THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

Department of Revenue

TAX DIVISION

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March 30, 2022

The Honorable Click Bishop
Alaska State Senator
Co-Chair, Senate Finance Committee
State Capitol Rooms 516
Juneau, AK 99801

The Honorable Bert Stedman
Alaska State Senator
Co-Chair, Senate Finance Committee
State Capitol Rooms 518
Juneau, AK 99801

Dear Co-Chairs Bishop and Stedman,

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue (DOR) regarding the Spring 2022 Forecast presentation given to the Senate Finance Committee on March 22, 2022.

1. ***Provide the committee with a revenue estimate for extending the Corporate Income Tax to oil and gas companies not currently subject to the tax.***

The table below includes the estimated revenue impacts under the Spring 2022 Forecast of extending the Corporate Income Tax (CIT) to oil and gas companies not currently subject to the tax (including S-Corporations). These estimates were prepared using the official Spring 2022 Forecast for oil and gas CIT and statewide oil and gas production and scaling up the forecast based on expected oil and gas production from non-CIT taxpayers. Note, this analysis assumes a January 1, 2023 effective date so the FY 2023 estimate represents six months of revenue.

Additional Corporate Income Tax Revenue From Non-CIT Taxpayers ($ millions)					
Fiscal Year	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
Additional CIT Revenue	$68.7	$127.7	$113.8	$102.2	$96.9

2. ***Provide the price of oil at which the Governor's proposed budget would "break even." Provide a breakdown of the major components so the committee can see the incremental build up and what expenditures take priority.***

The table below provides the major components of the Governor's FY 2023 proposed budget, per the amended budget fiscal summary released by the Office of Management and Budget on February 17, 2022. The average Alaska North Slope (ANS) oil price necessary to realize sufficient revenue to fully fund each level of expenditures is shown.

Given the Spring 2022 Forecast for Percent of Market Value (POMV) transfer and non-petroleum revenue, Unrestricted General Fund (UGF) revenue would be sufficient to fund agency operations at any oil price, before accounting for Permanent Fund Dividends (PFDs). An average oil price of $31.00 per barrel would generate enough UGF revenue to fund the total operating budget. An average oil price of $37.00 per barrel would generate enough UGF revenue to fund the full budget, including capital, before PFDs. An average oil price of $76.00 per barrel would generate enough UGF to fully fund the entirety of the Governor's amended budget proposal, including the proposed PFDs at 50% of the POMV transfer.

	Agency Operations	Total Operating Budget	Final Budget	Final Budget and PFD Transfer
UGF Revenue ($ millions)	$3,948.5	$4,466.3	$4,625.0	$6,305.3
Oil Price ($ / bbl)	N/A	$31.00	$37.00	$76.00

3. ***Provide greater detail on the difference between the high and low production forecast cases for FY 2023 and FY 2024.***

The Department of Revenue reached out to the Department of Natural Resources (DNR) on this question and the following response was provided.

The high side and low side cases show a wide range because of the uncertainty in the oil contribution from projects expected to come online in the 2023/2024 timeframe. The DNR forecast methodology incorporates geologic and economic uncertainty inherent in all future projects. Several historical examples, most recently, the GMT1 Development (which underperformed from its expected rates) and CD5 Phase I (which met or exceeded its expected rate), highlight the necessity for acknowledging the uncertainty in production contribution from future projects. For the Fall 2021 and Spring 2022 Forecasts, new projects in the Western North Slope Region drive much of the uncertainty in the near-term outlook period. Examples of these projects include Narwhal, Fiord West, and GMT2 developments, which are expected to occur and peak within approximately one to three years after the data cut-off dates of June 2021 and November 2021. Some of these projects are now online, but are far from reaching peak rate, and their actual performance will be incorporated in the Fall 2022 Forecasts and beyond.

4. ***Provide information about what the estimated statutory appropriation for oil and gas tax credits would be at prices other than the Spring 2022 Forecast price, in $10 increments for oil price.***

The below table shows the estimated statutory appropriation for tax credits for FY 2023 and beyond under a range of prices, holding all else equal per the Spring 2022 Forecast. For example, in FY 2023, the official statutory appropriation calculation is $349 million based on the official price forecast of $101 per barrel, but if the oil price forecast were instead $90 per barrel, the statutory appropriation would be $297 million. Note, the outstanding balance of tax credits is assumed to be $532 million at the end of FY 2022 in all scenarios, and no additional appropriation would be needed once the full $532 million is paid off.

Statutory Appropriation ($ millions)				
ANS Price ($ / bbl)	FY 2023	FY 2024	FY 2025	FY 2026
$ 110.00	$392	$140		
$ 100.00	$344	$188		
$ 90.00	$297	$235		
$ 80.00	$250	$240	$42	
$ 70.00	$204	$194	$134	
$ 60.00	$157	$148	$141	$86

5. ***Provide the oil price at which the major oil producers shift from paying the minimum tax floor to paying above the floor (net tax).***

Under the Spring 2022 Forecast assumptions, estimated North Slope production tax revenue for FY 2023 would start to exceed the minimum tax floor at prices above $52 per barrel. However, the exact "crossover" point varies by company and generally ranges from $50 to $65 for most taxpayers. Above $65 per barrel, we estimate all major taxpayers on the North Slope will be paying the net tax (above the minimum tax floor). Changes in lease expenditures and credits applied may result in different crossover points than currently forecasted.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

DocuSigned by:
Colleen Glover
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Colleen M. Glover
Tax Division Director