

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

No. 3
Bill Version: CSSB 185(FIN)
(S) Publish Date: 5/14/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Royalty Reduction / BRU Revenue Operations
Production Tax Credit Component Tax Division
Sponsor Senator Wagoner
Requester Senate Finance Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	81.9	81.9	81.9	81.9	81.9	81.9
Travel	10.0	10.0	10.0	10.0	10.0	10.0
Contractual	10.0	1.0	1.0	1.0	1.0	1.0
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	5.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	107.9	93.9	93.9	93.9	93.9	93.9

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	**	**	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	107.9	93.9	93.9	93.9	93.9	93.9
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
TOTAL	107.9	93.9	93.9	93.9	93.9	93.9

Estimate of any current year (FY2003) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

** See attachment for analysis

Prepared by: Dan Dickinson, Director Phone 269-1033
Division Tax Division Date/Time 5/11/03 12:11 PM
Approved by: Bill Corbus, Commissioner Date 5/11/2003
Agency Department of Revenue

Department of Revenue
CSSB185(FIN) – May 11, 2003
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This legislation is intended to provide financial incentives for increased oil and gas exploration in Alaska.

The Department of Revenue's fiscal note deals only with the changes to AS 43.55 (oil and gas production tax) and not the changes in this legislation to AS 38.05 (royalties), which are addressed by the Department of Natural Resources.

This legislation creates a 20% credit against oil and gas production taxes for exploration wells drilled more than three miles from other wells, and a second 20% production tax credit for exploration wells drilled more than 25 miles from established units (including Point Thomson). The second credit may be additive to the first, for a maximum 40% production tax credit. In addition, this legislation creates a 40% credit against oil and gas production taxes for seismic operations outside of existing units.

Oil and gas exploration spending in Alaska totals approximately \$200 million per year. This is in addition to maintenance and operations spending, development costs of new wells, and the cost of enhancing existing production.

For purposes of this discussion, the Department assumes 75% of current total exploration expenditures would be eligible for the 20% production credit and that 30% of total exploration expenditures would be eligible for the 40% credit. This would create a reduction in revenues of approximately \$50 million per year (a 20% credit against 75% of \$200 million a year, or \$30 million, plus a 40% credit against 25% of \$200 million a year, or \$20 million per year).

If the credit doubles the amount of exploration at the same ratio, the annual reduction in oil and gas production tax revenues to the state would total \$100 million per year. However, if the exploration leads to further production, there could be additional royalties, oil production taxes, oil and gas property taxes and corporate income taxes totaling hundreds of millions of dollars in subsequent years. During the four years the exploration credit in this legislation would be available, there likely would be minimal new revenues to offset the revenue loss, with significant new production likely to start flowing after the credit has expired.

This credit brings Alaska more in line with international competitive practices, removing a disincentive for exploration in Alaska relative to other oil regions.

Operating Expenses

This new credit will require one Revenue Auditor V to write emergency regulations in time for the 2003-2004 winter drilling season and to audit between \$200 million and \$400 million of activity per year.