Alaska Department of Revenue
Tax Division

December 2003

REVENUE SOURCES BOOK
FALL 2003

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December 12, 2003

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

Dear Governor Murkowski:

Enclosed is the Department of Revenue's Fall 2003 Revenue Sources Book. This publication includes a preliminary accounting of revenues received in FY 2003, as well as our projections for FY 2004 through FY 2015.

Petroleum revenues will continue to play a key role in financing Alaskan government, accounting for approximately 80% of the Unrestricted General Purpose Revenue through FY 2009 and 75% through FY 2012.

We project oil prices will average $27.70 per barrel this fiscal year, the third highest price in almost two decades. We project a price for FY 2005 of $24.65 per barrel. Over the longer term, (FY 2006-FY 2015), we anticipate that ANS prices will average $22 per barrel.

On the production side, we continue to make a reference forecast that looks only at oil fields that have already been discovered. Some of these fields have not yet been developed and others will be more intensively developed over time. We forecast production will average 0.996 million barrels a day in Fiscal 2004 and stay above 0.9 million barrels a day through FY 2014. Production from the super-giant Prudhoe Bay continues to decline, but new smaller fields have been discovered and are being brought on line. In this forecast, we also examine oil and gas exploration and development opportunities that could significantly improve our revenue outlook.

The Fall 2003 Revenue Sources Book documents actual revenue collections and provides our best estimates of future revenue. We have included an analysis of promising resource development opportunities with a focus on oil and gas. We have also included a section that reconciles the revenues sources used in three different budget documents published by three separate state agencies. Historical data is included in the appendices section at the very end of this publication.

Very truly yours,

William A. Corbus

William A. Corbus
Commissioner

Enclosure

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Introduction

1.

Foreword

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

Oil revenues continue to dominate the revenue picture — providing over 80% of Unrestricted General Purpose Revenue. Oil production levels, however, are roughly half of Alaska's peak production in 1989. As a result, oil revenues are much lower now than in the past.

We continue to focus on the bigger picture of state revenues, including the earnings from the Permanent Fund, federal revenue and our reserves in the Constitutional Budget Reserve Fund (CBRF). The CBRF will continue to play a large role in Alaska's financial future.

Oil production has fallen to just under 1 million barrels per day (from its peak of 2 million barrels a day in 1989), and as a result, we face a structural deficit that requires annual expenditures from the CBRF — even when oil prices are over $30 per barrel. This publication outlines some new resource development opportunities that could reverse the decline in oil production. We have also included a section on the mineral industry.

We hope this information is helpful in answering the questions about where Alaska gets its revenue and what our revenue future looks like from today's perspective.

Fall 2003 Forecast

This Fall 2003 Revenue Sources Book is organized into 11 sections:

1. **Introduction**

2. **Executive Summary**

3. **Resource Development Opportunities**
   Opportunities available for new oil and gas production and Alaska's mineral industry are discussed.

4. **Oil Revenue**
   Revenue from oil and gas production taxes, corporate income taxes, property taxes and royalties continues to play a big role in Alaska's revenue picture.

5. **Other Revenue (Except Federal & Investment)**
   Revenue from non-oil sources includes alcohol, tobacco, fisheries, estate, motor fuel taxes, non-oil corporate income taxes, user fees and several other revenue sources.

6. **Federal Revenue**
   Federal revenue received by state government is one of Alaska's biggest sources of revenue.

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

8. **State Endowment Funds**
   Basic policies governing six of the state's endowment funds are examined.

9. **Public Corporations and the University of Alaska**
   The University of Alaska and seven public corporations are treated as separate component units of state government for financial reporting purposes.

10. **Rosetta Stone**
    Three different documents published by three separate agencies — the Department of Revenue's Revenue Sources Book, Legislative Finance Division's Summary of Appropriations and Department of Administration, Finance Division's Comprehensive Annual Financial Report (CAFR) are reconciled.

11. **Appendices**
    Historical price, production and revenue data is provided. A glossary of terms used in this Revenue Sources Book, General Fund sensitivity matrices and an unrestricted petroleum production and royalty revenue forecast are included.

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2.

EXECUTIVE SUMMARY

2. A. Total Governmental Revenue

The table below summarizes the state's governmental [1] total revenue outlook by major revenue component (preliminary FY 2003 and projected FY 2004-2005).

Table 2-1. Total Governmental Revenue
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Oil Revenue			
Unrestricted			
Property Tax	48.7	48.5	45.6
Corporate Income Tax	151.1	220.0	195.0
Production Tax	599.0	563.6	427.1
Royalties (including Bonuses and Interest)	840.3	898.6	753.7
Subtotal	**1,639.1**	**1,730.7**	**1,421.4**
Restricted			
Royalties to Permanent Fund and School Fund	403.8	313.9	266.9
Settlements to CBRF	22.3	20.0	20.0
NPRA Royalties, Rents and Bonuses	34.6	2.9	12.9
Subtotal	**460.7**	**336.8**	**299.8**
Subtotal Oil	**2,099.8**	**2,067.5**	**1,721.3**
Other Revenue (Except Federal & Investment)			
Unrestricted			
Taxes	179.4	181.1	196.7
Charges for Services	13.9	18.4	18.4
Fines and Forfeitures	7.0	7.0	7.0
Licences and Permits	32.9	45.5	47.9
Rents and Royalties	6.2	7.0	7.2
Other	9.4	21.5	14.0
Subtotal	**248.8**	**280.5**	**291.2**
Restricted			
Taxes	67.3	74.3	73.0
Charges for Services	195.9	251.7	250.7
Fines and Forfeitures	26.8	23.6	23.8
Licenses and Permits	29.1	29.9	30.8
Rents and Royalties	4.7	4.7	4.7
Other	212.9	119.9	119.9
Subtotal	**536.7**	**504.1**	**502.9**
Subtotal Other (Except Federal & Investment)	**785.5**	**784.6**	**794.1**

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(1) GASB 34 as interpreted by the Finance Division of the Department of Administration in their Comprehensive Annual Financial Report.

Figure 2-1. FY 2003 Total Revenue
$5.9 Billion

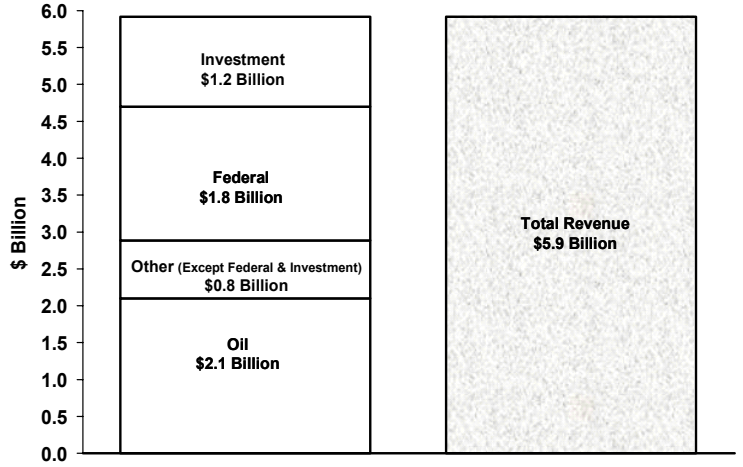

Table 2-1. Total Governmental Revenue, cont.
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Federal Revenue			
Restricted			
Federal Receipts	1,812.6	2,427.8	2,427.8
Subtotal Federal Revenue	**1,812.6**	**2,427.8**	**2,427.8**
Investment Revenue			
Unrestricted			
Investments	28.2	7.8	8.9
Interest Paid by Others	30.8	3.9	2.8
Subtotal	**59.0**	**11.7**	**11.7**
Restricted			
Investments	20.3	5.1	6.2
Constitutional Budget Reserve Fund	144.4	58.8	80.4
Other Treasury Managed Funds	24.4	28.7	30.9
Alaska Permanent Fund (GASB) (1)	962.6	2,105.9	1,948.0
Subtotal	**1,151.7**	**2,198.5**	**2,065.5**
Subtotal Investment Revenue	**1,210.7**	**2,210.2**	**2,077.2**
Grand Total	**5,908.6**	**7,490.1**	**7,020.4**

(1) Includes both realized and unrealized gains and losses.

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Figure 2-2. FY 2003 Total Revenue: Unrestricted and Restricted
$5.9 Billion

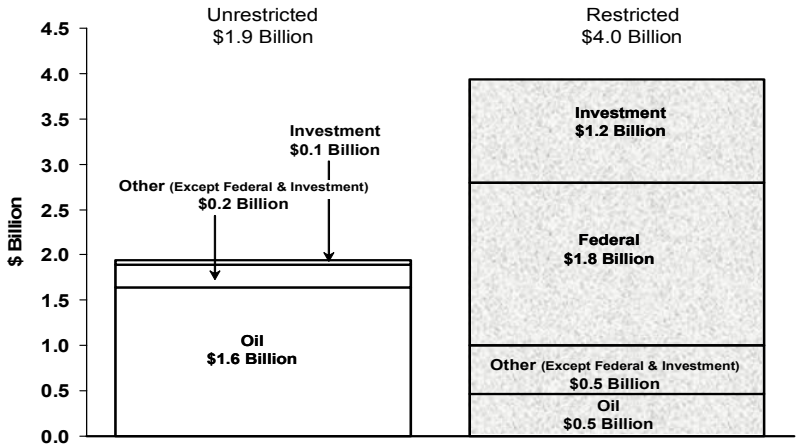

Table 2-2. Total Governmental State Revenue, Preliminary FY 2003 and Projected 2004-2005 Unrestricted [1] and Restricted by Major Source
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
Oil Revenue	1,639.1	1,730.7	1,421.4
Other Revenue (Except Federal & Investment)	248.8	280.5	291.2
Investment Revenue	59.0	11.7	11.7
Subtotal	**1,946.9**	**2,022.9**	**1,724.3**
Restricted			
Oil Revenue	460.7	336.8	299.8
Other Revenue (Except Federal & Investment)	536.7	504.1	502.9
Federal Revenue	1,812.6	2,427.8	2,427.8
Investment Revenue	1,151.7	2,198.5	2,065.5
Subtotal	**3,961.7**	**5,467.2**	**5,296.0**
Grand Total	**5,908.6**	**7,490.1**	**7,020.4**

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

New Unrestricted General Purpose Revenue Included in This Forecast

In an effort to reduce the budget gap and annual draw on the Constitutional Budget Reserve Fund, new revenue measures were adopted in 2003 by law and/or regulation. These revenue measures included new taxes and fees, as well as certain tax credits and royalty reductions designed to promote natural resource development. These are summarized in the table below.

Table 2-3. Revenue and Credits per Legislation or Regulation
$ Million

	Enabling Legislation	2004	2005	2006	2007	2008	2009	2010
New Taxes and Fees								
Tire Tax	SB 106	2.4	3.3	3.3	3.3	3.3	3.3	3.3
Vehicle Rental	HB 271	1.0	6.0	6.0	6.0	6.0	6.0	6.0
Motor Vehicle Register	HB 170	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Public Construction Fee	HB 155	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Mutual Fund Agent and Regulation Fees	Regulation	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total New Tax and Fees		**19.9**	**25.8**	**25.8**	**25.8**	**25.8**	**25.8**	**25.8**
Permanent Fund to General Fund								
	HB 11	**59.7**	**45.6**	**47.2**	**45.6**	**36.7**	**33.2**	**32.1**
Total New General Fund		**79.6**	**71.4**	**73.0**	**71.4**	**62.5**	**59.0**	**57.9**
Credits and Royalty Reductions								
Cook Inlet Gas	HB 61	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Oil and Gas Exploration	SB 185	0.0	30.0	50.0	50.0	0.0	0.0	0.0
Fish Business Credit	HB 90	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Reduce Cook Inlet Royalty	HB 198	0.4	0.8	1.0	0.9	0.6	0.6	0.5
Royalty Gas Agriculture Chemicals	HB 57	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total Tax Credits and Royalty Reductions		**4.4**	**34.8**	**55.0**	**54.9**	**4.6**	**4.6**	**4.5**
Net New Unrestricted General Purpose Revenue		**75.2**	**36.6**	**18**	**16.5**	**57.9**	**54.4**	**53.4**

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B. Unrestricted General Purpose Revenue

Unrestricted General Purpose Revenue is the amount generally used for budget planning purposes and is designated in budget documents as general fund revenue. The table on the next two pages sets out preliminary FY 2003 Unrestricted General Purpose Revenue and our revised projections for FY 2004 and 2005.

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

Table 2-4. Unrestricted General Purpose Revenue
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
OIL REVENUE			
Property Tax	**48.7**	**48.5**	**45.6**
Corporate Income Tax	**151.1**	**220.0**	**195.0**
Production Tax			
Oil and Gas Production	589.8	554.2	417.8
Oil and Gas Hazardous Release	9.2	9.4	9.3
Subtotal Production Tax	**599.0**	**563.6**	**427.1**
Royalties			
Mineral Bonuses and Rents	9.6	12.1	16.1
Oil and Gas Royalties	825.7	881.6	732.7
Interest Paid	5.0	4.9	4.9
Subtotal Royalties	**840.3**	**898.6**	**753.7**
Subtotal Oil Revenue	**1,639.1**	**1,730.7**	**1,421.4**
OTHER REVENUE (EXCEPT FEDERAL & INVESTMENT)			
Other Tax			
Sales and Use			
Alcoholic Beverage	14.1	15.7	15.7
Cigarette	9.6	9.5	9.5
Other Tobacco Product	6.7	6.8	7.2
Insurance Premium	39.0	42.6	44.7
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel Tax	37.2	39.0	39.0
Rental Vehicle Tax	0.0	1.0	6.0
Tire Fee	0.0	2.4	3.3
Subtotal	**106.8**	**117.2**	**125.6**
Corporate Income Tax	**47.7**	**49.0**	**53.7**
Fish Tax			
Fisheries Business	13.8	8.3	10.3
Fishery Resource Landing	6.9	2.0	2.6
Subtotal	**20.7**	**10.3**	**12.9**
Other			
Mining	0.4	0.7	1.3
Estate	1.2	1.4	0.7
Charitable Gaming	2.6	2.5	2.5
Subtotal	**4.2**	**4.6**	**4.5**
Subtotal Other Tax	**179.4**	**181.1**	**196.7**

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Table 2-4. Unrestricted General Purpose Revenue, cont.
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
OTHER REVENUE (EXCEPT FEDERAL & INVESTMENT)			
Charges for Services			
General Government	10.3	14.8	14.8
Natural Resources	1.7	1.7	1.7
Other	1.9	1.9	1.9
Subtotal Charges for Services	**13.9**	**18.4**	**18.4**
Licenses and Permits			
Motor Vehicle	30.9	43.5	45.9
Other	2.0	2.0	2.0
Subtotal Licenses and Permits	**32.9**	**45.5**	**47.9**
Fines and Forfeitures			
Other Settlements	0.9	1.0	1.0
Other Fines and Forfeitures	6.1	6.0	6.0
Subtotal Fines and Forfeitures	**7.0**	**7.0**	**7.0**
Rents and Royalties			
Land Leasing, Rental and Sales	5.4	6.0	6.0
Coal Royalties	0.6	0.8	1.0
Cabin Rentals	0.2	0.2	0.2
Subtotal Rents and Royalties	**6.2**	**7.0**	**7.2**
Other			
Miscellaneous	9.4	10.0	10.0
Unclaimed Property	0.0	11.5	4.0
Subtotal Other	**9.4**	**21.5**	**14.0**
Subtotal Other Revenue (Except Federal & Investment)	**248.8**	**280.5**	**291.2**
INVESTMENT REVENUE			
Investments	28.2	7.8	8.9
Interest Paid by Others	30.8	3.9	2.8
Subtotal Investment Revenue	**59.0**	**11.7**	**11.7**
TOTAL UNRESTRICTED REVENUE	**1,946.9**	**2,022.9**	**1,724.3**

C. Oil Price Forecast

Oil revenue will provide between 70% and 80% of forecasted Unrestricted General Purpose Revenue through FY 2015. Two elements are critical to the oil revenue forecast: price and volume.

The spot price of ANS is quoted by subtracting a market differential from the price of West Texas Intermediate (WTI) on the New York Mercantile Exchange (NYMEX).(1) There is no price for Alaska oil on the NYMEX. All of Alaska's current oil production is delivered to refineries on the U.S. West Coast (including Alaska and Hawaii). Consequently, Alaska's royalty and production tax revenue depends in large part on the market price of Alaska North Slope crude oil (ANS) at U.S. West Coast refining centers.

The table below contains preliminary prices for FY 2003 and the Department of Revenue's forecast of oil prices for the 12-year period beginning with the current fiscal year, FY 2004, and continuing through FY 2015. The short-term oil price forecast (FY 2004-2005) is based on a subjective assessment of market dynamics and trend analysis by participants at a Department of Revenue price scenario meeting. Our long-term forecast (FY 2006-2015) is based on the premise that prices will average $22 per barrel, the low-end of OPEC's current price target range.

Table 2-5. Delivered Price for ANS Crude Oil
Average WTI, ANS West Coast and ANS Wellhead
$ per barrel

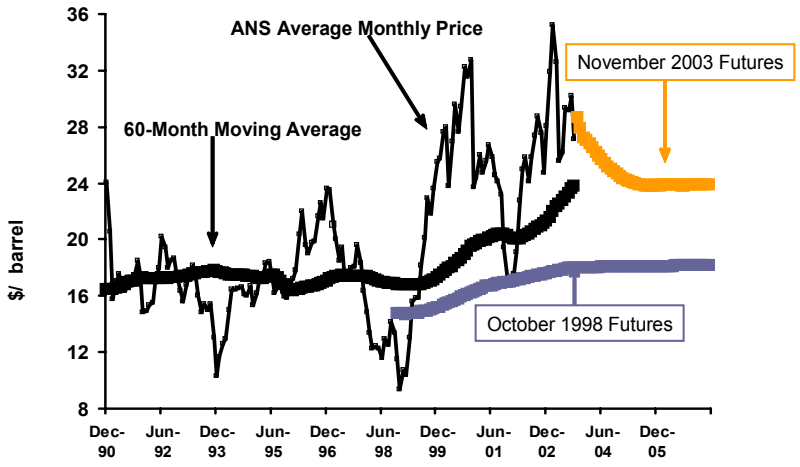
Fiscal Year	WTI (1)	ANS West Coast	ANS Wellhead
Preliminary 2003	29.47	28.15	23.35
2004	29.23	27.70	22.46
2005	26.35	24.65	19.46
2006	23.70	22.00	16.74
2007	23.70	22.00	16.63
2008	23.70	22.00	16.53
2009	23.70	22.00	16.46
2010	23.70	22.00	16.35
2011	23.70	22.00	16.20
2012	23.70	22.00	16.21
2013	23.70	22.00	16.06
2014	23.70	22.00	15.87
2015	23.70	22.00	15.69

The prices we are forecasting are higher than the average market prices experienced over the 16-year period since the 1986 oil price collapse but are consistent with prices since 1999. The figure on the next page depicts: (1) the monthly West Coast ANS market price from December 1990 through September 2003; (2) the 60-month moving average West Coast market price for the same period; and (3) a set of ANS prices derived from NYMEX crude oil futures prices for October 1998 and November 2003.

(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.

The figure below clearly illustrates the volatility of month-to-month crude oil prices. Monthly ANS West Coast prices during the pertinent time period ranged from just under $10 per barrel to over $35 per barrel. The average of the 60-month moving averages shown in the figure below is $18.08 per barrel. The derived futures market prices reflected below illustrates that the current futures market long-term convergence price has increased by about $5.75 per barrel since October 1998.

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



We assume that over the long-term, oil prices will average $22 per barrel. This price is the lower end of the price range of $22 to $28 per barrel that OPEC has by at large successfully defended for the last four years.(1) Choosing the lower end of the range is a conservative assumption to account for the difficulty cartels like OPEC have in managing oil prices. ANS West Coast price averaged $23.81 per barrel over 60 months, October 1998 to September 2003.

D. Oil Production Forecast

In 1988, ANS production peaked at 2.005 million barrels per day and has steadily declined since. In FY 2002, ANS production averaged 1.003 million barrels per day and in FY 2003, 0.990 million barrels per day.

Our production forecast has been adjusted since it was published last spring due to the reexamination of field reservoir performance and potential. Production from the North Slope will continue to average slightly under 1 million barrels per day through FY 2010 — aided by the future development of the National Petroleum Reserve-Alaska (NPR-A) and the projected development of Nanuk, Point Thompson and Liberty.

(1) OPEC tracks oil prices by averaging the price of a number of sour crudes. Like ANS, this "OPEC basket" price is usually about $2 less than the WTI spot price.

A detailed field-by-field production forecast can be found in the appendices.

Figure 2-4. ANS Historical Production
Million Barrels per Day

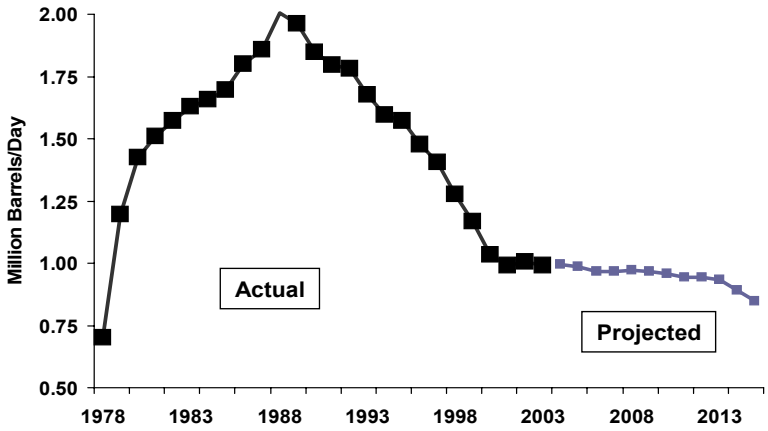


Table 2-6. ANS Oil and NGL Production
Million Barrels per Day

Fiscal Year	ANS Production
Preliminary 2003	0.990
2004	0.996
2005	0.985
2006	0.968
2007	0.965
2008	0.969
2009	0.964
2010	0.957
2011	0.941
2012	0.941
2013	0.930
2014	0.889
2015	0.844

2.

