

2/5/09
REVENUE
FORECAST:
PAT GALVIN,
COMMISSIONER
DEPARTMENT
OF REVENUE

<target><bill></bill><subject>2-5-09 REVENUE FORECAST PAT
GALVIN, COMMISSIONER, DEPARTMENT OF
REVENUE</subject><comm>SF26</comm></target>

TITLE: Response to Questions about FY 09 Investment Revenue Forecast

PREPARED BY: Department of Revenue, Tax Division

PURPOSE:

To respond to questions from Senate Finance about the FY 2009 investment revenue forecast presented to the committee on February 5, 2009. The committee requested a listing of the components of the investment revenue forecast and the fiscal year - to - date actual and estimate for the remainder of the year for each component. This information was requested using actuals as of December 31, 2008 and as of January 31, 2009.

DATA SOURCES: Department of Revenue, Tax and Treasury Divisions
Alaska Permanent Fund Corporation
Alaska State Accounting System

ASSUMPTIONS: Forecast assumptions based on tax laws in place as of January 1, 2009.
Revenue forecasts for January-June and February-June are based on the best information available as of January 2009 and February 2009, respectively.
FY 2009 investment forecasts include actual data through Dec 31, 2008 and Jan 31, 2009 and projections for the remainder of FY 2009.

DISCLAIMER: Due to continued financial market volatility, forecasts shown are subject to review and adjustment.
Actuals and forecasts as of January 31, 2009 are preliminary and unofficial.

Response to Questions about FY 2009 Investment Revenue Forecast

Detail for FY 2009 Investment Earnings Estimates - All Amounts in \$ Millions

Prepared Feb 19, 2009 by Alaska Department of Revenue

FY 2009 Forecast - Based on actuals through Dec 31, 2008			
	Actual through 12-31-08	Forecast through 06-30-09	Total FY 09
UNRESTRICTED			
Investments	172.0	103.1	275.1
Interest Paid by Others	0.3	1.1	1.4
TOTAL UNRESTRICTED	172.3	104.2	276.5
RESTRICTED			
Investments	35.8	25.5	61.3
<i>CBRF - Main Account</i>	87.6	52.1	139.7
<i>CBRF - Special Sub Account</i>	(875.5)	138.8	(736.7)
CBRF - Total⁽¹⁾	(787.9)	190.9	(597.0)
Other Treasury Managed Funds ⁽²⁾	(46.1)	12.9	(33.2)
Alaska Permanent Fund	(7,507.5)	1,128.7	(6,378.8)
TOTAL RESTRICTED	(8,305.7)	1,358.0	(6,947.7)
GRAND TOTAL	(8,133.4)	1,462.2	(6,671.2)

FY 2009 Forecast - Based on actuals through Jan 31, 2009			
	Actual through 01-31-09	Forecast through 06-30-09	Total FY 09
UNRESTRICTED			
Investments	172.6	93.4	266.0
Interest Paid by Others	0.5	0.9	1.4
TOTAL UNRESTRICTED	173.1	94.3	267.4
RESTRICTED			
Investments	35.8	23.6	59.4
<i>CBRF - Main Account</i>	79.0	42.4	121.4
<i>CBRF - Special Sub Account</i>	(1,074.4)	116.1	(958.3)
CBRF - Total	(995.4)	158.5	(836.9)
Other Treasury Managed Funds	(59.2)	10.4	(48.8)
Alaska Permanent Fund	(8,790.6)	898.0	(7,892.6)
TOTAL RESTRICTED	(9,809.4)	1,090.5	(8,718.9)
GRAND TOTAL	(9,636.3)	1,184.8	(8,451.5)


Notes:

See cover page for assumptions and disclaimers.

For more information about these revenue sources please see Chapter 7 of the Fall 2008 Revenue Sources Book.

(1) Total presented in January interim forecast was (574.7); this number did not include the expected reduction in earnings to the main account due to the anticipated FY 2009 CBRF draw.

(2) Total presented in January interim forecast was (31.1); this number did not reflect the final estimate for this component.



