Revenue Sources
FY 1987 - 89

QUARTERLY UPDATE
JUNE, 1987

Alaska
Department of Revenue

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX S
JUNEAU, ALASKA 99811-0400
PHONE: (907) 465-2300

June 8, 1987

To the Reader of the Revenue Sources FY 87-89 (June 1987) and Petroleum Production Revenue Forecast (June 1987)

The revenue forecast presented in these publications has been prepared by economists and research staff of the Department of Revenue in accordance with the highest professional standards. It has been reviewed and adopted by myself as the Department's best judgment of revenues to be received by the State of Alaska over the prescribed forecast period. The Department of Revenue has historically been and remains solely and exclusively responsible for the preparation of these quarterly forecasts. The experience of recent years involving frequent and significant revisions in estimated revenues is due to the inherent difficulty of predicting the movements in the price of crude oil--a commodity whose volatility over the last decade cannot be exaggerated. This volatility combined with the State of Alaska's almost complete dependence on oil revenues, which in recent years account for almost 85 percent of total revenues, can sometimes lead to dramatic and unavoidable changes in the forecast.

Sincerely,

Vincent D. Wright

Vincent D. Wright
Chief of Research

ALASKA'S REVENUE SOURCES

Compiled by Research Section

Department of Revenue

Table of Contents

MEMORANDUM

State of Alaska

TO: The Honorable Steve Cowper
Governor of Alaska

DATE: June 5, 1987

FILE NO.:

THRU: Hugh Malone, Commissioner
Department of Revenue

TELEPHONE NO.: 465-2173

SUBJECT: June Revenue Forecast

FROM: Vincent D. Wright VW
Chief of Research
Department of Revenue

The Department of Revenue, per your instructions, has put together the unrestricted revenue forecast approximately one month earlier than is normally the case. You should be aware that by moving up the schedule we have not had the benefit of evaluating key information such as economic and tax data normally available, seasonal factor trends, nor the results from the OPEC meeting scheduled for the latter part of June.

There has been a great deal of speculation recently that oil prices will continue to improve and the State's revenue position in corresponding fashion. This may very well be true. However, there are factors that still suggest tremendous downside risk relative to oil prices and I will touch on some of these in this letter.

The fundamentals of supply and demand do not support current oil prices. The underlying reason for relatively high oil prices is a political solution (i.e. the OPEC agreement established during December of 1986) which is still very tenuous at this time. The reasons for this are outlined below and it is crucial that the decision makers recognize these facts and adjust their thinking relative to expected revenues accordingly.

The Economics

1. Oil prices are relatively high because OPEC has restricted production and partly because refiners worldwide have been purchasing oil in vast quantities in anticipation of still higher prices. So what we have are very large inventories on hand. Unleaded gasoline stocks in this country alone are 30% higher than a year ago. Crude stocks in the U.S. are fairly close to their levels of last year and worldwide they are considerably higher than a year ago.

2. The value of the dollar has declined in the last 24 months relative to Japanese and some European currencies. Since OPEC oil is pegged in terms of the dollar, it has been relatively cheap and so this too has served as a stimulant to overseas refiners to purchase and thus build large stocks of crude.

3. The increasing self-assuredness on the part of OPEC that their December 1986 agreement has succeeded in controlling world oil markets is now leading to overproduction. Their second quarter quota is 15.8 million barrels per day but they are now producing between 16.5 to 17 million barrels per day. Saudi Arabia is becoming worried about the increasing tendency on the part of some OPEC members to step-up their cheating.

4. Higher levels of inflation are occurring. Last year the Consumer Price Index (CPI) was 1.9%. Now inflation is running between three and four percent and is projected by many to continue to climb. Higher inflation means higher interest rates which in turn means higher costs in storing oil. At some point this could lead to a divestiture of oil inventories. Hence, dumping of crude on world markets could occur.

5. The projected economic growth of the U.S. and other countries is sluggish at best. Worldwide GDP growth for non-communist countries is expected to run 2.5% next year. Thus, the demand for petroleum related products will be affected.

6. Alternative energy sources such as natural gas, of which large reserves exist around the world to operate utility and industrial plants, are currently on a btu parity value with various crudes. During those earlier years (the late 70's and early 80's) of relatively high oil prices, many existing utility and industrial users retrofitted to handle alternative fuels like natural gas. Further, newer plants built during the last few years have concentrated on diversifing so as to be able to burn alternative sources of energy should oil prices once again soar. The point is that competition from substitute fuels is more intense than ever and will likely act to restrain the upward movement of oil prices in the future.

7. Historically, demand for oil in this country has dropped and for the last several years to the tune of approximately 1 million barrels per day during the summer months. This same phenomena occurs throughout the rest of the world as well. The primary reason for this is destocking due to less heating oil usage. Since this has happened almost every year for over a quarter of a century, there is no reason to anticipate that the situation will change. The drop in demand for oil due to seasonal factors is just around the corner.

8. Refiners in the U.S. and elsewhere are now experiencing a squeeze on refinery or profit margins i.e. crude costs are going up relative to the price of the finished product. Refiners would like to raise product prices to cover their costs. But over time higher prices will act as a damper on demand.

In conjunction with the problem just mentioned is the fact that the OPEC quota of 15.8 million barrels per day does not apply to OPEC refinery operations of which there are a growing number. Hence, an increase in the output of refined products is taking place. This means more competition which should theoretically lead to lower prices for the finished product. This in turn translates into less demand for crude which means downward pressure on prices.

If arguments one through eight are considered as a whole, then the potential for oil prices faltering if not dropping is tremendous.

The Politics

1. The incentives for the thirteen member OPEC group to hold together their agreement of December 21, 1986 and even adjust it if necessary to insure success are fairly clear-cut. All members are experiencing a negative cash flow situation and some are deeply indebted to the other countries and the world banking system. Coupled with this is the fact that since 1982, with the drop in the price of oil, economic stagnation has plagued most of these countries. The political pressures from within these countries to rectify the situation are tremendous. But OPEC's struggle to succeed in holding together their December accord is fraught by divergent economic, religious, political and financial interests.

2. The Saudis have once again adopted the role of swing producer (i.e. adjusted output below their 4.1 million barrel per day quota in order to make the OPEC agreement viable) but we believe this is only temporary in light of their monetary situation. In fact, as I write this, the latest data available suggests that Saudi Arabia is producing at or close to their quota of 4.1 million barrels per day. They currently have the capability to produce more than twice this amount. The Saudis' projected deficit this year is expected to be $15 billion and they are rapidly drawing down their liquid assets. Their resolve to hold the line is there but they do not have the resources to continue much longer. More production cuts may be necessary if OPEC is to maintain its current price structure, but the economic realities may limit Saudi Arabia's ability to play the key role that it has in the past. And it must be kept in mind that Saudi Arabia is the only member of OPEC who has consistently assumed this responsibility in the past.

   The irony of this whole thing is that Saudi Arabia with its vast reserves (publicly known proven reserves are in excess of 167 billion barrels of oil) of low cost oil has the ability to flood world markets thus forcing out higher cost competitors in the process. The end result would be plunging oil prices but the Saudi's revenues would increase. Holding them in check at this stage of the game is the threat of aggression on the part of some of their neighbors who would be severely damaged economically, financially, and politically if the Saudis were to initiate such a plan.

3. The Iran/Iraq war is a thorn in the side of all concerned. The Iraqis absolutely refuse to go along with their allotted quota of 1.466 million barrels per day and are currently producing between 1.8 and 2 million barrels per day. This excludes production from the Saudi and Kuwaiti Neutral Zone which is utilized to finance the Iraq war. Moreover, a new pipeline from the northern part of the country across Turkey to the Mediterranean Sea is scheduled for completion this winter and will add an additional 500,000 barrels a day to Iraq's export capacity. Iraq also plans to build a second line to the Red Sea port of Yanbu in addition to the one just completed. This new line is expected to pump an additional 1.6 million barrels per day, 18 months from now. In view of the war effort and their indebtedness to the Saudi and Kuwait governments, Iraq has no choice but to go all out. It is literally a matter of survival.

   On the other hand if Iraq and Iran settle their war, production from these two countries could increase even more dramatically in an effort to rebuild their shattered economies.

4. After countless discussions over an extended period of time, OPEC has persuaded many non-OPEC countries that it is to their benefit to assist in the overall effort to control oil markets. Hence, the Soviet Union, Egypt, Norway, Mexico and others have contributed in some form or fashion but this support is wavering. And for some countries such as Mexico with large excess oil producing capacity and on the verge of financial collapse, except for the aid of the international banking system, the situation is highly intolerable.

5. The next OPEC meeting scheduled for the latter part of June will be a test to see if the current OPEC agreement survives. One of the major problems confronting OPEC, which Saudi Arabia and others recognize, is the confidence on the part of some that the problem has been resolved and that OPEC is once again in control. Hence, some members are demanding that a higher official price be established. Others such as the UAE are demanding that their respective quotas be increased and if not, they will increase production regardless. The UAE is one of those OPEC members that has been a chronic cheater this last year. Although third quarter OPEC quotas are scheduled to increase to 16.6 million barrels per day, the fundamentals of supply and demand do not support the current agreement let alone the additional demands of member countries or the increased production scheduled shortly to come on-line. Hence, in the last few weeks we have observed the more responsible members of OPEC attempting to prevail upon those less responsible to stay with the current agreement. The responsible members of OPEC are cognizant of the fact that the current agreement could come completly unraveled, and to ask for more is pushing the whole situation to the brink where once again the specter of plunging oil prices could become a reality.

