Revenue Sources Book Fall 2021

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Cover: On a late Fall day in Prince William Sound the sea, land, and sky seem to become one. This picture was taken while the boat was underway with the camera pointed towards the bow. The water was as smooth as butter and the jet contrails interspersed with the clouds in the sky could be seen reflected in the sea, as well as the land masses on either side, as the boat moved forward through the water. Photo by John Larsen.

For the North Slope, in lower price environments, companies are able to use sliding scale Per-Taxable-Barrel Credits for non-GVR oil to reduce tax liability down to the minimum tax of 4% of gross value. Depending on their specific tax situation, some companies may choose to forgo sliding scale Per-Taxable-Barrel Credits and instead reduce liability below the minimum tax using Per-Taxable-Barrel Credits for GVR-eligible oil and any small-producer credits or carried-forward annual loss that may be available.

For Cook Inlet, production tax is limited to $1 per barrel of oil. Gas limitations vary by field but average 17.7 cents per 1,000 cubic feet of gas. Cook Inlet taxes make a relatively small contribution to the revenue forecast.

These revenue estimates account for tax credits applied against tax liabilities that reduce the tax payments made to the state. Revenue estimates do not include the impact of tax credits eligible for purchase by the state from companies without a tax liability. Those additional tax credits are discussed in Chapter 8.

Hazardous Release Surcharge

Up to $0.05 per barrel of taxable oil is collected and customarily appropriated to the Oil and Hazardous Substance Release Prevention and Response Fund (often simply called the Response Fund). This revenue is collected as part of the production tax. Prior to FY 2022, this revenue source was classified as Unrestricted General Fund revenue. Beginning with FY 2022, this revenue source is being reported as Designated General Fund revenue; this change was made in consultation with the Office of Management and Budget and the Division of Legislative Finance for consistency with budget documents.

The Response Fund was created in 1986 and is intended to be a source of funds that can be drawn upon in the event of the release of a hazardous substance to be used for the abatement of damages. The fund is separated into two accounts – a response account and a prevention account. The surcharge paid to the response account is $0.01 per taxable barrel of oil produced in the state and applies when the response account has a balance of under $50 million. The surcharge paid to the prevention account is $0.04 per taxable barrel of oil produced in the state regardless of the current account balance. The forecast assumes that the full $0.05 per barrel surcharge will be in place for the entire forecast period.

Royalties

A royalty interest is an ownership of future production, and is a typical feature in oil and gas contracts with a landowner. When a company bids on a lease, it pays an up-front bonus payment, agrees to an annual rental payment, and typically offers a royalty interest in any discoveries that may be found. Thus, the bonus is a guaranteed payment to the state as the landowner, while the royalty is a contingent amount only paid once there is production.

In Alaska, the state retains ownership of all subsurface minerals on lands in the state, with the exception of some federal and Alaska Native Corporation lands. In other U.S. oil producing areas, private citizens usually own these subsurface rights and the royalty is paid directly to the landowner, rather than the government.

For state lands, Alaska requires a minimum royalty rate of one-eighth (12.5%) of any production, although there are exceptions that can be made for economically challenged projects. Most leases in Alaska are subject to a one-eighth (12.5%) or one-sixth (16.67%) royalty. Occasionally, a company may enter into a net profits sharing lease, which contains a payment to the state based on a proxy of the net profits associated with the production of oil and gas from said lease, which is in addition to the royalty payment based on the gross value of the oil and gas. These profit-sharing lease bids reached as high as 93.2% of company profits attributable to the specific lease, after the company's development costs are recovered.

Alaska has the option of allowing an oil company to sell royalty oil or gas on its behalf (known as royalty in-value, or RIV) or to receive and sell the royalty oil or gas itself (known as royalty in-kind, or RIK). The value the state accepts for RIK cannot be lower than the value it would receive for RIV. The state currently takes a portion of royalty oil from the North Slope as RIK and sells this oil to in-state refineries.

Most RIV oil comes from leases affected by royalty settlement agreements (RSAs), and the price received for that oil is a derived price based on the value of oil sold on the West Coast with certain adjustments. Deductions approximating the shipment of the oil on pipelines and marine transportation costs are subtracted in order to determine the value of the oil for royalty purposes. An allowance for field costs is also applied for production from certain leases. As a result of the field costs allowance, as well as differences in statutes and regulations, the wellhead value for royalty purposes may be slightly different than the wellhead value for production tax purposes. A portion of RIV oil comes from leases not affected by RSAs. While the formulas used to determine value for this oil are similar to the formulas used in the RSAs, they are not necessarily the same.

Petroleum Property Tax

Property subject to state oil and gas property tax includes property used in the exploration, production, and pipeline transportation of unrefined oil and gas. Each year, the Department of Revenue determines the assessed value of taxable oil and gas property as of the January 1 assessment date. The state levies a tax at a rate of 20 mills (2%) of the assessed value. When the oil and gas property is located within the jurisdiction of a municipality, the municipality may also levy a tax on the department's assessments at the same rate it taxes all other non-oil and gas property. The tax paid to a municipality on oil and gas property acts as a credit toward the payment to the state. The North Slope Borough is the primary recipient of municipal petroleum property tax.

