

# FISCAL NOTE

**STATE OF ALASKA**  
**2006 LEGISLATIVE SESSION**

Fiscal Note Number: 3  
 Bill Version: CSSB 2001(FIN)  
 (S) Publish Date: 5/21/06

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 Senate 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
<b>TOTAL OPERATING</b>	<b>1,174.2</b>	<b>1,114.1</b>	<b>756.2</b>	<b>768.7</b>	<b>783.3</b>	<b>798.2</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<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)						
<b>TOTAL</b>	<b>1,174.2</b>	<b>1,114.1</b>	<b>756.2</b>	<b>768.7</b>	<b>783.3</b>	<b>798.2</b>

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	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, 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 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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 Date/Time 5/21/2006 5:45PM

Approved by: Kevin Jardell  
 Agency: Office of the Governor

Date 5/21/2006

**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 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 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.

**ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)**

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Fiscal Year	DOR Forecast	Col. 15 Status Quo Tax	Col. 16 Tax from Bill	Col. 17 Gain from Bill
2007	\$53.60	989	1,756	767
2008	\$46.90	759	1,340	581
2009	\$25.50	355	353	-2
2010	\$25.50	315	321	6
2011	\$25.50	281	318	36
2012	\$25.50	271	313	42

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	\$40.00	708	1,121	413
2008	\$40.00	655	1,095	440
2009	\$40.00	631	1,164	532
2010	\$40.00	582	1,132	551
2011	\$40.00	544	1,155	611
2012	\$40.00	536	1,163	628

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	\$60.00	1,120	2,271	1,151
2008	\$60.00	1,032	2,217	1,185
2009	\$60.00	978	2,279	1,301
2010	\$60.00	901	2,231	1,330
2011	\$60.00	842	2,272	1,429
2012	\$60.00	831	2,292	1,460