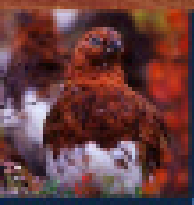

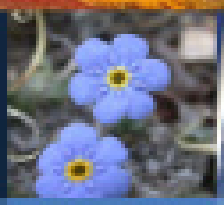

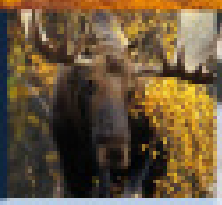

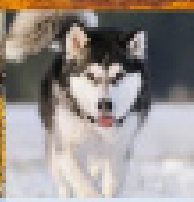

FALL 2010

REVENUE SOURCES BOOK

STATE OF ALASKA
TAX DIVISION
DEPARTMENT OF REVENUE

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2010

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State of Alaska
Department of Revenue
Commissioner's Office

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December 3, 2010

The Honorable Sean Parnell, Governor of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001

Dear Governor Parnell:

It is my pleasure to present you with the Department of Revenue's Fall 2010 *Revenue Sources Book* (RSB), a compilation of revenues received in Fiscal Year 2010 and projections of revenues for FY 2011 through FY 2020. The RSB is the department's annual publication that informs you, the Alaska Legislature, and the public of Alaska's revenue expectations. The RSB represents a collaborative effort between the Department of Revenue Tax and Treasury divisions, the Permanent Fund Corporation, and the Office of Management and Budget.

Alaska's revenue consists of unrestricted and restricted oil revenue, and unrestricted and restricted revenue from non-oil sources. The majority of revenue comes from oil production, providing 89% of the general fund unrestricted revenue in FY 2010. Oil revenue will continue to dominate the state's revenue outlook, providing at least 87% of general fund unrestricted revenue throughout the forecast period, to FY 2020.

Several important variables play a part in forecasting oil revenues. Oil price is one of the most significant variables in determining oil revenue to the state. Oil prices seem to have stabilized in the year and a half since the recession ended and the department projects this trend to continue, with increased demand driving prices higher in FY 2012 and beyond. Fiscal Year 2010 finished out the year with Alaska North Slope (ANS) crude prices averaging $74.90. We project ANS prices of $77.96 and $82.67 for FY 2011 and FY 2012, respectively.

Another important variable in forecasting oil revenue is the level of oil production in the state. Production on the North Slope is in gradual decline, and further declines are projected. Between FY 2009 and FY 2010, oil production on the North Slope declined

7%, and our forecast projects a decline of 4.3% for FY 2011. Our forecast for FY 2012 shows a 1% increase in production, with expectations of increased production at several fields, including Oooguruk, Nikaitchuq, Badami, and Liberty.

Unrestricted revenues totaled $5.5 billion in FY 2010, and we forecast unrestricted revenue of $5.4 billion and $5.7 billion for FY 2011 and FY 2012, respectively. Non-oil revenues will contribute close to $700 million of those totals for FY 2011 and FY 2012. Non-oil revenues represented just over 10% of the FY 2010 unrestricted revenues, totaling $600 million.

Chapter three of this RSB highlights the critical and expanding role that tax credits are playing in Alaska's revenue picture. Most of the taxes administered by the Department of Revenue have one or more tax credit programs that provide tax relief and may also encourage additional investment in the state. Chapter three provides an overview of all the tax credit programs in current law, as well as a tally of tax credits applied under each of the credit programs over the past three years.

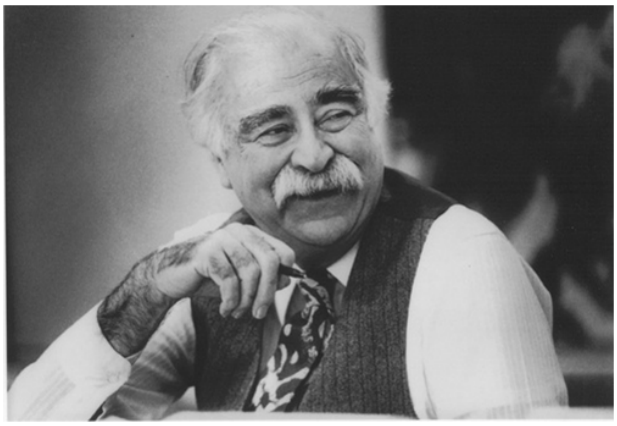
This RSB also incorporates a slight modification in the presentation of revenues from previous years. In this publication, restricted revenue is further categorized into one of three subcategories: Designated General Fund, Other State Revenue, and Federal Revenue. In addition to this change, revenues from the large passenger vessel gambling tax and from corporate dividends were reclassified from restricted to unrestricted revenue. These modifications were undertaken at the request of the Division of Legislative Finance and the Office of Management and Budget and the department worked collaboratively with these agencies to make the change.

We hope you find the information provided in the Fall 2010 *Revenue Sources Book* to be useful. We will be providing a forecast update in the spring of 2011.

Sincerely,

Patrick Galvin
Commissioner

In Memoriam



George Rogers

The Fall 2010 Revenue Sources Book is dedicated to George Rogers, one of the architects of statehood, who passed away this October at the age of 93.

Prior to statehood, George Rogers was asked by territorial Governor Ernest Gruening to help create a revenue system for the territory of Alaska. Rogers' work was instrumental in implementing an income tax, sales tax, and business license tax that provided much needed revenue to the territory. Rogers earned a Ph.D. from Harvard and then returned to Alaska to serve as a technical consultant for the Alaska Constitutional Convention. His expertise in economics, government and natural resources was invaluable in helping delegates craft the constitution for the new state.

Rogers continued to serve Alaska after statehood was achieved. He served on the charter commission and assembly for the City of Juneau. He served as faculty at the Institute of Social and Economic Research at the University of Alaska Anchorage and he served as an advisor to the University of Alaska Southeast. He helped create the Alaska Permanent Fund Corporation and served on the Board of Trustees from 1980 to 1983, helping establish the structure and investment policies of the Corporation.

George Rogers will be remembered as a remarkable man who was always with his beloved wife Jean. He had a genuine love for Juneau and the State of Alaska, and he always shared a smile when he passed someone on the street. George was heavily involved in the arts community, and he was a frequent performer in local theater.

We express our thanks to George Rogers for the solid foundations and legacy he established for our great state.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2010

Revenue Sources Book

Alaska Department of Revenue – Tax Division

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Revenue Sources Book

Alaska Department of Revenue – Tax Division

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1. Introduction

General Discussion

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

Oil revenue continues to be the most significant source of revenue to the state, and it is projected to provide more than 87% of General Purpose Unrestricted Revenue through FY 2020. Production of oil and natural gas liquids on the North Slope is declining, however. In FY 2010, Alaska North Slope (ANS) output was 0.644 million barrels per day compared to a peak of 2.011 million barrels per day in FY 1988. While production declined by about 68% over that period, the market price of oil has more than tripled. For FY 2011, we project ANS oil production will decrease to 0.616 million barrels per day.

The Constitutional Budget Reserve Fund (CBRF), created in 1990, has served the state well as a budget stabilization fund in years of low oil revenue. High oil prices experienced in Fiscal Year 2008 led to revenue surpluses in that year, which were deposited into the CBRF for future use. Lower oil prices combined with declining North Slope crude oil volumes, could lead to future budget shortfalls and draws on the CBRF.

Alaska's total revenue picture also includes earnings from investments in the Permanent Fund and CBRF, federal revenue and other sources, such as taxes, charges for services, licenses, permits, fines and forfeitures. The information provided in this book will provide greater insight not only into the sources of revenue that support the state today, but also into future revenue from potential new sources.

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

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2010

2. Executive Summary

Total State Revenue

Figure 2-1. FY 2010 Total State Revenue: $13.9 billion

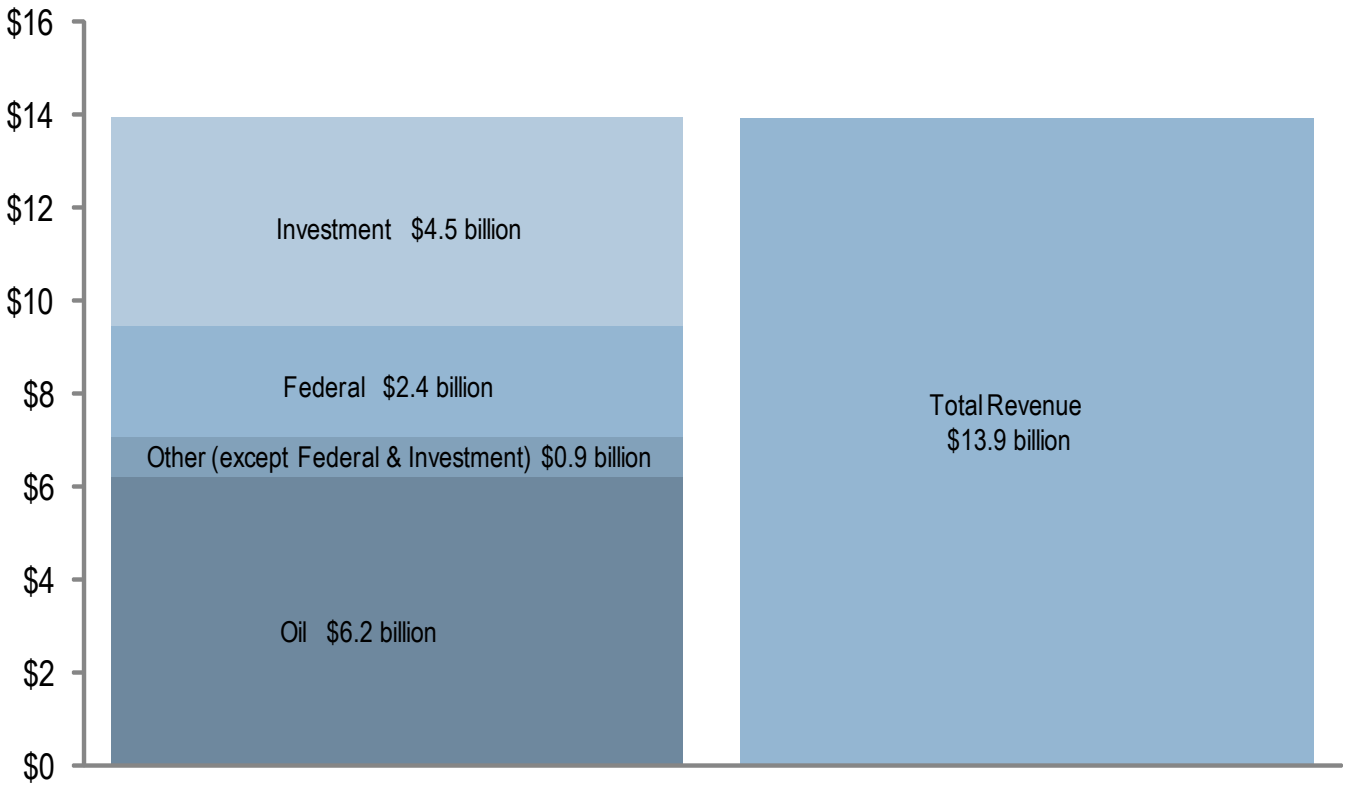


Figure 2-2. Total State Revenue by Major Component, FY 2010 and Forecasted FY 2011-2012 ($ million)

Unrestricted General Fund Revenue	History	Forecast	
Oil Revenue	FY 2010	FY 2011	FY 2012
Petroleum Property Tax	118.8	104.1	101.9
Petroleum Corporate Income Tax	447.9	445.0	555.0
Production Tax	2,871.0	2,614.6	2,737.6
Royalties (including Bonuses, Rents, & Interest)	1,477.0	1,510.1	1,666.6
Subtotal	**4,914.7**	**4,673.9**	**5,061.1**
Other Sources (Except Federal & Investment)			
Taxes	293.7	321.0	328.1
Charges for Services	17.1	19.3	19.3
Fines and Forfeitures	9.7	9.0	9.0
Licenses and Permits	39.5	40.4	40.7
Rents and Royalties	13.2	12.4	12.4
Other	40.8	78.4	77.6
Subtotal	**414.0**	**480.5**	**487.1**
Investment Revenue			
Investments	179.1	215.2	193.5
Interest Paid by Others	4.9	2.2	2.2
Subtotal	**184.0**	**217.4**	**195.7**
Subtotal Unrestricted General Fund Revenue	**5,512.7**	**5,371.8**	**5,743.9**
Designated General Fund Revenue			
Other Sources (Except Federal & Investment)			
Taxes	50.8	51.4	51.2
Charges for Services	191.7	197.0	197.8
Fines and Forfeitures	9.7	6.7	6.8
Licenses and Permits	0.1	0.1	0.1
Rents and Royalties	4.4	4.5	4.5
Other	23.4	21.9	21.9
Subtotal	**280.1**	**281.6**	**282.3**
Investment Revenue			
Investments - Designated GF	13.6	16.4	15.8
Other Treasury Managed Funds	42.6	43.3	26.2
Subtotal	**56.1**	**59.7**	**42.0**
Subtotal Designated General Fund Revenue	**336.2**	**341.3**	**324.3**

Figure 2-2. Continued

Other Restricted Revenue

	History	Forecast	
Oil Revenue	FY 2010	FY 2011	FY 2012
Royalties to Perm Fund & School Fund (includes Bonuses & Rents)	707.2	649.7	735.3
Tax and Royalty Settlements to CBRF	552.7	20.0	20.0
Subtotal	**1,259.9**	**669.7**	**755.3**
Other Sources (Except Federal & Investment)			
Taxes	85.3	82.7	62.8
Charges for Service	33.0	60.7	60.7
Fines and Forfeitures	25.3	22.9	23.3
Licenses and Permits	32.7	31.2	31.2
Rents and Royalties	5.1	5.2	5.3
Other	5.6	7.0	7.0
Subtotal	**187.0**	**209.7**	**190.3**
Investment Revenue			
Investments - Other Restricted	27.4	33.2	32.0
Constitutional Budget Reserve Fund	691.1	842.6	552.3
Alaska Permanent Fund (GASB)[1]	3,517.3	2,508.7	2,699.1
Subtotal	**4,235.8**	**3,384.5**	**3,283.4**
Subtotal Other Restricted Revenue	**5,682.7**	**4,263.9**	**4,229.0**

Federal Revenue

Oil Revenue			
NPR-A Royalties, Rents and Bonuses	21.3	19.5	19.5
Subtotal	**21.3**	**19.5**	**19.5**
Federal Receipts			
Federal Receipts	2,387.9	3,087.0	2,987.0
Subtotal	**2,387.9**	**3,087.0**	**2,987.0**
Subtotal Federal Revenue	**2,409.2**	**3,106.5**	**3,006.5**

Total State Revenue 13,940.9 13,083.4 13,303.7

[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.

Figure 2-3. Total State Revenue, FY 2010 and Forecasted FY 2011-2012 ($ million)

	History	Forecast	
Unrestricted General Fund	FY 2010	FY 2011	FY 2012
Oil Revenue	4,914.7	4,673.9	5,061.1
Other Sources (Except Federal and Investment)	414.0	480.5	487.1
Investment Revenue	184.0	217.4	195.7
Subtotal	**5,512.7**	**5,371.8**	**5,743.9**
Designated General Fund			
Other Sources (Except Federal and Investment)	280.1	281.6	282.3
Investment Revenue	56.1	59.7	42.0
Subtotal	**336.2**	**341.3**	**324.3**
Other Restricted Revenue			
Oil Revenue	1,259.9	669.7	755.3
Other Sources (Except Federal and Investment)	187.0	209.7	190.3
Investment Revenue	4,235.8	3,384.5	3,283.4
Subtotal	**5,682.7**	**4,263.9**	**4,229.0**
Federal Revenue			
Oil Revenue[(1)]	21.3	19.5	19.5
Federal Receipts	2,387.9	3,087.0	2,987.0
Subtotal	**2,409.2**	**3,106.5**	**3,006.5**
Total State Revenue	**13,940.9**	**13,083.4**	**13,303.7**

Unrestricted Revenue and Restricted Revenue

Throughout this forecast, we report two categories of revenue: General Purpose Unrestricted Revenue (frequently referred to as unrestricted revenue) and restricted revenue. General Purpose Unrestricted Revenue is based on the unrestricted component of the General Fund in the Alaska State Accounting System (AKSAS), with certain adjustments. Restricted revenue represents remaining revenue and can be further categorized as Designated General Fund, Other State Revenue and Federal Revenue.

General Purpose Unrestricted Revenue (GPUR)

General Purpose Unrestricted Revenue reflects revenue that is not restricted by the constitution, state or federal law, trust or debt restrictions or customary practice. Most legislative and public debate centers on this category of revenue, and this is the amount generally used for budget planning purposes and designated in budget documents as General Fund revenue. General Purpose Unrestricted Revenue reported in this forecast includes funds deposited into the unrestricted component of the General Fund, with certain adjustments:

[(1)] Oil revenue shown in the Federal category includes the state share of rents, royalties and bonuses received from the National Petroleum Reserve in Alaska.

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

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

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

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

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

Figure 2-4 on the next two pages sets out FY 2010 General Purpose Unrestricted Revenue and our forecast for FY 2011 and 2012.

Restricted Revenue

Restricted revenue represents any revenues that are not considered General Purpose Unrestricted Revenue. This includes revenue restricted by the constitution, state or federal law, trust or debt restrictions, or customary practice. Restricted revenue reported in this forecast includes money deposited into the Restricted Component of the General Fund, with certain additions. Additions might include: (a) receipts deposited in funds other than the General Fund, and (b) receipts deposited into the Unrestricted Component of the General Fund but restricted by statute or customarily appropriated for a particular purpose or program, such as sharing of fish tax revenue with municipalities.

Article IX, Section 15 of the Alaska constitution requires that at least 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state be placed in the permanent fund. Until 2003, Alaska Statute 38.13.010 required the placement of 50% of royalties from certain leases into the permanent fund. House Bill 11, passed by the legislature in 2003, changed the law so that only 25% from all leases would be placed into the permanent fund, contingent on the impact of this change to the permanent fund dividend. On October 1, 2008, the impact of HB 11 on the permanent fund dividend had exceeded the limitations provided in HB 11, and HB 11 was repealed. As of October 1, 2008, the applicable leases will pay 50% of royalties to the permanent fund, while others will pay 25% to the fund. This change will be reflected in this revenue forecast as a decrease in unrestricted revenue and an increase in restricted revenue.

This year the restricted revenue component of actual and forecasted revenues reflects new fund categories of restricted revenue. These fund categories were developed by the Division of Legislative Finance and the Office of Management and Budget to provide additional information on the level of legislative discretion in the budget process. The restricted revenue fund categories are as follows: (1) Designated General Fund; (2) Other State Revenue; and (3) Federal Revenue. These categories will be evident in tables depicting restricted revenue throughout this book.

In addition to adding categories of restricted revenue, revenues from the large passenger vessel (LPV) gambling tax and from corporate dividends were reclassified from restricted to unrestricted revenue. Corporate dividends include revenues returned to the state by state-owned corporations such as the Alaska Housing Finance Corporation.

The Department of Revenue worked cooperatively with representatives of the Legislative Finance Division and the Office of Management and Budget to make these changes. These changes will be continued in future Revenue Sources Books.

Figure 2-4. General Purpose Unrestricted Revenue, FY 2010 and Forecasted FY 2011-2012 ($ million)

	History	Forecast	
Oil Revenue	FY 2010	FY 2011	FY 2012
Petroleum Property Tax	118.8	104.1	101.9
Petroleum Corporate Income Tax	447.9	445.0	555.0
Production Tax			
Oil & Gas Production	2,860.7	2,604.8	2,727.6
Oil & Gas Hazardous Release	10.3	9.8	9.9
Subtotal Production Tax	**2,871.0**	**2,614.6**	**2,737.6**
Royalties (including Bonuses, Rents, & Interest)			
Mineral Bonuses & Rents	9.1	18.4	16.0
Oil & Gas Royalties	1,469.0	1,486.2	1,649.6
Interest	-1.1	5.5	1.0
Subtotal Royalties	**1,477.0**	**1,510.1**	**1,666.6**
Total Oil Revenue	**4,914.7**	**4,673.9**	**5,061.1**
Other Revenue (except Federal & Investment)			
Taxes			
Excise Tax			
Alcoholic Beverage	19.5	19.8	20.6
Tobacco Product – Cigarette	34.8	33.2	32.2
Tobacco Product – Other	10.3	11.2	12.1
Insurance Premium	50.4	50.1	51.6
Electric and Telephone Cooperative	0.1	0.1	0.1
Motor Fuel	28.8	38.5	38.8
Vehicle Rental	7.3	7.5	7.7
Tire Fee	1.4	1.4	1.4
Subtotal Excise Tax	**152.6**	**161.8**	**164.5**
Subtotal Corporate Income Tax	**80.1**	**80.0**	**85.0**
Fisheries Tax			
Fisheries Business	14.1	18.2	17.8
Fishery Resource Landing	8.3	6.0	5.0
Subtotal Fisheries Tax	**22.4**	**24.2**	**22.8**
Other Tax			
Charitable Gaming	2.6	2.6	2.6
Estate	0.0	0.0	0.5
Large Passenger Vessel Gambling	6.3	5.7	5.7
Mining	29.7	46.7	47.0
Subtotal Other Tax	**38.6**	**55.0**	**55.8**
Subtotal Taxes	**293.7**	**321.0**	**328.1**

Figure 2-4. Continued

Other Revenue (except Federal & Investment)	History FY 2010	Forecast FY 2011	FY 2012
Charges for Services			
General Government	8.8	11.0	11.0
Natural Resources	2.0	2.0	2.0
Other	6.3	6.3	6.3
Subtotal Charges for Services	**17.1**	**19.3**	**19.3**
Subtotal Fines & Forfeitures	**9.7**	**9.0**	**9.0**
Licenses & Permits			
Alcoholic Beverage Licenses	1.0	1.0	1.0
Motor Vehicle	37.5	37.9	38.2
Other	1.0	1.5	1.5
Subtotal Licenses & Permits	**39.5**	**40.4**	**40.7**
Rents & Royalties			
Other Non-Petroleum Rents & Royalties	8.3	6.9	6.9
Coal Royalties	4.9	5.5	5.5
Subtotal Rents & Royalties	**13.2**	**12.4**	**12.4**
Other			
Miscellaneous	(3.8)	14.0	14.0
Alaska Housing Finance Corporation	17.1	36.4	36.4
Alaska Industrial Development & Export Authority	22.7	21.5	21.5
Alaska Municipal Bond Bank Authority	0.0	1.7	1.7
Alaska Student Loan Corporation	0.8	0.0	0.0
Alaska Energy Authority	0.0	0.0	0.0
Unclaimed Property	4.0	4.8	4.0
Subtotal Other	**40.8**	**78.4**	**77.6**
Total Other Revenue (except Federal & Investment)	**414.0**	**480.5**	**487.1**
Investment Revenue			
Investments	179.1	215.2	193.5
Interest Paid by Others	4.9	2.2	2.2
Total Investment Revenue	**184.0**	**217.4**	**195.7**
Grand Total Unrestricted Revenue	**5,512.7**	**5,371.8**	**5,743.9**

Crude Oil Price Forecast

Oil revenue is projected to provide more than 87% of forecasted General Purpose Unrestricted Revenue through FY 2020. Three elements are critical to the oil revenue forecast: price, volume, and to a lesser extent lease expenditures.

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

Figure 2-5 shows crude oil prices for FY 2010 and the Department of Revenue's forecast of prices for the 10-year period beginning with the current fiscal year FY 2011 and continuing through FY 2020. The oil price forecast is based on a subjective assessment of market dynamics and trend analysis by participants at a Department of Revenue price forecasting session and other price forecasting sources.

Figure 2-6 shows: (1) the monthly ANS West Coast market price from October 2005 through October 2010; (2) the 60-month moving average ANS West Coast market price for the same period and (3) the NYMEX crude oil futures price of ANS from December 2010 to October 2014.

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

- Month-to-month crude oil price volatility—monthly ANS West Coast prices during this time period ranged from $37.70 per barrel to $133.78 per barrel.
- The 60-month moving average is $73.80 per barrel and has more than doubled since 2005.

Figure 2-5. Nominal WTI, ANS West Coast and ANS Wellhead, FY 2010 and Forecasted FY 2011-2020 ($ per barrel)

Fiscal Year	WTI	ANS West Coast	ANS Wellhead
2010	75.21	74.90	68.89
2011	79.89	77.96	71.96
2012	85.17	82.67	76.28
2013	90.36	87.86	81.68
2014	94.91	92.41	86.00
2015	99.84	97.34	90.62
2016	102.58	100.08	93.14
2017	105.40	102.90	95.84
2018	108.30	105.80	98.47
2019	111.28	108.78	101.11
2020	114.34	111.84	103.77

[1] The NYMEX futures market is one source for a WTI quote. Several reporting services also report a daily WTI price quote.

- The derived futures market price of November 2010 shows prices that are dramatically lower than July 2008 record highs and higher than the 60-month moving average.

We project that in the short term, ANS oil prices will average $77.96, $82.67 and $87.86 per barrel in FY 2011 FY 2012, and FY 2013, respectively (in nominal terms). In the mid term, we forecast ANS to steadily rise to average $92.41 and $97.34 per barrel in FY 2014 and 2015, respectively (in nominal prices). Over the long term, we project ANS oil prices to increase at approximately 2.75% per year, based on inflation.

Figure 2-6. Monthly Nominal ANS West Coast and Futures Oil Prices ($ per barrel)

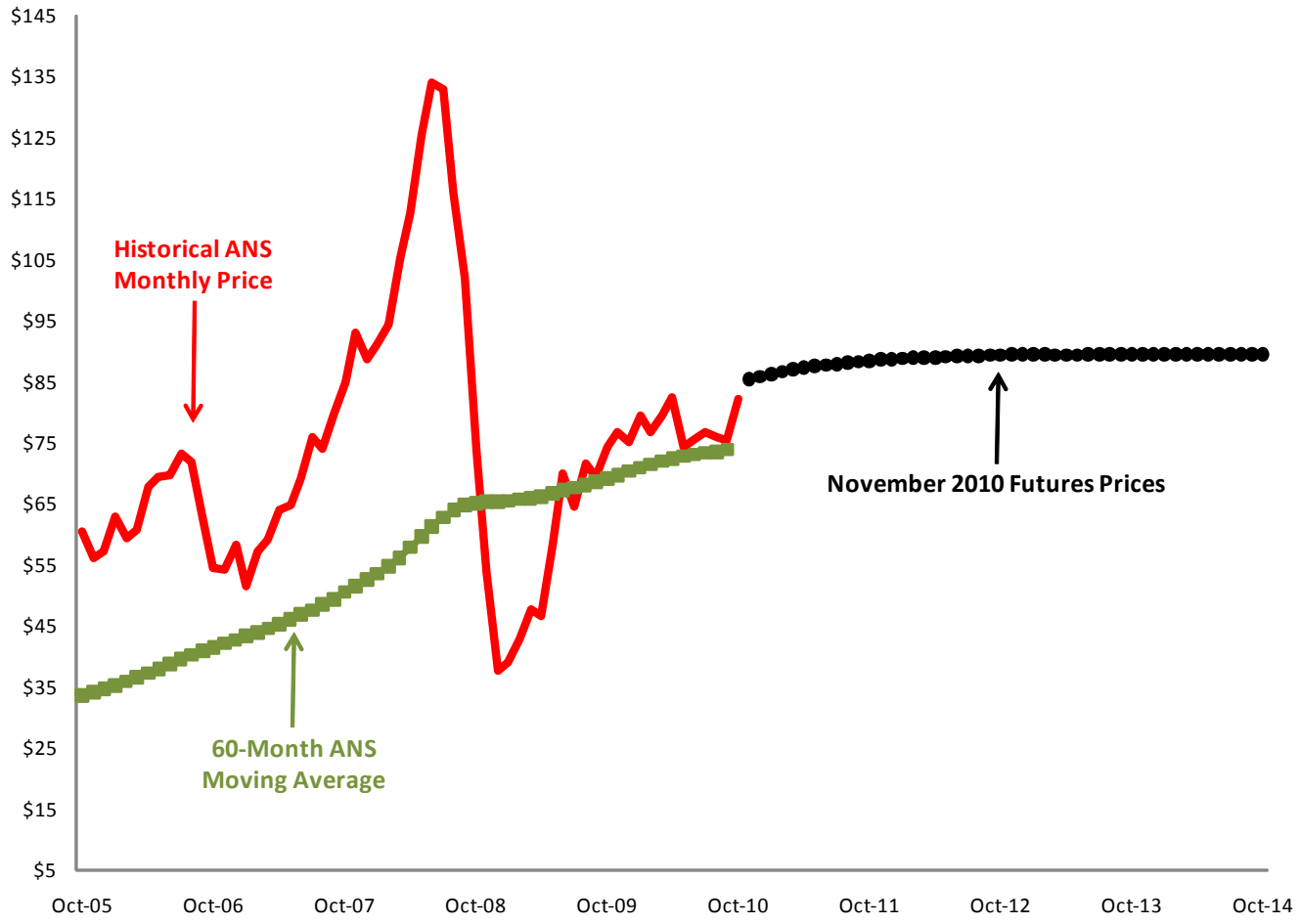


Figure 2-7. Alaska Crude Oil and NGL Production, FY 2010 and Forecasted FY 2011-2012 (million barrels per day)

	History	Forecast	
Alaska North Slope	**FY 2010**	**FY 2011**	**FY 2012**
Prudhoe Bay [1]	0.277	0.278	0.273
Aurora	0.006	0.006	0.005
Borealis	0.014	0.011	0.016
Midnight Sun	0.002	0.001	0.001
Orion	0.010	0.009	0.012
Polaris	0.005	0.004	0.006
Lisburne [2]	0.007	0.006	0.006
Niakuk	0.004	0.003	0.003
Point McIntyre	0.022	0.018	0.019
Raven	0.001	0.001	0.001
Kuparuk	0.099	0.091	0.087
Meltwater	0.003	0.003	0.003
Tabasco	0.002	0.002	0.002
Tarn	0.013	0.014	0.015
West Sak [3]	0.017	0.016	0.013
Milne Point [4]	0.019	0.017	0.017
Schrader Bluff	0.009	0.008	0.007
Endicott [5]	0.013	0.015	0.017
Alpine [6]	0.058	0.057	0.053
Fiord [7]	0.024	0.028	0.027
Nanuq [8]	0.010	0.001	0.001
Oooguruk	0.009	0.010	0.012
Nikaitchuq	0.000	0.002	0.007
Northstar	0.020	0.015	0.013
Liberty	0.000	0.000	0.005
Total Alaska North Slope	0.644	0.616	0.622
increase/decrease from prior period	(0.0)	(0.0)	0.0
% change from prior period	-7.1%	-4.2%	1.0%
Total Cook Inlet[9]	**0.009**	**0.010**	**0.009**
increase/decrease from prior period	(0.001)	0.001	(0.001)
% change from prior period	-11.2%	10.1%	-7.6%
Total Alaska[9]	**0.653**	**0.626**	**0.631**
increase/decrease from prior period	(0.051)	(0.026)	0.006
% change from prior period	-7.2%	-4.0%	0.9%

[1] Includes NGLs

[2] Includes West Beach

[3] Includes Northeast West Sak

[4] Includes Sag River & Ugnu

[5] Includes Sag Delta and Badami

[6] Includes Qannik

[7] Includes Fiord-Kuparuk

[8] Includes Nanuq-Kuparuk

[9] Percentage changes may vary from other figures due to rounding and aggregation.

