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# HOUSE COMMITTEE REPORT

(11)

Date Referred: May 5, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: 5/6/89

The FINANCE Committee considered:

CSSB 260 (FINANCE) am

CS FOR SENATE BILL NO. 260 (Finance) am

[ CONSERVATION SURCHARGE ON OIL ]

"An Act imposing a conservation surcharge of \$.05 per barrel on oil subject to the oil and gas properties production tax; authorizing the appropriation of the proceeds of the surcharge to the oil and hazardous substance release (SEE ATTACHED FOR FULL TITLE)

**RECOMMENDATIONS:**

- [ ] be replaced with \_\_\_\_\_ [ ] the same title
- [ ] \_\_\_\_\_ [ ] a new title
- [ ] have attached amendment(s)
- [  ] do pass
- [ ] do not pass
- [ ] no recommendation
- [ ] individual recommendations
- [ ] additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(S):  
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- [ ] fiscal impact \_\_\_\_\_
- [ ] zero fiscal note \_\_\_\_\_
- [ ] zero with analysis \_\_\_\_\_

- [  ] <sup>(indeterminate)</sup> fiscal note(s) Rev. 4/29/89
- [ ] zero fiscal note(s) \_\_\_\_\_
- [  ] zero fn/analysis Admin 4/28/89

**SIGNING DO PASS:**

**SIGNING:**

(Check approp. column)

Do Not Pass    No Rec    Amend

\_\_\_\_\_  
Lynn Hoffman  
\_\_\_\_\_  
Ronald J. Larson  
\_\_\_\_\_  
C. Swackhammer  
\_\_\_\_\_  
T. Brown  
\_\_\_\_\_  
K. Koponen  
\_\_\_\_\_  
J. Ulmer  
\_\_\_\_\_  
K. Wallis

	Do Not Pass	No Rec	Amend
<u>Dick Shultz</u> Sholtz		<input checked="" type="checkbox"/>	
<u>ROBERT PHILLIPS</u> Phillips		<input checked="" type="checkbox"/>	
<u>Steve Rieger</u> Rieger		<input checked="" type="checkbox"/>	

CO - Ronald J. Larson  
Chairman's Signature  
CO Lynn Hoffman

Revised 4/29/89

FISCAL NOTE

REQUEST:

Revision Date: April 28, 1989  
Title: An Act Imposing 5¢/bbl  
fee on crude oil production  
Sponsor: Kerttula & Szymanski  
Requestor:

Agency Affected: Revenue  
BRU:  
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	See Analysis	-	-	-

FUNDING: (Thousands of Dollars)

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

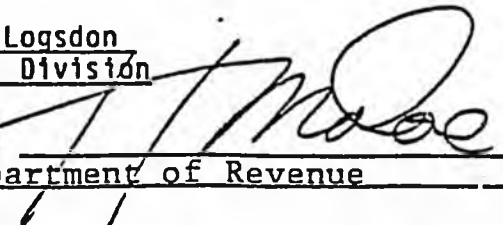
POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Charles L. Logsdon  
Division: Oil & Gas Audit Division

Phone: 277-5627  
Date: April 28, 1989

Approved by Commissioner:   
Agency: Department of Revenue

Date: 4/28/89

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

CSSB 260  
Fiscal Note Analysis

1. This bill imposes an additional severance tax on oil of \$.05 per barrel. This tax revenue is deposited into the general fund but a special accounting is to be kept of these deposits. Once the balance of deposits from this tax equals or exceeds \$25 million the tax is discontinued until such time as the balance falls below \$25 million at which point the tax is reimposed.
2. The FY 1990 number is for the 12 month period. Depending on the actual effective date, the numbers can be multiplied proportionally.
3. The volumes are based on the mid-price scenario of the Spring 1989 Department Revenue forecast.
4. The sum of revenue collected from this tax under our current assumptions from FY 1990 through FY 1994 is \$140 million, well above the \$25 million cap. It is likely that a significant portion of the revenue collected under this tax between FY 1990 and FY 1994 would be expended to ameliorate impacts of the EXXON/Valdez spill. The following table illustrates therefore, the maximum revenue that could be generated from a \$.05/bbl tax and the cumulative amount which could theoretical be made available in the event of another catastrophic oil spill.
5. The following table also illustrates the projected revenue potential of increasing the tax to \$.10/bbl and imposing the tax on State royalty barrels. Each increase in the tax of \$.05/bbl increases revenues by roughly \$30 million per year with a declining difference as Alaska production declines. The taxing of royalty barrels has the effect of transferring part of the royalty income (general fund and permanent fund) to the spill fund and has no net fiscal effect on State revenues.
6. Because the of the imposition-suspension feature of the tax, the practical effect of the \$25 million fund size is to limit the size of the check which could be immediately written to cover oil spill costs. There are several considerations with respect to the size of the fund. The ability to generate revenues into this fund is tied to future production. That is, it is harder to replenish the fund in later years as Alaskan production declines. For instance referring to the table, if a catastrophic spill occurred in 1995 which required the State to spend \$100 million, and the fund was capped at \$25 million, the fund could not be replenished until the following year. And if it is assumed that future fund revenues are available to cover the remaining \$75 million in costs associated with this hypothetical spill, this would take 6 years (2000).

