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STATE OF ALASKA
DEPARTMENT OF
REVENUE

State Revenue, Crude Oil Production & the PPT

House Ways & Means Committee, January 24, 2007
Alaska Department of Revenue

Agenda



- State Revenue
- Crude Oil Production
- Petroleum Profits Tax

Revenue Projections

- Fall 2006 RSB
- Oil Revenues Dominate
- Variance Analysis
- Non-Oil Revenue



Oil Dependency

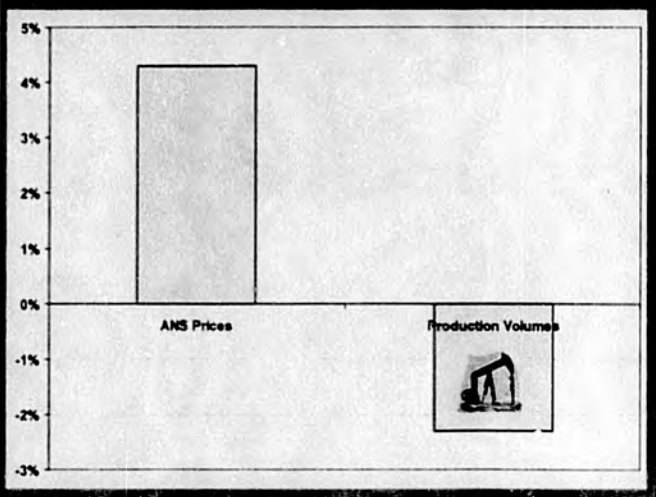
FY 2007 General Fund Unrestricted Revenue, Millions

Royalty – Net PF	1,503.9	30.6%
Production Tax	2,067.2	42.1%
Income Tax	657.2	13.4%
Property	51.7	1.1%
Bonus, Rent, etc	51.4	1.0%
Total Oil	**4,331.5**	**88.2%**
Non-Oil	580.8	11.8%
Tot Budget	**4,912.3**	**100.0%**

Source: Fall 2006 *Revenue Sources Book*, page 89.

Variance in Key Factors

For FY 2007, Year-to-Date Changes From Fall Forecast



Note: In the Fall 2006 *Revenue Sources Book*, ANS prices were forecast to average $59.15 per barrel for FY 2007. Through January 18, 2007, prices averaged $61.81 per barrel, which is $2.66 or 4.3% above the forecast. ANS crude oil production was forecast to average 739,618 b/d. Through January 17, 2007 production averaged 722,845 b/d, which is 16,773 b/d or 2.3% below the forecast.

Non-Oil Revenue

FY 2007 General Fund Unrestricted Revenue, Millions

Sales & Use	155.8	26.8%
Corporate Income Tax	135.7	23.4%
Fish	19.7	3.4%
Charges for Services	23.1	4.0%
Fines & Forfeitures	10.3	1.8%
Licenses & Permits	44.1	7.6%
Rents & Royalty	9.4	1.6%
Investments	124.0	21.3%
Other	58.7	10.1%
Tot Budget	**580.8**	**100.0%**

Source: Fall 2006 *Revenue Sources Book*, pages 8 and 9.

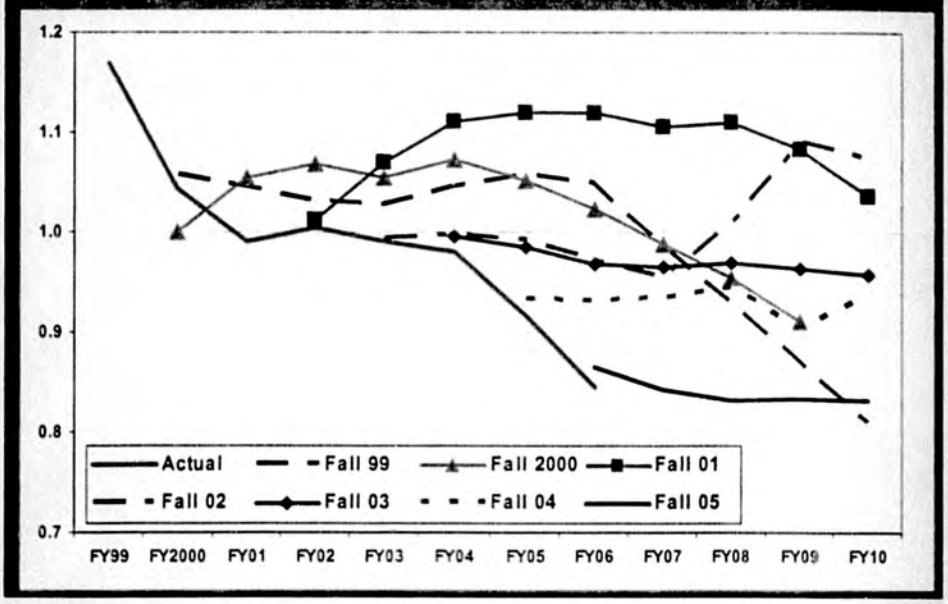
Crude Oil Production

- Forecasting Accuracy:
  - Actual Production
  - Historical Projections
- Current Forecast



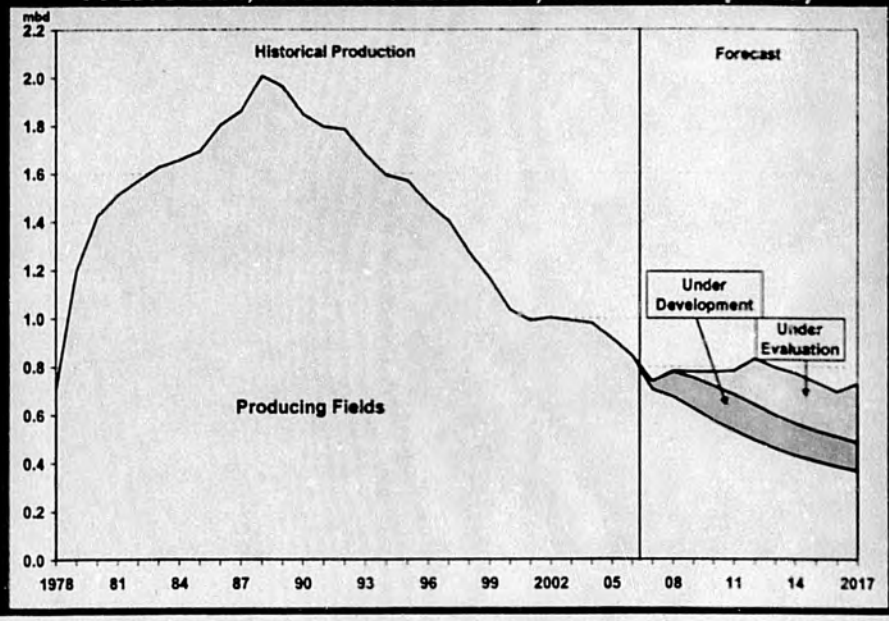
Fall Oil Production Forecasts

ANS, Millions of Barrels per Day



ANS Production Forecast by Category

FY 1978-2006, Forecast FY 2007-2017, Million Barrels per Day



Petroleum Profits Tax

- "True-Up" Payment
- Regulations Status

PPT True-Up Payment

- Due End of March
- Estimate = $0.95 billion
  - April, May = $0.29 billion
  - June – December = $0.66 billion

PPT Regulations Status

- Publicly Noticed Workshops Oct - Nov
- Draft Regulations Created
- Public Comments & Hearing: Dec 13 – Jan 17
- Issues Raised:
  - Transfer of Exploration Credits
  - Clarification of Lease Expenditures
  - Overhead Rates (Too high-Too low)
  - Ring Fencing Losses
  - Information Reporting Requirements
  - Inclusion of Penalty Provisions

PPT Regulations Status

- Estimated Revision Time: Mid February
- Final Review
  - DOR Director & Commissioner
  - Department of Law
  - Lieutenant Governor's Office
- Expected Implementation – April
- Second Regulation Project-Spring '07

(To include: Clarifying allowable lease expenditures and use of operating agreements)

STATE OF ALASKA
DEPARTMENT OF
REVENUE

Alaska Department of Revenue

Revenue Sources Book

Alaska Department of Revenue – Tax Division



FALL 2006

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2006

www.tax.state.ak.us

STATE OF ALASKA

DEPARTMENT OF REVENUE

Tax Division

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The Honorable Frank H. Murkowski, Governor of Alaska December 1, 2006
Governor-Elect Sarah Palin
P.O. Box 110001
Juneau, Alaska 99811-0001

Dear Governor Murkowski & Governor-Elect Palin:

I present you, the Legislature and the Alaska public with the Department of Revenue's latest *Revenue Sources Book.* Our fall 2006 report includes an accounting of state revenues received in FY 2006 and provides projections for FY 2007 through FY 2017.

Three factors dominate the forecast: pipeline closures on the North Slope, high crude oil prices, and a new production tax titled the Petroleum Profits Tax or PPT. Taken together, these result in projected oil revenue of about $4.3 billion for general fund unrestricted revenue for FY 2007 and represent about 88% of the State's discretionary income of about $4.9 billion.

We project Alaska North Slope crude oil prices will average $59.15 per barrel for this fiscal year ending June 30, 2007. The fiscal year year-to-date average is currently above $66 per barrel but price volatility continues and prices are about 20% lower than their peak of $75 per barrel in July 2006. We believe volatility will continue and there will be continued downward pressure on oil prices. Our forecast for Alaska North Slope crude for FY 2008 is $51.25 and for FY 2009, $49.50 a barrel.

Our new long-run ANS crude oil price forecast for FY 2014-beyond is $41.50 per barrel, increasing at the projected rate of inflation. Yes, this is lower than today's markets and certainly lower than many pundits predict. We are cautious, however, in our approach, and do not frequently change our long-term price forecast. We continue to believe this is an appropriate response to volatile oil markets.

Our forecast for natural gas prices at the Henry Hub for FY 2007 is $5.93 per million BTU. Natural gas prices have exhibited extreme volatility in the last year – declining over 76% between December 13, 2005 ($15.39 per million BTU) and September 29, 2006 ($3.66 per million BTU). Since September 29, prices have more than doubled to $7.59 per billion BTU on November 16. We do not have a separate section on natural gas in the fall forecast; however, historical prices as well as our forecast for natural gas prices can be found in the appendices section of our report.

Alaska North Slope crude oil production projections have been adjusted and our FY 2007 forecast is 740,000 b/d – about 12% lower than FY 2006. A significant part of this decrease is attributed to pipeline corrosion issues at Prudhoe Bay, Lisburne and Milne Point. Production for FY 2008 is projected to increase to about 782,000 b/d – and we assume there are no pipeline closures of the magnitude seen during calendar year 2006.

Revenue from oil is received from the State's royalty share, production tax, corporate income tax and property tax. The PPT is the production tax that was signed into law in 2006. The structure of the PPT as a tax on net value, and the associated tax credits, was designed to encourage investment in the state's petroleum sector that would lead to higher oil production and thus higher long-run revenues. This system is radically different from the old ELF-based system and the discussion in Section 4 highlights the differences. The Department of Revenue estimates for FY 2007, that the PPT will provide the State with about $1.2 billion more than production taxes under the ELF-based system.

We hope that this forecast provides you with useful information.

Sincerely,

Bill Corbus

William A. Corbus
Commissioner

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2006

1. **Introduction** 1

2. **Executive Summary** 3

3. **Will Heavy Oil Do the Heavy Lifting for Alaska?** 21

   Heavy oil is located throughout the world, including Alaska where we have a potential of tens of billions of recoverable barrels. The state currently has five fields producing heavy oil and there is significant potential for additional production.

4. **Oil Revenue** 27

   In FY 2006, oil and gas production tax, corporate income tax, property tax and royalty revenues contributed 88 percent of the state's General Fund unrestricted revenue. Oil revenues will continue to play a key role in Alaska's future.

5. **Other Revenue (except Federal & Investment)** 45

   Revenue from non-oil sources includes non-oil taxes, charges for services, fines and forfeitures, licenses and permits, rents and royalties and other revenue sources.

6. **Federal Revenue** 57

   Federal funding continues to be one of Alaska's biggest sources of revenue.

7. **Investment Revenue** 61

   Investment earnings come from the Alaska Permanent Fund, Constitutional Budget Reserve Fund, General Fund and other state investments.

8. **State Endowment Funds** 71

   Alaska has six endowment funds.

9. **Public Corporations and the University of Alaska** 75

   Seven public corporations and the University of Alaska are treated as separate component units of state government for financial reporting purposes.

10. **Appendices** 83

    The appendices provide 10 years of historical data and 10 years of forecast data on oil revenue, prices and production. For a complete set of historical data, please visit our web site at http://www.tax.state.ak.us/sourcesbook/index.asp.

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Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2006

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1. Introduction

General Discussion

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

Oil revenues continue to dominate the unrestricted revenue picture—and will continue to provide at least 85% of Unrestricted General Purpose Revenue through FY 2010. However, North Slope oil production is declining. In FY 2006, ANS output was 0.845 million barrels per day compared to a peak of 2.006 million barrels a day in FY 1988. While production declined by almost 58% over that period, the market price of oil has more than tripled. For FY 2007, we project oil production will continue to decrease to 0.740 million barrels per day.

Before the run-up in crude oil prices, beginning in about 2003, the Constitutional Budget Reserve Fund (CBRF) was used to balance the state's budget in 10 of 15 years. Even if prices remain high, the rapid fall in North Slope crude oil volumes could lead to future budget shortfalls and draws on the CBRF.

Alaska's total revenue picture also includes earnings from the Permanent Fund, federal revenue and reserves in the CBRF. We hope that the information provided in this book provides greater insight not only into the sources of revenue that support the state today, but also into future revenues from potential new sources on the horizon.

Please note that totals in the tables throughout this publication may not equal the sum of components due to rounding.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2006

2. Executive Summary

Total Government Revenue

Figure 2-1. FY 2006 Total Revenue $10.5 billion

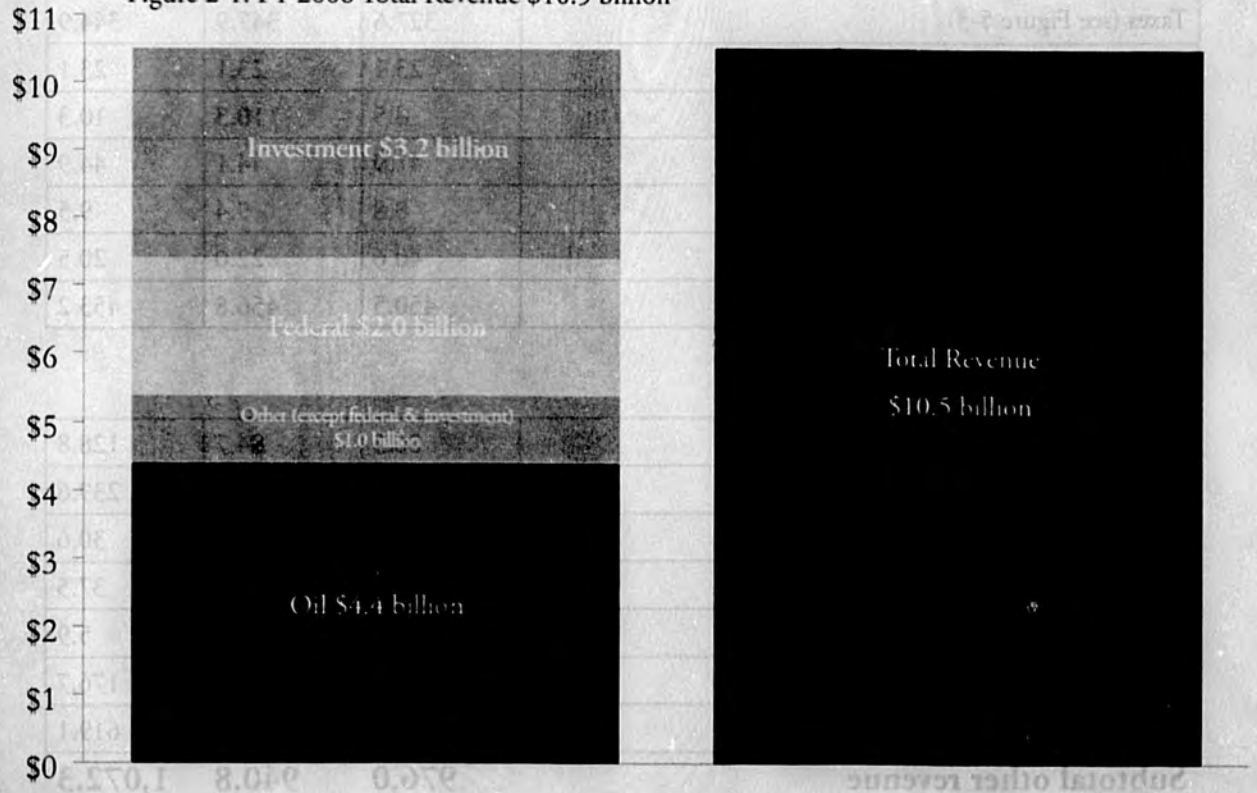


Figure 2-2. Total Governmental Revenue by Major Component, FY 2006 and Forecasted FY 2007-2008 ($ million)

Oil Revenue	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Property tax	54.5	51.7	51.4
Corporate income tax	661.1	657.2	493.7
Production tax	1,199.2	2,067.2	1,476.1
Royalties (including bonuses, rents, & interest)	1,784.1	1,555.4	1,336.0
Subtotal	3,698.9	4,331.5	3,357.2
Restricted			
Royalties (including bonuses, rents & interest)	611.5	518.6	447.8
Tax settlements to CBRF	43.7	90.0	20.0
NPR-A royalties, rents and bonuses	2.9	6.4	7.6
Subtotal	658.1	615.0	475.4
Subtotal oil revenue	**4,357.0**	**4,946.5**	**3,832.6**

Other Revenue (Except Federal & Investment)			
Unrestricted	FY 2006	FY 2007	FY 2008
Taxes (see Figure 5-3)	327.6	347.9	344.9
Charges for services (see Figure 5-4)	23.1	23.1	23.1
Fines and forfeitures	8.5	10.3	10.3
Licenses and permits	41.9	44.1	44.9
Rents and royalties	8.8	9.4	9.5
Other	40.6	22.0	20.5
Subtotal	450.5	456.8	453.2
Restricted			
Taxes (see Figure 5-3)	86.3	84.7	128.8
Charges for services (see Figure 5-4)	225.0	235.8	239.6
Fines and forfeitures	21.0	20.1	30.6
Licenses and permits	30.6	37.1	37.5
Rents and royalties	5.9	5.9	5.9
Other	156.7	100.4	176.7
Subtotal	525.5	484.0	619.1
Subtotal other revenue	**976.0**	**940.8**	**1,072.3**

Figure 2-2. Continued

Federal Revenue	History FY 2006	Forecast FY 2007	FY 2008
Restricted	1,971.5	3,048.5	3,048.5
Subtotal federal revenue	**1,971.5**	**3,048.5**	**3,048.5**
Investment Revenue			
Unrestricted			
Investments	51.9	122.6	99.3
Interest paid by others	1.4	1.4	1.4
Subtotal	53.3	124.0	100.7
Restricted			
Investments	14.4	37.9	29.1
Constitutional Budget Reserve Fund	73.3	176.1	176.5
Other treasury managed funds	13.4	22.3	23.0
Alaska Permanent Fund (GASB)	3,072.3	2,512.5	2,673.9
Subtotal	3,173.3	2,748.8	2,902.5
Subtotal investment	**3,226.7**	**2,872.8**	**3,003.2**
Grand total	**10,531.2**	**11,808.6**	**10,956.6**

Figure 2-3. Total Government by Major Component, FY 2006

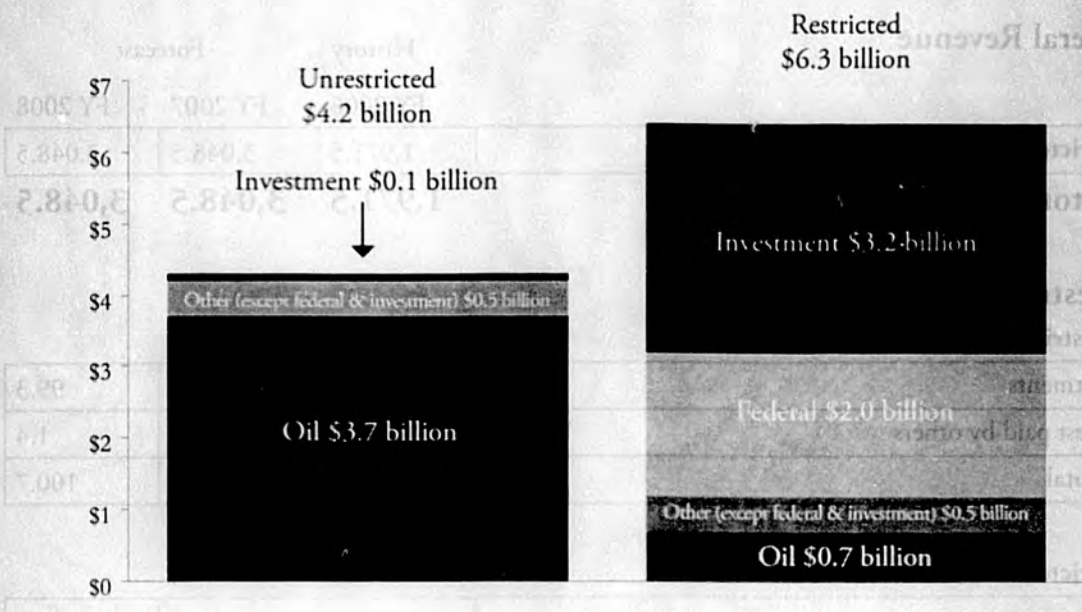


Figure 2-4. Total Governmental State Revenue, FY 2006 and Forecasted FY 2007-2008 ($ million)

Revenue Source	History FY 2006	Forecast FY 2007	Forecast FY 2008
Unrestricted			
Oil revenue	3,698.9	4,331.5	3,357.2
Other revenue (except federal & investment)	450.5	456.8	453.2
Investment earnings	53.3	124.0	100.7
Subtotal	**4,202.7**	**4,912.3**	**3,911.1**
Restricted			
Oil revenue	658.1	615.0	475.4
Other revenue (except federal & investment)	525.5	484.0	619.1
Investment earnings	3,173.3	2,748.8	2,902.5
Federal revenue	1,971.5	3,048.5	3,048.5
Subtotal	**6,328.4**	**6,896.3**	**7,045.5**
Grand total	**10,531.2**	**11,808.6**	**10,956.6**

Unrestricted General Purpose Revenue

Unrestricted General Purpose Revenue is the amount generally used for budget planning purposes and designated in budget documents as General Fund revenue. Figure 2-5 on the next two pages sets out FY 2006 Unrestricted General Purpose Revenue and our forecast for FY 2007 and 2008.

The Department of Revenue uses a three-step process to make its final estimate of Unrestricted General Purpose Revenue.

Step 1. We estimate all unrestricted revenues in the Alaska State Accounting System (AKSAS), as well as certain program receipts, by using our forecast models and obtaining estimates from other state agencies.

Step 2. We then consult the Governor's Office of Management and Budget and Legislative Finance for their input.

Step 3. Finally, following analysis, we adjust our initial projection to derive a forecast of total Unrestricted General Purpose Revenue.

- Reductions might include: (a) revenue earmarked for specific programs, (b) pass-through revenue for qualified regional aquaculture and dive fishery associations, and (c) revenue shared with municipal governments and organizations (e.g., fisheries taxes).
- Additions might include transfers from the unclaimed property trust to the state treasury.

Figure 2-5. Unrestricted General Purpose Revenue, FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
Oil Revenue	FY 2006	FY 2007	FY 2008
Property tax	54.5	51.7	51.4
Corporate income tax	661.1	657.2	493.7
Production tax			
Oil & gas production	1,191.4	2,057.5	1,466.3
Oil & gas hazardous release	7.8	9.7	9.8
Subtotal production tax	1,199.2	2,067.2	1,476.1
Royalties (including bonuses, rents, & interest)			
Mineral bonuses & rents	11.6	41.4	17.3
Oil & gas royalties	1,772.2	1,503.9	1,317.2
Interest	0.3	10.0	1.4
Subtotal royalties	1,784.1	1,555.4	1,336.0
Total oil revenue	**3,698.9**	**4,331.5**	**3,357.2**
Other revenue (except federal & investment)			
Sales & use			
Alcoholic beverages	17.6	17.8	18.2
Tobacco products – cigarettes[1]	26.4	32.1	36.2
Tobacco products – other	7.6	7.9	8.3
Insurance premium	44.3	45.4	45.9
Electric and telephone cooperative	0.2	0.2	0.2
Motor fuel tax	42.0	42.9	43.4
Vehicle rental	7.7	7.8	8.0
Tire fee	1.6	1.7	1.7
Subtotal sales & use	147.4	155.8	161.9
Corporate income tax[2]	137.6	135.7	128.7
Fish			
Fisheries business[3]	15.2	15.6	16.1
Fishery resource landing[3]	5.8	4.1	4.3
Subtotal fish	21.0	19.7	20.4
Other			
Mining	18.6	34.3	31.5
Estate	0.6	0.0	0.0
Charitable gaming	2.4	2.4	2.4
Subtotal other	21.6	36.7	33.9
Subtotal other taxes	**327.6**	**347.9**	**344.9**

Figure 2-5. Continued

Other revenue (except federal & investment)	History FY 2006	Forecast FY 2007	FY 2008
Charges for services			
General government	21.0	21.0	21.0
Natural resources	1.9	1.9	1.9
Other	0.2	0.2	0.2
Subtotal charges for services	23.1	23.1	23.1
Fines & forfeitures	8.5	10.3	10.3
Licenses & permits			
Motor vehicle	37.7	39.8	40.6
Alcoholic beverage licenses	1.0	1.1	1.1
Other	3.2	3.2	3.2
Subtotal licenses & permits	41.9	44.1	44.9
Rents & royalties			
Land leasing, rental & sales	7.4	7.9	7.9
Coals royalties	1.1	1.2	1.3
Cabin rentals	0.3	0.3	0.3
Subtotal rents & royalties	8.8	9.4	9.5
Other			
Miscellaneous	30.6	16.5	16.5
Unclaimed property	10.0	5.5	4.0
Subtotal other	40.6	22.0	20.5
Total other (except federal & investment)	**450.5**	**456.8**	**453.2**
Investment Revenue			
Investments	51.9	122.6	99.3
Interest paid by others	1.4	1.4	1.4
Subtotal investment revenue	53.3	124.0	100.7
Total unrestricted revenue	**4,202.7**	**4,912.3**	**3,911.1**

(1) The tobacco (cigarette) tax reported here differs slightly from the amount recorded in the Tax Division's Fiscal Year 2006 Annual Report because of timing issues. Some tax returns are not received and processed until after the state accounting system has closed, resulting in their being counted in the following fiscal year.

(2) The amount of corporate income tax reported here differs slightly from the amount recorded in the Tax Division's FY 2006 Annual Report because of timing issues. A small amount of revenue was moved to this account after the close of the fiscal year. This correction is reflected in the Annual Report, but is not included here because it is not included in the state accounting system.

(3) The fisheries taxes reported here differ slightly from the amounts recorded in the Tax Division's FY 2006 Annual Report because of timing issues. Some tax returns are not received and processed until after the state accounting system has closed, resulting in their being counted in the following fiscal year.

Crude Oil Price Forecast

Oil revenue will provide at least 85% of forecasted Unrestricted General Purpose Revenue through FY 2010. Two elements are critical to the oil revenue forecast: price and volume.

There is no price for Alaska crude oil on the New York Mercantile Exchange (NYMEX) [1] or other commodity exchanges. The spot price of Alaska North Slope (ANS) is calculated by subtracting a market differential from the price of West Texas Intermediate (WTI) quoted on the NYMEX. Four different assessment services estimate that market differential and report a daily spot price for ANS.

All of Alaska's oil production is delivered to refineries on the U.S. West Coast (including Alaska and Hawaii). Consequently, Alaska's royalty and production tax revenue depends in large part on the average market price of ANS crude oil at U.S. West Coast refining centers.

The table below contains crude oil prices for FY 2006 and the Department of Revenue's forecast of prices for the 11-year period beginning with the current fiscal year FY 2007 and continuing through FY 2017. The oil price forecast is based on a subjective assessment of market dynamics and trend analysis by participants at a Department of Revenue price scenario meeting.

