Revenue Sources
FY 1986-88

QUARTERLY UPDATE
JUNE, 1986

Alaska
Department of Revenue

STATE OF ALASKA
DEPARTMENT OF REVENUE
OFFICE OF THE COMMISSIONER

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To the Reader of the Revenue Sources FY 86-88 (June 1986) and Petroleum Production Revenue Forecast (June 1986)

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

Sincerely,

Mary A. Nordale
Commissioner of Revenue

ALASKA'S REVENUE SOURCES

Compiled by Research Section

Department of Revenue

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Revenue Summary

In Thousands of Current Dollars

	FY 1986 Estimate June	FY 1987 Estimate June	FY 1988 Estimate June
Total General Fund Unrestricted Revenues (p. 5)	2,679,400	1,220,400	1,131,800
Total General Fund Restricted Revenues (p. 8)	408,800	424,100	425,100
Total General Fund Revenues (p. 8)	3,088,200	1,644,500	1,556,900
Alaska Permanent Fund (p. 9)	317,400	1,319,400	93,200

General Fund Unrestricted Revenues

In Thousands of Current Dollars

Taxes	FY 1986 Estimate June	FY 1987 Estimate June	FY 1988 Estimate June
Income			
Corporate-General	15,000	17,000	16,000
Corporate-Petroleum	135,000	130,000	110,000
Gross Receipts			
Alaska Business License	2,000	2,000	2,000
Fish-Canned Salmon (1)	4,000	3,000	2,600
Fish-Shorebased (1)	9,200	9,000	8,000
Fish-Floating	6,800	6,500	6,500
Seafood Marketing	1,000	1,000	1,000
Salmon Enhancement	4,200	3,800	3,800
Insurance Companies(2)	21,000	20,000	20,000
Electric & Telephone Co-ops	1,900	1,900	1,900
Mining License Tax	300	300	400
Severance			
Oil & Gas Production (3)	1,104,900	400,600	341,900
Oil & Gas Conservation	700	700	700
Property			
Oil & Gas	113,600	89,000	81,000
Sale/Use			
Alcoholic Beverages	13,400	13,300	13,200
Fuel Taxes-Aviation (4)	8,000	8,000	8,000
Fuel Taxes-Highway (4)	22,500	22,500	22,000
Fuel Taxes-Marine (4)	5,200	4,300	4,300
Tobacco Products (5)	5,400	7,000	6,900
Other			
Estate	600	600	600
Total Taxes	1,474,700	740,500	650,800
Licenses & Permits			
Business	12,000	12,000	12,000
Non-Business (6)	17,500	21,000	21,000
Total Licenses & Permits	29,500	33,000	33,000
Intergovernmental Receipts			
Federal Shared Revenues (7)	10,000	9,500	9,500
State Resource Revenue			
Sale/Use			
Bonus Sales (7) (8) (9) (10)	33,500	2,400	-0-
Investment Earnings	225,000	170,000	100,000
Rents (7) (8) (9) (10)	6,000	6,000	6,000
Royalties (3) (7)	825,900	179,500	257,600
Sale of State Property	8,000	8,500	9,000
Gravel, Timber, etc. (11)	3,600	8,400	2,400
Facilities Related Charges			
Airports	1,600	1,700	1,700
Ferry System-Southeast	28,800	29,800	30,500
Ferry System-Southwest	3,800	3,900	4,000
Other	7,900	6,800	6,600

Service Related Charges			
Court System	5,100	5,400	5,700
Other	5,000	5,000	5,000
Total State Resources Revenues	1,154,200	427,400	428,500
Miscellaneous Revenues	11,000	10,000	10,000
Total Unrestricted Revenues (12)(13)	2,679,400 (14)	1,220,400	1,131,800

(1) The FY 87 and FY 88 figures are reduced to reflect the recent enactment of a shorebased fisheries business tax credit per Ch. 79, SLA 1986. The Act took effect July 1, 1986.

(2) The FY 87 and FY 88 figures reflect the enactment of Ch. 118, SLA 1986 which set the tax for domestic and foreign insurers, except hospital and medical service corporations, at 2.7 percent. Previously domestic insurers were taxed at a 1.5 percent rate and foreign insurers at 3.0 percent.

(3) The FY 86 forecast assumes the mean case. The forecasted numbers for FY 87 and FY 88 assume the 30 percent case; however, if the mean case had been utilized for FY 87 and FY 88, the production taxes would change to $459.9 million and $462.0 million, respectively. The royalty figures would change to $264.5 million and $378.8 million respectively. All of the forecasted numbers include the estimated TAPS settlement.

(4) Revenues from the three main categories of fuel tax are shown separately. However, under the provisions of AS 43.40.010(h), all refunds are made from the highway fuel tax account. If gross collections of highway fuel taxes remain constant, an increase in refunds for aviation and marine fuels could lower the net revenues shown for highway fuels. Also, increasing use is being made of tax credits, which can be taken in lieu of claiming a refund on certain non-taxable use of fuel (15 AAC 40.200). The FY 86 figure includes estimated revenue for marine fuel tax collections on fuel purchased out-of-state but which is used in Alaska waters. A number of returns for taxes levied on in-state usage are currently in the appeal process and FY 87 and FY 88 revenues will not be revised upward until that process is completed.

(5) Ch. 24, SLA 1985 raised the General Fund portion of the cigarette tax from a rate of 1-1/2 mills ($.0015) to 5-1/2 mills ($.0055) per cigarette. The Act took effect October 1, 1985.

(6) The FY 87 and FY 88 figures reflect the recent enactment of Ch. 60, SLA 1986 which would increase driver licensing fees and vehicle registration fees. The Act will become effective September 1, 1986.

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

(8) Reflects state lease sales of $16.3 million held September 24, 1985 (Sale 45A-North Slope Onshore and Sale 47 - Kuparuk Uplands), $3.0 million held February 25, 1986 (Sale 48 - Kuparuk Uplands and Sale 48A - Mikkelsen), and $0.9 million held June 24, 1986 (Sale 49 - Cook Inlet). Due to the timing of collections, receipts from the June 1986 lease sale are shown as FY 87 revenue. The FY 86 and FY 87 figures represent the General Fund's 49.5 percent share.

(9) The FY 86 figure reflects the OCS "8(g)" revenue-sharing settlement of $51.4 million. The General Fund share represents 49.5 percent of the aforementioned total, whereas the Permanent Fund will receive 50.0 percent. The remaining 0.5 percent will be distributed to the Public School Fund. An additional $4.0 million is anticipated in FY 87.

(10) The Department of Natural Resources projects the following FY 87 and FY 88 state lease sales: FY 87 (Sale 51 - Prudhoe Bay Uplands, Sale 50 - Camden Bay) and FY 88 (Sale 53 - Icy Cape, Sale 46 - Holitna Basin, Sale 54 - Kuparuk Uplands, Sale 62 - Cook Inlet, Sale 55 - Demarcation Point). However, bonus bids are impossible to anticipate prior to sales; therefore, no estimates are provided.

(11) Estimates reflect increased construction of roads and drilling pads as projected by the Department of Natural Resources; however, some of these projects may be delayed or changed due to permit denials or environmental impact statement requests.

(12) The State, per AS 38.05.180, will be granting incentive credits against royalties, severance taxes, and rentals to the oil companies for drilling exploratory wells. The anticipated deduction is approximately $0.7 million which has not been subtracted from the aforementioned FY 86 figure of $2,679.4 million. Additional credits are anticipated in subsequent years.

(13) The FY 86 and FY 87 figures do not include the estimated General Fund portion from refunds and expenses for prior years, relative to the TAPS case. It is assumed that approximately $149.7 million will be received during FY 86 and approximately $66.0 million during FY 87.

(14) The FY 86 figure does not include the $243 million the State received from the ARCO settlement on April 23, 1986.

Revenue Breakdown

The total General Fund unrestricted revenues for Fiscal Years 1986, 1987, and 1988 are projected to be $2,679.4 million, $1,220.4 million, and $1,131.8 million, respectively.