Off to the sidelines are the non-OPEC countries confronted by their own economic, political, and financial problems, closely watching and doubting OPEC's resolve. Many of these countries refuse to make further concessions and are waiting to decipher the results of the next OPEC meeting. Even then, assuming a favorable OPEC accord, some of these countries might quietly seize the opportunity to move in and take advantage of the situation as they have so often in the past and abandon their own agreements with OPEC. The end result, of course, would be to undermine any OPEC accord.

The Conclusions

What does the above thumbnail sketch boil down to? It is quite obvious that there are few if any economic fundamentals suggesting that prices will continue to increase and many reasons why they might decrease. The situation is one where OPEC actions, via delicate political maneuvering to control supply and demand, serve to bolster prices. And this is an area where the cohesiveness of OPEC, as alluded to above, is beset by problems.

What does this portend relative to oil prices? Will they increase? If OPEC can restrain individual members from engaging in widespread violations of the current agreement, if non-OPEC countries continue to offer both tacit and overt support, if worldwide demand for petroleum products does not reverse itself, and if inventories are reduced throughout the summer, then prices should steady and perhaps increase next winter. But the professional traders who put their money on the line are betting that prices will drop this winter as is evident by trading in the futures market. This means that prudence dictates a cautious approach relative to the State's spending plans.

Having considered the aforementioned economic and political factors, plus pro and con arguments that I will not elaborate on here, and using what available data we have acquired since the last forecast to run through our computer models, the results of our analysis are outlined below.

The updated unrestricted revenue numbers are $1,674.1 million, $1,716.1 million, and $1,672.1 million for FY 87, FY 88, and FY 89 respectively. The changes, when compared to the March forecast, represent increases of $75.7 million, $183.5 million, and $82.4 million for FY 87, FY 88 and FY 89 respectively.

The FY 87 number must be adjusted upward by $67.2 million for TAPS legal expenses and refunds. When this adjustment is made, the bottom line for FY 87 then amounts to $1,741.3 million.

Please note that the FY 87 number represents the mean case whereas the figures for FY 88 and FY 89 represent the more conservative 30% case.

I have attached for your perusal the details of this forecast along with the basic underlying assumptions, a short history of the State's revenue picture, and charts indicating the nominal versus real dollar outlook.

Revenue Summary

In Thousands of Current Dollars

	FY 1987 Estimate June	FY 1988 Estimate June	FY 1989 Estimate June
Total General Fund Unrestricted Revenues (p. 9)	1,741,300	1,716,100	1,672,100
Total General Fund Restricted Revenues (p. 14)	406,700	406,700	408,600
Total General Fund Revenues (p. 14)	2,148,000	2,122,800	2,080,700
Alaska Permanent Fund (p. 15)	1,419,900	193,400	197,200

Key Assumptions for June 1987
Petroleum Revenue Projections
For FY 1987 - FY 1989

Fiscal Year	($/bbl) Mean Wellhead Value	($/bbl) 30% Wellhead Value	Mean TAPS Throughput (MMbbs/day)	Mean Rate Inflation %
1987	$7.22	$7.05	1.84	3.59
1988	$9.90	$8.81	1.87	5.41
1989	$10.44	$8.84	1.89	5.42

Sales Price for
Alaska North Slope Crude Oil at Los Angeles, California

	Weighted Average	30% Case	
FY 87	$13.16	$12.99	per barrel
FY 88	$14.70	$13.61	per barrel
FY 89	$14.83	$13.23	per barrel

Sales Price for
Alaska North Slope Crude Oil at Houston, Texas

	Weighted Average	30% Case	
FY 87	$14.38	$14.21	per barrel
FY 88	$15.89	$14.80	per barrel
FY 89	$16.04	$14.44	per barrel

Weighted Average TAPS Tariff

FY 87	$4.25	per barrel
FY 88	$3.59	per barrel
FY 89	$2.84	per barrel

General Fund Unrestricted Revenues

In Thousands of Current Dollars

Taxes	FY 1987 Estimate June	FY 1988 Estimate June	FY 1989 Estimate June
Income			
Corporate-General	14,000	15,000	15,500
Corporate-Petroleum	95,000	110,000	110,000
Gross Receipts			
Alaska Business License	2,000	2,000	2,000
Fish-Canned/Shorebased (1)	16,600	8,800	8,800
Fish-Floating	9,000	8,000	8,000
Seafood Marketing	1,400	1,200	1,200
Salmon Enhancement	4,200	3,800	3,800
Insurance Companies	23,600	22,000	21,000
Electric & Telephone Co-ops	1,900	1,900	1,900
Mining License Tax	300	400	400
Severance			
Oil & Gas Production (2)	624,300	637,900	630,400
Oil & Gas Conservation	800	700	700
Property			
Oil & Gas	109,000	80,000	71,000
Sale/Use			
Alcoholic Beverages	12,800	12,300	12,000
Fuel Taxes-Aviation (3)	8,100	7,800	7,700
Fuel Taxes-Highway (3)	17,500	18,900	18,700
Fuel Taxes-Marine (3)	5,000	4,700	4,600
Tobacco Products	6,600	6,400	6,300
Other			
Estate	1,100	700	700
Total Taxes	953,200	942,500	924,700
Licenses & Permits			
Business (4)	9,500	9,800	9,800
Non-Business	20,000	21,000	21,000
Total Licenses & Permits	29,500	30,800	30,800
Intergovernmental Receipts			
Federal Shared Revenues (5)	8,800	8,500	8,500
State Resource Revenue			
Sale/Use			
Bonus Sales (5) (6) (7) (8)	2,500	-0-	-0-
Investment Earnings (9)	160,000	100,000	65,000
Rents (5) (6) (7) (8)	5,500	6,000	6,500
Royalties (2) (5)	437,900	556,200	562,900
Sale of State Property	8,000	9,000	9,000
Gravel, Timber, etc. (10)	8,000	2,500	2,500
Facilities Related Charges			
Airports	1,600	1,600	1,600
Ferry System-Southeast	29,000	30,000	31,200
Ferry System-Southwest	3,800	3,900	4,000
Other	5,000	5,000	5,000

Service Related Charges			
Court System	5,300	5,400	5,600
Other	6,000	4,700	4,800
Total State Resources Revenues	672,600	724,300	698,100
Miscellaneous Revenues	10,000	10,000	10,000
Unrestricted Revenues	1,674,100	1,716,100	1,672,100
Plus: Special Settlements (11)	67,200	-0-	-0-
Total Unrestricted Revenues (12)	1,741,300	1,716,100	1,672,100

(1) The FY 88 and FY 89 figures reflect the recent enactment of a shorebased fisheries business tax credit per Ch. 79, SLA 1986, effective July 1, 1986. The canned fisheries business tax has been combined into a single category with the shorebased since the tax credits are applied against the aggregate return and cannot be allocated by specific processing type.

(2) The FY 87 forecast assumes the mean case. The forecasted numbers for FY 88 and FY 89 assume the 30 percent case; however, if the mean case had been utilized for FY 88 and FY 89, the production taxes would change to $717.9 million and $732.3 million, respectively. The royalty figures would change to $626.3 million and $666.8 million respectively. All of the forecasted numbers include the estimated TAPS settlement.

(3) In FY 86 and FY 87 the Department of Revenue began to levy marine fuel taxes on watercraft motor fuel users who purchased fuel out-of-state but consumed fuel in transit through the state. On March 30, 1987, the State adopted hearing decision #87-07 which established that marine fuel users who merely consumed fuel in transit could not be retroactively taxed. In line with this decision, the Department of Revenue is refunding with interest any taxes collected under the earlier interpretation. This forecast estimates that refunds plus interest will total $1.8 million and assumes that the majority of these refunds will be paid in FY 87. All motor fuel tax refunds are paid from the Highway Fuel Tax Account.

(4) Figures reflect the recent shift in occupational licensing fees and insurance permit fees from General Fund Unrestricted Revenues to Restricted Program Receipts.

(5) Net Permanent Fund contribution by Ch. 18 SLA 1980.

(6) Reflects state lease sales of $0.9 million held June 24, 1986 (Sale 49 - Cook Inlet), and $0.3 million held January 27, 1987 (Sale 51 - Prudhoe Bay Uplands). Due to the timing of collections, receipts from the June 1986 lease sale are shown as FY 87 revenue. The bonus figures represent the General Fund's 49.5 percent share.

(7) The FY 87 figure reflects the OCS "8(g)" revenue-sharing settlement of $4.0 million. The General Fund share represents 49.5 percent of the aforementioned total, whereas the Permanent Fund will receive 50.0 percent. The remaining 0.5 percent will be distributed to the Public School Fund.

(8) The Department of Natural Resources projects the following FY 87, FY 88, and FY 89 state lease sales: FY 87 (Sale 50 - Camden Bay); FY 88 (Sale 54 - Kuparuk Upland, Sale 55 - Demarcation Point); and FY 89 (Sale 52 - Beaufort Sea, Sale 56 - Alaska Peninsula). However, bonus bids are impossible to anticipate prior to sales; therefore, no estimates are provided.

(9) The investment earning projections presented reflect the current composition of General Fund assets and current interest rates. The projections also reflect a drawdown in the level of the General Fund assets over the projection period. The projected drawdown in assets is a result of projected revenue cash inflows consistent with the current revenue forecast and projected expenditure cash outflows consistent with the estimated FY 88 operating budget which was passed by the Legislature before any gubernatorial vetoes. Also, no capital budget appropriations for FY 88 were factored into the expenditure cash outflow projection because no capital budget was passed by the Legislature.

