

2/18/11
DEPARTMENT OF
REVENUE :
REVENUE
FORECAST AND
SAVINGS
ACCOUNTS

<TARGET><BILL></BILL><SUBJECT>2-18-11 DEPARTMENT OF
REVENUE REVENUE FORECAST AND SAVINGS
ACCOUNTS</SUBJECT><COMM>HFIN27</COMM></TARGET>



*Presentation to the
House Finance Committee
February 18, 2011
Alaska Department of Revenue*



Outline for Presentation



- **Fall 2010 Revenue Forecast for FY2011 and 2012**
 - Revenue Classification Changes
 - Total Revenue
 - Unrestricted Revenue
 - Non-Oil Revenue
- **10-year plan Revenue / Spending Scenario**
- **How Production Tax Is Calculated**
 - FY 2010, 2011, 2012 - "Income statement" format
- **Components of Production Tax Forecast**
 - Oil Production Forecast
 - Oil Price Forecast
 - Lease Expenditures Forecast / Oil Company Spending
 - Tax Credits



FY 11 and FY 12 Total Revenue



Revenue Type	FY 11 (\$M)	FY 12 (\$M)
Unrestricted General Fund		
Oil Revenue	\$ 4,673.9	\$ 5,061.1
Other Sources (except Federal & Investment)	\$ 480.5	\$ 487.1
Investment Revenue	\$ 217.4	\$ 195.7
Subtotal Unrestricted	\$ 5,371.8	\$ 5,743.9
Designated General Fund		
Other Sources (except Federal & Investment)	\$ 281.6	\$ 282.3
Investment Revenue	\$ 59.7	\$ 42.0
Subtotal Restricted	\$ 341.3	\$ 324.3
Other Restricted Revenue		
Oil Revenue	\$ 669.7	\$ 755.3
Other Sources (except Federal & Investment)	\$ 209.7	\$ 190.3
Investment Revenue	\$ 3,384.5	\$ 3,283.4
Subtotal Restricted	\$ 4,263.9	\$ 4,229.0
Federal Revenue		
Oil Revenue	\$ 19.5	\$ 19.5
Federal Receipts	\$ 3,087.0	\$ 2,987.0
Subtotal Restricted	\$ 3,106.5	\$ 3,006.5
Total State Revenue	\$ 13,083.4	\$ 13,303.7

Source: Fall 2010 Revenue Sources Book



FY 11 & FY 12 General Fund Unrestricted Revenue



Revenue Type	FY 11 (\$M)	% Total	FY 12 (\$ M)	% Total
Royalty - Net PF / SF	\$ 1,510.1	28.1%	\$ 1,666.6	29.0%
Production Tax	\$ 2,614.6	48.7%	\$ 2,737.6	47.7%
Corp Income Tax	\$ 445.0	8.3%	\$ 555.0	9.7%
Property Tax	<u>\$ 104.1</u>	<u>1.9%</u>	<u>\$ 101.9</u>	<u>1.8%</u>
Subtotal Oil Revenue	\$ 4,673.9	87.0%	\$ 5,061.1	88.1%
Non-Oil Revenue	<u>\$ 697.9</u>	<u>13.0%</u>	<u>\$ 682.8</u>	<u>11.9%</u>
Total Revenue	\$ 5,371.8	100.0%	\$ 5,743.9	100.0%

Source: Fall 2010 Revenue Sources Book



FY 11 and FY 12 Unrestricted Non-Oil Revenue Detail



Revenue Type	FY 11 (\$M)	% Total	FY 12 (\$M)	% Total
Taxes				
Corporate Income	\$ 80.0	11.5%	\$ 85.0	12.4%
Mining	\$ 46.7	6.7%	\$ 47.0	6.9%
Insurance Premium	\$ 50.1	7.2%	\$ 51.6	7.6%
Tobacco	\$ 44.4	6.4%	\$ 44.3	6.5%
Motor Fuel	\$ 38.5	5.5%	\$ 38.8	5.7%
Other Taxes	<u>\$ 61.3</u>	<u>8.8%</u>	<u>\$ 61.4</u>	<u>9.0%</u>
Subtotal Taxes	\$ 321.0	46.0%	\$ 328.1	48.1%
Investments	\$ 217.4	31.2%	\$ 195.7	28.7%
Other *	<u>\$ 159.5</u>	<u>22.9%</u>	<u>\$ 159.0</u>	<u>23.3%</u>
Total Non-Oil	\$ 697.9	100.0%	\$ 682.8	100.0%

NOTE: This presentation only includes the portion of revenue that is included in the "Unrestricted General Fund" category.

