

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3073 SCOMM 142: HOUSE SPECIAL COMMITTEE ON WAYS & MEANS 2005-2006

CHARITABLE GAMING AS 05.15

1989 – The Governor transfers the Charitable Gaming functions to the Department of Commerce, Community and Economic Development.

1993 – The Governor transfers the Charitable Gaming functions to the Department of Revenue.

HB 168 significantly changed various aspects of the statutes governing charitable gaming in Alaska. Third party vendors were brought under statutory control which allow permittees to contract with them directly to sell pull-tabs and the Department was authorized to issue Multiple-Beneficiary Permits (MBP). MBP's enable two to six permittees to jointly conduct gaming activities. Minimum payments to charities increased from 15 percent to 30 percent of adjusted gross income for pull-tab games and require a minimum of 10 percent of adjusted gross income for all other activities.

1994 – The Department files regulations with the Lieutenant Governor that implement HB 168. Certain affected parties file suit to prevent the state from implementing the new regulations. The Alaska courts subsequently granted the request to enjoin the regulations.

1995 – The Governor appointed a fourteen member task force to make recommendations regarding the administration of charitable gaming. The task force had a broad mandate to look into all aspects of charitable gaming and to provide a report on its findings and recommendations to the Commissioner of Revenue.

The legislature legalized cruise ship gambling activities in Alaska waters during the 1995 season. The gaming statutes required cruise ships pay a fee to game in Alaska and this generated over \$500,000 in State revenue during the 1995 season. This law expired after 1995. Additionally, the legislature eliminated Monte Carlo nights.

1996 – The Department finished a comprehensive rewrite of the regulations and adopted new regulations after a series of public hearings.

The legislature created three new gaming activities: "Sled Dog Race Classic", "Deep Freeze Classic" and "Snow Machine Classic". The legislature also created

the McGrath Kuskokwim River Ice Classic and the Creamer's Field Goose Classic.

The legislature prohibited the donation of net proceeds from pull-tabs and bingo activities to registered lobbyists and certain political organizations.

2001 – Effective January 1, 2002, the legislature added the Bristol Bay Native Corporation Education Foundation to the list of qualified organizations allowed to conduct "salmon classic" games of chance.

The Department proposed regulations and held public hearings in an effort to address various issues including unlicensed operators, conflicts of interest, methods of accounting, capital contributions, loans and gifts, and rules for MBPs. Comments received during the public hearings indicated unhappiness with the process and confusion with the proposed regulations.

The Alaska Supreme Court in *Botehlo v. Griffin*, 25 P3d at 693 ruled that "Alaska's gaming laws create the effective equivalent of a charitable trust" by requiring a portion of the money spent on charitable gaming to benefit the public generally.

2002 – The Commissioner of Revenue appointed eleven members to a negotiated rule-making committee in an effort to garner input and suggestions and draft new proposed regulations. Members of the committee represented the interests of permittees, operators, MBPs, distributors, vendors, the public and the Department. The committee held nine meetings over five months to take public testimony, and draft new proposed regulations. The committee issued its final report on July 31, 2002.

Public hearings on the rule-making committee's proposed regulations were held in August, 2002. The Department used the consensus of the rule-making committee, public testimony and written comments as a basis for the regulations it adopted on November 19, 2002 and regulations were effective, January 1, 2003.

Effective January 1, 2003, the legislature added the Boys and Girls Club of the Kenai Peninsula to the list of qualified organizations allowed to conduct "mercury classic" games of chance.

**CHARITABLE GAMING
AS 05.15**

2003 - Effective January 1, 2004, the legislature allows a permittee that conducts a contest of skill and awards more than \$500,000 in prizes to the participants in that contest of skill, to exclude \$500,000 in prizes awarded to those participants from the \$1,000,000 maximum prize limitation.

2004 - Effective July 25, 2004, the legislature authorized the Department of Revenue to issue permits for a charitable animal classic game, providing the animal classic was in existence prior to November 1,

2002. An animal classic is a game of chance relating to certain activities.

FY 2004 Statistics

Taxes and Fees Collected	\$2,423,278
Number of Reports and Permit Applications	4,935
Program Cost	\$824,946
Staffing (<i>full time equivalent</i>)	11.5

CONSERVATION SURCHARGE ON OIL
AS 43.55

Description

The Conservation Surcharge on Oil applies to all oil production within Alaska. The surcharge is a per barrel tax on oil production intended to fund the oil and hazardous substance release prevention account of the oil and hazardous substance release prevention and response fund. The Oil and Gas Production Tax (AS 43.55) and Conservation Surcharge on Oil are severance taxes.

Rate

The surcharge is currently comprised of two components: 1) a \$.03/bbl charge on all oil production excluding public royalty barrels and 2) an additional \$.02/bbl charge on all oil production whenever the balance in the state oil and hazardous substance release prevention and response fund falls below \$50 million. The balance of the fund was \$50 million or greater for all of FY 2004 so that the surcharge was \$.03/bbl for the entire fiscal year.

History

1989-- Following the grounding of the Exxon Valdez, this tax was enacted in order to provide a hazardous substance release emergency fund. A \$.05/bbl

hazardous release surcharge is imposed on oil production until the newly created hazardous substance release fund achieves a balance of \$50 million.

1994--The hazardous release surcharge is modified to the so-called "split nickel" with an ongoing charge of \$.03/bbl and an additional charge of \$.02/bbl whenever the hazardous substance release fund balance falls below \$50 million.

FY 2004 Statistics

Tax Collections	\$9,052,517
Number of Returns*	2,318
Number of Taxpayers*	15

* The Conservation Surcharge on Oil is reported on the same return and by the same taxpayers as is Alaska's other production tax, Oil and Gas Production Tax (AS 43.55). The Division has not segregated program cost and staffing related to each individual tax. The Division reports the total production tax cost and staffing in the discussion of Oil and Gas Production Tax.

CORPORATION INCOME TAX
AS 43.20

Description

Alaska levies the corporate net income tax on net income of corporations that have nexus and derive income from sources within Alaska. Corporations compute their tax liability based on federal taxable income with Alaska adjustments.

Alaska uses an apportionment method to determine the portion of income that is taxable in the state. Corporations other than oil and gas apportion their income to Alaska by using a three-factor formula based on sales, property and payroll. Taxpayers determine Alaska taxable income by applying the apportionment factor to the corporation's modified federal taxable income.

Multi-state oil and gas corporations apportion income on a worldwide apportionment method. Other multi-state corporations apportion income to Alaska under a "water's edge" apportionment method. A corporation engaged in business solely in Alaska computes its tax liability on 100% of its taxable income.

Rate

Corporation tax rates increase from 1% to 9.4% in \$10,000 increments of Alaska taxable income. The maximum rate of 9.4% applies to income over \$90,000.

Returns

Corporations file returns annually. Tax payments are due two and a half months from the close of the fiscal year. Taxpayers must remit tax payments over \$150,000 by wire transfer or electronic funds transfer (EFT). The payment due date may not be extended.

Tax returns are due three and a half months after the close of the fiscal year. Corporations may extend their filing due date by six months.

Example: The filing due date for calendar year corporations is April 15. Corporations may extend their filing due date to October 15. Regardless of filing date, payment is due March 15.

Corporations make quarterly estimated tax payments based on past activity and the current year's accrued

tax liability. Taxpayers must remit estimated payments over \$100,000 by wire transfer or electronic funds transfer (EFT).

Exemptions

S-corporations and LLCs are generally exempt from corporation income tax and LLCs are treated as partnerships for Alaska tax purposes. Electric and telephone cooperatives, which are required to pay cooperative taxes under AS 10.25, are also exempt.

Credits

Education - Taxpayers who make contributions for educational purposes to accredited Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 per tax year.

Minerals Exploration Incentive - Taxpayers may take a credit for 100% of eligible costs of exploration activities related to determining existence, location, extent, or quality of a locatable mineral or coal deposit. An approved minerals exploration incentive credit may not exceed \$20 million and must be applied within 15 tax years after the taking of the credit is approved. Application of the credit is limited to 50% of the lesser of the taxpayer's mining license tax liability or 50% of the taxpayer's total corporation net income tax liability.

Oil and Gas Exploration Incentive - Taxpayers may take a credit for up to 50% on state land (or 25% on non state lands) of eligible oil and gas exploration costs. An approved oil and gas exploration incentive credit may not exceed \$5 million per project and is limited to \$30 million per taxpayer. Taxpayers may apply the credit against 100% of corporation net income taxes due.

Gas Exploration and Development Tax Credit allows a corporate income credit for 10 percent of qualifying expenditures incurred in exploration and development of natural gas reserves in Alaska, except for the North Slope.

CORPORATION INCOME TAX AS 43.20

Disposition of Revenue

The Division deposits revenue derived from corporation net income taxes into the General Fund except as noted below.

For oil and gas corporations only, the Division deposits into the Constitutional Budget Reserve fund those revenues received as a result of a tax assessment issued by the Division.

History

The corporation net income tax dates back to 1949 when the territorial legislature enacted the "Alaska Net Income Tax Act". The Act imposed a flat tax of 10% of the corporation's federal income tax liability.

1957 – Tax rate was increased to 18%.

1975 – Original income tax act repealed and an income tax act based on taxable income rather than federal tax liability was enacted. The tax was equal to 5.4% of taxable income with a surtax of 4% based on federal surtax exemptions. For 1975, the federal surtax exemption was \$50,000.

1978 – Oil and gas corporations required to calculate taxable income based on a "separate accounting" method requiring the corporations to account for Alaska activity only in determining taxable income (AS 43.21).

1981 – Separate accounting (AS 43.21) was repealed and the modern corporation tax rate structure was adopted (1% - 9.4%). With repeal of AS 43.21, all corporations file returns using worldwide combined reporting and use the same tax rate structure.

1984 – The legislature adopted the special industrial incentive investment tax credit.

1987 – Alaska education credit was authorized.

1991 – Alaska's legislature enacted a bill requiring corporations, except for oil and gas corporations, to calculate taxable income based on the "water's edge" combined reporting method. Oil and gas corporations continue to use the worldwide combined reporting method. Also, the legislature increased the Alaska

education credit maximum from \$100,000 to \$150,000.

1994 – Alaska's legislature authorized the Oil and Gas Exploration Incentive Credit. The legislature limited the credit to \$30 million and provided that taxpayers may apply the credit to 100% of corporation taxes due.

1995 – Alaska's legislature authorized the minerals exploration incentive credit. The legislature limited the credit to \$20 million and taxpayers may apply it against 50% of corporation taxes due over a 15-year period.

1998 – Alaska's legislature enacted a bill exempting foreign cruise ship and airline companies from tax.

2002 – Alaska Veterans' Memorial Endowment provided credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit expired July 1, 2003.

2002 – The Oil and Gas Exploration Incentive Credit was extended to June 30, 2007.

2003 – Legislation authorized the Gas Exploration and Development Tax Credit.

FY 2004 Statistics

Tax Collections – Oil and Gas Corporations

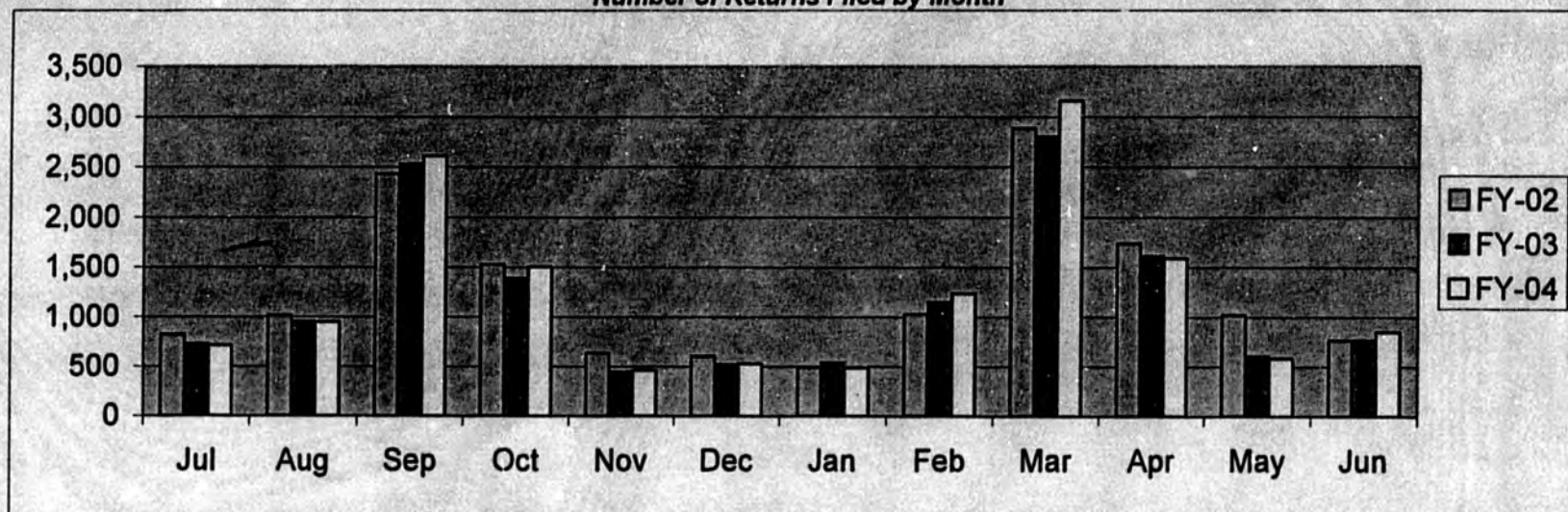
General Fund	\$298,832,852
CBRF	4,035,122
Total	302,867,974
Number of Returns	69
Number of Taxpayers	29
Program Cost	\$559,364
Staffing (full-time equivalent)	7.1

Tax Collections – Other Corporations

General Fund	\$39,546,080
Number of Returns	14,619
Number of Taxpayers	11,713
Program Cost	\$1,334,347
Staffing (full-time equivalent)	20.2

Chart 3
Corporations Filing Activity
For Fiscal Years 2002, 2003 and 2004

Number of Returns Filed by Month



Fiscal Year	FY 2004	FY 2003	FY 2002
Total Returns Filed	14,688	14,077	14,997

Detail of FY 2004 Filing Activity

Entity Type	Original	Amended	NOL*	Incomplete	Total
Subchapter C	6,423	843	333	0	7,599
Subchapter S	6,371	23	2	0	6,396
Exempt	116	4	7	0	127
Homeowners Assoc.	496	0	1	0	497
Oil & Gas	26	37	6	0	69
Total	13,432	907	349	0	14,688

*Net operating loss carryback

Table 5
Corporation Tax Liabilities Statistics

Tax liabilities reported on original returns filed in FY04

Tax Liability Reported	Oil and Gas Corporations			Other than Oil and Gas Corporations			All Corporations		
	# Filers	Amount	% Total	# Filers	Amount	% Total	# Filers	Amount	% Total
Above \$1 million	7	\$162,656,896	98.65%	7	\$15,582,554	32.74%	14	\$178,239,450	83.88%
\$500,000 - \$1 million	2	1,348,119	0.82%	12	9,706,776	20.39%	14	\$11,054,895	5.20%
\$100,000 - \$499,999	3	768,093	0.47%	51	12,928,761	27.16%	54	\$13,696,854	6.45%
\$50,000 - \$99,999	1	86,194	0.05%	42	2,994,969	6.29%	43	\$3,081,163	1.45%
\$10,000 - \$49,999	1	23,300	0.01%	197	4,568,022	9.60%	198	\$4,591,322	2.16%
\$1,000 - \$9,999	0	0	0.00%	441	1,586,338	3.33%	441	\$1,586,338	0.75%
\$100 - \$999	1	125	0.00%	488	207,198	0.44%	489	\$207,323	0.10%
\$1 - \$99	1	49	0.00%	878	26,320	0.06%	879	\$26,369	0.01%
Zero Tax	10	0	0.00%	9,920	0	0.00%	9,930	\$0	0.00%
Total	26	\$164,882,776	100.00%	12,036	\$47,600,938	100.00%	12,062	\$212,483,714	100.00%

Note: The \$212.5 million in tax liability reported on returns filed during FY04 is significantly less than corporate income tax revenue collections of \$338.3 million (Table 2, page 13, summing \$298.8 in oil and gas receipts and \$39.5 in non oil and gas receipts). Generally, corporate income taxpayers are required to make quarterly estimated payments. The return corresponding to these payments is filed during one of the two fiscal years following the year of payment. The corporate income tax receipts from estimated payments of \$338.3 million during FY04 reflect anticipated liabilities driven by historically high oil prices that will be reported on returns received during FY05 and FY06.

DIVE FISHERY MANAGEMENT ASSESSMENT TAX AS 43.76.150

Description

Alaska levies a dive fishery management assessment on the value of fisheries resources taken using dive gear. The assessment only applies to designated management areas and species, and is taxed at a rate elected by a vote of eligible permit holders.

Rate

Southeast Alaska region commercial dive fishers elected the following rates for the Southeast Alaska administrative area (Management Area A):

Geoduck	5%
Sea Cucumber	5%
Sea Urchin	7%

Returns

Returns are filed quarterly and due on or before the last day of the month following the calendar quarter during which the fisheries resource was sold or exported.

Disposition of Revenue

The Division deposits all revenue derived from the dive fishery management assessment into the General Fund.

Under AS 43.76.200, the legislature may appropriate dive fishery management assessment revenue to the Department of Fish and Game for the purpose of funding the regional dive fishery development association.

History

1997 - The legislature enacted the dive fishery management assessment statute effective June 1997.

1999 - The Southeast Regional Dive Fishery Association elected a dive fishery management assessment on geoducks, sea cucumbers and sea urchins harvested in the Southeast Alaska administrative area (Management Area A). The assessment, effective April 1999, set rates of 5% for geoduck and sea cucumber and 7% for sea urchin.

2004 - Under prior law, qualified regional dive fishery development associations were authorized to impose management assessments at 1%, 3%, 5% and 7% of the value of fishery resources taken in a dive gear fishery. 2004 legislation authorized three additional rates: 2%, 4% and 6%, and geoduck fishers subsequently elected to increase the geoduck assessment to 7% as of November 1, 2004.

FY 2004 Statistics

Tax Collections	\$253,503
Number of Returns	42
Number of Taxpayers	16
Program Cost	\$6,524
Staffing (full time equivalent)	0.1

ELECTRIC COOPERATIVE TAX AS 10.25.555

Description

Alaska bases the electric cooperative tax on kilowatt-hours furnished by qualified electric cooperatives recognized under AS 10.25. The Division collects the tax from the cooperatives.

Rate

Alaska bases the electric cooperative tax on a mill rate depending on the length of time in which the cooperative has furnished electricity to consumers as follows:

<i>Length</i>	<i>Rate Per kWh</i>
Less than 5 years	.25 mill
5 years or longer	.5 mill (1 mill = .1¢)

Returns

Electric cooperatives file calendar year returns that are due with payment before March 1 of the following year.

Exemptions

All electric cooperatives are subject to the cooperative tax. Taxpayers pay the electric cooperative tax in lieu of corporation income taxes.

Disposition of Revenue

The Division deposits all revenue derived from electric cooperative taxes into the General Fund. Electric cooperative taxes sourced from within municipalities are shared 100% to respective municipalities less the amount expended by the state in their collection. The State retains electric

cooperative taxes sourced from outside of municipalities.

History

The electric cooperative tax dates back to 1959 when the first Alaska legislature enacted the "Electric and Telephone Cooperative Act" to promote cooperatives around the state. The original electric cooperative tax was based on gross revenue and due by April 1 of the following year. Alaska based the tax rate on the length of time the cooperative had provided electricity to consumers.

1960 – The legislature changed the due date for paying taxes to March 1.

1980 – The legislature changed the tax base for calculating the electric cooperative tax from gross revenue to kilowatt-hours. The legislature adopted the current mill rates.

FY 2004 Statistics

Tax Collections	\$1,861,290
Number of Returns	18
Number of Taxpayers	16
Program Cost	\$3,515
Staffing (<i>full time equivalent</i>)	0.1

Note: Program Costs reflect the cost of the program. The amount retained by the state after sharing (Table 2, Page 16) represents these costs and unshared tax collected outside an organized borough or incorporated city.

ESTATE TAX AS 43.31

Description

Alaska currently levies the estate tax on the transfer of an estate upon death.

Rate

The Alaska estate tax is the amount of state credit allowed on the estate's federal tax return.

Returns

Estates file returns and pay taxes within 15 months from the decedent's date of death.

The tax due date may be extended in one-year increments, not to exceed 5 years. Interest accrues on the amount of tax due during the extension period. The return due date may be extended for up to 15 years.

Exemptions

Estates under \$675,000 in 2001 and \$1 million in 2002 forward are generally exempt from paying estate taxes taking into consideration the estate tax credit (formerly the unified credit) allowed under the Internal Revenue Code.

Disposition of Revenue

The Division deposits all revenue derived from estate taxes into the General Fund.

History

The estate tax dates back to 1919 when the territorial legislature adopted a tax on inheritances and transfers of property from estates. Tax rates varied from 1% to 17.5% of the property's value.

1970 - The Alaska legislature enacted the current estate tax statutes. Estate tax statutes tie to the state credit allowed under Internal Revenue Code estate tax laws.

2001 - The federal Economic Growth and Tax Relief Reconciliation Act enacted. *As a consequence of the federal act, the state tax credit is being phased out gradually over a four year period beginning in 2002.*

FY 2004 Statistics

Tax Collections	\$2,250,662
Number of Returns	48
Number of Taxpayers	46
Number of Death Certificates Issued	725
Program Cost	\$23,990
Staffing (full time equivalent)	0.4

FISHERIES BUSINESS TAX

AS 43.75

Description

Alaska levies a fisheries business tax on fisheries businesses and persons who process or export fisheries resources from Alaska. Alaska bases the tax on the fisheries value paid to commercial fishers or fair market value when there is no arms length transaction. The Division collects fisheries business taxes primarily from licensed processors and persons who export unprocessed fish from Alaska.

Rate

Fisheries business tax rates are based on the location and type of processing activity and whether a fishery resource is classified as "established" or "developing" by the Alaska Department of Fish and Game. Rates are as follows:

Processing Activity

<i>Established</i>	<i>Rate</i>
Floating	5 %
Salmon Cannery	4.5 %
Shore-based	3 %
<i>Developing</i>	<i>Rate</i>
Floating	3 %
Shore-based	1 %

Returns

Fisheries businesses file calendar year returns that are due with payment on March 31 of the following year.

After filing the calendar year return, taxpayers file returns to report post-season, bonus payments made to fishers. Returns for these payments are due with additional taxes by the last day of the month following the payment.

