



REVENUE SOURCES
Forecast and Historical Data

SPRING 2002

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April 15, 2002

The Honorable Tony Knowles
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Dear Governor Knowles:

Oil is volatile in two ways, one of which is good for Alaska and one of which gives us a constant headache. The good one is that refined products from oil, because of their volatility, can be vaporized for use in internal combustion engines. Therein lies the value of oil - it will burn easily. Just vaporize it, mix it with air, set it off with a spark and step on the gas. The more problematic volatility is that the price of oil moves up and down just like the piston on that engine, but without the same predictability. Think of oil price forecasting as running a six-cylinder car on just five cylinders - the ride is a bit uneven, but it will still get you to your destination.

Today I present to you, the Alaska Legislature and the public our Spring 2002 Revenue Sources Book. Our semi-annual forecast of state revenues does not garner quite the same media attention each spring as the opening of the baseball season, but it is still one of the more visible moments for the Department of Revenue. We take a lot of pride in our forecast, and although we know it is exactly that - a forecast, and not a guarantee - we believe our numbers reflect an accurate assessment of oil prices and state revenues into the future.

Getting right to the numbers everyone is waiting for, Alaska North Slope crude oil averaged \$21.27 per barrel through Friday, April 12. By the time the fiscal year ends on June 30, we believe that average will have inched up a little more to \$21.50 - about 4.5 percent above what we had forecast last fall, at \$20.55 a barrel. That small increase will help reduce the Fiscal 2002 budget gap to an estimated \$826.7 million.

For Fiscal 2003, we forecast North Slope oil to average \$20.50 a barrel, almost \$1.70 higher than the \$18.81 price we forecast last fall. The fact that we expect oil prices to remain above the historical average should come as no surprise to anyone who has been following news reports in recent weeks. Continued violence in the Middle East is worrying oil traders, driving up the price.

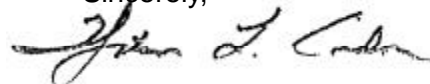
Some might say, however, that our Fiscal 2003 projection of \$20.50 is too low. We disagree. It is more than \$3 above the average price for North Slope oil since 1986, and it is not that far off from the low end of the price range where OPEC nations would like to see oil prices. We know that some Alaskans, looking at \$26 oil prices of two weeks ago, will argue that our forecast is too pessimistic. But those prices already have dropped \$3 a barrel in just the past eight trading days, as world oil markets appear to believe the worst is over. The Department of Revenue shares the view that non-OPEC production will continue to grow, that OPEC will continue to have problems holding all of its member nations to their production quotas, and that world oil prices will gradually revert back toward a more moderate price range.

At \$20.50 a barrel in Fiscal 2003, and based on the same state General Fund spending of \$2.523 billion that we used in our Fall 2001 forecast, we expect a state budget gap of \$963.4 million in the fiscal year starting July 1. As prices slide a little further, we expect an average North Slope oil price of \$19.50 in Fiscal 2004. With the same state spending of \$2.523 billion, the budget gap would grow to \$1.013 billion in Fiscal 2004. Although the higher oil prices have slightly reduced our withdrawal of funds from the Constitutional Budget Reserve Fund, it is not enough to give us much breathing room in dealing with Alaska's fiscal problem. The higher prices we forecast today amount to only \$143 million less of a total draw from the Budget Reserve Fund for Fiscal Years 2002, 2003 and 2004.

Based on our revenue projections, and assuming a flat state General Fund budget of \$2.523 billion, we expect the Budget Reserve Fund will hit empty in October 2004. But what if someone believes our oil price estimates are too low? What if North Slope prices average \$22 a barrel over the next few years? The answer is we would gain five months of life for the Budget Reserve, which would then expire in March 2005. But what if prices drop back to the average of around \$17.50 and stay there? At that price, the Budget Reserve would run out of money in July 2004. The hard truth is that as we continue to draw down our reserves to pay for public services, the end date of the fund just doesn't move that much with price. Facing that truth is not comfortable for any of us.

I look forward to working with you and the Legislature as Alaska works toward a strong fiscal future.

Sincerely,

A handwritten signature in black ink, appearing to read "Wilson L. Condon". The signature is fluid and cursive, written over a light blue horizontal line.

Wilson L. Condon
Commissioner

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I. INTRODUCTION

Why Issue a Revenue Forecast?

Public finances have long been an issue of interest to Alaskans. How much does the state earn from its public resources? How much does the oil and gas industry pay to the treasury? And what about the fishing industry, mining, user fees and other taxes? And does the state earn a reasonable return on its investments, especially the Permanent Fund? The Department of Revenue provides those answers twice a year with its revenue forecast.

In the past, it was all about oil. Alaska lived happily off its oil revenues as the production tax, property tax, royalty and corporate income tax from the oil and gas industry paid most of the bills for the public services needed by our growing state. That has all changed, however, as North Slope oil production has been on a downward slide the past decade and as Permanent Fund investments have overtaken oil and gas taxes and royalties as the state's single largest source of earned income.

Although oil prices are still important, the state's growing reliance on the Constitutional Budget Reserve Fund has brought a new element to our spring and fall revenue forecasts. In addition to forecasting the price and production of Alaska North Slope oil, the department also tries to answer how much money will be needed from the Budget Reserve to balance state spending - and when the savings account might run out.

Of course, any estimate of draws on the Budget Reserve is dependent on oil revenue. The higher the oil price, the smaller the state's budget gap and the smaller the draw on the Budget Reserve. Looking back to Fiscal 1999, when Alaska North Slope oil prices averaged just \$12.70 per barrel, almost half of the General Fund budget of \$2.4 billion came from the Budget Reserve that year. Then, in Fiscal 2001, when prices averaged \$27.85 a barrel, the state actually ran a small surplus of \$8.6 million and deposited that money into the Budget Reserve.

As Alaskans' interest has expanded from wanting simply an oil price forecast to needing projections for investment earnings, the budget gap and the Budget Reserve, so too has the Department of Revenue's semi-annual forecast book expanded in size. This year's spring forecast is our largest book ever, providing information on additional aspects of state revenues.

All of this information is helpful in answering the questions of how much is needed to pay for public services, where to get the money, and how soon we need to make changes in the state's fiscal structure.

What's In This Report?

This Spring 2002 Revenue Sources Book is organized into ten sections:

- I. Introduction**
- II. State Lands: An Overlooked Revenue Source**
This special section examines the suggestion that selling state lands could shrink the budget gap.
- III. Executive Summary**
- IV. Alaska's Fiscal Options**
This section briefly describes revenue options for balancing the state's budget.
- V. Oil Revenue**
This section covers revenue from oil and gas production taxes, corporate income taxes, property taxes and royalties.
- VI. Non-Oil Revenue (Except Investments)**
This section summarizes revenue from alcohol, tobacco, fisheries, estate and motor fuel taxes, non-oil corporate income taxes, user fees, federal funds and several other revenue sources.
- VII. Investment Revenue**
This section includes investment earnings from the Alaska Permanent Fund, the Constitutional Budget Reserve Fund, the General Fund and other state investments.
- VIII. State Endowment Funds**
This section compares basic policies governing eight of the state's endowment funds.
- IX. Public Corporations Under the Executive Budget Act**
This section summarizes information about the University of Alaska and eight public corporations established by the State of Alaska that are treated as separate component units of state government for financial reporting purposes
- X. Appendices**

Sections V., VI. and VII. include explanations of restricted funds (money restricted by the constitution, state statute, customary practice or federal designation) and explanations of unrestricted funds (money generally available for appropriation each year). The unrestricted revenue category is the focus of legislative and public debate each year, because it's this money that pays for many of our public services and the day-to-day operations of state government.

The goal of the Revenue Sources Book is to describe state revenue in specific and complete terms for anyone who wants to ask: *"Where does the state get its money?"* In doing so, the Department of Revenue follows an agreement between the Governor's Office of Management and Budget and the Legislative Finance Agency that organizes all sources of state funding by their allowable uses under state and federal law.

Revenue listed in Table 1 on Pages 19 and 20 shows the new money available for appropriation each fiscal year, including oil revenue, non-oil revenue, federal revenue and investment earnings. This table does not include balances in existing funds such as the Constitutional Budget Reserve Fund or the Permanent Fund Earnings Reserve Account. The revenue that went into those funds was counted in previous years and should not be counted twice.

Glossary

- **General Fund Revenue:** General Fund Revenue has different meanings in different contexts. In the state's official financial reports, General Fund Revenue is used to designate the sum of Unrestricted General Purpose Revenue, General Fund subaccount revenue (such as the Alaska Marine Highway System revenue) and federal dollars spent through the General Fund. See for example the Comprehensive Annual Financial Report at <http://www.state.ak.us/local/akpages/ADMIN/dof/fin-afr.htm> that shows General Fund Revenue of over \$4 billion for FY 2001. However, for budgeting purposes, General Fund Revenue sometimes excludes both federal money or money earned in subaccounts of the General Fund. For example see the Fiscal Summary (updated) at Legislative Finance's web site <http://www.legfin.state.ak.us/> which shows General Fund Revenue of about \$2.3 billion for FY 2001. The \$1.7 billion difference is attributable in large measure to the treatment of federal money and General Fund subaccounts.
- **General Fund Unrestricted Revenue:** Revenue designated as General Fund in the state accounting system (AKSAS). This includes revenues we show as restricted in this report, such as shared taxes or Alaska Marine Highway System revenues.
- **Unrestricted General Purpose Revenue:** Revenue not restricted by the constitution, state or federal law, trust or debt restrictions or customary practice. Most legislative and public debate over the budget each year centers on this category of revenue. In deriving this figure from General Fund Unrestricted Revenues, we have excluded customarily restricted revenues such as shared taxes and Alaska Marine Highway System revenues.
- **Restricted Revenue:** Revenue restricted by the constitution, state or federal law, trust or debt restrictions or customary practice. The legislature can of course at any time remove restrictions that are solely imposed by either Alaska statute or customary practice. When these dollars are restricted General Fund revenues, they are either recorded in a restricted subaccount of the General Fund or are General Fund taxes customarily shared with other entities.
- **Federal Revenue:** When the federal government gives money to states, it restricts how that money can be used. Highway and airport construction funds, Medicaid and education funding cannot be used for other purposes. In addition to restricting how the money is spent, the federal government often requires states to put up matching funds to qualify for the federal funding.

- Dedicated Revenue: Restricted revenue recognized as such under the applicable provisions of the Alaska Constitution fits into this category. Other than the mineral revenue constitutionally dedicated to the Permanent Fund, all of the other revenue sources in this category were restricted by statute before statehood and therefore are not subject to the constitutional prohibition against dedicated funds. They include such funds as the Fish and Game Fund, Disabled Fisherman’s Fund and Public School Fund.
- Statutorily Designated Program Receipts: This revenue is earmarked in state statute or by contract for specific purposes. Examples include University of Alaska tuition payments, marine highway receipts, payments to various revolving loan funds, airport revenues 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 (airport revenues). The remainder, while statutorily earmarked, may be appropriated to purposes other than those reflected in the example if the legislature so chooses (marine highway receipts).
- Customarily Restricted Revenue: Though not specifically dedicated by statute, these revenue sources have historically been treated by the legislature as if they were restricted. The largest item in this category is Permanent Fund earnings in excess of what is needed each year for dividends and inflation proofing. Though the money could be spent as unrestricted revenue, the legislature has always chosen to retain it in the Permanent Fund’s Earnings Reserve Account or appropriate it to the fund’s principal.
- Permanent Fund Statutory Income: The annual Permanent Fund dividend is based on statutory income. This is the sum of realized gains and losses of all Permanent Fund investment transactions during the year, plus interest, dividends and rents earned by the fund. Though the legislature may appropriate the earnings for any purpose it chooses, the historical practice has been to restrict the use of realized income to dividends and inflation proofing, and then either leaving the excess in the Earnings Reserve Account or transferring it to the principal of the Permanent Fund.
- Permanent Fund GASB (or Market) Income: Under standards adopted by the Governmental Accounting Standards Board, the Permanent Fund’s income – and that of any other government fund – is the difference between the purchase price of the investments and their market value at a given point in time, plus any dividends, interest or rent earned on those investments. Under GASB standards, the Permanent Fund does not have to sell the investment to count the gain or loss as it changes value. It’s called “marking to market,” that is, measuring the value of the fund’s investments by the current market price. This can produce a much different picture than Permanent Fund Statutory Income, which does not reflect fluctuating investment values until the assets are sold.
- Constitutional Budget Reserve Fund: Created by voters in 1990, the Constitutional Budget Reserve Fund holds the proceeds from settlements of oil and gas and mining tax and royalty disputes since July 1, 1990. It generally requires a three-quarters majority vote of each chamber of the legislature to withdraw money from the fund.

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II. STATE LANDS: IS IT AN OVERLOOKED REVENUE SOURCE?

State Lands

This year, with higher-than-average oil prices, Alaska will get 79% of its unrestricted general purpose revenue from oil. But regardless of price, production has declined from 2 million barrels per day in 1988 to 1 million in 2001, and the state has been forced to dip into reserves eight of the past 10 years to make up the shortfall in revenue. At current withdrawal rates, the Department of Revenue projects the Constitutional Budget Reserve Fund will run dry in late 2004. Among the ideas put forth to bridge the gap is selling state land.

There are many good reasons for the state to make land available for purchase by the public, among them to provide for community expansion, to put more land on local tax rolls, and to satisfy the desire for remote cabins. However, the state is not likely to raise large enough sums of money to make a significant contribution toward filling the annual budget gap by selling land. The fundamentals of supply and demand would limit the size of such a program, while the cost of land sales — such as the obvious, for surveys, and the subsequent, such as for roads and schools — could reduce the state's net revenues significantly, perhaps even turning them into net losses.

Three factors determine how much money the state could raise by selling land: supply, demand and program costs.

Potential Supply of Land for Sale

Statehood entitled Alaska to 104 million acres of land, not including tidelands. Of those, the federal government has conveyed to the state approximately 90 million acres.

Under existing law, the state can offer for sale only those lands designated in land-use plans for settlement or agriculture. Today, state land-use plans cover about 60 million acres. Much of that land has been reserved for public purposes such as parks and recreation, for example Chugach State Park and Chena River State Recreation Area. Other areas are managed for commercial uses such as oil and gas production and timber harvesting, or for multiple uses. Through the land-use planning process, 2.6 million acres have been classified settlement or agricultural lands and could potentially be sold to individuals and businesses.

It's important to note in this discussion that under terms of the Statehood Act and the Alaska Constitution, the state may not dispose of its mineral interest in land. Mineral deposits are developed under lease arrangements and are not part of the deal in any land sale.

The state is not the only owner of saleable land in Alaska. The University of Alaska owns 170,000 acres ⁽¹⁾, the Alaska Mental Health Trust Authority controls one million, and the various municipalities will have 1.4 million at full entitlement (approximately 800,000 acres have been transferred to date). In addition, the 1971 Alaska Native Claims Settlement Act awarded 44 million acres of previously federal lands (approximately 37 million have been transferred to date) to Native corporations. Finally, there are approximately 2.7 million acres held by other private individuals and companies. ⁽²⁾ Each of these entities is either an active or potential seller of land, and each operates under a somewhat different set of incentives.

Municipalities generally do not sell land to raise cash. Rather, they seek to meet the needs of community expansion, to place properties on the tax rolls or to satisfy the desire of citizens for specific parcels of land. In calendar year 2001, the Matanuska-Susitna Borough offered approximately 300 acres for sale, the Kenai Peninsula Borough offered 398 and the Fairbanks North Star Borough auctioned 403 acres. The Haines Borough's last offering, about 340 acres, was in 1997-1998. The City and Borough of Juneau did not hold an auction in 2001, but is currently readying about 44 acres for sale in the near future. These boroughs also operated over-the-counter sales of land that had been offered but not taken in earlier auctions.

The University of Alaska manages its land as part of its Land Grant Endowment Fund. Earnings from this fund finance the Alaska Scholars and other programs. The fund currently has more land than called for under its asset-allocation plan, so land sales can be expected to continue as managers work to balance the fund's portfolio. In 2000, the university sold 1,621 acres.

The Alaska Mental Health Trust Authority similarly regards its land as part of its overall investment portfolio. Earnings on those assets pay for Trust programs, and the Trust has adopted a management plan that calls for leasing out its land when returns are likely to be similar or greater than what can be earned on other assets. Conversely, when leasing or other activities cannot bring in a comparable return, the management plan calls for selling the land and investing the proceeds in higher performing assets. Since 1998, the Trust has annually sold between 25 and 80 parcels averaging two to four acres each. Trust land managers expect that number to increase in coming years.

Although Alaska Native corporations hold by far the largest amount of private land in the state, they offer relatively little for sale to the public. Many holdings, especially those of regional corporations, were selected for their mineral or timber resources. Other Native-owned lands, especially those of village corporations, are areas of special cultural importance or traditional use, so shareholders are reluctant to part with them. Still, some Native corporation land is put on the market from time to time and adds to the overall supply.

(1)The legislature in 2000 passed a bill allowing the university to select an additional 260,000 acres of state land. That legislation, vetoed by the governor, is in litigation to decide whether the bill was an appropriation and thus requires a three-quarters majority vote of the legislature to override.

(2) Dividing Alaska, 1867-2000: Changing Land Ownership and Management, Hull and Leask, Institute of Social and Economic Research, November 2000.

Demand for State and Municipal Land Sales

Price, and therefore the net amount of money the state could expect from land sales, is determined by the interaction of supply and demand. Today, no land manager attempts to precisely measure demand before preparing a sale, but every manager factors at least a rough estimate of demand into decisions regarding how much land to offer and where to offer it. Put too much land on the market at once, and prices will suffer. Although no one has calculated the upper limit for land sales in any year, there is a common understanding that too much land can saturate the market, driving down property values and leaving land unsold. History backs up that perception.

In the mid-1980s, following the collapse of oil prices and the subsequent economic recession in Alaska, the Matanuska-Susitna Borough halted all new land sales. Not until 1991 did the borough decide that market conditions had improved enough to resume a land disposal program. More recently, the Haines Borough is waiting for demand to recover after large subdivisions were developed for sale by both the borough and the university in the late 1990s. And in Tok, after the state put several subdivisions up for sale in the mid-1980s, local residents and officials asked the state to stop making land available until property values recovered.

Clearly, there is a limit to the amount of land that the Alaska market can absorb. While there are no current calculations of that limit, history can give us some guidance.

In the late 1970s and early 1980s, the Department of Natural Resources readied 100,000 acres a year for sale.⁽³⁾ In spite of this supply, the state sold only 21,902 acres in 1982, and in 1983 — the all-time high year for land sales — the total was 25,985 acres. The next highest year is half that.

Although the amount of land sold annually by the state has varied considerably from year to year, it averaged about 9,000 acres between 1980 and 1999. Recently, land sales have been well below that figure. In Fiscal Year 2002 to date, the state has sold 3,480 acres in subdivisions and entered into lease/purchase agreements for 1,203 acres of remote parcels.

One limiting factor specific to state lands is their location. In satisfying their entitlements, municipalities, the university and Mental Health Trust Authority selected the most easily saleable, accessible or useable lands close to towns and road systems. The state, by and large, is left with more remote holdings or lands that are more difficult to develop. In fact, the Department of Natural Resources observed in a 2000 report on land sale programs that it had "almost no potential settlement land near the road system or communities." Besides putting the state at a competitive disadvantage in attracting buyers, the lower quality and more remote location of state lands means higher development costs and a lower net return to the treasury.

(3) The first year the department offered 100,000 acres was in 1978, and the last year was 1982. In 1980 and 1981 this 100,000-acre minimum was mandated by law.

Costs to the State of Land Sales

Preparing land for sale, holding auctions and administering sale contracts entails substantial costs. The Department of Natural Resources calculates that during the peak years of land sales, 1980-1985, program costs averaged \$267 per acre (\$466 per acre in 1999 dollars). However, the department cautions that these figures should not be used to project future costs because not all costs were included. In 2000, the department estimated that preparing new subdivisions would cost \$753 per acre, not including roads. Remote recreation parcels would cost considerably less to prepare.

More recently, the department estimated that a land sale program providing 500 acres of new subdivision lots and 5,000 acres of remote recreation parcels annually would cost \$794,000, or \$144 per acre. The department also envisioned a funding mechanism that would enable the program to pay for itself, eventually returning a projected annual surplus to the general fund starting in Fiscal 2006 of \$606,000, or \$110 per acre.

Net Income to the State

State land sale prices over the past 20 years have averaged \$557 per acre. More recently, from 1995-1999, they averaged \$371 per acre.

Using all of the figures we've looked at — prices ranging from \$557 to \$371 per acre and costs of \$144 per acre (the department's recent estimate for a mix of subdivision lots and remote parcels), \$466 (the historical average cost, in 1999 dollars), \$753 (the department's 2000 estimate for preparing new subdivision sales), and even a profit of \$110 per acre (under the department's self-funding mechanism) — and using the most favorable assumptions, that is, that the state could maintain a sales program at the historic high level of 26,000 acres/year and could earn 7.8% interest on its contracts, we get the following possible revenue scenarios.

		Net Income to the State	
		Sales Price per Acre	
		\$557	\$371
Cost of Sales to the State per Acre			
	(\$110)	\$18,471,596	\$13,258,388
	\$144	\$11,867,596	\$ 6,654,388
	\$466	\$ 3,495,596	\$(1,717,612)
	\$753	\$(3,966,404)	\$(9,932,000)

Note that these costs do not include roads — subdivision roads as well as access roads to subdivision sites not immediately on a road system — or other infrastructure costs. Estimating these costs is beyond the scope of this report, but they would play a significant role in determining the net revenue generated from a long-term land sale plan.

It is clear from these figures that the possible contribution of land sales toward closing a projected budget deficit of \$1 billion would be minimal, even under the most wildly optimistic assumptions. Realistically, we could at best expect several million dollars per year. A poorly designed land sales program could actually wind up a net loss.

Other Costs

Actual cash from land sales is only one argument put forth for selling state land. According to another line of reasoning, getting land into private hands would stimulate population growth and economic development. In this view, people would develop the land, businesses would spring up to meet the needs of new or growing communities, providing jobs and opportunity that did not exist previously.

It is not clear, however, that additional private land would necessarily stimulate economic growth. Alaska currently has 58 acres of private land, including Native corporation land, per capita, the third highest ratio among all states. Only Montana (61.7 acres per capita) and North Dakota (60.8 acres per capita) rank higher. The median is 5.1 acres.

Even if more private land did allow for increased jobs and economic opportunities, the corresponding community growth would increase the demands on government services. Road building and maintenance, schools, emergency services, police protection and other services are necessary and play a key role in opening business opportunities and making communities liveable. With Alaska's fiscal structure heavily weighted toward levies on oil and away from more broad-based taxes, the state has few mechanisms to raise revenues to cover these costs as oil production declines. The Legislative Finance Division calculates that the state spends \$3,642 of general funds for every Alaskan. Without a tax structure that can raise new revenues from a growing population, development is a net drain on state funds — what observers have characterized the "Alaska Disconnect." Land sales to spur development could add to the problem unless the state has a tax in place to earn revenue from the new residents and jobs that might be created.

No Simple Answer

Market forces, the state's poor competitive position and the cost of land sales all cast doubt on the state's ability to significantly repair a budget shortfall in excess of \$1 billion by selling land. To fix the fiscal problem facing Alaska, we will need more powerful tools.

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III. EXECUTIVE SUMMARY

A. Total Revenue

Table 1 summarizes the state's total revenue outlook by major revenue component (Actual FY 2001 and projected FY 2002-2003).

Table 1. Total Revenue				
\$ Million				
		Actual FY 2001	FY 2002	FY 2003
<u>Oil Revenue</u>				
<u>Unrestricted</u>				
Property Tax		45.1	49.8	49.1
Corporate Income Tax		338.1	160.0	190.0
Production Tax		703.8	478.8	422.7
Royalties (including Bonuses)		<u>799.3</u>	<u>590.1</u>	<u>574.7</u>
Subtotal		1,886.3	1,278.7	1,236.4
<u>Restricted</u>				
Royalties to Permanent Fund & School Fund		344.9	244.2	256.7
Settlements to CBRF		49.1	100.0	30.0
NPRA Royalties, Rents & Bonuses		<u>1.7</u>	<u>1.3</u>	<u>1.2</u>
Subtotal		395.7	345.5	287.9
Subtotal Oil		2,282.0	1,624.2	1,524.3
<u>Non-Oil Revenue (Except Investments)</u>				
<u>Unrestricted</u>				
Federal Receipts		0.3	0.5	0.5
Taxes		184.0	173.6	170.8
Charges for Services		27.0	22.0	22.0
Fines and Forfeitures		33.6	12.0	12.0
Licences and Permits		37.3	36.5	37.0
Rents and Royalties		10.9	10.5	10.8
Other		<u>34.9</u>	<u>52.0</u>	<u>38.0</u>
Subtotal		327.7	306.6	290.6
Subtotal		328.0	307.1	291.1
<u>Restricted</u>				
Federal Receipts		1,322.6	2,080.7	2,251.4
Taxes		61.9	58.5	55.1
Charges for Services		210.3	230.9	264.0
Fines and Forfeitures		0.0	24.9	24.7
Licences and Permits		41.0	40.7	41.0
Rents and Royalties		0.0	0.0	0.0
Other		<u>124.4</u>	<u>125.1</u>	<u>127.7</u>
Subtotal		437.6	480.1	512.5
Subtotal		1,760.2	2,560.8	2,763.9
Subtotal Non-Oil (Except Investments)		2,088.2	2,867.9	3,055.0

Table 1. Total Revenue, cont.
\$ Million

	<u>Actual</u> <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Investment Revenue			
<u>Unrestricted</u>			
GeFONSI Pool Investments	61.7	35.3	30.0
Investment Loss Trust Fund	0.4	0.1	0.1
Interest Paid by Others	<u>5.5</u>	<u>2.0</u>	<u>2.0</u>
Subtotal	67.6	37.4	32.1
 <u>Restricted</u>			
GeFONSI Pool Investments	21.8	10.9	9.5
Constitutional Budget Reserve Fund	202.9	138.2	92.6
Other Treasury Managed Funds	16.5	25.3	43.4
Alaska Permanent Fund (GASB) ⁽¹⁾	<u>(924.0)</u>	<u>279.6</u>	<u>1,906.2</u>
Subtotal	(682.8)	454.0	2,051.7
Subtotal Investment Revenue	(615.2)	491.4	2,083.8
 Grand Total	 3,755.0	 4,983.6	 6,663.1

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

Figure 1. FY 2001 Total Revenue — \$3.8 Billion

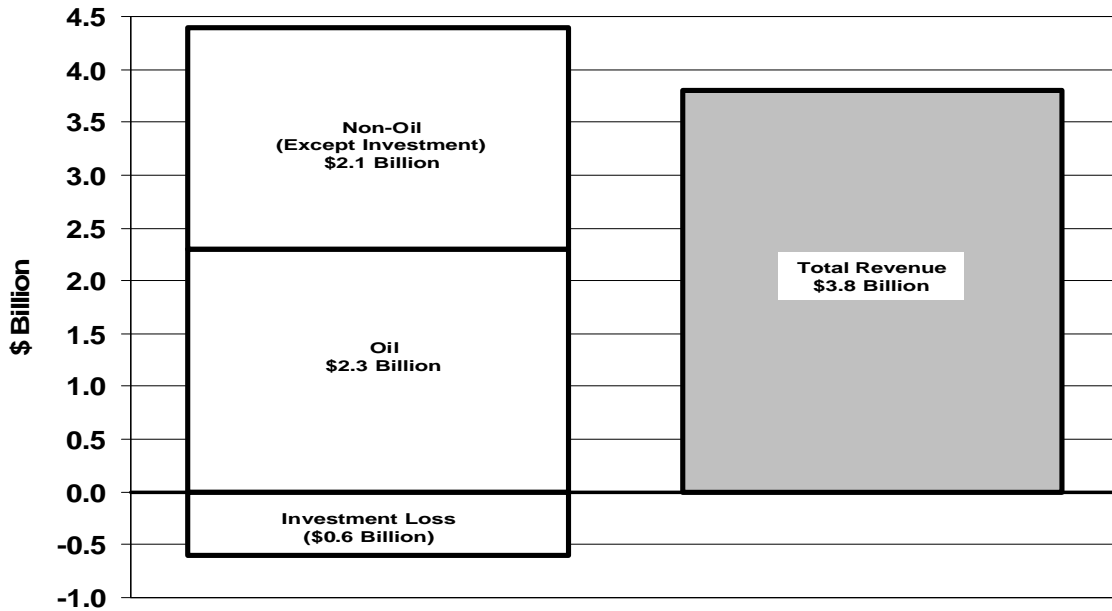


Figure 2. FY 2001 Unrestricted and Restricted Revenue

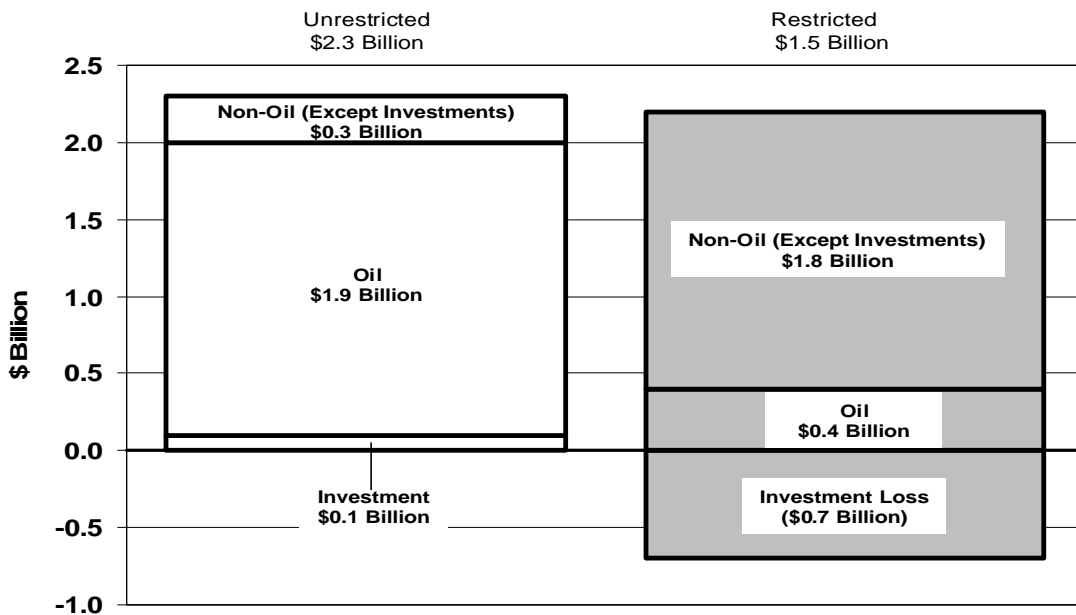


Table 2. Total State Revenue, Actual FY 2001 and Projected 2002-2003 Unrestricted ⁽¹⁾ and Restricted by Major Source \$ Million

	Actual FY 2001	FY 2002	FY 2003
<u>Unrestricted</u>			
Oil Revenue	1,886.3	1,278.7	1,236.4
Non-Oil Revenue (Except Investments)	328.0	307.1	291.1
Investment Revenue	<u>67.6</u>	<u>37.4</u>	<u>32.1</u>
Subtotal	2,281.9	1,623.3	1,559.6
<u>Restricted</u>			
Oil Revenue	395.7	345.5	287.9
Non-Oil Revenue (Except Investments)	1,760.2	2,560.8	2,763.9
Investment Revenue	<u>(682.8)</u>	<u>454.0</u>	<u>2,051.7</u>
Subtotal	1,473.1	3,360.3	5,103.5
Grand Total	3,755.0	4,983.6	6,663.1

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

B. Unrestricted General Purpose Revenue

Unrestricted General Purpose Revenue is the amount generally used for budget planning purposes. Table 3 on the next two pages sets out actual FY 2001 Unrestricted General Purpose Revenue and our revised forecast for FY 2002 and 2003.

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

Table 3. Unrestricted General Purpose Revenue
\$ Million

	<u>Actual</u> <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
OIL REVENUE			
<u>Property Tax</u>	45.1	49.8	49.1
<u>Corporate Income Tax</u>	338.1	160.0	190.0
<u>Production Tax</u>			
Oil and Gas Production	694.4	469.4	412.7
Oil and Gas Hazardous Release	<u>9.4</u>	<u>9.4</u>	<u>10.0</u>
Subtotal	703.8	478.8	422.7
<u>Royalties</u>			
Mineral Bonuses and Rents	7.1	9.5	6.6
Oil and Gas Royalties	781.0	572.6	560.1
Interest Paid	<u>11.2</u>	<u>8.0</u>	<u>8.0</u>
Subtotal	799.3	590.1	574.7
Subtotal Oil Revenue	1,886.3	1,278.7	1,236.4
NON-OIL REVENUE (EXCEPT INVESTMENTS)			
<u>Federal Receipts</u>	0.3	0.5	0.5
<u>Non-Oil Tax</u>			
Sales and Use			
Alcoholic Beverage	12.0	12.9	12.0
Cigarette	10.9	10.0	10.0
Other Tobacco Product	5.4	5.8	5.9
Insurance Premium	32.2	33.1	34.5
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel Tax	<u>37.5</u>	<u>37.5</u>	<u>37.5</u>
Subtotal	98.2	99.5	100.1
Corporate Income Tax	59.5	51.0	50.0
Fish Tax			
Fisheries Business	15.4	12.8	11.7
Fishery Resource Landing	<u>4.1</u>	<u>2.8</u>	<u>3.0</u>
Subtotal	19.5	15.6	14.7
Other			
Mining	1.7	1.5	1.5
Estate	2.7	3.6	2.1
Charitable Gaming	<u>2.4</u>	<u>2.4</u>	<u>2.4</u>
Subtotal	6.8	7.5	6.0
<u>Charges for Services</u>			
General Government	19.5	16.0	16.0
Natural Resources	6.5	5.2	5.2
Other	<u>1.0</u>	<u>0.8</u>	<u>0.8</u>
Subtotal	27.0	22.0	22.0

(continued on next page)

Table 3, cont. Unrestricted General Purpose Revenue
\$ Million

	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
NON-OIL REVENUE (EXCEPT INVESTMENTS)			
<u>Licenses and Permits</u>			
Motor Vehicle	34.1	33.3	33.8
Other	<u>3.2</u>	<u>3.2</u>	<u>3.2</u>
Subtotal	37.3	36.5	37.0
<u>Fines and Forfeitures</u>			
Tobacco Settlement	21.4	-	-
Other Settlements	5.7	6.0	6.0
Other Fines and Forfeitures	<u>6.5</u>	<u>6.0</u>	<u>6.0</u>
Subtotal	33.6	12.0	12.0
<u>Rents and Royalties</u>			
Land Leasing, Rental and Sales	9.2	9.2	9.2
Coal Royalties	1.1	0.8	1.0
Timber Sales	0.4	0.3	0.4
Cabin Rentals	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Subtotal	10.9	10.5	10.8
<u>Federal Revenue - Intergovernmental Revenue</u>	0.3	0.5	0.5
<u>Other</u>			
Miscellaneous	34.9	35.0	35.0
Unclaimed Property	<u>0.0</u>	<u>17.0</u>	<u>3.0</u>
Subtotal	34.9	52.0	38.0
Subtotal Non-Oil Revenue (Except Investments)	328.0	307.1	291.1
INVESTMENT REVENUE			
<u>GeFONSI Pool Investments</u>	61.7	35.3	30.0
<u>Investment Loss Trust Fund</u>	0.4	0.1	0.1
<u>Interest Paid by Others</u>	<u>5.5</u>	<u>2.0</u>	<u>2.0</u>
Subtotal Investment Revenue	67.6	37.4	32.1
TOTAL UNRESTRICTED REVENUE	2,281.9	1,623.3	1,559.6

C. Oil Price Forecast

Oil revenue will continue to provide close to 80% of forecast Unrestricted General Purpose Revenue through FY 2004. Two elements are critical to the oil forecast: price and volume.

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

The table below reflects actual prices for FY 2001 and the Department of Revenue's forecast of oil prices for the 10-year period beginning with the current fiscal year, FY 2002, and continuing through FY 2010. The short-term oil price forecast (FY 2002-2003) is based on a subjective assessment of fundamental market dynamics and trend analysis by participants at a price scenario meeting. Our long-term forecast (FY 2004-2010) is based on the premise that prices will converge to the average of ANS oil delivered to the West Coast for the 16-year period, 1986 to 2001.

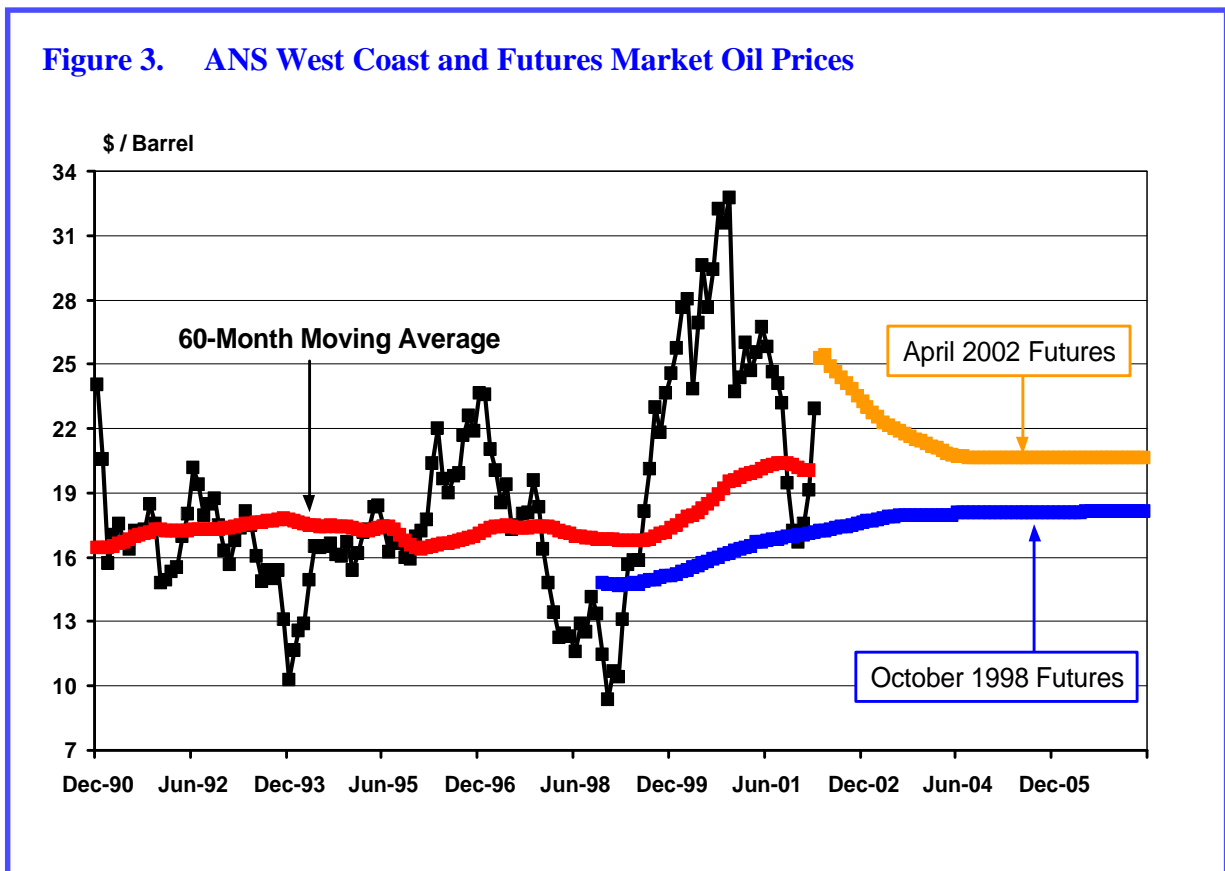
Table 4. Delivered Price for ANS Crude Oil
Average West Texas Intermediate (WTI), ANS West Coast and
ANS Wellhead
 \$ per barrel

<u>Fiscal Year</u>	<u>WTI</u>	<u>ANS West Coast</u>	<u>ANS Wellhead</u>
Actual 2001	30.41	27.85	20.06
2002	23.38	21.50	16.39
2003	22.50	20.50	15.27
2004	21.50	19.50	14.31
2005	21.50	19.50	14.15
2006	20.50	18.50	12.99
2007	19.50	17.50	11.85
2008	19.50	17.50	11.75
2009	19.50	17.50	11.67
2010	19.50	17.50	11.57

The prices we are forecasting are consistent with the market prices experienced over the 16-year period since the 1986 oil price collapse. The figure on the next page depicts: (1) the monthly West Coast ANS market price from December 1990 through February 2002; (2) the 60-month moving average West Coast market price for the same period; and (3) a set of derived ANS futures prices for October 1998 and April 2002.⁽¹⁾

(1) The derived ANS futures price is based on the spot market differential between WTI and ANS applied to the WTI futures prices as reported on the New York Mercantile Exchange (NYMEX).

