

NEW SUSTAINABLE

ALASKA

PLAN



Pulling Together to Build Our Future

Oil and Gas Tax Credit Reform

CS SB130(RES)

Department of Revenue

Initial Overview for Senate Finance Committee

April 13, 2016

History of Oil and Gas Production Tax Credits

FY 2007 thru 2015, \$7.4 Billion in Credits

North Slope

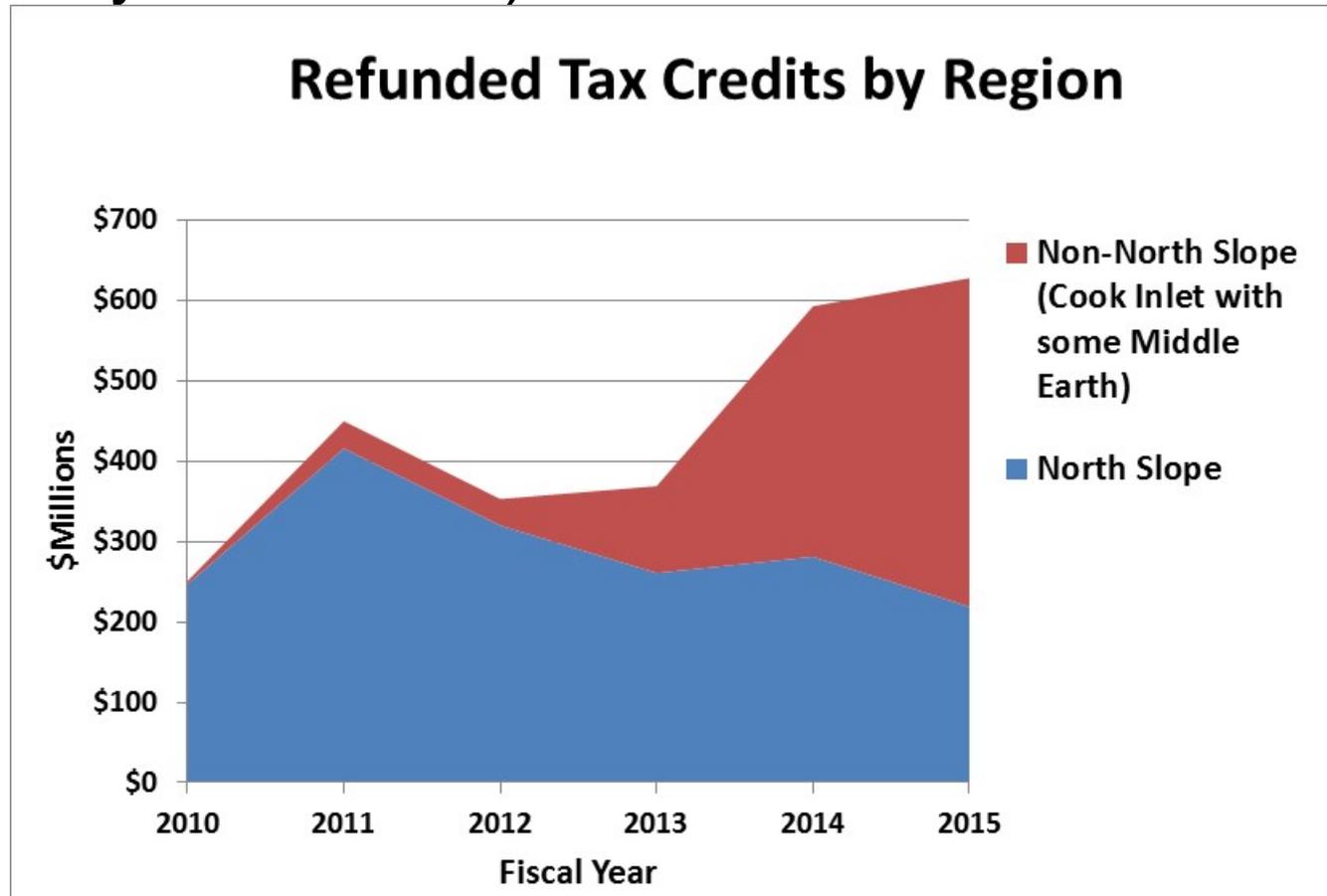
- \$4.3 billion credits against tax liability
 - Major producers; mostly 20% capital credit in ACES and per-taxable-barrel credit in SB21
- \$2.1 billion refunded credits
 - New producers and explorers developing new fields

Non-North Slope (Cook Inlet & Middle Earth)