Exemptions

Commercial fishers who process and freeze fish on board to maintain its quality before sale to a licensed processor are exempt.

Credits

Educational: Taxpayers contributing to accredited Alaska universities or colleges for educational purposes may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Scholarship Contributions: Taxpayers contributing to the A.W. "Winn" Brindle memorial scholarship account may take a tax credit for the amount of contribution not to exceed 5% of their tax liability.

Salmon Product Development and Utilization Credit (2003) allows tax credits against the fisheries business tax on salmon for expenditures promoting the development of salmon products and the utilization of salmon waste. Effective June 11, 2003 and retroactive to January 1, 2003, the bill will sunset on December 31, 2005.

Disposition of Revenue

The Division deposits all revenue derived from the fisheries business tax into the General Fund. The legislature may appropriate revenue from the tax for revenue sharing as follows:

Processing Activity Inside Municipality

The Division shares 50% of tax collected with the incorporated city or organized borough in which the processing took place. If an incorporated city is within an organized borough, the Division divides the 50% shared amount equally between the incorporated city and the organized borough.

Processing Activity Outside Municipality

The Division shares 50% of tax collected from processing activities outside an incorporated city or an organized borough through an allocation program administered by the Department of Commerce, Community and Economic Development.

History

The fisheries business tax is the oldest tax in Alaska. In 1899, the U.S. Congress adopted a "salmon case" tax to fund fisheries-related activities in pre-territorial Alaska.

The Organic Act passed in 1912 established an organized territorial government in Alaska. In 1913, the First Territorial Legislature adopted the "salmon pack" tax which applied to salmon canneries based on canned salmon (7¢ per case); and the "cold storage" tax which applied to other fisheries and was based on business receipts. Between 1913 and 1949, the legislature amended the tax several times by changing

FISHERIES BUSINESS TAX

tax rates and expanding the tax base to include different fisheries.

1949 – The territorial legislature restructured the fisheries business tax to be based on value of the fisheries rather than volumes (case or business receipts). The new "raw fish" tax applied to salmon (4%), crab and clams (2%), and other fishery products (1%) processed in canneries.

1951 – The territorial legislature enacted a fishery business license requirement with a \$25 license fee, a tax on floating processors at 4% of value and increased the tax rate for salmon canneries to 6%.

1962 – The legislature adopted provisions for sharing taxes (10%) and requiring calendar year returns for all businesses.

1967 – The tax rate on salmon canneries was amended to 3% and provisions were adopted requiring security for a fishery business license under certain conditions.

1979 – The legislature adopted the modern tax structure with different tax rates for established and developing species, as well as increasing the shared tax percentage to 20%.

1981 – The shared tax percentage was increased to 50%.

1986 – The legislature authorized a fisheries business tax credit of up to 50% of fisheries business taxes for capital expenditures associated with constructing and improving shore-side processing operations. The tax credit program was effective for 1987 through 1989 with a carryforward provision through 1991. Taxpayers claimed approximately \$47.5 million of credits under this program. The legislature also enacted the Winn Brindle scholarship credit allowing a credit of up to 5% of fisheries business taxes due.

1987 – The legislature enacted the Alaska education tax credit program allowing a tax credit on educational contributions of up to \$100,000 against fisheries business taxes due.

1990 – The legislature enacted provisions for a civil penalty for processing without a license. The

Division may progressively assess penalties in increments of up to \$5,000 for each infraction to a maximum of \$25,000 for the fifth and subsequent assessments. The legislature also enacted a provision that authorized sharing 50% of taxes sourced from processing activities in the unorganized borough, effective July 1992.

1991 – The legislature restructured the Alaska education credit and increased the maximum amount to \$150,000.

1993 – Under executive order effective July 1, 1993, the Governor transferred the fish processor surety bonding program from the Department of Labor and Workforce Development to Department of Revenue.

1995 – The legislature reduced the amount of surety bonding for small processors from \$10,000 to \$2,000.

2001 – The legislature modified the tax payment security requirements necessary to obtain a fisheries business tax license. The legislature expanded the existing requirement for a whole-salmon exporter to include any exporter of any unprocessed fisheries resource. Under the bill, exporters of unprocessed fish can obtain a fisheries business license by posting a \$50,000 surety bond. Additionally, the bill requires quarterly payment of estimated fishery resource landing taxes.

2002 – Alaska Veterans' Memorial Endowment provided credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit expired July 1, 2003.

2003 - Salmon Product Development/Utilization Credit allows tax credits against the fisheries business tax for expenditures promoting the development of salmon products and the utilization of salmon waste. The amount of the tax credit cannot exceed 50% of the taxpayer's fisheries business liability for processing of salmon during the tax year.

Effective June 11, 2003 and retroactive to January 1, 2003, the bill will sunset on December 31, 2005. Unused credits earned may be carried forward for three years.

FISHERIES BUSINESS TAX

2003 – Legislation allowed for monthly payment of the fisheries taxes in lieu of existing forms of security or prepayment as a prerequisite to licensure. Fisheries businesses who elect this option must post a \$50,000 bond or demonstrate \$100,000 equity in real property within the state. Effective September 8, 2003

2004 – Legislation authorized a new Direct Marketing Fisheries Business License and tax structure set at the shore based rate of 1% of the value of developing fish species and 3% of the value of established fish species. The provisions of the bill will take effect January 1, 2005.

FY 2004 Statistics

Fisheries License and Business Tax

<u>License Fees and Tax Collection</u>	
<i>Including penalties and interest.</i>	
<i>Less Win Brindle, Alaska Education and Salmon Product Development and Utilization Credits.</i>	\$29,244,605
Number of Returns	782
Number of Taxpayers	525

Fisheries Business License Information

Shore-based Licenses Issued	174
Floating Licenses Issued	332
Exporter Licenses Issued	76
Total Licenses Issued	582

Program Cost	\$431,995
Staffing (<i>full time equivalent</i>)	7.5

FISHERY RESOURCE LANDING TAX AS 43.77

Description

Alaska levies the fishery resource landing tax on fishery resources *processed outside* and *first* landed in Alaska, based on the unprocessed value of the resource. The unprocessed value is determined by multiplying a statewide average price per pound (derived from Alaska Department of Fish and Game data) by the unprocessed weight.

Alaska collects the fishery resource landing tax primarily from factory trawlers and floating processors that process fishery resources outside of the state's 3-mile limit and bring their products into Alaska for transshipment.

Rate

Tax rates are based on whether the resource is classified as "established" or "developing" by the Alaska Department of Fish and Game as follows:

<i>Classification</i>	<i>Rate</i>
Established	3%
Developing	1%

Returns

Taxpayers file returns and pay tax on a calendar year basis with a due date of March 31 of the following year. Taxpayers generally make quarterly estimated tax payments which are due on the last day of each calendar quarter.

The Division grants an automatic extension to file the landing return if it does not provide statewide average prices to taxpayers at least 30 days prior to the due date. If the extension applies, the due date is the last day of the month following the month in which the Division issues statewide average prices. The Division extended the due date for calendar year 2003 returns to June 30, 2004.

Exemptions

Unprocessed fishery resources landed in the state are exempt from the fishery resource landing tax, although they may be subject to the fisheries business tax.

Credits

Education - Taxpayers contributing to Alaska universities or colleges for educational purposes may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Scholarship Contributions - Taxpayers contributing to the A.W. "Winn" Brindle memorial scholarship account may take a tax credit for the amount of contributions not to exceed 5% of their tax liability.

CDQ - Taxpayers harvesting a fishery resource under a community development quota (CDQ) may claim a credit of up to 45.45% of fishery resource landing taxes for contributions to Alaska nonprofit corporations that are dedicated to fisheries industry-related expenditures.

Other Taxes - Taxes paid to another jurisdiction on fishery resources may be claimed as a credit against the fishery resource landing tax. The credit, equal to the amount of taxes paid in the other jurisdiction, may not exceed the fishery resource landing tax.

Disposition of Revenue

The Division deposits all revenue from the fishery resource landing tax into the General Fund. The legislature may appropriate revenue from the tax for revenue sharing as described below.

Landings Inside Municipality

The Division shares 50% of taxes (3%) from landings within a municipality with the respective municipalities in which landings occurred. If a municipality is within a borough, the Division divides the 50% shared amount between the municipality and borough.

Landings Outside Municipality

The Division shares 50% of the taxes from landings outside a municipality (unorganized borough) through an allocation program administered by the Alaska Department of Commerce, Community and Economic Development.

History

The legislature enacted the fishery resource landing tax in 1993, effective January 1994. Department of

FISHERY RESOURCE LANDING TAX AS 43.77

Revenue adopted regulations regarding administration of the tax effective April 1994.

1994 – The American Factory Trawler Association (AFTA) filed litigation challenging the constitutionality of the landing tax.

1995 – The Alaska Supreme Court rejected AFTA's request based on AFTA's failure to exhaust administrative remedies with the Department of Revenue.

1996 – The landing tax was restructured to mirror the fisheries business tax program. The legislature revised the tax rate to 3% for established species and 1% for developing species. The 0.3% portion of the previous 3.3% tax rate was incorporated into seafood marketing assessment statutes. The legislature also amended the landing tax statutes to provide for tax credits for education and Winn Brindle scholarship contributions. All changes were retroactive to January 1994, the inception date of the landing tax.

1997 – AFTA dismissed its challenge to the landing tax and in June the state issued a formal hearing decision upholding the constitutionality of the tax. Shared tax amounts from calendar year 1994 and 1995 returns, previously held in escrow, were released to municipalities.

1999 – The American Fisheries Act (P.L. 105-277) required a fishery cooperative to execute a contract with each cooperative member that obligated the member to make a payment to the state for pollock harvested in the Alaska pollock fishery that is not landed in Alaska. AS 43.77.015 required that those payments be treated as if they were landing taxes.

2001 – Effective calendar year 2002, HB154 required quarterly payment of estimated fishery resource landing taxes.

2002 – Alaska Veterans' Memorial Endowment provided credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit expired July 1, 2003.

FY 2004 Statistics

Tax Collections	
<i>Including penalties, interest and refunds</i>	
<i>Less CDQ contributions, Winn Brindle</i>	\$6,860,773
<i>Credit and Alaska Education Credit</i>	
Number of Returns	62
Number of Taxpayers	42
Program Cost	
Staffing (<i>full time equivalent</i>)	0.6

MINING LICENSE TAX

AS 43.65

Description

The mining license tax is levied on mining net income and royalties received in connection with mining properties and activities in Alaska. The Division collects mining license taxes primarily from businesses engaged in coal and hard rock mining.

Rate

<i>Mining Net Income</i>	<i>Rate</i>
\$0 - 40,000	No Tax
\$40,001 - \$50,000	\$1,200 plus 3% over \$40,000
\$50,001 - \$100,000	\$1,500 plus 5% over \$50,000
Over \$100,000	\$4,000 plus 7% over \$100,000

Returns

Mining licensees file annual returns based on the mining business' fiscal year. Calendar year returns and payment of tax are due April 30; fiscal year returns and payment are due before the first day of the fifth month after the close of the fiscal year.

Exemptions

Except for sand and gravel operations, new mining operations are exempt from the mining license tax for a period of 3½ years after production begins.

Credits

Education - Taxpayers who make contributions for educational purposes to accredited Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Minerals Exploration Incentive - Taxpayers may take a credit for eligible costs of exploration activities related to determining existence, location, extent, or quality of a locatable mineral or coal deposit. An approved exploration incentive credit may not exceed \$20 million and must be applied within 15 tax years after the credit is approved. Application of the credit is limited to 50% of the lesser of the person's mining license tax liability related to the mining operation or 50% of the person's total mining license tax liability.

Disposition of Revenue

The Division deposits all revenue derived from the mining license tax into the General Fund with the exception of payments received after a tax

assessment. The Division deposits these amounts into the Constitutional Budget Reserve Fund (CBRF).

History

The mining license tax dates back to 1913 and the legislature restructured it several times over the years. The original mining license tax, enacted in 1913, imposed a 0.5% tax on mining net income over \$5,000. There was no tax on net income less than \$5,000.

1915 - The territorial legislature increased the tax rate to 1%. The tax-free net income base remained at \$5,000.

1927 - The tax-free net income base was increased to \$10,000 and a three-tier tax rate structure was adopted with rates ranging from 1% to 1.75% for net income over \$1 million.

1935 - The territorial legislature restructured the tax to an eight-tier tax structure with rates ranging from 0.75% to 4% for net income over \$1 million. The legislature decreased tax-free net income to \$5,000.

1937 - The tax-free net income base was eliminated and all net income was subject to tax. A nine-tier tax structure as adopted with tax rates ranging from 0.75% to 8% for net income over \$1 million.

1947 - The mining license tax was restructured by reinstating the tax-free net income base (\$1,000) and restructuring the tax rates to a five-tier structure with rates ranging from 4% to 8% for net income over \$100,000.

1951 - The 3½ year exemption was enacted whereby new mining operations are exempt from mining tax for a period of 3½ years from the date of production.

1953 - The tax-free net income base was increased to \$10,000 and rates changed to range from 3% to 7% for net income over \$100,000.

1955 - The rate structure as it exists today was adopted.

1987 - The Alaska education tax credit program was enacted allowing for a tax credit up to \$100,000.

1991 - The Alaska education credit was restructured and the maximum amount was increased to \$150,000.

1995 - The legislature authorized the minerals exploration incentive credit. The credit is limited to

MINING LICENSE TAX

\$20 million and taxpayers may apply the credit against 50% of mining license liabilities over a 15-year period.

2002 – Alaska Veterans' Memorial Endowment, SB 267, provides credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit expired on July 1, 2003.

FY 2004 Statistics

Tax Collections	
General Fund (GF)	
Less the Alaska Special Interest Incentive, Mineral Exploration Incentive and Alaska Education Credits	\$3,224,684
CBRF	-0-
Total of GF and CBRF	\$3,224,684
Number of Returns	144
Number of Taxpayers	136
Program Cost	\$12,850
Staffing (full time equivalent)	0.2

MOTOR FUEL TAX AS 43.40

Description

Alaska levies the motor fuel tax on motor fuel sold, transferred or used within Alaska. The Division collects motor fuel taxes primarily from wholesalers and distributors who hold "qualified dealer" licenses issued by the Division.

Rates

	<i>Per Gallon Rate</i>
Highway	8¢
Marine	5¢
Aviation Gasoline	4.7¢
Jet Fuel	3.2¢

Returns

Taxpayers file returns and make payment monthly. There are four separate returns possible depending on fuel type. Returns can be filed for diesel, gasoline, aviation and/or gasohol.

The due date is the last day of the month following the month of sale or taxable use. Taxpayers can deduct 1% of the tax due, limited to a maximum of \$100 per return, as a timely filing credit.

Refunds

Consumers may claim a refund for the full tax rate if the consumer used the fuel for exempt purposes; or for the difference between the tax rate and 2¢ per gallon if the consumer used the fuel off-highway.

Resellers, usually retailers, may claim a refund for the full tax if the reseller paid the tax, and then sold the fuel for exempt use and did not collect the tax.

Exemptions

In addition to sales between qualified dealers, the following sales and use are exempt from motor fuel tax:

- Heating*
- Federal, state and local government agencies*
- Foreign flights (jet fuel)*
- Exports*
- Power plants/utilities*
- Charitable institutions*
- Gasohol (only fuel containing at least 10% alcohol derived from wood or seafood waste)*
- Bunker fuel (residual fuel oil known as #6 fuel oil)*

Disposition of Revenue

The Division deposits nearly all revenue derived from motor fuel taxes into the General Fund. Revenue from each category of fuel is accounted for separately in the Division's tax accounting system. For example, proceeds from tax on motor fuel used in boats and watercraft are deposited in a special watercraft fuel tax account and proceeds from tax on motor fuel used in highway vehicles are deposited in a special highway fuel tax account within the General Fund.

The Division shares with the respective municipalities sixty percent of taxes attributable to aviation fuel sales at municipally owned or operated airports. All other proceeds of the taxes on aviation fuel are paid into a special aviation fuel tax account.

History

The motor fuel tax dates back to 1945 when the legislature imposed a tax of 1¢ per gallon on all motor fuel. Over time, the legislature enacted separate tax rates for each of the fuel categories as they exist today. Motor fuel tax rates have changed as follows:

<i>Highway</i>	<i>Per Gallon</i>
1945	1¢
1947	2¢
1955	5¢
1960	7¢
1961	8¢
1964	7¢
1970	8¢

<i>Gasohol</i>	<i>Per Gallon</i>
1997	8¢/2¢
<i>(2¢ November through February where required)</i>	

<i>Marine</i>	<i>Per Gallon</i>
1945	1¢
1947	2¢
1955	5¢
1957	2¢
1960	3¢
1971	4¢
1977	5¢

MOTOR FUEL TAX

<i>Aviation Gasoline</i>	<i>Per Gallon</i>
1945	1¢
1947	2¢
1955	3¢
1968	4¢
1994	4.7¢

<i>Jet Fuel</i>	<i>Per Gallon</i>
1957	1.5¢
1968	2.5¢
1994	3.2¢

1994 – The legislature enacted a tax decrease for bunker fuel. The tax rate decreases from 5¢ to 1¢ per gallon on bunker fuel sales exceeding 4.1 million gallons. This tax decrease sunsetted on June 30, 1998.

1997 – The gasohol exemption was repealed. The legislature enacted a provision that reduces the tax on gasohol from 8¢ to 2¢ per gallon in areas and at times when the use of gasohol is required. However, gasohol has not been required since the winter of 2002-2003. Therefore, gasohol is currently taxed at the full tax rate of 8¢. In certain circumstances, gasohol that is blended with at least 10% alcohol derived from wood or seafood waste is fully exempt.

The legislature expanded the foreign flight exemption to include flights originating from foreign countries in addition to the existing exemption for flights with a foreign destination. This legislation included a permanent exemption for bunker fuel (residual fuel oil known as #6 fuel oil) which nullified the 1994 bunker fuel tax rate reduction.

1998 - The legislature authorized taxpayers to take a "bad debt" credit for sales deemed to be worthless and for sales to persons who file bankruptcy.

2003 – Motor Fuel Tax: Government Agency Refunds. This legislation makes it easier for the state to issue motor fuel excise tax refunds for credit card purchases made by federal, state, and local government agencies.

FY 2004 Statistics

Tax Collections	\$41,367,326
<i>Including penalties and interest</i>	
Number of Returns	3,401
Number of Taxpayers	255
 Program Cost	 \$308,298
Staffing (<i>full time equivalent</i>)	4.5

OIL AND GAS EXPLORATION, PRODUCTION AND PIPELINE TRANSPORTATION PROPERTY TAXES AS 43.56

Description

Each year Alaska levies the oil and gas property tax on the value of taxable exploration, production, and pipeline transportation property located within the state. The Division has established procedures for the three distinct classes of property.

Exploration Property is valued at the estimated price which the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer, both conversant with the property and with prevailing general price levels.

Production Property value is determined on the basis of replacement cost of similar new property, less depreciation based on the economic life of the proven reserves.

Pipeline Transportation Property is generally valued based on its economic value relative to the reserves feeding into the pipeline.

Rate

The State tax rate is 20 mills, or 2%, of the assessed value.

Returns

Taxpayers file annual returns reporting taxable property as of January 1 of the assessment year. Returns are due on or before January 15. Payment is due on or before June 30.

Exemptions

Oil and gas reserves, oil or gas leases, and the lease or rights to explore or produce oil or gas are exempt, as are intangible drilling and exploration expenditures. Certain aircraft, motor vehicles, communication facilities, and buildings may be exempt even though they are associated with oil or gas exploration, production, or pipeline transportation. Oil or gas pipeline transportation systems owned and operated by a public utility are exempt.

Credits

Municipal property taxes paid. Taxpayers receive a credit against state oil and gas property tax for property taxes paid to municipalities on taxable property. The credit is limited to the amount of state tax otherwise due.

Oil or Gas Property Education Credit. Taxpayers who make contributions for educational purposes to Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 for each tax year.

Disposition of Revenue

The Division deposits in the General Fund all net revenue derived from oil and gas property taxes except as noted below.

The Division deposits revenues received pursuant to a resolution of a dispute with taxpayers into the CBRF.

History

The legislature enacted this tax in 1973 during the first special session of the eighth legislature. The State assists local governments by assessing property subject to the tax, insuring uniform treatment of all taxable property.

FY 2004 Statistics

Property Tax Billed	\$266,210,393
CBRF	87,868
Less Municipal Tax Credit	(218,798,614)
Net Tax Due to State	47,499,647
Number of Returns	687
Number of Taxpayers	104
Program Costs	\$388,541
Staffing (full time equivalent)	3.1

OIL AND GAS PRODUCTION TAX

AS 43.55

Description

Alaska imposes the production tax on all oil and gas produced in Alaska. The Oil and Gas Production Tax and the Conservation Surcharge on Oil are severance taxes.

Rate

The rate of taxation for oil varies depending on the vintage of the field and is further subject to the economic limit factor (ELF). The ELF varies depending on field size and well productivity.

The severance tax rate on oil is 12.25% of production value as determined at the point of production, for the first 5 years of production and 15% thereafter. There is a minimum tax of \$0.80/bbl.

Both the percent of value and the cents per barrel tax rates are subject to the ELF. The effective tax rate is the appropriate tax rate multiplied by the ELF.

The ELF formula results in lower tax rates for smaller, low productive fields and higher tax rates for larger highly productive fields. The formula is difficult to characterize in a simple way because it is based on a fraction that is calculated using fractional exponents and is unique for every combination of field size and well productivity. A field that produces 300 bbl/day per well or less has an ELF of zero i.e. no severance taxes are assessed.

In Fiscal Year 2004, four of Alaska's North Slope 24 producing fields had an ELF higher than 0.1:

Field	ELF	FY04 Tax Rate
Prudhoe	.8503	12.75 %
North Star	.8471	10.38 %
Alpine	.8421	10.32 %
Kuparuk	.1650	2.47 %
Pt. McIntyre	.0983	1.47 %
Borealis	.0757	0.93 %
Tarn	.0518	0.78 %

The 4 largest fields account for 98% of all production tax revenues.

The severance tax rate on gas is 10% of production value. There is a minimum tax of \$0.064/mcf. The gas severance tax rate is also subject to an ELF based on daily gas production per well.

Returns

Returns are filed monthly and due with payment of taxes on or before the 20th day of the month following the month of production.

Exemptions

The tax is levied on all production except for public (government) royalty production.

