

SENATE FINANCE COMMITTEE
January 22, 2018
9:02 a.m.

[9:02:57 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Peter Micciche
Senator Donny Olson
Senator Gary Stevens
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Sheldon Fisher, Commissioner, Department of Revenue; Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue; Ken Alper, Director, Tax Division, Department of Revenue.

SUMMARY

^PRESENTATION: 2017 FALL REVENUE FORECAST

[9:03:24 AM](#)

SHELDON FISHER, COMMISSIONER, DEPARTMENT OF REVENUE, introduced himself.

DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, introduced himself.

Commissioner Fisher stated that the presentation had been crafted for brevity. He offered to expound upon any issues pertinent to the committee.

Commissioner Fisher discussed the presentation, "Fall 2017 Revenue Forecast Presentation," (copy on file). He looked at Slide 2, " FORECASTING METHODS: Timeline":

- December 2016: Fall 2016 Forecast and Revenue Sources
- Book
- Early April 2017: Spring 2017 Forecast
- Late April 2017: Spring 2017 Alternative Scenario
 - 4% Production Decline Scenario, Letter to Co-Chairs
 - Used in modeling by Department of Revenue, Office of Management and Budget, and Legislative Finance
- October 2017: Preliminary Fall 2017 Forecast
 - Non-standard, provided to assist special session
- December 2017: Final Fall 2017 Forecast and Revenue Sources Book
- March 2018: Spring 2018 Forecast

Commissioner Fisher related that the department had traditionally issues a spring and fall forecast in December and April, respectively. He explained that the forecast was particularly important for the current fiscal climate, which had prompted the department to issue alternative scenarios in April 2017 and October 2017. He relayed that the March 2018 forecast would be an update of the December 2017 forecast.

Commissioner Fisher read Slide 3, "Fall 2017 Production Forecast." He stated that production had not changed since the issuance of the Fall 2017 preliminary forecast.

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Commissioner Fisher discussed Slide 4, "PRODUCTION FORECAST: ANS History and Forecast by Pool," which showed a graph depicting historical production from the North Slope. He said that the information to the left of the dotted line was actual production and the information to the right was the forecast. He noted that there had been historical decline but the few years prior to the current period had seen an increase in production. He pointed out that to the right it was indicated that production would be largely flat. He referenced the small pink sliver on the chart that

represented new fields, which were forecasted to add small amounts of production.

[9:08:16 AM](#)

Commissioner Fisher displayed Slide 5, "PRODUCTION FORECAST: ANS High and Low Case," which showed a line graph that charted the high, official, and low forecasts. He explained that each case had a differing probability of likelihood: the official forecast was a probability of 50 percent (P50); the high case, 10 percent (P10); the low case, 90 percent (P90).

Senator Micciche asked whether the P50 was an average between the high case and the low case.

Commissioner Fisher informed that the P50 represented the Department of Natural Resources (DNR) best guess as to what would actually happen. He qualified that it was not a direct average but reflected an average probability.

Senator Micciche felt that the high case seemed unreasonably close to the official forecast. He thought that the situation had improved since the forecast was made.

Commissioner Fisher thought Senator Micciche made a great point and noted that potential development in the Alaska National Wildlife Refuge (ANWAR) had been announced since the forecast was released and was not reflected in the numbers.

[9:11:33 AM](#)

Commissioner Fisher spoke to Slide 6, "PRODUCTION FORECAST: ANS Comparison to Prior Forecast," which showed a line graph that depicted the difference between the three different forecasts from a production perspective. He pointed out to the committee the flattening of expectations around production illustrated on the slide and noted that over time the difference between the forecasts expanded and increased.

[9:12:39 AM](#)

Commissioner Fisher read Slide 7, "Fall 2017 Price Forecast."

Commissioner Fisher reviewed Slide 8, "PRICE FORECAST: Historical ANS Price, June 2016+," which showed a graph of oil pricing from June 2016 through December 2017. He said that to date, the FY 18 price was \$58 per barrel. He stated that the assumption built into the recent forecast was an FY 18 price of \$56 per barrel. He relayed that the anticipation was that there would be additional revenue in FY 18, as the price increased. He related that at this pricing, the \$1 per barrel difference represented \$40 million in revenue to the state.