Crude Oil Production Forecast

Alaska North Slope crude oil production peaked at 2.011 million barrels per day in FY 1988 and has steadily declined since. We anticipate volumes will decline by 4.3% in FY 2011 to about 616 thousand barrels per day, due in part to increased planned and unplanned maintenance on aging North Slope facilities, flowlines, pipelines and wells. For FY 2012, we project a 1.0% increase in North Slope production due primarily to production from projects under development at Oooguruk, Badami and Nikaitchuq. More discussion of the Fall 2010 oil production forecast can be found in Section 4. Oil Revenue. Also, a detailed field-by-field production forecast is included in the appendices of this forecast.

Crude Oil Expenditures Forecast

A third component of oil production revenue forecasting is the lease expenditures forecast. Under Alaska's oil and gas production tax, companies are allowed to deduct certain lease expenditures from the gross value of their production before applying the tax rate. Future tax collections, therefore, are dependent not only on the oil price and the level of production but on the cost of that production. Costs of production may include fixed and variable operating expenses, such as the costs of labor and the expense to run a facility, and they may include costs to acquire production equipment or to drill a well—usually deemed to be capital expenses. A portion of capital expenses is also allowed as a credit against the production tax.

Lease expenditures for the exploration for and production of crude oil rose during the first three years that they were reported, and leveled off in FY 2010. In FY 2007, over $3.6 billion was spent producing and exploring for oil on the North Slope. In FY 2008, the reported expenditures totaled $4.6 billion, and in FY 2009 and FY 2010, reported expenditures in each year totaled $4.9 billion. It is important to note that these are unaudited, company-reported lease expenditures. We project spending in FY 2011 to increase, with capital and operating expenditures projected to total $5.1 billion. For FY 2012, we expect capital spending to increase, with totals for capital and operating expenditures reaching close to $5.5 billion. These spending estimates are also contingent on oil prices maintaining current levels or increasing.

Long-Term Unrestricted Revenue Outlook

Using the price, volume and lease expenditure components developed for this fall forecast, Figure 2-8 summarizes the department's forecast of total General Purpose Unrestricted Revenue through FY 2020.

Figure 2-8. Total General Purpose Unrestricted Revenue, FY 2010 and Forecasted FY 2011-2020 ($ million)

Fiscal Year	Unrestricted Oil Revenue	Unrestricted Other Revenue (except Federal & Investment)	Unrestricted Investment Revenue	Total Unrestricted Revenue	Percent From Oil
2010	4,914.7	414.0	184.0	5,512.7	89%
2011	4,673.9	480.5	217.4	5,371.8	87%
2012	5,061.1	487.1	195.7	5,743.9	88%
2013	5,513.7	498.3	195.7	6,207.7	89%
2014	6,068.2	503.9	195.7	6,767.8	90%
2015	6,519.7	517.7	195.7	7,233.1	90%
2016	7,091.9	534.8	195.7	7,822.4	91%
2017	7,250.9	546.1	195.7	7,992.7	91%
2018	7,308.1	556.6	195.7	8,060.4	91%
2019	7,044.0	606.0	195.7	7,845.7	90%
2020	6,797.7	617.3	195.7	7,610.7	89%

Spending, Revenue Forecast and the Constitutional Budget Reserve Fund

As approved by voters in 1990, all receipts from oil and gas tax and royalty settlements are deposited into the Constitutional Budget Reserve Fund (CBRF). The state has deposited about $14.3 billion into the fund and generated another $1.9 billion in investment earnings. Through September 30, 2010, approximately $3.9 billion had been borrowed from the CBRF to balance the budget and another $4.1 billion had been spent through direct appropriations. During the years of FY 2007, 2008, and 2009, all borrowed funds were repaid from the General Fund into the CBRF. The current net asset value in the CBRF as of September 30, 2010 is about $8.3 billion. Since the increase in oil prices beginning in 2003, no significant CBRF withdrawals have been necessary to balance the state's budget, however given price volatility and the decline in expected oil volumes from the North Slope, the state may have to depend on the CBRF in the future.

Figure 2-9 is presented to help the reader understand the time period in which the CBRF would be depleted, based on the current forecast and the assumption that all excess revenue would be deposited into the CBRF. This figure shows that, given the current forecast and up to 10% in budget growth from the FY 2010 level, the CBRF would not be depleted before 2020. If oil prices were to fall below our forecasted level and stay at that low level, we could expect the CBRF to be depleted as early as June 2014, if the budget increases at a rate of 10% per year. If oil prices were to decline to $60 and the budget increases at 3% per year, the CBRF could be depleted by July 2016.

Figure 2-9. CBRF Run-Out Date With Revenue Surpluses Deposited into CBRF

Annual State Budget (% change)	Fall 2010 Oil Price Forecast[1]	Fiscal Model of Oil Revenue & CBRF Performance at Selected Prices[2] ($ per barrel)					
		$40	$50	$60	$70	$80	$90
+10%	Dec-2020	Jun-2014	Dec-2014	Jul-2015	Jul-2016	Dec-2017	Oct-2019
+5%	Dec-2020	Sep-2014	Apr-2015	Mar-2016	Sep-2017	Feb-2020	Dec-2020
+4%	Dec-2020	Oct-2014	Jun-2015	Apr-2016	Dec-2017	Dec-2020	Dec-2020
+3%	Dec-2020	Oct-2014	Jul-2015	Jul-2016	Jun-2018	Dec-2020	Dec-2020
+2%	Dec-2020	Nov-2014	Aug-2015	Oct-2016	Jan-2019	Dec-2020	Dec-2020
+1%	Dec-2020	Nov-2014	Sep-2015	Jan-2017	Aug-2019	Dec-2020	Dec-2020
Baseline Fall Forecast	Dec-2020	Jan-2015	Nov-2015	Jun-2017	Jun-2020	Dec-2020	Dec-2020
-1%	Dec-2020	Feb-2015	Jan-2016	Sep-2017	Dec-2020	Dec-2020	Dec-2020
-2%	Dec-2020	Mar-2015	Apr-2016	May-2018	Dec-2020	Dec-2020	Dec-2020
-3%	Dec-2020	Apr-2015	Jun-2016	Feb-2019	Dec-2020	Dec-2020	Dec-2020
-4%	Dec-2020	May-2015	Aug-2016	Mar-2020	Dec-2020	Dec-2020	Dec-2020
-5%	Dec-2020	Jun-2015	Jan-2017	Dec-2020	Dec-2020	Dec-2020	Dec-2020
-10%	Dec-2020	May-2016	Dec-2020	Dec-2020	Dec-2020	Dec-2020	Dec-2020

Baseline Expenditure Forecast ($ million)

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
$5,317.4	$5,478.6	$5,478.6	$5,478.6	$5,478.6	$5,478.6	$5,478.6	$5,478.6	$5,478.6	$5,478.6

[1] See Figure 2-5 for the Fall 2010 ANS oil price forecast used in the highlighted scenario.

[2] Matrix allows reader to select specific fiscal year price (from FY 2012-beyond) to determine CBRF exhaustion date. Fall 2010 forecasted production volumes are used. A date of Dec-2020 indicates that the CBRF does not run out before 2020.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2010

3. The Role of Credits in Public Policy

Overview of Credits

Tax credits are a critical component of the state's overall tax structure. Tax credits are intended to encourage businesses to invest in various activities in the state such as oil and gas exploration and development, education, and film production. They are also used to implement public policy. This chapter provides an overview of the role that tax credits play in the state's tax system. Also presented is a complete listing of the tax credits currently available under state tax law and the amount of credits that have been granted in each of the past three years.

Sound tax policy involves moving beyond the "collection" of taxes into understanding the business perspective of the state's taxpayers, including what stimulates additional investment or brings new entrants into Alaska markets. The Tax Division regularly seeks input from taxpayers, legislators, the administration, and the public to gauge the impact of current and proposed tax policy on different industries. The Tax Division works toward developing collaborative relationships with taxpayers and staying informed in order to respond to the changing needs of the various industries in Alaska. The division regularly monitors the impact of the state's tax systems on industry as well as on the state budget. The division also conducts research on potential broad-based taxes such as sales and income taxes, and makes recommendations to the administration and the legislature on how a proposed tax might be structured and implemented. Officials with the division actively participate in discussions about tax effectiveness as well as decisions to suspend or lower taxes, which has happened with the motor fuel tax and the recently amended cruise ship taxes.

Although tax policy does not drive all business decisions, the state's tax structure, including incentives like tax credits, are integral to making decisions. The proper balance between taxes and incentives may enhance the economic viability of projects and influence the plans of Alaska businesses. Incentives can take many forms, including credits that can be directly applied against tax liabilities. Tax credits are among the most common methods of incentivizing business activity.

The Tax Division also understands the value of information regarding world markets. Since the state is competing globally for market dollars, understanding the impacts of changing world economies provides insight into refinements that may help keep the state's fiscal systems competitive.

The Tax Division stays informed about the state's industries in a variety of ways. In addition to continuously analyzing data reported by taxpayers, the division subscribes to various publications and organizations that are industry specific. The economic research group monitors oil, gas and mining activity throughout the world through daily, weekly and monthly publications. The division also stays current on state and local issues by attending industry events, such as the recent forum on offshore drilling and development sponsored by the Department of Interior, Bureau of Ocean Energy Management, held in Anchor-

age, meeting with other state agencies, and working and communicating with organizations like the Alaska Oil and Gas Association, the Resource Development Council for Alaska, Commonwealth North, and the Alaska Seafood Marketing Institute. State officials have had the opportunity to tour domestic and international industry facilities and learn about their operations through presentations and discussions. These activities are considered a fundamental part of the job of taxing and regulating industries in the state.

The Tax Division currently administers 21 different tax programs along with 16 tax credit programs. Most of the tax credit programs encourage spending and give tax credit for specific items or services designated by the program. A credit may be applicable to one tax type only, or it may be applicable to one of several tax types. The Education Tax Credit, for example, provides taxpayers credit for contributions to Alaska-based vocational education programs, accredited universities or colleges, or to the Alaska Fire Standards Council. A taxpayer is limited in the amount of credit they may receive, but the credit may be applied to any of the following tax types: the Alaska Corporate Income Tax, the Fisheries Business Tax, the Fishery Resource Landing Tax, the Insurance Premium Tax, the Mining License Tax, the Oil and Gas Production Tax, or the Oil and Gas Property Tax.

Some credit programs are very specific in how credits are earned and to which tax programs they apply. An example of such a credit is the new Oil and Gas Production Tax credit for exploration expenditures related to the first three wells drilled by the first jack-up rig in Cook Inlet. This credit may be applied against a production tax liability, transferred, or purchased by the state up to maximum dollar amounts specified in statute. If these exploration projects result in sustained production of oil or gas, then 50 percent of the amount of the credit received shall be repaid to the state over a 10-year period. The repayment provisions for this credit are unique. There are however, other credits that require that the benefit of any tax credit be incorporated in calculating, for example, a tariff for a pipeline or other asset that is regulated by the Federal Energy Regulatory Commission (FERC) or the Regulatory Commission of Alaska (RCA).

Most credit programs limit the dollar amount of credit available or only allow a certain percentage of expenditures to be the basis for the credit. Some credit programs have expiration dates and some programs have already expired, even though the credits themselves may be carried forward indefinitely. Some credits are transferable and some are redeemable for cash from the state treasury. Each credit program has its own rules and applications, tailored to the needs of the taxpayers under each program or to incentivize certain behaviors. We describe each individual tax credit program, categorized by tax type, in detail below.

Credits Applicable to the Oil and Gas Production Tax

Exploration Incentive Credit

Statutory Reference: AS 38.05.180(i)

Year of Implementation: 1978

Credit Applied to: Production tax, royalty

Transferability: Not transferable

Expiration Date: None

The exploration incentive credit authorized at AS 38.05.180(i) is among the earliest of oil and gas tax credits to be written into Alaska law. Implemented in 1978, this credit, which is available against either royalties or production tax, is included as a term of an oil and gas lease. Credit is earned for exploratory drilling on state land, and is based on the region where the drilling takes place and the depth of the well. Credit may also be received for geophysical work that is done two seasons immediately preceding an announced lease sale for the area where the work is performed. Maximum credit is 50 percent of the costs of the drilling or the geophysical work, not to exceed 50 percent of the tax or royalty obligation to which it is applied.

Department of Natural Resources records indicate that the last reported credit used under this program was in 1994. The department reports no activity in the program since that date.

Qualified Capital Expenditure Credit

Statutory Reference: AS 43.55.023(a) and (l)

Year of Implementation: .023(a) – 2006; .023(l) – 2010

Credit Applied to: Production Tax

Transferability: Transferable

Expiration Date: None

The qualified capital expenditure credit was passed as part of the Petroleum Profits Tax (PPT) in 2006, and was retained in the ACES tax and

expanded during the 2010 legislative session. The original credit under AS 43.55.023(a) provides a 20% credit for qualified capital expenditures for oil and gas operations. The credits can be applied against production tax liabilities, transferred to another company or purchased by the state.

In 2010, the legislature passed AS 43.55.023(l), which allows credit of 40 percent of qualified well lease expenditures incurred south of 68 degrees North latitude for oil or gas operations. These credits can be applied against production tax liabilities, transferred to another company or purchased by the state.

Carried-Forward Annual Loss Credit

Statutory Reference: AS 43.55.023(b)

Year of Implementation: 2006

Credit Applied to: Production Tax

Transferability: Transferable

Expiration Date: None

The credit for a carried-forward annual loss was part of the Petroleum Profits Tax passed in 2006. The percentage of allowable credit was increased by ACES from 20 percent to 25 percent. Like the qualified capital expenditure credit, carried-forward loss credits do not expire and may be transferred or purchased by the state, or applied to production tax liabilities.

Small Producer / New Area Development Credit

Statutory Reference: AS 43.55.024

Year of Implementation: 2006

Credit Applied to: Production Tax

Transferability: Not Transferable

Expiration Date: December 31, 2016 or ninth calendar year after producer first has oil or gas produced before May 1, 2016

With the passage of the Petroleum Profits Tax in 2006 came two credits under AS 43.55.024. One is a credit for up to $12 million for companies producing less than 100,000 barrels of oil equivalent per day anywhere in the state. The other is a credit for up to $6 million for companies producing less than 100,000 barrels of oil equivalent in areas other than the North Slope and Cook Inlet. These credits may only be used against production tax liabilities; they are not transferable and cannot be carried forward.

Alternative Credit for Exploration

Statutory Reference: AS 43.55.025(a)(1) – (4)

Year of Implementation: 2003

Credit Applied to: Production Tax

Transferability: Transferable

Expiration Date: Work must be performed before July 1, 2016

The Alternative Credit for Exploration, also called the "Exploration Incentive Credit," was implemented in 2003. It originally provided a credit of 20 or 30 percent for certain expenditures for oil and gas exploration. To further incentivize exploration activity, the ACES legislation increased the credit under the Alternative Credit for Exploration to 30 or 40 percent of eligible exploration expenditures.

Credits issued under this program may be applied against tax liabilities, transferred, or purchased by the state.

Cook Inlet Jack-Up Rig Credit

Statutory Reference: AS 43.55.025(a)(5) and (l)

Year of Implementation: 2010

Credit Applied to: Production Tax

Transferability: Transferable

Expiration Date: Work must be performed before July 1, 2016

AS 43.55.025(a)(5) was passed by the legislature in 2010 to incentivize investment in a jack-up rig for use in Cook Inlet. The credit is available to the first three unaffiliated persons that drill an offshore exploration well for oil or gas in Cook Inlet. Credit under this program will be granted for the lesser of 100 percent of exploration expenditures or $25 million to the first person who drills a qualifying well under the program. Credit for the lesser of 90 percent of exploration expenditures or $22.5 million is available to the second person, and credit for the lesser of 80 percent of exploration expenditures or $20 million is available to the third person who drills a qualifying well under the program.

Credit under this program may be granted in the form of a cash reimbursement from the state or it may be applied against tax liabilities. If the drilling under this program results in sustained production of oil or gas, 50

percent of the amount of the credit received shall be repaid to the state over a 10-year period.

Credits Applicable to the Corporate Income Tax

Internal Revenue Code Credits Adopted by Reference

Statutory Reference: AS 43.20.021

Year of Implementation: 1975

Credit Applied to: Corporate Income Tax

Transferability: Not transferable

Expiration Date: None

AS 43.20.021 adopts the Internal Revenue Code (IRC) for Alaska state corporate income tax liabilities, except where modified by provisions of state statute. The Internal Revenue Code authorizes tax credits, and by adopting the IRC, the state also authorizes those tax credits. Generally where a credit is allowed under the IRC, Alaska law limits its application to state corporate income tax to 18 percent of the credit amount apportioned to Alaska. The number and details of credit programs under the IRC are too voluminous to report here.

Gas Exploration and Development Credit

Statutory Reference: AS 43.20.043

Year of Implementation: 2003

Credit Applied to: Corporate Income Tax

Transferability: Not transferable

Expiration Date: January 1, 2016

This credit was enacted in 2003, but the credit program was expanded and extended in 2010. Credit under this program, which is applicable against the Alaska oil and gas corporate income tax, may be earned through exploratory gas drilling in areas of the state south of 68 degrees North latitude. Beginning in 2010, credit of 25 percent of qualified capital investments and 25 percent of annual costs incurred for qualified services are eligible for credit, not to exceed 75 percent of a company's corporate income tax liability before the application of other tax credits. Credits under this program may be carried forward for up to 5 years.

Gas Storage Facility Credit

Statutory Reference: AS 43.20.046

Year of Implementation: 2010

Credit Applied to: Corporate Income Tax

Transferability: Not transferable

Expiration Date: January 1, 2016

The legislature enacted this credit in 2010 to encourage the commercial operation of gas storage facilities by allowing a credit against the state corporate income tax in the amount of $1.50 for each 1,000 cubic feet of qualified, certified working gas storage capacity. The total amount of credit for a single gas storage facility may not exceed the lesser of $15 million or 25% of the costs incurred to establish the facility. This tax credit may be applied in addition to any of the other corporate income tax credits available to taxpayers and it may be refunded by the state.

Film Production Credit

Statutory Reference: AS 43.98.030

Year of Implementation: 2008

Credit Applied to: Corporate Income Tax

Transferability: Transferable

Expiration Date: The earlier of July 1, 2013 or the date that an aggregated total of $100 million in credits have been issued

The Film Production Credit is a credit available to companies that produce films in Alaska and spend at least $100,000 in eligible expenditures in a 24-month period. Credit against the state's corporate income tax is allowed in varying percentages for eligible film production expenditures, starting with a base credit rate of 30 percent of expenditures. An additional 10 percent credit is available for wages paid to Alaska residents; an additional 2 percent credit is available for expenditures made in a rural area; and an additional 2 percent credit is available for expenditures made in the state between October 1 and March 30. The credit program has a maximum budget of $100 million and expires upon exhausting the budget or July 1, 2013, whichever is earlier.

Credits Applicable to Multiple Tax Programs

Education Tax Credit

Statutory Reference: AS 21.89.070; AS 21.89.075; AS 43.20.014; AS 43.55.019; AS 43.56.018; AS 43.65.018; AS 43.75.018; AS 43.77.045

Year of Implementation: 1987

Credit Applied to: Corporate Income Tax, Production Tax, Property Tax, Mining License Tax, Fisheries Business Tax, Fishery Resource Landing Tax, Insurance Premium Tax

Transferability: Not Transferable

Expiration Date: None, although current rates of credit change on January 1, 2014

The Education Tax Credit allows credit for contributions for programs or facilities made to accredited Alaska universities or colleges and vocational educational programs, or, under AS 21.89.075, to the Alaska Fire Standards Council. Credit is allowed at the rate of 50% of the first $100,000 and 100% of the second $100,000 in contributions made to a qualifying institution. Credits received by any taxpayer may not exceed $150,000 annually across all eligible tax types. Beginning January 1, 2011, credit is available at the rate of up to 50 percent of annual contributions up to $100,000, 100 percent of the next $200,000 in contributions, and 50 percent of contributions higher than $300,000 annually. Credits received by any taxpayer may not exceed $5 million annually across all eligible tax types. On January 1, 2014, the maximum credit allowed reverts back to the limit set prior to January 1, 2011 or $150,000.

Minerals Exploration Incentive Credit

Statutory Reference: AS 27.30.030; AS 43.20.044

Year of Implementation: 1995

Credit Applied to: Corporate Income Tax, Mining License Tax, Mining Royalty

Transferability: Not Transferable

Expiration Date: None

The Minerals Exploration Incentive Credit is available to companies for expenditures on exploration activities such as surveying, drilling exploration wells, surface trenching, etc. for the purpose of mineral development in the state. The credit pays 100 percent of allowable expenditures up to a maximum of $20 million per year. The credit is limited to: (1) for the Mining License Tax – the lesser of 50 percent of tax liability at the mining operation where the exploration occurred or 50 percent of the taxpayer's total Mining License Tax for the year; (2) for Corporate Income Tax – the lesser of 50 percent of the Mining License Tax liability at the mining operation where the exploration occurred or the total Corporate Income Tax liability; (3) for mineral royalty – 50 percent of royalty liability from the mining operation where the exploration activity occurred. The credit may be carried forward, but must be used within 15 years.

Scholarship Contributions ("Winn Brindle") Credit

Statutory Reference: AS 43.75.032, AS 43.77.035

Year of Implementation: 1986

Credit Applied to: Fisheries Business Tax, Fishery Resource Landing Tax

Transferability: Not Transferable

Expiration Date: None

Credit under this program is available for 100 percent of contributions to the A.W. "Winn" Brindle memorial education loan account established under AS 14.43.250. A taxpayer may receive credit of up to 5 percent of his/her tax liability through contributions under this program.

Credits Applicable to Fisheries Taxes

Salmon Product Development Credit

Statutory Reference: AS 43.75.035

Year of Implementation: 2003

Credit Applied to: Fisheries Business Tax

Transferability: Not Transferable

Expiration Date: Last date an item may be placed into service is December 31, 2015

The Salmon Product Development Credit is a credit available for capital expenditures made to expand value-added processing of Alaska salmon. Credit is available for 50 percent of qualified expenditures up to 50 percent of the company's tax liability for the Fisheries Business Tax. The credit may be carried forward for three years.

Community Development Quota (CDQ) Credit

Statutory Reference: AS 43.77.040

Year of Implementation: 1993

Credit Applied to: Fishery Resource Landing Tax

Transferability: Not Transferable

Expiration Date: None

The Community Development Quota (CDQ) Credit is a credit available to

fisheries taxpayers who make contributions to Alaska nonprofit corporations to be used for purposes such as scholarships and training for fisheries businesses, and facilities for fisheries transport or processing, etc. Under this program, taxpayers receive credit for 100 percent of qualified contributions up to a maximum of 45.45 percent of the taxpayer's tax liability on fishery resources harvested under a CDQ.

Other Taxes Credit

Statutory Reference: AS 43.77.030

Year of Implementation: 1993

Credit Applied to: Fishery Resource Landing Tax

Transferability: Not Transferable

Expiration Date: None

In order to avoid double taxation on fisheries resources, credit is provided to taxpayers for payments made to other jurisdictions for taxes that are equivalent in nature to the Fishery Resource Landing Tax. The maximum credit under this program is the taxpayer's Alaska tax liability under the Fishery Resource Landing Tax.

A summary table showing all tax credits in current law, as well as the credits granted under each program for each of the past three years is shown on the following pages.

Summary of Alaska Tax Credits in Current Law

Description of Credit	Credit Rate and Maximum Credit	Amount of Credit Claimed (in $millions) FY 2008	FY 2009	FY 2010
Credits Applicable to the Oil and Gas Production Tax (see Note A)				
Exploration Incentive Credit, AS 38.05.180(i) A non-transferrable credit for the cost of drilling or seismic work performed under a limited time period established by the Commissioner of the Department of Natural Resources.	Up to 50% of the cost of drilling or seismic work, not to exceed 50% of the tax liability to which it is being applied. This credit may also be applied against the state royalty.	$0	$0	$0
Qualified Capital Expenditure Credit, AS 43.55.023(a) and (l) A transferable tax credit for qualified oil and gas capital expenditures in the state. Taken in lieu of exploration incentive credits under AS 43.55.025 and gas exploration credits under AS 43.20.043.	Credit is 20% of eligible expenditures, or 40% for well related expenses outside the North Slope. For credits earned for North Slope capital expenditures under AS 43.55.023 (a), no more than half the credit may be applied in a single calendar year.	Includes Carried-Forward Loss Credits $336	$391	$585
Carried-Forward Annual Loss Credit, AS 43.55.023(b) A transferable credit for a carried-forward annual loss, as defined as a producer or explorer's adjusted lease expenditures that are not deductible in calculating production tax values for the calendar year.	Credit is 25% of the carried-forward annual loss. If a transferable credit certificate is applied for North Slope losses, not more than half may be taken in one year.	Totals included in Qualified Capital Expenditure Credits above		
Small Producer / New Area Development Credit, AS 43.55.024(a) and (c) A non-transferable credit for oil and gas produced by small producers, defined as having average taxable oil and gas production of less than 100,000 BTU equivalent barrels per day, or for oil or gas produced on leases outside Cook Inlet and below 68 degrees North latitude, providing the producer has a positive tax liability on that production before the application of other credits. Credit is available until the later of 2016 or 9 years after first commercial production of oil and gas on the properties for which the credit applies.	Credit is 100% of tax liability for eligible oil and gas production. The credit is capped at $12,000,000 annually under the small producer credit for producers with no more than 50,000 BTU equivalent barrels per day. The credit then phases out, reaching zero for producers with 100,000 or more BTU equivalent barrels per day. Under the new area development credit, credit is available up to $6,000,000 per company annually.	$38	$21	$34
Alternative Credit for Exploration, AS 43.55.025 A transferable credit for expenditures for certain oil and gas exploration activities. Expires 7/1/2016.	Outside of Cook inlet, credit is 40% for seismic costs outside an existing unit, 30% for drilling costs greater than 25 miles from an existing unit, 30% for pre-approved new targets greater than 3 miles from an existing well, and 40% for pre-approved new targets greater than 3 miles from a well and greater than 25 miles from an existing unit. For Cook Inlet, credit is 40% for seismic costs outside an existing unit, 30% for drilling costs greater than 10 miles from an existing unit, 30% for pre-approved new targets, and 40% for drilling costs that are greater than 10 miles from an existing unit and pre-approved new targets.	$95	$18	$41

Note A: Credits under these programs are calculated and tracked on a calendar year basis. Totals represent CY 2007, 2008, and 2009, respectively.

