

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 15, 2019

1:03 p.m.

**MEMBERS PRESENT**

Representative John Lincoln, Co-Chair  
Representative Geran Tarr, Co-Chair  
Representative Grier Hopkins, Vice Chair  
Representative Sara Hannan  
Representative Ivy Spohnholz  
Representative Chris Tuck  
Representative Dave Talerico  
Representative George Rauscher  
Representative Sara Rasmussen

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 122

"An Act relating to the Funter Bay marine park unit of the state park system; relating to protection of the social and historical significance of the Unangax cemetery located in Funter Bay and providing for the amendment of the management plan for the Funter Bay marine park unit; and providing for an effective date."

- HEARD AND HELD

PRESENTATION: OIL & GAS INDUSTRY TAXES BY THE DEPARTMENT OF REVENUE

HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 122

SHORT TITLE: FUNTER BAY MARINE PARK: UNANGAN CEMETERY

SPONSOR(S): REPRESENTATIVE(S) HANNAN

04/03/19	(H)	READ THE FIRST TIME - REFERRALS
04/03/19	(H)	RES, FIN
04/15/19	(H)	RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

HUNTER MEACHUM, Staff  
Representative Sara Hannan  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** On behalf of Representative Hannan, sponsor, reviewed HB 122 by way of a PowerPoint presentation entitled, "HB 122, Funter Bay Marine Park: Unangan Cemetery," dated 4/15/19.

RICKY GEASE, Director  
Central Office  
Division of Parks and Outdoor Recreation  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** On behalf of DNR, testified in support of HB 122.

PRESTON KROES, Superintendent  
Southeast Region  
Division of Parks and Outdoor Recreation  
Department of Natural Resources (DNR)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions regarding HB 122.

RIC IANNOLINO, Spokesperson  
Friends of Admiralty Island  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 122.

DANIEL MONTEITH, PhD, President  
Friends of Admiralty Island  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 122.

MARTIN STEPETIN  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 122.

NIKO SANGUINETTI, Curator of Collections and Exhibits  
Juneau City Museum  
City and Borough of Juneau (CBJ)  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 122.

CHUCK SMYTHE, PhD, Director  
Department of History and Culture  
Sealaska Heritage Institute  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 122.

REED STOOPS  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 122.

BRUCE TANGEMAN, Commissioner Designee  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** Co-provided a PowerPoint presentation entitled, "Alaska Oil and Gas Production Tax Calculation ('Order of Operations')," dated 4/15/19.

DAN STICKEL, Chief Economist  
Tax Division  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** Co-provided a PowerPoint presentation entitled, "Alaska Oil and Gas Production Tax Calculation ('Order of Operations')," dated 4/15/19.

#### **ACTION NARRATIVE**

[1:03:02 PM](#)

**CO-CHAIR JOHN LINCOLN** called the House Resources Standing Committee meeting to order at 1:03 p.m. Representatives Tuck, Hannan, Talerico, Rauscher, Rasmussen, Hopkins, Tarr, and Lincoln were present at the call to order. Representative Spohnholz arrived as the meeting was in progress.

#### **HB 122-FUNTER BAY MARINE PARK: UNANGAN CEMETERY**

[1:03:34 PM](#)

**CO-CHAIR LINCOLN** announced that the first order of business would be HOUSE BILL NO. 122, "An Act relating to the Funter Bay marine park unit of the state park system; relating to protection of the social and historical significance of the Unangax cemetery located in Funter Bay and providing for the amendment of the management plan for the Funter Bay marine park unit; and providing for an effective date."

1:04:12 PM

REPRESENTATIVE HANNAN, sponsor, stated HB 122 is a project 77 years in the making, including about two decades of active political work, to preserve the Unangan cemetery in Funter Bay [on the northwest coast of Admiralty Island]. She related that during World War II (WWII), people of the Aleutian Islands were relocated to six camps in Southeast Alaska when the Japanese started invading the Aleutians. Funter Bay was probably the worst of the camps, she said, in that it had one of the highest death ratios. Unlike the other campsites, she noted, the Funter Bay cemetery is on state property and unpreserved. She said two of the six relocation campsites were located in Funter Bay, one at the mine site and one at the cannery site. The other camps were located at Killisnoo near Angoon, which is private property; Ward Cove outside of Ketchikan, which is federal property and has been preserved as part of the Civilian Conservation Corps (CCC) camp; Wrangell Institute in Wrangell; and Burnett [Inlet], where today there is a fish hatchery. She pointed out that the people relocated to the Funter Bay campsites had already once been relocated from their traditional Aleutian Island homelands when in the late 1700s Russian fur trappers moved them to the Pribilof Islands where they were forced to hunt furs.

REPRESENTATIVE HANNAN stated the Funter Bay relocation camps were also known as internment camps because the men at these camps were forced to leave their families in Funter Bay to go to U.S. government sealing camps on the Pribilof Islands during harvest time. The families left behind were ill prepared to survive because of the marginal conditions at the Funter Bay camps and a large cemetery ensued. About two decades ago, she continued, people started to work on ensuring that the cemetery didn't disappear. Some of the camp people's descendants still live in the region today and some returned to the Pribilof's post WWII, she said, and they have sought protection for that land. While she happens to have the privilege of being the person in office who is bringing to culmination the bill before the committee, the dialogues for preserving this land have been around for at least two decades, she said. She noted that a number of the people involved in that dialogue are present today to provide expertise. She acknowledged the leadership of the executive branch as well as the director and regional director of the Division of Parks and Outdoor Recreation who continued to shepherd things to this step. She explained that a land survey was done that would provide for the preservation of the cemetery

and HB 122 would protect it by moving the upland that the cemetery is located on from the Division of Land, Mining and Water into marine park status under the Division of Parks and Outdoor Recreation.

[1:08:31 PM](#)

HUNTER MEACHUM, Staff, Representative Sara Hannan, Alaska State Legislature, on behalf of Representative Hannan, sponsor, reviewed HB 122 by way of a PowerPoint presentation entitled, "HB 122, Funter Bay Marine Park: Unangan Cemetery." She explained that HB 122 would transfer the parcel of land that the cemetery is on in Funter Bay from the Department of Natural Resources (DNR), Division of Land, Mining and Water, to the Division of Parks and Outdoor Recreation to preserve the cemetery's social and historical significance. She displayed a photograph on slide 3 of the cemetery as it is today and noted it is well maintained due to the efforts of family members and the organization, Friends of Admiralty Island. Moving to slide 4, she showed a photograph of the headstone for a child born about a month before relocation to the Funter Bay camp [5/23/42], and who died in October because the conditions were so terrible. Ms. Hunter brought attention to the land survey in the committee packet depicting the cemetery's location.

[1:11:40 PM](#)

REPRESENTATIVE RAUSCHER remarked that it sounds like a great idea. He inquired whether any municipal land is involved.

REPRESENTATIVE HANNAN replied no.

REPRESENTATIVE RAUSCHER asked how much area would be involved.

MS. MEACHUM responded that the total acreage is 537 acres.

REPRESENTATIVE HANNAN said DNR is online to address the committee. She noted that DNR is suggesting the whole parcel of state land under the Division of Mining, Land and Water be moved into park status, so it is contiguous and not just an outlying piece of burial plots.

[1:13:22 PM](#)

RICKY GEASE, Director, Central Office, Division of Parks and Outdoor Recreation, Department of Natural Resources (DNR), testified that HB 122 has the department's full support at all

levels. He said it has been a privilege to work and coordinate with the diverse groups of knowledgeable people, agencies, and organizations that have been working hard to further protect this historical and culturally significant site. [This will] help inform Alaskans about the importance of the cemetery and the hardships imposed on the Aleut people of St. Paul and St. George islands while in the Funter Bay area during WWII.

