

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

March 14, 2016

1:00 p.m.

**MEMBERS PRESENT**

Representative Benjamin Nageak, Co-Chair  
Representative David Talerico, Co-Chair  
Representative Bob Herron  
Representative Craig Johnson  
Representative Kurt Olson  
Representative Paul Seaton  
Representative Andy Josephson  
Representative Geran Tarr  
Representative Mike Chenault, Alternate

**MEMBERS ABSENT**

Representative Mike Hawker, Vice Chair

**COMMITTEE CALENDAR**

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."

- HEARD & HELD

#### PREVIOUS COMMITTEE ACTION

BILL: HB 247

SHORT TITLE: TAX;CREDITS;INTEREST;REFUNDS;O & G

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	RES, FIN
02/03/16	(H)	RES AT 1:00 PM BARNES 124
02/03/16	(H)	Heard & Held
02/03/16	(H)	MINUTE(RES)
02/05/16	(H)	RES AT 1:00 PM BARNES 124
02/05/16	(H)	-- MEETING CANCELED --
02/10/16	(H)	RES AT 1:00 PM BARNES 124
02/10/16	(H)	Heard & Held
02/10/16	(H)	MINUTE(RES)
02/12/16	(H)	RES AT 1:00 PM BARNES 124
02/12/16	(H)	Heard & Held
02/12/16	(H)	MINUTE(RES)
02/13/16	(H)	RES AT 1:00 PM BARNES 124
02/13/16	(H)	-- MEETING CANCELED --
02/22/16	(H)	RES AT 1:00 PM BARNES 124
02/22/16	(H)	Heard & Held
02/22/16	(H)	MINUTE(RES)
02/24/16	(H)	RES AT 1:00 PM BARNES 124
02/24/16	(H)	Heard & Held
02/24/16	(H)	MINUTE(RES)
02/25/16	(H)	RES AT 8:30 AM BARNES 124
02/25/16	(H)	Heard & Held
02/25/16	(H)	MINUTE(RES)
02/25/16	(H)	RES AT 1:00 PM BARNES 124
02/25/16	(H)	Heard & Held
02/25/16	(H)	MINUTE(RES)
02/26/16	(H)	RES AT 1:00 PM BARNES 124
02/26/16	(H)	Heard & Held

02/26/16	(H)	MINUTE(RES)
02/27/16	(H)	RES AT 10:00 AM BARNES 124
02/27/16	(H)	Heard & Held
02/27/16	(H)	MINUTE(RES)
02/29/16	(H)	RES AT 1:00 PM BARNES 124
02/29/16	(H)	Heard & Held
02/29/16	(H)	MINUTE(RES)
02/29/16	(H)	RES AT 6:00 PM BARNES 124
02/29/16	(H)	Heard & Held
02/29/16	(H)	MINUTE(RES)
03/01/16	(H)	RES AT 1:00 PM BARNES 124
03/01/16	(H)	Heard & Held
03/01/16	(H)	MINUTE(RES)
03/02/16	(H)	RES AT 1:00 PM BARNES 124
03/02/16	(H)	Heard & Held
03/02/16	(H)	MINUTE(RES)
03/02/16	(H)	RES AT 6:00 PM BARNES 124
03/02/16	(H)	Heard & Held
03/02/16	(H)	MINUTE(RES)
03/07/16	(H)	RES AT 1:00 PM BARNES 124
03/07/16	(H)	Heard & Held
03/07/16	(H)	MINUTE(RES)
03/07/16	(H)	RES AT 6:00 PM BARNES 124
03/07/16	(H)	Heard & Held
03/07/16	(H)	MINUTE(RES)
03/08/16	(H)	RES AT 1:00 PM BARNES 124
03/08/16	(H)	Heard & Held
03/08/16	(H)	MINUTE(RES)
03/09/16	(H)	RES AT 1:00 PM BARNES 124
03/09/16	(H)	Heard & Held
03/09/16	(H)	MINUTE(RES)
03/11/16	(H)	RES AT 1:00 PM BARNES 124
03/11/16	(H)	-- MEETING CANCELED --
03/14/16	(H)	RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

DAVID HANSON

Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 247.

