

Fiscal Note

State of Alaska
2024 Legislative Session

Bill Version:	CSHB 223(FIN)
Fiscal Note Number:	4
(H) Publish Date:	5/11/2024

Identifier: HB223CS(RES)-DOR-TAX-4-12-24
 Title: TAX & ROYALTY FOR CERTAIN GAS
 Sponsor: RAUSCHER
 Requester: (H) FINANCE

Department: Department of Revenue
 Appropriation: Taxation and Treasury
 Allocation: Tax Division
 OMB Component Number: 2476

Expenditures/Revenues

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

	FY2025	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2025 Request	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
OPERATING EXPENDITURES	FY 2025	FY 2025					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None	***		***	***	***	***	***
Total	***	0.0	***	***	***	***	***

Estimated SUPPLEMENTAL (FY2024) cost: 0.0 *(separate supplemental appropriation required)*

Estimated CAPITAL (FY2025) cost: 0.0 *(separate capital appropriation required)*

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - 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 If yes, by what date are the regulations to be adopted, amended or repealed?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:

The committee substitute changed the provisions around gas qualifying for royalty reduction, added the ability for oil to qualify for royalty reduction, and removed all direct provisions relating to taxes.

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FISCAL NOTE ANALYSIS

STATE OF ALASKA
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Analysis

Bill Analysis

This bill would add a new section to AS 38.05.180 that would provide reduced royalty for qualifying new oil or gas production in Cook Inlet. Reduced royalty would be based on determination of the Commissioner of the Department of Natural Resources and would apply to new fields beginning production after January 1, 2024, previously producing fields that did not produce in 2024, or production from new wells brought into production on or after January 1, 2025, if the oil or gas produced by those wells could not be economically produced from existing wells. For qualifying production, the State royalty for gas would be reduced to zero and the royalty for oil would be reduced to 50 percent of the minimum fixed royalty rate. The reduced royalty would end after the earlier of 10 years after commencement of production after July 1, 2024, or the date that a commercial quantity of oil or gas is shipped out of the Cook Inlet sedimentary basin.

This bill would not make any direct changes to taxes.

Revenue Impact

The revenue impact in this fiscal note is limited to the oil and gas production tax administered by the Tax Division. The most significant impacts to state revenue would be to royalties collected by the Department of Natural Resources.

Based on the Spring 2024 forecast, no oil production in the forecast would qualify for royalty reduction but a share of gas production in the forecast may qualify. Qualifying gas production represents wells that are expected to be drilled after July 1, 2024, to meet existing gas contracts. Production tax revenue is impacted because the production tax applied to taxable oil and gas, which is calculated after subtracting royalties; with reduced royalty, a slightly higher quantity of gas would be taxable. The production tax for gas in Cook Inlet is 13 percent of gross value with a per-mcf tax ceiling of 17.7 cents per taxable mcf for new fields and averaging 15.9 cents per taxable mcf for existing fields.

The revenue impact of this bill is shown as indeterminate because the Department cannot precisely determine the volume of gas that would qualify for royalty relief under the existing forecast, or the volume of new oil and gas that might be incentivized by this bill. Based on the Spring 2024 forecast with no changes to company behavior or investment, production tax increases of several hundred thousand dollars annually would be likely, with the exact amount being uncertain. If additional production and investment takes place as intended with this legislation, the tax impacts would be greater and could also extend to increased property tax and corporate income tax.

Implementation Cost

The Tax Division does not anticipate any additional costs as a result of this legislation.