



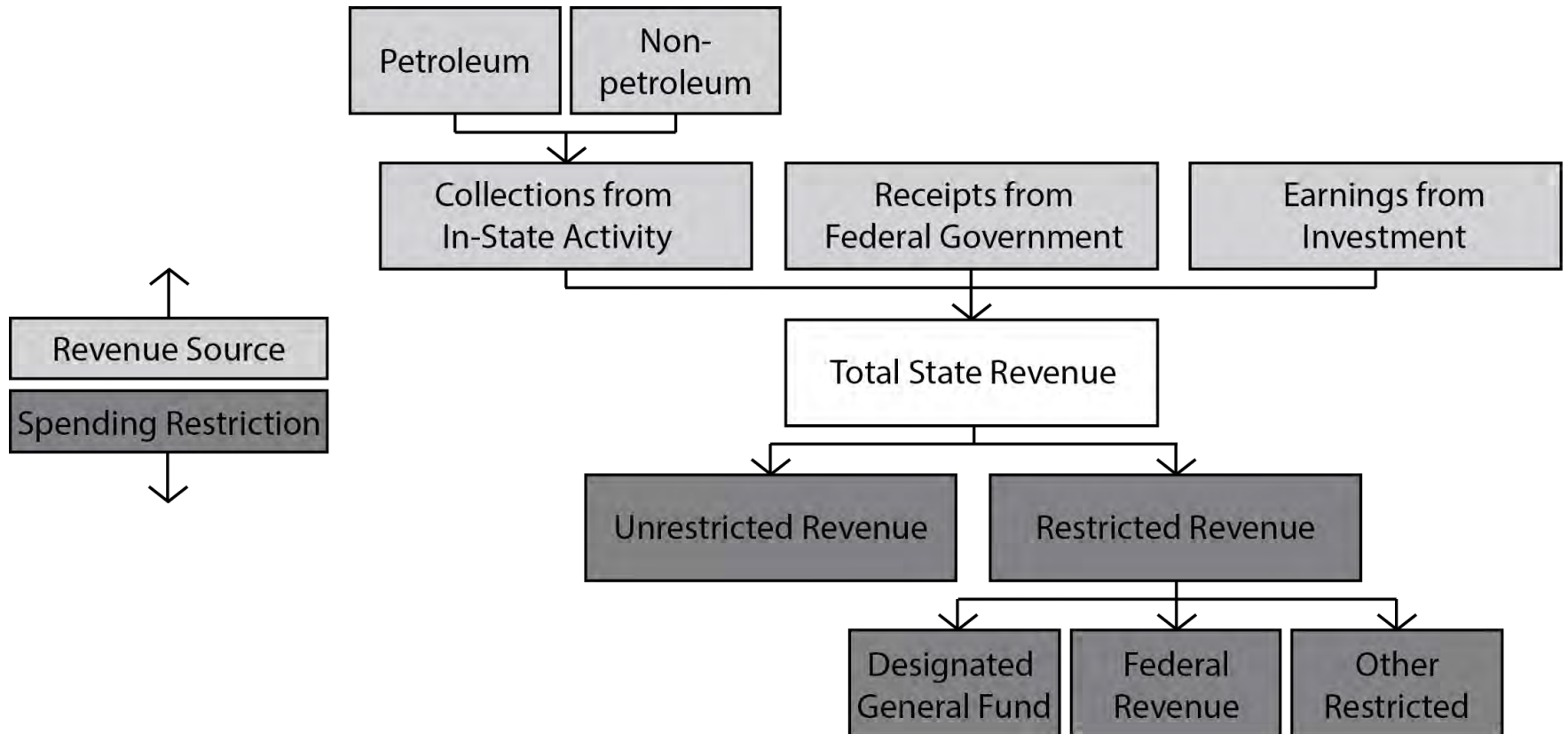
# Alaska Support Industry Alliance Fall 2014 Revenue & Revenue Forecast

---

Marcia Davis,  
Deputy Chief of Staff  
January 21, 2015

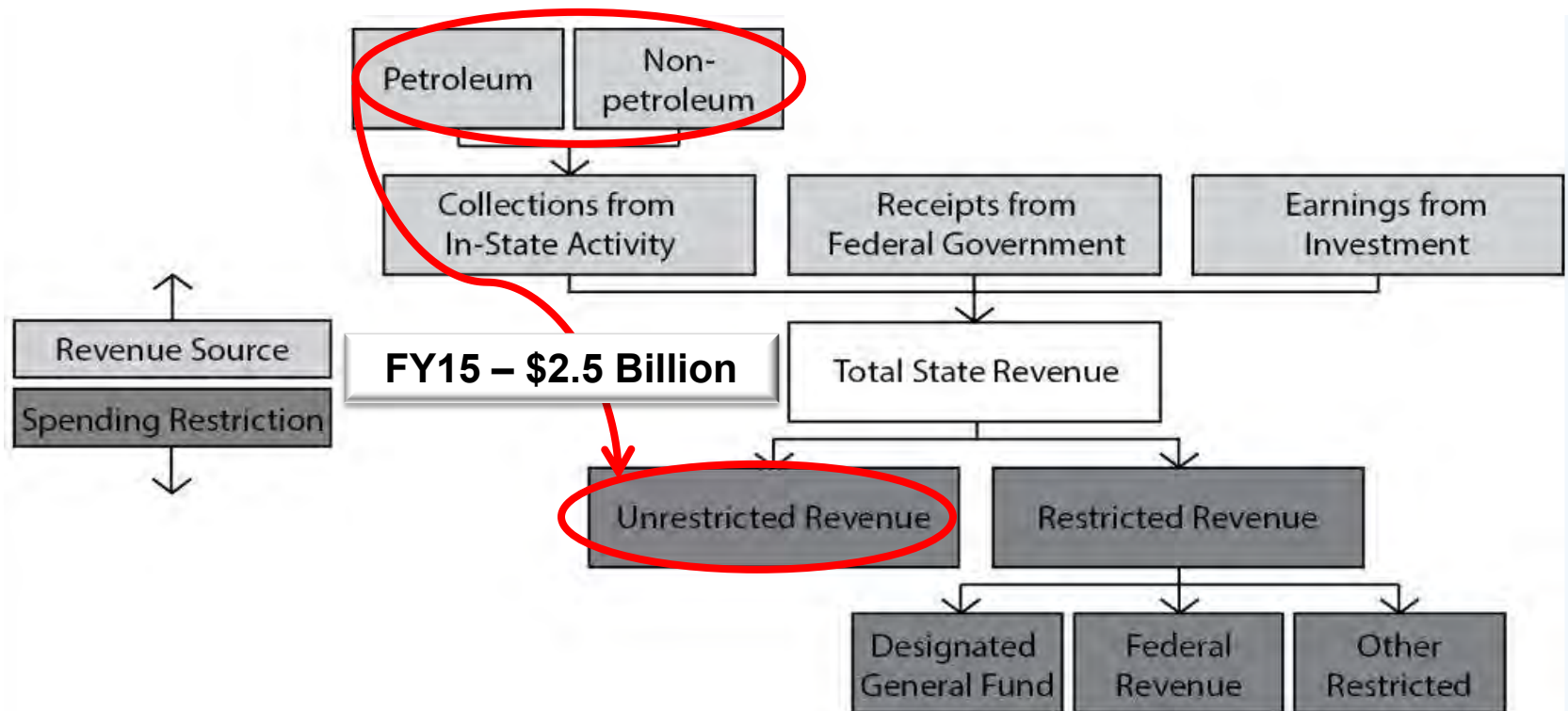


# Revenue Categories



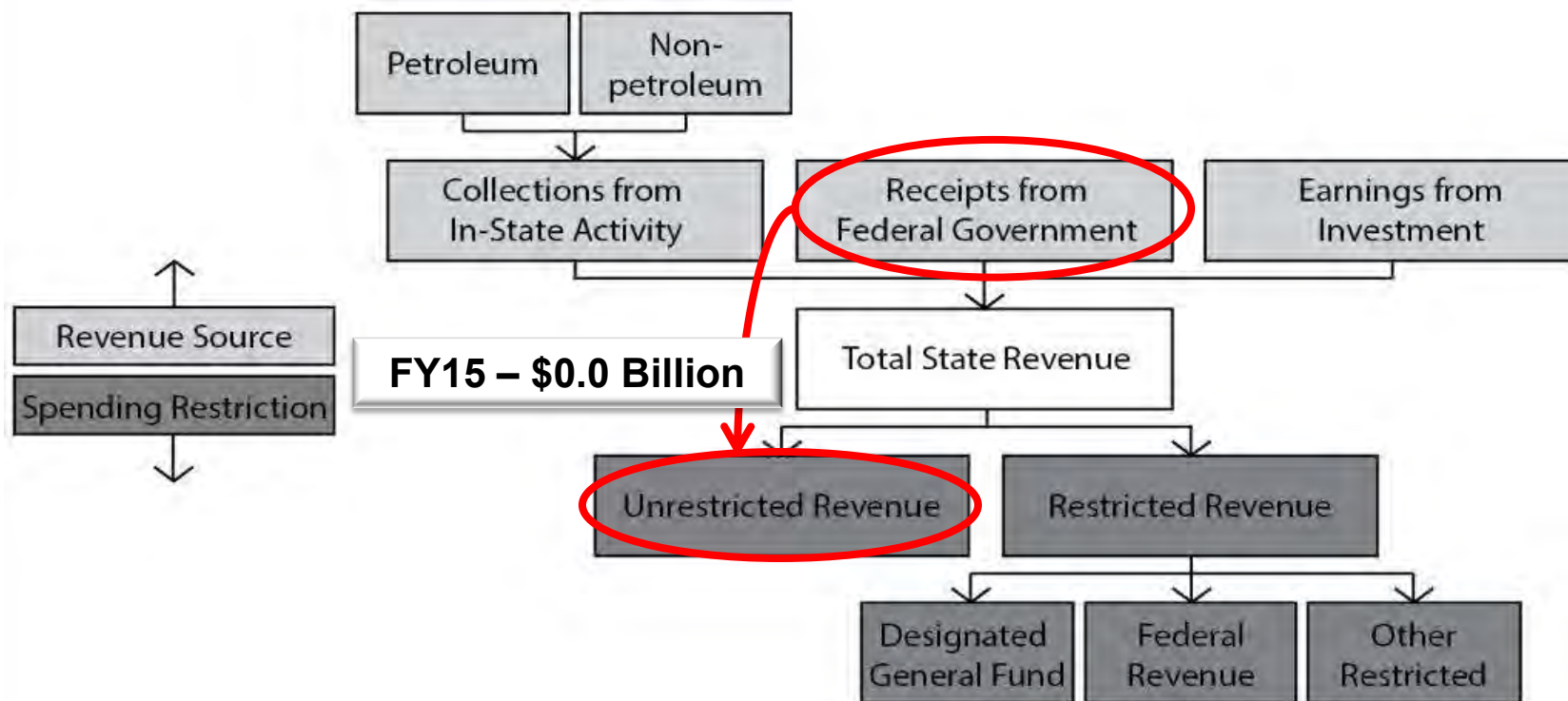
## Unrestricted Revenue

- Unrestricted revenues used for flexible portion of the state budget.



