



Revenue Sources Book 2015 Spring



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Revenue

COMMISSIONER'S OFFICE

State Office Building
333 Willoughby Avenue, 11th Floor
PO Box 110400
Juneau, Alaska 99811-0400
Main: 907.465.2300
Fax: 907.465.2389

April 3, 2015

The Honorable Bill Walker, Governor of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001

Dear Governor Walker:

I am pleased to present to you the Department of Revenue's spring 2015 forecast. The spring forecast is an annual update to the fall forecast of state revenues for you, the Alaska Legislature, and the Alaska public. This update is a collaborative effort among the Department of Revenue, the Alaska Permanent Fund Corporation, and the Office of Management and Budget. A more comprehensive forecast will occur in the fall.

General fund unrestricted revenue (GFUR) for FY 2015 is now estimated to be \$2.2 billion. This is about \$400 million less, or about a 15% decrease, than the \$2.6 billion expected for FY 2015 in the fall 2014 forecast. FY 2016 GFUR is also expected to be \$2.2 billion. Taking price, production, and the minimum tax rate into consideration, combined with royalty revenue, the State expects to receive total petroleum revenues of over \$1.6 billion per year for the next two years. In addition, we expect about another half billion dollars in non-petroleum taxes and fees. Investment revenue continues to grow in significance and is likely to produce more than twice the revenue of petroleum going forward. However, most investment revenue is not customarily available for expenditure.

The spring revenue forecast highlights the revenue uncertainties that are being created by the fall in oil prices and its impact on revenue over the next several years. The revenue forecast is driven by an expectation of an average price of oil in the mid-\$60s for the next 15 months. The assumption is that oil production is expected to be at least 500 thousand barrels per day the next two fiscal years.

Compared to the fall 2014 forecast, the revenue forecast for spring 2015 projects lower revenue from FY 2017 through the end of the ten-year period to reflect a lower price path.

I hope you find the information provided in the spring 2015 forecast to be interesting and useful. We look forward to providing you with a new forecast in the fall of 2015.

Sincerely,

A handwritten signature in blue ink that reads "Randall Hoffbeck".

Randall Hoffbeck,
Commissioner



Contents

Executive Summary.....	2
Table 2-1: Total State Revenue, by restriction and type.....	3
Table 2-2: Unrestricted General Fund Revenue, by type and detail.....	4
Table 2-3: Restricted Revenue, by type and category	6
Table 4-4: ANS Oil & Gas Production Tax Data Summary.....	8
Table A-3b: Petroleum Revenue Forecast.....	9
Table A-4b: Unrestricted General Revenue Forecast	10
Table B-2: Price Differences from Fall 2014 Forecast.....	11
Table C-1: Production Differences from Fall 2014 Forecast.....	12

Executive Summary

General Discussion

The spring forecast is an annual update of the fall forecast of state revenues for the Governor, the Alaska Legislature, and the Alaska public. This update is a collaborative effort among the Department of Revenue, the Alaska Permanent Fund Corporation, and the Office of Management and Budget.

State revenue comes from four major sources:

1) oil revenue; 2) income from sources other than oil, such as taxes, charges for services, licenses, permits, fines and forfeitures; 3) federal revenue; and 4) investment revenue, primarily from the Alaska permanent fund and the constitutional budget reserve fund.

General fund unrestricted revenue (GFUR) is now forecast to be \$2.2 billion in fiscal year⁽¹⁾ (FY) 2015 and \$2.2 billion in FY 2016. The revenue forecast is driven by an expectation of oil production of at least 500 thousand barrels per day and an average price of oil in the mid-\$60s for the next 15 months. The FY 2015 forecast represents a decrease in expected GFUR of about \$400 million, or about a 15% decrease, compared to the

projection in the fall 2014 forecast. Compared to the fall 2014 forecast, the revenue forecast for spring 2015 projects lower revenue from FY 2017 through the end of the ten-year period to reflect a lower price path.

The spring forecast for North Slope crude oil production revises expected production in FY 2015 from 509.5 thousand barrels per day to 508.0 thousand barrels per day; a slight decrease of 1,500 barrels per day from the fall 2014 forecast. This change reflects at least eight months of actual daily production levels.

The revenue forecast is based on a revised oil price forecast of \$67.49 per barrel versus \$76.31 for FY 2015, based on actual prices realized over the past several months and a continued ANS oil price of less than \$60 per barrel. The forecast prices for the years FY 2017 – FY 2024 have also been reduced to reflect anticipated lower prices. However, the price is forecast above the \$100 mark in FY 2020 and beyond.