(continued on next two pages)

Summary of Alaska Tax Credits in Current Law

Description of Credit	Credit Rate and Maximum Credit	Amount of Credit Claimed (in $millions) FY 2008	FY 2009	FY 2010
Cook Inlet Jack-Up Rig Credit, AS 43.55.025(a)(5) and (l)				
A credit for exploration expenses for the first three wells drilled by the first jack-up rig brought in to Cook Inlet. Expenses only for drilling of wells from a jack-up rig for wells that test pre-Tertiary; all three wells must be drilled by unaffiliated parties.	Credit is 100% of costs for the first well up to $25 million, 90% of costs for the second well up to $22.5 million, and 80% of costs for the third well up to $20 million. If exploration well is brought into production, operator shall repay 50% of the credit over ten years following production start-up.	Credit program began in 2010		
Credits Applicable to the Corporate Income Tax				
Internal Revenue Code Credits Adopted by Reference, AS 43.20.021				
Under Alaska's blanket adoption of the IRC, taxpayers can claim all federal incentive credits. Federal credits that refund other federal taxes are not allowed. Multistate taxpayers apportion their total federal incentive credits.	For most credits, credit is limited to 18% of the amount of the credit determined for federal income tax purposes which is attributable to Alaska.	Not tracked		
Gas Exploration and Development Credit, AS 43.20.043				
A non-transferable credit for qualified expenditures for exploration and development of non-North Slope natural gas reserves.	Credit is 25% of qualified expenditures for investment after January 1, 2010; investments in existing units qualify. Credit is capped at 75% of tax liability as calculated before applying other credits.	Cannot be reported due to taxpayer confidentiality		
Gas Storage Facility Credit, AS 43.20.046				
A credit for the costs incurred to establish a gas storage facility. Does not apply to gas storage related to a gas sales pipeline on the North Slope. Facility shall operate as a public utility regulated by the Alaska RCA with open access for 3rd parties. Effective for facilities placed into service between January 1, 2011 and December 31, 2015.	Credit is $1.50 per thousand cubic feet of "working gas" storage capacity as determined by AOGCC. Maximum credit is the lesser of $15 million or 25% of costs incurred to establish the facility.	Credit program began in 2010		
Film Production Credit, AS 43.98.030				
A transferable credit for expenditures on eligible film production activities in Alaska. Producer must spend at least $100,000 in a consecutive 24-month period to qualify. Expires the earlier of 7/1/2013 or once $100 million of credits have been approved.	Credit is 30% of eligible film production expenditures, plus an additional 10% credit for wages paid to Alaska residents, plus an additional 2% credit for filming in a rural area, plus an additional 2% credit for filming between October 1 and March 30. Program is capped at $100 million for all projects.	$0	$0	<$1
Credits Applicable to Multiple Tax Programs				
Education Credit, AS 21.89.070 and .075, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, AS 43.77.045 - Applicable to Corporate Income Tax, Fisheries Business Tax, Fishery Resource Landing Tax, Insurance Premium Tax, Mining License Tax, Oil and Gas Production Tax, Oil and Gas Property Tax				
A non-transferable credit for contributions to vocational educational programs or accredited Alaska universities or colleges for educational purposes or facilities; under AS 21.89.075 contributions to the Alaska Fire Standards Council also qualify.	Credit is 50% of annual contributions up to $100,000, 100% of the next $200,000 and 50% of annual contributions beyond $300,000. The credit cannot exceed $5,000,000 annually across all eligible tax types. The credit at these rates is effective from January 1, 2011 until December 31, 2013, at which point the maximum credit for any taxpayer is $150,000 per year.	$3	$2	$2

(continued on next page)

Summary of Alaska Tax Credits in Current Law

Description of Credit	Credit Rate and Maximum Credit	Amount of Credit Claimed (in $millions) FY 2008	FY 2009	FY 2010
Minerals Exploration Incentive Credit, AS 27.30.030, AS 43.20.044 - Applicable to Corporate Income Tax, Mining License Tax and Mineral Production Royalty				
A non-transferable credit for eligible costs of mineral or coal exploration activities. Credit must be used within 15 years.	Credit is 100% of allowable exploration costs with a maximum of $20 million. Credit is limited to: (1) for mining license tax, the lesser of 50% of the MLT liability at the mining operation at which the exploration occurred or 50% of total MLT liability; (2) for corporate income tax, the lesser of 50% of the MLT liability at the mining operation at which the exploration occurred or 50% or total CIT liability, and (3) for mineral royalty, 50% of royalty liability from the mining operation at which the exploration activity occurred.	$0	$0	<$1
Scholarship Contributions Credit, AS 43.75.032, AS 43.77.035 - Applicable to the Fisheries Business Tax and Fishery Resource Landing Tax				
A non-transferable credit for contributions to the A.W. "Winn" Brindle memorial education loan account established under AS 14.43.250.	Credit is 100% of contribution amount up to a maximum of 5% of tax liability.	<$1	<$1	<$1
Credits Applicable to Fisheries Taxes				
Salmon Product Development Credit, AS 43.75.035 A non-transferable credit for eligible capital expenditures to expand value-added processing of Alaska salmon including ice making machines. Credit expires December 31, 2015 and may be carried forward for three years.	Credit is 50% of qualified investment up to 50% of tax liability incurred for processing of salmon during the tax year.	$5	$3	$4
Community Development Quota Credit, AS 43.77.040 A non-transferable credit for contributions to an Alaska nonprofit corporation that are dedicated to fisheries industry-related expenditures. Credit is available only for fishery resources harvested under a community development quota (CDQ).	Credit is 100% of contribution amount up to a maximum of 45.45% of tax liability on fishery resources harvested under a CDQ.	<$1	$0	<$1
Other Taxes Credit, AS 43.77.030 A non-transferable credit for taxes paid to another jurisdiction on fishery resources landed in Alaska.	Credit is 100% of taxes paid with a maximum of 100% of the Alaska tax liability on the fishery resources.	Not tracked		
	Total All Credits	**$479**	**$436**	**$670**

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2010

4. Oil Revenue

Figure 4-1. FY 2010 Oil Revenue: $6.2 billion

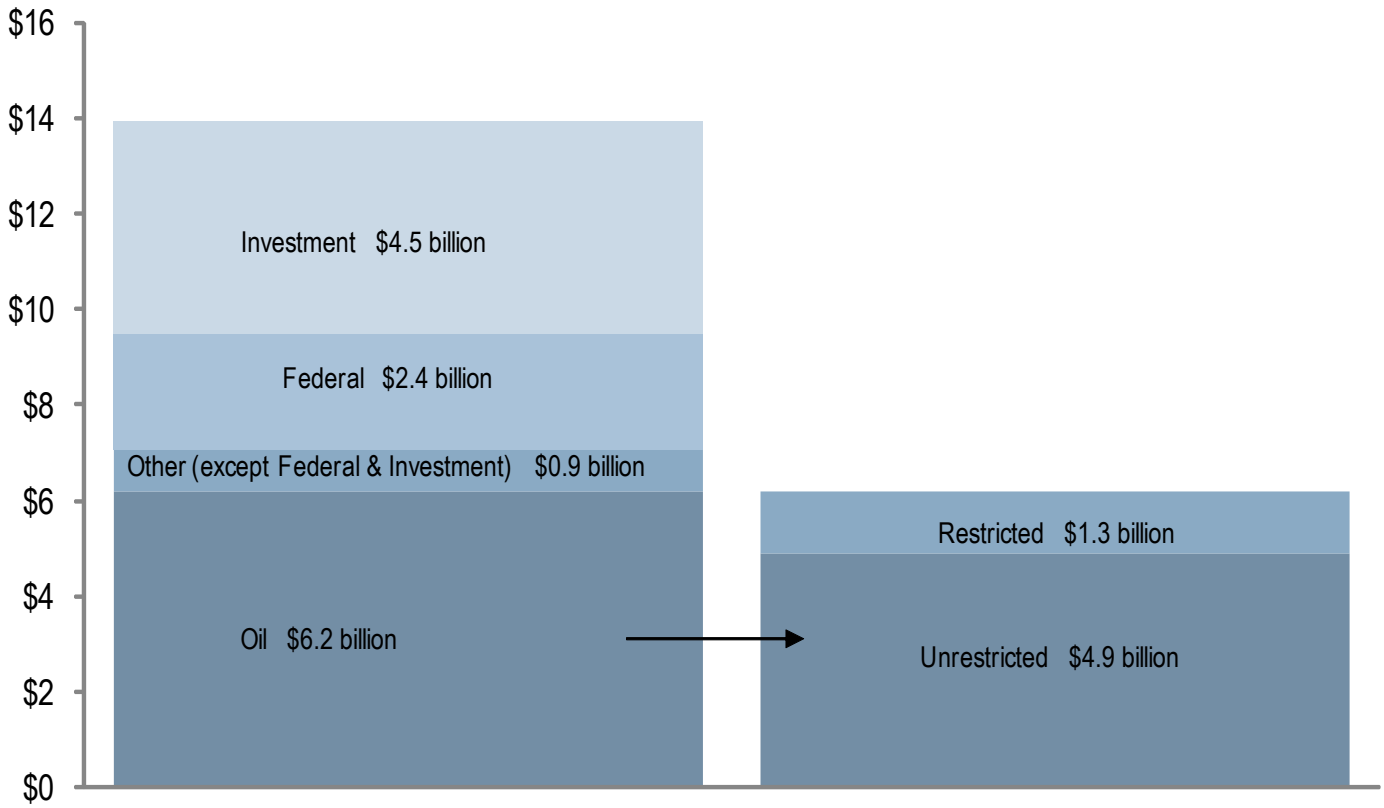


Figure 4-2. Total Oil Revenue, FY 2010 and Forecasted FY 2011-2012 ($ million)

Oil Revenue

	History	Forecast	
Unrestricted	FY 2010	FY 2011	FY 2012
Petroleum Property Tax	118.8	104.1	101.9
Petroleum Corporate Income Tax	447.9	445.0	555.0
Production Tax	2,871.0	2,614.6	2,737.6
Royalties (including Bonuses, Rents & Interest)	1,477.0	1,510.1	1,666.6
Total Unrestricted	**4,914.7**	**4,673.9**	**5,061.1**
Increase/Decrease from Prior Period	(266.3)	(240.8)	387.2
% Change from Prior Period	-5.1%	-4.9%	8.3%
Restricted			
Other Restricted			
Royalties to Permanent Fund & School Fund			
Royalties, Bonuses & Rents to the Permanent Fund	696.1	638.9	723.3
Royalties, Bonuses & Rents to the School Fund	11.1	10.8	12.0
Subtotal	707.2	649.7	735.3
Tax Settlements to CBRF	552.7	20.0	20.0
Subtotal Other Restricted	**1,259.9**	**669.7**	**755.3**
Federal			
NPR-A Royalties, Rents & Bonuses	21.3	19.5	19.5
Subtotal Federal	**21.3**	**19.5**	**19.5**
Total Restricted	**1281.2**	**689.2**	**774.8**
Increase/Decrease from Prior Period	393.0	(592.0)	85.6
% Change from Prior Period	44.2%	-46.2%	12.4%
Total Oil Revenue	**6,195.9**	**5,363.1**	**5,835.9**
Increase/Decrease from Prior Period	126.7	(832.8)	472.8
% Change from Prior Period	2.1%	-13.4%	8.8%

Unrestricted Oil Revenue

Figure 4-3. Unrestricted Oil Revenue, FY 2010 and Forecasted FY 2011-2020 ($ million)

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Petroleum Property Tax	118.8	104.1	101.9	99.5	97.2	94.9	92.7	90.3	88.0	85.8	83.4
Petroleum Corporate Income Tax	447.9	445.0	555.0	605.0	630.0	680.0	690.0	700.0	710.0	720.0	730.0
Production Tax	2,871.0	2,614.6	2,737.6	3,051.6	3,521.1	3,905.4	4,471.7	4,631.5	4,734.8	4,539.3	4,360.1
Royalties-Net [1]	1,477.0	1,510.1	1,666.6	1,757.6	1,819.9	1,839.5	1,837.5	1,829.2	1,775.2	1,698.8	1,624.1
Total Oil Revenues	**4,914.7**	**4,673.9**	**5,061.1**	**5,513.7**	**6,068.2**	**6,519.7**	**7,091.9**	**7,250.9**	**7,308.1**	**7,044.0**	**6,797.7**
Increase/Decrease from Prior Period	(266.3)	(240.8)	387.2	452.6	554.5	451.5	572.2	159.0	57.1	(264.1)	(246.3)
% Change from Prior Period	-5.1%	-4.9%	8.3%	8.9%	10.1%	7.4%	8.8%	2.2%	0.8%	-3.6%	-3.5%

[1] Includes bonuses and interest

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. With the repeal of HB 11[1] approximately 30% of oil and gas royalties 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[2], which receives the state's share of all lease bonuses from sales in the NPR-A; and the Constitutional Budget Reserve Fund (CBRF), which receives settlements of tax and royalty disputes between the state and oil and gas producers.

Figure 4-2 shows the actual amount of each tax and royalty source in FY 2010 and forecast for FY 2011 and FY 2012. As can be seen from the figure, royalties and production tax constitute the largest part - more than 70% - of restricted and unrestricted oil revenue combined. Figure 4-3 shows the department's unrestricted oil revenue forecast from the current fiscal year through FY 2020 by revenue category.

This section begins with a discussion of production taxes and royalties, both of which are driven by price and volume. We then review the price forecasting methodology that underlies this report, and discuss the linkage between market prices and wellhead values. We also review our production forecast, and close this section with a discussion of oil and gas property taxes, oil and gas corporate income taxes and the restricted portions of oil revenue.

[1] For more discussion on deposits to the Permanent Fund and HB 11, see the Executive Summary section.

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

Crude Oil and Natural Gas Production Taxes

All oil and gas production in Alaska, except the federal and state royalty share and a small amount used in production operations, is subject to the state's production tax, and to the hazardous release surcharge, which is levied only on crude oil. Taxes and surcharges are estimated and collected on a monthly basis.

The Production Tax Known as "Alaska's Clear and Equitable Share" (ACES)

In November 2007, the Alaska Legislature passed Alaska's Clear and Equitable Share (ACES), which made changes to the state's production tax system, retroactive to July 1, 2007. The previous production tax, titled the Petroleum Profits Tax (PPT), had been in place for one year prior to the passage of ACES. Both production tax systems are based on net profits of oil and gas production (see Figure 4-4). For more than 20 years prior to the enactment of the PPT, the state used a production tax system that was based on the gross value at the point of production as adjusted by the Economic Limit Factor (ELF).

The ACES tax calculation starts with the value at the point of production, and then subtracts upstream costs, including costs capitalized on company financial statements, from this value to arrive at the "production tax value." Each company that produces oil in Alaska has a production tax value based on this calculation, which is conceptually similar to a company's net income, or net profit. The production tax value is multiplied by the tax rate—25%—to arrive at the base tax. Should the production tax value exceed $30 per barrel of oil produced (or the equivalent in gas), the tax rate increases 0.4% for every dollar the per-barrel production tax value exceeds $30. For production tax values greater than $92.50, the progressive factor changes to 0.1% for every additional dollar of profit on a barrel of oil. The maximum total tax rate is 75%.

Under ACES, a company's production tax liability is reduced to the extent that it invests in equipment, projects, or other items that are deemed "capital expenditures." Capital expenditures generally include costs related to the purchase of drilling rigs or other equipment, infrastructure, exploration, and facility expansion. Capital costs are eligible for a 20% credit against the company's ACES liability, and the credits must be spread over two years. The 20% capital expenditure credit is intended to encourage investment in Alaska.

ACES also encourages investment in Alaska through three other tax credits. Companies producing less than 100,000 barrels of oil per day may be eligible for a tax credit of up to $12 million per year. Net losses are eligible for a 25% tax credit in the year following the loss. ACES also expanded the Exploration Incentive Credit, changing the credit rates from 20% and 40% to 30% and 40% of exploration expenditures.

Figure 4-5 shows the capital credits that companies reported on their annual tax returns filed March 31, 2009 and March 31, 2010. Note that most of the credits were applied against tax liabilities; those that could not be immediately applied against a tax liability will be carried forward or sold to the state or another company.

Figure 4-4. ACES Tax Liability Calculation

ACES Tax Liability = [(Value – Costs) * Tax Rate] – Credits

The terms used in the equation are defined as follows:

Value = Volume of Oil & Gas Produced * Wellhead Value

Costs = Operating Expenditures + Capital Expenditures

Tax Rate = 25% + 0.4% for every $1 per barrel that this "net profit" exceeds $30 up to $92.50, then 0.1%

Credits = (20% * Capital Expenditures)(1) + (20% * Eligible Transition Expenditures)(2) + Base Allowance

(1) Spread over two years

(2) Limited to those credits earned while the PPT was in effect and could not be used

The oil and gas tax credit fund, authorized under AS 43.55.028, was created to fund the state's purchase of production tax credit certificates. In FY 2010, the fund paid out $250 million, and as of November 12, 2010, the fund has paid out $172 million to purchase credits in FY 2011. As of November 12, 2010, the fund balance was $102.8 million.

Hazardous Release Surcharge

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

The Response surcharge (AS 43.55.201) is $.01 per taxable barrel of oil and the Prevention surcharge (AS 43.55.300) is $.04 per taxable barrel of oil produced.

The Response surcharge is suspended when the balance of the Response account is equal to or exceeds $50 million. As of September 30, 2010, the cumulative balance of the account was $43.5 million. The Response Surcharge was re-imposed effective April 1, 2007, by the Department of Revenue.

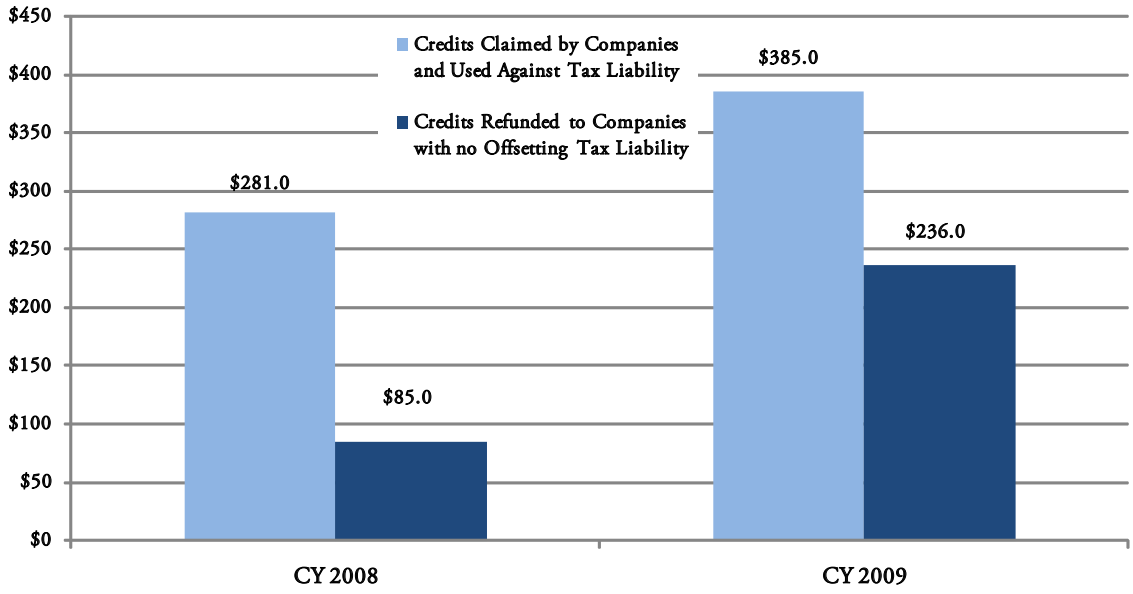
Oil Royalties

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 and (3) a royalty interest in oil and gas production.

Typically the state issues leases based on a competitive bonus bid system. The state generally retains 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 27%, and some leases also have a net profit-share production agreement.

State oil and gas leases provide that the state may take its oil royalty in barrels (in-kind) or as a percentage of the production value (in-value). In FY 2010, the state took approximately

Figure 4-5. Production Tax Credits Reported, CY 2008 and CY 2009 ($ million)



34,000 barrels per day of North Slope production in-kind and sold it to Flint Hills Resources Alaska, LLC for their refinery at North Pole.

The royalty oil taken in-value is valued according to a formula using a market basket of spot crude oil prices closely approximating the ANS West Coast spot price of oil less a transportation allowance back to the lease. Royalties are based on a destination price—the higher of the actual sales price or the prevailing value[3]. The pipeline and marine transportation costs, field costs, and quality bank adjustments are deducted from the destination value to derive the netback value of the oil or gas.

Crude Oil Prices, Lease Expenditures, Transportation Costs and Crude Oil Production: Forecasting Methodology & Assumptions

For many years, the level of revenues accruing to the state from oil production have been contingent primarily on (1) oil prices and (2) production volumes. With the implementation of the production tax on net profits, a third factor influences the level of revenues anticipated from oil production—costs related to exploring for, developing, and producing oil, all or part of which are deductible and/or creditable under the production tax as "lease expenditures."

Estimating oil revenue for the state entails projecting four factors:

1. Crude oil prices
2. Lease expenditures
3. Transportation charges
4. Crude oil production

This section reviews each of these factors.

To forecast oil prices, the department conducts a day-long price forecasting session to review and discuss petroleum supply and demand oil price drivers. The session includes professionals from the Department of Revenue, Department of Natural Resources, Department of Labor, the Governor's Office of Management and Budget, the Division of Legislative Finance, the University of Alaska and industry experts.

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

To forecast lease expenditures, the department uses data from earlier filings for a base and projects short-term future expenditures from company documents. Mid-term and long-term expenditure forecasts take into account long-term development plans as detailed in company documents and are intended to coincide with our production forecast.

Transportation charges include tariffs on pipelines, marine transportation and other cost adjustments for moving crude oil to market. ACES allows "reasonable" costs to be subtracted as transportation charges.

Each of these forecasted items play an important role in determining the level of revenue anticipated from oil production. These four items are used as inputs in the department's revenue model. More information about expenditures and tax calculations is explained later in this section.

1. Crude Oil Prices

Methodology for Forecasting Prices

The department compiles its oil price forecast from several sources, including a day-long price forecasting session with attendees from various agencies in the state government. Session attendees are asked for their projections for West Texas Intermediate (WTI) crude oil for three cases–a low case, a high case and a base case. Prices are forecasted in real 2010 dollars. The Department of Revenue projects the differential between WTI and ANS and uses a projection of inflation to arrive at the nominal dollar forecast used in this publication. Among the other forecasting sources used by the department are those prepared by the Energy Information Administration (EIA), the New York Mercantile Exchange (NYMEX), and industry analysts.

Oil prices were relatively stable in FY 2010 compared to the volatility in oil prices experienced in FY 2009 and that trend appears to be continuing into FY 2011. Although the U.S. economic recession officially ended in June 2009, many effects of the recession are lingering, including high unemployment and lower than normal consumer spending. The health of the economies around the world continue to be a major driver in the direction of oil markets and consequently, oil prices. The divergence of thought about the pace and level of economic rebound is evidenced by the

[3] ANS West Coast prevailing value per 15 AAC 55.171 is the monthly average of daily spot market prices reported by Platt's Oilgram, Reuters and Dow Jones Energy reporting services. This price is published monthly on the Tax Division website at www.tax.state.ak.us.

long-term oil forecasts of various agencies and analysts that provide them. The Energy Information Administration (EIA), for example, projects oil prices to be up to $20 per barrel higher in 2015 than did the NYMEX around the same time period. Oil market analysts split the difference, predicting prices $10 higher than the NYMEX, but $10 lower than the EIA. Forecasts for near-term oil prices are much more aligned among price forecasters.

Because of the marked differences among forecasts, we determined that a blend of forecasts would best smooth out the anomalies in each of the individual forecasts and provide a more unified approach. Our Fall 2010 oil price forecast therefore is an equally-weighted blend of forecasts from our Fall 2010 oil price forecasting session, the NYMEX as of mid-October 2010, oil market analysts' forecasts, and the EIA. This methodology follows oil price forecasting methodologies we have used in previous forecasts.

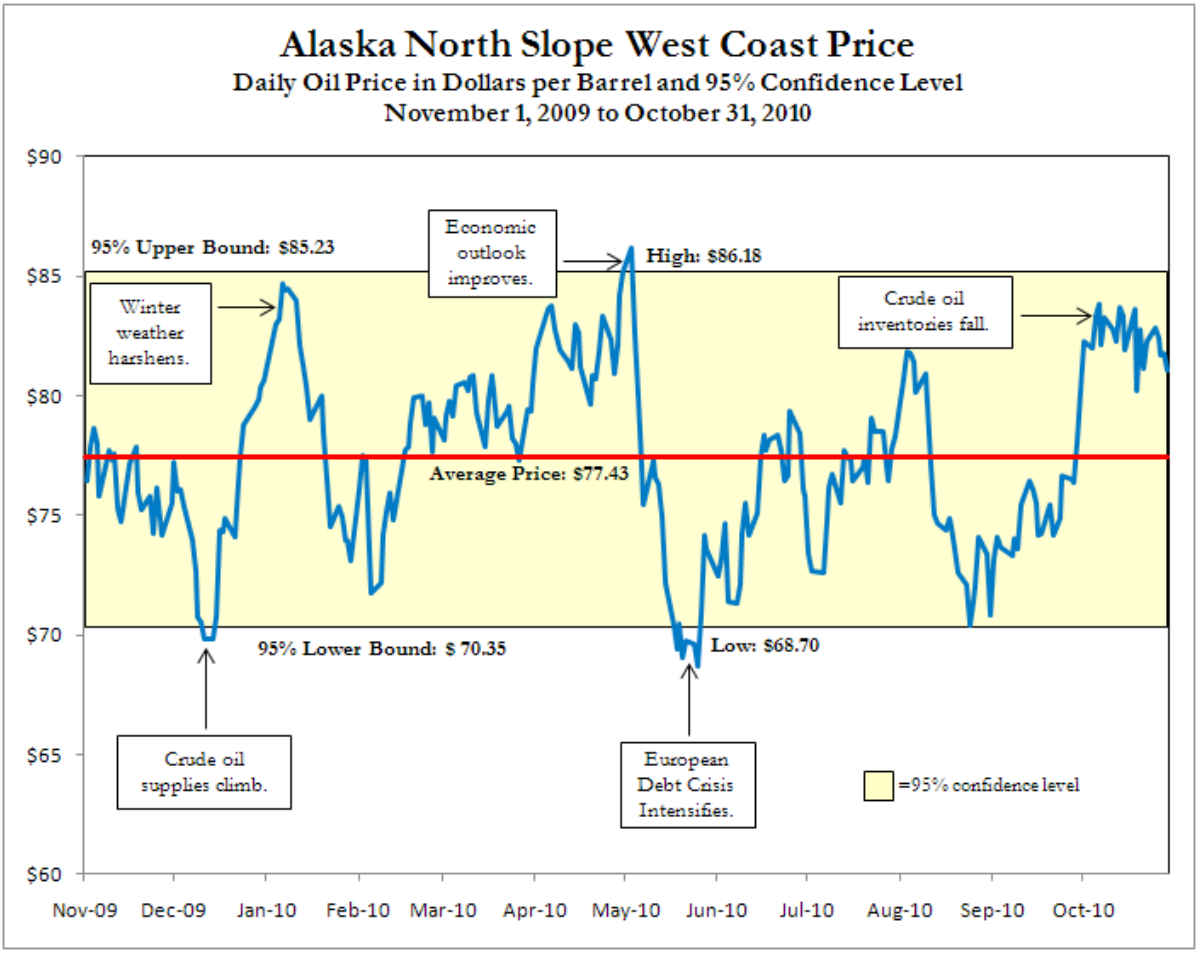
Factors that Influence Oil Prices

Many factors contribute to the pricing of oil on the world market. In the short term, inventory levels, economic crises, geopolitical and weather-related events can heavily influence oil prices. Fluctuations in value of the U.S. dollar and changes in the sentiments of traders buying and selling oil futures and options contracts on the New York Mercantile Exchange (NYMEX) also affect the price of oil. In addition to these factors, there is the influence of a strong oil market cartel—OPEC—which strives to keep oil prices within a pre-determined price band by increasing and decreasing supply.

In the long run, fundamental economic factors of supply and demand ultimately drive oil prices. Predicting future supply and demand requires an understanding of long-term economic growth, demand for refined petroleum products, global crude oil reserves and the economics and politics of recovering those reserves.

All these factors determine the price of

Figure 4-6. ANS Crude Price Volatility



oil in the world market, and each of them must be considered in forecasting oil prices.

Oil Price Drivers

The 18-month U.S. economic recession officially ended in June 2009. Over the course of the recession the U.S. economy lost 7.3 million jobs and GDP fell 4.1%. The recovery of the U.S. economy back to its long-term trend has been anemic, with U.S. unemployment remaining 4 – 5% above its normal levels. Consumer confidence has softened in recent months. The October 2010 Thomson Reuters/University of Michigan index of consumer sentiment was at its lowest since level since November 2009 and lower than June 2009 when the economic recession officially ended. Other advanced economies, such as those in Japan and Europe, also have been constrained by weak private consumption, high unemployment and low household net worth.

