FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: **HB264**
() Publish Date:

Identifier (file name): HB264-DOR-TAX-2-2-10

Title	Property tax exemption for oil pipelines	Dept. Affected:	Revenue
		RDU	Treasury and Taxation
		Component	Tax Division
Sponsor	Representative Jay Ramras		
Requester	(H) Community and Regional Affairs	Component Number	2476

(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							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	***	***	***	***	***	***	***
CAPITAL EXPENDITURES	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CHANGE IN REVENUES ( )	***	***	***	***	***	***	***

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2010) cost:

POSITIONS

Full-time							
Part-time							
Temporary							

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

House Bill 264 would modify the powers of the Commissioner of the Department of Natural Resources to include taking action on a right-of-way application for construction of a qualifying oil pipeline from the outer continental shelf (OCS), as well as exempt a qualifying oil pipeline from state property taxes, and provide a credit against state property tax for payments of property tax to a municipality.

HB 264 is likely to materially reduce state revenue. Costs to the state as a result of HB 264 would be incurred after such an OCS pipeline is constructed, which puts the timing of the likely costs outside the scope of the 2016 limit of this fiscal note. Another implication of the distant timing is that the fiscal impact of this legislation cannot be exactly determined at this time. Costs to the State can be estimated and reported in nominal dollars, as well as discounted to present value to indicate what the costs are today, of the future impacts of HB 264 to the state. The Department of Revenue is also unsure how broadly to interpret the proposed addition to AS 43.56.020(d). Both analysis (dollars of the day and present value) were conducted under two scenarios that reflect two potential interpretations of the bill and are reported in the narrative section below.

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Division	Tax Division	Date/Time	2-2-10; 4:37pm
Approved by:	Ginger Blaisdell, Director	Date	2-3-10; 8:22pm
	Administrative Services Division		

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ANALYSIS CONTINUATION

To provide a range of revenue impacts we provide two scenarios. Both scenarios assume only one qualifying pipeline from the outer continental shelf (OCS) is constructed.

Scenario 1:
The first scenario assumes that because the taxpayer would be exempt from paying state property taxes on the OCS pipeline property the taxpayer would not be allowed to use the tax payment to the municipality as a credit for any other 43.56 property tax obligation. This scenario could potentially have a nominal (dollars of the day) cost to the state in the range of $8 million to $16 million over the potential life of the pipeline, and a real (2009 dollars) cost to the state in the range of $4 million to $8 million.

Scenario 2:
The second scenario assumes that the taxpayer would be exempt from paying state property tax on a qualifying pipeline from the OCS while simultaneously being allowed to reduce other (non-exempt) AS 43.56 property tax obligations in the amount of property tax payments made to a municipality on the state tax-exempt OCS pipeline under AS 29.45.080. If the owner and operator of an OCS pipeline owns and operates other AS 43.56 property in the state, it could apply the credit against other existing property tax obligations not related to the OCS pipeline. Over the potential life of the pipeline, the cost to the state in terms of foregone property tax revenue, in nominal dollars, could range from $118 million to $214 million, and in real dollars, could range from $58 million to $104 million.

The responsibility of administering the assessment would continue to fall upon the state. The increased labor burden would likely translate into increased staffing costs in the range of $20,000-$30,000 annually. This cost is in addition to scenario 1 & 2 costs noted above.

Currently, more than $400 million is collected annually for AS 43.56 property taxes. Approximately $300 million of that goes to municipalities, mostly to the North Slope Borough, with the remainder of approximately $100 million flowing to the state. This bill would further increase property tax collections to the North Slope Borough while decreasing property tax collections to the state.