

SENATE FINANCE COMMITTEE
January 23, 2020
9:01 a.m.

[9:01:37 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Lyman Hoffman
Senator Donny Olson
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Mike Barnhill, Acting Commissioner, Department of Revenue; Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue; Colleen Glover, Director, Tax Division, Department of Revenue; Senator Cathy Giessel; Senator Gary Stevens.

SUMMARY

^REVENUE FORECAST - DEPARTMENT OF REVENUE

[9:04:38 AM](#)

MIKE BARNHILL, ACTING COMMISSIONER, DEPARTMENT OF REVENUE, introduced himself. He stated that he was available to answer questions, specifically about the bonding issues in the Department of Revenue (DOR). He discussed his background. He shared that he was a lawyer by trade, and had worked for the state since 1998. He continued to share his work history with the state.

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

Co-Chair Stedman shared his work relationship with Mr. Stickel.

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COLLEEN GLOVER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, introduced herself, and shared her work history with the state.

Acting Commissioner Barnhill noted that he worked the year prior for the Office of Management and Budget (OMB).

Co-Chair Stedman stated that he was glad that Acting Commissioner Barnhill was in his current position.

Mr. Stickel discussed the presentation, "Fall 2019 Revenue Forecast" (copy on file). He stated that the goal of the presentation was to give a high level overview of the revenue forecast of the state. He stated that there were some additional slides at the end of the presentation.

Mr. Stickel highlighted slide 3, "Revenue Forecast: 2019 to 2021 Totals." He shared that the total state revenue was forecast-stable at around \$11 billion per year. He explained that state revenue was presented in four broad categories consistent with budget documents. He shared that unrestricted general fund (UGF) revenue was available for appropriation by the legislature for any purpose, and was the subject of most budget discussions. He shared that UGF was approximately \$5.4 billion in FY 19, and was forecasted just over \$5 billion in both FY 20 and FY 21. He announced that most of the forecast presentation, and most of the budget debate centered on the UGF category. He stated that designated general funds (DGF) was technically available for appropriation, but those revenues were customarily appropriated for different sources. He shared that the alcohol tax revenue was customarily appropriated for alcohol and drug abuse treatment and prevention. He remarked that the other restricted revenue category, which were revenues that were less discretionary in nature, because of debt covenants, constitutional provisions, or

other provisions that put a firmer restriction on using the revenue. He stated that there was also the federal revenue category. He explained that all federal receipts had some provisions from the federal government in how those revenues could be used.

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Mr. Stickel looked at slide 4, "Relative Contributions to Total State Revenue: FY 2019":

- Total State Revenue: \$11.1 billion
- Investment Earnings: 36.2 percent
- Federal Revenue: 29.9 percent
- Petroleum: 23.7 percent
- Other Revenue: 6.5 percent
- Non-Petroleum Corporate Income: 1.1 percent
- Fisheries: 1.1 percent
- Tourism: 0.9 percent
- Mining: 0.5 percent

Co-Chair Stedman asked for more insight of the investment earnings.

Mr. Stickel replied that the 36.2 percent represented the share of the \$11.1 billion of total revenue that was attributed investment. He pointed to slide 3, which showed that investment earnings fell into a few different categories. He noted that the unrestricted portion, which was \$2.8 billion in FY 19, was primarily the Permanent Fund transfer to the general fund. He shared that the \$1.1 billion of other restricted investment revenue represented both earnings on the constitutional budget reserve (CBR), and any Permanent Fund earnings above the transfer to the general fund.

Co-Chair Stedman wondered whether the transfers used the POMV.

Mr. Stickel replied in the affirmative, and shared that there was a slide that would examine the Permanent Fund calculation.

Mr. Stickel addressed slide 5, "Unrestricted Petroleum Revenue Forecast: 2019 to 2021 Totals." He stated that the slide focused on the petroleum revenue. The category of

revenue took in \$2 billion in FY 19, but would decrease over the next two years.

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Co-Chair Stedman asked for a brief explanation about the royalty deposit to the Permanent Fund. He explained that there was a statute and a constitutional obligation.

