STATE CAPITOL
P.O. Box 110001
Juneau, AK 99811-0001
907-465-3500
fax: 907-465-3532

Governor Bill Walker
STATE OF ALASKA

550 West Seventh Avenue, Suite 1700
Anchorage, AK 99501
907-269-7450
fax 907-269-7461
www.Gov.Alaska.Gov
Governor@Alaska.Gov

February 2, 2018

The Honorable Pete Kelly
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Kelly:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill to create a State corporation authorized to issue bonds for the purpose of purchasing oil and gas exploration tax credits.

The passage of legislation last year, HB 111 (CH. 3, SSSLA 17), signaled the end of the State's program to purchase oil and gas tax credits. These credits were earned by small producers and explorers; major producers have always been ineligible to participate. Since the beginning of this program in 2007, Alaska has purchased over $3.5 billion in these credits, with about $800 million currently in company hands awaiting payment. Another $200 million are expected before the program is fully terminated. Just as we value our large producers, we value these small producers. Some of the most exciting new developments in the past few years are the result of the efforts of these new small producers.

After the downturn in oil prices and the State's budget challenges, the State was no longer able to purchase these credits as quickly as they were submitted. Since 2016, the State has appropriated funds based on a statutory formula, resulting in the large accrued balances. The payment delay has resulted in significant uncertainty for Alaska's small producers, some of whom have had a difficult time borrowing additional money to complete their projects. Last year's legislation to end the program was an important step towards restoring the State to a more stable fiscal foundation. This bill would allow the State to take the next vital step in resolving the State's oil and gas tax credit obligation.

The bill would establish an Alaska Tax Credit Certificate Bond Corporation that would be authorized to issue up to $1 billion in bonds to finance purchases of oil and gas tax credits at a discount from face value. This discount offered to these small producers would then be used to pay the cost of financing the bonds. In short, the State would not bear the cost of financing the bonds, but rather that would be paid by the small producers. The bonds would not constitute a general obligation of the State. The corporation's authority to issue bonds would expire on December 31, 2021.

This bill would provide authority for the Department of Revenue to negotiate the purchase of tax credits at less than full value when bond proceeds are used for those purchases. Under the bill, applicants that have requested purchase of tax credits from the oil and gas tax credit fund would notify the Department of Revenue of interest in purchase of tax credits from bond proceeds at a discounted amount. Those applicants would need to include all tax credits requested for purchase from the fund in the notice of interest. A purchase offer amount by the Department of Revenue from bond proceeds would be determined by discounting the face amount of such tax credits based on the assumed payment schedule of the tax credits if the Department of Revenue had purchased the tax credits through the oil and gas tax credit fund over a number of years.

The face amount of the tax credits would be discounted each year by 10 percent. A lower discount could apply for an applicant that agrees to one or more conditions that provide additional value to the State. These conditions include agreements for overriding royalty interests, waivers of confidentiality for early release of seismic data, and commitments to make future qualified capital expenditures in the state. The lower discount rate would apply automatically to purchases of certain corporate income tax credits for gas storage facilities and in-state oil refineries. The lower discount rate will be based on the State's true interest cost plus 1.5 percent, which we currently estimate will be about 5.5 percent. The corporation would not issue bonds unless it found that the discount rate applied in the Department of Revenue's purchase of the tax credits would exceed the State's true interest cost on the bonds by at least 1.5 percent per year.

The Department of Natural Resources would handle the agreements for overriding royalty interests and waivers of confidentiality for early release of seismic data. The bill would have an immediate effective date. The immediate effective date would allow the new Alaska Tax Credit Certificate Bond Corporation, the Department of Revenue, the Department of Natural Resources, and those requesting purchase from the oil and gas tax credit fund the ability to start work right away to address these tax credits.

I am proposing this bill to achieve a fair resolution to the oil and gas tax credit purchase program, and to free up capital for the small companies impacted by the program to resume investing in future oil production. Passage of this bill would allow the state to move past the uncertainty on these tax credits and focus on growing Alaska.

I urge your prompt and favorable action on this measure.

Sincerely,



Bill Walker
Governor

Enclosure