

SCOMM

142.1

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

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January 31, 2005

Honorable Bruce Weyhrauch, Chair
House Ways and Means Committee

Representative Weyhrauch,

At the January 28, 2005 House Ways and Means Committee meeting, a number of questions were asked that require written information be provided to you and members of your committee.

Attached are:

1. FY 2006 Capital budget request for the Department of Transportation
2. Debt Service to Maturity for all state debt
3. Assessed valuation of oil and gas properties in Alaska by community
4. Millage rates by community and millage rate limitations

If there are any questions please feel free to call me at 465-2302.


Jerry Burnett
Special Assistant

cc: Representative Norm Rokeburg
Representative Peggy Wilson
Representative Paul Seaton
Representative Ralph Samuels
Representative Carl Moses
Representative Max Gruenberg

1. FY 2006 Capital budget request for the Department of Transportation

Governor's Capital Budget - Appropriations Only (by department)
FY06 Governor's Capital Budget

Agency	Project Title	General Funds	AHFC Div (1139)	ASLC Bonds (1186)	Bond Funds (2000)	Federal Funds	Other Funds	Total Funds
Department of Transportation and Public Facilities								
	Airport Deferred Maintenance	0	0	0	1,500,000	0	0	1,500,000
	Airport Improvement Program	0	0	0	0	163,580,625	38,258,000	201,838,625
	Alaska Marine Highway System - Vessel and Terminal Overhaul and Rehabilitation	0	0	0	6,500,000	0	0	6,500,000
	Capital Improvement Program Equipment Replacement	0	0	0	0	0	1,500,000	1,500,000
	Congressional Earmarks	0	0	0	15,000,000	0	0	15,000,000
	Coordinated Transportation and Vehicles	100,000	0	0	0	0	400,000	500,000
	Corps of Engineers - Harbors Program Construction	2,600,000	0	0	0	0	0	2,600,000
	Corps of Engineers - Harbors Program Formulation	100,000	0	0	0	0	0	100,000
	Emergency and Non-Routine Repairs	0	0	0	500,000	0	0	500,000
	Facilities Deferred Maintenance and Critical Repairs	0	0	0	8,000,000	0	0	8,000,000
	Governor's Transportation Access to Resources Initiative	0	0	0	37,000,000	0	0	37,000,000
	Governor's Transportation Initiative	0	0	0	108,000,000	0	0	108,000,000
	Harbor Deferred Maintenance	0	0	0	3,000,000	0	0	3,000,000
	Highway Deferred Maintenance	0	0	0	3,000,000	0	0	3,000,000
	Hoonah Harbor Deferred Maintenance and Transfer	0	0	0	3,500,000	0	0	3,500,000
	Industrial Road Program	0	0	0	10,000,000	0	0	10,000,000
	Material Stockpiles - Dalton Highway, Glenn Highway, Richardson Highway and Tok Cutoff	0	0	0	600,000	0	0	600,000
	Petersburg: North Harbor Deferred Maintenance and Transfer	0	0	0	2,500,000	0	0	2,500,000
	State Equipment Fleet Replacement	0	0	0	0	0	10,000,000	10,000,000
	Statewide Federal Programs	421,000	0	0	56,500,000	52,039,300	0	108,960,300
	Statewide: Airport Lease Lots Development	0	0	0	4,000,000	0	0	4,000,000
	Surface Transportation Program	0	0	0	0	302,178,600	400,000	302,578,600
	WAN Infrastructure Upgrade	0	0	0	185,000	0	0	185,000
	Willow Maintenance Station Replacement	0	0	0	350,000	0	0	350,000
Department of Transportation and Public Facilities Subtotal		3,221,000	0	0	260,135,000	517,798,525	50,558,000	831,712,525

2. Debt Service to Maturity for all state debt

TABLE 1.1
State of Alaska
State and State Agency Debt by Type of Debt at June 30, 2004
\$(millions)

	principal outstanding	interest to maturity	total debt service to maturity
State Debt			
State of Alaska General Obligation Bonds	\$ 461.9	\$ 209.7	\$ 671.7
State Supported Debt			
Lease-Purchase Financings	72.3	16.9	89.2
State Reimbursement of Municipal School Debt Service	689.1	325.5	1,014.6
State Reimbursement of capital projects	53.4	26.3	79.7
Capital Leases	77.2	43.1	120.2
Total State Supported Debt	892.0	411.8	1,303.8
State Guaranteed Debt			
Alaska Housing Finance Corporation State Guaranteed Bonds 1991-2002 (Veterans' Mortgage Program)	218.8	262.7	481.5
State Moral Obligation Debt			
Alaska Industrial Development and Export Authority Revolving Fund Bonds	1.1	0.1	1.2
Alaska Municipal Bond Bank:			
1976 General Resolution General Obligation Bonds	267.8	71.5	339.3
1990 Series A General Resolution Revenue Bonds	0.8	0.5	1.3
1995 Series A General Resolution Revenue Bonds	2.4	1.1	3.5
1997 Series A General Resolution Revenue Bonds	14.6	7.9	22.5
1998 Series A General Revenue Bond	6.8	3.5	10.3
1998 Series B General Revenue Bond	1.3	0.2	1.5
1999 Series A General Revenue Bond	1.7	1.1	2.8
2000 Series A General Revenue Bond	0.9	0.2	1.1
2000 Series B General Revenue Bond	2.8	1.7	4.5
2001 Series A General Revenue Bond	1.6	0.7	2.3
2001 Series B General Revenue Bond	2.4	1.1	3.5
2002 Series A General Revenue Bond	6.2	1.6	7.8
2003 Series A General Revenue Bond	4.3	0.5	4.8
2003 Series B General Revenue Bond	19.0	3.4	22.4
Alaska Energy Authority:			
Power Revenue Bonds #1 (Bradley Lake Hydroelectric Project)	9.9	0.1	10.0
Power Revenue Bonds #2 (Bradley Lake Hydroelectric Project)	11.5	0.0	11.5
Power Revenue Refunding Bonds #3 (BLHP)	48.2	25.6	73.8
Power Revenue Refunding Bonds #4 (BLHP)	41.9	29.3	71.2
Power Revenue Refunding Bonds #5 (BLHP)	30.6	24.3	54.9
Utility Revenue Bonds (City and Borough of Sitka)	25.4	11.4	36.8
Utility Revenue Refunding Bonds (City and Borough of Sitka)	20.7	15.5	36.2
Alaska Student Loan Corporation Student Loan Revenue Bonds	547.7	186.7	734.4
Alaska Student Loan Corporation Student Capital Project Revenue Bonds	75.1	17.6	92.7
Total State Moral Obligation Debt	1,144.8	405.7	1,550.4
State Revenue Debt			
International Airports Revenue Bonds	427.1	274.4	701.5
University of Alaska Debt			
University of Alaska Revenue Bonds	84.4	47.8	132.2
University Indebtedness to AK Housing Finance Corporation (5)	27.8	6.9	34.7
Installment Contracts	0.9	0.1	1.0
Total University of Alaska Debt	113.1	54.8	167.9
Total State Revenue and University Debt	540.2	329.2	869.4

TABLE 1.1 (Continued)
State of Alaska
State and State Agency Debt by Type of Debt at June 30, 2004
\$(millions)

State Agency Debt			
Alaska Housing Finance Corporation:			
Commercial Paper	70.2	N/A	70.2
Reverse Repurchase Agreements	0.0	N/A	0.0
AHFC-Public Housing Division			
Wrangell 221 (d) (3) Indebtedness	0.6	0.0	0.6
Alaska Municipal Bond Bank Coastal Energy Loan Bonds	11.0	6.4	17.4
Alaska Railroad	32.0	7.0	39.0
Alaska Industrial Development and Export Authority Revolving Fund Bonds	0.9	0.1	1.0
Total State Agency Debt	<u>114.7</u>	<u>13.5</u>	<u>128.2</u>
State Agency Collateralized or Insured Debt			
Alaska Housing Finance Corporation:			
Collateralized Home Mortgage Bonds & Mortgage Revenue Bonds:			
1990 Through 2002 (First Time Homebuyer Program)	623.1	745.8	1,368.9
2000 & 2002 Taxable FTHB bonds	36.2	20.1	56.3
General Mortgage Revenue Bonds 1997 and 1999	717.1	1,032.9	1,750.0
Housing Development Bonds 1991 through 2002	342.4	221.2	563.6
General Housing Purpose Bonds 1992 and 1994	187.8	29.8	217.6
Government Purpose Bonds 1995, 1997 & 2001	503.3	300.0	803.3
State Capital Project Bonds, 1999, 2001 and 2002	216.7	61.0	277.7
State Building Lease Bonds, 1999 Series A	32.5	13.5	46.0
Alaska Industrial Development and Export Authority:			
Revolving Fund and Refunding Revolving Fund Bonds	214.3	131.9	346.2
Power Revenue Bonds, First Series (Snettisham Hydro Project)	87.8	89.8	177.6
Total State Agency Collateralized or Insured Debt	<u>2,961.2</u>	<u>\$ 2,646.0</u>	<u>\$ 5,607.2</u>
Total State and State Agency Debt	<u>6,333.6</u>		
Municipal Debt			
School G.O. Debt	1,034.7	\$ N/A	\$ N/A
Other G.O. Debt	1,072.2	N/A	N/A
Revenue Debt	513.8	N/A	N/A
Total Municipal Debt	<u>2,620.7</u>		
Less: State Reimbursable Debt and Capital Leases *	<u>-819.7</u>		
	<u>1,801.0</u>		
Total Alaska Public Debt	<u><u>\$ 8,134.6</u></u>		

NOTES

1. Collateral for this issue consists of AHFC real estate-owned properties.
2. Multifamily housing bonds.
3. Interest is not calculated on Z-bonds.
4. Defeased bond issue.
5. University debt owed to AHFC is double counted in detail, but eliminated from Total Alaska Public Debt

* Reimbursable school G.O. debt is included in "state supported debt"

Capital Leases are included in State Agency Collateralized or Insured Debt

State Reimbursement of Capital Projects is included in University and Municipal Debt

Sources: 2004 annual reports and financial statements of AHFC, ASHA, Bond Bank, AIDEA, AEA, University of Alaska, Railroad, and AMFA and other information provided by State agencies directly.