Figure 2-6. WTI, ANS West Coast and ANS Wellhead, FY 2006 and Forecasted FY 2007-2017 (Nominal $ per barrel)

Fiscal Year	WTI	ANS West Coast	ANS Wellhead
2006	63.01	60.80	55.33
2007	61.45	59.15	52.35
2008	53.75	51.25	44.97
2009	52.00	49.50	44.84
2010	51.50	49.00	44.09
2011	52.50	50.00	44.98
2012	50.00	47.50	42.24
2013	47.50	45.00	39.62
2014	44.00	41.50	35.88
2015	45.00	42.50	36.66
2016	46.00	43.50	37.51
2017	47.00	44.50	38.34

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

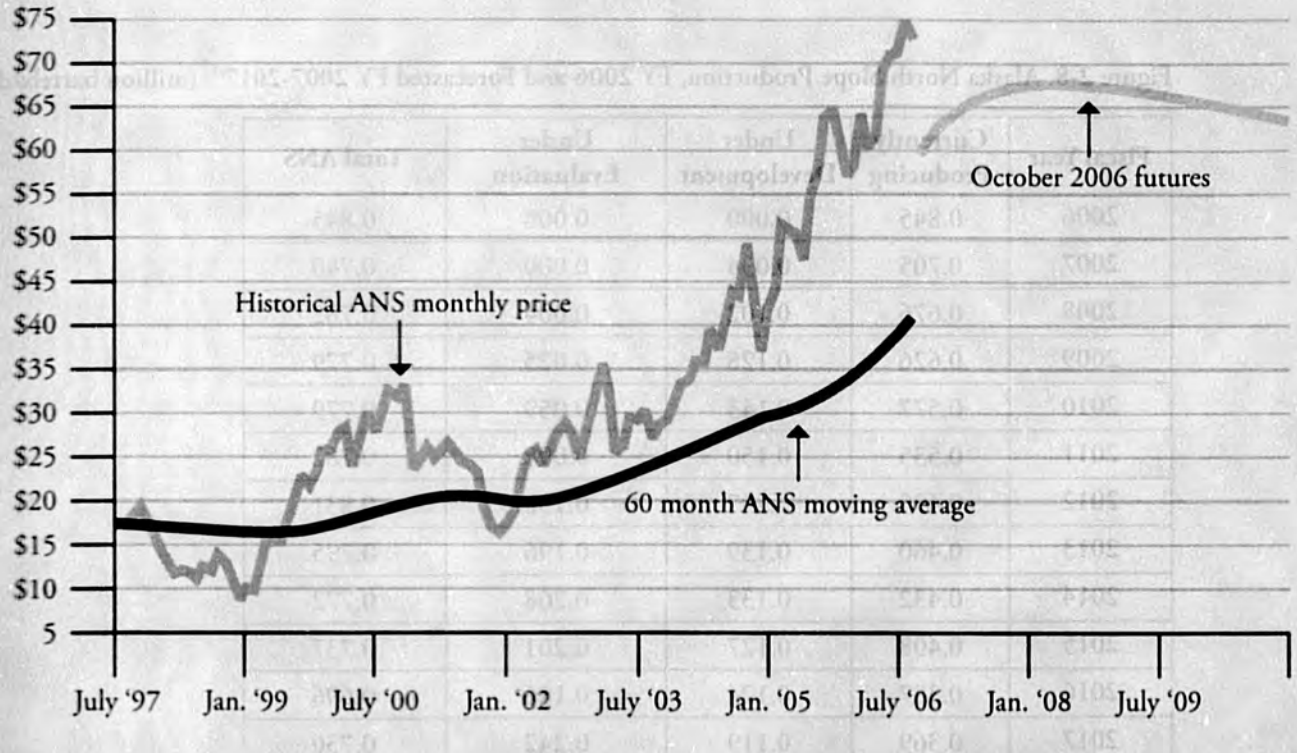
Figure 2-7 shows: (1) the monthly ANS West Coast market price from July 1997 through September 2006, (2) the 60-month moving average West Coast market price for the same period and (3) the derived NYMEX crude oil futures price of ANS from October 2006 to January 2011.

The figure illustrates a number of issues with respect to oil prices including:

- month-to-month crude oil price volatility—monthly ANS West Coast prices during this time period ranged from just under $9.39 per barrel to $73.10 per barrel.
- the 60-month moving average is $39.52 per barrel and has increased dramatically since 1999.
- the derived futures market price of October 2006 shows prices have slipped a bit from July 2006 record highs.

We assume that over the medium-term, ANS oil prices will average $49 per barrel in FY 2010, $50 per barrel in FY 2011, and $47.50 per barrel in FY 2012 (in nominal terms). Over the long run, beginning in FY 2014, prices will increase at 2.75% per year. This long-run price assumption was changed this year for the first time since our fall 2004 forecast based on Tax Division protocol.[2]

Figure 2-7. ANS West Coast and Futures Market Oil Prices ($ per barrel)



(2) According to the department's price forecasting protocol, long-run crude oil price projections can only be changed every two years if price Delphi forecasting participants agree to a change over the prior two consecutive fall forecasting sessions.

Crude Oil Production Forecast

Alaska North Slope crude oil production peaked at 2.006 million barrels per day in FY 1988 and has steadily declined since. In FY 2006, ANS production averaged 0.845 million barrels per day, and we project production to decrease by about 12% to 0.740 million barrels per day in FY 2007. A significant portion of this decrease is attributable to pipeline corrosion issues at Prudhoe Bay, Lisburne and Milne Point. For this forecast, we have decreased our expectation of future production, based on recent historical events. The North Slope is a mature oil province with aging infrastructure. Looking into the future, it is the aging infrastructure—with additional potential down time—that is prompting an additional reduction in crude oil production volumes. We see up to 10% of the production being at risk because of the aging infrastructure problem and project delays in heavy oil and satellite field development.

This production forecast has been revised since last spring. For the first time, we offer a discrete forecast for offshore fields Oooguruk and Nikaitchuq. Oooguruk is expected to come on line in FY 2008 at approximately 3,000 barrels per day peaking at about 17,000 barrels per day; Nikaitchuq in FY 2009 at 4,000 barrels per day peaking at about 14,000 barrels per day. We expect Alpine West to add almost 7,000 barrels per day by FY 2010, peaking at about 12,000 barrels per day in FY 2012. We have not changed our production forecast for the National Petroleum Reserve-Alaska (NPR-A). We still anticipate that the NPR-A will add 10,000 barrels per day by FY 2011 peaking at 65,000 barrels per day by FY 2015. We delayed Point Thomson one year in keeping with our ten-year development lead-time assumption, which may be conservative. For this forecast, we have not linked the development of Point Thomson to any gas pipeline project or contract.

More discussion of this fall 2006 oil production forecast can be found in Section 4. Oil Revenue. Also, a detailed field-by-field production forecast is included in the appendices of this forecast.

We continue to present the ANS production forecast in three parts: (1) currently producing, (2) currently under development and (3) currently being evaluated for development. We do this so that the reader will have an understanding about the uncertainty

Figure 2-8. Alaska North Slope Production, FY 2006 and Forecasted FY 2007-2017[1] (million barrels/day)

Fiscal Year	Currently Producing	Under Development	Under Evaluation	Total ANS
2006	0.845	0.000	0.000	0.845
2007	0.705	0.034	0.000	0.740
2008	0.676	0.102	0.004	0.782
2009	0.626	0.128	0.025	0.779
2010	0.577	0.143	0.059	0.779
2011	0.535	0.150	0.098	0.782
2012	0.495	0.147	0.190	0.831
2013	0.460	0.139	0.196	0.795
2014	0.432	0.133	0.208	0.772
2015	0.408	0.127	0.201	0.737
2016	0.387	0.124	0.186	0.696
2017	0.369	0.119	0.242	0.730

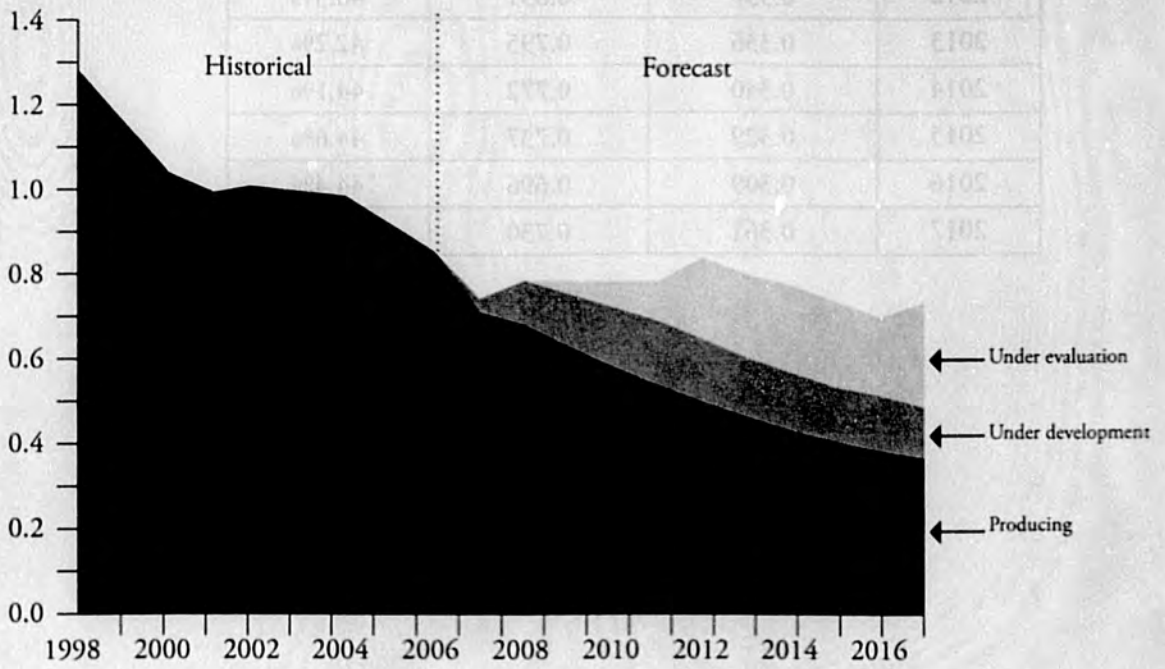
(1) Some of the oil forecasted in the Under Development and Under Evaluation categories are from new projects in fields currently producing.

associated with the production forecast. We continue to forecast production of those reserves that have already been discovered and at minimum are being evaluated for development.

Just as important as what we do forecast for production is what we don't forecast. This production projection does not include any viscous oil from the 20 billion barrel Ugnu field, which is in the evaluation mode, and less than 5% of the viscous oil known to exist in the 10 billion barrel West Sak field. Also absent is any production from known federal offshore oil fields Hammerhead, Kuvlum and Sandpiper, all of which could provide revenue-sharing to the state and help sustain the Trans-Alaska Pipeline System (TAPS) throughput. Lastly, we withhold any estimate of future production from unannounced discoveries or undiscovered fields, including ANWR and NPR-A.

We believe our forecast of 6.5-7.5 billion barrels of recoverable oil by FY 2040-2050, respectively, represents a conservative estimate of the remaining potential in Alaska.

Figure 2-9. ANS Production Forecast by Category, FY 1998-2006, Forecasted FY 2007-2017[1] (million barrels/day)



(1) Some of the oil forecasted in the Under Development and Under Evaluation categories are from new projects in fields currently producing.

New Oil Development

As production from the Prudhoe Bay and Kuparuk fields continue to decline, some of the decline will be offset by new oil development. In our reference-case forecast, new oil is defined as crude already discovered and under evaluation or under development. By FY 2010, as Figure 2-10 shows, one-quarter of our projected oil production will come from projects requiring significant new investment.

Figure 2-10. New Oil as a Percentage of Total Oil (million barrels/day)

Fiscal Year	Total New Oil	ANS Total	Percentage New Oil
2007	0.034	0.740	4.6%
2008	0.106	0.782	13.6%
2009	0.153	0.779	19.7%
2010	0.201	0.779	25.9%
2011	0.248	0.782	31.7%
2012	0.337	0.831	40.5%
2013	0.336	0.795	42.2%
2014	0.340	0.772	44.1%
2015	0.329	0.737	44.6%
2016	0.309	0.696	44.4%
2017	0.361	0.730	49.5%

Petroleum Profits Tax (PPT) Replaces ELF-Based Severance Tax

The Petroleum Profits Tax (PPT), a major rewrite of the State's oil and gas production tax system (also known as the "severance tax"), was signed into law by Governor Murkowski on August 19, 2006. The PPT system replaces the prior production tax system based on the Economic Limit Factor (ELF), portions of which had been in place since the 1970s. The tax change was the end result of intense analysis and debate during the 24th Legislative Session that encompassed the regular legislative session and two 30-day special sessions. To view the PPT legislation in its entirety, see http://www.legis.state.ak.us/PDF/24/Bills/HB3001Z.PDF.

How the PPT Works

The PPT is a significant departure from the prior production tax system, based on the Economic Limit Factor (ELF). The ELF-based system taxed oil and gas on its value at the point of production (also called the "wellhead value"), after being adjusted by the property's ELF, making it a tax that was specific to a property. The ELF for a particular property was calculated using a complex formula that compared production levels with the number of wells for that property. The resulting ELF value was always between 0 and 1, meaning that properties could have been assessed for as little as zero production tax or they have been taxed at the highest nominal tax rate of 15% of the property's wellhead value.

Rather than being a tax from a specific property, the PPT is a tax on the "profits" of oil and gas produced by a company. Like the ELF-based tax, the PPT starts with the value at the point of production, but it then departs from the ELF tax by recognizing the costs a company incurs to produce that oil or gas. By subtracting costs from the value of production, a company arrives at its "production tax value," a term very similar in concept to a company's net income. The production tax value is multiplied by the PPT tax rate—22.5%—to arrive at the base tax. Should the production tax value exceed $40 per barrel of oil produced (or the equivalent in gas), the tax rate increases 0.25% for every dollar the per-barrel production tax value is over $40.

A company's PPT tax liability is reduced to the extent that the company invests in equipment, projects, or other items that are deemed "capital expenditures." Capital expenditures generally include costs related to the purchase of drill rigs or other equipment, infrastructure, exploration, and facility expansion. These costs, which are capitalized on company financial statements, are immediately expensed under the PPT to arrive at the production tax value. Capital costs are also eligible for a 20% credit against the company's PPT liability. In order to protect the state from crediting companies for unmet maintenance obligations, the Legislature specifically disallowed capital expenditures up to $0.30 per barrel under the PPT.

The 20% capital investment credit is intended to encourage re-investment in Alaska. It has been the administration's view, as well as the Legislature's, that capital investments, whether directly or indirectly related to exploration, may ultimately lead to increased future oil or gas production.

Two other significant credits round out the PPT system: the transition credit, and the base allowance. Both credits are temporary, lasting 10 years or less, and each has specific limitations on its availability. The transition credit allows companies credits for capital expenditures made within 5 years prior to the enactment of the PPT, but requires current capital investment. The base allowance is a credit of $12 million per year or less, granted to small producers that have a tax liability under the PPT. Neither of these credits can be used to reduce a taxpayer's liability to less than zero.

Companies with operations in Cook Inlet, or in areas of the state other than the North Slope and Cook Inlet, have special tax provisions that apply under the PPT. For example, Cook Inlet operators pay the lower of the ELF-based tax or the PPT. Such special exceptions are not discussed in detail here.

The PPT tax liability formula can be illustrated as a relatively simple equation as follows:

PPT Tax Liability = [(Value – Costs) x Tax Rate] – Credits

The terms used in the equation are defined as follows:

Value = Volume of Oil and Gas Produced x Wellhead Value

Costs = Operating Expenditures + Capital Expenditures

Tax Rate = 22.5% + 0.25% for every $1 per barrel that this "net income" exceeds $40

Credits = (20% x Capital Expenditures) + (20% x Eligible Transition Expenditures) + **Base Allowance** (as described above)

Estimated Revenue Under the PPT

Tax revenues generated under the PPT will vary by price and by production levels, just like the ELF-based tax did. Because the PPT includes costs in the tax calculation as well, there is a third variable upon which tax revenues will depend. The revenues the State receives from the PPT will be contingent on oil prices, on North Slope production, and on how much it costs to produce the oil.

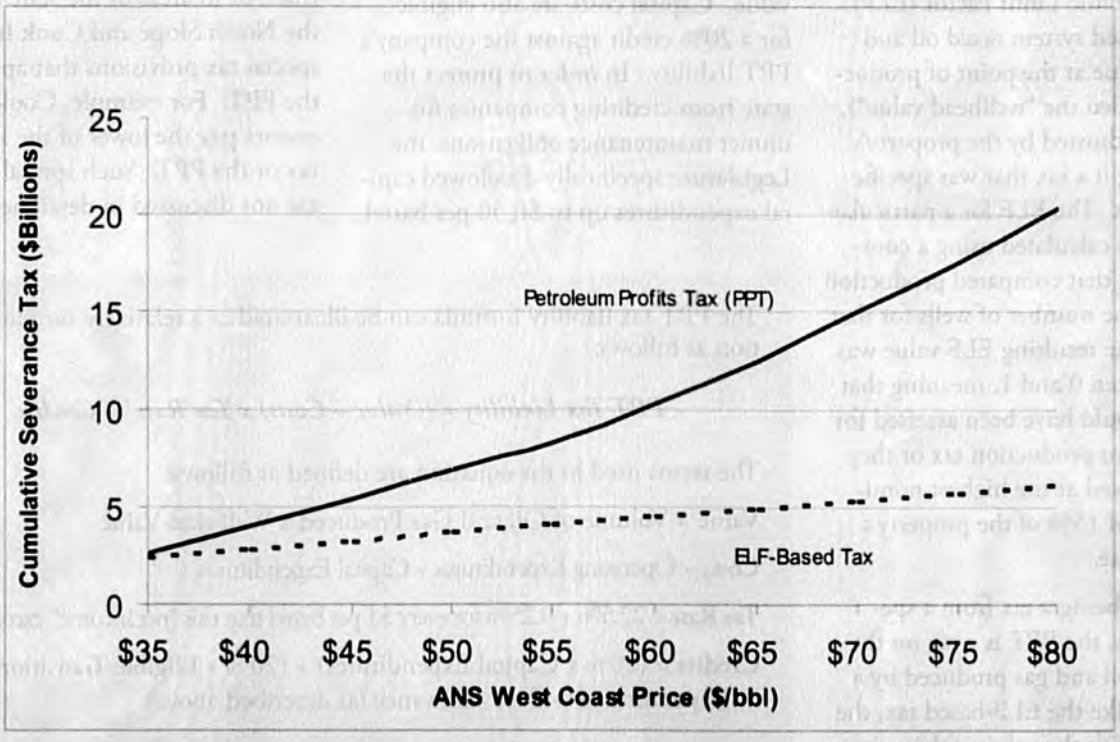
Preliminary estimates by the Department of Revenue indicate that the PPT will generate more production tax revenue than the ELF-based tax at ANS prices above (about) $25 per barrel. When prices are below $25 per barrel, or when costs are high relative to the price of oil, a tax floor is triggered, which protects some level of tax revenue for the State. If prices average around $60 per barrel for FY07, and with currently projected production and cost estimates, the PPT could generate over $2 billion in production tax revenue this year—over $1 billion dollars more than the ELF-based tax would generate at that price.

The chart below shows cumulative forecasted production tax revenues under the ELF-based tax and under the PPT for the period of FY 2008 through FY 2012. PPT revenues are lower than previously anticipated because of the additional near-term costs related to pipeline repairs and lower than expected production volumes in FY07 and 08. Over the long-term, we believe that the PPT will generate higher tax revenues than the ELF-based system at prices in the $25-$30 per barrel range.

Although the PPT tax changes were made retroactive to April 1, 2006, taxpayers will make monthly payments based on the ELF tax for the remainder of calendar year 2006. The first tax payment under the PPT will be made at the end of February 2007, for production occurring in January 2007. At the end of March 2007, taxpayers will be expected to make a "true-up" payment for any additional PPT tax liability for the period of April 1 through December 31, 2006.

Administratively, the monthly and annual reporting and payment structure will differ under the PPT from that used under the ELF-based system. Under the PPT, companies will make estimated payments every month and compute their annual tax liability once in a calendar year (in March for the previous calendar year). Under the ELF system, companies made monthly

Figure 2-11. Estimated Cumulative Production Tax, 2008-2012 Under ELF-based Production Tax and PPT Production Tax



payments and filed their returns every month.

Putting the PPT in Place

As with any new legislation, there is still plenty of work to do after the bill is signed into law. Putting a huge tax reform such as the PPT into place requires the coordination of several processes in order to achieve a smooth transition. These processes include writing regulations, designing computer systems and taxpayer forms, providing training to taxpayers and agency staff, and hiring supplemental personnel as needed.

Forecasting revenues under the PPT will pose additional challenges for the Department of Revenue. Under the new system, the department will have to consider cost levels in addition to volumes and prices. Although much about cost levels is known, extraordinary events such as pipeline leaks or other mechanical failures can cause costs to escalate beyond forecasted levels. Similarly, efficiency gains in daily operations will translate to increased revenues for the State.

The change from the ELF tax to the PPT is arguably the biggest change in the history of petroleum production taxation in the state. It is the department's hope that with this change will come increased exploration and production of Alaska's plentiful resources.

Longer-Term Unrestricted Revenue Outlook

Using the price and volume components developed for this fall 2006 forecast, the table below summarizes the department's forecast of total Unrestricted General Purpose Revenue through FY 2017.

Figure 2-12. Total Unrestricted General Purpose Revenue, FY 2006 and Forecasted FY 2007-2017 ($ million)

Fiscal Year	Unrestricted Oil Revenue	Unrestricted Other Revenue (except federal & investment)	Unrestricted Investment Revenue	Total Unrestricted Revenue	Percent From Oil
2006	3,698.9	450.5	53.3	4,202.7	88%
2007	4,331.5	456.8	124.0	4,912.3	88%
2008	3,357.2	453.2	100.7	3,911.1	86%
2009	3,224.3	451.6	100.7	3,776.6	85%
2010	3,105.7	462.6	100.7	3,669.0	85%
2011	3,137.4	480.7	100.7	3,718.8	84%
2012	3,002.5	489.0	100.7	3,592.2	84%
2013	2,710.0	496.5	100.7	3,307.2	82%
2014	2,363.4	504.0	100.7	2,968.1	80%
2015	2,223.9	515.0	100.7	2,839.6	78%
2016	2,149.9	524.1	100.7	2,774.7	77%
2017	2,337.9	526.4	100.7	2,965.0	79%

Spending, Forecasted Revenue and the Constitutional Budget Reserve Fund

As approved by voters in 1990, all receipts from oil and gas tax and royalty settlements are deposited into the Constitutional Budget Reserve Fund (CBRF). The state has deposited about $5.6 billion into the reserve fund, generating about $1.8 billion in investment earnings. Since the increase in oil prices beginning in about 2003, no CBRF withdrawals have been necessary to balance the state's budget. However, given price volatility and the decline expected in volumes from the North Slope, the state may have to depend on the CBRF in the future. Through September 30, 2006, approximately $5.1 billion had been borrowed from the CBRF to balance the budget, leaving a balance of $2.4 billion. According to the State Constitution, the $5.1 billion must be repaid to the CBRF.

Two tables are presented below to help the reader understand the time period in which the CBRF would be depleted. Figure 2-13(A) presents the case where all surpluses are deposited in the CBRF. Figure 2-13(B) presents the case where no surpluses are deposited in the CBRF. For example, using the DOR price and revenue forecast and assuming a General Fund appropriations budget of $4.6 billion in FY 2007 and a flat appropriations budget of $3.7 billion thereafter, the CBRF would not be depleted before 2020 if all budget surpluses were deposited into the CBRF (see Figure 2-13(A)). By contrast, if none of the budget surpluses were deposited into the CBRF, the CBRF would be depleted in February 2018 (see Figure 2-13(B)).

Figure 2-13 (A). CBRF Run-Out Date With Excess Revenue Deposited into CBRF[1]

Annual State Budget After FY 07 ($ billion)	Fall 2006 Oil Price Forecast[2]	Fiscal Model of Oil Revenue & CBRF Performance at Selected Prices ($/barrel) [3]				
		$25	$35	$45	$55	$65
2.3	Dec 2020	Aug 2015	Dec 2020	Dec 2020	Dec 2020	Dec 2020
2.7	Dec 2020	Mar 2012	Dec 2020	Dec 2020	Dec 2020	Dec 2020
3.0	Dec 2020	Jan 2011	May 2017	Dec 2020	Dec 2020	Dec 2020
3.3	Dec 2020	May 2010	Nov 2013	Dec 2020	Dec 2020	Dec 2020
3.7	Dec 2020	Oct 2009	Jul 2011	Apr 2019	Dec 2020	Dec 2020
4.0	Feb 2017	Jun 2009	Aug 2010	Mar 2015	Dec 2020	Dec 2020
4.3	Sep 2014	Mar 2009	Feb 2010	Sep 2012	Dec 2020	Dec 2020
4.6	Jan 2013	Dec 2008	Sep 2009	Apr 2011	Dec 2017	Dec 2020

(1), (2), (3) see footnotes on next page

Figure 2-13 (B). CBRF Run-Out Date Without Excess Revenue Deposited into CBRF[1]

Annual State Budget After FY 07 ($ billion)	Fall 2006 Oil Price Forecast[2]	Fiscal Model of Oil Revenue & CBRF Performance at Selected Prices ($/barrel) [3]				
		$25	$35	$45	$55	$65
2.3	Dec 2020	Dec 2013	Dec 2020	Dec 2020	Dec 2020	Dec 2020
2.7	Dec 2020	Mar 2011	Jun 2020	Dec 2020	Dec 2020	Dec 2020
3.0	Dec 2020	Apr 2010	Sep 2015	Dec 2020	Dec 2020	Dec 2020
3.3	Dec 2020	Oct 2009	Aug 2012	Dec 2020	Eec 2020	Dec 2020
3.7	Feb 2018	Mar 2009	Oct 2010	Jan 2017	Dec 2020	Dec 2020
4.0	May 2015	Dec 2008	Jan 2010	Oct 2013	Dec 2020	Dec 2020
4.3	Sep 2013	Oct 2008	Aug 2009	Jul 2011	Mar 2020	Dec 2020
4.6	Feb 2012	Aug 2008	Mar 2009	Aug 2010	Mar 2016	Dec 2020

(1) Matrix starts in FY 2008. Fall 2006 forecasted production volumes are used. The date Dec 2020 indicates that the CBRF does not run out during matrix timeframe.

(2) Fall 2006 forecasted ANS price projections are $51.25 per barrel in FY 2008, $49.50 per barrel in FY 2009, $49 per barrel in FY 2010, $50 per barrel in FY 2011, $47.50 per barrel in FY 2012 and $45 per barrel in FY 2013. For FY 2014-beyond ANS prices are estimated to grow at 2.75%

(3) Matrix allows reader to select specific fiscal year price (from FY 2008-beyond) to determine CBRF exhaustion data.

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3. Will Heavy Oil Do The Heavy Lifting for Alaska?

What is heavy oil? Where is it located and how much of the stuff is there? Why aren't the oil companies producing it now? These are some of the questions this section will attempt to answer. Like other crude oils, heavy oil can be refined and used to produce refined petroleum products such as gasoline and jet fuel. Physical problems make its production more challenging than other crude oils. The potential to produce and develop heavy oil has great promise for Alaska.

What is Heavy Oil?

Heavy oil is a type of crude oil which is very viscous and does not flow easily. The common characteristic properties are the following:

- High specific gravity[1] (very dense)
- Low hydrogen to carbon ratios (chemical characteristic)
- High carbon residues (much left after conversion to refined product)
- High contents of heavy metals, sulphur and nitrogen.

There is no one definition of heavy oil. The term heavy oil refers to oil with a high density and low American Petroleum Institute (API) gravity[2] due to the presence of a high proportion of heavy hydrocarbon fractions. This is technical jargon for saying the material is thicker than maple syrup and does not flow easily. The API gravity system implies that the higher the API gravity, the lighter the liquid, the easier it flows. Using numbers, some definitions classify crude oil as heavy if it has an API gravity of less than 25°, other definitions say it is less than 20°API. All these definitions refer to the crude oil at the surface. In terms of the ability of the oil to flow underground within the formation, heavy oils are generally those with a viscosity greater than 100 centipoise – a measure used to evaluate the ability of a liquid to flow at reservoir conditions. The higher the viscosity number, the slower the flow. Bitumen (very heavy liquid similar to chocolate syrup) has a rating greater than 10,000.

In Alaska, the real issue is not the API gravity, but the ability of the crude oil to flow, or its viscosity. While API

(1) The Specific Gravity of a substance is a comparison of its density to that of water. Imagine a gallon bottle filled with water, a second filled with feathers, a third filled with lead weights. There are equal volumes of material present, but the bottle with the feathers will weigh less than that containing water; the bottle with lead weights will weigh the most. In order of increasing specific gravity, these materials would be: feathers, water, and lead. Specific gravity can be measured precisely, or estimated by a comparison, as above.

(2) API gravity = [141.5 / Specific Gravity at 60° F – 131.5] This parameter has economic significance since it is the main quality criterion for crude oil pricing; the higher the gravity the higher the price of the crude oil.

Figure 3-1. Potential Heavy Oil Resources *Source: International Energy Agency, Resources to Reserves, November 2005, page 76.*



gravity provides a measure of its density (and economic value), it fails to incorporate the more difficult issues surrounding flow. From this perspective, a better descriptor of Alaskan heavy oil would be to call it viscous oil, as it relates to its ability to flow.

One of the major reasons Alaska's oil is viscous is because it is relatively close to the surface of the earth – where there is very thick permafrost. The oil is not located deep in the earth, where the temperatures are warmer, but within six thousand feet of the surface where temperatures are cooler, thereby reducing the oil's viscosity or ability to flow. For oil production in Alaska, API gravity isn't as important as is reservoir temperature. Hence, these deposits are sometimes referred to as viscous oil deposits, rather than heavy oil. Permafrost affects production, as it will cool oil traveling through the permafrost zone.

Worldwide Resources of Heavy Oil

Heavy oil is located throughout the world and the International Energy Agency estimates world heavy oil, or viscous oil resources at more than 6 trillion barrels with about 2 trillion barrels deemed recoverable (see Figure 3-1).

The three largest deposits are in Canada (about 1.86 trillion barrels), Russia, and Venezuela (each with about 1.2 trillion barrels). Alaska is in the next level with the potential for about 100 billion barrels of heavy oil resources. At this time, there are known Alaskan reserves of over 20 billion barrels of viscous oil with the possibility of billions more yet to be identified. The viscous oil in Canada is very similar to that of the viscous oil in Alaska – both are located in cooler climates and both do not flow well in their natural reservoirs.

