

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

April 24, 2017

2:00 p.m.

**MEMBERS PRESENT**

Senator Cathy Giessel, Chair  
Senator John Coghill, Vice Chair  
Senator Natasha von Imhof  
Senator Bert Stedman  
Senator Shelley Hughes  
Senator Kevin Meyer

**MEMBERS ABSENT**

Senator Bill Wielechowski

**COMMITTEE CALENDAR**

COMMITTEE SUBSTITUTE 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."

- MOVED SCS CSHB 111(RES) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 111

SHORT TITLE: OIL & GAS PRODUCTION TAX;PAYMENTS;CREDITS

SPONSOR(s): RESOURCES

02/08/17	(H)	READ THE FIRST TIME - REFERRALS
02/08/17	(H)	RES, FIN
02/08/17	(H)	TALERICO OBJECTED TO INTRODUCTION

02/08/17 (H) INTRODUCTION RULED IN ORDER  
02/08/17 (H) SUSTAINED RULING OF CHAIR Y23 N15 E2  
02/08/17 (H) RES AT 1:00 PM BARNES 124  
02/08/17 (H) Heard & Held  
02/08/17 (H) MINUTE(RES)  
02/13/17 (H) RES AT 1:00 PM BARNES 124  
02/13/17 (H) Heard & Held  
02/13/17 (H) MINUTE(RES)  
02/17/17 (H) RES AT 1:00 PM BARNES 124  
02/17/17 (H) Heard & Held  
02/17/17 (H) MINUTE(RES)  
02/20/17 (H) RES AT 1:00 PM BARNES 124  
02/20/17 (H) Heard & Held  
02/20/17 (H) MINUTE(RES)  
02/22/17 (H) RES AT 1:00 PM BARNES 124  
02/22/17 (H) Heard & Held  
02/22/17 (H) MINUTE(RES)  
02/22/17 (H) RES AT 6:30 PM BARNES 124  
02/22/17 (H) Heard & Held  
02/22/17 (H) MINUTE(RES)  
02/24/17 (H) RES AT 1:00 PM BARNES 124  
02/24/17 (H) Heard & Held  
02/24/17 (H) MINUTE(RES)  
02/27/17 (H) RES AT 1:00 PM BARNES 124  
02/27/17 (H) Heard & Held  
02/27/17 (H) MINUTE(RES)  
02/27/17 (H) RES AT 7:00 PM CAPITOL 106  
02/27/17 (H) Heard & Held  
02/27/17 (H) MINUTE(RES)  
03/01/17 (H) RES AT 1:00 PM BARNES 124  
03/01/17 (H) Heard & Held  
03/01/17 (H) MINUTE(RES)  
03/01/17 (H) RES AT 6:00 PM BARNES 124  
03/01/17 (H) Heard & Held  
03/01/17 (H) MINUTE(RES)  
03/06/17 (H) RES AT 1:00 PM BARNES 124  
03/06/17 (H) Scheduled but Not Heard  
03/06/17 (H) RES AT 6:30 PM BARNES 124  
03/06/17 (H) Heard & Held  
03/06/17 (H) MINUTE(RES)  
03/08/17 (H) RES AT 1:00 PM BARNES 124  
03/08/17 (H) Heard & Held  
03/08/17 (H) MINUTE(RES)  
03/08/17 (H) RES AT 6:00 PM BARNES 124  
03/08/17 (H) Heard & Held  
03/08/17 (H) MINUTE(RES)  
03/09/17 (H) RES AT 5:00 PM BARNES 124