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

Petroleum vs. Non-Petroleum Revenues

(In Millions of Current Dollars)

Petroleum Revenues

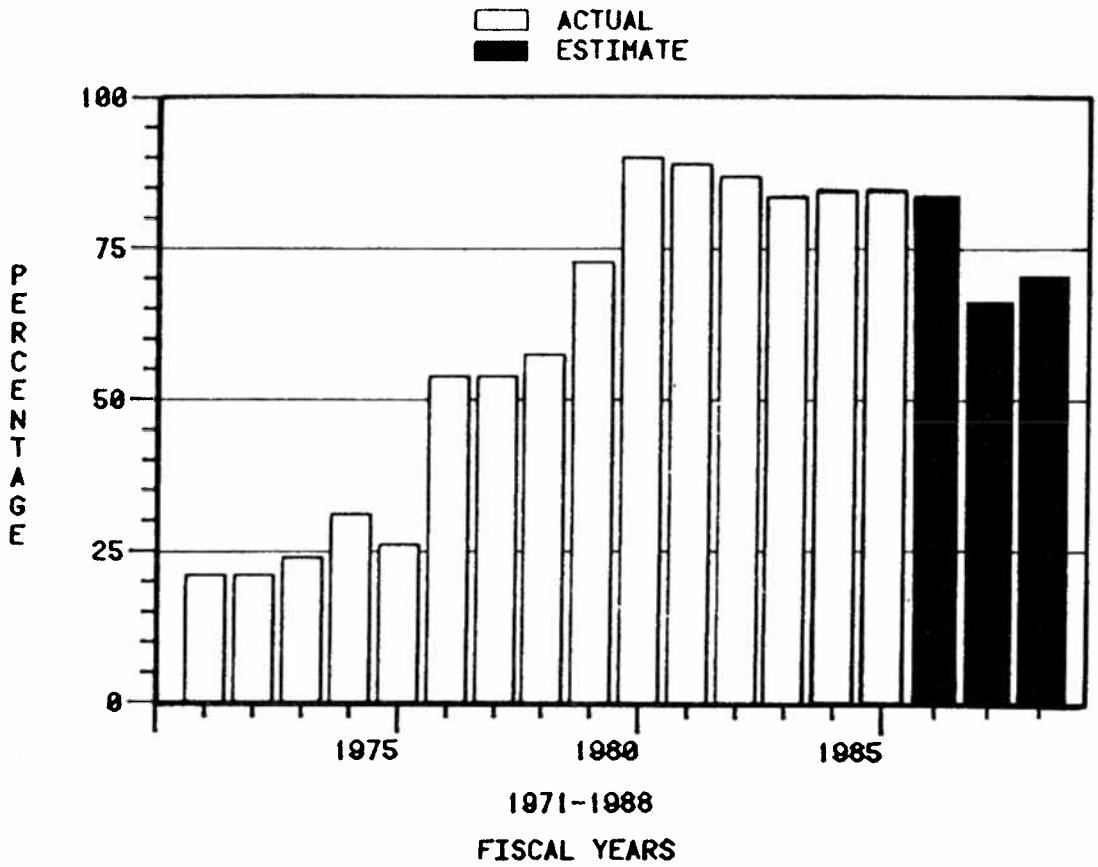
	FY 86	FY 87	FY 88
Corporate Petroleum	135.0	130.0	110.0
Severance Tax	1105.6	401.3	342.6
Royalties	825.9	179.5	257.6
Property Tax	113.6	89.0	81.0
Bonus Sale	33.5	2.4	-0-
Rents	4.0	3.8	3.8
Intergovernmental Receipts	8.2	8.2	8.2
	2,225.8	814.2	803.2

Non-Petroleum Revenues

	FY 86	FY 87	FY 88
Taxes	120.5	120.2	117.2
Licenses & Permits	29.5	33.0	33.0
Intergovernmental Receipts	1.8	1.3	1.3
State Resources Revenues	290.8	241.7	167.1
Miscellaneous Revenues	11.0	10.0	10.0
	453.6	406.2	328.6
Total	2,679.4	1,220.4	1,131.8

Petroleum Revenues

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



Fiscal Year	Total General Fund Unrestricted Revenues	Total General Fund Unrestricted Petroleum Revenues	Percent
1971	220.4	47.0	21
1972	219.2	48.4	22
1973	208.2	50.3	24
1974	254.9	80.2	31
1975	333.4	90.4	27
1976	709.8	391.5	55
1977	874.3	477.6	55
1978	764.9	441.5	58
1979	1,133.0	821.6	73
1980	2,501.2	2,256.5	90
1981	3,718.2	3,304.3	89
1982	4,108.4	3,574.8	87
1983	3,631.0	3,026.6	83
1984	3,390.1	2,861.6	84
1985	3,260.0	2,743.5	84
1986*	2,679.4	2,225.8	83
1987*	1,220.4	814.2	67
1988*	1,131.8	803.2	71

* Estimate

Restricted Revenues

In Thousands of Current Dollars

	FY 1986 Estimate June	FY 1987 Estimate June	FY 1988 Estimate June
Federal Grants-in-Aid			
I. Education	67,900	65,500	65,500
II. Social Services	123,300	137,000	138,300
III. Health	8,600	8,500	8,400
IV. Natural Resources	18,400	19,600	20,200
V. Public Protection	6,500	6,700	6,500
VI. Administration of Justice	600	900	700
VII. Development	100	100	100
VIII. Transportation	150,000	150,000	150,000
IX. General Government	800	500	400
Total Federal Grants-in-Aid	376,200	388,800	390,100
Other Grants-in-Aid			
I. Education	1,600	1,600	1,600
II. Social Services	4,700	6,100	5,900
III. Health	100	100	100
IV. Natural Resources	700	700	700
V. Public Protection	1,900	2,400	2,100
VI. Administration of Justice	200	200	200
VII. Development	7,400	6,000	6,000
VIII. Transportation	1,100	1,400	1,500
IX. General Government	1,900	2,100	2,100
Total Other Grants-in-Aid	19,600	20,600	20,200
Miscellaneous Restricted Revenue-All Categories	13,000	14,700	14,800
Total Restricted Revenue 1/	408,800	424,100	425,100
Total Unrestricted Revenue	2,679,400	1,220,400	1,131,800
Total General Fund Revenue	3,088,200	1,644,500	1,556,900

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

Special Funds

Historical Comparison

	FY 1986 Estimate June	FY 1987 Estimate June	FY 1988 Estimate June
Enterprise Funds			
Agriculture Loan Fund	1,300	1,300	1,300
Alternative Technology and Energy Loan Fund	500	600	500
Bulk Fuel Loan Fund	-0-	-0-	-0-
Child Care Facility Loan Fund	100	100	100
Commercial Fish Loan Fund	5,100	5,100	4,700
Fisheries Enhancement Loan Fund	-0-	-0-	200
Fisheries Product Loan Fund	-0-	-0-	-0-
Historical District Loan Fund	-0-	-0-	-0-
International Airport Revenue Fund	49,400	54,200	59,000
Medical Malpractice Loan Fund	-0-	-0-	-0-
Mining Loan Fund	800	700	500
Power Development Loan Fund	7,700	10,600	12,800
Power Project Loan Fund	2,000	2,600	5,000
Residential Energy Conservation Loan Fund	200	200	200
Scholarship Loan Fund	2,100	2,600	3,200
Small Business Loan Fund	3,200	3,000	2,800
Tourism Loan Fund	300	200	200
World War II Veterans Loan Fund	1,100	1,000	1,000
Total Enterprise Funds	73,800	82,200	91,500
Special Revenue Funds			
Alaska Permanent Fund (1) (2)	317,400	1,319,400 (3)	93,200
Public School Fund (1)(2)	6,300	1,500	1,900
Revenue Sharing Fund	-0-	-0-	-0-
NPR-A Special Revenue Fund	1,200	1,200	1,200
Fish and Game Fund	7,600	7,900	8,200
Marine Coastal Damage Fund	-0-	-0-	-0-
School Fund	3,300	3,300	3,200
Training & Building Fund	600	600	600
Total Special Revenue Funds	336,400	1,333,900	108,300
Total Special Funds	410,200	1,416,100	199,800

(1) Not included in the above figures are additional estimated amounts for FY 86 and FY 87 from refunds and expenses for prior years, relative to the TAPS case, due the Alaska Permanent Fund (approximately $15.9 million and $10.2 million respectively) and the Public School Fund (approximately $0.5 million and $0.2 million respectively).

(2) The FY 86 and FY 87 figures reflect the OCS "8(g)" revenue sharing settlement payments to the Permanent Fund ($25.7 million and $2.0 million respectively) and the Public School Fund ($0.3 million and $0.02 million respectively).

(3) The FY 87 figure reflects Ch. 25, SLA 1986 which appropriated approximately $1.25 billion from the Undistributed Income Account to the Permanent Fund principal, effective July 1, 1986.

Alaska Permanent Fund

In Thousands of Current Dollars

Permanent Fund Principal

FY	Mineral Revenues	Appropriations	Inflation Proofing	Total Contributions(1)	Balance (1)
1977	4,000	-0-	-0-	4,000	4,000
1978	50,500	-0-	-0-	50,500	54,500
1979	83,900	-0-	-0-	83,900	138,400
1980	344,800 (2)	-0-	-0-	344,800	483,200
1981	385,100	900,000	-0-	1,285,300	1,768,500
1982	400,500	800,000	-0-	1,200,500	2,969,000
1983	421,000	400,000	231,200	1,052,200	4,021,200
1984	366,200	300,000	150,900	817,100	4,838,300
1985	368,000	300,000	234,600	902,600	5,740,900
1986	331,800 (3)	-0-	-0-	331,800 (3)	6,072,800 (3)

Earnings Distribution

FY	General Fund	Dividend Account	Inflation Proofing	Undistributed Income Account	Total Earnings
1977	-0-	-0-	-0-	-0-	-0-
1978	1,300	-0-	-0-	-0-	1,300
1979	6,500	-0-	-0-	-0-	6,500
1980	11,800	11,800	-0-	-0-	23,700
1981	27,500	27,500	-0-	31,200	86,200
1982	71,100	71,100	-0-	174,700	317,000
1983	109,500 (4)	107,900	231,200	22,500	471,100
1984	-0-	175,000 (5)	150,900	203,600	529,500
1985	-0-	217,300 (6)	234,600	205,900 (7)	657,800

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

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

(3) Represents cumulative principal balance as of May 31, 1986.

