



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Revenue

COMMISSIONER'S OFFICE

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May 12, 2020

The Honorable Neal Foster
Co-Chair, House Finance Committee
State Capitol Room 505
Juneau, AK 99801

The Honorable Jennifer Johnston
Co-Chair, House Finance Committee
State Capitol Room 511
Juneau, AK 99801

Dear Co-Chairs Foster and Johnston:

In the April 22, 2020 House Finance Committee hearing "Updated Fiscal Outlook," there were discussions about the potential for short-term production shutdown of the Trans Alaska Pipeline System (TAPS). After the hearing, Legislative Finance Division requested the Department of Revenue (DOR) to evaluate potential shutdown scenarios and the revenue impacts.

Since DOR released the Spring 2020 revenue forecast on April 6, 2020, Alaska North Slope (ANS) oil prices have declined, even dipping below zero for a brief period of time. Oil production has also been impacted by announcements of reduced drilling and production curtailments that were not known when the forecast was developed. To provide an update of potential impact to state revenues, DOR is releasing the results of an analysis that examines the possible impacts of lower oil prices and lower production scenarios on state revenue for FY 2020 – 2022.

DOR's analysis shows estimated Unrestricted General Fund (UGF) revenue for FY 2020-2022, with updated oil price and production estimates. The enclosed attachment provides more detailed assumptions and results. To summarize the analysis: compared to the Spring 2020 forecast and with revised oil price and production estimates, UGF revenue could be between \$115 and \$125 million lower than forecast for FY 2020, between \$359 and \$476 million lower than forecast for FY 2021, and between \$161 and \$308 million lower than forecast for FY 2022.

Updated oil price assumptions were based on Brent futures market closing prices as of April 30, 2020 and assumed that the ANS/Brent differential would return to zero by June 2021. These assumptions yield an ANS oil price outlook that is somewhat lower than current prices due to the rebound in prices over the past week and a half. We expect that ANS oil prices will continue to exhibit volatility.

DOR worked with the Department of Natural Resources (DNR) to develop a "low oil price scenario" production outlook for the short term. The low oil price scenario provided a baseline outlook assuming that no proration occur over the outlook period. DOR then adjusted the DNR

work product to account for Natural Gas Liquids (NGLs) used in enhanced oil recovery and to include the most recent actual production data. The DNR provided outlook was through December 2021. For updating this revenue outlook, DOR applied the DNR official spring production forecast for the period of January through June 2022.

For scenario planning purposes, DOR is providing a revenue estimate for three proration scenarios in addition to the DNR low oil price scenario as described above (Scenario #1). Scenario #2 assumes a 10% reduction in North Slope production for May 2020 and a 25% reduction in North Slope production for the months June through August of 2020, after which no proration is applied. Scenario #3 assumes a 10% reduction in North Slope oil production beginning May 2020 going through June 2022. Scenario #4 assumes a 25% reduction in North Slope oil production beginning in May 2020 and extending through June 2022. The intent of this modeling is to show the revenue impact of potential proration.

For this analysis, non-oil revenues are unchanged from the Spring 2020 forecast, except for an adjustment to corporate income tax for loss carryback provisions of the CARES Act (both petroleum and non-petroleum revenues). Under current law, this provision could potentially reduce state revenue by around \$100 million in FY 2021 and by another \$100 million in FY 2022. Estimates for this provision are uncertain but significant enough to warrant including in this revenue update.

I hope you find this information to be useful as you work to guide the state through these difficult times. The department, working collaboratively with DNR, will continue to monitor economic, production, and revenue trends over the coming months. We look forward to providing you with the next full forecast in the fall of 2020.

Please do not hesitate to contact me if you have further questions.

Sincerely,



Lucinda Mahoney
Commissioner, Department of Revenue

Attachment: Update to Spring 2020 Estimated Revenues with new ANS Oil Price and Production Scenarios

cc: Ben Stevens, Chief of Staff, Governor's Office
Corri Feige, Commissioner, Department of Natural Resources