

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

January 13, 2006

9:02 a.m.

MEMBERS PRESENT

Representative Bruce Weyhrauch, Chair
Representative Paul Seaton
Representative Peggy Wilson
Representative Max Gruenberg
Representative Carl Moses

MEMBERS ABSENT

Representative Norman Rokeberg
Representative Ralph Samuels

OTHER LEGISLATORS PRESENT

Representative Berta Gardner
Representative David Guttenberg

COMMITTEE CALENDAR

OVERVIEW(S): PERS/TRS FUNDING

- HEARD

HOUSE BILL NO. 63

"An Act relating to the oil and gas properties production (severance) tax as it applies to oil; establishing a minimum rate of tax for certain fields of five percent; providing for an adjustment to increase the tax collected when oil prices exceed \$20 per barrel and to reduce the tax collected when oil prices fall below \$16 per barrel; and providing for relief from the tax when the price per barrel is low or when the taxpayer demonstrates that a reduction in the tax is necessary to establish or reestablish production from an oil field or pool that would not otherwise be economically feasible."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 63

SHORT TITLE: OIL SEVERANCE TAX

SPONSOR(S): REPRESENTATIVE(S) GARA

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| 01/12/05 | (H) | READ THE FIRST TIME - REFERRALS |
| 01/12/05 | (H) | W&M, O&G, RES, FIN |
| 03/18/05 | (H) | W&M AT 8:30 AM CAPITOL 106 |
| 03/18/05 | (H) | Heard & Held |
| 03/18/05 | (H) | MINUTE(W&M) |
| 01/13/06 | (H) | W&M AT 9:00 AM CAPITOL 106 |

WITNESS REGISTER

GARY MILLER, Southeast Chapter Chair
Retired Public Employees of Alaska (RPEA)
Alaska Public Employees Association/Alaska Federation of
Teachers (APEA/AFT)
Juneau, Alaska
POSITION STATEMENT: Made suggestions for improving the PERS/TRS
funding liability issue.

REPRESENTATIVE LES GARA
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Testified as the sponsor of HB 63.

DEBORAH VOGT
Haines, Alaska
POSITION STATEMENT: Testified in support of HB 63.

ACTION NARRATIVE

CHAIR BRUCE WEYHRAUCH called the House Special Committee on Ways
and Means meeting to order at 9:02:10 AM. Representatives
Weyhrauch, Seaton, Wilson, and Moses were present at the call to
order. Representative Gruenberg arrived as the meeting was in
progress. Representatives Gardner and Guttenberg were also
present.

OVERVIEW(S): PERS/TRS FUNDING

CHAIR WEYHRAUCH announced that the first order of business would
be the overview on the Public Employees' Retirement
System/Teachers' Retirement System (PERS/TRS) funding.

9:03:26 AM

GARY MILLER, Southeast Chapter Chair, Retired Public Employees
of Alaska (RPEA), Alaska Public Employees Association/Alaska

Federation of Teachers (APEA/AFT), provided the committee with written testimony and offered the following suggestions to reduce the cost of healthcare: set up a wellness program; provide health insurance for one physical per year; have nurse practitioners provide basic care and have people see doctors only for major care; have the State of Alaska, versus Aetna, process insurance claims and set up its own pharmacies; have Aetna team up with the State of Alaska in order to pay moving and start-up costs to help recruit physicians to Juneau should they agree to become preferred providers; limit the amount of money an attorney receives in a medical malpractice case if he/she loses a case; change contribution rates to the PERS/TRS pension plans from fixed to variable in order to adjust for market and health-cost fluctuations; and give the Alaska Retirement Management (ARM) Board the authority to set the employee and employer contribution rates on a yearly basis.

[9:06:10 AM](#)

CHAIR WEYHRAUCH acknowledged that healthcare costs are one of the biggest problems of the [PERS/TRS] unfunded liability.

HB 63-OIL SEVERANCE TAX

[9:07:02 AM](#)

CHAIR WEYHRAUCH announced that the only order of business would be HOUSE BILL NO. 63, "An Act relating to the oil and gas properties production (severance) tax as it applies to oil; establishing a minimum rate of tax for certain fields of five percent; providing for an adjustment to increase the tax collected when oil prices exceed \$20 per barrel and to reduce the tax collected when oil prices fall below \$16 per barrel; and providing for relief from the tax when the price per barrel is low or when the taxpayer demonstrates that a reduction in the tax is necessary to establish or reestablish production from an oil field or pool that would not otherwise be economically feasible."

[9:07:21 AM](#)

REPRESENTATIVE LES GARA, Alaska State Legislature, sponsor of HB 63, mentioned that his slide presentation includes updated forecasts from the Department of Revenue (DOR) that show oil company profits and the state's share under existing tax laws, and relayed that Deborah Vogt has updated information to share as well.

9:08:25 AM

DEBORAH VOGT explained that she has worked on oil tax matters in both the DOR and the Department of Law (DOL) for about 20 years. She said she feels HB 63 is long overdue, and characterized the current tax structure, including the severance tax, as "way out of wack." Additionally, she opined, the economic limit factor (ELF) changes that were passed in 1989 were appropriate at the time but are now "allowing vast sums of money to escape the state."

