THE STATE
of ALASKA
GOVERNOR SEAN PARNELL

Department of Revenue

COMMISSIONER'S OFFICE
Bryan Butcher, Commissioner

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April 7, 2013

The Honorable Representatives Bill Stoltze and Alan Austerman
Alaska State Representatives
Co-Chairs, House Finance Committee
State Capitol Rooms 515 and 505
Juneau, AK 99801

Dear Representative Stoltze and Representative Austerman,

The purpose of this letter is to provide you with a response to some of the questions that came up during the House Finance Committee meeting earlier today. This includes follow-up questions from the fiscal impact presentation by the Department of Revenue. Additionally, we will continue to work with members of the committee regarding requests for additional modeling and analysis as you consider the current version of SB21.

1. Provide fiscal impact using Spring 2013 forecast.

Figure 1 shows the summary fiscal table from slide 21 of our presentation, updated based on the Spring 2013 forecast.

2. Did Alberta's tax reduction lead to increased production?

See attached slides from EconOne, showing how production, capital spending, employment, and drilling / development activity have increased in Alberta.

3. *Provide transcript of Conoco analysis presentation regarding 2-3% expected decline rates.*

See attached.

4. *Recreate slide 21 with 35% base rate, and with the two different per-barrel credits broken out.*

Figure 2 shows the summary fiscal table from slide 21 of our presentation, with a 35% base rate. We assume that the Net Operating Loss credit is also increased to 35% to match the base rate. Additionally, the table separates the impact of the $5 per taxable barrel credit for GRE-eligible oil and the sliding-scale credit for non-GRE oil.

6. *Show impact of various levels of per-barrel credits.*

The following chart shows the estimated revenue impact of per-barrel credits at different levels per the Fall 2012 revenue forecast.

Estimated Fiscal Impact of different per-barrel credit levels under Fall 2012 Forecast ($millions)

Amount of credit	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
$1 per taxable barrel credit	-$75	-$175	-$150	-$150	-$150	-$125
$2 per taxable barrel credit	-$175	-$325	-$325	-$300	-$275	-$275
$3 per taxable barrel credit	-$250	-$500	-$475	-$450	-$425	-$400
$4 per taxable barrel credit	-$350	-$650	-$625	-$600	-$550	-$525
$5 per taxable barrel credit	-$425	-$825	-$775	-$750	-$700	-$675
$6 per taxable barrel credit	-$525	-$1,000	-$950	-$900	-$825	-$800
$7 per taxable barrel credit	-$600	-$1,150	-$1,100	-$1,050	-$975	-$925
$8 per taxable barrel credit	-$700	-$1,325	-$1,250	-$1,200	-$1,100	-$1,075
$9 per taxable barrel credit	-$775	-$1,475	-$1,425	-$1,350	-$1,250	-$1,200
$10 per taxable barrel credit	-$850	-$1,650	-$1,575	-$1,500	-$1,400	-$1,325

We hope that the answers set forth above have addressed your questions. Please do not hesitate to contact me if you have further questions.

Sincerely,

Bruce Tangeman
Deputy Commissioner

Attachments:
Alberta Benchmark slides from EconOne
ConocoPhillips February 28, 2013 analyst meeting transcript

Figure 1: Fiscal Impact Summary table, updated to reflect Spring 2013 Forecast Assumptions

Provisions in HCS CSSB21(RES) and their Estimated Fiscal Impact as compared to Spring 2013 Forecast ($millions)[1]

Brief Description of Provision	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Elimination of progressive portion of tax	-$725	-$1,400	-$1,725	-$1,875	-$1,650	-$1,525
2. Base tax rate changed to 33% of production tax value	$425	$825	$875	$875	$800	$750
3. Limitation of credits for qualified capital expenditures for North Slope	$300	$675	$650	$525	$475	$450
4. Net operating loss credit rate increased to 33%; are transferable and refundable	Minimal revenue impact - see "Impact on Operating Budget"					
5. Gross revenue exclusion for oil production in new units and new or expanded participating areas	$0	-$25	-$25	-$50	-$25	-$50
6. Provision requiring credits be taken over 2 years eliminated[2]	-$225					
7. Amendment to the community revenue sharing fund	$0	$0	$0	$0	$0	$0
8. Credit of $5 per taxable barrel / Sliding scale credit per taxable barrel based on oil price	-$425	-$825	-$775	-$750	-$700	-$675
9. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly up to -$25 million annually)					
10. Reduced interest rate for late payments and assessments on most taxes	Indeterminate (possibly up to -$25 million annually, increasing over time)					
11. Removal of 3-mile requirement for frontier basin tax credit	$0	$0	$0	$0	$0	$0
12. Small producer credit extended to 2022	$0	$0	$0	-$25	-$25	-$50
13. 2016 required report to legislature	No fiscal impact					
14. Requirement to consider Joint Interest Billings in audit process	Indeterminate					
15. AIDEA bonding authority to finance oil and gas processing facilities	No Department of Revenue fiscal impact					
Total Revenue Impact	**-$650 to -$700**	**-$750 to -$800**	**-$1000 to -$1050**	**-$1275 to -$1325**	**-$1100 to -$1150**	**-$1050 to -$1100**
Impact on Operating Budget of provision requiring credits be taken over 2 years eliminated	-$150					
Impact on Operating Budget of limitation to Qualified Capital Expenditure credit		$150	$150	$150	$150	$150
Impact on Operating Budget of increase in Net Operating Loss credits		-$30	-$30	-$30	-$30	-$30
Total Fiscal Impact - does not include potential revenue impacts from potential increases in production[3]	**-$800 to -$850**	**-$630 to -$680**	**-$880 to -$930**	**-$1155 to -$1205**	**-$980 to -$1030**	**-$930 to -$980**