Credits

Education - Taxpayers who make contributions for educational purposes to accredited Alaska universities or colleges may take a tax credit for 50% of the first \$100,000 and 100% of the next \$100,000 of contributions. The maximum credit is \$150,000 per tax year.

Oil and Gas Exploration Incentive - There are two exploration credits available to the producers. The first "Oil and Gas Exploration Incentive" is approved by the commissioner of Department of Natural Resources, and the second "Oil and Gas Exploration Tax Credit" is approved by the Department of Revenue. A producer may claim either one, but not both.

Taxpayers may take a credit for up to 50% on state land (or 25% on non state lands) of oil and gas exploration costs approved by the commissioner of Natural Resources. An approved oil and gas exploration incentive credit may not exceed \$5 million per project and is limited to \$30 million per taxpayer. Taxpayers may apply the credit against 100% of oil and gas production taxes.

Oil and Gas Exploration Tax Credit - Explorers may take a credit against their production taxes of (1) 20% of allowable expenses for exploration wells drilled more than 3 miles from a preexisting well, (2) 20% of allowable expenses for exploration wells drilled more than 25 miles from the boundary of a unit or (3) 40% of allowable expenses for certain seismic work and for exploration wells that meet both condition (1) and (2). Once approved, the credit or any remaining portion of it

OIL AND GAS PRODUCTION TAX

can be either carried forward month to month until fully applied, or sold to another taxpayer.

To qualify the work must have been performed between July 1, 2003 and July 1, 2007. However the credits cannot be applied until after July 1, 2004 (i.e. in FY 2005).

Disposition of Revenue

All revenue derived from the Oil and Gas Production Tax is deposited in the General Fund except that payments received as a consequence of an assessment are deposited in the Constitutional Budget Reserve Fund (CBRF).

History

1955 – The legislature enacts an oil and gas production tax of 1% of production value.

1967 – A 1% disaster production tax is enacted to provide relief after the Fairbanks flood.

1968 – The legislature increases oil and gas production tax from 1% to 3% of production value.

1970 – The legislature repeals the disaster oil and gas production tax. The legislature changes the oil production tax to a graduated tax with rates of 3% on the first 300 barrels per day per well, 5% on the next 700 barrels per day per well, 6% on the next 1500 barrels per day and 8% on production exceeding 2500 barrels per day per well.

1972 – The legislature establishes a minimum oil production tax based on "cents per barrel" equivalent to percent of value tax on oil with wellhead value of \$2.65 per barrel.

1973 – The legislature revises the "stairstep" rate schedule to lower production levels. The legislature indexes the cents per barrel minimum to the wholesale price index for crude oil published by the US Bureau of Labor Statistics.

1977 – The legislature raises the nominal gas production tax rate to 10%. The legislature raises the nominal oil production tax rate to 12.25% and adopts the oil and gas economic limit factors.

1981 – As part of legislation that repealed the separate accounting oil and gas corporation income

tax, the nominal tax rate on oil produced prior to 1981 was raised to 15% and fields coming into production after 1981 are taxed at 12.25% for five years after which the rate increases to 15%. The oil economic limit factor is now subject to a rounding rule so that if the calculated factor is greater than or equal to 0.7 during the first 10 years of production, the factor is set to 1.0.

1989 – The legislature changes the economic limit factor for oil production taxes to include a field size factor in the formula, fixes the production at the economic limit (not rebuttable) at 300 barrels per well per day, and drops the rounding rule. The legislature fixes production at the economic limit for gas production at 3000 mcf per well per day.

2002 - Alaska Veterans' Memorial Endowment, SB 267, provides credits of up to 50% for contributions of not more than \$100,000 and 75% of the next \$100,000 in contributions made to the Veterans' Memorial Endowment Fund. The tax credit expired on July 1, 2003.

2003 – To encourage drilling for oil and gas within the state, AS 43.55.025 provided a new tax credit for exploration costs. The minimum credit is 20% and the maximum 40% for qualified expenditures.

FY 2004 Statistics

Tax Collections - Production Tax only	
General Fund	\$642,819,003
CBRF	\$4,236,962
Total of GF and CBRF	\$647,055,965

Number of Returns	2,318
Number of Taxpayers	15

Severance Taxes*	
Program Cost	\$2,175,441
Staffing (full time equivalent)	24.1

* The Oil and Gas Production Tax is reported on the same return and by the same taxpayers as Alaska's other production tax, Conservation Surcharge on Oil (AS 43.55). We have not segregated program cost and staffing related to each individual tax. Production tax program cost and staffing represent the resources committed to both levies.

REGULATORY COST CHARGES

AS 42.05 (Utilities) and AS 42.06 (Pipeline)

Description

Regulatory cost charges (RCC) are user fees levied on utilities to fund the Regulatory Commission of Alaska's (RCA) costs of regulating utilities and pipeline carriers in Alaska. Regulated utilities pass charges to consumers, collect, and remit the charges to the Division.

Rate

For FY04, the following rates applied:

Electric Utilities	\$.000392/kWh
<i>The following are based on a percentage of total revenues</i>	

Telephone Utilities	
Local Exchange	1.290 %
Inter Exchange	1.297 %
Pipeline Carriers	0.491 %
Natural Gas Utilities	0.106 %
Refuse Utilities	0.807 %
Water and Wastewater Utilities	0.867 %
Cable Utilities	1.601 %
District Heat Utilities	1.304 %

Rates are effective October 1 through September 30 and are based on the costs the RCA incurs when working on matters that pertain to a specific utility or pipeline carrier.

Returns

Quarterly returns and payment of RCCs are due on the 30th day following the calendar quarter. Utilities and carriers are required to file a copy of their returns with RCA.

Exemptions

Utilities not regulated by RCA are exempt from the RCC program.

Disposition of Revenue

The Division deposits all revenue derived from the RCC program into the General Fund. The legislature

may make appropriations from the General Fund to fund RCA based on regulatory cost charges collected.

History

The Alaska legislature enacted the RCC program in 1992 to cover RCA's costs of regulating utilities. The RCC legislation provided for a sunset date of December 1994. Rates went into effect through regulations, which became effective November 1992.

1994 – The RCC program sunsetted December 1994, as provided under the 1992 legislation that authorized the regulatory cost charges.

In the fall of 1994, RCA promulgated regulations which established RCC rates for FY95 on an annualized basis. The regulations took effect December 1994.

1995 – The legislature reauthorized the RCC program which became effective June 1995. Effective October 1995, RCA adopted regulations to reestablish quarterly payments.

1999 – The legislature required that separate RCC rates be calculated for each regulated utility and changed the methodology for calculating rates.

FY 2004 Statistics

Total RCC Collections	
<i>Electric, Telephone, Pipeline Carriers</i>	\$5,655,595
<i>and other utilities</i>	
Number of Returns	523
Number of Taxpayers	123
Program Cost	\$15,969
Staffing (<i>full time equivalent</i>)	0.3

SALMON ENHANCEMENT TAX AS 43.76

Description

The salmon enhancement tax is an elective tax levied on salmon sold in or exported from established aquaculture regions in Alaska. Commercial fishers in each region elect to pay a 2% or 3% tax based on the value of salmon sold in or exported from that region.

Fishers pay salmon enhancement taxes to buyers at the time of sale or to the Division for salmon exported from the region. Buyers remit taxes collected from fishers to the Division.

Rate

Commercial fishers elected tax rates for the following regional aquaculture associations:

<i>Region</i>	<i>Rate</i>	<i>Effective</i>
Southern Southeast	3 %	1981
Northern Southeast	3 %	1981
Cook Inlet	2 %	1981
Prince William Sound	2 %	1985
Kodiak	2 %	1988
Chignik	2 %	1991

Returns

Buyers file returns and pay tax monthly. The due date is the last day of the month following the month of purchase or export.

Buyers file returns for payments made to fishers after the close of the fishing season. Returns for these payments are due with additional taxes by the last day of the month following the payment.

Exemptions

Salmon harvested under a special harvest area permit (typically, salmon harvested by salmon hatcheries) is exempt from the salmon enhancement tax.

Disposition of Revenue

The Division deposits all salmon enhancement tax revenue into the General Fund.

Under AS 43.76.025(c), the legislature may appropriate salmon enhancement tax revenue to

provide financing for qualified regional aquaculture associations

History

The legislature adopted the Salmon Enhancement Act in 1980. The Act established statutes authorizing a 2% or 3% tax, upon election by commercial fishers within established aquaculture regions, on salmon transferred to buyers in Alaska. Commercial fishers in Southern and Northern Southeast aquaculture regions elected a 3% tax and Cook Inlet region elected a 2% tax.

1981 – The legislature amended the Act to subject salmon exported from Alaska to the tax.

1985 – Commercial fishers in the Prince William Sound aquaculture region elected a 2% tax.

1989 – The legislature amended statutes to allow for a 1% tax. Commercial fishers in the Kodiak aquaculture region elected a 2% tax.

1991 – Commercial fishers in the Chignik aquaculture region elected a 2% tax.

2004 – The legislature authorized additional salmon enhancement tax rates, subject to permit holder elections held by qualified regional associations. In addition to the current 1%, 2% or 3% options, ten additional options were made available, ranging from 4% to 30%. This bill also clarifies who must pay the Salmon Marketing Tax and the Salmon Enhancement Tax. When selling to a buyer who does not withhold the tax, fishermen must pay the tax on an annual return. The bill takes effect January 1, 2005.

FY 2004 Statistics

Tax Collections	\$3,033,565
<i>Including interest and penalties</i>	
Number of Returns	885
Number of Taxpayers	195
Program Cost	\$36,324
Staffing (<i>full time equivalent</i>)	0.6

SALMON MARKETING TAX AS 43.76

Description

Alaska levies the salmon marketing tax on all salmon sold in or exported from Alaska. Commercial fishers pay salmon marketing taxes to buyers based on value of the salmon at the time of sale or fair market value when there is no arms length transaction. Taxpayers pay tax directly to the Division for salmon exported from the state. Buyers remit taxes collected from fishers to the Division.

Rate

The salmon marketing tax rate is 1% and is based on the value of the salmon.

Returns

Taxpayers file returns and pay tax monthly. The due date is the last day of the month following the month of purchase or export.

Exemptions

Salmon harvested under a special harvest area permit (typically, salmon harvested by salmon hatcheries) are exempt from the salmon marketing tax.

Disposition of Revenue

The Division deposits the salmon marketing tax into the General Fund.

AS 43.76.120(d), the legislature may appropriate salmon marketing tax revenue to the Alaska Seafood

Marketing Institute (ASMI) for the purpose of supporting its salmon marketing program.

History

1993 - The legislature enacted a 1% salmon marketing tax to fund salmon marketing administered by ASMI to sunset June 30, 1998.

1998 - The legislature extended the sunset date to June 30, 2003.

2002 - The legislature extended the sunset date to June 30, 2008.

2004 - Legislation prescribed an election to determine the rates and retention of marketing assessments. Note: The election was held in the Fall of 2004 resulting in an increase to the Seafood Marketing Assessment rate to 0.5% and eliminating the Salmon Marketing Tax effective January 1, 2005.

FY 2004 Statistics

Tax Collections	\$1,963,779
<i>Including interest and penalties</i>	
Number of Returns	900
Number of Taxpayers	197
Program Cost	\$36,324
Staffing (<i>full time equivalent</i>)	0.6

SEAFOOD MARKETING ASSESSMENT AS 16.51.120

Description

Alaska levies the seafood marketing assessment on seafood products made in Alaska. Alaska also levies the assessment on unprocessed fisheries product exported from Alaska. The Division generally collects the tax from fisheries processors or landing taxpayers.

Rate

The seafood marketing assessment is 0.3% of the value of seafood products produced in Alaska.

Returns

Taxpayers file calendar year returns that are due with payment of the assessment on March 31 of the following year.

Taxpayers file returns for post-season (bonus) payments made to fishermen after the filing of the calendar year return. Returns for these payments are due with additional assessments by the last day of the month following the payments.

Exemptions

Processors and fishermen who produce less than \$50,000 of seafood products during a calendar year are exempt from the assessment.

Disposition of Revenue

The Division deposits all seafood marketing assessments into the General Fund.

History

1981 - The legislature enacted an elective seafood marketing assessment of 0.1%, 0.2% or 0.3% (elected by large processors in Alaska). In 1981, processors elected a 0.3% assessment to take effect in calendar year 1982.

1996 - The legislature amended seafood marketing assessment statutes to include fishery resources landed in Alaska. The legislation was retroactive to January 1994.

1994 - Prior to FY 96, revenue collected from the 0.3% portion of the original 3.3% landing tax rate was accounted for in a separate account designated as (landing tax) seafood marketing assessments.

2004 - ASMI Board / Seafood Taxes & Assessments bill amends the size of the Alaska Seafood Marketing Institute (ASMI) board to seven governor-appointed members and sets qualifications for members. The bill directs ASMI to hold elections and determine whether to retain the assessment. If the assessment is retained, a second vote will determine whether to increase the seafood marketing assessment from 0.3% to 0.5%. If the increase passes, the current 1% Salmon Marketing Tax will end. If the increase fails, the current assessment will remain and the board will increase to nine members. The bill also establishes processes for future changes to and termination of assessments as well as a minimum processing threshold for paying assessments.

Note: Elections were held as prescribed in law. The vote retained the Seafood Marketing assessment, increased the Seafood Marketing rate to 0.5% and eliminated the Salmon Marketing Tax effective January 1, 2005.

FY 2004 Statistics

Assessment Collections	\$3,294,577
Number of Returns	276
Number of Taxpayers	211
Program Cost	\$47,999
Staffing (full time equivalent)	.08

TELEPHONE COOPERATIVE TAX

AS 10.25.550

Description

Alaska levies the telephone cooperative tax on gross revenue of qualified telephone cooperatives under AS 10.25. The Division collects taxes from cooperatives.

Rate

The telephone cooperative tax rate is based on the length of time in which the cooperative has furnished telephone service to consumers as follows:

<i>Length</i>	<i>% of Revenue</i>
Less than 5 years	1%
5 years or longer	2%

Returns

Telephone cooperatives file calendar year returns which are due with payment before March 1 of the following year.

Exemptions

All telephone cooperatives are subject to the cooperative tax. Cooperatives pay the telephone cooperative tax instead of corporate net income tax.

Disposition of Revenue

The Division deposits revenue from the telephone cooperative tax into the General Fund.

Telephone cooperative taxes sourced from within municipalities are shared 100% to respective

municipalities less the amount expended by the state in their collection.

The state retains telephone cooperative taxes sourced from outside of municipalities.

History

1959 – The Legislature enacted the telephone cooperative tax as part of the "Electric and Telephone Cooperative Act" which was adopted to promote cooperatives around the state. The due date for filing telephone cooperative tax returns was April 1 of the following year.

1960 – The due date for filing returns was changed to March 1.

FY 2004 Statistics

Tax Collections	\$2,101,198
Number of Returns	9
Number of Taxpayers	7
Program Cost	\$1,172
Staffing (<i>full time equivalent</i>)	< 0.1

Note: Program Costs reflect the cost of the program. The amount retained by the state after sharing (Table 2, Page 16) represents these costs and unshared tax collected outside an organized borough or incorporated city.

TIRE FEE AS 43.98.025

Description

Effective September 26, 2003, Alaska began levying a tire fee on all new tires sold in Alaska. The fee applies to retail sales in Alaska of each new tire for motor vehicles designed for highway use. Effective July 1, 2004, an additional tire fee is imposed on the sale of tires with metal studs or spikes weighing more than 1.1 grams each ("heavy studs"). The studded tire fee also applies to the installation of heavy studs in a new or used tire. The Tax Division collects tire fees primarily from tire dealerships.

Rate

The fee for the sale of all new tires is \$2.50 per tire, whether the tire is studded or not. The studded tire fee is \$5.00 per tire.

Returns

Taxpayers are required to file returns and remit the fee quarterly. The returns and payment are due 30 days following the calendar quarter in which the taxpayer made the sales. The first returns were due October 30, 2003.

Taxpayers may retain 5% of the amount collected, limited to a maximum of \$900 per quarter, to cover expenses associated with collecting and remitting the fees.

Exemptions

Fees imposed by AS 43.98.025 do not apply to the following tires and services if the purchaser provides the tire seller with a certificate of use:

- *Tires sold to federal, state, or local government agencies for official use*
- *Tires for resale*

The \$2.50 tire fee also does not apply to used tires and certain replacements of defective tires.

Disposition of Revenue

The Division deposits all revenue from the tire fee into the General Fund.

History

The law imposing the tire fee was passed in May 2003 and is comprised of two components.

The first part of the law imposes a \$2.50 fee on all new tires sold in Alaska for motor vehicles designed for highway use and became effective September 26, 2003. The first quarterly returns were due October 30, 2003.

The second part of the law imposes an additional \$5.00 fee per tire on all new tires with heavy studs and to the installation of heavy studs in new or used tires. This part of the law is effective July 1, 2004.

Both fees are imposed at the retail level.

FY 2004 Statistics

Tax Collections	\$826,674
Number of Returns	389
Number of Taxpayers	131
Program Cost	\$79,318
Staffing (<i>full-time equivalent</i>)	1.0

TOBACCO TAX

AS 43.50

Description

Alaska levies a tax on cigarettes and other tobacco products. The cigarette tax is levied on cigarettes imported into the state for sale or personal consumption. The tobacco products tax is levied on other tobacco products (other than cigarettes) imported into the state for sale. The Division collects tobacco taxes primarily from licensed wholesalers, distributors, and retailers.

Rates

The tax rate on cigarettes is 50 mills (5 cents) per cigarette, or \$1 per pack of 20 cigarettes. Beginning January 1, 2004, the cigarette tax must be paid by purchasing cigarette tax stamps. A cigarette tax stamp must be affixed to the bottom of every pack of cigarettes imported into Alaska for sale or personal consumption as proof that the cigarette tax has been paid.

The tax rate on Other Tobacco Products, which include tobacco products other than cigarettes such as cigars and chewing tobacco, is 75% of the wholesale price. The wholesale price is the established price at which a manufacturer sells tobacco products to a distributor. Beginning January 1, 2004, the Tax Division may adjust the wholesale price upon which tax was calculated if the wholesale price was not established in an arms-length transaction.

Legislation passed during a special legislative session in June 2004 will increase the cigarette tax rate to 80 mills (8 cents) per cigarette, or \$1.60 per pack of 20 cigarettes effective January 1, 2005. This same legislation includes additional cigarette tax increases of 10 mills (1 cent) per cigarette on July 1, 2006 and July 1, 2007. In addition, effective January 1, 2005, there is an additional tax of \$.25 per pack of twenty cigarettes on cigarette brands that are manufactured by manufacturers that did not sign the tobacco Master Settlement Agreement (NPM cigarettes). There was no increase in the other tobacco products tax rate.

Returns

Taxpayers must pay the cigarette tax by purchasing cigarette tax stamps. The other tobacco products tax is paid at the time a tax return is filed. Tax returns are required to be filed on a monthly basis and are due the

last day of the month following the month that cigarette tax stamps were purchased or other tobacco products were imported into the state for sale. Beginning January 1, 2004, taxpayers who purchase cigarette tax stamps are entitled to a stamp discount of 3% on the first \$1,000,000 and 2% on the second \$1,000,000 of cigarette tax stamps purchased in a calendar year. The total stamp discount in each calendar year may not exceed \$50,000. Taxpayers who import other tobacco products for sale may deduct 0.4% of the other tobacco products tax due to cover expenses of accounting and filing returns. Taxpayers could also deduct 0.4% of the cigarette tax due for tax periods prior to January 2004. There is no limit on this deduction.

Exemptions

Sales to authorized military personnel by a military exchange, commissary, or ship store; and sales by an Indian reservation business located within an Indian reservation to members of the reservation are not subject to the tax.

Disposition of Revenue

The Division deposits cigarette tax revenue as follows:

School Fund	38 mills (76%)
General Fund	12 mills (24%)

The Division deposits all tobacco products tax revenue into the General Fund.

The Division deposits all cigarette and tobacco products license fees into the School Fund.

The legislature dedicated all revenue deposited into the School Fund for rehabilitation, construction, repair and associated insurance costs of state school facilities.

The entire amount of the tax increases, including the additional \$.25 per pack tax on NPM cigarettes, passed during the special legislative session will be deposited in the General Fund. In addition, beginning January 1, 2005, the legislature may appropriate 8.9% of the receipts deposited in the General Fund to the Tobacco Use Education and Cessation Fund for tobacco cessation programs.

TOBACCO TAX

History

The tobacco tax dates to 1949 when the legislature enacted a tax of 3 cents per pack on cigarettes and 2 cents per ounce on tobacco. There were no exemptions provided in the tax legislation.

1951 – The legislature increased the cigarette tax to 5 cents per pack.

1955 – The legislature eliminated the tobacco products tax and, although the cigarette tax rate remained at 5 cents, the legislature converted the rate to a mill rate per cigarette (2.5 mills per cigarette). The legislature enacted a 1% deduction provision to cover accounting expenses.

1961 – The legislature increased the cigarette tax to 4 mills per cigarette (8 cents per pack). The legislature dedicated revenue from the additional 3 cents to the General Fund.

1977 – The legislature exempted military sales from the cigarette tax.

1983 – The Department of Revenue adopted regulations exempting sales of cigarettes to Indians within an Indian reservation from the cigarette tax.

1985 – The legislature increased the cigarette tax to 8 mills per cigarette (16 cents per pack).

1988 – The legislature enacted the tobacco products tax imposing a tax of 25% of the product wholesale price. The legislature authorized taxpayers to deduct 1% of the tax to cover accounting expenses.

1989 – The legislature increased the cigarette tax rate to 14.5 mills (29 cents per pack of 20).

1997 – Effective October 1, 1997, the legislature increased the cigarette tax rate to 50 mills or \$1 per pack of 20; and the tobacco products tax rate was increased to 75% of wholesale price. The legislature reduced the deduction percentage to cover accounting expenses from 1% to 0.4%.

2001 – Effective July 1, 2001, the Department of Revenue gained new tools to enforce the nationwide Master Settlement Agreement signed by the major cigarette producers and states. It allows the department to share information with other states and entities that may aid in the enforcement of the agreement. It also prohibits tobacco products licensees from importing

and selling cigarettes in Alaska made by nonparticipating manufacturers that fail to comply with the agreement.

2003 – Legislation effective June 17, 2003 requires all cigarette manufacturers to certify to the Division that they are either a signatory to the tobacco Master Settlement Agreement (MSA) or in compliance with Alaska Statute 45.53. The Division is required to post on its website a list of the compliant cigarette manufacturers and their brands. Only those brands of cigarettes included in the list may be sold in Alaska.