03/09/17 (H) -- MEETING CANCELED --  
 03/10/17 (H) RES AT 1:00 PM BARNES 124  
 03/10/17 (H) Heard & Held  
 03/10/17 (H) MINUTE(RES)  
 03/11/17 (H) RES AT 12:00 AM BARNES 124  
 03/11/17 (H) -- MEETING CANCELED --  
 03/13/17 (H) RES AT 1:00 PM BARNES 124  
 03/13/17 (H) <Bill Held Over from 3/11/17>  
 03/14/17 (H) RES AT 3:00 PM BARNES 124  
 03/14/17 (H) -- Continued from 3/13/17 Meeting at  
 1:00 PM --  
 03/15/17 (H) RES RPT CS(RES) NT 4DP 4DNP 1AM  
 03/15/17 (H) DP: PARISH, DRUMMOND, JOSEPHSON, TARR  
 03/15/17 (H) DNP: TALERICO, BIRCH, RAUSCHER, JOHNSON  
 03/15/17 (H) AM: WESTLAKE  
 03/20/17 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 03/20/17 (H) Heard & Held  
 03/20/17 (H) MINUTE(FIN)  
 03/21/17 (H) FIN AT 9:00 AM HOUSE FINANCE 519  
 03/21/17 (H) Heard & Held  
 03/21/17 (H) MINUTE(FIN)  
 03/21/17 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 03/21/17 (H) Heard & Held  
 03/21/17 (H) MINUTE(FIN)  
 03/22/17 (H) FIN AT 9:00 AM HOUSE FINANCE 519  
 03/22/17 (H) -- Continued from 3/21/17 at 1:30 PM --  
 03/22/17 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 03/22/17 (H) Heard & Held  
 03/22/17 (H) MINUTE(FIN)  
 03/23/17 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 03/23/17 (H) Heard & Held  
 03/23/17 (H) MINUTE(FIN)  
 03/24/17 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 03/24/17 (H) Heard & Held  
 03/24/17 (H) MINUTE(FIN)  
 03/25/17 (H) FIN AT 10:00 AM HOUSE FINANCE 519  
 03/25/17 (H) Heard & Held  
 03/25/17 (H) MINUTE(FIN)  
 03/27/17 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 03/27/17 (H) Heard & Held  
 03/27/17 (H) MINUTE(FIN)  
 04/07/17 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/07/17 (H) Heard & Held  
 04/07/17 (H) MINUTE(FIN)  
 04/08/17 (H) FIN AT 1:00 PM HOUSE FINANCE 519  
 04/08/17 (H) Moved CSHB 111(FIN) Out of Committee  
 04/08/17 (H) MINUTE(FIN)

04/09/17 (H) FIN RPT CS(FIN) NT 4DP 4DNP 2NR 1AM  
 04/09/17 (H) DP: GARA, GUTTENBERG, SEATON, FOSTER  
 04/09/17 (H) DNP: WILSON, THOMPSON, PRUITT, TILTON  
 04/09/17 (H) NR: ORTIZ, GRENN  
 04/09/17 (H) AM: KAWASAKI  
 04/10/17 (H) MOVED TO BOTTOM OF CALENDAR  
 04/11/17 (H) TRANSMITTED TO (S)  
 04/11/17 (H) VERSION: CSHB 111(FIN)(EFD FLD)  
 04/12/17 (S) READ THE FIRST TIME - REFERRALS  
 04/12/17 (S) RES, FIN  
 04/13/17 (S) RES WAIVED PUBLIC HEARING NOTICE, RULE  
 23  
 04/13/17 (S) FIN WAIVED PUBLIC HEARING NOTICE, RULE  
 23  
 04/14/17 (S) RES AT 3:00 PM BUTROVICH 205  
 04/14/17 (S) Heard & Held  
 04/14/17 (S) MINUTE(RES)  
 04/15/17 (S) RES AT 9:00 AM SENATE FINANCE 532  
 04/15/17 (S) Heard & Held  
 04/15/17 (S) MINUTE(RES)  
 04/15/17 (S) FIN AT 9:01 AM SENATE FINANCE 532  
 04/15/17 (S) <Pending Referral> Uniform Rule 23  
 Waived  
 04/15/17 (S) FIN AT 2:00 PM SENATE FINANCE 532  
 04/15/17 (S) <Pending Referral> Uniform Rule 23  
 Waived  
 04/15/17 (S) RES AT 2:00 PM SENATE FINANCE 532  
 04/15/17 (S) Heard & Held  
 04/15/17 (S) MINUTE(RES)  
 04/17/17 (S) RES AT 1:00 PM BUTROVICH 205  
 04/17/17 (S) Heard & Held  
 04/17/17 (S) MINUTE(RES)  
 04/17/17 (S) RES AT 5:00 PM BUTROVICH 205  
 04/17/17 (S) Heard & Held  
 04/17/17 (S) MINUTE(RES)  
 04/18/17 (S) RES AT 2:00 PM BUTROVICH 205  
 04/18/17 (S) Heard & Held  
 04/18/17 (S) MINUTE(RES)  
 04/19/17 (S) RES AT 2:00 PM BUTROVICH 205  
 04/19/17 (S) Heard & Held  
 04/19/17 (S) MINUTE(RES)  
 04/20/17 (S) RES AT 2:00 PM BUTROVICH 205  
 04/20/17 (S) -- MEETING CANCELED --  
 04/21/17 (S) RES AT 2:00 PM BUTROVICH 205  
 04/21/17 (S) -- MEETING CANCELED --  
 04/24/17 (S) FIN AT 9:00 AM SENATE FINANCE 532  
 04/24/17 (S) RES AT 2:00 PM BUTROVICH 205

