

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 5
 Bill Version: CSSB 2001(JUD)
 (S) Publish Date: 11/5/07

Identifier (file name): CSSB2001(JUD)-DOR-TAX-11-3-07 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 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES							
Personal Services	915.7	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	1,018.4	511.3	5.2	5.2
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	1,934.1	2,234.1	2,234.1	2,234.1	1,727.0	1,220.9	1,220.9
CAPITAL EXPENDITURES							
CHANGE IN REVENUES (1,085,000.0	838,000.0	875,000.0	962,000.0	935,000.0	704,000.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	1,934.1	2,234.1	2,234.1	2,234.1	1,727.0	1,220.9	1,220.9
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	1,934.1	2,234.1	2,234.1	2,234.1	1,727.0	1,220.9	1,220.9

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

POSITIONS

Full-time	5	5	5	5	5	5	5
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill makes several economic and 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 economic changes to the current system: the tax rate is raised from 22.5% to 25%; the progressive surcharge is raised to an index of .4% per dollar multiplied by the net value that exceeds \$30 per barrel with a ceiling of 25%; the costs for transportation are set at the lower of actual or reasonable costs; the transition investment expenditure credit is eliminated, except to the extent that transition credits earned from April 1, 2006 to this bill's effective date can be carried forward to offset a future tax liability.

The Department of Revenue does not currently have accurate estimates for lease expenditure activity occurring outside Alaska. This amount is considered indeterminate at this time.

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 Division Tax Division Date/Time 11/3/07 9:30 AM
 Approved by: Jerry Burnett Date 11/3/2007
Department of Revenue

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ANALYSIS CONTINUATION

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; excludes lease expenditures from activities occurring outside Alaska; 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 audit managers.

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2007.

Personal Services: The department will create 4 senior level audit manager 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 need for exempt status for the audit manager series 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, along with other salary adjustments will cost the state approximately \$900,000 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.

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

*For the months of January 2007 through May 2007, the proposal would have generated approximately \$400 million over the payments received for that period.

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 (JUD)	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	3,324	1,409
2009	64.55	66.30	1,693	2,778	1,085
2010	60.05	63.40	1,531	2,370	838
2011	59.70	64.75	1,670	2,545	875
2012	59.55	66.35	1,746	2,709	962
2013	58.90	67.45	1,647	2,581	935
2014	58.25	68.55	1,642	2,345	704

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 (JUD)	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	2,003	952
2009	60.00	61.65	1,435	2,334	899
2010	60.00	63.35	1,562	2,393	831
2011	60.00	65.09	1,695	2,583	888
2012	60.00	66.88	1,783	2,767	984
2013	60.00	68.72	1,733	2,719	986
2014	60.00	70.61	1,776	2,560	785

\$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 (JUD)	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	4,426	1,776
2009	80.00	82.20	3,031	4,789	1,759
2010	80.00	84.46	3,266	4,973	1,707
2011	80.00	86.78	3,481	5,297	1,816
2012	80.00	89.17	3,668	5,642	1,974
2013	80.00	91.62	3,619	5,603	1,984
2014	80.00	94.14	3,690	5,466	1,776