[1:14:26 PM](#)

REPRESENTATIVE RAUSCHER offered his understanding that tracts 37 and 38, plus multiple lots, are included for a total of 537 acres involved in the transfer.

MR. GEASE offered his belief that the aforementioned is correct. He deferred to Mr. Preston Kroes for answering any specific questions about the specific lots involved.

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REPRESENTATIVE HOPKINS inquired whether this is the first bit of land to be added to the marine park. He further inquired whether the land management plan for this marine park would be changed.

MR. GEASE answered that to his knowledge there is some land and HB 122 would add two additional lands that are currently under the Division of Mining, Land and Water. The bill would ensure that these lands are protected under the Division of Parks and Outdoor Recreation and there is the authority for enforcement that comes with state park lands. He deferred to Mr. Kroes to answer about the land management plan.

[1:16:48 PM](#)

PRESTON KROES, Superintendent, Southeast Region, Division of Parks and Outdoor Recreation, Department of Natural Resources (DNR), stated the parcel the cemetery is located on is currently under the Division of Mining, Land and Water and designated to be managed as part of the state park. Therefore, he said, nothing really will change as far as management; it will be managed pretty much the same as it currently is and just be an addition to the current state marine park.

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CO-CHAIR TARR asked whether a full assessment of the state's public lands has been done for important historical sites. She further asked whether Mr. Kroes is aware of any other sites like this one that the committee should be thinking about.

MR. KROES offered his belief that unfortunately a lot of things like this are missed. He said that is why, upon hearing about it, the division was more than happy to have it extend into the state marine park to protect it and ensure it will be there for the cultural history. He pointed out that it wouldn't be any additional budgetary burden as the state marine park is relatively undeveloped. He added that the division hopes to get some interpretive panels put out in that area.

[1:18:59 PM](#)

REPRESENTATIVE TALERICO inquired about the ownership status of the lands adjacent to the boundary of the cemetery parcel.

MR. KROES replied there are some surrounding private parcels [by the cemetery], as well as U.S. Forest Service property adjacent to the state marine park and the parcel that [the park] would be expanding into.

[1:19:41 PM](#)

REPRESENTATIVE RAUSCHER asked how many people are buried in the cemetery.

REPRESENTATIVE HANNAN responded that there are 32 identified and marked gravesites and the oral records suggest there could be some unmarked graves that are further outside the marked graves.

REPRESENTATIVE RAUSCHER inquired whether there is one in each [of the plots of the survey].

REPRESENTATIVE HANNAN answered no and stated that Representative Rauscher is asking if there are gravesites within each of the survey plots 1, 2, 11, and 12. She offered her belief that all the gravesites are located in tract A. She explained that [the survey] shows all the state land that is being transferred, but that the cemetery is in a very concentrated area. She further explained the survey shows a full township and some of the township is federal land, not state land.

REPRESENTATIVE RAUSCHER offered his understanding that "each one of those is a section in the township."

REPRESENTATIVE HANNAN replied yes.

REPRESENTATIVE RAUSCHER asked about the need for all of that.

MR. KROES explained that the reason for asking for the full 537 acres is to make a continuous boundary for the current state marine park because otherwise the cemetery parcel alone would be a far outlier. This way, he continued, it is one big continuous park that includes the cemetery.

[1:22:17 PM](#)

REPRESENTATIVE RASMUSSEN inquired about the cemetery's size.

MR. KROES answered he isn't sure [the division] has that number, but he estimates that it is roughly three-quarters to one acre.

REPRESENTATIVE RASMUSSEN stated she supports the cemetery but questions the need for 537 acres for something that is one acre.

MR. KROES displayed a map and noted the current state park is depicted in purple. He pointed to the tract proposed for addition and said this way it would be connected. To do otherwise, he stated, the cemetery would just be an asterisk with quite a bit of property in between that is Division of Mining, Land and Water, which is also part of DNR. Since it is already DNR state property, he said, the thought was to make it all part of the state marine park and eliminate jurisdiction confusion. He showed another map and pointed out the state marine park, the tract proposed for addition, and the cemetery.

[1:24:30 PM](#)

CO-CHAIR TARR surmised that without a contiguous boundary there would be a need to create some kind of access that could become complicated, while if contiguous it would be uncomplicated.

MR. KROES replied that it would definitely make the whole management plan, jurisdiction matters, and everything much more clearly cut and easy to do.

[1:25:09 PM](#)

REPRESENTATIVE SPOHNHOLZ offered her understanding that this proposal is not a swap, but rather a transfer of lands from the

category of mining and other natural resources to the category of parks.

MR. KROES responded that it would basically be a title change as it would go from the DNR Division of Mining, Land and Water to the DNR Division of Parks and Outdoor Recreation.

REPRESENTATIVE SPOHNHOLZ asked whether there are any commercial resources on this land that would then not be extractable if this title change occurred.

MR. KROES answered no and explained that part of the reason for including this parcel under state parks is to better protect it because the Division of Parks and Outdoor Recreation is different in that it doesn't have commercial resource activities on its parcels like the Division of Forestry does. This would better protect the cemetery and adjacent lands, he added.

REPRESENTATIVE SPOHNHOLZ stated it makes sense in that the primary objective is to protect the cemetery. However, she continued, she would like to have it said on the record that in moving this land over to the park there is not an opportunity cost that is being missed since it is property that wouldn't be developed otherwise. All that is being done, she said, is to protect an important resource for the Unangan people and there is no other factor that could cloud the committee's decision.

MR. KROES replied correct.

[1:27:27 PM](#)

The committee took an at-ease from 1:27 p.m. to 1:29 p.m.

[1:29:16 PM](#)

RIC IANNOLINO, Spokesperson, Friends of Admiralty Island, testified that he did the archival work to prepare for a visit [to the cemetery on 5/20/17] by the survivors and officials of the Aleutian Pribilof Islands Association of St. Paul and St. George. At this 75th memorial anniversary, he related, the Russian Orthodox Church performed a blessing of the graves and a 12-foot-high cedar cross was put up.

MR. IANNOLINO stated he did his research at the state library and archive and at the Sealaska Heritage Institute's archives. He said that in a Sealaska archive he found a presentation by Roy Peratrovich, the 1942 Grand President of the Alaska Native

Brotherhood and Alaska Native Sisterhood. He paraphrased as follows from Mr. Peratrovich's presentation:

Approximately 500 Natives of Aleut, Kenai, and Eskimo descent have been evacuated from the Aleutian Islands by the U.S. Navy to Killisnoo and Funter Bay as a war safety measure. These people came with very little of their personal goods, and living conditions will be extremely difficult for them, especially this fall and winter. It is our patriotic duty to offer every aid and comfort to these fellow countrymen, a gift of friendship, advice, and assistance. At the present time secondhand fishing gear of all kinds is needed by them to help them put up their winter food. U.S. Employment Service ... is trying to find jobs for them and their main interest right now is building temporary homes in Killisnoo and Funter Bay.

MR. IANNOLINO pointed out that these people were, in actuality, interned. He related that despite a court case that said they couldn't be interned because they were U.S. citizens, they were interned for a year from 1942 to 1943.

MR. IANNOLINO noted that Friends of Admiralty Island participated in the 5/20/17 cemetery visit by the survivors and members of their families. He said 100 people went to the cemetery for the ceremony and a blessing of the graves by the Russian Orthodox bishop. He stated it was called the "Healing Path," and shared some of the words that were said at the ceremony:

In 1942 the steamer Delarof sailed from the Pribilof Islands towards Southeast Alaska, destination unknown. Their cargo was 380 St. Paul ... villagers and 180 St. George villagers and an additional 38 villagers from Atka, all were being evacuated from the war zone. As the Delarof entered the Gulf of Alaska, government agents were scrambling to find housing for the evacuees. The ship was radioed to drop off the St. George and St. Paul villagers in Funter Bay and the Atka villagers in Killisnoo next to Angoon. Over the next several years their story was one of people whose government forgot them, ignored them, and treated them as less than human. ... Today we visit this site of this dark chapter of Alaska history with some of the survivors and family members to hear their stories. We sail into the same harbor ... as did the Delarof 75

years ago. We walk the same beach path as did the evacuees. We gather at the cemetery to remember...

