

# **FALL 2005**

## **Revenue Sources Book**

alaska department of revenue - tax division

Fall  
2005

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

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December 15, 2005

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

Dear Governor Murkowski:

I present you, the Legislature and the Alaska public with the Department of Revenue's latest Revenue Sources Book. Our Fall 2005 report includes a preliminary accounting of state revenues received in FY 2005 and projections for Fiscal 2006 through Fiscal 2016.

We project Alaska North Slope crude oil prices will average \$57.30 per barrel for the fiscal year ending June 30, 2006. The fiscal year-to-date average is currently above \$58 per barrel but price instability continues. We believe, given world supply uncertainties and market concern over shortages, prices for the rest of the fiscal year will remain volatile.

Eventually, we do see new oil supplies coming online, and a more rational approach in the markets, with prices backing off next year. Our forecast for Fiscal 2007 is \$49.20 a barrel for Alaska North Slope crude, and \$40.95 a barrel for fiscal year 2008.

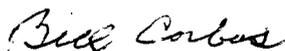
Our forecast for Fiscal 2009 and beyond is \$25.50, our Spring 2005 long-term forecast. Yes, this is lower than today's markets and certainly lower than many pundits predict. As you know, however, our approach is to not frequently change our long-term price forecast. Caution is an appropriate response to volatile oil markets.

Alaska North Slope crude oil production projections have been adjusted and are projected to decrease 5.6 percent (to 865,000 barrels per day) in Fiscal 2006, and 2.6 percent (to 843,000 barrels per day) in fiscal year 2007. After, the decline of ANS production will slow to a ten-year average of 0.9 percent per year due to smaller fields under development coming on-line and the start-up of production from the NPR-A in Fiscal 2011.

The Fall 2005 Revenue Sources Book also provides you with our inaugural natural gas price forecast at the Henry Hub location in Louisiana. December's Henry Hub natural gas prices average about \$13.50 per million British Thermal Units [BTU]. Natural gas prices are extremely difficult to predict but, we know they are at historical highs and we believe they will decline. For Fiscal 2006, we predict Henry Hub prices will average \$9.19 per million BTU, and \$7.79 per million BTU for fiscal year 2007. We invite you to read fully this new natural gas section in our biannual report.

I invite questions on this report and wish you, the Legislature and all Alaskans a safe and happy holiday season, a prosperous new year and a productive 2006.

Sincerely,



William A. Corbus  
Commissioner

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# Fall

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# 2005

Alaska Department of Revenue  
Tax Division

# Fall 2005

## Revenue Sources Book

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# Fall

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# 2005

# 1.

# Introduction

## General Discussion

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

Oil revenues continue to dominate the unrestricted revenue picture—and will continue to provide 85% of Unrestricted General Purpose Revenue through FY 2008 and 75% through FY 2011. However, North Slope oil production has declined. In FY 2005 ANS output was 0.917 million barrels per day compared to a peak of 2.006 million barrels a day in FY 1988. While production declined by 54.3% over that period, the market price of oil almost tripled.

In 10 of the past 14 years, the state has relied on annual withdrawals from the Constitutional Budget Reserve Fund (CBRF) to fill the gap between unrestricted revenues and budget outlays. In the other four years unrestricted revenues have been sufficient to pay for budgeted spending without a draw on the CBRF.

Alaska's total revenue picture also includes earnings from the Permanent Fund, federal revenue and reserves in the CBRF. Also in this publication, the Department of Revenue examines natural gas in a special section designed to provide the reader with background information on natural gas—including supply, demand, prices, and the relationship between natural gas prices and crude oil prices. We hope that the information provided in this book provides greater insight not only into the sources of revenue that support the state today, but also into future revenues from these and potential new revenue sources on the horizon.

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

## Fall 2005 Forecast

This publication is organized into the following 10 sections:

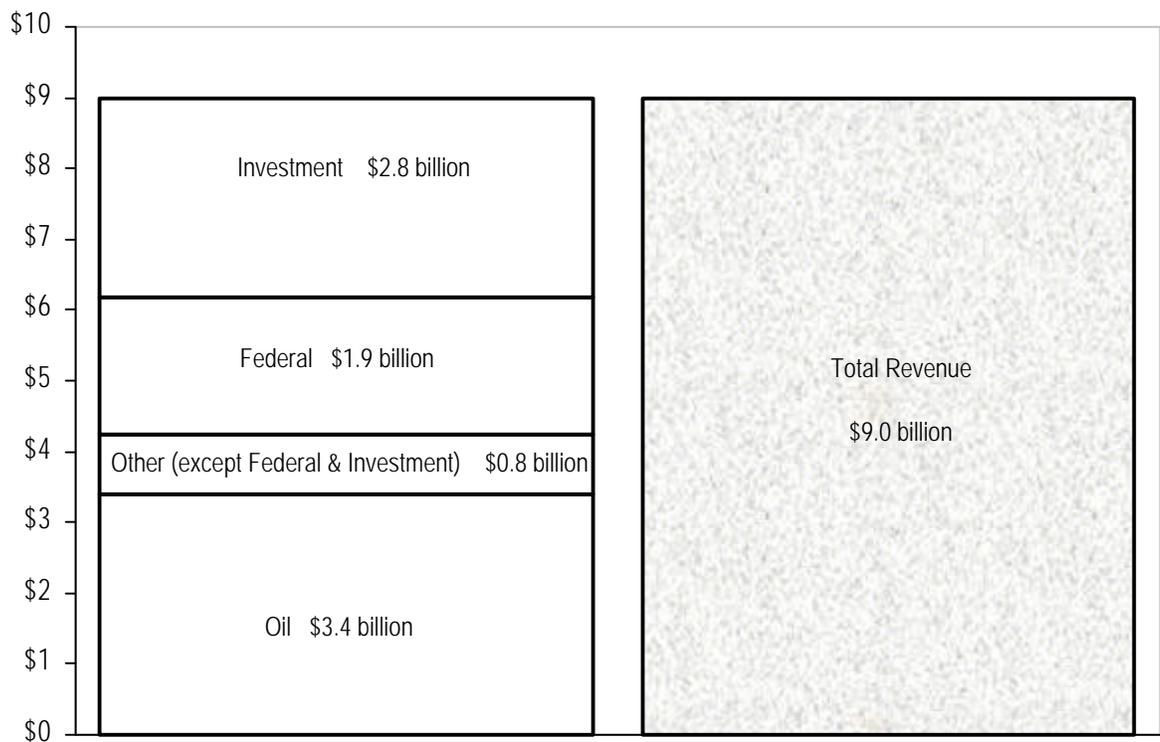
1. **Introduction**
2. **Executive Summary**
3. **On the Horizon - Natural Gas**  
This section provides an overview of the supply, demand and transport issues related to natural gas. It also includes the department's first forecast of natural gas prices and an analysis of the relationship between changes in crude oil and natural gas prices.
4. **Oil Revenue**  
In FY 2005, oil and gas production tax, corporate income tax, property tax and royalty revenues contributed 89% of the state's General Fund unrestricted revenue. Oil revenues will continue to play a key role in Alaska's future.
5. **Other Revenue (except Federal & Investment)**  
Revenue from non-oil sources includes non-oil taxes, charges for services, fines and forfeitures, licenses and permits, rents and royalties and other revenue sources.
6. **Federal Revenue**  
Federal funding continues to be one of Alaska's biggest sources of revenue.
7. **Investment Revenue**  
Investment earnings come from the Alaska Permanent Fund, Constitutional Budget Reserve Fund, General Fund and other state investments.
8. **State Endowment Funds**  
Alaska has six endowment funds.
9. **Public Corporations and the University of Alaska**  
Seven public corporations and the University of Alaska are treated as separate component units of state government for financial reporting purposes.
10. **Appendices**  
The appendices provide 10 years of historical and 10 years of forecast data on oil revenue, prices and production. Starting with this fall forecast, these numbers are provided in a different format than in the past. For a complete set of historical data, please visit our web site: [www.tax.state.ak.us](http://www.tax.state.ak.us)

# 2.

## Executive Summary

### Total Governmental Revenue

2-1. FY 2005 Total Revenue: \$9.0 Billion



**2-2. Total Governmental Revenue by Major Component, FY 2005 and Forecasted FY 2006-2007**  
 \$ Million

	History FY 2005	Forecast FY 2006    FY 2007	
<b>OIL REVENUE</b>			
<u>Unrestricted</u>			
Property Tax	42.5	42.5	36.7
Corporate Petroleum Tax	524.0	525.1	444.1
Production Tax	863.2	1,130.8	891.6
Royalties (including Bonuses, Rents & Interest)	<u>1,419.8</u>	<u>1,728.5</u>	<u>1,397.5</u>
Subtotal	2,849.5	3,426.9	2,769.9
<u>Restricted</u>			
Royalties to Perm Fund and School Fund (includes Bonuses & Rents)	486.5	589.9	474.9
Tax Settlements to CBRF	27.4	20.0	20.0
NPR-A Royalties, Rents and Bonuses	<u>31.6</u>	<u>2.9</u>	<u>12.6</u>
Subtotal	545.5	612.9	507.5
Subtotal Oil Revenue	3,395.0	4,039.8	3,277.3

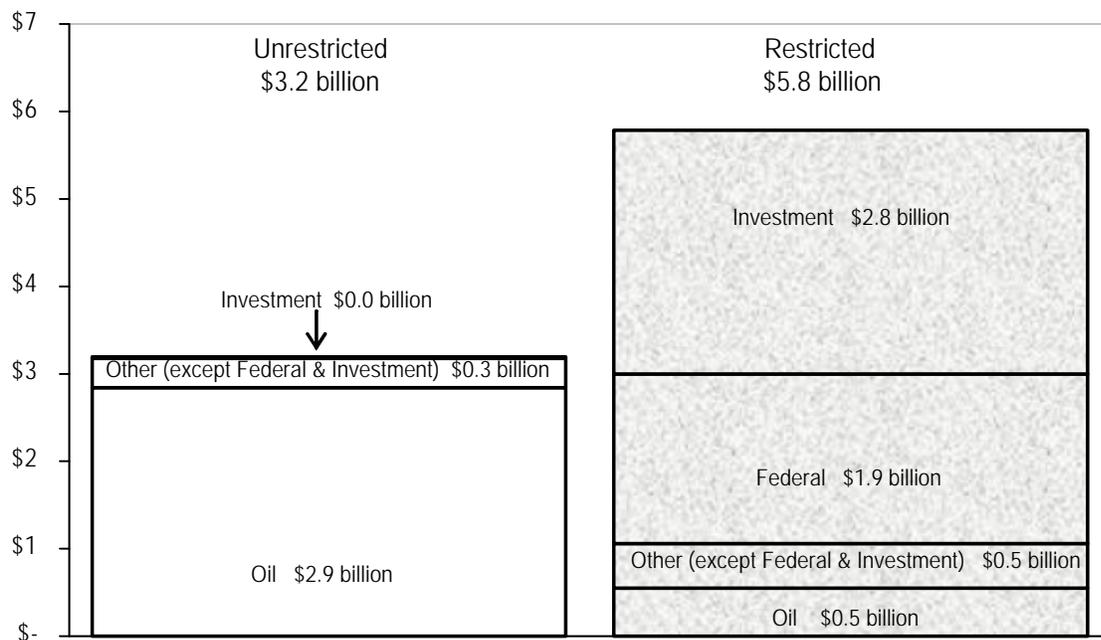
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**2-2. Total Governmental Revenue by Major Component** (continued from prior page)  
\$ Million

	History FY 2005	Forecast FY 2006      FY 2007	
<b>OTHER REVENUE (EXCEPT FEDERAL &amp; INVESTMENT)</b>			
<u>Unrestricted</u>			
Taxes	227.7	265.2	248.0
Charges for Services	17.9	18.1	18.1
Fines and Forfeitures	8.8	10.9	10.9
Licenses and Permits	42.7	41.6	42.4
Rents and Royalties	9.3	9.6	9.6
Other	<u>17.1</u>	<u>12.7</u>	<u>12.7</u>
Subtotal	323.5	358.1	341.7
<u>Restricted</u>			
Taxes	82.6	83.3	82.6
Charges for Services	233.3	260.8	262.0
Fines and Forfeitures	23.3	22.6	22.5
Licenses and Permits	29.9	31.7	36.5
Rents and Royalties	4.5	4.6	4.6
Other	<u>141.1</u>	<u>160.7</u>	<u>93.9</u>
Subtotal	514.7	563.7	502.1
Subtotal Other Revenue (Except Federal & Investment)	838.2	921.8	843.8
<b>FEDERAL REVENUE</b>			
<u>Restricted</u>			
Federal Receipts	<u>1,946.3</u>	<u>2,745.0</u>	<u>2,745.0</u>
Subtotal Federal Revenue	1,946.3	2,745.0	2,745.0
<b>INVESTMENT REVENUE</b>			
<u>Unrestricted</u>			
Investments	23.6	23.6	26.6
Interest Paid by Others	<u>1.1</u>	<u>1.1</u>	<u>1.1</u>
Subtotal	24.7	24.7	27.7
<u>Restricted</u>			
Investments	13.3	12.4	13.6
Constitutional Budget Reserve Fund	97.4	76.0	112.3
Other Treasury Managed Funds	22.7	21.0	21.9
Alaska Permanent Fund (GASB) <sup>(1)</sup>	<u>2,640.2</u>	<u>2,243.0</u>	<u>2,408.3</u>
Subtotal	2,773.6	2,352.4	2,556.1
Subtotal Investment Revenue	2,798.3	2,377.1	2,583.8
Grand Total	8,977.8	10,083.7	9,450.0

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

**2-3. FY 2005 Unrestricted and Restricted Revenue: \$9.0 Billion**



**2-4. Unrestricted and Restricted Revenue by Major Source, FY 2005 and Forecasted FY 2006-2007**  
\$ Million

	History FY 2005	Forecast FY 2006    FY 2007	
<u>Unrestricted</u> <sup>(1)</sup>			
Oil Revenue	2,849.5	3,426.9	2,769.9
Non-Oil Revenue	323.5	358.1	341.7
Investment Earnings	24.7	24.7	27.7
<b>Subtotal</b>	<b>3,197.7</b>	<b>3,809.7</b>	<b>3,139.3</b>
<u>Restricted</u>			
Oil Revenue	545.5	612.9	507.5
Non-Oil Revenue	514.7	563.7	502.1
Investment Earnings	2,773.6	2,352.4	2,556.1
Federal Revenue	1,946.3	2,745.0	2,745.0
<b>Subtotal</b>	<b>5,780.1</b>	<b>6,274.0</b>	<b>6,310.7</b>
<b>Grand Total</b>	<b>8,977.8</b>	<b>10,083.7</b>	<b>9,450.0</b>

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

## Unrestricted General Purpose Revenue

Unrestricted General Purpose Revenue is the amount generally used for budget planning purposes and is designated in budget documents as General Fund revenue. The table on the next two pages sets out FY 2005 Unrestricted General Purpose Revenue and our forecast for FY 2006 and 2007.

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

**2-5. Unrestricted General Purpose Revenue, FY 2005 and Forecasted FY 2006-2007**

\$ Million

	History FY 2005	Forecast FY 2006      FY 2007	
<u>Oil Revenue</u>			
Property Tax	42.5	42.5	36.7
Corporate Income Tax	524.0	525.1	444.1
Production Tax			
Oil & Gas Production	854.9	1,122.7	883.6
Oil & Gas Hazardous Release	<u>8.3</u>	<u>8.1</u>	<u>8.0</u>
	863.2	1,130.8	891.6
Royalties (including Bonuses & Interest)			
Mineral Bonuses & Rents	17.4	16.1	23.5
Oil and Gas Royalties	1,401.0	1,707.4	1,364.0
Interest	<u>1.4</u>	<u>5.0</u>	<u>10.0</u>
Subtotal Royalties	1,419.8	1,728.5	1,397.5
Total Oil Revenue	2,849.5	3,426.9	2,769.9
<u>Other Revenue (except Federal &amp; Investment)</u>			
Other Taxes			
Sales and Use			
Alcoholic Beverages	17.3	17.6	17.8
Cigarette	17.4	28.9	33.8
Other Tobacco Products	7.7	8.1	8.4
Insurance Premium	45.9	47.2	47.7
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel	39.4	39.4	40.1
Tire Fees	1.6	1.6	1.6
Vehicle Rental	<u>7.5</u>	<u>7.5</u>	<u>7.5</u>
Subtotal	137.0	150.5	157.1
Corporate Income	61.8	85.0	61.5
Fish			
Fisheries Business	10.7	12.1	13.5
Fishery Resource Landing	<u>3.9</u>	<u>4.3</u>	<u>4.3</u>
Subtotal	14.6	16.4	17.8
Other			
Mining	10.3	10.4	9.2
Estate	1.5	0.5	0.0
Charitable Gaming	<u>2.5</u>	<u>2.4</u>	<u>2.4</u>
Subtotal	14.3	13.3	11.6
Subtotal Other Taxes	227.7	265.2	248.0

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**2-5. Unrestricted General Purpose Revenue** (continued from prior page)  
\$ Million

	History FY 2005	Forecast FY 2006      FY 2007	
<u>Other Revenue (except Federal &amp; Investment), cont.</u>			
Charges for Services			
General Government	14.7	14.9	14.9
Natural Resources	1.4	1.4	1.4
Other	<u>1.8</u>	<u>1.8</u>	<u>1.8</u>
Subtotal Charges for Services	17.9	18.1	18.1
Fines and Forfeitures	8.8	10.9	10.9
Licenses and Permits			
Motor Vehicle	39.9	38.8	39.6
Other	<u>2.8</u>	<u>2.8</u>	<u>2.8</u>
Subtotal Licenses and Permits	42.7	41.6	42.4
Rents and Royalties			
Land Leasing, Rental and Sales	7.7	7.9	7.9
Coals Royalties	1.3	1.4	1.4
Cabin Rentals	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>
Subtotal Rents and Royalties	9.3	9.6	9.6
Other			
Miscellaneous	7.6	8.2	8.2
Unclaimed Property	<u>9.5</u>	<u>4.5</u>	<u>4.5</u>
Subtotal Other	17.1	12.7	12.7
Total Other Revenue (except Federal & Investment)	323.5	358.1	341.7
<u>Investment Revenue</u>			
Investments	23.6	23.6	26.6
Interest Paid by Others	<u>1.1</u>	<u>1.1</u>	<u>1.1</u>
Total Investment Revenue	24.7	24.7	27.7
Total Unrestricted Revenue	3,197.7	3,809.7	3,139.3

## Crude Oil Price Forecast

Oil revenue will provide at least 75% of forecasted Unrestricted General Purpose Revenue through FY 2011. Two elements are critical to the oil revenue forecast: price and volume.

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

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

The table below contains crude oil prices for FY 2005 and the Department of Revenue's forecast of prices for the 11-year period beginning with the current fiscal year FY 2006 and continuing through FY 2016. The oil price forecast is based on a subjective assessment of market dynamics and trend analysis by participants at a Department of Revenue price scenario meeting.

### 2-6. Nominal WTI, ANS West Coast and ANS Wellhead, FY 2005 and Forecasted FY 2006-2016 \$ per Barrel

Fiscal Year	WTI	ANS West Coast	ANS Wellhead
2005	47.19	43.43	38.76
2006	59.65	57.30	51.56
2007	51.50	49.20	43.31
2008	43.25	40.95	35.08
2009	27.50	25.50	19.59
2010	27.50	25.50	19.53
2011	27.50	25.50	19.38
2012	27.50	25.50	19.35
2013	27.50	25.50	19.11
2014	27.50	25.50	18.87
2015	27.50	25.50	18.73
2016	27.50	25.50	18.57

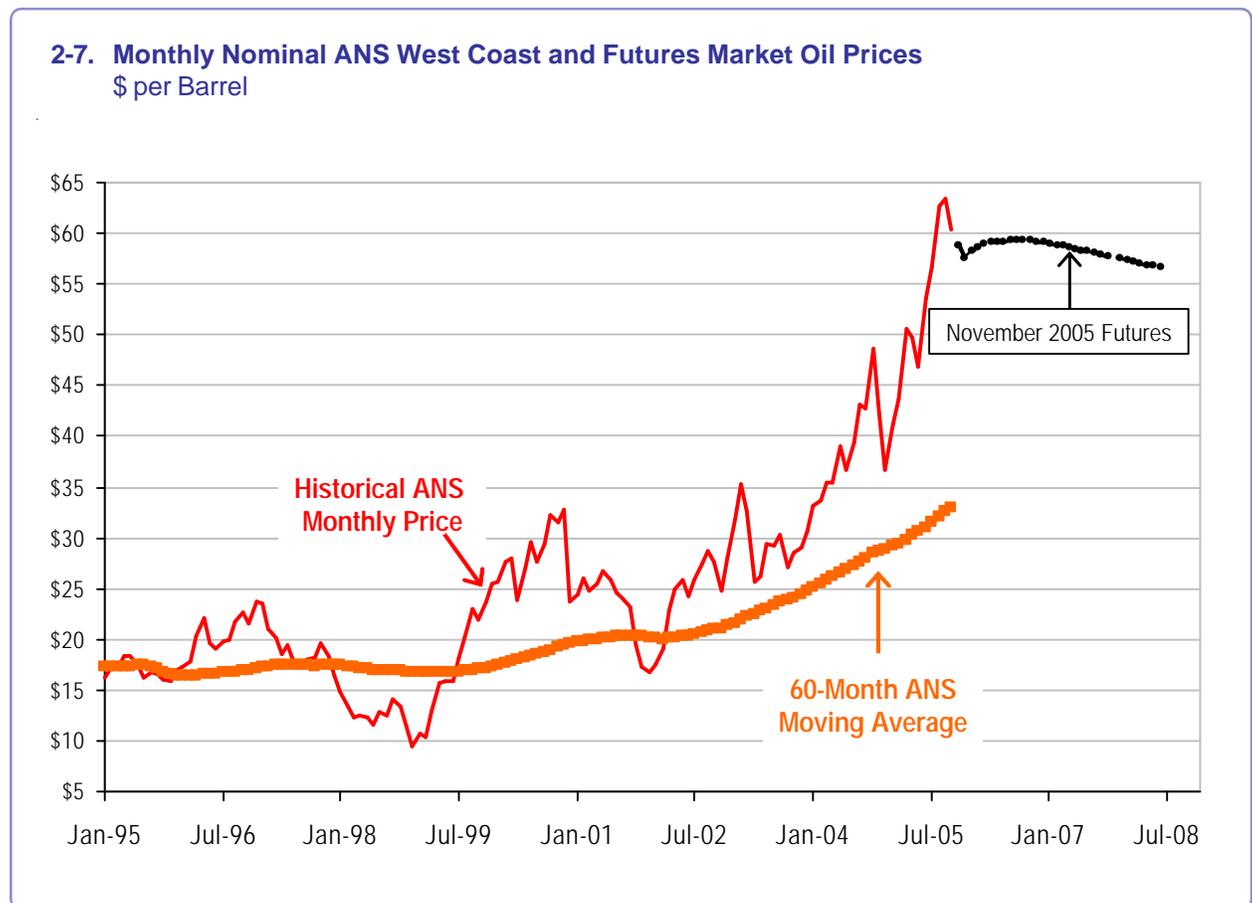
(1) The NYMEX futures market is one source for a WTI quote. A daily WTI spot quote could also be determined by a reporting service's daily assessment of the WTI spot market.

The figure below shows: (1) the monthly West Coast ANS market price from January 1995 through October 2005, (2) the 60-month moving average West Coast market price for the same period and (3) the derived NYMEX crude oil futures price of ANS from November 2005.

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

- the volatility of month-to-month crude oil prices—monthly ANS West Coast prices during this time period ranged from just under \$10 per barrel to \$63.50 per barrel
- the average of the 60-month moving average is \$24 per barrel and has increased dramatically since 1999
- the derived futures market price of November 2005 shows a slight downward trend

We assume that over the long-term, ANS oil prices will average \$25.50 per barrel in nominal terms. This price assumption is unchanged from our fall 2004 forecast <sup>(1)</sup> even though ANS West Coast prices averaged \$33.03 per barrel from November 2000 to November 2005. We will continue to evaluate our price assumptions, with our next forecast due in the spring of 2006.



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

## Crude Oil Production Forecast

Alaska North Slope crude oil production peaked at 2.006 million barrels per day in FY 1988 and has steadily declined since. In FY 2005, ANS production averaged 0.917 million barrels per day, and we project FY 2006 production to decrease by 5.6% to 0.865 million barrels per day. FY 2006 ANS production has been affected by more than normal unplanned maintenance.

This production forecast has been revised since our spring 2005 forecast. We anticipate Fiord, Fiord-Kuparuk, Nanuq and Nanuq-Kuparuk will add almost 17,000 barrels per day in FY 2007. The National Petroleum Reserve-Alaska (NPR-A) and Liberty will add 55,000 barrels per day by FY 2011. We are also forecasting 10,000 to 40,000 barrels per day from additional known onshore and offshore fields starting in FY 2008.

More discussion of the fall 2005 oil production forecast can be found in Section 4, Oil Revenue. Also, a detailed field-by-field production forecast is included in the appendices section of this forecast.

We continue to present the ANS production forecast in three parts: (1) currently producing, (2) currently under development and (3) currently being evaluated for development. We do this so that the reader will have an understanding about the uncertainty associated with the production forecast. We continue to forecast production of those reserves that have already been discovered and at minimum are being evaluated for development. Overall, the decline in crude oil production average is about 1.2% per year between FY 2005 and FY 2016.

