

SENATE FINANCE COMMITTEE

April 28, 2017

9:03 a.m.

9:03:49 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Click Bishop, Vice-Chair  
Senator Shelley Hughes  
Senator Peter Micciche  
Senator Donny Olson  
Senator Natasha von Imhof

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair

ALSO PRESENT

Senator Kevin Meyer; Senator Cathy Giessel; Senator John Coghill; Senator Pete Kelly; Representative Chris Birch; Representative Dave Talerico; Representative Charisse Millett; Representative George Rauscher; Representative Chuck Kopp; Representative Colleen Sullivan-Leonard; Representative Cathy Tilton; Representative Tammie Wilson; Representative Mike Chenault; David Teal, Director, Legislative Finance Division; Representative Colleen Sullivan-Leonard; Representative Jennifer Johnston; Representative DeLena Johnson; Representative Lora Reinbold; Representative Dan Saddler; Representative Gary Knopp; Alexei Painter, Analyst, Legislative Finance Division; Rob Carpenter, Analyst, Legislative Finance Division; Kara Moriarty, President and Chief Executive Officer, Alaska Oil and Gas Association; Dan Seckers, Tax Counsel, ExxonMobil; Scott Jepsen, Vice President of External Affairs and Transportation, ConocoPhillips; Pat Foley, Senior Vice President - Alaska Operations, Caelus Energy; Jeff Hastings, Managing Member, Kuukpik SAE and CEO, SAExploration; Kate Blair, Government and Public Affairs Manager, Tesoro.

PRESENT VIA TELECONFERENCE

Damian Bilbao, Vice President of Commercial Ventures, BP.

SUMMARY

HB 111 OIL & GAS PRODUCTION TAX;PAYMENTS;CREDITS

HB 111 was HEARD and HELD in committee for further consideration.

PRESENATION: SENATE FISCAL PLAN

Co-Chair MacKinnon noted that Co-Chair Hoffman would not be present at the meeting. She informed that Senator Kevin Meyer had joined the committee at the table.

[9:04:57 AM](#)

AT EASE

[9:05:34 AM](#)

RECONVENED

^PRESENATION: SENATE FISCAL PLAN

[9:06:17 AM](#)

Co-Chair MacKinnon emphasized that Alaska was facing a particularly difficult fiscal challenge. She spoke to a \$2.78 billion revenue shortfall in the FY18 budget, and an over \$4 billion deficit the previous year. She noted that the state had removed over \$10 billion from its savings accounts, and planned to withdraw close to another \$3 billion. The Senate believed it had presented a plan to the other body, and had tried to propose responsible cuts and a spending limit to continue downward pressure on the budget. Additionally, the Senate had proposed structural reforms targeted at the largest cost drivers of the state.

Co-Chair MacKinnon continued, stating that the Senate required reductions from the other body and the administration, as well as an obligation to institute a spending limit before accessing use of Alaska's earnings reserves. She emphasized that the earnings reserves were the only thing available to address a \$2.78 billion revenue shortfall.

9:08:08 AM

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, conveyed that the committee had asked him to discuss the Senate version of SB 26 [a bill relating to the Alaska Permanent Fund and the structure of funding state government - reported out of the Senate Finance Committee on 3/10/17]. He stated that the bill touched every Alaskan, not only because it set a formula for the Permanent Fund Dividend (PFD), but because it affected the way the state funded government and the level of funding available to government. He summarized that SB 26 had provided a fiscal plan. He shared that he would address two issues at the meeting:

1. Why do we need a fiscal plan?
2. Does the SB 26 plan offer a solution to our fiscal problem?

Mr. Teal discussed the presentation "SB 26 - A Fiscal Plan," (copy on file). He showed slide 2, "Budget Reductions Since FY13," which had a graph entitled 'Total Agency Operating Budgets, Statewide Items and Capital Budget Compared to Revenue.' He explained that the slide gave a good indication that the state had a fiscal problem. He referred to the graph, which showed a line depicting the state's Unrestricted General Fund (UGF) revenue. The bars indicated UGF expenditures. The dark portion of the bars represented agency operations, the lighter blue represented statewide items, and the yellow portion showed capital expenditures.

Mr. Teal continued discussing the chart of slide 2, noting that despite tremendous reductions in spending (from \$7.8 billion in FY 17 down to \$4.1 billion in the current year), the state faced a large deficit. The state faced a \$2.5 billion deficit for FY 18, considering the higher spring forecast numbers for production and price. He continued that not too far in the past, there were reserves that could have absorbed a deficit of \$2.5 billion, however the state was in its 6th consecutive year of spending that had exceeded revenue.

9:11:15 AM

Mr. Teal turned to slide 3, "End-of-Year Budget Reserve Balances, FY07-FY18," which showed a bar graph depicting the Statutory Budget Reserve Fund (SBR) and the Constitutional Budget Reserve Fund (CBR) from FY 07 to FY 18.

Mr. Teal directed attention to the \$16.3 billion balance at the end of FY 13, and noted that the six years of deficits had reduced the state's reserves to about \$2.5 billion at the end of FY 18. The calculation assumed that the FY 17 and FY 18 deficits would be filled by drawing money from the CBR. He shared that the outlook was for continuing deficits. He did not want to turn the meeting into a long discussion of the implications of revenue covering less than half of current expenditures. He considered that talking about what the state would do when reserves were gone was comprised of many policy decisions and was precisely why the committee was considering SB 26.

Mr. Teal emphasized a point before leaving the slide: the CBR served not only as a shock absorber to absorb the deficits, but also as a cash management tool. He added that even in times of surplus, the state started the year with little revenue and high cash outflow. To fill the cash needs early in the year, funds were borrowed from the CBR. He relayed that the Office of Management and Budget (OMB) believed there should be a minimum balance of \$2.5 billion in the CBR to serve the function of a cash management tool. He emphasized that the amount was the bare minimum for the purpose, and did not leave much room for the CBR to be used as a shock absorber.

[9:13:30 AM](#)

Mr. Teal spoke to slide 4, "What Does A Solution Look Like?":

1. Healthy Reserve Balances?
  - No less than \$2.5 billion in the CBR?
  - An Earnings Reserve Account (ERA) that is stable/growing?
2. A Sustainable Budget?
  - A balanced budget? How fast? How big?
  - Time for a phased approach? How much time?

Mr. Teal thought that slide 4 presented several questions, not statements, because there would be disagreement on how

to measure success in addressing the fiscal problem. He stated that he could not define "healthy reserves," but rather considered it a policy question whether it meant the bare minimum (the \$2.5 billion that OMB cited); or if "healthy reserves" signified that the state was building fund balances. He thought some might say "I just want stable/growing reserves and I don't particularly care how we do it," while others may note that the path was just as important as the destination. He mentioned questions with major policy implications pertaining to the amount of the PFD, the size of government, and how much individuals would have to pay.

Mr. Teal indicated that points 1 and 2 on the slide overlapped. He considered that the points could be the same question phrased a different way. He saw point 1 as a direct response to the problem of vanishing reserves, and point 2 as a better way to emphasize the path to a solution rather than the destination alone. He pondered if the state should try to balance the budget immediately, or if a glide path was acceptable or even preferable.

Mr. Teal asserted that it was possible to balance at any level given a sufficient amount of revenue. He asked how to choose the expenditure level that will be balanced by revenue. He thought that choosing a path forward involved many policy decisions, some of which were addressed by SB 26.

[9:16:03 AM](#)

Senator Micciche asked to return to slide 4. He wondered about the philosophy the Legislative Finance Division (LFD) might have. He referred to the question of policy on a healthy fund balance. He wondered what Mr. Teal's definition of "adequate fund balance" was, particularly in the CBR. He did not believe that government's role was being a bank, particularly when discussing potential future revenues coming from Alaskans. He did not think that building a fund balance was a primary function of government. He thought adequate funding for essential services was a better definition.

Mr. Teal agreed with OMB that \$2.5 billion was a minimum balance for cash flow, but preferred to see a minimum balance of \$5 billion, which was roughly equivalent to one year's budget. He emphasized that he was offering his

personal opinion as requested. He thought building reserves beyond \$5 billion was fine as long as the needs of the citizens were met first. He pondered if the state needed to build reserves to weather another fiscal challenge such as the state was experiencing. He hated to imagine what would have happened if the state had not had \$16 billion in reserves.

[9:19:21 AM](#)

Mr. Teal discussed slide 5, "What Does SB 26 Do?":

Provides:

1. A Payout from the ERA to the General Fund (that greatly reduces the deficit and revenue volatility)
2. A Payout from the ERA for Dividends
3. A Payout (Revenue) Limit
4. An Appropriation Limit
5. Additional Royalties to the General Fund

Mr. Teal thought the most significant policy change in the bill was the use of permanent fund earnings to fund government operations. The provision was the primary deficit filler. A Payout from the ERA (of 5.25% for 3 years then falling to 5%) went to the General Fund (GF). The payout amounted to \$1.8 billion that would grow over time under the baseline assumptions. The provision greatly reduced the size of the deficit, and also reduced revenue volatility by providing a source of revenue that was as large or larger than the state's traditional source of revenue (oil). He added that the payout helped diminish fluctuations and reduced the amount that was needed to draw from the CBR.

Mr. Teal pointed out that the bill also revised the formula for dividends. Instead of basing dividends on permanent fund earnings, it would be based on the balance of the permanent fund. A 25% share of the total payout, which amounted to about \$1,000 annually, would be paid out as dividends. He thought some might wonder how the dividend amount affected the problem of vanishing reserves. He explained that as dividends went up, the government share of the payout went down. He emphasized that dividends clearly and directly affected the health of reserves.

