8	85%
2017	4,319.5	497.4	235.3	5,052.2	85%
2018	4,643.5	504.4	235.3	5,383.2	86%

Spending, Revenue Forecast and the Constitutional Budget Reserve Fund

As approved by voters in 1990, all receipts from oil and gas tax and royalty settlements are deposited into the Constitutional Budget Reserve Fund (CBRF). The state has deposited about $6.2 billion into the reserve fund and generated another $1.5 billion in investment earnings. Since the increase in oil prices beginning in 2003, no CBRF withdrawals have been necessary to balance the state's budget. However, given price volatility and the decline expected in volumes from the North Slope, the state may have to depend on the CBRF in the future. Through September 30, 2008, approximately $5.2 billion had been borrowed from the CBRF to balance the budget, leaving a balance of approximately $2.7 billion. According to the state constitution, the $5.2 billion that was withdrawn must be repaid to the CBRF. In FY 2007 and 2008, significant progress was made toward this repayment, as a total of $4.6 billion was deposited back into the CBRF. Approximately $612 million remains to be repaid back into the fund.

Figure 2-10 is presented to help the reader understand the time period in which the CBRF could be depleted, based on the current forecast and the assumption that all excess revenue would be deposited into the CBRF. This figure shows that, given the current forecast, the earliest we would anticipate the CBRF being depleted would be March 2015, assuming that the state experiences budget increases of 10% per year. If oil prices were to fall below our forecasted level and stay at $40 per barrel, we could expect the CBRF to be depleted as early as July 2012, assuming an annual 10% increase in the state's budget. Assuming forecasted oil prices and a 3% annual increase in the state budget, the CBRF is expected to last at least until December 2020.

Figure 2-10. CBRF Run-Out Date With Revenue Surpluses Deposited into CBRF

Annual State Budget (% change)	Fall 2008 Oil Price Forecast[1]	Fiscal Model of Oil Revenue & CBRF Performance at Selected Prices ($ per barrel)[2]					
		$40	$45	$50	$55	$60	$65
+10%	Mar-2015	Jul-2012	Sep-2012	Nov-2012	Feb-2013	May-2013	Oct-2013
+5%	Nov-2017	Oct-2012	Dec-2012	Mar-2013	Jul-2013	Jan-2014	Aug-2014
+4%	Nov-2019	Nov-2012	Jan-2013	Apr-2013	Aug-2013	Mar-2014	Nov-2014
+3%	Dec-2020	Nov-2012	Feb-2013	Jun-2013	Sep-2013	Jun-2014	Mar-2015
+2%	Dec-2020	Dec-2012	Mar-2013	Jul-2013	Nov-2013	Aug-2014	Oct-2015
+1%	Dec-2020	Jan-2013	Apr-2013	Aug-2013	Jan-2014	Nov-2014	Mar-2016
Baseline Fall Forecast	Dec-2020	Jan-2013	May-2013	Sep-2013	Jun-2014	Mar-2015	Oct-2016
-1%	Dec-2020	Feb-2013	Jun-2013	Nov-2013	Sep-2014	Aug-2015	Jul-2017
-2%	Dec-2020	Mar-2013	Jul-2013	Jan-2014	Jan-2015	Mar-2016	Feb-2020
-3%	Dec-2020	Apr-2013	Sep-2013	Mar-2014	Jun-2015	Dec-2016	Dec-2020
-4%	Dec-2020	May-2013	Oct-2013	Jun-2014	Dec-2015	Dec-2020	Dec-2020
-5%	Dec-2020	Jul-2013	Dec-2013	Oct-2014	Sep-2016	Dec-2020	Dec-2020
-10%	Dec-2020	May-2014	Oct-2015	Dec-2020	Dec-2020	Dec-2020	Dec-2020

Baseline Expenditure Forecast ($ million)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
$6,188	$5,129	$5,129	$5,129	$5,129	$5,129	$5,129	$5,129	$5,129	$5,129	$5,129	$5,129

[1] See Figure 2-6 for the Fall 2008 ANS oil price forecast used in the highlighted scenario.

[2] Matrix allows reader to select specific fiscal year price (from FY 2011-beyond) to determine CBRF exhaustion date. Fall 2008 forecasted production volumes are used. A date of Dec-2020 indicates that the CBRF does not run out during matrix timeframe.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008

The First State Legislature, Juneau Alaska 1959

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3. Fifty Years of Revenue

Alaska's Purchase and Struggle for Statehood

"The political society to be constituted here, first as a territory, and ultimately as a state or many states, will prove a worthy constituency of the Republic,"[1] remarked Secretary of State William H. Seward during a visit to Alaska. William Seward was one of very few who recognized Alaska's potential when he negotiated its purchase from Russia in 1867. At less than 2 cents an acre, the land mass acquired, more than twice the size of Texas, would be known by some to be "Seward's Folly" because of its remote location and seemingly questionable value. As one news columnist reported on the purchase, "The territory included in the proposed cession was not contiguous to the national domain. It lay away at an inconvenient and dangerous distance. The treaty had been secretly prepared, and signed and foisted upon the country at one o'clock in the morning. It was a dark deed done in the night..."[2]

True, the Russians needed to dispose of the property. The whaling and fur trade industries that supported the Russian colony for years was at risk due to overharvesting and the Russian government had land acquisition aspirations closer to home. As acquired by the U.S., an estimated 2,500 Russians and 8,000 aborigines were spread among 23 Russian trading posts, and another 50,000 Eskimos and Native Americans resided elsewhere in the state. The official transfer ceremony was held in Sitka on October 18, 1867, a day that continues to be celebrated as Alaska Day. The Aleutian word "Alakshak," meaning Great Land, was chosen as the official name for the new U.S. possession, although it took on the Russian pronunciation of Alaska.

At the time of Alaska's purchase, statehood seemed like a far away dream. The First Organic Act, passed by the federal government in 1894, allowed Alaska to become a judicial district. The Second Organic Act, passed in 1912, authorized territorial status for the remote parcel, along with an elected legislature. Even under these acts, the federal government retained control over the land's vast resources. It wasn't until the 1920s that the push for statehood began. The first referendum, held in 1946, showed that Alaskans

[1] Gislason, Eric. "A Brief History of Alaska Statehood (1867-1959)." Alaska Statehood Celebration Commission. 2008. http://www.gov.state.ak.us/ASCC/.

[2] Oberholtzer, Ellix Paxson. *A History of the United States since the Civil War.* Volume 1. 1917. p. 123

supported statehood by a 3-to-2 margin. The biggest hurdle was yet to come: convincing the federal government that statehood should be granted to the relatively wild, new land.

Statehood opponents were set on thwarting Alaska's efforts. Many claimed Alaska could not support a state government because of the lack of an adequate tax base. Adding to the struggle, the political makeup of the U.S. Senate was sharply divided. Congressional republicans were not pleased with the prospect of two new democratic senators from Alaska. Opposition to statehood also came from Alaska residents. Representatives of the salmon canning industry, for example, lobbied against statehood for fear that the state would impose new taxes on their industry, thereby jeopardizing their business viability.

Most Alaskans were persistent in their goal and, led by statehood advocates Bob Bartlett and Ernest Gruening, kept the focus on statehood. Bartlett represented Alaska for 14 years as a non-voting delegate to Congress and worked to persuade Congressional members that Alaska was ready for statehood. Gruening was an ardent supporter of statehood during his service as governor of Alaska for 13 years and pushed reforms that would prepare Alaska for the change.

Two organizations sprung up to support the effort: The Alaska Statehood Committee and Operation Statehood. Members of the statehood movement had articles about Alaska published in nationwide media and pushed for Anchorage's selection as an "All America City" by the U.S. Chamber of Commerce.[3] Alaskans argued that not only did they have the capacity to govern themselves, but the right to be represented by a state government and control their natural resources.

Alaskans responded to claims that a state government could not support itself by establishing new territorial taxes and perhaps most importantly, by creating a constitution prior to achieving statehood. Fifty-five delegates to the Constitutional Convention met in Fairbanks for about 90 days beginning on November 8, 1955. Delegates included businessmen, miners, fishermen and homemakers. One Alaska Native, Frank Peratrovich, was also a delegate to the convention. By the time the delegates were done, Alaska had what would later be recognized as one of the best constitutions in the country, with a strong emphasis on the management and development of natural resources for the benefit of all Alaskans.

In July of 1958, Congress passed the Alaska Statehood Act and President Eisenhower signed it into law. The battle was over and Alaska was a state – at least on paper. The process of building a functioning state government would be Alaska's next struggle.

In the first years of statehood, Alaska faced challenges to establish itself as a stable, capable state. Revenues hardly met budget demands for the new state. The economy had no apparent pillars, and federal transitional grants would not last forever. The largest revenue source was the individual income tax that, prior to oil development, provided nearly one quarter of the unrestricted revenue for the state. The individual income tax dated back to pre-statehood days and initially collected 10% of an individual's federal income tax liability.

In 1961, the state legislature had to take serious measures to guarantee that a functioning state government would continue to exist. The highway motor fuel tax was raised from 5 to 6 cents per gallon; taxes on liquor and wine were increased from $3.50 to $4, and from $.50 to $.60 per gallon respectively, and individual income taxes raised from 10% to 16% of federal income tax liability on income earned within Alaska. Even with the tax increase, real non-petroleum revenue per capita was stagnant after the 1961 tax increases.

Alaskans Strike Oil!

Statehood advocates stood firm on the premise that the ability to exercise control over its abundant resources would be key to sustaining a mature economy. It was under such premises that the Statehood Act gave Alaska the right to select 104 million acres, or 28% of the total land in Alaska, to support any activities the state deemed reasonable. The state selected its lands wisely.

Among the parcels selected by the state was a barren, brutally cold tract of land on the North Slope later known as Prudhoe Bay. The selection was based on the recommendation of Tom Marshall, the land selection officer with the Department of Natural Resources. Even with geological data to support his choice, Marshall was ridiculed for selecting land that was of no interest to oil developers and was generally considered "worthless tundra." Fortunately, Marshall's geological experience told him otherwise, and Roscoe Bell, commissioner of the Department of Natural Resources at the time, backed Marshall's pick.[4]

[3] Haycox, Stephen. Alaska: An American Colony. Seattle: University of Washington Press, 2002.
[4] Wolf, Lisa. "Katalla to Prudhoe Bay: An entertaining look at the first 100 years of the oil and gas industry in Alaska." Petroleum News, 1997.

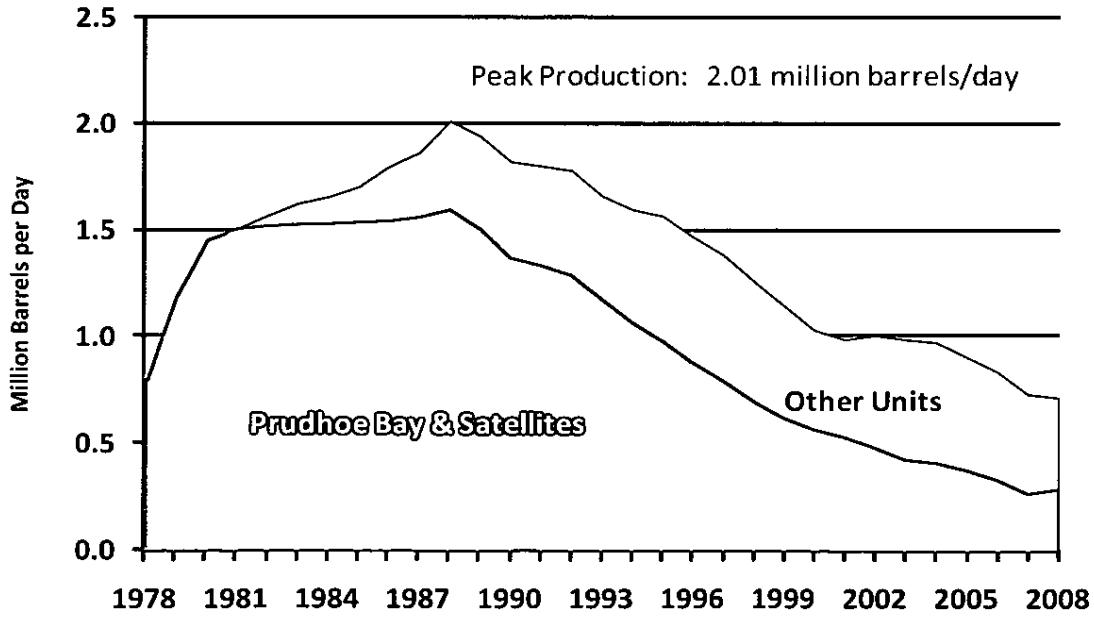
The first oil in Alaska was not discovered on the North Slope, however. Alaska's first commercial oil production came from an unlikely discovery by Alaskan pioneer Tom White in 1896. After nearly falling into a puddle of oil during a bear hunt near the small village of Katalla, near Cordova, he later returned to the pool with a match. White recalls burning his face as "a gusher of fire as high as the trees" roared in front of him.[5] Some stories have it that the countryside burned for a week, others say it was a month. In either case, Katalla was rich with oil, and the history of Alaska's oil production had begun. Production in Katalla started up and stalled several times until a refinery fire in 1933 ended Katalla's oil days.

Further discoveries in Cook Inlet just prior to statehood helped expand the industry. The Swanson River oil field on the Kenai Peninsula led to a wave of exploration and development in the area. In 1965, the McArthur River oil field was discovered in Cook Inlet, and proved to be the largest oil development in the Cook Inlet basin. The development of these oil fields boosted state government revenues. Although the production tax rate was only 1%, production from Swanson River starting in 1961 and McArthur River in 1968 immediately fed revenue into Alaska's new state government. Cook Inlet production of oil and gas increased 10-fold and 30- fold respectively from 1961 to 1968.

Federal approval of Alaska's land selections in the North Slope area meant that the state could begin issuing leases on the North Slope. The state's first North Slope lease sale was held in 1964, raising $4.3 million; a second lease sale in 1965 brought the state $6.1 million, demonstrating active interest in exploring for oil in the remote region. Despite the influx of investment dollars on the North Slope, however, explorers had little to show for their money. It wasn't until December 1967 that the Prudhoe Bay State No. 1 well proved fruitful, as gas ignited by workers monitoring the well soared 50 feet in a 30 mph wind. Two months later, Atlantic-Richfield Company announced oil was discovered, and by the summer of 1968 Prudhoe Bay was known to be awash with black gold. The $900 million Prudhoe Bay lease sale in September 1969 sent state revenue to a record high in FY 1970.[6]

The discovery of oil at Prudhoe Bay relieved worry that Alaska wouldn't survive as a state. But oil on the North Slope could not be turned into revenue until it could be transported to market. A pipeline would need to be constructed to transport oil from Prudhoe Bay to Valdez. In addition to the engineering and regulatory challenges of a designing and building an 800-mile pipeline over Arctic

Figure 3-1. Alaska North Slope Oil Production, 1978-Present



[5] Wolf, Lisa. "Katalla to Prudhoe Bay: An entertaining look at the first 100 years of the oil and gas industry in Alaska." Petroleum News, 1997.
[6] ibid.

tundra and three mountain ranges, issues relating to Alaska Native land claims and environmental concerns needed federal attention before any construction could begin.

Native land claims were settled with the Alaska Native Claims Settlement Act (ANCSA) passing Congress in 1971, but the decision on whether the pipeline, called the Trans Alaska Pipeline System (TAPS), would meet National Environmental Policy Act (NEPA) standards was pending court approval after environmental groups filed suit against the project. Two years of hearings, decisions and appeals had passed since the completion of the draft environmental impact statement (EIS) in 1971, and the courts' final ruling did not state whether the EIS met NEPA standards. Tired of waiting, in the summer of 1973 Congress passed the Alaska Pipeline Authorization Act, which squeaked through the Senate with Vice President Spiro Agnew breaking the tie vote.[7]

As the state anxiously awaited the completion of TAPS, the drain on the state budget grew. The influx of pipeline construction workers meant higher demand for state services, and it would be at least two years before oil revenue would reach state coffers. In response to this temporary shortfall, the Alaska legislature passed a 2% tax on oil and gas reserves. The tax would allow money paid under the reserves tax to be credited against future production taxes. Essentially, the state was borrowing against future oil production tax revenues. From 1976 to 1977, the state collected about $500 million in reserves tax.

When completed, TAPS was the largest privately financed project in the world, costing $8 billion. The pipeline carried its first oil from the North Slope to Valdez in June 1977. This event marked the end of an era and the beginning of another. There was no longer as much concern about where money would come from, but rather how the state's new wealth would be spent and managed.

Figure 3-1 shows the importance of the Prudhoe Bay discovery to petroleum production in Alaska. Although production in the Prudhoe Bay Unit and satellites has been in steady decline since 1988, oil production in other units has helped to stem the decline.

Unprecedented Wealth Shapes Decisions

The discovery of Prudhoe Bay in the late 1960s and subsequent nine year delay in revenues meant that Alaska lawmakers were well aware of the revenues they were about to receive. In the years preceding the first flow of oil, many were concerned about how the state's new wealth would be spent. Some pointed to the speed at which ensuing legislatures had spent the $900 million from the Prudhoe Bay lease sale. In particular, Governor Jay Hammond advocated for the creation of a permanent fund as a way to prudently manage the state's wealth. A similar proposal offered by Hammond in 1969, prior to the state's receipt of revenue from the Prudhoe Bay lease sale, had been defeated by the legislature. This time, Governor Hammond got the public's support, when he advocated there were "900 million reasons why Alaskans should support [the Permanent Fund]."[8]

In 1976, the Alaska Permanent Fund was established to invest a minimum of 25% of the state's resource royalties, rents and bonuses. The Permanent Fund was not initially set up to pay out dividends to Alaska residents. It was a savings account, but legislators had not yet agreed on a method for investing the revenue. Between 1976 and 1980, Alaskans debated whether to use the fund as an economic development bank that would invest in Alaska industries or a public trust that would pay out dividends to Alaska residents. Several proposals were put forth, and generally, people agreed the Fund should benefit future generations of Alaskans and not be used for current government expenses.

In 1980, it was decided that the fund would be a public trust that paid dividends to Alaska residents, rather than be used as a development bank to subsidize commercial enterprises in Alaska. The first checks in the amount of $1,000 were mailed out in 1982. By the end of FY 2008, $13 billion had been deposited into the Permanent Fund since FY 1977, and the total fund balance had reached $36 billion.[9] In addition to the creation of the Permanent Fund, the School Fund was established to fund "the state public school program" with 0.5% of resource royalties, rents and bonuses.

In 1977, the legislature abandoned its old production tax system, a graduated tax ranging from 3% to 8% of the wellhead value based on barrels per day per well, and adopted a new production tax system on oil production with a nominal rate of 12.25% of wellhead value, adjusted by the economic limit factor (ELF). Under the ELF formula, the lower a lease or

[7] Clifton, L.J., and B.J. Gallaway. "History of Trans Alaska Pipeline System." February 15, 2001. http://tapseis.anl.gov/.
[8] Cole, Terrance. "Blinded by Riches: The Permanent Funding Problem and the Prudhoe Bay Effect." January 2004.
[9] Alaska Permanent Fund Corporation. http://www.apfc.org/.

property's average per-well production, the lower the effective tax rate. This allowed small or declining fields in Cook Inlet and the North Slope to be taxed at lower rates than those applicable to highly productive fields such as Prudhoe Bay and Kuparuk.

Concerns over how the state would manage Alaska's wealth were also part of the motivation for creating the Constitutional Budget Reserve Fund (CBRF). In 1990, the CBRF was established to meet the state's cash flow needs and provide temporary funding when the state budget exceeded revenues. The CBRF could also be appropriated for any public use purpose if three-fourths of the House and Senate approve.

Revenue deposited into the CBRF is from settlements of litigation and tax disputes involving mineral royalties, rents, bonuses, production taxes and other sources of mineral revenue. The wealth of the CBRF became especially important when low oil prices in the late 1990s reduced revenues. Withdrawing funds from the CBRF allowed for continued funding of state operations and general services.

Figure 3-2 illustrates the impact petroleum production has on unrestricted revenue used to fund the state government. Also shown are events that contributed to higher and lower petroleum revenues.

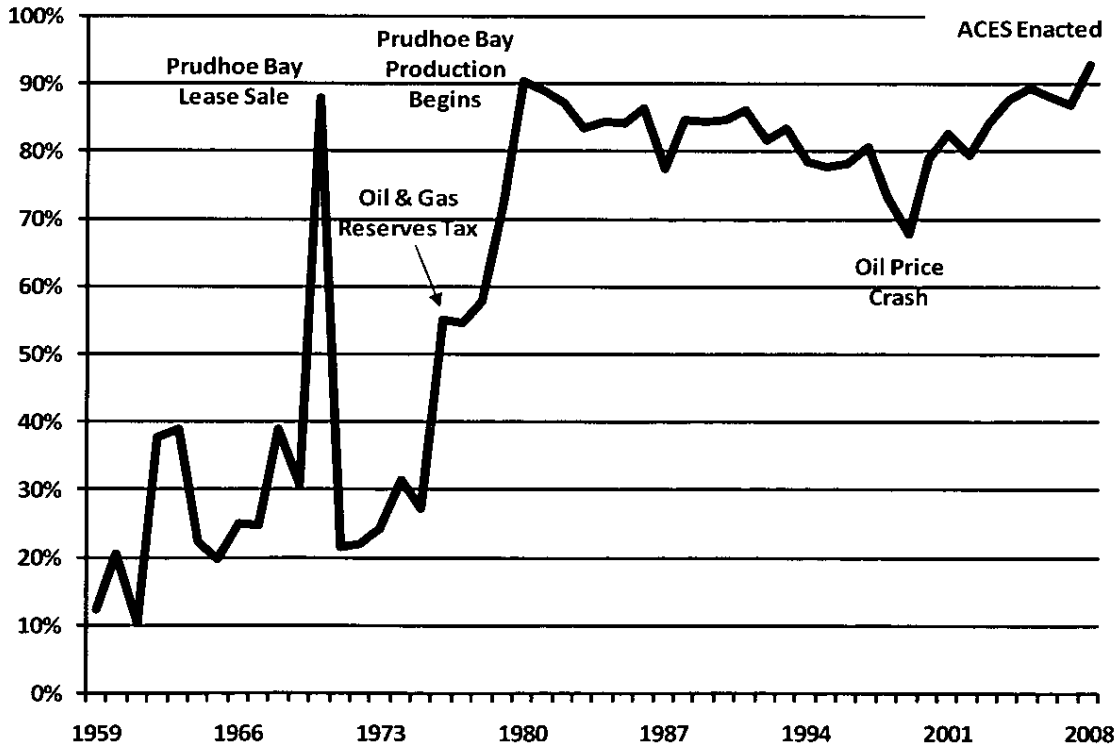
Fifty Years of Revenue

The discovery and development of Prudhoe Bay and other petroleum reservoirs helped solidify the state's financial future. In 1980, the personal income tax was repealed. Although there have been discussions over the years since statehoo, about implementing a state sales tax, state policymakers have avoided doing so.

Despite lean revenue years when oil prices were low, over the past 50 years, the state has collected a total of $96 billion in restricted and unrestricted oil revenue, for an average of about $2 billion per year. Royalties, bonuses and rents make up almost half of the total revenue, with a total of $42 billion. Production tax is next with about 35%, or roughly $34 billion. The other components of oil revenue are corporate income tax, property tax, interest and oil tax and royalty litigation settlements that are required to be deposited in the CBRF. These categories make up the remaining $20 billion.

On average, oil revenue has accounted for 85% of General Purpose

Figure 3-2. Unrestricted Petroleum Revenue as a Percent of Total Unrestricted Revenue



Unrestricted Revenue. Non-oil revenue, which will be discussed later in this chapter, has averaged 10% of unrestricted revenue. Investment interest makes up the remainder of the revenue.

Although the state has substantial reserves of natural gas, the market for this petroleum resource has been limited by the lack of a transportation system. The Cook Inlet region has been a steady supplier of natural gas to the greater Anchorage area since the 1960s. The revenue generated from the production of Cook Inlet natural gas has been low compared to the revenue generated by North Slope oil, due to the relatively small volumes of gas produced. The volumes of gas known to exist on the North Slope are substantial and the production and sale of these reserves could yield significant tax and royalty revenue for the state. To date, however, the majority of the state's natural gas supplies remains stranded on the North Slope, without a means of transporting it to market.

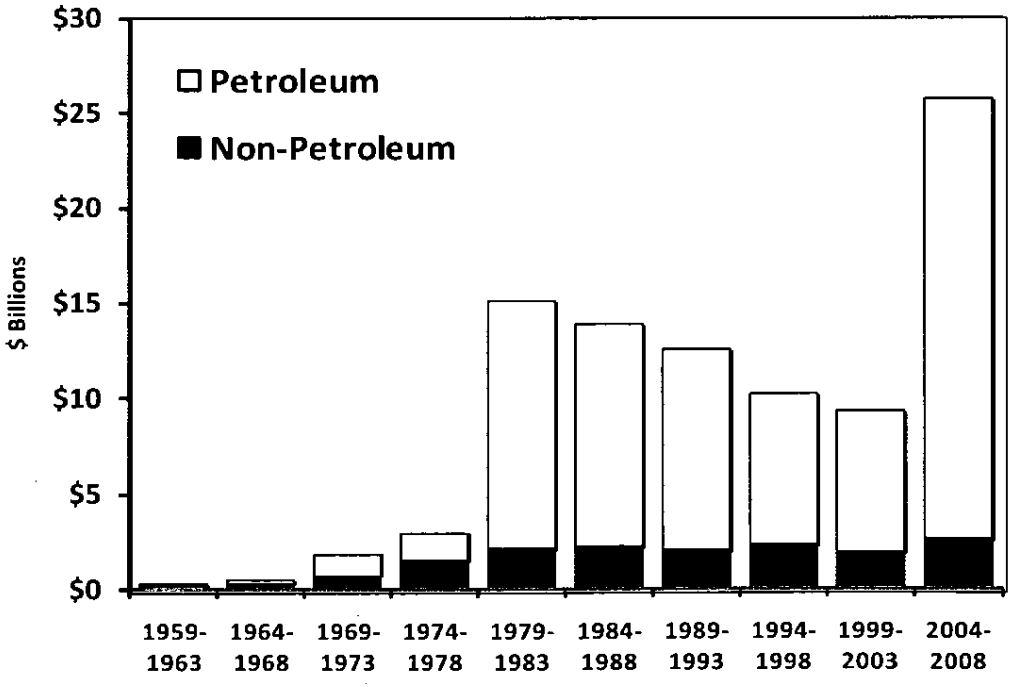
Figure 3-3 shows the importance of petroleum revenue compared to non-petroleum revenue in Alaska since statehood. Non-petroleum revenue has remained essentially flat since 1979, while petroleum revenue decreased in the years from 1979 through 2003, and then increased dramatically beginning in 2004 with the rapid rise in oil prices and changes in production tax.

Revenue Classifications

The Department of Revenue classifies revenue as either unrestricted or restricted, based in part on whether the revenue is available for general legislative appropriation. Restricted revenue, which is not available for general legislative appropriation, is considered set aside for a particular use by the constitution, state or federal law, trust or debt restrictions, or customary practice. An example of restricted revenue is the royalty revenue that is deposited in the Permanent Fund, as provided in the Alaska Constitution. The Department of Revenue also classifies as restricted those revenues that are customarily appropriated back to the programs that generate them (sometimes called "program receipts."). For example, the Business Licensing Program generates revenue, and the legislature is not required to, but customarily does, appropriate these funds back to the Business Licensing Program.

Unrestricted Revenue is all revenue that does not fit into the restricted category. Unrestricted revenue resides primarily in the General Fund and is generally available for legislative appropriation. When budget makers are assembling annual state budgets, they look to the amount of unrestricted revenue as a budget guide. The department forecasts unrestricted revenue twice yearly. For more information on the definitions of

Figure 3-3. Unrestricted Petroleum and Non-Petroleum Revenue, $ billion (nominal)



unrestricted and restricted revenue, see the Executive Summary section of this Revenue Sources Book.

The classification of several revenue sources as unrestricted or restricted has changed over time. For example, prior to 1988, the municipal share of fisheries business taxes was classified as unrestricted revenue. Beginning in 1988, the department reclassified this revenue as restricted, due to the long standing tradition of allocating this revenue to the municipalities. Such changes are minor in the big picture of state revenue, and they do not materially distort unrestricted revenue trends.

General Purpose Unrestricted Revenue from FY 1959 to FY 2008 is presented in Figure 3-7 at the end of this chapter. We do not present total restricted revenue due to the inconsistency in reporting criteria over the period. Restricted petroleum revenue is available for all years and can be accessed through the historical revenue database on the Department of Revenue, Tax Division website.

Petroleum Revenue

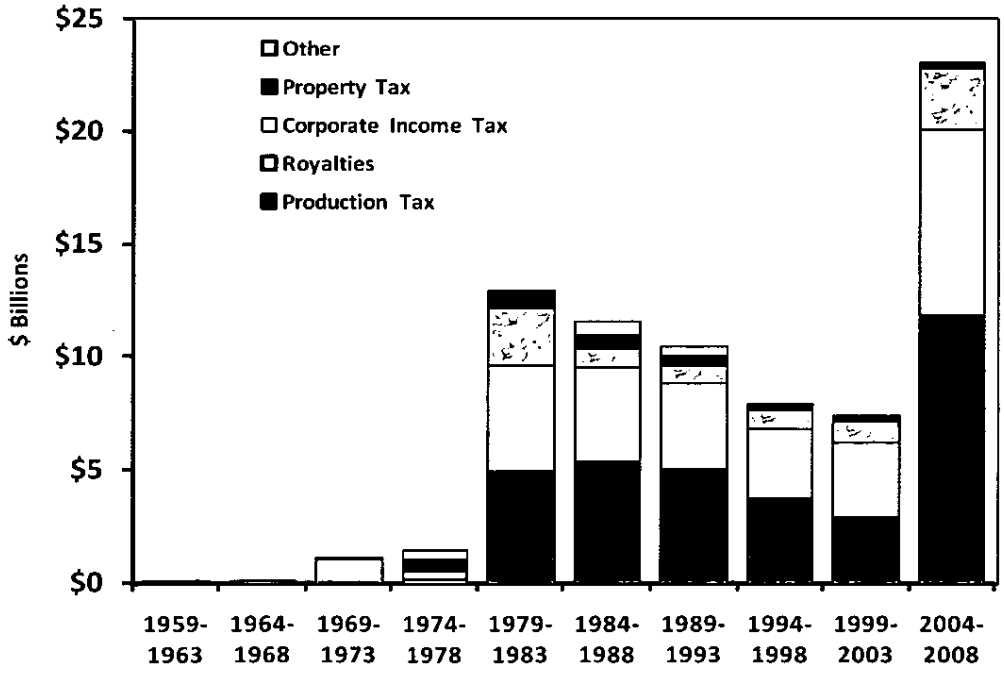
Petroleum taxes and the majority of royalty revenue are classified as unrestricted revenue. Petroleum taxes consist of production tax, property tax and petroleum corporate income tax. Of these three petroleum taxes, the production tax accounts for the majority of the tax revenue.

Royalty revenue, which is administered and collected by the Department of Natural Resources, is the fourth source of petroleum revenue. The Alaska Constitution requires that a minimum 25% of all mineral bonuses, rents and royalties be deposited into the Permanent Fund. Another 0.5% of mineral bonuses, rents and royalties is deposited in the Public School Trust Fund. The amounts deposited in the Permanent Fund and School Trust Fund are classified as restricted revenue. The remainder of the royalty revenue is classified as unrestricted revenue.

Fiscal Year 2008 had the highest annual unrestricted and restricted petroleum revenue in the state's history, in nominal dollars, totaling about $11.26 billion. As a comparison, FY 1981's $4.6 billion in nominal petroleum revenue amounted to about $11.5 billion in real 2008 dollars when adjusted for inflation. Fiscal Year 2008's record revenue was due primarily to high oil prices (average $96.51 per barrel) in conjunction with a new, progressive tax structure, while FY 1981 had nearly double the oil volumes and high oil prices relative to the years following it, at about $34 per barrel ($84 per barrel in nominal dollars).

Production tax structure has played an important role in the amount of revenue collected from Alaska's oil. As

Figure 3-4. Unrestricted Petroleum Revenue by Component, $ billion (nominal)



described earlier, the first substantive production tax on petroleum was a tax on the gross value of the oil and gas produced as adjusted by the Economic Limit Factor (ELF). The ELF tax structure remained in place from 1977, when Prudhoe Bay began production, to 2006, when a revised production tax structure based on net profits was adopted. The first version of the net profits production tax, called the Petroleum Profits Tax (PPT) became effective April 1, 2006. The tax structure was further revised with the passage of the Alaska's Clear and Equitable Share tax (ACES), effective July 2007. Both of these tax structures allowed deductions of lease expenditures against the gross value of production before applying the tax rate. Both of the structures also had credit provisions whereby taxpayers could offset tax liabilities through capital investments made towards petroleum production in Alaska.

Among the goals of the net profits tax structure was to encourage reinvestment in petroleum properties in the state. Alaska was the first state to adopt a progressive tax structure like ACES, although many other oil provinces around the world use a similar structure.

Figure 3-4 illustrates the four primary components of petroleum revenue, along with a fifth component called "other" that consists of revenue from petroleum special settlements and the reserves tax received in some prior years.

Non-Petroleum Revenue

Since statehood, non-petroleum unrestricted revenue has totaled $15.7 billion, or 17% of revenue collected. Although Alaska's revenue picture is now concerned primarily with oil and gas revenue, this has not always been the case. Before Alaska became a major oil province, the state relied on non-petroleum revenues to fund the majority of state government. Looking forward, as oil production continues to decline, and oil prices stabilize well below recent record levels, if gas resources are not developed, then non-petroleum revenues could again become a major component of state revenues.

With the exception of the Prudhoe Bay lease sale in 1970, non-petroleum revenues made up more than 50% of unrestricted revenue every year from statehood through 1975. The largest contributor to state revenues during these years was the individual income tax. The individual income tax generated $459 million from statehood through 1975, or about 21% of unrestricted revenue (again excluding the Prudhoe Bay lease sale revenue).

A number of other taxes and revenue sources round out non-petroleum revenues. At statehood, there were taxes on corporate income, motor fuel, alcohol, fisheries and business licenses, as well as an inheritance tax and a school tax. There were also revenues from licenses and permits, charges for state services, investment earnings, non-petroleum royalties and miscellaneous items. Individually, these items contributed a very small amount to the state treasury, but collectively they accounted for more than half of Alaska's unrestricted revenue from 1959-1975 (not counting the Prudhoe Bay lease sale).