Mr. Stickel replied that, under the state constitution, the Permanent Fund received 25 percent of all royalties and related revenues from minerals. The minerals included oil, gas, and any mining royalties. He stated that there was a statute that provided for leases issued after 1980 would have an additional 25 percent of royalties deposited to the Permanent Fund. He explained that those leases under statute, 50 percent of the royalties were deposited to the Permanent Fund. He furthered that following the statute results in approximately 30 percent of petroleum royalties were deposited into the Permanent Fund. He stated that following the constitutional dedication would result in 25 percent of royalties deposited into the Permanent Fund. He noted that the difference amounted to approximately \$75 million in FY 20; and \$68 million in FY 21.

Co-Chair Stedman remarked that the issue would come back to the table later in the budgetary process, and possibly in order of operations. He shared that there was a struggle with the funding through the statutory obligation of the royalties.

Mr. Stickel stressed that only the constitutional deposit was made in FY 19. He furthered that the full statutory deposit was made in the FY 20 budget. The forecast assumed that the statutory deposit would be made in FY 21 and beyond.

Senator Wielechowski looked at the corporate income tax, and wondered how the number would change if BP transferred its assets to Hillcorp.

Mr. Stickel responded that the BP - Hillcorp transaction was incorporated into the forecast, but that was as much detail as could be given.

Senator Wielechowski queried the transaction number.

Acting Commissioner Barnhill explained that there were two statutes in law that required the Department of Revenue (DOR) Tax Division to keep the particulars of taxpayer information and tax rate of returns confidential. He stated that DOR was advised by the Department of Law (LAW) that all that could be said with respect to the transaction was that it had been modeled and included in the Revenue Sources Book, but they could not give specific numbers, because it would violate the statute.

Co-Chair Stedman shared that the model would be shared, and there was a rough percentage of ownership known. Therefore, there could be some estimated numbers to measure the impact without using any confidential information.

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Acting Commissioner Barnhill stressed that DOR would be available to provide explanation and fiscal impact on proposed legislation that may change the tax law.

Co-Chair Stedman stated that the committee would work with the department.

Senator Hoffman expressed concern that it would drastically change the landscape to the state, and was worried about the blueprint that would devastate the revenue stream to the state.

Co-Chair Stedman stated that the corporate tax rate had changed from 34 percent to 21 percent since the implementation of the structure. He expected significant changes in cash-splitting arrangements. He noted that the applied corporate structure could show significant movements in cash.

Senator Wielechowski pointed out that the experts had asserted that the lack of transparency in the state was "shocking." He noted that the finance committee did not know the impact of the BP - Hillcorp transfer. He queried the impact of a worldwide apportioning of the corporate income tax opposed to separate accounting.

Co-Chair Stedman felt that the question was not a germane subject, but that the discussion could be had in the future.

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Acting Commissioner Barnhill replied that he would be willing to present on the subject.

Co-Chair Stedman stressed that the committee would not ask the department to breach confidentiality.

Acting Commissioner Barnhill would provide appropriate information.

Co-Chair Stedman stressed that there would not be a debate of the oil tax structure.

Senator Wielechowski wondered whether Acting Commissioner Barnhill would support changes to the transparency laws, so the information could be disclosed to Alaska.

Acting Commissioner Barnhill replied that he would not express support nor opposition. He stressed that it was a deep policy discussion.

Senator Bishop noted that the revenue was decreasing when there was an increase to the annual rents. He wondered whether the mining rent increase was factored into the Revenue Sources Book. He stated that he did not need an answer immediately.

Mr. Stickel looked at slide 6, "Changes to Two-Year Unrestricted Revenue Outlook." The slide highlighted some of the key changes in the revenue forecast compared to the spring forecast. He shared that Alaska North Slope (ANS) oil prices averaged 56 cents per barrel higher than what was forecasted in the spring, however unrestricted revenue came in approximately \$50 million below the forecast. The primary reason for the revenue shortfall was due to the production tax revenue, which came in \$140 million below the spring forecast for unrestricted revenue. He explained that it had to do with higher than expected refunds for the 2018 tax year. He furthered that, attributing some production tax payments to the CBR at the end of the year, which reduced the unrestricted portion. He explained that for FY 20, the forecast of ANS oil price was reduced by \$2.46 per barrel. He stated that for FY 21, the forecast of ANS oil price was reduced by \$7 per barrel to \$59 per

barrel. The lower oil price forecast was the primary reason for reductions to the revenue forecast in both years.

