FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: CSHB 3001(FIN)
(H) Publish Date: 8/4/06

Revision Date/Time (Note if correction):
Title: An Act Relating to the Production Tax on Oil and Gas
Sponsor: Rules Committee
Requester: Governor

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	813.1	829.4	845.9	862.9	880.1	897.7
Travel						
Contractual	522.5	485.4	115.7	116.1	118.4	120.8
Supplies	36.7					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]	53.0	53.0	53.0	53.0	53.0	53.0
TOTAL OPERATING	**1,425.3**	**1,367.8**	**1,014.6**	**1,032.0**	**1,051.5**	**1,071.5**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	***See analysis section*** --					

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,425.3	1,367.8	1,014.6	1,032.0	1,051.5	1,071.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	**1,425.3**	**1,367.8**	**1,014.6**	**1,032.0**	**1,051.5**	**1,071.5**

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	9	9	9	9	9	9
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, and property taxes. The net profit would be subject to a variable tax rate with a floor of 20% and a ceiling of 25%, less a credit of 20% which applies to capital costs upstream of the point of production. The variable tax rate would be determined by the level of capital investment, limited by tax benefits generated by capital investments. The capital investment benefit limitation is 75% of qualified capital costs. There would also be a progressive surcharge based on 0.25% of the difference between actual per barrel net income and $40, applied to net production tax value. The surcharge would not be considered a deductible lease expenditure.

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

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Date 8/4/2006
Agency: Department of Revenue

ANALYSIS CONTINUATION

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.

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 Dept. of Revenue for Prudhoe Bay stands.

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 1 additional Tax Tech III position (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)

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 $440 million over the status quo system.

Fiscal Year	DOR Forecast	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$53.60	989	1985	996
2008	$46.90	784	1509	725
2009	$25.50	355	342	-12
2010	$25.50	315	304	-11
2011	$25.50	281	300	19
2012	$25.50	271	296	25

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$40.00	708	1132	424
2008	$40.00	655	1099	444
2009	$40.00	631	1175	544
2010	$40.00	582	1137	556
2011	$40.00	544	1166	622
2012	$40.00	536	1178	642

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill*
2007	$60.00	1,120	2541	1,421
2008	$60.00	1,032	2476	1,445
2009	$60.00	978	2603	1,625
2010	$60.00	901	2534	1,633
2011	$60.00	842	2587	1,744
2012	$60.00	831	2610	1,778

*Numbers may not sum due to rounding.