There are currently five fields producing viscous oil in Alaska: Orion, Polaris, Schrader Bluff, Tabasco and West Sak. Four of these fields are shown in Figure 3-2 on the next page. Not shown is Tabasco, which is a Kuparuk River Unit satellite. Figure 3-3 on the next page reveals the subsurface formation in which the viscous oil lies. At this time, viscous oil is being developed from the oil formation titled "West Sak Schrader Bluff". No oil is being produced from the Ugnu formation.

The North Slope is underlain by permafrost which extends to about 1,800 feet in depth. The shallowest oil bearing formation, named Ugnu, is closest to the permafrost. The temperature in this formation is below freezing, its API gravity is 8° and it has a very high oil viscosity. The billions of barrels of reserves in this formation are not economical to produce now, but someday may be.

Figure 3-2. Alaska's Viscous Oil Reserves *Source: BP Exploration Alaska (Inc.) presentation to Alaska Department of Revenue, February 18, 2005.*

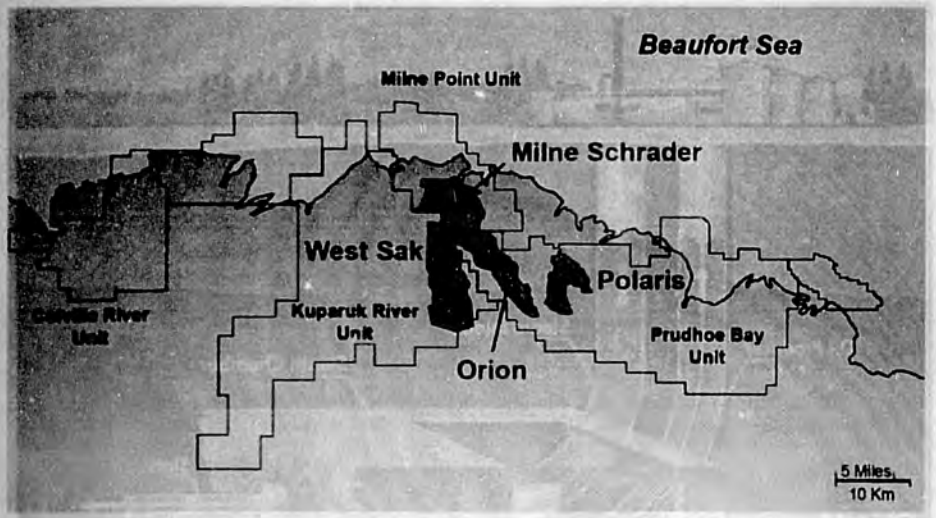
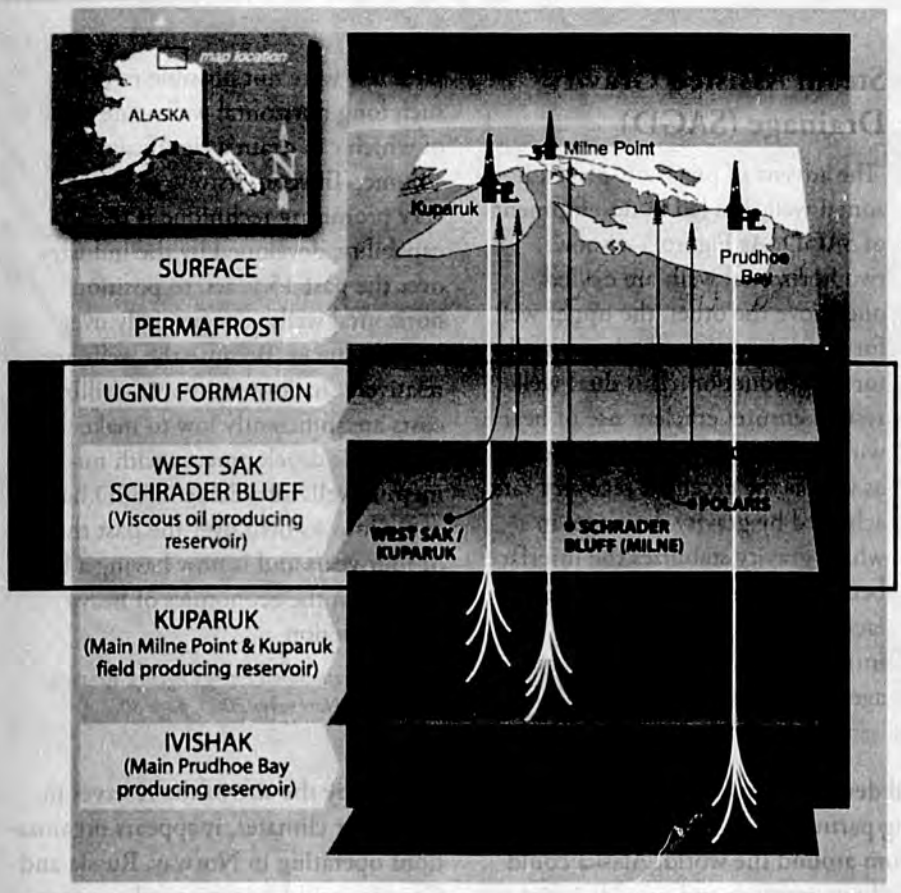


Figure 3-3. Alaska's Viscous Oil Deposits *Source: International Energy Agency, Resources to Reserves, November 2005, page 76.*



Developing Viscous Oil Resources

Developing viscous oil is difficult and expensive. Some heavy oils and bitumen are too viscous to flow at reservoir conditions. They are usually found at relatively shallow depths that are too deep to be mined. At such depths, temperatures are low, so that viscosity is high. They need special production technologies to facilitate their flow from reservoir to well head. Traditionally, these have been "steam flooding" techniques, which involve injecting hot steam to heat the oil in-situ, thereby reducing its viscosity and allowing it to flow. But the last ten years have seen the advent of many new approaches such as steam-assisted gravity drainage – see Figure 3-4 on page 24.

Also being used are techniques involving CO2 or natural gas injection. All of these techniques require facility and energy expenses that are well beyond the requirements for producing traditional oil reserves.

Another problem faced by Alaska's viscous oil producers is solid waste – significant solids (sand) are produced in conjunction with the oil and must be disposed. Some of the facilities on the North Slope were not developed with sand disposal in mind and must be periodically closed to remove the sand. As newer facilities are developed, they will likely integrate solid waste disposal.

While large-scale implementation of Steam Assisted Gravity Drainage (SAGD) and other techniques is just beginning, it is expected to significantly boost production over the next few years. Indeed, recent technology has improved the economics to the point where Canadian heavy oil and bitumen deposits can be produced through in-situ techniques at oil prices below

$20 per barrel (see Figure 3-5 on page 25). Current production of heavy oil and bitumen in Canada, for example, is close to 1 million barrels per day and could double by 2012.

The Outlook

At the time of this writing, about 5% of the oil produced in Alaska is considered viscous. Will this resource be developed to a larger extent in the future?

While this question cannot be answered unequivocally, there are several indicators that greater development of viscous oil on Alaska's North Slope is likely to occur. These facts are divided into two broad categories – the fiscal regime and technology.

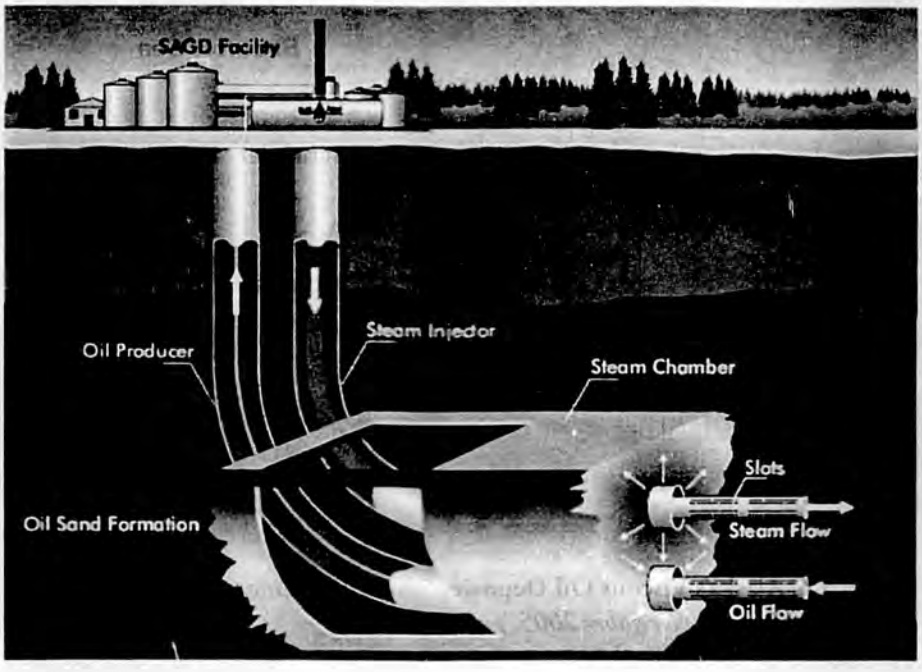
• Fiscal Regime – Canada's recent experience with oil sands and heavy oil bears witness to the powerful force of a stable and attractive tax and royalty regime, combined with higher oil prices, to catalyze fresh investment. With the passage of the new Petroleum Profits Tax (PPT) in Alaska, similar incentives are in place and are expected to stimulate investment. Companies will be able to claim deductions and earn credits for their higher costs of producing heavy and viscous oil that will lower their tax burden.

• Technology – the oil industry is continually developing new techniques and technologies to enhance oil production. Such technological advances are pushing back the frontiers of operating capability in difficult temperature and geographical situations.

Taken together, these two aspects paint a picture of future development of Alaska's viscous oil.

Finally, Alaska has the opportunity to take the lead in viscous oil research and create an Arctic Resources Research Center that could serve as a central research facility for heavy and viscous oil development worldwide. By engaging partners with heavy oil resources from around the world, Alaska could facilitate research and provide insights into viscous oil development and environmental issues to all involved. Judging by the size of the reserves in the colder climates, it appears organizations operating in Norway, Russia and Canada would be interested as potential partners.

Figure 3-4. Schematic of SAGD. *Source: International Energy Agency, Resources to Reserves, November 2005, page 76.*

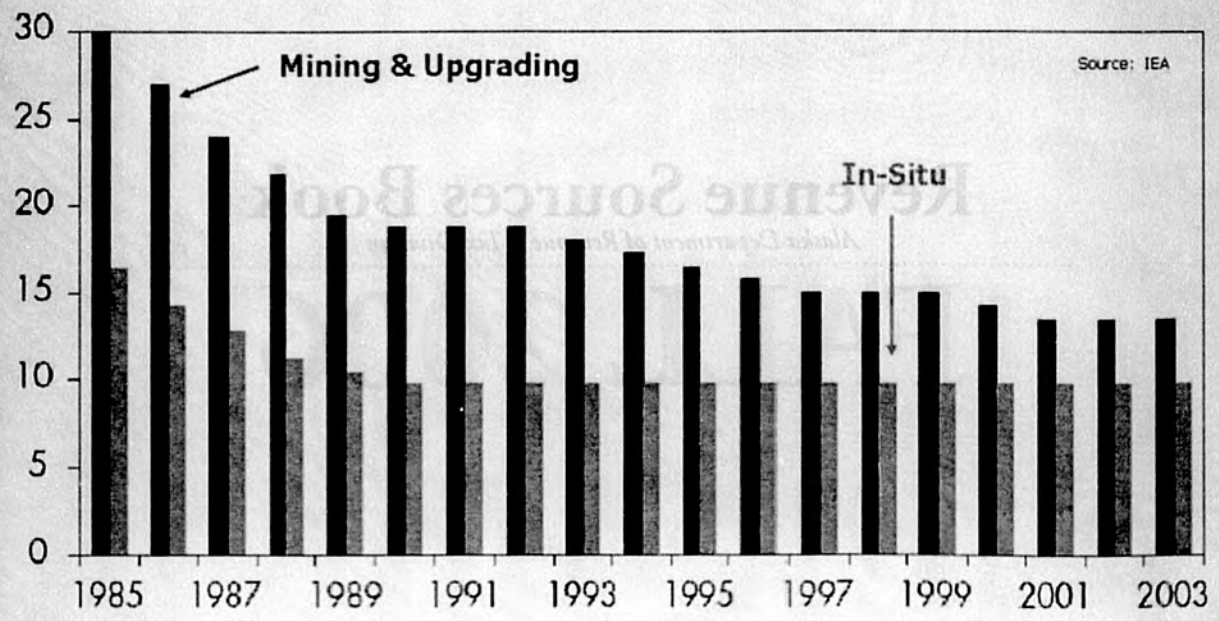


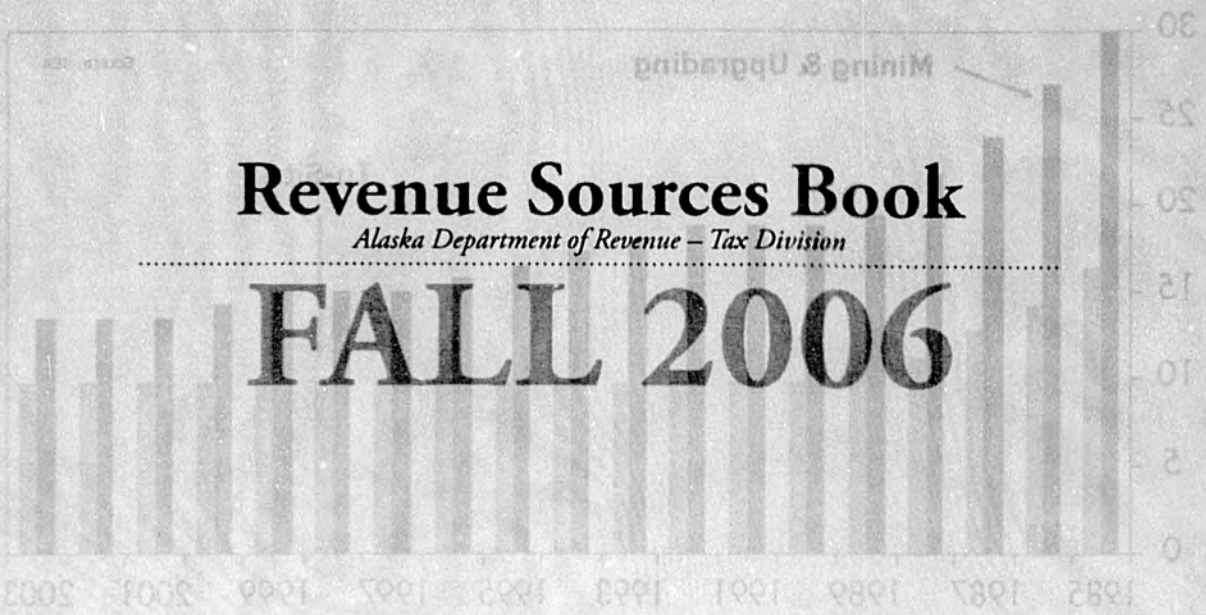
Steam Assisted Gravity Drainage (SAGD)

The advent of precision-placed horizontal wells has led to development of SAGD. As Figure 3-4 shows, two horizontal wells are drilled, one above the other, the upper well for steam injection, the lower well for oil production. This dual-well system ensures efficient use of heat within a virtual "steam chamber", as well as the excellent recovery rate achieved by gravity drainage, in which gravity stabilizes the interface between oil and steam. Recovery factors can be as high as 60%. The intrinsic slowness of gravity drainage would mean low production rates if it were not possible to drill such long horizontal wells, one pair of which can drain a significant volume. The cornerstone in this very promising technique is the capability, developed by the industry over the past 15 years, to position horizontal wells very precisely over long distances. Because the wells are relatively shallow, moreover, drilling costs are sufficiently low to make large-scale developments with numerous wells affordable. SAGD has come into its own over the past three or four years and is now having a big impact on the economics of heavy oil production.

Source: International Energy Agency, Resources to Reserves, November 2005, page 80.

3-5. Oil Production Costs for Canadian Tar Sand (2004 dollars/ barrel) *Source: International Energy Agency, Resources to Reserves, November 2005, page 77.*





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4. Oil Revenue

Figure 4-1. FY 2006 Oil Revenue $4.4 billion

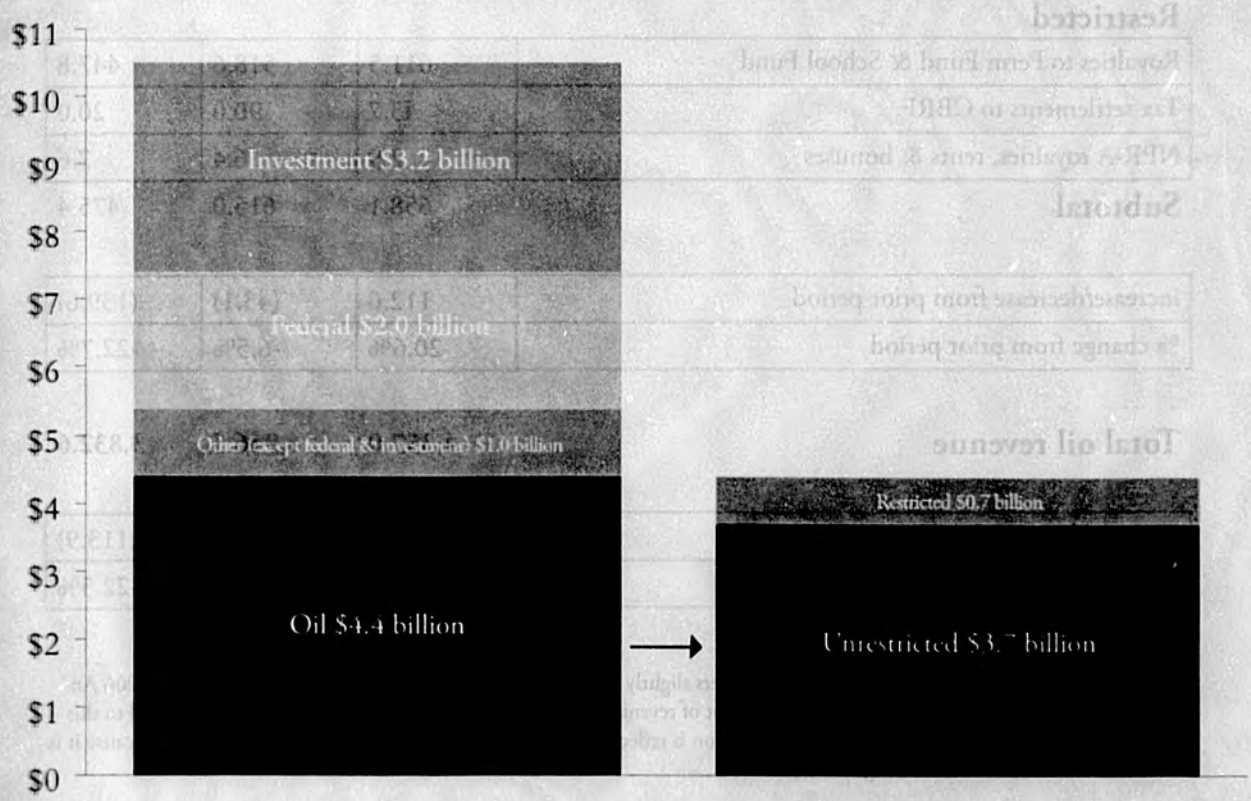
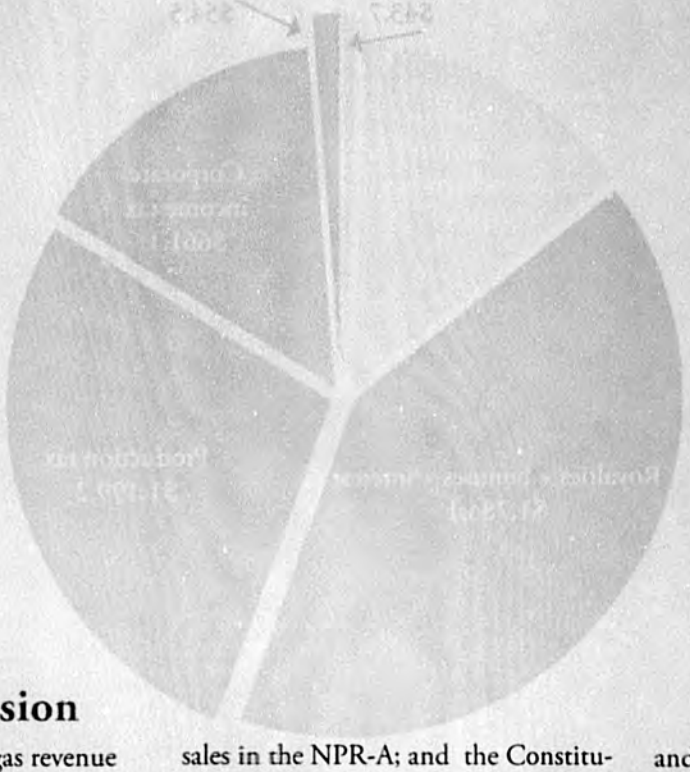


Figure 4-2. Total Oil Revenue, FY 2006 and Forecasted FY 2007-2008 ($ million)

Oil Revenue	History	Forecast	
	FY 2006	FY 2007	FY 2008
Unrestricted			
Property tax	54.5	51.7	51.4
Corporate income tax	661.1	657.2	493.7
Production tax[1]	1,199.2	2,067.2	1,476.1
Royalties (including bonuses, rents & interest)	1,784.1	1,555.4	1,336.0
Subtotal	3,698.9	4,331.5	3,357.2
increase/decrease from prior period	849.3	632.6	(974.3)
% change from prior period	29.8%	17.1%	-22.5%
Restricted			
Royalties to Perm Fund & School Fund	611.5	518.6	447.8
Tax settlements to CBRF	43.7	90.0	20.0
NPR-A royalties, rents & bonuses	2.9	6.4	7.6
Subtotal	658.1	615.0	475.4
increase/decrease from prior period	112.6	(43.1)	(139.6)
% change from prior period	20.6%	-6.5%	-22.7%
Total oil revenue	**4,357.0**	**4,946.5**	**3,832.6**
increase/decrease from prior period	961.9	589.5	(1,113.9)
% change from prior period	28.3%	13.5%	-22.5%

(1) The amount of production tax reported here differs slightly from the amount recorded in the Tax Division's FY 2006 Annual Report because of timing issues. A small amount of revenue recorded in another account in FY 2006 was moved to this account after the close of the fiscal year. This correction is reflected in the Annual Report, but is not included here because it is not included in the state accounting system.



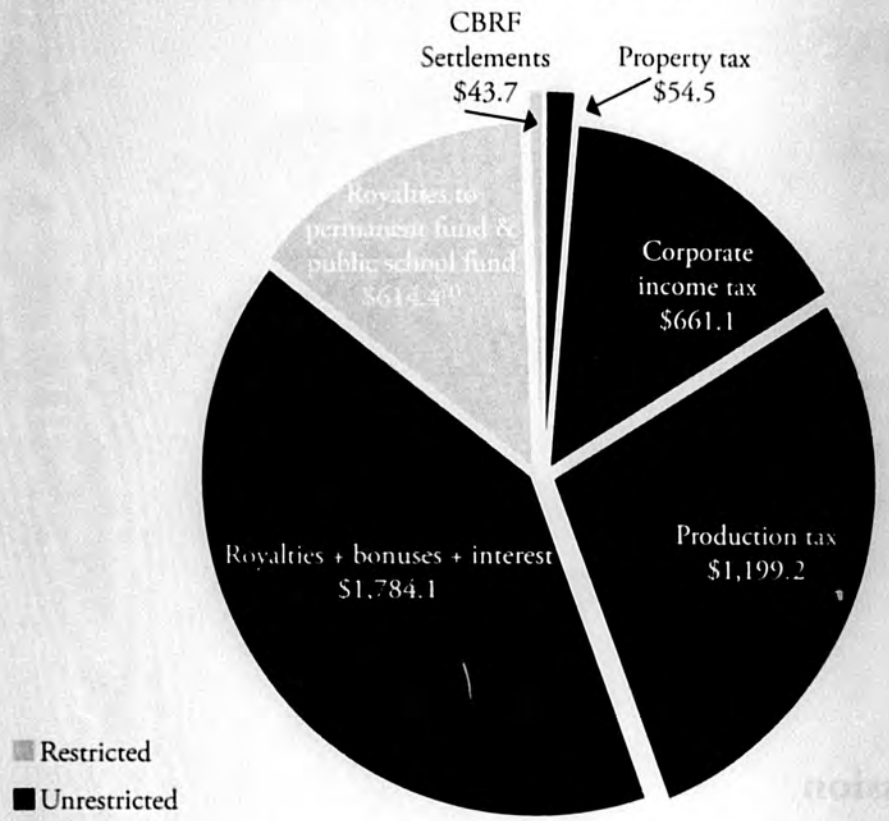
General Discussion

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

The pie chart in Figure 4-3 (next page) shows the actual amount of each tax and royalty source in FY 2006. As can be seen from the figure, royalties and the production tax constitute the largest part–83%–of restricted and unrestricted oil revenue combined. This section begins with a discussion of these two revenue sources, both of which are driven by price and volume. We then review the price forecasting methodology that underlies this biannual report, and discuss the linkage between market prices and wellhead values. We also review our production forecast, and close this section with a discussion of oil and gas property taxes, oil and gas corporate income taxes and the restricted portions of oil revenue.

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

Figure 4-3. FY 2006 oil revenue by category, $4,357 million



(1) Includes NPRA rents & bonuses of $2.9 million

Unrestricted Oil Revenue

Figure 4.4. Unrestricted Oil Revenue Forecast, FY 2007-2017

Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property Tax	51.7	51.4	51.0	50.6	50.4	50.1	49.2	47.9	46.5	46.0	45.3
Corporate Income Tax	657.2	493.7	466.5	455.0	447.1	458.7	430.1	404.0	361.1	367.5	372.7
Production Tax	2,067.2	1,476.1	1,403.1	1,333.5	1,366.8	1,336.2	1,195.5	1,006.2	937.6	875.6	1,000.7
Royalties-Net (1)	1,555.4	1,336.0	1,303.7	1,266.5	1,273.1	1,157.4	1,035.2	905.4	878.7	860.9	919.3
Total oil revenues	4,331.5	3,357.2	3,224.3	3,105.7	3,137.4	3,002.5	2,710.0	2,363.4	2,223.9	2,149.9	2,337.9
Increase/decrease from prior period	632.6	(974.3)	(132.8)	(118.6)	31.7	(135.0)	(292.4)	(346.6)	(139.5)	(74.0)	188.0
% change from prior period	17.1%	-22.5%	-4.0%	-3.7%	1.0%	-4.3%	-9.7%	-12.8%	-5.9%	-3.3%	8.7%

(1) Includes bonuses and interest.

Crude Oil and Natural Gas Production Taxes

All oil and gas production in Alaska except the federal and state royalty share and a small amount used for production is subject to the state's production taxes and hazardous release surcharges that are levied only on crude oil. Taxes and surcharges are collected on a monthly basis.

The New Petroleum Profits Tax (PPT) For Crude Oil and Natural Gas Production

In August 2006, the Alaska Legislature passed the Petroleum Profits Tax (PPT), which made major changes to the state's production tax system. A discussion of the PPT is also found in the Executive Summary of this Revenue Sources Book. FY 2006 was the last year that production tax was levied in accordance with the provisions of the Economic Limit Factor (ELF)-based tax, as discussed later.

The PPT is a significant departure from the prior production tax system, based on the ELF. The PPT is a tax based on the "profits" of an oil company and is retroactive to April 1, 2006. The ELF-based system was based on the gross production value of a specific property.

The PPT starts with the value at the point of production, but then subtracts costs from the value of production. By subtracting costs from the value of production, a company arrives at its "production tax value," a term very similar in concept to a company's net income. The production tax value is multiplied by the PPT tax rate—22.5%—to arrive at the base tax. Should the production tax value exceed $40 per barrel of oil produced (or the equivalent in gas), the tax rate increases 0.25% for every dollar the per-barrel production tax value is over $40.

PPT Tax Liability = [(Value – Costs) x Tax Rate] – Credits

The terms used in the equation are defined as follows:

Value = Volume of Oil and Gas Produced x Wellhead Value

Costs = Operating Expenditures + Capital Expenditures

Tax Rate = 22.5% + 0.25% for every $1 per barrel that this "net income" exceeds $40

Credits = (20% x Capital Expenditures) + (20% x Eligible Transition Expenditures) + Base Allowance

A company's PPT liability is reduced to the extent that it invests in equipment, projects, or other items that are deemed "capital expenditures." Capital expenditures generally include costs related to the purchase of drill rigs or other equipment, infrastructure, exploration, and facility expansion. These costs, which are capitalized on company financial statements, are immediately expensed under the PPT to arrive at the production tax value. Capital costs are eligible for a 20% credit against the company's PPT liability. In order to protect the state from crediting companies for unmet maintenance obligations, the legislature specifically disallowed capital expenses up to $0.30 per barrel under the PPT.

The 20% capital expenditure credit is intended to encourage re-investment in Alaska.

Two other significant credits round out the PPT: The transition credit and the base allowance. Both credits are temporary, lasting 10 years or less, and each has specific limitations on its availability. The transition credit allows credits for capital expenditures made within 5 years prior to the enactment of the PPT, but requires current capital investment. The base allowance is a credit of $12 million per year or less, granted to small producers that have a tax liability under the PPT. Neither of these credits can be used to reduce a taxpayer's liability to less than zero.

