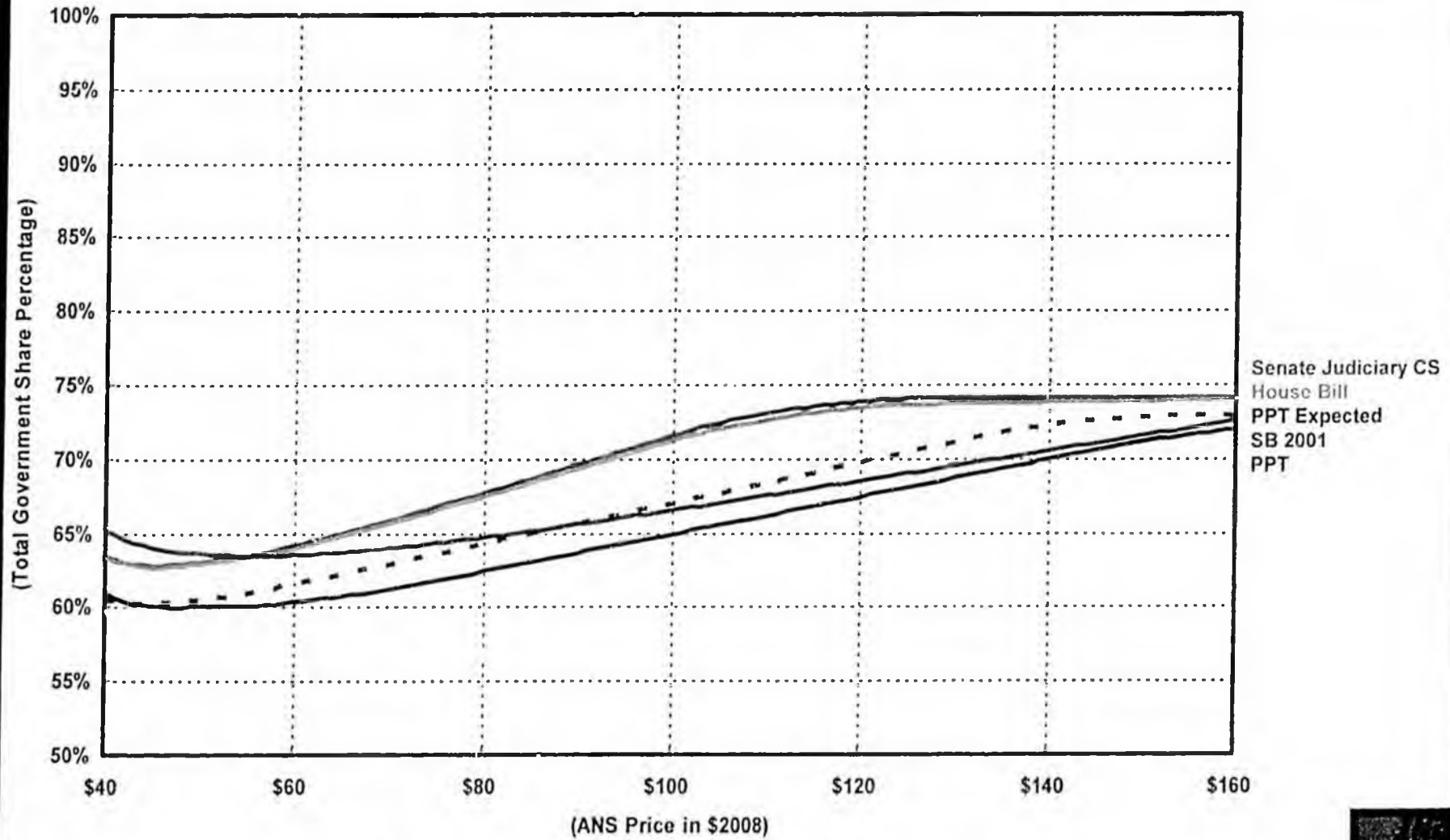


AK LEGISLATURE FINANCE COMMITTEES FILES 2007-2008 3406

258

Estimated Total Government Share at Various West Coast ANS Price Levels (FY 2008-2014)



Note: Volumes per current Fall 2007 DOR Forecasts.

PPT Expected: Current Law using costs per fiscal note to HB3001.

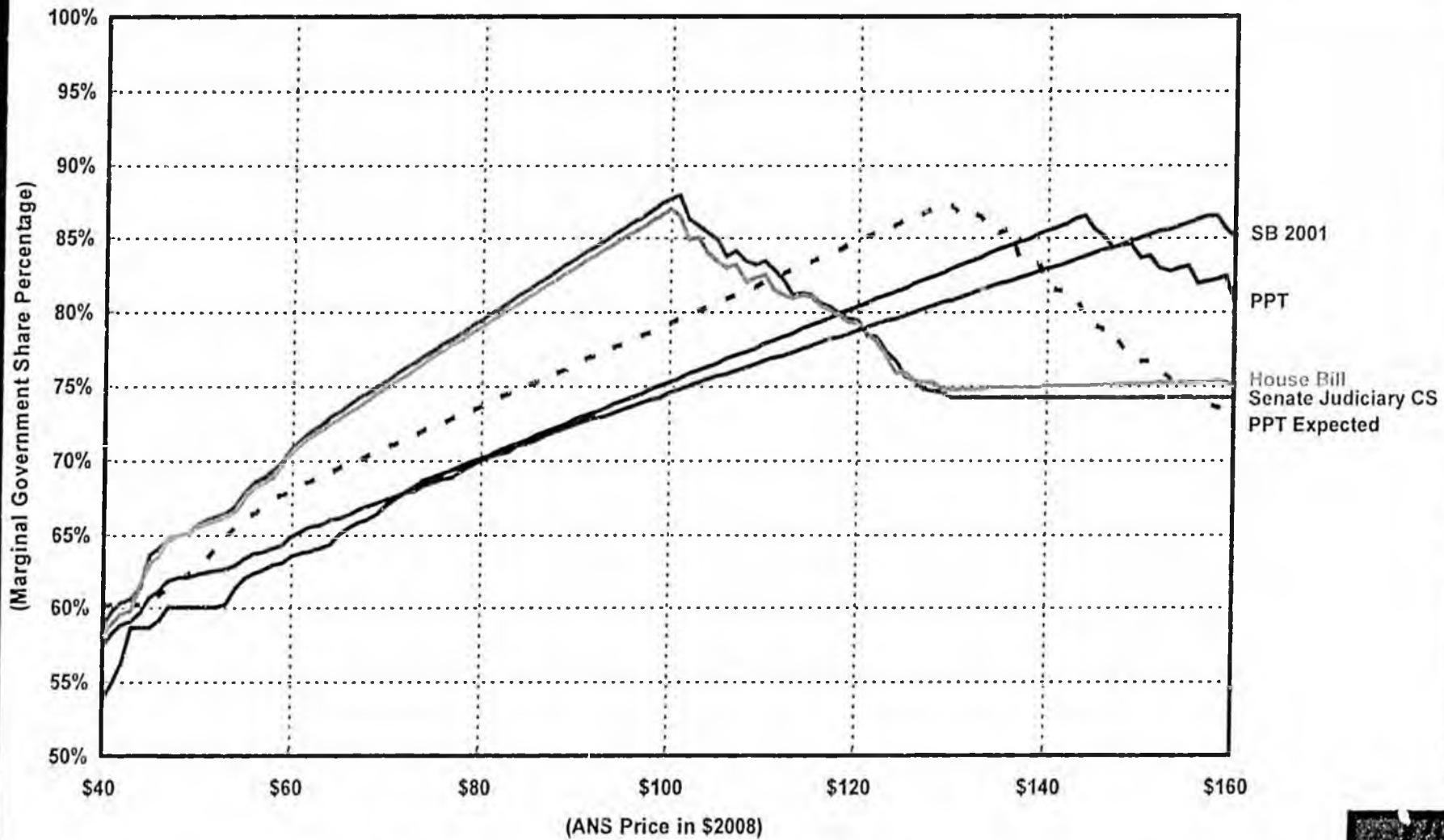
Senate Judiciary: SB2001 using 0.4% progressivity rate, 60% overall cap, TIE credit 2006-2007 for new producers, does not include TAPS adjustment.

House Bill: SB2001 using 0.4% progressivity rate, 60% overall cap, TIE credit 2006-2007 for new producers, Opex indexed to 2006 figures.

11/12/07



Estimated Marginal Government Share at Various West Coast ANS Price Levels (FY 2008-2014)



Note: Volumes per current Fall 2007 DOR Forecasts.

PPT Expected: Current Law using costs per fiscal note to HB2001.
 Senate Judiciary: SB2001 using 0.4% progressivity rate, 60% overall cap, TIE credit 2006-2007 for new producers, does not include TAPS adjustment.
 House Bill: SB2001 using 0.4% progressivity rate, 60% overall cap, TIE credit 2006-2007 for new producers, Ops Indexed to 2006 figures.



Estimated Average Effective Tax Rate, Government Shares and Revenue Impacts at Various West Coast ANS Price Levels (FY 2008-2014)

Average ANS West Coast Price in Real 2008 Dollars:	\$40.00	\$60.00	\$80.00	\$100.00	\$120.00	\$140.00	\$160.00
Effective Tax Rate on Gross Taxable Value (Percent)							
PPT	4.0%	9.6%	15.6%	21.3%	26.7%	31.8%	36.0%
PPT Expected	11.6%	17.7%	24.4%	30.6%	36.5%	41.8%	43.6%
SB 2001	8.9%	14.0%	19.1%	23.9%	28.5%	32.8%	37.0%
Senate Judiciary CS	6.8%	14.9%	23.6%	31.8%	37.1%	38.7%	39.6%
House Bill	6.8%	14.6%	23.1%	31.2%	36.4%	38.2%	39.4%
Total Government Share of Net Cash (Percent)							
PPT	60.9%	60.3%	62.4%	64.9%	67.4%	69.9%	71.9%
PPT Expected	60.4%	61.5%	64.2%	66.9%	69.7%	72.2%	72.9%
SB 2001	65.3%	63.5%	64.7%	66.5%	68.5%	70.5%	72.6%
Senate Judiciary CS	-63.4%	64.1%	67.7%	71.5%	73.9%	74.1%	74.1%
House Bill	63.4%	64.0%	67.5%	71.2%	73.4%	73.8%	74.0%
Marginal Government Share of Net Cash (Percent)							
PPT	53.8%	63.4%	70.1%	75.2%	80.4%	85.5%	80.6%
PPT Expected	60.2%	68.0%	73.5%	79.1%	84.7%	81.9%	73.0%
SB 2001	57.4%	64.8%	70.0%	74.5%	78.8%	83.0%	85.0%
Senate Judiciary CS	58.7%	70.7%	79.5%	87.7%	79.4%	74.1%	74.1%
House Bill	58.1%	70.5%	79.0%	87.0%	79.2%	75.0%	74.9%
Annual Average Tax Difference Above/(Below) PPT (Nominal \$M)							
PPT Expected	\$622	\$1,036	\$1,545	\$2,062	\$2,651	\$3,153	\$2,776
SB 2001	\$402	\$566	\$611	\$578	\$484	\$309	\$372
Senate Judiciary CS	\$230	\$673	\$1,394	\$2,320	\$2,796	\$2,158	\$1,305
House Bill	\$229	\$644	\$1,329	\$2,204	\$2,614	\$2,006	\$1,238

Note: Volumes per current Fall 2007 DOR Forecasts.

PPT Expected: Current Law using costs per fiscal note to HB3001.

Senate Judiciary: SB2001 using 0.4% progressivity rate, 60% overall cap, TIE credit 2008-2007 for new producers, does not include TAPS adjustment.

House Bill: SB2001 using 0.4% progressivity rate, 60% overall cap, TIE credit 2008-2007 for new producers, Opex indexed to 2008 figures.

Estimated Average Effective Tax Rate, Government Shares and Revenue Impacts at Various West Coast ANS Price Levels (FY 2008-2014)

Average ANS West Coast Price in Real 2008 Dollars:	\$40.00	\$60.00	\$80.00	\$100.00	\$120.00	\$140.00	\$160.00
Effective Tax Rate on Gross Taxable Value (Percent)							
PPT	4.0%	9.6%	15.6%	21.3%	26.7%	31.8%	36.0%
PPT Expected	11.6%	17.7%	24.4%	30.6%	36.5%	41.8%	43.6%
SB 2001	8.9%	14.0%	19.1%	23.9%	28.5%	32.8%	37.0%
Senate Judiciary CS	6.8%	14.9%	23.6%	31.8%	37.1%	38.7%	39.6%
House Bill	6.8%	14.6%	23.1%	31.2%	36.4%	38.2%	39.4%
Total Government Share of Net Cash (Percent)							
PPT	60.9%	60.3%	62.4%	64.9%	67.4%	69.9%	71.9%
PPT Expected	60.4%	61.5%	64.2%	66.9%	69.7%	72.2%	72.9%
SB 2001	65.3%	63.5%	64.7%	66.5%	68.5%	70.5%	72.6%
Senate Judiciary CS	-63.4%	64.1%	67.7%	71.5%	73.9%	74.1%	74.1%
House Bill	63.4%	64.6%	67.5%	71.2%	73.4%	73.8%	74.0%
Marginal Government Share of Net Cash (Percent)							
PPT	53.8%	63.4%	70.1%	75.2%	80.4%	85.5%	80.6%
PPT Expected	60.2%	68.0%	73.5%	79.1%	84.7%	81.9%	73.0%
SB 2001	57.4%	64.8%	70.0%	74.5%	78.8%	83.0%	85.0%
Senate Judiciary CS	58.7%	70.7%	79.5%	87.7%	79.4%	74.1%	74.1%
House Bill	58.1%	70.5%	79.0%	87.0%	79.2%	75.0%	74.9%
Annual Average Tax Difference Above/(Below) PPT (Nominal \$M)							
PPT Expected	\$622	\$1,036	\$1,545	\$2,062	\$2,651	\$3,153	\$2,776
SB 2001	\$402	\$566	\$611	\$578	\$484	\$309	\$372
Senate Judiciary CS	\$230	\$673	\$1,394	\$2,320	\$2,796	\$2,158	\$1,305
House Bill	\$229	\$644	\$1,329	\$2,204	\$2,611	\$2,006	\$1,238

Note: Volumes per current Fall 2007 DOR Forecasts.

PPT Expected: Current Law using costs per fiscal note to SB2001.

Senate Judiciary: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2006-2007 for new producers, does not include TAPS adjustment.

House Bill: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2006-2007 for new producers, Opex indexed to 2008 figures.



LFD -
TAX RATES

Tax Rates in Various Versions of SB 2001

November 12, 2007

David Teal

Major Provisions of a Tax System

1. Taxable Revenue (Gross or Net)
2. Base Rate
3. Surcharge (Progressive Rate)
4. Trigger Point for Surcharge
5. Maximum Rate

All Tax Systems Discussed are Based on Net Cash Flow

	Base	Trigger	Rate	Trigger	Rate	Trigger	Rate	Trigger	Rate	Maximum
PPT	22.5%	\$ 40	0.25%							47.5%
ACES	25.0%	\$ 30	0.20%							50.0%
Sen Jud	25.0%	\$ 30	0.40%							50.0%
House	25.0%	\$ 30	0.40%							50.0%
Sen Fin	22.5%	\$ 30	0.60%	\$ 30	0.50%	\$ 50	0.35%	\$ 70	0.10%	75.0%