Emerging economies have fared substantially better. Countries in Asia, Latin America, the Middle East and Africa were less impacted by the recession and have led the way with strong output growth. China's large fiscal stimulus and subsequent expansions in domestic demand and exports have spurred its vigorous growth. India has continued its robust growth with many economic indicators suggesting this trend will continue.

This mixed global economic news casts uncertainty on near-term oil prices. Weak consumer demand and financial market vulnerabilities in the advanced economies will be a drag on oil prices. On the other hand, robust growth in emerging and developing economies will put upward pressure on prices.

How demand will influence oil prices in the medium term is uncertain as well. In its October 2010 World Economic Outlook, the International Monetary Fund (IMF) predicts that the domestic demand in emerging economies is unlikely to be strong enough to offset weaker demand in advanced economies in the medium term. They warn that unless financial and structural policies are strengthened, output in advanced economies will stagnate, further slowing the already sluggish recovery in those economies.

The price of crude oil and the value of the U.S. dollar are interwoven due to the fact that oil is priced in U.S. dollars. Using the dollar's value to forecast future oil prices is of little use, however, because predicting exchange rates is as difficult as predicting oil prices. Exchange rates can fluctuate wildly with interest rate changes and various other macroeconomic variables.

In the immediate future, oil market pundits have suggested that the use of the monetary tool called quantitative easing could spur a rise in oil prices. In conducting quantitative easing, the Federal Reserve purchases government and commercial bonds, thus increasing the money supply, lowering U.S. interest rates, and driving down the value of the U.S. dollar. This may encourage investors to purchase inexpensive U.S. dollars to invest in oil, which presumably will offer a higher yield than other assets, and drive up oil prices.

Financial markets are also thought to play a role in driving oil prices. Every day, hundreds of millions of "paper" barrels of oil are bought and sold on the NYMEX via futures contracts. Investors also trade financial options that offer the right to buy or sell crude oil at a given strike price. The number of futures and options contracts traded rose dramatically during the oil price rise from 2004 to 2008. Many pundits suggest that investors in these markets are responsible for at least some of the price rise. The impact investors will have in the years going forward is, however, unknown.

Supply is of course another key determinant of future oil prices, and one cannot mention supply without mentioning OPEC. OPEC, which currently produces nearly 40% of the world's total crude oil supply, is difficult to predict and notorious for not complying with established quotas. OPEC's current willingness and ability to adjust its production to keep oil prices within a pre-determined price band is open to debate. Saudi Arabia, which is OPEC's largest producer and holds the most spare capacity, has recently suggested that a price per barrel ranging from $70 to $80 is "perfect". Nevertheless, prices have frequently risen above $80 in 2010, and many members of OPEC are arguing for a higher range of $80 to $100/bbl. OPEC's ability to maintain current prices partially depends on its spare capacity (the difference between sustainable oil production and current oil production). Spare capacity is currently at a comfortable level, but it could tighten if oil demand rises sharply.

Demand and Supply Projections

In the long run, prices are ultimately a function of two factors: the supply of oil and the demand for oil. While oil price forecasting necessarily considers the impact of financial speculation, exchange rate fluctuations, geopolitical and weather-related events, the underlying fundamentals of supply and demand must also be examined.

In their October 2010 update, the EIA predicted that world oil demand will increase by 1.4 mmbbls/day in 2011, which is slightly lower than growth in 2010 of 1.7 mmbbls/day. The growth in demand during 2011 is due to increasing consumption in China, the Middle East, Brazil and other non-OECD (Organization for Economic Cooperation and Development) countries.

While the EIA expects consumption in many OECD countries to decline, it does forecast North America will have modest growth.

On the supply side, the EIA expects OPEC production, which it projects to be 34.85 mmbbls/day in 2010, will increase to 36.09 mmbbls/day in 2011. OPEC spare capacity is expected to rise above 5 million barrels per day, which is significantly higher than its pre-recession levels. Non-OPEC oil production, which is projected to average 51.36 mmbbls/day in 2010, will decline to 51.12 mmbbls/day. Outside of the supply disruptions in the Gulf of Mexico in 2005 and 2008, which helped push Non-OPEC supply growth down in those years, 2011 is the first year in 15 years in which Non-OPEC supply declined.

In total, oil supply and demand show signs of continuing stability. Accordingly, prices have stabilized after the oil price spike and crash of the last few years. During 2010, WTI has fluctuated close to $80/bbl, with prices occasionally reaching the high $80s and dipping to the low $70s and even the high $60s. Whether this stability holds for the future depends on many of the factors discussed above as well as unforeseen geopolitical-and weather-related events that threaten supply.

The uncertainty present in global economic growth, especially in the advanced economies, along with OPEC's historically high level of spare capacity, suggests oil demand is the price driver to watch in the immediate future. In the medium and long term, most forecasters predict demand to rebound and supply and spare capacity to play a more important role.

The department's price forecast of WTI and ANS reflects a consensus view of slow but stable oil demand growth in the near term. In the medium and long term, the forecast reflects stabilizing oil demand growth that puts pressure on world oil production and tightens spare capacity.

Forecast for West Texas Intermediate and Alaska North Slope Crude Oil

We forecast the price for West Texas Intermediate (WTI) crude oil to average $79.89 for FY 2011, $85.17 for FY 2012, and $90.36 for FY 2013. We typically forecast a WTI-ANS differential of $2.50 per barrel, except in the case of FY 2011, which has some actual monthly differentials incorporated into the price. Corresponding ANS prices are $77.96, $82.67, and $87.86 for the three years. Beyond FY 2015, we project that oil prices will stay flat in real terms and increase in nominal terms by the projected 2.75% Callan Associates capital market inflation assumption.

2. Lease Expenditures

The passage of the PPT and now ACES requires the Department of Revenue to forecast lease expenditures, in addition to oil prices and production. Lease expenditures are defined in part as the upstream costs that are the direct costs of exploring for, developing, or producing oil or gas deposits. The production tax under PPT and later ACES allows the deduction of lease expenditures in arriving at a taxable base. The production tax system also allows a partial credit against the tax liability for certain lease expenditures known as qualified capital expenditures. For more information how ACES production tax is calculated, see Figure 4-4.

Methodology for Forecasting Lease Expenditures

The Department of Revenue has received four annual filings of tax returns under a net profits production tax, under PPT in 2006, and under ACES in 2007, 2008 and 2009. Additionally, the department receives monthly information filings from oil and gas companies operating in the state that provide estimated monthly lease expenditures by property. Semi-annually, the department receives projections of lease expenditures by property for up to five years in the future. These reports have greatly enhanced the department's ability to prepare better revenue forecasts.

The department also uses several other means to forecast lease expenditures, including consulting other taxpayer-submitted information, such as plans of development, federal partnership returns, and other documents. Production profiles are reviewed, as well as publicly available information on estimated costs to bring new fields online and projected start-up dates.

Forecast for Lease Expenditures

In FY 2010, the following unaudited lease expenditures were reported on monthly information forms by companies producing or exploring for oil and/or gas on the North Slope: $2.3 billion in operating expenditures and $2.4 billion in capital expenditures. For FY 2011, we forecast operating expenditures at about $2.6 billion and capital expenditures at $2.6 billion. For FY 2012, we forecast operating expenditures at $2.6 billion and capital expenditures at $2.9 billion. The higher forecast for operating expenditures reflects the sunset of the "standard deduction" provision at AS 43.55.165(j) at the end of CY 2009, as well as new

Figure 4-7. Basic Data Used for ANS Oil & Gas Production Taxes

	History FY 2010	Forecast FY 2011	Forecast FY 2012
State Production Tax Revenue from the North Slope			
Millions of Dollars	2,871.0	2,614.6	2,737.6
Key North Slope Assumptions			
Price of ANS WC in dollars per barrel	74.90	77.96	82.67
Transit Costs & Other in dollars per barrel	6.01	6.00	6.39
ANS Wellhead in dollars per barrel	68.89	71.96	76.28
Production in barrels per day	643,517	615,902	622,182
Royalty and federal barrels per day	85,098	79,939	80,385
Taxable barrels per day	558,419	535,963	541,797
Lease Expenditures in Millions of Dollars			
Operating Expenditures (Opex)	2,270	2,553	2,558
Capital Expenditures (Capex)	2,389	2,572	2,937
Total Expenditures	4,659	5,125	5,494
Implied North Slope Data			
Credits Used against Tax Liability in $millions	350.0	400.0	450.0
Credits for Potential Purchase in $millions	250.0	430.0	400.0
Lease Expenditures per barrel of oil produced			
Opex	9.7	11.4	11.3
Capex	10.2	11.4	12.9
Total Expenditures	19.8	22.8	24.2
Average Production Value per Barrel (Pre-Tax)	49.1	49.2	52.1
Production Tax Collected per Taxable Barrel	14.1	13.4	13.8

Notes

1 This table presents a grossly simplified snapshot of the production tax calculation on an average North Slope basis, and any use of this data should be viewed accordingly. Additionally, because production tax is calculated on a company basis, any simplification such as this distorts the actual value to companies. For example, a company's pre-tax production value per barrel could be significantly more or less than that shown in this table, depending on the "mix" of petroleum investments they have on the North Slope.

2 Lease expenditures for FY 2010 were prepared using unaudited company reported expenditure estimates.

3 Expenditure data for FY 2011 and FY 2012 are compiled from company submitted expenditure forecast estimates and other documentation as provided to the DOR.

4 CAPEX credits are spread out over two years as specified in the ACES production tax. In addition, the assumptions for the transitional credits and the $12 million credits for small Alaska producers are not included in the table.

5 Operating expenditures for Prudhoe Bay and Kuparuk units include the standard deduction provision per AS 43.55.165(j) through December 31, 2009.

and developing operations at Oooguruk and Nikaitchuq. Higher capital expenditure forecasts reflect continuing investment on the North Slope in fields like Oooguruk, Nikaitchuq, and Point Thomson and in enhanced oil recovery projects and the development of heavy oil.

3. Transportation Charges and Other Production Costs

Taxpayers subtract marine transportation costs, the Trans Alaska Pipeline System (TAPS) tariff, feeder pipeline tariffs and an adjustment for quality bank charges from the appropriate destination value. This netback calculation is shown in Figure 4-8 for FY 2010-2020.

Marine Transportation Costs

Crude oil delivered to Valdez through TAPS is shipped by tanker to refineries in Washington, California, Hawaii and the Kenai Peninsula. Most North Slope crude is delivered to Puget Sound, San Francisco and Los Angeles to meet the demand of Washington and California refineries. These voyages take about two weeks depending on loading/unloading time and potential delays.

The majority of crude oil delivered is by "Alaska Class" and "Endeavour Class" tankers, all of which are state-of-the-art double-hulled tankers. Double-hulled tankers have an inner hull containing the tanker's crude oil and a surrounding outer hull to offer additional protection against oil spills. These tankers range from about 140 to 195 deadweight tons and can carry over a million barrels at full capacity.

Allowable costs for oil transported by a vessel not owned or effectively owned by the producer of the transported oil are the total costs under the charter or contract and other allowable costs borne by the producer.

For crude oil shipped on tankers that are owned or effectively owned by the producer of the transported oil, which is typically the case, the bulk of allowable costs are the following:

- depreciation,
- return on investment,
- fuel for the vessel,
- wages and benefits,
- routine maintenance,
- tug and pilotage fees and
- drydocking costs.

We forecast a modest increase in tanker transportation costs per barrel will be necessary in order to maintain the integrity of the fleet.

Trans Alaska Pipeline System (TAPS) Tariff

The TAPS tariff forecast is cost based and uses data from the FERC Form 6 and Opinion 502 compliance filings. Opinion 502 ordered the carriers to establish a uniform rate using the Order 154-B methodology of trended original cost (TOC). The forecasting model is designed to emulate the existing regulatory approach. Forecasts of the cost components are summed to estimate the total cost of operating the pipeline. This total revenue requirement is linked to the production forecast to provide a denominator to calculate the tariff.

We do not attempt to predict the outcome of pending litigation or estimate the level and timing of protested rates. Corrections between filed, charged and allowed rates are not part of this tariff forecast.

The idea in cost-of-service modeling is to calculate a total revenue requirement for operating and maintaining the pipeline while providing a reasonable return on the investment in the pipeline. This total revenue requirement is then unitized by dividing by the total number of barrels of oil put through the pipeline.

The beginning rate base for TAPS is established and depreciated according to Opinion 502 which also extended the life of the line from 2011 to 2034 and specified treatment of dismantlement, removal and restoration (DR&R) expense. The proxy-based capital structure and discounted cashflow method of determining the return on equity are consistent with the FERC policy for determining rates for oil pipelines. Forecast values reflect assumptions regarding those components and adjustments to the rate base from

- trending,
- deferred return,
- working capital,
- capital additions, and
- depreciation.

Cost components for operating the pipeline and providing both a return of the capital investment in the pipeline as well as a return on the capital invested in the pipeline include:

- operating expenses,
- pipeline taxes,
- depreciation expense,
- interest expense,
- return on equity, and
- amortization of deferred return.

The total revenue requirement (TRR) for the pipeline is estimated by summing the cost components listed above. To calculate a dollar per barrel tariff the TRR value is divided by the annual volume of oil shipped through the pipeline. This makes the tariff forecast particularly sensitive to the production forecast.

Feeder Pipeline Tariffs and Other Adjustments

These costs include feeder pipeline tariff rates, feeder pipeline losses and other adjustments to account for the different qualities of oil entering the pipelines.

Producers shipping crude oil through a pipeline from various North Slope production fields to Pump Station No.1 of TAPS pay a tariff rate to the owner of the pipeline. In general, tariff rates are calculated for each of the six feeder pipelines according to each pipeline's particular settlement agreement.

The tariff rate forecast for each pipeline is based on a cost-of-service model tailored to match each pipeline's settlement agreement. The tariff rate, under a cost-of-service ratemaking approach, allows the pipeline to recover a return of capital investment, a return on capital investment and other incurred costs. The return of capital investment is the yearly depreciation expense, which allows a pipeline to recover the capital investment it has undertaken to provide its service. The return on capital investment is compensation for the use of its capital to finance the investment. Other costs the pipeline can recover typically include operating expenses, a dismantling, removal and restoration (DR&R) allowance, an allowance for income taxes and other costs.

To forecast the per barrel tariff rates for each pipeline, projected total costs are summed and allocated across the different connections, if there is more than one, and divided over the projected throughput of each connection.

Wellhead Price

The combination of ANS wellhead value and production volumes forms the basis for both state production taxes and royalties. The wellhead value is calculated by subtracting the relevant marine transportation and pipeline tariff costs (as well as adjustments for North Slope feeder pipelines and pipeline quality bank) from the appropriate destination value. Figure 4-8 reflects this calculation for FY 2010-2020.

4. Crude Oil Production

For the Fall 2010 forecast we have added discussion regarding our production forecasting methodology

Methodology for Forecast Crude Oil Production

When developing the production forecast for the North Slope, we do not include any estimates for undiscovered oil, including future potential from the Alaska National Wildlife Refuge (ANWR), most of the National Petroleum Reserve-Alaska (NPR-A), the federal Outer Continental Shelf (OCS). We exclude from our estimates production from most of the known heavy or viscous oil deposits; in fact we consider none of the approximately 20 billion barrels from the giant Ugnu deposit, although one operator has initiated a pilot project at Milne Point to evaluate new technology termed CHOPS (Cold Heavy Oil Production with Sand) and another operator is evaluating thermal recovery technology for Ugnu at Kuparuk. We exclude 97% of the viscous/heavy oil from the large West Sak field, projecting roughly 331 million barrels recovery out of roughly 10 billion barrels in place. We also exclude 93% of the heavy oil at Schrader Bluff, projecting roughly 131 million barrels recovery out of over 2 billion barrels in

Figure 4-8. Fall 2010 Forecast Assumptions, FY 2010 and Forecasted FY 2011-2020 (nominal $ per barrel)

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ANS West Coast Price	74.90	77.96	82.67	87.86	92.41	97.34	100.08	102.90	105.80	108.78	111.84
ANS Marine Transportation	2.21	2.07	2.05	2.10	2.15	2.20	2.25	2.30	2.35	2.40	2.45
TAPS Tariff	3.81	4.17	4.67	4.37	4.54	4.80	4.92	4.99	5.21	5.48	5.80
Other Deductions & Adjustments [1]	0.00	-0.24	-0.33	-0.28	-0.28	-0.27	-0.22	-0.23	-0.22	-0.21	-0.19
ANS Wellhead Price	68.89	71.96	76.28	81.68	86.00	90.62	93.14	95.84	98.47	101.11	103.77

[1] Includes other adjustments such as quality bank charges, location differentials and company-amended information.

place. Additionally, none of the known oil discoveries in the Federal Outer Continental Shelf, in fields such as Sivilluq, Kuvlum and Sandpiper, potentially totaling hundreds of millions of barrels of recoverable oil, are considered in the forecast.

We exclude these resources, both known and unknown, in order to avoid speculation and to reduce the uncertainty typically associated with the commercialization, timing and magnitude of resource development. Accordingly, we believe that our current estimates of ultimate recovery from the North Slope are reasonable.

For the production forecasting process, we engage a petroleum engineering consultant who performs a "bottom-up" well-by-well evaluation at each of the individual fields that yields a forecast of three types of oil production: (1) oil that is currently being produced, (2) oil production that we expect to realize from projects currently under development and (3) oil production that we expect to realize from projects under evaluation. A detailed description of each type of production is provided later in this section. The engineering consultant employs decline curve analysis, applying a best fit decline trend for each producing well, augmented by generally accepted engineering principals, discussions with field operators, and public and private information in order to assemble our long range production forecast.

Production Forecast Assumptions

We continue to make adjustments to our production expectations from the North Slope in this fall 2010 forecast. As always, we examined reservoir performance, reviewed the uncertainty associated with the pace and scope of development of new fields and new projects within existing fields, and re-evaluated planned and unplanned downtime for all fields. Our review indicates that, with minor exceptions, and notwithstanding planned and unplanned surface disruptions, all reservoirs are performing at or above expectations.

In the next ten years, we anticipate new developments on state and federal lands, both of which benefit the state. Most of the opportunities to add production from state lands are from expanded heavy/viscous oil development (West Sak, Orion, Polaris, Schrader Bluff fields), continued satellite development at Alpine (Fiord, Nanuq, Qannik fields), and new developments at Oooguruk and Nikaitchuq. Production from the Oooguruk field began during the summer of 2008 and is progressing as expected. As expected, the Nikaitchuq field was sanctioned in early 2008 and development is underway, with first oil now anticipated in the first quarter of 2011. Although we forecast expanded development at West Sak and Northeast West Sak (NEWS), we have again slowed the pace of heavy oil development there. Although two prospective gas pipeline operators have completed an "open season" as part of the process to determine the viability a major gas sales line, we have delayed the major portion of the development of Point Thomson and its satellites one year in keeping with our 10-year development lead time. Production is expected to restart at the Badami unit in the fourth quarter of 2010 along with some minor production from the Point Thomson unit expected to start sometime in 2015. Anticipated new production from federal lands in NPR-A, includes the Alpine West field with an anticipated start up in the 2013 time frame, the Mooses Tooth unit, and most significantly the Umiat field. Umiat was discovered in the late 1940's by the U.S. Navy. It is estimated to have one billion barrels of oil in place with approximately 230 million recoverable barrels. It has not been developed due to its remoteness. It is approximately 92 miles from the Trans Alaska Pipeline System. However, plans are being made to develop the field and we have included it in this year's Under Evaluation forecast. Liberty development is underway with anticipated production starting in the first quarter of 2012. This along with the anticipated start up of the Nikaitchuq field in the first quarter of 2011 will have a significant effect of mitigating the overall decline of the North Slope production for the near term.

Our forecast includes production from state lands as well as from federal lands. From a revenue standpoint, the State of Alaska benefits in at least five ways, albeit to a lesser degree, from new developments on federal lands: (1) shared royalties (27.5% of federal share) from federal OCS fields such as Liberty; (2) production taxes on federal oil produced onshore within Alaska (NPR-A); (3) increased property tax on any infrastructure on state lands required to produce and transport federal oil; (4) corporate income taxes; and (5) lower pipeline transportation tariffs, which increase wellhead prices. In addition, any oil processed through the Endicott facility (Liberty field) may increase net profits payments to the state. Federal oil produced from non-state lands provides a revenue benefit limited to decreased transportation tariffs and increased property taxes.

Although we anticipate new developments from state and federal lands over the next 10 years to contribute to overall production and partially mitigate base decline, we continue to make adjustments near term to reflect ongoing infrastructure renewal projects. Much of the new production we forecast relies upon the continued use of aging wells, flowlines, production facilities and

pipelines, as does at least 500,000 barrels per day of existing production.

Crude Oil Production Forecast

Our three categories of North Slope production are illustrated in Figures 4-9 and 4-10. We do this so that the reader will have an understanding about the uncertainty associated with the production forecast. We forecast production of only those fields that have already been discovered and at a 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.

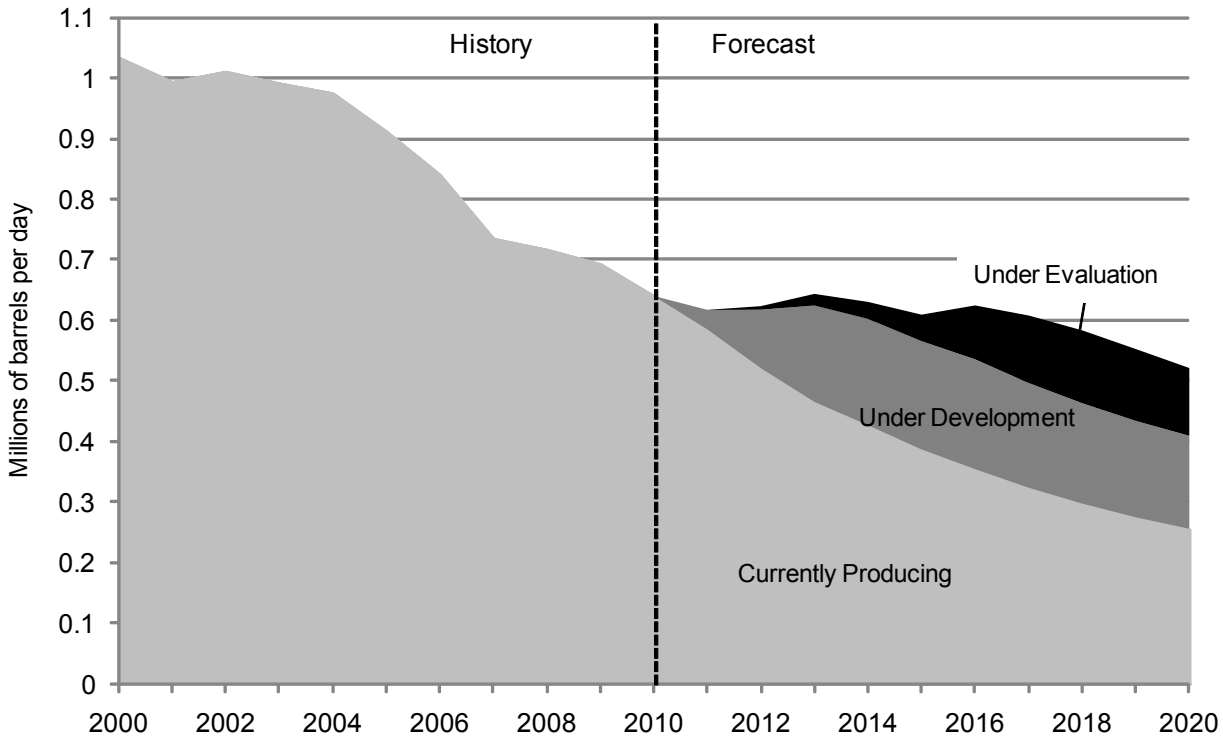
Currently Under Development

Production characterized as "currently under development" is based on new projects either currently funded or awaiting project sanctioning in the very near future. It includes projects that may be in the design/construction phase, as well as development drilling and enhanced oil recovery (miscible or immiscible injection) projects, currently funded or underway, but not included in the "currently producing" category. It also includes incremental oil expected from the long-term gas cap water injection project at Prudhoe Bay and Endicott which is planned for 2012. Examples of production currently under development include the Fiord, Nanuq, and Alpine West satellites at Alpine, the Borealis and Orion satellites at Prudhoe Bay, development drilling at Tarn, Liberty, Oooguruk, and Nikaitchuq.

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. Examples include heavy oil development outside of the core or near core area at West Sak, longer term Orion drilling, Schrader Bluff drilling, long-term production from Point

Figure 4-9. Alaska North Slope Production, FY 2000-2010 and Forecasted FY 2011-2020



Thomson and associated satellites, and pools within the NPR-A.

Confidence levels vary for this category of production. Production from the known NPR-A fields that are undergoing further delineation and likely will use the existing Alpine facility might have confidence levels approaching that of 'production under development'. High cost, scope challenged developments such as Point Thomson probably deserve lower confidence, not because of the lack of reserves, but because of the uncertainty in the timing of first production.

As Figure 4-11 shows, by FY 2014 approximately one-third of our projected oil production will come from projects requiring significant new investment.

Undiscovered Potential

The forecasted revenue published in this book is based on our forecast of production from known hydrocarbon deposits that are recoverable under current regulations, using current technologies." However, it is important to consider the potential for future production from known (discovered but undeveloped) and unknown (undiscovered) hydrocarbon resources in northern Alaska.

Two significant public studies of undiscovered conventional hydrocarbon resources in the Alaska North Slope have been conducted in the last five years. In August 2007, the U.S. Department of Energy released Alaska North Slope Oil and Gas: A Promising Future or an Area in Decline? – a report that assessed the potential for Alaska to remain a major producer of oil and gas under various development scenarios.[2] The report looked at near-term potential (2005-2015) and long-term potential (2015-2050), mostly under a major gas sales scenario. According to the report, the North Slope is a relatively underexplored petroleum province that may provide oil and increasingly, natural gas, for years to come. In October 2010, the U.S. Department of Interior released 2010 Updated USGS Assessment of Undiscovered Oil and Gas Resources of the National Petroleum Reserve in Alaska (NPRA), a report that substantially reduced their estimate of technically recoverable conventional oil in NPRA.

This recent assessment estimates a mean technically recoverable conventional oil resource in the NPRA of 896 million barrels, compared to the 2002 estimate of 10.56 billion barrels. Estimates of non-associated natural gas were reduced as well, but the change was much smaller in magnitude. It is important to note that the revision in estimated undiscovered conventional oil in NPRA is based on data from wells drilled over the last decade in NPRA and is not expected to be

Figure 4-10. Alaska North Slope Production, FY 2010 and Forecasted FY 2011-2020[1] (million barrels per day)

Fiscal Year	Currently Producing	Under Development	Under Evaluation	Total ANS
2010	0.644	0.000	0.000	0.644
2011	0.584	0.032	0.000	0.616
2012	0.520	0.096	0.006	0.622
2013	0.464	0.159	0.019	0.642
2014	0.426	0.175	0.028	0.629
2015	0.386	0.179	0.044	0.608
2016	0.353	0.181	0.089	0.623
2017	0.323	0.173	0.111	0.607
2018	0.296	0.165	0.120	0.582
2019	0.274	0.159	0.118	0.551
2020	0.255	0.153	0.112	0.520

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

[2] http://www.netl.doe.gov/technologies/oil-gas/publications/EPreports/ANSSummaryReportFinalAugust2007.pdf

reflected in revised estimates for other regions of Alaska.

The 2007 U.S. Department of Energy report evaluated geologic and commercial viability of future oil and gas production from five areas or provinces: 1) the central Arctic area between the Colville and Canning Rivers (and adjacent state waters), 2) the 1002 area of ANWR, 3) the National Petroleum Reserve Alaska (NPR-A), 4) the Beaufort Sea Outer Continental Shelf (OCS), and 5) the Chukchi Sea OCS. Under the most optimistic scenario, DOE reported mean technically recoverable oil resources of 38.2 billion barrels and mean technically recoverable gas resources of 186.5 TCF from these five areas. Figure 4-12 shows the breakout by province.

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 Department gathers raw data for determining market value by reviewing the details of equipment sales in Alaska when available and reviewing trade journals. If available, the Department will consider recent sales transactions in Alaska for this classification of property. The Department also considers market costs in Alaska as of the lien date. This data is then applied to the taxable property, taking into account age, capacity, and 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.