Comparing the New PPT System with the Old ELF-Based System

To help the viewer understand the differences between the PPT and the ELF, two sets of comparisons are done: (1) Fundamental Differences and (2) Revenue Estimate differences. The focus is on oil taxes because they represent the vast majority of petroleum tax receipts.

1. Fundamental Differences Between the PPT and the ELF

Starting with the tax base, the PPT is based on net value while the ELF was based on gross value at the point of production. The ELF system applied statewide while the PPT has exceptions for Cook Inlet and new production areas.

The tax rate under the PPT is 22.5% plus a "progressivity tax" that increases the overall tax rate based on the profitability of the oil produced. The tax rate under ELF was either 12.25% or 15% depending on the age of the field.

Under the PPT, there are adjustments to tax liability based on credits for capital expenditures. Under the ELF system, there was an adjustment to tax liability based on the field's ELF.

Taxpayers make monthly payments under both systems. With the PPT, there is an annual filing in which the taxpayer makes any "final" tax payment based on annual tax liability for the previous calendar year. This annual filing due date is March 31. Under the ELF, there were monthly filings and no annual filing requirements.

Figure 4-5. Fundamental Differences Between PPT and ELF

Component	ELF-based system	PPT-based system
Tax base	Gross value of production	Net value of production
Framework of tax	Property-specific	Company-specific
Geographical framework	Tax applies statewide	Exceptions for Cook Inlet & new production areas
Tax rate	12.25% for first 5 years, then 15% (based on gross value of production)	22.5% + progressivity tax (based on net value of production)
Incentives	Economic Limit Factor (ELF), 0-100%	Credit for capital expenditures, 20% Small producer tax credit up to $12 million New Area Development credit up to $6 million
Tax return filing	Monthly	Annual
Tax payments	Monthly	Monthly

2. Revenue Estimate Differences Between the PPT and the ELF for Oil

Following is an example of how the estimated PPT tax would compare to the ELF-based tax in a typical year with about 285 million barrels of oil produced on the North Slope, and an ANS West Coast sales price of $60 per barrel.

As one can see from the hypothetical example, there are more calculations with the PPT, and the tax liability is higher. This example uses a price of $60 per barrel and assumes certain costs and credits. If the price was lower or the costs were higher (or both), results could be very different. In general, the PPT is progressive while ELF system was regressive. This means the following: at higher prices tax liability is higher under the PPT than under the ELF. Under lower prices, tax liability is higher under the ELF than the PPT. This assumes the cost structure is the same for both cases.

Figure 4-6. Estimated Production Tax Revenues Under the ELF-based and PPT Systems at $60 per Barrel, ANS West Coast ($ millions except where noted)

ELF Tax System

Value at point of production	$13,750
Production tax rate	15%
Average economic limit factor	0.529
Effective production tax rate (ELF adjusted)	7.94%
Production tax total	$1,092
Divided by days/year	365
Production tax per day	$2.99

PPT Tax System

Value at point of production	$13,750
Minus upstream costs	$2,460
Production tax value	$11,290
Tax rate	22.5%
Production base tax before credits	$2,540
Progressivity tax	$148
Minus capital & transition credits & allowances	$460
Production tax total for year	$2,228
Divided by days/year	365
Production tax per day	$6.10

The Old ELF-Based Production Tax for Oil

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

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

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

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

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

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

An examination of this formula reveals that the ELF was very sensitive to the total volume. Under the law, if there was economic interdependence between fields, the department had the discretion to aggregate those fields for purposes of the ELF calculation. That is, the volumes from more than one field ended up in a single ELF calculation. That calculation may have produced an ELF (and tax) for all the combined fields that was higher than if the ELF were calculated separately for each field (provided there was no extraordinary discrepancy in the per well productivity rates.)

In January 2005, the department aggregated seven fields in the Prudhoe Bay Unit. The decision to aggregate focused on, among other things, the increasing interdependence found in the engineering and operation of the fields.

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

For Alaska, the problem with the ELF-based system was that the ELF was declining, due to lower production and smaller fields. As Figure 4-7 (next page) reveals, future revenue from oil would decrease–even if prices remained high–for two reasons: (1) declining oil production and (2) a declining ELF, which was based on field and well productivity.

Hazardous Release Surcharge

The Department of Administration, Division of Finance, monitors the balance of the Oil and Hazardous Substance Release Prevention and Response Fund. This fund was created by the legislature in 1986 to provide a "readily available funding source to investigate, contain, and clean up oil and hazardous releases." An amendment in 1994 divided the fund into two separate accounts comprised of: (1) the Response Account which requires a surcharge on all oil production, except federal and state royalty barrels, that may be used to finance the state's response to an oil or hazardous substance release declared a disaster by the governor; (2) the Prevention Account which is an additional surcharge on all oil production, except federal and state royalty barrels, that may be used for the clean up of oil and hazardous substance releases not declared a disaster by the Governor. This account can also be used to fund oil and hazardous substance release prevention programs in Alaska.

With the passage of the PPT, the Response surcharge (AS 43.55.201) was changed from $.02 to $.01 and the Prevention surcharge (AS 43.55.300) was increased from $.03 to $.04. Both of these changes are effective April 1, 2006.

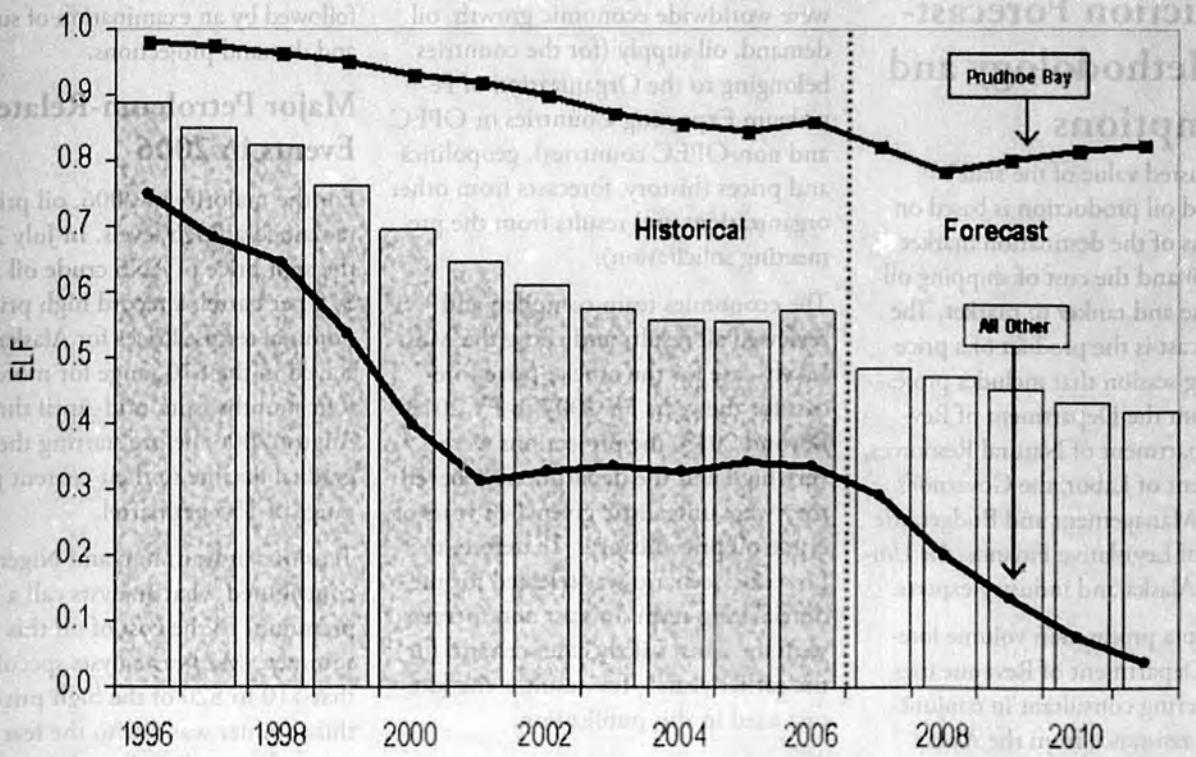
The Response surcharge is suspended when the balance is equal to or exceeds $50 million. As of June 30, 2006, the cumulative balance of the accounts was $51.2 million.

Oil Royalties

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

Generally, the state issues leases based on a competitive bonus bid system. It has always retained a royalty interest of at least 12.5%. The vast majority of

Figure 4-7. Economic Limit Factor, FY 1996-2006 and Forecasted FY 2007-2011



The bars in Figure 4-7 illustrate the actual weighted average ELF for North Slope oil production since FY 1996 and our projections of that weighted average through FY 2011. The slight increase in 2006 reflects the effect of the department's January 12, 2005, decision to aggregate seven fields in the Prudhoe Bay Unit for purposes of calculating the ELF. Prudhoe Bay ELF, during the forecast period, includes the Prudhoe Bay-satellites and Pt. McIntyre; the historical represents only the ELF from Prudhoe Bay.

current production is from leases that carry that rate. Some currently producing leases carry rates as high as 20%, and some leases also have a net profit-share production agreement.

State oil and gas leases provide that the state may take its oil royalty in barrels (in-kind) or as a percentage of the production value (in-value). In FY 2006, the state took approximately 61,000 barrels per day of North Slope production in-kind and sold it to Flint Hills Resources Alaska, LLC for their refinery at North Pole.

The royalty oil taken in-value is valued according to a formula using a market basket of spot crude oil prices closely approximating the ANS West Coast spot price of oil less a transportation allowance back to the lease. Royalties are based on a destination price—the higher of the actual sales price or the prevailing value. [2] The pipeline and marine transportation costs are deducted from the destination value to derive the taxable netback value of the oil or gas.

(2) ANS West Coast prevailing value, per 15AAC 55.171, is the monthly average of daily spot market prices reported by Platt's Oilgram, Reuters and Telerate Price Reporting Services. This price is published monthly on the Tax Division website www.tax.state.ak.us.

Oil Price and Production Forecasting Methodology and Assumptions

The forecasted value of the state's anticipated oil production is based on projections of the destination market price of oil and the cost of shipping oil by pipeline and tanker to market. The price forecast is the product of a price forecasting session that includes professionals from the Department of Revenue, Department of Natural Resources, Department of Labor, the Governor's Office of Management and Budget, the Division of Legislative Finance, the University of Alaska and industry experts.

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

Methodology for Forecasting Prices

The Department uses a modified Delphi technique to create its official price forecast. Participants are asked for their projections for West Texas Intermediate (WTI) crude oil for three cases – a Low case, a High case, and a Most Likely case. The prices that are forecast are in constant 2006 dollars. The Department of Revenue projects the differential between WTI and ANS and uses a projection of inflation to arrive at the nominal dollar forecast used in this publication.

At the forecasting session, key topics are presented to assist the participants in making their forecasts. For the fall 2006 forecast, the topics reviewed were worldwide economic growth, oil demand, oil supply (for the countries belonging to the Organization of Petroleum Exporting Countries or OPEC and non-OPEC countries), geopolitics and prices (history, forecasts from other organizations and results from the pre-meeting solicitation).

The economics team compiled and reviewed all results and chose the Most Likely case for the official price forecast for the years FY 2007 to FY 2013. Beyond 2013, the projections were very high and the department believed they were unrealistic given 146 years of crude oil price history. Therefore, the Low case scenario was selected for the official long-term forecast and merged with the Most Likely case scenario for the earlier years. The result is the forecast used in this publication.

Oil Price Forecast

Oil prices are arguably the most important component in the determination of state revenues. Using the sensitivity matrix we include in the appendices section of this document, a 1% change in oil prices equates to a 0.75% change in General Fund unrestricted revenues. In comparison, a 1% change in crude oil production volume results in a 0.5% change in revenues. Both price and volume of ANS are clearly important to the State of Alaska budget.

Many factors contribute to the pricing of oil on the world market. There are the fundamental economic factors of supply and demand. There are geopolitical events. There are other related issues, such as the impact of the financial sector, and of refinery capacity and configuration, and weather, that help determine how oil is priced. These factors have all been considered in establishing our oil price forecast; the major petroleum-related events of 2006 are described below, followed by an examination of supply and demand projections.

Major Petroleum-Related Events in 2006

For the majority of 2006, oil prices remained at high levels. In July 2006, the spot price of ANS crude oil reached $75 per barrel, a record high price in nominal terms. Prices for Alaska's oil stayed in the $70 range for more than four months from mid-April through August 2006, before starting their gradual decline to their current price range of $55 per barrel.

Tensions in Iran, Iraq and Nigeria contributed what analysts call a "fear premium" to the cost of oil this past summer. Market analysts speculate that $10 to $20 of the high price of oil this summer was due to the fear premium from political tensions around the globe.

Fears that the U.S. could experience a hurricane season like the one in 2005 also contributed to high oil prices. The summer of 2006 had, in fact, only one hurricane that threatened to do any real damage—Ernesto—and it did not even reach the Gulf of Mexico.

In August, British Petroleum announced it would be shutting in some production from Prudhoe Bay due to pipeline corrosion problems. News of this disruption had a minor, but noticeable and immediate impact on the price of oil. North Slope supplies were restored more quickly than originally predicted, and the shutdown in conjunction with other factors ceased to be much of a factor in setting oil prices.

With the easing of political and weather-related tensions, the price of oil has dropped from its summertime

high of $75 and is currently in the mid-$50 range. Analysts suggest that the falling prices have been exacerbated by the number of investors selling off their futures contracts.

Short and Long Term Demand and Supply Projections

The International Energy Agency (IEA) recently released its first medium-term oil demand forecast for calendar years 2006-2011. They state that the past few years of rising prices have resulted in increased upstream spending which is leading to supply increases. The IEA expects non-OPEC supplies, including biofuels, to grow by 2% per year to 56.7 million barrels per day in 2011, while OPEC supplies will rise by a total of 10% over the period to 36.6 million barrels per day. The increased prices are also tempering oil demand growth. They project world demand to grow at 2% per year to 93.7 million barrels per day in 2011. China and the Middle East are expected to contribute 45% of the demand growth during this period.

The U.S. Department of Energy, Energy Information Administration (DOE-EIA) likewise expects an annual 2% growth in worldwide oil demand and expects this until 2030. Nevertheless, due to higher relative oil prices, their 2006 projections reduced oil's share of overall worldwide energy demand. They anticipate worldwide oil consumption to reach 91.6 million barrels a day in 2010 with most of the demand growth originating in developing countries, especially China.

The IEA suggests that most international oil companies seem to be willing to proceed on projects based on prices in the $30 to $35 per barrel range, while national oil companies seem to be using a higher price. The IEA itself is utilizing an average real import price of around $55 per barrel for the period 2006-2011.

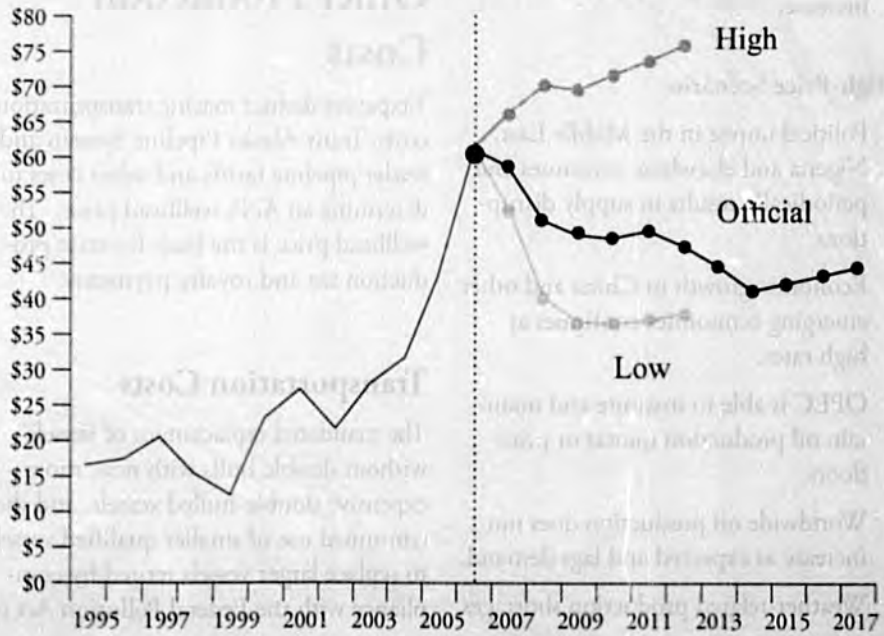
Current ANS Oil Market Situation

Alaska North Slope crude prices topped out at peak levels this past summer with prices averaging $73.10 per barrel in July 2006. For FY 2006, ANS averaged $60.80 per barrel—a whopping $17.40 per barrel over FY 2005. The price of benchmark West Texas Intermediate averaged just over $63 per barrel for June 2005-May 2006, implying a FY 2006 average discount for ANS of just over $2.20 per barrel. More recently, the WTI-ANS differential has widened to $4.75 per barrel. We believe the market is adequately supplied with a relative abundance of crude oil with similar qualities as ANS. This, and thin trading of ANS, has helped to widen the differential.

ANS prices track the OPEC price basket of internationally traded crude oils and tend to be priced higher than the basket. The OPEC basket is the benchmark that OPEC uses to gauge prices for the organization. ANS typically sells in direct competition with other waterborne crude oils from Latin America, Asia and the Middle East for delivery to U.S. West Coast refiners in Washington, California and Hawaii.

With our official price scenario we believe that global economic growth is slowing but remains strong. We assume that oil will continue to be a competitive energy resource. And finally, we forecast that the current high price environment will encourage OPEC and non-OPEC oil-producing countries to continue to explore ways to increase production from existing facilities and to seek out new production opportunities.

Figure 4-8. Fall 2006 Official, Low & High ANS Oil Price Scenarios



Factors that could lead to lower or higher prices are:

Low-Price Scenario

- China's internal economic growth slows as does its export growth and energy consumption.
- The price effect from higher oil prices leads to lower overall worldwide oil consumption.
- Crude oil production capacity increases more rapidly than anticipated.
- OPEC does not successfully implement oil production quotas or price floors.
- Weather effects moderate demand by reducing temperature extremes with no production interruptions.
- World peace reduces risk related price premiums.
- Premiums related to financial hedges on oil futures are reduced or disappear.
- Crude oil production worldwide increases as a result of recent investment activity.
- Iraq oil production and exports increase.

High-Price Scenario

- Political unrest in the Middle East, Nigeria and elsewhere continues and periodically results in supply disruptions.
- Economic growth in China and other emerging economies continues at high rates.
- OPEC is able to institute and maintain oil production quotas or price floors.
- Worldwide oil production does not increase as expected and lags demand.
- Weather-related production shortages and/or demand increases continue.
- Financial markets continue to exert artificial price wedges in oil futures.
- No or limited growth in spare crude oil production capacity.
- Technology does not become a driving force in long-term supply.

In this forecast, we increased our ANS oil prices for the period FY 2014-beyond, to $41.50 per barrel increasing with inflation, from $25.50 per barrel in the Spring 2006 Revenue Sources Book. This follows the department's protocol that participants in a price forecasting Delphi elected to change long-run prices from the prior two consecutive fall forecasts. The inflation rate is 2.75% per year based on Callan Associates Inc. five-year capital market assumptions. In addition to changing the long-run price, the number of years the price is forecast – before the long-run price begins – has also been changed. We now forecast seven (7) individual years. Earlier editions only forecast three (3) years.

Transportation and Other Production Costs

Taxpayers deduct marine transportation costs, Trans-Alaska Pipeline System and feeder pipeline tariffs and other costs to determine an ANS wellhead price. The wellhead price is the basis for state production tax and royalty payments.

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 weighted average tariff filing for calendar year 2006 is $4.06 per barrel. The fall 2006 forecast assumptions in Figure 4-9 (next page) contain projected tariffs for FY 2007-2017.

Feeder Pipeline and Other Adjustments

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 Figure 4-9 on page 39.

Wellhead Price

The combination of ANS wellhead value and production volume form the

Figure 4-9. Fall 2006 Forecast Assumptions, FY 2007-2017 (Nominal $ per barrel)

Fiscal Year [1]	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ANS West Coast Price	59.15	51.25	49.50	49.00	50.00	47.50	45.00	41.50	42.50	43.50	44.50
ANS Marine Transportation	1.76	1.79	1.84	1.89	1.94	1.99	2.04	2.09	2.14	2.19	2.24
TAPS Tariff	4.38	4.11	2.36	2.43	2.48	2.53	2.57	2.71	2.84	2.92	3.01
Other Deductions & Adjustments [2]	0.67	0.38	0.46	0.58	0.60	0.73	0.77	0.82	0.86	0.88	0.91
ANS wellhead	52.35	44.97	44.84	44.09	44.98	42.24	39.62	35.88	36.66	37.51	38.34

(1) FY 2007 includes reported information through August 2006.

(2) Includes other adjustments such as quality bank changes, location differentials and company-amended information.

basis for both state production taxes and royalties. The wellhead value 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. Figure 4-9 reflects this calculation for FY 2007-2017.

Crude Oil Production

For the fall 2006 forecast, we continue to make adjustments to our production expectations from the North Slope. In the near term, we have incorporated revised reservoir performance analysis on declining fields, reviewed the uncertainty associated with the pace and scope of developing satellite fields and re-evaluated downtime for all fields due to current pipeline closures and related corrosion testing on the North Slope. For the longer term, we have delayed Point Thomson and associated satellite one year to maintain our assumed ten year lead time for development.

Our FY 2007 ANS production forecast has been revised downward to 740,000 barrels per day, which is a 12% decrease from the 845,000 barrels per day produced in FY 2006. This reflects volume reductions from numerous unplanned events, including pipeline corrosion problems at Prudhoe Bay, Lisburne and Milne Point.

The North Slope is a mature oil province that is in decline. Its aging infrastructure will likely have additional problems as we look into the future and the harsh environment of the North Slope amplifies the likelihood of other occurrences. In addition, the development of fields containing viscous oil is providing challenges to the oil industry. These two factors have been incorporated into our forecast and are the reasons for forecasting lower near term volumes.

We characterize North Slope production three ways, each with discrete, albeit estimated confidence levels: (1) currently producing, (2) currently under development and (3) currently under evaluation. We do this so that the reader will have an understanding about the uncertainty associated with the production forecast. We continue to forecast production of only those reserves that have already been discovered and at minimum are being evaluated for development.

Currently Producing

Production characterized as "currently producing" includes baseline production and presumes a continued level of expenditure sufficient to promote safe, environmentally sound operations. Such expenditures include the following: well diagnostic and remedial work, data acquisition and rate-enhancing expenditures such as perforating, acid stimulation, well workovers, fracture treatments, artificial lift optimization and production profile optimization. This category of production also presumes continued gas and water injection for pressure support. Based on historical forecasting performance, we assign a 98% confidence level for the current fiscal year and between 90% to 95% throughout the remainder of our forecast period.

Currently Under Development

Production characterized as "currently under development" is based on new projects currently funded and in the design/construction phase, as well as development drilling and enhanced oil recovery (miscible or immiscible injection)

projects, currently funded or underway, but not included in the "currently producing" category. It also includes incremental oil expected from the long-term gas cap water injection project at Prudhoe Bay and the low salinity waterflood at Endicott. Examples of production "currently under development" include the Fiord Kuparuk and Nanuq Kuparuk satellites at Alpine, near Beaufort fields Oooguruk and Nikaitchuq, J-Pad and K-Pad development at West Sak, near term planned drilling at Milne point and Schrader Bluff and certain satellite development at Prudhoe Bay.

For the fall forecast, we have again slowed the pace of development at all heavy oil fields to allow continued mitigation of challenging commercial and technical issues. Because of timing and scope uncertainty, our subjective confidence for this category of production is approximately 80-85%.

Currently Under Evaluation

Production characterized as "currently under evaluation" includes technically viable projects currently in the "pencil sharpening" stage where engineering, cost, risk and reward are all being actively evaluated. These projects are all currently unfunded by the operators but have a high chance of being brought to fruition. They include enhanced oil recovery at certain satellite fields, development drilling outside the core areas at West Sak and Schrader Bluff, expanded development at Prudhoe Bay satellites Orion, Polaris and Borealis and Alpine West and Qannik development in the Colville River unit. Also included in this category are NPR-A development, Point Thomson, Liberty and development of other known onshore discoveries. Although operator BP is currently evaluating technologies associated with developing the vast viscous oil accumulation known as Ugnu, we do not forecast any production from that field.

Regarding NPR-A, we are forecasting production from four small "puddles" in the vicinity of known discoveries currently named "Lookout", "Moose's Tooth", "Spark" and "Rendezvous". Since these discoveries have been announced, there has been ongoing exploration outside the boundaries of these accumulations, and explorers continue to push further west in search of new development opportunities.

Confidence levels vary for this category of production. Certain heavy oil development drilling for Schrader Bluff, Orion or West Sak in FY 2007 might have confidence levels approaching that of "production under development". Offshore developments such as Liberty, or potentially high cost, scope-challenged developments such as Point Thomson probably deserve lower confidence, and our subjective assessment is in the 70%-75% range. All production from this category is subject to delays and scope changes that might impact reserves or production rates.

Figure 4-10. Alaska North Slope Production, FY 1996-2006 and Forecasted FY 2007-2017

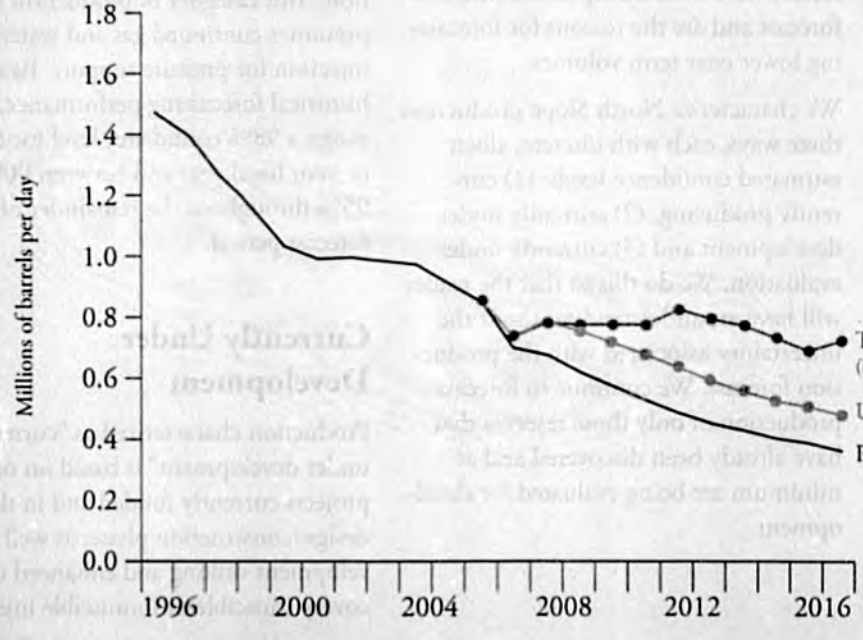


Figure 4-11. Alaska Crude Oil and NGL Production, FY 2006 and Forecast 2007-2008 (millions barrels/day)

Alaska North Slope	FY 2006	FY 2007	FY 2008
Prudhoe Bay [1]	0.340	0.280	0.301
Aurora	0.009	0.012	0.013
Borealis	0.017	0.017	0.017
Midnight Sun	0.006	0.005	0.005
Orion	0.007	0.009	0.012
Polaris	0.003	0.002	0.006
Lisburne	0.009	0.009	0.011
Niakuk [2]	0.006	0.004	0.004
Point McIntyre	0.033	0.015	0.027
Raven	0.001	0.002	0.001
Kuparuk	0.134	0.119	0.116
Meltwater	0.005	0.003	0.003
Tabasco	0.004	0.004	0.003
Tarn	0.020	0.019	0.017
West Sak	0.013	0.019	0.030
Milne Point	0.025	0.021	0.024
Schrader Bluff	0.016	0.010	0.013
Endicott	0.019	0.016	0.015
Badami	0.001	0.001	0.001
Alpine [3]	0.123	0.106	0.090
Fiord [4]	0.000	0.010	0.019
Nanuq [5]	0.000	0.005	0.012
Oooguruk	0.000	0.000	0.0003
Northstar [6]	0.056	0.051	0.039
Total Alaska North Slope	**0.845**	**0.740**	**0.782**
increase/decrease from prior period	(0.072)	(0.105)	0.043
% change from prior period	-7.9%	-12.4%	5.8%
Cook Inlet	**0.018**	**0.017**	**0.016**
increase/decrease from prior period	(0.002)	(0.001)	(0.001)
% change from prior period	-9.0%	-5.9%	-7.0%
Total Alaska	**0.863**	**0.756**	**0.798**
increase/decrease from prior year	(0.0534)	(0.1070)	0.0415
% change from prior period	-5.3%	-12.4%	5.5%

(1) Includes NGLs
(2) Includes West Niakuk
(3) Includes Qannik
(4) Includes Fiord-Kuparuk
(5) Includes Nanuq-Kuparuk
(6) Includes OCS Production

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 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 the date the facility reaches 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. When market rents are available, we primarily rely on the income method under which the value is the net present worth of all future income streams of the pipeline. When rents are constrained by the regulatory process or when market rents cannot be obtained, we primarily rely on replacement cost less depreciation based on the economic life of the reserves that feed the pipeline. The Trans-Alaska Pipeline from Prudhoe Bay represents more than 95% of Alaska's taxable pipeline transportation property.

Figure 4-12 illustrates the property tax distribution between local communities and the state for FY 2006. 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 29.45.080 and AS 29.45.100. The state's mill rate is effectively 20 mills minus the local rate.