**Overview of Fall 2008
Revenue Forecast &
January 2009 Update**

Presentation to the

Senate Finance Committee

February 5, 2009

Alaska Department of Revenue

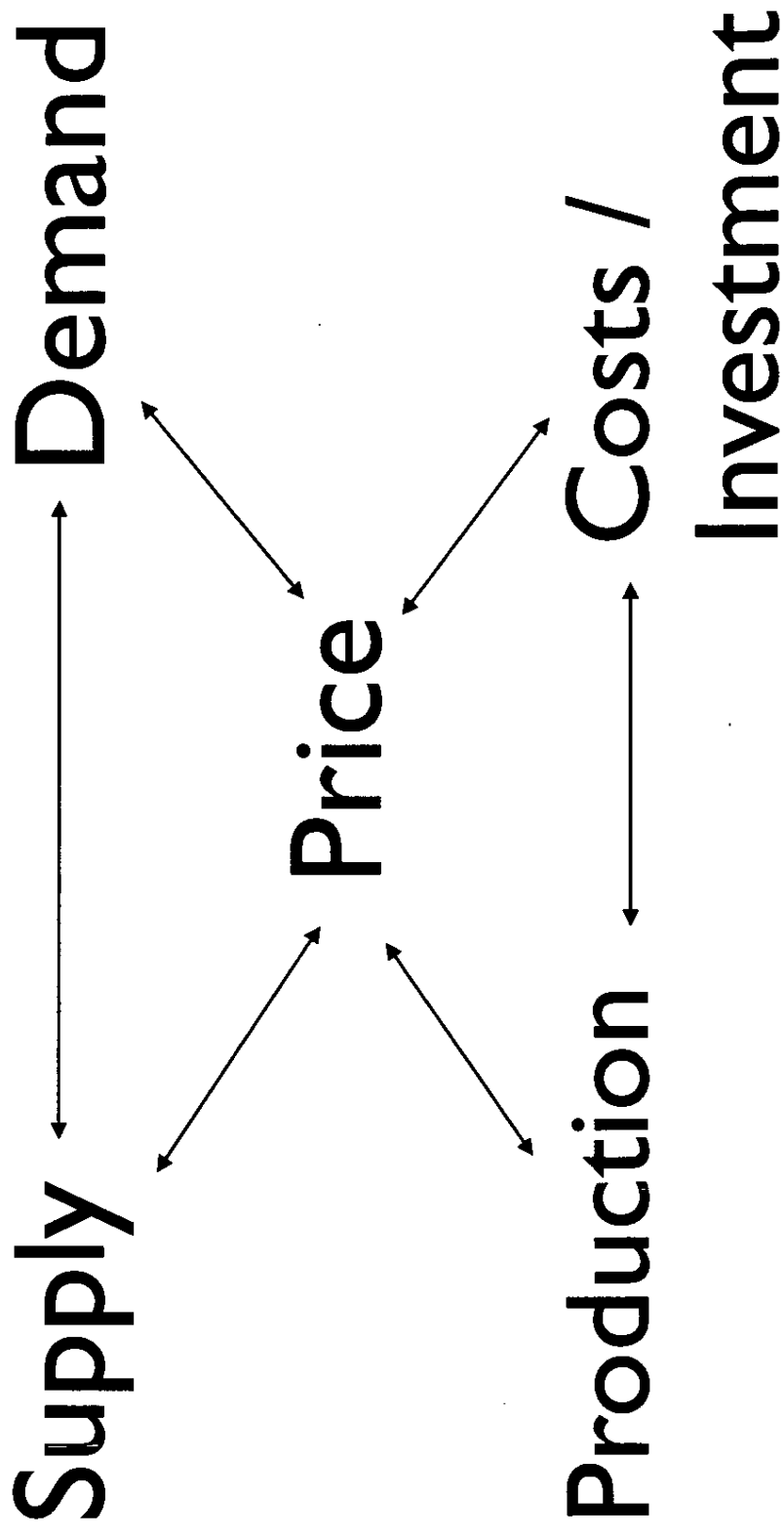



Oil and Gas Revenue

Forecast Variables

- Production
- Price
- Costs / Investment

• Interdependency of • Forecast Variables

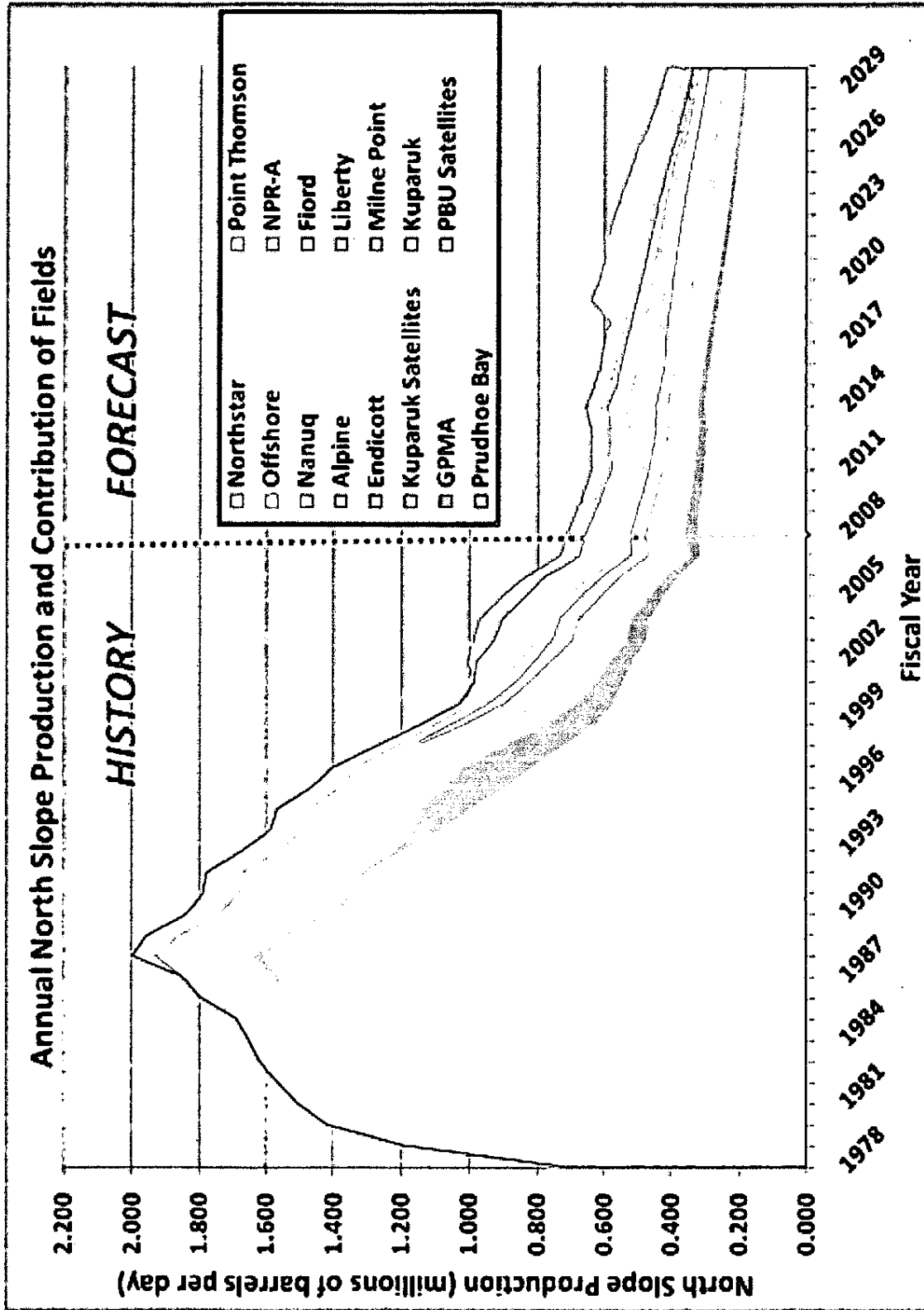




Oil and Gas Revenue Forecast Variables

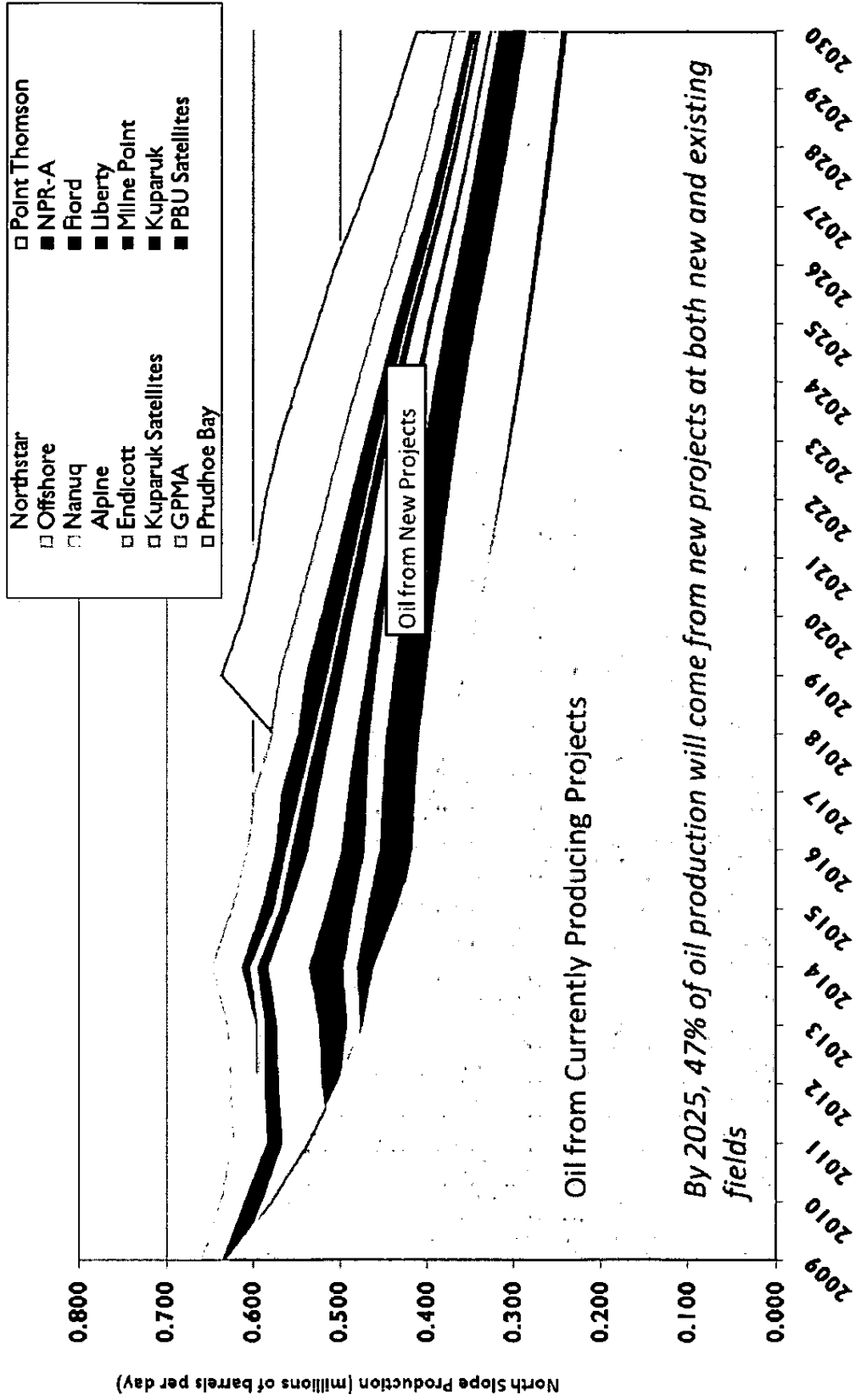
- Production
- Price
- Costs / Investment