2004 – Effective January 1, 2004, the cigarette tax must be paid through the use of cigarette tax stamps. An Alaska cigarette tax stamp must be affixed to each cigarette pack prior to sale, distribution or consumption. Cigarettes found in the state that do not bear a cigarette tax stamp are contraband and subject to immediate seizure by the Department of Revenue or any other law enforcement agency in the state. Additionally, the sale of cigarettes at less than cost is prohibited.

During a special legislative session in June 2004, the legislature passed new legislation that will do the following:

- Effective January 1, 2005, the cigarette tax will increase by 30 mills to 8 cents per cigarette or \$1.60 per pack of twenty cigarettes. An additional tax of 12.5 mills or 25 cents per pack of twenty cigarettes will be assessed on cigarettes imported into the state for sale or personal consumption if the cigarettes were manufactured by a nonparticipating manufacturer (NPM). A nonparticipating manufacturer is a manufacturer that did not sign the tobacco Master Settlement Agreement. Revenue from the entire cigarette tax increase and the additional tax on NPM product will be deposited in the General Fund.
- Effective January 1, 2005, 8.9% of cigarette tax revenue deposited in the General Fund will be deposited into the Tobacco Use Education and Cessation Fund.
- Effective July 1, 2006, the cigarette tax will increase by 10 mills to 9 cents per cigarette or \$1.80 per pack of twenty cigarettes. The

TOBACCO TAX

revenue from this increase will be deposited in the General Fund.

or \$2.00 per pack of twenty cigarettes. The revenue from this increase will be deposited in the General Fund.

- Effective July 1, 2007, the cigarette tax will increase by 10 mills to 10 cents per cigarette

FY 2004 Statistics

Tax Collections by Fund

General Fund	\$15,990,447
School Fund	32,865,726
Total Tax Collections by Fund	\$48,856,173

Tax Collections by Product

Cigarettes	\$42,573,286
Other Tobacco Products	6,561,826
Subtotal	\$49,135,112
Accounting Expense Deduction	(22,936)
Tax Stamp Discount	(332,157)
Penalties & Interest	76,154
Total Collections by Product	\$48,856,173

Cigarettes sold or imported into the state - (individual cigarettes) as reported on returns*

Taxable Cigarettes	851,465,720
Military and Indian Exempt Sales	6,072,900
Credits for Returns	8,639,634
Total Cigarettes	866,178,254

*Does not include cigarettes for which tax stamps were purchased, but were not yet sold or imported into the state

Other Tobacco Products (value)
as reported on returns

Taxable Products	\$8,749,101
Military and Indian Exempt Sales	107,065
Credits for Returns	201,226
Total Other Tobacco Products	\$9,057,392

License Fee Collections	4,740
Number of Returns	862
Number of Taxpayers	102

Program Cost	\$441,223
Staffing (full time equivalent)	5.4

VEHICLE RENTAL TAX AS 43.52

Description

The State of Alaska levies an excise tax on costs and fees charged for the lease or rental of a passenger or recreational vehicle if the lease or rental period does not exceed 90 consecutive days. The tax is levied upon the individual renting the vehicle and collected by the rental/lease agency.

Rate

<i>Type of Vehicle</i>	<i>Rate</i>
Passenger	10%
Recreational	3%

Passenger Vehicle means a motor vehicle (self-propelled, but not by animal or human power) that is driven or moved on a highway or other public right-of-way in the state. Passenger vehicles do not include commercial vehicles, emergency or fire equipment, farm vehicles or recreational vehicles.

Recreational Vehicle means a motor vehicle or trailer for recreational dwelling purposes, a motor home or other vehicle with a motor home body style, a one-piece camper vehicle or any other self-propelled vehicle with living quarters.

Returns

Rental/lease agencies file tax returns and remit the collected vehicle rental taxes quarterly. The returns and payments are due the last day of the month following the end of the calendar quarter in which the rental/lease agencies collected the tax.

Exemptions

Vehicle rental tax does not apply to rentals or leases to federal, state, or local government agencies or employees on official business. The rental agency

must obtain a completed Government Use Exemption Certificate from the renter that specifies the nature of the exemption and contains a signed certification by the renter that the lease or rental is authorized by the government agency and will be used for official use only.

The vehicle rental tax also does not apply to a lease or rental that contains a term exceeding 90 consecutive days or to the rental of taxicabs by taxicab drivers.

Disposition of Revenue

The Division deposits all revenue from the vehicle rental tax into a special vehicle rental account in the General Fund. The legislature may appropriate the actual balance of the vehicle rental tax account for tourism development and marketing.

History

2003 – The legislature enacted the vehicle rental tax on August 20, 2003. The tax was effective January 1, 2004.

2004 – The legislature exempted the rental of taxicabs by taxicab drivers from the vehicle rental tax. Effective May 8, 2004 and retroactive to January 1, 2004, the Department was instructed to refund any tax collected or remitted for taxi cab rentals between January 1 and May 8, 2004.

FY 2004 Statistics

Tax Collections	\$2,711,572
Number of Returns	201
Number of Taxpayers	122
Program Cost	\$70,273
Staffing (<i>full-time equivalent</i>)	1

AUDIT FUNCTION

Description

The audit unit historically consisted of two groups differentiated by tax types. Effective FY04, the Division reorganized the audit function and formed a third audit group, the excise tax audit group.

The income tax audit group is responsible for corporate income taxes, including oil and gas corporation net income tax audits.

The oil and gas production tax audit group is responsible for the oil and gas production tax audits.

The newly formed excise tax audit group is responsible for excise tax audits.

The audit groups with oil and gas responsibilities maintain 100% audit coverage of Alaska largest taxpayers in the oil and gas industry.

FY 2004 Statistics Income Tax Audit Group - Receipts

<i>Tax Type</i>	<i>Audit Collections</i>	<i>Total Tax Collections</i>
Corporate Net Income		
Oil and Gas Corp Income	\$4,035,122	\$302,867,974
Other Corporations	4,491,444	39,546,080
Total	\$8,526,566	\$342,414,054

Oil and Gas Production Audit Group - Receipts

<i>Tax Type</i>	<i>Audit Collections</i>	<i>Total Tax Collections</i>
Oil and Gas Production Tax	\$4,236,962	\$656,108,482
Oil and Gas Property	87,868	266,298,261
Total	\$4,324,830	\$922,406,743

Excise Tax Audit Group - Receipts

<i>Tax Type</i>	<i>Audit Collections</i>	<i>Total Tax Collections</i>
Excise Tax	\$88,806	\$188,680,138
Total	\$88,806	\$188,680,138

<i>Totals</i>	<i>Total Audit Collections</i>	<i>Total Tax Collections</i>
	\$12,940,202*	\$1,453,500,935**

* Does not include receipts or refunds resulting from litigation.

** Includes all General Fund, credits, CBRF and School Funds.

APPEALS FUNCTION

Description

Appeals staff continued to work independently and in cooperation with the Department of Law to expedite and resolve issues related to audit and compliance actions. While oil and gas cases retained a priority due to the revenue and important issues involved, gaming cases also were a top priority as the Division continued to deal with compliance issues in the gaming industry.

FY 2004 Statistics

	Tax Periods*	Taxpayer Count
Beginning Inventory	156	47
Plus New Cases	180	73
Less Closed Cases	(102)	(47)
Ending Inventory	234	73

*Tax periods correspond to periodic tax return filing requirements of taxpayers. One taxpayer may have several tax periods in appeals at the same time.

Appendix A Historical Overview of Tax Programs

Tax Type	Reference	Enacted	Original Tax	Current Tax Structure	Latest Change
Alcoholic Beverages	AS 43.60	1933	Wine 5 cents/gallon Beer 5 cents/gallon	Product Current Rate Per Gallon Liquor \$12.80 Wine 2.50 Beer (Malt Beverage) and Cider 1.07 Beer (Small Breweries) 0.35	Effective 10/1/2002, tax rates increase for alcoholic beverages as referenced under "Current Tax Structure". [Beer manufactured by breweries that meet the qualification of 26 U.S.C. 5051(a)(2) is taxed at the rate of \$.35/gallon on the first 60,000 barrels sold in Alaska].
Games of Chance and Contests of Skill	AS 05.15	1960		\$20 annual permit fee for new and renewal permittees. \$50 renewal permit fee for permittees with \$20,000 to \$100,000 in gross receipts. \$100 renewal permit fee for permittees with over \$100,000 in gross receipts. \$500 annual operator license fee. \$1,000 annual distributor fee. \$2,500 annual manufacturer license fee. 3% tax of an amount equal to the gross receipts less prizes awarded on each series of pull tabs distributed.	2004 - HB 366 authorizes permits for charitable animal classics, which are games of chance relating to certain actions by rodents or chickens.
Conservation Surcharge on Oil	AS 43.55	1989	5¢/bbl	3¢/bbl increasing to 5¢/bbl when fund balance drops below \$50m	1994 - tax rate split based on fund balance.
Corporate Net Income	AS 43.20	1949	10% of federal income tax liability	1% to 9.4% of net income	2003 - oil and gas CIT exploration/development credit initiated.
Dive Fishery Management Assessment	AS 43.76.150	1997	Voluntary tax of 1, 3, 5, or 7% of value	SE AK Management Area A Geoduck = 5% Sea Cucumber = 5% Sea Urchin = 7%	2004 - HB 341 added a three additional rates: 2, 4 and 6%.
Electric Cooperative	AS 10.25.555	1959	1% of gross revenue if operating < 5 years; 2% of gross revenue if operating ≥ 5 years	1/4 mill (\$.00025) per kWh if < 5 years; 1/2 mill (\$.0005) per kWh if ≥ 5 years	1980 - tax base on kWh rather than gross revenue.
Estate	AS 43.31	1919	(Inheritance Tax) Based on value of property	State tax credit on federal estate tax return	1991 - interest on delinquent tax subject to compound interest under AS 43.05.225. Beginning FY 2003, the state estate tax will phase out as a consequence of changes in federal law.
Fisheries Business	AS 43.75	1913	7¢ per case of canned salmon; Other -- dollar amount based on revenue	Floating - 5% ¹ and 3% ² of value Shore-based - 3% ¹ and 1% ² of value Cannery - 4.5% of value Direct Market - 3% ¹ and 1% ² of value	2004 - Direct Marketing Fisheries Business / Taxes - authorized new direct marketing fisheries business license with tax rates set at 1% of the value of developing commercial fish species and 3% of the value of other commercial fish species. Section directing DOR to adopt regulations took effect July 4, 2004. Regs and other bill provisions will take effect January 1, 2005.
Fishery Resource Landing	AS 43.77	1993	3.3% of unprocessed value	3% of value ¹ 1% of value ²	2001 - quarterly payment of estimated fishery resource landing taxes is required.
1 Established species 2 Developing species					

Appendix A
Historical Overview of Tax Programs

Tax Type	Legislative Reference	Year Enacted	Original Tax	Current Tax Structure	Latest Change
Motor Fuel	AS 43.40	1945	1¢ per gallon on all fuels	Highway - 8¢/gallon Marine - 5¢/gallon Aviation Gas - 4.7¢/gallon Jet Fuel - 3.2¢/gallon	2001 - regulations adopted introduced new and clarified existing policy for interpreting the statutes.
Oil & Gas Property	AS 43.56	1973	20 mills on full and true value	20 mills on full and true value	1996 - oil and gas property education tax credit was enacted.
Oil & Gas Production Tax	AS 43.55	1955	1% of production value	12.25% of production value during first five years of production, 15% thereafter	2003 - oil and gas tax credit enacted.
Regulatory Cost Charge (APUC)	AS 42.05.253 (Utilities) AS 42.06.285 (Pipelines)	1992	Electric Utilities: \$.000626/kWh Other Utilities: .653% gross revenue Pipelines: .653% gross revenue	Electric Utilities: \$.000280/kWh Other Utilities: .568% gross revenue Pipelines: .568% gross revenue	1998 - rates increased by regulation.
Salmon Enhancement	AS 43.76	1980	Voluntary tax of 1%, 2% or 3% of value as elected by fishers in an aquaculture region	Southern Southeast - 3% Northern Southeast - 3% Cook Inlet - 2% Pr. William Sound - 2% Kodiak - 2% Chignik - 2%	2004 - SB 286 clarified the incidence of the tax; when selling to a buyer who does not withhold the tax, fishermen must now pay the tax on an annual return. SB 322 added ten additional rate options ranging from 4 to 30%
Salmon Marketing	AS 43.76	1993	1% of value of salmon statewide	1% of value of salmon statewide.	Repealed effective January 1, 2005
Seafood Marketing	AS 16.51.120	1981	Voluntary assessment of .1%, .2% or .3% of value as elected by processors	0.3% of value of fishery resources produced in Alaska Rate set at 0.5% effective January 1, 2005.	2004 - SB 273 directed a member election of the Alaska Seafood Marketing Institute (ASMI). Fall election determined retention of Seafood Marketing Assessment and increased the rate to 0.5%.
Telephone Cooperative	AS 10.25.550	1959	1% of gross revenue if operating < 5 years; 2% of gross revenue if operating ≥ 5 years or longer	1% of gross revenue if operating < 5 years; 2% of gross revenue if operating ≥ 5 years or longer	N/A
Tire Fee	AS 43.98	2003	\$2.50 per new tire for highway-use motor vehicles Additional \$5.00 per tire with studs or spikes over 1.1 grams	\$2.50 per new tire for highway-use motor vehicles Additional \$5.00 per tire with studs or spikes over 1.1 grams	N/A
Tobacco	AS 43.50	1949	Cigarettes - 3¢ per pack of 20; Tobacco - 2¢ per ounce	50 mills/cigarette (\$1 per pack of 20) 75% of wholesale price	2004 - SB 1001 scheduled increases in the tax to \$1.60 per pack on Jan. 1, 2005, to \$1.80 per pack on July 1, 2006, and to \$2.00 on July 1, 2007. An additional tax of \$.25 per pack is imposed on manufacturers that did not sign the Master Settlement Agreement.
Vehicle Rental Tax	AS 43.52	2004	10% on passenger vehicle rentals of 90 days or less 3% on recreational vehicle rentals of 90 days or less	10% on passenger vehicle rentals of 90 days or less 3% on recreational vehicle rentals of 90 days or less	2004 - HB 347 added taxicabs to the list of vehicles exempt from the Vehicle Rental Tax.

Appendix A
Historical Overview of Tax Programs

Tax Type	Legal Reference	Year Enacted	Original Tax	Current Tax Structure	Latest Change
Repealed Tax Programs					
Business License	AS 43.70	1949	\$25 license fee plus .5% of gross receipts > \$20,000 plus .25% of gross receipts > \$50,000	Repealed	Tax repealed effective January 1, 1979
Oil & Gas Conservation	AS 43.57	1955	5 mills per barrel of oil or 50,000 cubic feet of natural gas	Repealed	Tax repealed effective July 1, 1999
Coin-operated Devices	AS 43.35	1941	12.5% of gross receipts on coin-operated machines	Repealed	Tax repealed effective January 1, 1999
Individual Income	AS 43.20	1949	10% of federal income tax liability	Repealed	Tax repealed retroactive to 1979
School	AS 43.45	1919	\$5 tax on each male person	Repealed	Tax repealed retroactive to 1980

Appendix B
Comparison of Alcohol Tax Rates - Liquor
January 2004

Since many states charge a sales tax as well as an alcohol tax, Alaska's total tax on alcohol is not actually the highest among the states.

State	Rate (\$ per gallon)	Rank*	State	Rate (\$ per gallon)	Rank*
Alabama	Footnote 1	N/A	Montana	Footnote 1	N/A
ALASKA	12.80	1	Nebraska	3.75	16
Arizona	3.00	21	Nevada	3.60	18
Arkansas	2.50	24	New Hampshire	Footnote 1	N/A
California	3.30	19	New Jersey	4.40	10
Colorado	2.28	29	New Mexico	6.06	4
Connecticut	4.50	8	New York	6.44	3
Delaware	3.75	15	North Carolina	Footnote 1	N/A
Florida	6.50	2	North Dakota	2.50	24
Georgia	3.79	14	Ohio	Footnote 1	N/A
Hawaii	5.92	5	Oklahoma	5.56	6
Idaho	Footnote 1	N/A	Oregon	Footnote 1	N/A
Illinois	4.50	8	Pennsylvania	Footnote 1	N/A
Indiana	2.68	23	Rhode Island	3.75	16
Iowa	Footnote 1	N/A	South Carolina	2.72	22
Kansas	2.50	24	South Dakota	3.93	13
Kentucky	1.92	31	Tennessee	4.40	10
Louisiana	2.50	24	Texas	2.40	28
Maine	Footnote 1	N/A	Utah	Footnote 1	N/A
Maryland	1.50	32	Vermont	Footnote 1	N/A
Massachusetts	4.05	12	Virginia	Footnote 1	N/A
Michigan	Footnote 1	N/A	Washington	Footnote 1	N/A
Minnesota	5.03	7	West Virginia	Footnote 1	N/A
Mississippi	Footnote 1	N/A	Wisconsin	3.25	20
Missouri	2.00	30	Wyoming	Footnote 1	N/A

1 - Sales are through state stores. Revenue is generated from various taxes, fees and net profits.

* Out of 32 states which levy a per gallon tax, highest to lowest.

N/A - Not Applicable

SOURCE: Federation of Tax Administrators

Appendix B
Comparison of Alcohol Tax Rates - Wine
January 2004

Since many states charge a sales tax as well as an alcohol tax, Alaska's total tax on alcohol is not actually the highest among the states.

State	Rate (\$ per gallon)	Rank*	State	Rate (\$ per gallon)	Rank*
Alabama	1.70	4	Montana	1.06	10
ALASKA	2.50	1	Nebraska	.95	13
Arizona	.84	17	Nevada	.70	22
Arkansas	.75	19	New Hampshire	Footnote 1	N/A
California	.20	43	New Jersey	.70	22
Colorado	.32	38	New Mexico	1.70	4
Connecticut	.60	25	New York	.19	45
Delaware	.97	12	North Carolina	.79	18
Florida	2.25	2	North Dakota	.50	31
Georgia	1.51	6	Ohio	.32	38
Hawaii	1.36	8	Oklahoma	.72	21
Idaho	.45	34	Oregon	.67	24
Illinois	.73	20	Pennsylvania	Footnote 1	N/A
Indiana	.47	33	Rhode Island	.60	25
Iowa	1.75	3	South Carolina	.90	15
Kansas	.30	40	South Dakota	.93	14
Kentucky	.50	31	Tennessee	1.21	9
Louisiana	.11	46	Texas	.20	43
Maine	.60	25	Utah	Footnote 1	N/A
Maryland	.40	35	Vermont	.55	28
Massachusetts	.55	28	Virginia	1.51	6
Michigan	.51	30	Washington	.87	16
Minnesota	.30	40	West Virginia	1.00	11
Mississippi	.35	37	Wisconsin	.25	42
Missouri	.36	36	Wyoming	Footnote 1	N/A

1 - Sales are through state stores. Revenue is generated from various taxes, fees and net profits.

* Out of 46 states which impose a per gallon tax, highest to lowest.

N/A - Not Applicable

SOURCE: Federation of Tax Administrators

Appendix B
Comparison of Alcohol Tax Rates -Beer
January 2004

Since many states charge a sales tax as well as an alcohol tax, Alaska's total tax on alcohol is not actually the highest among the states.

State	Rate (\$ per gallon)	Rank	State	Rate (\$ per gallon)	Rank
Alabama	.53	4	Montana	.14	36
ALASKA	1.07	1	Nebraska	.31	14
Arizona	.16	30	Nevada	.16	30
Arkansas	.23	20	New Hampshire	.30	15
California	.20	21	New Jersey	.12	38
Colorado	.08	44	New Mexico	.41	9
Connecticut	.19	23	New York	.11	40
Delaware	.16	30	North Carolina	.53	4
Florida	.48	6	North Dakota	.16	30
Georgia	.48	6	Ohio	.18	27
Hawaii	.92	2	Oklahoma	.40	11
Idaho	.15	34	Oregon	.08	44
Illinois	.185	26	Pennsylvania	.08	44
Indiana	.115	39	Rhode Island	.10	42
Iowa	.19	23	South Carolina	.77	3
Kansas	.18	27	South Dakota	.27	16
Kentucky	.08	44	Tennessee	.14	36
Louisiana	.32	13	Texas	.19	23
Maine	.35	12	Utah	.41	9
Maryland	.09	43	Vermont	.265	17
Massachusetts	.11	40	Virginia	.26	19
Michigan	.20	21	Washington	.261	18
Minnesota	.15	34	West Virginia	.18	27
Mississippi	.43	8	Wisconsin	.06	48
Missouri	.06	48	Wyoming	.02	50

SOURCE: Federation of Tax Administrators

Appendix B
Comparison of Highway Gasoline Tax Rates
January 2004

State	Rate (\$ per gallon)	Other Tax ⁽¹⁾ (\$ per gallon)	Total (\$ per gallon)	Rank
Alabama	16	2	18	37
ALASKA	8	0	8	50
Arizona	18	0	18	37
Arkansas	21.5	0	21.5	22
California	18	0	18	37
Colorado	22	0	22	20
Connecticut	25	0	25	9
Delaware	23	0	23	18
Dist of Columbia	20	0	20	27
Florida	4	10.3	14.3	48
Georgia	7.5	0	7.5	51
Hawaii	16	0	16	45
Idaho	25	1	26	6
Illinois	19	0.8	19.8	32
Indiana	18	0	18	37
Iowa	20.3	0	20.3	26
Kansas	24	0	24	13
Kentucky	15	1.4	16.4	44
Louisiana	20	0	20	27
Maine	24.6	0	24.6	10
Maryland	23.5	0	23.5	17
Massachusetts	21	0	21	24
Michigan	19	0	19	34
Minnesota	20	0	20	27
Mississippi	18	0.4	18.4	36
Missouri	17	0.03	17.03	42
Montana	27	0	27	4
Nebraska	24.8	0.9	25.7	7
Nevada	24	0	24	13
New Hampshire	18	1.5	19.5	33
New Jersey	10.5	4	14.5	47
New Mexico	17	1.9	18.9	35
New York	8	14.6	22.6	19
North Carolina	24.3	0.25	24.55	11
North Dakota	21	0	21	24
Ohio	24	0	24	13
Oklahoma	16	1	17	43
Oregon	24	0	24	13
Pennsylvania	12	14.2	26.2	5
Rhode Island	30	1	31	1
South Carolina	16	0	16	45
South Dakota	22	0	22	20
Tennessee	20	1.4	21.4	23
Texas	20	0	20	27
Utah	24.5	0	24.5	12
Vermont	19	1	20	27
Virginia	17.5	0	17.5	41
Washington	28	0	28	3
West Virginia	20.5	4.85	25.35	8
Wisconsin	28.5	0	28.5	2
Wyoming	13	1	14	49

⁽¹⁾ Includes state sales tax, gross receipts tax and underground storage tank taxes.