3. Assessed valuation of oil and gas properties in Alaska by community

TABLE 8
FULL VALUE DETERMINATION
As of January 1, 2003

Boroughs/Unified Municipalities	AS 29.45	AS 43.56	Full Value Determination	Population	Per Capita Full Value
	Local Taxable Full Value	State Taxable Oil & Gas Full Value			
Aleutians East Borough	\$96,072,577	\$0	\$96,072,577	2,729	\$35,204
Akutan	\$9,313,400	\$0	\$9,313,400	748	\$12,451
Cold Bay	\$5,077,900	\$0	\$5,077,900	116	\$43,775
False Pass	\$1,750,900	\$0	\$1,750,900	79	\$22,163
King Cove	\$29,263,800	\$0	\$29,263,800	794	\$36,856
Sand Point	\$42,179,600	\$0	\$42,179,600	919	\$45,897
Outside Cities	\$8,486,977	\$0	\$8,486,977	73	\$116,260
Municipality of Anchorage	\$21,168,491,500	\$46,183,220	\$21,214,674,720	269,070	\$78,844
Bristol Bay Borough	\$150,077,100		\$150,077,100	1,159	\$129,488
Denali Borough	\$159,351,900	\$0	\$159,351,900	1,886	\$84,492
Anderson	\$7,391,500	\$0	\$7,391,500	592	\$12,486
Outside Cities	\$151,960,400	\$0	\$151,960,400	1,294	\$117,435
Fairbanks North Star Borough	\$5,147,973,900	\$270,805,700	\$5,418,779,600	84,791	\$63,907
City of Fairbanks	\$1,610,730,400	\$0	\$1,610,730,400	29,670	\$54,288
City of North Pole	\$297,685,700	\$0	\$297,685,700	1,683	\$176,878
Outside Cities	\$3,239,557,800	\$270,805,700	\$3,510,363,500	53,438	\$65,690
Haines Borough	\$219,311,400	\$0	\$219,311,400	2,360	\$92,929
City & Borough of Juneau	\$2,934,769,500	\$0	\$2,934,769,500	30,981	\$94,728
Kenai Peninsula Borough	\$4,704,395,200	\$638,617,190	\$5,343,012,390	51,187	\$104,382
City of Homer	\$448,443,700	\$0	\$448,443,700	4,721	\$94,989
Kachemak City	\$37,184,600	\$0	\$37,184,600	419	\$88,746
City of Kenai	\$479,530,700	\$5,226,090	\$484,756,790	7,166	\$67,647
City of Seldovia	\$25,907,000	\$0	\$25,907,000	308	\$84,114
City of Seward	\$244,988,900	\$0	\$244,988,900	2,794	\$87,684
City of Soldotna	\$400,714,900	\$0	\$400,714,900	3,944	\$101,601
Outside Cities	\$3,067,625,400	\$633,391,100	\$3,701,016,500	31,835	\$116,256
Ketchikan Gateway Borough	\$1,109,849,800	\$0	\$1,109,849,800	13,670	\$81,189
City of Ketchikan	\$651,474,600	\$0	\$651,474,600	7,845	\$83,043
City of Saxman	\$19,617,500	\$0	\$19,617,500	394	\$49,791
Outside Cities	\$438,757,700	\$0	\$438,757,700	5,431	\$80,788
Kodiak Island Borough	\$995,067,200	\$0	\$995,067,200	13,852	\$71,836
Akhiok	\$712,700	\$0	\$712,700	48	\$14,848
City of Kodiak	\$560,795,500	\$0	\$560,795,500	6,544	\$85,696
Larsen Bay	\$6,269,700	\$0	\$6,269,700	107	\$58,595
Old Harbor	\$5,474,400	\$0	\$5,474,400	229	\$23,906
Ouzinkie	\$3,634,900	\$0	\$3,634,900	189	\$19,232
Port Lions	\$8,171,500	\$0	\$8,171,500	251	\$32,556
Outside Cities	\$410,008,500	\$0	\$410,008,500	6,484	\$63,234
Lake & Peninsula Borough	\$61,977,700	\$0	\$61,977,700	1,641	\$37,768
Chignik	\$12,609,595	\$0	\$12,609,595	77	\$163,761
Egegik	\$5,026,000	\$0	\$5,026,000	88	\$57,114
Newhalen	\$3,323,249	\$0	\$3,323,249	156	\$21,303
Nondalton	\$3,576,615	\$0	\$3,576,615	207	\$17,278
Pilot Point	\$1,728,381	\$0	\$1,728,381	76	\$22,742
Port Heiden	\$2,709,703	\$0	\$2,709,703	108	\$25,090
Outside Cities	\$33,004,157	\$0	\$33,004,157	929	\$35,527

TABLE 8 - Continued
FULL VALUE DETERMINATION
As of January 1, 2003

Boroughs/Unfied Municipalities	AS 29.45 Local Taxable Full Value	AS 43.56 State Taxable Oil & Gas Full Value	Full Value Determination	Population	Per Capita Full Value
Matanuska-Susitna Borough	\$4,113,300,300	\$1,971,470	\$4,115,271,770	65,241	\$63,078
City of Houston	\$68,517,800	\$0	\$68,517,800	1,279	\$53,571
City of Palmer	\$326,099,000	\$0	\$326,099,000	5,159	\$63,210
City of Wasilla	\$504,878,800	\$0	\$504,878,800	6,343	\$79,596
Outside Cities	\$3,213,804,700	\$1,971,470	\$3,215,776,170	52,460	\$61,300
North Slope Borough	\$277,332,100	\$10,463,871,080	\$10,741,203,180	9,402	\$1,142,438
Anaktuvak Pass	\$3,735,100	\$0	\$3,735,100	302	\$12,368
Atkasuk	\$3,660,100	\$0	\$3,660,100	231	\$15,845
City of Barrow	\$143,180,600	\$0	\$143,180,600	4,434	\$32,292
Kaktovik	\$4,986,200	\$0	\$4,986,200	306	\$16,295
Nulqsut	\$5,283,700	\$0	\$5,283,700	443	\$11,927
Point Hope	\$3,382,100	\$0	\$3,382,100	709	\$4,770
Wainwright	\$8,611,900	\$0	\$8,611,900	543	\$15,860
Outside Cities	\$104,492,400	\$10,463,871,080	\$10,568,363,480	2,434	\$4,341,973
Northwest Arctic Borough	\$382,139,300	\$0	\$382,139,300	7,266	\$52,593
Ambler	\$3,538,400	\$0	\$3,538,400	295	\$11,995
Buckland	\$3,208,200	\$0	\$3,208,200	426	\$7,531
Deering	\$1,905,000	\$0	\$1,905,000	129	\$14,767
Kiana	\$5,157,000	\$0	\$5,157,000	399	\$12,925
Kivalina	\$3,456,400	\$0	\$3,456,400	383	\$9,025
Kobuck	\$1,124,900	\$0	\$1,124,900	106	\$10,612
Kotzebue	\$82,248,800	\$0	\$82,248,800	3,107	\$26,472
Noorvik	\$6,586,700	\$0	\$6,586,700	677	\$9,729
Selawik	\$8,089,300	\$0	\$8,089,300	778	\$10,398
Shungnak	\$3,022,600	\$0	\$3,022,600	249	\$12,139
Outside Cities	\$263,802,000	\$0	\$263,802,000	717	\$367,925
City & Borough of Sitka	\$732,809,900	\$0	\$732,809,900	8,894	\$82,394
City & Borough of Yakutat	\$52,855,600	\$0	\$52,855,600	724	\$73,005
SUMMARY	\$42,305,774,977	\$11,421,448,660	\$53,727,223,637	564,853	\$95,117

Local Taxable	→	The full value of real & personal property that can be taxed under state law as equalized by the Office of the State Assessor according to standards defined in Attorney General Opinion No. 18, 1962.
State Taxable Oil & Gas Property, AS 43.56	→	The assessed value of oil and gas exploration, production and transportation property as determined by the Department of Revenue, Tax Division.
Full Value Determination	→	The full value of property taxable under state law (AS 29.45) and oil & gas property assessed by the State Department of Revenue under AS 43.56
Per Capita Value	→	The average per capita value based upon total full value <u>including</u> oil and gas property. Population is based on the State Revenue Sharing Program.

4. Millage rates by community and millage rate limitations

TABLE 5
HISTORICAL SUMMARY OF MUNICIPAL PROPERTY TAX RATES
(2001-2003)

Mill levies are listed for the cities located within the municipality. The mill rates will not be listed for all service areas, however, a range of mill rates is presented for each municipality. For a specific service area mill rate, contact the local municipal assessment office. An assessment jurisdiction mailing list can be found on the State Assessors web site

Municipality	2001	2002	2003
MUNICIPALITY OF ANCHORAGE (Unified Home Rule)			
General Government	1.24	1.56	1.50
Education	8.20	7.81	7.37
Fire	1.82	1.68	1.64
Roads/Drainage	3.61	2.97	3.10
Police	2.40	2.39	2.25
Parks & Recreation	0.72	0.73	0.74
Building Safety	0.01	0.01	0.01
TOTAL	18.00	17.17	16.61
Smallest mill rate reported	8.87		
Largest mill rate reported	16.61		
Total number of service areas reported	44		
Revenue cap set at previous years revenue plus CPI, new construction, bonding, voter approved services, taxes for new judgements and special appropriations on an emergency basis.			