New Oil Development

As the volumes from the giant Prudhoe Bay and Kuparuk fields continue to decline, some of the decline in production will be offset by new oil development. In our reference-case forecast, new oil is defined as crude already discovered and likely to be developed. By FY 2011, as the table and figure below show, nearly one-fifth of our forecasted oil production will come from fields not currently producing oil.

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

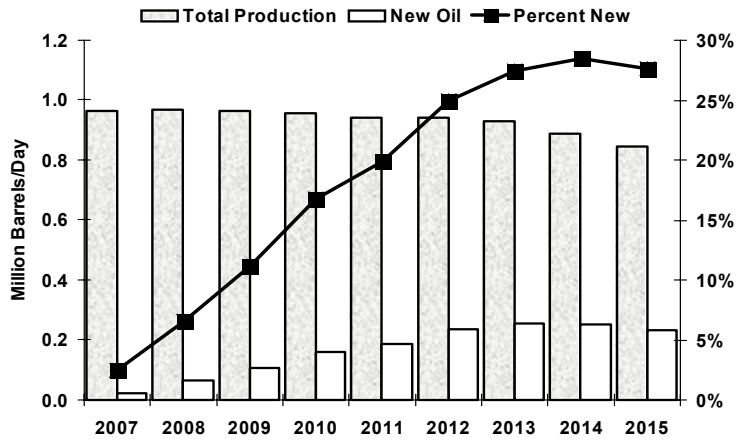


Table 2-7. New Oil as a Percentage of Total Oil
Million Barrels per Day

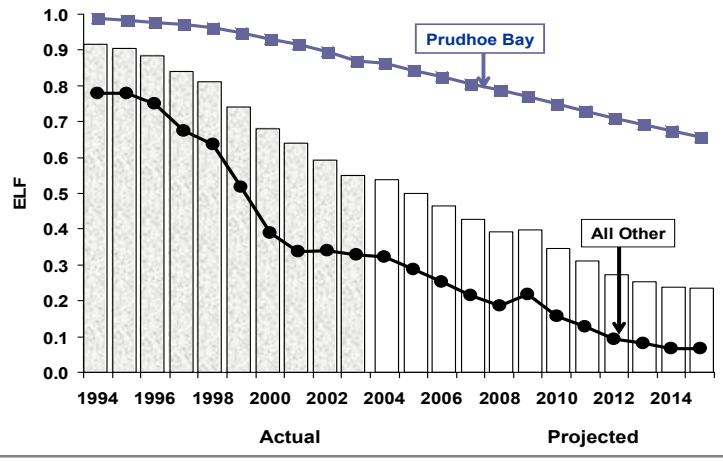
Fiscal Year	New Oil	Total Oil	New Oil as Percent of Total Oil
2007	0.024	0.965	2.5
2008	0.064	0.969	6.6
2009	0.107	0.964	11.1
2010	0.160	0.957	16.8
2011	0187	0.941	19.9
2012	0.235	0.941	25.0
2013	0.255	0.930	27.4
2014	0.253	0.889	28.5
2015	0.232	0.844	27.6

Economic Limit Factor

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

An ever smaller percentage of Alaska's current and projected North Slope oil production will continue to come from old, declining fields, while new production will come from small fields. Therefore, the average tax rate will continue to fall. The average oil production tax rate for North Slope production in FY 1994 was 13.5%; we project that for FY 2004 it will average 7.6%.

Figure 2-6. Economic Limit Factor
Actual FY 1994-2003 and Projected FY 2004-2006



The figure above illustrates the actual weighted average ELF for North Slope oil production since 1994 and our projections of that weighted average through FY 2006. The Prudhoe Bay ELF is also shown, as well as the average ELF for all of the other North Slope fields. The spike in the other fields average ELF in FY 2009 illustrates the impact of the assumed startup of production from Point Thomson.

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

2.

E. Longer-Term Unrestricted Revenue Outlook

Using the price and volume components developed for this fall 2003 forecast, the table below summarizes the department's forecast of total Unrestricted General Purpose Revenue through FY 2015.

Table 2-8. Total Unrestricted General Purpose Revenue Preliminary FY 2003 and Projected FY 2004-2015 $ Million

Fiscal Year	(Section 4) Unrestricted Oil Revenue	(Section 5) Unrestricted Other [1] Revenue	(Section 7) Unrestricted Investment Revenue	Total Unrestricted Revenue	Percent from Oil
Preliminary 2003	1,639.1	248.8	59.0	1,946.9	84
2004	1,730.7	280.5	11.7	2,022.9	86
2005	1,421.4	291.2	11.7	1,724.3	83
2006	1,189.3	291.1	11.7	1,492.1	80
2007	1,131.5	291.7	11.7	1,434.9	79
2008	1,137.9	292.4	11.7	1,442.0	79
2009	1,119.0	293.5	11.7	1,424.2	79
2010	1,040.1	295.4	11.7	1,347.2	77
2011	983.3	296.3	11.7	1,291.3	76
2012	922.0	297.2	11.7	1,230.9	75
2013	877.1	297.7	11.7	1,186.5	74
2014	792.9	298.2	11.7	1,102.8	72
2015	750.1	298.7	11.7	1,060.5	71

(1) Except Federal and Investment Revenue.

F. Budget Gap and the Constitutional Budget Reserve

The table below reflects the amount needed to make up the difference between the Department of Revenue's forecast of Unrestricted General Purpose Revenue and the annual general fund budget, shown here as a flat $2.3 billion for all operating, capital, debt service, lease payments and supplemental appropriations. (1)

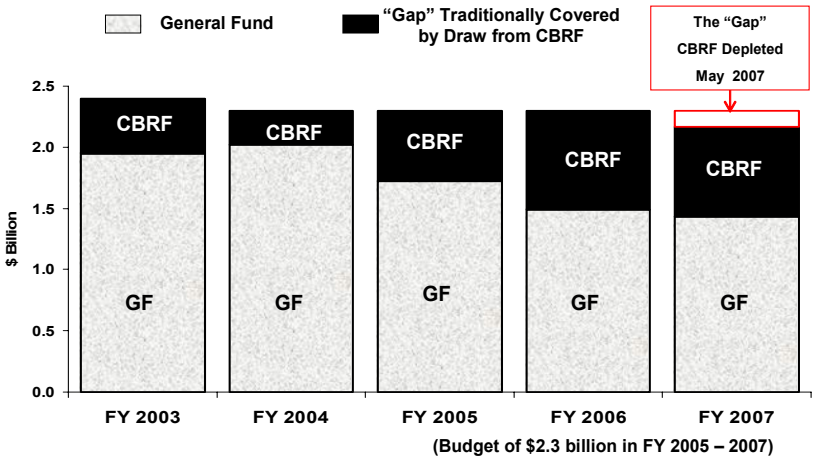
Table 2-9. Difference Between Unrestricted General Purpose Revenue and General Fund Budget "The Gap" (1)
$ Million

Fiscal Year	Total Unrestricted General Purpose Revenue	Transfer from Alaska Science & Technology	(1) General Fund Appropriation	Difference
Preliminary 2003	1,946.9	95.0	2,496.2 (2)	454.3 (2)
2004	2,022.9	.	2,297.8	274.9
2005	1,724.3	.	2,297.8	573.5
2006	1,492.1	.	2,297.8	805.7
2007	1,434.9	.	2,297.8	862.9
2008	1,442.0	.	2,297.8	855.8
2009	1,424.2	.	2,297.8	873.6
2010	1,347.2	.	2,297.8	950.6
2011	1,291.3	.	2,297.8	1,006.5
2012	1,230.9	.	2,297.8	1,066.9
2013	1,186.5	.	2,297.8	1,111.3
2014	1,102.8	.	2,297.8	1,195.0
2015	1,060.5	.	2,297.8	1,237.3

(1) The projected FY 2005-2015 budget of $2.3 billion is simply a reference point for analysis. Any budget estimate used to determine "The Gap" will have its detractors — some will contend spending should be cut, while others will argue just as strongly that spending should be increased to reflect inflation and population growth.
(2) The "Gap", or draw on the CBRF for FY 2003, is shown as the actual cash withdrawal.

(1) http://www.gov.state.ak.us/omb/04_OMB/fy04fiscal_summary.pdf

Figure 2-7. Spending Gap Traditionally Covered by Draw from CBRF Fills Gap FY 2003-2007 (1)



(1) FY 2003 CBRF draw: $454 million; FY 2004, $275 million; FY 2005, $574 million; FY 2006, $806 million; FY 2007, depleted in May 2007 after a $734 million draw.

Table 2-10. When Would the CBRF Be Gone? (1)

Annual State Budget	State Spending and Oil Price Variables Fall 2003 DOR $18/bbl	$22/bbl	Forecast	$25/bbl	$28/bbl	$30/bbl
$2.2 billion	Oct-06	Aug-07	Nov-07	Nov-08	Nov-10	May-12
$2.3 billion	Jun-06	Feb-07	**May-07**	Dec-07	Jun-09	Dec-10
$2.4 billion	Mar-06	Sep-06	Nov-06	Apr-07	May-08	Jul-09
$2.5 billion	Dec-05	May-06	Jul-06	Oct-06	Jul-07	May-08

Source: Department of Revenue fall 2003 forecast, Fiscal Driver Model of Oil Revenue and CBRF Performance.
(1) FY 2004 price for all scenarios is $27.70 per barrel. Oil price selected in table above is for FY 2005 and beyond.

As approved by voters in 1990, all money from oil and gas and tax and royalty settlements is deposited into the Constitutional Budget Reserve Fund (CBRF). The state has deposited about $5.6 billion into the reserve fund and the fund has earned about $1.6 billion in interest on that money. For 10 of the last 12 years, the state has relied on the CBRF to fill the difference between unrestricted revenue and the annual state budget. Through September 30, 2003, approximately $5.5 billion had been withdrawn from the CBRF to balance the budget, leaving a balance of $1.9 billion.

The table above reflects the CBRF depletion matrix and the time period the fund could continue to make up the difference between Unrestricted General Purpose Revenue and the general fund budget at various oil prices and budget levels. For example, assuming no change in the state's fiscal system, if we are correct in our oil price forecast and if we assume a flat total General Fund budget of $2.3 billion per year, the CBRF will be exhausted in May 2007.

3.

RESOURCE DEVELOPMENT OPPORTUNITIES

3. Looking for New Oil Reserves

There are essentially three phases involved in bringing new oil and gas reserves into production: leasing, exploration and development. In this section we will examine current trends in leasing and exploration as well as new development issues on the Alaska North Slope.

Leasing

The state's leasing program continues to be quite successful. There are currently over 4.8 million acres of state land under oil and gas leases. Since 1995, lease sale bonuses and rents have generated over $200 million for the state. Leases are owned by many different oil companies and private citizens. As of today, ConocoPhillips controls the largest amount of acreage at 925,785 acres. The top ten companies control 3.7 million acres while 90 other entities control the remaining 1.2 million acres.

Table 3-1. State-Owned Leases Thousands

Company	Acreage	Percent
ConocoPhillips	926	19.0%
Anadarko	514	10.6%
Petro-Canada	411	8.4%
BP	406	8.4%
Union	321	6.6%
Chevron USA	296	6.1%
Encana	236	4.9%
ExxonMobil	191	3.9%
Burlington Resources	184	3.8%
Forest	179	3.7%
All Others	1,201	24.7%
Total	**4,863**	

Source: Lessee's Acreage Summary, Division of Oil and Gas, Alaska Department of Natural Resources, November 2003.

Since 1995 the total amount of acreage under lease has more than doubled. This suggests a successful ongoing leasing program that is generating state revenue and making a significant amount of acreage available to exploration. The diversity of ownership suggests that some leases are pursued with an eye to selling them to an entity that has the ability to explore or gain access to existing facilities. The bottom line is that considerable acreage is in the hands of lessees and the ownership of leases is diversified between large companies and smaller firms and individuals.

Exploration

In order to produce oil or gas you need to find it. Exploration is driven by many factors but the primary one is the likelihood of finding oil or gas in sufficient quantity to justify commercial production. The North Slope of Alaska has been explored by geologists since the beginning of the last century and ideas about where to drill the next exploration well continue to be refined as new pools are discovered.

The likelihood of finding oil or gas in sufficient quantity to justify commercial production is enhanced first by the availability of acreage with good potential. The use of improved technology provides a higher probability of discovery. The existence of surface facilities to collect, process and move the production to market lowers the cost of developing a discovery, thereby reducing the field size that is necessary to declare commercialization.

Table 3-2. Total Alaska Exploratory Wells, North Slope and Cook Inlet, 1995-2003

	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
Total Wells	**8**	**10**	**13**	**14**	**5**	**8**	**19**	**21**	**14**	**113**
Prudhoe Unit			1	5	1			1		8
Other North Slope Onshore	3	4	4	5	1		4	1	0	22
Other North Slope Offshore			2					1	4	7
NPR-A						4	5	4	1	14
Alpine (Colville River Unit)	4	5		1	2	1	5		1	19
Southwest Kuparuk			4		1	3	2	3		13
Cook Inlet	1	1	2	2			4	3	3	16
Shallow Gas				1				8	5	14

Source: Well data from Alaska Oil and Gas Conservation Commission through November 2003.

Exploratory drilling in Alaska is risky. On the North Slope, since 1994, we estimate that about 70% of the wells failed to discover economically recoverable reserves. There were good years in which over 60% of the wells drilled led to commercial discoveries, interspersed with bad years where drilling failed to yield a commercial discovery.

Table 3-3. North Slope Exploration Summary, 1994-2002

	Total Wells	Oil Discovery	Suspended	Plugged and Abandoned
1994	6	0	1	5
1995	7	4	2	1
1996	9	2	2	5
1997	10	6	1	3
1998	10	6	0	4
1999	5	2	3	0
2000	7	0	0	7
2001	16	3	5	8
2002	10	1	2	7

In addition to being risky, drilling exploration wells in Alaska is expensive, especially "wildcat" wells or wells drilled in remote locations. The United States Geological Survey (USGS) estimates that drilling a wildcat well in a remote area like the National Petroleum Reserve-Alaska (NPR-A) costs over two-and-a-half times what it would cost to drill a development well at Prudhoe Bay.(1) The USGS believes that the accumulations in the NPR-A will be moderate in size, in the reserves range "commonly developed as "stand alone" or satellite fields on the central Alaska North Slope in recent years" of less than 250 million barrels. Large accumulations like Prudhoe Bay "are not expected to occur."(2)

Between 1995 and 2003 an average of approximately 12 exploratory wells were drilled annually on the North Slope and in Cook Inlet (see Table 3-2 on the prior page.) In 1999, the year of the last major oil price crash, only five North Slope wells were drilled.

A flurry of exploration activity occurred in 2000, 2001 and 2002 as the result of several key events: (1) the discovery of Alpine; (2) the leasing of NPR-A acreage close to the developing Alpine field; (3) discoveries and development of Tarn and Meltwater, southwest of the main Kuparuk field; and (4) high oil prices.

Oil discoveries were announced in the NPR-A but no specific development plans have been made public. The two key factors that underpin exploration activity, attractive acreage and proximity to existing surface facilities were definitely in play during this period. ConocoPhillips drilled 10 of the 14 NPR-A wells drilled over the 2000-2003 time period, with BP drilling two wells and Anadarko drilling one. Drilling in the NPR-A tapered off to one well in 2003 at Puviaq.

Seven offshore wells were drilled over the period 1995-2003: Liberty and Warthog in 1997, McCovey in 2002 and three wells in the Oooguruk Unit and one offshore Kuparuk in 2003. Marginally economic oil reserves lie in Liberty and oil was discovered in the Oooguruk Unit. The other three wells found little or no oil.

BP, as a Prudhoe Bay unit operator, continued a steady program of exploring near existing fields in the late 1990's that resulted in the several new commercial discoveries. BP has announced that they will not be exploring outside of existing units. Other unit partners such as ConocoPhillips and ExxonMobil would have paid a proportional share of the cost of these wells.

In 2002, policymakers decided that something must be done to encourage wildcat exploration on the North Slope. The number of exploratory wells drilled there had declined from 16 in 2001 to six to 2003. The second largest producer in Alaska, BP, swearing off frontier exploration in Alaska, had laid off or sent their exploration people to Houston, and sold off their exploration lands and 3-D seismic. As pointed out previously, wildcat exploration is expensive and risky. To encourage wildcat exploration, the legislature passed and the governor signed into law SB 185, that provides for a credit against exploration expenses for wells drilled far away from other wells or unit infrastructure.

(1) See USGS Open-File Report 03-44, "Economics of Undiscovered Oil in Federal Lands on the National Petroleum Reserve, Alaska," (January 2002) by Emil D. Attanasi [NPR-A Economic Report] at Pages 20-21.
(2) See USGS Fact Sheet 045-02, "U.S. Geological Survey 2002 Petroleum Resource Assessment of the National Petroleum Reserve in Alaska (NPR-A)" [NPR-A Fact Sheet].

Activity in the Cook Inlet saw an average of two wells per year with a total of 10 wells drilled between 2001 and 2003. The effect of higher natural gas prices and seasonal shortages of natural gas to supply industrial demand, as well as royalty incentives, all played a role in encouraging the search for new gas reserves in the Cook Inlet region.

The other major boost to exploration activity is in the drilling of shallow gas wells targeting coal bed methane as evidenced by the 13 shallow gas wells drilled by Evergreen over the last two years. Higher gas prices, proximity to the existing natural gas grid and local market as well as favorable royalty treatment no doubt have contributed to interest in exploring for this resource.

Given the high cost of drilling exploratory wells, it should come as no surprise that nearly 80% of the non-shallow gas exploratory wells over the 1995-2002 period were drilled by the two major producers/operators on the North Slope, ARCO/ConocoPhillips and BP. ARCO/ConocoPhillips accounted for roughly 60% of the exploratory wells drilled. The third major producer, ExxonMobil, did not drill any exploratory wells.

However, other companies have been drilling. In 2003, Pioneer Natural Resources drilled the three wells in the Oooguruk Unit between Kuparuk River Unit and Thetis Island that discovered oil. Winstar drilled offshore from Oliktok Point. Forest Oil has been very active exploring the Redoubt Unit in the Cook Inlet. Marathon and Unocal, as well as ConocoPhillips, have been active exploring for gas in the Cook Inlet.

Conclusion

- Recent exploration activity has been relatively concentrated in one firm, ConocoPhillips.
- New entrants, however, are buying leases and in some cases drilling wells (Encana, Winstar and Pioneer Resources)
- Major increases in exploration drilling are going to overwhelmingly be driven by the opening up of new areas that are located close to existing surface infrastructure. The most recent example is the NPR-A, where the eastern area lies close to the western edge of the North Slope oil gathering infrastructure at Alpine.
- Although oil and gas prices can make a difference in terms of cash available to explore, high oil prices alone may not be enough to cause the biggest current producers on the North Slope to drill North Slope exploration wells in 2004.
- Clearly, investment in surface infrastructure can dramatically improve the commerciality of exploring and development. This is the motivation for the initiative by the state to plan for road and bridge access to the NPR-A. Some exploration wells have been drilled recently by companies with little or no access to surface facilities; however most wells are drilled by companies with existing production and facilities.

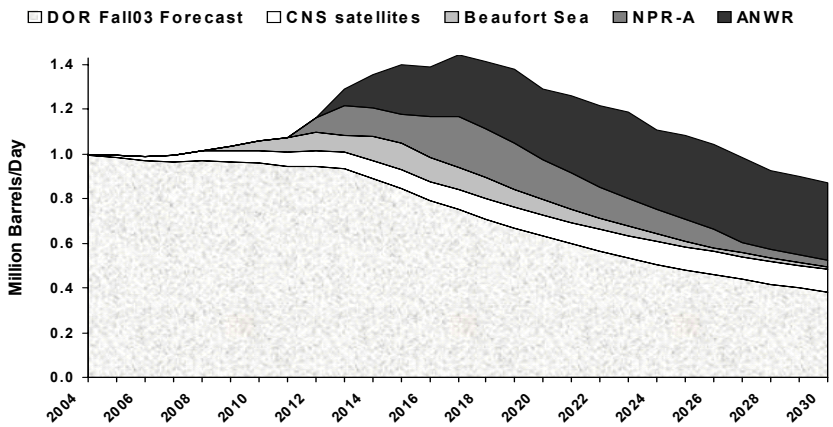
3.

Developing New Oil Fields

Exploration and aggressive development of found oil reserves could place ANS production on an increasing path by the end of this decade. Here, we have highlighted four areas that could be sources for such growth: the Central North Slope satellites, Beaufort Sea, NPR-A and ANWR. ANWR could provide as much — or more — in oil reserves and production as the other three areas combined. Oil exploration incentives, as provided in the recently adopted exploration tax credit, as well as the initiative to build a new year-round access road to the NPRA-A are designed to encourge the exploration necessary to realize this additional oil production.

Also, exploration is not the only way to add reserves. For instance, more aggressive development of heavy oil resources could add reserves and production. Whether we reach this higher production path depends crucially on the level of exploration and development spending, something which must increase from depressed 2002 and 2003 levels.