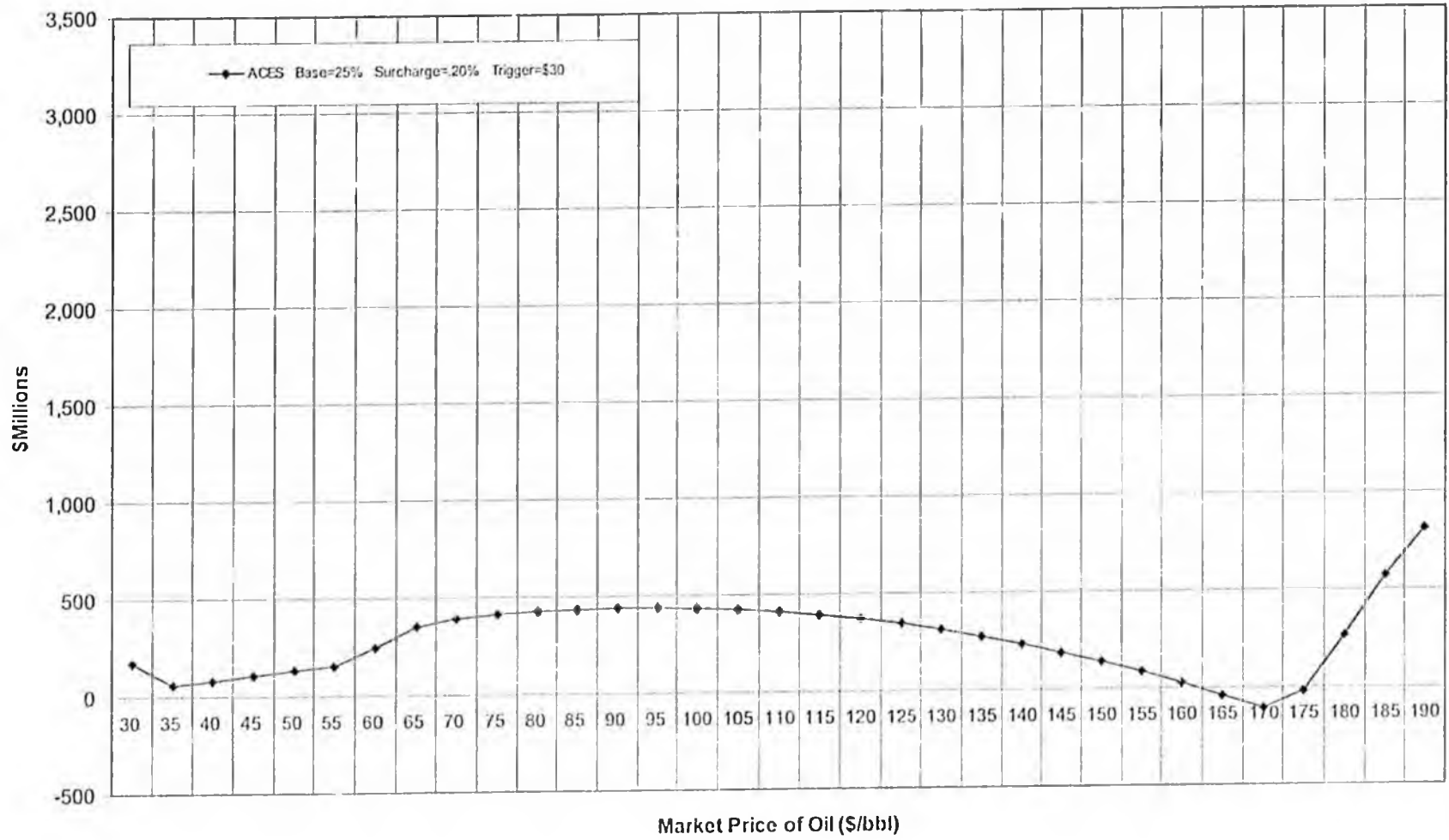
Comparing the Tax Systems

1. Increase in Revenue (relative to PPT)
2. Total Revenue
3. Government Share

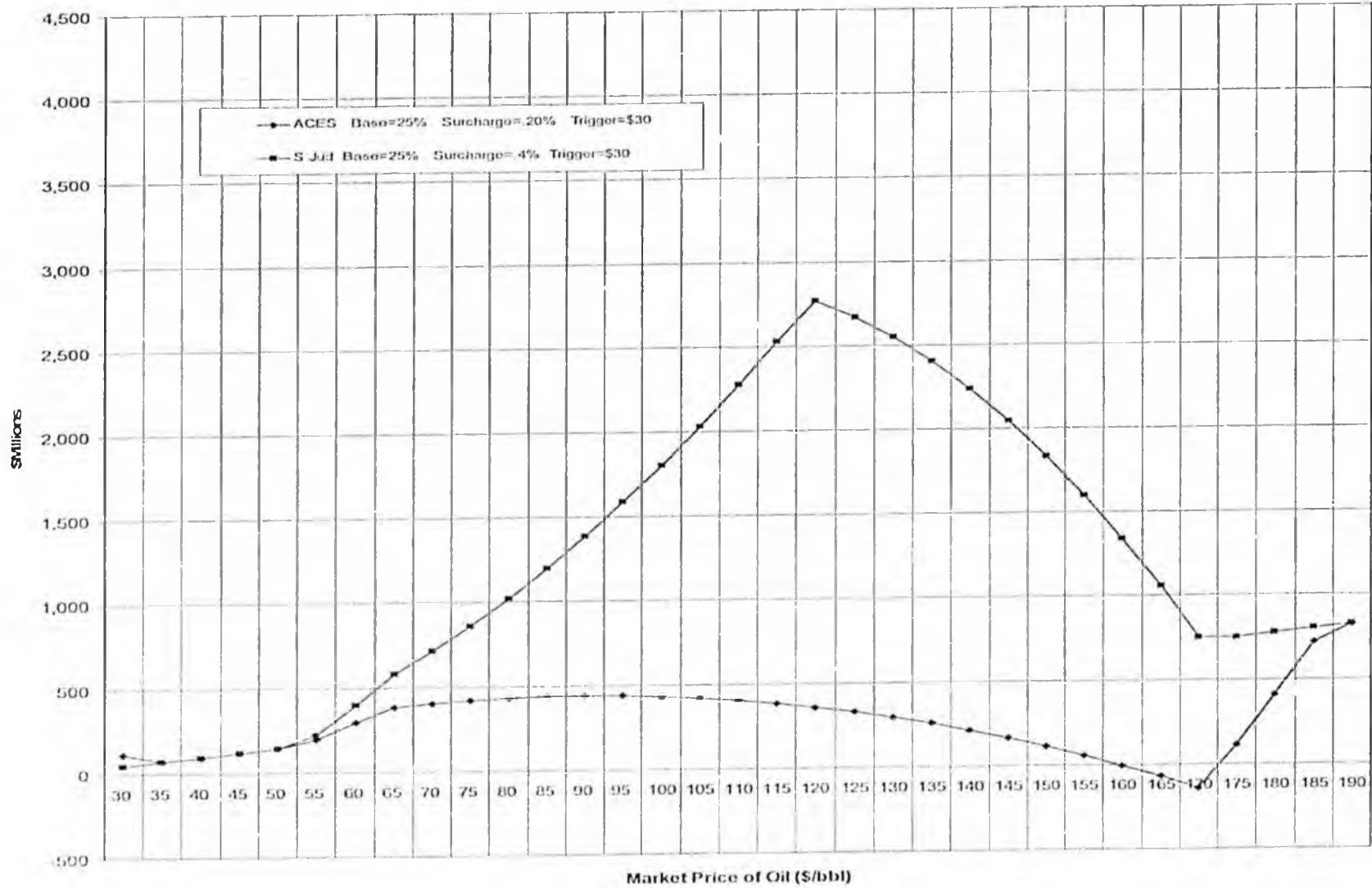
Things to Remember

- Focus on curve shape and location—projections are affected by production volume, costs of production and other factors that cannot be predicted accurately.
- Projections are based on the Fall 2007 Revenue Forecast, but even if the variables—production volume, costs of production, etc.—change, the projections do not change much in relative terms.

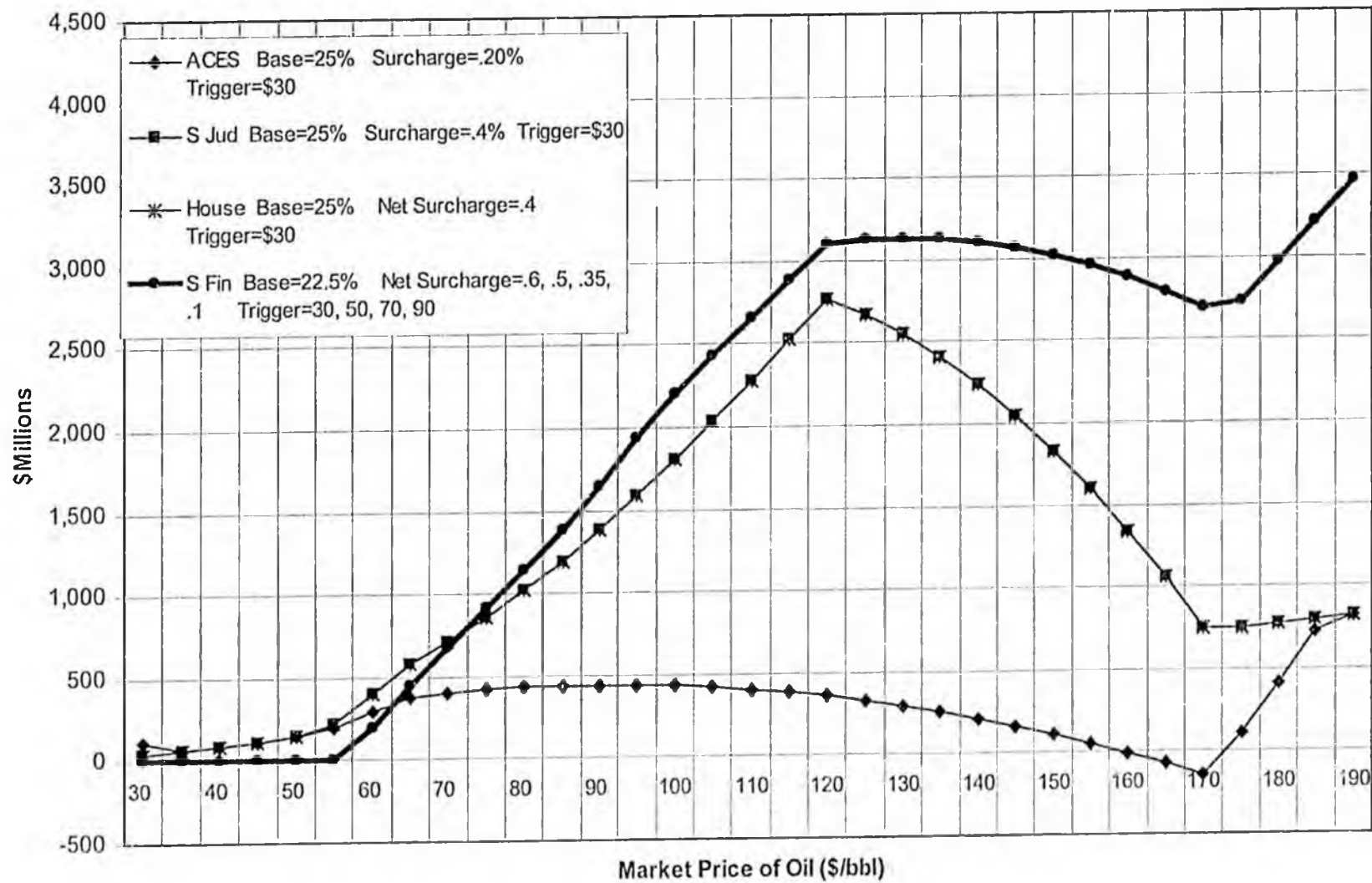
Increases in Total State Revenue Under Various Production Tax Systems



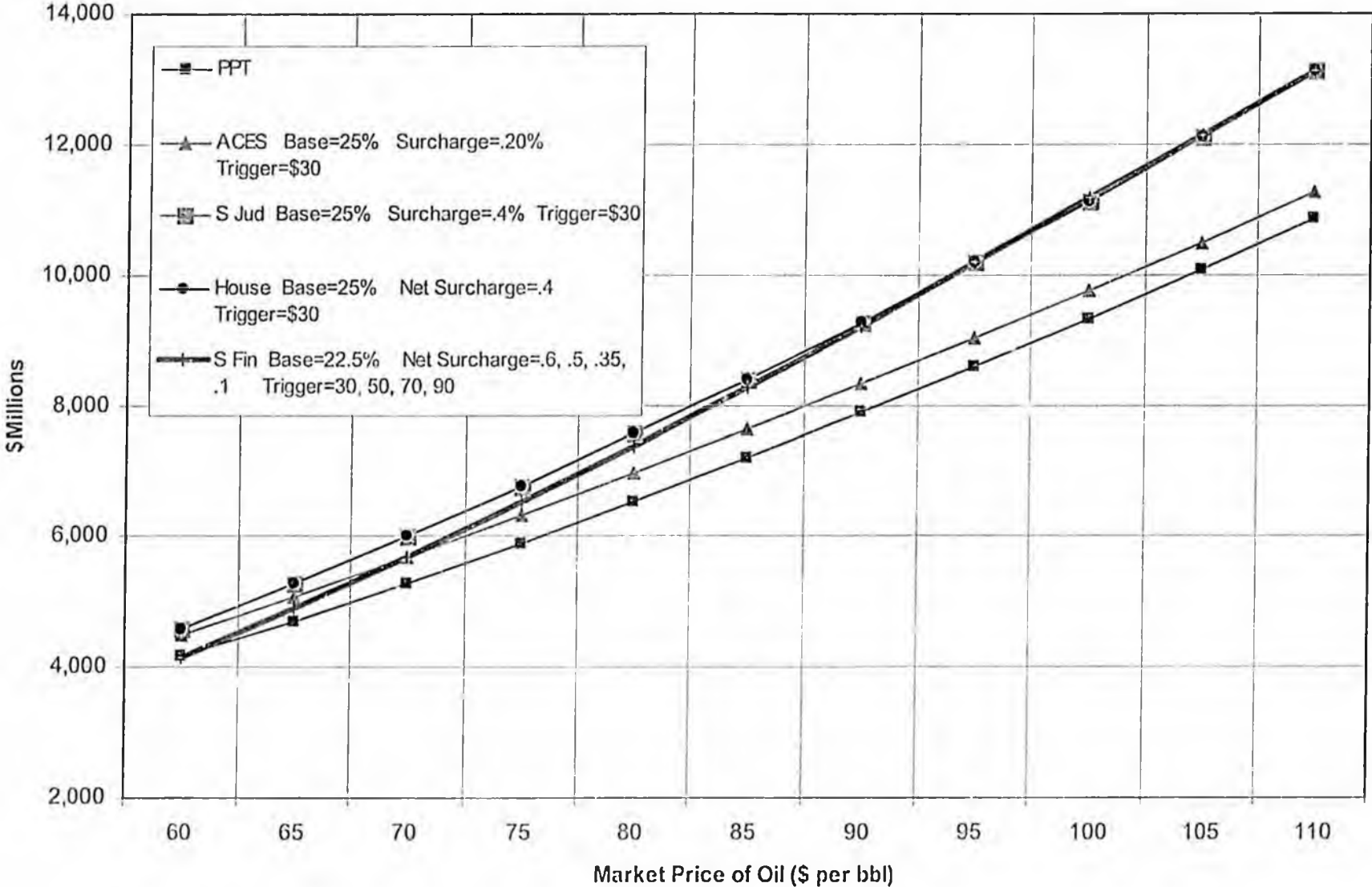
Increases in Total State Revenue Under Various Production Tax Systems



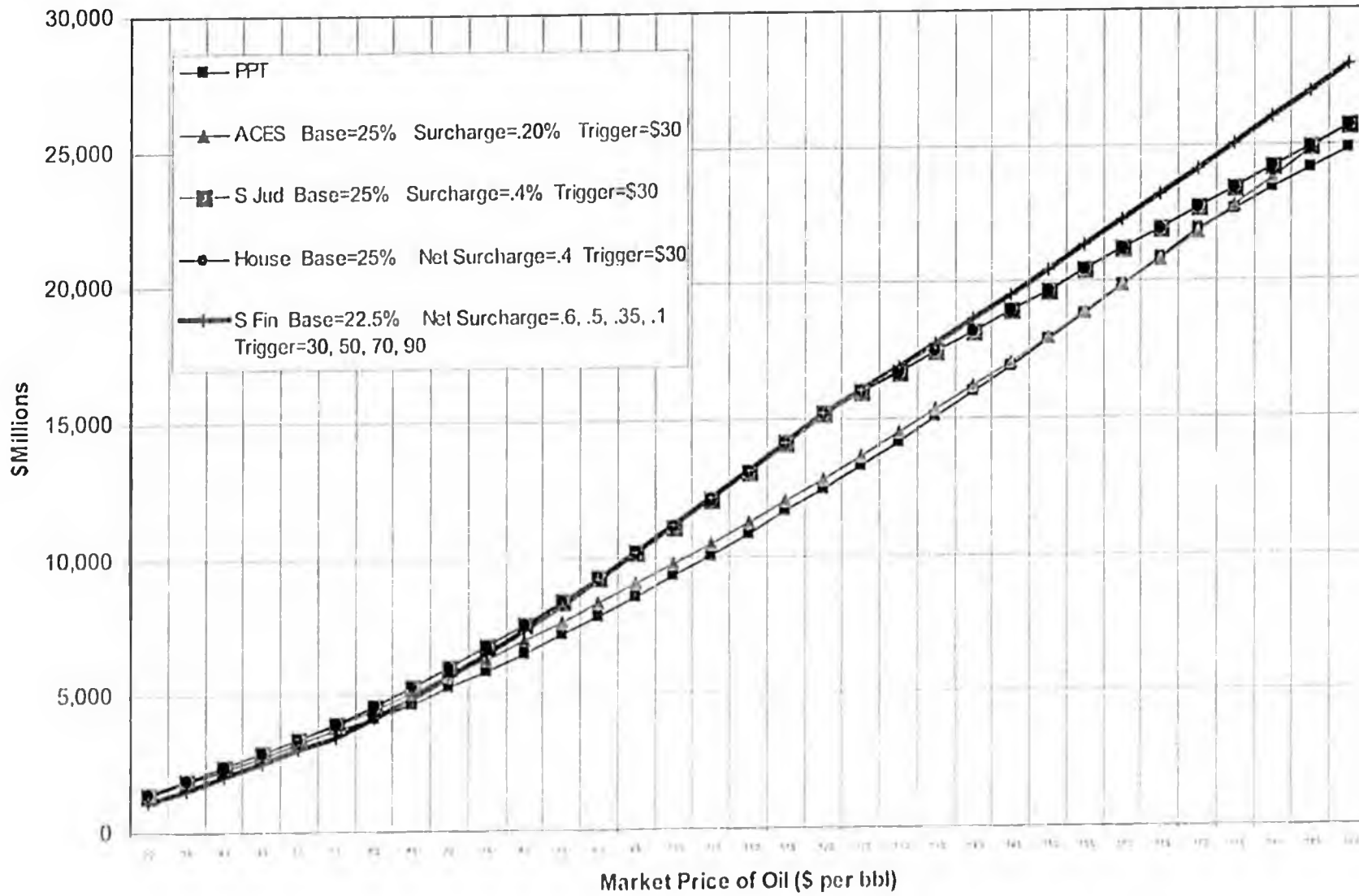
Increases in Total State Revenue Under Various Production Tax Systems



