

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 14, 2016

6:00 p.m.

MEMBERS PRESENT

Representative Benjamin Nageak, Co-Chair
Representative David Talerico, Co-Chair
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
Representative Bob Herron

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
03/14/16	(H)	RES AT 6:00 PM BARNES 124

WITNESS REGISTER

MERRICK PEIRCE

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 247.

LOIS GILBERT

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 247.

TOM LAKOSH

Anchorage, Alaska

POSITION STATEMENT: Suggested an amendment to HB 247.

KEITH LIPSE

Big Lake, Alaska

POSITION STATEMENT: During the hearing on HB 247, urged that the oil companies not be taxed any further.

GEORGE PIERCE

Kasilof, Alaska

POSITION STATEMENT: Testified in support of HB 247.

KAITLIN VADLA

Soldotna, Alaska

POSITION STATEMENT: During the hearing on HB 247, addressed the cash credits portion of the bill.

NELMA TREIDER

Soldotna, Alaska

POSITION STATEMENT: During the hearing on HB 247, testified in opposition to continuation of the current tax credit structure.

RAMI JASSER

Eagle River, Alaska

POSITION STATEMENT: During the hearing on HB 247, testified in opposition to increasing oil and gas taxes at this point.

LISA REIDER

Anchorage, Alaska

POSITION STATEMENT: Testified in disapproval of HB 247.

JAMES "HOTAI" WILLIAMS

Valdez, Alaska

POSITION STATEMENT: During the hearing on HB 247, testified that raising taxes on oil companies must be done intelligently.

MARY LEE GUTHRIE

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 247.

ELSTUN LAUESEN

Anchorage, Alaska

POSITION STATEMENT: Urged that the proposals in HB 247 be given positive consideration.

ACTION NARRATIVE

6:00:00 PM

CO-CHAIR BENJAMIN NAGEAK called the House Resources Standing Committee meeting to order at 6:00 p.m. Representatives Seaton, Josephson, Olson, Johnson, Chenault (Alternate), Talerico, and Nageak were present at the call to order. Representative Tarr arrived as the meeting was in progress.

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

6:00:46 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."

CO-CHAIR NAGEAK re-opened public testimony on HB 247.

6:01:38 PM

MERRICK PEIRCE testified in support of HB 247. He said it is a very good piece of legislation and is a good start to fix the significant errors and problems that are within Senate Bill 21 [passed in 2013 by the Twenty-Eighth Alaska State Legislature]. He posited that a \$4 billion deficit has been created as the partial consequence of Senate Bill 21's passage, a significant deficit that threatens the future of the state. The current throughput in the Trans-Alaska Pipeline System (TAPS) is roughly 515,000 barrels a day at a price of \$35 [per barrel]. This comes out to about 187 billion barrels of oil pumped on an annual basis, worth a total of \$6.5 billion. Alaska's current severance structure as a consequence of Senate Bill 21 results in a net negative on the state's severance structure and makes Alaska look like a "banana republic" where it does not even collect a severance on its valuable resource. He said HB 247 makes the first modest steps at trying to fix some of the errors within Senate Bill 21. Mr. Peirce recalled that years ago when Mr. Hugh Malone was commissioner of the Department of Revenue there was a fight regarding the simple interest that was paid on deficient or delinquent oil taxes to Alaska. That was fixed to be a compound rate of return to the state and was an inducement for oil companies to get their taxes paid. A horrible provision of Senate Bill 21 is the 4 percent simple interest calculation. This provides no incentive for oil companies to pay their taxes because they can get an 11-12 percent internal rate of return. Under HB 247 this provision of simple interest would be fixed.

MR. PEIRCE said he is an investor so he pays attention to some of the publically traded companies that do business in Alaska. He said the state has gone completely overboard on credits and HB 247 takes some modest steps towards addressing some of the giveaway provisions within the credits. The magnitude and the giveaways of the credits are shielded from the Alaska public. Some of his own research shows that the credits the State of Alaska has paid are far more than the value of the resource in question. For example, the Henry Hub price of natural gas is about \$2 per million British Thermal Units (BTUs); the amount Alaska is paying in the credits is exponentially more than the value of the resource at around \$70-\$80 per million BTUs. At the end of the day after paying multiples beyond what the value of the resource is worth, the State of Alaska does not even own the gas. He stated his support for HB 247. Responding to Representative Josephson, Mr. Peirce said he is an investor and

that he owns some of these major oil companies because from an investment perspective they are good companies to invest in.

