November 2, 2017

The Honorable Representative Paul Seaton, Co-Chair
The Honorable Representative Neal Foster, Co-Chair
House Finance Committee
State Capitol Building
Juneau, AK 99801

Dear Co-Chairs Foster and Seaton:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue (DOR) during Commissioner Fisher and Chief Economist Dan Stickel’s presentation to the House Finance Committee on October 25, 2017 regarding the Preliminary Fall Revenue Forecast. Please see questions in italics and our responses immediately below the questions.

1. Rep. Pruitt asked whether the statute states that we’re supposed to appropriate money towards oil and gas tax credits based on preliminary estimates and forecast of oil price, or if it says we should pay based on the actual price. You can hear the exchange at 1 hour 38 mins.

The statutory appropriation for the oil and gas tax credit fund is described in AS 43.55.028. In particular, AS 43.55.028(c) states that the applicable percentage (10 or 15 percent) is based on the department’s forecast of the average price for ANS oil. There was no discussion of the statutory appropriation for several years prior to the 2015 session. Beginning then, the Department of Revenue’s practice has been to use the Spring forecast of price and revenue, which is the last official forecast prior to the budget’s passage. This led to a statutory value of $91 million for FY2016 (proposed by amendment, but ultimately not used as the governor’s veto capped cash for credits at $500 million); $30 million for FY2017 (achieved via line item veto), and $77 million for FY2018 (appropriated in two pieces between the operating and capital budgets).

These numbers assumed the formula was based on 10 or 15% of the tax before the application of any credits against liability (because of the phrase “percentage...of all revenue from taxes levied by AS 43.55.011...”). However, the statute is not entirely clear whether the 10 or 15 percent should be applied to tax before or after application of credits. The alternate mechanism, calculating the percentage after application of credits, would result in smaller annual appropriations. Based on the preliminary fall forecast, the $175 million for tax credits would be reduced to about $46 million.

2. Dan Stickel mentioned that we’re considering a motor fuels tax DGF for FY 18 and beyond. Rep. Seaton asked what legislative action last year caused the shift of motor fuels tax from UGF to DGF. You can hear the exchange at 1 hour 59 mins.
Legislative Finance, after reviewing the relevant statutory language, determined that motor fuel tax has been incorrectly classified as unrestricted revenue for budget purposes in the past. As a result of this review, they determined that the tax should be classified as designated in the future, and the Office of Management and Budget concurred. There was no new legislative action to precipitate this change, only a reinterpretation of existing statute. DOR reclassified motor fuel taxes beginning with FY 2018 (no retroactive change) for consistency with this change in the budget process. The attached analysis provided by Legislative Finance gives additional detail on this fund change.

3. Dan offered to provide Rep. Seaton and the committee with details on the two years of negative O&G corporate income tax. He specifically asked for information about the contribution of falling prices and accounting adjustments. You can hear the exchange at 2 hours 11 mins.

The following table and chart shows a breakout of payments, refunds, and CBRF transfers for FY 2016 and FY 2017 for the petroleum corporate income tax. As the analysis shows, the negative collections in FY 2016 and FY 2017 were due to a combination of prior-year refunds and transfers.
4. Rep Pruitt said he uses a rule of thumb that a dollar increase in oil prices leads to about $30 million dollars more in revenue. He asked if that was relatively reliable. Dan said we would get back with an updated rule of thumb. Exchange occurred after Gavel cut out.

The impact of a change in oil price depends on the initial price level: given the structure of the current production tax, the state receives more incremental revenue at higher oil prices than at lower oil prices. While ANS oil prices remain in roughly the $45-$65 per barrel range, the informal rule of thumb is roughly accurate. At these prices, a one dollar price increase brings in somewhere around $30 million of additional unrestricted revenue. If restricted revenue, primarily royalties to the Permanent Fund, are also included, the amount would be higher: between $35 and $40 million. Once oil prices exceed about $65 per barrel, the incremental state revenue from a one-dollar price increase is substantially higher. Between $80 and $90 oil, for example, unrestricted state revenue increases about $90 million per dollar. The reason for this “inflection point” in the revenue chart has to do with the crossover in the production tax between the 4% gross tax “floor” and the regular SB21 35% tax less the per-barrel credit.

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

Sincerely,

Ken Alper
Tax Director
Fund Source Report

Motor Fuel

Motor Fuel Tax Receipts

Year Authorized: 2018
Year Repealed: 
Active?: Yes
Mental Health?: No
Duplicated?: No
Fund Group: Designated General

Operating and Capital Appropriations

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<th>Total</th>
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<td>2019</td>
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Millions of Dollars

Legal Authority
AS 43.40.010(f)(g)(j)

Source of Revenue
Taxes levied on fuel for watercraft (f), road vehicles (g) and off-road vehicles (j) are directed to three separate accounts in the general fund.

Restrictions on Use
Sections (f), (g) and (j) designate tax receipts for (1) water and harbor facilities, (2) maintenance of highways and construction of highway projects and ferries, and (3) trail staking and shelter construction and maintenance, respectively.

Description and History
December 2016

This code was established in response to a Governor's bill creating a transportation maintenance fund. After review of the bill, it was clear that motor fuel tax receipts had historically been mismisclassified as unrestricted general funds. AS 43.40.010 (g), (h), and (j) direct taxes levied on fuel for watercraft (f), road vehicles (g) and off-road vehicles (j) to three separate accounts in the general fund and designate those accounts for (1) water and harbor facilities, (2) maintenance of highways and construction of highway projects and ferries, and (3) trail staking and shelter construction and maintenance.

Reclassification of motor fuel tax receipts—except aviation fuel (code 1239) which is dedicated for aviation use—as designated general funds resulted in a $35 million reduction in UGF revenue in FY18 and a corresponding increase in DGF spending and revenue.

July 2017

The bill proposed by the Governor did not pass, but the fund code will be retained and (non-aviation) motor fuel tax receipts will still be classified as DGF per existing statutes.

The three accounts use a single fund code, and DOT&PF is expected to track revenue and expenditures for each of the three purposes independent of the budget system, as the Department of Fish and Game does for the multiple accounts in the Fish and Game fund.

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Legislative Finance Division

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