

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

January 20, 2022

11:33 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Andy Josephson
Representative Andi Story
Representative Calvin Schrage

MEMBERS ABSENT

Representative Adam Wool
Representative Mike Prax
Representative David Eastman

COMMITTEE CALENDAR

OVERVIEW(S): GOVERNOR'S 10-YEAR PLAN

- HEARD

PRESENTATION(S): FALL 2021 REVENUE FORECAST SUMMARY

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JOHN CROWTHER, Deputy Commissioner
Office of the Commissioner
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Introduced Dr. Pascal Umekwe.

PASCAL UMEKWE, PhD, Petroleum Reservoir Engineer
Division of Oil and Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation, titled "Fall 2021 Production Forecast."

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

POSITION STATEMENT: Provided a PowerPoint presentation, titled "Fall 2021 Revenue Forecast Presentation."

BRIAN FECHTER, Deputy Commissioner
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Commented briefly during the Department of Revenue's presentation.

ACTION NARRATIVE

[11:33:58 AM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 11:34 a.m. Representatives Schrage, Story, Josephson, and Spohnholz were present at the call to order.

OVERVIEW(S) : GOVERNOR'S 10-YEAR PLAN

[11:35:38 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be the Governor's 10-Year Plan overview.

[11:36:14 AM](#)

JOHN CROWTHER, Deputy Commissioner, Department of Natural Resources, introduced the presenter, Dr. Pascal Umekwe.

[11:36:22 AM](#)

PASCAL UMEKWE, PhD, Petroleum Reservoir Engineer, Division of Oil and Gas, Department of Natural Resources, delivered a PowerPoint presentation, titled "Fall 2021 Production Forecast" [hard copy included in the committee packet]. He stated that the presentation would provide a 10-year petroleum forecast. He began by recapping fiscal year 2021 (FY 21), stating that there was a 2 percent increase in production on the North Slope between FY 20 and FY 21. Because a slow decline was anticipated, this growth was significant. He continued that there was a 20 percent growth in production within the Milne Point Unit; the Point Thompson Unit had over a 40 percent

growth; production held flat for Kuparuk River Unit which extracts over 100,000 barrels of oil per day; Greater Mooses Tooth 1 had over a 50 percent drop due to reservoir challenges; there has been no drilling at Oooguruk since 2016; Colville River Units had peak rates between 1,000 to 32,000 barrels per day; Pikka is expected to produce 80,000 barrels per day in phase 1 and 40,000 barrels per day after that; and the Willow project plans to submit a supplemental environmental impact statement, with the first oil announcement expected in 2025 or 2026. Its peak production rate is expected to be around 130,000 barrels per day. He remarked that these rates would add to the declining base production.

[11:44:13 AM](#)

DR. UMEKWE stated that the forecast generated for statewide production this year is expected to be around 500,000 barrels of oil per day. He stated that the Department of Revenue receives three levels of oil production projections, with 555,000 barrels of oil per day being the high figure and 430,000 barrels of oil per day being the low figure. Moving to slide 4, he pointed out that the blue area in the graph represents the current production outlook for oil fields that are currently online, while the orange area represents production expected from wells drilled in FY 22. The gray area represents production from projects that will play a more significant role in the next five to ten years. He related that the department focuses on generating accurate near-term forecasts and realistic long-term forecasts when generating production outlooks for oil fields within the state. He warned that these forecasts represent a snapshot, and changing conditions would require updates. He said that other factors shaping the forecast include environmental, social, and governance issues.

[11:49:26 AM](#)

CHAIR SPOHNHOLZ thanked Dr. Umekwe.

PRESENTATION(S) : FALL 2021 REVENUE FORECAST SUMMARY

[11:49:40 AM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be the Fall 2021 Revenue Forecast Summary presentation.

[11:50:10 AM](#)

DAN STICKEL, Chief Economist, Tax Division, Department of Revenue, provided a PowerPoint presentation, titled "Fall 2021 Revenue Forecast Presentation" [hard copy included in the committee packet]. He stated that the presentation addresses a recent public monthly update from the department. He continued that if the expected unrestricted general fund revenue is above or below 10 percent of the official revenue forecast for the next two years, a notification will be issued to interested parties. Because of higher oil prices, he said, there will be \$281 million of additional revenue for FY 22, and potentially \$467 million for FY 2023.

[11:52:23 AM](#)

MR. STICKEL gave background on the fall revenue forecast published in December, reviewing the factors affecting revenue. He listed that the gross domestic product is down slightly from 2021; industries which impacted employment the most include leisure, hospitality, transportation, and mineral extraction; bankruptcies and foreclosures are holding below pre-COVID-19 pandemic levels; wages and salaries have recovered to pre-COVID-19 pandemic levels; housing starts will end in 2021 on par with pre-COVID-19 pandemic levels; and mortgage delinquency rates were lower than pre-COVID-19 pandemic levels.

MR. STICKEL, addressing the forecast's assumptions, advised that the economic impacts of the pandemic are uncertain, and the department has developed a plausible scenario to forecast these impacts. He stated that [the forecast] assumes stable growth in investment markets, and he noted that the federal revenue forecast has incorporated stimulus funding since November 30, 2021. He stated that this partially reflects the Infrastructure Investment and Jobs Act funding. He continued that the assumed price per barrel of oil for FY 22 is \$75.72 and the price per barrel for FY 23 is \$71.00. The assumed rate of return for the permanent fund rate is 29.7 percent. He remarked that \$29.8 billion in FY 21 is the highest state revenue in history.