MR. IANNOLINO interjected that 30-plus graves was mentioned in the ceremony. But, he said, there were many infants and their graves were not marked and so the thought is that there are about 44 graves.

MR. IANNOLINO continued reciting from the Healing Path ceremony:

...the 30-plus evacuees ... who never returned to their home villages. We come today to honor those evacuees and families and acknowledge their suffering and losses. We come today to remind all of us how easily fear can result in creating victims, especially of the less empowered. We come today to pledge never again.

[1:34:28 PM](#)

REPRESENTATIVE TUCK inquired about Mr. Iannolino's affiliation.

MR. IANNOLINO replied he is a Friends of Admiralty Island board member and he did archival work for the aforementioned event.

CO-CHAIR LINCOLN requested a description of Friends of Admiralty Island.

MR. IANNOLINO indicated that the next witness [Dr. Monteith] would provide that information.

[1:35:06 PM](#)

DANIEL MONTEITH, PhD, President, Friends of Admiralty Island, testified he has a PhD in anthropology and archeology and has worked in Alaska for over 35 years. He thanked Representative Hannan for sponsoring HB 122 and the committee for hearing it. He said Friends of Admiralty Island is a nonprofit organization dedicated to the research, education, and outreach for Admiralty Island and Admiralty Island National Monument. He noted the organization currently has over 350 members residing in the communities of Angoon, Juneau, and other places.

DR. MONTEITH related that 290 people from St. Paul and 190 people from St. George were relocated to Funter Bay in June 1942. Over the course of a few years at that location, he said, there were 32 documented deaths [plus undocumented] infant

mortality. The location is an Alaska historical site, he noted; site Juneau 975.

DR. MONTEITH said HB 122 is very important in terms of the State of Alaska protecting the Unangan historic cemetery site. Some of the Unangan people in Killisnoo were buried there, he related, and some of that has gone over to private lands and the people cannot even put flowers on those graves because the private residents say they will accuse them of trespass. So, he continued, this is an important thing that is being done. Transferring the cemetery from [the Division of Mining, Land and Water] to the Division of Parks and Outdoor Recreation assures its protection. He urged the passage of HB 122 and stated that respect for one's ancestor is important to the respect of the Unangan culture and their descendants today.

CO-CHAIR LINCOLN noted the committee's intent is not to move the bill today. He explained there would be an opportunity for amendments when the bill is taken up again at a later date.

[1:38:28 PM](#)

REPRESENTATIVE TUCK asked how Funter Bay was chosen for holding the Aleutian people.

DR. MONTEITH responded that the U.S. Department of Defense (DoD) was heading down to Southeast Alaska and was looking for possible sites. In Funter Bay was an old cannery site and structures left over from an old mining operation, he said, so they utilized those places in Funter Bay and they also utilized historic sites in Killisnoo. He related that they also went down to Ward Cove where there were old Civilian Conservation Corps (CCC) structures and also to Wrangell and some of the young teenagers went to Wrangell Institute. He pointed out that [WWII] prisoners of war were sent to Excursion Inlet where there was a cannery site.

REPRESENTATIVE TUCK inquired whether any other structures remain at the Funter Bay site besides the cemetery.

DR. MONTEITH answered yes, quite a few. But, he continued, they do not have much integrity in terms of historical structures and archeological sites. He explained that this is a very important parcel because it is a cemetery and ancestors are buried there. He said members could refer to a nice site inventory done by the National Park Service and Charles Mobley, an archeologist and

historian, which has complete maps and a history of the federal government's relations with these tribal entities.

[1:40:47 PM](#)

CO-CHAIR LINCOLN stated he doesn't perceive any opposition to the intent of the legislation, but that there is some question over the amount of land being transferred. He asked Dr. Monteith to speak to the transfer of nearly 540 acres to protect one acre.

DR. MONTEITH replied he would defer to the Division of Parks and Outdoor Recreation. He offered his understanding that the philosophy is to have contiguous land from the state park and not have any parcels of land that are incongruent in terms of management and divisions. The bill, he said, would include that entire area and not cause any corridors of differences in terms of divisions.

[1:41:43 PM](#)

CO-CHAIR LINCOLN inquired whether, from the perspective of the intent being to protect and honor the ancestors, there is value to having that much land or could the task be accomplished if the bill were amended to a smaller amount.

DR. MONTEITH responded that an adequate buffer is needed to protect the cemetery and to keep the integrity of the area from being compromised, and this is what is trying to be done. He added that Friends of Admiralty Island has been very involved with the historical interpretation of that area and would continue to dedicate money, time, and effort to helping with interpretative signing of the area to make it a respectful area.

[1:43:06 PM](#)

MARTIN STEPETIN testified he is from St. Paul Island, Alaska, and is a descendant of the Pribilof people who were brought to Funter Bay. He said he now lives in Juneau and got involved with Friends of Admiralty Island during a cruise in 2014. He noted he already knew about this history, but got really caught up in it as a result of this cruise. He thanked Representative Hannan and the many people who helped get things to this point of HB 122, which would finally protect the Funter Bay Unangan cemetery. He continued as follows:

Most of my grandparents were taken to Funter Bay from St. Paul Island in early 1942 and by God's will they all survived. My dad was born here in Juneau in 1942 at the St. Ann's Hospital. ... I don't know how my grandparents got over here to Juneau, but I'm thankful they did, otherwise my dad might not have survived in the cold and rundown camps in Funter Bay where many perished. My maternal ... grandparents actually got married while in Funter Bay. They survived. My mom was born in 1951.

... A short timeline and three good points of why we should pass this bill: In May 2014 my wife and I went on a Friends of Admiralty cruise to Killisnoo near Angoon where we would bless the graves and place a plaque on the cemetery grounds in remembrance of 17 Atka Unangans who died before the federal government would bring them home. The Atka cemetery is in bad shape and still is to this day. After this emotional cruise I got to meet all the board members of Friends of Admiralty and this is when I learned the Atka cemetery is on private land and the owners, although they let us on the land to bless it, was unwilling to engage with us about restoring the cemetery or any kind of protection. This was frustrating and heartbreaking. After joining Friends of Admiralty board we quickly began researching the Funter Bay cemetery trying to figure out who owns the land the cemetery sits on. This was not an easy task ... We had to do a lot of research. We eventually figured out that the cemetery sits on Alaska state land and is managed by the Department of Natural Resources, or DNR. DNR didn't even know they managed the land that the cemetery sits on; they had to look it up.

[1:46:25 PM](#)

... This is the first point I want to make: Unlike the Atka cemetery or ... the other five locations the Unangan Aleuts were kept, we can actually try to protect this cemetery from future development, logging, or use that would desecrate this sacred place. Working with Friends of Admiralty, state parks, DNR - who has been very cooperative and accommodating through this whole process and we are so thankful for that - we weighed our options for protecting the cemetery. We learned there was a past

effort to protect the cemetery by Charles Mobley whose book my friend just showed you. ... He tried to have the cemetery grounds put on the National Historic Registry, but the efforts failed because of the rules of not allowing cemeteries on the National Historic Registry and the stringent rules to prove historical significance. We didn't want to try the National Historic Registry again and recently learned that the National Historic Registry doesn't actually provide very much protection in the first place. For example, the infamous Fourth Avenue Theater in Anchorage is on the National Historic Registry, but is slated to be torn down possibly. Our friends at DNR suggested an Interagency Land Management Agreement, or ILMA. This would be a great way to protect the land except ILMAs can be changed, renegotiated, or completely canceled at any time in the future by people who don't value the cemetery as we do. So we knew that this would not be a wise way to protect the cemetery permanently. That's when Friends of Admiralty and I approached Representative Sam Kito last year about getting the cemetery legislatively protected. But it was already too late into the session and we couldn't get a bill started.