The figure below clearly illustrates the volatility of month-to-month crude oil prices. ANS West Coast prices during the pertinent time period ranged from just under \$10 per barrel to over \$32 per barrel. The average of the 60-month moving averages shown in the figure below is approximately \$17.50 per barrel. Finally, the derived futures market prices reflected below show that market participants anticipate a continuation of the post-1986 historic levels for oil prices. The derived futures price for ANS demonstrates a convergence tendency after three years whether the current price is very low (as it was in October 1998) or very high (as it was in April 2002).

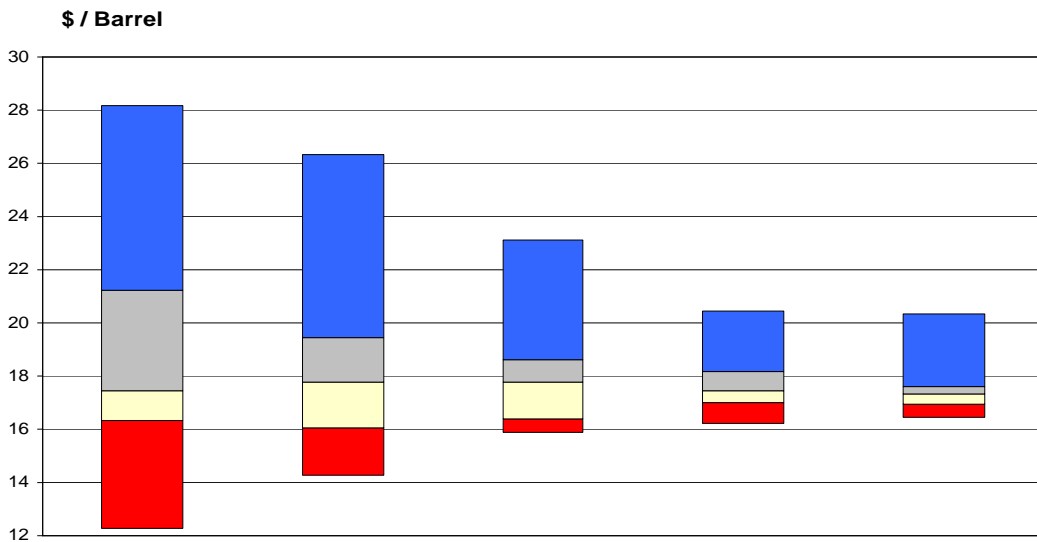


The figure on the next page reflects another analysis demonstrating both the short-term volatility and the longer-term stability of ANS West Coast market prices over the past 16 years. The left hand bar depicts the variability of ANS West Coast oil price for each of the rolling 12-month time periods (from December 1990 to March 2002). Ninety-five percent of those average prices fall between \$12.29 and \$28.14 per barrel; 50% of the time those prices fall between \$16.31 and \$21.20 per barrel, with a median price of \$17.47 per barrel.

The right hand bar depicts the variability of the rolling 60-month time period. The 60-month average ANS West Coast market prices were obviously very consistent. Ninety-five percent of those averages fall between \$16.42 and \$20.34 per barrel; 50 percent of the time, between \$16.94 and \$17.60 per barrel; and the median of those 60-month average prices is \$17.33 per barrel. The middle three bars in the figure reflect the variability of the rolling 24-month, 36-month and 48-month time periods. Note that in our forecast, we use the arithmetic average, or mean, of \$17.50 per barrel rather than the median of \$17.33 per barrel.

Those whose perspective is only one year should focus on the price range reflected in the 12-month or left hand bar. The bars to the right are more appropriate for the longer term.

**Figure 4. Cumulative Average ANS Oil Price (December 1990-March 2002)
Moving Average and Confidence Intervals**



Percentile Ranking	12-month	24-month	36-month	48-month	60-month
2.5%	28.14	26.36	23.09	20.47	20.34
25%	21.20	19.42	18.60	18.16	17.60
Median	17.47	17.78	17.80	17.45	17.33
75%	16.31	16.06	16.39	17.00	16.94
97.5%	12.29	14.27	15.90	16.25	16.42

The percentile ranking is the probability of exceeding the corresponding ANS oil price.

D. Oil Production Forecast

In 1988, ANS production peaked at 2.005 million barrels per day and has declined steadily since. The figure on the next page reflects the historical and projected rates for ANS oil production. FY 2001 was the first full year that ANS production averaged less than 1.0 million barrels per day — daily production averaged 0.991 million barrels per day.

Thanks to the startup of Northstar, along with increasing production from the new Alpine field and satellite field developments in existing fields, we expect ANS production to again surpass the 1.0 million barrel per day level in FY 2002. Future development of recent discoveries in the National Petroleum Reserve Alaska (NPRA), further development of heavy oil in both the Kuparuk and Prudhoe Bay fields (West Sak and Shrader Bluffs), and additional satellite development are projected to keep production slightly above the 1.0 million barrel per day level through FY 2010.

A detailed field-by-field production forecast can be found in Appendix H.

Figure 5. ANS Historical Production
Million Barrels/ Day

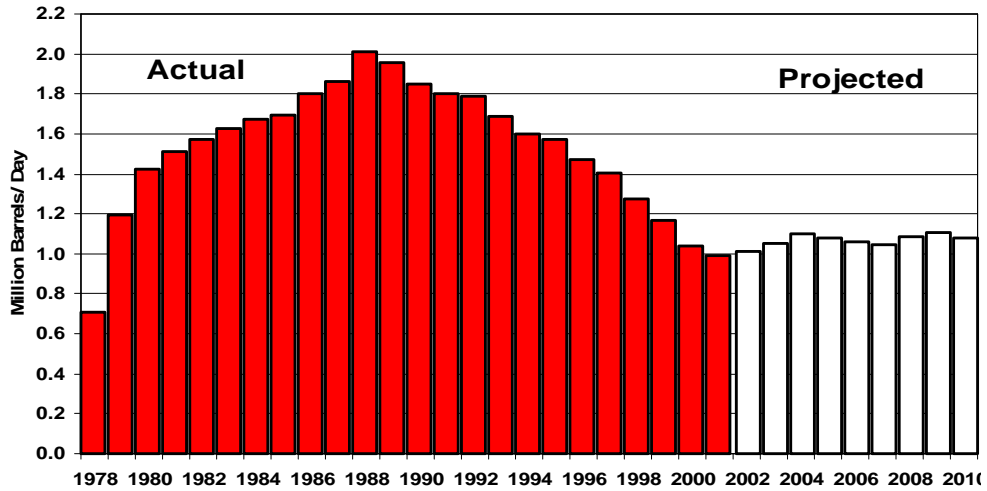


Table 5. ANS Oil and NGL Production
million barrels per day

<u>Fiscal Year</u>	<u>ANS Production</u>
Actual 2001	0.991
2002	1.011
2003	1.053
2004	1.097
2005	1.078
2006	1.059
2007	1.049
2008	1.090
2009	1.107
2010	1.080

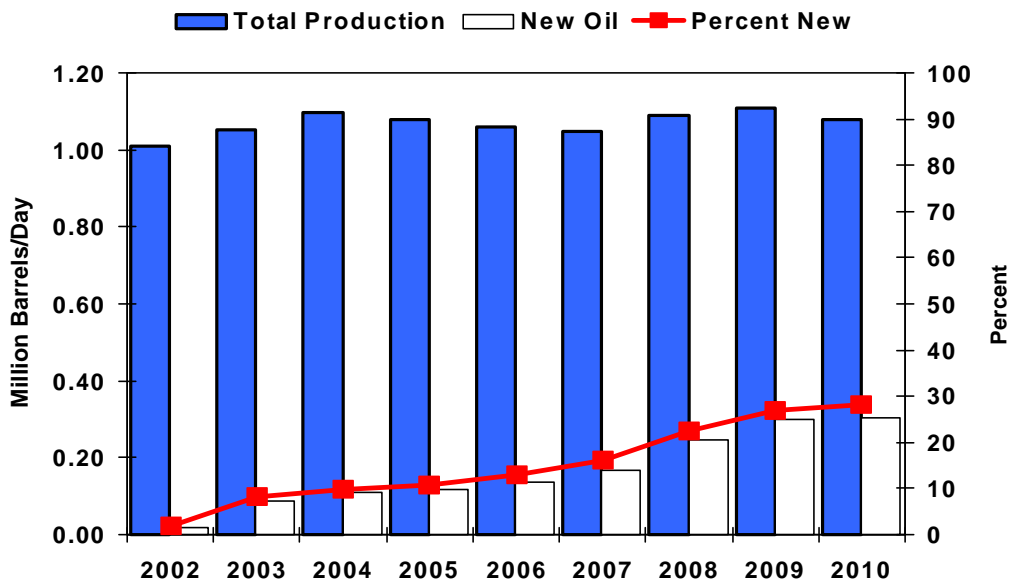
New Oil Development

As the volumes from the giant Prudhoe Bay and Kuparuk fields continue to decline, some of the decline in production will be offset by new oil development. In our forecast, new oil is defined as crude already discovered and likely to be developed. By FY 2009, as the table and figure below show, over one-quarter of our forecasted oil production will come from fields not currently producing oil.

Table 6. New Oil as a Percentage of Total Oil
million barrels per day

<u>Fiscal Year</u>	<u>New Oil</u>	<u>Total Oil</u>	<u>New Oil as Percent of Total Oil</u>
2002	0.020	1.011	2.0%
2003	0.088	1.053	8.3%
2004	0.109	1.097	9.9%
2005	0.117	1.078	10.8%
2006	0.136	1.059	12.9%
2007	0.168	1.049	16.0%
2008	0.246	1.090	22.6%
2009	0.299	1.107	27.0%
2010	0.304	1.080	28.2%

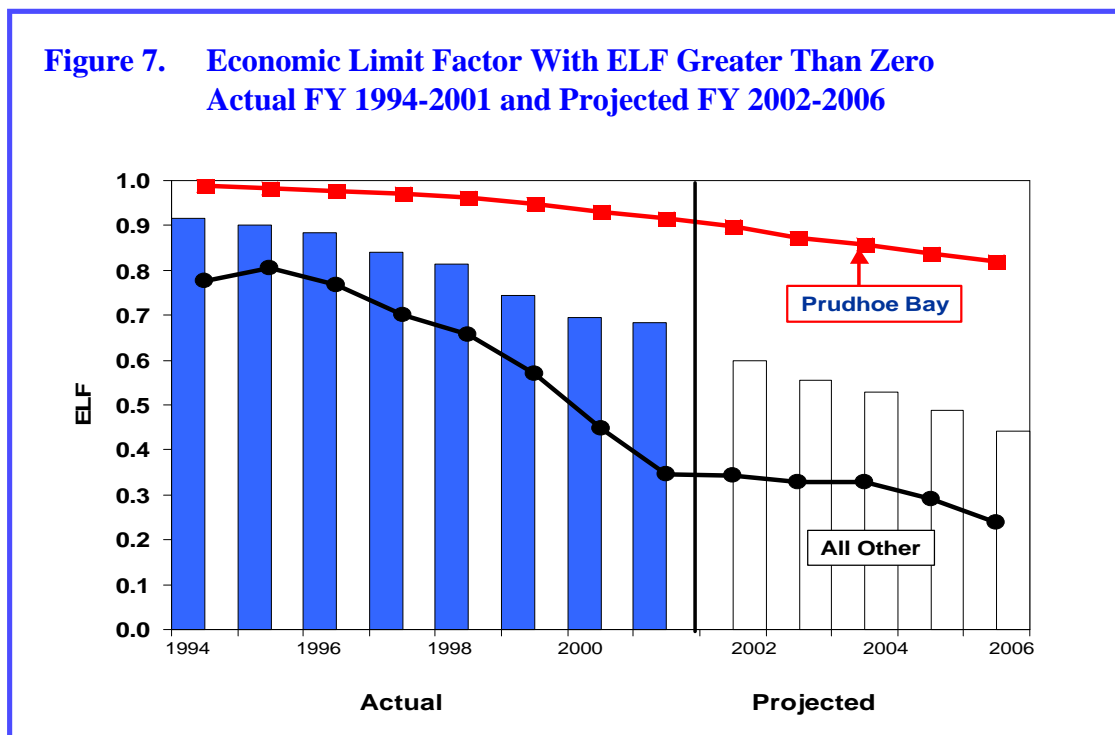
Figure 6. New Oil as a Percentage of Projected Oil



Economic Limit Factor

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

Since much of Alaska's current and projected North Slope oil production will continue to come from old, declining fields, and new production will come from small fields, the average tax rate will continue to fall. The average oil production tax rate for North Slope production in FY 1994 was 13.5%; we project that for FY 2002 it will average 8.75%. The figure below illustrates the actual weighted average ELF for North Slope oil production since 1994 and our projections of that weighted average through FY 2006. The Prudhoe Bay ELF is also shown as well as the average ELF for all of the other North Slope fields that have ELF's that are greater than zero.



E. Longer-Term Unrestricted Revenue Outlook

Using the price and volume components developed for this spring 2002 forecast, the table below summarizes the department's forecast of total Unrestricted General Purpose Revenue through FY 2010.

**Table 7. Total Unrestricted General Purpose Revenue
Actual FY 2001 and Projected FY 2002-2010
\$ Million**

Fiscal Year	(see Table 13) Unrestricted Oil Revenue	(see Table 19) Unrestricted Non-Oil Revenue	(see Table 30) Unrestricted Investment Revenue	Unrestricted Revenue	Percent from Oil
	Actual 2001	1,886.3	328.0	67.6	2,281.9	83
2002	1,278.7	307.1	37.4	1,623.3	79
2003	1,236.4	291.1	32.1	1,559.6	79
2004	1,185.6	291.8	32.1	1,509.5	79
2005	1,121.7	293.2	24.2	1,439.1	78
2006	1,013.7	294.4	24.2	1,332.2	76
2007	896.6	295.5	24.2	1,216.3	74
2008	858.7	294.2	24.2	1,177.1	73
2009	821.6	293.3	24.2	1,139.1	72
2010	776.3	294.8	24.2	1,095.3	71

F. Constitutional Budget Reserve

The table below reflects the amount needed to make up the difference between the Department of Revenue's forecast of Unrestricted General Purpose Revenue and the annual General Fund budget, shown here as a flat \$2.523 billion⁽¹⁾.

Table 8. Difference Between Unrestricted General Purpose Revenue and General Fund Budget — "The Gap" ⁽¹⁾
\$ Million

<u>Fiscal Year</u>	<u>Total Unrestricted General Purpose Revenue</u>	<u>General Fund Budget ⁽¹⁾</u>	<u>Difference</u>
Actual 2001	2,281.9	2,273.3	8.6
2002	1,623.3	2,450.0	(826.7)
2003	1,559.6	2,523.0	(963.4)
2004	1,509.5	2,523.0	(1,013.5)
2005	1,439.1	2,523.0	(1,083.9)
2006	1,332.2	2,523.0	(1,190.8)
2007	1,216.3	2,523.0	(1,306.7)
2008	1,177.1	2,523.0	(1,345.9)
2009	1,139.1	2,523.0	(1,383.9)
2010	1,095.3	2,523.0	(1,427.7)

(1) The projected Fiscal Year 2003 budget of \$2.523 billion is the same estimate used in the Fall 2001 Forecast, and is continued here for the sake of continuity in comparison purposes. Any budget estimate used to determine "The Gap" will have its detractors — some will contend spending should be cut, while others will argue just as strongly that spending should be increased to provide needed public services. The \$2.523 billion estimate is simply a reference point for analysis.

As approved by voters in 1990, all of the money from oil and gas and mining tax and royalty settlements are deposited into the Constitutional Budget Reserve Fund (CBRF). Over the past nine years the state has deposited about \$5.5 billion into the reserve fund and has earned about \$1.5 billion on the money.

For all but two of those years, the state has relied on the CBRF to fill the difference between unrestricted revenue and the annual state budget.

Through March 2002, almost \$4.5 billion had been withdrawn from the CBRF to balance the budget, leaving a balance of \$2.48 billion.

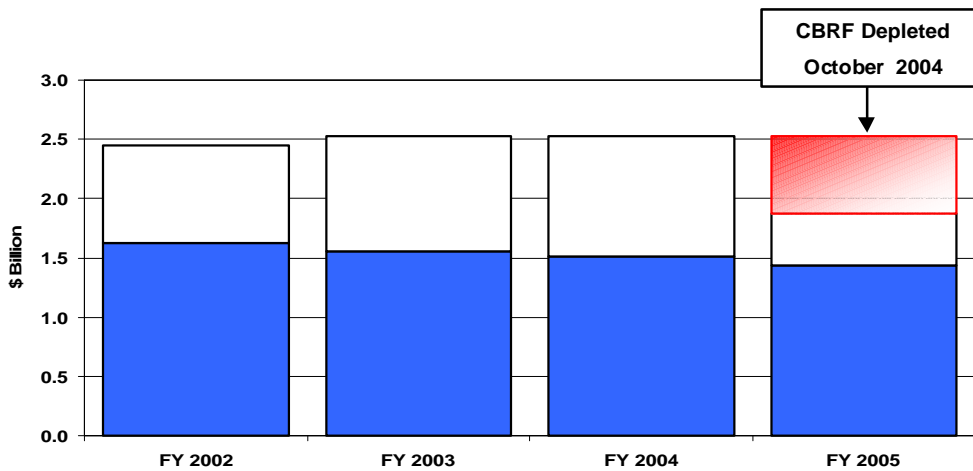
This table reflects the CBRF depletion matrix and the time period the fund could continue to make up the difference between Unrestricted General Purpose Revenue and the General Fund budget at various oil prices and budget levels. For example, assuming no change in the state's fiscal system, if we are correct in our oil price forecast and if we assume a flat General Fund budget of \$2.523 billion per year, the CBRF will be exhausted in October 2004.

Table 9. When Would the CBRF Be Gone?

State Spending and Oil Price Variables, Starting in FY 2003				
<u>Annual State Budget</u>	<u>\$17.50/bbl</u>	<u>DOR Spring</u> ⁽¹⁾	<u>\$22.00/bbl</u>	<u>\$25.00/bbl</u>
\$2.450 billion (no increases)	Aug-2004	Dec-2004	Jul-2005	Apr-2006
\$2.523 billion (no increases)	Jul-2004	Oct-2004	Mar-2005	Nov-2005
\$2.600 billion (+2%/yr growth)	Apr-2004	Aug-2004	Nov-2004	May-2005

(1) Based on Department of Revenue Spring 2002 oil price forecast.
Sources: Department of Revenue Spring 2002 Forecast, Fiscal Driver Model of Oil Revenue and CBRF Performance.

Figure 8. Anticipated Life of the Constitutional Budget Reserve Fund



Budget of \$2.450 billion in FY 2002, \$2.523 billion in FY 2003 - 2006.

Covered By
■ General Fund Unrestricted Revenue
□ Draw from Current CBRF Earnings and Draw from CBRF in Excess of Earnings (includes current deposits)

Not Covered
■

IV. ALASKA'S FISCAL OPTIONS

What Are the Options For Alaska's Fiscal Future?

Any of several events could produce new revenues to reduce the budget gap and help postpone or perhaps even prevent the demise of the Constitutional Budget Reserve Fund. Among the possibilities are unexpectedly high oil prices, large volumes of undiscovered oil, a natural gas project, broad-based taxes such as a statewide sales tax or personal income tax, or use of Permanent Fund earnings. This revenue forecast assumes none of the above. We based our forecast on oil prices within historic averages and on known quantities of oil and existing taxes. And although Alaska leaders have discussed the options of instituting broad-based taxes and using some of the earnings from the Permanent Fund to help pay for public services, we did not include any money from either of those sources in this forecast.

However, the future is uncertain, and any of the above possibilities could become reality in time.

To help judge the possibilities and their economic value, we offer the following information:

Could Higher Oil Prices Fill the Fiscal Gap?

The short answer is no, not unless you believe in the improbable. Still, that doesn't stop Alaskans from hoping.

A quick study of the numbers, however, shows it certainly is extremely unlikely. Alaska North Slope crude oil would have to fetch higher prices for a longer period than at any time in the pipeline's 25-year history. And not just a little higher for a short time, but a lot higher for a long time.

▪ How much is the fiscal gap at high, or low, oil prices?

At \$30 oil, Alaska would still face a half-billion-dollar-a-year fiscal gap over the next 10 years.

At \$10 oil, the gap would range between \$1 billion and \$1.7 billion a year.

Figure 9.
Annual Fiscal Gap at \$30/ Barrel Oil

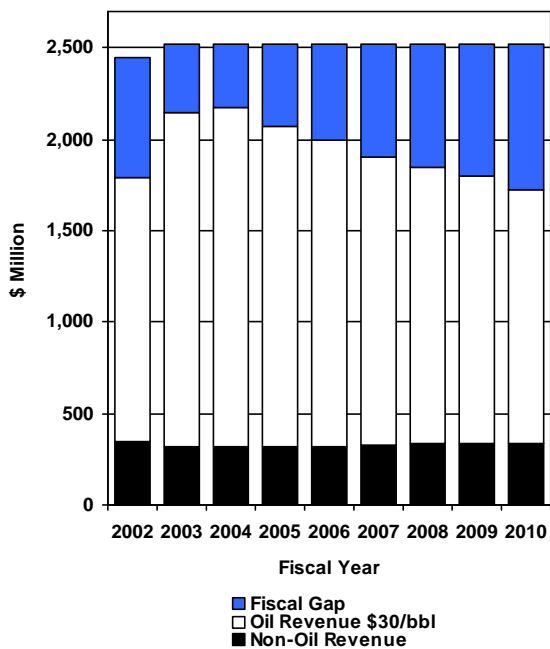
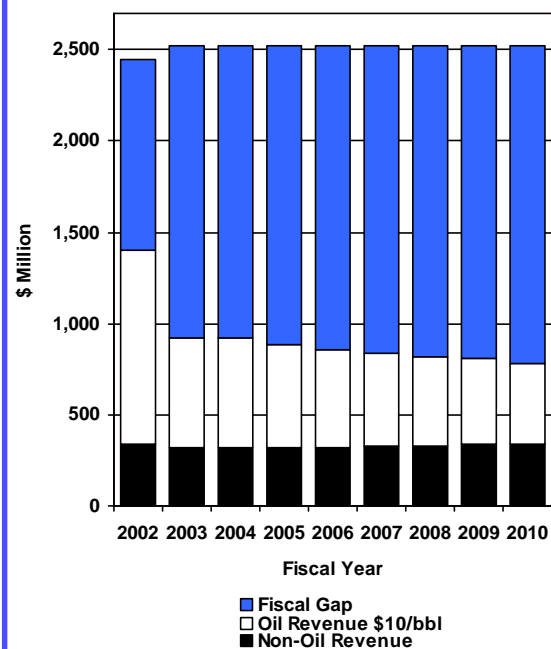
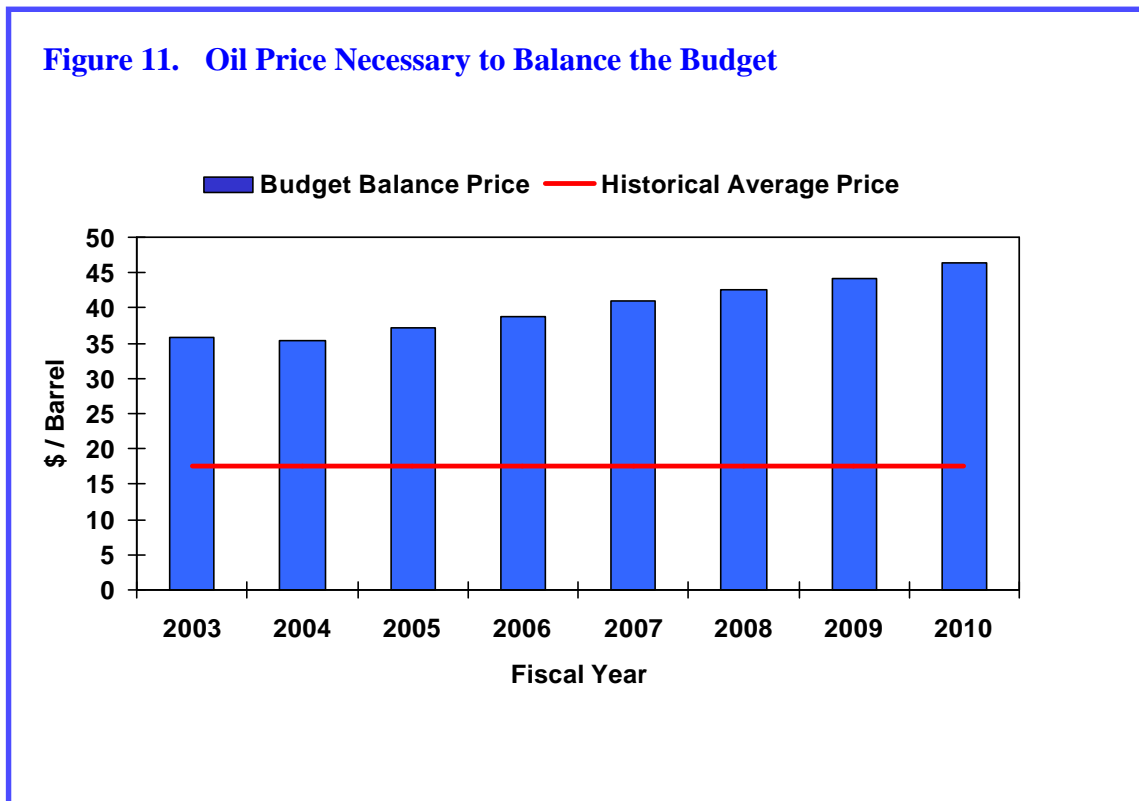


Figure 10.
Annual Fiscal Gap at \$10/ Barrel Oil



- How high would oil prices have to climb to balance the state budget through the end of the decade?

Although we believe North Slope oil production will average slightly above 1 million barrels per day through 2010, the state's declining production tax rate requires a higher price every year just to maintain the same revenues. North Slope oil would have to average \$36 a barrel in Fiscal 2003 to balance the budget. The price would have to average \$40 a barrel over the next eight years to cover the state budget, but that's just the average. The number gets further out of reach each year. In Fiscal 2010, the price would need to be over \$46 a barrel.



- If we want to continue using the Budget Reserve Fund to fill the gap, how high would oil prices have to climb to keep the fund alive until the end of the decade?

To reach 2010 with something, anything, in the Budget Reserve Fund would require oil averaging over \$33 a barrel for the next eight years — 80% higher the Department of Revenue forecast, 25% higher than U.S. Department of Energy estimates, and 30% higher than this month's high prices driven by the threat of war in the Mideast.

Keep in mind that prices would have to hold fairly steady around the \$35 average — the state could not afford a couple of bad years along the way if we wanted to maintain the Budget Reserve Fund and pay our bills. For example, if North Slope oil dipped below \$15 for a year or more, as has happened three times since 1989, the Budget Reserve Fund would take such a deep hit that it might hit empty even if prices rebounded the next year.

▪ How likely is it that oil prices will climb high enough to balance the budget in some years, or at least extend the life of the Budget Reserve Fund?

Prices could rise above projections in the short term — maybe even enough to balance the budget for a short time. But it would take a major, sustained global shortage of oil to create the consistent, high oil prices for the long term that could save the Budget Reserve Fund, and such a shortage is extremely unlikely.

Oil is a market-traded commodity, with the forces of supply and demand determining the price. When supply exceeds the demand, which was the world situation earlier this year, prices fall. As oil gets cheaper, demand recovers, which, over time, leads to higher prices as demand builds to match supply. But when demand gets too high, squeezing the supply, prices rise and demand falls back down. Prices eventually come down, too. Oil prices don't just move up and down, they always move up and down. High oil prices also push users to rely more on substitute fuels and conservation, serving as a natural relief valve to cut demand when prices climb too far. Because of how the market works, it is highly unlikely that oil prices could ever stay high enough long enough to solve Alaska's budget problem.

Here are some numbers to consider:

- Since a transparent market price for ANS West Coast deliveries emerged in the mid-1980s, Alaska North Slope crude oil delivered to California and Washington refineries has never averaged more than \$28 a barrel in a year. As if that was not sobering enough, the price has averaged below \$20 a barrel for all but three years since 1988.
- The West Coast ANS price has averaged above \$30 a barrel in only six months of the past 175 months, and has never reached the \$35 a barrel that Alaska would need for the entire year to balance the Fiscal 2003 budget.
- Any discussion of the potential for high oil prices would not be complete without looking at the low side of oil prices. Alaska North Slope crude averaged \$9.39 a barrel in December 1998, its lowest monthly price ever.
- And while North Slope oil has exceeded \$30 a barrel on the West Coast six out of the past 179 months, it has fallen below \$15 a barrel in 39 of those months.
- If OPEC nations wage a price war with non-OPEC producers, and if oil drops to \$10 a barrel as it did in late 1998, and if the price stays on the bottom for two years, the Budget Reserve Fund would be empty by November 2003.

Higher — or Lower — Oil Production

Oil production could exceed our forecast, which includes only barrels from fields that are producing or have been discovered. For those that have been discovered, we included production only from those fields we expect to start pumping by 2010.

It is possible, however, that some of the discovered fields could start producing sooner than expected, meaning more production and more revenue to the state. We also expect new oil discoveries on the North Slope, but we do not believe these new fields will begin producing before 2010.

However, these undiscovered fields might also begin producing sooner. We have estimated in this section how much additional production we believe could possibly come from the accelerated development of known reserves and new discoveries.

On the other side of the fiscal coin, it is possible that some of the forecast production from as yet undeveloped fields could be postponed past the expected start-up dates in this forecast. Also, the production rate for developed fields may decline at a faster rate than we project. For every upside there is a downside.

Possible Higher Oil Production

We forecast that "new oil," oil that has been discovered but is not yet flowing through TAPS, will constitute a substantial 10.8% of North Slope production by Fiscal 2005 and 28.2% by Fiscal 2010. Clearly, Alaska is depending on a fair amount of this new oil just to meet our revenue forecast.

But what about undiscovered oil? Oil companies continue to lease new lands and drill exploratory wells in search of reserves, and it is future production from these areas that is harder to predict.

To come up with a credible estimate of potential undiscovered oil that might be produced before 2010, we relied on geological work done by the U.S. Geological Survey and the federal Bureau of Land Management. We then derived an estimate of the North Slope's undiscovered, economically recoverable barrels that could possibly come into production before 2011. We provide in Table 10 our estimate of the potential additional production from these undiscovered reserves over the next decade. These barrels would come from three areas: the National Petroleum Reserve-Alaska (NPRA), the Foothills and the area east of Prudhoe Bay and the Central North Slope. We do not include any production from the Arctic National Wildlife Refuge in this table because even if Congress this year gives the go-ahead for drilling in ANWR, we would not expect to see any production until after 2010.

Table 10. Additional Potential Barrels from Undiscovered Fields
million barrels per day

<u>Fiscal Year</u>	<u>NPRA</u>	<u>Foothills and East of Prudhoe Bay</u>	<u>Central North Slope Satellites</u>	<u>Total</u>
2006	-	-	0.014	0.014
2007	0.040	-	0.028	0.068
2008	0.037	0.034	0.045	0.117
2009	0.035	0.060	0.065	0.159
2010	0.039	0.083	0.082	0.203

If all of the additional undiscovered production were to come online as estimated in Table 10 — 203,000 barrels per day by Fiscal 2010 — the state would receive an estimated \$173 million in additional oil and gas tax and royalty payments in Fiscal 2010. That's a little more than 10% of what would be needed to close the budget gap that year. The revenue to the state is held down by the Economic Limit Factor and the lower production tax rate charged on oil flow for the first five years of production from new fields.

This undiscovered new oil could come from:

National Petroleum Reserve-Alaska.

Phillips announced in May of 2001 that it had discovered three separate hydrocarbon accumulations in the NPR-A. Phillips is continuing to do delineation drilling to determine if these discoveries are commercial. The Department of Revenue has developed a risked estimate that these accumulations will yield 325 million barrels of oil, with production starting at 30,000 barrels per day in 2007. However, the NPR-A might yield more oil. First, the area encompassed by the discovered accumulations is comparable to the area overlying the Alpine reservoir, with potential reserves in Alpine's 429 million barrel neighborhood. Second, Phillips and Anadarko continue to explore in other areas of the NPR-A. Phillips drilled the Mitre and Hunter wells four and 12 miles, respectively, away from last year's discovery. Phillips also plans to drill the Puviaq well next year much farther to the west. Anadarko drilled two Altamura wells to the south of the NPR-A discovery. In total Phillips and Anadarko have permitted 34 well locations in the first few years of exploration. Finally, the BLM plans additional lease sales in 2002 and 2004.

Back in 1998, the BLM projected the drilling of 21 exploration wells in the NPR-A leading to the discovery of 600 million barrels of recoverable oil.⁽¹⁾ If the NPR-A yielded 600 million barrels rather than our projected 325 million barrels, these larger reserves would add an additional 35,000 to 40,000 barrels of daily production to our estimated NPR-A production between 2007 and 2010.

Foothills and East of Prudhoe Bay.

The USGS estimates that there are 500 million barrels of technically recoverable reserves in the Central Foothills.⁽²⁾ We estimate that 300 million barrels of these reserves could be economically recoverable, equating to 83,000 barrels per day by Fiscal 2010.

Central North Slope Satellites and the Beaufort Sea.

The USGS in 1995 estimated perhaps 4.3 billion barrels of technically recoverable, undiscovered oil in the central and eastern coastal regions of the North Slope. The USGS believed this oil would mainly be in the turbidite and Barrow Arch Beaufortian geological plays.⁽³⁾ The USGS also stated that less than half of this technically recoverable oil would be economically recoverable.⁽⁴⁾ Of the estimated 3.6 billion barrels of technically recoverable oil remaining net of post-1995 discoveries, 1.5 billion barrels could be economically recoverable.

(1) See Table IV.A.1.b-7 of the BLM's "Northeast National Petroleum Reserve-Alaska (NPR-A) Integrated Activity Plan/Environmental Impact Statement (IAP/EIS) August 1998.

(2) See USGS Open-File Report 95-75I, "Economics and undiscovered oil and gas accumulations in the 1995 National Assessment of U.S. Oil and Gas Resources: Alaska", by Emil Attanasi and Ken Bird at Table 3, Page 37.

(3) USGS[95] Table 3, Page 37.

(4) Of the Eastern Coastal region's 1,632 million barrels of technically recoverable reserves, 39% (638 million barrels) should be economically recoverable. Of the Central Coastal region's 2,002 million barrels of remaining technically recoverable reserves, 45.75% (916 million barrels) should be economically recoverable. The economic recovery factors reflect mid-points between the \$18 and \$30 cases of USGS[95] Table 3.

Possible Lower Oil Production

The North Slope, like other mature provinces, depends upon production from new fields to offset declines in older fields. In our predictions of oil flow from discovered fields, which already are included in our revenue forecast, we include barrels from anticipated developments in the second half of this decade from Nanuq (2006), Point Thomson (2008), Sourdough (2008), Liberty (2008), Yukon Gold (2009) and Sandpiper (2010).

This table shows our projections for oil production from these fields, totaling 124,000 barrels per day by Fiscal 2010. These fields represent over 40% of the "new oil" included in our revenue forecast for Fiscal 2010. These field developments could be deferred or cancelled. If they are, the state could lose \$65 million in FY 2010 — almost 10% of its projected petroleum revenue.

Table 11. Anticipated Production from New Fields This Decade
 Thousand Barrels per Day

<u>Fiscal Year</u>	<u>Point Thomson</u>	<u>Sourdough</u>	<u>Yukon Gold</u>	<u>Liberty</u>	<u>Sandpiper</u>	<u>Total</u>
2004	-	-	-	-	-	-
2005	-	-	-	-	-	-
2006	-	-	-	-	-	-
2007	-	-	-	-	-	-
2008	20	10	-	35	-	65
2009	30	15	10	55	-	110
2010	30	15	15	52	12	124

The state faces a more serious loss if the production rate for its developed fields decline at a faster rate than we project. Prudhoe Bay has been in decline since 1988. We forecast that Prudhoe Bay will decline at a slower rate than it did during most of the 1990s, with production falling by an average 5.3% per year between 2001 and 2011. However, the steeper decline rate of 1992 to 1999 could return in 2002 if development drilling is less than we have projected. If the 1992-to-1999 decline rate continues throughout this decade, Prudhoe Bay production would run about 124,000 barrels per day under our forecast for Fiscal 2010. Such a steep production drop could reduce state revenues by an estimated \$191 million in 2010.

Alaska Natural Gas Project

It's been more than 18 months since higher natural gas prices across the Lower 48 states reawakened interest in a pipeline to bring natural gas from Alaska's North Slope to Mid-America and California — and hundreds of millions of dollars a year in new revenue to the state treasury. Unfortunately, the same market volatility that pushed prices to record levels in the winter of 2000-2001 also worry producers, pipeline owners and investors, the very sources of the billions of dollars that will be needed to build the gasline.

Over the past 25 years, proposals to move North Slope gas to market — that is, to "commercialize" the stranded resource — have varied between a pipeline to the Lower 48 or one to tidewater, most likely Valdez or Cook Inlet, where the gas would be liquefied and shipped in tankers to Asian markets. High gas prices in the Lower 48 a year ago, coupled with the faltering Japanese economy and abundant gas reserves economically closer to Asia in Indonesia and Australia (without the need for an expensive 800-mile pipeline across the arctic to tidewater), have rekindled interest in the Mid-America pipeline option. Estimates for total project cost, including a gas conditioning plant on the North Slope, 1,800 miles of pipe to the northern end of the North America grid in Alberta, and expansion of existing Lower 48 connections, range from \$15 billion to \$20 billion.

Proponents have studied the cost of a gasline in varying sizes, moving anywhere from 2 billion cubic feet of gas per day to 4.5 bcf/d. Logically, the larger the project, the lower the unit costs of transporting gas to market, which generally is good news for potential developers and investors. However, the larger the project and the higher the cost, the greater the investment risk. That is the dilemma for moving Alaska gas to market.

Another dilemma is the larger the volume of gas moved to market, the more likely the gas could temporarily oversupply the market and drive down prices. That would mean lower prices not only for gas coming from Alaska, but for all of the gas sold in the Lower 48 states. The cost to producers of lower prices also works against the large Alaska project.

If the risks can be lessened, there is no doubt a gas project would be good for Alaska. For example, a 4.5 bcf/day gasline would generate more than \$400 million a year in new state revenue for Alaska if gas prices are at \$3 per million Btu in Chicago. But the producers and others will not make their investment decision based on how much the project could earn for the state treasury. Rather, it will be based on the cost of risk and the rate of return for the \$20 billion investment. A joint study team comprised of the three major North Slope gas oil and gas producers recently concluded the project is not economic based on their cost estimates and market projections. The Department of Revenue also believes the project would yield a sub-market rate of return under existing market projections. Higher prices, obviously, would improve the economics, but many gas price forecasters do not expect prices to hold much above \$3 per million Btu on a consistent basis over the next decade.