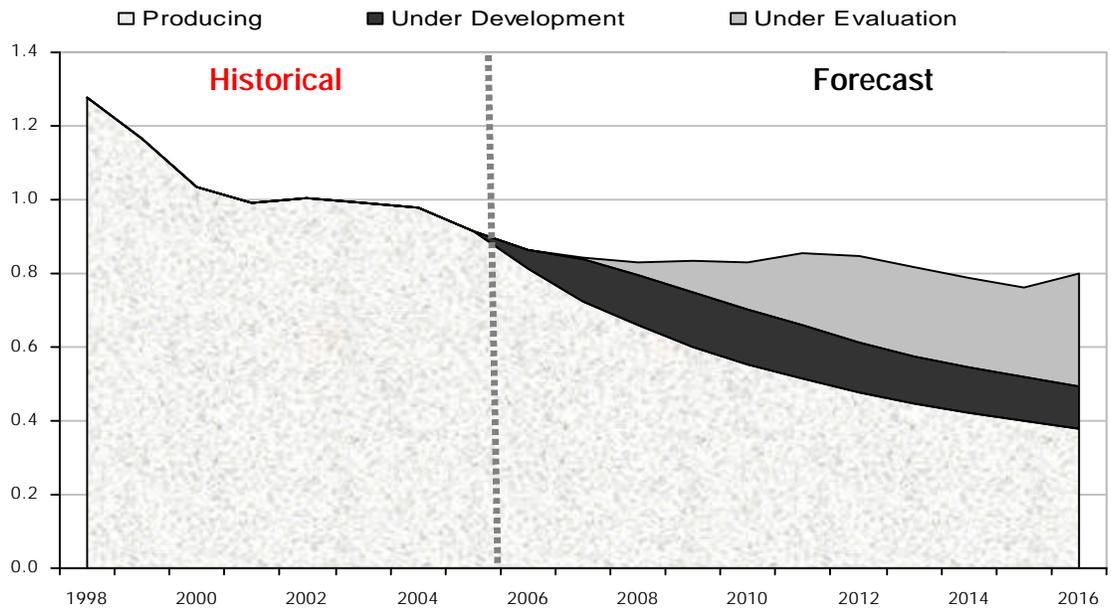
### 2-8. Alaska North Slope Production, FY 2005 and Forecasted FY 2006-2016 <sup>(1)</sup>

Million barrels/day

Fiscal Year	Currently Producing	Under Development	Under Evaluation	Total ANS
2005	0.917	.	.	0.917
2006	0.815	0.051	.	0.865
2007	0.724	0.114	0.005	0.843
2008	0.658	0.138	0.035	0.832
2009	0.602	0.146	0.086	0.834
2010	0.555	0.149	0.128	0.832
2011	0.514	0.145	0.194	0.853
2012	0.479	0.136	0.231	0.845
2013	0.449	0.127	0.242	0.818
2014	0.423	0.121	0.244	0.789
2015	0.400	0.118	0.244	0.762
2016	0.380	0.114	0.306	0.800

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

**2-9. ANS Production Forecast by Category, FY 1998-2005 and Forecasted FY 2006-2016 <sup>(1)</sup>**  
 Million barrels/day



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

## New Oil Development

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

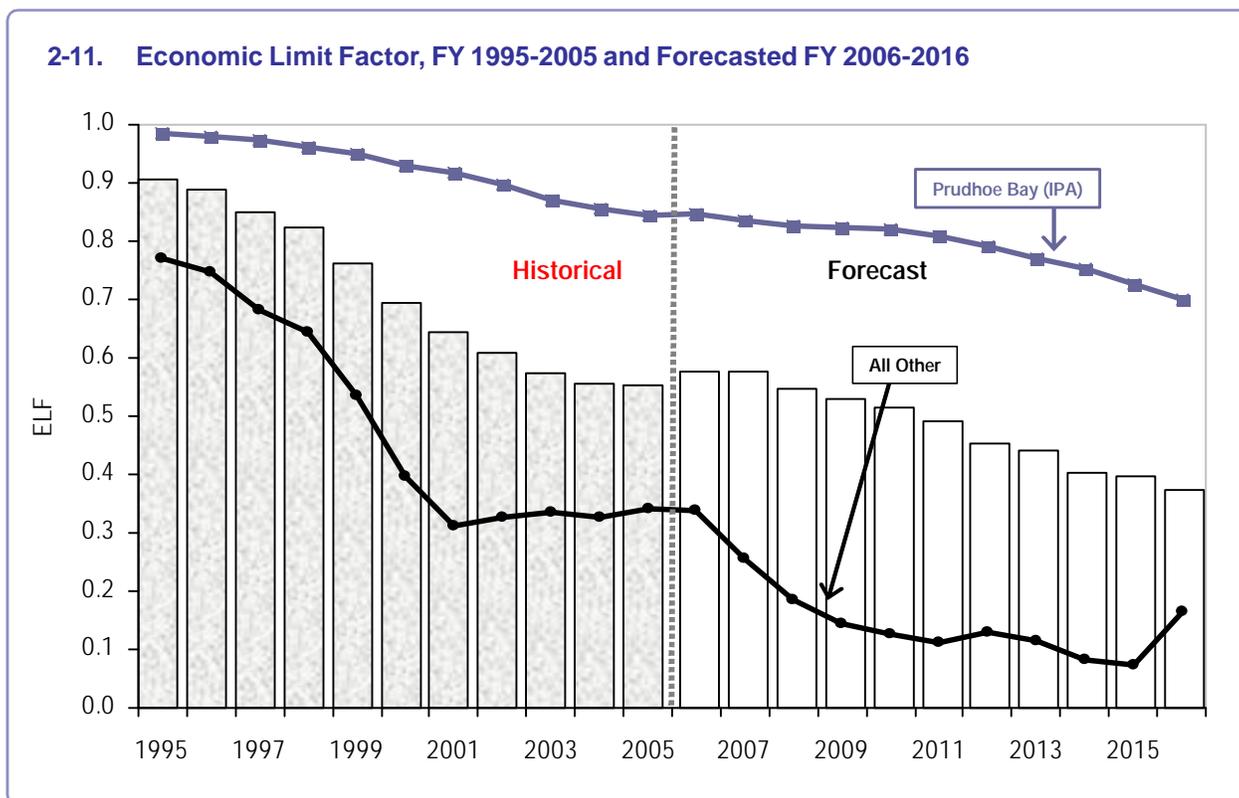
**2-10. New Oil as a Percentage of Total Oil**  
 Million barrels per day

Fiscal Year	Total New Oil	ANS Total	Percent New Oil
2006	0.051	0.865	5.9%
2007	0.119	0.843	14.1%
2008	0.173	0.832	20.9%
2009	0.232	0.834	27.8%
2010	0.277	0.832	33.3%
2011	0.339	0.853	39.8%
2012	0.367	0.845	43.4%
2013	0.369	0.818	45.1%
2014	0.366	0.789	46.4%
2015	0.362	0.762	47.5%
2016	0.420	0.800	52.5%

## 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 results in an effective tax rate that is lower than the nominal tax rate on a producing lease or property based on the average rate of production and the average per-well productivity from that field.<sup>(1)</sup> Since oil production rates and well productivity decline over time as an oil field is being depleted, the average effective 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, in general, the average tax rate will continue to fall. The average effective oil production tax rate for North Slope production in FY 1995 was 13.5%; we project it will average 7.5% for FY 2006.



The bars in the figure above illustrate the actual weighted average ELF for North Slope oil production since FY 1995 and our projections of that weighted average through FY 2016. The increase in 2006 and 2007 reflects the effect of the department's January 12, 2005, decision to aggregate seven fields in the Prudhoe Bay Unit for purposes of calculating the ELF which is discussed more fully in Section 4, Oil Revenue.

The ELF of the Prudhoe Bay Initial Participating Area (IPA) is also shown, as well as the average ELF for all of the other North Slope Fields. The increase in the other fields average ELF in FY 2016 represents the impact of the assumed startup of Point Thomson production.

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

## Longer-Term Unrestricted Revenue Outlook

Using the price and volume components developed for this fall 2005 forecast, the table below summarizes the department's forecast of total Unrestricted General Purpose Revenue through FY 2016.

**2-12. Total Unrestricted General Purpose Revenue, FY 2005 and Forecasted FY 2006-2016**  
\$ Million

Fiscal Year	Unrestricted Oil Revenue	Unrestricted Other (except Federal & Investment Revenue)	Unrestricted Investment Revenue	Total Unrestricted Revenue	Percent from Oil
2005	2,849.5	323.5	24.7	3,197.7	89%
2006	3,426.4	358.1	24.7	3,809.7	90%
2007	2,769.9	341.7	27.7	3,139.3	88%
2008	2,196.8	347.4	27.7	2,571.9	85%
2009	1,228.8	350.3	27.7	1,606.8	76%
2010	1,198.0	352.6	27.7	1,578.3	76%
2011	1,143.6	355.5	27.7	1,526.8	75%
2012	1,096.4	359.4	27.7	1,483.4	74%
2013	1,031.1	362.7	27.7	1,421.5	73%
2014	977.1	366.1	27.7	1,370.9	71%
2015	931.1	370.2	27.7	1,328.9	70%
2016	979.2	373.6	27.7	1,380.5	71%

## Spending, Forecasted Revenue and the Constitutional Budget Reserve

The table below reflects 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 \$3,038.4 million going forward for all operating, capital, debt service and lease payments.

### 2-13. Difference Between Unrestricted General Purpose Revenue and General Fund Spending \$ Million

Fiscal Year	Total Unrestricted General Purpose Revenue	General Fund Appropriation	Difference <sup>(1)</sup>
2005	3,197.6	3,046.1	151.5
2006	3,809.7	3,038.4 <sup>(2)</sup>	771.3 <sup>(2)</sup>
2007	3,139.3	3,038.4	100.9
2008	2,571.9	3,038.4	(466.5) <sup>(3)</sup>
2009	1,606.8	3,038.4	(1,431.6)
2010	1,578.3	3,038.4	(1,460.1)
2011	1,526.8	3,038.4	(1,511.6)
2012	1,483.4	3,038.4	(1,555.0)
2013	1,421.5	3,038.4	(1,616.9)
2014	1,370.9	3,038.4	(1,667.5)
2015	1,328.9	3,038.4	(1,709.5)
2016	1,380.5	3,038.4	(1,657.9)

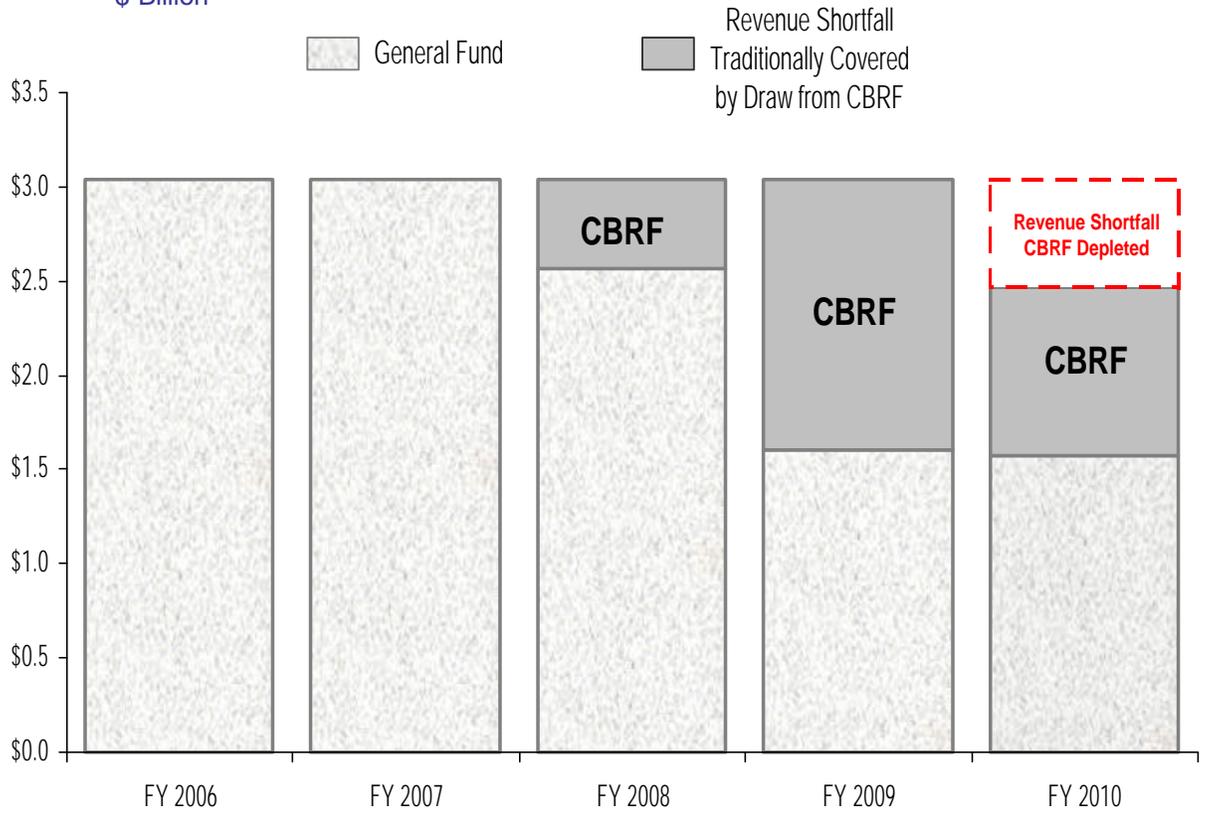
(1) The FY 2006-2016 budget of \$3,038.4 million is simply a reference point for analysis. Proposed general appropriation numbers are from the Office of the Governor, Management and Budget.

(2) The FY 2006 appropriation includes \$414 million in state spending from the Public Education Fund that was capitalized with FY 2005 surplus revenue. As a result, the FY 2006 projected difference is actually \$1,185.3 million.

(3) The CBRF has been tapped in the past to cover projected shortfalls such as this.

**2-14. Revenue Shortfall Projection With Flat \$3,038.4 Million General Fund Appropriation; Shortfall Traditionally Covered by CBRF Draw <sup>(1)</sup>**

\$ Billion



(1) Draws from the CBRF in FY 2008 of \$466.5 million, \$1,431.6 million in FY 2009 and \$891.4 million in FY 2010 deplete the CBRF by February 2010.

As approved by voters in 1990, all receipts from oil and gas tax and royalty settlements are deposited into the Constitutional Budget Reserve Fund (CBRF). The state has deposited about \$5.6 billion into the reserve fund, generating about \$1.7 billion in investment earnings. For 10 of the past 14 years, the state has relied on the CBRF to fill the difference between unrestricted revenue and the annual state budget. Through September 30, 2005, approximately \$5.1 billion had been withdrawn from the CBRF to balance the budget, leaving a balance of \$2.2 billion.

The table below reflects the CBRF depletion matrix and the time period the fund could continue to make up the difference between Unrestricted General Purpose Revenue and the General Fund budget at various oil prices and budget levels. For example, assuming no change in the state’s fiscal system, and if we are correct in our oil price forecast and if we assume a flat total General Fund budget of \$3,038.4 million per year, the CBRF will be exhausted in February 2010.

**2-15. When Would the CBRF Be Gone? <sup>(1)</sup>**

\$Billion Annual State Budget	Fall 2005 Crude Oil Price Forecast <sup>(1)</sup>	Dates When the CBRF Goes to Zero				
		Assumes Crude Oil Prices Remain Unchanged Between FY 2007-2020				
		\$25/bbl	\$35/bbl	\$45/bbl	\$55/bbl	\$65/bbl
\$2.4 billion	Feb-2013	Nov-2009	Mar-2015	Dec-2020	Dec-2020	Dec-2020
\$2.6 billion	Oct-2011	Feb-2009	Jul-2012	Dec-2020	Dec-2020	Dec-2020
\$2.8 billion	Nov-2010	Sep-2008	Oct-2010	Oct-2017	Dec-2020	Dec-2020
\$3.0 billion	Mar-2010	May-2008	Sep-2009	Mar-2014	Dec-2020	Dec-2020
\$3.2 billion	Sep-2009	Feb-2008	Feb-2009	Jan-2012	Jan-2020	Dec-2020

(1) Department of Revenue fall 2005 forecast, Fiscal Driver Model of Oil Revenue and CBRF Performance. Matrix budget and price starts in FY 2007. The department’s fall 2005 ANS price projection of \$49.20 per barrel is used for FY 2007, \$40.95 per barrel for FY 2008 and \$25.50 per barrel for FY 2009-beyond. The date Dec-2020 indicates that the CBRF does not run out during matrix timeframe.

# 3.

## On the Horizon – Natural Gas

This is the inaugural edition of our natural gas pricing forecast. As our Fall 2005 Revenue Sources Book goes to print, natural gas prices at the Henry Hub, a point on the nation's natural gas pipeline system, reached \$14.25 per million British Thermal Units (BTU), a 53% increase over this time last year. In fact, prices for natural gas have reached all time highs since they began their rise in early 2000, pushed to these levels by several factors, including an increase in demand and a relatively stagnant U.S. supply. As Federal Reserve Board Chairman Alan Greenspan warned in his 2003 address to the U.S. Committee on Energy and Commerce, "Today's tight natural gas markets have been a long time in coming, and futures prices suggest that we are not apt to return to earlier periods of relative abundance and low prices anytime soon."<sup>(1)</sup>

The State of Alaska is embarking on the development of its natural gas resources in negotiations with private companies that will develop and transport natural gas to markets. To help the reader be more informed about natural gas, this section is intended to highlight some of the key issues surrounding natural gas supply, demand, regulation and pricing.

Over the past 25 years, worldwide consumption of natural gas has nearly doubled, increasing from just over 50 trillion cubic feet (tcf) to about 96 tcf per year. Natural gas consumption in the U.S. accounts for about 23 tcf of the worldwide total, and the U.S. Department of Energy predicts that the nation's usage could reach 31 tcf by 2025, a 35% increase over current consumption. This upward trend in natural gas demand may be attributed to several factors, including a continued emphasis on using cleaner burning fuels. Not to be overlooked, however, are the impacts that 60 years of regulation had on the natural gas industry, and how the relatively recent lifting of those regulatory controls has directed natural gas development onto a new and different course.

(1) Testimony of Federal Reserve Board Chairman Alan Greenspan before the Committee on Energy and Commerce, June 10, 2003.

## A Brief History of Natural Gas Regulation

The natural gas industry has been subject to various levels of regulation since the 1930s. The Natural Gas Act, passed by Congress in 1938 as a means to prevent possible abuses by what the government feared could be a monopolistic industry, imposed regulations and restrictions on the price of natural gas to consumers. Over time, these controls increased demand for natural gas, attracting consumers who were lured by the artificially low prices. But the controls also had a negative effect on the supply side of the market—producers selling at or below cost had no incentive to find or develop additional gas resources. Not surprisingly, this supply/demand imbalance took its toll, resulting in natural gas shortages throughout the country. By the 1970s, the natural gas supply shortage was so severe in non-gas producing states that many factories had to close because they could not purchase sufficient gas supplies to run their facilities.

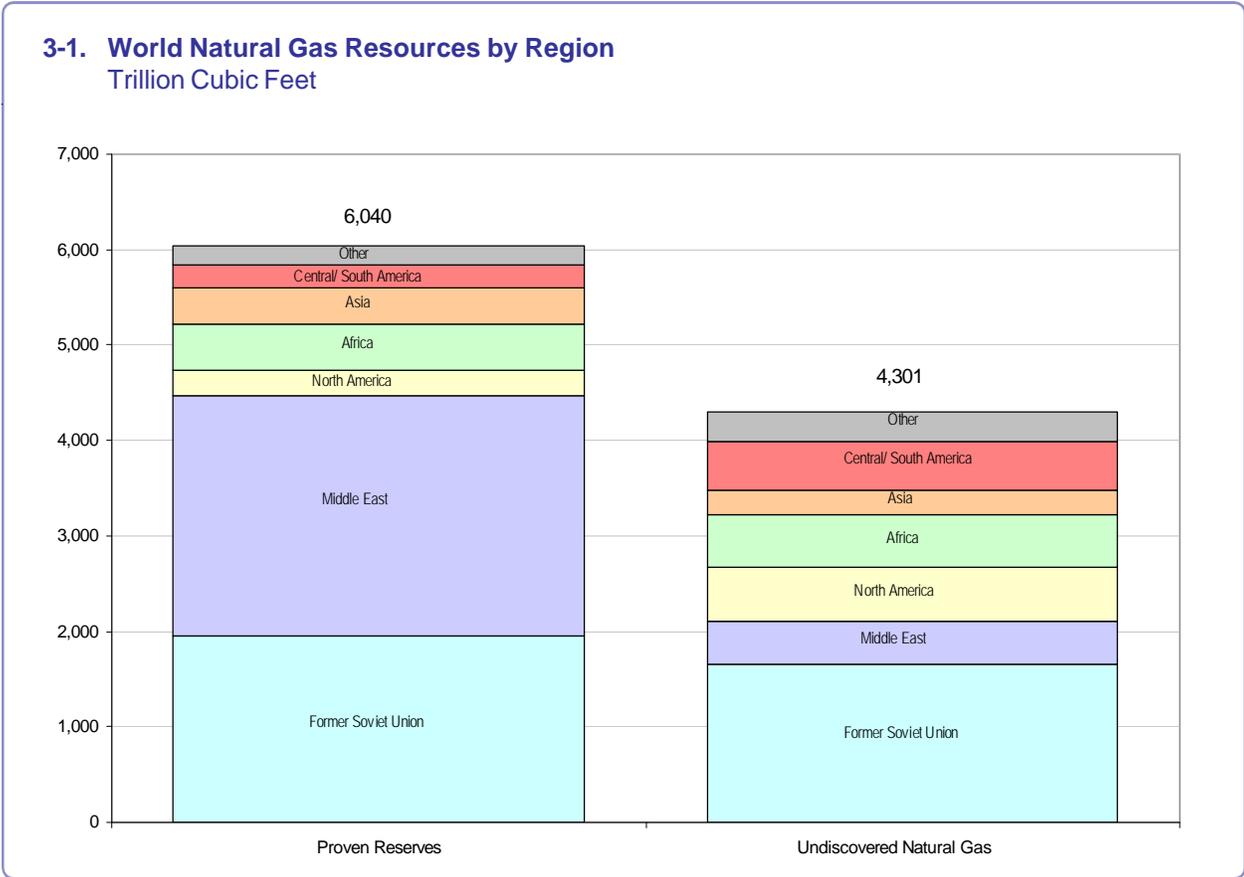
It was this supply crunch that led federal government officials to begin loosening the reins on the industry. The Natural Gas Policy Act of 1978, among other things, instituted a scheme for the gradual lifting of wellhead price controls, with complete deregulation of wellhead prices for new gas production by 1985. This act, and further regulatory reforms passed in the late 1980s and the 1990s, resulted in a strengthening of the natural gas market, which in turn led to increased efficiency and technological improvements for developing and delivering gas resources. The 1990s saw significant improvement in the stabilization of the U.S. natural gas market, and with it, a substantial increase in natural gas usage, particularly in the industrial sector of the economy.

## High Natural Gas Prices of the 2000s – Another Supply Crunch?

For close to 20 years following the initial steps towards deregulation, natural gas prices stayed within a fairly steady price range of \$2-\$4 per million BTU. In 2000, however, gas prices began their initial climb, approaching \$9 per million BTU late in the year. Although there was some reprieve from the high prices in 2002, natural gas prices resumed their upward surge, exceeding \$14 per million BTU in the fall of 2005, leaving price-shocked consumers to wonder whether the world is running out of gas.

By most accounts, the world is not running out of gas, although the circumstances surrounding today's high prices can be attributed to a supply crunch of sorts. The U.S. Department of Energy estimates that proven reserves of natural gas worldwide total around 6,000 tcf. At today's level of consumption, these reserves would be enough to last over 60 years. But proven reserves are only part of the gas reserve picture. The U.S. Geological Survey (USGS) provides estimates of *undiscovered* gas resources—which include those for which there is a likelihood of being discovered based on geology and field experience, and those which are currently known, but not proven.

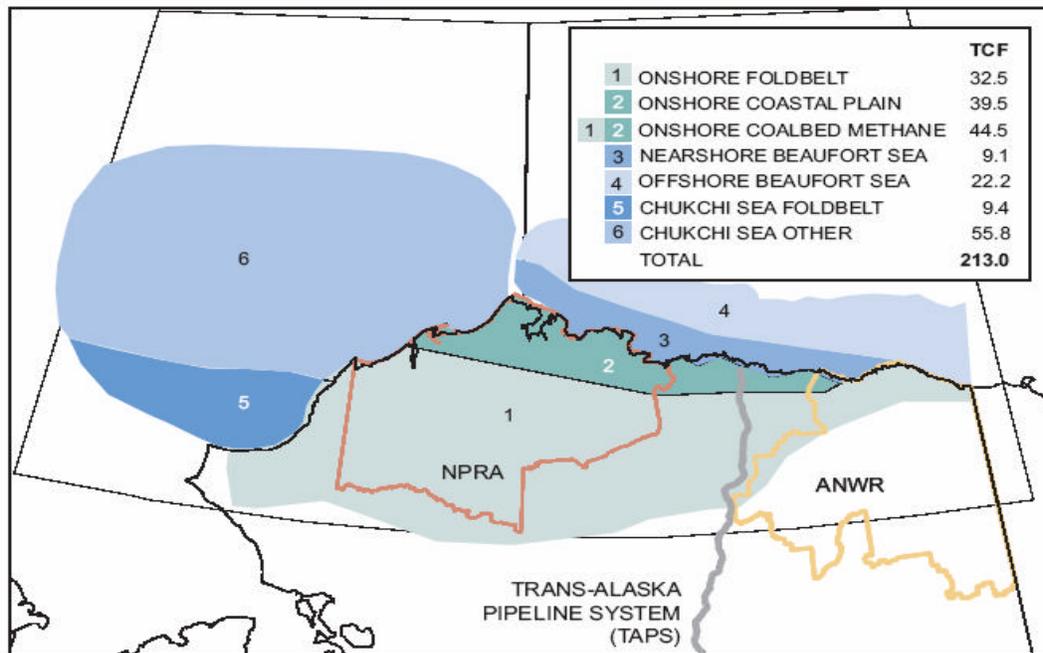
According to the most recent USGS estimate, an additional 4,300 tcf of natural gas fall into the undiscovered reserves categories, bringing the total of proven and undiscovered reserves to 10,300 tcf. As can be seen from the graph below, the vast majority of the proven and undiscovered natural gas resources are located in the former Soviet Union and the Middle East.



On a national level, Alaska’s natural gas resources are significant and total about 35 tcf. When compared with the U.S. proven gas reserves of 189 tcf, Alaska’s gas represents about 18% of the country’s natural gas reserves. The undiscovered gas resource potential in Alaska is considerably higher, with reserve estimates of 213 tcf, when unconventional and offshore resources are included.<sup>(1)</sup>

(1) National Petroleum Council, "Balancing Natural Gas Policy," September, 2003, Chapter 4, p. 202.