Vice-Chair Bishop requested further clarification on the \$1 per barrel difference and what that meant to the state.

Commissioner Fisher explicated that \$1 of production was worth approximately \$40 million in revenue to the state. He indicated that a slide at the end of the presentation would offer further clarity. He said that changes in the price curve affected this number because as the state moved up the price curve, and oil companies moved from paying the minimum to paying above minimum; the return to the state was not linear.

Vice-Chair Bishop asked about the \$35 per barrel credit and more revenue at higher prices.

Commissioner Fisher stated that there would be slides to address the issue later in the presentation.

Co-Chair MacKinnon understood that the state received a larger share of revenue than companies under the minimum tax.

[9:16:37 AM](#)

Commissioner Fisher presented Slide 9, "PRICE FORECAST: Impact of Spare Capacity," which showed a bar and line graph entitled, "World Liquid Fuels Production and Consumption Balance." He said that the slide, created by the Energy Information Agency, presented a supply and demand characterization of the international oil market. He pointed out that for the last four quarters there had been declining inventory, which had been an impetus for the price increase in the marketplace. He looked to the righthand side of the graph, which showed that anticipated increase in production and consumption; the expectation was

that production would increase faster than demand, sparking a period of growing inventory.

9:18:00 AM

Commissioner Fisher spoke to Slide 10, "PRICE FORECAST: Nominal ANS Price Distribution," which showed a line graph that provided the per barrel price of oil through FY 27, projected using percentages from 10 percent to 90 percent. He said that the Governor's budget assumed a \$56 per barrel in FY 18, \$57 in FY 19, \$58 in FY 20, continuing with the 50 percent expectation going forward.

Senator von Imhof thought breaking the numbers down by quarter in 2018 was helpful. She noted that the slide listed the per barrel price of oil at \$51.79, when the actual current price was \$69. She wondered whether an updated forecast could be run before the spring forecast.

Commissioner Fisher replied that the department would run any scenario, any time. He added that he would not be able to run a scenario that reflected an official opinion from the department but would run scenarios at the request of the committee.

9:22:01 AM

Commissioner Fisher discussed Slide 11, "PRICE FORECAST: Brent Forecasts Comparison to DOR ANS Forecast: November 2017," which showed a line graph entitled, "Real Oil Prices and Forecasts." He stated that slides 11 and 12 were companion slides. The solid black line represented actual oil pricing, the dotted black line reflected the department's forecast. Further, the blue line represented financial analyst's forecasts, the red line reflected the futures market forecast, and the green line represented the United States Energy Administration forecast. He cautioned that the EIA had a long-term forecast and a short-term forecast; and the short-term forecast was reflected on the graph. He said that the EIA long-term forecast would be updated in February 2018. Slide 11 showed where the market had been in November 2017.

Commissioner Fisher looked at Slide 12, "PRICE FORECAST: Brent Forecasts Comparison to DOR ANS Forecast: November 2018," which showed a line graph entitled, "Real Oil Prices and Forecasts." He said that the slide reflected the

current market. He observed that there had been meaningful movement when compared to slide 11. He felt that the forecast had been in the range of where other analysts and experts had expected oil priced to be, looking at slide 12 it was clear that the expectations had moved below marketplace. He expected that adjustments in the forecast would be made in FY 18 and FY19, and possibly for years beyond. He shared that in reviewing the EIA forecast from January 2018 had predicted that long-term oil pricing would stabilize at \$60 per barrel. He felt that the department's long-term forecast remained consistent with experts and that the next several years would be challenging to project.

[9:26:04 AM](#)

Senator von Imhof wondered what caused the green line to sharply jump up in 2020 on slides 11 and 12.

Commissioner Fisher replied that the line reflected an artificial jump. He detailed that the upper portion of the line was the Energy Authorities long-term forecast, which would be revised in February 2018; the expectation was that there would then be a more rational blending of the lower and upper portions of the line.