Department of Revenue  
April 29, 1989  
CS SB 260 (Finance)

This fiscal note was prepared prior to the drafting of a Senate Finance Committee CS for SB 260. We understand that the elements of the CS are (as compared with the April 26 draft used by the committee for discussion on April 28): a \$.05 per-barrel "conservation surcharge" in the severance tax (AS 43.55), levied at the wellhead; the cap on the fund would be \$50 million. Additionally, the proposed CS would add a severability clause to protect against the possibility that the provisions suspending imposition of the tax (should the legislature or the governor fail to fund the oil and hazardous substance release response fund) might be found invalid.

Department of Revenue  
April 29, 1989

CSSB 260 (Finance)

1. This bill imposes a conservation surcharge in the severance tax on oil of \$.05 per barrel. This tax revenue is deposited into the general fund but a special accounting is to be kept of these deposits. The legislature is authorized to appropriate from this fund to the oil and hazardous substance release response fund. Whenever collections under the tax exceed expenditures from the fund by \$50 million or more, the tax is suspended. The tax is reimposed when the fund falls to less than \$50 million.

2. The table below shows the maximum collections annually from the tax. The FY 1990 number is for the 12 month period. Depending on the actual effective date, the numbers can be multiplied proportionally.

3. The volumes are based on the mid-price scenario of the Spring 1989 Department of Revenue forecast.

4. The annual and cumulative maximum revenue collectable under this tax under our current assumptions from FY 1990 through FY 2008 are shown on the table below. The table does not attempt to analyze expenditures from the fund; the maximum revenue will not be collected if the fund ever exceeds \$50 million.

ANNUAL AND CUMULATIVE REVENUE POTENTIAL OF  
\$.05 PER BARREL SEVERANCE TAX  
(Millions \$)

	ANNUAL	CUMULATIVE
1990	32	32
1991	30	62
1992	28	91
1993	26	117
1994	23	140
1995	20	160
1996	17	178
1997	15	193
1998	13	206
1999	11	217
2000	9	226
2001	8	234
2002	7	241
2003	6	247
2004	5	252
2005	4	255
2006	3	259
2007	3	261
2008	2	264

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: An Act levying a severance tax on oil and providing for an effective date.  
SPONSOR: Kerttula and Szymanski  
Requestor: \_\_\_\_\_

Agency Affected: Department of Administration  
BRU: Finance  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER 1034 PERS/TRS	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

No cost to the Division of Finance. The cost to set up accounting for this can be absorbed in the existing budget.

Prepared By: Keith Busch, Director  
Division: Finance

*Keith Busch*

Phone: 465-2240

Date: 4/13/89

Approved by Commissioner: John M. Andrews  
Agency: Department of Administration

Date: 4/13/89

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

*Changes in CS SB 260 (FIN) have no fiscal impact. This fiscal note is appropriate for 4-28-89*

Amended: 4/29/89  
Offered: 4/28/89  
Referred: Rules

6-1129M

Original sponsors: Kerttula and Szymanski

1 IN THE SENATE BY THE FINANCE COMMITTEE  
2 CS FOR SENATE BILL NO. 260 (Finance) am  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act imposing a conservation surcharge of \$.05 per  
7 barrel on oil subject to the oil and gas properties  
8 production tax; authorizing the appropriation of the  
9 proceeds of the surcharge to the oil and hazardous  
10 substance release response fund; providing for sus-  
11 pension of the surcharge when cumulative deposits of  
12 revenue generated by the surcharge equal or exceed  
13 cumulative expenditures from the fund by \$50,000,000,  
14 and for reimposition of the surcharge when cumulative  
15 deposits of revenue generated by the surcharge do not  
16 exceed cumulative expenditures from the fund by  
17 \$50,000,000 or more; requiring suspension of the  
18 surcharge under other conditions; and providing for  
19 an effective date."

20 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

21 \* Section 1. FINDINGS AND PURPOSE. (a) The legislature finds that the  
22 March 24, 1989, oil spill disaster in Prince William Sound demonstrates a  
23 need for the state to have an independent spill containment and cleanup  
24 capability in the event of future discharges of oil or a hazardous sub-  
25 stance.

