

Senate Finance Testimony
March 19, 2012

Good Morning. My name is Tom Maloney. I am the Alaska Area Manager for CH2M HILL and live and work in Anchorage. By way of professional background, I am a CPA, CMA, and CFP.

First of all, I very much appreciate the work that the Senate is continuing to put into this complex subject. The presentations in Senate Labor, Resources and now Finance demonstrate just how challenging taxes can be. This is particularly the case as Alaska is both the owner of the resource and the taxing and regulatory authority over the exploration, development and production of the resource.

In my opinion, Commonwealth North did an excellent job in preparing a March 2011 report entitled *"Alaska's Oil Investment Tax Structure, Establishing a Competitive Alaska"*. The report was co-chaired by two great Alaskans: Joe Beedle and Cheryl Frasca. I agree with the three principal recommendations of the report which were as follows:

- 1) Alaska's current oil tax structure under Alaska's Clear and Equitable Share must be made more competitive in order to encourage oil profits to be reinvested in Alaska. The progressivity tax should be reduced and/or capped.
- 2) Alaska should continue to encourage exploration for new oil reserves through tax credits and incentive programs.
- 3) The Governor and the Legislature must make oil production a matter of highest priority. The Legislature must pass revisions to ACES this year...

Financial folks, myself included, always like to model the future. History shows that we frequently over estimate future income and underestimate expenses. On page 12 of the Commonwealth North report, it states *"The Department of Revenue's forecasts have been too high 100% of the time. We should expect that with no change in investment for actual production to be below the DOR forecast"*.

As one example of forecasting, the State in 2005 predicted TAPS production would average 832,000 barrels per day in 2010. Actual production was 644,000 barrels, 22% less than forecasted. Alaskans, like me and my family, are not fine with accelerated production decline.

Tax policy must change in a way that reflects the important role production and drilling has in Alaska's economy. Investors take 100% of the risk to lease, explore, and develop a resource. At high prices, government can take more than 80% of the income stream of a barrel of oil. Would anyone with their own real estate, stock, or other

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investments give the government almost all the upside while taking nearly all the downside?

We have a need to drill to pay the bill. I hope the legislature will take significant proactive steps this year to address the steep decline in oil production. Let's encourage more private investment, more jobs, and a brighter future for our kids and grandkids.

After all, I have a 19-year old son majoring in welding and non-destructive testing at UAA who is very concerned about future employment opportunities in Alaska.

Thanks again for all the hard work.

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