Figure 4-12. Distribution of Petroleum Property Tax, FY06 ($ million) [1]

Municipalities	Gross Tax	Local Share	State Share
North Slope	209.1	199.2	9.9
Unorganized	37.5	0.0	37.5
Valdez	18.3	18.3	0.0
Kenai	11.1	7.0	4.1
Fairbanks	7.6	5.8	1.8
Anchorage	4.0	3.1	1.0
Other Municipalities[2]	0.2	0.1	0.1
Total	287.8	233.5	54.3

(1) Amounts shown here do not include the supplemental property tax roll and as a result may not exactly match data presented elsewhere in this book or in the Tax Division's FY 2006 Annual Report.
(2) Includes Matanuska-Susitna Borough, Cordova and Whittier.

Petroleum Corporate Income Tax

Alaska levies corporate income tax in two ways: one that applies to oil and gas corporations and one that applies to corporations other than oil and gas corporations. Forecasts and discussion of the corporate income tax as applied to corporations other than oil and gas corporations can be found in the Other Revenue section of this forecast.

An oil and gas corporation's Alaska income tax depends on the relative size of its Alaska and 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 based on the average of three factors as they pertain to the corporation's Alaska operations: (1) tariffs and sales, (2) oil and gas production and (3) oil and gas property.

Historically, oil and gas corporate income tax revenue has varied greatly along with oil prices and oil industry profits. In FY 1982, revenue from this tax was $668.9 million. As recently as FY 1994, the oil and gas corporate income tax generated a mere $17.8 million. For the past three years, revenues from the oil and gas corporate income tax have risen along with oil prices and oil industry profits, generating $661.1 million in FY 2006—the highest level for collections since the early 1980's.

We produce our forecast of oil and gas corporate income tax collections by using an economic model. The statistical relationship between historical tax payments, crude oil prices, North Slope oil production and refinery margins are used to estimate corporate income tax payments. We then adjust for refunds and carry-forwards which cause actual collections to differ from payments. Estimated payments so far in FY 2007 have been strong, and we project that for the full fiscal year oil and gas corporate income tax collections will be close to the FY 2006 total. In FY 2008, we expect a 25% decline in collections due to declining oil prices and refining margins.

Restricted Oil 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. Settlements with or judgments against the oil industry involving tax and royalty disputes must be deposited in the Constitutional Budget Reserve Fund (CBRF).

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.

The table below reflects restricted oil and gas revenue.

Figure 4-13. Restricted Oil Revenue, FY 2006 and Forecasted FY 2007-2008 ($ million)

Restricted	FY 2006	FY 2007	FY 2008
Royalties to Permanent Fund & School Fund			
Royalties, bonuses & rents to Permanent Fund	599.5	504.7	442.0
Royalties, bonuses & rents to School Fund	12.0	13.9	5.8
Subtotal	611.5	518.6	447.8
Settlements to CBRF	43.7	90.0	20.0
NPRA royalties, rents & bonuses	2.9	6.4	7.6
Total Restricted	**658.1**	**615.0**	**475.4**

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2006

5. Other Revenue (Except Federal & Investment)

Figure 5-1. FY 2006 Other Revenue (Except Federal & Investment) $1.0 billion

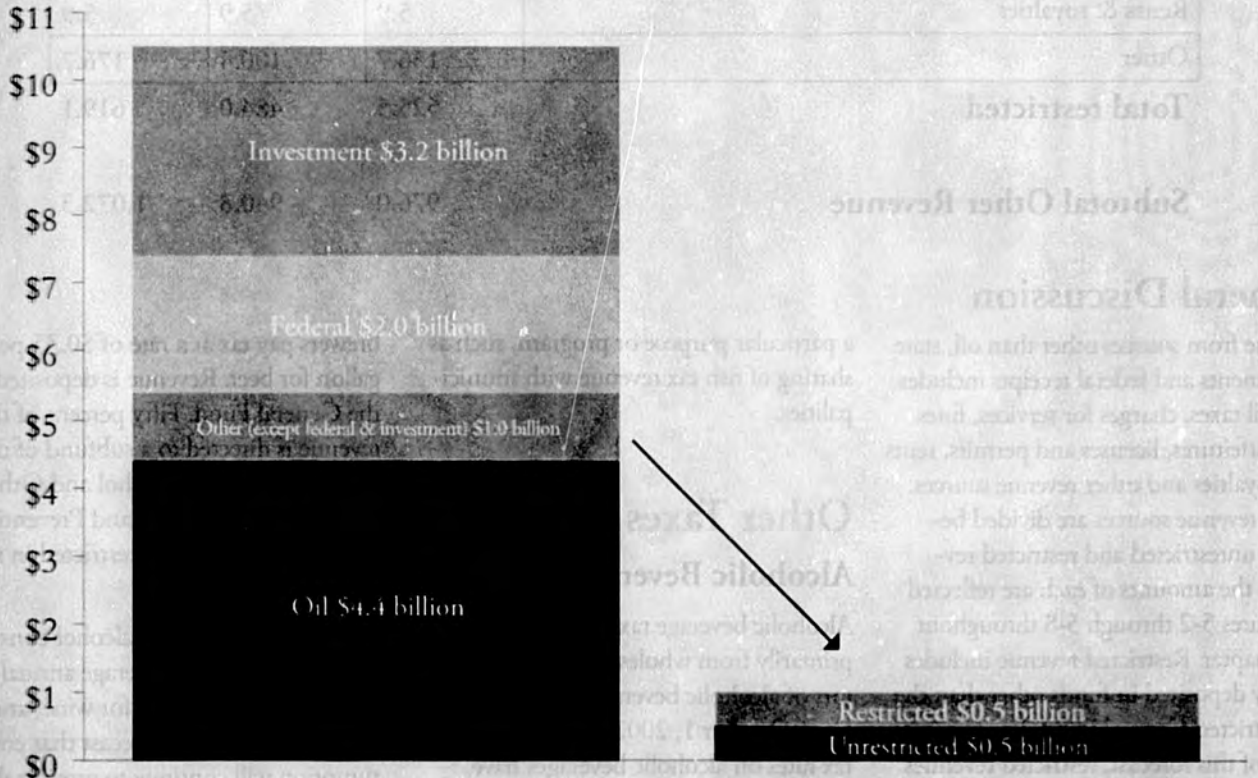


Figure 5-2. Total Other Revenue (Except Federal & Investment), FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
	FY 2006	FY 2007	FY 2008
Unrestricted			
Taxes	327.6	347.9	344.9
Charges for services	23.1	23.1	23.1
Fines & forfeitures	8.5	10.3	10.3
Licenses & permits	41.9	44.1	44.9
Rents & royalties	8.8	9.4	9.5
Other	40.6	22.0	20.5
Total unrestricted	450.5	456.8	453.2
Restricted			
Taxes	86.3	84.7	128.8
Charges for services	225.0	235.8	239.6
Fines & forfeitures	21.0	20.1	30.6
Licenses & permits	30.6	37.1	37.5
Rents & royalties	5.9	5.9	5.9
Other	156.7	100.4	176.7
Total restricted	525.5	484.0	619.1
Subtotal Other Revenue	976.0	940.8	1,072.3

General Discussion

Income from sources other than oil, state investments and federal receipts includes non-oil taxes, charges for services, fines and forfeitures, licenses and permits, rents and royalties and other revenue sources. These revenue sources are divided between unrestricted and restricted revenues; the amounts of each are reflected in Figures 5-2 through 5-8 throughout this chapter. 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. Since October 1, 2002, the per-gallon tax rates on alcoholic beverages have been $1.07 for beer, $2.50 for wine and $12.80 for liquor. Qualifying small brewers pay tax at a rate of $0.35 per gallon for beer. Revenue is deposited into the General Fund. Fifty percent of the revenue is directed to a subfund of the General Fund, the Alcohol and Other Drug Abuse Treatment and Prevention Fund, and is treated as restricted in this forecast.

Over the past 10 years, alcohol consumption has grown at an average annual rate of 0.9% for beer, 3.5% for wine, and 2.4% for liquor. We forecast that consumption will continue to grow at these historical average rates.

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. We forecast that revenues from charitable gaming activity will show little change over the next two fiscal years.

Corporate Income Tax

Alaska levies corporate income tax in two ways: one that applies to oil and gas corporations and one that applies to corporations other than oil and gas corporations. Forecasts and discussion of the corporate income tax as applied to oil and gas corporations can be found in the Oil Revenue section of this forecast.

Alaska levies the Corporate Net Income Tax on net income of corporations that do business in the state and derive income from sources within Alaska. 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 taxable income over $90,000. S-Corporations and LLCs that file federally as partnerships are generally exempt from corporation income tax. Corporations compute their tax liability based on federal taxable income with Alaska adjustments. Corporations other than oil and gas corporations apportion their income to Alaska by using a three-factor apportionment based on sales, property and payroll. Taxpayers determine Alaska taxable income by applying their apportionment factor to the corporation's modified federal taxable income of the Water's Edge Combined Group.

Over the past few years, income tax revenue from corporations other than oil and gas corporations has increased significantly. In FY 2004, revenue from the tax was $39.6 million. By FY 2006 revenue increased to $137.6 million. We produce our forecast of non-petroleum corporate income tax collections by using an economic model. The statistical relationship between historical tax payments, corporate profits and crude oil prices are used as input to estimate corporate income tax payments. Corporate profits are used because they help determine tax liability and crude oil prices are used because the price of oil impacts company profitability in many economic sectors in Alaska. After forecasting estimated payments, we then adjust for refunds and carry-forwards which cause actual collections to differ from payments. Revenues should remain at historically high levels, as continued growth in corporate profits is balanced by declining prices for North Slope crude oil.

Commercial Passenger Vessel Taxes

In August 2006, Alaska voters approved Ballot Measure 2. This initiative imposes new taxes and fees on commercial passenger vessels including:

- A per-passenger tax of $46 on commercial vessels with 250 or more berths. Revenues will be deposited into a subfund of the General Fund, the Commercial Vessel Passenger Tax Account. $5 of the tax will be distributed to each of the first five ports of call, and an additional 25% of the tax will be designated for other local governments impacted by the cruise ship industry. The entire passenger tax is considered restricted for purposes of this forecast.
- An additional per-berth fee of $4 to operate the Ocean Ranger program, which provides for independent observers of engineering, sanitation and health practices. This fee is considered restricted and is included in the "Charges for Services" section of this forecast.
- A tax of 33% on the adjusted gross income from gaming or gambling activities aboard large passenger vessels in the state. Revenues will be deposited into a subfund of the General Fund, the Commercial Vessel Passenger Tax Account, and will be considered restricted for purposes of this forecast.
- Companies operating large commercial passenger vessels will now be subject to the Alaska corporate income tax. Any incremental corporate income tax revenue will be unrestricted General Fund revenue.
- New penalties for violations related to false reporting, environmental regulations and disclosures on promotions and shore side activity sales. Revenue from these provisions will be reflected in the "Fines and Forfeitures" section of this forecast.

For this forecast, the $46 per-passenger tax and $4 berth fee are expected to generate revenue beginning in FY 2008 (based on the 2007 tourist season). Our forecasts are based on an expectation of 949,000 eligible ship passengers and 949,000 eligible ship sailing berths. Due to uncertainties and lack of data, estimates of revenue from the gambling activity tax, corporate income taxes, and penalties are not reflected in the Fall 2006 forecast.

Electric Cooperative and Telephone Cooperative Taxes

The electric cooperative tax is based on kilowatt hours furnished by qualified electric cooperatives recognized under Title 10 of the Alaska statutes. The telephone cooperative tax is levied on gross revenue of qualified telephone

cooperatives under Title 10. Revenue from cooperatives located in municipalities is treated as restricted revenue in this forecast because it is shared 100% with the municipalities. The small amount of revenue collected from cooperatives outside municipalities is retained by the state. We forecast little change in revenues from the electric and telephone cooperative taxes over the next two fiscal years.

Estate Tax

The estate tax is levied on the transfer of an estate upon death. The Alaska estate tax is tied to the federal tax, with the amount of the state tax equaling the maximum state credit allowed on the estate's federal return. All revenue derived from estate taxes is deposited in the General Fund.

As a result of changes to the federal estate tax, the Alaska estate tax was phased out completely beginning January 1, 2005. However, revenues continued in FY 2006 because of the 15-month filing period. The federal estate tax changes that caused the state tax to phase out are currently scheduled to sunset after December 31, 2010. We forecast no revenue from the estate tax until FY 2012.

Fisheries Business Tax

The fisheries business 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 based on the value of 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. Revenue from the tax is deposited in the General Fund. Fifty percent of the revenue (before credits) is shared to qualified municipalities, and is treated as restricted in this forecast.

Our forecast is based on estimated taxable values of the major fisheries in the state and historical effective tax rates. Fisheries business tax revenue retained by the state is adjusted by a forecast of tax credits, including Salmon Product Development and Utilization credits, which apply only to the state portion of the tax.

Fishery Resource Landing Tax

The fishery resource landing tax is levied on fishery resources processed outside and 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. Fifty percent of the revenue (before credits) is shared to qualified municipalities, and is treated as restricted in this forecast.

Our forecast is based on estimated taxable values of the major fisheries in the state and historical effective tax rates. Fisheries business tax revenue retained by the state is adjusted by a forecast of tax credits which apply only to the state portion of the tax.

Insurance Premium Tax

Insurance companies in Alaska do not pay corporate income tax, sales or other excise taxes. Instead, they pay an insurance premium tax. Revenue is deposited into the General Fund and for most types of insurance, the tax is treated as unrestricted revenue. However, the premium tax on worker's compensation insurance is deposited a subfund of the General Fund, the Workers Safety and Compensation Fund, and is reflected as restricted in this forecast. The restricted component also includes service fees paid into the Workers Safety and Compensation Fund by employers who are uninsured or self-insured.

Our forecast is based on the expectations of the Department of Commerce, Community and Economic Development's Division of Insurance, which administers the insurance premium tax, and the Department of Labor and Workforce Development's Workers Compensation Division, which collects worker's compensation service fees.

Mining License Tax

The mining license tax is a tax on the net income of all mining operations 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.

Mining license tax revenues set a record in FY 2006, benefiting from strong minerals prices in calendar year 2005. Minerals prices increased again in calendar year 2006 and we are forecasting that FY 2007 will be another year of record collections for the mining license tax. Minerals prices are expected to moderate in the 2007 tax year, leading to collections that are slightly lower in FY 2008 but still well above historical levels. Our forecast is produced using a bottom-up approach that estimates tax payments for each of the major mines in the state based on expected minerals prices and production.

Motor Fuel Tax

The motor fuel tax is imposed on all motor fuel sold, transferred or used within Alaska. 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

rate of 8 cents or 2 cents for gasohol, depending on the season, location and EPA mandate. Motor fuel taxes are collected primarily from wholesalers and distributors licensed as qualified dealers. Various uses of fuel are exempt from tax, including fuel used for heating or flights to or from a foreign country. All revenue derived from motor fuel taxes is deposited in the General Fund. Sixty percent of the taxes attributable to aviation fuel sales at municipal airports are shared with the respective municipalities, and are treated as restricted for purposes of this forecast.

Our forecast for motor fuel tax revenue is based on Energy Information Agency projections for U.S. motor fuel consumption.

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. The second component is an additional $5 fee per tire on all new tires with heavy studs sold in Alaska, and a $5 fee per tire on the installation of heavy studs on a previously un-studded tire.

Our forecast of tire fee revenue is based on the expected number of vehicle registrations in the state.

Seafood Assessments and Taxes

The Department of Revenue administers five different programs that raise money through seafood assessments. The rates for these assessments are determined by a vote of the appropriate association within the seafood industry or by members of the Alaska Seafood Marketing Institute.

The five programs are:

- The seafood marketing assessment, which applies to all seafood products made or first landed in Alaska and all unprocessed products exported from Alaska.
- The dive fishery management assessment, which is levied on the value of fishery resources taken using dive gear in a designated management area.
- The regional seafood development tax, which is levied on the value of fishery resources in a designated management area.
- The salmon enhancement tax, which is levied on salmon sold or exported from designated aquaculture regions.

Although revenue received under these assessments is deposited in the General Fund, funds are treated as restricted revenue in this forecast because they are set aside for the legislature to appropriate for the benefit of the seafood industry, either in marketing or in management/development of the industry.

Our salmon enhancement tax forecast is based on estimated taxable value of the salmon fishery in the state and historical effective tax rates. All other seafood assessments are reflected as receipt supported services under the Charges for Services section of this forecast and are not forecast individually.

Tobacco Tax

The tobacco tax is levied on cigarettes and tobacco products sold, imported or transferred into Alaska. Tobacco taxes are collected primarily from licensed wholesalers and distributors. There are two components to the tobacco tax: the cigarette tax and the other tobacco products tax.

The tax rate on cigarettes was increased from $1.60 to $1.80 per pack on July 1, 2006 and will increase to $2.00 per pack on July 1, 2007. Of the cigarette tax, $0.76 per pack is deposited into the School Fund, and is considered restricted revenue. All cigarette and tobacco products license fees are also deposited in the School Fund. The remainder of the cigarette tax revenue is deposited into the General Fund, with incremental revenues as a result of the July 1, 2006 and July 1, 2007 tax rate increases going entirely to the General Fund (the $0.76 per pack to the School Fund will not change). Of the General Fund portion, 8.9% is deposited into a subfund of the General Fund, the Tobacco Use Education and Cessation Fund, and is treated as restricted in this forecast.

The tax rate on other tobacco products–such as cigars and chewing tobacco–is 75% of the wholesale price and is deposited entirely in the General Fund.

Our cigarette tax forecasts assume that consumption will decline on average 4% annually. We also expect some reduction in consumption due to the effects of higher prices caused by the July 1, 2006 and July 1, 2007 tax increases. Moderate increases in wholesale prices and consumption should help other tobacco products tax revenue continue to increase at the 10-year average rate of about 4% annually.

Vehicle Rental Tax

The vehicle rental tax 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.

We expect vehicle rental tax revenue to increase with the overall rate of inflation as the value of rentals increases.

Charges for Services

The charges for services category includes fees and other program charges for state services. The revenues reported in this category 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 considered restricted revenue because they are returned to the program where they were generated. The only unrestricted revenues listed in this category come from charges that do not have program receipt designations, or are not otherwise segregated and appropriated back to a program. Many of the charges for services are small amounts that we have grouped into the broad categories "General Government," "Natural Resources," and "Other." Revenue from these categories is forecast as constant over the next two fiscal years. The largest categories of charges for services are listed separately and are discussed below.

Marine Highway Fund

The Alaska Marine Highway Fund is a subfund of the General Fund and receives revenue from state ferry system operations. The legislature has discretion over how the revenue is allocated, but because it is customarily appropriated for Alaska Marine Highway opera-

Figure 5-3. Other Tax, FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Sales/Use tax			
Alcoholic beverage	17.6	17.8	18.2
Tobacco products – cigarettes [1]	26.4	32.1	36.2
Tobacco products – other	7.6	7.9	8.3
Electric & telephone cooperative	0.2	0.2	0.2
Insurance premium	44.3	45.4	45.9
Motor fuel tax	42.0	42.9	43.4
Tire fee	1.6	1.7	1.7
Vehicle rental	7.7	7.8	8.0
Subtotal	**147.4**	**155.8**	**161.9**
Corporate income tax (non oil and gas)[2]	137.6	135.7	128.7
Fish Tax			
Fisheries business[3]	15.2	15.6	16.1
Fishery resource landing [3]	5.8	4.1	4.3
Subtotal	**21.0**	**19.7**	**20.4**
Other Tax			
Mining	18.6	34.3	31.5
Estate	0.6	0.0	0.0
Charitable gaming	2.4	2.4	2.4
Subtotal	**21.6**	**36.7**	**33.9**
Total Unrestricted Taxes	**327.6**	**347.9**	**344.9**

Figure 5-3. Continued

Restricted	History FY 2006	Forecast FY 2007	FY 2008
Sales/Use tax			
Alcoholic beverage (alcohol & drug treatment)	17.6	17.8	18.2
Insurance premium/other (worker's safety & compensation)[4]	7.6	7.8	8.1
Electric & telephone cooperative (municipal share)	3.7	3.7	3.7
Tobacco – cigarettes (School Fund)[1]	27.4	25.8	24.4
Tobacco – cigarettes (Tobacco Use Cessation)[1]	2.7	3.1	3.5
Motor fuel tax-aviation (municipal share)	0.1	0.1	0.1
Subtotal	**59.1**	**58.3**	**58.0**
Fish Tax			
Fisheries business (municipal share)[3]	17.1	17.0	17.5
Fishery resource landing (municipal share)[3]	5.7	5.5	5.7
Salmon enhancement (Aquaculture Association share)	4.4	3.9	4.0
Subtotal	**27.2**	**26.4**	**27.2**
Other Taxes & Fees			
Commercial passenger vessel tax (state share)	0.0	0.0	9.0
Commercial passenger vessel tax (municipal & region share)	0.0	0.0	34.6
Subtotal	**0.0**	**0.0**	**43.6**
Total Restricted Taxes	**86.3**	**84.7**	**128.8**
Grand Total	**413.9**	**432.6**	**473.7**

(1) The tobacco (cigarette) tax reported here differs slightly from the amount recorded in the Tax Division's Fiscal Year 2006 Annual Report because of timing issues. Some tax returns are not received and processed until after the state accounting system has closed, resulting in their being counted in the following fiscal year.

(2) The amount of corporate income tax reported here differs slightly from the amount recorded in the Tax Division's FY 2006 Annual Report because of timing issues. A small amount of revenue was moved to this account after the close of the fiscal year. This correction is reflected in the Annual Report, but is not included here because it is not included in the state accounting system.

(3) The fisheries taxes reported here differ slightly from the amounts recorded in the Tax Division's FY 2006 Report because of timing issues. Some tax returns are not received and processed until after the state accounting system has closed, resulting in their being counted in the following fiscal year.

(4) In addition to the Worker's Compensation insurance premiums for the Insurance Premium Tax, this amount also includes services fees from employers who are self-insured.

tions, it is considered restricted for this forecast. Our forecast of receipts is based on revenue expectations in the Alaska Marine Highway System business plan.

Commercial Passenger Ranger Fee

The Commercial passenger ranger fee is a per-berth fee of $4 that applies to commercial passenger vessels with 250 or more berths. The fee is levied to support the Ocean Ranger program, which provides for independent observers of engineering, sanitation and health practices aboard the vessels. This fee was imposed as part of Ballot Measure 2, passed by voters in August 2006. The measure is covered in more detail in the "Taxes" section of this forecast.

Program Receipts

Under AS 37.05.142 – 37.05.146, receipts from authorized state programs are accounted for separately and appropriated to administer the source program, implement laws related to the program, or cover costs associated with collecting the receipts. Some programs with program receipt authority are not included in our Charges for Services category because they are reported elsewhere in this forecast or because they do not generate revenue available for general appropriation.

Our forecasts of program receipt revenues are based on discussions with the Governor's Office of Management and Budget and analysis of the most recent budget expectations for these categories.

The program receipts listed in this section are:

- Receipt supported services, which includes state services such as Pioneers homes and occupational licensing that are funded by program receipts. Certain seafood assessments are

Figure 5-4. Charges for Services, FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
General government	21.0	21.0	21.0
Natural resources	1.9	1.9	1.9
Other	0.2	0.2	0.2
Total Unrestricted	**23.1**	**23.1**	**23.1**
Restricted			
General government	1.5	1.5	1.5
Natural resources	0.5	0.5	0.5
Marine highway receipts	51.0	54.7	54.7
Receipt supported services	106.8	96.7	96.7
Statutorily designated	44.6	57.2	57.2
RCA receipts (1)	7.4	7.8	7.8
Test fisheries receipts	2.0	2.5	2.5
Timber sale receipts	0.7	1.1	1.1
Oil & gas conservation	4.3	5.7	5.7
DCCED business licenses	6.2	8.1	8.1
Commercial passenger ranger fee	0	0	3.8
Total Restricted	**225.0**	**235.8**	**239.6**
Grand Total	**248.1**	**258.9**	**262.7**

(1) The receipt amount reported here differs slightly from the amount recorded in the Tax Division's FY 2006 Annual Report because of timing issues. Some amounts which should have been recorded in the following fiscal year were recorded in FY 2006 in the state accounting system.

included in this category.

- Statutorily designated program receipts, which includes money received from sources other than the state or federal government and restricted by the terms of a gift, grant, bequest or contract.
- Regulatory Commission of Alaska (RCA) receipts, which are regulatory cost charges and user fees levied on utilities and pipelines to fund costs of regulation.
- Test fisheries receipts, generated by the Department of Fish and game from selling fish caught during the process of testing the commerciality of fisheries.
- Timber sale receipts, which are used to fund the timber disposal program of the Department of Natural Resources.
- Oil and Gas Conservation Commission receipts, which are fees and charges for regulation of oil and gas wells and pipelines.
- Business license fees collected by the Department of Commerce, Community and Economic Development.

Fines and Forfeitures

Fines and forfeitures include civil and criminal fines and forfeitures and money received by the state from the settlement of civil lawsuits. The largest single source of receipts under this category is from the multi-state tobacco settlement. Other sources are volatile from year to year and are forecast based on the historical five-year average.

Tobacco Settlement

The tobacco settlement was signed by 46 states (including Alaska) in November 1998 and dictates annual payments to each of the states. All tobacco settlement revenue is considered restricted for purposes of this forecast. Eighty percent of the revenue stream is earmarked for the Northern Tobacco Securitization Corporation for payments on bonds that were sold based on the future revenue stream. The remaining 20% of the revenue is deposited into the Tobacco Use Education and Cessation Fund, a subfund of the General Fund.

The tobacco settlement includes a "non-participating manufacturer adjustment" provision that allows for a reduction in payments to the settling states if an arbitrator determines that: (a) the Original Participating Manufacturers lose a specified amount of market share to Non-Participating Manufacturers (NPM) in a calendar year; (b) the disadvantages experienced as a result of the settlement were a significant factor contributing to this market share loss; and (c) a settling state did not have in effect and diligently enforce a Qualifying Statute during that calendar year. Alaska's tobacco settlement payment was reduced under this provision in FY 2006. The State plans to litigate this issue and expects that the payment reduction will be returned to the state at the conclusion of the litigation. Our forecasts for FY 2007 and FY 2008 include reductions of $4.1 million and $4.4 million, respectively, for this NPM adjustment.

Tobacco settlement payments are based on a complex formula that takes into account several factors including declines

Figure 5-5. Fines & Forfeitures, FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Fines & forfeitures	8.5	10.3	10.3
Total Unrestricted	**8.5**	**10.3**	**10.3**
Restricted			
Tobacco Settlement (North Tobacco Securitization Corporation)	16.0	14.9	23.3
Tobacco Settlement (Tobacco Use Education & Cessation Fund)	4.0	3.7	5.8
Other	1.0	1.5	1.5
Total Restricted	**21.0**	**20.1**	**30.6**
Grand Total	**29.5**	**30.4**	**40.9**

in cigarette consumption and inflation. In our forecast, we expect that cigarette consumption will decline at an annual rate of 4% and inflation will be 2.75%. In FY 2008, payments will increase because Alaska will receive the first of ten incremental payments that compensate for our expenses in executing the litigation that led to the tobacco settlement. Our forecast assumes that payments will continue to be reduced by the non-participating manufacturer adjustment described above.

Licenses and Permits

Licenses and permits represent 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. Alcoholic beverage license fees are also separately listed. There are several other small license and permit fees which are forecast as constant in coming years; these are summarized in the "Other fees" category.

Alcoholic Beverage Licenses

Alcoholic beverage licenses are required to manufacture or sell alcoholic beverages in Alaska. Licenses are issued by the Alcoholic Beverage Control Board and revenue is deposited into the General Fund. All of the revenue from biennial license fees collected within municipalities, excluding annual wholesale fees and biennial wholesale license fees, is shared with the municipalities and is treated as restricted for purposes of this forecast. The number of alcoholic beverage licenses issued in a municipality is dictated by population, so any changes in revenue should be small.

Fishing and Hunting License Fees

Fishing and hunting licenses are issued by the Department of Fish and Game for participation in various fishing, hunting and related activities. 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. Beginning with 2006 licenses, a surcharge is in effect on certain sport fishing licenses with the revenue funding new sport fishing facilities in the state. Our forecast for fishing and hunting license fee revenue is based on expectations of the Department of Fish and Game.

Motor Vehicle Registration Fees

Motor vehicle registration fees are col-

Figure 5-6. Licenses & Permits, FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Alcoholic beverage licenses	1.0	1.1	1.1
Motor vehicles	37.7	39.8	40.6
Other fees	3.2	3.2	3.2
Total Unrestricted	**41.9**	**44.1**	**44.9**
Restricted			
Hunting & fishing			
Hunting & fishing fees (fish & game fund)	25.8	32.3	32.7
Sanctuary fees (fish & game fund)	0.3	0.3	0.3
Hunting & fishing subtotal	26.1	32.6	33.0
Other fees	3.6	3.6	3.6
Alcoholic beverage license share	0.9	0.9	0.9
Other fees subtotal	4.5	4.5	4.5
Total Restricted	**30.6**	**37.1**	**37.5**
Grand Total	**72.5**	**81.2**	**82.4**

lected by the Division of Motor Vehicles within the Department of Administration. Most are considered unrestricted license and permit revenue; however, some registration fees are considered restricted receipt supported services and are reflected in the Charges for Services section of this forecast. Our forecast for motor vehicle registration fee revenue is based on the expectations of the Division of Motor Vehicles.

Rents and Royalties

Rents and royalties from sources other than oil and gas fall into three categories: cabin rentals, coal royalties and leasing, rental and sale of state land.