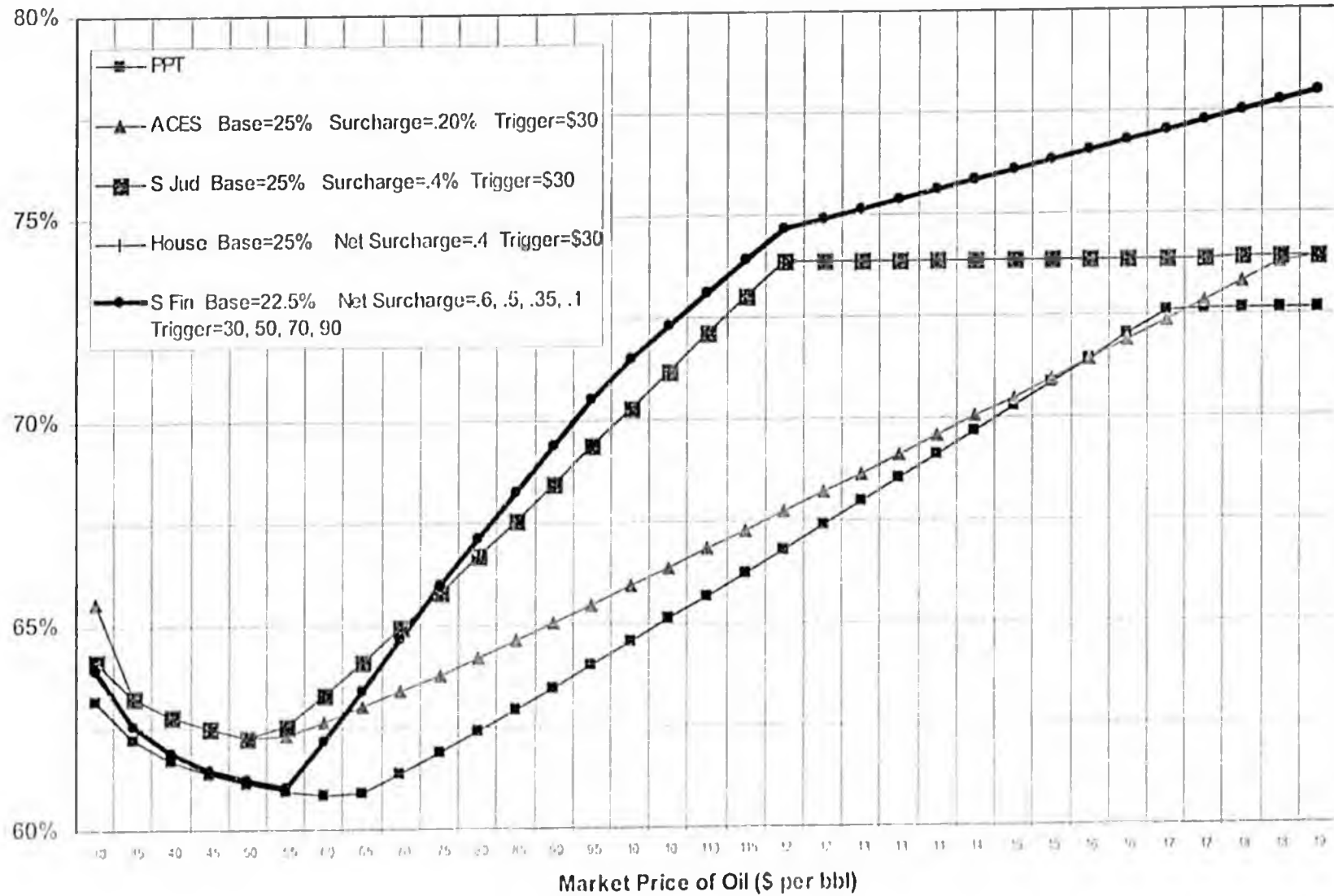
Total State Revenue Under Various Scenarios



Total State Revenue Under Various Scenarios



Government Share of Revenue Under Various Scenarios



FISCAL
NOTES

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: CSHB2001(FIN)am
() Publish Date: _____

Identifier (file name): CSHB2001(FIN)am-DOR-TAX-11-12-07 Dept. Affected: Revenue 04
Title: An Act relating to the production tax on oil and gas.. RDU: Taxation and Treasury
Component: Tax Division
Sponsor: Governor
Requester: Senate Finance Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services	915.7		915.7	915.7	915.7	915.7	915.7	915.7
Travel								
Contractual	1,018.4		1,018.4	1,018.4	511.8	5.2	5.2	
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	1,934.1		1,934.1	1,934.1	1,427.5	920.9	920.9	

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES (
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF	1,934.1		1,934.1	1,934.1	1,427.5	920.9	920.9	
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL	1,934.1		1,934.1	1,934.1	1,427.5	920.9	920.9	

Estimate of any current year (FY2008) cost: 3,409.2

POSITIONS

Full-time	5	5	5	5	5	5	5
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary.)

This bill makes economic and several administrative changes to the state's current petroleum profits tax. The bill retains the current tax system's structure, which taxes the net value of petroleum resources.

This fiscal note shows operating and capital expenses related to the change in reporting and administering the tax

Prepared by: Johanna Bales, Roger Marks, Cherie Nienhuis
Division: Tax Division
Approved by: Jerry Burnett
Department of Revenue

Phone: 269-6628
Date/Time: 11/12/07 1:00 PM
Date: 11/12/2007

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSHB2001(FIN)am

ANALYSIS CONTINUATION

Administrative changes to the current tax system include the following: requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; authorizes a short-term audit program; and designates an exempt class of oil and gas audit masters.

Personal Services: The department will create 4 senior level auditor master positions in the exempt service with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. The need for exempt status is based upon the difficulties the department has recruiting experienced auditors to administer the tax. The department estimates the new exempt positions will cost the state approximately \$800,000 annually. The bill also requires the Department of Administration to create a new class and pay system for Oil and Gas revenue auditors. We have no basis on which to estimate additional costs arising under this pay plan and these costs will be presented to the legislature in a future budget. In addition to the costs for auditors, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually.

Contractual: Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

Current FY2008 costs: The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$218,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

Revenue changes will be shown in another fiscal note.

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: CSHB2001(FIN)am
() Publish Date: _____

Identifier (file name): CSHB2001(FIN)am-DOR REV-11-12-07 Dept. Affected: Revenue 04
Title An Act relating to the production tax on oil and gas.. RDU Taxation and Treasury
Component Tax Division
Sponsor Governor
Requester Senato Finance Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
OPERATING EXPENDITURE							
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING							

CAPITAL EXPENDITURES							
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CHANGE IN REVENUES (1,008,740	778,522	782,003	794,462	809,402	590,048
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2008) cost _____

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

This fiscal note shows changes in revenues resulting from this legislation; operating and capital costs pertaining to the Department of Revenue for the implementation of this legislation are shown on a separate fiscal note.

This bill makes several economic changes to the state's current petroleum profits tax. Although the bill retains the current tax system's structure, which taxes the net value of petroleum resources, the changes it makes are as follows: the base tax rate is raised from 22.5% to 25%; the progressive surcharge is raised to an index of .4% per dollar multiplied by the net value that exceeds \$30 per barrel with a ceiling of 25%; the costs for transportation are set at the lower of actual or reasonable costs; legacy fields, instead of being allowed to deduct actual operating costs, must substitute a standard deduction based on 2006 operating costs (inflated at 3% per year); the transition investment expenditure credit is eliminated, except to the extent that transition credits earned from April 1, 2006 to December 31, 2007 can be carried forward to offset a future tax liability; and EIC credits are increased from 20% to 30%.

Prepared by: Johanna Bales, Roger Marks, Cherie Nienhuis
Division: Tax Division
Approved by: Jerry Burnett
Department of Revenue

Phone 269-6628
Date/Time 11/12/2007 2:30PM
Date 11/12/2007

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSHB2001(FIN)am

ANALYSIS CONTINUATION

Other changes to the current tax system include the following: ; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; and authorizes a short-term audit program..

The tax proposal becomes effective January 1, 2008.

See page 3 for projected revenue estimates.

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSHB2001(FIN)am

ANALYSIS CONTINUATION

**Estimated Production Tax Revenues, PPT, ACES and CSHB2001(FIN)am,
at Various Prices (in \$millions nominal)**

Fall 2007 DOR Official Forecast Prices

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	CSHB2001 (FIN)am	Increase or (Decrease) from PPT	Increase or (Decrease) from ACES
2008	71.65	71.65	1,947	2,368	2,619	672	251
2009	64.55	66.30	1,430	1,985	2,439	1,009	454
2010	60.05	63.40	1,217	1,767	1,995	779	229
2011	59.70	64.75	1,250	1,766	2,032	782	267
2012	59.55	66.35	1,174	1,701	1,969	794	267
2013	58.90	67.45	1,151	1,685	1,961	809	276
2014	58.25	68.55	1,217	1,558	1,807	590	249

DOR Forecast nominal prices rounded to the nearest \$0.05

\$60 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	CSHB2001 (FIN)am	Increase or (Decrease) from PPT	Increase or (Decrease) from ACES
2008	60.00	60.00	1,073	1,452	1,569	496	118
2009	60.00	61.55	1,197	1,698	2,039	843	341
2010	60.00	63.35	1,247	1,802	2,049	772	216
2011	60.00	65.09	1,272	1,795	2,065	793	270
2012	60.00	66.88	1,204	1,737	2,016	812	278
2013	60.00	68.72	1,225	1,772	2,076	852	304
2014	60.00	70.61	1,334	1,696	1,991	658	295

\$80 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	CSHB2001 (FIN)am	Increase or (Decrease) from PPT	Increase or (Decrease) from ACES
2008	80.00	80.00	2,693	3,137	3,612	919	475
2009	80.00	82.20	2,640	3,294	4,286	1,646	992
2010	80.00	84.46	2,751	3,431	4,327	1,576	896
2011	80.00	86.78	2,782	3,431	4,399	1,617	968
2012	80.00	89.17	2,698	3,360	4,346	1,648	986
2013	80.00	91.62	2,783	3,451	4,508	1,725	1,057
2014	80.00	94.14	2,950	3,407	4,478	1,528	1,071

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: CSHB2001(FIN) am
() Publish Date: _____

Identifier (file name): HB2001CSFINam-DNR-C&G-11-12-07(2) Dept. Affected: Natural Resources
Title: Oil and Gas Tax Amendments RDU: Resource Development
Component: Oil and Gas Development
Sponsor: Rules Committee
Requester: Senate Finance Component Number: 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services	450.0		450.0	450.0	450.0	450.0	450.0	450.0
Travel								
Contractual	10.4		10.4	10.4	10.4	10.4	10.4	10.4
Supplies	4.0		4.0	4.0	4.0	4.0	4.0	4.0
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	464.4	0.0	464.4	464.4	464.4	464.4	464.4	464.4

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()	** INDETERMINATE POSITIVE **						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF	464.4		464.4	464.4	464.4	464.4	464.4	464.4
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL	464.4	0.0	464.4	464.4	464.4	464.4	464.4	464.4

Estimate of any current year (FY2008) cost: 172.4

POSITIONS

Full-time	2	0	2	2	2	2	2
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill would amend the oil and gas production tax under AS 43.55 to increase the base tax rate from 27.5% to 25% of net income with no retroactivity. The bill has a progressivity surcharge increasing at 0.4% per dollar between the per barrel net revenue and \$30. The bill also reduces the period by which past investments are recognized in the transition investment expenditure credits (AS 43.55.023(i)) to three years. Some EICs are increased from 20% to 30%.

Administrative changes to the current tax system include changes in the administration of EICs under AS 43.55.025 relating to the kind of information that EIC applicants must provide to the state and time that this information may be kept confidential.

Prepared by: Kevin Banks, Acting Director Phone: 269-8800
Division: Oil and Gas Date/Time: 11/12/2007
Approved by: Tom Irwin, Commissioner Date: 11/12/2007
Natural Resources

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSHB2001(FIN) am

ANALYSIS CONTINUATION

****Indeterminate Positive:** The royalty revenue impact to the State of ACES is indeterminate positive. The improvements of EICs will bring favorable economics to exploration projects. Increasing the tax rate, and the reduction of TIE credits available to lessees, will alter project specific economics. Furthermore, the progressivity element that has an impact only when oil prices or margins are high, will also alter project specific economics.

Personal Services: This bill would create two new oil and gas revenue audit master positions in the Division of Oil and Gas. These two positions would be the senior level auditors and are expected to have extensive oil and gas auditing experience. They will be the division's most senior auditor positions and will have salaries that are consistent with market comparables and will be above the current salary levels allowed under the existing Oil and Gas Revenue Auditor pay classification system. The division shares the experience with the Department of Revenue in failing to successfully recruit auditors with the required industry experience. These two positions will direct and provide training to existing staff. Salary and benefits for these positions plus other salary adjustments within the audit staff will be \$450.0 per year. Any contractual, supplies, and equipment line items listed on page 1 support these two new exempt positions.

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 5
Bill Version: CSSB 2001(JUD)
(S) Publish Date: 11/5/07

Identifier (file name): CSSB2001(JUD)-DOR-TAX-11-3-07 Dept. Affected: Revenue 04
Title: An Act relating to the production tax on oil and gas. RDU: Taxation and Treasury
Component: Tax Division
Sponsor: Governor
Requester: Senate Judiciary Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services	915.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7
Travel								
Contractual	1,018.4	1,018.4	1,018.4	1,018.4	511.3	5.2	5.2	
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	1,934.1	2,234.1	2,234.1	2,234.1	1,727.0	1,220.9	1,220.9	
CAPITAL EXPENDITURES								
CHANGE IN REVENUES (1,085,000.0	838,000.0	875,000.0	962,000.0	935,000.0	704,000.0	

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF	1,934.1	2,234.1	2,234.1	2,234.1	1,727.0	1,220.9	1,220.9	
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL	1,934.1	2,234.1	2,234.1	2,234.1	1,727.0	1,220.9	1,220.9	

Estimate of any current year (FY2008) cost: 3,409.2

POSITIONS

Full-time	5	5	5	5	5	5	5
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill makes several economic and administrative changes to the state's current petroleum profits tax. The bill retains the current tax system's structure, which taxes the net value of petroleum resources. The bill makes the following economic changes to the current system: the tax rate is raised from 22.5% to 25%; the progressive surcharge is raised to an index of .4% per dollar multiplied by the net value that exceeds \$30 per barrel with a ceiling of 25%; the costs for transportation are set at the lower of actual or reasonable costs; the transition investment expenditure credit is eliminated, except to the extent that transition credits earned from April 1, 2006 to this bill's effective date can be carried forward to offset a future tax liability.

The Department of Revenue does not currently have accurate estimates for lease expenditure activity occurring outside Alaska. This amount is considered indeterminate at this time.

Prepared by: Johanna Bales, Roger Marks, Cherie Nienhuis
Division: Tax Division
Approved by: Jerry Burnett
Department of Revenue

Phone 269-6628
Date/Time 11/3/07 9:30 AM
Date 11/3/2007

FISCAL NOTE #5

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSSB 2001(JUD)

ANALYSIS CONTINUATION

Administrative changes to the current tax system include the following: excludes from qualified lease expenditures those expenses related to unscheduled production interruptions; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; excludes lease expenditures from activities occurring outside Alaska; requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; authorizes a short-term audit program; and designates an exempt class of oil and gas audit managers.

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2007.

Personal Services: The department will create 4 senior level audit manager positions with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables and will be beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. In addition, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually.

The need for exempt status for the audit manager series is based upon the difficulties the department has recruiting experienced auditors to administer the tax. The current pay range for an Oil and Gas Revenue Auditor is on the low range of the pay range for roughly similar jobs. The department estimates the new exempt positions, along with other salary adjustments will cost the state approximately \$900,000 annually.

Contractual: Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

Current FY2008 costs: The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income-based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$218,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

See page 3 for projected revenue estimates.

FISCAL NOTE #5

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSSB 2001(JUD)

ANALYSIS CONTINUATION

**Estimated Production Tax Revenues, PPT and ACES, at
Various Prices (in \$millions nominal)**

*For the months of January 2007 through May 2007, the proposal would have generated approximately \$400 million over the payments received for that period.

Fall 2007 DOR Official Forecast Prices

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSSB2001 (JUD)	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	3,324	1,409
2009	64.55	66.30	1,693	2,778	1,085
2010	60.05	63.40	1,531	2,370	838
2011	59.70	64.75	1,670	2,545	875
2012	59.55	66.35	1,746	2,709	962
2013	58.90	67.45	1,647	2,581	935
2014	58.25	68.55	1,642	2,345	704

DOR Forecast nominal prices rounded to the nearest \$0.05

\$60 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSSB2001 (JUD)	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	2,003	952
2009	60.00	61.65	1,435	2,334	899
2010	60.00	63.35	1,562	2,393	831
2011	60.00	65.09	1,695	2,583	888
2012	60.00	66.88	1,783	2,767	984
2013	60.00	68.72	1,733	2,719	986
2014	60.00	70.61	1,776	2,560	785

\$80 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSSB2001 (JUD)	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	4,426	1,776
2009	80.00	82.20	3,031	4,789	1,759
2010	80.00	84.46	3,266	4,973	1,707
2011	80.00	86.78	3,481	5,297	1,816
2012	80.00	89.17	3,668	5,642	1,974
2013	80.00	91.62	3,619	5,603	1,984
2014	80.00	94.14	3,690	5,466	1,776

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 4
Bill Version: CSSB 2001(RES)
(S) Publish Date: 10/29/07

Identifier (file name): CSSB2001(RES)-DOR-TAX-10-28-07 Dept. Affected: Revenue 04
Title: An Act relating to the production tax on oil and gas.. RDU: Taxation and Treasury
Sponsor: Governor Component: Tax Division
Requester: Senato Judiciary Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7
Travel								
Contractual	1,018.4	1,018.4	1,018.4	511.8	5.2	5.2	5.2	
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	1,220.9	

CAPITAL EXPENDITURES							
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CHANGE IN REVENUES ()		198,000.0	161,000.0	170,000.0	198,000.0	197,000.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9

Estimate of any current year (FY2009) cost: 3,409.2

POSITIONS

Full-time	1	1	1	1	1	1	1
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill makes one economic and several administrative changes to the state's current petroleum profits tax. The bill retains the current tax system's structure, which taxes the net value of petroleum resources. The bill makes the following change to the current system: it eliminates the transition investment expenditure credit (AS 43 55.023(i)), except to the extent that transition credits earned from April 1, 2006 to this bill's effective date that could not be used to offset tax liability can be carried forward.

Administrative changes to the current tax system include the following: excludes from qualified lease expenditures those expenses related to unscheduled production interruptions; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; authorizes a short-term audit program; and designates an exempt class of oil and gas auditors.

Prepared by: Johanna Bales, Roger Marks, Cherie Niehuis
Division: Tax Division
Approved by: Jerry Burnett
Department of Revenue

Phone: 269-6628
Date/Time: 10/27/07 2:00 PM
Date: 10/28/2007

FISCAL NOTE #4

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSSB 2001(RES)

ANALYSIS CONTINUATION

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2008.

Personal Services: The department will reclassify the existing 5 vacant auditor positions, and create 4 to 5 senior level auditor positions with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables and will be beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. In addition, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually. The existing oil and gas specialist, oil and gas revenue auditors, and their immediate supervisor will be offered the opportunity to opt into an exempt status with individual salaries established commensurate with experience and skill level, and consistent with market comparables.