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. The Department relies upon standard appraisal techniques to value pipelines in Alaska. When market rents are available, we analyze the income method under which the value is the net present worth of all future income streams of the pipeline. When sales transactions are available, the Department takes those into consideration as well. The Department primarily relies on replacement cost new less deprecia-

Figure 4-11. New Oil as a Percentage of Total Oil (million barrels per day)

Fiscal Year	Total New Oil	ANS Total	Percent New Oil
2011	0.032	0.616	5.2%
2012	0.102	0.622	16.4%
2013	0.178	0.642	27.7%
2014	0.203	0.629	32.3%
2015	0.222	0.608	36.5%
2016	0.270	0.623	43.3%
2017	0.284	0.607	46.8%
2018	0.286	0.582	49.1%
2019	0.277	0.551	50.3%
2020	0.265	0.520	51.0%

tion based on the economic life of the reserves that feed the pipeline. This is especially useful when rents are constrained by the regulatory process or when market rents cannot be obtained for use in the income method.

Figure 4-13 illustrates the property tax distribution between local communities and the state for FY 2010. The property value is assessed by the state. A local tax is levied on the state's assessed value for oil and gas property within a city or borough, and is subject to the local property tax limitations established in AS 29.45.080 and AS 29.45.100. The state's mill rate is effectively 20 mills minus the local rate.

Petroleum Corporate Income Tax

Alaska levies two types of corporate income tax. This section focuses on the oil and gas corporate income tax. Forecasts and discussion of the corporate income tax as applied to corporations other than oil and gas corporations can be found in the Other Revenue section of this forecast.

An oil and gas corporation's Alaska income tax liability depends on the relative size of its Alaska and worldwide activities and the corporation's total worldwide net earnings. The corporation's Alaska taxable income is derived by apportioning its worldwide taxable income to Alaska based on the average of three factors as they pertain to the corporation's Alaska operations: (1) tariffs and sales, (2) oil and gas production and (3) oil and gas property.

Historically, oil and gas corporate income tax revenue has varied greatly along with oil prices and oil industry profits. In FY 1982, revenue from this tax was $668.9 million. As recent as FY 1994, the oil and gas corporate income tax generated a mere $17.8 million. For the past several years, revenues from the oil and gas corporate income tax have benefited from high oil prices and oil industry profits, generating $447.9 million in FY 2010 a decrease of about $45 million from FY 2009.

Our forecast of oil and gas corporate income tax collections uses an economic model based on the statistical relationships between historical tax payments, crude oil prices, North Slope oil production and refinery margins. We then adjust for refunds and carryforwards which cause actual collections to differ from estimated payments.

We forecast oil and gas corporate income tax collections of $445 million in FY 2011. We expect moderate increases in nominal oil prices to result in corresponding increases in oil and gas corporate income tax revenue in following years with $555 million forecast for FY 2012.

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. With the repeal of HB 11[(1)] approximately 30% of oil and gas royalties goes into the principal of the Alaska Permanent Fund and 0.5% goes into the Public School Trust Fund.

Figure 4-12. Technically Recoverable North Slope Oil and Gas Potential

Exploration Area	Mean Technically Recoverable Oil (BBO)	Mean Technically Recoverable Gas (TCF)
ANWR 1002 Area	10.3	3.8
Beaufort Sea OCS	6.9	32.1
Chukchi Sea OCS	15.5	60.1
Colville-Canning Area (& adjacent state waters)	4.5	37.5
NPR-A	0.9*	53*
TOTAL	**38.2***	**186.5***

Source: U.S. Department of Energy, August 2007; Addendum April 2009.

* Reflects new estimates by USGS 2010 Updated Assessment of Undiscovered Oil and Gas Resources of the NPR-A (October, 2010).

Figure 4-13. Petroleum Property Tax, FY 2010 ($ million)[1]

Municipalities	Gross Tax	Local Share	State Share
North Slope	322.3	298.1	24.2
Unorganized	80.9	0.0	80.9
Valdez	43.0	43.0	0.0
Kenai	14.3	23.4	-9.1
Fairbanks	15.3	10.5	4.8
Anchorage	4.6	3.5	1.1
Other[2]	0.4	0.2	0.2
Total	**480.8**	**378.7**	**102.1**

[1] Amounts shown here do not include the supplemental property tax roll and as a result may not exactly match data presented elsewhere in this forecast.

[2] Includes Matanuska-Susitna Borough, Cordova, Northwest Arctic Borough and Whittier.

In addition, AS 37.14.110 requires a contribution of 0.5% of all royalties and bonuses to the Public School Trust Fund. 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 of which flows into the NPR-A Special Revenue Fund. Revenue in the fund 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.

Figure 4-14 reflects restricted oil and gas revenue.

Figure 4-14. Restricted Oil Revenue, FY 2010 and Forecasted FY 2011-2012 ($ million)

	History	Forecast	
Restricted	FY 2010	FY 2011	FY 2012
Other Restricted			
Royalties to Permanent Fund & School Fund			
Royalties, Bonuses & Rents to the Permanent Fund	696.1	638.9	723.3
Royalties, Bonuses & Rents to the School Fund	11.1	10.8	12.0
Subtotal	**707.2**	**649.7**	**735.3**
Settlements to CBRF	552.7	20.0	20.0
Subtotal Other Restricted	**1,259.9**	**669.7**	**755.3**
Federal			
NPRA Royalties, Rents & Bonuses	21.3	19.5	19.5
Subtotal Federal	**21.3**	**19.5**	**19.5**
Total Restricted	**1,281.2**	**689.2**	**774.8**

5. Other Revenue (except Federal & Investment)

Figure 5-1. FY 2010 Other Revenue: $0.9 billion

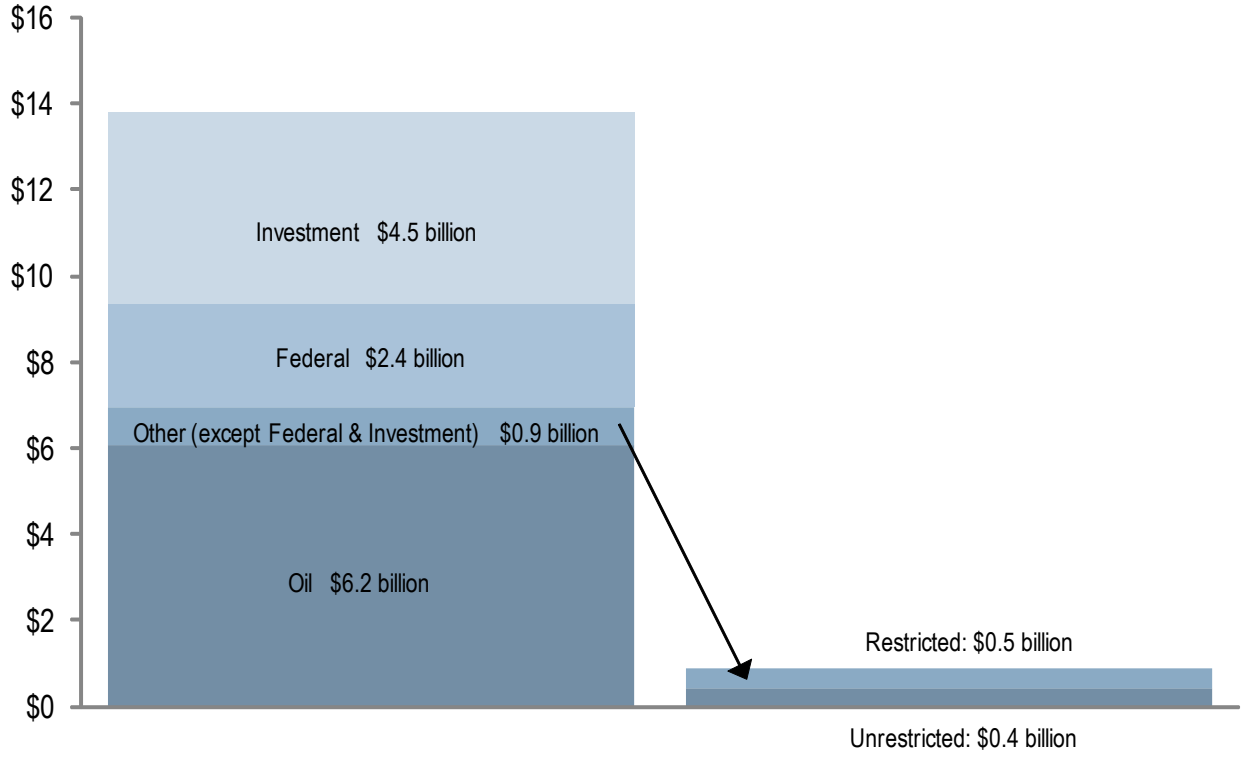


Figure 5-2. Total Other Revenue (except Federal & Investment), FY 2010 and Forecasted FY 2011-2012 ($ million)

	History	Forecast	
Unrestricted	FY 2010	FY 2011	FY 2012
Taxes	293.7	321.0	328.1
Charges for Services	17.1	19.3	19.3
Fines & Forfeitures	9.7	9.0	9.0
Licenses & Permits	39.5	40.4	40.7
Rents & Royalties	13.2	12.4	12.4
Other	40.8	78.4	77.6
Total Unrestricted	**414.0**	**480.5**	**487.1**
Restricted			
Designated General Fund			
Taxes	50.8	51.4	51.2
Charges for Services	191.7	197.0	197.8
Fines & Forfeitures	9.7	6.7	6.8
Licenses & Permits	0.1	0.1	0.1
Rents & Royalties	4.4	4.5	4.5
Other	23.4	21.9	21.9
Subtotal	**280.1**	**281.6**	**282.3**
Other Restricted			
Taxes	85.3	82.7	62.8
Charges for Services	33.0	60.7	60.7
Fines & Forfeitures	25.3	22.9	23.3
Licenses & Permits	32.7	31.2	31.2
Rents & Royalties	5.1	5.2	5.3
Other	5.6	7.0	7.0
Subtotal	**187.0**	**209.7**	**190.3**
Total Restricted	**467.1**	**491.3**	**472.6**
Total Other Revenue	**881.1**	**971.8**	**959.7**

General Discussion

Revenue from sources other than oil include state investments, federal receipts, non-oil taxes, charges for services, fines and forfeitures, licenses and permits, rents and royalties and other revenue sources. These revenue sources are divided between unrestricted, and restricted revenues. The amounts of each are reflected in Figures 5-2 through 5-8 throughout this chapter. Restricted revenue includes money deposited in funds other than the General Fund, as well as receipts that are restricted by statute or that the legislature customarily appropriates for a particular purpose or program.

Taxes

Alcoholic Beverages Tax

Alcoholic beverage taxes are collected primarily from wholesalers and distributors of alcoholic beverages sold in Alaska. The per-gallon tax rates on alcoholic beverages are $1.07 for beer, $2.50 for wine and $12.80 for liquor. Qualifying small brewers pay tax at a rate of $0.35 per gallon for beer. Revenue is deposited into the General Fund. Fifty percent of the revenue is deposited into a subfund of the General Fund, the Alcohol and Other Drug Abuse Treatment and Prevention Fund and is treated as restricted in this forecast.

In Alaska over the past 10 years, alcohol consumption has grown at an average annual rate of -0.1% for beer, 4.1% for wine, and 3.7% for liquor. Consumption is forecasted to grow at these historical average rates and is reflected in the revenue forecasts.

Charitable Gaming

Under Alaska law, municipalities and qualified nonprofit organizations may conduct certain charitable gaming activities. The purpose of such activities is to derive public benefit in the form of money for charities and revenues for the state. The Department of Revenue collects permit and license fees, a 1% net proceeds fee and a 3% pull-tab tax. We forecast revenues from charitable gaming activity will remain flat in FY 2011 and FY 2012.

Corporate Income Tax

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

Alaska levies the corporate income tax earned by corporations doing business in the state and income derived from sources within Alaska. Corporate tax rates are graduated from 1% to 9.4% in $10,000 increments of Alaska taxable income. The maximum rate of 9.4% applies to taxable income over $90,000. S-Corporations and LLCs that file federally as partnerships are generally exempt from corporate income tax. Corporations compute their tax liability based on federal taxable income with Alaska adjustments. Corporations other than oil and gas corporations apportion their income to Alaska by using a three-factor apportionment based on sales, property and payroll. Alaska taxable income is determined by applying the apportionment factor to the corporation's modified federal taxable income.

Forecasts of non-petroleum corporate income tax collections use two economic models: one for the mining sector and one for all other sectors.

The mining sector model is based on a statistical relationship between historical tax payments, corporate profits and zinc prices. Zinc prices are used because zinc accounts for over half of Alaska minerals production. The model for all sectors other than mining is based on a statistical relationship between historical tax payments, corporate profits and crude oil prices. Crude oil prices are used because the price of oil influences company profitability in many economic sectors in Alaska. The forecast of estimated payments is then adjusted for refunds, carry-forwards and other payments that cause actual collections to differ from estimated payments.

Prior to 2009, income tax revenue from corporations other than oil and gas corporations had increased significantly. In FY 2009, revenue was $120.9 million. However, in FY 2010 revenue decreased to $80.1 million -$40.8 million less than FY 2009- due to the economic downturn. Looking forward to FY 2011 and FY 2012, collections are expected to be flat to slightly increasing. The forecast is uncertain due to the potential effect of the new educational tax credit contributions law and a modest economic recovery.

Commercial Passenger Vessel Taxes

In August 2006, Alaska voters approved an initiative that imposed new taxes and fees on commercial passenger vessels including:

- The Cruise Ship Passenger Fee was a per-passenger tax of $46 on commercial passenger vessels with 250 or more berths. Revenues were deposited into a subfund of the General Fund, the Commercial Vessel Passenger Tax Account. Five dollars of the tax was distributed to each of the first five ports of call, and an additional 25% of the tax was designated for other local governments impacted by the cruise ship industry via the Regional Cruise Ship Impact Fund. The entire passenger fee is considered restricted for purposes of this forecast.
- The Ocean Ranger Fee is an addi-

tional per-berth fee of $4 to operate the Ocean Ranger program, which provides for independent observers of engineering, sanitation and health practices. This fee is considered restricted and is included in the Charges for Services section.

- The Large Passenger Vessel Gambling Tax is a tax of 33% on the adjusted gross income from gaming or gambling activities aboard large passenger vessels in the state. Revenue goes to the General Fund and is considered unrestricted.
- The Alaska corporate income tax now applies to large commercial passenger vessels and the revenues are included in the forecast of corporate income taxes.
- There are new penalties for false reporting, violating environmental regulations and failing to make proper disclosures on promotions and shore side activity sales. Revenues from these provisions are included in the Fines and Forfeitures section.

In April 2010, the State of Alaska's Legislature passed SB 236, which took effect October 31, 2010. SB 236 made the following changes to the voter approved initiative:

- The Cruise Ship Passenger Fee decreased from $46 to $34.50. Revenues are deposited into a General Fund subaccount, the Commercial Vessel Passenger Tax Account. Five dollars of the tax can be appropriated to each of the first seven ports of call. If a port of call had a local levy in place before December 17, 2007, then the tax imposed is reduced by the levy amount. Only Juneau and Ketchikan had qualifying levies in place at that time.
- All funds received from the Cruise Ship Passenger Fee must be spent on port facilities, harbor infrastructure, and other services provided to commercial passenger vessels and the passengers on board those vessels.
- The Regional Impact Fund was eliminated, as of October 31, 2010. Revenue for the fund came from the Cruise Ship Passenger Fee, representing $11.50 of the tax. The $11.50 represents the decrease in the Cruise Ship Passenger Fee from $46 to $34.50.

In general, impacts from the new law are likely to reduce state revenues in several ways. The state's share of the Cruise Ship Passenger Fee is estimated to fall from $23.1 million in FY 2010 to $3 million in FY 2012.The reduction is due to changes in the way ports of call receive funds, the number of ports visited, how previously existing local levies are accounted for and the reduction in the Cruise Ship Passenger Fee. With the phase out of the Regional Impact Fund the revenues from the fund will fall from $11.0 million in FY 2010 to zero in FY 2012. Revenues shared with local governments will increase from $10.1 million in FY 2010 to $14.9 million in FY 2012 and are treated as restricted revenues.

Estimates of cruise ship passenger counts for CY 2011 and CY 2012 are 870,000 and 879,000, respectively.

Electric Cooperative and Telephone Cooperative Taxes

The electric cooperative tax is based on kilowatt hours furnished by qualified electric cooperatives recognized under Title 10 of the Alaska Statutes. The telephone cooperative tax is levied on gross revenue of qualified telephone cooperatives under Title 10. Revenue from cooperatives located in municipalities is treated as other restricted revenue in this forecast because it is shared 100% with the municipalities. The small amount of revenue collected from cooperatives outside municipalities is retained by the state. Revenues from the electric and telephone cooperative taxes are expected to increase at the overall rate of inflation.

Estate Tax

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

As a result of changes to the federal estate tax, the Alaska estate tax was phased out completely beginning January 1, 2005. The federal estate tax changes that caused the state tax to be phased out are scheduled to sunset after December 31, 2010. Assuming the tax changes sunset as scheduled, Alaska will begin to receive revenue from the estate tax again in FY 2012.

Fisheries Business Tax

The fisheries business tax is levied on businesses that process fisheries resources in Alaska or export fisheries resources from Alaska. Although the tax is usually 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 a shore-based or floating processor. Revenue from the tax is deposited in the General Fund. Fifty percent of the revenue (before credits) is shared with qualified municipalities and is treated as other restricted revenue.

Forecasts of fisheries business tax revenues are based on estimated taxable values of the major fisheries in the state and historical effective tax rates. Fisheries business tax revenue retained

by the state is reduced by an estimate of tax credits, including Salmon Product Development credits, which apply only to the state portion of the tax.

Fishery Resource Landing Tax

The fishery resource landing tax is based on the unprocessed statewide average price of the resource and is levied on fishery resources processed outside of Alaska and first landed in Alaska. The tax is collected primarily from factory trawlers and floating processors that process fishery resources outside the state's three mile limit and bring their products into Alaska for shipment. The tax rates vary from 1% to 3%, based on whether the resource is classified as "established" or "developing". All revenue derived from the tax is deposited in the General Fund. Fifty percent of the revenue (before credits) is shared with qualified municipalities, and is treated as other restricted revenue.

We forecast fisheries resource landing tax revenues based on estimated taxable values of the major fisheries in the state and historical effective tax rates. Fisheries resource landing tax revenue retained by the state is reduced by a forecast of tax credits which apply only to the state's share of the tax.

Insurance Premium Tax

Insurance companies in Alaska pay an insurance premium tax instead of corporate income tax, sales or other excise taxes. Revenue is deposited into the General Fund and for most types of insurance, the tax is treated as unrestricted revenue. Insurance premium taxes on worker's compensation insurance are deposited into a subfund of the General Fund, the Workers Safety and Compensation Fund, and are reflected as restricted in this forecast. The restricted component also includes service fees paid into the Workers Safety and Compensation Fund by employers who are uninsured or self-insured.

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

Mining License Tax

The mining license tax ranges from 0% to 7% on the net income of all mining operations in the state. With the exception of sand and gravel operations, new mining operations are exempt from the mining license tax for a period of 3.5 years after production begins.

This forecast uses a bottom-up approach to estimate tax payments for each of the major mines in the state based on expected minerals prices and production.

Mining license tax revenues increased from $15.5 million in FY 2009 to $29.7 million in FY 2010. Prices for many minerals have climbed recently. Strengthening economic demand and quantitative easing by the Federal Reserve have caused minerals to increase in value. Zinc prices are particularly important because zinc accounts for more than half of Alaska's non-petroleum mineral production.

Based on forecasts of higher profits at Alaska's mines and new mines entering production, revenues from the mining license tax are projected to increase from FY 2010 collections.

Motor Fuel Tax

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

A temporary suspension of the motor fuel tax took effect September 1, 2008, and ended August 31, 2009. Consequently, FY 2010 included ten months of collections.

The forecast of motor fuel tax revenue is based on Energy Information Agency projections for U.S. motor fuel consumption growth in FY 2011 and FY 2012.

Tire Fee

The tire fee has two components. The first component is a tax of $2.50 on all new tires sold in Alaska for motor vehicles intended for highway use. The second component is an additional $5 fee per tire on all new tires with heavy studs sold in Alaska, and a $5 fee per tire on the installation of heavy studs on a previously un-studded tire.

Revenue from the tire fee is based on the expected number of vehicle registrations in the state.

Seafood Assessments and Taxes

The Department of Revenue administers five different programs that raise money

through seafood assessments and taxes. The rates for these assessments and taxes are determined by a vote of the appropriate association within the seafood industry, by members of the Alaska Seafood Marketing Institute, or by the Department of Revenue.

The five programs are:

- The seafood marketing assessment, which applies to all seafood products made or first landed in Alaska and all unprocessed products exported from Alaska.
- The dive fishery management assessment, which is levied on the value of fishery resources taken using dive gear in a designated management area.
- The regional seafood development tax, which is levied on the value of fishery resources in a designated management area.
- The salmon enhancement tax, which is levied on salmon sold or exported from designated aquaculture regions.
- The cost recovery fisheries assessment, a new program authorized in 2006. This program allows hatcheries to establish a common property fishery and recoup costs through an assessment on fishery resources taken in

Figure 5-3. Other Taxes, FY 2010 and Forecasted FY 2011-2012 ($ million)

Unrestricted	History	Forecast	
Excise Tax	FY 2010	FY 2011	FY 2012
Alcoholic Beverage	19.5	19.8	20.6
Tobacco Products – Cigarettes	34.8	33.2	32.2
Tobacco Products – Other (General Fund)	10.3	11.2	12.1
Electric & Telephone Cooperative	0.1	0.1	0.1
Insurance Premium	50.4	50.1	51.6
Motor Fuel Tax	28.8	38.5	38.8
Tire Fee	1.4	1.4	1.4
Vehicle Rental	7.3	7.5	7.7
Subtotal	**152.6**	**161.8**	**164.5**
Corporate Income Tax (non oil and gas)	**80.1**	**80.0**	**85.0**
Fish Tax			
Fisheries Business	14.1	18.2	17.8
Fishery Resource Landing	8.3	6.0	5.0
Subtotal	**22.4**	**24.2**	**22.8**
Other Tax			
Charitable Gaming	2.6	2.6	2.6
Estate	0.0	0.0	0.5
Large Passenger Vessel Gambling	6.3	5.7	5.7
Mining License	29.7	46.7	47.0
Subtotal	**38.6**	**55.0**	**55.8**
Total Unrestricted Taxes	**293.7**	**321.0**	**328.1**

Figure 5-3. Continued

Restricted	History	Forecast	
Designated General Fund	FY 2010	FY 2011	FY 2012
Alcoholic Beverage (alcohol & drug treatment)	18.6	19.8	20.6
Tobacco – Cigarettes (tobacco use cessation)	3.4	3.2	3.1
Tobacco – Cigarettes (school fund)	23.4	22.4	21.6
Insurance Premium/Other[1]	5.4	6.0	5.9
Subtotal	**50.8**	**51.4**	**51.2**
Other Restricted			
Cruise Ship Passenger Fee (State Share)	23.1	19.4	3.0
Cruise Ship Passenger Fee (Municipal & Region Share)	10.1	8.5	14.9
Cruise ship Passenger Fee (regional cruise ship impact fund)	11.0	8.6	0.0
Dive Fishery Management Assessment (designated management areas)	0.5	0.5	0.5
Electric and Telephone Cooperative (Municipal Share)	4.0	4.1	4.2
Fisheries Business (Municipal Share)	17.9	19.9	19.5
Fishery Resource Landing (Municipal Share)	4.3	7.2	6.2
Motor Fuel Tax-Aviation (Municipal Share)	0.1	0.1	0.1
Salmon Enhancement (Aquaculture Association Share)	4.9	4.7	4.8
Seafood Development (qualifying regional associations)	1.6	1.8	1.7
Seafood Marketing Assessment (seafood marketing programs)	7.8	7.9	7.9
Settlements to CBRF (non-petroleum taxes)	0.0	0.0	0.0
Subtotal	**85.3**	**82.7**	**62.8**
Total Restricted Taxes	**136.1**	**134.1**	**114.0**
Grand Total	**429.8**	**455.1**	**442.1**

[1] In addition to the worker's compensation insurance premiums for the Insurance Premium Tax, this amount also includes services fees from employers who are self-insured.

the terminal harvest area. So far, no hatcheries have elected to use this program as a funding source.

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

The estimated taxable value of Alaska's salmon fishery and historical effective tax rates are used to forecast salmon enhancement tax revenue. Seafood development tax revenue is based on the estimated taxable value of seafood processed in Alaska. Dive fishery taxes are based on the value of the fishery in the prior fiscal year. Seafood assessment taxes are forecast using estimates of the fisheries business and landing taxes from both the forecast year and the preceding year.

Tobacco Tax

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

The tax rate on cigarettes has been $2.00 per pack since July 1, 2007. Of the cigarette tax, $0.76 per pack is deposited into the School Fund, and is considered restricted revenue. All cigarette and tobacco products license fees are also deposited in the School Fund. The remainder of the cigarette tax revenue is deposited into the General Fund. 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 revenue.

The forecast for cigarette tax revenue is based on projected average consumption declines of 4% annually.

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. Moderate increases in wholesale prices and consumption will result in revenue from other tobacco products tax continuing to increase at a 10-year average rate of about 6% annually.

Vehicle Rental Tax

Vehicle rental tax is a 10% tax on most 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.

Revenue from the vehicle rental tax is expected to increase with the overall rate of inflation.

Charges for Services

The charges for services category includes fees and other program charges for state services. Revenues reported in this category do not include all charges for state services. This category only includes those that do not fit into other categories in this report.

Most of these receipts are considered restricted revenue because they are returned to the program where they were generated. The only unrestricted revenues listed in this category come from charges that do not have program receipt designations, or are not otherwise segregated and appropriated back to a program. Many of the charges for services are small amounts that we have grouped into the broad categories "General Government," "Natural Resources" and "Other." Estimates for these categories are based on fiscal year-to-date collections and historical averages. The largest categories of charges for services are listed separately and are discussed below.

Marine Highway Fund

The Alaska Marine Highway Fund is a subfund of the General Fund and receives revenue from state ferry system operations. The legislature has discretion over how the revenue is allocated. Because revenues are customarily appropriated for Alaska Marine Highway operations, they are considered restricted revenue for this forecast. Revenue projections are based upon revenue expectations provided by the Alaska Marine Highway Division of the State Department of Transportation.

Commercial Passenger Vessel Fees

Commercial passenger vessel fees paid into the Environmental Compliance Fund come from two sources: Ocean Ranger fees and environmental compliance fees. All fees paid into the fund are considered restricted for purposes of this forecast and are based on estimated cruise ship passenger levels discussed in the taxes section earlier.

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

Environmental compliance fees are levied on commercial passenger vessels with over 50 berths. Fees range from $75 to $3,750 per vessel based on the number of berths, and funds are used to support environmental compliance programs.

Figure 5-4. Charges for Services, FY 2010 and Forecasted FY 2011-2012
($ million)

	History	Forecast	
Unrestricted	FY 2010	FY 2011	FY 2012
General Government	8.8	11.0	11.0
Natural Resources	2.0	2.0	2.0
Other	6.3	6.3	6.3
Total Unrestricted	**17.1**	**19.3**	**19.3**
Restricted			
Designated General Fund			
DCCED Business Licenses	6.9	6.9	6.9
Environmental Compliance Fees	0.3	0.9	0.9
General Government - GF Subfunds	6.6	4.8	4.8
Marine Highway Receipts	45.9	51.3	52.1
Natural Resources	0.4	0.5	0.5
Ocean Ranger Fees	3.8	3.4	3.4
Oil and Gas Conservation	5.1	5.6	5.6
RCA Receipts	9.5	10.0	10.0
Receipt Supported Services[1]	111.1	111.1	111.1
Test Fisheries Receipts	1.6	1.6	1.6
Timber Sale Receipts	0.5	0.9	0.9
Subtotal	**191.7**	**197.0**	**197.8**
Other Restricted			
General Government - Special Funds	0.4	0.4	0.4
Statutorily Designated	32.6	60.3	60.3
Subtotal	**33.0**	**60.7**	**60.7**
Total Restricted	**224.7**	**257.7**	**258.5**
Grand Total	**241.8**	**277.0**	**277.8**

[1] Materials used to forecast Receipt Supported Services changed due to new fund coding in the budget process. We anticipate that the presentation of these revenues may change significantly in future Revenue Sources Books. For this forecast we used FY 2010 actuals as the basis for forecasted revenues.

