Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: HB 247
Fiscal Note Number:
() Publish Date:

Identifier: HB247 (HRLS) Fund Cap 5-10-16
Title: TAX;CREDITS;INTEREST;REFUNDS;O & G
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: House Rules

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	1,750,000.0	73,425.0					
Miscellaneous							
Total Operating	**1,750,000.0**	**73,425.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Fund Source (Operating Only)

1001 CBR Fund	1,750,000.0						
1004 Gen Fund		73,425.0					
Total	**1,750,000.0**	**73,425.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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?
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This fiscal note appropriates $1.75 billion from the Constitutional Budget Reserve to the Oil & Gas Tax Credit Fund. The amount is intended to pay for tax credit claims through FY25. This appropriation requires a supermajority vote in each body.

Prepared By: Representative Johnson, House Rules Committee
Phone: (907)465-4993
Date: 05/10/2016

STATE OF ALASKA **BILL NO.** HB 247
2016 LEGISLATIVE SESSION

Analysis

This fiscal note capitalizes the Oil and Gas Tax Credit Fund with $1.75 billion from the Constitutional Budget Reserve Fund. This appropriation is expected to be sufficient to fully pay out tax credits that have already been earned and that will be earned during the phase-out period of the bill. As shown in the table on the following page, HB 247 is projected to reduce credits from $3.2 billion to $1.8 billion through FY25, reducing State payments by $1.3 billion during that period.

Sections 10-12 of the bill eliminate the ability of DOR to pay three tax credits out of the .028 fund that is used to pay out production tax credits. These three credits (the refinery tax credit, the LNG storage facility credit, and the gas storage facility credit) are against the corporate income tax, not the production tax, but they can currently be refunded like a production tax credit. This change would mean that DOR would need a new appropriation to pay out those credits. The tax credit fund would remain for production tax credits, but this would clearly separate the production tax credits from the corporate income tax credits.

This version of HB 247 eliminates net annual loss (NOL) credits after FY16 and replaces them with the ability to carry forward lease expenditures. That means that taxpayers would still have their FY16 NOL balance (about $600 million) available to use to reduce their production tax liability to zero in FY17 and a couple of years beyond, but they would not be earning additional NOLs in those years. Instead, they can carry forward their unused lease expenditures. Those lease expenditures could be applied to future tax years to bring them down to the minimum tax. The balance shown at the bottom of DOR's analysis on the fourth page of this fiscal note shows over $2 billion of those carried forward lease expenditures. However, the potential reduction in taxpayer liability would only be about 35% of those amounts.

Impact of HB 247 on Oil and Gas Tax Credits ($ millions)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Projected Credits--No Action (1)	775	500	375	270	250	250	250	250	250
Cumulative Credits	775	1,275	1,650	1,920	2,170	2,420	2,670	2,920	3,170
Projected Impact of HB 247 (2)									
Low	5	(30)	(65)	(80)	(200)	(200)	(200)	(200)	(200)
High	(10)	(55)	(85)	(100)	(250)	(250)	(250)	(250)	(250)
Average	(3)	(43)	(75)	(90)	(225)	(225)	(225)	(225)	(225)
Net Credit Claims under HB 247	773	458	300	180	25	25	25	25	25
Cumulative Claims	773	1,230	1,530	1,710	1,735	1,760	1,785	1,810	1,835
Change in Costs under HB 247	(3)	(43)	(75)	(90)	(225)	(225)	(225)	(225)	(225)
Cumulative Change	(3)	(45)	(120)	(210)	(435)	(660)	(885)	(1,110)	(1,335)

(1) Source: DOR Spring 2016 Revenue Sources Book
(2) Source: DOR analysis included in this fiscal note

FISCAL NOTE ANALYSIS

STATE OF ALASKA **BILL NO.** HB 247
2016 LEGISLATIVE SESSION

Analysis Continued

Fiscal Detail of CSHB247(RLS)\D (Revenue and Budget Impacts)

Revised 5-10-16 by Department of Revenue

CSHB247(RLS) \D

Provisions in CSHB 247 (RLS) and their Estimated Fiscal Impact as compared to Spring 2016 Forecast ($millions) - FORECAST PRICE[1]

Note: this table attempts to value the impact of each of the items independently, except where noted. In some cases, the total value of several impacts will not equal the sum of the individual impact values.