This is my second point: The cemetery is on state land ... but this is not the state's fault. ... By protecting this land we would recognize the history with all the most important things about the history .... Those who don't remember it are bound to repeat it. ... My grandma, ... into her late 90s, ... would say things like, "I hope it never happens again." ...

My third point is simple: The Funter Bay Marine Park will be expanded a little, but it won't cost any money to manage the land. The value of protecting the social and historical significance of this land will cement the history for good and we will never have to repeat this history again.

[1:50:23 PM](#)

CO-CHAIR LINCOLN noted that invited testimony on HB 122 was now concluded and opened public testimony on the bill.

[1:50:41 PM](#)

NIKO SANGUINETTI, Curator of Collections and Exhibits, Juneau City Museum, City and Borough of Juneau (CBJ), testified she became involved with this project when she first started [employment with the museum]. She stated that as someone new in Juneau and someone who didn't grow up in Alaska, she didn't know about this history because it's an event that isn't often covered in historical texts or in classrooms around the U.S. When she took on her new post, she said, she was immediately greeted by this large and ambitious project. She related that as part of this project the City Museum is planning to do its summer 2020 exhibition on the Funter Bay internment camps. In preparing for this exhibition, she noted, much research was done far in advance and she has benefitted greatly by Mr. Iannolino's research and digging through the scant amount of records that remain.

MS. SANGUINETTI pointed out that this [relocation] event was characterized by a lot of confusion. Trying to iron out what really happened has been very difficult, she said, because so many agencies were involved and so many people were taken to places that were never planned to house humans at any point. There is now this opportunity to protect this cemetery, she continued, which is the resting place for people who were moved without their consent and without knowing where they were going to end up when they boarded that ship.

MS. SANGUINETTI addressed the questions about the space between the cemetery and the state park. She stated that [the goal is] to ensure that future generations of people will be able to visit this site unimpeded, that it is going to be protected in perpetuity, and that the area around it will also be protected. As many people know with historic sites, she continued, the historic site itself can be protected, but if right next door things are being dug up and the ground is being shaken, a lot of unseen damage is being caused that can create trouble later on. Therefore, that connection between the parkland and the cemetery land ensures protecting the cemetery as well as the people's right to visit it and visit their ancestors, and to continue to do so for many years to come.

MS SANGUINETTI thanked Representative Hannan for putting forth HB 122, the committee for hearing it, and the wonderful team that worked on this for many years long before she was able to join it.

[1:54:03 PM](#)

CHUCK SMYTHE, PhD, Director, History and Culture, Sealaska Heritage Institute, testified in favor of HB 122. He said he got to know the significance of this site in 1981 when he first went to St. Paul and St. George and heard firsthand from people whose parents were there or who were there themselves. He related that they told of how they were brought to this cannery and the experience they went through - how there were holes in the walls and ceilings, blankets were used to separate the families' quarters, it was very cold, there wasn't much food, and that without the help of the Alaska Native Brotherhood (ANB), they might have starved during that time period. He further related that they talked about how they were given two or three hours to gather up their belongings when the ships came to pick them up. He said this cemetery is a very important significant site historically for the people of the Pribilof Islands.

DR. SMYTHE addressed the question about whether there should be just one acre, or a larger land area set aside for this. Speaking from his 12 years of experience working for the National Park Service, he said the big difference between protecting a one-acre site and a larger site in terms of funding, recognition of the site, and ways to protect it, is that a larger land area provides a more significant type of recognition that enhances the ability to protect an area.

[1:56:59 PM](#)

CO-CHAIR LINCOLN stated he didn't mean to imply that anyone on the committee was seeking to set aside only one acre. Rather, he said, he was trying to get a sense of whether the whole 540 acres or somewhere in between would be sufficient to protect it from adjacent development. He asked whether the full 540 acres is the minimum Dr. Smythe would have in mind.

DR. SMYTHE replied he doesn't have an opinion on that.

CO-CHAIR LINCOLN stated the bill would be taken up again and the committee would consider the acreage.

[1:57:47 PM](#)

The committee took a brief at-ease.

[1:58:01 PM](#)

CO-CHAIR TARR thanked Mr. Stepetin for sharing his emotional story. She said that whenever [the committee] works on righting the wrongs of the past, it is among the most important things that can ever be done.

[1:58:42 PM](#)

REED STOOPS testified he is before the committee as an individual. He said he bought the old cannery site 30 years ago and it is in the middle of the property adjacent to the cemetery. He stated he has used the property half a dozen times a year since purchasing it and is therefore familiar with the history and current status of the cemetery site. He noted he once worked for DNR dealing with land management, so he is familiar with that perspective as well. He stated he supports HB 122 and that it is a good idea.

MR. STOOPS discussed the size of the parcel. He said there is no other commercial value of that property and that it is de facto recreation. About 20 cabin sites are in Funter Bay, he stated, that are used for recreational purposes mostly by people from Juneau or other places in Southeast Alaska. He related that many commercial fishermen, recreational boaters, kayakers, and campers use Funter Bay and the areas that are privately owned. He pointed out that while 500 acres sounds like a lot, it is scattered along the shoreline and not very deep. He further pointed out that there is no commercial timber or mining potential there and it is already heavily used for recreation and is surrounded by national monument. Therefore, he said, he doesn't think any economic opportunities would be foregone by protecting the area immediately around the cemetery.

MR. STOOPS addressed Representative Tuck's question. He said some of the old buildings are still there on his property and he saves what he can save, but a lot of them were too far-gone to save. He stated that the old bunkhouse where the Aleut people lived was barely standing when he first purchased the property and has now fallen down. He said he couldn't imagine the living conditions for the people who lived there as the bunkhouse wasn't much bigger than the committee room, there was no insulation, and apparently 30 or 40 people were living in it. It was not something anyone would want to endure, he added. He urged the committee to support HB 122.

[2:01:11 PM](#)

REPRESENTATIVE RAUSCHER inquired whether Mr. Stoops' property is considered private land.

MR. STOOPS responded yes. He explained that the old cannery site, old mining site, and a few other trade manufacture sites were patented back in the early 1900s and have all been sold and developed into recreational cabin sites.

REPRESENTATIVE RAUSCHER offered his understanding that right now it is a recreational area.

MR. STOOPS answered yes. It is used heavily by mostly Southeast Alaskans, he said. A lot of boaters go up the bay and many commercial fishermen use it to get out of the weather or to spend the night while fishing, he continued. He added that many people go there for the weekend to go salmon fishing and camping on the beach or sleeping on their boats.

REPRESENTATIVE RAUSCHER asked how many private properties are in Funter Bay.

MR. STOOPS estimated there are 20 private tracts, all of which have cabins on them.

REPRESENTATIVE RAUSCHER inquired whether the private properties are close to the park that would be made contiguous or whether the properties go the other way.

MR. STOOPS replied that the bay is about a mile deep with the majority of properties on the south side of the bay and a few in the back. One property is contiguous with the cemetery, he said, and his property is nine lots and almost next to the cemetery. There is plenty of private property in the bay that has already been developed, he advised, and what is left is probably best left to public use because if the rest were sold the public wouldn't be able to use any of the bay.

[2:03:06 PM](#)

CO-CHAIR LINCOLN closed public testimony on HB 122 after ascertaining no one else wished to testify.

CO-CHAIR LINCOLN held over HB 122.

[2:03:26 PM](#)

The committee took an at-ease from 2:03 p.m. to 2:06 p.m.