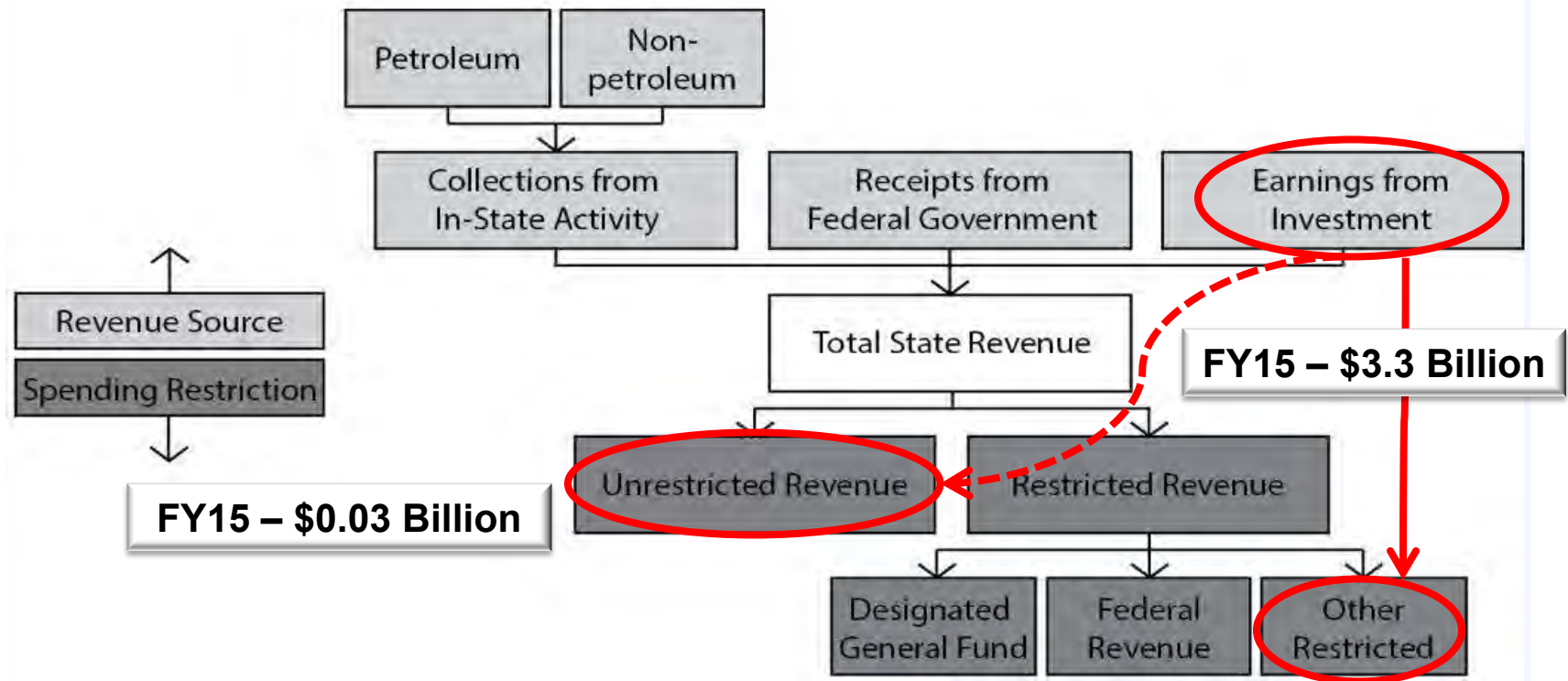
## Unrestricted Revenue

- State is unable to use federal revenues in general fund expenditures, federal government dictates use.

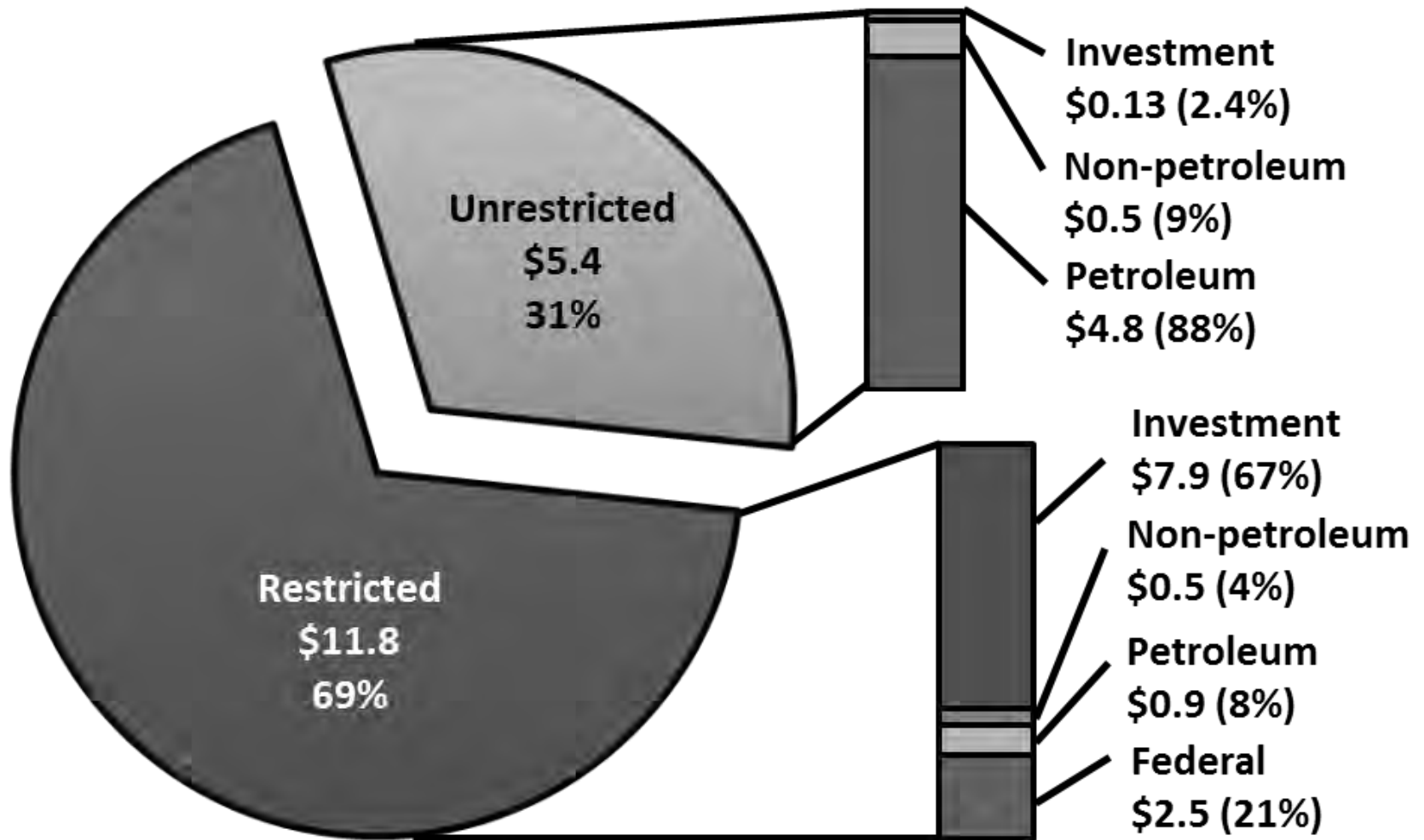


## Unrestricted Revenue

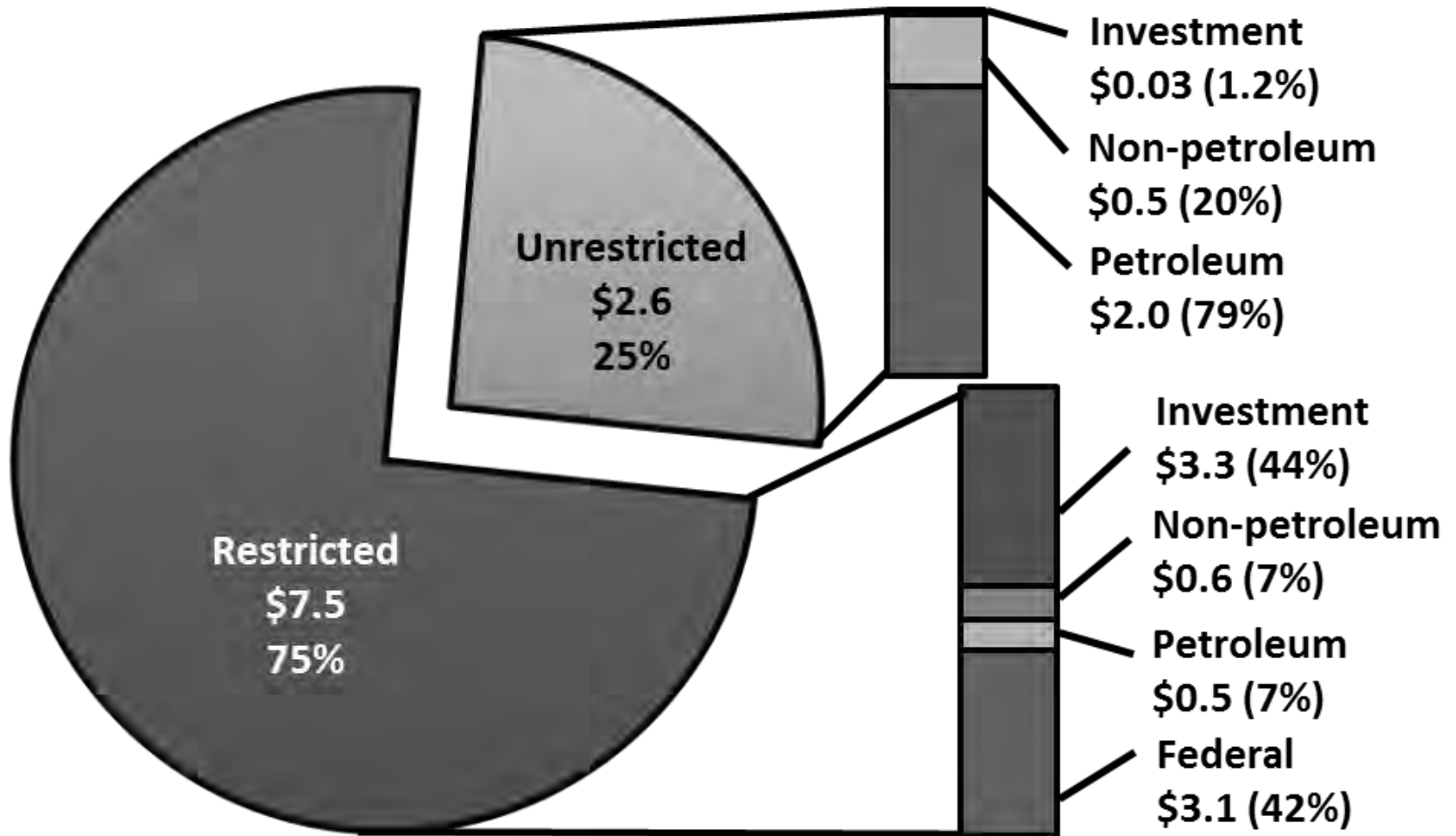
- Investment revenue is State's largest revenue source.