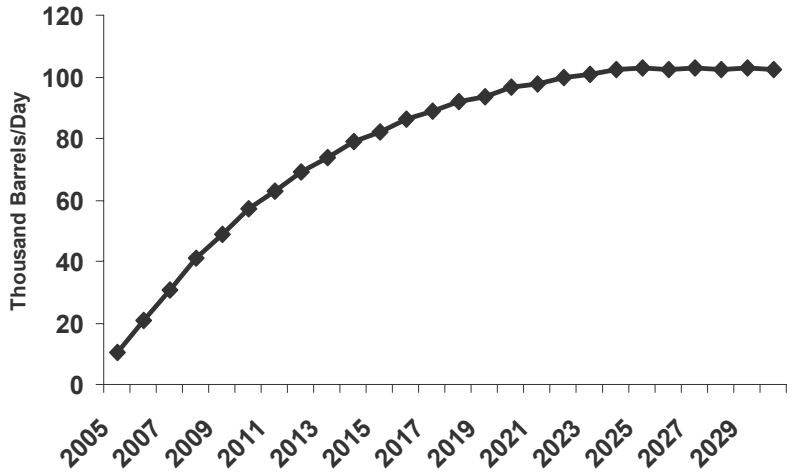
Figure 3-1. Possible Additional Production from Exploration



Central North Slope Satellites

In its last slope-wide evaluation of oil and gas resources, the USGS estimated that there were 2.3 billion barrels of technically recoverable, undiscovered oil reserves in the Central coastal regions of the North Slope. The USGS believed this oil would mainly be in the "Turbidite" and "Barrow Arch Beaufortian" geological plays.(1) Since that evaluation in 1995, producers have discovered and put into production more Turbidite (Meltwater, Tarn, Tabasco, Midnight Sun and Aurora) and Barrow Arch Beaufortian (Alpine and Polaris) reservoirs.(2) Adjusting these technically recoverable barrels to take into account recent discoveries, we estimate that there are about 1.9 billion barrels of technically recoverable oil still remaining to be found in the Central Coastal regions. The USGS also felt that around half of this technically recoverable oil would be economically recoverable.(3) Of the estimated 1.9 billion barrels of technically recoverable oil remaining net of post-1995 discoveries, 880 million barrels should be economically recoverable.

Figure 3-2. Potential Increase in Production from Central North Slope Satellite Fields



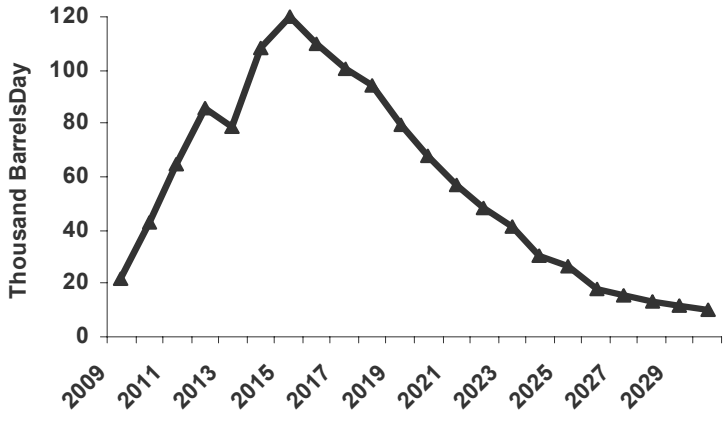
(1) USGS Open-File Report 95-75I, Emil Attanasi and Ken Bird, "Economics and undiscovered conventional oil and gas accumulations in the 1995 National Assessment of U.S. Oil and Gas Resources: Alaska," [USGS95], Table 3, Page 37.
(2) Since these barrels were put into production and therefore economically recoverable, we could have adjusted the economically recoverable, rather than technically recoverable, reserve numbers down. However, recent discoveries will not only turn undiscovered barrels into discovered barrels. They will add geological information that increases the estimate of undiscovered, technically recoverable, reserves. To roughly offset this effect we have kept constant the percentage of technically recoverable barrels that are economically recoverable.
(3) Of the Central Coastal region's 1.9 billion barrels of remaining technically recoverable reserves, 45.75% (916 million barrels) should be economically recoverable. The economic recovery factors reflect mid-points between the $18 and $30 cases of USGS[95] Table 3.

Finding and producing these reserves will require further investments in exploration and development. Due to capital constraints, these reserves will come on slowly. We derive a conservative production forecast for these satellites and fields by assuming that 75 million barrels of additional Central North Slope reserves will be put into production every other year starting in 2005. The 75 million barrels assumption is conservative because in 2001 and 2002 the producers put three satellites with about 300 million barrels of reserves into production. However, in 2003 there were no new satellite discoveries put into production. Exploration efforts continue though. Pioneer recently announced an oil find just north of Kuparuk in the newly formed Oooguruk unit. By 2010, currently unannounced satellite developments could add around 50,000 barrels a day to our forecast.

Beaufort Sea

In total, U.S. Minerals Management Service (MMS) estimates that there are 8.82 billion barrels of technically recoverable reserves and 2.27 billion barrels of economically recoverable oil at $18 per barrel oil prices and around 2.5 billion barrels at $22 per barrel. The MMS recently held Beaufort Sea Lease Sale 186 that garnered $10 million in bonus bids. For the Beaufort Shelf area, the MMS projects that the three fields developed from areas leased in this sale will yield 460 million barrels of reserves. See James D. Craig, "Economic Results, Beaufort Shelf Province."

Figure 3-3. Possible Production from Beaufort Sea-Lease Sale 186



NPR-A

In 2001, ConocoPhillips announced an oil discovery in the NPR-A. Currently, the Bureau of Land Management (BLM) is completing an environmental impact statement (EIS) for possible development of these discoveries as Alpine satellites. We estimate that the NPR-A will yield 430 million barrels of oil in our production forecast. Production starts in FY 2009 and ramps up to 60,000 barrels a day by 2015.

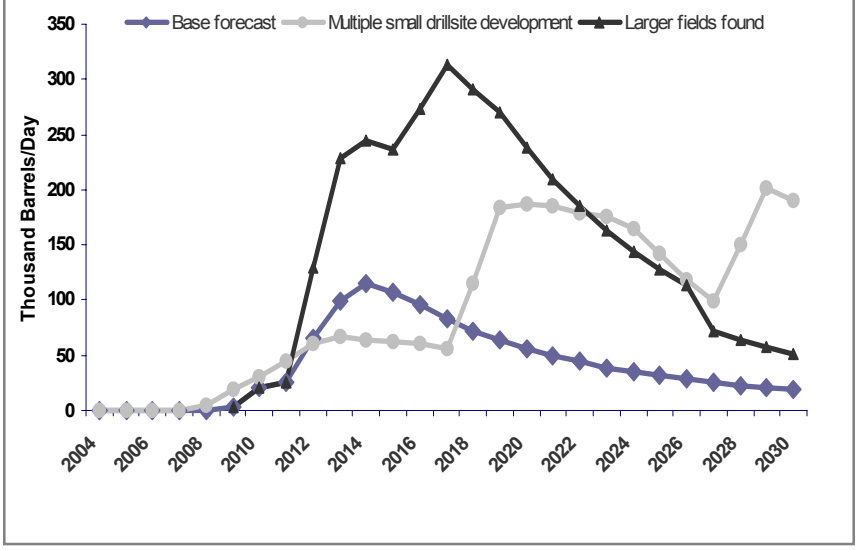
The NPR-A might yield more oil reserves, oil reserves that could be produced at a higher rate. The USGS evaluated the oil and gas resources in the NPR-A in 2002, and concluded that there were 9.3 billion barrels of technically recoverable reserves there. Of that amount, the USGS concluded that 1.3 billion barrels would be economic to explore for and produce at a $22 per barrel ANS West Coast oil price — our long run price forecast.(1) In the EIS, BLM envisions a development of multiple drill sites along with two new central processing facilities in the NPR-A. Provisionally, the BLM estimates the NPR-A reserves from this development would be around 1.4 billion barrels, slightly higher than the USGS's 2002 number.

How quickly these reserves are produced depends on the pace of exploration and the size of the fields discovered. Since 2000, 14 exploration drills have been drilled in the NPR-A and a further three or four are planned for the 2003-2004 drilling season. The USGS assumed that there were about eight accumulations with 256 to 512 million barrels in the NPR-A, three of which were in "Subarea 110" of the NPR-A, the area closest to Alpine and TAPS.(2) For the NPR-A these are large fields, and these larger fields would be produced before smaller accumulations since they are easier to find and more economic to develop.(3) After an initial round of exploration (assuming 20 wildcat wells), the USGS believes that one of these three 256-512 million barrel fields would result in a 430 million barrel field discovery. Under the USGS's cost and development assumptions, to overcome the challenges facing NPR-A development requires that the potential prize of a larger field (400 million barrels or more) is needed for exploration at $22 per barrel oil prices. Once found, a relatively small field (250 million barrel) will be economic. Explorers just will not incur high exploration costs to look for those fields.

(1) See NPR-A fact sheet.
(2) See USGS fact sheet histogram. The USGS divided the NPR-A into eight subareas for the purpose of estimating product transportation costs to TAPS. See Economic report at Page 17.
(3) See USGS fact sheet, "The economic analysis simulates exploration by assuming that larger accumulations will be discovered early…"

The graph illustrates the production from the NPR-A in our forecast, and the additional production from the NPR-A if a larger field is found or, alternatively, if smaller fields are found and can be economically produced. Lowering exploration costs (through the recently enacted SB 185 or through a permanent road) make the higher forecast more likely to occur. The USGS estimates that the initial finding costs per barrel for the NPR-A is $0.39, or $168 million.(1) Explorers pay out these millions of dollars years before first production. Decreasing the cost of this frontier exploration by roughly 30% due to the passage of SB 185 will increase the rate of return on a 430 million barrel field a full percentage point — from 13% to 14% — at $22 per barrel oil prices.

Figure 3-4. NPR-A Production Forecast

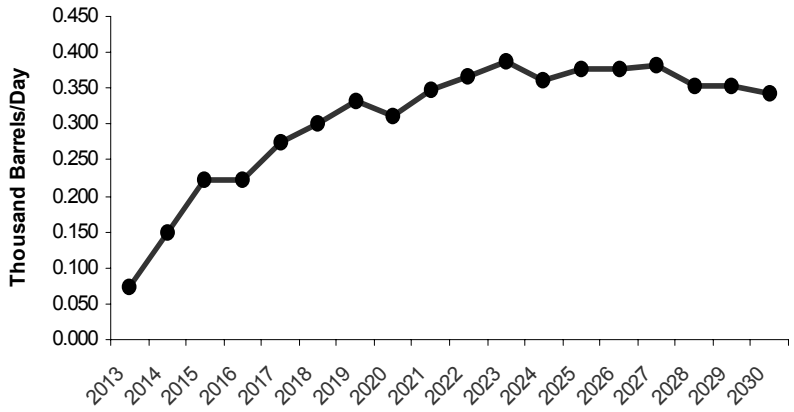


ANWR

The USGS estimates that there are 10.3 billion barrels of technically recoverable reserve in the Arctic National Wildlife Refuge (ANWR), or more barrels than the original estimate for the giant Prudhoe Bay field. At our forecast price of $22 per barrel, the USGS estimates that 4.4 billion barrels are economically recoverable from federal lands, and almost another billion from non-federal lands. Since ANWR production will probably come from larger fields (with an 80% chance of there being a 1.024 to 2.048 billion barrel field), production should ramp up quickly. We estimate that once Congress opens ANWR to oil exploration and development it will take seven years for the first oil to be produced from the area. If opened in 2006, ANWR is assumed to add between 200 and 400 thousand barrels a day of production by the middle of the next decade.

(1) See NPR-A Economic Report, Table 4, Page 37.

Figure 3-5. ANWR Production Forecast



Gas Line

The producers, the state and other interested parties continue to explore ways to monetize the over 30 trillion cubic feet of natural gas on the North Slope.[1] The three largest producers on the North Slope (BP, ConocoPhillips, and ExxonMobil) have looked at a project to pipe about 4.5 billion cubic feet of gas per day to markets in the Lower 48 or Canada. Many hurdles must be overcome for the project to proceed. If these hurdles are overcome, the state stands to receive around $600 million a year in royalty and severance tax payments per year. Including corporate income tax and property tax, revenues to the state and municipalities increase to around $1 billion per year. [2]

(1) Producers on the North Slope currently use the natural gas there to enhance oil production through miscible injection (EOR) projects, cycling and pressure maintenance. Natural gas also is used as field fuel, to fuel some of the pump stations on the Trans-Alaska pipeline and is sold in small quantities to local utilities.
(2) For purposes of this analysis, we have assumed a $4 per mmBtu price at market. We have not factored in possible changes to the state fiscal system. The state and municipal-take is based on the current fiscal structure. We also have not taken into account oil losses due to gas voidage from an oil and gas reservoir.

3. Conclusion

In our forecast of oil and gas base revenue (production tax and royalty), we project a decline of 30% by FY 2010 and almost 50% by FY 2015. However, by FY 2015 revenue from future oil exploration and a gas line could more than offset this anticipated decline in oil and gas base revenue from currently producing or discovered fields. With a very active oil and gas exploration and development effort, by FY 2015 our oil and gas base revenue could be 30% higher than it is today.

Figure 3-6. Possible Increases to the State's Severance Tax and Royalty Revenue from Future Exploration and Gas Line Project

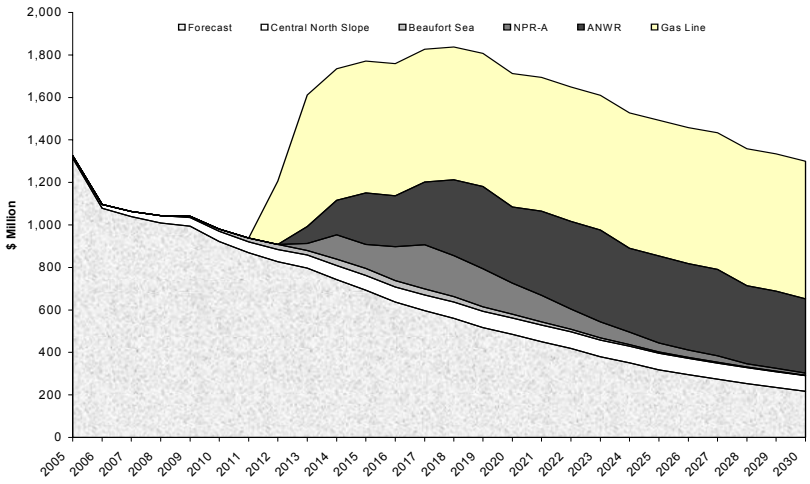


Table 3-4. Cummulative Revenue from New Oil Exploration and Gas Line Project to FY 2030 $ Millions (Undiscounted Dollars)

	Central North Slope and Satellites	Beaufort Sea	Additional NPR-A	ANWR	Gas Line	Total
2006	27	0	0	0	0	27
2010	174	18	0	0	0	192
2015	480	145	261	484	2,156	3,526
2020	854	268	1,145	2,122	5,282	9,672
2030	1,622	338	1,644	6,058	11,671	21,333

Minerals

Alaska's traditional resource-based industries in mining, fish, tourism and timber all have potential for growth. In this Revenue Sources Book, we have chosen to examine the mining industry. Most of this information comes from the "Alaska Minerals Industry 2002" report, Department of Natural Resources, 2003.

Mining

Between 2001 and 2002, the production value of industrial, energy and metal minerals increased 10% to over $1 billion. Industrial minerals (e.g., sand and gravel) increased from $82.4 million to $152.2 million, mostly as a result of increased road repair and construction. Energy minerals (e.g., coal) decreased from $48.3 million to $37.6 million, mostly due to the loss of exports to Korea. Metal minerals increased from $788.6 million to $823.1 million, mostly as a result of an increase in the price of gold.

In 2002, zinc prices decreased by more than 12% from 2001 but, as production increased, the total value of zinc decreased only by 1%. Even with prices dropping since the first half of 2001, zinc still accounted for over 60% of the production value for all metals.

Both gold and silver prices increased by 14% and 5%, respectively in 2002 and have continued to rise in 2003. In fact the price of gold in 2003 (January-October) is currently 16% higher and zinc prices are 3% higher than in 2002. According to Andrew Keen at the London Metal Exchange, lead and zinc prices should improve slowly in 2004. Additionally, Korea has signed a new two-year agreement to once again import coal from Alaska.

Employment in the minerals industry in 2002 was 2,824 full-time equivalent jobs, down by 11 from 2001. Average annual earnings in 2002 of $63,763 were among the highest in the state.

Producing Mines

The four largest producing mines in Alaska are:

Red Dog: Is a joint venture between Nana Regional Corporation and Teck-Cominco and the largest producer of zinc concentrate in the world. Out of a total of 718,106 tons of zinc produced in Alaska in 2002, Red Dog accounted for 637,800 or 89%. Red Dog has almost 550 employees.

Fort Knox: Is owned by Kinross Gold Corporation and produced 410,519 ounces of gold in 2002. This is 73% of the total production of gold in the state. Fort Knox has almost 400 employees.

Greens Creek: Is a joint venture between Kennecott Minerals and Hecla mining and is the third largest silver producer in North America. Out of a total of 17,858,183 ounces of silver produced in Alaska in 2002, Greens Creek produced 10,913,183 or 61%. Greens Creek has over 260 employees.

Usibelli Coal: Is owned by Usibelli Coal Mines Inc. and has among the lowest sulfur coal in the world. Usibelli produced 1,157,879 tons of coal which is essentially all of the commercial coal produced in Alaska. Usibelli had approximately 80 employees in 2002. In 2003, Korea signed a contract valued at $20 million with Usibelli to resume importing coal from Korea.

Advanced Stage Projects

The three largest advanced stage projects are:

Pogo: Is a joint venture between Sumitomo and Teck-Cominco and the closest of the three projects to construction. Start of construction should be by late 2003 or early 2004 and production should begin in late 2005 or early 2006. The mine should produce greater than 375,000 ounces of gold per year and should employ about 360 employees during production.

Kensington: Is owned by Coeur d'Alene mines and still has some hurdles to overcome before construction can begin. However, if production does occur, then the mine should produce approximately 85,000 ounces of gold per year and have about 225 employees.

Donlin Creek: Is a joint venture between Placer Dome, NovaGold Resources, Calista Corporation and TKC and has the largest gold resource in Alaska. According to the Alaska Journal of Commerce (Bradner, 2003) the largest "challenge" to overcome for Donlin Creek to become a producing mine is to find enough power to operate the mine.

Revenue

According to the Department of Natural Resources, the mining industry paid $15.2 million to the state and municipalities in 2002. Most of this revenue was from payments to municipalities ($9.7 million.) The mining industry makes revenue payments to the state in the form of rents and royalties, corporation income taxes (if the businesses are subchapter C corporations) and mining license taxes. We do expect some increase in the state revenues as a result of strong gold prices, improving zinc prices, a new coal contract with South Korea and in the long run from new developments.

The only advanced stage project development that we included in the forecast was Pogo because this project is the closest to construction and is the most likely to begin production within the next five years. No tax revenue would be realized in the two-year forecast window because production is not slated to begin until early 2006. Additionally, because of the 3½-year tax holiday after production starts, we would not see any mining license revenue until FY 2010 or 2011 at the earliest. Exploration credits may be applied against 50% of royalties and tax liabilities and further reduce revenue.

4.

Oil revenue

4.

Figure 4-1. FY 2003 Oil Revenue
$2.1 Billion

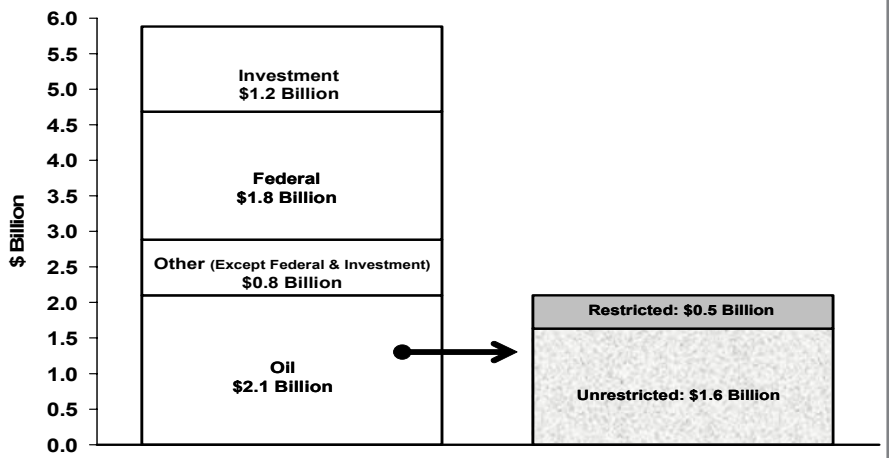


Table 4-1. Total Oil Revenue
Preliminary Actual FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
Property Taxes	48.7	48.5	45.6
Corporate Income Taxes	151.1	220.0	195.0
Production Taxes	599.0	563.6	427.1
Royalties (including Bonuses and Interest)	840.3	898.6	753.7
Subtotal	**1,639.1**	**1,730.7**	**1,421.4**
Restricted			
Royalties to Permanent Fund & School Fund	403.8	313.9	266.9
Settlements to CBRF	22.3	20.0	20.0
NPRA Royalties, Rents and Bonuses	34.6	2.9	12.9
Subtotal	**460.7**	**336.8**	**299.8**
Total	**2,099.8**	**2,067.5**	**1,721.3**

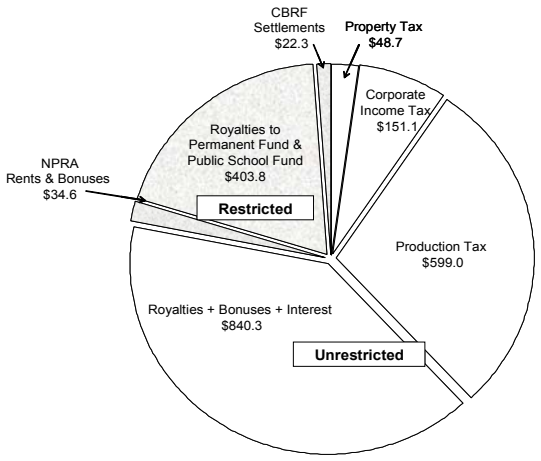
General Discussion

The state receives its oil and gas revenue from four sources: oil and gas production tax, property tax, royalties and corporate income tax. The bulk of the revenue received from taxes and royalties goes into the General Fund for general purpose spending. The passage of HB 11 last spring calls for 25% of the royalty revenue to go into the principal of the Permanent Fund and 0.5% of mineral bonuses and royalties to go into the Public School Trust Fund. Currently, the state's share of all lease bonuses from the National Petroleum Reserve-Alaska (NPR-A) goes into the NPR-A Fund.(1) Settlements of tax and royalty disputes between the State of Alaska and oil and gas producers go into the Constitutional Budget Reserve Fund (CBRF).

The figure below shows the actual amount of oil revenue from each source in FY 2003.