Mr. Teal addressed the payout limit, which would further reduce revenue volatility by cutting off revenue peaks.

The limit would also increase future payouts to the general fund and to dividends. He continued that there was an appropriation limit (spending limit) in the bill that would cut off revenue peaks beyond those affected by the payout limit. He noted that neither of the limits would take effect in the standard model scenarios that would be demonstrated later in the presentation. He qualified that the lack of limit modelling did not mean the limits were ineffective, it meant the limits would kick in only if revenues were much higher than expected in the base scenario. He stated that the base scenarios were with fairly stable earnings (at the rate projected by the permanent fund) and midline oil price assumptions.

9:23:08 AM

Mr. Teal continued discussing slide 5, and noted that LFD did not worry much about modeling scenarios with high revenue because the situation was not a problem for the state. He emphasized that it was easy to have a fiscal plan when deficits were eliminated. He thought it was important to know that if the state had the good fortune of high revenue, the limits would restrain expenditures, and may not work under the models that would be shown in the presentation.

Mr. Teal pointed out that SB 26 redirected some royalties to the General Fund. He pointed out that the constitution required that 25 percent of royalties go to the fund. It was possible to place another 25 percent on new fields (about 30 years old), which amounted to about \$60 million to \$70 million per year, and growing. The funding flow helped increase GF revenue and reduce deficits.

Mr. Teal reviewed slide 6, "Baseline SB 26," which showed an interactive graph. He stated that the graphs were a shot of a model output under baseline assumptions, which were an OMB growth forecast. He pointed out that there was an increasing expenditure line, with the budget growing by about \$1 billion between FY 17 and FY 26. He stated that the forecast was not completely adjusted for inflation, but had retirement assistance growing from approximately \$200 million to \$450 million.

Mr. Teal informed that LFD had used the Department of Revenue (DOR) spring price forecast when formulating the graphs, as well as a P10 production forecast. He continued

that LFD had received some new numbers from DOR the previous day, but had not had time to build them in to the model. He recalled that the committee had been in a long discussion with DOR about the production forecast, and the fact that FY 18 had a stale number for oil production. He confirmed that LFD had adjusted for the stale number by using the P10 forecast, which signified that outcomes would be at or above the forecast 90 percent of the time, or below for 10 percent of the time.

Mr. Teal thought the P10 forecast would be very similar to the revised forecast, but had not had a chance to compare. He clarified that the forecast removed the 12 percent production decline (from FY 17 to FY 18) that had concerned many members. He specified that the forecast started at approximately 475,000 barrels of oil per day with a shower decline than the mid-production forecast would have. He thought it was a reasonable adjustment to the forecast, and should be just about the same as when the new numbers were built into the model.

[9:27:16 AM](#)

Co-Chair MacKinnon clarified that the graphs showed particular assumptions under the baseline of SB 26. She thought most models would be wrong, and emphasized that the committee was trying to use the best information that was available to forecast and test particular actions. She stated that when the committee was specifically looking at the budget growth as represented on the charts, it was not an endorsement, but rather a projection by OMB as to how the budget would grow if nothing else transpired.

Mr. Teal clarified that the models were projections rather than predictions. He furthered that LFD used numbers provided by DOR, the Department of Natural Resources, OMB, and by the Alaska Permanent Fund Corporation (APFC). He emphasized that as model builders, LFD did not want to be put in the position of using its own assumptions, which would determine the output. Rather, LFD tried to choose assumptions which were the best numbers from those best qualified to produce the numbers. He thought the baseline assumptions were a reasonable starting point, and suggested that OMB's expenditure projection kept up with inflation. He emphasized that the models were interactive in order to enable the committee to look at different scenarios.

Co-Chair MacKinnon asked about the 'UGF Revenue/Budget' projection graph on slide 6, and made note of the differently colored bars that represented funding to support state services. She asked Mr. Teal to provide clarity for those that might be listening to the meeting.

9:30:17 AM

Mr. Teal agreed to provide some detail on the bars, but first commented that there was one more assumption to consider on the graphs; that the Permanent Fund had a rate of return of 6.95 percent. He stated that the assumption made the model function.

Mr. Teal referred to the 'UGF Revenue/Budget' graph in the upper left of slide 6, and directed attention to the expenditure line that reflected the OMB forecast. He explained that the bars represented state revenue, and were broken into pieces according to revenue source. He stated that the blue portion of the bars represented traditional revenues (oil and other things). Additionally, it was possible to see the CBR draw represented in the yellow bar, which drastically diminished starting in FY 18 as the state began to draw a payout from the ERA. He explained that the yellow bar stacked on top of the traditional revenue bar, leaving a deficit.

Mr. Teal posited that when there was a deficit, it was assumed it would be filled from the CBR. He directed attention to the 'Budget Reserves' Graph on the lower left, which showed a declining CBR balance.

Mr. Teal looked at the graphs on the lower right of slide 6, which showed dividend information. He pointed out that the 'Permanent Fund' graph showed the balance of the fund growing to approximately \$70 billion by 2026, which was 108 percent of the fund's FY 17 value after being expanded for inflation.

He indicated that the Permanent Fund was keeping up with inflation and not being depleted under the scenario. He referred to the 'Dividend Check' graph on the upper right of the slide, which showed dividends at roughly \$1000, and fairly flat over time under the current scenario. He thought the committee was paying most attention to the quadrants of revenues and expenditures, which would change the most over time. He thought that dividends would not

change much; but that expenditures, revenues, and deficits would be subject to greater change.

9:34:07 AM

Senator von Imhof looked at the 'Dividend Check' graph on the top right of the slide. She asked about the red 'status quo' line, which she assumed included having \$10 billion in the ERA along with \$45 billion in the corpus of the permanent fund invested in the same way it was currently. She discussed a scenario predicated on the event that SB 26 did not pass, money was taken from the ERA through a majority vote, and APFC made different decisions in how it invested the ERA. She thought a full quarter of the fund could be prudently invested (with lower risk) to manage cash flow. She thought the state would not see the full investment value in the ERA if the bill did not pass and draws on the ERA began. She emphasized that the state could not manage cash flow while having investments that locked up cash for many years. She shared concerns that dividends could drop precipitously if such a scenario would occur.

Mr. Teal thought that Senator von Imhof was being very mild in her assessment. He pointed out that the 'Status Quo' line on the 'Dividend Check' graph assumed that the state could continue to pay dividends if SB 26 was not passed. He asserted that if the bill was not passed, there would not be \$1.8 billion (and growing) going to the GF. The deficits would then be filled from the CBR. He continued that once the CBR was gone in FY 19, government would have to be cut by 50 percent immediately, or the state would have to begin to use money from the ERA. If there was a \$2.5 billion draw from the ERA to fill the deficit, the account would be depleted rapidly and there would be no dividends. He was not sure the committee wanted to discuss the status quo scenario if the bill were not to pass, and opined that it simply did not work. There was not sufficient cash to avoid beginning a structured draw from the ERA as SB 26 proposed to do. He thought the problem went far beyond the impact of lowered returns, and emphasized that the 'Status Quo' line showing large dividends simply would not happen due to lack of funds.

9:38:04 AM

Senator Micciche stated that he had a problem with the model, but thought it was the best tool for examining all

the components being considered. He stated that part of SB 26 was to enable a dividend in perpetuity. He asserted that the reason for the meeting was to demonstrate that the Senate fiscal plan worked. He referred to previous testimony by DOR that indicated a 12 percent decline from 523,000 barrels per day to 459,000 barrels per day in oil production; even though there had been a two-year increase in oil production. He pointed out that the P10 forecast still demonstrated a nine percent decline in oil production.

Senator Micciche continued discussing the model, and emphasized that there was an extremely conservative assumption on likely oil production in the subsequent years shown on the model. He emphasized that there were many layers of conservatism layered in the graphs.

Co-Chair MacKinnon asked that Mr. Teal continue his presentation so that Alaskans could understand how the legislature was trying to measure any proposal being considered. She asserted that the plan tried to ensure that the corpus of the PF was protected. She asked if it was accurate that in a baseline model, the fund performed better than the status quo scenario.

Mr. Teal answered in the affirmative.

Co-Chair MacKinnon noted that the baseline model under SB 26 assumed a Percent of Market Value (POMV) draw at 5.25 percent for the first few years, dropping down to a 5 percent draw that would lower with time.

Mr. Teal concurred.

Co-Chair MacKinnon relayed that Co-Chair Hoffman and herself had met with the governor to discuss the Senate's plan. She relayed that the governor had originally stated to all Alaskans that the legislature should look at a manageable draw from the Permanent Fund earnings to protect the people's dividend. She was supportive of the statement, but thought the administration had modified its goals in recent days. She mentioned oil and gas tax reform and an income tax on Alaskans. She interjected that her intent was to protect the dividend. She thought the 'Dividend Check' graph on slide 6 contained optimistic projections that did not reflect the actual challenge that both bodies were facing in trying to meet payroll for the government at its

current size. She stated that the Senate's effort to reduce payroll was difficult to accomplish without a supportive administration.

Co-Chair MacKinnon pointed that while FY 19 might seem as though it was far in the future, it was in fact the following year (for planning purposes).

Mr. Teal affirmed that the legislature was currently working on the FY 18 budget.

Co-Chair MacKinnon asked when the FY 18 budget began.

Mr. Teal specified that the FY 18 budget began July 1, 2017.

Co-Chair MacKinnon noted that the school district operated on yet another schedule, and were budgeting a different way than state agencies. She thought that some budgetary numbers could be confusing.