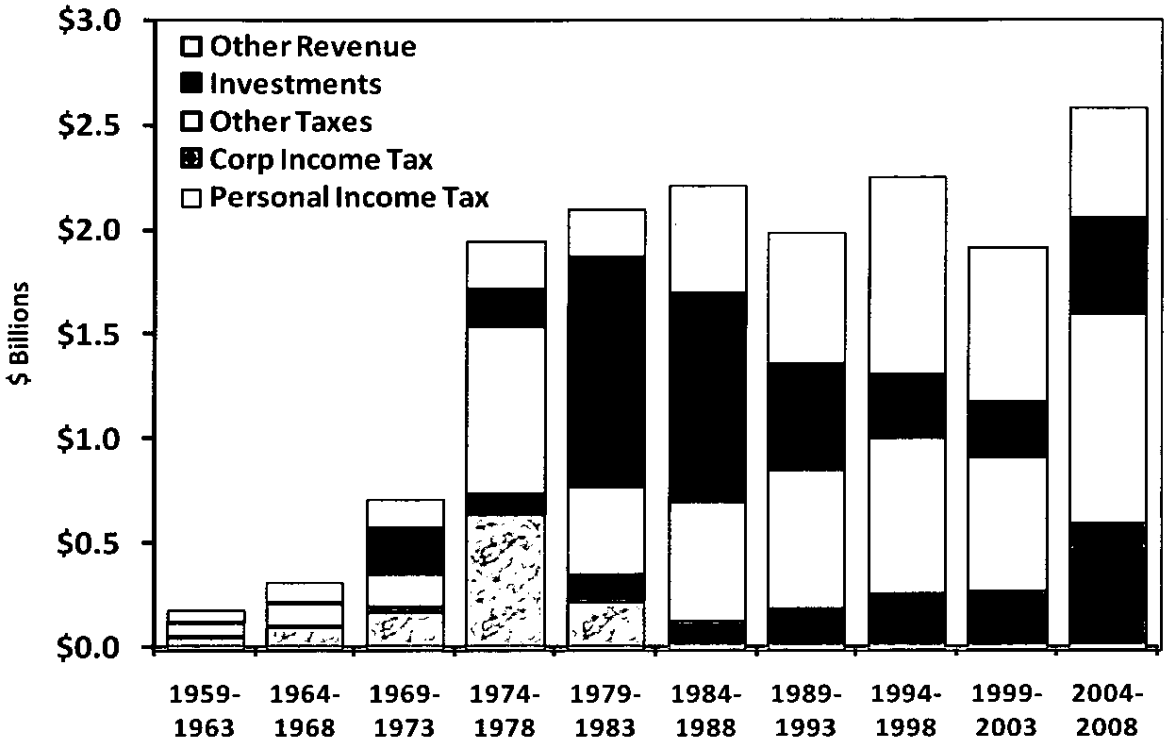
Since 1975, non-petroleum revenue has made up a much smaller share of Alaska's revenue than in the early years of statehood. Revenue from oil allowed Alaska to eliminate the biggest source of early state revenue: the individual income tax. Alaska also eliminated other revenue generators it relied upon in earlier years, such as the school tax, the inheritance tax and the business license tax. Until its repeal in 1980, the income tax was a stabilizing tax, producing a total of $1.2 billion over that period. Alaska is the only state in the nation that does not have a statewide sales or income tax.

Today, non-petroleum revenue is a mix of several different taxes, fees and other revenue items, with taxes making up nearly two-thirds of the total over the past five years. A number of industries contribute to non-petroleum tax revenues. There are taxes on fisheries processing and landing. There is a severance tax on the net income of mining operations in the state which has grown in recent years as mineral prices increased. Taxes on tourism activities were added within the last 5 years, and they include a vehicle rental tax and a large passenger vessel gambling tax. There are also per-passenger tourism taxes and fees, but those revenues are considered restricted revenues. The largest non-petroleum tax is the corporate income tax, which is paid by companies in almost all industries, including mining, tourism, fisheries, timber and others.

Collectively, all unrestricted non-petroleum revenues amounted to $780 million in FY 2008 compared to over $10 billion of unrestricted petroleum revenue. Although the amount pales in comparison with oil revenue, non-petroleum taxes do contribute to the state treasury and may become a larger force. in the future.

Figure 3-5 presents the five components of non-petroleum revenue. These include the individual income tax, the corporate income tax, investments, other taxes and other revenue. "Other taxes" includes all tax revenue except the personal and corporate income taxes, including fisheries taxes, mining taxes, insurance taxes, excise taxes, etc.

Figure 3-5. Unrestricted Non-Petroleum Revenue by Component, $ billion (nominal)



"Other revenue" includes non-petroleum revenues that are neither taxes nor investment revenues such as licenses and permits, charges for state services, fines and forfeitures, rents and royalties and miscellaneous revenues. In contrast to petroleum revenue, non-petroleum revenue has remained relatively consistent since 1974.

Boom and Bust Cycles and Fiscal Stability

Since the first oil began flowing down TAPS, Alaska's state budget has been largely dependent on oil revenues. Government budgets that depend on resource-driven revenues such as oil will have a bumpy ride where the price of that resource is volatile. Over the past 30 years, oil prices have been as low as $8.79 per barrel and as high as $145 per barrel. Oil prices on an annual basisreached their low only 10 years ago in FY 1999 when they hit $12.99 per barrel ($16.70 in real 2008 dollars). Not coincidentally, that same year was also the state's lowest revenue year over the 30-year period with total unrestricted revenue for the year at just $1.35 billion. The budget for FY 1999 was $2.4 billion, creating a revenue shortfall of just over $1 billion. Fortunately, previous legislatures set aside some early oil revenue in the Constitutional Budget Reserve Fund. The CBRF came to the rescue in 1999, providing over $1 billion, or almost half of the revenues needed to meet budget demands. The CBRF was tapped to fill revenue-budget gaps in ten of the fifteen years since FY 1994.

In a letter to the governor from the Fall 2000 Revenue Sources Book, then-Commissioner Wilson Condon noted,

Amusement parks are known for their rollercoaster rides but there's nothing amusing about the up-and-down ride for oil prices this year. Buyers on March 7 paid a 10-year high for Alaska North Slope crude at $32.30 a barrel, and then watched as the price fell to $22.10 on April 10. The rollercoaster cranked up again and topped out at a crest of $35.62 on Sept. 19 before aiming down another curve and hitting $25 on Monday.

This has been a familiar story to past and present governors of this state. Oil prices seemed to mysteriously rise and fall with very little warning. What's more, in recent years, oil price swings have become bigger, accentuating the volatility. Whereas movements in price were once measured in cents or in dollars, they are increasingly being measured in $10 and $20 increments.

With several down years of oil prices in the late 1990s, the words "budget

shortfall" were not uncommon in the halls of the Capitol and state budgets had to be trimmed to accommodate the lack of revenue. Broad based taxes were again the subject of conversation, and there were several legislative proposals to re-establish an individual income tax or to implement a sales tax in the state. None of them were passed, however, leaving state revenues subject to the boom and bust cycles of oil prices.

This fiscal year may be a year for the record books when it comes to oil price volatility. Oil prices essentially doubled from levels experienced in 2006 and 2007, reaching an all time high in July 2008 of $145.29. Within a few months, oil prices came crashing down to less than $50 per barrel in November 2008 – a decrease of almost $100 per barrel. The impacts will be felt in the state's revenue picture as well: in Spring 2008, the department forecasted FY 2010 revenues to be what was deemed a conservative $6.3 billion. The figure for FY 2010 revenue is now set one billion dollars lower, at $5.3 billion. The outlook for FY 2011 looks less rosy, with revised estimates of unrestricted revenue at $4.4 billion from a previously forecasted $6.0 billion.

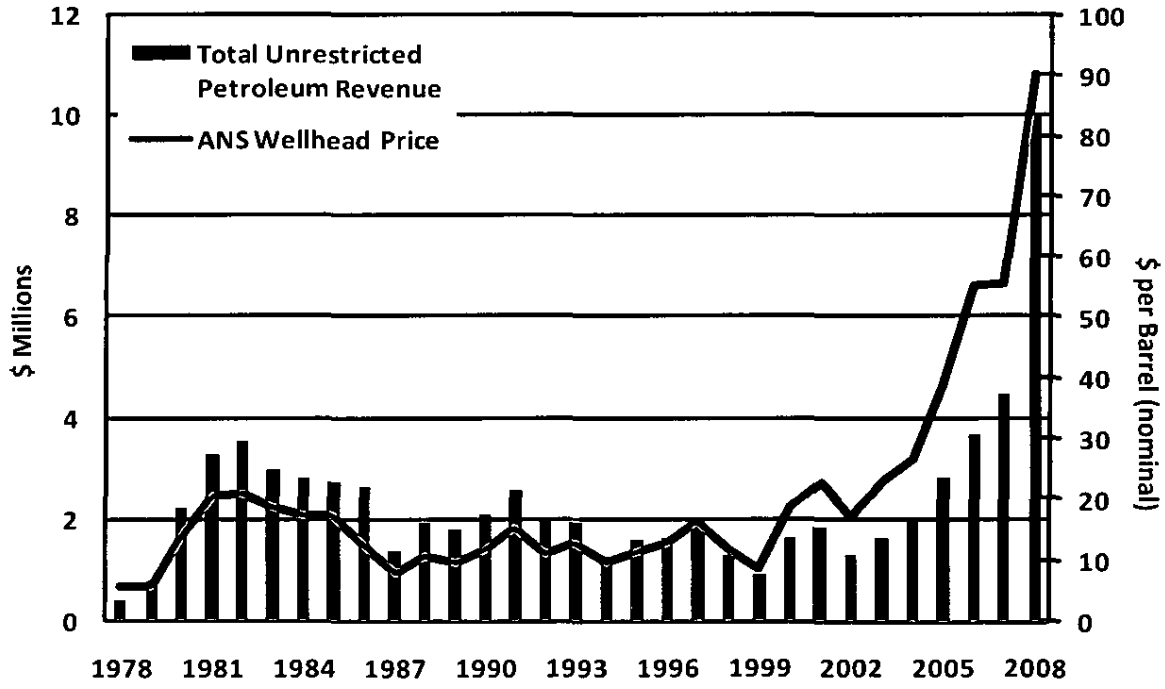
Most economists point to market fundamentals—primarily reduced demand—as the driver of the recent downturn in oil prices. The housing market crisis and the subsequent near collapse of several of the country's largest financial institutions have had a significant impact on the health of the nation's economy. Recent indicators are that the U.S. recession is spreading worldwide, impacting global markets in otherwise healthy economies. All this has led to lower consumer confidence, reduced spending and decreased demand for petroleum products.

As has happened throughout the history of Alaska's petroleum revenues, however, petroleum demand will rebound when economies strengthen. With the increase in demand, oil prices should come back to levels that are consistent with demand. If demand increases to levels beyond those sustainable by supply, we will see oil prices rise again, perhaps to levels at or above those experienced in July 2008. Such is the typical boom and bust cycle that non-renewable resources like petroleum generate.

Figure 3-6 illustrates the impact oil prices have on the state's unrestricted revenues. In the mid to late 1980s, production levels sustained revenues, even in the absence of high oil prices.

In an effort to stabilize state spending—one half of the revenue-budget equation—the legislature passed House Bill 125 in 2008, requiring the governor to prepare and submit a 10-year fiscal plan along with the

Figure 3-6. ANS Wellhead Price and Total Unrestricted Petroleum Revenue



normal budget documentation at the beginning of each legislative session. The fiscal plan must identify the source of funds, as well as the use of them, and the two must balance. The governor and the Office of Management and Budget will be submitting the first of such fiscal plans to the legislature in January 2009.

Alaska Revenues – A Look Back and A Look into the Future

The history of state revenue in Alaska has not been a dull story. At times revenue trickled and at other times it flooded the treasury.

Over the 50 years that Alaska has been a state, over eighty percent of unrestricted revenue has come from petroleum sources, and sixty percent of this has been from production taxes and royalties. With so much state revenue coming from a commodity with such price volatility, booms and busts in state revenue are almost guaranteed.

In the early years of statehood, petroleum revenue was only a small portion of unrestricted revenue. Individual and business taxes provided most of state revenue before Prudhoe Bay. In the past five years, petroleum revenue has averaged 89% of unrestricted revenue.

Has this reversal been a blessing or a curse? On the positive side, it has allowed the state to establish a stable state government and balance the budget—something that was a challenge before Prudhoe Bay. On the negative side, the state's revenue heavily depends on a finite resource that is subject to extreme price volatility.

For the past 50 years, state revenue has been focused on the Prudhoe Bay discovery and its production. What will be the focal point of the next 50 years?

On August 1, 2008, the Alaska legislature authorized the Alaska Gasline Inducement Act (AGIA) license to be awarded to TransCanada Alaska. The 1,715-mile proposed natural gas pipeline from Alaska's North Slope to the Alberta Hub in Canada will be the largest construction project in North American history. It will ship 4.5 billion cubic feet (bcf) of gas per day with additional capacity up to 5.9 bcf per day.

In the coming years TransCanada will be moving forward on early-stage development of the project and preparing to secure supply commitments in an open season to be held by July 2010. The TransCanada Alaska gasline is scheduled to be in service before the end of 2018.

Natural gas is also an important energy source for Alaskans. With this in mind, the ACES production tax provides tax relief for natural gas production that is sold and used within the state. It is anticipated that a portion of the natural gas that is developed through the AGIA process or other in-state gas delivery initiatives will be made available to meet the energy needs of Alaska residences and current and future industries.

Mining in Alaska also holds potential for future revenue. Alaska is currently fifth in the United States in mineral production value, and more exploration and development is under way. Mining exploration and development has expanded in the last four years. Total exploration expenditures have increased 12-fold from 2002 to 2007; development expenditures from 2005 to 2007 were higher than any other 3-year period over the last 30 years.[10]

Alaska's seafood industry has enjoyed higher prices and healthy stocks. The 2007 salmon harvest reached its 4th highest level in terms of pounds of salmon caught since 1960.[11] The ability of Alaska to sustain an environment conducive to large and healthy seafood populations and promote Alaska seafood products will be vital to continuing the growth of the seafood industry and its contribution to state revenue.

Alaska's natural resource wealth also includes its beauty and attractiveness to outside visitors. Alaska's tourism industry and its share of state tax revenue, through corporate income taxes, vehicle taxes and passenger vessel taxes, have grown in recent years as the volume of visitors and employment in the industry have increased. A citizen's initiative passed in 2006, adding new taxes on the cruise ship industry and increasing its share of state tax revenue. Alaska boasts superb summer and winter activities and attractions that generate tourism dollars in most areas of the state. Improving the attractiveness of visiting Alaska and its natural assets will be essential to the growth of the state's economy and its revenue.

Alaska's natural resource wealth will be a major part of Alaska's future economy and state revenue. It alone, however, does not ensure a prosperous future. The ability of Alaskans to successfully manage their natural resources and handle the volatile wealth it brings has been a vital element in creating and sustaining Alaska's prosperity. The future will surely be no different.

[10] Szumigala, D.J., and R.A. Hughes. Alaska's Mineral Industry 2007: A summary. Alaska Division of Geological & Geophysical Surveys, 2008.

[11] Nelson, Patricia, Michael D. Plotnick, and Amy M. Carroll. Run Forecasts and Harvest Projections for 2008 Alaska Salmon Fisheries and Review of the 2007 Season. Alaska Department of Fish and Game, 2008.

Figure 3-7. Fifty Years of Revenue

General Purpose Unrestricted Revenue—1959-1968[1]($ million)

FY	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
TAX REVENUE										
Petroleum Property Tax [2]	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Excise Tax										
Alcoholic Beverages	2.1	2.2	2.4	2.5	2.8	2.8	3.1	3.4	3.4	3.7
Tobacco Products	0.0	0.0	0.0	0.6	0.8	0.8	0.8	1.0	0.9	1.0
Insurance Premium	0.7	0.9	1.0	1.0	1.1	1.2	1.3	1.7	1.8	2.0
Electric and Telephone Cooperative [3]	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Motor Fuel Tax [4]	3.1	3.7	4.8	6.9	6.1	5.6	6.0	6.6	7.1	7.8
Vehicle Rental tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tire Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**5.9**	**6.7**	**8.1**	**11.3**	**10.9**	**10.6**	**11.4**	**12.8**	**13.5**	**14.7**
Income Tax										
General Corporate	1.4	1.7	1.4	1.8	2.2	1.8	1.9	4.1	3.5	3.8
Petroleum Corporate [5]	NA	NA	NA	NA	NA	NA	NA	NA	NA	0.1
Individual and Fiduciary	8.1	8.9	10.4	12.2	13.0	13.9	16.2	19.2	22.7	22.6
Total	**9.5**	**10.6**	**11.8**	**14.0**	**15.2**	**15.7**	**18.1**	**23.3**	**26.1**	**26.5**
Severance Tax										
Oil and Gas Production	0.0	0.0	0.0	0.2	0.3	0.3	0.3	0.3	0.5	2.0
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil and Gas Hazardous Release	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**	**0.5**	**2.0**
Fish Tax										
Fisheries Business Tax [6]	1.8	1.4	2.0	3.1	2.9	2.3	2.8	3.2	3.6	2.3
Fish Landing [6]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [7]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1.8**	**1.4**	**2.0**	**3.1**	**2.9**	**2.3**	**2.8**	**3.2**	**3.6**	**2.3**
Other Tax										
Estate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mining	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.1
Charitable Gaming [4]	0.0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Business License Tax	1.2	1.2	1.3	1.4	2.3	2.4	2.9	3.2	3.3	3.8
Large Passenger Vessel Gambling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [8]	0.7	1.3	1.2	1.0	0.8	0.9	1.0	0.9	1.0	1.6
Total	**1.9**	**2.5**	**2.5**	**2.4**	**3.2**	**3.3**	**4.0**	**4.2**	**4.4**	**5.5**
TOTAL TAX REVENUE	**19.1**	**21.2**	**24.4**	**31.0**	**32.5**	**32.2**	**36.6**	**43.8**	**48.0**	**50.9**

Figure 3-7. Fifty Years of Revenue

General Purpose Unrestricted Revenue—1959-1968, continued[1]($ million)

FY	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
NON TAX REVENUE										
Licenses and Permits	**2.5**	**3.1**	**3.4**	**3.8**	**4.8**	**4.5**	**4.5**	**6.3**	**6.2**	**6.6**
Intergovernmental Receipts										
Federal Shared Revenues	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Charges for Services	**0.1**	**1.8**	**0.7**	**0.8**	**1.1**	**3.2**	**3.9**	**4.6**	**5.4**	**7.0**
Fines and Forefeitures	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Rents and Royalties										
Oil and Gas Royalties-Net	0.0	0.0	2.4	4.5	18.9	5.9	8.4	7.9	9.6	17.0
Oil and Gas Bonuses, Rents, Interest[9]	3.1	9.9	1.7	21.3	8.6	8.7	7.7	13.3	11.3	24.7
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [10]	0.2	1.0	1.3	0.9	1.0	1.1	1.6	0.7	1.7	1.8
Total Rents and Royalties	**3.3**	**10.9**	**5.5**	**26.7**	**28.6**	**15.8**	**17.7**	**22.0**	**22.7**	**43.5**
Investment Earnings[11]	**0.2**	**0.8**	**0.8**	**0.9**	**1.3**	**1.3**	**2.6**	**3.2**	**2.8**	**2.2**
Miscellaneous Revenue	**0.2**	**10.2**	**5.8**	**5.8**	**3.5**	**10.1**	**17.6**	**6.6**	**1.4**	**2.6**
TOTAL NON-TAX REVENUE	**6.2**	**26.8**	**16.1**	**38.0**	**39.2**	**34.8**	**46.3**	**42.7**	**38.5**	**61.8**
TOTAL GENERAL PURPOSE UNRESTRICTED REVENUE [12]	**25.4**	**48.0**	**40.5**	**68.9**	**71.6**	**67.0**	**83.0**	**86.4**	**86.6**	**112.7**
Cumulative General Purpose Unrestricted Revenue	25.4	73.4	113.9	182.8	254.5	321.4	404.4	490.8	577.4	690.1
Petroleum Revenue	3.1	9.9	4.2	26.0	27.8	14.9	16.5	21.6	21.5	43.8
Non-Petroleum Revenue	22.3	38.1	36.3	43.0	43.8	52.1	66.5	64.9	65.1	68.9
% Petroleum of Total GPUR	12%	21%	10%	38%	39%	22%	20%	25%	25%	39%

[1] In years before FY 2000, some revenues figures may include customarily restricted revenue. These include revenues in the following categories: license & permits, federal shared revenues, and charges for services and others.

[2] The property tax figure in the Spring 1991 Revenue Sources Book includes a $28 million settlement with the City of Valdez. This table excludes that settlement.

[3] Prior to FY 1988, data are for General Fund Unrestricted Revenue. This amount is higher than General Purpose Unrestricted Revenue because the data include certain shared revenue.

[4] Prior to FY 1997, includes aviation fuel tax revenue shared with local municipalities.

[5] The figure in the Spring 1994 Revenue Sources Book includes $717.6 million in settlements to the CBRF. The figure in this table excludes these settlements.

[6] Prior to FY 2000, includes revenue shared with local municipalities.

[7] The "other fish tax" category includes salmon enhancement tax and seafood and salmon marketing tax.

[8] The "other tax" category includes several taxes which are now repealed: school tax, inheritance tax, non-petroleum property tax and others.

[9] These categories are primarily comprised of petroleum.

[10] The "other rents and royalties" category includes several non-petroleum royalties and other resource revenue such as sales of state property and timber sales.

[11] Starting in FY 2001, interest earnings are included in oil and gas royalties and excluded from investment earnings.

[12] Includes payments of $22.4 million, $45.6 million and $131.4 million for FY 1978, 1979, and 1980 respectively to the Alaska Native Fund under ANCSA.

Figure 3-7. Fifty Years of Revenue

General Purpose Unrestricted Revenue—1969-1978[1] ($ million)

FY	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
TAX REVENUE										
Petroleum Property Tax [2]	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**6.6**	**83.4**	**139.1**	**173.0**
Excise Tax										
Alcoholic Beverages	3.9	4.4	4.9	4.8	5.2	5.7	6.6	7.8	8.0	7.6
Tobacco Products	1.0	1.0	1.1	1.2	1.2	1.3	1.5	1.7	1.8	1.7
Insurance Premium	2.2	2.6	3.0	3.5	3.7	3.8	4.4	6.1	8.1	10.0
Electric and Telephone Cooperative [3]	0.3	0.3	0.4	0.5	0.5	0.6	0.7	0.9	1.2	1.5
Motor Fuel Tax [4]	9.1	10.4	11.0	11.4	12.4	13.8	18.0	24.4	20.6	23.3
Vehicle Rental tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tire Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**16.6**	**18.7**	**20.4**	**21.4**	**23.1**	**25.1**	**31.2**	**41.0**	**39.7**	**44.1**
Income Tax										
General Corporate	4.2	4.9	5.2	5.3	6.0	7.0	14.9	26.2	30.8	25.1
Petroleum Corporate [5]	0.1	0.4	0.9	1.2	0.9	1.2	2.5	4.9	5.0	8.4
Individual and Fiduciary	25.2	32.5	35.5	39.1	43.4	49.2	87.0	146.3	210.5	145.8
Total	**29.5**	**37.8**	**41.6**	**45.6**	**50.2**	**57.5**	**104.3**	**177.4**	**246.3**	**179.3**
Severance Tax										
Oil and Gas Production	5.6	7.9	10.5	11.4	12.0	14.8	26.6	27.9	23.7	107.6
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Oil and Gas Hazardous Release	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**5.6**	**7.9**	**10.5**	**11.4**	**12.0**	**14.8**	**26.6**	**28.0**	**23.8**	**107.7**
Fish Tax										
Fisheries Business Tax [6]	2.8	2.5	4.0	3.3	2.5	2.8	2.7	3.1	6.2	8.3
Fish Landing [6]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [7]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**2.8**	**2.5**	**4.0**	**3.3**	**2.5**	**2.8**	**2.7**	**3.1**	**6.2**	**8.3**
Other Tax										
Estate	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2
Mining	0.1	0.0	0.0	0.0	0.0	NA	NA	NA	NA	NA
Charitable Gaming [4]	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Business License Tax	4.2	5.1	5.6	6.1	6.7	7.5	11.2	19.1	23.3	21.7
Large Passenger Vessel Gambling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [8]	2.6	2.2	1.6	1.5	1.6	1.9	3.0	227.6	274.3	3.6
Total	**6.8**	**7.3**	**7.2**	**7.6**	**8.4**	**9.6**	**14.2**	**246.9**	**297.7**	**25.5**
TOTAL TAX REVENUE	**61.3**	**74.2**	**83.7**	**89.3**	**96.2**	**109.7**	**185.7**	**579.7**	**752.8**	**537.8**

Figure 3-7. Fifty Years of Revenue

General Purpose Unrestricted Revenue—1969-1978, continued[1] ($ million)

FY	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
NON TAX REVENUE										
Licenses and Permits	**7.3**	**8.4**	**8.7**	**9.1**	**9.8**	**10.9**	**13.6**	**16.4**	**16.1**	**19.1**
Intergovernmental Receipts										
Federal Shared Revenues	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Charges for Services	**8.4**	**9.2**	**11.0**	**13.7**	**17.4**	**17.8**	**20.2**	**22.4**	**24.8**	**24.9**
Fines and Forefeitures	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Rents and Royalties										
Oil and Gas Royalties-Net	24.7	27.5	32.6	30.1	27.8	35.8	49.8	48.4	36.3	150.6
Oil and Gas Bonuses, Rents, Interest[9]	4.1	903.1	3.2	5.5	9.5	28.4	4.9	3.7	2.8	1.8
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [10]	2.1	2.3	2.4	2.9	3.1	2.7	13.4	3.6	2.9	5.0
Total Rents and Royalties	**30.9**	**932.9**	**38.1**	**38.5**	**40.4**	**66.9**	**68.1**	**55.7**	**42.0**	**157.4**
Investment Earnings[11]	**2.7**	**39.8**	**78.4**	**67.3**	**43.2**	**41.1**	**38.5**	**31.7**	**34.8**	**44.2**
Miscellaneous Revenue	**1.7**	**2.7**	**0.7**	**1.2**	**1.2**	**8.5**	**7.4**	**3.9**	**3.9**	**3.9**
TOTAL NON-TAX REVENUE	**51.1**	**993.0**	**136.9**	**129.8**	**112.0**	**145.2**	**147.8**	**130.1**	**121.6**	**249.5**
TOTAL GENERAL PURPOSE UNRESTRICTED REVENUE [12]	**112.4**	**1,067.2**	**220.5**	**219.1**	**208.2**	**254.9**	**333.4**	**709.8**	**874.4**	**787.3**
Cumulative General Purpose Unrestricted Revenue	802.5	1,869.8	2,090.3	2,309.4	2,517.6	2,772.5	3,106.0	3,815.8	4,690.2	5,477.5
Petroleum Revenue	34.5	938.9	47.1	48.3	50.2	80.2	90.4	391.5	477.6	441.5
Non-Petroleum Revenue	77.9	128.3	173.4	170.8	158.0	174.7	243.0	318.3	396.8	323.4
% Petroleum of Total GPUR	31%	88%	21%	22%	24%	31%	27%	55%	55%	58%

[1] In years before FY 2000, some revenues figures may include customarily restricted revenue. These include revenues in the following categories: license & permits, federal shared revenues, and charges for services and others.
[2] The property tax figure in the Spring 1991 Revenue Sources Book includes a $28 million settlement with the City of Valdez. This table excludes that settlement.
[3] Prior to FY 1988, data are for General Fund Unrestricted Revenue. This amount is higher than General Purpose Unrestricted Revenue because the data include certain shared revenue.
[4] Prior to FY 1997, includes aviation fuel tax revenue shared with local municipalities.
[5] The figure in the Spring 1994 Revenue Sources Book includes $717.6 million in settlements to the CBRF. The figure in this table excludes these settlements.
[6] Prior to FY 2000, includes revenue shared with local municipalities.
[7] The "other fish tax" category includes salmon enhancement tax and seafood and salmon marketing tax.
[8] The "other tax" category includes several taxes which are now repealed: school tax, inheritance tax, non-petroleum property tax and others.
[9] These categories are primarily comprised of petroleum.
[10] The "other rents and royalties" category includes several non-petroleum royalties and other resource revenue such as sales of state property and timber sales.
[11] Starting in FY 2001, interest earnings are included in oil and gas royalties and excluded from investment earnings.
[12] Includes payments of $22.4 million, $45.6 million and $131.4 million for FY 1978, 1979, and 1980 respectively to the Alaska Native Fund under ANCSA.

Figure 3-7. Fifty Years of Revenue

General Purpose Unrestricted Revenue—1979-1988[1] ($ million)

FY	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
TAX REVENUE										
Petroleum Property Tax [2]	**163.4**	**168.9**	**143.0**	**142.7**	**152.6**	**131.0**	**128.4**	**113.5**	**102.5**	**96.2**
Excise Tax										
Alcoholic Beverages	7.4	7.4	8.3	9.0	10.4	13.0	13.9	13.3	12.6	12.1
Tobacco Products	1.7	1.6	1.7	1.9	2.0	2.0	2.0	4.9	6.6	6.1
Insurance Premium	10.8	10.4	10.6	12.5	13.8	16.2	17.5	21.1	23.7	23.7
Electric and Telephone Cooperative [3]	1.7	2.0	1.1	1.2	1.4	1.6	1.8	1.9	2.0	0.1
Motor Fuel Tax [4]	22.3	26.1	23.2	30.3	36.7	32.2	36.0	36.1	32.2	33.6
Vehicle Rental tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tire Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**43.9**	**47.5**	**44.9**	**54.9**	**64.3**	**65.0**	**71.2**	**77.3**	**77.1**	**75.6**
Income Tax										
General Corporate	24.8	17.9	34.8	34.8	30.3	39.5	36.0	11.2	20.5	23.4
Petroleum Corporate [5]	232.6	547.5	860.1	668.9	236.0	265.1	168.6	133.9	120.4	158.0
Individual and Fiduciary	117.3	100.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**374.7**	**666.0**	**894.9**	**703.7**	**266.3**	**304.6**	**204.6**	**145.1**	**140.9**	**181.4**
Severance Tax										
Oil and Gas Production	173.6	506.2	1169.9	1581.1	1493.0	1392.4	1388.7	1107.4	647.3	816.4
Oil and Gas Conservation	0.2	0.3	0.3	0.6	0.7	0.7	0.7	0.5	1.2	2.3
Oil and Gas Hazardous Release	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**173.8**	**506.5**	**1,170.2**	**1,581.7**	**1,493.7**	**1,393.1**	**1,389.4**	**1,107.9**	**648.5**	**818.7**
Fish Tax										
Fisheries Business Tax [6]	11.9	14.6	20.7	22.8	20.5	19.0	18.7	21.1	26.5	22.5
Fish Landing [6]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [7]	0.0	0.0	0.0	2.4	3.5	3.3	3.6	5.4	5.8	8.5
Total	**11.9**	**14.6**	**20.7**	**25.2**	**24.0**	**22.3**	**22.3**	**26.5**	**32.3**	**31.0**
Other Tax										
Estate	0.1	0.2	0.5	0.3	0.7	0.7	0.5	0.7	1.1	0.3
Mining	NA	NA	NA	0.2	0.2	0.4	0.3	0.3	0.3	0.4
Charitable Gaming [4]	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Business License Tax	28.2	4.2	5.4	5.5	6.9	19.9	38.8	2.1	1.5	1.4
Large Passenger Vessel Gambling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [8]	4.6	4.4	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**32.9**	**8.8**	**8.9**	**6.0**	**7.8**	**21.0**	**39.6**	**3.1**	**2.9**	**2.1**
TOTAL TAX REVENUE	**800.6**	**1,412.3**	**2,282.6**	**2,514.2**	**2,008.7**	**1,937.0**	**1,855.5**	**1,473.4**	**1,004.2**	**1,205.0**

Figure 3-7. Fifty Years of Revenue

General Purpose Unrestricted Revenue—1979-1988, continued[1] ($ million)

FY	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
NON TAX REVENUE										
Licenses and Permits	19.8	18.8	21.3	23.8	25.7	26.7	28.9	29.3	29.2	28.3
Intergovernmental Receipts										
Federal Shared Revenues	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Charges for Services	28.0	30.8	36.2	44.0	47.4	46.7	52.6	48.2	47.0	39.8
Fines and Forefeitures	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Rents and Royalties										
Oil and Gas Royalties-Net	250.2	689.4	1,119.7	1,174.4	1,105.6	1,058.5	1,042.2	845.0	448.3	701.5
Oil and Gas Bonuses, Rents, Interest[9]	1.6	344.2	11.3	7.1	38.7	13.9	14.9	38.9	4.3	11.3
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	418.2	70.5	163.9
Other [10]	12.0	10.5	13.8	12.4	18.2	15.1	15.6	13.8	17.1	5.4
Total Rents and Royalties	263.8	1,044.1	1,144.8	1,193.9	1,162.5	1,087.5	1,072.7	1,315.9	540.2	882.1
Investment Earnings[11]	59.2	119.9	227.8	324.7	375.8	282.7	233.5	195.2	161.9	132.6
Miscellaneous Revenue	7.2	6.7	5.5	7.8	10.9	9.5	16.8	13.0	16.9	16.1
TOTAL NON-TAX REVENUE	378.0	1,220.3	1,435.6	1,594.2	1,622.3	1,453.1	1,404.5	1,601.6	795.2	1,098.9
TOTAL GENERAL PURPOSE UNRESTRICTED REVENUE [12]	1,178.6	2,632.6	3,718.2	4,108.4	3,631.0	3,390.1	3,260.0	3,075.0	1,799.4	2,303.9
Cumulative General Purpose Unrestricted Revenue	6,656.1	9,288.7	13,006.9	17,115.3	20,746.3	24,136.4	27,396.4	30,471.4	32,270.8	34,574.7
Petroleum Revenue	821.6	2,256.5	3,304.3	3,574.8	3,026.6	2,861.6	2,743.5	2,657.4	1,394.5	1,949.6
Non-Petroleum Revenue	311.4	244.7	413.9	533.6	604.4	528.5	516.5	417.6	404.9	354.3
% Petroleum of Total GPUR	73%	90%	89%	87%	83%	84%	84%	86%	77%	85%

[1] In years before FY 2000, some revenues figures may include customarily restricted revenue. These include revenues in the following categories: license & permits, federal shared revenues, and charges for services and others.

[2] The property tax figure in the Spring 1991 Revenue Sources Book includes a $28 million settlement with the City of Valdez. This table excludes that settlement.

[3] Prior to FY 1988, data are for General Fund Unrestricted Revenue. This amount is higher than General Purpose Unrestricted Revenue because the data include certain shared revenue.

[4] Prior to FY 1997, includes aviation fuel tax revenue shared with local municipalities.

[5] The figure in the Spring 1994 Revenue Sources Book includes $717.6 million in settlements to the CBRF. The figure in this table excludes these settlements.

[6] Prior to FY 2000, includes revenue shared with local municipalities.

[7] The "other fish tax" category includes salmon enhancement tax and seafood and salmon marketing tax.

[8] The "other tax" category includes several taxes which are now repealed: school tax, inheritance tax, non-petroleum property tax and others.

[9] These categories are primarily comprised of petroleum.