In FY 2015 and FY 2016, oil revenue is expected to contribute about 75% of all unrestricted revenue; this is a significant decrease from what was observed over the last several years when oil revenue represented at least 88% or more of

GFUR. State revenues will continue to be sensitive to oil price and oil production, as well as the cost of production. The state requires much higher oil prices (greater than \$115 per barrel) and/or significantly increasing oil production, in order to maintain stable state revenue relative to FY 2014.

In FY 2014, total state revenue from all sources amounted to \$17.2 billion. Total state revenue for FY 2015 is also expected to be almost \$10 billion, due to investment revenue exceeding \$3 billion.

The totals of some tables in this publication may not equal the sum of components due to rounding.

⁽¹⁾ Alaska's fiscal year runs from July 1 through June 30.

Table 2-1: Total State Revenue, by restriction and type

	(\$ millions)		
	History	Forecast	
	FY 2014	FY 2015	FY 2016
Unrestricted Revenue Sources			
Unrestricted General Fund Revenue			
Petroleum Revenue	4,762.8	1,659.6	1,633.6
Non-petroleum Revenue	497.1	501.7	528.4
Investment Revenue	130.2	55.0	36.2
Federal Revenue	0.0	0.0	0.0
Unrestricted General Fund Revenue	5,390.1	2,216.3	2,198.2
Restricted Revenue Sources			
Designated General Fund Revenue			
Non-petroleum Revenue	291.7	327.2	347.2
Investment Revenue	66.3	23.1	35.2
Subtotal Designated General Fund Revenue	358.0	350.3	382.4
Other Restricted Revenue			
Petroleum Revenue	927.6	453.9	489.1
Non-petroleum Revenue	187.9	229.4	225.4
Investment Revenue	7,861.4	3,244.7	3,260.6
Subtotal Other Restricted Revenue	8,976.9	3,928.0	3,975.1
Federal Revenue			
Petroleum Revenue ⁽¹⁾	6.8	4.2	5.0
Federal Receipts	2,511.9	3,126.8	3,396.8
Subtotal Federal Revenue	2,518.7	3,131.0	3,401.8
Total Restricted Revenue	11,853.6	7,409.3	7,759.3
Total State Revenue	17,243.7	9,625.5	9,957.6

⁽¹⁾ Oil revenue shown in the Federal category includes the State share of rents, royalties, and bonuses received from the National Petroleum Reserve - Alaska, as provided by federal law.

Table 2-2: Unrestricted General Fund Revenue, by type and detail

	(\$ millions)		
	History FY 2014	Forecast FY 2015 FY 2016	
Unrestricted Petroleum Revenue			
Petroleum Taxes			
Petroleum Property Tax	128.1	128.9	125.2
Petroleum Corporate Income Tax	307.6	204.9	148.6
Oil & Gas Production Tax	2,614.7	362.8	320.2
Subtotal Petroleum Taxes	3,050.4	696.6	594.0
Royalties (including Bonuses, Rents, & Interest)			
Mineral Bonuses & Rents	15.0	15.0	13.0
Oil & Gas Royalties	1,685.0	947.0	1,022.4
Interest	12.4	1.0	4.2
Subtotal Royalties	1,712.4	963.0	1,039.6
Unrestricted Petroleum Revenue	4,762.8	1,659.6	1,633.6
Unrestricted Non-petroleum Revenue			
Non-petroleum Taxes			
Excise Tax			
Alcoholic Beverage	18.3	19.9	20.3
Tobacco Product – Cigarette	30.0	30.7	28.6
Tobacco Product – Other	12.8	13.5	14.8
Insurance Premium	54.6	57.0	57.9
Electric and Telephone Cooperative	0.3	0.3	0.3
Motor Fuel	41.9	40.6	40.0
Vehicle Rental	8.3	8.4	8.5
Tire Fee	1.3	1.3	1.3
Subtotal Excise Tax	167.5	171.7	171.7
Corporate Income Tax	99.9	115.2	125.9
Fisheries Tax			
Fisheries Business	25.1	21.4	18.9
Fishery Resource Landing	7.1	5.6	5.8
Subtotal Fisheries Tax	32.2	27.0	24.7
Other Tax			
Charitable Gaming	2.5	2.5	2.5
Estate	0.0	0.0	0.0
Large Passenger Vessel Gambling	6.7	6.7	6.7
Mining	23.3	32.2	36.4
Subtotal Other Tax	32.5	41.4	45.6
Subtotal Non-petroleum Taxes	332.1	355.3	367.9

Table 2-2: Unrestricted General Fund, by type and detail (continued from previous page)