### 3-2. Northern Alaska's Undiscovered Natural Gas Resource Potential



Source: National Petroleum Council

## Moving Natural Gas to Markets

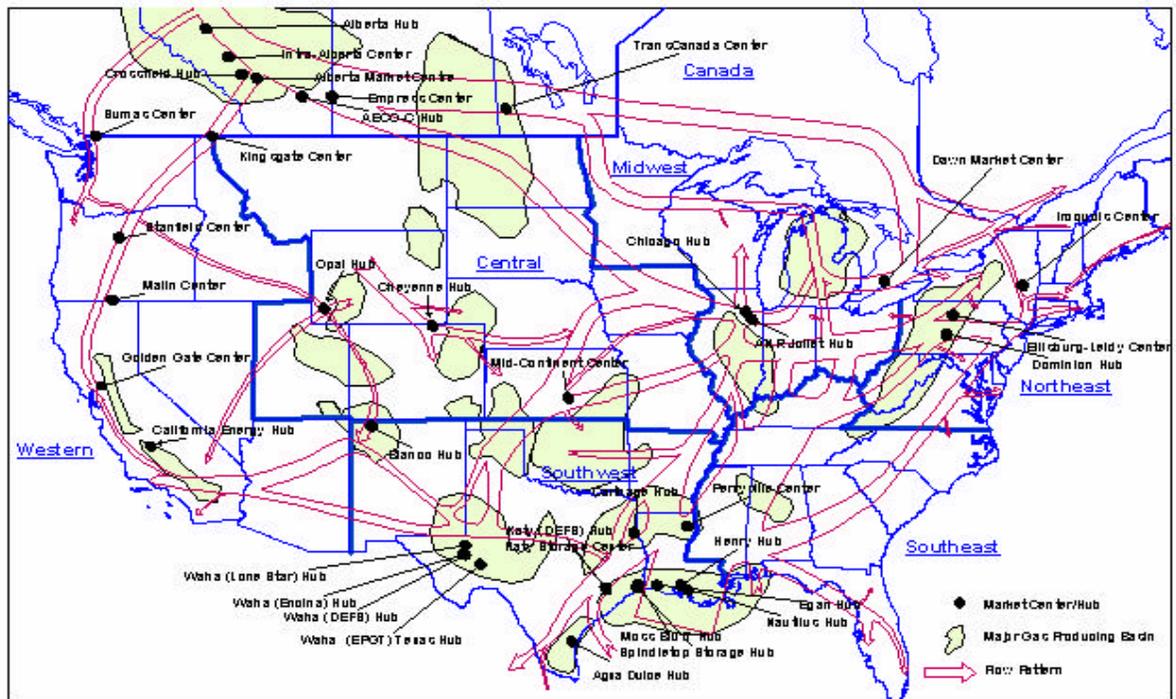
So if the demand for natural gas is strong, and there are ample supplies to balance that demand, why is natural gas still so expensive? Geography can partially explain this phenomenon. Many of the world's big gas fields are located in remote areas, away from market centers, in the same way that Alaska's gas sits thousands of miles away from lower 48 markets. Some gas fields, although not remotely located, are separated from the big consuming countries by oceans or by politically or geographically unstable regions. The simple task of transporting these reserves to markets often involves substantial financial commitments on the part of developers in addition to the expected engineering, permitting and construction obstacles.

There are currently two primary methods of transporting gas to markets. The most predominant means of gas transportation is through natural gas pipelines. At present, about 95% of the gas the world consumes is delivered via pipeline. The other primary method of transporting gas is by sea through the use of large specially-designed tankers. Natural gas delivery by tanker involves liquefying the gas prior to tanker loading, and regasifying it upon arrival. Depending on the distance the gas must travel, and the topography between the source and the market, transporting natural gas via pipeline is generally the less expensive of the two methods.

Nearly all the natural gas that enters the U.S. market, whether domestically produced or imported, eventually finds its way into the country's underground natural gas pipeline network. This network consists of over a million miles of transmission and distribution pipelines that carry gas to manufacturers, businesses and residences. Some thirty natural gas market centers, called "hubs," are part of the vast pipeline system, located at major pipeline intersections throughout the U.S. and Canada. In addition to linking gas to smaller distribution pipelines, these hubs serve as regional pricing centers. The Henry Hub in Louisiana is one of the most widely known natural gas hubs, in part because it is the hub for which futures contracts for gas are traded on the New York Mercantile Exchange (NYMEX). The Chicago Hub serves Midwest markets and is linked with three pipelines that transport gas from the Henry Hub. For this reason, spot prices at the Chicago Hub are often compared with prices at the Henry Hub.

The country's natural gas hubs and transportation corridors are shown in the graph below.

### 3-3. U.S. Natural Gas Hubs and Transportation Corridors



DEFS = Duke Energy Field Services Co.; EPFT = EPGT Texas Pipeline Co.

Source: Energy Information Administration, GasTran Gas Transportation Information System, Natural Gas Market Hubs Database, August 2003.

## Demand for Alaska's Natural Gas

The cost to build a natural gas pipeline to bring Alaska's gas reserves to market is expected to be \$20 billion and the project would take a number of years to complete from the day an agreement is reached. Under this scenario, Alaska gas would not reach markets until after 2012. An important consideration for any project of this magnitude is whether sufficient demand will exist upon the project's completion.

In its most recent forecast, the U.S. Department of Energy predicts that natural gas consumption in the U.S. alone will increase at an average annual rate of 1.3% reaching about 31 tcf by 2025. Outside of the U.S., emerging economies in China, India and Brazil are expected to drive worldwide consumption increases, with consumption in 2025 projected to be 156 tcf—60% more than the current worldwide consumption of 96 tcf.

With prices at all time highs and demand on the rise, it is likely that Alaska gas will have to compete with gas from other projects currently under development around the world. The Federal Energy Regulatory Commission has recently granted approval for the construction of additional U.S. terminals to receive Liquefied Natural Gas (LNG) from countries that want to supply our markets. Although LNG currently accounts for only 1% of the U.S. natural gas supply at 0.5 tcf per year, imports of LNG are expected to rise to 6.4 tcf in 2025—a 12-fold increase. An influx of LNG on the U.S. markets could quickly drive down prices, making Alaska's project less attractive than it is at today's gas prices.

Other factors that could influence the price of gas include the price of alternate fuels. Coal is generally cheaper than natural gas on an energy-equivalent basis, and given the country's substantial coal reserves, it is conceivable that there could be renewed interest in building electricity generating plants that use coal instead of gas. Fuel oils are also directly in competition for the gas market, as power generating plants are often equipped with "dual-fired" systems that can run on either natural gas or liquid fuel oils. During periods of high natural gas prices, these consumers may substitute lower priced fuel oils for their energy needs. Industry observers note that there appears to be a correlation between natural gas prices and oil prices, due in part to the fuel switching capabilities of these users.

Some industries, such as petrochemical manufacturers, are particularly vulnerable to high gas prices because of their reliance on natural gas for feedstock as well as for energy generation. In fact, the petrochemical industry in the U.S. has been shrinking for years due to competition from foreign producers. Additional contractions in the petrochemical sector combined with the substitution of coal or other fuels for power generation could severely impact natural gas demand and drive down prices.

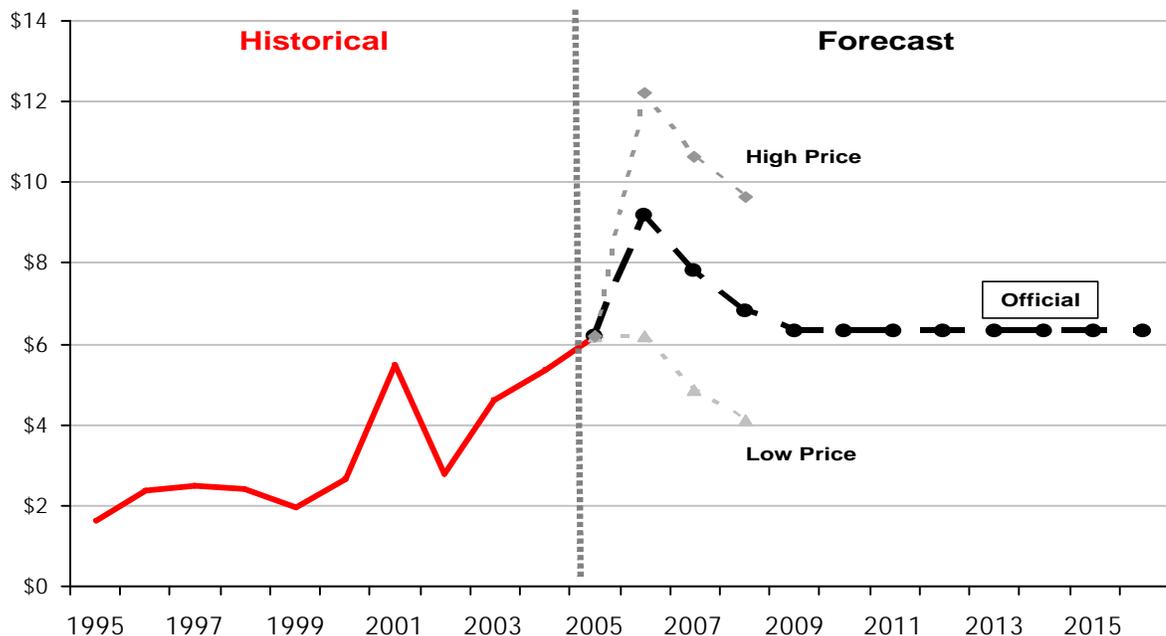
This fall, the Department of Revenue prepared its first natural gas price forecast. Based on a review of historical prices, market trends and other published forecasts, the Henry Hub and Chicago City Gate natural gas price forecast shown below was a product of a formal price scenario meeting held this past October.

**3-4. Natural Gas Price Forecast, FY 2005, Forecasted FY 2006-2008 and Long Term**  
Nominal Dollars per Million BTU

Fiscal Year	Henry Hub	Chicago Gate	Differential
2005	\$6.18	\$6.16	(0.02)
2006	\$9.19	\$9.12	(0.07)
2007	\$7.79	\$7.76	(0.03)
2008	\$6.79	\$6.76	(0.03)
Long-Term Forecast	\$6.28	\$6.25	(0.03)

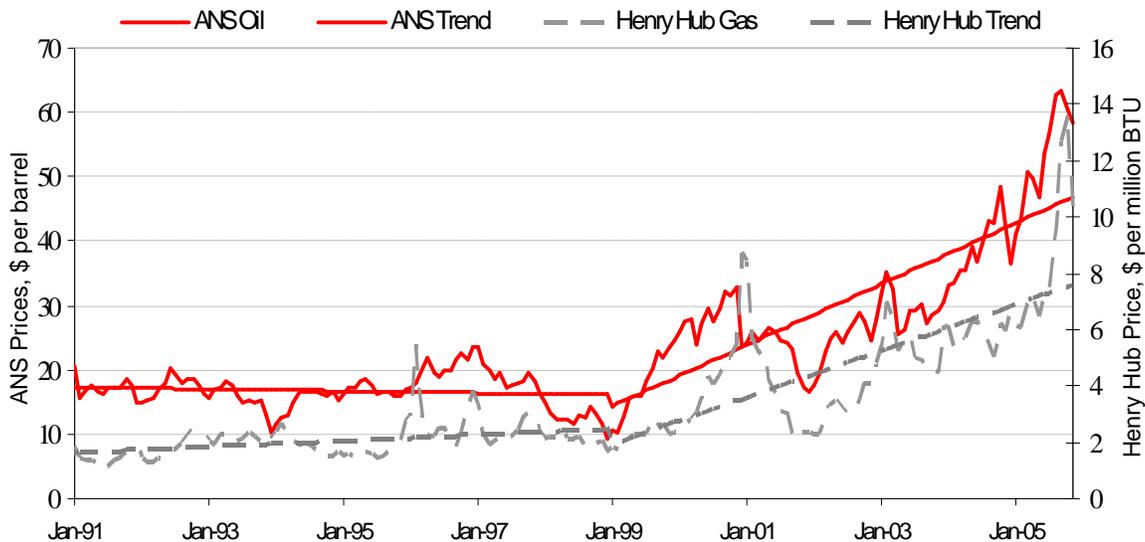
Natural gas prices remained within a fairly steady price range of \$1.60 to \$2.60 per million BTU until FY 2001, when prices more than doubled, reaching \$5.47 per million BTU. The uncharacteristically volatile trend that evolved since that time has made natural gas prices extremely difficult to predict. Our forecast anticipates that natural gas prices will continue to exhibit some volatility in the short-term, but that they will level off over time as additional supplies become available. The graph below presents these three different scenarios for future natural gas prices.

**3-5. Fall 2005 Official, Low and High Natural Gas Price Forecast**  
Nominal Dollars per Million BTU



## Is There A Relationship Between Crude Oil and Natural Gas Prices?

3-6. Monthly Nominal ANS Crude Oil and Henry Hub Natural Gas Prices

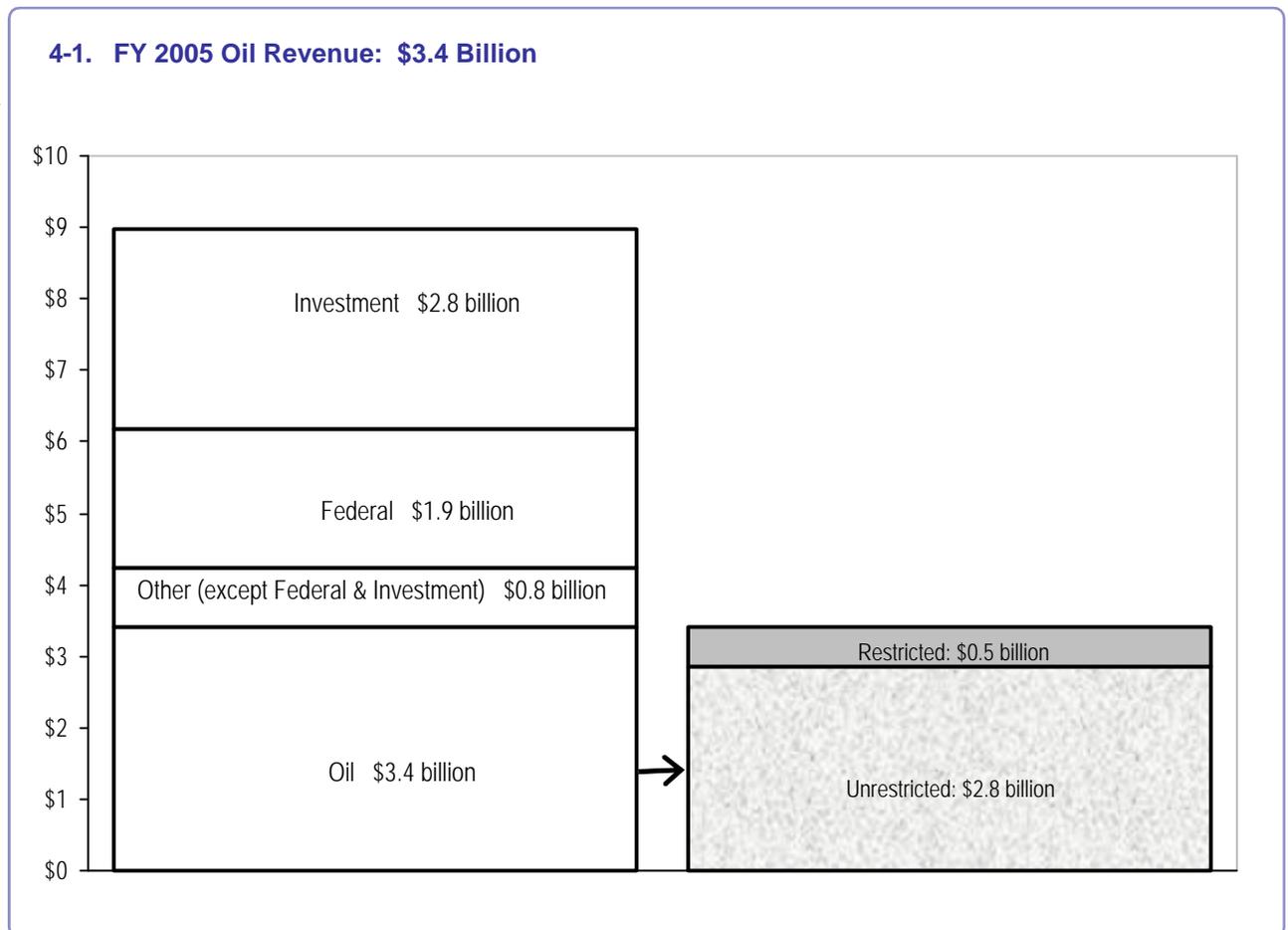


Since natural gas cannot easily be shipped except via pipeline, natural gas prices are set in the North American market, while oil prices are set on the world markets. Natural gas and oil can be substituted for one another, given enough time and money to replace equipment. Unsurprisingly, then, there is a relationship between natural gas prices and oil prices. Changes in oil prices usually precede similar changes in natural gas prices, and seem to drive the natural gas prices, as the graph above shows. The difficulty lies in determining the underlying causes for this pattern, and the extent to which oil prices might be used to predict natural gas prices.

Figure 3-6 shows ANS Crude and Henry Hub natural gas prices, and their trend lines. Before 2000, a combination of regulation, adequate supply and moderate demand kept North American gas prices low. Natural gas prices trended slowly upwards during that period, as environmental regulations caused an increase in demand. Environmental regulations and low prices both worked to encourage more use of clean-burning natural gas rather than oil or coal. In contrast, world oil prices were trending slightly downward during this period.

As the figure shows, natural gas prices and oil prices began to trend upwards around 1999-2000. The rising gas prices followed Federal Energy Regulatory Commission Order 637 in early 2000 which substantially deregulated the gas industry. The up-trend in natural gas prices was enabled by the regulation change, but was caused by the combination of few new supplies, a result of years of low prices relative to oil and by the increasing demand, mentioned above. The rapidly increasing oil prices during that period also seem to have exerted an upward pressure on natural gas prices. The volatility of natural gas prices have also increased significantly during this period.

# 4. Oil Revenue



**4-2. Total Oil Revenue, FY 2005 and Forecasted FY 2006-2007**

\$ Million

	History	Forecast		
	FY 2005	FY 2006	FY 2007	
<u>Unrestricted</u>				
Property Tax	42.5	42.5	36.7	
Corporate Income Tax	524.0	525.1	444.1	
Production Tax	863.2	1,130.8	891.6	
Royalties (including Bonuses & Interest)	<u>1,419.8</u>	<u>1,728.5</u>	<u>1,397.5</u>	
Total Unrestricted Oil Revenue	2,849.5	3,426.9	2,769.9	
	\$ change from prior period	795.4	577.4	(657.1)
	% change from prior period	38.7%	20.3%	(19.2%)
<u>Restricted</u>				
Royalties to Permanent Fund & School Fund	486.5	589.9	474.9	
Tax Settlements to CBRF	27.4	20.0	20.0	
NPR-A Royalties, Rents and Bonuses	<u>31.6</u>	<u>2.9</u>	<u>12.6</u>	
Total Restricted Oil Revenue	545.5	612.9	507.5	
	\$ change from prior period	172.8	67.4	(105.4)
	% change from prior period	46.4%	12.3%	(17.2%)
Total Oil Revenue	3,395.0	4,039.8	3,277.3	
	\$ change from prior period	968.2	644.8	(762.5)
	% change from prior period	39.9%	19.0%	(18.9%)

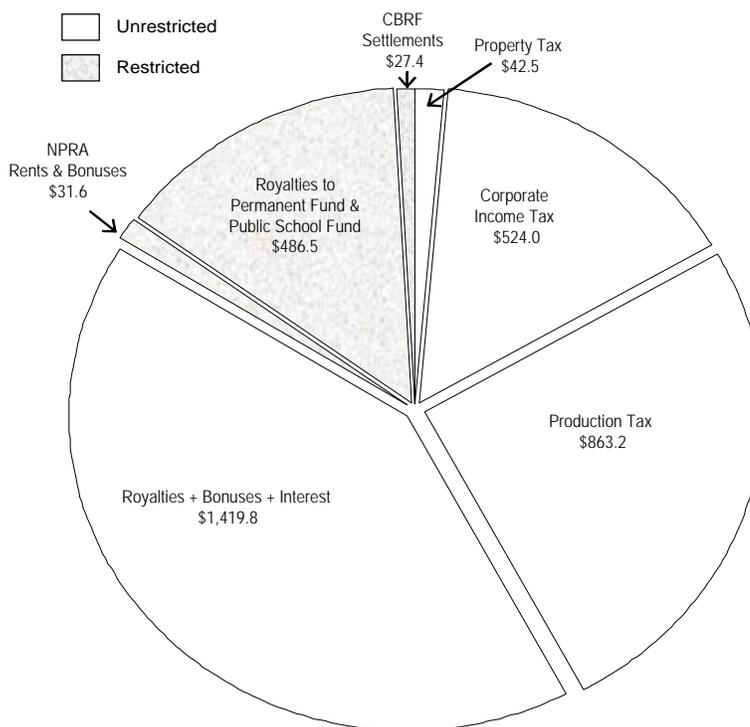
## General Discussion

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

The figure on the next page shows the actual amount of each tax and royalty source in FY 2005. As can be seen from the figure, royalties and the production tax constitute the largest part—67.2%—of restricted and unrestricted oil revenue combined. This section begins with a discussion of these two revenue sources, both of which are driven by price and volume. We then review the price forecasting methodology that underlies this biannual report, as well as explore how market prices determine wellhead value. We also review our production forecast, and close this section with a discussion of oil and gas property taxes, oil and gas corporate income taxes and the restricted portions of oil revenue.

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

#### 4-3. FY 2005 Oil Revenue by Category: \$3,395 Million



## Unrestricted Oil Revenue

#### 4-4. Unrestricted Oil Revenue Forecasted, FY 2006-2016 \$ Million

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Property Tax	42.5	36.7	36.2	36.2	35.6	34.4	34.1	33.9	33.6	33.6	33.1
Corporate Income Tax	525.1	444.1	354.3	191.5	187.9	190.7	189.1	184.9	182.9	177.8	184.6
Production Tax	1,130.8	891.6	714.8	399.7	385.2	360.5	338.8	309.9	283.9	266.5	286.1
Royalties (1)	1,728.5	1,397.5	1,091.5	601.4	589.3	558.0	534.4	502.3	476.6	453.2	475.4
<b>Total Oil Revenue</b>	<b>3,426.9</b>	<b>2,769.9</b>	<b>2,196.8</b>	<b>1,228.8</b>	<b>1,198.0</b>	<b>1,143.6</b>	<b>1,096.4</b>	<b>1,031.1</b>	<b>977.1</b>	<b>931.1</b>	<b>979.2</b>
\$ change from prior period	577.4	(657.1)	(573.1)	(968.0)	(30.8)	(54.4)	(47.2)	(65.3)	(54.0)	(46.0)	48.1
% change from prior period	20.3%	(19.2%)	(20.7%)	(44.1%)	(2.5%)	(4.5%)	(4.1%)	(6.0%)	(5.2%)	(4.7%)	5.2%

(1) Includes bonuses and interest

## Crude Oil and Natural Gas Production Taxes

All oil and gas production in Alaska — except the federal and state royalty share — 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 crude oil. All of these taxes are collected on a monthly basis.

### Crude Oil Production Tax

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

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

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

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

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

The ELF formula 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.

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

The department recently aggregated seven fields in the Prudhoe Bay Unit. The decision to aggregate focused on, among other things, the increasing interdependence found in the engineering and operation of the fields. As of March 2005, Prudhoe Bay taxpayers had appealed the decision.

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

## Natural Gas Production Tax

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

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

$$\text{ELF} = 1 - (3,000/\text{PPW})$$

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

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

The taxable value of natural gas depends on the location of its disposition and its use. For Cook Inlet production, the value for gas sent to Japan as LNG is based on the sales price in Japan less marine, processing and pipeline costs; the value for sales to the Nikiski fertilizer plant is indexed to the current market price of anhydrous ammonia; the value for sales for local use is based on the average sales price for the contracts in effect each month.

## 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 2005, so the surcharge was 3 cents per barrel for the entire fiscal year.

## Oil Royalties

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

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

State oil and gas leases provide that the state may take its oil royalty in barrels (in-kind) or as a percentage of the production value (in-value). In 2004, the state took approximately 63,600 barrels per day of North Slope production in-kind and sold it to the Williams Alaska Petroleum Company and its successor, Flint Hills Resources, for their refinery in North Pole. The state's royalty share of Alaska North Slope production amounts to about 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 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 session that includes state economists and financial professionals from the Department of Revenue, Department of Natural Resources, Department of Labor, the Governor's Office of Management and Budget and the University of Alaska.

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

## Oil Price Forecast

Oil prices have continued to climb since our last forecast and 2005 witnessed volatility in crude oil prices not seen since the Persian Gulf War in 1990.<sup>(1)</sup> The price of ANS crude at west coast markets remained above \$60 per barrel for eight consecutive weeks starting in August 2005. Worldwide demand, although not increasing at the rapid pace experienced in 2004, has nonetheless grown, utilizing most production capacity. In fact, the lack of spare capacity is one of the reasons prices have been volatile and also the reason many believe future prices could rise. Record high oil prices and concerns about Middle East supplies have softened demand growth slightly, but global oil demand in 2005 is still expected to see a net increase of 1.5% over 2004 levels.

### **A Brief Review of Petroleum-Related Events**

- In August and September 2005, hurricanes Katrina and Rita caused widespread destruction in the gulf states and disrupted production and refineries in the Gulf of Mexico. Crude prices soared to their highest level (in nominal terms) in U.S. history. Hurricane-affected regions experienced shortages of refined products, most notably gasoline, and many gas stations were unable to secure ample fuel supplies.
- In response to the petroleum shortages brought on by the hurricanes, the International Energy Agency (IEA) announced its intention to release up to 60 million barrels of oil, gasoline and refined products from the reserves of its 26 member nations. This was the first time in fifteen years that the IEA has taken such action.
- According to the IEA worldwide oil consumption is expected to grow about 1.26 million barrels per day in 2005, an increase of 1.5% over the prior year. China's demand growth should slow to 3.2% in 2005, following the country's unprecedented demand growth of 15.4% in 2004. Demand growth projections for other areas of the world have been moderate in 2005, with the exception of the Middle East, where oil demand is expected to be 5% higher than it was in 2004.
- The IEA estimates that crude oil production from countries that are not members of the Organization of the Petroleum Exporting Countries (OPEC) in 2005 will decrease slightly from 2004 levels, due in part to the storms that hampered production in the Gulf of Mexico, and to both scheduled maintenance and unscheduled work stoppages in the United Kingdom and Norway.
- OPEC crude oil production quotas (excluding Iraq) were raised from 27.5 million barrels per day in March 2005 to 28 million barrels per day in July 2005, and world oil prices continued to rise. In a September 2005 meeting, OPEC members agreed to make its spare capacity available to markets for the three months of October, November and December 2005.

(1) Volatility is measured by the standard deviation, the most commonly used measure of risk in the investment world. Increasing dispersion increases the risk that prices may move farther from the mean. The FY 1990 dispersion was \$6.82 per barrel; for FY 2005, the dispersion is \$7.67 per barrel.

## Short-Term Crude Oil Price Forecast

In nominal dollars, oil prices reached their highest levels ever in August 2005. The spike in oil prices coincided with a sharp increase in the price of gasoline, with gasoline prices exceeding \$3.00 per gallon for the first time in U.S. history. Looking ahead 30 months, continued high prices, especially at the gas pump, could have a dampening effect on demand, as consumers seek ways to reduce their petroleum consumption. Because of price volatility, and to help the reader understand the events that could lead to higher or lower crude oil prices (and consequently more or less revenue for the State of Alaska), we have assembled two oil price scenarios: a low-price scenario with events that would put downward pressure on prices and a high-price scenario that assumes little change from the current high price environment. The components of each scenario are included in the following table.

