

HOUSE FINANCE COMMITTEE
April 8, 2016
3:07 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 3:07 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Ken Alper, Director, Tax Division, Department of Revenue;
Representative Andy Josephson; Representative Liz Vasquez;
Representative Dan Ortiz.

SUMMARY

HB 247 TAX;CREDITS;INTEREST;REFUNDS;O & G

CSHB 247(FIN) was REPORTED out of committee with individual recommendations and with one new zero impact fiscal note from the Department of Natural Resources and one new fiscal impact note from the Department of Revenue.

#hb247

HOUSE BILL NO. 247

"An Act relating to confidential information status and public record status of information in the possession of the Department of Revenue; relating to interest applicable to delinquent tax; relating to disclosure of oil and gas production tax credit information; relating to refunds for the gas storage facility tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil refinery infrastructure expenditures tax credit; relating to the minimum tax for certain oil and gas production; relating to the minimum tax calculation for monthly installment payments of estimated tax; relating to interest on monthly installment payments of estimated tax; relating to limitations for the application of tax credits; relating to oil and gas production tax credits for certain losses and expenditures; relating to limitations for nontransferable oil and gas production tax credits based on oil production and the alternative tax credit for oil and gas exploration; relating to purchase of tax credit certificates from the oil and gas tax credit fund; relating to a minimum for gross value at the point of production; relating to lease expenditures and tax credits for municipal entities; adding a definition for "qualified capital expenditure"; adding a definition for "outstanding liability to the state"; repealing oil and gas exploration incentive credits; repealing the limitation on the application of credits against tax liability for lease expenditures incurred before January 1, 2011; repealing provisions related to the monthly installment payments for estimated tax for oil and gas produced before January 1, 2014; repealing the oil and gas production tax credit for qualified capital expenditures and certain well expenditures; repealing the calculation for certain lease expenditures applicable before January 1, 2011; making conforming amendments; and providing for an effective date."

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Co-Chair Thompson discussed the meeting agenda. He noted that the House Finance Committee had been tasked with a very serious decision. He spoke to the importance of

deciding on a balance that kept encouraging industry in Alaska, while protecting the state. He relayed that the committee would take up amendments.

^AMENDMENTS

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Co-Chair Thompson MOVED to ADOPT Amendment 1, 29-GH2609\F.41 (Nauman/Shutts, 4/7/16) (copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Co-Chair Neuman OBJECTED for discussion.

Co-Chair Thompson explained that the amendment maintained the status of the tax cap on Cook Inlet oil. He had been concerned about the effect of a 35 percent tax rate, which he believed needed further evaluation. He stated that the working group should be looking at the issue. He had concerns about quelling the development in Cook Inlet, but the working group would be tasked with coming back to the legislature with its recommendations.

Representative Gara spoke in opposition to the amendment. He detailed that the state was currently facing its largest budget deficit ever. He objected to waiting another year to take action. He specified that oil in Cook Inlet paid no production taxes. He continued that when the law had been established the intention had been to provide relief to locally used natural gas for Alaska consumers; it had never been intended to provide zero production taxes on oil. He had agreed with a previous Committee Substitute (CS) because it had imposed a profits tax on oil in Cook Inlet. He noted that if a company was not making profits, it would not be taxed. Additionally, companies were receiving a multitude of tax credits in Cook Inlet. He believed the net operating loss (NOL) credit the tax credits were over \$175 million for alone. He stated that when the companies were losing money, the state gave them money; therefore, when the companies were making money, the state should receive production tax. He surmised that the topic under discussion equated to about \$10 million in taxes; there was not significant oil production in Cook Inlet, but the law had never intended for the state to give credits and receive no production taxes. He discussed that the governor's bill probably saved about \$750 million in the first year and

\$450 million in the second year in terms of credit reductions and tax changes. With the amendment, the bill only reduced the state's deficit by about \$170 million. He did not believe the tax the amendment would remove hurt business. He stressed that companies were receiving a substantial amount of money from the state; he noted that the committee had been told the money given to companies was higher than in any other state. He reiterated that the tax would only apply when companies were profitable. He added that companies could always apply for royalty relief if a tax was too high for a new development.

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Representative Kawasaki testified against the amendment. He specified that some of the committee members had been around in 2011 and other years for discussions about natural gas in Cook Inlet, particularly when the Cook Inlet Recovery Act and the Cook Inlet Natural Gas Storage Act had passed. He recalled that all of the discussions had been about natural gas and whether there was natural gas in the Cook Inlet. He did not believe the legislature had ever intended something similar for Cook Inlet oil. He spoke to expensive fuel and utility costs in Fairbanks. He stated that Cook Inlet currently had a plentiful supply of natural gas, while Fairbanks did not. He reiterated that discussions surrounding Cook Inlet taxes had been based on natural gas. He believed the amendment would mean a \$10 million per year giveaway on oil produced in Cook Inlet. He did not believe the legislature ever meant to provide that type of benefit.

Vice-Chair Saddler stated that there was a significant public interest in maintaining a supply of natural gas for the state's residents for homes and businesses. He noted that his district relied on natural gas to heat homes. Likewise, individuals in the Interior were looking at the gas as a potential heating source. He had attended the Anchorage mayor's taskforce on natural gas shortages and he recalled the dire consequences of potentially running out of gas. He believed the state's tax policy and incentives had been helpful.

Co-Chair Thompson noted that the current amendment pertained to oil in the Cook Inlet.

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Representative Guttenberg was concerned that the amendment would maintain the status quo. He believed the amendment would kick the issue down the road for another committee to deal with over the interim. He discussed that an interim committee had dealt with all of the credits and he was concerned that the work done had been for naught if the amendment passed.

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Representative Wilson spoke in support of the amendment. She did not have sufficient information to know whether the tax was appropriate. She reminded the committee of the Flint Hills facility that had stopped refining. She detailed that the facility had begun importing and had made more profit than it had as a refinery. She questioned whether adding taxes tipped the scale and meant there would no longer be in-state refineries. She stressed the importance of in-state refineries. She supported waiting a year for a workgroup to do a study and determine the right amount. She wanted to establish a "sweet spot" where revenue continued to come in for the state and business was not killed off.

Representative Pruitt appreciated the amendment. He asked to be added as a cosponsor. He remarked that the CS had represented a substantial policy change in Cook Inlet. He continued that the change would potentially occur without modelling or understanding the ramifications of the full impact. He detailed that the change would have meant going from a 65 percent state participation to possibly 20 to 30 percent with a 35 percent tax. He elaborated that the tax would have been similar to the one on the North Slope and would not have included the well lease expenditure (WLE) credit, which was a key part of the North Slope credit. He did not believe the legislature should move forward with quickly adding the tax. He stressed that the CS would mean a direct tax to his community and to anyone utilizing fuels from Tesoro. He emphasized that all of the oil produced in the Cook Inlet went to Tesoro and was refined in-state. The change would have meant an increase in the cost of refined products to consumers throughout the Railbelt, Fairbanks, rural communities, and across the state. He believed the amendment was appropriate, which would take a step back and allow time for evaluation by a workgroup formed in the legislation.

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Representative Edgmon spoke in support of the amendment for the time being. He hoped the issue would come before the legislature again in the future after being studied by a workgroup. He spoke to cheaper energy for Southcentral (which was not quite cheaper energy for rural Alaska) that would result in cheaper services extending out to the rest of the state (i.e. fuel at the Anchorage International Airport, the railway station, and other). He pointed out that the Power Cost Equalization Endowment Fund was incredibly important to him. He stressed that he would include rural Alaska in the conversation when the committee started talking about cheaper energy for the Anchorage, Southcentral, and the Interior.

Co-Chair Neuman WITHDREW his OBJECTION.

Representative Gara OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Pruitt, Gattis, Wilson, Edgmon, Saddler,
Thompson, Neuman
OPPOSED: Kawasaki, Munoz, Gara, Guttenberg

The MOTION to adopt Amendment 1 PASSED (7/3). There being NO further OBJECTION, it was so ordered.

Representative Guttenberg asked about Amendment 3.

Co-Chair Thompson replied that he had withdrawn Amendment 3.

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Co-Chair Thompson MOVED to ADOPT Amendment 2, 29-GH2609\F.25 (Nauman/Shutts, 4/7/16) (copy on file):

Page 17, lines 12 - 14:

Delete ",if the producer or explorer had, before January 1. 2017, taken a credit under this subsection for an expenditure incurred in the Cook Inlet sedimentary basin"

Co-Chair Neuman OBJECTED for discussion.

Co-Chair Thompson explained that Amendment 2 corrected ambiguous and redundant language that attempted to limit Net Operating Loss (NOL) credits in the Cook Inlet for companies that had already received a credit. He stated that pursuant to testimony from Corrie Feige with the Department of Natural Resources [Division of Oil and Gas director], the language was not needed due to limited acreage in the Cook Inlet basin.

Representative Gara asked for further explanation.

Co-Chair Thompson answered that the language did not impact anyone; no additional acreage would be eligible under the provision. The amendment merely removed ambiguous and redundant language.

Representative Kawasaki remarked that the state was offering a 25 percent credit if expenses had been incurred at a certain point in time. The state was giving 10 percent of a carry-forward annual loss if the production happened prior to the end of 2016 [2017]. He believed the amendment would remove language "before the end of this year." He thought the amendment had substantive impact because without the language, the credit would go on in perpetuity. He pointed to page 17 of the bill for reference.

Co-Chair Thompson read from page 17, lines 11 through 14 of the bill:

...a producer or explorer may elect to take a credit in the amount of 10 percent of a carried-forward annual loss, if the producer or explorer had, before January 1, 2017, taken a credit under this subsection for an expenditure incurred in the Cook Inlet sedimentary basin.

Co-Chair Neuman remarked that he believed it was correct.

Co-Chair Thompson stated that hardly anyone would be eligible for the credit.

Representative Kawasaki relayed that he had not seen the amendments before the meeting. He wanted confirmation on

the meaning of the amendment. He thought that by removing the date, producers and explorers could elect to use the 10 percent carried-forward loss even if they did not have any production or had not explored prior to the end of 2017.

Co-Chair Thompson stated that the amendment did not change the credit. There was not enough acreage in Cook Inlet for a party to be eligible.

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Representative Gara had a hunch that the amendment was a small thing; however, he could not tell if the amendment would increase or decrease credits.

Co-Chair Thompson replied that it did not increase or decrease credits.

Representative Gara noted that the committee had heard no testimony on the amendment.

Co-Chair Neuman WITHDREW his OBJECTION.

Representative Gara OBJECTED and noted that he would look at the item after the bill moved from committee. He WITHDREW his OBJECTION.

There being NO further OBJECTION, Amendment 2 was ADOPTED.

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Co-Chair Thompson MOVED to ADOPT Amendment 4, 29-GH2609\F.22 (Nauman/Shutts, 4/7/16)(copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Co-Chair Neuman OBJECTED for discussion.

Co-Chair Thompson explained that the amendment was a technical change. He specified that the previous bill version had provided for a bond without a process for applying the proceeds of the bond. The amendment used language similar to a contractor's bond, providing a mechanism for payment of claims. The amendment clarified how the payments would occur.

Representative Wilson asked if the amendment addressed bankruptcies in business.

Co-Chair Thompson replied that the amendment would cover a bankruptcy. There were suppliers who were owed money; the amendment set out to put a \$250,000 bond in place for purchase. The amendment clarified the bond language as to how claims would be paid.

Vice-Chair Saddler recalled situations in which local businesses had provided services to a rig in Southcentral and were not able to get to a pass. He believed it was a good protection for smaller businesses in Alaska. He asked if the language was consistent with other contractor bonds elsewhere in state law.

Co-Chair Thompson replied in the affirmative.

Representative Kawasaki discussed that the amendment laid out conditions for the promises to pay taxes or contributions due to the state. He understood the provision in the case of a drill rig mentioned by Vice-Chair Saddler. He asked if there was an order in which the payments would be collected or due.

Co-Chair Thompson replied in the affirmative.

Co-Chair Neuman WITHDREW his OBJECTION.

There being NO further OBJECTION, Amendment 4 was ADOPTED.

[3:30:22 PM](#)

Representative Gattis MOVED to ADOPT Amendment 5, 29-GH2609\F.30 (Nauman/Shutts, 4/7/16) (copy on file):

Page 26, line 9:
Delete "lease or property"
Insert "well"
Delete "five"
Insert "10"

Page 26, line 11:
Delete "lease or property"
Insert "well"

Page 26, line 12:

Delete "lease or property"
Insert "well"

Page 26, line 13:
Delete "2021"
Insert "2026"

Page 26, line 31, through page 27, line 1:
Delete "lease or property"
Insert "well"

Page 27, line 1:
Delete "five"
Insert "10"

Page 27, line 2:
Delete "lease or property"
Insert "well"

Page 27, lines 3 - 4:
Delete "lease or property"
Insert "well"

Page 27, line 4:
Delete "2021"
Insert "2026"

Co-Chair Neuman OBJECTED for discussion.

Representative Gattis explained the amendment in a prepared statement:

This amendment extends the GVR provision from five years to ten, as well as redefines when the GVR clock starts by changing the language to "well" rather than "lease" or "property." The GVR or "new oil" provision is one of the principal drivers of Alaska's tax structure. We included it in SB 21 to incentivize new oil production and new players with new ideas to come to Alaska. Eliminating the new oil provision five years after production is a change from SB 21 and it would significantly impact investment decisions of companies. This is a big change in this CS that as far as I know was never discussed in any of our meetings. We haven't asked our consultant to model this. We haven't heard any testimony from industry on this CS before us. The way I read it, the new language in this

CS acts as a disincentive to business because it will lead to slower time bringing production online as companies try to maximize the advantage of the tax code that we pass. By defining when the five year clock on the new oil reduction starts by lease rather than well, we're making a policy call that punishes companies that want to drill more wells. If production from one hole in the ground on the entire lease starts the clock, who would be incentivized to drill more holes? We're effectively saying the same thing the federal government said to Shell about drilling in the Arctic - you get one hole in the ground so good luck. The proposed language, while it would appear to protect the state has the real world impact of delaying production, increasing refundable credits we would need to pay, which are available only during the development buildup and up to 50,000 barrels per day. We wanted the benefits of new oil once commercial production begins. This amendment would put us back on course. In closing, our own consultants told us we shouldn't mess with SB 21, and I agree.

Co-Chair Neuman stated that SB 21 [oil and gas tax legislation passed in 2013] had allowed incentives for Cook Inlet gas exploration because the state had been facing rolling brownouts at the time and the state had not known the amount of its gas supplies; SB 21 had included language to incentivize gas exploration in Cook Inlet, which had been successful. He elaborated that there was currently good exploration underway and 12 years of known gas reserves. He added that found discoveries were still ample, and thought-to-be reserves were still fairly high. He believed the credit costs could exceed \$600 million. He believed that new oil production had been about 8,000 barrels. He asked why the state would continue to put out \$600 million in credits if there were known reserves.

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Representative Gattis replied that the state had a tax regime that had been put in place one year earlier. She stated that there had not been modelling or discussion and until the issue was examined she believed it was bad policy.

Co-Chair Thompson thought the language was inconsistent with existing language. He pointed to the language in the

gross value reduction (GVR) based on the lease or properties to change to per well. He thought the language change could cost the state significantly more money. He was concerned by the amendment.

Representative Gattis stated it could also gain the state much more money.

Representative Edgmon spoke in opposition to the amendment. He was concerned about the careful balance the state needed to achieve. He believed it was necessary to put limitations in place. He was concerned about the GVR, its impact with the NOL, and the money that would accumulate annually, which the state would eventually owe. He reasoned that there may be an extended period of low oil prices where the state did not receive revenue back, but continued to have the obligations to pay money out.