ANS Production, History & Forecast



Source: Fall 2008 Revenue Sources Book

Forecasted ANS Production, FY 2009 - 2030



Source: Fall 2008 Revenue Sources Book

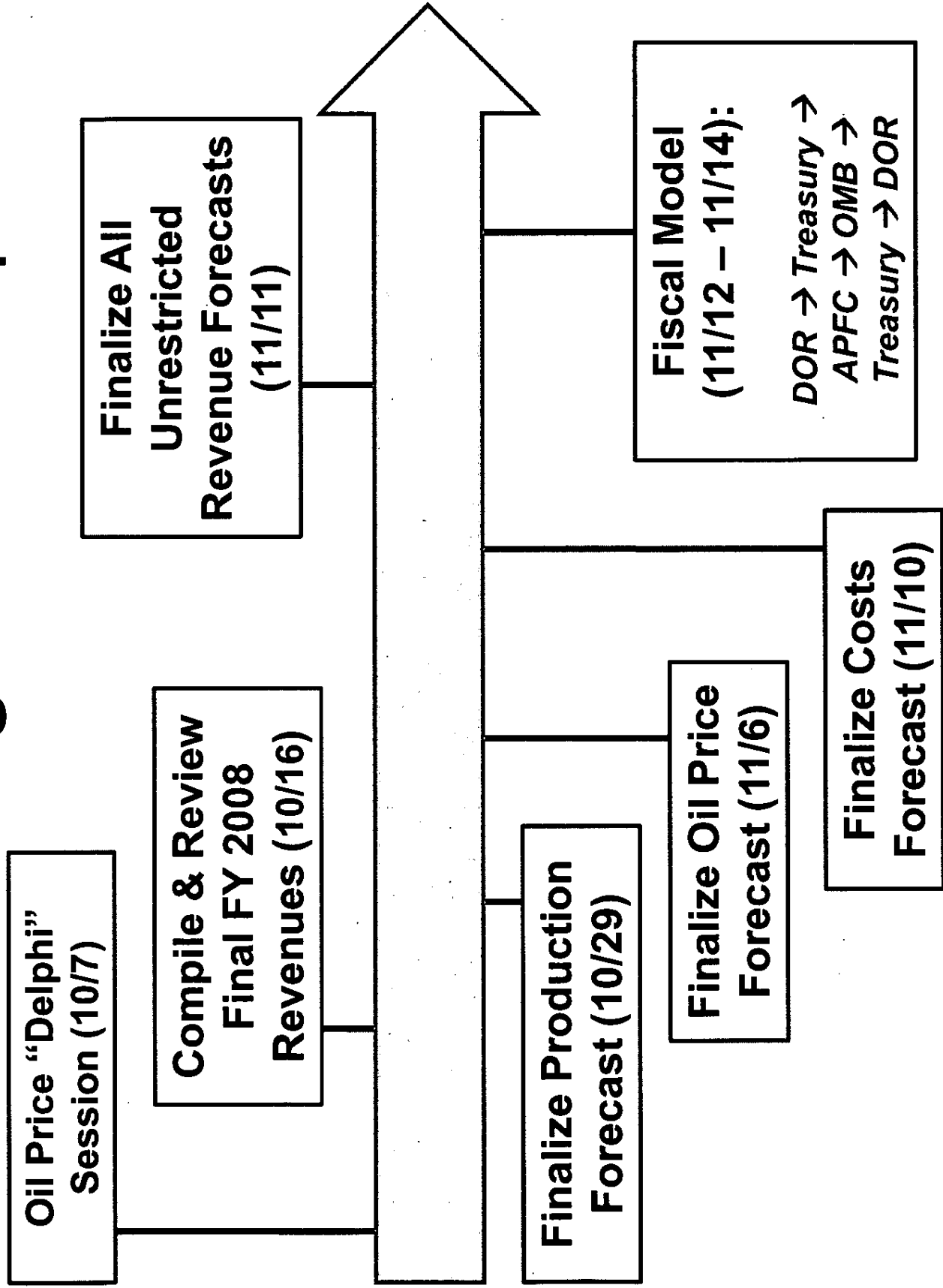


Oil and Gas Revenue

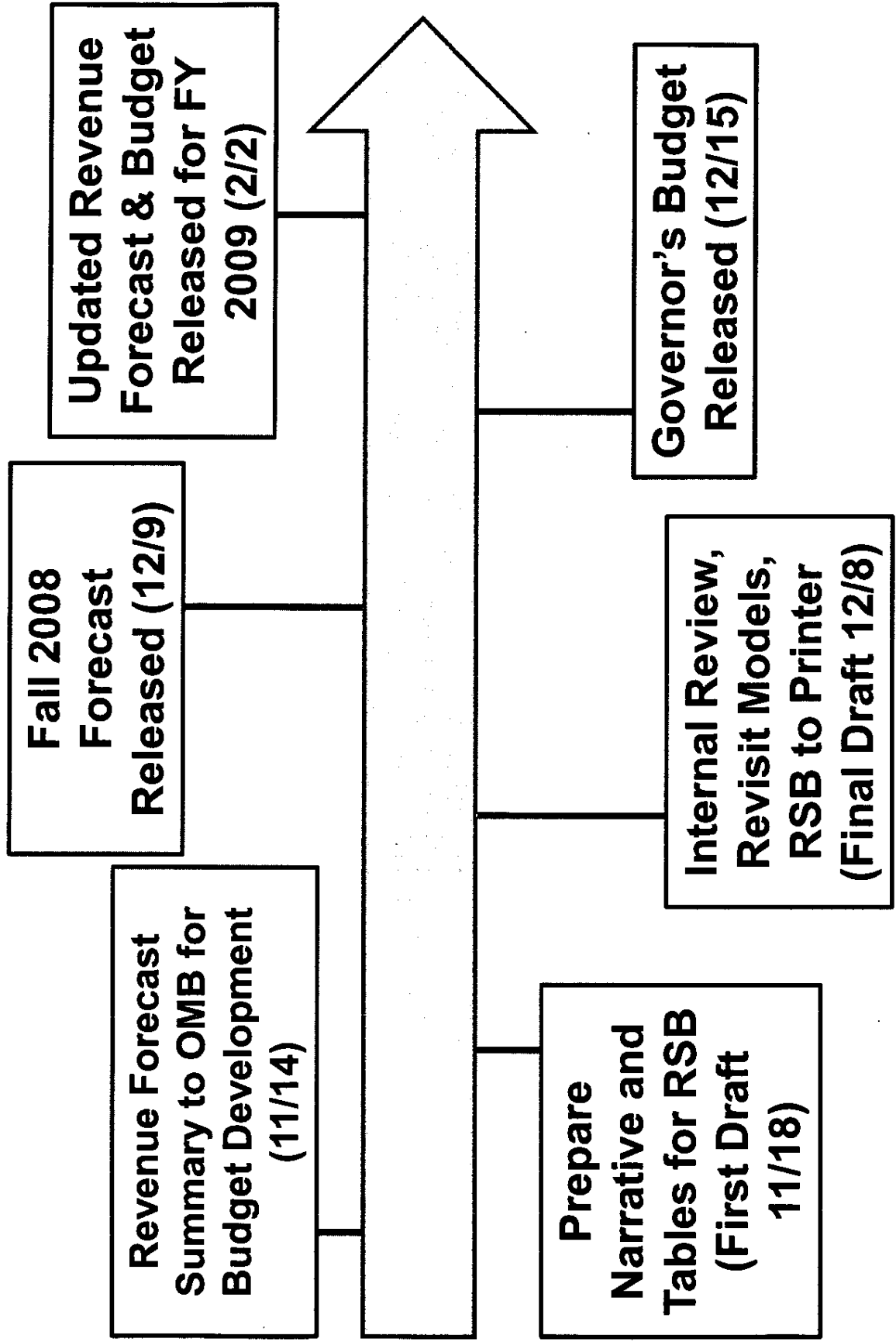
Forecast Variables

- Production
- Price
- Costs / Investment

The Forecasting Timeline – part I



The Forecasting Timeline – part II

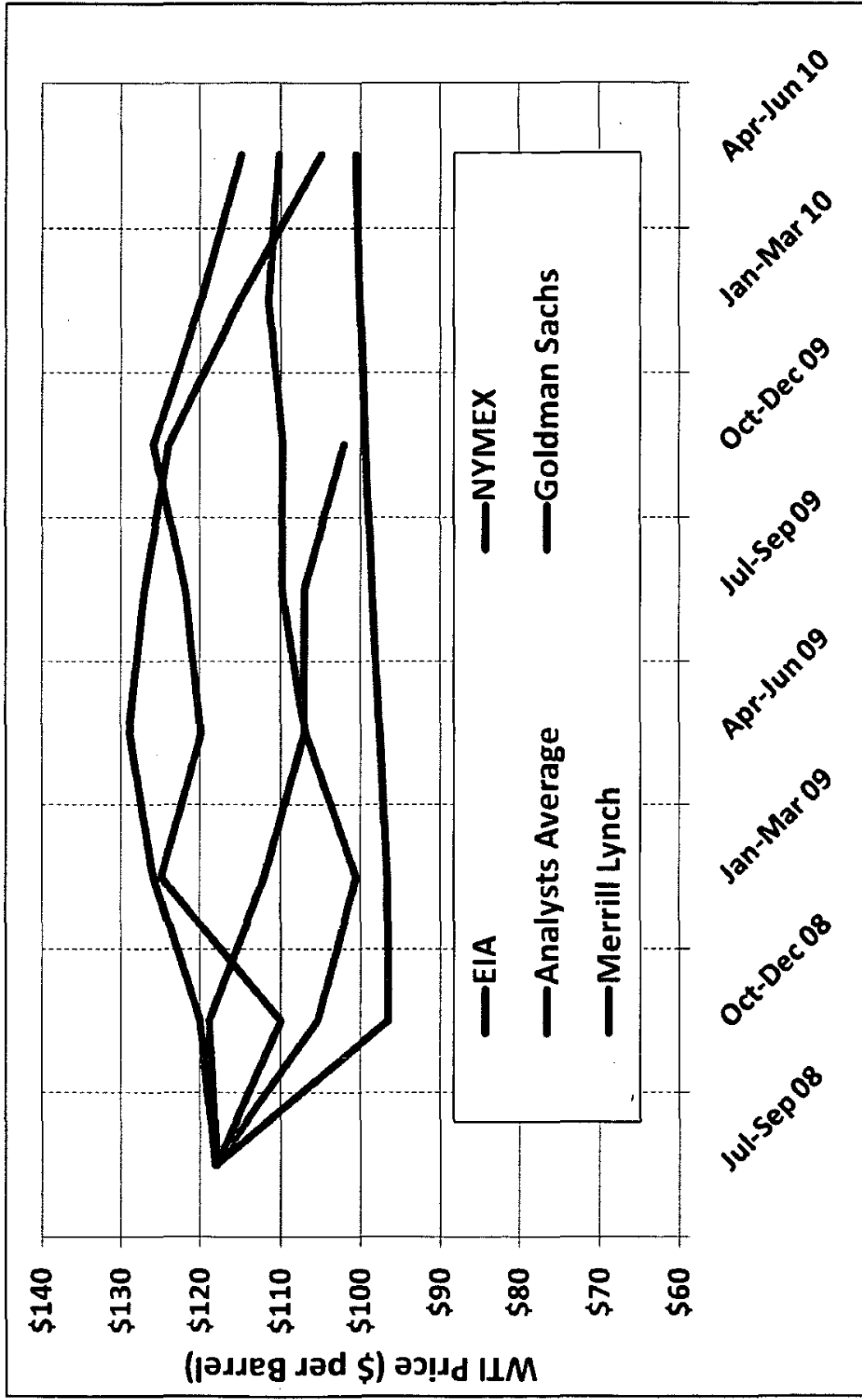