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

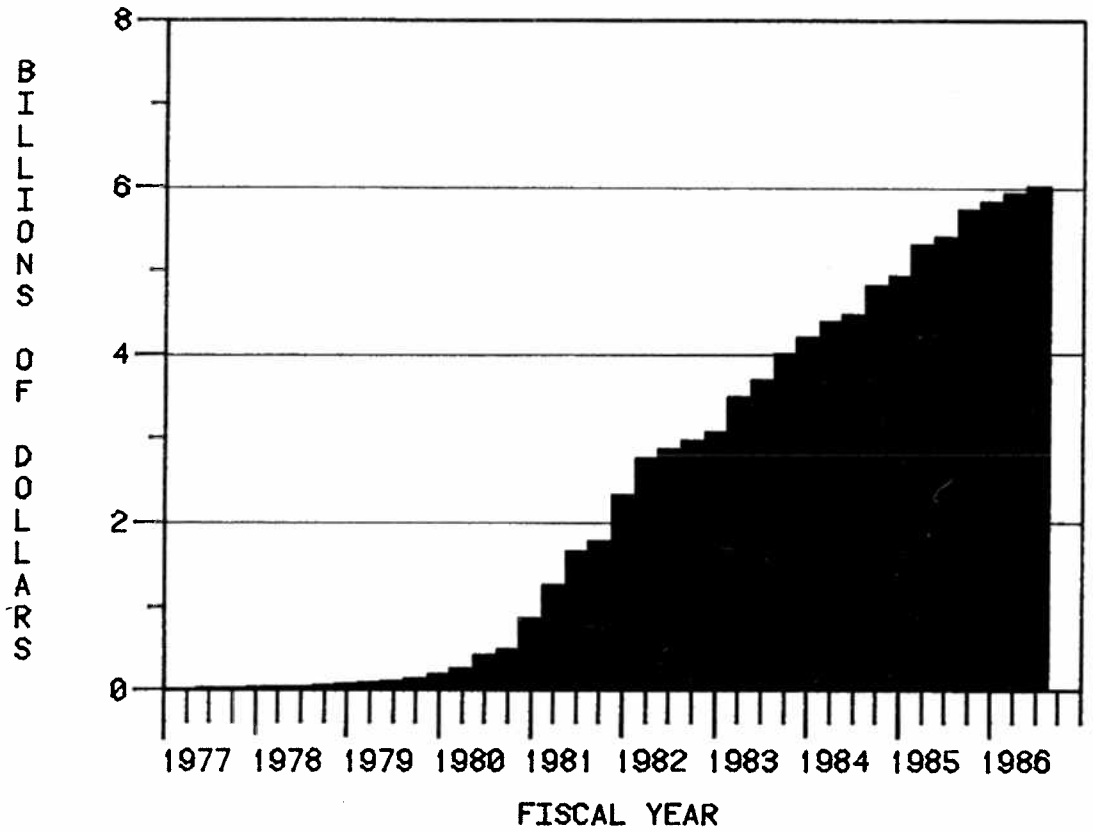
(5) Ch. 122, SLA 1984 appropriated $163,116,000 from net income to the Dividend Fund for payment of 1984 Permanent Fund dividends ($152,114,000 for 1984 dividend payments; $3,016,000 for FY 85 administrative costs, and $7,986,000 for UIA contingent liability). In addition, Ch. 44, SLA 1984 appropriated $11,869,000 as a supplement to 1983 permanent fund dividends.

(6) Ch. 98, SLA 1985 appropriated $217,274,000 from net income to the Dividend Fund for payment of 1985 Permanent Fund dividends ($210,617,200 for 1985 dividend payments, $3,012,500 for FY 86 administrative costs, and $3,644,300 for hold harmless costs).

(7) Balance of the Undistributed Income Account, as of May 31, 1986, totaled $1,684.7 million which also included the transition rule adjustment of $87.5 million plus $37.9 million which accrued in FY 82 but was not received until FY 83.

Alaska Permanent Fund

Historical Comparison of Cumulative Balance



Alaska Permanent Fund

The Alaska Permanent Fund was established by a constitutional amendment effective February 21, 1977. The amendment stated that contributions to the fund must consist of at least 25 percent of mineral lease rentals, royalties, royalty sale proceeds, Federal mineral revenue sharing payments and bonuses received by the State. Enacted legislation (Ch. 18 SLA 1980) has modified this contribution rate to the Permanent Fund from 25 percent to 50 percent. As a result, any future revenues transferable from Beaufort Sea production and any future lease sale bonuses will be subject to the 50 percent rate. During FY 1981, a special appropriation (Ch. 35 SLA 1980) appropriated $900 million from the General Fund to the Permanent Fund. Similarly, an additional $1.8 billion was appropriated (Ch. 61 SLA 1981) for FY 1982 with payments beginning July 1, 1981; however, this appropriation was legislatively amended (Ch. 101 SLA 1982) thus permitting deposit of only $800 million in FY 82 and an additional deposit of $400 million in FY 83. An additional $100 million of this appropria- tion was deposited in the Permanent Fund during August, 1983, as well as, another $100 million each during December, 1983, April, 1984, October, 1984 and a final $200 million in December, 1984 thus fully satisfying the $1.8 billion appropriation in 1981. Recently Ch. 25, SLA 1986 appropriated approximately $1.25 billion from the undistributed income account to the principal of the Permanent Fund, effective July 1, 1986.

LONG-RANGE REVENUE PROJECTIONS

The following tables are part of the output from a simulation model named the Long-Run Fiscal Model (LRFM). These estimates are updated quarterly. Most of the revenue categories of this model are projected with other econometric or simulation models and are exogenous to the LRFM. In particular, the Research Section's model PETREV projected the severance taxes and royalties. A short-term oil and gas income tax model (OGIT) projected that tax through FY90 and a longer term model (PETREVD2) projected it through FY2005. The non-petroleum revenues other than interest were largely projected using a short-term econometric model (REVMOD) through FY88, then as an aggregate extended to FY2005 in LRFM. Two conditions are worth notice when using these projections. Those numbers in the near future can be regarded with greater confidence than those further out and all these projections are revised quarterly and are subject to change.

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

1. The 30 percent revenue scenario of the PETREV model is used for petroleum severance taxes and royalties (unless otherwise noted).
2. The real non-petroleum, non-interest revenues' (explained below) growth rate will be zero percent from FY89 through FY2005.
3. The fiscal year inflation rate (based on the U. S. Consumer Price Index for All Urban Consumers) will be 3.24 percent for FY86, 3.31 percent for FY87, 4.25 percent for FY88, 5.00 for FY89 through FY93, 5.33 for FY94 through FY98, and 5.63 percent thereafter.
4. The real Permanent Fund (PF) interest rate on a fiscal year basis will be 11.48 in FY86, 7.00 in FY87, 5.00 in FY88, 4.50 in FY89, and 4.00 percent thereafter.
5. The Legislature will choose to appropriate exactly one-half of the distributable earnings of the PF for Permanent Fund Dividends.
6. The Legislature will choose not to appropriate the Earnings Reserve Account of the Permanent Fund.

Table 1 summarizes the source of estimated revenues and their destination, i.e. General Fund, Permanent Fund or other Special Funds. The second through seventh column of the first table are petroleum revenues and are summarized in column eight. The ninth column is the sum of all excise taxes (eg. alcohol and fuel taxes), fees for licenses and permits, intergovernmental receipts, state non-petroleum resource revenues and other miscellaneous revenues. Investment and interest revenues are presented in the tenth column of the table. Interest revenues are the sum of General Fund and Permanent Fund earnings. These two are broken out in the last two columns of this table (col. 23 & 24).

The sum of all revenues is the eleventh (repeated in the 13th) column of the table. This includes some revenues not subject to the budgetary process. In particular, Permanent Fund contributions (col. 17) and earnings (col. 24) must be subtracted along with special fund contributions (col. 14-15) to get the General Fund unrestricted revenues subject to the budgetary process. This number is presented in column 18. Some of the subtracted PF earnings, in particular, those used for PF dividends or deposited in the Earnings Reserve Account, can be appropriated.

Permanent Fund contributions are determined from royalties, mineral rents and bonus sales (col. 5-7, respectively). Columns 20 and 21 indicate which royalty amounts are subject to 25 or 50 percent contribution rates to the Permanent Fund. The total royal contribution is presented in column 22. This is added to the bonus sale contributions (50 percent) and mineral rent contributions (overall rate varies since rents are subject to either the 25 or 50 percent rate depending of the effective date of the lease) to get the total PF contribution (col. 17). Contribution rates are mandated in AS.37.13.010.