[10] The "other rents and royalties" category includes several non-petroleum royalties and other resource revenue such as sales of state property and timber sales.

[11] Starting in FY 2001, interest earnings are included in oil and gas royalties and excluded from investment earnings.

[12] Includes payments of $22.4 million, $45.6 million and $131.4 million for FY 1978, 1979, and 1980 respectively to the Alaska Native Fund under ANCSA.

Figure 3-7. Fifty Years of Revenue

General Purpose Unrestricted Revenue—1989-1998[1] ($ million)

FY	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
TAX REVENUE										
Petroleum Property Tax [2]	**89.7**	**89.8**	**85.0**	**69.0**	**66.9**	**61.5**	**57.3**	**56.0**	**53.6**	**51.3**
Excise Tax										
Alcoholic Beverages	11.8	12.0	12.2	12.0	11.9	12.0	12.0	12.0	11.6	11.8
Tobacco Products	6.4	11.0	14.0	14.3	14.0	14.1	14.4	14.2	13.7	15.4
Insurance Premium	19.4	22.7	24.4	25.5	26.3	26.1	28.0	28.2	28.4	33.7
Electric and Telephone Cooperative [3]	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Motor Fuel Tax [4]	37.3	41.5	39.8	43.3	40.7	40.4	39.5	37.5	35.2	35.5
Vehicle Rental tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tire Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**75.0**	**87.3**	**90.4**	**95.1**	**92.9**	**92.6**	**93.9**	**91.9**	**89.0**	**96.5**
Income Tax										
General Corporate	38.0	45.3	37.9	33.7	37.6	44.3	67.0	53.3	48.4	53.4
Petroleum Corporate [5]	166.0	117.2	185.1	165.5	117.6	17.8	128.5	173.7	269.4	200.1
Individual and Fiduciary	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**204.0**	**162.5**	**223.0**	**199.2**	**155.2**	**62.1**	**195.5**	**227.0**	**317.8**	**253.5**
Severance Tax										
Oil and Gas Production	696.4	972.3	1253.8	1022.2	989.4	662.8	769.8	771.7	907.0	564.4
Oil and Gas Conservation	2.4	2.4	2.3	2.3	2.1	2.3	2.0	1.8	1.7	1.6
Oil and Gas Hazardous Release	0.0	26.9	28.0	28.7	26.1	27.0	22.1	13.7	12.9	11.8
Total	**698.8**	**1,001.6**	**1,284.1**	**1,053.2**	**1,017.6**	**692.1**	**793.9**	**787.2**	**921.6**	**577.8**
Fish Tax										
Fisheries Business Tax [6]	26.7	25.1	31.1	30.1	42.2	33.9	39.0	38.2	31.0	28.5
Fish Landing [6]	0.0	0.0	0.0	0.0	0.0	0.1	7.3	7.1	8.3	3.8
Other [7]	12.8	9.8	9.5	7.0	10.4	10.8	13.6	13.8	10.8	9.9
Total	**39.5**	**34.9**	**40.6**	**37.1**	**52.6**	**44.8**	**59.9**	**59.1**	**50.1**	**42.2**
Other Tax										
Estate	0.7	1.1	3.3	1.0	0.9	1.6	1.2	1.7	1.7	5.5
Mining	0.5	0.9	0.6	0.5	0.4	0.2	0.3	0.5	0.4	1.7
Charitable Gaming [4]	0.6	1.6	1.5	1.5	1.4	1.7	2.0	1.9	1.9	2.1
Business License Tax	1.0	0.1	NA	NA	0.1	0.2	NA	NA	NA	NA
Large Passenger Vessel Gambling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [8]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**2.8**	**3.7**	**5.4**	**3.0**	**2.8**	**3.7**	**3.5**	**4.1**	**4.0**	**9.3**
TOTAL TAX REVENUE	**1,109.8**	**1,379.8**	**1,728.5**	**1,456.6**	**1,388.0**	**956.8**	**1,204.0**	**1,225.3**	**1,436.1**	**1,030.6**

Figure 3-7. Fifty Years of Revenue

General Purpose Unrestricted Revenue—1989-1998, continued[1] ($ million)

FY	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NON TAX REVENUE										
Licenses and Permits	**28.3**	**27.8**	**29.1**	**32.4**	**32.7**	**35.7**	**34.7**	**60.9**	**69.0**	**74.6**
Intergovernmental Receipts										
Federal Shared Revenues	NA	NA	NA	NA	0.2	0.2	0.6	1.0	2.0	2.2
Charges for Services	**43.6**	**46.2**	**57.2**	**86.4**	**55.1**	**58.4**	**59.6**	**75.4**	**78.1**	**72.0**
Fines and Forefeitures	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**9.4**	**8.2**	**37.7**
Rents and Royalties										
Oil and Gas Royalties-Net	611.5	753.7	958.7	708.2	716.7	516.1	631.8	642.2	759.2	480.4
Oil and Gas Bonuses, Rents, Interest[9]	16.7	4.2	24.7	6.8	44.3	5.1	5.0	5.7	6.4	23.0
Petroleum Special Settlements	257.7	154.8	33.5	4.7	4.7	0.1	0.7	0.0	0.0	0.0
Other [10]	5.9	9.9	12.9	2.2	4.8	9.5	22.5	10.7	11.5	8.9
Total Rents and Royalties	**891.8**	**922.6**	**1,029.8**	**721.9**	**770.5**	**530.8**	**660.0**	**658.6**	**777.1**	**512.3**
Investment Earnings[11]	**100.7**	**117.9**	**125.0**	**101.8**	**70.9**	**31.7**	**72.4**	**64.1**	**77.1**	**60.6**
Miscellaneous Revenue	**10.0**	**10.9**	**14.9**	**61.4**	**45.0**	**36.2**	**49.2**	**35.8**	**44.6**	**33.5**
TOTAL NON-TAX REVENUE	**1,074.4**	**1,125.4**	**1,256.0**	**1,003.9**	**974.2**	**693.0**	**876.5**	**905.2**	**1,056.1**	**792.9**
TOTAL GENERAL PURPOSE UNRESTRICTED REVENUE [12]	**2,184.2**	**2,505.2**	**2,984.5**	**2,460.5**	**2,362.4**	**1,649.8**	**2,080.5**	**2,130.5**	**2,492.2**	**1,823.5**
Cumulative General Purpose Unrestricted Revenue	36,758.9	39,264.1	42,248.6	44,709.1	47,071.5	48,721.3	50,801.8	52,932.3	55,424.5	57,248.0
Petroleum Revenue	1,840.4	2,121.3	2,571.1	2,007.4	1,967.8	1,292.7	1,617.2	1,664.8	2,010.2	1,332.6
Non-Petroleum Revenue	343.8	383.9	413.4	453.1	394.4	357.1	463.3	465.7	482.0	490.9
% Petroleum of Total GPUR	84%	85%	86%	82%	83%	78%	78%	78%	81%	73%

[1] In years before FY 2000, some revenues figures may include customarily restricted revenue. These include revenues in the following categories: license & permits, federal shared revenues, and charges for services and others.

[2] The property tax figure in the Spring 1991 Revenue Sources Book includes a $28 million settlement with the City of Valdez. This table excludes that settlement.

[3] Prior to FY 1988, data are for General Fund Unrestricted Revenue. This amount is higher than General Purpose Unrestricted Revenue because the data include certain shared revenue.

[4] Prior to FY 1997, includes aviation fuel tax revenue shared with local municipalities.

[5] The figure in the Spring 1994 Revenue Sources Book includes $717.6 million in settlements to the CBRF. The figure in this table excludes these settlements.

[6] Prior to FY 2000, includes revenue shared with local municipalities.

[7] The "other fish tax" category includes salmon enhancement tax and seafood and salmon marketing tax.

[8] The "other tax" category includes several taxes which are now repealed: school tax, inheritance tax, non-petroleum property tax and others.

[9] These categories are primarily comprised of petroleum.

[10] The "other rents and royalties" category includes several non-petroleum royalties and other resource revenue such as sales of state property and timber sales.

[11] Starting in FY 2001, interest earnings are included in oil and gas royalties and excluded from investment earnings.

[12] Includes payments of $22.4 million, $45.6 million and $131.4 million for FY 1978, 1979, and 1980 respectively to the Alaska Native Fund under ANCSA.

Figure 3-7. Fifty Years of Revenue

General Purpose Unrestricted Revenue—1999-2008[1] ($ million)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
TAX REVENUE										
Petroleum Property Tax [2]	**48.8**	**45.0**	**45.1**	**49.6**	**48.7**	**47.3**	**42.5**	**54.5**	**65.6**	**81.5**
Excise Tax										
Alcoholic Beverages	12.2	12.7	12.0	12.9	14.1	16.4	17.3	17.6	17.1	20.0
Tobacco Products	15.2	16.3	16.3	15.5	16.3	16.0	25.1	35.4	43.8	44.9
Insurance Premium	28.4	28.7	32.2	34.1	39.0	43.7	45.9	44.3	46.5	47.1
Electric and Telephone Cooperative [3]	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Motor Fuel Tax [4]	37.6	41.9	37.5	40.2	37.2	41.2	39.4	42.0	39.2	41.8
Vehicle Rental tax	0.0	0.0	0.0	0.0	0.0	2.7	7.5	7.7	8.0	8.5
Tire Fee	0.0	0.0	0.0	0.0	0.0	0.8	1.6	1.6	1.5	1.5
Total	**93.6**	**99.8**	**98.2**	**102.8**	**106.8**	**121.0**	**137.0**	**148.8**	**156.3**	**164.0**
Income Tax										
General Corporate	53.8	56.3	59.5	53.4	47.7	39.6	61.8	138.0	176.9	182.7
Petroleum Corporate [5]	145.1	162.7	338.1	178.4	151.1	298.8	524.0	661.1	594.4	605.8
Individual and Fiduciary	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**198.9**	**219.0**	**397.6**	**231.8**	**198.8**	**338.4**	**585.8**	**799.1**	**771.3**	**788.5**
Severance Tax										
Oil and Gas Production	358.6	693.2	694.4	486.7	589.8	642.7	854.9	1,191.7	2,198.3	6,867.3
Oil and Gas Conservation	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil and Gas Hazardous Release	11.1	9.5	9.4	9.6	9.2	9.2	8.3	7.8	10.1	11.7
Total	**371.1**	**702.7**	**703.8**	**496.3**	**599.0**	**651.9**	**863.2**	**1,199.5**	**2,208.4**	**6,879.0**
Fish Tax										
Fisheries Business Tax [6]	25.9	18.2	15.4	12.7	13.8	14.9	10.7	15.4	17.1	14.7
Fish Landing [6]	5.9	2.2	4.1	2.6	6.9	2.5	3.9	4.7	5.3	7.9
Other [7]	9.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**41.0**	**20.4**	**19.5**	**15.3**	**20.7**	**17.4**	**14.6**	**20.1**	**22.4**	**22.6**
Other Tax										
Estate	1.7	2.5	2.7	3.1	1.2	2.3	1.5	0.6	0.1	0.0
Mining	0.6	3.4	1.7	0.5	0.4	3.2	10.3	18.6	79.1	54.4
Charitable Gaming [4]	2.2	2.3	2.4	2.5	2.6	2.4	2.5	2.4	2.5	2.7
Business License Tax	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Large Passenger Vessel Gambling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.8
Other [8]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**4.5**	**8.2**	**6.8**	**6.1**	**4.2**	**7.9**	**14.3**	**21.6**	**81.7**	**63.9**
TOTAL TAX REVENUE	**757.9**	**1,095.1**	**1,271.0**	**901.9**	**978.2**	**1,183.9**	**1,657.4**	**2,243.6**	**3,305.7**	**7,999.5**

Figure 3-7. Fifty Years of Revenue

General Purpose Unrestricted Revenue—1999-2008, continued[1] ($ million)

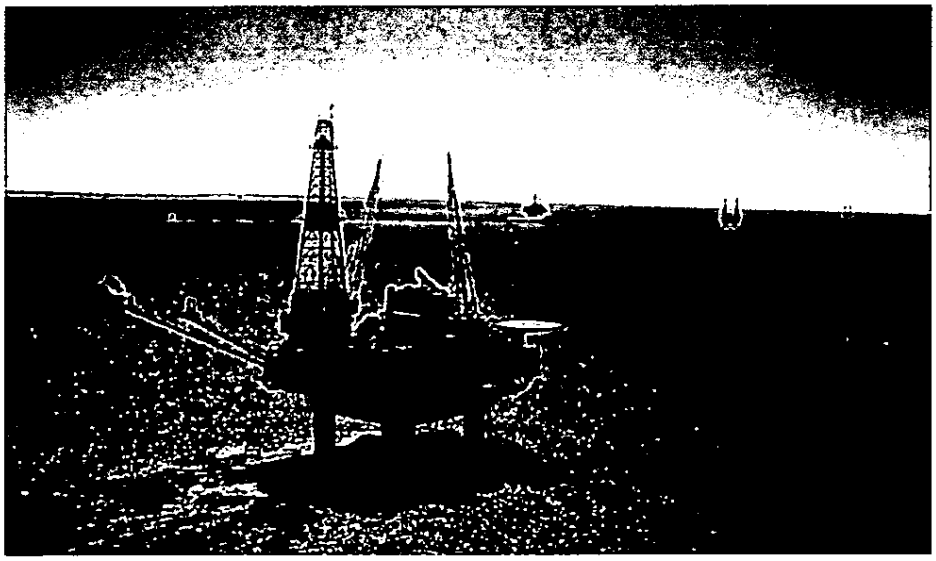
FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NON TAX REVENUE										
Licenses and Permits	**63.7**	**68.4**	**37.3**	**42.2**	**33.6**	**41.8**	**42.7**	**41.0**	**42.0**	**38.9**
Intergovernmental Receipts										
Federal Shared Revenues	0.8	1.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges for Services	**70.6**	**43.7**	**27.0**	**19.1**	**13.9**	**11.1**	**17.9**	**21.8**	**28.5**	**29.3**
Fines and Forefeitures	**12.5**	**46.2**	**33.6**	**6.6**	**7.0**	**16.0**	**9.4**	**8.5**	**7.8**	**8.9**
Rents and Royalties										
Oil and Gas Royalties-Net	322.6	727.8	781.0	575.7	825.7	1,042.8	1,401.1	1,772.2	1,583.8	2,420.6
Oil and Gas Bonuses, Rents, Interest[9]	25.6	4.1	18.3	20.1	14.6	13.3	18.8	11.9	29.2	25.5
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other [10]	10.9	9.7	10.9	9.3	6.2	7.8	9.3	8.8	11.8	15.7
Total Rents and Royalties	**359.1**	**741.6**	**810.2**	**605.1**	**846.5**	**1,063.9**	**1,429.2**	**1,792.9**	**1,624.8**	**2,461.8**
Investment Earnings[11]	**46.5**	**48.1**	**67.6**	**43.1**	**59.0**	**9.7**	**24.7**	**53.3**	**140.1**	**227.8**
Miscellaneous Revenue	**37.3**	**37.6**	**34.9**	**42.3**	**9.4**	**19.2**	**7.5**	**39.3**	**9.7**	**26.2**
TOTAL NON-TAX REVENUE	**590.5**	**986.6**	**1,010.9**	**758.4**	**969.4**	**1,161.7**	**1,531.4**	**1,956.8**	**1,852.9**	**2,792.9**
TOTAL GENERAL PURPOSE UNRESTRICTED REVENUE [12]	**1,348.4**	**2,081.7**	**2,281.9**	**1,660.3**	**1,947.6**	**2,345.6**	**3,188.8**	**4,200.4**	**5,158.6**	**10,792.4**
Cumulative General Purpose Unrestricted Revenue	58,596.4	60,678.1	62,960.0	64,620.3	66,567.9	68,913.5	72,102.3	76,302.7	81,461.3	92,253.7
Petroleum Revenue	913.2	1,642.3	1,886.3	1,320.1	1,639.1	2,054.1	2,849.6	3,699.2	4,481.4	10,012.4
Non-Petroleum Revenue	435.2	439.4	395.6	340.2	308.5	291.5	339.2	501.2	677.2	780.0
% Petroleum of Total GPUR	68%	79%	83%	80%	84%	88%	89%	88%	87%	93%

[1] In years before FY 2000, some revenues figures may include customarily restricted revenue. These include revenues in the following categories: license & permits, federal shared revenues, and charges for services and others.
[2] The property tax figure in the Spring 1991 Revenue Sources Book includes a $28 million settlement with the City of Valdez. This table excludes that settlement.
[3] Prior to FY 1988, data are for General Fund Unrestricted Revenue. This amount is higher than General Purpose Unrestricted Revenue because the data include certain shared revenue.
[4] Prior to FY 1997, includes aviation fuel tax revenue shared with local municipalities.
[5] The figure in the Spring 1994 Revenue Sources Book includes $717.6 million in settlements to the CBRF. The figure in this table excludes these settlements.
[6] Prior to FY 2000, includes revenue shared with local municipalities.
[7] The "other fish tax" category includes salmon enhancement tax and seafood and salmon marketing tax.
[8] The "other tax" category includes several taxes which are now repealed: school tax, inheritance tax, non-petroleum property tax and others.
[9] These categories are primarily comprised of petroleum.
[10] The "other rents and royalties" category includes several non-petroleum royalties and other resource revenue such as sales of state property and timber sales.
[11] Starting in FY 2001, interest earnings are included in oil and gas royalties and excluded from investment earnings.
[12] Includes payments of $22.4 million, $45.6 million and $131.4 million for FY 1978, 1979, and 1980 respectively to the Alaska Native Fund under ANCSA.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008



Offshore Oil Platform, Cook Inlet

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4. Oil Revenue

Figure 4-1. FY 2008 Oil Revenue: $11.3 billion

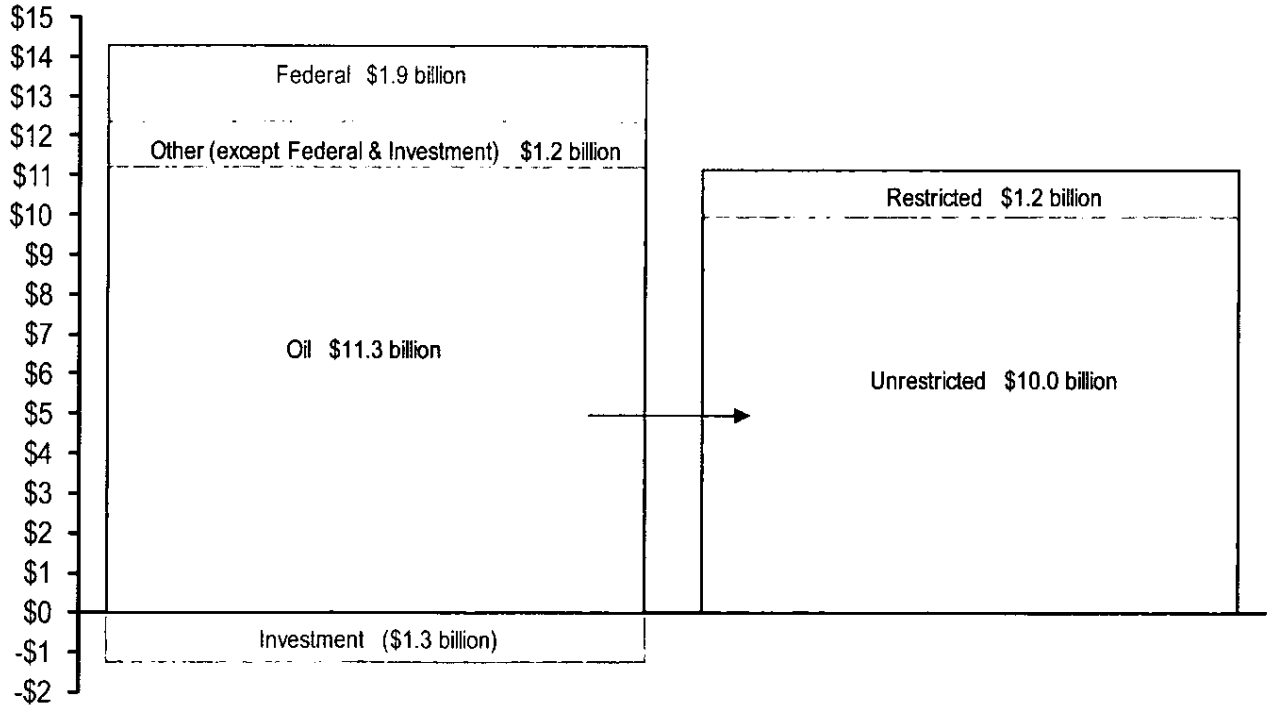


Figure 4-2. Total Oil Revenue, FY 2008 and Forecasted FY 2009-2010 ($ million)

Oil Revenue

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Petroleum Property Tax	81.5	72.5	69.4
Petroleum Corporate Income Tax	605.8	635.0	560.0
Production Tax	6,879.0	3,588.8	2,389.7
Royalties (including Bonuses, Rents & Interest)	2,446.1	1,755.1	1,607.8
Subtotal	**10,012.4**	**6,051.4**	**4,626.9**
Increase/Decrease from Prior Period	5,531.0	(3,961.0)	(1,424.5)
% Change from Prior Period	123.4%	(39.6%)	(23.5%)
Restricted			
Royalties to Permanent Fund & School Fund	799.1	717.3	734.8
Tax Settlements to CBRF [1]	438.3	20.0	20.0
NPR-A Royalties, Rents & Bonuses	5.2	22.5	7.5
Subtotal	**1242.6**	**759.8**	**762.3**
Increase/Decrease from Prior Period	582.2	(482.8)	2.5
% Change from Prior Period	88.2%	(38.9%)	0.3%
Total Oil Revenue	**11,255.0**	**6,811.3**	**5,389.2**
Increase/Decrease from Prior Period	6,113.2	(4,443.7)	(1,422.0)
% Change from Prior Period	118.9%	(39.5%)	(20.9%)

Unrestricted Oil Revenue

Figure 4-3. Unrestricted Oil Revenue, FY 2008 and Forecasted FY 2009-2018 ($ million)

Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Petroleum Property Tax	81.5	72.5	69.4	66.4	63.4	60.5	57.7	55.1	52.5	50.0	47.7
Petroleum Corporate Income Tax	605.8	635.0	560.0	545.0	545.0	550.0	555.0	550.0	570.0	580.0	590.0
Production Tax	6,879.0	3,588.8	2,389.7	1,602.3	1,734.2	1,670.9	2,222.3	1,910.4	1,983.0	2,252.8	2,552.9
Royalties-Net [1]	2,446.1	1,755.1	1,607.8	1,479.8	1,460.4	1,449.5	1,431.8	1,372.7	1,430.6	1,436.6	1,452.9
Total Oil Revenues	**10,012.4**	**6,051.4**	**4,626.9**	**3,693.5**	**3,803.0**	**3,730.9**	**4,266.8**	**3,888.1**	**4,036.1**	**4,319.5**	**4,643.5**
Increase/Decrease from Prior Period	5,531.0	(3,961.0)	(1,424.5)	(933.4)	109.5	(72.1)	535.9	(378.7)	148.0	283.3	324.0
% Change from Prior Period	123.4%	(39.6%)	(23.5%)	(20.2%)	3.0%	(1.9%)	14.4%	(8.9%)	3.8%	7.0%	7.5%

[1] Includes bonuses and interest

General Discussion

The state receives oil and gas revenue from four sources: oil and gas production tax, property tax, royalties and corporate income tax. The bulk of the revenue goes into the General Fund for general purpose spending. With the repeal of HB 11[1], about 30% of oil royalties goes into the principal of the Alaska Permanent Fund and 0.5% goes into the Public School Trust Fund. There also are two other funds that receive specific oil and gas revenues: the National Petroleum Reserve-Alaska (NPR-A) Fund,[2] which receives the state's share of all lease bonuses from sales in the NPR-A; and the Constitutional Budget Reserve Fund (CBRF), which receives settlements of tax and royalty disputes between the state and oil and gas producers.

Figure 4-2 shows the actual amount of each tax and royalty source in FY 2008 and forecast for FY 2009 and FY 2010. As can be seen from the figure, royalties and the production tax constitute the largest part–90%–of restricted and unrestricted oil revenue combined. Figure 4-3 shows the department's unrestricted oil revenue forecast from the current fiscal year through FY 2018 by revenue category. This section begins with a discussion of production taxes and royalties, both of which are driven by price and volume. We then review the price forecasting methodology that underlies this report, and discuss the linkage between market prices and wellhead values. We also review our production forecast, and close this section with a discussion of oil and gas property taxes, oil and gas corporate income taxes and the restricted portions of oil revenue.

[1] For more discussion on deposits to the Permanent Fund and HB11, see the Executive Summary section.

[2] This fund implements a federal requirement that the state use its share of NPR-A oil revenue to satisfy the need of local communities most affected by development in the NPR-A. For detailed information on this fund, see Section XII-P of Treasury's Investment Policies and Procedure Manual.

Crude Oil and Natural Gas Production Taxes

All oil and gas production in Alaska, except the federal and state royalty share and a small amount used in production operations, is subject to the state's production tax and to the hazardous release surcharge, which is levied only on crude oil. Taxes and surcharges are collected on a monthly basis.

The Production Tax Known as "Alaska's Clear and Equitable Share" (ACES)

In November 2007, the Alaska State Legislature passed Alaska's Clear and Equitable Share, which made changes to the state's production tax system. The previous production tax, known as the Petroleum Profits Tax (PPT), had been in place for one year prior to the passage of ACES. Both are based on net income (see Figure 4-4). For more than 20 years prior to the enactment of the PPT, the state used a production tax system that was based on the gross value at the point of production as adjusted by the Economic Limit Factor (ELF).

The ACES tax calculation starts with the value at the point of production, then subtracts upstream costs, including costs that are capitalized on company financial statements, from this value to arrive at the "production tax value." Each company that produces oil in Alaska has a production tax value based on this calculation, which is conceptually similar to a company's net income. The production tax value is multiplied by the tax rate—25%—to arrive at the base tax. Should the production tax value exceed $30 per barrel of oil produced (or the equivalent in gas), the tax rate increases by a progressive factor of 0.4% for every dollar the per-barrel production tax value is over $30. For production tax values greater than $92.50, the progressive factor changes to 0.1% for every additional dollar of profit on a barrel of oil. The maximum total tax rate is 75%.

Under ACES, a company's production tax liability is reduced to the extent that it invests in equipment, projects, or other items that are deemed "capital expenditures." Capital expenditures generally include costs related to the purchase of drilling rigs or other equipment, infrastructure, exploration and facility expansion. Capital costs are eligible for a 20% credit against the company's ACES liability, and they must be spread over two years. The 20% capital expenditure credit is intended to encourage investment in Alaska.

ACES also encourages investment in Alaska through three other tax credits. Companies producing less than 100,000 barrels of oil per day may be eligible for a tax credit of up to $12 million per year. Net losses are eligible for a 25% tax credit in the year following the loss. ACES also expanded the Exploration Incentive Credit, changing the credit rates from 20% and 40% to 30% and 40% of exploration expenditures.

Figure 4-5 shows the credits that companies reported on their annual tax returns filed March 31, 2007 and March 31, 2008. Note that most of the credits were applied against tax liabilities; those that could not be immediately applied against a tax liability will be carried forward or sold to the state or another company.

Figure 4-4. ACES Tax Liability Calculation

ACES Tax Liability = [(Value – Costs) * Tax Rate] – Credits

The terms used in the equation are defined as follows:

Value = Volume of Oil and Gas Produced x Wellhead Value

Costs = Operating Expenditures + Capital Expenditures

Tax Rate = 25% + 0.4% for every $1 per barrel that this "net income" exceeds $30

Credits = (20% x Capital Expenditures)* + (20% x Eligible Transition Expenditures)** + Base Allowance

* spread over two years

**Limited to those credits earned while the PPT was in effect and could not be used

The oil and gas tax credit fund, authorized under AS 43.55.028, was created to fund the state's purchase of production tax credit certificates. In FY 2008, the fund paid out $54 million to purchase credits, and approximately $200 million are pending approval. As of November 2008, the fund balance was $556 million.

Hazardous Release Surcharge

The Oil and Hazardous Substance Release Prevention and Response Fund was created by the legislature in 1986 to provide a "readily available funding source to investigate, contain and clean up oil and hazardous releases." An amendment in 1994 divided the fund into two separate accounts comprised of (1) the Response Account, which requires a surcharge on all oil production except federal and state royalty barrels, that may be used to finance the state's response to an oil or hazardous substance release declared a disaster by the governor; and (2) the Prevention Account, which is funded by an additional surcharge on all oil production except federal and state royalty barrels, that may be used for the clean up of oil and hazardous substance releases not declared a disaster by the governor. This account can also be used to fund oil and hazardous substance release prevention programs in Alaska.

The Response surcharge (AS 43.55.201) is $.01 per taxable barrel of oil and the Prevention surcharge (AS 43.55.300) is $.04 per taxable barrel of oil produced.

The Response surcharge is suspended when the balance of the Response Account is equal to or exceeds $50 million. As of September 30, 2008, the cumulative balance of the account was $45.4 million. The Response surcharge was re-imposed effective April 1, 2007.

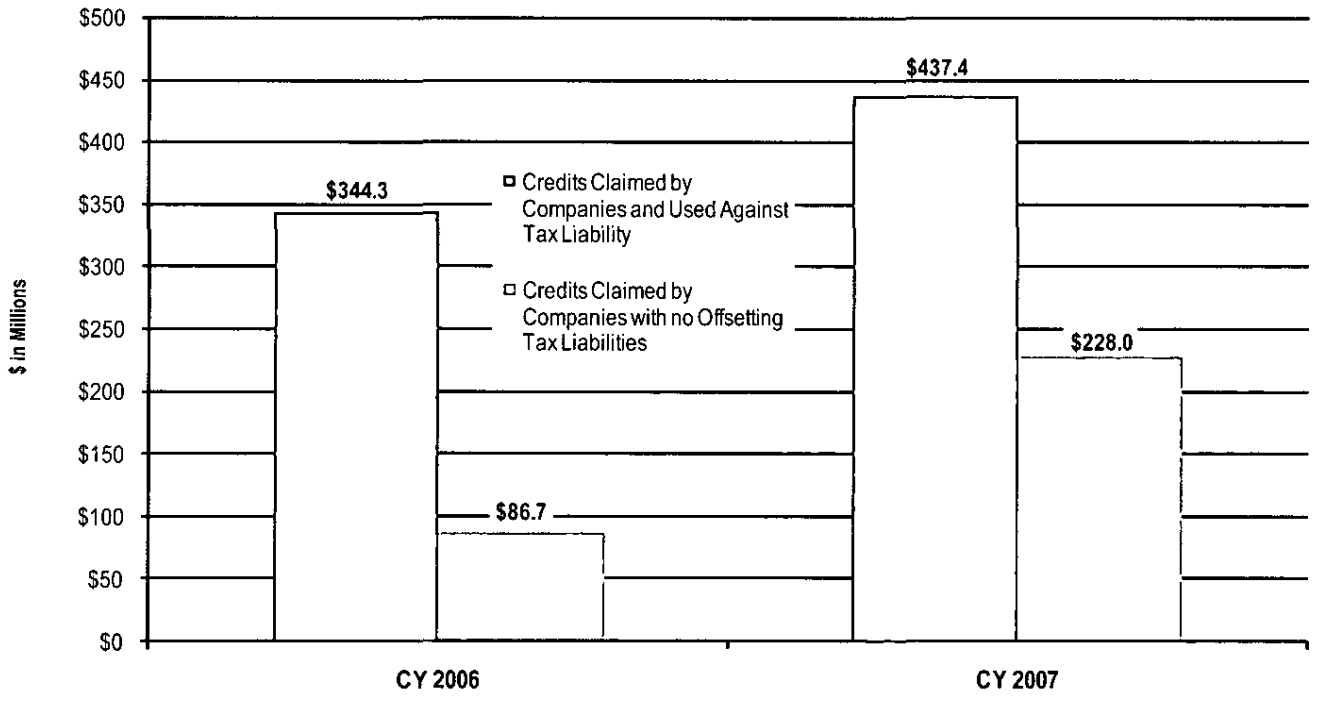
Oil Royalties

Almost all Alaska oil and gas production occurs on state lands leased for exploration and development. As the land owner, the state earns revenue from leasing as (1) upfront bonuses, (2) annual rent and (3) a royalty interest in oil and gas production.

Typically, the state issues leases based on a competitive bonus bid system. The state generally retains a royalty interest of at least 12.5%. The vast majority of current production is from leases that carry that rate. Some currently producing leases carry rates as high as 20%, and some leases also have a net profit-share production agreement.

State oil and gas leases provide that the state may take its oil royalty in barrels (in-kind) or as a percentage of the production value (in-value). In FY 2008, the state took approximately 60,000 barrels per day of North Slope production in-kind and sold it to Flint

Figure 4-5. Production Tax Credits Reported, CY 2006 and CY 2007 ($ million)



Hills Resources Alaska, LLC for their refinery at North Pole.

The royalty oil taken in-value is valued according to a formula using a market basket of spot crude oil prices closely approximating the ANS West Coast spot price of oil, less a transportation allowance back to the lease. Royalties are based on a destination price—the higher of the actual sales price or the prevailing value.[3] Pipeline and marine transportation costs are deducted from the destination value to derive the well-head value of the oil or gas.

Crude Oil Prices, Lease Expenditures, Transportation Costs and Crude Oil Production: Forecasting Methodology & Assumptions

For many years, the level of revenues accruing to the state from oil production have been contingent primarily on (1) oil prices and (2) production volumes. With the new production tax on net profits, a third factor influences revenues from oil production—costs related to exploring for, developing and producing oil, which are deductible under the production tax as "lease expenditures" and are often the basis for credits against production tax liability

Estimating oil revenue for the state entails projecting four factors:

1. Crude oil prices
2. Lease expenditures
3. Transportation charges
4. Crude oil production

This section reviews each of these factors.

To forecast oil prices, the department conducts a day-long price forecasting session to review and discuss petroleum price drivers. The session includes professionals from the Department of Revenue, Department of Natural Resources, Department of Labor, the Governor's Office of Management and Budget, the Division of Legislative Finance, the University of Alaska and industry experts.

To forecast crude oil production volumes, the Department of Revenue uses an engineering consultant in conjunction with assistance from the Department of Natural Resources and the Alaska Oil and Gas Conservation Commission. The statewide production volume forecast is based on projections of oil and gas production by field.

To forecast lease expenditures, the department uses data from industry filings as a base and projects short-term future expenditures from company submitted documents. Mid- and long-term expenditure forecasts take into account long-term development plans as detailed in company documents and are intended to coincide with our production forecast.

Transportation charges include tariffs on pipelines, marine transportation and other cost adjustments for moving crude oil to market. ACES allows "reasonable" costs to be subtracted as transportation charges.

Each of these four forecasted items play an important role in determining the level of revenue anticipated from oil production. These four items are inputs in the department's revenue model. More information about expenditures and tax calculations is explained later in this section.

