From: hansonak@gci.net
To: Senate Finance Committee
Subject: SB 130 Testimony
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Members of the Senate Finance Committee,

We cannot afford the Oil Production Tax Credit Program.

My name is Dave Hanson and I am a fiscal conservative, 40-year Alaskan resident.

Recent discussion of the oil production tax credit program has been dominated by hours of oil industry testimony. The oil industry has done a good job communicating their interests. However, this input does not necessarily reflect the broader interests of the people of Alaska, and some industry input is misleading:

1. The oil industry has emphasized that oil revenue pays for 90% of the State budget. While this was true as recently as 2013, the situation has changed with the crash of oil prices. Oil revenue now provides about 26% of the State budget. The State is primarily dependent on State savings accounts and investment earnings to pay for the budget.

2. Low oil prices, <u>not</u> the oil production tax structure, are why the industry is having financial challenges. The industry is paying very little production tax. The industry's problem is that development projects are no longer economical at low oil prices.

3. It should be recognized that the oil production tax credits program represents a significant benefit to oil companies. It is understandable that they will valiantly resist any program changes, even if the changes are in Alaska's interest. Our interest is often not the same as their interest.

4. The industry emphasizes the need for a stable tax structure and blames the State for structure instability due to six tax changes over the past several years. This is a disingenuous point, since the oil industry strongly supported some of those changes, including SB 21.

5. The industry claims that if tax credits cannot be repaid by a production tax, they can be repaid by oil royalties (assuming oil is produced). This is an apples and oranges argument. The tax credit is to be repaid by production taxes. The royalties are the "cost of business" price the companies pay for Alaskan oil. If the credits are paid for with royalties, the State is discounting the amount it receives for future oil sales, and <u>cheating itself</u>.

6. The credits program is <u>not an effective</u> way to increase oil production. Some credit money has helped produce oil, some has helped companies that will never produce oil, and some money was used to bail out companies from bankruptcy. There is no pre-qualification of projects that get to receive credits. Due to the program's confidentiality, we do not know who gets the credits, how they use the money, how many Louisiana jobs are funded, or how many Alaskan dollars end up in Texas.

7. The industry highlights the importance of oil industry jobs, and implies they are more important than other jobs. Oil industry jobs are important, but so are the $400 million of Capital Projects jobs eliminated from last year's budget, as are the jobs of laid-off State Troopers, teachers, University employees, and others.

Please consider the following questions:

Is it the State of Alaska's obligation to carry the oil industry at a great loss when oil prices are low?

Is it the legislature's intent that the oil industry gets a budget "pass" while the rest of the state pays for it?

Do the people of Alaska want to give up $1,000 of their PFDs to pay for oil tax credits?

How will we pay for the credits?

Please represent the interests of all Alaskans, not just the oil companies.

Thank you.