

Senate Resources Committee

SB 2001 Context

Presentation by Dan E. Dickinson, CPA
For Legislative Budget & Audit Committee
October 22, 2007

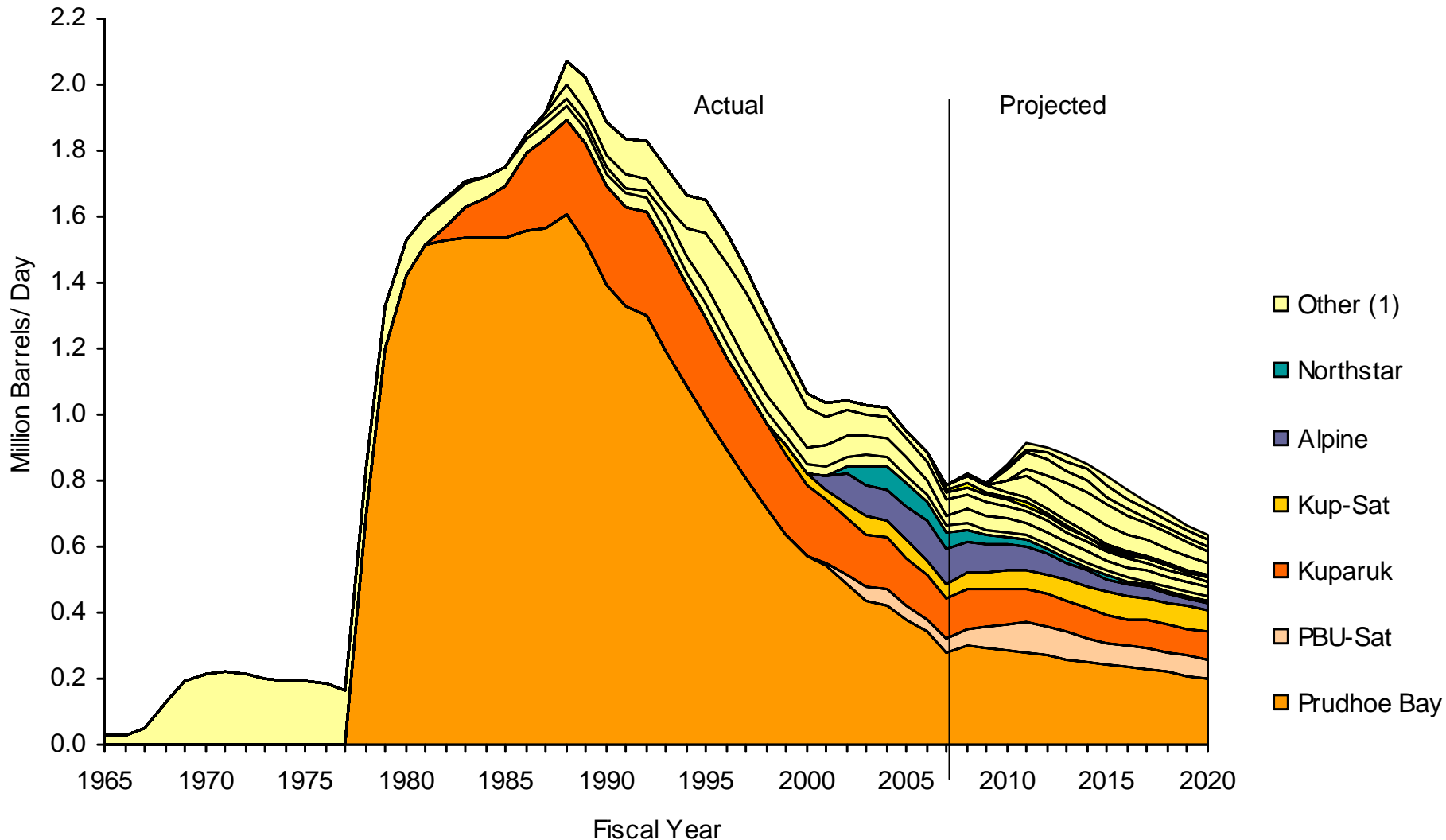
Outline

- Part I: Context - Observations from 30,000 feet
 - Clear tax rules are better than an approval process in front of a government agency
 - Broad and Robust rules applied to everyone better than a narrow rule applied to a single or few (known) taxpayers
 - Windfall Profits can be an effective taxing tool
 - Information informs judgments
- Part II: Detail – applies these conclusions to SB 2001, section by section.

What's going on?

- Is this a discussion of tax – or is trying to “initiate a bidding round.”
- Is this a commercial discussion with partners or is it a debate on fiscal policy?