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Vice-Chair Saddler opposed the amendment. He remarked that the goal of SB 21 had been to incentivize oil production. One of the bill's primary goals had been to incentivize new oil production due to decreased production that had occurred. He reasoned that the state had offered very generous provisions in its tax code to achieve that goal. Based on information provided to the committee, reservoir pressure was the highest, production was highest, and the biggest benefit to the state during the first five years at the front end of production. He believed the five-year accommodation was reasonable, but 10 years was too long. He thought there needed to be a point at which new oil became old oil.

Representative Gara spoke against the amendment. He discussed that the state was currently living on a 4 percent tax, which extended up to \$76 per barrel. He reasoned that it was not sustainable if the state was going to have any sort of construction or school budgets. He agreed with the comments of the last three speakers. The compromise reached in the House Finance Committee CS was to grant a holiday from the profits-based tax for five years; while companies got to recoup costs and did not pay very much in taxes. He elaborated that the same companies had been receiving cash or deductible payments from the state for credits. He reasoned that at some point it needed to come back the other way. He surmised that the state should

not merely get back what it gave out. He stressed that at some point it was Alaska's oil and it was needed to support the state. He spoke to projects, which needed money for funding. He stated that at a \$4.4 billion deficit, the compromise reached in the CS was one that he could accept.

Representative Guttenberg testified against the amendment. He did not think it was the state's job to make sure any industry had a chance to maximize something the state put on the table. Historically, he believed the state had a problem making sure things got done in a timely way (that when the state put a lease sale on the table that exploration, development, and production happened as quickly as possible). Ensuring those things occurred was in the state's best interest. He clearly did not think extending the credit out to 10 years was in the state's best interest. He stated that the committee had not heard anyone ask for the change. He reasoned that companies would take more time if it was given, which was not in the state's interest. He detailed that when a company took a lease, the state wanted it to be developed. He did not support extending the credit out another 5 years when the state was already strapped; there needed to be a timeline on credits and some return shown on production. He thought the amendment was a delay, which was in the best interest of industry.

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Co-Chair Thompson clarified that the amendment was in reference to North Slope oil. He asked for verification that the amendment language related to leases and properties, not a well, was inconsistent with SB 21.

Representative Gattis replied in the affirmative.

Representative Kawasaki testified in opposition to the amendment. He spoke to a well versus a lease and reasoned there could be a producing well that was shut in early. He believed the reason for addressing leases and properties on the North Slope was for the holistic idea of producing more oil. He stated that determining when new oil became old oil it was a balancing act. He believed the 5-year timeline was reasonable. He thought that although the amendment would not result in an immediate revenue impact, there would be an impact in several years to decades into the future. He specified that with a 10-year lookback, it was extremely

hard to decide how much it would cost the state of Alaska in terms of monetizing its barrel of oil.

Representative Pruitt spoke in support of Amendment 5. He pointed out that SB 21 was specific to the North Slope and that a discussion about Cook Inlet was not germane to the conversation, given that SB 21 did not pertain to Cook Inlet. He noted that another similar amendment would be offered later. The current amendment took the lease in the property, substituted in "per well," and added 5 additional years. The later amendment would add 10 additional years for a total of 15 for the lease of the property. He stated that the committee had seen presentations showing the state could strike too early on requesting the claw-back and prevent the investment from taking place. He believed 10 years would work and was a compromise. He thought that a 5-year timeframe was too short and would potentially be a disincentive to investment because of the 35 percent [production tax]. He detailed that it also highlighted that the state was focusing solely on production tax and not on the fact that significant revenue would result. He asked if the state wanted to potentially lose out on a field that would bring a royalty, property tax, and other ancillary costs to the state for the life of the field. He agreed the state needed to pay for schools and other things, but he believed the amendment provided an incentive to investment. He noted that SB 21 had been opened up as soon as the language had been added to the CS. He stressed that the spirit of SB 21 was to encourage new development, which he believed should be maintained. He thought giving a little more time could potentially be the difference between a project going forward or not.

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Co-Chair Thompson WITHDREW his OBJECTION.

Representative Guttenberg OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Gattis, Pruitt, Wilson

OPPOSED: Munoz, Edgmon, Saddler, Gara, Guttenberg,
Kawasaki, Thompson, Neuman

The MOTION to adopt Amendment 5 FAILED (3/8).

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Representative Gattis MOVED to ADOPT Amendment 6, 29-GH2609\F.28 (Nauman/Shutts, 4/7/16) (copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Co-Chair Neuman OBJECTED for discussion.

Representative Gattis explained the amendment in a prepared statement:

This amendment will allow the Department of Revenue to suspend taxes on a company that can prove that total government take for them has exceeded 105 percent. Just to be clear, government take in this case includes royalty, production tax, corporate income tax, property tax, and even the 5 percent per barrel tax. It seems when prices are low, we seem to ask for more money because we don't have enough and when prices are high, we ask for more money because the oil companies can afford to pay more. So where does it stop? Do we stop when government take is 150 percent or 200 percent? What business would stick around for that? As a state, we take our royalty right off the top. So we get value for our oil right off the top. Ultimately, we must get a fair value for our oil being produced. That's fair enough. But we also must take a long view about what Alaska's gonna look like in 10 years or 20 years from now based on some of the policies and decisions that we're discussing right here today. We want all kinds of private businesses to be operating in Alaska and developing our resources. Businesses will come here only if they think they can make a profit just like anywhere else. So I'd ask for folks, let's keep the lights on and let's be open for business because when we talk about our taxes we don't talk about the whole government take and I think it's important when we talk about this that we literally talk about what we as the government take. So a lot of times we talk about production taxes but we talk about it as if they're separate pieces of the whole pie. We take that whole pie and what this amendment does, is it basically recognizes that at what point do we stop taxing business to go somewhere else?

Representative Gattis understood that the committee had a significant amount to address during the meeting and that the amendment had a challenge from bill drafters. She WITHDREW the amendment.

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Representative Pruitt MOVED to ADOPT Amendment 7, 29-GH2609\F.33 (Nauman/Shutts, 4/7/16) (copy on file):

Page 16, line 11:
Delete "10 [20]"
Insert "20"

Co-Chair Neuman OBJECTED for discussion.

Representative Pruitt explained that the amendment would restore the qualified capital expenditure (QCE) credit back to the amount in the House Resources Committee bill version. He was concerned the Cook Inlet credit was being pulled too quickly and could create a complete reversal of the current policy. He agreed with some changes made in the previous committee and he believed the amount was appropriate. The amendment represented a ramp-down approach as opposed to a "knee-jerk" reaction. He believed the state should manage its way out of the credits.

Co-Chair Thompson asked for verification that the amendment pertained to incentives in the Cook Inlet.

Representative Pruitt replied in the affirmative.

Co-Chair Thompson stated that he looked at the amendment with a question mark. He detailed that currently there was significant gas in Cook Inlet (several years' worth). He reasoned there was currently not a market for new gas if it was discovered and developed. He questioned how much more gas needed incentivizing in Cook Inlet at present.

Representative Pruitt responded that the workgroup should be able to provide an indicator on the issue that the legislature could address in the coming year. He agreed that gas had been identified, but it did not mean there was a hole drilled to extract it all. He continued that the state used up to 200-plus million cubic feet per day and it needed to ensure production of that amount. He believed that the legislation meant that no new players would invest

in Alaska. He opined that the state would need to live with what it had and that it needed to ensure that current companies would continue to invest. He stated that the bill totally changed the policy that had been implemented to bring a rush of investors into Cook Inlet. He reasoned that if the credits were eliminated too quickly the producers may not have the money to continue investing at their current level. He stated that just because the gas was currently being produced, it did not mean they were producing the total amount to be used. He stressed that Fairbanks had a project to use gas in Cook Inlet, which meant an increased need for available gas. He understood some people did not believe the project would move forward, but he was more optimistic. He wanted to give the workgroup a chance to provide recommendations instead of acting too quickly.

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Representative Gara remarked that the committee was that group. He understood a small group of legislators would meet over the interim, but the bill had been in front of the committee for two weeks. He had also followed the House Resources Committee hearings, which had lasted approximately one month. Additionally, all experts had been available to the House Finance Committee. Testimony to the committee had been that there was no oil production tax in Cook Inlet (after the passage of an earlier amendment); no gas tax; the state was paying \$175 million to companies in NOL credits; and companies received QCE credits or WLE credits. He stressed that the state was very heavy on the credits it paid out, but did not receive any production taxes in return. He referred to earlier testimony by Representative Pruitt that oil prices would decrease by eliminating a small tax on oil in Cook Inlet. He disagreed with the statement.

Co-Chair Thompson interjected.

Representative Gara apologized if he had mischaracterized earlier testimony. He explained that Amendment 1, which deleted the oil tax would not change the price of oil because a company would then buy the oil from North Slope producers; it was a market price. He stressed that the state was overly generous on credits (more so than any other location) for oil fields that paid no production tax. If anything, he believed the state was too generous in its

credits. He did not believe it made sense to pay out another \$30 million. He stated that no companies went out to explore when there was no buyer looking for gas. He recalled testimony that when buyers were looking for gas they would get paid the highest prices in the country for the gas (at \$7 to \$9 in Cook Inlet compared to \$2). He emphasized that the high prices were an incentive to exploration. He added that it was not clear any of the credits were needed, but there were numerous credits outside the amendment.

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AT EASE

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RECONVENED

Co-Chair Thompson noted that the committee was addressing Amendment 7.

Vice-Chair Saddler opposed the amendment. The committee had heard from its analyst enalytica that Cook Inlet credits were among the most generous in the world. He detailed that supply currently met demand and there was also stored gas in Cook Inlet. In the absence of a larger market he thought phasing out the QCE at 10 percent was appropriate. He reasoned that perhaps he could see the benefit of the amendment if Agrium was chomping at the bit to open. He noted that the CS did not eliminate the QCE, but dialed it back. The Cook Inlet Recovery Act had been an "all hands on deck" effort to ensure the state had a supply of gas, which had been successful. He continued that there were other steps including changes in the Regulatory Commission of Alaska (RCA) process reflecting the need to ensure a supply of gas. The challenge was to strike a balance between incentives and other elements, which he believed the CS did.

Representative Kawasaki spoke against the amendment. He countered the statement that the CS contained a knee-jerk reaction to the industry. He did not believe the bill should be considered a knee-jerk reaction to anything. He detailed that the state was facing an unprecedented budget gap between \$3 billion and \$4 billion. As the state looked to determine ways to reduce the size of the gap, it was appropriate to talk about oil and gas tax credits. He recalled that during his first year in office in 2007 there

had been zero tax credits going to the industry. He detailed that some of the QCE credits on the North Slope equated to \$50 million total. Since that time the legislature had created the Cook Inlet Recovery Act, which seemed to have been advantageous. Additionally, the legislature had established the Cook Inlet Natural Gas Storage Act, which had created an incredible supply of gas. He elaborated that the Department of Natural Resources (DNR), Division of Oil and Gas estimated reserves of 1.2 and 1.6 trillion cubic feet of known supply currently in Cook Inlet, which was commercially available. The amount would last for 12 years with Anchorage's current demand of 80 billion cubic feet per year and with potential growth from the Fairbanks area of another 4 billion cubic feet per year. He believed the region should continue to be explored, but disagreed that the change was a knee-jerk reaction. He stressed that the state could not afford the credits it had not anticipated, which amounted to hundreds of millions of dollars. He pointed out that when Swanson River had started production there had been no oil production tax; there was currently no production tax in Cook Inlet. As a person from the Interior, he had seen numerous benefits going to the Anchorage area and it bothered him that the state would continue a substantial amount of credits for one region at the expense of other regions.

[4:31:14 PM](#)

Representative Wilson testified in support of the amendment. She remarked on comments that the bill had been introduced due to the budget gap. She believed policy should not be changed in response to a budget gap; she believed policy should be changed because it was not providing the desired results. She discussed that current statute offered a 20 percent QCE credit for Cook Inlet. The amendment would restore the credit and maintained the House Resources Committee sunset in 2022. She stated that currently the QCE credit in Cook Inlet was an important factor into the economics of many businesses including the two new big developments by Furie and Bluecrest Energy. She stressed that the state wanted the businesses to continue. She continued that with a 10 percent NOL and a 20 percent QCE there was 30 percent state support in Cook Inlet, which represented a large reduction from current support of 65 percent or more and was nearly as low as the governor's proposed 25 percent. She continued that every company

should be on notice that the legislature would completely overhaul the Cook Inlet tax system in the near future. She noted that the workgroup would begin its review over the coming summer. She opined that while the legislature worked on large changes it should make moderate changes to how much support it pulled back. She emphasized the QCE credit helped companies doing the needed work and not just companies receiving NOL credits that may not have production or fields under development. She believed maintaining the 2022 sunset should be an indicator that the legislature intended for the credit to end with bigger pending changes to the Cook Inlet regime. She stressed that it was about looking at whether or not what the legislature put in place was working at present and in the future. She stated that the issue did not only pertain to Anchorage. She referred to a major project in the works for Fairbanks. She noted they had discovered the North Slope would not work despite money they had invested. She believed gas for Fairbanks would have to come out of Cook Inlet and she wanted to ensure the legislature did not do something it regretted later.

Representative Guttenberg spoke in opposition to the amendment. He referred to talk about looking at tax credits because they were high, looking at tax credits because the state did not have gas, and looking at tax credits because the price was low. He discussed that the state's oil structure, tax credits, and exploratory incentives were in place for a purpose. He believed the legislature should look at the issue annually because the incentives and structure were so much a part of the state and its budget. He did not mean the statute should be opened up annually, but he believed an annual review was needed. He stated that the legislature had thrown a significant amount of money at Cook Inlet to ensure there were no brownouts and "we're at that place." He stressed that the state was not responsible for the price of natural gas and oil in the U.S.; the prices were up to the market. He emphasized that prices had plummeted worldwide. He believed the state was just throwing money at the oil and gas companies with some of the credits. He reasoned that if the legislature wanted to ensure sustained supply, it should manage the question and not just throw money at the industry hoping it would do what the legislature wanted. He continued that it was possible to task DNR and the Department of Revenue (DOR) with telling the state what it would need and to devise a production schedule to determine when to explore, develop,

and other. He believed the state had an inherent interest to do that for Cook Inlet, Southcentral, Fairbanks, rural Alaska, Southeast, and throughout the state. He did not support simply raising the credits because the state wanted the companies to do work in Alaska. He thought the appropriate question was to consider what was working for the state and what it needed to do to maintain its level of gas production in Cook Inlet. He observed that the state seemed to be throwing credits at the industry to try to keep companies working in Alaska. He opined that changing the number and percentages was not appropriate. He thought many of the credits were designed in the hope that industry would stick around. He stressed that "the rocks are here; this is where they're going to come."

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Pruitt, Gattis, Wilson

OPPOSED: Saddler, Edgmon, Gara, Guttenberg, Kawasaki, Munoz, Neuman, Thompson

The MOTION to adopt Amendment 7 FAILED (3/8).

[4:38:05 PM](#)

Representative Wilson MOVED to ADOPT Amendment 8, 29-GH2609\F.32 (Shutts, 4/7/16) (copy on file):

Page 26, line 9:
Delete "five"
Insert "15"

Page 26, line 13:
Delete "2021"
Insert "2032"

Page 27, line 1:
Delete "five"
Insert "15"

Page 27, line 4:
Delete "2021"
Insert "2032"

Representative Gara and Co-Chair Neuman OBJECTED.

Representative Wilson explained that the amendment made changes to the timeline for "new oil." She addressed when new oil was no longer considered new oil. She did not believe it was new forever and was concerned that 5 years was not correct. She referred to a presentation by Bluecrest Energy, which had specified [oil qualified as new] 10 to 15 years after sanctions. She referred to language on page 26, line 10 through 11 of the bill:

...after the commencement of production in commercial quantities of oil or gas from that lease or property.