1. Crude Oil Prices

Methodology for Forecasting Prices

The department uses a modified Delphi[4] technique, which involves a pre-session price solicitation, a day of presentations and discussion and a post-session price solicitation, to develop its official price forecast. Participants are asked for their projections for West Texas Intermediate (WTI) crude oil prices. Prices are forecasted in real 2008 dollars. The Department of Revenue projects the differential between WTI and ANS and uses a projection of inflation to arrive at the nominal dollar forecast used in this publication.

The fall oil price forecasting session, held October 7, 2008, had over 25 attendees from various state agencies, and included three presentations from outside consultants. In addition to hearing the presenters' views, participants reviewed forecasts from the Energy Information Administration (EIA), the New York Mercantile

[3] ANS West Coast prevailing value per 15 AAC 55,171, is the monthly average of daily spot market prices reported by Platt's Oilgram, Reuters and Dow Jones Energy reporting services. This price is published monthly on the Tax Division website at www.tax.state.ak.us.

[4] The Delphi method is a forecasting technique developed by the RAND Corporation that obtains a forecast by eliciting and refining individual forecasts from a group of independent experts. For more information, see the 1967 RAND Corporation paper "Delphi" by N.C. Dalkey, www.rand.org/pubs/papers/p3704/.

Exchange (NYMEX) and several other oil price forecasting organizations. At the end of the session, the participants completed the post-session price solicitation forms that became part of the department's official oil price forecast.

Given the oil price volatility of the past 12 months—and particularly over the past 6 months—it was decided that the department's price forecast would benefit from incorporating forecasts created by other organizations. Accordingly, three other forecasts were selected for blending with the forecast compiled from the Delphi participants: the EIA, the NYMEX and the department's Fall 2007 low price scenario forecast. The NYMEX prices as of October 24, 2008 were used for the FY 2009 forecast; the three forecasts citied above were equally weighted with the forecast from the oil price session to create the base forecast for FY 2010 through FY 2015. The long-term base forecast, which begins in FY 2016, did not change from the spring 2008 forecast of $67 real 2008 dollars for WTI ($78.51 nominal dollars).

Oil Price Forecast Assumptions

Many factors contribute to the pricing of oil on the world market. There are the fundamental economic factors of supply and demand. There are geopolitical events. There are other related issues, such as the impact of the financial sector, refining capacity and configuration and weather, that help determine how oil is priced. These factors have all been considered in establishing our oil price forecast. The following is a discussion of recent events affecting the oil market and projections for supply and demand over both the short and long term.

Recent Events Affecting the Oil Market

The year 2008 can be split into two distinct periods of time with regard to oil prices: the first half of the year was a period of rising prices leading to the all-time record oil price set on July 3; the second half has thus far been a period of falling prices, during which the oil price has fallen over 60% from July's high price.

The first half of 2008, which saw rising oil prices, was marked by uncertainty about oil supplies caused by geopolitical concerns, low spare capacity and below average oil inventories going into summer driving and hurricane seasons. World oil demand was showing significant growth, particularly in China, the Middle East and Latin America. Commodity traders expected further supply constraints and demand growth and poured money into oil price futures, propping up the high prices. On July 3, WTI oil prices closed at an all-time record of $145.29 per barrel. The summer's high prices were not yet tempering the economic outlook. In a July update, the International Monetary Fund reported global GDP growth of 4.5 percent in the first quarter of 2008, with a forecast of 4.1 percent growth in 2008 and 3.9 percent growth in 2009.

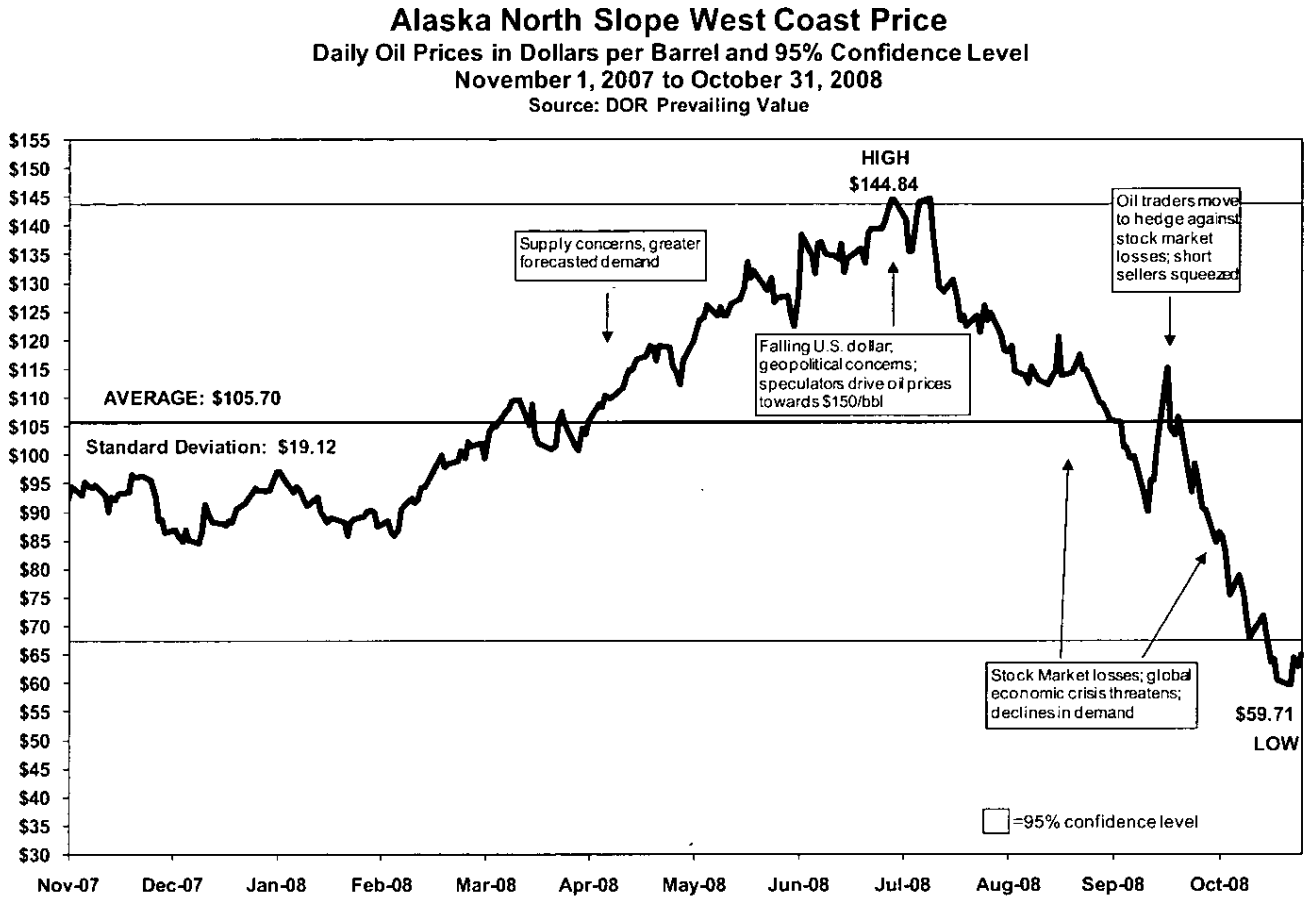
The second half of 2008 has been a dramatic reversal of the first half of the year. By October, the world economy was suffering the effects of a severe credit crisis. The combination of the economic downturn and high prices early in the year led to a reduction in worldwide energy demand and a corresponding plunge in oil prices. Compounding this decline in demand, space capacity from the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC supply are both expected to grow next year, spurred in part by recent high prices. As a result, OPEC reduced their production target by 1.5 million barrels per day, citing the global economic slowdown, weakening oil demand, falling prices and increases in oil supply as rationale for the cuts. Despite their efforts, OPEC's production cuts have not been enough to stop the slide in oil prices. Other factors, such as sell-offs in the financial markets, the troubled manufacturing sector and the general slowdown in economic growth have been the drivers of oil prices for the latter half of 2008. Most advanced economies—including the US, the largest user of oil—are expected to show negative growth in 2009. Oil prices responded to the deteriorating economic outlook by falling precipitously, and are below $50 as we go to press. Oil prices are now more than 70% below the record set just a few months ago (see Figure 4-6 on the following page).

Short- and Long-Term Demand and Supply Projections

History shows that oil prices move in cycles—they go up and they come down. As oil prices increased in recent years, analysts warned that they would not go up forever. Likewise, the current decline in oil prices will eventually come to an end and prices will stabilize and even go up again. But when will this change take place? Over the short term, the outcome of the economic crisis is likely to be the major determinant of oil prices and prices will rise and fall with the outlook for the economy. A severe global recession could lead to falling demand and further declines in oil prices. A return to growth could support a return to higher price levels.

In their November 2008 update, the EIA projected that OPEC production cuts will stabilize oil prices near current levels, barring a severe global recession. The EIA predicted that world oil demand will be essentially flat in 2008

Figure 4-6. ANS Crude Price Volatility



Note: 95% confidence level equals two standard deviations, or +/- $38.24 from the average of $105.70 per barrel

and 2009, as declines in the industrial economies are offset by demand growth in China, Latin America and the Middle East. This is a change from the trend in recent years that saw demand growth increasing in almost all the economies in the world including the U.S., the world's largest oil consumer.

On the supply side, non-OPEC supply will show a moderate decline for 2008 of 280,000 barrels per day, mostly due to project delays and supply disruptions, such as Hurricane Ike in the Gulf of Mexico. In 2009, non-OPEC supply will grow by 500,000 barrels per day, led by a 450,000 barrel per day increase in the United States as new projects come on line and production recovers from Hurricane Ike. For OPEC, the EIA estimates that about 70% of the announced 1.5 million barrel per day cut will be implemented, and that OPEC will hold production steady at 31.1 million barrels per day through 2009. Combined with new projects coming on line, OPEC spare capacity should rise to over 4 million barrels per day, the highest level since 2002. Most of this spare capacity will be located in Saudi Arabia.

Current economic difficulties could be setting the stage for the next run-up in oil prices. If low oil prices and difficulty obtaining project financing restrain supply growth, this could result in a period of tight supplies when the economy and demand growth recover. As always, oil prices move in cycles and there will be ups and downs in the future as there have been in the past.

Over the long term, we must look beyond the immediate situation. The EIA projects that over the long term, world petroleum consumption will grow by about 27 million barrels per day from the 2007-2009 level of just under 86 million barrels per day to 112.5 million barrels per day by 2030. About 90 percent of the demand growth will come from developing countries, including Eastern Europe, Asia, the Middle East, Africa and Latin America.

Over half of the increase will come from developing countries in Asia, led by China. Thus, even as the United States and other developed nations limit growth in oil use, the developing world will drive world consumption higher as its people buy automobiles, build factories, generate power and engage in the other oil-intensive activities that are the hallmarks of modern society.

Increased oil supplies will be needed to meet this higher level of demand and will require new investments. The EIA projects that supply growth will be evenly spread between OPEC and non-OPEC, with over 13 million barrels per day of new production from each category by 2030.

Some pundits have suggested that world conventional oil production is beginning to plateau. Indeed, supply growth over the next two decades will require a great deal of unconventional supply. In addition to finding and developing new sources of conventional oil, sources such as biofuels, deep water oil, heavy oil and enhanced oil recovery in existing fields will be needed to achieve the growth in supply. Many of these sources have higher costs than conventional supplies, so we are unlikely to see prices much lower than current levels for a sustained period of time. Prices will have to be high enough to justify bringing new, more expensive supplies into production.

We believe that the global economy – and demand growth – will face a slowdown in the short term but will eventually return to growth over the long term. We assume that oil will continue to be a competitive energy resource. And finally, we forecast that oil prices will remain above historical levels, encouraging OPEC and non-OPEC oil-producing countries to continue to explore ways to increase production from existing facilities and to seek out new production opportunities.

Low-Price Drivers

In July of 2008, it seemed almost inconceivable that oil prices could plunge 60% in the matter of only a few months. Yet, in November 2008, WTI oil prices hovered around $60 per barrel—less than half of the price of oil in July of the same year. What caused the price of oil to come crashing down at such a rapid pace? Most economists point to market fundamentals, specifically the destruction of demand in industrialized countries, as being one of the root causes. Other causes include a weakened U.S. economy brought on by the collapse of some of the country's largest financial institutions. Fears are that this downturn could impact global markets, creating a worldwide recession.

Although oil prices have declined significantly, they could be pushed even lower. The following oil price drivers would likely push oil prices lower than the $60 range they were in during early November:

- The recession that began in the U.S. is severe and spreads worldwide. Developing nations like China and India can no longer sustain their rapid growth due to weakening demand for their products in the industrialized nations. Demand for petroleum products falls not only in the Organization for Economic Cooperation and Development (OECD), but in the emerging economies in the Asia-Pacific as well.
- Oil supplies increase as a result of investments made over the past several years. High oil prices have spurred investment in exploration and in the development of new technologies to extract oil from unconventional sources. These investments will give way to new oil supplies. Additional supplies at a time of lowered demand will drive down prices.
- OPEC is not successful in implementing production cuts and therefore is not able to support higher prices.
- Financial markets amplify the downward trend of oil prices. Commodity traders, seeing the already declining price, accelerate the downward trajectory by purchasing "puts" for prices to decline in the future.
- Governments achieve some success with energy policies. These policies include giving tax breaks to companies that adopt energy saving measures and develop alternative fuels and technology breakthroughs that reduce the use of petroleum based products.
- Governments open areas otherwise off limits to drilling. In the U.S., this would include offshore federal acreage that was under a moratorium on drilling, and vast tracts of known reserves, such as the Arctic National Wildlife Refuge.

High-Price Drivers

Oil prices reached an all-time high in July of 2008. The increase in prices was driven by a "perfect storm" of increasing demand, limited supplies, limited inventories, geopolitical instability and a weak dollar. Even OPEC nations voiced concern about the runaway prices that they claimed had little to do with market fundamentals and more to do with geopolitical and economic instability and intense commodity trading. Beginning in March, oil prices stayed above $100 per barrel for close to 200 days.

During the run-up in prices, some analysts were suggesting that prices could be as high as $200 within the year. We believe that should the right market conditions exist, prices could stay above $100 for an extended period of time.

The following oil price drivers would likely push oil prices back up to triple digits:

- The recession that began in the U.S. subsides as government programs aimed at rebuilding the economy begin to work. Demand for oil in the U.S. and in other OECD countries increases. The recession does not significantly spread to developing nations, and demand in those countries continues to grow.
- Not only does oil demand increase, but it does so at an accelerated rate. Supply cannot keep pace with demand in the developing countries as their economies expand and more people have sufficient income to travel and purchase automobiles. Demand in the industrialized nations stays flat or rises gradually as people are able to absorb the higher cost of fuels.
- Investments made by oil companies over the past few years fail to translate to additional supplies. Nationalizations and excessive taxation in oil-rich provinces drive out companies that could assist in developing new technologies to increase supplies. At the same time, OPEC nations limit their production to ensure prices remain high.
- The financial markets amplify the trends set by market fundamentals. In this scenario, one would expect to see traders having "call" options on the expectation that prices would rise.
- There are unanticipated supply disruptions due to geopolitical instability and weather-related events such as hurricanes.
- The U.S. dollar weakens against other currencies to levels seen in early 2008.

Forecast for Alaska North Slope Crude Oil

Since our Spring 2008 forecast, Alaska North Slope crude prices set an all-time record and subsequently fell by over 75%, closing below $40 per barrel in early December 2008. The Department of Revenue's fiscal year end forecast for ANS crude for 2009 is $77.66. The price of benchmark West Texas Intermediate is forecasted to average $79.79 in FY 2009, implying an average discount for ANS of $2.13 per barrel for the fiscal year.

In spring 2008, we increased our WTI oil price forecast for the period FY 2016 and beyond, from $36.00 per barrel in real 2008 dollars to $67.00 per barrel. This corresponds to an ANS price forecast of about $65.00 per barrel in real 2008 dollars. The inflation rate is 2.75% per year based on Callan Associates Inc. 5-year capital market assumptions.

2. Lease Expenditures

The passage of PPT and subsequently ACES requires the Department of Revenue to forecast lease expenditures, a task the department had never before undertaken for tax purposes. Lease expenditures are defined in part as the upstream costs that are the direct costs of exploring for, developing, or producing oil or gas deposits. When the department undertook this task for the first time in 2006, it had very little industry information on which to base its forecast.

Methodology

The first annual tax filings under PPT at the end of March 2007 provided the department with much needed data for the purpose of forecasting lease expenditures. In addition to having more accurate information about the magnitude of spending on oil and gas production, the tax returns provided insight into whether the costs were capital or operating expenditures. Forecast models were adjusted to take into account this new information.

A second annual tax filing, this time under ACES at the end of March 2008, provided additional cost information to the department. It also provided insight into current and future spending plans by companies that are engaged primarily in exploration in the remote areas of the North Slope.

Beginning in May of 2008, companies began submitting monthly information forms that detail expenditure information by field. This regularly scheduled data influx has greatly enhanced the department's abilities to monitor and project costs. Forecasted cost information provided semi-annually by taxpayers has helped department economists create better revenue forecasts.

The department also uses several other means to forecast lease expenditures, including other taxpayer-submitted information, such as plans of development, federal partnership returns and other documentation. Production profiles are reviewed, as well as publicly available information on estimated costs to bring new fields online and projected start-up dates.

Forecast

We forecast operating expenditures of $2.15 billion for FY 2009 and $2.35 billion for FY 2010. Capital expenditures are estimated at $2.37 billion and $3.05 billion for FY 2009 and FY 2010, respectively. Total forecasted lease expenditures are $4.53 billion for FY 2009 and more than $5 billion for FY 2010 (see Figure 4-7).

Figure 4-7. Basic Data Used for ANS Oil & Gas Production Taxes

	FY 2008 History	FY 2009 Forecast	FY 2010 Forecast
State Production Tax Revenue from the North Slope			
Millions of Dollars	6,879.0	3,588.8	2,389.7
Key North Slope Assumptions			
Price of ANS WC in dollars per barrel	96.51	77.66	74.42
Transit Costs & Other in dollars per barrel	6.05	5.82	5.48
ANS Wellhead in dollars per barrel	90.46	71.84	68.93
Production in barrels per day	715,950	688,880	664,557
Royalty and federal barrels per day	89,494	91,553	88,227
Taxable barrels per day	626,456	597,327	576,330
Lease Expenditures in Millions of Dollars			
Operating Expenditures [OPEX]	1,881	2,153	2,352
Capital Expenditures [CAPEX]	1,967	2,373	3,052
Total Expenditures	3,848	4,526	5,404
Implied North Slope Data			
CAPEX Credits Used against Tax Liability in $millions	411.4	396.8	440.6
CAPEX Credits not Used against Liability in $millions	250.8	375.0	275.0
Lease Expenditures per barrel of oil produced			
OPEX	7.2	8.6	9.7
CAPEX	7.5	9.4	12.6
Total Expenditures	14.7	18.0	22.3
Average Production Value per Barrel [Pre-Tax]	75.7	53.8	46.7
Production Tax Collected per Taxable Barrel	30.1	16.5	11.4

Notes

1 This table presents a grossly simplified snapshot of the production tax calculation on an average North Slope basis, and any use of this data should be viewed accordingly. Additionally, because production tax is calculated on a company basis, any simplification such as this distorts the actual value to companies. For example, a company's pre-tax production value per barrel could be significantly more or less than that shown in this table, depending on the "mix" of petroleum investments they have on the North Slope.

2 Lease expenditures for FY 2008 are estimated and unaudited. Expenditure data for July 2007 through December 2007 are as reported on tax returns received March 31, 2008, while January 2008 through June 2008 are estimates.

3 Expenditure data for FY 2009 and FY 2010 are compiled from company submitted expenditure forecast estimates and other documentation as provided to the DOR.

4 CAPEX credits are spread out over two years as specified in the ACES production tax. In addition, the assumptions for the transitional credits and the $12 million credits for small Alaska producers are not included in the table.

3. Transportation Charges and Other Production Costs

Taxpayers subtract marine transportation costs, the Trans Alaska Pipeline System (TAPS) tariff, feeder pipeline tariffs and an adjustment for Quality Bank charges from the appropriate destination value. This netback calculation is shown in Figure 4-8 for FY 2008-2018. The Department of Revenue has not yet finalized its regulations which address the methodologies to be used in calculating "reasonable" transportation charges. Pending completion of these regulations, the Fall 2008 forecast utilitzes the same methodology adopted in prior years.

Marine Transportation Costs

Crude oil deliveries to Valdez are shipped to Washington and California refineries by tanker. State-of-the-art double-hulled tankers known as "Alaska Class" vessels are now the standard. The mandated replacement of vessels without double hulls with new, more expensive double-hulled vessels, and the continued use of smaller qualified vessels to replace larger vessels retired by compliance with the Federal Pollution Act of 1990 have increased tanker transportation costs. We forecast that a modest increase in tanker transportation costs per barrel will be necessary in order to maintain the integrity of the fleet.

Trans Alaska Pipeline System (TAPS) Tariff

The TAPS tariff forecast uses a cost-of-service ratemaking approach with guidance from recent decisions by the Federal Energy Regulatory Commission (FERC). Components of the model and the methodology are designed to emulate the regulatory approach and outcome.

In June of 2008 the FERC issued Opinion and Order No. 502. The opinion affirmed a 2007 Administrative Law Judge (ALJ) ruling that interstate rates charged in 2005 and 2006 were not just and reasonable and ordered limited refunds to shippers who had overpaid. Refunds are limited to the difference between the 2005/2006 rates and the 2004 filed rate.

Order 502 clarified provisions in the ALJ's order regarding the appropriate dismantlement, removal and restoration (DR&R) expenses and modified the return on equity component of the capital structure to be consistent with FERC's new policy on proxy groups for pipelines. The order also established the basis for the new just and reasonable rates to go into effect on a prospective basis. New rates are to be based on Opinion No. 154-B methodology and are to be determined after the carriers make a compliance filing to establish rates in conformance with the Initial Decision and Order 502 within thirty days of the order.

In July 2008, the carriers submitted their compliance filing to implement the rulings in the Order 502 decision. Rates for 2005 and 2006 were calculated using test period and actual period data. Rates for 2007 and 2008 were not calculated because the order did not require them and proceedings regarding the 2007 and 2008 rate filings are being held in abeyance subject to the outcome of the current proceedings.

In November 2008, FERC issued their Order on Rehearing and Compliance. The order denied rehearing of return on investment issues and balances in property and deferred return accounts. They also denied rehearing

Figure 4-8. Fall 2008 Forecast Assumptions, FY 2008 and Forecasted FY 2009-2018 (nominal $ per barrel)

Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ANS West Coast Price	96.51	77.66	74.41	71.65	72.57	73.55	74.24	73.82	78.51	80.74	83.03
ANS Marine Transportation	1.93	2.17	2.43	2.48	2.53	2.58	2.63	2.68	2.73	2.78	2.83
TAPS Tariff	5.08	4.52	3.75	3.79	3.95	4.01	4.02	4.11	4.23	4.35	4.35
Other Deductions & Adjustments [1]	-0.96	-0.87	-0.70	-0.67	-0.57	-0.52	-0.44	-0.45	-0.51	-0.48	-0.50
ANS Wellhead Price	90.46	71.84	68.93	66.05	66.67	67.48	68.04	67.48	72.06	74.09	76.35

[1] Includes other adjustments such as quality bank charges, location differentials and company-amended information.

on the uniform rate issue, but granted rehearing on the pooling arrangement and directed carriers to include a pooling mechanism when the uniform rate becomes effective. Carriers are to modify their governing operating agreement to include an all-inclusive pooling mechanism so that the revenue requirement is based on usage, not ownership share.

The order accepted compliance rates using test period data and rejected rates using actual data. The following are the rates effective January 1, 2005:

	2005	2006
Golden Valley Electric	$1.23	$1.30
Petrostar	$1.90	$2.00
Valdez Intrastate	$1.91	$2.01
Valdez Interstate	$1.92	$2.02

Our TAPS tariff forecast does not attempt to predict the outcome of pending litigation or estimate the level and timing of protested tariffs. Corrections between filed, charged and allowed rates will be made through the refund process and are not part of the tariff forecast. The TAPS forecast model simulates what the tariff would be using standard rate making practices with assumptions and data from the compliance order. The model calculates a total revenue requirement for operating and maintaining the pipeline, while providing a return for the investment in the pipeline. The total revenue requirement is then unitized by dividing by the total number of barrels of oil shipped through the pipeline.

The rate base calculation uses test period data from Order 502 and a 154-B methodology with the FERC specified depreciation schedule and life of the pipeline. Other cost components are projected using relationships developed from historical data and assumptions regarding future costs and investments. Additional capital expenditures are input for the Strategic Reconfiguration project.

Adjustments to the rate base use

- Beginning rate base
- Trending
- Deferred return
- New capital additions
- Depreciation
- Ending rate base.

Per FERC Order 502, the return component uses a capital structure of 58% debt and 42% equity with a 7.16% cost of debt and an 8.89% real return on equity. The deferred return and the Allowance for Funds Used During Construction (AFUDC) are amortized per the specified rate. Components of the revenue requirement include

- Operating expenses
- Property tax
- Depreciation expense
- Interest expense
- Return on equity
- Amortization of AFUDC
- Amortization of deferred return
- Income tax allowance
- Non-transportation revenues.

The sum of the cost components listed above is the total revenue requirement (TRR) for the pipeline. A tariff in dollars per barrel is calculated by dividing the TRR by throughput or deliveries. Dividing by throughput makes the tariff sensitive to the production profile and subjects the forecast to the inherent uncertainties in production forecasting.

Using the methodology specified in Order 502 generates a lower tariff than using the methodology in the existing settlement agreement. The TAPS Settlement Agreement (TSA), established in 1985, defines the TAPS Settlement Methodology (TSM) for each carrier to use to calculate their annual TAPS tariff. The TSA expires at the end of 2011, but the agreement has a provision that allows parties to open negotiations on a follow-on agreement after December 31, 2006. That provision was triggered on January 1, 2007, and negotiations are on-going. If an agreement is not reached within a two-year period, any party, including the State of Alaska, has the right to terminate the agreement. It is thus possible that use of the TSM will terminate as early as January 1, 2009.

Carriers may continue to file TSM ceiling rates but the effective rates are assumed to be those in compliance with Order 502. The tariff forecast in Figure 4-8 is consistent with the order and uses the Fall 2008 production forecast discussed below. For calendar year 2009, the tariff using Order 502 is about two dollars less than the tariff calculation using the TSM. Since the tariff model is calendar year, the fiscal year forecast is calculated as the average of the current calendar year and the previous calendar year. The forecast is $4.52 per barrel for FY 2009, $3.75 for FY 2010, then increases modestly for the next few years. TAPS is an old pipeline with operating expenses accounting for about 80 percent of the total revenue requirement. As the production decline accelerates and operating costs get spread over fewer units, the tariff will escalate more rapidly.

The tariff forecasting model is cost-based and simulates the regulatory approach and outcome. As a cost-based tariff, we assume that the TAPS tariff is "reasonable" for transportation charges for the purposes of this forecast.

Feeder Pipeline Tariffs and Other Adjustments

These costs include both feeder pipeline charges and other cost adjustments to account for the different qualities of oil

entering the pipelines, as well as market location differentials for intrastate sales. Transportation costs for feeder pipelines are incurred to move the crude oil from the various North Slope production fields to Pump Station No. 1 of the TAPS. A tariff is calculated for each of the feeder pipelines according to the particular settlement agreement. Inflation and cost-based factors are used to project the tariffs, which are weighted by each pipeline's throughput volume to estimate a weighted-average feeder pipeline tariff.

Wellhead Price

The combination of ANS wellhead value and production volumes forms the basis for both state production taxes and royalties. The wellhead value is calculated by subtracting the relevant marine transportation and pipeline tariff costs (as well as adjustments for North Slope feeder pipelines and pipeline Quality Bank) from the appropriate destination value. Figure 4-8 reflects this calculation for FY 2008-2018.

4. Crude Oil Production

Methodology

In a hydrocarbon rich basin such as the North Slope of Alaska, any discussion regarding production forecasting methodology should begin with identifying those resources that are not included in our estimates. We do not include any estimates for undiscovered oil, including future potential from the Alaska National Wildlife Refuge (ANWR), the National Petroleum Reserve-Alaska (NPR-A), the federal Outer Continental Shelf (OCS) or onshore lands within the state of Alaska. We exclude from our estimates production from most of the known heavy or viscous oil deposits; in fact we consider none of the approximately 20 billion barrels from the giant Ugnu deposit. We exclude 96% of the viscous/heavy oil from the large West Sak field, projecting roughly 400 million barrels recovery out of roughly 10 billion barrels in place. We also exclude 87% of the heavy oil at Schrader Bluff, projecting roughly 285 million barrels recovery out of over 2 billion barrels in place. Additionally, none of the known oil discoveries in the federal OCS, in fields such as Sivilluq, Kuvlum and Sandpiper, potentially totaling hundreds of millions of barrels of recoverable oil, are considered in the forecast. None of the known discoveries west of the small NPR-A accumulations in the vicinity of the Alpine field are included. Finally, we limit any production attributed to a promising new enhanced oil recovery technology termed 'low salinity waterflood' to a portion of the Endicott field, where results from an ongoing pilot project are expected by year end. Laboratory tests using Endicott rock show low salinity waterflood can increase ultimate recovery by 10-15%, or approximately 150 million barrels. Successful slopewide implementation of low salinity waterflood could result in incremental recovery measured in the billions of barrels. We also exclude any enhanced oil recovery from CO_2 injection, a long proven technology that complements low salinity waterflood and provides necessary disposition of an otherwise unwanted byproduct of gas conditioning associated with major gas sales from the North Slope. Carbon dioxide injection, presumed to occur only with major gas sales, could add hundreds of millions barrels of incremental recovery from the North Slope.

We exclude the aforementioned resources, both known and unknown, in order to avoid speculation and to reduce the uncertainty typically associated with the commercialization, timing and magnitude of resource development. Accordingly, we believe that our current estimates of ultimate recovery from the North Slope are conservative.

For the production forecasting process, we engage a petroleum engineering consultant who performs a bottom-up evaluation on each of the individual fields that yields a forecast of three types of oil production: (1) oil that is currently being produced, (2) oil production that we expect to realize from projects currently under development and (3) oil production that we expect to realize from projects under evaluation. A detailed description of each type of production is provided later in this section. The engineering consultant employs decline curve analysis, augmented by generally accepted engineering principals, discussions with field operators and public and private information, in order to assemble our long range production forecast.

Assumptions

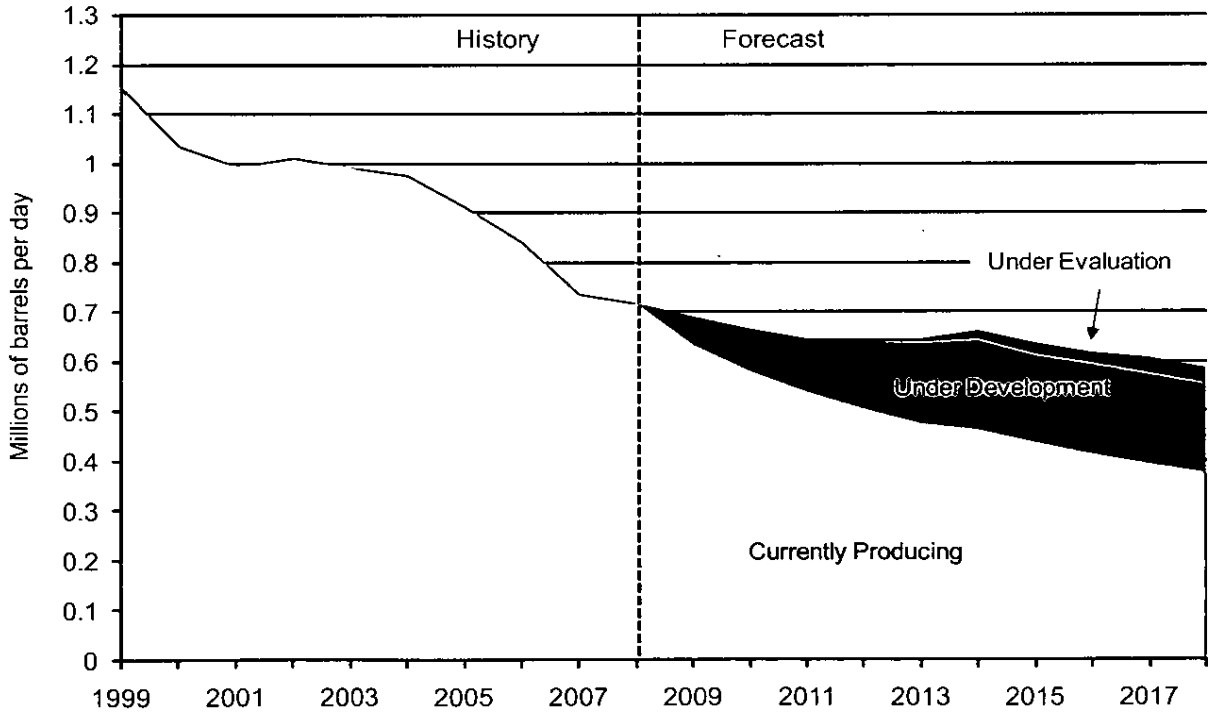
We continue to make adjustments to our production expectations from the North Slope in this Fall 2008 forecast. As always, we examine reservoir performance, review the uncertainty associated with the pace and scope of development of new fields and new projects within existing fields and re-evaluate planned and unplanned downtime for all fields. Our review indicates that, with minor exceptions and notwithstanding planned and unplanned surface disruptions, all reservoirs are performing at or above expectations. Through FY 2050, we expect to produce almost 6.7 billion barrels of liquid hydrocarbons.

In the next ten years, we anticipate new developments on state and federal lands, both of which benefit the state. Most of the opportunities to add production from state lands are from expanded heavy/viscous oil development (West Sak, Orion, Polaris,

Schrader Bluff fields), continued satellite development at Alpine (Fiord, Fiord-West, Nanuq, Qannik, Alpine West fields) and new developments at Oooguruk and Nikaitchuq. Production from the Oooguruk field began during the summer of 2008 and is progressing as expected. As anticipated, the Nikaitchuq field was sanctioned in early 2008, and development is underway, with first oil expected in the first quarter of CY 2010. Although we forecast expanded development at West Sak, we have again assumed a slower pace of heavy oil development there to allow the operator to fully evaluate technical and commercial issues associated with the development. For similar reasons, heavy oil development at Orion and Polaris was assumed to be slower, although Phase 2 development is moving forward. For the Milne Point Unit, which includes both the Kuparuk pool and the heavier Schrader Bluff pool, we have assumed a slower pace of development to allow for reprioritized spending on infrastructure renewal projects. We have assumed a delayed development of Point Thomson and associated satellites for one year in keeping with our 10 year development lead time, which may be conservative. The development of Point Thomson has not been tied to any gas pipeline project or gas contract. Our review of Alpine satellite field development yielded expanded development at Alpine West, the addition of new satellite Fiord West, increased expectations from Fiord and reduced expectations from Nanuq. New satellite Qannik came on production during the summer of 2008 and is under development.