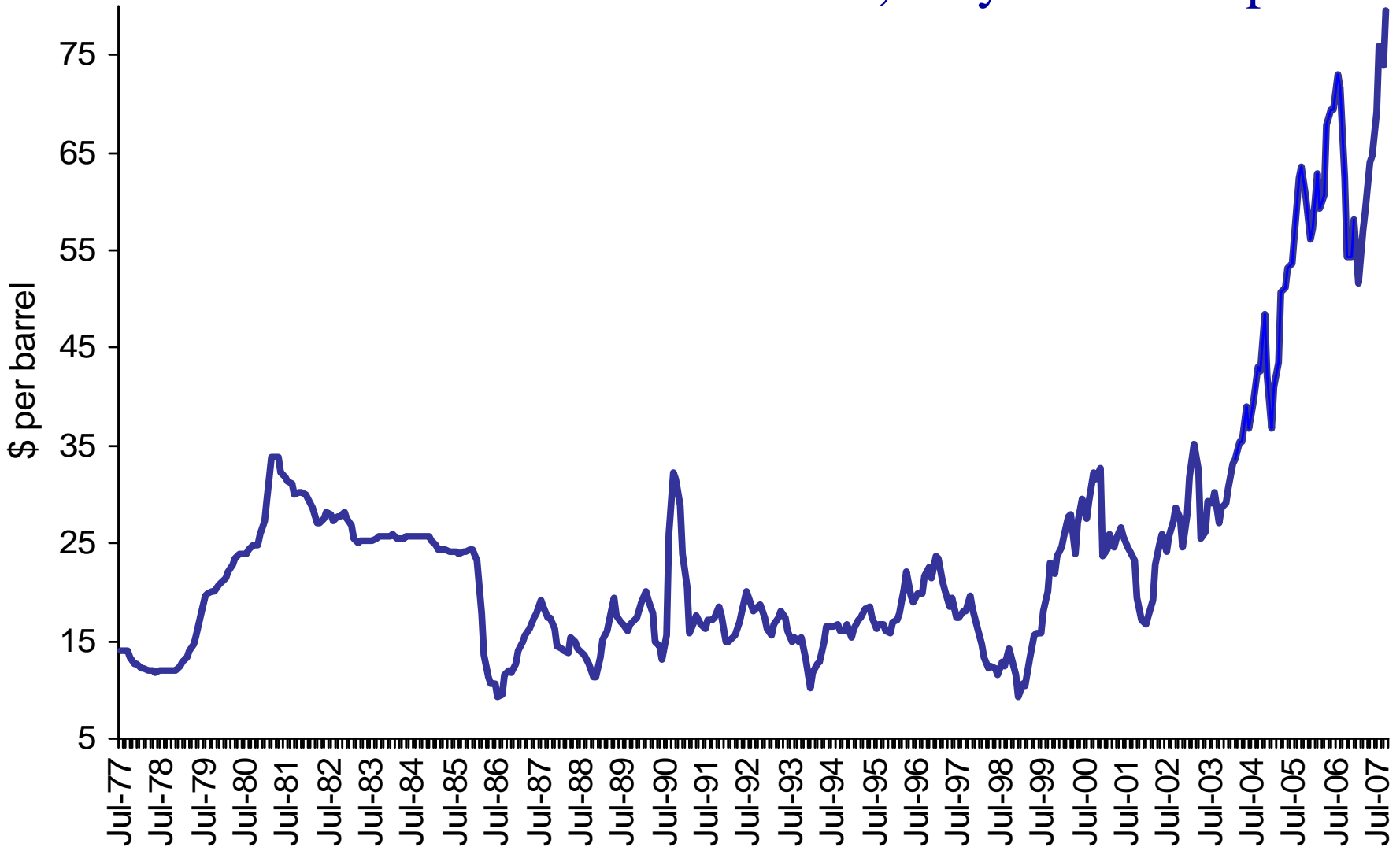
Alaska Oil Production, 1965 - 2020



Source: Alaska Department of Revenue, Fall 2006 Revenue Sources Book. extrapolated