### 4-5. Fall 2005 Oil Price Scenarios

#### Low-Price Factors

- China's internal economic growth slows as does its export growth and energy consumption.
- U.S. and emerging Asia nations' economies slow more than anticipated in response to higher oil prices.
- OPEC is able to increase production capacity more rapidly than anticipated and it decides to increase production.
- The political unrest in Iraq diminishes and crude oil production and exports increase.
- Investments in the Former Soviet Union, Africa and Canada add to worldwide crude oil production capacity.
- There is a warmer than normal winter.
- Oil and gas production in the U.S. Gulf returns to its pre-hurricane levels earlier than anticipated.
- There is a change in the perception of the oil markets—the new perception is that there is adequate spare crude oil production capacity and refining capacity.

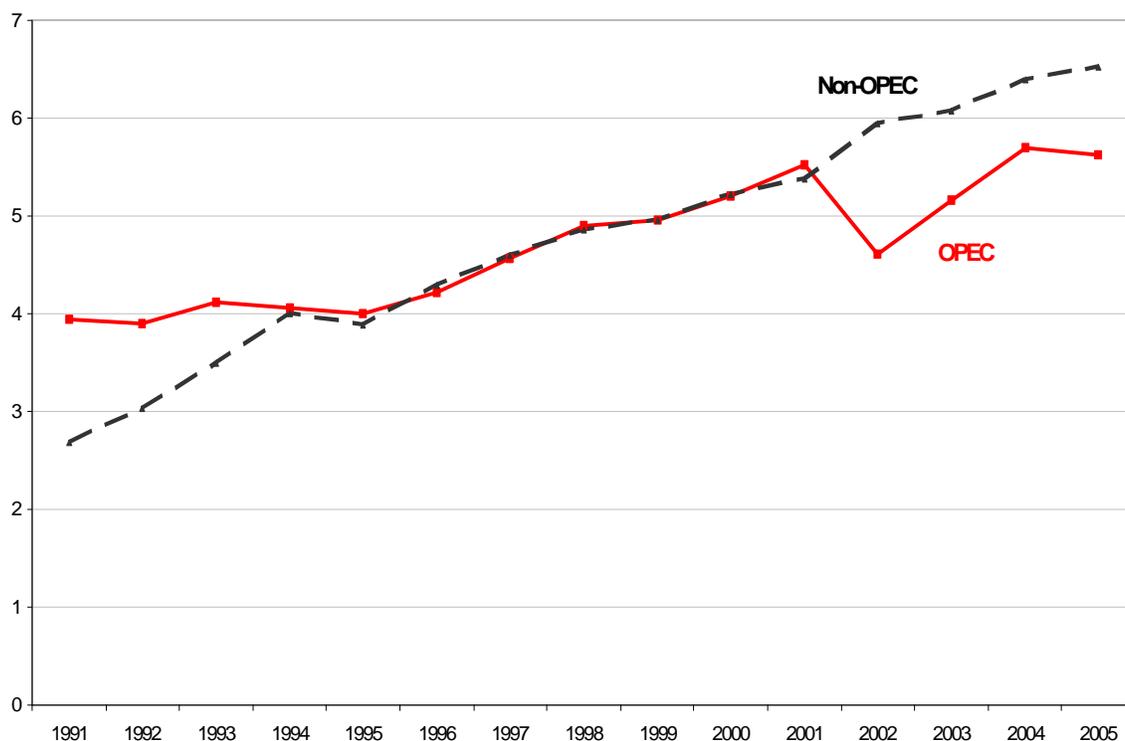
#### High-Price Factors

- The political unrest in the Middle East continues and periodically results in disruptions in production and shipments of oil to global markets.
- Economic growth in China and other emerging economies continues at a robust pace.
- Crude oil production increases by OPEC and non-OPEC suppliers are not able to keep pace with continued robust consumption growth.
- Oil and gas production in the U.S. Gulf is not able to return to its pre-hurricane levels.
- There is a continued perception of a lack of spare crude oil production capacity and refining capacity.

## Global Oil Markets and Events that Contributed to 2005's Oil Price Surge

The countries belonging to the Organization of Petroleum Exporting Countries (OPEC) remain an important source of petroleum for the U.S. and for other countries around the world. A brief review of the last 15 years of U.S. oil import history, however, indicates that non-OPEC imports have been outpacing OPEC imports since 2002. In 2004, oil from OPEC nations accounted for 47% of U.S. imports—a 13% decline from 1991 levels of close to 60%. The following graph illustrates the U.S. oil import changes since 1991.

4-6. U.S. Oil Imports, OPEC and Non-OPEC: 1991-2005



(1) Energy Information Administration; data through July 2005

Recent estimates published by the International Energy Agency show that world oil supply increased from 83.1 million barrels per day (mb/d) in 2004 to 84.3 mb/d in the third quarter of 2005, a 1.4% increase. World oil demand estimates remained relatively steady, going from 82.1 mb/d in 2004 to 82.4 in the third quarter of 2005, an increase of 0.3%. Yet, over this same time period, oil prices in the U.S. rose 52%, from \$41.43 to \$63.05 (monthly WTI prices). In part, the perception that there was a lack of spare crude oil production capacity coupled with a lack of spare refining capacity helped push prices higher.

Also during the third quarter of 2005, hurricanes Katrina and Rita ripped through the major oil refining regions in the Gulf of Mexico, shutting down all or part of operations in 20 refineries. As of October, 20% of the U.S. refining capacity was offline or in the process of restarting operations after sustaining damage caused by the two hurricanes. These outages had an immediate and severe impact on the availability of refined products—particularly gasoline—and combined with the supply anxiety factor, were a major contributor to the already soaring price of oil.

OPEC contends that its production increases of 4.6% since 2004 did little to halt the rise in the price of oil. In a speech delivered by OPEC's acting Secretary General this fall, the cartel suggested that much of the blame for high prices could be attributed to the lack of investment in downstream activities in the U.S. and in other countries. The organization called upon the major oil consuming countries to encourage investment in refinery facilities in order to alleviate the "bottlenecks" that have prevented finished oil products from reaching consumers.

Other materials published by OPEC indicate the organization's intentions to increase production capacity. Assuming Iraq's production remains at 2 million barrels per day, the cartel anticipates its crude capacity to increase to 33.9 million barrels per day by the end of 2006, a 1 million barrels per day increase over year-end 2005 levels. With over 100 new projects coming on line, OPEC expects production to reach at least 38 million barrels per day by 2010, fulfilling what it terms its commitment to expand capacity to meet the demands of the market. The *World Energy Outlook 2005* (the long run outlook published by the IEA in November 2005) has OPEC production at 36.9 million barrels per day in 2010—similar to what OPEC forecasts.

## Current ANS Oil Market Situation

Alaska North Slope crude prices remained high through FY 2005 and surged even higher in FY 2006, reaching \$67 per barrel in late August 2005. The average ANS spot price from March 2005 through October 2005 was \$55.44 per barrel, compared with \$41.50 per barrel from June 2004 through February 2005. The price of benchmark West Texas Intermediate averaged \$58.12 per barrel from March through October 2005, implying an average discount for ANS of \$2.68 per barrel. The last year and a half has seen the WTI-ANS differential vary from about \$1 per barrel in June 2004 to about \$6.50 per barrel in December 2004. The WTI-ANS differential averaged about \$4 per barrel in FY 2005 and has gradually decreased to about \$2 per barrel thus far in FY 2006.

ANS prices track the OPEC price basket of internationally traded crude oils and tend to be priced higher than the basket. The OPEC basket is the benchmark that OPEC uses to gauge prices for the organization. Since January 2000, the average ANS price has been \$1.00 per barrel higher than the average OPEC basket price. ANS typically sells in direct competition with other waterborne crude oils from Latin America, Asia and the Middle East for delivery to U.S. West Coast refiners in Washington, California and Hawaii.

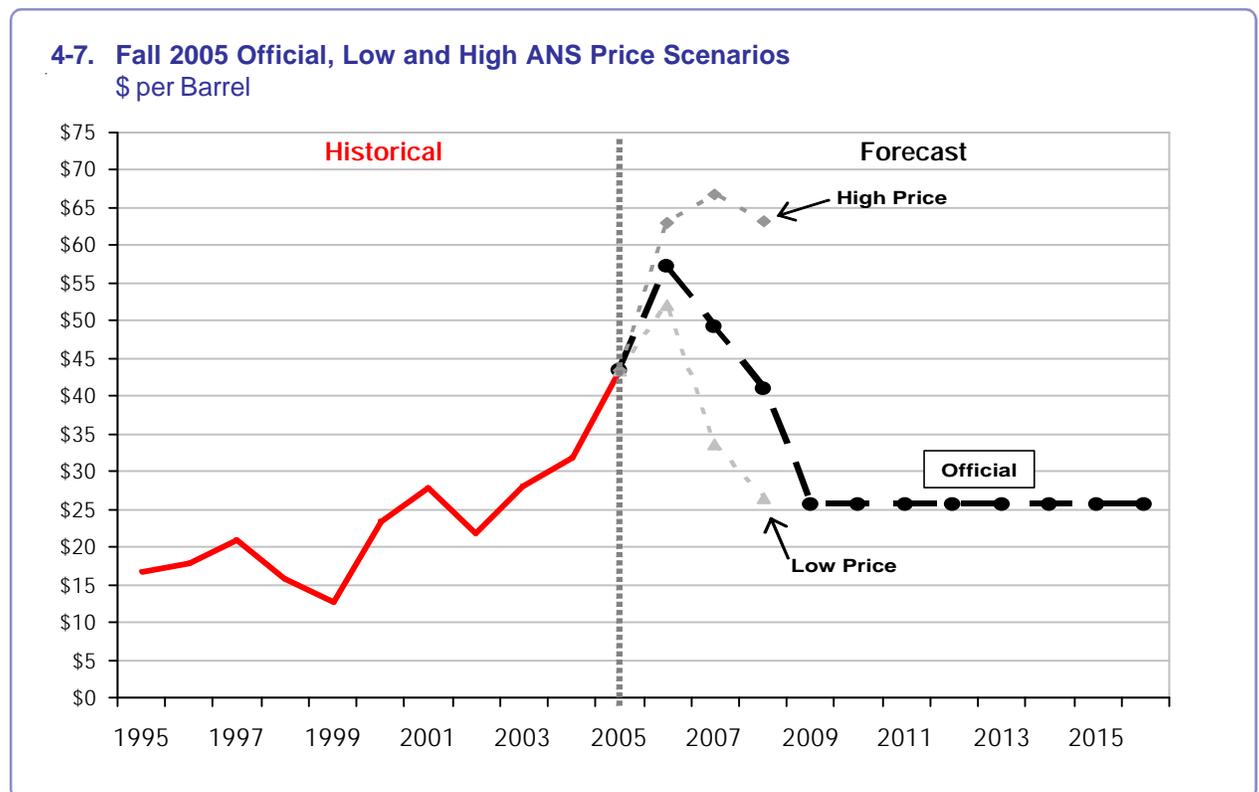
## Prices Over the Longer Term

Average nominal monthly prices for ANS hit an all-time low of \$9.39 per barrel in December 1998. Between 1999 and 2003, the annual price of ANS varied between \$21.78 and \$28.15 per barrel. By July 2004, however, ANS monthly prices topped \$40 a barrel, ushering in the upward trend that continues to date. Some analysts have suggested that the high prices are a signal that we have entered a new era with regard to the cost of energy. Recent prices seem to attest to this theory: on August 5, 2005, the ANS spot price reached yet another milestone—breaking into the \$60 per barrel price range—and then proceeded to remain above \$60 per barrel for eight consecutive weeks. Since the beginning of October, ANS prices have averaged about \$58 per barrel.

Strong growth in worldwide demand for petroleum products, driven by growth in China and other emerging economies, is generally cited as a reason for the high prices that have continued to date. The hurricanes in August and September exacerbated an already high-priced market, disrupting supply and causing product shortages in the storm-affected areas of the country. Other factors, such as political insecurity and changing economic environments (most notably, Iraq, the Middle East, Nigeria, and Venezuela) contributed to oil price volatility. Such uncertainties cloud the path of future ANS prices.

Last fall, we increased our forecast of ANS oil prices over the long term from \$22 to \$25.50 per barrel. We did not change our long-term forecast this fall <sup>(1)</sup> but instead changed the date when the long-run price of \$25.50 per barrel begins from FY 2008 to FY 2009. As usual, we expect some volatility in oil prices in the coming years, but anticipate a market correction in the long run.

For now, we assume global economic growth will remain strong and that oil will continue to be a competitive energy resource. We also believe that the high price environment will encourage OPEC and non-OPEC oil-producing countries to continue to explore ways to increase production from existing facilities and to seek out new production opportunities.



(1) The Department of Revenue protocol is that long-run crude oil price forecasts can only be changed every two years if price forecasting participants agree to a change over the two consecutive fall forecast sessions.

## Other Transportation and Production Costs

### Transportation Costs

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

### Trans-Alaska Pipeline System (TAPS) Tariffs

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

TAPS tariffs are filed on a calendar year basis, with new tariffs taking effect January 1 each year. The tariff filing for calendar year 2005 is \$3.71 per barrel. The fall 2005 forecast assumptions below show projected tariffs for fiscal year 2006-2016.

### Feeder Pipeline and Other Adjustments

Additional transportation costs are also incurred to move the various crude oils that comprise ANS from North Slope production fields to Pump Station No. 1 of the Trans-Alaska Pipeline System. These include both feeder pipeline charges and other cost adjustments to account for the different qualities of oil entering the North Slope pipelines as well as market-location differentials for in-state sales. (See 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 2006-2016.

#### 4-8. Fall 2005 Forecast Assumptions, FY 2006-2016 \$ per Barrel

	<sup>(1)</sup>										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
ANS West Coast price	57.30	49.20	40.95	25.50	25.50	25.50	25.50	25.50	25.50	25.50	25.50
ANS Marine Transportation	1.78	1.83	1.88	1.93	1.98	2.03	2.08	2.13	2.18	2.23	2.28
TAPS Tariff	3.66	3.75	3.64	3.59	3.56	3.58	3.51	3.66	3.83	3.89	3.99
Other Deductions and Adjustments	<u>0.35</u>	<u>0.35</u>	<u>0.40</u>	<u>0.44</u>	<u>0.47</u>	<u>0.55</u>	<u>0.61</u>	<u>0.64</u>	<u>0.67</u>	<u>0.69</u>	<u>0.70</u>
ANS Wellhead	51.52	43.27	35.03	19.54	19.49	19.34	19.30	19.07	18.82	18.69	18.53

(1) FY 2006 includes reported information through September 2005.

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

## Crude Oil Production

For the fall 2005 forecast review we continue to make adjustments to our production expectations from the North Slope. In the near term, we have incorporated revised reservoir performance analysis on declining fields, reviewed the uncertainty associated with the pace and scope of developing satellite fields and re-evaluated unplanned downtime at all fields, especially Prudhoe Bay, resulting in a net reduction, on average, of about 50,000 barrels per day over the next five years. We now forecast ANS production to average about 840,000 barrels per day for FY 2006 through FY 2010.

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

### **Currently Producing**

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

### **Currently Under Development**

Production characterized as “currently under development” is based on new projects currently funded and in the design/construction phase, as well as development drilling and enhanced oil recovery (miscible or immiscible injection) projects currently funded or underway, but not included in the “currently producing” category. It also includes incremental oil expected from the long-term gas cap water injection project at Prudhoe Bay. Examples of production “currently under development” include the Fiord and Nanuq satellites at Alpine, J-Pad development at West Sak, development drilling at Schrader Bluff and certain satellite development at Prudhoe Bay.

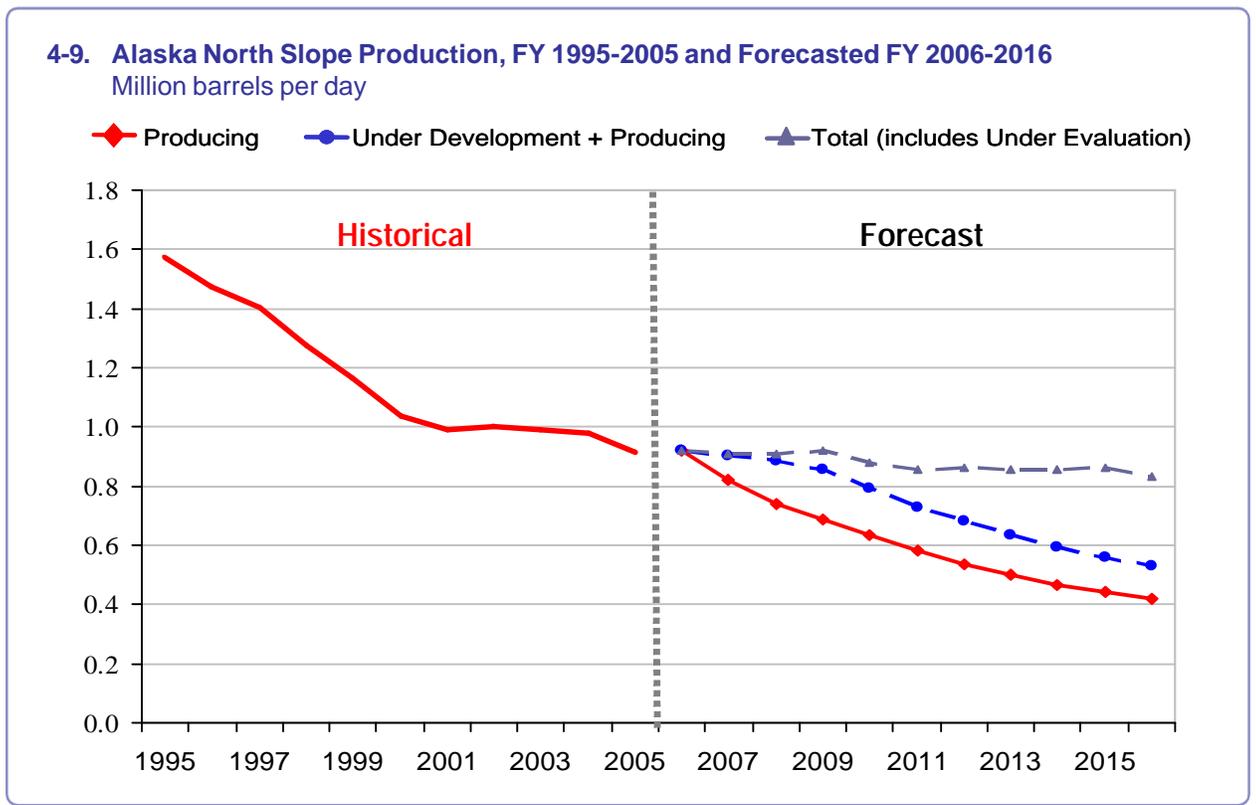
For the fall forecast, we have slowed the pace of development at all heavy oil fields to allow proper mitigation of challenging reservoir performance issues. Because of timing and scope uncertainty, our subjective confidence for this category of production is between 80% and 90%.

### Currently Under Evaluation

Production characterized as “currently under evaluation” includes technically viable projects currently in the “pencil sharpening” stage where engineering, cost, risk and reward are all being actively evaluated. These projects are all currently unfunded by the operators but have a high chance of being brought to fruition. They include enhanced oil recovery at certain satellite fields, development drilling outside the core areas at West Sak and Schrader Bluff, expanded development at Prudhoe Bay satellites Orion, Polaris and Borealis and Alpine West development. Also included in this category is NPR-A development, Point Thomson, Liberty and development of other known onshore and offshore discoveries.

Confidence levels vary for this category of production. Certain heavy oil development drilling for Schrader Bluff in 2006 might have confidence levels approaching that of “production under development”. Offshore developments such as Liberty, or potentially high cost, scope challenged developments such as Point Thomson probably deserve lower confidence, and our subjective assessment is in the 70%-80% range. All production from this category is subject to delays and scope changes that might impact reserves or production rates. Accordingly, we have re-evaluated the scope and timing of the Liberty oil field in the federal Beaufort Sea and the gas condensate Point Thomson field and its associated satellite fields on the eastern North Slope near ANWR. We have delayed first production from Liberty by one year to the fourth quarter of 2011 to allow sufficient time for permitting and constructing an offshore facility and subsea pipeline.

Regarding Point Thomson, we have delayed ultimate production two years until late 2015 due to uncertainty in the scope and timing of commercializing that sizeable hydrocarbon resources. Satellite field development in the vicinity of Point Thomson has also been delayed two years.



**4-10. Alaska Crude Oil and NGL Production, FY 2005 and Forecasted 2006-2007**

Million barrels per day

	History FY 2005	Forecast	
		FY 2006	FY 2007
<b>Alaska North Slope</b>			
Prudhoe Bay	0.381	0.347	0.337
Prudhoe Bay-Satellite <sup>(1)</sup>	0.044	0.046	0.052
Kuparuk	0.142	0.136	0.126
Kuparuk-Satellite <sup>(2)</sup>	0.052	0.044	0.056
Milne Point	0.050	0.044	0.044
Endicott	0.021	0.020	0.018
Lisburne	0.010	0.009	0.009
Point McIntyre	0.037	0.033	0.030
Niakuk	0.009	0.007	0.006
Northstar	0.069	0.056	0.045
Alpine	0.104	0.122	0.105
Nanuq	0.000	0.000	0.006
Fiord	<u>0.000</u>	<u>0.000</u>	<u>0.011</u>
<b>Total ANS</b>	<b>0.917</b>	<b>0.865</b>	<b>0.843</b>
bbl change from prior year	(0.063)	(0.052)	(0.023)
% change from prior year	(6.4%)	(5.6%)	(2.6%)
<b>Cook Inlet</b>	<b><u>0.019</u></b>	<b><u>0.018</u></b>	<b><u>0.017</u></b>
bbl change from prior year	(0.004)	(0.001)	(0.002)
% change from prior year	(16.8%)	(5.1%)	(8.2%)
<b>Total Alaska</b>	<b>0.937</b>	<b>0.884</b>	<b>0.860</b>
bbl change from prior year	(0.067)	(0.053)	(0.024)
% change from prior year	(6.7%)	(5.6%)	(2.8%)

(1) PBU-Satellites include Aurora, Borealis, Midnight Sun, Orion and Polaris.

(2) Kup-Satellites include Tabasco, Tarn, Meltwater and West Sak.

## Petroleum Property Tax

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

### **Exploration Property**

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

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

### **Production Property**

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

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

### **Pipeline Transportation Property**

The full and true value of taxable pipeline property is determined with due regard to the economic value of the property based on the estimated life of the proven reserves of gas or unrefined oil that will be transported by the pipeline. We rely upon several standard appraisal techniques to value Alaska pipelines. When market rents are available, we primarily rely on the income method under which the value is the net present worth of all future income streams of the pipeline. When rents are constrained by the regulatory process or when market rents cannot be obtained, we primarily rely on replacement cost less depreciation based on the economic life of the reserves that feed the pipeline. The Trans-Alaska Pipeline from Prudhoe Bay represents more than 95% of Alaska's taxable pipeline transportation property.

The table on the next page illustrates the property tax distribution between local communities and the state for FY 2005. The property value is assessed by the state. A local tax is levied on the state's assessed value for oil and gas property within a city or borough, and is subject to the local property tax limitations established in AS 29.45.080 and AS 29.45.100. 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.

**4-11. FY 2005, Distribution of the Petroleum Property Tax**  
\$ Million

<u>Municipalities</u>	<u>Gross Tax</u>	<u>Local Share</u>	<u>State Share</u>
North Slope	202.6	192.8	9.8
Unorganized	26.7	0.0	26.7
Valdez	13.0	13.0	0.0
Kenai	11.2	6.8	4.4
Fairbanks	5.5	4.2	1.3
Anchorage	1.6	1.3	0.3
Other Municipalities <sup>(1)</sup>	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>
Total	260.7	218.2	42.5

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

## Petroleum Corporate Income Tax

A petroleum corporation's Alaska income tax depends on the relative size of its Alaska and worldwide activities and the corporation's total worldwide net earnings. The corporation's Alaska taxable income is derived by apportioning its worldwide taxable income to Alaska based on the average of three factors as they pertain to the corporation's Alaska operations (1) tariffs and sales, (2) oil and gas production and (3) oil and gas property. We produce our forecast by estimating the statistical relationship between historical tax payments, crude oil prices, North Slope oil production and refinery margins. We then adjust for refunds and carry-forwards which cause actual collections to differ from payments.

In FY 2005, net collections from the petroleum corporate income tax were \$524 million. For FY 2006, we are forecasting a 4% increase in revenue due to continued high crude oil prices and high refining margins. For FY 2007, we are forecasting a 19% decrease in revenue from the previous year, as a result of moderation in oil prices, refining margins and decreasing crude oil production. The forecast for petroleum corporation income tax is shown in Table 4-2.

