

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 16, 2018

1:36 p.m.

**MEMBERS PRESENT**

Representative Andy Josephson, Co-Chair  
Representative Geran Tarr, Co-Chair  
Representative John Lincoln, Vice Chair  
Representative Harriet Drummond  
Representative Chris Birch  
Representative DeLena Johnson  
Representative George Rauscher  
Representative David Talerico

**MEMBERS ABSENT**

Representative Justin Parish  
Representative Mike Chenault (alternate)  
Representative Chris Tuck (alternate)

**COMMITTEE CALENDAR**

HOUSE BILL NO. 288

"An Act relating to the minimum tax imposed on oil and gas produced from leases or properties that include land north of 68 degrees North latitude; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 288

SHORT TITLE: OIL AND GAS PRODUCTION TAX

SPONSOR(s): REPRESENTATIVE(S) TARR

01/16/18	(H)	READ THE FIRST TIME - REFERRALS
01/16/18	(H)	RES, FIN
01/22/18	(H)	RES AT 1:00 PM BARNES 124
01/22/18	(H)	Heard & Held
01/22/18	(H)	MINUTE(RES)
01/26/18	(H)	RES AT 1:00 PM BARNES 124
01/26/18	(H)	Heard & Held
01/26/18	(H)	MINUTE(RES)
01/29/18	(H)	RES AT 1:00 PM BARNES 124
01/29/18	(H)	Heard & Held

01/29/18	(H)	MINUTE (RES)
03/30/18	(H)	RES AT 1:00 PM BARNES 124
03/30/18	(H)	Scheduled but Not Heard
04/02/18	(H)	RES AT 1:00 PM BARNES 124
04/02/18	(H)	Heard & Held
04/02/18	(H)	MINUTE (RES)
04/13/18	(H)	RES AT 1:00 PM BARNES 124
04/13/18	(H)	-- Delayed to 4/14/18 at 2:00 pm --
04/14/18	(H)	RES AT 2:00 PM BARNES 124
04/14/18	(H)	-- MEETING CANCELED --
04/16/18	(H)	RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

PETER MORGAN  
Palmer, Alaska

**POSITION STATEMENT:** Testified in opposition during the hearing of HB 288.

MARLEANNA HALL, Executive Director  
Resource Development Council for Alaska, Inc.  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition during the hearing of HB 288.

AVES THOMPSON, Executive Director  
Alaska Trucking Association  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition during the hearing of HB 288.

CURTIS THAYER, President/CEO  
Alaska State Chamber of Commerce  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in strong opposition during the hearing of HB 288.

CHERYL BOWIE  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing of HB 288.

ALICIA SIIRA, Deputy Director  
Alaska Miners Association  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition during the hearing of HB 288.

**ACTION NARRATIVE**

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**CO-CHAIR GERAN TARR** called the House Resources Standing Committee meeting to order at 1:36 p.m. Representatives Tarr, Birch, Talerico, Rauscher, Drummond, Johnson, Lincoln, and Josephson were present at the call to order.

The committee took a brief at-ease.

**HB 288-OIL AND GAS PRODUCTION TAX**

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CO-CHAIR TARR announced that the only order of business would be HOUSE BILL NO. 288, "An Act relating to the minimum tax imposed on oil and gas produced from leases or properties that include land north of 68 degrees North latitude; and providing for an effective date."

[The committee substitute (CS) for HB 288, Version 30-LS1155\D, Nauman, 3/27/18, was adopted on 4/2/18, and Version D was before the committee.]

REPRESENTATIVE RAUSCHER directed attention to CS for HB 288 beginning on page 5, line 31, and asked whether AS 43.55.011(j), (k), and (o) were referred to elsewhere in the bill.

CO-CHAIR TARR said the abovementioned proposed [subparagraph (C)] relates to underlying statute, thus the entire existing statute is part of the language of the bill. The change brought by the bill to the existing statute is found on page 8, line 9, and on page 10, line 3; otherwise the legislation does not change.

REPRESENTATIVE RAUSCHER surmised the bill represents "a multiplier for them to make payments on a prepayment schedule ...."

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CO-CHAIR TARR said the bill on page 1, [line 5], amends Section 1. AS 43.55.011(f), which is the existing minimum tax statute that would be changed. [Sec. 2 AS 43.55.020(a)] begins on page 4, line 23, and the change brought by the proposed bill is on page 8, line 9.

REPRESENTATIVE RAUSCHER restated his question as to whether the bill includes a payment schedule.

CO-CHAIR TARR said the bill does not change the way tax payments are made but would change the amount of the minimum tax.

REPRESENTATIVE RAUSCHER concluded the existing method of payment would be realigned to comport with other changes.

CO-CHAIR TARR said yes.

