

March 1, 2017 - 6 p.m.

KEEP Testimony on HB 111 – Bill Corbus
House Resources Committee

Madam Chairman and members of the House Resources Committee, my name is Bill Corbus. I served as Commissioner of Revenue from 2003-2006. I have been working as a volunteer for KEEP Alaska Competitive since its inception. KEEP is co-chaired by Jim Jansen, Chairman of Lynden, and Marc Langland, formerly Chairman & CEO of Northrim Bank. KEEP's membership of 5,000 is composed of Alaskans from all walks of life, a wide variety of businesses and professions and does not accept funding from the oil industry to support its activities.

First, and foremost, the bill as currently drafted would raise taxes on oil companies primarily at low oil prices. In our view that is precisely the wrong approach: when prices are down, the industry is either losing money and/or not recovering enough profit to continue to invest \$4 to \$6 billion per year in capital investments on the North Slope. Your proposal changes our tax structure to take more even when the industry is taking all of the risk that prices will increase enough to justify those expenditures.

That was not the philosophy of the SB 21 when it was passed. The legislature made a decision to share the risk with the oil industry – when prices were high we would take a greater share of profits and when prices were low, we would share in the downside for the sake of stabilizing investment and encouraging continued or expanded flow in TAPS in recognition of the rapid decline in production.

Because we adopted a net profit approach to taxation, we started off at a high (35%) tax rate. If we had adopted a gross tax that ignores the cost of production, the rate would have been much lower if we wanted to maintain industry presence here.

This was supposed to achieve stability over time – Alaska would become a predictable and rational partner through both high and low oil price environments. That approach is starting to work. Even when oil prices went below \$30 barrel, the industry continued to invest on the North Slope, which is exactly what we want them to do. At higher tax rates, I do not believe this would have happened.

While many of the provisions of HB 111 deal with reversing course on SB 21, some deal with earlier provisions of ACES and other separate legislation that established the system of cashable credits resulting from Net Operating Losses (NOLs) as incentives for exploration.

Those provisions have done exactly what was intended which is to entice independent companies to Alaska. It has resulted in several new discoveries, which if developed, will provide us with future royalty and production income and maintain a workable flow in TAPS. At higher oil prices than exists today, this approach makes sense because we could afford to sacrifice some cash flow today for enhanced cash flow in the future.

At low oil prices and because of Alaska's massive budget deficit, we do not argue that it is inappropriate for the legislature to look more closely at this part of our tax structure to see there are effective ways of achieving a similar result with a lesser impact on cash flow to the state at low oil prices.

But we do encourage the legislature to spend the time and attention necessary to fully understand the options and to engage both the oil industry and the most-qualified experts when doing the critical analysis needed to estimate the likely impacts of any such decision.

At this point, it seems that the proposals are one sided – the state desires to cut its expenditures – without adequate consideration of the cost/benefit ratio of the impacts to future production by the companies which have come to Alaska because of the exploration incentives and continue to overwhelmingly contribute revenue to Alaska's budget.

So to sum this up, our KEEP supporters have been watching the proceedings on HB111 and the discussion in your committee, that given Alaska's situation, how should the State react?

We believe that the discussion should be on a long-term focus, not short-term to fill the gap on the back of the industries that must remain healthy. We supported SB-21, to get Alaska away from the punitive tax system, to change the industry's incentive to invest and produce oil vs. simply spend money. We also recognize that the State does not have the resources to "cash out" tax credits in the future when the prices are low; however, that does not mean that we shouldn't encourage investments during times of low prices by allowing credits and NOL's against production taxes for some time into the future when risk and development costs are mitigated and allow all parties to benefit.

We also believe that the primary focus should be on fixing the fiscal problem, focus on restructuring the Permanent fund, cutting costs, supporting reasonable and broad based revenue solutions, but don't kill the investment in the very resources that have built our State. We need more oil, but we also need stable and growing investment in fishing and mining too. We have the potential to grow oil production and mining too. We need these investments in Alaska to continue to make our businesses grow and thrive into the future.

Thank you for the opportunity to testify.



My name is Keith Silver; I do not work for an oil company or service company. I am opposed to HB 111. This bill represents the 7th oil tax law change in 12 years and the 3rd since 2013.

This bill does not take into account the fact that under the current tax and credit scheme, several multibillion barrel oil fields were discovered and announced. In 2016, Alyeska Pipeline had an increase in oil throughput, a fact that positively affects the state budget. These fields have not come online yet. Their profitability and the decisions to sanction these fields were determined under the current tax and credit law. Changes to that may put the development of these fields at risk and the affected oil companies may just pack up and go home. Alaska is already the most expensive place to develop an oil field. Constant fiscal uncertainty makes Alaska an unattractive place to do business. Production will then start to decrease and Alaska will end up with a much smaller economy.

Consider this: The current oil tax system is balanced, setting a higher minimum floor than the previous tax system, while setting a stable and predictable rate when oil prices rise again. At current prices, Alaska's oil tax policy has brought hundreds of millions of dollars more in tax revenue to the state than it would have under the previous system.

It takes an annual industry investment of \$3 to 4 billion just to keep production levels stable on the North Slope. This requires a durable and competitive tax policy to fund Alaska projects.

Let's amend HB111 to this: The current tax laws may not be changed for another 7 years. This will allow the state to fully analyze what needs to be fixed and what still works. It would also significantly decrease the fiscal uncertainty. Increased investment dollars will follow.

Thank you for your time.

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WRITTEN TESTIMONY

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REPRESENTING: SELF

BILL#/ SUBJECT: HB 111
COMMITTEE &

HEARING DATE: 01 Mar 2017

◦ HB 111 moves Alaska in the wrong direction by increasing taxes in an already high cost environment when compared to other oil & gas producing regions in the world.

