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260

HOUSE COMMITTEE REPORT

(9)

Date Referred: May 1, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: 5-4-89

The RESOURCES Committee considered:

CSSB 260(FIN)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 response fund; providing for suspension of the surcharge when cumulative deposits of revenue generated by the surcharge equal or exceed cumulative (SEE ATTACHED FOR FULL TITLE)

RECOMMENDATIONS:

[] the same title
[] a new title

[] be replaced with _____

[] have attached amendment(s)

[X] 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 _____

[] fiscal note(s) _____

[] zero fiscal note _____

[X] zero fiscal note(s) Admin 4/28/89

[] zero with analysis _____

[X] zero fn/analysis Rev. 4/29/89

SIGNING DO PASS:

SIGNING:
(Check approp. column)

Do Not Pass
No Rec
Amend

Sam Anderson

Chip Anderson

Steve Jackson

Mike P.A.

Bill Hudson

Sam Anderson
Chairman's Signature

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Department of Administration
 Title: An Act levying a severance tax BRU: Finance
on oil and providing for an effective date.
 Sponsor: Kerttula and Szymanski Components: _____
 Requestor: _____

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 *Keith Busch* Phone: 465-2240
 Division: Finance Date: 4/13/89

Approved by Commissioner: John M. Andrews *JM* Date: 4/13/89
 Agency: Department of Administration

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

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: 277-5027
Date: April 28, 1989

Approved by Commissioner: [Signature]
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

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

COPY

POUCH Y 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

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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