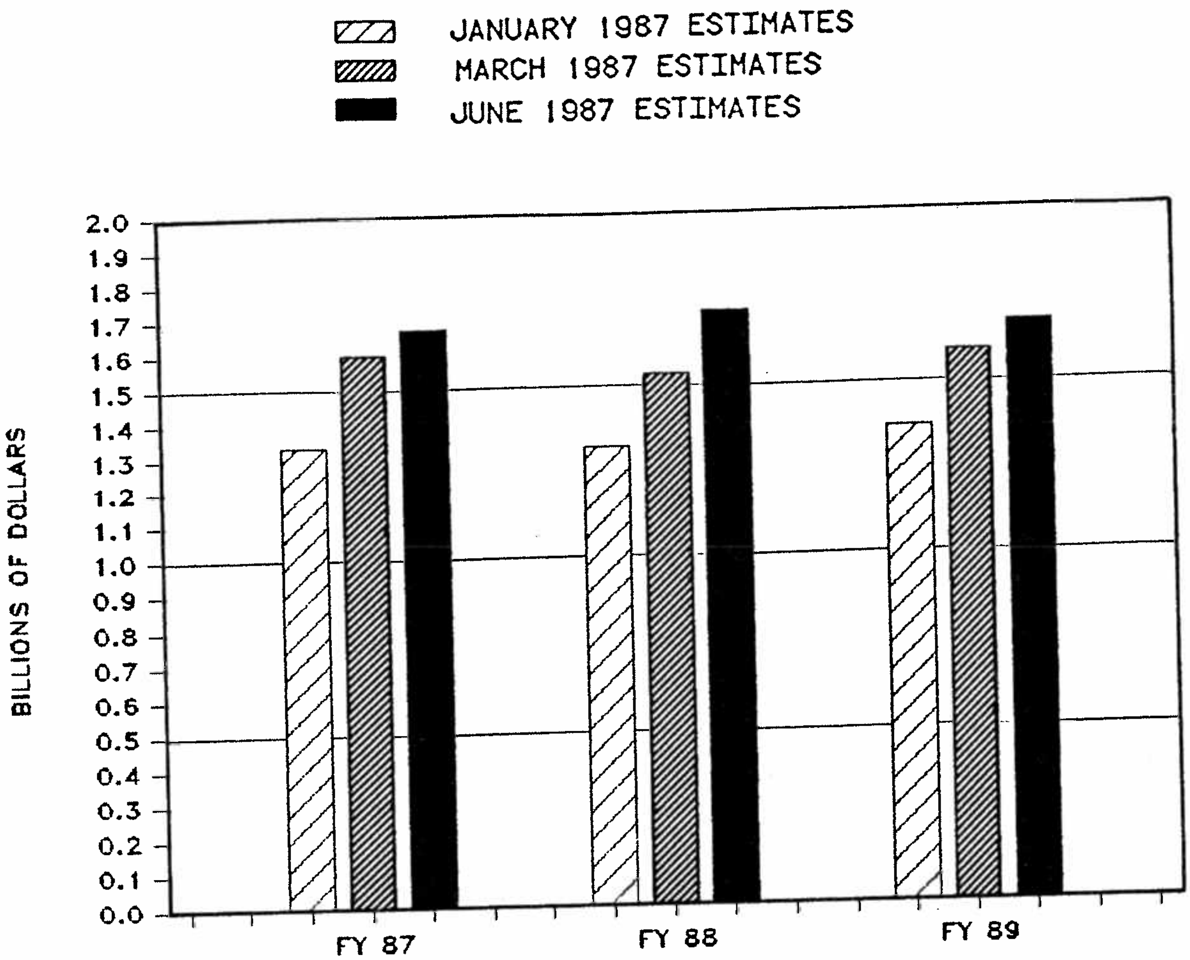
(10) The FY 87 estimate reflects increased construction of roads and drilling pads as projected by the Department of Natural Resources.

(11) The FY 87 figure reflects the estimated General Fund portion from refunds and expenses for prior years relative to the TAPS case ($65.7 million) and court costs relative to the ARCO settlement ($1.5 million). Consequently, $67.2 million is projected to be received during FY 87, but this figure is subject to future audits.

(12) The State, per AS 38.05.180, will be granting incentive credits against royalties, severance taxes, and rentals to the oil companies for drilling exploratory wells. The deduction is approximately $2.9 million which has not been subtracted from the aforementioned FY 87 figure of $1,741.3 million. Additional credits are anticipated in subsequent years.

Unrestricted Revenues

Historical Comparison

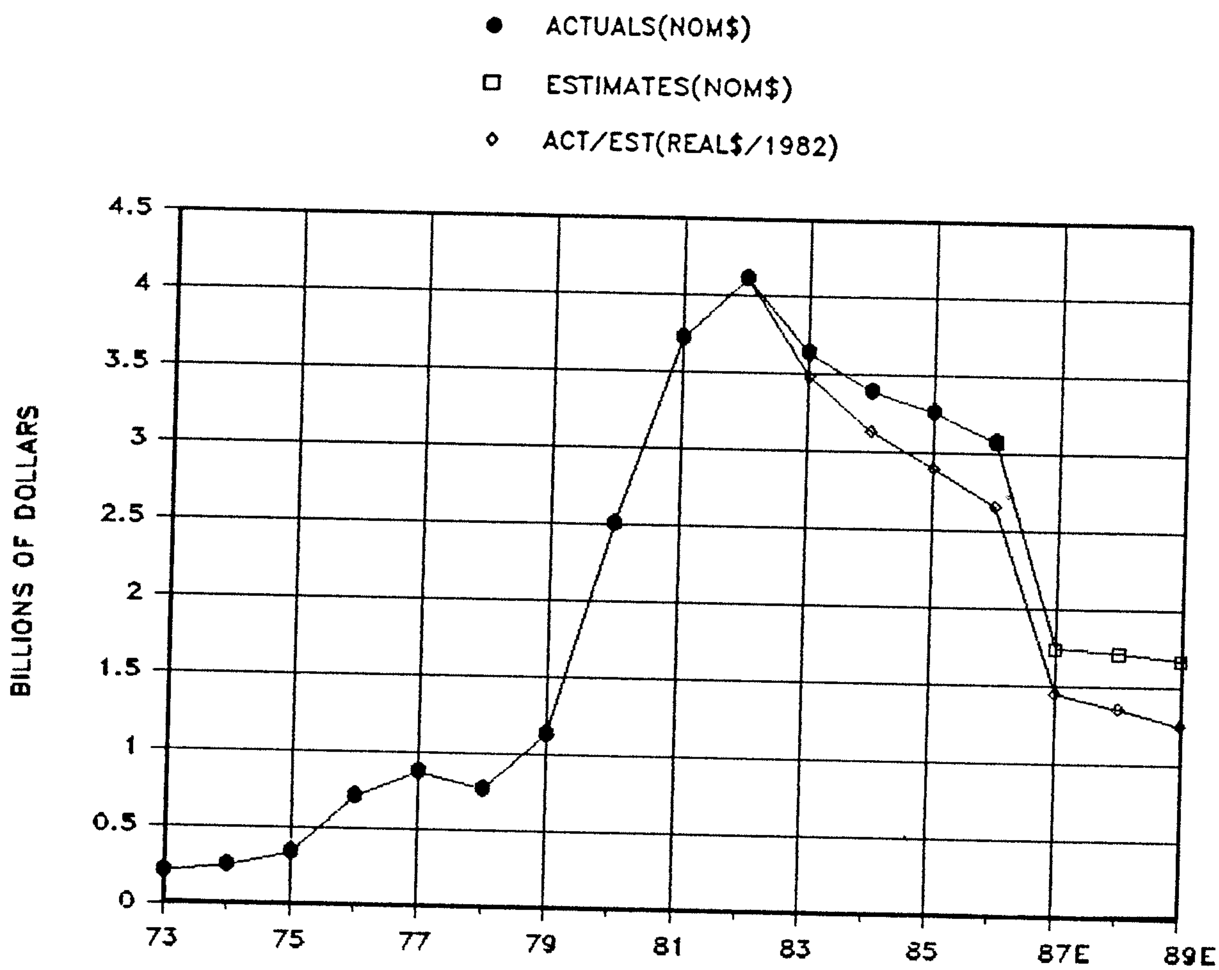


<u>FY 87 Estimates</u>	
January 1987	1.3342 billion
March 1987	1.5984 billion
June 1987	1.6741 billion
<u>FY 88 Estimates</u>	
January 1987	1.3250 billion
March 1987	1.5326 billion
June 1987	1.7161 billion
<u>FY 89 Estimates</u>	
January 1987	1.3739 billion
March 1987	1.5897 billion
June 1987	1.6721 billion

* IT SHOULD BE NOTED THAT ALL "SPECIAL SETTLEMENTS" HAVE BEEN EXCLUDED IN FY 87 IN ORDER TO BE CONSISTENT IN COMPARING PRIOR FORECASTS. THE FY 87 BOTTOM LINE WOULD INCLUDE AN ADDITIONAL $65.7 MILLION (TAPS REFUNDS/LEGAL EXPENSES) AND $1.5 MILLION (ARCO COURT COSTS).

Unrestricted Revenues

(NOMINAL DOLLARS VS. REAL DOLLARS)



Revenue Actuals (Nominal $)

FY 73	.2082 billion
FY 74	.2549 billion
FY 75	.3334 billion
FY 76	.7098 billion
FY 77	.8743 billion
FY 78	.7649 billion
FY 79	1.1330 billion
FY 80	2.5012 billion
FY 81	3.7182 billion
FY 82	4.1084 billion
FY 83	3.6310 billion
FY 84	3.3901 billion
FY 85	3.2600 billion
FY 86	3.0755 billion

Revenue Estimates (Nominal $)

FY 87	1.7413 billion
FY 88	1.7161 billion
FY 89	1.6721 billion

Revenue Actuals/Estimates (Real $/1982)

FY 82	4.1084 billion
FY 83	3.4826 billion
FY 84	3.1347 billion
FY 85	2.9002 billion
FY 86	2.6584 billion
FY 87	1.4532 billion
FY 88	1.3587 billion
FY 89	1.2559 billion

Revenue Breakdown

The total General Fund unrestricted revenues for Fiscal Years 1987, 1988, and 1989 are projected to be $1,741.3 million, $1,716.1 million, and $1,672.1 million, respectively.