Representative Wilson did not know what the date would be on anything from the commencement of production in commercial quantities; she was not familiar with the language. She referred to an earlier amendment pertaining to a field with numerous wells. She provided a scenario where the state wanted the company to put its wells on as soon as production began for each individual well. The amendment would change the timeline to 15 years instead of 5. She further explained that if a company turned a well on and 4 years later it began production on another well the new well would only qualify for 1 year because it was on a field that had been producing for 4 years. She did not believe that was the intent of SB 21. She emphasized that the provision applied only if oil was being produced. She highlighted that the state would receive the royalty from the oil and more oil down the pipeline, which would result in less maintenance. She stressed that it was one of the biggest incentives of SB 21. She specified the state had wanted to ensure its credits would work so the legislature had based it on oil. She detailed that new oil had to go through a process in DNR. She reiterated that the companies only received the credit if they produced.

Representative Kawasaki opposed the amendment. He referred to his recent birthday and had been told that the 40s were the new 30s. He spoke to how new and old were defined. He believed Amendment 8 moved away from the direction the state should go. He opined that classifying oil as new for 5 years was appropriate and that 10 and 15 years was too long. He noted that Bluecrest Energy was a producer in Cook Inlet, but the provision pertained specifically to North Slope assets.

Representative Gattis spoke in support of the amendment. She believed there was a disincentive to producing oil from another well (on a field with existing production) when a company only had one year or so remaining on its new oil credit. She stated that if she was in charge she would wait to turn all of the wells on at one time in order to maximize the 5-year credit. She believed changing the limit to 15 years was appropriate. She did not want to disincintivize what the state was already incentivizing.

Representative Gara testified against the amendment. He pointed out that if the amendment passed, the GVR oil tax rate, which was minimal and could not sustain the state, would persist for 15 years. He detailed that Point Thomson would come online in the coming year or two and would enjoy the minimal GVR tax rate until 2031. He stressed that a state could not be run on that kind of tax rate. He remarked that the late former Governor Jay Hammond had often reminded him of Alaska's Constitution, which stated that the public was entitled to the maximum benefit of its resources. He elaborated that the maximum benefit of the state's resource was not limited to the maximum taxes; it was the maximum of which combination of taxes and production would be the most productive for the state. He believed that waiting until 2031 on Point Thomson - a field that should have been developed years ago - pointed out the problem with the amendment.

Co-Chair Thompson believed the date was actually 2032.

[4:44:15 PM](#)

Vice-Chair Saddler spoke in opposition to Amendment 8. He stated that current law did not allow new oil to be defined and had no limit. He believed the 5-year limit in the CS was appropriate. He clarified that the start of commercial quantity was when oil started flowing and when it began making money (after initial wells had been drilled and the production and processing facilities were operating). The CS offered a loss credit for the first 5 years when production was highest; the production profile was on the upswing at the peak and declined for a long period of time. He believed a 15-year time period was too far out on the decline curve.

Representative Pruitt noted that there had not been time to hear testimony on the CS. He spoke to the provision on page

26 and did not believe there was a definition of commercial quantities, which he believed could be questionable in the future. The amendment pertained to [oil or gas produced] per lease or per property. He specified that a well could be drilled several years after the first commercial quantity of oil became available on the property. The goal was for a company to continue to drill on the piece of property and to continue to bring in revenue. The amendment would mean the clock would not be immediately started on the very first well. He believed 15 years was an appropriate timeframe because it applied to each individual property instead of an individual well. He stated that the amendment would continue to make operations on the North Slope more profitable. He emphasized the expense of extracting oil on the North Slope such as heavy crude and other. He detailed that extracting oil cost much more money at present than it had in the 1970s. The goal had been to incentivize companies to invest in expensive projects. He believed that making the credit too short would be a disincentive to investing in the heavy oil. The amendment would give the opportunity to make sure an entire field was producing fairly well when the production tax credit began. He reminded the committee that it was currently addressing the production tax credit. He emphasized that there was a multitude of other taxes and government take; he did not want to lose out by disincentivizing investment.

[4:48:38 PM](#)

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Wilson, Gattis, Pruitt

OPPOSED: Saddler, Edgmon, Gara, Guttenberg, Kawasaki, Munoz, Thompson, Neuman

The MOTION to adopt Amendment 8 FAILED (3/8).

[4:49:29 PM](#)

Representative Pruitt MOVED to ADOPT Amendment 9, 29-GH2609\F.31 (Nauman/Shutts, 4/7/16) (copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Co-Chair Neuman OBJECTED for discussion.

Representative Pruitt explained that the amendment would sunset the WLEs in the Cook Inlet in 2019. Currently, the item ramped down, but did not actually sunset. He believed it was appropriate to offer the item as a credit the state could potentially remove.

Co-Chair Neuman asked for an explanation of the repealers and dates changed in AS 43.55.023.

Representative Pruitt stated that the repealer applied to the WLE in Cook Inlet.

Vice-Chair Saddler spoke in opposition to the amendment. He believed it was important to allow for the step-down process that had been recommended by the legislative workgroup and by legislative consultants. He shared the desire to encourage oil and gas production, but he had a difference of opinion on how the pace of the incentive should occur. He did not believe the intent of the amendment was clear. He supported a gradual step-down out to 2022, which was when the legislature had told the industry to anticipate the credits would end. He referred to testimony by the industry in support of predictability and its ability to accommodate the sunset in 2022.

Representative Wilson spoke in support of the amendment. She stated that the amendment maintained a 40 percent WLE credit through 2016, stepped it down to 30 percent in 2017, 20 percent in 2018, and sunset the credit in 2019. She agreed that credits needed to be stepped down, but some were more costly and needed to be terminated. She detailed that the amendment included a gradual step-down in Cook Inlet, which provided companies with several years to adjust. She referred to testimony in the committee that the state should stop giving credits in Cook Inlet. She noted that the credit had been in response to brownouts, which was no longer an issue. The amendment acknowledged that the state could not continue to be as generous as it had been, but it maintained two other credits in place until 2022.

[4:53:44 PM](#)

Representative Edgmon testified against the amendment. He believed the WLE credit also applied to oil, which did not pertain to brownouts in Cook Inlet. He noted there was a compromise in place and he spoke to the balance the

legislature needed to achieve between the budget and refundable credits offered. Additionally, there was a legislative workgroup that would review the entire tax structure; he did not want to get too ahead of the group's work. He preferred to stay with the compromise that was in place.

Representative Munoz asked for verification that the current language in the CS called for the WLE credit to phase out in January 2022 and the amendment proposed to change it to 2019.

Representative Wilson replied in the affirmative.

Representative Gara opposed the amendment. He believed the state had an overly generous tax credit system it could not afford in Cook Inlet. He detailed that producers knew they could sell their gas for the highest price in the nation (and at one of the highest prices in the world for non-liquefied natural gas) if they conducted exploration and production in the area. Additionally, the companies were able to take all of their losses and the state paid for 10 percent. He stressed that the credits were stackable on a WLE or capital expenditure credit. He emphasized that natural gas and oil paid no production tax in the area. He characterized it as a one-way street that did not favor the people of Alaska. He observed that at high prices, when a buyer of gas needed new gas, someone would take on the exploration; the gas was \$7 to \$9 in Cook Inlet compared to \$2 in the Lower 48.

Representative Kawasaki asked for verification that the statues listed in the amendment (AS 43.55.023(1), (n), and (o)) were related to WLEs anywhere south of Prudhoe Bay, which would include Middle Earth.

Representative Pruitt replied that the intent had been Cook Inlet.

Representative Kawasaki asked if there was a value of return if the expenditures were repealed in 2019.

Representative Pruitt did not have a specific value.

Co-Chair Thompson stated that cutting the WLE was much more of a disincentive than other items. He elaborated that there were producers on the verge of having some production

that would be taxed eventually, which would make the state some money. He did not support the amendment.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Wilson, Gattis, Pruitt, Kawasaki, Munoz
OPPOSED: Edgmon, Gara, Guttenberg, Saddler, Neuman, Thompson

The MOTION to adopt Amendment 9 FAILED (5/6).

4:59:19 PM

Representative Pruitt Representative Pruitt MOVED to ADOPT Amendment 10, 29-GH2609\F.35 (Shutts, 4/7/16) (copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Co-Chair Neuman OBJECTED for discussion.

Representative Pruitt explained the amendment. He discussed that currently Cook Inlet and Middle Earth were grouped together in statute (with the exception of some credits for Middle Earth only). He noted that some of the credits expired in the current year, although the 30 to 40 percent alternative credit for exploration continued through 2022. He remarked that the CS cut numerous credits, but for some reason some of the credits had been added back in for Middle Earth. He thought it was inappropriate for additional credits to be added back in. He elaborated that creating too many credits in another basin was essentially asking for the same problem the state was currently facing in Cook Inlet. He reasoned that if the goal was to save the state money, the committee should not be adding credits back in. He believed there were some great opportunities in Middle Earth, but he thought the same policy should apply to all three regions.

Co-Chair Thompson explained that the CS held Middle Earth harmless. He explained that the Frontier Basins had the potential to bring energy to rural areas; the credits incentivized smaller areas where the large oil companies were not interested in working because there was not sufficient commercial quantities for them. However, it was sufficient to bring down the energy cost in rural areas. He

reiterated that the CS held Middle Earth harmless. There was some exploration that would hopefully be completed and successful in the current year, which would be stopped prematurely if the amendment passed.

Representative Wilson asked for verification that if the credits were extended it was possible the state could experience the problem it was currently facing [in Cook Inlet] where it was faced with paying out more and more in credits.

Representative Pruitt replied in the affirmative.

Representative Guttenberg spoke in opposition to the amendment. He stated that he had been consistent on his position related to the Frontier Basins. He remarked that the cost of doing business had declined; there were upsides and downsides to the prices of petroleum products. He detailed that unlike the other credits, the state knew what credits in Middle Earth (Nenana Basin and Ahtna region) were doing. He stressed that the legislature was informed on work in the area; the projects were the most expensive, not in terms of value, but due to risk. He believed the state needed to support high-risk projects where the chance of success was moderate. He wished there was more exploration in the Frontier Basins, which he believed would be healthy for the state. He believed the first oil well in Alaska was in Karluk outside of Cordova. He noted that there was not oil in the area any longer - the facilities had shut down. He specified that there were oil and hydrocarbons statewide, which he believed needed to be discovered. He reasoned that the state needed to determine a grid for Alaska that would drive the cost of energy down for everyone (not just in Cook Inlet and Prudhoe Bay). He stressed that finding gas or oil in the Nenana Basin would be a game changer for the state. He construed that if the quantity was significant it would require substantial investment by companies. He reasoned that the projects would occur long-term and the legislature would be revisiting the tax policies once or twice before that point.

Representative Guttenberg continued to address Amendment 10. He believed supporting exploratory credits in Middle Earth was a smart move and was in the state's best interest. He reiterated that the companies in the region had kept the state in the loop on their activities because

they wanted the state's help; whereas, the state did not know the production value for the return on its credits in other regions. He believed the basins were very important at any hydrocarbon market price.

Representative Kawasaki was against the amendment. He referred to prior testimony by Ken Alper (director of the DOR Tax Division) who had shown aggregated charts due to the few producers within the Cook Inlet region and other regions outside the area. He had asked how many of the tax payers were dedicated to Frontier Basins (Middle Earth) out of the \$384 million in refundable tax credits the state had provided the previous year. He relayed that Mr. Alper had answered that the number was very small; he referred to work conducted by Doyon in the Nenana Basin. He discussed that the state continued to have production on the North Slope and in Cook Inlet, but there was still much uncharted territory across the state. He referred to recent testimony (several weeks earlier) by DNR related to Prudhoe Bay. There had been 2,000 exploratory and side wells drilled in Prudhoe Bay. He continued that Prudhoe Bay was roughly the size of Montana, which had 20,000 wells. He elaborated that Montana knew where the oil was because it had explored; whereas, the State of Alaska did not know what was out there. Therefore, he listened when people in the Copper River Basin vocalized their desire to find oil and natural gas to support their region. The same thing applied for the Nenana Basin, which had experienced some good findings in recent years. He hoped the findings could be capitalized in future years; therefore, he stood in opposition to the amendment.

[5:08:02 PM](#)

Representative Gara could not consistently vote to reduce tax credits for Cook Inlet at the expense of the rest of the state without looking at the credits the state could not afford across Alaska. He believed it was not about whether a credit benefited his region over another region, it was about whether the state could afford the credit. He surmised that the amendment did not eliminate the credits, but brought them to the Cook Inlet level. He asked to be corrected if his understanding was incorrect. He stressed that the state was spending over \$1 billion in credits; it was spending more in credits than it was getting back in production taxes, royalties, and other. He opined that the system had made sense when the state had been flush with

money at high prices. He relayed that he could support the amendment if he received clarification that the amendment matched the credits in Cook Inlet.

Vice-Chair Saddler testified against Amendment 10. He believed it was clear that regional needs were different due to Alaska's large size, numerous hydrocarbon regions, varying geology, and different stages of exploration and production. He detailed that in Cook Inlet the state had accommodated the special geology, markets, and population needs in Southcentral Alaska. Under SB 21, the legislature had accommodated the state's economic needs recognizing the North Slope as the primary producer of wealth for the state. He believed it was appropriate to offer incentives for Middle Earth; the legislature had heard frequently about the need for cheaper energy in the Interior. As much as he respected the desire for consistency, he did not believe one-size-fit-all in Alaska. He believed the provision should remain in the CS.

Co-Chair Neuman spoke in opposition to the amendment. He remarked that the Cook Inlet gas credits had been implemented under SB 21 when rolling brownouts had occurred and people had faced the possibility of losing gas in the middle of the night. He stressed that those things would have significantly disrupted the system; therefore, the state had created large credits to incentivize gas exploration in the region. He elaborated that the credits had been successful and better than expected, which had been a good thing because there were currently 12 years of known reserves. He added there were reserves in the area that were yet to be discovered, but he did not believe there was currently significant gas exploration underway due to the known reserves. He believed it was different; the legislature was opting to draw back the credits a bit because the Cook Inlet Recovery Act had worked well. He believed it was time to reduce the credits a bit. However, he wanted to continue to work on determining how to bring gas to the Interior Alaska to lower their costs. He believed the current plan was to continue to truck gas from Cook Inlet to the region; there was plenty of gas in Cook Inlet to provide or Fairbanks (the needed amount was fairly small). He added that hopefully the state could get Donlin online and there would still be plenty of gas. The legislature had heard loud and clear from residents in Fairbanks - for years the legislature had been trying to help bring relief for energy costs in Fairbanks. He

believed a large portion had been to get into Middle Earth (the term for the center of the state had been coined a few years back). He spoke to incentivizing gas and keeping costs lower because natural gas prices were very high in Cook Inlet. He stated that gas was expensive in Cook Inlet compared to Henry Hub and the Lower 48. He believed there were wells under exploration that could supply Fairbanks and the Interior region. He believed it was important to continue to try to help the region by maintaining the credits a little longer. He knew there were companies currently working that may be dependent on the credits; he suspected that companies would discontinue work if the credits were withdrawn.

[5:14:09 PM](#)

Representative Edgmon opposed Amendment 10. He recalled the resource assessment Paul Decker (acting director of the Department of Natural Resources Division of Oil and Gas) had given the committee on all areas in the state. He referred to testimony about the Frontier Basins (which were synonymous with Middle Earth) that had been partially assessed at present. From an undiscovered, technically recoverable resource standpoint, there was no question there were hydrocarbons in the region. He thought it was worthy to maintain the credits given the early stages of exploration and the testimony the committee had heard from Ahtna and Doyon in reference to work done in the Yukon Flats, the Nenana and Copper River Basin. He noted that the legislature would review the credits again in the future.