◦ HB 111 makes Alaska less competitive and could drive investment to other places.

◦ HB 111 is very complex & will lead to increased staff & admin to manage.

◦ We need a stable tax system which promotes continued future investment so that Alaska continues to produce oil for decades upon decades.

◦ Increasing taxes could result in less investment & thereby leading to less production which means less revenue to the state & fewer JOBS.

◦ No matter the business - we all need predictability when it comes to a fiscal regime. AK continues to revisit this oil tax issue year after year; this can lead to deferral investment & less production.

- GOOD EVE

- HISTORIC TIMES DETERMINE IF WE ^{RECOVER AND} GO ON TO 30 MORE YEARS OF PROSPERITY OR IF WE HAVE A LONG DRAWN OUT LACKLUSTER RECOVERY ONCE OIL PRICES REBOUND. ^{LEADERSHIP} NOW WILL ^{WORK CAPITAL}
- MARK MORRIS - BORN & RAISED IN JUNEAU, MY WIFE AND I HAVE ONE DAUGHTER IN COLLEGE IN HER SECOND YEAR AND TWO SONS WHO GRADUATE FROM HS THIS YEAR AND ENTER COLLEGE IN THE FALL.
- WE OWN AN ENGINEERING FIRM HERE IN JUNEAU. WE DID EXTENSIVE WORK FOR THE OIL & GAS INDUSTRY ON THE NORTH SLOPE
- WHEN THE PRICE OF OIL CRASHED, WE LAID OFF ~~WE~~ ALMOST ALL OF OUR EMPLOYEES. WE WENT FROM 10 TO 1 FULL TIME + 2 PART TIME.
- WE, LIKE SO MANY IN THE STATE, ARE WAITING FOR THE PRICE OF OIL TO REBOUND. WE ARE TRYING TO SURVIVE UNTIL THEN AS ALL OTHER GOVERNMENT ^{CAPITAL} PROJECT BUDGETS (STATE & LOCAL) ARE WAY DOWN.
- WE ARE LOOKING IN WASHINGTON + PACIFIC NW WHICH IS BOOMING FOR WORK.
- ~~IF THE~~ SO PICTURE HUNDREDS OF ALASKA FAMILIES HANGING ON ~~WAITING FOR + ENGINEERS,~~ ~~CONSTRUCTION WORKERS, TEACHERS AS SCHOOL FUNDING~~ IS ~~DROPPING AND EVERY OTHER~~
- JUST LIKE OURS WAITING FOR THE OIL PRICES TO GO REBOUND AND THEN THIS BILL COMES ALONG AND TAKES AWAY OUR HOPE OF A PROSPEROUS FUTURE.
- BECAUSE WHEN YOU TAX THE OIL INDUSTRY MORE + REDUCE OR ELIMINATE TAX CREDITS THEY TAKE THE BILLIONS WE NEED THEM TO SPEND HERE DEVELOPING OUR OIL AND THEY SPEND IT DEVELOPING SOME ONE ELSE'S OIL. ONCE THE PRICE REBOUNDS.



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 Project Number HB111 Sht 2 of 2
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THAT'S WHY GOV HAMMOND AND A STATE LEGISLATURE CREATED A RAINY DAY FUND. THEY KNOW THAT IF THE STATE ECONOMY THRIVED THROUGH THE BENEFITS OF OIL REVENUE FROM ITS RICH OIL RESERVES, DAYS WOULD COME WHEN THE PRICE OF OIL PLUMMETED AS IT SOMETIMES DOES.

THEN THE STATE WOULD NEED ITS RAINY DAY FUND TO CARRY ITS GOVERNMENT AND PREVENT THE ECONOMY FROM BEING DEVASTATED AS EVERY COMMUNITY RECEIVES STATE REVENUES FOR SCHOOLS, HEALTH + SOCIAL SERVICES, WATER + SEWER PROJECTS, ROADWAY MAINTENANCE, ENERGY ASSISTANCE, AND MANY OTHERS PROGRAMS.

INSTEAD OF USING THIS RAINY DAY FUND TO CARRY US, THE LEGISLATURE HAS BURNED THROUGH MOST OF OUR CONSTITUTIONAL BUDGET RESERVE AND NOW IS TURNING TO INCREASE TAXES ON THE OIL INDUSTRY AND TO TAX US; HURTING ALASKANS.

THIS WILL DRIVE OFF FUTURE INVESTMENT IN DEVELOPING UNTAPPED OIL RESERVES WHICH WILL PROVIDE JOBS TO MY FIRM AND MANY ALASKAN COMPANIES.

INSTEAD OF BRINGING PROSPERITY TO ALASKANS THROUGH MAINTAINING OUR STATE GOVT SPENDING THE LEGISLATURE IS CONSIDERING CUTTING STATE GOV FUNDING FURTHER AND THEN TO ADD INSULT TO INJURY, TAXING THE ALASKANS WHO ARE HANGING ON, WAITING FOR THE PRICE OF OIL TO REBOUND.

THIS IS SHORT SIGHTED LEADERSHIP THAT WILL COST HUNDREDS IF NOT THOUSANDS OF ALASKANS THEIR JOBS THROUGH FURTHER STATE CUTS, TAKING HARD WORKING ALASKANS WHO ARE TRYING TO HANG ON, AND THEN DENYING ALL ALASKANS A PROSPEROUS FUTURE BY DRIVING OFF OIL COMPANY INVESTMENT IN DEVELOPING OUR ALASKAN'S UNTAPPED OIL RESERVES.