The following table depicts a breakdown of General Fund unrestricted revenues in terms of petroleum versus non-petroleum revenues based on the June estimates:

Petroleum vs. Non-Petroleum Revenues

(In Millions of Current Dollars)

Petroleum Revenues

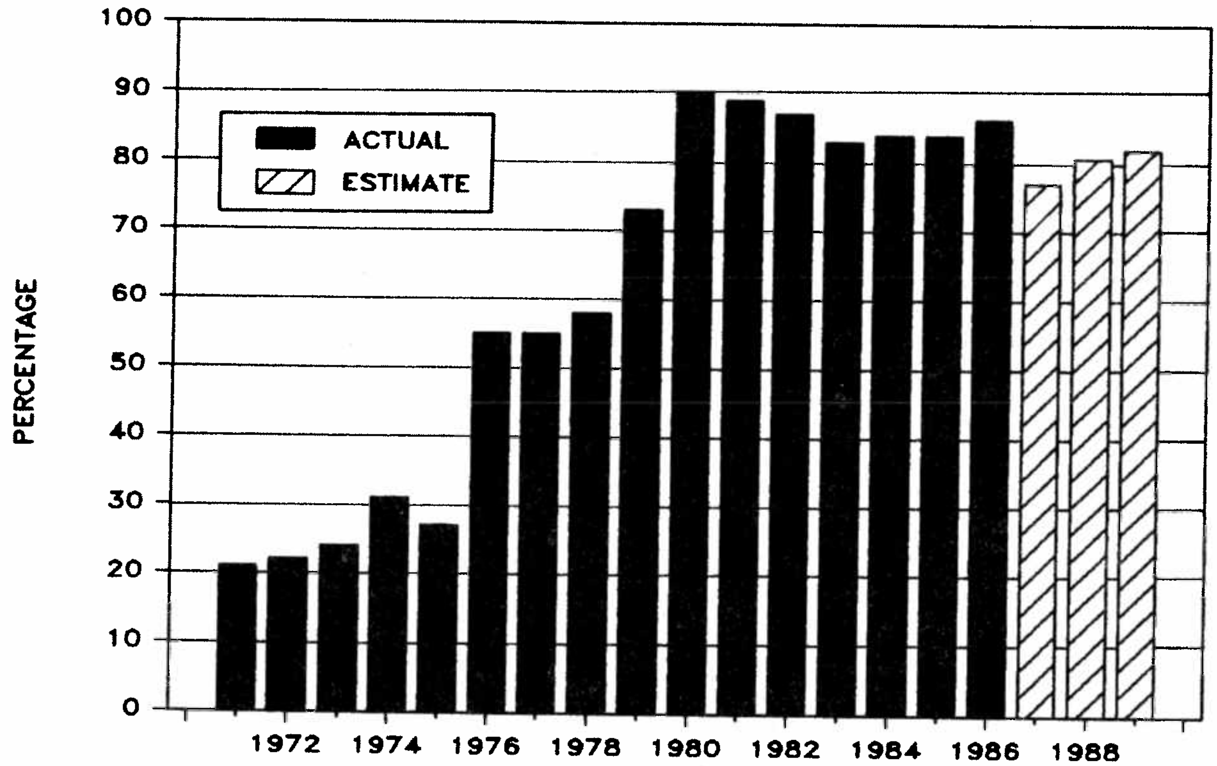
	FY 87	FY 88	FY 89
Corporate Petroleum	95.0	110.0	110.0
Severance Tax	625.1	638.6	631.1
Royalties	437.9	556.2	562.9
Property Tax	109.0	80.0	71.0
Bonus Sale	2.5	-0-	-0-
Rents	3.5	4.0	4.5
Intergovernmental Receipts	8.7	8.4	8.4
Special Settlements	67.2	-0-	-0-
	1,348.9	1,397.2	1,387.9

Non-Petroleum Revenues

	FY 87	FY 88	FY 89
Taxes	124.1	113.9	112.6
Licenses & Permits	29.5	30.8	30.8
Intergovernmental Receipts	.1	.1	.1
State Resources Revenues	228.7	164.1	130.7
Miscellaneous Revenues	10.0	10.0	10.0
	392.4	318.9	284.2
Total	1,741.3	1,716.1	1,672.1

Petroleum Revenues

Historical Comparison of General Fund Unrestricted Petroleum Revenues as Percentages of General Fund Unrestricted Revenues (in Millions of Current Dollars)



Fiscal Year	Total General Fund Unrestricted Revenues	Total General Fund Unrestricted Petroleum Revenues	Percent
1971	220.4	47.0	21
1972	219.2	48.4	22
1973	208.2	50.3	24
1974	254.9	80.2	31
1975	333.4	90.4	27
1976	709.8	391.5	55
1977	874.3	477.6	55
1978	764.9	441.5	58
1979	1,133.0	821.6	73
1980	2,501.2	2,256.5	90
1981	3,718.2	3,304.3	89
1982	4,108.4	3,574.8	87
1983	3,631.0	3,026.6	83
1984	3,390.1	2,861.6	84
1985	3,260.0	2,743.5	84
1986	3,075.5	2,657.9	86
1987*	1,741.3	1,348.9	77
1988*	1,716.1	1,397.2	81
1989*	1,672.1	1,387.9	83

* Estimate

Restricted Revenues

In Thousands of Current Dollars

	FY 1987 Estimate June	FY 1988 Estimate June	FY 1989 Estimate June
Federal Grants-in-Aid			
Education	46,800	47,800	47,800
Social Services	134,600	135,700	135,800
Health	3,800	3,800	3,800
Natural Resources	26,700	26,700	28,800
Pub. Prot./Admin. of Justice	9,200	9,000	9,200
Development/General Government	2,100	2,100	2,100
Transportation	150,000	150,000	150,000
Total Federal Grants-in-Aid	373,200	375,100	377,500
Other Grants-in-Aid			
Education	1,400	1,400	1,400
Health/Social Services	4,700	4,500	4,300
Natural Resources	2,800	2,800	2,700
Pub. Prot./Admin. of Justice	5,000	3,500	4,000
Development/General Government	6,100	6,000	5,300
Transportation	900	900	900
Total Other Grants-in-Aid	20,900	19,100	18,600
Miscellaneous Restricted Revenue-All Categories	12,600	12,500	12,500
Total Restricted Revenue 1/	406,700	406,700	408,600
Total Unrestricted Revenue	1,741,300	1,716,100	1,672,100
Total General Fund Revenue	2,148,000	2,122,800	2,080,700

1/ Restricted Revenue figures may not agree with those shown in the Governor's budget due to categorical differences between the budget and accounting system.

Special Funds

In Thousands of Current Dollars

	FY 1987 Estimate June	FY 1988 Estimate June	FY 1989 Estimate June
Enterprise Funds			
Agriculture Loan Fund	1,100	1,100	1,100
Alternative Tech. and Energy Loan Fund	500	500	500
Bulk Fuel Loan Fund	100	100	100
Child Care Facility Loan Fund	-0-	-0-	-0-
Commercial Fish Loan Fund	5,100	5,100	5,100
Fisheries Enhancement Loan Fund	100	100	100
Fisheries Product Loan Fund	-0-	-0-	-0-
Historical District Loan Fund	-0-	-0-	-0-
Housing Assistance Loan Fund	13,900	14,400	15,000
International Airport Revenue Fund	51,900	54,300	57,100
Medical Malpractice Loan Fund	100	100	100
Mining Loan Fund	400	400	400
Power Development Loan Fund	6,000	6,000	6,000
Power Project Loan Fund	2,300	2,500	2,500
Residential Energy Cons. Loan Fund	200	200	200
Rural Electrification Loan Fund	100	100	100
Scholarship Loan Fund	3,100	3,900	4,600
Small Business Loan Fund	100	100	100
Tourism Loan Fund	100	100	100
World War II Veterans Loan Fund	500	500	500
Total Enterprise Funds	85,600	89,500	93,600
Special Revenue Funds			
Alaska Permanent Fund (1) (2) (3) (4)	1,419,900 (3)	193,400	197,200
Public School Fund (1)(2) (3)	10,300	10,800	11,300
Revenue Sharing Fund	-0-	-0-	-0-
NPR-A Special Revenue Fund (1)	9,000	1,000	1,000
Fish and Game Fund	7,900	8,100	8,300
Disaster Relief Fund	-0-	-0-	-0-
Marine Coastal Damage Fund	-0-	-0-	-0-
School Fund	3,000	2,900	2,800
Training & Building Fund	600	600	500
Total Special Revenue Funds	1,450,700	216,800	221,100
Total Special Funds	1,536,300	306,300	314,700

(1) FY 87 figure reflects reallocation of funds from the Permanent Fund ($24.3 million) and the Public School Fund ($0.2 million) to the NPRA Fund per Ch. 53, SLA 1986.

(2) Not included in the FY 87 figures are additional estimated amounts from refunds and expenses for prior years, relative to the TAPS case, due the Alaska Permanent Fund (approximately $9.3 million) and the Public School Fund (approximately $0.2 million respectively).

(3) FY 87 figure reflects the OCS "8(g)" revenue sharing settlement payments to the Permanent Fund ($2.0 million) and the Public School Fund ($0.02 million).

4) The FY 87 figure reflects Ch. 25, SLA 1986 which appropriated approximately $1.264.4 million from the Undistributed Income Account to the Permanent Fund principal, effective July 1, 1986.

