FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSSB 305(FIN)
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Identifier (file name): 2010 03 31 FN CSSB305 SFIN
Title
Sponsor: Senate Finance Committee
Requester: Senate Finance Committee

Dept. Affected: Revenue
RDU: Taxation and Treasury
Component: Tax Division
Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2011**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Personal Services							
Travel							
Contractual	0.0						
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	0.0						
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost: 0.0

POSITIONS

Full-time	**0.0**						
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

This bill separates oil and natural gas for purposes of calculating the progressivity portion of the production tax under AS 43.55. Under this bill the progressivity surcharges for oil and Cook Inlet and in-state gas would be calculated together, but distinctly from export gas, instead of the current practice on all oil and gas combined. The progressivity structure itself would be unchanged, based on 0.4% of the production that value that exceeds $30 per barrel for oil, and $30 per BTU barrel of oil equivalent for gas. The base tax rate is unchanged at 25% of production tax value.

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Division: Senate Finance Committee — Date/Time 3/30/2010 7:00pm

Approved by: Senator Stedman, Co-Chair, Senate Finance Committee — Date 3/31/2010 8:00am

STATE OF ALASKA **BILL NO.** CSSB 305(FIN)
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ANALYSIS CONTINUATION

Under current law the tax rate is based on the combined BTU value of oil and gas. However, oil and gas can have vastly different values on a BTU basis. Currently a BTU of oil is worth much more than a BTU of gas. Accordingly, once a major gas sale would start up, overlaying the existing oil production, the BTU value of the combined oil and gas would be much lower than it was for oil alone. This could cause a significant reduction in oil taxes as a result of a major gas sale.

This structure, in conjunction with the inherent uncertainty of future oil and gas prices, exposes the state to significant financial risk were a major gas sale to occur. The structure also creates economic instability for entities looking to participate in the development and financing of a natural gas pipeline project in Alaska.

Under the tax inducement provisions of the Alaska Gasline Inducement Act (AGIA), the tax structure in place at the time of the first binding open season (May 1, 2010), may be locked in for the first ten years of gas commercialization. Consequently, to the extent there is interest in decoupling our tax structure, it needs to be done before April 30, 2010.

The bill removes the dilution effect by having progressivity calculated distinctly for oil and gas. This will result in no reduction in oil taxes from a major gas sale.

As in current law, the bill gives the Department of Revenue the authority to adopt regulations to allocate costs between oil and gas, with the added instruction that a method based on relative BTU barrel of oil equivalents should be considered. That method was the one adopted by the department under the same authority for implementation of the current law, for the same purposes as would be for the proposed law.

Some producers currently produce Cook Inlet gas or other in-state gas along with North Slope oil. If all gas were separated from oil these producers would see an immediate tax increase. The bill is not intended to increase taxes on current activity. Having the progressivity for Cook Inlet gas and other in-state gas calculated together replicates the current situation, so these producers will see no tax increases. Only progressivity on export gas, like the gas from a major gas sale, would be calculated distinctly. This will prevent a major gas sale from diluting progressivity on oil.

Expenditures
The Tax Division is in the process of developing a new, single, comprehensive, integrated tax management system for all tax types. The new system will incorporate tax programs and recent tax changes as necessary to improve the efficiency and accuracy of the Division's revenue collection efforts. There is a $300,000 request in the Governor's FY2011 Capital Budget to complete the agency's IT plan for submission and review by the Enterprise Investment Board. It is assumed that the tax structure changes contained in this bill will be addressed by this systemwide review and eventual restructuring project.