BRISTOL BAY BOROUGH
(Second Class)

General Government	4.00	4.00	8.86*
Education	4.50	5.00	4.14
Solid Waste	1.00	1.00	0.00
Public Safety	2.50	2.00	0.00
Waste Water	1.00	1.00	0.00
TOTAL	13.50	13.00	13.00
Mill rate is areawide. *No further breakdown received for 2003			
No tax cap			

FAIRBANKS NORTH STAR BOROUGH
(Second Class)

City of Fairbanks (Home Rule)

School & Library Bonds	0.982	0.931	0.992
General Government (Boro)	4.709	4.756	4.934
General Government (City)	6.426	6.511	6.516
Education	8.169	8.006	7.767
TOTAL	20.286	20.204	20.209
Smallest mill rate reported	16190		
Largest mill rate reported	31.096	City of North Pole	17.880
Total number of service areas reported	127	Borough Levy	15.403

Revenue cap set at previous years revenue plus CPI, new construction, bonding, voter approved services, taxes for new judgements and special appropriations on an emergency basis.

TABLE 5
Continued

Municipality	2001	2002	2003
HAINES BOROUGH			
Home Rule Borough			
General Government	5.85	5.85	4.04
Education	6.50	6.23	6.23
Fire District	-0-	-0-	1.81
TOTAL	12.35	12.08	12.08
Smallest mill rate reported	6.23		
Largest mill rate reported	12.08	(This service area is within the old city boundaries)	
Total number of service areas reported	4		
No tax cap			
CITY AND BOROUGH OF JUNEAU			
(Unified Home Rule)			
Education/administration	6.00*	6.00*	6.72
Fire	0.75	0.75	0.68
Police	4.72**	4.72**	4.24
TOTAL	11.47	11.47	11.64
Smallest mill rate reported	6.72		
Largest mill rate reported	11.64	* includes schools, bond debt & general gov't.	
Total number of service areas reported	3	** includes Police, Transit, Streets & Parks	
Tax Cap set at 12 mills			
KENAI PENINSULA BOROUGH			
(Second Class)			
City of Kenai (Home Rule)			
General Government	3.50	3.50	5.00
Borough	7.00	6.50	6.50
Hospital	0.40	0.40	0.50
Kenai Peninsula College	0.10	0.10	0.10
TOTAL	11.00	10.50	12.10
Smallest mill rate reported	8.10	City of Seldovia	13.85
Largest mill rate reported	12.20	City of Homer	13.35
Total number of service areas reported	15	City of Seward	9.72
		City of Soldotna	11.35
		City of Kachemak	9.35
		Borough Levy	6.50
Borough tax cap set at 8 mills			

TABLE 5
continued

Municipality	2001	2002	2003
KETCHIKAN GATEWAY BOROUGH			
(Second Class)			
City of Ketchikan (Home Rule)			
General Government	0.57	0.57	0.57
Education	6.23	6.23	6.43
Police	1.43	1.43	1.43
Fire	1.07	1.07	1.07
Public Works	3.90	3.90	3.90
TOTAL	13.20	13.20	13.40
Smallest mill rate reported	8.00		
Largest mill rate reported	11.40	Borough Levy	8.20
Total number of service areas reported	12	City of Saxman	7.00 (no city levy & no borough public works levy)
Borough Tax Cap set at 8 mills			
KODIAK ISLAND BOROUGH			
(Second Class)			
City of Kodiak (Home Rule)			
General Government	2.83	2.44	2.44
Borough/Education	8.42	8.81	8.81
TOTAL	11.25	11.25	11.25
Smallest mill rate reported	9.25		
Largest mill rate reported	12.75		
Total number of service areas reported	10	Borough Levy	9.25
No borough tax cap			
MATANUSKA-SUSITNA BOROUGH			
(Second Class)			
City of Wasilla (First Class)			
Borough/Education	11.94	13.133	11.702
City	1.00	0.90	0.500
Fire	1.00	1.00	1.000
TOTAL	13.94	15.033	13.202
Smallest mill rate reported	12.845	City of Palmer	14.702
Largest mill rate reported	18.745	City of Houston	14.702
Total number of service areas reported	27	Borough Levy	12.145
No borough tax cap			

TABLE 5
continued

Municipality	2001	2002	2003
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NORTH SLOPE BOROUGH (Home Rule)**

General Government	6.02	6.47*	7.32*
Education	N/B	N/B	N/B
Debt Service	12.870	12.03	11.24
TOTAL	18.890	18.890	18.56

*Mill levy is areawide

N/B= No breakdown given for school and general government. 7.32 mills is inclusive of both.

No local tax cap-Use 225% state cap formula-(see mill rate explanation)

CITY & BOROUGH OF SITKA (Unified Home Rule)

General Government	3.00	3.00	2.00
Education	3.00	3.00	4.00
TOTAL	6.00	6.00	6.00

Mill levy is areawide

Tax cap set at 6 mills

CITY & BOROUGH OF YAKUTAT (Home Rule)

General Government / Education	9.00	9.00	9.00
TOTAL	9.00	9.00	9.00

Mill levy is for road accessed property only

Property without road access is taxed at 6.0 mills

No tax cap

** See "Explanation of Millage Rates" on next page.

North Slope Borough

EXPLANATION OF MILLAGE RATES:

AS 29.45.090(a) restricts the mill rate for the municipal operating budget to a maximum of 3% or 30 mills. (There is no limit on taxes to pay bonds.)

The 30 mill limit on operating revenues is levied against an assessed value not to exceed that produced by the following formula:

Average Per Capita Full Value X 225% X municipal population, or, for FY 04:

$$\$87,017 \times 2.25 \times 13,341 = \$2,612,011,043 \quad (\text{Assessed Value Limit for operating budget})$$

$$\$2,612,011,043 \times 30 \text{ mills} = \$78,369,331 \quad (\text{FY 04 statutory tax limit for operating budget})$$

Actual FY 04 projected operating budget: \$78,360,331

$$\frac{\$78,360,331}{\$2,612,011,043} = 30.00 \text{ mills (operating budget rate- under the 30 mill tax limit)}$$

DEVELOPMENT OF ACTUAL OVERALL RATE (Based on full oil and gas values)

FY 04 projected budget for debt service (payment of bonds): \$120,347,000

Estimated Actual Assessed Value: \$10,710,000,000

$$\frac{\$120,347,000}{\$10,710,000,000} = 11.24 \text{ mills (levy to satisfy debt service)}$$

$$\frac{\$78,360,331}{\$10,710,000,000} = 7.32 \text{ mills (levy to satisfy operating budget)}$$

$$11.24 + 7.32 = 18.56 \text{ mills (actual overall rate)}$$

Mill Rate Calculation Based on the Reduced Values Derived from 225% Formula

Debt service—
 $\frac{\$120,347,000}{\$2,612,011,043}$ 46.07 mills

Operating Budget—
 $\frac{\$78,369,331}{\$2,612,011,043}$ 30.00 mills

Total Mills based upon 225%
formula values-- **76.07 mills**

Note: The population used here is different from the population used in other areas of this publication due to the fact that the North Slope Borough is allowed to use a larger portion of the workforce in Prudhoe Bay to count in the tax cap formula. The revenue sharing calculation uses a smaller population count. Also, the mill rate calculated here may be somewhat different than the one shown on page 24 due to the differences in actual assessed values at the time of this calculation and the borough calculation.

TABLE 5
continued

Municipality	2001	2002	2003
CITY OF CORDOVA (Home Rule)			
General Government/Education	13.50	13.50	13.50
TOTAL	13.50	13.50	13.50
Smallest mill rate reported	12.50		
Largest mill rate reported	12.50		
Total number of service areas reported	1		
No tax cap			
CITY OF CRAIG (First Class)			
General Government	6.00	6.00	6.00
TOTAL	6.00	6.00	6.00
Mill rate is areawide			
No tax cap			
CITY OF DILLINGHAM (First Class)			
General Government	11.00	11.00	11.00
TOTAL	11.00	11.00	11.00
Mill rate is areawide			
No tax cap			
CITY OF EAGLE (Second Class)			
General Government	0.00	0.00	0.00
TOTAL	0.00	0.00	0.00
Mill rate is areawide. Note: There has been no property tax levied since 1998.			
CITY OF NENANA (First Class)			
General Government	12.00	12.00	12.00
TOTAL	12.00	12.00	12.00
Mill rate is areawide			
Tax cap 2% value (20 mills)			
CITY OF NOME (First Class)			
General Government	6.367	6.400	6.900
Education	6.233	6.200	6.100
TOTAL	12.60	12.60	13.00
Mill rate is areawide			
No tax cap			

TABLE 5
continued

Municipality	2001	2002	2003
CITY OF PELICAN (First Class)			
General Government	6.00	6.00	6.00
TOTAL	6.00	6.00	6.00
Mill rate is areawide			
No tax cap			
CITY OF PETERSBURG (Home Rule)			
General Government	10.17	10.17	10.17
TOTAL	10.17	10.17	10.17
Tax cap set at 1% (10 mills) plus .17 mills for pool debt service			
CITY OF SKAGWAY (First Class)			
General Government	8.27	8.27	7.78
TOTAL	8.27	8.27	7.78
Smallest mill rate reported	1.40		
Largest mill rate reported	8.27		
Total number of service areas reported	5		
No tax cap			
CITY OF UNALASKA (First Class)			
General Government	11.78	11.78	11.78
TOTAL	11.78	11.78	11.78
Mill rate is areawide			
No tax cap			
CITY OF VALDEZ (Home Rule)**			
General Government	14.0933	14.0510	14.0395
Education	5.9067	5.9490	5.9605
TOTAL	20.0000	20.0000	20.0000
Tax cap set at 20 mills – cap does not apply to bonds			
CITY OF WHITTIER (Second Class)			
General Government	5.00	5.00	5.00
TOTAL	5.00	5.00	5.00
Mill rate is areawide			
No tax cap			
CITY OF WRANGELL (Home Rule)			
General Government	7.41	7.401	8.88
Education	2.60	2.60	3.12
TOTAL	10.00	10.00	12.00
Smallest mill rate reported	1.20		
Largest mill rate reported	12.00		
Total number of service areas reported	3		
No tax cap			

**See "Explanation of Millage Rates" on next page

City of Valdez

EXPLANATION OF MILLAGE RATES

AS 29.45.090(a) restricts the mill rate for the municipal operating budget to a maximum of 3% or 30 mills.
(There is no limit on taxes to pay bonds.)