The “Delphi” Session

- 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



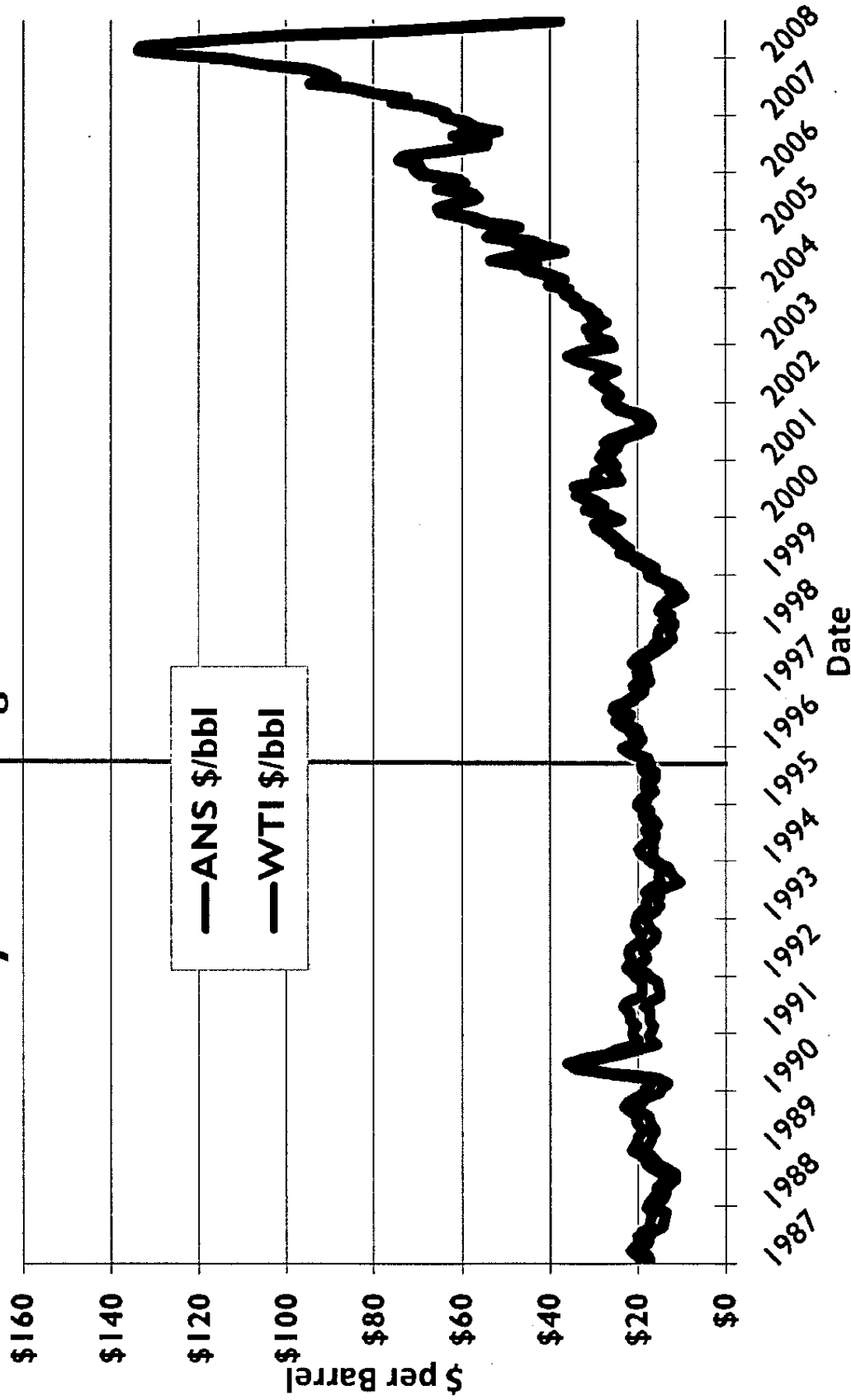
Price Forecasts Available At Delphi



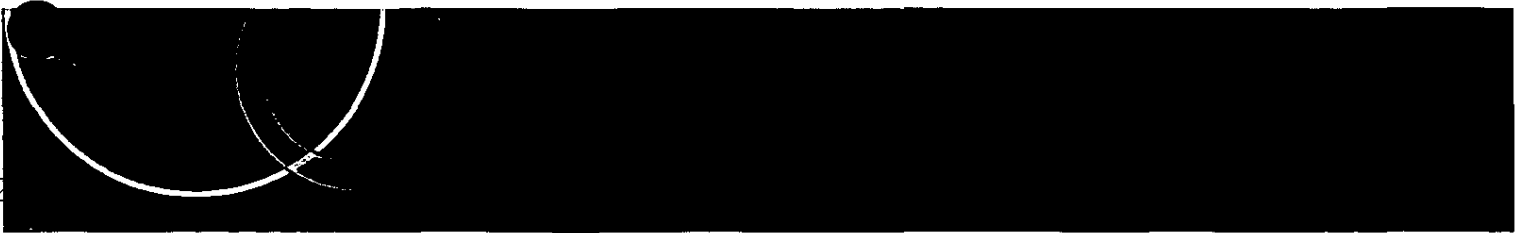
Sources: Bloomberg, New York Mercantile Exchange, Energy Information Agency
 Note: Only Analyst Average, EIA and NYMEX were presented at Delphi.
 Merrill Lynch and Goldman Sachs were included in Analyst Average.