[9:43:50 AM](#)

Mr. Teal commented on Senator Micciche's choice of assumptions. He thought that the assumptions used were reasonable, and leaned towards conservative. He commented that the assumptions that went in to the baseline were be justifiably conservative. He thought it was better to err on the side of caution, and have more (revenue) than previously assumed.

Senator Hughes appreciated the fact that the P10 value was conservative, but shared concerns about the 6.95 percent Permanent Fund investment return rate. She thought the number seemed high, and wondered what would happen if the actual return fell short of what was projected.

Mr. Teal stated that there was a reason that LFD used numbers provided by APFC, which had the knowledge to project rates of return. He continued that APFC had modified its projection slightly over the years. Previously the projected rate of return was 8 percent, and the APFC had generally met its investment targets. He relayed that Angela Rodell, the Executive Director of the corporation, believed that a 6.95 percent projected rate of return was achievable. He reminded that the Retirement Board had a projected target of 8 percent, so he considered that a 6.95

percent projected rate on long-term investments of a well-balanced portfolio seemed achievable.

Senator Hughes thought she had heard Ms. Rodell assert that a projected 5 percent rate of return made her a little uncomfortable. She hoped that the actual return would be higher, but reiterated that the 6.95 percent seemed a little high.

[9:47:25 AM](#)

Senator Micciche relayed that the committee had spent a great deal of time with APFC as well as independent evaluators. He clarified that many experts had testified that 6.95 percent was an expected return rate as for any sovereign investment fund. He thought it was important for people to realize that the projected rate of return was an appropriate and conservative number.

Co-Chair MacKinnon commented that APFC had a portfolio that was balanced differently than the stock market. She continued that APFC had a core base of real estate that showed gains differently than the stock market. She pointed out that the stock market was currently moving upward under the new administration. She asserted that the 6.9 percent projected rate of return was reasonable, as was the 5 percent and 5.25 percent draw.

Co-Chair MacKinnon continued, and referenced previous testimony by Ms. Rodell that opined that the draw amounts were reasonable. She furthered that actuaries from the administration had backed up the calculations that were included in SB 26. She informed that the legislation included a drop in the POMV payout, as well as a three-year review to confirm that the assumptions were accurate and the Permanent Fund principal and other state savings accounts were not being stressed.

Mr. Teal emphasized that any time a model output was shown, it was important to use words of caution. Mr. Teal reminded that the graphs in the presentation represented projections, and that the future was uncertain. He stated that LFD expected the committee to understand that its policy decisions had to address the uncertainty. The base scenario used stable earnings and oil prices, despite the fact that it was known that both items would be volatile.

Mr. Teal stated that the precision of the model was not high; suggested that the committee should consider trends when looking at numbers, rather than looking at the numbers themselves. He asserted that LFD was within a margin of error of \$200 million, which was the best that could be done. He highlighted that it was very easy to change the assumptions being used, and it was up to the committee to see how well a model survived with different assumptions. He suggested that the committee look at the projections for FY 18 revenue, one of which had been \$7 billion.

[9:52:12 AM](#)

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, referred to the lowest projection for FY 18, which was in the spring 2016 forecast and had been \$500 million lower than the current forecast. The highest projection was made when oil was \$120 per barrel, and had forecast approximately \$7 billion of revenue for FY 18. He thought the difference between projections in the long term may be plus or minus \$5 billion, probably not minus \$5 billion.

Co-Chair MacKinnon asked about the base model and the assumption of a \$180 million capital budget for UGF. She asked if he recalled the size of the previous year's capital budget UGF spending.

Mr. Teal recalled that there was \$96 million of UGF spending in the previous year's capital budget, and it thought it would probably be less than \$100 million in the current year. He stated that the \$180 million was a long-term assumption, and he could modify the assumption when the committee began looking at an active model.

Co-Chair MacKinnon stated that she raised the issue in order to provide understanding that the committee had tried to put stressors within the budgeting scenario to test the model.

Mr. Teal continued, cautioning that the models should always be stress tested by using less favorable assumptions regarding earnings, oil prices, and other factors.

Mr. Teal pointed to slide 6, and referred to the table of numbers under the 'Budget Reserves' graph. He referred to the protection of the Permanent Fund and funding a flat dividend. He stated that the table showed in that FY 18

about three quarters of the projected \$2.5 billion deficit was filled under the baseline assumptions, leaving a deficit of about \$600 million. The deficits declined in the future, with 86 percent filled before relying on the CBR. He asked the committee to remember precision, and suggested that the 86 percent was a trend.

Mr. Teal thought it was critical to note that the CBR was not empty in FY 19 as slide 3 implied – the scenario provided time to deliberate. He stated that with SB 26 the CBR, although it was declining, would last a number of years. He pointed out that the chart of the bottom of the slide showed the deficit, and the years to exhaust the deficit.

[9:56:21 AM](#)

Senator Meyer thought it seemed using 2.89 percent to calculate CRB earnings was quite low. He asked if the number was based on historical returns for the CBR.

Mr. Teal stated that the CBR did not earn much as the returns were correlated with the investment strategy. When there was little money in the CBR, and there was potential demands on using the money, it could not be put into long-term investments. The funds would essentially be held as cash or cash-equivalents, and therefore it would not be in a portfolio designed to generate higher earnings.

Co-Chair MacKinnon relayed that DOR Commissioner Randall Hoffbeck had made the decision because there could be a required call on cash to liquidate most of the CBR.

Senator Meyer thought that some had speculated that inflation could go up considerably in the near future due to the new president and stimulus to the economy in the Lower 48. He asked a higher rate of 5 percent would impact the financial picture.

Mr. Teal looked at the interactive models. He stated that he skipped slide 7, which had shown the Senate budget, and was a reduction of about \$185 million from the governor's proposed budget.

In order to discuss different hypothetical scenarios, he thought it was best to look at the graphs and enter different inflation rates, different capital budgets,

different budget cut scenarios, and different revenue measures. It was also possible to stress-test the scenarios with higher oil prices and lower returns, to demonstrate that SB 26 could hold up under some difficult fiscal assumptions. He cautioned that there was no guarantee that the assumptions being used were not very optimistic, even though LFD was taking a conservative approach.

[10:00:43 AM](#)

Senator Meyer wondered how LFD chose to use a 2.25 percent inflation factor.

Mr. Teal stated that 2.25 was the assumption that APFC used.

Co-Chair MacKinnon suggested that the committee test the model starting with Senate recommendations for cuts in the current year's budget, which she thought totaled around \$185 million. She thought a variety of scenarios could then reflect if the state's reserves were growing, and whether the corpus of the Permanent Fund was affected.

Mr. Painter entered a target cut of \$185 million into the interactive spreadsheet.

Co-Chair MacKinnon commented that it was possible to see a slight uptick in the state's reserves after inputting one year's worth of cuts.

Mr. Painter pointed out the graph on the bottom left, and noted that changing a variable to include the proposed \$185 million in cuts reduced the deficit, and thereby increased the balance of the CBR in future years. He did not think it was quite enough to turn the trend upwards, but thought that more cuts would achieve the desired effect. He clarified that the \$185 million mentioned was the reduction below the governor's proposed budget (but not below FY 17 - the baseline for the model was the governor's proposed budget).

[10:02:51 AM](#)

Senator Micciche recalled that the committee had viewed similar models before the spring forecast had come out. He commented that the estimate of a 9 percent decline in oil production was conservative. He wanted to look at a more

probable production estimate, if the scenario just assumed the two years was more of a trend rather than being considered an anomaly. He mentioned a long list of new projects expected to be online by 2021. He asked Mr. Painter to add \$100 million of other revenue on the summary tab.

Mr. Painter stated that it was difficult to show what Senator Micciche was requesting, and that he would instead show the funds as additional budget reductions.

Senator Micciche observed that inputting \$285 million in reductions showed the state rebuilding its savings. He looked at revenue for FY 18.

[10:06:15 AM](#)

Senator Micciche asked Mr. Painter to address the motor fuel tax on the interactive graphs, and to drop the capital budget variable to a more realistic number. He wondered if Co-Chair MacKinnon was comfortable dropping the capital budget to \$100 million.

Senator Micciche perceived that with the requested changes to the graph, one could observe that by FY 19 there were increased CBR savings, and the ERA started growing rather rapidly. He thought that the bill would build the CBR, would balance the budget within two years, and would begin to grow state savings. He stated that the committee was on guard against over-capitalizing government. He mentioned a spending cap and a revenue limit, which were part of the concept of the plan.

Vice-Chair Bishop believed that the proposed fiscal plan was the beginning of sound economic policy for the state.

Senator von Imhof observed that one of the components of the plan was spending in the future. She thought that if there had previously been a spending cap in place, there would be more in reserves. She asserted that one important component of the fiscal plan was a spending cap, which was at about \$4.1 billion for UGF. She thought that the spending cap, in concert with a POMV draw, could be considered redundant. She mused that if revenue increased in the future, there could be pressure to increase spending. She thought it would take discipline and resolve by future legislators to refrain from increased spending

and be thoughtful about what expenses to address. She thought a spending cap would keep a level of discipline in place and was a core requirement of the plan. She was pleased that there was a spending cap in SB 26.

[10:11:22 AM](#)

Mr. Teal referred to Senator von Imhof's "belt and suspenders" analogy relating to redundancy. He discussed the payout limit, and thought some might be concerned that funds could not be spent. He explained that there was a choice between spending \$10 million per year forever or spending \$200 million one time. If the legislature chose to operate under the revenue limit, there would be a continuous \$10 million per year to support operating budget increases. He thought the spending limit was different in that it did not reduce the draw from the ERA like the revenue limit did. He thought that the two measures worked well together.