The 30 mill limit on operating revenues is levied against an assessed value not to exceed that produced by the following formula:

Average Per Capita Full Value X 225% X municipal population; or, for Tax Year (TY) 03

$\$87,017 \times 2.25 \times 4,171 = \$816,632,791$ (Assessed Value Limit for operating budget)

$\$816,632,791 \times 30 \text{ mills} = \$24,498,984$ (TY 03 statutory tax limit for operating budget)

TY 03 operating budget: \$21,291,000 (property tax portion)

$$\frac{\$ 21,291,000}{\$ 816,632,791} = 26.072 \text{ mills (effective operating rate)}$$

DEVELOPMENT OF ACTUAL OVERALL RATE:

TY 03 budget for debt service (payment of bonds): \$-0-

Actual assessed value: \$1,058,620,905

$$\frac{\$ -0-}{\$ 1,058,620,905} = 0.00 \text{ mills (levy to satisfy debt service)}$$

$$\frac{\$ 21,291,000}{\$ 1,058,620,905} = 20.11 \text{ mills (levy to satisfy operating budget)}$$

$$0.000 + 20.11 = 20.11 \text{ mills (actual overall rate for operating \& debt service only)}$$

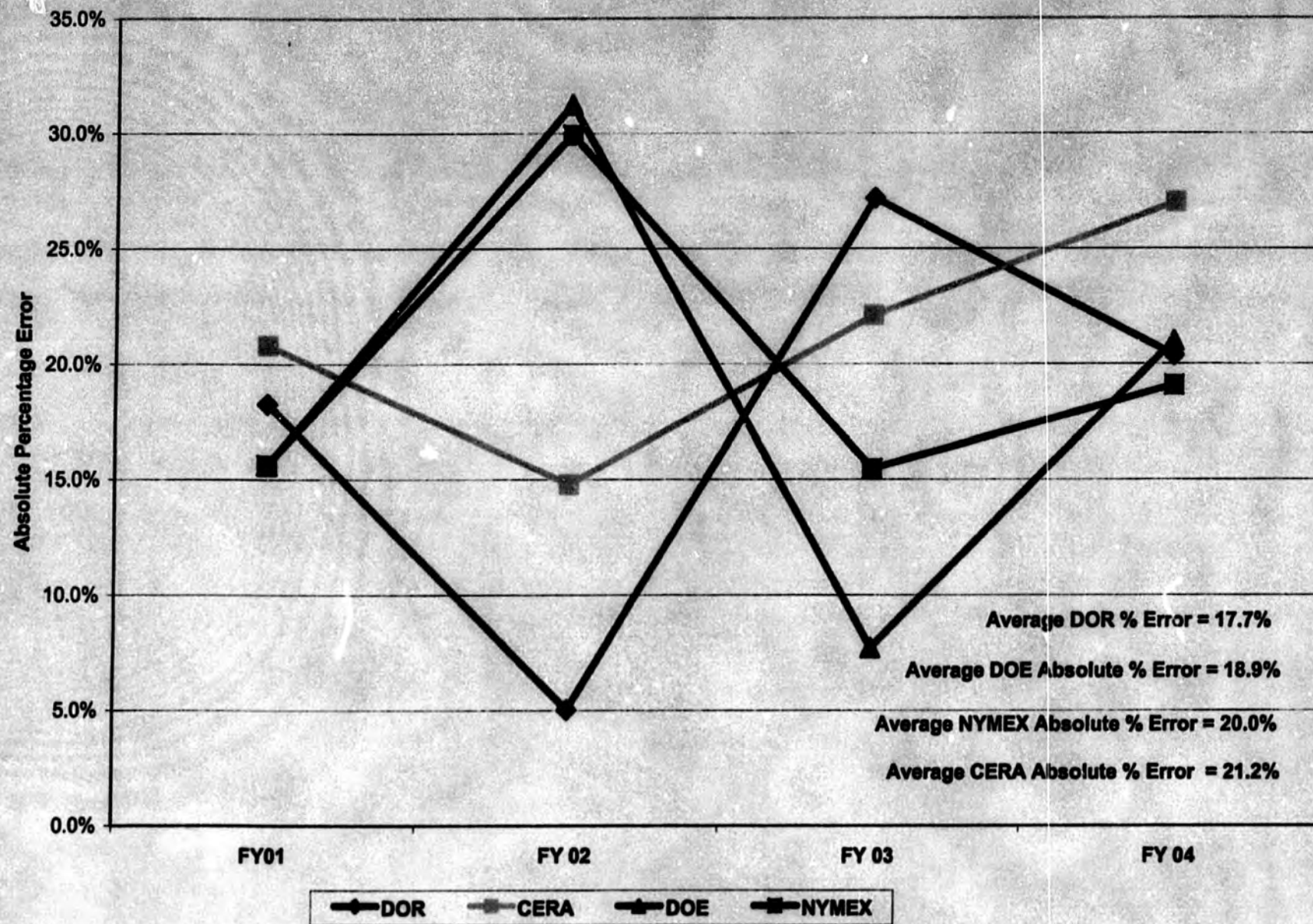
The mill rate calculated here may be somewhat different than the one shown on page 27 due to the differences in actual assessed values at the time of this calculation and the city calculation

When Would the CBRF Reach \$1 Billion?⁽¹⁾

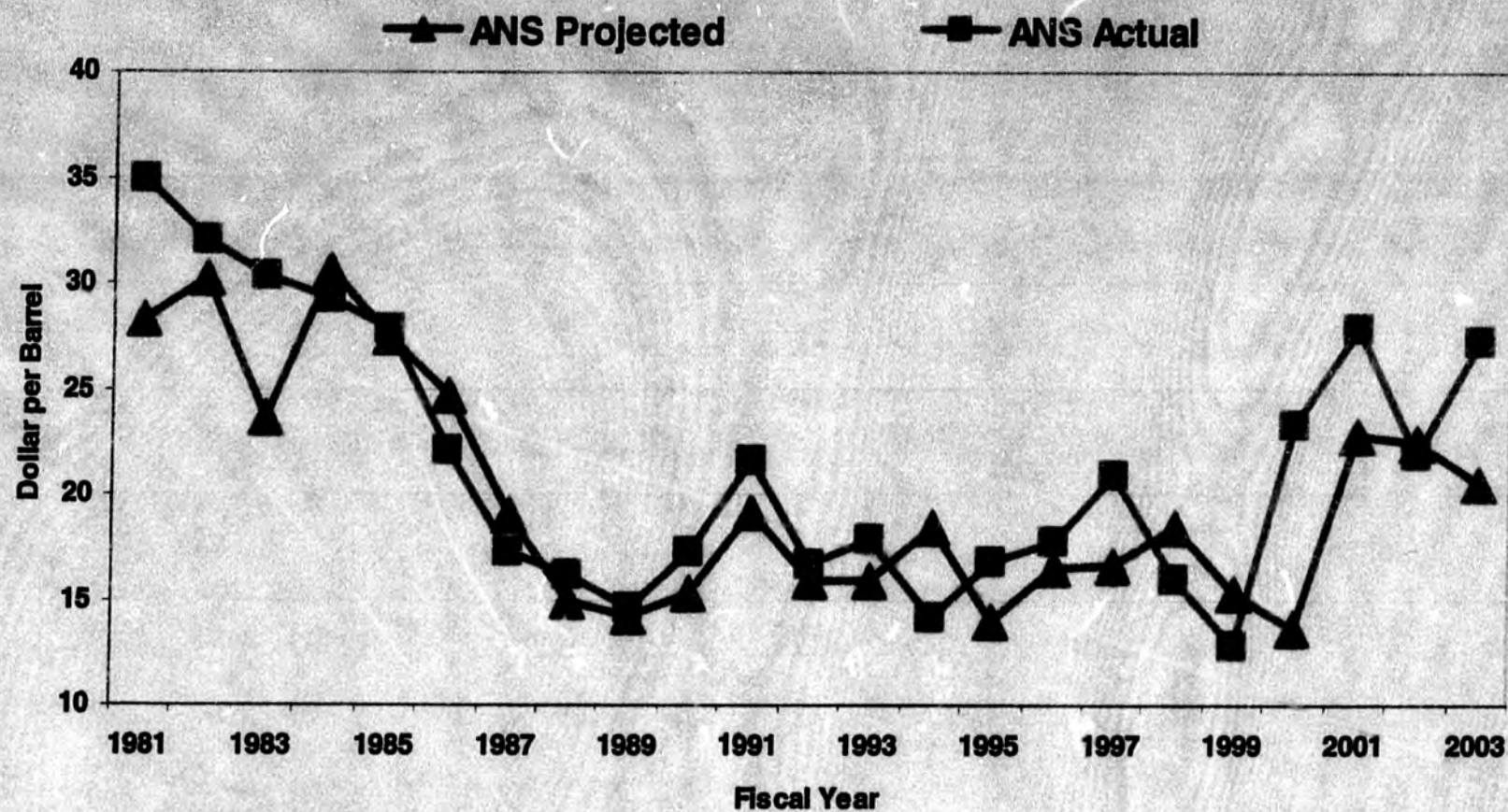
Annual State Budget	Fall 2004						
	\$18 bbl	\$23 bbl	\$25 bbl	\$28 bbl	DOR Forecast	\$30 bbl	\$32 bbl
\$2.2 billion	Dec/06	Sep/07	Apr/08	Nov/09	Jun/10	Dec/11	Sep/14
\$2.3 billion	Sep/06	Apr/07	Aug/07	Aug/08	May/09	Sep/09	Aug/11
\$2.4 billion	Aug/06	Feb/07	May/07	Mar/08	Dec/08	Jan/09	May/10
\$2.5 billion	Jul/06	Dec/06	Feb/07	Sep/07	Jul/08	Apr/08	Mar/09

(1) Department of Revenue fall 2004 forecast, Fiscal Driver Model of Oil Revenue and CBRF Performance. FY 2005 deposits to the CBRF are not included. Matrix budget and price starts in FY 2006.

