SENATE FINANCE COMMITTEE
February 12, 2021
9:01 a.m.

9:01:51 AM

CALL TO ORDER

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

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman (via teleconference)
Senator Donny Olson
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

Senator Natasha von Imhof

PRESENT VIA TELECONFERENCE

Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue.

SUMMARY

^OIL AND GAS SEVERANCE TAX - ORDER OF OPERATIONS

9:03:25 AM

Co-Chair Stedman discussed the topic of the meeting and emphasized that Alaska had one of the most complex oil tax structures on the planet. He mentioned that some considered the system to be overly complex and led to difficulties and unknown results. He informed that the state had multiple oil basins, but the focus of the day's meeting would be mostly on the North Slope. He relayed that corporate data was consolidated, which made it challenging in numerous areas. He stressed that each company was different in ownership, corporate structure, and profitability.

9:04:16 AM

DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), discussed the PowerPoint, "Order of Operations Presentation; Senate Finance Committee" (copy on file). He expressed that the purpose of the presentation was to give a high-level overview of how the state's oil and gas production tax worked for the North Slope.

Mr. Stickel looked at slide 2, "Acronyms":

ANS-Alaska North Slope
ANWR-Arctic National Wildlife Refuge
Avg-Average
Bbl-Barrel
CBRF-Constitutional Budget Reserve Fund
CIT-Corporate Income Tax
DOR-Department of Revenue
FY-Fiscal Year
GVPP-Gross Value at Point of Production
GVR-Gross Value Reduction
NPR-A National Petroleum Reserve Alaska
OCS-Outer Continental Shelf
PTV-Production Tax Value
SB21-Senate Bill 21, passed in 2013
TAPS-Trans Alaska Pipeline System
Thousand-Thousands

Mr. Stickel pointed to slide 3, "Agenda":

- Oil and Gas Revenue Sources
  - o How production tax fits in
  - o FY 2019 FY 2023 oil and gas revenues
- Production Tax Calculation “Order of Operations”
  - o Detailed walk through of each step of tax calculation
  - o Defining commonly used terms
  - o Focus on North Slope oil
  - o FY 2019 FY 2023 comparison

Mr. Stickel reiterated Co-Chair Stedman's point that Alaska had one of the most complex oil and gas tax regimes. He asserted that the presentation was not about policy, but rather how the system worked.

Mr. Stickel looked at slide 4, "Overview":

- Alaska’s severance tax is one of the most complex in the world and portions are subject to interpretation and dispute.
- These numbers are rough approximations based on public data, as presented in the Fall 2020 Revenue Sources Book and other revenue forecasts.
- This presentation is solely for illustrative general purposes.
- Not an official statement as to any particular tax liability, interpretation, or treatment.
- Not tax advice or guidance.
- Some numbers may differ due to rounding.

Mr. Stickel discussed slide 5, "Oil and Gas Revenue Sources":

- Royalty based on gross value of production
    - o Plus bonuses, rents, and interest
    - o Paid to Owner of the land: State, Federal, or Private
    - o Usually 12.5 percent or 16.67 percent in Alaska, but rates vary

- Corporate Income Tax based on net income
    - o Paid to State (9.4 percent top rate)
    - o Paid to Federal (21 percent top rate, used to be 35 percent)
    - o Only C Corporations* pay this tax

- Property Tax based on value of oil and gas property
    - o Paid to State (2 percent of assessed value or “20 mills”)
    - o Paid to Municipalities credit offsets state tax paid

- Production Tax based on “production tax value”
    - o Paid to State calculation to follow

Mr. Stickel pointed out that corporate income tax was based on worldwide income that was apportioned to Alaska and applied to many but not all the companies operating in the state. He explained that the production tax applied to all production in the state, regardless of landowner, and any production within the state's three-mile limit. He noted there would be a slide towards the end of the presentation that would address how different taxes and royalties applied to each different category of land in the state.

9:08:45 AM

Senator Wielechowski made note of the 9.4 percent top rate for corporate income tax listed on the slide. He asked for the total corporate income tax for the North Slope.

Mr. Stickel replied that the 9.4 percent was the marginal tax rate. He discussed the effective tax rate and cited that some companies paid more than 9.4 percent, and some companies paid less. In aggregate, the average across the North Slope was slightly less than 9.4 percent.