Brief Description of Provision - Includes only provisions anticipated to have a direct fiscal impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
1. Cook Inlet changes: The QCE credit is eliminated 1/1/17. The well lease expenditure credit is reduced to 20% on 1/1/17 but then eliminated on 1/1/19. The net operating loss credit is eliminated effective 1/1/18. The 30 cent per barrel "maintenance reduction" from allowable lease expenditures is eliminated 1/1/17.	$0	$0-$5	$5-$10	$10-$15	$10-$15	$30-$40	$30-$40	$30-$40	$30-$40
2. North Slope changes: The net operating loss credit for North Slope is eliminated effective 1/1/17; lease expenditures not used in a calendar year may be carried forward effective 1/1/17; 3-year transition period for refunds at 35% of loss for companies with less than 15,000 barrels per day of production, or with no production but under a DNR approved plan of exploration or development. GVR cannot be used to create or increase a net operating loss; 30 cent per barrel "maintenance reduction" from allowable lease expenditures is eliminated 1/1/17.	$0	$0	$0	$60-$80	$60-$80	$60-$80	$40-$60	$40-$60	($10)-$0
3. GVR-eligible production qualifies for the GVR for a period of 10 years or until 1/1/26.	$0	$0	$0	$0	$0	$0	$0	$0	$0
4. The interest rate on delinquent taxes is changed to 5% above the Fed Res Discount rate, compounded quarterly	Indeterminate								
5. A tax exempt entity may earn credits applicable to only those lease expenditures subject to tax	Indeterminate								
Total Revenue Impact	$0	$0 to $5	$5 to $10	$70 to $95	$70 to $95	$90 to $120	$70 to $100	$70 to $100	$20 to $40
A. Budget impact of change in net operating loss credits, and QCE/WLE credits for Cook Inlet (provision 1 above)	$0-$10	$25-$35	$40-$50	$40-$50	$100-$125	$100-$125	$75-$100	$75-$100	$75-$100
B. Budget impact of change in net operating loss credits, lease expenditures applicability, and GVR calculation for North Slope (provision 2 above)	$0	$10-$20	$25-$35	$40-$50	$100-$125	$100-$125	$125-$150	$125-$150	$125-$150
C. Budget impact of exploration credit extension in Copper River Basin for well spudded by 1/1/17.	($5)-$0	($5)-$0	$0	$0	$0	$0	$0	$0	$0
D. Budget impact of GVR applying to fields for a period of 10 years (provision 3 above)	$0	$0	$0	$0	$0	$0	$0	$0	$0
E. Budget impact of limiting refunds to $75 million per company per year (only shifts timing of refunds - impact is after all other provisions of bill)	No impact under forecast when combined with other provisions of bill.								
Total Budget Impact	($5) to $10	$30 to $55	$65 to $85	$80 to $100	$200 to $250	$200 to $250	$200 to $250	$200 to $250	$200 to $250
Total Fiscal Impact - does not include revenue impacts from potential changes in investment[2]	**($5) to $10**	**$30 to $60**	**$70 to $95**	**$150 to $195**	**$270 to $345**	**$290 to $370**	**$270 to $350**	**$270 to $350**	**$220 to $290**

Non-refundable carry-forward credits balance at fiscal year end - current law[3]	$618	$751	$732	$585	$265	$136	$59	$0	$0
Non-refundable carry-forward credits balance (or equivalent) at fiscal year end - proposed[3]	$610	$720	$660	$685	$635	$630	$640	$665	$715
Change in year-end balance due to bill	-$8	-$31	-$72	$100	$370	$494	$581	$665	$715

[1]The impacts listed are based on production and prices and company investment as forecasted in DOR's Spring 2016 revenue forecast. The forecasted oil prices are between $38.89 and $65.90.

[2]NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts.

[3]These rows include estimates of carried-forward credits, and carried-forward lease expenditures, for previous calendar years, plus estimates of credits and carried-forward lease expenditures that will be earned on activity through June 30 of the fiscal year. For carried-forward lease expenditures, the balance shown is the credit-equivalent value of those expenditures assuming a 35% tax rate (for example, $100 million of carried-forward lease expenditures equate to $35 million of credits).

NOTE: The fiscal impact of this bill is an estimate based on the Spring 2016 revenue forecast. **Estimates shown here are draft / preliminary based on our interpretation of possible changes. We reserve the right to make modifications to estimates for any forthcoming fiscal notes.**