

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 223
 (H) Publish Date: 2/3/06

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title An Act Relating to the Taxation of Natural RDU Taxation and Treasury
Gas Reserves Component Tax Division
 Sponsor Croft, Crawford
 Requester House Committee on Ways and Means Component No. 2476

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						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	1,010,280	1,010,280	1,010,280	1,010,280	1,010,280	1,010,280
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FUND SOURCE (Thousands of Dollars)

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

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 2007 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

*See note on page 2.

This bill seeks to create a new tax to be levied on Alaska's known gas resources as defined in, and subject to the exemptions of, the bill. Estimates of gas resources have yet to be determined, however, according to the Department of Natural Resources, Division of Oil and Gas 2004 Annual Report, about 33,676 billion cubic feet of natural gas could be subject to the tax under the proposal. The tax would be repealed when the gas on which the tax is levied is transported to market.

Assuming 33,676 billion cubic feet are subject to the tax, a \$.03 tax on each 1,000 cubic feet of natural gas would yield revenues of approximately \$1,010 million per year until the gas is transported to market under conditions specified in the bill. When a gas export project is complete and the gas is marketed,

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 Division Tax Division Date/Time 1/4/06 4:00 PM
 Approved by: Tom Boutin, Deputy Commissioner Date 1/6/2006
 Agency Department of Revenue

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ANALYSIS CONTINUATION

lessees will be allowed to claim a credit for certain of the taxes paid under this legislation with the following limitations: (1) In any year, the credit is limited to half of the lessee's production taxes on gas exported from the slope; (2) Taxes paid pursuant to this legislation before the lessee made an irrevocable commitment to either ship or sell the gas do not qualify for the credit; and (3) Any credit not used by 2030 expires.

*Administration costs are difficult to estimate. On its face, it could be a very simple tax to administer, requiring about 1/4 of a tax technician a year and some time from the State Petroleum Property Assessor. The bill specifies that DOR will determine the volume of taxable gas after consultation with the Department of Natural Resources and the Alaska Oil and Gas Conservation Commission. Having three agencies involved in the determination of gas reserve estimates may unduly complicate the already uncertain science of reserve estimation and could result in legal challenges. *The bill specifies that no taxes will be levied on reserves of less than one trillion cubic feet, and there are at least two fields where reserves are estimated to be just about one trillion cubic feet, which could trigger an expensive conflict about whether taxes of \$30 million a year were owed for each field.* Combining this with other potential legal challenges, the defense of the assessment could run very high.

At a minimum, the DOR State Petroleum Property Assessor would need \$100,000 per year for contract expertise and administrative review for the purpose of determining taxable gas volumes. A tax technician at \$14,000 (.25 FTE) per year would also be required. Expenses in the first year of implementation are estimated to be \$50,000 for DOR personnel and \$85,000 for support from the Department of Law in the development and establishment of regulations.

The above costs do not cover expenses incurred as a result of legal challenges.

Once the gas is being marketed, there will be additional costs incurred by the department for the purpose of determining the amount of credit to be applied to production tax liabilities. It is highly unlikely that these costs will be incurred prior to FY2012; therefore, these costs do not appear on this fiscal note.