The producers, gas pipeline companies and the State of Alaska are working with the state's congressional delegation to reduce the costs and risks associated with the project. There is no question that a gasline would help make up for falling oil production and revenues to the state treasury. And there also is no question that the possibility of a natural gas project deserves a significant amount of state effort to promote and encourage the project.

Broad-Based Taxes

The single largest source of new, non-oil and gas revenue to the state under discussion — other than Permanent Fund earnings — would be a personal income tax or a statewide sales tax. But just how much new revenue would a broad-based tax produce, and what do other states collect, and how do sales and income taxes compare?

Personal Income Tax

What Do Other States Charge?

Of the 50 states, 43 have a personal income tax. Joining Alaska on the list without a tax are Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Of the 43 with a tax, New Hampshire and Tennessee collect taxes on dividends and interest income only.

Most states use federal adjusted gross income as a starting point to calculate the state income tax, and most also use federal provisions in calculating allowable itemized deductions. In addition:

- 29 states exempt Social Security benefits from taxation.
- 8 states exempt unemployment benefits from taxation.
- 37 states exempt interest earned on their own state and municipal bonds.
- 5 states exempt military pay from taxation.
- 33 states allow a standard deduction for taxpayers (12 use the federal amount).

Most states use a series of brackets to tax different incomes at different rates. Montana has the most tax brackets — 10 — ranging from 2% to 11% of adjusted gross income, with some deductions allowed. Some states have a flat tax — Colorado, Michigan, Massachusetts, Illinois, Indiana and Pennsylvania — ranging from 2.8% of federal taxable income in Pennsylvania to 5.6% of adjusted gross income in Massachusetts.

What are the Options for an Income Tax?

There are three options for the tax base for calculating a personal income tax:

- **Adjusted gross income.** Because the tax base would be the highest of the three options, the tax rate would be the lowest. Adjusted gross income is Line 33 on the federal personal income tax Form 1040, which is an individual's gross income from all sources minus: IRA contributions, student loan interest, Medical Savings Account contributions, moving expenses, one-half of the self-employment tax paid by self-employed individuals, the self-employed health insurance deduction and alimony.
- **Federal taxable income.** This is Line 39 on Form 1040, which is adjusted gross income minus either the standard deduction or all of the itemized deductions allowed under federal law, plus the per-person exemptions allowed under the federal tax code. This requires the state to accept whatever tax deductions are allowed under federal law, although the state also could include its own deductions, credits or other conditions.

- **Federal tax liability.** This is what an individual pays the IRS. Because the tax base would be the lowest of the three options, the actual tax rate would be higher than if the rate were applied to gross income or taxable income. For example, a 2.75% tax on gross income, a 3.8% tax on taxable income, or a 20% tax on federal tax liability would all raise the same amount for the state — about \$350 million a year. Another feature of using federal tax liability as the base is that the state tax would be progressive, even with a flat tax rate, meaning the tax rate would increase as an individual's income increased. This also requires the state to accept whatever deductions and credits are allowed under federal law. Federal tax liability is Line 40 on Form 1040 (before several credits under the IRS code), or Line 52 (after Education Tax Credits and Elderly and Disabled Care Credits and others), or Line 52 plus the Earned Income Credit and Additional Child Tax Credit.

How Much Do Alaskans Earn?

IRS data tapes show Alaskans filed 327,510 personal income tax returns for 1999, representing 442,199 taxpayers (114,689 were joint returns). Those returns show:

- Federal adjusted income reported by Alaskans in 1999 totaled \$13.2 billion.
- Almost 90% of the tax returns with more than \$100,000 in adjusted gross income were joint returns.
- About 7% of returns with less than \$20,000 in gross income were joint returns.
- Of the 442,199 taxpayers, 63% reported gross income of under \$50,000 and almost 80% reported gross income below \$75,000 a year.
- The 10% of taxpayers reporting more than \$100,000 a year in gross income represent 33% of total income reported by all Alaskans.
- The 20% earning more than \$75,000 represent 50% of total income for Alaskans.

How Much Would the State Raise from an Income Tax?

Several proposals are under discussion in the legislature, but three have garnered most of the attention. The Legislative Fiscal Policy Caucus proposed a 4% flat tax on federal taxable income, which would raise an estimated \$360 million a year. The governor proposed a 20% tax on federal tax liability, which would raise about \$350 million per year. Representative Bill Hudson proposed a 2.25% tax on adjusted gross income, raising an estimated \$285 million per year.

These are approximate numbers for tax rates and how much revenue would be raised. The table assumes a flat tax, for the sake of simplicity in showing potential revenues.

Income Tax Rates and Revenue Projections (1999 IRS Data)			
\$ Million	% Adjusted	% Federal	% Net Federal
Revenue	Gross Income	Taxable Income	Tax Liability
\$250	2.00	2.77	13.86
\$300	2.38	3.29	16.47
\$350	2.75	3.82	19.08
\$400	3.13	4.34	21.70

In addition to deciding on the tax base (gross income, taxable income or federal tax liability), the rate schedule (flat tax vs. a variable tax), and exemptions and deductions, the state also would have to consider expectations for audits and enforcement. The stronger the enforcement, the more effective the program, especially with out-of-state residents.

How Much Did Alaskan Raise from its Old Income Tax?

Alaska abolished its personal income tax in 1980. The tax raised \$210.4 million in Fiscal 1977, its highest collections ever. The tax was assessed as a percentage of federal taxable income, ranging from 3.5% for income up to \$8,000 per year to a high of 14.5% on income in excess of \$300,000. In the middle, taxpayers paid 10% of their federal taxable income over \$52,000.

If the pre-1980 tax rates were in effect today, Alaskans would pay about \$750 million in state personal income taxes. If the tax brackets were adjusted for inflation, that number would be \$660 million.

How Much Would Non-Residents Pay, and How Much Would Alaskans Save on Federal Taxes?

An income tax certainly would collect money from non-residents working in Alaska, but there is no way to know exactly how much it would collect. The IRS reports income earned by taxpayers with an Alaska mailing address; it does not report income earned by non-residents working in Alaska. There are no exact numbers for non-resident wages in Alaska, but estimates range from 3% to 10% and the Department of Revenue believes the true number is probably in the middle. At 6% or 7%, an income tax that raised \$350 million would collect perhaps \$21 million to \$22 million a year from non-residents. It is important to remember that most of the non-resident workers who come to Alaska are here for low-paying summer tourism and seafood processing jobs and would not pay much in personal income taxes.

A state personal income tax would be deductible from federal income taxes for Alaskans who itemize. IRS statistics indicate about 25% of Alaska taxpayers itemize their deductions, though most higher-income Alaskans itemize on their federal returns. And since it would be the higher-income Alaskans who would provide most of the state's new income tax revenues, a substantial portion of that tax would be deducted from Alaskans' tax payments to the federal government.

The easiest way to "export" a tax — that is, to shift its cost — is through its deduction against federal tax liability. There is no deduction for state or municipal sales taxes; only income taxes are deductible. A deduction means part of the tax revenue remains in the state instead of going to the federal treasury.

We estimate that Alaskans would recover about 15% of the cost of a state income tax by deducting it from their federal tax bills. For example, if a state income tax generated \$350 million a year, almost \$53 million would come from the deductibility of the state income tax against federal income taxes. Therefore \$275 million of a \$350 million income tax would come from pockets of Alaskans, assuming \$22 million came from non-residents and \$53 million in lower federal taxes.

How Much Would it Cost to Administer an Income Tax?

The department estimates it could cost \$6 million in one-time expenses to set up an income tax, including computers, software, printing forms and booklets, launching a public education campaign, and establishing offices. Ongoing expenses for an income tax would be an estimated \$6 million to \$7 million per year. Assuming \$350 million or so per year in tax revenues, that would be within 2% of collections. The cost of collection is similar in other states.

Statewide Sales Tax

What Do Other States Charge?

The only states in the nation without a statewide sales tax are Alaska, Delaware, Montana, New Hampshire and Oregon. The others collect taxes that range from a low of 2.9% in Colorado to 7% in Mississippi and Rhode Island.

- In most states, the cities, counties, transit districts and other taxing authorities add their tax onto the state tax rate, with the states handling collection and enforcement, then disbursing the funds to the municipal agencies.
- State and city sales taxes are collected and administered separately in only a very few locations nationwide. Businesses prefer to deal with a single set of rules and a single taxing authority (reducing compliance costs to businesses).

Because of the cumulative effect of adding local sales taxes to the state tax, many states set a maximum overall rate.

- The highest sales tax rate in the nation is in Oklahoma, where the state reports a combined rate of 9.78% as the highest in the state. Louisiana comes in second, with some jurisdictions charging a combined 9.5% rate.

Most states — 27 of 45 — exempt all or some food purchases from sales taxes, with three additional states charging a lower tax rate on foods.

- All states exempt prescription medicines from sales tax.
- Fewer than 10 states exempt non-prescription medicines from sales tax.

Most states — 27 of 45 — allow businesses to retain a portion of their collections as reimbursement for the expense of collecting the tax for the state. The other 18 states do not allow businesses to retain a percentage of the collections.

- For those states that do allow a "discount" to businesses on their sales tax returns, the rate ranges from 0.5% of the amount collected to as much as 5% for businesses with small tax collections.
- One-third of the states set a maximum on the amount of money a business is allowed to retain.

Of those states with a general statewide sales tax, the tax provides an average 32.3% of overall state general fund revenues.

How Many Alaska Cities and Boroughs Already Have a Sales Tax?

About one-third of Alaskans live in a community — a city or a borough — with a municipal sales tax. The rates for those 200,000-plus Alaskans range from:

- A low of 1% in Tenakee and White Mountain.
- To a high of 7% in Wrangell and 6% in Petersburg, Cordova, Kodiak and Kotzebue.

The 97 cities and boroughs with a sales tax collected about \$125 million in Fiscal Year 2001, for an average of more than \$600 per capita.

Each municipality has its own list of tax exemptions, limits and rules, such as a cap on the maximum amount of a single purchase subject to a sales tax (to ease the burden on purchasers of big-ticket items such as cars). There is no uniformity across the state. In this aspect, merchants likely would appreciate a state-governed sales tax program, with one set of rules statewide.

The Alaska Municipal League has gone on record opposing a statewide sales tax. The league's members see the sales tax as historically the domain of municipalities in Alaska and do not want to lose control over the tax revenue or administration. Alaska communities with an existing sales tax also fear the economic damage that could be inflicted upon their cities and boroughs if the state were to impose a statewide sales tax on top of municipal taxes.

- For example, Wrangell and Petersburg, at 7% and 6%, respectively, believe merchants in their communities would lose a significant amount of business to out-of-state suppliers if residents were charged an 8%, 9% or 10% combined state/municipal tax.

Most municipalities allow for some form of exemption for senior citizens, though the process varies from city to city.

- For example, Juneau issues tax-exempt cards to seniors and then requires businesses to keep a log of all tax-exempt purchases. Wrangell uses a different approach. It issues seniors a \$250-a-year sales tax rebate, rather than requiring businesses to keep a log and enforce the exemption.

Assuming the state controlled collection of the tax, the most efficient method for distributing the local tax back to cities and boroughs would be for the state to determine the local share of the tax revenue and then send payments to the cities and boroughs.

How Much Would the State Raise from a Sales Tax?

The Department of Revenue estimates the state would collect approximately:

- \$100 million a year for every 1% in a statewide sales tax on retail goods and services sold in Alaska, assuming no exemptions.
- \$70 million a year if foods and medical goods and services were exempted.

Additional exemptions would reduce the tax burden on some residents and, consequently, reduce revenues to the state. Exemptions also could complicate administration of the tax. And, if the state exempted any goods or services already subject to municipal sales taxes, and then imposed its exemptions on municipalities, some cities and boroughs could see a drop in their tax revenues.

Is a Seasonal Sales Tax a Good Idea?

This is hard to judge, but it appears from Juneau's sales tax records that sales are not as heavily weighted to the summer season as many people might expect. Permanent Fund dividends and the Christmas shopping season appear to help keep the volume of sales from leaning too heavily toward a summer surge.

Based solely on Juneau's records, it appears a six-month seasonal tax might not generate much more than 50% to 55% of the year's taxable revenues. And it could be less if local residents shifted their purchases to the no-tax season.

A seasonal sales tax, while intended to grab more tax revenues from summer visitors, could actually harm local businesses, particularly big-ticket merchants that depend on local sales. For example, would a heavy seasonal sales tax deter residents from making purchases locally during the summer season? Would it hurt car dealers, appliance and furniture stores and electronic shops? Would the sales return each fall?

What is the Nationwide Streamlined Sales and Use Tax Agreement?

Businesses nationwide and other states are working hard to win nationwide adoption of a Streamlined Sales and Use Tax Agreement.

"It is the purpose of this agreement to simplify and modernize sales and use tax administration in the member states in order to substantially reduce the burden of tax compliance."

One of the major reasons for the push is to address the issue of lost state and municipal sales tax revenues to mail order and Internet commerce. The growth of mail order and Internet sales is costing states and municipalities billions of dollars a year in lost sales tax revenues. The retail industry has made it clear that it wants to see a set of uniform sales tax rules nationwide as a condition of working with the states to collect sales taxes on interstate commerce. Alaska would not be in compliance with the nationwide effort if it adopted a state sales tax without ordering the same exemptions and rules for municipal sales taxes statewide.

The agreement, which has been adopted by about 20 states, requires:

"States to administer any and all sales and use taxes levied by local jurisdictions within the state so that sellers collecting and remitting these taxes will not have to register or file returns with, remit funds to, or be subject to independent audits from local taxing jurisdictions."

Who Would Pay the Tax?

A sales tax is generally considered to be regressive, meaning that lower-income people, who spend a greater proportion of their income on local goods and services, would pay a larger share of their income in sales taxes when compared to higher-income people. Exemptions for food, medical care and other necessities would reduce but not eliminate this imbalance.

It's hard to say how much of the sales tax would be paid by visitors from out of state, although the Department of Revenue believes it would be in the range of 10% of total tax revenues for a tax in place for the entire year. Visitors spend heavily on gifts, food, lodging and tours, although federal law prohibits a state sales tax on air transportation.

What Other Issues Should be Considered?

In addition to questions of local control, joining the nationwide streamlined sales tax campaign, and the risk of economic damage to communities that already have a heavy sales tax burden, other issues for the state to consider include:

- Taxable vs. non-taxable sales.
Food (prepared vs. unprepared), medicines (prescription vs. non-prescription), medical care (licensed care only or all care), sales by nonprofit organizations, and sales at vending machines are among the obvious issues.
- Senior citizen tax exemption.
No exemption, or exempt all purchases by seniors, or issue an annual rebate check? If purchases are exempt, should such tax-exempt purchases be limited?
- An exemption for purchases and/or sales by nonprofit organizations.
- Expectation for audits and enforcement.
A stronger enforcement and audit program would add to the costs but likely would produce higher revenues to the state.

One other major issue for the state to consider is whether it wants a "use tax" as part of its sales tax. Most states collect a use tax under the same set of statutes as their sales tax. The sales/use tax helps cover sales by nationwide retailers with a nexus (presence) in individual states. For example, if Alaska had a state sales and use tax and if an Alaskan placed a phone order with Eddie Bauer's catalog department, Eddie Bauer would have to collect a sales and use tax on the purchase because it has a store (a presence) in Alaska.

How Much Would it Cost the State to Administer a Sales Tax?

The Department of Revenue estimates it would cost approximately \$3 million to \$5 million a year to administer a statewide sales tax program, depending on the complexity of the tax, the number of exemptions, and the attention to enforcement and audits. The cost of sales tax programs nationwide average about 1% to 2% of collections. At \$3 million to \$5 million a year, Alaska would be within that range with a reasonable sales tax that raised \$200 million to \$250 million per year.

In addition to annual costs, there would be a first-year expense of approximately \$2 million to set up the tax program, including programming, offices, public and taxpayer educational programs, publications and tax forms, and a web-based filing system.

Sales Tax vs. Income Tax vs. Budget Cuts vs. Dividends?

Supporters of a graduated-rate income tax say it is progressive, in that it assigns a higher rate to higher-income households, consistent with both ability to pay and the benefits received from public spending. Opponents, however, argue that this penalty for success is unfair and that higher-income households do not receive proportionately higher levels of public services.

A flat income tax is not progressive, unless it is assessed on federal tax liability, in which case it picks up the progressivity (the graduated rates) of federal deductions and tax tables.

Supporters of a sales tax say it is fair in that it taxes everyone at the same rate, but opponents of a sales tax say it is regressive because low-income households spend a greater proportion of their income on essential items than higher-income households.

Opponents of reducing the dividend argue it would be regressive, in that all would suffer the same economic loss - regardless of their income. Low-income Alaskans have come to depend on the dividend for a significant portion of their annual household income. Supporters, however, argue everyone should help pay for public services, and that reducing the dividend is one way to ensure all Alaskans contribute to the solution.

Which is Least Painful to the Economy?

There are no recent studies on precisely what would be least harmful to the state's economy, where harm is defined as loss of jobs, household income and economic activity. Is the answer state budget cuts, new taxes, or reducing the dividend? Thoughtful consideration produces some generally accepted assumptions:

- More of the Permanent Fund dividend leaves the state faster than state operating expenses for public services or wages earned by Alaskans, and therefore reduced dividends would be less harmful to the overall economy. Because Alaskans save or invest a greater proportion of their dividends than their wages, and because Alaskans spend a greater proportion of their dividends than their wages on travel and big-ticket purchases manufactured out of state, we believe that reducing dividends would have a smaller overall economic effect on the Alaska economy than a personal income tax or sales tax.
- If, for example, the state wanted to raise \$350 million a year, either from a personal income tax or a sales tax, we believe a sales tax would raise more money from out-of-state residents but the income tax, overall, would be less costly to the Alaska economy. A \$350 million sales tax might collect about \$35 million from out-of-state residents (visitors and workers). A \$350 million income tax would collect perhaps \$22 million from out-of-state workers, while also reducing Alaskans' federal income tax payments by an estimated \$53 million. The net cost to Alaskans of a sales tax would be \$315 million vs. \$275 million for the income tax.

- Although a sales tax would raise more money overall from visitors, an income tax would collect more revenue from non-residents working in Alaska. A non-resident with \$60,000 a year in taxable Alaska wages would pay \$1,800 if the state imposed a flat 3% income tax. That same non-resident worker would have to spend \$60,000 a year — more than his or her entire paycheck — for the state to collect that same \$1,800 a year in sales taxes at a 3% rate. The same math would apply if the non-resident were a seasonal worker earning \$10,000 for the summer. The state generally would collect a greater share of that worker's income through an income tax than a sales tax.

A recent report in State Tax Notes addresses the issue of taxes vs. budget cuts. It was prepared by Peter Orszag, senior fellow in tax and fiscal policy at the Brookings Institution, and Joseph Stiglitz, Columbia University economics professor and winner of the 2001 Nobel Prize in economics.

The report suggests tax increases may be less harmful to the economy than spending reductions because some of the tax increase would result in reduced saving rather than reduced consumption. And since much of an individual's savings do not move around the state's economy (the multiplier effect) the same as wages or purchases, a reduction in savings would be less harmful than government budget cuts.

For example, if individual taxes increase by \$1, consumption may fall by 90 cents and savings may fall by 10 cents. Some types of government spending reductions, however, would reduce demand in the economy on a dollar-for-dollar basis, and therefore would be more harmful to the economy than a tax increase.

The report continued:

"For states interested in the impact only on their own economy rather than the national economy, the arguments made above are even stronger. In particular, the government spending that would be reduced if direct spending programs are cut is often concentrated among local businesses. ... By contrast, the spending by individuals and businesses that would be affected by tax increases often is less concentrated among local producers — since part of the decline in purchases that would occur if taxes were raised would be a decline in the purchase of goods produced out of state.

"In addition, higher-income families appear to consume relatively more goods and services produced in other regions of the country than lower-income families do. ... A tax increase concentrated on higher-income families thus is likely to have a smaller adverse impact on the state economy than other budget-balancing alternatives."

What Other Effects Might Occur from a Broad-Based Tax?

Economists classify a tax as "efficient" when it has little or no effect on economic behavior. For example, taxes are inefficient when they influence consumer buying, investment or labor market decisions or companies' production decisions. Likewise, taxes are more efficient than government spending cuts if they do less damage to the state's economy.

The size of the tax rate may also influence economic behavior. A personal income tax certainly could influence a person's economic decisions by lowering take-home pay, thereby affecting spending and working decisions. The amount of a sales tax also can make a difference in spending decisions. For example, a person who normally buys goods locally may continue to do so at a low sales tax rate. However, a high tax rate may cause the person to purchase the same product on the Internet or by mail order. The Alaska economy would suffer because the expenditure is made out-of-state and the money would not circulate in the local economy.

New Money vs. Old Money?

Finally, any discussion of closing the state's fiscal gap should include a look at "new money" vs. "old (or recycled) money." The more new money can be brought into the state's economy to close the gap, the less damage to Alaska's economic health. Another way of characterizing this is saying if we can export our tax burden, it does less harm to our economy.

Examples of new money are:

- Surplus earnings of the Permanent Fund. This is money not currently circulating through the Alaska economy because it is mostly invested in stocks and bonds outside of the state.
- State tax and royalty revenues from new oil and gas discoveries.
- Taxes generated by new or expanded economic activity.
- Taxes paid by non-residents.
- Federal tax savings from deducting a state personal income tax
- Cruise ship passenger taxes.

Examples of old, or recycled money include:

- Increased excise taxes, such as alcohol and motor fuel taxes. However, some of the higher taxes would be paid by non-resident workers and tourists.
- Sales taxes.
- Personal income tax.
- Reduced Permanent Fund dividends (the loss to Alaska's economy would be reduced by the amount of dividend money that would have flowed out of state in savings or purchases).

It's also worth considering in these discussions the reality of what has been called the "Alaska Disconnect." That is the disconnect between non-petroleum economic development and the state revenues needed to pay for the increased public services demanded by a growing population. Without a broad-based tax, non-petroleum economic development costs more in public services than it produces in revenues to the state. More jobs means more workers and more families and more children in school, and more public expenses with no additional revenues to pay for those services.

For the past 25 years, Alaska has chosen to take its return on the development of non-petroleum industries in the form of private-sector jobs and private profits rather than state revenues to pay for needed public services. This is not sustainable for much longer.

Specific Taxes

Alcohol Taxes

Alaska's alcohol taxes are assessed and collected at the manufacturing and wholesale level, as are alcohol excise taxes in other states. All of Alaska's alcohol tax revenue is deposited into the general fund. Tax collections in Fiscal Year 2001 totaled \$12 million.

How Do Alaska's Tax Rates Compare to Other States?

Alaska's alcohol excise taxes date back to 1933, and the rates have not changed since 1983. The tax, which is assessed per gallon at the wholesale level, averages about 4 cents per drink when translated to commonly sized servings.

- Alaska's tax rates are:
Beer, \$0.35 a gallon Wine, \$0.85 a gallon Liquor, \$5.60 a gallon
- The national median rate is:
Beer, \$0.19 a gallon Wine, \$0.60 a gallon Liquor, \$3.30 a gallon
- The highest tax rates in the nation are:
Beer Wine Liquor
Hawaii, \$0.92 a gallon Florida, \$2.25 a gallon Florida, \$6.50 a gallon

The rates shown above, however, reflect only the general excise tax charged in other states. Most states also collect a general sales tax, a specific alcohol sales tax, or an additional excise tax on alcoholic beverages.

Combining all of the state taxes on alcohol, the national median total state tax per \$4.00 drink in a bar is:

- Beer, 30 cents Wine, 32 cents Liquor, 37 cents
- This is 7 to 10 times the four cents per drink excise tax rate in Alaska.

How Much Would the State Raise from Higher Alcohol Taxes?

Proponents of higher alcohol tax rates for Alaska talk in terms of a nickel-a-drink or a dime-a-drink increase, which are easier to understand than the wholesale rates on a per-gallon basis. These tax amounts are based on 12 ounces of beer, four ounces of wine and a one-ounce shot of liquor.

For each nickel-a-drink increase in the tax, the state would gain about \$15 million a year in new revenue. It's impossible to know how a tax increase would show up at the retail level. Would any of the tax be absorbed by wholesalers, suppliers or retailers, or would the entire cost fall on the consumer? And would businesses use the tax increase as an occasion to raise prices in excess of the higher tax bill?

What Other Issues Should be Considered?

Several issues would need to be addressed in considering a tax increase:

- Should the state impose a "floor tax" on inventory as of the effective date of the tax increase? Such a tax would deter stockpiling of alcoholic beverages at the old, lower tax rate, and could prevent businesses from overcharging customers the higher tax rate on old inventory purchased under the lower tax rates.
- Would the state impose its alcohol tax on out-of-state purchases brought into Alaska? This would mostly involve mail order and Internet orders by individuals.
- Would the state increase its tax enforcement efforts? Alcohol tax collection and audit work consumes the equivalent of just nine-tenths of a position at the Tax Division. A higher tax might justify a stronger enforcement/audit program.

What are the Costs of Alcohol Abuse, and Would a Tax Increase Help?

Alcohol abuse cost the Alaska economy an estimated \$453 million in 1999 in criminal justice and protective services, health care and public assistance, traffic accidents and lost productivity, according to a November 2001 report by McDowell Group for the Governor's Advisory Board on Alcoholism and Drug Abuse. Health care costs alone totaled \$48 million. Adult and child protective services attributed to alcohol and other drug abuse in Alaska cost an estimated \$44 million in 1999.

Research indicates that higher taxes would decrease consumption and, hopefully, abuse, but there is no agreement on the exact relation between price and consumption.

"Research shows that as with other consumer goods, purchases of alcoholic beverages decline when their prices rise," according to a January 2001 report by the National Institute on Alcohol Abuse and Alcoholism. Other studies and reports suggest the same trends, including a 1998 survey of high school seniors that indicated "increasing alcohol prices will decrease consumption in this group, especially among females."

The Center for Science in the Public Interest put numbers to the theories when it reported: "Studies indicate that a 10% rise in beer prices would cause a 3% to 4% drop in sales, with a slightly bigger drop for a similar price increase for wine and liquor." The Center adds: "Younger people are generally more price sensitive, so higher prices should help delay and reduce drinking within this group. A study by the National Bureau of Economic Research concluded "that even a modest tax increase of 30 cents for a bottle of liquor and 10 cents for a six-pack of beer would decrease drinking among young people as much as raising the drinking age by one year."

Motor Fuel Taxes

[How Much is the Tax in Alaska?](#)

The state excise tax on motor fuel in Alaska is 8 cents per gallon, one-third of the national median rate for combined excise and state sales taxes. The 8-cent rate dates back to 1961. The state receives approximately \$26 million a year from the tax.

[How Much is the Tax in Other States?](#)

The median tax on motor fuel in the other 49 states is 24 cents per gallon. That includes motor fuel excise taxes and fees, and sales taxes. The most expensive excise tax states are Rhode Island, 29 cents; Wisconsin, 27.3 cents; Montana, 27 cents; Pennsylvania, 26.6 cents; and Idaho, 26 cents. Georgia's excise tax, at 7.5 cents, is below Alaska, but Georgia adds on a 3% state sales tax at the pump.

The federal tax rate on a gallon of motor fuel is 18.4 cents.

[How Much Would the State Raise from Higher Motor Fuel Taxes?](#)

Each 1 cent increase in the state tax would generate an additional \$3 million per year for Alaska.

Cruise Ship Passenger Fee

[How Much Do Other Cities and Countries Charge?](#)

The Department of Revenue is not aware of any state tax on cruise ship passengers, but municipal fees exist at most U.S. ports including Seattle, San Francisco, Miami and Port Everglades. The fees generally are in the range of \$6 to \$7 per passenger, although San Francisco charges \$9.50 per passenger. Many charge the fee twice per visit — once per passenger getting on the ship and again as passengers get off the vessel. Taxes, or fees, also are collected at most ports worldwide, including Vancouver, B.C., and Caribbean ports.

The tax usually is levied by the port authority or other government agency in charge of port operations, and often is explained as partially covering the cost of general public services provided to the cruise industry and specifically to embarking and disembarking passengers. This is in addition to providing dock and utility services to the vessel, which are covered under specific port charges.

[Do Any Alaska Cities Charge a Passenger Fee?](#)

The only significant port of call in Alaska with a municipal passenger fee is Juneau, which enacted its \$5 per passenger fee in 2000 after voters approved the new tax in an initiative on the 1999 general election ballot. Juneau received more than \$3 million in tax revenues in calendar 2001.

Sitka and Ketchikan have discussed similar fees but have not adopted any such fee.

Who Would Pay the Fee?

The cruise lines pass on passenger taxes, port fees and other such charges to their passengers through a charge listed separately from the advertised price for the cruise, much like airlines show taxes as a separate line at the bottom of each ticket. Consequently, the tax burden of an Alaska passenger fee would be paid by cruise passengers, unless the competitive nature of the business requires some cruise lines to absorb a portion of the fee.

It is possible that the added cost of the new fee might dissuade some travelers from spending as much money as they might otherwise spend on shore excursions, although, for example, a \$30 Alaska fee would add just 2% or 3% to the total cost of an average cruise ticket.

How Much Would the State Raise with a Passenger Fee?

Almost 670,000 cruise ship passengers traveled to Alaska in 2001. A state passenger tax could raise an estimated:

- \$25 per passenger, \$16.75 million a year
- \$30 per passenger, \$20 million a year
- \$50 per passenger, \$33.5 million a year

What About the Municipalities?

One issue that would need to be resolved for a per-capita tax would be tax revenue sharing with municipalities. Although Juneau is the only large port of call with a passenger tax, Ketchikan and Sitka have discussed such a tax in recent years. The issue would be the same as for a statewide sales tax: Would the state take over imposition and collection of cruise ship passenger fees and then return a portion to communities, or would the state collect its own tax and allow municipalities to impose their own fees, too? It is possible the cruise lines would prefer to deal with just one taxing authority, rather than watching as the state and multiple communities adopt different tax rates and rules.

Why Don't Most Cruise Companies Pay Corporate Taxes on Cruise Operations?

The Alaska Supreme Court in 1998 gave the state a victory in its ruling that Alaska could collect corporate income taxes on the apportioned profits of foreign-flagged vessels operating in state waters. This case had nothing to do with passenger taxes; it was limited strictly to the issues of corporate income taxes.

After the state won the case, and the right to tax foreign-flagged cruise ships and other foreign-flagged vessels, the legislature adopted a measure exempting such business activity from state corporate taxes.

The Department of Revenue was unable to provide a strong estimate of possible new revenues to the state from the tax victory in court, mostly because we have never seen a corporate tax return from a cruise line. However, we estimated in 1998 that the state could receive up to \$10 million a year in corporate tax revenues if allowed to assess the tax. Because of the legislation exempting foreign-flagged vessels from corporate income taxes in Alaska, the smaller, domestic operators have to pay the tax while their large colleagues in the trade are excused.

Permanent Fund Earnings

How Much Money is Available from the Permanent Fund?

The Department of Revenue and the Alaska Permanent Fund Corporation believe the amount of "surplus" realized earnings available from the Permanent Fund over the next decade will average about \$250 million per year under the existing statutory framework for calculating earnings and Permanent Fund dividends. However, the actual amount available in any one year will vary enormously — ranging from \$0 to more than \$500 million, depending on the performance of the financial markets and the mechanics of how the surplus is determined.

Relying on the surplus under existing statute to help pay for public services could be risky. For example, if the surplus for Fiscal 2001 were determined on the basis of current-year realized earnings only, there would have been no surplus available. The Department of Revenue projects the same will be true for Fiscal Year 2002.

What is Percent of Market Value, and is it a Better System?

The Department of Revenue strongly recommends calculating the amount available for distribution each year from the Permanent Fund using a moving average over a five-year period. More specifically, the department recommends the legislature adopt the Percent of Market Value (POMV) approach, rather than realized earnings, to determine the amount of funds available for distribution. Using such a moving average would reduce the wild swings in the amount that would be available each year vs. using only a single-year's earnings to determine the amount available for distribution.

Such a moving average would not be new to the Alaskans. We currently determine the dividend using a moving average based on the fund's realized earnings over five years.

Under the Percent of Market Value calculation as endorsed by the Permanent Fund Board of Trustees, 5% of the Permanent Fund's total market value, as averaged over the past five years, would be available for distribution each year. Assuming the fund's long-term earnings target is about 8%, the payout limit at 5% would ensure that sufficient earnings remain in the Permanent Fund to protect it from inflation.

At a 5% payout, the Permanent Fund, in the median case, would generate more than \$1.3 billion a year, on average, between Fiscal 2003 and Fiscal 2008, according to the Permanent Fund Corporation. The earnings — and the dividends — would continue building over time. A \$1.3 billion payout split 50-50 between dividends and public services could, for example, fund a \$1,050 dividend (assuming 600,000 eligible Alaskans) and still leave \$650 million for the General Fund to help pay for public services. Other possibilities include:

- 60% to Dividends / 40% to Public Services, equals a \$1,300 dividend and \$520 million for public services.
- 55% to Dividends / 45% to Public Services, equals an \$1,190 dividend and \$585 million for public services.

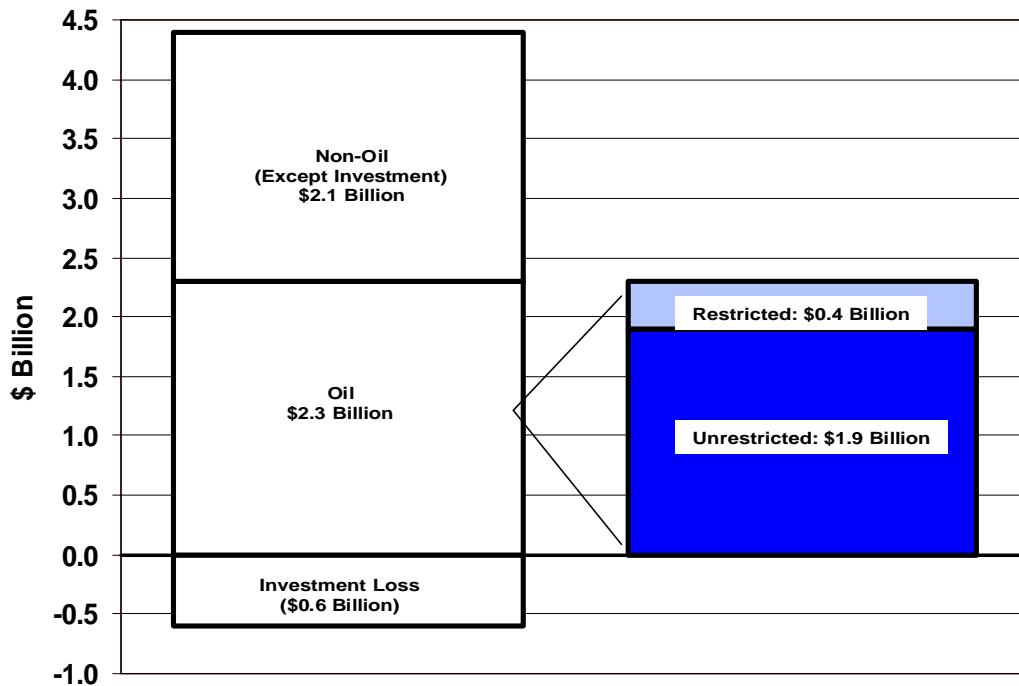
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V. OIL REVENUE

Table 12. Total Oil Revenue
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Property Taxes	45.1	49.8	49.1
Corporate Income Taxes	338.1	160.0	190.0
Production Taxes	703.8	478.8	422.7
Royalties (including Bonuses)	<u>799.3</u>	<u>590.1</u>	<u>574.7</u>
Subtotal	1,886.3	1,278.7	1,236.4
<u>Restricted</u>			
Royalties to Permanent Fund & School Fund	344.9	244.2	256.7
Settlements to CBRF	49.1	100.0	30.0
NPRA Royalties, Rents and Bonuses	<u>1.7</u>	<u>1.3</u>	<u>1.2</u>
Subtotal	395.7	345.5	287.9
Total	2,282.0	1,624.2	1,524.3

Figure 12. FY 2001 Oil Revenue
 \$2.3 Billion

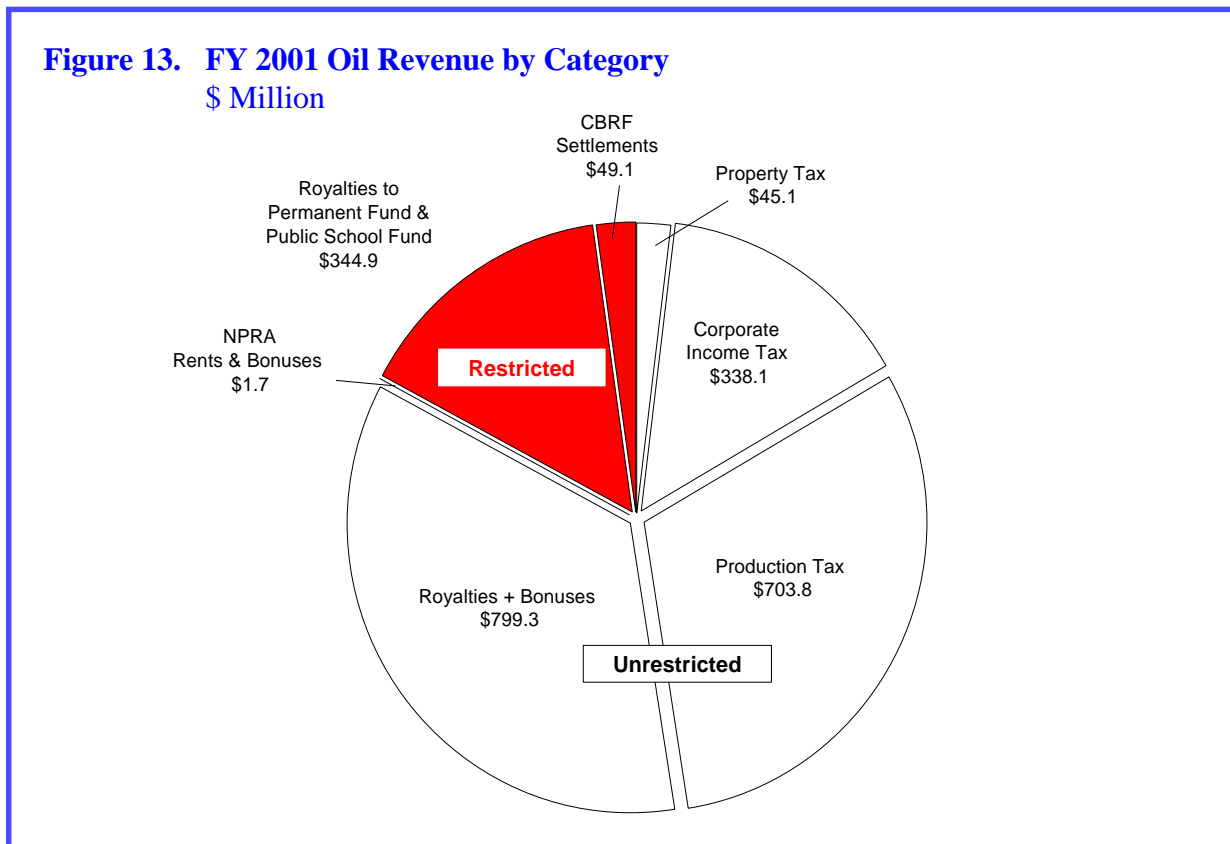


General Discussion

Oil revenue includes revenue from both oil and natural gas. The state receives its oil revenue from four sources: oil and gas production tax, property tax, royalties and corporate income tax. The bulk of the revenue received from taxes and royalties goes into the General Fund for general purpose spending. Slightly more than 25% of the royalty revenue goes directly into the principal of the Permanent Fund and 0.5% goes into the Public School Trust Fund. Currently the state's share of all lease bonuses from the National Petroleum Reserve-Alaska (NPR-A) go into the NPR-A Fund.⁽¹⁾ Settlements of tax and royalty disputes between the State of Alaska and the oil-producing companies go into the Constitutional Budget Reserve Fund (CBRF).