Representative Pruitt relayed that the amendment did not get rid of the credits. He clarified that the amendment would maintain the current credits; whereas, the CS actually increased the credits. He stated that the amendment would go back to the currently existing law. He added that SB 21 had nothing to do with Cook Inlet.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gattis, Pruitt, Wilson, Gara

OPPOSED: Edgmon, Guttenberg, Kawasaki, Munoz, Saddler, Thompson, Neuman

The MOTION to adopt Amendment 10 FAILED (4/7).

5:17:18 PM

Representative Wilson MOVED to ADOPT Amendment 11, 29-GH2609\F.37 (Shutts, 4/7/16) (copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Representative Guttenberg and Co-Chair Neuman OBJECTED for discussion.

Representative Wilson explained the amendment with a prepared statement:

Current statute includes a hard 4 percent gross minimum tax floor against a sliding scale per barrel credit, which is a progressivity mechanism. Net operating loss credits, the small producer credit, and new oil reductions and credits can reduce a tax liability below the 4 percent gross minimum floor, but never below zero. The House Finance CS eliminates this step down in minimum gross taxes at very low oil prices setting a firm floor of 4 percent gross at all low oil prices. The CS allows certain credits to reduce a tax payer's liability beneath the 4 percent gross minimum but only to 2 percent of gross. Credits are education tax credits, small producer credits, new oil credits, and net operating loss credits. The amendment removes these House Finance CS changes, restoring the terms of SB 21.

Representative Wilson reminded the committee that constituents had voted to keep SB 21 in place. She continued reading from a statement:

SB 21 was carefully crafted and balanced the state's take on the high end and on the low end. To take more on the high end we give up some on the low end. That was our decision. Enalytica testified very clearly that they do not think that SB 21 regime needs changes right now.

Representative Wilson noted that the legislature had asked the administration if the conversation would be taking place if oil prices were higher and if government spending was not as high. She relayed that the administration had replied in the negative. She did not believe the situation

was the fault of the oil companies. She continued reading from a statement:

We can't take more from an industry that is losing money. Really? We want them to keep investing in our future production even when times are tough? Well, we're sending the wrong message. The North Slope is where our revenue will come from once prices rebound. We don't want to jeopardize that with our actions today. SB 21 started working as soon as it passed and was upheld by voters. SB 21 is working now too, and it will work in the future, unless we keep changing it. We can't keep increasing taxes when prices are low and increasing taxes when prices are high or we will drive industry out of this state.

Representative Wilson asked if the committee could imagine doing business in a state where the leaders could not make up their minds. She stressed that the state wanted more [money] during high and low oil prices. She spoke to asking industry for more money even when the industry was not doing well because the state could not manage its finances. She elaborated that the legislature had tried removing credits, stepping credits down, and other. She noted that the legislature was currently vocalizing it needed to quit changing the tax structure repeatedly. She remarked that if her parents tried to run a business in Alaska they would never make a profit because of the need to hire numerous staff to determine what they owed on their taxes. She did not understand. She specified that the legislature had heard from the administration and industry about how often it had changed the tax system. She believed DOR could not keep up with audits because of the numerous tax systems (i.e. Petroleum Profits Tax (PPT), Economic Limit Factor (ELF), Alaska's Clear and Equitable Share (ACES), SB 21, and other). She asked "when do we stop?" She reiterated that the voters had maintained SB 21. She believed it was wrong for the committee to try to decide "why one voter did or didn't do what they did." She countered earlier statements that the CS represented a compromise. She emphasized that the legislature needed to stop making changes or it would run its biggest industry out (an industry that paid the state's bills).

[5:22:38 PM](#)

Co-Chair Thompson remarked that the amendment would return the [tax] floor to a "loose" 4 percent, which maintained current statute. The CS included a 2 percent hard floor. Under the 4 percent loose tax, credits could drop the floor to zero. He felt that the 2 percent was a compromise.

Representative Gara spoke in opposition to the amendment. He had been present for the debate on SB 21. He recalled the statements that the bill reduced taxes at high prices and included a small 4 percent minimum floor at low prices. He noted that the gross tax was smaller than in other states. He stressed that the current system was low on both ends. He recalled being told that the state would be protected by a 4 percent gross tax; he had never been told the number could go to zero. Under current law, in FY 18 through FY 21, the state would make less in production taxes than it would in fish and game license fees. He continued that in FY 18, production taxes would be \$16 million; a current fish and game licensing bill would bring in \$31 million. Currently the state was collecting \$18 million in fish and game licensing fees. He stressed that it was not possible to run a society with production taxes that low. He explained that the projected production tax revenue dropped to \$11 million the following year as a result of large NOL credits. He emphasized that the state was paying a substantial amount of money to companies - he believed the benefit companies received was too high. He reasoned that companies invested based on geology and on price; Alaska's geology was still good, but the price was bad worldwide - the state could not change the price. He explained that the 4 percent minimum tax had been advertised as something that would protect the state on the low end with production tax income; however, the state did not receive the money due to the credits it gave to companies. He stressed that the NOL credit was over \$1 billion in the coming year.

Representative Pruitt remarked that SB 21 had only been in place for three years and the legislature was now trying to change it. He detailed that the governor's bill had initially dealt with credits, with the exception of the current item under discussion. The amendment addressed a fundamental change to SB 21. He specified that the state lived the high-life when oil prices were high because there was a high net profits tax. Enalytica had testified that part of what made the net profits tax work (especially at 35 percent, which was higher than the ACES base number) was

the NOL credits. The difference between moving from a loose floor to a 2 percent floor could be the difference between a rig operating or shutting down. He reasoned that if the conversation pertained to needing money immediately, he wondered what money would be lost in the next couple of years because companies had to "lay down a rig." He stressed that whatever oil the state lost in production at present would not come back. He continued that currently, companies were drilling merely to keep at a level pace. He elaborated that there was a natural rate of decline that because of companies' investment (even though they were losing money), maintained the level rate. He stressed that if the companies did not invest, the state would lose the decline. He reiterated that it was not coming back. He explained that the CS included a fundamental policy shift that would change the tax system after only three years and indicated that when the state was in a financial problem it would go after companies to fill its deficit.

Representative Pruitt asked if the state would do the same thing to other industries (i.e. fishing, mining and tourism) in Alaska when it no longer had oil coming through the pipeline because of poor decisions and discouraging investment. He opined that the state should avoid disincentivizing the industry currently paying the majority of its bills. He reiterated his earlier statement that the bill sent a message to industry that it would have to determine whether to invest in a regime that increased tax at a time when no other regimes in the U.S. and few worldwide were looking to make increases. He stressed that Alaska would be known for increasing taxes when the rest of the world was trying to incentivize oil development. He supported the amendment and wanted to revert back to the provision passed in SB 21.

5:30:00 PM

Vice-Chair Saddler spoke against the amendment. He recalled that he had been on the House Resources Committee when SB 21 had gone through the legislature. He noted that the previous tax regime did not have a [tax] floor. He did not believe anyone had wanted to see Alaska collect tax based on that floor; however, the prices had fallen farther and faster than anyone anticipated. The comfort he had taken from having a floor had been significantly diminished when he discovered that credits multiplied as they had. He remarked that the industry employed clever people who

pursued its interests. He reasoned that legislators had concomitant obligations. He understood that the oil industry was hurting, that it was difficult to incentivize production, and that it was hard to make a profit; however, a floor that did not block the value from declining below that amount, was not a floor. He believed provision was reasonable.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gattis, Pruitt, Wilson

OPPOSED: Gara, Guttenberg, Kawasaki, Munoz, Saddler, Edgmon, Thompson, Neuman

The MOTION to adopt Amendment 11 FAILED (3/8).

Co-Chair Thompson noted that the 5:00 p.m. meeting was canceled.

[5:32:28 PM](#)

AT EASE

[5:56:03 PM](#)

RECONVENED

Representative Wilson MOVED to ADOPT Amendment 12 29-GH2609\F.40 (Nauman/Shutts, 4/7/16) (copy on file):

Page 3, line 18:
Delete "ill"

Page 3, lines 23 - 28:
Delete "and

(ii) after the first four years after a tax becomes delinquent, in each calendar quarter at a rate of five percentage points above the annual rate charged member banks for advances by the 12th Federal Reserve District as of the first day of that calendar quarter"

Insert "no interest shall accrue after the first four years after a tax becomes delinquent"

Co-Chair Neuman OBJECTED for discussion.

Representative Wilson explained the amendment. She clarified that she was not arguing about the first 4 years when it came to charging compounded and quarterly interest for audits to be completed; however, she was concerned that audits were taking 6 years (based on testimony to the committee). She reminded the committee that audits were determined by the department (similar to federal audits conducted by the Internal Revenue Service). One reason the department conducted numerous audits was due to the state's unclear system. She did not believe the state should charge interest after the first 4 years. She did not believe companies filing on time should be charged interest if the state could not get its business done. The state charged significant interest, which was sometimes larger than the amount owed.

Co-Chair Thompson believed the CS included compounded interest that would go to simple interest.

Representative Wilson agreed.

Co-Chair Thompson pointed out that it was a two-way street; if the companies had overpaid, there was no interest to go to the companies.

Representative Gara opposed the amendment. He understood the amendment sponsor's point. He emphasized that the way to get audits done quicker was to have auditors. He remarked that many legislators had worked to increase the number of auditors, but he believed others did not want the auditors. He stated that auditors did a number of things including ensuring tax returns were accurate. He detailed that in a profits tax a company may have the incentive to take deductions and credits it was not really entitled to. Companies paying as fairly as possible were entitled to having their return audited more quickly. He believed in order to protect the state and be fair to companies playing by the rules, the state should look at hiring needed auditors. He surmised the state would earn the money back much more quickly in audits that probably save the state money. He believed it was a budget discussion.

[5:59:41 PM](#)

Representative Gattis spoke in support of the amendment. She agreed that the state needed employees auditing on a much quicker basis. She believed state auditors were paid

\$200,000 to \$300,000 per year. She thought the state did not necessarily need more auditors, but could hire individuals to help put the package together. She believed there was a huge problem if it took the state six years to complete the audits. She thought there had to be some incentive for the department to get the audits done. She opined that 4 years was sufficient; if the audit was not complete in 4 years the compounding interest should not continue to accumulate - she believed it was a disincentive for the department to get the work done.

Vice-Chair Saddler believed it all came out in the wash if there was underpayment or overpayment by the state or filers of the returns. He was inclined to support the amendment. He did not know if the process could be easily sped up or if the work was highly technical. He added that the state did have complex oil tax laws. He supported incentivizing the state to accomplish audits quickly with compounded interest for the first 4 years and no interest thereafter.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gattis, Saddler, Munoz, Pruitt, Wilson,
OPPOSED: Guttenberg, Kawasaki, Edgmon, Gara, Thompson,
Neuman

The MOTION to adopt Amendment 12 FAILED (5/6).

[6:02:48 PM](#)

Representative Gara MOVED to ADOPT Amendment 13, 29-GH2609\F.39 (Nauman/Shutts, 4/7/16) (copy on file):

Page 16, line 30, following "January 1, 2016,":
Insert "and before January 1, 2017,"

Page 17, line 1, following "loss.":

Insert "For lease expenditures incurred after December 31, 2017, to explore for, develop, or produce oil or gas deposits located north of 68 degrees North latitude, a producer or explorer may elect to take a tax credit in the amount of 20 percent of a carried-forward annual loss."

Co-Chair Neuman OBJECTED for discussion.

Representative Gara explained the amendment. He discussed that over the past few months the legislature had learned the state was paying much more in NOL credits than it had ever anticipated. In FY 17 the state was paying \$1.025 billion in NOL credits at a time when production taxes were forecasted in the \$16 million range (decreasing to \$11 million to \$13 million). Due to the large size of the NOL credits \$618 million would be carried forward into the future. He detailed that even as prices went from a forecast of \$38 per barrel to \$60 per barrel, the state's production tax revenue was decreasing from \$59 million at present to \$33 million in 5 years. He specified that \$82 million of the NOL credits on the North Slope were deducted from production taxes, which brought taxes down to zero in many cases; \$325 million were made in cash payments by the state. He stressed that the system was not sustainable. Currently the CS contained a 35 percent NOL credit for the North Slope; the state was paying 35 percent of a company's operating and capital costs. Meanwhile, the state was living at a 4 percent tax that could drop to zero, with a production tax that was essentially nonexistent over the next several years. He remarked that the NOL credit did not include the Cook Inlet credits and all of the money the state was paying. He believed the state should try to incentivize oil, but it was not going to convince a company to start producing a small field when oil prices were \$36 per barrel. He explained that it had nothing to do with the credit and tax system; it was the low price. He supported a sustainable level of credits; the amendment would move the North Slope NOL credit to a 20 percent credit down from a very generous 35 percent. The change would save the state about \$150 million per year. He continued that the system would still be very generous to companies; there were not many states currently giving companies 20 percent to pay for their losses. Additionally, there were not many states providing the credit when they were receiving a tax of zero to 4 percent.

Representative Gara stressed that if the taxes were not reduced, the carry-forward credits would carry forward in perpetuity. He explained that so many of the credits were carried forward because companies could not deduct their taxes below zero. He detailed that as prices almost double over the next 5 years, the state's production tax went from

\$55 million in the current year to \$33 million in 5 years and to \$11 million and \$16 million in intervening years. He specified that because the NOL credit was so high, the tax was a bit low, and companies would be rolling forward NOL credits for many years to come. As a result, a future legislature would inherit a budget that was even more unsustainable. He believed the 20 percent payment under the amendment was still generous. He added that the credit was provided in the first year; whereas most companies receiving a deduction had to amortize the amount over many years.

[6:08:09 PM](#)

Representative Munoz asked the amendment sponsor to clarify the amount spent NOL carry-forward credits. She thought the amount was closer to \$300 million for the North Slope, but expected to continue to grow to approximately \$1 billion in the next two years. [Representative Gara nodded.] She agreed that 35 percent was too high given the state's revenue situation; however, she believed reducing the number to 20 percent was too drastic. She MOVED to AMEND Amendment 13 by allowing a producer or explorer to elect to take a tax credit in the amount of 25 percent of a carried-forward annual loss.

Co-Chair Neuman OBJECTED.

Representative Munoz asked if Amendment 13 should be presented first and a second conceptual amendment should be offered later. She asked for Co-Chair Thompson's preference.

Co-Chair Thompson preferred to address Amendment 13 prior to addressing the conceptual amendment.

Representative Munoz WITHDREW her amendment to Amendment 13.

[6:10:32 PM](#)

AT EASE

[6:11:23 PM](#)

RECONVENED

Representative Gara relayed that he would not object to passing a 25 percent amendment. He communicated that of the

NOL credits that would accrue in FY 17 for the North Slope, \$325 million were cashable, \$82 million was deducted from companies' 4 percent tax, and \$618 million would be carried forward into future years. The \$618 million carried forward would leave the state with no production tax in future years. He specified that about \$1 billion in credits would accrue in FY 17.

Co-Chair Neuman OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki

OPPOSED: Munoz, Pruitt, Saddler, Edgmon, Wilson, Edgmon, Thompson, Neuman

The MOTION to adopt Amendment 13 FAILED (3/8).

[6:13:33 PM](#)

Representative Gara MOVED to conceptually AMEND Amendment 13, which would move the NOL credit from 35 percent to 25 percent. [Note: the amendment was actually a conceptual amendment to the bill, not to Amendment 13. Co-Chair Thompson clarified this point later in the meeting - see 6:55 p.m. for detail.]

Co-Chair Neuman OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Kawasaki, Munoz, Gara, Edgmon, Guttenberg

OPPOSED: Pruitt, Saddler, Gattis, Wilson, Neuman, Thompson

The MOTION to adopt the conceptual amendment FAILED (5/6).