# FY 2014 Total State Revenue, by restriction and type

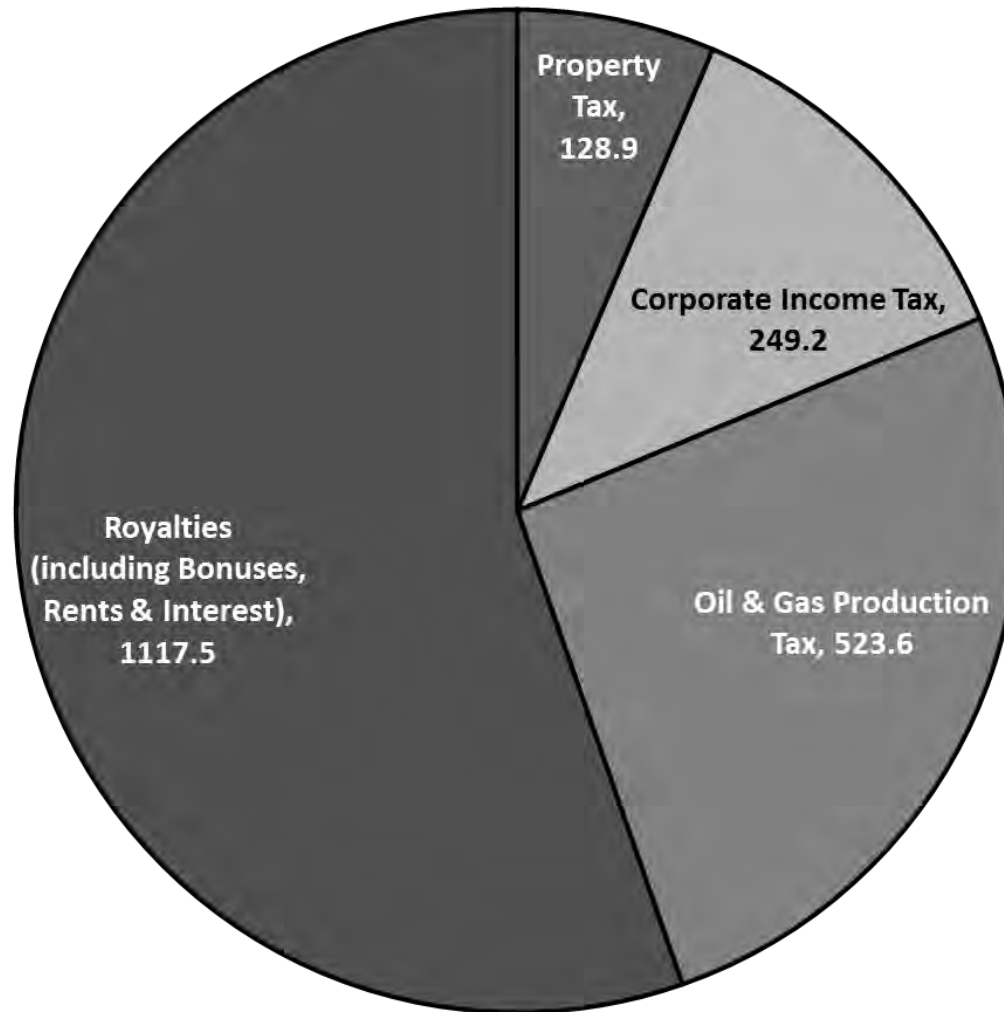


# FY 2015 forecasted breakdown between restricted and unrestricted



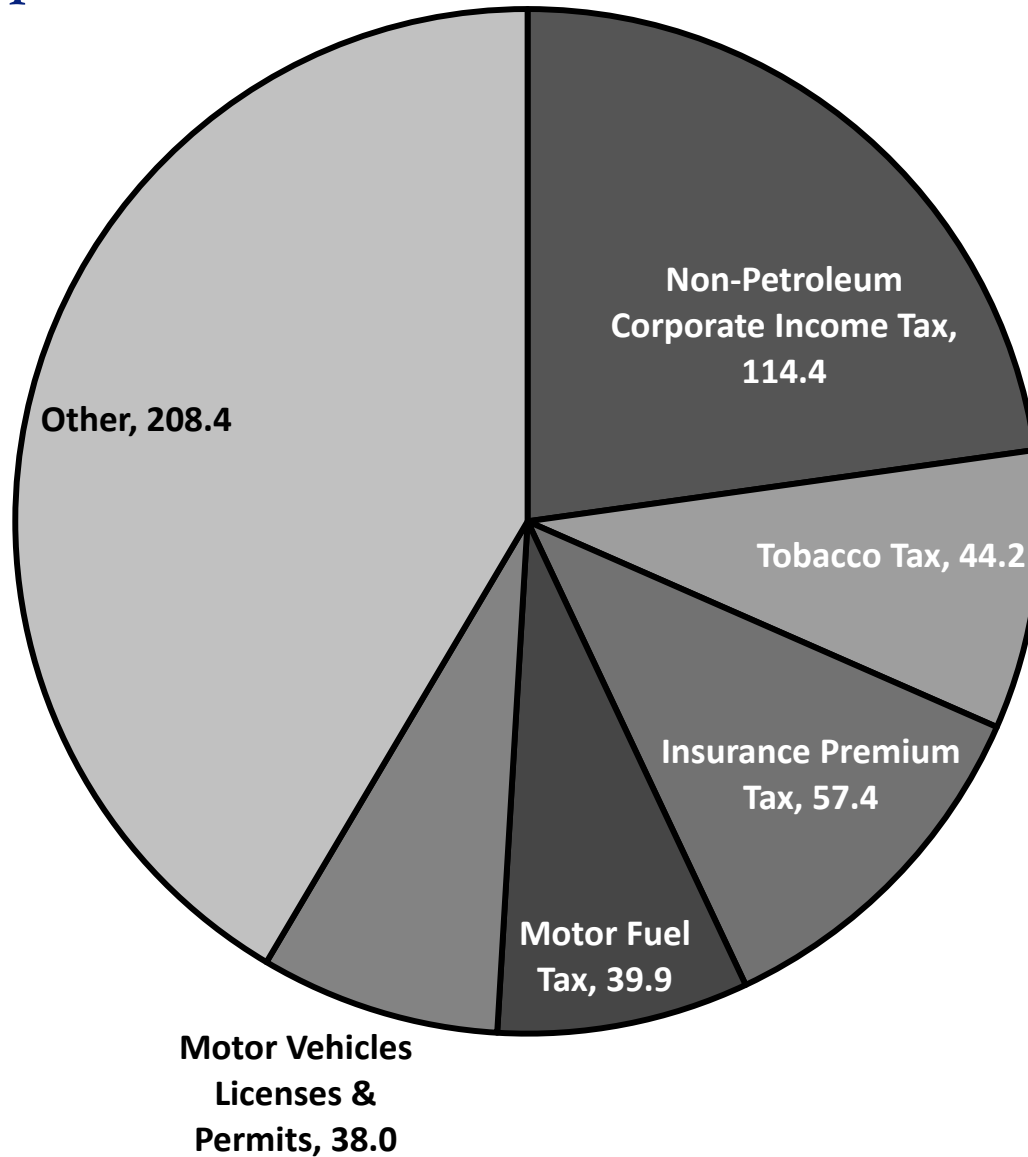


## FY 2015 petroleum unrestricted

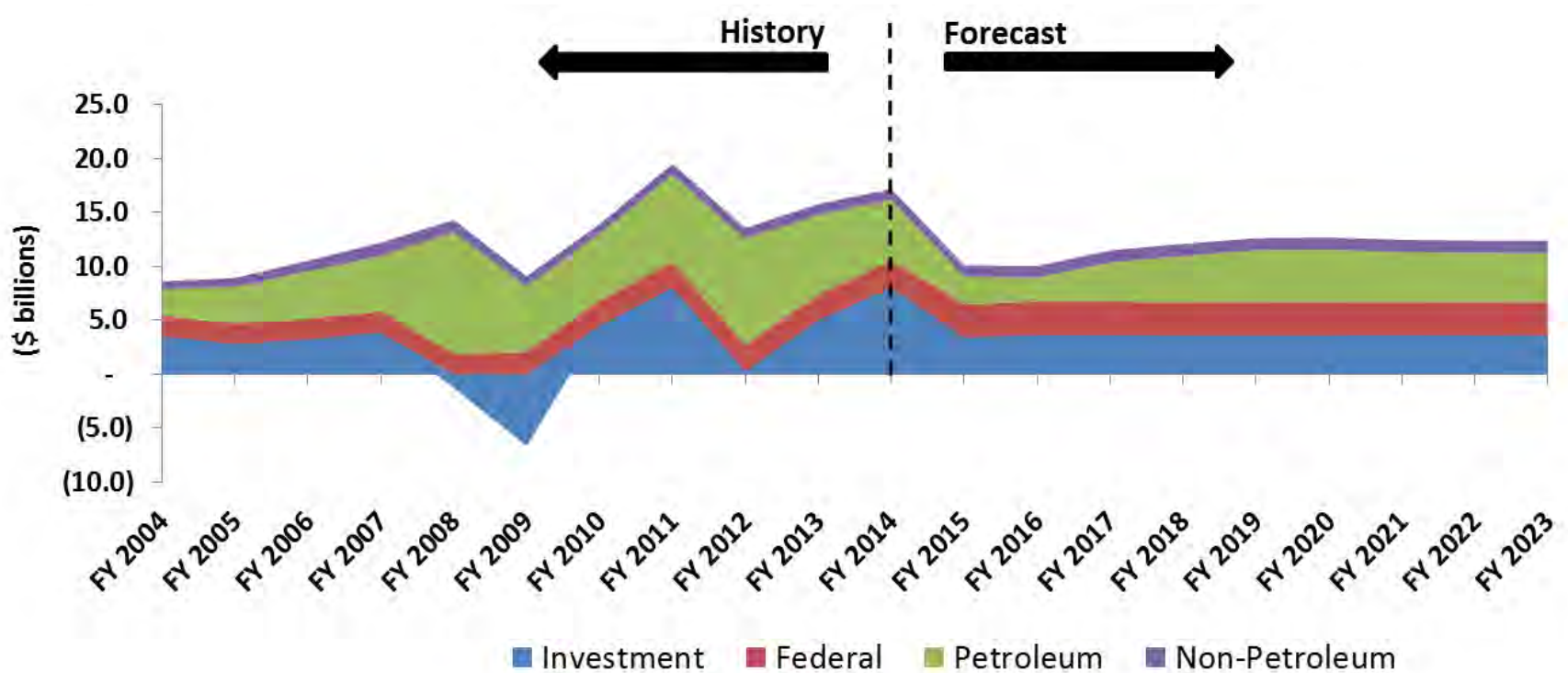