[6:07:17 PM](#)

LOIS GILBERT offered her support for HB 247 and for higher taxes on oil. She said the state constitution requires that the state's resources be developed for maximum benefit of the public, but that is not happening. Alaska would not be in this situation if it was getting the same price for its oil that Norway is getting for its oil. She recalled a talk by Senator Wielechowski about how little Alaska is getting for its oil compared to other countries and other states, and at that time the oil companies were making a profit of \$20-some per barrel on Alaska oil and making \$2 per barrel on Iraqi oil. The companies do not have to dodge bullets in Alaska like they do in Iraq. Alaska needs to start getting a fair price for its oil. She noted that she is disabled and said people with disabilities are having the benefits for their needs severely cut back. There is no need for this, she maintained, because Alaska has the resource that can be paying for these needs.

[6:09:22 PM](#)

The committee took an at-ease from 6:09 p.m. to 6:19 p.m.

[6:19:23 PM](#)

CO-CHAIR NAGEAK called the meeting back to order and continued public testimony.

TOM LAKOSH stated it appears in HB 247 that the production tax credit may still reduce the tax liability of producers down to \$0, which is clearly an inappropriate reduction in taxes to the extent the state loses the value of the oil being sold on the market to an unacceptably low level, whereas if left in the ground the oil might actually accrue more value. There should clearly be a higher alternative minimum production tax placed on the oil sold so that the state does not have to rely solely on royalties. He urged that HB 247 be amended to show a higher minimum production tax such that credits cannot be applied to make a tax liability of zero. He said committee members might want to extend the buy-ability of tax credits out for a longer period of time and added that the public's oil should not be sold on the market if there is such a low return. The oil should be left in the ground until its value accumulates to the point where value can be gotten out of it. Responding to Co-

Chair Nageak, Mr. Lakosh stated he is a 33-year resident of Alaska and is testifying on his own behalf.

6:22:06 PM

KEITH LIPSE urged that the oil companies not be taxed because they are already overtaxed. If the government wants to raise more money then maybe it should tax the people who are working here. A large number of people work in the state but do not live here, they take money and leave the state while complaining about how much their home state taxes them. The oil companies should not be taxed when they are not drilling for oil anymore. Three more rigs are being shut down and he will be out of a job in April because of that. More bad than good is being done. Other ways should be found to get money than taxing oil companies, such as taxing the workers who are taking money out of the state.

6:24:02 PM

GEORGE PIERCE stated that HB 247 was introduced to fix the mess of Senate Bill 21. It is plain to see how legislators given in to big oil, he said, but these are the residents' resources. Why don't legislators represent the voters more than the big oil companies? It should be maximum yield for Alaskans, not corporations. This bill is a start, but needs some fixing. The 4 percent floor in Senate Bill 21 should be fixed and Alaska's resources should stop being given away. The production tax is how the state gets revenue. The downsizing of oil was fully ignored and now the state is reduced to paying the industry to takes the state's resources. He stated his disagreement with Senate Bill 21 and said all production tax receipts have been based on the minimum 4 percent tax and Senate Bill 21 is one-fifth of the state's budget money. He thanked Governor Walker and the Tax Division for the impact report regarding the effects of Alaska's current tax policy. The state is in a deficit and the oil and gas industry is suspending its production due to the oil prices. Industry cannot afford to do business and the state cannot afford to give credits. Senate Bill 21 was supposed to result in more production and more employment and has not done either one, but industry sure gets its tax breaks. He said he cannot believe all the credits that legislators have supplied for the oil companies. Alaska's current tax policy was modeled and drafted in 2013 with oil prices between \$80 and \$100 a barrel. Senate Bill 21 does not address anything under \$80 a barrel and that is absurd. He said HB 247 analyzes Senate Bill 21 and it shows Alaskans that the state's current tax policy

does not work like Alaskans were led to believe. The legislature created this mess and the legislature needs to fix it and quit charging residents for the legislature's mistakes. Legislators need to step up to the plate and represent Alaska, not these corporations. If oil companies do not like the tax structure they can pack their bags and leave. Alaska is not for sale, but it seems like Alaska's legislators are. He supported HB 247, but said to adjust it and get rid of Senate Bill 21.