26 (b) It is the purpose of this Act to provide assurance to the people  
27 of the state that their health, safety, and well-being will be protected  
28 from the adverse consequences of oil and hazardous substance releases of a  
29 magnitude that presents a grave and substantial threat to the economy and

1 the environment of the state.

2 \* Sec. 2. AS 43.55 is amended by adding new sections to read:

3 ARTICLE 2. CONSERVATION SURCHARGE.

4 Sec. 43.55.200. SURCHARGE LEVIED. (a) Every producer of oil  
5 shall pay a surcharge of \$.05 per barrel of oil produced from each  
6 lease or property in the state, less any oil the ownership or right to  
7 which is exempt from taxation.

8 (b) The surcharge imposed by (a) of this section is in addition  
9 to and shall be paid in the same manner as the tax imposed by AS 43.-  
10 55.011 - 43.55.150.

11 (c) A producer of oil shall make reports of production in the  
12 same manner and under the same penalties as required under AS 43.55.-  
13 011 - 43.55.150.

14 Sec. 43.55.210. DISPOSITION OF PROCEEDS OF SURCHARGE. (a) The  
15 commissioner shall deposit the proceeds of the surcharge levied by  
16 AS 43.55.200 into the general fund.

17 (b) The commissioner of administration shall separately account  
18 for all proceeds of the surcharge that are deposited into the general  
19 fund.

20 Sec. 43.55.220. USE OF REVENUE DERIVED FROM SURCHARGE. The  
21 legislature may appropriate the annual estimated balance of the ac-  
22 count established under AS 43.55.210 to the oil and hazardous sub-  
23 stance release response fund established by AS 46.08.010.

24 Sec. 43.55.230. SUSPENSION AND REIMPOSITION OF THE SURCHARGE.  
25 (a) Not later than 30 days after the end of each calendar quarter,  
26 the commissioner of administration shall determine the cumulative  
27 total of money

28 (1) that has been deposited through that calendar quarter  
29 into the general fund under AS 43.55.210;

1 (2) expended through that calendar quarter from the oil and  
2 hazardous substance release response fund established in AS 46.08.010.

3 (b) Within 15 days after making the determinations required by  
4 (a) of this section, the commissioner of administration shall report  
5 to the commissioner the difference between the amount determined under  
6 (a)(1) of this section and amount determined under (a)(2) of this  
7 section.

8 (c) If the commissioner of administration reports that the  
9 difference determined under (b) of this section equals or exceeds  
10 \$50,000,000, the commissioner of revenue shall suspend imposition and  
11 collection of the surcharge levied and collected under AS 43.55.200.  
12 Suspension of the imposition and collection of the surcharge begins on  
13 the first day of the calendar quarter next following the commission-  
14 er's receipt of the commissioner of administration's report under (b)  
15 of this section. Before the first day of a suspension authorized by  
16 this subsection, the commissioner shall make a reasonable effort to  
17 notify all persons who are known to the department to be paying the  
18 surcharge under AS 43.55.200 that the surcharge will be suspended.

19 (d) Except as provided in AS 43.55.240, if the commissioner of  
20 administration reports that the difference determined under (b) of  
21 this section is less than \$50,000,000, the commissioner of revenue  
22 shall require imposition and collection of the surcharge authorized  
23 under AS 43.55.200. Reimposition of the surcharge begins on the first  
24 day of the calendar quarter next following the commissioner's receipt  
25 of the commissioner of administration's report under (b) of this  
26 section. Before the first day of reimposition of the surcharge au-  
27 thorized by this subsection, the commissioner shall make a reasonable  
28 effort to notify all persons who are known to the department to be  
29 required to pay the surcharge under AS 43.55.200 that the surcharge

1 will be reimposed.

2 Sec. 43.55.240. SURCHARGE NOT IMPOSED. The surcharged author-  
3 ized by AS 43.55.200 is not levied during any fiscal year for which  
4 the estimated revenue from the surcharge would be sufficient to re-  
5 store the balance of the oil and hazardous substance release response  
6 fund on the first day of the fiscal year to at least \$50,000,000, and

7 (1) the legislature does not, during the regular legisla-  
8 tive session preceding the first day of the fiscal year, appropriate  
9 money from the general fund to the oil and hazardous substance release  
10 response fund sufficient to restore the balance of that fund on the  
11 first day of the fiscal year to at least \$50,000,000; or

12 (2) the legislature, during the regular legislative session  
13 preceding the first day of the fiscal year, appropriates money from  
14 the general fund to the oil and hazardous substance release response  
15 fund sufficient to restore the balance of that fund on the first day  
16 of the fiscal year to at least \$50,000,000 and, because of gubernatorial veto or reduction in the amount of the appropriation, restoration of the balance of the fund to at least \$50,000,000 does not  
17 become law.  
18  
19

20 Sec. 43.55.290. DEFINITION. In AS 43.55.200 - 43.55.290 "sur-  
21 charge" means the surcharge levied by AS 43.55.200.