TABLE 1
(millions of current dollars unless otherwise noted)

(1) FY	(2) SEVERANCE TAX*	(3) PROPERTY TAX	(4) OIL&GAS INC TAX*	(5) ROYALTIES*	(6) MINERAL RENTS	(7) BONUS SALES	(8) PETROLEUM REVENUES	(9) NON-PETR NON-INTR REVENUES	(10) INTEREST REVENUES	(11) TOTAL REVS INCL PERM FUND
81	1170.20	143.00	860.10	1501.60	7.90	14.10	3696.90	186.10	377.70	4260.70
82	1581.70	142.70	668.90	1553.20	26.40	10.30	3983.20	209.00	693.10	4885.30
83	1493.70	152.60	236.00	1447.40	54.20	73.10	3457.00	228.60	846.90	4532.50
84	1393.10	131.00	265.10	1409.00	21.90	16.70	3236.80	245.80	812.20	4294.80
85	1389.40	128.40	168.60	1390.30	23.70	23.60	3124.00	283.00	891.30	4298.30
86*	1105.62	113.60	135.00	1108.60	20.50	67.40	2550.72	228.60	1230.58	4009.90
87	401.31	89.00	130.00	240.97	19.90	4.90	886.08	236.20	900.91	2023.19
88	342.60	81.00	110.00	346.01	19.90	0.00	899.51	228.60	858.10	1986.21
89	394.74	70.70	110.30	488.19	18.90	0.00	1082.84	240.03	903.96	2226.83
90	471.64	82.30	103.02	606.48	17.96	0.00	1281.40	252.03	924.19	2457.62
91	440.61	63.70	103.06	585.15	17.06	0.00	1209.58	264.63	969.91	2444.12
92	418.50	63.90	101.36	583.07	16.21	0.00	1183.04	277.86	1024.66	2485.57
93	407.30	54.20	101.26	579.32	15.40	0.00	1157.48	291.76	1082.73	2531.97
94	378.08	44.60	99.86	563.84	14.63	0.00	1101.01	307.31	1184.78	2593.10
95	355.72	37.60	95.60	544.11	13.90	0.00	1046.93	323.69	1252.61	2623.24
96	335.58	25.10	94.69	530.10	13.20	0.00	998.67	340.95	1323.91	2663.53
97	321.46	98.00	93.51	528.97	12.54	0.00	1054.48	359.13	1406.63	2820.25
98	297.08	80.80	88.41	512.82	11.91	0.00	991.02	378.27	1483.56	2852.86
99	266.62	57.60	82.67	490.60	11.32	0.00	908.81	399.55	1612.78	2921.14
00	240.60	34.50	77.28	470.98	10.75	0.00	834.11	422.02	1702.69	2958.83
01	211.06	28.20	71.45	436.70	10.22	0.00	757.62	445.76	1796.54	2999.92
02	187.99	45.40	65.47	397.49	9.70	0.00	706.05	470.84	1896.29	3073.18
03	156.29	12.80	59.84	348.56	9.22	0.00	586.71	497.32	1994.27	3078.30
04	57.78	10.00	54.57	210.10	8.76	0.00	341.21	525.30	2085.32	2951.83
05	59.84	6.40	49.75	216.37	8.32	0.00	340.68	554.84	2198.70	3094.22

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* Mean case royalties, severance taxes & oil & gas corporate income taxes in 1986.

(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
	TOTAL REVS					-------REVENUES--------		-ROYALTIES	SUBJ TO-	ROYALTY		
	INCL	PUB SCH	NPR-A	RENEW RES	PERM FUND	GEN FUND	TOTAL	-PERM FUND	CONTRIB-	PF	-INTEREST EARNINGS-	
FY	PERM FUND	FUND	FUND	FUNDS	CONTRI	UNRESTRD	SUSTAIN	@25 PCT	@50 PCT	CONTRIB	GEN FUND**	PERM FUND
81**	4260.70	7.50	0.00	74.30	385.13	3718.17	563.80	1501.60	.00	358.30	227.80	149.90
82**	4885.30	8.00	0.00	0.00	400.52	4108.38	902.10	1553.20	.00	388.30	324.70	368.40
83**	4532.50	9.40	0.00	0.00	421.00	3631.00	844.30	1447.40	.00	361.80	375.80	471.10
84	4294.80	9.00	0.00	0.00	366.28	3390.02	907.00	1409.00	.00	354.60	282.70	529.50
85	4298.30	7.10	5.40	0.00	368.00	3260.00	939.70	1350.30	.00	349.50	233.50	657.80
86	4009.90	6.34	1.20	0.00	317.41	2679.37	1243.85	1108.46	0.14	277.18	225.00	1005.58
87	2023.19	1.50	1.20	0.00	69.17	1220.41	911.66	240.97	.00	60.24	170.00	730.91
88	1986.21	2.03	1.20	0.00	93.14	1131.74	787.29	345.37	0.64	86.66	100.00	758.10
89	2226.83	2.74	1.20	0.00	128.94	1267.63	757.86	485.13	3.06	122.81	77.65	826.31
90	2457.62	3.33	1.20	0.00	160.27	1460.23	731.89	595.09	11.39	154.47	91.60	832.59
91	2444.12	3.23	1.20	0.00	156.78	1399.26	760.16	•565.13	20.02	151.29	86.25	883.65
92	2485.57	3.22	1.00	0.00	157.29	1383.61	796.56	557.95	25.12	152.05	84.21	940.45
93	2531.97	3.20	0.40	0.00	156.41	1371.52	835.40	553.42	25.90	151.31	82.29	1000.44
94	2593.10	3.12	0.00	0.00	152.87	1333.94	899.03	535.97	27.87	147.93	81.60	1103.18
95	2623.24	3.02	0.00	0.00	148.23	1296.85	925.13	514.05	30.06	143.54	77.48	1175.14
96	2663.53	2.95	0.00	0.00	144.26	1266.21	984.67	500.95	29.15	139.81	73.79	1250.11
97	2820.25	2.94	0.00	0.00	145.80	1343.04	1067.16	491.60	37.37	141.58	78.18	1328.46
98	2852.86	2.86	0.00	0.00	142.23	1297.47	1125.84	472.70	40.12	138.23	73.26	1410.30
99	2921.14	2.75	0.00	0.00	136.88	1238.19	1191.65	448.85	41.75	133.09	69.46	1543.32
00	2958.83	2.65	0.00	0.00	131.48	1185.51	1258.71	430.41	40.57	127.89	63.51	1639.18
01	2999.92	2.48	0.00	0.00	122.24	1136.23	1329.83	398.06	38.64	118.83	57.57	1738.97
02	3073.18	2.29	0.00	0.00	111.64	1116.71	1407.24	361.33	36.16	108.41	53.75	1842.55
03	3078.30	2.04	0.00	0.00	98.52	1027.90	1483.46	315.29	33.27	95.46	44.42	1949.84
04	2951.83	1.35	0.00	0.00	60.91	829.94	1549.54	188.16	21.94	58.01	25.69	2059.63
05	3094.22	1.38	0.00	0.00	63.05	856.64	1637.92	191.50	24.87	60.31	25.55	2173.15

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

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

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

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			REAL 1981 DOLLARS							REAL 1982 $	
FY	ANCHORAGE CPI	INFLATION RATE	PETRO REVENUES	NON-PETRO NON-INTER	INTEREST EARNINGS	TOT REVS INCL PF	PERM FUND CONTRIB	GEN FUND UNRESTRD	TOT REVS SUSTAIN	ANCH CPI	GEN FUND UNRESTRD
81	1.000	0.1178	3696.90	186.10	377.70	4260.70	385.13	3718.17	563.80	0.947	3926.39
82	1.056	0.0846	3771.97	197.92	656.34	4626.23	379.28	3890.51	854.26	1.000	4108.38
83	1.101	0.0430	3139.87	207.63	769.21	4116.71	382.38	3297.91	766.85	1.043	3482.59
84	1.142	0.0369	2834.33	215.24	711.21	3760.77	320.74	2968.49	794.22	1.081	3134.73
85	1.187	0.0389	2631.84	238.42	750.88	3621.15	310.03	2746.42	791.66	1.124	2900.22
86	1.225	0.0324	2081.44	186.54	1004.18	3272.16	259.01	2186.42	1015.00	1.160	2308.86
87	1.266	0.0331	699.89	186.57	711.61	1598.07	54.63	963.97	720.09	1.199	1017.95
88	1.320	0.0425	681.56	173.21	650.18	1504.94	70.57	857.52	596.53	1.250	905.54
89	1.386	0.0500	781.39	173.21	652.31	1606.92	93.05	914.75	546.88	1.312	965.97
90	1.455	0.0500	880.65	173.21	635.15	1689.01	110.14	1003.55	503.00	1.378	1059.75
91	1.528	0.0500	791.70	173.21	634.83	1599.74	102.62	915.85	497.54	1.447	967.14
92	1.604	0.0500	737.46	173.21	638.73	1549.40	98.05	862.49	496.54	1.519	910.79
93	1.684	0.0500	687.17	173.21	642.79	1503.17	92.86	814.24	495.96	1.595	859.83
94	1.774	0.0533	620.56	173.21	667.78	1461.55	86.16	751.84	506.72	1.680	793.95
95	1.869	0.0533	560.21	173.21	670.28	1403.70	79.32	693.95	495.04	1.770	732.81
96	1.968	0.0533	507.35	173.21	672.57	1353.12	73.29	643.26	500.23	1.864	679.28
97	2.073	0.0533	508.59	173.21	678.43	1360.23	70.32	647.76	514.70	1.963	684.03
98	2.184	0.0533	453.79	173.21	679.32	1306.31	65.13	594.11	515.52	2.068	627.38
99	2.307	0.0563	393.98	173.21	699.16	1266.35	59.34	536.77	516.60	2.184	566.83
00	2.436	0.0563	342.34	173.21	698.83	1214.38	53.96	486.56	516.61	2.307	513.81
01	2.574	0.0563	294.39	173.21	698.08	1165.68	47.50	441.50	516.73	2.437	466.23
02	2.718	0.0563	259.74	173.21	697.60	1130.55	41.07	410.81	517.69	2.574	433.82
03	2.871	0.0563	204.34	173.21	694.57	1072.13	34.31	358.00	516.66	2.719	378.05
04	3.033	0.0563	112.51	173.21	687.61	973.33	20.08	273.66	510.94	2.872	288.99
05	3.203	0.0563	106.35	173.21	686.38	965.95	19.68	267.42	511.32	3.033	282.40