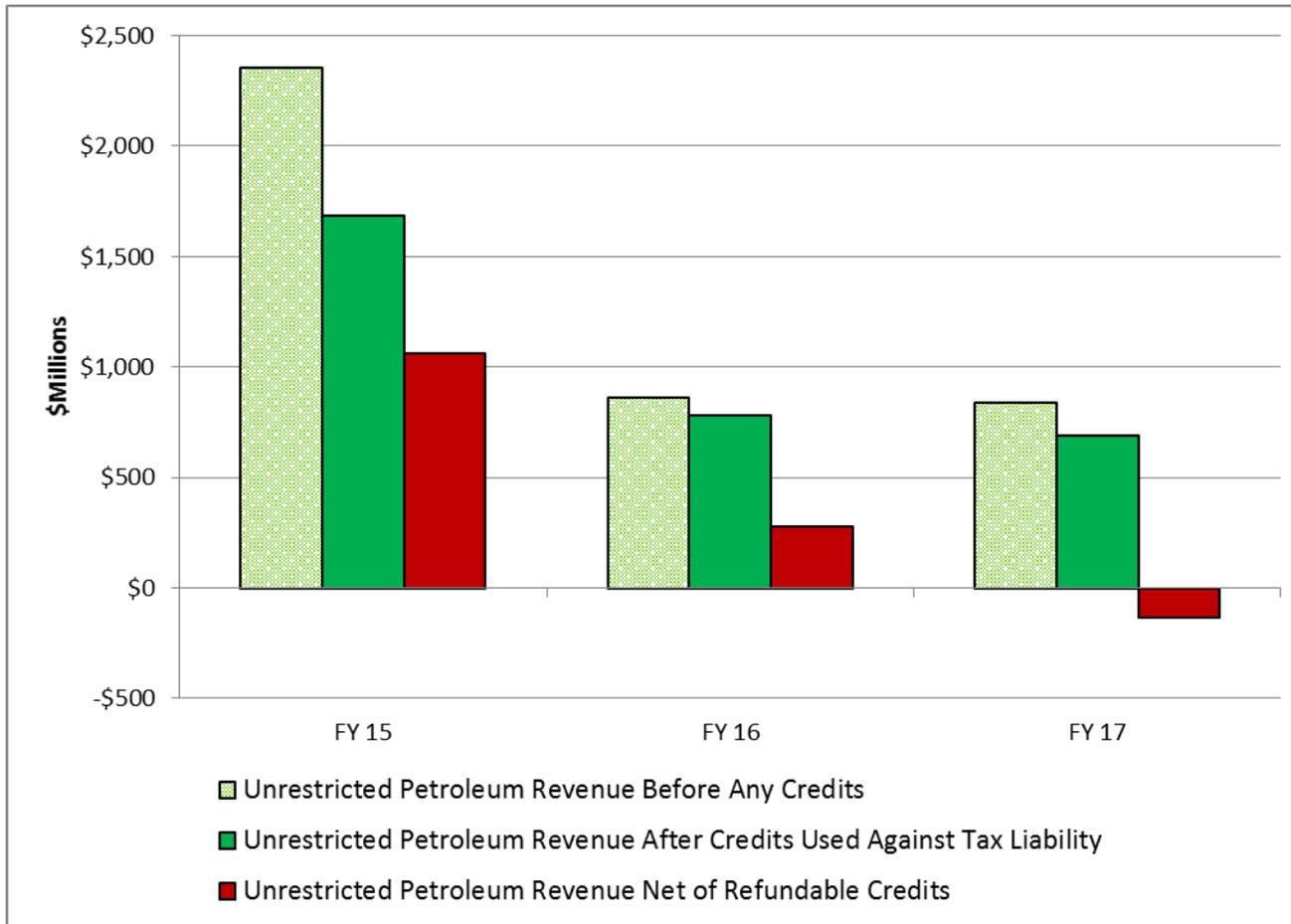
- \$100 million credits against tax liability
 - Another \$500 to \$800 million Cook Inlet tax reductions (through 2013) due to the tax cap still tied to ELF
- \$900 million refunded credits (most since 2013)

History of Oil and Gas Production Tax Credits

- Tremendous growth in non-North Slope (almost entirely Cook Inlet) refunded credits since FY10



Forecast of O&G Revenue and Tax Credits



*This graph shows net tax credits versus unrestricted petroleum revenue, which includes the petroleum property tax, petroleum CIT, production tax, oil and gas hazardous release surcharge, oil and gas conservation surcharge, rents, and petroleum royalties, bonuses, rents, and interest. Net tax credits include certain refinery credits under AS 43.20.