Our forecast includes production from federal lands. From a revenue standpoint, the State of Alaska benefits in at least five ways, albeit to a lesser degree, from new developments on federal lands: (1) shared royalties (27.5% of federal share) from federal OCS fields such as Liberty; (2) production taxes on federal oil produced onshore within Alaska (NPR-A); (3) increased property tax on any infrastructure on state lands required to produce and transport federal oil; (4) corporate income taxes; and (5) lower pipeline transportation tariffs, which increase wellhead prices. In addition, any oil processed through the Endicott facility (from Liberty for example) may increase net profit payments to the state. Federal oil produced within the State of Alaska can return up to 75% of the revenue generated by oil produced on state lands. Federal oil produced from non-state lands provides a revenue benefit limited to decreased transportation tariffs and increased property taxes.

Figure 4-9. Alaska North Slope Production, FY 1999-2008, and Forecasted FY 2009-2018.



For the fall forecast we have reevaluated our assumptions regarding the scope and pace of development of projects within the federal NPR-A to better reflect the timing of competing projects at Alpine and to permit further delineation drilling and subsequent evaluation this winter. The end result is a slight delay in development at known accumulations Spark and Moose's Tooth. Liberty development is underway, with long lead items such as building the world's largest land drilling rig setting the pace. The rate profile we use for Liberty is adapted from the plan of development recently filed with the Minerals Management Service and should be considered a base case scenario with upside potential.

Although we anticipate new developments from state and federal lands over the next 10 years to contribute to overall production and partially mitigate base decline, we continue to make adjustments near term to reflect ongoing infrastructure renewal projects. Much of the new production we forecast relies upon the continued use of aging wells, flowlines, production facilities and pipelines, as does at least 500,000 barrels per day of existing production.

Crude Oil Production Forecast

Our three categories of North Slope production are illustrated in Figures 4-9 and 4-10. We do this so that the reader will have an understanding about the uncertainty associated with the production forecast. We forecast production of only those fields that have already been discovered and at a minimum are being evaluated for development.

Currently Producing

Production characterized as "currently producing" includes baseline production and presumes a continued level of expenditure sufficient to promote safe, environmentally sound operations. Such expenditures include the following: well diagnostic and remedial work, data acquisition and rate-enhancing expenditures such as perforating, acid stimulation, well workovers, fracture treatments, artificial lift optimization and production profile optimization. This category of production also presumes continued gas and water injection for pressure support. We exclude 10% of the barrels currently producing at Kuparuk and 15% of the barrels currently producing at Prudhoe Bay to reflect future development drilling, opting instead to characterize some as "under development." Based on historical forecasting performance, we assign a 98% confidence level for the current fiscal year and a 95% confidence level for the second fiscal year forward.

Currently Under Development

Production characterized as "currently under development" is based on new projects either currently funded or

Figure 4-10. Alaska North Slope Production, FY 2008 and Forecasted FY 2009-2018[1] (million barrels per day)

Fiscal Year	Currently Producing	Under Development	Under Evaluation	Total ANS
2008	0.716	0.000	0.000	0.716
2009	0.633	0.056	0.000	0.689
2010	0.580	0.084	0.000	0.665
2011	0.538	0.105	0.001	0.644
2012	0.504	0.138	0.003	0.644
2013	0.474	0.164	0.006	0.644
2014	0.461	0.183	0.016	0.660
2015	0.436	0.178	0.022	0.635
2016	0.412	0.183	0.020	0.616
2017	0.393	0.183	0.030	0.606
2018	0.375	0.180	0.030	0.585

[1] Some of the oil forecasted in the Under Development and Under Evaluation categories are from new projects in fields currently producing.

Figure 4-11. New Oil as a Percentage of Total Oil (million barrels per day)

Fiscal Year	Total New Oil	ANS Total	Percent New Oil
2009	0.056	0.689	8.2%
2010	0.085	0.665	12.7%
2011	0.106	0.644	16.5%
2012	0.141	0.644	21.8%
2013	0.170	0.644	26.4%
2014	0.199	0.660	30.2%
2015	0.200	0.635	31.4%
2016	0.204	0.616	33.1%
2017	0.213	0.606	35.2%
2018	0.210	0.585	36.0%

awaiting project sanctioning in the very near future. It includes projects that may be in the design/construction phase, as well as development drilling and enhanced oil recovery (miscible or immiscible injection) projects, currently funded or underway, but not included in the "currently producing" category. It also includes incremental oil expected from the long-term gas cap water injection project at Prudhoe Bay and the low salinity waterflood at Endicott. Examples of production currently under development include the Fiord, Nanuq, Alpine West, Fiord West and Qannik satellites at Alpine; the Borealis, Orion and Polaris satellites at Prudhoe Bay; J-pad, 3K-pad, 1N-Pad and 1P-Pad at West Sak; development drilling at Tarn and Northstar; Liberty; Ooguruk; Nikaitchuq; 10% of existing Kuparuk production and 15% of existing Prudhoe Bay production.

The timing of these projects are often influenced by budget cycles, working interest owner approval, available human resources, equipment procurement, rig availability and even available bed space in camps on the North Slope. Our subjective confidence level for this category of production is 85% to 90%.

Currently Under Evaluation

Production characterized as "currently under evaluation" includes technically viable projects currently in the pencil sharpening stage where engineering, cost, risk and reward are all being actively evaluated. These projects are all currently unfunded by the operators but have a high chance of being brought to fruition. Examples include heavy oil development outside of the core or near core area at West Sak, longer term Orion drilling, half of all new Schrader Bluff drilling, Point Thomson and associated satellites and pools within the NPR-A.

Confidence levels vary for this category of production. Production from the known NPR-A fields that are undergoing further delineation and likely will use the existing Alpine facility might have confidence levels approaching that of "production under development." High-cost, scope-challenged developments such as Point Thomson probably deserve a lower confidence level, not because of the lack of reserves, but because of the uncertainty in the timing of first production.

As Figure 4-11 shows, by FY 2013 more than one-quarter of our projected oil production will come from projects requiring significant new investment.

Undiscovered Potential

The long term revenue outlook published in this book is associated with our forecast of production from oilfields that have already been discovered. However, it is important to discuss the potential for future production from resources currently undiscovered.

In August 2007, the U.S. Department of Energy released a report entitled *Alaska North Slope Oil and Gas: A Promising Future or an Area in Decline?*[5]

[5] http://www.netl.doe.gov/publications/press/2008/08002-DOE_Releases_Alaska_Report.html

Figure 4-12. Technically Recoverable North Slope Oil and Gas Potential

Exploration Area	Mean Technically Recoverable Oil (BBO)	Mean Technically Recoverable Gas (TCF)
ANWR 1002 Area	10.4	3.84
Beaufort Sea OCS	6.9	32.1
Chukchi Sea OCS	15.5	60.1
Colville-Canning Area (& adjacent state waters)	4.5	37.5
NPR-A	10.6	61.4
TOTAL	**47.9**	**194.94**

Source: U.S. Department of Energy, August 2007

Figure 4-13. Economically Recoverable North Slope Oil and Gas Potential

	Near Term 2005-2015		Long Term 2015-2050		Total 2005-2050	
Exploration Area	**Oil (BBO)**	**Gas (TCF)**	**Oil (BBO)**	**Gas (TCF)**	**Oil (BBO)**	**Gas (TCF)**
ANWR 1002 Area	N.A.	N.A.	6.25	2.0+	6.25	2.0+
Beaufort Sea OCS	0.65	1.0 (associated gas)	4.3	20.0	4.95	21.0
Chukchi Sea OCS	NA	NA	9.5	50.0	9.5	50.0
Colville-Canning Area (& adjacent state waters)	1.1	10.0	2.05	23.3	3.15	33.3
NPR-A	1.1	1.0 (associated gas)	5.4	30.0	6.5	31.0
TOTAL ARCTIC ALASKA	**2.85**	**12.0**	**27.5**	**125.3**	**30.35**	**137.3**

Source: U.S. Department of Energy, August 2007

which assessed the potential for Alaska to remain a major producer of oil and gas under different development scenarios. The report summarizes near-term potential (2005-2015) and long-term potential (2015-2050) mostly under a major gas sales scenario. According to the report, the North Slope is a relatively young petroleum province from an exploration perspective, and may provide oil, and increasingly more important natural gas, for years to come. The 2007 report, which is based on information as of 2005, is currently being revised to reflect changes since then. The revised report is estimated to be released early in 2009.

The 2007 report evaluates geologic and commercial viability of future oil and gas production from five areas or provinces: (1) the central Arctic area between the Colville and Canning Rivers (and adjacent state waters), (2) the 1002 area of ANWR, (3) NPR-A, (4) the Beaufort Sea OCS and (5) the Chukchi Sea OCS. Under the most optimistic scenario, DOE reported mean technically recoverable oil resources of 47.9 billion barrels and mean technically recoverable gas resources of 194.9 trillion cubic feet (TCF) from these five areas. Figure 4-12 shows the breakout by exploration area.

These figures represent the amount of hydrocarbon resources that are technically recoverable with today's technology assuming that all five areas are open to development; however, they say nothing about the economic recoverability. DOE also estimates economically recoverable reserves from these five areas using a range of oil and gas prices ($25 to $60 per barrel and $3.13 to $7.50 per thousand cubic feet of gas), and an 8:1 oil-to-gas price ratio. Using the high oil price case of $60 per barrel, total economically recoverable oil for the 2005-2050 time period is estimated at 35-36 billion barrels of oil and 137 TCF of gas. Figure 4-13 details the economic recoverable resources by area.

Petroleum Property Tax

An annual tax is levied each year on the full and true value of property taxable under AS 43.56. The tax on oil and gas property is the only statewide property tax. The valuation procedure for three distinct classes of property—exploration, production and pipeline transportation—is described here.

Exploration Property

Value is based on the estimated price that the property would bring in an open market under prevailing market conditions in a sale between a willing seller and a willing buyer, both conversant with the property and with prevailing general price levels.

The state petroleum property assessor gathers raw data for determining market value by reviewing the details of equipment sales in Alaska when available and reviewing trade journals. This data is then applied to the taxable

Figure 4-14. Distribution of Petroleum Property Tax, FY 2008 ($ million)[1]

Municipalities	Gross Tax	Local Share	State Share
North Slope	254.3	235.2	19.1
Unorganized	52.7	0.0	52.7
Valdez	26.5	26.5	0.0
Kenai	12.7	6.6	6.1
Fairbanks	10.2	6.8	3.3
Anchorage	1.8	1.4	0.5
Other Municipalities [2]	0.0	0.0	0.0
Total	**358.3**	**276.5**	**81.7**

[1] Amounts shown here do not include the supplemental property tax roll and as a result may not exactly match data presented elsewhere in this forecast

[2] Includes Matanuska-Susitna Borough, Cordova and Whittier.

property, taking into account age, capacity and physical and functional obsolescence.

Production Property

Value is determined on the basis of replacement cost new less depreciation, based on the economic life of the proven reserves.

The factor used in the depreciation calculation for the facility typically equals the years of remaining life divided by the total life.

Pipeline Transportation Property

The full and true value of taxable pipeline property is determined with due regard to the economic value of the property based on the estimated life of the proven reserves of gas or unrefined oil that will be transported by the pipeline. We rely upon several standard appraisal techniques to value Alaska pipelines. When market rents are available, we analyze the income method under which the value is the net present worth of all future income streams of the pipeline. We primarily rely on replacement cost new less depreciation, based on the economic life of the reserves that feed the pipeline. This is especially useful when rents are constrained by the regulatory process or when market rents cannot be obtained for use in the income method.

Figure 4-14 illustrates the property tax distribution between local communities and the state for FY 2008. The property value is assessed by the state. A local tax is levied on the state's assessed value for oil and gas property within a city or borough, and is subject to the local property tax limitations established in AS 29.45.080 and AS 29.45.100. The state's mill rate is effectively 20 mills minus the local rate.

Petroleum Corporate Income Tax

Alaska levies two types of corporate income tax. This section focuses on the oil and gas corporate income tax. Forecasts and discussion of the corporate income tax as applied to corporations other than oil and gas corporations can be found in the Other Revenue section of this forecast.

An oil and gas corporation's Alaska income tax liability depends on the relative size of its Alaska and worldwide activities and the corporation's total worldwide net earnings. The corporation's Alaska taxable income is derived by apportioning its worldwide taxable income to Alaska based on the average of three factors as they pertain to the corporation's Alaska operations: (1) tariffs and sales, (2) oil and gas production and (3) oil and gas property.

Historically, oil and gas corporate income tax revenue has varied greatly along with oil prices and oil industry profits. In FY 1982, revenue from this tax was $668.9 million. As recently as FY 1994, the oil and gas corporate income tax generated a mere $17.8 million. For the past several years, revenues from the oil and gas corporate income tax have benefitted from high oil prices and oil industry profits, generating $605.8 million in FY 2008. This represents a small increase from the $594.4 million collected in FY 2007.

We produce our forecast of oil and gas corporate income tax collections using an economic model based on the statistical relationships between historical tax payments, crude oil prices, North Slope oil production and refinery margins. We then adjust for refunds and carryforwards which cause actual collections to differ from estimated payments.

We forecast oil and gas corporate income tax collections of $635 million in FY 2009, benefitting from record oil prices early in the fiscal year. We expect moderation in oil prices to result in a decline to $560 million in FY 2010.

Restricted Oil Revenue

According to Article IX, Section 15 of the Alaska Constitution, a minimum of 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state must be deposited into the Alaska Permanent Fund. In addition, AS 37.14.110 requires a contribution of 0.5% of all royalties and bonuses to the Public School Trust Fund. Settlements with, or judgments against, the oil industry involving tax and royalty disputes must be deposited in the Constitutional Budget Reserve Fund (CBRF).

The state is entitled to 50% of all bonuses, rents and royalties from oil development activity in the federal NPR-A, all of which flows into the NPR-A Special Revenue Fund. Revenue in the fund each year is available for appropriation in the form of grants to municipalities that demonstrate present or future impact from NPR-A oil development. Of the revenue not appropriated to the municipalities, 25% goes to the Permanent Fund, 0.5% goes to the Public School Trust Fund, and the rest may be appropriated to the Power Cost Equalization and Rural Electric Capitalization Fund. Any remaining revenue after these appropriations lapses into the General Fund.

Figure 4-15 reflects restricted oil and gas revenue.

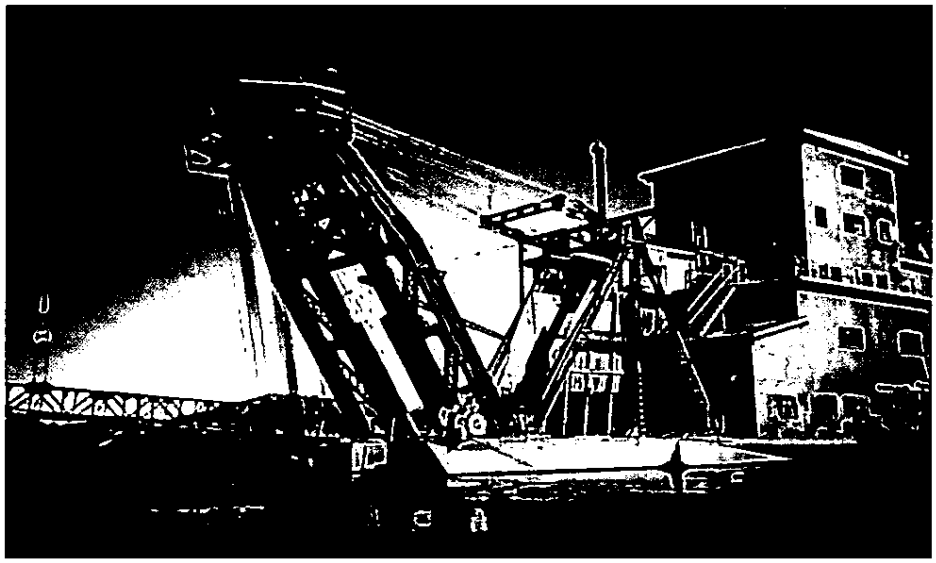
Figure 4-15. Restricted Oil Revenue, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
Restricted	FY 2008	FY 2009	FY 2010
Royalties to Permanent Fund & School Fund			
Royalties, Bonuses & Rents to the Permanent Fund	782.6	705.0	723.1
Royalties, Bonuses & Rents to the School Fund	16.5	12.4	11.7
Subtotal	**799.1**	**717.3**	**734.8**
Settlements to CBRF	438.3	20.0	20.0
NPRA Royalties, Rents & Bonuses	5.2	22.5	7.5
Total Restricted	**1,242.6**	**759.8**	**762.3**

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008



Gold Mine in Interior Alaska

© Alaska Division of Community and Business Development

5. Other Revenue (except Federal & Investment)

Figure 5-1. FY 2008 Other Revenue: $1.2 billion

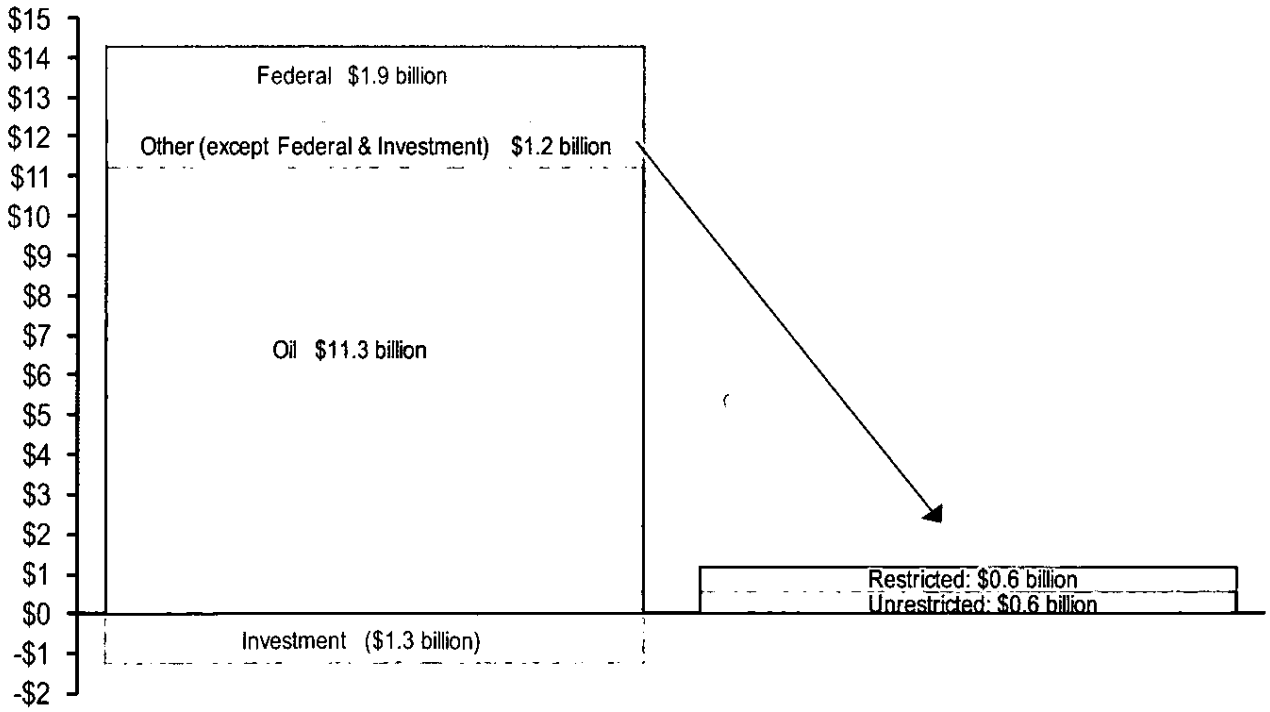


Figure 5-2. Total Other Revenue (except Federal & Investment), FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Taxes	433.2	364.3	302.2
Charges for Services	29.3	27.7	28.9
Fines & Forfeitures	8.9	8.3	8.7
Licenses & Permits	38.9	43.9	42.2
Rents & Royalties	15.7	13.4	11.7
Other	26.2	26.5	19.5
Total Unrestricted	**552.2**	**484.1**	**413.2**
Restricted			
Taxes	139.6	138.0	138.4
Charges for Services	246.7	298.5	299.0
Fines & Forfeitures	41.9	37.4	36.7
Licenses & Permits	38.0	40.9	39.2
Rents & Royalties	7.0	10.7	9.9
Other	131.2	108.9	108.9
Total Restricted	**604.4**	**634.4**	**632.1**
Total Other Revenue	**1,156.6**	**1,118.5**	**1,045.3**

General Discussion

This section includes income from sources other than oil, state investments and federal receipts, including non-oil taxes, charges for services, fines and forfeitures, licenses and permits, rents and royalties and other revenue sources. These revenue sources are divided between unrestricted and restricted revenues; the amounts of each are reflected in Figures 5-2 through 5-8 throughout this chapter. Restricted revenue includes money deposited in funds other than the General Fund, as well as receipts that are restricted by statute or that the legislature customarily appropriates for a particular purpose or program, such as fish tax revenue that is shared with municipalities.

Taxes

Alcoholic Beverages Tax

Alcoholic beverage taxes are collected primarily from wholesalers and distributors of alcoholic beverages sold in Alaska. The per-gallon tax rates on alcoholic beverages are $1.07 for beer, $2.50 for wine and $12.80 for liquor. Qualifying small brewers pay tax at a rate of $0.35 per gallon for beer. Revenue is deposited into the General Fund. Fifty percent of the revenue is deposited into a subfund of the General Fund, the Alcohol and Other Drug Abuse Treatment and Prevention Fund, and is treated as restricted in this forecast.

Over the past 10 years, alcohol consumption has grown at an average annual rate of 0.7% for beer, 4.3% for wine, and 3.8% for liquor. We forecast that consumption will continue to grow at these historical average rates.

Charitable Gaming

Under Alaska law, municipalities and qualified nonprofit organizations may conduct certain charitable gaming activities. The purpose of these activities is to derive public benefit in the form of money for the charities and revenues for the state. The Department of Revenue collects permit and license fees, a 1% net proceeds fee and a 3% pull-tab tax. We forecast that revenues from charitable gaming activity will increase slightly in FY 2009 before returning to current levels in FY 2010.

Commercial Passenger Vessel Taxes

In August 2006, Alaska voters approved an initiative that imposed new taxes and fees on commercial passenger vessels:

- The Cruise Ship Passenger Fee, a per-passenger tax of $46 on commercial passenger vessels with 250 or more berths. Revenues are deposited into a subfund of the General Fund, the Commercial Vessel Passenger Tax Account. Five dollars of the tax is distributed to each of the first five ports of call, and an additional 25% of the tax is designated for other local governments impacted by the cruise ship industry via the Regional Cruise Ship Impact Fund. The entire passenger fee is considered restricted for purposes of this forecast. We forecast that just over 1 million passengers per year will be subject to the tax, representing no change from FY 2008 levels.
- The Ocean Ranger Fee is an additional per-berth fee of $4 to operate the Ocean Ranger program, which provides for independent observers of engineering, sanitation and health practices. This fee is considered restricted and is included in the Charges for Services section of this forecast.
- The Large Passenger Vessel Gambling Tax is a tax of 33% on the adjusted gross income from gaming or gambling activities aboard large passenger vessels in the state. Revenue goes to the General Fund and is considered unrestricted. We expect revenue to remain constant at FY 2008 levels.
- The Alaska corporate income tax now applies to large commercial passenger vessels. The effects of this provision are included in our forecast of corporate income taxes.
- There are new penalties for false reporting, violating environmental regulations and failing to make proper disclosures on promotions and shore side activity sales. Any revenue from these provisions is included in the Fines and Forfeitures section of this forecast.

Corporate Income Tax

Alaska levies two types of corporate income tax: one that applies to oil and gas corporations and one that applies to corporations other than oil and gas corporations. Forecasts and discussion of the corporate income tax as applied to oil and gas corporations can be found in the Oil Revenue section of this forecast.

Alaska levies the corporate income tax on net income of corporations that do business in the state and derive income from sources within Alaska. Corporate tax rates are graduated from 1% to 9.4% in $10,000 increments of Alaska taxable income; the maximum rate of 9.4% applies to taxable income over $90,000. S-Corporations and LLCs that file federally as partnerships are generally exempt from corporate income tax. Corporations compute their tax liability based on federal taxable income with Alaska adjustments. Corporations other than oil and gas corporations apportion their income to Alaska by using a three-factor apportionment based on sales, property and payroll. Alaska taxable income is determined by applying the apportionment factor to the corporation's modified federal taxable income.

We produce our forecast of non-petroleum corporate income tax collections by using two economic models: one for the largest sector (in terms of collections), mining, and one for all other sectors.

The mining sector model is based on the statistical relationship between historical tax payments, corporate profits and zinc prices. Zinc prices are used because zinc accounts for over half of Alaska minerals production. The model for all sectors other than mining is based on the statistical relationship between historical tax payments, corporate profits and crude oil prices. Crude oil prices are used because the price of oil influences company profitability in many economic sectors in Alaska. After forecasting estimated payments, we then adjust for refunds, carry-forwards and other payments that cause actual collections to differ from estimated payments.

Over the past few years, income tax revenue from corporations other than oil and gas corporations has increased significantly. In FY 2004, revenue from the tax was $39.6 million. By FY 2008, revenue increased to $182.7 million. Much of the growth came from mining, with collections from that sector growing from $0.4 million in FY 2004 to $61.3 million in FY 2008. Looking forward, collections will be lower in part because of the economic downturn, and in part due to lower prices for Alaska's oil and minerals. The first half of FY 2009 appears strong and collections are expected to total $160 million for the year. However, by FY 2010 we expect that collections will fall to $90 million – about half of FY 2008 total.

Electric Cooperative and Telephone Cooperative Taxes

The electric cooperative tax is based on kilowatt hours furnished by qualified electric cooperatives recognized under Title 10 of the Alaska Statutes. The telephone cooperative tax is levied on gross revenue of qualified telephone cooperatives under Title 10. Revenue from cooperatives located in municipalities is treated as restricted revenue in this forecast because it is shared 100% with the municipalities. The small amount of revenue collected from cooperatives outside municipalities is retained by the state. We forecast that revenues from the electric and telephone cooperative taxes will grow according to the overall rate of inflation.

Estate Tax

The estate tax is levied on the transfer of an estate upon death. The Alaska estate tax is tied to the federal tax, with the amount of the state tax equaling the maximum state credit allowed on the estate's federal return. All revenue derived from estate taxes is deposited in the General Fund.

As a result of changes to the federal estate tax, the Alaska estate tax was phased out completely beginning January 1, 2005. The federal estate tax changes that caused the state tax to phase out are currently scheduled to sunset after December 31, 2010. Assuming the tax changes sunset as scheduled, Alaska will begin to receive revenue from the estate tax again in FY 2012.

Fisheries Business Tax

The fisheries business tax is levied on businesses that process fisheries resources in or export fisheries resources from Alaska. Although the tax usually is levied on the act of processing, the tax is often referred to as a "raw fish tax" because it is based on the value of the raw fishery resource. Tax rates vary from 1% to 5%, depending on whether a fishery resource is classified as "established" or "developing," and whether it was processed by a shore-based or floating processor. Revenue from the tax is deposited in the General Fund. Fifty percent of the revenue (before credits) is shared to qualified municipalities and is treated as restricted in this forecast.

We forecast fisheries business tax revenues based on estimated taxable values of the major fisheries in the state and historical effective tax rates. Fisheries business tax revenue retained by the state is reduced by a forecast of tax credits, including Salmon Product Development credits, which apply only to the state portion of the tax.

Fishery Resource Landing Tax

The fishery resource landing tax is levied on fishery resources processed outside of and first landed in Alaska, and is based on the unprocessed statewide average price of the resource. The tax is collected primarily from factory trawlers and floating processors that process fishery resources outside the state's 3-mile limit and bring their products into Alaska for shipment. The tax rates vary from 1% to 3%, based on whether the resource is classified as "established" or "developing." All revenue derived from the tax is deposited in the General Fund. Fifty percent of the revenue (before credits) is shared with qualified municipalities, and is treated as restricted in this forecast.

We forecast fisheries resource landing tax revenue based on estimated taxable values of the major fisheries in the state and historical effective tax rates. Fisheries resource landing tax revenue retained by the state is reduced by a forecast of tax credits which apply only to the state's share of the tax.

Insurance Premium Tax

Insurance companies in Alaska pay an insurance premium tax instead of corporate income tax, sales or other excise taxes. Revenue is deposited into the General Fund, and for most types of insurance, the tax is treated as unrestricted revenue. Insurance premium taxes on worker's compensation insurance are deposited into a subfund of the General Fund, the Workers Safety and Compensation Fund, and are reflected as restricted in this forecast. The restricted component also includes service fees paid into the Workers Safety and Compensation Fund by employers who are uninsured or self-insured.

We forecast insurance premium tax revenues based on estimates provided by the Department of Commerce, Community and Economic Development's Division of Insurance, which administers the insurance premium tax, and the Department of Labor and Workforce Development's Workers Compensation Division, which collects worker's compensation service fees.

Mining License Tax

The mining license tax is a tax ranging from 0% to 7% on the net income of all mining operations in the state. Except for sand and gravel operations, new mining operations are exempt from the mining license tax for a period of 3½ years after production begins.

Our forecast is produced using a bottom-up approach that estimates tax payments for each of the major mines in the state based on expected minerals prices and production.

Mining license tax revenues were $54.4 million in FY 2008, the second-highest level on record. However, prices for many minerals have declined recently. In particular, zinc prices have fallen by about 75% from the highs reached in late 2006 (zinc prices are particularly important because zinc accounts for more than half of Alaska's non-petroleum mineral production).

Based on expectations of lower profits at Alaska's mines, we forecast that mining license tax revenues will decline from recent records. We foresee a moderate decline in FY 2009 followed by collections of under $20 million by FY 2010.

Motor Fuel Tax

The motor fuel tax is imposed on all motor fuel sold, transferred or used within Alaska. Per gallon rates are 8 cents for highway use, 5 cents for marine fuel, 4.7 cents for aviation gasoline, 3.2 cents for jet fuel, and 8 cents or 2 cents for gasohol, depending on the season, location and EPA mandate. Motor fuel taxes are collected primarily from wholesalers and distributors licensed as qualified dealers. Various uses of fuel are exempt from tax, including fuel used for heating or flights to or from a foreign country. All revenue derived from motor fuel taxes is deposited in the General Fund. Sixty percent of the taxes attributable to aviation fuel sales at municipal airports are shared with the respective municipalities, and are treated as restricted for purposes of this forecast.

A temporary suspension of the motor fuel tax was included in the energy assistance package introduced by the governor and passed by the legislature this summer. This suspension took effect September 1, 2008 and ends August 31, 2009. Therefore, FY 2009 will include only two months of motor fuel tax collections and FY 2010 will include ten months of collections.

We forecast motor fuel tax revenue based on Energy Information Agency projections for U.S. motor fuel consumption growth, with adjustments for the temporary tax suspension.

Tire Fee

The tire fee has two components. The first component is a tax of $2.50 on all new tires sold in Alaska for motor vehicles intended for highway use. The second component is an additional $5 fee per tire on all new tires with heavy studs sold in Alaska, and a $5 fee per tire on the installation of heavy studs on a previously un-studded tire.

We forecast tire fee revenue based on the expected number of vehicle registrations in the state.

Seafood Assessments and Taxes

The Department of Revenue administers five different programs that raise money through seafood assessments and taxes. The rates for these assessments and taxes are determined by a vote of the appropriate association within the seafood industry, by members of the Alaska Seafood Marketing Institute, or by the Department of Revenue.

The five programs are the following:

- The seafood marketing assessment, which applies to all seafood products made or first landed in Alaska and all unprocessed products exported from Alaska.
- The dive fishery management assessment, which is levied on the value of fishery resources taken using dive gear in a designated management area.
- The regional seafood development tax, which is levied on the value of fishery resources in a designated management area.
- The salmon enhancement tax, which is levied on salmon sold or exported from designated aquaculture regions.
- The cost recovery fisheries assessment, a new program authorized in 2006. This program allows hatcheries to establish a common property fishery and recoup costs through an assessment on fishery resources taken in the terminal harvest area. So far, no hatcheries have elected to use this program as a funding source.

Although revenue received under these assessments is deposited in the General Fund, funds are treated as restricted revenue in this forecast because they are set aside for the legislature to appropriate for the benefit of the seafood industry, either in marketing or in management and development of the industry.

We forecast salmon enhancement tax revenue based on the estimated taxable value of Alaska's salmon fishery and historical effective tax rates. We forecast seafood development tax revenue based on the estimated taxable value of seafood processed in Alaska. All other seafood assessments are reflected as receipt supported services under the Charges for Services section of this forecast and are not forecast individually.

Tobacco Tax

The tobacco tax is levied on cigarettes and tobacco products sold, imported or transferred into Alaska. Tobacco taxes are collected primarily from licensed wholesalers and distributors. There are two components to the tobacco tax: the cigarette tax and the other tobacco products tax.

The tax rate on cigarettes has been $2.00 per pack since July 1, 2007. Of the

cigarette tax, $0.76 per pack is deposited into the School Fund, and is considered restricted revenue. All cigarette and tobacco products license fees are also deposited in the School Fund. The remainder of the cigarette tax revenue is deposited into the General Fund. Of the General Fund portion, 8.9% is deposited into a subfund of the General Fund, the Tobacco Use Education and Cessation Fund, and is treated as restricted in this forecast.

We forecast cigarette tax revenue based on projected average consumption declines of 4% annually. Our forecast does not include the effects of any possible increase in the federal excise tax on cigarettes.

The tax rate on other tobacco products, such as cigars and chewing tobacco, is 75% of the wholesale price and is deposited entirely in the General Fund.

We forecast that moderate increases in wholesale prices and consumption will result in other tobacco products tax revenue continuing to increase at the 10-year average rate of about 6% annually.