(13)	(14)	(15)	(16)
	PERM FUND		
	PRINCIPAL	-INTEREST EARNINGS-	
FY	BALANCE	GEN FUND	PERM FUND
81	1768.60	227.8	149.90
82	2811.67	307.5	348.86
83	3652.43	341.3	427.88
84	4236.87	247.5	463.66
85	4836.65	196.7	554.17
86	5119.59	183.6	820.57
87	6175.79	134.3	577.33
88	6221.62	75.8	574.41
89	6297.03	56.0	596.28
90	6412.69	63.0	572.20
91	6520.43	56.5	578.38
92	6623.38	52.5	586.24
93	6720.89	48.9	593.93
94	6801.15	46.0	621.78
95	6884.70	41.5	628.82
96	6955.09	37.5	635.08
97	7010.34	37.7	640.73
98	7057.67	33.5	645.77
99	7096.92	30.1	669.05
00	7128.37	26.1	672.76
01	7150.81	22.4	675.71
02	7164.19	19.8	677.83
03	7168.09	15.5	679.10
04	7156.32	8.5	679.14
05	7143.17	8.0	678.41

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

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

Columns 2, 3 and 5 indicate sources of funds to the PF, i.e. contributions from current revenue, special appropriations from the GF or other funds, and inflation proofing from PF earnings. PF contributions are derived from estimates of royalties, mineral rents and bonus sales (col. 5-7, Table 1) multiplied by the statutorially mandated contribution rate (AS.37.13.010). Special PF appropriations are determined by the Legislature and Governor. PF inflation proofing is derived by multiplying the PF intermediate principal balance (col. 4) by the calendar year inflation rate (U. S. Consumer Price Index for all Urban Consumers). When these three fund additions are added to the prior year's final principal balance (col. 6) the result equals the current year's final principal balance. For example, for FY86 the final principal balance is $6273.84m = $ 5741.10 + $317.41m + $0.00m + $215.33m. The inflation proofing (col. 5) part of this total is the estimated 1985 calendar year inflation rate, 3.55 percent multiplied by the intermediate principal balance of $6058.51m resulting in $215.33m. The real value of the final PF principal balance (i.e. in 1981 dollars) is $5119.59m.

Total income earnings, (col. 7) is the sum of earnings on the balances of the PF principal and ERA (col. 6 & 21, respectively). This is estimated by multiplying the estimated PF interest rate by the estimated average PF balance. This balance is the average of the prior year's final principal balance (col. 6) and current year's intermediate principal balance (col. 4) plus the prior year's ERA balance (col. 21). For FY86 this average balance is ($5741.10m + $6058.51m) / 2 plus $763.21m, or $6663.02m. When multiplied by the estimated PF interest rate for FY86 of 15.09 percent, total income earnings of $1005.58m are the result.

Distributable earnings (col. 8) are the basis for figuring the amount available for PF dividends (PFD). Distributable earnings (through FY86**) are a five year moving average of current and the four previous years' total earnings. Half this amount is intended for payment in the following fiscal year of Dividend Program costs (col. 10), although more or less can be appropriated by the Legislature.** Distributable earnings for FY86 are the sum of $368.40m + $471.10m + $529.50m + $657.80m + $1005.58m divided by 5 or $606.48m. Estimated earnings transfer and dividend program costs are half of this or $303.24m (col.10) which will be distributed for the PFD'S claimed for the year indicated in col. 11.

PF total income earnings (col. 7) less the earnings transfer (col. 10) and less ERA earnings (col. 17) leaves those PF earnings available for inflation proofing (col. 9 also col. 15). In FY86 this amount is $1005.58m - $303.24m - $115.18m = $587.16m.

The amount required to fully inflation proof the PF is indicated in column 22. The derivation of this amount is described in the first paragraph on this table. The amount available from current earnings is presented in column 15. If the difference is positive, indicating an abundance of funds for inflation proofing, the balance is deposited as principal to the ERA as indicated by positive entries in column 16. For FY86, $215.33m is required to inflation proof the PF and there are more than sufficient current earnings ($587.16m) so the balance ($371.83m) is deposited in the ERA. A negative difference is made up by a withdrawal from the deposits of the ERA as presented in the ERA deposit or withdrawal column (col. 16, negative entries). If there are insufficient current earnings to inflation proof and the deposits to the ERA are depleted (col. 19 is zero), the actual inflation proofing deposit differs from what is required for full inflation proofing. The extent of the shortfall is indicated in column 23. This condition occurs partially in FY1996 (a shortfall of $13.39m = $693.58m - $680.19m).

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

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

The balance in the ERA is invested and also earns interest as presented in column 17. Any appropriations from the ERA by the Legislature are presented in column 18. The previous year's ERA balance plus ERA deposit or withdrawal plus ERA earnings less ERA budget results in the current year's ERA balance (col. 21). The FY86 ERA balance of $1250.22m is the sum of $763.21m + $371.83m + $115.18m. This balance can be presented as an accumulation of deposits (income or principal) and earnings, which are listed separately in columns 19 and 20.

TABLE 3
(millions of current dollars unless otherwise noted)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
FY	-PERMANENT FUND- CONTRI	APPROP*	INTERMED PRINCPAL BALANCE	INFLATION PROOFING	FINAL PRINCPAL BALANCE	TOTAL INCOME EARNINGS	DISTR,BL EARNINGS	INCOME AVAIL FOR INFL PROOF	DIVIDEND PROGRAM COSTS	PFD CLAIM YEAR	PERM FUND PRINCIPAL REAL 81$
81	385.13	900.00	1768.34	0.00	1768.60	149.90	91.15	122.40	0.00	80	1768.60
82	400.52	800.00	2969.12	0.00	2969.12	368.40	183.60	297.90	0.00	81	2811.67
83	421.00	400.00	3790.12	231.20	4021.32	471.10	255.50	332.15	481.55	82	3652.43
84	366.28	300.00	4687.60	150.90	4838.50	529.50	310.30	335.83	190.90	83	4236.87
85	368.00	300.00	5506.50	234.60	5741.10	657.80	435.34	376.42	163.10	84	4836.65
86	317.41	0.00	6058.51	215.33	6273.84	1005.58	606.48	587.16	217.67	85	5119.59
87	69.17	1250.22	7593.23	225.46	7818.68	730.91	712.93	374.45	303.24	86	6175.79
88	93.14	0.00	7911.82	299.40	8211.22	758.10	773.20	357.40	356.46	87	6221.62
89	128.94	0.00	8340.16	386.13	8726.30	826.31	835.53	387.05	386.60	88	6297.03
90	160.27	0.00	8886.56	444.33	9330.89	832.59	872.23	374.07	417.76	89	6412.69
91	156.78	0.00	9487.67	474.38	9962.06	883.65	846.63	442.34	436.12	90	6520.43
92	157.29	0.00	10119.35	505.97	10625.31	940.45	890.63	478.43	423.31	91	6623.38
93	156.41	0.00	10781.73	539.09	11320.81	1000.44	941.52	513.96	445.32	92	6720.89
94	152.87	0.00	11473.68	593.06	12066.74	1103.18	999.67	587.95	470.76	93	6801.15
95	148.23	0.00	12214.97	651.18	12866.15	1175.14	1071.60	622.95	499.83	94	6884.70
96	144.26	0.00	13010.40	680.19	13690.60	1250.11	1148.56	660.58	535.80	95	6955.09
97	145.80	0.00	13836.39	698.60	14535.00	1328.46	1230.04	698.60	574.28	96	7010.34
98	142.23	0.00	14677.23	735.99	15413.21	1410.30	1316.11	735.99	615.02	97	7057.67
99	136.88	0.00	15550.09	820.67	16370.77	1543.32	1408.54	820.67	658.05	98	7096.92
00	131.48	0.00	16502.25	866.00	17368.25	1639.18	1505.99	866.00	704.27	99	7128.37
01	122.24	0.00	17490.49	912.47	18402.96	1738.97	1608.65	912.47	752.99	00	7150.81
02	111.64	0.00	18514.60	959.89	19474.49	1842.55	1716.60	959.89	804.32	01	7164.19
03	98.52	0.00	19573.00	1008.13	20581.14	1949.84	1829.91	1008.13	858.30	02	7168.09
04	60.91	0.00	20642.04	1061.07	21703.12	2059.63	1938.34	1061.07	914.95	03	7156.32
05	63.05	0.00	21766.17	1115.63	22881.80	2173.15	2050.47	1115.63	969.17	04	7143.17
									1025.23		