**PRESENTATION(S): OIL AND GAS TAXES BY THE DEPARTMENT OF REVENUE**

[2:06:59 PM](#)

CO-CHAIR LINCOLN announced that the final order of business would be a presentation by the Department of Revenue on Alaska's oil and gas tax structure.

[2:07:15 PM](#)

BRUCE TANGEMAN, Commissioner Designee, Department of Revenue (DOR), began by noting that Alaska's oil tax system is complex. He said DOR's PowerPoint presentation entitled, "Alaska Oil and Gas Production Tax Calculation ('Order of Operations')," is a technical walk-through of how the tax structure works from a high level. No policy or politics will be discussed, he stated, the presentation is only about how the math calculation works. He turned the presentation over to Mr. Dan Stickel.

[2:08:00 PM](#)

DAN STICKEL, Chief Revenue Economist, Tax Division, Department of Revenue (DOR), displayed a list of acronyms on slide 2 that are used in oil tax and production tax. He turned to slide 3 and stated the purpose of the presentation is to explain the nuts and bolts of how the state's existing production tax and fiscal system work. He explained he would start by looking at all of the sources of oil and gas revenue to the state and then provide a detailed walk-through of the production tax and each step of the calculation. He said the presentation focuses on North Slope oil because that is the main source of revenue to the state, except for federal and investment revenue, and that the presentation walks through fiscal year 2020 (FY 20). He further stated that the presentation also looks at cash flow distribution and ends with a five-year comparison.

[2:09:50 PM](#)

REPRESENTATIVE RAUSCHER inquired how it was decided to use the years 2017-2021.

MR. STICKEL replied the decision was to present two years of history, FY 17 and FY 18, and two years of forecast, FY 20 and

FY 21, and FY 19 is the current year, which comes up with the five-year period of FY 17-21.

[2:10:23 PM](#)

MR. STICKEL resumed the presentation. He noted DOR's disclaimer on slide 4 and said that this presentation attempts to distill a very complex tax system down to understandable and simplistic pieces. He explained the presentation is based on aggregated data and DOR's forecasted estimates for different items and portions of the tax regime. Given he is an economist, he added, anything he says shouldn't be interpreted as an official tax interpretation, but rather an attempt to walk members through the revenue forecast to illustrate the tax calculation.

MR. STICKEL moved to slide 5 and outlined the state's four primary oil and gas revenue sources: royalty, corporate income tax, property tax, and production tax. Royalty is received for any production from state land, he explained, as well as a share of royalty for production on federal land. A typical state royalty is 12.5 percent or one-eighth, although some royalty rates differ from that. The corporate income tax that is received is based on worldwide net income for company's doing business in Alaska. That worldwide net income is apportioned to Alaska and the top marginal rate paid on the Alaska taxable income is 9.4 percent. Property tax, he noted, is paid to the state on all oil and gas production related property anywhere in the state and in the state's three-mile offshore limit. Production tax, he pointed out, is the revenue source being focused upon in the presentation. Production tax is Alaska's severance tax on oil and gas, and it applies to all production anywhere in the state and within the state's three-mile jurisdictional offshore limit regardless of whether that production is on state-owned, federal-owned, or private-owned land.

[2:12:30 PM](#)

CO-CHAIR LINCOLN observed from slide 5 that the corporate income tax applies to C-corporations. He surmised limited liability companies (LLCs) are not subject to paying this tax.

MR. STICKEL responded correct. He explained that LLCs (or partnerships) are pass-through entities. If that income passes through to a C-corporation it would be taxable, he said, but if it passes through to an individual return there is no individual income tax at this time.

CO-CHAIR LINCOLN noted that historically production in the state has been by very large companies like BP. He asked whether the ratio of C-corporations to non-C-corporations has changed over time such that these small companies are now affecting what the state collects in taxes.

MR. STICKEL answered correct. He said he doesn't have a ratio handy, but historically, as well as currently, the vast majority of production is by C-corporations and that currently some non-C-corporations are involved in production.

[2:14:03 PM](#)

REPRESENTATIVE HANNAN posed a scenario in which the state has an individual income tax. She surmised that in this scenario the state would be able to "get a taxation" from those companies that are operating as LLCs and non-C-corporations.

MR. STICKEL replied correct.

[2:14:46 PM](#)

MR. STICKEL continued the presentation. He displayed slide 6 and compared the revenue from each of the four oil and gas revenue sources for the five-year period of FY 17 through the forecast for FY 21. He noted that the property tax shown on the slide is the state's share only, but that in addition there is a municipal share that is quite a bit larger than the state's share. Regarding the corporate income tax, he said there were prior year refunds that impacted the collections in FY 17 and 2018; so now, when looking at the FY 19 and 20 numbers, DOR believes that the approximately \$200 million per year is a better estimate of what to expect from corporate income tax over the long run. Production tax, he said, is expected to generate [\$735] million in FY 19. He explained that royalties include bonuses, rents, and interest and that the royalty number of a little over \$1 billion a year includes general fund, permanent fund, and school fund shares of royalty. Mr. Stickel pointed out that DOR's Revenue Sources Book forecast also includes two other categories of petroleum revenue. One category, he said, is constitutional budget reserve fund (CBRF) settlements, which are any assessments or resolution of disputes regarding past years production tax royalty and minerals related corporate income tax. The second category, he continued, is the state's share of revenue from the National Petroleum Reserve-Alaska (NPR-A), which is federal revenue. He stated that currently the

numbers have been small, \$8 million in FY 19 and \$11 million in FY 20, but the number is expected to exceed \$100 million a year by FY 28 as new developments in the NPR-A come online.

[2:17:04 PM](#)

CO-CHAIR TARR used slide 6 to point out that revenue from taxes is dependent upon oil price and during low price environments the state loses out in every revenue area - production tax, corporate income tax, and royalties. For example, she pointed out, low prices in FY 17 resulted in negative revenue from corporate income tax.

MR. STICKEL explained that the corporate income tax has a provision where when a company has a net operating loss in a given year it is allowed to carry that loss back for up to five years and claim refunds on taxes paid in prior years. He said that was part of the story that brought the corporate income tax to a net negative number in FY 17 and a lower number in FY 18 than otherwise would have been the case.

[2:18:42 PM](#)

REPRESENTATIVE RAUSCHER asked whether everybody loses out in a low price environment and whether that loss is shared equally or disproportionately.

MR. STICKEL replied that this question is addressed in the presentation's addendum. He explained that there are elements of the state's fiscal system that are based on gross revenue, so the companies actually lose out disproportionately more in a low price environment.

REPRESENTATIVE RAUSCHER inquired whether any municipalities are included within the NPR-A.

MR. STICKEL responded that the NPR-A is located to the west of the Alpine development and encompasses the Willow and Greater Mooses Tooth developments. He offered his belief that there are communities within the NPR-A.

[2:20:09 PM](#)

REPRESENTATIVE TUCK surmised the figures depicted on slide 6 are actuals for FY 17 and 18, close to actual for FY 19, and forecasts for FY 20 and 21.

MR. STICKEL answered correct. He said the chart is based on DOR's spring 2019 forecast that was issued in March, so the FY 19 figure represents a little over half a year of actuals and four to five months of forecasts.

[2:20:44 PM](#)

REPRESENTATIVE SPOHNHOLZ recounted Co-Chair Tarr's statements about the low price environment having a big impact on the State of Alaska's revenue in FY 17. She asked what accounts for the lower revenues that are forecast for FY 20 and 21, given that oil prices and production are anticipated to remain relatively stable.

MR. STICKEL replied that the Alaska North Slope (ANS) oil price is forecast to be slightly lower for FY 20 and 21 and is part of the story of what is going on. He also noted that the state received some one-time payments on production tax in FY 18 and 19.