Figure 5-3. Other Taxes, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Excise Tax			
Alcoholic Beverage	20.0	19.4	19.9
Tobacco Products – Cigarettes	35.7	35.6	34.2
Tobacco Products – Other	9.2	9.8	10.4
Electric & Telephone Cooperative	0.2	0.2	0.2
Insurance Premium	47.1	48.5	50.9
Motor Fuel Tax	41.8	6.8	33.8
Tire Fee	1.5	1.5	1.5
Vehicle Rental	8.5	8.5	8.7
Subtotal	**164.0**	**130.3**	**159.6**
Corporate Income Tax (non oil and gas)	**182.7**	**160.0**	**90.0**
Fish Tax			
Fisheries Business	14.7	17.1	17.6
Fishery Resource Landing	7.9	5.8	6.0
Subtotal	**22.6**	**22.9**	**23.6**
Other Tax			
Charitable Gaming	2.7	3.0	2.7
Estate	0.0	0.0	0.0
Large Passenger Vessel Gambling	6.8	6.8	6.8
Mining License	54.4	41.3	19.5
Subtotal	**63.9**	**51.1**	**29.0**
Total Unrestricted Taxes	**433.2**	**364.3**	**302.2**

Figure 5-3. Continued

Restricted	History FY 2008	Forecast FY 2009	FY 2010
Excise Tax			
Alcoholic Beverage (alcohol & drug treatment)	19.1	19.4	19.9
Insurance Premium/Other (worker's safety & compensation)[1]	7.6	7.9	8.0
Electric & Telephone Cooperative (municipal share)	3.9	4.0	4.1
Tobacco – Cigarettes (school fund)	24.9	24.0	23.0
Tobacco – Cigarettes (tobacco use cessation)	3.6	3.5	3.3
Motor Fuel Tax – Aviation (municipal share)	0.1	0.0	0.1
Subtotal	**59.2**	**58.8**	**58.4**
Fish Tax			
Fisheries Business (municipal share)	20.2	19.6	20.1
Fishery Resource Landing (municipal share)	6.4	6.4	6.6
Salmon Enhancement (Aquaculture Association share)	5.5	5.0	5.1
Seafood Development (qualifying regional associations)	1.4	1.3	1.3
Subtotal	**33.5**	**32.3**	**33.1**
Other Taxes & Fees			
Cruise Ship Passenger Fee (state share)	25.2	25.2	25.2
Cruise Ship Passenger Fee (municipal & region share)	10.0	10.0	10.0
Cruise ship Passenger Fee (regional cruise ship impact fund)	11.7	11.7	11.7
Subtotal	**46.9**	**46.9**	**46.9**
Total Restricted Taxes	**139.6**	**138.0**	**138.4**
Grand Total	**572.8**	**502.3**	**440.6**

[1] In addition to the worker's compensation insurance premiums for the Insurance Premium Tax, this amount also includes services fees from employers who are self-insured.

Vehicle Rental Tax

The vehicle rental tax is a 10% tax on most passenger vehicle rentals of 90 days or less, and a 3% tax on rentals of recreational vehicles for 90 days or less. The vehicle rental tax provisions became effective January 1, 2004.

We forecast that vehicle rental tax revenue will remain flat in FY 2009 due to the economic downturn then increase with the overall rate of inflation.

Charges for Services

The charges for services category includes fees and other program charges for state services. Revenues reported in this category do not include all charges for state services—just those that do not fit into other categories in this report.

Most of these receipts are considered restricted revenue because they are returned to the program where they were generated. The only unrestricted revenues listed in this category come from charges that do not have program receipt designations, or are not otherwise segregated and appropriated back to a program. Many of the charges for services are small amounts that we have grouped into the broad categories "General Government," "Natural Resources" and "Other." Our forecast for these categories is based on fiscal year-to-date collections and historical averages. The largest categories of charges for services are listed separately and are discussed below.

Marine Highway Fund

The Alaska Marine Highway Fund is a subfund of the General Fund and receives revenue from state ferry system operations. The legislature has discretion over how the revenue is allocated. Because revenue is customarily appropriated for Alaska Marine Highway operations, they are considered restricted for this forecast. We forecast Marine Highway Fund receipts based on revenue expectations in the Alaska Marine Highway System business plan.

Commercial Passenger Vessel Fees

Commercial passenger vessel fees paid into the Environmental Compliance Fund come from two sources: ocean ranger fees and environmental compliance fees. All fees paid into the fund are considered restricted for purposes of this forecast. We forecast receipts based on an estimate of just over 1 million passengers per year.

The Ocean Ranger Fee is a per-berth fee of $4 that applies to commercial passenger vessels with 250 or more berths. The fee is levied to support the Ocean Ranger Program, which provides for independent observers of engineering, sanitation and health practices aboard the vessels. This fee was imposed as part of an initiative passed by voters in August 2006, and is covered in more detail in the Taxes section of this chapter.

Environmental compliance fees are levied on commercial passenger vessels with over 50 berths. Fees range from $75 to $3,750 per vessel based on the number of berths, and funds are used to support environmental compliance programs.

Program Receipts

Under AS 37.05.142 – 37.05.146, receipts from authorized state programs are accounted for separately and appropriated to administer the source program, implement laws related to the program, or cover costs associated with collecting the receipts. Some programs with program receipt authority are not included in our Charges for Services category because they are reported elsewhere in this forecast or because they do not generate revenue available for general appropriation.

We forecast program receipt revenues based on discussions with the Governor's Office of Management and Budget and analysis of the most recent budget expectations for these categories.

Program receipts listed in this section are

- Receipt supported services, which includes state services such as Pioneers homes and occupational licensing that are funded by program receipts. Some seafood assessments are included in this category.
- Statutorily designated program receipts, which includes money received from sources other than the state or federal government and restricted by the terms of a gift, grant, bequest or contract.
- Regulatory Commission of Alaska (RCA) receipts, which are regulatory cost charges and user fees levied on utilities and pipelines to fund costs of regulation.
- Test fisheries receipts, generated by the Department of Fish and Game from selling fish caught during testing the commercial viability of fisheries.
- Timber sale receipts, which are used to fund the timber disposal program of the Department of Natural Resources.
- Oil and Gas Conservation Commission receipts, which are fees and charges for regulation of oil and gas wells and pipelines.
- Business license fees collected by the Department of Commerce, Community and Economic Development.

Figure 5-4. Charges for Services, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
General Government	27.0	25.0	26.5
Natural Resources	2.0	2.3	2.1
Other	0.3	0.4	0.3
Total Unrestricted	**29.3**	**27.7**	**28.9**
Restricted			
General Government	9.2	8.0	8.5
Natural Resources	0.6	0.5	0.6
Cruise Ship Ranger Fee	4.1	4.1	4.1
Environmental Compliance Fees	2.3	2.3	2.3
Marine Highway Receipts	53.6	51.3	51.2
Receipt Supported Services	123.6	105.8	105.8
Statutorily Designated	31.5	100.6	100.6
RCA Receipts	8.4	9.9	9.9
Test Fisheries Receipts	1.5	2.5	2.5
Timber Sale Receipts	1.3	0.8	0.8
Oil & Gas Conservation	4.2	5.2	5.2
DCCED Business Licenses	6.4	7.5	7.5
Total Restricted	**246.7**	**298.5**	**299.0**
Grand Total	**276.0**	**326.2**	**327.9**

Fines and Forfeitures

Fines and forfeitures include civil and criminal fines and forfeitures and money received by the state from the settlement of civil lawsuits. The largest single source of receipts under this category is the multi-state tobacco settlement. Other sources are forecast based on fiscal year-to-date collections and historical averages.

Tobacco Settlement

The tobacco Master Settlement Agreement was signed by 46 states (including Alaska) in November 1998 and dictates annual payments to each of the states. All tobacco settlement revenue is considered restricted for purposes of this forecast. Eighty percent of the settlement revenue is earmarked for the Northern Tobacco Securitization Corporation for payments on bonds that were sold based on the future revenue stream. The remaining 20% of the revenue is deposited into the Tobacco Use Education and Cessation Fund, a subfund of the General Fund.

Tobacco settlement payments are based on a complex formula that takes into account several factors including declines in cigarette consumption, inflation and certain adjustments for litigation expenses and market share losses related to

Figure 5-5. Fines & Forfeitures, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Fines & Forfeitures	8.9	8.3	8.7
Total Unrestricted	**8.9**	**8.3**	**8.7**
Restricted			
Tobacco Settlement (North Tobacco Securitization Corporation)	27.6	28.3	27.4
Tobacco Settlement (Tobacco Use Education & Cessation Fund)	6.9	7.1	6.8
Other	7.4	2.0	2.5
Total Restricted	**41.9**	**37.4**	**36.7**
Grand Total	**50.8**	**45.7**	**45.4**

the settlement. We forecast that cigarette consumption will decline at an annual rate of 4% and inflation will be 2.75%.

Licenses and Permits

Licenses and permits represent government revenue derived from charges for participating in activities regulated by the state. The majority of the receipts under this category are from motor vehicle registration and fishing and hunting license fees. Alcoholic beverage license fees are also forecast separately. There are several other small license and permit fees which are summarized in the Other Fees category.

Alcoholic Beverage Licenses

Alcoholic beverage licenses are required to manufacture or sell alcoholic beverages in Alaska. Licenses are issued by the Alcoholic Beverage Control Board and revenue is deposited into the General Fund. All of the revenue from biennial license fees collected within municipalities, excluding annual wholesale fees and biennial wholesale license fees, is shared with the municipalities and treated as restricted for purposes of this forecast. We forecast little change in revenue because alcoholic beverage license issuance is limited based on population.

Fishing and Hunting License Fees

Fishing and hunting licenses are issued by the Alaska Department of Fish and Game for participation in various fishing, hunting and related activities. The majority of these fees are appropriated to a special revenue fund called the Fish and Game Fund. Money in the fund may only be spent for fish and game management purposes. We forecast fishing and hunting license fee revenue based on expectations of the Alaska Department of Fish and Game.

Motor Vehicle Registration Fees

Motor vehicle registration fees are collected by the Division of Motor Vehicles within the Department of Administration. Most are considered unrestricted license and permit revenue; however, some registration fees are considered restricted receipt supported services and are reflected in the Charges for Services section of this forecast. We forecast motor vehicle registration fee revenue based on expectations of the Division of Motor Vehicles.

Rents and Royalties

Rents and royalties from sources other than oil and gas fall into two categories: mining rents and royalties and other non-petroleum rents and royalties.

All rents and royalties from oil and gas are reported in the Oil Revenue section of this forecast.

Mining Rents and Royalites

As with oil and gas production, the state earns revenue from other mineral production that occurs on state lands leased for exploration and development. As the

landowner, the state earns revenue from leases as (1) upfront bonuses, (2) annual rent charges and (3) as a retained royalty interest in minerals production.

Until October 2008, only 25% of the rents and royalties were deposited in the Permanent Fund and 0.5% to the School Fund. With the repeal of House Bill 11 this year, the amount rises to 50% for leases issued after December 1979. The amound deposited into the School Fund remains unchanged. See the Oil Revenue section for a more complete discussion of HB11.

We forecast mining rents and royalties based on expected changes in minerals prices as well as mine-specific forecasts for large mines on state land.

Other Non-Petroleum Rents and Royalties

The state receives revenue from the leasing, rental and sale of state land. While all of these revenues are deposited into the General Fund, some are deposited in subfunds of the General Fund and are treated as restricted for purposes of this forecast. This category includes revenues from leasing, rental and sale of state land that do not fall into the oil and gas or mining royalties categories. We forecast other non-petroleum rents and royalties based on analysis of fiscal year-to-date and historical collections.

Other

This category includes unclaimed property transfers, transfers to the state from component organizations and miscellaneous revenues. Miscellaneous revenues, which include contributions to the state and other revenues, are projected based on analysis of fiscal year-to-date and historical collections. Unclaimed property and transfers from component organizations are discussed below.

Unclaimed Property

Alaska's Unclaimed Property statutes require businesses and corporations to report unclaimed intangible property to the state. Property is reportable if an owner cannot be located, the owner has not cashed a property check, or an account has not had any owner-initiated activity for at least three years. Unclaimed property may include checking accounts, customer deposits and over-payments, gift certificates, unpaid wages, and security related

Figure 5-6. Licenses & Permits, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Alcoholic Beverage Licenses	1.0	1.0	1.0
Motor Vehicles	36.0	40.4	38.7
Other Fees	1.9	2.5	2.5
Total Unrestricted	**38.9**	**43.9**	**42.2**
Restricted			
Hunting & Fishing			
Hunting & Fishing Fees (Fish & Game Fund)	32.3	33.2	33.5
Sanctuary Fees (Fish & Game Fund)	0.4	0.3	0.3
Subtotal	**32.7**	**33.5**	**33.8**
Other Fees	4.4	6.5	4.5
Alcoholic Beverage License (municipal share)	0.9	0.9	0.9
Subtotal	**5.3**	**7.4**	**5.4**
Total Restricted	**38.0**	**40.9**	**39.2**
Grand Total	**76.9**	**84.8**	**81.4**

accounts. The state holds the property in trust until the owner or his or her legal heir claims it. Each year the unclaimed property trust account is evaluated and the excess of the working trust balance is transferred to the General Fund.

A $15 million transfer was processed during FY 2008. Transfers in FY 2009 and following years are expected to be $6.5 million per year. We forecast unclaimed property revenue based on estimates prepared by the Unclaimed Property Group of the Department of Revenue.

Transfers from Component Organizations

Each year, the state receives money in the form of transfers from component organizations, such as the Alaska Housing Finance Corporation, frequently in the form of dividends. Component organizations are covered in more detail in the Public Corporations & the University of Alaska section of this forecast. Some component organizations do not make transfers to the state, and as a result not all component organizations are listed here.

Actual transfers for FY 2008 are reflected in draft tables from the Comprehensive Annual Financial Report. Forecasts for FY 2009 and FY 2010 transfers are based on discussions with the Governor's Office of Management and Budget and analysis of the most recent budget expectations for these categories.

Transfers from component organizations presented under this category may differ from those presented in the Public Corporations & University of Alaska section for two reasons: (1) amounts in this section account differently for funds paid over time for multi-year capital projects; and (2) amounts in this section include funds that are transferred to the state and then appropriated to the component unit for operations.

Figure 5-7. Rents & Royalties, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Mining Rents and Royalties	7.8	4.7	4.7
Other Non-Petroleum Rents and Royalties	7.9	8.7	7.0
Total Unrestricted	**15.7**	**13.4**	**11.7**
Restricted			
Mining Rents and Royalties	1.6	4.7	4.7
Other Non-Petroleum Rents and Royalties	5.4	6.0	5.2
Total Restricted	**7.0**	**10.7**	**9.9**
Grand Total	**22.7**	**24.1**	**21.6**

Figure 5-8. Other Revenue, FY 2008 and Forecasted FY 2009-2010 ($ million)

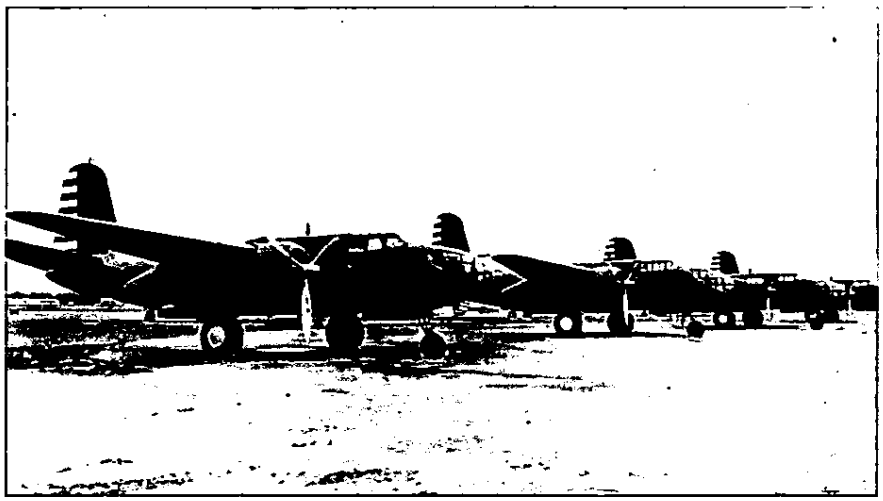
	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Miscellaneous	11.2	20.0	13.0
Unclaimed Property	15.0	6.5	6.5
Total Unrestricted	**26.2**	**26.5**	**19.5**
Restricted			
Alaska Housing Finance Corporation	56.1	59.7	59.7
Alaska Industrial Development & Export Authority	10.0	23.8	23.8
Alaska Municipal Bond Bank Authority	0.0	1.3	1.3
Alaska Student Loan Corporation	44.6	4.1	4.1
Alaska Energy Authority	0.0	0.0	0.0
Miscellaneous [1]	20.5	20.0	20.0
Total Restricted	**131.2**	**108.9**	**108.9**
Grand Total	**157.4**	**135.4**	**128.4**

[1] Revenue shown under account codes for "other" or "contributions" in the Alaska State Accounting System for General Fund subfunds and special revenue funds.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008



Douglas A-20 Havocs

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6. Federal Revenue

Figure 6-1. FY 2008 Federal Revenue: $1.9 billion

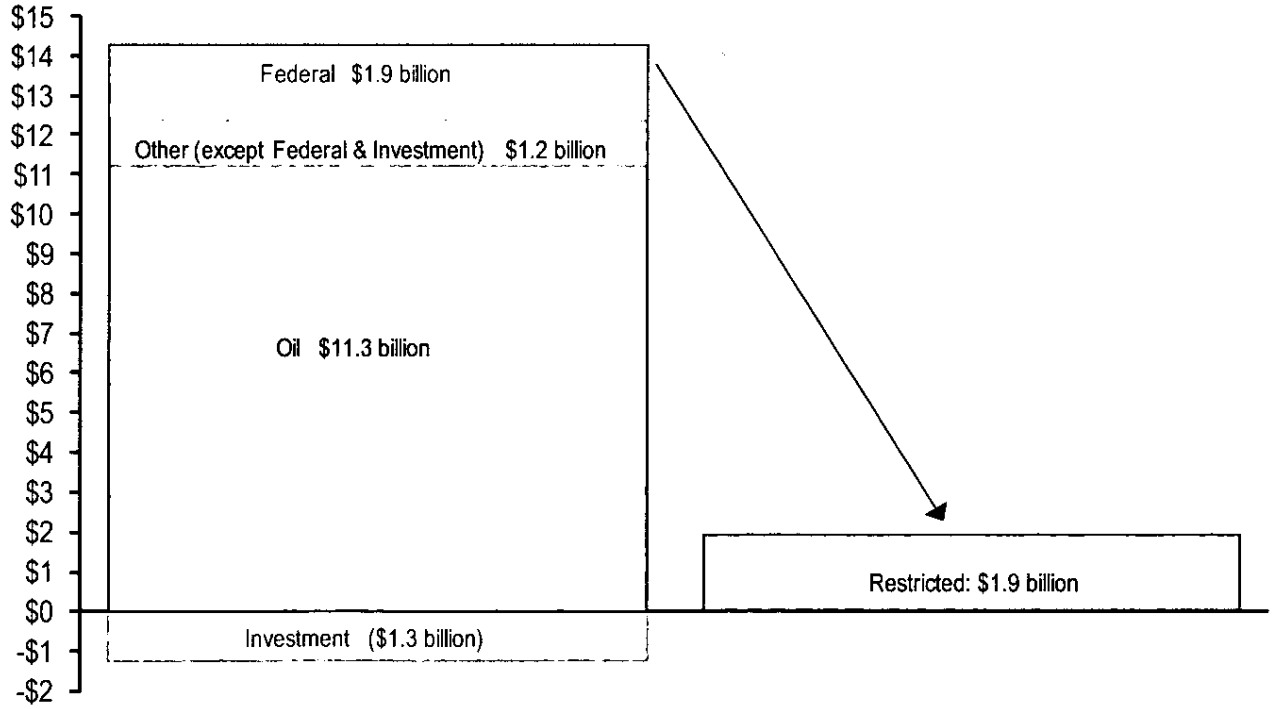


Figure 6-2. Total Federal Revenue to the State, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
	FY 2008	FY 2009	FY 2010
Unrestricted			
Federal Receipts	0.0	0.0	0.0
Restricted			
Federal Receipts	1,902.5	2,523.4	2,523.4
Grand Total	**1,902.5**	**2,523.4**	**2,523.4**

General Discussion

The federal government continues to play a significant role in Alaska's economy. In Federal Fiscal Year (FFY) 2007, the federal government spent $9.4 billion in total direct expenditures in Alaska.[1] The majority of that spending came from the activities of various federal agencies, including defense spending, procurement contracts, retirement and disability payments, wages, loans and grants. Another $1.3 billion was spent on other federal assistance, such as loan guarantees and insurance.

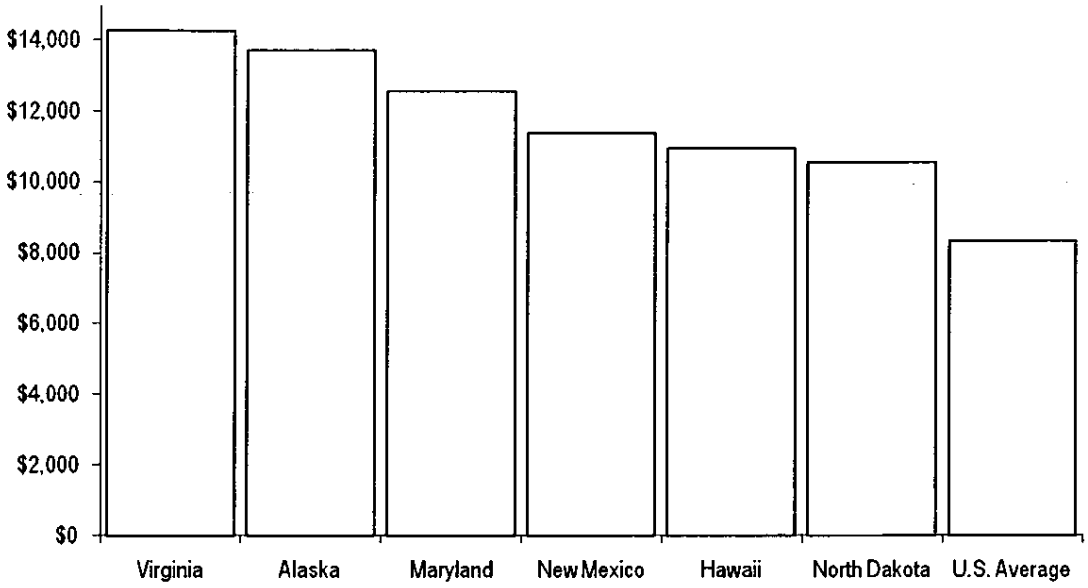
Alaska has historically ranked first in per capita federal spending, however, increased federal expenditures to Louisiana and Mississippi after Hurricane Katrina and Rita in FFY 2006 dropped Alaska to third. In FFY 2007, Alaska moved up, ranking second only to Virginia (see Figure 6-3). In the last several years, federal spending in Alaska has grown faster than total U.S. spending. However, for FFY 2007, federal direct expenditures in Alaska increased by only 1.4 percent from FFY 2006, while total U.S. federal expenditures increased by 4.4 percent. In FFY 2005, Alaska received $1.84 for every dollar paid in federal taxes, the most recent data available from the Tax Foundation.[2]

Among federal agencies, the Department of Defense spends the most in Alaska, followed by the Department of Health and Human Services. Together, these two departments account for 61percent of all federal direct spending in the state. Not surprisingly, a large portion of federal money flows into Alaska through salaries of federal employees. However, 32 percent of all federal direct spending comes in the form of grants, mostly to state and municipal governments, and to nonprofit organizations.

In FY 2008, the State of Alaska received and spent more than $1.9 billion in federal funds. This federal funding is generally restricted to specific uses such as road improvements, Medicaid payments and aid to schools. Potential changes to federal law, differing federal and state fiscal years and varying numbers of eligible Alaskans in certain programs make forecasting federal revenue difficult. The estimates we present for FY 2009 and FY 2010 are from the Office of Management and Budget and are based on state

[1] U.S. Census Bureau Consolidated Federal Funds Report for FY 2007, U.S. Department of Commerce. http://harvester.census.gov/cffr.
[2] Tax Foundation's "Federal Spending in Each State per Dollar of Federal Taxes," www.taxfoundation.org/research/show/266.html.

Figure 6-3. FFY 2007 Federal Spending per Capita, Top Six States



agency projections of potential federal revenues.

For FY 2009, the state is budgeted to receive more than $2.5 billion in federal receipts. The same amount is predicted for FY 2010. Most federal funding requires state-matching money. The budgeted state match and the top three budgeted categories for federal spending in Alaska for FY 2009 are included in Figure 6-5.

It is important to note that the state routinely budgets for federal funds in excess of expected allotments. The legislature authorizes state agencies to receive and spend the maximum that federally funded programs might receive, while the actual appropriation amounts are generally less. In addition, some of the funding granted for multi-year capital projects is received and spent in years following the one in which the money is procured. All federal funds, whether spent in the operating or capital budget, are restricted by legislative appropriation to specific uses.

Figure 6-4. Total Federal Spending in Alaska, FFY 2007

By Distributing Agency

	$ Million	Percent
Defense	3,309.5	35%
Health & Human Services	2,433.8	26%
Social Security	817.2	9%
Other Agencies	2,817.8	30%
Total	**9,378.3**	**100%**

By Appropriation Category

	$ Million	Percent
Grants	2,996.3	32%
Salaries & Wages	2,340.0	25%
Procurement	2,048.3	22%
Retirement & Disability	1,341.7	14%
Other Direct Payments	651.9	7%
Total	**9,378.3**	**100%**

Figure 6-5. Federal Spending, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History FY 2008	Budgeted FY 2009	Budgeted FY 2010
State Match Requirement			
Operating Budget	416.8	474.5	474.5
Capital Budget	79.7	53.7	53.7
Total	**496.5**	**528.2**	**506.1**
Top Spending Categories			
Transportation Projects	555.5	592.1	592.1
Medicaid	723.9	739.1	739.1
Education (K-12, University of Alaska)	382.4	415.6	415.6

7. Investment Revenue

Figure 7-1. FY 2008 Investment Revenue: ($1.3 billion)

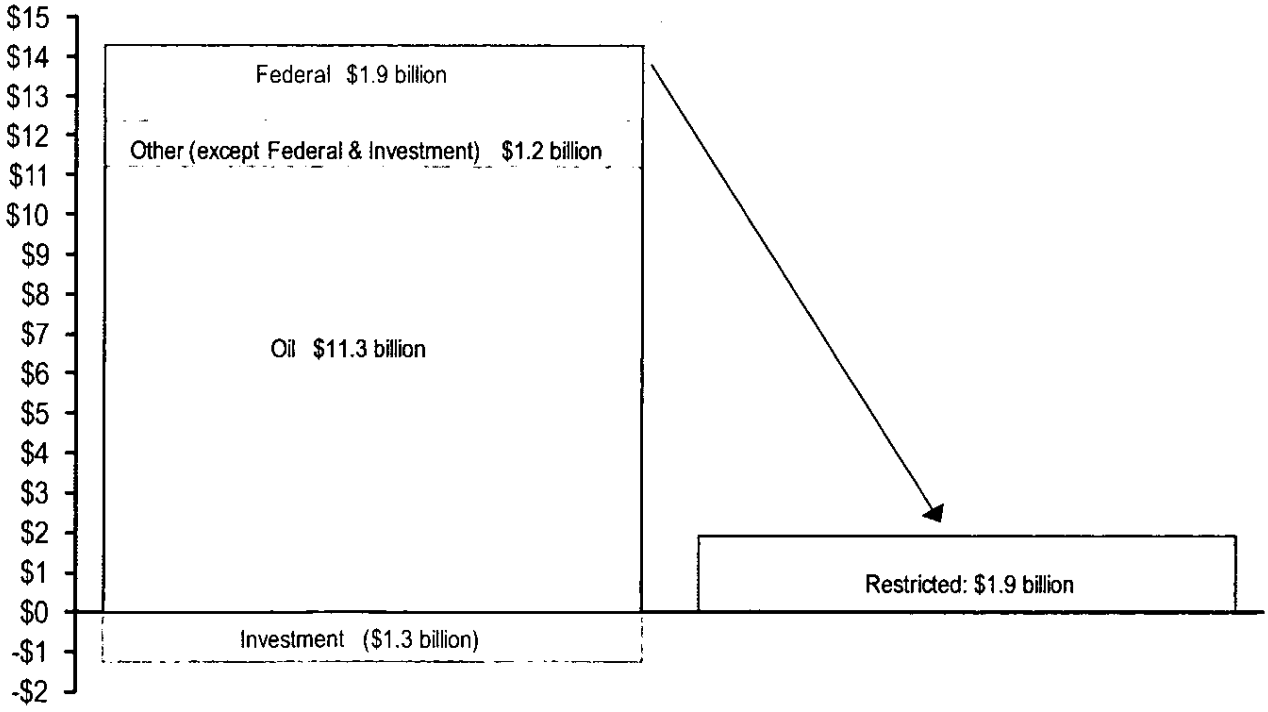


Figure 7-2. Total Investment Revenue, FY 2008 and Forecasted FY 2009-2010 ($ million) [1]

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Investments	226.5	214.6	234.0
Interest Paid by Others	1.3	1.3	1.3
Total Unrestricted	**227.8**	**215.9**	**235.3**
Restricted			
Investments	48.9	44.7	53.0
Constitutional Budget Reserve Fund	(60.1)	(46.7)	494.8
Other Treasury Managed Funds	(9.0)	(6.3)	(5.8)
Alaska Permanent Fund	(1,463.3)	2,808.0	2,983.8
Total Restricted	**(1,483.5)**	**2,799.7**	**3,525.8**
Grand Total	**(1,255.7)**	**3,015.6**	**3,761.1**

[1] Governmental Accounting Standards Board (GASB) principles require the recognition of changes in the value of investments as income or losses at the end of each trading day, whether the investment is actually sold or not.

Investment Forecast

To forecast investment revenue for the current fiscal year—FY 2009—we combine actual performance through September 30, 2008, with a projection for the remainder of the year. Forecasts and estimated capital market median returns are based on information supplied by the state's investment consultant, Callan Associates Inc., and their 5-year capital market estimated returns.

Unrestricted Investment Revenue

Unrestricted investment revenue is earned on the General Fund non-segregated investments managed by the Treasury Division. Interest Paid by Others is interest received by the state other than on its investments. Oil and gas royalty interest, production tax interest, and corporate income tax interest are included in the Oil Revenue section of this forecast.

Restricted Investment Revenue

Restricted investment revenue consists of earnings from governmental funds, the Constitutional Budget Reserve Fund (CBRF), other Treasury-managed governmental funds and the Alaska Permanent Fund.

Figure 7-3. Callan Associates Inc.'s 5-year Capital Market Estimated Returns, as of September 30, 2008

Asset Class	Benchmark for Asset Class	%/Year Median Expected Return	%/Year Expected Risk[1]
Equities			
U.S. Broad	Callan Associates Inc. (CAI) Broad	9.00%	16.90%
U.S. Large Cap	Standard and Poors (S&P) 500	8.85%	16.40%
U.S. Small Cap	Russell 2000 Index	9.85%	22.70%
International Equity	Morgan Stanley Capital International EAFE	9.00%	19.20%
Emerging Markets Equity	Morgan Stanley Capital International Emerging Markets	9.60%	31.20%
Fixed Income			
Domestic Broad Market	Lehman Brothers Aggregate	5.25%	4.50%
Domestic Short Term (cash equivalent)	Three-Month U.S. Treasury Bill	3.50%	0.80%
Domestic Intermediate	Merrill Lynch 1- to 5-Year Goverment	4.40%	3.10%
International	Salomon Brothers Non-U.S. Government	5.15%	9.60%
US TIPS	Lehman Brothers US TIPS Index	4.90%	6.00%
High Yield	Merrill Lynch US High Yield Master II Constrained	7.00%	11.50%
Other			
Real Estate	CRES	7.60%	16.50%
Private Equity	CPI + 5%	12.00%	34.00%
Absolute Return	91 Day T-Bill + 5%	6.50%	9.70%
Lazard Emerging Income Plus	1 Month Libor + 500 Basis Points	10.50%	10.00%
Conservative Aggregate	90% Lehman Aggregate / 10% Lehman Treasury Index	5.13%	4.59%
Inflation	CPI-U	2.75%	1.40%

[1] The continued volatility in the world's financial markets makes focus on the "Expected Risk" column (far right in the table above) particularly appropriate. The numbers in the Expected Risk column represent a statistical measure called standard deviation, which is the most commonly used measure of risk in the investment world. The standard deviation is a measure of the dispersion of data around its mean. The analyst can use this measure of dispersion to provide a range of possible outcomes at any desired level of confidence. In the data in this table, the level of confidence is set at 67% or one standard deviation. A higher level of confidence would require a broader range. For example, Callan estimates an average annual return for the domestic broad market fixed-income asset class of 5.25% and an expected risk for that asset class of 4.5%. That means Callan is forecasting that two-thirds of the time the annual return for the domestic broad fixed-income asset class will fall between 0.75% (the median expected average annual return of 5.25% minus the expected risk of 4.5%) and 9.75% (the median expected return plus the expected risk). A prediction at 95% confidence would run from -3.75% to 14.25%, too broad a range to be useful. The probability that a particular asset class or portfolio will have a negative return over a given period of time is another way to reflect the riskiness of that asset class or portfolio.

Figure 7-4. Investment Revenue Summary, FY 2008 and Forecasted FY 2009-2010 ($ million)

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-income Pool	37%	Three-month U.S. Treasury Bill
Intermediate-term, Fixed-income Pool	63%	Merrill Lynch 1- to 5-year government index

Investment Balance September 30, 2008	$7,268.7
Projected Annual Rate of Return	4.1%
Probability of Negative Return Over 1 Year	2.5%

Actual Total Investment Income, FY 2007	181.8
Actual Total Investment Income, FY 2008	275.4
Projected Total Investment Income, FY 2009	259.3

	History	Forecast	
	FY 2008	FY 2009	FY 2010
Investment Revenue Unrestricted	226.5	214.6	234.0
Investment Revenue Restricted[1]	48.9	44.7	53.0
Total	**275.4**	**259.3**	**287.0**

[1] Includes subfunds of the General Fund.

Figure 7-5. Constitutional Budget Reserve Fund Cash Flows Investment Revenue Summary, FY 2008 and Forecasted FY 2009-2010 ($ million)

Asset Allocation Regular Account

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-income pool	5%	Three-month U.S. Treasury Bill
Intermediate-term, Fixed-income Pool	75%	Merrill Lynch 1- to 5-year government index
Broad Market Fixed-income Pool	20%	Lehman Brothers aggregate bond index

Regular Balance September 30, 2008	$2,577.3
Projected Annual Rate of Return	4.5%
Probability of Negative Return Over 1 Year	8.0%

Asset Allocation Special Subaccount

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-Income Pool	36%	Lehman Brothers Aggregate Bond Index
Domestic Equity Pool	44%	Russell 3000 Index
International Equity Pool	19%	MSCI EAFE Index
Lazard Emerging Income Plus	1%	1 Month Libor + 500 Basis Points

Special Subaccount Balance September 30, 2008	$4,102.8
Projected Annual Rate of Return	7.61%
Probability of Negative Return Over 1 Year	24.01%

Total Investment Income	History	Forecast	
	FY 2008	FY 2009	FY 2010
Regular Account	140.4	83.0	103.4
Special Subaccount	(200.5)	(129.7)	391.4
Total	**(60.1)**	**(46.7)**	**494.8**

Figure 7-6. Constitutional Budget Reserve Fund Cash Flows, FY 2008 and Forecasted FY 2009-2010 ($ million)

	History	Forecast	
	FY 2008	FY 2009	FY 2010
Beginning Cash Balance CBRF	2,548.4	5,601.2	7,531.0
Beginning Main Account Balance	1,980.7	1,134.0	3,193.5
Earnings on Main Account Balance [1]	140.4	83.0	103.4
Petroleum Tax, Royalty Settlements [2]	438.3	20.0	20.0
(Loan to GF)/Repayment to CBRF [3]	2,674.6	1,956.5	146.4
Transfer to Special Subaccount	(4,100.0)	0.0	0.0
Ending Main Account Balance	**1,134.0**	**3,193.5**	**3,463.3**
Beginning Special Subaccount Balance	567.7	4,467.2	4,337.5
Earnings on Special Subaccount Balance [1]	(200.5)	(129.7)	391.4
Transfer from Main Account [3]	4,100.0	0.0	0.0
Ending Special Subaccount Balance	**4,467.2**	**4,337.5**	**4,728.9**
Total CBRF Balance	**5,601.2**	**7,531.0**	**8,192.2**

[1] The earnings estimate for the main account is 4.526% and the earnings estimate for the special subaccount is 7.609%. These projections are based on 2008 Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.

