FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 2001
(S) Publish Date: 10/18/07

Identifier (file name): LL 08-0014-DOR-TAX-10-17-07
Title: An Act relating to the production tax on oil and gas..
Sponsor: Governor
Requester:

Dept. Affected: Revenue 04
RDU: Taxation and Treasury
Component: Tax Division
Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2009**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Personal Services	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7
Travel							
Contractual	1,018.4	1,018.4	1,018.4	511.8	5.2	5.2	5.2
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**2,234.1**	**2,234.1**	**2,234.1**	**1,727.5**	**1,220.9**	**1,220.9**	**1,220.9**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )		**675,000.0**	**603,000.0**	**589,000.0**	**624,000.0**	**597,000.0**	**416,000.0**

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**2,234.1**	**2,234.1**	**2,234.1**	**1,727.5**	**1,220.9**	**1,220.9**	**645.9**

Estimate of any current year (FY2008) cost: 3,409.2

POSITIONS

Full-time	**1**	1	1	1	1	1	1
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

This bill makes significant changes to the state's current petroleum profits tax. The tax proposal, also known as the Clear and Equitable Share (ACES) plan, like the current tax system, taxes the net value of petroleum resources. The ACES proposal makes the following changes to the tax system: raises the tax rate to 25% on net profits of oil and gas production subject to a 10% floor on legacy fields; adjusts the progressive tax feature to trigger at $30 net value (annual) and rise at two-tenths of a percent per dollar; eliminates the transitional investment expenditures "TIE" credits; requires that capital costs be taken as credits over two years, rather than immediately; addresses the "corrosion" expense issue; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; expands exploration incentive credit program to cover two field seasons; requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; authorizes a short-term audit program; and designates an exempt class of oil and gas auditors.

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Date/Time 10/17/07 12:00 AM

Approved by: Jerry Burnett
Department of Revenue
Date 10/17/2007

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ANALYSIS CONTINUATION

The tax proposal would also authorize a fund to be established for the purpose of purchasing tax credit certificates. The fund would receive 10% - 15% of total production tax revenues annually (roughly $150 million to $300 million); up to $250 million of fund revenues would be paid to purchase credits in any given year.

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2008.

Personal Services: The department will reclassify the existing 5 vacant auditor positions, and create 4 to 5 senior level auditor positions with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables and will be beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. In addition, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of $115,700 annually. The existing oil and gas specialist, oil and gas revenue auditors, and their immediate supervisor will be offered the opportunity to opt into an exempt status with individual salaries established commensurate with experience and skill level, and consistent with market comparables.

The need for exempt status is based upon the difficulties the department has recruiting experienced auditors to administer the tax. The current pay range for an Oil and Gas Revenue Auditor is on the low range of the pay range for roughly similar jobs. The department estimates the new exempt positions and the potential salary increases associated with the change of existing staff to exempt status, will cost the state approximately $1,100,000 annually.

Contractual: Contractual expenditures include $1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of $100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional $5,200 each year in contractual costs associated with the new Analyst Programmer V position.

Current FY2008 costs: The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual -** $2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and $506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income-based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division’s accounting systems. **Personal Services -** $218,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately $57,800. **Supplies -** $6,000 for a computer and software for the new analyst progammer V position.

See page 3 for projected revenue estimates.

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ANALYSIS CONTINUATION

Estimated Production Tax Revenues, PPT and ACES, at Various Prices (in $millions)

Fall 2007 DOR Official Forecast Prices

Fiscal Year	ANS WC $ per barrel (in REAL dollars)	ANS WC $ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,330	415
2009	64.55	66.30	1,693	2,369	675
2010	60.05	63.40	1,531	2,134	603
2011	59.70	64.75	1,670	2,258	589
2012	59.55	66.35	1,746	2,370	624
2013	58.90	67.45	1,647	2,244	597
2014	58.25	68.55	1,642	2,058	416

DOR Forecast nominal prices rounded to the nearest $0.05

$60 per barrel in REAL dollars

Fiscal Year	ANS WC $ per barrel (in REAL dollars)	ANS WC $ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,421	371
2009	60.00	61.65	1,435	1,977	542
2010	60.00	63.35	1,562	2,170	608
2011	60.00	65.09	1,695	2,291	596
2012	60.00	66.88	1,783	2,414	631
2013	60.00	68.72	1,733	2,347	614
2014	60.00	70.61	1,776	2,218	442

$80 per barrel in REAL dollars

Fiscal Year	ANS WC $ per barrel (in REAL dollars)	ANS WC $ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	3,089	438
2009	80.00	82.20	3,031	3,717	686
2010	80.00	84.46	3,266	3,988	722
2011	80.00	86.78	3,481	4,189	708
2012	80.00	89.17	3,668	4,404	736
2013	80.00	91.62	3,619	4,327	708
2014	80.00	94.14	3,690	4,204	514