	(\$ millions)		
	History	Forecast	
	FY 2014	FY 2015	FY 2016
Charges for Services			
General Government	13.7	13.5	13.5
Natural Resources	2.4	2.4	2.4
Other	8.1	7.5	7.5
Subtotal Charges for Services	24.2	23.4	23.4
Fines & Forfeitures	11.3	10.9	10.9
Licenses & Permits			
Alcoholic Beverage Licenses	1.0	1.0	1.0
Motor Vehicle	38.6	38.0	38.0
Other	3.1	3.0	3.0
Subtotal Licenses & Permits	42.7	42.0	42.0
Rents & Royalties			
Mining Rents & Royalties	16.3	15.9	16.3
Other Non-petroleum Rents & Royalties	18.2	11.8	11.8
Subtotal Rents & Royalties	34.5	27.7	28.1
Miscellaneous Revenues and Transfers			
Miscellaneous	22.8	24.7	24.7
Alaska Housing Finance Corporation	1.0	0.0	8.7
Alaska Industrial Development & Export Authority	20.7	10.7	17.7
Alaska Municipal Bond Bank Authority	0.0	0.0	0.0
Alaska Student Loan Corporation	0.7	0.0	0.0
Alaska Energy Authority	0.1	0.0	0.0
Alaska Natural Gas Development Authority	0.0	0.0	0.0
Mental Health Trust	0.0	0.0	0.0
Unclaimed Property	7.0	7.0	5.0
Subtotal Transfers	52.3	42.4	56.1
Unrestricted Non-petroleum Revenue, except federal and investment	497.1	501.7	528.4
Investment Revenue			
Investments	129.9	53.5	34.7
Interest Paid by Others	0.3	1.5	1.5
Unrestricted Investment Revenue	130.2	55.0	36.2
Total Unrestricted Revenue	5,390.1	2,216.3	2,198.2

Table 2-3: Restricted Revenue, by type and category

	(\$ millions)		
	History	Forecast	
	FY 2014	FY 2015	FY 2016
Designated General Fund Revenue			
Non-petroleum Revenue			
Taxes	51.3	51.0	49.7
Charges for Services	206.1	241.2	262.6
Fines and Forfeitures	7.8	9.5	9.4
Licenses and Permits	0.4	0.2	0.2
Rents and Royalties	4.7	4.5	4.5
Other	21.4	20.8	20.8
Subtotal	291.7	327.2	347.2
Investment Revenue			
Investments - Designated GF	3.8	2.5	2.7
Other Treasury Managed Funds	62.5	20.6	32.5
Subtotal	66.3	23.1	35.2
Restricted Designated General Fund Revenue	358.0	350.3	382.4
Other Restricted Revenue			
Oil Revenue			
Royalties to Alaska Permanent Fund & School Fund (includes Bonuses & Rents)	786.2	433.9	469.1
Tax and Royalty Settlements to CBRF	141.4	20.0	20.0
Subtotal	927.6	453.9	489.1
Non-petroleum Revenue			
Taxes	81.2	74.5	75.8
Charges for Services	36.9	86.4	81.4
Fines and Forfeitures	26.3	23.9	23.6
Licenses and Permits	31.6	31.3	31.3
Rents and Royalties	6.6	6.8	6.8
Other	5.3	6.5	6.5
Subtotal	187.9	229.4	225.4
Investment Revenue			
Investments - Other Restricted	7.6	5.0	5.5
Constitutional Budget Reserve Fund	1,006.1	195.1	82.7
Alaska Permanent Fund (GASB) ⁽¹⁾	6,847.7	3,044.6	3,172.4
Subtotal	7,861.4	3,244.7	3,260.6
Other Restricted Revenue	8,976.9	3,928.0	3,975.1

⁽¹⁾ Both realized and unrealized gains and losses are included per GASB 34 as interpreted by the Finance Division of the Department of Administration in its *Comprehensive Annual Financial Report*.