Senator Micciche thought that more frequent predictions would be helpful. He noted the difference between the spring forecast and the current forecast reelected on slide 6. He though that the effects on the LFD model in the long-term was substantial and that future revenue should be viewed as a range and not just a number. He thought that the future assumptions looked positive and described the forecast as "rosy".

Vice-Chair Bishop thought that it would be wiser to forecast more conservatively and to use caution.

[9:29:55 AM](#)

Co-Chair Hoffman concurred with Vice-Chair Bishop. He referenced the Institute of Social and Economic Research (ISER), which had said that prices were looking better but could quickly fall. He felt that it was important to hope for the best but not to depend on hope when planning for the state's future.

Co-Chair MacKinnon thought there was a variety of opinions in the legislature pertaining to oil price, just as in the market. She hoped for the best but would plan for the reasonable.

[9:31:22 AM](#)

Mr. Stickel read Slide 13, "Fall 2017 Cost Forecast." He stated he would discuss the forecast for lease expenditures and credits.

Mr. Stickel discussed Slide 14, "COST FORECAST: North Slope Capital Lease Expenditures," which showed a line graph that illustrated anticipated capital lease expenditures by companies on the North Slope. He said that capital costs and operating costs were both deductible and the production tax calculation became an important part of the revenue calculation once the minimum tax was exceeded (prices in the mid-60s and above). He directed committee attention to the orange and blue lines, which indicated the spring and fall forecasts for capital costs, respectively. He explained that the numbers were based primarily on figures from operators and some public information on new developments that entered into the forecast. He noted that between the spring and fall forecasts it had been determined that a lot of work had been done by companies to reduce cost and to make the state's current oil price regime workable. There had been a downward shift for costs for existing units and an increase in the assumptions for new developments. He relayed that no potential ANWAR costs had been considered. He stated that the overall picture, with some of the cost reductions, showed lower capital spending when compared to the spring forecast over the next few years, with a higher forecast into the early 2020s.

Co-Chair MacKinnon thought that the production numbers had been underrepresented and wondered when more realistic numbers would be embedded in the forecast.

Mr. Stickel agreed that, historically, declining production had been forecasted while production was stabilizing. He stressed that the current forecast painted a fairly stable production picture going forward. He thought that DNR could speak to the details, but that DOR was tracking closely to the forecast, if not below, and the projections were for a relatively stable production outlook for the next decade.

Co-Chair MacKinnon asked whether there was a decline forecasted in the current DOR model.

Mr. Stickel stated that there was a small decline in the forecast for the next decade, but it was not the significant decline that had been reflected in previous forecasts.

Co-Chair MacKinnon queried the percentage of the forecasted decline.

Mr. Stickel replied that he did not have that figure.

Commissioner Fisher thought the decline was less than 3 or 4 percent. He agreed to provide an official number.

[9:36:01 AM](#)

Mr. Stickel displayed Slide 15, "COST FORECAST: North Slope Operating Lease Expenditures," which showed a line graph that compared the spring and fall forecasts for operating expenditures. He noted a similar trend of downward pressure on operating expenditures for the next several years, as companies had achieved a lot of efficiencies and reduced costs at legacy fields. He pointed to 2022 and 2023, where operating expenditures increased compared to the spring forecast, which was because of the new fields. He explained that the effect of the new fields was an increase in capital expenditures by 2024, with additional increases in operating expenditures.

[9:37:19 AM](#)

Mr. Stickel spoke to Slide 16, "COST FORECAST: North Slope Transportation Costs," which showed a line graph that reflected transportation costs. He noted that the biggest transportation cost was the tariff for moving oil through the Trans-Alaska Pipeline System (TAPS). He shared that the pipeline had a stable cost of operating on an annual basis, the cost of more oil moving through the pipeline was divided by an increased number of barrels, which decreased the per barrel cost. He said that slight increases in transportation costs were expected but by the end of the decade, but those costs were expected to decrease by \$3 per barrel.

Vice-Chair Bishop wondered whether transportation costs would flatten or decrease with the lower operating and capital costs.