Alaska Permanent Fund

In Thousands of Current Dollars

Permanent Fund Principal

FY	Mineral Revenues	Appropriations	Inflation Proofing	Total Contributions(1)	Balance (1)
1977	4,000	-0-	-0-	4,000	4,000
1978	50,500	-0-	-0-	50,500	54,500
1979	83,900	-0-	-0-	83,900	138,400
1980	344,800 (2)	-0-	-0-	344,800	483,200
1981	385,100	900,000	-0-	1,285,300	1,768,500
1982	400,500	800,000	-0-	1,200,500	2,969,000
1983	421,000	400,000	231,200	1,052,200	4,021,200
1984	366,200	300,000	150,900	817,100	4,838,300
1985	368,000	300,000	234,600	902,600	5,740,900
1986	323,500 (3)	-0-	216,400	539,900	6,280,800
1987	111,700 (4)	1,264,400 (5)	-0-	1,376,100 (4)	7,656,900 (4)

Earnings Distribution

FY	General Fund	Dividend Account	Inflation Proofing	Undistributed Income Account	Total Earnings
1977	-0-	-0-	-0-	-0-	-0-
1978	1,300	-0-	-0-	-0-	1,300
1979	6,500	-0-	-0-	-0-	6,500
1980	11,800	11,800	-0-	-0-	23,700
1981	27,500	27,500	-0-	31,200	86,200
1982	71,100	71,100	-0-	174,700	317,000
1983	109,500 (6)	107,900	231,200	22,500	471,100
1984	-0-	175,000	150,900	203,600	529,500
1985	-0-	217,300	234,600	205,900	657,800
1986	-0-	303,400 (7)	216,400	501,100	1,020,900

(1) Includes transfer of net investment gains/losses to principal and citizen contributions.

(2) Includes $114.5 million as 25 percent of bonuses and rentals for the undisputed state portion of the Beaufort Sea Lease Sale. Litigation over the legality of that sale is still pending.

(3) Reflects reallocation of funds ($24.3 million) from the Permanent Fund to the NPRA Fund, per Ch. 53, SLA 1986.

(4) Represents cumulative balance as of April 30, 1987.

(5) Reflects Ch. 25, SLA 1986 which appropriated $1,264.4 million from the Undistributed Income Account (Earnings Reserve Account) to the Permanent Fund Principal, effective July 1, 1986.

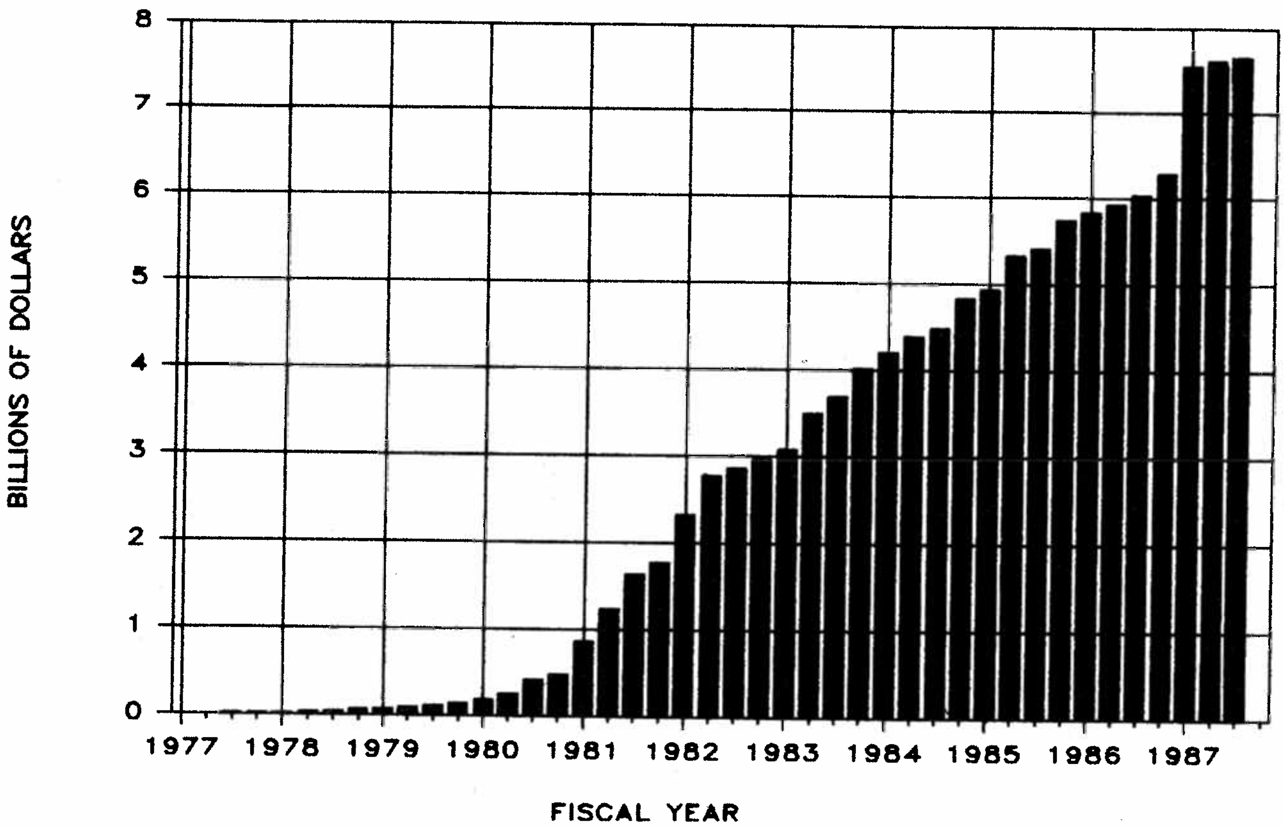
(6) Ch. 81, SLA 1982 provided transitional procedures whereby an amount equal to the distributable income for 1983 would be transferred from the Undistributed Income Account to the General Fund. This would then be the final General Fund contribution which is not destined for the dividend program.

(7) Ch. 129, SLA 1986 appropriated $303,424,842 from net income to the Dividend Account for payment of 1986 Permanent Fund dividends ($295,885,142 for 1986 dividend payments, $3,328,000 for FY 87 administrative costs, and $4,211,700 for hold harmless costs).

NOTE: Long range projections on the Permanent Fund are provided in Table 3, pages 23-26.

Alaska Permanent Fund

Historical Comparison of Cumulative Balance



Alaska Permanent Fund

The Alaska Permanent Fund was established by a constitutional amendment effective February 21, 1977. The amendment stated that contributions to the fund must consist of at least 25 percent of mineral lease rentals, royalties, royalty sale proceeds, Federal mineral revenue sharing payments and bonuses received by the State. Enacted legislation (Ch. 18 SLA 1980) has modified this contribution rate to the Permanent Fund from 25 percent to 50 percent. As a result, any future revenues transferable from Beaufort Sea production and any future lease sale bonuses will be subject to the 50 percent rate. During FY 1981, a special appropriation (Ch. 35 SLA 1980) appropriated $900 million from the General Fund to the Permanent Fund. Similarly, an additional $1.8 billion was appropriated (Ch. 61 SLA 1981) for FY 1982 with payments beginning July 1, 1981; however, this appropriation was legislatively amended (Ch. 101 SLA 1982) thus permitting deposit of only $800 million in FY 82 and an additional deposit of $400 million in FY 83. An additional $100 million of this appropriation was deposited in the Permanent Fund during August, 1983, as well as, another $100 million each during December, 1983, April, 1984, October, 1984 and a final $200 million in December, 1984 thus fully satisfying the $1.8 billion appropriation in 1981. Recently Ch. 25, SLA 1986 appropriated $1,264.4 million from the undistributed income account to the principal of the Permanent Fund, effective July 1, 1986.

LONG-RANGE REVENUE PROJECTIONS

The following tables are part of the output from a simulation model named the Long-Run Fiscal Model (LRFM). These estimates are updated quarterly. Most of the revenue categories of this model are projected with other econometric or simulation models and are exogenous to the LRFM. In particular, the Research Section's model PETREV projected the severance taxes and royalties. A short-term oil and gas income tax model (OGIT) projected that tax through FY90 and a longer term model (PETREVD2) projected it through FY2005. The non-petroleum revenues other than interest were largely projected using a short-term econometric model (REVMOD) through FY89, then as an aggregate extended to FY2005 in LRFM. Two conditions are worth notice when using these projections. Those numbers in the near future can be regarded with greater confidence than those further out and all these projections are revised quarterly and are subject to change.

The assumptions of the LRFM pertinent to both of these tables follow.

1. The 30 percent revenue scenario of the PETREV model is used for petroleum severance taxes and royalties (unless otherwise noted).
2. The real non-petroleum, non-interest revenues' (explained below) growth rate will be zero percent from FY89 through FY2005.
3. The fiscal year inflation rate (based on the U. S. Consumer Price Index for All Urban Consumers) will be 3.59 percent for FY87, 5.41 percent for FY88 and FY89, 6.37 percent for FY90 through FY94, 6.65 for FY95 through FY99, and 6.81 thereafter.
4. The real Permanent Fund (PF) interest rate on a fiscal year basis is 12.06 for FY86 and will be 9.90 in FY87, 5.00 in FY88, 4.50 in FY89, and 4.00 percent thereafter.
5. The Legislature will choose to appropriate exactly one-half of the distributable earnings of the PF for Permanent Fund Dividends.
6. The Legislature will choose not to appropriate the Earnings Reserve Account of the Permanent Fund.

Table 1 summarizes the source of estimated revenues and their destination, i.e. General Fund, Permanent Fund or other Special Funds. The second through eighth column of the first table are petroleum revenues and are summarized in column nine. The tenth column is the sum of all excise taxes (eg. alcohol and fuel taxes), fees for licenses and permits, intergovernmental receipts, state non-petroleum resource revenues and other miscellaneous revenues. Investment and interest revenues are presented in the eleventh column of the table. Interest revenues are the sum of General Fund and Permanent Fund earnings. These two are broken out in the last two columns of this table (col. 24 & 25).

