

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: HCS CSSB 305(FIN)
 (H) Publish Date: 5/6/05

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 House Finance 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	577.6	589.2	600.9	613.0	625.2	637.7
Travel						
Contractual	517.5	487.9	118.2	118.6	121.0	123.4
Supplies	42.0					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous [OH office, etc]	37.1	37.1	37.1	37.1	37.1	37.1
TOTAL OPERATING	1,174.2	1,114.1	756.2	768.7	783.3	798.2

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	<i>See analysis section -----</i>
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	1,174.2	1,114.1	756.2	768.7	783.3	798.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	1,174.2	1,114.1	756.2	768.7	783.3	798.2

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	7	7	7	7	7	7
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, property taxes. 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. There would also be a progressive surcharge based on .25% 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 for companies producing less than 50,000 barrels per day, which is scaled down to zero between 50,000 and 100,000 barrels per day. This allowance is limited to one-half of qualified capital expenditures. 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 4/26/06 12:00 AM

Approved by: Jerry Burnett
 Agency Department of Revenue

Date 5/6/2006

ANALYSIS CONTINUATION

The conservation surcharge on oil is decreased from 2 cents/bbl to 1 cent/bbl, while the additional conservation surcharge on oil is increased from 3 cents to 4 cents. The net impact of this, assuming that the oil and hazardous substance release prevention account is at capacity, would be a 1 cent/bbl increase in revenues.

The bill would be effective April 1, 2006.

Relative to Governor's Bill

The Governor's bill had no progressive surcharge. There was an deductible allowance of up to \$73 million of net income per company per year. There was a transition provision where all qualified capital expenditures incurred between July 1, 2001 through July 1, 2006 would be deductible over six years. The 3 cent conservation surcharge on oil would have been a credit against the oil tax.

The bill would have been effective July 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. Columns 1-3 reflect the original fiscal note for the bill. Columns 4-5 reflect adjustments to the original fiscal note that correspond with net adjustments in state corporate income tax from changes in the severance tax, the recognition of the credit for the additional conservation surcharge on oil, the re-assessment of the number of full allowances from 7 company equivalents to nine, and minor model changes. Columns 6-8 reflect changes from converting from the Fall 2005 Department of Revenue Source Book data to Spring 2006. The volumes for the last quarter have been adjusted to reflect short-term production impacts resulting from the North Slope oil spill in March. Columns 9-11 reflect the House Resources CS. Columns 12-14 reflect the Senate Finance CS. Columns 15-17 reflect the House Finance CS. 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 5 additional positions for auditors: 1 O & G Specialist (Range 23), 1 O & G Revenue Auditor IV (Range 22), and 3 O & G Revenue Auditor III (Range 20). These positions would be used to fulfill additional audit responsibilities inherent in a net profits tax, an amendment in the Senate regarding requires additional staff. 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.

See Page 3 for revenue estimates

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ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

GOVERNOR'S BILL
ORIGINAL FISCAL NOTE

GOVERNOR'S BILL
WITH CORPORATE INCOME TAX,
CONSERVATION SURCHARGE
NINE COMPANY ALLOWANCES
MINOR MODEL CHANGES

Fiscal Year	DOR Forecast	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5
		Status Quo Tax	Tax from Bill	Gain from Bill	Tax from Bill	Gain from Bill
2006	na	na	na	na	na	na
2007	\$49.20	934	1,363	429	1,317	383
2008	\$40.95	697	915	217	876	179
2009	\$25.50	404	349	-55	320	-84
2010	\$25.50	387	339	-48	310	-77
2011	\$25.50	362	351	-11	319	-43
2012	\$25.50	343	332	-10	300	-42

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill	Tax from Bill	Gain from Bill
2006	na	na	na	na	na	na
2007	\$40.00	737	1,038	301	997	260
2008	\$40.00	679	1,031	353	988	309
2009	\$40.00	673	1,118	445	1,070	397
2010	\$40.00	646	1,106	460	1,058	411
2011	\$40.00	606	1,138	532	1,086	480
2012	\$40.00	576	1,112	536	1,059	483

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill	Tax from Bill	Gain from Bill
2006	na	na	na	na	na	na
2007	\$60.00	1,165	1,938	773	1,879	714
2008	\$60.00	1,069	1,917	848	1,855	786
2009	\$60.00	1,042	2,007	965	1,939	897
2010	\$60.00	1,003	1,992	989	1,923	921
2011	\$60.00	941	2,051	1,110	1,977	1,036
2012	\$60.00	896	2,014	1,117	1,939	1,043

