FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: HB 488
(H) Publish Date: 2/21/06

Revision Date/Time (Note if correction):
Dept. Affected: Revenue
Title: An Act Relating to the Production Tax on Oil and Gas
RDU: Tax and Treasury
Component: Tax
Sponsor: Rules Committee
Requester: Governor
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	359.2	366.4	373.7	381.2	388.8	396.6
Travel						
Contractual	1,200.0	520.0				
Supplies	24.0					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]	18.0	18.0	18.0	18.0	18.0	18.0
TOTAL OPERATING	**1,601.2**	**904.4**	**391.7**	**399.2**	**406.8**	**414.6**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	***See analysis section*** ----------					

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,601.2	904.4	391.7	399.2	406.8	414.6
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**1,601.2**	**904.4**	**391.7**	**399.2**	**406.8**	**414.6**

Estimate of any current year (FY2006) cost: 275.0

Check this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: [ ]

POSITIONS

Full-time	4	4	4	4	4	4
Part-time						
Temporary						

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

This bill would amend the oil and gas production tax by basing the tax on the net value of the oil and gas. The net value is the wellhead value (net of royalty) less all qualified lease expenditures, including capital and operating costs, property taxes, and an additional $73 million per year allowance for each producer. (The allowance can be no greater than the net value before the allowance.) The net income would be subject to a 20% tax, less a credit of 20% which applies to capital costs upstream of the point of production. In addition, there would be a deduction for capital costs incurred over the previous five years, which can be realized over the next six years, but only in years where the ANS price is over $40. It is estimated this would reduce revenues about $170 million in years when it was realized. In years where the ANS price is under $40 the deduction can be carried forward.

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Date/Time 2/21/06 12:00 AM
Approved by: Jerry Burnett
Date 2/21/2006
Agency: Department of Revenue

STATE OF ALASKA **BILL NO. HB 488**
2006 LEGISLATIVE SESSION

ANALYSIS CONTINUATION

The figures in the table below reflect the revenues that would be received from the bill relative to the status quo under various prices. They are predicated on the oil volumes in the Department of Revenue Fall 2005 Revenue Sources Book. The figures reflect North Slope activity; the impact on Cook Inlet is expected to be modest. They assume that seven producers utilize the full allowance. The status quo assumes the January 2005 ELF aggregation decision by the Department of Revenue for Prudhoe Bay continues.

The cost assumptions are as follows:

- $100 mm/yr exploration
- $1/bbl on-going capital on all barrels
- $3.50/bbl developmental capital on 2/3 of existing conventional oil
- $8/bbl developmental capital on 2/3 of existing heavy oil
- $3.50/bbl developmental capital on new conventional oil
- $8/bbl developmental capital on new heavy oil
- $3/bbl operating cost on conventional oil
- $5/bbl operating cost on heavy oil

The following table shows the 2007-2012 receipts from the bill, sensitive to different oil prices. These include the Department of Revenue forecast, a $40 price, and a $60 price. (Note that the status quo numbers are slightly different from what is reflected in the Fall 2005 Revenue Sources Book because of some minor changes in assumptions introduced since Fall 2005, and because of some differences between what some taxpayers actually remit and what is ultimately expected to be collected.)

Operating expenditures include costs for 3 additional positions for auditors: 1 O & G Specialist (Range 23), 1 O & G Revenue Auditor IV (Range 22), and 1 O & G Revenue Auditor III (Range 20). These positions would be used to fulfill additional audit responsibilities inherent in a net profits tax. In addition, we request 1 additional position for a Tax Tech III (Range 14) to process additional information and tax returns that will be required, and additional credit applications anticipated. Personal Services reflect a 2% yearly increase.

Contractual expenses include $100,000 and $70,000 for programming in FY 07 and FY 08, respectively, $250,000 in each of FY 07 and FY 08 for help in writing regulations, and $850,000 and $200,000 in FY 07 and FY 08, respectively, for auditing costs related to the new transition rules. Supplies include computers and other supplies necessary for new positions.

FISCAL NOTE #2

STATE OF ALASKA **BILL NO. HB 488**
2006 LEGISLATIVE SESSION
ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

Fiscal Year	DOR Forecast	Status Quo Tax	Tax from Bill	Gain from Bill
2007	49.20	934	1,363	429
2008	40.95	697	915	217
2009	25.50	404	349	-55
2010	25.50	387	339	-48
2011	25.50	362	351	-11
2012	25.50	343	332	-10

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	40.00	737	1,038	301
2008	40.00	679	1,031	353
2009	40.00	673	1,118	445
2010	40.00	646	1,106	460
2011	40.00	606	1,138	532
2012	40.00	576	1,112	536

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	60.00	1,165	1,938	773
2008	60.00	1,069	1,917	848
2009	60.00	1,042	2,007	965
2010	60.00	1,003	1,992	989
2011	60.00	941	2,051	1,110
2012	60.00	896	2,014	1,117