The sum of all revenues is the twelfth (repeated in the 14th) column of the table. This includes some revenues not subject to the budgetary process. In particular, Permanent Fund contributions (col. 18) and earnings (col. 25) must be subtracted along with special fund contributions (col. 15-17) to get the General Fund unrestricted revenues subject to the budgetary process. This number is presented in column 19. Some of the subtracted PF earnings, in particular, those used for PF dividends or deposited in the Earnings Reserve Account, can be appropriated.

Permanent Fund contributions are determined from royalties, mineral rents and bonus sales (col. 5-7, respectively). Columns 21 and 22 indicate which royalty amounts are subject to 25 or 50 percent contribution rates to the Permanent Fund. The total royalty contribution is presented in column 23. This is added to the bonus sale contributions (50 percent) and mineral rent contributions (overall rate varies since rents are subject to either the 25 or 50 percent rate depending of the effective date of the lease) to get the total PF contribution (col. 18). Contribution rates are mandated in AS.37.13.010.

TABLE 1
(millions of current dollars unless otherwise noted)

(1) FY	(2) SEVERANCE TAX	(3) PROPERTY TAX	(4) OIL&GAS INC TAX*	(5) ROYALTIES*	(6) MINERAL RENTS	(7) BONUS SALES	(8) SPECIAL PETRO SETTLEMENTS	(9) PETROLEUM REVENUES	(10) NON-PETR NON-INTR REVENUES	(11) INTEREST REVENUES	(12) TOTAL REVS INCL PERM FUND
81	1170.20	143.00	860.10	1501.60	7.90	14.10	0.00	3696.90	186.10	377.70	4260.70
82	1581.70	142.70	668.90	1553.20	26.40	10.30	0.00	3983.20	209.00	693.10	4885.30
83	1493.70	152.60	236.00	1447.40	54.20	73.10	0.00	3457.00	228.60	846.90	4532.50
84	1393.10	131.00	265.10	1409.00	21.90	16.70	0.00	3236.80	245.80	812.20	4294.80
85	1389.40	128.40	168.60	1390.30	23.70	23.60	0.00	3124.00	283.00	891.30	4298.30
86	1108.40	113.50	133.91	1165.70	42.80	70.10	392.80	3027.21	222.40	1216.04	4465.65
87*	625.11	109.00	95.00	587.79	27.30	5.20	67.20	1516.60	232.40	1215.50	2964.50
88	638.57	80.00	110.00	747.04	19.80	0.00	0.00	1595.41	218.90	1003.58	2817.89
89	631.11	71.00	110.00	757.11	20.80	0.00	0.00	1590.02	219.20	992.11	2801.33
90	632.16	69.00	116.83	787.11	19.76	0.00	0.00	1624.86	233.16	1051.48	2909.49
91	552.64	67.00	120.46	717.37	18.77	0.00	0.00	1476.24	248.00	1126.07	2850.31
92	584.38	65.10	120.21	765.36	17.83	0.00	0.00	1552.89	263.81	1210.23	3026.92
93	599.49	57.20	122.04	797.74	16.94	0.00	0.00	1593.41	280.62	1301.76	3175.79
94	596.53	50.60	124.50	803.37	16.09	0.00	0.00	1591.09	298.51	1398.89	3288.49
95	565.24	43.80	124.66	774.56	15.29	0.00	0.00	1523.55	318.36	1540.99	3382.90
96	514.22	38.90	120.59	740.14	14.53	0.00	0.00	1428.38	339.53	1654.15	3422.05
97	476.93	34.50	117.97	710.00	13.80	0.00	0.00	1353.20	362.11	1773.04	3488.35
98	444.80	29.90	118.33	685.36	13.11	0.00	0.00	1291.50	386.19	1898.14	3575.82
99	406.16	24.70	118.05	656.66	12.45	0.00	0.00	1218.02	411.87	2029.70	3659.59
00	375.78	23.00	117.18	635.01	11.83	0.00	0.00	1162.80	439.94	2202.32	3805.07
01	354.82	26.60	115.47	605.52	11.24	0.00	0.00	1113.64	469.92	2353.97	3937.54
02	333.66	23.00	112.83	572.59	10.68	0.00	0.00	1052.76	501.95	2513.36	4068.06
03	323.16	19.20	110.52	559.24	10.14	0.00	0.00	1022.26	536.16	2681.54	4239.96
04	310.69	15.10	108.47	540.17	9.64	0.00	0.00	984.06	572.69	2858.84	4415.59
05	306.71	10.40	107.46	523.71	9.15	0.00	0.00	957.44	611.72	3045.87	4615.04

----

*In 1987, the mean values are used for all cases.

(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
						-------REVENUES--------		-ROYALTIES SUBJ TO-		ROYALTY	-INTEREST EARNINGS-	
FY	TOTAL REVS INCL PERM FUND	PUB SCH FUND	NPR-A FUND	RENEW RES FUNDS	PERM FUND CONTRI	GEN FUND UNRESTRD	TOTAL SUSTAIN	-PERM FUND @25 PCT	CONTRIB- @50 PCT	PF CONTRIB	GEN FUND**	PERM FUND
81*	4260.70	7.50	0.00	74.30	385.13	3718.17	563.80	1501.60	.00	358.30	227.80	149.90
82*	4885.30	8.00	0.00	0.00	400.52	4108.38	902.10	1553.20	.00	388.30	324.70	368.40
83*	4532.50	9.40	0.00	0.00	421.00	3631.00	844.30	1447.40	.00	361.80	375.80	471.10
84	4294.80	9.00	0.00	0.00	366.28	3390.02	907.00	1409.00	.00	354.60	282.70	529.50
85	4298.30	7.10	5.40	0.00	368.00	3260.00	939.70	1350.30	.00	349.50	233.50	657.80
86	4465.65	6.63	16.70	0.00	323.02	3074.96	1222.00	1117.81	47.89	303.40	195.20	1020.84
87	2964.50	3.14	9.00	0.00	155.54	1741.33	1299.92	587.71	0.08	146.97	160.00	1055.50
88	2817.89	3.84	1.00	0.00	193.38	1716.10	771.03	745.66	1.38	187.10	100.00	903.58
89	2801.33	3.89	1.00	0.00	197.15	1672.19	740.75	752.61	4.50	190.40	65.00	927.11
90	2909.49	4.04	1.00	0.00	204.58	1662.15	732.51	782.25	4.86	197.99	13.74	1037.73
91	2850.31	3.69	1.00	0.00	186.79	1545.24	730.77	712.51	4.86	180.56	12.48	1113.59
92	3026.92	3.93	1.00	0.00	200.10	1624.79	776.63	753.92	11.44	194.20	13.12	1197.10
93	3175.79	4.09	1.00	0.00	209.47	1672.93	826.76	779.96	17.78	203.88	13.45	1288.31
94	3288.49	4.12	0.50	0.00	210.53	1687.87	880.20	786.25	17.12	205.12	13.42	1385.47
95	3382.90	3.97	0.00	0.00	204.52	1646.66	957.76	752.06	22.50	199.27	13.24	1527.75
96	3422.05	3.80	0.00	0.00	196.31	1580.19	1000.14	714.96	25.18	191.33	12.39	1641.75
97	3488.35	3.65	0.00	0.00	189.16	1534.23	1065.70	682.27	27.73	184.43	11.73	1761.31
98	3575.82	3.53	0.00	0.00	187.67	1497.64	1258.69	637.96	47.40	183.19	11.16	1886.98
99	3659.59	3.38	0.00	0.00	183.68	1453.32	1350.25	595.61	61.05	179.43	10.49	2019.21
00	3805.07	3.28	0.00	0.00	180.70	1428.94	1447.76	563.33	71.68	176.67	10.17	2192.15
01	3937.54	3.13	0.00	0.00	173.46	1416.72	1551.07	532.49	73.03	169.64	9.74	2344.23
02	4068.06	2.96	0.00	0.00	165.82	1395.12	1660.55	496.40	76.19	162.20	9.20	2504.16
03	4239.96	2.90	0.00	0.00	163.31	1401.13	1776.98	478.98	80.26	159.87	8.92	2672.62
04	4415.59	2.80	0.00	0.00	159.59	1402.94	1900.43	455.00	85.17	156.33	8.58	2850.26
05	4615.04	2.72	0.00	0.00	156.27	1418.51	2027.99	434.67	89.04	153.19	8.34	3037.53

** GF interest revenues include the amounts transferred from the PF earnings in these years.
Interest earnings totals therefore double count the transfer which is detailed in col. 18 of Table 3.

Table 2 presents similar information to Table 1; however, the results are in millions of 1981 dollars. This type of presentation allows for comparisons between years of real dollars, rather than inflation impacted figures.

