

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: HCS CSSB 2001(FIN)
 (H) Publish Date: 6/3/06

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	875.0	892.5	910.4	928.6	947.1	966.1
Travel						
Contractual	850.0	587.9	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	1,820.0	1,533.4	1,081.6	1,100.2	1,121.1	1,142.5

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	1,820.0	1,533.4	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	1,820.0	1,533.4	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 also be a progressive surcharge based on 0.175% of the difference between actual per barrel net income and \$45, 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 100,000 barrels of oil equivalent per day, and a lesser amount for companies with production levels between 50,000 and 100,000 boe per day. 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.

Prepared by: Robynn Wilson, Michael Williams, Roger Marks, and Cheryl Nienhuis
 Division Tax Division

Phone 269-1019
 Date/Time 6/3/06 9:00 AM

Approved by: Jerry Burnett
 Agency Department of Revenue

Date 6/3/2006

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STATE OF ALASKA
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BILL NO. HCS CSSB 2001(FIN)

ANALYSIS CONTINUATION

The additional conservation surcharge on oil is increased from 3 cents to 4 cents. The CS, as amended, also includes a New Area Development credit of \$6M (\$500K per month) applicable to production, NOT ANS and NOT Cook Inlet, which also has a 10 yr sunset. This should not have an impact on projected revenues.

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, \$400,000 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. \$275,000 in contractual expenditures planned in FY 06 are moved to FY 07 in this fiscal note.

ANALYSIS CONTINUATION (MILLIONS OF 2005 DOLLARS)

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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 \$200 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	1,663	674
2008	\$46.90	759	1,284	525
2009	\$25.50	355	261	-93
2010	\$25.50	315	230	-85
2011	\$25.50	281	227	-54
2012	\$25.50	271	223	-48

Fiscal Year	Medium Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	\$40.00	708	961	253
2008	\$40.00	655	935	280
2009	\$40.00	631	1,004	372
2010	\$40.00	582	972	391
2011	\$40.00	544	994	451
2012	\$40.00	536	1,003	468

Fiscal Year	High Price	Status Quo Tax	Tax from Bill	Gain from Bill
2007	\$60.00	1,120	1,993	873
2008	\$60.00	1,032	1,942	910
2009	\$60.00	978	2,035	1,057
2010	\$60.00	901	1,981	1,080
2011	\$60.00	842	2,022	1,179
2012	\$60.00	831	2,040	1,208