Senator Wielechowski asked if the tax rate signified 9.4 percent of gross profits.

Mr. Stickel explained that the 9.4 percent corporate income tax marginal rate applied to Alaska's taxable income. He continued that income was determined by looking at a company's modified worldwide income and apportioning the amount to Alaska based on a factor that was the state's share of production, property, and sales and tariffs. The items in Alaska were compared to the worldwide figures, and the worldwide income was apportioned to the state to determine Alaska taxable income.

Senator Wielechowski asked if the system allowed for corporations to write off expenses that occurred outside the state.

Mr. Stickel explained that determining worldwide net income of a company would incorporate expenses anywhere in the world. Similarly, Alaska expenses would be incorporated into the net income determined for corporate income taxes at a federal level and in other states.

Senator Wielechowski asked if there had been any past analysis of how much it had cost or earned the state to change from separate accounting to worldwide apportionment.

Co-Chair Stedman thought Senator Wielechowski's question had two parts. He recalled that the current process had been in place since the Hammond Administration. He asked Mr. Stickel to define separate accounting and how it was different than proportional accounting.

9:12:12 AM

Mr. Stickel explained that there were two methodologies for corporate income tax that had been used in the state in the past. The methodology of apportionable income currently used in Alaska was widely used across the United States for corporate income taxes in various states. The method started with federal taxable income (with some modifications) and then used the federal income tax return as a starting point to determine a state taxable income using apportionment factors. He continued that in the past, Alaska had used what is known as separate accounting, which attempted to account for revenues and expenditures just in the state.

Mr. Stickel affirmed that the state had done analysis of the potential impacts of apportionment versus separate accounting but did not have the information at hand.

Co-Chair Stedman thought the committee would address the subject at a later time if there was a corporate income tax bill for the committee's consideration.

Senator Wielechowski requested the information pertaining to the analysis between worldwide apportionment and separate accounting, and what it may have cost or earned the state since the change in practice.

Co-Chair Stedman asked Mr. Stickel to provide the requested information. He thought it might be helpful to clarify about corporate income tax deductions and how amortization or depreciation potentially affected the calculation of production tax.

Mr. Stickel offered to provide further information as a response or as a future presentation. He discussed production tax expenditures and noted the state did not have depreciation of production tax. The state did have depreciation of corporate income tax, and the topic would be addressed in upcoming slides.

Co-Chair Stedman clarified that both production tax and corporate income tax deducted operating and capital expenditures.

Mr. Stickel agreed.

Co-Chair Stedman thought it was nice to keep things clear. He thought it was important to establish that the tax structures were different and for different purposes.

Senator Wilson deferred his question regarding oil income tax structure.

Co-Chair Stedman thought there would be more meetings on the topic, and there was a potential bill coming. He had asked departments to prepare.

9:16:05 AM

Senator Wielechowski observed that the slide pointed out that only C corporations paid corporate income tax. He asked how many S corporations (or non-C corporations) were currently on the North Slope, and how much tax revenue the state was losing or not collecting as a result.

Co-Chair Stedman thought a separate discussion was needed to address Senator Wielechowski's entire question. He asked Mr. Stickel to discuss the number of different types of corporations and the aggregate dollar balance between the types.

Mr. Stickel thought the question of the relative proportion of C corporations and non-C corporations was important, because the corporate income tax applied to C corporations. There were other types of corporations that were considered pass-through entities for tax purposes, whereby the entities did not pay a corporate tax but instead passed through income to the individuals. He used a subchapter S corporation and a partnership as two examples of pass-through entities, both of which were not taxed at the state level as Alaska did not have a personal income tax.

Mr. Stickel did not have available numbers of individual companies. He shared that for FY 22, approximately 70 percent of production was estimated to come from C corporations, while approximately 30 percent of production was estimated to come from non-C corporations (pass through entities).

Co-Chair Stedman asked for Mr. Stickel to put further analysis into addressing Senator Wielechowski's question, so as to discuss the topic in more detail at future meetings.

Mr. Stickel offered that he would be happy to provide additional analysis if there was an associated bill to come before the committee.

Co-Chair Stedman was sure that the committee would also be considering a look-back provision on separate accounting versus apportionment accounting.

