Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 21
Fiscal Note Number:
() Publish Date:

Identifier: SB21HCSCS(RES)-DOR-TAX-04-05-13
Title: OIL AND GAS PRODUCTION TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: (H) FIN

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2014**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Personal Services							
Travel							
Services	150.0						
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**150.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Fund Source (Operating Only)

1004 Gen Fund	150.0						
Total	**150.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/14

Why this fiscal note differs from previous version:

This version updates the fiscal note for the House Resources Committee substitute.

Prepared By: Cherie Nienhuis, Ed King and Dan Stickel | Phone: (907)269-1019
Division: Tax Division | Date: 04/05/2013 04:00 PM
Approved By: Bryan D. Butcher, Commissioner | Date: 04/05/13
Department of Revenue

Analysis

Operating expenditures: This bill makes changes to the tax credits under the production tax system. For leases or properties that contain land that is north of 68 degrees North latitude, the following changes are made: (1) Credits for qualified capital expenditures are limited to expenditures incurred before January 1, 2014; (2) Beginning January 1, 2014, the rate for credits earned for net operating losses increases to 33% of the loss. The operating portion of the long-term fiscal plan anticipates an average of $400 million in refundable credits through 2023. It is anticipated that the changes in this bill would impact those future appropriations, beginning in FY 2015.

The change to the interest rate for delinquent taxes is expected to require changes to the department's tax accounting systems to accommodate the changes, requiring a one-time appropriation of $100,000 in FY14 for contractor costs.

Regulations: The bill does not direct DOR to adopt new regulations to implement its provisions, but existing regulations may need to be reviewed and amended to conform to changes in audit requirements related to the use of joint interest billings, eligibility for redeemable tax credits, and to account for repeal of some sections. We estimate that the legal services required for this regulatory review and possible changes will require an additional appropriation of approximately $50,000 in FY14. There may be additional regulations required, but not before January 1, 2014.

*****The revenue impact of this bill is an estimate based on the Fall 2012 Forecast.**
This bill makes several changes to the oil and gas production tax system. Each of the major changes, along with its potential revenue impact, is discussed separately below. The effective date of each of the bill's provisions listed below is assumed to be January 1, 2014, with the exception of provision 6, which is effective for expenditures beginning January 1, 2013.

1. The progressive portion of the production tax at AS 43.55.011(g) is repealed. Based on our Fall 2012 forecast, this change decreases production tax revenue over the forecast period analyzed. Please see detailed summary table on page 4 of this fiscal note.

2. The production tax rate under AS 43.55.011(e) has been increased to a tax rate of 33% of production tax value. Based on our Fall 2012 forecast, this change increases production tax revenue over the forecast period analyzed from this portion of the tax. Please see detailed summary table on page 4 of this fiscal note.

3. Production tax credits under AS 43.55.023(a) for qualified capital expenditures are limited to expenditures incurred before January 1, 2014 on leases or properties that contain land north of 68 degrees North latitude. Based on our Fall 2012 forecast, this change increases production tax revenue annually over the forecast period analyzed. Please see detailed summary table on page 4 of this fiscal note.

4. Companies that incur net losses from leases or properties that contain land north of 68 degrees North latitude will earn a credit of 33% of those losses. These losses are transferable and eligible for refund by the state. The impact of this provision is on the operating budget and is expected to increase credit refunds appropriated through the operating budget by approximately $30 million per year over the amount anticipated under current law.

5. A gross revenue exclusion (GRE) of 20% of the gross value at the point of production is applicable to production from certain areas. The GRE applies to oil or gas production from wells north of 68 degrees North Latitude that meet one or more of the following criteria: (1) is produced within a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) is produced within a participating area established after December 31, 2011, in a unit formed before January 1, 2003, if the participating area does not contain a reservoir that had been in a participating area established before December 31, 2011; (3) is produced from acreage that was added to an existing participating area by the Department of Natural Resources on or after January 1, 2014, and the producer demonstrates that the volume of oil or gas produced is from acreage added to an existing participating area. The revenue impact of this provision is expected to be up to -$50 million per year over the time horizon of this fiscal note. Please see detailed summary table on page 4 of this fiscal note for revenue impacts of this provision.

6. The provision requiring that credits be taken over two years is eliminated. This provision would result in companies using credits earlier than they would without this change, and except for the time value of money impact, it is revenue neutral. This provision applies to expenditures after December 31, 2012.

(Analysis continued on following pages)

Analysis Continued

7. The community revenue sharing fund is amended to allow the legislature to make an appropriation from the state corporate income tax under AS 43.20 as opposed to tying the appropriation to revenue collected under AS 43.55.011(g). This provision has no revenue impact under our Fall 2012 forecast.

