

# FISCAL NOTE

**STATE OF ALASKA**  
**2012 LEGISLATIVE SESSION**

Bill Version CSSB 192(FIN)  
 Fiscal Note Number 5  
 (S) Publish Date 4/11/12

Identifier (file name) SB192CS(FIN)-DOR-TAX-04-07-12 Dept. Affected Revenue  
 Title Oil and Gas Production Tax Rates Appropriation Treasury and Taxation  
 Allocation Tax Division  
 Sponsor (S) RES  
 Requester (S) FIN OMB Component Number 2476

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

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY13	FY14	FY15	FY16	FY17
<b>OPERATING EXPENDITURES</b>								
Personal Services	943.9		943.9	943.9	943.9	943.9	943.9	943.9
Travel	50.0		50.0	50.0	50.0	50.0	50.0	50.0
Services	12,532.6		1,037.6	1,037.6	1,037.6	1,037.6	1,037.6	1,037.6
Commodities	4.0		4.0	4.0	4.0	4.0	4.0	4.0
Capital Outlay								
Grants, Benefits								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>13,530.5</b>		<b>2,035.5</b>	<b>2,035.5</b>	<b>2,035.5</b>	<b>2,035.5</b>	<b>2,035.5</b>	<b>2,035.5</b>

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	13,530.5		2,035.5	2,035.5	2,035.5	2,035.5	2,035.5
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
<b>TOTAL</b>		<b>13,530.5</b>	<b>0.0</b>	<b>2,035.5</b>	<b>2,035.5</b>	<b>2,035.5</b>	<b>2,035.5</b>	<b>2,035.5</b>

POSITIONS								
Full-time		8.0		8	8	8	8	8
Part-time								
Temporary								

CHANGE IN REVENUES	***		***	***	***	***	***

**Estimated SUPPLEMENTAL (FY12) operating costs** \_\_\_\_\_ (separate supplemental appropriation required,  
 (discuss reasons and fund source(s) in analysis section)

**Estimated CAPITAL (FY13) costs** \_\_\_\_\_ (separate capital appropriation required,  
 (discuss reasons and fund source(s) in analysis section)

**Why this fiscal note differs from previous version (if initial version, please note as such)**

Updated to reflect changes provided for in the CS, version U.

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 Approved by Bruce Tangeman, Deputy Commissioner  
Department of Revenue

Phone 907-465-3279  
 Date/Time 04/07/12 2:40pm  
 Date 4/7/2012

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BILL NO. CSSB 192(FIN)

Analysis

The revenue impact of this bill is indeterminate.

This bill makes several changes to the oil and gas production tax system. Each of the major changes, along with its potential revenue impact, is discussed below.

**1. Creates three different progressive surcharge tax rates that are based on the gross value at the point of production.** Under this bill, the progressive surcharge is changed from one based on the net value of oil and gas production to one based on the gross value at the point of production (GVPP) of oil. The three rates are as follows: for oil in fields that are currently under production, the rate is 0.27% per dollar when the GVPP reaches \$60 per barrel, and then decreasing to .03% per dollar at a price \$60 over the initial threshold, up to a maximum progressive tax rate of 20%. For the first 7 years of production for oil produced from a lease or property containing land that was not in a unit or commercial production prior to January 1, 2008, the rate is 0.05% per dollar when the GVPP reaches \$60 per barrel up to a maximum progressive tax rate of 5%. For producers that increase oil production above a company-specific production target based on each company's decline rate from 2008 and 2011, the rate for that incremental production is 0.14% per dollar when the GVPP reaches \$60 per barrel, and then decreasing to .03% per dollar at a price \$60 over the initial threshold, up to a maximum progressive tax rate of 10%. The initial \$60 progressive surcharge tax thresholds would be adjusted annually by the increase in U.S. consumer price index for all urban consumers. Under Fall 2011 forecast assumptions, these provisions would impact revenue by the following amounts.

Change in State Revenue due to Progressivity Provisions of CSSB 192(FIN) in \$millions						
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
"Base" production from currently producing fields	-110	-75	+25	-150	-225	-200
"Incremental" production from currently producing fields	-10	-75	-75	-125	-150	-175
Qualifying new fields	0	0	0	0	0	-150
<b>Total</b>	<b>-120</b>	<b>-150</b>	<b>-50</b>	<b>-275</b>	<b>-375</b>	<b>-525</b>

**2. Implements a 10% gross minimum tax for companies with average daily production of more than 50,000 BTU-equivalent barrels per day.** This provision of the bill creates a minimum tax of 10% of GVPP for companies producing more than 50,000 BTU-equivalent barrels per day. There are currently three companies that are subject to this provision. Under Fall 2011 revenue forecast assumptions, this provision would not result in a tax increase for any companies, unless oil prices are \$80 per barrel or below. At a \$50 per barrel oil price, the increase in revenue to the state ranges between \$500 million and \$650 million per year over the time horizon of this fiscal note.

**3. Requires that the Department of Revenue develop regulations to allocate lease expenditures between oil and gas.** This provision of the bill instructs the Department of Revenue, when lease expenditure allocation is necessary, to allocate lease expenditures between oil and gas based on gross value at point of production "to the extent possible." This provision is expected to impact revenue to the state by less than \$10 million per year.

**4. Provides for a new Petroleum Information Management System to be implemented by the Department of Revenue.** This provision of the bill provides for a new information management system for publicly available oil and gas information, to be operational before January 1, 2014. This provision is a major new responsibility for the Department, to be implemented on an accelerated timeframe, and will compete with the core mission of the Tax Division, which is to assess and collect taxes.

The bill has an effective date of January 1, 2013.

**Agency Costs for Implementing Changes to Production Tax**

This bill would require the Department of Revenue to draft and pass several new regulations to address the changes in progressive surcharge tax rates, the minimum tax rates, and the allocation of costs between oil and gas. The Department of Revenue expects that it would need a reimbursable services agreement with the Department of Law and other costs totaling \$495,000. With passage of this bill in the 2012 legislative session, the workshop and public forum process would likely begin in the summer or fall of 2012, and the majority of the regulation costs would be incurred in FY 13.

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**Analysis Continued**

Specific costs for each major regulation project include the following:

\$75,000 for contracted professional services for regulation consulting.

\$270,000 for regulations costs including Department of Law, public notice and registry.

\$150,000 for public forums for education of taxpayers and public participation, including preparation materials and legal support, and possibly travel.

In addition to the one-time costs, the provisions of this bill will require four additional auditor positions to handle the increased complexity of the tax law created by this legislation. The positions would be at the Oil and Gas Revenue Auditor IV (Range 24) level, at an annual cost of \$546,000 for payroll and benefits, with additional cost for office space, supplies, travel, etc.

**Agency costs for Petroleum Information Management System**

Estimated one-time costs to the Department of Revenue for the Petroleum Information Management system are approximately \$12 million. This includes an estimated \$10 million for contract services to procure, design, build, and implement the system. An additional \$2 million is estimated for procurement of new hardware (data storage devices, servers, etc.) to create a robust system that can be replicated for access in both Juneau and Anchorage. An increased annual cost of \$1 million per year is estimated for ongoing system maintenance, support, storage, server space, and licensing.

Additional staff resources would be required to oversee the information management program, and maintain the data warehouse and disaster recovery plans. We estimate that we would need the following new positions: one Petroleum Economist II (Range 22), one Analyst Programmer V (Range 22), one Database Administrator (Range 15), and one Office Assistant III (Range 11). The total annual cost for these four positions is \$397,900 for payroll and benefits, with additional cost for office space, supplies, travel, etc.