Oil Price Volatility – 80% decline in 5 months

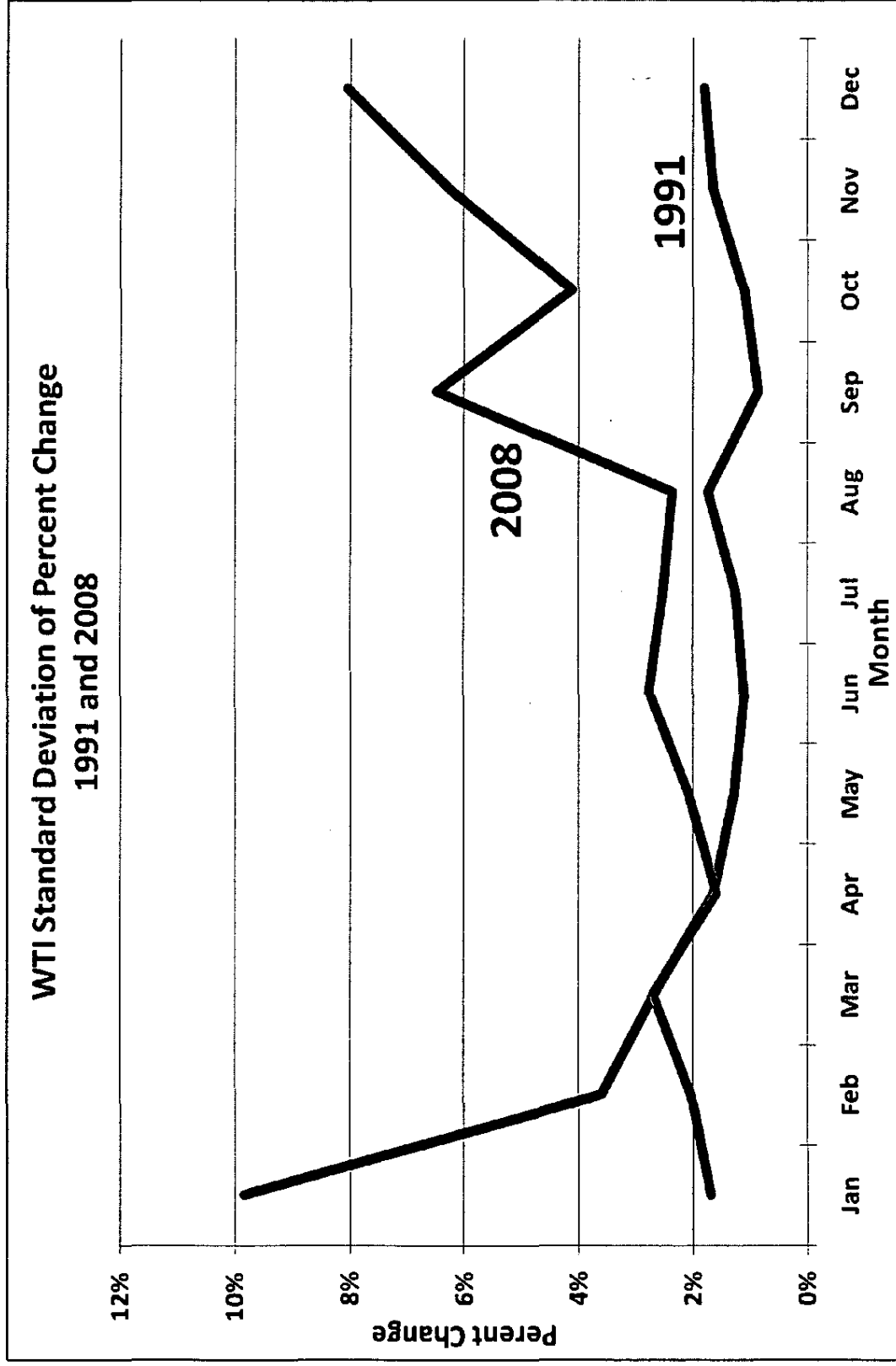
Historical ANS and WTI Crude Prices May 1986 Through December 2008



Source: Reuters, Bloomberg

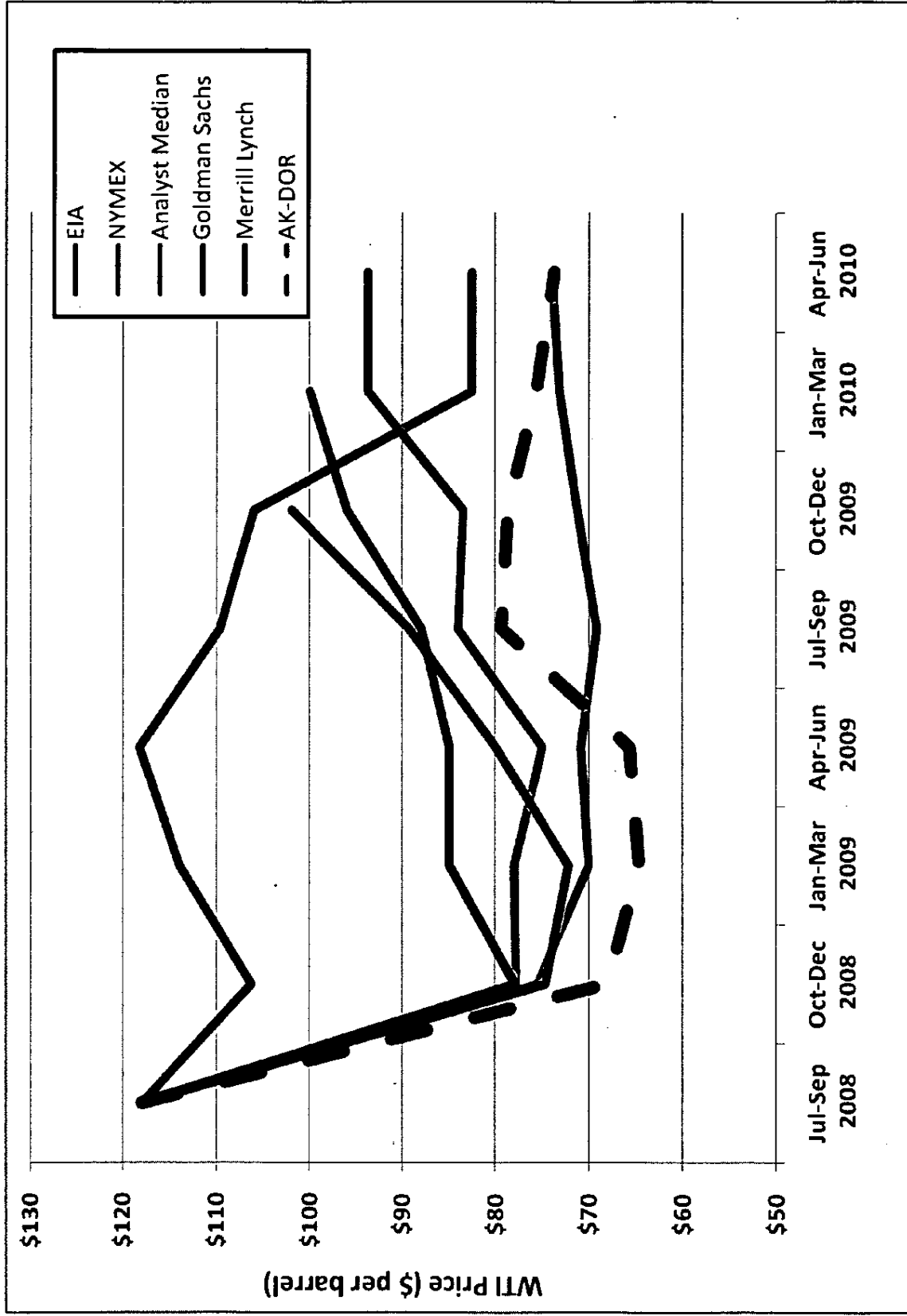


Oil Price Volatility – Two of the Most Volatile Years in History



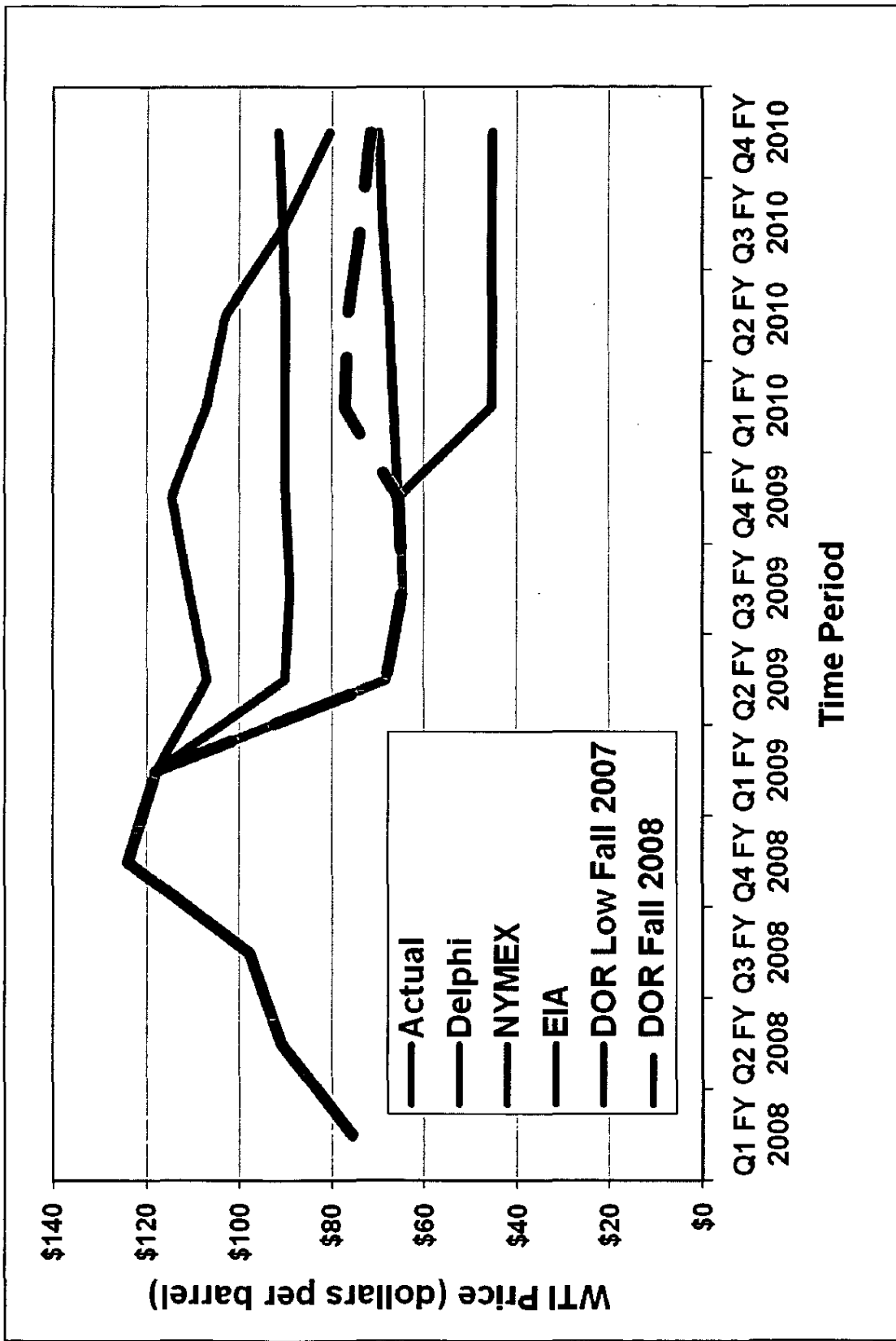
Source: Reuters, Bloomberg, DOR Analysis