Mr. Stickel replied that there was a slight decline in the production forecast, and that the figures were in nominal terms and the increase could be attributed to inflation.

Senator Micciche surmised that past tax regimes rewarded spending that may not have been fruitful in production for the state. He asked whether changes in the regime had resulted in more benefit on production increases.

Mr. Stickel responded that companies responded to incentives and the current system incentivized oil production.

[9:40:29 AM](#)

Mr. Stickel read to Slide 17, "Fall 2017 Credits Forecast." He relayed that there had been a system by which companies could earn tax credits for various types of spending and the legislature would fund those credits through appropriation. He said that the state had eliminated the ability for companies to receive cash-free purchase for the credits but that there were currently approximately \$1 billion in outstanding tax credits that were available for state purchase. He said that the forecast assumed that \$100 million of those credits would be transferred to the major oil companies and used to off-set prior year liabilities, leaving about \$900 million in outstanding repurchasable tax credits. He relayed that AS 43.55.028 gave guidance to the legislature in what a yearly appropriation could be to help fund the credits. That guidance provided for 10 or 15 percent of the taxes collected to be made available for repurchase of the credits. He shared that there was question as to whether the 10 or 15 percent should be applied to the gross tax or the net tax after credits - the department had based their interpretation on application to the gross tax.

Mr. Stickel reviewed Slide 18, "Illustration of Tax and Credit Calculations," which showed a table entitled, "FY 2019 production tax illustration - Spring 2017 ~140 million taxable barrels." He related that the slide walked through the calculation based on the spring forecast of what the department had estimated the statutory appropriation would

be for FY 19. He related that the gross value estimated at \$7 billion for North Slope oil, minus lease expenditures, and providing a production tax value of \$1.4 billion, a 35 percent statutory tax of \$490 million, and multiplied by the 10 percent multiplier, gave an estimated appropriation of \$49 million for the spring forecast.

Co-Chair MacKinnon remarked that the Governor had short-funded tax credits. She asserted that the statutes were law and that the Governor's proposed budget did not include full funding of the statutory obligation.

[9:43:45 AM](#)

Commissioner Fisher stated that the proposal that the governor had included in his budget was one that would address the tax credits in a manner that was beneficial to both the state and credit holders. The notion was that the state would approach the credit-holders and offer to purchase the credits at a discount. The administration thought the proposal had value to the credit-holders, it would allow them to receive all their outstanding credits, which the department believed it could do at a cost below the comparative cost of capital. He furthered that the state would use the discount to pay the cost of interest on bonds that the state would issue; the state would pay the credits by issuing bonds and then use the discount to pay the cost of interest incurred on the bonds. He added that the state proposed 10-year amortization of the bonds; the first two years would be interest only, then three years of growing principal, followed by 5 years of flat amortization. He said that the notion was to try and move the repayment of the debt into a period where the state had greater cashflow with which to pay the debt. He added that the intention to provide companies with capital that they could reinvest in the state as capital.

[9:47:45 AM](#)

Co-Chair MacKinnon stated that the administrative team had vetoed the payment of tax credits multiple times, which had created a backlog of credits that the legislature had tried to pay. She found it difficult that the administration was trying to find creative ways to short-fund the statutory obligation through the changing of state policy. She wondered what should have been included, under current state law, in the Governor's proposal.

Commissioner Fisher replied that approximately \$206 million should have been included; \$27 million was in the proposal, leaving a difference of nearly \$180 million.

Co-Chair MacKinnon maintained that the proposed Governor's budget was underfunded and not transparent. She contended the statutory changes necessary to support the proposed budget had been unsuccessfully pitched to the legislature in the past. She lamented that there was \$125 million in short-funding on the tax credits alone.

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Co-Chair MacKinnon clarified that there had been a tax credit program, through which the legislature had paid beyond the statutory obligation. She lamented that during the current administration the state had switched to the calculation based on the statutory obligation. Payment had been vetoed several times that would have paid off a substantial portion of the existing obligation. She lamented that now the state was going to have those that held the credits pay for the state to borrow money to meet the statutory obligation to pay the credits - and call it a discount.

