ALASKA STATE LEGISLATURE
SENATOR BILL WIELECHOWSKI

Member
Senate Finance Committee

Finance Subcommittees
Judiciary (Chair)
Military and Veteran's Affairs (Chair)
Public Safety

Session
State Capitol, Rm. 9
Juneau, AK 99801
(907) 465-2435
Fax: (907) 465-6615

Interim
1500 W. Benson
Anchorage, AK 99503
(907) 269-0120
Fax: (907) 269-0122

Sen.Bill.Wielechowski@akleg.gov

Sponsor Statement
Senate Bill 107

An Act relating to the oil and gas production tax; relating to credits against the oil and gas production tax; relating to payments of the oil and gas production tax; relating to lease expenditures and adjustments to lease expenditures; making public certain information related to the oil and gas production tax; relating to the Department of Revenue; and providing for an effective date

In 2013 the legislature passed Senate Bill 21, also known as the More Alaska Production Act (MAPA). SB 21 provided substantial changes to the state's oil tax structure that have proven extremely beneficial to hugely profitable oil companies—at the expense of hardworking Alaskans and their families. Supporters of MAPA promised more oil production, more jobs, more industry investment, more state revenue, and enhanced growth of Alaska's Permanent Fund.

We know now that what was promised with SB 21 is the exact opposite of what resulted. Since enactment of SB 21, production has fallen from 544,000 barrels per day to 491,000 projected for this fiscal year. In 2014, Alaska saw 14,600 oil and gas jobs, but in 2022 only 7,100 Alaskan jobs will remain within the industry. We've experienced significant multi-billion dollar deficits and depleted $19 billion of our savings to cover the costs of state operations and public services, on top of resorting prematurely to the earnings of the Permanent Fund for the first time in history in fiscal year 2019. This unwarranted use could cost the Permanent Fund $8.3 billion through fiscal year 2022. The People's Fund has not been protected, but instead has been put in serious jeopardy as a result of SB 21. And in running substantial deficits year after year, every Alaskan has lost $9,700 to PFD cuts since 2016.

SB 21 established the "per-barrel credit" for oil producers, which through fiscal year 2022 will lose the state $6.1 billion in revenue. This fiscal year alone, the credits will cost Alaskans $1.06 billion, and it is estimated that Alaska will lose out on another $11.0 billion in the next nine years. With the creation of the per-barrel credit, the state accepted all of the risk of loss at the low oil prices we repeatedly experienced ever since 2014.

Depending on the price of oil, SB 107 has the potential to raise $1 billion in additional revenue for Alaska. SB 107 makes six distinct changes to Alaska's production tax system:

1) It separates out certain large, legacy fields on the North Slope that both produced in excess of 40,000 barrels of oil per day in the previous tax year and have produced in excess of 400 million cumulative barrels since beginning production. The bill includes a new definition of "major oil

fields" that meets these criteria and would be subject to the tax changes in the bill. Production from these fields shall pay both an alternative net profits-based tax as well as an alternative gross minimum tax. The tax on production from elsewhere on the North Slope, including gas from the appliable oil fields, is unchanged.

2) Production from major oil fields shall not be eligible for the "per taxable barrel" credits in AS 43.55.024(i) and (j). In addition to the 35% "base" tax on production tax value (PTV), during times of high profitability this production shall also pay an additional 15% tax "bracket" on the portion of PTV that greater than $50 per taxable barrel.

3) Total tax liability from a major oil field shall not be less than an alternative "gross" minimum tax of between 10% and 15% of the gross value at the point of production. The tax rate is a function of the sales price of ANS oil on the west coast. This tax is "hardened" so that no credits or carried-forward losses can reduce tax liability below this level.

4) The alternative tax calculations on major oil fields should be made monthly.

5) In addition to the tax rate changes, the tax calculation is "ringfenced" for the three major oil fields. Only those costs directly incurred on those fields would be eligible to be used to offset the tax liability from that production. After removing the production and costs from the major oil fields, the rest of the North Slope oil and gas production would remain a single calculation for tax purposes.

6) Information provided to the Department of Revenue as part of a production tax return for a major oil field would be subject to public disclosure.

We must seek the value Alaska deserves for its natural resources and ensure Alaskans receive their maximum benefit from state resource development, as mandated by the Alaska Constitution.

Please join me in reforming Alaska's broken oil tax system. I urge your support of SB 107.