

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3074 SCOMM 14.2: HOUSE SPECIAL COMMITTEE ON WAYS & MEANS 2005-2006

Other Transportation and Production Costs

Transportation Costs

The mandated replacement of vessels without double hulls with new, more expensive double-hulled vessels, and the continued use of smaller qualified vessels to replace larger vessels retired by compliance with the Federal Pollution Act of 1990 is likely to increase transportation costs in the future.

Trans-Alaska Pipeline System (TAPS) Tariffs

The TAPS tariff is determined according to the TAPS Settlement Methodology, a rate-making method approved by the Federal Energy Regulatory Commission that allows the TAPS owners to recover their costs, including an allowance for profit. Under the agreement, future tariffs will be determined by operating cost trends, the production rate and inflation. Preliminary negotiations between the state and pipeline owners have already started to revisit the TAPS Settlement Method, which is scheduled to expire December 31, 2011.

TAPS tariffs are filed on a calendar year basis, with new tariffs taking effect January 1 each year. The expected tariff filing for calendar year 2004 is \$3.02 per barrel. The fall 2004 forecast assumptions table below contains projected tariffs for FY 2004-2015.

Feeder Pipeline Costs

Additional transportation costs are also incurred to move the various crude oils that comprise ANS from North Slope production fields to Pump Station No. 1 of the Trans-Alaska Pipeline System. These include both feeder pipeline charges and other cost adjustments to account for the different qualities of oil entering the North Slope pipelines as well as market-location differentials for in-state sales. See the table below.

Wellhead Price

The combination of ANS wellhead value and production volume by field form the basis for both state production taxes and royalties. The wellhead value by field is calculated by subtracting the relevant marine transportation and pipeline tariff costs (as well as adjustments for North Slope feeder pipelines and pipeline quality bank) from the appropriate destination value. The table below reflects this calculation for FY 2004-2015.

**Table 4-5. Fall 2004 Forecast Assumptions
\$ per barrel**

Fiscal Year	Price	Transportation	TAPS Tariff	Other Deductions & Adjustments ⁽¹⁾	ANS Wellhead
2004	31.74	1.61	3.05	0.30	26.78
2005 ⁽²⁾	43.61	1.60	3.09	0.08	38.83
2006	34.50	1.65	3.22	0.17	29.46
2007	30.95	1.70	3.25	0.21	25.79
2008	25.50	1.75	3.23	0.26	20.26
2009	25.50	1.80	3.28	0.26	20.16
2010	25.50	1.85	3.19	0.36	20.10
2011	25.50	1.90	3.15	0.45	20.00
2012	25.50	1.95	3.06	0.49	20.00
2013	25.50	2.00	3.17	0.52	19.81
2014	25.50	2.05	3.28	0.54	19.62
2015	25.50	2.10	3.41	0.56	19.43

(1) Other deductions include other pipeline tariffs, quality bank charges, location differentials and amended information.

(2) FY 2005 includes reported information through August 2004.

Oil Production

We have made some minor changes in our ANS oil production forecast. The changes are summarized as follows:

- We have delayed the startup of Point Thomson one year from 2008 to 2010 pending negotiations between the state and developer ExxonMobil.
- We have accelerated and increased production from West Sak due to the successful application of drilling technology used to complete horizontal multi-lateral wells and the sanctioning of a new drillsite at J-Pad. We now believe that West Sak will produce close to 80,000 barrels per day by 2010, compared to our fall assumption of roughly 50,000 barrels per day.
- We have accelerated NPR-A development by one year, with production assumed to start at roughly 20,000 barrels per day in 2011 and peak at 70,000 barrels per day in FY 2014.
- We have increased Alpine's near-term output to reflect recently announced facility expansions.
- A review of development plans and production performance at producing fields has resulted in a very modest decrease in Milne Point production.

Figure 4-4 illustrates how the development timing can affect the production forecast over the next 12 years. The decline between FY 2005 and FY 2009 illustrates that until a combination of heavy oil (West Sak), NPR-A, Point Thomson and other new fields come on line, ANS production will continue to decline modestly year-to-year.

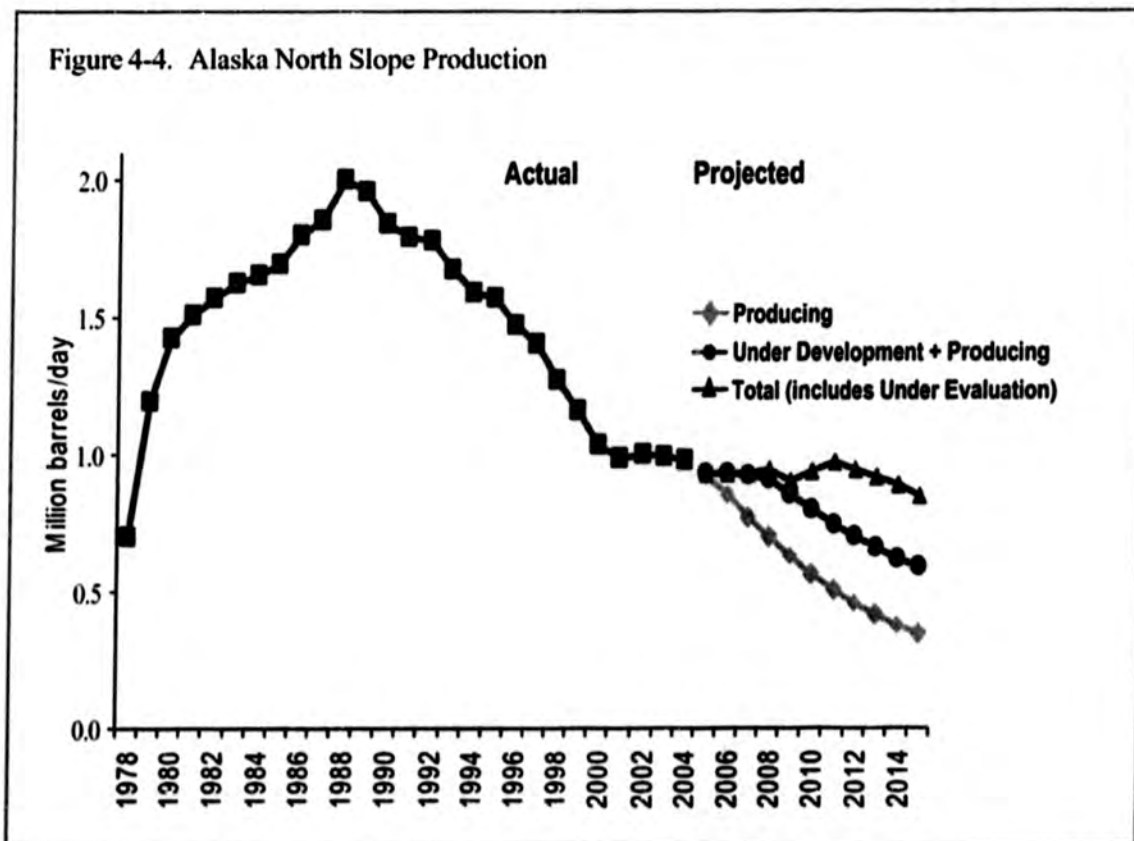


Table 4-6. Alaska Oil and NGL Production
million barrels per day

	Actual FY 2004	Projected	
		FY 2005	FY 2006
Prudhoe Bay	0.419	0.383	0.368
Midnight Sun	0.005	0.004	0.003
Polaris	0.003	0.003	0.004
Orion	0.003	0.008	0.015
Aurora	0.011	0.009	0.011
Borealis	0.032	0.027	0.029
Kuparuk	0.155	0.144	0.141
West Sak	0.009	0.015	0.030
Tabasco	0.004	0.005	0.004
Tarn	0.031	0.027	0.022
Meltwater	0.005	0.009	0.011
Milne Point	0.030	0.030	0.026
Schrader Bluff	0.020	0.021	0.025
Endicott	0.029	0.022	0.023
Lisburne	0.010	0.010	0.010
Point McIntyre	0.038	0.038	0.038
Niakuk	0.012	0.010	0.008
Alpine	0.099	0.102	0.112
Northstar	<u>0.066</u>	<u>0.066</u>	<u>0.053</u>
Total ANS	0.980	0.934	0.932
Cook Inlet	<u>0.029</u>	<u>0.024</u>	<u>0.022</u>
Total Alaska	1.010	0.958	0.954

Petroleum Property Tax

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

Exploration Property

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

The state appraiser gathers raw data for determining market value by reviewing the details of equipment sales, attending auctions and reviewing trade journals. This data is then applied to the taxable property, taking into account age, capacity, physical and functional obsolescence.

Production Property

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

In the case of an offshore oil or gas platform or onshore facility, the number of years of useful life is determined by estimating when the facility would reach its economic limit, not on the basis of the projected physical life of the property. The time period until the estimated operating revenue would equal operating expenses plus the current age of the facility equals the total life. The depreciation factor for the facility equals the years of remaining life *divided* by the total life.

Pipeline Transportation Property

The full and true value of taxable pipeline property is determined with due regard to the economic value of the property based on the estimated life of the proven reserves of gas or unrefined oil that will be transported by the pipeline. We rely upon several standard appraisal techniques to value Alaska pipelines. We primarily rely on the income method under which the value is the net present worth of all future income streams of the pipeline. The Trans-Alaska Pipeline from Prudhoe Bay represents more than 95% of Alaska's taxable pipeline transportation property.

The table on the next page illustrates the property tax distribution between local communities and the state for FY 2004. The property value is assessed by the state. A local tax is levied on the state's assessed value for oil and gas property within a city or borough, and is subject to the local property tax limitations established in AS 43.29.080 and AS 43.29.100. If a municipality has a tax rate of 20 mills or less, the state's mill rate is effectively 20 mills minus the local rate.

Table 4-7. FY 2004, Distribution of the Petroleum Property Tax
\$ million

Municipalities	Gross Tax	Local Share	State Share
North Slope	206.8	192.9	14.0
Unorganized	27.1	0.0	27.1
Valdez	13.3	13.3	0.0
Kenai	12.2	7.3	4.9
Fairbanks	5.4	4.3	1.1
Anchorage	0.9	0.8	0.2
Other Municipalities ⁽¹⁾	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>
Total	265.8	218.7	47.3

(1) Other municipalities include Matanuska-Susitna Borough, Cordova and Whittier.

Petroleum Corporate Income Tax

A petroleum corporation's Alaska income tax depends on the relative size of its Alaska vs. worldwide activities and the corporation's total worldwide net earnings. The corporation's Alaska taxable income is derived by apportioning its worldwide taxable income to Alaska using the average of three factors: the proportion in Alaska of the corporation's (1) tariffs and sales, (2) oil and gas production, and (3) oil and gas property. We begin our forecast by estimating the statistical relationship between historical collections of tax, the value of Alaska oil production and refinery margins. We then adjust the forecast for carryforwards and refunds.

In FY 2005, the carryforward and refund adjustment is under \$40 million. This adjustment is a result of oil companies overpaying their estimated quarterly income taxes. We are forecasting a 35% increase in petroleum corporate income tax revenue due to higher crude oil prices and continued high refining margins in FY 2005. In FY 2006, we are projecting revenue will decrease as a result of lower oil and gas prices and falling refining margins.

Restricted Oil Revenue

The table below reflects restricted oil and gas revenue.

According to Article IX, Section 15 of the Alaska Constitution, a minimum of 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state must be deposited into the Alaska Permanent Fund. In addition, AS 37.14.110 requires a contribution of 0.5% of all royalties and bonuses to the Public School Fund Trust. As explained earlier, settlements with or judgments against the oil industry involving tax and royalty disputes must be deposited in the CBRF, although in FY 2004 all CBRF deposits were tax related.

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

Table 4-8. Restricted Oil Revenue
Actual FY 2004⁽¹⁾ and Projected FY 2005-2006
\$ Million

	Actual FY 2004	Projected	
		FY 2005	FY 2006
<u>Restricted</u>			
Royalties to Permanent Fund & Public School Fund			
Royalties, Bonuses and Rents to the Permanent Fund	355.0	475.7	355.8
Royalties, Bonuses and Rents to the Public School Fund	<u>7.1</u>	<u>9.5</u>	<u>7.1</u>
Subtotal	362.1	485.2	362.9
Tax Settlements to the 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

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

5. Other Revenue (except Federal & Investment)

Figure 5-1. FY 2004 Other Revenue (except Federal & Investment)
\$0.8 billion

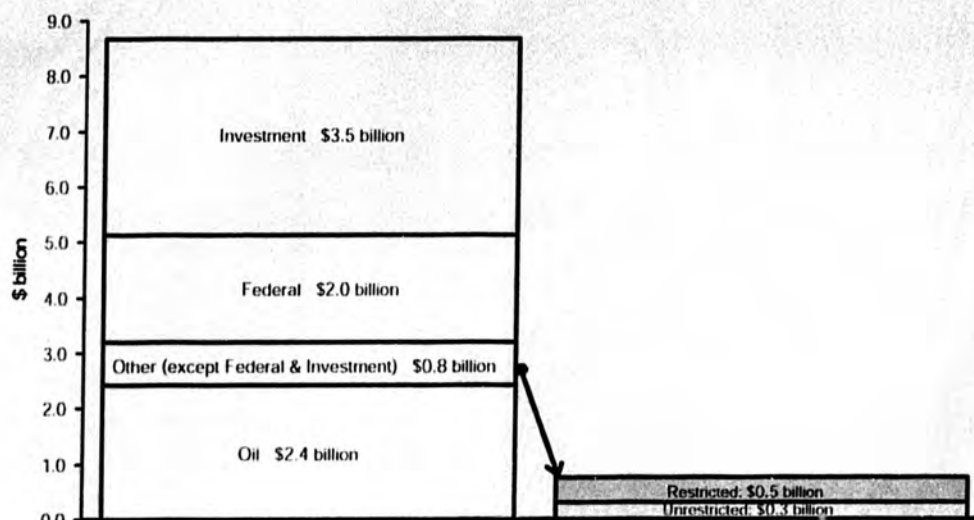


Table 5-1. Other Revenue (except Federal & Investment)
Actual FY 2004 ⁽¹⁾ and Projected FY 2005-2006
\$million

	Actual FY 2004	Projected	
		FY 2005	FY 2006
<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>
Total Unrestricted	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>
Total Restricted	452.7	580.2	542.4
Total Other Revenue (except Federal & Investment)	750.6	879.1	854.4

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

General Discussion

Income from sources other than oil and state investments includes non-oil taxes, user fees and licenses. Many of these revenue sources are divided between unrestricted and restricted revenues; the amounts of each are reflected in Tables 5-2 through 5-7. Restricted revenue includes money deposited in funds other than the Unrestricted General Fund. For purposes of this forecast, restricted revenues also include receipts that the legislature customarily appropriates or sets aside for a particular purpose or program, such as sharing of fish tax revenue with municipalities.

Other Taxes

Alcoholic Beverages Tax

Alcoholic beverage taxes are collected primarily from wholesalers and distributors of alcoholic beverages sold in Alaska. The per-gallon tax rates on alcoholic beverages increased October 1, 2002, from \$0.35 to \$1.07 for beer, \$0.85 to \$2.50 for wine, and \$5.60 to \$12.80 for liquor. Qualifying small brewers continue to pay tax at the \$0.35 rate for beer. Also, starting October 1, 2002, 50% of the revenue is deposited in the Alcohol and Other Drug Abuse Treatment and Prevention Fund. Because the legislature "may use the annual estimated balance in the fund to make appropriations to the Department of Health and Social Services," this revenue is reflected as restricted in the Revenue Sources Book.

Charitable Gaming

Under Alaska law, municipalities and qualified nonprofit organizations may conduct certain charitable gaming activities. The purpose of these activities is to derive public benefit in the form of money for the charities and revenues for the state. The Department of Revenue collects permit and license fees, a 1% net proceeds fee, and a 3% pull-tab tax.

Corporate Income Tax

Corporations that do business in Alaska pay a corporate net income tax unless they are organized under a special IRS rule (Subchapter S) that generally applies only to small, closely held companies. Subchapter S corporations, in general, pay no state corporate income tax in Alaska. Other corporations that do business both inside and outside Alaska must apportion their income to determine how much income they earned here. Corporations other than oil and gas corporations apportion their income to Alaska by using a three-factor formula based on sales, property and payroll. Alaska taxable income is determined by applying the apportionment factor to the corporation's modified federal taxable income. Corporate tax rates are graduated from 1% to 9.4% in \$10,000 increments of Alaska taxable income. The maximum rate of 9.4% applies to income over \$90,000.

Electric Cooperative and Telephone Cooperative Taxes

The electric cooperative and telephone cooperative taxes date back to 1959, when the first Alaska legislature enacted the electric and telephone cooperative tax to promote cooperatives around the state. The electric cooperative tax is based on kilowatt hours furnished by qualified electric cooperatives recognized under Title 10 of Alaska statutes; the telephone cooperative tax is levied on gross revenue of qualified telephone cooperatives under Title 10. Revenue from co-ops located in municipalities is treated as restricted revenue in this forecast because it is shared 100% with the municipalities.

Estate Tax

This tax is levied on the transfer of an estate upon death. The Alaska estate tax is tied to the federal tax. The amount of the state tax equals the maximum state credit allowed on the estate's federal return. As a result of changes to the federal estate tax, the Alaska estate tax will be phased out by calendar year 2005. All revenue derived from estate taxes is deposited in the General Fund.

Fisheries Business Tax

The fisheries business tax is the oldest tax in Alaska, dating from 1913. The tax is levied on businesses that process or export fisheries resources from Alaska. Although the tax usually is levied on the act of processing, the tax is often referred to as a "raw fish tax" because it is generally based on the value paid to commercial fishers for the raw fishery resource. Tax rates vary from 1% to 5%, depending on whether a fishery resource is classified as "established" or "developing," and whether it was processed by an on-shore or floating processor. All revenue from the tax is deposited in the General Fund, but not all of it is considered unrestricted for the purposes of this forecast. Each year, the legislature appropriates half the revenue from the tax to qualified municipalities. Given that this sharing formula is in statute, and that the legislature customarily follows the statutory formula, this forecast considers the shared revenues to be restricted.

Fishery Resource Landing Tax

The fishery resource landing tax was enacted in 1993. The tax is levied on processed fishery resources first landed in Alaska, and is based on the unprocessed statewide average value of the resource. The tax is collected primarily from factory trawlers and floating processors that process fishery resources outside the state's 3-mile limit and bring their products into Alaska for shipment. The tax rates vary from 1% to 3%, based on whether the resource is classified as "established" or "developing." All revenue derived from the tax is deposited in the General Fund. However, by statute, 50% is available for sharing with municipalities along the same lines as the fisheries business tax and this forecast considers the shared revenues to be restricted.

Insurance Premium Tax

Insurance companies in Alaska do not pay corporate income tax or sales or other excise taxes. Instead, they pay an insurance premium tax. Receipts from this tax are deposited in the General Fund. However, receipts from the tax that are accounted for in the Workers Safety and Compensation Fund are shown as restricted.

Mining License Tax

This is a tax on the net income of all mining property in the state, ranging from 0% to 7%, less exploration and other credits. 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.

Motor Fuel Tax

The motor fuel tax dates from 1945 when a tax of 1 cent per gallon was imposed on all motor fuel. The tax is levied on motor fuel sold, transferred or used within Alaska. Motor fuel taxes are collected primarily from wholesalers and distributors licensed as qualified dealers. Current per gallon rates are 8 cents for highway use, 5 cents for marine fuel, 4.7 cents for aviation gasoline, 3.2 cents for jet fuel, and a variable rate of 8 cents to 2 cents for gasohol, depending on the season, location and EPA mandate. Various uses of fuel are exempt from tax, including fuel used for heating or in flights to or from a foreign country. All revenue derived from motor fuel taxes is deposited in the General Fund, but 60% of the taxes attributable to aviation fuel sales at municipal airports are shared with the respective municipalities, and hence considered restricted for purposes of this forecast.