The figure below shows the actual proportion of oil revenue from each source. The CBRF funds flow from disputes involving all four revenue types.

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



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

Unrestricted Oil Revenue

Table 13. Unrestricted Oil Revenue Projections
Actual FY 2001 and Projected FY 2002-2010
 \$ Million

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Corporate Income Taxes</u>	<u>Production Taxes</u>	<u>Royalties including Bonuses</u>	<u>Total Oil</u>
Actual 2001	45.1	338.1	703.8	799.3	1,886.3
2002	49.8	160.0	478.8	590.1	1,278.7
2003	49.1	190.0	422.7	574.7	1,236.4
2004	48.4	180.0	400.3	556.9	1,185.6
2005	41.9	175.0	362.8	542.0	1,121.7
2006	39.4	170.0	309.3	495.0	1,013.7
2007	36.6	160.0	254.5	445.6	896.6
2008	33.5	150.0	236.9	438.4	858.7
2009	30.6	140.0	220.9	430.1	821.6
2010	27.5	130.0	202.5	416.2	776.3

Oil and Gas Production Taxes

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

Oil Production Tax.

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

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

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

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

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

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

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

Natural Gas Production Tax.

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

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

$$\text{ELF} = 1 - (3000/\text{PPW})$$

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

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

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

$$\text{ANS Gas Taxable Value/mcf} = 0.10 \text{ (average ANS oil per barrel netback value)}$$

Hazardous Release Surcharge.

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

The surcharge is comprised of two components: (1) a 3 cents per barrel charge on all oil production, except federal and state royalty barrels, and (2) an additional 2 cents per barrel charge on all oil production except federal and state royalty barrels whenever the balance in the state Oil and Hazardous Substance Release Prevention and Response Fund falls below \$50 million. The balance of the fund was \$50 million or greater for all of FY 2001, so the surcharge was 3 cents per barrel for the entire fiscal year.

Oil Royalties

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

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

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). Currently, the state takes approximately 30,000 barrels per day of Prudhoe Bay production in-kind and sells it to the Williams Alaska Petroleum Company, for its refinery in North Pole. The state's royalty share of Alaska North Slope production amounts to about 125,000 barrels per day.

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

Oil Production Revenue Forecasting Methodology and Assumptions

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

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

Oil Price Forecast

The short-term oil price forecast (FY 2002-2003) results from an examination of evolving supply and demand fundamentals, as well as oil pricing trends over time. Our long-term forecast (FY 2004 and beyond) is based on the premise that the ANS West Coast price will converge to its historical post-1986 average. The information presented and analyzed by the participants in our spring 2002 oil price scenario meeting, as well as scenario-specific assumptions, is what follows.

Oil Market Fundamentals.

The reference case forecast for oil prices is based on our assessment of future global oil supply and demand. The price scenarios are developed in part by evaluating the relative success we believe the Organization of Petroleum Exporting Countries (OPEC) will have managing the volume of oil it supplies to the market.

Oil prices have proven to be quite close to the levels that we forecast last fall. Although our demand estimates have proven to be a bit high, OPEC has been successful in cutting production enough to avoid a major price collapse and put upward pressure on current oil prices.

We forecast that world oil demand growth will pick up again in calendar 2002, averaging 76.8 million barrels per day. We project that demand will increase at a rate close to the historical average of just over 1.5% per year, or about 1.2 million barrels per day per year in 2003 and 2004.

On the supply side, we project that non-OPEC production will grow by 1.2 million barrels per day in 2002 and by 0.9 million barrels per day in 2003 and 2004.

If our fundamental analysis is correct, OPEC could increase production to 25.9 million barrels of oil per day later in 2002 and still maintain a supply-and-demand market balance. On balance then, it would appear that in calendar 2002 OPEC members can successfully put upward pressure on oil prices by holding the line on production at its current level of 25.1 million barrels per day. However, OPEC is expected to watch prices, and if holding production at 25.1 million barrels per day looks likely to force prices up too much, putting pressure on the world's economy, OPEC would consider raising production to avoid damaging the economy in the United States, Japan and elsewhere.

Table 14. Global Market Assumptions
Million Barrels per Day

	Actual				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Demand</u>					
OECD					
North America	24.0	24.2	24.5	24.7	25.0
Europe	15.2	15.4	15.5	15.7	15.8
Pacific	<u>8.6</u>	<u>8.5</u>	<u>8.5</u>	<u>8.5</u>	<u>8.5</u>
Total OECD	47.7	48.1	48.5	48.9	49.3
Non-OECD					
Former USSR	3.7	3.8	3.8	3.9	4.0
East Europe	0.7	0.7	0.7	0.7	0.8
China	4.9	5.2	5.5	5.9	6.2
Other Asia	7.3	7.3	7.5	7.7	8.0
Latin America	4.8	4.8	4.8	4.8	4.9
Middle East	4.5	4.5	4.6	4.6	4.7
Africa	<u>2.4</u>	<u>2.4</u>	<u>2.4</u>	<u>2.4</u>	<u>2.5</u>
Total Non-OECD	28.3	28.6	29.4	30.2	31.0
Total Demand	76.0	76.8	77.9	79.1	80.3
<u>Supply</u>					
Non-OPEC					
OECD	21.9	22.2	22.3	22.4	22.5
Former USSR	8.6	9.0	9.5	10.0	10.5
Eastern Europe	0.2	0.2	0.2	0.2	0.2
China	3.3	3.3	3.4	3.4	3.4
LDCs ⁽¹⁾	11.1	11.3	11.5	11.8	12.0
Processing Gain	<u>1.8</u>	<u>1.9</u>	<u>2.0</u>	<u>2.1</u>	<u>2.2</u>
Total Non-OPEC	46.8	48.0	48.9	49.8	50.8
OPEC					
OPEC NGLs	<u>2.9</u>	<u>2.9</u>	<u>2.9</u>	<u>2.9</u>	<u>3.0</u>
Total OPEC	30.1	28.8	29.0	29.3	29.5
Total Supply	76.9	76.8	77.9	79.1	80.3

(1) Lesser Developed Countries (LDCs) include Asia (excluding China), Latin America, the Middle East and Africa.

(2) Due to rounding to one decimal, columns may not exactly total.

Current Oil Market Situation.

Alaska North Slope (ANS) oil that sold for \$25.79 per barrel in July, 2001, was selling for \$8 less in early November, 2001, as supply exceeded demand. A warm winter (11% warmer than normal), and the economic slowdown in the United States, as well as increasing non-OPEC production, offset additional OPEC production cuts of around 1.0 million barrels per day started in September. Since January, OPEC has managed to trim an additional 800,000 barrels per day. These production cutbacks, combined with an improved economic growth outlook and turmoil in the Middle East, have resulted in end-of-month March oil prices above \$24 per barrel.

Organization of Petroleum Exporting Countries.

In 2001 OPEC was very active in adjusting production to try keep its price between \$22 and \$28 per barrel. Since April 2000, OPEC adjusted its production quotas seven times; reducing its production quotas in total by 5.0 million barrels per day since January 2001.

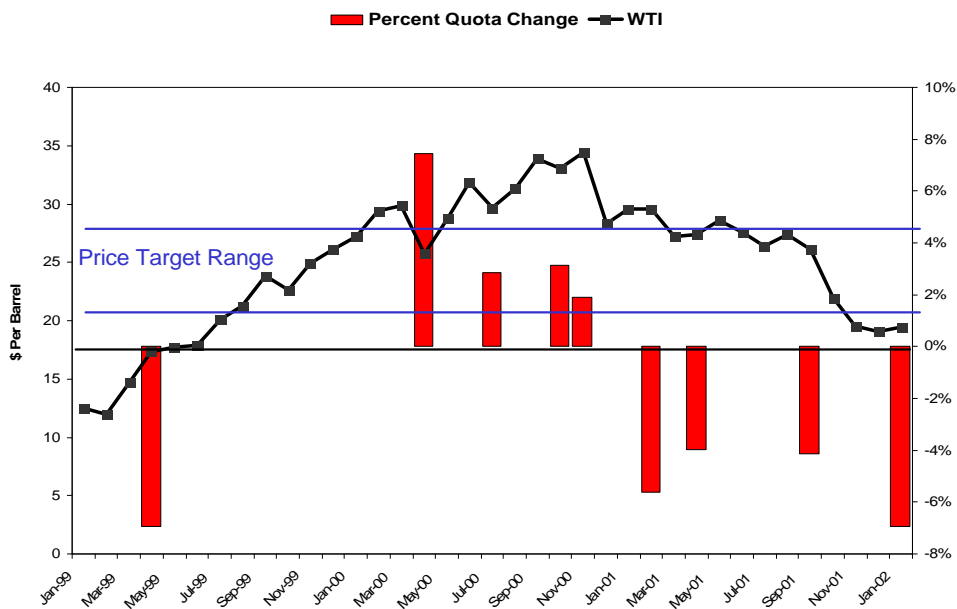
At current estimates of OPEC production of around 25.1 million barrels per day, world demand would outrun supply by around 800,000 barrels per day. In this forecast we project that OPEC production will increase from current levels, possibly before the current agreement expires in June, with the result that oil prices will be at or slightly below the lower end of OPEC's target over the next two years.

Table 15. OPEC Production
million barrels per day

	<u>February 2002</u>	<u>January 2002 Quota</u>	<u>over/(under) January 2002 Quota</u>
Algeria	0.800	0.693	0.107
Indonesia	1.120	1.125	(0.005)
Iran	3.370	3.186	0.184
Kuwait	1.770	1.741	0.029
Libya	1.280	1.162	0.118
Nigeria	1.950	1.787	0.163
Qatar	0.600	0.562	0.038
Saudi Arabia	7.200	7.053	0.147
UAE	1.910	1.894	0.016
Venezuela	<u>2.520</u>	<u>2.497</u>	<u>0.023</u>
Subtotal (less Iraq)	22.520	21.700	0.820
Iraq	2.540		
Total OPEC	25.060	21.700	0.820

Source: Middle East Economic Review, March 18, 2002.

Figure 14. OPEC Quota Adjustments and WTI Price, 1999-2002

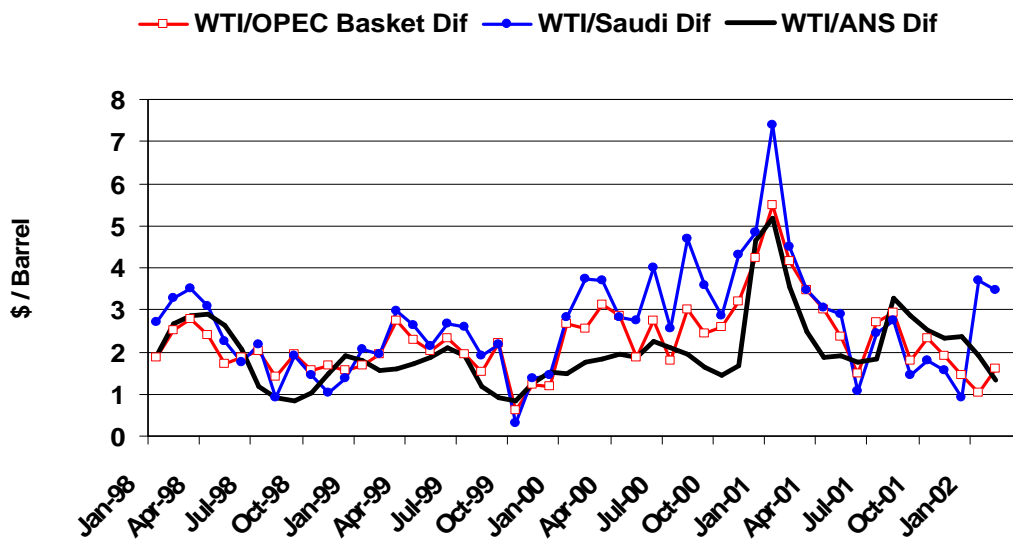


Alaska North Slope.

ANS prices generally closely track the price for the OPEC basket of internationally traded crude oils, the benchmark that OPEC uses to gauge the success of its production policy. ANS sells in direct competition with other waterborne crude oils sold at U.S. West Coast destinations. This includes a growing amount of crude oil from OPEC — primarily Saudi Arabia and Iraq.

ANS has a locational advantage over OPEC suppliers since it is the nearest waterborne source of crude oil for West Coast refiners. However, due to the seasonality of the West Coast market, ANS may trade at a premium or a discount relative to these competitive crude oils depending on the time of year and OPEC production policy. Currently the West Coast crude oil market has strengthened at least in part due to OPEC production cuts, with the result that ANS is now selling at a discount to WTI of \$1.35 per barrel, whereas last November the discount was \$2.55 per barrel.

Figure 15. WTI Price Differentials to OPEC Basket, Saudi Light and ANS



Other Transportation and Production Costs

Transportation Costs.

A review of proposed shipping requirements and current costs, together with our ANS production forecast, have led us to increase our forecast of future marine transportation costs.

The forced replacement of vessels without double hulls with new, more expensive vessels and the continued use of smaller qualified vessels — to replace larger vessels retired by compliance with the Federal Pollution Act of 1990 — has increased transportation costs.

Trans-Alaska Pipeline System (TAPS) Tariffs.

The TAPS tariff is determined according to the TAPS Settlement Methodology, a rate-making method approved by the Federal Energy Regulatory Commission that allows the TAPS owners to recover their costs, including an allowance for profit. Under the agreement, future tariffs will be determined by operating cost trends, the production rate and inflation.

TAPS tariffs are filed on a calendar year basis, with new tariffs taking effect January 1 each year. The expected tariff filing for calendar year 2002 is \$3.44 per barrel. The table on the next page contains projected tariffs for FY 2002-2010.

Feeder Pipeline Costs.

Certain additional transportation costs are also incurred to move the various crude oils that comprise ANS from North Slope production fields to Pump Station No. 1 of the Trans-Alaska Pipeline System. These include both feeder pipeline charges and other cost adjustments to account for the different qualities of oil entering the North Slope pipelines. Table 15 also summarizes these projected costs.

Wellhead Price.

The combination of ANS wellhead value and production volume by field form the basis for both state production taxes and royalties. The wellhead value by field is calculated by subtracting the relevant marine transportation and pipeline tariff costs (as well as adjustments for North Slope feeder pipelines and pipeline quality bank) from the appropriate destination value. Table 15 reflects this calculation for FY 2001-2010.

Table 16. Spring 2002 Forecast Assumptions
\$ per barrel

<u>Fiscal Year</u>	<u>ANS West Coast Price</u>	<u>ANS Marine Transportation</u>	<u>TAPS Tariff</u>	<u>Quality Bank and Feeder Pipeline</u>	<u>ANS Wellhead</u> ⁽¹⁾
Actual 2001	27.85	1.69	2.97	0.36	22.83
2002	21.50	1.91	3.40	0.05	16.39
2003	20.50	1.80	3.35	0.08	15.27
2004	19.50	1.85	3.24	0.11	14.31
2005	19.50	1.90	3.33	0.12	14.15
2006	18.50	1.95	3.43	0.13	12.99
2007	17.50	2.00	3.48	0.17	11.85
2008	17.50	2.05	3.45	0.25	11.75
2009	17.50	2.11	3.41	0.31	11.67
2010	17.50	2.15	3.47	0.31	11.57

(1) ANS wellhead value in FY 2002 includes an upward adjustment of \$0.26/barrel to account for actual reported wellhead values compared to calculated wellhead based on actual sales price and marketing deductions as reported by taxpayers year-to-date.

Oil Production

Additional exploration and development activity over the last three years has begun to bear fruit. We expect that new discoveries and developments will keep production over 1.0 million barrels per day through FY 2011, after which we project a decline of 5.6% per year.

Production Highlights.

In our forecast update we have made a few modest adjustments to our fall forecast including a three-year delay of all Beaufort Sea development as a result of BP's announcement to shelve the Liberty project. This delay includes the Sandpiper field. We have also increased Alpine's production rate and reserves to reflect the potential of the West Alpine development as well as the ongoing facilities debottlenecking and expansion.

Other production adjustments include:

- A reduction in Prudhoe Bay production by 5,000 barrels/day starting in FY 2004 to adjust our expectations for fewer new opportunities in the field.
- Increased long-term recovery from Kuparuk due to continued excellent enhanced oil recovery (EOR) response.
- An increase in Tarn production and long-term recovery due to successful development drilling and strong reservoir performance.
- A slowing in Meltwater development due to drilling delays.
- Incorporating EOR into all new Prudhoe Bay satellite fields.

Table 17. Alaska Oil and NGL Production
million barrels per day

	<u>Actual</u> <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Prudhoe Bay	0.5400	0.4906	0.4604
Midnight Sun	0.0033	0.0052	0.0070
Polaris	0.0011	0.0014	0.0034
Aurora	0.0028	0.0049	0.0082
Borealis	0.0000	0.0119	0.0215
PBU-Satellites	0.0044	0.0000	0.0024
Kuparuk	0.1960	0.1784	0.1743
West Sak	0.0050	0.0057	0.0097
Tabasco	0.0045	0.0035	0.0035
Tarn	0.0215	0.0222	0.0240
Meltwater	0.0000	0.0029	0.0150
Milne Point	0.0441	0.0401	0.0400
Schrader Bluff	0.0076	0.0121	0.0215
Sag River	0.0002	0.0006	0.0004
Endicott (1)	0.0336	0.0295	0.0282
Eider	0.0013	0.0017	0.0015
Badami	0.0022	0.0017	0.0017
Lisburne	0.0100	0.0102	0.0101
Point McIntyre	0.0598	0.0454	0.0419
Niakuk	0.0187	0.0205	0.0194
West Beach (2)	0.0009	0.0000	0.0014
Alpine	0.0379	0.0960	0.0960
Northstar	<u>0.0000</u>	<u>0.0246</u>	<u>0.0620</u>
Total	0.9906	1.0105	1.0534
Cook Inlet	0.0294	0.0325	0.0372
Total Alaska	1.0200	1.0430	1.0906

(1) Includes Sag Delta.

(2) Includes North Prudhoe Bay State.

Petroleum Property Tax

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

Exploration Property.

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

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

Production Property.

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

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

Pipeline Transportation Property.

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

The table on the next page illustrates the property tax distribution between local communities and the state for FY 2001. The property value is assessed by the state. A local tax is levied on the state's assessed value for oil and gas property within a city or borough, and is subject to the local property tax limitations established in AS 43.29.080 and .100. State law limits owners to paying 20 mills on their property — local governments get their share first, and the state receives whatever is left up to 20 mills.

Figure 16. FY 2001 Assessments by Property Type

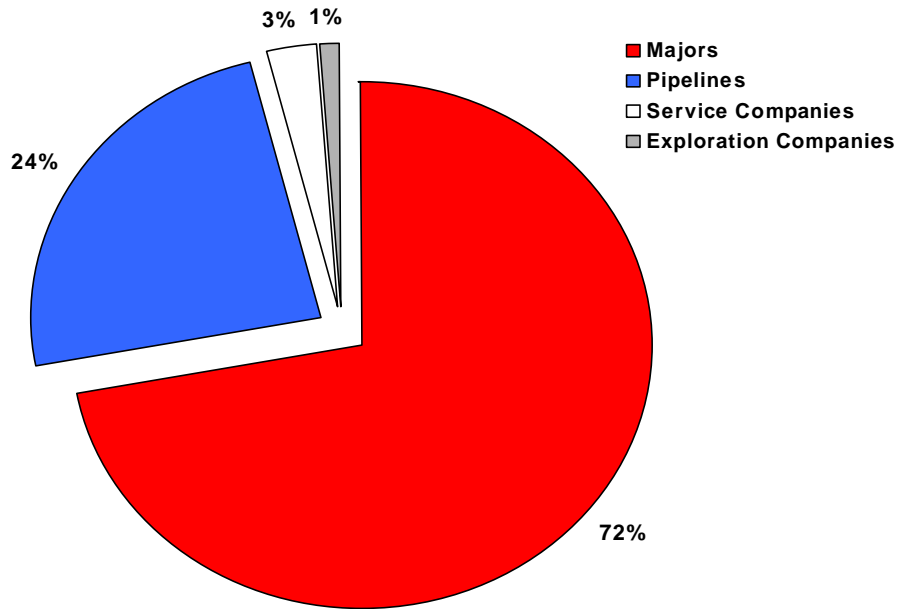


Table 18. FY 2001, Distribution of the Petroleum Property Tax
\$ Million

<u>Municipalities</u>	<u>Gross Tax</u>	<u>Local Share</u>	<u>State Share</u>
North Slope	204.4	193.0	11.3
Unorganized	27.3	0.0	27.3
Valdez	13.1	13.1	0.0
Kenai	12.0	7.2	4.9
Fairbanks	5.6	4.4	1.1
Anchorage	2.7	2.4	0.3
Other Municipalities ⁽¹⁾	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>
Total	265.2	220.2	45.0

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

Petroleum Corporate Income Tax

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

We begin our forecast by estimating the statistical relationship between historical collections of tax and the value of Alaska oil production. We then adjust the forecast for carryforwards and refunds. In FY 2002, the carryforward and refund adjustment was a record \$71 million. This adjustment is a result of oil companies overpaying their income taxes in FY 2001. Without this adjustment, the forecast for FY 2002 would have been approximately \$210 million. The lower non-adjusted forecast is a result of lower oil prices. In FY 2003 we project that revenue will continue to fall with oil prices.

Restricted Oil Revenue

The table below reflects restricted oil and gas revenue.

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. For state oil and gas leases issued after 1980, state statute requires a 50% contribution to the fund. In addition, a state statute also requires a contribution of 0.5% of all royalties and bonuses to the Public School Fund Trust. As explained earlier, settlements with or judgments against the oil industry involving tax and royalty disputes must be deposited in the CBRF.

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

Table 19. Restricted Oil Revenue
\$ Million

	<u>Actual</u> <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Restricted Oil Revenue			
Royalties to Permanent Fund & Public School Fund			
Royalties to the Permanent Fund	339.3	240.1	252.6
Royalties to the Public School Fund	<u>5.6</u>	<u>4.1</u>	<u>4.1</u>
Subtotal	344.9	244.2	256.7
Settlements to the CBRF	49.1	100.0	30.0
NPRA Royalties, Rents and Bonuses	<u>1.7</u>	<u>1.3</u>	<u>1.2</u>
Total	395.7	345.5	287.9

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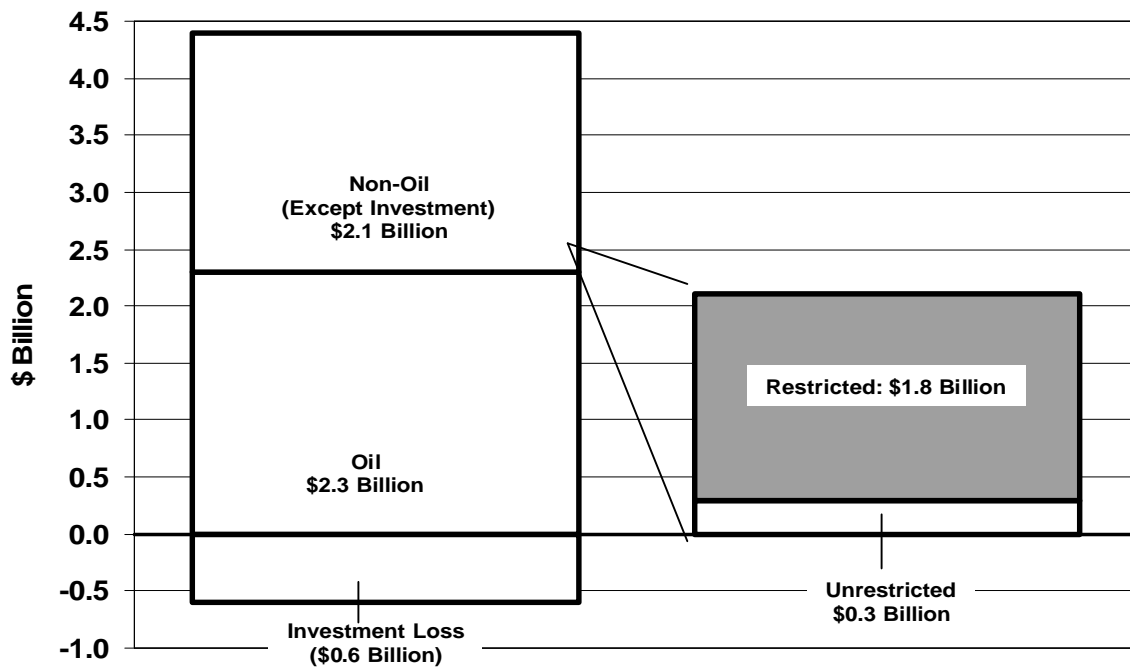
VI. NON-OIL REVENUE (EXCEPT INVESTMENTS)

Income from sources other than oil and investments includes non-oil taxes, user fees, licenses and all federal funding directed to the state (e.g., money for social services, transportation and education). Many of these revenue sources are divided between unrestricted and restricted revenues; the amounts of each are reflected in the tables. Restricted revenue includes money deposited in funds other than the General Fund and statutorily designated program receipts. For purposes of this forecast, restricted revenue also includes receipts that the legislature consistently appropriates for a particular purpose or program, such as sharing of fish tax revenue with municipalities.

Table 20. Non-Oil Revenue (Except Investments)
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Federal Receipts	0.3	0.5	0.5
Taxes	184.0	173.6	170.8
Charges for Services	27.0	22.0	22.0
Fines and Forfeitures	33.6	12.0	12.0
Licenses and Permits	37.3	36.5	37.0
Rents and Royalties	10.9	10.5	10.8
Other	<u>34.9</u>	<u>52.0</u>	<u>38.0</u>
Subtotal	327.7	306.6	290.6
Total Unrestricted	328.0	307.1	291.1
<u>Restricted</u>			
Federal Receipts	1,322.6	2,080.7	2,251.4
Taxes	61.9	58.5	55.1
Charges for Services	210.3	230.9	264.0
Fines and Forfeitures	0.0	24.9	24.7
Licenses and Permits	41.0	40.7	41.0
Rents and Royalties	0.0	0.0	0.0
Other	<u>124.4</u>	<u>125.1</u>	<u>127.7</u>
Subtotal	437.6	480.1	512.5
Total Restricted	1,760.2	2,560.8	2,763.9
Total	2,088.2	2,867.9	3,055.0

Figure 17. FY 2001 Non-Oil Revenue (Except Investments)
\$2.1 Billion

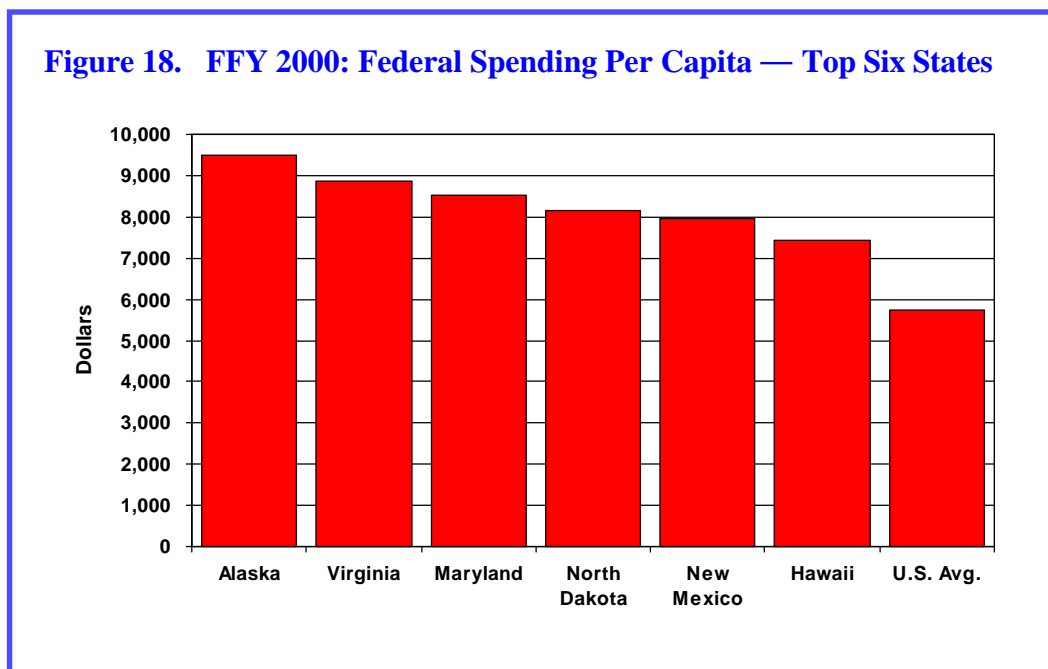


Federal Revenue

Spending by the federal government plays a significant role in Alaska's economy, as well as figuring prominently in the state revenue picture.

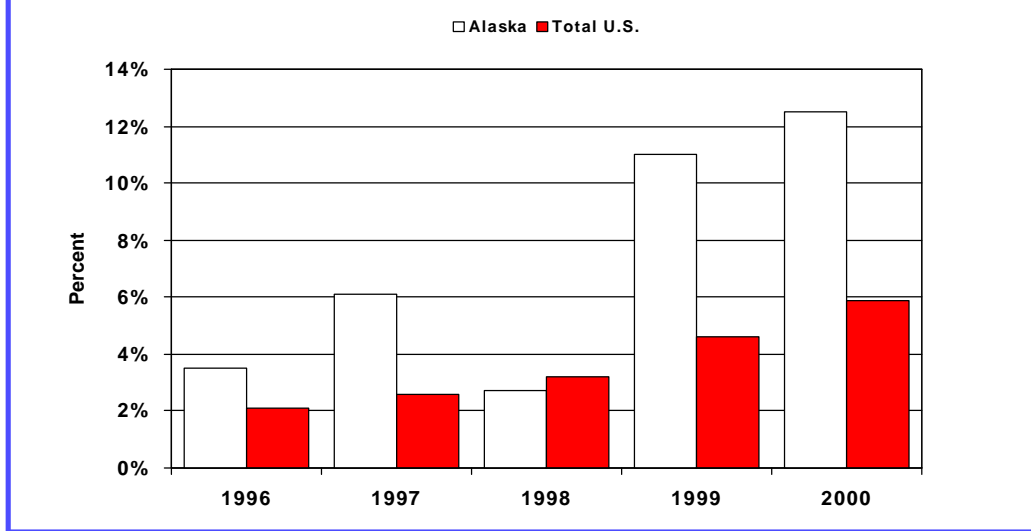
Total Federal Spending

In FFY2000, the federal government spent just under \$6 billion in Alaska.⁽¹⁾ Per capita, that's more money than any other state. It is also an increase over the year before, part of a five-year trend of climbing federal spending. In fact, the federal government has increased its spending in Alaska at a faster rate than for the nation as a whole.



(1) This and other federal fund figures in this section not otherwise attributed come from Consolidated Federal Funds Report, U.S. Census Bureau, U.S. Department of Commerce, Washington, D.C. 20233.

Figure 19. Annual Federal Spending Increase, Alaska and Total U.S.



About 40% of federal spending in Alaska is new money coming into the state — we received \$1.68 for every \$1 we paid in taxes. Because the new money comes from outside the state it contributes to an overall increase in the economy. ⁽³⁾

Among federal agencies, the Department of Defense spends the most in Alaska, followed by Health and Human Services. Together, they account for nearly half of all federal spending.

Not surprisingly, a large portion of federal dollars flows into Alaska through salaries of federal employees. However, purchases of goods and services from Alaska businesses is also significant, as is direct payments to individuals for such things as retirement and disability. More than a third of all federal spending is in the form of grants, mostly to state and local governments and nonprofit organizations.

Table 21. Total Federal Spending, FFY 2000
\$ Million

	By Agency		By Category	
	\$Million	Percent	\$Million	Percent
Defense	1,755	29	Grants	2,174 37
Health & Human Services	1,065	18	Salaries & Wages	1,349 23
Social Security	501	8	Procurement	1,108 19
Other Agencies	<u>2,632</u>	<u>44</u>	Retirement & Disability	845 14
			Other Direct Payments	<u>477</u> <u>8</u>
Total	5,953	100	5,953	100

(3) This data can be found at: <http://www.taxfoundation.ORG/pr-fedtaxspendingratio.html>.

Federal Funding in the State Budget

In FFY2000, about \$1.2 billion in federal spending flowed through the state treasury, with another \$1.1 billion going to local governments. Of the state's total, 45% was spent on capital projects. A detail of federal dollars in the FY2002 budget that flow to the state government can be found at "Federal Funding in Alaska" at <http://www.gov.state.ak.us/omb/akomb.htm>.

Figure 20. Federal Spending Through the State Budget

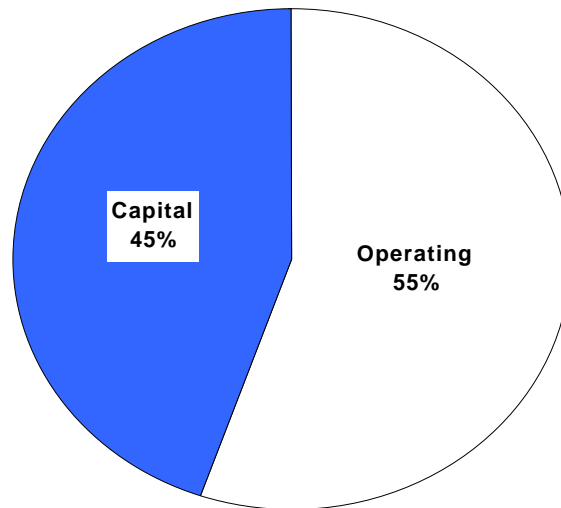
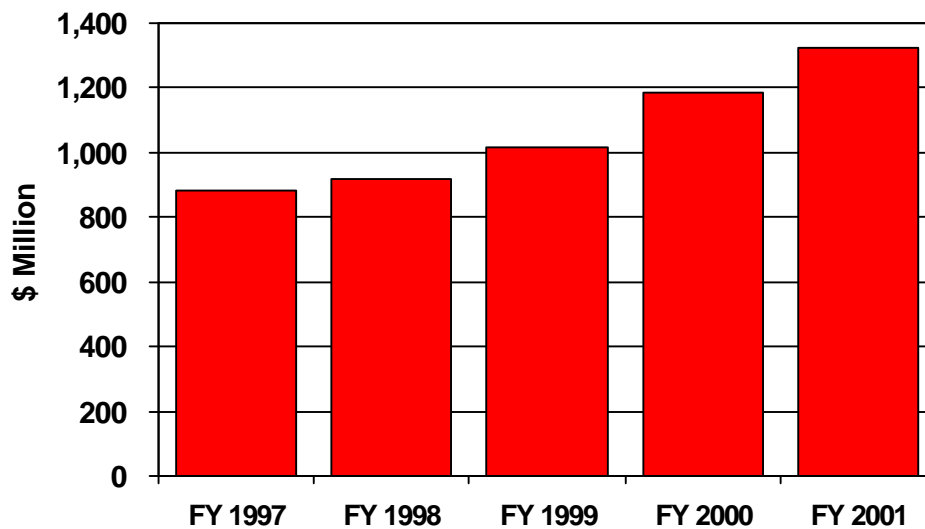


Figure 21. Federal Dollars Received by the State



* state fiscal year

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

Potential changes to federal law, differing federal and state fiscal years, and changing numbers of eligible Alaskans in certain programs make forecasting federal revenue difficult. For example, we can be pretty certain that the rising cost of medical care will drive up Medicaid costs, and that under current law federal revenues to the state will increase as a result. However, the number of Alaskans using the program could rise or fall as economic conditions change, and Congress could decide to alter the amount that states are reimbursed for Medicaid expenses. Similarly, we can fairly predict the rate at which we spend, and thus receive, federal transportation dollars, but we cannot predict how much money our congressional delegation will earmark in federal appropriation bills for additional specific projects. The estimates of federal revenue we present for FY 2002 and FY 2003 are, therefore, necessarily rough.

For state Fiscal Year 2003, we anticipate the state will budget \$2.04 billion. Most federal funding requires state matching money. We estimate that the match in FY 2003 will be \$304 million.

Almost all federal funds, whether spent in the operating or capital budget, are restricted to specific uses. The largest categories of federal funding, using the current year's budgeted amounts, are highways (\$499 million), Medicaid (\$411 million), airports (\$156 million) and education (\$161 million).

Table 22. Federal Revenue
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Actual Spending <u>FY 2001</u>	Projected Appropriations	
		<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Intergovernmental Revenue	<u>0.3</u>	<u>0.5</u>	<u>0.5</u>
Total Unrestricted	<u>0.3</u>	<u>0.5</u>	<u>0.5</u>
<u>Restricted</u>	1,322.6	2,080.7	2,051.4
Grand Total	1,322.9	2,081.2	2,251.9

(1) The FY 2002 forecast is the amount authorized in the operating and capital budget (OMB).

Non-Oil Tax

Alcohol Beverage Tax

Alcoholic beverage taxes are collected primarily from wholesalers and distributors for alcoholic beverages sold in Alaska. The current rates per gallon are \$5.60 for liquor, \$0.85 for wine and \$0.35 for beer — about 3 to 4 cents per drink. All revenue from the alcoholic beverages tax is deposited in the General Fund.

Corporate Income Tax

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

Electric Cooperative and Telephone Cooperative Taxes

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

Estate Tax

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

Fisheries Business Tax

The fisheries business tax is the oldest tax in Alaska, dating from 1913. The tax is levied on businesses that process or export fisheries resources from Alaska. Although the tax usually is levied on the act of processing, the tax is often referred to as a "raw fish tax" because it is generally based on the value paid to commercial fishers for the raw fishery resource. Tax rates vary from 1% to 5%, depending on whether a fishery resource is classified as "established" or "developing," and whether it was processed by an on-shore or floating processor. All revenue from the fisheries business tax is deposited in the General Fund, but not all of it is considered unrestricted for the purposes of this forecast. Each year, the legislature appropriates half the revenue from the tax either to the municipality in which the resource was processed, or, when the resource was processed outside a municipality, to the Department of Community and Economic Development to share with nearby municipalities. Given that this sharing formula is in statute, and that the legislature consistently follows the statutory formula, this forecast considers the shared revenues to be restricted. Fisheries business tax revenues declined in FY 2002 (2001 fishing season), mostly as a result of lower sockeye and shellfish values. Fisheries Business Tax revenues are forecast to decline again in FY 2003. This is mostly due to Department of Fish and Game forecasts of sockeye returns and the expectation of continued low sockeye prices.

Fishery Resource Landing Tax

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

Insurance Premium Tax

Insurance companies in Alaska do not pay corporate income tax or sales or other excise taxes. Instead, they pay an insurance premium tax. Receipts from this tax are deposited in the unrestricted General Fund.

Mining License Tax

This tax is on the net income of mining property in the state, ranging from 0% to 7%, less exploration and other credits. Except for sand and gravel operations, new mining operations are exempt from the mining license tax for a period of 3½ years after production begins. The production value of minerals decreased from 2000 levels by 6.5% in 2001 to \$0.9 billion, mostly due to the decreased value of zinc. In 2001, zinc accounted for 70% of the production value for all metals mined in Alaska. The five-year average for state mining license tax revenues is \$1.5 million.

Motor Fuel Tax

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

Seafood Assessments and Taxes

The Department of Revenue administers several different programs that raise money through seafood assessments. The money raised is then set aside for the legislature to appropriate for the benefit of the seafood industry — either in marketing or in management/development of the industry. The four programs are the salmon marketing tax, seafood marketing assessment, salmon enhancement tax and dive fishery management assessment. The rates for many of these assessments are actually determined by a vote of the appropriate association within the seafood industry. Although all revenue received under these assessments is deposited in the General Fund, for purposes of this forecast it is treated as restricted revenue.