JAKE JACOBSON

Kodiak, Alaska

**POSITION STATEMENT:** Testified in support of HB 247.

JAMES MCMILON, Business Representative

Teamsters Local 959 Union

Fairbanks, Alaska

**POSITION STATEMENT:** During the hearing on HB 247, expressed his union's concern with the governor's plan to change Alaska's oil and gas tax structure.

SCOTT HICKS

Alaska West Express  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

KAREN LANE

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

SARAH HETEMI

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

KELSI PULCZNSKI

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

RYAN MCKEE

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

BRAD FAULKNER

Homer, Alaska

**POSITION STATEMENT:** Testified in support of HB 247.

CARL PORTMAN

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

JOHN STURGEON

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

ARLENE RONDA

Homer, Alaska

**POSITION STATEMENT:** Testified in support of HB 247.

JOE MATHIS, Vice President of External Affairs

NANA Development Corporation

NANA Regional Corporation (NANA)

Anchorage, Alaska

**POSITION STATEMENT:** Expressed his corporation's concerns with HB 247.

JEREMY PRICE, Alaska State Director  
Americans for Prosperity  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

FAITH MARTINEAU  
Caelus Energy Alaska, LLC  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

RAYMOND WARD  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

JON COOK, Chief Financial Officer  
Airport Equipment Rentals, Inc.  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

CRYSTAL NYGARD  
Matanuska-Susitna Business Alliance (MSBA)  
(No address provided)

**POSITION STATEMENT:** Testified in opposition to HB 247.

#### **ACTION NARRATIVE**

[1:00:51 PM](#)

**CO-CHAIR BENJAMIN NAGEAK** called the House Resources Standing Committee meeting to order at 1:00 p.m. Representatives Olson, Johnson, Josephson, Tarr, Herron, Chenault (alternate), Talerico, and Nageak were present at the call to order. Representative Seaton arrived as the meeting was in progress.

[1:01:43 PM](#)

**CO-CHAIR NAGEAK** noted that Representative Mike Chenault has joined the committee as the alternate member for Representative Mike Hawker.

**REPRESENTATIVE CHENAULT** thanked members for allowing him to sit on the committee.

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

[1:02:24 PM](#)

CO-CHAIR NAGEAK announced that the only order of business is 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."

[1:03:40 PM](#)

CO-CHAIR NAGEAK opened public testimony on HB 247.

[1:04:18 PM](#)

DAVID HANSON stated he is testifying in support of HB 247 on behalf of himself and his family. He said HB 247 needs to be passed because the state cannot afford the existing system. As

was pointed out by Gunnar Knapp of the Institute for Social and Economic Research (ISER), this coming year from oil production taxes the state may only receive \$12 million if the average oil price is \$35 per barrel, versus \$1 billion in credit costs without any changes. This system of credits has done much good, but it has also gotten a bit out of control. The word on the street is that some of it is being used to help companies get out of bankruptcy. However, the real reason it needs to be changed is that the state cannot afford it. The bill's fiscal note needs to be reduced to match the legislature's budget efforts. Large cuts are being made to all programs across the board, which is necessary given the state's fiscal situation. Monies required for this credit program transition are speculative given that most things are confidential. The fiscal note cost of \$1 billion could probably be reduced to maybe \$850 million. In his work as a businessman and in government he has found that the more money set aside for something the more certain it is that the money will be used. The legislature never guaranteed the credits would be paid every year since they were subject to annual appropriation. This program and its fiscal note need to reflect the state's current budget situation. Raising the [minimum tax] floor from 4 percent to 5 percent for companies under the program probably makes sense to help the state's current budget situation. Mr. Hanson noted that two arguments are used against this. One, many people say that the oil industry is already paying royalties and [property] taxes. But, he pointed out, the royalties pay for the use of the oil and the property taxes pay for the use of the property for facilities and are unrelated to the production tax. A second argument he has heard is that the Alaska's oil tax regime cannot keep being changed all the time because it makes for instability. In essence, he noted, it should be remembered that the oil industry itself wanted certain of the tax changes that have happened in the last six years.