SOURCE: Federation of Tax Administrators

Appendix B
Comparison of Highway Aviation Fuel Tax Rates
January 2004

State	Jet Fuel (\$ per gallon)	Rank ¹	Aviation Gas (\$ per gallon)	Rank ²
Alabama	1.0	30	3.0	34
ALASKA	3.2	20	4.7	30
Arizona	3.05	21	5.0	24
Arkansas	Sales Tax	N/A	Sales Tax	N/A
California	2.0	25	18.0	5
Colorado	4.0	16	6.0	19
Connecticut	None	N/A	None	N/A
Delaware	None	N/A	23.0	1
Florida	6.0	7	6.0	19
Georgia	Sales Tax	N/A	1.0	37
Hawaii	1.0	30	1.0	37
Idaho	4.5	15	5.5	23
Illinois	11.0	1	11.0	9
Indiana	0.8	34	18.0	5
Iowa	3.0	22	8.0	13
Kansas	Sales Tax	N/A	Sales Tax	N/A
Kentucky	Sales Tax	N/A	16.4	7
Louisiana	Sales Tax	N/A	20.0	3
Maine	3.4	19	22.0	2
Maryland	7.0	5	7.0	16
Massachusetts	5.0	10	10.0	10
Michigan	3.0	22	3.0	34
Minnesota	5.0	10	5.0	24
Mississippi	5.25	9	6.4	18
Missouri	Sales Tax	N/A	Sales Tax	N/A
Montana	4.0	16	4.0	32
Nebraska	3.0	22	5.0	24
Nevada	1.0	30	1.0	37
New Hampshire	2.0	25	4.0	32
New Jersey	2.0	25	12.5	8
New Mexico	Sales Tax	N/A	Sales Tax	N/A
New York	8.0	3	8.0	13
North Carolina	Sales Tax	N/A	Sales Tax	N/A
North Dakota	8.0	3	8.0	13
Ohio	Sales Tax	N/A	Sales Tax	N/A
Oklahoma	0.08	35	0.08	40
Oregon	1.0	30	9.0	11
Pennsylvania	2.0	25	4.3	31
Rhode Island	None	N/A	None	N/A
South Carolina	Sales Tax	N/A	Sales Tax	N/A
South Dakota	4.0	16	6.0	19
Tennessee	1.4	29	1.4	36
Texas	None	N/A	None	N/A
Utah	9.0	2	9.0	11
Vermont	None	N/A	20.0	3
Virginia	5.0	10	5.0	24
Washington	6.5	6	6.5	17
West Virginia	4.85	14	4.85	29
Wisconsin	6.0	7	6.0	19
Wyoming	5.0	10	5.0	24

¹Out of 35 states with tax rates ²Out of 41 states with tax rates

SOURCE: National Business Aircraft Association, Inc. 2003 State Aviation Tax Report

Appendix B
Comparison of Cigarette Tax Rates
January 2004

State	Rate (\$ per pack)	Rank	State	Rate (\$ per pack)	Rank
Alabama	0.165	46	Montana	0.70	22
ALASKA	1.00	12	Nebraska	0.64	24
Arizona	1.18	11	Nevada	0.80	19
Arkansas	0.59	26	New Hampshire	0.52	33
California	0.87	18	New Jersey	2.05	1
Colorado	0.20	42	New Mexico	0.91	17
Connecticut	1.51	3	New York	1.50	5
Delaware	0.55	29	North Carolina	0.05	48
Florida	0.339	40	North Dakota	0.44	35
Georgia	0.37	37	Ohio	0.55	29
Hawaii	1.30	7	Oklahoma	0.23	41
Idaho	0.57	27	Oregon	1.28	8
Illinois	0.98	16	Pennsylvania	1.00	12
Indiana	0.555	28	Rhode Island	1.71	2
Iowa	0.36	38	South Carolina	0.07	47
Kansas	0.79	20	South Dakota	0.53	32
Kentucky	0.03	49	Tennessee	0.20	42
Louisiana	0.36	38	Texas	0.41	36
Maine	1.00	12	Utah	0.695	23
Maryland	1.00	12	Vermont	1.19	10
Massachusetts	1.51	3	Virginia	0.025	50
Michigan	1.25	9	Washington	1.425	6
Minnesota	0.48	34	West Virginia	0.55	29
Mississippi	0.18	44	Wisconsin	0.77	21
Missouri	0.17	45	Wyoming	0.60	25

SOURCE: Federation of Tax Administrators

Effective January 1, 2005, the Alaska cigarette tax will increase by 30 mills to 8 cents per cigarette or \$1.60 per pack of twenty cigarettes. An additional tax of 12.5 mills or 25 cents per pack of twenty cigarettes will be assessed on cigarettes imported into the state for sale or personal consumption if the cigarettes were manufactured by a manufacturer that did not sign the tobacco Master Settlement Agreement.

Similar changes are planned in other states and will impact the above rates and ratings.

Appendix B
Comparison of Tobacco Products Tax Rates
January 2004

State	Rate	State	Rate
Alabama	.6¢ - 4.4¢/ounce	Montana	25.0% Wholesale Price
ALASKA	75% Wholesale Price	Nebraska	20% Wholesale Price
Arizona	13.3¢/ounce	Nevada	30% Wholesale Price
Arkansas	32% Manufacturer Price	New Hampshire	19.0% Wholesale Price
California	46.76% Wholesale Price	New Jersey	30% Wholesale Price
Colorado	20% Manufacturer Price	New Mexico	25% Product Value
Connecticut	20% Wholesale Price	New York	37% Wholesale Price
Delaware	15% Wholesale Price	North Carolina	2% Wholesale Price
Florida	25% Wholesale Price	North Dakota	28% Wholesale Price
Georgia	23% Wholesale Price	Ohio	17% Wholesale Price
Hawaii	40% Wholesale Price	Oklahoma	30% - 40% Factory List Price
Idaho	40% Wholesale Price	Oregon	65% Wholesale Price
Illinois	18% Wholesale Price	Pennsylvania	N/A
Indiana	15% Wholesale Price	Rhode Island	30% Wholesale Price
Iowa	22% Wholesale Price	South Carolina	5% Manufacturer Price
Kansas	10% Manufacturer Price	South Dakota	10% Wholesale Price
Kentucky	N/A	Tennessee	6.6% Wholesale Price
Louisiana	33% Manufacturer Price	Texas	35.213% Manufacturer Price
Maine	62% Wholesale Price	Utah	35% Manufacturer Price
Maryland	15% Wholesale Price	Vermont	41% Manufacturer Price
Massachusetts	90% Wholesale Price	Virginia	N/A
Michigan	20% Wholesale Price	Washington	129.42% Wholesale Price
Minnesota	35% Wholesale Price	West Virginia	7% Wholesale Price
Mississippi	15% Manufacturer Price	Wisconsin	25% Manufacturer Price
Missouri	10% Manufacturer Price	Wyoming	20% Wholesale Price

Tobacco products include chewing tobacco and snuff.

N/A - Not Applicable

SOURCE: *Federation of Tax Administrators*

Appendix B
Comparison of Corporation Income Tax Rates
2004 Tax Year

State	Rate (%)	Tax Brackets		Number of Brackets
		Lowest	Highest	
Alabama	6.5		Flat Rate	1
ALASKA	1.0 - 9.4	\$10,000	\$90,000	10
Arizona	6.9680		Flat Rate	1
Arkansas	1.0 - 6.5	\$3,000	\$100,000	6
California	8.84		Flat Rate	1
Colorado	4.63		Flat Rate	1
Connecticut	7.5		Flat Rate	1
Delaware	8.7		Flat Rate	1
Florida	5.5		Flat Rate	1
Georgia	6.0		Flat Rate	1
Hawaii	4.4 - 6.4	\$25,000	\$100,000	3
Idaho	7.6		Flat Rate	1
Illinois	7.3		Flat Rate	1
Indiana	8.5		Flat Rate	1
Iowa	6.0 - 12.0	\$25,000	\$250,000	4
Kansas	4.0		Flat Rate	1
Kentucky	4.0 - 8.25	\$25,000	\$250,000	5
Louisiana	4.0 - 8.0	\$25,000	\$200,000	5
Maine	3.5 - 8.93	\$25,000	\$250,000	4
Maryland	7.0		Flat Rate	1
Massachusetts	9.5		Flat Rate	1
Michigan	Tax Based on Federal Taxable Income			N/A
Minnesota	9.8		Flat Rate	1
Mississippi	3.0 - 5.0	\$5,000	\$10,000	3
Missouri	6.25		Flat Rate	1
Montana	6.75		Flat Rate	1
Nebraska	5.58 - 7.81		\$50,000	2
Nevada	No Corporation Income Tax			N/A
New Hampshire	8.5		Flat Rate	1
New Jersey	9.0		Flat Rate	1
New Mexico	4.8 - 7.6	\$500,000	\$1,000,000	3
New York	7.5		Flat Rate	1
North Carolina	6.9		Flat Rate	1
North Dakota	3.0 - 10.5	\$3,000	\$50,000	6
Ohio	5.1 - 8.5		\$50,000	2
Oklahoma	6.0		Flat Rate	1
Oregon	6.6		Flat Rate	1
Pennsylvania	9.99		Flat Rate	1
Rhode Island	9.0		Flat Rate	1
South Carolina	5.0		Flat Rate	1
South Dakota	No Corporation Income Tax			N/A
Tennessee	6.5		Flat Rate	1
Texas	Tax Based on Capital and Surplus			N/A
Utah	5.0		Flat Rate	1
Vermont	7.0 - 9.75	\$10,000	\$250,000	4
Virginia	6.0		Flat Rate	1
Washington	No Corporation Income Tax			N/A
West Virginia	9.0		Flat Rate	1
Wisconsin	7.9		Flat Rate	1
Wyoming	No Corporation Income Tax			N/A

Source: Federation of Tax Administrators

Appendix B
Comparison of Individual Income Tax Rates*
2004 Tax Year

State	Rate (%)	Tax Brackets		Number of Brackets
		Lowest	Highest	
Alabama	2.0 - 5.0	\$500	\$3,000	3
ALASKA		No State Income Tax		N/A
Arizona	2.87 - 5.04	\$10,000	\$150,000	5
Arkansas	1.0 - 7.0	\$3,999	\$27,500	6
California	1.0 - 9.3	\$5,962	\$39,133	6
Colorado	4.63	Flat Rate		1
Connecticut	3.0 - 5.0	\$10,000	\$10,000	2
Delaware	2.2 - 5.95	\$5,000	\$60,000	6
Florida		No State Income Tax		N/A
Georgia	1.0 - 6.0	\$750	\$7,000	6
Hawaii	1.4 - 8.25	\$2,000	\$40,000	9
Idaho	1.6 - 7.8	\$1,104	\$22,074	8
Illinois	3.0	Flat Rate		1
Indiana	3.4	Flat Rate		1
Iowa	.36 - 8.98	\$1,211	\$54,495	9
Kansas	3.5 - 6.45	\$15,000	\$30,000	3
Kentucky	2.0 - 6.0	\$3,000	\$8,000	5
Louisiana	2.0 - 6.0	\$12,500	\$25,000	3
Maine	2.0 - 8.5	\$4,250	\$16,950	4
Maryland	2.0 - 4.75	\$1,000	\$3,000	4
Massachusetts	5.3	Flat Rate		1
Michigan	4.0	Flat Rate		1
Minnesota	5.35 - 7.85	\$194,400	\$63,860	3
Mississippi	3.0 - 5.0	\$5,000	\$10,000	3
Missouri	1.5 - 6.0	\$1,000	\$9,000	10
Montana	2.0 - 11.0	\$2,199	\$76,199	10
Nebraska	2.56 - 6.84	\$2,400	\$26,500	4
Nevada		No State Income Tax		N/A
New Hampshire		Tax Limited to Dividends and Interest		N/A
New Jersey	1.4 - 6.37	\$20,000	\$75,000	6
New Mexico	1.7 - 6.8	\$5,500	\$26,000	5
New York	4.0 - 7.70	\$8,000	\$500,000	7
North Carolina	6.0 - 8.25	\$12,750	\$120,000	4
North Dakota	2.1 - 5.54	\$28,400	\$311,950	5
Ohio	0.743 - 7.5	\$5,000	\$200,000	9
Oklahoma	0.5 - 7.0	\$1,000	\$10,000	8
Oregon	5.0 - 9.0	\$2,600	\$6,500	3
Pennsylvania	3.07	Flat Rate		1
Rhode Island		25% Federal Tax Liability		N/A
South Carolina	2.5 - 7.0	\$2,400	\$12,300	6
South Dakota		No State Income Tax		N/A
Tennessee		Tax Limited to Dividends and Interest		N/A
Texas		No State Income Tax		N/A
Utah	2.3 - 7.0	\$863	\$4,313	6
Vermont	3.6 - 9.5	\$29,050	\$319,100	5
Virginia	2.0 - 5.75	3,000	17,000	4
Washington		No State Income Tax		N/A
West Virginia	3.0 - 6.5	\$10,000	\$60,000	5
Wisconsin	4.6 - 6.75	\$8,610	\$129,150	4
Wyoming		No State Income Tax		N/A

* Rates apply to unmarried individuals

SOURCE: Federation of Tax Administrators

Appendix B
Comparison of Sales Tax Rates
2004 Tax Year

State	Rate (%)	Exemptions		
		Food	Prescription Drugs	Nonprescription Drugs
Alabama	4.0	No	Yes	No
ALASKA		No State Sales Tax		
Arizona	5.6	Yes	Yes	No
Arkansas	5.125	No	Yes	No
California	7.25	Yes	Yes	No
Colorado	2.9	Yes	Yes	No
Connecticut	6.0	Yes	Yes	Yes
Delaware		No State Sales Tax		
Florida	6.0	Yes	Yes	Yes
Georgia	4.0	Yes	Yes	No
Hawaii	4.0	No	Yes	No
Idaho	6.0	No	Yes	No
Illinois	6.25	1%	1%	1%
Indiana	6.0	Yes	Yes	No
Iowa	5.0	Yes	Yes	No
Kansas	5.3	No	Yes	No
Kentucky	6.0	Yes	Yes	No
Louisiana	4.0	Yes	Yes	No
Maine	5.0	Yes	Yes	No
Maryland	5.0	Yes	Yes	Yes
Massachusetts	5.0	Yes	Yes	No
Michigan	6.0	Yes	Yes	No
Minnesota	6.5	Yes	Yes	Yes
Mississippi	7.0	No	Yes	No
Missouri	4.225	1.225%	Yes	No
Montana		No State Sales Tax		
Nebraska	5.5	Yes	Yes	No
Nevada	6.5	Yes	Yes	No
New Hampshire		No State Sales Tax		
New Jersey	6.0	Yes	Yes	Yes
New Mexico	5.0	No	Yes	No
New York	4.25	Yes	Yes	Yes
North Carolina	4.5	Yes	Yes	No
North Dakota	5.0	Yes	Yes	No
Ohio	6.0	Yes	Yes	No
Oklahoma	4.5	No	Yes	No
Oregon		No State Sales Tax		
Pennsylvania	6.0	Yes	Yes	Yes
Rhode Island	7.0	Yes	Yes	Yes
South Carolina	5.0	No	Yes	No
South Dakota	4.0	No	Yes	No
Tennessee	7.0	6%	Yes	No
Texas	6.25	Yes	Yes	Yes
Utah	4.75	No	Yes	No
Vermont	6.0	Yes	Yes	Yes
Virginia	4.5	4%	Yes	Yes
Washington	6.5	Yes	Yes	No
West Virginia	6.0	No	Yes	No
Wisconsin	5.0	Yes	Yes	No
Wyoming	4.0	No	Yes	No

Source: Federation of Tax Administrators

fall 2004



Tax Division
Revenue Sources Book

Forecast and Historical Data

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Fall 2004 Revenue Sources Book

December 9, 2004

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December 9, 2004

The Honorable Frank H. Murkowski
Governor of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001

Dear Governor Murkowski:

As is our tradition for this time of year, I am presenting you, the Legislature and the Alaska public with the Department of Revenue's latest Revenue Sources Book. Our Fall 2004 report includes a preliminary accounting of state revenues received in FY 2004, as well as projections for Fiscal 2005 through Fiscal 2015, and no doubt the unpredictable world oil market has a lot of people wondering exactly what we would say in this report.

We project Alaska North Slope crude oil prices will average \$43.61 per barrel for the fiscal year ending June 30, 2005. The year-to-date average is just under \$42 per barrel, and although prices fell last week we believe world supply uncertainties, and market concern over shortages, could keep prices above \$40 through the rest of the fiscal year.

Eventually, however, we see new supplies coming online, and a more rational approach in the markets, with prices backing off next year. Our forecast for Fiscal 2006 is \$34.50 a barrel for Alaska North Slope crude, and \$30.95 a barrel in Fiscal 2007.

Our forecast for Fiscal 2008 and beyond is \$25.50, higher than our Fall 2002 long-term forecast of \$22 but certainly much lower than today's markets and lower than many pundits predict. As we explain in our forecast, "Based on our experience, we are taking a more conservative approach and opting for a number closer to the middle of the OPEC price target range (of \$22 to \$28 per barrel)." We will always be cautious in our response to volatile oil markets.

And while Alaska profits from high oil prices, we continue to look ahead to building up North Slope production. Fiscal 2005 production is expected to average 934,000 barrels per day and hold steady until Fiscal 2008, when we project an increase to 945,000 barrels. The addition of oil from the National Petroleum Reserve-Alaska, forecast for Fiscal 2011, will boost total North Slope production to an estimated 975,000 barrels per day that year. NPR-A, and the smaller fields under development or evaluation on the North Slope, promise a strong future for Alaska.

The Fall 2004 Revenue Sources Book also includes an evaluation of possible oil production from the Arctic National Wildlife Refuge, and we share your hope that 2005 will be the year that Alaska finally sees congressional approval for responsible exploration and development in this area that is so important to our nation's energy needs. Using reasonable assumptions, ANWR could produce 220,000 barrels a day by 2016 and almost 400,000 barrels a day by 2024.

I invite questions on this report and wish you, the Legislature and all Alaskans a safe and happy holiday season, a prosperous new year, and a productive 2005.

Sincerely,



William A. Corbus
Commissioner

Dedication



This Fall 2004 Revenue Sources Book is dedicated to Chuck Logsdon, who retired sometime between July and November, 2004 as our chief petroleum economist. Chuck, who estimates he spent between 22.6 and 29.4 years at the Department of Revenue, issued more oil price and production forecasts than anyone in Alaska history.

His insights, dedication — and probably his last long-term forecast — will all be missed. Thank you, Chuck, for your years of service.

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1. Introduction

General Discussion

The purpose of the semi-annual Revenue Sources Book is to provide the governor, legislature and citizens of the state with a summary of our past collections of state revenue and a forecast of future revenue. Revenues are categorized into four major components: oil and gas royalties and taxes, non-oil taxes and fees, federal dollars and investment revenues.

Oil revenues continue to dominate the revenue picture — and will continue to provide 80% of Unrestricted General Purpose Revenue through FY 2008 and 75% through FY 2014. However, North Slope oil production has fallen. In FY 2004 ANS output was 0.980 million barrels per day compared to a peak of 2.006 million barrels a day in FY 1988.

Over that same period the market price of oil has come close to tripling. In 10 of the prior 13 years, the state has relied on annual draws from the Constitutional Budget Reserve Fund (CBRF) to fill the gap between unrestricted revenues and budget outlays. In the other three years — which includes FY 2004 — unrestricted revenues have been sufficient to pay for budgeted spending without a draw on the CBRF. FY 2005 also appears to fit into this category.

Alaska's total revenue picture also includes earnings from the Permanent Fund, federal revenue and reserves in the CBRF. We hope the information provided in this Sources Book is helpful in answering questions about where Alaska gets its revenue and what the state's revenue future looks like from today's perspective.

Fall 2004 Forecast

This publication is organized into the following 11 sections:

1. Introduction
2. Executive Summary
3. The Future: ANWR
Opportunities for new oil and gas production exist with development in the Arctic National Wildlife Refuge.
4. Oil Revenue
In FY 2004, oil and gas production tax, corporate income tax, property tax and royalty revenues contributed 87% of the state's General Fund unrestricted revenue. Oil revenues will continue to play a key role in Alaska's future.
5. Other Revenue (except Federal & Investment)
Revenue from non-oil sources includes alcohol, tobacco, fisheries, estate, motor fuel taxes, non-oil corporate income taxes and user fees.
6. Federal Revenue
Federal funding continues to be one of Alaska's biggest sources of revenue.
7. Investment Revenue
Investment earnings come from the Alaska Permanent Fund, Constitutional Budget Reserve Fund, General Fund and other state investments.
8. State Endowment Funds
This section provides a brief discussion about Alaska's six endowment funds.
9. Public Corporations and the University of Alaska
Seven public corporations and the University of Alaska are treated as separate component units of state government for financial reporting purposes.
10. Rosetta Stone
The Department of Revenue Sources Book and Legislative Finance's Summary of Appropriations are reconciled in this section.
11. Appendices
This section provides historical data on oil prices, production and revenue and a glossary of terms used in this publication.