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CO-CHAIR TARR opened public testimony on HB 288.

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PETER MORGAN said he has lived in Alaska for 54 years and is testifying in opposition to HB 288. He opined HB 288 is a terrible policy. Mr. Morgan said he works in the construction industry and has seen the detrimental effects of low oil prices on the economy. In addition to the direct impact to those who work in the oil and gas industry, he has seen the ripple effects throughout the economy as businesses cut back on expenses and employees are laid off, much of which can be directly correlated with oil industry spending. He pointed out he could not run his business if the taxes were changed, or were proposed to change, every year. He questioned whether multiple proposed oil tax changes would increase jobs or investments. Although there is talk of a fiscal plan, the legislature is silent on how to grow jobs or opportunities, except for those in state government. He stressed raising taxes on the oil industry not only impacts big corporations but raising taxes on the industry can impact everyone. He urged for no votes on "this shortsighted bill," which is not in the best interest of Alaska.

REPRESENTATIVE BIRCH stated his agreement with Mr. Morgan and asked whether Mr. Morgan is involved in the [oil and gas] industry.

MR. MORGAN restated he is in the construction business. In 1985, his business did \$3 million worth of business, an amount that was seriously reduced by the downturn in 1987. He urged the committee to "show some integrity and some consistency with these oil ... companies," and said businesses cannot operate in

an environment of [changing tax policies]; in fact, big companies will leave, and smaller companies will follow.

REPRESENTATIVE JOHNSON agreed that actions taken by the legislature can dramatically affect small businesses.

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MR. MORGAN stressed the importance of a consistent and long-term [tax] policy; he said he would never want an adjustable rate mortgage, and neither would oil companies, who would choose another bank.

REPRESENTATIVE DRUMMOND asked how businesses reacted to the tax changes made by the federal government in December, [2017], which lowered taxes.

MR. MORGAN stated taxes haven't gone down for him. He added he does not agree with the current [federal] administration's action regarding tax policy. He again urged for consistency and said, " ... if you were to build into this bill 'we will keep this rate for 15, or 20, or like a 30-year mortgage' people could deal with that, oil companies could deal with that." He concluded both the federal and state governments must control their debt.

REPRESENTATIVE RAUSCHER expressed support for the speaker's testimony.

CO-CHAIR TARR recalled at the time the current oil tax policy was enacted, oil was \$110 per barrel, [the impact of] lower oil price was not discussed, and the current 4 percent minimum tax is the lowest in state history. She expressed her hope lessons have been learned after oil prices dropped to \$27 per barrel and legislators would now consider a broader range of oil prices. Co-Chair Tarr pointed out CS for HB 288 that has been adopted by the committee would have a fiscal impact of \$64 million for fiscal year 2019 (FY 19), of \$139 million in FY 20, and never would be above \$250 million.

MR. MORGAN gave the example of a home loan that is executed at a certain rate and remains the same after interest rates decrease.

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MARLEANNA HALL, Executive Director, Resource Development Council for Alaska, Inc., informed the committee her organization is a

statewide trade association comprised of entities from Alaska's oil and gas, mining, forest products, fisheries, and tourism industries, and 12 land-owning Alaska Native corporations; members of her organization believe the best approach to generate state revenue is to produce more oil, attract more tourists, harvest more fish and timber, and mine more minerals. She said HB 288 represents the third straight year of increasing oil and gas production taxes, which would increase costs and reduce Alaska's competitiveness and new oil production. Further, increased throughput in the Trans-Alaska Pipeline System (TAPS) would help move the state out of recession and would generate more revenue than would HB 288. Ms. Hall urged the committee to carefully consider the impact of the bill on competitiveness and further production. She pointed out the competition faced by the oil and gas industry due to the high cost of development in Alaska. When combined, state and federal government share is higher than that of the producers, and the state is paid royalty, property tax, and a gross production tax when companies are operating at a loss. She opined the present tax system is working. Ms. Hall urged the committee to reject the proposed legislation.

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AVES THOMPSON, Executive Director, Alaska Trucking Association, informed the committee the Alaska Trucking Association is a statewide organization representing the interests of 200 member companies that move freight across the state. He observed late in the legislative session, HB 288 is being heard for the first time and proposes another tax increase on the oil industry. Over the past few years, the oil industry - with difficulty - has adjusted to lower oil prices, while continuing to pay royalties, property tax, and a gross production tax; in fact, businesses are beginning to recover and "this is not the time to penalize them ... further by increasing taxes." Mr. Thompson said increased North Slope activity has demonstrated the current fiscal system is working and [Senate Bill 21, passed in the Twenty-Eighth Alaska State Legislature] has improved competitiveness and made Alaska more attractive to investors. However, HB 288 would highlight Alaska's poor reputation in the oil and financial sectors, jeopardize new investment, and would represent the eighth major tax change in the last 13 years. In addition, HB 288 would do nothing to encourage production or provide jobs but would raise costs and harm the industry and the state's economy. Mr. Thompson said the Alaska Trucking Association is opposed to HB 288.