[10:14:13 AM](#)

Senator Hughes asked to look at the top of the center table on the interactive graph sheet. She directed attention to the target cut, and thought the reduction factor in the model over time was incredibly important so as to avoid the need for additional revenue measures. She also resisted the necessity to have the deficit be zero, and thought downward pressure to continue to make reductions was important. She thought the temptation would be to continue to increase spending, rather than continue to make reductions. She emphasized that it was necessary to not only think of state services, but communities and the private sector. She hoped line 8 (target cut) would continue to be present as part of the model, and thought reductions were the best way to bring down the deficit.

Senator Meyer referred to Senator Hughes comments. He mentioned that the Senator and he both sat on the Senate Labor and Commerce Committee, which had recently extensively considered an income tax bill. As proposed, the bill would go into effect in FY 20, and would bring in additional revenue of \$600 million to \$700 million. He estimated that the Senate was proposing an approximately \$250 million deficit for FY 20, so there would be a surplus of \$400 to \$500 million extra funds collected from

Alaskans. He considered that the scenario would encourage over-spending as Senator von Imhof had suggested.

Co-Chair MacKinnon stated that the purpose of the meeting was to acknowledge that it was short-sighted to consider an income tax at the current time. She thought that the economists in the Labor and Commerce Committee had suggested that the state not do everything at once. She thought leaving a deficit was not a bad thing if one believed that government still had an opportunity to do things more efficiently and perhaps provide services differently.

[10:18:47 AM](#)

Senator Micciche asked to look at the 'Budget Reserves' graph on slide 6. He commented on possible increased oil production. He asked Mr. Painter to add a price increase of \$2 per barrel to the forecast.

Mr. Painter stated that there was not a way to merely change the price of oil in the forecast, but rather only change the P40 assumption, which meant that there was a 60 percent likelihood (according to DOR) that the price of oil was lower, and a 40 percent likelihood that it was higher. The change would equate to a few dollars of price adjustment in the early years, and 8 or 10 by the later years.

Mr. Painter turned to a worksheet showing revenue forecasts, which showed there was an increase to the price of oil by \$4 in FY 18, and up to \$10 by FY 26.

Senator Micciche acknowledged that there would be fluctuation in oil prices. He mentioned the POMV draw, which he thought would eliminate variability. He thought the fiscal plan used conservative estimates.

[10:22:23 AM](#)

ROB CARPENTER, ANALYST, LEGISLATIVE FINANCE DIVISION, addressed points made by Senator Micciche and Senator Hughes; suggesting that the committee observe an inflation-growth model. He noted that the same results were observable, which budget constraints in the out years. He noted that the OMB 10-year plan was flat in the early

years, with 2.5 percent growth after. He emphasized that the volatility in the projections was significant.

Co-Chair MacKinnon relayed that it was the Senate Majority's position that the administration had the power and opportunity to help Alaskans in a way that might not be observable yet. She mentioned contract negotiations, and thought there were tools at the administration's disposal that provided an opportunity to balance the budget. She pointed out that the only way the plan worked was due to the blend of the POMV and the improvement of oil price. She emphasized that the state would be facing huge deficits if a percentage of the Permanent Fund earnings was not planned to be used to blend revenues together.

Co-Chair MacKinnon thought the point of the presentation was that it was possible to balance the budget without additional taxes if it was based on cuts. If the Senate was able to achieve \$300 million in cuts, no new revenue would be needed anywhere. She thought a willing House body and administration were needed to accomplish the cuts. She asserted that the Senate would continue to pursue a responsible budget with a spending limit that structurally reformed different programs that were huge cost drivers. She emphasized that reductions, a spending limit, and use of the ERA were a cornerstone of fiscal policy.

[10:26:56 AM](#)

Senator Hughes added to Senator Meyer's remarks regarding the lack of a number on the income line in the model. She was led to believe by financial professionals that an income tax would increase the economic recession in the state. She was concerned about the proposal from the House Majority, and thought creating surplus revenues would be very damaging to the economy.

Senator von Imhof stated that the income tax model did not show the economic and population impacts in the event that an income tax was implemented. She asserted that those with the most income were generally the most mobile. She told an anecdotal story about the State of Connecticut and the impact of high wage earners leaving the state after an income tax had been imposed.

[10:28:55 AM](#)

Mr. Teal thought it was up to the committee to make a determination if it felt comfortable with the model, the assumptions, and the policy choices that were being considered.

Senator Micciche thought the goal for the day was to clarify that there was not a remaining \$500 million CBR draw forever. He thought people wanted different things from the government, and had different expectations. He did not think it was possible to cut forever, and thought the government needed to be made as efficient as possible without over-capitalizing. He thought asking more from the economy was reckless.

Senator Micciche continued, and stated that the committee was focused on perpetual dividends. He asserted that without the changes proposed in the plan, the existence of dividends by 2026 was at risk. He directed attention to the 'Permanent Fund' graph on the slide, which showed the status quo scenario reflecting a \$10 billion difference in the corpus of the fund. He envisioned that someday the corpus of the fund and POMV draw would adequately capitalize the operation of the government in perpetuity. He was excited about the plan, and hoped others would recognize its value.

[10:32:08 AM](#)

Vice-Chair Bishop commented that now the state was on a pathway towards diversification and protection the ERA, he assumed that the state's credit rating would rise once the bill became law.

Co-Chair MacKinnon reminded that the state had a bicameral legislature with a strong executive branch. She asserted that the Senate's plan worked, and there were policy choices in all facets of the plan. She thought that the probability of success depended upon the House, the Senate and the administration reaching an agreement. She restated that it was necessary to have a responsible budget. The Senate was asking the House to reconsider a spending limit. She thought it was necessary to continue restructure some of the largest cost drivers of the state.

Co-Chair MacKinnon discussed the value of education. She referred to Senator Hughes and education reform. She thought that groups of Alaskans were not receiving the same

education benefits as others. She stated that the Senate, along with the administration, was trying to advance structural reform to the K-12 education system. She thought that if the state could achieve a spending limit and a responsible budget, the Senate would consider use of the ERA to create a durable structure for Alaska and ensure long-term dividends for all Alaskans.

Co-Chair MacKinnon discussed the afternoon agenda.

10:36:24 AM

RECESSED

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RECONVENED

#hb111

CS FOR HOUSE BILL NO. 111(FIN)(efd fld)

"An Act relating to the oil and gas production tax, tax payments, and credits; relating to interest applicable to delinquent oil and gas production tax; relating to carried-forward lease expenditures based on losses and limiting those lease expenditures to an amount equal to the gross value at the point of production of oil and gas produced from the lease or property where the lease expenditure was incurred; relating to information concerning tax credits, lease expenditures, and oil and gas taxes; relating to the disclosure of that information to the public; relating to an adjustment in the gross value at the point of production; and relating to a legislative working group."

1:33:08 PM

Co-Chair MacKinnon discussed the agenda.

1:33:51 PM

AT EASE

1:34:03 PM

RECONVENED

KARA MORIARTY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ALASKA OIL AND GAS ASSOCIATION, discussed the presentation "Senate Finance Committee - HB 111," (copy on file). She stated that the Alaska Oil and Gas Association (AOGA) was

the state's professional oil and gas trade association; and its members represented the majority of exploration, production, and refining companies in the state. She stated that HB 111 represented the seventh change in oil tax policy in twelve years.

Ms. Moriarty thought that some had misrepresented AOGA's position on past oil tax policy changes in the previous decade. She stated for the record that industry had not asked the legislature to make any changes in the current year. She asserted that the current tax structure had clear, undeniable proof existed that the law attracted new companies to the state and had created a fiscal climate that encouraged companies to invest more, which had in turn facilitated the ultimate goal of getting more oil in to the Trans-Alaska pipeline system. Ms. Moriarty wondered why the legislature was considering abandoning and reversing what she considered to be a successful policy.

Ms. Moriarty looked at slide 3, "House Majority Goals":

There is no silver bullet for solving our fiscal problem. To maintain the Alaska that we want to live in, we need a durable solution that includes a combination of measures: a Percent of Market Value draw from the Earnings Reserve Account (within the Alaska Permanent Fund); a reasonable broad-based tax; a moderate and protected PFD payout; and a restructuring of the oil and gas tax credits. Implemented together, these four pillars will lay the foundation for a prosperous future for all Alaskans.

- Reps. Paul Seaton & Neal Foster (House Finance Co-Chairs)

Ms. Moriarty discussed slide 4, "Governor Walker's Goals":

Alaska is facing annual deficits of more than \$3 billion - even after budget cuts of 44 percent in the past four years. Without a plan we'll burn through our budget reserves in less than two years. The New Sustainable Alaska Plan calls for a combination of

1. Spending reductions
2. Sustainable use of Permanent Fund earnings
3. Modest tax increases
4. Oil and gas tax credit reform

<https://gov.alaska.gov/administration-focus/new-sustainable-alaskaplan/>

Ms. Moriarty showed slide 5, "Senate Resources CS for HB 111":

HB 111 "eliminates the state's cash exposure by ending the program of refundable oil and gas tax credits to small or new companies. Transitions to a system of carrying forward operating losses for use against future tax liability, while protecting the basic tax components in statute today."

Senate Resources Committee, Summary of Committee Substitute, 4/24/17

Ms. Moriarty suggested that it was the goal of the leaders of the House, Senate, and the governor to eliminate cash credits as proposed by the bill. She thought the elimination of the credits would increase government take and impact the economics of several potential projects. She stated that the version of the bill being considered addressed several concerns AOGA had outlined in previous bill hearings. She considered that previous versions of the bill had multiple sections that had nothing to do with oil and gas tax credits and were simply tax increases on the industry. She thought the Senate Resources Committee version of the bill seemed to be focus primarily on the goal of eliminating cash credits. She mentioned a memo from AOGA dated March 13, 2017 that had addressed technical questions and concerns (copy on file).