Rental Vehicle Tax

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

Seafood Assessments and Taxes

The Department of Revenue administers several different programs that raise money through seafood assessments. The money raised is then set aside for the legislature to appropriate for the benefit of the seafood industry — either in marketing or in management/development of the industry. The four programs are the salmon marketing tax, seafood marketing assessment, salmon enhancement tax and dive fishery management assessment. On January 1, 2005, the seafood marketing assessment will increase from 0.3% to 0.5% of the ex-vessel value of seafood products produced in Alaska and the salmon marketing tax will be eliminated. The rates for many of these assessments are determined by a vote of the appropriate association within the seafood industry or by members of the Alaska Seafood Marketing Institute. Although all revenue received under these assessments is deposited in the General Fund, for purposes of this forecast it is treated as restricted revenue. With the exception of the salmon enhancement tax, all other seafood assessments are reflected under the Charges for Services section of this forecast.

Motor Vehicle Tire Fee

The tire fee has two components. The first component is a tax of \$2.50 on all new tires sold in Alaska for motor vehicles intended for highway use. This part became effective September 26, 2003. The second part of the law imposes an additional \$5 fee per tire on all new tires with heavy studs, and \$5 on the installation of studs on a previously un-studded tire. This component of the law became effective July 1, 2004.

Tobacco Tax

The tobacco tax dates from 1949, when a tax of 3 cents per pack of cigarettes and 2 cents per ounce of tobacco was enacted. The tax is levied on cigarettes and tobacco products sold, imported or transferred into Alaska. Tobacco taxes are collected primarily from licensed wholesalers and distributors. The tax rate on cigarettes will increase from \$1 to \$1.60 per pack on January 1, 2005; to \$1.80 on July 1, 2006; and to \$2 on July 1, 2007. The tax rate on other tobacco products — such as cigars and chewing tobacco — is 75% of the wholesale price. The 76% of cigarette tax revenue that is deposited in the School Fund changes to 47.5% on January 1, 2005; to 42.2% on July 1, 2006; and to 38% on July 1, 2007. Although the remainder of the cigarette tax revenue is deposited into the General Fund, 8.9% is allocated to the Tobacco Use Education and Cessation Fund. All other tobacco products tax revenue is deposited in the General Fund and all cigarette and tobacco products license fees are deposited in the School Fund. Revenue deposited in the School Fund is dedicated to the rehabilitation, construction, repair and insurance costs of school facilities statewide.

Table 5-2. Other Tax (except Federal & Investment)
Actual FY 2004 ⁽¹⁾ and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected	
		FY 2005	FY 2006
<u>Unrestricted</u>			
Sales and Use Taxes			
Alcoholic Beverages ⁽²⁾	16.3	15.9	15.9
Cigarette ⁽²⁾	9.4	14.9	27.1
Other Tobacco Products ⁽²⁾	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⁾	2.7	6.7	6.7
Tire Fees ⁽²⁾	<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
Total Unrestricted	185.8	206.1	218.6
<u>Restricted</u>			
Sales and Use Taxes			
Alcoholic Beverages (Alcohol & Drug Treatment) ⁽²⁾	16.3	15.9	15.9
Insurance Premium (Workers Safety & Compensation) ⁽³⁾	6.2	6.3	6.4
Electric and Telephone Cooperative (Municipal Share)	3.8	3.8	3.8
Cigarette (School Fund) ⁽²⁾	32.9	29.4	27.0
Cigarette (Tobacco Use Cessation) ⁽²⁾	0.0	0.8	2.7
Motor Fuel - Aviation (Municipal Share)	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Subtotal	59.4	56.4	56.0
Fish Taxes			
Fisheries Business (Municipal Share)	14.4	14.4	14.4
Fishery Resource Landing (Municipal Share)	4.4	4.2	4.2
Salmon Enhancement (Aquaculture Association Share)	<u>3.0</u>	<u>3.1</u>	<u>3.1</u>
Subtotal	21.8	21.7	21.7
Total Restricted	81.2	78.1	77.7
Grand Total	267.0	284.2	296.3

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

(2) For these tax types revenues are accrued through August 15, instead of July 31.

(3) Includes service fees for employers who are self-insured.

Charges for Services

The revenues reported in this table do not include all charges for state services — just those that do not fit into other categories in this report. Most of these receipts are restricted revenue because they are returned to the program where they were generated.

The only unrestricted revenues listed in this category come from fees and other program charges that do not have program-receipt designations, or are not otherwise segregated and appropriated back to the program.

Marine Highway Fund

The revenue from certain transportation enterprises is reported here as a charge for state services. The Alaska Marine Highway Fund is in the General Fund and receives the revenue from operations of the state ferry system operations. The legislature has discretion over how the revenue is spent, but because it is customarily spent on Alaska Marine Highway operations, it is considered restricted for this forecast.

Program Receipts

The definition of program receipts under AS 37.05.146 is "fees, charges, income earned on assets and other state money received by a state agency in connection with the performance of its functions." The statute then lists all programs with program receipt authority. The statutory list includes many programs that are not included in the Charges for Services category because they are elsewhere in this forecast — such as federal receipts, trust funds and the Alaska Permanent Fund — or are not state money available for general appropriation. The table below lists some of the larger individual programs and the receipts from those programs.

Table 5-3. Charges for Services
Actual FY 2004 ⁽¹⁾ and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected FY 2005	Projected FY 2006
<u>Unrestricted</u>			
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>
Total Unrestricted	11.1	13.1	13.1
<u>Restricted</u>			
General Government	2.2	2.2	2.2
Natural Resources	0.7	0.7	0.7
Marine Highway Receipts	43.6	47.0	47.0
Receipt-Supported Services ⁽¹⁾	88.2	84.3	84.3
Statutorily Designated ⁽¹⁾	73.3	90.0	90.0
Other ⁽²⁾	<u>18.0</u>	<u>20.7</u>	<u>20.7</u>
Total Restricted	226.0	244.9	244.9
 Grand Total	 237.1	 258.0	 258.0

(1) FY 2004 revenue is from the Alaska State Accounting System (AKSAS) and not fully reconciled with the Comprehensive Annual Financial Report. FY 2005 and 2006 estimates are from the Office of Management and Budget and reflect what agencies expect to receive in receipt-supported services.

(2) FY 2004 other restricted revenue includes the following categories: RCA receipts (\$5.8 million), test fisheries (\$1.6 million), timber sale receipts (\$0.4 million), oil and gas conservation (\$3.7 million) and DCED business licenses (\$6.5 million). FY 2005 and 2006 estimates are from the Office of Management and Budget and reflect what agencies expect to receive in other restricted program receipts.

Fines and Forfeitures

This category includes civil and criminal fines and forfeitures, and money received by the state from the settlement of various civil lawsuits. The majority of the receipts under this category are from tobacco litigation and other settlements.

Tobacco Settlement

The tobacco settlement was signed by 46 states (including Alaska) in November 1998. The first payment from the settlement was made in FY 2000. In 2000 and 2001, the legislature authorized the sale of 80% of the future revenue stream from the tobacco settlement to a new public corporation, the Northern Tobacco Securitization Corporation, a subsidiary of the Alaska Housing Finance Corporation. The new corporation, in turn, sold bonds based on this revenue stream, and paid to the state the money raised by the bond sale, which the legislature appropriated for schools, the university and harbor projects. Starting FY 2002, the remaining 20% of the settlement revenue each year will be deposited into the Tobacco Use Education and Cessation Fund. This forecast shows the 80% that goes directly to the Northern Tobacco Securitization Corporation for payment of the bonds and the 20% that goes to the Tobacco Use Education and Cessation Fund as restricted revenue.

Table 5-4. Fines and Forfeitures
Actual FY 2004 ⁽¹⁾ and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected FY 2005	Projected FY 2006
<u>Unrestricted</u>			
Fines and Forfeitures	16.0	12.8	12.8
Total Unrestricted	16.0	12.8	12.8
<u>Restricted</u>			
Tobacco Settlement (Northern Tobacco Securitization Corporation) ⁽²⁾	17.1	16.9	16.9
Tobacco Settlement (Tobacco Use Education & Cessation Fund) ⁽²⁾	4.3	4.2	4.2
Other	5.4	5.4	5.4
Total Restricted	26.8	26.5	26.5
Grand Total	42.8	39.3	39.3

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

(2) Revenue estimates for FY 2005 and 2006 are from Kentucky's tobacco settlement model modified for Alaska.

Licenses and Permits

Licenses and permits represent another source of government revenue derived from charges for participating in activities regulated by the state. The majority of the receipts under this category are from motor vehicle registration and fishing and hunting license fees.

Fishing and Hunting Licenses Fees

The majority of these fees are appropriated to a special revenue fund called the Fish and Game Fund. Money in the fund may only be spent for fish and game management purposes.

Motor Vehicle Registration Fees

Most motor vehicle registration fees are unrestricted license and permit revenue. However, some registration fees are reflected under restricted receipt-supported services.

Table 5-5. Licenses and Permits
Actual FY 2004 ⁽¹⁾ and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected	
		FY 2005	FY 2006
<u>Unrestricted</u>			
Motor Vehicles	38.8	38.0	39.0
Other Fees	<u>2.2</u>	<u>2.4</u>	<u>3.0</u>
Total Unrestricted	41.0	40.4	42.0
<u>Restricted</u>			
Fishing and Hunting			
Hunting and Fishing Fees (Fish and Game Fund)	23.1	23.1	23.1
Sanctuary Fees (Fish and Game Fund)	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Subtotal	23.2	23.2	23.2
Other Fees	<u>5.5</u>	<u>5.5</u>	<u>5.5</u>
Total Restricted	28.7	28.7	28.7
Grand Total	69.7	69.1	70.7

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

Rents and Royalties

The majority of the unrestricted receipts under this category are from leasing, rental and sale of state land. Certain restricted receipts are deposited in the Alaska Permanent Fund, Mental Health Trust Fund and Public School Trust Fund, and these are reported elsewhere in this forecast.

Table 5-6. Rents and Royalties
Actual FY 2004 ⁽¹⁾ and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected	
		FY 2005	FY 2006
<u>Unrestricted</u>			
Land Leasing, Rental and Sale	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>
Total Unrestricted	7.8	8.1	8.1
<u>Restricted</u>			
Land Leasing, Rental and Sale	<u>5.1</u>	<u>5.1</u>	<u>5.1</u>
Total Restricted	5.1	5.1	5.1
Grand Total	12.9	13.2	13.2

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

Other

This category includes unrestricted contributions, unclaimed property and miscellaneous other receipts.

Unclaimed Property

Under the unclaimed property statutes, a person or business holding abandoned property belonging to someone else must turn over the property to the state to hold the property in trust until claimed by its rightful owner. Most unclaimed property is in the form of cash (checking and savings accounts), stocks and bonds (including dividends) and safe-deposit box contents. Other property includes utility deposits, travelers checks and wages. Because not all unclaimed property owners are located, amounts received from holders exceed the refunds to owners. The Treasury Division maintains a minimum balance in the trust account and periodically transfers excess funds to the General Fund.

Dividends and Miscellaneous

The restricted portion of other revenues in this forecast includes transfers, frequently as dividends, from component organizations of state government, as well as certain miscellaneous revenues.

Table 5-7. Other Revenue
Actual FY 2004 ⁽¹⁾ and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected FY 2005	Projected FY 2006
<u>Unrestricted</u>			
Miscellaneous	24.7	13.4	13.4
Unclaimed Property ⁽²⁾	11.5	5.0	4.0
Total Unrestricted	36.2	18.4	17.4
<u>Restricted</u>			
Alaska Housing Finance Corporation ⁽³⁾	39.3	66.2	43.1
Alaska Industrial Development and Export Authority ⁽³⁾	16.5	26.3	8.8
Alaska Municipal Bond Bank Authority ⁽³⁾	0.8	1.5	0.3
Alaska Student Loan Corporation ⁽³⁾	2.0	80.6	85.0
Alaska Energy Authority ⁽³⁾	0.3	1.1	1.1
Alaska Science & Technology Foundation ⁽³⁾	4.8	0.0	0.0
Miscellaneous ⁽⁴⁾	21.2	21.2	21.2
Total Restricted	84.9	196.9	159.5
Grand Total	121.1	215.3	176.9

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

(2) FY 2004 includes a one-time transfer of \$11.5 million to the General Fund as a result of payments and interest from a former settlement.

(3) Payments from component units are reflected in the Comprehensive Annual Financial Report for FY 2004 and estimates from the Office of Management and Budget for FY 2005 and 2006. The large increase in Alaska Student Loan Corporation revenue in both FY 2005 and 2006 is due to proceeds from refinancing the Alaska Student Loan Corporation's loan portfolio.

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

6. Federal Revenue

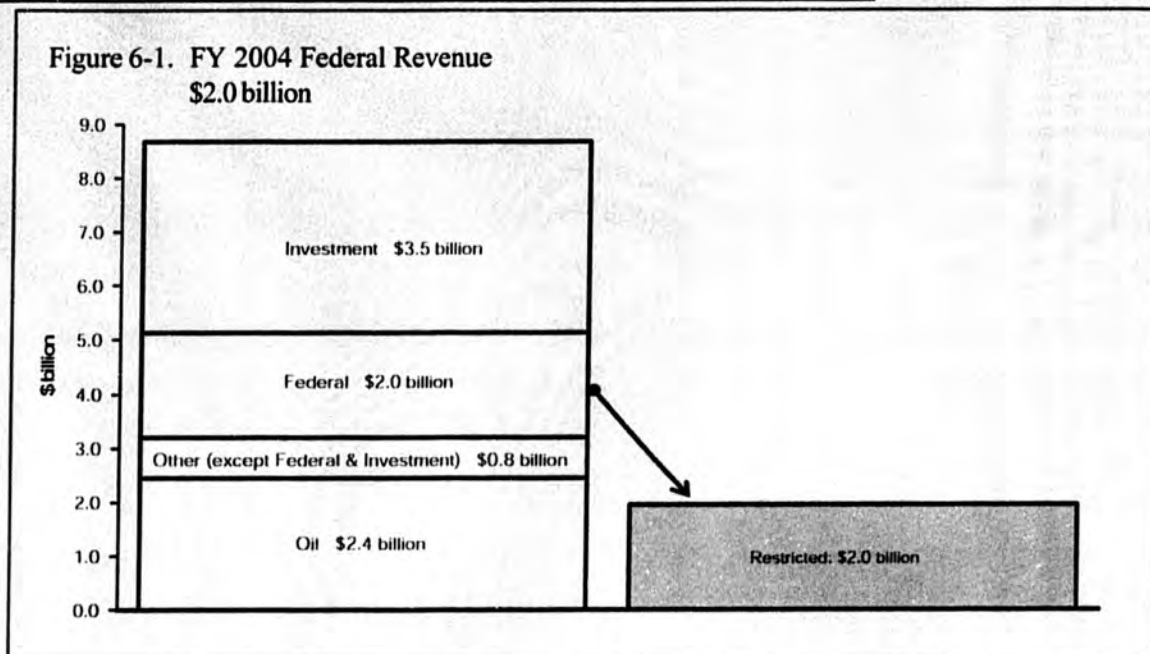


Table 6-1. Total Federal Revenue to the State
Actual FY 2004 and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected	
		FY 2005	FY 2006
<u>Restricted</u>			
Federal Receipts	1,951.7	3,019.3	3,019.3
Total Restricted	1,951.7	3,019.3	3,019.3

Source: FY 2004 is from the Comprehensive Annual Financial Report (General Fund and all other subfunds and non-major special revenue funds, federal revenues). FY 2005 and 2006 estimates are provided by the Office of Management and Budget and are based on agency projections of expected federal revenues to fund capital and operating budgets.

Federal government spending has figured prominently in Alaska's history and is still a major force today. The federal fiscal year (FFY) runs from October 1 through September 30, and in FFY 2003 the federal government spent \$7.9 billion in Alaska.⁽¹⁾ Part of that spending came from the activities of the various federal agencies, part was in the form of grants to state and municipal governments, and still another part came in payments to individuals.

In FFY 2003, Alaska taxpayers received \$1.89 in federal outlays for every \$1 paid in federal taxes.⁽²⁾ Per capita, more federal money is spent in Alaska than in any other state. Federal expenditures in Alaska in FFY 2003 increased 4.2% over FFY 2002.

(1) This and the data for the figures on the next page come from the U.S. Census Bureau, Consolidated Federal Funds Report for FY 2003, www.census.gov/prod/2004pubs/03cflfr.pdf

(2) U.S. Census Bureau, Tax Foundation's "State-by-State Tax Burden Allocation Model," www.taxfoundation.org/taxingspending.html

Figure 6-2. Annual Federal Spending Increase, Alaska and the U.S.

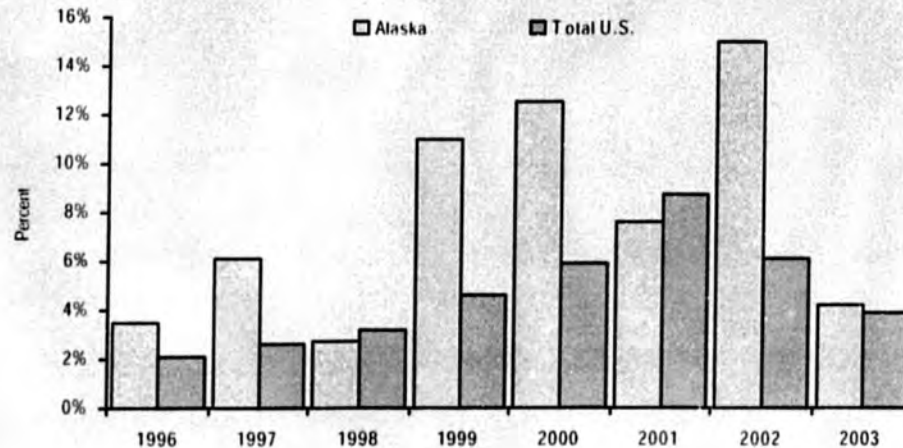
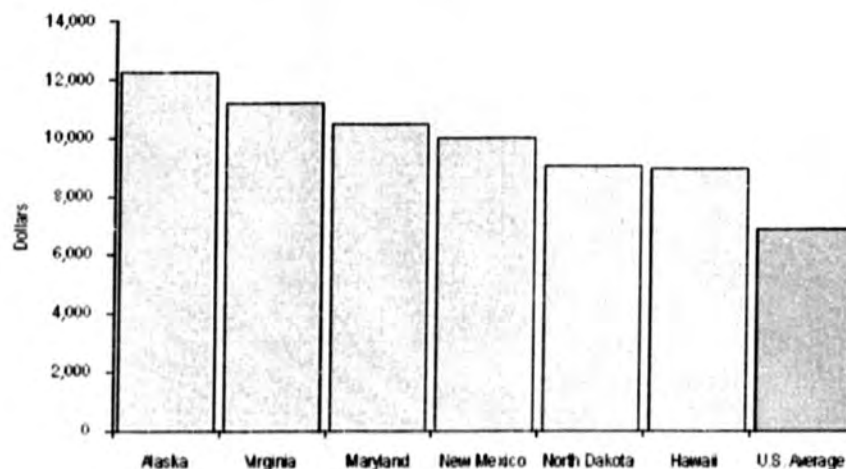


Figure 6-3. FFY 2003 Federal Spending per Capita, Top Six States



Among federal agencies, the Department of Defense spends the most in Alaska, followed by the Department of Health and Human Services. Together, these two departments account for nearly half of all federal spending in the state. Not surprisingly, a large portion of federal money flows into Alaska through salaries of federal employees. However, 39% of all federal spending is in the form of grants, mostly to state and municipal governments, but also to nonprofit organizations.

In the state's Fiscal Year 2004, Alaska's government received and spent nearly \$2 billion of federal funds. Federal funding generally is restricted to specific uses, such as road improvements, Medicaid payments and aid to schools. Potential changes to federal law, differing federal and state fiscal years and changing numbers of eligible Alaskans in certain programs make forecasting federal revenue difficult. The estimates we present for FY 2005 and 2006 are from the Office of Management and Budget and are based on state agency projections of expected federal revenues.