Tobacco Tax

The tobacco tax dates back to 1949, when a tax of 3 cents per pack of cigarettes and 2 cents per ounce of tobacco was enacted. The tobacco tax is levied on cigarettes and tobacco products sold, imported or transferred into Alaska. Tobacco taxes are collected primarily from licensed wholesalers and distributors. The tax rate on cigarettes is \$1 per pack of 20 cigarettes. The tax rate on other tobacco products — such as cigars and chewing tobacco — is 75% of the wholesale price. Seventy-six percent of cigarette tax revenue is deposited in the School Fund; 24% in the General Fund. All tobacco products tax revenue is deposited in the General Fund; all cigarette and tobacco products license fees are deposited in the School Fund. Revenue deposited in the School Fund is dedicated to the rehabilitation, construction, repair and insurance costs of state school facilities. The decrease in cigarette tax revenue is due to a decline in taxable cigarette sales, and, in FY 2002, a one-time taxpayer refund. The increase in other tobacco products revenue in FY 2002 is due to the increase in the wholesale value of other tobacco products.

Table 23. Non-Oil Tax
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Actual FY 2001	FY 2002	FY 2003
<u>Unrestricted</u>			
Sales and Use Tax			
Alcoholic Beverage	12.0	12.9	12.0
Cigarette	10.9	10.0	10.0
Other Tobacco Product	5.4	5.8	5.9
Insurance Premium	32.2	33.1	34.5
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel	<u>37.5</u>	<u>37.5</u>	<u>37.5</u>
Subtotal	98.2	99.5	100.1
Corporation Income Tax	59.5	51.0	50.0
Fish Tax			
Fisheries Business	15.4	12.8	11.7
Fishery Resource Landing	<u>4.1</u>	<u>2.8</u>	<u>3.0</u>
Subtotal	19.5	15.6	14.7
Other			
Mining	1.7	1.5	1.5
Estate	2.7	3.6	2.1
Charitable Gaming	<u>2.4</u>	<u>2.4</u>	<u>2.4</u>
Subtotal	6.8	7.5	6.0
Total Unrestricted	184.0	173.6	170.8
<u>Restricted</u>			
Sales and Use Tax			
Electric and Telephone Cooperative	3.1	3.1	3.1
Cigarette	30.7	29.8	29.2
Motor Fuel - Aviation	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Subtotal	34.0	33.1	32.5
Fish Tax			
Fisheries Business	15.1	12.8	11.7
Fishery Resource Landing	3.2	4.0	3.7
Salmon Enhancement	3.6	3.7	2.8
Salmon and Seafood Marketing Receipts	5.7	4.6	4.1
Dive Fisheries Management	0.2	0.2	0.2
Other ASMI Receipts	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Subtotal	27.9	25.4	22.6
Total Restricted	61.9	58.5	55.1
Grand Total	245.9	232.1	225.9

Charges for Services

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

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

Marine Highway Fund

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

Program Receipts

The definition of program receipts under AS 37.05.146 is "fees, charges, income earned on assets and other state money received by a state agency in connection with the performance of its functions." The statute then lists out all programs with program receipt authority. The statutory list includes many programs that are not in Table 24 because they are elsewhere in this forecast — such as federal receipts, trust funds and the Permanent Fund — or not state money — such as the public employee retirement funds. Table 24 lists some of the larger individual programs and the receipts from those programs. The largest of these is state airport revenue from landing and other fees, rents and the sale of aviation fuel. This is deposited in the International Airport Fund, which is an enterprise fund that the legislature traditionally appropriates only for air transportation purposes. Those not listed separately, or not described elsewhere in this forecast, are included in the catchall "other."

Table 24. Charges for Services
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	<u>Actual</u> <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
General Government	19.5	16.0	16.0
Natural Resources	6.5	5.2	5.2
Other	<u>1.0</u>	<u>0.8</u>	<u>0.8</u>
Total Unrestricted	27.0	22.0	22.0
<u>Restricted</u>			
Marine Highway Receipts	37.6	38.6	40.6
Program Receipts			
Airport Receipts	73.8	71.6	76.1
Statutorily Designated ⁽¹⁾	51.7	72.5	98.5
Pioneer Home Receipts	12.4	12.5	12.5
Banking and Securities	11.2	11.0	11.0
Regulatory Commission of Alaska Receipts	4.9	4.9	4.9
Commercial Fisheries Entry Commission Receipts	4.1	4.1	4.1
Oil and Gas Conservation	2.5	3.4	4.0
Test Fisheries Receipts	2.1	2.3	2.3
Other	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>
Subtotal	172.7	192.3	223.4
Total Restricted	210.3	230.9	264.0
Grand Total	237.2	252.9	286.0

(1) The FY 2002 and 2003 forecast is the amount authorized in the operating and capital budget (OMB) for statutorily designated receipts. \$18 million of the increase in statutory designated program receipts between FY 2002 and 2003 results from a change in federal rules governing the state's share of funding for the Medicaid program.

Fines and Forfeitures

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

Tobacco Settlement

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

Table 25. Fines and Forfeitures
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Actual FY 2001	FY 2002	FY 2003
<u>Unrestricted</u>			
Tobacco Settlement	21.4	0.0	0.0
Other Settlements	5.7	6.0	6.0
Other Fines and Forfeitures	<u>6.5</u>	<u>6.0</u>	<u>6.0</u>
Total Unrestricted	33.6	12.0	12.0
<u>Restricted (1)</u>			
Tobacco Settlement (Northern Tobacco Securitization Corp.)	0.0	20.0	19.8
Tobacco Settlement (Tobacco Use Education & Cessation Fund)	<u>0.0</u>	<u>4.9</u>	<u>4.9</u>
Total Restricted	0.0	24.9	24.7
Grand Total	33.6	36.9	36.7

(1) Pursuant to the Tobacco Settlement signed in November 1998, Brown and Williamson is required to make an "initial" and "annual" payment to 46 states (including Alaska) every year. After FY 2003, initial payments are no longer required. Although Brown and Williamson withheld its FY 2002 "initial" payment, some issues have subsequently been resolved. Consequently, Brown and Williamson has agreed to pay most of its payment. However, it is still withholding approximately 25% of its payment to protest what it views as a lack of diligence by states in enforcing their statutes pertaining to non-participating manufacturers (those manufacturers that did not sign the tobacco settlement agreement). We reduced our forecast to reflect the uncertainty created by Brown and Williamson's actions.

Licenses and Permits

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

Fishing and Hunting Licenses Fees

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

Motor Vehicle Registration Fees

Motor vehicle registration fees are unrestricted license and permit revenue.

Business Fees

This category includes program receipts that are actually license or permit fees. This includes insurance licensing fees and permits and all the various license fees for occupations that require licenses, such as doctors, nurses and guides.

Table 26. Licenses and Permits
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Motor Vehicle	34.1	33.3	33.8
Other Fees	<u>3.2</u>	<u>3.2</u>	<u>3.2</u>
Total Unrestricted	37.3	36.5	37.0
<u>Restricted</u>			
Fishing and Hunting			
Hunting and Fishing Fees (Fish and Game Fund)	23.8	24.1	24.4
Sanctuary Fees (Fish and Game Fund)	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Subtotal	23.9	24.2	24.5
Insurance & Occupational			
Insurance Licensing Fees and Permits	7.9	8.0	8.0
Occupational Licensing Receipts	<u>7.2</u>	<u>6.5</u>	<u>6.5</u>
Subtotal	15.1	14.5	14.5
Other Fees (Clean Air Protection Fund)	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>
Total Restricted	41.0	40.7	41.0
Grand Total	78.3	77.2	78.0

Rents and Royalties

The majority of the unrestricted receipts under this category are from leasing, rental and sale of state land. Although certain restricted receipts go to the Permanent Fund, Mental Health Trust Fund and Public School Trust Fund, these are not included here.

Table 27. Rents and Royalties
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Land Leasing, Rental and Sale	9.2	9.2	9.2
Coal Royalties	1.1	0.8	1.0
Timber Sales	0.4	0.3	0.4
Cabin Rentals	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Total Unrestricted	10.9	10.5	10.8
Grand Total	10.9	10.5	10.8

Other

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

Public Corporation Dividends

The public corporations of the state listed in this section have been capitalized with state money, which the corporations use for purposes — usually loans — related to their mission. The dividend listed in the next table is treated as restricted revenue.

Unclaimed Property

Under the unclaimed property statutes, a person holding abandoned property belonging to someone else must turn the property over to the state, which holds the property in trust until claimed by its rightful owner. Most unclaimed property is in the form of cash (checking and savings accounts), stocks and bonds (including dividends) and safe-deposit box contents. Other property includes utility deposits, traveler checks and wages. Because not all unclaimed property owners are located, amounts received from holders exceed the refunds to owners. The Treasury Division maintains a minimum balance in the trust account and periodically transfers excess funds to the General Fund. Unclaimed property receipts for FY 2002 are far greater than in any other year because of a very large settlement of an unclaimed property dispute with Bank of America.

Table 28. Other Non-Oil Revenue
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Miscellaneous	34.9	35.0	35.0
Unclaimed Property	<u>0.0</u>	<u>17.0</u>	<u>3.0</u>
Total Unrestricted	34.9	52.0	38.0
<u>Restricted</u>			
Dividends from Public Corporations			
Alaska Housing Finance	103.0	103.0	103.0
Alaska Industrial Development & Export Authority	18.5	17.5	19.0
Alaska Student Loan Corporation	2.2	4.0	5.0
Alaska Municipal Bond Bank	<u>0.7</u>	<u>0.6</u>	<u>0.7</u>
Subtotal	124.4	125.1	127.7
Total Restricted	124.4	125.1	127.7
Grand Total	159.3	177.1	165.7

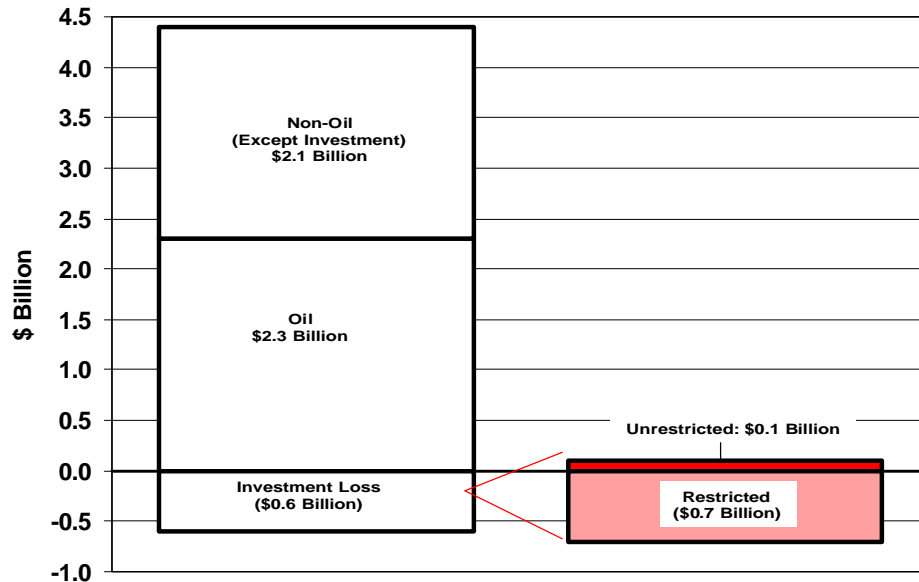
VII. INVESTMENT REVENUE

Table 29. Total Investment Revenue
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	<u>Actual</u> <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
GeFONSI Pool Investments	61.7	35.3	30.0
Investment Loss Trust Fund	0.4	0.1	0.1
Interest Paid by Others	5.5	2.0	2.0
Subtotal	67.6	37.4	32.1
<u>Restricted</u>			
GeFONSI Pool Investments	21.8	10.9	9.5
Constitutional Budget Reserve Fund	202.9	138.2	92.6
Other Treasury Managed Funds	16.5	25.3	43.4
Alaska Permanent Fund (GASB) ⁽¹⁾	(924.0)	279.6	1,906.2
Subtotal	(682.8)	454.0	2,051.7
Total	(615.2)	491.4	2,083.8

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

Figure 22. FY 2001 Investment Revenue
 (\$0.6 Billion)



Overview - Investment of State's Financial Assets

Revenue earned from investing the state's financial assets has become a major part of Alaska's revenue picture, exceeding all other state General Fund tax and royalty revenue in three of the five past years. The state's money is held in funds that fall into three categories: (1) revolving funds, (2) single-project funds, and (3) endowment funds.

(1) Revolving funds are funds that are continually expended and replenished. Examples of the state's many revolving funds include the General Fund and the International Airport Revenue Fund.

(2) Single-project funds are non-replenishing funds established with specific sums for specific projects or programs. Examples of this type of fund include the International Airport Construction Fund, as well as funds for capital grants to municipal governments, school districts, unincorporated communities and several funds for energy-related projects.

(3) The state's endowment funds are funds for which a principal balance is invested and the earnings go to support a public purpose. The state's endowment funds include the Alaska Permanent Fund, Mental Health Trust Fund, Alaska Science and Technology Fund, International Trade and Business Development Fund, Public School Trust, Alaska Children's Trust and Power Cost Equalization Endowment Fund.

Two different organizations manage the investment of most of the state's financial assets — the Treasury Division of the Alaska Department of Revenue and the Alaska Permanent Fund Corporation. The Treasury Division manages the many funds involved in the day-to-day operation of state government and also serves as the staff for the Alaska State Pension Investment Board in managing the several public employee retirement funds for which the state is responsible. In addition, it invests a portion of the University of Alaska Endowment and Exxon Valdez Oil Spill Trust Endowment. Finally, it manages state endowment funds not managed by the Permanent Fund, a portion of the Alaska Student Loan Fund and various state health and long-term care insurance funds.

The Alaska Permanent Fund Corporation has investment responsibility for the Alaska Permanent Fund, Mental Health Trust Fund, Alaska Science and Technology Endowment Fund and International Trade and Business Development Fund.

While we have included information about the Mental Health Trust Fund, Alaska Science and Technology Fund and International Trade and Business Endowment in this section of our forecast, we have not included projected investment revenue from these funds in our investment revenue totals. For financial reporting purposes, these entities are classified as component units of state government whose activities are accounted for separately from the activities of state government. ⁽¹⁾

The University of Alaska is the overall manager of its own endowment funds, and each of the state's independent public corporations except the Alaska Science and Technology Foundation manages its own cash assets.

The Treasury Division and the Alaska Permanent Fund employ similar processes when investing state assets. This involves selecting an asset allocation appropriate for the return objectives, risk tolerance, liquidity requirements and legal requirements for each individual fund. For example, where the state needs to spend the assets of a fund relatively soon — in other words, where the fund has a short-term investment horizon — the fund should be invested in assets such as short-term government securities whose value is unlikely to decline substantially in the near term. If the fund has a relatively long-term investment horizon, it is appropriate to invest a portion of the fund in riskier assets — such as stocks. Riskier assets are more likely to decline substantially in value in the near term but are also more likely to earn higher returns over the longer term.

The Treasury Division has established an array of investment pools with varying investment horizons and risk profiles. The funds are invested in these pools unless required by statute or bond indenture to be held separately. The investment pools maximize earning potential, provide economies-of-scale savings of time and dollars, and allow smaller funds to participate in investment opportunities that would otherwise be unavailable to them.

For a detailed discussion of the Treasury Division's investment process, together with the detailed investment policies of each of the funds managed by the Treasury Division, see the Division's Investment Policies and Procedures Manual at <http://www.revenue.state.ak.us/Treasury/policies/Manual.htm>.

For information on the investments managed by the Alaska Permanent Fund Corporation, see <http://www.apfc.org>.

(1) Component units are legally separate entities for which state government is financially accountable. The Mental Health Trust, Alaska Science and Technology Foundation and International Trade and Business Endowment are separately presented in the state's Comprehensive Annual Financial Report to emphasize they are legally separate from the state. The Alaska Permanent Fund Corporation is also classified as a component unit, but the report of its financial activity is blended into the primary state government report because its activities are, in substance, part of primary state government's operations.

Investment Forecast

To forecast investment revenue for the current fiscal year — FY 2002 — we combine each fund's actual performance through February 28 with a projection for the rest of the year. This projection is based on cash flow forecasts and estimated capital market median returns supplied each January by the state's investment consultant, Callan Associates Inc. (<http://www.callan.com>). These estimates are annual averages for a five-year time period. The forecast for FY 2003 is also based on these capital market return estimates.

Table 30. Callan Associates Inc. 2002 Five-Year Capital Market Estimated Returns

<u>Asset Class</u>	<u>Benchmark for Asset Class</u>	<u>%/ Year Median Expected Return</u>	<u>%/ Year Expected Risk</u>
Equities			
U.S. Broad	Callan Associates Inc. (CAI) Broad Market	9.3	17.2
U.S. Large Cap	Standard and Poors (S&P) 500	9.0	16.0
U.S. Small Cap	CAI Small	10.6	25.0
International	Morgan Stanley Capital International EAFE	9.9	21.5
Fixed Income			
Domestic Broad Market	Lehman Brothers Aggregate	5.75	5.0
Domestic Short Term (cash equivalent)	Three-Month U.S. Treasury Bill	3.5	0.7
Domestic Intermediate Term	Merrill Lynch 1- to 5-Year Government	4.6	2.6
International	Salomon Brothers Non-U.S. Government	5.6	9.6
Other			
Real Estate		8.0	16.5
Economic Variables			
Inflation		2.9	1.8

The recent volatility in the world's financial markets makes focus on the expected risk columns in the above table particularly appropriate. The numbers in this column represent a statistical measure called standard deviation, which is the most commonly used measure of risk in the investment world. The standard deviation allows you to estimate a range in which you would expect results to fall two-thirds of the time. For example, Callan estimates an average annual return for the domestic broad market fixed-income asset class of 5.75% and an expected risk for that asset class of 5%. That means Callan is forecasting that two-thirds of the time the annual return for the domestic broad fixed-income asset class will fall between 0.75% (the median expected average annual return of 5.75% *minus* the expected risk of 5%) and 10.75% (the median expected return *plus* the expected risk).

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

Unrestricted Investment Revenue

Table 31. Unrestricted Investment Revenue
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

<u>Unrestricted</u>	<u>Actual</u> <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
GeFONSI Pool Investments	61.7	35.3	30.0
Investment Loss Trust Fund	0.4	0.1	0.1
Interest Paid by Others	<u>5.5</u>	<u>2.0</u>	<u>2.0</u>
Total	67.6	37.4	32.1

Unrestricted Investment Revenue from the GeFONSI Pool

A majority of the state's funds, including the General Fund, participate in an investment pool established by the Treasury Division called the General Fund and Other Nonsegregated Investments (GeFONSI) pool. Investment objectives for this pool are: (1) limited exposure to principal loss, (2) generate income without taking substantial risk, (3) minimal inflation protection, and (4) high liquidity. To achieve these objectives this pool is, in turn, invested in two fixed-income pools established and managed by Treasury — Treasury's short-term, fixed-income pool and Treasury's intermediate-term, fixed-income pool. The GeFONSI pool has maintained an average balance of \$1 billion for the past eight years. The General Fund itself, with an average balance of \$300 million, is the largest participant in the GeFONSI pool. The balance of the GeFONSI pool consists of the cash assets of 120 other funds.

Of the funds participating in the GeFONSI pool, 61 are entitled to the actual income earned on their cash assets invested in the pool. The earnings from the cash assets of the other 60 funds are credited to the General Fund.

**Table 32. GeFONSI Investment Revenue Summary
Actual FY 2001 and Projected FY 2002-2003**

Asset Allocation

<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Short-term, Fixed-Income Pool	30%	Three-Month U.S. Treasury Bill
Intermediate-Term, Fixed-Income Pool	60%	Merrill Lynch 1- to 5-Year Government Index
Broad Market Fixed-Income Pool	10%	Lehman Brothers Aggregate

GeFONSI Pool Balance February 28, 2002	\$1,093.7 Million
Projected Annual Rate of Return	4.39 %
Probability of Negative Return Over 1 Year	1.87 %

Actual Total Investment Income, FY 2001	\$ 83.5 Million
Projected Total Investment Income, FY 2002	\$ 46.2 Million
Projected Total Investment Income, FY 2003	\$ 39.5 Million

	\$ Million		
	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
GeFONSI Pool Revenue into General Fund ⁽¹⁾	61.7	35.3	30.0
GeFONSI Pool Revenue Restricted ⁽²⁾	<u>21.8</u>	<u>10.9</u>	<u>9.5</u>
Total	<u>83.5</u>	<u>46.2</u>	<u>39.5</u>

(1) Includes subfunds of the General Fund.
 (2) Includes income from restricted bond proceeds from the sale of a portion of the tobacco settlement income stream. These funds are part of GeFONSI but are not invested in the GeFONSI Pool.

For detailed information on the funds whose cash assets are invested in the GeFONSI pool and on the restricted and unrestricted investment revenue from the GeFONSI pool, see appendices P, Q and R of Treasury's Investment Policies and Procedures Manual.

Investment Loss Trust Fund (AS 37.14.300)

The trust fund was established for the benefit of participants in the state's Supplemental Benefits System annuity plan to insure against loss on investments in annuity contracts issued in the 1980s by Executive Life Insurance Company of California, which later became insolvent. The Department of Revenue is the custodian of the fund, which consists of money appropriated by the legislature. Money earned on the fund is retained in the fund but is available for appropriation by the legislature.

**Table 33. Investment Loss Trust Fund Investment Revenue Summary
Actual FY 2001 and Projected FY 2002-2003**

<u>Asset Allocation</u>		
<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Short-term, Fixed-Income Pool	100%	U.S. Treasury Bill
Investment Loss Trust Fund Balance February 28, 2002		\$ 3.7 Million
Projected Annual Rate of Return		3.5 %
Probability of Negative Return Over 1 Year		approximately 0 %

	Total Return (\$ Million)		
	Preliminary		
	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Investment Loss Trust Fund	0.4	0.1	0.1

Restricted Investment Revenue

**Table 34. Restricted Investment Revenue
Actual FY 2001 and Projected FY 2002-2003
\$ Million**

<u>Restricted</u>	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
GeFONSI Pool Investments	21.8	10.9	9.5
Constitutional Budget Reserve Fund	202.9	138.2	92.6
Other Treasury Managed Funds	16.5	25.3	43.4
Alaska Permanent Fund (GASB) ⁽¹⁾	<u>(924.0)</u>	<u>279.6</u>	<u>1,906.2</u>
Total	(682.8)	454.0	2,051.7

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

Restricted Investment Revenue from the GeFONSI Pool

As presented in the table on the prior page, restricted investment revenue from funds whose cash assets are invested in the GeFONSI pool totaled \$21.8 million in FY 2001 and are projected to total \$10.9 in FY 2002 and \$9.5 million in FY 2003.

Constitutional Budget Reserve Fund (Alaska Constitution, Article IX, Section 17)

Voters approved a constitutional amendment in 1990 establishing the Constitutional Budget Reserve Fund (CBRF) and requiring the state to deposit all settlements from oil and gas and mining tax and royalty disputes into that fund. The money in the CBRF is invested by the Department of Revenue, and the CBRF retains its own investment earnings. Although, in theory, the legislature may appropriate money from the CBRF under certain conditions with a simple majority vote, in practice those conditions do not occur and it takes a three-fourths vote of the members of each chamber to appropriate money from the fund.

Since 1991 the legislature has appropriated money from the CBRF to balance the state's budget in every fiscal year except 1997 and 2001, when high oil prices resulted in small budget surpluses. The Alaska Constitution requires the General Fund to repay the money appropriated from the CBRF if the General Fund has a surplus at the end of any fiscal year, but the General Fund does not pay interest on the money it has "borrowed" from the CBRF. As of March 31, 2002, the General Fund had "borrowed" about \$4.5 billion from the CBRF.

On June 30, 2001, the CBRF cash balance was \$2.995 billion. The balance was down to \$2.468 billion on February 28, 2002. Based on our oil price and production projections, if the state maintains its budget at the level of Governor Knowles' FY 2003 budget request, but continues to draw on the CBRF to balance the budget, the CBRF will run out of money in late 2004 (see Page 34).

Treasury's investment policies for the CBRF have changed over the years as the balance and the expected uses of the CBRF have changed. Before 1999 a portion of the CBRF was invested with a long-term horizon and some of the fund was invested in U.S. equities. The very low oil prices experienced in 1998 and 1999 led to a significant reduction in the amount in the fund. The reduced size of the fund significantly shortened its investment time horizon, meaning the state could no longer afford the risk of long-term stock investments because the CBRF would likely be drained over the next few years. Therefore, the fund's investments were moved out of equities and concentrated in relatively short-term, fixed-income securities. A significant change occurred again in 2000 when the legislature created a special subaccount in the CBRF in the amount of \$400 million. The legislature instructed the Department of Revenue to invest the \$400 million subaccount with a long-term horizon so that the money would be invested in stocks — not just bonds — in the hope of earning more investment revenue over time.

**Table 35. CBRF Investment Revenue Summary
Actual FY 2001 and Projected, FY 2002-2003**

Asset Allocation Regular Account

<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Short-term, Fixed-Income Pool	21%	Three-Month U.S. Treasury Bill
Intermediate-term, Fixed-Income Pool	44%	Merrill Lynch 1- to 5-Year Government Index
Broad Market Fixed-Income Pool	35%	Lehman Brothers Aggregate Bond Index
Regular Account Balance February 28, 2002		\$2,104.7 Million
Projected Annual Rate of Return		4.77 %
Probability of Negative Return Over 1 Year		4.99 %

Asset Allocation Special Subaccount

<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Broad Market Fixed-Income Pool	42%	Lehman Brothers Aggregate Bond Index
Domestic Equity Pool	41%	Russell 3000 Index
International Equity Pool	17%	MSCI EAFE Index
Special Subaccount Balance February 28, 2002		\$ 363.0 Million
Projected Annual Rate of Return		7.90 %
Probability of Negative Return Over 1 Year		23.36 %

	Total Investment Income (\$Million)		
	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Regular Account	226.9	141.5	62.1
Special Subaccount	(24.0)	(3.3)	30.5
Total	202.9	138.2	92.6

Table 36. Constitutional Budget Reserve Fund Cash Flows
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Actual FY 2001	FY 2002	FY 2003
Beginning Cash Balance CBRF	2,734.2	2,994.8	2,406.4
Beginning Main Account Balance	2,734.2	2,618.8	2,033.7
Transfer to Special Subaccount	(400.0)	0.0	0.0
Earnings on Main Account Balance ⁽¹⁾	226.9	141.5	62.1
Petroleum Tax, Royalty Settlements ⁽²⁾	49.1	100.0	30.0
Loan to GF (prior year)	0.0	0.0	0.0
Loan to GF (current year)	<u>8.6</u>	<u>(826.6)</u>	<u>(1,040.4)</u>
Ending Main Account Balance	2,618.8	2,033.7	1,085.4
Beginning Special Subaccount Balance	400.0	376.0	372.7
Earnings on Special Subaccount Balance ⁽¹⁾	(24.0)	(3.3)	30.5
Draw on Special Subaccount	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Ending Special Subaccount Balance	376.0	372.7	403.2
Total CBRF Balance	2,994.8	2,406.4	1,488.6

(1) The projected earnings rate for the balance of FY 2002 and 2003 is 4.77% for the undesignated subaccount and 7.90% for the special subaccount. These projections are based on Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.

(2) Settlement estimates are provided by the Department of Revenue and Department of Law, net of annual Federal Minerals Management Service payments.

International Airport Funds (AS 37.15.410 - .550)

In 1961 the Alaska Legislature established an enterprise fund, the International Airport Revenue Fund, to facilitate issuing revenue bonds for construction at the Anchorage and Fairbanks International Airports. Enterprise funds are self-supporting, revolving funds used to account for business-like state activities. They are financed through user charges and subject to legislative appropriation. Almost all the revenue and expenses of these two international airports flow through this Airport Revenue Fund, including the funding for most repair and maintenance projects. Consequently, the revenue fund is subject to large cash inflows and outflows.

The Airport Revenue Fund has maintained a significant balance (it has averaged \$85 million since 1996), and the investment earnings from the fund are a significant revenue source for the airport system. Most of the revenue to run the airports comes from landing and lease fees paid by the airlines, and the Department of Transportation and Public Facilities takes the fund's projected earnings into account in negotiating fees with airlines. Airport management and airline representatives have tried to keep fees as stable and low as practical. Relatively stable investment earnings assist the airport system and the airlines in meeting that goal.

**Table 37. International Airport Revenue Fund Investment Revenue Summary
Actual 2001 and Projected 2002-2003**

<u>Asset Allocation</u>		
<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Short-term, Fixed-Income Pool	21%	Three-Month U.S. Treasury Bill
Intermediate-term, Fixed-Income Pool	44%	Merrill Lynch 1- to 5-Year Government Index
Broad Market Fund Fixed-Income Pool	35%	Lehman Brothers Aggregate
International Airport Revenue Fund Balance February 28, 2002		\$ 100.7 Million
Projected Annual Rate of Return		4.77 %
Probability of Negative Return Over 1 Year		4.99 %

	<u>Total Investment Income (\$ Million)</u>		
	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
International Airport Revenue Fund	8.5	8.0	4.0

Major improvements in the International Airport system have generally been financed with revenue bonds. When issued, the proceeds of these airport revenue bonds are deposited into a separate International Airport Construction Fund. Unspent proceeds of four bond issues to finance major improvements at the International Airport system are currently invested in the Airport Construction Fund. The investment earnings from this fund are available to help pay for the construction project.

**Table 38. International Airport Construction Fund Investment Revenue Summary
Actual FY 2001 and Projected FY 2002-2003**

<u>Asset Allocation</u>		
<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Short-term, Fixed-Income Pool	25%	Three-Month U.S. Treasury Bill
Intermediate-term, Fixed-Income Pool	75%	Merrill Lynch 1- to 5-Year Government Index

International Airport Construction Fund Balance February 28, 2002	\$ 135.0 Million
Projected Annual Rate of Return	4.33 %
Probability of Negative Return Over 1 Year	1.55 %

Total Investment Income (\$ Million)			
	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
International Airport Construction Fund	13.6	5.6	4.8

Public School Trust Fund (AS 37.14.110)

The net income of this Trust Fund may only be appropriated to support the state public school program. This trust fund was created from the Public School Permanent Fund on July 1, 1978, but its history goes back much further. The original source of funding consisted of income from the sale or lease of approximately 100,000 acres of land granted to the Territory of Alaska by an Act of Congress on March 15, 1915. The principal of the fund could not be appropriated by the legislature. The 1978 change abolished the land portion of the trust and, in its place, provided that one-half of 1% of the total receipts derived from the management of state land, including amounts paid to the state as proceeds of the sale or annual rent of surface rights, mineral lease rentals, royalties, royalty sale proceeds and federal mineral revenue-sharing payments or bonuses were to be deposited into the fund.

The money in the Trust Fund is invested and managed by the Department of Revenue, and the Commissioner of Revenue is the treasurer and fiduciary of the fund. The fund is managed to provide increasing net income over the long term for the fund's income beneficiaries. The principal of the fund and all capital gains or losses realized on the investment of the assets of the fund must be retained in the fund.

Currently, the fund each year distributes 4.75% of the last five years' average market value of the fund principal, as long as this amount does not exceed the accumulated interest and dividend income.

Legislation pending before the Alaska State Legislature would modify the laws governing this trust so that it would be administered in the same manner as a typical institutional endowment fund. The distinction between "principal" and "income" would be abolished and the fund would be managed to preserve its purchasing power over the long term. Five percent of the market value of the fund would be distributed to support public education each year.

For a more detailed comparison of this fund with other state endowment funds, see Section VIII of this forecast.

**Table 39. Public School Trust Investment Revenue Summary
Actual FY 2001 and Projected FY 2002-2003**

<u>Asset Allocation</u>		
<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Broad Market Fixed-Income Pool	58%	Lehman Brothers Aggregate Index
Domestic Equity Pool	42%	Russell 3000 Index
Public School Trust Fund Balance February 28, 2002		\$ 275.3 Million
Projected Annual Rate of Return		7.24 %
Probability of Negative Return Over 1 Year		19.73 %

	Total Investment Income and Distributable Income (\$ Million)		
	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Public School Trust Total Investment Income	0.4	5.1	20.5
Public School Trust Distributable Income	8.6	11.8	12.5

Alaska Children’s Trust (AS 37.14.200)

Income from this endowment is used to provide grants to community-based programs for the prevention of child abuse and neglect. The trust provides individual grants of up to \$50,000 per year, matched by other sources.

The legislature established the trust in 1988. The Commissioner of Revenue is the fiduciary. The first significant funding of the trust occurred in 1996 when the legislature appropriated \$6 million to the trust. Appropriations, gifts, bequests and contributions of cash or other assets provide additional funds in the endowment.

Currently, the fund distributes 4.75% of the last five years’ average beginning market value of the principal, as long as this amount does not exceed the accumulated interest and dividend income.

Legislation pending before the Alaska State Legislature would modify the laws governing this trust so that it would be administered in the same manner as a typical institutional endowment fund. The distinction between “principal” and “income” would be abolished and the fund would be managed to preserve its purchasing power over the long term. Five percent of the market value of the fund would be distributed to support grants to children’s programs each year.

For a more detailed comparison of this fund with other state endowment funds, see Section VIII of this forecast.

**Table 40. Alaska Children’s Trust Investment Revenue Summary
Actual FY 2001 and Projected FY 2002-2003**

<u>Asset Allocation</u>		
<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Broad Market Fixed-Income Pool	58%	Lehman Brothers Aggregate Index
Domestic Equity Pool	42%	Russell 3000 Index
Alaska Children’s Trust Balance February 28, 2002		\$ 9.2 Million
Projected Annual Rate of Return		7.24 %
Probability of Negative Return Over 1 Year		19.73 %

	Total Investment Income and Distributable Income (\$ Million)		
	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Alaska Children’s Trust Total Investment Income	0.0	0.2	0.8
Alaska Children’s Trust Distributable Income	0.4	0.4	0.4

Power Cost Equalization Endowment Fund (AS 42.15.070)

Two separate funds are involved in the Power Cost Equalization program: the Power Cost Equalization Endowment Fund, which supplies money to the program; and the Power Cost Equalization and Rural Electric Capitalization Fund, which distributes money for the Power Cost Equalization program.

The legislature in May 2000 established the Endowment Fund as a separate fund of the Alaska Energy Authority (AEA). The AEA is a public corporation of the Department of Community and Economic Development directed by the officers of the Alaska Industrial Development and Export Authority. The endowment consists of the following sources of revenue:

1. Legislative appropriations.
2. Accumulated earnings.
3. Gifts and bequests.
4. Federal money.
5. Payments received after June 30, 2001 from the sale of the state-owned Four-Dam Pool hydroelectric projects in Kodiak, Valdez, Ketchikan and Wrangell-Petersburg.

The Commissioner of Revenue is the fiduciary of the endowment. The Department of Revenue is to manage the endowment in a manner likely to achieve at least a 7% nominal return over time.

For the initial transition years (2002 through the first year after closing of the Four-Dam Pool sale), 7% of the market value on February 1 each year is designated to pay for the Power Cost Equalization program for the next fiscal year. After the transition years, on July 1 of each year, the commissioner must determine the monthly average market value of the endowment for the previous three fiscal years, excluding the transition years. Seven percent of this amount may be appropriated for the following fiscal year for three purposes:

1. Funding the Power Cost Equalization and Rural Electric Capitalization Fund (AS 42.45.100).
2. Reimbursement to the Department of Revenue for the costs of establishing and managing the endowment.
3. Reimbursement of other costs of administration of the endowment.

The Power Cost Equalization and Rural Electric Capitalization Fund is used to equalize power costs per kilowatt-hour statewide at a cost close to or equal to the average cost per kilowatt-hour in Anchorage, Fairbanks and Juneau by paying money to eligible electric utilities in the state.

The program fund has received direct legislative appropriations, appropriations from the Power Cost Endowment Fund, and money appropriated from the National Petroleum Reserve Alaska Special Revenue Fund. The program fund is managed by the Alaska Energy Authority.

For a more detailed comparison of this fund with other state endowment funds, see Section VIII of this forecast.

**Table 41. Power Cost Equalization Endowment Investment Revenue Summary
Actual FY 2001 and Projected FY 2002-2003**

Asset Allocation

<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Broad Market Fixed-Income Pool	42%	Lehman Brothers Aggregate Index
Domestic Equity Pool	41%	Russell 3000 Index
International Equity Pool	17%	MSCI EAFE Index

Power Cost Equalization Endowment Balance February 28, 2002	\$ 183.6 Million
Projected Annual Rate of Return	7.90 %
Probability of Negative Return Over 1 Year	23.36 %

	Total Return and Distributable Funds (\$ Million)		
	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Power Cost Equalization Endowment Total Return	(6.0)	6.4	13.3
Power Cost Equalization Endowment Distributable Funds	na ⁽¹⁾	7.1	12.8

(1) FY 2002 is the first year in which appropriations can be made.

Alaska Permanent Fund Corporation - Four Endowment Funds

The four endowment funds managed by the Alaska Permanent Fund Corporation (APFC) — the Alaska Permanent Fund itself, Mental Health Trust, Alaska Science and Technology Endowment and International Trade and Business Endowment — share several common attributes. First, all four funds are invested together with a common asset allocation. (See table below.) Second, all four use an income measure called *statutory net income*. This measure is different from the income measure prescribed by the Governmental Accounting Standards Board (GASB) for public funds. Under GASB standards, public funds normally recognize changes in the value of investments as income, or losses, as they occur at the end of each trading day, regardless of whether the investment is actually sold. By Alaska law, however, to calculate income available for use from these four funds, gains or losses on individual stocks and bonds are not recognized until the stock or bond is sold. The portfolios of these funds usually include significant unrealized gains and/or losses. As those gains or losses are realized over time, they may cause the fund's statutory net income to differ significantly from the net income derived using GASB standards. Of these four endowments, only the revenue earned by the Permanent Fund is included in our summary.

Table 42. Four Endowment Trust Funds Managed by the Permanent Fund Corporation Revenue Summary

<u>Asset Allocation</u>	
<u>Asset Class</u>	<u>Percent Allocation</u>
Domestic Equities	37%
International Equities	16%
Domestic Fixed Income	35%
International Fixed Income	2%
Real Estate	10%
Projected Annual Rate of Return	7.95 %
Probability of Negative Return Over 1 Year	23.5 %

Alaska Permanent Fund.

In 1976, voters established the Alaska Permanent Fund by constitutional amendment. The amendment requires that at least 25% of the state's oil, gas and mining lease bonuses, rentals, royalties and federal mineral revenue-sharing payments be deposited into the fund. The legislature has, as described later, provided for use of some of the fund's income. The fund's principal, however, is protected by the constitution.

The legislature established the Alaska Permanent Fund Corporation (APFC) to manage and invest the fund's assets. The APFC is a public corporation managed by a board of trustees appointed by the governor.

The fund has grown significantly over the years, and as of February 28, 2002, had a market value of \$24.6 billion, of which slightly more than \$21 billion is principal.

As fiduciaries for the fund, the trustees must have an investment objective that addresses the safety of the principal while maximizing total return. The board must also allow for maximum use of disposable income for purposes designated by law. To accomplish this, the board has adopted an investment policy that addresses risk, return, diversification and liquidity. Using this policy, the board adopted a strategic asset allocation by applying the basic process referenced earlier.

The table on the next page reflects the projected balances for the Permanent Fund, and projected income using both the statutory net income and GASB net income measures.

The Alaska Constitution requires the deposit of the income earned by the assets of the Permanent Fund "into the General Fund unless otherwise provided by law." The legislature has, by law, "provided otherwise" and all of the Permanent Fund's income is deposited into the Earnings Reserve Account within the Permanent Fund. This account was established by AS 37.13.145.