Senator Wielechowski was not aware of whether a bill would come before the committee and requested to see analysis of C corporations versus non-C corporations regardless.

Co-Chair Stedman did not see an issue with requesting the information.

Co-Chair Stedman explained that the corporate tax issue was one of four component parts in examining the split of sharing the profits with the state. He stressed that changes to any of the four components would make a difference in the balance of the fiscal structure. He observed that there had been significant changes in recent years, and it was important for the committee to stay abreast of the magnitude and direction of movements.

9:21:03 AM

Mr. Stickel looked at slide 6, "Oil and Gas Revenue Sources: Five Year Comparison of State Revenue." He stated that the slide showed all sources of state revenue for FY 19 through FY 23; the oil price; and ANS oil production that went into the numbers. He stated that the property tax on the slide represented only the state's share. He remarked that there were several hundred million dollars of oil and gas property tax that accrued to municipalities. He noted that the corporate income tax only applied to the C-corporations only. He remarked that there were some temporary impacts for FY 20 - 22 that had to do with low oil prices and federal law changes as was discussed in a previous meeting related to the fall forecast. He noted that the production tax would be addressed in upcoming slides. He pointed out that the royalties included bonuses, rent, and related interest. He noted that there were settlements to the CBR fund, which were based on assessments or disputes regarding past years' production tax royalties, or other oil, gas, or mineral taxes. He stated that, under the state constitution, the revenues from settling the revenues or disputes were deposited to the Federal Reserve Fund. He stated that 50 percent of any shared royalties from the NPRA were shared with the state, but had special descriptions around its usage. He noted that there would be a bigger piece of the revenue picture beyond the time horizon of the slide, as the line item was forecasted to grow $94 million by FY 30 with increased production in NPRA.

Senator Wilson queried the impact of Covid-19 on the Alaska oil and gas industry, particularly as it related to production and federal regulatory changes, and its impact on the forecast over the upcoming four years.

Mr. Stickel replied that the impact of Covid-19 on the oil and gas industry was very significant in FY 20. He pointed out that there was an unprecedented drop in oil price. He noted that ANS oil prices fell below zero for one day in April 2020. He stressed that the combination of the low price and the difficulty in figuring out the operations through the Covid-19 situation led several companies to suspend activities and reduce production. He remarked that, since then, prices and production had rebounded.

Senator Wilson asked about any federal changes in the corporate tax structure that may have impacted Alaska's future financial standing in some of the companies.

Mr. Stickel replied that the CARES Act, passed at the federal level, included some changes to the corporate income tax. He explained that the change allowed companies to tax net operating losses in calendar years 2018, 2019, or 2020, and carry those losses back up to five years and obtain refunds for prior year paid taxes. He stated that the CARES Act refunds were incorporated into Alaska's corporate income tax forecast for FY 21 and FY 22.

9:25:55 AM

Senator Wielechowski wondered whether the companies were allowed to write-off their net losses on their state and federal taxes in the CARES Act refunds.

Mr. Stickel replied that he may not fully understand the question, but stated that any net operating loss would be based on worldwide net income as a portion to Alaska.

Senator Wielechowski surmised that a company with a net operating loss had the ability to write that loss off on the federal taxes, as a result of the CARES Act. He further explained that Alaska's state law was tied to the federal taxes, so the company could do an additional write-off on their state taxes.

Mr. Stickel explained that a company would be able to potentially claim refunds for prior year taxes at both the state and federal level if a company had a net operating loss in one of the three years.

Senator Wielechowski wondered whether the state had been "writing checks" to the companies for refunds of the net operating losses. He also asked how much the state had issued for the net operating losses.

Mr. Stickel agreed to provide that information.

Co-Chair Stedman recalled that sometimes checks were issued, and other times it was a deduction on paperwork. He wondered whether there was a $60 million swing in the oil and gas basin.

Mr. Stickel replied in the affirmative. He explained that the oil and gas corporate income tax had an impact of approximately $6.6 million for FY 21, and approximately $62.9 million FY 22. The net impact over the two years was approximately $70 million. He stated that the $20 million was for FY 22 was the net result of what would have been a positive revenue of approximately $40 million.

Senator Wielechowski queried the breakeven price for companies producing at Prudhoe Bay.

