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TONY KNOWLES, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FAX: (907) 465-3886

March 2, 1998

The Honorable Mark Hodgins, Chair
House Committee on Oil and Gas
Alaska State House
State Capitol Rm # 110
Juneau, AK 99811

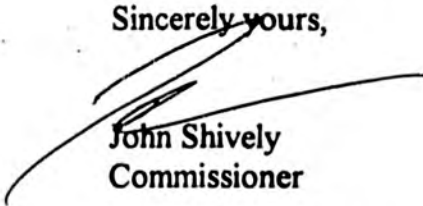
Dear Representative Hodgins:

The Department of Natural Resources requests a House Oil and Gas Committee hearing on HB 440 "An act relating to certain audits regarding oil and gas royalty and net profits." This bill would transfer from the Department of Revenue to the Department of Natural Resources responsibility for audits of oil and gas royalty. This function has been split between the two departments since 1980 based on a Legislative Audit recommendation and subsequent legislation.

Since 1980, however, the state has entered into royalty settlements and made changes to its tax regulations. As result, it is now more beneficial to the state to consolidate the royalty audit function in the Department of Natural Resources. This consolidation will eliminate inefficiencies and duplications in the royalty audit function.

Thank you for your consideration of this request. If you need additional information concerning HB 440, please call me at 465-2400.

Sincerely yours,



John Shively
Commissioner

cc: Carol Carroll
Legislative Liaison

"Develop, Conserve and Enhance Natural Resources for Present and Future Alaskans"

STATE OF ALASKA
1998 LEGISLATIVE SESSION

FISCAL NOTE

Bill Version: HB 440
(H) Publish Date: 2/18/98

Revision Date: _____ Dept. Affected: Revenue
 Title: Transfer Royalty Audit Function BRU: Revenue Operations
 Component: Oil and Gas Audit
 Sponsor: Rules
 Requestor: Governor COMPONENT SERIAL NO. 115

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES	-210.2	-210.2	-210.2	-210.2	-210.2	-210.2
TRAVEL	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-212.7	-212.7	-212.7	-212.7	-212.7	-212.7

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	-212.7	-212.7	-212.7	-212.7	-212.7	-212.7
1001 CBRF						
1048 University of AK receipts						
Other						
TOTAL	-212.7	-212.7	-212.7	-212.7	-212.7	-212.7

Estimate of any current year cost \$ 0.0

POSITIONS:

FULL-TIME	-3	-3	-3	-3	-3	-3
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This bill transfers (from DOR to DNR) responsibilities and authority for auditing reports and payments relating to revenue under oil and gas contracts, agreements and leases. This function is performed by two revenue auditor positions and one clerk position that would be transferred from DOR to DNR.

Prepared by: John Pilkinton, Director
 Division: Oil and Gas Audit
 Approved by Commissioner: Wilson L. Condon
 Agency: Revenue

Phone: 343-9225
 Date: February 13, 1998
 Date: February 13, 1998

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FISCAL NOTE

No: 2

Bill Version: HB 440
(H) Publish Date: 2/18/98

STATE OF ALASKA 1998 LEGISLATIVE SESSION

Revision Date: _____ Dept Affected: Natural Resources
Title: An Act transferring the ... authority for auditing... BRU: Resource Development
oil and gas contracts, agreements, leases ...from DOR to DNR. Component: Oil and Gas Development
Sponsor: Rules Committee
Requestor: Governor Component Serial No. 439

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY99	FY00	FY01	FY02	FY03	FY04
PERSONAL SERVICES	210.2	210.2	210.2	210.2	210.2	210.2
TRAVEL	2.5	2.5	2.5	2.5	2.5	2.5
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	212.7	212.7	212.7	212.7	212.7	212.7

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	212.7	212.7	212.7	212.7	212.7	212.7
005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	212.7	212.7	212.7	212.7	212.7	212.7

Estimate of any current year (FY98) cost: \$ none

POSITIONS

FULL-TIME	3	3	3	3	3	3
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

(Attach a separate page if necessary)

Transfer from the Department of Revenue funds for two Revenue Auditor positions and one clerical position. The Revenue Auditor positions being transferred are filled and perform royalty audits. The departments agree that efficiencies will result in the timeliness of audits with the consolidation of this function in DNR. In the past, many of the tasks required to complete these royalty audits were duplicative of tasks performed in DNR. This fiscal note shows the transfer of the funds and positions from Dept. of Revenue to the Dept. of Natural Resources. A second fiscal note shows the complete fiscal analysis of this legislation.

Prepared by: Carol Carroll, Director *Carol Carroll for* Phone: 465-2400
Division: Support Services Date: 12-Feb-98
Approved by Commissioner: *Carol Carroll for* Date: 2-12-98
Agency: Natural Resources

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FISCAL NOTE

No: 3

Bill Version: HB 440

(H) Publish Date: 2/18/98

STATE OF ALASKA

1998 LEGISLATIVE SESSION

Revision Date:

Title: "An Act transferring the...authority for auditing

...oil and gas contracts, agreements, leases...from DOR to DNR"

Dept Affected: Natural Resources

BRU: Resource Development

Component: Oil and Gas Development

Sponsor: Rules Committee

Requestor: Governor

Component Serial No. 439

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY99	FY00	FY01	FY02	FY03	FY04
PERSONAL SERVICES	31.4	31.4	31.4	31.4	31.4	31.4
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	31.4	31.4	31.4	31.4	31.4	31.4

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES (fund code)	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	31.4	31.4	31.4	31.4	31.4	31.4
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	31.4	31.4	31.4	31.4	31.4	31.4

Estimate of any current year (FY98) cost: \$

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)

The authority to conduct audits of oil and gas contracts, leases, and other agreements managed by DNR now falls under DOR. This situation means that DNR does not have the detailed information about its dealings with the oil and gas industry necessary to efficiently and knowledgeably manage its resources. In the past, DNR has mitigated this situation by careful oversight of DOR audits. The process duplicates manpower and can delay audits. The transfer of audit authority recognizes that the workload of the two departments does not overlap as much as it did in the past. Small oil and gas fields are subject to the economic limit factor and do not require extensive audit effort by DOR for severance taxes; most of the state's oil and gas production is subject to royalty value settlement agreements that limit the audit requirements of the DNR. Attached is a numerical analysis of the affect of the transfer of manpower and the budget savings that will be achieved.

Prepared by: Ken Boyd, Director

Division: Division of Oil and Gas

Approved by Commissioner:

Agency: Natural Resources

Phone: 269-8800

Date: 02/12/98

Date: 2/12/98

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