Table 6-2. Total Federal Spending, FFY 2003

By Agency			By Category		
	<u>\$million</u>	<u>percent</u>		<u>\$million</u>	<u>percent</u>
Defense	2,307	29	Grants	3,022	39
Health & Human Services	1,569	20	Salaries & Wages	1,617	20
Social Security	630	8	Procurement	1,680	21
Other Agencies	<u>3,438</u>	<u>43</u>	Retirement & Disability	1,041	13
			Other Direct Payments	<u>584</u>	<u>7</u>
Total	7,944	100		7,944	100

Source: U.S. Census Bureau, Consolidated Federal Funds Report for FY 2003, www.census.gov/prod/2004pubs/03dfr.pdf

It is important to note that the state routinely budgets for more federal money than it actually receives. The legislature authorizes state agencies to receive and spend the maximum that federally funded programs might receive and need, but the actual amounts normally turn out to be less. Also, some of the federal money appropriated for multi-year capital projects is received and spent in years following the one in which the money is appropriated.

For FY 2005, the state is budgeted to receive \$3 billion in federal receipts. Most federal funding requires state matching money. The budgeted state match in FY 2005 is \$282 million. All federal funds, whether spent in the operating or capital budget, are restricted by legislative appropriation to specific uses. The largest categories of federal spending budgeted for FY 2005 are Medicaid (\$673 million), highways and airports (\$912 million) and education (\$296 million, which includes kindergarten through high school funding and the University of Alaska).

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7. Investment Revenue

**Figure 7-1. FY 2004 Investment Revenue
\$3.5 billion**

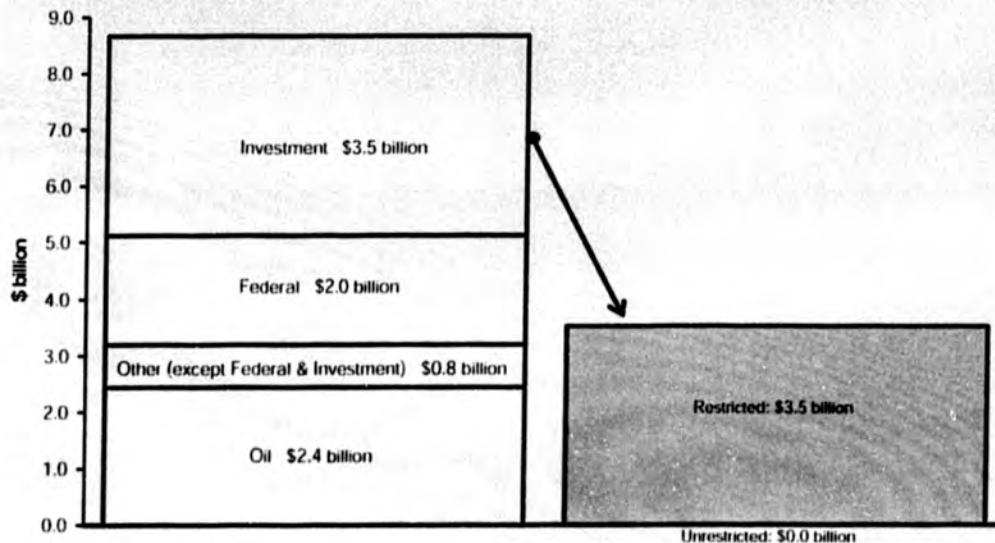


**Table 7-1. Total Investment Revenue ⁽¹⁾
Actual FY 2004 and Projected FY 2005-2006
\$million**

	Actual FY 2004	Projected FY 2005	Projected FY 2006
Unrestricted			
Investments of Governmental Funds	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
Restricted			
Investments of Governmental Funds	4.0	22.0	23.7
Constitutional Budget Reserve Fund	53.2	118.3	102.6
Other Treasury-Managed Governmental Funds	24.9	19.7	20.5
Alaska Permanent Fund ⁽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
Total	3,525.8	2,225.9	2,353.2

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

(2) Total Permanent Fund realized and unrealized earnings.

Investment Forecast

To forecast investment revenue for the current fiscal year — FY 2005 — we combine actual performance through September 30 with a projection for the remainder of the year. Forecasts and estimated capital market median returns are based on information supplied by the state's investment consultant, Callan Associates Inc., and its five-year capital market estimated returns.

Table 7-2. Callan Associates Inc.'s Five-Year Capital Market Estimated Returns

Asset Class	Benchmark for Asset Class	%/ year Median Expected Return	%/ year Expected Risk
<u>Equities</u>			
U.S. Broad	Callan Associates Inc. (CAI) Broad Market	9.0	16.9
U.S. Large Cap	Standard and Poors (S&P) 500	8.8	16.2
U.S. Small Cap	CAI Small	10.1	23.5
International	Morgan Stanley Capital International EAFE	9.3	20.3
<u>Fixed Income</u>			
Domestic Broad Market	Lehman Brothers Aggregate	4.75	4.50
Domestic Short Term (cash equivalent)	Three-Month U.S. Treasury Bill	2.70	0.70
Domestic Intermediate Term	Merrill Lynch 1- to 5-Year Government	4.00	3.15
International	Salomon Brothers Non-U.S. Government	4.65	9.60
<u>Other</u>			
Real Estate		7.6	16.5
<u>Economic Variables</u>			
Inflation		2.6	1.4

The continued volatility in the world's financial markets makes focus on the expected risk columns in the table above particularly appropriate. The numbers in this column represent a statistical measure called standard deviation, which is the most commonly used measure of risk in the investment world. The standard deviation allows you to estimate a range in which you would expect results to fall two-thirds of the time. For example, Callan estimates an average annual return for the domestic broad market fixed-income asset class of 4.75% and an expected risk for that asset class of 4.5%. That means Callan is forecasting that two-thirds of the time the annual return for the domestic broad fixed-income asset class will fall between 0.25% (the median expected average annual return of 4.75% minus the expected risk of 4.5%) and 9.25% (the median expected return plus the expected risk).

The probability that a particular asset class or portfolio will have a negative return over a given period of time is another way to reflect the riskiness of that asset class or portfolio. The investment income summary tables in this section of the revenue forecast include an estimate of the probability of negative returns for each fund over a one-year period.

Unrestricted Investment Revenue

Unrestricted investment revenue is earned on the General Fund non-segregated investments managed by the Treasury Division. Interest Paid by Others is interest received by the state other than on its investments. Oil and gas royalty interest is included in General Fund unrestricted oil revenue.

Table 7-3. Unrestricted Investment Revenue
Actual FY 2004 and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected FY 2005	Projected FY 2006
<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>
Total	9.7	18.0	16.7

Table 7-4. Investment Revenue Summary
Actual FY 2004 and Projected FY 2005-2006

Treasury Pool	Asset Allocation Percent Allocation	Performance Benchmark
Short-term, Fixed-Income Pool	50%	Three-Month U.S. Treasury Bill
Intermediate-Term, Fixed-Income Pool	50%	Merrill Lynch 1- to 5-Year Government Index
Investment Balance September 2004, 2004		\$1,831.7 million
Projected Annual Rate of Return		3.35 %
Probability of Negative Return Over 1 Year		2.52 %
Actual Total Investment Income, FY 2004		\$ 13.2 million
Projected Total Investment Income, FY 2005		\$ 38.4 million
Projected Total Investment Income, FY 2006		\$ 38.8 million

	\$ million		
	Actual FY 2004	Projected FY 2005	Projected FY 2006
Investment Revenue Unrestricted	9.2	16.4	15.1
Investment Revenue Restricted ⁽¹⁾	<u>4.0</u>	<u>22.0</u>	<u>23.7</u>
Total	13.2	38.4	38.8

(1) Includes subfunds of the General Fund.

Restricted Investment Revenue

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

Table 7-5. Restricted Investment Revenue
Actual FY 2004 and Projected FY 2005-2006
\$million

	Actual FY 2004	Projected FY 2005	FY 2006
<u>Restricted</u>			
Investments of Governmental Funds	4.0	22.0	23.7
Constitutional Budget Reserve Fund	53.2	118.3	102.6
Other Treasury Managed Governmental Funds	24.9	19.7	20.5
Alaska Permanent Fund ⁽¹⁾	<u>3,434.0</u>	<u>2,047.9</u>	<u>2,189.7</u>
Total Restricted	3,516.1	2,207.9	2,336.5

(1) Annual unrealized and realized earnings from Permanent Fund Table 7-10.

Table 7-6. CBRF Investment Revenue Summary
Actual FY 2004 and Projected, FY 2005-2006

Asset Allocation Regular Account

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-Income Pool	22%	Three-Month U.S. Treasury Bill
Intermediate-term, Fixed-Income Pool	58%	Merrill Lynch 1- to 5-Year Government Index
Broad Market Fixed-Income Pool	20%	Lehman Brothers Aggregate Bond Index
Regular Account Balance September 30, 2004		\$1,504.9 Million
Projected Annual Rate of Return		3.86 %
Probability of Negative Return Over 1 Year		8.02 %

Asset Allocation Special Subaccount

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-Income Pool	41%	Lehman Brothers Aggregate Bond Index
Domestic Equity Pool	43%	Russell 3000 Index
International Equity Pool	16%	MSCI EAFE Index
Special Subaccount Balance September 30, 2004		\$ 427.2 Million
Projected Annual Rate of Return		7.31 %
Probability of Negative Return Over 1 Year		24.35 %

Total Investment Income (\$million)

	Actual FY 2004	Projected	
		FY 2005	FY 2006
Regular Account	8.0	87.7	68.7
Special Subaccount	<u>45.2</u>	<u>30.6</u>	<u>33.9</u>
Total	53.2	118.3	102.6

Table 7-7. Constitutional Budget Reserve Fund Cash Flows
Actual FY 2004 and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected	
		FY 2005	FY 2006
Beginning Cash Balance CBRF	2,093.2	2,064.2	2,202.5
Beginning Main Account Balance	1,720.4	1,646.2	1,753.9
Earnings on Main Account Balance ⁽¹⁾	8.0	87.7	68.7
Petroleum Tax, Royalty Settlements ⁽²⁾	8.4	20.0	20.0
Loan to GF (prior year)	(124.3)	0.0	0.0
Loan to GF (current year) ^{(3) (4)}	33.7	0.0	(31.9)
Payback of Cash Flow Draw	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Ending Main Account Balance	1,646.2	1,753.9	1,810.7
Beginning Special Subaccount Balance	372.8	418.0	448.6
Earnings on Special Subaccount Balance ⁽¹⁾	45.2	30.6	33.9
Loan to GF from Special Subaccount	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Ending Special Subaccount Balance	418.0	448.6	482.5
Total CBRF Balance	2,064.2	2,202.5	2,293.2

(1) The earnings estimate for the main account is 3.86% and the earnings estimate for the special subaccount is 7.314%. These projections are based on Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.

(2) Settlement estimates are provided by the Department of Revenue and Department of Law.

(3) The FY 2004 surplus is based on the audited cash balance in the CBRF as of June 30, 2004.

(4) No FY 2005 deposit to the CBRF is shown.

The Treasury Division manages two other governmental funds, the Public School Trust and the Alaska Children's Trust.

**Table 7-8. Public School Trust Investment Revenue Summary
Actual FY 2004 and Projected FY 2005-2006**

Asset Allocation			
Treasury Pool	Percent Allocation	Performance Benchmark	
Broad Market Fixed-Income Pool	57%	Lehman Brothers Aggregate Index	
Domestic Equity Pool	43%	Russell 3000 Index	
Public School Trust Fund Balance September 30, 2004		\$ 303.4 million	
Projected Annual Rate of Return		6.58 %	
Probability of Negative Return Over 1 Year		21.37 %	
Total Investment Income and Distributable Income (\$ million)			
	Actual FY 2004	Projected FY 2005	Projected FY 2006
Public School Trust Total Investment Income	24.1	19.0	19.8
Public School Trust Distributable Income	9.6	10.4	10.9

**Table 7-9. Alaska Children's Trust Investment Revenue Summary
Actual FY 2004 and Projected FY 2005-2006**

Asset Allocation			
	Percent Allocation	Performance Benchmark	
Treasury Pool			
Broad Market Fixed-Income Pool	57%	Lehman Brothers Aggregate Index	
Domestic Equity Pool	43%	Russell 3000 Index	
Alaska Children's Trust Balance September 30, 2004		\$ 10.4 million	
Projected Annual Rate of Return		6.58 %	
Probability of Negative Return Over 1 Year		21.37 %	
Total Investment Income and Distributable Income (\$ million)			
	Actual FY 2004	Projected FY 2005	Projected FY 2006
Alaska Children's Trust* Total Investment Income	0.8	0.7	0.7
Alaska Children's Trust Distributable Income	0.3	0.4	0.4

Table 7-10. Alaska Permanent Fund Managed by the Permanent Fund Corporation ⁽¹⁾
Actual FY 2004 and Projected FY 2005-2006
\$ million

	Actual FY 2004	Projected FY 2005	FY 2006
Reserved Assets — Principal			
Total Reserved Assets — Beginning Balance	24,094.3	26,541.0	27,215.0
Contributions and Appropriations			
Contributions and Appropriations — Beginning Balance	22,988.0	23,525.7	24,652.7
Dedicated Petroleum Revenue	353.0	475.5	355.6
Inflation Proofing Transfer from Realized Earnings	170.0 ⁽²⁾	624.0	650.2
Deposits to Principal and Settlement Earnings	<u>14.7</u>	<u>27.5</u>	<u>21.1</u>
Subtotal — Contributions and Appropriations	23,525.7	24,652.7	25,679.6
Unrealized Appreciation/Depreciation			
Appreciation/Depreciation — Beginning Balance	1,106.3	3,015.3	2,562.2
Annual Unrealized Gain/Loss ⁽³⁾	<u>1,909.0</u>	<u>(453.1)</u>	<u>180.2</u>
Subtotal — Unrealized Appreciation/Depreciation	3,015.3	2,562.2	2,742.4
Total Reserved Assets — Ending Balance	26,541.0	27,215.0	28,422.0
Realized Earnings Account			
Realized Earnings Account — Beginning Balance	100.0	859.3	2,101.2
Annual Realized Earnings	1,525.0	2,501.0	2,009.5
Dividend Payment to the State of Alaska ⁽³⁾	(581.0)	(607.6)	(690.0)
Inflation Proofing Transfer to Reserved Assets	(170.0) ⁽²⁾	(624.0)	(650.2)
Other Transfers to Reserved Assets	(14.7)	(27.5)	(21.1)
Other Appropriations Out of the Fund	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Realized Earnings Account — Ending Balance	859.3	2,101.2	2,749.4
Market Value — Total Fund Invested Assets Value			
Contributions and Appropriations End-of-Year Balance	23,525.7	24,652.7	25,679.6
Unrealized Appreciation/Depreciation End-of-Year Balance	3,015.3	2,562.2	2,742.4
Realized Earnings End-of-Year Balance (Statutory Earnings)	<u>859.3</u>	<u>2,101.2</u>	<u>2,749.4</u>
Fund Balance (Market Value) End-of-Year Balance	<u>27,400.3</u>	<u>29,316.2</u>	<u>31,171.4</u>
Total Reported Earnings			
Annual Unrealized Gain/Loss ⁽³⁾	1,909.0	(453.1)	180.2
Annual Realized Earnings	<u>1,525.0</u>	<u>2,501.0</u>	<u>2,009.5</u>
Reported Earnings	3,434.0	2,047.9	2,189.7

(1) Data projected using July 1, 2004, financial statements and the fall 2004 revenue forecast. Callan Associates Inc.'s, 2004 capital market assumptions results in 7.61% median expected total return data for FY 2005 and FY 2006.

(2) \$354 million of FY 2004's projected inflation proofing of \$523 million was prefunded in FY 2003. There was additional legislation in FY 2004 for the remaining \$169 million balance.

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

8. State Endowment Funds

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

The fiduciary for each of these endowment funds has the responsibility for establishing an asset-allocation policy for the fund. The table below compares the asset-allocation policies for these endowments.

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

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

Table 8-1. Target Asset Allocation — State Endowment Funds
percent

	Cash	U.S. Bonds	International Bonds	U.S. Equities	International Equities	Real Estate	Alternative Investments	Total
Alaska Permanent Fund	0	28	4	37	18	10	3	100
Mental Health Trust	0	28	4	37	18	10	3	100
Public School Trust	0	57	0	43	0	0	0	100
Alaska Children's Trust	0	57	0	43	0	0	0	100
Power Cost Equalization	0	37	0	46	17	0	0	100
University of Alaska Endowment	1	28	0	32	12	5	22	100

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

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

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

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

Alaska Permanent Fund	The annual distribution for the Permanent Fund Dividend follows the formula in AS 37.13.140-.150, which specifies that 10.5% of the past five years' total realized income shall be paid out as dividends but also sets the limitation that the annual distribution may never exceed 50% of the balance in the fund's Realized Earning Account (REA). The 50% limitation has never been triggered.
Mental Health Trust	The Mental Health Trust Board adopted a policy, beginning in FY 2001, to distribute 3.5% a year of the market value of the fund's total assets. The distribution rate had been 3% for FY 1996-1998 and 3.25% for FY 1999-2000. Because of recent declines in market value, the board is exploring a redefinition of "principal" so that losses in market value would be proportionally allocated to the principal account and the earnings account rather than assigning the entire value of any losses to the earning account.
Public School Trust	The annual distribution is 4.75% of a five-year moving average of the fund's principal market value so long as that amount does not exceed the interest and dividend earnings available in the earnings account. The trust has accumulated a sizable earnings account balance, providing a cushion for the fund to maintain its annual distributions in a sustained bear market.
Alaska Children's Trust	The annual distribution is 4.75% of a five-year moving average of the fund principal's market value so long as that amount does not exceed the interest and dividend earnings available in the earnings account. The trust has accumulated a sizable earnings account balance, providing a cushion for the fund to maintain its annual distributions in a sustained bear market.
Power Cost Equalization Endowment	The annual distribution is 7% of the fund's market value. For the initial transition years, state statute specifies that the fund shall use the market value on February 1 for the subsequent fiscal year's distribution. Thereafter, the fund is to distribute each year 7% of the monthly average market value for a specified 36-month period.
University of Alaska Endowment	The annual distribution is 5% of a five-year moving average of the market value of the fund.

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

Alaska Permanent Fund	An annual appropriation is needed to inflation proof the principal of the Permanent Fund (but not the accumulated earnings) pursuant to AS 37.13.145. The legislative appropriation requires a transfer from the Realized Earnings Account to the fund's principal an amount equal to the calculated U.S. Consumer Price Index's effect on the value of the principal, comprised of oil and gas royalty contributions and legislative appropriations. The Alaska Permanent Fund Corporation's Trustees have proposed a constitutional amendment that would inflation proof the entire fund — the principal and accumulated earnings — by limiting the annual distribution of earnings to 5% of a five-year moving average of the market value of the fund.
Mental Health Trust	The Mental Health Trust Authority has adopted two policies to inflation proof the fund. First, it limits distributions to 3.5% of the fund's market value. (The authority's ultimate goal, after further building up the principal, is to distribute 5% of the fund's market value each year, which would still allow enough retained earnings to inflation proof the fund.) Second, the authority also has adopted a policy transferring money from the reserve account to the principal whenever the reserve exceeds four times the annual income distribution, to help build up the fund's principal.
Public School Trust	The asset-allocation policy is such that — when combined with the requirement that the fund's capital gains and losses remain part of the principal — the retained capital gains are adequate to inflation proof the fund.
Alaska Children's Trust	The asset-allocation policy is such that — when combined with the requirement that the fund's capital gains and losses remain part of the principal — the retained capital gains are adequate to inflation proof the fund.
Power Cost Equalization Endowment	The legislature, in selecting a 7% distribution policy, expressly elected not to inflation proof this fund, but rather to distribute all, or almost all, of its anticipated annual earnings.
University of Alaska Endowment	The university's distribution policy of 5% of the moving five-year average of the fund's market value should allow for retained earnings to inflation proof the fund.

9. Public Corporations and the University of Alaska

Public Corporations

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

1. Alaska Housing Finance Corporation (AHFC)
2. Alaska Industrial Development and Export Authority (AIDEA)
3. Alaska Energy Authority (AEA)
4. Alaska Student Loan Corporation (ASLC)
5. Alaska Municipal Bond Bank Authority (AMBBA)
6. Alaska Aerospace Development Corporation
7. Alaska Railroad Corporation

These seven corporations and the University of Alaska are components of state government whose activities are accounted for in the state's Comprehensive Annual Financial Report separately from the activities of primary state government.