[2] Settlement estimates are provided by the Department of Revenue and Department of Law, net of annual Federal Minerals Management Service payments.

[3] Repayment from the General Fund to the CBRF is indicated by a positive dollar amount; Loan from the CBRF to the General Fund is indicated by a negative dollar amount.

Figure 7-7. Public School Trust Investment Revenue Summary, FY 2008 and Forecasted FY 2009-2010 ($ million)

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-income Pool	55%	Lehman Brothers aggregate index
Domestic Equity Pool	45%	Russell 3000 Index

Public School Fund Balance September 30, 2008	$355.0
Projected Annual Rate of Return	6.9%
Probability of Negative Return Over 1 Year	20.8%

Total Investment Income & Distributable Income ($ million)

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Public School Trust Total Investment Income	(9.4)	(6.7)	(6.1)
Public School Trust Distributable Income	14.1	13.8	12.9

Figure 7-8. Alaska Children's Trust Investment Revenue Summary, FY 2008 and Forecasted FY 2009-2010 ($ million)

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-income Pool	18%	Lehman Brothers aggregate index
International Equity Pool	58%	Morgan Stanley Capital International (EAFE)
Domestic Equity Pool	24%	Russell 3000 Index

Alaska Children's Fund Balance September 30, 2008	$11.4
Projected Annual Rate of Return	8.3%
Probability of Negative Return Over 1 Year	27.2%

Total Investment Income & Distributable Income ($ million)

	History	Forecast	
Unrestricted	FY 2008	FY 2009	FY 2010
Alaska Children's Trust Total Investment Income	(1.0)	(0.9)	(0.8)
Alaska Children's Trust Distributable Income	0.3	0.3	0.3

Figure 7-9. Permanent Fund Managed by the Permanent Fund Corporation, FY 2008 and Forecasted FY 2009-2010[1] ($ million)

	History	Forecast	
Reserved Assets — Principal	FY 2008	FY 2009	FY 2010
Total Reserved Assets – Beginning Balance	**33,694.5**	**30,912.2**	**34,379.7**
Contributions & Appropriations			
Contributions & Appropriations – Beginning Balance	27,496.9	29,148.9	31,239.6
Dedicated Petroleum Revenue	844.3	705.4	723.6
Inflation Proofing Transfer from Realized Earnings [2]	807.7	1,385.2	879.0
Deposits to Principal and Settlement Earnings	0.0	0.0	0.0
Subtotal Contributions & Appropriations	29,148.9	31,239.6	32,842.1
Unrealized Appreciation/Depreciation			
Appreciation/Depreciation – Beginning Balance	6,197.6	1,763.2	3,140.1
Annual Unrealized Gain/Loss	(4,434.4)	1,376.9	1,172.9
Subtotal Unrealized Appreciation/Depreciation	1,763.2	3,140.1	4,313.0
Total Reserved Assets – Ending Balance	**30,912.2**	**34,379.7**	**37,155.1**
Realized Earnings Account			
Realized Earnings Account – Beginning Balance	4,131.6	4,968.8	3,713.1
Annual Realized Earnings	2,971.0	1,431.2	1,810.9
Dividend Payment to State of Alaska [3]	(1,293.2)	(1,283.5)	(1,287.2)
Inflation Proofing Transfer to Reserved Assets	(807.7)	(1,385.2)	(879.0)
Other Transfers to Reserved Assets	0.0	0.0	0.0
Other Appropriations Out of Fund	(33.0)	(18.0)	(21.2)
Realized Earnings Account – Ending Balance	**4,968.8**	**3,713.1**	**3,336.6**
Market Value – Total Fund Invested Assets Value			
Contributions & Appropriations – End-of-year Balance	29,148.9	31,239.6	32,842.1
Unrealized Appreciation/Depreciation End-of-year Balance	1,763.2	3,140.1	4,313.0
Realized Earnings End-of-year Balance (statutory earnings)	4,968.8	3,713.1	3,336.6
Fund Balance (market value) End-of-year Balance	**35,880.9**	**38,092.8**	**40,491.7**
Total Reported Earnings			
Annual Unrealized Gain/Loss	(4,434.4)	1,376.9	1,172.9
Annual Realized Earnings	2,971.0	1,431.2	1,810.9
Reported Earnings	**(1,463.3)**	**2,808.0**	**2,983.8**

[1] Data projected using September 30, 2008, financial statements and the Fall 2008 revenue forecast. Callan Associates Inc.'s 2007 capital market assumptions result in 8.05% median expected total return for FY 2009 and FY 2010.

[2] Inflation proofing is required by statute AS 37.13.145(c). Callan Associates Inc.'s inflation rate of 2.75% was used to project inflation proofing.

[3] The Permanent Fund dividend payment is recorded as a liability at fiscal year end and is paid out the following month.

8. State Endowment Funds

This section compares important attributes of six endowment funds. The University of Alaska endowment is included in this comparison because it is one of Alaska's public endowment funds that uses the annual distribution calculation method typical of the vast majority of endowments in the United States and Canada.[1]

The fiduciary for each of these endowment funds has the responsibility for establishing an asset-allocation policy for the fund. Figure 8-1 on the next page compares the asset-allocation policies for these endowments.

Under the standards adopted by the Governmental Accounting Standards Board (GASB), public funds calculate and report their income by recognizing changes in the value of securities as income, or losses, as they occur at the end of each trading day. They do this regardless of whether the securities are actually sold and the income, or losses, are taken or realized. All six of these endowments report annual income on this basis. However, as reflected in Figure 8-2 on the next page, four of them use other measures of annual income for determining their distributions. These include the Alaska Permanent Fund and the Mental Health Trust Fund, both administered by the Alaska Permanent Fund Corporation, the Public School Trust and the Alaska Children's Trust.

In determining the amount of income available for distribution each year for the two funds managed by the Alaska Permanent Fund Corporation, gains or losses on individual investments are not recognized until the investment is sold. For calculating distributable income for the Public School Trust and the Alaska Children's Trust, only interest earned and dividends received are treated as income. Gains and losses in the value of individual investments are never recognized as income. By law, those gains and losses remain with the principal of the fund.

[1] The predominant practice, making annual distributions of 4% to 5% of the market value of the endowment, developed following a 1968 Ford Foundation study. See The Ford Foundation Managing Educational Endowments (New York, New York; 1968).

Figure 8-1. Target Percent Asset Allocation—State Endowment Funds

	Cash	U.S. Bonds	International Bonds	U.S. Equities	International Equities	Global Equities	Real Estate	Alternative Investments	Total
Alaska Permanent Fund	0	19	3	26	13	14	10	15	100
Mental Health Trust	0	19	3	26	13	14	10	15	100
Public School Trust	0	55	0	45	0	0	0	0	100
Alaska Children's Trust	0	18	0	58	24	0	0	0	100
Power Cost Equalization	0	39	0	43	18	0	0	0	100
University of Alaska Endowment	3	17.5	0	26	11	10	8.5	24	100

Figure 8-2. Calculation of Annual Income—State Endowment Funds

	Financial Reporting of Income	Distributable Income
Alaska Permanent Fund	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on investments actually sold
Mental Health Trust	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on investments actually sold
Public School Trust	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid; gains and losses on value of securities are never income, they become part of principal
Alaska Children's Trust	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid; gains and losses on value of securities are never income, they become part of principal
Power Cost Equalization Endowment	GASB (recognize gains and losses based on change in market value)	GASB (recognize gains and losses based on change in market value)
University of Alaska Endowment	GASB (recognize gains and losses based on change in market value)	GASB (recognize gains and losses based on change in market value)

Figure 8-3. Distributable Income Determination—State Endowment Funds

Alaska Permanent Fund

The annual distribution for the Permanent Fund Dividend follows the formula in AS 37.13.140-.150, which specifies that 10.5% of the past five years' total realized income shall be paid out as dividends but also sets the limitation that the annual distribution may never exceed 50% of the balance in the fund's Realized Earning Account (REA). The 50% limitation has never been triggered.

Mental Health Trust

The Mental Health Trust Board adopted a policy, beginning in FY 2001, to distribute 3.5% a year of the market value of the fund's total assets. The distribution rate had been 3% for FY 1996-1998 and 3.25% for FY 1999-2000. Because of recent declines in market value, the board is exploring a redefinition of "principal" so that losses in market value would be proportionally allocated to the principal account and the earnings account rather than assigning the entire value of any losses to the earning account.

Public School Trust

The annual distribution is 4.75% of a five-year moving average of the fund's principal market value so long as that amount does not exceed the interest and dividend earnings available in the earnings account. The trust has accumulated a sizable earnings account balance, providing a cushion for the fund to maintain its annual distributions in a sustained bear market.

Alaska Children's Trust

The annual distribution is 4.75% of a five-year moving average of the fund principal's market value so long as that amount does not exceed the interest and dividend earnings available in the earnings account. The trust has accumulated a sizable earnings account balance, providing a cushion for the fund to maintain its annual distributions in a sustained bear market.

Power Cost Equalization Endowment

The annual distribution is 7% of the fund's market value. For the initial transition years, state statute specifies that the fund shall use the market value on February 1 for the subsequent fiscal year's distribution. Thereafter, the fund is to distribute each year 7% of the monthly average market value for a specified 36-month period.

University of Alaska Endowment

The annual distribution is 5% of a 5-year moving average of the market value of the fund.

Figure 8-4. Inflation-Proofing Procedures—State Endowment Funds

Alaska Permanent Fund

An annual appropriation is needed to inflation proof the principal of the Permanent Fund (but not the accumulated earnings) pursuant to AS 37.13.145. The legislative appropriation requires a transfer from the Realized Earnings Account to the fund's principal an amount equal to the calculated U.S. Consumer Price Index's effect on the value of the principal, comprised of oil and gas royalty contributions and legislative appropriations. The Alaska Permanent Fund Corporation's Trustees have proposed a constitutional amendment that would inflation proof the entire fund—the principal and accumulated earnings—by limiting the annual distribution of earnings to 5% of a five-year moving average of the market value of the fund.

Mental Health Trust

The Mental Health Trust Authority has adopted two policies to inflation proof the fund. First, it limits distributions to 3.5% of the fund's market value. (The authority's ultimate goal, after further building up the principal, is to distribute 5% of the fund's market value each year, which would still allow enough retained earnings to inflation proof the fund.) Second, the authority also has adopted a policy transferring money from the reserve account to the principal whenever the reserve exceeds four times the annual income distribution, to help build up the fund's principal.

Public School Trust

The asset-allocation policy is such that—when combined with the requirement that the fund's capital gains and losses remain part of the principal—the retained capital gains are adequate to inflation proof the fund.

Alaska Children's Trust

The asset-allocation policy is such that—when combined with the requirement that the fund's capital gains and losses remain part of the principal—the retained capital gains are adequate to inflation proof the fund.

Power Cost Equalization Endowment

The legislature, in selecting a 7% distribution policy, expressly elected not to inflation proof this fund, but rather to distribute all, or almost all, of its anticipated annual earnings.

University of Alaska Endowment

The university's distribution policy of 5% of the moving five-year average of the fund's market value should allow for retained earnings to inflation proof the fund.

9. Public Corporations & University of Alaska

Public Corporations

The state has established the following public corporations to carry out certain public policies:

- Alaska Housing Finance Corporation (AHFC)
- Alaska Industrial Development and Export Authority (AIDEA)
- Alaska Energy Authority (AEA)
- Alaska Student Loan Corporation (ASLC)
- Alaska Municipal Bond Bank Authority (AMBBA)
- Alaska Aerospace Development Corporation (AADC)
- Alaska Railroad Corporation (ARC)

These seven corporations and the University of Alaska are components of state government whose activities are accounted for in the state's Comprehensive Annual Financial Report separately from the activities of primary state government. Information in this section is provided by these corporations.

Four of these corporations pay some portion of their income as an annual "dividend" to the state. They include the Alaska Housing Finance Corporation, Alaska Industrial Development Authority, Alaska Student Loan Corporation and Alaska Municipal Bond Bank Authority.

The members of the AIDEA Board of Directors also serve as Board of Directors of AEA, though AIDEA and AEA continue to exist as separate legal entities. AEA has no employees, and AEA contracts to have AIDEA employees administer AEA programs. Other corporations have their own staffs and boards. While neither the sale of bonds nor the expenditure of bond proceeds by these corporations are subject to the state's Executive Budget Act, expenditures for the day-to-day administration of all of these corporations except the Alaska Railroad are subject to the Executive Budget Act.

The Alaska Commission on Postsecondary Education (ACPE) administers the ASLC programs. The ASLC has no employees, and the executive director of the ACPE serves as the executive officer of the ASLC.

The six figures that follow in this section summarize the activities of these corporations.

Figure 9-1. Public Corporations—Missions. What does the corporation do and how does it do it?

Alaska Housing Finance Corporation

Using proceeds from the sale of bonds backed by its corporate assets, AHFC purchases home mortgages from Alaska banks. Income from payments on these mortgages repays bond holders and adds to the corporation's income, thereby enabling the corporation, since FY 1991, to pay an annual dividend and/or return of capital to the state. In addition to ensuring that Alaskans, especially Alaskans of low and moderate income and those in remote and underdeveloped areas of the state, have adequate housing at reasonable cost, the corporation administers federally and state funded multi-residential, senior and low-income housing, residential energy and home weatherization programs. In recent years, the legislature has authorized AHFC to finance the construction of schools, University of Alaska housing and other capital projects identified by the legislature.

Alaska Industrial Development and Export Authority

By lending money, guaranteeing loans or becoming an owner, AIDEA makes financing available for industrial, export and other business enterprises in Alaska. The corporation earns money from interest on its loans, investments, leases and operations of its properties. The corporation has paid an annual dividend to the state since FY 1997.

Alaska Energy Authority

AEA provides loans to utilities, communities and individuals to pay for the purchase or upgrade of equipment and for bulk fuel purchases. Additionally, the agency administers the Power Cost Equalization program, subsidizing rural electric costs with the Power Cost Equalization Endowment. AEA also receives federal and state money to provide technical advice and assistance in energy planning, emergency response management, energy infrastructure construction and conservation in rural Alaska. AEA owns and, under contractual agreements, operates and maintains state-owned power projects, such as Bradley Lake and the Alaska Intertie.

Alaska Student Loan Corporation

The Alaska Student Loan Corporation uses proceeds from bond sales to finance education loans made by the Alaska Commission on Postsecondary Education. Loan repayments satisfy bond obligations and enhance the corporation's capital asset base. Alaska statutes authorize the board of directors to annually declare a return to the state of a portion of its net income. The board has declared return of capital payments for each year beginning in FY 2001 through FY 2007. Alaska statutes also authorize the corporation to issue bonds for the purpose of financing projects of the state. Those bonds in aggregate may not exceed $280 million.

Alaska Municipal Bond Bank Authority

The Bond Bank loans money to Alaska municipalities for capital improvement projects. The bank's larger capital base, its reserve funds and its credit rating enable it to sell bonds at lower interest rates than the municipalities could obtain on their own. The Bond Bank earns interest on the money it holds in reserve and has returned a dividend to the state every year since 1977.

Alaska Aerospace Development Corporation

The corporation operates and maintains a commercial spaceport in Kodiak, Alaska and provides commercial rocket vehicle launch support services. It promotes space-related business, research, education and economic growth in the State of Alaska.

Alaska Railroad Corporation

The corporation operates freight and passenger rail services between Seward and Fairbanks, including a spur line to Whittier. In addition, the corporation generates revenues from real estate it owns.

Figure 9-2. Public Corporations—State Capitalization. How did the state capitalize the corporation?

Alaska Housing Finance Corporation
The legislature appropriated $739.9 million in cash and $292.5 million in mortgages held by the General Fund to the corporation between 1976 and 1984. The payments on those mortgages and additional mortgages purchased with the cash have helped build the corporation's asset base and allow it to return some capital to the state each year. In 1993, AHFC received an additional $27.7 million in cash and $9.3 million in equity when the legislature merged the Alaska State Housing Authority with this corporation.

Alaska Industrial Development and Export Authority
Between 1981 and 1991, the State of Alaska transferred various loan portfolios worth $297.1 million and $69.2 million in cash to this corporation.

Alaska Energy Authority
The legislature established the AEA in 1976 to finance and operate power projects. This corporation has also administered rural energy programs at various times, including the present. As a result of legislatively mandated reorganizations, capital has moved into and out of the corporation. At the end of FY 2001, this corporation reported contributed capital of $963.5 million.

Alaska Student Loan Corporation
In FY 1988, the state transferred $260 million of existing student loans to this corporation. Additional appropriations of cash between FY 1988 and FY 1992 totaled $46.7 million.

Alaska Municipal Bond Bank Authority
Between 1976 and 1986, the legislature appropriated $18.6 million to the Bond Bank to be used for backing bond issues. In addition, the legislature gave the Bond Bank $2.5 million in 1981 to fund a direct loan by a municipality. The municipality repaid the loan and the Bond Bank retained the appropriation.

Alaska Aerospace Development Corporation
Since 1993, the state has contributed $10.9 million from the Science and Technology Endowment.

Alaska Railroad Corporation
The state bought the railroad from the federal government in 1985. The purchase price of $22.7 million was recorded as the state's capitalization.

Figure 9-3. Public Corporations—Financial Facts, FY 2008 ($ million) [1]

	Total Assets	Assets Less Liabilities Book Value	Unrestricted Net Assets	FY 2007 Operating Budget	Total Positions [2]
Alaska Housing Finance Corporation	$4,946.1	$1,666.2	$781.0	$50.5	372
Alaska Industrial Development & Export Authority [3]	$1,165.9	$945.9	$863.4	$8.0	66
Alaska Energy Authority [3]	$747.3	$596.7	$420.4	$34.1	See AIDEA [4]
Alaska Student Loan Corporation [5]	$781.1	$177.0	$139.4	$11.7	103
Alaska Municipal Bond Bank Authority	$586.9	$42.2	$11.6	$0.5	0.5
Alaska Aerospace Development Corporation [6]	$103.7	$90.0	$3.8	$22.9	39
Alaska Railroad Corporation [7]	$834.5	$198.1	$47.4	$99.3	801

[1] All figures are effective as of June 30, 2008, except for the Alaska Railroad which reports on a calendar year basis.

[2] Permanent Full Time (PFT), Permanent Part Time (PPT) and Temporary (TMP) are included in total positions.

[3] The Alaska Industrial Development and Export Authority (AIDEA) and Alaska Energy Authority (AEA) report financial data on a fiscal year basis. Assets, liabilities and net assets in the table are from audited June 30, 2008 financial statements.

[4] AIDEA provides staff for the activities of AEA. A significant portion of AIDEA's 66 member staff is engaged in AEA programs.

[5] Budget and positions reported are for the Alaska Commission on Postsecondary Education (ACPE). Budget amount reported is funded by the Alaska Student Loan Corporation (ASLC). ACPE staff serve as staff for the ASLC.

[6] Based on audited financial statements.

[7] The Alaska Railroad reports financial data on a calendar year basis. Assets and book value shown in this table are from audited December 31, 2007, financial statements. The operating budget figure shown here is for CY 2007.

Figure 9-4. Public Corporations—Revenue & Net Income, FY 2008 ($ million)

	Revenue	Operating Income	Net Income
Alaska Housing Finance Corporation	$341.8	$35.3	($18.3)
Alaska Industrial Development & Export Authority [1]	$85.1	$46.0	$47.3
Alaska Energy Authority [1]	$61.9	($17.9)	($32.6)
Alaska Student Loan Corporation	$60.0	$10.1	$5.0
Alaska Municipal Bond Bank Authority	$17.2	$0.9	($0.5)
Alaska Aerospace Development Corporation[2]	$18.1	($5.0)	($3.7)
Alaska Railroad Corporation [3]	$167.8	$9.7	$16.3

[1] The Alaska Industrial Development and Export Authority and Alaska Energy Authority report financial data on a fiscal year basis. Revenue, operating income and net income in the table are from audited June 30, 2008 financial statements.

[2] The Alaska Aerospace Development Corporation financial data include depreciation of $5.5 million and are based on audited June 30, 2008 financial statements.

[3] The Alaska Railroad reports financial data on a calendar year basis. Revenue and Operating Income shown in this table are for CY 2007.

Figure 9-5. Public Corporations—Dividends to the State. How, if at all, does the corporation pay dividends to the state?

Alaska Housing Finance Corporation

The Twenty-Third Legislature, in 2003, enacted SCSHB 256 (the "2003 Act") which added language to the Alaska Statutes to modify and incorporate the Transfer Plan. As approved and signed into law by the Governor, the Transfer Plan calls for annual transfers as follows: FY 2005, $103 million; FY 2006, $103 million; FY 2007, the lesser of 95% net income or $103 million; FY 2008, the lesser of 85% net income or $103 million; FY 2009 and thereafter, the lesser of 75% of the corporation's net income or $103 million.

Alaska Industrial Development and Export Authority

By statute, AIDEA must make available to the state each year not less than 25% and not more than 50% of its total net income for a base year, defined as the year two years prior to the dividend year. The dividend is further limited to no more than the total amount of its unrestricted net income in the base year (AS 44.88.088). Net income is defined in the statutes.

Alaska Energy Authority

AEA does not pay a dividend or return capital to the state on a regular basis. However, in FY 2000 this corporation returned $55.6 million of contributed capital to the Railbelt Energy Fund and the General Fund.

Alaska Student Loan Corporation

This corporation, at the discretion of its board of directors, may make available to the state a return of contributed capital or dividend for any base year in which the net income of the corporation is $2 million or more. A base year is defined as the year two years before the payment year. If the board authorizes a payment, it must be between 10% and 35% of net income for the base year (AS 14.42.295). The corporation may also issue bonds in an aggregate amount not to exceed $280 million, for the purpose of financing projects of the state as those projects may be identified by law (AS 14.42.220).

Alaska Municipal Bond Bank Authority

By statute, the Bond Bank annually returns earnings or income of its reserve fund, in excess of expenses, to the state.

Alaska Aerospace Development Corporation

AADC does not pay a dividend or return capital to the state.

Alaska Railroad Corporation

The corporation does not pay a cash dividend to the General Fund.

Figure 9-6. Public Corporations—Operating Expenses & Dividends ($ million)

	Expenses		Dividends	
	Actual FY 2008	Budget FY 2009	Actual FY 2008	Budget FY 2009
Alaska Housing Finance Corporation [1]	$46.5	$51.2	$81.4	$65.9
Alaska Industrial Development & Export Authority	$7.9	$8.2	$10.0	$23.8
Alaska Energy Authority [2]	$32.7	$33.2	na	na
Alaska Student Loan Corporation	$11.7	$12.0	$1.2	$9.1
Alaska Municipal Bond Bank Authority	$0.5	$0.7	$0.7	$0.3
Alaska Aerospace Development Corporation [3]	$22.6	$24.1	na	na
Alaska Railroad Corporation	na	na	na	na

[1] Because some of this money is earmarked for multi-year capital projects, actual cash transfers in any given year may vary.

[2] The Alaska Industrial Development and Export Authority and Alaska Energy Authority report financial data on a fiscal year basis. Actual operating expenses and dividends are for the fiscal year ended June 30, 2008

[3] The Alaska Aerospace Development Corporation financial data include depreciation of $5.5 million and are based on audited June 30, 2008 financial statements.

University of Alaska

Figure 9-7. University of Alaska ($ million)

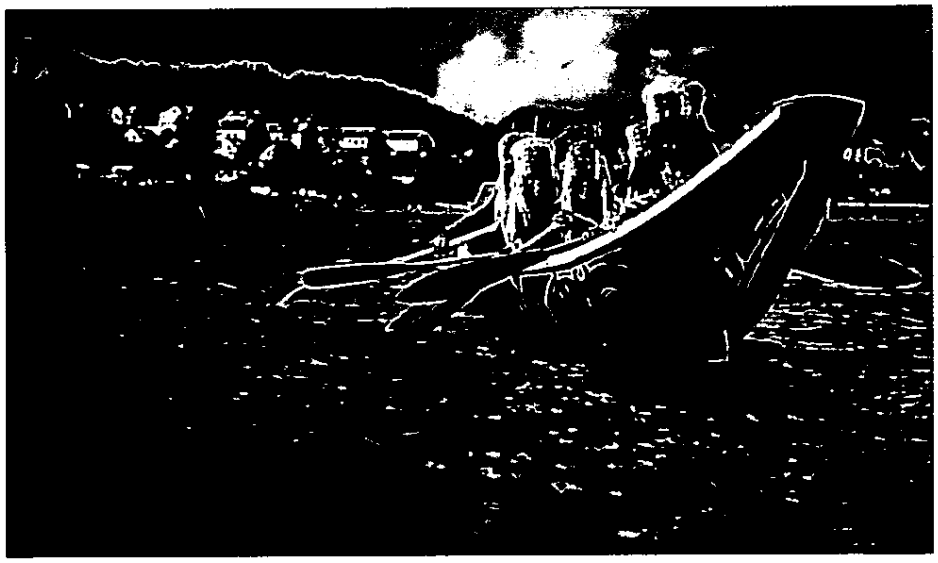
Lands & Facilities June 30,2007	Total Assets June 30, 2007	Unrestricted Net Assets	FY 2008 Operating Budget	FY 2008 Total Positions
$792.2 [1]	$1,205.0	$66.5	$838.1	4,916

[1] Includes depreciation of $681.5 million.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008



Alaska Native Canoe
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10. Appendices

A. Revenue

B. Prices

C. Production

Revenue. A-1

Glossary of Terms

Constitutional Budget Reserve Fund (CBRF)

Created by voters in 1990, the Constitutional Budget Reserve Fund receives proceeds from settlements of oil, gas, and mining tax and royalty disputes. The legislature may, with a three-quarters majority vote in each chamber, withdraw money from the fund.

Federal Revenue

Revenue appropriated from the federal government to the state with restrictions on how the money can be used. Highway and airport construction funds, Medicaid and education funding cannot be used for other purposes. In addition to restricting how the money is spent, the federal government often requires states to put up matching funds to qualify for the federal funding.

General Fund Revenue

General Fund Revenue has different meanings in different contexts. In the state's official financial reports, General Fund Revenue is used to designate the sum of General Purpose Unrestricted Revenue, General Fund sub-account revenue, program receipts and federal dollars spent through the General Fund. In budget-writing context, General Fund revenue has a definition similar to General Purpose Unrestricted Revenue.

Permanent Fund GASB (or Market) Income

Under standards adopted by the Governmental Accounting Standards Board (GASB), the Permanent Fund's income—and that of any other government fund—is the difference between the purchase price of the investments and their market value at a given point in time, plus any dividends, interest or rent earned on those investments. Under GASB standards, the Permanent Fund does not have to sell the investment to count the gain or loss as it changes value. It is called "marking to market," that is, measuring the value of the fund's investments by the current market price. This can produce a much different picture than Permanent Fund statutory income, which does not reflect fluctuating investment values until the assets are sold.

Permanent Fund Statutory Income

Permanent Fund statutory income is the sum of realized gains and losses of all Permanent Fund investment transactions during the year, plus interest, dividends and rents earned by the fund. The Permanent Fund Dividend is based on statutory income. Though the legislature may appropriate the earnings for any purpose it chooses, the historical practice has been to restrict the use of realized income to dividends and inflation proofing, and then either leave the excess in the Realized Earnings Account or transfer it to the principal of the Permanent Fund.

Restricted Program Receipts

Revenue that is earmarked in state statute or by contract for specific purposes and is usually appropriated back to the program that generated the revenue. Examples include University of Alaska tuition payments, marine highway receipts, payments to various revolving loan funds and public corporation receipts. Some of this revenue is actually dedicated as a consequence of the provisions of Article 18, Section 11 of the Alaska Constitution. The remainder, while statutorily earmarked, may be appropriated to purposes other than those reflected in statute if the legislature so chooses.

Restricted Revenue

Restricted revenue represents revenue that is restricted by the constitution, state or federal law, trust or debt restrictions, or by customary practice. The legislature can at any time remove restrictions that are solely imposed by either Alaska statute or customary practice. Program receipts, revenues allocated to sub-accounts of the General Fund, and General Fund revenues customarily shared with other entities are all considered restricted revenues for the purposes of this report.

General Purpose Unrestricted Revenue

Revenue not restricted by the constitution, state or federal law, trust or debt restrictions or customary practice. Most legislative and public debate over the budget each year centers on this category of revenue. In deriving this figure from General Fund revenues, we have excluded General Fund sub-account revenue, as well as customarily restricted revenues such as shared taxes and marine highway receipts.

Revenue. A-2

General Purpose Unrestricted Revenue Matrices, with Price and Cost Sensitivity, FY 2009-2011 ($ million)

FY 2009[1]

At forecasted production of 0.689 mmbbls/day

ANS $/barrel[2]	Total capital & operating costs In dollars/barrel		
	$15.00	$20.00	$25.00
$40	N/A	N/A	N/A
$45	N/A	N/A	N/A
$50	4,406	4,406	4,406
$55	4,791	4,616	4,616
$60	5,231	4,919	4,824
$65	5,673	5,361	5,058
$70	6,136	5,802	5,489
$75	6,769	6,244	5,926
$80	7,456	6,842	6,342
$85	8,218	7,520	6,917
$90	9,054	8,272	7,585
$95	9,965	9,098	8,327
$100	10,955	10,004	9,148

FY 2010

At forecasted production of 0.665 mmbbls/day

ANS $/barrel	Total capital & operating costs In dollars/barrel		
	$15.00	$20.00	$25.00
$40	2,089	1,856	1,856
$45	2,511	2,225	2,015
$50	2,934	2,646	2,346
$55	3,416	3,069	2,769
$60	4,004	3,537	3,191
$65	4,609	4,096	3,615
$70	5,261	4,703	4,173
$75	5,951	5,346	4,769
$80	6,683	6,032	5,407
$85	7,462	6,765	6,092
$90	8,278	7,536	6,814
$95	9,136	8,348	7,579
$100	10,042	9,207	8,390

FY 2011

At forecasted production of 0.644 mmbbls/day

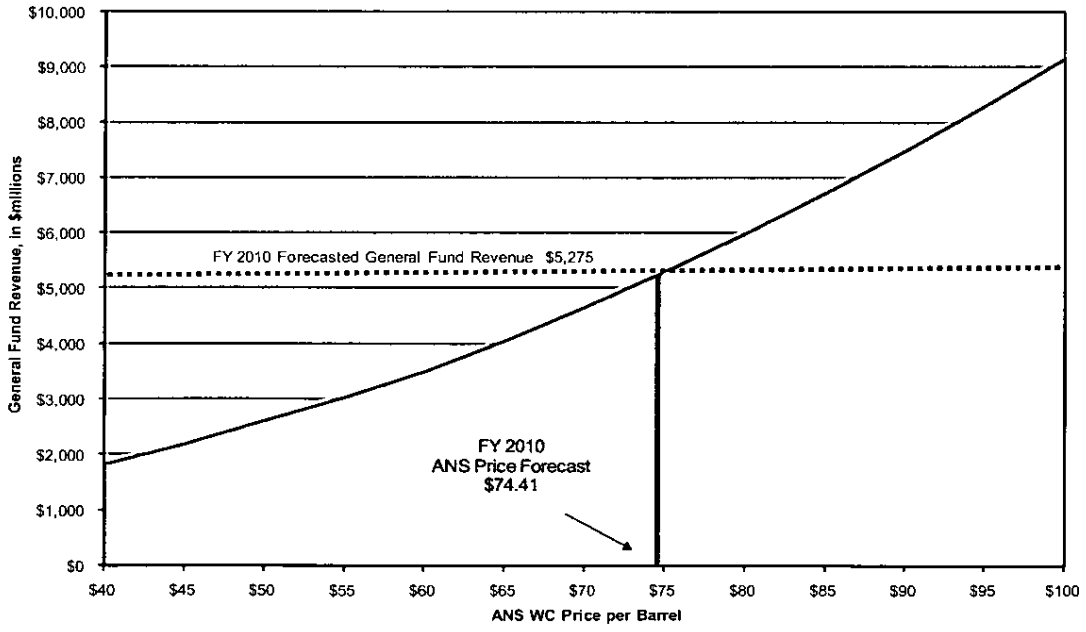
ANS $/barrel	Total capital & operating costs In dollars/barrel		
	$15.00	$20.00	$25.00
$40	2,057	1,830	1,830
$45	2,474	2,181	1,984
$50	2,878	2,584	2,291
$55	3,349	2,993	2,699
$60	3,914	3,438	3,102
$65	4,497	3,973	3,503
$70	5,121	4,144	4,033
$75	5,790	5,172	4,608
$80	6,496	5,831	5,220
$85	7,242	6,531	5,873
$90	8,035	7,276	6,571
$95	8,864	8,058	7,306
$100	9,733	8,880	8,082

[1]FY 2009 revenue totals illustrate the significant impact of monthly variation in oil prices. Oil prices for the first three months of the fiscal year averaged $116 per barrel. In these three months, over one half of the total forecasted production tax of $3,589 was collected. This is largely due to the impact of the progressive surcharge, which is triggered at net profit of $30 per barrel, and is calculated on a monthly basis.

[2]Fiscal year averages incorporate actual prices for the first four months of FY 2009. Because oil prices were high in the first four months, prices would have to remain very low for the rest of the fiscal year to bring the average down to the levels in this table (e.g. a fiscal year price of $50 per barrel would require eight months of oil prices at around $22 per barrel).

*In addition to price and production, revenue estimates under ACES depend on levels of spending by petroleum producers and explorers. Spending plans may change as companies occasionally revise their investment strategies. The above estimates also do not consider how company investment decisions would change with a change in oil prices.