CO-CHAIR TARR clarified HB 288 was the first bill heard by the House Resources Standing Committee in January [2018] so that legislators would have sufficient time for its consideration.

REPRESENTATIVE JOHNSON expressed agreement with Mr. Thompson and opined hearing the bill is "somewhat irresponsible" due to the message sent to industry.

CO-CHAIR TARR asked Mr. Thompson how his industry suggests the state fund a fiscal plan and a capital budget that are necessary to build infrastructure and make investments in the state.

MR. THOMPSON stated his industry supports a state capital budget; however, the freight industry also needs a robust oil and gas industry to provide jobs for drivers and trucks. Although capital budgets are important, most important is to keep industry investment and jobs in Alaska, which the current tax regime achieves.

CO-CHAIR TARR pointed out oil revenue from oil and gas projects that will be in production soon will not be enough to stabilize the state's financial situation; in addition, after many years of not funding a capital budget, Alaskans are asking legislators to do so.

MR. THOMPSON advised industry is not willing to invest in Alaska because Alaska does not compete very well in the global capital market due to high costs and cheaper alternatives.

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CURTIS THAYER, President/CEO, Alaska State Chamber of Commerce (Alaska Chamber), said Alaska Chamber is a 65-year-old organization representing over 700 members, collectively with 100,000 employees. He said Alaska Chamber is strongly opposed to HB 288 because Alaska is struggling to recover from a recession and the proposed legislation would prolong the recession. He agreed with previous speakers that Alaska's tax policy has had several changes; he observed this year the legislature wants to provide stability [to the Department of Education and Early Development] by forward funding education for two years, but will not give the same stability to the oil and gas industry, which provides 80 percent of the state budget. He urged the committee to "take a pause, not look at new tax structure, and allow what we have to continue to work." Further, the way to fund the budget is to reduce spending, which

is supported by 72 percent of Alaskans. Alaska Chamber is opposed to HB 288.

CO-CHAIR JOSEPHSON related the Alaska state budget is approximately \$4 billion [80 percent of \$4 billion is \$3 billion] and the total of severance taxes and royalty is less than \$3 billion. He asked Mr. Thayer to clarify his statement.

MR. THAYER explained:

Well, when I say the industry accounts for approximately, it's, 77 percent of Alaska's unrestricted general fund revenues that we have right now. When you at when we pay with royalty, when you look at property tax, when you look at the income tax, and the severance tax, the oil industry represents the majority of the taxpayer ... by my references it's 77 percent.

REPRESENTATIVE RAUSCHER asked Mr. Thayer how HB 288, if enacted, would affect the state in the next two to three years.

MR. THAYER opined [passage of the bill] would continue to indicate Alaska is an unstable place to do business because it makes changes to tax policy. He noted the state budget has increased by \$500 million and Alaska seeks to raise taxes on the oil and gas industry to pay for the increase; further, Alaska does not have a reputation of being able to control its expenses and reduce the footprint of government.

CO-CHAIR TARR referred to a poll conducted by the Alaska Chamber and questioned whether the poll asked respondents to indicate specific areas where the legislature should make spending cuts, which would be helpful.

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MR. THAYER answered people want to cut the legislature's budget. Furthermore, he related in the previous year, the Walker administration did a study on healthcare costs which found consolidating healthcare amongst public employees would save the state \$655 million over seven years; Mr. Thayer opined this is a perfect example that there are still areas to cut and reduce government, without affecting programs and jobs. He offered to share polling and other information with the committee.

CO-CHAIR TARR said she would distribute data provided by the Alaska Chamber to the committee.

REPRESENTATIVE BIRCH recalled testimony at a previous committee meeting related to legislation [House Bill 331, passed in the Thirtieth Alaska State Legislature] proposing [bonds would be issued to pay the outstanding tax credit certificates] the state owes to 37 beneficiaries. He asked Mr. Thayer whether the proposed bill would affect any members of the Alaska Chamber.

MR. THAYER said the Alaska Chamber supports the concept of the aforementioned bill, because the state clearly owes the money, and returning the money to circulation for industrial investment and investment in Alaska is a way to move forward.

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CHERYL BOWIE said she is Alaska Native and a former oil spill employee of Alyeska Pipeline Service Company. She said she misses the investment climate and the work that previously existed in Alaska. After her experience working in the medical field, there is research she would like to pursue; however, the restrictive investment environment in the oil field industry has hampered the hemp research she seeks to conduct related to hydrocarbons and plants. Ms. Bowie further described her research and goals that have been "on hold for years and years now because of this really restrictive environment." She stated her opposition [to HB 288] and her support of extracting Alaska's mineral resources.