Four of these corporations — the Alaska Housing Finance Corporation (AHFC), Alaska Industrial Development Authority (AIDEA), Alaska Student Loan Corporation (ASLC) and Alaska Municipal Bond Bank Authority (AMBBA) — pay some portion of their income as an annual "dividend" to the state.

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

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

The following six tables summarize the activities of these seven corporations.

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

Alaska Housing Finance Corporation

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

Alaska Industrial Development and Export Authority

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

Alaska Energy Authority

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

Alaska Student Loan Corporation

The Alaska Student Loan Corporation uses proceeds from bond sales to finance education loans made by the Alaska Commission on Postsecondary Education. The loan repayments satisfy bond obligations and add to the corporation's capital asset base. Alaska statute authorizes the board of directors to annually declare a return to the state of a portion of its net income. The board has declared return of capital payments for each year beginning in FY 2001. Alaska statute also authorizes the corporation to issue bonds for the purpose of financing state projects.

Alaska Municipal Bond Bank Authority

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

Alaska Aerospace Development Corporation

The corporation finances aerospace-related ventures in Alaska, including the establishment and operation of a commercial space vehicle launch facility in Kodiak, space science and engineering research and promoting tourism at the Poker Flat rocket range and other facilities.

Alaska Railroad Corporation

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

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

Alaska Housing Finance Corporation

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

Alaska Industrial Development and Export Authority

Between 1981 and 1991, the State of Alaska transferred various loan portfolios worth \$297.1 million and \$69.2 million in cash to this corporation. In 1998, the state transferred ownership of the Ketchikan Shipyard to AIDEA.

Alaska Energy Authority

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

Alaska Student Loan Corporation

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

Alaska Municipal Bond Bank Authority

Between 1976 and 1986, the legislature appropriated \$18.6 million to the Bond Bank to be used for backing bond issues. In addition, the legislature gave the Bond Bank \$2.5 million in 1981 to cover an anticipated default by a municipality. The municipality did not default, and the Bond Bank retained the appropriation for its reserves.

Alaska Aerospace Development Corporation

Since 1993, the state has contributed \$10.9 million.

Alaska Railroad Corporation

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

Table 9-3. Public Corporations - Financial Facts, FY 2004 ⁽¹⁾
\$ million

	Total Assets	Assets less Liabilities Book Value	Unrestricted Net Assets	FY 2004 Operating Budget	Total ⁽²⁾ Positions
Alaska Housing Finance Corporation	\$4,708	\$1,706	\$218	\$41	372
Alaska Industrial Development and Export Authority	\$1,148	\$823	\$837	\$7	65
Alaska Energy Authority	\$575	\$420	\$228	\$20	AIDEA ⁽³⁾
Alaska Student Loan Corporation	\$980	\$251	\$15	\$9	ACPE ⁽⁴⁾
Alaska Municipal Bond Bank Authority	\$392	\$40	\$16	\$1	1
Alaska Aerospace Development Corporation ⁽⁵⁾	\$94	\$60	\$2	\$12	33
Alaska Railroad Corporation ⁽⁶⁾	\$440	\$137	\$117	\$78	751

(1) All figures are effective as of June 30, 2004, except for the Alaska Railroad which reports on a calendar year basis.

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

(3) The Alaska Industrial Development and Export Authority (AIDEA) provides staff for the activities of the Alaska Energy Authority (AEA). A significant portion of AIDEA's 65 member staff is engaged in AEA programs.

(4) The Alaska Commission on Postsecondary Education (ACPE) provides staff for the activities of the Alaska Student Loan Corporation (ASLC). A majority of ACPE's 104 member staff are engaged in ASLC programs.

(5) Unaudited.

(6) The Alaska Railroad reports financial data on a calendar year. Assets and book value shown in this table are from audited December 31, 2003, financial statements. The operating budget figure shown here is for CY 2004.

Table 9-4. Public Corporations - Revenue and Net Income
\$ million

	FY 2004 Revenue	FY 2004 Operating Income	FY 2004 Net Income
Alaska Housing Finance Corporation	\$306.0	\$42.5	(\$31.1)
Alaska Industrial Development and Export Authority	\$48.0	\$18.6	\$0.7
Alaska Energy Authority	\$82.9	(\$26.2)	(\$3.4)
Alaska Student Loan Corporation	\$38.6	\$24.8	\$9.0
Alaska Municipal Bond Bank Authority	\$11.6	(\$1.0)	(\$1.7)
Alaska Aerospace Development Corporation	\$10.0	(\$0.7)	(\$0.7)
Alaska Railroad Corporation ⁽¹⁾	\$127.6	\$11.9	\$14.5

(1) The Alaska Railroad reports financial data on a calendar year. CY 2003 covers the second half of FY 2003 and the first half of FY 2004.

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

Alaska Housing Finance Corporation

The legislature in 2003 enacted SCSHB 256, adding language to state statute to modify an earlier transfer plan for AHFC to return capital to the state. The modified transfer plan calls for annual transfers as follows: FY 2004, \$103 million; FY 2005, \$103 million; FY 2006, \$103 million; FY 2007, the lesser of 95% net income or \$103 million; FY 2008, the lesser of 85% net income or \$103 million; FY 2009 and thereafter, the lesser of 75% of the corporation's net income or \$103 million.

Alaska Industrial Development and Export Authority

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

Alaska Energy Authority

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

Alaska Student Loan Corporation

This corporation, at the discretion of its board of directors, may make available to the state a return of contributed capital or dividend for any base year in which the net income of the corporation is \$2 million or more. A base year is defined as the year two years before the payment year. If the board authorizes a payment, it must be between 10% and 35% of net income for the base year (AS 14.42.295). The corporation may also issue up to \$280 million of bonds to finance state projects identified by law (AS 14.42.220), with the corporation solely responsible for repaying the bonds from its own income and assets.

Alaska Municipal Bond Bank Authority

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

Alaska Aerospace Development Corporation

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

Alaska Railroad Corporation

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

Table 9-6. Public Corporations - Operating Expenses and Dividends
\$million

	Operating Expenses Subject to the Executive Budget Act		Dividends and/or Return of Capital	
	Actual FY 2004	Budget FY 2005	Actual FY 2004	Budget FY 2005
Alaska Housing Finance Corporation	\$37.9	\$40.6	\$103.0	\$103.0
Alaska Industrial Development and Export Authority	\$5.7	\$6.8	\$18.2	\$22.0 ⁽¹⁾
Alaska Energy Authority	\$18.7	\$19.8	na	na
Alaska Student Loan Corporation	\$8.9	\$9.7	\$5.0	\$80.6
Alaska Municipal Bond Bank Authority	\$0.7	\$0.7	\$1.6	\$0.8
Alaska Aerospace Development Corporation	\$11.0	\$22.1	na	na
Alaska Railroad Corporation	na	na	na	na

(1) The FY 2005 AIDEA dividend authorized by the board is \$22 million.

University of Alaska

Table 9-7. University of Alaska

\$ million				
Lands and Facilities June 30, 2004	Total Assets June 30, 2004	Unrestricted Net Assets	FY 2005 Operating Budget	FY 2005 Total Positions ⁽²⁾
\$760.8 ⁽¹⁾	\$1,053.4	\$54.5	\$667.3	4,045

(1) Includes depreciation of \$493.4 million.

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

10. Rosetta Stone

Introduction

The Department of Revenue's Revenue Sources Book, the Legislative Finance Division's Summary of Appropriations, and the Department of Administration Division of Finance's Comprehensive Annual Financial Report (CAFR) all present detailed information about where the state gets its money for budgeted day-to-day operations.

Although these three documents concern the same subject matter, they serve very different purposes. This Revenue Sources Book covers the first step in the process, estimating available general purpose or unrestricted revenue for appropriation the next fiscal year. It is published each fall, just before the legislative session, about seven months before the beginning of the fiscal year for which it is forecasting revenue. While our main focus in preparing this book is forecasting the state's unrestricted revenue, we also look at many sources of restricted revenues as well.

At the far end of the spectrum from this forecast is the CAFR. The CAFR reports what actually happened to state dollars during the prior fiscal year. It is published in December, about six months after the end of the fiscal year — about two years after publication of the Revenue Sources Book that had estimated available revenue for that year. In December 2004, a CAFR covering FY 2004 will be published. In April 2005, we will publish a comparison between the 2004 CAFR and the 2004 numbers in our spring forecast.

In between publication of our forecast and the CAFR, thousands of events occur and many different "snapshots" of the state's finances are taken. The Summary of Appropriations is one such snapshot, recording how much money the legislature and governor authorized in the legislative session then just ended. The Summary of Appropriations is published in July, right at the start of the fiscal year. The Summary of Appropriations for FY 2005 was published in July 2004.

Even though these three books concern the same subject matter, they present it differently. The purpose of this appendix is to reconcile these three documents. Going from one document to the other can be very difficult because each uses a different system to classify various kinds of state money, so a sum of money in one report may be broken up into many different pieces in a different report, or vice versa. In addition, some of the critical terms used in the classification are defined very differently among the books.

Defining "Fund"

Alaska's public finances are generally described under one of two different systems: accounting funds or budget funds. Many accounting funds have a corresponding budget fund. For other funds, a single budget fund can incorporate several entire accounting funds or parts of various accounting funds, and the reverse is true as well. Some budget funds have no corresponding accounting fund. As will be set forth below, a major difference between the two systems of funds is how each defines general fund.

Fewer than 100 of the approximately 181 budget funds are active ⁽¹⁾, and some of these are used to designate duplicate receipts. When a budget writer says money is coming from a particular fund, the writer identifies a source that may include money already set aside under that fund code or a revenue stream earmarked for that fund code. Of those funds, 72 show up in the FY 2005 Summary of Appropriations as "other revenues" and can be found in Tables 10-3 through 10-5.

Accounting funds are funds established under general accepted accounting principles as codified by the Governmental Accounting Standards Board (GASB).⁽²⁾ These rules apply to all the states, counties, cities and other public jurisdictions across the country. They are meant to increase the transparency of public finances and the accountability of public officials. Accountants track revenue into specific GASB-defined funds. However, when an accountant says money is coming from a particular fund, the accountant is identifying a source that may include money on hand and already set aside under that fund code or from a stream of revenues earmarked for that fund code.

(1) The list of fund codes can be found in several places, including "The Swiss Army Knife of Budget Handbook," <http://www.legfin.state.ak.us/>, with more recent additions found only in the budget itself.

(2) GASB is a sister organization to the more well known FASB or Financial Accounting Standards Board. GASB sets out generally accepted accounting principles (GAAP) for governmental entities; FASB sets out GAAP for private businesses. Both are under the auspices of the Financial Accounting Foundation.

Defining "General Fund"

The General Fund is the general operating fund of the state. All public money coming into the state treasury that is not authorized or required by law to be placed in a special fund constitutes the General Fund. As noted above, the accounting General Fund and the budgeting general fund are not the same. For example, the FY 2004 budget, passed in the spring of 2003, was predicated on \$1.8 billion in general fund revenue. The draft CAFR for FY 2004 shows General Fund revenue of \$4.7 billion for the period. Did \$2.9 billion go missing? No, the difference is because accountants and budget writers use the term "general fund" differently.

The accountants' General Fund starts with everything in the budget writers' general fund, which represents the core government dollars that are designated as unrestricted in this Revenue Sources Book. The accountants' General Fund, however, also includes the following:

- Subaccounts or subfunds of the General Fund. A budget writer will consider a General Fund subfund as a separate fund, and will discuss moving money from the general fund to the subfund. But such a transfer would not show up in the accountants' final report, because to the accountants it had no effect on the General Fund. For example, in conformance with GASB 34 standards, the Constitutional Budget Reserve is considered a subfund of the General Fund.
- Federal dollars that are spent in general fund programs. No accounting funds are defined by the fact that they have only federal dollars. On the other hand, six specific budget codes refer to different kinds of federal funds.

To distinguish between these two concepts in this document we will capitalize the accountants' General Fund and keep the budget writers' general fund in lowercase.

Reconciling This Revenue Sources Book with the State's Comprehensive Annual Financial Report

Budgeting is a dynamic process and there are many different budget documents available. This section compares the Fall 2004 Revenue Sources Book with one of the most accessible of these many budget documents, the Summary of Appropriations published by the Legislative Finance Agency every year. We have chosen the hard print version of the Summary of Appropriations for FY 2005, issued in the summer of 2004 just after the legislature passed the FY 2005 budget. For FY 2005, there will be many minor differences between the Revenue Sources Book and the Summary of Appropriations that simply reflect the difference between the budget document that was looking forward in July 2004 and the forecast that is looking backward from the vantage of November 2004 five months through FY 2005.

Page 1 of the Summary of Appropriations, reproduced on the next page, presents a total budget picture for FY 2005, with each item "boxed" on the reproduction.

Table 10-1. Total Budget
\$ million

FY 2005	
General Fund Revenue	1,971.9
Federal Revenue	3,011.5
Other Revenue	1,139.8
"Total Revenue"	6,123.2
Draw from CBRF	360.7
Permanent Fund Dividends	512.0
and Inflation Proofing	619.0
Total	7,615.0

Summary of Appropriations - 2004 Legislative Session - FY 2005 - FY 04/FY 05 Fiscal Summary
(\$ millions)

REVENUE (Excludes Permanent Fund Revenues)	FY04 Authorized			FY05 Enacted			GF Change
	GF	Federal	Other	GF	Federal	Other	
Unrestricted General Fund Revenue (1)	2,331.6			1,961.1			(370.5)
New Revenues (2)				10.8			
Bond Proceeds (3)						120.9	
Corporate Dividends (4)			123.5			130.6	
Retained Corporate Dividends (4)			(53.0)			(53.9)	
Federal and Other Funds		2,759.6	1,072.4		3,011.5	943.1	
Total Revenue	2,331.6	2,759.6	1,142.9	1,971.9	3,011.5	1,139.8	(399.7)
APPROPRIATIONS							
Operating	2,233.1	1,633.5	977.9	2,323.8	1,544.3	986.3	90.8
Agency Operations (Non-Formula)	1,085.8	721.5	1,260.8	1,104.9	732.3	1,280.0	16.1
Formula Programs	1,060.5	730.4	140.5	1,150.4	772.0	134.0	89.9
Debt Service & Fund Capitalization	53.7	47.8	231.8	54.4	91.2	280.9	
Revised Program Legislation (RPLs)		75.5	1.8				
Supplemental Appropriations	32.1	58.2	12.8	12.5			(19.6)
New Legislation				1.7		17.3	1.7
Duplicated Authorization (\$)			(609.6)			(725.9)	(725.9)
Capital	86.0	1,126.1	185.0	8.8	1,440.5	183.5	(77.2)
Project Appropriations	54.6	569.3	159.9	8.8	1,440.5	105.5	
Bond Specific Projects			52.4			95.2	
Revised Program Legislation (RPLs)		61.1	0.0				
Supplemental Appropriations	1.5	55.7	6.7				
Duplicated Authorization (\$)			(133.0)			(47.2)	(47.2)
Total Authorization (unduplicated)	2,319.1	2,769.6	1,142.9	2,332.7	3,011.5	1,139.8	13.6
Draw From CBR or (GF Lapse)	(12.5)			360.7			373.3
Permanent Fund Dividends			508.0			512.0	
Permanent Fund Inflation Proofing & Other Transfers (6)		2.4	170.0			619.0	
TOTAL WITH PERMANENT FUND	2,319.1	2,761.9	1,880.9	2,332.7	3,011.5	2,270.8	13.6

Draws from the Constitutional Budget Reserve Fund (CBRF) and appropriations for Permanent Fund dividends and inflation proofing described in the Summary of Appropriations are draws on pools of dollars already in place. If all the other revenues are spent dollar for dollar, then these appropriations are needed to get a picture of the complete budget. In the pertinent restricted revenue sections, the Revenue Sources Book describes the revenues that go into these funds. The Summary of Appropriations describes the money that is taken from these funds. The Revenue Sources Book includes an extensive discussion of both the PF and the CBRF in Section 7. Of course, when we project future balances for those funds we include both the revenue coming into and the dollars taken out of each.

Comparison of Revenue

In the next table there are four areas in these two reports that have close enough ties to be compared.

- What the Revenue Sources Book labels as Unrestricted General Purpose Revenue ties to what the Summary of Appropriations labels General Fund Revenue.
- What the Revenue Sources Book characterizes as Restricted Federal Revenues ties to federal revenue in the Summary of Appropriations.
- Finally, what the Summary of Appropriations characterizes as Other Revenue can be divided into three parts. The first, roughly half, covers items that do line up with what the Revenue Sources Book characterizes as Other Revenues (Except Federal & Investment). The second, again roughly half, does not. It generally represents draws from existing sources of money and not actual new revenues.
- The third piece, which represents a couple of percent of the Summary of Appropriation's Other Revenue, contains two items that line up with the Revenue Sources Book as investment revenue.

Restricted Oil Revenue and the remaining Restricted Investment Revenue found in the Revenue Sources Book — which flow primarily into the CBRF and PF — have no counterpart in the Summary of Appropriations.

Table 10-2. Comparison of FY 2005 Revenue Shown in Revenue Sources Book (RSB) and Summary of Appropriations

Revenue Sources Book, Table 10-2		Fiscal Summary, Table 10-1	
Description	\$ million	\$ million	Description
Unrestricted Revenue			
Oil	2,668.6		
Other (Excluding Federal & Investment)	298.9		
Investment	18.0		
Subtotal Unrestricted Revenue	2,985.5	1,971.9	General Fund Revenue
Restricted Revenue			
Oil Revenue	518.1		Nothing Comparable in Budget
Federal Revenue	3,019.3	3,011.5	Federal Revenue
Nothing Comparable in Revenue Sources Book		583.8	Items not in Revenue Sources Book (Table 10-3)
Other Revenue (excluding Fed & Investment)	580.2	543.5	Non-Oil Items in Forecast (Table 10-4)
Investment Revenue			
Found in Summary of Appropriations	19.7	12.5	Investment Items in Revenue Sources Book (Table 10-5)
		1,139.8	Subtotal Other Revenue
Not Found in Summary of Appropriations	2,188.2		Nothing Comparable in Budget
Subtotal Investment Revenue	2,207.9		
Subtotal Restricted Revenue	6,325.5		
Total Revenue in Revenue Sources Book	9,311.0	6,123.2	Revenue in Summary of Appropriations

General Fund Revenue

Conceptually, the \$1,971.9 million in revenue listed in the Summary of Appropriations corresponds to the \$2,985.5 million in Unrestricted General Purpose Revenue shown in the Revenue Sources Book.⁽¹⁾ Practically, in the Summary of Appropriations, general fund revenues are based on last year's spring 2004 forecast, issued in April 2004. This year's fall 2004 forecast is written in November, with one-third of FY 2005 behind us, and it looks like our unrestricted revenues will be \$2,985.5 million or 51% higher than originally forecast. Why? There are several reasons, but most of that astonishingly large difference can be traced to the high price of Alaska North Slope crude. This year prices have averaged much higher than anything seen in a generation. In April 2004, we estimated an average price for a barrel of ANS for FY 2005 at \$28.30. Now, almost one-half of the way through the fiscal year, we have revised this estimate up to \$43.61, or about \$15.31 higher, which will result in both higher oil royalty and production tax collections. Offsetting that to a small degree is below-forecast production. In the spring we projected production of 0.980 million barrels a day. We are now projecting about 46,000 barrels a day less, or 0.934 million barrels a day. In the special session, held after we issued the spring revenue forecast, the legislature passed Governor Murkowski's cigarette tax increase, which generates increased general fund revenue. In addition to several other minor adjustments in the non-oil and investment areas of the forecast, income tax collections from the oil and gas industry — driven by the high price of energy — appear to be about \$202 million more than anticipated. When added to other higher oil revenues, we see a total increase of \$1,013.6 million in Unrestricted General Purpose Revenue. As a consequence of this oil price increase, we forecast that instead of an annual draw from the CBRF to fund deficit spending, there will be a revenue surplus in FY05. That surplus cannot be calculated exactly until both supplemental FY 2005 spending in the 2005 legislature and the price of oil over the next six months are known.

(1) We call this category unrestricted revenue rather than general fund revenue because, while all the dollars here are general fund revenues, at least according to the accounting definition of General Fund, there are lots of General Fund revenues that are not included here.