[1]The impacts listed are based on production and prices as forecasted in our Spring 2013 revenue forecast. The forecasted oil prices are between $109.61 and $118.29. All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

[2]Provision 6 above, which eliminates the requirement that credits be taken over 2 years is revenue neutral, and simply shifts the tax liability from future years to FY 2014. The total impact of that provision is $400 million, with $250 million taken against tax liability as a revenue impact and $150 million impacting the operating budget. The total fiscal impact consists of both revenue impacts and operating budget impacts of the bill.

[3]NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2014 represents additional refunded credits due to elimination of the provision requiring that credits be taken over 2 years. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases in credit refunds paid through the operating budget for the increase in NOL credit rates.

Figure 2: Fiscal Impact Summary table, with 35% base rate and separate impacts of per-barrel credits

Provisions in HCS CSSB21(RES) and their Estimated Fiscal Impact as compared to Fall 2012 Forecast ($millions)[1]

Brief Description of Provision	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1. Elimination of progressive portion of tax	-$800	-$1,500	-$1,700	-$1,800	-$1,750	-$1,650
2. Base tax rate changed to 35% of production tax value	$550	$1,075	$1,100	$1,075	$1,025	$975
3. Limitation of credits for qualified capital expenditures for North Slope	$300	$700	$650	$550	$475	$400
4. Net operating loss credit rate increased to 33%; are transferable and refundable	Minimal revenue impact - see "Impact on Operating Budget"					
5. Gross revenue exclusion for oil production in new units and new or expanded participating areas	$0	-$25	-$25	-$50	-$25	-$50
6. Provision requiring credits be taken over 2 years eliminated[2]	-$250					
7. Amendment to the community revenue sharing fund	$0	$0	$0	$0	$0	$0
8a. Credit of $5 per taxable barrel for GRE-eligible production	-$5	-$10	-$25	-$25	-$25	-$25
8b. Sliding scale credit per taxable barrel based on oil price for non GRE-eligible production	-$420	-$815	-$750	-$725	-$675	-$650
9. Credit under AS 43.20 for qualified oil and gas industry expenditures	Indeterminate (possibly up to -$25 million annually)					
10. Reduced interest rate for late payments and assessments on most taxes	Indeterminate (possibly up to -$25 million annually, increasing over time)					
11. Removal of 3-mile requirement for frontier basin tax credit	$0	$0	$0	$0	$0	$0
12. Small producer credit extended to 2022	$0	$0	$0	-$25	-$25	-$50
13. 2016 required report to legislature	No fiscal impact					
14. Requirement to consider Joint Interest Billings in audit process	Indeterminate					
15. AIDEA bonding authority to finance oil and gas processing facilities	No Department of Revenue fiscal impact					
Total Revenue Impact	**-$625 to -$675**	**-$575 to -$625**	**-$750 to -$800**	**-$975 to -$1025**	**-$975 to -$1025**	**-$1000 to -$1050**
Impact on Operating Budget of provision requiring credits be taken over 2 years eliminated	-$150					
Impact on Operating Budget of limitation to Qualified Capital Expenditure credit		$150	$150	$150	$150	$150
Impact on Operating Budget of increase in Net Operating Loss credits to 35%		-$40	-$40	-$40	-$40	-$40
Total Fiscal Impact - does not include potential revenue impacts from potential increases in production[3]	**-$775 to -$825**	**-$465 to -$515**	**-$640 to -$690**	**-$865 to -$915**	**-$865 to -$915**	**-$890 to -$940**

[1]The impacts listed are based on production and prices as forecasted in our Fall 2012 revenue forecast. The forecasted oil prices are between $109.61 and $118.29. All data here are estimates; all figures have been rounded to reflect the uncertainty in the estimates.

[2]Provision 6 above, which eliminates the requirement that credits be taken over 2 years is revenue neutral, and simply shifts the tax liability from future years to FY 2014. The total impact of that provision is $400 million, with $250 million taken against tax liability as a revenue impact and $150 million impacting the operating budget. The total fiscal impact consists of both revenue impacts and operating budget impacts of the bill.

[3]NOTE: "Total Fiscal Impact" includes best estimates of both revenue and operating budget impacts. Operating budget impact for FY 2014 represents additional refunded credits due to elimination of the provision requiring that credits be taken over 2 years. Operating budget impact for FY 2015 and beyond represents reduction in refunded credits due to limitation of credits for qualified capital expenditures for North Slope. This amount also includes increases in credit refunds paid through the operating budget for the increase in NOL credit rates.