[1:37:45 PM](#)

Ms. Moriarty spoke to slide 6, "Senate Resources CS for HB 111 Meets Governor's Goals":

HB 1111 resolves four high priority concerns identified by the governor:

1. Transition Alaska away from the business of providing cash credits/rebates to the oil and gas industry
2. Reduce the state's liability related to potential large future investments
3. Defer the state's direct participation in the cost of a new project until it comes into production

4. The oil industry should participate as part of the overall fiscal plan for Alaska

Source: DOR Presentation 4/14/17

Ms. Moriarty referred to a statement by Commissioner of Revenue Randall Hoffbeck that suggested the blended gross tax/net tax structure was well designed for the state's position.

Ms. Moriarty continued discussing slide 6, and believed that with the elimination of cash credits, the state no longer had participation in new projects. She emphasized that not only did the oil industry participate as part of the state's fiscal plan, but it was the state's largest taxpayer to date. She continued that the state took the largest profit share at every oil price, and HB 111 would increase government take. She referred to a recent report from OMB that outlined different categories of expenditures per capita, but failed to mention different income streams per capita. She detailed that in FY 16, the oil and gas industry contributed just over \$2.1 billion to state and local governments, which equated to over \$2,800 per Alaskan in the previous fiscal year.

Ms. Moriarty stated that she had a personal stake in solving the state's fiscal issues. She urged the committee to not pursue changes that would dramatically impact the investment climate for Alaska. She thought the state needed a policy that would continue to put more oil in the pipeline, which would benefit the entire state economy. She thanked the committee for the opportunity to testify.

Co-Chair MacKinnon acknowledged Senator Cathy Giessel in the gallery.

[1:41:32 PM](#)

DAN SECKERS, TAX COUNSEL, EXXONMOBIL, testified in support of the CS by the Senate Resources Committee. He was supportive of the comments of the previous testifier. He underscored the concern that oil tax credits (cash credits) reform had been transformed into changing policy in the state when companies were struggling. He thought that an effort to raise taxes when companies were losing money would not help the economy. He thought the proposed CS did

address the central issue of the reform of cashable credits while allowing the state to remain globally competitive.

Mr. Seckers continued his remarks, and thought that the CS being considered maintained the core structure of SB 21 [oil and gas tax legislation passed in 2013]. He thought that SB 21 had led to more production, revenues, and jobs. He stated that ExxonMobil had never qualified for the cashable tax credit program, and did not expect to qualify for the program in the future.

[1:44:40 PM](#)

Mr. Seckers mentioned the memo authored by AOGA that was referenced by the previous testifier. He discussed concerns about elements of the bill, including the net operating loss (NOL) carry-forwards. He referred to Section 23 of the bill, which provided that the NOL tax credit would be carried forward as an operating loss. He thought the provision also created an ordering rule, and provided that the current year expenses were claimed before an NOL was claimed. He discussed the current tax structure and thought there would be a crossover point, at which time the tax on the net profit would equal the tax on gross profit. He thought the additional deductions had no value. He thought the recovery of losses was foundational to a net tax system, and to eliminate the recovery would make Alaska less competitive.

Mr. Seckers considered the credits that could be used to reduce the minimum tax. He thought the CS was not clear with regard to application of credits against the minimum tax. He thought the more clarity provided in statute, the better off everyone would be.

Mr. Seckers addressed the issue of gross revenue exclusion, which he thought many fields would qualify for. He reiterated the need for clarity in the bill to establish the intent of the legislature.

Mr. Seckers highlighted an issue in Section 23 of the bill. The section provided for uplift and he commented that ExxonMobil was unlikely to ever qualify due to current production. The section stated that the uplift could only be used once the field (generating the uplift) began commercial production, which he thought created an ambiguity. He recalled that HB 247 [oil and gas legislation

passed the previous year] changed law regarding determining qualifications for a gross revenue exclusion. He wondered about the definitions of 'production' and thought there should be standardization of terms.

Mr. Seckers concluded by saying that Alaska was an important part of ExxonMobil's portfolio, and the company planned to be in the state for many years to come. He thought that if taxes were increased, opportunities would diminish accordingly. He thought that the goal of having a globally competitive fiscal regime was one of the most important issues for the state. He understood the cash flow crisis, as well as the attention paid to cashable credits and how the issue was being addressed. He reiterated that the CS preserved the core structure of SB 21, which he believed had been working by leading to more production, and had led to more royalty payments and taxes.

[1:51:40 PM](#)

Vice-Chair Bishop asked if ExxonMobil had changed its capital investment strategy globally since the downturn in oil prices.

Mr. Seckers relayed that ExxonMobil had taken a harder look at investments, and stated that in low price environments, investments received greater scrutiny.

Co-Chair MacKinnon referred to the previous testifier's mention of SB 21, and asked Mr. Seckers to specify oil tax policy rather than use a bill number. She asked if he was familiar with the advisory opinion issued in March by the tax director from DOR. She wondered if Mr. Seckers would be challenging the interpretation, and whether he saw the opinion as a new interpretation, or rather as an accurate description of tax policy that had been in place.

Mr. Seckers stated that he was familiar with the advisory opinion, and it was still under consideration by his company. He thought the impact on the ExxonMobil Corporation may not be as severe as for other taxpayers. He did not agree with the opinion. He thought that the opinion was a strained interpretation and was not sure it matched the intent of SB 21. He stated that the corporation had been surprised by the opinion, but would follow the law.

Co-Chair MacKinnon questioned DOR's interpretation of the Senate Resources Committee version of HB 111. She referred to Ms. Moriarty's earlier comments and had understood that DOR took the position that the bill would decrease costs for taxpayers. She wondered if testifiers were speaking to the advisory opinion or to the bill being considered. She thought current policy had been reinterpreted differently by the administration's tax director. She thought there was a different alignment as to how different components of tax policy were in play and how deductions were taken.

[1:56:07 PM](#)

Mr. Seckers recalled that the reference to the tax increase was from the CS rather than the advisory opinion. He continued that the impact of the bill was relative to various companies. He did not know the foundation of the assessment by the department in saying that there was a tax decrease. He discussed the contents of the advisory opinion as related to the CS. He thought that the CS would represent an immediate tax increase for a number of companies due to being subjected to a minimum tax.

Co-Chair MacKinnon stated that the committee was working with DOR to understand why the Senate CS would decrease taxes.

Co-Chair MacKinnon asked if ExxonMobil received cashable credits from the state.

Mr. Seckers stated that the corporation had never qualified for, nor received any cashable credits from the state.

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AT EASE

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RECONVENED

SCOTT JEPSEN, VICE PRESIDENT OF EXTERNAL AFFAIRS AND TRANSPORTATION, CONOCOPHILLIPS, discussed the presentation "Senate Finance Committee - SCS CSHB111\P" (copy on file). He turned to slide 2, "Activities Since Tax Reform (SB21) Passed":

- Added two rigs to the Kuparuk rig fleet, 2013-2014
- Two new-build rigs delivered in 2016

- Doyon 142 and Nabors CDR3
- Averaged 4.5 rigs at Kuparuk/Alpine during 2016
- Sanctioned ERD Rig in 2016
- North East West Sak - DS1H
- New drill site at Kuparuk (DS 2S) - on stream a year ago
- Sanctioned 18 additional wells at Alpine CD5
- Sanctioned Greater Mooses Tooth 1 in 2015
- Permitting Greater Mooses Tooth 2
- Willow discovery and acquisition of 737,000 state and federal acres in December 2016 lease sale
- Significant other industry investment

Mr. Jepsen emphasized that the list of activities on the slide represented billions of dollars of investment and tens of thousands of barrels of new production coming on-stream. He highlighted the Will discovery, which could equate to 100,000 of barrels per day and billions of dollars of investment. He relayed that SB 21 had a substantial impact on the state in terms of production, jobs, revenue, and getting more oil down the Trans-Alaska pipeline system. He discussed the Greater Mooses Tooth 1 project, which had employed 1,000 people. He mentioned new exploration potential.

Mr. Jepsen thought everyone was well aware that production had increased in 2016. He discussed increased production in 2017. He directed attention to a bar graph on the lower right hand corner of the slide, to show ConocoPhillips' capital investment in the state. He highlighted that 2012 was the last year of Alaska's Clear and Equitable Share (ACES), and the company had invested about \$800 million while oil prices were about \$100 per barrel. Every year since the company's capital budget had gone up.

Mr. Jepsen noted that ConocoPhillips peak year as a corporation was 2014, when it spent about \$17 billion. The company had about \$1 billion invested in Alaska. He stated that part of the reason ConocoPhillips still invested in the state was because there was a competitive investment climate. He thought SB 21 had been a key to sanctioning various projects. He stated that the decision to invest in all of the projects listed on the slide had been dependent upon the economics and tax investment climate at the time.

[2:06:43 PM](#)

Senator Micciche asked what increased production did for reducing the proportion of expense for a company and therefore the return to the state.

Mr. Jepsen explained that when ConocoPhillips produced an incremental barrel on the North Slope, it decreased the overall transportation cost for every barrel that went down TAPS. He stated that the company's cost for TAPS was largely fixed, so the greater the number of barrels, the cost per barrel decreased, which in turn increased the taxable value for the state (both for royalty taxes and severance tax purposes).

