

SENATE FINANCE COMMITTEE
March 30, 2012
9:04 a.m.

9:04:54 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lesil McGuire, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Senator Linda Menard; Shyan Ely, Intern, Senator Lesil McGuire; Senator Kevin Meyer; Christine Marasigan, Staff, Senator Kevin Meyer; Senator Kevin Meyer; Edra Morledge, Staff, Senator Meyer; Timothy Clark, Staff, Representative Bryce Edgmon; Darwin Peterson, Staff, Senate Finance Committee; Diane Barrans, Executive Director, Postsecondary Education Commission, Department of Education; Janak Mayer, Manager, Upstream and Gas, PFC Energy; Senator Cathy Giessel; Senator Joe Paskvan

SUMMARY

SB 91 SPORT FISHING GUIDING SERVICES

SB 91 was REPORTED out of committee with a "do pass" recommendation and with the accompanying previously published fiscal note: FN2 (DFG).

SB 119 ATHLETIC TRAINER LICENSING

SB 119 was REPORTED out of committee with a "do pass" recommendation and with accompanying new fiscal impact note from the Department of Commerce, Community and Economic Development; and new zero fiscal note from the Department of Administration.

SB 182 PUPIL TRANSPORTATION FUNDING

SB 182 was REPORTED out of committee with a "do pass" recommendation, attached Letter of Intent from the Department of Education and Early Development and with a new fiscal impact note from the Department of Education and Early Development.

HB 65 SENIOR CITIZEN HOUSING DEV. FUND GRANTS

HB 65 was REPORTED out of committee with a "do pass" recommendation and with a new zero fiscal note from the Department of Revenue.

CS HB 104(RLS)

ALASKA PERFORMANCE SCHOLARSHIPS

CS HB 104(RLS) was REPORTED out of Committee with individual recommendations and with a new fiscal impact note from the Senate Finance Committee for the Department of Education and Early Development, a new fiscal impact note from the Department of Education and Early Development, a new zero fiscal note from the Department of Education and Early Development, and an indeterminate fiscal note from the Department of Revenue.

SB 192 OIL AND GAS PRODUCTION TAX RATES

SB 192 was HEARD and HELD in committee for further consideration.

#sb91

SENATE BILL NO. 91

"An Act amending the termination date of the licensing of sport fishing operators and sport fishing guides; and providing for an effective date."

9:06:51 AM

SHYAN ELY, INTERN, SENATOR LESIL MCGUIRE, highlighted SB 91. Senate Bill 91 will ensure the continuation of Alaska's sport fish guide licensing and reporting program. Legislation authorizing the program was passed in 2004 and the program has proven beneficial to both the sport fishing industry and resource managers. With more than 1.8 million clients, 88 percent of whom are nonresidents, taking more than 460,000 guided fishing trips in Alaska annually; guided sport fishing has become an integral part of Alaska's tourism economy. In fact, a study commissioned by the Alaska Department of Fish and Game estimated that nonresident spending on sport fishing was more than \$650 million in 2007. Since the program's inception, an average of 1,670 sport fishing business licenses and 1,981 sport fishing guide licenses have been sold annually. She stated that 90 percent of license holders are Alaska residents and the professionalization of the sport fishing guide industry has benefitted both the industry and the resource. The data collected through the program provides the information state and federal managers need to sustainably manage sport fish populations. The program also allows Alaska to receive an exemption from the National Saltwater Angler Registry; a federal program that would begin levying fees for registration in 2011. Recognizing the importance of the program, the Alaska legislature extended the program's termination date for one year in 2010; SB 91 proposes to amend the program's associated termination language in existing statutes in order to allow this valuable program to continue serving Alaskans and their valuable fishery resources.

Co-Chair Stedman noted the one previously published fiscal impact note from the Department of Fish and Game.

Co-Chair Hoffman MOVED to report CS SB 91 (FIN) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ORDERED.