All rents and royalties from oil and gas are reported in the Oil Revenue section of this forecast.

Cabin Rentals

The Department of Natural Resources operates over 50 public use cabins in Alaska's state parks and elsewhere. Rental and other fees generated from these cabins are deposited in the General Fund. Revenue should remain steady unless there are significant changes in fees or cabin usage.

Coal Royalties

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

Of the total revenue received from coal royalties, 74.5% is deposited into the General Fund, 25% is deposited into the Permanent Fund and the remaining 0.5% goes to the School Fund. The Permanent Fund and School Fund portions are treated as restricted in this forecast.

Our projection of coal royalties is produced by estimating the future value of coal production in Alaska. The value is estimated based on 2005 production levels and coal price forecasts from the Energy Information Agency.

Land Leasing, Rental and Sale

The State receives revenue from the leasing, rental and sale or state land. All of these revenues are deposited into the General Fund, but some go to subfunds of the General Fund and are treated as restricted for purposes of this forecast. Revenues consist of many small components and are volatile from year for year; therefore our forecast is based on either FY 2006 receipts (for restricted receipts) or the five-year average (for unrestricted receipts).

Other

This category includes unclaimed property transfers, transfers to the state from component organizations and miscellaneous revenues. Miscellaneous revenues, which include contributions to the state and other revenues, are difficult to predict and are projected at the five-year average. Unclaimed property and transfers from component organizations are discussed below.

Figure 5-7. Rents & Royalties, FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Land leasing, rental & sale	7.4	7.9	7.9
Coal royalties	1.1	1.2	1.3
Cabin rentals	0.3	0.3	0.3
Total Unrestricted	**8.8**	**9.4**	**9.5**
Restricted			
Land leasing, rental & sale	5.5	5.5	5.5
Coal royalties	0.4	0.4	0.4
Total Restricted	**5.9**	**5.9**	**5.9**
Grand Total	**14.7**	**15.3**	**15.4**

Unclaimed Property

Alaska's Unclaimed Property statutes require businesses and corporations to report unclaimed intangible property to the state. Property is reportable if an owner cannot be located, the owner has not cashed a property check, or an account has not had any owner-initiated activity for at least three years. Unclaimed property may include checking accounts, customer deposits and over payments, gift certificates, unpaid wages, and security related accounts. The state holds the property in trust until the owner or his or her legal heir claims it. Each year, the unclaimed property trust account is evaluated and the excess of the working trust balance is transferred to the general fund.

No transfer was made during FY 2005; as a result, a larger than normal transfer was made in FY 2006. We anticipate transfers will fall to $4.0 million per year by FY 2008 due to earlier contact with property owners and greater effort by companies to locate property owners.

Transfers from Component Organizations

Each year, the state receives money in the form of transfers from component organizations, such as the Alaska Housing Finance Corporation, frequently in the form of dividends. Component organizations are covered in more detail in the Public Corporations & the University of Alaska section of this forecast. Some component organizations do not make transfers to the state, and as a result not all component organizations are listed here.

Actual transfers for FY 2006 are reflected in draft tables from the Comprehensive Annual Financial Report. Forecasts for FY 2007 and FY 2008 transfers are based on discussions with the Governor's Office of Management and Budget and analysis of the most recent budget expectations for these categories.

Transfers from component organizations presented here may differ from those presented in the Public Corporations & University of Alaska section for two reasons. First, the amounts presented here accounts differently for certain funds paid over time for multi-year capital projects. Second, amounts presented here do include certain funds that are transferred to the state and then appropriated to the component unit for operations.

Figure 5-8. Other Revenue, FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Miscellaneous	30.6	16.5	16.5
Unclaimed property	10.0	5.5	4.0
Total Unrestricted	**40.6**	**22.0**	**20.5**
Restricted			
Alaska Housing Finance Corporation	50.4	48.7	73.5
Alaska Industrial Development & Export Authority	8.8	16.6	10.0
Alaska Municipal Bond Bank Authority	0.7	1.0	1.0
Alaska Student Loan Corporation	44.0	1.9	60.0
Alaska Energy Authority	--	--	--
Miscellaneous [1]	52.8	32.2	32.2
Total Restricted	**156.7**	**100.4**	**176.7**
Grand Total	**197.3**	**122.4**	**197.2**

(1) 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

Figure 6-1. FY 2006 federal revenue $2.0 billion

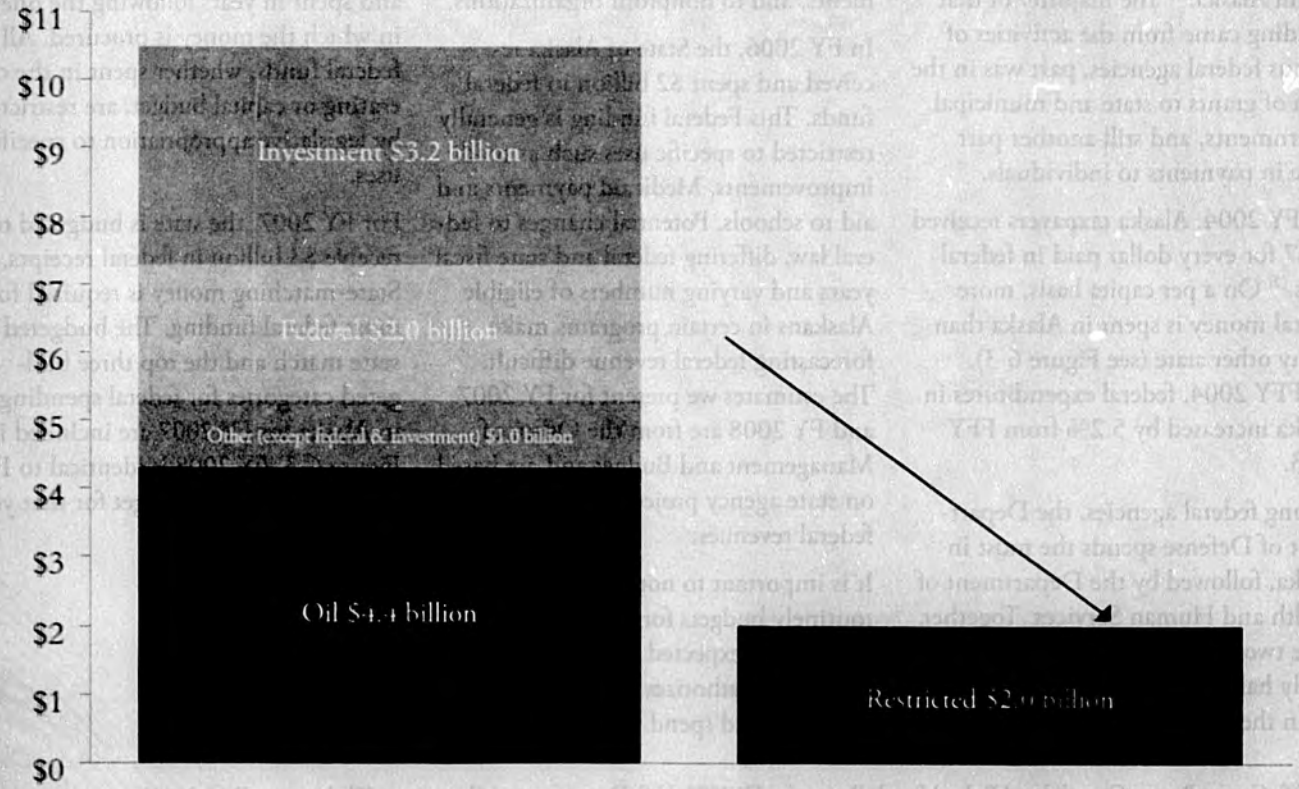


Figure 6-2. Total Federal Revenue to the State, FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
	FY 2006	FY 2007	FY 2008
Unrestricted			
Federal receipts	0.0	0.0	0.0
Restricted			
Federal receipts	1,971.5	3,048.5	3,048.5
Total	1,971.5	3,048.5	3,048.5

The federal government continues to play a significant role in Alaska's economy. In Federal Fiscal Year (FFY) 2004 (the most recent data available) the federal government spent $8.4 billion in Alaska.[1] The majority of that spending came from the activities of 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 2004, Alaska taxpayers received $1.87 for every dollar paid in federal taxes.[2] On a per capita basis, more federal money is spent in Alaska than in any other state (see Figure 6-3). For FFY 2004, federal expenditures in Alaska increased by 5.2% from FFY 2003.

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 (48%) of all federal spending in the state. Not surprisingly, a large portion of federal money flows into Alaska through salaries of federal employees. However, 38% of all federal spending comes in the form of grants, mostly to state and municipal governments, and to nonprofit organizations.

In FY 2006, the State of Alaska received and spent $2 billion in federal funds. This Federal funding is generally 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 varying numbers of eligible Alaskans in certain programs make forecasting federal revenue difficult. The estimates we present for FY 2007 and FY 2008 are from the Office of Management and Budget and are based on state agency projections of potential federal revenues.

It is important to note that the state routinely budgets for federal funds in excess of expected allotments. The legislature authorizes state agencies to receive and spend the maximum that federally funded programs might receive, while the actual appropriation amounts are generally less. In addition, some of the funding granted for multi-year capital projects is received and spent in years following the one in which the money is procured. All federal funds, whether spent in the operating or capital budget, are restricted by legislative appropriation to specific uses.

For FY 2007, the state is budgeted to receive $3 billion in federal receipts. State-matching money is required for most federal funding. The budgeted state match and the top three budgeted categories for federal spending in Alaska for FY 2007 are included in Figure 6-3. FY 2008 is identical to FY 2007, as the state's budget for that year is not yet developed.

(1) U.S. Census Bureau Consolidated Federal Funds Report for FY 2004, U.S. Department of Commerce, Washington, D.C. 20233, http://harvester.census.gov/cffr/asp/Reports.asp.

(2) Tax Foundation's "Federal Spending in Each State per Dollar of Federal Taxes," http://www.taxfoundation.org/taxingspending.html.

Figure 6-3. FFY 2004 Federal Spending per Capita, Top Six States

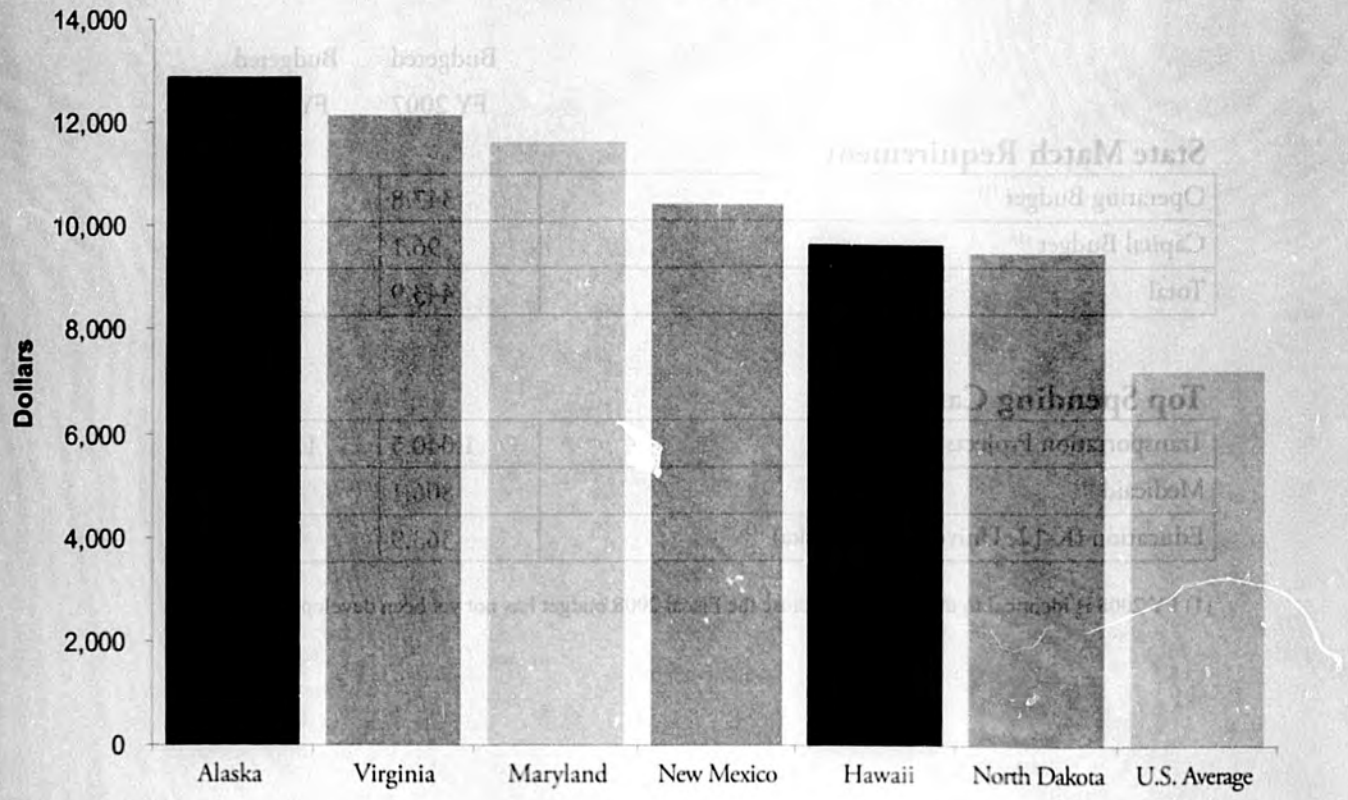


Figure 6-4. Total Federal Spending in Alaska, FFY 2004

By Distributing Agency

	$ Million	Percent
Defense	2,521.6	30%
Health & Human Services	1,571.1	19%
Social Security	665.9	8%
Other Agencies	3,686.9	44%
Total	8,445.4	100%

By Appropriation Category

	$ Million	Percent
Grants	3,216.9	38%
Salaries & Wages	1,728.4	20%
Procurement	1,699.7	20%
Retirement & Disabilitiy	1,135.3	13%
Other Direct Payments	665.0	8%
Total	8,445.3	100%

Figure 6-5. Federal Spending, FY 2007-2008 ($ million)

	Budgeted FY 2007	Budgeted FY 2008
State Match Requirement		
Operating Budget [1]	347.8	347.8
Capital Budget [1]	96.1	96.1
Total	443.9	443.9
Top Spending Categories		
Transportation Projects [1]	1,040.5	1,040.5
Medicaid [1]	806.1	806.3
Education (K-12, University of Alaska) [1]	363.9	363.9

(1) FY 2008 is identical to the FY 2007 because the Fiscal 2008 budget has not yet been developed.

7. Investment Revenue

Figure 7-1. FY 2006 Investment Revenue $3.2 billion

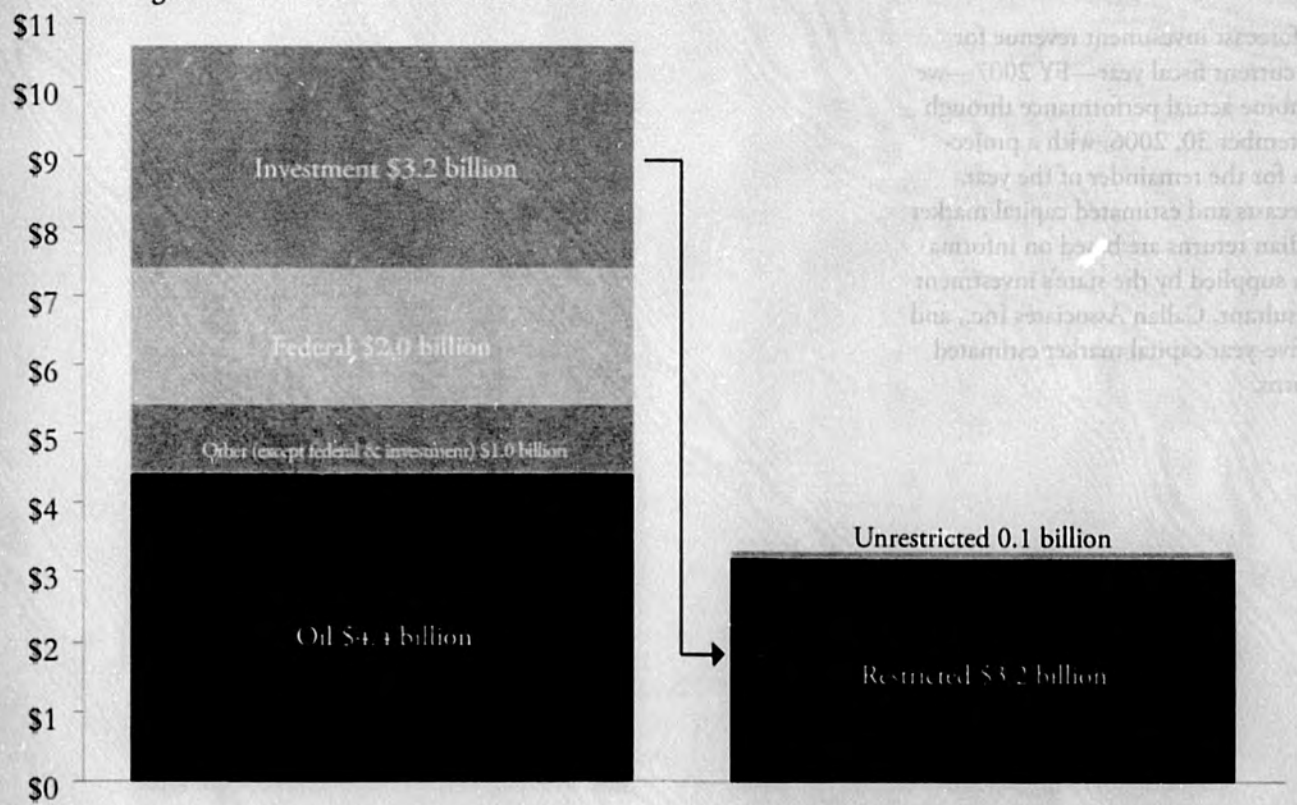


Figure 7-2. Total Investment Revenue, FY 2006 and Forecasted FY 2007-2008[1] ($ million)

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Investments	51.9	122.6	99.3
Interest paid by others	1.4	1.4	1.4
Total unrestricted	**53.3**	**124.0**	**100.7**
Restricted			
Investments	14.4	37.9	29.1
Constitutional budget reserve fund	73.3	176.1	176.5
Other treasury managed funds	13.4	22.3	23.0
Alaska Permanent Fund	3,072.3	2,512.5	2,673.9
Total restricted	**3,173.3**	**2,748.8**	**2,902.5**
Total	**3,226.7**	**2,872.8**	**3,003.2**

Investment Forecast

To forecast investment revenue for the current fiscal year—FY 2007—we combine actual performance through September 30, 2006, 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.



Figure 7-3. Callan Associates Inc.'s Five-Year Capital Market Estimated Returns

Asset Class	Benchmark for Asset Class	%/Year Median Expected Return	%/Year Expected Risk
Equities			
U.S. broad	Callan & Associates Inc. (CAI) Broad	9.00%	16.90%
U.S. large cap	Standard & Poors (S&P) 500	8.85%	16.40%
U.S. small cap	CAI small	9.85%	22.70%
International Equity	Morgan Stanley Capital international EAFE	9.20%	20.10%
Fixed Income			
Domestic broad market	Lehman Brothers Aggregate	5.00%	4.50%
Domestic short term (cash equivalent)	Three-month U.S. Treasury Bill	4.00%	0.80%
Domestic intermediate	Merrill Lynch 1- to 5-year government	4.50%	3.30%
International	Salomon Brothers non-U.S. Government	4.90%	9.60%
Other			
Real estate	CRES	7.60%	16.50%
Inflation	CPI-U	2.75%	1.40%

(1) The continued volatility in the world's financial markets makes focus on the "Expected Risk" column (far right in the table above) particularly appropriate. The numbers in the Expected Risk column represent a statistical measure called standard deviation, which is the most commonly used measure of risk in the investment world. The standard deviation is a measure of the dispersion of data around its mean. The analyst can use this measure of dispersion to provide a range of possible outcomes at any desired level of confidence. In the data in this table, the level of confidence is set at 67% or one standard deviation. A higher level of confidence would require a broader range. For example, Callan estimates an average annual return for the domestic broad market fixed-income asset class of 5% 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 0.5% (the median expected average annual return of 5% minus the expected risk of 4.5%) and 9.5% (the median expected return plus the expected risk). A prediction at 95% confidence would run from -4% to 14%, too broad a range to be useful.

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.

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.

Figure 7-4. Unrestricted Investment Revenue, FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Investments	51.9	122.6	99.3
Interest paid by others	1.4	1.4	1.4
Total	**53.3**	**124.0**	**100.7**

Figure 7-5. Investment Revenue Summary, FY 2006 and Forecasted FY 2007-2008

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-income pool	36%	Three-month U.S. Treasury Bill
Intermediate-term, fixed-income pool	64%	Merrill Lynch 1- to 5-year government index

Investment balance Sept. 30, 2006	$3,072.0 million
Projected annual rate of return	4.32%
Probability of negative return over 1 year	2.52%

Actual total investment income FY 2005	$ 36.9 million
Actual total investment income FY 2006	66.3 million
Projected total investment income FY 2007	160.5 million

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Investment revenue unrestricted	51.9	122.6	99.3
Investment revenue restricted[(1)]	14.4	37.9	29.1
Total	**66.3**	**160.5**	**128.4**

(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.

Figure 7-6. Restricted Investment Revenue, FY 2006 and Forecasted FY 2007-2008 ($ million)

	History	Forecast	
Restricted	FY 2006	FY 2007	FY 2008
Investments	14.4	37.9	29.1
Constitutional budget reserve fund	73.3	176.1	176.5
Other treasury managed funds	13.4	22.3	23.0
Alaska Permanent Fund [1]	3,072.3	2,512.5	2,673.9
Total	**3,173.3**	**2,748.8**	**2,902.5**

(1) Annual unrealized and realized earnings from Permanent Fund Figure 7-11 (page 69).

Figure 7-7. Constitutional Budget Reserve Fund Cash Flows Investment Revenue Summary, FY 2006 and Forecasted FY 2007-2008

Asset Allocation Regular Account

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-income pool	8%	Three-month U.S. Treasury Bill
Intermediate-term, fixed-income pool	72%	Merrill Lynch 1- to 5-year government index
Broad market fixed-income pool	20%	Lehman Brothers aggregate bond index

Regular balance Sept. 30, 2006	$1,898.9 million
Projected annual rate of return	4.56%
Probability of negative return over 1 year	8.00%

Asset Allocation Special Subaccount

Treasury Pool	Percent Allocation	Performance Benchmark
Broad market fixed-income pool	39%	Lehman Brothers aggregate bond index
Domestic equity pool	44%	Russell 3000 Index
International equity pool	17%	MSCI EAFE Index

Special subaccount balance Sept. 30, 2006	512.4 million
Projected annual rate of return	7.49%
Probability of negative return over 1 year	24.35%

Total Investment Income	History	Forecast	
	FY 2006	FY 2007	FY 2008
Regular account	34.4	126.8	134.5
Special Subaccount	38.9	49.3	42.0
Total	**73.3**	**176.1**	**176.5**

Figure 7-8. Constitutional Budget Reserve Fund Cash Flows, FY 2006 and Forecasted FY 2007-2008

	History[3]	Forecast	
	FY 2006	FY 2007	FY 2008
Beginning cash balance CBRF	2,235.7	2,267.1	3,302.7
Beginning main account balance	1,782.0	1,774.6	2,760.9
Earnings on main account balance [1]	34.4	126.8	134.5
Petroleum tax, royalty settlements [2]	43.7	90.0	20.0
Loan to GF (prior year)	(187.9)	0.0	0.0
GF surplus moved to CBRF	102.4	769.5	263.1
Ending main account balance	1,774.6	2,760.9	3,178.5
Beginning special subaccount balance	453.6	492.5	541.8
Earnings on special subaccount balance [1]	38.9	49.3	42.0
Loan to GF from special subaccount	0.0	0.0	0.0
Ending special subaccount balance	492.5	541.8	583.8
Total CBRF balance	**2,267.1**	**3,302.7**	**3,762.3**

(1) The earnings estimate for the main account is 4.558% and the earnings estimate for the special subaccount is 7.486%. These projections are based on 2006 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, net of annual Federal Minerals Management Service payments.

(3) Approximately $5.1 billion has been borrowed from the CBRF by the General Fund, since the inception of the CBRF.

Figure 7-9. Public School Trust Investment Revenue Summary, FY 2006 and Forecasted FY 2007-2008

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Broad market fixed-income pool	55%	Lehman Brothers aggregate index
Domestic equity pool	45%	Russell 3000 Index

Public school fund balance Sept. 30, 2006	$347.2 million
Projected annual rate of return	6.8%
Probability of negative return over 1 year	21.3%

Total Investment Income & Distributable Income ($ million)

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Public school trust total investment income	13.0	22.0	22.7
Public school trust distributable income	12.3	12.0	12.4
Total	**25.3**	**34.0**	**35.1**

Figure 7-10. Alaska Children's Trust Investment Revenue Summary, FY 2006 and Forecasted FY 2007-2008

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Broad market fixed-income pool	20%	Lehman Brothers aggregate index
International equity pool	22%	Morgan Stanley Capital International (EAFE)
Domestic equity pool	58%	Russell 3000 Index

Alaska children's fund balance Sept. 30, 2006	$11.4 million
Projected annual rate of return	8.25%
Probability of negative return over 1 year	27.19%

Total Investment Income & Distributable Income ($ million)

	History	Forecast	
Unrestricted	FY 2006	FY 2007	FY 2008
Alaska children's trust total investment income	0.4	0.9	0.9
Alaska children's trust distributable income	0.4	0.3	0.3
Total	**.8**	**1.2**	**1.2**

Figure 7-11. Permanent Fund Managed by the Permanent Fund Corporation, FY 2006 and Forecasted FY 2007-2008[1] ($ million)

	History	Forecast	
Reserved Assets — Principal	FY 2006	FY 2007	FY 2008
Total reserved assets – beginning balance	28,521.8	30,325.3	31.977.3
Contributions & appropriations			
Contributions & appropriations – beginning balance	24,647.2	26,104.2	27,354.9
Dedicated petroleum revenue	601.1	518.6	447.8
Inflation proofing transfer from realized earnings [2]	855.9	732.1	764.6
Deposits to principal and settlement earnings	0.0	0.0	0.0
Subtotal contributions & appropriations	26,104.2	27,354.9	28,567.3
Unrealized appreciation/depreciation			
Appreciation/depreciation – beginning balance	3,874.0	4,221.1	4,642.3
Annual unrealized gain/loss	347.1	421.2	447.8
Subtotal unrealized appreciation/depreciation	4,221.1	4,642.3	5,090.1
Total reserved assets – ending balance	30,325.3	31,977.3	33,657.5
Realized Earnings Account			
Realized earnings account – beginning balance	1,439.9	2,584.8	3,038.1
Annual realized earnings	2,726.2	2,091.3	2,226.1
Dividend payment to State of Alaska [3]	(688.6)	(878.3)	(1,072.0)
Inflation proofing transfer to reserved assets	(855.9)	(732.1)	(764.6)
Other transfers to reserved assets	0.0	0.0	0.0
Other appropriations out of fund	(36.7)	(27.6)	(27.6)
Realized earnings account – ending balance	2,584.8	3,038.1	3,400.1
Market Value – Total Fund Invested Assets Value			
Contributions & appropriations – end-of-year balance	26,104.2	27,354.9	28,567.3
Unrealized appreciation/depreciation end-of-year balance	4,221.1	4,642.3	5,090.1
Realized earnings end-of-year balance (statutory earnings)	2,584.8	3,038.1	3,400.1
Fund balance (market value) end-of-year balance	32,910.1	35,035.3	37,057.5
Total Reported Earnings			
Annual unrealized gain/loss	347.1	421.2	447.8
Annual realized earnings	2,726.2	2,091.3	2,226.1
Reported earnings	3,072.3	2,512.5	2,673.9

[1] Data projected using 10/31/2005 financial statements and fall 2006 revenue forecast. Callan 2006 capital market assumptions results in 7.61% median expected total return for FY 2007, FY 2008 and FY 2009. [2] Inflation proofing is required by statute, AS 37.13.125(c) and is calculated by the staff of the Permanent Fund. The inflation rate used for FY 2006 is 3.39%; Callan Associates Inc.'s inflation rate of 2.75% was used to project inflation proofing for FY 2007 and 2008. [3] The Permanent Fund dividend payment is recorded as a liability at fiscal year end and is paid out the following month.

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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 Alaska's public endowment funds that uses 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. Figure 8-1 on the next page 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 Figure 8-2 on the next page, 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 investment 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.

(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).

Figure 8-1. Target Asset Allocation—State Endowment Funds

	Cash	U.S. Bonds	International Bonds	U.S. Equities	International Equities	Real Estate	Alternative Investments	Total
Alaska Permanent Fund	0	25	4	34	19	10	8	100
Mental Health Trust	0	25	4	34	19	10	8	100
Public School Trust	0	55	0	45	0	0	0	100
Alaska Children's Trust	0	20	0	58	22	0	0	100
Power cost equalization	0	35	0	47	18	0	0	100
University of Alaska endowment	3	17.5	0	32	15	8.5	24	100

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

	Financial Reporting of Income	Distributable Income
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)

Figure 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.

Figure 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 & 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. Information in this section is provided by these corporations.

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 six figures that follow in this section summarize the activities of these corporations.