Senator Micciche asked if increased production resulted in a lower transportation cost per barrel and a greater proportion of dollars that went to the state.

Mr. Jepsen answered in the affirmative.

Mr. Jepsen looked at slide 3, "FY 2017 Cash Flow - Current Law - all 2016 RSB Assumptions," which showed a graph. He wanted to expand on a comment by a previous testifier. He stated that ConocoPhillips was not a member of AOGA, but did support Ms. Moriarty's testimony provided earlier in the meeting. He thought that the company was in line with most of her earlier comments with regard to the bill. He thought that one of the goals of SB 21 had been to provide a leveled share of revenue over a broad range of prices, and he thought the chart demonstrated the accomplishment of the goal.

Mr. Jepsen continued to discuss the bar graph on slide 2 and pointed out the y-axis that depicted net cash flow, and the x-axis showed oil price. He described the colored bars which represented the different shares of cash flow under current law. He highlighted the state share in the \$60 - \$100 per barrel price range, which he felt demonstrated that the intent of SB 21 had been accomplished. He noted that the graph showed that the state share was always the largest of the categories. He highlighted that in the lower price quadrant, the state share was positive while the investor share was negative. He alleged that the state share had components of gross taxes including royalty and property tax.

Mr. Jepsen continued discussing slide 3. He observed that the state share was always approximately 20 percent greater than the investor share. He thought that SB 21 had achieved a balance and had provided a better investment climate. He thought that if the balance was changed by increasing taxes to order to increase the state's take, it would impact investments in the state.

[2:10:15 PM](#)

Mr. Jepsen showed slide 4, "Summary":

- Total cost matters. Alaska is a high region - increasing taxes increases costs and makes Alaska less competitive.
- The House version, CSHB111, would significantly increase the tax structure and would negatively impact ConocoPhillips investment decisions.
- SCS CSHB111 addresses refundable cash credits and keeps Alaska competitive.
  - NOL carry forward provisions may not provide benefit at low oil prices.
- The fundamental structure of SB21 is working - it has it has stimulated investment, resulting in jobs and increased production for the first time in 14 years. Let it continue to work.

Mr. Jepsen felt that there was currently significant competition for investment dollars, particularly from the shale plays in the Lower 48. He pointed out that prices were down, cash flow was down, and the ability to invest in new projects was limited by the amount of cash that was available. He discussed large purchases of acreage in the Permian Basin [a sedimentary basin largely in Western Texas]. He commented that in the area of the basin wells were cheap to drill, cheaper to operate, closer to market, had lower transportation costs, and fewer regulatory issues than in Alaska.

Mr. Jepsen discussed the concept of total cost and factors such as taxes, royalty rates, capital costs, and transportation costs. He asserted that Alaska was high-cost, and for ConocoPhillips, the cost of supply was approximately \$40 to \$50 per barrel. In other locations,

the company could develop resources for \$35 per barrel or less, which he thought was consistent across the industry. He warned that if the legislature increased the cost to companies, the companies would be less competitive and would thereby direct less profit to the state.

Mr. Jepsen commented that HB 111, as it had passed the House, represented a substantial tax increase that would have negatively impacted investments by companies such as ConocoPhillips. He was pleased that the Senate Resources Committee had adopted a CS that did not change the fundamental tax structure, but did address cashable tax credits. He commented that like ExxonMobil, ConocoPhillips had never qualified for cashable credits and had not generated an NOL to date.

Mr. Jepsen thought the provisions in the bill did not affect ConocoPhillips; and if the bill passed in its current form, it would not have a significant impact on investments. He asserted that the CS preserved the core tax framework under the current tax law, which he thought was important. He emphasized the importance of how the bill would be translated from statute into regulation.

[2:14:15 PM](#)

Mr. Jepsen spoke to the issue of NOLS. He referred to the comments of previous testifiers, and he thought that NOLS might not provide benefit to the investor at low oil prices. He observed that since 2013 there had been significant investments in the state, which had been leveraged by having a positive tax climate. He mentioned increased jobs, greater production, benefits from throughput in TAPS, and greater revenue to the state. He thought the bill preserved the core of the current tax framework, and thought it would result in continued investment in the state.

Senator Hughes asked if Mr. Jepsen could speak about the NOL carry-forwards at low oil prices.

Mr. Jepsen discussed the carry-forward of NOLS. He stated that currently if a company incurred a NOL, it would be carried forward as an expense, and the amount would be deducted from cash flow before calculating taxes and using per-barrel credits. If there was a period of low prices, a company could meet the minimum tax without needing to use

the NOL carry-forward. He explained that if the NOL was applied before the per-barrel credits, the NOL was not providing a benefit.

Senator Micciche asked to turn back to slide 3. He inquired about the negative cash flow reflected on federal taxes, and asked if the tax impact was not isolated to Alaska.

Mr. Jepsen answered in the negative. He stated that when there was negative cash flow, it would be reflective of the overall position as a company.

Senator Micciche asked if there would be negative cash flow on federal taxes if Alaska was isolated.

Mr. Jepsen stated that ConocoPhillips could still incur a negative federal tax liability.

[2:18:03 PM](#)

PAT FOLEY, SENIOR VICE PRESIDENT - ALASKA OPERATIONS, CAELUS ENERGY, testified about the bill. He commented on the price of oil and the budget deficit. He stated that Caelus had laid off about 20 percent of its workforce in the previous year and a half. He informed that Caelus previously had capital budgets of approximately \$200 million, but in 2017 the capital budget was less than \$2 million. He expressed admiration for the tenacity that the state government was displaying in tackling the state's fiscal problems.

Mr. Foley understood that there would be a transition away from cashable tax credits. He beseeched the committee to find a way to get earned tax credits paid. He stated that Caelus viewed its relationship with the state as a partnership. He believed that the long-term solution for the state was to grow North Slope oil production. He emphasized that tax policy would affect future investment in the state.

Mr. Foley referred to a presentation the previous day by Rich Ruggiero (copy on file), and his reference to competitiveness. He agreed with the presenter that Alaska needed to remain competitive to attract future investment dollars. He recounted that the consultant had pointed out the complexity of the tax structure in the state. He referenced slide 15 in Mr. Ruggiero's presentation, which

showed what a project would look like if a company had cash credits. He discussed the bill as it had been passed from the House.

Mr. Foley discussed the difficulty of attracting funding for projects with an unexpectedly lower rate of return. He drew attention to slides 20 through 24 of Mr. Ruggiero's presentation, which addressed the difference of the same tax regime between legacy producers versus a new entrant. He found it surprising that in the \$70 per barrel environment, the same big project was worth six times more (net present value) to a large company. He explained that the difference had to do with the tax efficiency of lease expenditures. He alleged that when a large company made investments, it could avoid a tax liability immediately. Conversely, when a new entrant made the same investment, it received the benefit of the investment dollars 5 or more years in the future.

[2:23:54 PM](#)

Mr. Foley further discussed the presentation by Mr. Ruggiero, and could not prove or disprove the claims made therein. He opined that the cashable tax credit was put in place to help level the playing field to make the investment of a new entrant on similar footing to that of a big producer.

Mr. Foley discussed Caelus' purchase of assets from Pioneer, and considered that Pioneer left the state because they could make a greater return on investment dollars in their core Texas business. He stated that Caelus bought the assets because the price was right, the assets were worthy, and there was an attractive tax policy in place. The tax credits reduced the capital that was required to make some investments.

Mr. Foley discussed tax credits and subsequent earnings by the state. He mentioned Caelus' Nuna Project, which had \$1 billion yet to be expended for oil production starting in 2019. He estimated that peak oil production for the project would be 25,000 barrels per day. He referred to the company's Smith Bay project, and after drilling two wells the company believed there was more than six billion barrels of oil in place. He thought extraction of the resource would cost about \$10 billion in future

investments, and was unsure of when and how much oil could be extracted commercially.

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Mr. Foley discussed HB 111, which he thought represented a significant tax increase after losing the benefit of tax credits. He opined that the bill destroyed project value, did not encourage investment, and did not result in more oil through TAPS. He thought the Senate Resources Committee version of the bill was a great improvement over the bill that was passed from the house. He thought the new version of the bill expanded utilization of the tax credit certificates he had.

Mr. Foley asked the committee to consider two minor modifications of the bill: the addition of a production threshold in Section 23 (pertaining to lease expenditures), and expansion of a definition in Section 12 (pertaining to alternate tax credits for exploration). He explained his reasoning and gave examples of how the modifications could be made and what entities might benefit from the changes. He qualified that his suggested changes did not address issuances or validity of tax credits, but rather only the time frame.

[2:29:24 PM](#)

Mr. Foley referred to previous testifiers comments regarding the ordering of tax calculation. He asked that the will of the legislature be captured in statute, rather than relying upon regulation and departmental practice.

Mr. Foley believed Caelus could be part of the solution. He thought the goal of the legislature was to increase North Slope production and increase oil through TAPS. He asserted that the tax policy and decisions made by the legislature would affect how much investments were made and would thereby affect job and future revenues. He appreciated the challenge faced by the legislature, and believed the Senate had a good plan to provide for a complete resolution of some of the fiscal problems faced by the state. He pleaded the committee to take immediate action.

[2:32:06 PM](#)

Senator Micciche commented that the state was obsessed with leveling the playing field. He asked if there were any wells that Mr. Foley knew of that differentiated companies by size in an attempt to level the playing field through credits and other benefits.

Mr. Foley asserted that it was not an issue of company size. He thought that Alaska had a tremendous oil business for 40 years, and there had been a narrowing number of participants. He thought if the state's goal was to have more companies on the North Slope, he thought it made sense to have tax policy that encouraged newcomers.