Program Receipts

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

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

Program receipts listed in this section are:

- Receipt supported services, which include state services such as Pioneers homes and occupational licensing that are funded by program receipts. Some seafood assessments are included in this category. Materials used to forecast Receipt Supported Services changed due to new fund coding in the budget process. We anticipate that the presentation of these revenues may change significantly in future Revenue Sources Books. For this forecast we used FY 2010 actuals as the basis for forecasted revenues.
- Statutorily designated program receipts, which include money received from sources other than the state or federal government and restricted by the terms of a gift, grant, bequest or contract.
- Regulatory Commission of Alaska (RCA) receipts, which are regulatory cost charges and user fees levied on utilities and pipelines to fund costs of regulation.
- Test fisheries receipts, generated by

Figure 5-5. Fines & Forfeitures, FY 2010 and Forecasted FY 2011-2012 ($ million)

	History	Forecast	
Unrestricted	FY 2010	FY 2011	FY 2012
Fines & Forfeitures	9.7	9.0	9.0
Total Unrestricted	**9.7**	**9.0**	**9.0**
Restricted			
Designated General Fund			
Tobacco Settlement (Tobacco Use Education& Cessation Fund)	6.3	5.7	5.8
Other - GF Subfunds	3.4	1.0	1.0
Subtotal	**9.7**	**6.7**	**6.8**
Other Restricted			
Tobacco Settlement (Northern Tobacco Securitization Corporation)	25.2	22.8	23.2
Other - Special Revenue Funds	0.1	0.1	0.1
Subtotal	**25.3**	**22.9**	**23.3**
Total Restricted	**35.0**	**29.6**	**30.1**
Grand Total	**44.7**	**38.6**	**39.1**

the Department of Fish and Game from selling fish caught during testing the commercial viability of fisheries.

- Timber sale receipts, which are used to fund the timber disposal program of the Department of Natural Resources.
- Oil and Gas Conservation Commission receipts, which are fees and charges for regulation of oil and gas wells and pipelines.
- Business license fees collected by the Department of Commerce, Community and Economic Development.

Fines and Forfeitures

Fines and forfeitures include civil and criminal fines and forfeitures and money received by the state from the settlement of civil lawsuits. The largest single source of receipts under this category is the multi-state tobacco settlement.

Other sources are forecast based on fiscal year-to-date collections and historical averages.

Tobacco Settlement

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

Tobacco settlement payments are based on a complex formula that takes into account several factors including declines in cigarette consumption, inflation and certain adjustments for litigation expenses and market share losses related to the settlement.

Licenses and Permits

Licenses and permits represent revenues 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. Several other small license and permit fees are summarized in the Other Fees category. Alcoholic beverage license fees are forecast separately.

Alcoholic Beverage Licenses

Alcoholic beverage licenses are required to manufacture or sell alcoholic beverages in Alaska. Licenses are issued by the Alcoholic Beverage Control Board and

revenue is deposited into the General Fund. All of the revenue from biennial license fees collected within municipalities, excluding annual wholesale fees and biennial wholesale license fees, is shared with the municipalities and treated as other restricted revenues for purposes of this forecast. We expect little change in revenue because the issuance of alcoholic beverage licenses is limited based on population.

Fishing and Hunting License Fees

Fishing and hunting licenses are issued by the Alaska Department of Fish and Game for participation in various fishing, hunting and related activities. The majority of these revenues are appropriated to a special revenue fund called the Fish and Game Fund, and are classified as other restricted revenues. Money in the fund can only be spent for fish and game management purposes. Future revenue from fishing and hunting license fees is provided by the Alaska Department of Fish and Game.

Motor Vehicle Registration Fees

Motor vehicle registration fees are collected by the Division of Motor Vehicles within the Department of Administration. Most fees are considered unrestricted license and permit revenue; however, some registration fees are considered restricted receipt supported services and are reflected in the Charges for Services section. Revenue from motor vehicle registration fees is based on data provided by the Division of Motor Vehicles.

Rents and Royalties

Rents and royalties from sources other than oil and gas fall into two categories: mining rents and royalties, and other non-petroleum rents and royalties.

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

Mining Rents and Royalites

As with oil and gas production, the state earns revenue from other minerals production that occurs on state lands leased for exploration and development. As the landowner, the state earns revenue from leases as: (1) upfront bonuses, (2) annual

Figure 5-6. Licenses & Permits, FY 2010 and Forecasted FY 2011-2012 ($ million)

	History	Forecast	
Unrestricted	FY 2010	FY 2011	FY 2012
Alcoholic Beverage Licenses	1.0	1.0	1.0
Motor Vehicles	37.5	37.9	38.2
Other Fees	1.0	1.5	1.5
Total Unrestricted	**39.5**	**40.4**	**40.7**
Restricted			
Designated General Fund			
Other Fees - GF Subfunds	0.1	0.1	0.1
Subtotal	**0.1**	**0.1**	**0.1**
Other Restricted			
Alcoholic Beverage License Share	0.9	0.9	0.9
Hunting and Fishing Fees (Fish & Game Fund)	27.0	26.1	26.1
Sanctuary Fees (Fish & Game Fund)	0.3	0.2	0.2
Other Fees - Special Revenue Funds	4.5	4.0	4.0
Subtotal	**32.7**	**31.2**	**31.2**
Total Restricted	**32.8**	**31.3**	**31.3**
Grand Total	**72.3**	**71.7**	**72.0**

rent charges and (3) as a retained royalty interest in minerals production.

Of the total revenue received from mining rents and royalties, 49.5% is deposited into the General Fund, 50% is deposited into the Permanent Fund and the remaining 0.5% goes into the School Fund. The Permanent Fund and School Fund portions are treated as other restricted revenue.

Future revenues from mining rents and royalties are based on expected changes in minerals prices and mine-specific forecasts for large mines on state land.

Other Non-Petroleum Rents and Royalties

The state receives revenue from the leasing, rental and sale of state land. While all of these revenues are deposited into the General Fund, some are deposited into sub funds of the General Fund and are treated as designated restricted revenues for purposes of this forecast. This category includes revenues from leasing, rental and sale of state land that do not fall into the oil and gas or mining royalties categories. Other non-petroleum rents and royalties are based on analysis of fiscal year-to-date and historical collections.

Other

This category includes unclaimed property transfers, transfers to the state from component organizations and miscellaneous revenues. Projections of miscellaneous revenues, which include contributions to the state and other revenues, are based on analysis of fiscal year-to-date and historical collections. Unclaimed property and transfers from component organizations are discussed below.

Figure 5-7. Rents & Royalties, FY 2010 and Forecasted FY 2011-2012
($ million)

	History	Forecast	
Unrestricted	FY 2010	FY 2011	FY 2012
Mining Rents and Royalties	8.3	6.9	6.9
Other Non-Petroleum Rents and Royalties	4.9	5.5	5.5
Total Unrestricted	**13.2**	**12.4**	**12.4**
Restricted			
Designated General Fund			
Other Non-Petroleum Rents and Royalties	4.4	4.5	4.5
Subtotal	**4.4**	**4.5**	**4.5**
Other Restricted			
Mining Rents and Royalties	5.1	5.2	5.3
Subtotal	**5.1**	**5.2**	**5.3**
Total Restricted	**9.5**	**9.7**	**9.8**
Grand Total	**22.7**	**22.1**	**22.2**

Unclaimed Property

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

Transfers from Component Organizations

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

Actual transfers for FY 2010 are reflected in draft tables from the Comprehensive Annual Financial Report. Forecasts for FY 2011 and FY 2012 transfers are based on discussions with the Gover-

nor's Office of Management and Budget and analysis of the most recent budget expectations for these categories.

Transfers from component organizations presented under this category may differ from those presented in the Public Corporations & University of Alaska section for two reasons: (1) amounts in this section account differently for funds paid over time for multi-year capital projects; and (2) amounts in this section include funds that are transferred to the state and then appropriated to the component unit for operations.

Figure 5-8. Other Revenue, FY 2010 and Forecasted FY 2011-2012 ($ million)

	History	Forecast	
Unrestricted	FY 2010	FY 2011	FY 2012
Miscellaneous	-3.8	14.0	14.0
Alaska Housing Finance Corporation	17.1	36.4	36.4
Alaska Industrial Development & Export Authority	22.7	21.5	21.5
Alaska Municipal Bond Bank Authority	0.0	1.7	1.7
Alaska Student Loan Corporation	0.8	0.0	0.0
Alaska Energy Authority	0.0	0.0	0.0
Unclaimed Property	4.0	4.8	4.0
Total Unrestricted	**40.8**	**78.4**	**77.6**
Restricted			
Designated General Fund			
Miscellaneous - GF Subfunds[(1)]	23.4	21.9	21.9
Subtotal	**23.4**	**21.9**	**21.9**
Other Restricted			
Miscellaneous - Special Revenue Funds[(1)]	5.6	7.0	7.0
Subtotal	**5.6**	**7.0**	**7.0**
Total Restricted	**29.0**	**28.9**	**28.9**
Grand Total	**69.8**	**107.3**	**106.5**

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

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2010

6. Federal Revenue

Figure 6-1. FY 2010 Federal Revenue: $2.4 billion

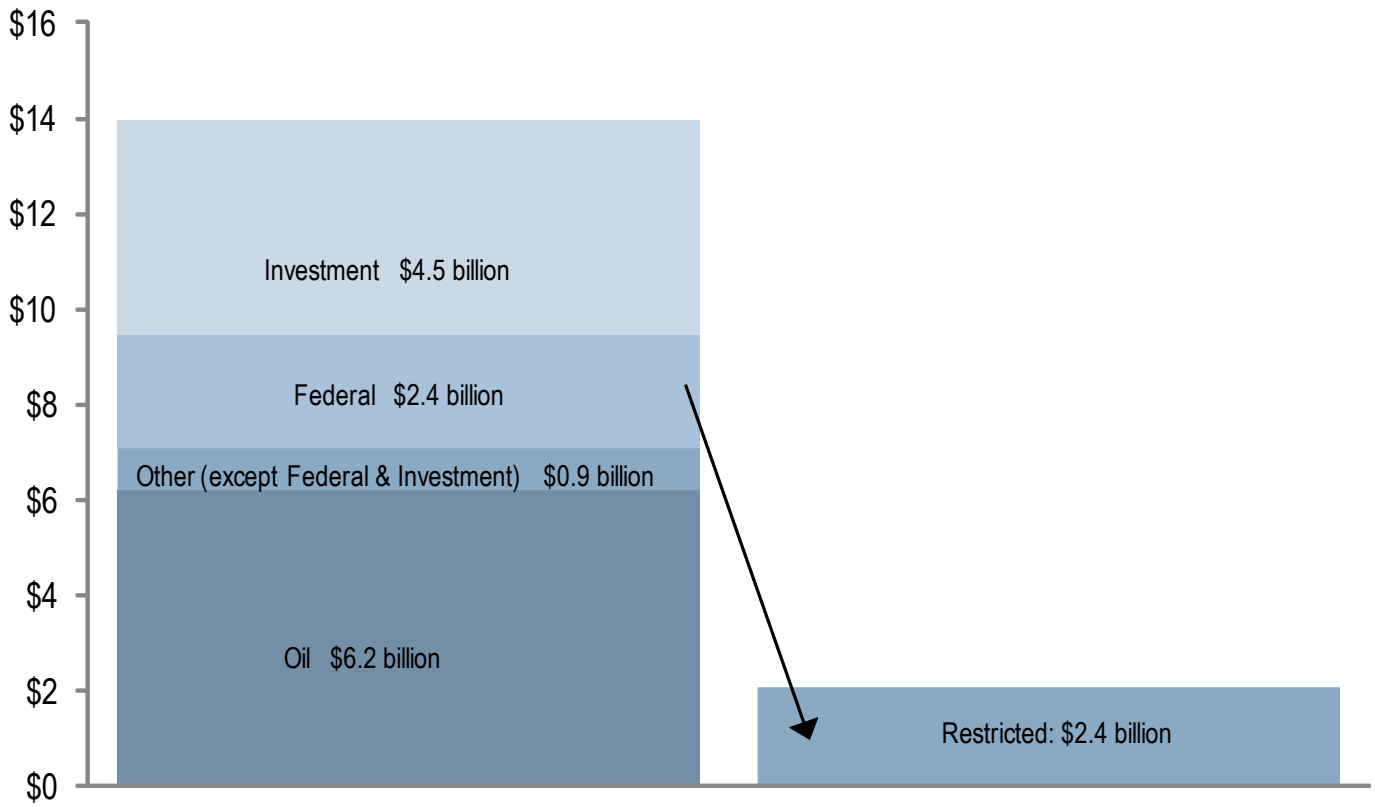


Figure 6-2. Total Federal Revenue to the State, FY 2010 and Forecasted FY 2011-2012 ($ million)[1]

	History	Forecast	
Unrestricted General Fund	FY 2010	FY 2011	FY 2012
Federal Receipts	0.0	0.0	0.0
Restricted (Federal)			
Federal Receipts	2,387.9	3,087.0	2,987.0
Grand Total	**2,387.9**	**3,087.0**	**2,987.0**

General Discussion

The federal government continues to play a significant role in Alaska's economy. In Federal Fiscal Year (FFY) 2009 the federal government spent $14.2 billion in total direct expenditures in Alaska.[1] This was a significant increase from FFY2008 when the federal government spent a reported $9.4 billion in Alaska. The increase was primarily due to the American Recovery and Reinvestment Act of 2009 (ARRA).

Of the nearly $5 billion increase in federal spending in Alaska, the lion's share of the increase was associated with defense spending and did not impact the State of Alaska's budget. The majority of the spending in FFY2009 came from the activities of various federal agencies, particularly defense spending, procurement contracts, retirement and disability payments, wages, loans and grants. Another $ 2.7 billion was spent on other federal assistance, such as loan guarantees and insurance.

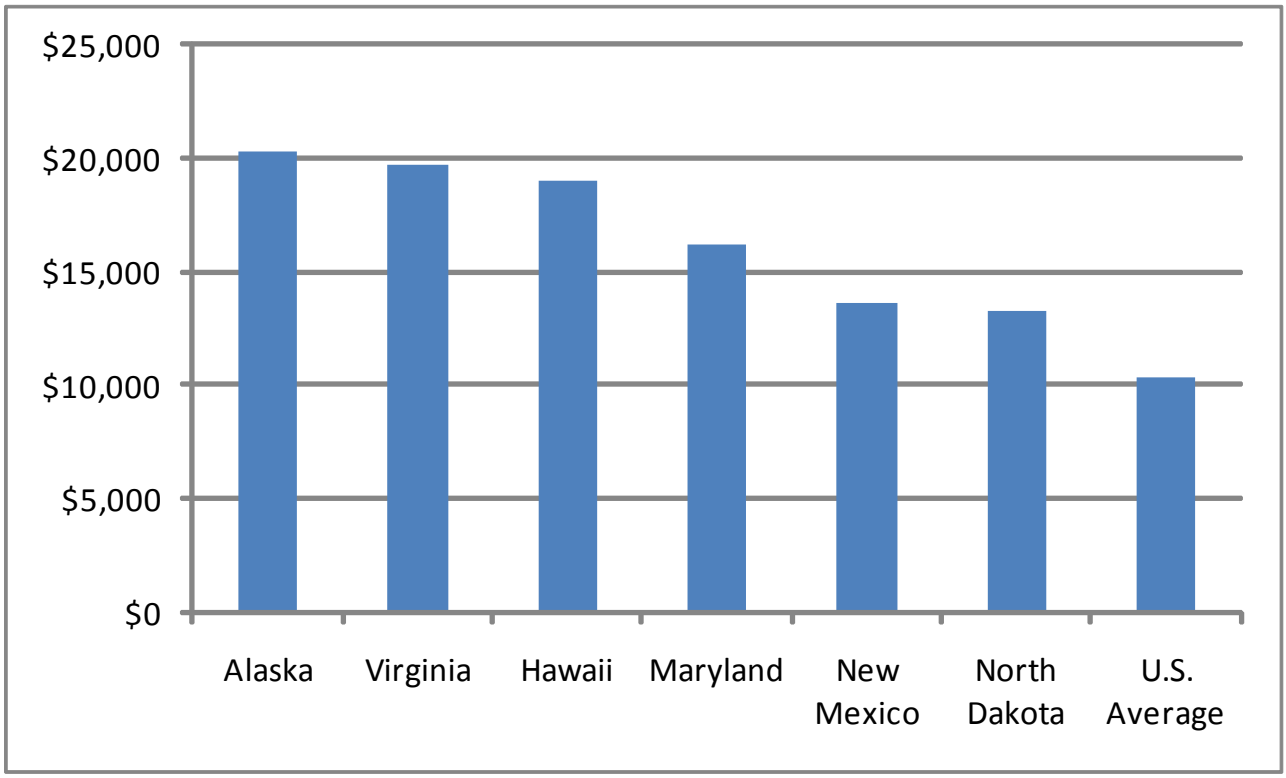
Alaska often ranks first in per capita federal spending, and that was the case in FFY2009 as the federal government spent more than $20,300 dollars per Alaskan. Among federal agencies, the Department of Defense spends the most in Alaska, followed by the Department of Health and Human Services. Together, these two departments account for over 50 percent of all federal direct spending in the state. A large portion of federal money flows into Alaska through salaries of federal employees and about 25 percent comes in the form of grants to state and municipal governments and nonprofit organizations.

In FY 2010, the State of Alaska received and spent nearly $2.4 billion in federal funds. This federal funding is generally restricted to specific uses such as road improvements, Medicaid payments and aid to schools. Potential changes to federal law, differing federal and state fiscal years and varying numbers of eligible Alaskans in certain programs make forecasting federal revenue difficult. The estimates for FY 2011 and FY 2012 are from the Office of Management and Budget and are based on state agency projections of potential federal revenues.

For FY 2011, the state is budgeted to receive more than $3.0 billion in federal receipts. The ARRA continues to play an important role in the overall

[1] U.S. Census Bureau Consolidated Federal Funds Report for FY 2009, U.S. Department of Commerce, Washington, D.C. 20233, http://www.census.gov/prod/2010pubs/cffr-09.pdf

Figure 6-3. FFY 2009 Federal Spending per Capita, Top Six States and U.S. Average



level of federal funding in the state budget. Approximately $275 million or about 9% of all federal funds is expected to come as a result of the act.

Most federal funding requires state-matching money. The budgeted state match and the top three budgeted categories for federal spending in Alaska for FY 2010 and FY 2011 are included in Figure 6-5.

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

Figure 6-4. Total Federal Spending in Alaska, FFY 2009

By Distributing Agency

	$ Million	Percent
Defense	6,043.2	43%
Health & Human Services	1,655.1	12%
Social Security	1,013.9	7%
Other Agencies	5,502.4	39%
Total	**14,214.7**	**100%**

By Appropriation Category

	$ Million	Percent
Grants	3,706.3	26%
Salaries & Wages	4,967.9	35%
Procurement	3,128.3	22%
Retirement & Disability	1,537.4	11%
Other Direct Payments	874.8	6%
Total	**14,214.7**	**100%**

Figure 6-5. Federal Spending, FY 2010 and Budgeted FY 2010-2012 ($ million)

	History FY 2010	Budgeted FY 2011	Budgeted FY 2012
State Match Requirement			
Operating Budget	422.1	467.1	467.1
Capital Budget	50.0	64.7	64.7
Total	**472.1**	**531.8**	**531.8**
Top Spending Categories			
Transportation Projects	748.2	845.6	845.6
Medicaid	795.0	871.0	871.0
Education (K-12, University of Alaska)	501.7	427.8	427.8

7. Investment Revenue

Figure 7-1. FY 2010 Investment Net Revenue: $4.5 billion

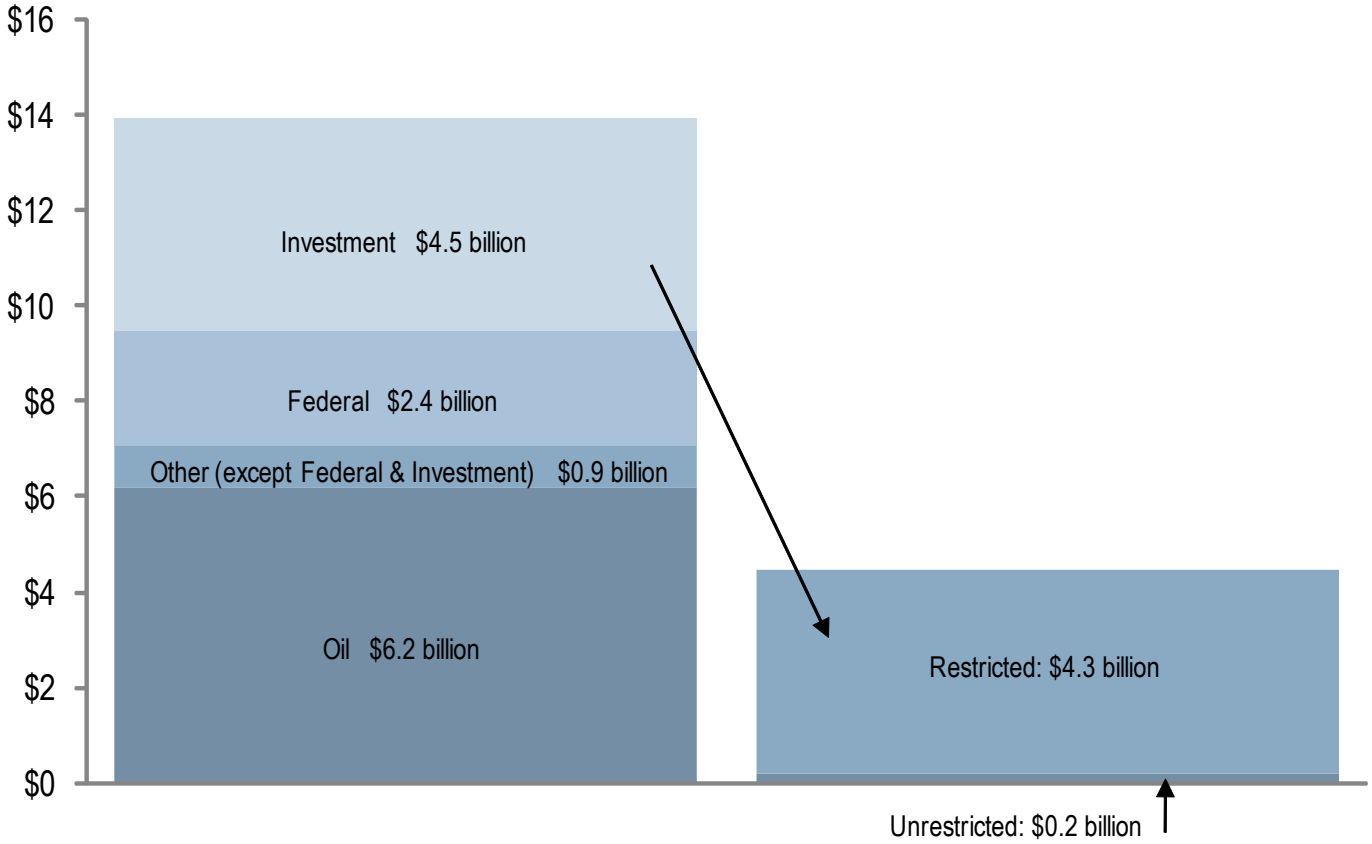


Figure 7-2. Total Investment Revenue, FY 2010 and Forecasted FY 2011-2012 ($ million) [1]

	History	Forecast	
Unrestricted	FY 2010	FY 2011	FY 2012
Investments	179.1	215.2	193.5
Interest Paid by Others	4.9	2.2	2.2
Total Unrestricted	**184.0**	**217.4**	**195.7**
Restricted			
Designated General Fund			
Investments - Designated GF	13.6	16.4	15.8
Other Treasury Managed Funds	42.6	43.3	26.2
Subtotal	**56.1**	**59.7**	**42.0**
Other Restricted			
Investments - Other Restricted	27.4	33.2	32.0
Constitutional Budget Reserve Fund	691.1	842.6	552.3
Alaska Permanent Fund	3,517.3	2,508.7	2,699.1
Subtotal	**4,235.8**	**3,384.5**	**3,283.4**
Subtotal Restricted	**4,292.0**	**3,444.1**	**3,325.5**
Total	**4,476.0**	**3,661.5**	**3,521.2**

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

Investment Forecast

To forecast investment revenue for the current fiscal year we combine actual performance through September 30, 2010, 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 their 5-year capital market estimated returns.

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, production tax interest, and corporate income tax interest are included in the Oil Revenue section of this forecast.

Restricted Investment Revenue

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

Figure 7-3. Callan Associates Inc.'s 5-year Capital Market Estimated Returns, as of September 30, 2010

Asset Class	Benchmark for Asset Class	%/Year Median Expected Return	%/Year Expected Risk[1]
Equities			
U.S. Broad	Callan and Associates Inc. (CAI) Broad	8.52%	17.29%
U.S. Large Cap	Standard and Poors (S&P) 500	8.30%	16.00%
U.S. Small Cap	Russell 2000 Index	9.00%	23.00%
International Equity	Morgan Stanley Capital International EAFE	8.30%	19.30%
Emerging Markets Equity	Morgan Stanley Capital International Emerging Markets	8.80%	27.00%
Fixed Income			
Domestic Broad Market	Lehman Brothers Aggregate	4.48%	4.50%
Domestic Short Term (cash equivalent)	Three-Month U.S. Treasury Bill	3.03%	0.80%
Domestic Intermediate	Merrill Lynch 1- to 5-Year Goverment	3.76%	3.00%
International	Salomon Brothers Non-U.S. Government	4.01%	9.60%
US TIPS	Lehman Brothers US TIPS Index	4.19%	6.00%
High Yield	Merrill Lynch US High Yield Master II Constrained	6.13%	11.25%
Other			
Real Estate	CRES	6.82%	16.10%
Private Equity	CPI + 5%	9.66%	38.00%
Absolute Return	91 Day T-Bill + 5%	6.10%	10.00%
Lazard Emerging Income Plus	1 Month Libor + 500 Basis Points	8.31%	10.00%
Inflation	CPI-U	2.75%	1.40%

[1] The continued volatility in the world's financial markets makes focus on the "Expected Risk" column (far right in the table above) particularly appropriate. The numbers in the Expected Risk column represent a statistical measure called standard deviation, which is the most commonly used measure of risk in the investment world. The standard deviation is a measure of the dispersion of data around its mean. The analyst can use this measure of dispersion to provide a range of possible outcomes at any desired level of confidence. In the data in this table, the level of confidence is set at 67% or one standard deviation. A higher level of confidence would require a broader range. For example, Callan estimates an average annual return for the domestic broad market fixed-income asset class of 4.48% and an expected risk for that asset class of 4.50%. 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 -0.02% (the median expected average annual return of 4.48% minus the expected risk of 4.50%) and 8.98% (the median expected return plus the expected risk). A prediction at 95% confidence would run from -4.50% to 13.46%, 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.

Figure 7-4. Investment Revenue Summary, FY 2010 and Forecasted FY 2011-2012 ($ million)

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-Income Pool	56%	Three-Month U.S. Treasury Bill
Intermediate-Term, Fixed-Income Pool	44%	Merrill Lynch 1- to 5-Year Government Index
Alaska Student Loan Corporation Note	0%	

Investment Balance September 30, 2010	$3,947.1
Projected Annual Rate of Return	3.4%
Probability of Negative Return Over 1 Year	3.1%

Actual Total Investment Income, FY 2009	275.4
Actual Total Investment Income, FY 2010	220.1
Projected Total Investment Income, FY 2011	264.8

	History	Forecast	
	FY 2010	FY 2011	FY 2012
Investment Revenue Unrestricted	179.1	215.2	193.5
Investment Revenue Restricted- Designated GF[(1)]	13.6	16.4	15.8
Investment Revenue Restricted - Other	27.4	33.2	32.0
Total	**220.1**	**264.8**	**241.3**

[(1)] Includes subfunds of the General Fund.

Figure 7-5. Constitutional Budget Reserve Fund Cash Flows Investment Revenue Summary, FY 2010 and Forecasted FY 2011-2012 ($ million)

Asset Allocation Regular Account

Treasury Pool	Percent Allocation	Performance Benchmark
Short-term, Fixed-income pool	9%	Three-month U.S. Treasury Bill
Intermediate-term, Fixed-income Pool	71%	Merrill Lynch 1- to 5-year government index
Broad Market Fixed-income Pool	20%	Lehman Brothers aggregate bond index

Regular Balance September 30, 2010	$4,966.0
Projected Annual Rate of Return	3.84%
Probability of Negative Return Over 1 Year	9.80%

Asset Allocation Special Subaccount

Treasury Pool	Percent Allocation	Performance Benchmark
Broad Market Fixed-Income Pool	35%	Barclays Aggregate
Intermediate US Treasury Pool	3%	Barclays US Intermediate Treasury
Domestic Equity Pool	52%	Russell 3000 Index
International Equity Pool	9%	MSCI EAFE Index
Lazard Emerging Income Plus	1%	1 Month Libor + 500 Basis Points

Special Subaccount Balance September 30, 2010	$4,642.6
Projected Annual Rate of Return	6.96%
Probability of Negative Return Over 1 Year	25.94%

Total Investment Income	History	Forecast	
	FY 2010	FY 2011	FY 2012
Regular Account	223.0	216.9	200.8
Special Subaccount	468.1	625.7	351.5
Total	**691.1**	**842.6**	**552.3**

Figure 7-6. Constitutional Budget Reserve Fund Cash Flows, FY 2010 and Forecasted FY 2011-2012 ($ million)

	History	Forecast	
	FY 2010	FY 2011	FY 2012
Beginning Cash Balance CBRF	7,114.4	8,664.0	10,016.8
Beginning Main Account Balance	3,317.5	4,399.0	5,126.1
Earnings on Main Account Balance [1]	223.0	216.9	200.8
Petroleum Tax, Royalty Settlements [2][3]	510.4	48.6	20.0
(Loan to GF)/Repayment to CBRF	348.1	0.0	0.0
Draw from/to GF	0.0	461.6	0.0
Ending Main Account Balance	**4,399.0**	**5,126.1**	**5,346.9**
Beginning Special Subaccount Balance	3,796.9	4,265.0	4,890.7
Earnings on Special Subaccount Balance [1]	468.1	625.7	351.5
Transfer from Main Account	0.0	0.0	0.0
Ending Special Subaccount Balance	**4,265.0**	**4,890.7**	**5,242.2**
Total CBRF Balance	**8,664.0**	**10,016.8**	**10,589.1**

[1] The earnings estimate for the main account is 3.84% and the earnings estimate for the special subaccount is 6.96%. These projections are based on 2010 Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.