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

Source: Fall 2010 Revenue Sources Book

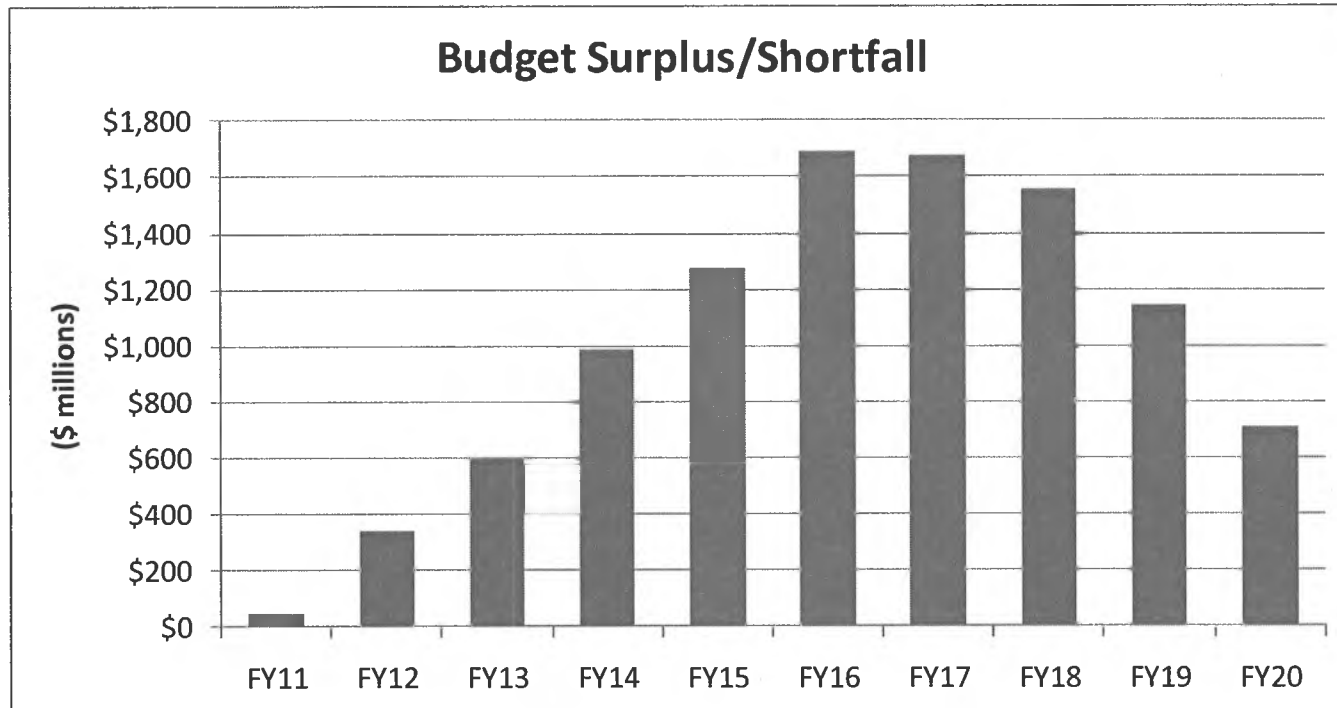


10-Year Revenue/Spending Projection



10-Year Revenue and Spending

Assumes Fall 2010 Revenue and 3% budget escalation from FY12



Revenue vs. Spending (\$Millions)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
General Fund Unrestricted Revenues	5,452.2	5,790.3	6,207.7	6,767.8	7,233.1	7,822.4	7,992.7	8,060.4	7,845.7	7,610.7
General Fund Expenses	5,403.6	5,446.4	5,609.8	5,778.1	5,951.4	6,130.0	6,313.9	6,503.3	6,698.4	6,899.3
Budget Surplus/Shortfall	48.6	343.9	597.9	989.7	1,281.7	1,692.4	1,678.9	1,557.1	1,147.3	711.3
Reserve Balances										
CBRF Total	10,016.8	10,589.0	11,195.2	11,837.3	12,517.8	13,239.1	14,003.7	14,814.6	15,674.6	16,587.0
Statutory Budget Reserve Balance	1,048.6	1,392.4	1,990.3	2,980.0	4,261.7	5,954.2	7,633.0	9,190.1	10,337.4	11,048.7
Total Reserve Balances	11,065.4	11,981.4	13,185.5	14,817.4	16,779.5	19,193.3	21,636.7	24,004.7	26,012.0	27,635.7

Source: OMB FY 2012 10-year plan. FY 11 and FY 12 revenues shown include adjustments for corporate dividends, reappropriations, and carry forwards and do not exactly match numbers in the RSB.

Appropriations projections do not represent a commitment by the Administration to propose spending at a particular level in FY13 or any future year. The 10 year forecast shows that unanticipated shortfalls during the period could be filled primarily through the use of reserve funds. However, other options could be used in whole, or in part. The plan will be revisited as conditions warrant.