Co-Chair Stedman stressed that the forecast for FY 21 would be updated in the spring, and may change from the fall forecast.

[9:30:19 AM](#)

Mr. Stickel highlighted slide 7, "Total Percent of Market Value (POMV) Transfer Forecast":

- The statutory POMV rate changes to 5 percent beginning FY 2022.
- For FY 2019 -FY 2021 this rate is 5.25 percent.
- Forecast assumes Permanent Fund's long-term total return expectation of 7 percent.
- Differing Permanent Fund returns and petroleum deposits could significantly alter actual POMV.

Co-Chair Stedman announced that the discussion could continue in a meeting with the Permanent Fund Corporation.

Mr. Stickel agreed.

Mr. Stickel addressed slide 9, "Price Forecast Methodology":

- In prior years, the price forecast was formed based on input from an annual price forecasting session.
 - Depending on the year, the projections were used directly, altered based on market factors, or discarded entirely. This decision would be made in an ad-hoc manner.
- Beginning with the Fall 2019 Revenue Sources Book, the oil price forecast is based on the most recent futures market projections.
- For current and next fiscal year, using Brent crude oil futures traded on the Intercontinental Exchange (ICE).
 - Premium applied to Alaska North Slope crude for FY 2020
- New method allows for a more timely and transparent forecast.

Senator Wielechowski wondered whether there was a back test of the new methodology to determine its accuracy over the last 20 or 30 years.

Mr. Stickel replied that there was some back testing, and it showed that the futures market methodology was at least as accurate as the previous methodology.

Mr. Stickel highlighted slide 10, "Brent Forecasts Comparison as of 1/16/2020." He stated that the page showed four years of historical oil prices and projections from various sources. The price projections were shown in real terms, so not including inflation. He explained that in the month and a half since the preparation of the price forecast, the forecast was still in line with the futures prices. He announced that the futures market was examined in the morning, and running the prices today would still result in \$59 per barrel for FY 21. He noted that, over the long term, the forecast was slightly higher than the futures market, because of the decision to hold prices constant after the budget year. The forecast was slightly below the average of oil market analysts, and several dollars below the Federal Energy Information Agency projections. He reiterated that there was a range of prices forecasts available, and the DOR forecast looked reasonable and conservative.

Mr. Stickel addressed slide 11, "UGF Relative to Price per Barrel (without POMV): FY 2021." He asserted that the forecast would probably be wrong. He stated that the slide showed how unrestricted revenues would change based on different oil prices for FY 21. The forecast was \$59 per barrel, resulting in just under \$2 billion of unrestricted revenue that did not could the Permanent Fund transfer. He shared that each once dollar change to the oil price, resulted in approximately \$30 million to \$35 million change in unrestricted revenue over the course of the year.

Co-Chair Stedman asked about the switch between gross and net tax.

Mr. Stickel stated that a slide would address that question.

Mr. Stickel discussed slide 13, "Production Forecast Methodology":

- Ten-year oil production forecast for the Revenue Sources Book is developed internally by DOR and DNR.
- Official forecast is most likely value taken from a range of possible outcomes consistent with industry best practice.
- Consists of oil volumes produced from three categories of wells/fields:
 - o Currently Producing
 - o Under Development
 - o Under Evaluation

Mr. Stickel highlighted slide 14, "North Slope Petroleum Production Forecast." The official case was used for the revenue forecast, which had production declining slightly over the next few years, and recovering to the \$500,000 barrels per day. He noted the slight difference in treating natural gas liquids, which were used in enhanced oil recovery. The barrels were produced at Prudhoe Bay and injected in the Kuparuk reservoir to support oil production. The slide assumed 10,000 barrels per day of the natural gas liquids. The projection numbers in the Revenue Sources Book did not include the barrels, because they were not delivered into the Trans-Alaska Pipeline System (TAPS)