[1:08:47 PM](#)

JAKE JACOBSON said he is testifying on behalf of himself and his family. The information he will be referring to comes primarily from Alaska newspapers, he noted; unfortunately a lot of oil company dealings are kept secret and that should change. He said he finds it strange the Gunnar Knapp's extensive study was not given time or money to include factoring in effects of oil taxes and credit regimes. Credits paid to oil companies sometimes exceed actual expenses and there is no way of knowing if the credit claims are legitimate. The state is paying up to 65 percent of the cost of some oil projects. Exploration is a

gamble; that the state pays any credits at all seems ridiculous to him. This is forcing Alaska residents to take the risk while big oil reaps the profits - new oil is not taxed. Currently credits to big oil amounts to about \$1,000 per Alaska resident. This is about what the governor wants to take from each resident by a reduction in the permanent fund dividend (PFD). Stop the credits and leave the permanent fund dividend alone. The proposed \$100 million in new taxes on oil companies is about half of what would come from the debated 6 percent of federal income taxes if Alaska instituted an income tax on residents. That \$100 million is double the amount that would be gained from an increase in motor fuel taxes. The state needs to tax the oil companies that \$100 million. The state's accounting office is years behind on checking payments from big oil companies. The court case of Alaska v. Amerada Hess et al. found that from 1977-1992 companies were guilty of deliberate falsification in computing the price paid to Alaska for its royalty oil. The case ended with the judge saying that the state was guilty of inexcusable trustfulness in dealing with big oil companies. Contrary to its television ads, ConocoPhillips is not Alaska's oil company, it is owned by stock holders, most of whom are not Alaskans. But Alaskans are essentially stockholders of the PFD. Alaska should look at an ad valorem tax on product left in the ground since it might enhance state income close to the amount of the deficit.

[1:11:31 PM](#)

JAMES MCMILON, Business Representative, Teamsters Local 959 Union, stated that the Teamsters Local 959 is a union of roughly 7,000 members in a wide variety of industries, including workers at Usibelli Coal Mine, Inc., on the North Slope, on the Trans-Alaska Pipeline System, Port of Anchorage, AT&T, United Parcel Service (UPS), Lynden Transport, Weaver Brothers, Alaska Frontier Constructors, Nanook, and Doyon associates. He said the union understands the challenges of the fiscal crisis that Alaska faces. The union understands that tough decisions need to be made and the union supports the governor and legislature in reducing the operating budget, using some of the earnings from the permanent fund to help balance the budget, and maybe instituting some new taxes. The union is concerned with the governor's plan to change the oil and gas tax structure. Since passage of Senate Bill 21 [in 2013, Twenty-Eighth Alaska State Legislature], the oil industry has invested more into Alaska projects, with projects like CD5 and Shark Tooth, that have put hundreds of Alaskans to work, put more into the pipeline, and billions of dollars into Alaska's economy. Increasing oil taxes



and reducing credits that encourage investment at a time when the industry is struggling sends the wrong message. Alaska must maintain a healthy oil and gas industry to keep oil flowing through the pipeline and keep alive the prospect of a gasline.

1:14:03 PM

SCOTT HICKS, Alaska West Express, testified that he works for Alaska West Express, a company that provides transportation to the North Slope for the oil and gas industry. The company's drivers deliver freight to customers on Alaska's North Slope. The company has approximately 140 employees and contractors that work in Fairbanks and on the North Slope. The company's truck drivers, mechanics, and office employees rely on a healthy oil and gas industry. Alaska's fiscal challenge and stability of the oil and gas industry will shape the future of [Alaska's residents]. He said he is opposed to a major revision to Alaska's oil and gas tax policy at this time. The bill would dramatically change the tax system by raising the minimum production tax by 25 percent. It is just not a good idea to raise taxes on businesses that are already losing money. Many oil and gas companies are cutting costs and making choices about where to invest their money to ensure Alaska stays competitive with the rest of the world's oil and gas opportunities. The governor's proposal would be the sixth change in the last eleven years. How is that a stable investment climate? Oil still provides the majority of Alaska's revenue and supports one-third of the state's economy. The last place that should be looked at for new revenue is to unfairly tax industries that drive the state's economy. He offered his appreciation for the efforts of the governor and the legislature during this challenging time.