SB 91 was REPORTED out of committee with a "do pass" recommendation and with the accompanying previously published fiscal note: FN2 (DFG).

#sb119

SENATE BILL NO. 119

"An Act relating to the licensing and regulation of athletic trainers."

9:10:26 AM

CHRISTINE MARASIGAN, STAFF, SENATOR KEVIN MEYER, explained that SB 119 would amend current statutes to establish licensing and regulation of athletic trainers in the State of Alaska. Athletic Trainers are certified, health care professionals who practice in the field of sports medicine. This profession plays a significant role in the management, prevention, recognition and rehabilitation of injured athletes under the supervision of a licensed physician. As people become increasingly more active, athletic trainers are a vital resource in administering immediate emergency care as well as injury prevention and treatment programs. The National Athletic Trainer's Association (NATA), which was founded in 1950, is the professional membership association for certified athletic trainers. According to NATA, Alaska is one of the few states that do not currently license athletic trainers. Should SB 119 pass, athletic trainers would be required to have a license to practice in the State of Alaska.

Co-Chair Stedman pointed out one zero fiscal note from the Department of Administration (DOA); and one fiscal note from the Department of Commerce, Community and Economic Development (DCCED) for \$26.5 million in receipt supported services in FY 13, and \$1.8 million in the out-years.

Co-Chair Hoffman MOVED to report CS SB 119 (L & C) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ORDERED.

SB 119 was REPORTED out of committee with a "do pass" recommendation and with accompanying new fiscal impact note from the Department of Commerce, Community and Economic Development; and new zero fiscal note from the Department of Administration.

#sb182

SENATE BILL NO. 182

"An Act amending the amount of state funding provided to school districts for pupil transportation."

SENATOR KEVIN MEYER, explained that school districts in the state of Alaska are facing shortfalls in overall funding, in part due to the rising cost of pupil transportation programs. It is costing more each year to transport our students safely to and from school. Senate Bill 182 changes the pupil transportation funding, which allows school districts to keep more of their foundation funding in the classroom. Currently most districts have to subsidize their pupil transportation programs, which takes foundation formula dollars out of the classroom. This legislation recalibrates the funding for pupil transportation based on the most recent audits by the Department of Education and Early Development. The amounts will be adjusted annually according to the Consumer Price Index (CPI) for Anchorage. This change allows the funding to match the amounts agreed to in their most recent contract negotiations, providing a more realistic figure for the actual cost of pupil transportation. Although pupil transportation is an indirect cost of education, it is extremely important in Alaska. Road conditions are often dangerous, daylight during the school year is minimal, and sometimes the distance of transporting students is immense.

Co-Chair Stedman noted the new fiscal impact note from the Department of Education and Early Development.

Senator Olson wondered how many school districts would be impacted by the bill. Senator Meyer replied that the bill would benefit every school district that currently offered school transportation.

EDRA MORLEDGE, STAFF, SENATOR MEYER, furthered that the bill represented 49 school districts out of 53 in the state.

Senator Olson surmised that the bill applied to the school districts that currently provided transportation services. Ms. Morledge agreed. She added that if the four school districts that did not currently provide transportation decided to provide transportation in the future, those districts would benefit from the proposal.

Co-Chair Hoffman MOVED to report CS SB 182 (EDC) out of committee with individual recommendations, attached letter

of intent, and the accompanying fiscal note. There being NO OBJECTION, it was so ORDERED.

SB 182 was REPORTED out of committee with a "do pass" recommendation, attached Letter of Intent from the Department of Education and Early Development, and with a new fiscal impact from the Department of Education and Early Development.

#hb65

HOUSE BILL NO. 65

"An Act making regional Native housing authorities eligible to receive grants through the Alaska Housing Finance Corporation from the senior citizens housing development fund."