[6:28:48 PM](#)

The committee took an at-ease from 6:28 p.m. to 6:32 p.m.

[6:32:35 PM](#)

CO-CHAIR NAGEAK called the meeting back to order and continued public testimony on HB 247.

KAITLIN VADLA said HB 247 is long and complicated so she will address only that portion related to the cash credits. The bill is not perfect, she added, but it is needed. The state cannot afford the current system and she would like to ask where it is planned to get the money to pay the cash credits. She offered her understanding that this year the state will pay out somewhere between \$500 and \$700 million and she does not think the system is going to work. She questioned whether the credits are necessary for exploration and noted that the price of oil cannot be controlled. The industry is contracting now even with this cash credit system, so maybe the state can experiment with not having it. She thanked the committee for its work.

REPRESENTATIVE OLSON thanked Ms. Vadla for calling in.

[6:35:36 PM](#)

The committee took an at-ease from 6:35 p.m. to 6:43 p.m.

[6:43:14 PM](#)

CO-CHAIR NAGEAK called the meeting back to order and continued public testimony on HB 247.

NELMA TREIDER testified that she opposes continuing in the current tax credit structure. She said the heart of the matter is that refineries are a business and she does not believe it is customary to give tax credits, especially of this enormity, to the regular small businesses on the street. So, why are tax

credits being given to businesses that deal internationally and have a very healthy bottom line? Businesses open knowing that some years might be leaner than others and do not expect monetary help during a lean year from the citizens living in the location of the business. The legislature has said that everybody must tighten their belts and most citizens understand that and are willing to do their part, but not as long as oil-related businesses are given vast amount of money that is then passed along to their shareholders, most of whom do not live in Alaska. These tax credits amount to taking necessary state funding that benefits all Alaskans, such as education and public safety, and sends those funds to the bank accounts of refinery shareholders. It seems utterly and totally wrong to think that this is an appropriate way to distribute funding.

[6:46:12 PM](#)

The committee took an at-ease from 6:46 p.m. to 6:57 p.m.

[6:57:52 PM](#)

CO-CHAIR NAGEAK called the meeting back to order and continued public testimony on HB 247.

RAMI JASSER stated his opposition to the proposed increase in oil and gas taxes at this point, saying his opposition is for the sake of North Slope jobs. Given the current situation on the North Slope, he said he would be hesitant in doing any more to shut down more rigs and have less oil in the pipeline.

[6:59:14 PM](#)

The committee took a brief at ease.

[7:00:40 PM](#)

CO-CHAIR NAGEAK called the meeting back to order and continued public testimony on HB 247.

LISA REIDER noted she is an engineer employed in the oil industry and is an independent consultant. The numbers and the percentages that are changing are complicated, she said, but she can comment that there certainly seems to be a lot of changes in the tax which makes it very difficult for industry employers to maintain any stable planning and business models. She said she is unhappy to see Senate Bill 21 be overturned by HB 247. The climate right now is very uncomfortable for those people

employed in this industry as there are multiple layoffs. The decreasing supply of oil obviously affects everybody, but increasing the taxes to accommodate the decreasing revenues due to the decreasing [price] and decreasing volume does not make it a good climate for industry employers to operate. All of her peers are very uncomfortable with the current unsettled situation. It does not bode well for the residents of Alaska who are employed in the industry or the other industries that rely on the oil industry. The big picture is that HB 247 would take away all of the things that were put in place by Senate Bill 21 and she does not approve.

[7:03:34 PM](#)

REPRESENTATIVE SEATON noted that HB 247 has two components: one would raise the tax and harden the floor and the other would cut the amount of cash credits the state pays. He asked whether Ms. Reider sees those as the same or two different things. In response to Ms. Reider he clarified that that the cash credit segment is money that the state pays out and the other segment would raise the minimum tax from 4 percent to 5 percent. He asked whether Ms. Reider sees a difference in perspective of raising taxes versus cutting the state's expenditures.