1:16:00 PM

KAREN LANE expressed her opposition to HB 247. She said the oil industry is a major revenue producer for the state; it is the largest producer of revenue for the North Slope Borough, City of Valdez, and the Kenai Peninsula Borough. Higher industry taxes in this low price commodity environment could lead to lower state revenues and a weaker private sector over the long term. The private sector is the foundation of Alaska's economy and its underlying health is the key to sustaining jobs, state government, and the overall economy. The governor's tax proposal does not encourage the private sector; instead it takes the state in the opposite direction, jeopardizing future investments, jobs, and production. The Alaska economy, new investment, jobs, and production need to be encouraged by

maintaining a stable, competitive tax structure. The more the state taxes companies to produce the commodity, the less it will produce here and the more it will produce elsewhere. Increasing taxes discourages investment. Why is the state taxing an industry that is already struggling with bottom-of-the-barrel prices? She urged that HB 247 be discouraged, not encouraged.

1:17:40 PM

SARAH HETEMI testified she is a sophomore at the University of Alaska Anchorage and is working her way towards a political science degree. She holds one part-time job now and is considering a second job in order to make ends meet. Being in Alaska by herself has made it difficult trying to make rent, pay tuition, and still hold an active role in the community. When she moved to Anchorage about three and one-half years ago she was not necessarily in a much better position, however she had so much hope for the future as she saw opportunities within her reach as long as she worked hard. She was motivated to do well at school, work as hard as she could, and still get involved in the community. With no guarantee, hope, or opportunity, what is the point if all of her hard work and daily stress is going forth to potentially nothing and why? Alaska is the place in which she wishes to build a future, but if she cannot make it work by doing her very best she fears it is an idea she will have to let go of. In the last 10 years Alaska's oil and gas tax regime has significantly changed five times. If HB 247 passes it will be the sixth time that investments, jobs, and more production are absolutely killed. With this kind of instability there is no wondering why Alaska is heading the way it is. Since every oil industry job creates nine other jobs in the private sector it is baffling to her that taxes would be increased under any circumstance on the state's primary industry. She asked that the committee members keep in mind students like herself and urged members to oppose HB 247.

1:20:20 PM

KELSI PULCZNSKI voiced her strong opposition to HB 247. She said she is a full-time student at the University of Alaska Anchorage. She works full-time to support herself and pay for her education to maintain her independence, not from her family but from the State of Alaska. She does so because her education is an investment in her future and the future of Alaska. She works hard so she can have the opportunities to be successful. She is involved on her campus and in her community because she is passionate about creating a better and brighter future for

the state. Because she plans to live and work in Alaska for the remainder of her life it is incredibly important for her to know that the stress and money she puts into her education today will be a worthwhile investment, to know that the place she calls home has a prosperous future ahead of it. Oil and gas is a critical industry for Alaska and has faced instability often in the last decade. If HB 247 passes it will be the sixth time in ten years that there has been significant changes to the oil and gas tax regime. It is no surprise to her that the industry is laying off workers in the face of this poor policy. It is hard to plan for the future when being met by instability. For every one oil and gas job in Alaska, nine other jobs are produced or reduced in the private sector. Knowing this she looks to her future and asks what it holds for her. Two or three years from now when she is looking for her post-college job, what will the market look like? She knows for sure that she will not be heading into the oil and gas industry, but what about the nine other jobs from every one oil and gas job? What will that mean for her and her peers? Will she have wasted four years interning, networking, and studying only for the market to not be able to support her and her future? The state budget is bloated. She urged that this not be pushed onto the private sector, which would cause further job loss and recession. The state cannot be taxed into prosperity. The state should be focused on allowing the free market to work, not increasing the tax burden on businesses that are so vital to the state's economy. When it comes time to move this bill forward, she hopes committee members will think of her and the thousands of others like her who are facing an uncertain future. She urged that members oppose HB 247.

[1:23:06 PM](#)

RYAN MCKEE testified in opposition to HB 247. He said the state is already in a financial crisis and he agrees action should be taken to balance the budget, but going after an industry that pays most of the state's budget already is not the way to do it. These companies are already being hit hard with the low cost of oil. Many Alaskans know a friend or family member who has been laid off or have been laid off themselves due to these tough times in the industry. Drilling for oil in Alaska costs significantly more than other parts of the U.S., so why would more tax burdens be added to an industry that is already struggling to stay alive in the state? Allowing HB 247 to pass is essentially telling the world that Alaska is not a safe place for these companies to do business; that despite passage of Senate Bill 21 and defeat of the Senate Bill 21 referendum,

there is going to always be an unreliable policy that could change at any moment. Alaska needs to remain competitive with the rest of the world or risk losing business, which has already begun to happen. Repsol has restructured its investments which led to many people losing their jobs and Apache Corporation recently decided to pull out of Alaska altogether. BP Exploration Alaska and ConocoPhillips Alaska, Inc., have also announced huge layoffs. Burdening the remaining companies still trying to drill for oil with more taxes on top of the massive amounts that they have already paid will only lead to more companies closing and moving to a more business friendly part of the world. Alaska is in a time of financial uncertainty, however ways should be looked at to reduce government spending first. While new revenue certainly needs to be explored, the very industry that drives the Alaska economy and pays 90 percent of the budget should not be looked to. He urged committee members to oppose HB 247.