How Production Tax Is Calculated



FY 10 Production Tax Calculation



	Per Barrel	Barrels	Value (\$ million)
Avg ANS Oil Price (\$/bbl) & Daily Production (bbls)	\$74.90	643,517	\$48.2 / day
Annual Production (bbl)			
Total Annual Production/Value		234,883,705	\$17,592.8
Royalty and Federal barrels		(31,067,340)	(\$2,326.9)
Taxable barrels		203,816,365	\$15,265.8
Downstream (Transportation) Costs (\$/bbl)			
ANS Marine Transportation	(\$2.21)		
TAPS Tariff	(\$3.81)		
Other	\$0.00		
Total Transportation Costs	(\$6.02)	203,816,365	(\$1,227.0)
Lease Expenditures			
Deductible Operating Expenditures	(\$10.64)		(\$2,168.7)
Deductible Capital Expenditures	(\$8.55)		(\$1,742.0)
Total Lease Expenditures	(\$19.19)	203,816,345	(\$3,910.7)
Production Tax Value (PTV)	\$49.69	203,816,345	\$10,128.1
Production Tax			
Base Tax (25%*PTV)			\$2,532.0
Progressive Tax Rate = $(\$49.69 - \$30) * 0.4\% = 7.9\%$			
Progressive Tax = $(7.9\% * PTV)$			\$797.8
Total Tax Due before credits			\$3,329.8
Credits Applied Against Taxes			(\$350.0)
Total Tax after credits			\$2,979.8

Source: Department of Revenue Fall 2010 Revenue Sources Book, Appendix D

This simple model assumes constant production, price, and expenditures for the entire year; results will differ from our larger model and forecast. The per-barrel expenditures shown are per taxable barrel and do not reflect expenditures per all barrels produced.



FY 11 Production Tax Projected



	Per Barrel	Barrels	Value (\$ million)
Avg ANS Oil Price (\$/bbl) & Daily Production (bbls)	\$77.96	615,902	\$48.0 / day
Annual Production (bbl)			
Total Annual Production/Value		224,804,230	\$17,525.7
Royalty and Federal barrels		(34,100,490)	(\$2,658.5)
Taxable barrels		190,703,740	\$14,867.3
Downstream (Transportation) Costs (\$/bbl)			
ANS Marine Transportation	(\$2.07)		
TAPS Tariff	(\$4.17)		
Other	\$0.24		
Total Transportation Costs	(\$6.00)	190,730,740	(\$1,144.2)
Lease Expenditures			
Deductible Operating Expenditures	(\$12.99)		(\$2,477.0)
Deductible Capital Expenditures	(\$10.43)		(\$1,988.4)
Total Lease Expenditures	(\$23.42)	190,703,740	(\$4,465.4)
Production Tax Value (PTV)	\$48.54	190,703,740	\$9,257.6
Production Tax			
Base Tax (25%*PTV)			\$2,314.4
Progressive Tax Rate = $(\$48.54 - \$30) * 0.4\% = 7.4\%$			
Progressive Tax = $(7.4\% * PTV)$			\$686.7
Total Tax Due before credits			\$3,001.1
Credits Applied Against Taxes			(\$400.0)
Total Tax after credits			\$2,601.1

Source: Department of Revenue Fall 2010 Revenue Sources Book, Appendix D

This simple model assumes constant production, price, and expenditures for the entire year; results will differ from our larger model and forecast. The per-barrel expenditures shown are per taxable barrel and do not reflect expenditures per all barrels produced.



FY 12 Production Tax Projected



	Per Barrel	Barrels:	Value (\$ million)
Avg ANS Oil Price (\$/bbl) & Daily Production (bbls)	\$82.67	622,182	\$51.4 / day
Annual Production (bbl)			
Total Annual Production/Value		227,096,430	\$18,774.1
Royalty and Federal barrels		(34,669,890)	(\$2,866.2)
Taxable barrels		192,426,540	\$15,907.9
Downstream (Transportation) Costs (\$/bbl)			
ANS Marine Transportation	(\$2.05)		
TAPS Tariff	(\$4.67)		
Other	\$0.33		
Total Transportation Costs	(\$6.39)	192,426,540	(\$1,229.6)
Lease Expenditures			
Deductible Operating Expenditures	(\$12.86)		(\$2,474.1)
Deductible Capital Expenditures	(\$13.14)		(\$2,528.3)
Total Lease Expenditures	(\$26.00)	192,426,540	(\$5,002.4)
Production Tax Value (PTV)	\$50.28	192,426,540	\$9,675.9
Production Tax			
Base Tax (25%*PTV)			\$2,419.0
Progressive Tax Rate = $(\$50.28 - \$30) * 0.4\% = 8.1\%$			
Progressive Tax = $(8.1\% * PTV)$			\$785.0
Total Tax Due before credits			\$3,204.0
Credits Applied Against Taxes			(\$450.0)
Total Tax after credits			\$2,754.0

Source: Department of Revenue Fall 2010 Revenue Sources Book, Appendix D

This simple model assumes constant production, price, and expenditures for the entire year; results will differ from our larger model and forecast. The per-barrel expenditures shown are per taxable barrel and do not reflect expenditures per all barrels produced.