[9:51:45 AM](#)

Commissioner Fisher clarified that the administration's proposal was not asking the companies to pay in order for the statutory obligation to be met. He explained that companies were being asked to pay a discount based on the difference between paying immediately, and what that statutory obligation would be overtime. He said that the notion was that the state would pay again in FY 19 the present value of what was owed in 2020; the company would get their 2020 money in 2019, but a little bit less. He reiterated that the plan was optional and thought that companies would agree to the deal because they would get their money faster and at a cheaper rate than borrowing from the marketplace.

Co-Chair MacKinnon asked whether the proposal covered that \$170 million from FY 19 that should have been included in the budget.

Commissioner Fisher answered in the affirmative. He said that the interest that the state would pay over the term of the debt would be covered by the discounted future years.

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Senator Micciche thought the proposed 10 percent discount seemed high. He wondered whether there was an administrative fee attached to the time/value judgement. In reference to the no-net cost to the state in the proposal, he asked whether the administration had considered future debt and bonding capacity to the state and what the potential long-term costs could be.

Commissioner Fisher agreed that the 10 percent was a little rich. He explained that the number had been put forward with the idea that the base amount would be 10 percent, then through an overwriting royalty interest, the companies could buy down to closer to 5 or 6 percent. He said that the 5 or 6 percent was the minimum necessary for the state to cover costs. He said that the logic behind choosing 10 percent was to address the concerns of those who might feel like there was not enough benefit to the state, while also showing that the state was willing to engage in a structure where the state would share the risk; the overriding royalty interests had no value without production.

Commissioner Fisher detailed that the administration had reached out to credit holders in the industry in an effort to understand their position in order to craft a deal that would be acceptable to companies.

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Commissioner Fisher addressed the question of bonding capacity. The administration had received feedback from credit agencies that the credits were an existing obligation and that the future bonding capacity of the state would not be significantly altered because it would only change one from of liability to another.

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Senator Micciche clarified that the \$170 million that Co-Chair MacKinnon had been speaking to the supplemental requests that were peppered through the budget, which the committee struggled with.

Commissioner Fisher thought that she had been speaking to the difference between the \$27 million and the \$206 million. He appreciated the clarification.

[9:58:27 AM](#)

Co-Chair MacKinnon informed that the committee would be hearing from Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue to discuss the state's debt capacity.

[9:59:35 AM](#)

Mr. Stickel thought the discussion illustrated why the department wanted to include the credits forecast slide in the presentation.

Mr. Stickel presented Slide 19, "Illustration of Tax and Credit Calculations," which showed a table entitled, "FY 2019 production tax illustration - Final Fall 2017 ~169 million taxable barrels." The slide showed an illustration of the calculation of the statutory appropriation for FY 19. He noted that, compared to the spring forecast, there was higher gross value for oil on the slope. He pointed out that the higher production forecast offset the lower market price, that combined with reductions in company spending showed more pre-tax profit expected on the slope. That forecasted pre-tax profit of \$3.5 billion equated to \$1.2 billion in tax before credits at the 35 percent nominal tax rate. He furthered that the tax rate would be multiplied by a 15 percent multiplier because the forecasted price was below \$60 per barrel and would result in a \$206 million FY 19 expectation for the statutory appropriation.

[10:01:12 AM](#)

Mr. Stickel turned to slide 20, "FY 2019 Statutory Credit Appropriation":

Key Changes from Spring to Final Fall:

Production forecast increased

- 29 million more taxable barrels
- \$1.0 billion more gross value

Cost forecast decreased

- \$1.1 billion less deductible costs

Tax before credits increased

- \$2.1 billion more profit x 35% = \$750 million
Different Statutory Appropriation Multiplier
- Appropriation is 15% of tax before credits when price forecast <\$60, 10% when price forecast is \$60+

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Senator Micciche whether HB 111 had changed the 4 percent minimum on the way the tax was calculated.