Forecasting state revenue from oil and gas property tax starts with the most recent certified assessed values for oil and gas property in Alaska. Assumptions are made regarding future capital investment and typical depreciation curves are applied. The state rate of 20 mills is applied to the forecast values, and estimates of payments to municipalities are then subtracted to estimate net receipts to the state. Table 6-8 shows the state share and local share of oil and gas property tax by jurisdiction.

Chapter 6
8

Petroleum Property Tax[1]
Distribution and local mill rates, FY 2021

		Millions of Dollars			
	Taxing Jurisdiction	**Gross Tax**	**Local Share**	**State Share**	**Local Effective Mill Rate**
1	Unorganized	62.0	0.0	62.0	N/A
2	North Slope Borough	417.3	375.4	41.9	17.99
3	Fairbanks North Star Borough	14.3	12.1	2.2	16.95 [2]
4	Municipality of Anchorage	2.6	2.4	0.3	18.02
5	Kenai Peninsula Borough	28.4	14.3	14.1	10.06 [2]
6	City of Valdez	39.0	39.0	0.0	20.00
7	Matanuska-Susitna Borough	0.2	0.1	0.1	11.26 [2]
8	City of Whittier	0.0	0.0	0.0	8.00
9	City of Cordova	0.2	0.1	0.1	11.06
10	**Total FY 2021**	**564.1**	**443.4**	**120.7**	

[1] Tax amounts shown here represent the total certified tax roll for the 2021 tax year, due June 30, 2021. These amounts may not exactly match cash revenue received in the fiscal year as presented elsewhere in this book due to a combination of credits and late payments. Gross Tax is total tax paid to both the local government and the State of Alaska. The Local Share and State Share columns represent revenue primarily received in June 2021.

[2] The Fairbanks North Star Borough, Kenai Peninsula Borough, and Matanuska-Susitna Borough do not have a uniform mill rate for petroleum properties. The rate presented here is the weighted-average effective mill rate based on the 2021 certified tax roll.

Corporate Income Tax

C-corporations doing business in Alaska are subject to the corporate income tax (CIT). This tax applies to many, but not all, of the companies involved in oil and gas activity in Alaska.

For eligible companies, an oil and gas corporation's Alaska income tax liability depends on the relative size of its Alaska and worldwide activities and the corporation's total worldwide net earnings. The corporation's Alaska taxable income is derived by apportioning its worldwide income to Alaska, based on the average of three factors as they pertain to the corporation's Alaska operations – tariffs and sales, oil and gas production, and property. CIT revenue is one of the more volatile revenue sources for Alaska because of the year-to-year variation in the profitability of oil companies as well as the substantial lag time between estimated tax payments and the final annual true-up.

Generally, a corporation is subject to tax on it's current-year Alaska taxable income, and any net operating losses may be carried-forward indefinitely to offset future tax liabilities. However, as part of the federal CARES Act passed in 2020, corporations may "carry back" net operating losses from tax years 2018, 2019, and 2020 up to five years and receive refunds for previous federal taxes paid. Since Alaska adopts most provisions of the federal corporate income tax code by reference, this carry back provision applies to state corporate income tax as well. For tax years 2021 and beyond, corporations will once again only be able to carry forward a net operating loss.

Restricted Petroleum Revenue

While most oil and gas revenue is unrestricted, some revenue is deposited into special accounts for special purposes.

Hazardous Release Surcharge

Up to $0.05 per barrel of taxable oil is collected and customarily appropriated to the Oil and Hazardous Substance Release Prevention and Response Fund (often simply called the Response Fund). Beginning with FY 2022, this revenue source is being reported as Designated General Fund revenue. This revenue source is discussed in more detail in the production tax section earlier in this chapter.

Appendix **A-3**

Petroleum Revenue [1]