(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

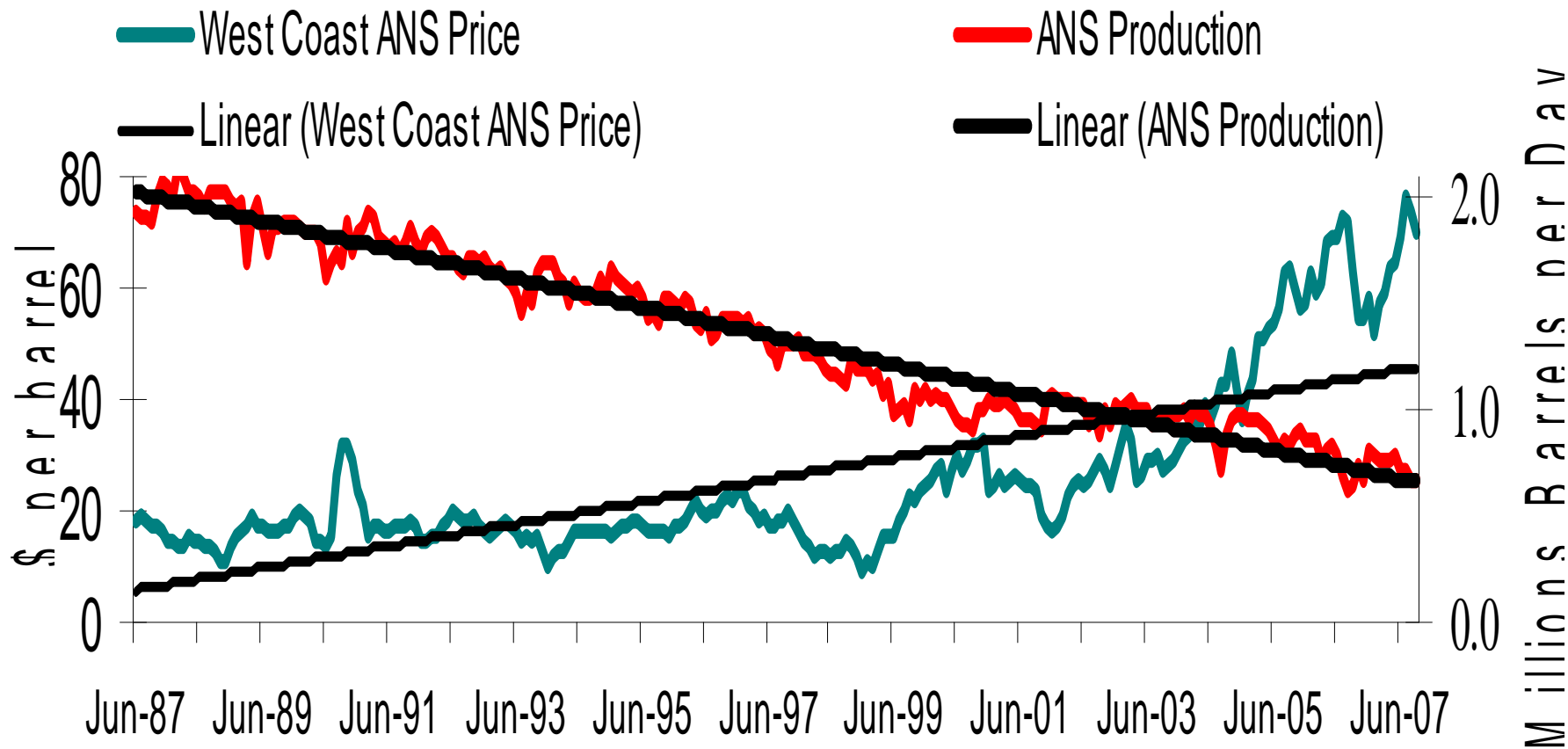
ANS West Coast Price, July 1977 – Sept 2007



Source: Alaska Department of Revenue, Tax Division
10/22/2007

Dan E. Dickinson, CPA, Senate
Resources SB 2001

ANS West Coast Price and Oil Production



Source: Alaska Department of Revenue, Tax Division

10/22/2007

Dan E. Dickinson, CPA, Senate
Resources SB 2001

Production vs. Price

- 2 million barrels a day at \$15 = \$30 million
- .7 million barrels a day at \$80 = \$56 million

- .7 million barrels a day at \$15 = \$10 million

Alaska Constitution

- **Article 1 - Declaration of Rights**
- **§ 1. Inherent Rights**
- This constitution is dedicated to the principles that all persons have a natural right to life, liberty, the pursuit of happiness, and the enjoyment of the rewards of their own industry; that all persons are equal and entitled to equal rights, opportunities, and protection under the law; and that all persons have corresponding obligations to the people and to the State.