Mr. Stickel stated that the minimum tax at 4 percent was not changed. There had been changes to how the different credits could be applied below that minimum tax.

[10:02:55 AM](#)

Mr. Stickel discussed Slide 21, "CREDITS FORECAST: Outstanding Tax Credit Obligations," which showed a bar graph entitled "Ending balance of credits available for repurchase, assuming statutory appropriation for FY 2019+." The slide considered the next decade and the outstanding balance of tax credits, most of which were available for purchase at the end of FY 18. He said that the remaining \$200 million of credits became payable in FY 19 and FY 20. He related that the blue bar showed the expectation of the ending balance of credits for each year compared to the grey bar, which represented the statutory appropriation. He relayed that if the statutory appropriation was made every year form 2020 onward, under the forecast the credits would be exhausted by 2024.

Co-Chair MacKinnon wondered why the state would borrow over a 10-year period if the credits could be paid off in less time.

Commissioner Fisher thought the legislature had the voice to decide. He expressed that he administration had thought the 10-year period would allow for the credits to be paid off, from a company perspective, in the current period. He was happy to run calculations on shorter periods of time and work with the legislature on the matter.

[10:04:52 AM](#)

Commissioner Fisher showed Slide 23, "FORECAST CHANGE: Production Tax Revenue":

- Oil price forecasts decreased slightly from spring forecast
- Oil production long-term forecasts have stabilized versus spring forecast
- FY 2018 production tax revenue forecast increased from
- Preliminary Fall Forecast by \$173 million
 - Large unexpected prior-year production tax payments were received after the preliminary forecast was compiled.
 - Price forecast increased by \$2 per barrel.
- Lease expenditures expected to fluctuate over the forecast period due to forecasted new production. Companies have cut costs for existing fields but new fields will add costs, versus spring forecast
- Companies cited Alaska investment instability and uncertainty regarding the state fiscal system, as factors impacting decision making

Commissioner Fisher turned back to Slide 6 to address Co-Chair MacKinnon's comment about decline. He said that the grey line reflected the 4 percent decline. He observed that the blue line representing the current fall 2017 forecast was relatively flat when compared against the 4 percent decline.

Co-Chair MacKinnon asked whether paying the credits for work that had benefitted the state, such as seismic data, could be prioritized differently than other spending.

Commissioner Fisher stated that seismic data was prioritized the same as other work under the current regime and under the proposed program. He was not sure he fully understood her question but would provide further information at a later date.

Co-Chair MacKinnon referred to a company that had done seismic exploration on the state's behalf and had "dropped seismic" on property that had not belonged to the state, that would benefit the state but would benefit the company to a greater extent. She asked whether there was a way to prioritize the credits for data was not going to be as meaningful to the state.

Commissioner Fisher said he would get back to the committee.

[10:09:01 AM](#)

Co-Chair MacKinnon relayed that the company that had performed the seismic work had made a plea for payment of the credits to the committee.

Commissioner Fisher related that conversations with the seismic companies had given the impression of support for the program. He stated that one feature anticipated to be included in the plan was the concept that seismic companies would waive their right to confidentiality of data in exchange for the lower tax rate.

Co-Chair MacKinnon asked that the department follow-up with her office concerning possible preferential treatment being given to those offering seismic data. She requested more information about how far the state had come in processing the seismic data.

[10:11:54 AM](#)

Commissioner Fisher continued to discuss Slide 23. He shared that part of his goal in addressing tax credits was to bring a sense of stability and closure for the state and the industry.

Commissioner Fisher discussed Slide 24, "FORECAST CHANGE: Comparison of Spring and Fall 2017 Forecasts for FY 2018," which showed a data table. He detailed that the left-hand side showed FY 18 compared to the preliminary fall forecast, and the right-hand side compared the spring forecast and the subsequent changes.

[10:13:43 AM](#)

Commissioner Fisher displayed Slide 25, "FORECAST CHANGE: Comparison of Spring and Fall 2017 Forecasts for FY 2019," which showed a data table which was a similar comparison as slide 24, but for FY 19.