8. A credit of $5 per taxable barrel or a sliding scale credit ranging from zero to $8 per taxable barrel may be applied against a producer's production tax liability. For oil produced from GRE-eligible areas the credit is $5 per taxable barrel. For areas not eligible for a GRE, the credit is a per-taxable-barrel sliding scale credit based on the gross value at the point of production of the oil. The sliding scale credit is a dollar-per-taxable-barrel credit ranging from zero dollars per barrel at per-barrel GVPP values greater than $150 to $8 per barrel at per-barrel GVPP values less than $80. Neither of these credits can be transferred, carried forward, or used to reduce the producer's tax liability to less than zero. The credit for areas not eligible for a GRE may not reduce the producer's tax liability to less than the minimum tax established under AS 43.55.011(f). Please see detailed summary table on page 4 of this fiscal note for the revenue impact of this provision.

9. A credit of 10% of qualified oil and gas industry service expenditures may be applied to tax liabilities under AS 43.20 in amounts up to $10 million per taxpayer per year. The credit applies to qualified oil and gas service expenditures that are for in-state manufacture or in-state modification of oil and gas tangible personal property with a service life of 3 years or more. The credit is not transferable, however, any amount of the credit that exceeds the taxpayer's liability under AS 43.20 may be carried forward for up to five years. We have no data with which to quantify the revenue impact of this provision, although it is possible that the impact may be as high as -$25 million per year. The revenue impact of this provision is indeterminate.

10. The interest rate on delinquent taxes is changed from the greater of 5 percentage points above the annual rate of interest charged by the 12th Federal Reserve District or 11 percent, to 3 percentage points above the annual rate of interest charged by the 12th Federal Reserve District. There will be one-time contractor costs to implement this change in the DOR accounting system. Over the past five fiscal years (FY 2008-FY 2012), interest on delinquent taxes and refunds has resulted in a net positive revenue to the state. The average annual net revenue to the state in these years was $26 million in revenue to the General Fund and $71 million in revenue to the Constitutional Budget Reserve Fund. The Department of Revenue does not forecast interest on taxes. Over the time horizon of this fiscal note, this provision is estimated to impact state revenues in amounts up to -$25 million per year. The impact will increase over time as more delinquent taxes are calculated under the new interest rates established with this provision. Our fiscal impact estimates do not take into account changes in taxpayer behavior as a result of this reduction in interest rate.

11. The 3-mile requirement for frontier basin tax credit under AS 43.55.025(m) is removed. The frontier basin credit is a credit of 80% of eligible expenses up to $25 million per well for first 4 qualifying wells and a seismic basin credit of $7.5 million or 80 percent, whichever is less. This bill removes the provision that the 4 qualifying wells must be at least 3 miles from an existing well. This provision has no expected fiscal impact, as the Fall 2012 forecast already assumes spending for the 4 eligible wells will take place and credits will be issued.

12. The small producer credit at AS 43.55.024 is extended to the later of 2022 or the ninth calendar year after the calendar year that the producer first has commercial production. This provision extends the small producer credit six years from the original sunset date of 2016. The revenue impact based on the current revenue forecast ranges from zero to -$50 million per year over the time horizon of this fiscal note.

13. The Department of Revenue is required to provide a report to the legislature on or before the first day of the 2016 regular session. This report will study various elements of the production tax system and recommend changes to the system. This report will be completed with existing professional staff and has no revenue impact.

14. The Department of Revenue is required to consider Joint Interest Billings in the audit process for production tax and may rely on audits performed by joint interest owners in performing state audits of taxpayers. This provision may lead to slight changes in the department's audit process and has an indeterminate fiscal impact.

15. AIDEA is given bonding authority to finance construction of oil and gas processing facilities. This provision does not have any fiscal impact on the Department of Revenue.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HCS CSSB21(RES)

Analysis Continued

Provisions in HCS CSSB21(RES) and their Estimated Fiscal Impact as compared to Fall 2012 Forecast ($millions)[1]