2. Executive Summary

Total Governmental Revenue

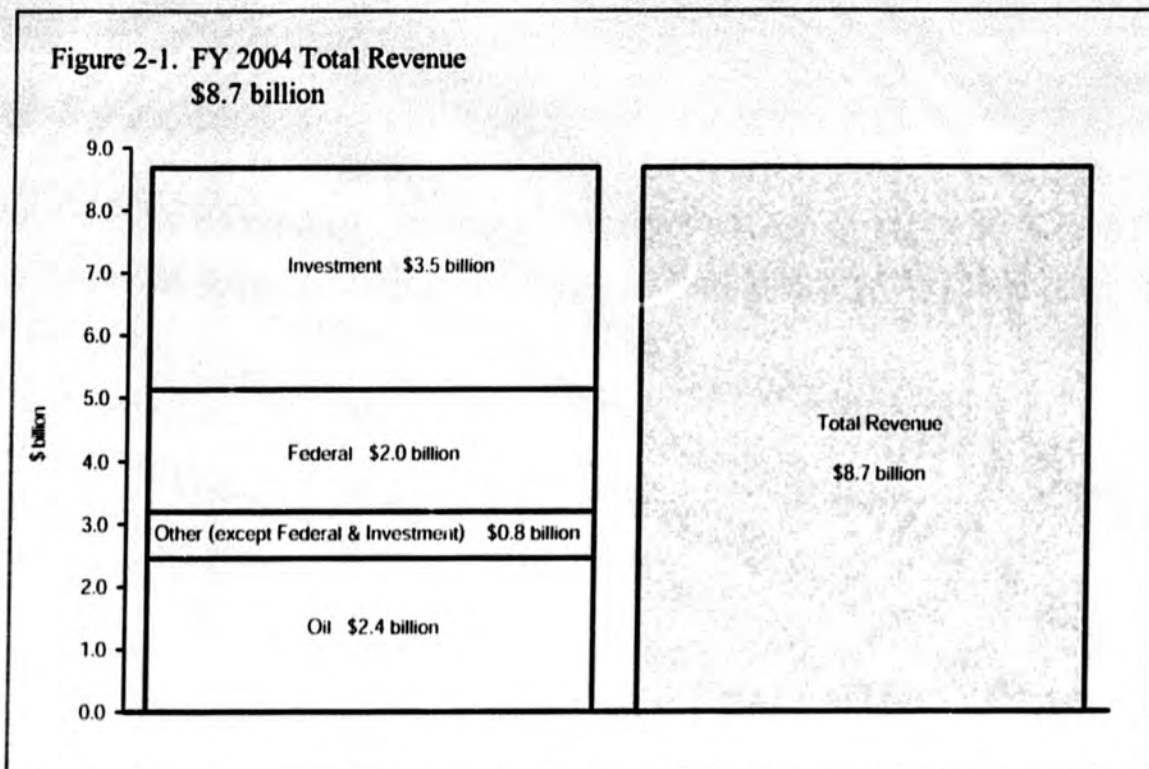


**Table 2-1. Total Governmental Revenue by Major Component, Actual FY 2004 ⁽¹⁾ and Projected 2005-2006
\$ million**

	Actual FY 2004	Projected FY 2005	Projected FY 2006
OIL REVENUE			
<u>Unrestricted</u>			
Property Tax	47.3	47.2	45.3
Corporate Income Tax	298.8	404.0	296.0
Production Tax	651.9	798.3	568.9
Royalties (including Bonuses and Interest)	<u>1,056.1</u>	<u>1,419.1</u>	<u>1,061.7</u>
Subtotal	2,054.1	2,668.6	1,971.9
<u>Restricted</u>			
Royalties to Permanent Fund and School Fund	362.1	485.2	362.9
Tax Settlements to CBRF	8.4	20.0	20.0
NPR-A Royalties, Rents and Bonuses	<u>2.5</u>	<u>12.9</u>	<u>7.9</u>
Subtotal	373.0	518.1	390.8
Subtotal Oil Revenue	2,427.1	3,186.7	2,362.7

(1) Actuals have not been fully reconciled to the Comprehensive Annual Financial Report.

(continued on next page)

Table 2-1. Total Governmental Revenue by Major Component, continued
\$ million

	Actual FY 2004	Projected FY 2005 FY 2006	
OTHER REVENUE (EXCEPT FEDERAL & INVESTMENT)			
<u>Unrestricted</u>			
Taxes	185.8	206.1	218.6
Charges for Services	11.1	13.1	13.1
Fines and Forfeitures	16.0	12.8	12.8
Licenses and Permits	41.0	40.4	42.0
Rents and Royalties	7.8	8.1	8.1
Other	<u>36.2</u>	<u>18.4</u>	<u>17.4</u>
Subtotal	297.9	298.9	312.0
<u>Restricted</u>			
Taxes	81.2	78.1	77.7
Charges for Services	226.0	244.9	244.9
Fines and Forfeitures	26.8	26.5	26.5
Licenses and Permits	28.7	28.7	28.7
Rents and Royalties	5.1	5.1	5.1
Other	<u>84.9</u>	<u>196.9</u>	<u>159.5</u>
Subtotal	452.7	580.2	542.4
Subtotal Other Revenue (except Federal & Investment)	750.6	879.1	854.4
FEDERAL REVENUE			
<u>Restricted</u>			
Federal Receipts	<u>1,951.7</u>	<u>3,019.3</u>	<u>3,019.3</u>
Subtotal Federal Revenue	1,951.7	3,019.3	3,019.3
INVESTMENT REVENUE			
<u>Unrestricted</u>			
Investments	9.2	16.4	15.1
Interest Paid by Others	<u>0.5</u>	<u>1.6</u>	<u>1.6</u>
Subtotal	9.7	18.0	16.7
<u>Restricted</u>			
Investments	4.0	22.0	23.7
Constitutional Budget Reserve Fund	53.2	118.3	102.6
Other Treasury Managed Funds	24.9	19.7	20.5
Alaska Permanent Fund (GASB) ⁽²⁾	<u>3,434.0</u>	<u>2,047.9</u>	<u>2,189.7</u>
Subtotal	3,516.1	2,207.9	2,336.5
Subtotal Investment Revenue	3,525.8	2,225.9	2,353.2
Grand Total	8,655.2	9,311.0	8,589.6

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

**Figure 2-2. FY 2004 Total Revenue: Unrestricted and Restricted
\$8.7 billion**

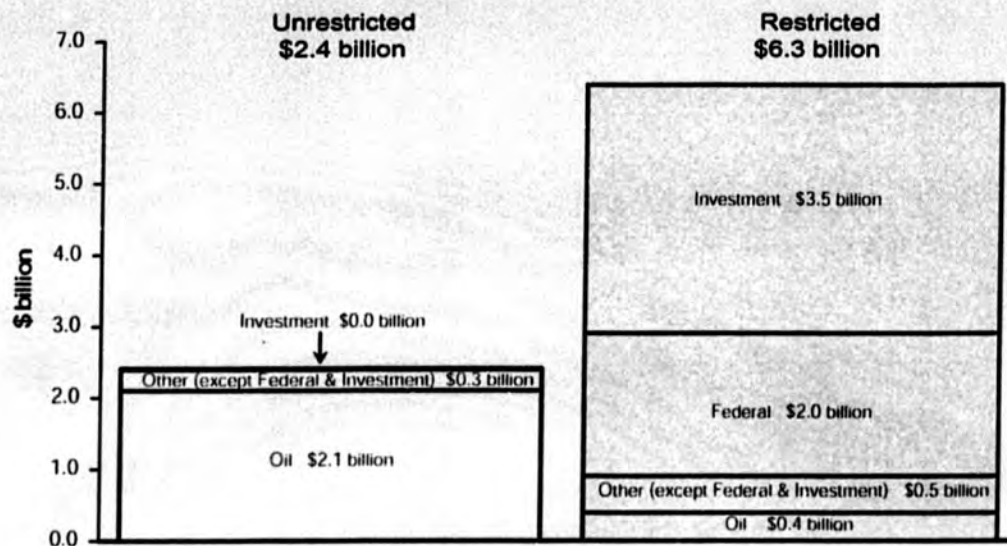


**Table 2-2. Total Governmental State Revenue, Actual FY 2004 ⁽¹⁾ and
Projected 2005-2006 Unrestricted ⁽²⁾ and Restricted by Major Source
\$ million**

	Actual FY 2004	Projected FY 2005	Projected FY 2006
Unrestricted			
Oil Revenue	2,054.1	2,668.6	1,971.9
Other Revenue (except Federal & Investment)	297.9	298.9	312.0
Investment Revenue	<u>9.7</u>	<u>18.0</u>	<u>16.7</u>
Subtotal	2,361.7	2,985.5	2,300.6
Restricted			
Oil Revenue	373.0	518.1	390.8
Other Revenue (except Federal & Investment)	452.7	580.2	542.4
Federal Revenue	1,951.7	3,019.3	3,019.3
Investment Revenue	<u>3,516.1</u>	<u>2,207.9</u>	<u>2,336.5</u>
Subtotal	6,293.5	6,325.5	6,289.0
Grand Total	8,655.2	9,311.0	8,589.6

(1) Actuals have not been fully reconciled to the Comprehensive Annual Financial Report.

(2) Total unrestricted revenue as reported for AKSAS (Alaska State Accounting System) with adjustments for certain municipal sharing of statewide taxes and additional spending restrictions.

Unrestricted General Purpose Revenue

Unrestricted General Purpose Revenue is the amount generally used for budget planning purposes and is designated in budget documents as general fund revenue. The table on the next two pages sets out actual FY 2004 Unrestricted General Purpose Revenue and our projections for FY 2005 and 2006.

We forecast Unrestricted General Purpose Revenue by first estimating General Fund Unrestricted Revenue, which includes all unrestricted revenues in the Alaska State Accounting System (AKSAS), as well as certain program receipts. After consulting with the Governor's Office of Management and Budget and the legislature, we adjust our forecast of General Fund Unrestricted Revenue to derive a forecast of total Unrestricted General Purpose Revenue. Reductions include: (1) earmarking revenue for specific programs, (2) pass-through revenue for qualified regional aquaculture and dive fishery associations, and (3) revenue shared with municipal governments and organizations (e.g., fisheries taxes.) Additions include transfers from the unclaimed property trust to the state treasury.

**Table 2-3. Unrestricted General Purpose Revenue, Actual FY 2004 ⁽¹⁾ and Projected 2005-2006
\$ million**

	Actual FY 2004	Projected	
		FY 2005	FY 2006
<u>Oil Revenue</u>			
Property Tax	47.3	47.2	45.3
Corporate Income Tax	298.8	404.0	296.0
Production Tax			
Oil and Gas Production	642.7	789.3	560.1
Oil and Gas Hazardous Release	<u>9.2</u>	<u>8.9</u>	<u>8.8</u>
Subtotal Production Tax	651.9	798.3	568.9
Royalties			
Mineral Bonuses and Rents	10.4	14.5	17.8
Oil and Gas Royalties	1,043.6	1,402.5	1,041.9
Interest	<u>2.1</u>	<u>2.1</u>	<u>2.1</u>
Subtotal Royalties	1,056.1	1,419.1	1,061.7
Total Oil Revenue	2,054.1	2,668.6	1,971.9
<u>Other Revenue (except Federal & Investment)</u>			
Other Taxes			
Sales and Use			
Alcoholic Beverages	16.3	15.9	15.9
Cigarette	9.4	14.9	27.1
Other Tobacco Products	6.6	6.7	7.2
Insurance Premium	43.7	45.8	47.1
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel Taxes	41.2	39.3	39.3
Rental Vehicle Tax	2.7	6.7	6.7
Tire Fees	<u>0.8</u>	<u>2.6</u>	<u>2.6</u>
Subtotal	120.9	132.1	146.1
Corporate Income Tax	39.6	50.0	50.0
Fish Taxes			
Fisheries Business	14.9	12.5	12.5
Fishery Resource Landing	<u>2.5</u>	<u>2.9</u>	<u>2.9</u>
Subtotal	17.4	15.4	15.4
Other			
Mining	3.2	5.2	4.2
Estate	2.3	1.0	0.5
Charitable Gaming	<u>2.4</u>	<u>2.4</u>	<u>2.4</u>
Subtotal	7.9	8.6	7.1
Subtotal Other Taxes	185.8	206.1	218.6

(1) Actuals have not been fully reconciled to the Comprehensive Annual Financial Report.

(continued on next page)

Table 2-3. Unrestricted General Purpose Revenue, continued
\$ million

	Actual FY 2004	Projected FY 2005	FY 2006
<u>Other Revenue (except Federal & Investment), cont.</u>			
Charges for Services			
General Government	8.1	10.1	10.1
Natural Resources	1.3	1.3	1.3
Other	<u>1.7</u>	<u>1.7</u>	<u>1.7</u>
Subtotal Charges for Services	11.1	13.1	13.1
 Fines and Forfeitures	 16.0	 12.8	 12.8
 Licenses and Permits	 	 	
Motor Vehicle	38.8	38.0	39.0
Other	<u>2.2</u>	<u>2.4</u>	<u>3.0</u>
Subtotal Licenses and Permits	41.0	40.4	42.0
 Rents and Royalties	 	 	
Land Leasing, Rental and Sales	6.5	6.5	6.5
Coal Royalties	1.1	1.4	1.4
Cabin Rentals	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Subtotal Rents and Royalties	7.8	8.1	8.1
 Other	 	 	
Miscellaneous	24.7	13.4	13.4
Unclaimed Property	<u>11.5</u>	<u>5.0</u>	<u>4.0</u>
Subtotal Other	36.2	18.4	17.4
 Total Other Revenue (except Federal & Investment)	 297.9	 298.9	 312.0
 <u>Investment Revenue</u>	 	 	
Investments	9.2	16.4	15.1
Interest Paid by Others	<u>0.5</u>	<u>1.6</u>	<u>1.6</u>
 Total Investment Revenue	 9.7	 18.0	 16.7
 Total Unrestricted Revenue	 2,361.7	 2,985.5	 2,300.6

Oil Price Forecast

Oil revenue will provide at least 75% of forecasted Unrestricted General Purpose Revenue through FY 2014. Two elements are critical to the oil revenue forecast: price and volume.

All of Alaska's oil production is delivered to refineries on the U.S. West Coast (including Alaska and Hawaii). Consequently, Alaska's royalty and production tax revenue depends in large part on the market price of Alaska North Slope crude oil (ANS) at U.S. West Coast refining centers. There is no price for Alaska oil on the New York Mercantile Exchange (NYMEX)⁽¹⁾ or other commodity exchange. However, the spot price of ANS is calculated by subtracting a market differential from the price of West Texas Intermediate (WTI) quoted on the NYMEX. Four different assessment services estimate that market differential and report a daily spot price for ANS.

Table 2-4, on the next page, contains actual oil prices for FY 2004 and the Department of Revenue's forecast of prices for the 11-year period beginning with the current fiscal year FY 2005 and continuing through FY 2015. The oil price forecast is based on a subjective assessment of market dynamics and trend analysis by participants at a Department of Revenue price scenario meeting. We project that oil prices will average \$25.50 per barrel (FY 2007-2015), a conservative estimate compared to the \$30 per barrel expected by many pundits.

Our forecast prices are higher than the average market prices experienced over the 18-year period since the 1986 oil price collapse but are consistent with prices since 1999. Figure 2-3 on the next page depicts: (1) the monthly West Coast ANS market price from December 1992 through September 2004; (2) the 60-month moving average West Coast market price for the same period; and (3) a set of ANS prices derived from NYMEX crude oil futures prices for October 1998 and October 2004.

Figure 2-3 illustrates a number of issues with respect to oil prices including:

- The volatility of month-to-month crude oil prices. Monthly ANS West Coast prices during the pertinent time period ranged from just under \$10 per barrel to nearly \$50 per barrel.
- The average of the 60-month moving averages is \$18.29 per barrel and has increased dramatically since 1999.
- The derived futures market price illustrates that the current futures market long-term convergence price has increased by about \$18.50 per barrel since October 1998.

A pressing question is whether the higher prices we have seen since 1999 will continue to stay at current levels or perhaps trend even higher. We assume that over the long-term, oil prices will average \$25.50 per barrel, close to the mid-point of the price range (\$22 to \$28 per barrel) by which OPEC determines its production quota policies. ANS West Coast price averaged \$28.32 per barrel from October 1999 to October 2004. We will continue to evaluate our assumption, with our next forecast due in April 2005.

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

Figure 2-3.
ANS West Coast and Futures Market Oil Prices

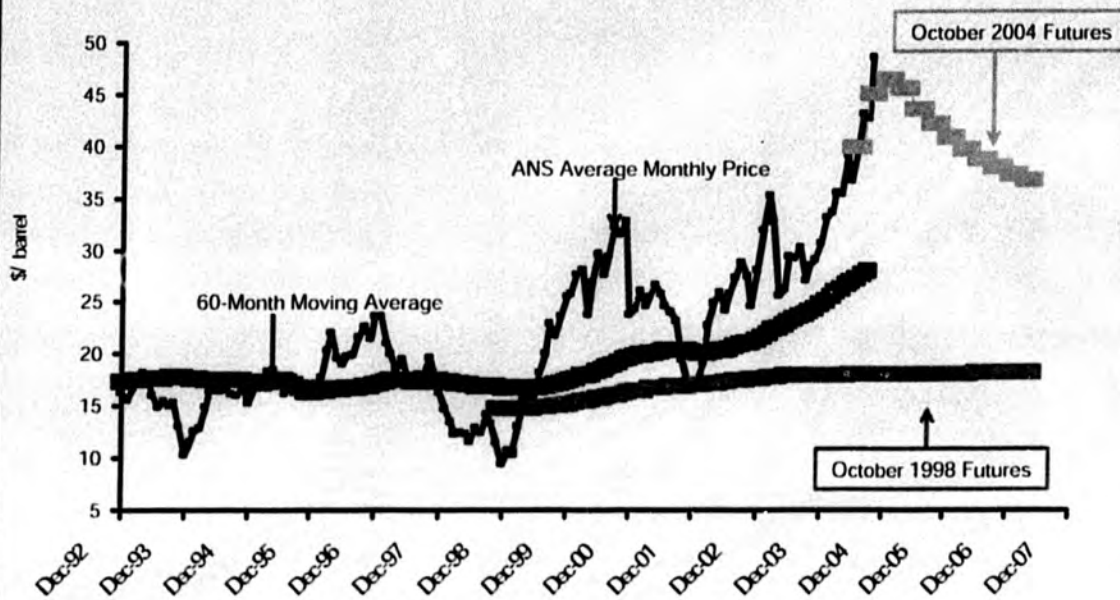


Table 2-4. Delivered Price for ANS Crude Oil
Average WTI, ANS West Coast and ANS Wellhead
\$ per barrel

Fiscal Year	WTI	ANS West Coast	ANS Wellhead
2005	46.30	43.61	38.83
2006	36.60	34.50	29.46
2007	32.95	30.95	25.79
2008	27.50	25.50	20.26
2009	27.50	25.50	20.16
2010	27.50	25.50	20.10
2011	27.50	25.50	20.00
2012	27.50	25.50	20.00
2013	27.50	25.50	19.81
2014	27.50	25.50	19.62
2015	27.50	25.50	19.43

Oil Production Forecast

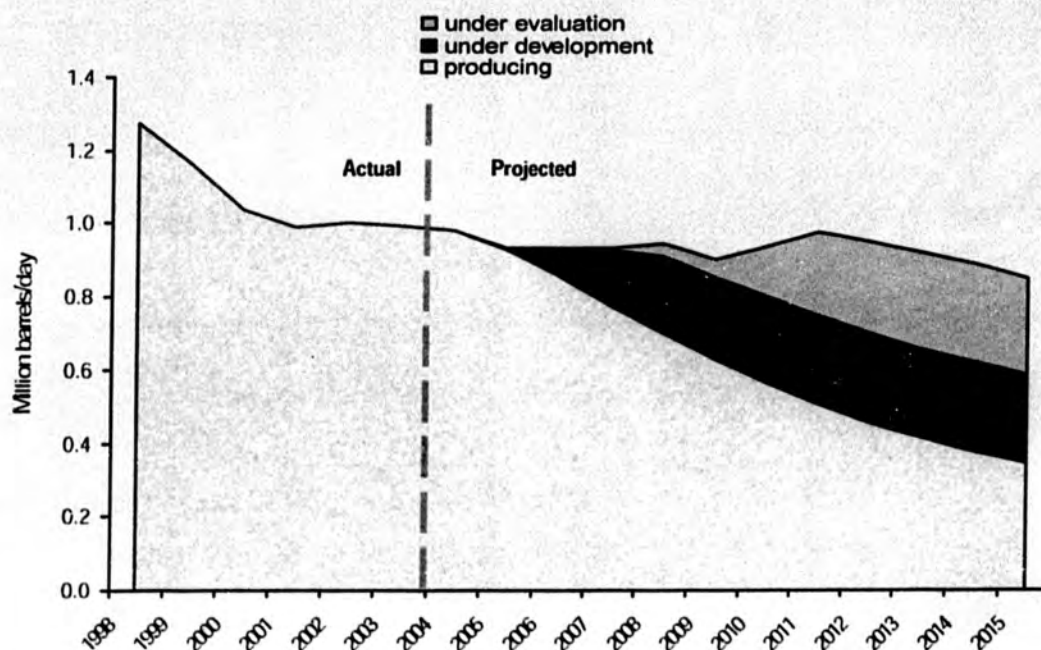
Alaska North Slope production peaked at 2.006 million barrels per day in 1988 and has steadily declined since. In FY 2004, ANS production averaged 0.980 million barrels per day, and we project FY 2005 production to be 0.934 million barrels per day.

Our production forecast has been revised since last spring. ANS production will continue above 0.90 million barrels per day through FY 2013 (0.919 million barrels per day), aided by new fields coming into production. We anticipate Nanuk and Fiord will add 17,000 barrels per day in FY 2007; Liberty, Oliktok and Point Thomson, 75,000 barrels per day in FY 2010; and the National Petroleum Reserve-Alaska (NPR-A), 20,000 barrels per day in FY 2011. We are also forecasting 10,000 to 20,000 barrels per day from additional known on and offshore fields in FY 2008 to FY 2010.

A detailed field-by-field production forecast can be found on Page 84 the appendices.

Last spring, we began to present the ANS production forecast in three parts: (1) currently producing, (2) currently under development and (3) currently being evaluated for development. We do this so that the reader will have an understanding about the uncertainty associated with the production forecast. We continue to forecast production of those reserves that have already been discovered and at minimum are being evaluated for development.

Figure 2-4. ANS Production Forecast by Category ⁽¹⁾



(1) Some of the oil forecasted in the under development and under evaluation categories are from new projects in fields currently producing.

Table 2-5. Alaska North Slope Production
millions of barrels/day

Fiscal Year	Currently Producing	Under Development	Under Evaluation	Total ANS
2005	0.927	0.007	0.000	0.934
2006	0.857	0.075	0.000	0.932
2007	0.773	0.154	0.007	0.935
2008	0.702	0.206	0.038	0.945
2009	0.631	0.221	0.051	0.904
2010	0.563	0.237	0.138	0.938
2011	0.506	0.241	0.228	0.975
2012	0.457	0.244	0.248	0.949
2013	0.414	0.244	0.261	0.919
2014	0.377	0.244	0.267	0.888
2015	0.345	0.243	0.262	0.850

New Oil Development

As production from the Prudhoe Bay and Kuparuk fields continues to decline, some of the decline will be offset by new oil development. In our reference-case forecast, new oil is defined as crude already discovered and under evaluation or under development. By FY 2008, as the table and figure below show, one-fourth of our forecasted oil production will come from projects requiring significant new investment.