## Restricted Oil Revenue

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

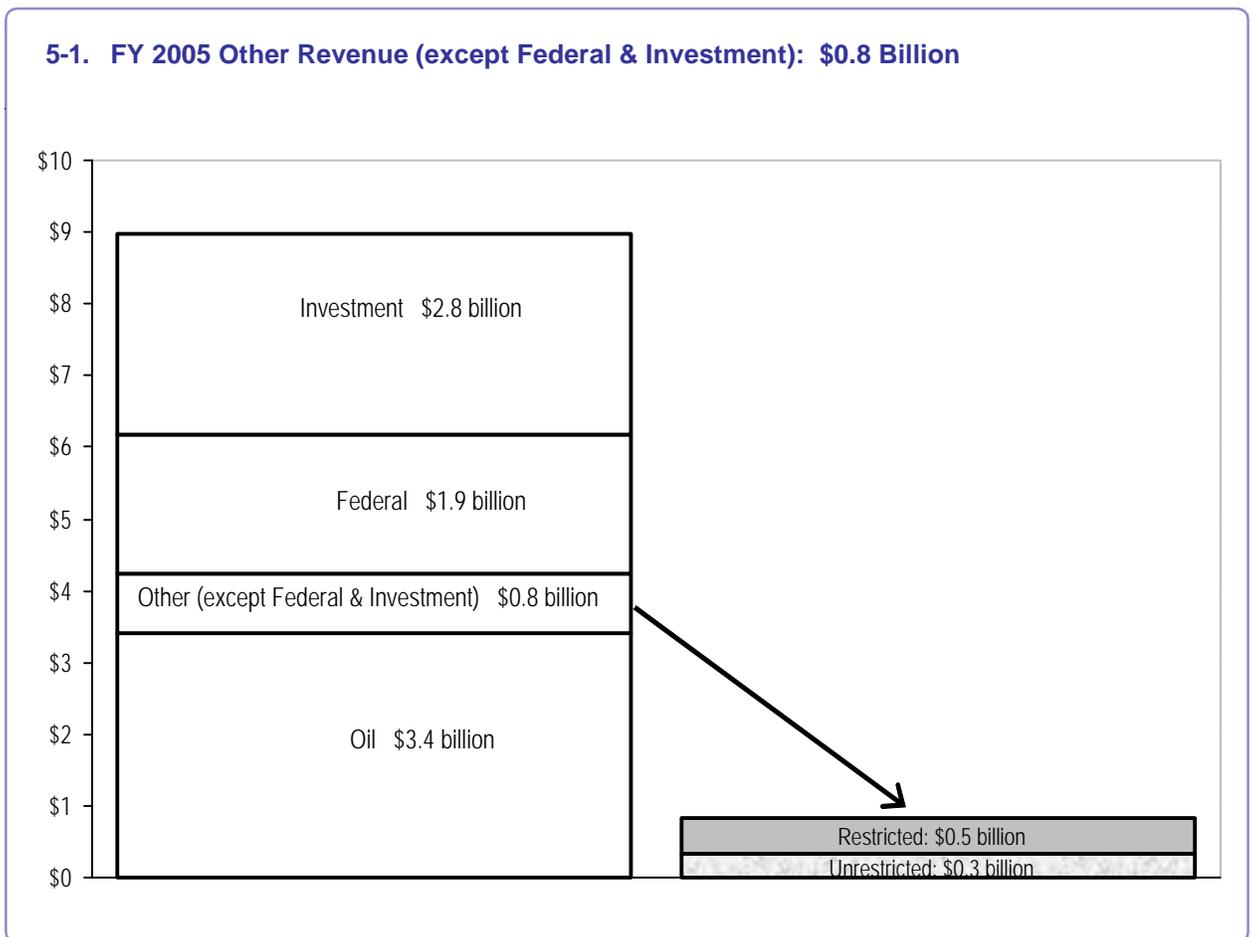
The state is entitled to 50% of all bonuses, rents and royalties from oil development activity in the federal NPR-A. All such revenue flows into the NPR-A Special Revenue Fund. All of the revenue in the fund each year is available for appropriation in the form of grants to municipalities that demonstrate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

The table below reflects restricted oil and gas revenue.

### 4-12. Restricted Oil Revenue, FY 2005 and Forecast FY 2006-2007

	History FY 2005	Forecast FY 2006    FY 2007	
<u>Restricted</u>			
Royalties to Permanent Fund & Public School Fund			
Royalties, Bonuses & Rents to the Permanent Fund	476.9	578.4	465.6
Royalties, Bonuses & Rents to the School Fund	<u>9.6</u>	<u>11.6</u>	<u>9.3</u>
Subtotal	486.5	589.9	474.9
Tax Settlements to CBRF	27.4	20.0	20.0
NPRA Royalties, Rents & Bonuses	<u>31.6</u>	<u>2.9</u>	<u>12.6</u>
Total Restricted	545.5	612.9	507.5

# 5. Other Revenue (except Federal & Investment)



**5-2. Other Revenue (except Federal & Investment), FY 2005 and Forecasted FY 2006-2007**  
\$ Million

	History	Forecast	
	FY 2005	FY 2006	FY 2007
<u>Unrestricted</u>			
Taxes	227.7	265.2	248.0
Charges for Services	17.9	18.1	18.1
Fines and Forfeitures	8.8	10.9	10.9
Licenses and Permits	42.7	41.6	42.4
Rents and Royalties	9.3	9.6	9.6
Other	<u>17.1</u>	<u>12.7</u>	<u>12.7</u>
Total Unrestricted	323.5	358.1	341.7
<u>Restricted</u>			
Taxes	82.6	83.3	82.6
Charges for Services	233.3	260.8	262.0
Fines and Forfeitures	23.3	22.6	22.5
Licenses and Permits	29.9	31.7	36.5
Rents and Royalties	4.5	4.6	4.6
Other	<u>141.1</u>	<u>160.7</u>	<u>93.9</u>
Total Restricted	514.7	563.7	502.1
Total Other Revenue (except Federal & Investment)	838.2	921.8	843.8

## General Discussion

Income from sources other than oil, state investments and federal receipts includes non-oil taxes, charges for services, fines and forfeitures, licenses and permits, rents and royalties and other revenue sources. Many of these revenue sources are divided between unrestricted and restricted revenues; the amounts of each are reflected in Tables 5-2 through 5-8. Restricted revenue includes money deposited in funds other than the Unrestricted General Fund. For purposes of this forecast, restricted revenues also include receipts that the legislature customarily appropriates or sets aside for a particular purpose or program, such as sharing of fish tax revenue with municipalities.

## Other Taxes

### Alcoholic Beverages Tax

Alcoholic beverage taxes are collected primarily from wholesalers and distributors of alcoholic beverages sold in Alaska. Fifty percent of the revenue is deposited in the Alcohol and Other Drug Abuse Treatment and Prevention Fund, and is reflected as restricted in this forecast because the legislature “may use the annual estimated balance in the fund to make appropriations to the Department of Health and Social Services.” The other fifty percent of the alcoholic beverage tax revenue is deposited in the General Fund and is unrestricted. The per-gallon tax rates on alcoholic beverages were last increased October 1, 2002, from \$0.35 to \$1.07 for beer, \$0.85 to \$2.50 for wine and \$5.60 to \$12.80 for liquor. Qualifying small brewers continue to pay tax at the \$0.35 rate for beer.

### Charitable Gaming

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

### Corporate Income Tax

Alaska levies the Corporate Net Income Tax on net income of corporations that have nexus and derive income from sources within Alaska. S-Corporations and LLCs that file federally as Partnerships are generally exempt from corporation income tax. Corporations compute their tax liability based on federal taxable income with Alaska adjustments. Corporations other than Oil & Gas corporations apportion their income to Alaska by using a three-factor apportionment based on sales, property and payroll. Taxpayers determine Alaska taxable income by applying their apportionment factor to the corporation’s modified federal taxable income. Corporate tax rates are graduated from 1% to 9.4% in \$10,000 increments of Alaska taxable Income. The maximum rate of 9.4% applies to taxable income over \$90,000.

### Electric Cooperative and Telephone Cooperative Taxes

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

## Estate Tax

The estate tax is levied on the transfer of an estate upon death. The Alaska estate tax is tied to the federal tax, with the amount of the state tax equaling the maximum state credit allowed on the estate's federal return. As a result of changes to the federal estate tax, the Alaska estate tax was phased out completely beginning January 1, 2005. However, revenues will continue in FY 2006 because of the 15-month filing period. All revenue derived from estate taxes is deposited in the General Fund. The federal estate tax changes that caused the state tax to phase out are currently scheduled to sunset after December 31, 2010.

## 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 based on the value of the raw fishery resource. Tax rates vary from 1% to 5%, depending on whether a fishery resource is classified as "established" or "developing," and whether it was processed by an on-shore or floating processor. All revenue from the tax is deposited in the General Fund, but not all of it is considered unrestricted for the purposes of this forecast. Each year, the legislature appropriates half the revenue from the tax (before credits) to qualified municipalities. Given that this sharing formula is in statute, and that the legislature customarily follows the statutory formula, this forecast considers the shared revenues to be restricted.

## Fishery Resource Landing Tax

The fishery resource landing tax was enacted in 1993. The tax is levied on fishery resources processed outside and first landed in Alaska, and is based on the unprocessed statewide average value of the resource. The tax is collected primarily from factory trawlers and floating processors that process fishery resources outside the state's 3-mile limit and bring their products into Alaska for shipment. The tax rates vary from 1% to 3%, based on whether the resource is classified as "established" or "developing." All revenue derived from the tax is deposited in the General Fund. Like the fisheries business tax, however, statute provides for 50% of the revenues to be available for sharing with municipalities and this forecast considers the shared revenues to be restricted. The unrestricted and restricted portions reflected in the forecast are not exactly equal due to credits and timing of revenue sharing.

## Insurance Premium Tax

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

## Mining License Tax

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

## Motor Fuel Tax

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

## Motor Vehicle Tire Fee

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

## Seafood Assessments and Taxes

The Department of Revenue administers five 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 five programs are the salmon marketing tax, seafood marketing assessment, salmon enhancement tax, dive fishery management assessment and the regional seafood development tax. The regional seafood development tax is the newest of the programs, becoming effective June 6, 2005. Also, on January 1, 2005, the seafood marketing assessment increased from 0.3% to 0.5% of the value of seafood products produced in Alaska and the salmon marketing tax was eliminated. The rates for many of these assessments are determined by a vote of the appropriate association within the seafood industry or by members of the Alaska Seafood Marketing Institute. Although all revenue received under these assessments is deposited in the General Fund, for purposes of this forecast it is treated as restricted revenue. With the exception of the salmon enhancement tax, all other seafood assessments are reflected under the Charges for Services section of this forecast.

## Tobacco Tax

The tobacco tax is levied on cigarettes and tobacco products sold, imported or transferred into Alaska. Tobacco taxes are collected primarily from licensed wholesalers and distributors. The tax rate on cigarettes was increased from \$1 to \$1.60 per pack on January 1, 2005 and will increase to \$1.80 on July 1, 2006 and to \$2 on July 1, 2007. Tax revenue is split between the General Fund and the School Fund, as discussed below. The tax rate on other tobacco products—such as cigars and chewing tobacco—is 75% of the wholesale price and is deposited entirely in the General Fund.

The cigarette tax revenue that is deposited into the School Fund will remain constant at \$0.76 per pack, and this is considered restricted revenue. Currently, the School Fund portion is 47.5% of the total per pack tax on cigarettes, and this will decrease to 42.2% with the July 1, 2006 tax increase and 38% with the July 1, 2007 tax increase. In addition to tax revenue, all cigarette and tobacco products license fees are deposited in the School Fund. Revenue deposited in the School Fund is dedicated to the rehabilitation, construction, repair and insurance costs of school facilities statewide.

The remainder of the cigarette tax revenue is deposited into the General Fund, with incremental revenues as a result of the January 1, 2005 statewide tax rate increase as well as the July 1, 2006 and July 1, 2007 tax rate increases going entirely to the General Fund. Of the General Fund portion, 8.9% is deposited into a subfund of the General Fund, the Tobacco Use Education and Cessation Fund, and is treated as restricted in this forecast.

## Vehicle Rental Tax

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

FOOTNOTES for PAGE 51.

(1) For these tax types revenues are accrued through mid August 2005.

(2) In addition to the worker's compensation insurance premiums from the Insurance Premium Tax, this amount also includes service fees from employers who are self-insured.

**5-3. Other Tax, FY 2005 and Forecasted FY 2006-2007**

\$ Million

	History	Forecast	
	FY 2005	FY 2006	FY 2007
<u>Unrestricted</u>			
Sales and Use Taxes			
Alcoholic Beverages <sup>(1)</sup>	17.3	17.6	17.8
Cigarette <sup>(1)</sup>	17.4	28.9	33.8
Other Tobacco Products <sup>(1)</sup>	7.7	8.1	8.4
Insurance Premium	45.9	47.2	47.7
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel	39.4	39.4	40.1
Motor Vehicle Tire Fees <sup>(1)</sup>	1.6	1.6	1.6
Vehicle Rental <sup>(1)</sup>	<u>7.5</u>	<u>7.5</u>	<u>7.5</u>
Subtotal	137.0	150.5	157.1
Corporate Income	61.8	85.0	61.5
Fish			
Fisheries Business	10.7	12.1	13.5
Fishery Resource Landing	<u>3.9</u>	<u>4.3</u>	<u>4.3</u>
Subtotal	14.6	16.4	17.8
Other			
Mining	10.3	10.4	9.2
Estate	1.5	0.5	0.0
Charitable Gaming	<u>2.5</u>	<u>2.4</u>	<u>2.4</u>
Subtotal	14.3	13.3	11.6
Total Unrestricted	227.7	265.2	248.0
<u>Restricted</u>			
Sales and Use Taxes			
Alcoholic Beverages (Alcohol & Drug Treatment) <sup>(1)</sup>	17.3	17.6	17.8
Insurance Premium/Other (Workers Safety & Compensation) <sup>(2)</sup>	7.0	7.3	7.1
Electric and Telephone Cooperative (Municipal Share)	3.8	3.8	3.8
Cigarette (School Fund) <sup>(1)</sup>	30.0	28.7	27.1
Cigarette (Tobacco Use Cessation) <sup>(1)</sup>	1.1	2.8	3.3
Motor Fuel - Aviation (Municipal Share)	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Subtotal	59.4	60.4	59.3
Fish Taxes			
Fisheries Business (Municipal Share)	15.2	14.4	14.7
Fishery Resource Landing (Municipal Share)	4.2	4.6	4.6
Salmon Enhancement (Aquaculture Association Share)	<u>3.8</u>	<u>3.9</u>	<u>4.0</u>
Subtotal	23.2	22.9	23.3
Total Restricted	82.6	83.3	82.6
Grand Total	310.3	348.5	330.6

Relevant footnotes are on adjacent page.

## Charges for Services

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

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

### Marine Highway Fund

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

### Program Receipts

Program receipts are defined under AS 37.05.146 as “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 we do not include in the Charges for Services category because they are reported elsewhere in this forecast or because they do not generate revenue available for general appropriation.

#### 5-4. Charges for Services, FY 2005 and Forecasted FY 2006-2007

\$ Million

	History	Forecast	
	FY 2005	FY 2006	FY 2007
<u>Unrestricted</u>			
General Government	14.7	14.9	14.9
Natural Resources	1.4	1.4	1.4
Other	<u>1.8</u>	<u>1.8</u>	<u>1.8</u>
Total Unrestricted	17.9	18.1	18.1
<u>Restricted</u>			
General Government	2.5	2.5	2.5
Natural Resources	0.5	0.5	0.5
Marine Highway Receipts	45.6	48.8	50.0
Receipt-Supported Services <sup>(1)</sup>	99.2	89.2	89.2
Statutorily Designated <sup>(1)</sup>	66.5	98.0	98.0
Other <sup>(1)(2)</sup>	<u>19.0</u>	<u>21.9</u>	<u>21.9</u>
Total Restricted	184.7	209.1	209.1
Grand Total	251.2	278.9	280.1

(1) FY 2005 value is from the Alaska State Accounting System. FY 2006 and FY 2006 estimates are from the Office of Management and Budget and reflect what agencies expect to receive in program receipts; assumes that FY 2007 remains the same as FY 2006.

(2) Other includes the following categories: RCA receipts (\$6.5 million), test fisheries (\$2.2 million), timber sale receipts (\$0.7 million), oil and gas conservation (\$3.4 million) and DCCED business licenses (\$6.2 million).

## Fines and Forfeitures

Fines and forfeitures include 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 monetization 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 is deposited into the Tobacco Use Education and Cessation Fund. This forecast shows both the 80% that goes directly to the Northern Tobacco Securitization Corporation for payment of the bonds and the 20% that goes to the Tobacco Use Education and Cessation Fund as restricted revenue.

#### 5-5. Fines and Forfeitures, FY 2005 and Forecasted FY 2006-2007

\$ Million

	History FY 2005	Forecast	
		FY 2006	FY 2007
<u>Unrestricted</u>			
Fines and Forfeitures	<u>8.8</u>	<u>10.9</u>	<u>10.9</u>
Total Unrestricted	8.8	10.9	10.9
<u>Restricted</u>			
Tobacco Settlement (Northern Tobacco Securitization Corporation) <sup>(1)</sup>	17.4	16.9	16.8
Tobacco Settlement (Tobacco Use Education & Cessation Fund) <sup>(1)</sup>	4.4	4.2	4.2
Other	<u>1.5</u>	<u>1.5</u>	<u>1.5</u>
Total Restricted	23.3	22.6	22.5
Grand Total	32.1	33.5	33.4

(1) Revenue estimates assume all participants in the settlement pay the full amount to the state. The FY 2006 and FY 2007 estimates are from Kentucky's tobacco settlement model modified for Alaska.

## Licenses and Permits

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

### Fishing and Hunting Licenses Fees

Fishing and hunting licenses are issued by the Department of Fish and Game for participation in various fishing, hunting and related activities. The majority of these fees are appropriated to a special revenue fund called the Fish and Game Fund. Money in the fund may only be spent for fish and game management purposes. Beginning with 2006 licenses, a surcharge will be in effect on certain sport fishing licenses with the revenue funding new sport fishing facilities in the state.

### 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.

#### 5-6. Licenses and Permits, FY 2005 and Forecasted FY 2006-2007

\$ Million

	History FY 2005	Forecast FY 2006    FY 2007	
<u>Unrestricted</u>			
Motor Vehicles	39.9	38.8	39.6
Other Fees	<u>2.8</u>	<u>2.8</u>	<u>2.8</u>
Total Unrestricted	42.7	41.6	42.4
<u>Restricted</u>			
Fishing and Hunting			
Hunting and Fishing Fees (Fish and Game Fund)	24.2	25.8	30.6
Sanctuary Fees (Fish and Game Fund)	<u>0.3</u>	<u>0.5</u>	<u>0.5</u>
Subtotal	24.5	26.3	31.1
Other Fees	<u>5.4</u>	<u>5.4</u>	<u>5.4</u>
Total Restricted	29.9	31.7	36.5
Grand Total	72.6	73.3	78.9

## Rents and Royalties

Rents and royalties reflected here are mostly from leasing, rental and sale of state land. Rents and royalties from oil are reported in Section 4, Oil Revenue.

### Coal Royalties

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

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

#### 5-7. Rents and Royalties, FY 2005 and Forecasted FY 2006-2007

\$ Million

	History FY 2005	Forecast FY 2006    FY 2007	
<u>Unrestricted</u>			
Land Leasing, Rental and Sale	7.7	7.9	7.9
Coal Royalties	1.3	1.4	1.4
Cabin Rentals <sup>(1)</sup>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>
Total Unrestricted	9.3	9.6	9.6
<u>Restricted</u>			
Land Leasing, Rental and Sale	4.1	4.1	4.1
Coal Royalties	<u>0.4</u>	<u>0.5</u>	<u>0.5</u>
Total Restricted	4.5	4.6	4.6
Grand Total	13.8	14.2	14.2

(1) Over 50 public use cabins are operated by the Department of Natural Resources in the state, in Alaska's state parks and elsewhere. Rental and other fees generated from these cabins are deposited in the General Fund.

## Other

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

### Unclaimed Property

Alaska's Unclaimed Property statutes require businesses and corporations (for profit and not for profit) to report unclaimed intangible property to the state. Property is reportable if an owner cannot be located, the owner has not cashed a property check, or an account has not had any owner-initiated activity for at least three years. Unclaimed property may include checking accounts, customer deposits and over payments, gift certificates, unpaid wages, and security related accounts.

The state holds the property in trust until the owner or his or her legal heir claims it. Each year, the unclaimed property trust account is evaluated and the excess of the working trust balance is transferred to the general fund.

### Dividends and Miscellaneous

Other revenues reflected as restricted in this forecast include funds transfers, frequently in the form of dividends, from component organizations of state government, as well as certain miscellaneous revenues.

#### 5-8. Other Revenue, FY 2005 and Forecasted FY 2006-2007

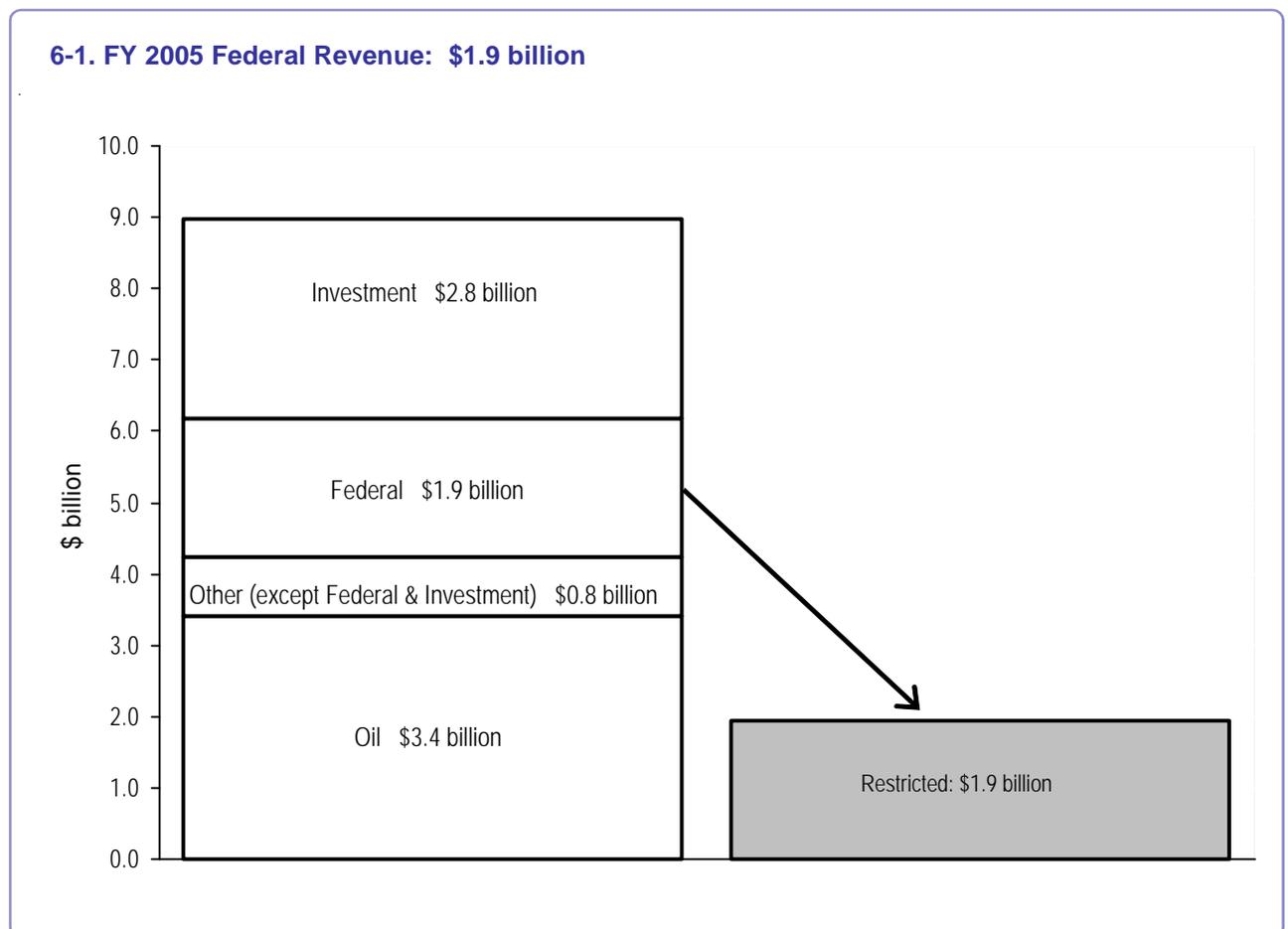
\$ Million

	History FY 2005	Forecast FY 2006    FY 2007	
<u>Unrestricted</u>			
Miscellaneous	7.6	8.2	8.2
Unclaimed Property	<u>9.5</u>	<u>4.5</u>	<u>4.5</u>
Total Unrestricted	17.1	12.7	12.7
<u>Restricted</u>			
Alaska Housing Finance Corporation <sup>(1)</sup>	65.0	43.1	54.7
Alaska Industrial Development and Export Authority <sup>(1)</sup>	23.8	8.8	16.6
Alaska Municipal Bond Bank Authority <sup>(1)</sup>	0.8	1.0	1.0
Alaska Student Loan Corporation <sup>(1)</sup>	31.3	88.1	1.9
Alaska Energy Authority <sup>(1)</sup>	0.5	0.0	0.0
Miscellaneous <sup>(2)</sup>	<u>19.7</u>	<u>19.7</u>	<u>19.7</u>
Total Restricted	141.1	160.7	93.9
 Grand Total	 158.2	 173.4	 106.6

(1) Payments from component units are reflected in draft tables from the Comprehensive Annual Financial Report for FY 2005 and estimates from the Office of Management and Budget for FY 2006 and 2007. The fluctuation in revenue from the Alaska Student Loan Corporation between FY 2005 and FY 2007 is due to proceeds from refinancing the Alaska Student Loan Corporation's loan portfolio.

(2) 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



**6-2. Total Federal Revenue to the State, FY 2005 and Forecasted FY 2006-2007**

	History FY 2005	Forecasted FY 2006      FY 2007	
<u>Unrestricted</u>			
Federal Receipts	0.0	0.0	0.0
<u>Restricted</u>			
Federal Receipts	<u>1,946.3</u>	<u>2,745.0</u>	<u>2,745.0</u>
Grand Total	1,946.3	2,745.0	2,745.0

Source: FY 2005 is from draft tables of the Comprehensive Annual Financial Report (General Fund and all other subfunds and non-major special revenue funds, federal revenues). FY 2006 and 2007 estimates are provided by the Office of Management and Budget and reflect what agencies expect to receive in federal revenues.

Alaska's government received and spent over \$1.9 billion of federal funds in FY 2005. Federal funding generally is restricted to specific uses, such as road improvements, Medicaid payments and aid to schools. Potential changes to federal law, differing federal and state fiscal years and changing numbers of eligible Alaskans in certain programs make forecasting federal revenue difficult. The estimates we present for FY 2006 and FY 2007 are from the Office of Management and Budget and are based on state agency projections of potential federal revenues.

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

For FY 2006, the state is budgeted to receive over \$2.7 billion in federal receipts. Most federal funding requires state matching money. The budgeted state match in FY 2006 is \$388.3 million. All federal funds, whether spent in the operating or capital budget, are restricted by legislative appropriation to specific uses. The largest categories of federal spending budgeted for FY 2006 are Medicaid (\$710 million), highways and airports (\$757 million) and education (\$350 million, which includes kindergarten through high school funding and the University of Alaska).

The federal government continues to play a significant role in Alaska's economy. The federal fiscal year (FFY) runs from October 1 through September 30, and in FFY 2003 (the most recent data available) the federal government spent \$7.9 billion in Alaska.<sup>(1)</sup> Part of that spending came from the activities of the various federal agencies, part was in the form of grants to state and municipal governments, and still another part came in payments to individuals.

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

#### 6-5. Total Federal Spending in Alaska, FFY 2003

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

(1) U.S. Census Bureau, Consolidated Federal Funds Report for FY 2003, [www.census.gov/prod/2004pubs/03cfr.pdf](http://www.census.gov/prod/2004pubs/03cfr.pdf). The Consolidated Federal Funds Report for FY 2004 is scheduled to be released in late December 2005.