Mr. Stickel responded that he did not have a field-specific number, but agreed to calculate a number and provide that to the committee.

Senator Wielechowski requested a breakeven price for the legacy fields. He wanted to know what the price of oil needed to be for the industry to breakeven.

9:30:02 AM

Co-Chair Stedman asked that the requested information be broken down into as many component parts as possible.

9:30:30 AM

Senator Wielechowski wondered whether the department considered a net operating loss a credit.

Mr. Stickel referred to the prior question about the breakeven price. He stated that the major producer breakeven price was around $35 per barrel, but the value varied for each individual producer and year. He stated that the presentation would show how individual producers had very different economics. In response to the most recent question, he stated that the net operating loss was not considered a credit.

Co-Chair Stedman urged caution in using the word, "credit", because it could be used for multiple angles.

Senator Wielechowski queried the breakeven price of each individual legacy field. He wondered whether the Prudhoe Bay breakeven price was $35 per barrel.

Mr. Stickel replied that the $35 per barrel price was an aggregate number across several fields. He would follow up with more detail around that number.

Co-Chair Stedman stated that the department had been asked to work on different price ranges to examine the movement of the cost factors. He understood that some of the fields could not be separated out, but asked that there be an explanation included as to why a further breakdown could not be established. He understood the confidentiality and statutory requirements that must be met.

Senator Wielechowski surmised that there was still a $10.32 profit per barrel in FY 21.

Co-Chair Stedman felt that the presentation needed to get back on track in order to understand the bottom line.

9:34:55 AM

Mr. Stickel agreed to provide context around the discussed numbers. He highlighted slide 7, "Fiscal System: Overall Order of Operations":

Royalties (State, Federal, or Private)

Property Tax
Production Tax
State Corporate Income Tax
Federal Corporate Income Tax

Mr. Stickel addressed slides 8 and 9, "Production Tax 'Order of Operations': FY 2022." He stated that the slide was based on the income statement of the production tax as referenced in the appendix of the Revenue Sources Book. He noted the DOR forecast of average oil prices of $48 per barrel and average daily production of $439.6 thousand barrels per day. There was then a calculation of the annual number of barrels and the dollar value of that production. He stated that the focus of the next several slides would be how the total annual value of $7.7 billion worth of oil was split and taxed. He stressed that it was an aggregation and an illustration. He explained that actual taxes were based on monthly filings and annual calendar year returns that were then subject to audit. He remarked that the slide only referred to ANS oil, which was the state's largest production tax revenue.

Mr. Stickel looked at the income statement. He stated that the first step was to calculate taxable barrels. He explained that any royalty barrels were subtracted regardless of any ownership of those barrels. Typical royalty rates were one-eighth or one-sixth, but rates varied throughout. He stated that federal and private land royalty was also subtracted in the slide. He stressed that barrels were also subtracted that were not subject to tax due to their location in federal waters, of which there were small number in Northstar and Liberty production. He stated that after subtracting the royalties and non-taxable barrels, the taxable barrels were estimated at 141 million barrels for a total value of $6.8 billion.

Co-Chair Stedman recalled that in years past the committee had trouble arriving at that number, so there had been much progress.

Co-Chair Bishop wondered whether Alaska's royalty-in-kind was included under the "royalty and other federal barrels."

Mr. Stickel replied in the affirmative. He explained that the royalty included both royalty in-kind and royalty in value.

9:39:32 AM

Mr. Stickel addressed slide 10, "Production Tax 'Order of Operations': FY 2022." He stated that the term, "GVPP" was widely used in production tax and royalty. He remarked that it was also referred to as the well-head value. He remarked that transportation costs were deducted from the taxable value to determine the GVPP. He explained that the GVPP began with the sales price at market, then deducted each individual piece of the transportation cost to net back to the well-head value. The oil sale showed $48 on the west coast, then there was a deduction of the various transportation costs to get to an average well-head value of $38.09 per barrel estimated for FY 22. The total GVPP for tax purposes of $5.4 billion.

Co-Chair Stedman recalled the previous questions related to corporate income tax, and requested that the department examine the transportation issue. He felt that there may be some federal legislation that would allow the transportation costs to artificially increase, thereby increasing the deduction. He stressed that there may be a federal policy change that would affect the transportation costs just like other tax deductions. He queried the cost of transportation and the relationship with the cost of the production through TAPS.