Mr. Stickel looked at slide 16, "Allowable Lease Expenditures: Overview":

- Costs of production (i.e. allowable lease expenditures) are deductible against gross revenues to calculate net taxable revenues.
 - o Includes both operating and capital costs.
 - o If a company has insufficient revenues (i.e. net operating loss), remaining (or excess) lease expenditures can be carried forward into a future tax year.
 - o Capital costs are not depreciated for production tax purposes.
This means that taxes are reduced by development costs prior to production, but are then higher once production starts.
- If 35 percent of the net taxable revenues are less than 4 percent of the gross revenues, the minimum tax is due.

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Mr. Stickel addressed slide 17, "North Slope Allowable Lease Expenditures." He stated that the slide showed a ten-year history and forecast of the allowable lease expenditures are for the North Slope. The cost forecasts were developed using several sources, including detailed projections provided by the operators of every unit. He stated that he also examined historical spending trends and public information. He explained that when dealing with some of the new fields, there was a risk factor applied to the costs of those fields in agreement with the production forecast. He noted that, looking back over the last decade, both operating and capital expenditures peaked in FY 15 and declined with falling prices in the following years. He announced that allowable operating expenditures were \$2.9 billion in FY 19, and there was an expectation that it would remain fairly stable with a slight decline in the upcoming year. He stated that it would level out around \$3 billion by FY 24 as new fields come online. He shared that allowable capital expenditures were \$2.2 billion on the North Slope in FY 19, which was the first year of increases after three down years in a row. He remarked that there was an expectation of capital expenditures to peak at \$3.6 billion in FY 22, with spending on large new developments like Pikka and Willow. He shared that it would then taper off later in the decade. He noted that in the out years that showed capital expenditures declining, there was significant opportunity to increase those forecasts as new developments enter into the forecast.

Co-Chair Stedman asked how the numbers were determined.

Mr. Stickel replied that the historical information came from production tax returns.

Co-Chair Stedman surmised that the forecasted expenditures could change according to changing economic conditions. He stated that the forecast should be considered a best guess.

Mr. Stickel agreed. He stated that it was only pertaining to projects included in the production forecast.

Co-Chair Stedman felt that the committee would revisit the slide, and have a discussion with the Department of Labor and Workforce Development (DLWD).

Senator Hoffman queried the correlation between capital expenditures and investment for exploration.

Mr. Stickel replied that exploration costs were included in the capital expenditure numbers.

Senator Hoffman assumed that after 2022 to 2029, there would be a \$1.5 billion reduction, and potentially a large portion of that would be less exploration in Alaska.

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Mr. Stickel replied that the forecast assumed a level of ongoing exploration, which was fairly similar to the recent couple of years. The reduction in capital expenditures in the forecast had to do with the expectation of significant spending on several new developments over the upcoming two years. He noted that there were no large new developments in the forecast to take up the level of spending in the later years.

Co-Chair Stedman requested a breakdown of Senator Hoffman's request on the capital expenditures and its components.

Mr. Stickel stated that there was a slide in the addendum that provided additional detail, and agreed to provide further information.

Mr. Stickel looked at slide 18, "North Slope Transportation Costs." He explained that the slide showed the costs of pipelines, including TAPS and marine transportation to move oil from the North Slope to market on the west coast. He shared that transportation costs were deducted from the gross value calculation for both tax and royalty purposes. He explained that, in general, transportation costs varied with production. He furthered that as volume decreased, costs on a per barrel basis increased. He noted the cost increase from FY 10 to FY 14, as production declined, before leveling off as production held around 500,000 barrels per day. He noted the changes in how the pipeline tariffs were calculated, which contributed to the reduction shown in FY 19.

Senator Bishop wondered whether Alyeska was still in their strategic reconfiguration in FY 10 to FY 14, which added to part of the increased cost that should be lower than the transportation costs going forward.

Mr. Stickel replied in the affirmative.

Co-Chair Stedman noted the difference in the percentage and the actual dollars, at roughly \$1.5 billion spent in shipping. He requested a breakdown on that information to understand the underlying total cost without the additional capital expenditures.