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

Figure 4-2. FY 2003 Oil Revenue by Category
$ Million



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

4. Unrestricted Oil Revenue

Table 4-2 . Unrestricted Oil Revenue Projections
Preliminary FY 2003 and Projected FY 2004-2015
$ Million

Fiscal Year	Property Taxes	Corporate Income Taxes	Production Taxes	Royalties including Bonuses & Interest	Total Oil
Preliminary 2003	48.7	151.1	599.0	840.3	**1,639.1**
2004	48.5	220.0	563.6	898.6	**1,730.7**
2005	45.6	195.0	427.1	753.7	**1,421.4**
2006	42.4	179.0	330.2	637.7	**1,189.3**
2007	40.2	172.0	303.2	616.0	**1,131.5**
2008	37.7	164.0	330.6	605.6	**1,137.9**
2009	37.5	157.0	326.4	598.1	**1,119.0**
2010	37.0	150.0	285.6	567.5	**1,040.1**
2011	36.3	143.0	258.0	545.9	**983.3**
2012	35.5	135.0	231.4	520.1	**922.0**
2013	34.7	128.0	221.1	493.3	**877.1**
2014	34.0	121.0	201.5	436.5	**792.9**
2015	33.3	113.0	189.7	414.1	**750.1**

Oil and Gas Production Taxes

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

Oil Production Tax

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

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

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

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

"Wells" is the number of producing wells in the field and "volume" is the total daily production for the field.

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

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

Natural Gas Production Tax

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

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

ELF = 1-(3000/PPW)

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

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

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

ANS Gas Taxable Value/mcf = 0.10 (average ANS oil per barrel netback value)

Hazardous Release Surcharge

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

The surcharge is comprised of two components: (1) a 3 cents per barrel charge on all oil production, except federal and state royalty barrels, and (2) an additional 2 cents per barrel charge on all oil production except federal and state royalty barrels whenever the balance in the state Oil and Hazardous Substance Release Prevention and Response Fund falls below $50 million. The balance of the fund was $50 million or greater for all of FY 2003, so the surcharge was 3 cents per barrel for the entire fiscal year.

Oil Royalties

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

Generally, the state issues leases based on a competitive bonus bid system. It has always retained a royalty interest of at least 12.5%. The vast majority of current production is from leases that carry that rate. Some currently producing leases carry rates as high as 20%. 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 2003, the state took approximately 50,500 barrels per day of Prudhoe Bay production in-kind and sold it to the Williams Alaska Petroleum Company, for its refinery in North Pole. The state's royalty share of Alaska North Slope production amounts to about 125,000 barrels per day.

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

Oil Production Revenue Forecasting Methodology and Assumptions

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

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

Oil Price Forecast

Our spring oil price forecast, which tracked the market well through August, has been considerably below actual prices since September due in large part to rapidly growing global demand.

Quick Review of What Has Happened Since the Spring Revenue Forecast

- The end of major combat in Iraq came quickly. However, restoration of basic infrastructure in Iraq has taken longer than anticipated. Although the oil fields themselves are mostly undamaged, the basic infrastructure and transportation systems necessary to bring oil production back up to prewar levels are not yet all functional, particularly in the northern part of the country. Current exports, however, are estimated at over 1.5 million barrels per day.
- As Iraq production began ramping up this past fall, oil prices began to correct back into the OPEC $22-$28 range through mid-November. Global inventory levels were beginning to rise from extremely low levels — primarily in response to growing non-OPEC production and relatively flat OPEC production. Recent concern about the adequacy of supply relative to burgeoning demand has once again pushed prices over $30 per barrel.
- OPEC production increased enough in the spring and summer to offset the loss of Iraqi barrels. OPEC production heading into the fall was flat with concerns that production cuts were needed to prevent a price collapse as Iraq and more non-OPEC barrels came into the market. OPEC approved new reductions of 900,000 barrels per day at its September meeting. By its December 4 meeting, the oil market had tightened considerably and members decided to not increase production. OPEC's official view is that the market is well supplied and the weakening dollar is lowering the purchasing power of dollar-denominated oil sales. An OPEC meeting has been scheduled for February 10 to review price and production policies again.

Short-Term Oil Price Forecast

Looking ahead 18 months, we have put together two oil price scenarios. The low price scenario assumes factors which lead to lower oil prices. Accordingly, the high price scenario factors lead to higher oil prices. The components of each scenario are in the table below.

Table 4-3. Fall 2003 Oil Price Scenarios

Low Price Factors	High Price Factors
▪ Iraq production increases to 3.0 million barrels per day by spring 2005.	▪ Iraq exports peak at 1.5 million barrels per day as political instability disrupts production growth.
▪ OPEC struggles to accommodate this increase in production by Iraq.	▪ OPEC's task of managing the price band is made easier by this development.
▪ Non-OPEC production also increases as increases in Russia and West Africa more than offset declines elsewhere.	▪ Additional growth in non-OPEC production slows.
▪ The global economy grows slowly.	▪ The global economy picks up as recovery occurs.

Our reference case scenario is based on an average of the prices that we associated with the two scenarios outlined above.

4.

Organization of Petroleum Exporting Countries

In September, OPEC announced that it would be lowering its quota by 900,000 barrels per day — back to 24.5 million barrels per day. (The OPEC quota is exclusive of production from Iraq.) It is the cartel's view that the market is currently well supplied and the prospect of economic growth continues. Increased production from Iraq and the non-OPEC countries will require an output reduction in order to prevent oil prices from falling.

OPEC continues to demonstrate a willingness to actively manage its production to maintain oil prices in a band between $22 and $28 per barrel. The October OPEC basket averaged $28.54 per barrel. Our reference case oil price forecast relies heavily on this continued behavior by OPEC.

Current ANS Oil Market Situation

Alaska North Slope prices have been very strong so far in FY 2004, averaging roughly $29 per barrel since June. The price of benchmark West Texas Intermediate (WTI) has averaged roughly $30.40 per barrel implying an average discount for ANS of $1.40 per barrel — $0.25 per barrel, better than the five-year average of $1.70 per barrel. Recently however, the WTI differential has widened out to $2 per barrel suggesting increased competition for ANS quality crude oil on the U.S. West Coast as a result of the reentry of Iraqi oil into the market.

ANS prices closely track the OPEC price basket of internationally traded crude oils. The OPEC basket is the benchmark that OPEC uses to gauge the success of its production policy. Since January 2000, the average ANS price has been $0.68 per barrel higher than the average OPEC basket price. ANS typically sells in direct competition with other waterborne crude oils for sales to U.S. West Coast refiners in Washington, California and Hawaii.

ANS has a locational advantage over other waterborne crude oils since it is the nearst waterborne source of crude oil for West Coast refiners. Typically, ANS sells at a discount to benchmark WTI. This discount can be quite volatile, but since January 1998 has averaged close to $1.70 per barrel, trading in a range of $1 to $2.60 per barrel 70% of the time. Our price assumptions assume that over time, the differential will average $1.70 per barrel.

Prices Over the Longer Term

In the fall 2003 revenue forecast, our assumption for ANS oil prices over the longer term was increased to $22 per barrel. We believed that the accumulated evidence of OPEC's commitment to managing the market from 1999 through 2002 supported this increase. At that time, we chose to benchmark our price to the low end of OPEC's target range. Experience had shown that the OPEC cartel is not perfect and that some cheating does occur. Like all cartels, production discipline in an organization — with only voluntary compliance — creates strong economic incentives for individual members to overproduce.

Figure 4-3. General Fund Unrestricted Revenue Forecast Reference Case Compared to $18 and $28 per Barrel Oil $ Million

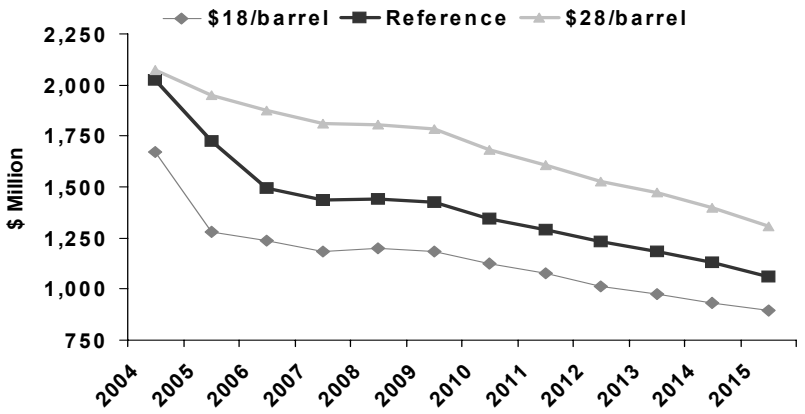


Table 4-4. General Fund Unrestricted Revenue Reference Case Compared to $18 and $28 Per Barrel Oil Price $ Million

FY	$18/ barrel	Reference Case (1)	$28/ barrel
2004	1,668.8	2,022.9	2,074.7
2005	1,279.9	1,724.3	1,948.2
2006	1,235.1	1,492.1	1,877.6
2007	1,185.9	1,434.9	1,808.5
2008	1,199.2	1,442.0	1,806.2
2009	1,184.3	1,424.2	1,784.0
2010	1,124.2	1,347.2	1,681.7
2011	1,079.1	1,291.3	1,609.5
2012	1,013.2	1,230.9	1,528.3
2013	976.8	1,186.5	1,471.5
2014	931.3	1,102.8	1,396.6
2015	896.4	1,060.5	1,305.6

(1) See Executive Summary, Table 2-4 for reference case price ber barrel.

4.

Although major oil companies are careful about publicly stating what they believe oil prices will be in the future, conventional wisdom is that many continue to use oil prices less than $20 per barrel to evaluate oil development projects. The other thing we know is that the major oil companies change their views about long-run oil prices slowly. Following the oil price crash of 1999, many companies started to use oil prices around $15 per barrel or even lower to run development project economics. As oil prices climb higher in the 21st century, it is likely some companies may be using prices closer to our assumed $22 per barrel for longer-term planning purposes. The U.S. Department of Energy's reference case forecast of oil prices, shown in the table below, is a bit higher than our reference price forecast of $22 for the long term.

Table 4-5. U.S. Department of Energy Administration Oil Price Forecast
$ per barrel

Scenario	2010	2020	2025
Low Price	19.04	19.04	19.04
Reference Price	**23.99**	**25.48**	**26.57**
High Price	32.51	33.02	33.05

Other Transportation and Production Costs

Transportation Costs

The forced 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. Negotiations to revisit the TAPS Settlement Method will begin in January 2007.

TAPS tariffs are filed on a calendar year basis, with new tariffs taking effect January 1 each year. The expected tariff filing for calendar year 2003 is $3.24 per barrel. The fall 2003 forecast assumptions table on the next page contains projected tariffs for FY 2004-2015.

Feeder Pipeline Costs

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

Wellhead Price

The combination of ANS wellhead value and production volume by field form the basis for both state production taxes and royalties. The wellhead value by field is calculated by subtracting the relevant marine transportation and pipeline tariff costs (as well as adjustments for North Slope feeder pipelines and pipeline quality bank) from the appropriate destination value. The table below reflects this calculation for FY 2003-2015.

Table 4-6. Fall 2003 Forecast Assumptions
$ per barrel

FY	ANS West Coast Price	ANS Marine Transportation	TAPS Tariff	Other (1) Deductions & Adjustments	ANS Wellhead
Preliminary 2003	28.15	1.68	3.34	(0.22)	23.35
2004	27.70	1.66	3.28	0.29	22.46
2005	24.65	1.71	3.25	0.24	19.46
2006	22.00	1.76	3.27	0.23	16.74
2007	22.00	1.81	3.31	0.25	16.63
2008	22.00	1.86	3.35	0.26	16.53
2009	22.00	1.91	3.35	0.28	16.46
2010	22.00	1.96	3.36	0.33	16.35
2011	22.00	2.01	3.44	0.35	16.20
2012	22.00	2.06	3.31	0.42	16.21
2013	22.00	2.11	3.37	0.47	16.06
2014	22.00	2.16	3.49	0.48	15.87
2015	22.00	2.21	3.63	0.47	15.69

(1) Other deductions include other pipeline tariffs, quality bank charges, location differentials and amended information.
(2) FY 2004 includes reported information through September 2003.

4.

Oil Production

Our ANS oil production forecast is changed only modestly from our spring 2003 projection for FY 2004-2007. Heavy oil development at West Sak and incremental production from the Pressure Support Initiative at Prudhoe Bay will help mitigate baseline decline from the mature producing fields on the North Slope. During this period, we expect oil production off the North Slope to average 977,000 barrels per day.

We have reduced our expectations for ANS production from FY 2008-2013. ANS oil production is forecast to average 945,000 barrels per day during this time period, a reduction of 34,000 barrels per day from our spring 2003 projection. Enhanced oil recovery from the Milne Point Unit was eliminated because of costs associated with procuring off lease solvent. The production from prospective, undiscovered satellite fields in the Greater Kuparuk Area has also been eliminated in this forecast.

After review of development plans with the Department of Natural Resources, the start-up dates for the undeveloped oilfields on the North Slope have been reevaluated. The Liberty and Sandpiper fields have been delayed one year to allow operators to determine the best development scope and to secure the associated permitting. Likewise, satellite fields in the vicinity of the Point Thomson Unit have been delayed two years.

All producing fields have been reviewed for reservoir performance and potential and our expectations have been adjusted based on information acquired since the spring 2003 forecast. The near term outlook for the Kuparuk River field has been reduced due to greater than expected backout impacts from satellite fields sharing the limited capacity in the production facilities there. Field sizes and production rates at Prudhoe Bay satellites Aurora and Borealis have been increased and expectations from Polaris, decreased. The Meltwater and Tabasco production forecast has been increased due to planned development drilling. Implementing the Water Wheel project at Point McIntyre will add 5,000 barrels per day in fourth quarter 2003.

Figure 4-4. ANS Production

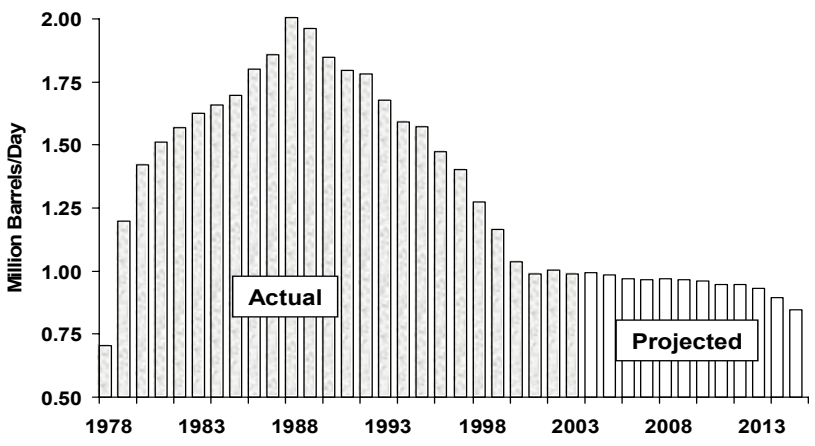


Table 4-7. Alaska Oil and NGL Production
Million Barrels per Day

	Preliminary FY 2003	FY 2004	FY 2005
Prudhoe Bay	0.4328	0.4201	0.4011
Midnight Sun	0.0069	0.0048	0.0042
Polaris	0.0026	0.0027	0.0054
Orion	0.0004	0.0032	0.0097
Aurora	0.0082	0.0104	0.0101
Borealis	0.0271	0.0353	0.0365
Kuparuk	0.1595	0.1547	0.1520
West Sak	0.0068	0.0101	0.0204
Tabasco	0.0036	0.0053	0.0052
Tarn	0.0338	0.0331	0.0263
Meltwater	0.0081	0.0048	0.0093
Milne Point	0.0344	0.0322	0.0318
Schrader Bluff	0.0170	0.0210	0.0220
Endicott	0.0265	0.0294	0.0287
Eider	0.0010	0.0005	0.0003
Badami	0.0014	0.0000	0.0000
Lisburne	0.0088	0.0103	0.0094
Point McIntyre	0.0410	0.0417	0.0423
Niakuk	0.0145	0.0117	0.0099
Alpine	0.0983	0.0990	0.0980
Northstar	0.0574	0.0657	0.0630
Total ANS	**0.9903**	**0.9961**	**0.9855**
Cook Inlet	**0.0293**	**0.0296**	**0.0285**
Total Alaska	**1.0196**	**1.0257**	**1.0140**

4.

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

Production Property

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

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

Pipeline Transportation Property

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

The table on the next page illustrates the property tax distribution between local communities and the state for FY 2003. The property value is assessed by the state. A local tax is levied on the state's assessed value for oil and gas property within a city or borough, and is subject to the local property tax limitations established in AS 43.29.080 and AS 43.29.100. If a municipality has a tax rate of 20 mills or less, the state's mill rate is effectively 20 mills minus the local rate. If the local rate is greater than 20 mills, the state will receive nothing on that property and may receive less on other property belonging to that taxpayer in other jurisdictions.

Table 4-8. FY 2003, Distribution of the Petroleum Property Tax
$ Million

Municipalities	Gross Tax	Local Share	State Share
North Slope	209.3	194.2	15.1
Unorganized	27.2	0.0	27.2
Valdez	13.2	13.2	0.0
Kenai	12.8	7.7	5.1
Fairbanks	5.4	4.4	1.1
Anchorage	0.9	0.8	0.2
Other Municipalities (1)	0.1	0.1	0.0
Total	**268.9**	**220.4**	**48.7**

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

Petroleum Corporate Income Tax

A petroleum corporation's Alaska income tax depends on the relative size of its Alaska vs. worldwide activities and the corporation's total worldwide net earnings. The corporation's Alaska taxable income is derived by apportioning the corporation's worldwide taxable income to Alaska using the average of three factors: the proportion of the corporation's (1) tariffs and sales, (2) oil and gas production, and (3) oil and gas property in Alaska.

We begin our forecast by estimating the statistical relationship between historical collections of tax and the value of Alaska oil production. We then adjust the forecast for carryforwards and refunds. In FY 2004, the carryforward and refund adjustment is close to $50 million. This adjustment is a result of oil companies overpaying their income taxes. We are forecasting FY 2004 petroleum corporate income tax revenue to be 46% higher due to higher crude oil prices and higher marketing and refining margins in 2003. Additionally, refunds and carry forwards are lower in FY 2004. In FY 2005, we are projecting that revenue will decrease as a result of lower oil and gas prices.

4.

Restricted Oil Revenue

The table below reflects restricted oil and gas revenue.

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

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

Table 4-9. Restricted Oil Revenue
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Restricted Oil Revenue			
Royalties to Permanent Fund & Public School Fund			
Royalties, Bonuses and Rents to the Permanent Fund	397.6	307.9	261.9
Royalties, Bonuses and Rents to the Public School Fund	6.2	6.0	5.0
Subtotal	**403.8**	**313.9**	**266.9**
Settlements to the CBRF	**22.3**	**20.0**	**20.0**
NPR-A Royalties, Rents and Bonuses	**34.6**	**2.9**	**12.9**
Total	**460.7**	**336.8**	**299.8**

5.

OTHER REVENUE
(EXCEPT FEDERAL & INVESTMENT)

5.

Figure 5-1. FY 2003 Other Revenue (Except Federal & Investment) $0.8 Billion

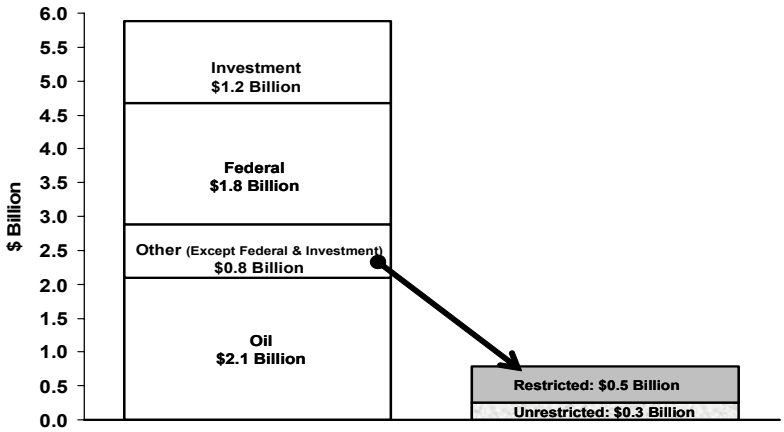


Table 5-1. Other Revenue (Except Federal & Investment) Preliminary FY 2003 and Projected FY 2004-2005 $ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
Taxes	179.4	181.1	196.7
Charges for Services	13.9	18.4	18.4
Fines and Forfeitures	7.0	7.0	7.0
Licenses and Permits	32.9	45.5	47.9
Rents and Royalties	6.2	7.0	7.2
Other	9.4	21.5	14.0
Total Unrestricted	**248.8**	**280.5**	**291.2**
Restricted			
Taxes	67.3	74.3	73.0
Charges for Services	195.9	251.7	250.7
Fines and Forfeitures	26.8	23.6	23.8
Licenses and Permits	29.1	29.9	30.8
Rents and Royalties	4.7	4.7	4.7
Other	212.9	119.9	119.9
Total Restricted	**536.7**	**504.1**	**502.9**
Total	**785.5**	**784.6**	**794.1**

Income from sources other than oil and investments includes non-oil taxes, user fees and licenses. Many of these revenue sources are divided between unrestricted and restricted revenues; the amounts of each are reflected in the tables. Restricted revenue includes money deposited in funds other than the Unrestricted General Fund. For purposes of this forecast, restricted revenue also includes receipts that the legislature consistently 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. On October 1, 2002, per gallon tax rates on alcoholic beverages were increased from $0.35 to $1.07 for beer, $0.85 to $2.50 for wine and $5.60 to $12.80 for liquor. Also, starting October 1, 2002, 50% of the revenue is deposited in the Alcohol and Other Drug Abuse Treatment and Prevention Fund. Because the legislature "may use the annual estimated balance in the fund to make appropriations to the Department of Health and Social Services," this revenue is reflected as restricted in the Revenue Sources Book.