[6:16:05 PM](#)

Representative Gara MOVED to ADOPT Amendment 14, 29-GH2609\F.19 (Shutts, 4/6/16) (copy on file):

Page 19, lines 12 - 14:
Delete all material.

Reletter the following subparagraphs accordingly.

Page 19, line 15:

Delete "20"
Insert "10"

Page 19, line 16:
Delete "2017"
Insert "2016"

Page 19, line 19:
Delete "2017"
Insert "2016"

Co-Chair Neuman OBJECTED for discussion.

Representative Gara explained that the amendment pertained to Cook Inlet where there were currently no production taxes on gas or oil. He elaborated that the state paid companies for a variety of credits including a 10 percent NOL credit, which could be added to a 10 percent capital expenditure credit or a 20 percent WLE credit. He opined that at some point the credit costs became too expensive and unsustainable. The amendment would reduce the WLE credit from 20 percent to 10 percent, which would mean a difference to the state of about \$10 million to \$15 million. He remarked that the committee had spent hours trying to find a way to cut the budget by that amount without hurting the state. He explained that the money mattered to the state and it was fair to industry; even when industry paid no production taxes it still received the highest price for natural gas in the country. He reiterated the credits paid to companies in Cook Inlet. He stressed that the amendment still provided an incentive to companies; the state would still be paying cash credits.

Representative Wilson observed that the amendment resembled an amendment she had offered that had been voted down. She was frustrated that the committee was being asked to make decisions without modelling and real numbers to determine how things would affect the industry. She believed it was the wrong approach. She asked why a member would vote against the earlier amendment, but vote in favor of the current one.

[6:19:22 PM](#)
AT EASE

[6:19:46 PM](#)
RECONVENED

Representative Wilson asked how many companies the amendment would impact. She wondered how the \$15 million [in savings to the state] had been determined.

Representative Gara believed the amendment he had voted against had included a 40 percent credit, which declined to 30 percent and then 20 percent. He could not vote for a 40 percent credit when the state was facing a \$4.4 billion deficit. The current amendment would maintain the 10 percent NOL credit, but companies would have to choose between a 10 percent QCE credit and a 10 percent WLE credit. The only change was decreasing the WLE credit from 20 percent down to 10 percent.

Representative Kawasaki highlighted that prior to 2010 (before the implementation of the Cook Inlet Recovery Act) the state had provided zero credits to non-North Slope producers in Cook Inlet. He recognized the need for the credits when they had been put in place and perhaps in the future; however, he believed the incentives were no longer necessary when there 1.6 trillion cubic feet of gas, which was enough to supply Anchorage in a growth state for 12 years (according to the DNR Division of Oil and Gas). He added that the state could not afford the incentives. Additionally, Legislative Budget and Audit had contracted with consultant analytica for the past several years to specifically address oil and gas taxes. He relayed that the consultants had questions and comments about credits and taxes in Alaska's oil patch, specifically in Cook Inlet. He read past testimony from analytica related to 2015:

Principal among these credits paid to Cook Inlet producers, our estimated account for around half the state's spending on credits. Since the state does not levy a profit-based production tax in the Cook Inlet, these essentially constitute a subsidy to the Cook Inlet producers rather than an investment in future tax revenue.

Representative Kawasaki specified that the statement had been related to discussion the legislature had on SB 21 and North Slope producers. He explained that the amendment would reduce credits in the Cook Inlet slightly, which he believed was reasonable when the state was facing a \$4.1 billion budget deficit and it was expected to provide over \$400 million in credits to non-North Slope producers.

Representative Munoz clarified that the state had been offering exploration credits outside the North Slope since 2004 under ELF. Additionally the 20 percent carry-forward credits had begun under PPT, the small producer credit had been \$12 million, and the qualified capital expenditure had been 20 percent for non-North Slope beginning in 2007.

Co-Chair Thompson stated that when WLE credits reached 20 percent they essentially went away. He added that qualified capital expenditure credits were at 20 percent.

[6:24:39 PM](#)

Representative Gara clarified that WLE credits would not go away. He detailed that at 10 percent they would be close to the QCE credit. He noted that a company would likely choose the QCE credit as it would probably be worth slightly more. The amendment would save the state money because at 20 percent, a WLE credit was worth a bit more. He reiterated that nothing would be eliminated under the amendment.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki, Wilson, Edgmon
OPPOSED: Munoz, Pruitt, Saddler, Gattis, Thompson, Neuman

The MOTION to adopt Amendment 15 FAILED (5/6).

[6:26:07 PM](#)

AT EASE

[6:54:42 PM](#)

RECOVERED

Co-Chair Thompson clarified that Amendment 13 had failed to pass. He corrected that the conceptual amendment [offered by Representative Gara] had been to the bill as a whole and had failed to pass.

Representative Gara MOVED to ADOPT Amendment 15, 29-GH2609\F.21 (Shutts, 4/6/16) (copy on file):

Page 22, line 4:
Delete "\$100,000,000"

Insert "\$25,000,000"

Page 22, line 12:

Delete "\$100,000,000"

Insert "\$25,000,000"

Co-Chair Neuman OBJECTED for discussion.

Representative Gara explained that the original bill version had contained a \$25 million cap per company on reimbursable credits. He detailed that without a cap, especially with the NOL and other credits, approximately \$1 billion or more in credits would be carried forward. He stated that the CS moved the cap to \$100 million; however, it was ineffective because almost no companies claimed that much in reimbursable credit. Whereas, the administration had determined that a \$25 million cap would limit the state's exposure and give years with some revenue for the state. The hope was that [oil] prices would increase at some point, which would bring in sufficient revenue to make the state's budget sound. He stressed that the state was not currently sound; it was in a financial crisis. He believed it was appropriate to limit the payments the state made. The \$25 million cap went forward; he believed the governor wanted to pay the owed credits with an appropriation. He disputed that a cap of \$100 million was a cap; testimony had been that almost no companies claimed the amount. The amendment would change the cap to \$25 million per company; if there were three companies on an oil field the cap would be \$75 million. He emphasized that the amendment was still generous. He specified that the state gave a higher proportion of credits to companies (compared to its production taxes) than any other location worldwide, which the state could not afford.

Vice-Chair Saddler spoke against the amendment. He believed \$25 million was too low. He added that he hoped the oil industry would invest in Alaska.

[6:59:10 PM](#)

Representative Guttenberg remarked that the state was hemorrhaging credits and needed to get his fiscal house in order. He believed the most important thing was that the state had the natural resources. He commented that sometimes the legislature thought everything revolved around it and that industry hung on its every word. He

stressed that a tax or credit policy that was too high was unstable, just like one that was too low. He supported taking control of the maximum credits that were still expandable to other business partners. He observed that it would not be a bad thing if people were using the credits because it would mean they were spending money. He thought a \$100 million cap was too high. He stated that a \$25 million cap was as arbitrary as \$100 million, but he believed it was more appropriate for the state given the current fiscal times. He supported tightening credits and getting the state's fiscal house in order. He noted that the state may be unable to afford a \$100 million credit year after year. Additionally, the credits would roll forward year after year if the state could not afford them.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki

OPPOSED: Pruitt, Saddler, Wilson, Edgmon, Gattis, Munoz, Neuman, Thompson

The MOTION to adopt Amendment 15 FAILED (3/8).

[7:02:02 PM](#)

Representative Kawasaki MOVED to ADOPT Amendment 16, 29-GH2609\F.4 (Shutts, 4/6/16) (copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Co-Chair Neuman OBJECTED for discussion.

Representative Kawasaki explained that the amendment sought to lower some of the initial amounts companies and people creating development projects could redeem. He referred to a theoretical example provided to the committee from DNR in which a field the size of Armstrong Oil and Gas's Pikka could cost the state as much as \$800 million per year. He explained that many companies or people could request the same credit for one development project. The amendment protected the state in those cases.

Co-Chair Thompson pointed to lines 16 and 17 of the amendment specifying a person could be eligible for \$50,000 [\$50 million] and \$200,000 [\$200 million] for each unit. He

noted that as drafted, the amounts could be added together. He asked if that was the amendment's purpose.

Representative Kawasaki replied that Legislative Legal Services had drafted the amendment so that payments could not exceed \$50,000 [\$50 million] for each person or company or \$200 million for each unit.

Co-Chair Thompson believed the way the amendment was drafted made it appear the amounts could be added together. He thought the language needed to be clarified.

Representative Gara asked if it was the lesser of [the two amounts].

Representative Kawasaki relayed that the amendment was similar to one offered in the House Resources Committee. He explained that the intent was \$50 million for each person. He requested an "at ease."

[7:04:56 PM](#)

AT EASE

[7:09:22 PM](#)

RECONVENED

Representative Kawasaki clarified the intent of Amendment 16. He explained that if there was a large project involving five partners on a unit that cost \$200 million, the most each partner would receive was \$40 million. The limit was \$200 million per unit and a cap of \$50 million for each company.

Co-Chair Neuman asked for verification that three partners could only receive up to \$150 million. Alternatively, he asked if there was a \$200 million cap on the field.

Representative Kawasaki replied that if the unit cost \$200 million the most a partner could receive was \$50 million.

Representative Kawasaki relayed that there had been only 1 time a company had received more than \$200 million in a single year for the repurchase credits; there had been 5 times one company had received between \$100 million and \$200 million; and 11 times companies had received between \$50 million and \$100 million in one year. He explained it was infrequent that the \$200 million cap would be reached -

probably even more so in the future. The amendment did not impact the timing in which a company could redeem the credits. Additionally, the amendment reflected twice the amount the governor had requested, which had been set to \$25 million per person/company with a \$125 million cap.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki

OPPOSED: Saddler, Wilson, Edgmon, Gattis, Munoz, Pruitt, Thompson, Neuman

The MOTION to adopt Amendment 16 FAILED (3/8).

[7:13:04 PM](#)

Representative Gara MOVED to ADOPT Amendment 17, 29-GH2609\F.42 (Nauman/Shutts, 4/8/16) (copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Co-Chair Neuman OBJECTED for discussion.

Representative Gara explained that the amendment would adjust the minimum tax floor of 4 percent (currently the bill's minimum floor was 2 percent), which lasted up to \$76 per barrel. The CS would generate \$16 million in production taxes in the coming year, \$11 million the year after, and \$13 million the following year. He remarked that due to a couple of adjustments in the bill the numbers would be slightly different. He spoke to the governor's proposal of a 5 percent hard floor. He believed the approach had made some sense, but the response had been that when oil prices were low (\$20 to \$40 per barrel; the average company on the North Slope became profitable at about \$45 per barrel) 5 percent was too high. The amendment aimed to address the issue by protecting investment on the North Slope and by providing fairness to the oil industry and the people of Alaska. He believed the price of oil would not always be as low as \$35 to \$38 per barrel; if prices remained at that level, there would not be substantial oil revenue in Alaska. Under the amendment, when companies become profitable (at an average of \$46 per barrel - bigger companies at a lower price and smaller fields at a higher price) the state would receive a tax that was better than 4

percent. The Department of Revenue projected the average field would pay the 4 percent tax up to \$76 per barrel; oil prices were forecasted to not exceed \$76 per barrel. He stressed that the state would be stuck with the amounts for the next decade.

Representative Gara continued that on big fields the tax floor would move from 4 percent at \$60 per barrel to 5 percent. The governor had proposed moving the tax to 5 percent at \$1 per barrel or more. The tax would increase 1 percent at every \$5 interval and would max out at 10 percent at \$85 per barrel. He referred to a 12.5 percent floor proposal by a senator from Sitka. The amendment was not nearly as aggressive; he believed 12.5 percent was probably too harsh at low oil prices. He believed a floor tracking company profits made sense. He detailed that at \$60 per barrel each percent would raise about \$60 million to \$70 million according to DOR. He reasoned that the money could go to infrastructure in Alaska. At \$70 per barrel the tax would be 7 percent and would probably raise about \$210 million or so. He emphasized that the increase in tax would be delayed until companies were making profits. He spoke to GVR fields (post 2002) and a company producing less than 35,000 barrels per day; the fields were more challenging and the lifting costs were higher. He explained that the tax would not reach 5 percent for those fields until \$75 per barrel; the companies would receive an extra \$15 in profits before the tax would increase to 5 percent and for every \$5 increase in oil price the tax would increase up to a maximum of 10 percent at \$100 per barrel. He stated that in comparison to the gross taxes and royalties normally paid to private parties in the Lower 48, the amendment would still leave taxes much lower. He reasoned that the amendment would enable the state to fund schools, infrastructure projects, maintenance, and protect seniors and children. He stressed that the amendment would only be a portion of a fiscal plan; it would only kick in when oil prices started to rise. He reiterated his explanations. He stated that the amendment was a fair way to protect the public and the oil industry.

Representative Wilson stated that the amendment reflected a huge policy change. She relayed that it would have been helpful to see the amendment sooner to learn how the changes worked with the rest of the bill. She did not know at what oil price a company became profitable. She did not know if the amendment had negative effects or how it

compared to the Lower 48. She was opposed to the amendment without having the information.

7:21:04 PM

Co-Chair Neuman MAINTAINED his OBJECTION.

Representative Gara responded to a question by Representative Wilson. The committee had been told that on average a company on the North Slope became profitable at about \$46 per barrel. Additionally, the committee had seen charts of company profits for various sized fields at \$60 and \$80 per barrel. He reminded members that the tax system had been written in a way that allowed companies to apply for royalty relief if the production tax system accidentally overshot. He noted that the last three applications for royalty relief had been granted for Caleus, Oooguruk, and Nikaitchuq. He emphasized that if the state accidentally overshot, a company could request royalty relief, which could reduce a company's tax burden by a much greater level than the amendment increased their tax burden. However, he stated that the amendment was fairer to the industry than the governor's proposal, which had included an increase even at low prices. In order for a company to receive royalty relief it had to demonstrate its oil field would not be economic under the tax. He believed it was a smart provision in statute. He emphasized that no one tax was perfect for every field, which was the purpose of royalty relief. He believed the amendment made sense.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki

OPPOSED: Wilson, Edgmon, Gattis, Munoz, Pruitt, Saddler, Neuman, Thompson

The MOTION to adopt Amendment 17 FAILED (3/8).

7:23:37 PM

Representative Kawasaki MOVED to ADOPT Amendment 18, 29-GH2609\F.2 (Nauman, 4/6/16) (copy on file):

Page 6, line 23:
Delete "[A] four"
Insert "five [(A) FOUR]"

Page 6, lines 24 - 27:

Delete ", except that a credit authorized under this chapter may reduce the tax under this subsection to less than four percent, but not to less than two percent of the gross value at the point of production"

Page 6, line 30:

Delete "four"

Insert "five"

Page 6, line 30, through page 7, line 2:

Delete ", except that a credit authorized under this chapter may reduce the tax under this subsection to less than four percent, but not to less than two percent of the gross value at the point of production"

Page 34, line 18, following "APPLICABILITY.":

Insert "(a)"

Page 34, following line 19:

Insert a new subsection to read:

"(b) The limitations on the use of tax credits added in AS 43.55.019(e), as amended by sec. 13 of this Act, AS 43.55.020(a), as amended by sec. 14 of this Act, AS 43.55.023(c), as amended by sec. 17 of this Act, AS 43.55.024(±), as amended by sec. 21 of this Act, AS 43.55.024(g), as amended by sec. 22 of this Act, and AS 43.55.025(q), added by sec. 25 of this Act, apply to credits applied to reduce a tax liability for a tax year starting on or after the effective date of secs. 13, 14, 17, 21, 22, and 25 of this Act."

Co-Chair Neuman OBJECTED for discussion.