The need for exempt status is based upon the difficulties the department has recruiting experienced auditors to administer the tax. The current pay range for an Oil and Gas Revenue Auditor is on the low range of the pay range for roughly similar jobs. The department estimates the new exempt positions and the potential salary increases associated with the change of existing staff to exempt status, will cost the state approximately \$1,100,000 annually.

Contractual: Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

Current FY2008 costs: The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income-based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$218,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

See page 3 for projected revenue estimates.

FISCAL NOTE #4

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. CSSB 2001(RES)

ANALYSIS CONTINUATION

**Estimated Production Tax Revenues, PPT and ACES, at
Various Prices (in \$millions nominal)**

Fall 2007 DOR Official Forecast Prices

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSSB2001 (RES)	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,022	107
2009	64.55	66.30	1,693	1,891	198
2010	60.05	63.40	1,531	1,693	161
2011	59.70	64.75	1,670	1,840	170
2012	59.55	66.35	1,746	1,944	198
2013	58.90	67.45	1,647	1,844	197
2014	58.25	68.55	1,642	1,642	0

DOR Forecast nominal prices rounded to the nearest \$0.05

\$60 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSSB2001 (RES)	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,158	107
2009	60.00	61.65	1,435	1,623	188
2010	60.00	63.35	1,562	1,719	158
2011	60.00	65.09	1,695	1,865	170
2012	60.00	66.88	1,783	1,981	198
2013	60.00	68.72	1,733	1,931	198
2014	60.00	70.61	1,776	1,776	0

\$80 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	CSSB2001 (RES)	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	2,757	107
2009	80.00	82.20	3,031	3,235	205
2010	80.00	84.46	3,266	3,441	175
2011	80.00	86.78	3,481	3,670	189
2012	80.00	89.17	3,668	3,886	218
2013	80.00	91.62	3,619	3,837	217
2014	80.00	94.14	3,690	3,690	0

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: SB 2001
(S) Publish Date: 10/18/07

Identifier (file name): LL 08-0014-DOA-DAS-10-17-07 Dept. Affected: Administration
Title: An Act relating to the production tax on oil and gas... RDU: Centralized Admin. Services
Component: Office of the Commissioner
Sponsor: Governor Component Number: 45
Requester: _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services								
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING		0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()							
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2008) cost: _____

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This legislation has no fiscal impact on the Department of Administration.

Prepared by: Eric Swanson Phone: 465-5655
Division: Administrative Services Date/Time: _____
Approved by: Annela Kreitzer Date: Oct 12, 2007
Commissioner

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: SB 2001
(S) Publish Date: 10/18/07

Identifier (file name): #773-08-0014-DNR-10-17-07 Dept. Affected: Natural Resources
Title: ACES RDU: Resource Development
Component: Oil and Gas Development
Sponsor: Rules Committee
Requester: Governor Component Number: 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES								
Personal Services	303.5	0.0	303.5	303.5	303.5	303.5	303.5	303.5
Travel								
Contractual								
Supplies								
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	303.5	0.0	303.5	303.5	303.5	303.5	303.5	303.5

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES ()								
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FUND SOURCE (Thousands of Dollars)

	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
1002 Federal Receipts							
1003 GF Match							
1004 GF	303.5	0.0	303.5	303.5	303.5	303.5	303.5
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	303.5	0.0	303.5	303.5	303.5	303.5	303.5

Estimate of any current year (FY2008) cost: 177.0

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill would amend the oil and gas production tax under AS 43.55 to increase the base tax rate from 22.5% to 25% of net income and have the index-based progressive tax apply when net income per barrel exceeded \$30 rather than the current \$40 per barrel. In addition, this bill would change the minimum tax that currently applies to taxable income generated from North Slope fields, and which, for ANS West Coast prices above \$25 per barrel, is now 4% of gross receipts at the lease boundary. The bill would increase the minimum tax rate to 10 percent gross, but apply this minimum tax only to large North Slope legacy units (Prudhoe Bay Unit and the Kuparuk River Unit). This minimum tax would also prevent these legacy field owners from using credits or deductions generated at these fields to lower their tax burden elsewhere when the minimum tax applies. In addition, the bill allows for tax credits on future work rather than previous work and expands the current exploration incentive credit program to include as many wells that can be drilled in two drilling seasons. It also restricts capital expense deductions to scheduled maintenance and would implement audit and information sharing provisions.

Prepared by: Kevin Banks, Acting Director
Division: Oil and Gas
Approved by: Tom Irwin, Commissioner
Natural Resources

Phone: 269 8800
Date/Time: 10/17/2007
Date: 10/17/2007

FISCAL NOTE #2

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. SB 2001

ANALYSIS CONTINUATION

****Indeterminate Positive:** The royalty revenue impact to the State of ACES is indeterminate, but most likely positive. ACES improves the economics for new entrants or small Alaska producers, but decreases the attractiveness of investments in legacy fields.

Improvement in new entrant/small producer economics: ACES improves the economics of investing in Alaska for new entrants and small Alaska producers, an improvement that should lead to more investment and resulting royalty revenue. For new entrants and small producers, capital spent to find and develop oil or gas resources will generate a carried-forward annual loss credit of 25 percent rather than the current 20 percent AS 43.055.023(b).

Also, for new entrants and small Alaska producers, the transferable credits (the carried-forward annual loss credit and the 20 percent qualified expenditure credit (AS 43.55.023(a))) will be worth more under ACES. Small producers have indicated that they have been unable to sell their credits to larger tax payers. Under AS 43.55.028, ACES establishes an oil and gas tax credit fund that will help ensure these new and small producers will receive full value for these transferable credits.

Without the fund, the small producer or new entrant may have to carry-forward their credits until they have tax liability. By providing full value up-front for these credits, ACES improves the internal rate of return (IRR) by three to six percent at \$40 per barrel ANS WC.

As a partial offset to this incentive, ACES increases the tax rate from 22.5 to 25.0 percent; has the progressive, index-based, rate kicking in at a lower level; and has credits being spread over two years rather than one. However, on balance, ACES will improve new project economics for new entrants and small Alaska producers.

Decrease in attractiveness of investments in legacy fields: ACES will decrease the attractiveness of investments made by larger, existing producers for three reasons: the higher tax rate, the elimination of the Transition Investment Expenditure (TIE) credit, and the 10 percent minimum tax on legacy fields.

First, ACES increases the tax rate from 22.5 percent to 25.0 percent. In addition, the progressive, index-based rate will start at a lower (\$30) net value per barrel, but escalate at a lower rate (0.20 percent rather than 0.25 percent). Second, by eliminating the TIE credit, new capital spending by existing producers will no longer increase the ability of those producers to take the TIE credit by 10 percent of the capital invested. Third, at lower prices (prices far below where they are today) the minimum 10 percent gross tax applies, lowering or postponing the ability to take the capital expenditure credits. The floor also could eliminate the ability to use deductions generated by new spending to decrease tax liability. If the producers in these legacy fields (Prudhoe Bay Unit and Kuparuk River Unit) believe there is a good chance that prices will decline or costs will increase to the point where the floor applies, they might invest less in additional reserves in these legacy fields.

If these measures (the higher rate, the TIE credit elimination, and the 10 percent floor) cause less investment by existing producers to add reserves, the State will receive less in royalty.

Personal Services: Sections 10 and 67 would reclassify the current oil and gas auditors to exempt status employees. DO&G currently has seven oil and gas auditor positions. The total salary/benefit costs for these seven employees currently equals approximately \$849,147. An increase to exempt status is estimated to cost up to an additional \$303,500 in FY09. The FY08 amount of \$177,000 covers an estimated 7-months at the higher rate.

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 2001
(S) Publish Date: 10/18/07

Identifier (file name): LL 08-0014-DOR-TAX-10-17-07 Dept. Affected: Revenue 04
Title: An Act relating to the production tax on oil and gas.. RDU: Taxation and Treasury
Component: Tax Division
Sponsor: Governor Component Number: 2476
Requester: _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required		Information				
	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES							
Personal Services	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7	1,215.7
Travel							
Contractual	1,018.4	1,018.4	1,018.4	511.8	5.2	5.2	5.2
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	1,220.9
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ()		675,000.0	603,000.0	589,000.0	624,000.0	597,000.0	416,000.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	2,234.1	2,234.1	2,234.1	1,727.5	1,220.9	1,220.9	645.9

Estimate of any current year (FY2008) cost: 3,409.2

POSITIONS

Full-time	1	1	1	1	1	1	1
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

This bill makes significant changes to the state's current petroleum profits tax. The tax proposal, also known as the Clear and Equitable Share (ACES) plan, like the current tax system, taxes the net value of petroleum resources. The ACES proposal makes the following changes to the tax system: raises the tax rate to 25% on net profits of oil and gas production subject to a 10% floor on legacy fields; adjusts the progressive tax feature to trigger at \$30 net value (annual) and rise at two-tenths of a percent per dollar; eliminates the transitional investment expenditures "TIE" credits; requires that capital costs be taken as credits over two years, rather than immediately; addresses the "corrosion" expense issue; excludes dismantlement, removal & restoration (DR&R) costs from allowable expenditures; expands exploration incentive credit program to cover two field seasons; requires taxpayers to provide cost projections to allow the state to better forecast state revenues and pursue changes in reported costs; authorizes public reporting of some cost data; authorizes a short-term audit program; and designates an exempt class of oil and gas auditors.

Prepared by: Cherie Nienhuis, Roger Marks, Johanna Bales Phone: 269 6628
Division: Tax Division Date/Time: 10/17/07 12:00 AM
Approved by: Jerry Burnett Date: 10/17/2007
Department of Revenue

FISCAL NOTE #1

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. SB 2001

ANALYSIS CONTINUATION

The tax proposal would also authorize a fund to be established for the purpose of purchasing tax credit certificates. The fund would receive 10% - 15% of total production tax revenues annually (roughly \$150 million to \$300 million); up to \$250 million of fund revenues would be paid to purchase credits in any given year.

Certain lease expenditure allowance provisions are retroactive to April 1, 2006; the other provisions of the tax proposal become effective January 1, 2008.

Personal Services: The department will reclassify the existing 5 vacant auditor positions, and create 4 to 5 senior level auditor positions with extensive industry oil and gas auditing experience. These positions will be classified as the Department's most senior level auditor positions and will have salaries that are consistent with market comparables and will be beyond the current salary levels allowed under the existing Oil and Gas Revenue Auditor (OGRA) pay classification system. In addition, the department expects that it will need one additional Programmer Analyst V position to maintain and manage the new oil and gas production tax database system at a cost of \$115,700 annually. The existing oil and gas specialist, oil and gas revenue auditors, and their immediate supervisor will be offered the opportunity to opt into an exempt status with individual salaries established commensurate with experience and skill level, and consistent with market comparables.

The need for exempt status is based upon the difficulties the department has recruiting experienced auditors to administer the tax. The current pay range for an Oil and Gas Revenue Auditor is on the low range of the pay range for roughly similar jobs. The department estimates the new exempt positions and the potential salary increases associated with the change of existing staff to exempt status, will cost the state approximately \$1,100,000 annually.

Contractual: Contractual expenditures include \$1,013,200 annually to contract for audit assistance. This estimate is based on 3 auditors, working 40 hours per week each, for 4 years starting in January 2008 at an average rate of \$100 per hour, plus estimated transportation and lodging costs, and additional costs for training auditors. The need for such assistance is based upon the department's substantial difficulty in recruiting enough auditors to administer the oil and gas production tax. The department only anticipates the need for contract audit assistance for 4 years while the department recruits and trains auditors for positions that are currently vacant. The contract auditors would work in conjunction with department auditors during this time to maximize department resources and help train department auditors. The department will also need an additional \$5,200 each year in contractual costs associated with the new Analyst Programmer V position.

Current FY2008 costs: The department expects it will incur costs beginning January 2008 to immediately implement the new production tax structure. Those costs include: **Contractual** - \$2,620,800 capital funding to fund the scoping and development of an oil and gas production tax database system (including associated hardware) and \$506,600 to contract for audit assistance (as described above). The new database system will permit accurate and efficient management of information submitted by taxpayers to facilitate auditing and forecasting of revenues, and timely and accurate reports for internal and public uses. The proposed system will accommodate the migration of ELF-based data and continue to collect supplemental data from producers on volumes, wells and production. The system will include income based data, including tracking credits, required under PPT and upon which the ACES tax structure is based. The system will also integrate into the division's accounting systems. **Personal Services** - \$218,000 from the period January 1, 2008 through June 30, 2008 due to creating an exempt class of oil and gas revenue auditors and increasing pay to more closely reflect what the market in Alaska pays for roughly similar positions. In addition, we will recruit for the Analyst Programmer V and bring that person on board to participate in the database scoping meetings. We estimate FY 2008 costs for this position to be approximately \$57,800. **Supplies** - \$6,000 for a computer and software for the new analyst programmer V position.

See page 3 for projected revenue estimates.

FISCAL NOTE #1

STATE OF ALASKA
2008 LEGISLATIVE SESSION

BILL NO. SB 2001

ANALYSIS CONTINUATION

**Estimated Production Tax Revenues, PPT and ACES, at
Various Prices (in \$millions)**

Fall 2007 DOR Official Forecast Prices

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	71.65	71.65	1,915	2,330	415
2009	64.55	66.30	1,693	2,369	675
2010	60.05	63.40	1,531	2,134	603
2011	59.70	64.75	1,670	2,258	589
2012	59.55	66.35	1,746	2,370	624
2013	58.90	67.45	1,647	2,244	597
2014	58.25	68.55	1,642	2,058	416

DOR Forecast nominal prices rounded to the nearest \$0.05

\$60 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	60.00	60.00	1,051	1,421	371
2009	60.00	61.65	1,435	1,977	542
2010	60.00	63.35	1,562	2,170	608
2011	60.00	65.09	1,695	2,291	596
2012	60.00	66.88	1,783	2,414	631
2013	60.00	68.72	1,733	2,347	614
2014	60.00	70.61	1,776	2,218	442

\$80 per barrel in REAL dollars

Fiscal Year	ANS WC \$ per barrel (in REAL dollars)	ANS WC \$ per barrel (in NOMINAL dollars)	Status Quo - PPT	ACES	Increase or (Decrease) from PPT
2008	80.00	80.00	2,650	3,089	438
2009	80.00	82.20	3,031	3,717	686
2010	80.00	84.46	3,266	3,988	722
2011	80.00	86.78	3,481	4,189	708
2012	80.00	89.17	3,668	4,404	736
2013	80.00	91.62	3,619	4,327	708
2014	80.00	94.14	3,690	4,204	514

PRESENTATIONS
AGENCY +
CONSULTANTS

Gross Price \$	50	60	70	80	90	100
Net Price \$	30	40	50	60	70	80
PPT	22.5	22.5	25	27.5	30	32.5
ACES*	25	27*	29*	31*	33*	35*
House	25	29	33	37	41	45
S(FIN)	22.5	28.5	34.5	39.5	44.5	48

* Progressive tax actually slightly lower because of annual basis
 - Gross Floor Not included

Mark Hanley
 Anadarko

Proposed Senate Finance CS illustrated

Presentation to Senate Finance

November 14, 2007

Dan E. Dickinson, CPA

11/14/07

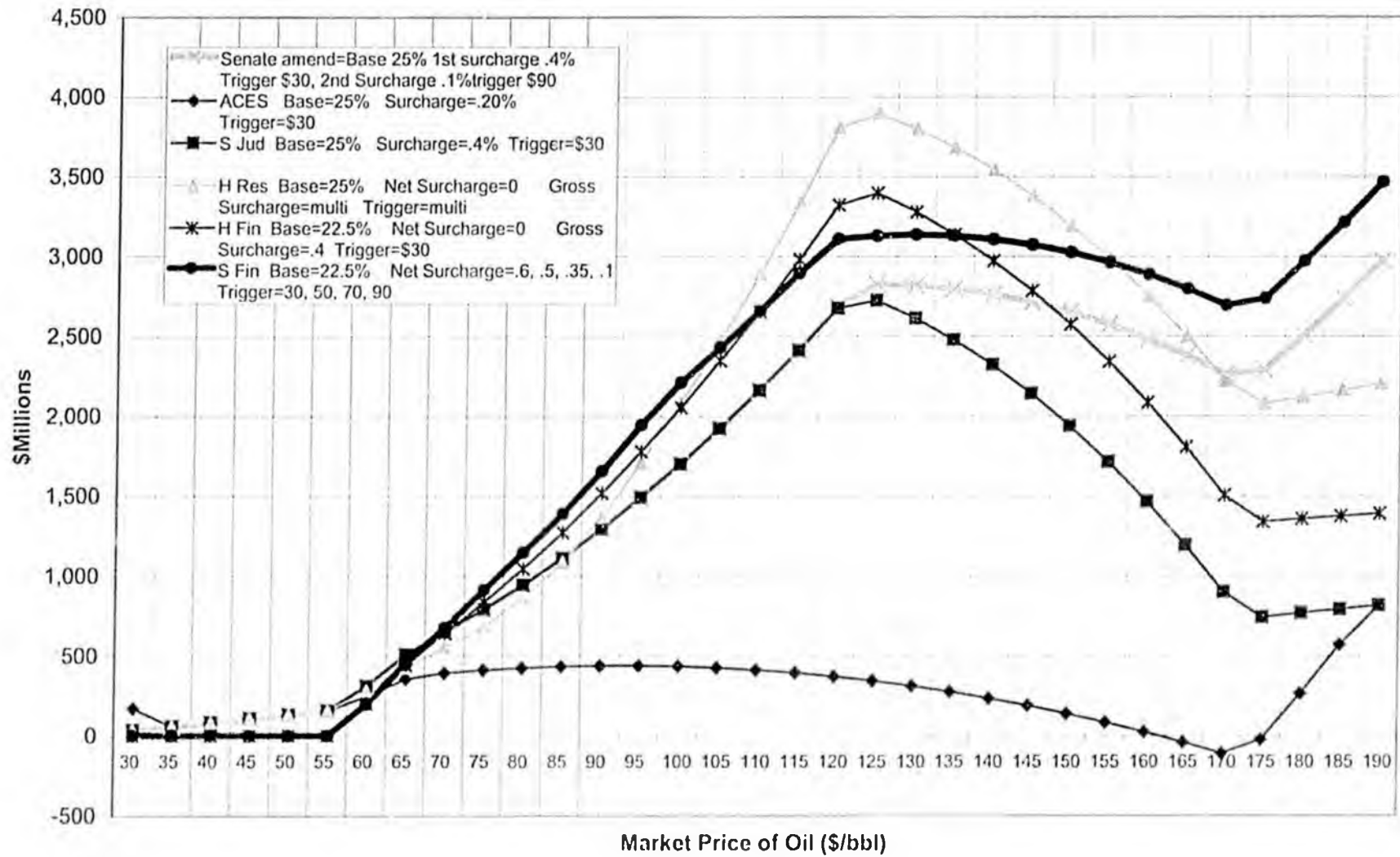
Structure of the levy

AS 43.55.xx	Current Law	SB 2001 (ACES)	CSHB 2001 (FIN) am	Proposed Senate Fin CS
.011(e)	22.5%	Rate in (g)	25% + progressivity in (g)	Rate in (g)
.011(g)	.25% Progressivity in Addition using price index in (h)	Rate=25%+.20 % progressivity using price index in (h)	.4% Progressivity in Addition using price index in (h)	Rate=22.5%+ sliding progressivity scale
.011(h)	Price index derived using 40	Price index derived using 30	Price index derived using 30	Repealed