**WITNESS REGISTER**

AKIS GIALOPSOS, staff to Senator Giessel and the Senate Resources Committee  
Alaska State Legislature  
Juneau, Alaska  
**POSITION STATEMENT:** explained the changes in SCS CSHB 111 (RES), version \P.

**ACTION NARRATIVE**

2:00:13 PM

**CHAIR CATHY GIESSEL** called the Senate Resources Standing Committee meeting to order at 2:00 p.m. Present at the call to order were Senators Stedman, Coghill, Von Imhof, Hughes, Meyer, and Chair Giessel.

**HB 111-OIL & GAS PRODUCTION TAX;PAYMENTS;CREDITS**

2:00:45 PM

**CHAIR GIESSEL** announced consideration of HB 111 [CSHB 111(FIN)(efd)(fld) was before the committee]. It was first heard on April 14; it had two hearings on April 15 and two more hearings on April 17. They had a hearing on April 18 with the Department of Revenue (DOR) and follow up with legislative consultants; and on April 19 another meeting with a legislative consultant. They now have a proposed committee substitute (CS).

**SENATOR COGHILL** moved to adopt SCS CSHB 111 (RES), version 30-LS0450\P as the working document.

**CHAIR GIESSEL** objected for discussion purposes.

2:01:36 PM

**AKIS GIALOPSOS**, staff to Senator Giessel and the Senate Resources Committee, Alaska State Legislature, Juneau, Alaska, explained the changes in the CS. He said the three elements in this CS are:

1. Elimination of the refundable tax credits (Oil and Gas Tax Credit Fund established in AS 43.55.028) as of January 1, 2018.
2. Transition to carried forward (CF) losses with the statewide repeal of the net operating loss credit (NOL) under AS 43.55.023(b). This CS transition the loss carry forward mechanism to a deduction, allowing the taxpayer to recover their full losses.

3. Expansion of the timeframe for the interest rate for delinquent taxes under AS 43.55 to six years while lowering it to 3 percent compounded quarterly, and combining the assessment for delinquent taxes under AS 43.55 with all other delinquent taxes under AS 43.05 statutes.

[2:03:15 PM](#)

MR. GIALOPSOS presented the sectional analysis for SCS CSHB 111(RES), version \P, as follows:

Section 1 amends AS.05.2225, Administration of Revenue Laws, Interest on page 1, line 7-page 2, line 20, by changing the interest rate to 3 percent compounded quarterly for delinquent taxes; effective January 1, 2018.

Section 2 amends AS 43.20.044(a), Alaska Net Income Act, Exploration incentive credit on page 2, lines 21-25 that states the credit accrued under AS 43.55.025, the Middle Earth credits, can be used as a deduction against that taxpayer's corporate income taxes. That function is not transferable.

Section 3 amends AS 43.20.046(e), Alaska Net Income Act, Gas storage facility tax credit, on page 2, line 26-page 3, line 1. Sections 4, 5, and 6 do the same thing for those respective three credits that are cashable and found in the corporate income tax credit system: the LNG storage facility, the natural gas storage facility, and the oil refinery. Those will remain cashable until their natural expiration and they are going to be available in their cash-ability through general appropriation.

Sections 4 and 5 conform to that.

[2:04:38 PM](#)

Section 6 adds a new section to AS 43.20, Alaska Net Income Tax, by taking the language that had previously been in the oil and gas tax credit fund in AS 43.55.028 and put it into the income tax statutes for those three credits to have the same provisions of making them applicable through general appropriation.

[2:04:53 PM](#)

Section 7 amends AS 43.55.023(c), Oil and Gas Production Tax, on Tax credits for certain losses and expenditures on page 4, line 16-page 4, line 20. This enables a taxpayer to apply credits issued under .023 against prior year taxes, interests, penalties, and fees related to the oil and gas production tax. This includes amended oil and gas production taxes, provided

that the assessment was not subject to an administrative procedural appeal or litigation.