Mr. Stickel agreed to provide that information.

Ms. Glover highlighted slide 20, "Tax Credits for Purchase Status." She stated that the slide showed the credits that could be purchased by the state.

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Co-Chair Stedman surmised that the credits were created several years prior over a period of time, but had mostly since been terminated. He noted that there was a bill pending of roughly \$740 million in liability. He queried the required statutory amount, if the bill was paid in FY 20.

Acting Commissioner Barnhill replied that, for purposes of the forecast, the economics research group assumed that the state would take a break in FY 20. The state would issue debts with a payoff of the outstanding balance on the books in FY 21.

Co-Chair Stedman shared that, in the current year, there was nothing in the budget for the liability. He queried the amount of the statutory payment in the current year.

Mr. Stickel replied that it was approximately \$100 million to \$200 million, but agreed to provide that information.

Co-Chair Stedman offered the concept of \$150 million. He stressed that the bill had not yet been paid.

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Acting Commissioner Barnhill remarked that the legislature and past administrations developed an idea to try to attract smaller producers to come to Alaska to do business. He stated that there were multiple programs imbedded in that idea. He shared that the state would pay some portion of the business's expenses in cash. He noted that, since

the inception of the program, the state had a practice of paying off those credits in cash in a timely manner.

Co-Chair Stedman stressed that it was not a discussion of credits, rather it was a discussion of liability. He remarked that there was an open ended question about resolution before the end of the current legislative session.

Co-Chair von Imhof noted that, like other statutes, sometimes the legislature ignores them. She stressed that the legislature was the appropriating body. She looked at the \$750 million in outstanding liability, and shared that she was part of the 2017 effort to end the cash credit program. She shared that the bill made available allowances for a robust secondary market to purchase the credits. She noted that the certificates had been purchased in the secondary market at a steep discount. She wondered whether it had affected some of the \$750 million balance.

Acting Commissioner Barnhill replied in the affirmative, and deferred the details to Ms. Glover.

Ms. Glover continued that she did not know the price of the credits that were being sold on the secondary market. She stated that the balance was dynamic, so the credits could be used against a production tax liability. She did not have the exact number of what had been transferred or sold. She remarked that there was a requirement in statute to provide which credits the state purchased in the previous calendar year. She agreed to provide that draft soon.

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Co-Chair von Imhof wondered whether a possible \$150 million tax certificate would be removed if it was satisfied on the secondary market.

Ms. Glover replied that it would reduce what would be available for purchase.

Co-Chair Stedman surmised that it would not be available for purchase if it was used against their tax liability.

Ms. Glover agreed, but it would not be available for purchase.

Senator Bishop appreciated the conversation, because he had constituents that were owed the money.

Senator Wielechowski remarked that the tax credit statute was a discretionary statute. He wondered whether the unpaid Permanent Fund Dividend (PFD), which was a mandatory statute, be considered a debt.

Co-Chair Stedman felt that it was not a germane question.

Acting Commissioner Barnhill replied that the dynamic and context of the discussions had been about how to deal with the statutes that suggested payments of certain amounts. He stressed that there was not enough money to pay all of them, so there was always a conversation about how to move forward. He stressed that the administration's view was that Governor Dunleavy believed that the state should follow the law with respect to computation of PFDs. He stressed that Governor Dunleavy was not opposed to a change in the PFD statutes, but he wanted it to be approved by the vote of the people.

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Co-Chair Stedman stressed that the committee would stay on the revenue source subject. He remarked that if there was a desire to have a meeting on policy calls and policy differences, there would be a scheduled meeting to go into great depths on those differences.

Ms. Glover displayed slide 21, "Tax Credit Bonding Update":

- House Bill 331 created a Corporation that would purchase outstanding oil and gas tax credits at a discount, and spread the funding out over several years through issuance of bonds.
- The Corporation has not issued any bonds due to pending litigation.
- The Alaska Supreme Court heard oral arguments on September 12, 2019. The court has not committed to a decision date.
- If court rules in favor of state, Corporation will issue bonds up to \$700 million in FY 2020 to finance purchase of tax credit certificates

- No funds appropriated in FY 2020 operating budget for purchase of tax credits outside of bonding program.