Federal Revenue

The \$3,011.5 million in federal revenue listed in the Summary of Appropriations corresponds to the \$3,019.3 in the Revenue Sources Book. This number is developed by the Office of Management and the Budget (OMB), which asks each agency how much federal money it expects to receive and spend over the fiscal year. Our updated figure simply represents the better information we now have five months into the fiscal year.

Other Revenue

Although characterized as revenue in the Summary of Appropriations, a significant portion of the \$1,139.8 million⁽¹⁾ in this category appears not to be revenue as the Revenue Sources Book uses the term. Rather, as was explained earlier for the PF and CBRF, the figure in the Summary of Appropriations is the amount that will be used by state government for various purposes. It might represent a draw from an existing pool of money or current revenues or, more typically, a combination of the two. There does not appear to be any budget document that sets forth how much money is available in the various budget funds, nor a reconciliation of how well those figures will line up with actual cash on hand.⁽²⁾

Where those sources exist as investable dollars there is frequently actual revenue, which we will include in our investment numbers, but the draw rarely matches the forecast return. The budget draw is either larger than the investment return, implying that the source is being used up, or the budget draw is smaller than the investment return, implying that the source is being built up. In general, the budget draws are larger. Most of these investment revenues are discussed in Section 7.

Table 10-3 sets forth the items that are shown as sources of money for the budget in the Summary of Appropriations, but are not revenues or listed in the Revenue Sources Book. They are subcategorized into several types of sources in the discussion that follows.

Retirement-Related Trust Funds

The Alaska State Pension Investment Board manages public employee retirement funds. The Department of Revenue Treasury Division serves as staff to the Pension Board. The Revenue Sources Book does not show the dollars transferred between the retirement funds and the department to pay for the staff while the Summary of Appropriations does. Other trust funds hold money for current state employee benefits.

Mental Health Trust Fund

This fund was established in 1994 to settle a dispute concerning land that was set aside in a trust to support mental health services in Alaska. When the trust makes grants to state agencies to carry out the mission of the trust, these grants pass through the Mental Health Trust Authority Authorized Receipts Fund that is shown as their source for the budget. The cost of administering the trust is subject to the Executive Budget Act and funding for this expenditure is received in the Mental Health Administration Fund.

Permanent Fund

These are additional draws from the earnings of the Permanent Fund and CBRF to cover expenses related to operating these funds and issuing the Permanent Fund dividend. Actual revenue earned by the fund is included in both the Revenue Sources Book and the CAFR.

(1) The specific figures are derived from the Summary of Appropriation documents by first taking the detailed Summary of Appropriations found at Pages 15-21 for the operating budget and netting out duplicated fund sources found on Page 7, adding in the capital non-duplicated fund sources found on Page 11 and \$12.5 million in anticipated supplemental funding. The result (\$7,615 million) precisely matches total revenues plus anticipated CBRF draw as found in the fiscal summary. OMB budget codes designate each item as federal, general fund or other, so the sources can be divided between these three categories. To make our tables consistent with the total revenue line, we have excluded \$1,131 million in Permanent Fund earnings included in the operating budget summary for the first time.

(2) The CAFR does track cash on hand and investments in the General Fund.

Component Revenue Sources and State Enterprises

We have separated out those revenues of component organizations such as the University of Alaska that the legislature appropriates back to the organizations to carry out their missions. Their day-to-day expenditures are subject to the Executive Budget Act. The dollars being so appropriated show up in the budget documents. The gross revenue of these organizations can be found in Section 9 of this book. This category includes funds for the international airports and other state-operated enterprises

Revolving Loan Funds

These revenues represent the annual payments of interest and principle on the outstanding loans in each fund's portfolio. Even though the interest portion of those repayments represents revenue to the state, it is not included in our Revenue Sources Book.

Bond Proceeds

This money is in the budget because it is available for appropriation to spend on designated projects, but the money has only been borrowed through bond sales and must be paid back with interest. It is not revenue in any accounting sense of the word. In the private sector we have seen firms accused of criminal activity when they tried to pass off as actual revenues similarly borrowed money that had to be repaid.

**Table 10-3. Items in FY 2005 Summary of Appropriations Not in Revenue Sources Book
\$ million**

OMB Fund Number	OMB Fund Name	Summary of Appropriations Other Revenue from Table 10-2 not in Revenue Sources Book
Retirement-Related Trust Fund Sources		
1017	Benefit Systems Receipts	17.5
1023	FICA Administration Fund	0.2
1029	Public Employees Retirement Fund	25.2
1034	Teachers Retirement System Fund	12.3
1042	Judicial Retirement System	0.3
1053	Investment Loss Trust	0.1
1045	National Guard Retirement System	<u>0.3</u>
Subtotal		55.8
Mental Health Trust Fund Sources		
1092	Mental Health Trust Administration	12.9
1094	Mental Health Trust Authority Authorized Receipts	<u>1.3</u>
Subtotal		14.1
Permanent Fund and CBR		
1001	CBR	0.1
1179	Permanent Fund Corporation	2.0
1105	General Fund Program Receipts	<u>55.2</u>
Subtotal		57.4
Revolving Loan Funds		
1021	Agricultural Loan Fund	3.4
1036	Commercial Fishing Loan Fund	5.2
1046	Student Revolving Loan Fund	0.0
1062	Power Project Loan Fund	1.0
1074	Bulk Fuel Revenue Loan	<u>0.1</u>
Subtotal		9.6

(continued on next page)

Table 10-3. Items in FY 2005 Summary of Appropriations Not in Revenue Sources Book, continued
\$ million

OMB Fund Number	OMB Fund Name	Summary of Appropriations Other Revenue from Table 10-2 not in Revenue Sources Book
Component Revenue Sources and State Enterprises		
1027	International Airports Revenue Fund	85.5
1048	University Of Alaska Interest Restricted Receipts	260.6
1101	Alaska Aerospace Development Corporation Receipts	20.9
1106	Alaska Postsecondary Education Commission Receipts	<u>9.6</u>
Subtotal		376.5
Bond Proceeds		
1113	AHFC	45.0
1144	Clean Water Fund	<u>1.6</u>
Subtotal		46.6
Other Fund Sources not in Revenue Sources Book		
1040	Real Estate Surety	0.3
1059	Correctional Industry	3.1
1142	Retiree Health Insurance Management	0.1
1143	Retiree Health Insurance	0.1
1152	Alaska Fire Standards Council Receipts	0.2
1154	Shore Fisheries Development Lease	0.3
1164	Rural Economic Development Initiative	0.0
1166	Vessel Environmental Compliance Fund	0.7
1169	Power Cost Equalization Endowment	11.4
1173	Miscellaneous Earnings	7.5
1181	Veterans Endowment	0.0
1192	Mine Trust	<u>0.0</u>
Subtotal		23.7
Total		<u>583.8</u>

Other Fund Sources not in Revenue Sources Book

These remaining sources, many of which are quite small, represent many different things.

Table 10-4 are those items that line up fairly closely and are categorized as "other revenues" in both the restricted section of the Revenue Sources book and the Summary of Appropriations. They are divided into the same categories as Section 5, where a more complete discussion of each topic can be found.

Fines and Forfeitures

The state of Alaska was a participant in the so-called nationwide Master Settlement Agreement (MSA), in which the major cigarette manufacturers agreed to reimburse the state for the costs it will incur to treat its population made sick from smoking tobacco products. Through the legislatively created Northern Tobacco Securitization Corporation (NTSC), the state sold much of the stream of MSA payments up front for cash by issuing bonds backed by future settlement payments. Part of the money from the MSA also is set aside for tobacco-use related education, and that is found in both the Summary of Appropriations and the Revenue Sources Book. In the Revenue Sources Book we include estimated future settlement payments to the state that the NTSC will use to pay off the bonds. This latter stream of money is not shown in the Summary of Appropriations.

Licenses and Permits

This category lines up very closely between the two sources (see Revenue Sources Book, Page 44.)

Taxes

A portion of the state tax on cigarettes is dedicated to the Public School Fund. A portion of the insurance premium tax is earmarked for the Workers Safety and Compensation Fund. A portion of the alcohol tax is earmarked for the Alcohol and Drug Prevention and Treatment program. All of these are shown in both the Summary of Appropriations and the Revenue Sources Book (Pages 38-41). To help the reader tie these to the rest of the Revenue Sources Book, the tax dollars shared with the municipalities and various fishery industry promotion groups are shown here to tie to restricted total taxes in the Revenue Sources Book of \$25.7 million.

Charges for Services

The Revenue Sources Book (Pages 42 and 43) and the Summary of Appropriations draw on the same sources for most of these figures. They line up well, except for the category labeled the Alaska Marine Highway.

Rents and Royalties

This material lines up closely with Revenue Sources Book, Page 45.

**Table 10-4. Items in FY 2005 Summary of Appropriations Shown in Non-Oil Revenue in Sources Book
\$ million**

		Summary of Appropriations	
		Comparable Other Revenue	Revenue Sources Book
		from Table 10-2 in	Other Revenue
OMB Fund Number	OMB Fund Name	Revenue Sources Book	(excluding Federal & Investment)
Fines & Forfeitures			
1049	Training and Building	0.7	0.6
1168	Tobacco Use Education	4.7	4.2
	Other	0.0	4.8
	Northern Tobacco Securitization Corp Payments	<u>0.0</u>	<u>16.9</u>
Total Fines & Forfeitures		5.4	26.5
Licenses & Permits			
1024	Fish and Game Fund	26.0	23.2
1032	Fisherman's Fund	1.3	0.0
1093	Clean Air Protection	<u>3.9</u>	<u>5.5</u>
Total Licenses & Permits		31.2	28.7
Taxes			
1030	School Fund (Cigarette Tax)	30.2	29.4
1157	Workers' Safety and Compensation	4.5	6.3
1168	Tobacco Use Education	0.0	0.8
1180	Alcohol & Drug Prevention and Treatment Fund	<u>17.2</u>	<u>15.9</u>
Subtotal Earmarked Taxes		51.9	52.4
NB: Taxes shared with local municipalities			<u>25.7</u>
Total Taxes		51.9	78.1

(continued on next page)

Table 10-4. Items in FY 2005 Summary of Appropriations Shown in Non-Oil Revenue in Sources Book, continued
\$ million

OMB Fund Number	OMB Fund Name	Summary of Appropriations	
		Comparable Other Revenue from Table 10-2 in Revenue Sources Book	Revenue Sources Book Other Revenue (excluding Federal & Investment)
Charges for Services			
1076	Alaska Marine Highway System Fund	55.6	47.0
1108	Statutorily Designated Program Receipts	89.0	90.0
1156	Receipt-Supported Services	84.1	84.3
General Government			
1170	Small Business Economic Development Relief Fund	0.0	0.2
1172	Building Safety	1.7	1.4
	Other General Government	<u>0.0</u>	<u>0.6</u>
	Subtotal	1.7	2.2
1070	Fisheries Enhancement	0.5	0.0
1109	Test Fisheries Receipts	2.5	2.5
1117	Vocational Rehabilitation Small Business Enterprise	0.8	0.0
1141	Regulatory Commission of Alaska Receipts	7.8	7.8
1155	Timber Sales Receipts	0.7	0.7
1162	Alaska Oil & Gas Conservation Commission Rcpts	4.0	4.0
1175	Business License Receipts	5.7	5.7
	Miscellaneous	<u>0.0</u>	<u>0.7</u>
	Subtotal	21.3	20.7
Total Charges for Services		252.5	244.9
Rents and Royalties			
1153	Land Disposal Inc. Fund	<u>7.3</u>	<u>5.1</u>
Total Rents and Royalties		7.3	5.1
Other Public Corporations Dividends			
1104	Alaska Municipal Bond Bank	1.5	1.5
1107	Alaska Energy Authority	1.1	1.1
1139 & 1103	AHFC	66.2	66.2
1140 & 1102	AIDEA Dividend	26.3	26.3
1150	Alaska Student Loan Corporation	<u>80.6</u>	<u>80.6</u>
	Subtotal	175.7	175.7
Miscellaneous - Premiums and Contributions			
1018	Exxon Valdez Oil Spill Settlement	5.0	3.7
1031	Second Injury Fund	4.0	4.2
1054	State Employment and Training Program	5.6	4.9
1111	Fishermans' Fund Income	0.1	0.0
1151	Technical and Vocational Education Fund	4.7	4.9
	Miscellaneous	<u>0.0</u>	<u>3.5</u>
	Subtotal	19.5	21.2
Total Other		195.2	196.9
Total Comparable Other Revenue from Table 10-2		<u>543.5</u>	<u>580.2</u>

Other — Dividends from Public Corporations

How these dividends are passed on to general government is complex. For example the Alaska Housing Finance Corporation dividend can be broken into several pieces: capital project dollars spent directly by AHFC, dollars appropriated for debt retirement and dollars used to pay off AHFC bonds. However, only the first two uses are specifically identified in the Summary of Appropriations because the repayment of bonds is not part of AHFC's specific, line-item appropriation. See Section 9 of the Revenue Sources Book for the actual revenues earned by each of these corporations.

Other — Contributions and Other Miscellaneous

This shows contributions and other miscellaneous revenue found in Table 5-7 on Page 46. Much of this money is characterized as premiums or contributions.

Table 10-5 breaks out two items in Other Treasury Managed Funds in the investment revenues section of the Revenue Sources book that are directly comparable with the Summary of Appropriations. As shown in Section 7 of this book, these, and many other state funds calculate their earnings available for distribution differently than how GASB calculates earnings. For these two funds, the distributable income is a fixed percentage of the market value of the fund, whether that value is shrinking or growing. Thus, for example, the Pubic School Trust had \$10.4 million in distributable income, which represents 7% of the fund market value over the previous 36 months. But the fund actually gained \$19.0 million in value. Table 10-5 sets forth both the revenues and the dollars available for distribution. As might be expected, the distributable funds line up more closely with the Summary of Appropriations numbers than the actual revenues.

Table 10-5. FY 2005 Summary of Appropriations

**Items Shown in Investment Revenue in Revenue Sources Book
\$ million**

OMB Fund Number	OMB Fund Name	Summary of Appropriations Comparable Other Revenue from Table 10-2	Revenue Sources Book Comparable Investment Revenue from Table 10-2	Distributable Income from Investment Section
1098	Childrens Trust Fund Earnings	0.4	0.7	0.4
1066	Public School Trust Fund	<u>12.1</u>	<u>19.0</u>	<u>10.4</u>
	Total	12.5	19.7	10.8

11. Appendices

General Fund Unrestricted Revenue Sensitivity Matrices \$million

FY 2005

	Million barrels/day		
	0.90	0.95	1.00
\$/barrel			
25.00	1,890	1,940	1,980
26.00	1,950	2,000	2,040
27.00	2,000	2,050	2,100
28.00	2,060	2,110	2,170
29.00	2,110	2,170	2,230
30.00	2,160	2,230	2,290
31.00	2,220	2,280	2,350
32.00	2,270	2,340	2,410
33.00	2,320	2,400	2,480
34.00	2,380	2,460	2,540
35.00	2,430	2,520	2,600
36.00	2,490	2,570	2,660
37.00	2,540	2,630	2,720
38.00	2,590	2,690	2,780
39.00	2,650	2,750	2,850
40.00	2,700	2,800	2,910
41.00	2,760	2,860	2,970
42.00	2,810	2,920	3,030
43.00	2,860	2,980	3,090
44.00	2,920	3,040	3,150
45.00	2,970	3,090	3,220
46.00	3,030	3,150	3,280
47.00	3,080	3,210	3,340
48.00	3,130	3,270	3,400
49.00	3,190	3,330	3,460
50.00	3,240	3,380	3,520

FY 2006

	Million barrels/day		
	0.90	0.95	1.00
\$/barrel			
25.00	1,760	1,820	1,870
26.00	1,810	1,870	1,930
27.00	1,860	1,930	1,990
28.00	1,910	1,980	2,040
29.00	1,970	2,030	2,100
30.00	2,020	2,090	2,160
31.00	2,070	2,140	2,220
32.00	2,120	2,200	2,270
33.00	2,170	2,250	2,330
34.00	2,220	2,300	2,390
35.00	2,270	2,360	2,440
36.00	2,320	2,410	2,500
37.00	2,370	2,470	2,560
38.00	2,430	2,520	2,610
39.00	2,480	2,570	2,670
40.00	2,530	2,630	2,730
41.00	2,580	2,680	2,780
42.00	2,630	2,740	2,840
43.00	2,680	2,790	2,900
44.00	2,730	2,840	2,950
45.00	2,780	2,900	3,010
46.00	2,830	2,950	3,070
47.00	2,890	3,000	3,120
48.00	2,940	3,060	3,180
49.00	2,990	3,110	3,240
50.00	3,040	3,170	3,290

FY 2007

	Million barrels/day		
	0.90	0.95	1.00
\$/barrel			
25.00	1,640	1,700	1,750
26.00	1,690	1,750	1,810
27.00	1,740	1,800	1,860
28.00	1,790	1,850	1,920
29.00	1,840	1,910	1,970
30.00	1,890	1,960	2,030
31.00	1,940	2,010	2,080
32.00	1,990	2,060	2,140
33.00	2,040	2,120	2,190
34.00	2,090	2,170	2,250
35.00	2,140	2,220	2,300
36.00	2,190	2,270	2,360
37.00	2,240	2,330	2,410
38.00	2,290	2,380	2,470
39.00	2,340	2,430	2,520
40.00	2,390	2,480	2,580
41.00	2,440	2,530	2,630
42.00	2,490	2,590	2,690
43.00	2,540	2,640	2,740
44.00	2,580	2,690	2,800
45.00	2,630	2,740	2,850
46.00	2,680	2,800	2,910
47.00	2,730	2,850	2,960
48.00	2,780	2,900	3,020
49.00	2,830	2,950	3,070
50.00	2,880	3,010	3,130

Unrestricted Petroleum Production Tax and Royalty Revenue Forecast **\$ million**

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<u>Alaska North Slope</u>											
Oil Royalty - net (1)	1,342.8	994.9	859.3	671.3	632.1	628.4	631.9	610.3	569.7	546.9	512.8
Oil Production Tax (2)	796.8	538.2	431.8	369.1	334.2	313.9	321.7	281.7	247.9	215.3	185.4
Hazardous Release Fund	8.7	8.6	8.6	8.8	8.3	8.7	9.1	8.9	8.5	8.2	7.9
Gas Royalty - net (1)	2.8	1.6	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Gas Production Tax	<u>2.5</u>	<u>2.2</u>	<u>1.9</u>	<u>1.4</u>	<u>1.4</u>	<u>1.4</u>	<u>1.3</u>	<u>1.3</u>	<u>1.3</u>	<u>1.3</u>	<u>1.2</u>
Subtotal	2,153.6	1,545.5	1,303.0	1,051.7	977.2	953.5	965.1	903.4	828.5	772.8	708.5
<u>Cook Inlet</u>											
Oil Royalty - net (1)	32.7	21.0	17.4	13.3	12.6	12.0	11.5	11.1	10.7	10.3	10.0
Oil Production Tax (2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Gas Royalty - net (1)	26.3	26.5	27.4	28.2	29.2	30.1	31.1	32.1	33.2	34.3	35.4
Gas Production Tax	<u>20.1</u>	<u>19.7</u>	<u>20.3</u>	<u>20.9</u>	<u>21.6</u>	<u>22.3</u>	<u>23.0</u>	<u>23.7</u>	<u>24.5</u>	<u>25.3</u>	<u>26.1</u>
Subtotal	79.3	67.4	65.3	62.7	63.6	64.6	65.8	67.1	68.5	70.0	71.7
TOTAL PRODUCTION TAX and ROYALTY REVENUE	2,232.9	1,612.9	1,368.3	1,114.4	1,040.7	1,018.1	1,030.9	970.5	897.1	842.9	780.1
Bonuses	14.5	17.8	26.3	16.5	14.7	14.5	14.7	14.7	14.7	14.7	14.7
TOTAL PRODUCTION TAX + ROYALTIES + BONUSES	2,247.4	1,630.7	1,394.6	1,130.9	1,055.4	1,032.6	1,045.6	985.2	911.8	857.6	794.9

(1) Unrestricted oil and gas royalty revenue is net of Permanent Fund and Public School Fund contributions. Includes interest paid on royalties.