9:16:10 AM

TIMOTHY CLARK, STAFF, REPRESENTATIVE BRYCE EDGMON, highlighted the features of HB 65. He stated that HB 65 would benefit senior citizens across the state by including regional housing authorities among the entities eligible for grants through the Alaska Housing Finance Corporation's Senior Citizens Housing Development Fund (SCHDF). The SCHDF contributed funding to organizations that develop quality housing for older Alaskans, who make up the fastest growing segment of our population. While SCHDF grants had been available to municipalities and 501 c(3) and (4) nonprofits since the fund's inception, Alaska's regional housing authorities had not been eligible. House Bill 65, which had the support of the Alaska Housing Finance Corporation (AHFC), will correct that omission. IN most cases, grants through the SCHDF complement funding from a variety of other sources. Often and ACHDF grant was the final piece of the puzzle that allowed a project to go forward. Funds can be put toward pre-development expenses and new construction as well as acquisition of properties, accessibility modifications, and rehabilitations. Alaska's 14 regional housing authorities span from Ketchikan to Barrow and were among the state's most experience developers of affordable housing. Making housing authorities eligible for grants would not increase spending through the SCHDF. It may, however, widen the selection of projects competing for grants and increase AHFC's ability to more effectively allocate funding.

Co-Chair Stedman pointed out the one zero fiscal note from the Department of Transportation and Public Facilities

Co-Chair Hoffman MOVED to report HB 65 out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION it was so ORDERED.

HB 65 was REPORTED out of committee with a "do pass" recommendation and with a new zero fiscal note from the Department of Revenue.

[9:19:06 AM](#)

AT EASE

[9:24:21 AM](#)

RECONVENED

#hb104

CS FOR HOUSE BILL NO. 104(RLS)

"An Act renaming the Alaska performance scholarship and relating to the scholarship and tax credits applicable to contributions to the scholarship; relating to AlaskAdvantage education grant funding and to Alaska performance scholarship funding; establishing an account and fund for those purposes; making conforming amendments; and providing for an effective date."

Co-Chair Hoffman MOVED to ADOPT the proposed committee substitute for CS HB 104 (RLS), Work Draft 27-GH1893\S (Mischel 3/28/12). Co-Chair Stedman OBJECTED for the purpose of discussion.

[9:25:31 AM](#)

DARWIN PETERSON, STAFF, SENATE FINANCE COMMITTEE, explained the changes in the Work Draft. He explained the changes between committee substitute versions R and S. He stated that page 2 of the work draft, lines 9 and 10 inserted the words, "an institutional accrediting body recognized by the United States Secretary of Education." He looked at page 2, lines 23 and 24 that added the words, "Alaska residents who have attained an Alaska high school diploma by examination after January 1, 2011." He explained that the phrase "high school diploma by examination" was the proper way to refer to students who had received their General Education

Development (GED). Page 3, line 7 added the exception for provisions of subsection C, which were the new high school diploma by examination component. Page 3, line 9 made an exception for subsection D, which was the waiver of the core academic requirements. Page 4, lines 3 through 30 was the new grace period language. He stated that the new grace period language was taken directly from the regulations, and was only slightly modified. The grace period that was in regulation expired with the graduating class of 2012, so the new language continued the grace period, so the Commissioner can waive the requirements. He quoted the grace period language:

The Commissioner shall waive the core academic requirements for a high school graduate, if the student submits an application providing proof the student was unable to meet the academic requirements because of illness or disability or because those courses were not available in the student's school district. The Commissioner has thirty days to approve or deny an application for waiver. High school graduates who receive the waiver will then have twelve months to finish the core academic requirements in a school district that sponsors that student.

Mr. Peterson stated that GED graduates would have 24 months to complete the core academic requirements.

Mr. Peterson stated that page 5, lines 5, 11, and 17 had deleted the word, "diploma", because it was considered incorrect terminology. He looked at page 7, line 19, which changed the date from October 1 to September 1 of each fiscal year. Page 7, lines 21 through 25 inserted new language:

If an insufficient number of qualified applicants are awarded grants before the end of the fiscal year, the commissioner shall redeposit the remaining funds into the Alaska Higher Education Investment Fund.