Ms. Glover discussed slide 23, "Oil and Gas Production Tax Audit Update":

- Audit Status Update:
 - 2013 audits completed in 1stquarter 2019
 - On track for backlog reduction timeline:
 - 2014 audits complete by 3rdquarter 2020
 - 2015-2017 audits complete by 3rd quarter 2021
 - 2018-2019 audits complete by end of 2022
 - Maintain 3-year audit cycle on go-forward basis
- Procedural Improvements:
 - Documented audit plans approved by taxpayer
 - Scheduled routine communications during all phases of the audit
 - Leveraging Tax Revenue Management System (TRMS)
 - Work papers generated from TRMS

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Co-Chair Stedman wondered whether there was a difference in the workload of the audit when there is a price below the trigger point of the net profits in the gross tax calculation. He asked whether it accelerated the ability for the department to conduct audits.

Ms. Glover replied in the affirmative. She noted that there was a plan to do the FY 15 and FY 16 audits together.

Co-Chair Stedman wondered whether the department saved the data on capital and operating expenditures for future use in keeping track of the activities in the basin when the industry was in the minimum tax calculation.

Ms. Glover replied that the information was reported to the department on a monthly basis.

Co-Chair Stedman wondered whether the department would consider shortening the audit timeline to three years.

Acting Commissioner Barnhill replied that, from a policy perspective, three years was appropriate. He understood

from a legislative perspective, there could be a discussion about the subject.

Senator Wilson queried the amount from the last year's audits had been deposited into the CBR.

Ms. Glover referred to the Revenue Sources Book (copy on file). She explained that the information was on table 2-3. She noted that for FY 19, there was \$181 million deposited into the CBR, which was primarily tax and some royalty. She stated that the forecast for FY 20 was \$200 million for tax and royalty settlements for the CBRF.

Senator Wilson stressed that he wanted to examine the potential outstanding balance of the CBR.

Co-Chair Stedman noted that the auditor would address some of those issues.

[10:15:57 AM](#)

Acting Commissioner Barnhill thanked the committee for the conversation, and felt that all the questions were good questions. He looked forward to supporting the committee's efforts.

Co-Chair Stedman shared that he had a preliminary conversation with a consultant.

Mr. Stickel looked at slide 26, "Alaska North Slope Transportation Costs: FY 1996 -FY 2019." He noted that the blue line showed the average transportation costs in real terms, excluding inflation. He stated that the transportation costs were fairly stable from the 1990s to 2011. Those costs increased from 2011 to 2014, and had decreased since then. He remarked that transportation as a share of the ANS price from 2005 through 2014, which were the higher oil price years, accounted for less than 10 percent of the ANS price. He stressed that now that prices were in a lower price regime, the state had been above that level for the last several years.

Senator Wielechowski queried the reason for the large spike from 2014 to 2016.

Mr. Stickel replied that part of the increase in cost was reduced production.

10:20:18 AM

Mr. Stickel highlighted slide 27, "Capital Expenditures History Compared to Past Forecasts." He stated that the chart showed thirteen years of historical North Slope capital expenditures and the two-year forecast of capital expenditures made each fall. He shared that capital expenditures tended to come in lower than projected, as projects were scaled back. He noted that capital spending was a budget allowance.

Mr. Stickel addressed slide 28, "Operating Expenditures History Compared to Past Forecasts." He remarked that operating costs tended to come in higher than projections.

Co-Chair Stedman felt that the department could work to show the projection versus reality.

Mr. Stickel discussed slide 29, "North Slope Oil Patch Historical Employment." He stated that slide showed employment in the North Slope oil patch.