(2) Includes Exploration Credit.

Historical and Projected Crude Oil Prices
\$million

Fiscal Year	WTI		ANS West Coast		ANS Wellhead	
	nominal	real 2005	nominal	real 2005	nominal	real 2005
1990	20.06	30.66	17.22	26.32	11.90	18.18
1991	24.95	36.44	21.57	31.50	15.38	22.46
1992	20.69	28.86	16.64	23.21	11.21	15.64
1993	20.69	27.99	17.83	24.13	12.81	17.33
1994	16.69	21.93	14.05	18.46	9.57	12.57
1995	18.54	23.76	16.77	21.50	11.51	14.75
1996	19.20	23.88	17.74	22.07	12.60	15.67
1997	22.54	27.29	20.90	25.30	16.40	19.85
1998	18.03	21.34	15.86	18.77	11.91	14.09
1999	14.09	16.40	12.73	14.82	8.47	9.86
2000	24.82	28.33	23.27	26.56	18.82	21.48
2001	30.41	33.46	27.85	30.64	22.24	24.47
2002	23.80	25.36	21.78	23.21	16.80	17.90
2003	29.47	31.08	28.15	29.68	23.27	24.54
2004	33.10	34.18	31.74	32.78	26.78	27.65
2005	46.30	46.30	43.61	43.61	38.83	38.83
2006	36.60	35.67	34.50	33.63	29.46	28.72
2007	32.95	31.30	30.95	29.40	25.79	24.50
2008	27.50	25.46	25.50	23.61	20.26	18.76
2009	27.50	24.82	25.50	23.01	20.16	18.19
2010	27.50	24.19	25.50	22.43	20.10	17.68
2011	27.50	23.57	25.50	21.86	20.00	17.15
2012	27.50	22.98	25.50	21.31	20.00	16.71
2013	27.50	22.40	25.50	20.77	19.81	16.13
2014	27.50	21.83	25.50	20.24	19.62	15.58
2015	27.50	21.27	25.50	19.73	19.43	15.03

Historical and Projected Crude Oil Production million barrels per day

FY	(1) Prudhoe Bay	(2) PBU- Satellite	(3) Kuparuk Satellite	(4) Milne Point	(5) Endicott	(6) GPMA	Alpine	Nanuk	Northstar	Fiord	Point Thomson	NPRA	Liberty	(7) Known Onshore	(8) Known Offshore	Total ANS
1985	1.534	.	0.161	.	.	.	.	.	.	.	.	.	.	.	.	1.694
1986	1.555	.	0.238	.	0.009	.	.	.	.	.	.	.	.	.	.	1.802
1987	1.564	.	0.272	.	0.006	0.018	.	.	.	.	.	.	.	.	.	1.859
1988	1.605	.	0.287	.	0.000	0.069	0.044	.	.	.	.	.	.	.	.	2.006
1989	1.524	.	0.300	.	0.002	0.098	0.038	.	.	.	.	.	.	.	.	1.962
1990	1.396	.	0.300	.	0.011	0.103	0.037	.	.	.	.	.	.	.	.	1.846
1991	1.330	.	0.299	.	0.018	0.108	0.039	.	.	.	.	.	.	.	.	1.794
1992	1.300	.	0.316	.	0.020	0.111	0.037	.	.	.	.	.	.	.	.	1.783
1993	1.193	.	0.322	.	0.018	0.115	0.031	.	.	.	.	.	.	.	.	1.679
1994	1.082	.	0.308	.	0.018	0.099	0.085	.	.	.	.	.	.	.	.	1.593
1995	0.991	.	0.303	.	0.021	0.099	0.159	.	.	.	.	.	.	.	.	1.572
1996	0.891	.	0.283	.	0.022	0.089	0.189	.	.	.	.	.	.	.	.	1.474
1997	0.809	.	0.267	.	0.052	0.068	0.208	.	.	.	.	.	.	.	.	1.404
1998	0.713	.	0.260	0.001	0.053	0.058	0.190	.	.	.	.	.	.	.	.	1.275
1999	0.636	0.003	0.241	0.025	0.055	0.048	0.156	.	.	.	.	.	.	.	.	1.164
2000	0.570	0.004	0.212	0.037	0.053	0.044	0.115	.	.	.	.	.	.	.	.	1.035
2001	0.540	0.007	0.197	0.031	0.052	0.037	0.089	0.038	0.000	.	.	.	.	.	.	0.991
2002	0.487	0.026	0.176	0.039	0.052	0.033	0.075	0.096	0.000	0.019	.	.	.	.	.	1.004
2003	0.433	0.045	0.160	0.052	0.051	0.029	0.065	0.098	0.000	0.057	.	.	.	.	.	0.991
2004	0.419	0.052	0.155	0.049	0.051	0.029	0.061	0.099	0.000	0.066	.	.	.	.	.	0.980
2005	0.383	0.051	0.144	0.055	0.052	0.022	0.058	0.102	0.000	0.066	0.000	0.000	0.000	0.000	0.000	0.934
2006	0.368	0.061	0.141	0.066	0.051	0.024	0.056	0.112	0.000	0.053	0.000	0.000	0.000	0.000	0.000	0.932
2007	0.355	0.072	0.132	0.083	0.054	0.022	0.051	0.106	0.007	0.042	0.010	0.000	0.000	0.000	0.000	0.935
2008	0.341	0.078	0.125	0.099	0.055	0.020	0.046	0.103	0.014	0.034	0.020	0.000	0.000	0.000	0.010	0.945
2009	0.330	0.080	0.118	0.102	0.055	0.018	0.042	0.091	0.013	0.027	0.018	0.000	0.000	0.000	0.010	0.904
2010	0.315	0.075	0.112	0.106	0.054	0.017	0.039	0.087	0.011	0.022	0.015	0.030	0.000	0.035	0.010	0.938
2011	0.303	0.070	0.107	0.105	0.055	0.016	0.036	0.074	0.009	0.017	0.014	0.070	0.020	0.050	0.009	0.975
2012	0.291	0.065	0.102	0.100	0.055	0.015	0.033	0.064	0.008	0.014	0.012	0.065	0.038	0.048	0.018	0.949
2013	0.279	0.061	0.097	0.093	0.055	0.014	0.031	0.055	0.007	0.012	0.011	0.061	0.054	0.038	0.032	0.919
2014	0.269	0.057	0.093	0.087	0.055	0.013	0.029	0.047	0.006	0.010	0.009	0.057	0.070	0.031	0.036	0.888
2015	0.259	0.053	0.090	0.081	0.056	0.012	0.027	0.041	0.005	0.009	0.008	0.053	0.064	0.027	0.034	0.850

(1) Includes NGLs from Central Gas Facility shipped to TAPS

(2) Midnight Sun, Polaris, Aurora, Borealis and Orion

(3) West Sak, Tabasco, Tarn and Meltwater

(4) Milne Point, Schrader Bluff and Sag River

(5) Endicott, Sag Delta, Eider and Badami

(6) Lisburne, Point McIntyre, Niakuk, West Beach & North Prudhoe Bay State

(7) Sourdough, Yukon Gold and Flaxman

(8) Sandpiper and Other Offshore discoveries

Historical Petroleum Revenue
\$ million

FY	Corporate Petroleum Tax	Production Tax	Petroleum Property Tax	Reserve Tax	(1) (2) Royalties	(1) (2) Bonuses & Rents	(3) Petroleum Special Settlements	Total Petroleum Revenue	(4) Cumulative Total Petroleum Revenue	Total Unrestricted General Purpose Revenue	% of Total Unrestricted General Purpose Revenue
1978	8.4	107.7	173.0	.	150.6	1.8	.	441.5	2,797.8	764.9	58%
1979	232.6	173.8	163.4	.	250.2	1.6	.	821.6	3,619.4	1,133.0	73%
1980	547.5	506.5	168.9	.	689.4	344.2	.	2,256.5	5,875.9	2,501.2	90%
1981	860.1	1,170.2	143.0	.	1119.7	11.3	.	3,304.3	9,180.2	3,718.0	89%
1982	668.9	1,581.7	142.7	.	1174.4	7.1	.	3,574.8	12,755.0	4,108.4	87%
1983	236.0	1,493.7	152.6	.	1105.6	38.7	.	3,026.6	15,781.6	3,631.0	83%
1984	265.1	1,393.1	131.0	.	1058.5	13.9	.	2,861.6	18,643.2	3,390.1	84%
1985	168.6	1,389.4	128.4	.	1042.2	14.9	.	2,743.5	21,386.7	3,260.0	84%
1986	133.9	1,107.9	113.5	.	84.0	38.9	418.2	2,657.4	24,044.1	3,075.5	86%
1987	120.4	648.5	102.5	.	448.1	4.3	70.5	1,394.5	25,438.6	1,799.4	77%
1988	158.0	818.7	96.2	.	701.5	11.3	163.9	1,949.6	27,388.2	2,305.8	85%
1989	166.0	698.8	89.7	.	611.5	16.7	257.7	1,840.4	29,228.6	2,186.2	84%
1990	117.2	1,001.6	89.8	0.0	753.7	4.2	154.8	2,121.3	31,349.9	2,507.2	85%
1991	185.1	1,284.8	85.0	0.0	958.7	24.7	33.5	2,571.8	33,921.7	2,986.6	86%
1992	165.5	1,053.2	69.0	0.0	708.2	6.8	4.7	2,007.4	35,929.1	2,462.6	82%
1993	117.6	1,017.6	66.9	0.0	716.7	44.3	4.7	1,967.8	37,896.9	2,352.0	84%
1994	17.8	692.1	61.5	0.0	516.1	5.1	0.1	1,292.7	39,189.6	1,652.5	78%
1995	128.5	793.9	57.3	0.0	631.8	5.0	0.7	1,617.2	40,806.8	2,082.9	78%
1996	173.7	787.2	56.0	0.0	642.2	5.7	0.0	1,664.8	42,471.6	2,133.3	78%
1997	269.4	921.6	53.6	0.0	759.2	6.4	0.0	2,010.2	44,481.8	2,494.9	81%
1998	200.1	577.8	51.3	0.0	480.4	23.0	0.0	1,332.6	45,814.4	1,825.5	73%
1999	145.1	371.1	48.8	0.0	322.6	25.6	0.0	913.2	46,727.7	1,352.1	68%
2000	162.7	702.7	45.0	0.0	731.9	4.0	0.0	1,646.3	48,373.9	2,147.6	77%
2001	338.1	703.8	45.1	0.0	781.0	7.1	0.0	1,875.1	50,249.0	2,282.0	82%
2002	178.4	496.3	49.6	0.0	581.2	14.6	0.0	1,320.1	51,569.1	1,668.0	79%
2003	151.1	599.0	48.7	0.0	830.7	9.6	0.0	1,639.1	53,208.2	1,947.6	84%
2004	298.8	651.9	47.3	0.0	1,045.7	10.4	0.0	2,054.1	55,262.3	2,361.7	87%

(1) These categories are primarily composed of petroleum revenue.

(2) Royalties and bonuses and rents are net of Permanent Fund and Public School Fund contributions and Constitutional Budget Reserve Fund (CBRF) deposits.

(3) Revenue shown here is not subject to deposit in the CBRF. All other tax settlements are deposited in the CBRF.

(4) This table shows historical petroleum revenue for FY 1978-2004. The cumulative petroleum revenue total is based on revenue beginning in FY 1959.

Historical General Fund Unrestricted Revenue \$million

						(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
FY	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
TAX PORTION													
Property Tax	69.0	66.9	61.5	57.3	56.0	53.6	51.3	48.8	45.0	45.1	49.6	48.7	47.3
Sales/Use													
Alcoholic Beverages	12.0	11.9	12.0	12.0	12.0	11.6	11.8	12.2	12.7	12.0	12.9	25.3	32.6
Tobacco Products	14.3	14.0	14.1	14.4	14.2	13.7	15.4	15.2	16.3	16.3	15.5	16.3	16.0
Insurance Premium	25.5	26.3	26.1	27.9	28.2	28.4	33.7	28.4	28.7	32.2	37.4	43.3	49.2 (2)
Electric and Telephone Cooperative	2.1	2.2	2.6	2.3	2.5	2.7	2.3	3.7	3.2	3.3	3.1	3.7	4.0
Motor Fuel Tax (3)	43.3	40.8	40.5	39.6	37.7	35.3	35.6	37.8	42.1	37.5	40.2	37.4	41.4
Vehicle Rental / Tire Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5
Total	97.2	95.2	95.3	96.2	92.2	94.6	91.7	97.3	103.0	101.3	109.1	126.0	147.4
Income Tax													
Corporate General	33.7	25.1	44.3	67.0	53.3	48.4	53.4	53.8	56.3	59.5	53.4	47.7	39.6
Corporate Petroleum	165.5	117.6	17.8	128.5	173.7	269.4	200.1	145.1	162.7	338.1	178.4	151.1	298.8
Total	199.2	142.7	62.1	195.5	227.0	317.8	253.5	198.9	219.0	397.6	231.8	198.8	338.4
Production Tax													
Oil and Gas Production	1,022.2	989.4	662.8	769.8	771.7	907.0	564.4	358.6	693.2	694.4	486.7	589.8	642.7
Oil and Gas Conservation	2.3	2.1	2.3	2.0	1.8	1.7	1.6	1.4	0.0	0.0	0.0	0.0	0.0
Oil and Gas Hazardous Release	28.7	26.1	27.0	22.1	13.7	12.9	11.8	11.1	9.5	9.4	9.6	9.2	9.2
Total	1,053.2	1,017.6	692.1	793.9	787.2	921.6	577.8	371.1	702.7	703.8	496.3	599.0	651.9
Other Natural Resource Tax													
Salmon and Seafood Marketing	2.8	3.6	5.8	7.9	8.6	7.6	5.6	5.3	7.2	5.7	4.8	4.4	5.3
Salmon Enhancement	4.2	6.8	5.0	5.7	5.2	4.2	4.2	3.9	5.3	3.6	3.7	2.4	3.0
Dive Fishery Management	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.3
Fisheries Business	30.1	42.2	33.9	39.0	38.2	31.0	28.5	25.9	36.7	30.5	25.3	26.0	29.3
Fish Landing	0.0	0.0	0.1	7.3	7.1	7.3	3.8	5.9	5.3	7.3	7.1	9.8	6.9
Total	37.1	52.6	44.8	59.9	59.1	50.1	42.1	41.0	54.7	47.3	41.1	42.8	44.8
Other Tax													
Estate	1.0	0.9	1.6	1.2	1.7	1.7	5.5	1.7	2.5	2.7	3.1	1.2	2.3
Other	2.1	2.0	2.2	2.6	2.5	2.4	3.9	2.9	2.5	4.3	3.2	3.0	5.6
Total	3.1	2.9	3.8	3.8	4.2	4.1	9.4	4.6	8.4	7.0	6.3	4.2	7.9
TOTAL TAXES	1,458.8	1,377.9	959.6	1,206.6	1,228.1	1,438.9	1,032.9	761.7	1,132.8	1,302.0	934.2	1,019.5	1,237.7

						(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
FY	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
NON TAXES													
Licenses and Permits	32.4	32.7	35.7	34.7	60.9	69.0	74.6	63.7	69.2	37.3	42.2	33.6	41.0
Intergovernmental Receipts													
Federal Shared Revenues	11.4	10.3	4.3	4.2	1.0	2.0	2.2	0.8	1.0	0.3	0.1	0.0	0.0
Charges for Services													
Marine Highways	42.3	40.8	40.4	41.5	38.5	38.6	37.1	38.8	38.3	37.6	32.2	41.5	43.6
Other	<u>44.1</u>	<u>14.3</u>	<u>18.0</u>	<u>18.1</u>	<u>36.9</u>	<u>39.5</u>	<u>34.9</u>	<u>31.8</u>	<u>43.7</u>	<u>27.0</u>	<u>19.1</u>	<u>13.9</u>	<u>11.1</u>
Total	86.4	55.1	58.4	59.6	75.4	78.1	72.0	70.6	82.0	64.6	51.3	55.4	54.7
Fines and Forfeitures	0.0	0.0	0.0	0.0	9.4	8.2	37.7	12.5	46.2	33.6	6.6	7.0	16.0
Rents and Royalties													
Mineral Bonuses, Rents, Royalties	6.5	44.3	5.2	5.6	6.9	7.4	23.0	25.6	4.0	7.1	14.6	9.6	10.4
Oil and Gas Royalties	702.4	711.3	512.1	628.3	642.2	759.2	480.4	322.6	727.9	781.0	581.2	830.7	1,045.7(4)
Timber Sales	0.6	0.6	0.4	0.6	1.5	1.9	0.8	0.3	0.3	0.4	0.2	0.0	0.2
Sale of State Property	<u>1.0</u>	<u>4.0</u>	<u>9.0</u>	<u>21.8</u>	<u>8.1</u>	<u>8.6</u>	<u>8.1</u>	<u>10.6</u>	<u>9.4</u>	<u>10.5</u>	<u>9.1</u>	<u>6.2</u>	<u>7.6</u>
Total	710.5	760.2	526.7	656.3	658.7	777.1	512.3	359.1	741.6	799.0	605.1	846.5	1,063.9
Investment Earnings	101.8	70.9	31.7	72.4	64.1	77.1	60.6	46.5	48.1	78.8	43.1	59.0	9.7(5)
Miscellaneous Revenue	61.4	45.0	36.2	49.2	35.8	44.6	33.5	37.3	27.1	34.9	42.3	9.4	36.2
Subtotal NON-TAX REVENUE	1,003.9	974.2	693.0	876.4	905.3	1,056.1	792.8	590.5	1,015.2	1,048.5	790.7	1,010.9	1,219.8
Plus: Income from prior years	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
TOTAL NON-TAX REVENUE	1,003.9	974.2	693.0	876.4	905.3	1,056.1	792.8	590.5	1,015.2	1,048.5	790.7	1,010.9	1,219.8
TOTAL TAX REVENUE	1,458.8	1,377.9	959.6	1,206.6	1,228.1	1,438.9	1,032.9	761.7	1,132.8	1,302.1	934.2	1,019.5	1,237.7
TOTAL GENERAL FUND													
UNRESTRICTED REVENUE	2,462.7	2,352.1	1,652.6	2,083.0	2,133.4	2,495.0	1,825.8	1,352.2	2,148.0	2,350.6	1,724.9	2,030.4	2,459.2

(1) After FY 1996, all General Fund statutorily designated program receipts are excluded; after FY 2000, all receipt-supported services are excluded.

(2) Includes \$1.8 million in service fees from self-insured companies.

(3) Motor fuel tax includes aviation, highway and marine.

(4) Starting in FY 2001 oil and gas royalties adjusted to include interest earnings.

(5) Starting in FY 2001 investment revenue adjusted to exclude oil and gas royalty interest earnings.

Glossary of Terms Used in Revenue Sources Book

General Fund Revenue: General Fund Revenue has different meanings in different contexts. In the state's official financial reports, General Fund Revenue is used to designate the sum of Unrestricted General Purpose Revenue, General Fund subaccount revenue, program receipts and federal dollars spent through the General Fund.

General Fund Unrestricted Revenue: Revenue designated as General Fund in the state accounting system (AKSAS). This includes revenues we show as restricted in this report, such as shared taxes or Alaska Marine Highway System revenues.

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

Restricted Revenue: Revenue restricted by the constitution, state or federal law, trust or debt restrictions or customary practice. The legislature can of course at any time remove restrictions that are solely imposed by either Alaska statute or customary practice. When these dollars are restricted General Fund revenues, they are either recorded in a restricted subaccount of the General Fund or are General Fund taxes customarily shared with other entities or are program receipts.

Federal Revenue: When the federal government gives money to states, it restricts how that money can be used. Highway and airport construction funds, Medicaid and education funding cannot be used for other purposes. In addition to restricting how the money is spent, the federal government often requires states to put up matching funds to qualify for the federal funding.

Dedicated Revenue: Restricted revenue recognized as such under the applicable provisions of the Alaska Constitution fits into this category. Other than the mineral revenue constitutionally dedicated to the Permanent Fund, all of the other revenue sources in this category were restricted by statute before statehood and therefore are not subject to the constitutional prohibition against dedicated funds. They include such funds as the Fish and Game Fund, Disabled Fisherman's Fund and Public School Fund.