# Fall

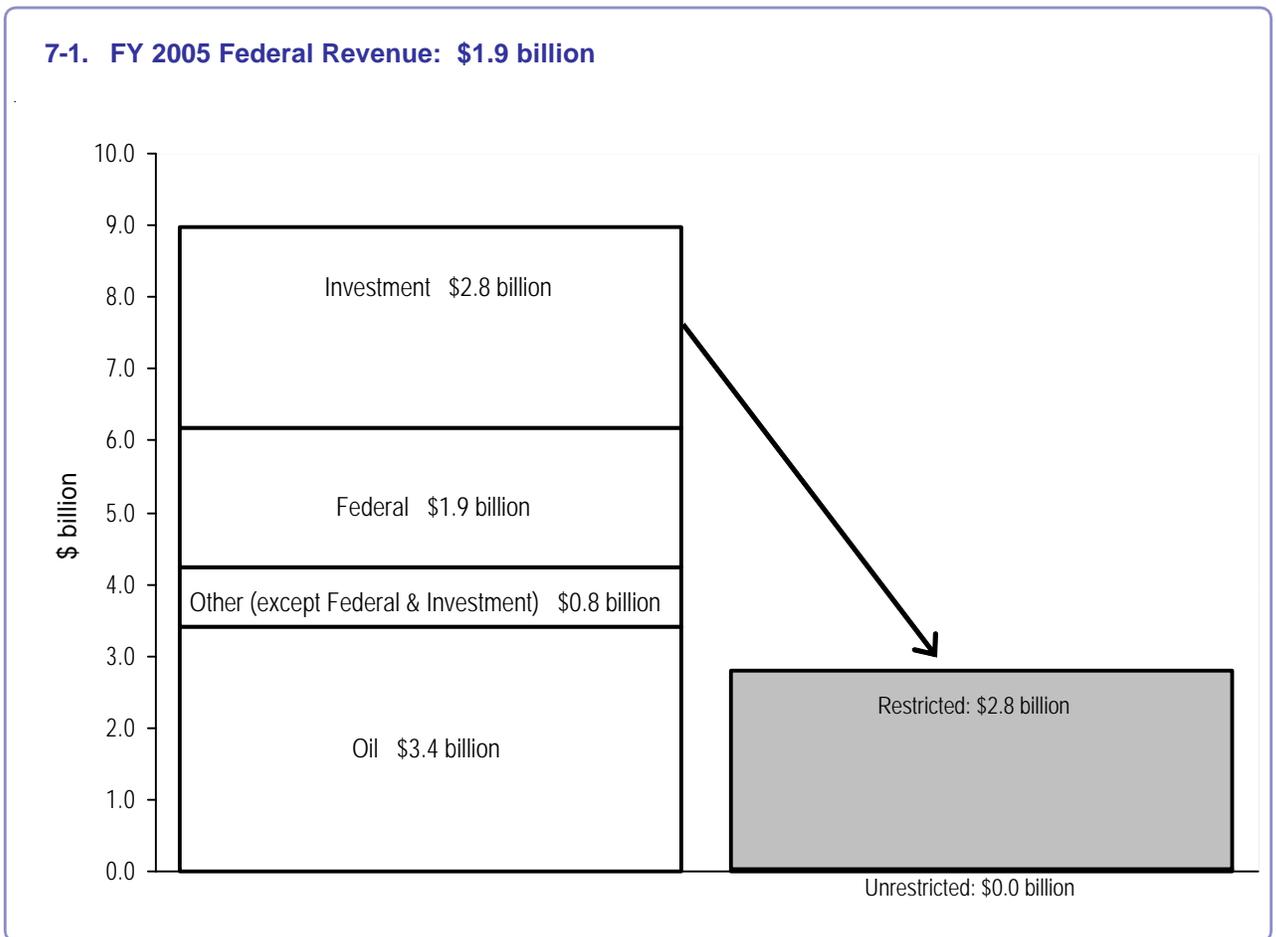
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# 2005

# 7. Investment Revenue



**7-2. Total Investment Revenue, FY 2005 and Forecasted FY 2006-2007 <sup>(1)</sup>**  
\$ Million

	History FY 2005	Forecast FY 2006    FY 2007	
<u>Unrestricted</u>			
Investments of Governmental Funds	23.6	23.6	26.6
Interest Paid by Others	<u>1.1</u>	<u>1.1</u>	<u>1.1</u>
Subtotal	24.7	24.7	27.7
<u>Restricted</u>			
Investments of Governmental Funds	13.3	12.4	13.6
Constitutional Budget Reserve Fund	97.4	76.0	112.3
Other Treasury-Managed Governmental Funds	22.7	21.0	21.9
Alaska Permanent Fund <sup>(2)</sup>	<u>2,640.2</u>	<u>2,243.0</u>	<u>2,408.3</u>
Subtotal	2,773.6	2,352.4	2,556.1
Total	2,798.3	2,377.1	2,583.8

(1) Governmental Accounting Standards Board (GASB) principles require the recognition of changes in the value of investments as income or losses at the end of each reporting period, whether the investment is actually sold or not. GASB is a sister organization to the more well known Financial Accounting Standards Board (FASB). 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.

(2) Total Permanent Fund realized and unrealized earnings.

## Investment Forecast

To forecast investment revenue for the current fiscal year — FY 2006 — we combine actual performance through September 30, 2005, with a projection for the remainder of the year. Forecasts and estimated capital market median returns are based on information supplied by the state's investment consultant, Callan Associates Inc., and its five-year capital market estimated returns.

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

Asset Class	Benchmark for Asset Class	% / year	
		Median Expected Return	% / year Expected Risk
<u>Equities</u>			
U.S. Broad	Callan Associates Inc. (CAI) Broad Market	9.00	16.90
U.S. Large Cap	Standard and Poors (S&P) 500	8.85	16.40
U.S. Small Cap	CAI Small	9.85	22.70
International	Morgan Stanley Capital International EAFE	9.25	20.10
<u>Fixed Income</u>			
Domestic Broad Market	Lehman Brothers Aggregate	4.75	4.50
Domestic Short Term (cash equivalent)	Three-Month U.S. Treasury Bill	3.25	0.70
Domestic Intermediate Term	Merrill Lynch 1- to 5-Year Government	4.00	3.15
International	Salomon Brothers Non-U.S. Government	4.65	9.60
<u>Other</u>			
Real Estate	CRES	7.60	16.50
<u>Economic Variables</u>			
Inflation	CPI-U	2.60	1.40

The continued volatility in the world's financial markets makes focus on the "Expected Risk" column (far right in the table above) particularly appropriate. The numbers in the Expected Risk column represent a statistical measure called standard deviation, which is the most commonly used measure of risk in the investment world. The standard deviation is a measure of the dispersion of data around its mean. The analyst can use this measure of dispersion to provide a range of possible outcomes at any desired level of confidence. In the data in this table, the level of confidence is set at 67% or one standard deviation. A higher level of confidence would require a broader range. For example, Callan estimates an average annual return for the domestic broad market fixed-income asset class of 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). A prediction at 95% confidence would run from -4.25% to 13.75%, too broad a range to be useful.

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

## Unrestricted Investment Revenue

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

### 7-4. Unrestricted Investment Revenue, FY 2005 and Forecasted FY 2006-2007

\$ Million

	History	Forecast	
	FY 2005	FY 2006	FY 2007
<u>Unrestricted</u>			
Investments	23.6	23.6	26.6
Interest Paid by Others	<u>1.1</u>	<u>1.1</u>	<u>1.1</u>
Total	24.7	24.7	27.7

### 7-5. Investment Revenue Summary, FY 2005 and Forecasted FY 2006-2007

#### Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-Income Pool	44%	Three-Month U.S. Treasury Bill
Intermediate-Term, Fixed-Income Pool	56%	Merrill Lynch 1- to 5-Year Government Index
Investment Balance September 30, 2005		\$1,783.7 million
Forecasted Annual Rate of Return		3.67 %
Probability of Negative Return Over 1 Year		2.52 %
Total Investment Income, FY 2005		\$ 36.9 million
Forecasted Total Investment Income, FY 2006		\$ 36.0 million
Forecasted Total Investment Income, FY 2007		\$ 40.2 million

	\$ Million		
	History FY 2005	Forecast FY 2006 FY 2007	
Investment Revenue Unrestricted	23.6	23.6	26.6
Investment Revenue Restricted <sup>(1)</sup>	<u>13.3</u>	<u>12.4</u>	<u>13.6</u>
Total	36.9	36.0	40.2

(1) Includes subfunds of the General Fund.

## Restricted Investment Revenue

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

### 7-6. Restricted Investment Revenue, FY 2005 and Forecasted FY 2006-2007

\$ Million

	History	Forecast	
	FY 2005	FY 2006	FY 2007
<u>Restricted</u>			
Investments of Governmental Funds	13.3	12.4	13.6
Constitutional Budget Reserve Fund	97.4	76.0	112.3
Other Treasury Managed Governmental Funds	22.7	21.0	21.9
Alaska Permanent Fund <sup>(1)</sup>	<u>2,640.2</u>	<u>2,243.0</u>	<u>2,408.3</u>
Total Restricted	2,773.6	2,352.4	2,556.1

(1) Annual unrealized and realized earnings from Permanent Fund Table 7-11.

**7-7. Constitutional Budget Reserve Fund Cash Flows Investment Revenue Summary, FY 2005 and Forecasted, FY 2006-2007**

**Asset Allocation Regular Account**

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-Income Pool	18%	Three-Month U.S. Treasury Bill
Intermediate-term, Fixed-Income Pool	62%	Merrill Lynch 1- to 5-Year Government Index
Broad Market Fixed-Income Pool	20%	Lehman Brothers Aggregate Bond Index
Regular Account Balance September 30, 2005		\$1,732.9 million
Forecasted Annual Rate of Return		4.01 %
Probability of Negative Return Over 1 Year		8.00 %

**Asset Allocation Special Subaccount**

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-Income Pool	41%	Lehman Brothers Aggregate Bond Index
Domestic Equity Pool	43%	Russell 3000 Index
International Equity Pool	16%	MSCI EAFE Index
Special Subaccount Balance September 30, 2005		\$ 468.9 million
Forecasted Annual Rate of Return		7.31 %
Probability of Negative Return Over 1 Year		24.35 %

**Total Investment Income**

	\$ Million		
	History	Forecast	
	FY 2005	FY 2006	FY 2007
Regular Account	61.7	45.3	75.7
Special Subaccount	<u>35.7</u>	<u>30.7</u>	<u>36.6</u>
Total	97.4	76.0	112.3

**7-8. Constitutional Budget Reserve Fund Cash Flows, FY 2005 and Forecasted FY 2006-2007**  
\$ Million

	History FY 2005	Forecast FY 2006      FY 2007	
Beginning Cash Balance CBRF	2,064.2	2,185.1	2,281.0
Beginning Main Account Balance	1,646.2	1,731.4	1,796.7
Earnings on Main Account Balance <sup>(1)</sup>	61.7	45.3	75.7
Petroleum Tax, Royalty Settlements <sup>(2)</sup>	27.4	20.0	20.0
Loan to GF (prior year)	(22.5)	0.0	0.0
Loan to GF (current year) <sup>(3)</sup>	<u>18.6</u>	<u>0.0</u>	<u>100.9</u>
Ending Main Account Balance	1,731.4	1,796.7	1,993.3
Beginning Special Subaccount Balance	418.0	453.6	484.3
Earnings on Special Subaccount Balance <sup>(1)</sup>	35.7	30.7	36.6
Loan to GF from Special Subaccount	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Ending Special Subaccount Balance	453.7	484.3	520.9
Total CBRF Balance	2,185.1	2,281.0	2,514.2

(1) The earnings estimate for the main account is 4.011% and the earnings estimate for the special subaccount is 7.306%. These projections are based on Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.

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

(3) The estimated future loan figures are slightly different than those found in the "Executive Summary." Table 2-13 was based on flat budget projections while OMB's estimates in this table are based on the assumption that certain portions of the budget will change with population.

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

**7-9. Public School Trust Investment Revenue Summary, FY 2005 and Forecasted FY 2006-2007**

**Asset Allocation**

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-Income Pool	57%	Lehman Brothers Aggregate Index
Domestic Equity Pool	43%	Russell 3000 Index

Public School Trust Fund Balance September 30, 2005	\$ 324.6 million
Forecasted Annual Rate of Return	6.56 %
Probability of Negative Return Over 1 Year	21.27 %

Total Investment Income and Distributable Income

	\$ Million		
	History	Forecast	
	FY 2005	FY 2006	FY 2007
Public School Trust Total Investment Income	22.0	20.3	21.2
Public School Trust Distributable Income	10.3	11.2	11.6

**7-10. Alaska Children’s Trust Investment Revenue Summary, FY 2005 and Forecasted FY 2006-2007**

**Asset Allocation**

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-Income Pool	57%	Lehman Brothers Aggregate Index
Domestic Equity Pool	43%	Russell 3000 Index

Alaska Children’s Trust Balance September 30, 2005	\$ 11.0 million
Forecasted Annual Rate of Return	6.56 %
Probability of Negative Return Over 1 Year	21.27 %

Total Investment Income and Distributable Income

	\$ Million		
	History	Forecast	
	FY 2005	FY 2006	FY 2007
Alaska Children’s Trust Total Investment Income	0.7	0.7	0.7
Alaska Children’s Trust Distributable Income	0.3	0.4	0.4

**7-11. Alaska Permanent Fund Managed by the Permanent Fund Corporation, FY 2005  
and Forecasted FY 2006-2007 <sup>(1)</sup>**  
\$ Million

	History FY 2005	Forecast FY 2006      FY 2007	
<u>Reserved Assets — Principal</u>			
Total Reserved Assets — Beginning Balance	26,541.3	28,521.8	30,258.1
Contributions and appropriations			
Contributions & appropriations - beginning balance	23,525.7	24,647.2	26,106.7
Dedicated petroleum revenue	480.5	576.7	466.5
Inflation proofing <sup>(2)</sup> transfer from realized earnings	641.0	882.8	690.9
Deposits to principal and settlement earnings	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Sub total - contributions and appropriations	24,647.2	26,106.7	27,264.1
Unrealized appreciation/depreciation			
Appreciation/depreciation - beginning balance	3,015.6	3,874.7	4,151.4
Annual unrealized gain/loss	<u>859.1</u>	<u>276.8</u>	<u>359.4</u>
Sub total - unrealized appreciation/depreciation	3,874.7	4,151.4	4,510.8
Total Reserved Assets — Ending Balance	28,521.8	30,258.1	31,774.9
<u>Realized Earnings Account</u>			
Realized earnings account - beginning balance	858.5	1,439.9	1,885.9
Annual realized earnings	1,781.2	1,966.3	2,048.9
Dividend payment to the State of Alaska <sup>(3)</sup>	(532.1)	(609.7)	(795.0)
Inflation proofing <sup>(2)</sup> transfer to reserved assets	(641.0)	(882.8)	(690.9)
Other transfers to reserved assets	0.0	0.0	0.0
Other appropriations out of the Fund	<u>(26.8)</u>	<u>(27.6)</u>	<u>(27.6)</u>
Realized earnings account - ending balance	1,439.9	1,885.9	2,421.3
<u>Market Value - Total Fund Invested Assets Value</u>			
Contributions & appropriations end of year balance	24,647.2	26,106.7	27,264.1
Unrealized appreciation/depreciation end of year balance	3,874.7	4,151.4	4,510.8
Realized earnings end of year balance (statutory earnings)	<u>1,439.9</u>	<u>1,885.9</u>	<u>2,421.3</u>
Fund Balance (Market Value) end of year balance	29,961.7	32,144.1	34,196.3
<u>Total Reported Earnings</u>			
Annual unrealized gain/loss	859.1	276.8	359.4
Annual realized earnings	<u>1,781.2</u>	<u>1,966.3</u>	<u>2,048.9</u>
Reported Earnings	2,640.2	2,243.0	2,408.3

(1) Data projected using November 1, 2005, financial statements and the fall 2005 revenue forecast. Callan Associates Inc.'s 2005 capital market assumptions results in 7.61% median expected total return data for FY 2006 and FY 2007.

(2) Inflation proofing is required by statute, AS 37.13.125(c) and is calculated by the staff of the Permanent Fund. The inflation rate used for FY 2006 was approximately 3.5%; Callan Associates Inc.'s inflation rate of 2.6% was used for FY 2007.

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

# Fall

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# 2005

## 8.

# State Endowment Funds

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

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

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

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

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

Percent

	Cash	U.S. Bonds	International Bonds	U.S. Equities	International Equities	Real Estate	Alternative Investments	Total
Alaska Permanent Fund	0	28	4	35	18	10	5	100
Mental Health Trust	0	28	4	35	18	10	5	100
Public School Trust	0	57	0	43	0	0	0	100
Alaska Children's Trust	0	57	0	43	0	0	0	100
Power Cost Equalization	0	37	0	46	17	0	0	100
University of Alaska Endowment	1	25	0	32	15	5	22	100

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

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

	<b>Financial Reporting of Income</b>	<b>Distributable Income</b>
<b>Alaska Permanent Fund</b>	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on investments actually sold
<b>Mental Health Trust</b>	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on investments actually sold
<b>Public School Trust</b>	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
<b>Alaska Children’s Trust</b>	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
<b>Power Cost Equalization Endowment</b>	GASB (recognize gains and losses based on change in market value)	GASB (recognize gains and losses based on change in market value)
<b>University of Alaska Endowment</b>	GASB (recognize gains and losses based on change in market value)	GASB (recognize gains and losses based on change in market value)

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

#### Alaska Permanent Fund

The annual distribution for the Permanent Fund Dividend follows the formula in AS 37.13.140-.150, which specifies that 10.5% of the past five years' total realized income shall be paid out as dividends but also sets the limitation that the annual distribution may never exceed 50% of the balance in the fund's Realized Earning Account (REA). The 50% limitation has never been triggered.

#### Mental Health Trust

The Mental Health Trust Board adopted a policy, beginning in FY 2001, to distribute 3.5% a year of the market value of the fund's total assets. The distribution rate had been 3% for FY 1996-1998 and 3.25% for FY 1999-2000. Because of recent declines in market value, the board is exploring a redefinition of "principal" so that losses in market value would be proportionally allocated to the principal account and the earnings account rather than assigning the entire value of any losses to the earning account.

#### Public School Trust

The annual distribution is 4.75% of a five-year moving average of the fund's principal market value so long as that amount does not exceed the interest and dividend earnings available in the earnings account. The trust has accumulated a sizable earnings account balance, providing a cushion for the fund to maintain its annual distributions in a sustained bear market.

#### Alaska Children's Trust

The annual distribution is 4.75% of a five-year moving average of the fund principal's market value so long as that amount does not exceed the interest and dividend earnings available in the earnings account. The trust has accumulated a sizable earnings account balance, providing a cushion for the fund to maintain its annual distributions in a sustained bear market.

#### Power Cost Equalization Endowment

The annual distribution is 7% of the fund's market value. For the initial transition years, state statute specifies that the fund shall use the market value on February 1 for the subsequent fiscal year's distribution. Thereafter, the fund is to distribute each year 7% of the monthly average market value for a specified 36-month period.

#### University of Alaska Endowment

The annual distribution is 5% of a five-year moving average of the market value of the fund.

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

#### Alaska Permanent Fund

An annual appropriation is needed to inflation proof the principal of the Permanent Fund (but not the accumulated earnings) pursuant to AS 37.13.145. The legislative appropriation requires a transfer from the Realized Earnings Account to the fund's principal an amount equal to the calculated U.S. Consumer Price Index's effect on the value of the principal, comprised of oil and gas royalty contributions and legislative appropriations. The Alaska Permanent Fund Corporation's Trustees have proposed a constitutional amendment that would inflation proof the entire fund—the principal and accumulated earnings—by limiting the annual distribution of earnings to 5% of a five-year moving average of the market value of the fund.

#### Mental Health Trust

The Mental Health Trust Authority has adopted two policies to inflation proof the fund. First, it limits distributions to 3.5% of the fund's market value. (The authority's ultimate goal, after further building up the principal, is to distribute 5% of the fund's market value each year, which would still allow enough retained earnings to inflation proof the fund.) Second, the authority also has adopted a policy transferring money from the reserve account to the principal whenever the reserve exceeds four times the annual income distribution, to help build up the fund's principal.

#### Public School Trust

The asset-allocation policy is such that—when combined with the requirement that the fund's capital gains and losses remain part of the principal—the retained capital gains are adequate to inflation proof the fund.

#### Alaska Children's Trust

The asset-allocation policy is such that—when combined with the requirement that the fund's capital gains and losses remain part of the principal—the retained capital gains are adequate to inflation proof the fund.

#### Power Cost Equalization Endowment

The legislature, in selecting a 7% distribution policy, expressly elected not to inflation proof this fund, but rather to distribute all, or almost all, of its anticipated annual earnings.

#### University of Alaska Endowment

The university's distribution policy of 5% of the moving five-year average of the fund's market value should allow for retained earnings to inflation proof the fund.

## 9.

# Public Corporations and the University of Alaska

## Public Corporations

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

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

These seven corporations and the University of Alaska are components of state government whose activities are accounted for in the state's Comprehensive Annual Financial Report separately from the activities of primary state government. Information in this section is provided by these corporations.

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

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

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

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

## 9-1. Public Corporations—Missions

### What does the corporation do and how does it do it?

#### **Alaska Housing Finance Corporation**

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

#### **Alaska Industrial Development and Export Authority**

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

#### **Alaska Energy Authority**

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

#### **Alaska Student Loan Corporation**

The Alaska Student Loan Corporation uses proceeds from bond sales to finance education loans made by the Alaska Commission on Postsecondary Education. Loan repayments satisfy bond obligations and enhance the corporation's capital asset base. Alaska statutes authorize the board of directors to annually declare a return to the state of a portion of its net income. The board has declared return of capital payments for each year beginning in FY 2001 through FY 2006. Alaska statutes also authorize the corporation to issue bonds for the purpose of financing projects of the state. Those bonds in aggregate may not exceed \$280 million.

#### **Alaska Municipal Bond Bank Authority**

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

#### **Alaska Aerospace Development Corporation**

The corporation operates and maintains a commercial spaceport in Kodiak, Alaska and provides commercial rocket vehicle launch support services. It promotes space-related business, research, education and economic growth in the State of Alaska.

#### **Alaska Railroad Corporation**

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

## 9-2. Public Corporations—State Capitalization

### How did the state capitalize the corporation?

#### **Alaska Housing Finance Corporation**

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

#### **Alaska Industrial Development and Export Authority**

Between 1981 and 1991, the State of Alaska transferred various loan portfolios worth \$297.1 million and \$69.2 million in cash to this corporation.

#### **Alaska Energy Authority**

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

#### **Alaska Student Loan Corporation**

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

#### **Alaska Municipal Bond Bank Authority**

Between 1976 and 1986, the legislature appropriated \$18.6 million to the Bond Bank to be used for backing bond issues. In addition, the legislature gave the Bond Bank \$2.5 million in 1981 to fund a direct loan by a municipality. The municipality repaid the loan and the Bond Bank retained the appropriation.

#### **Alaska Aerospace Development Corporation**

Since 1993, the state has contributed \$10.9 million from the Science and Technology Endowment.

#### **Alaska Railroad Corporation**

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

**9-3. Public Corporations—Financial Facts, FY 2005 <sup>(1)</sup>**

	(\$million) Total Assets	(\$million) Assets less Liabilities Book Value	(\$million) Unrestricted Net Assets	(\$million) FY 2005 Operating Budget	Total <sup>(2)</sup> Positions
Alaska Housing Finance Corporation	\$4,763	\$1,683	\$821	\$43	372
Alaska Industrial Development and Export Authority	\$1,151	\$841	\$850	\$7	65
Alaska Energy Authority	\$575	\$415	\$227	\$20	AIDEA <sup>(3)</sup>
Alaska Student Loan Corporation	\$955	\$168	\$33	\$9	104
Alaska Municipal Bond Bank Authority	\$450	\$39	\$12	\$1	1
Alaska Aerospace Development Corporation <sup>(4)</sup>	\$103	\$67	\$4	\$22	29
Alaska Railroad Corporation <sup>(5)</sup>	\$516	\$150	\$137	\$86	773

(1) All figures are effective as of June 30, 2005, 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 basis. Assets and book value shown in this table are from audited December 31, 2004, financial statements. The operating budget figure shown here is for CY 2005.

**9-4. Public Corporations—Revenue and Net Income, FY 2005**

\$ Million

	FY 2005 Revenue	FY 2005 Operating Income	FY 2005 Net Income
Alaska Housing Finance Corporation	\$309.2	\$40.1	(\$23.4)
Alaska Industrial Development and Export Authority	\$70.3	\$34.0	\$18.1
Alaska Energy Authority	\$81.8	(\$23.0)	(\$5.0)
Alaska Student Loan Corporation	\$34.0	\$17.9	\$5.5
Alaska Municipal Bond Bank Authority	\$17.5	\$1.2	(\$0.5)
Alaska Aerospace Development Corporation	\$16.9	(\$2.9)	(\$1.5)
Alaska Railroad Corporation <sup>(1)</sup>	\$129.5	\$10.1	\$15.4

(1) The Alaska Railroad reports financial data on a calendar year basis. CY 2004 covers the second half of FY 2004 and the first half of FY 2005.

### 9-5. Public Corporations—Dividends to the State

#### How, if at all, does the corporation pay dividends to the state?

#### **Alaska Housing Finance Corporation**

The Twenty-Third Legislature, in 2003, enacted SCSHB 256 (the "2003 Act") which added language to the Alaska Statutes to modify and incorporate the Transfer Plan. As approved and signed into law by the Governor, the Transfer Plan calls for annual transfers as follows: FY 2005, \$103 million; FY 2006, \$103 million; FY 2007, the lesser of 95% net income or \$103 million; FY 2008, the lesser of 85% net income or \$103 million; FY 2009 and thereafter, the lesser of 75% of the corporation's net income or \$103 million.

#### **Alaska Industrial Development and Export Authority**

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

#### **Alaska Energy Authority**

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

#### **Alaska Student Loan Corporation**

This corporation, at the discretion of its board of directors, may make available to the state a return of contributed capital or dividend for any base year in which the net income of the corporation is \$2 million or more. A base year is defined as the year two years before the payment year. If the board authorizes a payment, it must be between 10% and 35% of net income for the base year (AS 14.42.295). The corporation may also issue bonds in an aggregate amount not to exceed \$280 million, for the purpose of financing projects of the state as those projects may be identified by law (AS 14.42.220).