MS. REIDER responded that reducing the credits also has an impact because many of her peers in the industry are employed by some of the smaller companies and she knows from conversations that the credits are important to them, so [reducing the credits] makes their viability less stable. She said her understanding is that the raising of the other taxes affects the larger companies which is where the majority of the people are employed and there are quite a few layoffs going on. So, she continued, she cannot see that one is better than the other and she does not like either one.

REPRESENTATIVE SEATON understood that Ms. Reider is opposed to raising taxes on the industry and said he was making sure committee members understood whether Ms. Reider is talking about all components of the bill or just raising taxes.

MS. REIDER answered all components, including the credits, because those benefit the smaller companies.

[7:06:25 PM](#)

JAMES "HOTAI" WILLIAMS testified that raising taxes on the oil companies must be done intelligently. He urged members to

research what the Europeans have done, Norway and Iceland have raised taxes the oil companies are still there. Alaska got bamboozled when the oil companies got the giveaway of a year or so ago; they were going to protect jobs and promptly fired 400 people. The state must tax the oil companies as much as they can pay because the Lower 48 and the rest of the world buys Alaska's oil and gas and that is the money the state lives on. He does not work for the oil companies, but he used to. He is not against the oil companies, but they need to be paying their fair share. The oil industry will use lobbyists and scare tactics on legislators to keep the state from taxing them at all. Tax the oil companies but use good common sense, he urged. The oil companies should be taxed intelligently and should be made to pay for the goods they take out of the ground that belong to the state.

[7:09:11 PM](#)

The committee took an at-ease from 7:09 p.m. to 7:19 p.m.

[7:19:28 PM](#)

CO-CHAIR NAGEAK called the meeting back to order and continued public testimony on HB 247.

MARY LEE GUTHRIE offered her support for HB 247, saying the bill addresses issues of scale, focuses on a minimum tax floor, has transparency, and provides transition. It is understandable that having enjoyed the world's best incentive program, these changes may be met with an outcry of a world of hurt. But, it is really important for legislators and for Alaska citizens to take care of the legacy capital that is the product of Alaska's natural resources and the state's hardworking oil and gas industry, and this is not being down now. The tax credits and incentives have grown into a gigantic "pick, click, give" program that Alaska's residents are involuntarily participating in. Contributing \$500-\$700 million a year to one sector exceeds what is spent on 10 agency budgets in unrestricted general funds; the scale is out of line. She urged that the committee consider HB 247 with a sense of respect for the oil and gas industry and respect for good use of Alaska's legacy capital that is essential to the state's future. She further urged that the state's capital not be burned on a bridge to nowhere.

[7:22:15 PM](#)

The committee took a brief at-ease.

[7:22:59 PM](#)

CO-CHAIR NAGEAK called the meeting back to order and continued public testimony on HB 247.

ELSTUN LAUESEN related that he has heard a number of industry folks talk about how essential the tax credits program is to the development of the state's oil and gas. However, he is put off by that because critical programs are being cut and everyone must share this burden together, including the oil and gas industry. He offered his understanding that the other body has cut \$500,000 from disabled senior citizens services, yet he also understands that in 2015 Hilcorp Alaska, LLC, received \$130 million in credits and then gave a \$100,000 bonus to every employee nationwide at the end of 2015. Five of those bonuses could have paid for the cut to disabled senior citizens. If the purpose of these credits is to ensure that capital investment is being made in Alaska and putting Alaskans to work, then audits must be done on the use of those credits to ensure that the credits are being used for the stated purposes. A "but for" criteria must also be applied - "but for" those funds a company could not have made that investment. That is essential to protect the integrity of the state's budget and legislators' fiduciary responsibility to the people of the state of Alaska, not the corporate persons. He urged that the committee give positive consideration to the governor's proposals.

[7:26:29 PM](#)

The committee took an at-ease from 7:26 p.m. to 7:54 p.m.

[7:54:56 PM](#)

CO-CHAIR NAGEAK called the meeting back to order and adjourned the hearing.

[HB 247 was held over.]

[7:55:13 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 7:55 p.m.