Price Forecasts as of 11/6/2008



Source: Bloomberg, Wall Street Journal, Energy Information Agency ¹⁴

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,	
3rd Quarter FY 09	89.00	64.76	110.90	-	64.76	2008	
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	
2nd Quarter FY 10	90.00	67.89	103.20	45.28	76.59	Delphi, NYMEX	
3rd Quarter FY 10	90.50	69.02	90.00	45.28	73.70	EIA, and Fall	
4th Quarter FY 10	91.50	70.06	80.50	45.28	71.84	2007 Low	
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

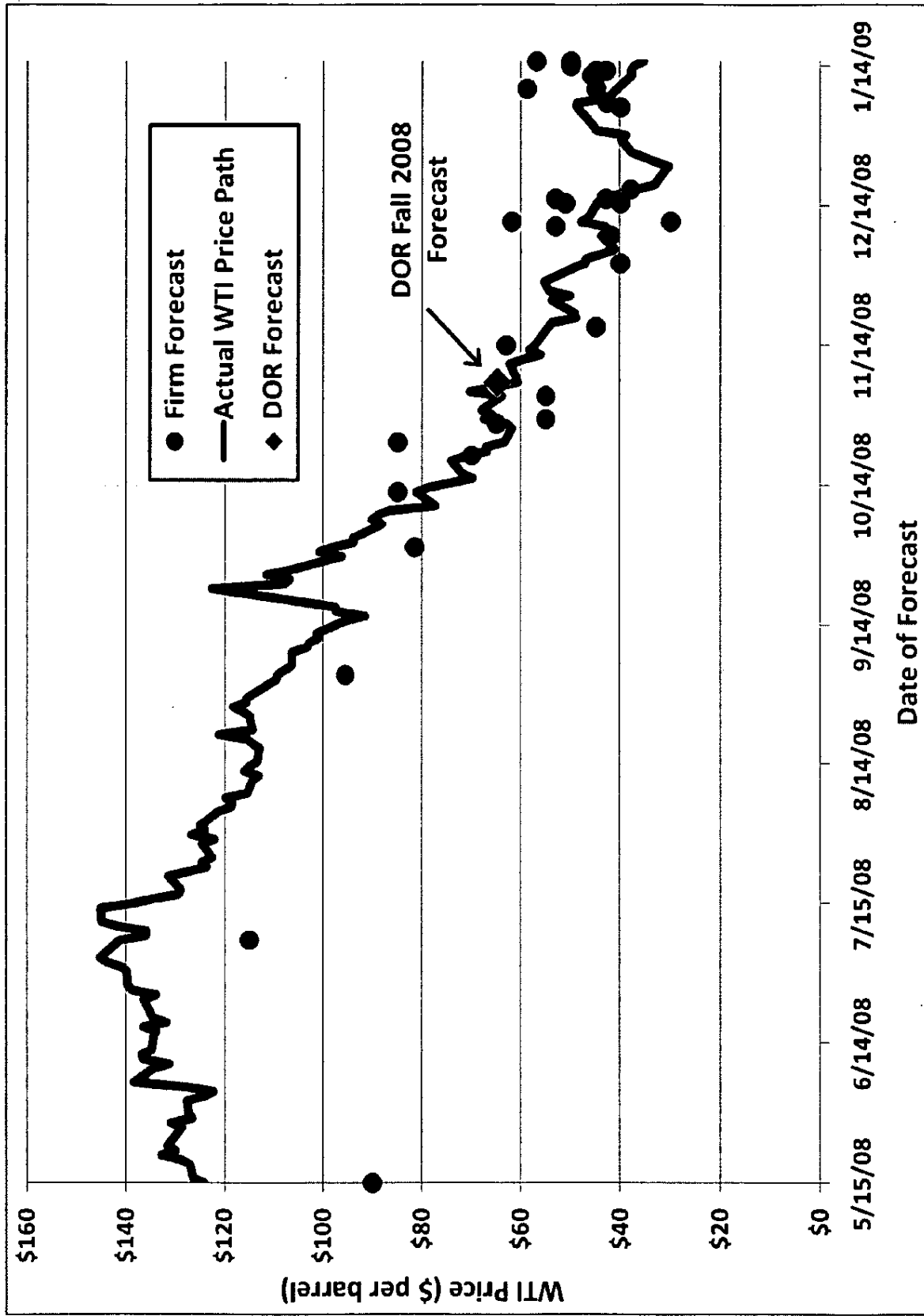
Fall 2008 DOR Oil Price Forecast

	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.