Representative Kawasaki discussed that one of the primary provisions in the governor's bill had been the concept of a 5 percent floor for oil prices and production on the North Slope upon recommendation by a Senate workgroup. Currently, the unintended consequence of having a large NOL, was that the current floor was no longer hard. He explained that it meant a barrel of oil was providing the state with royalties and very little production tax income. He explained that he had taken some time to compare oil tax structures in other states because of recent testimony to the committee that most state's had a gross tax on oil and did not offer nearly as many credits driving their

production tax to zero. He pointed to Louisiana's onshore production, which had an oil tax rate of 12.5 percent of its value at the time of severance; incapable oil rates were taxed at 6.25 percent. Montana's tax on pre-1999 vertical wells was 12.5 percent and post-1999 wells were taxed at 9 percent. Production in North Dakota was taxed at a 5 percent floor. Utah had a 3 percent floor for the first \$13 per barrel and a 5 percent for anything above that amount. Wyoming had a 6 percent floor on production. When the legislature had looked at production taxes and credits, he did not believe anyone had considered that oil prices would be as low as they currently were. The amendment corrected an error when legislators passed SB 21 and did not do modelling at low prices of oil.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki

OPPOSED: Edgmon, Gattis, Munoz, Pruitt, Saddler, Wilson, Neuman, Thompson

The MOTION to adopt Amendment 18 FAILED (3/8).

[7:27:05 PM](#)

Representative Gara MOVED to ADOPT conceptual Amendment 18.a, which would read the same as Amendment 18, but with a 4 percent hard floor.

Co-Chair Neuman OBJECTED.

Representative Gara stated that the committee was not making significant progress during the current meeting. He remarked that the bill was not doing much to "stop the bleeding" in terms of the state paying out so much in tax credits and receiving so little back in production taxes. The conceptual amendment would implement a hard tax floor of 4 percent, which was what the state thought it had accomplished with the passage of SB 21. He remarked that he had not been a fan of SB 21, but the one major promise in the bill was the tax floor of 4 percent; however, it had not occurred. He explained that with the carry-forward NOL credits, the production tax raised less money than a proposed fish and game license fee bill.

Representative Gattis remarked that the committee was not meeting to address anyone else's bill. She did not believe it was appropriate.

Representative Gara continued that in FY 18 the state was projected to take in \$16 million in production taxes, which was less than the state currently brought in with fish and game licenses. He continued that the number was projected to decrease to \$11 million in FY 19. Under current law the state made \$18 million on the sale of fish and game licenses. The amendment was consistent with what most people believed SB 21 had accomplished, which was a 4 percent protection for the state at low prices. He surmised that perhaps some legislators believed the governor's proposal of 5 percent was too high, but the amendment was consistent with everything said publicly about SB 21.

Representative Kawasaki agreed that no one saw the current environment coming. He referred to the Senate oil and gas tax workgroup that had worked the entire past summer on particular issues. He read from the workgroup's section of findings related to protecting the production tax floor:

A lot of attention has been paid to the refundable tax credits; however, Senate Bill 21, a floor of 4 percent was instituted against the North Slope producers. This was meant to prevent credits from taking the taxpayer's liability effectively down to zero, which the older tax system ACES really could have done. However, the group learned during its meeting deliberations there was potential for an unintended scenario to occur, for a producer to incur a carried-forward annual loss or net operating loss that was great enough to drop the tax liability below the floor. Although there is disagreement on the proposals to increase the floor, at the minimum the floor installed in Senate Bill 21 should be hardened up and protected.

Representative Kawasaki elaborated that many people in the building (some who had been for and against SB 21) who agreed with the governor...

Co-Chair Thompson interjected that it was not possible to say whether other people agreed or how they felt about the topic.

Representative Kawasaki replied that he agreed with the Senate workgroup's recommendation dated December 2015 to harden the current floor and ensure the production tax floor was protected.

Vice-Chair Saddler remarked that the point had been made numerous times that more was being offered in credits to the oil industry than is being provided in production taxes. He agreed that it may be true, but he thought it was less than fully relevant. He stressed that incentives resulted in the production, development, and delivery to market of the state's royalty oil. Additionally, the state received corporate income tax and property taxes on the pipeline and production facilities. He emphasized that the net income to the state was positive. He added that oil was kept in the pipeline and the state had the prospects for the long-term ability to deliver oil from the Alaska National Wildlife Refuge (ANWR) or anyplace to markets. The state also received royalty revenue, which paid for K-12 education, the University of Alaska, Medicaid, state workers, and other.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki, Munoz, Edgmon
OPPOSED: Gattis, Pruitt, Saddler, Wilson, Thompson, Neuman

The MOTION to adopt conceptual Amendment 18.a FAILED (5/6).

[7:35:31 PM](#)

Representative Guttenberg MOVED to ADOPT Amendment 19, 29-GH2609\F.38 (Shutts, 4/7/16) (copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Co-Chair Neuman OBJECTED for discussion.

Representative Guttenberg explained that the gist of the amendment was on page 2, line 12, subsection (m). He observed that during the meeting about half of the committee members had spoken about modelling. He discussed that taxes paid by companies were confidential; he did not want to open taxes to show what companies paid, how they paid, justifications, credits, reductions, and other.

Companies did not have to apply for credits, but they did because they provided an economic advantage. He continued that if companies were going to apply for credits, they would sign an understanding that the documents submitted for credits were public. The purpose was to create the ability for the state to do modelling in order to understand what companies were doing in Alaska. The transparency would enable the state to determine whether companies should receive more or less credits. He surmised that perhaps the state could adjust the model to ensure it was receiving production and not spending money where inappropriate. He reasoned it may be a consequence of offering the wrong kind of credits. He detailed that the commissioner and director had addressed the committee related to the data, but the numbers were aggregated and it was not possible to determine exactly what happened. He explained that the situation did not occur with Ahtna or Doyon because they were making their numbers public. He stressed that the amendment pertained to modelling and the ability to understand what the state was doing.

Representative Guttenberg stressed that the state was throwing money at the wall and hoping for an outcome. He continued that legislators had justifications for what they were doing and arguments about whether something was appropriate, too much, too little, and other. He underscored that at the end of the day, the state did not have a clear, concise picture. He spoke to aggregate numbers and assumptions that production was up due to credits. He emphasized that there had been numerous comments around the committee table about the lack of modelling. He stressed that the lack of modelling was due to confidentiality. He reiterated that companies did not have to apply for the credits; the program was voluntary, whereas other taxes were not. He reasoned that if companies wanted the credits, he wanted to see what they were being used for. He wanted to see if the credits would result in increased production and would be beneficial for the state. He was frustrated by not having a defined picture of what the state was actually doing. He stressed that the state was putting hundreds of millions of dollars on the table and was in a fiscal deficit. He believed the state should have a picture of what was taking place in the oil and gas fields and should understand what people were doing. He spoke to the need to heat residents' homes. He emphasized that credits were draining the state's bank account and he believed it was important to have an accurate picture.

7:40:52 PM

Representative Wilson hoped the department was doing exactly what the amendment sponsor had talked about. The modelling she had referred to pertained to the bill. She hoped the committee would have its own economists with knowledge of multiple tax regimes, who would know how making specific changes would impact the state. She stated "shame on the Department of Revenue" for not making sure companies were accountable if there were credits going out that were not legitimate. She explained that SB 21 changed the law to enable the state to see barrels of oil going down. She reiterated that the legislature had experts to provide the information. She clarified that it was the responsibility of the Department of Revenue to make justifications for credits and outgoing money.

Representative Kawasaki discussed that the legislature was the appropriating body of government. He stated that the only thing the legislature was required to do annually was pass a budget. He spoke about numbers from DOR requesting \$825 million in oil and gas tax credits in the next year. He relayed that constituents asked where the money went, but he had no idea. He did not have transparency on the individuals benefitting from the credits. He believed it was a problem. He stressed that the legislature "needed" every department and agency individually; the legislature tried to discuss whether a department should have two or three deputy commissioners in an agency at the cost of \$100,000, yet DOR could not provide the legislature with information when the department asked for \$825 million in the current year to pay for the state's tax credit liability owed to North Slope and Cook Inlet producers. The amendment sought to make the information more transparent in order for legislators and the public to understand where the credits were going. He believed the issue for every budget item boiled down to "what are we getting for what we're giving?" He reasoned that the legislature expected the Department of Labor and Workforce Development (DLWD) to do a job if the legislature appropriated money to the department. He believed not knowing what was going on with the credits was a black hole. The Department of Revenue received and could release some of the information in an aggregated method, but there was no transparency.

Co-Chair Thompson had concerns with the amendment related to antitrust issues. He thought becoming too transparent would cause big problems. He thought the amendment could deter competition.

Representative Gara understood the concern, but stressed that the amendment would not cause antitrust issues. He stated that it would be one thing if the legislature was invading a company's books; however, the amendment aimed to merely determine where the state's money was going. He explained that when the state gave someone money it could include a condition that it would get to see where the money was spent. The provision would enable the state to know whether something was working and whether it was going to a company that would have developed a field anyway or if the credit had tipped the company towards making an investment. He reasoned that when the state spent money it was entitled to know where the money went. A company did not have to accept the money if it was worried the state would see what it was doing. He believed the amendment would help the legislature develop a smarter tax credit system and was perfectly legal. He reiterated that the state could always condition a grant of state money on something the other party could choose to accept or reject.

[7:46:10 PM](#)

Vice-Chair Saddler spoke in opposition to the amendment. He agreed that openness in public service and executive agencies was desirable and there were many laws to protect; however, private business was a different matter. He believed equating the same desire for transparency in public activities, in a private activity it could be counterproductive. He explained that the purpose was to incentivize private investment in Alaska; private business was competitive. He elaborated that many of the companies operated globally, had narrow margins, and were intensely competitive. He did not want to discourage companies from investing in Alaska and taking advantage of the state's incentives by the prospect that information shared with state tax auditors could be used to be publicly discoverable to the detriment of their business interests. He understood the desire for transparency, but if the state's goal was to incentivize business investment in Alaska, he believed the amendment would be counterproductive.

Representative Guttenberg emphasized that applying for credits was voluntary. He equated the credits to grants. He stated that if a company qualified for the credits and the aggregated numbers include three companies, the department was required to pay them. He stressed that if two of the companies were doing good work and one was not, the department could not tell the legislature. He emphasized that there was no transparency. He spoke to legislative debate on whether a credit was good or not; however, he believed no one really knew due to a lack in transparency. He elaborated that the legislature had no idea whether companies were using credits in the intended way. He reiterated that companies did not have to apply for the credits; the money was put on the table because the legislature expected companies to do something in the state's best interest. He reasoned that DOR knew one way or another, but it could not divulge the information to the legislature. He had a problem making public policy with the high amount of money without knowing what it went to and how well it was working.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Guttenberg, Gara, Kawasaki

OPPOSED: Gattis, Munoz, Pruitt, Saddler, Wilson, Edgmon, Neuman, Thompson

The MOTION to adopt Amendment 19 FAILED (3/8).

[7:50:51 PM](#)

Representative Kawasaki MOVED to ADOPT Amendment 20: 29-GH2609\F.11 (Nauman/Shutts, 4/6/16) (copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Co-Chair Neuman OBJECTED for discussion.

Representative Kawasaki explained the amendment relating to taxpayer confidentiality and disaggregating some of the information received by DOR in order for the public and legislators to understand what the state was getting in return for credits it provided. The amendment would enable DOR to provide confidential information to legislators under strict confidentiality agreements (similar to

agreements signed by DOR and DNR). There was a longstanding tradition through AKLNG, ACES, and AGIA [Alaska Gasline Inducement Act] where legislators were able to see confidential information in order for legislators to make better decisions on behalf of the state and industry.

Representative Wilson spoke in opposition to the amendment. She surmised that the legislature must not trust the governor and administration because work was their responsibility. She hoped the legislature would receive the accurate numbers. She elaborated that the administration had told the legislature that SB 21 was working and that the governor would not have submitted the bill if it were not for the low price of oil and the state's large budget. She believed the administration seemed informed on existing credits. She could not imagine the administration would make the clear statements about what was and was not working if they did not have the facts to back the statements up. She stated that the legislature had also heard from the administration that there were issues related to Cook Inlet; the legislature had been told the same thing from its legislative economist. She believed it was the responsibility of the administration to bring the information to the legislature in terms of what was and was not working. She hoped the legislature did not have to address the issue annually. She supported establishing a legislative workgroup to consider the information provided from the administration and the legislature's economist. She stressed that it was about the bigger picture; she did not want to get into the weeds on each individual company. She supported receiving the facts on what the state was getting for its money. Additionally, she wanted to know about the taxes, royalty, and the entire picture of revenue coming into the state at present and in the past. She detailed that the state had received benefits from many of the items in the past and not necessarily in the same year the state was paying for them. She trusted that the legislature was receiving accurate information.

[7:55:16 PM](#)

Representative Gara clarified that there had not been administration testimony that SB 21 was working. He detailed that one of the consultants who had helped write SB 21 had testified that he liked it. He stated that every field that was coming online under the current tax system was a field where investment had started before 2013

(before the passage of SB 21). He discussed that to determine whether the credits were working it was necessary to consider whether they were too expensive, not expensive enough, how it related to the tax the state received in return, and the balance between the two. He believed the administration had been clear that it would like to change the system to make the things work better.

Representative Guttenberg remarked on an earlier question, which he believed needed an answer. The amendment would enable legislators to sign a confidentiality agreement to see the information [provided by companies to DOR]. Currently, a company received a credit if they qualified; it was not based on whether a company was doing the right thing or whether it was actually beneficial for the state. He emphasized that nothing had shown specifically what was going on with the credits in slides presented to the committee because the information was aggregated. He stressed that the individuals who had presented the information were tax experts, but were not telling legislators what they did not want to tell them.

Representative Gattis commented about the previous and current amendments. She believed the last thing the state should do was let information about a highly competitive businesses get out. She was strongly against the amendments.

Co-Chair Neuman opposed the amendment. He stated that he saw numbers when he saw the throughput through the Trans-Alaska Pipeline System (TAPS) with more or less oil production. He saw numbers from DLWD showing more or less jobs in the oil and gas industry. He saw DOR reports on oil and gas production and revenue. He believed the legislature used the information as a gauge to determine how the industry was doing; an industry supporting the largest percentage of the state's revenue. He did not need to see the finite details, which he was unsure he would understand. He noted that he was not an accountant dealing specifically with oil and gas. He believed he saw the numbers he needed to see as a legislature (e.g. how many jobs were created and what the economy looked like). He added that the information under discussion was very confidential; there were hundreds of millions of dollars at stake.

Co-Chair Thompson discussed confidential information that was not disclosed unless someone had signed a confidentiality agreement or the information was provided in executive session. He referred to a legal opinion barring any legislator from being kept out of an executive session. He was concerned about the door the amendment would open.

Representative Kawasaki noted that the amendment included permissive language that the "department may disclose confidential tax information" that he believed the legislature should use in making educated and informed decisions. He referred to an earlier remark that it was the department's and governor's responsibility to provide the legislature with information it sought. He reasoned that if a person trusted the current governor than maybe a person was good with that. However, he would prefer to get the information directly. He recalled a recent situation where Ken Alper [DOR Tax Division director] was not able to disclose the specifics and value around the Cook Inlet or the non-North Slope tax credits. He added that Mr. Alper had not been able to separate out Middle Earth versus Cook Inlet. He believed it was problematic during oil and gas tax policy discussions and when the legislature talked about the \$300 million to \$400 million in non-North Slope tax credits in the coming year. He believed the legislature should have the information. He disputed earlier statements that it was the governor's responsibility to provide the legislature with the information. He opined that it should be the legislature's responsibility to become more informed. He stated that the amendment language was fairly boiler-plate, which had been added into ACES in 2008 and into other legislation. He reiterated that the legislature should be making informed decisions and could not be making informed decisions on tax policy without the information.

Representative Munoz spoke against the amendment. She could not imagine a group of legislators sitting around a table analyzing confidential tax information. She did not think it was appropriate. There were many ways success could be measured (i.e. increased production, a stable workforce, whether investments were occurring or not, and other).