22 \* Sec. 3. APPLICATION OF AS 43.55.240. (a) AS 43.55.240, added by  
23 sec. 2 of this Act, does not apply to prevent the levy and collection of  
24 the surcharge imposed by AS 43.55.200 until the first day of the fiscal  
25 year next following the day on which the balance of the oil and hazardous  
26 substance release response fund first exceeds \$50,000,000.

27 (b) The commissioner of administration shall certify to the commis-  
28 sioner of environmental conservation, the commissioner of revenue, and the  
29 division of legislative finance the date on which the balance of the oil

1 and hazardous substance release response fund first exceeds \$50,000,000.

2 \* Sec. 4. APPLICABILITY OF ACT. This Act does not relieve a person  
3 responsible for an oil terminal facility, offshore exploration or produc-  
4 tion facility, or a vessel that transports crude oil, or a person who has  
5 control of a hazardous substance, from the responsibility for containing  
6 and cleaning up a discharge of oil or the hazardous substance as required  
7 by law.

8 \* Sec. 5. This Act takes effect July 1, 1989.

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

COPY

POUCH V STATE CAPITOL  
JUNEAU, ALASKA 99811  
907 465 3800

MEMORANDUM

May 4, 1989

SUBJECT: CSSB 260 (Finance) am - sectional analysis  
TO: Senator Jalmar Kerttula  
FROM: Jack Chenoweth  
Legislative Counsel

The Senate-passed legislation imposes a nickel-per-barrel conservation surcharge on oil subject to the state oil and gas properties production (i.e. severance) tax, authorizes appropriation of revenue generated by the surcharge to the oil and hazardous substance release response fund (AS 46.08.010), and provides a mechanism by which the levy and collection of the surcharge will "click on" and "click off" under certain circumstances.

Bill section 1 offers a statement of the purpose for the legislation. The statement appears in other Senate-sponsored legislation that is part of what had started as a four-bill package.

Bill section 2 adds new sections to AS 43.55, the state's severance tax:

Sec. 43.55.200 levies the surcharge. The incidence of the surcharge is the same as for the severance tax, and the surcharge is made payable in the same manner as the existing severance tax.

Sec. 43.55.210 directs payment of the revenue from the surcharge into the general fund and a separate accounting of the amounts so deposited.

Sec. 43.55.220 authorizes the legislature to appropriate from the account (in the general fund) established to receive the revenue generated by the surcharge to the oil and hazardous substance release response fund (AS 46.08.010), an existing fund.

Sec. 43.55.230 contains one element of the "on/off" feature applicable to levy and collection of the surcharge. Comparing amounts deposited into the general fund to amounts expended from the oil and hazardous substance release response fund: when cumulative revenue generated by the surcharge exceeds cumulative expenditures from the fund by \$50,000,000 or more, levy and collection of the surcharge is suspended; when cumulative revenue from the surcharge exceeds cumulative expenditures from the fund by less than \$50,000,000, levy and collection of the surcharge is reimposed. The cumulative totalling is done 30 days after the close of the calendar quarter; a comparison of the two figures follows; the change (i.e. suspension or reimposition of the surcharge) takes effect the first day of the next following calendar quarter. The commissioner of revenue must alert taxpayers to the change(s).

Sec. 43.55.240 addresses the second element of the "on/off" feature applicable to the levy and collection of the surcharge. If, during a forthcoming fiscal year, estimated revenue from the surcharge would be sufficient to restore the balance of the oil and hazardous substance release response fund to \$50,000,000, the surcharge may not be imposed during that fiscal year

-- if the legislature adjourns from a regular session without appropriating revenue from the surcharge account from the general fund over to the oil and hazardous substance release response fund sufficient to restore the balance of that fund to at least \$50,000,000; or

-- if the legislature makes the appropriation but the governor, exercising veto powers, does not allow the appropriation of an amount sufficient to restore the balance of that fund to at least \$50,000,000.

Sec. 43.55.290 adds a definition pertinent to the chapter.

Bill section 3 is included in order to meet the argument that, in its first year(s), the estimated revenue from the surcharge may not be sufficient to bring the balance in the oil and hazardous substance release response fund to at least \$50,000,000. In essence, the "on/off" feature does not trigger until the balance of that fund first reaches \$50,000,000.

Senator Jalmar Kerttula  
Page 3  
May 4, 1989

Bill section 4, a provision common to the various bills in this package, is included to make clear that this legislation does not relieve a party from exercising responsibility for a containment or cleanup as may be required by law.

Bill section 5 gives the bill a July 1, 1989 effective date.

JC:gc  
WKG10/050