Components of Production Tax Calculation

- Production
- Price
- Lease Expenditures
- Tax Credits



Fall 2010 Oil Production Forecast



Three Categories of Forecasted Production



- 1) Currently Producing- Includes base production and enhanced recovery production from investment in rate enhancing activities (perforations, stimulations, well workovers, gas and water injection support).
- 2) Currently under Development- New projects that are currently funded or awaiting project sanction in near future.



Three Categories of Forecasted Production



- 3) Currently Under Evaluation- Includes technically viable projects in the stage where engineering, cost, risk and reward are being actively evaluated. Unfunded but are considered to have a high chance of being brought to fruition.



Factors That Affect Production Forecasting



1. GEOLOGY

- Rock type and formation characteristics
- Depth, thickness, pressure
- Oil & gas characteristics (oil gravity, viscosity, water content, etc.)

2. DEVELOPMENT PLAN

- Well density and development rate
- Well bore size and completion technique
- Artificial lift and enhanced oil recovery
- Facilities & surface operations

3. COMMERCIAL

- Project economics
- Oil price and market conditions
- Government Policy: access, regulation, taxation

4. PRODUCTION PROFILE

- History, stage of depletion
- Use production profile to extrapolate trends

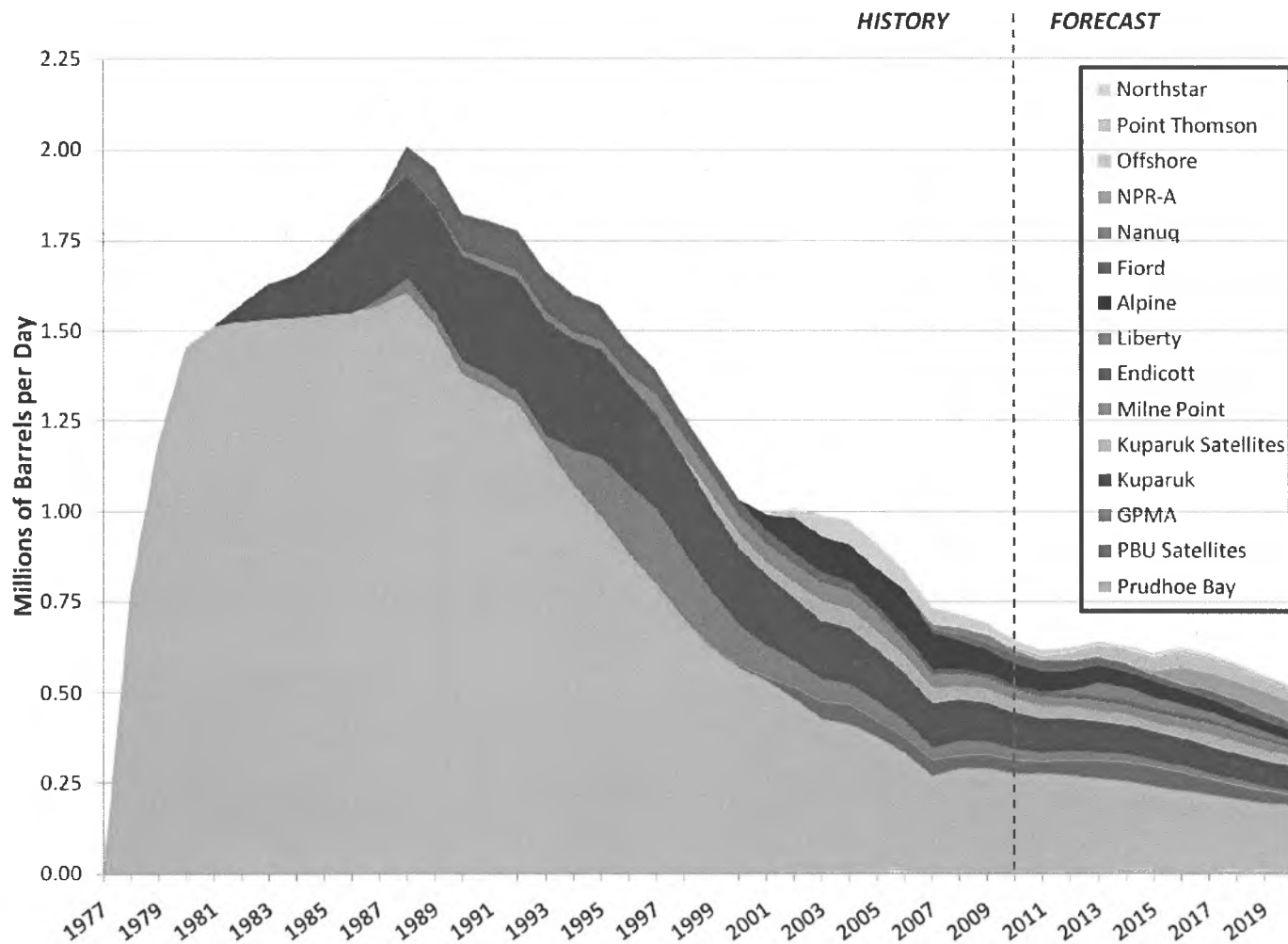
5. TIMING!