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Guttenberg, Kawasaki, Gara
OPPOSED: Munoz, Pruitt, Saddler, Wilson, Edgmon, Gattis,
Thompson, Neuman

The MOTION to adopt Amendment 20 FAILED (3/8).

8:04:18 PM
AT EASE

8:14:44 PM
RECONVENED

Representative Gara MOVED to ADOPT Amendment 21, 29-GH2609\F.23 (Shutts, 4/7/16) (copy on file). [Note: due to the length of the amendment it has not been included in the minutes.]

Co-Chair Neuman OBJECTED for discussion.

Representative Gara stated that the amendment was small. He did not believe it was a game changer, but that it was the right thing to do. He believed Cook Inlet tax credits which cost the state too much. He discussed that currently a company in Cook Inlet was allowed to take the NOL credit, small producer credit, 30 to 40 percent exploration credit, and the QCE credit or the WLE credit. He stressed that the state was paying about 80 percent for the cost of a field that it received no production taxes from. He detailed that some of the credits would disappear including the exploration credit; the state would be paying the small producer tax credit for the next decade or so - a company could no longer apply for the credit beginning in the coming year. The amendment specified that a company would have to choose between the NOL credit, QCE credit and the WLE credit. He surmised that a company would probably select the NOL credit because it was the most lucrative - the state paid a part of the company's losses. Currently a company could use the NOL credit and could select either the QCE credit or WLE credit. He noted that it was not possible to prevent a company from also receiving their remaining small producer tax credits and exploration credits. He estimated the amendment would save around \$15 million. The amendment would leave companies with incentives that went beyond what the Legislative Budget and Audit consultant had specified as an incentive; the price in Cook Inlet would bring companies to explore, given that gas went for the highest price in the country.

Co-Chair Thompson surmised that the amendment was an attempt to unstack the NOL, QCE, and WLE credits. He stated that current law prohibited a company from taking a WLE credit without taking a QCE credit for that expenditure or other exploration credit provision. He stated that a company had to choose between the three. He asked for clarification.

Representative Gara answered that currently a company could combine the QCE or WLE credit with the NOL credit. The amendment would limit a company to selecting one of the three credits. He surmised a company would choose the most valuable credit. He clarified that a company could not currently stack the WLE credit and the QCE credit in Cook Inlet.

Co-Chair Thompson asked for verification that a company could pick one [of the three credits].

Representative Gara nodded.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Kawasaki, Guttenberg, Gara
OPPOSED: Munoz, Pruitt, Saddler, Wilson, Edgmon, Gattis, Neuman, Thompson

The MOTION to adopt Amendment 21 FAILED (3/8).

[8:19:59 PM](#)

Co-Chair Thompson MOVED to ADOPT conceptual Amendment 22, 29-GH2609\F (copy on file):

Page 6, line 25, following "chapter":
Insert", excluding a credit under AS 43.55.024(j),"

Page 6, line 31, following "chapter":
Insert ", excludin2 a credit under AS 43.55.024(j),"

Co-Chair Neuman OBJECTED for discussion.

Co-Chair Thompson explained the amendment. He detailed that many sections of the CS created a tax floor at 2 percent of

the gross value. He specified currently credits could reduce a tax payment to zero; the CS changed that ability and implemented a hard 2 percent floor. However, the sliding scale, per-barrel credit (of zero to \$8.00) in existing law [established in SB 21] had been set to not drop below the current 4 percent floor. The credit had been included in SB 21 to ensure that legacy production from the North Slope paid the 4 percent tax unless there was some other credit, such as an NOL. The CS currently would enable the per barrel credit to go down to 2 percent. The amendment clarified that the existing 4 percent hard floor for the per barrel credit would remain in place on the North Slope. Only the other credits, which could currently reduce tax payments to zero, were hardened at 2 percent. The amendment would save the state about \$125 million if approved.

Representative Gattis was unclear on the amendment. She needed further explanation.

Co-Chair Thompson noted that the item had only just been discovered. The current CS established that the North Slope 4 percent floor could be reduced to 2 percent with the per barrel credit of zero to \$8.00. The amendment reinforced that SB 21 legacy production from the North Slope paid the 4 percent tax unless there was some other credit, such as an NOL. The amendment would reinsert the 4 percent floor; without it the CS reduced the floor to 2 percent.

Representative Wilson asked for verification that if a company was already at the 4 percent tax without taking the price per barrel credit, the amendment would prevent them from doing so.

Co-Chair Thompson replied in the negative. The amendment pertained to the zero to \$8.00 sliding scale credit, which had a hard 4 percent floor. The CS would lower the sliding scale credit to a hard 2 percent floor. The amendment would maintain the 4 percent floor for the specific credit.

Representative Pruitt surmised that the sliding scale credit had an existing floor of 4 percent. He stated his understanding that the CS had accidentally reduced the floor to 2 percent for the specific credit. He deduced that the amendment would accomplish the goal of maintaining the intent of SB 21.

Co-Chair Thompson agreed. He expounded that without the change it could cost the state \$125 million. The 2 percent hard floor would lower the zero to \$8.00 sliding scale credit. The amendment would maintain the current 4 percent floor.

Representative Gara believed the zero to \$8.00 credit under SB 21 worked when there was a profits tax. The profits tax existed until it got so low that it was smaller than the minimum tax; at that point the gross minimum tax kicked in. He believed the zero to \$8.00 only impacted the rate paid for the profits tax. He did not understand how the profits tax sliding scale mechanism could impact the gross tax.

Co-Chair Thompson explained that the sliding scale credit could allow the 4 percent floor to drop to a 2 percent hard floor. The amendment would maintain the 4 percent hard floor on the North Slope.

Representative Gara remarked that the amendment sponsor had stated the amendment would restore the floor to a hard 4 percent. He did not think that was accurate because the bill had a 2 percent hard floor. He believed the sponsor meant the floor would not drop below 2 percent.

Co-Chair Thompson answered in the negative.

[8:26:31 PM](#)

AT EASE

[8:30:10 PM](#)

RECONVENED

Co-Chair Neuman WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment 22 was ADOPTED.

[8:31:10 PM](#)

AT EASE

[8:52:08 PM](#)

RECONVENED

Vice-Chair Saddler addressed the three forthcoming fiscal notes from DNR Division of Oil and Gas, DOR Tax Division, and Fund Capitalization to the Oil and Gas Tax Credit Fund.

Co-Chair Thompson asked DOR to address the committee.

Representative Gattis asked what was meant by forthcoming fiscal notes.

Co-Chair Thompson answered that the department would explain.

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, replied that he was not entirely certain about the meaning of the term forthcoming; however, he believed it meant that the fiscal notes would need to be modified due to changes made during the meeting. He clarified the fiscal notes had been written to the CS before it had been amended.

Co-Chair Thompson stated that some of the notes would be reduced and others would increase. Mr. Alper replied in the affirmative.

Representative Gara pointed to a fiscal note (OMB Component Number 2894) that included an \$800 million. He asked for verification that the governor had proposed the \$800 million to pay accrued tax credits at a time when the bill would have substantially reduced tax credits and raise some revenue.

Mr. Alper replied that the governor's initial appropriation request in the fund capitalization fiscal note had been \$926 million; the difference between the number in the operating budget and \$1 billion. The intent had been to "clear the decks" to pay all accrued credits including those accruing between the present day and the effective date of the bill. The expectation was that the program would be sufficiently smaller in future years and the appropriation would not be as substantial.

Representative Kawasaki pointed to page 2 of the same fiscal note. He asked if the fiscal note reflected the change in Amendment 1.

Mr. Alper replied that the fiscal note did not reflect changes made during the current meeting. He spoke to revenue line item 3: \$0.00 to \$10 million in FY 17 through FY 19, \$5 million to \$15 million in FY 20, etcetera. He detailed that the particular item was associated with the elimination of the tax cap for oil in Cook Inlet. The cap had been restored by Amendment 1; therefore, he anticipated

that the updated amendment would remove the \$0.00 to \$10 million from the bottom line.

Representative Kawasaki stated that the FY 17 change had been closer to \$20 million in the House Resources Committee version of the bill. He added that in a version of the fiscal note from the previous day, the impact had been \$10 million to \$50 million. He asked for verification that with the \$10 million for the tax limitation on Cook Inlet oil, the outlay appeared to range from \$5 million to \$20 million.

Mr. Alper answered that the fiscal note brought to the committee earlier in the week had been "on the fly" and he had relayed that there may be corrections. Specifically, the department had reversed the direction of the small extension of the exploration credit in the frontier areas (the number had been negative, but it had been reversed to a positive number as it would cost a bit more). He explained that it was really not possible to look at FY 17 because the effective date of almost all of the changes in the bill was not until January 2017. Therefore, the great bulk of the credits that otherwise would have been paid in FY 17 will have been paid before the bill's effective date.

Representative Kawasaki believed the bill version prior to the CS had been modelled after the House Resources Committee; in that version the total savings to the state would be between \$770 million and \$805 million and in year two the savings would range from \$420 million to \$455 million. Under the CS, excluding changes made during the current meeting, the savings would range from \$5 million and \$30 million the first year and between \$90 million and \$165 million in the second year. He asked if his statements were accurate.

[8:58:11 PM](#)

Mr. Alper answered that the statements were technically correct, but he put the more appropriate comparison on the FY 18 numbers. He explained that the governor's original version of the bill had a more imminent effective date, which dramatically changed the FY 17 numbers.

Representative Kawasaki remarked that the total effective revenue change for FY 18 was around \$120 million to \$130 million. Whereas, the amount was closer to \$430 million in

the governor's original bill. Mr. Alper replied that he did not have the original fiscal note on hand, but he believed the number sounded correct.

Representative Gara referred to page 2 of the fiscal note, which specified the value to the state ranged from \$5 million and \$30 million in FY 17 and between \$90 million and \$165 million in the second year. He asked if the amount factored in no longer receiving tax from oil in Cook Inlet.

Mr. Alper answered that line 3 on page 2 of the fiscal note included the Cook Inlet tax restoration of \$0.00 to \$10 million. The low end of the range would not change, but the high end would be reduced by \$10 million.

Representative Gara asked why the loss of \$10 million would not impact the low end of \$90 million.

Mr. Alper explained that the statute contained some inherent vagueness, especially related to how different features may interact with each other. The economist who had prepared the chart included a range to factor in uncertainty. He explained that the ranges for FY 18 including \$0.00 to \$10 million, \$70 million to \$100 million, \$15 million to \$25 million were added; the bottom line ranges included the sum of the low end amounts and the sum of the high end amounts. He elucidated that because they were moving a \$0.00 to \$10 million, the low end was \$0.00.

[9:00:31 PM](#)

Representative Munoz observed that according to the spring forecast numbers for FY 17 the total credit was about \$975 million and \$655 million in FY 18. She referred to changes for FY 18 shown in a DOR fiscal analysis the prior evening, which included approximately \$190 million (subject to minor change). She asked for verification that the state was looking at credits of around \$500 million.

Mr. Alper answered that did not have all of the documents in front of him. He explained that the department's spring forecast numbers included the refunded credits and credits that would be taken against liability. The portions of the bill that reduced the credit outlay also reduced the credit spend. To a certain extent the increased revenue items (primarily related to the partially hardened floor) would

be a reduction in credits used against liability. He detailed that the credits would not be used against liability and instead would be received as taxes. It was fair to say the great majority of the impact in the bill would adjust the chart going forward.

Representative Gara noted that the fiscal note (OMB Component Number 2894) included an \$800 million figure that he believed was not included in the bill. He believed it had been the governor's hope when he introduced the bill that the state would pay off existing credits for \$800 million. He asked for verification that the bill did not contain the provision.

Mr. Alper agreed that the item was not included in the bill, but he clarified that it had not been in the governor's original bill either. He believed the \$800 million figure would appear in the fiscal note section of the operating budget.

Representative Gara asked how much the state was obligated to pay in tax credits for FY 17. Mr. Alper answered that the number had been \$73.4 million when the budget had been constructed the previous fall; the number was included in the [FY 17] operating budget based on DOR's estimate of production tax after adding back any credits against liability multiplied by 15 percent. The calculation was somewhat different at present because the forecast was lower; the number had recently been adjusted in a presentation he had prepared for the other body. He believed the figure was around \$30 million.

Representative Wilson remarked that the state owed \$800 million, but the \$73 million was the state's statutory obligation [in FY 17]. She was trying to discern whether the House Finance Committee had asked for the fiscal note to the \$800 million or if the amount had been included at the governor's request.

Mr. Alper answered that in the governor's original version of the bill, the governor had requested \$900 plus million; however, that fiscal note had been made indeterminate and had not come to the House Finance Committee from the previous committee. He believed the fiscal note under discussion had been put together by the chair of the House Finance Committee [Co-Chair Neuman] or the Legislative Finance Division. The note had not come from DOR.

Representative Wilson referred to the DOR Tax Division fiscal note (OMB Component Number 2476). The note included a change in revenue from \$20 million [FY 17] to \$90 million [FY 18 and FY 19] to \$95 million [FY 20] to \$145 million [FY 21] to \$210 million [FY 22]. She assumed the revenues were close to those the bill would generate.

Mr. Alper replied that the specific fiscal note had been generated by DOR. He explained that the number was also included in the table attached both fiscal notes the committee had been speaking to (OMB Component Numbers 2476 and 2894). He explained that the top half of the table pertained to additional revenue (lines 1 through 8) and lower portion of the table included the total revenue impact of credits the state repurchased. He pointed to the revenue impact, which primarily showed changes from hardening the floor as well as the changes to the Cook Inlet tax, which had been added and subsequently removed. The impact showed a range of numbers \$10 million to \$30 million, \$70 million to \$110 million, and \$70 million to \$110 million. The DOR fiscal note showed the midpoint of the ranges. He added that it represented the additional revenue anticipated to be brought into the state treasury due to the changes in the bill.

[9:06:22 PM](#)

Representative Wilson remarked that numbers in the out years were usually estimates, especially when it came to tax credits, because it depended who cashed the credits in. She asked why the fiscal note did not include a future cost projection.

Mr. Alper responded that the original version of the fund cap fiscal note had included negative numbers beginning in FY 18, which had reflected the savings portion of the tax credit bill. The comparable numbers on the bottom portion of the chart would be about \$35 million to \$40 million in FY 18; and about \$60 million in FY 19. He explained that how the numbers were presented was up to the Legislative Finance Division, but there were negative numbers on the operating side through grants and benefits in FY 18 through FY 22; the numbers could be included in the note.

Representative Wilson was not in favor of paying \$800 million in the current year. She believed the committee had

made it clear to the companies that it would be great if the state could pay the amount in its entirety in the coming year, but it was not the state's obligation. She could not support reporting the bill out of committee with an \$800 million appropriation. She could support including the \$73 million with an explanation indicating the state would owe the remainder in future years (i.e. FY 18 through FY 20); she mentioned the possibility of paying the owed credits with potential new revenue.

Vice-Chair Saddler referred to the total fiscal impact shown on the fiscal note table. He asked if the amount should be between \$5 million to \$20 million when backing out the elimination of the Cook Inlet tax cap. He furthered that the table would read \$110 million to \$170 million in FY 20. He asked if it was accurate to subtract the high and low.

Mr. Alper replied in the affirmative.

Representative Edgmon recapped his understanding of the actions taken on the CS during the current meeting. He summarized that the CS included a 2 percent hardening of the tax floor, which represented the vast majority of the savings; and the Cook Inlet cap was removed. He surmised that the 2 percent hard floor would lower the hundreds of millions of dollars in obligations that would be stacking up in short order (as they were already doing).