Source : Department of Revenue - Spring 2016 forecast

Work Done Since Last Session

- Governor's line-item veto capped FY16 spending at \$500 million
 - Temporary liquidity crisis; many meetings with industry and others to help reassure lenders
- Multiple presentations with history, current practice, and possible changes
 - Joint Resources in Kenai, June 17
 - Three "regional" presentations to Senate Working Group September through November
 - All presentations on BASIS; we're prepared to go through similar information for the committee
- Development of reform legislation including plan for transition from current system

Major Bill Themes

1. Reduce the state's annual cash outlay
2. Protect Net Operating Loss credits as a playing field leveler between legacy producers and newcomers
3. Limit repurchases
4. Strengthen the minimum tax
5. Be more open and transparent
6. Honor and pay credits earned to date and through any transition period

Major Bill Concepts in Governor's Proposal

- 1. Exploration Credits-** *sunset and transition*
- 2. Cook Inlet Drilling Credits-** *phase out while retaining operating loss credits*
- 3. Repurchase Limits-** *limit cash outlay*
- 4. Remove Exceptions / Loopholes**
- 5. Strengthen Minimum Tax-** *prevent certain credits from going below the floor, plus increase to 5%*
- 6. Other Provisions-** *technical cleanup, transparency, interest rate reform*

Changes made in Senate Resources

- Kept and improved many of the technical fixes, including inadvertent “double dip” credit for new oil on the North Slope
- GVR “new oil” reverts to legacy after 5 years
- Phased out all Cook Inlet credits in 2018, while also establishing a zero tax on Cook Inlet oil and gas
- Increased repurchase “cap” to \$85 million / company / year without large company exclusion
- Removed changes to minimum tax “floor,” transparency provisions, and migrating credits
- 7%+Fed / compounding interest only for 3 years
- Surety bond for local creditors / bankruptcy protect
- Alaska Hire precedence for credit repurchase

Current Status of CSHB247(FIN) amended

- Also kept and improved many of the technical fixes
- GVR “new oil” reverts to legacy after 7 years
- Reduced Cook Inlet credits to NOL only on faster timeline; Cook Inlet tax working group
- Increased repurchase “cap” to \$100 million / company / year without large company exclusion
- Partially hardened minimum tax: credits can reduce to 2%, retains 4% hard floor for per-barrel credits
- Removes transparency provisions and several smaller provisions
- 5%+Fed / compounding interest only for 4 years
- Surety bond for local creditors / bankruptcy protect
- Alaska Hire precedence for credit repurchase

Summary of Fiscal Impact

Summary Analysis of Bill Versions (\$millions) (based on Spring 2016 Forecast)

| | FY17 | | | FY18 | | | FY19 | | |
|--------------------------------------|-----------------|-------------------------|------------------|--------------|-------------------------|------------------|--------------|-------------------------|------------------|
| | SB130 | CS HB247(FIN) amd | CS SB130(RES) | SB130 | CS HB247(FIN) amd | CS SB130(RES) | SB130 | CS HB247(FIN) amd | CS SB130(RES) |
| Reduced Spending | | | | | | | | | |
| Credits Eliminated or Reduced | | | | | | | | | |
| North Slope | \$15 | \$0 | \$0 | \$25 | \$15 | \$15 | \$20 | \$15 | \$25 |
| Cook Inlet / Mid Earth | \$35 | \$25 | \$10 | \$65 | \$50 | \$40 | \$45 | \$50 | \$50 |
| Credits Deferred | | | | | | | | | |
| North Slope | \$275 | \$0 | \$0 | \$50 | \$0 | \$0 | \$25 | \$0 | \$0 |
| Cook Inlet / Mid Earth | \$275 | \$0 | \$0 | \$50 | \$0 | \$0 | \$25 | \$0 | \$0 |
| Budget Subtotal | \$600 | \$25 | \$10 | \$190 | \$65 | \$55 | \$115 | \$65 | \$75 |
| Increased Revenue | | | | | | | | | |
| Floor "Hardening" | \$125 | \$15 | \$0 | \$180 | \$85 | \$0 | \$215 | \$85 | \$0 |
| Floor Increase to 5% | \$50 | \$0 | \$0 | \$55 | \$0 | \$0 | \$50 | \$0 | \$0 |
| CI Credit Repeal | \$10 | \$0 | \$0 | \$10 | \$10 | \$0 | \$10 | \$10 | \$0 |
| Revenue Subtotal | \$185 | \$15 | \$0 | \$245 | \$95 | \$0 | \$275 | \$95 | \$0 |
| Total Bill Impact | \$785 ** | \$40 | \$10 | \$435 | \$160 | \$55 | \$390 | \$160 | \$75 |

** Actual FY17 impact of Governor's bill would likely be less due to need to clarify effective dates regarding when credits are earned vs. cashed

Content of Future Presentations

We have provided nine different presentations to three prior committees; all are on BASIS

- History and development of our credit system
- History and application of the minimum tax
- Various credits and how they have been used, which ones haven't been, and what is sunseting
- Current application status, impact of Spring Revenue Forecast, and NOL Carry-forward issue
- Details and modeling of specific bill provisions
- Explanation of changes made in prior committees
- Life cycle modeling of typical new projects, with impact of legislation

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Thank You!

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