Section 8 amends AS 43.55.023(d), Oil and Gas Production Tax, Tax credits for certain losses and expenditures, on page 4, line 27-page 5, line 13. It conforms to the repeal of the oil and gas tax credit fund later in this bill (in Section 25).

[2:05:33 PM](#)

Section 9 amends AS 43.55.023(e), Oil and Gas Production Tax, Tax credits for certain losses and expenditures, on page 5, line 14-page 6, line 1. Like section 7, this also enables a taxpayer to use a transferable credit that had been issued under AS 43.55.023 against those prior year taxes with the same limitations.

Section 10 adds a new subsection to AS 43.55.024, Oil and Gas Production Tax, Additional nontransferable tax credits, on page 6, lines 2-8. It states that tax credits under AS 43.55.024(c), the small producer credit, and AS 43.55.024(i), the per-barrel credit for new oil, could be used to reduce the taxpayer's liability below the minimum, but not below zero, including a year in which the sliding-scale credit (AS 43.55.024(j)) is used and the taxpayer can decide the ordering of those credits when calculating their tax liability.

[2:06:30 PM](#)

Section 11 amends AS 43.55.025(a), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration, on page 6, lines 9-31. The tax credit in AS 43.55.025 (Middle Earth statutes) conforming to their ability to use a credit accrued under those statutes against production tax or corporate income taxes.

Section 12 amends AS 43.55.025(f), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration, on page 7, line 1-page 9, line 16. This allows those same provisions of deductibility against corporate income tax for a taxpayer that has earned it under AS 43.55.025 and it also directs the Department of Revenue to grant or deny a credit application under .025 within 120 days of receipt of that application.

[2:07:16 PM](#)

Section 13 amends AS 43.55.025(h), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration, on page 9 lines 17-31. This is the explicit provision that a taxpayer may apply credits issued under AS 43.55.025 against prior year

taxes, interest, penalties, and fees, similar to the same language allowed for a transferable credit issued under AS 43.55.023 and subject to the same limitations, litigation, appeal, etc.

[2:07:44 PM](#)

Section 14 amends AS 43.55.025(i), Oil and Gas Production Tax, Alternative tax credit for oil and gas exploration, on page 10, lines 1-9. It states that credits under AS 43.55.025(i) can be applied against both the production tax or the corporate income tax, but cannot be used to reduce taxes below zero.

Section 15 Amends As 43.55.028(e), Oil and Gas Production Tax, Oil and gas tax credit fund established; cash purchases of tax credit certificates, on page 10, line 10-page 11, line 4. It established that pursuant to Section 25, this fund will be appealed as of January 1, 2018. Any funds that are outstanding can be refunded through general appropriation. It removes the maximum amount per year a company can receive in refunds and makes conforming changes. It maintains requirements that only companies producing less than 50,000 barrels per day can receive cash payments.

[2:08:39 PM](#)

Section 16 amends AS 43.55.028(g), Oil and Gas Production Tax, Oil and gas tax credit fund established; cash purchases of tax credit certificates, on page 11, line 5-page 12, line 2. It is another conforming to the repeal of the Oil and Gas Tax Credit Fund in Section 25, and carves out the language for the credits that are used against a corporate income tax liability for an LNG storage and gas storage facility, or a oil refinery to conform to the changes found in Section 6.

[2:09:06 PM](#)

Section 17 amends AS 43.55.028(j) and AS 43.55.028(g), Oil and Gas Production Tax, Oil and gas tax credit fund established; cash purchases of tax credit certificates, on page 12, lines 3-19. This conforms to the repeal of the Oil and Gas Tax Credit Fund in Section 25.

Section 18 amends AS 43.55.029(a), Oil and Gas Production Tax, Assignment of tax credit certificate, on page 12, line 20-page 13, line 1. This conforms as well to the Section 25, the repeal of AS 43.55.023(b), net operating loss (NOL) credit.

Section 19 amends AS 43.55.160(d), Oil and Gas Production Tax, Determination of production tax value of oil and gas, on page

13, line 2-page 13, line 13. This also conforms to the section 25 repeal of AS 43.55.023(b), net operating loss credit.

Section 20 amends AS 43.55.160(e), Oil and Gas Production Tax, Determination of production tax value of oil and gas, on page 13, line 14- page 14, line 5. This conforms to the repeal of the NOL credit in Section 25 as well as to the change to lease expenditures in section 21.