Mr. Alper answered that the hardening of the floor at 2 percent would bring in a bit more to the state, but it did not change the credit spend obligation. He pointed to the bottom half of the table and explained that the largest portion reflected the Cook Inlet credit changes (i.e. reduction in the NOL and WLE credits). He pointed to FY 19 related to the NOL and QCE/WLE credits, which included savings of \$10 million to \$20 million and \$15 million to \$25 million respectively. Below that information the table included savings and spending related to the comingling of the GVR with the NOL credit, which was where the reduction in the future year's credit spend would be. He remarked that it was a somewhat esoteric technical correction made on the North Slope. The hardening of the floor would bring in a bit more revenue. He directed attention to the bottom three rows of the table related to non-refundable carry-forward credits. He detailed that the top of the three rows related to operating loss credits in the possession of

major producers, which were not cashable; by law they were not able to get money for their credits. The numbers (\$618 million in FY 17, \$751 million in FY 18, \$732 million in FY 19, and so on) represented credits the companies would hold until the price of oil increased; at that point the companies would use the credits to offset their taxes. Under the CS the companies would be carrying more credits forward because the credits would not be offsetting the floor so completely; they would only be offsetting half the floor. The hardened 2 percent floor actually increased the future liability of carry-forward credits. He pointed to the second to last row (\$676 million in FY 17, \$941 million in FY 18, \$1.065 billion in FY 19), which became the adjusted estimate for carry-forward credits.

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Representative Edgmon remained concerned that the CS did not do enough. He detailed that there would be significant obligations down the road, some of which were already in place. He stated that he would not hold the bill up, but he was not certain the committee had done the job it should have done.

Representative Pruitt asked if the governor had originally intended to have the \$800 million or so in current liability paid off in the coming year.

Mr. Alper answered that the governor's intent had been to put a large sum of money from the Constitutional Budget Reserve into the tax credit fund in advance of the liability. The expectation had been that by the time the credits ramped down later in 2016 that the obligation would be about \$1 billion.

Representative Pruitt asked how much the state would have to pay if the legislature had decided to only pay off the state's obligation for the current year.

Mr. Alper answered that the current year had an estimated obligation of \$700 million; the number had been reduced to \$500 million by the governor's veto, which left an estimated \$200 million of the FY 16 obligation unpaid. The FY 16 obligation rolled forward into the FY 17 obligation; therefore, the DOR spring forecast of \$775 million included \$575 million in new obligation and \$200 million in past obligation.

Representative Pruitt stated that the veto had put off paying \$200 million of the state's obligation for the current year [FY 16]. He surmised that because the CS lowered the floor to 2 percent it would potentially mean the state would push off liability into the future. He asked how future liabilities would be managed. He wondered if the legislature would have to appropriate money annually to cover the amount owed in the given year, which would increase the unfunded liability. He remarked that the governor had at least a couple more years in his role to make the decision. Alternatively, he asked if the governor would ask the legislature to appropriate the full amount the state owed to the tax credit fund in order to pay obligations as they came due.

Mr. Alper answered that he could not speak for the governor and how he may choose to approve appropriations in future years. The appropriation number in the budget would decrease because of the reforms made by the CS. He referred to the \$400-plus million estimate in two years; the number would be reduced by roughly \$50 million to \$60 million based on the changes in the bill. Additionally, the hardening of the floor caused the non-refundable carry-forward NOL credits (held by the major oil companies) to increase. The companies would offset as much as they could against their taxes; the amount would be small as long as oil prices remained low. He detailed that the amount would be 2 percent of the gross, the per barrel credit would get companies to 4 percent, and the NOL credits would get companies from 4 percent down to 2 percent. He furthered that once the price of oil increased there would be a delay of 3 months to a year from the increase in the price of oil and when material amounts of production tax revenue were generated. He explained that first, companies would use the carry-forward credits to reduce their production taxes.

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Representative Wilson did not understand why the DOR fiscal note (OMB Component Number 2894) included the \$800 million. She did not believe the amount was part of the bill. She agreed that it reflected the state's outstanding debt and included the \$73 million the state owed in FY 17.

Mr. Alper answered that it was not part of the bill. For FY 17, when factoring out the \$73 million in the operating

budget, the state's credit obligation was about \$702 million; the number in the fiscal note was \$800 million, but the bill did not specify there would be an appropriation.

Representative Wilson understood. She believed that normally fiscal notes for a piece of legislation were related to the legislation. She opined that the amount the state chose to pay in the operating and/or capital budgets did not follow the bill. She believed the notes associated with the bill should reflect the actual savings or costs it contained. She stressed that the bill did not include anything to account for the particular fiscal note. She wanted to avoid confusion about what the committee was voting on for the bill versus an obligation outside the bill.

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Co-Chair Neuman believed the fiscal note was appropriate because it represented the state's debt for oil and gas tax credits. He relayed that the credit number had not been known when the operating budget when the committee had worked on the operating budget. He continued that the committee had just received the final number the previous week; it was currently the first opportunity the committee had to look at past debt the state owed. The DOR commissioner had confirmed in a conversation earlier in the day that the \$800 million would be about what it would cost to cover the state's debt associated with the credits. He believed it was very important for the state to pay the debt. He specified that the credits were part of the contracts companies had entered into with lending agencies. He thought it was logical for the note to travel with the bill; it also paid off the state's debt on credit owed [\$73 million in FY 17].

Representative Pruitt asked for verification that with the fiscal note, the \$4.1 billion budget passed by the legislature increased to \$5 billion.

Co-Chair Neuman replied in the negative. He believed the cost would be outside the operating budget and would come from the CBR. He did not believe the cost was intended to be imbedded in the budget cycle.

Representative Pruitt respectfully disagreed. He reasoned that if the amount was added to the budget for FY 17 it would be a part of the recently passed budget. He detailed that the \$900 million plus the \$4.1 billion would make the budget \$5 billion. He wanted to be sure to be clear when talking to people that the budget was \$5 billion.

Co-Chair Neuman replied that the operating budget produced by the legislature to run state government services was \$4.1 billion.

Representative Pruitt remarked that the operating budget had included the \$73.4 billion for the tax credits. He reasoned that the fiscal note added another \$800 million and it was not possible to separate the two items. He believed it was appropriate to include the amount. He added that the operating budget included the \$73 million; therefore, he estimated the total budget at about \$4.9 billion with the inclusion of the remaining tax credits owed.

Representative Gara OBJECTED to the fiscal note from the House Finance Committee [OMB Component Number 2894]. He believed a fiscal note should reflect action taken in a bill.

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AT EASE

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RECONVENED

Co-Chair Thompson relayed that even though the fiscal note reflected what the state owed, it could be dealt with at a later time. Therefore, he WITHDREW fiscal note OMB Component Number 2894.

Co-Chair Neuman MOVED to REPORT CSHB 247(FIN) out of committee as amended with individual recommendations and the forthcoming fiscal notes.

Representative Gara OBJECTED.

Co-Chair Thompson clarified that fiscal note OMB Component Number 2894 had been withdrawn.

Representative Gara did not want to slow down the bill and thought it should be voted on by the entire House of Representatives. He remarked that a number of members had voiced their desire to see a different bill in various ways. He did not support the current version of the bill. He detailed that filling a \$4.4 billion deficit required a significant number of components. He remarked that some of the components were not universally liked within the legislature. He believed some components in the governor's bill needed fixing, but it had also included savings and revenue of around \$500 million. However, the CS brought savings of potentially \$90 million. He did not know where the legislature would locate the extra \$400 million. He surmised that it would require adding the amount to future debt, the Permanent Fund Dividend, an income tax, or other, which he was not thrilled about. He detailed that the bill had contained the easiest savings it had in a way that could protect the state and treat industry fairly. He committed to doing his best to work with other legislators over the upcoming days to hopefully come out with a better bill.

Representative Edgmon thanked Co-Chair Thompson and his staff Jane Pierson for their work on the bill. He reasoned the bill was complicated from every possible angle. He believed the first thing was to set a fair structure that provided the proper incentive to the primary industry funding government in Alaska since 1980. He spoke to doing what the state should be doing in terms of the massive revenue shortfall and trying to find a balance point. He was not sure the bill found the appropriate balance. He remarked that the bill would go to the other body and that more work would be done. He noted that perhaps some of the work would be delayed when the legislative workgroup provided a more comprehensive understanding of the give and take, cause and effect, and how actions in the bill would look over time.

Representative Kawasaki thanked Co-Chair Thompson for his communication on the bill and the procedures. He discussed that the governor's bill had come to the committee with major disagreements between committee members about whether the policy was good or bad. The governor's expected fiscal impact had been around \$800 million savings in the first year, \$440 million in year two, and \$400 million in year three. He remarked that the savings coming out of the CS were significantly different (\$24 million in the first

year, \$140 million the next year, and \$160 million the following year); he did not believe the bill had anywhere near the budget impact he or the governor had anticipated. He detailed that in the coming year the state would be giving \$135 million more in credits than it received in royalties and production tax.

Representative Kawasaki continued that the committee had heard from analytica and Legislative Budget and Audit analysts who had relayed the taxes provided by the state in the Cook Inlet region in particular were nothing more than a subsidy since the state did not levy a profit-based production tax in the region; he referred to an associated report filed in 2015 related to the Cook Inlet subsidies. He stressed the need for locating cuts in the budget and believed that the bill seemed like a reasonable starting point. He noted that many legislators had talked about revenue options in recognition of the huge deficit facing the state. He wholeheartedly agreed that action needed to be taken. He had thought the committee would agree on the bill. He highlighted bills pertaining to income tax and a restructuring of the Permanent Fund, which would hurt and impact individual families. He explained that it was very hard for him to justify supporting any of those measures when Cook Inlet and North Slope producers were held harmless in the budget cycle in the future. He had hoped the bill would be better. He did not support the bill.

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Representative Wilson believed the legislature needed to decide if the state was or was not open for business. She recalled a past Institute of Social and Economic Research (ISER) presentation, which had shown potential revenue and how the state's budget gap would continue to increase. The ISER presentation had illustrated that investment by the oil and gas industry was changing because the industry had known if the gap became large enough the state would look to it for reprieve. She observed that the industry had been correct. She reasoned that everyone had to pay and the industry had been paying. She asked members where they thought the state's money had been coming from. She answered that the funds had come from the oil industry. She addressed gas, which had been primarily utilized by companies bringing up more oil; there had been some things to help Southcentral and Interior Alaska also benefitted because much of its electricity came from the area. She was

disappointed that there had been no explanation of all of the changes in the CS. She referred to the final amendment, which had fixed an error in the bill. She was concerned there may be other mistakes existing in the current version of the bill. She remarked that no industry or public testimony had been heard on the current bill version, which she believed was considerably different and contained numerous policy changes.

Representative Wilson was primarily disappointed that she kept hearing the oil and gas industry needed to pay. She stressed it was likely the legislature would not be looking for more money from industry if government spending was not out of control and the state's deficit was not as high. She furthered it was the reason the legislature was not looking for as much out of the mining or fishing industry or the box stores. She did not see anything easy about the bill. She referred numerous testimony in opposition to changing the tax structure. She emphasized that the bill would change the tax structure again, but she did not know to what extent. She believed many of the committee members agreed for different reasons that their expectations on the bill had not been met. She remarked that many legislators had fought hard for SB 21 because they believed in it; she still believed in it. She had heard the number of projects had and production had increased. She noted there had been job losses on the North Slope on in the past year. She spoke to her son's experience working for an independent contractor on the North Slope and about how much had changed in the past year. She detailed that people were getting laid off throughout the state. She stressed that individual families were being effected by the budget and by the current bill. She did not believe oil prices would remain at their current low prices. She added that she did not believe it would rebound to \$100 per barrel, but it would improve over current prices. She believed the committee had just sent a major message to the oil and gas industry that the state would change the tax system every time it got into an issue.

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Representative Gattis stated that there were already over 1,000 people hurting due to the loss of jobs. She spoke to changing another tax regime. She remarked that the legislature had only impacted between 50 and 75 state jobs. She stated that the majority of the individuals working or

who had worked on the North Slope were from the Mat-Su. She stressed that no business would have the ability to stay in business as the state continued to change the tax system. She recognized the state was in a budget deficit, but she did not believe the legislature was being equal across the board. She struggled with the bill and would allow it to move, but reluctantly.

Vice-Chair Saddler spoke to the complex nature of Alaska's oil and gas tax system. He considered the substantial mission facing the committee, which included addressing the policy goals of maintaining a net profits tax at a time when there was no profit to tax, maintaining production, continuing to obtain royalties to pay the state's bills, incentivizing oil exploration and production at present, and preventing oil from drying up in the future. In terms of cash flow, he observed it was difficult to resist the desire to get short-term revenue, but it would mean selling the future short at long-term costs. He remarked that each person came to their own conclusions about what the bill was, which were all accurate. He agreed that the bill did not do everything everyone wanted it to do (e.g. it would not pay all of the state's bills and did not do everything possible to incentivize production). He surmised that if everyone was unhappy it may be a good mix. He reasoned that the bill would be addressed by other legislators as well. He noted that the bill was only one element of a complete response to the unprecedented oil price decline.

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Representative Guttenberg thanked Co-Chair Thompson and his staff for their work on the legislation. He discussed that the price of oil had collapsed worldwide. He noted that economists had stated it may represent the end of "oil as king." He discussed that the oil companies working in Alaska were some of the richest corporations in the world. He emphasized that the companies were investing in Alaska because of the state's oil and gas resources; resources making the companies rich. He disputed the claim that oil field workers and the support industry were being laid off because of what the legislature was doing, albeit the legislature would be blamed for it. He believed the workers were being laid off due to the price of oil. He surmised the oil industry was renegotiating its contracts with suppliers and subcontractors due to the decline in oil price. He noted there was nothing wrong with the strategy;

it was what happened [in times of price decline]. He remarked that apparently it was wrong if the legislature did the same thing. He stressed it was difficult to support a bill asking Alaskans to subsidize the oil industry. He equated the credits to grants and the legislature did not know what they were actually doing. He continued that the legislature received aggregate numbers from the departments. He referred to an earlier conversation on the House floor about separation of powers. He noted the committee was relying on the departments to do significant work. He reasoned at the end of the day the legislature had to do the people's work. He stressed that the state's natural resources were the people's resources. He did not support subsidizing companies to take oil out of the ground. He believed credits offered to companies were much too high. He continued that the legislature was asking Alaskans to come to the table and he believed the bill should be fair and equitable for Alaskans and industry. He opined that the bill was not at that place and he questioned whether it would get there.

Co-Chair Thompson thanked his staff his staff Jane Pierson for all of her work. Additionally, he thanked Pete Ecklund (staff to Representative Mark Neuman) and others. He noted the challenging work and observed the bill was probably not where it should be. He highlighted that SB 21 had been passed when oil was around \$100 or more per barrel. He detailed that no one had modelled oil prices at \$60 or below to determine what would happen. He did not believe the situation would be different if there was a different tax regime; he believed it was the economics. He stressed that no one had predicted oil prices would drop as low as \$26 per barrel. He opined that oil companies would still lay down their rigs because they did not want to pull oil out of the ground and sell it for \$26 per barrel. He continued that there was a long way to go. He questioned whether the committee had done the right thing in the bill and reasoned that maybe it had not. However, the committee had put tremendous work and thought into the legislation; it was not possible to satisfy everyone. He thanked the committee for its work.

Representative Gara WITHDREW his OBJECTION.

Representative Munoz thanked Mr. Alper for his work. She relayed that he had helped the committee understand the complexities of the state's tax system.

There being NO further OBJECTION, CSHB 247(FIN) was REPORTED out of committee with individual recommendations and with one new zero impact fiscal note from the Department of Natural Resources and one new fiscal impact note from the Department of Revenue.

Co-Chair Thompson discussed the meeting for the following day.

ADJOURNMENT

9:45:56 PM

The meeting was adjourned at 9:45 p.m.