## FY 2015 non-petroleum unrestricted



# Total State Revenue History and Forecast



# Oil Revenue Forecasting

## Three Factors for Production Tax Revenue Forecast

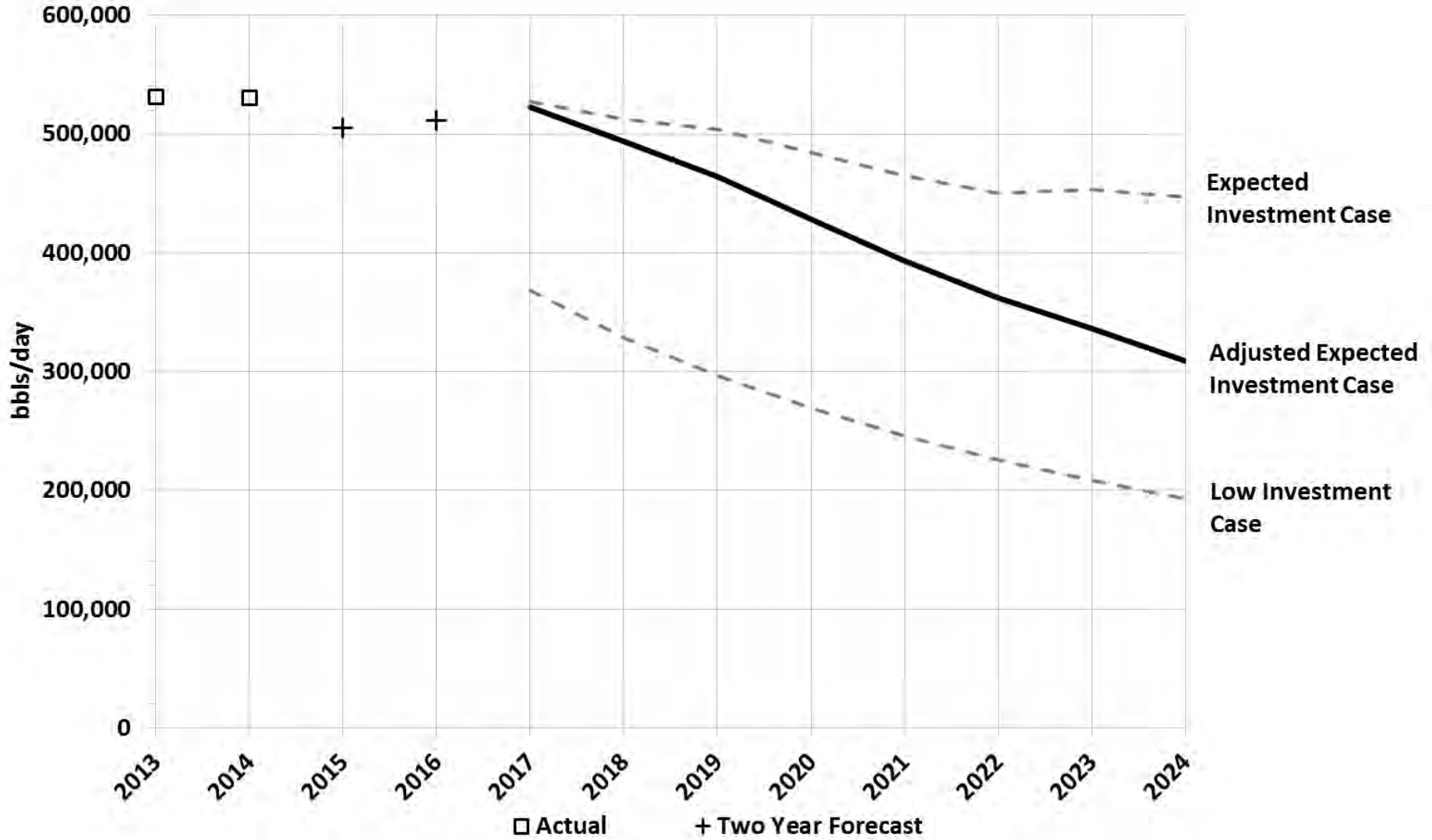
1. Production
2. Price
3. Costs
  - A. Capital expenditures
  - B. Operating expenditures
  - C. Transportation cost



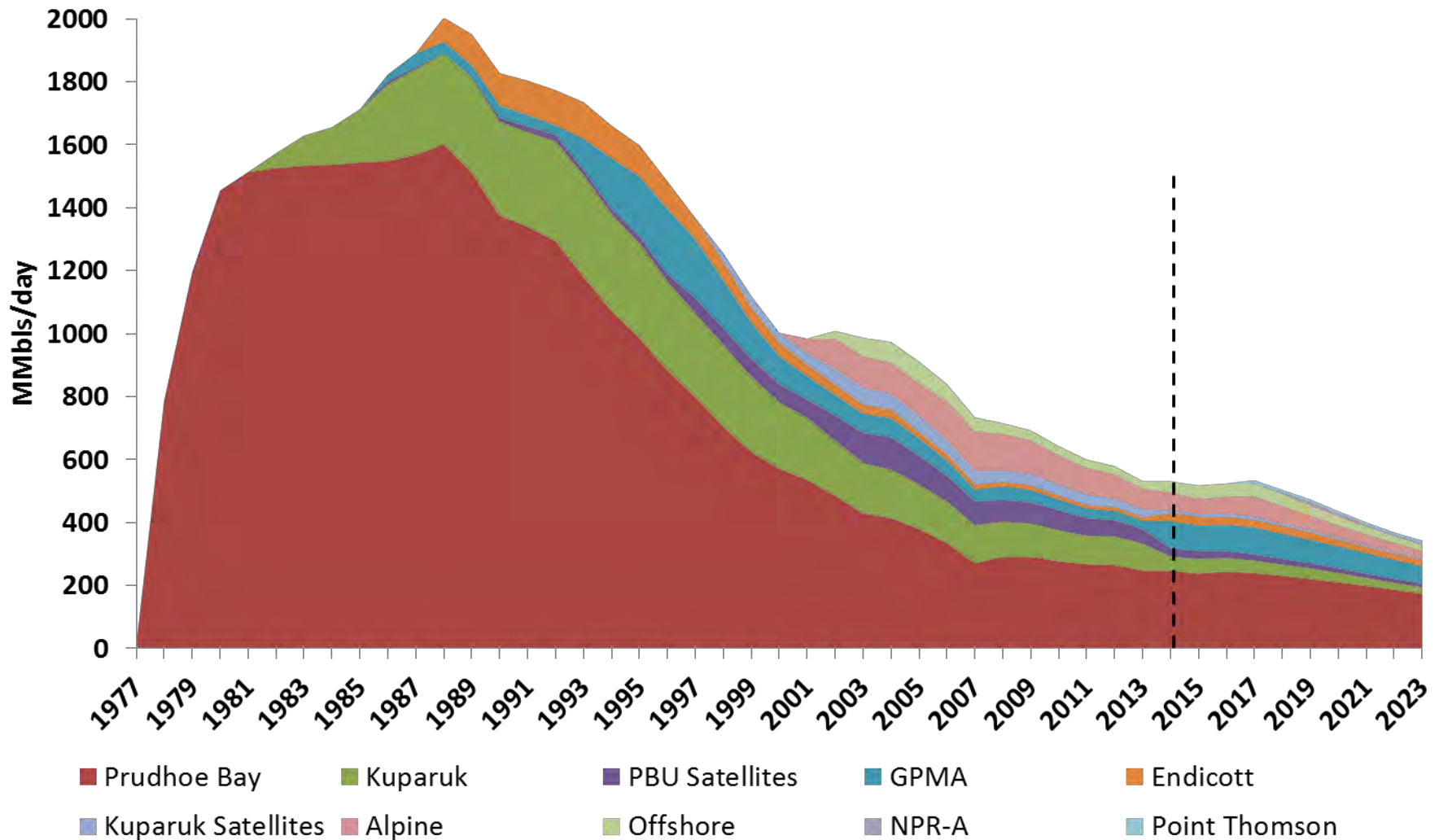
Yields “Net value”

