

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 2 **CORRECTED**
 Bill Version: HB 3001
 (H) Publish Date: 7/13/06

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title An Act Relating to the Production Tax on RDU Tax and Treasury
Oil and Gas 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 | 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 () | <i>See analysis section -----</i> |
|-------------------------------|-----------------------------------|

FUND SOURCE (Thousands of Dollars)

| | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| 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: _____

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

POSITIONS

| | | | | | | |
|-----------|----|----|----|----|----|----|
| 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 20% tax, less a credit of 20% which applies to capital costs upstream of the point of production. There would be an additional allowance of up to \$12 million per company for companies producing less than 50,000 barrels of oil equivalent per day; this amount is reduced as production reaches 100,000 boe per day, the point at which no allowance is authorized. 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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 Date/Time 7/13/06 7:00 AM

Approved by: Jerry Burnett
 Agency Department of Revenue

Date 7/13/2006

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 on the next page 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 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 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.

ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

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 a preliminary estimated quarter end price of \$65, the bill would provide approximately \$260 million over the status quo system.

| Fiscal Year | DOR Forecast | Status Quo Tax | Tax from Bill | Gain from Bill* |
|-------------|--------------|----------------|---------------|-----------------|
| 2007 | \$53.60 | 989 | 1,718 | 729 |
| 2008 | \$46.90 | 759 | 1,339 | 580 |
| 2009 | \$25.50 | 355 | 316 | -38 |
| 2010 | \$25.50 | 315 | 285 | -30 |
| 2011 | \$25.50 | 281 | 282 | 0 |
| 2012 | \$25.50 | 271 | 278 | 6 |

| Fiscal Year | Medium Price | Status Quo Tax | Tax from Bill | Gain from Bill* |
|-------------|--------------|----------------|---------------|-----------------|
| 2007 | \$40.00 | 708 | 972 | 264 |
| 2008 | \$40.00 | 655 | 947 | 292 |
| 2009 | \$40.00 | 631 | 1,015 | 384 |
| 2010 | \$40.00 | 582 | 984 | 402 |
| 2011 | \$40.00 | 544 | 1,006 | 462 |
| 2012 | \$40.00 | 536 | 1,015 | 479 |

| Fiscal Year | High Price | Status Quo Tax | Tax from Bill | Gain from Bill* |
|-------------|------------|----------------|---------------|-----------------|
| 2007 | \$60.00 | 1,120 | 1,994 | 875 |
| 2008 | \$60.00 | 1,032 | 1,941 | 909 |
| 2009 | \$60.00 | 978 | 2,003 | 1,025 |
| 2010 | \$60.00 | 901 | 1,954 | 1,053 |
| 2011 | \$60.00 | 842 | 1,995 | 1,153 |
| 2012 | \$60.00 | 831 | 2,015 | 1,184 |

*Numbers may not sum due to rounding.