Mr. Stickel looked at slide 30, "GVR Eligible Units versus Non-GVR Eligible Units":

- Gross Value Reduction (GVR) allows a company to exclude 20 percent or 30 percent of the Gross Value at the Point of Production (GVPP) from the net tax calculation.
- Areas that qualify for GVR include North Slope leases and property:
 1. Unitized after January 1st, 2003
 2. Unitized before January 1st, 2003 and meet certain conditions
 3. Added to existing participating areas after January 1st, 2014 and whose production can be distinguished from the rest of the participating area's production
- Only available for the first seven years of production, ends early if ANS prices average above \$70 per barrel for any three years.
- Oil qualifying for GVR also receives a flat \$5 Per-Taxable-Barrel Credit rather than the Sliding-Scale Credit available for most other North Slope production.

- As a further incentive, this \$5 Per-Taxable-Barrel Credit can be applied to reduce tax liability below the minimum tax floor, assuming that the producer does not seek to apply any Sliding-Scale Credit.

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Co-Chair Stedman shared that there would be more detail at a future meeting.

Mr. Stickel looked at slide 31, "North Slope Allowable Lease Expenditures Breakout." He stated that the slide may address some earlier questions from Senator Hoffman.

Mr. Stickel highlighted slide 32, "Forecasted Impact of IMO 2020 Regulations":

- Alaska North Slope (ANS) crude oil is currently trading at a \$2 premium compared to Brent.
- Reasons for the premium include:
 - Low production of Iranian and Venezuelan crudes
 - Low production of ANS crude in recent months
 - IMO 2020, new low-sulfur marine fuel standards beginning January 2020
- International Maritime Organization (IMO) 2020 has significant and relatively foreseeable effect on ANS prices, so our ANS price includes a premium for FY 2020.
- We anticipate the component of the ANS premium due to IMO 2020 will subside by FY 2021.

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Mr. Stickel addressed slide 33, "Minimum Tax -Net Tax Crossover: FY 2021." He remarked that the exact crossover point varied for each company, but the slide represented an aggregated calculation.

Co-Chair Stedman requested a break over point with a comparison slide with the production tax value.

Mr. Stickel agreed to provide that information.

Co-Chair von Imhof queried a model that showed what would occur if expenditures and other assumptions would affect the blue line. She noted that there was a relatively consistent slope, so she inferred that the current tax

structure allowed for some space for expenditures. She wondered whether the line would be affected by different assumptions.

Mr. Stickel replied in the affirmative, and agreed to provide further information.

[10:35:02 AM](#)

Co-Chair Stedman noted that there was conversation about the breakeven point. He requested some sensitivity tables to see what factors would alter that breakeven point.

Mr. Stickel agreed to provide that information.

Co-Chair von Imhof stressed that the state was in a zone of preproduction.

Co-Chair Stedman felt that the sensitivity tables should be provided in a timely manner.

Senator Wielechowski remarked that the initiative only applied to the three legacy fields, so should not affect the internal rate of return of any of the new developments. He asked for the impacts of the non-legacy fields.

Co-Chair Stedman felt that the response should be provided during that specific subject.

Mr. Stickel discussed slide 34, "'Count the Cash': Petroleum Net Fiscal Impact." The slide should the net to the state treasury by removing tax credits and the potential value of any carry-forward earned lease expenditures.

[10:40:06 AM](#)

Co-Chair Stedman explained that he requested the chart, because there was a desire to examine the impact of the credits.

Senator Hoffman felt that there could be an addition that addressed what would occur after the petroleum revenue to the state was considered "net", because there was a difference of the profit per barrel.

Co-Chair Stedman wanted to see the impact of all the expenditures and all the revenue, and the cash available.

Mr. Stickel agreed to provide that information.

Mr. Stickel highlighted slide 35, "FY 2021 "Count the Cash" Petroleum Breakdown." The slide showed the addition of various sources of cash coming into the state, and the illustration of the value of potential offsets to that cash.

Co-Chair Stedman assumed that the chart reflected the final column on the previous slide.

Mr. Stickel agreed.

Co-Chair Stedman expressed concern, because he could not take the \$330 million that was owed in the previous tax credits, because it would result in a distortion.

Mr. Stickel looked at slide 36, "State Petroleum Revenue by Land Type." He stated that the slide showed the state revenue from different land types.

Co-Chair Stedman discussed the following day's agenda.

#

ADJOURNMENT

[10:48:01 AM](#)

The meeting was adjourned at 10:47 a.m.