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FISCAL NOTE

REQUEST: \_\_\_\_\_

Revision Date: 02/22/88  
Title: Extension of the exemption from the levy & collection of the tax imposed on certain oil & gas pipeline transportation property during the period of pipeline construction  
Sponsor: Donley, et al  
Requestor: House Labor & Commerce

Agency Affected: Revenue  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

(see attachment)

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: (Attach a separate page if necessary)  
(see attachment)

Prepared By: Wm. Floerchinger, Director Phone: 276-1363  
Division: Oil and Gas Audit Date: 02/22/88  
Approved by Commissioner: Hugh Malone Date: 02/22/88  
Agency: Department of Revenue

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

STATE OF ALASKA  
DEPARTMENT OF REVENUE  
OIL & GAS AUDIT DIVISION

MEMORANDUM

TO: Royce Weller  
Commissioner's Office

FROM: Clyde Benson  
Petroleum Property Tax Section

THROUGH: William Floerchinger  
Director, Oil & Gas Audit Division  
Oil & Gas Audit Division

DATE: February 18, 1988

SUBJECT: Property Tax Section response to CS for H.B. 421

In reading the purpose section of this bill, I understand the sponsor's desire to encourage a major construction project within Alaska. However, I am unable to envision any set of circumstances which would make pre-investment in an oil or gas pipeline a viable option simply to avoid a two percent property tax. Hopefully, the following will support this position.

1. Traditionally, some portion of a pipeline is built with borrowed funds. The prime rate has been in the vicinity of ten percent for the last several years.
2. It is reasonable to believe any major corporation could earn substantially more than two percent on it's own capital.
3. Using last years valuation of the TAPS line, the Oil & Gas property tax represented approximately 21 cents of the nearly four dollar tariff.
4. Property taxes paid during construction of a line are allowed into the owner's rate base and recovered in full during the useful life.
5. In discussions with our own economists and contract petroleum engineers, no one believed that the absence of a property tax would be a factor in

bringing on a marginal oil or gas field. Price has generally been the driving force.

6. Section 2. (b) appears to prohibit a municipality from taxing the property if a State exemption is granted. Typically, impact from a major construction project is felt at the municipal level first; impacting schools, fire, police and utilities. Property taxes are normally the source of funds to respond to these increased demands.
7. Under Section 3. (a) (1), it is difficult to imagine what proof a taxpayer could provide which demonstrates how granting an exemption would cause pipeline construction substantially earlier than economically feasible.
8. Section 3. (a) (2) places the Department in the uncomfortable position of determining whether the potential economic activity or property tax provides the most benefit to the State and municipalities. It is quite possible to visualize situations in which one entity benefits while the other is adversely impacted.

Since pipelines exist within Alaska which have cost as little as ten million and as much as eight billion, no attempt has been made to measure the advantages of increased economic benefit versus property taxation.

If the Labor and Commerce committee is interested in proposing a hypothetical pipeline our section would be agreeable in estimating potential losses in property tax. I believe either Vince Wright's or Chuck Logsdon's section would be better equipped to provide the dollar estimates from increased economic activity.

STATE OF ALASKA  
DEPARTMENT OF REVENUE  
OIL & GAS AUDIT DIVISION

MEMORANDUM

RECEIVED  
ALASKA DEPARTMENT OF REVENUE

FEB 09 1988

OFFICE OF THE COMMISSIONER

TO: Royce Waller  
Commissioner's Office

FROM: Clyde Benson  
Petroleum Property Tax Section

THROUGH: William Floerchinger  
Director, Oil & Gas Audit Division  
Oil & Gas Audit Division

DATE: February 8, 1988

SUBJECT: Property Tax Section response to H.B. 421

In our initial reading of the bill we are somewhat confused as what its purpose is. Section 1. (d) states in part: "A taxpayer whose property is exempted from tax under (b) of this section may obtain an extension of the exemption for the property...."

The reference to (b) of this section leads us to the phrase "There is exempt from state taxes levied or authorized under 10(a) of this chapter, before the construction commencement date, property which is committed by contract or other agreement for use in this state primarily for the production or pipeline transportation of gas or unrefined oil....".

The construction commencement date is defined under AS 43.56.210 (2) as: "the earlier of April 1, 1974 or the date the following occur:".

The statement "the earlier of" would virtually eliminate any property on which construction commenced after April 1, 1974. This language effectively eliminates any exemption.

We have assumed this was an over-site in H.B. 421 and is not the actual intent.

A literal reading of this bill would purport to, upon application by the owner, exempt from State property tax the production facilities and pipeline property of any future oil and gas fields in Alaska, including development

of the Prudhoe Bay gas cap and/or any ANWAR expenditures, during the construction phase.

We do not have any information on the costs of development for ANWAR or any other undeveloped oil and gas properties in Alaska and therefore are reluctant to assign potential losses in State tax revenue. The data we have regarding gas production from the Prudhoe Bay field is somewhat dated and cannot be relied upon with any real certainty. Below are listed our assumptions regarding potential investment and resultant losses in property tax revenues:

Prudhoe Bay Gas Plant	\$ 2,000,000,000
TransAlaska Gas Line	9,000,000,000
Associated pipelines & facilities	1,000,000,000
<b>Total investment</b>	<b>\$12,000,000,000</b>

Assuming a three year construction schedule with equal expenditures each year the following losses in State revenue occur:

Year 1 - 33% of 12,000,000,000	\$4,000,000,000
Tax Rate	.02
	<u>\$ 80,000,000</u>
Municipal share (est.)	(40,000,000)
Net State loss	<u>\$ 40,000,000</u>
	=====
Year 2 - 66% of 12,000,000,000	\$8,000,000,000
Tax Rate	.02
	<u>\$ 160,000,000</u>
Municipal share (est.)	(80,000,000)
Net State loss	<u>\$ 80,000,000</u>
	=====
Year 3 - 100% of 12,000,000,000	\$12,000,000,000
Tax Rate	.02
	<u>\$ 240,000,000</u>
Municipal share (est.)	(120,000,000)
Net State loss	<u>\$ 120,000,000</u>
	=====

The above scenario produces a loss in State property tax of approximately \$260 million dollars over a three year period. Since the bill does not specifically create an exemption of this property under AS 43.56.020 (a) we have assumed the property would be taxable by the municipalities.

If we had a clearer picture of the purpose of the bill and sufficient time to gather the pertinent information, a more exact projection of tax losses could be determined.

Since there are so many unknowns in this bill as to what the Department's responsibilities are, it is difficult to determine what our fiscal needs would be to administer it.