FY 2010 General Fund Unrestricted Revenue, with Price Sensitivity



Revenue. A-3

General Purpose Unrestricted Revenue—History [1][2]

($ million)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
TAX REVENUE										
Petroleum Property Tax	**48.8**	**45.0**	**45.1**	**49.6**	**48.7**	**47.3**	**42.5**	**54.5**	**65.6**	**81.5**
Excise Tax										
Alcoholic Beverages	12.2	12.7	12.0	12.9	14.1	16.4	17.3	17.6	17.1	20.0
Tobacco Products	15.2	16.3	16.3	15.5	16.3	16.0	25.1	35.4	43.8	44.9
Insurance Premium	28.4	28.7	32.2	34.1	39.0	43.7	45.9	44.3	46.5	47.1
Electric and Telephone Cooperative	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Motor Fuel Tax	37.6	41.9	37.5	40.2	37.2	41.2	39.4	42.0	39.2	41.8
Vehicle Rental tax	0.0	0.0	0.0	0.0	0.0	2.7	7.5	7.7	8.0	8.5
Tire Fee	0.0	0.0	0.0	0.0	0.0	0.8	1.6	1.6	1.5	1.5
Total	**93.6**	**99.8**	**98.2**	**102.8**	**106.8**	**121.0**	**137.0**	**148.8**	**156.3**	**164.0**
Income Tax										
General Corporate	53.8	56.3	59.5	53.4	47.7	39.6	61.8	138.0	176.9	182.7
Petroleum Corporate	145.1	162.7	338.1	178.4	151.1	298.8	524.0	661.1	594.4	605.8
Total	**198.9**	**219.0**	**397.6**	**231.8**	**198.8**	**338.4**	**585.8**	**799.1**	**771.3**	**788.5**
Severance Tax										
Oil and Gas Production	358.6	693.2	694.4	486.7	589.8	642.7	854.9	1,191.7	2,198.3	6,867.3
Oil and Gas Conservation	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.1	0.0
Oil and Gas Hazardous Release	11.1	9.5	9.4	9.6	9.2	9.2	8.3	7.8	0.0	11.7
Total	**371.1**	**702.7**	**703.8**	**496.3**	**599.0**	**651.9**	**863.2**	**1,199.5**	**2,208.4**	**6,879.0**
Fish Tax										
Fisheries Business Tax	25.9	18.2	15.4	12.7	13.8	14.9	10.7	15.4	17.1	14.7
Fish Landing	5.9	2.2	4.1	2.6	6.9	2.5	3.9	4.7	5.3	7.9
Other [3]	9.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**41.0**	**20.4**	**19.5**	**15.3**	**20.7**	**17.4**	**14.6**	**20.1**	**22.4**	**22.6**
Other Tax										
Estate	1.7	2.5	2.7	3.1	1.2	2.3	1.5	0.6	0.1	0.0
Mining [4]	0.6	3.4	1.7	0.5	0.4	3.2	10.3	18.6	79.1	54.4
Charitable Gaming [4]	2.2	2.3	2.4	2.5	2.6	2.4	2.5	2.4	2.5	2.7
Large Passenger Vessel Gambling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.8
Other [4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**4.5**	**8.2**	**6.8**	**6.1**	**4.2**	**7.9**	**14.3**	**21.6**	**81.7**	**63.9**
TOTAL TAX REVENUE	**757.9**	**1,095.1**	**1,271.0**	**901.9**	**978.2**	**1,183.9**	**1,657.4**	**2,243.6**	**3,305.7**	**7,999.5**

(continued on next page)

General Purpose Unrestricted Revenue—History (continued from prior page)

($ million)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NON TAX REVENUE										
Licenses and Permits	**63.7**	**68.4**	**37.3**	**42.2**	**33.6**	**41.8**	**42.7**	**41.0**	**42.0**	**38.9**
Intergovernmental Receipts										
Federal Shared Revenues	0.8	1.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges for Services	**70.6**	**43.7**	**27.0**	**19.1**	**13.9**	**11.1**	**17.9**	**21.8**	**28.5**	**29.3**
Fines and Forefeitures	**12.5**	**46.2**	**33.6**	**6.6**	**7.0**	**16.0**	**9.4**	**8.5**	**7.8**	**8.9**
Rents and Royalties										
Oil and Gas Royalties-Net	322.6	727.8	781.0	575.7	825.7	1,042.8	1,401.1	1,772.2	1,583.8	2,420.6
Oil and Gas Bonuses, Rents, Interest[5] [6]	25.6	4.1	18.3	20.1	14.6	13.3	18.8	11.9	29.2	25.5
Other [7]	10.9	9.7	10.9	9.3	6.2	7.8	9.3	8.8	11.8	15.7
Total	**359.1**	**741.6**	**810.2**	**605.1**	**846.5**	**1,063.9**	**1,429.2**	**1,792.9**	**1,624.8**	**2,461.8**
Investment Earnings[6]	**46.5**	**48.1**	**67.6**	**43.1**	**59.0**	**9.7**	**24.7**	**53.3**	**140.1**	**227.8**
Miscellaneous Revenue	**37.3**	**37.6**	**34.9**	**42.3**	**9.4**	**19.2**	**7.5**	**39.3**	**9.7**	**26.2**
Sub-Total NON-TAX REVENUE	**590.5**	**986.6**	**1,010.9**	**758.4**	**969.4**	**1,161.7**	**1,531.4**	**1,956.8**	**1,852.9**	**2,792.9**
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL NON-TAX REVENUE	**590.5**	**986.6**	**1,010.9**	**758.4**	**969.4**	**1,161.7**	**1,531.4**	**1,956.8**	**1,852.9**	**2,792.9**
TOTAL TAX REVENUE	**757.9**	**1,095.1**	**1,271.0**	**901.9**	**978.2**	**1,183.9**	**1,657.4**	**2,243.6**	**3,305.7**	**7,999.5**
TOTAL GENERAL PURPOSE UNRESTRICTED REVENUE	**1,348.4**	**2,081.7**	**2,281.9**	**1,660.3**	**1,947.6**	**2,345.6**	**3,188.8**	**4,200.4**	**5,158.6**	**10,792.4**

(1) General Purpose Unrestricted Revenue includes those revenues that are not restricted by statute or custom, as reported elsewhere in this publication. A summary of historical General Purpose Unrestricted Revenue can be found on the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/GeneralFund-UnrestrictedRevenueHistory.pdf

(2) Prior to FY 2000, data presented are for General Fund unrestricted revenue. This amount is higher than General Purpose Unrestricted Revenue because the data include certain revenues that are restricted by custom, such as fisheries tax revenues shared.

(3) Prior to FY 2000, other fish tax included certain customarily restricted fisheries tax revenues.

(4) Prior to FY 2000, mining license tax and charitable gaming receipts are included in "Other."

(5) These categories are primarily composed of petroleum.

(6) Starting in FY 2001, interest earnings are included in oil and gas royalties and excluded from investment earnings.

(7) Includes non-petroleum rents and royalites.

Revenue. A-4a

General Purpose Unrestricted Petroleum Revenue—History [1]

($ million)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Petroleum Corporate Income Tax	145.1	162.7	338.1	178.4	151.1	298.8	524.0	661.1	594.4	605.8
Production Tax	371.1	702.7	703.8	496.3	599.0	651.9	863.2	1,199.5	2,208.4	6,879.0
Petroleum Property Tax	48.8	45.0	45.1	49.6	48.7	47.3	42.5	54.5	65.6	81.5
Oil and Gas Royalties-Net[2]	322.6	727.8	781.0	575.7	825.7	1,042.8	1,401.1	1,772.2	1,583.8	2,420.6
Bonuses, Rents & Interest-Net[2][3]	25.6	4.1	18.3	20.1	14.6	13.3	18.8	11.9	29.2	25.5
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Petroleum Revenue	**913.2**	**1,642.3**	**1,886.3**	**1,320.1**	**1,639.1**	**2,054.1**	**2,849.6**	**3,699.2**	**4,481.4**	**10,012.4**
Cumulative Unrestricted Petroleum Revenue[4]	**46,082.2**	**47,724.5**	**49,610.8**	**50,930.9**	**52,570.0**	**54,624.1**	**57,473.7**	**61,172.9**	**65,654.3**	**75,666.7**
Total General Purpose Unrestricted Revenue	**1,348.4**	**2,081.7**	**2,281.9**	**1,660.3**	**1,947.6**	**2,345.6**	**3,188.8**	**4,200.4**	**5,158.6**	**10,792.4**
% Petroleum of Total GP Unrestricted Revenue	68%	79%	83%	80%	84%	88%	89%	88%	87%	93%

(1) Historical General Purpose Unrestricted petroleum revenue can be found on the Tax Division's web site at: http://www.tax.alaska.gov/sourcesbook/PetroleumRe enueHistory.pdf. Table on Tax web site includes historical Reserve Tax (FY 1976-1977) and Petroleum Special Settlements (FY 1986-1995) which are reflected current zero totals in Appendix A-4a.

(2) Royalties, bonuses, rents and interest are net of Permanent Fund contribution and Constitutional Budget Reserve Fund (CBRF) deposits.

(3) This category is primarily composed of petroleum revenue.

(4) The cumulative unrestricted petroleum revenue total is based on revenue beginning in FY 1959.

Revenue. A-4b

General Purpose Unrestricted Petroleum Revenue—Forecast [1]

($ million)

FY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Petroleum Corporate Income Tax	635.0	560.0	545.0	545.0	550.0	555.0	550.0	570.0	580.0	590.0
Production Tax	3,588.8	2,389.7	1,602.3	1,734.2	1,670.9	2,222.3	1,910.4	1,983.0	2,252.8	2,552.9
Petroleum Property Tax	72.5	69.4	66.4	63.4	60.5	57.7	55.1	52.5	50.0	47.7
Oil and Gas Royalties-Net[2]	1,746.6	1,601.3	1,472.1	1,453.6	1,440.8	1,424.7	1,365.3	1,423.2	1,429.2	1,445.5
Bonuses, Rents & Interest-Net[2][3]	8.5	6.5	7.7	6.8	8.7	7.1	7.4	7.4	7.4	7.4
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Petroleum Revenue	**6,051.4**	**4,626.9**	**3,693.5**	**3,803.0**	**3,730.9**	**4,266.8**	**3,888.1**	**4,036.1**	**4,319.5**	**4,643.5**
Cumulative Unrestricted Petroleum Revenue[4]	**81,718.1**	**86,345.1**	**90,038.6**	**93,841.6**	**97,572.5**	**101,839.3**	**105,727.4**	**109,763.6**	**114,083.0**	**118,726.5**
Total General Purpose Unrestricted Revenue	**6,751.4**	**5,275.4**	**4,356.6**	**4,482.3**	**4,417.9**	**4,964.1**	**4,596.3**	**4,758.8**	**5,052.2**	**5,383.2**
% Petroleum of Total GP Unrestricted Revenue	90%	88%	85%	85%	84%	86%	85%	85%	85%	86%

(1) Historical General Purpose Unrestricted petroleum revenue can be found on the Tax Division's web site at: http://www.tax.alaska.gov/sourcesbook/PetroleumRevenueHistory.pdf. Table on Tax web site includes historical Reserve Tax (FY 1976-1977) and Petroleum Special Settlements (FY 1986-1995) which are reflected as current zero totals in Appendix A-4a.

(2) Royalties, bonuses, rents and interest are net of Permanent Fund contribution and Constitutional Budget Reserve Fund (CBRF) deposits.

(3) This category is primarily composed of petroleum revenue.

(4) The cumulative unrestricted petroleum revenue total is based on revenue beginning in FY 1959.

Revenue. A-5a

Total Alaska Government Petroleum Revenue—History

($ million)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Unrestricted Petroleum Revenue										
Petroleum Corporate Income Tax	145.1	162.7	338.1	178.4	151.1	298.8	524.0	661.1	594.4	605.8
Oil and Gas Production Tax	358.6	693.2	694.4	486.7	589.8	642.7	854.9	1,191.7	2,198.3	6,867.3
Oil and Gas Hazardous Release	11.1	9.5	9.4	9.6	9.2	9.2	8.3	7.8	10.1	11.7
Oil and Gas Conservation	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum Property Tax	48.8	45.0	45.1	49.6	48.7	47.3	42.5	54.5	65.6	81.5
Oil & Gas Royalties	322.6	727.8	781.0	575.7	825.7	1,042.8	1,401.1	1,772.2	1,583.8	2,420.6
Bonuses, Rents & Interest	25.6	4.1	18.3	20.1	14.6	13.3	18.8	11.9	29.2	25.5
Total Unrestricted Petroleum Revenue	913.2	1,642.3	1,886.3	1,320.1	1,639.1	2,054.1	2,849.6	3,699.2	4,481.4	10,012.4
Restricted Petroleum Revenue										
NPR-A Rents, Royalties, Bonuses	0.0	40.3	1.7	1.7	34.6	2.5	31.6	4.5	12.8	5.2
Royalties to Permanent Fund	155.5	301.1	339.3	257.7	397.6	354.7	476.9	599.5	535.0	782.6
Royalties to Public School Fund	2.4	5.4	5.6	4.3	6.2	7.1	9.6	12.0	10.6	16.5
CBRF Deposits [1]	55.4	448.3	49.1	90.2	22.3	8.4	27.4	43.7	101.9	438.3
Total Restricted Petroleum Revenue	213.3	795.1	395.7	353.9	460.7	372.7	545.5	659.7	660.3	1,242.6
Total Petroleum Revenue	**2,039.7**	**2,437.4**	**2,282.0**	**1,674.0**	**2,099.8**	**2,426.8**	**3,395.1**	**4,358.9**	**5,141.7**	**11,255.0**

[1] Oil and Gas Settlements from DOR Mineral Payments Fund Allocation Detail.

Revenue. A-5b

Total Alaska Government Petroleum Revenue—Forecast [1]

($ million)

FY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Unrestricted Petroleum Revenue										
Petroleum Corporate Income Tax	635.0	560.0	545.0	545.0	550.0	555.0	550.0	570.0	580.0	590.0
Oil and Gas Production Tax	3,577.8	2,379.2	1,592.1	1,723.9	1,660.6	2,211.7	1,900.2	1,973.1	2,243.1	2,543.5
Oil and Gas Hazardous Release	11.0	10.5	10.2	10.3	10.3	10.6	10.2	9.9	9.7	9.4
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum Property Tax	72.5	69.4	66.4	63.4	60.5	57.7	55.1	52.5	50.0	47.7
Oil & Gas Royalties	1,746.6	1,601.3	1,472.1	1,453.6	1,440.8	1,424.7	1,365.3	1,423.2	1,429.2	1,445.5
Bonuses, Rents & Interest	8.5	6.5	7.7	6.8	8.7	7.1	7.4	7.4	7.4	7.4
Total Unrestricted Petroleum Revenue	6,051.4	4,626.9	3,693.5	3,803.0	3,730.9	4,266.8	3,888.1	4,036.1	4,319.5	4,643.5
Restricted Petroleum Revenue										
NPR-A Rents, Royalties, Bonuses	22.5	7.5	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Royalties to Permanent Fund	705.0	723.1	658.9	638.9	629.1	618.1	590.4	617.6	619.3	619.7
Royalties to Public School Fund	12.4	11.7	10.7	10.5	10.4	10.3	9.9	10.3	10.3	10.4
CBRF Deposits [1]	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Total Restricted Petroleum Revenue	759.8	762.3	697.3	677.1	667.1	656.0	627.8	655.5	657.3	657.8
Total Petroleum Revenue	**6,811.3**	**5,389.2**	**4,390.8**	**4,480.1**	**4,398.0**	**4,922.8**	**4,516.0**	**4,691.7**	**4,976.7**	**5,301.2**

[1] Oil and Gas Settlements from DOR Mineral Payments Fund Allocation Detail.

Prices. B-1a

Crude Oil and Natural Gas Prices—History[1][2]

NOMINAL[3]

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
WTI	14.48	25.99	30.05	23.70	29.90	33.73	48.72	64.22	63.35	97.02
ANS West Coast Spot	12.99	24.42	27.54	21.65	28.59	32.36	44.85	62.12	61.60	96.51
ANS Wellhead Wtd Average All Destinations	8.88	19.87	22.56	17.04	23.42	27.46	40.12	56.69	56.20	90.46
Cook Inlet Wellhead	10.84	22.14	25.64	19.37	25.32	28.41	41.72	58.26	57.31	82.26

Henry Hub Natural Gas Prices
($ per million Btu)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Henry Hub	1.98	2.81	5.43	2.76	4.84	5.41	6.26	9.12	6.88	8.30

REAL 2008 $[4]

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
WTI	18.46	32.49	36.22	27.66	34.54	38.16	53.37	68.62	64.88	97.02
ANS West Coast Spot	16.56	30.53	33.19	25.27	33.03	36.60	49.13	66.37	63.08	96.51
ANS Wellhead Wtd Average All Destinations	11.32	24.84	27.19	19.90	27.05	31.06	43.95	60.57	57.02	90.46
Cook Inlet Wellhead	13.82	27.69	30.91	22.61	29.24	32.14	45.70	62.24	58.69	82.26

Henry Hub Natural Gas Prices
($ per million Btu)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Henry Hub	2.52	3.51	6.54	3.22	5.59	6.12	6.85	9.75	7.04	8.30

Prices. B-1b

Crude Oil Prices—Forecast

NOMINAL[3]

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
WTI	79.79	76.91	74.15	75.07	76.05	76.74	76.32	81.01	83.24	85.53
ANS West Coast Spot	77.66	74.41	71.65	72.57	73.55	74.24	73.82	78.51	80.74	83.03
ANS Wellhead Wtd Average All Destinations	71.84	68.93	66.05	66.67	67.48	68.04	67.48	72.06	74.09	76.35
Cook Inlet Wellhead	71.18	72.47	69.71	70.64	71.62	72.31	71.90	76.60	78.79	81.09

REAL 2008 $

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
WTI	79.79	74.86	70.23	69.21	68.23	67.00	64.85	67.00	67.00	67.00
ANS West Coast Spot	77.66	72.42	67.86	66.90	65.99	64.82	62.73	64.93	64.99	65.04
ANS Wellhead Wtd Average All Destinations	71.84	67.09	62.56	61.46	60.54	59.41	57.35	59.60	59.64	59.81
Cook Inlet Wellhead	71.18	70.53	66.03	65.12	64.26	63.14	61.10	63.35	63.42	63.52

(1) In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

(2) Data from Platt's Oilgram Price Report, Wood McKenzie and Alaska Department of Revenue's prevailing value and tax return data. Historical real and nominal crude oil and natural gas prices can be found on the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/OilGasPrices.pdf.

(3) Adjustment to "nominal" dollars is required to prepare the crude oil and natural gas price forecasts. Callan Associates Inc.'s inflation rate of 2.75% was used for FY 2009 and beyond.

(4) Adjustment to "real 2008" dollars is useful to compare prices across time excluding inflation. These prices data are adjusted to real 2008 dollars based on inflation rates provided by the U.S. Department of Labor, Bureau of Labor Statistics. The data series used is the Consumer Price Index for all Urban Consumers (CPI-U) which can be found at: www.gls.gov/cpi/home.htm.

Prices. B-2a

Nominal Netback Costs—History [1][2]

Marine Costs, TAPS Tariff, Feeder Pipeline and Other Adjustment Charges

($ per barrel)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Marine Costs	1.52	1.56	1.40	1.58	1.70	1.69	1.79	1.65	1.63	1.93
TAPS Tariff	2.73	2.90	3.30	3.50	3.37	3.16	3.33	3.55	4.51	5.08
TAPS Quality Bank + Loss	0.00	0.00	0.00	(0.03)	(0.05)	(0.15)	(0.27)	(0.27)	(0.81)	(1.00)
Feeder Pipe + Other Upstream Costs	0.03	(0.03)	(0.07)	0.10	0.31	0.25	0.23	0.42	0.34	0.05
Location Differential	(0.17)	0.11	0.36	(0.55)	(0.16)	(0.05)	(0.36)	0.08	(0.28)	(0.01)
Total	**4.11**	**4.55**	**4.98**	**4.60**	**5.17**	**4.89**	**4.72**	**5.43**	**5.40**	**6.05**

[1] In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

[2] Historical netback costs can be found on the Tax Division web site: www.tax.alaska.gov/sourcesbook/NetbackCosts.pdf.

Prices. B-2b

Nominal Netback Costs—Forecast [1]

Marine Costs, TAPS Tariff, Feeder Pipeline and Other Adjustment Charges

($ per barrel)

FY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Marine Costs	2.17	2.43	2.48	2.53	2.58	2.63	2.68	2.73	2.78	2.83
TAPS Tariff	4.52	3.75	3.79	3.95	4.01	4.02	4.11	4.23	4.35	4.35
TAPS Quality Bank + Loss	(0.98)	(0.81)	(0.84)	(0.86)	(0.88)	(0.91)	(0.93)	(0.96)	(0.98)	(1.01)
Feeder Pipe + Other Upstream Costs	0.11	0.12	0.17	0.29	0.37	0.46	0.48	0.45	0.51	0.52
Location Differential	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	**5.82**	**5.48**	**5.59**	**5.90**	**6.07**	**6.20**	**6.33**	**6.45**	**6.65**	**6.68**

[1] Data from the Department of Revenue's Forecast Model.

Prices. B-3

Price Changes from Spring 2008 Forecast

(nominal $ per barrel)

FY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fall 2008 Forecast										
WTI	79.79	76.91	74.15	75.07	76.05	76.74	76.32	81.01	83.24	85.53
ANS West Coast	77.66	74.41	71.65	72.57	73.55	74.24	73.82	78.51	80.74	83.03
ANS Wellhead Wtd Average All Destinations	71.84	68.93	66.05	66.67	67.48	68.04	67.48	72.06	74.09	76.35
Cook Inlet Wellhead	71.18	72.47	69.71	70.64	71.62	72.31	71.90	76.60	78.79	81.09
Spring 2008 Forecast										
WTI	85.54	83.15	82.29	81.79	81.04	81.93	81.30	83.54	85.83	88.19
ANS West Coast	83.04	80.65	79.79	79.29	78.54	79.43	78.80	81.04	83.33	85.62
ANS Wellhead Wtd Average All Destinations	77.65	76.30	75.24	74.51	73.59	74.31	73.52	75.54	77.70	79.84
Cook Inlet Wellhead	78.74	76.35	75.49	74.99	74.24	75.13	74.50	76.74	79.03	81.21
$ change from prior forecast										
WTI	(5.75)	(6.24)	(8.14)	(6.72)	(4.99)	(5.19)	(4.98)	(2.52)	(2.59)	(2.66)
ANS West Coast	(5.38)	(6.24)	(8.14)	(6.72)	(4.99)	(5.19)	(4.98)	(2.52)	(2.59)	(2.60)
ANS Wellhead Wtd Average All Destinations	(5.81)	(7.37)	(9.19)	(7.83)	(6.11)	(6.27)	(6.04)	(3.48)	(3.61)	(3.49)
Cook Inlet Wellhead	(7.56)	(3.89)	(5.78)	(4.35)	(2.62)	(2.81)	(2.60)	(0.13)	(0.24)	(0.12)
% change from prior forecast										
WTI	(6.7%)	(7.5%)	(9.9%)	(8.2%)	(6.2%)	(6.3%)	(6.1%)	(3.0%)	(3.0%)	(3.0%)
ANS West Coast	(6.5%)	(7.7%)	(10.2%)	(8.5%)	(6.4%)	(6.5%)	(6.3%)	(3.1%)	(3.1%)	(3.0%)
ANS Wellhead Wtd Average All Destinations	(7.5%)	(9.7%)	(12.2%)	(10.5%)	(8.3%)	(8.4%)	(8.2%)	(4.6%)	(4.6%)	(4.4%)
Cook Inlet Wellhead	(9.6%)	(5.1%)	(7.7%)	(5.8%)	(3.5%)	(3.7%)	(3.5%)	(0.2%)	(0.3%)	(0.1%)

Production. C-1

Production Differences from Spring 2008 Forecast

(million barrels per day)

FY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fall 2008 Forecast										
ANS	0.689	0.665	0.644	0.644	0.644	0.660	0.635	0.616	0.606	0.585
Cook Inlet	0.013	0.012	0.011	0.010	0.009	0.009	0.008	0.008	0.007	0.007
ALASKA	0.701	0.676	0.655	0.654	0.653	0.669	0.643	0.624	0.613	0.592
Spring 2008 Forecast										
ANS	0.689	0.669	0.666	0.669	0.676	0.674	0.667	0.635	0.610	0.663
Cook Inlet	0.013	0.012	0.011	0.010	0.010	0.009	0.009	0.008	0.008	0.007
ALASKA	0.702	0.682	0.677	0.679	0.685	0.683	0.675	0.643	0.618	0.670
Volume change from prior forecast										
ANS	(0.000)	(0.005)	(0.022)	(0.024)	(0.032)	(0.014)	(0.031)	(0.019)	(0.004)	(0.078)
Cook Inlet	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.000)	(0.000)	(0.001)	(0.001)
ALASKA	(0.001)	(0.005)	(0.022)	(0.025)	(0.032)	(0.014)	(0.032)	(0.019)	(0.005)	(0.078)
Percent change from prior forecast										
ANS	0.0%	(0.7%)	(3.3%)	(3.7%)	(4.7%)	(2.0%)	(4.7%)	(2.9%)	(0.7%)	(11.7%)
Cook Inlet	(5.8%)	(4.5%)	(4.8%)	(5.0%)	(5.3%)	(5.5%)	(5.8%)	(6.0%)	(7.2%)	(7.6%)
ALASKA	(0.1%)	(0.8%)	(3.3%)	(3.7%)	(4.7%)	(2.1%)	(4.7%)	(3.0%)	(0.8%)	(11.7%)

Production. C-2a

Crude Oil Production—History [1][2]

(million barrels per day)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Prudhoe Bay[3]	0.626	0.571	0.536	0.486	0.429	0.414	0.380	0.335	0.271	0.291
PBU Satellites[4]	0.004	0.005	0.007	0.030	0.045	0.052	0.043	0.041	0.043	0.034
GPMA[5]	0.152	0.113	0.088	0.073	0.065	0.060	0.055	0.048	0.037	0.044
Kuparuk	0.238	0.211	0.197	0.174	0.160	0.154	0.141	0.133	0.121	0.113
Kuparuk Satellites[6]	0.028	0.036	0.031	0.041	0.052	0.049	0.051	0.043	0.044	0.038
Milne Point[7]	0.055	0.053	0.052	0.052	0.051	0.051	0.049	0.041	0.033	0.033
Endicott[8]	0.049	0.043	0.037	0.033	0.029	0.028	0.020	0.021	0.016	0.014
Liberty										
Alpine[9]			0.045	0.096	0.099	0.099	0.105	0.123	0.103	0.079
Fiord[10]									0.011	0.018
Nanuq[11]									0.010	0.019
NPR-A										
Offshore[12]										0.000
Northstar[13]				0.025	0.059	0.066	0.068	0.055	0.045	0.034
Total ANS	**1.150**	**1.033**	**0.993**	**1.010**	**0.991**	**0.974**	**0.911**	**0.840**	**0.734**	**0.716**
Cook Inlet	**0.027**	**0.026**	**0.025**	**0.029**	**0.030**	**0.025**	**0.020**	**0.018**	**0.016**	**0.014**
Total Alaska	**1.177**	**1.059**	**1.018**	**1.039**	**1.021**	**0.999**	**0.931**	**0.858**	**0.750**	**0.730**

(1) In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

(2) A summary of historical crude oil production can be found on the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/AlaskaProduction.pdf.

(3) Includes NGLs from Central Gas Facility shipped to TAPS.

(4) Aurora, Borealis, Midnight Sun, Orion and Polaris.

(5) Lisburne, Niakuk, North Prudhoe Bay State, Point McIntyre, Raven, West Beach and West Niakuk.

(6) Meltwater, Tabasco, Tarn and West Sak.

(7) Includes Sag River and Schrader Bluff.

(8) Includes Badami, Eider and Sag Delta.

(9) Includes Alpine-West and Qannik.

(10) Fiord, Fiord-Kuparuk and Fiord West.

(11) Nanuq and Nanuq-Kuparuk.

(12) Known Offshore includes Nikaitchuq and Oooguruk.

(13) Includes Outer Continental Shelf (OCS) production.

Production. C-2b

Crude Oil Production—Forecast [1]

(million barrels per day)

FY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prudhoe Bay[2]	0.282	0.268	0.257	0.247	0.237	0.243	0.233	0.224	0.215	0.207
PBU Satellites[3]	0.039	0.042	0.046	0.052	0.057	0.060	0.063	0.062	0.064	0.063
GPMA[4]	0.040	0.040	0.037	0.034	0.032	0.030	0.029	0.027	0.026	0.024
Kuparuk	0.105	0.096	0.091	0.088	0.086	0.083	0.080	0.077	0.075	0.072
Kuparuk Satellites[5]	0.036	0.037	0.035	0.033	0.031	0.029	0.026	0.027	0.035	0.042
Milne Point[6]	0.032	0.030	0.031	0.031	0.033	0.035	0.038	0.037	0.037	0.038
Endicott[7]	0.015	0.014	0.013	0.014	0.015	0.015	0.016	0.016	0.017	0.018
Liberty				0.022	0.032	0.041	0.032	0.027	0.022	0.016
Alpine[8]	0.068	0.063	0.056	0.050	0.049	0.047	0.043	0.039	0.034	0.030
Fiord[9]	0.019	0.020	0.018	0.016	0.014	0.012	0.011	0.019	0.017	0.015
Nanuq[10]	0.019	0.012	0.011	0.010	0.009	0.008	0.007	0.006	0.005	0.004
NPR-A					0.002	0.010	0.015	0.013	0.021	0.019
Offshore[11]	0.006	0.017	0.028	0.031	0.033	0.035	0.035	0.033	0.031	0.030
Northstar[12]	0.028	0.026	0.021	0.017	0.014	0.012	0.010	0.008	0.007	0.006
Total ANS	**0.689**	**0.665**	**0.644**	**0.644**	**0.644**	**0.660**	**0.635**	**0.616**	**0.606**	**0.585**
Cook Inlet	**0.013**	**0.012**	**0.011**	**0.010**	**0.009**	**0.009**	**0.008**	**0.008**	**0.007**	**0.007**
Total Alaska	**0.701**	**0.676**	**0.655**	**0.654**	**0.653**	**0.669**	**0.643**	**0.624**	**0.613**	**0.592**

(1) In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

(2) Includes NGLs from Central Gas Facility shipped to TAPS.

(3) Aurora, Borealis, Midnight Sun, Orion and Polaris.

(4) Lisburne, Niakuk, North Prudhoe Bay State, Point McIntyre, Raven, West Beach and West Niakuk.

(5) Meltwater, Tabasco, Tarn and West Sak.

(6) Includes Sag River and Schrader Bluff.

(7) Includes Badami, Eider and Sag Delta.

(8) Includes Alpine-West and Qannik.

(9) Fiord, Fiord-Kuparuk and Fiord West.

(10) Nanuq and Nanuq-Kuparuk.

(11) Known Offshore includes Nikaitchuq and Oooguruk.

Production. C-3a

Economic Limit Factors (for Fields with Positive ELF)—History [1][2]

(percent)

FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Prudhoe Bay	0.946	0.931	0.915	0.895	0.868	0.850	0.847	0.856	0.789	0.809
Aurora							0.367	0.856	0.789	0.809
Borealis				0.098	0.107	0.076	0.369	0.856	0.789	0.809
Midnight Sun				0.018	0.001	0	0.367	0.856	0.789	0.809
Orion							0.368	0.856	0.789	0.809
Polaris							0.367	0.856	0.789	0.809
Point McIntyre	0.834	0.618	0.415	0.192	0.162	0.098	0.383	0.856	0.789	0.809
Kuparuk	0.691	0.589	0.487	0.336	0.234	0.165	0.044	0.004	0	0
Tarn	0.078	0.041	0.003	0.050	0.102	0.051	0.008	0.001	0	0
Milne Point	0.040	0.025	0.009	0.001	0	0	0	0.069	0	0
Endicott	0.078	0.046	0.007	0.001	0	0	0	0	0	0
Alpine			0.418	0.878	0.858	0.842	0.829	0.856	0.781	0.603
Fiord									0.007	0.023
Fiord-Kuparuk									0.011	0.000
Nanuq-Kuparuk									0.207	0.326
Northstar				0.495	0.861	0.847	0.824	0.722	0.521	0.266
Volume Weighted ELF	**0.763**	**0.700**	**0.646**	**0.608**	**0.580**	**0.553**	**0.564**	**0.608**	**0.535**	**0.499**

[1] In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

[2] A summary of historical ELFs can be found on the Tax Division's web site at www.tax.alaska.gov/sourcesbook/ELFs.pdf.

Under the ELF production tax system, the tax rate for oil depended on the age of the field and the Economic Limit Factor (ELF). The ELF was calculated based on total daily oil production and average daily per well production from each producing field. The statutory production tax rate on oil was 12.25% of its value at the point of production for the first five years of field production and 15% thereafter. There was a minimum tax of 80 cents per taxable barrel. The effective tax rate was calculated by multiplying the statutory tax rate, even if it was the minimum 80 cents per barrel, times the ELF. The ELF formula resulted in lower effective tax rates for smaller, low-production fields and higher tax rates for larger, highly productive fields. There was a unique combination of total daily field production and average daily per well production.

In January 2005, the department aggregated seven fields in the Prudhoe Bay Unit. The decision to aggregate focused on, among other things, the increasing interdependence found in the engineering and operation of the fields.

Production. C-3b

Economic Limit Factors (for Fields with Positive ELF)—Forecast [1]

(percent)

FY	2009	2010	2011
Prudhoe Bay	0.800	0.750	0.726
Aurora	0.800	0.750	0.726
Borealis	0.800	0.750	0.726
Midnight Sun	0.800	0.750	0.726
Orion	0.800	0.750	0.726
Polaris	0.800	0.750	0.726
Point McIntyre	0.800	0.750	0.726
Kuparuk	0.000	0.000	0.000
Tarn	0.000	0.000	0.000
Milne Point	0.000	0.000	0.000
Endicott	0.000	0.000	0.000
Alpine	0.366	0.323	0.207
Fiord	0.029	0.006	0.000
Fiord-Kuparuk	0.001	0.000	0.000
Nanuq-Kuparuk	0.258	0.011	0.001
Northstar	0.150	0.010	0.000
Volume Weighted ELF	**0.441**	**0.398**	**0.373**

[1] ELF is projected through FY 2011 to assist in the comparison of ACES revenues and revenue under the old ELF-based system. This comparison is required under the new statute.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2008

Bull Moose

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Alaska Department of Revenue – Tax Division

FALL 2008

In accordance with AS 37.07.060 (b)(4), the Revenue Sources book is compiled biannually by the Alaska Department of Revenue to assist the governor in formulating a proposed comprehensive financial plan for presentation to the Alaska State Legislature. Within the publication are shown prior year actuals, revised current year estimates and future year projections.

Anticipated state income is projected through the use of a number of data sources:

(1) econometric models developed by the Department of Revenue to forecast unrestricted non-petroleum revenues;

(2) a petroleum revenue model created by the department's Tax Division;

(3) estimates from individual state agencies.

We thank the various state agencies for their cooperation in computing anticipated revenues for publication in this Fall 2008 Revenue Sources Book.

The Department of Revenue complies with Title II of the Americans With Disabilities Act of 1990. This publication is available in alternative communication formats upon request. Please contact the division's representative at 907-465-3692 or 907-465-3678 (TDD) to make necessary arrangements.

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