Vice-Chair Bishop asked if Caelus had changed its position on how it directed capital around the world in the last two years.

Mr. Foley restated that historically the company had spent about \$200 million on an annual capital budget, and in 2017 the company's capital budget was \$2 million. He reported that currently Caelus was putting 100 percent of its capital into Alaska.

Senator Olson referred to Mr. Foley's comments about the legislature acting expeditiously to resolve the state's fiscal issues. He wondered Mr. Foley had also considered a broad-based tax as part of the state's fiscal solution.

Mr. Foley had no opinion about the right solution for Alaska's fiscal issues. He believed in finding a solution that did the greatest amount of good for the greatest number of people in the state.

[2:34:58 PM](#)

DAMIAN BILBAO, VICE PRESIDENT OF COMMERCIAL VENTURES, BP (via teleconference), thought the Senate Resources CS for HB 111 was an improvement from the version passed by the other body. He asserted that the bill would amend current oil policy that had a proven record of positive results including increased production in TAPS, additional exploration success, and new players on the North Slope. He encouraged the committee to put policies in place that would enable future production.

Mr. Bilbao shared four principles that BP used to assess oil fiscal policy:

1. Does the policy encourage more oil production through TAPS.
2. Is the policy an extension in the life of Prudhoe Bay and the Kuparuk River Unit.
3. Does the policy increase the number of independent companies on the North Slope.
4. Does the policy refrain from picking winners and losers.

Mr. Bilbao made note of increased oil production in TAPS in 2016, and as well in the first quarter of 2017. He asserted that Prudhoe Bay and Kuparuk were the backbone of the North Slope, with new fields needing production from the legacy fields to be able to continue to flow down TAPS. BP believed that more companies on the North Slope was good for the state and good for industry. He thought that increased government take and an unstable fiscal environment discouraged new independent companies from coming to Alaska. He thought that the bill fell short of satisfying BP's fourth principle of oil fiscal policy.

[2:38:06 PM](#)

Mr. Bilbao read excerpts from an editorial entitled "Oil taxes would be bad for young engineers," written by University of Alaska Fairbanks engineering students and published in the Juneau Empire on April 19, 2017 (copy not on file):

That same dream is what compels us to voice our thoughts on the debate going on in Juneau. In our mind, implementing punitive taxes on the industry that serves as the backbone of our state's economy is short-sighted and at odds with prudent long term endeavors.

In our view, House Bill 111, the current oil tax bill, will jeopardize the opportunities we young Alaskans are preparing for in school. It is not a question of whether Alaska has sufficient natural resources, like oil and gas, to sustain our economy for decades into the future. Just this year, Alaskans have heard about incredible new discoveries that could provide a major

boost to the state's oil production. Companies like Caelus, ConocoPhillips, and Repsol are sitting on huge finds that could re-energize our oil and gas industry for decades. As engineers in training, we want the opportunity to be a part of bringing those projects from concept to reality.

...as students looking at the prospect of trying to find meaningful employment in Alaska in the coming years, we hope our views will carry some weight to those receptive to our plight. We are a diverse group of individuals from all over the world who bring different viewpoints and experiences with us. What unites us is a passion for engineering and a deeply vested interest in Alaska's future. Squeezing the industry that serves as our state's bread and butter will not improve our prospects, or those of any Alaskans, for family-sustaining jobs.

Please, to our elected officials and policymakers, as you struggle with the pressing issue of how to solve the state's cash flow problem, take no actions that might provide a short-term boost, but will lead to fewer opportunities for the next generation of Alaskans. Regardless, we appreciate the hard work of our public servants who are working around the clock to plug the budget hole, and trust that policy will outweigh politics when deciding which choices will benefit Alaskans most in the long run.

Mr. Bilbao thanked the authors of the editorial on behalf of BP.

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AT EASE

[2:44:23 PM](#)

RECONVENED

JEFF HASTINGS, MANAGING MEMBER, KUUKPIK SAE AND CEO, SAEXPLORATION, discussed the presentation "Senate Finance Committee" (copy on file). He thanked the committee for giving him the opportunity to offer the perspective of an Alaskan contractor.

Mr. Hastings looked at slide 2, "Kuukpik - SAE - Born in Alaska":

- Our team has been partnered with the Kuukpik Corporation for the past 20 years
- The company employs an average of 400 people per year
- The Kuukpik-SAE JV is a consistent revenue source to
  - Kuukpik Corporation and its shareholders
  - The village of Nuiqsut
  - The hundreds of Alaskan families that benefit from each program
- We are committed to preferentially hire Native Alaskans, Alaska residents and Alaskan Contractors
  - We are proud of our 80%+ Alaskan hire rate

Mr. Hastings relayed that Kuukpik-SAE was a prime contractor, sometimes an explorer, and a holder of tax credit certificates. He directed attention to the graph on slide 2 entitled 'Aklaq 3D Seismic Program,' which showed the effect on various groups in the state. He pointed out that the Aklaq program had benefitted more than 1,000 Alaska families. The project had generated about \$57 million in revenue, \$49 million of which was earned by Alaskan contractors and suppliers.

[2:46:37 PM](#)

Mr. Hastings turned to slide 3, "Our Core Business - Collecting Seismic Data":

- Seismic Operations are the pointy end of the spear - we create the data so exploration wells can be drilled
- Seismic data is critical information, essential to the success of an exploration program
- Recently, use of new technology is producing higher resolution images of the subsurface
  - Information that is a direct correlation to the new discoveries which have recently been announced
- The information gathered from the seismic data is critical to finding new opportunities, new reserves to sustain us into the future.

Mr. Hastings likened the collection of seismic data to owning and operating a cat scan.

Mr. Hastings showed slide 4, "Why is Seismic Exploration Different?":

- We do not drill for or develop oil
  - We do the CAT scan...we are not the surgeons
- When the Tax Credit Program was created by the State and affirmed by the voters—we started and completed several multimillion dollar projects under the program
  - Special provisions were written for .023 and .025 credits specifically to incentivize companies to collect seismic data because without it, there is less exploration drilling
  - Seismic is treated differently because the companies that pay to have seismic collected may not be the company that will ever drill wells.
  - The State receives something of immediate value when Seismic tax credit projects are completed and the data is delivered.

[2:49:07 PM](#)

Mr. Hastings discussed slide 5, "Historical Seismic Investment," which showed a graph representing historical annual seismic revenue from 2012 through 2017. He noted that embedded in the blue bars on the graph was the number of seismic programs that were shot in each year for the entire industry in the state.

Mr. Hastings drew attention to three vertical red bars on the graph representing milestone dates for the passage of SB 21, and tax credit appropriation cuts. He pointed out a dramatic increase in revenue and the number of seismic programs acquired after the passage of SB 21. He asserted that there had been an increase in capital spending, an increase in exploration drilling, and increased production as a direct result of SB 21. He pointed out an over 50 percent reduction in the amount of activity in the seismic industry in the state after the tax credit appropriation cut. He observed that the cuts had negative effects including decreased capital spending within the contractor community, less confidence in the state to settle what it owed, and reduced liquidity to continue investments.

Mr. Hastings continued discussing slide 5, and thought that the chart represented a barometer of the health of the exploration industry in the state. He thought the state had asked the industry to invest in seismic and exploration drilling; and the companies had done so in partnership with the state. He felt that investment confidence had been eroded.

Senator Micciche asked about the average mean on the graph on slide 5. He considered the five to ten years for permitting, development, and production; and wondered if there was a right spend estimate for adequate data available.

Mr. Hastings thought that there had been a dramatic increase in the number of programs, and the amount being spent after the passage of SB 21. He pointed out that there had not been many independents or seismic explorers going to work in 2013. He discussed the expense of new technology, and thought SB 21 had allowed for the use of advanced technology to find bigger deposits that had been previously overlooked.

[2:54:43 PM](#)

Mr. Hastings spoke to slide 6, "The Impact of HB 111 SRES CS on Kuukpik/SAE":

- 120 day clock on seismic .025's is a great start
  - Our applications are simple
  - Once data is delivered and verified by the DNR, DOR has the ball
    - Both of these tasks should be able to run in parallel
- Bill language does not fully address DOR Tax Division Advisory Bulletin 2017-01
  - This bulletin destroyed the secondary market for pure seismic explorers
- Expand the corporate income tax language
- Set a payment schedule

The State of Alaska created a program to incentivize the seismic industry to invest millions and hire thousands of Alaskans. Our work is the first step in putting more oil

down the pipeline. We played by the rules you set out and now we need the State to live up to their end of the deal.

Mr. Hastings lauded the Senate Resources Committee for its work in making changes to the bill. He thought there was good elements in the committee's version of the bill, but suggested some elements could be tweaked. He reminded that an absence of cash payment from the state, the industry had to rely on the secondary market. He considered that in a low price environment, there was not a way to get to a credit if the floor was hardened. He thought that there would be no way to be paid back for what the explorers were owed. He suggested there should be a consideration for NOLs that could not be carried forward for seismic explorers - either add the ability to go below the floor, or expand the tax language to include other corporate taxpayers in the state.

Mr. Hastings continued to discuss slide 6. He emphasized that his company was accountable to its shareholders. He emphasized that without a plan to be reimbursed for the \$80 million in tax credits it was owed, it was detrimental to the fiscal health of his company.

Mr. Hastings considered that the state had created the program to incentivize the seismic industry, which was the first step in getting oil to the pipeline. He wondered how to return to what had been considered an investment between the state and the seismic proprietors.