Section 21 amends AS 43.55.165(a), Oil and Gas Production Tax, Lease expenditures (as amended by Sec. 29, ch.4, 4SSLA 2016 - House Bill 247), on page 14, line 6-page 15, line 7. It states that for the North Slope only, lease expenditures include those incurred in a previous year that were not deducted in determining production tax value and were not the basis of a credit.

[2:10:06 PM](#)

Section 22 amends AS 43.55.165(f), Oil and Gas Production Tax, Lease expenditures, on page 15, lines 8-12. This conforms to the Section 25 repeal of AS 43.55.023(b), net operating loss credit.

[2:10:35 PM](#)

Section 23 adds new subsections to AS 43.55.165, Oil and Gas Production Tax, Lease expenditures, on page 15, line 13-page 16, line 17. These subsections respectively create an uplift in the amount of 10 percent compounded annually, for seven years. Only companies without commercial production when the expenditure occurred are eligible for the uplift. The increased value (uplift) can be applied generally providing the producer holds interest in the leases on which the expenditure generating the uplift occurred and the leases entered production.

That same section specifies that current year lease expenditures are to be applied before carryforward lease expenditures when calculating tax liability. In applying carry-forward lease expenditures, a producer only needs to apply the amount that would reduce taxes to the equal amount under the minimum tax, and not to zero. Carry-forward lease expenditures in excess of the amount applied to reduce taxes to the equal of the minimum tax are carried forward to a future year.

Section 24 amends AS 43.55.170(c), Oil and Gas Production Tax, Adjustments to lease expenditures, on page 16, lines 18-22. This conforms to the section 25 repeal of AS 43.55.023(b), net operating loss credit.

[2:11:59 PM](#)

Section 25 repeals multiple sections of statute on page 16, lines 23-24. It repeals the NOL credit as well as all relevant sections pursuant to the oil and gas tax credit fund, as well as the assignment of tax credit certificates, which have been constricted to third-party access before certification.

[AS 43.55.023(b) Net operating loss credit  
AS 43.55.028(a) Oil and gas tax credit fund, fund established  
AS 43.55.028(b) Oil and gas tax credit fund, fund consists of money to the fund and earnings on the fund  
AS 43.55.028(c) Oil and gas tax credit fund, statutory minimum calculation  
AS 43.55.028(d) Oil and gas tax credit fund, fund management  
AS 43.55.028(f) Oil and gas tax credit fund, money in fund does not lapse  
AS 43.55.028(h) Oil and gas tax credit fund, not a dedicated fund AS  
43.55.028(i) Oil and gas tax credit fund, qualified capital expenditure definition in relation to the fund section of statute  
AS 43.55.029(b)(4) Assignment of tax credit certificate, assignment must contain an account with a bank with which to receive funds when credit certificate is repurchased]

Section 26, on page 16, lines 25-30, is applicability language related to the new ability to apply AS 43.55.025 credits to corporate income tax liability.

Section 27, on page 16, line 31-page 17, line 7, is applicability language related to the new timelines in section 12 for the Department of Revenue to grant or deny applications for credits under AS 43.55.025.

Section 28, on page 17, lines 8-14, is applicability language related to credits used against prior years' production tax liability.

Section 29, page 17, lines 15-19, is applicability language related to lease expenditures.

[2:13:09 PM](#)

Section 30, on page 17, lines 20-25, is transition language related to the changes in the interest rate on delinquent taxes,

insuring that the effective date is January 1, 2018 and no retroactivity is applied to those.

Section 31, on page 17, line 26-page 18, line 8, is transition language related to carry-forward annual losses.

Section 32, on page 18, lines 9-16, is transition language related to transferrable tax credit certificates.

Section 33, on page 18, lines 17-21, is transition language related to the repeal of the Oil and Gas Tax Credit Fund.

[2:13:55 PM](#)

Section 34, on page 18, lines 22-23, sets an immediate effective date for Secs. 2, 7, 9, 11-14, and 26-28.

Section 35, on page 18, lines 24-25, sets an effective date for section 21 based on the effective date of changes made in HB 247 of 2016 (effectively January 1, 2018).

Section 36, page 18, lines 26-27, sets a January 1, 2018, effective date for all other sections.