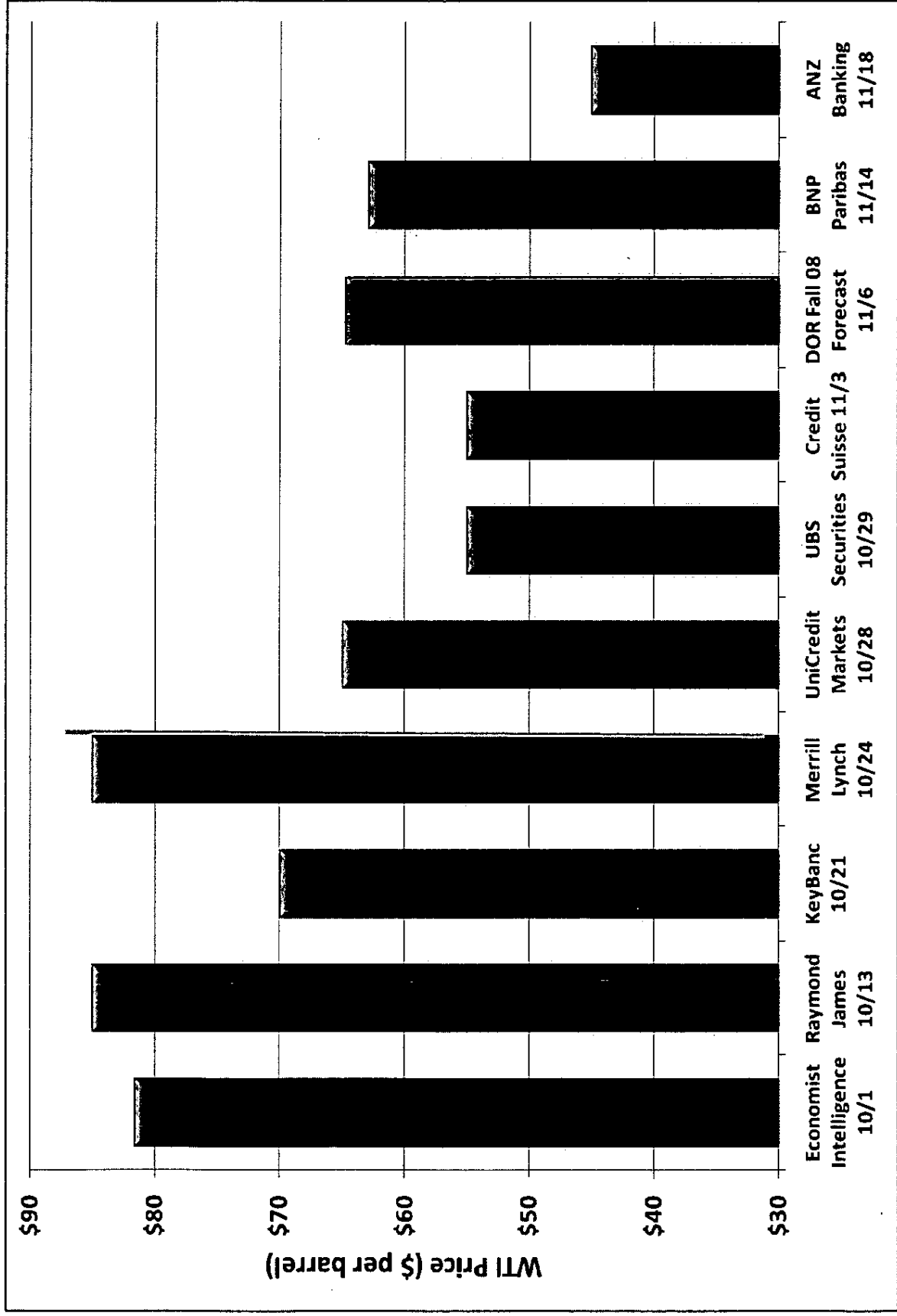
Source: Fall 2008 Revenue Sources Book

Price Forecasts for Jan-Mar 2009



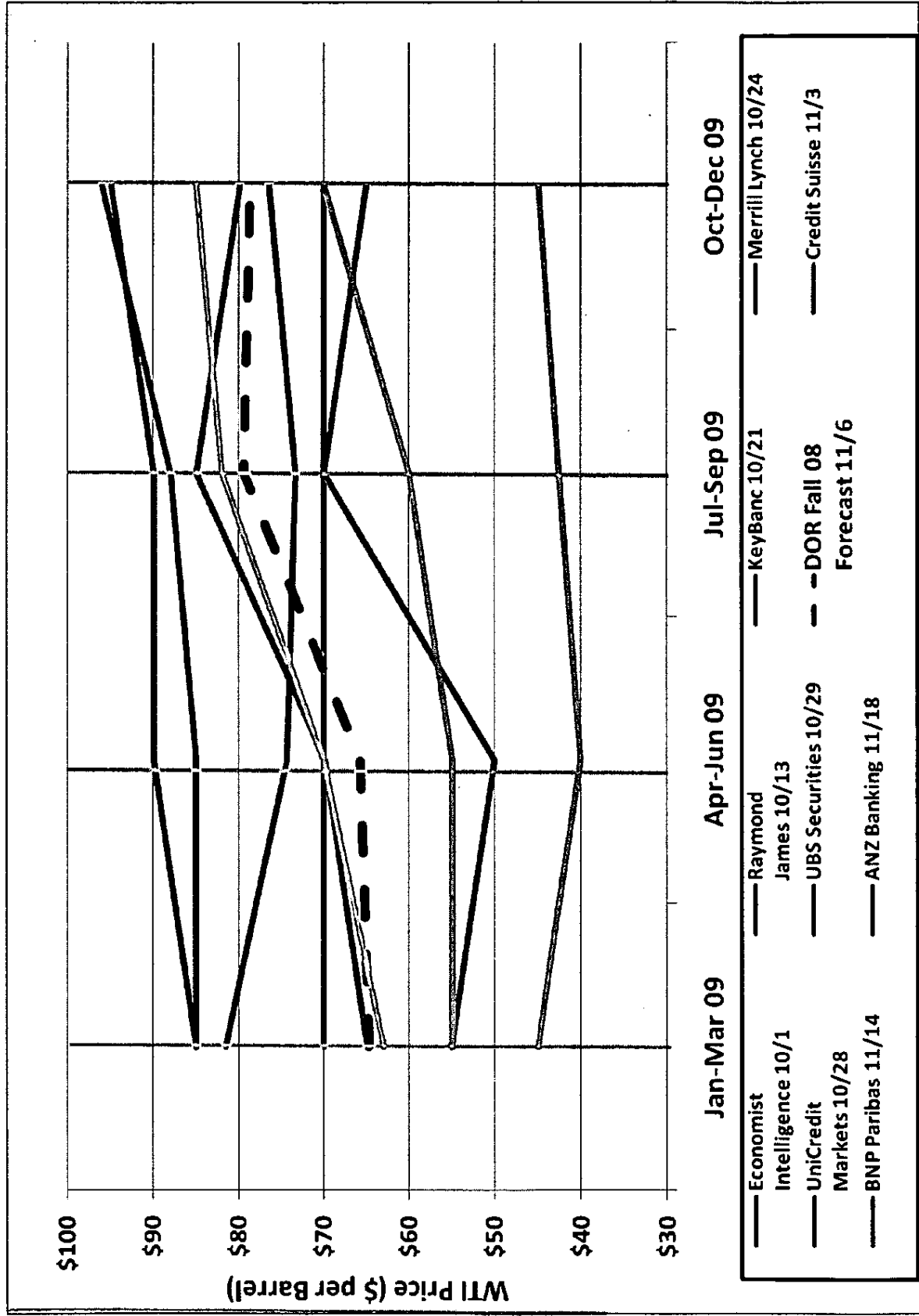
Source: Bloomberg Analyst Survey

Price Forecasts for Jan-Mar 2009



Source: Bloomberg Analyst Survey

Price Forecasts for Calendar 2009



Source: Bloomberg Analyst Survey

Updated FY 2009 Oil Price Forecast

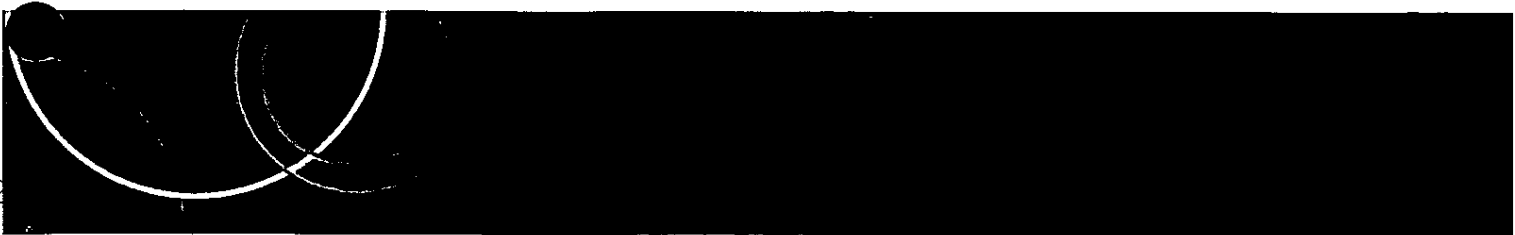
	January Update		Change from Fall 2008	
	WTI	ANS	WTI	ANS
1st Quarter FY 2009	118.05	115.55	0.00	0.00
2nd Quarter FY 2009	58.47	56.34	-9.69	-9.32
3rd Quarter FY 2009	39.97	37.47	-24.79	-24.79
4th Quarter FY 2009	46.26	43.76	-19.52	-19.52
FY 2009 Average	65.69	63.28	-13.50	-13.41

