DIFFERENT WAYS TO LOOK AT TAX CREDITS

House Resources Committee

Larry Persily, Kenai Peninsula Borough – March 9, 2016

Return on state investment

- For Cook Inlet, probably not a general fund gain
- No oil production tax, minimal gas production tax
- Payback from royalties, property tax, income tax
- Not enough volume to fully recover tax credit cash
- Not enough future revenue for net gain to treasury
- North Slope investment could be different because of production taxes and higher volumes

Local benefits count

- Assessed value of oil and gas property in the Kenai Peninsula Borough totals over $1.4 billion in 2016, more than double the value of 2006
- Nine of Top 10 property taxpayers oil and gas
- Sales tax revenues are back above FY2009 peak
- Per-capita income and jobs are up, and unemployment rate is down from 2010 to 2014
- New oil and gas spending circulates in the economy

More oil, more gas

- Cook Inlet oil production has doubled since 2010
- Avg. 18,000 barrels/day in 2015, best since 2006
- Close to 20,000 barrels/day in April 2015
- Natural gas production ahead of 2013 numbers
- Latest utility gas supply contract runs to 2023
- Potential for even more gas **<u>if there is a market</u>**

It’s been more than just credits

- Higher oil prices helped a lot – that is, until 2014
- RCA approval of gas contracts reassured producers
- Storage provided year-round market for gas
- Continuation of ConocoPhillips LNG exports
- And, of course, state tax credits a big incentive
- Credits reduced capital risk, provided financing

Why credits worked

- High oil & gas prices generated explorer interest in new opportunities; Alaska helped with financing
- Low interest rates created investor demand for new opportunities to earn higher returns
- Financial confidence for investors; no uncertainty of best-interest finding, subjective analysis by state
- The state could afford to help bankroll investment
- New entrants in Alaska helped build public support

Looking ahead

- Regardless of credits, producers need sufficient market for gas to recover investment, earn a profit
- Hard to justify exploration and production spending for new gas that isn't needed until the next decade
- Just as Cook Inlet needed large customers in 1960s to develop resources, it needs demand growth in 2020s to justify new large-scale gas production
- And the state cannot afford to write as many checks

What industry/investors need

- Certainty of payback; when will the check arrive
- Investor needs to know the 1-year loan will not be stretched into a 10-year payback
- Longer payback could attract different investors
- Phase-in of any changes should reflect lead time for multiyear investment spending before production
- Investors want to see that Alaska is ‘tax stable’

The elusive best answer

- Don’t damage investments already under way
- And don’t discourage future investments too much
- But don’t promise more than the state can afford
- Acknowledge that tax credits have a cost and that many of the benefits are in jobs and gas and oil — not necessarily a cash profit to state treasury
- Balance credits against other public needs and the reality that Alaska is oil and gas dependent

For more information

Larry Persily

Assistant to Kenai Peninsula Borough Mayor Mike Navarre

lpersily@kpb.us

Cell 907-351-8276