Figure 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, thereby 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 Alaskans of low and moderate income and those in remote and underdeveloped areas of the state, have adequate housing at reasonable cost, the corporation administers federally and state funded multi-residential, 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 owns and, under contractual agreements, 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. Loan repayments satisfy bond obligations and enhance the corporation's capital asset base. Alaska statutes authorize 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 through FY 2007. Alaska statutes also authorize the corporation to issue bonds for the purpose of financing projects of the state. Those bonds in aggregate may not exceed $280 million.

Alaska Municipal Bond Bank Authority
The Bond Bank loans money to Alaska municipalities for capital improvement projects. 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 operates and maintains a commercial spaceport in Kodiak, Alaska and provides commercial rocket vehicle launch support services. It promotes space-related business, research, education and economic growth in the State of Alaska.

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.

Figure 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 with this corporation.

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.

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 fund a direct loan by a municipality. The municipality repaid the loan and the Bond Bank retained the appropriation.

Alaska Aerospace Development Corporation
Since 1993, the state has contributed $10.9 million from the Science and Technology Endowment.

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.

Figure 9-3. Public Corporations—Financial Facts, FY 2006 ($ million) [1]

	Total Assets	Assets Less Liabilities Book Value	Unrestricted Net Assets	FY 2006 Operating Budget	Total Positions [2]
Alaska Housing Finance Corporation	$5,229.6	$1,990.0	$730.2	$47.7	372
Alaska Industrial Development & Export Authority	$1,156.0	$856.0	$863.0	$7.5	67
Alaska Energy Authority	$569.0	$415.0	$233.0	$27.0	[3]
Alaska Student Loan Corporation	$1,020.0	$170.0	$42.0	$11.0	104
Alaska Municipal Bond Bank Authority	$483.6	$38.6	$10.0	$0.5	1
Alaska Aerospace Development Corporation [4]	$98.0	$14.0	$5.0	$22.9	33
Alaska Railroad Corporation [5]	$574.0	$171.0	$153.0	$95.0	807

1) All figures are effective as of June 30, 2006, 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 67 member staff is engaged in AEA programs.

(4) Unaudited.

(5) The Alaska Railroad reports financial data on a calendar year basis. Assets and book value shown in this table are from audited December 31, 2005, financial statements. The operating budget figure shown here is for CY 2005.

Figure 9-4. Public Corporations—Revenue & Net Income, FY 2006 ($ million)

	Revenue	Operating Income	Net Income
Alaska Housing Finance Corporation	$318.9	$46.7	$307.0
Alaska Industrial Development & Export Authority	$52.9	$21.0	$14.6
Alaska Energy Authority	$76.1	($17.6)	$0.5
Alaska Student Loan Corporation	$36.0	$18.0	$1.5
Alaska Municipal Bond Bank Authority	$17.2	$0.9	($0.5)
Alaska Aerospace Development Corporation	$16.8	($3.4)	($2.9)
Alaska Railroad Corporation [1]	$144.0	$6.8	$12.7

(1) The Alaska Railroad reports financial data on a calendar year basis. Revenue and Operating Income shown in this table are for CY 2005.

Figure 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 Twenty-Third Legislature, in 2003, enacted SCSHB 256 (the "2003 Act") which added language to the Alaska Statutes to modify and incorporate the Transfer Plan. As approved and signed into law by the Governor, the Transfer Plan calls for annual transfers as follows: 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). Net income is defined in the statutes.

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 bonds in an aggregate amount not to exceed $280 million, for the purpose of financing projects of the state as those projects may be identified by law (AS 14.42.220).

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.

Figure 9-6. Public Corporations—Operating Expenses & Dividends, FY 2006 and Budget FY 2007 ($ million)

	Expenses		Dividends	
	Actual FY 2006	Budget FY 2007	Actual FY 2006	Budget FY 2007
Alaska Housing Finance Corporation	$41.6	$48.5	$103.0[1]	$80.6
Alaska Industrial Development & Export Authority	$7.1	$7.8	$8.8	$16.6
Alaska Energy Authority	$25.6	$30.0	na	na
Alaska Student Loan Corporation	$10.6	$11.2	$88.1	$1.9
Alaska Municipal Bond Bank Authority	$0.5	$0.7	$0.7	$0.3
Alaska Aerospace Development Corporation	$20.2	$24.1	na	na
Alaska Railroad Corporation	na	na	na	na

(1) This figure reflects the provision in AS 18.56.089, that $103 million will be transferred to the state each year though FY 2006. Because some of this money is earmarked for multi-year capital projects, actual cash transfers in any given year may vary.

Figure 9-7. University of Alaska ($ million)

Lands & Facilities June 30,2006	Total Assets June 30, 2006	Unrestricted Net Assets	FY 2007 Operating Budget	FY 2007 Total Positions
$731.0 [1]	$1,089.0	$56.4	$774.1	4,148

(1) Includes depreciation of $595.6 million.

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10. Appendices

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Glossary of Terms

Constitutional Budget Reserve Fund (CBRF): Created by voters in 1990, the Constitutional Budget Reserve Fund receives proceeds from settlements of oil, gas, and mining tax and royalty disputes. The legislature may, with a three-quarters majority vote in each chamber, withdraw money from the fund.

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.

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 sub-account revenue, program receipts and federal dollars spent through the General Fund. In budget-writing context, General Fund revenue has a definition similar to Unrestricted General Purpose Revenue.

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

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.

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 leave the excess in the Realized Earnings Account or transfer it to the principal of the Permanent Fund.

Restricted Program Receipts: This revenue is earmarked in state statute or by contract for specific purposes and is usually appropriated back to the program that generated the revenue. 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 statute if the legislature so chooses.

Restricted Revenue: Revenue restricted by the constitution, state or federal law, trust or debt restrictions, or by customary practice. The legislature can at any time remove restrictions that are solely imposed by either Alaska statute or customary practice. Program receipts, revenues allocated to sub-accounts of the General Fund, and General Fund revenues customarily shared with other entities, are all considered restricted General Fund revenues for the purposes of this report.

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.

Revenue. A-2

General Fund Unrestricted Revenue Sensitivity Matrices, FY 2007-2009 and FY 2007 Fiscal Sensitivity Chart Based on Fall 2006 Forecast ($ Million)

FY 2007 [1]

ANS $/barrel	Oil + NGLs Million barrels/ day 0.700	0.750	0.800
$35	2,326	2,442	2,559
$40	2,724	2,868	3,011
$45	3,123	3,293	3,463
$50	3,521	3,718	3,915
$55	3,920	4,143	4,367
$60	4,420	4,670	4,920
$65	4,888	5,191	5,494
$70	5,448	5,792	6,136

FY 2008

ANS $/barrel	Oil + NGLs Million barrels/ day 0.700	0.750	0.800
$35	2,090	2,211	2,331
$40	2,520	2,666	2,813
$45	2,949	3,122	3,296
$50	3,378	3,578	3,778
$55	3,808	4,034	4,260
$60	4,300	4,567	4,834
$65	4,869	5,175	5,481
$70	5,466	5,813	6,160

FY 2009

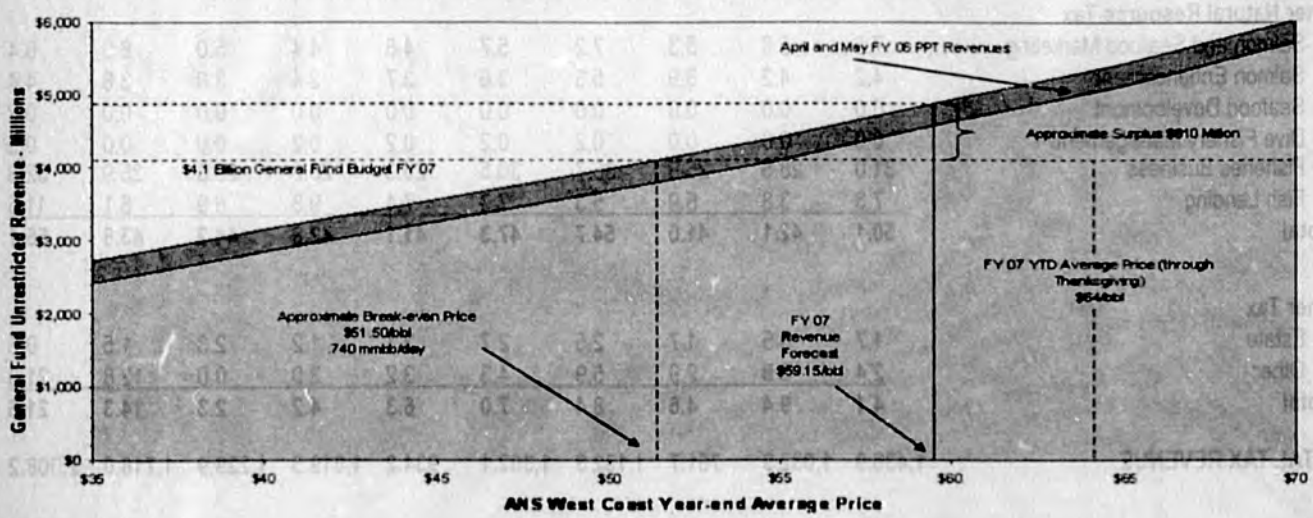
ANS $/barrel	Oil + NGLs Million barrels/ day 0.700	0.750	0.800
$35	2,178	2,302	2,426
$40	2,606	2,756	2,907
$45	3,034	3,211	3,388
$50	3,463	3,666	3,869
$55	3,891	4,120	4,350
$60	4,417	4,690	4,963
$65	4,993	5,305	5,618
$70	5,597	5,950	6,304

(1) For this analysis, FY 2007 revenue does not include the additional PPT production tax liability of approximately $293 million for May and June 2006, the months associated with the new Petroleum Profits Tax (PPT).

This analysis shows that at 800,000 barrels per day for every $5 increase in oil prices, General Fund unrestricted revenue increases by at least $425 million; when the price of oil exceeds $55 per barrel, General Fund unrestricted revenue increases by over $500 million per year for every $5 increase in oil price.

This analysis also shows that an increase of 50,000 barrels per day increases General Fund unrestricted revenue by $120 million at $35 per barrel and by $350 million at $70 per barrel.

FY 2007 Fiscal Sensitivity Based on Fall 2006 Forecast



Revenue. A-3

General Fund Unrestricted Revenue—History[1]

(Includes Some Customarily Restricted Revenue Reflected as Restricted Elsewhere in the Report)

$ Million

FY	1997	1998	1999	2000[2]	2001[2]	2002[2]	2003[2]	2004[2]	2005[2]	2006[2]
TAX REVENUE										
Property Tax	**53.6**	**51.3**	**48.8**	**45.0**	**45.1**	**49.6**	**48.7**	**47.3**	**42.5**	**54.5**
Sales/Use										
Alcoholic Beverages	11.6	11.8	12.2	12.7	12.0	12.9	25.3	32.8	34.6	35.2
Tobacco Products	13.7	15.4	15.2	16.3	16.3	15.5	16.3	16.0	26.2	36.7
Insurance Premium	28.4	33.7	28.4	28.7	32.2	37.4	43.3	48.1	52.9	51.9
Electric and Telephone Cooperative	2.7	2.3	3.7	3.2	3.3	3.1	3.7	4.0	4.0	3.9
Motor Fuel Tax[3]	35.3	35.6	37.8	42.1	37.5	40.2	37.4	41.4	39.6	42.1
Vehicle Rental/ Tire Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	9.1	9.3
Total	**91.7**	**98.8**	**97.3**	**103.0**	**101.3**	**109.1**	**126.0**	**145.8**	**166.4**	**179.1**
Income Tax										
Corporation General	48.4	53.4	53.8	56.3	59.5	53.4	47.7	39.6	61.8	137.6
Corporation Petroleum	269.4	200.1	145.1	162.7	338.1	178.4	151.1	298.8	524.0	661.1
Total	**317.8**	**253.5**	**198.9**	**219.0**	**397.6**	**231.8**	**198.8**	**338.4**	**585.8**	**798.7**
Production Tax										
Oil and Gas Production	907.0	564.4	358.6	693.2	694.4	486.7	589.8	642.7	854.9	1,191.4
Oil and Gas Conservation	1.7	1.6	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil and Gas Hazardous Release	12.9	11.8	11.1	9.5	9.4	9.6	9.2	9.2	8.3	7.8
Total	**921.6**	**577.8**	**371.1**	**702.7**	**703.8**	**496.3**	**599.0**	**651.9**	**863.2**	**1,199.2**
Other Natural Resource Tax										
Salmon and Seafood Marketing	7.6	5.6	5.3	7.2	5.7	4.8	4.4	5.0	6.0	6.4
Salmon Enhancement	4.2	4.2	3.9	5.3	3.6	3.7	2.4	3.0	3.8	4.4
Seafood Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Dive Fishery Management	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.0	0.0	0.3
Fisheries Business	31.0	28.5	25.9	36.7	30.5	25.3	26.0	29.3	25.9	32.3
Fish Landing	7.3	3.8	5.9	5.3	7.3	7.1	9.8	6.9	8.1	11.5
Total	**50.1**	**42.1**	**41.0**	**54.7**	**47.3**	**41.1**	**42.8**	**44.2**	**43.8**	**55.1**
Other Tax										
Estate	1.7	5.5	1.7	2.5	2.7	3.1	1.2	2.3	1.5	0.6
Other	2.4	3.9	2.9	5.9	4.3	3.2	3.0	0.0	12.8	21.0
Total	**4.1**	**9.4**	**4.6**	**8.4**	**7.0**	**6.3**	**4.2**	**2.3**	**14.3**	**21.6**
TOTAL TAX REVENUE	**1,438.9**	**1,032.9**	**761.7**	**1,132.8**	**1,302.1**	**934.2**	**1,019.5**	**1,229.9**	**1,716.0**	**2,308.2**

(continued on next page)

General Fund Unrestricted Revenue—History (continued from prior page)

(Includes Some Customarily Restricted Revenue Reflected as Restricted Elsewhere in the Report)

$ Million

FY	1997	1998	1999	(2) 2000	(2) 2001	(2) 2002	(2) 2003	(2) 2004	(2) 2005	(2) 2006
NON TAX REVENUE										
Licenses and Permits [4]	69.0	74.6	63.7	69.2	37.3	42.2	33.6	41.8	42.7	42.8
Intergovernmental Receipts										
Federal Shared Revenues	2.0	2.2	0.8	1.0	0.3	0.1	0.0	0.0	0.0	0.0
Charges for Services										
Marine Highways	38.6	37.1	38.8	38.3	37.6	32.2	41.5	43.6	45.6	51.0
Other	39.5	34.9	31.8	43.7	27.0	19.1	13.9	11.1	17.9	23.1
Total	78.1	72.0	70.6	82.0	64.6	51.3	55.4	54.7	63.5	74.1
Fines and Forefeitures	8.2	37.7	12.5	46.2	33.6	6.6	7.0	16.0	9.4	8.5
Rents and Royalties										
Bonuses, Rents and Interest-Net [5][6]	7.4	23.0	25.6	4.0	7.1	14.6	9.6	13.3	18.8	11.9
Oil and Gas Royalties-Net [5]	759.2	480.4	322.6	727.9	781.0	581.2	830.7	1,045.7	1,401.1	1,772.2
Timber Sales	1.9	0.8	0.3	0.3	0.4	0.2	0.0	0.2	0.1	(0.2)
Other	8.6	8.1	10.6	9.4	10.5	9.1	6.2	7.6	14.5	9.0
Total	777.1	512.3	359.1	741.6	799.0	605.1	846.5	1,066.8	1,434.5	1,729.9
Investment Earnings [6]	77.1	60.6	46.5	48.1	78.8	43.1	59.0	9.7	24.7	53.3
Miscellaneous Revenue	44.6	33.5	37.3	27.1	34.9	42.3	9.4	19.2	7.5	40.6
Sub-Total NON-TAX REVENUE	1,056.1	792.9	590.5	1,015.2	1,048.5	790.7	1,010.9	1,202.8	1,582.3	2,012.2
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL NON-TAX REVENUE	1,056.1	792.9	590.5	1,015.2	1,048.5	790.7	1,010.9	1,202.8	1,582.3	2,012.2
TOTAL TAX REVENUE	1,438.9	1,032.9	761.7	1,132.8	1,302.1	934.2	1,019.5	1,229.9	1,716.0	2,308.2
TOTAL GENERAL FUND UNRESTRICTED REVENUE	2,495.0	1,825.8	1,352.2	2,148.0	2,350.6	1,724.9	2,030.4	2,438.1	3,298.3	4,320.4

(1) A summary of historical General Fund unrestricted revenue can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/GeneralFundUnrestrictedRevenueHistory.pdf.

(2) After FY 2000, most receipt-supported services are excluded. Certain seafood assessments which are considered receipt-supported services for purposes of this forecast are included.

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

(4) Beginning in FY 2006, alcoholic beverage licenses and permits shared with municipalities are treated as customarily restricted for purposes of our forecast; however these are included in Total General Fund Unrestricted Revenue.

(5) These categories are primarily composed of petroleum.

(6) Starting in FY 2001, interest earnings are included in oil and gas royalties and excluded from investment revenue.

Revenue. A-4a

General Fund Unrestricted Petroleum Revenue—History[1]

$ Million

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Corporation Petroleum Tax	269.4	200.1	145.1	162.7	338.1	178.4	151.1	298.8	524.0	661.1
Production Tax	921.6	577.8	371.1	702.7	703.8	496.3	599.0	651.9	863.2	1,199.2
Petroleum Property Tax	53.6	51.3	48.8	45.0	45.1	49.6	48.7	47.3	42.5	54.5
Oil and Royalties-Net[2]	759.2	480.4	322.6	727.9	781.0	581.2	830.7	1,045.7	1,401.1	1,772.2
Bonuses, Rents and Interest-Net[2][3]	7.4	23.0	25.6	4.0	7.1	14.6	9.6	13.3	18.8	11.9
Total Petroleum Revenue	**2,011.2**	**1,332.6**	**913.2**	**1,642.3**	**1,875.1**	**1,320.1**	**1,639.1**	**2,057.0**	**2,849.6**	**3,698.9**
Cumulative General Fund Unrestricted Petroleum Revenue[4]	**43,849.7**	**45,182.3**	**46,095.5**	**47,737.8**	**49,612.9**	**50,933.0**	**52,572.1**	**54,629.1**	**57,478.7**	**61,177.6**
Total General Fund Unrestricted Revenue[5]	**2,495.0**	**1,825.8**	**1,352.2**	**2,148.0**	**2,350.6**	**1,724.9**	**2,030.4**	**2,443.7**	**3,293.0**	**4,320.4**
% Petroleum Revenue	81%	73%	68%	76%	80%	77%	81%	84%	87%	86%

(1) Historical General Fund unrestricted petroleum revenue can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/PetroleumRevenueHistory.pdf. Table on Tax web site includes historical Reserve Tax (FY 1976-1977) and Petroleum Special Settlements (FY1986-1995) which, due to current zero totals, are not included in Appendix A-4a & A-4b.

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

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

(4) This table shows historical petroleum revenue for FY 1997-2006. The cumulative petroleum revenue total is based on revenue beginning in FY 1959.

(5) Historical General Fund unrestricted revenue includes some of the revenue shown as restricted elsewhere in this report, such as shared taxes or Alaska Marine Highway System Revenues.

Revenue. A-4b

General Fund Unrestricted Petroleum Revenue—Forecast[1]

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Corporation Petroleum Tax	657.2	493.7	466.5	455.0	447.1	458.7	430.1	404.0	361.1	367.5
Production Tax	2,067.2	1,476.1	1,403.1	1,333.5	1,366.8	1,336.2	1,195.5	1,006.2	937.6	875.6
Petroleum Property Tax	51.7	51.4	51.0	50.6	50.4	50.1	49.2	47.9	46.5	46.0
Oil andGas Royalties-Net[2]	1,503.9	1,317.2	1,287.3	1,250.6	1,256.0	1,141.4	1,017.4	882.9	860.7	846.2
Bonuses, Rents & Interest-Net[2][3]	51.4	18.7	16.4	15.9	17.0	16.0	17.8	22.5	18.0	14.7
Total Petroleum Revenue	4,331.5	3,357.2	3,224.3	3,105.7	3,137.4	3,002.5	2,710.0	2,363.4	2,223.9	2,149.9
Cumulative General Fund Unrestricted Petroleum Revenue[4]	**65,509.1**	**68,866.3**	**72,090.6**	**75,196.3**	**78,333.7**	**81,336.2**	**84,046.2**	**86,409.6**	**88,633.6**	**90,783.5**
Total General Fund Unrestricted Revenue[5]	**4,912.3**	**3,911.1**	**3,776.6**	**3,669.0**	**3,718.8**	**3,592.2**	**3,307.2**	**2,968.1**	**2,839.6**	**2,774.7**
% Petroleum Revenue	88%	86%	85%	85%	84%	84%	82%	80%	78%	77%

(1) Forecasted General Fund unrestricted petroleum revenue through FY 2016 can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/PetroleumRevenueHistory.pdf. Table on Tax web site includes historical Reserve Tax (FY 1976-FY 1977) and Petroleum Special Settlements (FY1986-1995) which, due to current zero totals, are not included in Appendix A-4a & 4b.

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

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

(4) The cumulative petroleum revenue total is based on revenue beginning in FY 1959.

(5) Forecasted General Fund unrestricted revenue shown in A-4b does not include these "customarily restricted" revenues.

Revenue. A-5a

Petroleum Production Tax and Royalty Revenue—History[1]

$ Million

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Alaska North Slope										
Oil Royalty-Net [2]	735.5	441.2	297.9	658.4	797.4	546.5	827.5	959.1	1,300.4	1,651.9
Production Tax										
Oil Production Tax	868.9	545.2	328.0	632.6	667.1	444.5	549.6	594.5	787.3	1,162.6
Gas Production Tax (includes gas NGL's)	32.0	18.6	11.4	22.3	20.3	9.3	12.7	17.6	30.5	31.0
Total Production Tax	900.9	563.8	339.4	654.9	687.3	453.8	562.3	612.1	817.9	1,193.6
Conservation Tax/ Exploration Incentive	1.7	1.5	1.4	0.1	0.0	0.0	0.0	0.0	(30.0)	(50.0)
Hazardous Release Fund	12.6	11.3	10.5	9.4	9.0	9.0	9.0	9.6	8.2	7.6
Gas Royalty-Net	1.1	0.8	0.8	0.9	1.0	1.3	3.2	6.6	6.7	9.1
Subtotal	**1,651.9**	**1,018.7**	**650.0**	**1,323.8**	**1,494.8**	**1,010.6**	**1,402.0**	**1,587.3**	**2,103.2**	**2,812.3**
Cook Inlet										
Oil Royalty-Net [2]	21.2	13.5	10.2	19.5	27.4	18.8	24.2	26.0	29.2	30.8
Production Tax										
Oil Production Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gas Production Tax	18.2	18.4	13.2	16.0	17.9	23.4	23.0	24.7	24.4	33.2
Total Production Tax	18.2	18.4	13.2	16.0	17.9	23.4	23.0	24.7	24.4	33.2
Conservation Tax/ Exploration Incentive	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.2
Gas Royalty-Net	22.4	20.9	18.3	19.4	30.5	25.2	23.4	39.2	31.1	41.0
Subtotal	**62.2**	**53.2**	**42.2**	**55.2**	**75.9**	**67.7**	**70.9**	**90.1**	**85.0**	**105.2**
Total Alaska										
Oil Royalty-Net [2]	756.8	454.8	308.1	678.0	824.7	565.3	851.8	985.0	1,329.6	1,682.8
Production Tax										
Oil Production Tax	868.9	545.2	328.0	632.6	667.1	444.5	549.6	594.5	787.3	1,162.6
Gas Production Tax (includes gas NGL's)	50.2	37.0	24.7	38.3	38.1	32.7	35.7	42.3	55.0	64.2
Total Production Tax	919.1	582.2	352.7	670.9	705.2	477.2	585.3	636.8	842.3	1,226.8
Conservation Tax/ Exploration Incentive	1.7	1.6	1.5	0.1	0.0	0.0	0.0	0.0	(30.0)	(50.0)
Hazardous Release Fund	13.0	11.6	10.9	9.7	9.2	9.3	9.2	9.8	8.4	7.8
Gas Royalty-Net	23.5	21.7	19.1	20.3	31.5	26.4	26.6	45.7	37.8	50.1
Total	**1,714.0**	**1,071.9**	**692.2**	**1,379.0**	**1,570.7**	**1,078.3**	**1,472.9**	**1,677.4**	**2,188.2**	**2,917.4**

(1) Appendices A-5a & A-5b provide a breakout of Alaska North Slope and Cook Inlet revenues which may not match Alaska State Accounting System (AKSAS) numbers in tables throughout the Revenue Sources Book.This detailed revenue is from the Department of Revenue's Forecast Model. This table can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/ProductionTax&RoyaltyRevenue.pdf.

(2) Unrestricted oil and gas royalty revenue is net of Permanent Fund (PF) and Public School Fund (PSF) contributions.

Revenue. A-5b

Petroleum Production Tax and Royalty Revenue—Forecast [1]

$ Million

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Alaska North Slope										
Oil Royalty-Net [2]	1,415.9	1,234.0	1,203.4	1,167.9	1,172.1	1,082.9	959.8	826.2	803.0	787.4
Production Tax										
Oil Production Tax	0	0	0	0	0	0	0	0	0	0
Gas Production Tax (includes gas NGL's)	0	0	0	0	0	0	0	0	0	0
Total Production Tax [3]	2,074.8	1,482.2	1,358.2	1,287.5	1,319.6	1,302.6	1,161.7	971.9	903.0	840.7
Conservation Tax/ Exploration Incentive	(50.0)	(50.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	9.4	9.6	9.6	9.6	9.7	10.4	9.9	9.6	9.1	8.6
Gas Royalty-Net	4.6	2.4	2.3	2.3	2.3	2.2	2.1	1.9	2.0	2.0
Subtotal	**3,454.8**	**2,678.3**	**2,573.4**	**2,467.3**	**2,503.7**	**2,398.1**	**2,133.4**	**1,809.6**	**1,717.1**	**1,638.7**
Cook Inlet										
Oil Royalty-Net [2]	30.3	25.2	24.2	21.2	20.5	18.5	16.6	14.5	14.2	13.9
Production Tax										
Oil Production Tax [4]	0	0	0	0	0	0	0	0	0	0
Gas Production Tax	0	0	0	0	0	0	0	0	0	0
Total Production Tax [3]	32.7	34.1	35.2	36.3	37.4	23.1	23.8	24.6	25.4	26.2
Conservation Tax/ Exploration Incentive	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Gas Royalty-Net	53.2	55.6	57.4	59.2	61.1	37.8	39.0	40.2	41.5	42.9
Subtotal	**116.3**	**115.1**	**117.0**	**116.8**	**119.2**	**79.5**	**79.5**	**79.5**	**81.2**	**83.1**
Total Alaska										
Oil Royalty-Net [2]	1,446.2	1,259.2	1,227.6	1,189.1	1,192.6	1,101.4	976.3	840.7	817.2	801.3
Production Tax										
Oil Production Tax	0	0	0	0	0	0	0	0	0	0
Gas Production Tax (includes gas NGL's)	0	0	0	0	0	0	0	0	0	0
Total Production Tax [3]	2,107.5	1,516.3	1,393.3	1,323.8	1,357.0	1,325.7	1,185.5	996.5	928.4	866.9
Conservation Tax/ Exploration Incentive	(50.0)	(50.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	9.7	9.8	9.8	9.8	9.8	10.5	10.0	9.7	9.2	8.7
Gas Royalty-Net	57.7	58.0	59.7	61.5	63.4	40.0	41.1	42.1	43.5	44.9
Total	**3,571.1**	**2,793.4**	**2,690.4**	**2,584.1**	**2,622.9**	**2,477.6**	**2,213.0**	**1,889.1**	**1,798.3**	**1,721.8**

(1) Appendices A-5a & A-5b provide a breakout of Alaska North Slope and Cook Inlet revenues which may not match Alaska State Accounting System (AKSAS) numbers in tables throughout the Revenue Sources Book.This detailed revenue is from the Department of Revenue's Forecast Model. This table can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/ProductionTax&RoyaltyRevenue.pdf.

(2) Unrestricted oil and gas royalty revenue is net of Permanent Fund (PF) and Public School Fund (PSF) contributions.

(3) Due to enactment of the Petroleum Profits Tax (PPT) in 2006, oil and gas production taxes are combined and based on company profits. See Section 4 for PPT detail.

(4) Cook Inlet production is afforded special treatment under the PPT. Taxation is based on the lower of PPT or ELF calculated production tax.

