

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH S — JUNEAU 99801

March 24, 1975

The Honorable Kathryn Poland
Chairman
Senate Resources Committee
Alaska State Legislature
State Capitol Building
Juneau, Alaska 99811

Dear Senator Poland:

re Senate Bill No. 276

Senate Bill No. 276, an Act relating to the oil and gas reserves ad valorem tax and its relationship to other oil and gas taxation was introduced on March 14, 1975 and referred to the Senate Resources and Finance Committees.

For the consideration of the Senate Resources Committee, I am enclosing a copy of a memorandum dated March 18, 1975 from Frederick P. Boetsch, Deputy Commissioner of the Department of Revenue addressed to Sterling Gallagher, Commissioner of Revenue advising of projected increases in revenues for the fiscal years 1976 and 1977 and setting forth costs of administration.

If you, or any members of your Committee have any questions on the material submitted, kindly contact the writer by telephone at 465-2397 and I will contact Mr. Boetsch for further material or testimony.

Very truly yours,

R. D. Stevenson
Special Assistant

RDS:sp
Enclosure

cc The Honorable Bill Ray
Chairman
Senate Finance Committee

Frederick P. Boetsch
Deputy Commissioner
Department of Revenue

MEMORANDUM

TO: Sterling Gallagher
Commissioner
Department of Revenue

DATE : March 18, 1975

FROM:

Frederick P. Boetsch *FPB*
Deputy Commissioner for Taxation
Department of RevenueSUBJECT: SB 276 - Tax on Reserve
of Oil and Gas

This Bill would place a tax on the value of an interest in the proven reserves of an oil or gas property. The value would be measured by the present value of the future income to be received from the production of oil and gas from a particular field. The incidence of this tax would fall on the holders of leases on or owners of oil and gas reserves in the state. The largest incidence, of course, would be on the holders of the leases in the Prudhoe Bay area.

The bill would call for the higher of the severance tax in the case of a producing field or this tax to be paid with a provision for credits to accumulate to the extent that the tax is paid. These credits would then be taken as a credit against severance taxes at a later date.

The primary administrative problem connected with this bill is that assumptions must be made about all of the variables related to determining value. In order to make reasonable and defensible assumptions, we will need the expertise of established petroleum valuation engineers on a contractual basis.

The costs of administration for this bill are approximately \$100,000 per year, the details of which are broken down in the attached Fiscal Note. This represents less than 1/2 mill per \$1.00 of tax collected - probably the least cost of any tax, anywhere. Although we hope the legal services provided for will not be necessary, we certainly should be ready if a legal challenge occurs.

The projected revenues from this bill for FY 76 and 77 are as follows:

Projected Increases in Revenues
(\$000 omitted)

FY 76	FY 77
<u>230300.0</u>	<u>286600.0</u>

FPB:gd

The Legislature of the State of Alaska
FISCAL NOTE

First Session - Ninth Legislature

I. REQUEST

Bill No. Senate Bill No. 276
 Title: Oil and Gas Reserves Ad Valorem Tax
 Requested by: _____ Date: _____
 Return Date Requested: _____
 Agency: Department of Revenue Program: _____

II. FISCAL DETAIL

Budget Request Unit(s) Affected: _____

A. EXPENDITURES: (Thousands of dollars)

OBJECT	FY 75	FY 76	FY 77	FY 78	FY 79	FY 80
100 PERSONAL SERVICES						
200 TRAVEL		5.0	5.3			
300 CONTRACTUAL		88.0	93.0			
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		93.0	98.3			

B. FUNDING: (Thousands of dollars)

GENERAL FUND		93.0	98.3			
FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	-0-/	-0/	/	/	/
MAN MONTHS (P./T.)	/	-0-/	-0-/	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

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FEDERAL FUNDS						
OTHER						

C. POSITIONS:

PERMANENT/TEMPORARY	/	-0-	-0-	/	/	/
MAN MONTHS (P./T.)	/	-0-	-0-	/	/	/

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Per attached breakdown adjusted for 5.5% inflation in
FY 1977

IV. ATTACHMENTS

V. DATE: March 18, 1975 PREPARED BY: Frederick H. Borchert

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

TAX ON RESERVES
ADMINISTRATIVE COSTS
March 18, 1975

Contractual support of this administrative function is recommended:

1. Contract with a firm to provide petroleum engineer services, 180 days @ \$250 day	\$45,000
2. Production of reports, graphs, maps and charts	5,000
3. Travel for firm to and from Alaska	5,000
4. Hearings, Transcripts and Testimony preparation	8,000
5. Contract with a firm to provide petroleum legal services	<u>30,000</u>
Total Administrative Costs	<u>\$93,000</u>