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

(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
	AVAIL INFLATION PROOFING			UNDISTRIBUTED INCOME ACCOUNT							
	TOTAL	CURRENT	DEPOSIT/				CUMULATIVE		REQUIRED	SHORTFALL	CUMUL SHORT
FY	AMOUNT	EARNINGS	-W/DRAWL	EARNINGS	BUDGET*	INCOME	EARNINGS	TOTAL	INFLATION PROOFING	INFLATION PROOFING	INFLATION PROOFING
81	0.00	122.40	122.40	0.00	-27.50	106.08	0.00	106.08	0	0.00	0.00
82	0.00	297.90	297.90	0.00	-72.70	332.58	0.00	332.58	0	0.00	0.00
83	231.20	332.15	100.95	31.10	-109.50	322.71	31.10	353.81	231.20	0.00	0.00
84	150.90	335.83	184.93	38.50	-19.90	467.75	69.60	557.35	150.90	0.00	0.00
85	234.60	376.42	141.82	64.02	0.00	629.59	133.62	763.21	234.60	0.00	0.00
86	215.33	387.16	371.83	115.18	0.00	1001.42	248.80	1250.22	215.33	0.00	0.00
87	225.46	374.45	148.99	0.00	-1250.22	148.99	0.00	148.99	225.46	0.00	0.00
88	299.40	357.40	58.00	14.09	0.00	207.00	14.09	221.09	299.40	0.00	0.00
89	386.13	387.05	0.92	21.50	0.00	207.91	35.59	243.50	386.13	0.00	0.00
90	444.33	374.07	-70.25	22.40	0.00	137.66	58.00	195.65	444.33	0.00	0.00
91	474.38	442.34	-32.04	18.00	0.00	105.61	76.00	181.61	474.38	0.00	0.00
92	505.97	478.43	-27.54	16.71	0.00	78.07	92.71	170.78	505.97	0.00	0.00
93	539.09	513.96	-25.12	15.71	0.00	52.95	108.42	161.37	539.09	0.00	0.00
94	593.06	587.95	-5.11	15.40	0.00	47.84	123.82	171.66	593.06	0.00	0.00
95	651.18	622.95	-28.23	16.38	0.00	19.61	140.20	159.81	651.18	0.00	0.00
96	680.19	660.58	-19.61	15.25	0.00	0.00	155.45	155.45	693.58	-13.39	-13.39
97	698.60	698.60	0.00	14.84	0.00	0.00	170.29	170.29	737.62	-39.02	-52.41
98	735.99	735.99	0.00	16.25	0.00	0.00	186.54	186.54	782.44	-46.45	-98.86
99	820.67	820.67	0.00	18.37	0.00	0.00	204.92	204.92	852.33	-31.66	-130.52
00	866.00	866.00	0.00	20.18	0.00	0.00	225.10	225.10	928.25	-62.25	-192.77
01	912.47	912.47	0.00	22.17	0.00	0.00	247.28	247.28	983.84	-71.37	-264.14
02	959.89	959.89	0.00	24.36	0.00	0.00	271.63	271.63	1041.45	-81.56	-345.70
03	1008.13	1008.13	0.00	26.76	0.00	0.00	298.39	298.39	1100.98	-92.85	-438.55
04	1061.07	1061.07	0.00	29.39	0.00	0.00	327.78	327.78	1161.11	-100.04	-538.59
05	1115.63	1115.63	0.00	32.29	0.00	0.00	360.07	360.07	1224.35	-108.72	-647.31

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

The final group of columns on Table 3 is the Dividend Account activity. The transfer from current PF earnings is presented in column 26, while GF appropriations to this account are presented in column 27. These are usually distributed the fiscal year following (as presented in col. 10 and 31) with part being used to administer the PFD program* (col.30) and the rest distributed as PFD's (col. 29). The payment amount is distributed to the applicants (col. 32) so that each applicant receives the amount listed in column 33. The real value of the PFD (i.e. net of inflation) is prsented in column 34. For FY86 the earnings transfer of $303.24m will cost $6.88m in administration* to distribute a $296.36m payment amount (in FY87). This is divided between an estimated 527,110 applicants so each one gets $562.24 which is worth about $444.10 in 1981 dollars.

(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)
	EARNINGS	GEN FUND	CLAIM	----------PFD PROGRAM----------			TOTAL PFD	---DIVIDEND PAYMENT---	
FY	TRANSFER	APPROP	YEAR	PAYMENT	ADMIN	TOTAL	APPLICANTS	(NOMINAL$	REAL$)
81	27.47	0.00	80	0.00	0.00	0.00	410.67	0.00	0.00
82	70.50	0.00	81	0.00	0.00	0.00	430.09	0.00	0.00
83	107.88	440.60	82	478.13	3.42	481.55	478.85	1000.00	907.93
84	155.13	0.00	83	187.52	3.08	190.60	486.95	386.15	338.12
85	217.67	0.00	84	160.10	3.02	163.12	483.27	331.29	279.20
86	303.24	0.00	85	210.61	6.66	217.27	521.33	404.00	329.66
87	356.46	0.00	86	296.36	6.88	303.24	527.11	562.24	444.10
88	386.60	0.00	87	349.36	7.10	356.46	521.38	670.07	507.71
89	417.76	0.00	88	379.19	7.41	386.60	515.71	735.28	530.59
90	436.12	0.00	89	409.99	7.78	417.76	519.92	788.56	541.94
91	423.31	0.00	90	427.95	8.16	436.12	524.16	816.45	534.39
92	445.32	0.00	91	414.74	8.57	423.31	528.45	784.83	489.23
93	470.76	0.00	92	436.32	9.00	445.32	532.78	818.95	486.19
94	499.83	0.00	93	461.31	9.45	470.76	537.15	858.82	484.05
95	535.80	0.00	94	489.88	9.95	499.83	541.56	904.57	484.04
96	574.28	0.00	95	525.31	10.49	535.80	546.02	962.08	488.76
97	615.02	0.00	96	563.23	11.04	574.28	550.52	1023.10	493.45
98	658.05	0.00	97	603.39	11.63	615.02	555.06	1087.06	497.76
99	704.27	0.00	98	645.80	12.25	658.05	559.65	1153.93	500.24
00	752.99	0.00	99	691.33	12.94	704.27	564.29	1225.13	502.83
01	804.32	0.00	00	739.32	13.67	752.99	568.97	1299.42	504.91
02	858.30	0.00	01	789.88	14.44	804.32	573.69	1376.85	506.51
03	914.95	0.00	02	843.05	15.25	858.30	578.46	1457.40	507.59
04	969.17	0.00	03	898.84	16.11	914.95	583.28	1541.02	508.13
05	1025.23	0.00	04	952.15	17.02	969.17	588.15	1618.90	505.38

MEMORANDUM State of Alaska

TO: The Honorable Bill Sheffield
Governor of Alaska

DATE: July 16, 1986

FILE NO:

TELEPHONE NO: 465-2300

FROM: Mary A. Nordale
Commissioner of Revenue

SUBJECT: June 1986 Revenue Forecast

The unrestricted revenue forecast for June is complete and the numbers for FY 86, FY 87, and FY 88 are $2,679.4 million, $1,220.4 million, and $1,131.8 million, respectively.

The declines for FY 86, FY 87 and FY 88, when compared to the March 1986 forecast amount to $41.7 million, $857.2 million, and $482.4 million respectively.

March vs June Unrestricted Revenue Forecast
(millions of current dollars)

	FY 86 (mean case)	FY 87 (30% case)	FY88 (30% case)
March	2,721.1	2,077.6	1,614.2
June	2,679.4	1,220.4	1,131.8
difference	-$41.7	-$857.2	-$482.4
June	2,679.4	1,220.4	1,131.8
TAPS (legal expenses and refunds)	150.0	66.0	
ARCO (settlement)	243.0		
Total	3,072.4	1,286.4	1,131.8

I would like to make several points relative to FY 86. The first is that, we have to date, received in the General Fund approximately $150 million in legal expenses and refunds from the TAPS case (the state General Fund anticipates receiving roughly another $66 million in FY 87). The State also received on January 15, 1986, $243 million from the ARCO settlement. When the $150 million and $243 million are added to FY 86, the bottom line then becomes $3,072.4 million.

In reference to FY 86, I would also like to point out that the magnitude of the recent decline in estimated corporate tax payments was totally unexpected. Unfortunately, the correct revenue picture will not be revealed until the Department conducts audits of the companies involved.

