Revenue Sources Book Fall 2022

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Chapter 6
1

Total Petroleum Revenue
By restriction and source

		Millions of Dollars		
		History	Forecast	
		FY 2022	**FY 2023**	**FY 2024**
	Unrestricted Petroleum Revenue			
1	Petroleum Property Tax	122.4	116.3	114.0
2	Petroleum Corporate Income Tax	297.5	390.0	320.0
3	Oil and Gas Production Tax	1,801.6	1,610.4	1,228.7
4	Royalties (including, Bonuses, Rents, and Interest)	1,259.3	1,263.5	1,198.8
5	**Total Unrestricted Petroleum Revenue**	**3,480.9**	**3,380.1**	**2,861.5**
	Restricted Petroleum Revenue			
	Designated General Fund			
6	Production Tax – Hazardous Release Surcharge	7.7	8.0	8.2
7	Royalties, Bonuses, and Rents to the Permanent Fund	89.9	85.4	72.8
8	**Subtotal Designated Restricted**	**97.6**	**93.4**	**81.0**
	Other Restricted			
9	Royalties, Bonuses, and Rents to the Permanent Fund	449.1	452.7	426.7
10	Royalties, Bonuses, and Rents to the Public School Trust Fund	9.0	9.1	8.5
11	Tax and Royalty Settlements to CBRF	21.1	145.0	20.0
12	**Subtotal Other Restricted**	**479.1**	**606.7**	**455.2**
	Federal			
13	NPR-A Royalties, Rents, and Bonuses	16.7	32.1	52.3
14	**Total Restricted Petroleum Revenue**	**593.5**	**732.3**	**588.5**
15	**Total Petroleum Revenue**	**4,074.3**	**4,112.4**	**3,450.1**

Production Tax

Oil and gas produced and sold from lands within Alaska are subject to a severance tax as the resources leave the land. This severance tax is commonly referred to as the “production tax.” The production tax applies to oil and gas produced from any area within the boundaries of the state, including lands that are owned by the State of Alaska, the federal government (like NPR-A), or private parties, such as Native corporations. State ownership of submerged lands extends three nautical miles from the shore. Production tax applies only to oil and gas that the producer sells. It excludes state royalties, gas used in lease operations or flared for safety reasons, and any production that is reinjected into a reservoir.

In 2013, the Alaska Legislature passed Senate Bill 21, which is the existing production tax regime applicable to oil and gas production in the state. Adjustments and refinements to the production tax regime were made in both 2016 with House Bill 247 and in 2017 with House Bill 111. Table 6-3 lists the major provisions of the production tax as they exist in current law. The following narrative describes the current production tax system for various areas of the state and types of production.

Chapter 6
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Unrestricted Petroleum Revenue
FY 2022 actuals and FY 2023 – FY 2032 forecast

		Millions of Dollars										
		History	Forecast									
		FY 2022	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**	**FY 2032**
1	Petroleum Property Tax	122.4	116.3	114.0	112.0	109.7	107.6	105.3	103.3	101.3	99.2	97.0
2	Petroleum Corporate Income Tax	297.5	390.0	320.0	285.0	285.0	285.0	285.0	285.0	280.0	290.0	295.0
3	Oil and Gas Production Tax	1,801.6	1,610.4	1,228.7	1,011.6	893.0	732.3	696.0	598.7	589.4	647.0	664.0
4	Royalties-Net [1]	1,259.3	1,263.5	1,198.8	1,150.5	1,101.3	1,073.3	1,119.1	1,069.7	1,070.1	1,080.9	1,125.7
5	**Total Unrestricted Petroleum Revenue**	**3,480.9**	**3,380.1**	**2,861.5**	**2,559.1**	**2,389.0**	**2,198.1**	**2,205.4**	**2,056.7**	**2,040.7**	**2,117.0**	**2,181.6**
6	Change from Prior Period	2,263.3	-100.7	-518.6	-302.5	-170.0	-190.9	7.3	-148.8	-15.9	76.3	64.6
7	Percent Change from Prior Period	185.9%	-2.9%	-15.3%	-10.6%	-6.6%	-8.0%	0.3%	-6.7%	-0.8%	3.7%	3.1%

[1] Includes bonuses, rents, and interest.

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Petroleum Property Tax [1]
Distribution and local mill rates, FY 2022

	Taxing Jurisdiction	Gross Tax (Millions of Dollars)	Local Share (Millions of Dollars)	State Share (Millions of Dollars)	Local Effective Mill Rate
1	Municipality of Anchorage	3.3	2.8	0.5	16.84
2	City of Cordova	0.2	0.1	0.1	11.54
3	Fairbanks North Star Borough	14.2	10.9	3.3	15.30 [2]
4	Kenai Peninsula Borough	30.0	15.2	14.8	10.15 [2]
5	Matanuska-Susitna Borough	0.3	0.1	0.1	9.87 [2]
6	North Slope Borough	419.1	376.9	42.1	17.99
7	City of Valdez	42.4	42.4	0.0	20.00
8	City of Whittier	0.0	0.0	0.0	8.00
9	Unorganized	61.9	0.0	61.9	N/A
10	**Total FY 2022**	**571.4**	**448.5**	**123.0**	

[1] Tax amounts shown here represent the total certified tax roll for the 2022 tax year, due June 30, 2022. 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 2022.

[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 2022 certified tax roll.

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 profit 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.

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 income. 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 its 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 could "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 applied to state corporate income tax as well. For tax years 2021 and beyond, corporations are once again only 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.

Restricted Royalties

The majority of restricted oil and gas revenue comes from royalties.

A portion of royalty revenue is deposited into the Permanent Fund and the Public School Trust Fund. The Alaska Constitution requires that 25% of royalty revenue be deposited into the Permanent Fund, and this revenue is shown as other restricted revenue. Alaska Statute 37.13.010(a) refers to 50% of royalty revenue from mineral leases issued after December 1, 1979 being deposited into the Permanent Fund. This additional 25% of revenue is shown as designated general fund revenue. Unless otherwise provided in budget legislation, this forecast assumes that the full statutory appropriation of minerals royalties will be deposited into the Permanent Fund.

Additionally, AS 37.14.150 specifies that 0.5% of royalty revenue be deposited into the Public School Trust Fund.

NPR-A Fund

The state is entitled to 50% of the bonuses, rents, and royalties that the federal government receives from the leasing of federal lands in the NPR-A. This revenue is deposited into the NPR-A special revenue fund and restricted for specific uses. These funds can be appropriated to municipalities in the form of grants to compensate for impacts resulting from the development on those lands.

Revenue that is not appropriated to municipalities is treated like other royalty revenue (25% is deposited into the Permanent Fund, and 0.5% to the Public School Trust Fund), with the remaining revenue available for appropriation to the Power Cost Equalization Endowment Fund, Rural Electric Capitalization Fund, or general fund. For purposes of categorization, these funds are considered federal restricted revenue within the category of petroleum revenue, as they are collected from oil activity.

Settlements to Constitutional Budget Reserve Fund

Payments received from settlements of oil and gas tax and royalty disputes between the state and producers are deposited into the CBRF, after accounting for any applicable share of royalty settlements deposited into the Permanent Fund and Public School Trust Fund.