REPRESENTATIVE SPOHNHOLZ asked whether the drop of \$3.80 in ANS oil price is what accounts for the difference in royalties and production tax.

MR. STICKEL responded correct.

[2:22:10 PM](#)

REPRESENTATIVE HANNAN inquired about the big drop in CBRF settlements after FY 17.

MR. STICKEL answered that FY 17 had an unusually large amount of settlements because some major settlements took place in that particular year. He said the range of \$100-\$150 million is more indicative of what can be expected in a typical year.

REPRESENTATIVE HANNAN offered her understanding that settlements mean litigated disputes with the State of Alaska that were settled that year. She therefore surmised the settlement was received by the state that year, not earned that year.

MR. STICKEL replied correct and stated it could be litigation or could be audit assessments. He said the settlements received in FY 17 could have been settlements for as long as a decade.

[2:23:32 PM](#)

REPRESENTATIVE RASMUSSEN asked whether it is accurate that a \$1 [price] change is equivalent to \$100 million in revenue.

MR. STICKEL responded that DOR has been using an estimate of about \$70 million in terms of general fund. He explained that because the production tax works with a gross tax, when prices go above the current price it is going to be \$70-\$100 million per \$1 of price change, and when prices go below the current price it is going to be a little less than \$70 million.

REPRESENTATIVE RASMUSSEN inquired whether DOR has a comparison of what a \$1 change in the price per barrel would have looked like under Alaska's Clear and Equitable Share (ACES) tax plan as far as revenues.

COMMISSIONER TANGEMAN answered that because the State of Alaska has a net tax system it is impossible to go back and give an accurate estimate had a different tax structure been in place since the biggest drivers under a net tax system are capital expenditures (CAPEX) and operating expenditures (OPEX). This presentation, he reiterated, is sticking with just the facts of what DOR knows. The department is not going to go out on a limb, he continued, and assume CAPEX or OPEX would have been affected one way or the other because then it would be getting into policy and political decisions. He stressed that looking backwards and trying to apply different tax structures is very difficult, especially when looking at rather high prices under ACES and rather low prices under Senate Bill 21. Consultants can do this, he said, but the Department of Revenue would rather stay out of that game, especially with such vastly different tax structures.

REPRESENTATIVE RASMUSSEN asked whether DOR has a record of the income and daily production [under ACES] and whether that record would be available.

COMMISSIONER TANGEMAN replied yes. He said the department has CAPEX, OPEX, and all those details and they are laid out very well in the Revenue Sources Book.

[2:26:46 PM](#)

MR. STICKEL resumed the presentation. He displayed slide 7 and started to review the production tax "order of operations" for FY 20. He pointed out that this table appears in the back of the Revenue Sources Book each fall and that this version is updated for the spring [2019] forecast. For this calculation,

he began, DOR started with an average price forecast of \$66 per barrel for FY 20 and a daily production estimate of 529.5 thousand barrels per day. Those numbers calculate out to an annual production of 194 million barrels for a total value of \$12.8 billion sale price, he stated. He advised that the table is an aggregation of all the different companies doing business on the North Slope, which is the state's largest source of production and revenue, and is intended only to illustrate the production tax calculations.

MR. STICKEL moved to slide 8 and addressed step 1, calculation of royalty and taxable barrels. He explained that any royalty barrels are subtracted from the production tax calculation regardless of the ownership of those royalty barrels. He said the typical rate is one-eighth, or 12.5 percent, although the rates do vary. For example, he continued, the average royalty rate in the current year is actually a little less than 12 percent. He explained that federal and private land royalties are also subtracted to get to the total taxable barrels. For example, he said, nontaxable federal land would include the offshore portion of the NorthStar oil field as well as the Liberty field once it is online. He pointed out that the calculation arrives at an estimate of 172 million taxable barrels in FY 20 with a total taxable value of about \$11.36 billion.

[2:29:40 PM](#)

MR. STICKEL, responding to Representative Hopkins, reiterated that the Liberty field is outside of the state's jurisdictional limit in federal waters. He further reiterated that a part of the NorthStar field falls within the state's limit and a part falls outside the state's limit.

REPRESENTATIVE HOPKINS offered his understanding that the State of Alaska would receive \$0 from Liberty.

MR. STICKEL responded that, as DOR currently understands, the barrels from Liberty production would not be considered taxable barrels for production tax purposes.

REPRESENTATIVE HOPKINS asked whether \$0 in revenue from Liberty is just for these two lines on the chart or includes all the way to the end of the chart.

MR. STICKEL answered that, as DOR currently understands, Liberty would not be taxable for production tax purposes. He said there

would still be some benefits in property tax for any onshore infrastructure as well as the benefit of having production going down the Trans-Alaska Pipeline System (TAPS).

REPRESENTATIVE HOPKINS asked how far out the island is located.

MR. STICKEL replied that it is beyond the three-mile limit.

[2:31:05 PM](#)

REPRESENTATIVE TUCK referenced slide 5 and recalled it was stated that severance tax occurs regardless of whether it is state, private, or federal land, but that anything beyond three miles of the state's shore is not subject to state tax.

MR. STICKEL responded correct.

[2:31:32 PM](#)

REPRESENTATIVE RASMUSSEN inquired whether Liberty would pay state income tax.

MR. STICKEL answered that, to the extent that the operators are C-corporations and to the extent that that project impacts their property and sales in the state of Alaska, there could be potential corporate income tax impacts.

[2:32:23 PM](#)

CO-CHAIR TARR commented that this example would be one of the circumstances to think about the carried forward losses because Liberty is going to be a very costly development and so for at least five years any of Liberty's net operating expenses could be carried forward and applied against its corporate income tax. When modeling that, she continued, it would be expected that those early years would be very low or negative because of the net operating loss carried forward.

MR. STICKEL replied that the question of how an offshore development, not in state waters, would impact state corporate income tax is a tricky math problem. He said this is because it would impact the worldwide income and could potentially impact the company's apportionment factors. He pointed out that the State of Alaska would receive about 27 percent of the royalty for production from Liberty. Responding to Representative Tuck, Mr. Stickel clarified that 27 percent of the royalty portion

received by the federal government is shared with the State of Alaska under a sharing provision that is in place.

REPRESENTATIVE TUCK asked whether the 27 percent royalty applies to anything close to Alaska that is beyond the three miles on federal property or is specific to projects in areas within Alaska.

MR. STICKEL offered his belief that that provision applies to production beyond three miles and out to another limit. He noted that in previous years DOR has provided a handout that lists all the different land ownerships and how those all apply for tax and royalty purposes.

[2:34:54 PM](#)

REPRESENTATIVE SPOHNHOLZ inquired whether the percentage for the federal royalty is an amount similar to the State of Alaska's 12.5 percent or something different.

MR. STICKEL responded he doesn't know the number and that he will get back to the committee in this regard.

REPRESENTATIVE SPOHNHOLZ commented that it is important to know the number because 27 percent of a much smaller number is a much smaller percent than what committee members might be thinking.

[2:35:30 PM](#)

REPRESENTATIVE HANNAN asked if the State of Alaska's share of federal royalty is the same percentage regardless of whether it is from federal offshore property or land like the NPR-A.

MR. STICKEL answered it varies and said he will get the document to the committee.

[2:36:10 PM](#)

MR. STICKEL returned to the presentation. He displayed slide 9 and talked about step 2, calculation of the gross value at point of production (GVPP), also referred to as the wellhead value. He said the GVPP is calculated by subtracting transportation costs from the total taxable value.

[2:36:40 PM](#)

The committee took a brief at-ease.

[CO-CHAIR LINCOLN passed the gavel to Co-Chair Tarr.]

