Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: HB 247
Fiscal Note Number:
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Identifier: HB247-DOR-OGTCF-3-21-16
Title: TAX;CREDITS;INTEREST;REFUNDS;O & G
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House Resources Committee

Department: Fund Capitalization
Appropriation: Fund Capitalization (no approps out)
Allocation: Oil and Gas Tax Credit Fund
OMB Component Number: 2894

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2017**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits	926,575.0	73,425.0	(60,000.0)	(55,000.0)	(55,000.0)	(55,000.0)	(55,000.0)
Miscellaneous							
Total Operating	**926,575.0**	**73,425.0**	**(60,000.0)**	**(55,000.0)**	**(55,000.0)**	**(55,000.0)**	**(55,000.0)**

Fund Source (Operating Only)

1004 Gen Fund	926,575.0	73,425.0	(60,000.0)	(55,000.0)	(55,000.0)	(55,000.0)	(55,000.0)
Total	**926,575.0**	**73,425.0**	**(60,000.0)**	**(55,000.0)**	**(55,000.0)**	**(55,000.0)**	**(55,000.0)**

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2016) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 01/01/17

Why this fiscal note differs from previous version:

Revised to conform to propsed changes in the Work Draft Committee Substitute version "P" adopted by the House Resources Committee on March 19. The companion TAX fiscal note is also being revised at this time.

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Division: Tax Date: 03/21/2016 11:00 AM
Approved By: Jerry Burnett Deputy Commissioner Date: 03/21/16
Agency: Department of Revenue

STATE OF ALASKA **BILL NO.** CS HB 247(RES)\P
2016 LEGISLATIVE SESSION

Analysis

The legislation would make substantial changes to Alaska's oil and gas tax credit system.

Most provisions of the bill will take effect on January 1, 2017. The intent of the fund transfer described in this fiscal note is to provide adequate funds to repurchase all tax credit certificates that are earned in advance of the effective date. However, with the reduced scope of the bill as currently amended, the funds provided will need to be supplemented in order to repurchase all credits requested in FY18 and beyond.

Sec. 25(e) of the latest version of the Operating Budget (HB256 as it passed the Senate), includes an appropriation to the oil and gas tax credit fund of $73,425.0. This is the amount required by statute, according to AS 43.55.028(c), and is the amount expected to be made available in the absence of credit reform legislation.

The $926,575.0 appropriation to the Tax Credit Fund is the amount necessary, when added to the amount in the Operating Budget to equal $1 billion in transition funds. This appropriation shall be contingent on passage of a version of this bill. The demand for a $1 billion transition fund is based on our initial estimate of the state's expected liability to repurchase tax credit certificates earned through the originally prposed effective date. This is estimated as follows:

FY16- DOR estimates a total demand for the current fiscal year of $700 million. The appropriation to the Tax Credit Fund was capped at $500 million due to a line item veto of the FY16 operating budget (sec. 8(b), ch1, SSSLA15). Based on this limitation, approximately $200 million in additional credit liability is expected to be outstanding at the end of the fiscal year.

FY17- In the Fall 2015 forecast, DOR estimated total demand for FY17 of $425 million. The bulk of these credits will be based on actual industry expenditures made during calendar year 2015, which will be applied for after the annual Production Tax returns are filed on approximately March 31, 2016. Under current law, most of those credit certificates would be issued in July of 2016 and refunded early in FY17.

FY18- In the Fall 2015 forecast, DOR estimated total demand for FY18 of $375 million. This estimate is largely based upon known and planned company activity for calendar year 2016, with the same time delay and process as described for FY17, above. A portion of that demand, representing activity through the July 1, 2016, will also be paid via the transition fund. The preliminary estimate for this is $200 million.

The proposed committee substitute delays the effective date of the bill, and reduces the scope of repealed and deferred credit repurchases. Because of these changes, the $1 billion in "transition" funding will no longer be adequate to meet all needed future demand. As currently proposed, there will still be substantial ongoing demand for repurchased credits in future years. Therefore, we would anticipate additional funds would be needed before the end of FY18.