[1:25:10 PM](#)

BRAD FAULKNER offered his support for HB 247, saying he has watched Alaska's oil taxes and the evolution of well taxes throughout the last 30 years. He recounted that when Senate Bill 21 came out and he saw the Gross Value Reduction (GVR), he immediately called both his legislators to say that this cannot be done because there cannot be a tax on the net and then a rebate of the tax on the gross. However, today's hearing is not about the Gross Value Reduction, it is really about 1 percent - going from 4 percent to 5 percent. When Senate Bill 21 was passed [and \$15 million was spent in advertising] to keep it going, the people of the state were sold a bill of goods, which was taxing the oil at 35 percent. But now when trying to raise the gross tax on oil from 4 percent to 5 percent, [the oil lobbyists and people who are going to make hundreds of millions of dollars off of this] are saying that it is 20 percent. But it will be clipped from the people of the state - for the first time the legislature is going to tax him in order to give the rebates on the gross when the tax is on the net. It is structurally incorrect and his hat is off to the oil company guy who slid that through and the legislators voted for it, and then the majority of the people in the state voted for it after the industry's \$15 million ad campaign. The reality is that nobody looked at \$50 oil and now there is about \$30 oil. However, the budget is based on \$55 oil. If an interest rate of 6 percent is put on it, it can be seen that 30 years in the future the Gross Value Reduction does not work. He requested committee members to not listen to those people who are urging that the taxes not

be raised by 20 percent, because the tax raise is 1 percent. What legislators guaranteed Alaska residents when Senate Bill 21 was given to them was 35 percent on the net value.

[1:28:41 PM](#)

CARL PORTMAN stated he is very concerned about Alaska's fiscal situation. The state's economic lifeblood, the Trans-Alaska Pipeline System (TAPS), is now running at three-quarters empty. The current oil tax policy has encouraged new industry investment, which has stabilized a long, steep slide in production. He said he does not support increasing taxes on the oil industry as HB 247 would do. Alaska cannot increase oil product by raising taxes, especially considering that North Slope oil now sells for less than it costs to produce. The industry is losing billions of dollars annually in this downturn and is being forced to cut jobs and expenses. Any tax increase will have a direct impact on future investment in Alaska and therefore future production. Even at today's low oil prices, 67 percent of Alaska's revenues come from the oil industry through various industry taxes and royalties. Clearly the industry continues to pay the vast majority of Alaska's bills. The legislature needs to continue to cut state spending to a more affordable level. Despite cuts in recent years the state's operating budget is still on an unsustainable path. Unrestricted general fund spending has increased 230 percent in 10 years while revenues have fallen sharply. In addition the legislature and the administration need to come to terms on using permanent fund earnings to help fill the fiscal gap. The permanent fund earnings need to be part of the long-term solution; it is the biggest and best tool in the box to help solve the state's fiscal crisis. Even the bond rating agencies have recognized the need for Alaska to begin using permanent fund earnings in a sustainable manner. He recalled that Governor Jay Hammond's vision for the permanent fund included the eventual use of the permanent fund earnings to help pay for essential government services. Given low oil prices, low throughput in TAPS, and the need for new industry investment, he said he does not support HB 247. Higher taxes on the industry will make matters worse for both the public and private sector.

[1:32:05 PM](#)

The committee took an at-ease from 1:32 p.m. to 1:47 p.m.

[1:47:43 PM](#)

JOHN STURGEON expressed his opposition to HB 247. He said he opposes the bill because it sends the wrong message to the oil industry and anybody else in Alaska who is trying to invest. The number one priority of the legislature should be trying to create jobs, not stifling them through additional taxes on industry. He said he works in the timber industry and he cannot imagine how the timber industry would survive if it had a tax structure like that of the oil industry. With markets, oil prices, and fuel costs going up and down, not having a stable tax base would make it extremely difficult for him to conduct his business in the timber industry.