$$\text{REVENUE} = (\text{Net value} * \text{Tax Rate}) - \text{Credits}$$

# ANS Oil Production Forecast

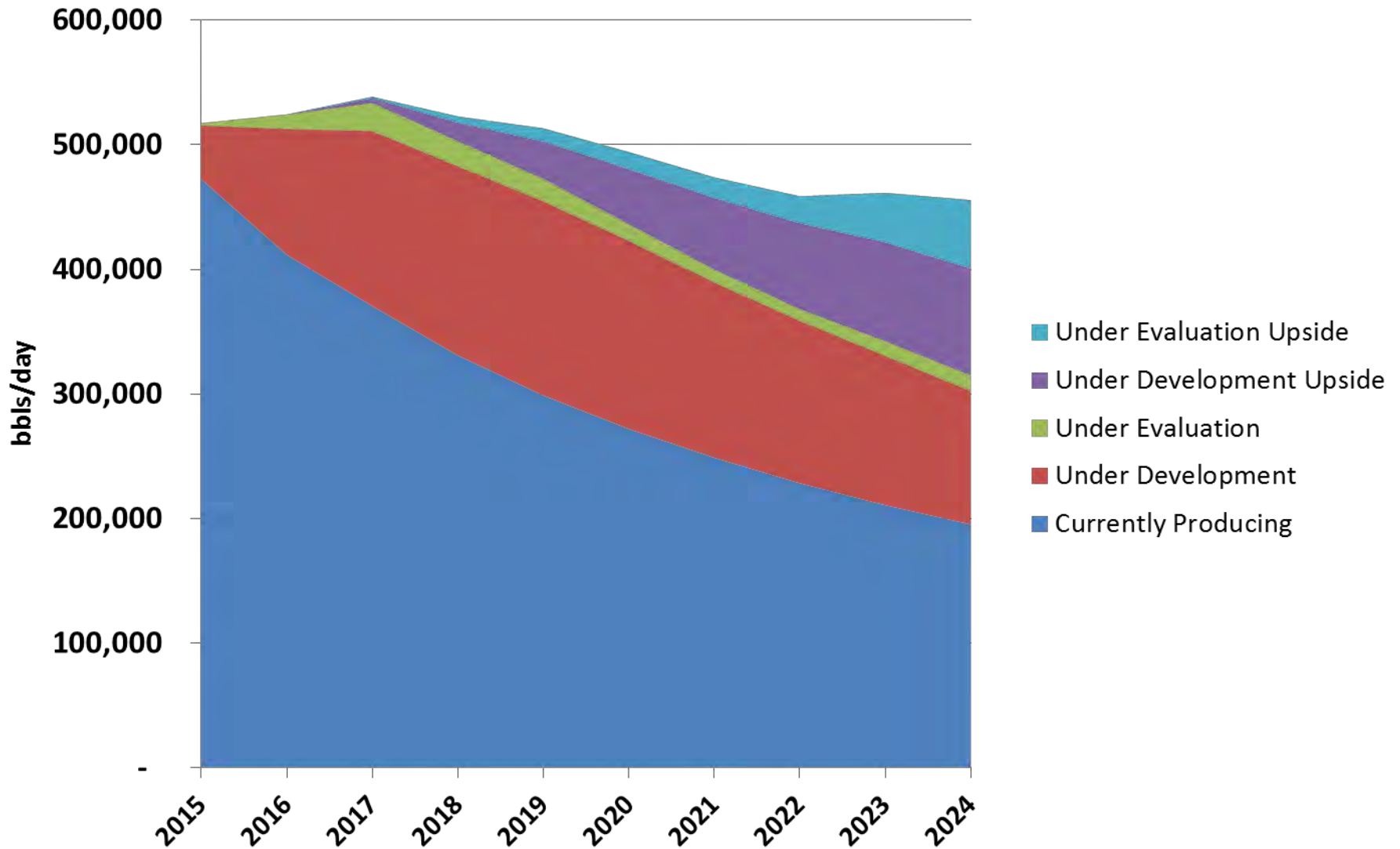


# OIL PRODUCTION HISTORY WITH ADJUSTED EXPECTED INVESTMENT CASE



Source: Department of Revenue - Revenue Sources Book Fall 2014

# NORTH SLOPE PRODUCTION FORECAST



Source: Department of Revenue - Revenue Sources Book Fall 2014

Embargoed Until the Publication of the Revenue

Sources Book: Fall 2014

# Rethinking Oil Price Forecast for Last Half of FY 2015

		ANS Price Sensitivity									
"What if price is..."		\$ 90	\$ 85	\$ 80	\$ 75	\$ 70	\$ 65	\$ 60	\$ 55	\$ 50	
<b>Actual</b>	7/1/2014	107.63	107.63	107.63	107.63	107.63	107.63	107.63	107.63	107.63	
	8/1/2014	101.78	101.78	101.78	101.78	101.78	101.78	101.78	101.78	101.78	
	9/1/2014	96.05	96.05	96.05	96.05	96.05	96.05	96.05	96.05	96.05	
	10/1/2014	84.91	84.91	84.91	84.91	84.91	84.91	84.91	84.91	84.91	
	11/1/2014	77.41	77.41	77.41	77.41	77.41	77.41	77.41	77.41	77.41	
<b>Estimate</b>	12/1/2014	<i>90.00</i>	<i>85.00</i>	<i>80.00</i>	<i>75.00</i>	<i>70.00</i>	<i>65.00</i>	<i>60.00</i>	<i>55.00</i>	<i>50.00</i>	
	1/1/2015	<i>90.00</i>	<i>85.00</i>	<i>80.00</i>	<i>75.00</i>	<i>70.00</i>	<i>65.00</i>	<i>60.00</i>	<i>55.00</i>	<i>50.00</i>	
	2/1/2015	<i>90.00</i>	<i>85.00</i>	<i>80.00</i>	<i>75.00</i>	<i>70.00</i>	<i>65.00</i>	<i>60.00</i>	<i>55.00</i>	<i>50.00</i>	
	3/1/2015	<i>90.00</i>	<i>85.00</i>	<i>80.00</i>	<i>75.00</i>	<i>70.00</i>	<i>65.00</i>	<i>60.00</i>	<i>55.00</i>	<i>50.00</i>	
	4/1/2015	<i>90.00</i>	<i>85.00</i>	<i>80.00</i>	<i>75.00</i>	<i>70.00</i>	<i>65.00</i>	<i>60.00</i>	<i>55.00</i>	<i>50.00</i>	
	5/1/2015	<i>90.00</i>	<i>85.00</i>	<i>80.00</i>	<i>75.00</i>	<i>70.00</i>	<i>65.00</i>	<i>60.00</i>	<i>55.00</i>	<i>50.00</i>	
	6/1/2015	<i>90.00</i>	<i>85.00</i>	<i>80.00</i>	<i>75.00</i>	<i>70.00</i>	<i>65.00</i>	<i>60.00</i>	<i>55.00</i>	<i>50.00</i>	
<b>Forecast Price</b>	<b>\$ 91.48</b>	<b>\$ 88.57</b>	<b>\$ 85.65</b>	<b>\$ 82.73</b>	<b>\$ 79.82</b>	<b>\$ 76.90</b>	<b>\$ 73.98</b>	<b>\$ 71.07</b>	<b>\$ 68.15</b>		

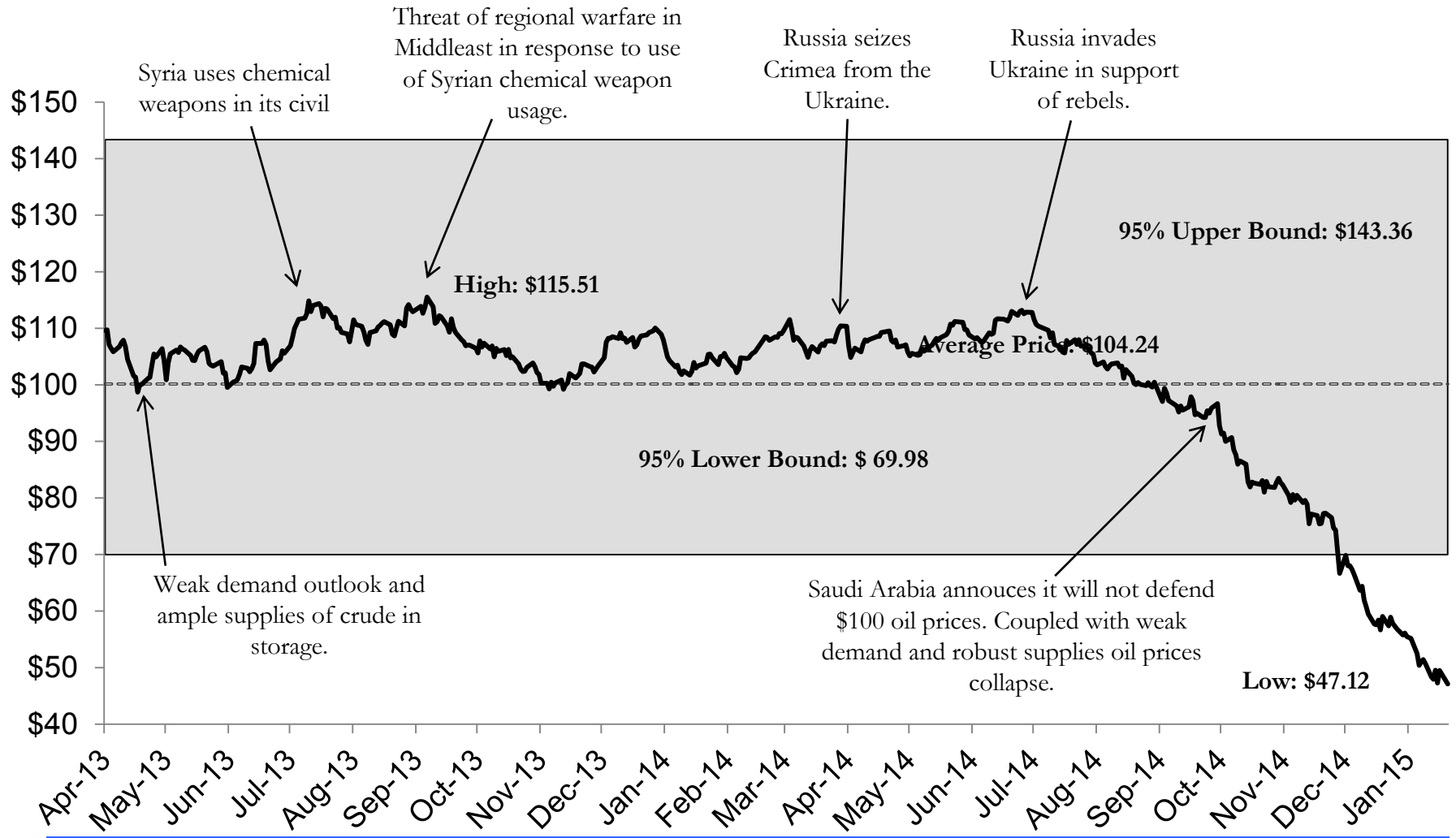


## Recommended ANS Revenue Forecast Prices

	FY 2015	FY 2015	FY 2015	FY 2015		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
	Q1	Q2	Q3	Q4		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
90%		82.41	98.02	100.69		95.74	104.02	130.69	138.97	145.38	150.89	160.00	163.60	172.06	179.59	184.88
80%		83.25	87.32	89.55		90.48	91.25	122.44	129.42	134.84	140.92	147.99	151.52	158.75	165.74	170.34
70%		81.49	82.08	83.60		87.25	84.99	115.92	121.94	126.51	132.62	138.32	141.66	148.05	154.50	158.55
60%		80.11	78.12	79.03		84.77	80.31	110.10	115.31	119.07	124.93	129.57	132.64	138.37	144.28	147.81
50%	101.82	78.72	74.31	74.88		82.43	76.12	104.55	109.04	112.00	117.36	121.14	123.87	129.04	134.39	137.41
40%		77.08	69.87	70.32		79.77	71.62	99.01	102.81	104.93	109.54	112.61	114.92	119.61	124.34	126.85
30%		75.00	63.80	64.60		76.31	66.03	93.18	96.30	97.51	101.08	103.54	105.33	109.60	113.61	115.56
20%		72.15	54.05	55.76		70.94	57.72	86.66	89.06	89.20	91.25	93.25	94.33	98.25	101.37	102.69
10%		67.69	33.65	35.35		59.63	40.84	78.41	80.00	78.70	78.24	80.00	80.00	83.64	85.52	86.00

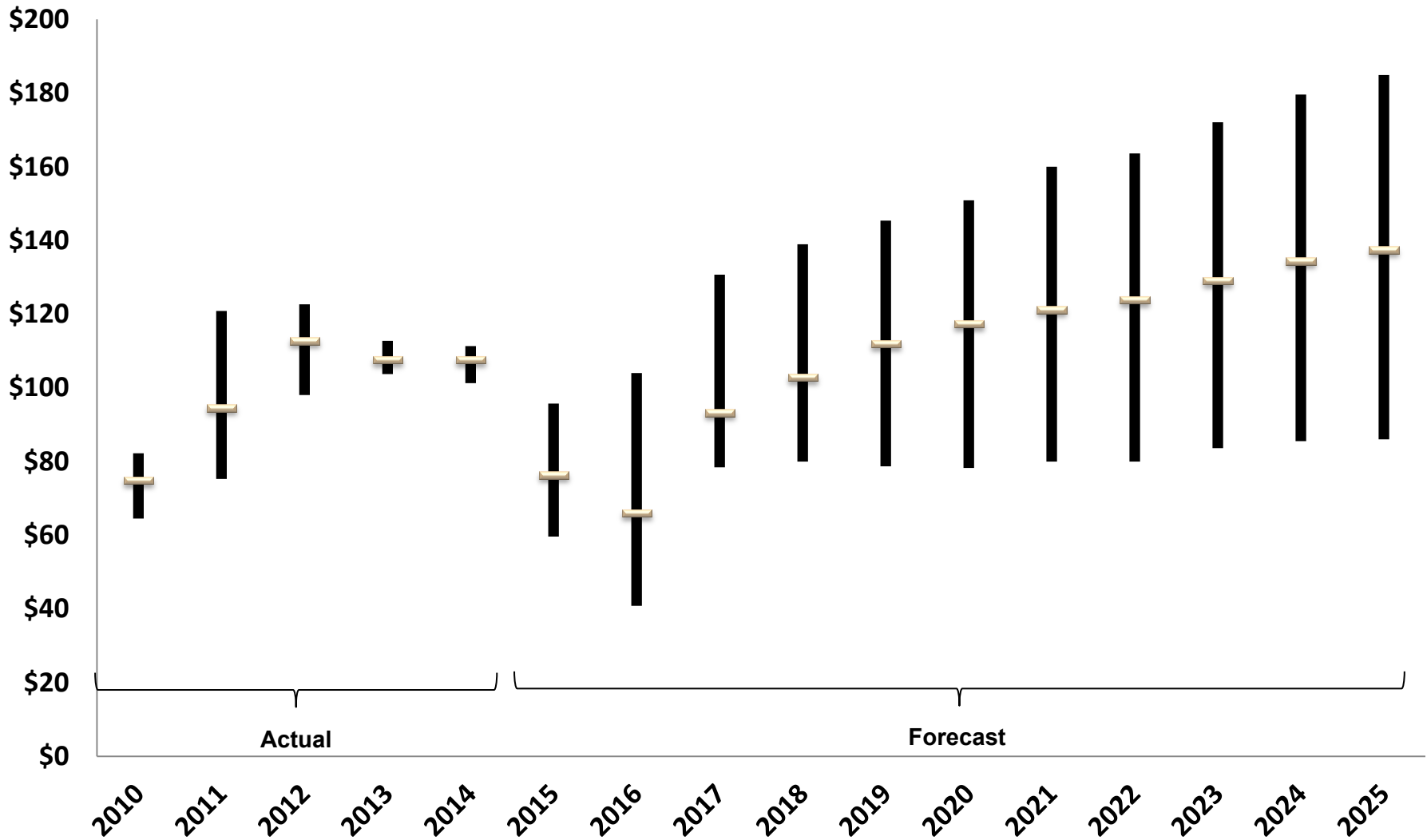
- FY 2015 & FY 2016 are from an internal DOR probabilistic pricing model.
- FY 2017 and beyond are from the Fall 2014 price forecast session held on October 7, 2014.