Figure 2-5. New Oil as a Percentage of Projected Oil

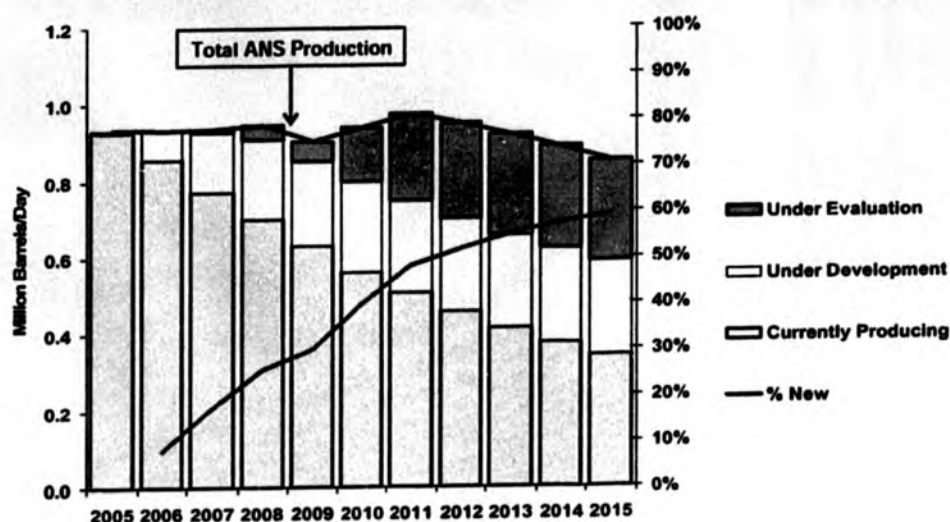


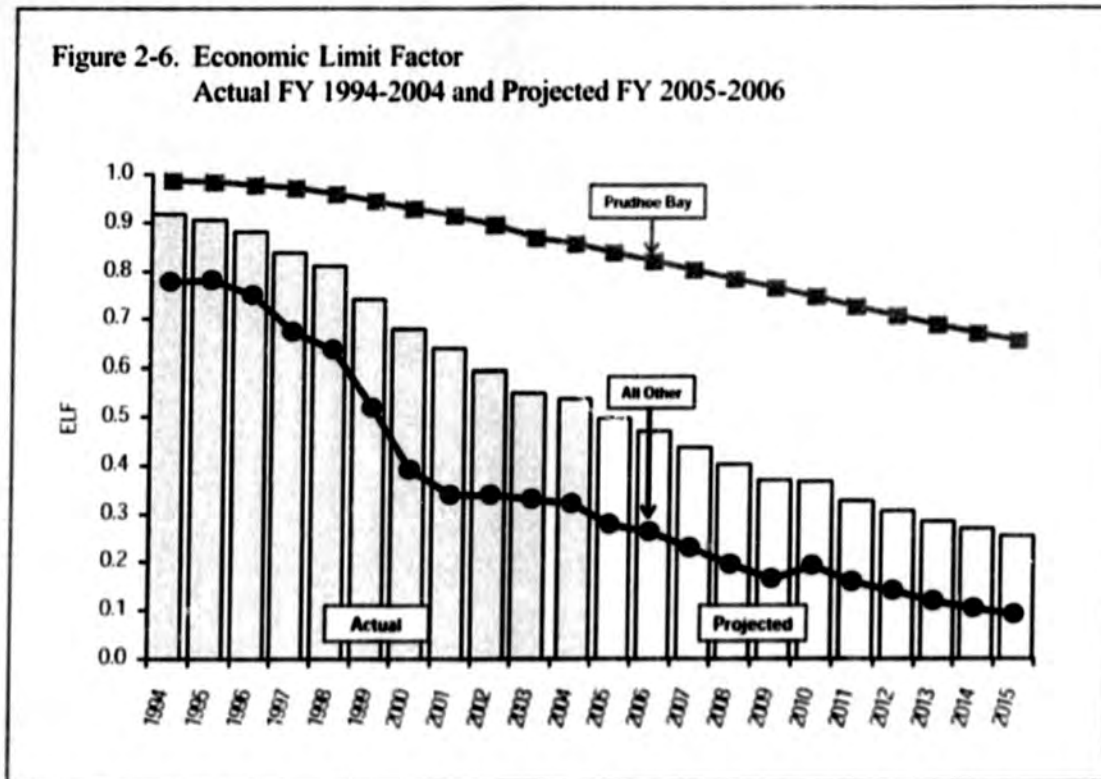
Table 2-6. New Oil as a Percentage of Total Oil
millions of barrels/day

Fiscal Year	Total New Oil	ANS Total	Percent New Oil
2005	0.007	0.934	0.0%
2006	0.075	0.932	8.0%
2007	0.161	0.935	17.2%
2008	0.243	0.945	25.7%
2009	0.272	0.904	30.1%
2010	0.375	0.938	39.9%
2011	0.468	0.975	48.1%
2012	0.492	0.949	51.9%
2013	0.505	0.919	55.0%
2014	0.511	0.888	57.5%
2015	0.505	0.850	59.4%

Economic Limit Factor

The average production tax rate on the North Slope has been falling as the result of the tax adjustment known as the Economic Limit Factor (ELF). The ELF is a factor that reduces the nominal production tax rate on a producing lease or property based on the average rate of production and the average per-well productivity from that field.⁽¹⁾ Since oil production rates and well productivity decline over time as an oil field is being depleted, the average production tax rate will fall as well. Further, the ELF reduces the tax rate on smaller oil fields such that most fields producing less than 20,000 barrels per day will pay little or no production tax.

An ever smaller percentage of Alaska's current and projected North Slope oil production will continue to come from old, declining fields, while new production will come from small fields. Therefore, the average tax rate will continue to fall. The average oil production tax rate for North Slope production in FY 1994 was 13.5%; we project it will average 6.9% for FY 2005.



The figure above illustrates the actual weighted average ELF for North Slope oil production since 1994 and our projections of that weighted average through FY 2015. The Prudhoe Bay ELF is also shown, as well as the average ELF for all of the other North Slope fields. The small spike in the other fields average ELF in FY 2010 represents the impact of the assumed startup of Point Thomson production.

(1) The nominal production tax rate is 15% except during a field's first five years of production, when it is 12.25%.

Longer-Term Unrestricted Revenue Outlook

Using the price and volume components developed for this fall 2004 forecast, the table below summarizes the department's forecast of total Unrestricted General Purpose Revenue through FY 2015.

Table 2-7. Total Unrestricted General Purpose Revenue
Actual FY 2004 ⁽¹⁾ and Projected FY 2005-2015
\$ million

Fiscal Year	Unrestricted Oil Revenue	Unrestricted Other (except Federal & Investment Revenue)	Unrestricted Investment Revenue	Total Revenue	Percent from Oil
2004	2,054.1	297.9	9.7	2,361.7	87
2005	2,668.6	298.9	18.0	2,985.5	90
2006	1,971.9	312.0	16.7	2,300.6	86
2007	1,651.7	318.5	16.7	1,986.9	83
2008	1,358.9	324.9	16.7	1,700.5	80
2009	1,272.9	326.0	16.7	1,615.6	79
2010	1,244.9	327.1	16.7	1,588.6	79
2011	1,258.4	328.0	16.7	1,603.1	79
2012	1,203.3	329.2	16.7	1,549.2	78
2013	1,128.1	330.4	16.7	1,475.2	77
2014	1,068.1	331.3	16.7	1,416.2	76
2015	999.7	332.3	16.7	1,348.6	74

(1) Actuals have not been fully reconciled to the Comprehensive Annual Financial Report.

Budget Gap and the Constitutional Budget Reserve

The table below reflects the amount needed to make up the difference between the Department of Revenue's forecast of Unrestricted General Purpose Revenue and the annual General Fund budget, shown here as a flat \$2,332.5 million (the authorized budget for FY 2005) for all operating, capital, debt service, lease payments and supplemental appropriations. ⁽¹⁾

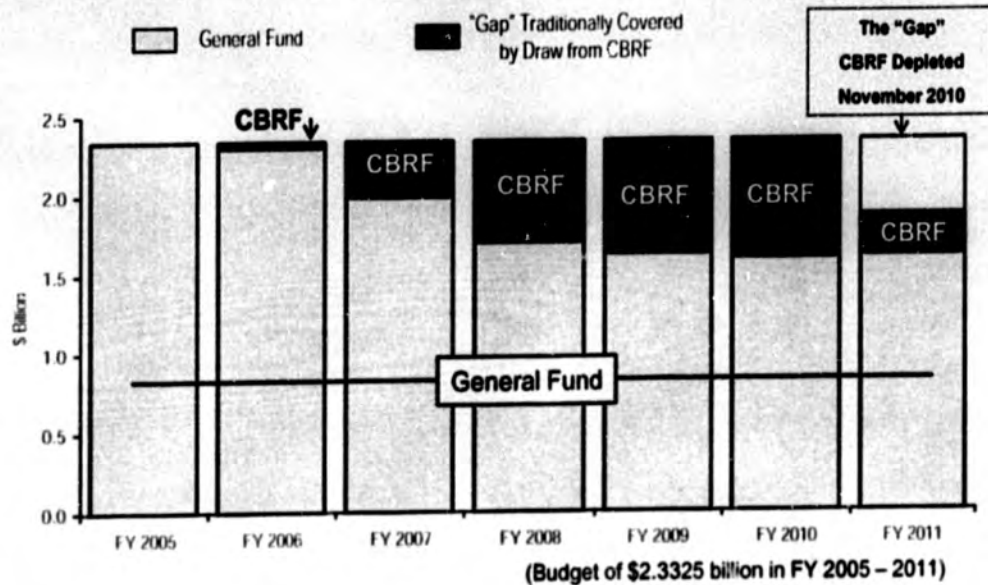
Table 2-8. Difference Between Unrestricted General Purpose Revenue and General Fund Budget "The Gap" ⁽¹⁾
\$ million

Fiscal Year	Total Unrestricted General Purpose Revenue	General Fund Appropriation	"Gap"
Actual 2004	2,361.7	2,319.1	42.6
2005 ⁽¹⁾	2,985.5	2,332.5	653.0
2006	2,300.6	2,332.5	(31.9)
2007	1,986.9	2,332.5	(345.6)
2008	1,700.5	2,332.5	(632.0)
2009	1,615.6	2,332.5	(716.9)
2010	1,588.6	2,332.5	(743.9)
2011	1,603.1	2,332.5	(729.4)
2012	1,549.2	2,332.5	(783.3)
2013	1,475.2	2,332.5	(857.3)
2014	1,416.2	2,332.5	(916.3)
2015	1,348.6	2,332.5	(983.9)

(1) The FY 2005-2015 budget of \$2,332.5 million is simply a reference point for analysis. Any budget estimate used to determine "The Gap" will have its detractors — some will contend spending should be cut, while others will argue just as strongly that spending should be increased to reflect inflation and population growth.

(1) http://www.gov.state.ak.us/omb/05_omb/fy05FiscalSummary.pdf

Figure 2-7. Spending Gap Traditionally Covered by Draw from CBRF Fills Gap FY 2005-2011 ⁽¹⁾



(1) FY 2005 deposits to the CBRF are not included. CBRF draws: FY 2006 of \$31.9 million; FY 2007, \$345.6 million; FY 2008, \$632.0 million; FY 2009, \$716.9 million; FY 2010, \$743.9 million; FY 2011, depleted in November 2010 after a \$259.8 million draw.

Table 2-9. When Would the CBRF Be Gone? ⁽¹⁾

Annual State Budget	State Spending and Oil Price Variables				Fall 2004		
	\$18/bbl	\$23/bbl	\$25/bbl	\$28/bbl	DOR Forecast	\$30/bbl	\$32/bbl
\$2.2 billion	Dec-2007	Apr-2009	Feb-2010	Mar-2012	Mar-2012	Apr-2014	Jul-2016
\$2.3 billion	Sep-2007	Sep-2008	May-2009	Nov-2010	Feb-2011	Jun-2012	Jul-2014
\$2.4 billion	Jul-2007	May-2008	Nov-2008	Dec-2009	Apr-2010	Jan-2011	Sep-2012
\$2.5 billion	May-2007	Jan-2008	Jun-2008	Apr-2009	Sep-2009	Jan-2010	Apr-2011

(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.

As approved by voters in 1990, all receipts from oil and gas tax and royalty settlements are deposited into the Constitutional Budget Reserve Fund (CBRF). The state has deposited about \$5.6 billion into the reserve fund, generating about \$1.6 billion in investment earnings. For 10 of the past 13 years, the state has relied on the CBRF to fill the difference between unrestricted revenue and the annual state budget. Through September 30, 2004, approximately \$5.5 billion had been withdrawn from the CBRF to balance the budget, leaving a balance of \$1.9 billion.

Table 2-9 reflects the CBRF depletion matrix and the time period the fund could continue to make up the difference between Unrestricted General Purpose Revenue and the General Fund budget at various oil prices and budget levels. For example, assuming no change in the state's fiscal system, and if we are correct in our oil price forecast and if we assume a flat total General Fund budget of \$2,332.5 million per year, the CBRF will be exhausted in November 2010. We make no assumption as to any deposit of a possible FY 2005 surplus to the CBRF.

3. The Future: ANWR

Proponents hope Congress will vote in 2005 to open the Arctic National Wildlife Refuge (ANWR) to oil and gas exploration and development, greatly expanding the opportunities for new production from Alaska's North Slope.

Looking ahead to success in Washington, D.C., and then later success when companies start drilling for oil, the first step in coming up with a possible ANWR production profile is to estimate the total amount of economically recoverable oil barrels in the area.

The U.S. Geological Survey (USGS) estimates there are 10.3 billion barrels of technically recoverable oil reserves in ANWR ⁽¹⁾: 7.7 billion barrels beneath federal lands and 2.6 billion barrels under state waters and Native corporation lands. These technically recoverable reserves represent the federal agency's best estimate of how much oil could be recovered using current technology, without reference to costs or oil prices.

It would require very high oil prices to produce all of these technically recoverable reserves. Some of these barrels are probably in accumulations too small to be commercially viable. Other barrels in slightly larger accumulations might be uneconomic due to their greater distance from existing pipe and production facilities or because they are at deeper, more expensive depths.

USGS economists estimate 5.2 billion barrels of the 7.7 billion barrels of technically recoverable oil from federal lands in ANWR could be economic to produce at \$26.20 per barrel for North Slope crude (2004 dollars). On one hand, this estimate alone appears too low because it excludes economically recoverable oil from Native lands and from state waters offshore of ANWR. On the other hand, it appears too high because it includes reserves from low-probability fields. If economic reserves from state and Native lands are included, and if low-probability fields are excluded, we get about 5 billion barrels of economically recoverable oil from federal lands, state waters and Native lands — pretty close to the USGS estimate of 5.2 billion barrels on federal lands alone.

In its recovery estimates, the USGS determined a minimum field size of about 256 million barrels was needed for an ANWR oil field to make economic sense at \$26.20 (2004 dollars), and the agency used that cut-off to eliminate smaller fields from its projection.

However, it is possible that oil recovery from ANWR could total less than 5 billion barrels.

USGS estimates technically recoverable reserves on the basis of "broad geologic knowledge and theory". Theory aside, the reality is there might be a lot less oil or a lot more. The 10.3 billion barrels of technically recoverable oil is the mean or 50% estimate. In the low case the agency sees only about half of this oil being there. As the agency said in its ANWR economics report: "Until a systematic subsurface evaluation is accomplished, uncertainty about the size and nature of the resource will remain significant." ⁽²⁾

(1) USGS Fact Sheet FS-028-01 (supersedes FS-040-98), April 2001, Arctic National Wildlife Refuge, 1002 Area, Petroleum Assessment, 1998, Including Economic Analysis.

(2) Economics of Undiscovered Oil in the 1002 Area of the Arctic National Wildlife Refuge by Emil D. Attanasi, ANWR Assessment Team, U.S. Geological Survey Open-File Report 98034 at EA-25.

This forecast of commercially recoverable reserves is also very sensitive to oil prices. USGS officials calculate that about 40% of the oil from federal lands economically recoverable at \$26.20 a barrel (2004 dollars) would be uneconomic to produce at \$19.60 a barrel (2004 dollars). The minimum field size for economic development would double from 256 million barrels to 500 million barrels at that price, putting a further strain on production estimates.

The USGS acknowledges in its report that it does not predict what the industry will do, only what is possible and economic given the volumes and distribution of oil believed to be there and the costs and prices assumed. The industry might have different views of those costs and prices, or believe that the risks associated with the area require a return higher than the 12% hurdle rate assumed by the federal agency. The USGS analysis is also "time independent," in that the agency makes no assumption about how quickly industry would move to explore and develop ANWR.

In addition to looking at possible reserves and possible production, it is important to remember that these reserves would not be produced immediately after federal approval of oil and gas development in ANWR. It would take time to hold a lease sale, undertake required environmental studies and explore, discover and build production facilities and pipelines to carry oil to market through the trans-Alaska pipeline.

The western border of ANWR is 50 miles east of the trans-Alaska oil line, far enough away to require an oil field large enough to support the economics of building its own processing facilities and regional pipeline. In addition, the producers would have to pay to transport this oil to market. USGS estimates developers would need a \$410 million (2004 dollars), 85-mile pipeline from the western area of ANWR to reach the trans-Alaska oil pipeline, with an additional 50 miles of pipe (at almost \$220 million in 2004 dollars) to bring oil to market from the eastern area of ANWR.

This regional pipeline, coupled with the cost of feeder lines from various fields, would add between \$1.30 and \$1.90 (2004 dollars) in transportation costs to each barrel of oil coming out of ANWR.

Meanwhile, the U.S. Energy Information Administration estimates it would take seven to 12 years for the first oil to flow from the date of congressional action.⁽³⁾ For this reason, we estimate first oil will flow from ANWR in 2014, nine years after assumed congressional approval in 2005.

How much oil could flow in 2014 would depend on how quickly exploration starts and how intense the effort, the size of any fields discovered, and the speed at which the fields are developed. Regarding field size, the USGS projects about a 50% chance of a major field at between 1 billion and 2 billion barrels, and believes there will be three to five fields with between 500 million and 1 billion barrels.

Although the agency believes there is a very small chance of finding a mega-field such as Prudhoe Bay's 13-plus billion barrels, the anticipated ANWR field sizes are large by most other standards, with the first field to come online projected at three to four times the size of Alpine, a little smaller than Kuparuk. The agency believes the next largest fields likely to be found and developed would be about 1½ times the size of Alpine's 400-plus million barrels.

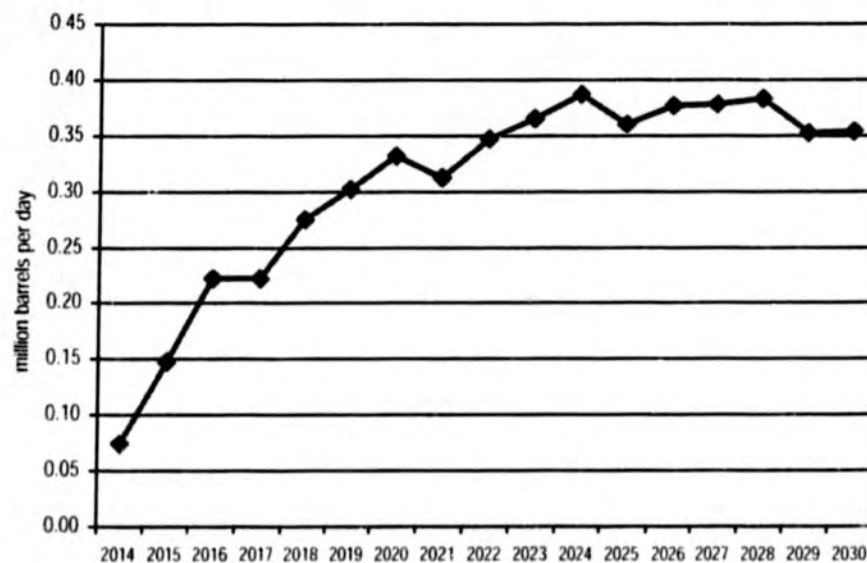
(3) Potential Oil Production from the Coastal Plain of the Arctic National Wildlife Refuge: Updated Assessment (2000) by Energy Information Administration, Resources and Production Division.

We believe that large fields in the western area of ANWR (the "undeformed" area where rocks are generally horizontal, as opposed to the eastern area of ANWR where the rocks are deformed, or folded and faulted) will be explored and produced first, followed by larger fields in the deformed area. The last fields to be developed, we assume, would be smaller fields in the western and then eastern area, and we also assume field development would be staggered in three-year intervals, a very aggressive development schedule.

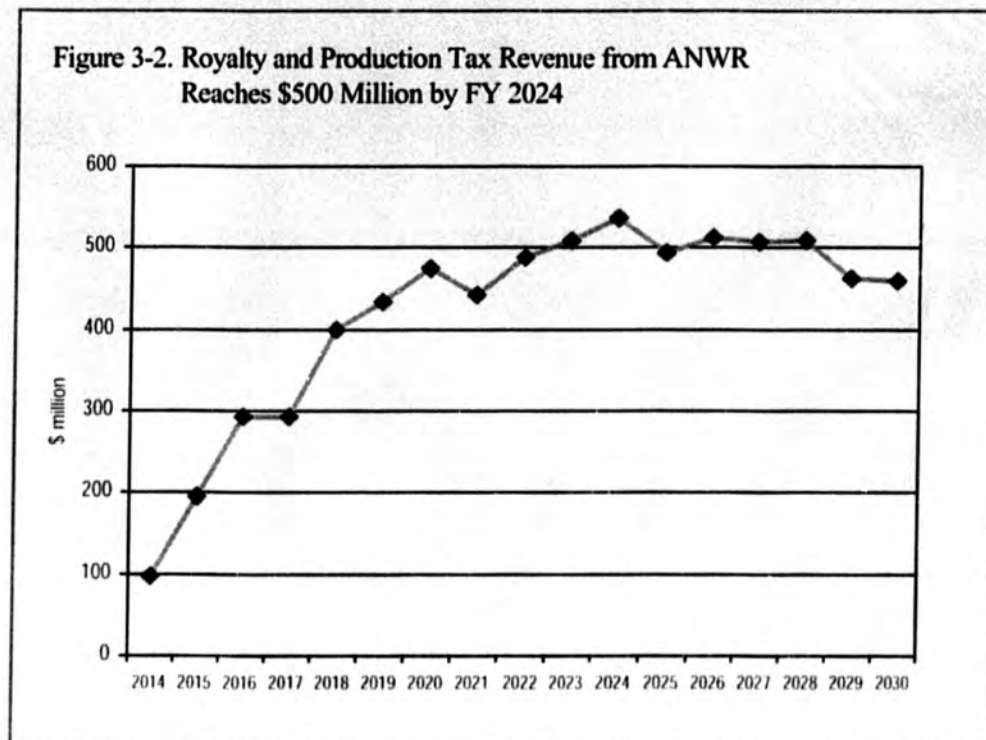
Based on these estimates and assumptions, five fields with a total of 3 billion barrels of reserves would be brought online by 2030, requiring approximately an additional \$700 million in exploration and development spending per year.