[2] The petroleum tax, royalty settlements number on this sheet is shown on a cash basis. Please note the state accounting system numbers presented elsewhere in this book include accruals and therefore may differ from the numbers presented here.

[3] Settlement estimates are provided by the Department of Revenue and Department of Law, net of annual Federal Minerals Management Service payments.

Figure 7-7. Public School Trust Investment Revenue Summary, FY 2010 and Forecasted FY 2011-2012 ($ million)

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
US Treasury Fixed Income Pool	6%	Barclays Intermediate Treasury Index
Broad Market Fixed-income Pool	47%	Barclays Aggregate Index
Domestic Equity Pool	47%	Russell 3000 Index

Public School Fund Balance September 30, 2010	$401.2
Projected Annual Rate of Return	6.38%
Probability of Negative Return Over 1 Year	23.23%

Total Investment Income & Distributable Income ($ million)

	History	Forecast	
Unrestricted	FY 2010	FY 2011	FY 2012
Public School Trust Total Investment Income	41.5	41.9	25.5
Public School Trust Distributable Income	17.7	12.0	13.4

Figure 7-8. Alaska Children's Trust Investment Revenue Summary, FY 2009 and Forecasted FY 2010-2011 ($ million)

Asset Allocation

Treasury Pool	Percent Allocation	Performance Benchmark
US Treasury Fixed Income Pool	2%	Barclays Intermediate Treasury Index
Broad Market Fixed-income Pool	28%	Barclays Aggregate Index
International Equity Pool	11%	Morgan Stanley Capital International (EAFE)
Domestic Equity Pool	59%	Russell 3000 Index

Alaska Children's Fund Balance September 30, 2009	$10.1
Projected Annual Rate of Return	7.3%
Probability of Negative Return Over 1 Year	27.5%

Total Investment Income & Distributable Income ($ million)

	History	Forecast	
Unrestricted	FY 2010	FY 2011	FY 2012
Alaska Children's Trust Total Investment Income	1.1	1.4	0.7
Alaska Children's Trust Distributable Income	0.3	0.5	0.5

Figure 7-9. Alaska Permanent Fund Managed by the Alaska Permanent Fund Corporation, FY 2010 and Forecasted FY 2011-2012 ($ million)

	History	Forecast	
Nonspendable Assets — Principal	FY 2010	FY 2011[1]	FY 2011[2]
Total Nonspendable Assets – Beginning Balance	**29,496.1**	**32,045.0**	**34,907.5**
Contributions & Appropriations			
Contributions & Appropriations – Beginning Balance	30,944.7	31,624.1	33,151.0
Dedicated Petroleum Revenue	679.4	639.4	723.8
Inflation Proofing Transfer from Realized Earnings	0.0	887.5	931.5
Subtotal Contributions & Appropriations	**31,624.1**	**33,151.0**	**34,806.3**
Unrealized Appreciation/Depreciation			
Appreciation/Depreciation – Beginning Balance	(1,448.6)	420.9	1,756.5
Annual Unrealized Gain/Loss	1,869.5	1,335.6	842.0
Subtotal Unrealized Appreciation/Depreciation	420.9	1,756.5	2,598.5
Total Nonspendable Assets – Ending Balance	**32,045.0**	**34,907.5**	**37,404.8**
Assigned Assets — Realized Earnings Account			
Total Assigned assets - beginning balance	420.0	1,209.8	796.3
Realized Earnings Account			
Realized Earnings Account – Beginning Balance	440.6	1,193.9	756.2
Annual Realized Earnings	1,611.3	1,148.9	1,815.5
Dividend Payment to State of Alaska [3]	(858.0)	(696.0)	(524.0)
Inflation Proofing Transfer to Reserved Assets	0.0	(887.5)	(931.5)
Other Appropriations Out of Fund	0.0	(3.2)	(22.5)
Realized Earnings Account – Ending Balance	1,193.9	756.2	1,093.7
Unrealized appreciation/depreciation [4]			
Appreciation/depreciation - beginning balance	(20.6)	15.9	40.1
Annual unrealized gain/loss	36.5	24.2	41.6
Sub total - unrealized appreciation/depreciation	15.9	40.1	81.7
Total Assigned Assets – Ending Balance	**1,209.8**	**796.3**	**1,175.3**
Market Value – Total Fund Invested Assets Value			
Nonspendable Fund Balance - end of year	32,045.0	34,907.5	37,404.8
Assigned Fund Balance - end of year	1,209.8	796.3	1,175.3
Fund Balance (market value) End-of-year Balance	**33,254.8**	**35,703.7**	**38,580.1**
Total Reported Earnings			
Annual Unrealized Gain/Loss	1,906.0	1,359.8	883.6
Annual Realized Earnings	1,611.3	1,148.9	1,815.5
Reported Earnings	**3,517.3**	**2,508.7**	**2,699.1**

[1] FY2011 data projected using Callan 2010 capital market assumptions and current asset allocation policy, resulting in a 7.75% median expected total return, a 3.70% realized rate of return, and an inflation rate of 2.75%.

[2] FY2012 projected using Callan 2010 capital market assumptions and current asset allocation policy, resulting in a 7.75% expected total return, 5.30% realized rate of return, and 2.75% inflation.

[3] The permanent fund dividend payment is recorded as a liability at fiscal year end, and is paid out the following month.

[4] Beginning in FY 2009, and applied retroactively, Department of Law opinion required an allocation of unrealized gains and losses to the unreserved assets of the Fund.

8. State Endowment Funds

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

The fiduciary for each of these endowment funds has the responsibility for establishing an asset-allocation policy for the fund. Figure 8-1 on the next page compares the asset-allocation policies for these endowments.

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

In determining the amount of income available for distribution each year for the two funds managed by the Alaska Permanent Fund Corporation, gains or losses on individual investments are not recognized until the investment is sold. For calculating distributable income for the Public School Trust and the Alaska Children's Trust, only interest earned and dividends received are treated as income. Gains and losses in the value of individual investments are never recognized as income. By law, those gains and losses remain with the principal of the fund. Figure 8-3 explains how distributable income for each of the endowments is determined.

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

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

	Cash	U.S. Bonds	International Bonds	U.S. Equities	International Equities	Global Equities	Real Estate	Alternative Investments	Total
Alaska Permanent Fund	2	13	11	20	27	0	14	13	100
Mental Health Trust	2	13	11	20	27	0	14	13	100
Public School Trust	0	53	0	47	0	0	0	0	100
Alaska Children's Trust	0	32	0	57	11	0	0	0	100
Power Cost Equalization	0	39	0	40	21	0	0	0	100
University of Alaska Endowment	3	20	0	17	5	25	10	20	100

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

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

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

Alaska Permanent Fund

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

Mental Health Trust

Current statute requires net income earned on the cash principal of the fund to be calculated by the Alaska Permanent Fund Corporation in the same manner used to determine the net income of the Alaska permanent fund. Accumulated undistributed earnings in one year are available for distribution in subsequent years. Aside from the statutory limits on income distribution, the Mental Health Trust Board has established an asset management policy that limits actual distributions in any given year to 4.25% of the four year moving average of total fund ending net assets plus certain adjustments including interest earned on the budget reserve account and income earned on land assets as well as lapsing appropriations back to the fund.

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 4.5% of a 5-year moving average of the market value of the fund.

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

Alaska Permanent Fund

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

Mental Health Trust

The asset management policy adopted by the Board of Trustees currently limits distributions of accumulated earnings on the fund to a percentage of total net assets that is periodically reviewed for sufficiency. To the extent retained investment earnings exceed distributions, total fund balance grows accordingly. The authority also has adopted a policy transferring funds from the reserve account to principal whenever the reserve account exceeds four times the annual distribution.

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 4.5% 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 & University of Alaska

Public Corporations

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

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

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 pay, or may elect to pay, some portion of their income as an annual "dividend" to the state. They include the Alaska Housing Finance Corporation, Alaska Industrial Development Authority, Alaska Student Loan Corporation and Alaska Municipal Bond Bank Authority.

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. ACPE staff serve as staff for the ASLC and the executive director of the ACPE serves as the executive officer of the ASLC.

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

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

Alaska Housing Finance Corporation

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

Alaska Industrial Development and Export Authority

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

Alaska Energy Authority

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

Alaska Student Loan Corporation

The Alaska Student Loan Corporation uses proceeds from bond sales and loan agreements to finance education loans that are administered by the Alaska Commission on Postsecondary Education. Loan repayments satisfy debt 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 2008. Alaska statutes also authorize the corporation to issue bonds for the purpose of financing projects of the state. Those bonds in aggregate may not exceed $280 million.

Alaska Municipal Bond Bank Authority

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

Alaska Aerospace Development Corporation

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

Alaska Railroad Corporation

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

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

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

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

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

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

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

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

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

Figure 9-3. Public Corporations—Financial Facts, FY 2010 ($ million) [1]

	Total Assets	Assets Less Liabilities Book Value	Unrestricted Net Assets	FY 2010 Operating Budget	Total Positions [2]
Alaska Housing Finance Corporation[3]	4,796.8	1,624.0	727.0	53.6	355.0
Alaska Industrial Development & Export Authority [3]	1,199.2	1,012.2	927.2	8.9	75.0
Alaska Energy Authority [3]	772.7	643.0	473.8	43.1	See AIDEA [4]
Alaska Student Loan Corporation [5]	817.8	204.6	122.5	12.2	107.0
Alaska Municipal Bond Bank Authority	692.5	44.3	7.0	0.8	0.5
Alaska Aerospace Development Corporation [6]	101.6	93.6	5.3	28.6	44
Alaska Railroad Corporation [7]	861.3	213.8	0.0	90.5	657

[1] All figures are effective as of June 30, 2010, 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), Alaska Housing Finance Corporation (AHFC) and Alaska Energy Authority (AEA) report financial data on a fiscal year basis. Assets, liabilities and net assets in the table are from audited June 30, 2010 financial statements.

[4] AIDEA provides staff for the activities of AEA. A significant portion of AIDEA's 75 member staff is engaged in AEA programs.

[5] Budget and positions reported are for the Alaska Commission on Postsecondary Education (ACPE). Budget amount reported is funded by the Alaska Student Loan Corporation (ASLC). ACPE staff serve as staff for the ASLC.

[6] Based on audited financial statements.

[7] The Alaska Railroad reports financial data on a calendar year basis. Assets and book value shown in this table are from audited December 31, 2010, financial statements. The operating budget figure shown here is for CY 2009.

Figure 9-4. Public Corporations—Revenue & Net Income, FY 2010 ($ million)

	Revenue	Operating Income	Net Income
Alaska Housing Finance Corporation	397.3	(9.8)	(46.5)
Alaska Industrial Development & Export Authority [1]	84.0	58.9	37.7
Alaska Energy Authority [1]	124.0	(51.6)	16.3
Alaska Student Loan Corporation	33.3	5.5	2.3
Alaska Municipal Bond Bank Authority	30.1	0.8	0.5
Alaska Aerospace Development Corporation[2]	11.3	(6.0)	(5.8)
Alaska Railroad Corporation [3]	165.0	5.6	13.9

[1] The Alaska Industrial Development and Export Authority and Alaska Energy Authority report financial data on a fiscal year basis. Revenue, operating income and net income in the table are from audited June 30, 2010 financial statements.

[2] The Alaska Aerospace Development Corporation financial data include depreciation of $6.0 million and are based on audited June 30, 2010 financial statements.

[3] The Alaska Railroad reports financial data on a calendar year basis. Revenue and Operating Income shown in this table are for CY 2009.

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

Alaska Housing Finance Corporation

The Twenty-Third Legislature in 2003 enacted SCSBH 256 (the "2003" Act) which added language to the Alaska Statutes to modify and incorporate the Transfer Plan. The Corporation and the State view the 2003 Act as an indefinite, sustainable continuation of the Transfer Plan. As approved and signed into law by the Governor, the 2003 Transfer Plan calls for annual transfers that will not exceed the lesser of 75% of adjusted change in net assets or $103,000,000 less debt service on certain State Capital Project Bonds, less any legislative appropriation of the Corporation's unrestricted, unencumbered funds other than appropriations of the Corporation's operating budget.

Alaska Industrial Development and Export Authority

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

Alaska Energy Authority

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

Alaska Student Loan Corporation

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

Alaska Municipal Bond Bank Authority

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

Alaska Aerospace Development Corporation

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

Alaska Railroad Corporation

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

Figure 9-6. Public Corporations—Operating Expenses & Dividends ($ million)

	Expenses		Dividends	
	Actual FY 2010	Budget FY 2011	Actual FY 2010	Budget FY 2011
Alaska Housing Finance Corporation [1]	49.4	55.3	68.7	42.5
Alaska Industrial Development & Export Authority	10.7	11.2	22.7	23.4
Alaska Energy Authority [2]	37.8	46.9	na	na
Alaska Student Loan Corporation[3]	12.0	12.6	0.0	0.1
Alaska Municipal Bond Bank Authority	0.8	0.8	0.0	0.0
Alaska Aerospace Development Corporation [4]	17.3	28.6	na	na
Alaska Railroad Corporation	na	na	na	na

[1] Because some of this money is earmarked for multi-year capital projects, actual cash transfers in any given year may vary.

[2] The Alaska Industrial Development and Export Authority and Alaska Energy Authority report financial data on a fiscal year basis. Actual operating expenses and dividends are for the fiscal year ended June 30, 2010.

[3] The Alaska Student Loan Corporation did not pay a dividend to the state in FY 2010. However Chapter 5 shows a transfer to the state of $0.8 million, this transfer is part of a capital project authorized in a prior year and not a current year dividend.

[4] The Alaska Aerospace Development Corporation financial data include depreciation of $6.0 million and are based on audited June 30, 2010 financial statements.

University of Alaska

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

Lands & Facilities June 30,2010	Total Assets June 30, 2010	Unrestricted Net Assets	FY 2011 Operating Budget	FY 2011 Total Positions
$863.3 [1]	$1,231.4	$106.7	$850.4	4,916

[1] Includes depreciation of $760.3 million.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2010

10. Appendices

A. Revenue

B. Prices

C. Production

D. Income Statement Approach to Production Tax

Revenue. A-1

Glossary of Terms

Constitutional Budget Reserve Fund (CBRF)

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

Designated General Fund Revenue

General Fund revenue that is designated for a specific purpose, typically using a General Fund subaccount. The legislature can at any time remove the restrictions on this category of revenue as they are solely imposed by either Alaska statute or customary practice. At times, this category of revenue may be included in legislative and public debate over the budget.

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 General Fund Unrestricted Revenue, General Fund sub-account revenue, program receipts and federal dollars spent through the General Fund. In budget-writing context, General Fund revenue has a definition similar to General Purpose Unrestricted Revenue. In this report, we distinguish between unrestricted General Fund revenue, and General Fund revenue that is designated for a specific purpose.

Other Restricted State Revenue

Non-federal revenue that is not deposited to the General Fund or a subaccount of the General Fund. This revenue is restricted by the constitution, state or federal law, trust or debt restrictions, or by customary practice.

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

Revenue that 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

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.

Revenue. A-2

General Fund Unrestricted Revenue Matrices, with Price and Cost Sensitivity, FY 2011-2013 ($ million)

FY 2011

At forecasted production of 0.616 mmbbls/day

ANS $/barrel[1]	Deductible capital & operating expenditures in $/bbl[2]		
	$15.00	FC ($20)	$25.00
$40	2,339	2,543	2,072
$45	2,738	2,571	2,259
$50	3,033	2,858	2,592
$55	3,485	3,294	3,058
$60	3,953	3,695	3,457
$65	4,521	4,186	3,847
$70	5,123	4,678	4,332
$75	5,814	5,355	4,927
$80	6,441	5,910	5,471
$85	7,225	6,644	6,160
$90	8,062	7,429	6,901
$95	8,954	8,271	7,698
$100	9,903	9,170	8,551

FY 2012

At forecasted production of 0.622 mmbbls/day

ANS $/barrel[1]	Deductible capital & operating expenditures in $/bbl[2]		
	$15.00	FC ($22)	$25.00
$40	2,060	1,796	1,759
$45	2,453	2,136	1,913
$50	2,850	2,514	2,275
$55	3,264	2,905	2,667
$60	3,803	3,302	3,064
$65	4,361	3,715	3,441
$70	4,956	4,213	3,922
$75	5,585	4,778	4,459
$80	6,258	5,387	5,040
$85	6,964	6,029	5,654
$90	7,714	6,714	6,311
$95	8,502	7,438	7,007
$100	9,323	8,196	7,737

FY 2013

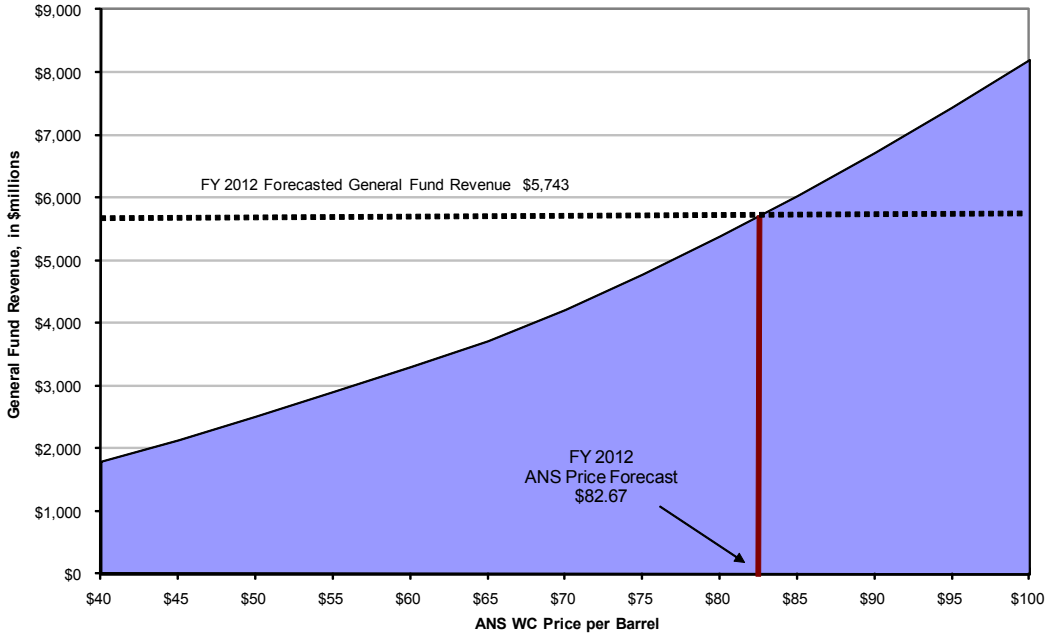
At forecasted production of 0.642 mmbbls/day

ANS $/barrel[1]	Deductible capital & operating expenditures in $/bbl[2]		
	$15.00	FC ($24)	$25.00
$40	2,003	1,787	1,777
$45	2,412	2,020	1,940
$50	2,812	2,420	2,224
$55	3,245	2,783	2,624
$60	3,800	3,114	3,029
$65	4,376	3,458	3,414
$70	4,992	3,985	3,926
$75	5,642	4,547	4,482
$80	6,338	5,155	5,084
$85	7,073	5,802	5,725
$90	7,844	6,485	6,402
$95	8,659	7,212	7,123
$100	9,515	7,979	7,885

[1] ANS $/barrel values are fiscal year averages that incorporate actual prices for the first 3 months of FY 2011. Because oil prices mid-$70 range in the first 3 months, it takes a much lower price for the remainder of the year to bring the fiscal year average down to levels in the table. For example, a fiscal year end price of $40 per barrel would require 9 months of oil prices at around $30 per barrel.

[2] This table includes a best estimate of only those capital and operating expenditures that will have an impact on the amount of production tax revenue collected in each year. In other words, we have sought to exclude expenditures made by companies that are unlikely to have a production tax liability. Also included are the level of forecasted expenditures that will have a tax impact, shown as FC in each of the years. Spending plans may change from those anticipated in this forecast as companies occasionally revise their investment strategies. These estimates also do not consider how company investment decisions would change with an increase or a decrease in oil price.

FY 2012 General Fund Unrestricted Revenue, with Price Sensitivity



Revenue. A-3

General Purpose Unrestricted Revenue—History [1]

($ million)

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
TAX REVENUE										
Petroleum Property Tax	**45.1**	**49.6**	**48.7**	**47.3**	**42.5**	**54.5**	**65.6**	**81.5**	**111.2**	**118.8**
Excise Tax										
Alcoholic Beverages	12.0	12.9	14.1	16.4	17.3	17.6	17.1	20.0	19.5	19.5
Tobacco Products	16.3	15.5	16.3	16.0	25.1	35.4	43.8	44.9	46.6	45.1
Insurance Premium	32.2	34.1	39.0	43.7	45.9	44.3	46.5	47.1	45.5	50.4
Electric and Telephone Cooperative	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Motor Fuel Tax	37.5	40.2	37.2	41.2	39.4	42.0	39.2	41.8	10.1	28.8
Vehicle Rental tax	0.0	0.0	0.0	2.7	7.5	7.7	8.0	8.5	8.0	7.3
Tire Fee	0.0	0.0	0.0	0.8	1.6	1.6	1.5	1.5	1.5	1.4
Total	**98.2**	**102.8**	**106.8**	**121.0**	**137.0**	**148.8**	**156.3**	**164.0**	**131.3**	**152.6**
Income Tax										
General Corporate	59.5	53.4	47.7	39.6	61.8	138.0	176.9	182.7	120.9	80.1
Petroleum Corporate	338.1	178.4	151.1	298.8	524.0	661.1	594.4	605.8	492.2	447.9
Total	**397.6**	**231.8**	**198.8**	**338.4**	**585.8**	**799.1**	**771.3**	**788.5**	**613.1**	**528.0**
Severance Tax										
Oil and Gas Production	694.4	486.7	589.8	642.7	854.9	1,191.7	2,198.3	6,810.9	3,100.9	2,860.7
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil and Gas Hazardous Release	9.4	9.6	9.2	9.2	8.3	7.8	10.1	11.7	11.1	10.3
Total	**703.8**	**496.3**	**599.0**	**651.9**	**863.2**	**1,199.5**	**2,208.4**	**6,822.6**	**3,112.0**	**2,871.0**
Fisheries Tax										
Fisheries Business Tax	15.4	12.7	13.8	14.9	10.7	15.4	17.1	14.7	19.3	14.1
Fishery Landing	4.1	2.6	6.9	2.5	3.9	4.7	5.3	7.9	4.7	8.3
Total	**19.5**	**15.3**	**20.7**	**17.4**	**14.6**	**20.1**	**22.4**	**22.6**	**24.0**	**22.4**
Other Tax										
Estate	2.7	3.1	1.2	2.3	1.5	0.6	0.1	0.0	0.2	0.0
Mining	1.7	0.5	0.4	3.2	10.3	18.6	79.1	54.4	15.5	29.7
Charitable Gaming	2.4	2.5	2.6	2.4	2.5	2.4	2.5	2.7	2.8	2.6
Large Passenger Vessel [1]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.8	6.3	6.3
Total	**6.8**	**6.1**	**4.2**	**7.9**	**14.3**	**21.6**	**81.7**	**63.9**	**24.8**	**38.6**
TOTAL TAX REVENUE	**1,271.0**	**901.9**	**978.2**	**1,183.9**	**1,657.4**	**2,243.6**	**3,305.7**	**7,936.3**	**4,016.4**	**3,731.4**

[1] Starting in FY 2010, Large Passenger Vessel gambling tax is included in unrestricted tax revenue.

(continued on next page)

General Purpose Unrestricted Revenue—History (continued from prior page)
($ million)

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
NON TAX REVENUE										
Licenses and Permits	**37.3**	**42.2**	**33.6**	**41.8**	**42.7**	**41.0**	**42.0**	**38.9**	**35.5**	**39.5**
Intergovernmental Receipts										
Federal Shared Revenues	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges for Services	**27.0**	**19.1**	**13.9**	**11.1**	**17.9**	**21.8**	**28.5**	**29.3**	**19.3**	**17.1**
Fines and Forefeitures	**33.6**	**6.6**	**7.0**	**16.0**	**9.4**	**8.5**	**7.8**	**8.9**	**10.5**	**9.7**
Rents and Royalties										
Oil and Gas Royalties-Net	781.0	575.7	825.7	1,042.8	1,401.1	1,772.2	1,583.8	2,420.6	1,451.2	1,469.0
Oil and Gas Bonuses, Rents, Interest[2] [3]	18.3	20.1	14.6	13.3	18.8	11.9	29.2	25.5	14.4	8.0
Other [4]	10.9	9.3	6.2	7.8	9.3	8.8	11.8	15.7	15.6	13.2
Total	**810.2**	**605.1**	**846.5**	**1,063.9**	**1,429.2**	**1,792.9**	**1,624.8**	**2,461.8**	**1,481.2**	**1,490.2**
Investment Earnings[3]	**67.6**	**43.1**	**59.0**	**9.7**	**24.7**	**53.3**	**140.1**	**227.8**	**247.6**	**184.0**
Miscellaneous Revenue[5]	**34.9**	**42.3**	**9.4**	**19.2**	**7.5**	**39.3**	**9.7**	**26.2**	**27.0**	**40.8**
Sub-Total NON-TAX REVENUE	**1,010.9**	**758.4**	**969.4**	**1,161.7**	**1,531.4**	**1,956.8**	**1,852.9**	**2,792.9**	**1,821.1**	**1,781.3**
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL NON-TAX REVENUE	**1,010.9**	**758.4**	**969.4**	**1,161.7**	**1,531.4**	**1,956.8**	**1,852.9**	**2,792.9**	**1,821.1**	**1,781.3**
TOTAL TAX REVENUE	**1,271.0**	**901.9**	**978.2**	**1,183.9**	**1,657.4**	**2,243.6**	**3,305.7**	**7,936.3**	**4,016.4**	**3,731.4**
TOTAL GENERAL PURPOSE UNRESTRICTED REVENUE	**2,281.9**	**1,660.3**	**1,947.6**	**2,345.6**	**3,188.8**	**4,200.4**	**5,158.6**	**10,729.2**	**5,837.5**	**5,512.7**

(1) General Purpose Unrestricted Revenue includes those revenues that are not restricted by statute or custom, as reported elsewhere in this publication. A summary of historical General Purpose Unrestricted Revenue can be found on the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/GeneralFundUnrestrictedRevenueHistory.pdf

(2) These categories are primarily composed of petroleum.

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

(4) Includes non-petroleum rents and royalites.

(5) Starting in FY 2010, dividends and payments from state-owned corporations are included in unrestricted miscellaneous revenue.

Revenue. A-4a

General Purpose Unrestricted Petroleum Revenue—History [1]

($ million)

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Petroleum Corporate Income Tax	338.1	178.4	151.1	298.8	524.0	661.1	594.4	605.8	492.2	447.9
Production Tax	703.8	496.3	599.0	651.9	863.2	1,199.5	2,208.4	6,822.6	3,112.0	2,871.0
Petroleum Property Tax	45.1	49.6	48.7	47.3	42.5	54.5	65.6	81.5	111.2	118.8
Oil and Gas Royalties-Net[2]	781.0	575.7	825.7	1,042.8	1,401.1	1,772.2	1,583.8	2,420.6	1,451.2	1,469.0
Bonuses, Rents & Interest-Net[2][3]	18.3	20.1	14.6	13.3	18.8	11.9	29.2	25.5	14.4	8.0
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Petroleum Revenue	**1,886.3**	**1,320.1**	**1,639.1**	**2,054.1**	**2,849.6**	**3,699.2**	**4,481.4**	**9,956.0**	**5,181.0**	**4,914.7**
Cumulative Unrestricted Petroleum Revenue[4]	**49,610.8**	**50,930.9**	**52,570.0**	**54,624.1**	**57,473.7**	**61,172.9**	**65,654.3**	**75,610.3**	**80,791.3**	**85,706.0**
Total General Purpose Unrestricted Revenue	**2,281.9**	**1,660.3**	**1,947.6**	**2,345.6**	**3,188.8**	**4,200.4**	**5,158.6**	**10,728.2**	**5,831.2**	**5,512.7**
% Petroleum of Total GP Unrestricted Revenue	83%	80%	84%	88%	89%	88%	87%	93%	89%	89%

(1) Historical General Purpose Unrestricted petroleum revenue can be found on the Tax Division's web site at: http://www.tax.alaska.gov/sourcesbook/PetroleumRevenueHistory.pdf. Table on Tax web site includes historical Reserve Tax (FY 1976-1977) and Petroleum Special Settlements (FY 1986-1995) which are reflected as current zero totals in Appendix A-4a.