Credits against Floor

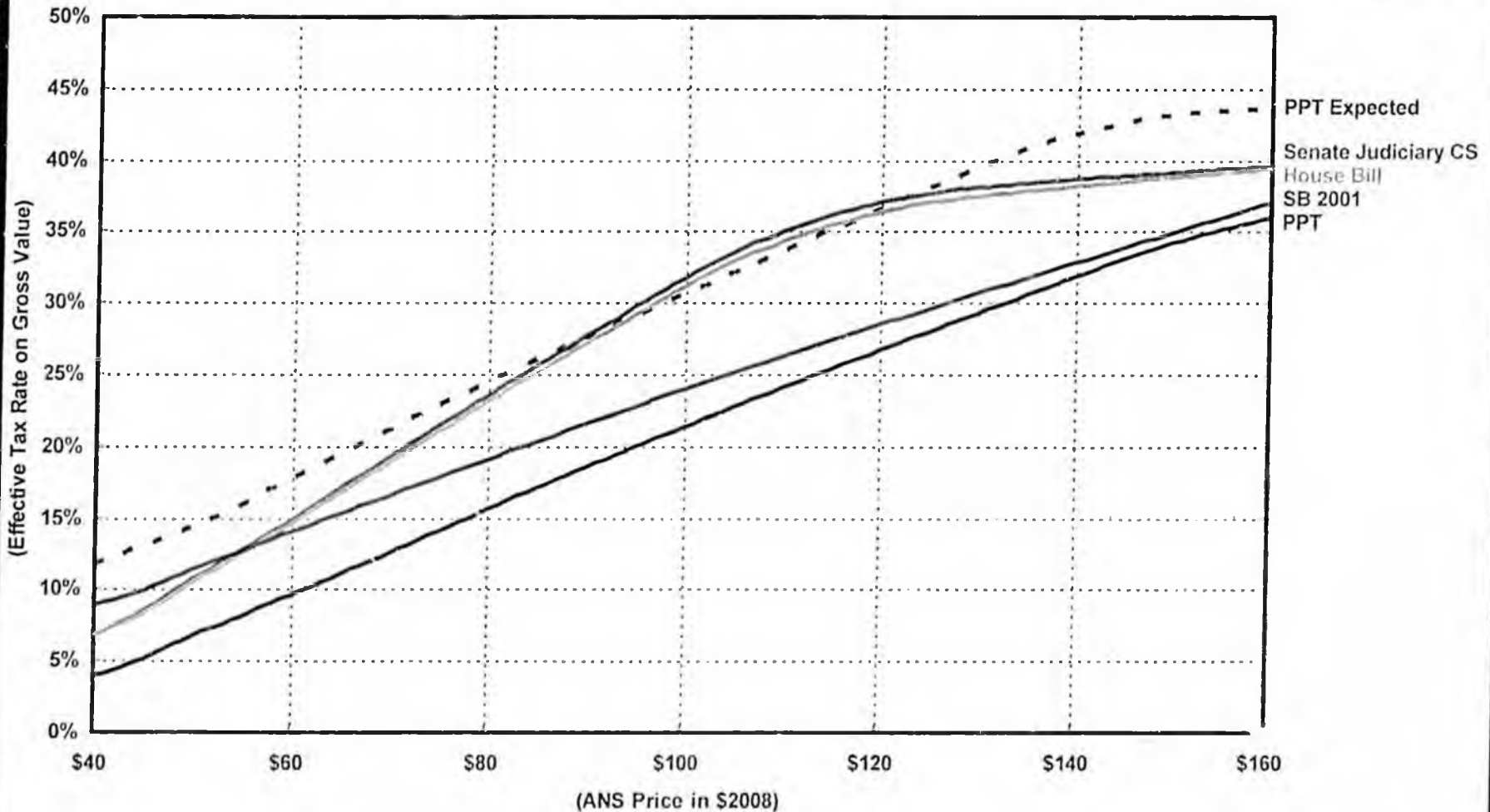
Credits	Current Law	SB 2001 (ACES)	CSHB 2001 (FIN) am	Proposed Senate Fin CS
.023	no	no	no	no
.024	yes	no	yes	yes
.025	yes	no	yes	no

Increases in Total State Revenue Under Various Production Tax Systems



11-14-07

Estimated Average Effective Tax Rate on Gross Taxable Value at Various West Coast ANS Price Levels (FY 2008-2014)



Note: Volumes per current Fall 2007 DOR Forecasts.

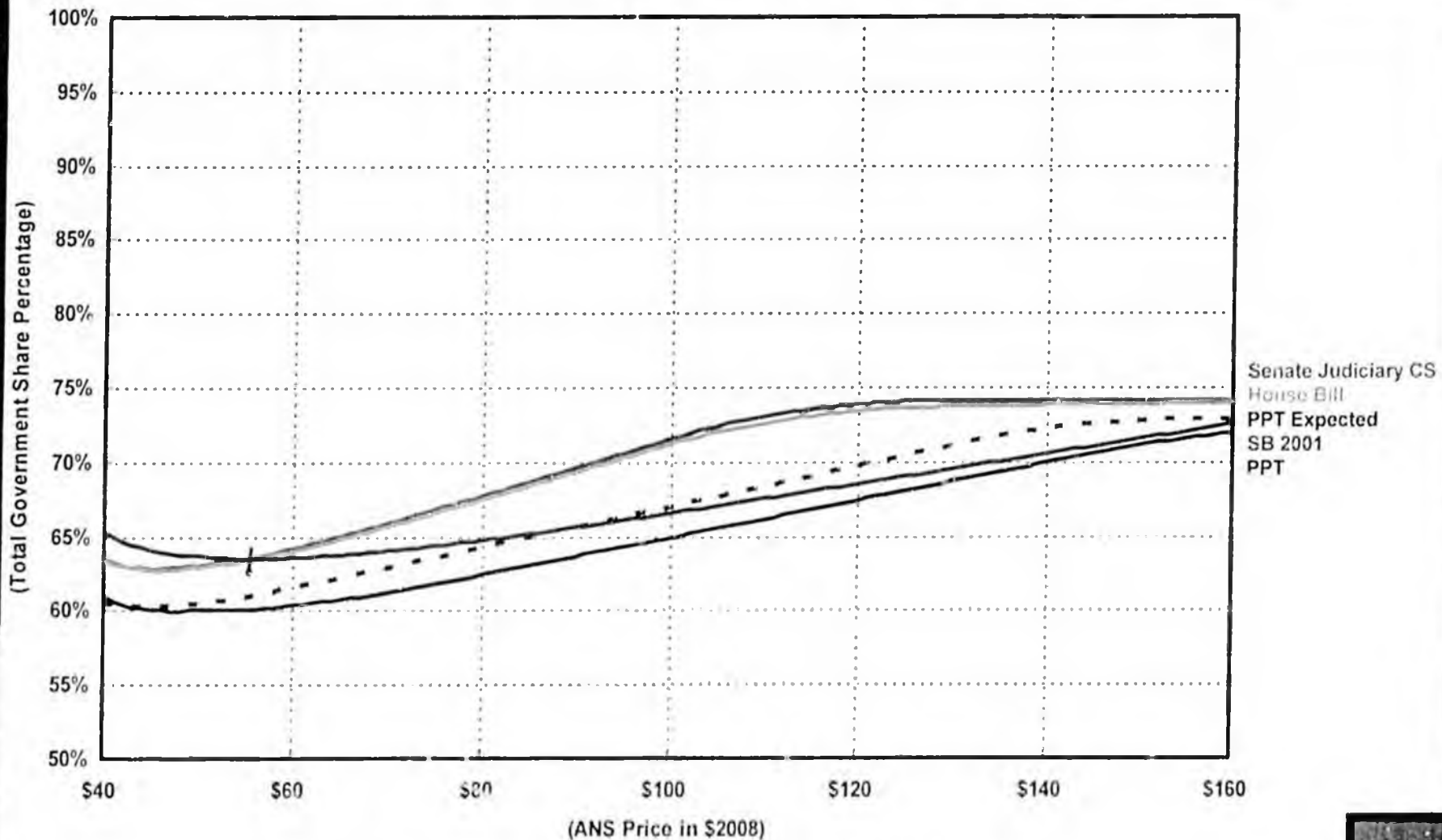
PPT Expected: Current Law using costs per Recal note to HB3001.

Senate Judiciary: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2006-2007 for new producers, does not include TAPS adjustment.

House Bill: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2006-2007 for new producers. Ops indexed to 2008 figures.



Estimated Total Government Share at Various West Coast ANS Price Levels (FY 2008-2014)



Note: Volumes per current Fall 2007 DOR Forecasts.

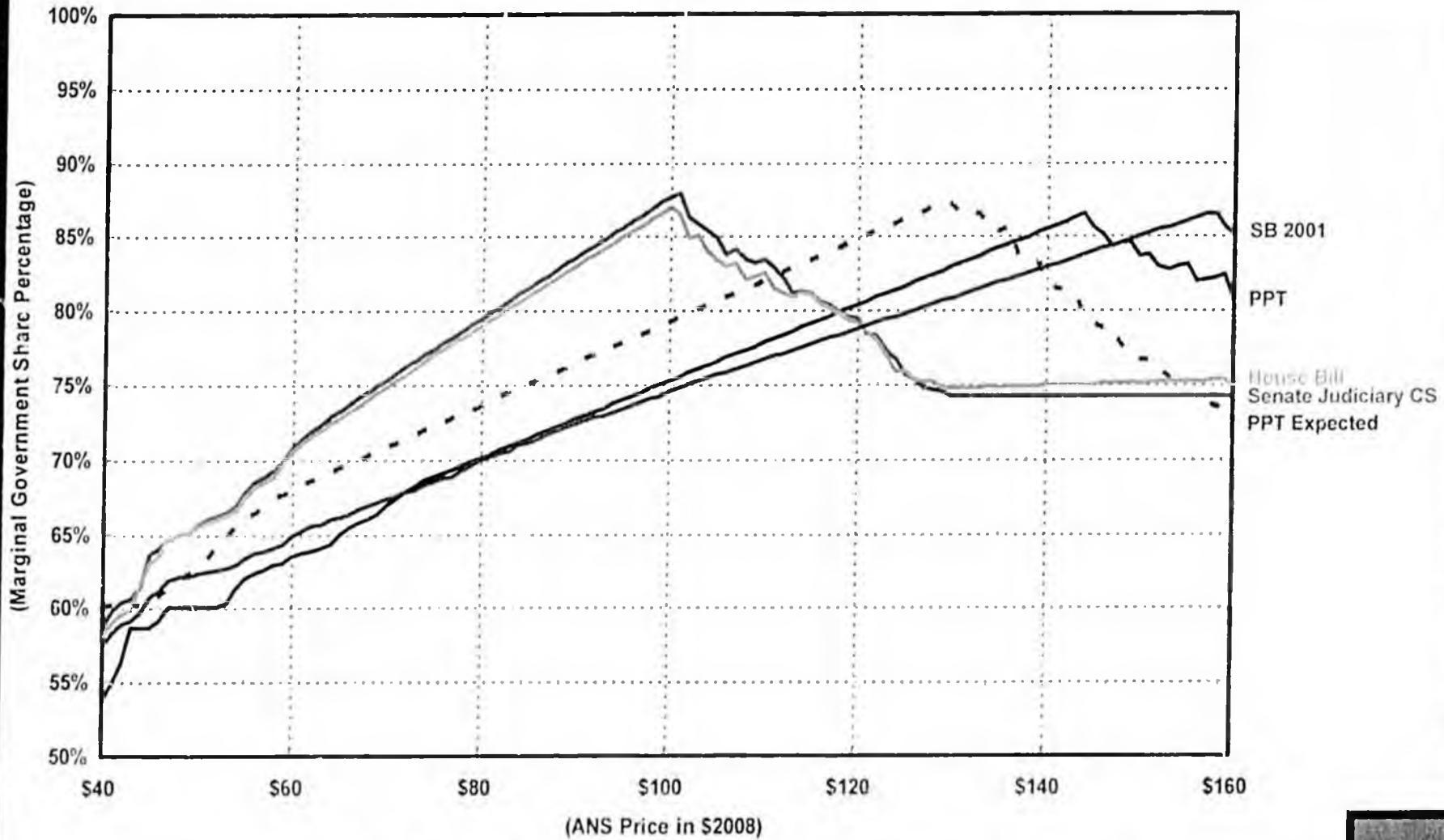
PPT Expected: Current Law using costs per fiscal note to RB3001.

Senate Judiciary: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2006-2007 for new producers, does not include TAPS adjustment.

House Bill: SB2001 using 0.4% progressivity rate, 50% overall cap, TIE credit 2006-2007 for new producers, Ops indexed to 2006 figures.



Estimated Marginal Government Share at Various West Coast ANS Price Levels (FY 2008-2014)



Note: Volumes per current Fall 2007 DOR Forecasts.

PPT Expected: Current Law using costs per fiscal note to HB3001.

Senate Judiciary: SB2001 using 0.4% progressivity rate, 8% overall cap, TIE credit 2004-2007 for new producers, does not include TAPS adjustment.

House Bill: SB2001 using 0.4% progressivity rate, 8% overall cap, TIE credit 2004-2007 for new producers, Open Indexed to 2008 figures.



Comparison

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
------	------	------	------	------	------	------	------	------	------	------	------	------

CSHB 2001(FIN) am

"Capital spending fills the bucket"

Spending: X

Y

Prod's
use TIEs

Producer Credit

min (10% of Y, 20% of X)

Non Prod
Spend

Non 2006-2007 Prod Uses tax credits

Non 2006-2007 Producer credits

min (10% of Y, 20% of X)

Senate(FIN) CS

"Capital spending fills the bucket"

Spending: X

Y

W

Prod's
use TIEs

Producer Credit

min (10% of Y, 20% of X)

Non 2006-2007 Prod Uses tax credits

non 2006-2007 Producer credits

min (10% of W, 20% of X)

Summary Comparison between Various Approaches to Production Tax

Issue	Current Law	SB/HB 2001 (ACES) as introduced	CS HB 2001(FIN)am	Senate Finance CS
Base Rate	<i>AS 43.55.011 (e) & (g)</i>	<i>Bill Sections 15 & 17</i>	<i>Bill Sections 15</i>	<i>Bill Sections 15 & 17</i>
Base Tax Rate		25%	25%	
Progressivity	<i>AS 43.55.011(g) & (h)</i>	<i>Bill Sections 17,18</i>	<i>Bill Sections 17,18</i>	<i>Bill Sections 17</i>
\$/bbl Starting point	\$40 net	\$30 net	\$30 net	\$30;50;70;90 net
Tax/\$ of Price Index	0.25%	0.20%	0.40%	.6; .5; .35; .1%
Average Value over		year		
Applied to		net		
Cap		25% of net		50% of net
Gross Value Floor	<i>AS 43.55.011(f)</i>	<i>Bill Section 15, 16, 31-36, & 41-42</i>	<i>Bill Section 16</i>	<i>Bill Section 16</i>
Base Rate		Prudhoe; Kuparuk 10%		
Apply .024 credits against floor?		No		
Apply .025 credits against floor?		No		No
Investment Credits	<i>AS 43.55.023</i>	<i>Bill Section 26-28, 38-44 & 63</i>	<i>Bill Section 26-28</i>	<i>Bill Section 25-29</i>
Investment Credits		1/2 in each of two years		1/2 in each of two years
Loss Carry Forward Credits	20%	25%	25%	22.5%
Transitional Investment Credits	Yes	No	All taxpayers allowed application of TIE matching spending in April 1 2006 - Dec 31, 2007, even if application deferred	TIE credits end for producers Dec 31, 2008, current non producers can use through 2013

Summary Comparison between Various Approaches to Production Tax

Issue	SB/HB 2001 (ACES) as			
	Current Law	introduced	CS HB 2001(FIN)am	Senate Finance CS
Exploration Credits	AS 43.55.025	Bill Section 36 - 44	Bill Section 29-35	Bill Section 31-39
Rates	20; 40%	20; 40%	30;40%	20; 40%
General & Admin Costs	disallowed	bad acts I	costs arising from Bad Acts III - criminal	bad acts I
DNR approval required?	In CI, to avoid 3 mile limit	Always	Always, w/ language changes	Always.
Confidentiality of well data	10 years	2 years	2 years, or if DNR declines to, or private landowner declines	2 years, or if DNR declines to.
Seismic on non state land	silent	included	explicit exclusion without permission	silent
Pre-existing well	One drilling season	Two consecutive drilling seasons	Two consecutive drilling seasons	Two consecutive drilling seasons
"DNR TIE" Credits for pre 2003 seismic work?	no	5%	5%	5%

Exceptions to Tax Credits		Bill Section 41	Bill Section 30,35,
None	none	none	unpaid judgment
Tax Exempt entities take credits?		no	no