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

Customarily Restricted Revenue: Though not specifically dedicated by statute, these revenue sources have historically been treated by the legislature as if they were restricted. The largest item in this category is Permanent Fund earnings in excess of what is needed each year for dividends and inflation proofing. Though the money could be spent as unrestricted revenue, the legislature has always chosen to retain it in the Permanent Fund's Realized Earnings Account or appropriate it to the fund's principal.

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

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

Constitutional Budget Reserve Fund: Created by voters in 1990, the Constitutional Budget Reserve Fund holds the proceeds from settlements of oil and gas and mining tax and royalty disputes since July 1, 1990 minus the withdrawals. It generally requires a three-quarters majority vote of each chamber of the legislature to withdraw money from the fund.

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

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

- (1) econometric models developed by the Department of Revenue to forecast unrestricted non-petroleum revenues;*
- (2) a petroleum revenue model created by the department's Tax Division; and*
- (3) estimates from individual state agencies.*

We thank the various state agencies for their cooperation in computing anticipated revenues for publication in this Spring 2004 Revenue Sources Book.

The Department of Revenue complies with Title II of the Americans With Disabilities Act of 1990. This publication is available in alternative communication formats upon request. Please contact the division's representative at 907.465.3692 or 907.465.3678 (TDD) to make necessary arrangements.

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**Department of Revenue
Comparative Analysis
Alaska State Individual Income Tax Proposals**

	Child under age 14	Teenager with summer job	Single parent earning \$11/hour	Single taxpayer	Retiree with Soc. Sec. income	Single income family - renting	Dual income family with \$150k mortgage	Dual income family with \$225k mortgage	Dual income family with \$300k mortgage	Dual income family with \$600k mortgage
Wages		2,700	22,650	65,000		40,000	65,000	130,000	260,000	520,000
Interest Income	200	200		400	5,000		400	2,000	10,000	20,000
Taxable Pension					8,000					
Gross Social Security					12,000					
AKPFD	1,000	1,000	1,000	1,000	1,000	2,000	2,000	2,000	2,000	2,000
Dependents			1			2	2	2	2	2
Child Care Expenses			4,000				8,000	8,000	8,000	8,000
Real Estate Tax							3,100	4,650	6,200	12,400
Mortgage Interest							11,500	17,250	23,000	46,000
Charitable Contributions							1,000	3,000	10,000	25,000
Federal Return Values										
Adjusted Gross Income	1,200	3,900	23,650	66,400	14,000	42,000	67,400	134,000	272,000	542,000
Taxable Income	400	1,200	10,300	58,450	5,100	19,900	39,400	96,700	230,727	470,579
Tax Before Federal Credits	40	120	1,030	11,344	510	1,990	5,199	17,656	57,165	139,346
Tax After Federal Credits	40	120	-	11,344	510	-	1,999	16,456	55,965	138,146
Alaska Income Tax										
Prior Law	12	36	417	5,314	174	835	2,269	8,221	25,902	60,334
HB 470	6	18	155	1,702	77	299	-	-	5,233	15,469
HB 321	-	-	309	1,754	153	597	1,182	2,901	6,922	14,117
Effective Tax Rate on Federal Taxable Income										
Prior Law	3.00%	3.00%	4.00%	9.10%	3.40%	4.20%	5.80%	8.50%	11.20%	12.80%
HB 470	1.50%	1.50%	1.50%	2.90%	1.50%	1.50%	0.00%	0.00%	2.30%	3.30%
HB 321	0.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Assumptions:

- 1) HB 470 provides for variable rates. These results reflect the highest rate or set of rates provided for.
- 2) All family examples assume two children. Dual income family examples assume child care expense of \$4,000 per child.
- 3) All results are based on federal tax law and rates in effect for 2004.
- 4) Analysis does not include the effect of a federal itemized deduction for the Alaska tax.

**Projected Income Tax Revenue
Comparison of 3 proposals**

Total Annual Revenue beyond 3rd year

AGI range (000)	< \$20	\$20 < \$30	\$30 < 50	\$50 < 75	\$75 < 100	\$100 < \$200	>= \$200	Total
Under Prior Law	12,207,511	23,443,525	83,683,473	131,767,359	121,906,824	191,531,238	194,023,470	758,563,401
Under HB 470 (2004)	*	*	*	*	*	*	*	107,300,000
Under HB 321 (2004)	10,749,808	15,758,179	43,744,250	59,418,173	50,741,238	75,340,662	44,247,690	300,000,000

Notes:

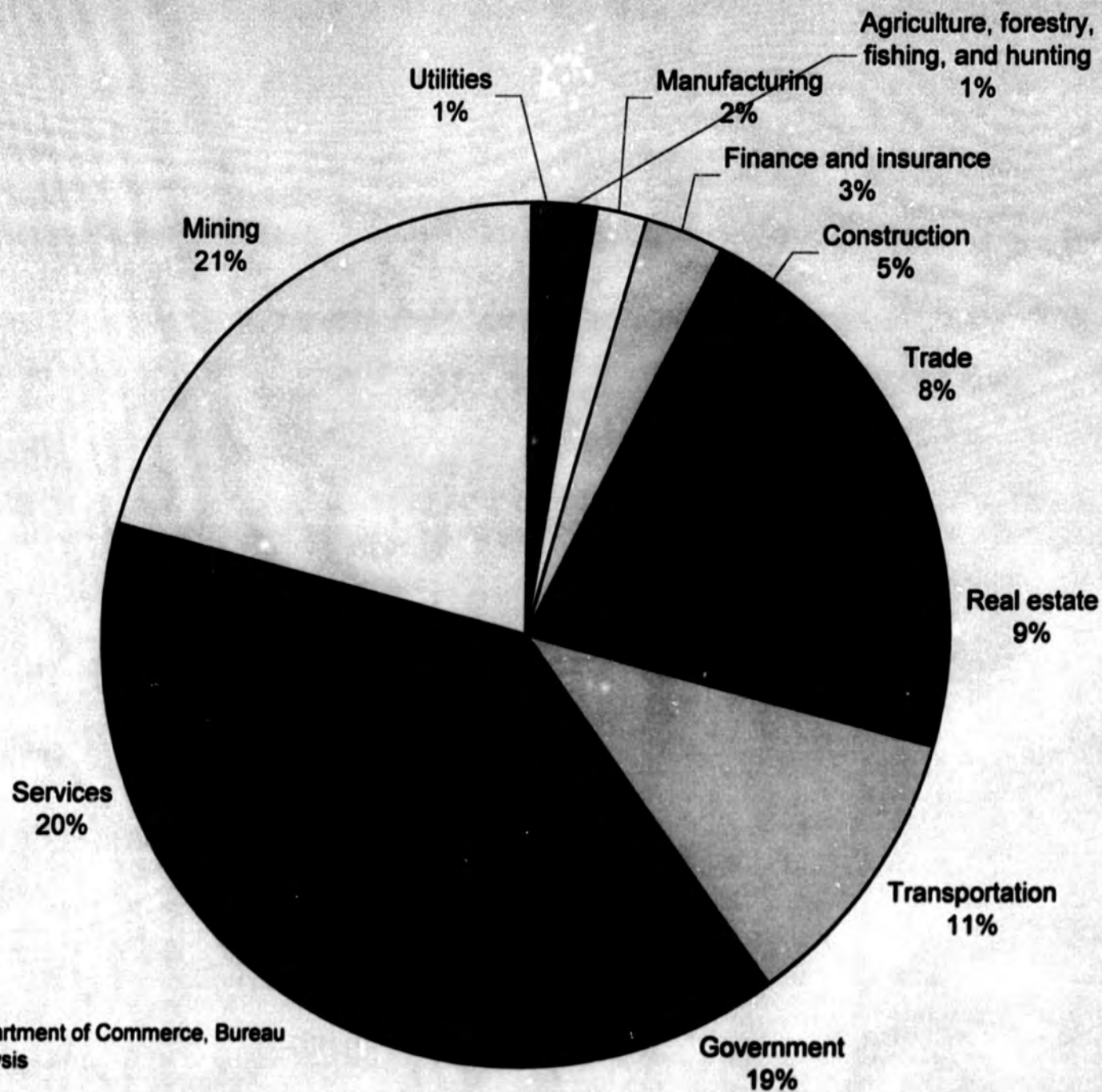
Projected revenue for prior law based on average taxable income for each gross income range. Prior law had 22 brackets for each filing status. Old law taxed federal COLA, which is exempt from federal tax. Limited data prevents estimate of revenue from tax on COLA.

Since HB 470 proposes 3-year phase in, presentation looks only at "mature" version for comparative purposes.

Data limitations prevent stratification of HB 470. Estimating revenue for HB 470 only possible from an aggregate approach.

HB 321 proposes a tax liability cap of \$20,000 for single and \$30,000 for married filing joint. Data and model limitations prevent an accurate estimate of impact on revenue.

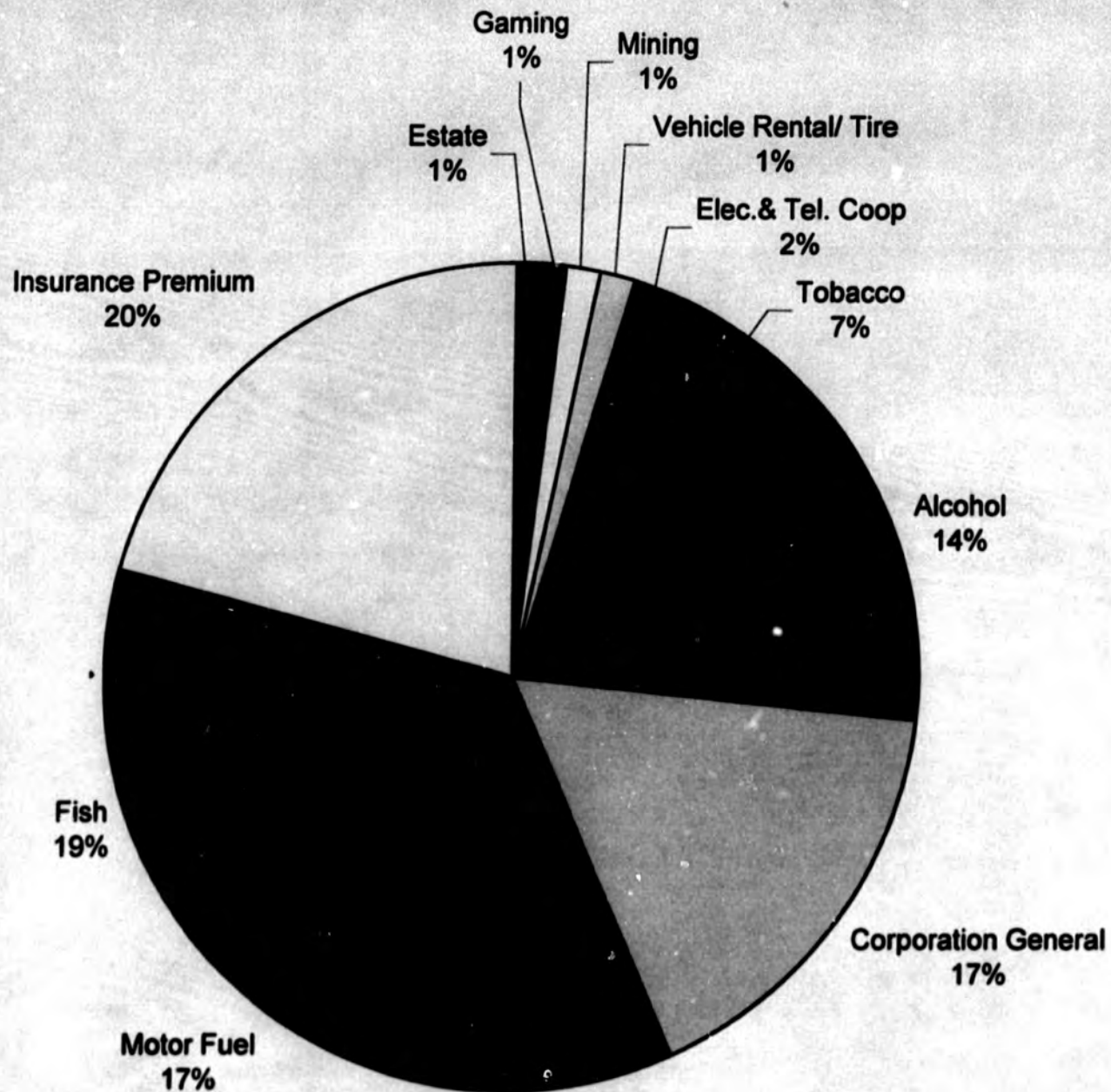
**Alaska Gross State Product
\$29.7 billion in 2002**



Source: U.S. Department of Commerce, Bureau of Economic Analysis

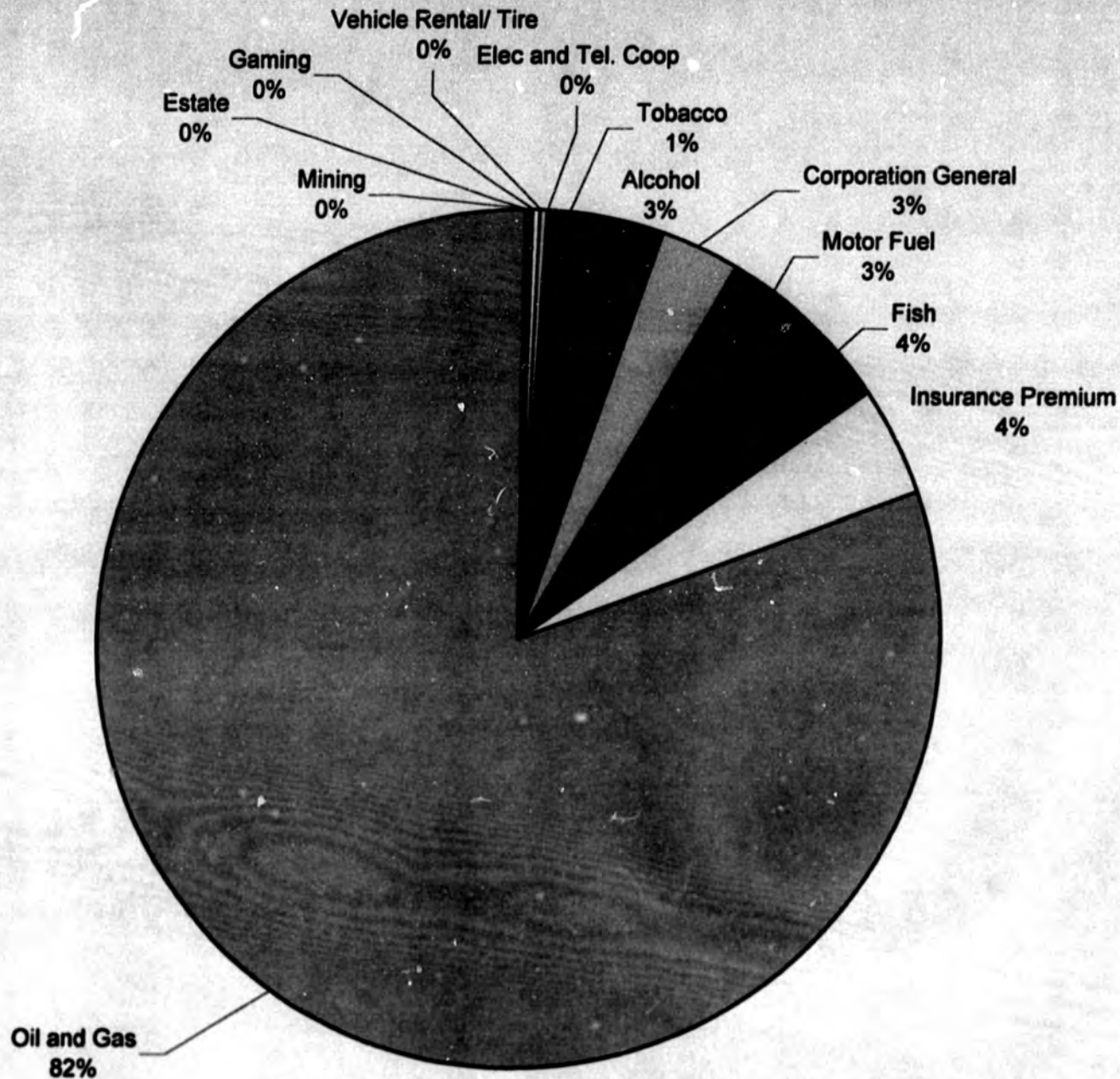
Alaska Department of Revenue - Tax Division

**General Fund Tax Revenue Excluding Oil and Gas
\$240 million in FY 2004**



Alaska Department of Revenue - Tax Division

**General Fund Revenue by Tax Type including Oil and Gas
\$1.2 billion in FY 2004**



These Statutes from the 1980's are somewhat different than what you might be used to looking at, in that changes to statutes are listed in a Supplemental and not reflected in the statute pages. Legislative Research has made notations on the edges of pages of statutes to help explain the changes and when they were adopted.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

April 6, 1989

MEMORANDUM

TO: House Finance Fiscal Policy Subcommittee

FROM: Gretchen Keiser *G. Keiser*
Legislative Analyst

RE: Alaska's Personal Income Tax: History, Structure and Policy Considerations
Research Request 89.253

You asked this agency to prepare a summary of the history, structure and policy considerations regarding Alaska's personal income tax. This memorandum draws upon the legislative history of the Alaska Net Income Tax Act (AS 43.20), fiscal records of the Department of Revenue, personal income data from U.S. Bureau of Economic Analysis, Governor's Office (Division of Policy) analysis, as well as several publications covering state income taxes nationwide. The first section describes the history and structure of Alaska's individual income tax. Recent legislative proposals regarding the personal income tax are discussed in the second section. The third section briefly considers state income taxes nationwide, and the final section examines the major policy considerations of an income tax.

HISTORY AND STRUCTURE OF ALASKA'S PERSONAL INCOME TAX

Following several years of political battles, the Alaska Legislature established a net income tax in 1949 as part of an overall change in the territorial tax system.¹ The tax was levied on all resident and nonresident individuals and fiduciaries (and also corporations operating in Alaska) at a tax rate of ten percent of the taxpayer's federal income tax liability. Given its close correlation to the federal tax, Alaska's income tax was quite simple and easy to collect; employers withheld ten percent of the amount being withheld for federal income taxes. The Alaska tax withstood an immediate challenge of its constitutionality [*Alaska Steamship Co v. Mullaney*, 12 Alaska 594, 180 F.2d 805 (1950)]. In addition, the court considered the state's tax, with its reliance on the federal graduated tax rates, to be grounded in a reasonable policy since the tax was structured according to a taxpayer's ability to pay.

¹History of Alaska's income tax presented in Department of Revenue v. Gibson, 544 P.2d 852, 1975.

Between 1949 and 1961, Alaska's personal income tax rate gradually increased from ten to 16 percent of a taxpayer's federal income tax liability. Other changes required federal employees to pay state tax on cost-of-living allowances and limited nonresidents' exemptions, credits and deductions. The simplified method of determining state income tax worked well during a period when federal tax changes mostly involved increases in tax rates. Following the reduction in federal income tax rates in 1963, however, the legislature grappled with a state tax structure which would operate independently of the federal system. In 1965, the legislature modified the tax statute so that a taxpayer's state tax payment remained at 16 percent of the federal income tax liability but at the federal tax rates in effect on December 31, 1963, prior to federal tax reform. A 1964 legislative report noted that nonresident taxpayers usually had a disproportionately higher income tax liability than residents because they were denied the standard ten percent deduction and could claim only those deductions directly connected with income from Alaska sources.²

In 1975, the legislature revamped the Alaska income tax and established a graduated tax rate structure independent of federal income tax rates. A taxpayer's taxable income, as defined under the Internal Revenue Code, was modified by various longstanding additions, exemptions and credits to determine Alaska taxable income, which was then subject to a progressive rate of 3.0 to 14.5 percent. The 1975 tax law expanded considerably the section governing nonresident taxable income for individuals and partnerships (including a provision which allowed the standard federal deduction according to the portion of a taxpayer's total adjusted gross income derived from Alaska sources).