		Millions of Dollars									
		History									
		FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
	Unrestricted Petroleum Revenue										
1	Petroleum Property Tax	111	99	128	125	112	120	122	120	123	119
2	Petroleum Corporate Income Tax	569	435	308	95	-59	-59	66	218	0	-19
3	Production Tax	6,137	4,043	2,606	382	177	126	741	587	277	381
4	Oil and Gas Hazardous Release [2]	9	8	9	8	9	9	9	8	8	8
5	Oil and Gas Royalties [3]	2,023	1,748	1,685	1,052	840	676	978	1,075	660	709
6	Bonuses, Rents, and Interest [3]	9	19	27	26	30	5	25	37	15	20
7	**Total Unrestricted Petroleum Revenue**	**8,858**	**6,352**	**4,763**	**1,688**	**1,110**	**877**	**1,940**	**2,044**	**1,083**	**1,218**
8	Cumulative Total Unrestricted Petroleum Revenue [4]	102,247	108,599	113,362	115,050	116,159	117,036	118,976	121,020	122,103	123,321
	Restricted Petroleum Revenue										
9	Oil and Gas Hazardous Release [2]	0	0	0	0	0	0	0	0	0	0
10	NPR-A Rents, Royalties, Bonuses	5	4	7	3	2	1	24	12	16	16
11	Royalties to Permanent Fund [5]	905	842	774	510	391	335	356	375	319	332
12	Royalties to Public School Trust Fund	15	14	13	8	6	6	7	8	5	5
13	Constitutional Budget Reserve Fund Deposits	103	357	177	150	119	482	121	181	281	23
14	**Total Restricted Petroleum Revenue**	**1,027**	**1,217**	**970**	**671**	**518**	**823**	**508**	**576**	**622**	**376**
15	Cumulative Total Restricted Petroleum Revenue [4, 6]	21,356	22,573	23,543	24,215	24,733	25,556	26,064	26,640	27,261	27,638
16	**Total Petroleum Revenue**	**9,885**	**7,569**	**5,733**	**2,359**	**1,627**	**1,700**	**2,448**	**2,620**	**1,705**	**1,594**
17	Cumulative Total Petroleum Revenue [4,6]	123,603	131,172	136,905	139,265	140,892	142,592	145,040	147,660	149,365	150,959

[1] Historical petroleum revenue can be found on the Tax Division's website at http://tax.alaska.gov/sourcesbook/qr.aspx?Chapter=16&FY=2021.

[2] Beginning with FY 2022, the hazardous release surcharge and refined fuel surcharge are shown as Designated General Fund revenue. Previously these surcharges were shown as Unrestricted General Fund revenue.

[3] Net of Permanent Fund, Public School Trust Fund, and Constitutional Budget Reserve Fund deposits.

[4] Based on revenue beginning in FY 1959.

[5] Includes both Designated General Fund Royalties and Other Restricted Royalties.

[6] Cumulative total petroleum revenue has been revised from figures presented in the Fall 2018 Revenue Sources Book. The primary change was to remove special appropriations to the Permanent Fund from the petroleum revenue calculation.

Appendix **A-3**

Petroleum Revenue [1]

		Millions of Dollars									
		Forecast									
		FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
	Unrestricted Petroleum Revenue										
1	Petroleum Property Tax	114	111	109	106	104	102	101	99	97	95
2	Petroleum Corporate Income Tax	145	240	225	235	235	235	235	235	235	240
3	Production Tax	980	741	621	547	470	440	431	406	450	504
4	Oil and Gas Hazardous Release [2]	0	0	0	0	0	0	0	0	0	0
5	Oil and Gas Royalties [3]	1,016	970	974	984	957	950	976	951	996	1,075
6	Bonuses, Rents, and Interest [3]	20	20	20	20	20	20	20	20	20	20
7	**Total Unrestricted Petroleum Revenue**	**2,275**	**2,082**	**1,949**	**1,893**	**1,787**	**1,748**	**1,762**	**1,710**	**1,798**	**1,934**
8	Cumulative Total Unrestricted Petroleum Revenue [4]	125,596	127,678	129,627	131,520	133,306	135,054	136,817	138,527	140,324	142,258
	Restricted Petroleum Revenue										
9	Oil and Gas Hazardous Release [2]	8	8	8	8	8	8	8	8	9	9
10	NPR-A Rents, Royalties, Bonuses	14	35	51	73	86	75	63	57	68	87
11	Royalties to Permanent Fund [5]	424	429	435	446	437	447	471	470	518	603
12	Royalties to Public School Trust Fund	7	7	7	7	7	7	7	7	8	9
13	Constitutional Budget Reserve Fund Deposits	5	30	20	20	20	20	20	20	20	20
14	**Total Restricted Petroleum Revenue**	**458**	**509**	**520**	**555**	**558**	**557**	**570**	**563**	**623**	**727**
15	Cumulative Total Restricted Petroleum Revenue [4, 6]	28,095	28,604	29,125	29,679	30,237	30,794	31,364	31,926	32,549	33,276
16	**Total Petroleum Revenue**	**2,732**	**2,592**	**2,469**	**2,448**	**2,345**	**2,305**	**2,332**	**2,273**	**2,420**	**2,661**
17	Cumulative Total Petroleum Revenue[4,6]	153,691	156,282	158,751	161,199	163,544	165,849	168,181	170,453	172,873	175,534

[1] Historical petroleum revenue can be found on the Tax Division's website at www.tax.alaska.gov/sourcesbook/qr.aspx?Chapter=16&FY=2021.

[2] Beginning with FY 2022, the hazardous release surcharge and refined fuel surcharge are shown as Designated General Fund revenue. Previously these surcharges were shown as Unrestricted General Fund revenue.

[3] Net of Permanent Fund, Public School Trust Fund, and Constitutional Budget Reserve Fund deposits.

[4] Based on revenue beginning in FY 1959.

[5] Includes both Designated General Fund Royalties and Other Restricted Royalties.

[6] Cumulative total petroleum revenue has been revised from figures presented in the Fall 2018 Revenue Sources Book. The primary change was to remove special appropriations to the Permanent Fund from the petroleum revenue calculation.