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ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

GOVERNOR'S BILL
CHANGES FROM FALL 2005 FORECAST
TO SPRING 2006 FORECAST

FISCAL NOTE
HOUSE RESOURCES CS

Fiscal Year	DOR Forecast	Col. 6 Status Quo Tax	Col. 7 Tax from Bill	Col. 8 Gain from Bill	Col. 9 Status Quo Tax	Col. 10 Tax from Bill	Col. 11 Gain from Bill
2006	na	na	na	na	262	517	255
2007	\$53.60	989	1,514	526	989	1,825	836
2008	\$46.90	759	1,136	377	759	1,318	559
2009	\$25.50	355	302	-52	355	323	-32
2010	\$25.50	315	283	-32	315	304	-11
2011	\$25.50	281	291	10	281	312	31
2012	\$25.50	271	291	20	271	312	41

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill	Status Quo Tax	Tax from Bill	Gain from Bill
2006	na	na	na	na	174	227	53
2007	\$40.00	708	978	270	708	967	259
2008	\$40.00	655	953	298	655	974	319
2009	\$40.00	631	1,021	390	631	1,042	411
2010	\$40.00	582	990	408	582	1,011	429
2011	\$40.00	544	1,012	468	544	1,033	489
2012	\$40.00	536	1,021	485	536	1,042	506

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill	Status Quo Tax	Tax from Bill	Gain from Bill
2006	na	na	na	na	275	572	297
2007	\$60.00	1,120	1,840	720	1,120	2,380	1,260
2008	\$60.00	1,032	1,786	754	1,032	2,350	1,318
2009	\$60.00	978	1,848	871	978	2,421	1,443
2010	\$60.00	901	1,800	899	901	2,366	1,465
2011	\$60.00	842	1,841	999	842	2,414	1,572
2012	\$60.00	831	1,861	1,029	831	2,438	1,607

INCLUDES VOLUMES, PRICE, TAPS, MARINE, UPSTREAM, WELLS

SPRING 2006 VOLUMES FOR THE LAST QUARTER OF FY 2006 HAVE BEEN REDUCED TO REFLECT SHORT TERM ADJUSTMENTS FROM THE NORTH SLOPE OIL SPILL

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ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

FISCAL NOTE
SENATE FINANCE CS

Fiscal Year	DOR Forecast	Col. 12 Status Quo Tax	Col. 13 Tax from Bill	Col. 14 Gain from Bill
2006	\$57.45	262	546	284
2007	\$53.60	989	1,937	948
2008	\$46.90	759	1,404	645
2009	\$25.50	355	377	22
2010	\$25.50	315	341	26
2011	\$25.50	281	337	56
2012	\$25.50	271	332	61

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2006	\$40.00	174	255	81
2007	\$40.00	708	1,050	342
2008	\$40.00	655	1,022	367
2009	\$40.00	631	1,099	468
2010	\$40.00	582	1,065	483
2011	\$40.00	544	1,090	546
2012	\$40.00	536	1,099	563

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2006	\$60.00	275	580	305
2007	\$60.00	1,120	2,382	1,262
2008	\$60.00	1,032	2,317	1,285
2009	\$60.00	978	2,393	1,415
2010	\$60.00	901	2,334	1,433
2011	\$60.00	842	2,384	1,542
2012	\$60.00	831	2,409	1,578

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ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

FISCAL NOTE
HOUSE FINANCE CS

Fiscal Year	DOR Forecast	Col. 15 Status Quo Tax	Col. 16 Tax from Bill	Col. 17 Gain from Bill
2006	\$57.45	262	524	262
2007	\$53.60	989	1,829	840
2008	\$46.90	759	1,296	537
2009	\$25.50	355	309	-46
2010	\$25.50	315	277	-38
2011	\$25.50	281	273	-8
2012	\$25.50	271	269	-2

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2006	\$40.00	174	234	60
2007	\$40.00	708	961	253
2008	\$40.00	655	935	280
2009	\$40.00	631	1,003	372
2010	\$40.00	582	973	391
2011	\$40.00	544	995	451
2012	\$40.00	536	1,004	468

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2006	\$60.00	275	559	284
2007	\$60.00	1,120	2,284	1,164
2008	\$60.00	1,032	2,228	1,196
2009	\$60.00	978	2,342	1,364
2010	\$60.00	901	2,281	1,380
2011	\$60.00	842	2,326	1,484
2012	\$60.00	831	2,346	1,515