Mr. Stickel replied that the total cost of transportation for FY 22 was estimated at $9.91 per barrel. He explained that as production values declined, the average cost per barrel would increase, because some of the cost of operations of TAPS had fixed maintenance costs.

Co-Chair Stedman surmised that it was advantageous to have more volume down TAPS, in order to decrease the per barrel transportation costs. He wondered whether the transportation cost of $1.4 billion was a relatively static number.

Mr. Stickel stated that Co-Chair Stedman was "generally correct", and explained that higher production would put downward pressure on the per barrel transportation costs.

Mr. Stickel highlighted slide 11, "Production Tax 'Order of Operations': FY 2022." He stated that the production tax that was used was a modified net profits tax, so companies were allowed to deduct both capital and operating expenditures in calculating their production tax. He stated that capital expenditures used IRS guidelines, however for production taxes there was no depreciation so companies could immediately deduct all capital costs in the year. He stated that operating expenditures were any allowable expenditures that were not a capital expense. He stated that there were important terms in lease expenditures: allowable and deductible lease expenditures. He explained that allowable lease expenditures were generally any costs that were directly associated with producing oil, but not everything was allowable under the tax code. He stated that some examples of non-allowable lease expenditures were financing costs, lease acquisition costs, and costs of resolving disputes. He stated that deductible lease expenditures was a term used for presentation purposes, and was not defined in any statute or regulation. The deductible lease expenditures was the portion of the allowable lease expenditures allowed in the tax calculation for the year incurred. He shared that any lease expenditures beyond the deductible lease expenditures were referred to as non-deductible lease expenditures, which would turn into carry-forwards that could potentially be used to offset a future year tax liability.

9:46:26 AM

Senator Wielechowski requested a breakdown of the deductible per field operating and capital expenditures.

Mr. Stickel replied that one of the issues in obtaining that information was that the expenditures were calculated at a company level, so Alaska's production taxes were not levied on a field basis rather they were levied on a company basis. He agreed to provide as much information as possible.

Senator Olson wondered whether there was a limit to the non-deductible carry-forwards per year.

Mr. Stickel replied that there was not a limit to the amount of lease expenditures that could be earned in a carry-forward, but there were some limits of how far into the future a carry-forward could be "carried." He explained that after the eighth or eleventh year after earned, the carry-forwards began to lose value over time.

Co-Chair Stedman noted that the presentation included carry-forward expenditures. He stressed that the deductions and expenditures were not the same that were used in the corporate income tax.

Mr. Stickel pointed to slide 12, "Production Tax 'Order of Operations': FY 2022." He stated that the production tax value (PTV) was measure of net profit used for the production tax. He explained that each company calculated its PTV based on all the ANS activity, including all fields, investments, and new developments. The PTV was essentially the tax base for the production tax.

Mr. Stickel addressed slide 13, "Production Tax 'Order of Operations': FY 2022." He explained that there were two parallel tax calculations. He stated that the minimum tax was a tax floor calculation, and was 4 percent of GVPP when annual oil prices were $25 per barrel or more. He stated that in FY 22, the minimum tax was 4 percent times the gross value of $5.4 billion, or approximately $214.5 million.

9:50:44 AM

Mr. Stickel discussed slide 14, "Gross Value Reduction":

- Gross Value Reduction (GVR) is an incentive program for new fields.
- Available for the first seven years of production and ends early if ANS prices average over $70 per barrel for any three years.
- Allows companies to exclude 20 percent or 30 percent of the gross value from the net production tax calculation.
- In lieu of sliding scale Non GVR Per Taxable Barrel Credit, qualifying production receives a flat $5 GVR Per Taxable Barrel Credit.
- The $5 GVR Per Taxable Barrel Credit can be applied to reduce tax liability below the minimum tax floor, assuming that the producer does not apply any sliding scale Non GVR Per Taxable Barrel Credits.

Co-Chair Stedman surmised that the 4 percent floor was a "soft floor."

Mr. Stickel agreed. He explained that the 4 percent was a minimum tax calculation floor. He explained that a company could not pay below that floor if a company chose to use a sliding scale for taxable barrel credits.