The revenue effect of the overhaul was not dramatic; the significant increases in state individual income tax revenues in fiscal years 1975 - 1977 primarily reflect the dramatic rise in total state personal income (and individual taxable income) during construction of the TransAlaska Pipeline System (TAPS).³ Table 1 summarizes information on state individual income taxes paid for the 1977 - 1979 tax years.

²Alaska Legislative Council, "Taxes in Alaska," November 1964, p. 8.

³Steve Kettel, director, Income and Excise Tax Division, Department of Revenue, personal communication, March 16, 1989.

TABLE 1
ALASKA INDIVIDUAL INCOME TAX INFORMATION: 1977 - 1979

	1977	1978	1979
Number of Taxpayers	190,988	177,572	188,780
Avg. Taxable Income	\$13,844	\$13,377	\$12,686
Avg. Tax Paid	\$700	\$572	\$494
Percent Tax Paid by Nonresidents	18.4%	12.2%	10.9%
Effective Tax Rate	5.1%	4.3%	3.9%

Source: 1977, 1978 and 1979 Individual Income Tax reports prepared by the Research Section, Alaska Department of Revenue, and May 6, 1987 memorandum ("Income tax Incidence on Nonresidents") from John Hansen and Gregg Erickson to Commissioner Hugh Malone.

Alaska's personal income tax was repealed in 1980. During the regular session, the 1980 legislature modified AS 43.20 to provide a partial to total exemption from state income tax for individuals, depending upon the number of prior years the taxpayer had filed a state tax return (Ch 22 SLA 1980). In early September 1980, the Alaska Supreme Court ruled that the resident longevity exemptions violated the equal protection clause of the Alaska Constitution. A special session was called and the legislature repealed the personal income tax on individuals and fiduciaries, retroactive to January 1, 1980 (Ch 1 SSSLA 1980). In addition, the legislature appropriated about \$186 million to the Department of Revenue for refund of income taxes paid by individuals and fiduciaries during both the 1979 and 1980 tax years.

Table 2 summarizes state revenue from the individual income tax for the period FY 59 - FY 80. Income tax revenue increased dramatically beginning in FY 75 and peaked in FY 77 at \$210 million. Table 2 also provides the annual state personal income, which is broadly defined to include all income received from wages, salaries, dividends, interest, rent, transfer payments, etc. The state's income tax revenue is then presented as a percentage of state personal income in order to portray the historical tax effort (i.e., the percent of total income paid to the state in income taxes). The tax effort ranged between 1.6 percent (FY 59 - FY 61) and 4.6 percent (FY 77). The dramatic increase in tax effort beginning in FY 75 generally reflects higher taxable incomes (during the TAPS construction), which were subject to higher tax rates under the graduated tax system. By FY 79, the tax effort had declined to 2.4 percent, which was also the average tax effort over the 22-year period.

TABLE 2
REVENUES FROM ALASKA INDIVIDUAL INCOME TAX: FY 59 - FY 80
(Millions of Dollars)

Fiscal Year	State Income Tax Revenue	Total State Personal Income	Income Tax Revenue as Percent of		
			Total State Personal Income	Total State Tax Revenue	Unrestricted Revenue
1959	\$8.1	\$506.6	1.6%		
1960	8.9	542.4	1.6		
1961	10.4	630.9	1.6		
1962	12.2	626.3	1.9		
1963	13	654.1	2.0		
1964	13.9	711.3	2.0		
1965	16.2	799.7	2.0		
1966	19.2	866.3	2.2		
1967	22.7	935.3	2.4		
1968	22.6	1,029.0	2.2		
1969	25.2	1,119.1	2.3		
1970	32.4	1,373.9	2.4		
1971	35.5	1,543.7	2.3		
1972	39.1	1,679.1	2.3	43.8%	17.8%
1973	43.4	1,827.0	2.4	45.1	20.8
1974	49.2	2,148.3	2.3	44.8	19.3
1975	86.9	2,650.4	3.3	46.8	26.1
1976	146.2	3,780.0	3.9	25.2	20.6
1977	210.4	4,559.6	4.6	28.0	24.1
1978	145.7	4,701.2	3.1	27.1	19.0
1979	117.2	4,790.8	2.4	14.6	10.3
1980	100.5	5,020.9	2.0	7.1	4.0

Note: The fiscal year tax revenue data corresponds to taxes paid for the prior calendar year's income. For example, FY 80 tax revenue corresponds to individual taxable income and total state personal income in 1979.

Sources: 1977 - 1979 Individual Income Tax reports and Revenue Sources (January 1986) prepared by the Research Section, Alaska Department of Revenue, and state personal income data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Prepared by the House Research Agency, April 1989 (89.253).

Table 2 also presents information for the 1970s which indicates the importance of income tax receipts relative to total state tax revenue and unrestricted revenue available for state spending. During the period FY 72 - FY 75, income tax receipts represented nearly half of the state's total tax revenue. As oil and gas reserves, property, and severance tax revenue expanded beginning in FY 76, the individual income tax declined in importance to roughly one-quarter of the state's tax revenue. In FY 72 - FY 74 and again in FY 78 (after the high income tax years during the TAPS construction), the state individual income tax brought in roughly 18 to 21 percent of the state's unrestricted revenues.

RECENT LEGISLATIVE PROPOSALS TO REIMPOSE THE PERSONAL INCOME TAX

Since 1985, several resolutions have been introduced opposing an income tax or proposing a constitutional amendment to require voter approval or a two-thirds majority vote in each house prior to reimposition. In 1986, the legislature established the Joint Special Committee on State Tax Policy which was to submit a report to the legislature that "addresses the merits of and makes recommendations concerning a long-term, broad-based and stable tax policy to minimize taxes and foster economic growth."⁴ The committee compiled a series of reports on the merits of specific taxes, including studies on the individual income tax prepared by the Department of Revenue and the Institute of Social and Economic Research in 1986 and 1987. Nevertheless, the committee's final report (January 1988) did not present conclusions as a result of all these studies or make recommendations regarding state tax policy and the role an individual income tax might play.

In 1987, Governor Cowper introduced individual income tax legislation (House Bill 154) which underwent considerable public scrutiny but died in the House Rules Committee. The proposed state income tax was piggybacked on the federal tax--as under the former Alaska income tax repealed in 1980. The tax base was broadened through adjustments to federal gross income and limitations on the number of allowable deductions (i.e., alimony paid, interest from U.S. obligations, penalty for early withdrawals from savings accounts, and Permanent Fund dividends). The DOR estimated that failure to allow the deduction of mortgage interest would increase taxable income in 1988 by about \$600 million. A personal exemption of \$3,000 per dependent was subtracted from adjusted gross income to arrive at taxable income. In contrast to the former state income tax rate schedule (with several tax rates to a maximum of 14.5 percent), Governor Cowper proposed a two-tiered structure of 3.2 and 5.7 percent. Higher taxable income brackets--at thresholds between \$25,000 and \$50,000 depending upon a taxpayer's filing status--would be taxed at the higher rate. At the time, the DOR estimated that the income tax, under HB 154, would raise about \$250 million annually. A subsequent DOR estimate for the Governor's income tax--with Permanent Fund dividends taxable--yielded about \$265 million.

⁴Senate Concurrent Resolution 42; the committee included three senators, three representatives, two executive branch members and three public members.

An individual income tax bill (HB 252; sponsored by Representative Koponen) was recently introduced in the 1989 Legislature (attached). As with the Governor's 1987 proposal, HB 252 would piggyback a two-tiered, graduated state income tax (at 3.2 and 5.7 percent) onto the federal tax, beginning with the federal definition of gross income. However, the current tax bill incorporates several new features:

- Permanent Fund dividends are not allowable deductions and would be taxable (as they are under the federal tax law);
- Personal exemptions applied against a taxpayer's adjusted gross income to arrive at taxable income are the greater of 1) the exemptions allowed under federal taxes [i.e., \$1,950 per dependent in 1988] or 2) an amount of income equal to 100 percent of the federal poverty income guidelines applicable to the number of exemptions claimed;⁵
- Tax Credits are allowed for motor vehicle registration tax, sales and use tax, and property tax levied by a municipality. A renter's credit (not to exceed 20 percent of the annual rent) is also allowed; and
- Longevity bonuses would no longer be exempt from state taxes, as is currently the case under AS 47.45.120(a).

The fiscal note is not available yet for HB 252, but it appears likely that the larger personal exemption for all taxpayers (based on federal poverty income guidelines) and the credits for municipal taxes would significantly reduce previous income tax revenue estimates. Municipal sales tax revenues in 1988 equaled about \$55 million--of which most is paid by Alaskans, and in 1987, DOR estimated that a property tax deduction would reduce projected taxable income in 1988 by \$100 million. A centralized estimate of municipal motor vehicle registration tax revenue is not available from the Department of Community and Regional Affairs (DCRA). On the other hand, the tax liability generated by the Alaska longevity bonus would raise collections by about \$2 million annually.⁶ Also, the DOR estimated in 1987 that taxing Permanent Fund dividends would raise between \$8 and \$12 million in additional income tax revenue.

⁵The 1989 federal poverty income guidelines are as follows: \$7,480 (family of one); \$10,030 (two); \$12,580 (three); \$15,130 (four); \$17,680 (five); \$20,230 (six); \$22,780 (seven); \$25,330 (eight); plus \$2,550 per additional person.

⁶This estimate assumes that the average Alaska senior would have taxable income falling under the lower 3.2 percent rate. An annual bonus of \$3,000 would yield \$96 in taxes per senior, or about \$1.6 million for 17,000 seniors.

Although he has not introduced an individual income tax bill this year, Governor Cowper included a state income tax in the conceptual framework of his five-year fiscal plan and 20-year projection as part of his State of the State address in January. A rough estimate of about \$217 million from a graduated income tax--generally similar to the Governor's 1987 proposal but with lower tax rates--is indicated for FY 92, following implementation of the tax on January 1, 1991. According to Gregg Erickson of the Office of Management and Budget, this income tax effort would be equal to about 1.9 percent of the projected state personal income at that time.

COMPARISON WITH OTHER STATES

Alaska is one of seven states which do not have an individual income tax. Florida, Nevada, South Dakota, Texas, Washington, and Wyoming are the others. Two other states tax only interest and dividend income (New Hampshire and Tennessee). Nationwide, the individual income tax provided about 31 percent of state tax revenue in 1987.⁷ In FY 78--the last year (prior to the runup in severance and petroleum corporate income taxes) for which we have comparable figures--Alaska's individual income tax receipts represented about 27 percent of the state's total tax revenue (Table 2).

Since 1986, there has been considerable activity and major reforms in state individual income tax laws across the country as a result of 1) the federal tax reforms of 1986, 2) major tax studies in more than half of states since the early 1980s, and 3) economic changes and the desire for an income tax structure which is competitive with neighboring states.⁸ Furthermore, a December 1988 National Conference of State Legislatures' survey indicates that income taxes would be among the top three issues facing 21 state legislatures in 1989.⁹

In general, states have become more progressive in their income tax structure because most conformed with the progressive changes in the federal tax law--particularly the broadening of the tax base at higher income levels. Also, many states raised personal exemptions and/or standard deductions, which provides greater relief for taxpayers with relatively low incomes. However, it is difficult, if not misleading, to compare a potential income tax rate structure in Alaska with those of other states because income brackets, deductions, exemptions, and credits vary widely from state-to-state.

⁷State Government Tax Collections in 1987, Bureau of the Census, Government Finances Series GF-87-1, March 1988, Table 6.

⁸S. Gold (ed), "The Unfinished Agenda for State Tax Reform", National Conference of State Legislatures, 1988, pp. 14 - 21.

⁹"Leading Fiscal Issues in 1989 Legislative Sessions," National Conferences of State Legislatures, December 1988.

POLICY CONSIDERATIONS OF A STATE INCOME TAX

Equity

The individual income tax is generally considered the fairest tax. The tax burden falls primarily on the individual and there is less opportunity for shifting the incidence of taxation compared with corporate income or business taxes where tax burdens can be shifted backward onto workers or forward onto consumers. Income taxes typically incorporate graduated tax rates based on the ability to pay principle--individuals pay according to their level of income.

A progressive income tax takes a higher percentage of high incomes than of low ones. The progressivity of an individual income tax depends upon a number of factors, including

- 1) the type of income taxed and the degree of preferential treatment of different categories of income - elimination of the special treatment of capital gains under the federal 1986 tax reform is regarded as a progressive change in the income tax;
- 2) the tax rate structure (i.e., the number and spacing of income brackets and the spread in tax rates from lowest to highest income bracket) in general, fewer income brackets and a smaller spread in the tax rates results in less progressivity;
- 3) the amount of standard deductions and personal exemptions - increasing these helps reduce the tax burden of lower income taxpayers to a greater extent than higher income taxpayers; and
- 4) the type and amount of tax credits - converting deductions to tax credits places higher and lower income taxpayers on an equal footing.

Since HB 252 begins with the federal gross income definition, it would incorporate some of the progressive changes of the recent federal tax reform. The two-tiered, graduated rate structure proposed in HB 252 is moderately progressive, but the provision for large personal exemptions would have a greater beneficial effect on lower income taxpayers than those with higher incomes, and greatly increases the progressivity of the proposed income tax.

A portion of the proposed state income tax burden would be "exported" because some of the tax would be paid by nonresidents. The Office of Management and Budget (OMB) estimated in 1987 that at least ten percent of the tax revenue would come from nonresidents (including filers who worked instate only part of the year).¹⁰

Simplicity and Economic Efficiency

A broad-based tax system, with few deductions and limited preferential treatment of income, is the simplest form of income tax for government to administer and individuals to pay. From an administrative viewpoint, the majority of disputes under the former state income tax were related to itemized deductions. The Internal Revenue Service also focuses a great deal of time on deductions and tax credits since these are the primary areas of abuse. However, in comparison with other taxes--such as a sales tax--an income tax is administratively much more complex. A 1987 fiscal note estimated that about 65 new DOR employees would be necessary to administer a state income tax; about 60 DOR staff worked on the income tax prior to its repeal in 1980.¹¹

Limiting the complexity of the income tax is politically responsible because it clarifies who shoulders the tax burden. A tax which broadly incorporates all types of cash income--and allows for few exceptions or special treatments--would likely result in lower tax rates if a particular level of revenue is targeted. Although virtually any form of taxation affects individuals' decisions regarding work, savings, education, or consumption, a broad-based tax with low rates is generally considered to be less distorting. With low rates, personal, individual, business, and investment decisions are likely to be primarily based on economic rather than tax avoidance considerations. Similarly, a tax system which allows few deductions would limit the incentive effects, such as may occur when the deduction of medical expenses induce individuals to spend more on medical services than they otherwise would.

¹⁰"Percent of State Income Tax "Exported"," Memorandum from Gregg Erickson, senior economist, to David Ramsure, press secretary to the Governor, May 4, 1987.

¹¹Steve Kettel, personal communication, March 16, 1989.

Intergovernmental Effects

Payment of state income taxes has been estimated to reduce Alaskans' federal tax payments by an amount equivalent to about 20 percent of their state income tax liability. This offset of federal taxes would occur only for taxpayers who itemize deductions on their federal tax returns--typically higher income taxpayers. This federal tax offset, coupled with the above-mentioned taxes collected from nonresidents, indicates that roughly 30 percent of the state income tax burden would be "exported" out of state.

The inclusion of municipal property, sales, and vehicle registration tax credits would have a significant effect on the capability of the state to generate revenue under the income tax proposed in HB 252. The annual revenue expected from the state income tax would be somewhat unpredictable because each time a local government raised its taxes, state revenue would decline by a roughly corresponding amount. The tax credits would be popular among Alaska's communities because they provide a direct dollar-for-dollar incentive for local governments to increase property and sales taxes; local taxpayers would recover their local tax payment through reductions in state income taxes. However, credits for local taxes would be allowed only up to the amount of state income taxes owed, i.e., taxpayers could not receive a refund from the state.

From the taxpayers' perspective--particularly those with higher income who would be able to fully credit local taxes against their tax liability--it makes little difference to whom one pays the tax bill. In either case, an individual's disposable income would be reduced. It could be argued that a state income tax system which incorporates this local tax credit provision would in fact encourage taxation at the local level where taxpayers not only have greater direct influence over the expenditure of tax revenue, but could also keep the tax dollars circulating in the regional economy. On the other hand, individuals living in areas with low tax rates or lacking local taxes--particularly in the unorganized borough--would pay more of their tax dollars to the state where they would have less control over where and how the tax dollars were spent. Another factor to consider is that the local government response to the incentive embodied in the tax credits would also affect the distribution of state aid under the Public School Foundation and Revenue Sharing programs (which have a local tax effort measure built into their formulas).

In summary, the design of a state income tax is not necessarily a straightforward task. Policy makers have to consider several factors as they establish the tax system in order to achieve the desired level of progressivity and target the intended beneficiaries of various exclusions, deductions, exemptions and credits. I have attempted to briefly discuss the policy issues which commonly arise regarding income taxes as well as some issues raised by HB 252.

Please contact us if you would like further information.

Attachment

1 IN THE HOUSE

BY KOPONEN, SPOHNHOLZ,
ULMER AND BROWN

2

HOUSE BILL NO. 252

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the taxation of income and to

7

individual tax credits; and providing for an effective date."

8

effective date."

9

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10

* Section 1. AS 43.20.011 is amended by adding new subsections to read:

11

(g) There is imposed for each taxable year upon the taxable

12

income of every resident, nonresident, and part-year resident indi-

13

vidual and fiduciary of the state, except those subject to the rates

14

in (h), (i), and (j) of this section, a tax computed according to the

15

following table:

16

If the taxable income is:

Then the tax is:

17

Over \$31 but less than \$30,000

3.2 percent of taxable income

18

\$30,000 or more

\$960 plus 5.7 percent of the

19

excess over \$30,000.

20

(h) There is imposed for each taxable year upon the taxable

21

income of every resident, nonresident, and part-year resident married

22

individual who makes a single return jointly with a spouse, as provided

23

in 26 U.S.C. 6013 (Internal Revenue Code), and upon every resident,

24

nonresident, and part-year resident surviving spouse, as defined in 26

25

U.S.C. 2(a) (Internal Revenue Code), a tax computed according to the

26

following table:

27

If the taxable income is:

Then the tax is:

28

Over \$31 but less than \$50,000

3.2 percent of taxable income

29

\$50,000 or more

\$1,600 plus 5.7 percent of the



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ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

May 15, 1987

MEMORANDUM

TO: Representative Cliff Davidson

FROM: Gretchen Keiser *Gretchen Keiser*
Legislative Analyst

RE: History of Taxes Paid by Individual Alaskans
Research Request 87.299

You requested that we provide information on all taxes paid by individual Alaskans for the years: 1972, 1976, 1978, and 1980 - 1986. Table 1 summarizes the information obtained for the following taxes: individual income, school, estate, alcohol, cigarette, and motor fuels.

Table 1 subdivides the taxes into two categories: those paid by individual taxpayers filing State tax returns (i.e., income, school and estate taxes) and those paid--on average--by all adult Alaskans (i.e., alcohol, motor fuels and cigarette taxes). The Alaska Department of Revenue provided records of fiscal year tax receipts. We then estimated the number of taxpayers (based on the school tax receipts at \$10 per taxpayer) and calculated an average taxpayer share. With respect to the taxes on alcohol, motor fuels and cigarettes, we calculated an average adult share, based on the Alaska Department of Labor's estimates of Alaskans 15 years and older.

The estimated average tax shares are additive to the extent that an individual was both a taxpayer and also an adult Alaskan. There are undoubtedly adult Alaskans who paid taxes on alcohol, motor fuels and cigarettes but did not file a State income tax return in the 1970s. For the years analyzed, the estimated taxes paid by an adult Alaska taxpayer peaked in FY 78 at \$739 and declined sharply beginning in FY 81. The primary reason for the decreased tax burden was the repeal of the State income tax and school tax in 1980. If we compare the annual tax burdens in real, inflation-adjusted dollars, the average adult Alaskan has paid roughly the same in annual taxes since 1981. Tax levels in recent years are roughly 12 - 13 percent of the real tax burden paid during FY 76 and FY 78.

* * *

Please contact me if you have any questions regarding this information.

Attachment