# CHANGE Alaska North Slope Crude West Coast Price



■ =95% confidence level

# HISTORICAL ANS WEST COAST FY OIL PRICE BANDS: ANNUAL AVERAGE AND OFFICIAL FY2014 FORECAST



Source: Department of Revenue - Revenue Sources Book Fall 2014

# Unrestricted Revenues and Budget 2015-2024

## Using proposed Fall 2014 Revenue forecast

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>ANS WC Oil Price (\$/bbl)</b>	76.31	66.03	93.18	102.81	112.00	117.36	121.14	123.87	129.04	134.39
<b>Total ANS Production (State + Federal) (MMbbls/day)</b>	509.5	524.1	534.1	503.5	473.2	435.8	400.4	368.5	342.9	314.7
<b>Deductible Lease Expenditures (\$ millions)</b>	7,049	7,273	7,096	6,569	6,087	5,734	5,654	5,291	4,959	4,642
<b>General Fund Unrestricted Revenues (\$ millions)</b>	2,551	2,197	3,657	4,292	4,808	4,853	4,628	4,556	4,548	4,473
<b>General Fund Expenditure from OMB (\$ millions)*</b>	6,106	5,684	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600
<b>Budget Surplus/Deficit (\$ millions)*</b>	(3,533)	(3,487)	(1,943)	(1,308)	(792)	(747)	(972)	(1,044)	(1,052)	(1,127)

Source: Department of Revenue - Revenue Sources Book Fall 2014; preliminary FY 2016 10-year plan

\* Expenditure and surplus / deficit information are based on preliminary FY 2016 10-year plan numbers. FY 2015 surplus / deficit calculation includes \$21.5 million in carry-forward revenue. Budget estimates subject to revision.

# Depletion of Savings Accounts

## Fall 2014 Revenue Forecast (\$ millions)

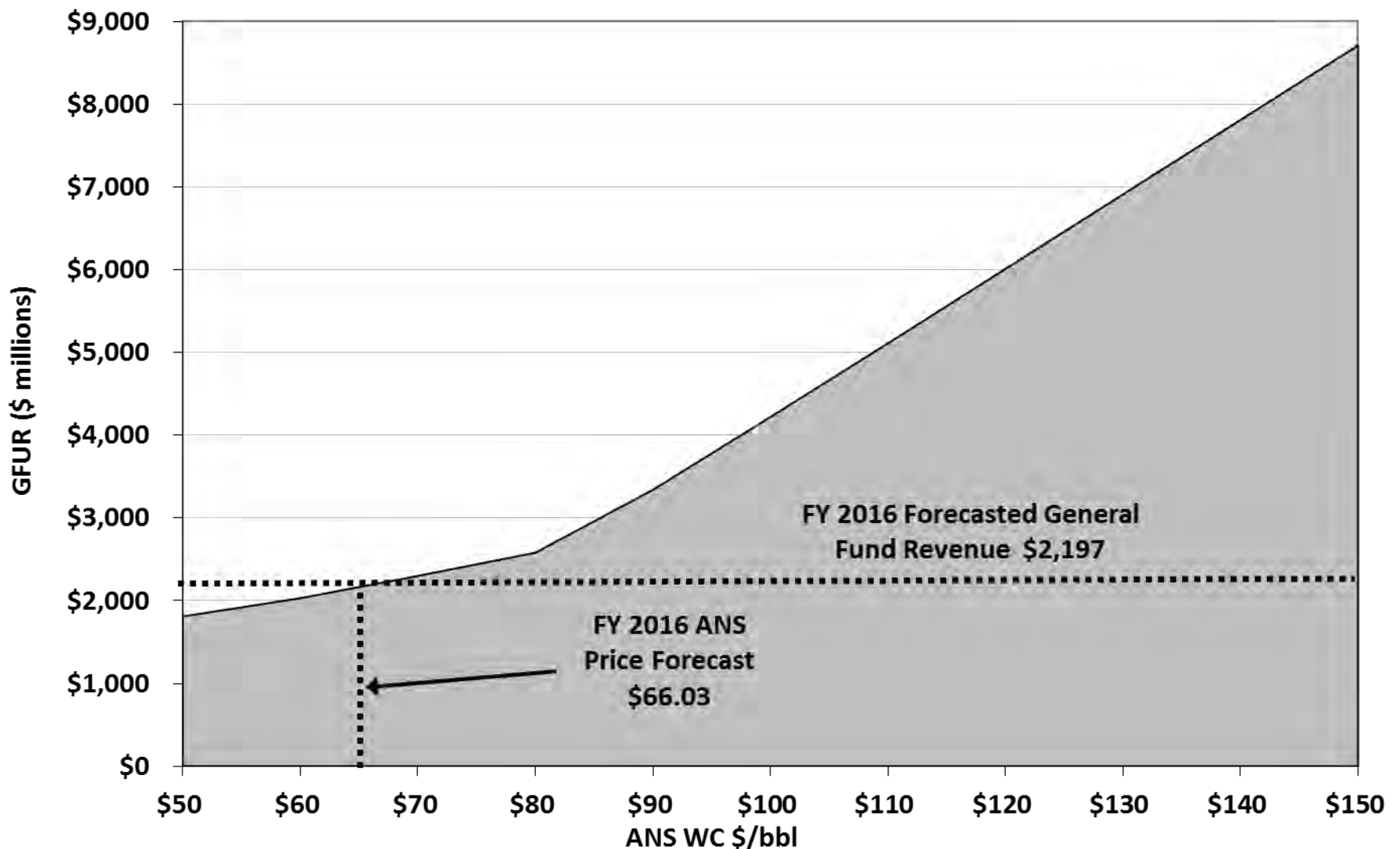
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
General Fund Revenues	\$ 5,394	\$ 2,573	\$ 2,197	\$ 3,657	\$ 4,292	\$ 4,808
General Fund Expenses	\$ 7,053	\$ 6,106	\$ 5,684	\$ 5,600	\$ 5,600	\$ 5,600
<b>Projected Deficit</b>	<b>\$ (1,659)</b>	<b>\$ (3,533)</b>	<b>\$ (3,487)</b>	<b>\$ (1,943)</b>	<b>\$ (1,308)</b>	<b>\$ (792)</b>
CBRF Main Account Balance End of Year	\$ 6,058	\$ 2,622	\$ 2,935	\$ 2,389	\$ 1,831	\$ 3,094
CBRF Subaccount Balance End of Year	\$ 6,722	\$ 6,968	\$ 3,546	\$ 2,426	\$ 1,884	\$ -
CBRF Total (Main Account + Subaccount)	\$ 12,780	\$ 9,590	\$ 6,480	\$ 4,815	\$ 3,715	\$ 3,095
Statutory Budget Reserve Beginning Balance	\$ 4,711	\$ 3,052	\$ -	\$ -	\$ -	\$ -
Statutory Budget Reserve Ending Balance	\$ 3,052	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL RESERVES</b>	<b>\$ 15,832</b>	<b>\$ 9,590</b>	<b>\$ 6,480</b>	<b>\$ 4,815</b>	<b>\$ 3,715</b>	<b>\$ 3,095</b>

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
General Fund Revenues	\$ 4,853	\$ 4,628	\$ 4,556	\$ 4,548	\$ 4,473	\$ 4,297
General Fund Expenses	\$ 5,600	\$ 5,600	\$ 5,600	\$ 5,600	\$ 5,600	\$ 5,600
<b>Projected Deficit</b>	<b>\$ (747)</b>	<b>\$ (972)</b>	<b>\$ (1,044)</b>	<b>\$ (1,052)</b>	<b>\$ (1,127)</b>	<b>\$ (1,303)</b>
CBRF Main Account Balance End of Year	\$ 2,432	\$ 1,532	\$ 538	\$ (438)	\$ (1,565)	\$ (2,868)
CBRF Subaccount Balance End of Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CBRF Total (Main Account + Subaccount)	\$ 2,432	\$ 1,532	\$ 538	\$ (438)	\$ (1,565)	\$ (2,868)
Statutory Budget Reserve Beginning Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Statutory Budget Reserve Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL RESERVES</b>	<b>\$ 2,432</b>	<b>\$ 1,532</b>	<b>\$ 538</b>	<b>\$ (438)</b>	<b>\$ (1,565)</b>	<b>\$ (2,868)</b>

Source: Department of Revenue - Revenue Sources Book Fall 2014; preliminary FY 2016 10-year plan

\* Expenditure and surplus / deficit information are based on preliminary FY 2016 10-year plan numbers. FY 2015 surplus / deficit calculation includes \$21.5 million in carry-forward revenue. Budget estimates subject to revision.