Table 2-3: Restricted Revenue, by type and category (continued from previous page)

	(\$ millions)		
	History	Forecast	
	FY 2014	FY 2015	FY 2016
Federal Revenue			
Federal Receipts	2,511.9	3,126.8	3,396.8
Oil Revenue			
NPR-A Royalties, Rents and Bonuses	6.8	4.2	5.0
Restricted Federal Revenue	2,518.7	3,131.0	3,401.8
Total Restricted Revenue	11,853.6	7,409.3	7,759.3

Table 4-3: ANS Oil & Gas Production Tax Data Summary

	(\$ millions)		
	History	Forecast	
	FY 2014	FY 2015	FY 2016
North Slope Price and Production			
Price of ANS WC (in \$/barrel)	107.57	67.49	66.03
Transit Costs & Other (in \$/barrel)	10.42	9.41	9.28
ANS Wellhead (in \$/barrel)	97.15	58.08	56.75
North Slope Production			
Total ANS Production (in mbbbls/day)	531.1	508.0	519.5
Royalty and federal (in mbbbls/day) ⁽¹⁾	77.8	67.6	69.7
Taxable Barrels (in mbbbls/day)	453.3	440.4	449.8
North Slope Lease Expenditures⁽²⁾⁽³⁾			
Total North Slope Lease Expenditures (in \$ millions)			
Operating Expenditures [OPEX]	3,253.9	3,326.9	3,224.4
Capital Expenditures [CAPEX]	3,737.6	4,141.0	4,367.1
Total North Slope Expenditures	6,991.5	7,467.8	7,591.5
Deductible North Slope Lease Expenditures (in \$ millions)			
Operating Expenditures [OPEX]	3,193.5	3,144.7	3,114.7
Capital Expenditures [CAPEX]	3,357.3	3,393.4	3,673.1
Deductible North Slope Expenditures	6,550.8	6,538.2	6,787.8
State Production Tax Revenue⁽⁴⁾			
Tax Revenue (in \$ millions)	2,614.7	362.8	320.2
Production Tax Collected per Taxable Barrel	15.8	2.3	1.9
Statewide Production Tax Credits⁽²⁾⁽⁵⁾			
Credits Used against Tax Liability (in \$ millions)	888.0	570.0	590.0
Credits for Potential Purchase (in \$ millions)	593.0	625.0	700.0

⁽¹⁾ Royalty and Federal barrels represent our best estimate of barrels that are not taxed. This estimate includes both state and federal royalty barrels, and barrels produced from federal offshore property.

⁽²⁾ Lease expenditures and credits used against tax liability for FY 2014 were prepared using unaudited company-reported estimates.

⁽³⁾ Expenditure data for FY 2015 and FY 2016 are compiled from company submitted expenditure forecast estimates and other documentation as provided to the the department. Expenditures shown here are shown in two ways: (1) total estimated expenditures including for those companies with no tax liability; and (2) estimated deductible expenditures for only those companies with a tax liability.

⁽⁴⁾ Production tax is calculated on a company specific basis, therefore the aggregated data reported here will not generate the total tax revenue shown. For an illustration of the tax calculation, see Appendix D in the 2014 Fall Revenue Sources Book.

⁽⁵⁾ Production tax credits shown include all production tax credits and all areas of the state. Assumptions for the \$12 million credits for small Alaska producers are included in the table. Per-taxable-barrel credits for oil not eligible for the gross value reduction may not reduce a producer's liability below the minimum tax; that limitation is reflected in these estimates.

Table A-3b: Petroleum Revenue Forecast

(\$ millions)

FY	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Unrestricted Petroleum Revenue										
Petroleum Property Tax	128.9	125.2	124.6	123.8	122.7	121.1	119.2	117.3	115.2	112.9
Petroleum Corporate Income Tax	204.9	148.6	240.0	275.2	307.0	340.8	348.5	356.3	364.3	372.5
Oil and Gas Production Tax	354.4	311.7	803.4	853.8	1,323.0	1,932.0	1,882.1	1,771.4	1,790.6	1,780.6
Oil and Gas Hazardous Release	8.3	8.5	8.7	8.2	7.7	7.2	6.6	6.1	5.7	5.2
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil and Gas Royalties-Net ⁽¹⁾	947.0	1,022.4	1,394.2	1,350.6	1,380.8	1,465.8	1,388.1	1,302.0	1,256.8	1,192.2
Bonuses, Rents & Interest-Net ⁽¹⁾⁽²⁾	16.0	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unrestricted Petroleum Revenue	1,659.6	1,633.6	2,588.1	2,628.8	3,158.3	3,884.1	3,761.6	3,570.3	3,549.8	3,480.6
Cumulative Unrestricted Petroleum Revenue⁽³⁾	115,022	116,655	119,243	121,872	125,030	128,915	132,676	136,246	139,796	143,277
Restricted Petroleum Revenue										
NPR-A Rents, Royalties, Bonuses	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Royalties to AK Permanent Fund	426.9	461.6	632.0	600.6	600.3	637.4	596.9	551.0	532.3	511.8
Royalties to Public School Fund	7.0	7.5	10.3	9.9	10.0	10.7	10.1	9.4	9.1	8.6
CBRF Deposits	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Restricted Petroleum Revenue	458.1	494.1	667.2	635.5	635.3	673.1	632.0	585.4	566.4	545.4
Total Petroleum Revenue	2,117.7	2,127.7	3,255.3	3,264.3	3,793.7	4,557.2	4,393.7	4,155.7	4,116.2	4,026.1

