

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 63
 (H) Publish Date: 2/3/06

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title An Act relating to the oil and gas RDU Taxation and Treasury
properties production (severance) tax Component Tax Division
 Sponsor Gara, Kerttula, Croft, Guttenberg
 Requester House Committee on Ways and Means Component No. _____

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	20.8	20.8	20.8	20.8	20.8	20.8
Travel	2.1	2.1	2.1	2.1	2.1	2.1
Contractual	50.0	0.6	0.6	0.6	0.6	0.6
Supplies	0.3	0.3	0.3	0.3	0.3	0.3
Equipment	2.1					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	75.1	23.7	23.7	23.7	23.7	23.7

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	75.1	23.7	23.7	23.7	23.7	23.7
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	75.1	23.7	23.7	23.7	23.7	23.7

Estimate of any current year (FY2006) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill would amend the oil and gas production tax by changing the effective tax rate on North Slope oil production other than for heavy oil. With the exception of the tax rate for heavy oil, a minimum effective rate of 5% and a maximum effective rate of 25% would be established. To determine the effective tax rate, a price adjustment would be added to the current law that would increase the effective rate when prices are above \$20 per barrel and lower the effective rate when oil prices are below \$16 per barrel. The formula for the adjustment is $\text{Prevailing Value}/20$ for prices above \$20 or $\text{Prevailing Value}/16$ for prices below \$16. No price adjustment would be made for prices equal to \$16 per barrel or equal to or less than \$20 per barrel. The \$16 or \$20 would be annually revised to reflect inflation. We used nominal forecast prices in this analysis so we kept the floor and ceiling prices constant. Heavy oil production [defined as crude oil with an assay of 20 degrees or less using the American Petroleum Institute (API) scale] would not be subject to either the 5% minimum or the price adjustment. There are adjustments for prices below \$10 per barrel. Since monthly oil prices have only averaged less than \$10 per barrel twice in the last 25 years we have not analyzed this provision.

Prepared by: Robynn Wilson, Michael Williams and Phyllis Rogers Phone 269-1019
 Division: Tax Division Date/Time 1/4/05 4:00PM
 Approved by: Tom Boutin, Deputy Commissioner Date 1/6/2006
 Agency: Department of Revenue

FISCAL NOTE #1

**STATE OF ALASKA
2006 LEGISLATIVE SESSION**

BILL NO.

HB 63

ANALYSIS CONTINUATION

Oil producing properties, excluding those defined as heavy oil, with a current Economic Limit Factor [ELF] above the minimum will have an increased effective tax rate when prices are above \$20 per barrel. Oil producing properties, excluding those defined as heavy oil, whose current ELF is below the minimum will have an increased effective tax rate at all prices. The net effect of these changes is to raise the average effective tax rate at our forecast price.

For this analysis, heavy oil fields that have API gravities below 20 degrees API include West Sak, Tabasco, Schrader Bluff and Ugnu. Polaris and Orion are close to this designation and to be conservative, we included them as producing heavy oil. API gravity within a property can vary widely by well. Currently the Department of Revenue [DOR] receives average API gravity data from oil flows through pipelines. Much of the increased personnel cost incurred from this bill is in monitoring the heavy oil designation. A clear description of the frequency with which the heavy oil designation will be reviewed and the location where API gravity will be measured would facilitate the implementation of this bill.

This bill specifically limits its scope to North Slope production. This means that current taxpayers will pay the balance of the revenue change. Costs associated with this bill fall into two categories: [1] A one-time information technology/database change estimated to be \$50,000; and [2] one quarter full-time equivalent individual for additional audit work pertinent to North Slope fields that currently pay little or no tax.

The figures in the table below result from simply changing the ELF mechanism in our production forecast model. The ELF was designed to affect taxpayers behavior, i.e. to encourage additional development of smaller oil finds. This analysis, however, does not take into account any change in the taxpayer's production as a consequence of changes to the ELF.

A decade from now, one quarter of the oil in the DOR forecast will come from fields not now producing. To bring those fields on-line will require billions of dollars in additional investment. It appears to us that any tax increase that does not simultaneously involve the recognition of the need to make capital investments may well imperil that investment. Quantifying that peril, especially against the background of other aspects of the investment environment is difficult. Thus we have indicated an uncertain revenue effect, showing the figures below to offer insight into the mechanics of the bill.

Revenue Sensitivity for HB63 Changes in Oil Production Tax
(millions of \$)

FY	Status Quo		HB63 Minimum Elf		HB63 with Price Adj		Revenue Gain		
	Severance Tax	Average Elf	Severance Tax	Average Elf	Severance Tax	Average Elf	Min ELF to Current	Price Adj Elf to Min ELF	Price Adj to Current
2007	892.5	0.5316	1,041.6	0.6247	2,157.1	1.2969	149.1	1,115.5	1,264.6
2008	670.8	0.4881	799.6	0.5904	1,582.7	1.1694	128.7	783.2	911.9
2009	362.3	0.4618	439.7	0.5763	552.6	0.7245	77.4	112.9	190.3
2010	347.2	0.4449	425.3	0.5620	532.5	0.7039	78.1	107.2	185.3
2011	321.5	0.4111	410.5	0.8665	512.2	1.0904	89.0	101.7	190.7
2012	299.2	0.4030	392.3	0.9842	488.5	1.2513	93.1	96.2	189.4
2013	270.0	0.3815	367.6	0.9648	456.8	1.2379	97.6	89.2	186.8
2014	243.6	0.3517	344.0	0.8672	426.9	1.1262	100.5	82.8	183.3
2015	225.9	0.3340	322.6	0.7959	399.5	1.0330	96.7	76.9	173.6
2016	244.5	0.3583	338.0	0.6972	419.8	0.9031	93.5	81.8	175.2
2017	211.4	0.3271	300.6	0.6472	374.8	0.8391	89.1	74.3	163.4
2018	191.3	0.3059	272.2	0.6041	340.8	0.7835	80.9	68.6	149.4
2019	165.2	0.2844	238.9	0.5709	299.8	0.7399	73.7	60.9	134.6
2020	143.2	0.2649	210.5	0.5396	264.5	0.7001	67.3	54.1	121.3
2021	122.2	0.2450	182.8	0.5080	229.9	0.6595	60.6	47.2	107.7
2022	105.8	0.2308	160.6	0.4876	202.1	0.6330	54.8	41.5	96.3
2023	90.3	0.2142	142.2	0.4707	179.0	0.6109	51.9	36.8	88.8
2024	76.9	0.1979	125.8	0.4530	158.5	0.5879	48.9	32.7	81.6
2025	64.7	0.1822	109.7	0.4345	138.3	0.5638	45.0	28.5	73.6
2026	54.7	0.1678	96.0	0.4160	121.0	0.5397	41.3	25.0	66.3
2027	45.9	0.1533	83.7	0.3964	105.5	0.5143	37.7	21.9	59.6
2028	38.8	0.1404	76.5	0.3897	96.6	0.5053	37.7	20.1	57.8
2029	32.1	0.1274	69.6	0.3845	88.0	0.4984	37.5	18.4	55.9
2030	27.1	0.1164	64.2	0.3797	81.2	0.4918	37.1	17.0	54.1