With this aggressive spending program, production could reach 220,000 barrels a day by 2016 and almost 400,000 barrels per day by 2024.

Figure 3-1. ANWR's Big Fields Could Deliver Big Boost to Alaska Production



At our estimated long-term oil price of \$25.50 per barrel for North Slope crude, ANWR production could yield \$500 million a year in royalty and production tax revenue by 2024. Of that, 60% would come from the state production tax and 40% from the state's share of federal royalties (assuming the state retains a 50% share of the royalties).



4. Oil Revenue

Figure 4-1. FY 2004 Oil Revenue
\$2.4 billion

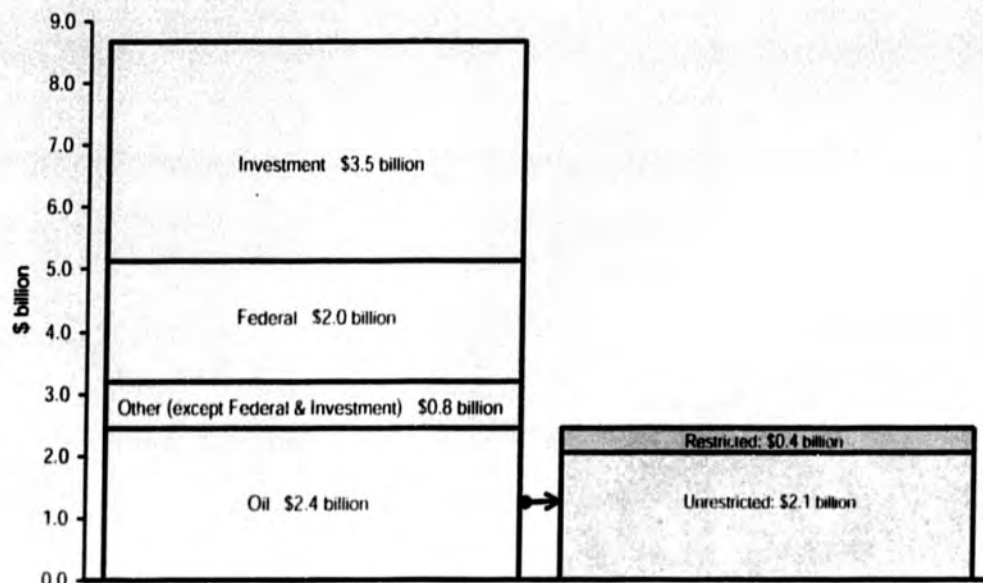


Table 4-1. Total Oil Revenue
Actual FY 2004⁽¹⁾ and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected	
		FY 2005	FY 2006
Unrestricted			
Property Taxes	47.3	47.2	45.3
Corporate Income Taxes	298.8	404.0	296.0
Production Taxes	651.9	798.3	568.9
Royalties (including Bonuses and Interest)	<u>1,056.1</u>	<u>1,419.1</u>	<u>1,061.7</u>
Total Unrestricted	2,054.1	2,668.6	1,971.9
Restricted			
Royalties to Permanent Fund and School Fund	362.1	485.2	362.9
Tax Settlements to CBRF	8.4	20.0	20.0
NPR-A Royalties, Rents and Bonuses	<u>2.5</u>	<u>12.9</u>	<u>7.9</u>
Total Restricted	373.0	518.1	390.8
Total Oil Revenue	2,427.1	3,186.7	2,362.7

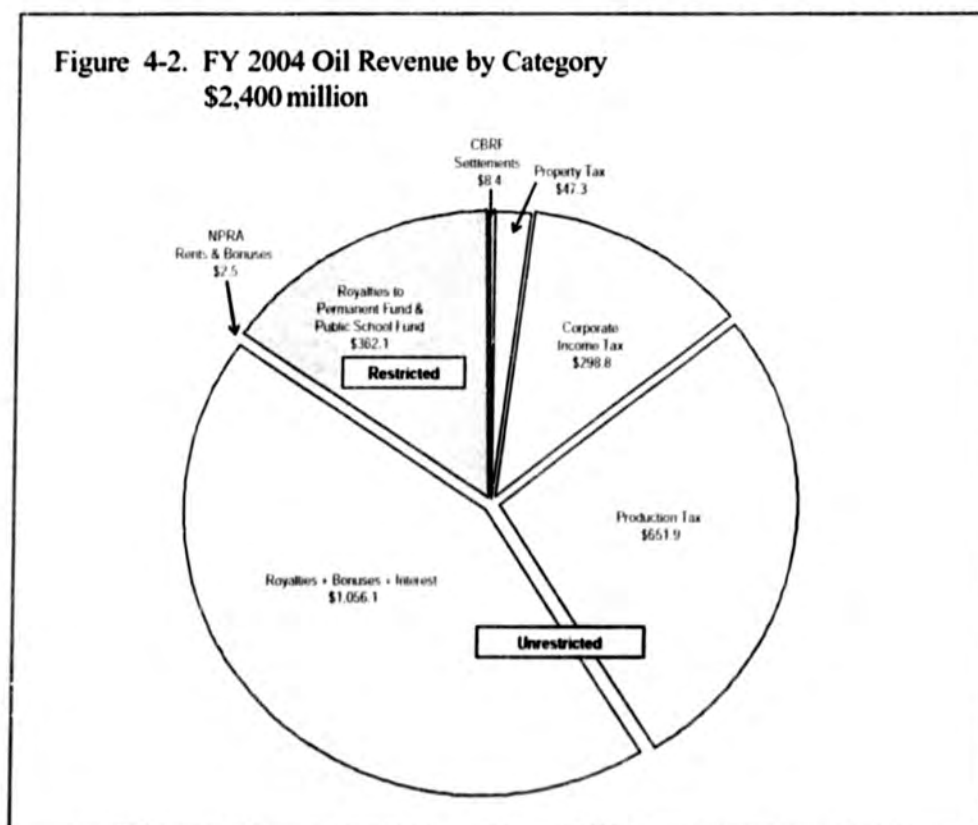
(1) Actuals have not been fully reconciled to the Comprehensive Annual Financial Report.

General Discussion

The state receives oil and gas revenue from four sources: oil and gas production tax, property tax, royalties and corporate income tax. The bulk of the revenue goes into the General Fund for general purpose spending. Of the royalties, 25% goes into the principal of the Alaska Permanent Fund and 0.5% goes into the Public School Trust Fund. There also are two other funds that receive specific oil and gas revenues: the state's share of all lease bonuses from the National Petroleum Reserve-Alaska (NPR-A) goes into the NPR-A Fund ⁽¹⁾, and settlements of tax and royalty disputes between the state and oil and gas producers go into the Constitutional Budget Reserve Fund (CBRF).

The figure below shows the actual amount of each tax and royalty source in FY 2004.

As can be seen from the figure, royalties and the production tax constitute the largest part of oil revenue — both restricted and unrestricted. This section begins with a discussion of these two revenue sources, both of which are driven by price and volume. We then review the price forecasting methodology that underlies this biannual report, as well as explore how market prices determine wellhead value. We also review our production forecast, and close this section with a discussion of oil and gas property taxes, oil and gas corporate income taxes and the restricted portions of oil revenue.



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

Unrestricted Oil Revenue

Table 4-2 . Unrestricted Oil Revenue Projections
Actual FY 2004⁽¹⁾ and Projected FY 2005-2015
\$ million

Fiscal Year	Property Tax	Corporate Income Tax	Production Tax	Royalties ⁽²⁾	Total Oil
2004	47.3	298.8	651.9	1,056.1	2,054.1
2005	47.2	404.0	798.3	1,419.1	2,668.6
2006	45.3	296.0	568.9	1,061.7	1,971.9
2007	42.2	215.0	462.8	931.8	1,651.7
2008	40.0	188.0	400.4	730.5	1,358.9
2009	37.5	180.0	365.7	689.7	1,272.9
2010	37.3	175.0	346.5	686.1	1,244.9
2011	36.8	176.0	355.3	690.3	1,258.4
2012	36.1	182.0	315.8	669.4	1,203.3
2013	35.3	181.0	282.4	629.4	1,128.1
2014	34.5	176.0	250.3	607.3	1,068.1
2015	33.8	171.0	220.8	574.1	999.7

(1) Actuals have not been fully reconciled to the Comprehensive Annual Financial Report.

(2) Includes bonuses and interest.

Oil and Gas Production Taxes

All oil and gas production in Alaska — except the federal and state royalty share — is subject to the state's production taxes. The taxes consist of the oil and gas production tax and a hazardous release surcharge levied only on oil. All of these taxes are collected on a monthly basis.

Oil Production Tax

The tax rate for oil depends on the age of the field and the Economic Limit Factor (ELF). The ELF depends on total daily oil production and average daily per well production from each producing field.

The statutory production tax rate on oil is 12.25% of its value at the point of production for the first five years of field production and 15% thereafter. There is a minimum tax of 80 cents per taxable barrel.

The effective tax rate is calculated by multiplying the statutory tax rate, even if it is the minimum 80 cents per barrel, times the ELF. The ELF formula for oil production is:

$$ELF = \left[1 - \frac{(300 \times \text{wells})}{\text{volume}} \right]^{\left[\frac{(150,000)}{\text{volume}} \right]^{1.53333}}$$

"wells" is the number of producing wells in the field; "volume" is the total daily production for the field

The ELF formula results in lower effective tax rates for smaller, low-production fields and higher tax rates for larger, highly productive fields. There is a unique ELF for every combination of total daily field production and average daily per well production.

The taxable value of oil is determined by deducting allowable marine and pipeline transportation costs from the destination value of the oil at its disposition point. This point is defined as either a third-party sale or delivery to the producer's own refinery. The destination value for most dispositions is tied by regulation to the West Coast spot price of ANS crude oil.

Natural Gas Production Tax

The statutory production tax rate on natural gas is 10% of its value at the point of production, regardless of the age of the field. There is a minimum tax of 6.4 cents per thousand cubic feet.

To calculate the effective tax rate, multiply the statutory tax rate, even if it is the minimum 6.4 cents per thousand cubic feet, by the ELF. The ELF formula for natural gas production is:

$$\text{ELF} = 1 - (3000/\text{PPW})$$

PPW = average gas production per well per day from the field in thousand cubic feet

If the average daily per well gas production from a field is less than 3,000 cubic feet, the ELF is zero and no gas production taxes are assessed.

The taxable value of natural gas depends on the location of its disposition and its use. For Cook Inlet production, the value for gas sent to Japan as LNG is based on the sales price in Japan less marine, processing and pipeline costs; the value for sales to the Nikiski fertilizer plant is indexed to the current market price of anhydrous ammonia; the value for sales for local use is based on the average sales price for the contracts in effect each month. The small volume of taxable North Slope gas production is valued for tax purposes using the following formula linking it to the value for North Slope crude oil:

$$\text{ANS Gas Taxable Value/million cubic feet} = 0.10 (\text{average ANS oil per barrel netback value})$$

Hazardous Release Surcharge

This tax was enacted following the 1989 grounding of the Exxon Valdez to provide an emergency fund to deal with hazardous substance spills.

The surcharge is comprised of two components: (1) a 3 cents per barrel charge on all oil production, except federal and state royalty barrels, and (2) an additional 2 cents per barrel charge on all oil production except federal and state royalty barrels whenever the balance in the state Oil and Hazardous Substance Release Prevention and Response Fund falls below \$50 million. The balance of the fund was \$50 million or greater for all of FY 2004, so the surcharge was 3 cents per barrel for the entire fiscal year.

Oil Royalties

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

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

State oil and gas leases provide that the state may take its oil royalty in barrels (in-kind) or as a percentage of the production value (in-value). In 2004, the state took approximately 56,200 barrels per day of Prudhoe Bay production in-kind and sold it to the Williams Alaska Petroleum Company and its successor, Flint Hills Resources, for their refinery in North Pole. The state's royalty share of Alaska North Slope production amounts to about 123,000 barrels per day.

The royalty oil taken in-value is valued according to a formula using a market basket of spot crude oil prices closely approximating the ANS West Coast spot price of oil less a transportation allowance back to the lease.

Oil Production Revenue Forecasting Methodology and Assumptions

The forecasted value of the state's anticipated oil production is based on projections of the destination market price of oil and the cost of shipping oil by pipeline and tanker to market. The forecast is the product of a formal oil price scenario meeting that includes state economists and financial professionals from the Department of Revenue, Department of Natural Resources, Department of Labor, the Governor's Office of Management and Budget and the University of Alaska.

To develop a production volume forecast, the Department of Revenue uses an engineering consultant in conjunction with assistance from the Alaska Department of Natural Resources and the Alaska Oil and Gas Conservation Commission. This production volume forecast is developed from estimates of oil and gas production by field.

Oil Price Forecast

Oil prices have risen to historically high levels since our last forecast. Unanticipated worldwide rapid demand growth has exceeded oil production, significantly drawing down inventories and consuming almost all available spare production capacity. This has happened in a world that is increasingly concerned about both security of supply from the Middle East and sufficiency of excess capacity to meet any potential interruptions of supply.

Review of What Has Happened Since the Spring Revenue Forecast

- According to the International Energy Agency, oil consumption has continued to grow at a torrid pace. Oil consumption in China is projected to grow by 16% in 2004. Oil consumption globally is on course to increase from 2003 to 2004 by 3.3%, the biggest annual increase since 1988.
- OPEC production continues to increase, currently averaging just over 30 million barrels per day compared to an average production rate of 26.8 million barrels per day in 2003.
- Non-OPEC production has also increased, with current production rates assessed at 27.4 million barrels per day compared to an average of 25.5 million barrels per day in 2003. Increases in the former Soviet Union and West Africa account for virtually all of the increase.

- With demand up and supply lagging, oil and oil-product inventories remain at historically low levels. At the same time, the dollar continues to be depressed in value relative to other major world currencies, pushing oil prices higher to compensate for the weaker dollar used as the international currency for oil trades. Meanwhile, the insurgency in Iraq continues to contribute to supply security concerns.

Short-Term Oil Price Forecast

Oil prices continue at historically high levels, though history suggests at some point there will be a downward correction. Given the state of market fundamentals, however, prices could temporarily even go higher. Meanwhile, high oil prices could sow the seeds for lower oil prices as both supply and demand responses occur. Looking ahead 30 months, we have put together two oil price scenarios. The low-price scenario assumes factors that push down prices. Accordingly, the high-price scenario is the opposite. The components of each scenario are in the table below.

Table 4-3. Fall 2004 Oil Price Scenarios

Low-Price Factors

- China's growth slows next year due to government policy and international pressure, while financial overheating and high oil prices slow Chinese export growth.
- U.S. and emerging Asia nations' economies slow down in response to high oil prices.
- OPEC's rapid increase in production capacity allows OPEC growth to exceed a slowing consumption growth; a supply glut begins to develop.
- The political unrest in the Middle East fails to have any discernable effect on oil supply availability. Investments in Russia, Africa and Canada add to worldwide production.

High-Price Factors

- The political unrest in the Middle East and other oil producing regions periodically results in disruptions in production and shipments to global markets.
- China's remarkable economic growth continues.
- Production increases by OPEC and non-OPEC suppliers are not able to keep pace with continued robust consumption growth.

Organization of Petroleum Exporting Countries

In some ways, OPEC may have contributed to the upward momentum in oil prices we have seen since last spring. In hindsight, it is hard to believe that only last February OPEC announced it would lower its quota by 1 million barrels per day — to 23.5 million barrels per day effective April 1. At the time, the cartel's view was that the market would require an output reduction in order to prevent oil prices from falling. On March 31, OPEC confirmed its commitment to this reduction in crude oil production. A preliminary estimate for OPEC March production was 25.7 million barrels per day, more than 2 million barrels per day above the new quota for April.

OPEC, however, realized by early summer that demand was putting stress on available supplies, and increased its quota by 2 million barrels per day in July, with a further increase of 0.5 million barrels per day in August. By September, OPEC production was estimated at 2 million barrels per day over the quota in a high-price market that attracted the usual practice of nations with spare capacity exceeding their quotas.

Current ANS Oil Market Situation

Alaska North Slope prices for FY 2005 have been at historic levels, averaging around \$42 per barrel from June to October 2004. The price of benchmark West Texas Intermediate (WTI) has averaged \$44.50 per barrel, implying an average discount for ANS of about \$2.50 per barrel. This is 80 cents per barrel more than the five-year average of \$1.70 per barrel. The WTI differential widened to \$6 per barrel in October 2004, as the sweet/sour spread globally began to reflect the surge of Middle East sour crude onto the market. The disruption of production of benchmark WTI (a light sweet crude oil) due to Hurricane Ivan contributed to the widening of the sweet/sour spread. We assume the differential will continue to be wide through the rest of 2004, but should narrow as we get deeper into the winter heating season in January and February.

ANS prices track the OPEC price basket of internationally traded crude oils and tend to price higher than the basket. The OPEC basket is the benchmark that OPEC uses to gauge the success of its production policy. Since January 2000, the average ANS price has been \$1.56 per barrel higher than the average OPEC basket price. ANS typically sells in direct competition with other waterborne crude oils from Latin America, Asia and the Middle East for delivery to U.S. West Coast refiners in Washington, California and Hawaii.

Prices Over the Longer Term

In the fall 2002 revenue forecast, we increased our assumption for ANS oil prices over the longer term to \$22 per barrel. We believed the accumulated evidence of OPEC's commitment to managing the market from 1999 through 2002, as well as higher prices over this period, supported the increase. At that time, we chose to benchmark our price to the low end of OPEC's target range. Experience had shown that the OPEC cartel is not perfect and that some cheating does occur, and we did not want to err with a long-term price forecast at the upper end of OPEC's target rate. Like all cartels, production discipline in an organization — with only voluntary compliance — creates strong economic incentives for individual members to overproduce.

OPEC has dramatically increased production since April 2004 in response to historically high oil prices. One factor currently driving oil prices upward is the realization by market participants that OPEC has only a limited ability to increase production without significant new investment. We believe this significant investment will occur in both OPEC and non-OPEC countries. We also believe the longer prices stay at current high levels (they may not be as high as in 1981 adjusting for inflation but they are still very high), the more likely there will be an effect on global economic growth.

In this forecast, we have chosen to increase our long-term price forecast to \$25.50 per barrel. This forecast target is an average. We expect oil prices to continue to exhibit extreme volatility and in any given year they could be much higher or lower than \$25.50 per barrel. Many pundits believe that oil prices above \$30 per barrel should be expected over the next four or five years. This could certainly happen; however, based on our experience we are taking a more conservative approach and opting for a number closer to the middle of the OPEC price target range.

**Figure 4-3. General Fund Unrestricted Revenue Forecast
Oil Price Scenarios**

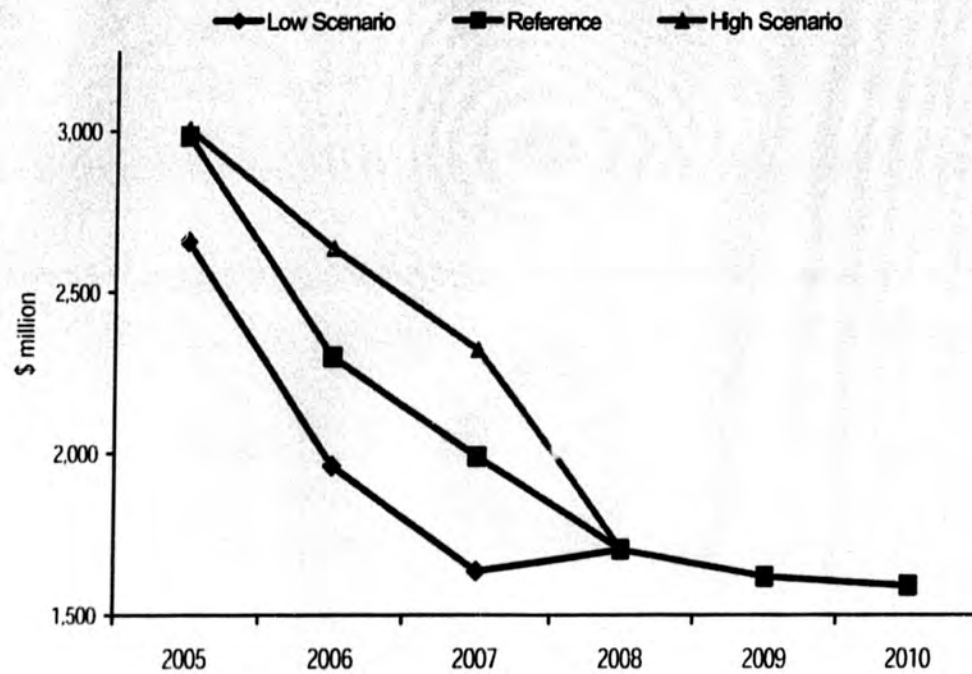


**Table 4-4. Oil Price and General Fund Unrestricted Revenue
Reference Case Compared to Low and High Oil Price Scenarios**

FY	Low Case		Reference Case		High Case	
	\$/ barrel	\$million	\$/barrel	\$million	\$/barrel	\$million
2005	38.20	2,660.6	43.61	2,985.5	44.30	3,007.6
2006	29.05	1,960.1	34.50	2,300.6	39.85	2,634.6
2007	25.15	1,634.2	30.95	1,986.9	36.45	2,321.4
2008	25.50	1,700.5	25.50	1,700.5	25.50	1,700.5
2009	25.50	1,615.6	25.50	1,615.6	25.50	1,615.6
2010	25.50	1,588.6	25.50	1,588.6	25.50	1,588.6
2011	25.50	1,603.1	25.50	1,603.1	25.50	1,603.1
2012	25.50	1,549.2	25.50	1,549.2	25.50	1,549.2
2013	25.50	1,475.2	25.50	1,475.2	25.50	1,475.2
2014	25.50	1,416.2	25.50	1,416.2	25.50	1,416.2
2015	25.50	1,348.6	25.50	1,348.6	25.50	1,348.6