Mr. Peterson explained that, of the earnings from the principal of the \$400 million fund, two-thirds would go into scholarships, and one-third would go to grants. If there were not enough students that could use all of the scholarship funding that was available, the remaining balance of the funding will go into the grants. If there were not enough students to use all the available grant

funding, whatever was leftover at the end of the year will be deposited into the overall Higher Education Investment Fund to be used in the subsequent fiscal year.

Mr. Peterson looked at page 7, line 26. He stated that it was not a change, but was the small school carve-out provision that was staying in the bill. Page 8, lines 6 and 7 was a change that stated, "the commission shall redeposit the remaining amount back into the fund from which it originated."

Mr. Peterson looked at page 16, lines 24 through 26, which displayed transition language that identified that the \$400 million that was appropriated to the AHFC in the year prior, and would be used to capitalize the new Alaska Higher Education Investment Fund. Page 17, at the request of the department, made changes to the effective dates in order to make the program easier to manage.

Mr. Peterson looked at page 9, lines 2 through 5, which was the payout mechanism in the legislation.

Co-Chair Hoffman wondered if there was a consideration to accommodate the grant portion by adding additional funds, in order for the fund to be more stable. Mr. Peterson replied that Legislative Finance applied that consideration of a block for additional deposits.

Co-Chair Stedman felt that the principle would not be considered until 20 years had passed. He felt that over time, it may be seen that performance may be substantially different than what was anticipated.

Co-Chair Hoffman commented that he did not want to work on the problem in 20 years.

Senator Thomas wondered if the GED examination was the only acceptable alternative to the high school diploma. Mr. Peterson deferred that question to the Department of Education and Early Development.

Co-Chair Stedman WITHDREW his OBJECTION. Seeing NO further OBJECTION Work Draft 27-GH1893\S was ADOPTED.

[9:36:46 AM](#)

DIANE BARRANS, EXECUTIVE DIRECTOR, POSTSECONDARY EDUCATION COMMISSION, DEPARTMENT OF EDUCATION, expressed concern regarding some additions and changes to the committee substitute. She stressed that the governor remained committed to the program, and that the program needed to be strong without a dilution of the message behind the Alaska Performance Scholarship.

Co-Chair Stedman pointed out one zero fiscal note from Department of Revenue (DOR), one zero fiscal note from Department of Education and Early Development (DEED), one fiscal impact note from the Alaska Commission on Post-Secondary Education for the Alaska Advantage Education Grants, and one fiscal impact note from the Senate Finance Committee.

Co-Chair Hoffman MOVED to report CS HB 104(RLS) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION it was SO ORDERED.

CS HB 104(RLS) was REPORTED out of Committee with a "do pass" recommendation and with a new fiscal impact note from the Senate Finance Committee for the Department of Education and Early Development, a new fiscal impact note from the Department of Education and Early Development, a new zero fiscal note from the Department of Education and Early Development, and an indeterminate fiscal note from the Department of Revenue.

[9:38:42 AM](#)
AT EASE

[9:49:18 AM](#)
RECONVENED

#sb192
SENATE BILL NO. 192

"An Act relating to the oil and gas production tax; and providing for an effective date."

JANAK MAYER, MANAGER, UPSTREAM AND GAS, PFC ENERGY, displayed a PowerPoint presentation titled, "Discussion Slides: Alaska Senate Finance Committee. March 30, 2012."

Mr. Mayer discussed slide 2, "Difficulties in Existing Fiscal Structure."

The incorporation of progressivity into the Profit-Based Production Tax (Net) in ACES creates two significant problems:

Large-scale gas production at low gas prices could in the future significantly reduce production tax revenue from existing oil production.

-Resolving this problem within the framework of ACES requires significant complexity.