[1:49:13 PM](#)

ARLENE RONDA offered her support for HB 247. She said revenues absolutely must be raised because if the cuts are too deep it does a disservice to the people of the state. She offered her appreciation to Representative Seaton for his thoughtful research and efforts in this regard. She said HB 247 is another way to plug some of the gaps that have been had over the last several years.

[1:50:15 PM](#)

The committee took an at-ease from 1:50 p.m. to 2:05 p.m.

[2:05:28 PM](#)

JOE MATHIS, Vice President of External Affairs, NANA Development Corporation, NANA Regional Corporation (NANA), said he will provide NANA Development Corporation's perspective on HB 247 overall as it relates to NANA's oilfield businesses. He said NANA has many companies directly involved in the oil industry, such as NANA Management Services, NANA Oilfield Services, NANA Worley Parsons, WHPacific, and GIS Oilfield Contractors. The NANA companies have been meeting the needs of the oil and gas sector for four decades and have employed 5,000 Alaskans and more than 1,600 NANA shareholders. Through its business operations NANA generates income that enables it to deliver valuable benefits to its shareholders and to the state as a whole. Shareholders of NANA have made significant investments in the oil industry over the past 40 years. For over two decades NANA held a small ownership in the Endicott Oilfield. Recently NANA invested in new facilities and equipment at Deadhorse for NANA Oil Field Services, and constructed a state-of-the-art fabrication facility in the Matanuska-Susitna Valley specifically designed for oilfield modules. Through those



business activities NANA's shareholders and all Alaskans have been afforded the opportunity to hold thousands of good paying jobs as well as the opportunity to receive extensive job training. He expressed his corporation's concern with the direction that HB 247 would take in times when caution is needed in instituting substantial tax changes. The corporation supports a stable and predictable tax structure; NANA has been significantly impacted by this turn of events. Oil industry investments fuel contracts for NANA companies and the jobs those contracts create. But Alaska's current investment climate is at a standstill due to the low oil prices and NANA has lost hundreds of good paying jobs. It is essential that there be a stable economic climate to serve Alaska's citizens today and well into the future. The downturn will not last forever. However, HB 247 sets the stage for diminished development when the oil economy does recover. He urged that as members deliberate HB 247 they consider that Alaska's future for decades to come depends on the decisions the committee will make. In its current form the bill has too much impact on today's transitional situation. The bill does not strike the balance between Alaska's short-term wants and its long-term needs. He urged that members consider the impacts HB 247 will have upon the industry without further changes to the bill. The proposed changes in the tax structure will have unintended consequences of delaying expansion projects and production of new oil. The catastrophic downturn in oil prices has shaken the industry, including NANA and the state government. Alaskans must pull together to ensure a stable economic climate that serves citizens today and into the future. Thoughtful work by the committee can produce a viable and fair tax policy for the state, Alaskans, and the industry.

[2:10:46 PM](#)

JEREMY PRICE, State Director, Americans for Prosperity - Alaska, testified in opposition to HB 247. He said the saying, "When you tax something more, you get less of it, and when you tax something less, you get more of it," is appropriate here. The private sector faces uncertainty during these tumultuous times of record low oil prices. The private sector cannot control these fluctuations in the market and neither can the state's elected officials. The private sector can plan for the short and long term knowing these volatile times can and will occur. However, the private sector cannot plan for constant changes in public policy. Fortunately this is an area that is in the control of the state's elected officials. Legislators control the state's future with [HB] 247. The private sector needs a

predictable and stable regulatory environment where the government will not keep changing the rules in the middle of the game, especially when the home team is losing. This issue is being considered because state government wants more money. Should an overhaul to the oil and gas industry's tax structure be passed simply because the state wants more revenue from a particular industry? Like it or not, Alaska's future lies with the failure or success of the oil and gas industry. This issue will make or break Alaska's future. Expert witnesses have called this bill one big tax increase on the industry. This is not the time to raise taxes on an industry that is currently cash flow negative. This is the sixth major change to oil and gas tax policy in the last eleven years. When will it stop? [The committee's] leadership is needed now more than ever. The pipeline is flowing at a half million barrels a day compared to 2 million in the early 1990s. On federal lands the regulatory environment makes it extremely difficult to economically produce oil and gas, especially in this state. Alaska's most prolific deposits of hydrocarbons are off limits. Alaska has more federal regulatory blocks than any other state. He urged that the economic environment not be made worse with state-level roadblocks. He said his family has been in Alaska since the 1950s when his grandfather homesteaded in the Interior. He has two children and another on the way and he wants Alaska's elected officials to think of his family when voting on this bill. What will his family's future be if the committee helps to drive the industry out of the state through constant changes in tax policies? He urged the committee to oppose HB 247.