Absolute Percentage Error in Forecasting Oil Prices for Next Year's Budget Cycle
(i.e. Spring 2000 forecast of average ANS Price for FY 2001)

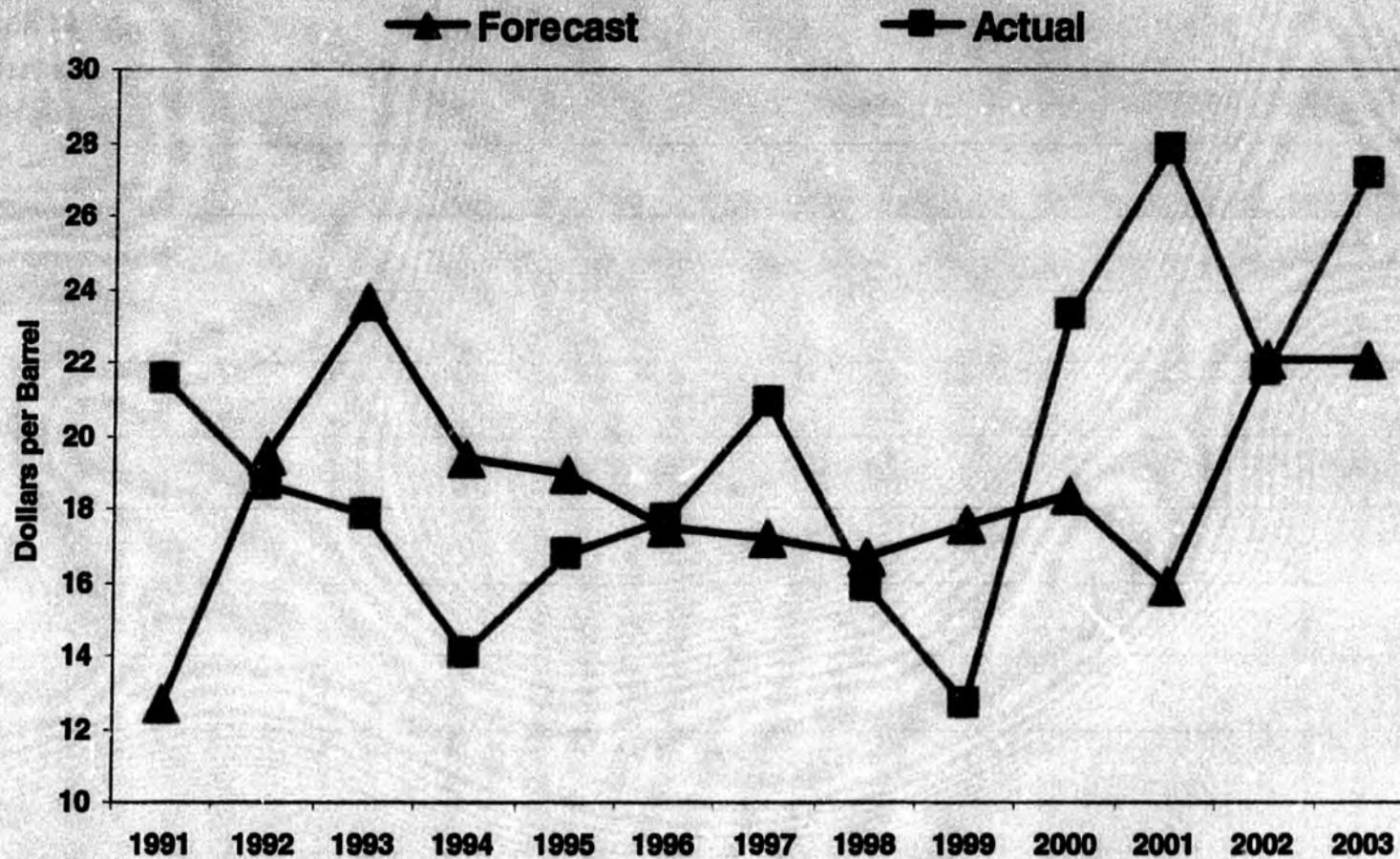


18-Months Ahead Oil Price Forecast ⁽¹⁾ Compared to Actual ANS Oil Prices



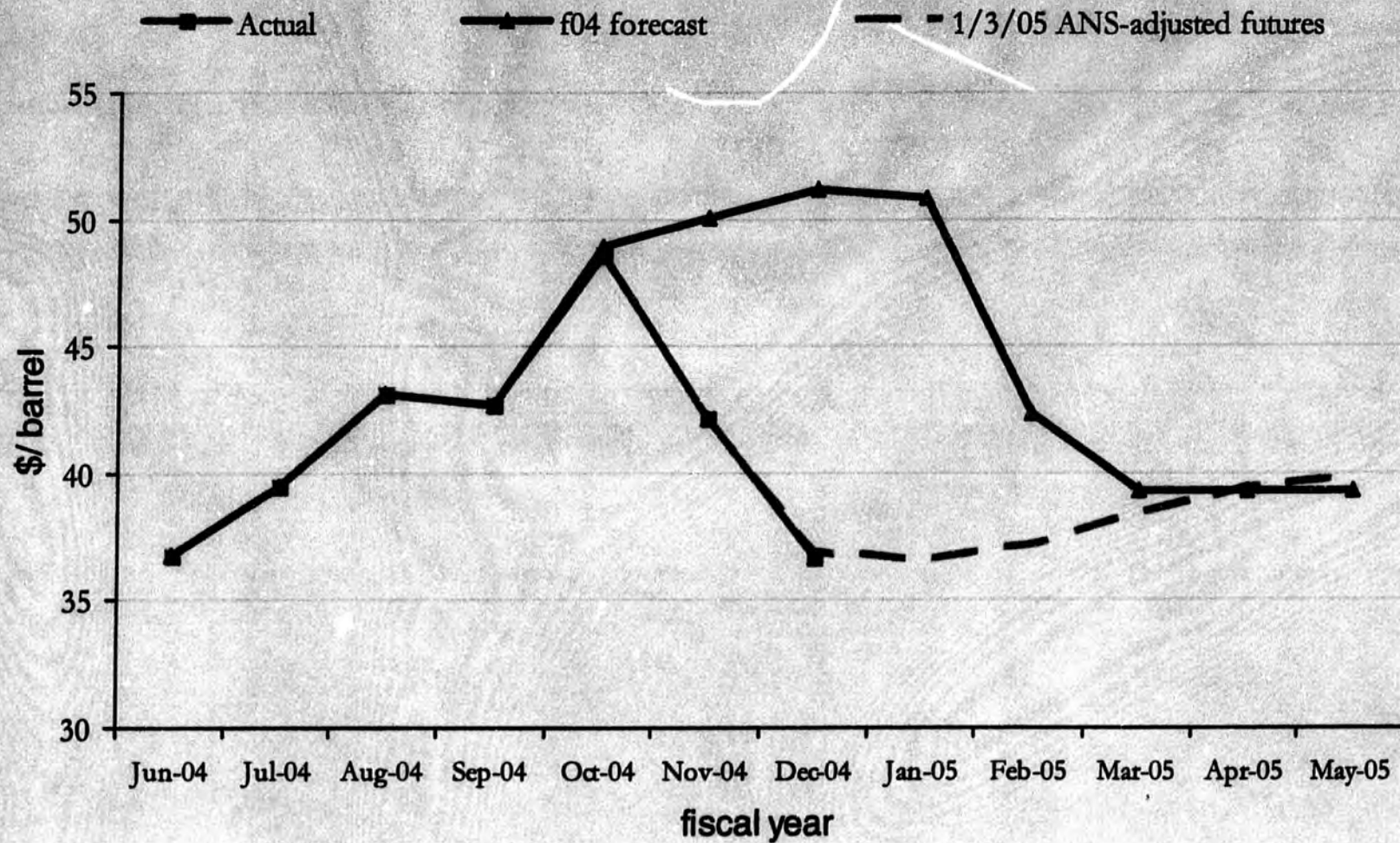
(1) FY 2002 forecast made March

Comparison of Oil Price Forecast 3 Years Out Fall Forecasts Since Fall 1988



FY 2005 ANS Price

Actual vs. Fall 2004 Forecast



MOODY'S ASSIGNS Aa3 UNDERLYING RATING TO ALASKA REFUNDING COPS

STATE'S OUTLOOK REMAINS STABLE

Alaska (State of)
State
Alaska

Moody's Rating

Issue	Underlying	
	Rating	Rating
Refunding Certificates of Participation, Series 2005A	Aa3	Aaa
Sale Amount	\$27,150,000	
Expected Sale Date	01/25/05	
Rating Description	Certificates of Participation	

Moody's Outlook - Stable

NEW YORK, January 6, 2005 — Moody's Investors Service has assigned a rating of Aa3 to the State of Alaska's Series 2005A refunding certificates of participation. Proceeds of the securities will refinance debt from as many as four issues to provide interest-rate savings, spread over the next eight years. Payment on the bonds will be made solely from funds appropriated annually for that purpose by the state legislature. Alaska's general obligation rating is Aa2 with a stable outlook, based on the state's conservative budgeting, low debt burden, and other factors. While these attributes also support a high-quality rating on the certificates of participation (COPs), the COPs are rated one level below the state's general obligation debt because of the requirement that lease payments backing the securities be appropriated annually by Alaska's legislature. The COPs are expected to be insured. Subject to Moody's review the insurance policy and related documents, they will carry an insurer's Aaa financial strength rating in addition to the underlying Aa3. The outlook for the state's debt is stable.