-Approach to decoupling in CSSB 192 requires ability to split costs between oil and gas production, creating high degree of administrative burden, and limiting capacity of state to effectively audit.

Options for incentivizing new production are limited, and relatively complex.

-Proposed incentives within existing framework focus on either allowances to reduce Production Tax Value, or revenue exclusions (tax holiday).

Mr. Mayer spoke to slide 3, "Summary of Progressive Severance Tax (Gross) Structure."

A Progressive Severance Tax (Gross) option would instead remove progressivity from the Profit-Based Production Tax (Net), instead levying this tax at the flat, base rate of 25 percent.

To retain an element of progressivity, a new Progressive Severance Tax (Gross) would then be added to the system. The tax would:

-Be non-deductible for Profit-Based Production Tax purposes.

-Be levied on gross production (net of royalties).

-Be levied solely on oil.

-The tax would use a progressivity structure not dissimilar to that under the current system, with progressivity coefficients that apply at different thresholds.

Mr. Mayer discussed slide 4, "Summary of Progressive Severance Tax (Gross) Options."

The first option for the Progressive Severance Tax would use the following parameters:

1. No severance tax below \$65 Gross Value at Point of Production (GVPP).
2. Progressivity of .25 percent commencing at a threshold of \$65 GVPP.
3. At \$125 GVPP, a tax rate of 15 percent is reached. At this point, progressivity is reduced to 0.05 percent.
4. Progressivity is capped 20 percent

A second option, which would freeze government take at 70 percent at \$100/bbl might look like this:

1. No severance tax below \$60 Gross Value at Point of Production (GVPP).
2. Progressivity of .25 percent commencing at a threshold of \$60 GVPP.
3. At \$100 GVPP, a tax rate of 10 percent is reached. At this point, progressivity is reduced to 0.03 percent.
4. Progressivity is capped 20 percent.

[9:56:07 AM](#)

Mr. Mayer explained slide 5, "Benefits of Progressive Severance Tax (Gross) Structure."

By removing progressivity from the Profit-Based Production Tax (Net), and having the progressive element of the structure be a Progressive Severance Tax (Gross), two things become much easier to achieve.

- The issue of gas production reducing production tax revenue ceases to be a problem without progressivity in the Profit-Based Production Tax. Complex provisions to split costs between oil and gas production under CSSB 192 are thus no longer required.
- Significant incentives can be provided to new production, by eliminating or reducing the Progressive Severance Tax (Gross) for new production.

A wide range of levels of government take can be achieved using this structure, depending on the parameters applied.

Mr. Mayer discussed slide 6, "WTI Light Sweet Crude-Forward Curve." He stated that the WTI marker, because was considered the most liquid. He stated that WTI currently

traded at a discount. In terms of spot prices, there may be a ten or more dollar differential. The important point was the shape of the curve, and the fact that 2020 delivery dates could be below \$90/bbl. He stated that the curve represented March 29, 2012 contract prices for delivery from everything from May 2012 to November 2020.

Mr. Mayer explained slide 7, "FY 2013 Revenue Comparison." He stated that the chart had been extended from the \$150/bbl level to the \$200/bbl level, and added a second severance tax option. Severance tax option 1 displayed progressivity continuing up to \$125/bbl; and severance tax option 2 stopped at \$100, but kicked in at a slightly lower level, and would "freeze" take at the 70/30 split for FY 13. He stressed that the displayed revenues were slightly than the first option that was presented the day prior, however the revenues were broadly similar to those under the Alaska Clear and Equitable Share Act (ACES).