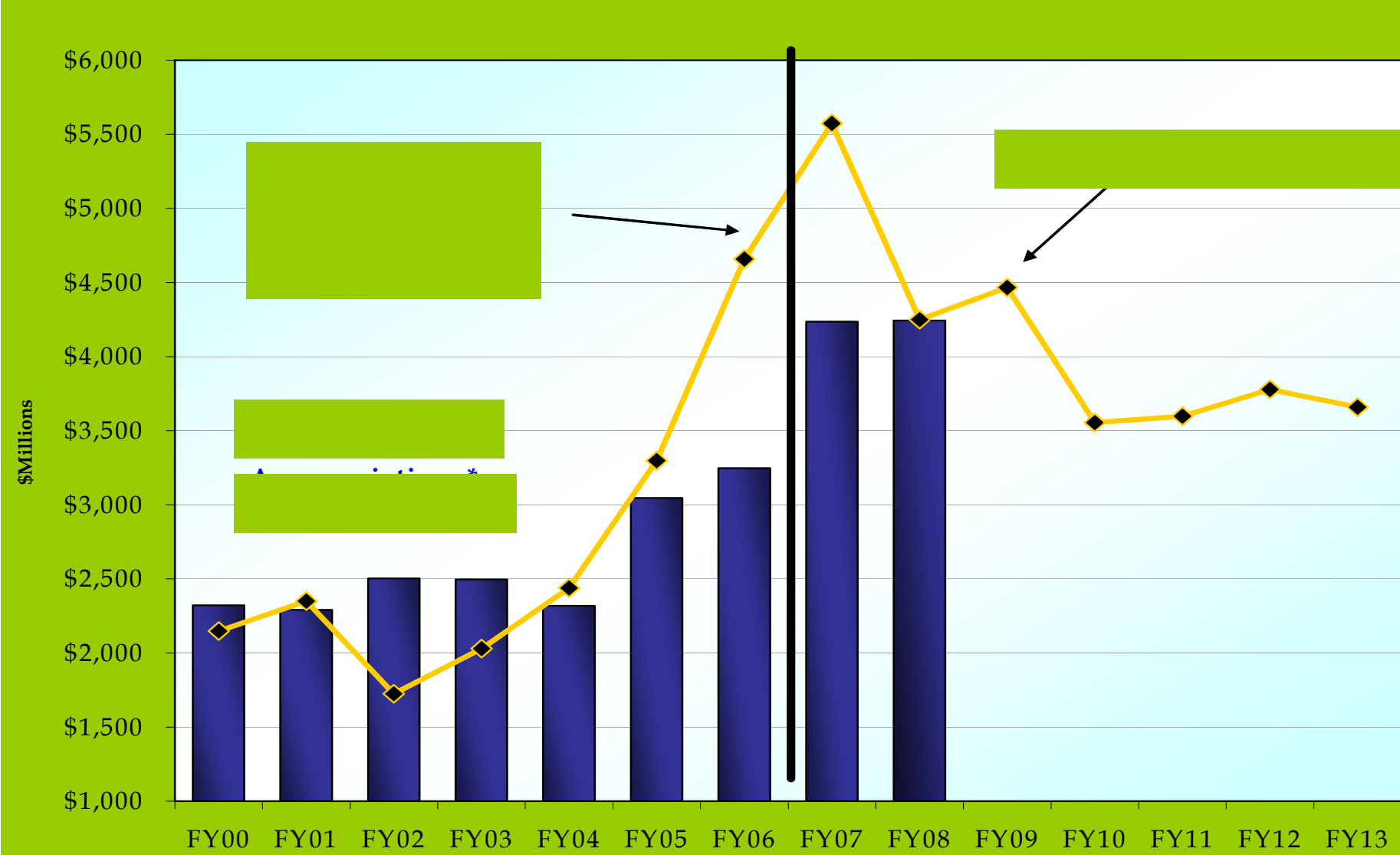
- Moving beyond the idea of taxes as a set of mutual obligations within a society – and focusing on ‘leaving money on the table.’
 - For a tax - rules are better than seeking approvals from regulatory agencies.
 - For a tax - broad and robust rules are better than narrow rules that affect one or a few (known) taxpayers.

- What is the right level of tax?
 - If you believe that there are windfall profits that should be accruing to the government (the people) and not oil companies – then there should be a windfall profits tax.
 - If you believe this is just another commercial arrangement and only chumps take a net, then our piece should be a piece of the gross.

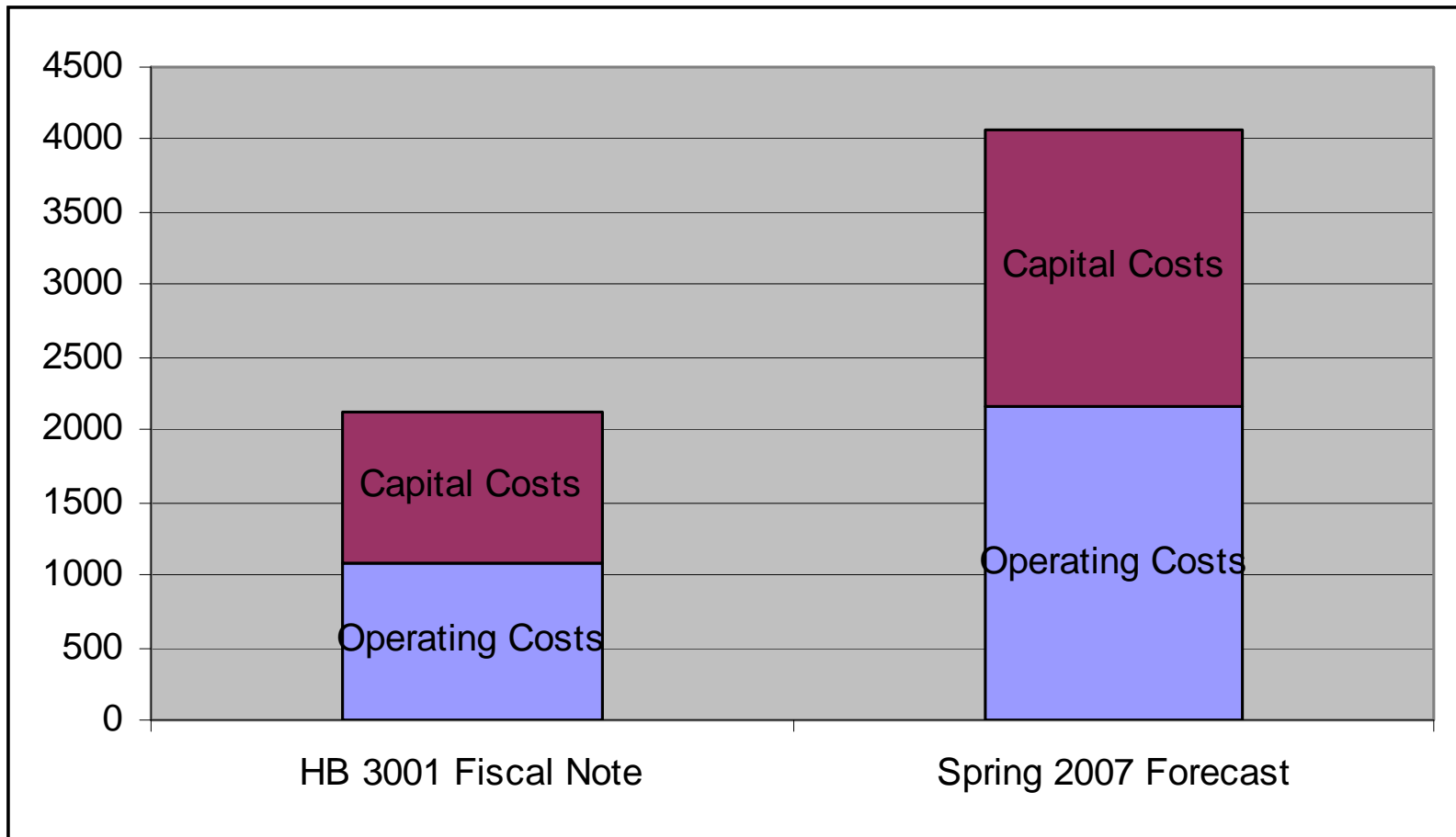
Taxation is said to be an absolute power... and like sovereign power of every other description, is trusted to the discretion of those who use it.