Corporate Income Tax

Corporations that do business in Alaska pay the Corporate Net Income Tax unless they are organized under a special IRS rule (Subchapter S) that generally applies to small, closely held companies. A corporation that does business both inside and outside Alaska must apportion its income to determine how much income it earned here. Corporations other than oil and gas corporations apportion their income to Alaska by using a three-factor formula based on sales, property and payroll. Alaska taxable income is determined by applying the apportionment factor to the corporation's modified federal taxable income. Corporate tax rates are graduated from 1% to 9.4% in $10,000 increments of Alaska taxable income. The maximum rate of 9.4% applies to income over $90,000.

Electric Cooperative and Telephone Cooperative Taxes

The electric cooperative and telephone cooperative taxes date back to 1959, when the first Alaska Legislature enacted the Electric and Telephone Cooperative Act to promote cooperatives around the state. The Electric Cooperative Tax is based on kilowatt-hours furnished by qualified electric cooperatives recognized under Title 10 of the Alaska statutes; the Telephone Cooperative Tax is levied on gross revenue of qualified telephone cooperatives under Title 10. All revenue from the co-op taxes is deposited in the General Fund, but revenue from co-ops located in municipalities is treated as restricted revenue in this forecast because it is shared 100% with the municipalities.

Estate Tax

This tax is levied on the transfer of an estate upon death.The Alaska estate tax is tied to the federal tax.The amount of the state tax equals the maximum state credit allowed on the estate's federal return. As a result of changes to the federal estate tax, the Alaska estate tax will be phased out by FY 2006. All revenue derived from estate taxes is deposited in the General Fund.

5.

Fisheries Business Tax

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

Fishery Resource Landing Tax

The Fishery Resource Landing Tax was enacted in 1993. The tax is levied on processed fishery resources first landed in Alaska, and is based on the unprocessed statewide average value of the resource. Fishery Resource Landing Taxes are collected primarily from factory trawlers and floating processors that process fishery resources outside of the state's 3-mile limit and bring their products into Alaska for transshipment. Fishery Resource Landing Tax rates vary from 1% to 3%, based on whether the resource is classified as "established" or "developing." All revenue derived from the Fishery Resource Landing Tax is deposited in the General Fund but by statute, 50% is available for sharing with municipalities along the same lines as the Fisheries Business Tax. The revenue to be shared is considered restricted.

Insurance Premium Tax

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

Mining License Tax

This tax is on the net income of mining property in the state, ranging from 0% to 7%, less exploration and other credits. Except for sand and gravel operations, new mining operations are exempt from the Mining License Tax for a period of 3½ years after production begins.

Motor Fuel Tax

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

Seafood Assessments and Taxes

The Department of Revenue administers several different programs that raise money through seafood assessments. The money raised is then set aside for the legislature to appropriate for the benefit of the seafood industry — either in marketing or in management/development of the industry. The four programs are the Salmon Marketing Tax, Seafood Marketing Assessment, Salmon Enhancement Tax and Dive Fishery Management Assessment. The rates for many of these assessments are actually determined by a vote of the appropriate association within the seafood industry. Although all revenue received under these assessments is deposited in the General Fund, for purposes of this forecast it is treated as restricted revenue. With the exception of the Salmon Enhancement Tax, all other seafood assessments are reflected under the Charges for Services section.

Tobacco Tax

The Tobacco Tax dates from 1949, when a tax of 3 cents per pack of cigarettes and 2 cents per ounce of tobacco was enacted. The 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. The tax rate on cigarettes is $1 per pack of 20 cigarettes. The tax rate on other tobacco products — such as cigars and chewing tobacco — is 75% of the wholesale price. Seventy-six percent of cigarette tax revenue is deposited in the School Fund; 24% in the General Fund. All tobacco products tax revenue is deposited in the General Fund; all cigarette and tobacco products license fees are deposited in the School Fund. Revenue deposited in the School Fund is dedicated to the rehabilitation, construction, repair and insurance costs of school facilities.

Charitable Gaming

Under Alaska law, municipalities and qualified non-profit 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.

Table 5-2. Other Tax (Except Federal & Investment)
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
Sales and Use Tax			
Alcoholic Beverage	14.1	15.7	15.7
Cigarette	9.6	9.5	9.5
Other Tobacco Product	6.7	6.8	7.2
Insurance Premium	39.0	42.6	44.7
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel	37.2	39.0	39.0
Rental Vehicle Tax	0.0	1.0	6.0
Tire Fee	0.0	2.4	3.3
Subtotal	**106.8**	**117.2**	**125.6**
Corporation Income Tax	**47.7**	**49.0**	**53.7**
Fish Tax			
Fisheries Business	13.8	8.3	10.3
Fishery Resource Landing	6.9	2.0	2.6
Subtotal	**20.7**	**10.3**	**12.9**
Other			
Mining	0.4	0.7	1.3
Estate	1.2	1.4	0.7
Charitable Gaming	2.6	2.5	2.5
Subtotal	**4.2**	**4.6**	**4.5**
Total Unrestricted	**179.4**	**181.1**	**196.7**
Restricted			
Sales and Use Tax			
Alcoholic Beverage (Alcohol & Drug Treatment)	11.2	15.7	15.7
Insurance Premium (Workers Safety & Compensation)	4.3	4.3	4.6
Electric and Telephone Cooperative (Municipal Share)	3.5	3.5	3.5
Cigarette (School Fund)	30.6	30.2	30.2
Motor Fuel - Aviation (Municipal Share)	0.2	0.2	0.2
Subtotal	**49.8**	**53.9**	**54.2**
Fish Tax			
Fisheries Business (Municipal Share)	12.2	12.1	12.1
Fishery Resource Landing (Municipal Share)	2.9	5.6	4.0
Salmon Enhancement (Aquaculture Assoc. Share)	2.4	2.7	2.7
Subtotal	**17.5**	**20.4**	**18.8**
Total Restricted	**67.3**	**74.3**	**73.0**
Grand Total	**246.7**	**255.4**	**269.7**

Charges for Services

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

The only unrestricted revenue listed under charges for services in this report comes from fees and other program charges that do not have program receipt designations, or are not otherwise segregated and appropriated back to the program.

Marine Highway Fund

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

Program Receipts

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

"Statutorily Designated" program receipts are those receipts from contracts, grants, gifts or bequests. "Receipt Supported Services" are, in general, appropriated back to state agencies to administer the programs generating the receipts. Those not listed separately, or not described elsewhere in this forecast, are included in the catchall "Other."

5.

Table 5-3. Charges for Services
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
General Government	10.3	14.8	14.8
Natural Resources	1.7	1.7	1.7
Other	1.9	1.9	1.9
Total Unrestricted	13.9	18.4	18.4
Restricted			
General Government	1.9	1.9	1.9
Natural Resources	0.9	0.9	0.9
Marine Highway Receipts	41.5	41.9	40.9
Receipt Supported Services (1)	81.8	74.0	74.0
Statutorily Designated (2)	55.1	117.3	117.3
Other (3)	14.7	15.7	15.7
Total Restricted	195.9	251.7	250.7
Grand Total	209.8	270.1	269.1

(1) FY 2003 preliminary value is from the Alaska State Accounting System. FY 2004 estimate is from the Office of Management and Budget and reflects what agencies expect to receive in receipt supported services. Assumes FY 2005 is the same as FY 2004.
(2) FY 2003 preliminary value is from the Alaska State Accounting System. FY 2004 estimate is from the Office of Management and Budget and reflects what agencies expect to receive in statutory designated program receipts. Assumes FY 2005 is the same as FY 2004.
(3) Other includes the following categories: RCA receipts (FY 2003, $6 million), test fisheries (FY 2003, $2 million), timber sale receipts (FY 2003, $0.5 million), oil and gas conservation (FY 2003, $4.2 million) and DCED business licenses (FY 2003, $2.1 million). FY 2004 estimate is from the Office of Management and Budget and reflects what agencies expect to receive in other restricted program receipts.

Fines and Forfeitures

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

Tobacco Settlement

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

Table 5-4. Fines and Forfeitures
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
Fines and Forfeitures	7.0	7.0	7.0
Total Unrestricted	7.0	7.0	7.0
Restricted			
Tobacco Settlement (Northern Tobacco Securitization Corp.) (1)	20.0	17.4	17.6
Tobacco Settlement (Tobacco Use Education & Cessation Fund) (1)	5.0	4.4	4.4
Other	1.8	1.8	1.8
Total Restricted	26.8	23.6	23.8
Grand Total	33.8	30.6	30.8

(1) Assumes that all four "Original Participating Manufacturers" pay their annual payments in full.

5. Licenses and Permits

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

Fishing and Hunting Licenses Fees

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

Motor Vehicle Registration Fees

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

Table 5-5. Licenses and Permits
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
Motor Vehicle	**30.9**	**43.5**	**45.9**
Other Fees	**2.0**	**2.0**	**2.0**
Total Unrestricted	**32.9**	**45.5**	**47.9**
Restricted			
Fishing and Hunting			
Hunting and Fishing Fees (Fish and Game Fund)	23.1	23.3	23.5
Sanctuary Fees (Fish and Game Fund)	0.1	0.1	0.1
Subtotal	**23.2**	**23.4**	**23.6**
Other Fees	**5.9**	**6.5**	**7.2**
Total Restricted	**29.1**	**29.9**	**30.8**
Grand Total	**62.0**	**75.4**	**78.7**

Rents and Royalties

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

Table 5-6. Rents and Royalties
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
Land Leasing, Rental and Sale	5.4	6.0	6.0
Coal Royalties	0.6	0.8	1.0
Cabin Rentals	0.2	0.2	0.2
Total Unrestricted	6.2	7.0	7.2
Restricted			
Land Leasing, Rental and Sale	4.7	4.7	4.7
Total Restricted	4.7	4.7	4.7
Grand Total	10.9	11.7	11.9

5. Other

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

Unclaimed Property

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

Dividends and Miscellaneous

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

Table 5-7. Other Revenue
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
Miscellaneous	9.4	10.0	10.0
Unclaimed Property (1)	0.0	11.5	4.0
Total Unrestricted	9.4	21.5	14.0
Restricted			
Alaska Housing Finance Corporation (2)	54.0	57.9	57.9
Alaska Industrial Development and Export Authority (2)	20.2	20.6	20.6
Alaska Municipal Bond Bank Authority (2)	0.9	1.3	1.3
Alaska Student Loan Corporation (2)	3.8	4.1	4.1
Alaska Energy Authority (2)	0.4	1.1	1.1
Alaska Science & Technology Foundation (2)	98.7	0.0	0.0
Miscellaneous (3)	34.9	34.9	34.9
Total Restricted	212.9	119.9	119.9
Grand Total	222.3	141.4	133.9

(1) One-time transfer of $11.5 million to the General Fund in FY 2004 as a result of payments and interest from a former settlement.
(2) Payments from component units as reflected in draft tables from the Comprehensive Annual Report for FY 2003 and estimates from the Office of Management and Budget for FY 2004; assumes that FY 2005 remains the same as FY 2004.
(3) 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

6.

Figure 6-1. FY 2003 Federal Revenue
$1.8 Billion

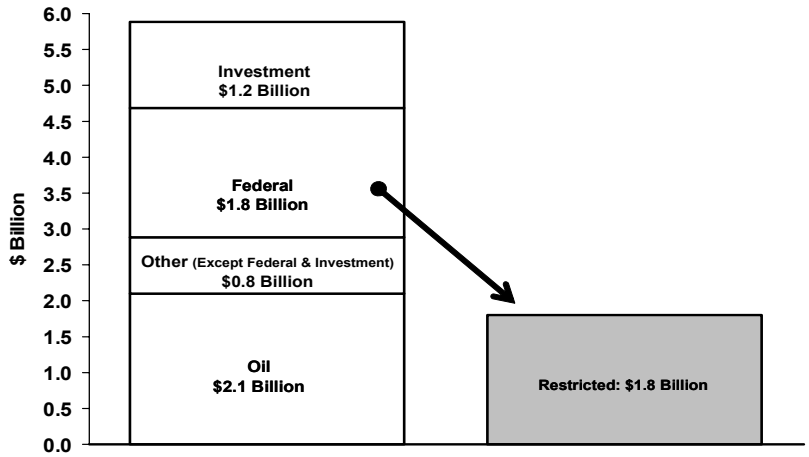


Table 6-1. Total Federal Revenue to the State
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	Budgeted FY 2004	Budgeted FY 2005
Restricted			
Federal Receipts	1,812.6	2,427.8	2,427.8
Total Restricted	1,812.6	2,427.8	2,427.8

Source: Office of Management and Budget.

Federal government spending has figured prominently in Alaska's history and is still a major force today, in spite of the maturing and diversification of Alaska's economy. The federal fiscal year (FFY) runs from October 1 through September 30. In FFY 2002, the federal government spent $7.6 billion in Alaska.(1) Part of that spending comes from the activities of the various agencies of the federal government, part is in the form of grants to state and local governments, and still another part is payments to individuals.

The University of Alaska, Institute of Social and Economic Research (ISER), recently released a study of the importance of federal spending on the Alaska economy. The study attributes one out of three Alaskan jobs to federal spending. The ISER paper on patterns of federal spending in Alaska since the 1980's can be found at: http://iser.uaa.alaska.edu/publications/federalspendingak/pdf.

(1) This and the data for the two federal fund figures on the adjacent page come from the Consolidated Federal Funds Report for FY 2002, U.S. Census Bureau, U.S. Department of Commerce, Washington, D.C. 20233.

Per capita, more federal money is spent in Alaska than in any other state. Federal spending is increasing in Alaska faster than in any other state — in FFY 2002, federal spending grew by 18%. As the figure below shows, federal government expenditures in Alaska have grown faster than in the rest of the states for five of the past seven years.

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

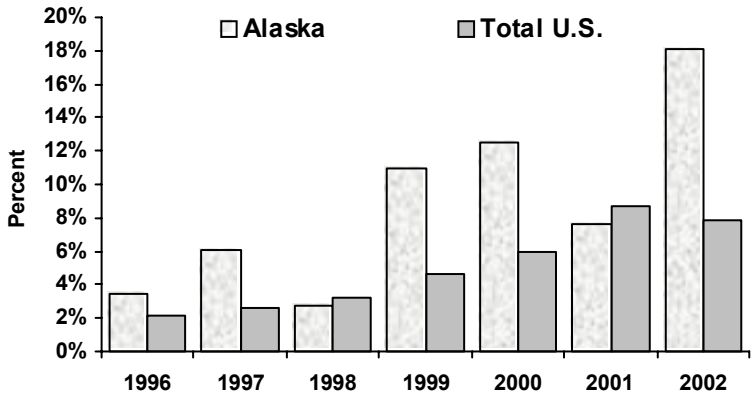
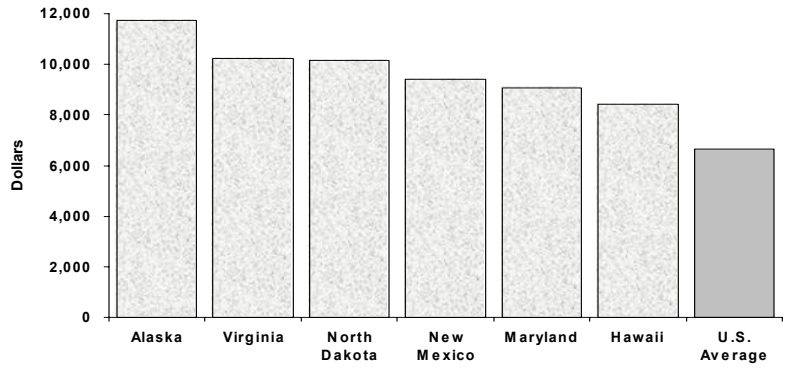


Figure 6-3. FFY 2002: Federal Spending per Capita, Top Six States



Among federal agencies, the Department of Defense spends the most in Alaska, followed by the Department of Health and Human Services. Together, they account for nearly half of all federal spending in the state. Not surprisingly, a large portion of federal money flows into Alaska through salaries of federal employees. However, more than one-third of all federal spending is in the form of grants, mostly to state and local governments, but also to non-profit organizations.

6.

Table 6-2. Total Federal Spending, FFY 2002
$ Million

By Agency

	$Million	Percent
Defense	1,975	26
Health & Human Services	1,823	24
Social Security	591	8
Other Agencies	3,174	42
Total	**7,563**	**100**

By Category

	$Million	Percent
Grants	3,127	41
Salaries & Wages	1,499	20
Procurement	1,396	18
Retirement & Disability	981	13
Other Direct Payments	560	7
	7,563	**100**

Source: Consolidated Federal Funds Report for FY 2002, U.S. Census Bureau, U.S. Department of Commerce, Washington, D.C. 20233

In FY 2003, the state received and spent $1.8 billion of federal funds. Alaska received $1.91 for every $1 collected in federal taxes from the State of Alaska.(1) This funding is restricted to specific uses, such as road improvements, Medicaid payments and aid to schools. Approximately 48% of total federal money spent by the state in FY 2003 was for capital projects. Potential changes to federal law, differing federal and state fiscal years and changing numbers of eligible Alaskans in certain programs make forecasting federal revenue difficult. The estimates that we present for FY 2004 and 2005 are therefore necessarily rough.

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

For FY 2004, the state budgeted $2.4 billion in federal receipts. Most federal funding required state matching money. The budgeted state match in FY 2004 is $324 million. All federal funds, whether spent in the operating or capital budget, are restricted to specific uses. The largest categories of federal spending, as budgeted for FY 2004, are Medicaid ($528 million), highways and airports ($731 million), public safety ($557 million) and education ($275 million).

(1) Tax Foundation Special Report No. 124 , “Federal Tax Burdens and Expenditure by State,” www.taxfoundation.org.

7.

Investment revenue

7.

Figure 7-1. FY 2003 Investment Revenue
$1.2 Billion

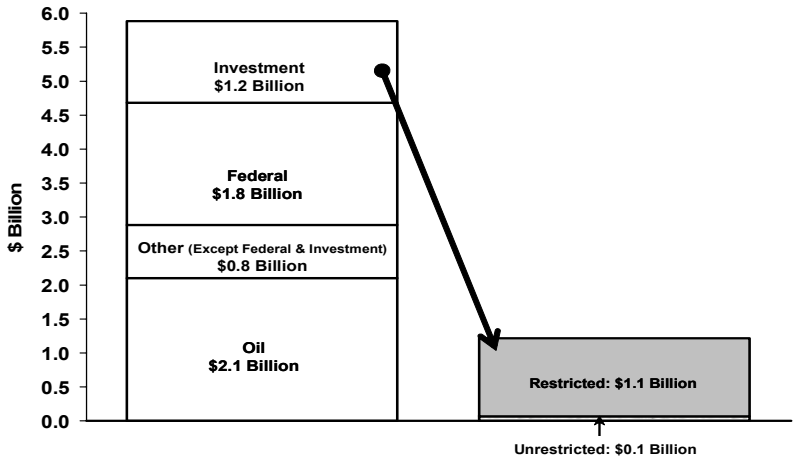


Table 7-1. Total Investment Revenue
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
Investments of Governmental Funds	28.2	7.8	8.9
Interest Paid by Others	30.8	3.9	2.8
Subtotal	**59.0**	**11.7**	**11.7**
Restricted			
Investments of Governmental Funds	20.3	5.1	6.2
Constitutional Budget Reserve Fund	144.4	58.8	80.4
Other Treasury Managed Governmental Funds	24.4	28.7	30.9
Alaska Permanent Fund (1)	962.6	2,105.9	1,948.0
Subtotal	**1,151.7**	**2,198.5**	**2,065.5**
Total	**1,210.7**	**2,210.2**	**2,077.2**

(1) Total Permanent Fund realized and unrealized earnings.

Investment Forecast

To forecast investment revenue for the current fiscal year — FY 2004 — we combine actual performance through September 30 with a projection for the rest of the year. Normally, 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" (see the table below.)

Table 7-2. Callan Associates Inc.'s Five-Year Capital Market Estimated Returns (Next Revision March 2004)

Asset Class	Benchmark for Asset Class	%/Year Median Expected Return	%/Year Expected Risk
Equities			
U.S. Broad	Callan Associates Inc. (CAI) Broad Market	9.0	17.3
U.S. Large Cap	Standard and Poors (S&P) 500	8.7	16.2
U.S. Small Cap	CAI Small	10.3	25.0
International	Morgan Stanley Capital International EAFE	9.6	21.5
Fixed Income			
Domestic Broad Market	Lehman Brothers Aggregate	4.75	4.5
Domestic Short Term (cash equivalent)	Three-Month U.S. Treasury Bill	3.0	0.7
Domestic Intermediate Term	Merrill Lynch 1- to 5-Year Government	4.0	3.15
International	Salomon Brothers Non-U.S. Government	4.65	9.6
Other			
Real Estate		7.6	16.5
Economic Variables			
Inflation		2.6	1.4

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

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

7.

Given current market conditions, however, Callan Associates Inc.'s assumptions for projected fixed-income returns from last January are too optimistic. For the General Fund and Other Non-Segregated Investments (GeFONSI) and the Constitutional Budget Reserve Fund (CBRF) Regular Account, we are substituting the current yields-to-maturity of the relevant asset classes. This lowers projected income from the income derived from Callan's assumptions. (See comparison table below.)

We have continued to use Callan's Five-Year Market assumptions for the CBRF Special Subaccount, Public School Trust Fund and Alaska Children's Trust.

Table 7-3. Callan Associates Inc.'s Capital Market Returns vs. Current Yield to Maturity

Asset Class	Benchmark for Asset Class	% per year Callan Associates Inc.	% per year Current Yield Expected to Maturity
Fixed Income			
Domestic Short Term (cash equivalent)	Three-Month U.S. Treasury Bill	3.00	0.95
Domestic Intermediate Term	Merrill Lynch 1- to 5-Year Government	4.00	2.13
Domestic Broad Market (Long Term)	Lehman Brothers Aggregate	4.75	5.25

(1) Yield as of October 31, 2003.

Unrestricted Investment Revenue

Unrestricted investment revenue is earned on the General Fund non-segrated investments managed by the Treasury Division. Interest on money due to the state, excluding oil and gas royalty interest, is not managed by Treasury Division. In FY 2003, the state received $28.5 million in interest earnings accumulated over 10 years on grant funds awarded to the Southern Intertie Project. We are assuming that interest on the grant will generate $1.6 million in interest in FY 2004 and $0.5 million in FY 2005.