10:00:37 AM

Co-Chair Stedman asked for a clarification on the two different severance tax options, specifically regarding severance tax option 2. Mr. Mayer looked at slide 8, "FY 2013 Revenue Comparison." He looked at the difference between the total state revenue from production tax on the left and the cash to companies on the right hand side. He stated that there was a main divergence showed a slight change around the \$120/bbl level that came from the different progressivity coefficient that is applied under CS SB 192: .35 percent rather than .4 percent. When the level is taken \$120/bbl to \$200/bbl, there is a small split displayed, as the cap in CS SB 192 is applied. He stressed that below \$200/bbl, there was very little difference. He stated that the blue line represented severance tax option 1. The scenario was based on progressivity on the progressive severance tax would kick in at a rate of \$65/bbl, and be progressive at a rate .25 percent up to a level of \$125/bbl. From that point on, it would continue at a rate of .05 percent until a cap of 20 percent was reached.

Co-Chair Stedman noted that the chart did not include the \$400 million in 20 percent capital as reflected on slide 7. Mr. Mayer replied in the affirmative and that all of the 2013 numbers were prepared consistent with DOR methodology, where their production tax forecasts did not reflect the

credits. The credits were calculated separately in the state budget. The reason the \$400 million was not included, was because those credits were entirely exogenous to the economic model that produces the numbers.

[10:04:53 AM](#)

Co-Chair Stedman stated that the \$400 million was used to calculate in the 2013. He wanted to be clear in the future whether the credits represented \$400 or \$800 million. He wondered why the \$400 million was not included in the chart. Mr. Mayer responded that he did not include the \$400 million because it was attributed to projects that were not necessarily producing. The additional \$400 million in credits were not subject to production tax.

Co-Chair Stedman stated that he would like to see the credits shown in the chart. He observed that the committee would like to look at the whole gross value and not just adjusted numbers.

Senator Thomas observed that a 1 percent tax at \$120/bbl, could result in about \$170 million. He stressed that \$400 million or \$800 million was a "big swap in cash."

Co-Chair Stedman looked at the severance tax option 2 on slide 7, and surmised that the concept was to hold the tax flow constant at \$100/bbl and below. However, more cash would be moved to industry at \$100/bbl and above. Mr. Mayer responded that there was a 70/30 percent split in both state and federal governments. He stated that the 70/30 split, under this proposal, would make every additional dollar above \$100/bbl be broken, so 30 percent would go to the company, and 70 percent would go to the combined federal and state governments.

Co-Chair Stedman asked if the price was frozen at \$100/bbl Mr. Mayer responded in the affirmative.

Co-Chair Stedman wondered if the price could be set at \$125/bbl. Mr. Mayer did not respond.

[10:12:11 AM](#)

Mr. Mayer displayed slide 9, "FY 2013 Revenue Comparison", which compared the total state take with the total government take.

Mr. Mayer explained slide 10, "ACES (FY 2013)." He stated that the slide outlined the dollars to the treasury for each of the components of the system, for each of the regimes.

Co-Chair Stedman noted that the committee had not had a chance to review the slides. He looked at slide 10, and wondered if the revenue forecast was with or without the additional \$400 million in credits. Mr. Mayer responded that the slide did not include the additional \$400 million in credits.

Co-Chair Stedman felt that information about whether or not the \$400 million was represented should be "footnoted" in some of the slides, in order to reduce confusion. He remarked that the numbers were homogenized, but without the \$400 million applied. He felt that a homogenized analysis should include all credits, especially \$400 million, specifically all credits applied against the treasury: net cash back on the table. Mr. Mayer replied that in order to produce the numbers for a model, it was imperative to look at credits that came from existing production, so one could examine the estimate of the costs associated with the production would be. He remarked that the reason the presentation was in its current form, was for consistency with the DOR figures and the current state budget structure.

[10:17:19 AM](#)

Mr. Mayer discussed slide 11, "CSSB 192 (FY 2013)." When looking at the overall government take figures, there was not much difference from the current structure. The reason there was not much change, the 60 percent cap did not bind at a price level of \$230/bbl. He furthered that if there was an examination of a range of years, across the project life span, the impact of inflation would display a difference. The only difference that is showcased, was the impact of the .35 percent rather than the .4 percent progressivity coefficient.