Source: January 2009 Forecast Update

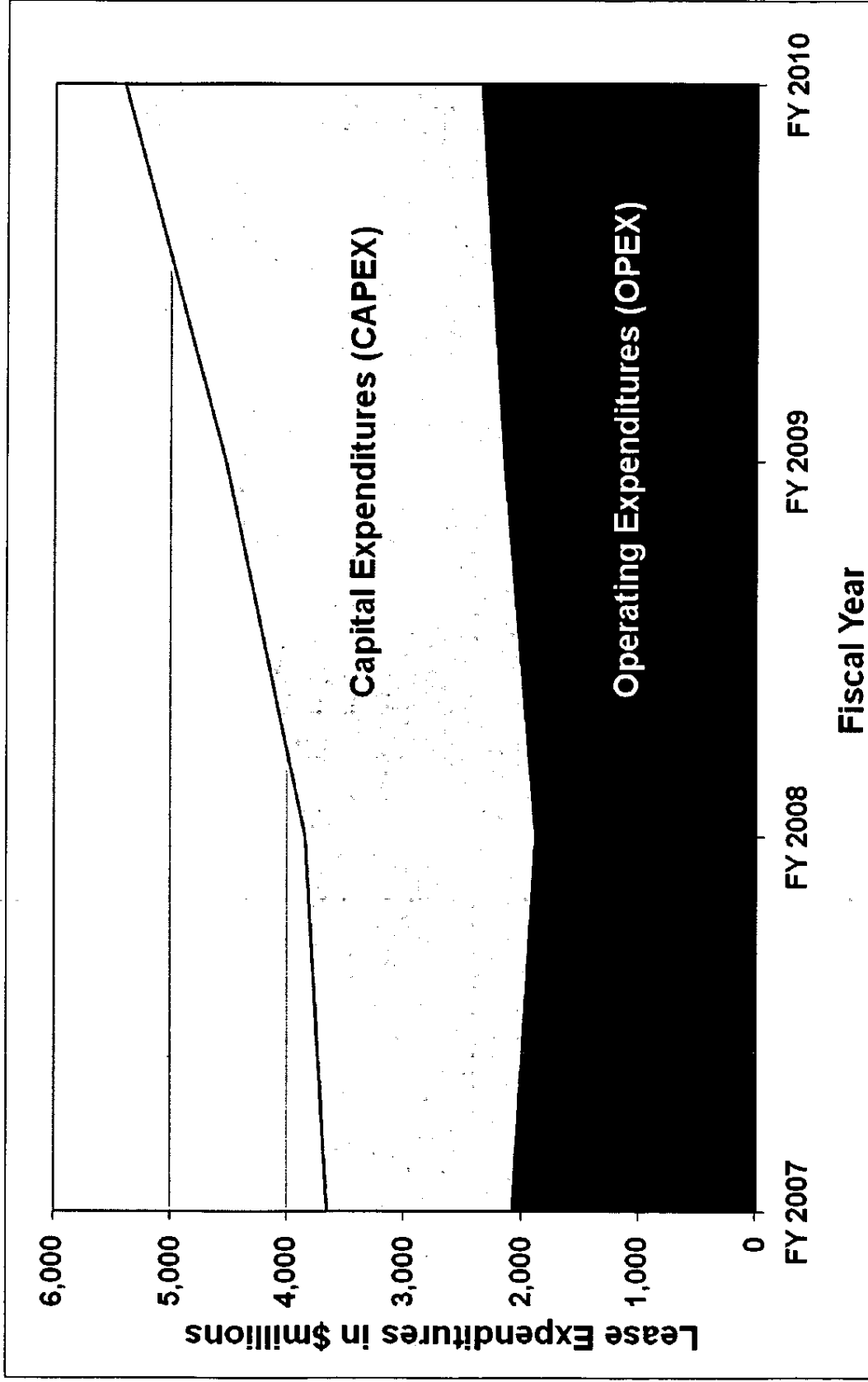


Oil and Gas Revenue Forecast Variables

- Production
- Price
- Costs / Investment



Lease Expenditures (Costs)



Source: Alaska Department of Revenue

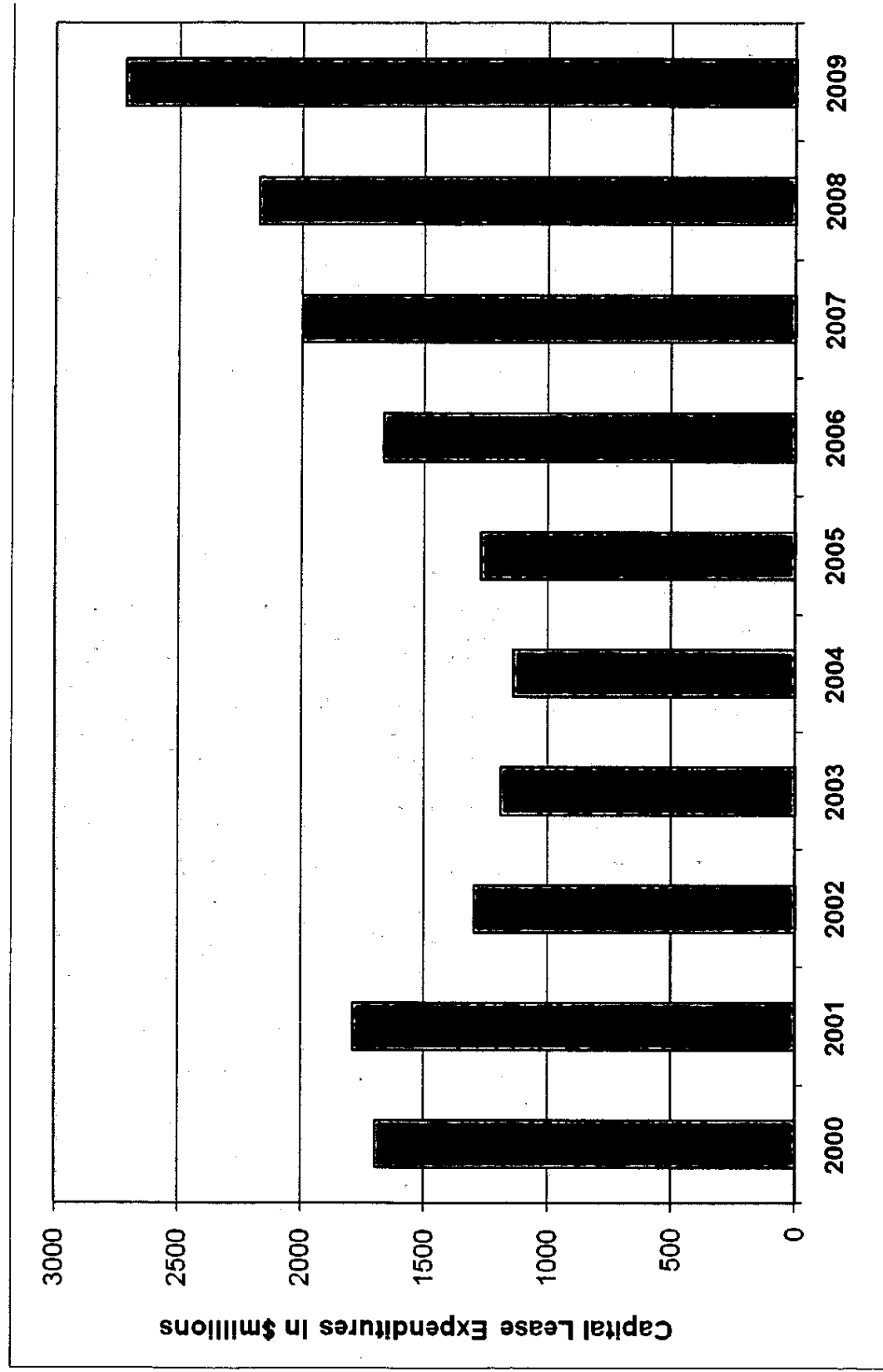
Lease Expenditures per Barrel

	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	4,796.8
Other Revenue (except Federal & Investments)	448.9
Investment Earnings	276.5
Subtotal Unrestricted	5,522.2
Restricted Revenue	
Oil Revenue	627.6
Other Revenue (except Federal & Investments)	632.8
Investment Earnings	(6,923.3)
Federal Revenue	2,523.4
Subtotal Restricted	(3,139.4)
Total Revenue	2,382.7

Source: January Forecast Update

● 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 87% 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	1,498.4	27.1%
Production Tax	2,700.8	48.9%
Corp Income Tax	525.0	9.5%
Property Tax	<u>72.5</u>	<u>1.3%</u>
Subtotal Oil Revenue	4,796.8	86.9%
Non-Oil Revenue	<u>725.4</u>	<u>13.1%</u>
Total Revenue	5,522.2	100.0%

Source: January 2009 Forecast Update

FY 2009 Non-Oil Revenue Detail

Taxes	\$ Millions	Share of Total
Corporate Income	125.0	17.2%
Mining	41.3	5.7%
Insurance Premium	48.5	6.7%
Tobacco	45.4	6.3%
Motor Fuel	10.9	1.5%
Other Taxes	<u>62.4</u>	<u>8.6%</u>
Subtotal Taxes	333.5	46.0%
Investments	276.5	38.1%
Other *	<u>115.4</u>	<u>15.9%</u>
Total Non-Oil	725.4	100.0%

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

Source: January 2009 Forecast Update

FY 2009 Revenue Forecast Comparison

	Fall 08	Jan 09	
	Forecast	Update	Change
Revenues:			
Royalty	1,755.1	1,498.4	-14.6%
Production Tax	3,588.8	2,700.8	-24.7%
Corp Income Tax	635.0	525.0	-17.3%
Property Tax	72.5	72.5	0.0%
Non-Oil	<u>700.0</u>	<u>725.5</u>	<u>3.6%</u>
Total Revenue	6,751.4	5,522.2	-18.2%
Key Forecast Inputs:			
ANS Oil Price \$/bbl	77.66	63.28	-18.5%
Production mmbd	0.689	0.686	-0.4%
Costs/Investment	4,526.0	4,526.0	0.0%

Note: Revenues and Costs are in \$ Millions

Source: Fall 2008 Revenue Sources Book and January 2009 Update

Conclusions

- Record level oil price volatility
- Price forecast in “ballpark” when issued
 - *Reduced for interim forecast*
- 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



Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

5

AGENDA

Thursday, February 5, 2009

9:00 AM

Revenue Forecast:

Pat Galvin, Commissioner, Department of Revenue

Jerry Burnett, Deputy Commissioner, Division of Treasury, DOR

Cheryl L Nienhuis, Acting Chief, Revenue Economist, DOR

Dudley Platt, Consultant, Department of Revenue