For FY 87, when the expected $66 million in TAPS legal expenses and refunds is added, the bottom line then becomes $1,286.4 million.

The number for FY 86 represents the mean case whereas the numbers for FY 87 and FY 88 represent the more conservative 30% case.

Our assessment relative to the oil outlook is essentially the same as outlined in our March 12, 1986, memorandum to you on the subject and so will not be repeated in detail.

I would like to point out, however, that the evidence accumulated to date supports the theory that Saudi Arabia and its allies are deliberately driving down oil prices in order to exert control once again over oil markets. We believe at this point that they will succeed in their endeavors and oil prices will once again rise. The key questions are when will prices rise and by how far. These are difficult if not impossible questions to answer. And, of course, for every expert there is a different opinion.

The Saudis to date are succeeding in driving high cost crude out of the market thus capturing for OPEC a larger share of the market, bringing into the fold many non-OPEC countries, and making "believers" out of those OPEC members who have violated agreements in the past. We also believe that Saudi Arabia wants to achieve and maintain a certain price level over the long-term that will keep the demand for substitute products at relatively low levels, reduce new conservation efforts, and dampen the development of new higher cost oil fields. Their ultimate goal is to achieve a level of demand and supply and attendant price range for oil that all OPEC producers can live with. To reach these objectives is not without, however, a lot of pain and suffering on the part of a state such as ours and as indicated earlier the timing of the turning point in our favor is the key question. It may be a long haul for the State of Alaska. As I write this memorandum, we are consulting with Texas, Louisiana, and Oklahoma who are initiating unprecedented measures to cope with the difficulties created by the collapse in oil prices.

The outlook on the part of the revenue forecasting team is very pessimistic to say the least. These quarterly forecasts represent a moment or snapshot in time and unfortunately the volatility of oil prices has created and is going to create a whipsaw effect on an economy such as ours. It could very well be, as many oil analysts believe, that oil prices will move up again in the fall or early next year and that this will be reflected in succeeding forecasts. But we are the victims of an extremely unstable oil market currently exacerbated by political

maneuvering on the part of OPEC countries. And the situation has deteriorated into a full scale price war within OPEC. Fiscal prudence dictates that we exercise as much caution as possible and we recommend, at this time, you initiate restrictive measures relative to the FY 87 budget.

You should be aware that the forecasting team in putting together revenue projections in the past has relied on tools of the trade such as supply and demand analysis, economic indicators, inventory analysis, and a trend analysis approach. We now are confronted with a situation where OPEC political maneuvering supersedes the importance of economic analysis. This adds another dimension of volatility to an already volatile market situation and thus predictability as such becomes a much more difficult task. That is why for every "expert" there is a different opinion and that is also why we must be prepared for violent swings in future revenues. Once the oil price war is over and we return to the so-called "norm", these violent swings in revenue due to wide oil price fluctuation should settle down. A plan of maximum flexibility to deal with the ups and downs of revenue fluctuation is essential. To dampen the peaks and valleys in an economic system such as ours we need not only flexible programs but stabilizing programs such as a budget reserve account or permanent fund savings account, and also tax programs not wholly dependent on one resource.

I will interject, as usual, the caveat that if there is a chance for error in this particular forecast, it is on the optimistic side i.e. the downside risk is much greater than any perceived upside potential.

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

MAN:VDW:mkw

Attachment

FIGURE 1
GENERAL FUND UNRESTRICTED REVENUES

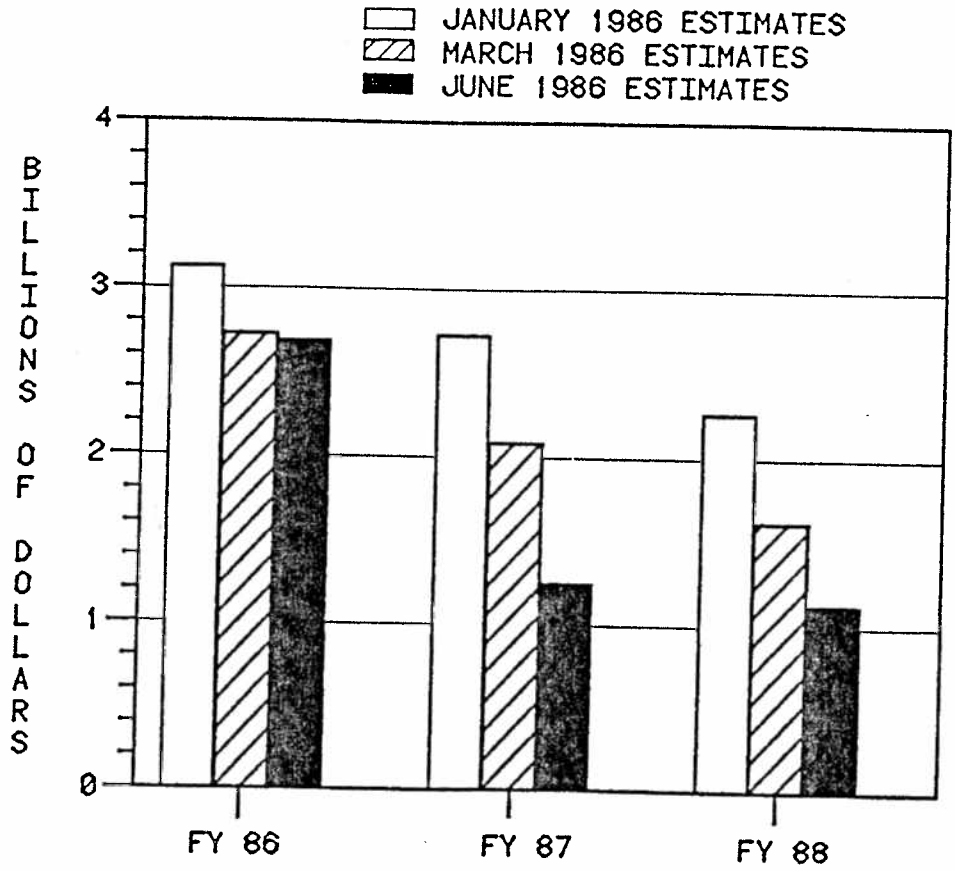


TABLE I
General Fund Unrestricted Revenues
(Thousands of Current Dollars)

Taxes	FY 1986 Estimate June	FY 1987 Estimate June	FY 1988 Estimate June
Income			
Corporate-General	15,000	17,000	16,000
Corporate-Petroleum	135,000	130,000	110,000
Gross Receipts			
Alaska Business License	2,000	2,000	2,000
Fish-Canned Salmon (1)	4,000	3,000	2,600
Fish-Shorebased (1)	9,200	9,000	8,000
Fish-Floating	6,800	6,500	6,500
Seafood Marketing	1,000	1,000	1,000
Salmon Enhancement	4,200	3,800	3,800
Insurance Companies(2)	21,000	20,000	20,000
Electric & Telephone Co-ops	1,900	1,900	1,900
Mining License Tax	300	300	400
Severance			
Oil & Gas Production (3)	1,104,900	400,600	341,900
Oil & Gas Conservation	700	700	700
Property			
Oil & Gas	113,600	89,000	81,000
Sale/Use			
Alcoholic Beverages	13,400	13,300	13,200
Fuel Taxes-Aviation (4)	8,000	8,000	8,000
Fuel Taxes-Highway (4)	22,500	22,500	22,000
Fuel Taxes-Marine (4)	5,200	4,300	4,300
Tobacco Products (5)	5,400	7,000	6,900
Other			
Estate	600	600	600
Total Taxes	1,474,700	740,500	650,800
Licenses & Permits			
Business	12,000	12,000	12,000
Non-Business (6)	17,500	21,000	21,000
Total Licenses & Permits	29,500	33,000	33,000
Intergovernmental Receipts			
Federal Shared Revenues (7)	10,000	9,500	9,500
State Resource Revenue			
Sale/Use			
Bonus Sales (7) (8) (9) (10)	33,500	2,400	-0-
Investment Earnings	225,000	170,000	100,000
Rents (7) (8) (9) (10)	6,000	6,000	6,000
Royalties (3) (7)	825,900	179,500	257,600
Sale of State Property	8,000	8,500	9,000
Gravel, Timber, etc. (11)	3,600	8,400	2,400
Facilities Related Charges			
Airports	1,600	1,700	1,700
Ferry System-Southeast	28,800	29,800	30,500
Ferry System-Southwest	3,800	3,900	4,000
Other	7,900	6,800	6,600

Service Related Charges			
Court System	5,100	5,400	5,700
Other	5,000	5,000	5,000
Total State Resources Revenues	1,154,200	427,400	428,500
Miscellaneous Revenues	11,000	10,000	10,000
Total Unrestricted Revenues (12)(13)	2,679,400 (14)	1,220,400	1,131,800

(1) The FY 87 and FY 88 figures are reduced to reflect the recent enactment of a shorebased fisheries business tax credit per Ch. 75, SLA 1986. The Act took effect July 1, 1986.

