FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: HB 2001
(H) Publish Date: 5/22/06

Revision Date/Time (Note if correction):

Title	An Act Relating to the Production Tax on Oil and Gas
Sponsor	Rules Committee
Requester	Senate Finance
Dept. Affected:	Revenue
RDU	Tax and Treasury
Component	Tax
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	875.0	892.5	910.4	928.6	947.1	966.1
Travel						
Contractual	525.0	487.9	118.2	118.6	121.0	123.4
Supplies	42.0					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]	53.0	53.0	53.0	53.0	53.0	53.0
TOTAL OPERATING	**1,495.0**	**1,433.4**	**1,081.6**	**1,100.2**	**1,121.1**	**1,142.5**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	***See analysis section*** ----------					

FUND SOURCE (Thousands of Dollars)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
1002 Federal Receipts						
1003 GF Match						
1004 GF	1,495.0	1,433.4	1,081.6	1,100.2	1,121.1	1,142.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**1,495.0**	**1,433.4**	**1,081.6**	**1,100.2**	**1,121.1**	**1,142.5**

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

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Full-time	10	10	10	10	10	10
Part-time						
Temporary						

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

Relative to Status Quo

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, and property taxes. The net profit would be subject to a 22.5% tax, less a credit of 20% which applies to capital costs upstream of the point of production. There would also be a progressive surcharge based on 0.1% of the difference between actual per barrel net income and $35, applied to net income. The surcharge would not be considered a deductible lease expenditure. There would be an additional allowance of up to $12 million per company The allowance expires in 2016. In addition, as a transition provision, there would be a 20% credit for capital costs incurred over the period April 1, 2001 through April 1, 2006, recoverable at $1 for every $2 in capital expenditures. Transition costs cannot be recovered after 2013.

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Division: Tax Division — Date/Time 5/22/06 9:00 AM

Approved by: Jerry Burnett — Date 5/22/2006
Agency: Department of Revenue

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ANALYSIS CONTINUATION

The additional conservation surcharge on oil is increased from 3 cents to 4 cents.

The bill would be effective April 1, 2006.

The figures in the table below reflect the revenues that would be received from the bill relative to the status quo under various prices. The figures reflect North Slope activity; the impact on Cook Inlet is expected to be modest. 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 table shows the 2006-2012 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 Spring 2006 Revenue Sources Book because of volume adjustments from the oil spill, and because of some differences between what some taxpayers actually remit and what is ultimately expected to be collected.)

Operating expenditures include costs for 8 additional positions for auditors: 1 O & G Specialist (Range 23), 3 O & G Revenue Auditor IV (Range 22), and 4 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 2 additional Tax Tech III positions (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 expenditures include $100,000 and $70,000 for programming in FY 07 and FY 08, respectively, $300,000 in each of FY 07 and FY 08 for help in writing regulations, $100,000 in each year for consulting services and an estimate of chargeback costs. Supplies include computers and other supplies necessary for new positions.

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ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

FISCAL NOTE

The revenues provided in the table below do not reflect increased revenues in FY06 that would result from an effective date of 4/1/06. At the DOR forecast price of $58.72, the bill would provide approximately $300 million over the status quo system.

Fiscal Year	DOR Forecast	Col. 15 Status Quo Tax	Col. 16 Tax from Bill	Col. 17 Gain from Bill
2007	$53.60	989	1,971	982
2008	$46.90	759	1,500	740
2009	$25.50	355	350	-5
2010	$25.50	315	314	-1
2011	$25.50	281	310	29
2012	$25.50	271	306	34

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$40.00	708	1,087	379
2008	$40.00	655	1,059	404
2009	$40.00	631	1,136	504
2010	$40.00	582	1,101	519
2011	$40.00	544	1,126	582
2012	$40.00	536	1,136	600

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	$60.00	1,120	2,356	1,236
2008	$60.00	1,032	2,294	1,263
2009	$60.00	978	2,385	1,408
2010	$60.00	901	2,326	1,425
2011	$60.00	842	2,374	1,532
2012	$60.00	831	2,397	1,566