State Purchase of Credits		AS 43.55.023(f) & (g)		
Paid from:		oil and gas credit fund, funded from production taxes		
Annual dollar cap per taxpayer?	\$25 million	none	\$ 25 million (however ARM unlimited)	none
ARM Board Purchases?	n/a	n/a	yes	n/a

Summary Comparison between Various Approaches to Production Tax

Issue	Current Law	SB/HB 2001 (ACES) as introduced	CS HB 2001(FIN)am	Senate Finance CS
Allowable Lease Expenditures	<i>AS 43.55.165</i>		<i>Bill Section 46-51</i>	<i>Bill Section 46-51</i>
Allowed by regulation	no language	must be	must be	must be
Use producer audits of operators?	Explicit	Explicit repealed; Implicit add violation of law, lease or license	Explicit repealed; Implicit costs arising from Bad Acts III - criminal	Explicit for WICs
Disallow bad acts II?	yes	No	No	Disallow bad acts II?
DR&R Allowed?	Allocated	No	No	No
"Corrosion" Issue		\$0.30 + unscheduled events disallowed	\$.30 a bbl disallowed+ intent language	\$.30 a bbl disallowed+ unscheduled interruption
Field Topping Plants allowed?	Yes	No	No	No
Off Lease allowed			must be in state	
Public Outreach costs	not explicit	not explicit	no; listed	no; listed
Opex	actual	actual	Yet to be written regulations will define 2006; then 3% annual increase; (regardless of production or ownership?)	actual
Information	<i>AS 43.05.230 and royalty statutes</i>		<i>Bill Sections 2-9,11,13,36-39, 52</i>	<i>Bill Sections 2-9,11,13,36-39, 52</i>
forward looking information required	none	information "necessary to forecast ... revenues under AS 43.55" Penalty up to \$1000 a day	information "necessary to forecast ... revenues under AS 43.55". Penalty up to \$1000 a day if demanded information not forthcoming	information "necessary to forecast ... revenues under AS 43.55". Penalty up to \$1000 a day if demanded information not forthcoming
Disclosure of tax information		if aggregated w/2 other producers, no requirement to prevent identification	if aggregated w/2 other producers, [still under umbrella required to prevent identification]	if aggregated w/2 other producers, no requirement to prevent identification
DNR sharing royalty information w/ DOR	limited ability	expanded ability	expanded ability	expanded ability
DOR sharing tax information with DNR	limited ability	expanded ability	expanded ability	expanded ability
Statute of Limitations	<i>AS 43.05.260</i>	<i>Bill Sections 1,14,50 new AS 43.55.075</i>	<i>Bill Sections 1,14,41 new AS 43.55.075</i>	<i>Bill Sections 1,14,41 new AS 43.55.075</i>
State assessment must be issued within	3 yrs	6 yrs	6 yrs	4 yrs
DOR Auditors	<i>As 39.25.100</i>	<i>Bill Sections 10, 65, 67</i>	<i>Bill Sections 10, 56</i>	<i>Bill Sections 10, 56</i>

Summary Comparison between Various Approaches to Production Tax

SB/HB 2001 (ACES) as

Issue	Current Law	introduced	CS HB 2001(FIN)am	Senate Finance CS
DOR & DNR auditors exempt employees?	no	yes	2 DNR and 4 DOR exempt master auditors authorized.	2 DNR and 4 DOR exempt master auditors authorized.

Effective Date		Bill Section 64	Bill Section 1, 60-61	Bill Section 1, 60-61
Generally	n/a	Jan 1 2008	Jan 1 2008	July 1 2007
Retroactive to April 1 2006	n/a	unscheduled interruption	deferred maintenance issues (Intent language)	TECHNICAL AMENDMENT: unscheduled interruption

Downstream Costs	As 43.55.150	Bill Section 43	Bill Section 43
Reasonable v actual		Downstream Tanker and Pipelines = Actual, except, reasonable if lower	Downstream Tanker and Pipelines = Actual, except, reasonable if lower
Prima facie reasonable Taps Tariff		"just and reasonable" and arms' length transactions	"just and reasonable" and arms' length transactions

Gas Ceilings thru 2022	As 43.55.011	Bill Section 22	Bill Section 20,22
Where	CI	CI	CI + gas used in the state
Interaction with credits	implicit	explicit importing from regs	implicit explicit high-level statement of rules

Additional Penalties	new As 43.55.055	Bill Section 40	Bill Section 24,40
Additional Penalties for Under reporting	none	none	10% for 10% or 10mm understmnt, 20% for 20% or 20mm understmnt none

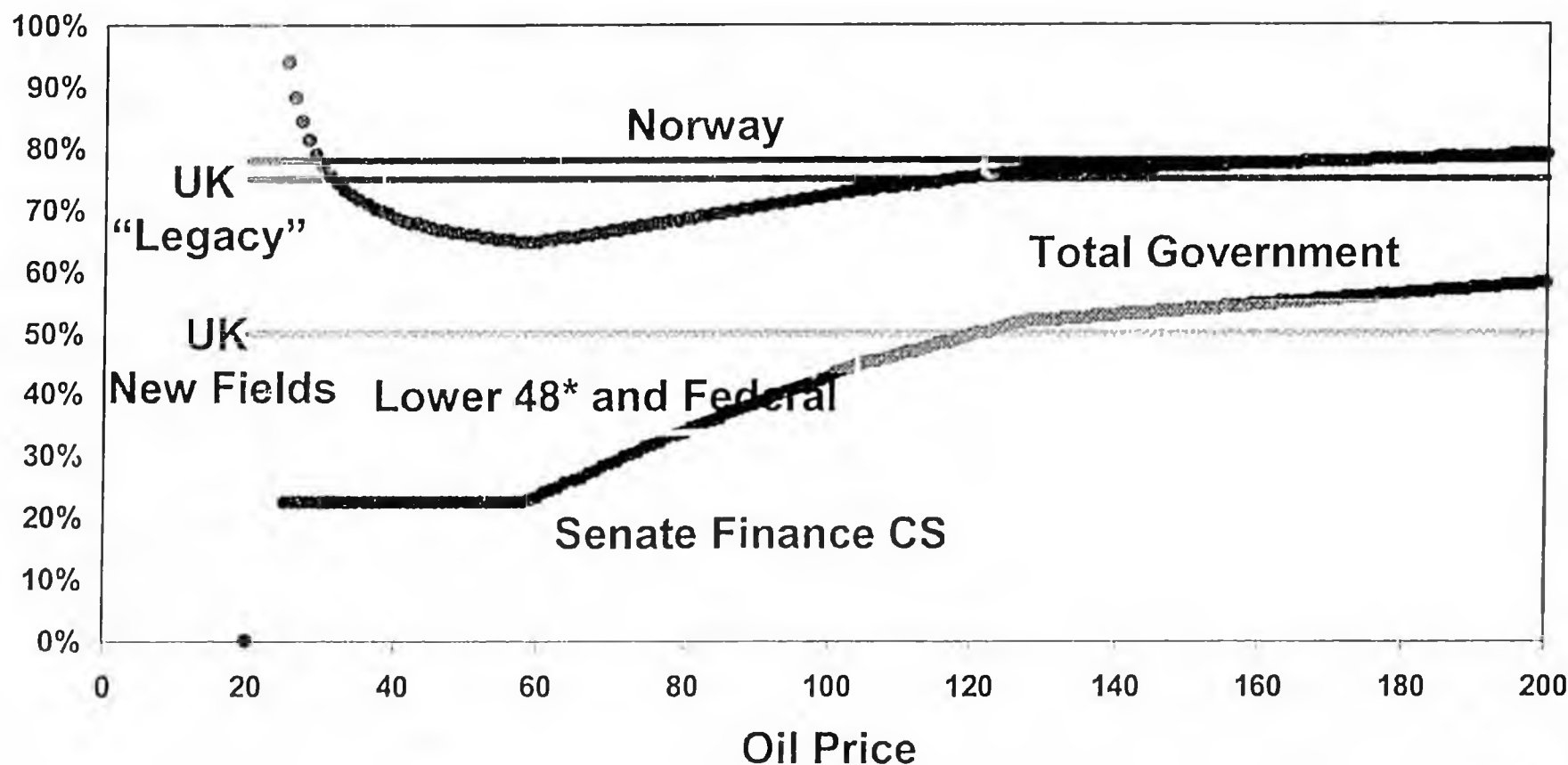
Summary Comparison between Various Approaches to Production Tax

<u>Issue</u>	<u>Current Law</u>	<u>SB/HB 2001 (ACES) as introduced</u>	<u>CS HB 2001(FIN)am</u> <i>Bill Section 1</i>	<u>Senate Finance CS</u> <i>Bill Section 1</i>
Intent Language				
overall intent of legislation	n/a	no	included	no
long standing interpretation of SOL	n/a	included	included	included
Half the money from certain retroactive applications to PERS and public education fund				retroactivity dollars to public education fund, incremental dollars to other listed investments
tax savings from gas ceilings outside CI passed on to ultimate consumers	n/a	no	encourage availability of affordable gas	no
Admin	<i>AS 43.55.020(a)</i>		<i>Bill Sections 12,23-25,42</i>	<i>Bill Sections 12,23-25,42</i>
Monthly Estimated payments	Estimated payments without ceilings, refund due taxpayer at year end	Ceilings applied monthly	Ceilings applied monthly (sec A and C could be parallel) may appropriate \$50 mm from progressivity	Ceilings applied monthly (sec A and C could be parallel)
LIHEAP funding	No	No		No
Whistleblower language	No	No	yes - with limitation for bad faith	yes - with limitation for bad faith
DNR NPSL regulations	n/a	general grant for retroactive applications	may be retroactive	may be retroactive
Required 2011 Report -	Yes	Yes	deleted	Yes

Government Take Senate Finance CS



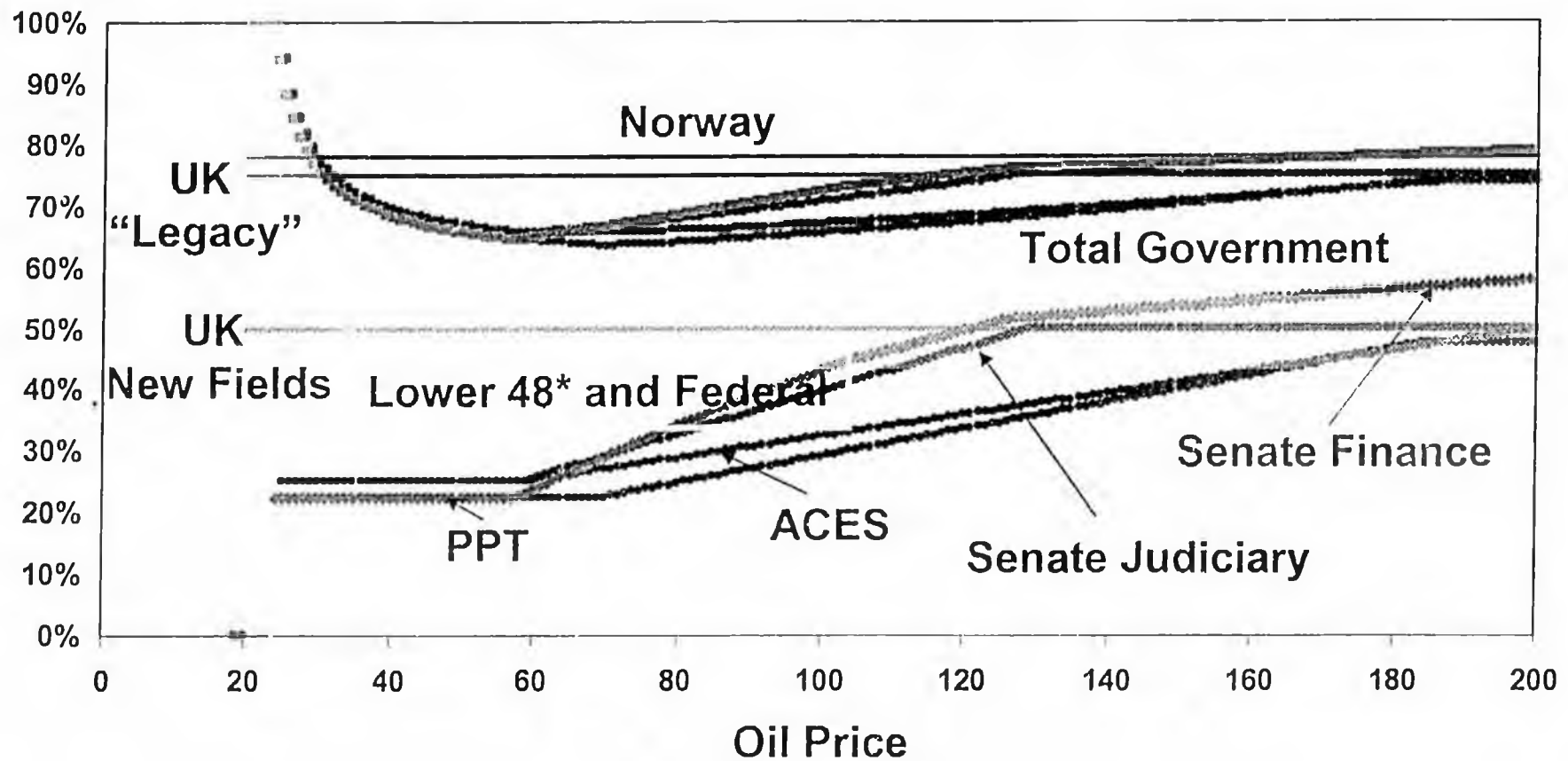
* For Lower 48, State lands / Federal assumes with 12.5% - 18.75% royalty. Private royalty trend is higher



Government Take Senate Finance CS



* For Lower 48, State lands / Federal assumes with 12.5% - 18.75% royalty. Private royalty trend is higher



Assumes \$20 costs

Government and Petroleum Tax Take

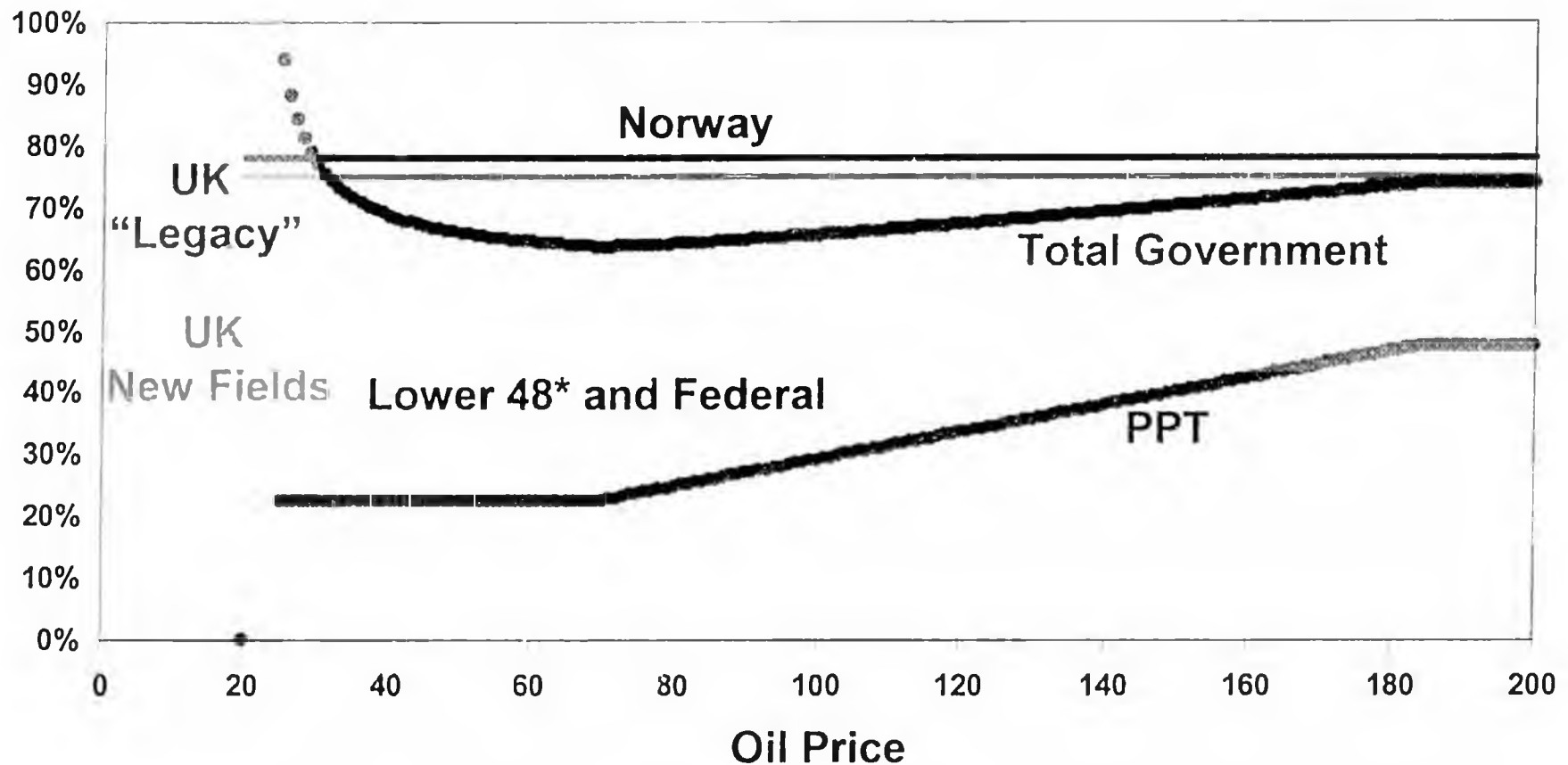
PPT, ACES, Senate Judiciary CS
Compared To UK, Norway, US Lower 48

11/4/07

Government Take PPT



* For Lower 48, State lands / Federal assumes with 12.5% - 18.75% royalty. Private royalty trend is higher



