FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: **HCS CSSB 305 (RES)**
() Publish Date:

Identifier (file name): HCS CSSB305(RES)(title am)-REV-TAX-04-13-10
Title: Separate Oil & Gas Production Tax
Sponsor: Senate Finance Committee
Requester: House 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	660.0						
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**660.0**	**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**

***** Significant Impact Beyond FY 2016 - See Analysis Section for Additional Information *****

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	660.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**660.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost: 660.0

POSITIONS

Full-time	**0.0**	0.00	0	0	0	0	0
Part-time							
Temporary							

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

Bill Language

This bill separates oil and natural gas for purposes of calculating the progressivity portion of the production tax under AS 43.55 for major gas sales. Under this bill the progressivity surcharges for oil and Cook Inlet and in-state gas would be calculated together, and the progressivity surcharge on export gas would be calculated separately (currently all oil and gas are combined for progressivity purposes). The base tax rate remains unchanged at 25%, and the progressivity structure remains unchanged at 0.4% per $1 of production tax value over $30 per barrel of oil equivalent, then 0.1% per $1 of production tax value over $92.50.

This new method of calculating progressivity will apply from April 29, 2010 through the first day of the binding open season for the AGIA pipeline project (currently anticipated to be May 1, 2010), after which progressivity will revert to the current method of combining all oil and gas together for progressivity purposes. Then, following the month in which more than 1.5 bcf / day of gas is exported (i.e., once major gas sales begin), export gas is again separated for progressivity purposes.

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Date/Time 04-13-10; 7:56pm
Approved by: Ginger Blaisdell, Director
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Date 04-13-10; 8:15pm

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ANALYSIS CONTINUATION

Revenues
This bill effectively maintains the status quo in terms of progressivity calculation until major gas sales begin. At that time, export gas will be taxed at a different progressivity rate than will oil, Cook Inlet gas, and gas for in-state use. As such, the revenue impact is shown as zero through the time horizon of this fiscal note.

Once major gas sales begin, our modeling suggests that under most oil and gas price scenarios, this bill will either have no impact on revenue or will increase state revenue versus the status quo. In some scenarios, the revenue increase is over $1 billion per year. On the other hand, there are also scenarios where revenue could be decreased, but these scenarios are more limited in both number and magnitude of revenue decrease. The exact impact will be dependent on numerous variables including oil and gas prices and production, and lease expenditures. This bill dictates that lease expenditures shall be allocated between oil and gas based on gross value at the point of production "to the extent possible."

Since this bill will likely result in an overall increase in tax due for the major producers, it is possible that the tax change could be viewed by producers as a disincentive to oil and gas exploration and development.

Expenditures
With the change in tax structure the Department will need to change its monthly reporting forms, annual tax returns, and databases. The FY 2011 contractual services costs for programming changes to the online tax information system and the monthly reporting system are estimated at $230,000. Additionally, to implement this bill with an immediate effective date, the Department will need to develop regulations to the extent possible by April 29, requiring an additional $430,000 appropriation for FY 2010 to cover immediate contractual, regulatory and legal work. Aside from the $660,000 in one-time costs, the provisions of this bill can be implemented using existing staff and resources.
$230,000 computer programming and forms changes
$50,000 contracted professional services for regulation consulting
$100,000 contracted professional services for legal and fiscal consulting
$180,000 regulations costs including Department of Law, public notice and registry
$100,000 public forums for education of taxpayers and public participation includes preparation materials and legal support, could include travel

Other Issues
This bill provides for an immediate effective date, with the production tax changing potentially twice during 2010; once on April 29 and again after the first day of the AGIA binding open season.. Since the production tax is levied on an annual basis (payable in monthly installments), changing the tax calculations for a portion of the tax year would create an additional burden with additional complexity for both the Department and the taxpayers for the 2010 tax year.