TABLE 2
(millions of real 1981$ unless otherwise noted)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			REAL 1981 DOLLARS							REAL 1982 $	
FY	ANCHORAGE CPI	INFLATION RATE	PETRO REVENUES	NON-PETRO NON-INTER	INTEREST EARNINGS	TOT REVS INCL PF	PERM FUND CONTRIB	GEN FUND UNRESTRD	TOT REVS SUSTAIN	ANCH CPI	GEN FUND UNRESTRD
81	1.000	0.1178	3696.90	186.10	377.70	4260.70	385.13	3718.17	563.80	0.947	3926.39
82	1.056	0.0846	3771.97	197.92	656.34	4626.23	379.28	3890.51	854.26	1.000	4108.38
83	1.101	0.0430	3139.87	207.63	769.21	4116.71	382.38	3297.91	766.85	1.043	3482.59
84	1.142	0.0369	2834.33	215.24	711.21	3760.77	320.74	2968.49	794.22	1.081	3134.73
85	1.187	0.0389	2631.84	238.42	750.88	3621.15	310.03	2746.42	791.66	1.124	2900.22
86	1.221	0.0290	2478.33	182.08	995.55	3655.95	264.45	2517.42	1000.43	1.157	2658.39
87	1.265	0.0359	1198.57	183.67	960.61	2342.85	122.92	1376.17	1027.33	1.198	1453.23
88	1.334	0.0541	1196.14	164.12	752.43	2112.69	144.98	1286.63	578.08	1.263	1358.68
89	1.406	0.0542	1130.81	155.89	705.58	1992.29	140.21	1189.25	526.82	1.332	1255.85
90	1.496	0.0637	1086.43	155.89	703.04	1945.36	136.78	1111.36	489.77	1.416	1173.59
91	1.591	0.0637	927.97	155.89	707.86	1791.72	117.42	971.35	459.37	1.506	1025.74
92	1.692	0.0637	917.66	155.89	715.17	1788.73	118.25	960.15	458.94	1.602	1013.92
93	1.800	0.0637	885.19	155.89	723.16	1764.25	116.37	929.36	459.29	1.705	981.40
94	1.915	0.0637	830.94	155.89	730.56	1717.39	109.95	881.48	459.68	1.813	930.84
95	2.042	0.0665	746.05	155.89	754.59	1656.53	100.15	806.33	468.99	1.934	851.49
96	2.178	0.0665	655.83	155.89	759.49	1571.22	90.14	725.53	459.21	2.062	766.16
97	2.323	0.0665	582.58	155.89	763.32	1501.79	81.44	660.51	458.80	2.200	697.50
98	2.477	0.0665	521.34	155.89	766.22	1443.46	75.76	604.56	508.10	2.346	638.41
99	2.642	0.0665	461.02	155.89	768.24	1385.16	69.52	550.08	511.07	2.502	580.89
00	2.822	0.0681	412.04	155.89	780.40	1348.33	64.03	506.35	513.02	2.672	534.70
01	3.014	0.0681	369.44	155.89	780.91	1306.25	57.54	469.99	514.56	2.855	496.31
02	3.220	0.0681	326.96	155.89	780.59	1263.45	51.50	433.29	515.73	3.049	457.56
03	3.439	0.0681	297.24	155.89	779.69	1232.82	47.48	407.40	516.68	3.257	430.21
04	3.674	0.0681	267.87	155.89	778.21	1201.97	43.44	381.90	517.32	3.479	403.28
05	3.924	0.0681	244.00	155.89	776.22	1176.11	39.82	361.50	516.82	3.716	381.74

(13)	(14)	(15)	(16)
	PERM FUND		
	PRINCIPAL	-INTEREST EARNINGS-	
FY	BALANCE	GEN FUND	PERM FUND
81	1768.60	227.8	149.90
82	2811.67	307.5	348.86
83	3652.43	341.3	427.88
84	4236.87	247.5	463.66
85	4836.65	196.7	554.17
86	5141.79	159.8	835.74
87	6202.53	126.4	834.16
88	6367.66	75.0	677.45
89	6515.16	46.2	659.36
90	6631.14	9.2	693.86
91	6756.03	7.8	700.01
92	6881.58	7.8	707.41
93	7005.36	7.5	715.69
94	7122.32	7.0	723.55
95	7219.86	6.5	748.11
96	7315.99	5.7	753.80
97	7401.66	5.0	758.27
98	7429.92	4.5	761.72
99	7449.23	4.0	764.27
00	7461.26	3.6	776.79
01	7465.01	3.2	777.68
02	7460.99	2.9	777.74
03	7451.35	2.6	777.10
04	7436.17	2.3	775.87
05	7416.85	2.1	774.10

able 3 summarizes activity in the Permanent Fund (PF) including the ... pal and Earnings Reserve Account (ERA)*. It also presents activit... the Dividend Account of the General Fund. Four things should be noted:

1. These numbers are updated quarterly as new revenue estimates become available.
2. The simulation of the fund flows required for the modelling process have required simplification of the accounting calculations and may render slightly different results from PF Corporation financial reports.
3. The assumptions noted above are important to the results in this table.
4. Final digits may differ from manual calculations due to rounding in the model.

Columns 2, 3 and 5 indicate sources of funds to the PF, i.e. contributions from current revenue, special appropriations from the GF or other funds, and inflation proofing from PF earnings. PF contributions are derived from estimates of royalties, mineral rents and bonus sales (col. 5-7, Table 1) multiplied by the statutorially mandated contribution rate (AS.37.13.010). Special PF appropriations are determined by the Legislature and Governor. PF inflation proofing is derived by multiplying the PF intermediate principal balance (col. 4) by the calendar year inflation rate (U. S. Consumer Price Index for all Urban Consumers). When these three fund additions are added to the prior year's final principal balance (col. 6) the result equals the current year's final principal balance. For example, for FY87 the final principal balance is \$7848.32m = \$6280.57m + \$155.54m + \$1264.24m + \$147.98m. The inflation proofing (col. 5) part of this total is the estimated 1986 calendar year inflation rate, 1.9217 percent multiplied by the intermediate principal balance of \$7700.34m resulting in \$147.98m. The real value of the final PF principal balance (i.e. in 1981 dollars) is \$6202.53m.

Total income earnings, (col. 7) is the sum of earnings on the balances of the PF principal and ERA (col. 6 & 21, respectively). This is estimated by multiplying the estimated PF interest rate by the estimated average PF balance. This balance is the average of the prior year's final principal balance (col. 6) and current year's intermediate principal balance (col. 4) plus the prior year's ERA balance (col. 21). For FY88 this average balance is (\$7848.32m + \$8041.70m) / 2 plus \$515.38m, or \$8460.39m. When multiplied by the estimated PF interest rate for FY88 of 10.68 percent, total income earnings of \$903.58m are the result.

Distributable earnings (col. 8) are the basis for figuring the amount available for PF dividends (PFD). Distributable earnings (through FY86***) are a five year moving average of current and the four previous years' total earnings. Half this amount is intended for payment in the following fiscal year of Dividend Program costs (col. 10), although more or less can be appropriated by the Legislature.*** Distributable earnings for FY87 are the sum of \$471.10m + \$529.50m + \$657.80m + \$1020.84m + \$1055.50m multiplied by 0.21 or \$784.30m. Estimated earnings transfer and dividend program costs are half of this or \$392.15m (col.10) which will be distributed for the PFD's claimed for the year indicated in col. 11.

PF total income earnings (col. 7) less the earnings transfer (col. 10) and less ERA earnings (col. 17) leaves those PF earnings available for inflation proofing (col. 9 also col. 15). In FY87 this amount is \$1055.50m - \$392.15m - \$0.00m** = \$663.36m.

The amount required to fully inflation proof the PF is indicated in column 22. The derivation of this amount is described in the first paragraph on this table. The amount available from current earnings is presented in column 15. If the difference is positive, indicating an abundance of funds for inflation proofing, the balance is deposited as principal to the ERA as indicated by positive entries in column 16. For FY87, \$147.98m is required to inflation proof the PF and there are more than sufficient current earnings (\$663.36m) so the balance (\$515.38m) is deposited in the ERA. A negative difference is made up by a withdrawal from the deposits of the ERA as presented in the ERA deposit or withdrawal column (col. 16, negative entries). If there are insufficient current earnings to inflation proof and the deposits to the ERA are depleted (col. 19 is zero), the actual inflation proofing deposit differs from what is required for full inflation proofing. The extent of the shortfall is indicated in column 23. This condition occurs partially in FY97 (a shortfall of -\$2.74m = \$1072.19m - \$1069.45m) and continues throughout the forecast period.

----

* Name changed effective July 1, 1986 by Ch. 28 SLA 1986.

** Ch 25 SLA 1986 appropriated the 1987 Undistributed Income Account (now Earnings Reserve Account) to the principal of the Permanent Fund.

*** Ch. 28 SLA 1986 changed the method of calculation for distributable earnings to 21 percent of the average of the current and the four previous years' net income.

The balance in the ERA is invested and also earns interest as presented in column 17. Any appropriations from the ERA by the Legislature are presented in column 18. The previous year's ERA balance plus ERA deposit or withdrawal plus ERA earnings less ERA budget results in the current year's ERA balance (col. 21). The FY87 ERA balance of \$515.38m is the sum of \$1264.24m + \$515.38m + \$0.00m* - \$1264.24m*. This balance can be presented as an accumulation of deposits (income or principal) and earnings, which are listed separately in columns 19 and 20.