Revenue. A-6a

ANS and Cook Inlet Royalty Revenue—History[1]

$ Million

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
ALASKA NORTH SLOPE										
Total Revenue										
Oil (does not include NPR-A royalty)	1,005.7	602.2	402.4	897.0	1,099.5	761.1	1,142.0	1,287.3	1,745.6	2,217.3
Gas	1.5	1.1	1.0	1.2	1.4	1.8	4.4	8.8	9.0	12.2
ANS Royalty Revenue	**1,007.2**	**603.3**	**403.4**	**898.2**	**1,100.9**	**762.8**	**1,146.4**	**1,296.1**	**1,754.5**	**2,229.6**
Revenue to Permanent Fund & Public School Fund										
Oil	270.1	160.9	104.5	238.5	302.1	214.6	314.5	328.3	445.1	565.4
Gas	0.4	0.3	0.3	0.3	0.4	0.5	1.2	2.2	2.3	3.1
ANS Revenue to PF & PSF	**270.5**	**161.2**	**104.8**	**238.9**	**302.5**	**215.1**	**315.7**	**330.5**	**447.4**	**568.5**
General Fund Revenue										
Oil	735.5	441.2	297.9	658.4	797.4	546.5	827.5	959.1	1,300.4	1,651.9
Gas	1.1	0.8	0.8	0.9	1.0	1.3	3.2	6.6	6.7	9.1
ANS Royalty Revenue-Net	**736.6**	**442.1**	**298.6**	**659.4**	**798.4**	**547.8**	**830.7**	**965.6**	**1,307.1**	**1,661.0**
COOK INLET										
Total Revenue										
Oil	28.5	18.2	13.7	26.2	36.7	25.3	32.5	34.9	39.2	41.4
Gas	30.0	28.1	24.6	26.0	40.9	33.8	31.4	52.6	41.8	55.0
Cook Inlet Royalty Revenue	**58.5**	**46.2**	**38.3**	**52.3**	**77.6**	**59.1**	**63.9**	**87.4**	**81.0**	**96.4**
Revenue to Permanent Fund & Public School Fund										
Oil	7.3	4.6	3.5	6.7	9.4	6.4	8.3	8.9	10.0	10.6
Gas	7.7	7.2	6.3	6.6	10.4	8.6	8.0	13.4	10.7	14.0
Cook Inlet Revenue to PF & PSF	**14.9**	**11.8**	**9.8**	**13.3**	**19.8**	**15.1**	**16.3**	**22.3**	**20.7**	**24.6**
General Fund Revenue										
Oil	21.2	13.5	10.2	19.5	27.4	18.8	24.2	26.0	29.2	30.8
Gas	22.4	20.9	18.3	19.4	30.5	25.2	23.4	39.2	31.1	41.0
Cook Inlet Royalty Revenue-Net	**43.6**	**34.5**	**28.6**	**38.9**	**57.8**	**44.0**	**47.6**	**65.1**	**60.3**	**71.8**

(1) Appendices A-6a & A-6b provide royaty revenues which may not match the Alaska State Accounting Sytem (AKSAS) numbers in tables throughout this Revenue Souces Book. Revenue from the Department of Revenue's Forecast Model. This table can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/RoyaltyRevenueDetail.pdf.

Revenue. A-6b

ANS and Cook Inlet Royalty Revenue—Forecast[1]

$ Million

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
ALASKA NORTH SLOPE										
Total Revenue										
Oil (does not include NPR-A royalty)	1,900.6	1,656.4	1,615.2	1,567.7	1,573.3	1,453.6	1,288.3	1,109.0	1,077.9	1,056.9
Gas	6.2	3.2	3.1	3.1	3.1	3.0	2.8	2.6	2.6	2.7
ANS Royalty Revenue	**1,906.7**	**1,659.6**	**1,618.3**	**1,570.7**	**1,576.4**	**1,456.6**	**1,291.1**	**1,111.6**	**1,080.5**	**1,059.6**
Revenue to Permanent Fund & Public School Fund										
Oil	484.6	422.4	411.9	399.8	401.2	370.7	328.5	282.8	274.9	269.5
Gas	1.6	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7
ANS Revenue to PF & PSF	**486.2**	**423.2**	**412.7**	**400.5**	**402.0**	**371.4**	**329.2**	**283.5**	**275.5**	**270.2**
General Fund Revenue										
Oil	1,415.9	1,234.0	1,203.4	1,167.9	1,172.1	1,082.9	959.8	826.2	803.0	787.4
Gas	4.6	2.4	2.3	2.3	2.3	2.2	2.1	1.9	2.0	2.0
ANS Royalty Revenue-Net	**1,420.5**	**1,236.4**	**1,205.7**	**1,170.2**	**1,174.5**	**1,085.2**	**961.9**	**828.1**	**805.0**	**789.4**
COOK INLET										
Total Revenue										
Oil	40.6	33.8	32.5	28.4	27.5	24.8	22.2	19.4	19.0	18.7
Gas	71.4	74.7	77.0	79.5	82.0	50.7	52.3	54.0	55.7	57.5
Cook Inlet Royalty Revenue	**112.0**	**108.5**	**109.6**	**107.9**	**109.5**	**75.5**	**74.5**	**73.4**	**74.8**	**76.2**
Revenue to Permanent Fund & Public School Fund										
Oil	10.4	8.6	8.3	7.3	7.0	6.3	5.7	5.0	4.9	4.8
Gas	18.2	19.0	19.6	20.3	20.9	12.9	13.3	13.8	14.2	14.7
Cook Inlet Revenue to PF & PSF	**28.6**	**27.7**	**27.9**	**27.5**	**27.9**	**19.2**	**19.0**	**18.7**	**19.1**	**19.4**
General Fund Revenue										
Oil	30.3	25.2	24.2	21.2	20.5	18.5	16.6	14.5	14.2	13.9
Gas	53.2	55.6	57.4	59.2	61.1	37.8	39.0	40.2	41.5	42.9
Cook Inlet Royalty Revenue-Net	**83.4**	**80.8**	**81.6**	**80.4**	**81.6**	**56.2**	**55.5**	**54.7**	**55.7**	**56.8**

(1) Appendices A-6a & A-6b provide royaty revenues which may not match the Alaska State Accounting Sytem (AKSAS) numbers in tables throughout this Revenue Souces Book. Revenue from the Department of Revenue's Forecast Model. This table can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/RoyaltyRevenueDetail.pdf.

Revenue. A-7a

Total Alaska Government Petroleum Revenue—History [1]

$ Million

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Corporation Petroleum Tax	269.4	200.1	145.1	162.7	338.1	178.4	151.1	298.8	524.0	661.1
Production Tax	921.6	577.8	371.1	702.7	703.8	496.3	599.0	651.9	863.2	1,199.2
Petroleum Property Tax	53.6	51.3	48.8	45.0	45.1	49.6	48.7	47.3	42.5	54.5
Oil and Gas Royalties [2]	1,065.7	649.5	441.7	950.5	1,178.5	821.9	1,210.3	1,383.6	1,835.5	2,325.9
Bonuses, Rents and Interest [3]	9.9	30.9	34.4	5.4	9.5	19.6	12.9	17.9	25.2	16.0
Deposits to the CBRF	566.6	343.2	55.3	448.3	48.9	90.2	22.3	8.4	27.4	43.7
Total Petroleum Revenue	**2,886.8**	**1,852.8**	**1,096.4**	**2,314.6**	**2,324.0**	**1,656.0**	**2,044.3**	**2,407.8**	**3,317.9**	**4,300.4**

(1) Total does not include NPR-A royalties, rents and bonuses. Revenue numbers (except for royalties, bonuses, rents and interest) are from the Alaska State Accounting System (AKSAS). AKSAS revenue is reported for period oil and gas produced; when amended, revenue is different than when it was actually collected. Gross royalties, bonuses, rents & interest are from the Department of Revenue's Forecast Model and may not match AKSAS numbers in tables throughout this Revenue Sources Book. A summary of historical General Fund petroleum revenue can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/TotalGovernmentRevenue.pdf

(2) Includes all royalty payments allocated to Permanent Fund, Public School Fund and General Fund.

(3) Oil and Gas Settlements from DOR Mineral Payments Fund Allocation Detail.

Revenue. A-7b

Total Alaska Government Petroleum Revenue—Forecast [1]

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Corporation Petroleum Tax	657.2	493.7	466.5	455.0	447.1	458.7	430.1	404	361.1	367.5
Production Tax	2,067.2	1,476.1	1,403.1	1,333.5	1,366.8	1,336.2	1,195.5	1,006.2	937.6	875.6
Petroleum Property Tax	51.7	51.4	51.0	50.6	50.4	50.1	49.2	47.9	46.5	46.0
Oil and Gas Royalties [2]	2,018.7	1,768.1	1,727.9	1,678.7	1,686.0	1,532.1	1,365.7	1,185.0	1,155.3	1,135.8
Bonuses, Rents and Interest [3]	69.1	25.1	22.0	21.4	22.8	21.5	23.9	30.2	24.2	19.7
Deposits to the CBRF	90.0	20.0	20.0	8.3	0.0	0.0	0.0	0.0	0.0	0.0
Total Petroleum Revenue	**4,953.9**	**3,834.4**	**3,690.5**	**3,547.5**	**3,573.2**	**3,398.6**	**3,064.4**	**2,673.3**	**2,524.7**	**2,444.6**

(1) Total does not include NPR-A royalties, rents and bonuses. Revenue numbers (except for royalties, bonuses, rents and interest) are from the Alaska State Accounting System (AKSAS). AKSAS revenue is reported for period oil and gas produced; when amended, revenue is different than when it was actually collected. Gross royalties, bonuses, rents & interest are from the Department of Revenue's Forecast Model and may not match AKSAS numbers in tables throughout this Revenue Sources Book. Forecasted General Fund petroleum revenue through FY 2016 can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/TotalGovernmentRevenue.pdf

(2) Includes all royalty payments allocated to Permanent Fund, Public School Fund and General Fund.

(3) Oil and Gas Settlements from DOR Mineral Payments Fund Allocation Detail.

Prices. B-1a

Crude Oil and Natural Gas Prices—History [1]

NOMINAL

WTI, ANS WEST COAST. ANS AND COOK INLET WELLHEAD PRICES $ PER BARREL

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
WTI	22.54	18.04	14.13	24.82	30.41	23.87	29.47	33.12	47.19	63.01
ANS West Coast	20.90	15.86	12.64	23.27	27.86	21.78	28.16	31.74	43.44	60.80
ANS Wellhead Wtd Avg All Destinations	16.40	11.70	8.50	18.94	22.81	17.09	23.10	26.71	38.82	55.33
Cook Inlet Wellhead	18.76	13.76	10.51	21.00	25.88	19.64	24.93	27.85	40.24	57.06

HENRY HUB NATURAL GAS PRICES $ PER MM BTU

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Henry Hub	2.48	2.43	1.97	2.64	5.47	2.80	4.62	5.37	6.18	9.20

CONSTANT [2]

WTI, ANS WEST COAST. ANS AND COOK INLET WELLHEAD PRICES $ PER BARREL

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
WTI	27.98	21.89	16.86	29.05	34.30	26.08	31.87	35.06	48.38	63.01
ANS West Coast	25.94	19.24	15.08	27.23	31.43	23.80	30.44	33.61	44.54	60.80
ANS Wellhead Wtd Avg All Destinations	20.35	14.19	10.15	22.17	25.74	18.67	24.97	28.28	39.80	55.33
Cook Inlet Wellhead	23.28	16.69	12.54	24.58	29.20	21.46	26.95	29.49	41.26	57.06

HENRY HUB NATURAL GAS PRICES $ PER MM BTU

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Henry Hub	3.08	2.94	2.35	3.09	6.17	3.06	5.00	5.69	6.34	9.20

(1) Data from Platt's Oilgram Price Report, Wood McKenzie and Alaska Department of Revenue's prevailing value and tax return data. A summary of historical crude oil and natural gas prices can be found on the Tax Division's web site: http://www.tax.state.ak.us/sourcesbook/NominalOil&NatGasPrices.pdf.

(2) Adjustment to "constant" dollars is useful to compare prices across time excluding inflation. These price data are adjusted to constant dollars based on inflation rates provided by the U.S. Department of Labor, Bureau of Labor Statistics. The data series used is the Consumer Price Index for all Urban Consumers (CPI-U) which can be found at http://www.bls.gov/cpi/home.htm. A summary of constant crude oil and natural gas prices can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/ConstantOil&NatGasPrices.pdf.

Prices. B-1b

Crude Oil and Natural Gas Prices—Forecast[1]

NOMINAL [2]

WTI, ANS West Coast. ANS and Cook Inlet Wellhead Prices
$ per Barrel

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
WTI	61.45	53.75	52.00	51.50	52.50	50.00	47.50	44.00	45.00	46.00
ANS West Coast	59.15	51.25	49.50	49.00	50.00	47.50	45.00	41.50	42.50	43.50
ANS Wellhead Wtd Avg All Destinations	52.35	44.97	44.84	44.09	44.98	42.24	39.62	35.88	36.66	37.51
Cook Inlet Wellhead	56.32	49.19	47.45	46.99	47.98	45.49	43.00	39.50	40.51	41.52

Henry Hub Natural Gas Prices
$ per MM BTU

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Henry Hub	5.93	5.76	5.93	5.88	6.02	5.80	5.25	4.75	4.88	5.02

CONSTANT

WTI, ANS West Coast. ANS and Cook Inlet Wellhead Prices
$ per Barrel

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
WTI	59.81	50.91	47.94	46.20	45.84	42.49	39.28	35.42	35.25	35.07
ANS West Coast	57.57	48.54	45.63	43.96	43.66	40.36	37.22	33.40	33.29	33.16
ANS Wellhead Wtd Avg All Destinations	50.95	42.59	41.33	39.56	39.27	35.90	32.76	28.88	28.72	28.59
Cook Inlet Wellhead	54.81	46.59	43.74	42.15	41.89	38.65	35.56	31.80	31.73	31.65

Henry Hub Natural Gas Prices
$ per MM BTU

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Henry Hub							4.34	3.82	3.82	3.82

(1) Data from the Department of Revenue's forecast model. Forecasts of crude oil and natural gas prices through FY 2016 can be found on the Tax Division's web site: http://www.tax.state.ak.us/sourcesbook/NominalOil&NatGasPrices.pdf.

(2) Adjustment to "nominal" dollars is required to prepare the crude oil and natural gas price forecast. Callan Associates Inc.'s inflation rate of 2.75% was used for FY 2007-beyond. A summary of nominal crude oil and natural gas prices can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/ConstantOil&NatGasPrices.pdf.

Netback Costs. B-2a

Nominal Netback Costs—History[1]

Marine Costs, TAPS Tariff, Feeder Pipeline and Other Adjustment Charges

$ per Barrel

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Marine Costs	1.52	1.51	1.52	1.59	1.39	1.55	1.71	1.69	1.79	1.63
TAPS Tariff	2.71	2.73	2.74	2.86	3.27	3.50	3.40	3.16	3.28	3.58
TAPS Quality Bank + Loss	0.00	0.00	0.00	0.00	0.00	(0.02)	(0.05)	(0.13)	(0.27)	(0.27)
Feeder Pipe + Other Upstream Costs	0.11	0.07	0.03	(0.01)	(0.09)	0.09	0.30	0.26	0.23	0.40
Location Differential	0.16	(0.14)	(0.16)	(0.11)	0.47	(0.42)	(0.29)	0.05	(0.41)	0.13
Total Netback Costs	**4.50**	**4.16**	**4.14**	**4.32**	**5.04**	**4.69**	**5.06**	**5.04**	**4.62**	**5.47**

(1) Data from the Department of Revenue's Forecast Model. A summary of historical netback costs can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/NetbackCosts.pdf

Netback Costs. B-2b

Nominal Netback Costs—Forecast [1]

Marine Costs, TAPS Tariff, Feeder Pipeline and Other Adjustment Charges

$ per Barrel

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Marine Costs	1.76	1.79	1.84	1.89	1.94	1.99	2.04	2.09	2.14	2.19
TAPS Tariff	4.38	4.11	2.36	2.43	2.48	2.53	2.57	2.71	2.84	2.92
TAPS Quality Bank + Loss	(0.62)	(0.45)	(0.46)	(0.47)	(0.48)	(0.50)	(0.51)	(0.53)	(0.54)	(0.56)
Feeder Pipe + Other Upstream Costs	0.86	0.83	0.86	0.87	0.92	1.10	1.16	1.25	1.30	1.34
Location Differential	0.43	0.00	0.06	0.18	0.16	0.13	0.12	0.10	0.10	0.09
Total Netback Costs	**6.80**	**6.28**	**4.66**	**4.91**	**5.02**	**5.26**	**5.38**	**5.62**	**5.84**	**5.99**

(1) Data from the Department of Revenue's Forecast Model. Forecasted netback costs through FY 2016 can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/NetbackCosts.pdf.

Prices. B-3

Price Changes from Spring 2006 Forecast

$ per barrel

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fall 2006 Forecast											
WTI	63.01	61.45	53.75	52.00	51.50	52.50	50.00	47.50	44.00	45.00	46.00
ANS West Coast	60.80	59.15	51.25	49.50	49.00	50.00	47.50	45.00	41.50	42.50	43.50
ANS Wellhead (1)	55.33	52.35	44.97	44.84	44.09	44.98	42.24	39.62	35.88	36.66	37.51
Cook Inlet Wellhead	57.06	56.32	49.19	47.45	46.99	47.98	45.49	43.00	39.50	40.51	41.52
Spring 2006 Forecast											
WTI	61.02	55.90	49.10	27.50	27.50	27.50	27.50	27.50	27.50	27.50	27.50
ANS West Coast	58.72	53.60	46.90	25.50	25.50	25.50	25.50	25.50	25.50	25.50	25.50
ANS Wellhead (1)	53.01	47.40	40.90	21.13	21.02	20.87	20.62	20.43	20.24	20.17	20.07
Cook Inlet Wellhead	56.33	51.54	44.85	23.46	23.49	23.48	23.49	23.50	23.50	23.51	23.52
price change from prior forecast											
WTI	$1.99	$5.56	$4.65	$24.50	$24.00	$25.00	$22.50	$20.00	$16.50	$17.50	$18.50
ANS West Coast	$2.08	$5.55	$4.35	$24.00	$23.50	$24.50	$22.00	$19.50	$16.00	$17.00	$18.00
ANS Wellhead (1)	$2.32	$4.96	$4.07	$23.71	$23.07	$24.11	$21.63	$19.18	$15.64	$16.49	$17.44
Cook Inlet Wellhead	$0.74	$4.78	$4.34	$23.99	$23.50	$24.50	$22.00	$19.50	$16.00	$17.00	$18.00
percent change from prior forecast											
WTI	3.3%	9.9%	9.5%	89.1%	87.3%	90.9%	81.8%	72.7%	60.0%	63.6%	67.3%
ANS West Coast	3.5%	10.4%	9.3%	94.1%	92.2%	96.1%	86.3%	76.5%	62.7%	66.7%	70.6%
ANS Wellhead (1)	4.4%	10.5%	10.0%	112.2%	109.8%	115.6%	104.9%	93.9%	77.2%	81.7%	86.9%
Cook Inlet Wellhead	1.3%	9.3%	9.7%	102.2%	100.1%	104.3%	93.7%	83.0%	68.1%	72.3%	76.5%

(1) ANS Wellhead weighted average all destinations.

Production. C-1

Production Changes from Spring 2006 Forecast

Million Barrels per Day

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fall 2006 Forecast											
ANS	0.845	0.740	0.782	0.779	0.779	0.782	0.831	0.795	0.772	0.737	0.696
Cook Inlet	0.018	0.017	0.016	0.014	0.013	0.012	0.011	0.010	0.010	0.009	0.008
ALASKA	0.863	0.756	0.798	0.793	0.792	0.794	0.842	0.806	0.782	0.746	0.705
Spring 2006 Forecast											
ANS	0.854	0.825	0.803	0.799	0.786	0.802	0.813	0.785	0.762	0.732	0.772
Cook Inlet	0.018	0.017	0.016	0.014	0.014	0.013	0.012	0.011	0.011	0.010	0.010
ALASKA	0.872	0.842	0.819	0.813	0.799	0.815	0.825	0.797	0.773	0.742	0.782
volume change from prior forecast											
ANS Total	(0.008)	(0.086)	(0.021)	(0.020)	(0.007)	(0.020)	0.018	0.010	0.009	0.005	(0.076)
Cook Inlet	0.000	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
ALASKA	(0.008)	(0.086)	(0.021)	(0.020)	(0.008)	(0.021)	0.017	0.009	0.008	0.004	(0.077)
percent change from prior forecast											
ANS Total	-1.0%	-10.4%	-2.6%	-2.5%	-0.9%	-2.5%	2.3%	1.3%	1.2%	0.7%	-9.8%
Cook Inlet	0.0%	-1.7%	-0.4%	-2.6%	-4.4%	-6.2%	-8.3%	-10.2%	-12.0%	-13.5%	-14.9%
ALASKA	-1.1%	-10.2%	-2.5%	-2.5%	-1.0%	-2.6%	2.1%	1.1%	1.1%	0.5%	-9.9%

Production. C-2a

Crude Oil Production—History[1]

Million Barrels per Day

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Alaska North Slope										
Prudhoe Bay[2]	0.809	0.713	0.636	0.571	0.540	0.487	0.433	0.419	0.381	0.340
PBU Satellites[3]	0	0	0.003	0.005	0.007	0.026	0.045	0.052	0.044	0.041
GPMA[4]	0.210	0.192	0.159	0.118	0.089	0.075	0.065	0.061	0.056	0.048
Kuparuk	0.266	0.259	0.240	0.212	0.197	0.176	0.160	0.155	0.142	0.134
Kuparuk Satellites[5]	0	0.001	0.025	0.037	0.031	0.039	0.052	0.049	0.051	0.041
Milne Point[6]	0.048	0.053	0.055	0.053	0.052	0.052	0.051	0.051	0.050	0.041
Endicott[7]	0.070	0.057	0.052	0.048	0.037	0.033	0.029	0.029	0.021	0.020
Liberty	0	0	0	0	0	0	0	0	0	0
Alpine[8]	0	0	0	0	0.038	0.096	0.098	0.099	0.104	0.123
Fiord[9]	0	0	0	0	0	0	0	0	0	0
Nanuq[10]	0	0	0	0	0	0	0	0	0	0
NPR-A	0	0	0	0	0	0	0	0	0	0
Offshore[11]	0	0	0	0	0	0	0	0	0	0
Northstar[12]	0	0	0	0	0	0.019	0.057	0.066	0.069	0.056
Total ANS	**1.403**	**1.274**	**1.170**	**1.044**	**0.991**	**1.004**	**0.991**	**0.980**	**0.917**	**0.845**
Cook Inlet	**0.037**	**0.032**	**0.032**	**0.029**	**0.029**	**0.033**	**0.028**	**0.023**	**0.019**	**0.018**
Total Alaska	**1.440**	**1.306**	**1.202**	**1.073**	**1.020**	**1.036**	**1.020**	**1.004**	**0.936**	**0.863**

(1) A summary of historical crude oil production can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/AlaskaProduction.pdf.
(2) Includes NGLs from Central Gas Facility shipped to TAPS.
(3) Aurora, Borealis, Midnight Sun,Orion and Polaris.
(4) Lisburne, Niakuk,North Prudhoe Bay State, Point McIntyre, Raven, West Beach and West Niakuk.
(5) Meltwater, Tabasco, Tarn and West Sak.
(6) Includes Sag River and Schrader Bluff.
(7) Includes Badami, Eider and Sag Delta.
(8) Includes Alpine-West and Qannik.
(9) Fiord and Fiord-Kuparuk.
(10) Nanuq and Nanuq-Kuparuk.
(11) Known Offshore includes Nikaitchuq and Oooguruk.
(12) Includes Outer Continental Shelf (OCS) production.

Production. C-2b

Crude Oil Production—Forecast[1]

Million Barrels per Day

FY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Alaska North Slope										
Prudhoe Bay[2]	0.280	0.301	0.295	0.286	0.279	0.268	0.258	0.249	0.240	0.233
PBU Satellites[3]	0.045	0.052	0.064	0.080	0.091	0.089	0.082	0.075	0.069	0.064
GPMA[4]	0.030	0.044	0.041	0.039	0.036	0.034	0.032	0.030	0.028	0.027
Kuparuk	0.119	0.116	0.113	0.107	0.103	0.098	0.094	0.091	0.087	0.084
Kuparuk Satellites[5]	0.045	0.053	0.053	0.055	0.059	0.062	0.064	0.065	0.066	0.067
Milne Point[6]	0.031	0.037	0.037	0.038	0.040	0.044	0.048	0.049	0.046	0.044
Endicott[7]	0.017	0.016	0.015	0.014	0.014	0.014	0.014	0.014	0.015	0.016
Liberty	0	0	0	0	0	0.050	0.046	0.040	0.033	0.027
Alpine[8]	0.106	0.090	0.079	0.076	0.071	0.062	0.055	0.048	0.041	0.036
Fiord[9]	0.010	0.019	0.023	0.023	0.021	0.015	0.008	0.005	0.004	0.003
Nanuq[10]	0.005	0.012	0.013	0.012	0.011	0.010	0.010	0.009	0.008	0.008
NPR-A	0	0	0	0	0.010	0.038	0.044	0.060	0.064	0.057
Offshore[11]	0	0.003	0.014	0.023	0.028	0.028	0.027	0.025	0.024	0.022
Northstar[12]	0.051	0.039	0.031	0.026	0.021	0.018	0.015	0.013	0.011	0.009
Total ANS	**0.740**	**0.782**	**0.779**	**0.779**	**0.782**	**0.831**	**0.795**	**0.772**	**0.737**	**0.737**
Cook Inlet	**0.017**	**0.016**	**0.014**	**0.013**	**0.012**	**0.011**	**0.010**	**0.010**	**0.009**	**0.008**
Total Alaska	**0.756**	**0.798**	**0.793**	**0.792**	**0.794**	**0.842**	**0.806**	**0.782**	**0.746**	**0.705**

(1) Forecasted crude oil production through FY 2016 can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/AlaskaProduction.pdf.
(2) Includes NGLs from Central Gas Facility shipped to TAPS.
(3) Aurora, Borealis, Midnight Sun,Orion and Polaris.
(4) Lisburne, Niakuk,North Prudhoe Bay State, Point McIntyre, Raven, West Beach and West Niakuk.
(5) Meltwater, Tabasco, Tarn and West Sak.
(6) Includes Sag River and Schrader Bluff.
(7) Includes Badami, Eider and Sag Delta.
(8) Includes Alpine-West and Qannik.
(9) Fiord and Fiord-Kuparuk.
(10) Nanuq and Nanuq-Kuparuk.
(11) Known Offshore includes Nikaitchuq and Oooguruk.
(12) Includes Outer Continental Shelf (OCS) production.

Production. C-3a

Economic Limit Factors (for Fields with Positive ELF)—History [1]

Percent

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Prudhoe Bay	0.9725	0.9626	0.9489	0.9308	0.9170	0.8960	0.8701	0.8547	0.8430	0.8591
Aurora	0	0	0	0	0	0	0	0	0.2954	0.8591
Borealis	0	0	0	0	0	0.0785	0.1140	0.0839	0.3009	0.8591
Midnight Sun	0	0	0	0	0	0	0	0	0.2954	0.8591
Orion	0	0	0	0	0	0	0	0	0.2961	0.8591
Polaris	0	0	0	0	0	0	0	0	0.2954	0.8591
Point McIntyre	0.9496	0.9220	0.8510	0.6300	0.4312	0.2064	0.1603	0.1084	0.3201	0.8591
Kuparuk	0.7814	0.7584	0.7017	0.5977	0.4934	0.3526	0.2292	0.1798	0.0507	0.0050
Tarn	0	0	0.0713	0.0476	0.0040	0.0421	0.0996	0.0597	0.0097	0.0003
West Sak	0	0	0	0	0	0	0	0	0	0
Milne Point	0.0193	0.0310	0.0427	0.0254	0.0106	0.0013	0	0	0	0
Endicott	0.4734	0.3029	0.0862	0.0487	0.0089	0.0014	0.0003	0.0002	0	0
Liberty	0	0	0	0	0	0	0	0	0	0
Alpine	0	0	0	0	0.3458	0.8784	0.8570	0.8430	0.8291	0.8574
Fiord	0	0	0	0	0	0	0	0	0	0
NPR-A	0	0	0	0	0	0	0	0	0	0
Northstar	0	0	0	0	0	0.4198	0.8642	0.8468	0.8343	0.7278
Volume Weighted ELF	**0.8504**	**0.8232**	**0.7628**	**0.6930**	**0.6441**	**0.6085**	**0.5756**	**0.5561**	**0.5827**	**0.4834**

(1) A summary of historical ELFs can be found on the Tax Division's web site at http://www.tax.state.ak.us/sourcesbook/ELFs.pdf.

Production. C-3b

Economic Limit Factors (for Fields with Positive ELF)—Forecast [1]

Percent

FY	2007	2008	2009	2010	2011
Prudhoe Bay	0.7330	0.7824	0.7999	0.8141	0.8238
Aurora	0.7330	0.7824	0.7999	0.8141	0.8238
Borealis	0.7330	0.7824	0.7999	0.8141	0.8238
Midnight Sun	0.7330	0.7824	0.7999	0.8141	0.8238
Orion	0.7330	0.7824	0.7999	0.8141	0.8238
Polaris	0.7330	0.7824	0.7999	0.8141	0.8238
Point McIntyre	0.7330	0.7824	0.7999	0.8141	0.8238
Kuparuk	0	0	0	0	0
Tarn	0.0002	0	0	0	0
West Sak	0	0.0003	0.0006	0.0032	0.0109
Milne Point	0	0	0	0	0
Endicott	0	0	0	0	0
Liberty	0	0	0	0	0
Alpine	0.7975	0.7080	0.5734	0.4031	0.2448
Fiord	0.0003	0.0044	0.0446	0.0370	0.0064
NPR-A	0	0	0	0	0
Northstar	0.6438	0.4311	0.2483	0.0925	0.0192
Volume Weighted ELF	**0.4834**	**0.4713**	**0.4516**	**0.4327**	**0.4171**

(1) ELF 's projected through FY 2011 to assist in the comparison of PPT revenues and revenue under the old ELF-based system. This comparison is required under the new statute.

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Revenue Sources Book

Alaska Department of Revenue – Tax Division

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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

(3) estimates from individual state agencies.

We thank the various state agencies for their cooperation in computing anticipated revenues for publication in this Fall 2006 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.

This publication, required by law (AS 37.07.060), was printed in Juneau, Alaska at a cost of about $7 per copy.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2006

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