#### **Alaska Municipal Bond Bank Authority**

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

#### **Alaska Aerospace Development Corporation**

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

#### **Alaska Railroad Corporation**

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

**9-6. Public Corporations—Operating Expenses and Dividends**

\$ Million

	Operating Expenses Subject to the Executive Budget Act		Dividends and/or Return of Capital	
	Actual	Budget	Actual	Budget
	FY 2005	FY 2006	FY 2005	FY 2006
Alaska Housing Finance Corporation	\$39.8	\$43.2	\$103.0 <sup>(1)</sup>	\$103.0
Alaska Industrial Development and Export Authority	\$6.4	\$7.4	\$22.0	\$8.8
Alaska Energy Authority	\$19.1	\$23.4	na	na
Alaska Student Loan Corporation	\$9.4	\$10.6	\$80.6	\$88.1
Alaska Municipal Bond Bank Authority	\$0.6	\$0.7	\$0.8	\$1.2
Alaska Aerospace Development Corporation	\$19.8	\$23.4	na	na
Alaska Railroad Corporation	na	na	na	na

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

**University of Alaska****9-7. University of Alaska**

\$ Million	\$ million	\$ million	\$ million	
Lands and Facilities	Total Assets	Unrestricted	FY 2006	FY 2006 <sup>(2)</sup>
June 30, 2005	June 30, 2005	Net Assets	Operating Budget	Total Positions
\$737.3 <sup>(1)</sup>	\$1,051.3	\$40.9	\$714.3	4,045

(1) Includes depreciation of \$544.9 million.

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

# 10.

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## Revenue. A-1

### Glossary of Terms used in this Revenue Sources Book

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

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

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

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

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

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

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

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

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

# Revenue. A-2

General Fund Unrestricted revenue Sensitivity matrices  
\$ Mil lion

ANS \$/barrel	FY 2006 Oil + NGLs Million barrels/ day			ANS \$/barrel	FY 2007 Oil + NGLs Million barrels/ day			ANS \$/barrel	FY 2008 Oil + NGLs Million barrels/ day		
	0.800	0.850	0.900		0.800	0.850	0.900		0.800	0.850	0.900
	25	2,070	2,080		2,090	25	1,870		1,930	1,980	25
26	2,100	2,110	2,130	26	1,920	1,980	2,040	26	1,810	1,870	1,930
27	2,130	2,140	2,160	27	1,970	2,030	2,090	27	1,860	1,920	1,980
28	2,170	2,190	2,210	28	2,010	2,080	2,150	28	1,910	1,970	2,030
29	2,220	2,250	2,270	29	2,060	2,130	2,200	29	1,950	2,020	2,090
30	2,270	2,300	2,330	30	2,110	2,180	2,250	30	2,000	2,070	2,140
31	2,320	2,350	2,390	31	2,160	2,230	2,310	31	2,050	2,120	2,190
32	2,370	2,410	2,450	32	2,200	2,280	2,360	32	2,090	2,170	2,240
33	2,420	2,460	2,500	33	2,250	2,330	2,410	33	2,140	2,220	2,300
34	2,460	2,510	2,560	34	2,300	2,380	2,470	34	2,180	2,270	2,350
35	2,510	2,570	2,620	35	2,350	2,440	2,520	35	2,230	2,320	2,400
36	2,560	2,620	2,680	36	2,400	2,490	2,580	36	2,280	2,360	2,450
37	2,610	2,670	2,740	37	2,440	2,540	2,630	37	2,320	2,410	2,500
38	2,660	2,730	2,790	38	2,490	2,590	2,680	38	2,370	2,460	2,560
39	2,710	2,780	2,850	39	2,540	2,640	2,740	39	2,420	2,510	2,610
40	2,750	2,830	2,910	40	2,590	2,690	2,790	40	2,460	2,560	2,660
41	2,800	2,890	2,970	41	2,640	2,740	2,850	41	2,510	2,610	2,710
42	2,850	2,940	3,030	42	2,680	2,790	2,900	42	2,560	2,660	2,770
43	2,900	2,990	3,090	43	2,730	2,840	2,950	43	2,600	2,710	2,820
44	2,950	3,050	3,140	44	2,780	2,890	3,010	44	2,650	2,760	2,870
45	3,000	3,100	3,200	45	2,830	2,940	3,060	45	2,700	2,810	2,920
46	3,050	3,150	3,260	46	2,880	3,000	3,120	46	2,740	2,860	2,970
47	3,090	3,200	3,310	47	2,920	3,050	3,170	47	2,790	2,910	3,030
48	3,140	3,260	3,370	48	2,970	3,100	3,220	48	2,830	2,960	3,080
49	3,190	3,310	3,430	49	3,020	3,150	3,280	49	2,880	3,010	3,130
50	3,240	3,360	3,490	50	3,070	3,200	3,330	50	2,930	3,060	3,180
51	3,290	3,420	3,550	51	3,110	3,250	3,390	51	2,970	3,100	3,240
52	3,340	3,470	3,600	52	3,160	3,300	3,440	52	3,020	3,150	3,290
53	3,390	3,520	3,660	53	3,210	3,350	3,490	53	3,070	3,200	3,340
54	3,430	3,580	3,720	54	3,260	3,400	3,550	54	3,110	3,250	3,390
55	3,480	3,630	3,780	55	3,310	3,450	3,600	55	3,160	3,300	3,450
56	3,530	3,680	3,840	56	3,350	3,500	3,660	56	3,210	3,350	3,500
57	3,580	3,740	3,890	57	3,400	3,560	3,710	57	3,250	3,400	3,550
58	3,630	3,790	3,950	58	3,450	3,610	3,760	58	3,300	3,450	3,600
59	3,680	3,840	4,010	59	3,500	3,660	3,820	59	3,350	3,500	3,650
60	3,730	3,900	4,070	60	3,550	3,710	3,870	60	3,390	3,550	3,710

Using volumes from this fall 2005 forecast, for every \$1 change in ANS crude oil prices, Alaska revenues change about \$50 million—if crude oil prices continue higher or lower every day of the year.

## Revenue. A-3

### Historical General Fund Unrestricted Revenue<sup>(1)</sup>

(includes Revenue Reflected as Restricted in this report)

\$ Million

FY	1996	1997	1998	1999	2000 <sup>(2)</sup>	2001 <sup>(2)</sup>	2002 <sup>(2)</sup>	2003 <sup>(2)</sup>	2004 <sup>(2)</sup>	2005 <sup>(2)</sup>
<b>TAX REVENUE</b>										
<b>Property Tax</b>	56.0	53.6	51.3	48.8	45.0	45.1	49.6	48.7	47.3	42.5
<b>Sales/Use</b>										
Alcoholic Beverages	12.0	11.6	11.8	12.2	12.7	12.0	12.9	25.3	32.8	34.6
Tobacco Products	14.2	13.7	15.4	15.2	16.3	16.3	15.5	16.3	16.0	26.2
Insurance Premium	28.2	28.4	33.7	28.4	28.7	32.2	37.4	43.3	48.1	52.9
Electric and Telephone Cooperative	2.5	2.7	2.3	3.7	3.2	3.3	3.1	3.7	4.0	4.0
Motor Fuel Tax <sup>(3)</sup>	37.7	35.3	35.6	37.8	42.1	37.5	40.2	37.4	41.4	39.6
Vehicle Rental/ Tire Tax	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>3.5</u>	<u>9.1</u>
<b>Total</b>	<b>94.6</b>	<b>91.7</b>	<b>98.8</b>	<b>97.3</b>	<b>103.0</b>	<b>101.3</b>	<b>109.1</b>	<b>126.0</b>	<b>145.8</b>	<b>166.4</b>
<b>Income Tax</b>										
Corporation General	53.3	48.4	53.4	53.8	56.3	59.5	53.4	47.7	39.6	61.8
Corporation Petroleum	<u>173.7</u>	<u>269.4</u>	<u>200.1</u>	<u>145.1</u>	<u>162.7</u>	<u>338.1</u>	<u>178.4</u>	<u>151.1</u>	<u>298.8</u>	<u>524.0</u>
<b>Total</b>	<b>227.0</b>	<b>317.8</b>	<b>253.5</b>	<b>198.9</b>	<b>219.0</b>	<b>397.6</b>	<b>231.8</b>	<b>198.8</b>	<b>338.4</b>	<b>585.8</b>
<b>Production Tax</b>										
Oil and Gas Production	771.7	907.0	564.4	358.6	693.2	694.4	486.7	589.8	642.7	854.9
Oil and Gas Conservation	1.8	1.7	1.6	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Oil and Gas Hazardous Release	<u>13.7</u>	<u>12.9</u>	<u>11.8</u>	<u>11.1</u>	<u>9.5</u>	<u>9.4</u>	<u>9.6</u>	<u>9.2</u>	<u>9.2</u>	<u>8.3</u>
<b>Total</b>	<b>787.2</b>	<b>921.6</b>	<b>577.8</b>	<b>371.1</b>	<b>702.7</b>	<b>703.8</b>	<b>496.3</b>	<b>599.0</b>	<b>651.9</b>	<b>863.2</b>
<b>Other Natural Resource Tax</b>										
Salmon and Seafood Marketing	8.6	7.6	5.6	5.3	7.2	5.7	4.8	4.4	5.0	5.5
Salmon Enhancement	5.2	4.2	4.2	3.9	5.3	3.6	3.7	2.4	3.0	3.8
Dive Fishery Management	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.0	0.0
Fisheries Business	38.2	31.0	28.5	25.9	36.9	30.5	25.3	26.0	29.3	25.9
Fish Landing	<u>7.1</u>	<u>7.3</u>	<u>3.8</u>	<u>5.9</u>	<u>5.3</u>	<u>7.3</u>	<u>7.1</u>	<u>9.8</u>	<u>6.9</u>	<u>8.1</u>
<b>Total</b>	<b>59.1</b>	<b>50.1</b>	<b>42.1</b>	<b>41.0</b>	<b>54.7</b>	<b>47.3</b>	<b>41.1</b>	<b>42.8</b>	<b>44.2</b>	<b>43.3</b>
<b>Other Tax</b>										
Estate	1.7	1.7	5.5	1.7	2.5	2.7	3.1	1.2	2.3	1.5
Other	<u>2.5</u>	<u>2.4</u>	<u>3.9</u>	<u>2.9</u>	<u>5.9</u>	<u>4.3</u>	<u>3.2</u>	<u>3.0</u>	<u>5.6</u>	<u>12.8</u>
<b>Total</b>	<b>4.2</b>	<b>4.1</b>	<b>9.4</b>	<b>4.6</b>	<b>8.4</b>	<b>7.0</b>	<b>6.3</b>	<b>4.2</b>	<b>7.9</b>	<b>14.3</b>
<b>TOTAL TAX REVENUE</b>	<b>1,228.1</b>	<b>1,438.9</b>	<b>1,032.9</b>	<b>761.7</b>	<b>1,132.8</b>	<b>1,302.1</b>	<b>934.2</b>	<b>1,019.5</b>	<b>1,235.5</b>	<b>1,715.5</b>

(continued on next page)

**Historical General Fund Unrestricted Revenue** (continued from prior page)  
(includes Revenue Reflected as Restricted in this report)  
\$ Million

FY	1996	1997	1998	1999	(2) 2000	(2) 2001	(2) 2002	(2) 2003	(2) 2004	(2) 2005
<b>NON TAX REVENUE</b>										
Licenses and Permits	60.9	69.0	74.6	63.7	69.2	37.3	42.2	33.6	41.8	42.7
Intergovernmental Receipts										
Federal Shared Revenues	1.0	2.0	2.2	0.8	1.0	0.3	0.1	0.0	0.0	0.0
Charges for Services										
Marine Highways	38.5	38.6	37.1	38.8	38.3	37.6	32.2	41.5	43.6	45.6
Other	<u>36.9</u>	<u>39.5</u>	<u>34.9</u>	<u>31.8</u>	<u>43.7</u>	<u>27.0</u>	<u>19.1</u>	<u>13.9</u>	<u>11.1</u>	<u>17.9</u>
<b>Total</b>	<b>75.4</b>	<b>78.1</b>	<b>72.0</b>	<b>70.6</b>	<b>82.0</b>	<b>64.6</b>	<b>51.3</b>	<b>55.4</b>	<b>54.7</b>	<b>63.5</b>
Fines and Forefeitures	9.4	8.2	37.7	12.5	46.2	33.6	6.6	7.0	16.0	8.8
Rents and Royalties										
Bonuses, Rents and Interest <sup>(4)(5)</sup>	6.9	7.4	23.0	25.6	4.0	7.1	14.6	9.6	10.4	12.1
Oil and Gas Royalties	642.2	759.2	480.4	322.6	727.9	781.0	581.2	830.7	1,045.7	1,401.0
Timber Sales	1.5	1.9	0.8	0.3	0.3	0.4	0.2	0.0	0.2	0.1
Other	<u>8.1</u>	<u>8.6</u>	<u>8.1</u>	<u>10.6</u>	<u>9.4</u>	<u>10.5</u>	<u>9.1</u>	<u>6.2</u>	<u>7.6</u>	<u>14.5</u>
<b>Total</b>	<b>658.7</b>	<b>777.1</b>	<b>512.3</b>	<b>359.1</b>	<b>741.6</b>	<b>799.0</b>	<b>605.1</b>	<b>846.5</b>	<b>1,063.9</b>	<b>1,427.7</b>
Investment Earnings <sup>(5)</sup>	64.1	77.1	60.6	46.5	48.1	78.8	43.1	59.0	9.7	24.7
Miscellaneous Revenue	35.8	44.6	33.5	37.3	27.1	34.9	42.3	9.4	19.2	17.1
<b>Sub-Total NON-TAX REVENUE</b>	<b>905.3</b>	<b>1,056.1</b>	<b>792.9</b>	<b>590.5</b>	<b>1,015.2</b>	<b>1,048.5</b>	<b>790.7</b>	<b>1,010.9</b>	<b>1,205.3</b>	<b>1,584.5</b>
Petroleum Special Settlements	<u>0.0</u>									
<b>TOTAL NON-TAX REVENUE</b>	<b>905.3</b>	<b>1,056.1</b>	<b>792.9</b>	<b>590.5</b>	<b>1,015.2</b>	<b>1,048.5</b>	<b>790.7</b>	<b>1,010.9</b>	<b>1,205.3</b>	<b>1,584.5</b>
<b>TOTAL TAX REVENUE</b>	<b>1,228.1</b>	<b>1,438.9</b>	<b>1,032.9</b>	<b>761.7</b>	<b>1,132.8</b>	<b>1,302.1</b>	<b>934.2</b>	<b>1,019.5</b>	<b>1,235.5</b>	<b>1,715.5</b>
<b>TOTAL GENERAL FUND UNRESTRICTED REVENUE</b>	<b>2,133.4</b>	<b>2,495.0</b>	<b>1,825.8</b>	<b>1,352.2</b>	<b>2,148.0</b>	<b>2,350.6</b>	<b>1,724.9</b>	<b>2,030.4</b>	<b>2,440.8</b>	<b>3,300.0</b>

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

(2) After FY 2000, all receipt-supported services are excluded.

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

(4) These categories are primarily composed of petroleum.

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

## Revenue. A-4a

### Historical General Fund Unrestricted Petroleum Revenue<sup>(1)</sup> \$ Mil lion

FY	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Corporation Petroleum Tax	173.7	269.4	200.1	145.1	162.7	338.1	178.4	151.1	298.8	524.0
Production Tax	787.2	921.6	577.8	371.1	702.7	703.8	496.3	599.0	651.9	863.2
Petroleum Property Tax	56.0	53.6	51.3	48.8	45.0	45.1	49.6	48.7	47.3	42.5
Reserve Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil and Royalties <sup>(2)</sup>	642.2	759.2	480.4	322.6	727.9	781.0	581.2	830.7	1,045.7	1,401.0
Bonuses, Rents and Interest <sup>(2)(3)</sup>	6.9	7.4	23.0	25.6	4.0	7.1	14.6	9.6	10.4	12.1
Petroleum Special Settlements <sup>(4)</sup>	<u>0.0</u>									
<b>Total Petroleum Revenue</b>	<b>1,666.0</b>	<b>2,011.2</b>	<b>1,332.6</b>	<b>913.2</b>	<b>1,642.3</b>	<b>1,875.1</b>	<b>1,320.1</b>	<b>1,639.1</b>	<b>2,054.1</b>	<b>2,842.8</b>
<b>Cumulative Total Petroleum Revenue<sup>(5)</sup></b>	42,332.2	44,343.4	45,676.0	46,589.2	48,231.5	50,106.6	51,426.7	53,065.8	55,119.9	57,967.2
<b>Total General Fund Unrestricted Revenue</b>	<b>2,133.4</b>	<b>2,495.0</b>	<b>1,825.8</b>	<b>1,352.2</b>	<b>2,148.0</b>	<b>2,350.6</b>	<b>1,724.9</b>	<b>2,030.4</b>	<b>2,440.8</b>	<b>3,300.0</b>
<b>% Petroleum Revenue</b>	<b>78%</b>	<b>81%</b>	<b>73%</b>	<b>68%</b>	<b>76%</b>	<b>80%</b>	<b>76%</b>	<b>81%</b>	<b>84%</b>	<b>86%</b>

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

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

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

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

(5) This table shows historical petroleum revenue for FY 1996-2005. The cumulative petroleum revenue total is based on revenue beginning in FY 1959.

## Revenue. A-4b

### Forecasted General Fund Unrestricted Petroleum Revenue \$ Million

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Corporation Petroleum Tax	525.1	444.1	354.3	191.5	187.9	190.7	189.1	184.9	182.9	177.8
Production Tax	1,130.8	891.6	714.8	399.7	385.2	360.5	338.8	309.9	283.9	266.5
Petroleum Property Tax	42.5	36.7	36.2	36.2	35.6	34.4	34.1	33.9	33.6	33.6
Reserve Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Royalties <sup>(2)</sup>	1,707.4	1,364.0	1,076.9	589.0	577.4	545.8	523.0	489.2	459.7	440.4
Bonuses, Rents & Interest <sup>(2)(3)</sup>	21.1	33.5	14.6	12.4	11.9	12.1	11.5	13.1	16.9	12.8
Petroleum Special Settlements <sup>(4)</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Petroleum Revenue</b>	<b>3,426.9</b>	<b>2,769.9</b>	<b>2,196.8</b>	<b>1,228.8</b>	<b>1,198.0</b>	<b>1,143.6</b>	<b>1,096.4</b>	<b>1,031.1</b>	<b>977.1</b>	<b>931.1</b>
<b>Cumulative TOTAL Petroleum Revenue</b>	<b>61,389.7</b>	<b>64,159.5</b>	<b>66,356.3</b>	<b>67,585.1</b>	<b>68,783.1</b>	<b>69,926.7</b>	<b>71,023.1</b>	<b>72,054.2</b>	<b>73,031.3</b>	<b>73,962.3</b>
<b>Total General Fund Unrestricted Revenue</b>	<b>3,809.7</b>	<b>3,139.3</b>	<b>2,571.9</b>	<b>1,606.8</b>	<b>1,578.3</b>	<b>1,526.8</b>	<b>1,483.4</b>	<b>1,421.5</b>	<b>1,370.9</b>	<b>1,328.9</b>
<b>% Petroleum Revenue</b>	<b>90%</b>	<b>88%</b>	<b>85%</b>	<b>76%</b>	<b>76%</b>	<b>75%</b>	<b>74%</b>	<b>73%</b>	<b>71%</b>	<b>70%</b>

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

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

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

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

(5) This table shows historical petroleum revenue for FY 1996-2005. The cumulative petroleum revenue total is based on revenue beginning in FY 1959.

## Revenue. A-5a

### Historical Petroleum Production Tax & Royalty Revenue<sup>(1)</sup> \$ Mil lion

FY	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Alaska North Slope</b>										
Oil Royalty - net <sup>(2)</sup>	595.5	735.5	441.2	297.9	658.4	797.4	546.5	827.5	959.1	1,300.4
Oil Production Tax	713.6	868.9	545.2	328.0	632.6	667.1	444.5	549.6	594.5	787.3
Conservation Tax/ Exploration Incentive <sup>(3)</sup>	1.8	1.7	1.5	1.4	0.1	0.0	0.0	0.0	0.0	(30.0)
Hazardous Release Fund	13.0	12.6	11.3	10.5	9.4	9.0	9.0	9.0	9.6	8.2
Gas Royalty (Net of PF & PSF; under HB 11)	1.0	1.1	0.8	0.8	0.9	1.0	1.3	3.2	6.6	6.7
Gas Production Tax (includes gas NGL's)	<u>25.9</u>	<u>32.0</u>	<u>18.6</u>	<u>11.4</u>	<u>22.3</u>	<u>20.3</u>	<u>9.3</u>	<u>12.7</u>	<u>17.6</u>	<u>30.5</u>
<b>Subtotal</b>	<b>1,350.8</b>	<b>1,651.9</b>	<b>1,018.7</b>	<b>650.0</b>	<b>1,323.8</b>	<b>1,494.8</b>	<b>1,010.6</b>	<b>1,402.0</b>	<b>1,587.3</b>	<b>2,103.2</b>
<b>Cook Inlet</b>										
Oil Royalty - net <sup>(2)</sup>	18.8	21.2	13.5	10.2	19.5	27.4	18.8	24.2	26.0	29.2
Oil Production Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Conservation Tax/ Exploration Incentive <sup>(3)</sup>	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.2
Gas Royalty (Net of PF & PSF; under HB 11)	19.6	22.4	20.9	18.3	19.4	30.5	25.2	23.4	39.2	31.1
Gas Production Tax	<u>15.4</u>	<u>18.2</u>	<u>18.4</u>	<u>13.2</u>	<u>16.0</u>	<u>17.9</u>	<u>23.4</u>	<u>23.0</u>	<u>24.7</u>	<u>24.4</u>
<b>Subtotal</b>	<b>54.2</b>	<b>62.2</b>	<b>53.2</b>	<b>42.2</b>	<b>55.2</b>	<b>75.9</b>	<b>67.7</b>	<b>70.9</b>	<b>90.1</b>	<b>85.0</b>
<b>Total Alaska</b>										
Oil Royalty - net <sup>(2)</sup>	614.3	756.8	454.8	308.1	678.0	824.7	565.3	851.8	985.0	1,329.6
Oil Production Tax	713.6	868.9	545.2	328.0	632.6	667.1	444.5	549.6	594.5	787.3
Conservation Tax/ Exploration Incentive <sup>(3)</sup>	1.9	1.7	1.6	1.5	0.1	0.0	0.0	0.0	0.0	(30.0)
Hazardous Release Fund	13.4	13.0	11.6	10.9	9.7	9.2	9.3	9.2	9.8	8.4
Gas Royalty (Net of PF & PSF; under HB 11)	20.6	23.5	21.7	19.1	20.3	31.5	26.4	26.6	45.7	37.8
Gas Production Tax (includes gas NGL's)	<u>41.2</u>	<u>50.2</u>	<u>37.0</u>	<u>24.7</u>	<u>38.3</u>	<u>38.1</u>	<u>32.7</u>	<u>35.7</u>	<u>42.3</u>	<u>55.0</u>
<b>Total Alaska</b>	<b>1,405.0</b>	<b>1,714.0</b>	<b>1,071.9</b>	<b>692.2</b>	<b>1,379.0</b>	<b>1,570.7</b>	<b>1,078.3</b>	<b>1,472.9</b>	<b>1,677.4</b>	<b>2,188.2</b>

(1) Appendix A-5a and b provide a breakout of Alaska North Slope and Cook Inlet revenues which may not match AKSAS numbers in tables throughout Revenue Sources Book. A complete summary of historical unrestricted production tax and royalty revenue can be found on the Tax Division's web site at <http://www.tax.state.ak.us>.

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

(3) The extension of the Exploration Incentive Credit to 2010 has not been included in the table. The spring 2006 edition of the Revenue Sources Book will break out the expected credit as well as provide for a Bristol Bay credit.

## Revenue. A-5b

### Forecasted Petroleum Production Tax & Royalty Revenue \$ Million

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Alaska North Slope</b>										
Oil Royalty - net <sup>(2)</sup>	1,638.9	1,309.3	1,027.7	548.4	536.4	516.6	493.7	459.8	430.1	410.5
Oil Production Tax	1,115.0	892.5	670.8	362.3	347.2	321.5	299.2	270.0	243.6	225.9
Conservation Tax/ Exploration Incentive <sup>(3)</sup>	(50.0)	(50.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	7.9	7.8	7.7	7.7	7.7	8.0	7.9	7.6	7.3	7.1
Gas Royalty (Net of PF & PSF; under HB 11)	4.9	2.3	1.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Gas Production Tax (includes gas NGL's)	<u>31.6</u>	<u>21.4</u>	<u>15.7</u>	<u>8.5</u>	<u>8.5</u>	<u>8.5</u>	<u>8.5</u>	<u>8.4</u>	<u>8.4</u>	<u>8.1</u>
<b>Subtotal</b>	<b>2,748.3</b>	<b>2,183.3</b>	<b>1,723.8</b>	<b>928.0</b>	<b>901.0</b>	<b>855.8</b>	<b>810.4</b>	<b>746.9</b>	<b>690.5</b>	<b>652.6</b>
<b>Cook Inlet</b>										
Oil Royalty - net <sup>(2)</sup>	33.0	25.8	19.9	11.2	10.6	10.0	9.5	9.0	8.6	8.2
Oil Production Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Conservation Tax/ Exploration Incentive <sup>(3)</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Gas Royalty (Net of PF & PSF; under HB 11)	30.6	26.6	27.4	28.3	29.2	18.1	18.7	19.3	19.9	20.6
Gas Production Tax	<u>26.1</u>	<u>19.7</u>	<u>20.3</u>	<u>20.9</u>	<u>21.6</u>	<u>22.3</u>	<u>23.0</u>	<u>23.7</u>	<u>24.5</u>	<u>25.3</u>
<b>Subtotal</b>	<b>89.9</b>	<b>72.3</b>	<b>67.9</b>	<b>60.7</b>	<b>61.6</b>	<b>50.6</b>	<b>51.4</b>	<b>52.2</b>	<b>53.2</b>	<b>54.2</b>
<b>Total Alaska</b>										
Oil Royalty - net <sup>(2)</sup>	1,671.9	1,335.1	1,047.6	559.6	547.0	526.6	503.2	468.8	438.7	418.7
Oil Production Tax	1,115.0	892.5	670.8	362.3	347.2	321.5	299.2	270.0	243.6	225.9
Conservation Tax/ Exploration Incentive <sup>(3)</sup>	(50.0)	(50.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	8.1	8.0	7.9	8.0	7.9	8.1	8.1	7.8	7.5	7.2
Gas Royalty (Net of PF & PSF; under HB 11)	35.5	28.9	29.3	29.4	30.3	19.2	19.8	20.4	21.0	21.7
Gas Production Tax (includes gas NGL's)	<u>57.7</u>	<u>41.1</u>	<u>36.0</u>	<u>29.4</u>	<u>30.1</u>	<u>30.8</u>	<u>31.5</u>	<u>32.1</u>	<u>32.9</u>	<u>33.4</u>
<b>Subtotal</b>	<b>2,838.2</b>	<b>2,255.6</b>	<b>1,791.7</b>	<b>988.7</b>	<b>962.6</b>	<b>906.3</b>	<b>861.7</b>	<b>799.1</b>	<b>743.7</b>	<b>706.9</b>

(1) Appendix A-5a and b provide a breakout of Alaska North Slope and Cook Inlet revenues which may not match AKSAS numbers in tables throughout Revenue Sources Book. A complete summary of historical unrestricted production tax and royalty revenue can be found on the Tax Division's web site at <http://www.tax.state.ak.us>.

