Fiscal Note

State of Alaska
2018 Legislative Session

Bill Version: SB 176
Fiscal Note Number:
() Publish Date:

Identifier: DOR-TAX-2-5-18
Title: TAX CREDIT CERT. BOND CORP; ROYALTIES
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House Rules Committee

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)

	FY2019 Appropriation Requested	Included in Governor's FY2019 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2019**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
Personal Services							
Travel							
Services							
Commodities	2.5		2.5	2.5	2.5	2.5	2.5
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**2.5**	**0.0**	**2.5**	**2.5**	**2.5**	**2.5**	**2.5**

Fund Source (Operating Only)

1004 Gen Fund (UGF)	2.5		2.5	2.5	2.5	2.5	2.5
Total	**2.5**	**0.0**	**2.5**	**2.5**	**2.5**	**2.5**	**2.5**

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimated SUPPLEMENTAL (FY2018) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2019) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

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If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/19

Why this fiscal note differs from previous version/comments:

Initial Version

Prepared By: Ken Alper, Director
Phone: (907)465-8221
Division: Tax Division
Date: 01/02/2018 06:00 PM
Approved By: Mike Barnhill
Date: 01/31/18
Agency: Department of Revenue

STATE OF ALASKA **BILL NO.** 0
2018 LEGISLATIVE SESSION

Analysis

Bill Background and Structure
This bill is intended to provide a mechanism for oil and gas explorers and small producers to obtain payment towards the tax credits they are currently holding awaiting state repurchase. For several years, the legislature authorized open-ended appropriation language in the annual budget, so the state repurchased all certificates that were presented. Beginning in FY2016, the annual spend has been capped in the budget, with the number in FY2017 and 2018 being based on the statutory calculation in AS 43.55.028(b) and (c). The net result of this has been delay and uncertainty for these companies, as well as in some cases their inability to borrow additional funds.

The legislation accomplishes four primary things. First, it creates a new state bond corporation empowered to sell up to $1 billion in bonds to repurchase outstanding oil and gas tax credits. Second, it establishes rules and criteria by which to determine the expected cash flow of credit repurchases to a company, in order to calculate a discounted value. This will enable the department to make an offer to purchase them with bond proceeds at a particular discounted value. Third, it describes the multiple methods by which a company can obtain a lower discount rate, and by extension a higher repurchase offer. Finally, it establishes a process for the Department of Natural Resources to negotiate an overriding royalty interest, the acceptance of which is one of the methods to obtain the lower discount rate. The program is designed as a choice for producers, with the option retained for a company to await regular appropriations instead of participating in the bond repurchase program.

Scope of Issue
At the end of calendar year 2017, about $800 million in tax credits are outstanding that are awaiting state repurchase. Of these, about half requested repurchase in 2016, and the rest in 2017. Current law ensures that the older credits are paid first out of available funds. Most cashable tax credits were repealed by the legislature in 2017 via HB111, although it will take some time for the remaining credits to work their way through the process. The Department of Revenue expects about another $200 million in credits to be awarded over the next several years. Of this $1,000 million in possible demand, the Department expects about $100 million to be transferred (sold) to major producers to offset taxes, leaving $900 million potentially available for the bond repurchase program. If all of these credits are offered into the program, the state will pay between $700 and $800 million depending on the discount rate. The intent is for the state to pay off the bonds over 10 years, with the first two years' payments being interest only, with rising payments for three years, and flat payments thereafter. The debt service and other bond costs will be more than offset by the savings received by the state through discounts to the tax credit obligations.

Method of Determining Discounted Value
In order to determine the discounted value the state will offer, the bill provides a process to estimate what a producer's expected payment amount and timing would be in future years, based on several factors. These include the amount of credits held by a given company, the year in which those credits were received and requested state repurchase, the proportion of the certificates from a given year held by each company, and the expected annual statutory appropriation. Based upon the most current revenue forecast, that statutory appropriation would be:
FY2019- $206 million; FY2020- $167 million; FY2021- $119 million; FY2022- $132 million; FY2023- $135 million; FY2024- $139 million. These numbers are likely to change with the spring revenue forecast, which would impact the final calculations should this bill become law.

Implementation Cost
The department anticipates that the tasks required to implement this bill will be absorbed within existing staff. The only new funds being requested are the cost of agent fees to be paid by the new Alaska Tax Credit Certificate Bond Corporation, which will total about $2,500 per year when bonds are outstanding. The cost of issuing the bonds will be built into the state's future the interest and principal payments.