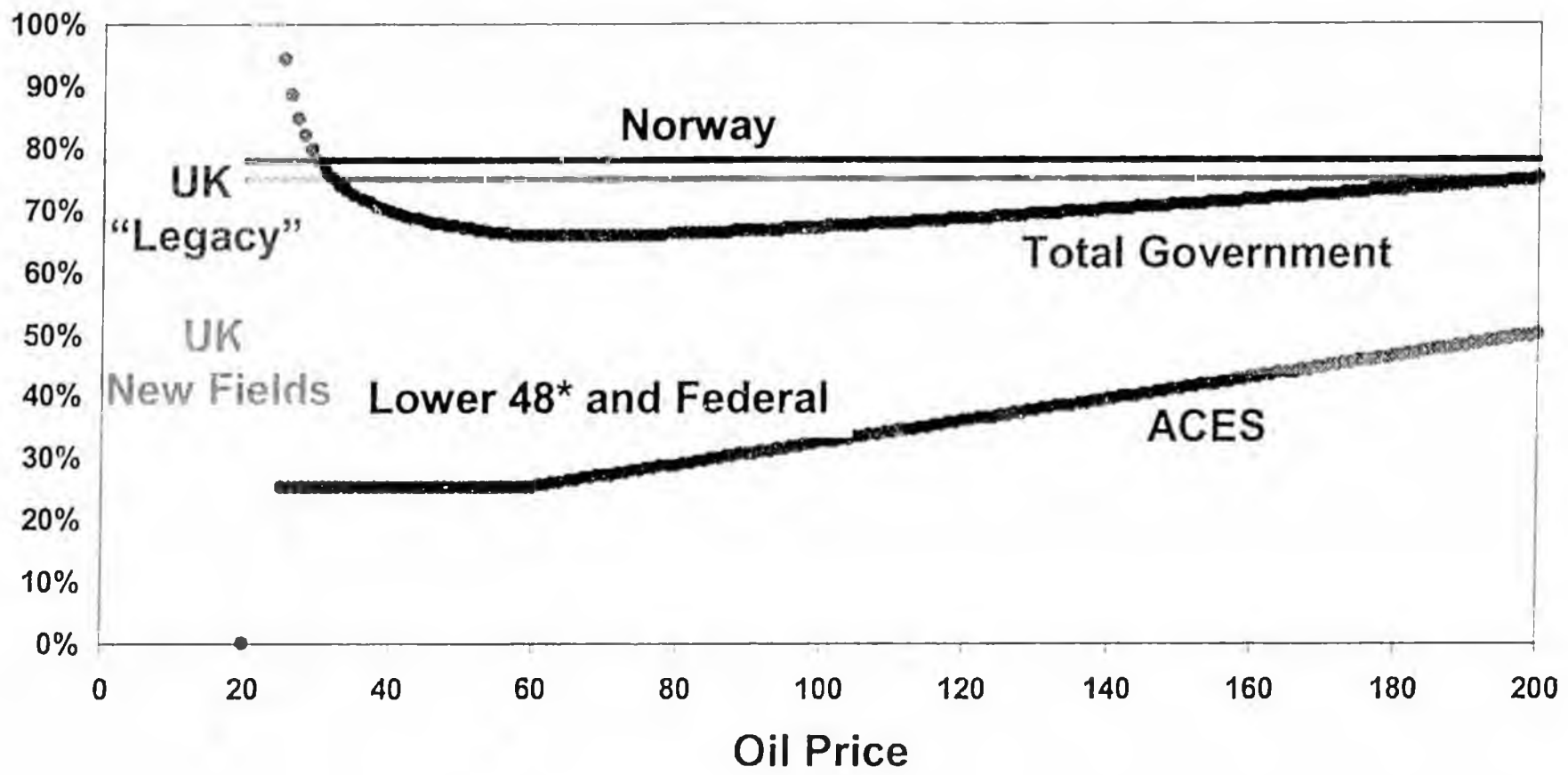
Assumes \$20 costs



Government Take

SB 2001 (ACES)

* For Lower 48, State lands / Federal assumes with 12.5% - 18.75% royalty. Private royalty trend is higher

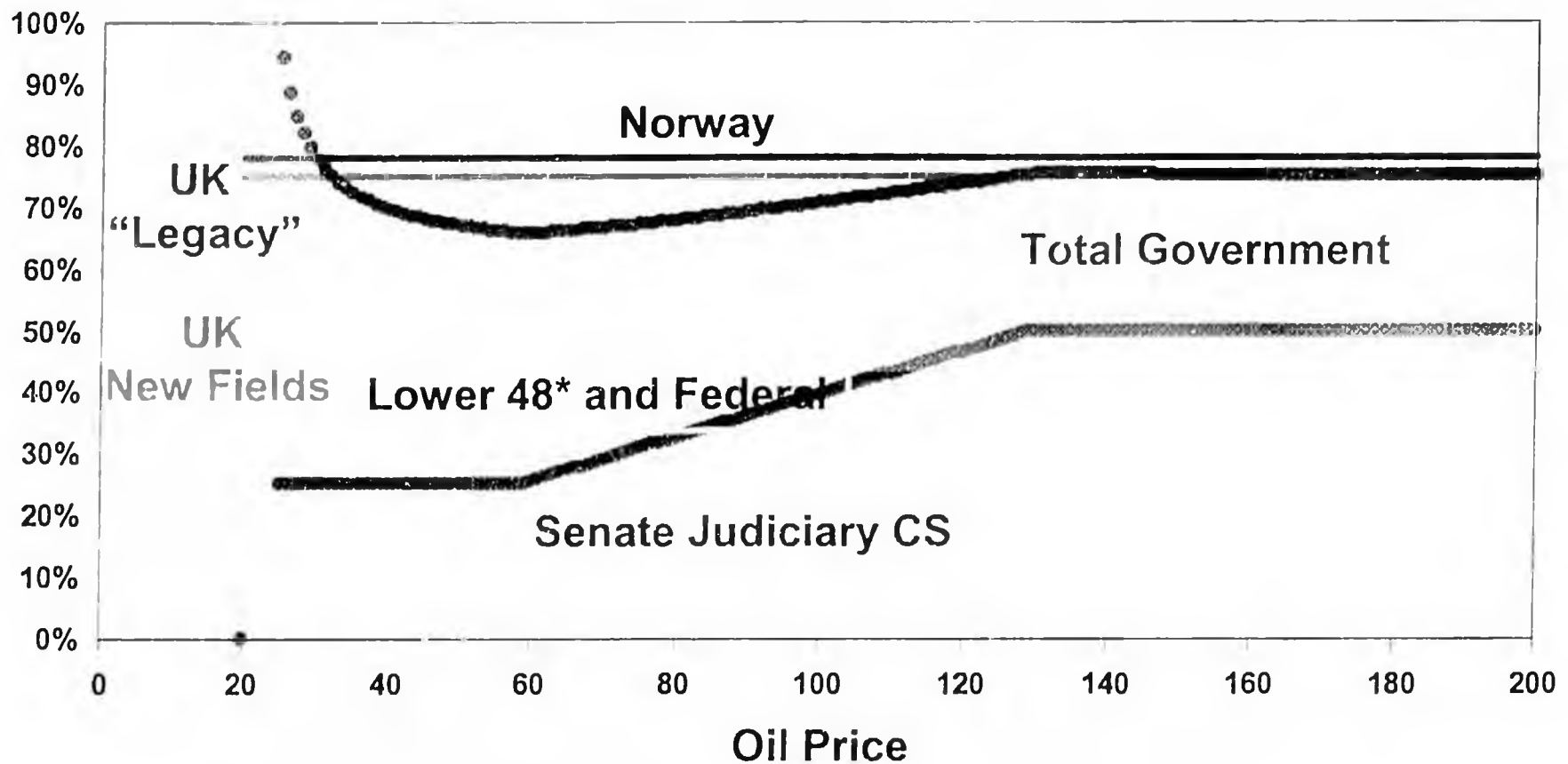


Assumes \$20 costs

Government Take Senate Judiciary CS



* For Lower 48, State lands / Federal assumes with 12.5% - 18.75% royalty. Private royalty trend is higher



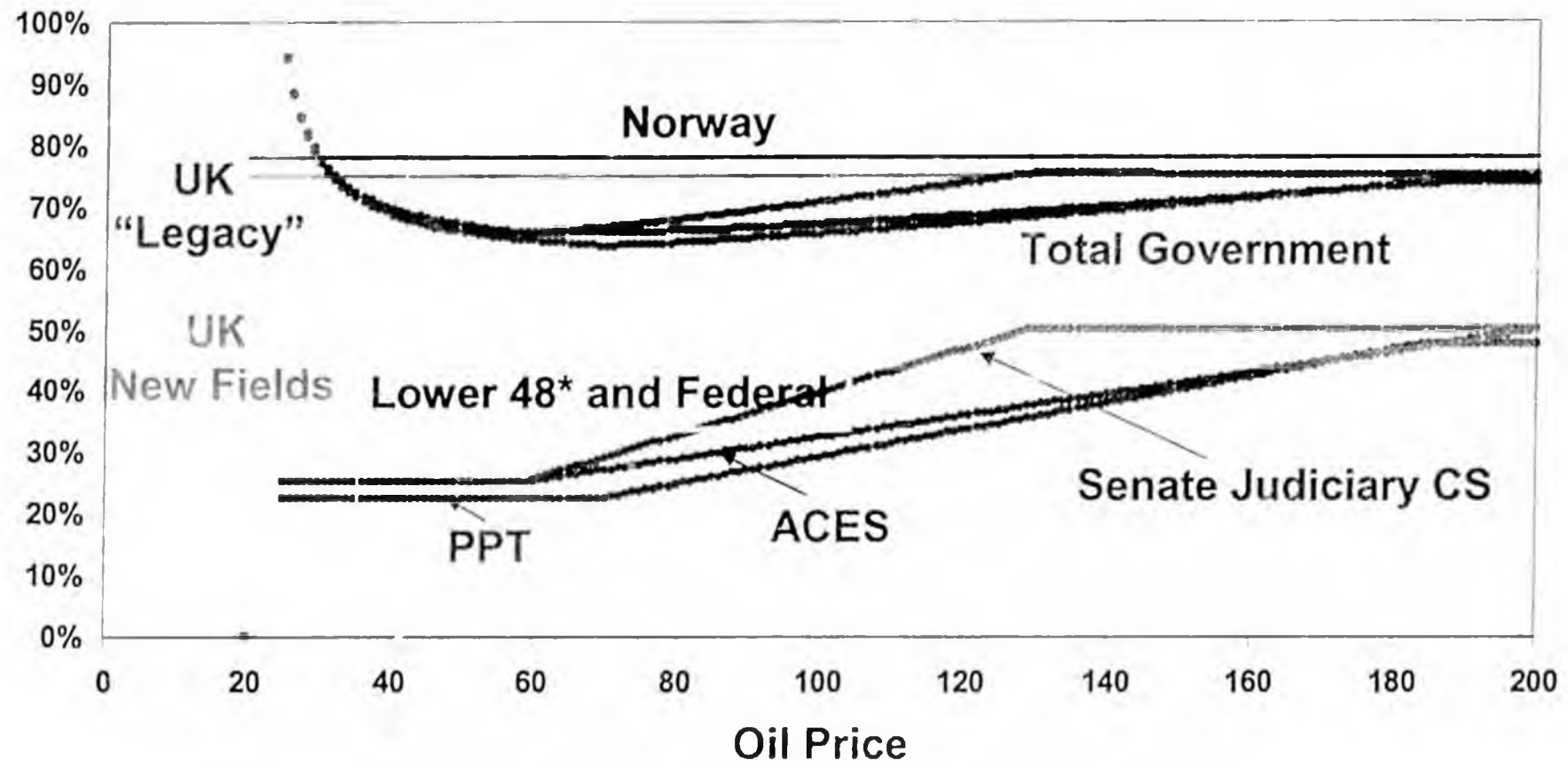
Assumes \$20 costs

Government Take Senate Judiciary CS

Finance



* For Lower 48, State lands / Federal assumes with 12.5% - 18.75% royalty. Private royalty trend is higher



Assumes \$20 costs

Tax Rates in Various Versions of SB 2001

November 12, 2007

David Teal

Major Provisions of a Tax System

1. Taxable Revenue (Gross or Net)
2. Base Rate
3. Surcharge (Progressive Rate)
4. Trigger Point for Surcharge
5. Maximum Rate

All Tax Systems Discussed are Based on Net Cash Flow

	Base	Trigger	Rate	Trigger	Rate	Trigger	Rate	Trigger	Rate	Maximum
PPT	22.5%	\$ 40	0.25%							47.5%
ACES	25.0%	\$ 30	0.20%							50.0%
Sen Jud	25.0%	\$ 30	0.40%							50.0%
House	25.0%	\$ 30	0.40%							50.0%
Sen Fin	22.5%	\$ 30	0.60%	\$ 30	0.50%	\$ 50	0.35%	\$ 70	0.10%	75.0%

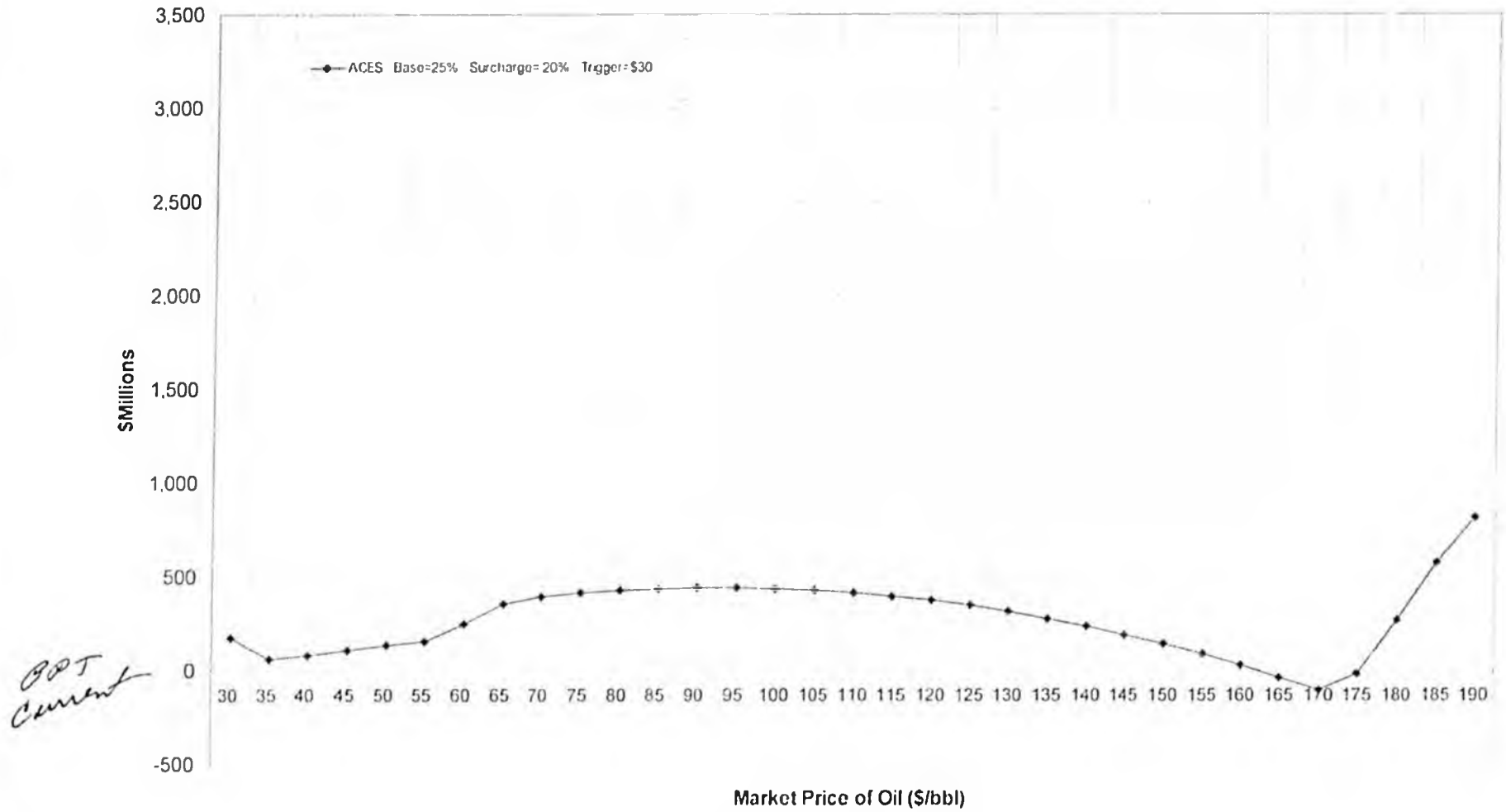
Comparing the Tax Systems

1. Increase in Revenue (relative to PPT)
2. Total Revenue
3. Government Share

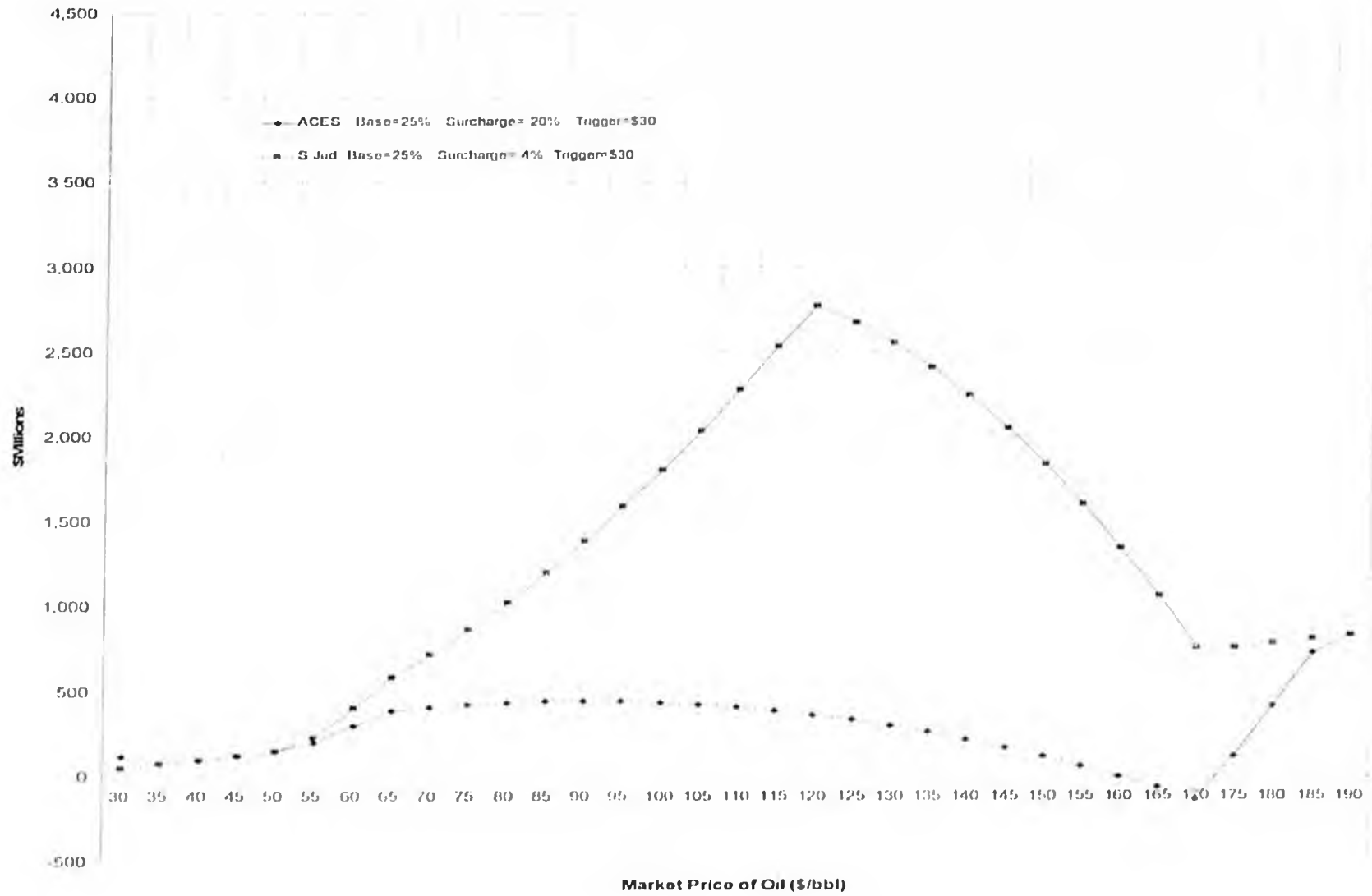
Things to Remember

- Focus on curve shape and location—projections are affected by production volume, costs of production and other factors that cannot be predicted accurately.
- Projections are based on the Fall 2007 Revenue Forecast, but even if the variables—production volume, costs of production, etc.—change, the projections do not change much in relative terms.