Chief Justice Marshal in McCulloch v Maryland (1819)

Increasing Costs



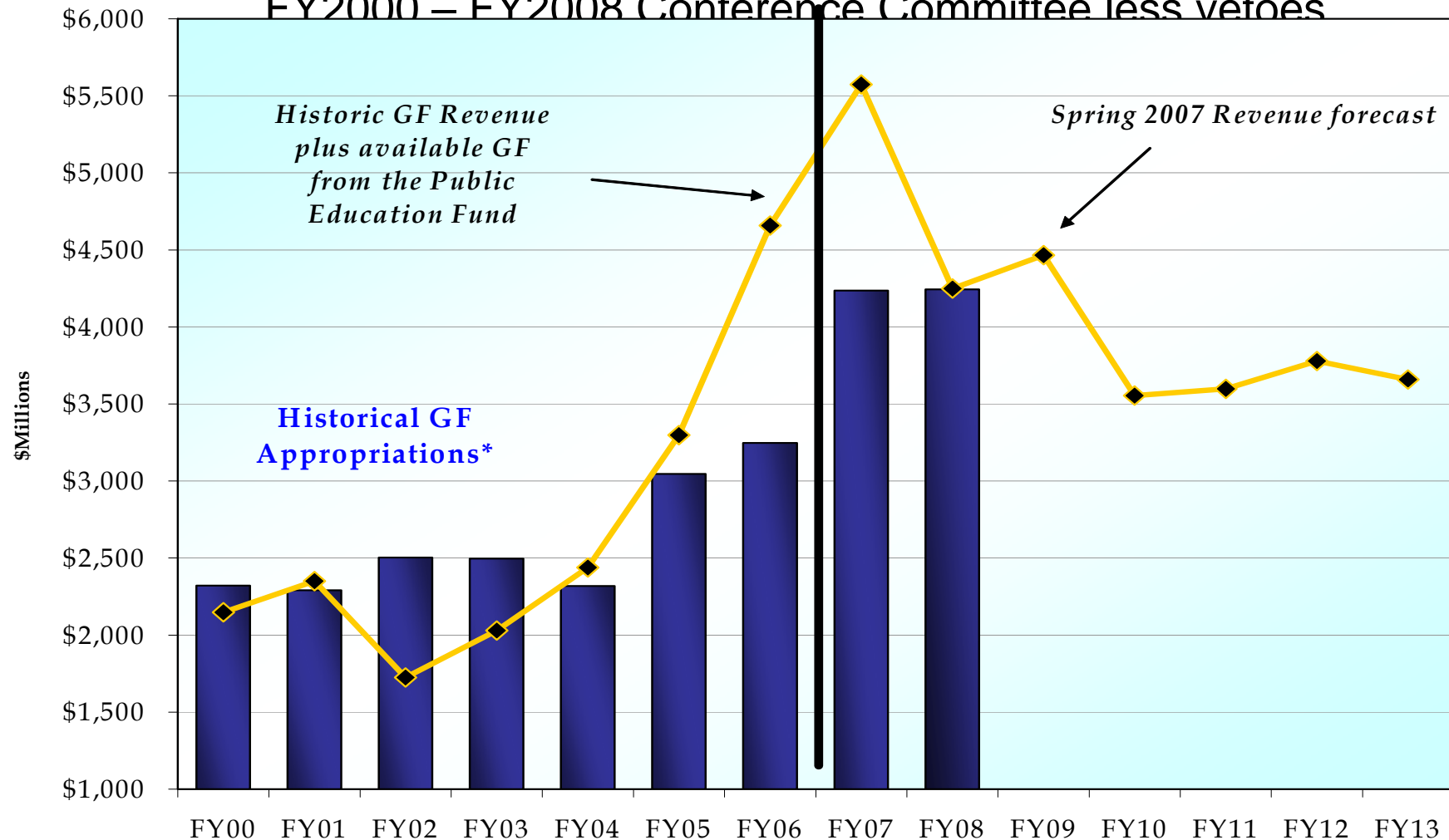
FY 2007 Operating Cost Assumption (\$millions)