ANS Production History & Forecast

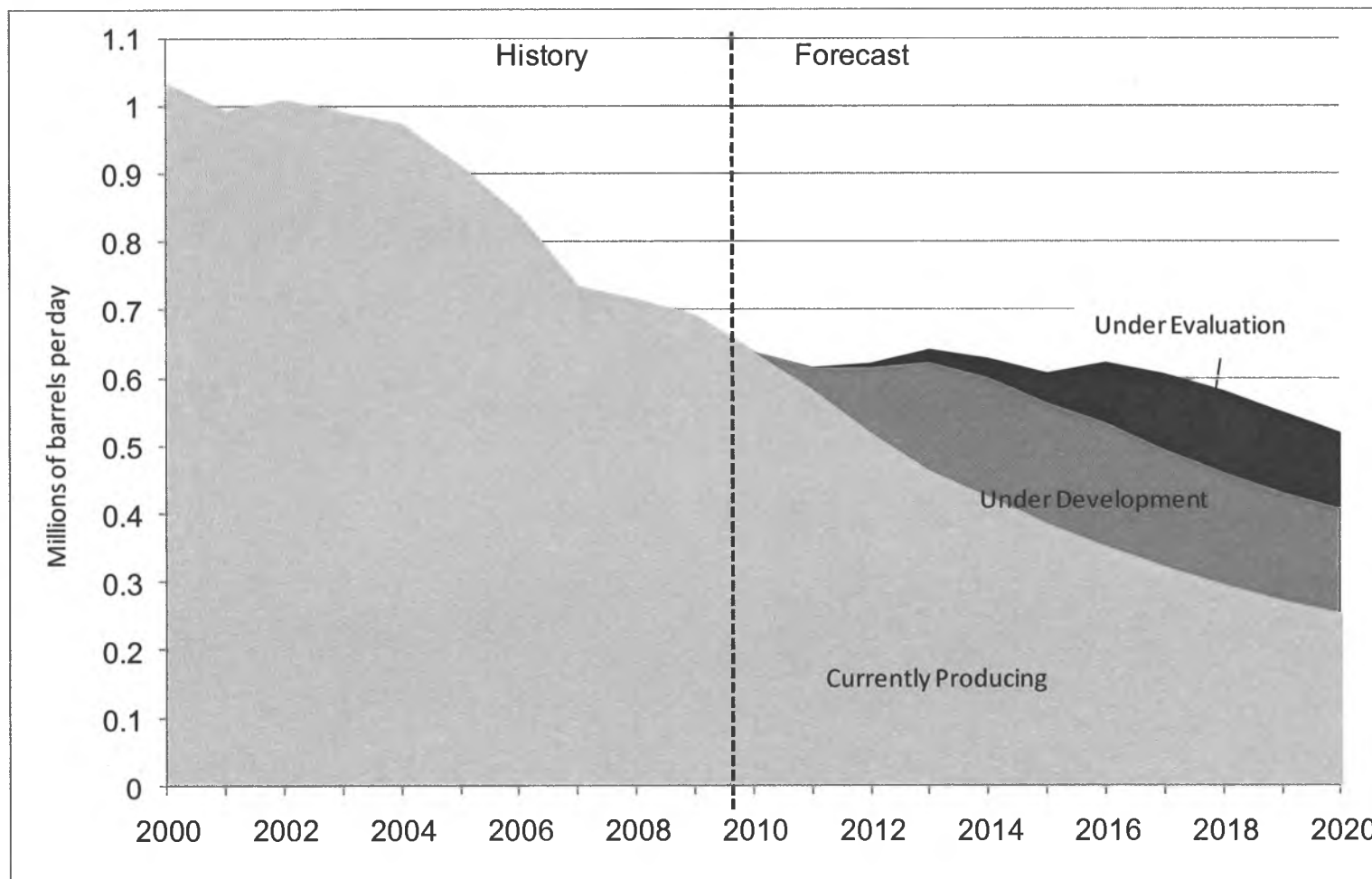


Annual North Slope Production and Contribution of Fields





Forecasted ANS Production FY 2010 - 2020

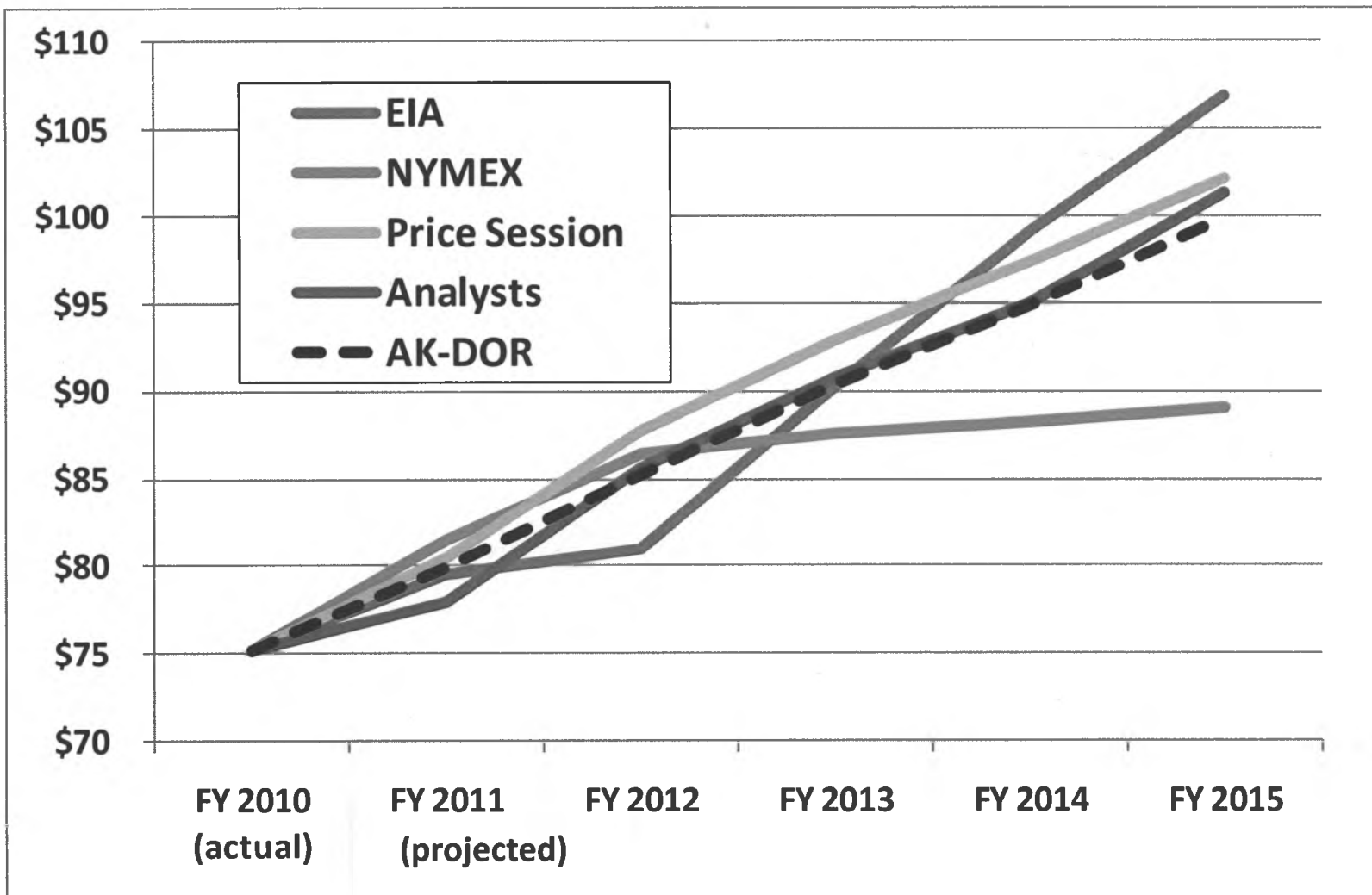




Fall 2010 Oil Price Forecast



Price Forecasts as of October 2010



WTI, nominal dollars per barrel. Sources: DOR, Bloomberg, NYMEX, Energy Information Agency



Fall 2010 DOR Oil Price Forecast



	Real \$		Nominal \$	
	WTI	ANS	WTI	ANS
FY 2010 (actual)	75.21	74.90	75.21	74.90
FY 2011 (projected)	77.75	75.88	79.89	77.96
FY 2012	80.67	78.30	85.17	82.67
FY 2013	83.30	80.99	90.36	87.86
FY 2014	85.15	82.90	94.91	92.41
FY 2015	87.17	84.99	99.84	97.34

*Note: FY 2011 forecast includes one quarter of actual prices.

Forecast is made in terms of Real WTI , then adjusted using 2.75% inflation rate and \$2.50 nominal differential to ANS.

Source: Fall 2010 Revenue Sources Book

Alaska State Legislature
HOUSE FINANCE COMMITTEE

Agenda
1:30 PM

Friday, February 18, 2011

Revenue Forecast and Savings Accounts:
Bryan Butcher, Commissioner, Department of Revenue

Bry - Commissioner
Butcher

absent
- Stolte
- ~~Boyd~~
- Neuman
- ~~Jode?~~

Bruce Tangaman - Tax Dir
Jerry Burnett, Deputy Commissioner

* Dropdown wrong
says "Cheryl Nienhofs"



