ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE
September 13, 2021
1:03 p.m.

MEMBERS PRESENT

Representative Josiah Patkotak, Chair
Representative Grier Hopkins, Vice Chair
Representative Zack Fields
Representative Calvin Schrage
Representative Sara Hannan
Representative George Rauscher
Representative Mike Cronk
Representative Ronald Gillham
Representative Tom McKay

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 3005
"An Act relating to the oil and gas production tax; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB3005
SHORT TITLE: OIL AND GAS PRODUCTION TAX
SPONSOR(s): REPRESENTATIVE(s) TARR

08/30/21	(H)	READ THE FIRST TIME - REFERRALS
08/30/21	(H)	RES, FIN
09/13/21	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

REPRESENTATIVE GERAN TARR
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: As prime sponsor, presented an informational PowerPoint on HB 3005.

CTION NARRATIVE

1:03:19 PM

CHAIR JOSIAH PATKOTAK called the House Resources Standing Committee meeting to order at 1:03 p.m. Representatives McKay, Cronk, Hopkins, Rauscher, Hannan, Gillham, Schrage, and Patkotak were present at the call to order. Representative Fields arrived as the meeting was in progress.

HB3005-OIL AND GAS PRODUCTION TAX

1:03:55 PM

CHAIR PATKOTAK announced that the only order of business would be HOUSE BILL NO. 3005, "An Act relating to the oil and gas production tax; and providing for an effective date."

1:04:30 PM

REPRESENTATIVE GERAN TARR, Alaska State Legislature, as prime sponsor of HB 3005, presented an informational PowerPoint. She presented slide 2, "CONTEXT," which read, "Only constant is change," and she proposed thinking of the oil and gas industry as a dynamic environment in which circumstances always change. She proceeded to slide 3, "HOW OIL TAX WORKS," which displayed a chart showing values for a $70 barrel of oil:

Transportation: $10.00
Gross Value at the Point of Production (GVPP): $60.00
Subtract Lease Expenditures (43.55.165): $30.00
Production Tax Value (PTV): $30.00
Tax at 35%: $10.50
Subtract Per Barrel Credit: $8.00
Tax Per Net: **$2.50**
Minimum Tax: $2.40
HIGHER OF: $2.50

REPRESENTATIVE TARR explained that subtracting $10.00 in transportation costs from the $70 barrel of oil leaves a $60 "gross value at the point of production" (GVPP). Allowable lease expenditures of $30 are then deducted, leaving a net profit, otherwise known as production tax value (PTV), of $30. The tax rate of 35 percent is the applied, yielding $10.50; the per barrel tax credit of $8 is then applied, resulting in a net tax of $2.50. She pointed out that the tax owed is either the higher of the calculated tax, or a minimum tax of 4 percent of GVPP, or $2.40 per barrel.

1:10:14 PM

REPRESENTATIVE TARR presented slide 4, "SCENARIO 1 - HIGHER SPEND," which displayed a possible tax scenario showing the end tax result of oil companies spending more on leases:

Transportation: $10.00
Gross Value at the Point of Production (GVPP): $60.00
Subtract Lease Expenditures (43.55.165): $40.00
Production Tax Value (PTV): $20.00
Tax at 35%: $7.00
Subtract Per Barrel Credit: $8.00
Tax Per Net: -$1.00
Minimum Tax: **$2.40**
HIGHER OF: $2.40

REPRESENTATIVE TARR stressed that this scenario would result in a default to the minimum per-barrel tax, as the higher of the two calculations. She then presented slide 5, "SCENARIO 2 - HIGHER PRICE," which showed the same cost and tax breakdown as the previous slides, but assuming a price of $80 per barrel. The slide showed the cost breakdown and tax results for low spending on lease expenditures (first number) and the high-spend scenario (second number):

Transportation: $10.00, $10.00
Gross Value at the Point of Production (GVPP): $70.00, $70.00
Subtract Lease Expenditures (43.55.165): $30.00, $40.00
Production Tax Value (PTV): $40.00, $30.00
Tax at 35%: $14.00, $10.50
Subtract Per Barrel Credit: $8.00, $8.00
Tax Per Net: **$6.00**, $2.50
Minimum Tax: $2.80, **$2.80**
HIGHER OF: $6.00, $2.80

REPRESENTATIVE TARR said she's seen lease expenditures range from $20 to $60 per barrel. She explained that a price per barrel of $80, in a situation where lease expenditures are low, yields a tax of $6.00 per barrel; if lease expenditures increase by $10, she said, from $30 to $40, the tax would default to the minimum of $2.80. She stressed that all scenarios presented use the current 4 percent minimum tax. Representative Tarr presented slide 6, "SCENARIO 3 - LOWER PRICE," which showed the costs and taxes if the price of oil was $60 per barrel, with the first number calculated in the low-spend scenario, and the second number calculated in the high-spend scenario:

Transportation: $10.00, $10.00
Gross Value at the Point of Production (GVPP): $50.00, $50.00
Subtract Lease Expenditures (43.55.165): $30.00, $40.00
Production Tax Value (PTV): $20.00, $10.00
Tax at 35%: $7.00, $3.50
Subtract Per Barrel Credit: $8.00, $8.00
Tax Per Net: -$1.00, -$4.50
Minimum Tax: **$2.00, $2.00**
HIGHER OF: $2.00, $2.00

REPRESENTATIVE TARR pointed out that the lower price of oil would result in defaulting to the minimum tax of 4 percent of GVPP in either scenario.