Commissioner Fisher spoke to Slide 26, "GFUR Relative to Price per Barrel, FY 2019," which showed how UGF was anticipated to change with the price of oil. He observed that as pricing increased the line steepened, which had to do with the point where companies began paying above the minimum tax.

[10:15:06 AM](#)

Commissioner Fisher read slide 27, "Fall 2017 Total Revenue Forecast." He stated that the following slides were offered as context for discussion.

Commissioner Fisher reviewed slide 28, "REVENUE FORECAST: 2017 to 2019 Totals," which showed a data table related to 2017 to 2019 totals.

Commissioner Fisher presented slide 29, "REVENUE FORECAST: 2017 to 2019 Unrestricted Petroleum Revenue," which showed a data table showing the 2017 to 2019 unrestricted petroleum revenue.

Commissioner Fisher turned to slide 30, "REVENUE FORECAST: 2017 to 2019 Unrestricted Non-Petroleum Revenue," which showed a data table.

[10:16:14 AM](#)

Commissioner Fisher spoke to Slide 31, "WRAP-UP: Changes to 10-Year Unrestricted Revenue Outlook," which showed three data tables: ANS Production Changes from Prior Year, GF Unrestricted Revenue (\$ millions) - Final Fall 2017 vs Prelim Final 2017, and GF Unrestricted Revenue (\$ millions) - Final Fall 2017 vs Official Spring 2017. He drew attention to the first table, which reflected the slight decline that was in the current forecast. He detailed that the latter two graphs were comparisons between forecasts. The comparisons showed the unrestricted revenue compared to the final fall forecast and the difference year over year between the official spring forecast and the preliminary fall forecast. He noted that both scenarios showed an increase in the FY 18 forecasted revenue of \$250 million.

Senator von Imhof asked whether the change between FY 18 and FY 19, from \$2,082.0 to \$2,047.0, was not from production but was a price estimate.

Commissioner Fisher stated that the comparison was dependent upon the baseline being considered. He furthered that in the official spring forecast changes had been made to both price and production. He referred to slide 6, which showed the official spring 2017 forecast in orange. He said that the difference between the between the current forecast and the official spring forecast (the blue line

and the orange line) was part of the change that was driving the increase in the forecast.

Senator von Imhof asked why there was a drop in final fall revenue in FY 19.

Mr. Stickel interjected that FY 18 had some one-time payments (unexpected production tax payments) that were not expected for FY 19.

Commissioner Fisher looked at the top of Slide 31, which showed a modest 1 percent decline between FY 18 and FY 19, which was also a component to consider.

[10:20:42 AM](#)

Co-Chair Hoffman commented that none of the forecasts came close to funding 50 percent of the current cost of government. He asked whether there had been a pipeline tariff rate case settlement that the state would receive in 2018.

Mr. Stickel recalled that the revenue impact of the pipeline settlement was largely baked into the forecast, and thought the total was about \$165 million, \$150 million of which was production tax. He expected that companies would use credits to offset the majority of the production tax share. He said that FY 19 included \$25 million in positive revenue, aside from the use of some of the credits.

[10:22:27 AM](#)

Co-Chair MacKinnon received a note that indicated that the legislature had provided the ability for the company that had done the seismic data to wait for their tax credit. She asked if the commissioner could discuss the department's role in certification of seismic tax credits.

Commissioner Fisher stated that under the repurchase program that the administration was contemplating, there was a potential set of rules for seismic operators that would involve allowing for a discounted tax rate in exchange for the companies waiving confidentiality of data.

[10:25:54 AM](#)

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, thought it was important to recognize that the seismic credits had been a subset of the exploration tax credit system and were reviewed by tax division staff alongside all other tax credits; this review was considered a full audit and the operating loss credits (023) were preliminary offerings that could be audited and amended years later. Alternatively, the rewarding of the exploration (025) credits was a final and required a more complete audit, which had resulted in some delay. He said that the audit done by staff confirmed the spending levels and legitimacy of the contracts and expenditures, and assured vendors were paid. He furthered that in the case of the seismic credits, DNR confirmed the completeness of the data relating to the seismic shoot. He related that there had been a company with a large suite of credit projects that were in the review process and with the passage of HB 111 in 2017, the legislature had made it clear that they wanted to be sure that the company could get in line for the credits and not suffer for the time it was taking DOR to audit their information. He stated that because of that the state had been able to issue a conditional certificate to the seismic companies in the process, which had enabled those companies to be in the 2017 cue. He revealed that in reality most of the actual reviews were done by December 31, 2017, and the numbers finalized - but there were a handful of incomplete audits that would be considered with the 2017 group once completed.