[2:36:53 PM](#)

MR. STICKEL continued to describe the mechanism for calculating the GVPP (slide 9). He reiterated that transportation costs, also known as netback costs, are subtracted from the taxable value to arrive at the GVPP. He said netback costs include the tanker costs for getting from Valdez to the West Coast, the tariff for TAPS, the tariff for any feeder pipelines, and any quality bank adjustment. He noted that the ANS price of \$66 per barrel is actually the price on the West Coast when the oil is sold. He stated that subtracting DOR's estimated transportation costs of \$8.81 per barrel results in a GVPP of [\$57.19] per barrel and a taxable value of about \$9.8 billion for FY 20.

[2:38:12 PM](#)

REPRESENTATIVE RAUSCHER inquired whether the transportation cost of \$8.81 is a flat rate rather than an average.

MR. STICKEL replied that the \$8.81 is an average. He said each company has a slightly different marine cost.

[2:38:48 PM](#)

MR. STICKEL moved to slide 10 and looked at step 3, lease expenditures. He said the production tax is essentially a modified version of a net profits tax - companies are allowed to deduct both capital expenditures and operation expenditures. For capital expenditures, he stated, DOR relies in general on Internal Revenue Service (IRS) guidelines to determine what qualifies as a capital expenditure. He noted that one difference from an income tax is that companies receive an immediate deduction of their capital costs, as there is no depreciation schedule in the production tax. Operating expenditures are essentially anything that is not a capital expenditure, such as ongoing costs of operations and labor.

MR. STICKEL added that when looking at lease expenditures, there are two other terms to understand in addition to operating and capital - allowable lease expenditures and deductible lease expenditures. He said allowable lease expenditure refers to generally any cost in the unit directly associated with producing the oil; this is everything that is allowed under the production tax code. Not everything is an allowable lease

expenditure, he continued; for example, such things as financing costs, lease acquisition costs, dispute resolution costs, and dismantlement and removal and restoration costs. Deductible lease expenditure, he advised, is a term of art that DOR uses solely for presentation purposes; it is not something that appears in any statute or regulation. He explained that when presenting deductible lease expenditures, DOR is talking about that portion of allowable lease expenditures that are applied in the tax calculation in a given year up to the GVPP. He said any expenditure beyond those deductible lease expenditures turns into a carry forward lease expenditure that a company can use in a future year to offset a future year's taxes.

[2:41:16 PM](#)

REPRESENTATIVE HANNAN recalled Mr. Stickel stating that deductible capital expenditures were not depreciated; they were within the year of use. She posed a scenario in which a company buys a \$1 million widget and offered her understanding that the company can deduct the entirety of that expense that year.

MR. STICKEL responded correct.

REPRESENTATIVE HANNAN requested Mr. Stickel to give an example of the kind of capital that is done in a year.

MR. STICKEL posed an example of constructing a building on the unit or drilling a well, both things that will have a long-term life. Under a corporate income tax, he said, that cost might be depreciated over time, but in the state's production tax that cost would be deducted entirely in the year earned. He stated it is typical in these types of taxes around the world to have some sort of benefit for capital spending like that.

REPRESENTATIVE HANNAN asked whether a whole well is typically built in one year, as she was thinking it spanned a longer time period. She offered her understanding that it would be portioned out between ordering the parts, shipping the parts, and getting it put up at the drill site, and that that would take more than one year. She asked how that capital expenditure would be differentiated.

MR. STICKEL answered that that might better be a question for an auditor and said he would get back to the committee with some clarity on what DOR does when there is a multi-year project.

[2:43:52 PM](#)

REPRESENTATIVE RAUSCHER requested an example of what constitutes a lease expenditure.

MR. STICKEL replied that a lease expenditure is any operating or capital expenditure - basically the costs of operating the unit, any cost directly associated with the producing of the oil. Examples of lease expenditures, he continued, include drilling a well, putting up a facility to process the oil, and ongoing costs of labor.

REPRESENTATIVE RAUSCHER surmised it must be performed on the lease.

MR. STICKEL responded, "Generally associated with the lease."

REPRESENTATIVE RAUSCHER further surmised it must be associated with the lease but not necessarily on the lease.

MR. STICKEL answered yes and said costs can be on the lease and also associated with the lease.

[2:44:44 PM](#)

REPRESENTATIVE HOPKINS recalled the statement that deductible lease expenditure is a term of art of what is allowed under the allowable lease expenditures up to GVPP. Referring to slide 10, he posed a scenario in which the deductible operating and capital expenditures add up to \$60 in total lease expenditures. He inquired whether in that scenario the production tax value (PTV) would be \$0 [rather than the \$29.93 shown on the table] and \$2.81 would be carried over into the next year.

MR. STICKEL answered, "That's generally the right way to look at." He noted that the calculations on slide 10 show about \$4.7 billion in lease expenditures that companies would be able to use to offset their GVPP down to \$0. After applying those lease expenditures, he said, there is an additional \$823.6 million of lease expenditures that were not used in the tax calculation, which is highlighted in yellow at the bottom of the chart. He explained this could be a company that doesn't have enough production to use up all those lease expenditures or a company that is still in the exploration or development phase; so, in the following year or five years from now, the company could use the \$823 million carried forward.

REPRESENTATIVE HOPKINS observed that the estimates on the chart show the State of Alaska receiving \$524 million in total tax paid in FY 20 and owing \$823 million.

MR. STICKEL replied that the \$823 million is a carried forward lease expenditure that can be used to offset production tax value in a future year. It is not that the State of Alaska owes \$823 million, he continued, it is an asset to the company to potentially reduce its taxes in a future year and the maximum benefit would be 35 percent of that lease expenditure amount.

REPRESENTATIVE HOPKINS requested an explanation of the number 35 percent.

[2:47:18 PM](#)

CO-CHAIR TARR responded that 35 percent is the tax rate.

MR. STICKEL concurred.

CO-CHAIR TARR provided the committee members with a copy of the lease expenditure statute, AS 43.55.165.

[2:47:38 PM](#)

REPRESENTATIVE RASMUSSEN offered her understanding that the chart shows Alaska [companies] paying [\$8.81] just to get the oil to market. She asked whether companies in the Lower 48 take on that cost.

MR. STICKEL answered that there is a netback cost for most oil production and that it varies depending on the field. For example, he said, in some areas in Alberta the production is very far from infrastructure, so those netback costs are very high. There are fields that are very close to market, he continued, so those netback costs are much lower than in Alaska.

REPRESENTATIVE RASMUSSEN, responding to Commissioner Tangeman, clarified that her understanding is that the \$8.81 is a deduction.

REPRESENTATIVE RASMUSSEN inquired how the [\$27.26] in deductible total lease expenditures compares to other states such as Texas and North Dakota that don't have major costs for getting their oil to market.

MR. STICKEL replied he doesn't have with him a comparison of Alaska's cost structure to other jurisdictions, but in general Alaska is a high cost jurisdiction.

REPRESENTATIVE RASMUSSEN asked whether Alaska has higher costs for all expenditures, including lease expenditures and transportation.

MR. STICKEL responded it would be safe to say Alaska is either similar or higher. He added that Alaska is definitely not a low cost jurisdiction.

[2:49:50 PM](#)

REPRESENTATIVE SPOHNHOLZ noted that net operating loss, as it relates to oil taxes, is not included on the chart. She asked whether net operating loss is a term of art that relates to deductible and nondeductible lease expenditures or whether it isn't included in the chart at all.

MR. STICKEL answered that this relates to nondeductible lease expenditures. He explained that, prior to calendar 2018 under the previous tax law, the \$824 million would get converted to a net operating loss credit. With the tax changes that took place beginning in 2018, he continued, companies no longer earn a credit for those excess lease expenditures and instead they have the carry forward provision for those lease expenditures.

REPRESENTATIVE SPOHNHOLZ offered her understanding that they are no longer called net operating losses because they are not actually cashable, but they can be carried forward as a credit for up to five years.