# FY 2016 General Fund Unrestricted Revenue, with Price Sensitivity

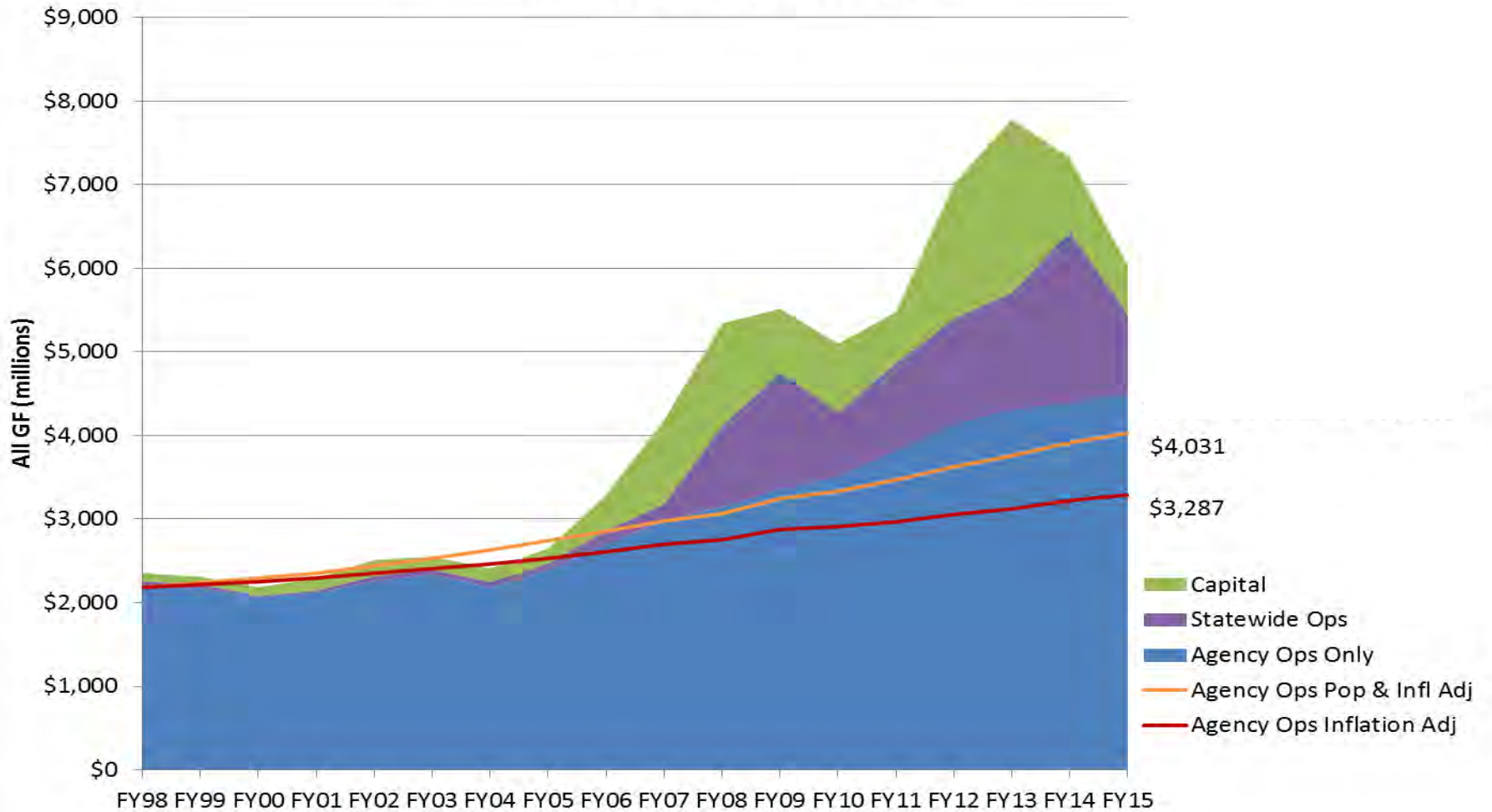


## FY 2015-2017 General Fund Unrestricted Revenue, with Price Sensitivity

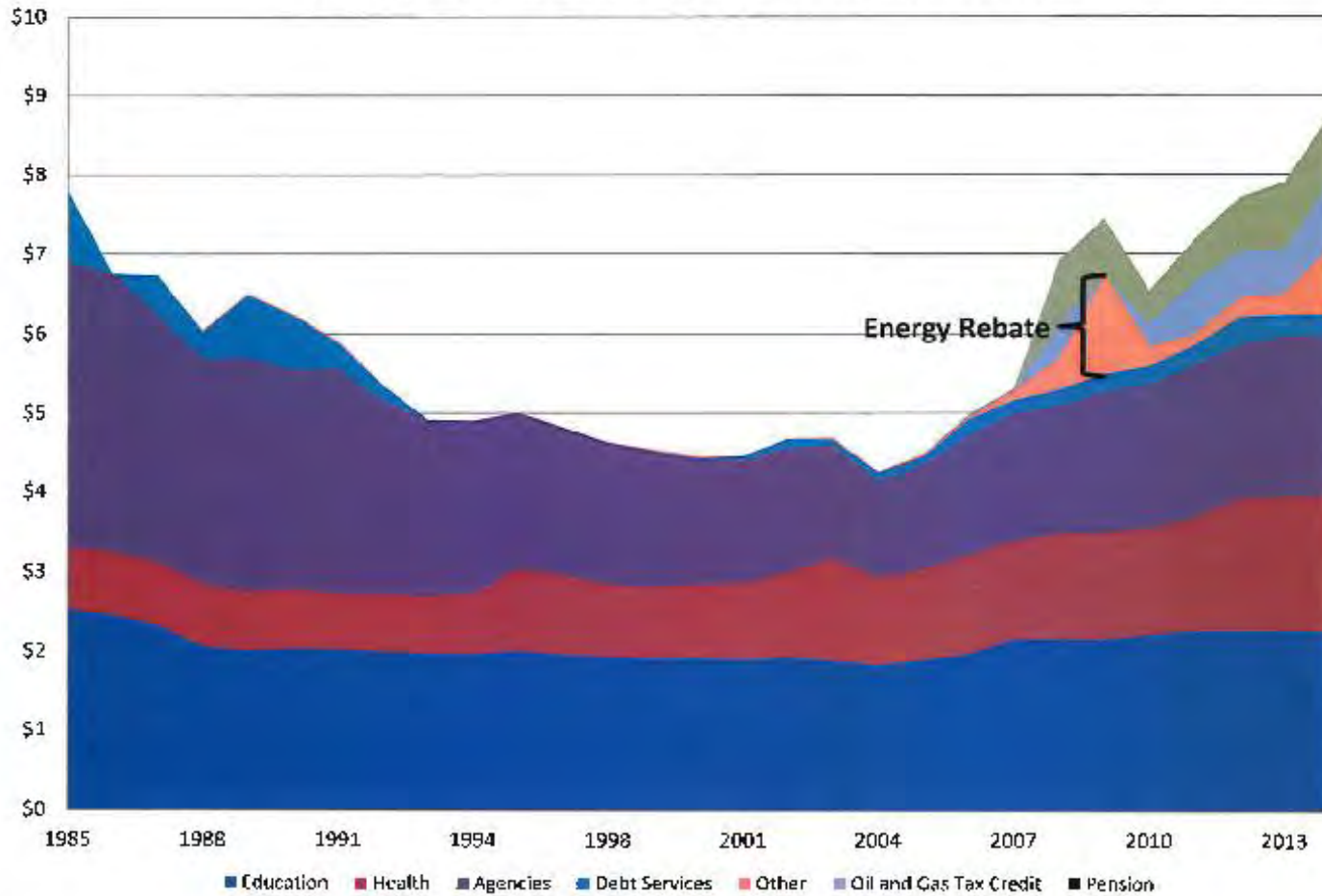
<b>FY 2015</b>		<b>FY 2016</b>		<b>FY 2017</b>	
At forecasted production of 509.5 thousand bbls/day		At forecasted production of 524.1 thousand bbls/day		At forecasted production of 534.1 thousand bbls/day	
ANS \$/barrel (1)	GF Unrestricted Revenue	ANS \$/barrel	GF Unrestricted Revenue	ANS \$/barrel	GF Unrestricted Revenue
\$50	\$1,880	\$50	\$1,810	\$50	\$1,820
\$60	\$2,140	\$60	\$2,030	\$60	\$2,000
\$70	\$2,380	\$66.03	\$2,197	\$70	\$2,300
\$76.31	\$2,551	\$70	\$2,300	\$80	\$2,630
\$80	\$2,660	\$80	\$2,580	\$90	\$3,430
\$90	\$3,140	\$90	\$3,340	\$93.18	\$3,657
\$100	\$4,070	\$100	\$4,220	\$100	\$4,300
\$110	\$5,030	\$110	\$5,110	\$110	\$5,190
\$120	\$5,890	\$120	\$6,010	\$120	\$6,090
\$130	\$6,850	\$130	\$6,910	\$130	\$6,980
\$140	\$7,730	\$140	\$7,810	\$140	\$7,850
\$150	\$8,510	\$150	\$8,710	\$150	\$8,710



