

# FISCAL NOTE

**STATE OF ALASKA**  
**2008 LEGISLATIVE SESSION**

Fiscal Note Number: 4  
 Bill Version: CSSB 2001(RES)  
 (S) Publish Date: 10/29/07

Identifier (file name): CSSB2001(RES)-DOR-TAX-10-28-07 Dept. Affected: Revenue 04  
 Title An Act relating to the production tax on oil and gas.. RDU Taxation and Treasury  
 Component Tax Division  
 Sponsor Governor  
 Requester Senate Judiciary Component Number 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

	Appropriation Required	Information					
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>OPERATING EXPENDITURES</b>							
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							
<b>TOTAL OPERATING</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>1,727.5</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>1,220.9</b>

<b>CAPITAL EXPENDITURES</b>							
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<b>CHANGE IN REVENUES ( )</b>		<b>198,000.0</b>	<b>161,000.0</b>	<b>170,000.0</b>	<b>198,000.0</b>	<b>197,000.0</b>	<b>0.0</b>
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**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							
<b>TOTAL</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>2,234.1</b>	<b>1,727.5</b>	<b>1,220.9</b>	<b>1,220.9</b>	<b>645.9</b>

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 one economic and several administrative changes to the state's current petroleum profits tax. The bill retains the current tax system's structure, which taxes the net value of petroleum resources. The bill makes the following change to the current system: it eliminates the transition investment expenditure credit (AS 43.55.023(i)), except to the extent that transition credits earned from April 1, 2006 to this bill's effective date that could not be used to offset tax liability can be carried forward.

Administrative changes to the current tax system include the following: excludes from qualified lease expenditures those expenses related to unscheduled production interruptions; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; 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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 Division Tax Division Date/Time 10/27/07 2:00 PM  
 Approved by: Jerry Burnett Date 10/28/2007  
Department of Revenue

## FISCAL NOTE #4

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

BILL NO. CSSB 2001(RES)

### ANALYSIS CONTINUATION

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 programmer V position.

See page 3 for projected revenue estimates.

FISCAL NOTE #4

STATE OF ALASKA  
2008 LEGISLATIVE SESSION

BILL NO. CSSB 2001(RES)

**ANALYSIS CONTINUATION**

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

***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	CSSB2001 (RES)	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,022	107
2009	64.55	66.30	1,693	1,891	198
2010	60.05	63.40	1,531	1,693	161
2011	59.70	64.75	1,670	1,840	170
2012	59.55	66.35	1,746	1,944	198
2013	58.90	67.45	1,647	1,844	197
2014	58.25	68.55	1,642	1,642	0

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	CSSB2001 (RES)	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,158	107
2009	60.00	61.65	1,435	1,623	188
2010	60.00	63.35	1,562	1,719	158
2011	60.00	65.09	1,695	1,865	170
2012	60.00	66.88	1,783	1,981	198
2013	60.00	68.72	1,733	1,931	198
2014	60.00	70.61	1,776	1,776	0

***\$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	CSSB2001 (RES)	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	2,757	107
2009	80.00	82.20	3,031	3,235	205
2010	80.00	84.46	3,266	3,441	175
2011	80.00	86.78	3,481	3,670	189
2012	80.00	89.17	3,668	3,886	218
2013	80.00	91.62	3,619	3,837	217
2014	80.00	94.14	3,690	3,690	0