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

(3) This category is primarily composed of petroleum revenue.

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

Revenue. A-4b

General Purpose Unrestricted Petroleum Revenue—Forecast [1]

($ million)

FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Petroleum Corporate Income Tax	445.0	555.0	605.0	630.0	680.0	690.0	700.0	710.0	720.0	730.0
Production Tax	2,614.6	2,737.6	3,051.6	3,521.1	3,905.4	4,471.7	4,631.5	4,734.8	4,539.3	4,360.1
Petroleum Property Tax	104.1	101.9	99.5	97.2	94.9	92.7	90.3	88.0	85.8	83.4
Oil and Gas Royalties-Net[2]	1,486.2	1,649.6	1,740.6	1,802.9	1,822.5	1,820.5	1,812.2	1,758.2	1,681.8	1,607.1
Bonuses, Rents & Interest-Net[2][3]	23.9	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Petroleum Special Settlements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Petroleum Revenue	**4,673.9**	**5,061.1**	**5,513.7**	**6,068.2**	**6,519.7**	**7,091.9**	**7,250.9**	**7,308.1**	**7,044.0**	**6,797.7**
Cumulative Unrestricted Petroleum Revenue[4]	**90,379.9**	**95,440.9**	**100,954.6**	**107,022.8**	**113,542.5**	**120,634.5**	**127,885.4**	**135,193.5**	**142,237.5**	**149,035.1**
Total General Purpose Unrestricted Revenue	**5,371.8**	**5,743.9**	**6,207.7**	**6,767.8**	**7,233.1**	**7,822.4**	**7,992.7**	**8,060.4**	**7,845.7**	**7,610.7**
% Petroleum of Total GP Unrestricted Revenue	87%	88%	89%	90%	90%	91%	91%	91%	90%	89%

(1) Historical General Purpose Unrestricted petroleum revenue can be found on the Tax Division's web site at: http://www.tax.alaska.gov/sourcesbook/PetroleumRevenueHistory.pdf. Table on Tax web site includes historical Reserve Tax (FY 1976-1977) and Petroleum Special Settlements (FY 1986-1995) which are reflected as current zero totals in Appendix A-4a.

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

(3) This category is primarily composed of petroleum revenue.

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

Revenue. A-5a

Total Alaska Government Petroleum Revenue—History

($ million)

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Unrestricted Petroleum Revenue										
Petroleum Corporate Income Tax	338.1	178.4	151.1	298.8	524.0	661.1	594.4	605.8	492.2	447.9
Oil and Gas Production Tax	694.4	486.7	589.8	642.7	854.9	1,191.7	2,198.3	6,810.9	3,100.9	2,860.7
Oil and Gas Hazardous Release	9.4	9.6	9.2	9.2	8.3	7.8	10.1	11.7	11.1	10.3
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum Property Tax	45.1	49.6	48.7	47.3	42.5	54.5	65.6	81.5	111.2	118.8
Oil & Gas Royalties	781.0	575.7	825.7	1,042.8	1,401.1	1,772.2	1,583.8	2,420.6	1,451.2	1,469.0
Bonuses, Rents & Interest	18.3	20.1	14.6	13.3	18.8	11.9	29.2	25.5	14.4	8.0
Total Unrestricted Petroleum	**1,886.3**	**1,320.1**	**1,639.1**	**2,054.1**	**2,849.6**	**3,699.2**	**4,481.4**	**9,956.0**	**5,181.0**	**4,914.7**
Restricted Petroleum Revenue										
NPR-A Rents, Royalties, Bonuses	1.7	1.7	34.6	2.5	31.6	4.5	12.8	5.2	14.8	21.3
Royalties to Permanent Fund	339.3	257.7	397.6	354.7	476.9	599.5	535.0	834.0	659.8	696.1
Royalties to Public School Fund	5.6	4.3	6.2	7.1	9.6	12.0	10.6	16.5	11.0	11.1
CBRF Deposits [1]	49.1	90.2	22.3	8.4	27.4	43.7	101.9	476.4	202.6	552.7
Total Restricted Petroleum Revenue	395.7	353.9	460.7	372.7	545.5	659.7	660.3	1,332.1	888.2	1,281.2
Total Petroleum Revenue	**2,282.0**	**1,674.0**	**2,099.8**	**2,426.8**	**3,395.1**	**4,358.9**	**5,141.7**	**11,288.1**	**6,069.2**	**6,195.9**

[1] Oil and Gas Settlements from DOR Mineral Payments Fund Allocation Detail.

Revenue. A-5b

Total Alaska Government Petroleum Revenue—Forecast

($ million)

FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Unrestricted Petroleum Revenue										
Petroleum Corporate Income Tax	445.0	555.0	605.0	630.0	680.0	690.0	700.0	710.0	720.0	730.0
Oil and Gas Production Tax	2,604.8	2,727.6	3,041.2	3,510.9	3,895.6	4,461.7	4,621.7	4,725.4	4,530.4	4,351.7
Oil and Gas Hazardous Release	9.8	9.9	10.3	10.2	9.8	10.0	9.7	9.4	8.9	8.4
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum Property Tax	104.1	101.9	99.5	97.2	94.9	92.7	90.3	88.0	85.8	83.4
Oil & Gas Royalties	1,486.2	1,649.6	1,740.6	1,802.9	1,822.5	1,820.5	1,812.2	1,758.2	1,681.8	1,607.1
Bonuses, Rents & Interest	23.9	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Total Unrestricted Petroleum	**4,673.9**	**5,061.1**	**5,513.7**	**6,068.2**	**6,519.7**	**7,091.9**	**7,250.9**	**7,308.1**	**7,044.0**	**6,797.7**
Restricted Petroleum Revenue										
NPR-A Rents, Royalties, Bonuses	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Royalties to Permanent Fund[1]	638.9	723.3	763.0	793.7	802.4	792.9	767.1	745.5	717.3	689.0
Royalties to Public School Fund	10.8	12.0	12.7	13.1	13.3	13.2	13.0	12.7	12.1	11.6
CBRF Deposits[2]	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Total Restricted Petroleum Revenue	689.2	774.8	815.2	846.3	855.2	845.6	819.7	797.7	768.9	740.1
Total Petroleum Revenue	**5,363.1**	**5,835.9**	**6,328.9**	**6,914.5**	**7,374.9**	**7,937.5**	**8,070.6**	**8,105.7**	**7,812.9**	**7,537.8**

[1] A data entry error isolated to this table was corrected on December 8, 2010. Reflected above are the corrected numbers for FY 2013 - FY 2020.
[2] Oil and Gas Settlements from DOR Mineral Payments Fund Allocation Detail.

Prices. B-1a

Crude Oil and Natural Gas Prices—History [1][2]

NOMINAL[3]

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
WTI	30.05	23.70	29.90	33.73	48.72	64.22	63.35	97.02	69.71	75.21
ANS West Coast Spot	27.54	21.65	28.59	32.36	44.85	62.12	61.60	96.51	68.34	74.90
ANS Wellhead Wtd Average All Destinations	22.56	17.04	23.42	27.46	40.12	56.69	56.20	90.46	61.86	68.89
Cook Inlet Wellhead	25.64	19.37	25.32	28.41	41.72	58.26	57.31	82.26	62.51	65.70

Henry Hub Natural Gas Prices
($ per million Btu)

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Henry Hub	5.43	2.76	4.84	5.41	6.26	9.12	6.88	8.30	5.92	4.25

REAL 2010 $[4]

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
WTI	36.79	28.71	35.48	38.76	54.60	68.99	66.45	96.64	70.45	75.21
ANS West Coast Spot	33.72	26.23	33.92	37.18	50.26	66.73	64.61	96.13	69.06	74.90
ANS Wellhead Wtd Average All Destinations	27.62	20.65	27.79	31.55	44.96	60.90	58.95	90.11	62.52	68.89
Cook Inlet Wellhead	31.40	23.47	30.04	32.65	46.76	62.58	60.11	81.94	63.17	65.70

Henry Hub Natural Gas Prices
($ per million Btu)

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Henry Hub	6.64	3.34	5.74	6.22	7.01	9.80	7.21	8.26	5.99	4.25

Prices. B-1b

Crude Oil Prices—Forecast

NOMINAL[3]

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
WTI	79.89	85.17	90.36	94.91	99.84	102.58	105.40	108.30	111.28	114.34
ANS West Coast Spot	77.96	82.67	87.86	92.41	97.34	100.08	102.90	105.80	108.78	111.84
ANS Wellhead Wtd Average All Destinations	71.96	76.28	81.68	86.00	90.62	93.14	95.84	98.47	101.11	103.77
Cook Inlet Wellhead	74.36	80.78	85.98	90.53	95.47	98.22	101.05	103.95	106.93	110.00

REAL 2010 $

WTI, ANS West Coast, ANS and Cook Inlet Wellhead Prices
($ per barrel)

FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
WTI	77.76	80.67	83.30	85.15	87.17	87.17	87.17	87.17	87.17	87.17
ANS West Coast Spot	75.88	78.30	80.99	82.90	84.99	85.05	85.11	85.16	85.22	85.27
ANS Wellhead Wtd Average All Destinations	70.04	72.25	75.30	77.16	79.12	79.14	79.27	79.26	79.21	79.12
Cook Inlet Wellhead	72.37	76.52	79.26	81.22	83.36	83.47	83.57	83.67	83.77	83.86

(1) In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

(2) Data from Platt's Oilgram Price Report, Wood McKenzie and Alaska Department of Revenue's prevailing value and tax return data. Historical real and nominal crude oil and natural gas prices can be found on the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/OilGasPrices.pdf.

(3) Adjustment to "nominal" dollars is required to prepare the crude oil and natural gas price forecasts. Callan Associates Inc.'s inflation rate of 2.75% was used for FY 2011 and beyond.

(4) Adjustment to "real 2010" dollars is useful to compare prices across time excluding inflation. These prices data are adjusted to real 2010 dollars based on inflation rates provided by the U.S. Department of Labor, Bureau of Labor Statistics. The data series used is the Consumer Price Index for all Urban Consumers (CPI-U) which can be found at: www.bls.gov/cpi/home.htm.

Prices. B-2a

Nominal Netback Costs—History [1][2]

Marine Costs, TAPS Tariff, and Other Adjustment Charges

($ per barrel)

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
ANS West Coast	27.54	21.65	28.59	32.36	44.85	62.12	61.60	96.51	68.34	74.90
Marine Costs	1.40	1.58	1.70	1.69	1.79	1.65	1.63	1.93	2.05	2.21
TAPS Tariff	3.30	3.50	3.37	3.16	3.33	3.55	4.51	5.08	4.59	3.81
Other Deductions and Adjustments[2]	0.29	(0.48)	0.09	0.05	(0.40)	0.23	(0.74)	(0.96)	(0.15)	(0.00)
ANS Wellhead Value	**22.56**	**17.04**	**23.42**	**27.46**	**40.12**	**56.69**	**56.20**	**90.46**	**61.86**	**68.89**

(1) In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

(2) Historical netback costs can be found on the Tax Division web site: www.tax.alaska.gov/sourcesbook/NetbackCosts.pdf.

Prices. B-2b

Nominal Netback Costs—Forecast [1]

Marine Costs, TAPS Tariff, and Other Adjustment Charges

($ per barrel)

FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ANS West Coast	77.96	82.67	87.86	92.41	97.34	100.08	102.90	105.80	108.78	111.84
Marine Costs	2.07	2.05	2.10	2.15	2.20	2.25	2.30	2.35	2.40	2.45
TAPS Tariff	4.17	4.67	4.37	4.54	4.80	4.92	4.99	5.21	5.48	5.80
Other Deductions and Adjustments[2]	(0.24)	(0.33)	(0.28)	(0.28)	(0.27)	(0.22)	(0.23)	(0.22)	(0.21)	(0.19)
ANS Wellhead Value	**71.96**	**76.28**	**81.68**	**86.00**	**90.62**	**93.14**	**95.84**	**98.47**	**101.11**	**103.77**

[1] Data from the Department of Revenue's Forecast Model.
[2] Historical netback costs can be found on the Tax Division web site: www.tax.alaska.gov/sourcesbook/NetbackCosts.pdf.

Prices. B-3

Price Changes from Spring 2010 Forecast

(nominal $ per barrel)

FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fall 2010 Forecast										
WTI	79.89	85.17	90.36	94.91	99.84	102.58	105.40	108.30	111.28	114.34
ANS West Coast	77.96	82.67	87.86	92.41	97.34	100.08	102.90	105.80	108.78	111.84
ANS Wellhead Wtd Average All Destinations	71.96	76.28	81.68	86.00	90.62	93.14	95.84	98.47	101.11	103.77
Cook Inlet Wellhead	74.36	80.78	85.98	90.53	95.47	98.22	101.05	103.95	106.93	110.00
Spring 2010 Forecast										
WTI	80.15	85.88	89.35	91.73	94.19	96.71	99.3	101.96	104.70	107.51
ANS West Coast	77.65	83.38	86.85	89.23	91.69	94.21	96.8	99.46	102.20	105.01
ANS Wellhead Wtd Average All Destinations	71.82	77.37	80.67	82.87	85.15	87.47	89.82	92.15	94.46	96.86
Cook Inlet Wellhead	75.78	81.52	85.01	87.41	89.88	92.41	95.01	97.68	100.43	103.25
$ change from prior forecast										
WTI	(0.26)	(0.71)	1.01	3.18	5.65	5.87	6.10	6.34	6.58	6.83
ANS West Coast	0.31	(0.71)	1.01	3.18	5.65	5.87	6.10	6.34	6.58	6.83
ANS Wellhead Wtd Average All Destinations	0.14	(1.09)	1.01	3.13	5.47	5.67	6.02	6.32	6.65	6.91
Cook Inlet Wellhead	(1.42)	(0.74)	0.97	3.12	5.59	5.81	6.04	6.27	6.50	6.75
% change from prior forecast										
WTI	(0.3%)	(0.8%)	1.1%	3.5%	6.0%	6.1%	6.1%	6.2%	6.3%	6.4%
ANS West Coast	0.4%	(0.9%)	1.2%	3.6%	6.2%	6.2%	6.3%	6.4%	6.4%	6.5%
ANS Wellhead Wtd Average All Destinations	0.2%	(1.4%)	1.3%	3.8%	6.4%	6.5%	6.7%	6.9%	7.0%	7.1%
Cook Inlet Wellhead	(1.9%)	(0.9%)	1.1%	3.6%	6.2%	6.3%	6.4%	6.4%	6.5%	6.5%

Production. C-1

Production Differences from Spring 2010 Forecast

(million barrels per day)

FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fall 2010 Forecast										
ANS	0.616	0.622	0.642	0.629	0.608	0.623	0.607	0.582	0.551	0.520
Cook Inlet	0.010	0.009	0.008	0.008	0.007	0.007	0.006	0.006	0.006	0.005
ALASKA	0.626	0.631	0.651	0.637	0.615	0.630	0.613	0.588	0.557	0.525
Spring 2010 Forecast										
ANS	0.619	0.614	0.618	0.626	0.623	0.605	0.589	0.561	0.523	0.487
Cook Inlet	0.008	0.007	0.006	0.006	0.005	0.005	0.004	0.004	0.004	0.003
ALASKA	0.627	0.621	0.624	0.631	0.628	0.609	0.593	0.564	0.527	0.490
Volume change from prior forecast										
ANS	(0.003)	0.009	0.025	0.003	(0.014)	0.019	0.018	0.022	0.028	0.033
Cook Inlet	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002
ALASKA	(0.001)	0.011	0.027	0.006	(0.012)	0.021	0.020	0.024	0.030	0.035
Percent change from prior forecast										
ANS	(0.5%)	1.4%	4.0%	0.5%	(2.3%)	3.1%	3.1%	3.8%	5.3%	6.8%
Cook Inlet	27.9%	32.9%	37.1%	41.3%	45.2%	48.8%	52.3%	55.8%	59.1%	62.3%
ALASKA	(0.2%)	1.7%	4.3%	0.9%	(1.9%)	3.4%	3.4%	4.2%	5.7%	7.1%

Production. C-2a

Crude Oil Production—History [1][2]

(million barrels per day)

FY	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Prudhoe Bay[3]	0.536	0.486	0.429	0.414	0.380	0.335	0.271	0.291	0.290	0.277
PBU Satellites[4]	0.007	0.030	0.045	0.052	0.043	0.041	0.043	0.034	0.037	0.036
GPMA[5]	0.088	0.073	0.065	0.060	0.055	0.048	0.037	0.044	0.038	0.034
Kuparuk	0.197	0.174	0.160	0.154	0.141	0.133	0.121	0.113	0.106	0.099
Kuparuk Satellites[6]	0.031	0.041	0.052	0.049	0.051	0.043	0.044	0.038	0.036	0.035
Milne Point[7]	0.052	0.052	0.051	0.051	0.049	0.041	0.033	0.033	0.031	0.028
Endicott[8]	0.037	0.033	0.029	0.028	0.020	0.021	0.016	0.014	0.014	0.013
Liberty										0.000
Alpine[9]	0.045	0.096	0.099	0.099	0.105	0.123	0.103	0.079	0.063	0.058
Fiord[10]	0.000	0.000	0.000	0.000	0.000	0.000	0.011	0.018	0.021	0.024
Nanuq[11]	0.000	0.000	0.000	0.000	0.000	0.000	0.010	0.019	0.022	0.011
NPR-A										0.000
Offshore[12]								0.000	0.004	0.009
Northstar[13]		0.025	0.059	0.066	0.068	0.055	0.045	0.034	0.027	0.020
Total ANS	**0.993**	**1.010**	**0.991**	**0.974**	**0.911**	**0.840**	**0.734**	**0.716**	**0.692**	**0.644**
Cook Inlet	**0.029**	**0.033**	**0.030**	**0.025**	**0.020**	**0.018**	**0.015**	**0.014**	**0.010**	**0.009**
Total Alaska	**1.021**	**1.043**	**1.021**	**0.999**	**0.932**	**0.858**	**0.750**	**0.730**	**0.702**	**0.652**

(1) In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

(2) A summary of historical crude oil production can be found on the Tax Division's web site at: www.tax.alaska.gov/sourcesbook/AlaskaProduction.pdf.

(3) Includes NGLs from Central Gas Facility shipped to TAPS.

(4) Aurora, Borealis, Midnight Sun, Orion and Polaris.

(5) Lisburne, Niakuk, North Prudhoe Bay State, Point McIntyre, Raven, West Beach and West Niakuk.

(6) Meltwater, Tabasco, Tarn and West Sak.

(7) Includes Sag River and Schrader Bluff.

(8) Includes Badami, Eider and Sag Delta.

(9) Includes Alpine-West and Qannik.

(10) Fiord, Fiord-Kuparuk.

(11) Nanuq and Nanuq-Kuparuk.

(12) Known Offshore includes Nikaitchuq and Oooguruk.

(13) Includes Outer Continental Shelf (OCS) production.

Production. C-2b

Crude Oil Production—Forecast [1]

(million barrels per day)

FY	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Prudhoe Bay[2]	0.278	0.273	0.262	0.256	0.243	0.231	0.218	0.208	0.198	0.189
PBU Satellites[3]	0.032	0.040	0.050	0.052	0.051	0.049	0.042	0.036	0.031	0.027
GPMA[4]	0.029	0.029	0.027	0.024	0.022	0.021	0.019	0.017	0.016	0.015
Kuparuk	0.091	0.087	0.084	0.081	0.079	0.077	0.075	0.072	0.069	0.067
Kuparuk Satellites[5]	0.034	0.032	0.029	0.027	0.024	0.024	0.034	0.031	0.028	0.025
Milne Point[6]	0.025	0.025	0.025	0.025	0.026	0.028	0.028	0.028	0.027	0.024
Endicott[7]	0.015	0.017	0.016	0.016	0.016	0.017	0.014	0.012	0.011	0.010
Liberty	0.000	0.005	0.039	0.036	0.029	0.024	0.020	0.017	0.014	0.012
Alpine[8]	0.057	0.053	0.045	0.043	0.044	0.040	0.036	0.032	0.029	0.027
Fiord[9]	0.028	0.027	0.023	0.020	0.018	0.017	0.022	0.028	0.027	0.023
Nanuq[10]	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
NPR-A	0.000	0.000	0.000	0.000	0.010	0.046	0.048	0.051	0.054	0.056
Offshore[11]	0.012	0.019	0.031	0.038	0.037	0.035	0.035	0.035	0.033	0.031
Point Thomson	0.000	0.000	0.000	0.000	0.002	0.009	0.009	0.009	0.009	0.009
Northstar[12]	0.015	0.013	0.011	0.009	0.007	0.006	0.005	0.005	0.004	0.004
Total ANS	**0.616**	**0.622**	**0.642**	**0.629**	**0.608**	**0.623**	**0.607**	**0.582**	**0.551**	**0.520**
Cook Inlet	**0.010**	**0.009**	**0.008**	**0.008**	**0.007**	**0.007**	**0.006**	**0.006**	**0.006**	**0.005**
Total Alaska	**0.626**	**0.631**	**0.651**	**0.637**	**0.615**	**0.630**	**0.613**	**0.588**	**0.557**	**0.525**

(1) In FY 2008, the Department of Revenue made a change in the method by which it accounts for future revenues, as well as historical and future production and oil prices, from a cash basis to an accrual basis. This method change will better align fiscal year revenues with the state's financial reports and other publications. As a result, slight modifications have been made to historical production values and oil prices to accommodate this change.

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

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

(4) Lisburne, Niakuk, Point McIntyre, Raven, West Beach.

(5) Meltwater, Tabasco, Tarn and West Sak.

(6) Includes Sag River and Schrader Bluff.

(7) Includes Sag Delta and Badami.

(8) Includes Alpine-West and Qannik.

(9) Fiord, Fiord-Kuparuk and Fiord West.

(10) Nanuq and Nanuq-Kuparuk.

(11) Known Offshore includes Nikaitchuq and Oooguruk.

(12) Includes Outer Continental Shelf (OCS) production.

Income Statement. D-1a

FY 2010 Production Tax Estimate using Income Statement Format

Note: This table presents an approximation of the production tax calculation, and does not match production tax estimates throughout this publication. Please use accordingly.

	Price	Barrels	Value ($M)
Avg ANS Oil Price ($/bbl) & Daily Production (bbls)	$74.90	643,517	$48.2
Annual Production (bbl)			
Total		234,883,705	$17,592.8
Royalty, Federal and other barrels[1]		-31,067,340	($2,326.9)
Taxable barrels		203,816,365	$15,265.8
Downstream (Transportation) Costs ($/bbl)			
ANS Marine Transportation	-$2.21		
TAPS Tariff	-$3.81		
Other	$0.00		
Total Transportation Costs	-$6.02	203,816,365	($1,227.0)
Deductible Lease Expenditures per taxable barrel [2]			
Deductible Operating Expenditures	-$10.64		($2,168.7)
Deductible Capital Expenditures	-$8.55		($1,742.0)
Total Lease Expenditures	-$19.19	203,816,365	($3,910.7)
Production Tax			
Production Tax Value (PTV)			$10,128.1
Base Tax (25%*PTV)			$2,532.0
Production Tax Value per barrel	$49.69		
Progressive Tax = (7.9% * PTV)			$797.8
Total Tax before credits			$3,329.8
Credits			($350.0)
Estimated Total Tax after credits[3]			**$2,979.8**

Notes: (1) Royalty, Federal and other barrels represents our best estimate of barrels that are not taxed. This estimate includes both state and federal royalty barrels, barrels produced from federal offshore property and barrels used in production.
(2) Deductible Lease Expenditures represents our best estimate of lease expenditures that are applicable to currently producing fields that are likely to produce a tax liability for the company or companies producing them. The per-barrel expenditures reflect expenditures **per taxable barrel** and do not reflect expenditures per all barrels produced.
(3) Estimated Total Tax after credits is a calculated total based on constant daily production, constant oil prices, and constant expenditures for the entire year. Variations in these assumptions captured in larger revenue models will produce different results that differ from the estimates in the simple model above.

Income Statement. D-1b

FY 2011 Production Tax Estimate using Income Statement Format

Note: This table presents an approximation of the production tax calculation, and does not match production tax estimates throughout this publication. Please use accordingly.

	Price	Barrels	Value ($M)
Avg ANS Oil Price ($/bbl) & Daily Production (bbls)	$77.96	615,902	$48.0
Annual Production (bbl)			
Total		224,804,230	$17,525.7
Royalty, Federal and other barrels[1]		-34,100,490	($2,658.5)
Taxable barrels		190,703,740	$14,867.3
Downstream (Transportation) Costs ($/bbl)			
ANS Marine Transportation	-$2.07		
TAPS Tariff	-$4.17		
Other	$0.24		
Total Transportation Costs	-$6.00	190,703,740	($1,144.2)
Deductible Lease Expenditures per taxable barrel [2]			
Deductible Operating Expenditures	-$12.99		($2,477.0)
Deductible Capital Expenditures	-$10.43		($1,988.4)
Total Lease Expenditures	-$23.42	190,703,740	($4,465.4)
Production Tax			
Production Tax Value (PTV)			$9,257.6
Base Tax (25%*PTV)			$2,314.4
Production Tax Value per barrel	$48.54		
Progressive Tax = (7.4% * PTV)			$686.7
Total Tax before credits			$3,001.1
Credits			($400.0)
Estimated Total Tax after credits[3]			**$2,601.1**

Notes: (1) Royalty, Federal and other barrels represents our best estimate of barrels that are not taxed. This estimate includes both state and federal royalty barrels, barrels produced from federal offshore property and barrels used in production.
(2) Deductible Lease Expenditures represents our best estimate of lease expenditures that are applicable to currently producing fields that are likely to produce a tax liability for the company or companies producing them. The per-barrel expenditures reflect expenditures **per taxable barrel** and do not reflect expenditures per all barrels produced.
(3) Estimated Total Tax after credits is a calculated total based on constant daily production, constant oil prices, and constant expenditures for the entire year. Variations in these assumptions captured in larger revenue models will produce different results that differ from the estimates in the simple model above.

Income Statement. D-1c

FY 2012 Production Tax Estimate using Income Statement Format

Note: This table presents an approximation of the production tax calculation, and does not match production tax estimates throughout this publication. Please use accordingly.

	Price	Barrels	Value ($M)
Avg ANS Oil Price ($/bbl) & Daily Production (bbls)	$82.67	622,182	$51.4
Annual Production (bbl)			
Total		227,096,430	$18,774.1
Royalty, Federal and other barrels[1]		-34,669,890	($2,866.2)
Taxable barrels		192,426,540	$15,907.9
Downstream (Transportation) Costs ($/bbl)			
ANS Marine Transportation	-$2.05		
TAPS Tariff	-$4.67		
Other	$0.33		
Total Transportation Costs	-$6.39	192,426,540	($1,229.6)
Deductible Lease Expenditures per taxable barrel [2]			
Deductible Operating Expenditures	-$12.86		($2,474.1)
Deductible Capital Expenditures	-$13.14		($2,528.3)
Total Lease Expenditures	-$26.00	192,426,540	($5,002.4)
Production Tax			
Production Tax Value (PTV)			$9,675.9
Base Tax (25%*PTV)			$2,419.0
Production Tax Value per barrel	$50.28		
Progressive Tax = (8.1% * PTV)			$785.0
Total Tax before credits			$3,204.0
Credits			($450.0)
Estimated Total Tax after credits[3]			**$2,754.0**

Notes: (1) Royalty, Federal and other barrels represents our best estimate of barrels that are not taxed. This estimate includes both state and federal royalty barrels, barrels produced from federal offshore property and barrels used in production.
(2) Deductible Lease Expenditures represents our best estimate of lease expenditures that are applicable to currently producing fields that are likely to produce a tax liability for the company or companies producing them. The per-barrel expenditures reflect expenditures **per taxable barrel** and do not reflect expenditures per all barrels produced.
(3) Estimated Total Tax after credits is a calculated total based on constant daily production, constant oil prices, and constant expenditures for the entire year. Variations in these assumptions captured in larger revenue models will produce different results that differ from the estimates in the simple model above.

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2010

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

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

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

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

(3) Estimates from individual state agencies.

We thank the various state agencies for their cooperation in computing anticipated revenues for publication in this Fall 2010 Revenue Sources Book.

The Department of Revenue complies with Title II of the Americans With Disabilities Act of 1990. This publication is available in alternative communication formats upon request. Please contact the division's representative at 907-465-3692 or 907-465-3678 (TDD) to make necessary arrangements.

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

Revenue Sources Book

Alaska Department of Revenue – Tax Division

FALL 2010

Forecast & Historical Data

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