Alaska State Revenues: Overview, History, and Forecast

Presentation to
Forum on Alaska’s Fiscal Future
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Alaska Department of Revenue
What is revenue in Alaska?

Revenue Collection Types

- Petroleum
- Non-Petroleum
  - Collections from In-State Activity
  - Recipets from Federal Government
  - Earnings from Investments

Total State Revenue

- Unrestricted Revenue
- Restricted Revenue
  - Designated General Fund
  - Federal Revenue
  - Other Restricted
What do most people seem to care about?
Alaska Revenue Summary and Forecast
FALL 2013 TOTAL REVENUE FORECAST

Source: Department of Revenue - Revenue Sources Book Fall 2013
FY 2013 Total State Revenue = $15.8 billion

- **Unrestricted**
  - $6.9 (44%)
- **Restricted**
  - $8.9 (56%)

- **Investment**
  - $0.03 (0.4%)
- **Non-petroleum**
  - $0.5 (8%)
- **Petroleum**
  - $6.4 (92%)

- **Investment**
  - $5.0 (56%)
  - Non-petroleum
    - $0.5 (5%)
  - Petroleum
    - $1.0 (12%)
  - Federal
    - $2.4 (27%)
Total State Revenue = $14.9 billion

FY 2014 (Spring 2014 forecast)

- **Unrestricted**
  - Non-petroleum: $0.5 (9%)
  - Petroleum: $4.7 (89%)
  - Total: $5.3 (36%)

- **Restricted**
  - Federal: $2.9 (30%)
  - Investment: $0.12 (2.3%)
  - Non-petroleum: $0.7 (7%)
  - Petroleum: $0.2 (2%)
  - Total: $9.6 (64%)
Who forecasts Alaska Revenue?
Economic Research Group…with commercial analysts
Denali Peak Awards Honorable Mention 2014
Revenue Sources Book Team
Deputy Commissioner for Strategic Finance.....who oversees Economic Research Group and Commercial Analysts
Commissioner makes the ultimate determination

“…address the one factor we can influence – increasing production.”

Angela Rodell, Commissioner, Alaska Department of Revenue

…also has a holistic view of tax, treasury and debt.
Why do we forecast revenue at DOR?
Oil Revenue Forecasting

Three Factors for Production Tax Revenue Forecast

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

$\text{Net value} = (\text{Price} \times \text{Production}) - \text{Costs}$

1. Price
2. Production
3. Costs
   1. Capital expenditures
   2. Operating expenditures
   3. Transportation cost
Alaska Oil Price Forecasting
Alaska North Slope Crude West Coast Price

Source: Department of Revenue - Revenue Sources Book Fall 2013 page 37
HISTORICAL ANS WEST COAST FY OIL PRICE BANDS

ANNUAL AVERAGE AND FORECAST BEYOND FY 2015

Source: Department of Revenue - Revenue Sources Book Fall 2013 page 38
Alaska Petroleum Cost Forecasting
Costs more important than ever….

Alaska
Production Forecasting
PRODUCTION HISTORY AND FORECAST

Source: Department of Revenue - Revenue Sources Book Fall 2013 page 43
Significance of essentially zero decline

ANS Production Volume

1988-2005
4.5% Decline

2005-2006
7.8% Decline

2006-2013
6.2% Decline

2013-2014
0.1% Decline


Decline is almost ZERO
NORTH SLOPE PRODUCTION FORECAST

Source: Department of Revenue - Revenue Sources Book Fall 2013
West Coast Supply Sources

*Bakken west coast supply is an estimated by Economic Research.
Sources: Revenue Sources Book, EIA, and the California Energy Almanac.
Alaska Investment Revenue Forecasting
## Table 7-2: 2013 Summary of Callan Associates, Inc.  
Long-term Capital Market Projections, as of November 8, 2013

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Benchmark for Asset Class</th>
<th>Projected Ten-Year Geometric*</th>
<th>Projected Risk Standard Deviation</th>
<th>% Projected Return within One Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Broad Domestic Equity</td>
<td>Russell 3000 Index</td>
<td>7.65%</td>
<td>18.95%</td>
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<td>Global ex-US Equity</td>
<td>MSCI ACWI ex-U.S.</td>
<td>7.85%</td>
<td>21.25%</td>
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<td>International Equity</td>
<td>MSCI EAFE</td>
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<td>Fixed Income</td>
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<tr>
<td>Domestic Fixed</td>
<td>Barclays Aggregate</td>
<td>2.50%</td>
<td>3.75%</td>
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<tr>
<td>High Yield</td>
<td>Barclays High Yield</td>
<td>5.00%</td>
<td>12.60%</td>
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<tr>
<td>Government 1-3</td>
<td>Barclays Gov't 1-3 Year</td>
<td>2.30%</td>
<td>2.25%</td>
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<tr>
<td>TIPS</td>
<td>Barclays TIPS</td>
<td>2.30%</td>
<td>5.00%</td>
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<tr>
<td>Long Duration</td>
<td>Barclays Long Gov't / Credit</td>
<td>2.70%</td>
<td>12.00%</td>
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<tr>
<td>Non-U.S. Fixed</td>
<td>Citi Non-U.S. Gov't</td>
<td>2.25%</td>
<td>9.40%</td>
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<td>Emerging Market Debt</td>
<td>JPM EMBI Global Div.</td>
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<td>Other</td>
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<tr>
<td>Private Equity</td>
<td>VE Post Venture Cap</td>
<td>8.65%</td>
<td>30.90%</td>
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<tr>
<td>Real Estate</td>
<td>Callan Real Estate</td>
<td>6.20%</td>
<td>17.50%</td>
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<tr>
<td>Hedge Funds</td>
<td>Callan Hedge FoF</td>
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<td>10.20%</td>
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<tr>
<td>Commodities</td>
<td>DJ-UBS Commodity</td>
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<td>17.90%</td>
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<tr>
<td>Cash Equivalents</td>
<td>90-Day T-Bill</td>
<td>2.00%</td>
<td>0.90%</td>
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<td>Inflation</td>
<td>CPI-U</td>
<td>2.50%</td>
<td>1.50%</td>
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</tbody>
</table>

*Geometric returns are derived from arithmetic returns and the associated risk (standard deviation)
Realities and Alaska Revenue Potential
How else could Alaska generate $315 million in tax revenue from an additional 40,000 barrels of oil a day?

Every Alaskan of legal drinking age would have to drink...

17 glasses of wine per day

16 beers per day

or

11 shots of alcohol per day

Every adult of legal smoking age would need to buy a 5 packs of cigarettes a week

or

1,470 pulltabs per day
Significant likely future revenue sources
Please find contact information below:

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