[2:14:35 PM](#)

CHAIR GIESSEL removed her objection, and finding no further objection announced that SCS CSHB 111 (RES), version 30-LS0450\P, was before the committee. She noted that it would remove all cashable credits, clarifies the hard 4-percent minimum tax floor, and fixes an interest rate.

She said the committee had heard from the two legislative consultants and many of their recommendations are in this bill. The Senate has consensus around the issue of the need to remove the cashable credit option, because the state simply can't afford them.

[2:15:29 PM](#)

SENATOR MEYER commented that the legislature and the Governor have acknowledged that the state's refundable credit program is very unusual and makes its tax program problematic to implement. The refundable credits have become the third-largest line in the general fund budget. When oil was \$100/barrel, it wasn't so noticeable, but when oil is at \$45/barrel, it is noticeable and a problem to the budget. The key is remembering that the cashable credits have worked exactly the way lawmakers wanted them to. For example, four or five years ago they were looking at how to import gas to Southcentral Alaska, and small companies

were attracted to Cook Inlet that has gone from having a shortage of gas to having a surplus with those cashable credits. The same can be said for the North Slope: Alaska wanted to attract smaller companies to an area that is probably one of the most expensive areas to do oil and gas exploration and production. Some smaller companies have been enabled to go up there by those cashable credits and have had some huge successes.

SENATOR MEYER said Alaska just can't afford to do this anymore. This SCS puts Alaska on a stable path going forward without the fear of incurring greater liability. The whole tax policy doesn't need to be rewritten, and HB 111 refocuses attention on where it needs to be.

[2:19:49 PM](#)

SENATOR HUGHES supported Senator Meyer's remarks regarding the cashable credits. They listened to their consultants for many hours about the specifics and levers of our tax system, and some good recommendations.

She thanked the House for its focus on cashable credits, but she was concerned about the tax rewrite, because SB 21 is working. Trying to tax Alaska into prosperity is like a man standing in a bucket trying to lift himself up by a handle. Since the state has been faced with this fiscal crisis, there has been a lot of talk about spending and revenue, and in many ways this committee has been good about understanding the issues. This version of HB 111 represents that their focus at this point really should be about getting more oil in TAPS.

This bill strikes a balance. The oil industry has provided "billions upon billions of dollars of revenue" to Alaska, and it doesn't make sense to tax oil more when its price is down. Doing that would risk having less oil in the pipe and job decreases for already struggling companies.

As policy makers, Senator Hughes said, it is their responsibility to stick with what they know, and they know SB 21 is working. She looks forward to continuing focusing on how to get more oil into the pipeline. She wants explorers to continue exploring and producers to continue producing.

SENATOR HUGHES said the balance SCS CSHB 111(RES) strikes addresses the cashable credits, but also respects the voters' will when it comes to SB 21. They are doing the right thing by not focusing on the short term, which might mean a little more

revenue now, but rather focusing on the long term, because if exploration continues, production will continue, and that means revenue will continue.

[2:25:56 PM](#)

SENATOR VON IMHOF said one of the big takeaways from all the testimony they heard last week is that small producers who have generated millions of dollars in tax credits are left hanging, and they have bills to pay; there are jobs on the line. HB 111 tries to create additional options for those tax credits where the state is not the only entity paying for them. Legislators are looking for a way so that these small companies can get cash sooner rather than later while not reducing oil taxes expected to be paid to the state, and therefore not affecting the revenue forecast. It creates a win/win situation for everybody.

She said right now, companies can buy tax credits and use them for current or future years and that has not changed. Instead the SCS is opening up the market so that tax credits can be used for prior years if a company must amend a previous tax return or pay an assessment issued after an audit is complete. It was never money the state could have predicted to receive or have created a budget from, or ever really counted on.

SENATOR VON IMHOF said this means that small producers can get money now with third-party transferability, and continue operating and continue to secure future oil production. The companies who purchase the tax credits can use them on past taxes that they might unexpectedly owe during an audit or an amended return with the stipulation that they don't appeal or litigate the tax decision. They must accept the ruling, use the tax credit, and move on.

The state benefits because of reducing the likelihood of expensive and time-consuming disputes and it gets a second wind by reducing the backlog of tax credits waiting to get cashed out.

SENATOR VON IMHOF said she believes SCS CSHB 111(RES) is a reasonable compromise to address the over \$200 million in cashable tax credits that have been earned and are sitting in limbo.

