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Press Release

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Department Releases Revenue Sources Book

Anchorage – Department of Revenue (DOR) Commissioner Angela Rodell released the Fall 2013 *Revenue Sources Book* today. The annual publication provides basic information about state revenue, as well as the anticipated revenue over the next ten years. The *Revenue Sources Book* will be available to download by close of business December 4 on the department's website, at www.tax.alaska.gov.

The Department of Revenue reports that the State of Alaska received a total of $15.8 billion in FY 2013 from all sources. Of this total, General Fund unrestricted state revenues totaled $6.9 billion, with oil revenues accounting for approximately 92% of all unrestricted revenue. The department is now forecasting unrestricted revenue of $4.9 billion and $4.5 billion for FY 2014 and FY 2015, respectively.

"This is a significant revision to our unrestricted revenue from the previous forecast," Commissioner Rodell said. "It is clear that the single-most influential contributor to the revision is a reduced oil price expectation. The elimination of progressivity and capital credits are roughly offset by the increased 35% base rate and new per-barrel credits under the More Alaska Production (MAP) Act. Alaska will see at forecasted prices a similar revenue stream between the current and previous oil tax systems."

The revenue forecast is based on an Alaska North Slope (ANS) oil price of $105.68 per barrel for FY 2014 and $105.06 per barrel for FY 2015.

While North Slope oil production declined 8.2% in FY 2013, the department shows a 13.6% effective increase in production in Cook Inlet since last year. The Commissioner explained that "while we see longer, more extensive summer maintenance projects, increased use of natural gas liquids for reinjection and decreased production in legacy fields we also see the companies responding enthusiastically to the More Alaska Production Act and have increased our projections of industry investment on the North Slope by $10 billion over the next 10 years."

The Commissioner went on to say "Our department is pleased with the increase in investment that we are seeing on the North Slope. However, in the short-term this is another factor that contributes to reduced revenue."

Lease expenditures are a tax deductible activity that reduces taxes paid in the present, which reduces near-term total revenue. The cost of transporting oil is another expense that becomes deductible against taxes and royalty payments, reducing revenue. As production declines, the cost of transportation is spread among fewer barrels of oil, causing increased transportation costs per barrel.

While Alaska will incur a revenue reduction of approximately $250 to $300 million this fiscal year, DOR reports that this is primarily due to the closing out of Alaska's Clear and Equitable Share (ACES) capital credit liabilities. In fact, for FY 2015, the department reports that the current tax system, the MAP Act, and the former system, ACES, generate similar revenues at the forecasted price, expenditure and production levels.

"Fundamentally, future growth in unrestricted state revenue will require higher oil prices and/or stable or increased production," Commissioner Rodell said. "Fortunately, with the More Alaska Production Act, we have a tax regime that can address the one factor we can influence – increased production."

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