Table 7-4. Unrestricted Investment Revenue
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Unrestricted			
Investments	28.2	7.8	8.9
Interest Paid by Others	30.8	3.9	2.8
Total	**59.0**	**11.7**	**11.7**

Table 7-5. Investment Revenue Summary
Preliminary FY 2003 and Projected FY 2004-2005

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-Income Pool	50%	Three-Month U.S. Treasury Bill
Intermediate-Term, Fixed-Income Pool	50%	Merrill Lynch 1- to 5-Year Government Index

Investment Balance September 30, 2003	$1,910.7 Million
Projected Annual Rate of Return	1.54 %
Probability of Negative Return Over 1 Year	18.41 %
Actual Total Investment Income, FY 2003	$ 48.5 Million
Projected Total Investment Income, FY 2004	$ 12.9 Million
Projected Total Investment Income, FY 2005	$ 15.1 Million

$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Investment Revenue Unrestricted	28.2	7.8	8.9
Investment Revenue Restricted (1)	20.3	5.1	6.2
Total	**48.5**	**12.9**	**15.1**

(1) Includes subfunds of the General Fund.

7.

Restricted Investment Revenue

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

Table 7-6. Restricted Investment Revenue
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Restricted			
Investments of Governmental Funds	20.3	5.1	6.2
Constitutional Budget Reserve Fund	144.4	58.8	80.4
Other Treasury Managed Governmental Funds	24.4	28.7	30.9
Alaska Permanent Fund (1)	962.6	2,105.9	1,948.0
Total	**1,151.7**	**2,198.5**	**2,065.5**

(1) Annual unrealized and realized earnings from Permanent Fund Table 9-12.

Table 7-7. CBRF Investment Revenue Summary
Preliminary FY 2003 and Projected, FY 2004-2005

Asset Allocation Regular Account

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-Income Pool	20%	Three-Month U.S. Treasury Bill
Intermediate-term, Fixed-Income Pool	60%	Merrill Lynch 1- to 5-Year Government Index
Broad Market Fixed-Income Pool	20%	Lehman Brothers Aggregate Bond Index

Regular Account Balance September 30, 2003	$1,504.2 Million
Projected Annual Rate of Return	2.41 %
Probability of Negative Return Over 1 Year	8.00 %

Asset Allocation Special Subaccount

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-Income Pool	44%	Lehman Brothers Aggregate Bond Index
Domestic Equity Pool	39%	Russell 3000 Index
International Equity Pool	17%	MSCI EAFE Index

Special Subaccount Balance September 30, 2003	$ 380.4 Million
Projected Annual Rate of Return	7.23 %
Probability of Negative Return Over 1 Year	24.34 %

Total Investment Income ($Million)

	Preliminary FY 2003	FY 2004	FY 2005
Regular Account	126.6	20.0	49.6
Special Subaccount	17.8	38.8	30.8
Total	144.4	58.8	80.4

7.

Table 7-8. Constitutional Budget Reserve Fund Cash Flows
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Beginning Cash Balance CBRF	**2,469.3**	**2,092.4**	**1,896.8**
Beginning Main Account Balance	**2,114.4**	**1,719.7**	**1,484.8**
Earnings on Main Account Balance (1)	126.6	20.0	49.6
Petroleum Tax, Royalty Settlements (2)	22.3	20.0	20.0
Loan to GF (prior year)	(89.3)	0.0	0.0
Loan to GF (current year) (3)	(454.3)	(274.9)	(573.5)
Payback of Cash Flow Draw	0.0	0.0	0.0
Ending Main Account Balance	**1,719.7**	**1,484.8**	**981.0**
Beginning Special Subaccount Balance	**354.9**	**372.7**	**411.5**
Earnings on Special Subaccount Balance (1)	17.8	38.8	30.8
Loan to GF from Special Subaccount	0.0	0.0	0.0
Ending Special Subaccount Balance	**372.7**	**411.5**	**442.3**
Total CBRF Balance	**2,092.4**	**1,896.3**	**1,423.3**

(1) Through October, FY 2004, the earnings of the main account were -$6.4 million. The projected earnings rate for the remainder of FY 2004 for the main account is 2.52% to reflect the historically low short rates that currently exist. Starting in FY 2005, the estimated rate increases to 3.95%, Callan's capital market assumptions. The projected earnings rate for the special subaccount is 7.23%, Callan's capital market assumptions. These projections are based on the Department of Revenue, Treasury Division's asset allocation.
(2) Settlement estimates are provided by the Department of Revenue and Department of Law.
(3) The FY 2003 draw is based on the audited cash balance in the CBRF as of June 30, 2003. FY 2004 CBRF draw projections are provided by the Office of Management and Budget (OMB) and do not represent final budget numbers. The estimated future loan figures are slightly different than those found in the Executive Summary. That table was based on flat budget projections while OMB's estimate in this table is based on the asssumption that certain portions of the budget will change with population.

The treasury manages two other governmental funds, the Public School Trust and the Alaska Children's Trust. Tables for each are on the adjacent page.

Table 7-9. Public School Trust Investment Revenue Summary
Preliminary FY 2003 and Projected FY 2004-2005

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-Income Pool	59%	Lehman Brothers Aggregate Index
Domestic Equity Pool	41%	Russell 3000 Index

Public School Trust Fund Balance September 30, 2003	$ 272.8 Million
Projected Annual Rate of Return	6.49 %
Probability of Negative Return Over 1 Year	21.34 %

Total Investment Income and Distributable Income ($ Million)

	Preliminary FY 2003	FY 2004	FY 2005
Public School Trust Total Investment Income	17.5	17.9	18.6
Public School Trust Distributable Income	9.3	9.7	10.2

Table 7-10. Alaska Children's Trust Investment Revenue Summary
Preliminary FY 2003 and Projected FY 2004-2005

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-Income Pool	59%	Lehman Brothers Aggregate Index
Domestic Equity Pool	41%	Russell 3000 Index

Alaska Children's Trust Balance September 30, 2003	$ 8.7 Million
Projected Annual Rate of Return	6.49 %
Probability of Negative Return Over 1 Year	21.34 %

Total Investment Income and Distributable Income ($ Million)

	Preliminary FY 2003	FY 2004	FY 2005
Alaska Children's Trust Total Investment Income	0.7	0.6	0.7
Alaska Children's Trust Distributable Income	0.3	0.3	0.4

Table 7-11. Alaska Permanent Fund Managed by the Permanent Fund [1]
Preliminary FY 2003 and Projected FY 2004-2005
$ Million

	Preliminary FY 2003	FY 2004	FY 2005
Reserved Assets — Principal			
Total Reserved Assets — Beginning Balance	**22,389.4**	**24,094.3**	**25,159.0**
Contributions and Appropriations			
Contributions and Appropriations — Beginning Balance	21,884.2	22,988.0	23,300.2
Dedicated Petroleum Revenue	397.6	300.1	251.5
Inflation Proofing Transfer from Realized Earnings	352.1	0.0 [1]	612.8
Deposits to Principal and Settlement Earnings	354.1	12.1	15.3
Subtotal — Contributions and Appropriations	**22,988.0**	**23,300.2**	**24,179.8**
Unrealized Appreciation/Depreciation			
Appreciation/Depreciation — Beginning Balance	505.2	1,106.3	1,858.8
Annual Unrealized Gain/Loss	601.1	752.5	425.2
Subtotal — Unrealized Appreciation/Depreciation	**1,106.3**	**1,858.8**	**2,284.0**
Total Reserved Assets — Ending Balance	**24,094.3**	**25,159.0**	**26,463.8**
Realized Earnings Account			
Realized Earnings Account — Beginning Balance	1,135.8	100.0	877.3
Annual Realized Earnings	361.5	1,353.4	1,522.8
Dividend Payment to the State of Alaska [2]	(690.7)	(564.0)	(489.0)
Inflation Proofing Transfer to Reserved Assets	(352.1)	0.0 [3]	(612.8)
Other Transfers to Reserved Assets	(354.1)	(12.1)	(15.3)
Other Appropriations Out of the Fund	(0.4)	0.0	0.0
Realized Earnings Account— Ending Balance	**100.0**	**877.3**	**1,283.0**
Market Value — Total Fund Invested Assets Value			
Contributions and Appropriations End-of-Year Balance	22,988.0	23,300.2	24,179.8
Unrealized Appreciation/Depreciation End-of-Year Balance	1,106.3	1,858.8	2,284.0
Realized Earnings End-of-Year Balance (Statutory Earnings)	100.0	877.3	1,283.0
Fund Balance (Market Value) End-of-Year Balance	**24,194.3**	**26,036.3**	**27,746.8**
Annual Accounting Net Income [3]	**962.6**	**2,105.9**	**1,948.0**

Source: Permanent Fund Corporation data using September 30, 2003, financial statements and the Department of Revenue fall 2003 revenue forecast. Income projections are based on Callan Associates, Inc.'s, June 30, 2003 capital market assumptions: 8.87% total return projected for FY 2004 (using actual data for three months and projected data for nine months) and 7.60% total return projected for future fiscal years.
(1) The dividend payment is recorded as a liability at fiscal year end, and is paid out the following month.
(2) $354 million of FY 2004's projected inflation proofing of $516 million was prefunded in FY 2003. Currently, there is no FY 2004 appropriation for the remaining $162 million balance.
(3) According to a recent Attorney General opinion, the unrealized appreciation/depreciation portion of accounting net income is considered a component of reserved assets as shown above.

8.

STATE ENDOWMENT FUNDS

8.

This section of the revenue forecast compares some important attributes of six existing endowment funds. The University of Alaska endowment is included in this comparison because it is one of the Alaska state public endowment funds that employs the annual distribution practices typical of the vast majority of endowments in the United States and Canada.(1)

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

Today, under the standards adopted by the Governmental Accounting Standards Board (GASB), public funds complying with those standards determine 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, regardless of whether the securities are actually sold and the income taken, or realized. All six of these endowments report annual income on this basis. However, as reflected in the table, four of them — two of the funds administered by the Alaska Permanent Fund Corporation, the Public School Trust and the Alaska Children's Trust — use other measures of annual income for their distributions.

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

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

	U.S. Cash	Foreign Bonds	U.S. Bonds	Int'l Equities	Real Equities	Alternative Estate	Investments	Total
Alaska Permanent Fund	0	35	2	37	16	10	0	100
Mental Health Trust	0	35	2	37	16	10	0	100
Public School Trust	0	58	0	42	0	0	0	100
Alaska Children's Trust	0	59	0	41	0	0	0	100
Power Cost Equalization	0	38	0	43	19	0	0	100
University of Alaska Endowment	1	28	0	36	12	5	18	100

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

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

	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 securities actually sold
Mental Health Trust	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on securities 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)

8.

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

Alaska Permanent Fund	The annual distribution for the Permanent Fund Dividend follows the formula in AS 37.13.140-.150, which equals 10.5% of the past five years' total realized income but not to exceed 50% of the balance in the Fund's realized Earnings Reserve Account (ERA). The 50% limitation has never been triggered. Also, because the fund principal does not change with changes in investment market values, the market value volatility for the entire fund is absorbed by the total realized and unrealized ERA. Consequently, a large balance is needed in the total ERA to ensure there are enough funds for the full annual dividend distribution according to the statutory formula of realized earnings.
Mental Health Trust	The Mental Health Trust Board adopted a policy to annually distribute 3.5% of the market value of the fund's total assets beginning in FY 2001. For FY 1996-1998 it was 3%; for FY 1999-2000 it was 3.25%. Because of recent declines in market value, the Trust Board is exploring a redefinition of "principal" so that losses in market value would be proportionally allocated to the principal account and the income account.
Public School 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 income account balance so the fund is better able to retain its ability to distribute 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 income account balance so the fund is better able to retain its ability to distribute 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, use the market value on February 1 for the subsequent fiscal year. Thereafter, use 7% of the monthly average value for a specified 36-month period.
University of Alaska Endowment	The annual distribution is 5% of a five-year moving average of the market value of the fund.

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

Alaska Permanent Fund	The legislature annually inflation proofs the principal of the Permanent Fund (but not the accumulated balance in the Earnings Reserve Account (ERA)) pursuant to AS 37.13.145. The legislature each year transfers from the ERA to the fund's principal an amount equal to the U.S. Consumer Price Index's effect on the value of the principal. The Alaska Permanent Fund Corporation's Trustees have proposed a constitutional amendment that would inflation proof the entire fund by limiting the annual distribution of earnings to 5% of the market value of the fund.
Mental Health Trust	The Mental Health Trust Authority has adopted two policies to inflation proof the fund. It limits distributions to 3.5% of the fund's market value. (The authority's ultimate distribution rate goal of 5% should still inflation proof the fund.) 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.
Public School Trust	The asset allocation policy is such that, in combination with the requirement that the fund's capital gains and losses remain part of the principal of the fund, the retained capital gains are adequate to inflation proof the fund.
Alaska Children's Trust	The asset allocation policy is such that, in combination with the requirement that the fund's capital gains and losses remain part of the principal of the fund, 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 inflation proof the fund.

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9.

PUBLIC CORPORATIONS & UNIVERSITY OF ALASKA

9.

Public Corporations

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

- Alaska Housing Finance Corporation (AHFC)
- Alaska Industrial Development and Export Authority (AIDEA)
- Alaska Energy Authority (AEA)
- Alaska Student Loan Corporation (ASLC)
- Alaska Municipal Bond Bank Authority (AMBBA)
- Alaska Aerospace Development Corporation
- Alaska Railroad Corporation

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

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

Two of these corporations — AIDEA and ASLC — share a common staff and board of directors. The other corporations each 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 Executive Budget Act, expenditures for the day-to-day administration of all of these corporations except the Alaska Railroad.

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

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

Alaska Housing Finance Corporation

Using proceeds from the sale of bonds backed by its corporate assets, AHFC purchases home mortgages from Alaska banks. Income from payments on these mortgages repays bond holders and adds to the corporation's income, 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 and from leases and operations of its properties. The corporation has paid an annual dividend to the state since FY1997.

Alaska Energy Authority

A separate entity within AIDEA, AEA provides loans to rural 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 earnings of the Power Cost Equalization Endowment. AEA also receives federal and state money to provide technical advice and assistance in energy planning, management and conservation in rural Alaska.

Alaska Student Loan Corporation

The Alaska Student Loan Corporation uses proceeds from bond sales to finance student 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 contributed capital. The board has declared a return of capital for FY 2001, FY 2002 and FY 2003.

Alaska Municipal Bond Bank Authority

The Bond Bank loans money to Alaska municipalities in Alaska for capital improvement projects. The bank's larger capital base, its reserve funds and its credit rating enable 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

This corporation finances aerospace-related ventures in Alaska, including the establishment and operation of a commercial space vehicle launch facility in Kodiak, space science and engineering research and promoting tourism at the Poker Flat rocket range and other facilities. Eventually, income from investments and operations will be returned to a revolving fund to make more loans and acquire properties.

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.

9.

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

Alaska Housing Finance Corporation

The legislature appropriated $739.9 million in cash and $292.5 million in mortgages held by the General Fund to the corporation between 1976 and 1984. The payments on those mortgages and additional morgages 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 $366.1 million and $69 million in cash to this corporation. In 1998, the state transferred ownership of the Ketchikan Shipyard.

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, some of which came from the federal government.

Alaska Student Loan Corporation

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

Alaska Municipal Bond Bank Authority

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

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.

Table 9-3. Public Corporations - Financial Facts, FY 2003 [1]

	$ Million				
	Total Assets	Assets Less Liabilities Book Value	Unrestricted Net Assets	FY 2002 Operating Budget	Total [2] Positions
Alaska Housing Finance Corporation	$5,056	$1,738	$148	$39.4	377
Alaska Industrial Development and Export Authority	$1,159	$822	$810	$6.5	65
Alaska Energy Authority	$579	$423	$221	$20.0	See AIDEA[3]
Alaska Student Loan Corporation	$834	$323	$11	$10.4	104
Alaska Municipal Bond Bank Authority	$319	$41	$20	$0.6	1
Alaska Aerospace Development Corporation [4]	$84	$52	$0.5	$5.4	28
Alaska Railroad Corporation [5]	$367	$119	$110	$77.0	644

(1) All figures are effective as of June 30, 2003, except for the Alaska Railroad which reports on a calendar year basis.
(2) Permanent Full Time (PFT), Permanent Part Time (PPT) and Temporary (TMP) are included in total positions.
(3) The Alaska Industrial Development and Export Authority (AIDEA) provides staff for the activities of the Alaska Energy Authority (AEA). A significant portion of AIDEA's 65 member staff is engaged in AEA programs.
(4) Unaudited.
(5) The Alaska Railroad reports financial data on a calendar year. Assets and book value shown here are for December 31, 2002. The operating budget figure shown here is for CY 2003.

9.

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

	FY 2003 Revenue	FY 2003 Operating Income	FY 2003 Net Income
Alaska Housing Finance Corporation	$348.4	$67.1	($28.2)
Alaska Industrial Development and Export Authority	$79.5	$42.4	$22.6
Alaska Energy Authority	$56.8	($23.6)	($14.5)
Alaska Student Loan Corporation	$37.1	$26.5	$21.5
Alaska Municipal Bond Bank Authority	$14.0	$3.7	$1.6
Alaska Aerospace Development Corporation	$0.4	($2.1)	($2.0)
Alaska Railroad Corporation (1)	$94.5	$2.1	$8.9

(1) The Alaska Railroad reports financial data on a calendar year. CY 2002 covers the second half of FY 2002 and the first half of FY 2003.

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

Alaska Housing Finance Corporation

The 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 (in $ thousands): FY 2004 $103,000; FY 2005 $103,000; FY 2006 $103,000; FY 2007 Lesser of 95% Net Income or $103,000; FY 2008 Lesser of 85% Net Income or $103,000; FY 2009 and thereafter Lesser of 75% Net Income or $103,000.

Alaska Industrial Development and Export Authority

By statute, AIDEA must make available to the state 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 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, the returned capital must be between 10% and 35% of net income for the base year (AS 14.42.295).

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 ARRC does not pay a cash dividend to the General Fund; however, it does make significant contributions to Alaskans and the communities it serves through charitable donations, operational, real estate and capital improvements.

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

	Operating Expenses Subject to the Executive Budget Act		Dividends and/or Return of Capital	
	Actual FY 2003	Budget FY 2004	Actual FY 2003	Budget FY 2004
Alaska Housing Finance Corporation	$37.3	$39.4	$103.0 (1)	$103.0
Alaska Industrial Development and Export Authority	$5.5	$6.6	$20.2	$16.4 (2)
Alaska Energy Authority	$18.2	$1.0	na	na
Alaska Student Loan Corporation	$10.2	$10.4	$5.3	$5.0
Alaska Municipal Bond Bank Authority	$0.6	$0.5	$1.6	$0.9
Alaska Aerospace Development Corporation	$2.5	$12.4	na	na
Alaska Railroad Corporation	na	na	na	na

(1) This figure reflects the provision in Chapter 130, SLA 2000, that $103 million will be transferred to the state each year through Fiscal 2008. Because some of this money is earmarked for multi-year capital projects, actual cash transfers in any given year may vary.
(2) The FY 2004 AIDEA budget is currently appropriated at $16.4 million. The Board has authorized a budget of $18.2 million.

University of Alaska

Table 9-7. University of Alaska
$ Million

Lands and Facilities June 30, 2003	Total Assets June 30, 2003	Unrestricted Net Assets	FY 2004 Operating Budget	FY 2004 Total Positions
$703.9 (1)	$984.8	$40.8	$649.6	3,881

(1) Unaudited. Includes depreciation. Past years' figures did not include depreciation, in accordance with accounting principles for universities at that time.

10.

Rosetta stone

10.

Introduction

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

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

At the far end of the spectrum from this forecast is the CAFR. The CAFR reports what actually happened to state dollars during the prior fiscal year, and is published in December about six months after the end of the fiscal year — about two years after the publication of the Revenue Sources Book that had estimated the available revenue for that year. In December of 2003, a CAFR covering FY 2003 will be published. In April 2004, we will publish a comparison between the 2003 CAFR and the 2003 numbers in our spring forecast

In between the publication of our forecast and the CAFR, thousands of events occur and many different "snapshots" of the state's finances are taken. The Summary of Appropriations is one such snapshot, which records how much money the legislature and governor have authorized to be spent in the legislative session then just ended. The Summary of Appropriations is published in July, right at the start of the fiscal year. The Summary of Appropriations for FY 2004 was published in July 2003.

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

Defining "Fund"

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

Fewer than 100 of the approximately 181 budget funds are active [1] — and some of these are used to designate duplicated receipts. When a budget writer says money is coming from a particular fund, the writer identifies a source that may include money already set aside under that fund code or a revenue stream earmarked for that fund code. Seventy-four of those funds show up in the 2004 Summary of Appropriations as "other revenues" and can be found in Tables 10-3 through 10-5.

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

(1) The list of fund codes can be found in several places, including "The Swiss Army Knife of Budget Handbook," http://www.legfin.state.ak.us/, with more recent additions found only in the budget itself.
(2) The GASB is a sister organization to the more well known FASB or Financial Accounting Standards Board. GASB sets out generally accepted accounting principles (GAAP) for governmental entities; FASB sets out GAAP for private businesses. Both are under the auspices of the Financial Accounting Foundation.

10.

Defining "General Fund"

The General Fund is the general operating fund of the state. All public money coming into the state treasury that is not authorized or required by law to be placed in a special fund constitutes the General Fund. As noted above, the accounting "General Fund" and the budgeting "general fund" are not the same. For example, the FY 2003 budget, passed in the spring of 2002, was predicated on $2 billion in general fund revenue. The draft CAFR for FY 2003 shows General Fund revenue of $4.4 billion for the period. Did $2.4 billion go missing? No, the difference is because accountants and budget writers use the term "general fund" differently.

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

▪ Sub-accounts or sub-funds of the General Fund. A budget writer will consider a General Fund subfund as a separate fund, and will discuss moving money from the general fund to a subfund. But such a transfer would not show up in the accountants' final report, because to the accountants it had no effect on the General Fund. For example, in conformance with GASB 34 standards, in FY 2003, the Constitutional Budget Reserve is considered a subfund of the General Fund.