Source: DOR August 3, 2007 report

General Fund Revenue including Public Education Fund versus Appropriations*

FY2000 – FY2008 Conference Committee less vetoes



*Excludes appropriations to Public education Fund and some other savings accounts. For example, FY07 excludes \$1.000 appropriation to Public Education Fund, \$182.7 million appropriation to Power Cost Equalization Endowment, \$50.0 million to CBR and estimated \$104.7 appropriation to the Alaska Capital Income Fund.

10/22/2007

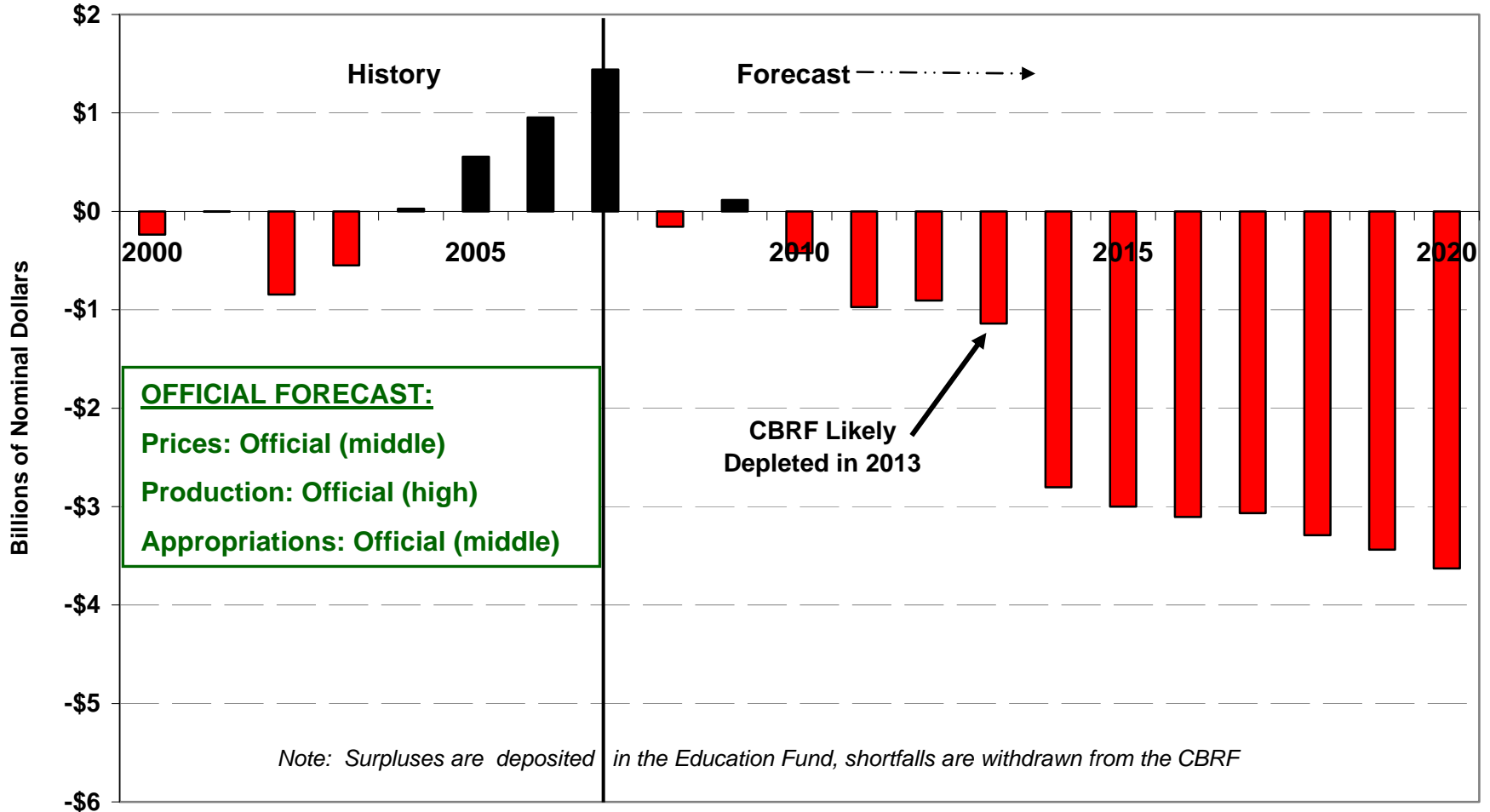
Dan E. Dickinson, CPA, Senate

14

Source: Office of Management and Enterprise Services Budget and Alaska Department of Revenue Spring 2007 Revenue Sources Book.