Co-Chair Stedman surmised that the five dollar credit could be attributed to the fields that had the 20 or 30 percent GVR.

Mr. Stickel agreed. He explained that the five dollar per taxable barrel production tax credit applied to the same GVR eligible production that received the 20 or 30 percent GVR.

Co-Chair Stedman requested percentages of the production that could be expected to be attributed to the 20 or 30 percent GVR. He assumed that the remaining would total 100 percent.

Mr. Stickel replied that he was looking at figure 6-7 of the Fall 2020 Revenue Sources Book. He noted for FY 21, 8 percent of oil production was estimated to be eligible for GVR. He stated that the number increased to 23 percent by FY 27, and 27 percent in FY 28. He noted that as new developments come online, the forecasted share of production from GVR-eligible fields would increase.

Co-Chair Stedman queried the referenced page number.

Mr. Stickel looked at page 51 of the Fall 2020 Revenue Sources Book.

9:55:08 AM

Co-Chair Stedman stressed that there was a concern about the cash flow. He noted that there was a breakdown of the GVR-eligible fields, and wondered whether it split out the percentage of what would be exposed to each the 20 percent and 30 percent.

Mr. Stickel replied that he would provide that information.

Senator Wielechowski wondered whether a company could write off their production at Prudhoe Bay and Kuparuk if that company was spending $1 billion in NPRA.

Mr. Stickel replied that regardless of land type, a company with sufficient GVPP could have the investment in new production be considered a deductible lease expenditure.

Senator Wielechowski stressed that oil production at NPRA was not "equal", because developing companies could write off their existing fields. The result could be a cost to the state of hundreds of millions of dollars for years. He furthered that once the field went online, the state received virtually no royalties. He stressed that under the GVR, the state received virtually no taxes for at least seven years.

Mr. Stickel replied that it was a situational question that depended on the company, price of oil, and relative production.

Co-Chair Stedman understood that deductions created on areas of the basin without much revenue to the state was still subject to deductions. He felt that there may be better answers from consultants at Legislative Budget and Audit to model the different ownership interests. He asked that Mr. Stickel provide any possible information related to Senator Wielechowski's question.

Senator Wielechowski requested NPRA specifics about how much the state allowed in tax deductions in existing fields, the state revenue, and the projected revenues.

Co-Chair Stedman felt that sometimes the state had statutes which created "blocks." He shared that Point Thomson had significant expenditures in billions in credits and high tariffs with questionable economics. He requested as much of a breakdown of information as possible. He felt that there would be considerably more production being moved outside of the state-owned land, so there needed to be an understanding of the financial impact of that possibility.

10:00:33 AM

Mr. Stickel pointed to slide 15, "Production Tax 'Order of Operations': FY 2022." He explained that the slide looked at the calculation of net production tax. The net tax was based on production tax value times the 35 percent statutory tax rate. The GVR to the production tax value shown on the slide was only accounting for companies that had a positive production value. The companies with qualifying new production could reduce their GVPP for purposes of calculation the production tax value. The 35 percent tax rate was then applied to the production tax value after subtracting the GVR. He noted that in FY 22, there was an estimate that the 35 percent tax calculation would be approximately $367 million. He furthered that the higher of the gross minimum tax floor or the net tax, and in the displayed case the "higher of" was the net tax. He stated that the $367 million became the production tax before credit.

Co-Chair Stedman felt that there was some confusion around this subject. He noted that the tipping point changed depending on volume and expenditures. He felt that there would be a sliding scale on that issue in the future.

Mr. Stickel looked at slide 16, "Production Tax 'Order of Operations': FY 2022." He explained that the major credits were the per taxable barrel credits, which were two credits: one for GVR-eligible oil and one for non-GVR-eligible oil. The vast majority of oil that was non-GVR-eligible, but the GVR-eligible oil would increase as new fields come online. He stated that there was a sliding scale for non-GVR production for taxable barrels credits that ranged from zero to $8 per barrel of taxable production. The $8 per barrel credit applied when well-head values were less than $80 per barrel, which was currently the case, and was expected in the time horizon of the forecast. The sliding scale credits could not be used to reduce the tax below the minimum tax. He stressed that any company claiming that credit could not pay below the minimum tax. He explained that the GVR-eligible production had a flat $5 per taxable barrel production tax credit. The credit, in some instances, could be used to reduce taxes to below the minimum tax for companies that did not take any sliding scale credits. He explained that any of the per taxable barrel credits could not be carried forward or refunded. He explained that other tax credits applied against tax liability included small producer credits and some prior year credits earned back when the state gave credits for net operating losses.