**GROWING USE OF SIMILAR DEBT SUGGESTS LOW NON-APPROPRIATION
RISK**

Moody's views the risk of non-appropriation as minimal, given the state's use of similar debt for other purposes. Alaska has been increasing its reliance on appropriation-backed debt to finance public facilities in recent years, including the issuance in August 2003 of \$14 million in Series 2003A securities to finance a food safety laboratory. Outstanding Alaska COPs totaled more than \$72 million at the end of fiscal 2004. Depending on market conditions at the time of issuance, the Series 2005 refunding certificates may be backed by as many as four lease agreements, whose payment streams would be consolidated under an amending document.

The leases contain no cross-default provisions, but the obligation of the agencies (the State of Alaska Court System in one instance and the Alaska State Department of Administration in the others) to pay from appropriated funds is absolute and unconditional. The agencies have no right to set-off or counter-claim, regardless of any contingencies and whether or not they possess or use the facilities. The agencies have pledged their best efforts to obtain appropriations for lease payments, and they are required to provide both property and liability insurance coverage for the leased facilities. Their ability to terminate the leases is limited to events of non-appropriation, in which case the property would be vacated so the trustee could re-let it. The August and February debt-service payment dates allow a buffer against any potential legislative delays.

FINANCED FACILITIES ARE ESSENTIAL TO STATE GOVERNMENT

Certificate investors derive further comfort from the fact that the facilities for which debt will be refunded by this transaction meet essential needs of state government. They consist of a courthouse in Fairbanks, a Department of Transportation and Public Facilities (DOTPF) garage and highway-equipment maintenance facility for the Kenai Peninsula District, a public health laboratory facility of the Department of Health and Social Services in Anchorage, and a fire-fighting facility near Palmer. The courthouse serves state trial and appellate court purposes. The DOTPF project replaced a facility that had been in use for almost 50 years. The health complex is a centralized laboratory outfitted to conduct research in virology and immunology, even during a natural disaster. The Palmer facility serves as a base for combating wildfires in south-central Alaska, and it includes a hangar for helicopters and other fire-fighting aircraft.

Moody's Investors Services Global Credit Research Rating Update 19 NOV 2004 Rating Update: Alaska (State of) MOODY'S REVISES OUTLOOK TO STABLE FROM

NEGATIVE State AK Opinion NEW YORK, Nov 19, 2004 - Moody's has revised the outlook on the State of Alaska general obligations (rated Aa2) to stable from negative. The outlook change reflects the current and intermediate-term improvement in the state's financial condition based on the state's conservative budgeting and approach to forecasting revenue from its principal revenue source, oil, which accounts for about 84% of the state's general fund revenue. The state's Aa2 general obligation bond rating reflects the state's low debt burden, its expanding yet still narrow economic base, its sizable reserve fund balances, and its conservative financial planning efforts to accommodate the eventual limitation of oil revenues. These strengths are tempered by its economic and fiscal reliance on the oil and gas extraction industry, and its reliance on reserve balance draw-downs to meet operating budget commitments. The state has taken strong actions to reduce spending in order to balance its fiscal 2005 budget. Higher than budgeted oil prices will reduce expected reserve fund draw-downs and could result in a year-end budget surplus. However, the need to make progress toward adopting fiscal reforms that will enable the state to achieve sustainable structural budget balance still remains. Continued conservative financial management and adoption of structural fiscal reforms are vital to maintaining the state's high rating.

RISING OIL PRICES BOOST STATE REVENUES Oil industry tax and royalty payments comprise about 84% of total unrestricted General Fund revenues in the adopted fiscal 2005 budget. While recent increases in oil prices enabled the state to outperform budget estimates in fiscal 2004 and expected for fiscal 2005, oil price volatility has also resulted in substantial revenue shortfalls in fiscal 2002 and 2003. The state continues to face budget spending pressures resulting from the rising costs of programs like Medicaid, as well as policy driven goals to increase funding for schools. At the time of the assignment of the negative outlook, the state's drawdowns of the Constitutional Budget Reserve Fund amounted to about 35% of general fund spending. In addition, at the projected rates of drawdown, the CBRF would have been exhausted by the end of fiscal 2005. However, rising oil prices and disciplined spending controls enabled the state to reduce its dependence on the CBRF for budget balance, thereby extending its projected capacity to support the general fund spending. The budget for fiscal 2005 was adopted based on an expected oil price of \$28.30 per barrel, but for the first five months of the fiscal year the state has averaged about \$42 per barrel. If this price differential were to be maintained for the balance of the fiscal year, the adopted budget expected draw on the CBRF of about \$390 million would be eliminated and the budget could end the year with an operating surplus of \$300 - \$500 million. Further, if one assumes modest spending increases in future years and projects \$30 per barrel oil for the foreseeable future, the life of the CBRF would be extended beyond 2010.

LONG-TERM STRUCTURAL BUDGET BALANCE ISSUES REMAIN While rising oil prices have had a very beneficial effect on the state's finances and mitigated short-term budget imbalance risks, they have also quieted the concerns about the state's long-term structural budget imbalance. Proposals advanced by the governor and prior

administrations now have less urgency, but the state still faces spending pressure growth and slowly declining oil production. Ultimately, the state will still have to address the imbalance. Alaska's economy continues to have good job growth with employment up 1.6% for September over the prior September. Unemployment also remains high at 7.6% (September 2004) but below levels of recent years.

NATURAL GAS – A FUTURE STATE RESOURCE The state is actively supporting the development of its natural gas resources from the North Slope. Proposals to bring North Slope natural gas to commercial markets have been considered for some time, but recently rising demand for natural gas and rising prices have made these proposals more feasible. The recently enacted federal energy bill contained tax incentives and federal loan guarantees (up to \$18 billion) for development of the natural gas pipeline. While the completion of such a project could take a decade, the potential for a new state revenue to replace declining oil production now seems more likely.

DECLINE IN OIL PRODUCTION HAS SLOWED The "Prudhoe Curve", the long-term decline of Alaska's rich oil reserves, has slowed and coupled with currently high oil prices should provide ample time for the state to adequately prepare for its future in a post-oil resource economy. The Alaska Permanent Fund and the CBRF, respectively provide for long term and short term financial stability. The Alaska Permanent Fund has suffered some market losses in stock market declines of 2001 and 2002 but at \$29.1 billion (as of November 2004) remains an important state asset. Also important is the recognition by state elected and appointed officials of the finite nature of the resource that has brought wealth to the state and the need to reduce the demand for governmental services as that resource dwindles. While the State of Alaska has tax capacity, lacking any broad-based tax and access to the substantial asset of the Permanent Fund and its earnings, the state has not yet begun the transition to structural budget balance that will be necessary as oil revenues decline. Our rating of Aa2 with a stable outlook is predicated on the assumption that the state will ultimately make the hard decisions necessary to address its structural budget problems.

Fitch Rates Alaska's \$27MM COPs Underlying 'A+'

Fitch Ratings-New York-January 7, 2005: Fitch Ratings assigns the underlying rating of 'A+' to \$27.1 million State of Alaska refunding certificates of participation (COPs), series 2005A, for bids Jan. 25. Bond insurance is likely. The COPs mature through 2013.

Fitch also affirms the 'A+' underlying rating of \$14.1 million Alaska COPs (seafood and food safety laboratory facility), series 2003A, and the 'AA' underlying rating of \$461.9 million Alaska general obligation bonds. In addition, Fitch upgrades to 'A+' from 'A' the underlying rating of \$54.5 million Municipality of Anchorage, AK lease revenue bonds (correctional facility), series 2000, which, like the certificates, are supported by state lease appropriations for a facility already in operation.

The ratings reflect strong lease structures and Alaska's credit characteristics. Alaska's general obligations are rated 'AA' due to its moderate debt, conservative financial planning, and large reserves. Risks include the volatility of the state revenue system, which fluctuates with oil prices and production, and ongoing fiscal imbalances that require periodic draws on the state's reserves. A major issue in the near future will be a proposed gas pipeline from the North Slope.

The certificates represent interests in lease payments that require annual appropriation. The lease payments relate to four facilities that have been occupied for several years. The projects include fire protection, transportation maintenance, health laboratory, and courthouse facilities. The trustee entered into separate lease and trust agreements with the state court system for the courthouse and the Department of Administration for the other facilities. The state manages debt, including the COPs, in a centralized fashion, and the agencies agree to seek appropriations yearly.