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

(3) The extension of the Exploration Incentive Credit to 2010 has not been included in the table. The spring 2006 edition of the Revenue Sources Book will break out the expected credit as well as provide for a Bristol Bay credit.

# Revenue. A-6a

Historical Royalty Revenue<sup>(1)</sup>  
\$ Million

FY	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>ALASKA NORTH SLOPE</b>										
<u>Total Revenue</u>										
Oil (does not include NPR-A royalty)	818.3	1,005.7	602.2	402.4	897.0	1,099.5	761.1	1,142.0	1,287.3	1,745.6
Gas	<u>1.4</u>	<u>1.5</u>	<u>1.1</u>	<u>1.0</u>	<u>1.2</u>	<u>1.4</u>	<u>1.8</u>	<u>4.4</u>	<u>8.8</u>	<u>9.0</u>
ANS Gross Royalty Revenue	819.7	1,007.2	603.3	403.4	898.2	1,100.9	762.8	1,146.4	1,296.1	1,754.5
<u>Revenue to Permanent Fund &amp; Public School Fund</u>										
Oil	222.8	270.1	160.9	104.5	238.5	302.1	214.6	314.5	328.3	445.1
Gas	<u>0.4</u>	<u>0.4</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.4</u>	<u>0.5</u>	<u>1.2</u>	<u>2.2</u>	<u>2.3</u>
ANS Revenue to PF & PSF	223.1	270.5	161.2	104.8	238.9	302.5	215.1	315.7	330.5	447.4
<u>General Fund Revenue</u>										
Oil	595.5	735.5	441.2	297.9	658.4	797.4	546.5	827.5	959.1	1,300.4
Gas	<u>1.0</u>	<u>1.1</u>	<u>0.8</u>	<u>0.8</u>	<u>0.9</u>	<u>1.0</u>	<u>1.3</u>	<u>3.2</u>	<u>6.6</u>	<u>6.7</u>
ANS Net Royalty Revenue	596.6	736.6	442.1	298.6	659.4	798.4	547.8	830.7	965.6	1,307.1
<b>COOK INLET</b>										
<u>Total Revenue</u>										
Oil	25.2	28.5	18.2	13.7	26.2	36.7	25.3	32.5	34.9	39.2
Gas	<u>26.3</u>	<u>30.0</u>	<u>28.1</u>	<u>24.6</u>	<u>26.0</u>	<u>40.9</u>	<u>33.8</u>	<u>31.4</u>	<u>52.6</u>	<u>41.8</u>
Cook Inlet Gross Royalty Revenue	51.5	58.5	46.2	38.3	52.3	77.6	59.1	63.9	87.4	81.0
<u>Revenue to Permanent Fund &amp; Public School Fund</u>										
Oil	6.4	7.3	4.6	3.5	6.7	9.4	6.4	8.3	8.9	10.0
Gas	<u>6.7</u>	<u>7.7</u>	<u>7.2</u>	<u>6.3</u>	<u>6.6</u>	<u>10.4</u>	<u>8.6</u>	<u>8.0</u>	<u>13.4</u>	<u>10.7</u>
Cook Inlet Revenue to PF & PSF	13.1	14.9	11.8	9.8	13.3	19.8	15.1	16.3	22.3	20.7
<u>General Fund Revenue</u>										
Oil	18.8	21.2	13.5	10.2	19.5	27.4	18.8	24.2	26.0	29.2
Gas	<u>19.6</u>	<u>22.4</u>	<u>20.9</u>	<u>18.3</u>	<u>19.4</u>	<u>30.5</u>	<u>25.2</u>	<u>23.4</u>	<u>39.2</u>	<u>31.1</u>
Cook Inlet Net Royalty Revenue	38.4	43.6	34.5	28.6	38.9	57.8	44.0	47.6	65.1	60.3

## Revenue. A-6b

### Forecasted Royalty Revenue \$ Mil lion

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>ALASKA NORTH SLOPE</b>										
<u>Total Revenue</u>										
Oil (does not include NPR-A royalty)	2,199.8	1,757.4	1,379.4	736.0	720.1	693.4	662.7	617.2	577.3	551.0
Gas	<u>6.6</u>	<u>3.1</u>	<u>2.5</u>	<u>1.5</u>						
ANS Gross Royalty Revenue	2,206.4	1,760.5	1,382.0	737.5	721.5	694.9	664.2	618.7	578.8	552.5
<u>Revenue to Permanent Fund &amp; Public School Fund</u>										
Oil	561.0	448.1	351.8	187.7	183.6	176.8	169.0	157.4	147.2	140.5
Gas	<u>1.7</u>	<u>0.8</u>	<u>0.6</u>	<u>0.4</u>						
ANS Revenue to PF & PSF	562.6	448.9	352.4	188.1	184.0	177.2	169.4	157.8	147.6	140.9
<u>General Fund Revenue</u>										
Oil	1,638.9	1,309.3	1,027.7	548.4	536.4	516.6	493.7	459.8	430.1	410.5
Gas	<u>4.9</u>	<u>2.3</u>	<u>1.9</u>	<u>1.1</u>						
ANS Net Royalty Revenue	1,643.8	1,311.6	1,029.6	549.5	537.6	517.7	494.8	460.9	431.2	411.6
<b>COOK INLET</b>										
<u>Total Revenue</u>										
Oil	44.4	34.7	26.8	15.1	14.2	13.4	12.8	12.1	11.6	11.0
Gas	<u>41.0</u>	<u>35.6</u>	<u>36.8</u>	<u>38.0</u>	<u>39.2</u>	<u>24.2</u>	<u>25.0</u>	<u>25.9</u>	<u>26.7</u>	<u>27.6</u>
Cook Inlet Gross Royalty Revenue	85.4	70.3	63.6	53.1	53.4	37.7	37.8	38.0	38.3	38.6
<u>Revenue to Permanent Fund &amp; Public School Fund</u>										
Oil	11.3	8.8	6.8	3.8	3.6	3.4	3.3	3.1	3.0	2.8
Gas	<u>10.5</u>	<u>9.1</u>	<u>9.4</u>	<u>9.7</u>	<u>10.0</u>	<u>6.2</u>	<u>6.4</u>	<u>6.6</u>	<u>6.8</u>	<u>7.0</u>
Cook Inlet Revenue to PF & PSF	21.8	17.9	16.2	13.5	13.6	9.6	9.6	9.7	9.8	9.9
<u>General Fund Revenue</u>										
Oil	33.0	25.8	19.9	11.2	10.6	10.0	9.5	9.0	8.6	8.2
Gas	<u>30.6</u>	<u>26.6</u>	<u>27.4</u>	<u>28.3</u>	<u>29.2</u>	<u>18.1</u>	<u>18.7</u>	<u>19.3</u>	<u>19.9</u>	<u>20.6</u>
Cook Inlet Net Royalty Revenue	63.6	52.4	47.3	39.6	39.8	28.1	28.2	28.3	28.5	28.8

## Prices. B-1a

### Historical Nominal Crude Oil and Natural Gas Prices<sup>(1)</sup>

#### WTI, ANS West Coast, ANS and Cook Inlet Wellhead Crude Oil Prices \$ per Barrel

FY	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
WTI	19.20	22.54	18.03	14.09	24.82	30.41	23.80	29.47	33.10	47.19
ANS West Coast	17.74	20.90	15.86	12.73	23.27	27.85	21.78	28.15	31.74	43.43
ANS Wellhead	12.67	16.43	11.85	8.47	19.05	22.83	16.80	23.16	26.80	38.92
Cook Inlet Wellhead	15.63	18.77	13.75	10.53	21.08	26.93	20.46	25.03	27.89	40.26

#### Henry Hub and Chicago City Gate Natural Gas Prices \$ per MM BTU

FY	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Henry Hub	2.38	2.48	2.43	1.97	2.64	5.47	2.80	4.62	5.37	6.18
Chicago City Gate	2.80	2.62	2.51	2.03	2.69	5.66	2.81	4.67	5.42	6.16

(1) A complete summary of historical nominal crude oil and natural gas prices can be found on the Tax Division's web site at <http://www.tax.state.ak.us>.

## Prices. B-1b

### Forecasted Nominal Crude Oil and Natural Gas Prices

#### WTI, ANS West Coast, ANS and Cook Inlet Wellhead Crude Oil Prices \$ per Barrel

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
WTI	59.65	51.50	43.25	27.50	27.50	27.50	27.50	27.50	27.50	27.50
ANS West Coast	57.30	49.20	40.95	25.50	25.50	25.50	25.50	25.50	25.50	25.50
ANS Wellhead	51.52	43.27	35.03	19.54	19.49	19.34	19.30	19.07	18.82	18.69
Cook Inlet Wellhead	54.97	47.14	38.90	23.46	23.49	23.48	23.49	23.50	23.50	23.51

#### Henry Hub and Chicago City Gate Natural Gas Prices \$ per MM BTU

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Henry Hub	9.19	7.79	6.79	6.28	6.28	6.28	6.28	6.28	6.28	6.28
Chicago City Gate	9.12	7.76	6.76	6.25	6.25	6.25	6.25	6.25	6.25	6.25

## Prices. B-2a

### Historical Real 2005\$ Crude Oil and Natural Gas Prices

#### WTI, ANS West Coast, ANS and Cook Inlet Wellhead Crude Oil Prices \$ per Barrel

FY	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
WTI	23.88	27.29	21.34	16.40	28.33	33.46	25.37	31.08	34.18	47.19
ANS West Coast	22.07	25.30	18.77	14.82	26.56	30.65	23.21	29.69	32.78	43.43
ANS Wellhead	15.76	19.89	14.02	9.85	21.75	25.12	17.90	24.42	27.68	38.92
Cook Inlet Wellhead	19.44	22.72	16.27	12.25	24.06	29.64	21.81	26.40	28.80	40.26

#### Henry Hub and Chicago City Gate Natural Gas Prices \$ per MM BTU

FY	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Henry Hub	2.97	3.00	2.87	2.29	3.02	6.02	2.99	4.87	5.55	6.18
Chicago City Gate	3.48	3.17	2.97	2.36	3.07	6.23	2.99	4.92	5.60	6.16

## Prices. B-2b

### Forecasted Real 2005\$ Crude Oil and Natural Gas Prices

#### WTI, ANS West Coast, ANS and Cook Inlet Wellhead Crude Oil Prices \$ per Barrel

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
WTI	58.14	48.92	40.04	24.82	24.19	23.57	22.98	22.40	21.83	21.27
ANS West Coast	55.85	46.74	37.92	23.01	22.43	21.86	21.31	20.77	20.24	19.73
ANS Wellhead	50.21	41.10	32.44	17.64	17.14	16.58	16.13	15.53	14.94	14.46
Cook Inlet Wellhead	53.58	44.78	36.02	21.17	20.66	20.13	19.62	19.13	18.66	18.19

#### Henry Hub and Chicago City Gate Natural Gas Prices \$ per MM BTU

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Henry Hub	8.96	7.40	6.28	5.67	5.52	5.38	5.25	5.11	4.98	4.86
Chicago City Gate	8.89	7.37	6.26	5.64	5.50	5.36	5.22	5.09	4.96	4.84

## Prices. B-3

### Price Changes from Spring 2005 Forecast \$ per barrel

FY	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Fall 2005 Forecast</b>											
WTI	47.19	59.65	51.50	43.25	27.50	27.50	27.50	27.50	27.50	27.50	27.50
ANS West Coast	43.43	57.30	49.20	40.95	25.50	25.50	25.50	25.50	25.50	25.50	25.50
ANS Wellhead	38.92	51.52	43.27	35.03	19.54	19.49	19.34	19.30	19.07	18.82	18.69
Cook Inlet Wellhead	40.26	54.97	47.14	38.90	23.46	23.49	23.48	23.49	23.50	23.50	23.51
<b>Spring 2005 Forecast</b>											
WTI	45.75	42.00	37.10	27.50	27.50	27.50	27.50	27.50	27.50	27.50	27.50
ANS West Coast	41.75	38.60	34.30	25.50	25.50	25.50	25.50	25.50	25.50	25.50	25.50
ANS Wellhead	36.74	33.07	28.66	19.90	19.80	19.71	19.51	19.50	19.34	19.15	18.90
Cook Inlet Wellhead	38.63	36.42	32.13	23.34	23.35	23.36	23.37	23.38	23.39	23.49	23.49
<u>price change from prior forecast</u>											
WTI	1.44	17.65	14.40	15.75	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ANS West Coast	1.68	18.70	14.90	15.45	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ANS Wellhead	2.18	18.45	14.60	15.13	(0.26)	(0.22)	(0.17)	(0.20)	(0.27)	(0.33)	(0.21)
Cook Inlet Wellhead	1.63	18.55	15.01	15.56	0.11	0.13	0.11	0.10	0.10	0.01	0.02
<u>percent change from prior forecast</u>											
WTI	3.1%	42.0%	38.8%	57.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ANS West Coast	4.0%	48.4%	43.4%	60.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ANS Wellhead	5.9%	55.8%	50.9%	76.0%	(1.3%)	(1.1%)	(0.9%)	(1.0%)	(1.4%)	(1.7%)	(1.1%)
Cook Inlet Wellhead	4.2%	50.9%	46.7%	66.7%	0.5%	0.6%	0.5%	0.4%	0.4%	0.1%	0.1%

# Production. C-1

## Production Changes from Spring 2005 Forecast Million Barrels per Day

FY	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Fall 2005 Forecast</b>											
ANS	0.917	0.865	0.843	0.832	0.834	0.832	0.853	0.845	0.818	0.789	0.762
Cook Inlet	<u>0.019</u>	<u>0.018</u>	<u>0.017</u>	<u>0.016</u>	<u>0.014</u>	<u>0.014</u>	<u>0.013</u>	<u>0.012</u>	<u>0.011</u>	<u>0.011</u>	<u>0.010</u>
Total Alaska	0.936	0.884	0.860	0.847	0.849	0.845	0.866	0.858	0.829	0.800	0.772
<b>Spring 2005 Forecast</b>											
ANS Total	0.920	0.911	0.911	0.922	0.881	0.853	0.870	0.856	0.856	0.862	0.833
Cook Inlet	<u>0.023</u>	<u>0.019</u>	<u>0.017</u>	<u>0.016</u>	<u>0.014</u>	<u>0.013</u>	<u>0.013</u>	<u>0.012</u>	<u>0.011</u>	<u>0.010</u>	<u>0.010</u>
ALASKA	0.943	0.930	0.928	0.936	0.894	0.867	0.883	0.868	0.866	0.872	0.842
<b>volume change from prior forecast</b>											
ANS Total	(0.003)	(0.045)	(0.068)	(0.090)	(0.047)	(0.022)	(0.017)	(0.011)	(0.038)	(0.073)	(0.071)
Cook Inlet	<u>(0.004)</u>	<u>(0.000)</u>	<u>(0.000)</u>	<u>(0.000)</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.001</u>	<u>0.001</u>
ALASKA	(0.007)	(0.046)	(0.068)	(0.090)	(0.047)	(0.021)	(0.017)	(0.011)	(0.038)	(0.072)	(0.070)
<b>percent change from prior forecast</b>											
ANS	(0.3%)	(5.0%)	(7.5%)	(9.8%)	(5.3%)	(2.5%)	(1.9%)	(1.3%)	(4.5%)	(8.5%)	(8.5%)
Cook Inlet	<u>(16.3%)</u>	<u>(2.6%)</u>	<u>(1.0%)</u>	<u>(0.6%)</u>	<u>0.2%</u>	<u>1.2%</u>	<u>1.4%</u>	<u>2.2%</u>	<u>2.9%</u>	<u>7.4%</u>	<u>7.4%</u>
Total Alaska	(0.7%)	(4.9%)	(7.4%)	(9.6%)	(5.2%)	(2.5%)	(1.9%)	(1.2%)	(4.4%)	(8.3%)	(8.3%)

## Production. C-2a

Historical Crude Oil Production<sup>(1)</sup>  
Million Barrels per Day

FY	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Alaska North Slope</b>										
Prudhoe Bay <sup>(2)</sup>	0.891	0.809	0.713	0.636	0.571	0.540	0.487	0.433	0.419	0.381
PBU Satellites <sup>(3)</sup>	0.000	0.000	0.000	0.003	0.004	0.007	0.026	0.045	0.052	0.044
Kuparuk	0.283	0.267	0.260	0.241	0.212	0.197	0.176	0.160	0.155	0.142
Kuparuk Satellites <sup>(4)</sup>	0.000	0.000	0.001	0.025	0.037	0.031	0.039	0.052	0.049	0.052
Milne Point <sup>(5)</sup>	0.022	0.052	0.053	0.055	0.053	0.052	0.052	0.051	0.051	0.050
Endicott <sup>(6)</sup>	0.089	0.068	0.058	0.048	0.046	0.037	0.033	0.029	0.029	0.021
GPMA <sup>(7)</sup>	0.189	0.208	0.190	0.156	0.117	0.089	0.075	0.065	0.061	0.056
Alpine	0.000	0.000	0.000	0.000	0.000	0.038	0.096	0.098	0.099	0.104
Northstar	0.000	0.000	0.000	0.000	0.000	0.000	0.019	0.057	0.066	0.069
Nanuq <sup>(8)</sup>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Fiord <sup>(9)</sup>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Known Offshore <sup>(10)</sup>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Known Onshore <sup>(11)</sup>	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Liberty	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
NPR-A	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Point Thomson	<u>0.000</u>									
<b>Subtotal</b>	<b>1.474</b>	<b>1.404</b>	<b>1.275</b>	<b>1.164</b>	<b>1.040</b>	<b>0.991</b>	<b>1.004</b>	<b>0.991</b>	<b>0.980</b>	<b>0.917</b>
<b>Cook Inlet</b>	<b>0.042</b>	<b>0.037</b>	<b>0.032</b>	<b>0.032</b>	<b>0.029</b>	<b>0.029</b>	<b>0.033</b>	<b>0.028</b>	<b>0.023</b>	<b>0.019</b>
<b>Total Alaska</b>	<b>1.516</b>	<b>1.441</b>	<b>1.307</b>	<b>1.196</b>	<b>1.069</b>	<b>1.020</b>	<b>1.036</b>	<b>1.020</b>	<b>1.004</b>	<b>0.936</b>

(1) A complete summary of historical crude oil production can be found on the Tax Division's web site at <http://www.tax.state.ak.us>.

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

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

(4) Meltwater, Tabasco, Tarn and West Sak

(5) Milne Point, Sag River and Schrader Bluff

(6) Endicott, Badami, Eider and Sag Delta

(7) Lisburne, Niakuk, Point McIntyre, North Prudhoe Bay State and West Beach

(8) Nanuq and Nanuq-Kuparuk

(9) Fiord and Fiord-Kuparuk

(10) Flaxman, Gwyder and Sourdough

(11) Sandpiper and other onshore discoveries

## Production. C-2b

Forecasted Crude Oil Production  
Million Barrels per Day

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Alaska North Slope</b>										
Prudhoe Bay <sup>(2)</sup>	0.347	0.337	0.323	0.311	0.301	0.289	0.277	0.267	0.257	0.248
PBU Satellites <sup>(3)</sup>	0.046	0.052	0.058	0.067	0.070	0.070	0.067	0.062	0.058	0.054
Kuparuk	0.136	0.126	0.119	0.113	0.108	0.104	0.099	0.096	0.092	0.089
Kuparuk Satellites <sup>(4)</sup>	0.044	0.056	0.065	0.069	0.072	0.077	0.080	0.084	0.085	0.086
Milne Point <sup>(5)</sup>	0.044	0.044	0.043	0.043	0.044	0.043	0.042	0.040	0.040	0.040
Endicott <sup>(6)</sup>	0.020	0.018	0.016	0.015	0.015	0.014	0.014	0.015	0.015	0.015
GPMA <sup>(7)</sup>	0.050	0.045	0.041	0.039	0.036	0.034	0.033	0.031	0.029	0.028
Alpine	0.122	0.105	0.090	0.083	0.076	0.067	0.058	0.050	0.043	0.037
Northstar	0.056	0.045	0.036	0.029	0.023	0.018	0.015	0.013	0.011	0.010
Nanuq <sup>(8)</sup>	0.000	0.006	0.011	0.012	0.012	0.011	0.010	0.010	0.009	0.008
Fiord <sup>(9)</sup>	0.000	0.011	0.019	0.023	0.023	0.021	0.015	0.008	0.005	0.004
Known Offshore <sup>(10)</sup>	0.000	0.000	0.000	0.000	0.010	0.010	0.010	0.009	0.008	0.007
Known Onshore <sup>(11)</sup>	0.000	0.000	0.010	0.030	0.040	0.039	0.036	0.033	0.029	0.040
Liberty	0.000	0.000	0.000	0.000	0.000	0.035	0.050	0.048	0.038	0.031
NPR-A	0.000	0.000	0.000	0.000	0.000	0.020	0.038	0.054	0.070	0.064
Point Thomson	<u>0.000</u>									
<b>Total</b>	<b>0.865</b>	<b>0.843</b>	<b>0.832</b>	<b>0.834</b>	<b>0.832</b>	<b>0.853</b>	<b>0.845</b>	<b>0.818</b>	<b>0.789</b>	<b>0.762</b>
<b>Cook Inlet</b>	<b>0.018</b>	<b>0.017</b>	<b>0.016</b>	<b>0.014</b>	<b>0.014</b>	<b>0.013</b>	<b>0.012</b>	<b>0.011</b>	<b>0.011</b>	<b>0.010</b>
<b>Total Alaska</b>	<b>0.884</b>	<b>0.860</b>	<b>0.847</b>	<b>0.849</b>	<b>0.845</b>	<b>0.866</b>	<b>0.858</b>	<b>0.829</b>	<b>0.800</b>	<b>0.772</b>

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

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

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(9) Fiord and Fiord-Kuparuk

(10) Flaxman, Gwyder and Sourdough

(11) Sandpiper and other onshore discoveries

## Production. C-3a

Historical Economic Limit Factors for Fields  
Percent

FY	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Prudhoe Bay	0.9788	0.9725	0.9626	0.9489	0.9308	0.9170	0.8960	0.8701	0.8547	0.8430
Midnight Sun	0	0	0	0	0	0	0	0	0	0.2954
Polaris	0	0	0	0	0	0	0	0	0	0.2954
Orion	0	0	0	0	0	0	0	0	0	0.2961
Aurora	0	0	0	0	0	0	0	0	0	0.2954
Borealis	0	0	0	0	0	0	0.0785	0.1140	0.0839	0.3009
Kuparuk	0.8235	0.7814	0.7584	0.7017	0.5977	0.4934	0.3526	0.2292	0.1798	0.0507
Tarn	0	0	0	0.0713	0.0476	0.0040	0.0421	0.0996	0.0597	0.0097
Milne Point	0	0.0193	0.0310	0.0427	0.0254	0.0106	0.0013	0	0	0
Endicott	0.6927	0.4734	0.3029	0.0862	0.0487	0.0089	0.0014	0.0003	0.0002	0
Point McIntyre	0.9466	0.9496	0.9220	0.8510	0.6300	0.4312	0.2064	0.1603	0.1084	0.3187
Niakuk	0	0	0	0	0	0	0	0	0	0
Alpine	0	0	0	0	0	0.3458	0.8784	0.8570	0.8430	0.8299
Northstar	0	0	0	0	0	0	0.4198	0.8642	0.8468	0.8310
Fiord	0	0	0	0	0	0	0	0	0	0
Known Offshore	0	0	0	0	0	0	0	0	0	0
NPR-A	0	0	0	0	0	0	0	0	0	0
Pt. Thomson	0	0	0	0	0	0	0	0	0	0
<b>Volume Weighted ELF</b>	<b>0.8875</b>	<b>0.8504</b>	<b>0.8232</b>	<b>0.7628</b>	<b>0.6930</b>	<b>0.6442</b>	<b>0.6074</b>	<b>0.5724</b>	<b>0.5561</b>	<b>0.5542</b>

## Production. C-3b

Forecasted Economic Limit Factors  
Percent

<b>FY</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Prudhoe Bay	0.8474	0.8342	0.8260	0.8248	0.8208	0.8077	0.7914	0.7720	0.7530	0.7266
Midnight Sun	0.8474	0.8342	0.8260	0.8248	0.8208	0.8077	0.7914	0.7720	0.7530	0.7266
Polaris	0.8474	0.8342	0.8260	0.8248	0.8208	0.8077	0.7914	0.7720	0.7530	0.7266
Orion	0.8474	0.8342	0.8260	0.8248	0.8208	0.8077	0.7914	0.7720	0.7530	0.7266
Aurora	0.8474	0.8342	0.8260	0.8248	0.8208	0.8077	0.7914	0.7720	0.7530	0.7266
Borealis	0.8474	0.8342	0.8260	0.8248	0.8208	0.8077	0.7914	0.7720	0.7530	0.7266
Kuparuk	0.0111	0	0	0	0	0	0	0	0	0
Tarn	0.0004	0	0	0	0	0	0	0	0	0
Milne Point	0	0	0	0	0	0	0	0	0	0
Endicott	0	0	0	0	0	0	0	0	0	0
Point McIntyre	0.8474	0.8342	0.8260	0.8248	0.8208	0.8077	0.7914	0.7720	0.7530	0.7266
Niakuk	0	0	0	0	0	0	0	0	0	0
Alpine	0.8671	0.7954	0.7049	0.6237	0.5363	0.4124	0.2739	0.1423	0.0548	0.0125
Northstar	0.7246	0.5540	0.3492	0.1718	0.0425	0.0034	0.0001	0	0	0
Fiord	0	0	0.0044	0.0003	0.0002	0.0000	0.0002	0.0001	0.0025	0.0029
Known Offshore	0	0	0	0.0431	0.1578	0.1387	0.0913	0.0400	0.0017	0.0822
NPR-A	0	0	0	0	0	0.0037	0.0001	0.0116	0.0099	0.0013
Pt. Thomson	0	0	0	0	0	0	0	0	0	0
<b>Volume Weighted ELF</b>	<b>0.5766</b>	<b>0.5316</b>	<b>0.4881</b>	<b>0.4618</b>	<b>0.4449</b>	<b>0.4111</b>	<b>0.4030</b>	<b>0.3815</b>	<b>0.3517</b>	<b>0.3340</b>

# Fall

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# 2005

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

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

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

*We thank the various state agencies for their cooperation in computing anticipated revenues for publication in this Fall 2005 Revenue Sources Book.*

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Forecast & Historical Data

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