In turn, the income accumulated in the Earnings Reserve Account is statutorily applied to the Permanent Fund dividend program (AS 37.13.140 and AS 37.13.145(b)) and to inflation proofing the principal of the Permanent Fund (AS 37.13.145(c)). Realized Permanent Fund income in excess of the amount needed to satisfy the statutory dedication for annual dividends and inflation proofing — while legally available for other uses — has been left in the Permanent Fund Earnings Reserve Account. Because, as a matter of political custom, these excess earnings have been left in the Permanent Fund, this revenue forecast treats them as restricted revenue.

Table 43. Alaska Permanent Fund ⁽¹⁾
Actual FY 2001 and Projected FY 2002-2003
\$ Million

	Actual FY 2001	FY 2002	FY 2003
Principal			
Beginning Balance	20,014.8	21,046.8	21,889.2
Dedicated Petroleum Revenue	339.0	240.0	253.0
Inflation Proofing	686.0	602.4	642.5
Deposits to Principal (Settlement Earnings)	<u>7.0</u>	<u>0.0</u>	<u>12.5</u>
End-of-Year Balance	21,046.8	21,889.2	22,797.2
Earnings and Earnings Reserve Account (Statutory Income) ⁽²⁾			
Earning Reserve Account (ERA) Beginning Balance	2,972.0	2,384.0	1,224.7
Statutory Net Income and Settlement Earnings	1,222.0	382.1	1,329.9
Dividend Payout	(1,113.0)	(939.0)	(805.0)
Inflation Proofing	(686.0)	(602.4)	(642.5)
Deposits to Principal	(7.0)	0.0	(12.5)
Other Appropriations	<u>(4.0)</u>	<u>0.0</u>	<u>0.0</u>
ERA End-of-Year Balance (Statutory)	2,384.0	1,224.7	1,094.6
Earnings and Earnings Reserve Account (GASB Income) ⁽²⁾			
ERA Beginning Balance	6,501.0	3,767.0	2,505.2
GASB Net Income	(924.0)	279.6	1,906.2
Dividend Payout	(1,113.0)	(939.0)	(805.0)
Inflation Proofing	(686.0)	(602.4)	(642.5)
Deposits to Principal	(7.0)	0.0	(12.5)
Other Appropriations	<u>(4.0)</u>	<u>0.0</u>	<u>0.0</u>
ERA End-of-Year Balance (GASB)	3,767.0	2,505.2	2,951.4
Market Value			
Principal End-of-Year Balance	21,046.8	21,889.2	22,797.2
ERA End-of-Year Balance (Statutory Income)	2,384.0	1,224.7	1,094.6
End-of-Year Unrealized Earnings	<u>1,383.0</u>	<u>1,280.5</u>	<u>1,856.7</u>
Subtotal	24,813.8	24,394.4	25,748.5
Dividends Payable and Other Liabilities	<u>1,370.0</u>	<u>939.0</u>	<u>805.0</u>
End-of-Year Balance (Total Asset Market Value)	26,183.8	25,333.4	26,553.5
Reconciliation			
Dividends Payable and Other Liabilities	<u>(1,370.0)</u>	<u>(939.0)</u>	<u>(805.0)</u>
End-of-Year Balance (Net Asset Market Value)	24,813.8	24,394.4	25,748.5

(1) Source: Permanent Fund Corporation data as of April 3, 2002, using February 28, 2002, financial statements. Income projections are based on Callan Associates, Inc. 2002 capital market assumptions: 7.95% total return for FY 2003.

(2) Alternative measures of income. Under GASB principles, daily gains or losses in investment value are recognized. Under statutory net income, gains or losses in investment value are not recognized until the investment is sold.

Mental Health Trust Fund (AS 37.14.001).

The Mental Health Trust Fund is administered by the Alaska Mental Health Trust Authority. The trust was created in territorial days when Congress passed the Alaska Mental Health Enabling Act of 1956. To implement the trust, the state selected one million acres of land to provide revenues for the development of a comprehensive mental health program for the state's citizens.

The state eventually merged the Mental Health Trust lands with the state's general grant land and transferred some of these lands to private ownership, prompting litigation that resulted in an Alaska Supreme Court order to reconstitute the trust. In 1994, a final settlement reconstructed the trust with 500,000 acres of the original trust land, 500,000 acres of replacement land, and \$200 million in cash.

The trust's cash assets are held in the Mental Health Trust Fund and those assets are managed by the APFC. Trust lands are managed by the Trust Land Office in the Department of Natural Resources. The cash principal of the Mental Health Trust Fund must be retained in perpetuity in the fund for investment by the APFC and, as a result, may not be spent. The principal of the fund includes (1) the \$200 million referenced above, (2) a portion of the revenue from trust lands, and (3) fund earnings that the Trust Authority has transferred into the principal.

Earnings of the fund accumulate in an earnings account that is managed along with the fund's principal at the APFC. This earnings account, which is equivalent to the Permanent Fund's Earnings Reserve Account, is called the *Principal Reserve Account* by the Mental Health Trust Authority.

The operations of the trust, including management of the trust's lands and the Trust Fund and the trust's grant program, are paid for from yet another account called the *Mental Health Trust Settlement Income Account*. This account is managed by the Treasury Division, and is part of the GeFONSI pool described earlier in this report.

AS 37.14.031(c) requires the APFC to determine the annual net income of the Mental Health Trust Fund in the same manner it determines the annual net income of the Permanent Fund (on the basis of realized as opposed to GASB income). Further, AS 37.14.035(b) directs the APFC, at the end of each fiscal year, to transfer all of the Trust Fund's realized net income to the *Settlement Income Account* managed by the Treasury Division. A different practice has developed, however. The Trust Authority has the discretion under AS 37.14.039(b) to make arrangements to invest any money in the *Settlement Income Account* that exceeds the current and projected cash needs of the trust. The Trust Authority has concluded that these excess funds should be invested by the APFC along with the principal of the trust. Rather than transfer all of the annual earnings from the APFC to the *Settlement Income Account* at Treasury and then request the transfer of the excess amount back to the APFC, the Trust Authority has arranged for the APFC to transfer to the *Settlement Income Account* only the amount needed each year for the trust's operations and grant program.

While the operating budget of the Mental Health Trust is subject to legislative appropriation under the Executive Budget Act, the trust's grant program is not. When the trust awards grants to state agencies, those agencies must, of course, obtain legislative authorization to receive and expend those grants. No legislative approval or appropriation is required for the trust's grants to municipalities and/or nonprofit corporations.

The Mental Health Trust Fund spending policy is to distribute 3.5% of the year-end market value of the Trust Fund. The Mental Health Trust Authority has adopted this conservative distribution policy to build up a sufficient principal reserve and thus ensure the fund will be able to continue to support its program in years of poor returns in the financial markets. If income exceeds the 3.5% distribution, the excess remains with the Principal Reserve Account of the Trust Fund or is moved into the principal of the fund in accordance with the directions and policies adopted by the Trust Authority Board. Currently, the trust tries to maintain a balance in the Principal Reserve Account equal to four times the projected annual distribution. Eventually, the Trust Authority hopes to increase the annual distribution rate to 5% of the year-end market value.

Table 44. Mental Health Trust Fund ⁽¹⁾
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Actual FY 2001	FY 2002	FY 2003
<u>Principal</u>			
Beginning Balance	259.9	261.9	269.2
Deposits to Principal	<u>2.0</u>	<u>7.2</u>	<u>3.2</u>
End-of-Year Balance	261.9	269.2	272.4
<u>Earnings and Principal Reserve Account (Statutory Income) ⁽²⁾</u>			
Principal Reserve Account (PRA) Beginning Balance	53.0	56.3	54.6
Statutory Net Income	14.9	4.6	17.5
Distributions	<u>(11.5)</u>	<u>(6.3)</u>	<u>(11.0)</u>
PRA End-of-Year Balance (Statutory)	56.3	54.6	61.1
<u>Earnings and Principal Reserve Account (GASB Income) ⁽²⁾</u>			
PRA Beginning Balance	67.4	44.5	41.8
GASB Net Income	(11.4)	3.7	25.1
Distributions	<u>(11.5)</u>	<u>(6.3)</u>	<u>(11.0)</u>
PRA End-of-Year Balance (GASB)	44.5	41.8	55.9
<u>Total Liabilities and Fund Balance</u>			
Principal End-of-Year Balance	261.9	269.2	272.4
PRA End-of-Year Balance (Statutory Income)	56.3	54.6	61.1
End-of-Year Unrealized Earnings	<u>(11.9)</u>	<u>(12.8)</u>	<u>(5.2)</u>
Subtotal	306.4	311.0	328.3
Other Liabilities	<u>3.3</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Total Asset Market Value)	309.7	311.0	328.3
<u>Reconciliation</u>			
Other Liabilities	<u>(3.3)</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Net Asset Market Value)	306.4	311.0	328.3

(1) Source: Alaska Mental Health Trust Fund April 3, 2002, estimates using February 28, 2002, financial statements. Income projections are based on Callan Associates, Inc. 2002 capital market assumptions: 7.95% total return for FY 2003. End-of-year other liabilities balance is projected at zero for current and all future years.

(2) Alternative measures of income. Under GASB principles, daily gains or losses in investment value are recognized. Under statutory net income, gains or losses in investment value are not recognized until the investment is sold.

Alaska Science and Technology Foundation and Endowment (AS 37.17.010).

The Alaska Science and Technology Foundation was established in 1988 as a public corporation in the Department of Community and Economic Development to promote and enhance the development and commercialization of technology in the state.

The Alaska Science and Technology Endowment was established to support the foundation and was capitalized with \$100 million in legislative appropriations to benefit the foundation. The Alaska Permanent Fund Corporation (APFC) manages the endowment's investments.

The distribution of the endowment's income to the foundation is subject to the Executive Budget Act. The board has the discretion to divide the annual realized capital gains between principal and income of the fund. With one exception — totaling \$1.037 million in 1991 — the board has left the realized capital gains in the fund's income account.

Income from the endowment is used to fund grants through a competitive proposal process managed by the foundation's nine-member board of directors. The administrative expenses of the foundation are also paid from income, and the legislature also has appropriated income of the endowment to pay for the administrative expenses of the Alaska Aerospace Development Corporation and the University of Alaska agricultural and forestry experiment station research centers.

Table 45. Alaska Science and Technology Endowment ⁽¹⁾
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Actual FY 2001	FY 2002	FY 2003
<u>Principal</u>			
Beginning Balance	101.2	101.2	101.2
Deposits to Principal	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>
End-of-Year Balance	101.2	101.2	101.3
<u>Earnings and Earnings Reserve Account (Statutory Income) ⁽²⁾</u>			
Earning Reserve Account (ERA) Beginning Balance	4.3	2.4	0.0
Statutory Net Income	5.2	1.6	5.7
Distributions	<u>(7.1)</u>	<u>(4.0)</u>	<u>(5.7)</u>
ERA End-of-Year Balance (Statutory)	2.4	0.0	0.0
<u>Earnings and Earnings Reserve Account (GASB Income) ⁽²⁾</u>			
ERA Beginning Balance	16.6	5.5	2.9
GASB Net Income	(4.0)	1.3	8.1
Distributions	<u>(7.1)</u>	<u>(4.0)</u>	<u>(5.7)</u>
ERA End-of-Year Balance (GASB)	5.5	2.9	5.3
<u>Total Liabilities and Fund Balance</u>			
Principal End-of-Year Balance	101.2	101.2	101.3
ERA End-of-Year Balance (Statutory Income)	2.4	0.0	0.0
End-of-Year Unrealized Earnings	<u>3.1</u>	<u>2.9</u>	<u>5.3</u>
Subtotal	106.7	104.1	106.6
Other Liabilities	<u>1.6</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Total Asset Market Value)	108.3	104.1	106.6
<u>Reconciliation</u>			
Less: Other Liabilities	<u>(1.6)</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Net Asset Market Value)	106.7	104.1	106.6

(1) Source: Alaska Science and Technology Endowment estimates using February 28, 2002, financial statements. Income projections are based on Callan Associates, Inc. 2002 capital market assumptions: 7.95% total return for FY 2003. End-of-year other liabilities balance is projected at zero for current and all future years.

(2) Alternative measures of income. Under GASB principles, daily gains or losses in investment value are recognized. Under statutory net income, gains or losses in investment value are not recognized until the investment is sold.

International Trade and Business Endowment.

In 1997, the legislature established the International Trade and Business Endowment and assigned the administration of the endowment to the Alaska Science and Technology Foundation. The legislature funded this endowment with an appropriation of \$4.95 million in FY 1997 to support programs for the development of international trade and business in the state. The Department of Community and Economic Development administers the programs supported by the income from this endowment.

Table 46. International Trade and Business Endowment ⁽¹⁾
Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	<u>Actual</u> <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Principal</u>			
Beginning Balance	5.0	5.0	5.0
Deposits to Principal	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance	5.0	5.0	5.0
<u>Earnings and Earnings Reserve Account (Statutory Income) ⁽²⁾</u>			
Earning Reserve Account (ERA) Beginning Balance	0.9	1.1	0.4
Statutory Net Income	0.3	0.1	0.3
Distributions	<u>(0.1)</u>	<u>(0.8)</u>	<u>(0.3)</u>
ERA End-of-Year Balance (Statutory)	1.1	0.4	0.3
<u>Earnings and Earnings Reserve Account (GASB Income) ⁽²⁾</u>			
ERA Beginning Balance	1.0	0.7	0.0
GASB Net Income	(0.2)	0.1	0.4
Distributions	<u>(0.1)</u>	<u>(0.8)</u>	<u>(0.3)</u>
ERA End-of-Year Balance (GASB)	0.7	0.0	0.1
<u>Market Value</u>			
Principal End-of-Year Balance	5.0	5.0	5.0
ERA End-of-Year Balance (Statutory Income)	1.1	0.4	0.3
End-of-Year Unrealized Earnings	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.3)</u>
Subtotal	5.6	4.9	5.0
Other Liabilities	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Total Asset Market Value)	5.7	4.9	5.0
<u>Reconciliation</u>			
Other Liabilities	<u>(0.1)</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Net Asset Market Value)	5.6	4.9	5.0

(1) Source: Projected contributions and distributions are International Trade and Business Endowment April 3, 2002, estimates using February 28, 2002, financial statements. Income projections are based on Callan Associates, Inc. 2002 capital market assumptions: 7.95% total return for FY 2003. End-of-year other liabilities balance is projected at zero for current and all future years.

(2) Alternative measures of income. Under GASB principles, daily gains or losses in investment value are recognized. Under statutory net income, gains or losses in investment value are not recognized until the investment is sold.

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VIII. STATE ENDOWMENT FUNDS

The State of Alaska has established several endowment funds to support specific public purposes. Proposals for additional endowment funds also have been introduced during recent legislative sessions. In 2000 the Power Cost Equalization Endowment Fund was established. In 2001 the legislature established an endowment for Alaska's participation in the Arctic Winter Games. In 2002, the legislature is considering an endowment to support veteran's memorials.

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

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

Today, under the standards adopted by the Governmental Accounting Standards Board (GASB), public funds complying with those standards determine and report their income by recognizing changes in the value of securities as income, or losses, as they occur at the end of each trading day, regardless of whether the securities are actually sold and the income taken, or realized. All eight of these endowments report annual income on this basis. However, as reflected in the table, six of them — the four funds administered by the APFC, the Public School Trust and the Alaska Children's Trust — use other measures of annual income for their distributions.

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

Table 47. Target Asset Allocation - State Endowment Funds
percent

	<u>Cash</u>	<u>U.S. Bonds</u>	<u>Foreign Bonds</u>	<u>U.S. Equities</u>	<u>Int'l Equities</u>	<u>Real Estate</u>	<u>Alternative Investments</u>	<u>Total</u>
Alaska Permanent Fund	0	35	2	37	16	10	0	100
Mental Health Trust	0	35	2	37	16	10	0	100
Science & Technology Foundation	0	35	2	37	16	10	0	100
International Trade & Business Fund	0	35	2	37	16	10	0	100
Public School Trust (1)	0	58	0	42	0	0	0	100
Alaska Children's Trust (1)	0	58	0	42	0	0	0	100
Power Cost Equalization	0	42	0	41	17	0	0	100
University of Alaska Endowment	1	28	0	36	12	5	18	100

(1) Asset allocation would change if 2002 proposed legislation modifying administration of the trusts is enacted.

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

Table 48. Calculation of Annual Income - State Endowment Funds

	<u>Financial Reporting of Income</u>	<u>Distributable Income</u>
Alaska Permanent Fund	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on securities actually sold
Mental Health Trust	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on securities actually sold
Science & Technology Foundation	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on securities actually sold
Int'l Trade & Business Endowment	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on securities actually sold
Public School Trust	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid; gains and losses on value of securities are never income, they become part of principal ⁽¹⁾
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 ⁽¹⁾
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)

(1) Asset allocation would change if 2002 proposed legislation modifying administration of the trusts is enacted.

Several important considerations bear on the distribution policy established for an endowment fund.

[What kind of distribution policy will minimize year-to-year volatility in distributions?](#) Distributions based on the average of several years of fund earnings or several years of fund market value will be less volatile than distributions based on one year's earnings or one year's market value. Because the proportional variability in total market value from year-to-year will be smaller than the proportional variability in fund earnings, distributions based on fund market value will be less volatile than distributions based on fund earnings.

[Where there is a prohibition on distributing fund principal, how can a fund best be managed to make it possible to continue distributions in a several-year bear market?](#) To reduce the possibility of no distribution, a policy of retaining a large cushion in an earnings reserve account is essential. If all the fund's accumulated earnings are either distributed or moved to the fund principal when times are good, the fund may well be precluded from making distributions when times are bad. This is certainly the situation faced by the Science and Technology Endowment in the autumn of 2001. As a consequence of the way the state budgeting process works, substantially all of the very high income the endowment earned from the bull market of the past decade was appropriated and spent. When the market declined in late 2000 and 2001, there was not an accumulated cushion in the earnings account to pay for the continuation of all the programs dependent upon the endowment's earnings.

[What kind of distribution policy will provide maximum current distributions, yet protect the purchasing power of the fund and the fund distributions against inflation?](#) The answer is: a policy that leads to the distribution, on average, of the long-run real return of the fund — that is the nominal average return of the fund minus the average inflation rate. If the long-run nominal return of the fund is 8.25% and the long-run inflation rate is 2.9%, then the fund can distribute 5.35% (8.25% *minus* 2.9%) of its value each year and still protect its purchasing power.

The following tables show how the legislature and the fund managers have addressed these questions.

Table 49. Distributable Income Determination - State Endowment Funds

Alaska Permanent Fund	The only regular distribution is for the annual Permanent Fund Dividend (PFD). That distribution, following the formula in AS 37.13.140-.150, equals 10.5% of the past five years' total realized income but not to exceed 50% of the balance in the Fund's Earning Reserve Account (ERA). The 50% limitation has never been triggered. Because the fund principal does not change with changes in investment market values, the market value volatility for the entire fund is absorbed by the ERA. Consequently, a large balance is needed in the ERA to ensure there are enough funds for the full annual dividend distribution according to the statutory formula. The annual PFD dividend distribution has been equal to about 4% of the market value of the fund.
Mental Health Trust	The Mental Health Trust Board adopted a policy to annually distribute 3.5% of the market value of the fund's total assets beginning in FY 2001. For FY 1996-1998 it was 3%; for FY 1999-2000 it was 3.25%. Because of recent declines in market value, the Trust Board is exploring a redefinition of "principal" so that losses in market value would be proportionally allocated to the principal account and the income account.
Science & Technology Foundation	Withdrawals of income have been <u>ad hoc</u> and have almost equalled the total realized earnings of the fund over its 13-year existence. (Total realized earnings are \$118 million; total withdrawals for expenditures are \$114.8 million.) The fund has no earnings cushion to absorb a significant market value decline.
International Trade & Business Endowment	Like the practices with the Alaska Science and Technology Endowment, withdrawals of income have been <u>ad hoc</u> . Unlike the Science and Technology Endowment, a large enough balance has been preserved in the Earnings Reserve Account so the fund is better able to retain its ability to distribute monies in a sustained bear market.
Public School Trust	The annual distribution is 4.75% of a five-year moving average of the fund principal's market value so long as that amount does not exceed the interest and dividend earnings available in the earnings account. The trust has accumulated a sizable income account balance so the fund is better able to retain its ability to distribute in a sustained bear market. ⁽¹⁾
Alaska Children's Trust	The annual distribution is 4.75% of a five-year moving average of the fund principal's market value so long as that amount does not exceed the interest and dividend earnings available in the earnings account. The trust has accumulated a sizable income account balance so the fund is better able to retain its ability to distribute in a sustained bear market. ⁽¹⁾
Power Cost Equalization Endowment	The annual distribution is 7% of the fund's market value. For the initial transition years, use the market value on February 1 for the subsequent fiscal year. Thereafter, use 7% of the monthly average value for a specified 36-month period.
University of Alaska Endowment	The annual distribution is 5% of a five-year moving average of the market value of the fund.

(1) Distributable income would be calculated in a manner similar to that used by the University of Alaska Endowment if proposed 2002 legislation modifying administration of the trusts is enacted.

Table 50. Inflation-Proofing Procedures — State Endowment Funds

Alaska Permanent Fund	The legislature annually inflation proofs the principal of the Permanent Fund (but not the accumulated balance in the Earnings Reserve Account (ERA)) pursuant to AS 37.13.145. The legislature each year transfers from the ERA to the fund's principal an amount equal to the U.S. Consumer Price Index's effect on the value of the principal. The Alaska Permanent Fund Corporation's Trustees have proposed a constitutional amendment that would inflation proof the entire fund by limiting the annual distribution of earnings to 5% of the market value of the fund.
Mental Health Trust	The Mental Health Trust Authority has adopted two policies to inflation proof the fund. It limits distributions to 3.5% of the fund's market value. (The authority's ultimate distribution rate goal of 5% should still inflation proof the fund.) The authority also has adopted a policy transferring money from the reserve account to the principal whenever the reserve exceeds four times the annual income distribution.
Science & Technology Foundation	Under AS 37.17.030, the foundation's board of directors could add one half of the annual realized capital gains of the endowment to the endowment's principal. They have done so only once (in October 1991). Since then the capital gains have been appropriated and spent, and there has been no inflation proofing.
International Trade & Business Endowment	There is no provision for inflation proofing.
Public School Trust	The asset allocation policy is such that, in combination with the requirement that the fund's capital gains and losses remain part of the principal of the fund, the retained capital gains are adequate to inflation proof the fund. ⁽¹⁾
Alaska Children's Trust	The asset allocation policy is such that, in combination with the requirement that the fund's capital gains and losses remain part of the principal of the fund, the retained capital gains are adequate to inflation proof the fund. ⁽¹⁾
Power Cost Equalization Endowment	The legislature, in selecting a 7% distribution policy, expressly elected not to inflation proof this fund, but rather to distribute all, or almost all, of its anticipated annual earnings.
University of Alaska Endowment	The university's distribution policy of 5% of the moving five-year average of the fund's market value should inflation proof the fund.

(1) Inflation proofing would be achieved in the same manner as it is for the University of Alaska Endowment if proposed 2002 legislation modifying administration of the trust is enacted.

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IX. PUBLIC CORPORATIONS AND THE 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
- Alaska Railroad Corporation
- Alaska Science and Technology Foundation (ASTF)

These eight corporations, together with the Mental Health Trust and Alaska Science and Technology Foundation (described in Section VII) and University of Alaska, are component units of state government whose activities are accounted for in the State's Comprehensive Annual Financial Report separately from the activities of primary state government.

Four of these corporations — the Alaska Housing Finance Corporation, Alaska Industrial Development Authority, Alaska Student Loan Corporation and Alaska Municipal Bond Bank Authority — pay some portion of their income as a “dividend” to the state. These “dividends” have been included as income in Section VI — Non-Oil Revenue (Except Investments) — of this forecast.

Two of these corporations — AIDEA and AEA — share a common staff and board of directors. The other corporations each have their own staffs and boards. While neither the sale of bonds nor the expenditure of bond proceeds by these corporations are subject to the Executive Budget Act, expenditures for the day-to-day administration of all of these corporations except the Alaska Railroad are.

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

Table 51. 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 FY1991, to pay an annual dividend and/or return on 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 also has authorized AHFC to finance the construction of schools, University of Alaska housing and other capital projects identified by the legislature.
Alaska Industrial Development and Export Authority	By lending money, guaranteeing loans or becoming an owner, AIDEA makes financing available for industrial, export and other business enterprises in Alaska. The corporation earns money from interest on its loans and from leases and operations of its properties. The corporation has paid an annual dividend to the state since FY1997.
Alaska Energy Authority	A separate entity within AIDEA, AEA provides loans to rural utilities, communities and individuals to pay for the purchase or upgrade of equipment and for bulk fuel purchases. Additionally, the agency administers the Power Cost Equalization program, subsidizing rural electric costs with the earnings of the Power Cost Equalization Endowment. AEA also receives federal and state money to provide technical advice and assistance in energy planning, management and conservation in rural Alaska.
Alaska Student Loan Corporation	The Alaska Student Loan Corporation uses proceeds from bond sales to finance student loans made by the Alaska Commission on Postsecondary Education. Loan repayments satisfy bond obligations and enhance the corporation's capital asset base. Alaska statutes authorize the board of directors to annually declare a return to the state of a portion of its contributed capital. The board has declared a return on capital for FY 2001 and FY 2002.
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 finances aerospace-related ventures in Alaska, including the establishment and operation of a commercial space vehicle launch facility in Kodiak, space science and engineering research and promoting tourism at the Poker Flat rocket range and other facilities. Eventually, income from investments and operations will be returned to a revolving fund used to make more loans and acquire properties.
Alaska Railroad Corporation	The corporation operates freight and passenger rail services between Seward and Fairbanks, including a spur line to Whittier. In addition, the corporation generates revenues from real estate it owns.
Alaska Science and Technology Foundation	The Foundation was initially incorporated to promote science and engineering research and development in Alaska by awarding grants and by serving as an adviser to and facilitator among various government agencies and industry. The Foundation's mission was later expanded to include administering the International Trade and Business Endowment. However, in practice, the State Division of International Trade and Market Development administers the endowment.

Table 52. 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 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 the corporation.
Alaska Industrial Development and Export Authority	Between 1981 and 1991, the State of Alaska transferred various loan portfolios worth \$366.1 million and \$69 million in cash to the corporation. In 1998, the state transferred ownership of the Ketchikan Shipyard, valued at \$13.3 million. The corporation has since written down some assets and returned \$60 million in cash to the state. The state's contributed capital as of June 30, 2001 totaled \$293.8 million.
Alaska Energy Authority	The legislature established the AEA in 1976 to finance and operate power projects. The 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, the corporation reported contributed capital of \$963.6 million. Some of that is from the federal government; the corporation does not report what portion.
Alaska Student Loan Corporation	In FY 1988, the state transferred \$260 million of existing student loans to the 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 use for backing bond issues. In addition, the legislature gave the Bond Bank \$2.5 million in 1981 to cover an anticipated default by a municipality. The municipality did not default, and the Bond Bank retained the appropriation.
Alaska Aerospace Development Corporation	Since 1993, the state has contributed \$10.9 million from the Science and Technology Endowment.
Alaska Railroad Corporation	The state bought the railroad from the federal government in 1985. The purchase price of \$22.7 million was recorded as the state's capitalization.
Alaska Science and Technology Foundation	The corporation is funded from the earnings of the Alaska Science and Technology Endowment. The endowment was capitalized with \$100 million from the General Fund that was paid to the endowment over several years in the late 1980s.

Table 53. Public Corporations - Financial Facts, FY 2001

	(\$ Million) <u>Total Assets</u>	(\$ Million) <u>Assets Less Liabilities Book Value</u>	(\$ Million) <u>FY 2002 Operating Budget</u>	(1) <u>Total Positions</u>
Alaska Housing Finance Corporation	\$5,000	\$1,800	\$39.5	351
Alaska Industrial Development and Export Authority	\$1,300	\$856	\$6.1	62
Alaska Energy Authority	\$800	\$637	\$1.1	See AIDEA (2)
Alaska Student Loan Corporation	\$750	\$292	\$9.7	100
Alaska Municipal (3) Bond Bank Authority	\$244	\$37	\$0.5	1
Alaska Aerospace Development Corporation	\$67	\$39	\$13.6	14
Alaska Railroad (4) Corporation	\$251	\$107	\$87.5	670
Alaska Science and Technology Foundation	\$108	\$107	\$10.5	7

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

(2) The Alaska Industrial and Development and Export Authority (AIDEA) provides staff for the activities of the Alaska Energy Authority (AEA). A significant portion of AIDEA's 62 member staff are engaged in AEA programs.

(3) The Bond Bank financial statement reports funds individually and does not contain a combining balance sheet. The amounts shown here are estimates, not audited numbers.

(4) The Alaska Railroad reports financial data on a calendar year. Assets and book value shown here are for 2000.

Table 54. Public Corporations - Revenue and Net Income
\$ Million

	<u>FY 2001 Revenue</u>	<u>FY 2001 Net Income</u>
Alaska Housing Finance Corporation	\$376.2	\$96.4
Alaska Industrial Development and Export Authority	\$83.6	\$40.3
Alaska Energy Authority	\$56.2	(\$9.5)
Alaska Student Loan Corporation	\$40.6	\$21.0
Alaska Municipal Bond Bank Authority	\$13.0	\$0.7
Alaska Aerospace Development	\$4.3	\$1.8
Alaska Railroad Corporation	\$98.4 ⁽¹⁾	\$16.7
Alaska Science and Technology Foundation	(\$4.0)	\$5.2

(1) The Alaska Railroad reports financial data by calendar year. CY 2000 covers the second half of FY 2000 and the first half of FY 2001.

Table 55. Public Corporations - Dividends to the State

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

**Alaska Housing
Finance Corporation**

By agreement with the legislature, the corporation is to annually transfer an amount no greater than its net income for the preceding year to the state. As established in statute, that amount has been \$103 million (Chapter 130, SLA 2000). The final payment will be in FY 2008. The corporation has customarily regarded \$53 million of the dividend as available for AHFC capital projects, while the remaining \$50 million is a cash transfer for the legislature to spend as it sees fit. In practice, the legislature has in recent years used some of the \$53 million for non-AHFC projects.

**Alaska Industrial
Development and
Export Authority**

By statute, AIDEA must make available to the state not less than 25% and not more than 50% of its total net income for a base year, defined as the year two years prior to the dividend year. The dividend is further limited to no more than the total amount of its *unrestricted* net income in the base year (AS 44.88.088). An unintended consequence of this policy is that the corporation could be reluctant to book losses in its project investments. Booked losses would reduce net earnings and, consequently, could reduce the dividend to the state.

**Alaska Energy
Authority**

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

**Alaska Student
Loan Corporation**

The corporation, at the discretion of its board of directors, may make available to the state a return of contributed capital for any base year in which the net income of the corporation is \$2 million or more. A base year is defined as the year two years before the payment year. If the board authorizes a payment, the returned capital must be between 10% and 35% of net income for the base year (AS 14.42.295).

**Alaska Municipal
Bond Bank Authority**

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

**Alaska Aerospace
Development
Corporation**

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

**Alaska Railroad
Corporation**

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

**Alaska Science and
Technology Foundation**

The foundation itself does not pay a dividend or return capital to the state, however, the legislature regularly appropriates money from the earnings of the Science and Technology Endowment and the International Trade and Business Endowment.

Table 56. Public Corporations - Operating Expenses and Dividends
 \$ Million

	Operating Expenses Subject to the Executive Budget Act		Dividends and/or Return of Capital	
	<u>Actual FY 2001</u>	<u>Budget FY 2002</u>	<u>Actual FY 2001</u>	<u>FY 2002</u>
Alaska Housing Finance Corporation	\$36.0	\$39.5	\$103.0	\$103.0
Alaska Industrial Development and Export Authority	\$5.1	\$6.1	\$18.5	\$17.5
Alaska Energy Authority	\$7.9	\$1.1	na	na
Alaska Student Loan Corporation	\$9.3	\$9.7	\$2.2	\$4.0
Alaska Municipal Bond Bank Authority	\$0.5	\$0.5	\$0.7	\$0.6
Alaska Aerospace Development	\$4.7	\$13.6	na	na
Alaska Railroad Corporation	na	na	na	na
Alaska Science and Technology Foundation	\$5.4	\$10.5	na	na

University of Alaska

Established in territorial days, the University of Alaska is organized into four branches: statewide administration and three main campuses in Fairbanks, Anchorage and Juneau. Each main campus administers satellite campuses in rural areas.

The University of Alaska is overseen by a Board of Regents appointed by the governor and subject to confirmation by the legislature. While other semi-autonomous state agencies are created in statute, the university and its board are uniquely embodied in the Alaska constitution.

Accounting standards for state universities and colleges differ from those of public corporations. For instance, they do not record contributed capital or depreciation. The figures presented here, therefore, cannot be compared directly with those of other state agencies or corporations. Rather, they are intended only to give the reader an idea of the university's size and scope.

Table 57. University of Alaska
\$ Million

<u>Lands and Facilities</u> <u>June 30, 2001</u>	<u>Total Assets</u> <u>June 30, 2001</u>	<u>FY 2002</u> <u>Operating Budget</u>	<u>FY 2002</u> <u>Total Positions</u>
\$1,006.6 ⁽¹⁾	\$1,500.5	\$472.1	3,621

(1) This amount does not include depreciation. The university estimates accumulated depreciation, on a straight-line basis, is approximately \$322.7 million at June 30, 2001.

X. APPENDICES

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APPENDIX A. Rosetta Stone: Moving between the Revenue Sources Book, the Comprehensive Annual Financial Report and the State Budget Made Easy

I. Introduction

The purpose of this appendix is to reconcile three different documents that all deal with one broad topic: The finances of the State of Alaska. The three documents are this Revenue Sources Book, published by the Department of Revenue, the Summary of Appropriations, published by the Legislative Finance Division, and the Comprehensive Annual Financial Report (CAFR), published by the Finance Division of the Department of Administration.

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

At the far end of the spectrum from this forecast is the CAFR. The CAFR sums what actually happened to state dollars during the prior fiscal year, and is published about six months after the end of the fiscal year — about two years after the publication of the Revenue Sources Book that had estimated the available revenue for that year.

In between the publication of these two documents, thousands of events occur and many different snapshots of the state's finances are taken. The Summary of Appropriations is one such snapshot, which records how much money the legislature and governor have authorized to be spent. The Summary of Appropriations is published in July, right at the start of the fiscal year.

Even though these three books concern the same subject matter, they present it differently. Going from one document to the other is very difficult, because sometimes they will use the same term to mean different things. This appendix does two things. First, it provides an actual reconciliation between this Revenue Sources Book and the other two documents to prove that all three really do concern the same subject — Alaska's finances. Second, it provides a road map for those of us who wish to use more than one of these documents at the same time, to move beyond differences in terminology and presentation.

Defining "Fund"

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

Only about 110 of the approximately 170 budget funds are active ⁽¹⁾ — and some of these are used to designate duplicated receipts. When a budget writer says money is coming from a particular fund, the writer identifies a source that may include money already set aside under that fund code or a stream of revenues earmarked for that fund code. Seventy-seven of those funds show up in the 2002 budget as "other revenues " and can be found in Appendix A, Tables 2-5.

Accounting funds are funds established under general accepted accounting principles as codified by the Governmental Accounting Standards Board (GASB).⁽²⁾ These rules apply to all the states, counties, cities and other public jurisdictions across our country. They are meant to increase transparency and accountability of public officials. Again, when an accountant says money is coming from such and such a fund, he or she identifies a source that may include money on hand already set aside under that fund code or from a stream of revenues earmarked for that fund code. There are around 150 GASB funds found in the State of Alaska Accounting System and the which form the basis for CAFR. There are no accounting funds defined by the fact they get only federal dollars.

Accounting funds are funds established under generally accepted accounting principles as codified by the Governmental Accounting Standards Board (GASB). These rules apply to all the states, counties, cities and other public jurisdictions across our country. They are meant to increase the transparency of public finances and the accountability of public officials. The CAFR reports on the activities and balances in about 120 GASB funds each year. Although GASB accounting standards are undergoing a major revision that will be reflected in next year's CAFR, those revisions will not affect the Revenue Sources Book.

(1) The entire list of fund codes can be found several places including "The Swiss Army Knife of Budget Handbooks," which can be found at <http://www.legfin.state.ak.us/>.

(2) The GASB is a sister organization to the more well know FASB or Financial Accounting Standards Board. GASB sets out generally accepted accounting principles (GAAP) for governmental entities; FASB sets out GAAP for private businesses. Both are under the auspices of the Financial Accounting Foundation.

Defining "general fund"

The General Fund is the general operating fund of the state. All public money coming into the state treasury that is not authorized or required by law to be placed in a special fund constitutes the General Fund. As noted above, the accounting "General Fund" and the budgeting "general fund" are not the same thing. For example, the FY 2001 budget passed in the spring of 2000 was predicated on \$2.4 billion in general fund revenue. The CAFR shows that General Fund revenue for the period was \$4.2 billion. Did almost twice as much General Fund money show up than was expected? Did someone transpose some numbers? Neither — it's just that the accountants and budget writers use the term "general fund" differently.

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

- Sub-accounts or sub-funds of the General Fund. A budget writer will consider a subfund as a separate fund, and will discuss moving money from the general fund to a subfund.⁽³⁾ But such a transfer would not show up in the accountants' final report, because, to the accountants, it had no effect on the General Fund.
- Federal dollars that are spent in general fund programs. No accounting funds are defined by the fact that they have only federal dollars. On the other hand, six specific budget codes refer to different kinds of federal funds.
- Rents and royalties dedicated to the Alaska Permanent Fund. The Constitution dedicates one-quarter of all royalties to the Permanent Fund. These revenues have historically been reported by the Permanent Fund Corporation as transfers into the Permanent Fund. Because these receipts must be reported as revenues in the CAFR, they have been reported as Alaska Permanent Fund Rents and Royalties within the General Fund rather than Permanent Fund Corporation receipts.

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

(3) See, for example, OMB's website <http://www.gov.state.ak.us.omb.akomb.htm> and the PDF file "understanding the FY 2003 budget" which discusses moving money between the Alaska Marine Highway Fund (a subfund of the General Fund) and the general fund.

II. Reconciling this Revenue Sources Book with the State's Annual Budget

Total Budget

Budgeting is a dynamic process and there are many different budget documents available. This appendix compares the Revenue Sources Book with one of the most accessible of these many budget documents: the Summary of Appropriations ⁽⁴⁾ published by the Legislative Finance Agency every year. We have chosen the hard print version of the Summary of Appropriations for FY 2002, issued in the summer of 2001, just after the fiscal year 2002 budget had been passed. For FY 2002, there will be many minor differences between the Revenue Sources Book and the Summary of Appropriations that simply reflect the difference between the budget document which was looking forward in July 2001 and the forecast which is looking backwards from the vantage of April 2002 after the passage of 9 of FY 2002's 12 months.

The first two pages of the Summary of Appropriations present the following budget picture for FY 2002:

Total Budget (\$ Billion)	
General Fund Revenues	1.9
Federal Revenues	2.1
Other Revenues	<u>0.9</u>
"Total Revenues"	4.9
Draw from CBRF	0.5
Permanent Fund Inflation Proofing	0.7
Permanent Fund Dividends	<u>1.1</u>
Total	7.2

Part of this budget picture includes non-revenue items, specifically the draws from the Constitutional Budget Reserve Fund (CBRF) and the appropriations from the Permanent Fund (PF). The numbers used for the CBRF and the PF in both sources are essentially opposites. The Revenue Sources Book describes the revenues that go into these funds. The Summary of Appropriations describes the money being taken out of the funds. The Revenue Sources Book includes an extensive discussion of both the PF (Pages 112-114) and the CBRF (Pages 102-104). Of course, when we project future balances for those funds we include both the revenue coming into and the dollars taken out of each.