▪ Federal dollars that are spent in general fund programs. No accounting funds are defined by the fact that they have only federal dollars. On the other hand, six specific budget codes refer to different kinds of federal funds

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

Reconciling This Revenue Sources Book With the State's Annual Budget

Budgeting is a dynamic process and there are many different budget documents available. This section compares the Revenue Sources Book with one of the most accessible of these many budget documents: the Summary of Appropriations published by the Legislative Finance Agency every year. We have chosen the hard print version of the Summary of Appropriations for FY 2004, issued in the summer of 2003, just after the FY 2004 budget had been passed. For FY 2004, there will be many minor differences between the Revenue Sources Book and the Summary of Appropriations that simply reflect the difference between the budget document which was looking forward in July 2003 and the forecast which is looking backwards from the vantage of November 2003 after the passage of five of FY 2004's 12 months.

Page One of the Summary of Appropriations, reproduced on the next page, presents a total budget picture for FY 2004, with each item "boxed" on the reproduction.

10.

Table 10-1. Total Budget
$Million

	FY 2004
General Fund Revenue	1,818.6
Federal Revenue	2,471.5
Other Revenue	1,152.2
"Total Revenue"	5,442.6
Draw from CBRF	479.2
Permanent Fund Dividends	520.0
Total	6,441.8

Summary of Appropriations - 2003 Legislative Session - FY 2004

FY03/FY04 Fiscal Summary
($ millions)

	FY03 Authorized				FY04 Enacted				FY03 Auth to FY04 Enacted (GF)
REVENUE (Excludes Permanent Fund Earnings)	GF	Federal	Other	Total	GF	Federal	Other	Total	
Unrestricted General Purpose Revenue	1,951.3	0.0	0.0	1,951.3	1,748.5	0.0	0.0	1,748.5	(202.8)
One-Time Deposits to the general fund	95.0								
Proposed New Revenues (3)					70.1				
Corporate Dividends			77.4	77.4			70.2	70.2	
Federal and Other Funds	0.0	2,494.8	939.3	3,434.1	0.0	2,471.5	1,082.3	3,553.8	
Total Revenue	2,046.3	2,494.8	1,016.7	5,557.8	1,918.6	2,471.5	1,152.5	5,442.6	(227.7)
AUTHORIZATION TO SPEND									
Operating (1)	2,222.2	1,416.4	774.4	4,413.0	2,135.3	1,458.7	806.4	4,400.4	(86.9)
Agency Operations (Non-Formula)	1,115.8	716.1	1,219.2	3,051.1	1,082.4	724.1	1,258.0	3,064.6	(33.4)
Formula Programs	1,106.4	678.3	117.1	1,901.7	1,052.9	734.6	140.5	1,928.0	(53.5)
Revised Programs (Legislatively approved only)		22.0	1.0	23.0					
Duplicated Authorization (2)			(562.8)	(562.8)			(592.1)	(592.1)	
Capital	109.7	955.4	122.8	1,188.0	84.6	969.3	160.3	1,214.2	(25.1)
Project Appropriations	109.7	906.6	165.6	1,181.9	84.6	969.3	291.3	1,345.2	
Bonds / COP's			526.1	526.1					
Revised Programs (Legislatively approved only)		48.8	0.1	48.8					
Duplicated Authorization (2)			(568.8)	(568.8)			(131.0)	(131.0)	
Statewide	163.6	123.0	119.4	406.0	77.9	43.4	185.8	307.1	(85.7)
Debt Retirement	3.5	0.0	91.0	94.5	3.6	0.0	131.9	135.6	0.1
Fund Capitalization	65.8	25.2	81.3	172.3	50.0	47.8	132.2	230.0	(15.8)
Supplemental Appropriations	94.2	97.8	(5.2)	186.9	25.6			25.6	(68.6)
New Legislation					(1.4)	(4.3)	1.9	(3.9)	(1.4)
Duplicated Authorization (2)			(47.6)	(47.6)			(80.1)	(80.1)	
Total Authorization (unduplicated)	2,495.5	2,494.8	1,016.7	6,007.0	2,297.8	2,471.5	1,152.5	5,921.8	(197.7)
Draw From Constitutional Budget Reserve	449.2				479.2				29.9
Permanent Fund Dividends			690.0	690.0			520.0	520.0	
Permanent Fund Inflation Proofing & Other Transfers (4)			693.0	693.0			0.0	0.0	
TOTAL WITH PERMANENT FUND	2,495.5	2,494.8	2,399.7	7,390.0	2,297.8	2,471.5	1,672.5	6,441.8	(197.7)

The draws from the Constitutional Budget Reserve Fund (CBRF) and the appropriations for Permanent Fund Dividends (PF) described in the Summary of Appropriations are draws on pools of dollars already in place. If all the other revenues are spent dollar for dollar, then these additional appropriations are needed to get a picture of the complete budget. In the pertinent restricted revenue sections, the Revenue Sources Book describes the revenue that go into these funds. The Summary of Appropriations is describing the money that is taken from these funds. The Revenue Sources Book includes an extensive discussion of both the PF and the CBRF in Section 9. Of course, when we project future balances for those funds we include both the revenue coming into and the dollars taken out of each. Typically, there would also be an appropriation for inflation proofing but inflation proofing for FY 2004 was appropriated in 2003.

Comparison of Revenue

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

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

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

10.

Table 10-2. Comparison of FY 2004 Revenue Shown in Revenue Sources Book (RSB) and Summary of Appropriations

Presentation in Revenue Sources Book (RSB), Table 2-2.		Presentation in Fiscal Summary, Table 1.	
Description	$ Million	$ Million	Description
Unrestricted Revenue			
Oil	1,730.7		
Other (Excluding Federal & Investment)	280.5		
Investment	11.7		
Subtotal Unrestricted Revenue	**2,022.9**	**1,818.6**	**General Fund Revenue**
Restricted Revenue			
Oil Revenue	366.8		Nothing Comparable in Budget
Federal Revenue	2,427.8	2,471.5	Federal Revenue
Nothing Comparible in RSB		665.1	Other Revenue Items not in RSB (Table 12-3)
Other Revenue (Excluding Fed & Investment)	504.1	474.2	Non-Oil Items in Forecast (Table 12-4)
Investment Revenue			
Found in Summary of Appropriations	18.5	13.2	Investment Items in RSB (Table 12-5)
		1,152.5	Subtotal Other Revenue
Not Found in Summary of Appropriations	2,180.0		Nothing Comparable in Budget
Subtotal Investment Revenue	**2,198.5**		
Subtotal Restricted Revenue	**5,467.2**		
Total Revenue in RSB	**7,490.1**	**5,442.5**	**Revenue in Summary of Appropriations**

General Fund Revenue

Conceptually, the $1,818.6 million in revenue listed in the Summary of Appropriations corresponds to the $2,022.9 million in Unrestricted General Purpose Revenue shown in the Revenue Sources Book.(1) Practically, in the Summary of Appropriations, "general fund revenues" are based on last year's spring 2003 forecast, made in April of 2003. This year's fall 2003 forecast of course is written in November, now that one-third of fiscal year 2004 is behind us, and it looks like our unrestricted revenues will be $2,022.9 million or 11% higher than originally forecast. Why? Several reasons, but the two usual suspects we see ever year show up here once again – the price and volume of Alaska North Slope crude. In April of 2003, we estimated an average price for a barrel of ANS for FY 2004 of $25.28. Now, about one-third of the way through the fiscal year, we have revised this estimate up to $27.70 or about $2.50 higher, which will result in both higher oil royalty and production tax collections. We also project production of 0.993 million barrels a day. Now we are projecting about 3,000 barrels a day more or 0.996 million barrels, which again will result in higher projected oil royalty and production tax collections. In addition to several other minor adjustments in the non-oil and investment areas of the forecast, income tax collections from the oil and gas industry appear to be about $20 million more than anticipated, for a net increase of $204.3 million. As a consequence of this increase, we forecast the annual draw from the CBRF will go down by roughly the same — $204.3 million.

Federal Revenue

Two reconciling items are necessary to get from the $2,471.5 million in federal revenue listed in the Summary of Appropriations to the $2,427.8 in the Revenue Sources Book. This number is developed by the Office of Management and the Budget (OMB) which asks each agency how much federal money it expects to receive and spend over the fiscal year. The first reconciling item simply represents the better information we have now five months into the fiscal year. The other item concerns $34.6 million the state received from the federal government in FY 2003 as our share of lease bids on federal land in the NPR-A. That money can be seen as restricted oil money in FY 2003 in the forecast. The state is only now appropriating that money for certain uses and is including the same $34.6 million as a source for FY 2004 spending. We have subtracted this amount from the FY 2004 estimate so as to not double count that money.

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

10.

Other Revenue

Although characterized as revenue in the Summary of Appropriations, a significant portion of $1,152.4 million dollars [(1)] in this category appear to not be revenue as the Revenue Sources Book uses the term. Rather, as was explained earlier for the PF and CBRF, the figure in the Summary of Appropriations is the amount that will be used by state government for various purposes. It might represent a draw down from an existing pool of money, current revenues or more typically, a combination of the two. There does not appear to be any budget document that sets forth how much money is available in the various budget funds – nor a reconciliation of how well those figures will line up with actual cash on hand.[(2)]

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

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

Retirement Related Trust Funds

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

(1) The specific figures are derived from the Summary of Appropriation documents by first taking the detailed Summary of Appropriations found at pages 15 -19 for operating budget and netting out duplicated fund sources found on pages 7, 10-11, adding in the capital non-duplicated fund sources found on pages 9 and 25-26 in anticipated supplemental funding. The result ($ 6,441.8) precisely matches total revenues plus anticipated CBRF draw as found in the fiscal summary. OMB budget codes designate each item as federal, general fund or other, so the sources can be divided between these three categories.
(2) The CAFR does track the "cash on hand" and investments in the General Fund.

Mental Health Trust Fund

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

Permanent Fund

These are additional draws from the Earnings Reserve of the Permanent Fund used to cover expenses related to the Permanent Fund for issuing the dividend. Actual revenue earned by the fund is included in both the Revenue Sources Book and the CAFR.

Component Revenue Sources and State Enterprises

We have separated out those revenues of the component organizations such as UA which the legislature appropriates back to the organizations to run their affairs and carry out their missions. Their day to day expenditures are subject to the Executive Budget Act. The dollars being so appropriated show up in the budget documents. The gross revenue of these organizations can be found in Section 7 of this book. We are also including funds for the international airports, state operated enterprises

Revolving Loan Funds

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

Other Fund Sources not in Revenue Sources Book

These remaining sources, many of which are quite small, represent many different things. The one large item for $80.2 million is designated "miscellaneous revenues" and represents items associated with bond or loan arbitrage, premiums or surpluses. By their nature each is primarily a one time item.

Table 10-3. Items in FY 2004 Summary of Appropriations Not in Revenue Sources Book $Million

OMB Fund Number	OMB Fund Name	Summary of Appropriations "Other Revenue" From Table 10-2 Not In Revenue Sources Book
Retirement Related Trust Fund Sources		
1017	Benefit Systems Receipts	17.58
1023	FICA Administration Fund	0.15
1029	Public Employees Retirement Fund	26.03
1034	Teachers' Retirement System Fund	12.81
1042	Judicial Retirement System	0.30
1053	Investment Loss Trust	2.99
1045	National Guard Retirement System	0.20
Subtotal		**60.06**
Mental Health Trust Fund Sources		
1092	Mental Health Trust Administration	12.29
1094	Mental Health Trust Authority Authorized Receipts	1.19
Subtotal Mental Health Trust Fund Sources		**13.48**
Permanent Fund		
1041	Permanent Fund Earnings Reserve Account	33.50
1179	Permanent Fund Corporation	12.50
1105	General Fund Program Receipts	54.74
Subtotal Permanent Fund		**100.74**
Revolving Loan Funds		
1021	Agricultural Loan Fund	2.23
1035	Veterans Revolving Loan Fund	0.06
1036	Commercial Fishing Loan Fund	4.20
1046	Student Revolving Loan Fund	0.03
1057	Small Business Loan	0.00
1062	Power Project Loan Fund	0.84
1065	Rural Electrification Loan Fund	0.33
1067	Mining Loan Fund	0.01
1069	Historical District Revolving Loan Funds	0.00
1071	Alternative Energy Revolving Loan Funds	0.14
1074	Bulk Fuel Revenue Loan	0.05
Subtotal Revolving Loan Funds		**7.89**

Table 10-3. Items in FY 2004 Summary of Appropriations Not in Revenue Sources Book, cont.
$Million

OMB Fund Number	OMB Fund Name	"Other Revenue" From Table 10-2 Not In Revenue Sources Book
Component Revenue Sources and State Enterprises		
1027	International Airports Revenue Fund	91.41
1048	University Of Alaska Interest Restricted Receipts	276.50
1101	Alaska Aerospace Development Corporation Receipts	10.97
1106	Alaska Post-Secondary Education Commission Receipts	8.50
Subtotal Component Revenue Sources and State Enterprises		**387.38**
Other Fund Sources not in Revenue Sources Book		
1040	Real Estate Surety	0.25
1059	Correctional Industry	5.11
1068	Child Care Facility	0.01
1142	Retiree Health Insurance Management	0.02
1143	Retiree Health Insurance	0.04
1152	Alaska Fire Standards Council Receipts	0.23
1154	Shore Fisheries Development Lease	0.33
1164	Rural Economic Development Initiative	0.04
1166	Vessel Environmental Compliance Fund	0.71
1169	Power Cost Equlization Endowment	7.95
1173	Miscellaneous Earnings	80.86
1181	Veterans' Endowment	0.01
Subtotal Other Fund Sources not in Revenue Sources Book		**95.56**
Total		**665.12**

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

Fines and Forfeitures

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

Licenses and Permits

This category lines up very closely between the two sources (see RSB, Page 60.)

Taxes

A portion of the tax on cigarettes is dedicated to the School Fund. A portion of the insurance premium tax is earmarked for the Workers Safety and Comp fund. A portion of the alcohol tax is earmarked for the Alcohol and Drug Prevention and Treatment program. All of these are shown in both the Summary of Appropriations and the Revenue Sources Book. To help the reader tie these to the rest of the Revenue Sources Book, the tax dollars shared with the municipalities and various fishery industry promotion groups are shown here to tie to restricted total taxes in the Revenue Sources Book of $24.1 million.

Charges for Services

The Revenue Sources Book (Pages 57 and 58) and the Summary of Appropriations draw on the same sources for most of these figures. They line up well except for the category labeled the Alaska Marine Highway.

Rents and Royalties

This material lines up precisely with RSB (Page 61.)

Table 10-4. Items in FY 2004 Summary of Appropriations Shown in Non-Oil Revenue in Sources Book
$ Million

OMB Fund Number	OMB Fund Name	Summary of Appropriations Comparable "Other Revenue" from Table 10-2 in Revenue Sources Book	Revenue Sources Book "Other Revenue" Excluding Federal & Investment
Fines & Forfeitures			
1049	Training and Building	0.7	0.6
1168	Tobacco Use Education	5.4	4.4
	Other	0.0	1.2
	Northern Tobacco Securuitization Corp Payments	0.0	17.4
Total Fines & Forfeitures		**6.1**	**23.6**
Licenses & Permits			
1024	Fish and Game Fund	24.2	23.4
1032	Fisherman's Fund	1.3	0.8
1093	Clean Air Protection	3.8	2.7
	Other	0.0	3.0
Total Licenses & Permits		**29.3**	**29.9**
Taxes			
1030	School Fund (Cigarette Tax)	28.6	30.2
1157	Workers' Safety and Compensation	4.2	4.3
1180	Alcohol & Drug Prevention and Treatment Fund	21.4	15.7
Subtotal Earmarked Taxes		**54.2**	**50.2**
	NB: Taxes shared with local municipalities		24.1
Total Taxes			**74.3**
Charges for Services			
1076	Alaska Marine Highway System Fund	54.9	41.9
1108	Statutory Designated Program Receipts	117.3	117.3
1156	Other Receipt Supported Services	74.0	74.0
1070	Fisheries Enhancement	0.3	0.3
1109	Test Fisheries Receipts	2.7	2.7
1117	Vocational Rehabilitation Small Business Enterprise	0.4	0.3
1141	Regulatory Commission of Alaska Receipts	6.1	6.1
1155	Timber Sales Receipts	0.7	0.7
1162	Alaska Oil & Gas Conservation Commission Rcpts	4.1	4.1
1170	Small Business Economic Development Relief Fund	0.1	0.3
1172	Building Safety	1.6	1.3
1175	Business License Receipts	2.2	2.2
	Miscellaneous	0.0	0.5
	Subtotal Receipt Supported Services	18.2	18.5
Total Charges for Services		**264.4**	**251.7**

Table 10-4. Items in FY 2004 Summary of Appropriations Shown in Non-Oil Revenue in Sources Book, cont.
$ Million

OMB Fund Number	OMB Fund Name	Summary of Appropriations Comparable "Other Revenue" from Table 10-2 in Revenue Sources Book	Revenue Sources Book "Other Revenue" Excluding Federal & Investment
Rents and Royalties			
1153	Land Disposal Inc. Fund	7.8	4.7
Total Rents and Royalties		**7.8**	**4.7**
Other Public Corporations Dividends			
1104	Alaska Municipal Bond Bank	1.3	1.3
1107	Alaska Energy Authority	1.1	1.1
1139 & 1103	AHFC	66.7	57.9
1140 & 1102	AIDEA Dividend	20.6	20.6
1150	Alaska Student Loan Corporation	4.1	4.1
	Subtotal Other Public Corporation Dividends	93.8	85.0
Other - Contributions			
1018	Exxon Valdex Oil Spill Settlement	5.0	15.7
1031	Second Injury Fund	3.2	4.1
1054	State Employment and Training Program	5.6	4.6
1111	Fishermans' Fund Income	0.1	0.2
1151	Technical and Vocational Education Fund	4.6	4.6
	Miscellaneous	0.0	5.7
	Subtotal Other - Contributions	18.5	34.9
Total Other		**112.3**	**119.9**
Total Comparable "Other Revenue" from Table 10-2		**474.2**	**504.1**

Other — Dividends from Public Corporations

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

Other — Contributions and Other Miscellaneous

This shows contributions and other miscellaneous revenue found in Table 5-7 on Page 52.

Table 10-5 breaks out two items in "Other Treasury Managed Funds" in the investment revenues section of the Revenue Sources book that are directly comparable with the Summary of Appropriations. As shown in Section 7 of this book, these, and many other state funds calculate their earnings available for distribution differently than how GASB calculates earnings. For these three funds, the distributable income is a fixed percentage of the market value of the fund, whether that value is shrinking or growing. Thus, for example, the Pubic School Trust had $9.7 million in distributable income, which represents 7% or the fund market value over the previous 36 months. But the fund actually gained $17.9 million in value. Table 10-5 sets forth both the revenues and the dollars available for distribution. As might be expected, the distributable funds line up more closely with the Summary of Appropriations numbers than the actual revenues.

Table 10-5. FY 2004 Summary of Appropriations
Items Shown in Investment Revenue in Revenue Sources Book
$ Million

		Summary of Appropriations	Revenue Sources Book	
OMB Fund Number	OMB Fund Name	Comparable "Other Revenue" from Table 12-2	Comparable "Investment Revenue" from Table 12-2	Distributable Income from Investment Section
1098	Childrens' Trust Fund Earnings	0.4	0.6	0.3
1066	Public School Trust Fund	12.7	17.9	9.7
Total		**13.2**	**18.5**	**10.0**

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11.

APPENDICES

A. General Fund Unrestricted Revenue Sensitivity Matrices

$ Million

FY 2004

$/barrel	Million barrels/day 0.90	0.95	1.00
20.00	1,300	1,340	1,370
21.00	1,360	1,390	1,430
22.00	1,410	1,450	1,490
23.00	1,460	1,500	1,550
24.00	1,510	1,560	1,610
25.00	1,560	1,620	1,670
26.00	1,610	1,670	1,730
27.00	1,670	1,730	1,790
28.00	1,720	1,780	1,850
29.00	1,770	1,840	1,910
30.00	1,820	1,890	1,970
31.00	1,870	1,950	2,030
32.00	1,920	2,010	2,090

FY 2005

$/barrel	Million barrels/day 0.90	0.95	1.00
20.00	1,190	1,230	1,270
21.00	1,240	1,280	1,330
22.00	1,290	1,340	1,380
23.00	1,340	1,390	1,440
24.00	1,390	1,450	1,500
25.00	1,440	1,500	1,560
26.00	1,490	1,550	1,610
27.00	1,550	1,610	1,670
28.00	1,600	1,660	1,730
29.00	1,650	1,720	1,780
30.00	1,700	1,770	1,840
31.00	1,750	1,820	1,900
32.00	1,800	1,880	1,960

FY 2006

$/barrel	Million barrels/day 0.90	0.95	1.00
20.00	1,330	1,380	1,420
21.00	1,390	1,430	1,470
22.00	1,440	1,480	1,530
23.00	1,490	1,540	1,590
24.00	1,540	1,590	1,640
25.00	1,590	1,650	1,700
26.00	1,640	1,700	1,760
27.00	1,690	1,750	1,820
28.00	1,740	1,810	1,870
29.00	1,790	1,860	1,930
30.00	1,850	1,920	1,990
31.00	1,900	1,970	2,040
32.00	1,950	2,020	2,100

B. Unrestricted Petroleum Production Tax and Royalty Revenue Forecast

$ Million

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY2014	FY 2015
Alaska North Slope												
Net Oil Royalty (1)	830.4	693.7	568.4	558.1	552.0	542.6	511.7	489.6	463.2	435.7	378.2	355.0
Oil Severance (2)	533.7	397.1	300.0	272.5	299.3	294.5	253.0	224.9	197.6	186.6	166.6	154.5
Conservation Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	9.1	9.1	8.9	8.9	9.0	8.9	8.9	8.8	8.8	8.7	8.3	7.8
Gas Royalty	2.1	1.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Gas Severance Tax	1.5	1.6	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.1	1.1	1.1
Subtotal	**1,376.8**	**1,102.6**	**879.6**	**841.7**	**862.4**	**848.2**	**775.7**	**725.4**	**671.6**	**633.1**	**555.1**	**519.4**
Cook Inlet												
Net Oil Royalty (1)	22.4	17.2	13.8	12.8	12.0	11.4	10.8	10.3	9.9	9.5	9.2	8.8
Oil Severance Tax (2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Conservation Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Gas Royalty	31.6	25.7	26.5	27.4	28.2	29.2	30.1	31.1	32.1	33.2	34.3	35.4
Gas Severance Tax	19.1	19.0	19.7	20.3	20.9	21.6	22.3	23.0	23.7	24.5	25.3	26.1
Subtotal	**73.3**	**62.2**	**60.2**	**60.7**	**61.4**	**62.3**	**63.4**	**64.6**	**65.9**	**67.3**	**68.9**	**70.5**
Total Production Tax and Royalty Revenue	**1,450.1**	**1,164.8**	**939.9**	**902.4**	**923.8**	**910.5**	**839.1**	**789.9**	**737.5**	**700.4**	**624.0**	**589.8**
Bonuses	**12.1**	**16.1**	**28.0**	**16.8**	**12.4**	**14.0**	**14.0**	**14.0**	**14.0**	**14.0**	**14.0**	**14.0**
Total Production Tax and Royalty Revenue and Bonuses	**1,462.2**	**1,180.9**	**967.9**	**919.2**	**936.2**	**924.5**	**853.1**	**803.9**	**751.5**	**714.4**	**638.0**	**603.8**

(1) Unrestricted oil royalty revenue is net of Permanent Fund and Public School Fund contributions. Includes oil interest paid.
(2) Includes Exploration Incentive Credit.