Mr. Alper related that there had been no guidance for 2016, other than first in - first out, which was considered pro-rationing, so the state was going to buy all of the 2016 open certificates dollar for dollar. The 2017 credits had an additional layer that had been added through HB 247 [oil and gas tax credit legislation passed in 2016]. The legislation had directed that priority had to be given for Alaska resident hire to companies and sub-contractors. He reported that where the seismic credits fell in the ranking would depend on the analysis of their hire. He guessed that because the companies were small, and their work was done, they would rank highly. He shared that baking the assumption about the rank ordering into the calculation of discounted offerings in the bond program was a challenge.

[10:30:27 AM](#)

Co-Chair MacKinnon acknowledged that the matter was complex. She asked if Mr. Alper could relay whether the department was paying tax credits from the previously mentioned settlement.

Mr. Alper stated that the settlement had led to incremental tax liability and changes to tariffs; companies would refile their taxes and establish liability. He believed that once the numbers were determined the expectation was that some of the obligation would be offset by purchasing tax credits. He did not believe any of the transactions had occurred yet and hoped to facilitate the process quickly and efficiently for companies.

Senator Micciche asked about the administration's credit payment plan with the bonding financing. He understood that under the program any geologic and geophysical data, without any limitation, would no longer hold confidentiality with DNR. He surmised that this meant any well data, whether seismic or credible operator, which he believed were different. He wondered about the value of un-commissioned seismic confidentiality and the confidentiality of commissioned well data.

Commissioner Fisher recognized the difference. He said that the issue was under discussion.

[10:33:48 AM](#)

Senator Micciche appreciated the consideration of a bond financing program. He thought it was a viable proposal. He was not sure about including the un-commissioned seismic data and was glad that the administration was investigating the matter.

Mr. Alper stated that the seismic data that was funded by tax credits was released for public consumption after 10 years. He said that in offering the lower discount rate, companies would waive the 10-year confidentiality privilege, making the seismic data public immediately.

[10:35:07 AM](#)

Co-Chair MacKinnon asked why seismic data that was not done on the state's property was valuable to the state.

Mr. Alper thought it was in the state's interested to get additional development anywhere in the state. He furthered that oil produced outside of state land paid production taxes and diluted the per barrel cost of operating the pipeline. He noted that ANWAR was not on state land and no seismic data had been collected there in modern times, but such data would now benefit the state.

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Senator Micciche thought Mr. Alper would agree that there were tiers of value to the state.

Mr. Alper agreed, and reminded that the state as a landowner collected royalties, which was the majority of the revenue received from industry under the current regime. He stressed that the state preferred to get the royalty rather than the alternative.

Senator Stevens expressed consternation. He worried that the assumption was that the price of oil would go up, which was not necessarily true. He reminded the committee that oil prices were volatile and thought it was foolish to continue to operate under the hope that oil prices would increase. He felt that the state needed to find alternative revenue generators and stop depending on oil revenues alone to fund Alaska.

Co-Chair MacKinnon commented that the committee understood the consequences of relying solely on oil revenue to fund the state. She asserted that the focus was currently on tax credits because oil had been the largest producer of revenue to-date. She acknowledged that there were other non-petroleum sources of revenue. She had asked the administration to consider the foregone revenue that the state could receive in tax credits from other industries.

Co-Chair MacKinnon discussed housekeeping and expressed confidence and appreciation for the work done by Commissioner Fisher.

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ADJOURNMENT

[10:41:06 AM](#)

The meeting was adjourned at 10:41 a.m.