MS. VOGT offered her understanding that Article VIII of the Alaska State Constitution mandates that the natural resources belonging to the state be developed "for the maximum benefit of its people." She opined that this mandate is not being carried out, and that the industry hired to produce Alaska's oil is being benefited to the detriment of Alaska's residents.

MS. VOGT indicated her belief that HB 63 would change the respective shares the state and the industry receive. She explained that under the current tax structure, DOR projections for fiscal year 2007 (FY 07) show that the oil industry will take \$7.25 billion in net profit from oil production out of Alaska assuming prices stay at today's \$60/barrel level. The state's share at the same price, she said, would be just under \$4 billion. Over the years, she remarked, many policy makers, including the late Governor Jay Hammond, have suggested that the state should be retaining as large a share of the state's oil wells as the industry takes.

MS. VOGT also noted DOR projections for 2006 show that under today's law, with oil prices at \$47/barrel - the price the federal Energy Information Administration (EIA) projects over the long-term - the industry would net \$5.8 billion and the state would net \$3.5 billion. Under HB 63, these amounts would change to \$4.9 billion for the industry and \$4.7 billion for the state, a much more equitable share.

MS. VOGT relayed her belief that HB 63 would not drive the oil industry out of Alaska. For example, according to DOR projections, following passage of HB 63, the industry's net profit would be 35 percent at the \$47/barrel price; profitability at the \$60/barrel price would be higher. Even with oil prices reverting to \$20/barrel, she claimed, the net profit for the industry would be 21.4 percent. The questions to consider, she suggested, are: who should spend the wealth from

Alaska's natural resources, and where should it be spent. Right now, it is the oil industry that decides the answers to those questions, she added.

MS. VOGT read from correspondence written by former Representative Hugh Malone to the Kenai Chamber of Commerce in 1981, in which he emphasized that the real question is not whether taxes [to the industry] are unfair, but rather who should have control in "how to use money from Alaska to benefit Alaskans." Ms. Vogt remarked that 25 years later the question remains, "who should determine the use of the wealth from our natural resources."

[9:17:09 AM](#)

MS. VOGT, in response to questions, relayed that Representative Gara could provide the committee with the statistics she'd used.

[9:18:14 AM](#)

REPRESENTATIVE GARA opined that just within the last three years, the state has given out \$4 billion in unjustified tax breaks, and that the money allowed to leave the state could be better spent within the state by addressing concerns such as reducing classroom size, building roads, and making communities stronger.

REPRESENTATIVE GARA explained that HB 63 addresses the production tax, which is affected by the ELF, and that last year the state took in approximately \$800 million in production taxes. Additionally, Representative Gara explained, under the ELF, which determines how much of the "15 percent production tax" oil fields pay, only three oil fields in the entire state are paying any substantial production tax: Prudhoe Bay [Unit], Northstar [Unit], and Alpine.

REPRESENTATIVE GARA offered his belief the state is charging nothing to "blockbuster" fields. For example, he noted the Kuparuk River [Unit], the second largest field in the United States, is paying .1 percent in production taxes, and the Milne Point [Unit], the thirteenth largest field in the United States, is paying zero percent production tax. He expressed his belief that this would make sense at \$10/barrel, but not at \$60/barrel.

[9:23:09 AM](#)

REPRESENTATIVE GARA posed the question of what current oil taxes have done for Alaskans. According to DOR estimates, he noted, the oil companies took in \$13 billion in gross revenue and \$5.2 billion in profits with a 40 percent profit margin; the state's share was 60 percent at \$3.2 billion. Six months into the current fiscal year, Representative Gara relayed, the DOR projects oil companies will take \$16 billion in gross revenue, with profits somewhere over \$7 billion and a profit margin of 43 percent. Furthermore, he continued to explain, should the cost of oil go down again to \$22/barrel, oil companies would receive a 25 percent profit margin well above the 15 percent profit margin oil companies have indicated they wish to achieve over the long run.

REPRESENTATIVE GARA offered his understanding that the oil companies have stated they need incentives in order to build a gas pipeline. He then pointed out that within a three-month period in 2005, "Exxon, BP, and Conoco" took in \$20 billion in "pure profit," enough to build the entire gas pipeline.

[9:29:12 AM](#)

REPRESENTATIVE GRUENBERG asked for information regarding how the [Alaska] system and profit margins work compared to other governmental systems.

REPRESENTATIVE GARA replied that according to a confidential report which the legislature commissioned the consulting firm Wood Mackenzie to do, Alaska allows a much higher profit margin [to industry] than most other taxing jurisdictions worldwide. Additionally, Representative Gara said, [similar] comparisons are addressed in a December 10, 2005, article from The Economist.

[9:31:18 AM](#)

REPRESENTATIVE GRUENBERG opined that information regarding [profit margins] should be available to the public.

CHAIR WEYHRAUCH noted that members' packets contain a letter dated January 9, 2006, submitted by the Alaska Oil and Gas Association (AOGA).

[HB 63 was held over.]

The committee took an at-ease from 9:32 a.m. to 9:33 a.m.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 9:34 a.m.