Mr. Mayer explained slide 12, "Severance Tax-20 percent Maximum (FY 2013) .25 percent progressivity from \$65 to \$125, then .10 percent progressivity." He explained that the two graphs displayed the difference between a .25 percent

progressivity and a .10 percent progressivity from \$65/bbl to \$125/bbl.

Mr. Mayer discussed slide 13, " Severance Tax - 20 percent Maximum (FY 2013) .25 percent progressivity from \$60 to \$100, then .03 percent progressivity." He explained that the two graphs displayed the difference between a .25 percent progressivity and a .03 percent progressivity from \$60/bbl to \$100/bbl.

Co-Chair Stedman asked for a clarification on slide 7 and asked if option was a \$100 million. Mr. Mayer replied in the affirmative and declared that it was a function of progressivity kicking in at the \$60/bbl level, rather than the \$65/bbl level. He furthered that, under severance tax option 2, total state take was almost identical to what it would be under CS SB 192.

Co-Chair Stedman noted that the sharing relationship would increase, if there was an increase to \$110 million. Mr. Mayer agreed.

Mr. Mayer discussed slide 14, "Incentives for New Production."

Significant incentives can be provided to new production, by eliminating or reducing the Progressive Severance Tax (Gross) on any combination of:

- Production from new areas.
- Production from new plans of development (determined through the regulatory process to be for "new production").
- Production above a fixed decline rate.

Here, a reduced rate of Progressive Severance Tax has been modeled, using the following parameters for new production:

- Base rate of 0 percent
- Progressivity of .05 percent commencing at a threshold of \$65 (gross value at point of production).
- Progressivity is capped 5 percent.

Following slides show a new, high-cost 10 mb/d development under

- The regular rate.
- The reduced rate (with a time limit of 7 years).
- The reduced rate (with no time limit).

[10:23:11 AM](#)

Mr. Mayer explained slide 15, "Noted on Impact of Inflation."

Under ACES, thresholds and coefficients for progressivity are specified in nominal terms, without indexation.

-As a result, when economics over the long-term rather than just 2013 are examined, we see the effects of 'bracket creep' or 'stealth tax.'

-In real terms, as prices increase, thresholds for progressivity decrease, and the higher take that comes with progressivity occurs at lower and lower price levels.

Severance tax options are also currently shown assuming nominal thresholds.

-As a result, in the charts, the impact of the severance tax can be seen below the \$60/\$65 level at which it applies - a result of bracket-creep over the lifetime of a project.

It is strongly worth considering the application of price indexation to thresholds for progressivity.

Mr. Mayer discussed slide 16, "ACES (New Development)." He remarked that the new development under ACES had negative NPV at every price level, with a rate of return of approximately 10 percent at the \$100/bbl level. It faced government take, over the project life cycle, of around 78 percent at the \$10 level, and rising to \$85 percent at the high \$200/bbl levels.

Mr. Mayer explained slide 17, "CSSB 192 (New Development)." He stated that under CSSB 192, the reduced progressivity coefficient had a small impact. The rate of return for the project did not shift, but there was growth from a slightly negative number to a slightly positive number at \$100/bbl. With the impact of inflation at the higher levels, government take was brought down to north of approximately \$180/bbl.

[10:26:25 AM](#)

Mr. Mayer discussed slide 18, "Severance Tax-20 percent Maximum (New Producer) .25 percent progressivity from \$65 to \$125, then .10 percent progressivity." He pointed out the leveling of the life-cycle, including factoring the impact of inflation at the \$100/bbl to \$110/bbl level with a 76 percent split moving up the price deck.

Mr. Mayer explained slide 20, "Severance Tax-20 percent maximum, (New Development)." He explained that the slide represented what a project would look like under the severance tax option 2, where progressivity kicked in at \$60/bbl and extends to \$100/bbl.