[2:59:11 PM](#)

Mr. Hastings turned to slide 7, "The Reality":

- For SAE, the delayed tax credit payout forced the company to a crossroads
  - o Option 1: seek protection under the chapter 11 bankruptcy code and leave all our Alaska vendors hanging
  - o Option 2: restructure the company and work with our Alaskan subcontractors and suppliers to find a way to extend payments
  
- We chose to restructure - eliminating 98% of our shareholders equity, the majority of which was held by employees, many of whom are Alaskans

We are Alaskans and are committed to staying

Mr. Hastings commented on the effects of volatility in the tax structure. He commented that the appropriations vetoes had forced the company to consider bankruptcy or to restructure the company to adjust outgoing payments. He discussed his history in the state, and discussed lost equity in the company. He was appreciative of the work the Senate Resources Committee had done, but felt more needed to be done to change the bill.

He reiterated that the seismic business was a barometer of the health of the oil and gas industry, as it was first in the exploration effort and the first expense to be eliminated when areas were no longer deemed competitive. He thought the state had the ability to continue the working partnership with industry that developed after passage of SB 21. He asserted that the industry needed confidence in the state's plan to pay its liabilities and have a reliable tax system. He urged the committee to work to keep the industry competitive.

[3:02:36 PM](#)

Senator Hughes asked about the value of tax credits that were not paid to Mr. Hastings' company, and for an estimate of the total owed to all seismic companies.

Mr. Hastings shared that his company had certificated \$24 million of \$90 million worth of tax credits that had been assigned. The company was still waiting for the remaining balance to be issued by DOR. He qualified that for this reason the company had thought that the Senate Resources Committee's addition of a 120-day clock on issuances of the credits was important. He referred to the 023 versus the 025 credits, for which there was no timeline. He thought that his company had about \$44 million worth of assigned 025 tax credits.

Senator Micciche asked if all of the seismic data commissioned by potential producers that controlled acreage, or if the company sometimes independently collected seismic data. He wondered about the proportion between the two activities.

Mr. Hastings explained that as a prime contractor the company was contracted by legacy producers or independent companies to collect data, which the producers owned and was proprietary. He relayed that an area where there might be fractured lease holes, or in times of low capital budget spending; there was a more vibrant speculative seismic industry. He thought that increased activity from SB 21, especially the increased seismic program, had been 70 percent proprietary work and 30 percent speculative work.

Senator Micciche assumed that the \$66 million in owed credits was all speculative.

Mr. Hastings answered in the affirmative.

[3:06:40 PM](#)

Senator Olson asked about the company restructuring (due to unpaid tax credits) that Mr. Hastings had mentioned, and asked what kind of effect it had on the people of Nuiqsut.

Mr. Hastings stated that the people of Nuiqsut were a direct beneficiary of the revenues of the company (it was a 51/49 partnership) and there was a net profitability share to the village. When the company did not receive revenues that were owed, the village did not as well. He specified that the village had not received expected revenues for the last two years.

Senator Olson referred to earlier comments and asked if Mr. Hastings was in favor of the concept that seismic activity was the only activity that benefitted from a 120-day time clock.

Mr. Hastings remarked that his company's tax credits were not under a scenario that could move an NOL forward. He stated that if the tax credits and the application of the tax credits were not complex in nature, he did not see a reason why they should not be a benefit. He thought that if types of tax credits were not equal perhaps they should have a slightly different time frame; however in no case should the tax credits be open-ended.

[3:09:22 PM](#)

Vice-Chair Bishop was frustrated that the state was not paying its bills. He thanked Mr. Hastings for the preferred

hiring practices of his company. He wondered about the hiring practices of other companies. He asked if the company rented all its rolling stock and camps.

Mr. Hastings stated that when SB 21 was put in place, Kuukpik/SAE had partnered with Alaska Equipment Rentals (AER) in Fairbanks to purchase rolling stock and invest. The partnership continued, which had been favorable for both companies over the previous few years. He commented that Alaska sub-contractors had extended themselves financially, and he appreciated AER doing so.

Vice-Chair Bishop commented that after AER went out on a limb, it was now perhaps bankrolling the state.

Mr. Hastings viewed the investment in seismic projects as a partnership.

Vice-Chair Bishop apologized to Mr. Hastings, and all other parties that had not been paid for outstanding tax credits. He remarked that a promise made was a debt unpaid.

[3:11:58 PM](#)

Senator Hughes referred to questions by Senator Micciche regarding the remaining \$66 million in tax credits, and speculative seismic work. She wondered if there was a way to determine what portion of speculative work yielded production. She referred to slide 5, and the illustration of dropping activity after the tax credit appropriation cut. She commented on the future and wondered what prospects could be expected for future generations based on seismic data gathering. She asked if Mr. Hastings could speak to the importance of speculative and proprietary work.

Ms. Hastings thought that new technology had clearly demonstrated how important seismic activity was in finding new reserves. He used the example of Colville River area, a small area of the North Slope. He commented that there also new drilling technology to increase drilling recovery and increase production. He observed that the increase in the amount of seismic activity was directly related to discoveries that had happened. He thought that the drop on the graph on slide 5 was related to the combination of a low commodity price and a lack of confidence working in the state.

Mr. Hastings thought that unless the level of seismic activity and exploratory wells continued to increase, there would be an issue with the amount of product in TAPS. He was concerned it would not be possible to replace reserves. He thought the industry needed confidence that there was a good investment environment in the state, and an environment that was competitive on a global scale.

[3:16:15 PM](#)

Senator Hughes asked Mr. Hastings to speak specifically to the speculative work and what percentage turned out to bring in revenue.

Mr. Hastings discussed the speculative market, and the 10-year period before the data became public. He stated that the speculative market allowed (especially at a low commodity price) for more people to participate, look at the seismic data, lease the property, and more exploratory wells to potentially be drilled.

Co-Chair MacKinnon noted that the legislature had tried to pay for tax credits multiple times, but had not been successful.

[3:18:21 PM](#)

KATE BLAIR, GOVERNMENT AND PUBLIC AFFAIRS MANAGER, TESORO, read from her written testimony (copy on file):

For the record, my name is Kate Blair and I am the Public and Government Affairs Manager for Tesoro in Alaska.

Tesoro Corporation is an integrated refining, logistics, and marketing company with assets across the western United States. We operate 7 refineries in 6 states, including our first in Nikiski. We also own a series of pipelines, tank farms, marine, rail assets, and a network of retail fuel stations. We have a proud 48 year legacy in Alaska, supplying jet fuel, gasoline, and diesel to Alaskans.

Tesoro does not weigh in on oil and gas production taxes in Alaska, as we are not a production tax payer, however any loss of production in Alaska would affect

the in-state refinery and potentially make our economics more challenging. We have therefore testified on previous versions of this bill to ask that your colleagues be mindful of any changes to the current production tax system and its potential effect on overall production.

Tesoro relies on access to in-state crude from the Cook Inlet and the North Slope. We refine every drop of oil that comes out of the Cook Inlet basin, and we purchase approximately one-third of TAPS throughput, 160,000-170,000 barrels of North Slope crude per day, shipping it from Valdez for refining in Nikiski or to our refineries along the west coast. Last year, Tesoro signed a royalty oil contract with the State that allows us to purchase 20,000- 25,000 barrels per day of the State's royalty share of oil, with a benefit to Alaska of \$45-56 million.

The testimony of the producing companies will inform you on how the current CS will affect their investment decisions and ultimately, production. We would, however, like to comment on the changes made to the refinery infrastructure tax credits, which directly affects Tesoro.

Tesoro is not advocating for an extension or changes to the refinery tax credit itself. Our concern is with how the credit's value will be realized with the removal of the Tax Credit Fund.

The CS maintains the cashability of the credit, however it creates ambiguity in how credit refunds are paid through the appropriation process, which could create a system where the state is picking winners and losers. The CS directs the Department of Revenue to adopt regulations, standards, and procedures to allocate the money among claims. Without clearly defined regulations, such as those established for the tax credit fund, we are concerned that the department could consistently allocate funds in a way that favors one type of tax payer over another. We ask that you consider adding language in Section 6 that requires the appropriation of funds to reflect the same process and regulations as the current tax credit fund, with a statutory limit and a clear process to allocating available money.

3:22:10 PM

Ms. Blair continued speaking from her written testimony:

Additionally, because the credit is subject to appropriation by the legislature without a statutory lower limit, it is possible that no funds could be allocated to refund credits and those credits must be carried forward to future years, however, the current carry-forward limit is five years. Hypothetically, if there is no money appropriated over a five year period, those earned credits could expire before their value is realized by the company that has earned them.

We recommend that the committee alter the carry-forward period on the credit from the current five year limit to mirror production credits that do not have a carry-forward time limit and provide an uplift. This would provide consistency in the tax policy, and ensure that companies that make qualified investments, under the current refinery infrastructure tax credit program, can realize the value of the credits that they earn and the time value of their money. Further, because the bill is scheduled to sunset in 2019, this would be a relatively short commitment by the state and would provide the refiners assurance that the credits they earn will retain their value if money is not appropriated for their rebates.

Senator von Imhof asked for a copy of Ms. Blair's written testimony.

Ms. Blair agreed to provide a written copy of her testimony.

Senator Micciche discussed Alaskan ownership of companies. He mentioned the preferential hiring practices as discussed by Vice-Chair Bishop. He asked about the proportion of resident hire at the Nikiski refinery.

Ms. Blair spoke to the company's resident hire rate, which was approximately 97 percent for employees in Alaska. She reminded that resident hire was calculated by permanent fund dividend eligibility.

Co-Chair MacKinnon discussed the schedule for the following day.

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ADJOURNMENT

3:26:01 PM

The meeting was adjourned at 3:26 p.m.