MR. STICKEL replied that DOR is referring to those lease expenditures as a carried forward annual loss, and a company can carry those forward indefinitely. He said there is a provision where the value erodes over time if the company doesn't use up the carried forward lease expenditure within 8 or 11 years, but a company does get to carry it forward indefinitely. Responding further to Representative Spohnholz, he reiterated that they are called carried forward annual loss.

[2:51:46 PM](#)

CO-CHAIR TARR offered her understanding that net operating loss is used for the corporate income tax. She said the lease expenditure carry forward could be differentiated from the

corporate income tax loss in that one is carry forward and one is net operating loss.

MR. STICKEL responded correct. He reminded members that today's presentation is only about the production tax. He pointed out that there is a completely separate carry forward provision in corporate income tax and corporate income tax would take up its own presentation.

[2:52:54 PM](#)

MR. STICKEL turned to slide 11 and addressed step 4, calculation of the production tax value (PTV). He explained that the PTV is the gross value at point of production (GVPP) less deductible lease expenditures and it is essentially a measure of net profit or the cash left over after subtracting royalties and all costs of production. He further explained that each company is going to have a separate PTV based on all of its North Slope activity, including all fields and developments. So, he continued, if a company is operating an existing field and investing in a new field, both of those will be pooled together for calculating the company's PTV. He said the PTV is the tax base for the production tax and that it is also the basis for any effective tax rate analysis and distribution of cash flows analysis that DOR will be presenting in the addendum.

MR. STICKEL moved to slide 12 and discussed step 5, gross minimum tax. He pointed out that two parallel tax calculations are essentially done side-by-side, the gross minimum tax and the net profits tax, and said that the company pays the higher of those two calculations. Referring to the column for minimum tax, he advised that the minimum tax for all prices over \$25 per barrel is 4 percent of the GVPP. So, he continued, for fiscal year 2020 the minimum tax is 4 percent times the \$9.8 billion of [GVPP], which equals [\$393.9] million.

MR. STICKEL turned to slide 13 and reviewed step 6, net tax and gross value reduction (GVR). Drawing attention to the column for calculating net tax, he said the net tax is based on the PTV of \$5.15 billion minus a gross value reduction provision. The GVR, he explained, is an incentive for new development that excludes a portion of the value of new fields from the tax calculation to get to the adjusted PTV and the 35 percent net tax rate applies to that adjusted PTV. So, he continued, for FY 20 the 35 percent tax rate before application of any credits generates a tax before credits of \$1.76 billion.

2:55:36 PM

MR. STICKEL displayed slide 14 and reviewed step 7, calculating tax credits against liability. He said the largest tax credit is the per-taxable-barrel credit and that the two different varieties [non-GVR eligible and GVR eligible] of this credit are shown in aggregate on the chart. He stated that the vast majority of these are non-GVR eligible production and that those fields receive a sliding scale credit ranging from \$0-\$8 per taxable barrel. He explained that the \$8 per taxable barrel applies when the wellhead value is less than \$80 per barrel, which is roughly when ANS prices are less than about \$89 per barrel. He said GVR eligible production, which is new fields during their initial period of production, receives a flat \$5 per-taxable-barrel credit. He pointed out that the \$5 per-taxable-barrel credit can reduce [a company's tax liability] below minimum tax, while the sliding scale credit for non-GVR production cannot reduce a company's tax liability below the minimum tax. Mr. Stickel further pointed out that any per-taxable-barrel credits not used in the year incurred are forfeited. He said they cannot be carried forward and cannot be refunded and that that is true of any credits under this section of the tax code. For example, he continued, in FY 20 a little over \$1.3 billion of per-taxable-barrel credits are generated based on the amount of production, and in calculating the production tax liability the companies can claim a little over \$1.2 billion. Mr. Stickel drew attention to the \$22 million in additional tax credits against liability shown on the chart and explained that this includes some small producer credits and prior year credits. He said the total tax after credits is then calculated by subtracting the credits from the higher of the tax, which is the \$1.76 billion net profits tax, to arrive at a total tax after credits of \$481.3 million for FY 20.

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MR. STICKEL moved to slide 15 and outlined step 8, adjustments and total production tax paid to the state. He explained that the \$43 million in adjustments includes prior year tax payments and refunds, private landowner royalty tax, hazardous release conservation surcharge, tax revenue from ANS gas production, and any net tax liability from Cook Inlet production. He said the estimated total [production] tax paid to the state is then calculated by adding the \$43.4 million in other adjustments to the \$481.3 million in total tax after credits, to arrive at a total forecast of \$524.7 million in 2020. That represents the

total cash that DOR is estimating to the general fund from production tax in the budget year, he added.

MR. STICKEL, responding to Co-Chair Tarr and Representative Hopkins, explained that the figure of \$2.80 represents the estimated production tax after credits per taxable barrel of North Slope oil production.

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REPRESENTATIVE SPOHNHOLZ recalled Mr. Stickel describing the gross value reduction (GVR) as an incentive for new development and that it is [a flat \$5 per-taxable-barrel] credit. She asked how long this incentive lasts and to what projects it applies.

MR. STICKEL replied that the GVR is a provision that excludes either 20 or 30 percent of the gross value of production from the production tax value calculation for certain new fields. It is 20 percent for any qualifying new field, he said, or 30 percent if a field is comprised exclusively of state-issued leases with greater than 12.5 percent royalty. Currently all the GVR production is receiving a 20 percent rate, he continued. He noted that this benefit expires after seven years of production or any three years with greater than \$70 ANS price.

[3:01:19 PM](#)

REPRESENTATIVE RAUSCHER recalled Mr. Stickel stating "if" a company decides to use the [per-taxable-barrel] credit. He said he would think it would be automatic and would just happen when the barrels are produced.

MR. STICKEL responded that when filling out its production tax form and the calculations, the company chooses to claim the credits to which it is entitled. He said there are certain provisions where a company may elect to use one credit or another credit to best serve the company's interest.

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REPRESENTATIVE TUCK brought attention to slides 12 and 13 and inquired whether he is correct in understanding that a company could either do the gross minimum tax method or do the net tax and gross value reduction method.

MR. STICKEL answered correct. He noted that the gross minimum tax shown on slide 12 actually functions as a tax floor, and the

company pays the higher of, in terms of the tax before credits. Drawing attention to slide 12, he said the minimum tax that DOR is estimating for FY 20 is \$394 million before credits. Bringing attention to slide 13, he said the net tax [DOR is estimating] is \$1.76 billion. He explained that the higher of these two calculations becomes the tax before credits.

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COMMISSIONER TANGEMAN pointed out that the company doesn't get a choice - both [the minimum tax and the net tax] are calculated and then the company pays the higher of the two.

REPRESENTATIVE TUCK asked what percentage of the \$1.759 billion is the gross minimum versus the net tax and gross value.

MR. STICKEL replied he would get back to the committee with that calculation.

[3:04:32 PM](#)

REPRESENTATIVE HOPKINS inquired as to how much of the \$8.81 in transportation cost is the TAPS tariff. He surmised the TAPS tariff is fairly static as opposed to the other shipping costs.

MR. STICKEL offered his belief that the TAPS tariff is in the range of \$5-\$6 per barrel.

REPRESENTATIVE HOPKINS offered his understanding that the TAPS tariff is the majority, 50-60 percent, of the \$8.81.

MR. STICKEL confirmed the TAPS tariff is the largest portion, but said he doesn't have the breakout before him. He stated he would get back to the committee with that information.

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CO-CHAIR TARR reviewed the questions for which DOR would be getting answers back to the committee. She pointed out that the addendum to the presentation provides the share between the federal, state, and municipalities, as well as some historical information. She said the committee would have DOR return to continue the rest of the presentation.

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**ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:07 p.m.