

# Fiscal Note

State of Alaska  
2018 Legislative Session

Bill Version:	CSHB 331(FIN)
Fiscal Note Number:	3
(H) Publish Date:	5/2/2018

Identifier: DOR-TAX-5-2-18  
Title: TAX CREDIT CERT. BOND CORP; ROYALTIES  
Sponsor: RLS BY REQUEST OF THE GOVERNOR  
Requester: House Finance Committee

Department: Department of Revenue  
Appropriation: Taxation and Treasury  
Allocation: Treasury Division  
OMB Component Number: 121

## Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2019	Included in	Out-Year Cost Estimates					
	Appropriation Requested	Governor's FY2019 Request	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
<b>OPERATING EXPENDITURES</b>	<b>FY 2019</b>	<b>FY 2019</b>						
Personal Services								
Travel								
Services								
Commodities				2.5	2.5	2.5	2.5	2.5
Capital Outlay								
Grants & Benefits								
Miscellaneous								
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>

## Fund Source (Operating Only)

1004 Gen Fund (UGF)			2.5	2.5	2.5	2.5	2.5	2.5
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>	<b>2.5</b>

## Positions

Full-time								
Part-time								
Temporary								

## Change in Revenues

None								
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Estimated SUPPLEMENTAL (FY2018) cost:** 0.0 (separate supplemental appropriation required)  
(discuss reasons and fund source(s) in analysis section)

**Estimated CAPITAL (FY2019) cost:** 0.0 (separate capital appropriation required)  
(discuss reasons and fund source(s) in analysis section)

## ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No  
If yes, by what date are the regulations to be adopted, amended or repealed?

## Why this fiscal note differs from previous version/comments:

Four changes.  
#1: Changes impacted allocation and OMB component number from Tax Division to Treasury Division;  
#2: Revised to reflect that the annual \$2.5 appropriation will not be needed until FY2020;  
#3: Deletes the need for new regulations to implement this bill;  
#4: Updates the estimated annual tax credit appropriations in the narrative section to reflect the Spring 2018 revenue forecast.

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Approved By: Mike Barnhill  
Agency: Department of Revenue

Phone: (907)465-8221  
Date: 05/02/2018  
Date: 05/02/18

**REPORTED OUT OF  
HFC 05/02/2018**

## FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2018 LEGISLATIVE SESSION

## Analysis

**Bill Background and Structure**

This bill is intended to provide a mechanism for oil and gas explorers and small producers to obtain payment towards the tax credits they are currently holding awaiting state repurchase. For several years, the legislature authorized open-ended appropriation language in the annual budget, so the state repurchased all certificates that were presented. Beginning in FY2016, the annual spend has been capped in the budget, with the number in FY2017 and 2018 being based on the statutory calculation in AS 43.55.028(b) and (c). The net result of this has been delay and uncertainty for these companies, as well as in some cases their inability to borrow additional funds.

The legislation accomplishes four primary things. First, it creates a new state bond corporation empowered to sell up to \$1 billion in bonds to repurchase outstanding oil and gas tax credits. Second, it establishes rules and criteria by which to determine the expected cash flow of credit repurchases to a company, in order to calculate a discounted value. This will enable the department to make an offer to purchase them with bond proceeds at a particular discounted value. Third, it describes the multiple methods by which a company can obtain a lower discount rate, and by extension a higher repurchase offer. Finally, it establishes a process for the Department of Natural Resources to negotiate an overriding royalty interest, the acceptance of which is one of the methods to obtain the lower discount rate. The program is designed as a choice for producers, with the option retained for a company to await regular appropriations instead of participating in the bond repurchase program.

**Scope of Issue**

At the end of calendar year 2017, about \$800 million in tax credits are outstanding that are awaiting state repurchase. Of these, about half requested repurchase in 2016, and the rest in 2017. Current law ensures that the older credits are paid first out of available funds. Most cashable tax credits were repealed by the legislature in 2017 via HB111, although it will take some time for the remaining credits to work their way through the process. The Department of Revenue expects about another \$200 million in credits to be awarded over the next several years. Of this \$1,000 million in possible demand, the Department expects about \$100 million to be transferred (sold) to major producers to offset taxes, leaving \$900 million potentially available for the bond repurchase program. If all of these credits are offered into the program, the state will pay between \$700 and \$800 million depending on the discount rate. The intent is for the state to pay off the bonds over 10 years, with the first two years' payments being interest only, with rising payments for three years, and flat payments thereafter. The debt service and other bond costs will be more than offset by the savings received by the state through discounts to the tax credit obligations.

**Method of Determining Discounted Value**

In order to determine the discounted value the state will offer, the bill provides a process to estimate what a producer's expected payment amount and timing would be in future years, based on several factors. These include the amount of credits held by a given company, the year in which those credits were received and requested state repurchase, the proportion of the certificates from a given year held by each company, and the expected annual statutory appropriation. Based upon the most current revenue forecast (Spring 2018), that statutory appropriation would be: FY2019- \$184 million; FY2020- \$168 million; FY2021- \$168 million; FY2022- \$167 million; FY2023- \$170 million; FY2024- \$174 million.

**Implementation Cost**

The department anticipates that the tasks required to implement this bill will be absorbed within existing staff. The only new funds being requested are the cost of agent fees to be paid by the new Alaska Tax Credit Certificate Bond Corporation, which will total about \$2,500 per year when bonds are outstanding. The cost will take effect in the year after the first bonds are issued. The cost of issuing the bonds will be built into the state's future the interest and principal payments.