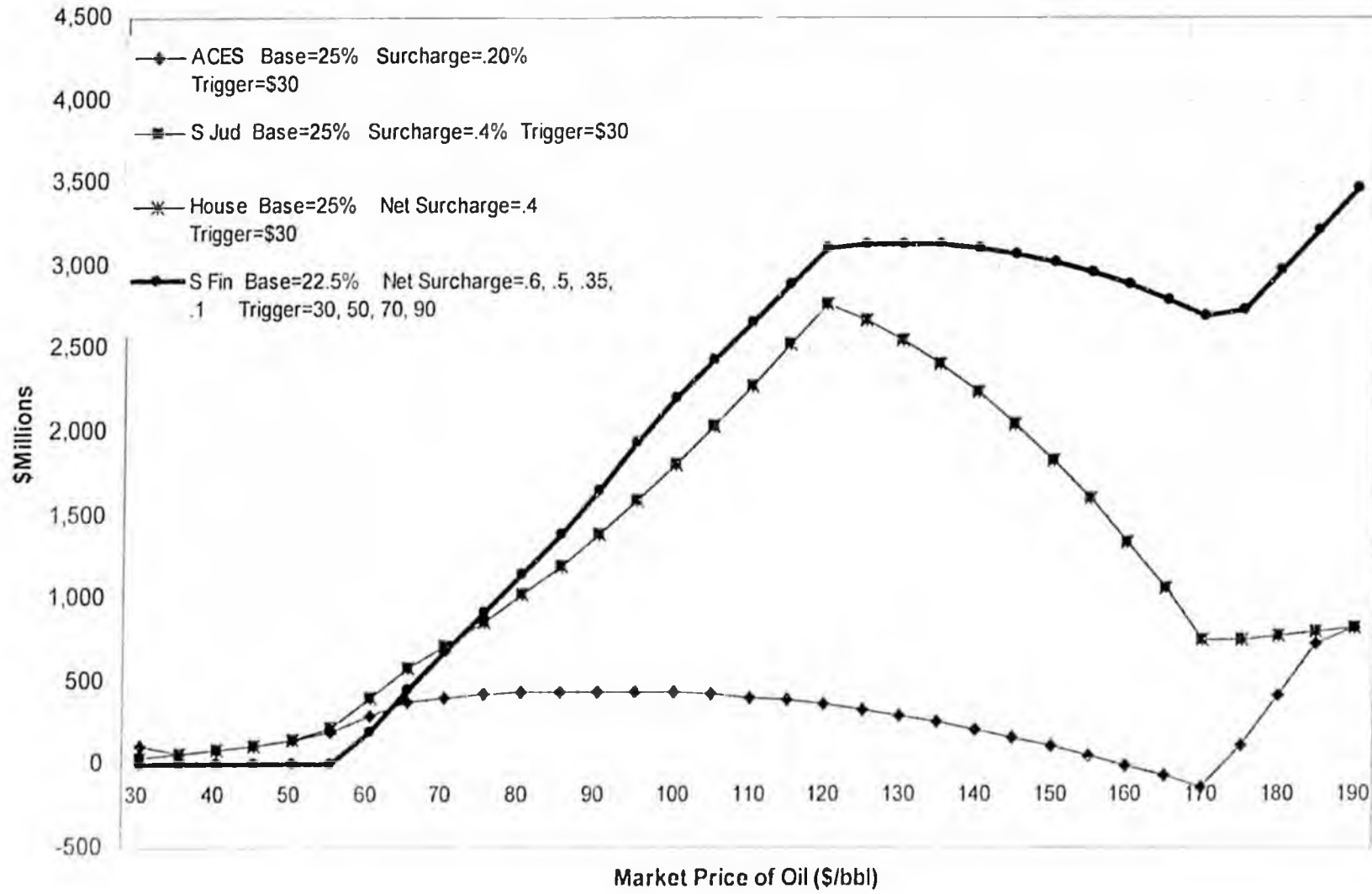
Increases in Total State Revenue Under Various Production Tax Systems



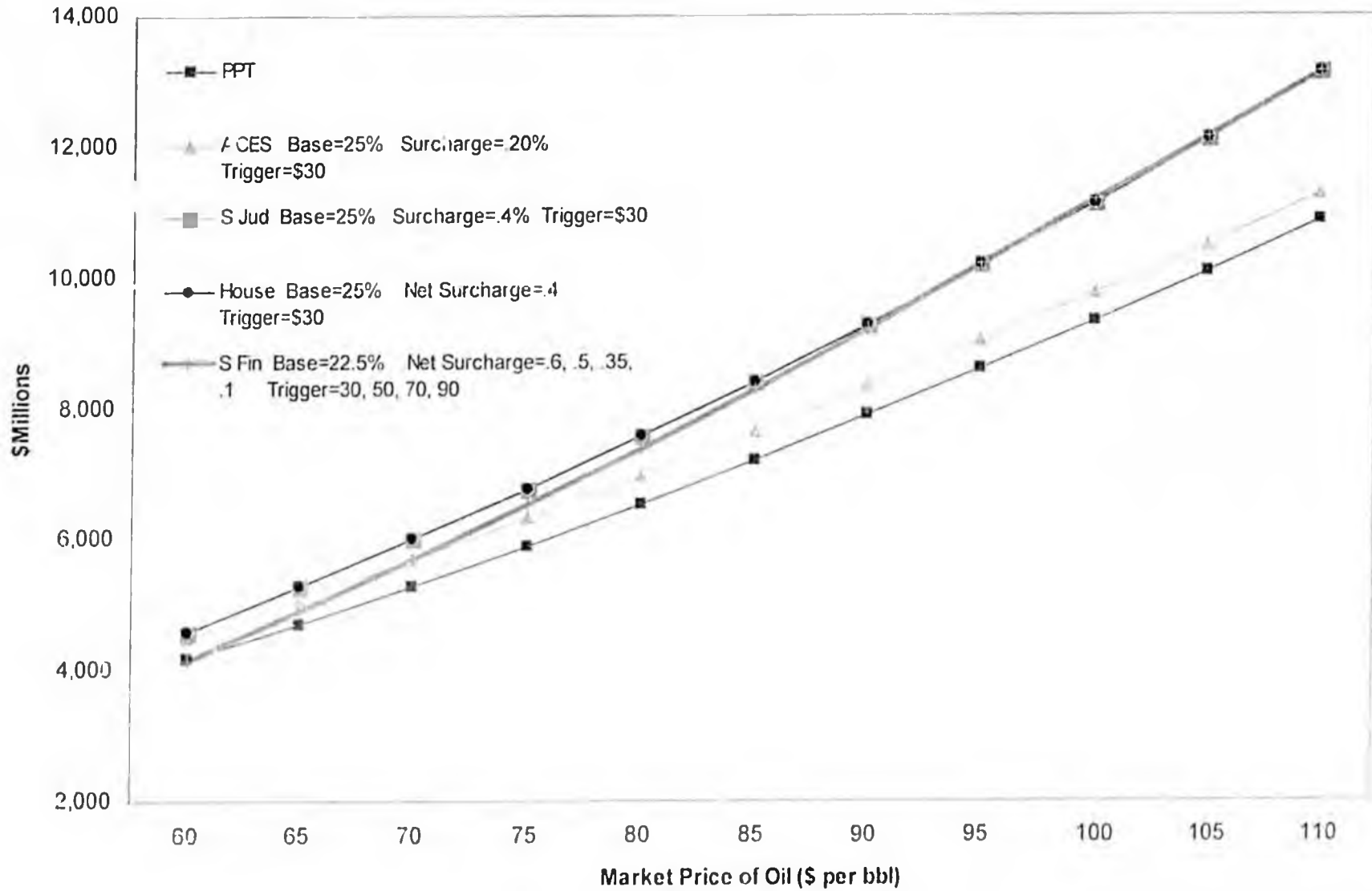
Increases in Total State Revenue Under Various Production Tax Systems



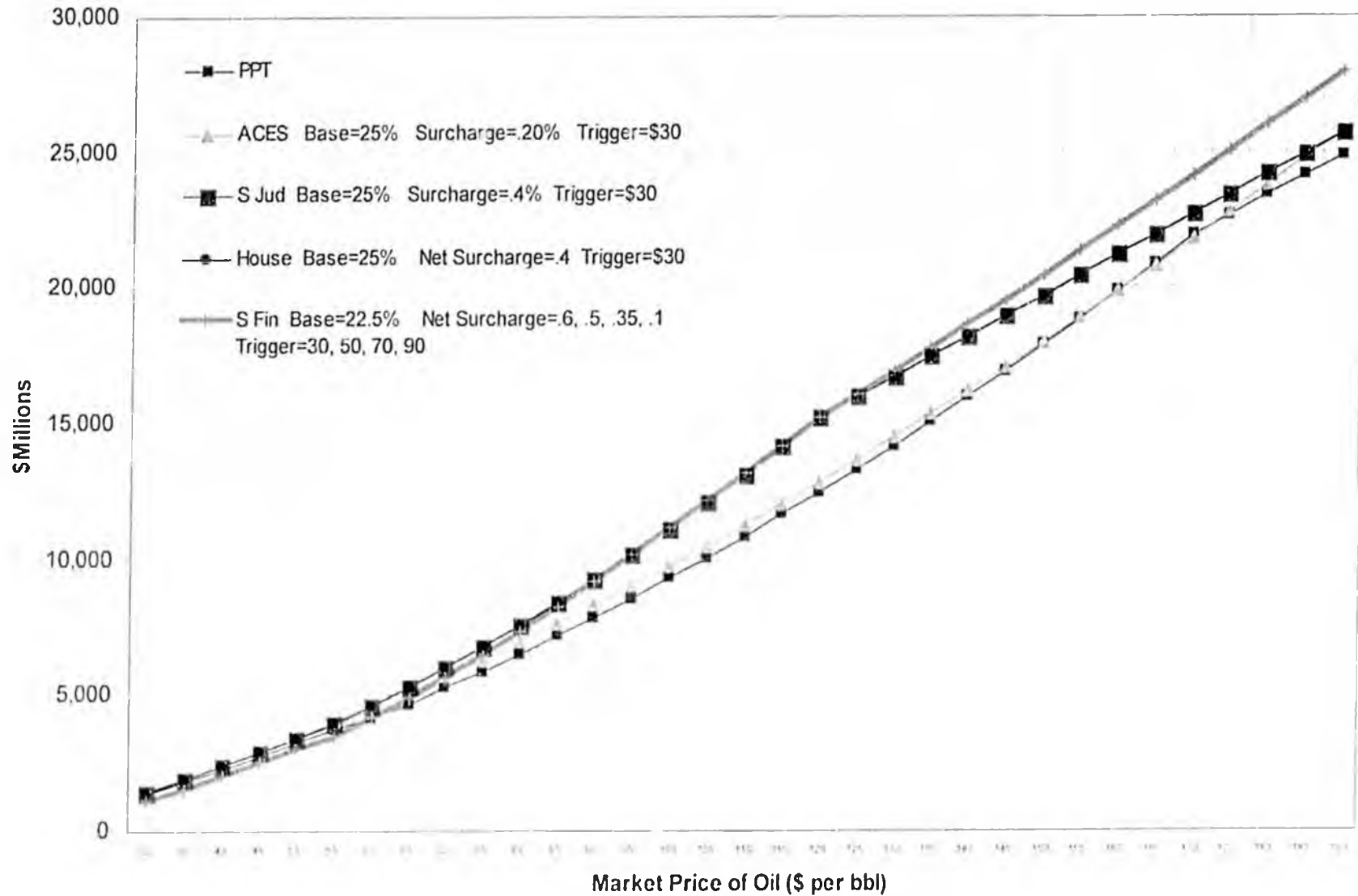
Increases in Total State Revenue Under Various Production Tax Systems



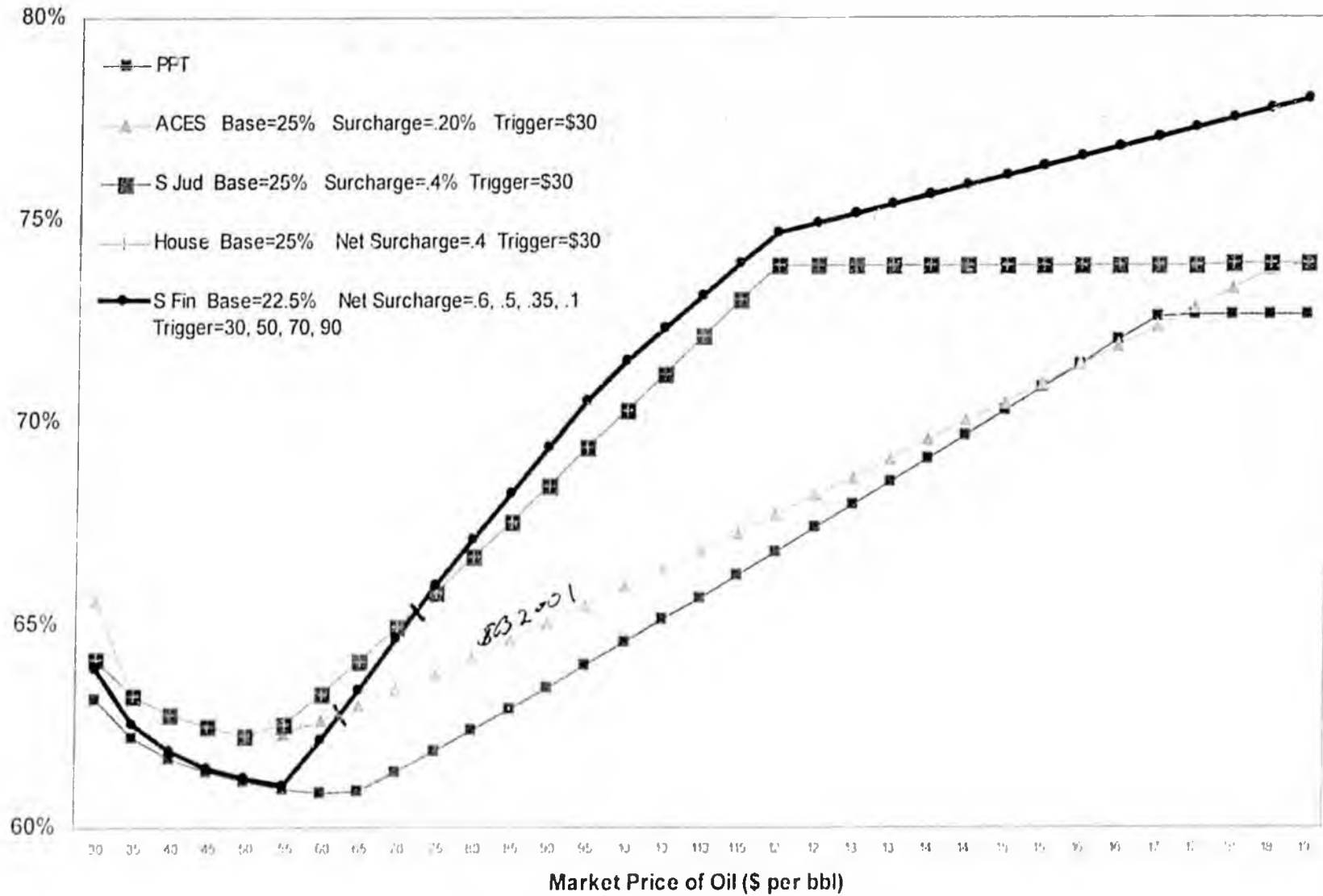
Total State Revenue Under Various Scenarios



Total State Revenue Under Various Scenarios



Government Share of Revenue Under Various Scenarios



CAMBRIDGE

ENERGY

RESEARCH

11/10/07