Brief Description of Provision	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Elimination of progressive portion of tax	-$800	-$1,500	-$1,700	-$1,800	-$1,750	-$1,650
2. Base tax rate changed to 33% of production tax value	$450	$850	$875	$850	$800	$775
3. Limitation of credits for qualified capital expenditures for North Slope	$300	$700	$650	$550	$475	$400
4. Net operating loss credit rate increased to 33%; are transferable and refundable	Minimal revenue impact - see "Impact on Operating Budget"					
5. Gross revenue exclusion for oil production in new units and new or expanded participating areas	$0	-$25	-$25	-$50	-$25	-$50
6. Provision requiring credits be taken over 2 years eliminated[2]	-$250					
7. Amendment to the community revenue sharing fund	$0	$0	$0	$0	$0	$0
8. Credit of $5 per taxable barrel / Sliding scale credit per taxable barrel based on oil price	-$425	-$825	-$775	-$750	-$700	-$675
9. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly up to -$25 million annually)					
10. Reduced interest rate for late payments and assessments on most taxes	Indeterminate (possibly up to -$25 million annually, increasing over time)					
11. Removal of 3-mile requirement for frontier basin tax credit	$0	$0	$0	$0	$0	$0
12. Small producer credit extended to 2022	$0	$0	$0	-$25	-$25	-$50
13. 2016 required report to legislature	No fiscal impact					
14. Requirement to consider Joint Interest Billings in audit process	Indeterminate					
15. AIDEA bonding authority to finance oil and gas processing facilities	No Department of Revenue fiscal impact					
Total Revenue Impact	**-$725 to -$775**	**-$800 to -$850**	**-$975 to -$1025**	**-$1200 to -$1250**	**-$1200 to -$1250**	**-$1200 to -$1250**
Impact on Operating Budget of provision requiring credits be taken over 2 years eliminated	-$150					
Impact on Operating Budget of limitation to Qualified Capital Expenditure credit		$150	$150	$150	$150	$150
Impact on Operating Budget of increase in Net Operating Loss credits		-$30	-$30	-$30	-$30	-$30
Total Fiscal Impact - does not include potential revenue impacts from potential increases in production[3]	**-$875 to -$925**	**-$680 to -$730**	**-$855 to -$905**	**-$1080 to -$1130**	**-$1080 to -$1130**	**-$1080 to -$1130**

[1]The impacts listed are based on production and prices as forecasted in our Fall 2012 revenue forecast. The forecasted oil prices are between $109.61 and $118.29. All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

[2]Provision 6 above, which eliminates the requirement that credits be taken over 2 years is revenue neutral, and simply shifts the tax liability from future years to FY 2014. The total impact of that provision is $400 million, with $250 million taken against tax liability as a revenue impact and $150 million impacting the operating budget. The total fiscal impact consists of both revenue impacts and operating budget impacts of the bill.

[3]NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2014 represents additional refunded credits due to elimination of the provision requiring that credits be taken over 2 years. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases in credit refunds paid through the operating budget for the increase in NOL credit rates.

Analysis Continued

Differences in General Fund Unrestricted Revenue under Proposed Bill from Current Tax System in $Millions*

*Note: These hypothetical examples of additional production assess the impacts from the **change in tax rates, per barrel credits and gross revenue exclusions only** and do not attempt to quantify impacts of other parts of the bill, such as the removal of the credit split, or the impact on the long-range budget from the elimination of QCE credits
Values are generated from a scenario model and may vary slightly from other models.

At Forecasted Production

Oil Price in $/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$90	-$275	-$325	-$475	-$575	-$600	-$650
$100	-$350	-$425	-$600	-$725	-$750	-$750
$120	-$725	-$1,075	-$1,275	-$1,400	-$1,375	-$1,325

All additional production scenarios below compare additional production under the proposed bill to ACES without the additional production.

Additional Production Scenario A

Forecasted production plus 50 million barrel field developed by a New Entrant

Oil Price in $/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$90	-$275	-$325	-$475	-$575	-$600	-$625
$100	-$350	-$425	-$600	-$700	-$725	-$725
$120	-$725	-$1,075	-$1,275	-$1,375	-$1,350	-$1,275

Assumes field outside of a current unit and subject to gross revenue exclusion, first oil in 2017 and peak production of 10,000 barrels per day in 2019. Total development cost of $500 million.

Additional Production Scenario B

With addition of 4 oil rigs to legacy fields drilling from 2014-2019

Oil Price in $/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$90	-$225	-$100	-$175	-$225	-$150	-$275
$100	-$300	-$150	-$250	-$275	-$200	-$275
$120	-$650	-$725	-$775	-$775	-$625	-$675

Assumes each oil rig drills 4 new production wells per year, with each well producing 1,000 barrels of oil per day beginning in FY 2014, with a maximum production rate of 60,000 barrels per day for a total of 140 million barrels. Development costs for each well assumed to be $20 million.

Additional Production Scenario C

With new well pad and 4 additional rigs in legacy fields, plus new 10,000 bopd field starting in 2017

Oil Price in $/barrel	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$90	-$350	-$200	-$200	-$75	$500	$375
$100	-$375	-$200	-$175	$0	$600	$525
$120	-$700	-$675	-$550	-$275	$475	$425

Assumes new well pad within major North Slope unit producing a total of 125 million barrels of new production over an 8-year period starting in 2015 at total development costs of $5 billion. Also includes scenario B above with 4 oil rigs in legacy fields and scenario A above with the addition of a new field.