⁽¹⁾ Royalties, bonuses, rents and interest rate are net of Permanent Fund Contribution and (CBRF) deposits.⁽²⁾ This category is primarily composed of petroleum revenue.⁽³⁾ The cumulative Unrestricted General Fund petroleum revenue is based on revenue beginning in FY 1959.

Table A-4b: Unrestricted General Fund Revenue Forecast

	(\$ millions)									
FY	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Unrestricted Petroleum Revenue	1,659.6	1,633.6	2,588.1	2,628.8	3,158.3	3,884.1	3,761.6	3,570.3	3,549.8	3,480.6
General Fund Unrestricted Non-petroleum Revenue	556.7	564.6	586.8	611.8	629.9	651.1	673.5	690.4	716.1	737.4
Total Unrestricted General Fund Revenue	2216.3	2198.2	3174.9	3240.6	3788.3	4535.2	4435.1	4260.7	4265.9	4218.0
Total Unrestricted General Fund Revenue from Petroleum	75%	74%	82%	81%	83%	86%	85%	84%	83%	83%

Table B-2: Price Differences from Fall 2014 Forecast

	(\$/bbl)									
FY	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Spring 2015 Forecast										
ANS West Coast	67.49	66.03	86.66	89.06	97.51	109.54	112.61	114.92	119.61	124.34
ANS Wellhead Wtd Average All Destinations	58.08	56.75	77.04	79.14	87.01	98.40	100.72	102.18	105.94	109.63
Fall 2014 Forecast										
ANS West Coast	76.31	66.03	93.18	102.81	112.00	117.36	121.14	123.87	129.04	134.39
ANS Wellhead Wtd Average All Destinations	67.00	56.86	83.66	92.98	101.62	106.29	109.26	111.12	115.36	119.65
Price change from prior forecast										
ANS West Coast	-8.82	-0.00	-6.52	-13.75	-14.49	-7.82	-8.53	-8.95	-9.43	-10.05
ANS Wellhead Wtd Average All Destinations	-8.92	-0.11	-6.62	-13.84	-14.61	-7.89	-8.54	-8.94	-9.42	-10.02
Percent change from prior forecast										
ANS West Coast	-11.6%	-0.0%	-7.0%	-13.4%	-12.9%	-6.7%	-7.0%	-7.2%	-7.3%	-7.5%
ANS Wellhead Wtd Average All Destinations	-13.3%	-0.2%	-7.9%	-14.9%	-14.4%	-7.4%	-7.8%	-8.0%	-8.2%	-8.4%

Table C-1: Production Differences from Fall 2014 Forecast

(millions of barrels per day)

FY	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Spring 2015 Forecast										
Alaska North Slope	508.0	519.5	535.5	506.6	469.9	440.1	406.6	374.1	348.8	320.3
Non-North Slope	16.9	14.7	13.0	11.7	10.6	9.7	8.9	8.2	7.6	7.0
Total	524.9	534.2	548.5	518.3	480.5	449.8	415.5	382.4	356.4	327.4
Fall 2014 Forecast										
Alaska North Slope	509.5	524.1	534.1	503.5	473.2	435.8	400.4	368.5	342.9	314.7
Non-North Slope	16.6	14.7	13.0	11.7	10.6	9.7	8.9	8.2	7.6	7.0
Total	526.1	538.8	547.1	515.2	483.8	445.5	409.3	376.7	350.5	321.8
Volume change from prior forecast										
Alaska North Slope	(1.5)	(4.6)	1.4	3.1	(3.3)	4.3	6.2	5.6	5.9	5.6
Non-North Slope	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	-
Total	(1.2)	(4.6)	1.4	3.1	(3.3)	4.3	6.2	5.7	5.9	5.6
Percent change from prior forecast										
Alaska North Slope	-0.3%	-0.9%	0.3%	0.6%	-0.7%	1.0%	1.6%	1.5%	1.7%	1.8%
Non-North Slope	2.0%	0.0%	0.3%	0.1%	0.2%	0.1%	0.1%	0.1%	-0.1%	0.0%
Total	-0.2%	-0.9%	0.3%	0.6%	-0.7%	1.0%	1.5%	1.5%	1.7%	1.7%