[2:28:40 PM](#)

SENATOR COGHILL said it looks like the SCS CSHB 111(RES) answers the question of how to retain value the best you can for those who have already invested in Alaska. It finds a way in a cash-

strapped world to retain that value that the state set up an expectation for. The bill doesn't address the complexity of Alaska's tax system, but that conversation will go on for a long time.

[2:29:55 PM](#)

SENATOR STEDMAN said one of the concerns he has is removal of the tax credit fund and the requirement for state to make minimum payments. The state has an outstanding backlog of \$1 billion; so, how will that work? Currently, the state must pay a minimum requirement, so a lender will always know he will get some funds back. He didn't want to go into the Permanent Fund to pay off that liability and he wanted to hear how removing that minimum payment might affect the lenders.

CHAIR GIESSEL said this bill provides an opportunity to begin the process of taking that liability off the books. It won't solve the problem tomorrow or next year, but it is a beginning.

SENATOR STEDMAN said they need to have some conversation with the people who have the outstanding debts on how this might impact them, because getting a guaranteed small payment if you're a lender is better than no guarantee at all, especially if it's subject to a veto.

[2:32:58 PM](#)

He said the complexity of the GVR issue along with the per-barrel deduction is best left for a later date. Clearly, there are mechanical irregularities within the structure that are disadvantageous to the state in its ability to have transparency and predictability. He also noted that only one other sovereign has a cashable credit, and that is why they are here today; it doesn't work.

SENATOR STEDMAN said he was hesitant to say SB 21 is a success when one of its major components is structurally flawed.

[2:34:47 PM](#)

SENATOR COGHILL moved to report SCS CSHB 111 (RES), version \P, from committee with individual recommendations and the forthcoming fiscal notes. There were no objections and it was so ordered.

CHAIR GIESSEL commented that SCS CSHB 111 (RES), version \P, focuses on the important issues around which there is consensus in the Senate. The Senate began work on the tax credit issue in 2015 when a bi-partisan Senate Tax Credit Working Group was

convened. It had members of Resources and Finance Committees on it, one of which was a member of this committee as well as herself. Industry, Native corporations, and labor unions were part of the group. The outcome were recommendations, one of which was fixing the cash-ability of the cashable tax credits. Today implements the next step in that.

The work began last year in HB 247 and a countdown to the elimination of the Cook Inlet credits. They recognized that Cook Inlet was a constrained market and that having cash credits by government was distorting the competition. The Governor's veto of the earned cashable credits in 2015/16 amplified the issue. Today, this committee substitute completes the work of addressing the cash exposure by eliminating cash credits going forward.

CHAIR GIESSEL said the Senate has looked at this whole topic in three buckets, and this bill:

1. Allows a more flexible use of those unpaid cashable credits at no present cost to the state's general fund. It will open the door to a variety of uses of those to reduce the backlog.

2. Protects the state from future cash calls by:

- Repealing the Cash credit fund completely so that no legislator can come up with a new idea of the cashable credit.

- Moving the NOL from being a credit to a deduction, which changes the tax liability, but it takes away the cash exposure for the state.

- Preserving 100 percent of the value of the carried-forward losses, which both consultants said is critical, because removing that ability would put Alaska at the bottom of the competitiveness ladder.

- Incorporating a non-cash uplift for new companies to respect the time value of money in their investments.

- Preserves Middle Earth giving those companies an opportunity to use their credits in a valuable way for them.

- Allowing the natural expiration of the refinery and gas storage related credits. They will be credited and paid by appropriation only.

3. Allowing the current tax policy to continue being implemented. A dramatic increase in production has been seen, which means more royalty to the state. This

bill hardens the floor, one of the policies set forth in SB 21 that needed clarification. The minimum tax floor is still flexible for new and small producers. The sliding-scale, per-barrel reduction is still preserved recognizing Alaska's high royalty structure.

This SCS is balanced in terms of all areas of the state, she said; it doesn't carve out special recognition for certain companies; and it is a path forward without cashable credits.

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CHAIR GIESSEL emphasized that this new policy does increase the total tax that will be paid by the oil industry, but it also protects their businesses by allowing 100 percent deductibility of their losses, and it provides that other important piece: the process and eventual payment of the unpaid cash credits. She thanked committee members for their input and work on the bill.

[SCS CSHB 111 (RES) moved from committee.]

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CHAIR GIESSEL adjourned the Senate Resources Committee meeting at 2:41 p.m.