State of Alaska
An Update on the State's Savings Accounts

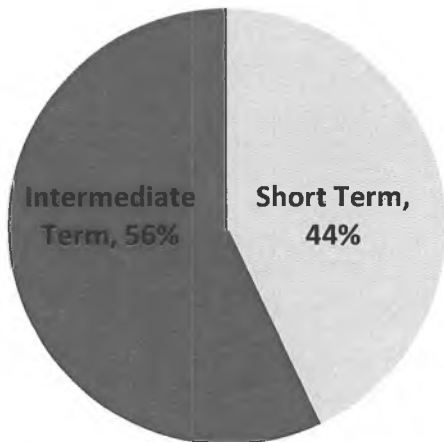
February 18, 2011

Department of Revenue
Treasury Division

1: Comparative Analysis of State Operating and Savings Funds

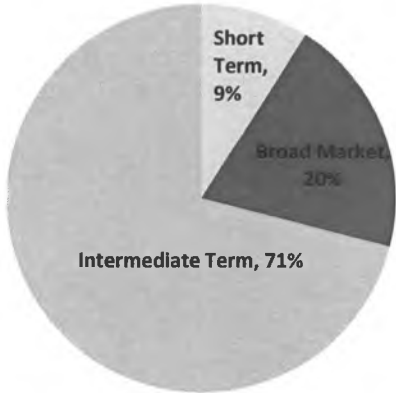

General Fund and other non segregated investments

Fiduciary oversight: Commissioner of Revenue

		General Fund (and other nonsegregated investments)	
Investment Objective		Moderate Risk, Short to Intermediate investment horizon	
Target Asset Allocation		<p style="text-align: center;">100% Fixed Income</p>  <p style="text-align: center;">Intermediate Term, 56% Short Term, 44%</p>	
		Actuals	Benchmark
Market Value (in 000s)	12/31/2008	\$7,466,400	
	12/31/2009	\$6,184,600	
	12/31/2010	\$6,589,600	
Returns (12/31/10)	YTD	2.44%	2.01%
	FYTD	0.67%	0.39%
	3 Year Actuals	3.37%	2.86%
	5 Year Actuals	4.26%	3.98%
	FORECAST	3.44%	

Constitutional Budget Reserve Fund (main & sub)

Fiduciary oversight: Commissioner of Revenue

		Constitutional Budget Reserve (main fund)		Constitutional Budget Reserve (sub fund)	
Investment Objective		Moderate Risk, Intermediate investment horizon		High Risk, Moderately Long investment horizon	
Target Asset Allocation		<p>100% Fixed Income</p> 			
		Actuals	Benchmark	Actuals	Benchmark
Market Value (in 000s)	12/31/2008	\$3,240,800		\$3,590,800	
	12/31/2009	\$4,231,100		\$4,427,300	
	12/31/2010	\$5,029,000		\$4,928,400	
Returns (12/31/10)	YTD	4.23%	3.77%	11.32%	11.21%
	FYTD	0.99%	0.69%	15.56%	15.08%
	3 Year Actuals	4.71%	4.32%	0.62%	0.75%
	5 Year Actuals	5.11%	4.98%	4.21%	4.25%
	FORECAST	3.84%		6.96%	

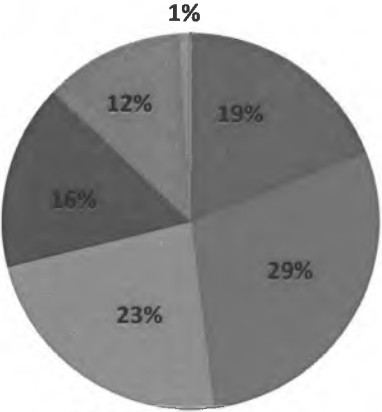
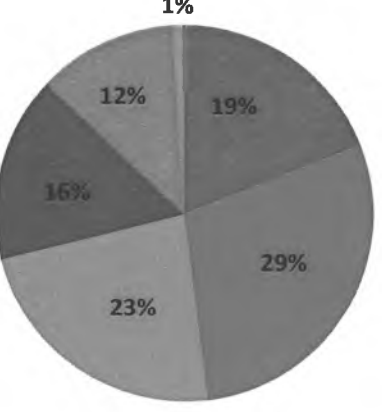
*1% of Fixed Income is allocated to Int. Fixed Income