Record high oil prices have helped Alaska, but the accompanying revenue growth highlights the state's dependence on oil. A \$363 million deficit draw from the constitutional budget reserve fund (CBRF) was expected in fiscal 2005. Instead, a \$650 million surplus now is projected, assuming the Alaska oil price for fiscal 2005 averages a record high \$43.61 per barrel. The \$43.61 forecast may be somewhat optimistic, but even if the average price reaches \$38.00, a significant, but smaller, surplus remains likely. The governor's fiscal 2006 budget proposes depositing \$291 million of the projected \$650 million windfall to the CBRF, thereby covering the fiscal 2006 deficit to result from a moderation in oil prices. The budget proposes spending the rest for priorities through fiscal 2007, including education. The CBRF balance of \$2.1 billion now equals 88% of annual general fund spending.

Efforts to build a gas pipeline have resumed. Proposals to be considered include the state taking a partial equity share of the project, which may cost \$20 billion. Officials believe that the pipeline and expanded oil and gas production in the Arctic may prove to be long-term solutions to the state's fiscal imbalances. Minimizing the financial risk related to the gas line will be an important issue. Other options for stabilizing future finances, including seeking voter approval to spend from the corpus of the \$29.5 billion permanent fund, have also been considered. Currently, the state may only spend from the fund's earnings reserve, and historically has used fund earnings only for dividends to qualified state residents, inflation-proofing the fund, deposits to the principal, and some operating expenses of the fund.

General obligation and lease debt totals \$621 million, a moderate 2.9% of personal income. About 61% amortizes within 10 years, an above-average pace. The governor has proposed a \$340 million bond for transportation backed by earnings from a special permanent fund sub-account.

RISING OIL PRICES HAVE HELPED ALASKA EXCEED FISCAL '04, '05 REVENUE ESTIMATES

Recent oil price increases have boosted state revenue to greater-than-forecast levels. Oil industry tax and royalty payments account for about 89% of total unrestricted state general purpose revenue projected for fiscal 2005. Alaska forecasts revenue from this source conservatively, recognizing that price volatility can work against the state. Dwindling production from North Slope oil fields and lower oil prices are projected to reduce oil revenues as a share of total unrestricted collections to less than 80% after fiscal 2008, and to less than 75% after fiscal 2014. The state has funneled oil revenues into two funds, the Alaska Permanent Fund and the Constitutional Budget Reserve Fund (CBRF), that respectively provide for long- and short-term financial stability. The Alaska Permanent Fund suffered losses in the equity-market declines of 2001 and 2002, but at \$29.1 billion (as of November 2004), it remains an important state asset.

STATE'S RELIANCE ON CBRF HAS BEEN REDUCED BY HIGHER OIL PRICES

Alaska has been able to scale back its reliance on the CBRF for budget balance because of the rising price of oil. This trend, together with restraint in spending growth, will defer the anticipated depletion of the CBRF. Assuming no increases in general fund spending and an eventual decline in oil prices to \$25.50 per barrel, the fund will be used up in November 2010. In 2002, the state projected CBRF depletion as early as October 2004. The budget for fiscal 2005 was adopted based on an expected oil price of \$28.30 per barrel, but for the first five months of the fiscal year, Alaska North Slope crude has averaged about \$42 per barrel. If this price differential is maintained for the rest of the fiscal year, the expected draw on the CBRF (about \$390 million) would be eliminated and the budget could end the year with a \$300 million to \$500 million operating surplus. The CBRF had provided about \$5.5 billion as of September 2004, bridging gaps in 10 of the past 13 years, and it retains a \$1.9 billion balance. The fund was capitalized with \$5.6 billion in oil royalty settlements, a sum that generated investment earnings of \$1.6 billion.

LONG-TERM STRUCTURAL BUDGET BALANCE ISSUES REMAIN

A potential draw-back of the recent rise in oil prices is that it may have lessened the political impetus to address the long-run gap between state

revenue and spending. Proposals advanced by the governor and prior administrations now have less urgency, but the state still faces spending pressure, particularly from programs such as Medicaid and education. The state lacks any broad-based tax and access to the substantial asset of the Permanent Fund and its earnings, and so, the state has not yet begun the transition to structural budget balance that will be needed as oil revenue declines. Ultimately, the state will have to address the imbalance, particularly in view of the oil production declines anticipated.

NATURAL GAS MAY EVENTUALLY REPLACE OIL AS SOURCE OF STATE REVENUE

A slowdown in the long-term depletion of Alaska's oil reserves, coupled with the recent rise in oil prices, may allow time for the state to prepare for a future in a post-oil economy. The state is actively supporting development of its natural gas resources from the North Slope. Rising natural gas prices have made proposals to bring North Slope natural gas to commercial markets appear more feasible. While the completion of such a project could take a decade, the potential for a new state revenue to replace declining oil production now seems more likely. The state last month received a joint proposal from three major oil companies to build a gas pipeline originating in the North Slope. The project, if carried out, would create an estimated 8,500 jobs. For now, Alaska's economy continues to generate jobs at a faster rate than the nation's. Through November, the state's average private-sector employment was up 2.3%, compared with a 1.1% gain for the nation. The state's labor market nevertheless retains a greater-than-average dependence on the public sector, especially the military. Government accounts for about 27% of the state's non-farm employment.

OUTLOOK:

Alaska's outlook is stable, based on Moody's expectation the state ultimately will make the hard decisions needed to address its structural budget imbalance, recognizing the finite nature of the resource that has brought wealth to the state and the need to reduce the demand for governmental services as that resource dwindles.

JANUARY 2003

Standard & Poors

Credit Profile

AFFIRMED

\$359.130 mil. Alaska gen purp GO bnds ser 2003A dtd 04/01/2003 due 08/01/2004-2023 AAA/AA(SPUR)

\$75.075 mil. Alaska go bnds (Transp Grant Eligible Projs) ser 2003B AA

OUTLOOK: STABLE

Rationale

The 'AA' rating on Alaska's GO bonds reflects the state's strong general credit characteristics, which include:

- * Strong financial management with prudent reserve policies in place to maintain and enhance significant financial reserves,
- * The continued extension of the North Slope oil production curve and a gradual slowing of the rate of decline in total oil production due to continued investments by oil companies in exploration and development activity in the state, and
- * Moderate debt burden as the state continues to fund most capital projects on a pay-as-you-go basis.

An offsetting, though recently mitigated medium-term concern is the state's structural budget gap, which is currently addressed on an annual basis with the use of the state's Constitutional Budget Reserve Fund (CBRF). Projections from mid-fiscal 2004 indicated that the CBRF would be depleted by approximately 2006. Sustained very high oil prices (average year-to-date prices of \$41 per barrel) extend this projection to 2011. The state does not levy a broad-based income or sales tax.

Alaska, with a population of 648,818, is geographically the nation's largest state. Though most of the nation experienced considerable economic softness in 2001 and 2002, Alaska's economy remained relatively stable due to sustained high oil prices, reflecting the importance of that commodity on the state's general economic condition. However, other

sectors of the economy are also providing stability including trade, services, and transportation, which all showed gradual but steady employment gains through the 1990s. As a result, unemployment, in relative terms, has improved somewhat but remained above the national level at 7.42%. Technological developments in the oil industry combined with firm consolidation have to some degree offset job growth in other industries. Nonetheless, as it has since 1968 when it was discovered in Alaska's North Slope, oil production remains a major economic factor for the state with approximately 1 million barrels of production per day estimated through 2010.

Historically, the principal unrestricted revenue sources of the general fund have been oil and gas severance taxes and rents and royalties from oil and gas properties—87% of general fund revenues in 2004 and a projected 89% in 2005. Considering total state revenues, the most significant change in recent years has involved the state's permanent fund, the earnings of which have rivaled and even surpassed (as in 1998, 1999, and 2000—depending on stock market performance relative to oil prices) petroleum revenues as the largest and fastest growing source of state revenues. Reliance on these sources leaves the state revenue base vulnerable to a simultaneous drop in oil prices and market losses occurred in 2001—an event that is anomalous in historic terms, since usually financial markets tend to move higher when oil prices decline (and vice versa). On a GAAP basis for fiscal 2003, the fund grew in value (following two negative earning years), as net income was \$963 million. In fiscal 2004, net income was even stronger with positive earnings of \$3.4 billion, a robust rate of return of 14.23%. Total net assets of the permanent fund stood at \$27.4 billion as of June 30, 2004 and were even stronger at \$27.6 billion by September 2004.

Total general fund appropriations in fiscal 2005 are projected to be \$2.69 billion; however, instead of a \$363 million shortfall as projected at the end of the last legislative session, the state now forecasts a \$650 million windfall surplus for fiscal 2005. With the windfall, the state plans to plow back \$290 million into the CBRF while spending \$352 million over the 2005-2007 fiscal years. Most of these spending plans will take effect, if adopted, as part of the governor's recently proposed fiscal 2006 budget. Most supplemental and windfall appropriations are being earmarked for K-12 education, higher education, roads, and gas pipeline development. To relieve local government

financial stress related to retirement system costs, the state is allocating \$30 million to absorb 50% of the burden for local governments in fiscals 2006 and 2007. The recent 2005 forecast is based on oil prices of \$43.61 per barrel, roughly in line with the year-to-date average of \$42 per barrel. The surplus is explained by the fact that the budget was built around an expected price-per-barrel of \$28 with spending reductions of \$130 million. State revenue forecasts are based on prices per barrel of \$34.60 in 2006, \$30.95 in 2007, and \$25.50 thereafter.