### FY1998 Agency Operations Adjusted by Inflation and by Inflation & Population

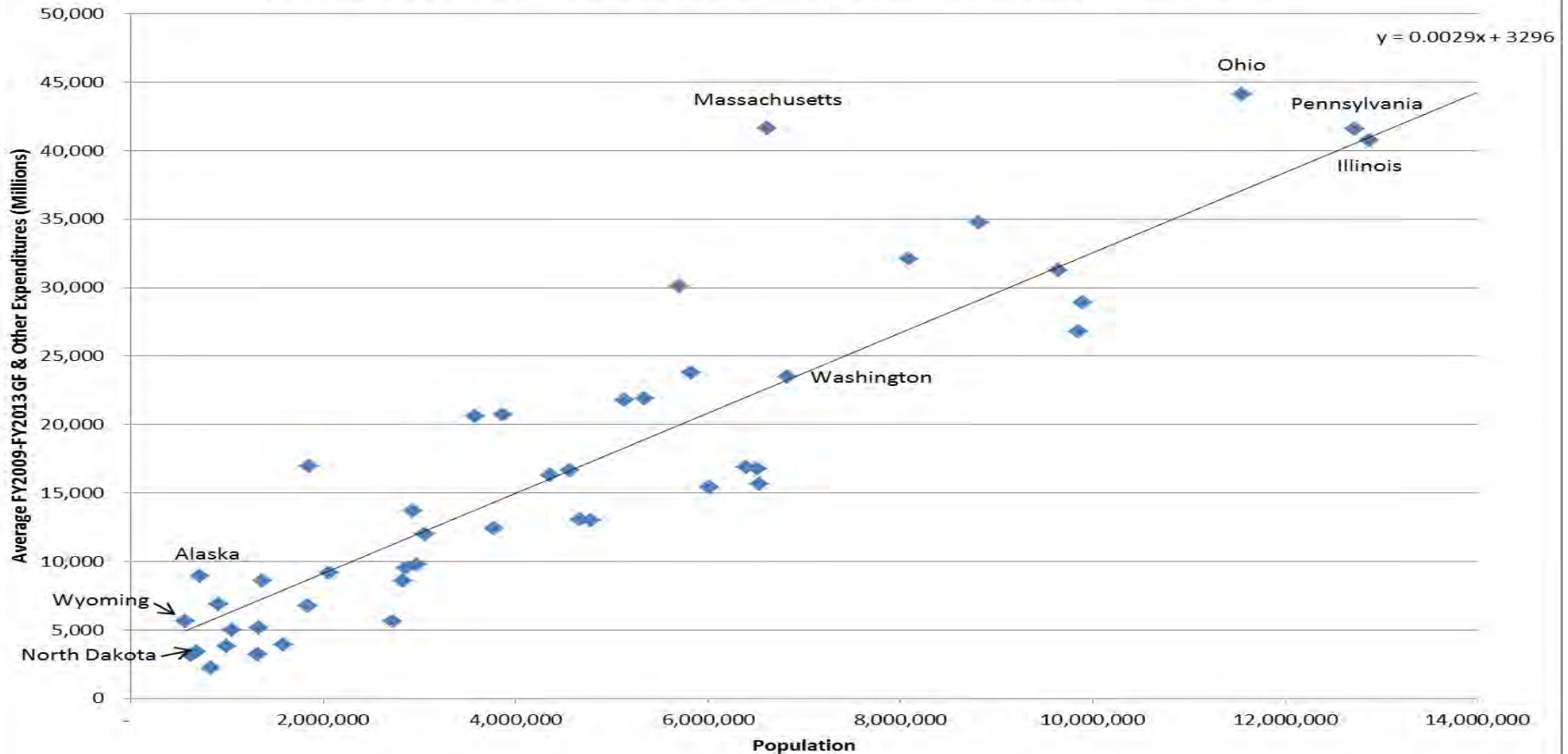


## Spending per Capita Adjusted for Inflation



# What is the Right Size Budget?

Average FY2009-2013 Total State Expenditures by Population



---

# How is 2015 different from 1985?

**Economy is 50% larger**

**More diverse economy:**

- \*Tourism, Air Cargo, Mining benefit from low oil prices**

- \*Healthcare employment has tripled**

- \*ANCSA corporations now large economic engines**

- \*Senior/Retiree spending rivals tourism**

**Permanent Dividend flows \$1.2 billion into economy (\$450 mm in 1985)**

**Federal payments to individuals now \$1 billion (\$200 mm in 1985)**

**State's overall assets are substantially greater**

- \* \$51 billion in Perm Fund, \$50 billion in other funds**

- \* More roads, bridges, infrastructure in state now**

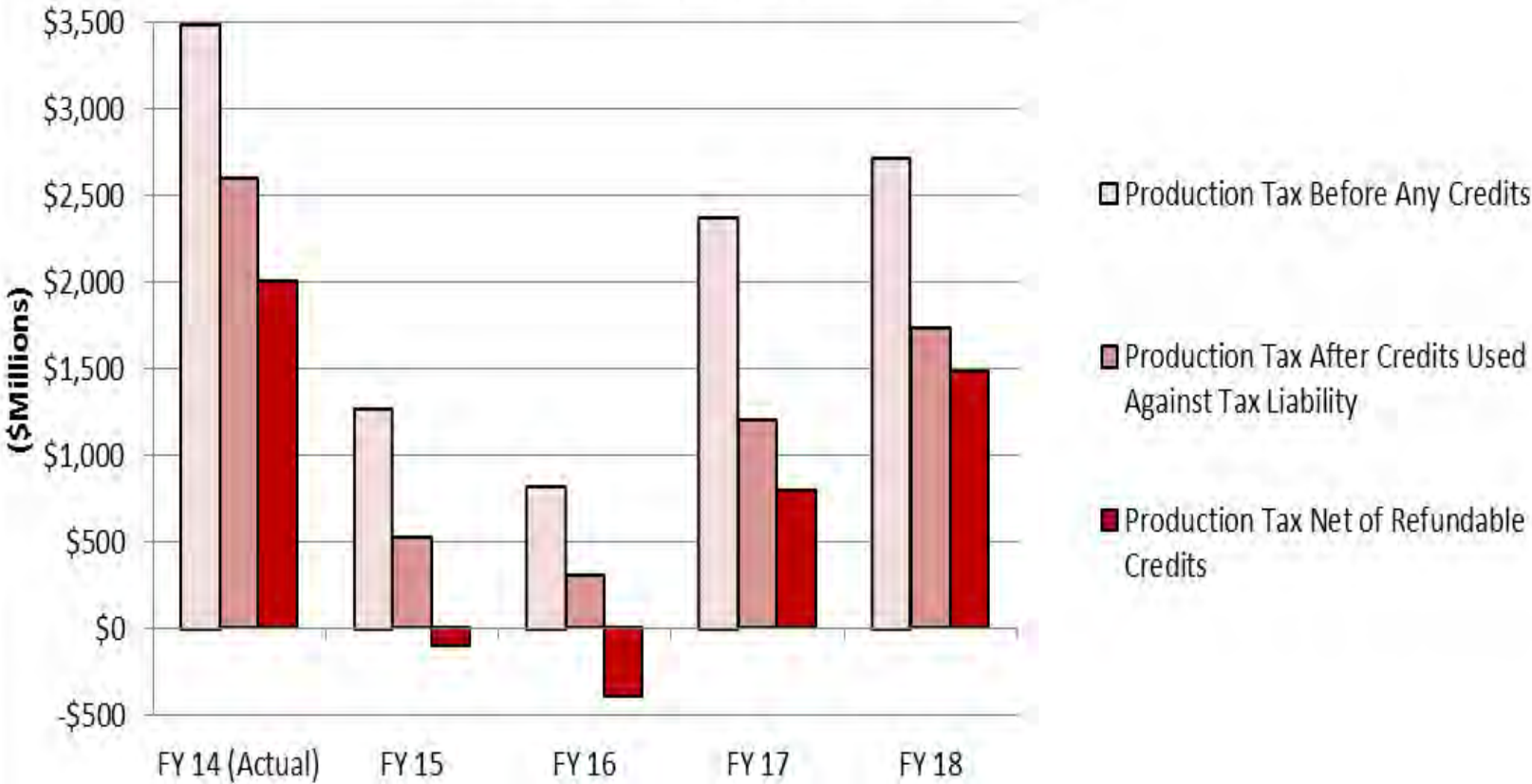
- \* More people with educations**

- \* More stable population base**

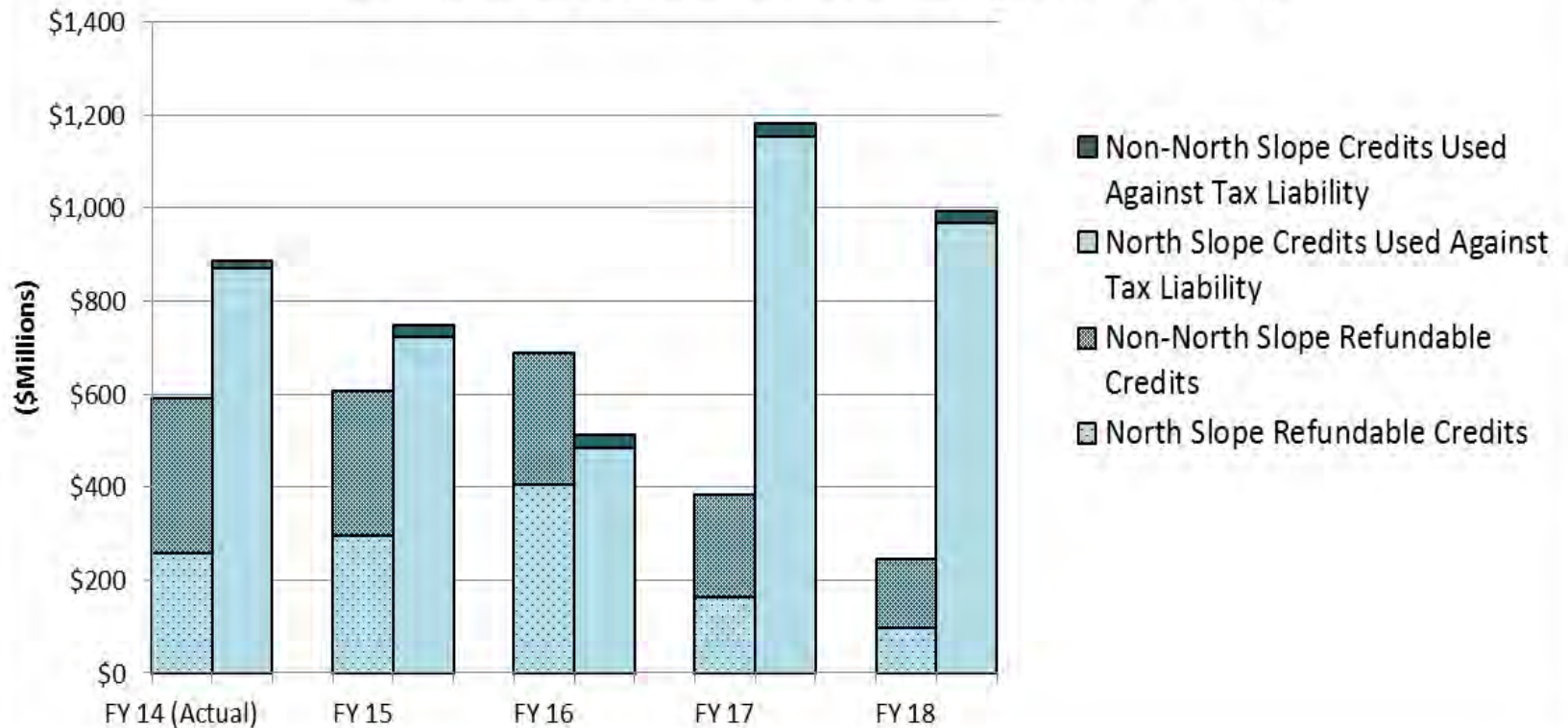
---

**Questions?**

# Tax Credits vs. Production Tax



## Refundable Credits vs. Credits Against Liability





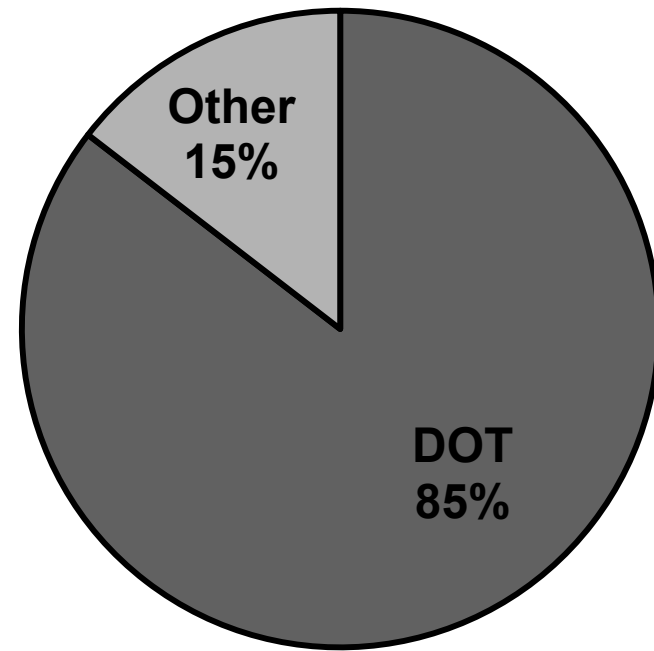
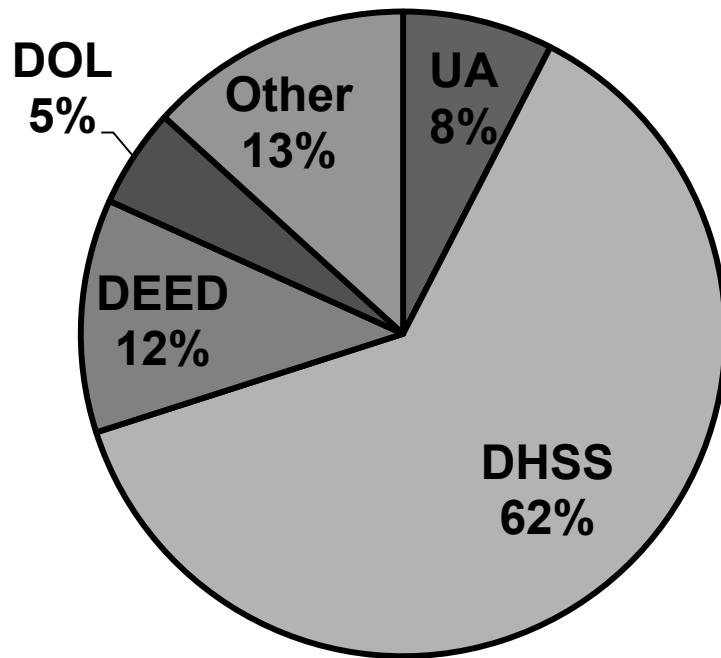
# Total Revenue Forecast – FY 2015 & 2016

(\$ millions)	Actual	Fall 2014 Forecast	
Revenue Type	FY 2014	FY 2015	FY 2016
<b>Unrestricted General Fund</b>			
Oil Revenue	4,755.3	2,019.2	1,636.1
Non-Oil Revenue*	508.5	502.3	528.2
Investment Revenue	130.2	30.0	32.4
<b>Total Unrestricted Revenue</b>	<b>5,394.0</b>	<b>2,551.5</b>	<b>2,196.7</b>
<b>Designated General Fund</b>			
Non-Oil Revenue*	289.6	323.1	322.1
Investment Revenue	66.3	20.4	35.8
<b>Subtotal</b>	<b>355.9</b>	<b>343.5</b>	<b>357.9</b>
<b>Other Restricted Revenue</b>			
Oil Revenue (Restricted royalties, CBRF settlements, etc)	927.6	512.9	465.6
Non-Oil Revenue (Taxes, licenses, fines, etc)*	183.9	229.2	230.4
Investment Revenue (Permanent Fund, CBRF, etc)	7,861.4	3,322.2	3,549.8
<b>Subtotal</b>	<b>8,972.9</b>	<b>4,064.3</b>	<b>4,245.8</b>
<b>Federal Revenue</b>			
Oil Revenue	6.8	5.0	5.0
Federal Receipts	2,511.9	3,126.4	3,126.4
<b>Subtotal</b>	<b>2,518.7</b>	<b>3,131.4</b>	<b>3,131.4</b>
<b>Total State Revenue</b>	<b>17,241.5</b>	<b>10,090.7</b>	<b>9,931.8</b>

\*Except Federal and Investment

Source: Department of Revenue - Revenue Sources Book Fall 2014

# The story of federal funding



# Alaska North Slope Crude West Coast Price

**ANS and WTI Prices  
Daily 2007 - 2015**