C. Historical and Projected Crude Oil Prices
$ Million

FY	WTI		ANS West Coast		ANS Wellhead	
	nominal	real2003	nominal	real2003	nominal	real2003
1990	20.06	29.08	17.22	24.96	11.90	17.25
1991	24.95	34.56	21.57	29.87	15.38	21.30
1992	20.69	27.37	16.64	22.01	11.21	14.83
1993	20.69	26.55	17.83	22.88	12.81	16.44
1994	16.69	20.79	14.05	17.50	9.57	11.92
1995	18.54	22.54	16.77	20.38	11.51	13.99
1996	19.20	22.65	17.74	20.93	12.60	14.86
1997	22.54	25.88	20.90	23.99	16.40	18.83
1998	18.03	20.24	15.86	17.80	11.91	13.36
1999	14.09	15.55	12.73	14.05	8.47	9.35
2000	24.82	26.87	23.27	25.19	18.82	20.37
2001	30.41	31.73	27.85	29.06	22.24	23.21
2002	23.80	24.05	21.78	22.01	16.80	16.98
2003	**29.47**	**29.47**	**28.15**	**28.15**	**23.35**	**23.35**
2004	29.23	28.41	27.70	26.91	22.46	21.83
2005	26.35	24.89	24.65	23.28	19.46	18.38
2006	23.70	21.75	22.00	20.19	16.74	15.36
2007	23.70	21.09	22.00	19.62	16.63	14.84
2008	23.70	20.50	22.00	19.07	16.53	14.33
2009	23.70	19.92	22.00	18.53	16.46	13.87
2010	23.70	19.36	22.00	18.01	16.35	13.39
2011	23.70	18.82	22.00	17.50	16.20	12.89
2012	23.70	18.28	22.00	17.01	16.21	12.53
2013	23.70	17.77	22.00	16.53	16.06	12.06
2014	23.70	17.27	22.00	16.06	15.87	11.59
2015	23.70	16.78	22.00	15.61	15.69	11.13

D. Historical and Projected Crude Oil Production

Million Barrels per Day

FY	(1) Prudhoe Bay	(2) PBU-Satellite	Kuparuk	(3) Kup-Satellite	(4) Milne Point	(5) Endicott	(6) GPMA	(7) Alpine	Northstar	Fiord	Point Thomson	NPRA	Liberty	(8) Known Onshore	(9) Known Offshore	**Total ANS**
1985	1.534	.	0.161	.	.	.	.	.	.	.	.	.	.	.	.	**1.694**
1986	1.555	.	0.238	.	0.009	.	.	.	.	.	.	.	.	.	.	**1.802**
1987	1.564	.	0.272	.	0.006	.	0.018	.	.	.	.	.	.	.	.	**1.859**
1988	1.605	.	0.287	.	0.000	0.069	0.044	.	.	.	.	.	.	.	.	**2.006**
1989	1.524	.	0.300	.	0.002	0.098	0.038	.	.	.	.	.	.	.	.	**1.962**
1990	1.396	.	0.300	.	0.011	0.103	0.037	.	.	.	.	.	.	.	.	**1.846**
1991	1.330	.	0.299	.	0.018	0.108	0.039	.	.	.	.	.	.	.	.	**1.794**
1992	1.300	.	0.316	.	0.020	0.111	0.037	.	.	.	.	.	.	.	.	**1.783**
1993	1.193	.	0.322	.	0.018	0.115	0.031	.	.	.	.	.	.	.	.	**1.679**
1994	1.082	.	0.308	.	0.018	0.099	0.083	.	.	.	.	.	.	.	.	**1.593**
1995	0.991	.	0.303	.	0.021	0.099	0.145	.	.	.	.	.	.	.	.	**1.572**
1996	0.891	.	0.283	.	0.022	0.089	0.165	.	.	.	.	.	.	.	.	**1.474**
1997	0.809	.	0.267	.	0.052	0.068	0.180	.	.	.	.	.	.	.	.	**1.404**
1998	0.713	.	0.260	0.001	0.053	0.058	0.161	.	.	.	.	.	.	.	.	**1.275**
1999	0.636	0.003	0.241	0.025	0.055	0.048	0.127	.	.	.	.	.	.	.	.	**1.164**
2000	0.570	0.004	0.212	0.037	0.053	0.044	0.090	.	.	.	.	.	.	.	.	**1.035**
2001	0.540	0.007	0.196	0.031	0.052	0.037	0.071	0.040	.	.	.	.	.	.	.	**0.991**
2002	0.487	0.026	0.175	0.039	0.052	0.033	0.074	0.096	0.020	.	.	.	.	.	.	**1.003**
2003	**0.433**	**0.045**	**0.160**	**0.052**	**0.051**	**0.029**	**0.064**	**0.098**	**0.057**	**.**	**.**	**.**	**.**	**.**	**.**	**0.990**
2004	0.420	0.056	0.155	0.053	0.053	0.030	0.064	0.099	0.066	.	.	.	.	.	.	**0.996**
2005	0.401	0.066	0.152	0.061	0.054	0.029	0.062	0.098	0.063	.	.	.	.	.	.	**0.985**
2006	0.383	0.076	0.145	0.071	0.053	0.027	0.056	0.103	0.054	.	.	.	.	.	.	**0.968**
2007	0.366	0.081	0.139	0.076	0.053	0.025	0.052	0.117	0.046	0.010	.	.	.	.	.	**0.965**
2008	0.353	0.086	0.133	0.070	0.052	0.024	0.049	0.117	0.036	0.020	0.030	.	.	.	.	**0.969**
2009	0.338	0.080	0.127	0.077	0.051	0.022	0.044	0.104	0.029	0.020	0.070	0.003	.	.	.	**0.964**
2010	0.324	0.074	0.121	0.072	0.048	0.021	0.040	0.086	0.023	0.018	0.066	0.020	0.035	0.010	.	**0.957**
2011	0.310	0.068	0.115	0.078	0.046	0.020	0.037	0.071	0.019	0.015	0.062	0.025	0.050	0.025	.	**0.941**
2012	0.297	0.063	0.110	0.073	0.043	0.018	0.034	0.060	0.015	0.014	0.058	0.065	0.048	0.030	0.012	**0.941**
2013	0.286	0.059	0.104	0.079	0.040	0.017	0.032	0.051	0.013	0.012	0.055	0.100	0.038	0.028	0.015	**0.930**
2014	0.276	0.055	0.099	0.074	0.038	0.016	0.030	0.044	0.011	0.011	0.051	0.114	0.031	0.025	0.014	**0.889**
2015	0.266	0.051	0.094	0.080	0.035	0.015	0.028	0.038	0.010	0.009	0.048	0.107	0.027	0.023	0.013	**0.844**

(1) Includes NGLs from Central Gas Facility shipped to TAPS
(2) Midnight Sun, Polaris, Aurora, Borealis and Orion
(3) West Sak, Tabasco, Tarn and Meltwater
(4) Milne Point, Schrader Bluff and Sag River
(5) Endicott, Sag Delta, Eider and Badami
(6) Lisburne, Point McIntyre, Niakuk, West Beach & North Prudhoe Bay State
(7) Includes Nanuk
(8) Sourdough, Yukon Gold and Flaxman
(9) Sandpiper and Other Offshore discoveries

E. Historical and Projected General Fund Unrestricted Revenue

$ Million

FY	1991	1992	1993	1994	1995	1996	(1) 1997	(1) 1998	(1) 1999	(1) 2000	(1) 2001	(1) 2002	(1) 2003
TAX PORTION													
Property Tax	**85.0**	**69.0**	**66.9**	**61.5**	**57.3**	**56.0**	**53.6**	**51.3**	**48.8**	**45.0**	**45.1**	**49.6**	**48.7**
Sales/Use													
Alcoholic Beverages	12.2	12.0	11.9	12.0	12.0	12.0	11.6	11.8	12.2	12.7	12.0	12.9	25.3
Tobacco Products	14.0	14.3	14.0	14.1	14.4	14.2	13.7	15.4	15.2	16.3	16.3	15.5	16.3
Insurance Premium	24.4	25.5	26.3	26.1	27.9	28.2	28.4	33.7	28.4	28.7	32.2	37.4	43.3
Electric and Telephone Cooperative	2.1	2.1	2.2	2.6	2.3	2.5	2.7	2.3	3.7	3.2	3.3	3.1	3.6
Motor Fuel Tax (3)	39.8	43.3	40.8	40.5	39.6	37.7	35.3	35.6	37.8	42.1	37.5	40.2	37.4
Total	**92.5**	**97.2**	**95.2**	**95.3**	**96.2**	**92.2**	**94.6**	**91.7**	**97.3**	**103.0**	**101.3**	**109.1**	**125.9**
Income Tax													
Corporation General	37.9	33.7	25.1	44.3	67.0	53.3	48.4	53.4	53.8	56.3	59.5	53.4	47.7
Corporation Petroleum	185.1	165.5	117.6	17.8	128.5	173.7	269.4	200.1	145.1	162.7	338.1	178.4	151.1
Total	**223.0**	**199.2**	**142.7**	**62.1**	**195.5**	**227.0**	**317.8**	**253.5**	**198.9**	**219.0**	**397.6**	**231.8**	**198.8**
Severance Tax													
Oil and Gas Production	1,253.8	1,022.2	989.4	662.8	769.8	771.7	907.0	564.4	358.6	693.2	694.4	486.7	589.8
Oil and Gas Conservation	2.3	2.3	2.1	2.3	2.0	1.8	1.7	1.6	1.4	0.0	0.0	0.0	0.0
Oil and Gas Hazardous Release	28.0	28.7	26.1	27.0	22.1	13.7	12.9	11.8	11.1	9.5	9.4	9.6	9.2
Total	**1,284.1**	**1,053.2**	**1,017.6**	**692.1**	**793.9**	**787.2**	**921.6**	**577.8**	**371.1**	**702.7**	**703.8**	**496.3**	**599.0**
Other Natural Resource Tax													
Salmon and Seafood Marketing	3.3	2.8	3.6	5.8	7.9	8.6	7.6	5.6	5.3	7.2	5.7	4.8	4.4
Salmon Enhancement	6.2	4.2	6.8	5.0	5.7	5.2	4.2	4.2	3.9	5.3	3.6	3.7	2.4
Dive Fishery Management	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
Fisheries Business	31.1	30.1	42.2	33.9	39.0	38.2	31.0	28.5	25.9	36.7	30.5	25.3	26.0
Fish Landing	0.0	0.0	0.0	0.1	7.3	7.1	7.3	3.8	5.9	5.3	7.3	7.1	8.8
Total	**40.6**	**37.1**	**52.6**	**44.8**	**59.9**	**59.1**	**50.1**	**42.1**	**41.0**	**54.7**	**47.3**	**41.1**	**42.8**
Other Tax													
Estate	3.3	1.0	0.9	1.6	1.2	1.7	1.7	5.5	1.7	2.5	2.7	3.1	1.2
Other	2.0	2.1	2.0	2.2	2.6	2.5	2.4	3.9	2.9	2.5	4.3	3.2	3.1
Total	**5.3**	**3.1**	**2.9**	**3.8**	**3.8**	**4.2**	**4.1**	**9.4**	**4.6**	**8.4**	**7.0**	**6.3**	**4.3**
TOTAL TAXES	**1,730.5**	**1,458.8**	**1,377.9**	**959.6**	**1,206.6**	**1,228.1**	**1,438.9**	**1,032.9**	**761.7**	**1,132.8**	**1,302.0**	**934.2**	**1,019.5**

FY	1991	1992	1993	1994	1995	1996	(1) 1997	(1) 1998	(1) 1999	(1) 2000	(1) 2001	(1) 2002	(1) 2003
NON TAXES													
Licenses and Permits	29.1	32.4	32.7	35.7	34.7	60.9	69.0	74.6	63.7	69.2	37.3	42.2	33.3
Intergovernmental Receipts													
Federal Shared Revenues	14.8	11.4	10.3	4.3	4.2	1.0	2.0	2.2	0.8	1.0	0.3	0.1	0.0
Charges for Services													
Marine Highways	40.7	42.3	40.8	40.4	41.5	38.5	38.6	37.1	38.8	38.3	37.6	32.2	41.5
Other	16.5	44.1	14.3	18.0	18.1	36.9	39.5	34.9	31.8	43.7	27.0	19.1	13.9
Total	57.2	86.4	55.1	58.4	59.6	75.4	78.1	72.0	70.6	82.0	64.6	51.3	55.4
Fines and Forefeitures	0.0	0.0	0.0	0.0	0.0	9.4	8.2	37.7	12.5	46.2	33.6	6.6	8.6
Rents and Royalties													
Mineral Bonuses, Rents, Royalties	24.8	6.5	44.3	5.2	5.6	6.9	7.4	23.0	25.6	4.0	7.1	14.6	10.0
Oil and Gas Royalties	951.6	702.4	711.3	512.1	628.3	642.2	759.2	480.4	322.6	727.9	781.0	581.2	828.6(4)
Timber Sales	0.4	0.6	0.6	0.4	0.6	1.5	1.9	0.8	0.3	0.3	0.4	0.2	0.0
Sale of State Property	4.7	1.0	4.0	9.0	21.8	8.1	8.6	8.1	10.6	9.4	10.5	9.1	5.9
Total	981.5	710.5	760.2	526.7	656.3	658.7	777.1	512.3	359.1	741.6	799.0	605.1	844.5
Investment Earnings	125.0	101.8	70.9	31.7	72.4	64.1	77.1	60.6	46.5	48.1	78.8	43.1	59.0(5)
Miscellaneous Revenue	14.9	61.4	45.0	36.2	49.2	35.8	44.6	33.5	37.3	27.1	34.9	42.3	9.4
Subtotal NON-TAX REVENUE	**1,222.5**	**1,003.9**	**974.2**	**693.0**	**876.4**	**905.3**	**1,056.1**	**792.8**	**590.5**	**1,015.2**	**1,048.5**	**790.7**	**1,010.2**
Plus: Income from prior years	33.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL NON-TAX REVENUE	**1,256.1**	**1,003.9**	**974.2**	**693.0**	**876.4**	**905.3**	**1,056.1**	**792.8**	**590.5**	**1,015.2**	**1,048.5**	**790.7**	**1,010.2**
TOTAL TAX REVENUE	**1,730.5**	**1,458.8**	**1,377.9**	**959.6**	**1,206.6**	**1,228.1**	**1,438.9**	**1,032.9**	**761.7**	**1,132.8**	**1,302.1**	**934.2**	**1,019.5**
TOTAL GENERAL FUND UNRESTRICTED REVENUE	**2,986.6**	**2,462.7**	**2,352.1**	**1,652.6**	**2,083.0**	**2,133.4**	**2,495.0**	**1,825.8**	**1,352.2**	**2,148.0**	**2,350.6**	**1,724.9**	**2,029.7**

(1) After FY 1996, all General Fund statutorily designated program receipts are excluded; after FY 2000, all receipt-supported services are excluded.
(2) Starting in FY 1996, all General Fund program receipts are included under Unrestricted Revenue. FY 1996 also includes additional royalties due to payment from the TAPS Liability Fund. However, starting in FY 1998, non-tax General Fund program receipts have been moved from unrestricted to "Statutorily Designated Program Receipts", "Receipt Supported Services" and General Fund subfund categories.
(3) Motor Fuel Tax includes aviation, highway and marine.
(4) FY 2001 oil and gas royalties adjusted to include interest earnings.
(5) FY 2001 investment revenue adjusted to exclude oil and gas interest earnings.

F. Historical Petroleum Revenue

$ Million

FY	Corporate Petroleum Tax	Petroleum Production Tax	Petroleum Property Tax	Reserve Tax	(1) (2) Royalties	(1) (2) Bonuses & Rents	(3) Petroleum Special Settlements	Total Petroleum Revenue	(4) Cumulative Total Petroleum Revenue	Total Unrestriced General Purpose Revenue	% of Total Unrestricted General Purpose Revenue
1978	8.4	107.7	173.0	.	150.6	1.8	.	**441.5**	2,797.8	**764.9**	**58%**
1979	232.6	173.8	163.4	.	250.2	1.6	.	**821.6**	3,619.4	**1,133.0**	**73%**
1980	547.5	506.5	168.9	.	689.4	344.2	.	**2,256.5**	5,875.9	**2,501.2**	**90%**
1981	860.1	1,170.2	143.0	.	1119.7	11.3	.	**3,304.3**	9,180.2	**3,718.0**	**89%**
1982	668.9	1,581.7	142.7	.	1174.4	7.1	.	**3,574.8**	12,755.0	**4,108.4**	**87%**
1983	236.0	1,493.7	152.6	.	1105.6	38.7	.	**3,026.6**	15,781.6	**3,631.0**	**83%**
1984	265.1	1,393.1	131.0	.	1058.5	13.9	.	**2,861.6**	18,643.2	**3,390.1**	**84%**
1985	168.6	1,389.4	128.4	.	1042.2	14.9	.	**2,743.5**	21,386.7	**3,260.0**	**84%**
1986	133.9	1,107.9	113.5	.	845.0	38.9	418.2	**2,657.4**	24,044.1	**3,075.5**	**86%**
1987	120.4	648.5	102.5	.	448.3	4.3	70.5	**1,394.5**	25,438.6	**1,799.4**	**77%**
1988	158.0	818.7	96.2	.	701.5	11.3	163.9	**1,949.6**	27,388.2	**2,305.8**	**85%**
1989	166.0	698.8	89.7	.	611.5	16.7	257.7	**1,840.4**	29,228.6	**2,186.2**	**84%**
1990	117.2	1,001.6	89.8	0.0	753.7	4.2	154.8	**2,121.3**	31,349.9	**2,507.2**	**85%**
1991	185.1	1,284.8	85.0	0.0	958.7	24.7	33.5	**2,571.8**	33,921.7	**2,986.6**	**86%**
1992	165.5	1,053.2	69.0	0.0	708.2	6.8	4.7	**2,007.4**	35,929.1	**2,462.6**	**82%**
1993	117.6	1,017.6	66.9	0.0	716.7	44.3	4.7	**1,967.8**	37,896.9	**2,352.0**	**84%**
1994	17.8	692.1	61.5	0.0	516.1	5.1	0.1	**1,292.7**	39,189.6	**1,652.5**	**78%**
1995	128.5	793.9	57.3	0.0	631.8	5.0	0.7	**1,617.2**	40,806.8	**2,082.9**	**78%**
1996	173.7	787.2	56.0	0.0	642.2	5.7	0.0	**1,664.8**	42,471.6	**2,133.3**	**78%**
1997	269.4	921.6	53.6	0.0	759.2	6.4	0.0	**2,010.2**	44,481.8	**2,494.9**	**81%**
1998	200.1	577.8	51.3	0.0	480.4	23.0	0.0	**1,332.6**	45,814.4	**1,825.5**	**73%**
1999	145.1	371.1	48.8	0.0	322.6	25.6	0.0	**913.2**	46,727.7	**1,352.1**	**68%**
2000	162.7	702.7	45.0	0.0	731.9	4.0	0.0	**1,646.3**	48,373.9	**2,147.6**	**77%**
2001	338.1	703.8	45.1	0.0	781.0	7.1	0.0	**1,875.1**	50,249.0	**2,282.0**	**82%**
2002	178.4	496.3	49.6	0.0	581.2	14.6	0.0	**1,320.1**	51,569.1	**1,668.0**	**79%**
2003	151.1	599.0	48.7	0.0	830.7	9.6	0.0	**1,639.1**	53,208.2	**1,946.9**	**84%**

(1) These categories are primarily composed of petroleum revenue, however, they include some additional revenue from other minerals (mostly coal).
(2) Royalties and bonuses and rents are net of Permanent Fund contribution and Constitutional Budget Reserve Fund (CBRF) deposits.
(3) Revenue shown here is not subject to deposit in the CBRF. All other tax settlements are deposited in the CBRF.
(4) This table shows historical petroleum revenue for FY 1978-2003. The cumulative petroleum revenue total is based on revenue beginning in FY 1959.

G. Glossary of Terms Used in Revenue Sources Book

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

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

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

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

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

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

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

G. Glossary of Terms Used in Revenue Sources Book, cont.

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

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

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

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

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

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

(1) econometric models developed by the Department of Revenue to forecast unrestricted non-petroleum revenues;

(2) a petroleum revenue model created by the department's Tax Division; and

(3) estimates from individual state agencies.

We thank the various state agencies for their cooperation in computing anticipated revenues for publication in this Fall 2003 Revenue Sources Book.

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

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