PERS & TRS

Fiduciary oversight: Alaska Retirement Management Board

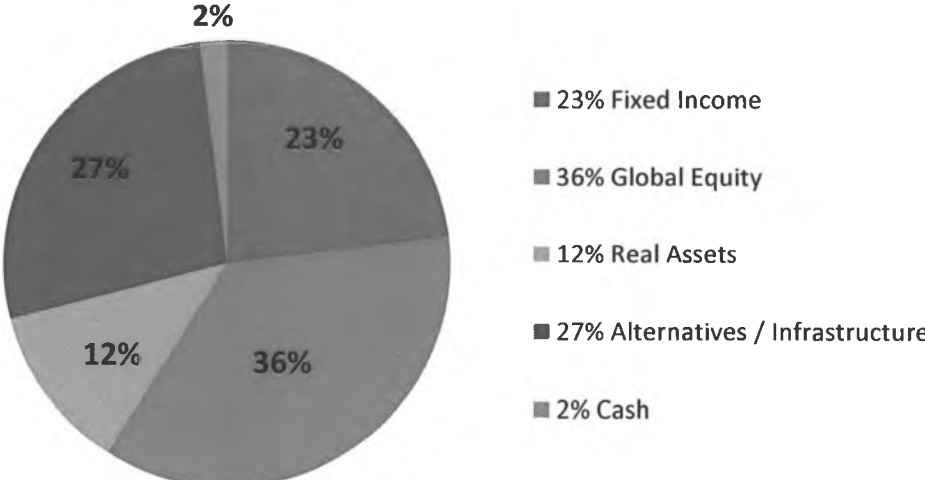
PERS Retirement Defined Benefit Pension

TRS Retirement Defined Benefit Pension

Investment Objective		Moderate Risk, Long Term investment horizon		Moderate Risk, Long Term investment horizon	
Target Asset Allocation		 <ul style="list-style-type: none"> ■ 19% Fixed Income ■ 29% Domestic Equity ■ 23% International / Global Equity ■ 16% Real Assets ■ 12% Alternatives / Infrastructure ■ 1% Cash 		 <ul style="list-style-type: none"> ■ 19% Fixed Income ■ 29% Domestic Equity ■ 23% International / Global Equity ■ 16% Real Assets ■ 12% Alternatives / Infrastructure ■ 1% Cash 	
		Actuals	Benchmark	Actuals	Benchmark
Market Value (in 000s)	12/31/2008	\$8,359,800		\$3,705,800	
	12/31/2009	\$9,551,100		\$4,194,600	
	12/31/2010	\$10,901,800		\$4,603,700	
Returns (12/31/10)	YTD	11.97%	12.50%	12.11%	12.50%
	FYTD	14.08%	16.26%	14.15%	16.26%
	3 Year Actuals	-1.44%	0.45%	-1.49%	0.45%
	5 Year Actuals	4.04%	4.69%	4.01%	4.69%
	FORECAST	8.00%		8.00%	

APFC

Fiduciary oversight: Alaska Permanent Fund Corporation Board

		Alaska Permanent Fund Corporation	
Investment Objective		Long term Investment Goal is to achieve a real rate of return of 5% per year	
Target Asset Allocation		 <ul style="list-style-type: none"> ■ 23% Fixed Income ■ 36% Global Equity ■ 12% Real Assets ■ 27% Alternatives / Infrastructure ■ 2% Cash 	
		Actuals	Benchmark
Market Value (in 000s)	12/31/2008	\$28,839,500	
	12/31/2009	\$34,617,900	
	12/31/2010*	\$38,425,100	
Returns (12/31/10)	YTD	11.92%	11.77%
	FYTD	14.45%	16.62%
	3 Year Actuals	-0.33%	-1.20%
	5 Year Actuals	4.14%	3.79%
	FORECAST	7.75%	
<i>* 12/31/2010 data is preliminary and unaudited, and includes some estimates</i>			

2: FY2011 Investment Revenue Forecast

FY2011 Investment Revenue Forecast

All Amounts in \$ Millions

Prepared January 21, 2011 by the State of Alaska - Department of Revenue

FY 2010 Actuals	
	Actual through 06-30-10
UNRESTRICTED	
Investments	179.1
Interest Paid by Others	4.9
TOTAL UNRESTRICTED	184.0
RESTRICTED	
Investments - Designated GF	13.6
Investments - Other Restricted	27.4
<i>CBRF - Main Account</i>	223.0
<i>CBRF - Special Sub Account</i>	468.1
CBRF - Total	691.1
Other Treasury Managed Funds	42.6
Alaska Permanent Fund	3,517.3
TOTAL RESTRICTED	4,292.0
GRAND TOTAL	4,476.0

FY 2011 Forecast - Based on actuals through Dec 31, 2010			
	Actual through 12-31-10	Forecast through 06-30-11	Total FY 11
UNRESTRICTED			
Investments	39.3	95.2	134.5
Interest Paid by Others	0.2	2.0	2.2
TOTAL UNRESTRICTED	39.5	97.2	136.7
RESTRICTED			
Investments - Designated GF	3.3	7.9	11.2
Investments - Other Restricted	6.8	16.0	22.8
<i>CBRF - Main Account</i>	43.7	97.4	141.1
<i>CBRF - Special Sub Account</i>	663.5	174.0	837.5
CBRF - Total	707.2	271.4	978.6
Other Treasury Managed Funds	45.3	12.1	57.4
Alaska Permanent Fund	4,806.6	982.4	5,789.0
TOTAL RESTRICTED	5,569.2	1,289.8	6,859.0
GRAND TOTAL	5,608.7	1,387.0	6,995.7

Notes:

FY2011 investment forecasts include actual data through Dec 31, 2010 and projections for the remainder of FY2011.

Due to financial market volatility, forecasts shown are subject to review and adjustment.