(4) Updated versions of this document as well as draft versions for FY 2003 can be found by clicking "fiscal summary" at <http://www.legfin.state.ak.us/> or "financial summary" at <http://www.gov.state.ak.us/omb/03OMB/budget/03budgthome.htm>.

Comparison of Revenues

As can be seen in Appendix A, Table1, there are three areas in these two reports that have close enough ties to be compared. What the Revenue Sources Book labels as "Unrestricted Revenues" ties to what the Summary of Appropriations labels "General Fund Revenue." What the Revenue Sources Book characterizes as "Restricted Other Revenues (Except Investments)" needs to be split into several pieces: federal revenue and everything else. The former ties to federal revenue in the Summary of Appropriations. Finally what the Summary of Appropriations characterizes as "Other Revenue" can be compared with some of the items found in the remaining "Restricted Other (Except Investments) Revenue" and "Investment Revenue" pieces. As explained above the "Restricted Oil Revenues" and those "Investment Revenues" which flow primarily into the CBRF and PF found in the Revenue Sources Book have no counterpart in the Summary of Appropriations.

Two other items appear in the Revenue Sources Book but not the Summary of Appropriations. Shared taxes are those dollars apportioned out to municipalities according to formulas found in statute. The earnings of the Power Cost Equalization Endowment are not specifically shown as a fund source.

**Appendix A. Table 1. Comparison of FY 2002 Revenues Shown in Revenue Sources Book
and Summary of Appropriations**
\$ Million

Presentation in Revenue Sources Book - Table 2			Presentation in Fiscal Summary - Table 1		
Description	Detail	Summary	Summary	Detail	Description
Unrestricted Revenue					
Oil		1,278.7			
Other (Except Investments)		307.1			
Investment		37.4			
Subtotal Unrestricted		1,623.2	1,930.3		General Fund Revenue
Restricted Revenue					
Other (Except Investment)					
	Federal	2,080.7	2,089.1		Federal Revenue
					Other Revenue
				2.4	Bond Receipts (Table 2)
				89.6	Permanent Fund (Table 2)
				87.2	Trust Funds (Table 2)
Component Organizations (Table 3)	125.1		80.0		Component Organizations (Table 3)
Constitutionally Dedicated (Table 4)	58.4		71.0		Constitutionally Dedicated (Table 4)
Statutorily Restricted (Table 5)	247.8		571.7		Statutorily Restricted (Table 5)
NTSC Debt Retirement ⁽¹⁾	20.1		19.5		NTSC Debt Retirement ⁽¹⁾
Taxes Shared w/ Municipalities	28.7				
Other (Except Investments) Total		2,560.8	921.4		Subtotal Other Revenue
Investment Revenue					
Constitutionally Dedicated (Table 4)	5.2				
Statutorily Restricted (Table 5)	24.6				
PCE Earnings	6.4				
CBRF and PF Earnings	417.8				
Subtotal Investment		454.0			
Oil		345.5			
Subtotal Restricted		3,360.3			
Total Revenue in Revenue Sources Book		4,983.5	4,940.8		Total Revenue in Fiscal Summary

(1) This line represents tobacco settlement dollars dedicated to making payments on Northern Tobacco Securitization Corporation (NTSC) bonds. See discussion on Page 148.

General Fund Revenues

Conceptually, the \$1.9 billion in revenue listed in the Summary of Appropriations corresponds to the \$1.6 billion in unrestricted revenues shown in the Revenue Sources Book.⁽⁵⁾ In the Summary of Appropriations, "general fund revenues" are based on the July 2001 update to last year's spring forecast. This year's spring forecast of course is written now that most of the fiscal year 2002 is behind us, and it looks like our unrestricted revenues will be \$300 million lower than originally forecast. Why? Because in July of 2001 we estimated an average price for a barrel of North Slope crude for FY 2002 of \$24.54. Now, about three-quarters of the way through the fiscal year we have revised this estimate down to \$21.50 per barrel or three dollars lower, and that (along with some other smaller differences) accounts for the \$300 million difference. Of course as a consequence of this shortfall, the draw from the CBRF will go up by roughly the same \$300 million.

Federal Revenues

This \$2 billion amount lines up both conceptually and practically with the number found in the July Update to our Spring 2001 Revenue Sources Book, as well as to this edition of the Revenue Sources Book. A more thorough discussion of federal dollars can be found in Section VI of this forecast. The reason this matches is that all the documents draw on the same source: This number is developed by the Office of Management and the Budget (OMB) and used in both the Summary of Appropriations and in the Revenue Sources Book. OMB asks each agency how much federal money it expects to get and spend over the fiscal year, and sums these estimates.

Other Revenues

Other Revenues are the last and perhaps the most confusing comparison. Some of the items in this category are estimated revenues like the unrestricted dollars. However, for many of the smaller funds found in this category, the revenue is all investment revenue, reported in our investment section. Other amounts found here are like the PF and the CBRF, where the Summary of Appropriations shows the cash to be drawn. And in fact, the draw shown may be intended as a use of revenues, but will become a draw on cash available if the revenues are not sufficient to cover the anticipated use. In other words, some of the items in this category are reported on the same basis as the Revenue Sources Book, while others are not. In consultation with OMB, we have divided the accounts found in the "other" category into six different kinds. Appendix A, Table 1 showed the sources of budget dollars in the "Other Revenues" categories as they stood in July of 2001.⁽⁶⁾

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

(6) The specific figures are derived from the Summary of Appropriation documents by first taking the detail summary of appropriations found at pages 15 -21 (operating budget) and 67-69 (capital budget) netting out duplicated fund sources found on pages 7 (operating budget) and 9 (capital budget), and then adding in \$12 million in estimated supplemental appropriations (per footnote 5 of the fiscal summary) and \$19.5 million for "tobacco settlement revenue diverted to the Northern Tobacco Securitization Corporation for bond retirement" (per footnote (4) of the fiscal summary.) The result (\$ 5,414.8) precisely matches total revenues plus anticipated CBRF draw as found in the fiscal summary.

The first three items in the Summary of Appropriation's "Other Revenues" category shown in Appendix A, Table 1 are Bond Authorizations, Trust Funds and money drawn from the Permanent fund. They have no comparable revenue figures in the Revenue Sources Book. They are summarized in below in Appendix A, Table 2.⁽⁷⁾

Appendix A. Table 2. FY 2002 Summary of Appropriations Selected		
"Other Revenue"		
\$ Million		
<u>Budget Fund Code</u>	<u>FUND NAME</u>	<u>Dollars</u>
Bond Authorizations		
1144	Clean Water Fund Bond Receipts	1.6
1159	Drinking Water Fund Bond Receipts	<u>0.8</u>
Total Bond Authorizations		2.4
Permanent Fund		
1050	Permanent Fund Dividend Fund	30.4
1105	Alaska Permanent Fund Corporation Receipts	<u>59.1</u>
Total Permanent Fund		89.6
Trust Fund Sources		
1023	FICA Administration Fund Account	0.1
1029	Public Employees Retirement Fund	29.1
1034	Teachers Retirement System Fund	14.6
1042	Judicial Retirement System	0.3
1045	National Guard Retirement System	0.2
1053	Investment Loss Trust Fund	0.3
1017	Benefits Systems Receipts	<u>17.4</u>
Subtotal		61.9
1018	Exxon Valdez Oil Spill Settlement	7.3
1084	Alyeska Settlement Fund	0.6
1114	Exxon Valdez Oil Spill Restoration Fund	<u>1.2</u>
Subtotal		9.1
1092	Mental Health Trust Authority Authorized Receipts	15.1
1094	Mental Health Trust Administration	<u>1.0</u>
Subtotal		16.1
Total Trust Fund Sources		87.1

(7) Three trust accounts, Retiree Health Insurance/Major Medical Fund (1142), Retiree Health Insurance/Long-Term Care Fund (1143) and Alaska Advance College Tuition (1011), although individually showing no dollars when rounded to the nearest hundred thousand dollars account for an additional \$80,000 in appropriations.

Bond Authorizations. When the state sells bonds, the proceeds are available for spending. But the bonds, a loan to the state, must be paid off in the future. They are not revenue.

Trust Funds. Trust Funds hold money not for general governmental purposes but for specific other beneficiaries. They fall into four groups, subtotaled in Appendix A, Table 3.

Retirement and Benefit Funds. The retirement funds are managed by the Alaska State Pension Investment Board. The Treasury Division of the department serves as staff to the Pension Board. The Revenue Sources Book does not show the dollars transferred between the retirement funds and the department while the Summary of Appropriations does. The actual returns earned by these funds are not included in either the Revenue Sources Book or the Summary of Appropriations, though they are shown in the CAFR. Other trust funds hold money for current state employee benefits.

Exxon Valdez Spill Money (including the settlement with Alyeska for the Exxon Valdez spill). The sums here represent transfers, authorized by the Exxon Valdez Oil Spill Trustee Council, from the trusts to the state agencies doing remediation and other spill related work.

Mental Health Trust Fund. This fund was established in 1994 to settle a dispute concerning land that was set aside in a trust to support mental health services in Alaska. When the Trust makes grants to state agencies to carry out the mission of the Trust, these grants pass through the Mental Health Trust Authority Authorized Receipts Fund that is shown as their source for the budget. The cost of administering the trust is subject to the Executive Budget Act and the funding for this expenditure is received in the Mental Health Administration Fund. The Trust is discussed further at Pages 115-116.

Permanent Fund. These are additional draws from the Earnings Reserve of the Permanent Fund used to cover expenses related to the Permanent Fund.

The remaining three categories in Summary of Appropriations' "Other Revenues " have counterparts in the Revenue Sources Book.

Dividends from Public Corporations. These amounts are set forth in Appendix A, Table 3 that follows. Both sources delineate dividends from the Alaska Housing Finance Corporation (AHFC), the Alaska Student Loan Corporation (ASLC), Alaska Industrial Development and Export Authority (AIDEA), and the Alaska Municipal Bond Bank Authority (AMBBA). The \$45 million difference for the AHFC dividend represents a difference in how the dividend is reported. In the Revenue Sources Book we show a \$103 million dividend. The dividend can be broken into several pieces: Capital project dollars spent directly by AHFC; dollars appropriated for debt retirement and dollars used to pay off AHFC bonds. However, only the first two uses are specifically identified in the Summary of Appropriations, because the payment of bonds is part of the general ("language") appropriation and thus is not part of AHFC's appropriation. See Section VII of the Revenue Sources Book for the actual revenues earned by each of these corporations.

**Appendix A. Table 3. FY 2002 Summary of Appropriations “Other Revenue”
Corporate Dividends Compared With Selected
Revenue Source Book Figures
\$ Million**

<u>Budget Fund Code</u>	<u>FUND NAME</u>	<u>Summary of Approp</u>	<u>RSB Other</u>
1139	AHFC Dividend	58.0	103.0
1140	AIDEA Dividend	17.5	17.5
1104	Alaska Municipal Bond Bank Receipts	0.5	0.6
1150	ACPE Dividend	<u>4.0</u>	<u>4.0</u>
Total		80.0	125.1

Constitutionally dedicated sources are set forth in Appendix A, Table 4 below. The Constitution prohibits dedicated funds except for those funds that existed at the time of statehood. As can be seen in columns two and three of Appendix A, Table 4, all of these revenues can be found in the Revenue Sources Book. However the smaller sources are rolled into larger categories — the disabled fisherman's fund into general fund program receipts and the second injury fund into other miscellaneous. In the discussion of the Public School Trust Fund found on Page 107, we set out both the investment income and the distributable income and explain the distinction between the two formulas. The budget document reflects the estimate of distributable income, while the Revenue Sources summary tables reflect the total investment income.

**Appendix A. Table 4. FY 2002 Summary of Appropriations “Other Revenue”
Constitutionally Dedicated Funds Compared with Selected
Revenue Source Book Figures
\$ Million**

<u>Budget Fund Code</u>	<u>FUND NAME</u>	<u>Summary of Approp</u>	<u>RSB Other</u>	<u>RSB Investment</u>
1024	Fish and Game Fund	25.4	24.2	-
1030	School Fund (Cigarette Tax)	29.0	29.8	-
1031	Second Injury Fund Reserve Account	3.2	3.2	-
1032	Disabled Fisherman's Reserve Account	1.3	1.2	-
1066	Public School Fund	12.0	-	5.1
1111	Fisherman's Fund Income	<u>0.1</u>	<u>-</u>	<u>0.1</u>
Total		71.0	58.4	5.2

Statutorily Restricted Sources. Money in this category has been earmarked for a particular purpose. The money may be new revenues, a draw on an existing amount of money previously set aside, or setting aside current revenues for future use, or some combination of these approaches. Statutorily restricted sources from the Summary of Appropriations are summed and compared to Revenue Sources Book in Appendix A, Table 5.⁽⁸⁾

In the following table we have first separated out those revenues of the component organizations such as UA, AHFC, etc., which the legislature appropriates back to the organizations to run their affairs and carry out their missions. While the sale of bonds and the expenditures of the bond proceeds are in the authority of the organizations, their day to day expenditures are subject to the Executive Budget. In the following table we have first separated out those revenues of the component organizations such as UA, AHFC, etc., which the legislature appropriates back to the organizations to run their affairs and carry out their missions. While the sale of bonds and the expenditures of the bond proceeds are in the authority of the organizations, their day to day expenditures are subject to the Executive Budget Act. The dollars being appropriated show up in the budget documents. The gross revenues of these organization can be found in Section IX of this book.

That leaves two major items to account for the remaining difference. The first is the International Airport. The Summary of Appropriations shows money to be used from prior activities, bond sales, current fees and current investment income, while the Revenue Sources Book only shows the latter two items. The second is the Marine Highway where again the Summary of Appropriations draws on accumulated cash from prior years, although apparently this year's draw depleted the system's accumulated savings.

Many of these funds are loan funds. Interest collected is not shown as revenues for purposes of this forecast or the state's annual operating budget. Only the amount appropriated from the loan funds to cover the cost of day to day operations is in the budget.

(8) The budget funds, Rural Development Initiative (1164), Mining Revolving Loan (1067), Child Care Revolving Loan (1068), Historical District revolving loan (1069), Student Revolving Loan (1046) and Small Business Loan (1057) each account for an additional several thousand dollars in Statutorily Restricted Sources.

**Appendix A. Table 5. FY 2002 Summary of Appropriations “Other Revenue”
Statutorily Restricted Sources Compared with Selected
Revenue Sources Book Figures (\$Million)**

Budget Fund Code	FUND NAME	Summary of Approp	RSB Other	RSB Investment
1007	Inter-Agency Receipts (net of duplication)	0.4		
1021	Agricultural Loan Fund	1.9		
1027	International Airport Revenue Fund	105.6	71.6	13.6
1035	Veterans Revolving Loan Fund	0.1		
1036	Commercial Fishing Loan Fund	2.9		
1040	Real Estate Surety Fund	0.3		
1049	Training and Building Fund	0.7		
1052	Oil/Hazardous Response Fund (Net of Duplication)	0.1		
1054	State Employment & Training Program	5.2		
1059	Correctional Industries Fund	4.2		
1062	Power Project Loan Fund	0.8		
1070	Fisheries Enhancement Revolving Loan Fund	0.3		
1071	Alternative Energy Revolving Loan Fund	0.2		
1074	Bulk Fuel Revolving Loan Fund	0.0		
1076	Marine Highway System Fund	51.7	38.6	
1093	Clean Air Protection Fund	2.3	2.0	
1098	Children's Trust Fund Earnings	0.5		0.2
1106	Alaska Post-Secondary Education Commission Receipts	7.9		
1108	Statutory Designated Program Receipts	67.7	72.5	10.9
1109	Test Fisheries Receipts	4.0	2.3	
1117	Vocational Rehab Small Business Enterprise Fund	0.4		
1141	RCA Receipts	5.9	4.9	
1151	Technical Vocational Education Program Account	4.6	-	-
1152	Alaska Fire Standards Council Receipts	0.2		
1153	State Land Disposal Income Fund	2.9		
1155	Timber Sale Receipts	0.3		
1156	Receipt Supported Services	52.4	47.6	-
1157	Workers Safety and Compensation Administration Account	2.6		
1162	Alaska Oil & Gas Conservation Commission Rcpt.	3.3	3.4	
1166	Vessel Com	0.4		
1168	Tobacco Use Education and Cessation Fund	2.5	4.9	-
	Subtotal	332.1	247.8	24.7
1048	University Restricted Receipts	95.1		
1010	University of Alaska Interest Income	3.9		
1015	U/A Dormitory/Food/Auxiliary Service	35.3		
1038	U/A Student Tuition/Fees/Services	55.0		
1101	Alaska Aerospace Development Corporation Receipts	12.9		
1102	Alaska Industrial Development & Export Authority Receipts	4.7		
1103	Alaska Housing Finance Corporation Receipts	17.2		
1107	Alaska Energy Authority Corporate Receipts	1.1		
1115	International Trade and Business Endowment Income	0.5		
1025	Science & Technology Endowment Income	13.7		
	Subtotal for Component Organizations	239.4	-	
	Grand total for Statutorily Restricted Sources	571.6	247.8	24.7

III. Reconciling this Revenue Sources Book with the Comprehensive Annual Financial Report

The Department of Administration, Division of Finance issues (and the Division of Legislative Audit audits) the CAFR every December to report on the fiscal year that ended six months earlier in June.⁽⁹⁾ The CAFR provides a very detailed accounting of the state's fiscal picture and activities for the previous year. As an aside, GASB, in statement 34, has promulgated a fairly radical restructuring of its required financial reporting model, and the state will use that model for its 2002 CAFR. Reporting categories, fund definitions and any reconciliation with other documents will all be different in the next CAFR to be released in eight months.

Using the current rules, this section reconciles the 2001 CAFR with this Revenue Sources Book. At the end of Appendix A you will find Appendices B and C. Appendix B is organized like Table 1 of this Revenue Sources Book, but the right hand side of the page shows the pertinent fund type, name, pertinent reporting schedules and revenue types from the CAFR for each dollar item. Appendix C is organized like the CAFR, and any dollar amount can be traced to the right hand side of the page where a name and assignment to one of our six major categories (restricted and unrestricted oil, investment, and other revenue) can be found along with some finer detail. Sometimes figures must be broken down in more detail to match the other reporting system. Finally each table details those items that are not found in the other.

Appendix B revenue matches the revenues found in Table 1 of the Revenue Sources Book of \$3,755 million shown on the left side of the page with operating revenues in the CAFR, shown on the right hand side.⁽¹⁰⁾ However the CAFR reports an additional \$629.2 million in operating revenues. This amount falls into four classes. The largest piece is \$340.1 million in revenue for internal service funds. Internal service funds make their revenue by charging other government agencies for their services. We have not included this intra-governmental transaction as revenue in this Revenue Sources Book.

The next largest piece is \$190.5 million in contributions and certain other revenues to the following expendable trust funds — The Exxon Valdez Oil Spill Trust, Deferred Compensation Trust, Unemployment Compensation Trust, the Public Advocates Office and the Memorial Scholarship Trust. We do not include contributions or certain other kinds of revenue intended for the ultimate benefit of a beneficiary other than the state in this Revenue Sources Book.

Ninety-six million dollars in tobacco money is not included in the Revenue Sources Book. In 2000 and 2001 the legislature authorized the sale of 80% of the future revenue stream from the tobacco settlement to a new public corporation, the Northern Tobacco Securitization Corporation, a subsidiary of the AHFC. The new corporation, in turn, sold bonds based on this revenue sale. Revenue from the bond sale is not reflected in the Revenue Sources Book. It is, however, reflected in the CAFR. In FY 2001, it included \$93 million from the sale of bonds and \$3.1 million from interest earned as a result of holding the receipts in the bank.

(9) <http://www.state.ka.us/localakpages/ADMIN/dof/cafr.htm>

(10) The only item that doesn't reconcile is the figure for royalties dedicated to the Permanent Fund. The Permanent Fund Corporation must close its books promptly at fiscal year-end for purposes of transferring certain earnings to the Permanent Fund Dividend Fund Division. This requires using an estimate of royalties from DNR determined before DNR has finalized their fiscal year-end royalty receipts. There were subsequent adjustments of \$6 million to this estimated figure after the Permanent Fund Corporation's close. Even though it is only an estimate, we use the number published by the Permanent Fund Corporation so that our other estimates for Permanent Fund balances and projections correspond to the Corporation's published materials.

Finally, this forecast excludes \$2.5 million in miscellaneous adjustments. This figure is the net of several adjustments that needed to be made to reconcile the CAFR and the Revenue Sources book. The adjustments reflect rounding differences and the effect of several small items reported differently.

Appendix C arranges the operating revenues found in the CAFR on the left-hand side of the page, broken down into six different types of funds:

FY 2001 CAFR Operating Revenue by Fund Type	
	<u>(\$ Million)</u>
General Fund	4,187.5
Special Revenue Funds	87.4
Enterprise Funds	89.6
Expendable Trust Funds	445.7
Non-Expendable Trust Funds	(870.8)
Internal Service Funds	340.1

On the right hand side of the page the dollars are tracked through to their appropriate place on Table 1 of this Revenue Sources Book. In addition \$104.8 million found in Table 1 revenues are not found in the CAFR operating revenues. This figure is actually the net of \$33.8 million in losses or expenses and \$138.6 million in additional revenues.

The losses of \$33.8 million are found in the CAFR at Table 8.05, but are not designated operating revenues. More specifically, the royalty dollars dedicated to the school fund by the Constitution, as well as changes in the market value of the Children's Trust and the Public School Trust show up as non-operating revenues. We report the earnings of the Permanent Fund net of its expenses, while the CAFR more accurately shows total revenues and then reflects operating expenses of the Permanent fund as "expenses," coming out to the same net figure found in this book. The Power Cost Equalization Earnings are in the AEA's investment figures and the dividend from the Alaska Municipal Bond Bank Authority and AIDEA can be seen as an "operating transfers" on schedules 1.10 and 1.11, respectively.

Of the remaining \$138.6 million in revenue, most is a dividend from the AHFC, discussed above. The remainder is of fairly minor miscellaneous items associated with investment income, and different treatment for earnings on various International Airport Funds.

B. Revenue Sources Book Revenue to CAFR Operating Revenue

Classification in Revenue Source Book	Description	Dollars	Subtotals	Subtotals	Totals	Classification CAFR		
						CAFR Type Fund	CAFR Fund Title	CAFR Type Revenue
OIL REVENUE								
Unrestricted								
	Royalties (including Bonuses)							
	Royalties (including Bonuses)	788.1				GF - Schedule 1.02/2.02	General	R&R
	Interest Paid by Others	11.2				GF - Schedule 1.02/2.02	General	Invest
	Subtotals Royalties (including Bonuses)		799.3					
	Corporate Petroleum Tax		338.1			GF - Schedule 1.02/2.02	General	CIT
	Property Tax		45.1			GF - Schedule 1.02/2.02	General	Propr
	Severance Tax		703.8			GF - Schedule 1.02/2.02	General	Sev
	Subtotal Unrestricted			1,886.3				
Restricted								
	CBRF							
	Interest Portion of CBRF Settlements	13.4				ExT - Schedule 1.02/8.03	CBRF	Invest
	Royalty Portion of CBRF-Bound Settlements	7.8				ExT - Schedule 1.02/8.03	CBRF	R&R
	Tax Portion of CBRF-Bound Settlements	27.8				ExT - Schedule 1.02/8.03	CBRF	Taxes
	CBRF Subtotal		49.0					
	NPRA							
	NPRA	1.7				SRF - Schedule 1.02/3.02	NPRA	R&R
	Subtotal NPRA		1.7					
	Dedicated Royalties							
	Royalties to School Fund	5.7				CAFR NO - Schedule /8.05	Public School	R&R
	Additional Royalties To PF as Reported by PFC	6.0				CAFRXXX	CAFRXXX	CAFRXXX
	Royalties to Permanent Fund	333.3				GF - Schedule 1.02/2.02	General	R&R AK Perm
	Dedicated Royalties Subtotal		345.0					
	Subtotal Restricted			395.7				
	Oil Revenue Subtotal				2,282.0			
NON-OIL REVENUE (EXCEPT INVESTMENTS)								
Unrestricted								
	Federal							
	Intergovernmental Revenue (General Fund)	0.3				GF - Schedule 1.02/2.02	General	Federal
	Subtotal Federal		0.3					
	Taxes							
	Alcoholic Beverage (General Fund)	12.0				GF - Schedule 1.02/2.02	General	Taxes
	Charitable Gaming (General Fund)	2.4				GF - Schedule 1.02/2.02	General	Taxes
	Cigarette (General Fund)	10.9				GF - Schedule 1.02/2.02	General	Taxes
	Corporation General Income Tax (General Fund)	59.5				GF - Schedule 1.02/2.02	General	Taxes
	Electric and Telephone Cooperative (General Fund)	0.2				GF - Schedule 1.02/2.02	General	Taxes
	Estate (General Fund)	2.7				GF - Schedule 1.02/2.02	General	Taxes
	Fisheries Business (General Fund)	15.4				GF - Schedule 1.02/2.02	General	Taxes
	Fishery Resource Landing (General Fund)	4.1				GF - Schedule 1.02/2.02	General	Taxes
	Insurance Premium (General Fund)	32.2				GF - Schedule 1.02/2.02	General	Taxes
	Mining (General Fund)	1.7				GF - Schedule 1.02/2.02	General	Taxes
	Motor Fuel Tax-Aviation (General Fund)	37.5				GF - Schedule 1.02/2.02	General	Taxes
	Other Tobacco Product (General Fund)	5.4				GF - Schedule 1.02/2.02	General	Taxes
	Subtotal Taxes		184.0					
	Charges for services							
	General Government (General Fund)	19.5				GF - Schedule 1.02/2.02	General	C/S
	Natural Resources (General Fund)	6.5				GF - Schedule 1.02/2.02	General	C/S
	Other (General Fund)	1.0				GF - Schedule 1.02/2.02	General	C/S
	Subtotal Charges for Services		27.0					

B. Revenue Sources Book Revenue to CAFR Operating Revenue

Classification in Revenue Source Book	Description	Dollars	Subtotals	Subtotals	Totals	Classification CAFR		
						CAFR Type Fund	CAFR Fund Title	CAFR Type Revenue
	Fines and Forfeitures							
	Fines and Forfeitures (General Fund)	6.5				GF - Schedule 1.02/2.02	General	F/F
	Other Settlements (General Fund)	5.7				GF - Schedule 1.02/2.02	General	F/F
	Tobacco Settlement (General Fund)	21.4				GF - Schedule 1.02/2.02	General	F/F
	Subtotal Fines and Forfeitures		33.6					
	Licenses and Permits							
	Motor Vehicle Fees (General Fund)	34.1				GF - Schedule 1.02/2.02	General	L/P
	Other Fees (General Fund)	3.2				GF - Schedule 1.02/2.02	General	L/P
	Subtotal Licenses and Permits		37.3					
	Rents and Royalties							
	Cabin Rentals (General Fund)	0.2				GF - Schedule 1.02/2.02	General	R&R
	Coal Royalties (General Fund)	1.1				GF - Schedule 1.02/2.02	General	R&R
	Land Leasing, Rental and Sale (General Fund)	9.2				GF - Schedule 1.02/2.02	General	R&R
	Timber Sales (General Fund)	0.4				GF - Schedule 1.02/2.02	General	R&R
	Subtotal Rents and Royalties		10.9					
	Other							
	Deposit Excess Loan Funds (General Fund)	0.2				GF - Schedule 1.02/2.02	General	Other
	Other	1.6				GF - Schedule 1.02/2.02	General	Other
	Adj. Entry to Match CAFR	0.3				GF - Schedule 1.02/2.02	General	Other
	CAFR Reclass from Receipts to Transfers	(4.5)				GF - Schedule 1.02/2.02	General	Other
	Misc. (General Fund)	37.3				GF - Schedule 1.02/2.02	General	Other
	Subtotal Other		34.9					
	Subtotal Unrestricted			328.0				
Restricted								
	Federal							
	Federal Revenues	1,297.5				GF - Schedule 1.02/2.02	General	Federal
	Adj. Entry to Match Revenue Sources Book	(1.8)				CAFRXXX	CAFRXXX	CAFRXXX
	Disaster Relief Fund (SRF)	10.8				SRF - Schedule 1.02/3.02	Dsstr Rif	Federal
	Fish and Game Fund (SRF)	16.1				SRF - Schedule 1.02/3.02	F&G	Federal
	Federal Subtotal		1,322.6					
	Taxes							
	Dive Fisheries Management Receipts	0.4				GF - Schedule 1.02/2.02	General	C/S
	Dive Fisheries Management (General Fund: Dive Fishery Associations)	(0.2)				GF - Schedule 1.02/2.02	General	Taxes
	Electric and Telephone Cooperative (General Fund:municipal share)	3.2				GF - Schedule 1.02/2.02	General	Taxes
	Fisheries Business (General Fund: municipal share)	15.1				GF - Schedule 1.02/2.02	General	Taxes
	Fishery Resource Landing (General Fund: municipal share)	3.2				GF - Schedule 1.02/2.02	General	Taxes
	Motor Fuel Tax-Aviation (General Fund:municipal share)	0.2				GF - Schedule 1.02/2.02	General	Taxes
	Other ASMI Receipts	0.1				GF - Schedule 1.02/2.02	General	Taxes
	Salmon and Seafood Receipt Supported Services (General Fund: ASMI)	5.7				GF - Schedule 1.02/2.02	General	Taxes
	Salmon Enhancement (General Fund: qualifying regional associations)	3.6				GF - Schedule 1.02/2.02	General	Taxes
	Cigarette Taxes (Special Revenue Fund: School Fund)	30.7				SRF - Schedule 1.02/3.02	School	Taxes
	Subtotal Taxes		62.0					
	Charges for Services							
	Airport Fuel Sales, Landing and Other Fees (Enterprise Funds: Intl. Airport Fu	62.6				Ent - Schedule 1.04/6.11	Intl. Airport	C/S
	Terminal Bldg. & Land Rental (Enterprise Funds: Intl. Airport Funds)	11.2				Ent - Schedule 1.04/6.11	Intl. Airport	C/S
	Banking and Securities (General Fund)	11.2				GF - Schedule 1.02/2.02	General	C/S
	Commercial Fisheries Entry Commission Receipts (General Fund)	4.1				GF - Schedule 1.02/2.02	General	C/S
	Marine Highway Receipts (General Fund: Marine Highway Fund)	37.6				GF - Schedule 1.02/2.02	General	C/S
	Oil and Gas Conservation (General Fund)	2.5				GF - Schedule 1.02/2.02	General	C/S
	Other (General Fund)	10.0				GF - Schedule 1.02/2.02	General	C/S

B. Revenue Sources Book Revenue to CAFR Operating Revenue

Classification in Revenue Source Book	Description	Dollars	Subtotals	Subtotals	Totals	Classification CAFR		
						CAFR Type Fund	CAFR Fund Title	CAFR Type Revenue
Charges for Services (cont.)								
	Statorily Designated Program Receipts (General Fund)	49.7				GF - Schedule 1.02/2.02	General	C/S
	Statorily Designated Program Receipts (General Fund)	0.9				GF - Schedule 1.02/2.01	General	R&R
	Statorily Designated Program Receipts (General Fund)	1.1				GF - Schedule 1.02/2.01	General	F/F
	Pioneer Home Receipts (General Fund)	12.3				GF - Schedule 1.02/2.02	General	C/S
	Regulatory Commission of Alaska Receipts (General Fund)	4.9				GF - Schedule 1.02/2.02	General	C/S
	Test Fisheries Receipts (General Fund)	2.1				GF - Schedule 1.02/2.02	General	C/S
	Subtotal Charges for Services		210.2					
Licenses And Permits								
	Insurance Licensing Fees and Permits (General Fund)	7.9				GF - Schedule 1.02/2.02	General	L/P
	Occupational Licensing Receipts (General Fund)	7.2				GF - Schedule 1.02/2.02	General	L/P
	Fees (Clean Air Protection Fund)	2.0				SRF - Schedule 1.02/3.02	Clean Air	L/P
	Hunting and Fishing Fees (Fish and Game Fund) SR	23.8				SRF - Schedule 1.02/3.02	F&G	L/P
	Sanctuary Fees (Fish and Game Fund) SR	0.1				SRF - Schedule 1.02/3.02	F&G	L/P
	Subtotal Licenses and Permits		41.0					
Other								
	AHFC Dividend	103.0				CAFRXXX	CAFRXXX	CAFRXXX
	AIDEA Dividend	18.5				CAFR NO Schedule 1.11	CAFRXXX	Op Trans
	ASLC Dividend	2.2				CAFRXXX	Component	CAFRXXX
	AMBBA Dividend	0.7				CAFR NO Schedule 1.02/2.02	General	Op Trans
	Subtotal Other		124.4					
	Subtotal Restricted			1,760.2				
	Subtotal Non-Oil Revenue (Except Investments)				2,088.2			
INVESTMENTS								
Unrestricted								
Gefonsi								
	Treasury Interest and Investment Income	86.3				GF - Schedule 1.02/2.02	General	Invest
	Transfer to GeFONSI restricted	(21.8)				GF - Schedule 1.02/2.02	General	Invest
	CAFR reclass Receipts to Transfers	(2.8)				GF - Schedule 1.02/2.02	General	Invest
	Subtotal GeFONSI		61.7					
Investment Loss Trust								
	Investment Loss Trust	0.4				CAFRXXX	CAFRXXX	CAFRXXX
	Subtotal Investment Loss Trust		0.4					
Interest Paid by Others								
	CAFR reclass Receipts to Transfers (treasury Interest Income)	2.8				CAFRXXX	CAFRXXX	CAFRXXX
	Interest Paid by Others (General Fund)	1.7				GF - Schedule 1.02/2.02	General	Invest
	Interest Paid by Others (General Fund Program Receipts)	1.0				GF - Schedule 1.02/2.02	General	Invest
	Subtotal		5.5					
	Subtotal Unrestricted			67.6				
Restricted								
Other Investment								
	Other Investment	3.9				CAFRXXX	CAFRXXX	CAFRXXX
	Invest	0.6				Ent - Schedule 1.04/6.11	Agriculture	Invest
	Invest	10.8				Ent - Schedule 1.04/6.02	CA Mult	Invest
	Invest	0.4				Ent - Schedule 1.04/6.11	AK Drink Water	Invest
	Invest	2.9				Ent - Schedule 1.04/6.11	Cln Water	Invest
	Alyeska Settlement	0.6				ExT - Schedule 1.02/8.03	Alyeska	Invest
	Deferred Comp	(14.6)				ExT - Schedule 1.02/8.03	Def Comp	Invest
	EVOS	1.0				ExT - Schedule 1.02/8.03	EVOS	Invest
	Memorial Scholarship	0.1				ExT - Schedule 1.02/8.03	Mem School	Invest
	Oil Restoration	0.5				ExT - Schedule 1.02/8.03	Oil Rest	Invest
	Public Advocacy Trust	0.4				ExT - Schedule 1.02/8.03	PA	Invest
	Unemployment Compensation	13.8				ExT - Schedule 1.02/8.03	Unemp	Invest
	Other Plug for CAFR (Investment)	1.4				SRF - Schedule 1.02/3.02	F&G	Invest
	Subtotal Other Investment		21.8					

B. Revenue Sources Book Revenue to CAFR Operating Revenue

Classification in Revenue Source Book	Description	Dollars	Subtotals	Subtotals	Totals	Classification CAFR		
						CAFR Type Fund	CAFR Fund Title	CAFR Type Revenue
	CBRF							
	CBRF	202.9				EXT - Schedule 1.02/8.03	CBRF	Invest
	Subtotal CBRF		202.9					
	Other Treasury Managed Funds							
	Children's Trust							
	Children's	(0.5)				CAFR NO - Schedule /8.05	Children's	Invest
	Children's	0.4				Non Ex - Schedule 1.04/8.05	Children's	Invest
	Subtotal Children's Trust		(0.1)					
	Power Cost Equalization Endowment Earnings		(6.0)					
	International Airport							
	International Airport Revenue Fund	8.5						
	International Airport Construction Fund	13.6						
	Subtotal International Airport		22.1					
	Public School Trust							
	Public School	(12.7)				CAFR NO - Schedule 1.04/8.05	Public School	Invest
	Public School	13.2				Non Ex - Schedule 1.04/8.05	Public School	Invest
	Subtotal Public Trust		0.5					
	Subtotal Other Treasury Managed Funds		16.5					
	Permanent Fund Corporation							
	Permanent Fund Earnings	(884.4)				Non Ex - Schedule 1.04/8.05	PFC	Invest
	PFC Operating Expenses netted against revenues	(39.5)				CAFR NO - Schedule 1.04/8.05	PFC	Invest
	Subtotal Permanent Fund Corporation		(923.9)					
	Subtotal Restricted		(682.7)					
	Investment Subtotal				(615.1)			
	TOTAL Revenue in Table One of Revenue Sources Book				3,755.1			
	<u>Items not in the Revenue Sources Book</u>							
	Contributions							
	Other Contributions	24.6				EXT - Schedule 1.02/8.03	Def Comp	Cont
	Other Plug for CAFR	11.3				EXT - Schedule 1.02/8.03	PA	Other
	Exxon Valdez Settlement (ET: Exxon Valdez Settlement Fund)	27.0				EXT - Schedule 1.02/8.03	EVOS	Cont
	Other Contributions	0.3				EXT - Schedule 1.02/8.03	Mem Schl	Cont
	Other Contributions	127.3				EXT - Schedule 1.02/8.03	Unemp	Cont
	Subtotal Contributions		190.5					
	Internal Service Funds							
	All I/S Funds Charges for Services	63.7				IS - Schedule 1.04/7.02	All IS funds	C/S
	All I/S Funds Premiums	276.4				IS - Schedule 1.04/7.02	All IS funds	Premiums
	Subtotal Internal Service Funds		340.1					
	Tobacco							
	CAFR reclass to other (Tobacco Bonds)	48.9				GF - Schedule 1.02/2.02	General	Other
	Interest on Investments (Tobacco Bonds)	3.1				GF - Schedule 1.02/2.02	General	invest
	Other Tobacco Bonds	44.1				GF - Schedule 1.02/2.02	General	Other
			96.1					

B. Revenue Sources Book Revenue to CAFR Operating Revenue

Classification in Revenue Source Book	Description	Dollars	Subtotals	Subtotals	Totals	Classification CAFR		
						CAFR Type Fund	CAFR Fund Title	CAFR Type Revenue
<u>Items not in the Revenue Sources Book (cont)</u>								
	Adjusting Entry to Match CAFR							
	Adj. Entry to Match CAFR		0.4			Ent - Schedule 1.04/6.11	AK Drink Water	Other
	Adj. Entry to Match CAFR		0.3			Ent - Schedule 1.04/6.11	Cln Water	Other
	Adj. Entry to Match CAFR		0.3			Ent - Schedule 1.04/6.11	Intl. Airport	Other
	Adj. Entry to Match CAFR		0.2			Ent - Schedule 1.04/6.02	CA Mult	C/S
	Adj. Entry to Match CAFR		0.1			Ent - Schedule 1.04/6.02	CA Mult	F/F
	Adj. Entry to Match CAFR		(0.2)			Ent - Schedule 1.04/6.11	Intl. Airport	C/S
	Adj. Entry to Match CAFR		0.3			ExT - Schedule 1.02/8.03	APFD	C/S
	Adj. Entry to Match CAFR		0.1			ExT - Schedule 1.02/8.03	APFD	Federal
	Adj. Entry to Match CAFR		0.4			ExT - Schedule 1.02/8.03	APFD	Other
	Adj. Entry to Match CAFR		(0.2)			ExT - Schedule 1.02/8.03	EVOS	Cont
	Adj. Entry to Match CAFR		0.9			ExT - Schedule 1.02/8.03	Unemp	Federal
	Adj. Entry to Match CAFR		(0.2)			GF - Schedule 1.02/2.02	General	Other
	Adj. Entry to Match CAFR		0.5			SRF - Schedule 1.02/3.02	B&T	Other
	Adj. Entry to Match CAFR		0.1			SRF - Schedule 1.02/3.02	F&G	F/F
	Adj. Entry to Match CAFR		0.1			SRF - Schedule 1.02/3.02	F&G	C/S
	Adj. Entry to Match CAFR		0.1			SRF - Schedule 1.02/3.02	F&G	Other
	CAFR reclass AMBBA to transfers		(0.7)			GF - Schedule 1.02/2.02	General	Invest
				2.5				
	Total Items not in Revenue Sources Book				629.2			
	GRAND TOTAL (Matches Appendix C)				4,384.3			