TABLE 3
(millions of current dollars unless otherwise noted)

(1) FY	(2) -PERMANENT CONTRI	(3) FUND- APPROP*	(4) INTERMED PRINCPAL BALANCE	(5) INFLATION PROOFING	(6) FINAL PRINCPAL BALANCE	(7) TOTAL INCOME EARNINGS	(8) DISTR.BL EARNINGS	(9) INCOME AVAIL FOR INFL PROOF	(10) DIVIDEND PROGRAM COSTS	(11) PFD CLAIM YEAR	(12) PERM FUND PRINCIPAL REAL 81$
81	385.13	900.00	1768.34	0.00	1768.60	149.90	91.15	122.40	0.00	80	1768.60
82	400.52	800.00	2969.12	0.00	2969.12	368.40	183.60	297.90	0.00	81	2811.67
83	421.00	400.00	3790.12	231.20	4021.32	471.10	255.50	332.15	481.55	82	3652.43
84	366.28	300.00	4687.60	150.90	4838.50	529.50	310.30	335.83	190.90	83	4236.87
85	368.00	300.00	5506.50	234.60	5741.10	657.80	435.34	376.42	163.10	84	4836.65
86	323.02	0.00	6064.12	216.44	6280.57	1020.84	609.53	716.48	217.67	85	5141.79
87	155.54	1264.24	7700.34	147.98	7848.32	1055.50	784.30	663.36	304.36	86	6202.53
88	193.38	0.00	8041.70	451.45	8493.15	903.58	875.12	466.02	392.15	87	6367.66
89	197.15	0.00	8690.30	470.56	9160.86	927.11	958.62	447.80	437.56	88	6515.16
90	204.58	0.00	9365.44	552.12	9917.56	1037.73	1038.40	518.53	479.31	89	6631.14
91	186.79	0.00	10104.35	643.30	10747.65	1113.59	1057.88	584.65	519.20	90	6756.03
92	200.10	0.00	10947.75	697.41	11645.16	1197.10	1087.62	653.30	528.94	91	6881.58
93	209.47	0.00	11854.63	755.61	12610.24	1288.31	1168.41	704.10	543.81	92	7005.36
94	210.53	0.00	12820.78	817.20	13637.98	1385.47	1264.66	753.14	584.20	93	7122.32
95	204.52	0.00	13842.49	901.59	14744.09	1527.75	1367.57	843.97	632.33	94	7219.86
96	196.31	0.00	14940.40	993.54	15933.94	1641.75	1478.48	902.51	683.78	95	7315.99
97	189.16	0.00	16123.09	1069.45	17192.54	1761.31	1596.96	962.83	739.24	96	7401.66
98	187.67	0.00	17380.21	1025.64	18405.85	1886.98	1722.69	1025.64	798.48	97	7429.92
99	183.68	0.00	18589.53	1091.32	19680.85	2019.21	1855.77	1091.32	861.34	98	7449.23
00	180.70	0.00	19861.55	1194.50	21056.06	2192.15	1995.30	1194.50	927.89	99	7461.26
01	173.46	0.00	21229.52	1272.82	22502.34	2344.23	2142.81	1272.82	997.65	00	7465.01
02	165.82	0.00	22668.16	1354.76	24022.91	2504.16	2298.81	1354.76	1071.41	01	7460.99
03	163.31	0.00	24186.22	1440.72	25626.94	2672.62	2463.80	1440.72	1149.41	02	7451.35
04	159.59	0.00	25786.53	1531.10	27317.63	2850.26	2638.32	1531.10	1231.90	03	7436.17
05	156.27	0.00	27473.90	1629.61	29103.51	3037.53	2815.85	1629.61	1319.16	04	7416.85
									1407.92		

----
*Ch 25 SLA 1986 appropriated the 1987 monies from the Undistributed Income Account (now Earnings Reserve Account) to the principal of the Permanent Fund.

(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
	AVAIL INFLATION PROOFING		----UNDISTRIBUTED INCOME ACCOUNT----						REQUIRED	SHORTFALL	CUMUL SHORT
						----CUMULATIVE----			INFLATION	INFLATION	INFLATION
FY	TOTAL AMOUNT	CURRENT EARNINGS	DEPOSIT/ -W/DRAWL	EARNINGS	BUDGET*	INCOME	EARNINGS	TOTAL	PROOFING	PROOFING	PROOFING
81	0.00	122.40	122.40	0.00	-27.50	106.08	0.00	106.08	0	0.00	0.00
82	0.00	297.90	297.90	0.00	-72.70	332.58	0.00	332.58	0	0.00	0.00
83	231.20	332.15	100.95	31.10	-109.50	353.81	0.00	353.81	231.20	0.00	0.00
84	150.90	335.83	184.93	38.50	-19.90	557.35	0.00	557.35	150.90	0.00	0.00
85	234.60	376.42	141.82	64.02	0.00	763.21	0.00	763.21	234.60	0.00	0.00
86	216.44	716.48	501.03	116.88	0.00	1264.24	0.00	1264.24	216.44	0.00	0.00
87	147.98	663.36	515.38	0.00	-1264.24	515.38	0.00	515.38	147.98	0.00	0.00
88	451.45	466.02	14.58	55.04	0.00	529.95	0.00	529.95	451.45	0.00	0.00
89	470.56	447.80	-22.76	53.86	0.00	507.19	0.00	507.19	470.56	0.00	0.00
90	552.12	518.53	-33.59	53.87	0.00	473.60	0.00	473.60	552.12	0.00	0.00
91	643.30	584.65	-58.65	50.30	0.00	414.95	0.00	414.95	643.30	0.00	0.00
92	697.41	653.30	-44.11	44.10	0.00	370.84	0.00	370.84	697.41	0.00	0.00
93	755.61	704.10	-51.51	39.42	0.00	319.33	0.00	319.33	755.61	0.00	0.00
94	817.20	753.14	-64.06	33.94	0.00	255.27	0.00	255.27	817.20	0.00	0.00
95	901.59	843.97	-57.63	27.86	0.00	197.64	0.00	197.64	901.59	0.00	0.00
96	993.54	902.51	-91.02	21.57	0.00	106.62	0.00	106.62	993.54	0.00	0.00
97	1069.45	962.83	-106.62	11.64	0.00	0.00	0.00	0.00	1072.19	-2.74	-2.74
98	1025.64	1025.64	0.00	0.00	0.00	0.00	0.00	0.00	1155.78	-130.15	-132.88
99	1091.32	1091.32	0.00	0.00	0.00	0.00	0.00	0.00	1236.20	-144.88	-277.77
00	1194.50	1194.50	0.00	0.00	0.00	0.00	0.00	0.00	1337.35	-142.84	-420.61
01	1272.82	1272.82	0.00	0.00	0.00	0.00	0.00	0.00	1446.79	-173.97	-594.58
02	1354.76	1354.76	0.00	0.00	0.00	0.00	0.00	0.00	1544.83	-190.08	-784.66
03	1440.72	1440.72	0.00	0.00	0.00	0.00	0.00	0.00	1648.29	-207.57	-992.23
04	1531.10	1531.10	0.00	0.00	0.00	0.00	0.00	0.00	1757.35	-226.25	-1218.48
05	1629.61	1629.61	0.00	0.00	0.00	0.00	0.00	0.00	1872.35	-242.74	-1461.22

*Ch 25 SLA 1986 appropriated the 1987 monies from the Undistributed Income Account (now Earnings Reserve Account) to the principal of the Permanent Fund.

The final group of columns on Table 3 is the Dividend Account activity. The transfer from current PF earnings is presented in column 26, while GF appropriations to this account are presented in column 27. These are usually distributed the fiscal year following (as presented in col. 10 and 31) with part being used to administer the PFD program* (col.30) and the rest distributed as PFD's (col. 29). The payment amount is distributed to the applicants (col. 32) so that each applicant receives the amount listed in column 33. The real value of the PFD (i.e. net of inflation) is presented in column 34. For FY87 the earnings transfer of $392.15m will cost $12.19m in administration* to distribute a $379.95m payment amount (in FY88). This is divided between an estimated 527,160 applicants so each one gets $720.76 which is worth about $540.38 in 1981 dollars.

(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)
							(THOUSANDS)		
	EARNINGS	GEN FUND	CLAIM	-------------PFD PROGRAM	-----------		TOTAL PFD	---DIVIDEND PAYMENT---	
FY	TRANSFER	APPROP	YEAR	PAYMENT	ADMIN	TOTAL	APPLICANTS	(NOMINAL$	REAL$)
81	27.47	0.00	80	0.00	0.00	0.00	410.47	0.00	0.00
82	70.50	0.00	81	0.00	0.00	0.00	430.06	0.00	0.00
83	107.88	440.60	82	478.13	3.42	481.55	478.77	1000.00	907.93
84	155.13	0.00	83	187.52	3.08	190.60	486.82	386.15	338.12
85	217.67	0.00	84	160.10	3.02	163.12	483.12	331.29	279.20
86	304.36	0.00	85	210.61	7.54	218.15	520.88	404.00	331.02
87	392.15	0.00	86	296.55	7.81	304.36	533.42	556.26	439.36
88	437.56	0.00	87	379.95	12.19	392.15	527.16	720.76	540.38
89	479.31	0.00	88	424.65	12.91	437.56	525.81	807.61	574.37
90	519.20	0.00	89	465.52	13.79	479.31	528.05	881.58	589.45
91	528.94	0.00	90	504.47	14.73	519.20	530.26	951.36	598.03
92	543.81	0.00	91	513.21	15.73	528.94	532.45	963.87	569.59
93	584.20	0.00	92	527.01	16.80	543.81	534.60	985.80	547.64
94	632.33	0.00	93	566.26	17.94	584.20	536.77	1054.95	550.94
95	683.78	0.00	94	613.12	19.21	632.33	538.94	1137.64	557.08
96	739.24	0.00	95	663.21	20.57	683.78	541.13	1225.61	562.73
97	798.48	0.00	96	717.21	22.03	739.24	543.32	1320.05	568.30
98	861.34	0.00	97	774.89	23.59	798.48	545.53	1420.44	573.39
99	927.89	0.00	98	836.08	25.26	861.34	547.75	1526.40	577.74
00	997.65	0.00	99	900.79	27.09	927.89	549.97	1637.88	580.39
01	1071.41	0.00	00	968.59	29.06	997.65	552.21	1754.01	581.88
02	1149.41	0.00	01	1040.24	31.17	1071.41	554.46	1876.12	582.68
03	1231.90	0.00	02	1115.98	33.43	1149.41	556.73	2004.54	582.85
04	1319.16	0.00	03	1196.05	35.85	1231.90	559.00	2139.63	582.43
05	1407.92	0.00	04	1282.16	37.00	1319.16	561.28	2284.34	582.15

PRINTED IN JUNEAU BY ALASKA LITHO INC