Co-Chair Stedman looked at the Fall 2020 Revenue Sources Book, which showed $46 million in credit reductions on 55.23-A and -B, which was some comingled data. He wondered whether that was in the category of "other credits against liability."

Mr. Stickel replied in the affirmative.

10:05:08 AM

Senator Wielechowski noted that there was $7.701 billion of oil in TAPS, $7.68 billion in taxable barrels, and the gross value at the point of production was $5.38 billion. He announced that the state received $163.3 million was 3 percent of tax at the gross value of production, 2.4 percent at taxable barrels, and 2.1 percent tax of total oil being produced. He stressed that Alaska had a 35 percent tax rate, but only received 3 percent of the gross value at production. He stressed that adding the royalties resulted in the state receiving 13.9 percent of the total value of the oil. He wondered whether the state ever received a lower amount for oil. He felt that, by his calculations, the state was currently receiving half of what it had collected historically since the passage of SB 21.

Co-Chair Stedman felt that the question was to aggressive, but noted that there were some actuals from FY 19 and forecasted numbers for up to FY 23. He wanted to ensure that a DOR's upcoming presentation included a history as compared to the current numbers.

Senator Wielechowski understood that his question was aggressive, and stressed that the state could lose up to $1 billion per year. He felt that, if the state received its historic average for the resource, there would be an additional $1 billion by his calculation. He wanted an analysis done by the department, because they could not afford to "keep giving its money away."

Co-Chair Stedman stressed that the there were many other factors that contributed to the issue. He pointed out that there would be some help from the consultants because the price structure in the industry was constantly changing.

10:08:47 AM

Mr. Stickel discussed slide 17, "Production Tax 'Order of Operations': FY 2022." He explained that after the total tax after credits calculation, there were some other items that were added to reach the total production tax revenue received by the state in any given fiscal year. He detailed that the items included prior year tax payments or refunds, private landowner royalty tax, hazardous release surcharge, any taxes on natural gas on the slope as well as total Cook

Inlet tax liability, and any additional company-specific details.

Co-Chair Stedman asked if the $163.3 million shown on the slide as total tax paid to the state included Cook Inlet.

Mr. Stickel answered "yes" and affirmed that the $163.3 million was the net cash to the state from the production tax for the fiscal year.

Co-Chair Stedman thanked Mr. Stickel for clarity in the slide and presentation with regard to net cash. He asked for Mr. Stickel to address the $562.7 million in "Net New Lease Expenditures Earned and Carried Forward" listed at the bottom of the slide and how it might affect the state in the future.

Mr. Stickel said that the $562.7 million in non-deductible lease expenditures in FY22 were expected to be carried forward by companies that were not able to deduct the costs against production tax value in FY 22. The carry-forward could potentially be applied to reduce future year's tax liability.

Co-Chair Stedman asked whether the figure was cumulative or was annual for FY 22.

Mr. Stickel replied that the figure reflected the amount expected to be earned just for FY 22.

Co-Chair Stedman thought the cumulative figures were in the Revenue Source Book and asked about the page number.

Mr. Stickel relayed that page 76 (row 22 of Figure 84) of the Fall 2020 Revenue Sources Book had values for carried-forward credits balances and tax value of carried-forward annual losses.

10:11:56 AM

Mr. Stickel continued that the value in the table was the ultimate tax value, which signified the amount of the carry-forward loss times the 35 percent net tax rate.

Co-Chair Stedman thought the amount was forecast to go over $1 billion in 2024, and to approach $1.6 billion in 2030.

Mr. Stickel replied in the affirmative.

Co-Chair Stedman offered a quick note of explanation. He stated that the industry had to be allowed to deduct expenditures or the numeric would not work. He thought although the numbers were large and alarming, there was more to the equation.