(2) The FY 87 and FY 88 figures reflect the enactment of Ch. 118, SLA 1986 which set the tax for domestic and foreign insurers, except hospital and medical service corporations, at 2.7 percent. Previously domestic insurers were taxed at a 1.5 percent rate and foreign insurers at 3.0 percent.

(3) The FY 86 forecast assumes the mean case. The forecasted numbers for FY 87 and FY 88 assume the 30 percent case; however, if the mean case had been utilized for FY 87 and FY 88, the production taxes would change to $459.5 million and $402.0 million, respectively. The royalty figures would change to $264.5 million and $378.8 million respectively. All of the forecasted numbers include the estimated TAPS settlement.

(4) Revenues from the three main categories of fuel tax are shown separately. However, under the provisions of AS 43.40.010(h), all refunds are made from the highway fuel tax account. If gross collections of highway fuel taxes remain constant, an increase in refunds for aviation and marine fuels could lower the net revenues shown for highway fuels. Also, increasing use is being made of tax credits, which can be taken in lieu of claiming a refund on certain non-taxable use of fuel (15 AAC 40.200). The FY 86 figure includes estimated revenue for marine fuel tax collections on fuel purchased out-of-state but which is used in Alaska waters. A number of returns for taxes levied on in-state usage are currently in the appeal process and FY 87 and FY 88 revenues will not be revised upward until that process is completed.

(5) Ch. 24, SLA 1985 raised the General Fund portion of the cigarette tax from a rate of 1-1/2 mills ($.0015) to 5-1/2 mills ($.0055) per cigarette. The Act took effect October 1, 1985.

(6) The FY 87 and FY 88 figures reflect the recent enactment of Ch. 60, SLA 1986 which would increase driver licensing fees and vehicle registration fees. The Act will become effective September 1, 1986.

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

(8) Reflects state lease sales of $16.3 million held September 24, 1985 (Sale 45A-North Slope Onshore and Sale 47 - Kuparuk Uplands), $3.0 million held February 25, 1986 (Sale 48 - Kuparuk Uplands and Sale 48A - Mikkelsen), and $0.9 million held June 24, 1986 (Sale 49 - Cook Inlet). Due to the timing of collections, receipts from the June 1986 lease sale are shown as FY 87 revenue. The FY 86 and FY 87 figures represent the General Fund's 49.5 percent share.

(9) The FY 86 figure reflects the OCS "8(g)" revenue-sharing settlement of $51.4 million. The General Fund share represents 49.5 percent of the aforementioned total, whereas the Permanent Fund will receive 50.0 percent. The remaining 0.5 percent will be distributed to the Public School Fund. An additional $4.0 million is anticipated in FY 87.

(10) The Department of Natural Resources projects the following FY 87 and FY 88 state lease sales: FY 87 (Sale 51 - Prudhoe Bay Uplands, Sale 50 - Camden Bay) and FY 88 (Sale 53 - Icy Cape, Sale 46 - Holitna Basin, Sale 54 - Kuparuk Uplands, Sale 62 - Cook Inlet, Sale 55 - Demarcation Point). However, bonus bids are impossible to anticipate prior to sales; therefore, no estimates are provided.

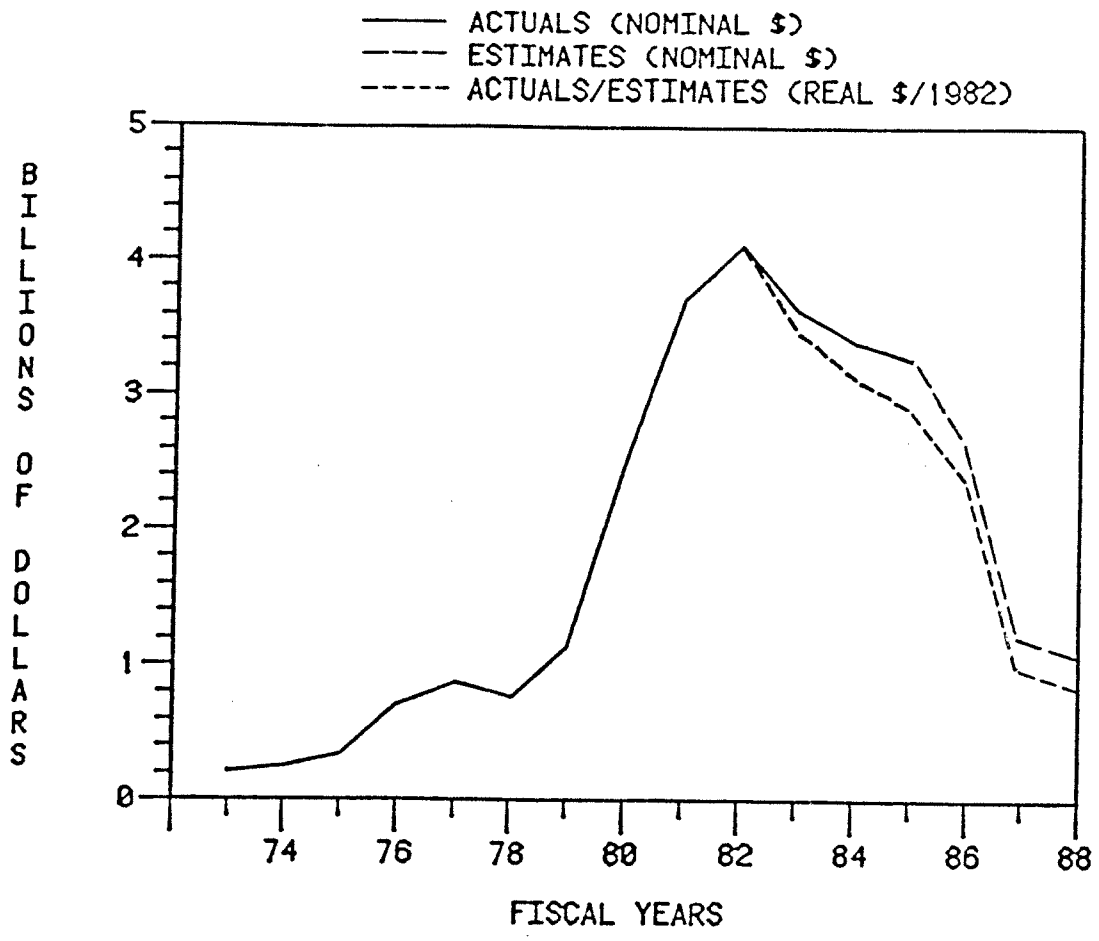
(11) Estimates reflect increased construction of roads and drilling pads as projected by the Department of Natural Resources; however, some of these projects may be delayed or changed due to permit denials or environmental impact statement requests.

(12) The State, per AS 38.05.180, will be granting incentive credits against royalties, severance taxes, and rentals to the oil companies for drilling exploratory wells. The anticipated deduction is approximately $0.7 million which has not been subtracted from the aforementioned FY 86 figure of $2,679.4 million. Additional credits are anticipated in subsequent years.

(13) The FY 86 and FY 87 figures do not include the estimated General Fund portion from refunds and expenses for prior years, relative to the TAPS case. It is assumed that approximately $149.7 million will be received during FY 86 and approximately $66.0 million during FY 87.

(14) The FY 86 figure does not include the $243 million the State received from the ARCO settlement on April 23, 1986.

FIGURE 2
GENERAL FUND UNRESTRICTED REVENUES



Revenue Actuals (Nominal $)	
FY 73	208.2 million
FY 74	254.9 million
FY 75	333.4 million
FY 76	709.8 million
FY 77	874.3 million
FY 78	764.9 million
FY 79	1,133.0 million
FY 80	2,501.2 million
FY 81	3,718.2 million
FY 82	4,108.4 million
FY 83	3,631.0 million
FY 84	3,390.1 million
FY 85	3,260.0 million

Revenue Estimates (Nominal $)	
FY 86	2,679.4 million
FY 87	1,220.4 million
FY 88	1,131.8 million

Revenue Actuals/Estimates (Real $/1982)	
FY 82	4,108.4 million
FY 83	3,481.3 million
FY 84	3,136.0 million
FY 85	2,900.4 million
FY 86	2,308.9 million
FY 87	1,018.0 million
FY 88	905.6 million

TABLE II

Key Assumptions for June 1986
Petroleum Revenue Projections
For FY 1986 - FY 1988

Fiscal Year	($/bbl) Mean Wellhead Value	($/bbl) 30% Wellhead Value	Mean TAPS Throughput (MMbbs/day)	Mean Rate Inflation %
1986	$13.35	$13.31	1.79	3.31
1987	$4.45	$3.07	1.77	4.24
1988	$6.48	$4.43	1.68	5.00

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

	Weighted Average	30% Case	
FY 86	$19.28	$19.24	per barrel
FY 87	$10.29	$8.91	per barrel
FY 88	$12.55	$10.50	per barrel

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

	Weighted Average	30% Case	
FY 86	$21.38	$21.34	per barrel
FY 87	$12.65	$11.27	per barrel
FY 88	$14.93	$12.88	per barrel

Weighted Average TAPS Tariff

FY 86	$5.25	per barrel
FY 87	$4.54	per barrel
FY 88	$4.33	per barrel