Historical and Forecasted Budget Surpluses and Deficits FY 2000 to FY 2020

*assumes official revenue forecast (official prices, official production)
and budget appropriations growth of 2.5%*



Information

- Information informs and helps with judgments - But it doesn't usually "speak for itself":
- What would have happened differently in FY 2007 with better information?

FY 2007 first snapshot

	Regular Session - May 2006
FY 2007 - All figures in millions of dollars	
TOTAL GF REVENUE:	
Oil and Gas Property Tax	36.7
Oil and Gas Income Tax	479.2
Oil and Gas Production Tax	959.8
Oil and Gas Hazadous Release	7.8
Oil and Gas Royalties	1,524.9
Total Oil & Gas	<u>3,008.4</u>
Non oil and gas: All other Taxes, Charges, fines & Forfeitures, Rents, non oil and gas Royalties, Investment Revenues	<u>428.3</u>
Total GF Revenue	<u>3,436.7</u>
Forward funding of Education used in current year:	
TOTAL GF Appropriations/Authorizations:	3,209.1
SURPLUS	227.6

Source: Leg Finance and DOR Spring 2006 RSB; average forecast price\$53.60

FY 2007 second snapshot

	Regular Session - May 2006	PPT	Special Session Aug 2006
FY 2007 - All figures in millions of dollars			
TOTAL GF REVENUE:			
Oil and Gas Property Tax	36.7		36.7
Oil and Gas Income Tax	479.2		479.2
Oil and Gas Production Tax	959.8	1,343.0	2,302.8
Oil and Gas Hazadous Release	7.8		7.8
Oil and Gas Royalties	<u>1,524.9</u>		<u>1,524.9</u>
Total Oil & Gas	3,008.4		4,351.4
Non oil and gas: All other Taxes, Charges, fines & Forfeitures, Rents, non oil and gas Royalties, Investment Revenues	<u>428.3</u>		<u>428.3</u>
Total GF Revenue	3,436.7	1,343.0	4,779.7
Forward funding of Education used in current year:			
TOTAL GF Appropriations/Authorizations:	3,209.1		3,493.6
SURPLUS	227.6		1,286.1
Note: FY 2006 PPT payment in 2007		420.0	
FY 2007 payments in 2006:		<u>923.0</u>	
		1,343.0	

FY 2007 third snapshot

	Regular Session - May 2006	Special Session Aug 2006	Spring Forecast 2007	Rec to Leg Fin 2007
FY 2007 - All figures in millions of dollars				
TOTAL GF REVENUE:				
Oil and Gas Property Tax	36.7	36.7	52.0	
Oil and Gas Income Tax	479.2	479.2	565.1	
Oil and Gas Production Tax	959.8	2,302.8	2,114.2	
Oil and Gas Hazadous Release	7.8	7.8	10.4	
Oil and Gas Royalties	1,524.9	1,524.9	1,583.0	
Total Oil & Gas	3,008.4	4,351.4	4,324.7	
Non oil and gas: All other Taxes, Charges, fines & Forfeitures, Rents, non oil and gas Royalties, Investment Revenues	428.3	428.3	655.5	
Total GF Revenue	3,436.7	4,779.7	4,980.2	
Forward funding to Public Education Fund used in current year:				572.9
Total:				5,553.1
TOTAL GF Appropriations/Authorizations:	3,209.1	3,493.6	4,980.2	
Forward funding to Public Education Fund used in current year:				572.9
Total:				5,553.10
SURPLUS	227.6	1,286.1	-	
NB: CBRF:	20.0		70.0	

FY 2007 comparisons

	Special Session Aug 2006	Spring Forecast 2007	difference	%
FY 2007 - All figures in millions of dollars				
TOTAL GF REVENUE:				
Oil and Gas Property Tax	36.7	52.0	15.30	42%
Oil and Gas Income Tax	479.2	565.1	85.90	18%
Oil and Gas Production Tax	2,302.8	2,114.2	(188.60)	-8%
Oil and Gas Hazardous Release	7.8	10.4	2.60	33%
Oil and Gas Royalties	1,524.9	1,583.0	58.10	4%
Total Oil & Gas	4,351.4	4,324.7	(26.70)	-1%
Non oil and gas: All other Taxes, Charges, fines & Forfeitures, Rents, non oil and gas Royalties, Investment Revenues	428.3	655.5	227.20	53%
Total GF Revenue	4,779.7	4,980.2	200.50	4%

Information

- When and how would a ‘better’ forecast have made a difference?
- When and how would closer monitoring have made a difference?
- Separate debate about regulatory control issues – but that is different from the fiscal debate.
- Separate issue about long term policy

One way to use the information:

Simple Model of FY 2008 Production Tax Revenue to match Administrations Sept 4th Handouts:

		Base Tax				Progressivity							Credits							
Price Scenarios on Sept 4 Handout	Annual Volumes (w/o royalty)	Total Destination Royalty Barrels	Less Downstream Value of non RSB	Less Upstream costs from opex) from RSB	Resulting Production Tax Value	Tax Rate	Base Tax Calculation at 22.5% and 25% and difference	Per Barrel Production Tax Value	Adjustment for Price Index Calculation	Price Index	Progressivity Rate per Price Index Dollar	Resulting progressivity rate value	Progressivity Tax = Rate times Total Tax before credits	T/E Credits (Transitional Investment Expenditures)	Capital Costs * 20% or .10%	Tax net of credits	Tax per Price Scenarios on Sept 4 Handout	Unaccounted for in this simple model	Unaccounted for in this simple model	
\$/bbl	MM bbls	MM \$	MM \$	MM \$	MM \$	%	MM \$	\$/bbl	\$/bbl	\$/bbl	%	%	MM \$	MM \$	MM \$	MM \$	MM \$	MM \$	MM \$	
A	B	C=	D	E	F=	G	H=	I=	J	K=	L	M=	N=	O=	P=	Q=	R=	S	T	U=
		(A * B)			(C+D+E)		(F*G)	(F/B)		(I-J)		(K*L)	(M*F)	(H+N)	(Q/2)		(O+P+Q)		(S-R)	(T/S)

Under Current Law

																	Total Cost:			
																	Per bbl: (7.22)			
30	244	7,320	(1,762)	(4,058)	1,500	22.5%	337.6	6.15	40.00					337.6	(190.0)	(380.0)	-	-		
40	244	9,760	(1,762)	(4,058)	3,940	22.5%	886.6	16.15	40.00					886.6	(190.0)	(380.0)	316.6	200	(116.6)	-58%
50	244	12,200	(1,762)	(4,058)	6,380	22.5%	1,435.6	26.15	40.00					1,435.6	(190.0)	(380.0)	865.6	700	(165.6)	-24%
60	244	14,640	(1,762)	(4,058)	8,820	22.5%	1,984.6	36.15	40.00					1,984.6	(190.0)	(380.0)	1,414.6	1,300	(114.6)	-9%
70	244	17,080	(1,762)	(4,058)	11,260	22.5%	2,533.6	46.15	40.00	6.15	0.25%	1.54%	173.1	2,706.7	(190.0)	(380.0)	2,136.7	2,000	(136.7)	-7%
80	244	19,520	(1,762)	(4,058)	13,701	22.5%	3,082.6	56.15	40.00	16.15	0.25%	4.04%	553.1	3,635.7	(190.0)	(380.0)	3,065.7			

Under Changes indicated in Sept 4th Handouts

30						25.0%	375.1	6.15	30.00					375.1	(190.0)	185.1	200	14.9	7%
40						25.0%	985.1	16.15	30.00					985.1	(190.0)	795.1	800	4.9	1%
50						25.0%	1,595.1	26.15	30.00					1,595.1	(190.0)	1,405.1	1,300	(105.1)	-8%
60						25.0%	2,205.1	36.15	30.00	6.15	0.20%	1.23%	108.5	2,313.6	(190.0)	2,123.6	2,000	(123.6)	-6%
70						25.0%	2,815.1	46.15	30.00	16.15	0.20%	3.23%	363.7	3,178.8	(190.0)	2,988.8	2,900	(88.8)	-3%
80						25.0%	3,425.1	56.15	30.00	26.15	0.20%	5.23%	716.5	4,141.6	(190.0)	3,951.6			

Incremental Change: Proposal less Current Law

30							37.5							37.5	190.0	190.0	185.1	200	14.9	7%
40							98.5							98.5	190.0	190.0	478.5	600	121.5	20%
50							159.5							159.5	190.0	190.0	539.5	600	60.5	10%
60							220.5	(10.00)	6.15			1.23%	108.5	329.0	190.0	190.0	709.0	700	(9.0)	-1%
70							281.5	(10.00)	10.00			1.69%	190.6	472.1	190.0	190.0	852.1	900	47.9	5%
80							342.5	(10.00)	19.00			1.9%	514.6	505.9	190.0	190.0	885.9			

10/22/2007

Dan E. Dickinson, CPA, Senate

Resources SB 2001

Work To Date

- **Summary** Comparison between Governor's October 1, 2007 Production Tax Proposal and Current Law (2 pages dated 10/8/07)
- **Detail** Comparison between Governor's October 1, 2007 Production Tax Proposal and Current Law (6 pages dated 10/8/07)
- **Preliminary estimate of the FY 2008 revenue effects of four changes proposed by Governor Sarah Palin to the oil and gas production tax as 43.55 ON Sept 4, 2007 and October 1, 2007 (October 3, 2007)**
- Sectional Analysis (with Steve Porter) On October 1 work draft, and supplemental analysis on SB/HB 2001

Part II -detail

Looking for places where

- tax rules are replaced by the discretion of an agency (or vice versa)
- Broad and robust rules are replaced with narrow specific approaches.
- might make production tax, or features of it look more or less like a windfall profits tax
- Data might not yield hoped for information