Co-Chair Bishop highlighted Mr. Stickel's use of the word "potentially" when referencing new lease expenditures that could be earned and carried forward. He thought the word was key in discussing future deductions or production.

Mr. Stickel affirmed that a company would need to have sufficient future production and sufficient future value to apply the lease expenditures.

Mr. Stickel thought some might make note of the $163 million in total production tax and ask why it was lower than the minimum tax calculation of $215.5 million. He explained that the minimum tax was applied on a company-by-company basis. He noted that the forecast projected $48/bbl. Some companies would forego using sliding scale credits and use other credits to reduce payments below the minimum tax.

Co-Chair Stedman thought that net numbers were important for clarity.

Mr. Stickel looked at slide 18, "Order of Operations: Five Year Comparison." The slide showed a 5-year comparison including two years of history and two years of forecast. He pointed out that in FY 19 and FY 20 some taxpayers paid above the minimum tax. In FY 21 through FY 23, generally production companies were able to bring production tax down to the minimum tax. He elaborated that the forecast assumed that with projected oil prices some companies in all three years would choose to forego sliding scale credits and use other credits to pay below the minimum tax. He noted that the additional slides offered more detail.

Co-Chair Stedman asked Mr. Stickel to continue.

10:15:46 AM

Mr. Stickel pointed to slide 19, "Tax Calculation with Varying Non GVR Taxable Barrel Credit Rates: FY2022." The slide was an update of a slide from the previous year and showed how revenue would be impacted by different levels for the sliding scale per-taxable-barrel credit. Currently the credit was a sliding-scale credit for up to $8 per taxable barrel. The table showed what the FY 22 tax calculation would look like assuming different values of $5, $4, and $3 per taxable barrel.

Co-Chair Stedman asked Mr. Stickel to run the calculation using oil price at $50, $55, and $60/bbl.

Mr. Stickel relayed that he would be happy to provide the information.

Mr. Stickel continued to look at slide 19 and cited figures for the estimated production tax with per-barrel credit differences. He noted that the figures were not a policy recommendation, but rather an update of scenarios that were requested the previous year.

Mr. Stickel discussed slide 20, "Illustration Assuming a Single North Slope Taxpayer: FY 2022." The slide depicted what the tax calculation would look like if there was only a single taxpayer for the entire North Slope. He elaborated that currently some companies paid at or above the minimum tax while others chose to forego using sliding-scale credits and reduce payments below the minimum tax. As a result, for FY 22 the production tax forecast was less than the aggregate minimum tax calculation.

Mr. Stickel thought the slide illustrated that a single taxpayer would be expected to only use sliding scale credits to reduce tax liability down to the minimum tax but not below. In the illustration, total production tax in the treasury would be $229 million in FY 22 compared to $163 million in the official forecast. The conclusion in the slide highlighted the impact of individual company economics on the tax. Each of the taxpayers had a different portfolio of operation in existing fields, and a different portfolio of investments being made in exploration and development.

Co-Chair Stedman shared that he had worked with Mr. Stickel on how to present the information to the committee, including how to depict the minimum tax and net tax and how it might cross over. He had asked Mr. Stickel to assemble the slide depicting one taxpayer. He thought it was beneficial to see where some of the deductions occurred. He reiterated the need for clarity.

Mr. Stickel highlighted slide 21, "State Petroleum Revenue by Land Type." The slide illustrated how not all oil was the same. He explained that production tax, corporate income tax, and property tax all applied everywhere in the state except for federal waters that were beyond three miles offshore. Regardless of the ownership of the lands, the state taxes applied. He continued that royalty rate varied by ownership. He offered to go over each land type.

10:20:33 AM

Co-Chair Stedman felt that the reference sheet would be useful in the future when the committee was discussing deductions on some fields where the potential revenue source to the state was lower. He thought there some concern about why the deductibility was not also different. He thought the committee would delve more deeply into the topic at a later date. He expressed that he had been working with the department on a future presentation dealing with varying prices and cost structures. He thought a future presentation would shed light on how revenue in a basin looked at different prices.

Mr. Stickel thanked the committee for the opportunity to present.

Co-Chair Stedman thanked Mr. Stickel for his work. He stated he would work with the department on a future presentation.

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ADJOURNMENT
10:23:11 AM

The meeting was adjourned at 10:22 a.m.