1:13:49 PM

REPRESENTATIVE TARR said that the combined forces of the price of oil and spending practices have caused a consistent default to the minimum tax; additional investments won't be made in the lease until oil prices are higher. She recalled that oil prices were approximately $100 per barrel when SB 21 was being written, and she opined that the same tax system may not have been written in a significantly lower-priced environment. She then presented slide 7, "WHAT BILL DOES," which read as follows [original punctuation provided]:

υ PAUSE ALL COMPONENTS OF OIL AND GAS TAX SYSTEM FOR TWO YEARS
υ FUNCTIONS AS A GROSS TAX VS NET PROFITS TAX
υ RAISES MINIMUM TAX FROM 4% TO 6%
υ PROVIDE MORE PREDICTABLE REVENUE FOR TWO YEARS
υ MINIMIZE ADMINISTRATIVE BURDEN
υ DEFAULTS TO CURRENT TAX AFTER TWO YEARS

1:20:16 PM

REPRESENTATIVE HANNAN asked whether "pause all components" in the first bullet point of slide 7 would mean the current tax structure would be suspended for two years, using instead the gross tax with a minimum of 6 percent.

REPRESENTATIVE TARR responded "yes."

REPRESENTATIVE HANNAN concluded that the pause would sunset in two years unless some legislative action was taken.

REPRESENTATIVE TARR agreed.

REPRESENTATIVE HANNAN asked pointed out that changing a tax system on a biannual basis is problematic, yet the bill seems to be set up specifically to do so. She then referred to the bullet point "minimize administrative burden" and expressed that it seems restructuring a system for only two years would not do so.

REPRESENTATIVE TARR explained the proposal is clear on the temporary nature of the change, instead of making statutory changes that may not work. Regarding the administrative burden, she said the audits of lease expenditures are part of the current system, which would no longer be necessary under the proposed legislation.

REPRESENTATIVE HANNAN expressed concern that the two-year sunset didn't match with the two-year taxation; there's a substantial lag, she said, between two years of oil production and two years of tax collection.

REPRESENTATIVE TARR responded that the delay results from substantiating the costs. Typically, she said, tax changes are synced to calendar years; however, fiscal years cause the lag. Tax payments are made more regularly than that, she said, and the audit is what takes the most time.

1:25:37 PM

REPRESENTATIVE RAUSCHER expressed that the proposed legislation would negatively affect oil companies when prices are low, or when they're "running at a loss." He talked about wanting to stabilize the industry, and he characterized HB 3005 as "destabilizing." He asked whether any analysis has been done on how the proposed legislation would affect the oil and gas markets in Alaska.

REPRESENTATIVE TARR allowed that oil companies may not agree with the minimum tax due to net profits. She said the revenue forecast book for the spring 2021 forecast showed that if the prices dipped dramatically, consideration would be different. She said the original version of SB 21 included a 10 percent tax, which was reduced to 4 percent, and she discussed Alaska's reliance on oil taxes as the only source of revenue.

REPRESENTATIVE RAUSCHER expressed that the industry is having problems finding investors due to stability issues.

1:31:15 PM

REPRESENTATIVE HOPKINS discussed oil production investment in the North Sea, and he said the area has a fluid tax system that reacts to fluctuations in price. He asked Representative Tarr took specific price demands into account when considering changes to the tax structure.

REPRESENTATIVE TARR discussed the importance of oil tax legislation and operating from a place of caution. She described modeling several different scenarios, hoping to replicate one that would have the influence she hoped for, and she expressed that she's "learned enough to feel a little bit concerned" about the implications of various models. She pointed out that with the lack of a state income tax, there needs to be a broad-based revenue measure, and she acknowledged the public's discomfort with income and sales taxes. She stressed that the two-year pause proposed in HB 3005 would buy some time to be thoughtful in studying possible legislation.

1:44:39 PM

REPRESENTATIVE RAUSCHER what kind of impacts HB 3005 would have on new development.

REPRESENTATIVE TARR responded that if a company is not currently an oil producer in Alaska, it would be important to ensure the company retains the ability to have carry-forward losses; when the company transitions from development to production, she said, the carry-forward losses would be used against tax liability. With respect to existing tax payers, she said, the legislature would need testimony about possible impacts.

REPRESENTATIVE RAUSCHER asked whether the proposed sales tax would raise industry tax, since it includes services.

REPRESENTATIVE TARR replied that it's a "sales and use tax," and she said she's hoping to get a proportional breakdown from the Department of Revenue.

1:47:49 PM

REPRESENTATIVE FIELDS asked whether the additional permanent fund dividend (PFD) would total approximately $250 per person.

REPRESENTATIVE TARR replied that she didn't do a per person calculation.

REPRESENTATIVE FIELDS said, "If that is the goal ... I think it's just good for the public to understand ... how much you actually increase a dividend check with a given amount of taxation."

1:48:25 PM

REPRESENTATIVE TARR said she would share the information regarding the proportional breakdown.

1:49:01 PM

REPRESENTATIVE CRONK expressed concern about oil companies' investment hesitancy.

1:49:46 PM

CHAIR PATKOTAK discussed being able to consider many options.

1:51:02 PM

REPRESENTATIVE TARR remarked that her math shows a dividend increase of $238 per person, and she added that the per-barrel tax credit is linked to the 35 percent tax rate. She said the value of establishing a fiscal plan is in the ability to diversify the state's revenue stream and protect against changes in any one industry.

1:53:26 PM

CHAIR PATKOTAK announced that HB 3005 was held over.

1:53:56 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 1:54 p.m.