CO-CHAIR TARR specified that the bill being heard is HB 288 which would increase the minimum tax on oil and gas severance tax.

MS. BOWIE explained her testimony is relevant to the topic of massive layoffs in the oil and gas industry and less production in the oil fields, which impacts all businesses in Alaska. Further, additional restrictive, high tax legislation is "bleeding over into everything and it needs to stop."

REPRESENTATIVE DRUMMOND inquired as to the research on hemp Ms. Bowie is conducting.

MS. BOWIE said cannabis is a plant with "high capacity of uptake in soil ...." She described in detail how growing cannabis benefits the environment and production, and related multiple uses for cannabis and cannabis fibers.

REPRESENTATIVE DRUMMOND urged Ms. Bowie to contact her office regarding Senate Bill 6, [passed in the Thirtieth Alaska State Legislature].

MS. BOWIE said, "... but yes, I absolutely support this oil tax [current oil tax regime] ... I absolutely support the advancement of our oil industry here."

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ALICIA SIIRA, Deputy Director, Alaska Miners Association (AMA), informed the committee AMA is a nonprofit membership organization established in 1939 to represent the mining industry throughout Alaska; AMA has a diverse membership composed of more than 1,500 members from eight statewide branches in Anchorage, Denali, Fairbanks, Haines, Juneau, Kenai, Ketchikan, Price of Wales, and Nome. Members include prospectors, geologists, engineers, miners, small family mines, junior mining companies, major mining companies, oil and gas support services, and mining support services. Although AMA's mission is to promote responsible mineral development in Alaska, she said AMA is testifying in opposition to HB 288 because a healthy oil and gas industry is crucial to a healthy mining industry and good for Alaska. Ms. Siira characterized HB 288 as an oil tax bill that would raise taxes and discourage much needed investment in Alaska. As a policy, AMA urges the state to maintain an equitable and stable tax and royalty structure on state-owned resources. Further, the mining industry recognizes the importance of increased oil production and urges the committee to reject the bill.

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The committee took a brief at ease. The committee took an at-ease from 2:24 p.m. to 2:30 p.m.

[2:30:08 PM](#)

CO-CHAIR TARR stated a correction to the PowerPoint entitled, House Bill 288 CS Version D Fairness in Oil Taxes," presented at the hearing of HB 288 on 4/2/18. She said slide 7 was compiled from page 6 of a report entitled, "2016 Oil and Gas Taxation Comparison for the State of Idaho," dated 1/19/17, [included in the committee packet] and a corrected slide 7 [changing Arkansas to Alaska] would be provided to the committee. She urged the committee to review the report in its entirety.

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REPRESENTATIVE BIRCH expressed opposition to the bill and said he is concerned about the "process." For example, the [working group that is a provision of House Bill 111, passed in the Thirtieth Alaska State Legislature] was to be organized to consider all the impacts of a tax overhaul. Further, "a wholesale ... change in the oil tax structure that didn't even come to [the House Resources Standing Committee], it went straight to [the House Finance Committee], and ... I don't think [HB 288] has had any of the benefit of the collaboration and the discussion as I thought the study group was set up to do ...." Representative Birch restated his concern about not hearing the tax overhaul bill and pointed out testimony has shown HB 288 is a tax increase that has not benefited from a deliberative process during interim. He opined hearing HB 288 is a strenuous exercise, without purpose, and questioned whether committee hearings would continue.

CO-CHAIR TARR did not anticipate scheduling many more meetings as the committee has heard most of its referrals. Regarding the working group, she said the intention of the group was to meet during [the 2017] interim and bring recommendations before the legislature [in 2018]; however, because of special sessions, the working group held one meeting. Senator Giessel and she, co-chairs of the working group, have recommended that the working group continue for a full calendar year, and expect to reconvene. Co-Chair Tarr clarified the goal of the working group is not necessarily to draft a tax increase bill, but to respond to recommendations from consultants and thereby improve various aspects of the state's oil and gas policy. She further reviewed provisions in House Bill 111 that were not included in the final version.

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CO-CHAIR JOSEPHSON recalled the minimum tax issue has been addressed in various proposed legislation before the committee since 2016; further, today's hearing was the fifth hearing of HB 288. He related the committee has a recent referral before it and therefore, may meet until adjournment of the legislature.

REPRESENTATIVE BIRCH encouraged the working group to seek advice from a qualified consultant and to share the consultant's recommendations with the committee.

CO-CHAIR TARR said Senator Stedman chairs the Legislative Audit and Budget Committee and requests in this regard should be directed to him.

HB 288 was held over with public testimony open.

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**ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:43 p.m.