C. CAFR Operating Revenue to Revenue Sources Book Revenue

Classification CAFR	Description	Dollars	Subtotals	Subtotals	Fund Totals	Classification in Revenue Source Book		
General Fund (Schedule 2.02)								
	Taxes							
	Corporate Petroleum Tax	338.1				O&G	Unrestricted	CIT
	Property Tax	45.1				O&G	Unrestricted	Prop
	Severance Tax	703.8				O&G	Unrestricted	Sev
	Alcoholic Beverage (General Fund)	12.0				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Charitable Gaming (General Fund)	2.4				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Cigarette (General Fund)	10.9				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Corporation General Income Tax (General Fund)	59.5				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Electric and Telephone Cooperative (General Fund)	0.2				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Estate (General Fund)	2.7				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Fisheries Business (General Fund)	15.4				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Fishery Resource Landing (General Fund)	4.1				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Insurance Premium (General Fund)	32.2				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Mining (General Fund)	1.7				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Motor Fuel Tax-Aviation (General Fund)	37.5				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Other Tobacco Product (General Fund)	5.4				Non-Oil (Ex. Inv.)	Unrestricted	Taxes
	Dive Fisheries Management (General Fund: Dive Fishery Associations)	(0.2)				Non-Oil (Ex. Inv.)	Restricted	Taxes
	Electric and Telephone Cooperative (General Fund:Municipal Share)	3.2				Non-Oil (Ex. Inv.)	Restricted	Taxes
	Fisheries Business (General Fund: Municipal hare)	15.1				Non-Oil (Ex. Inv.)	Restricted	Taxes
	Fishery Resource Landing (General Fund: Municipal Share)	3.2				Non-Oil (Ex. Inv.)	Restricted	Taxes
	Motor Fuel Tax-Aviation (General Fund: Municipal Share)	0.2				Non-Oil (Ex. Inv.)	Restricted	Taxes
	Other ASMI Receipts	0.1				Non-Oil (Ex. Inv.)	Restricted	Taxes
	Salmon and Seafood Receipt Supported Services (General Fund: ASMI)	5.7				Non-Oil (Ex. Inv.)	Restricted	Taxes
	Salmon Enhancement (General Fund: Qualifying Regional Associations)	3.6				Non-Oil (Ex. Inv.)	Restricted	Taxes
	Subtotal Taxes			1,301.9				
	Licenses & Permits							
	Motor Vehicle Fees (General Fund)	34.1				Non-Oil (Ex. Inv.)	Unrestricted	Licenses and Permits
	Other Fees (General Fund)	3.2				Non-Oil (Ex. Inv.)	Unrestricted	Licenses and Permits
	Insurance Licensing Fees and Permits (General Fund)	7.9				Non-Oil (Ex. Inv.)	Restricted	Licenses and Permits
	Occupational Licensing Receipts (General Fund)	7.2				Non-Oil (Ex. Inv.)	Restricted	Licenses and Permits
	Subtotal Licenses & Permits			52.4				
	Charges for Services							
	General Government (General Fund)	19.5				Non-Oil (Ex. Inv.)	Unrestricted	Charges for Services
	Natural Resources (General Fund)	6.5				Non-Oil (Ex. Inv.)	Unrestricted	Charges for Services
	Other (General Fund)	1.0				Non-Oil (Ex. Inv.)	Unrestricted	Charges for Services
	Banking and Securities (General Fund)	11.2				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Commercial Fisheries Entry Commission Receipts (General Fund)	4.1				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Marine Highway Receipts (General Fund: Marine Highway Fund)	37.6				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Oil and Gas Conservation (General Fund)	2.5				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Dive Fisheries Management Receipts	0.4				Non-Oil (Ex. Inv.)	Restricted	Taxes
	Other (General Fund)	10.0				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Other Statutorily Designated Program Receipts (General Fund)	49.7				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Pioneer Home Receipts (General Fund)	12.3				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Regulatory Commission of Alaska Receipts (General Fund)	4.9				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Test Fisheries Receipts (General Fund)	2.1				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Subtotal Charges for Services			161.8				

C. CAFR Operating Revenue to Revenue Sources Book Revenue

Classification CAFR	Description	Dollars	Subtotals	Subtotals	Fund Totals	Classification in Revenue Source Book		
Fines & Forfeitures								
	Fines and Forfeitures (General Fund)	6.5				Non-Oil (Ex. Inv.)	Unrestricted	Fines and Forfeitures
	Other Settlements (General Fund)	5.7				Non-Oil (Ex. Inv.)	Unrestricted	Fines and Forfeitures
	Tobacco Settlement (General Fund)	21.4				Non-Oil (Ex. Inv.)	Unrestricted	Fines and Forfeitures
	Subtotal Fines & Forfeitures			33.6				
Rents & Royalties								
	Royalties (including Bonuses)	788.1				O&G	Unrestricted	Rents and Royalties
	Cabin Rentals (General Fund)	0.2				Non-Oil (Ex. Inv.)	Unrestricted	Rents and Royalties
	Coal Royalties (General Fund)	1.1				Non-Oil (Ex. Inv.)	Unrestricted	Rents and Royalties
	Land Leasing, Rental and Sale (General Fund)	9.2				Non-Oil (Ex. Inv.)	Unrestricted	Rents and Royalties
	Timber Sales (General Fund)	0.4				Non-Oil (Ex. Inv.)	Unrestricted	Rents and Royalties
	Other Statutorily Designated Program Receipts (General Fund)	0.9				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Subtotals Rents & Royalties			799.9				
Rents & Royalties (APF)								
	Royalties to Permanent Fund	333.3				O&G	Restricted	Dedicated Royalties
	Subtotal Rents & Royalties (APF)			333.3				
Investments								
	Treasury Interest and Investment Income	86.3				Investments	Unrestricted	GeFONSI
	Transfer to GeFONSI restricted	(21.8)				Investments	Unrestricted	GeFONSI
	CAFR Reclass Receipts to Transfers	(2.8)				Investments	Unrestricted	GeFONSI
	Interest Paid by Others (General Fund Program Receipts)	1.0				Investments	Unrestricted	Interest
	Interest on Investments (Tobacco Bonds)	3.1				SBXXX	SBXXX	Tobacco
	Interest Paid by Others (general fund)	1.7				Investments	Unrestricted	Interest
	Interest Paid by Others	11.2				O&G	Unrestricted	Rents and Royalties
	CAFR (Reclass AMBBA to Transfers)	(0.7)				SBXXX	SBXXX	Adj./CAFR
	Subtotal Investment			78.0				
Federal								
	Intergovernmental Revenue (General Fund)	0.3				Non-Oil (Ex. Inv.)	Unrestricted	Federal
	Federal Revenues	1,297.5				Non-Oil (Ex. Inv.)	Restricted	Federal
	Subtotal Federal			1,297.8				
Other								
	Deposit Excess Loan Funds (General Fund)	0.2				Non-Oil (Ex. Inv.)	Unrestricted	Other
	CAFR Reclass to other (Tobacco Bonds)	48.9				SBXXX	SBXXX	Tobacco
	Other Tobacco Bonds	44.1				SBXXX	SBXXX	Tobacco
	Other	1.6				Non-Oil (Ex. Inv.)	Unrestricted	Other
	Adj. Entry to Match CAFR	0.3				Non-Oil (Ex. Inv.)	Unrestricted	Other
	CAFR Reclass from Receipts to Transfers	(4.5)				Non-Oil (Ex. Inv.)	Unrestricted	Other
	Miscellaneous (General Fund)	37.3				Non-Oil (Ex. Inv.)	Unrestricted	Other
	Statutorily Designated Program Receipts (General Fund)	1.1				Non-Oil (Ex. Inv.)	Restricted	Other
	Deposit Excess Loan Funds (General Fund)	(0.2)				SBXXX	SBXXX	Contr
	Subtotal Other			128.8				
Total General Fund					4,187.5			
Special Revenue Funds (Schedule 3.02)								
B&T								
	Other Adj. Entry to Match CAFR	0.5				SBXXX	SBXXX	Adj./CAFR
	Subtotal Building & Trades (Other)			0.5				
Clean Air								
	L/P Fees (Clean Air Protection Fund)	2.0				Non-Oil (Ex. Inv.)	Restricted	Licenses and Permits
	Subtotal Clean Air (Licenses & Permits)			2.0				
Disaster Relief								
	Federal Disaster Relief Fund (SRF)	10.8				Non-Oil (Ex. Inv.)	Restricted	Federal
	Subtotal Disaster Relief (Federal)			10.8				

C. CAFR Operating Revenue to Revenue Sources Book Revenue

Classification CAFR		Description	Dollars	Subtotals	Subtotals	Fund Totals	Classification in Revenue Source Book		
Fish & Game									
F/F	Adj. Entry to Match CAFR			0.1			SBXXX	SBXXX	Adj./CAFR
Federal	Fish and Game Fund (SRF)			16.1			Non-Oil (Ex. Inv.)	Restricted	Federal
invest	Adj. Entry to Match CAFR (investment)			1.4			Investments	Restricted	Gefonsi
Licenses & Permits									
	Hunting and Fishing Fees (Fish and Game Fund) SR		23.8				Non-Oil (Ex. Inv.)	Restricted	Licenses and Permits
	Sanctuary Fees (Fish and Game Fund) SR		0.1				Non-Oil (Ex. Inv.)	Restricted	Licenses and Permits
Subtotal	Licenses & Permits			23.9					
C/S	Adj. Entry to Match CAFR			0.1			SBXXX	SBXXX	Adj./CAFR
Other	Adj. Entry to Match CAFR			0.1			SBXXX	SBXXX	Adj./CAFR
Subtotal Fish & Game					41.7				
NPRA (R&R)									
R&R	NPRA			1.7			O&G	Restricted	NPRA
Subtotal NPRA (R&R)					1.7				
School (taxes)									
Taxes	Cigarette Taxes (Special Revenue Fund: School Fund)			30.7			Non-Oil (Ex. Inv.)	Restricted	Taxes
Subtotal School (taxes)					30.7				
Total Special Revenue Funds						87.4			
Enterprise Funds (Schedule 6.11 & 6.02)									
Agriculture (6.11)									
Total	Invest	Invest		0.6			Investments	Restricted	Gefonsi
Subtotal Agriculture (6.11)					0.6				
Commercial Assistance (Multiple) (6.02)									
C/S	Adj. Entry to Match CAFR			0.2			SBXXX	SBXXX	Adj./CAFR
F/F	Adj. Entry to Match CAFR			0.1			SBXXX	SBXXX	Adj./CAFR
Invest	Invest			10.8			Investments	Restricted	Gefonsi
Subtotal Commercial Assistance (Multiple) (6.02)					11.1				
AK Drink Water (6.11)									
Invest	Invest			0.4			Investments	Restricted	Gefonsi
Other	Adj. Entry to Match CAFR			0.4			SBXXX	SBXXX	Adj./CAFR
Subtotal AK Drink Water (6.11)					0.8				
Clean Water (6.11)									
Invest	Invest			2.9			Investments	Restricted	Gefonsi
Other	Adj. Entry to Match CAFR			0.3			SBXXX	SBXXX	Adj./CAFR
Subtotal Clean Water (6.11)					3.2				
Intl. Airport (6.11)									
Charges for Services									
	Airport Fuel Sales, Landing and Other Fees (Enterprise Funds: Intl. Airport Fund)		62.6				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Terminal Bldg. & Land Rental (Enterprise Funds: Intl. Airport Funds)		11.2				Non-Oil (Ex. Inv.)	Restricted	Charges for Services
	Terminal Bldg. & Land Rental (Enterprise Funds: Intl. Airport Funds)		(0.2)				SBXXX	SBXXX	Adj./CAFR
Subtotal	Charges for Services			73.6					
Other	Adj. Entry to Match CAFR			0.3			SBXXX	SBXXX	Adj./CAFR
Intl. Airport (6.11) Subtotal					73.9				
Total Enterprise Funds						89.6			

C. CAFR Operating Revenue to Revenue Sources Book Revenue

Classification CAFR		Description	Dollars	Subtotals	Subtotals	Fund Totals	Classification in Revenue Source Book		
Expendable Trust Funds (8.03)									
Alyeska	Invest	Alyeska Settlement		0.6			Investments	Restricted	Gefonsi
Subtotal Alyeska APFD					0.6				
	C/S	Adj. Entry to Match CAFR		0.3			SBXXX	SBXXX	Adj./CAFR
	Federal	Adj. Entry to Match CAFR		0.1			SBXXX	SBXXX	Adj./CAFR
	Other	Adj. Entry to Match CAFR		0.4			SBXXX	SBXXX	Adj./CAFR
Subtotal APFD CBRF					0.8				
	Invest	Interest Portion of CBRF settlements	13.4				O&G	Restricted	CBRF
		CBRF	202.9				Investments	Restricted	CBRF
Subtotal Invest				216.3					
	R&R	Royalty Portion of CBRF-Bound Settlements		7.8			O&G	Restricted	CBRF
	Taxes	Tax Portion of CBRF-Bound Settlements		27.8			O&G	Restricted	CBRF
Subtotal CBRF Def Comp					251.9				
	Cont	Other Contributions		24.6			SBXXX	SBXXX	Contribution
	Invest	Deferred Comp		(14.6)			Investments	Restricted	Gefonsi
Subtotal Def Comp EVOS					10.0				
	Contributions	Exxon Valdez Settlement (ET: Exxon Valdez Settlement Fund)	27.0				SBXXX	SBXXX	Contribution
		Exxon Valdez Settlement Plug for CAFR	(0.2)				SBXXX	SBXXX	Adj./CAFR
Subtotal Contributions				26.8					
Subtotal EVOS Mem Schl	Invest	EVOS		1.0			Investments	Restricted	Gefonsi
					27.8				
	Cont	Other Contributions		0.3			SBXXX	SBXXX	Contribution
	Invest	Memorial Scholarship		0.1			Investments	Restricted	Gefonsi
Subtotal Mem Schl Oil Rest					0.4				
Subtotal Oil Rest PA	Invest	Oil Restoration		0.5			Investments	Restricted	Gefonsi
					0.5				
	Invest	Public Advocacy Trust		0.4			Investments	Restricted	Gefonsi
	Other	Other from CAFR		11.3			SBXXX	SBXXX	Contribution
Subtotal PA Unemp					11.7				
	Cont	Other Contributions	127.3				SBXXX	SBXXX	Contribution
	Federal	Adj. Entry to Match CAFR		0.9			SBXXX	SBXXX	Adj./CAFR
	Invest	Unemployment Compensation		13.8			Investments	Restricted	Gefonsi
Subtotal Unemp					142.0				
Total Expendable Trusts									445.7

C. CAFR Operating Revenue to Revenue Sources Book Revenue

Classification CAFR		Description	Dollars	Subtotals	Subtotals	Fund Totals	Classification in Revenue Source Book		
Non Expendable Trust Funds (8.05)									
Children's Trust									
	Invest	Children's		0.4			Investments	Restricted	Other Treasury
Subtotal Children's Trust				<u>0.4</u>					
PFC									
	Invest	PFC		(884.4)			Investments	Restricted	APFC
Subtotal PFC				<u>(884.4)</u>					
Public School Trust									
	Invest	Public School		13.2			Investments	Restricted	Other Treasury
Subtotal Public School Trust				<u>13.2</u>					
Total Non-Expendable Trust Funds									(870.8)
Internal Service Funds (7.02)									
All I/S funds									
	C/S	All I/S funds Charges for services		63.7			SBXXX	SBXXX	I/S
	Premiums	All I/S funds Premiums		276.4			SBXXX	SBXXX	I/S
Subtotal All I/S funds				<u>340.1</u>					
Total Internal Service Funds									340.1
Sum of Operating Revenues of Selected Fund Types									4,279.5
Items found in CAFR Sections Other Than General Government Operating revenues									
Children's (8.05)	Invest	Children's		(0.5)			Investments	Restricted	Other Treasury
PFC (8.05)	Invest	PFC Operating Expenses (Netted Against Revenue in Revenue Sources Book)		(39.5)			Investments	Restricted	APFC
AEA (1.10)		Power Cost Equalization Earnings		(6.0)			Investments	Restricted	Other Treasury
AIDEA (1.10)		AIDEA Dividend		18.5			Non-Oil (Ex. Inv.)	Restricted	Other
General Fund (2.02)	Op Trans	AMBBA Dividend		0.7			Non-Oil (Ex. Inv.)	Restricted	Other
Public School (8.05)	Invest	Public School		(12.7)			Investments	Restricted	Other Treasury
Public School (8.05)	R&R	Royalties to School Fund		5.7			O&G	Restricted	Dedicated Royalties
Subtotal				<u>(33.8)</u>					
Items not Found in CAFR									
		AHFC Dividend		103.0			Non-Oil (Ex. Inv.)	Restricted	Other
		ASLC Dividend		2.2			Non-Oil (Ex. Inv.)	Restricted	Other
		Adj. Entry to Match Revenue Sources Book		(1.8)			Non-Oil (Ex. Inv.)	Restricted	Federal
		International Airport Revenue Fund		8.5			Investments	Restricted	Other Treasury
		International Airport Construction Fund		13.6			Investments	Restricted	Other Treasury
		Additional Royalties to PF as Reported by PFC		6.0			O&G	Restricted	Dedicated Royalties
		Investment Loss Trust		0.4			Investments	Unrestricted	ILT
		Other Investment		3.9			Investments	Restricted	Gefonsi
		CAFReclass receipts to transfers (Treasury Interest Income)		2.8			Investments	Unrestricted	Interest
Subtotal				<u>138.6</u>					
Total Non-Operating Revenues in CAFR									<u>104.8</u>
Grand Total (reconciles to Appendix B)									4,384.3

D. General Fund Unrestricted Revenue Sensitivity Matrices

\$ Million

		Million barrels/day	
	0.90	1.00	1.10
15.00	1,250	1,270	1,280
16.00	1,270	1,300	1,320
17.00	1,300	1,330	1,360
18.00	1,350	1,390	1,440
19.00	1,390	1,450	1,510
20.00	1,440	1,510	1,590
21.00	1,490	1,570	1,660
22.00	1,530	1,630	1,740
23.00	1,580	1,690	1,810
24.00	1,630	1,760	1,890
25.00	1,670	1,820	1,960

		Million barrels/day	
	0.90	1.00	1.10
15.00	1,130	1,180	1,240
16.00	1,180	1,240	1,300
17.00	1,230	1,300	1,360
18.00	1,280	1,350	1,420
19.00	1,330	1,410	1,480
20.00	1,380	1,460	1,550
21.00	1,430	1,520	1,610
22.00	1,480	1,580	1,670
23.00	1,530	1,630	1,730
24.00	1,580	1,690	1,790
25.00	1,630	1,750	1,860

		Million barrels/day	
	0.90	1.00	1.10
15.00	1,110	1,160	1,220
16.00	1,160	1,220	1,280
17.00	1,210	1,270	1,340
18.00	1,260	1,330	1,400
19.00	1,310	1,390	1,460
20.00	1,360	1,440	1,520
21.00	1,410	1,500	1,580
22.00	1,460	1,550	1,640
23.00	1,510	1,610	1,700
24.00	1,560	1,660	1,770
25.00	1,610	1,720	1,830

E. Unrestricted Petroleum Production Tax and Royalty Revenue Forecast

\$ Million

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Alaska North Slope									
Oil Royalty (1)	531.9	526.4	507.0	492.5	446.8	392.6	385.2	376.6	362.6
Oil Severance Tax	447.6	396.5	373.0	335.2	281.6	226.4	207.8	191.2	172.5
Conservation Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	9.1	9.7	10.1	10.0	9.8	9.7	10.3	10.5	10.2
Gas Royalty	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Gas Severance Tax	<u>0.6</u>	<u>1.3</u>	<u>1.4</u>	<u>1.4</u>	<u>1.2</u>	<u>1.1</u>	<u>1.1</u>	<u>1.1</u>	<u>1.0</u>
Subtotal	990.2	934.7	892.4	839.8	741.1	630.5	605.1	580.0	547.0
Cook Inlet									
Oil Royalty (1)	22.0	21.1	22.7	21.7	19.7	23.9	23.3	22.8	22.3
Oil Severance Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Conservation Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Gas Royalty	25.8	19.8	20.4	21.1	21.7	22.4	23.2	23.9	24.7
Gas Severance Tax	<u>21.3</u>	<u>14.8</u>	<u>15.3</u>	<u>15.7</u>	<u>16.2</u>	<u>16.7</u>	<u>17.3</u>	<u>17.8</u>	<u>18.3</u>
Subtotal	69.3	56.0	58.9	59.0	58.2	63.5	64.2	65.0	65.8
TOTAL PRODUCTION TAX and ROYALTY REVENUE	1,059.5	990.8	951.2	898.8	798.3	694.0	669.2	645.0	612.8
Bonuses	9.5	6.6	6.0	6.0	6.0	6.0	6.0	6.0	6.0
TOTAL PRODUCTION TAX + ROYALTIES + BONUSES	1,068.9	997.3	957.2	904.8	804.3	700.0	675.2	651.0	618.8

(1) Unrestricted oil royalty revenue is net of Permanent Fund and Public School Fund contributions.

F. Alternative Oil Price Scenarios
\$ Million

<u>FY</u>	Reference Case		\$10 per Barrel Unrestricted <u>Revenue</u>	\$30 per Barrel Unrestricted <u>Revenue</u>
	<u>\$/barrel</u>	<u>Revenue</u>		
2003	20.50	1,559.6	923.1	2,150.7
2004	19.50	1,509.5	922.7	2,172.1
2005	19.50	1,439.1	883.2	2,069.1
2006	18.50	1,332.2	855.6	1,995.3
2007	17.50	1,216.3	833.8	1,904.9
2008	17.50	1,177.1	820.4	1,850.5
2009	17.50	1,139.1	804.4	1,796.3
2010	17.50	1,095.3	778.1	1,721.8

G. Historical and Projected Crude Oil Prices

\$ per Barrel

FY	WTI		ANS Wellhead		ANS West Coast	
	nominal	real2002	nominal	real2002	nominal	real2002
1990	20.06	28.77	11.90	17.06	17.22	24.70
1991	24.95	34.19	15.38	21.08	21.57	29.56
1992	20.69	27.08	11.21	14.67	16.64	21.78
1993	20.69	26.27	12.81	16.26	17.83	22.64
1994	16.69	20.57	9.57	11.80	14.05	17.32
1995	18.54	22.30	11.51	13.84	16.77	20.17
1996	19.20	22.41	12.60	14.71	17.74	20.71
1997	22.54	25.60	16.40	18.63	20.90	23.74
1998	18.03	20.03	11.91	13.22	15.86	17.61
1999	14.09	15.39	8.47	9.25	12.73	13.90
2000	24.82	26.58	18.82	20.16	23.27	24.92
2001	30.41	31.40	20.06	20.71	27.85	28.75
2002	23.38	23.38	16.39	16.39	21.50	21.50
2003	22.50	21.87	15.27	14.84	20.50	19.92
2004	21.50	20.31	14.31	13.51	19.50	18.42
2005	21.50	19.73	14.15	12.98	19.50	17.90
2006	20.50	18.28	12.99	11.59	18.50	16.50
2007	19.50	16.90	11.85	10.27	17.50	15.17
2008	19.50	16.43	11.75	9.90	17.50	14.74
2009	19.50	15.96	11.67	9.55	17.50	14.32
2010	19.50	15.51	11.57	9.21	17.50	13.92

H. Historical and Projected ANS Production

Million Barrels/Day

FY	(2) PBU-		(3) Kup		(4) Milne		(5)			(6) West			(7) Known			Total ANS				
	Bay	Satellite	Kuparuk	Satellite	Point	Milne	Point	Endicott	Lisburne	McIntyre	Niakuk	Beach	Alpine	Nanuk	Northstar		Liberty	Onshore	Fiord	NPRA
1978	0.702	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	0.702
1979	1.197	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1.197
1980	1.422	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1.422
1981	1.511	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1.511
1982	1.531	.	.	0.039	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1.570
1983	1.532	.	.	0.095	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1.627
1984	1.539	.	.	0.118	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1.657
1985	1.534	.	.	0.161	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1.694
1986	1.555	.	.	0.238	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	1.802
1987	1.564	.	.	0.272	.	.	.	.	0.018	.	.	.	.	.	.	.	.	.	.	1.859
1988	1.605	.	.	0.287	.	.	.	0.000	0.069	0.044	.	.	.	.	.	.	.	.	.	2.006
1989	1.524	.	.	0.300	.	.	.	0.002	0.098	0.038	.	.	.	.	.	.	.	.	.	1.962
1990	1.396	.	.	0.300	.	.	.	0.011	0.103	0.037	.	.	.	.	.	.	.	.	.	1.846
1991	1.330	.	.	0.299	.	.	.	0.018	0.108	0.039	.	.	.	.	.	.	.	.	.	1.794
1992	1.300	.	.	0.316	.	.	.	0.020	0.111	0.037	.	.	.	.	.	.	.	.	.	1.783
1993	1.193	.	.	0.322	.	.	.	0.018	0.115	0.030	.	0.001	.	.	.	.	.	.	.	1.679
1994	1.082	.	.	0.308	.	.	.	0.018	0.099	0.020	0.059	0.002	0.004	.	.	.	.	.	.	1.593
1995	0.991	.	.	0.303	.	.	.	0.021	0.099	0.020	0.121	0.014	0.003	.	.	.	.	.	.	1.572
1996	0.891	.	.	0.283	.	.	.	0.022	0.089	0.015	0.147	0.024	0.002	.	.	.	.	.	.	1.474
1997	0.809	.	.	0.267	.	.	.	0.052	0.068	0.013	0.166	0.028	0.002	.	.	.	.	.	.	1.404
1998	0.713	.	.	0.260	0.001	.	.	0.053	0.058	0.008	0.152	0.029	0.000	.	.	.	.	.	.	1.275
1999	0.636	0.003	.	0.241	0.025	.	.	0.055	0.048	0.007	0.119	0.029	0.000	.	.	.	.	.	.	1.164
2000	0.570	0.004	.	0.212	0.037	.	.	0.053	0.044	0.009	0.079	0.025	0.002	.	.	.	.	.	.	1.035
2001	0.540	0.007	.	0.196	0.031	.	.	0.052	0.037	0.010	0.060	0.019	0.001	0.040	.	.	.	.	.	0.991
2002	0.490	0.024	.	0.178	0.037	.	.	0.053	0.033	0.010	0.045	0.020	0.000	0.096	.	.	.	.	.	1.011
2003	0.460	0.042	.	0.174	0.052	.	.	0.062	0.031	0.045	0.042	0.019	0.001	0.096	.	.	.	.	.	1.053
2004	0.441	0.057	.	0.168	0.069	.	.	0.074	0.030	0.010	0.036	0.016	0.001	0.130	.	.	.	.	.	1.097
2005	0.414	0.061	.	0.156	0.081	.	.	0.087	0.029	0.009	0.033	0.014	0.001	0.130	.	.	.	.	.	1.078
2006	0.393	0.064	.	0.145	0.089	.	.	0.099	0.027	0.008	0.030	0.012	0.001	0.113	0.010	0.054	.	.	.	1.059
2007	0.376	0.065	.	0.136	0.091	.	.	0.102	0.026	0.007	0.027	0.010	0.001	0.099	0.016	0.044	.	.	.	1.049
2008	0.354	0.065	.	0.128	0.090	.	.	0.103	0.024	0.006	0.025	0.009	0.001	0.097	0.015	0.035	0.035	0.030	0.021	1.090
2009	0.337	0.066	.	0.120	0.090	.	.	0.099	0.023	0.005	0.023	0.008	0.001	0.092	0.014	0.028	0.055	0.055	0.018	1.107
2010	0.323	0.067	.	0.114	0.094	.	.	0.096	0.022	0.005	0.022	0.007	0.001	0.083	0.012	0.022	0.052	0.060	0.016	1.070

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

(2) Midnight Sun, Polaris, Aurora and Borealis

(3) West Sak, Tobasco, Tarn and Meltwater

(4) Milne Point includes Schrader Bluff and Sag River

(5) Endicott includes Sag Delta, Eider and Badami

(6) West Beach and North Prudhoe Bay State

(7) Sourdough and Point Thompson

I. Historical Petroleum Revenue

\$ Million

FY	Corporate Petroleum			Petroleum Property		Reserve Tax	(1) (2) Royalties	(1) (2) Bonuses & Rents	(3) (4) Petroleum		Total Petroleum Revenue	Cumulative Total Petroleum Revenue	Total General Fund Unrestricted Revenue	% of Total General Fund Unrestricted Revenue
	Tax	Production Tax	Property Tax	Special Settlements	Settlements									
1975	2.5	26.6	6.6	.	.	49.8	4.9	.	.	90.4	1,487.2	333.4	27%	
1976	4.9	28.0	83.4	223.1	270.6	48.4	3.7	.	.	391.5	1,878.7	709.8	55%	
1977	5.0	23.8	139.1	270.6	.	36.3	2.8	.	.	477.6	2,356.3	874.3	55%	
1978	8.4	107.7	173.0	.	.	150.6	1.8	.	.	441.5	2,797.8	764.9	58%	
1979	232.6	173.8	163.4	.	.	250.2	1.6	.	.	821.6	3,619.4	1,133.0	73%	
1980	547.5	506.5	168.9	.	.	689.4	344.2	.	.	2,256.5	5,875.9	2,501.2	90%	
1981	860.1	1,170.2	143.0	.	.	1119.7	11.3	.	.	3,304.3	9,180.2	3,718.0	89%	
1982	668.9	1,581.7	142.7	.	.	1174.4	7.1	.	.	3,574.8	12,755.0	4,108.4	87%	
1983	236.0	1,493.7	152.6	.	.	1105.6	38.7	.	.	3,026.6	15,781.6	3,631.0	83%	
1984	265.1	1,393.1	131.0	.	.	1058.5	13.9	.	.	2,861.6	18,643.2	3,390.1	84%	
1985	168.6	1,389.4	128.4	.	.	1042.2	14.9	.	.	2,743.5	21,386.7	3,260.0	84%	
1986	133.9	1,107.9	113.5	.	.	845.0	38.9	418.2	.	2,657.4	24,044.1	3,075.5	86%	
1987	120.4	648.5	102.5	.	.	448.3	4.3	70.5	.	1,394.5	25,438.6	1,799.4	77%	
1988	158.0	818.7	96.2	.	.	701.5	11.3	163.9	.	1,949.6	27,388.2	2,305.8	85%	
1989	166.0	698.8	89.7	.	.	611.5	16.7	257.7	.	1,840.4	29,228.6	2,186.2	84%	
1990	117.2	1,001.6	89.8	0.0	0.0	753.7	4.2	154.8	.	2,121.3	31,349.9	2,507.2	85%	
1991	185.1	1,284.8	85.0	0.0	0.0	958.7	24.7	33.5	.	2,571.8	33,921.7	2,986.6	86%	
1992	165.5	1,053.2	69.0	0.0	0.0	708.2	6.8	4.7	.	2,007.4	35,929.1	2,462.6	82%	
1993	117.6	1,017.6	66.9	0.0	0.0	716.7	44.3	4.7	.	1,967.8	37,896.9	2,352.0	84%	
1994	17.8	692.1	61.5	0.0	0.0	516.1	5.1	0.1	.	1,292.7	39,189.6	1,652.5	78%	
1995	128.5	793.9	57.3	0.0	0.0	631.8	5.0	0.7	.	1,617.2	40,806.8	2,082.9	78%	
1996	173.7	787.2	56.0	0.0	0.0	642.2	5.7	0.0	.	1,664.8	42,471.6	2,133.3	78%	
1997	269.4	921.6	53.6	0.0	0.0	759.2	6.4	0.0	.	2,010.2	44,481.8	2,494.9	81%	
1998	200.1	577.8	51.3	0.0	0.0	480.4	23.0	0.0	.	1,332.6	45,814.4	1,825.5	73%	
1999	145.1	371.1	48.8	0.0	0.0	322.6	25.6	0.0	.	913.2	46,727.7	1,352.1	68%	
2000	162.7	702.7	45.0	0.0	0.0	731.9	4.0	0.0	.	1,646.3	48,373.9	2,147.6	77%	
2001	338.1	703.8	45.1	0.0	0.0	781.0	7.1	0.0	.	1,875.1	50,249.0	2,282.0	82%	

(1) These categories are primarily composed of petroleum revenue, however, they include some additional revenue from other minerals (mostly coal).

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

(3) Not subject of CBRF deposits

(4) Tax settlements are in the CBRF.

(5) This table shows historical petroleum revenue for FY 1975-2001. The cumulative petroleum revenue total is based on revenue beginning in FY 1959.

J. Historical General Fund Unrestricted Revenue

\$ Million

FY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
TAX PORTION												
Property Tax	89.8	85.0	69.0	66.9	61.5	57.3	56.0	53.6	51.3	48.8	45.0	45.1
Sales/Use												
Alcoholic Beverages	12.0	12.2	12.0	11.9	12.0	12.0	12.0	11.6	11.8	12.2	12.7	12.0
Tobacco Products	11.0	14.0	14.3	14.0	14.1	14.4	14.2	13.7	15.4	15.2	16.3	16.3
Insurance Premium	22.7	24.4	25.5	26.3	26.1	27.9	28.2	28.4	33.7	28.4	28.7	32.2
Motor Fuel Tax (2)	41.5	39.8	43.3	40.8	40.5	39.6	37.7	35.3	35.6	37.8	42.1	37.5
Total	87.2	90.4	95.1	93.0	92.7	93.9	92.1	89.0	96.5	93.6	99.8	98.0
Income Tax												
Corporation General	45.3	37.9	33.7	25.1	44.3	67.0	53.3	48.4	53.4	53.8	56.3	59.5
Corporation Petroleum	117.2	185.1	165.5	117.6	17.8	128.5	173.7	269.4	200.1	145.1	162.7	338.1
Total	162.5	223.0	199.2	142.7	62.1	195.5	227.0	317.8	253.5	198.9	219.0	397.6
Severance Tax												
Oil and Gas Production	972.3	1,253.8	1,022.2	989.4	662.8	769.8	771.7	907.0	564.4	358.6	693.2	694.4
Oil and Gas Conservation	2.4	2.3	2.3	2.1	2.3	2.0	1.8	1.7	1.6	1.4	0.0	0.0
Oil and Gas Hazardous Release	26.9	28.0	28.7	26.1	27.0	22.1	13.7	12.9	11.8	11.1	9.5	9.4
Total	1,001.6	1,284.1	1,053.2	1,017.6	692.1	793.9	787.2	921.6	577.8	371.1	702.7	703.8
Other Natural Resource Tax												
Salmon and Seafood Marketing	3.3	3.3	2.8	3.6	5.8	7.9	8.6	7.6	5.6	5.3	7.2	5.7
Salmon Enhancement	6.5	6.2	4.2	6.8	5.0	5.7	5.2	4.2	4.2	3.9	5.3	3.6
Dive Fishery Management	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Fisheries Business	25.1	31.1	30.1	42.2	33.9	39.0	38.2	31.0	28.5	25.9	36.7	30.5
Fish Landing	0.0	0.0	0.0	0.0	0.1	7.3	7.1	7.3	3.8	5.9	5.3	7.3
Total	34.9	40.6	37.1	52.6	44.8	59.9	59.1	50.1	42.1	41.0	54.7	47.3
Other Tax												
Estate	1.1	3.3	1.0	0.9	1.6	1.2	1.7	1.7	5.5	1.7	2.5	2.7
Other	4.7	4.1	4.1	4.1	4.7	4.8	4.9	5.0	6.1	6.5	8.9	7.4
Total	5.8	7.4	5.1	5.0	6.3	6.0	6.6	6.7	11.6	8.2	11.4	10.1
TOTAL TAXES	1,381.8	1,730.5	1,458.7	1,377.8	959.5	1,206.5	1,228.0	1,438.8	1,032.8	761.6	1,132.6	1,301.9

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
FY NON TAXES												
Licenses and Permits	27.8	29.1	32.4	32.7	35.7	34.7	60.9	69.0	74.6	63.7	69.2	37.3
Intergovernmental Receipts												
Federal Shared Revenues	10.0	14.8	11.4	10.3	4.3	4.2	1.0	2.0	2.2	0.8	1.0	0.3
Charges for Services												
Marine Highways	34.0	40.7	42.3	40.8	40.4	41.5	38.5	38.6	37.1	38.8	38.3	37.6
Other	12.2	16.5	44.1	14.3	18.0	18.1	36.9	39.5	34.9	31.8	43.7	27.0
Total	46.2	57.2	86.4	55.1	58.4	59.6	75.4	78.1	72.0	70.6	82.0	64.6
Fines and Forfeitures	0.0	0.0	0.0	0.0	0.0	0.0	9.4	8.2	37.7	12.5	46.2	33.6
Rents and Royalties												
Mineral Bonuses, Rents, Royalties	5.3	24.8	6.5	44.3	5.2	5.6	6.9	7.4	23.0	25.6	4.0	7.1
Oil and Gas Royalties	747.4	951.6	702.4	711.3	512.1	628.3	642.2	759.2	480.4	322.6	727.9	792.2 (3)
Timber Sales	0.8	0.4	0.6	0.6	0.4	0.6	1.5	1.9	0.8	0.3	0.3	0.4
Sale of State Property	4.3	4.7	1.0	4.0	9.0	21.8	8.1	8.6	8.1	10.6	9.4	10.5
Total	757.8	981.5	710.5	760.2	526.7	656.3	658.7	777.1	512.3	359.1	741.6	799.0
Investment Earnings	117.9	125.0	101.8	70.9	31.7	72.4	64.1	77.1	60.6	46.5	48.1	67.6 (4)
Miscellaneous Revenue	10.9	14.9	61.4	45.0	36.2	49.2	35.8	44.6	33.5	37.3	27.1	34.9
Sub-Total NON-TAX REVENUE	970.6	1,222.5	1,003.9	974.2	693.0	876.4	905.3	1,056.1	792.8	590.5	1,015.2	1,037.3
Plus: Income from prior years	154.8	33.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL NON-TAX REVENUE	1,125.4	1,256.1	1,003.9	974.2	693.0	876.4	905.3	1,056.1	792.8	590.5	1,015.2	1,037.3
TOTAL TAX REVENUE	1,381.8	1,730.5	1,458.7	1,377.8	959.5	1,206.5	1,228.0	1,438.8	1,032.8	761.6	1,132.6	1,301.9
TOTAL GENERAL FUND												
UNRESTRICTED REVENUE	2,507.2	2,986.6	2,462.6	2,352.0	1,652.5	2,082.9	2,133.3	2,494.9	1,825.7	1,352.1	2,147.8	2,339.2

(1) Starting in FY 1996, all General Fund program receipts are included under Unrestricted Revenue. FY 1996 also includes additional royalties due to payment from the TAPS Liability Fund. Also, statutorily designated program receipts and receipt-supported services were moved to the restricted category in FY 1998 and FY 2001, respectively.

(2) Motor Fuel Tax includes aviation, highway and marine.

(3) FY 2001 oil and gas royalties adjusted to include interest earnings.

(4) FY 2001 investment revenue adjusted to exclude oil and gas interest earnings.

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

Anticipated state income is projected through the use of a number of data sources: (1) econometric models developed by the Department of Revenue to forecast unrestricted non-petroleum revenues; (2) a petroleum revenue model created by the department's Tax Division; and (3) estimates from individual state agencies.

We thank the various state agencies for their cooperation in computing anticipated revenues for publication in this document.

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