MR. STICKEL, addressing revenues in the state, said unrestricted general funds are revenues which are available for appropriation by the legislature. He added that designated general fund revenues are technically available, but they are customarily appropriated for a specific purpose. Other restricted revenues are not available for appropriation. He stated that the primary source of investment revenue for the state is the permanent fund; however, additional permanent fund earnings above the 5 percent transfer are considered restricted. Because the federal

government places restrictions on the use of various federal funds, he said, federal receipts are shown as restricted revenue. He highlighted that total revenue forecasted in FY 22 is \$13.4 billion and FY 23 is \$14.6 billion.

[12:06:28 PM](#)

MR. STICKEL, moving to slide 10, explained that the unrestricted revenue forecast is the typical focus concerning revenue and the state budget. He said that investment revenue is the largest source of unrestricted revenue for the state and is forecasted to generate \$3.1 billion for FY 22, and \$3.4 billion for FY 23. He pointed out petroleum revenue is expected to increase to \$2.3 billion for FY 22. Slide 11 summarizes some of the key changes between the spring and fall forecasts for unrestricted revenue. He stated that these revenue numbers do not include the sweep of the higher education investment fund.

[12:11:49 PM](#)

MR. STICKEL said that slide 13 shows a graph of the 10-year projection of the estimated percentage of market value (POMV) transfer from the permanent fund to the general fund. The transfer is expected to grow to \$4.6 billion by FY 31, which is based on a long-term earnings assumption of 6.2 percent for the fund and a 5 percent POMV payout starting in FY 22. He continued to slide 14, which shows the unrestricted petroleum revenue history and forecast. The four main sources for petroleum revenue are property tax, corporate income tax, production tax, and royalties. Because of the recession from the pandemic, he said, petroleum corporate income tax was low at \$19.4 million in FY 21. He stated that this is expected to rise to \$145 million by FY 22 and \$240 million in FY 23. He explained that Alaska's corporate income tax automatically adopts federal provisions into its tax code, including carryback loss provisions. The net impact of those refunds was \$2.4 million in FY 21 and \$49.6 million in FY 22. Production tax is the state severance tax on oil and gas. For the North Slope, it consists of a net-profits tax with a gross minimum tax floor. Due to the current oil price, he said, there is an expectation that most major producers will pay above the minimum tax in the future.

MR. STICKEL explained that petroleum companies calculate 35 percent of a net-profits tax and can deduct up to \$8 per taxable barrel as a credit. The numbers reflected on the slide represent the net tax received by the state after the deduction

of tax credits. Oil and gas royalties are the largest source of unrestricted petroleum revenue and are expected to bring in around \$1 billion in each of the next two years. These numbers only represent the royalties allocated to the general fund. There is also a significant portion of royalties that are dedicated to the permanent fund dividend and the school fund that are not shown on slide 14.

MR. STICKEL moved to slide 15, which shows the largest contributor of unrestricted non-petroleum revenues is taxes. He stated that in a typical year the largest portion of this is the corporate income tax, which generated a little over \$100 million in FY 21; however, for FY 22 this was only \$15 million. He explained that the significant decrease can be attributed to companies struggling from the pandemic recession, as well as carryback refunds from the Coronavirus Aid, Relief, and Economic Security Act tax provisions. He said \$120 million is expected in FY 23. Other taxes include fines and forfeitures, charges for services, rents and royalties, and dividends to the state from state corporations. The refined fuel surcharge is customarily appropriated to support programs with the Department of Environmental Conservation, however; beginning in FY 22 it will be reflected as general fund revenue in the forecast, which explains the zeros in the table under those years.

[12:22:44 PM](#)

MR. STICKEL, in response to Representative Spohnholz, said that the productivity of each new oil field has many factors which contribute to output. The production tax has a specific incentive called the "gross value reduction," which allows companies to reduce their tax liability for the first several years of oil production. He said that the system is set up to minimize the immediate tax burden on new fields, which is an incentive. He explained that gross value reduction applies for the first seven years of production or ends early after three years of production if the price of oil exceeds \$70 per barrel.

[12:26:08 PM](#)

BRIAN FECHTER, Deputy Commissioner, Department of Revenue, noted that while the severance tax may not "kick in" for a benefit to the state for a few years, there are numerous other taxes, such as property taxes and royalties, which provide benefits to the state.

[12:27:14 PM](#)

The committee took an at-ease from 12:27 p.m. to 12:29 p.m.

[12:29:08 PM](#)

REPRESENTATIVE STORY noted that there is a growth in revenue for the first time in years, which may relieve pressure on the downward cuts which have been made in some areas.

CHAIR SPOHNHOLZ commented that this is the first time the revenue forecast has increased in six years. She noted that legislation passed in 2018 has allowed the legislature to use permanent fund earnings for government operations. She expressed excitement for the opportunity to address the needs unmet during the pandemic and potentially pay down the Constitutional Budget Reserve.

[12:32:55 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 12:33 p.m.