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The committee took an at-ease from 2:13 p.m. to 2:30 p.m.

[2:30:55 PM](#)

CO-CHAIR NAGEAK recessed the meeting to a call of the chair.

[2:50:03 PM](#)

CO-CHAIR NAGEAK called the meeting back to order.

FAITH MARTINEAU, Caelus Energy Alaska, LLC, said she has worked in Alaska's oil industry for a year now and opposes HB 247 because it is a real threat to Alaska's oil industry and affects her, her family, the people she works with, and many of her neighbors. She urged the committee to consider the strides that have been made already under Senate Bill 21, a system that



better benefits Alaska's primary industry as well as Alaska's economy in the long run by making the state more attractive to investment. The company she works for came to Alaska because of the benefits offered by Senate Bill 21, benefits that would be retroactively revoked in some cases under HB 247. Allowing the system that is currently in place to work is essential to showing that Alaska can have a stable fiscal regime. She said she agrees with the legislature's consultant, enalytica, in concluding that stability is the most important element in any legal system. Alaska's Arctic is one of the most expensive and challenging places in the world to operate in, but it also has world-class resources that can still attract investment with the correct incentives. She asked the committee to consider what is truly best for Alaska in the long term and to oppose HB 247.

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RAYMOND WARD stated that now is not the time for HB 247 and increasing taxes on the oil industry in light of current dwindling oil and gas prices. Recently many major oil companies in Alaska have ceased their operations and the remaining major players are scaling down tremendously on their operation and production. Increasing taxes on the oil industry at this time would be more of an incentive for oil companies doing business in Alaska to cease their operations, close shop, and move out of state, which is not a good idea particularly with the pending state deficit. It would be an impingement on the generation of revenues of the state's operating budget.

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JON COOK, Chief Financial Officer, Airport Equipment Rental, Inc., testified that his company is opposed to HB 247. These credits over the past three years have given his company tremendous opportunities in the exploratory side of the business. His company owns one of the largest exploration packages for a lease on the North Slope and that package of equipment has worked steadily for the past two years and is working this winter. In this low price environment his company thought it would be a challenge to put this package and the company's employees to work, but the credits offered under the current statutes are one of the reasons that this package is being deployed and out working on the North Slope right now, literally putting hundreds of Alaskans to work. There is a time to tinker with things, but right now when there is a lot of uncertainty amongst private employers and companies it is bad timing to make changes to a system that is working and putting

Alaskans to work. He urged the committee to do due diligence in looking at things, but said his company would not have people working on the North Slope right now were it not for the system that is currently in place.

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CRYSTAL NYGARD, Matanuska-Susitna Business Alliance (MSBA), explained that her organization was founded seven years ago to provide a voice to small businesses in the Matanuska-Susitna Valley. She said her organization urges all committee members to vote no on HB 247. The bill is a job killer. She related that recently Neal Fried provided a presentation at the college in which he referenced that 10 percent of the current residents in the Matanuska-Susitna Valley work on the North Slope and 1 percent work on the Kenai Peninsula. People are able to live in the Matanuska-Susitna Valley and work around the state because of the rotational schedules that the oil and gas industry has provided. The government needs to stop competing with the private sector and let the private sector create jobs in a friendly environment. She noted she has three sons, one of whom is studying in Montana and who does not see an opportunity to come back to the state he was raised in because of the message being sent to investors and students. Another son in school is asking where are the jobs? Government needs to get out of the way and needs to incentivize the private sector to create jobs. She thanked those legislators willing to vote against HB 247.

[2:58:34 PM](#)

CO-CHAIR NAGEAK closed public testimony for the time being and said further testimony will be taken at the committee's next hearing on HB 247 which will be held this evening.

[HB 247 was held over.]

[2:58:57 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:59 p.m.