Absent the sustained very high oil prices, the state had forecast a \$363 million budget shortfall between recurring revenues and expenditures. To address the state's structural budget deficit, since 1991 the legislature has appropriated money from the CBRF to the general fund in every fiscal year except 1997, when high oil prices resulted in small budget surpluses. In fiscal 2004, the draw was an insignificant \$11 million and in 2005, as discussed, the state anticipates depositing funds into the CBRF. As of June 30, 2004 the CBRF has a balance of just over \$2 billion—a more diverse revenue base would permit a smaller CBRF balance to cushion against the volatility of petroleum reserves. The Alaska Constitution requires the general fund to repay the money appropriated from the CBRF if the general fund has a surplus at the end of any fiscal year, but the general fund does not pay interest on the money it has borrowed from the CBRF.

Since 1983 the state capital improvement program (CIP) has been funded primarily on a "pay-as-you-go" basis and has not issued GO debt since. Prior to the current issuance, the state had no outstanding GO indebtedness as its previous GO debt matured in 2000. Following the 2003 issue, a total of \$461 million remains outstanding. Currently, the state has appropriation-backed debt totaling \$892 million. Given that resource-related revenues comprise the bulk of the state's revenue base, the existing per capita debt levels do not represent a financial burden to state residents.

Outlook

The stable outlook is based on Standard & Poor's Ratings Services' expectation that Alaska will maintain financial reserves at a level

sufficient to address continuing volatility in its petroleum-based economy.

Economy

Alaska's economy remains concentrated in the extraction, exploration, and production of oil and natural gas. Other important industries affecting Alaska's economy, to a much lesser extent, are the fishing, timber, minerals, and tourism industries. Fluctuations in world oil prices have a significant effect on employment and income levels in the state. Alaska suffered a severe recession in the mid-1980s following the collapse of oil prices; since then, however, relatively stable prices have contributed to steady economic growth over the past several years. Due to its sizeable rural population, Alaska's unemployment rate historically is higher than that of the nation. In recent years, as national unemployment increased, Alaska's unemployment rate held steady, partially closing a historic gap between the state and national unemployment rates. From 2000 to 2003, national unemployment increased 2.0% while the state's unemployment increased just 1.3%. In recent years, job decreases in timber and seafood manufacturing were offset by increases in health care (80% increase in employment since 1990), construction, and government jobs. Oil and gas employment was strong in 2001 but in 2002 returned to the levels recorded in 2000. Currently, unemployment is about 7.32% in the state. Alaska's total employment is affected by the price for all of the state's major commodities: oil, seafood, metals, and timber. In general, the state's economy will benefit from above-average rates of growth in healthcare, business services, and tourism-related industries over the next several years. Residential and governmental building has fueled job growth in the construction industry. Indicative of the gradual change in Alaska's economy is that in 1998, when oil prices declined, state employment figures continued to grow, albeit more slowly.

Employment losses in the mining sector, as oil companies operate with smaller crews, and in seafood- and timber-related manufacturing indicate a gradual decline in overall wealth and income levels, as new jobs are being created mainly in the lower-wage service and trade industries. Current economic projections indicate a continuation of these trends, with tourism, retail trade, and construction leading employment growth through the end of the decade. Hard-rock mining is on an upswing with

production underway at the Fort Knox gold mine near Fairbanks and several other promising sites under study. The continued economic softness in Asia will negatively affect the state's major exports, including seafood, timber, oil, and minerals.

Oil production on the North Slope of Alaska occurs primarily from the two principal oil fields of Prudhoe Bay and Kuparuk River. Oil production on the North Slope averaged 0.980 million barrels per day in 2004, which is essentially flat from 2001 production levels of 1.002 million barrels per day. Production on the North Slope peaked in 1988 at 2.01 million barrels per day. Total production in 2005 is estimated at 0.934 million barrels per day. Longer-term forecasts factor in new exploration and development, which should keep production at more than 1.0 million barrels per day through 2010, after which a decline of 5.5% per year is anticipated. Since 1989 production from the North Slope has declined 4.8% per year through fiscal 2002. It is noteworthy that enhanced recovery techniques employed by the oil companies continue to prolong the life of producing wells. In addition, smaller discoveries are economically viable due to the existing facilities on the North Slope, offsetting the gradual production decline at the Prudhoe and Kuparuk fields to some degree. As part of an agreement with the Federal Trade Commission to acquire ARCO, British Petroleum sold the bulk of ARCO's North Slope assets to Phillips Petroleum for approximately \$6.5 billion. The purchase of these assets transformed Phillips into one of America's 10 leading oil companies. The state continues to aggressively pursue expanding its potential for oil production. The much-debated subject of exploratory drilling for oil in the 2,000,000-acre Arctic National Wildlife Reserve (ANWR) is moving its way through Congress. With the re-election of George W. Bush and increased Republican majorities in both houses of Congress, the likelihood for opening up ANWR is increased considerably at the beginning of 2005. The state is also exploring the possibility of developing a natural gas pipeline (estimated cost \$18 billion) in order to derive the economic benefit from the estimated 36.2 trillion cubic feet of natural gas reserves. Voters approved the creation of the Alaska Natural Gas Pipeline Authority, which is charged with developing a plan for building a natural gas pipeline to Valdez where it would be converted to LNG and shipped throughout the world.

Finances

Despite the volatile nature of the economic base, Alaska's financial position has historically remained strong. Principal unrestricted revenue to the general fund has been oil and gas severance taxes and rents and royalties from oil and gas properties. Very strong oil prices have dominated the state's financial condition over the past year, increasing the importance of this revenue source. Between fiscal 1998 and 2000, however, investment earnings represented the largest source of revenue to the state. The subsequent downturn in the stock market, however, underscored the continued importance of oil-related revenues to the state since 2002. In fact, oil price improvement in 2004 and into fiscal 2005 led to a significantly smaller operating deficit in 2004 and the aforementioned windfall surplus in fiscal 2005 (projected).

On a GAAP basis, however, the state's general fund has a negative unreserved fund balance of \$1.9 million, equivalent to 35% of expenditures. When oil prices decline, an operating deficit is the result and is offset with appropriations from the constitutional budget reserve. However, over time, the average production tax rate on the North Slope has been falling as a result of the economic limit factor (ELF). Since production rates and well productivity decline over time as an oil field is produced, the average production tax rate falls reducing state revenue from this source. As a result, higher oil prices result in relatively less additional revenue for the state than in previous years.

Current projections indicate that the CBRF will not be depleted prior to 2011, thanks to sustained very high per barrel oil prices. The total CBRF position remains strong with a cash balance of \$2.1 billion in the constitutional budget reserve and more than \$859 million in the permanent fund earnings reserve at June 30, 2004. Reserve policies adopted in 1997 outline the uses of the budget reserve. While these policies outline short-, intermediate-, and long-term investment horizons, Alaska has allocated all of the Constitutional Budget Reserve budget reserve balance into short- and intermediate-term investments due to the current oil price environment.

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 will be placed in a

permanent fund...." The state legislature subsequently doubled the constitutionally mandated rate of dedicated oil revenue contributions to 50% on mineral leases issued after Dec. 1, 1979, and for bonuses on mineral leases issued after Feb. 15, 1990. The state legislature has also made special appropriations to the principal account from other oil revenue and fund earnings. As a result, the Alaska permanent fund has grown from an initial deposit of \$734,000 in 1977 to a fund value currently in excess of \$27 billion.

As the value of the fund grows, it becomes an increasingly important component of the state's overall credit quality. Alaska reaps significant economic benefits from the fund through the annual dividend program—in which a portion of the fund's annual earnings are distributed as dividends to every resident of the state. The Permanent Fund is a significant underlying stabilizing force on Alaska's highly volatile financial results.

Debt

Alaska's direct debt burden is moderate but increasing following a period where limited amounts of new debt were issued, from the early 1980s through the late 1990s. Direct debt of the state that is not self-supported by other revenue streams totals \$2,087 per capita and 4.5% of market value. In recent years, the state has funded capital projects through GO bonds, cash on hand, and several series of lease-secured certificates of participation (COPs). The state's 2006 capital plan, as proposed, is \$1.4 billion. Capital spending will include an estimated \$823 million for transportation projects, \$163 million for health and human services, and \$92 million for university related projects. The state anticipates that approximately 50% of its capital program will be federally funded with 25% potentially being funded from earnings on proceeds from a settlement with Amerada Hess (an estimated \$440 million of corpus held in a sub-account of the Permanent Fund). Other funding would be from cash or the annual dividend transfer payment from the Alaska Housing Finance Corp. (AHFC).

In July 2003, the state passed HB 256 (2003 dividend plan), which obligates AHFC to transfer to the state the lesser of 75% of net income or \$103 million beginning in fiscal 2009. Before fiscal 2009, the

corporation will transfer \$103 million in fiscals 2004-2006, irrespective of net income, followed by the lesser of \$103 million, or 95% of net income (fiscal 2007), and, finally, the lesser of 85% of net income or \$103 million (fiscal 2008). Similar to a 1998 plan, the 2003 dividend plan gives AHFC credit for paying debt service on state capital project bonds and funding a nonhousing-related capital budget.

From 1983 to 2003, the state funded most of its capital needs with cash on a pay-go basis or from debt issued by the AHFC—in fact, all state GO debt matured in 2000. In 2003 the state issued its first series of GO bonds since 1983 and currently has \$461 million outstanding. The amortization of existing debt is well-matched to the oil production curve. The state has appropriation-backed debt totaling \$892 million outstanding. This includes \$689.1 million of state-reimbursed municipal school debt service support and \$203 million of lease-purchase and capital lease type financings. Reimbursement rates for locally issued GO bonds ranges between 70% and 100% depending on authorization, issue, and expenditure dates. The reimbursement program was created by statute in 1970 and expires in July 2005. The program has provided a mechanism whereby the state reimburses municipalities that operate school districts for the costs of qualified construction projects, subject to legislative appropriation. Over the past 10 years, the state has appropriated its full reimbursement amount. Standard & Poor's factors this commitment into the state's overall debt ratios.