Mr. Mayer looked at slide 22, "Severance Tax - 20 percent Maximum with first 7 years at 5 percent (New Producer) .25 percent progressivity from \$60/bbl to \$100/bbl, then .03 percent progressivity." He explained that the slide displayed the same factors as slide 20, but applied a time limit of seven years.

[10:31:30 AM](#)

Mr. Mayer discussed slide 23, "20 Year Revenue Impact of Reduced Rate of New Production (Using Severance Tax Option 1)." He stated that he redid the analysis of the possible 20-year revenue of a reduced rate for new production. He ran the numbers again, but he realized he was attempting to pull together a large amount of data in a short period of time.

Co-Chair Stedman wondered if the chart included credits. Mr. Mayer replied that the charts included the credits for the existing production.

Co-Chair Stedman furthered that the chart should reflect the impact of the legacy fields. Mr. Mayer responded in the affirmative.

Mr. Mayer looked at slide 24, "Regime Competitiveness: Relative Government Take." He stated that the number was not too bad for government take at \$60/bbl.

Co-Chair Stedman felt that Alaska would be more attractive than North Dakota at \$60/bbl. Mr. Mayer agreed, but reiterated that Alaska was not more attractive than North Dakota at current prices.

Mr. Mayer discussed slide 25, "Regime Competitiveness: Relative Government Take." He pointed out that at \$80/bbl, ACES for existing producers was below other regimes, other than Norway.

Mr. Mayer looked at slide 26, "Regime Competitiveness: Relative Government Take." At \$120/bbl, the gap started to widen.

[10:37:39 AM](#)

Mr. Mayer looked at slide 29, "Regime Competitiveness: Relative Government Take." At \$140/bbl, ACES and CSSB 192 were basically the same as Norway, while the two severance tax options were significantly more competitive. At \$160/bbl, ACES and CSSB 192 was nowhere near the top of the regimes.

Mr. Mayer discussed slide 30, "Regime Competitiveness: Relative Government Take." He stressed that at \$180/bbl, a split could be seen between ACES and CSSB 192.

Mr. Mayer spoke to slide 31, "Regime Competitiveness: Relative Government Take." He pointed out that at \$200/bbl, ACES was matched with Algeria and other high taxing regimes.

Co-Chair Stedman looked at the remaining slides, and noted that they displayed a 7 year time horizon. Mr. Mayer responded that the second set of slides represented economics for new development, rather than an existing producer.

[10:40:52 AM](#)

Mr. Mayer highlighted slides 36-39. He remarked that north of \$180 to \$200 for new development, ACES was at the top of the very high price levels.

Co-Chair Stedman remarked that Alaska was more stable than Syria. Mr. Mayer agreed.

Co-Chair Stedman noticed calculations and net present value in pricing displayed in slides 41 through 43. He requested a brief description of those slides. Mr. Mayer responded that the generic view of ACES was useful in the initial

analysis. Now, that there was a micro-level of detail, the FY 13 numbers were more useful.

Mr. Mayer pointed out slide 41, "CSSB 192 (Existing Producer)." The slide displayed the 79 percent maximum for CSSB 192.

Mr. Mayer discussed slide 42, "Severance Tax - 20 percent maximum (Existing Producer) .25 percent progressivity from \$65 to \$125, then .10 percent progressivity." He stated that severance tax was frozen at current prices, so from \$120/bbl and up would allow for a steady 72 percent government take.

Mr. Mayer highlighted slide 43, "Severance Tax - 20 percent maximum (Existing Producer) .25 percent progressivity from \$60 to \$100, then .03 percent progressivity." He stated that the slide displayed the freezing at \$100/bbl with a 69 to 70 percent from that point on.

SB 192 was HEARD and HELD in committee for further consideration.

Co-Chair Stedman discussed housekeeping.

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ADJOURNMENT

10:46:05 AM

The meeting was adjourned at 10:46 AM.