

SENATE FINANCE COMMITTEE  
January 20, 2022  
9:00 a.m.

[9:00:38 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:00 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

ALSO PRESENT

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

PRESENT VIA TELECONFERENCE

Colleen Glover, Director, Tax Division, Department of Revenue.

SUMMARY

PRESENTATION: REVENUE FORECAST - DEPARTMENT OF REVENUE

Co-Chair Stedman noted that the committee heard the revenue forecast from the Department of Revenue (DOR) every year in the beginning of session. He remarked that //

^PRESENTATION: REVENUE FORECAST - DEPARTMENT OF REVENUE

[9:02:27 AM](#)

DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, relayed that he had worked with the state for 2004, and had been in the role of chief economist since 2016.

Co-Chair Stedman commented that Senator Hoffman was available online. He discussed meeting protocol.

[9:03:32 AM](#)

Mr. Stickel drew attention to an announcement that was released the previous day concerning internal updates on oil prices. He explained current futures market prices indicated an additional \$281 million in revenue for FY 22 and an additional \$467 million in FY 23. He explained that everything in the presentation was based on the official fall forecast released in December but based on current oil prices there could be extra money for FY 22 and FY 23.

Co-Chair Stedman commented that the committee would have to consider how to lock in an oil price to work with when drafting the budget. He said that historically the fall forecast would be used and then adjust accordingly to the spring forecast. He thought some policy work needed to be done for the legislature to have an agreed-upon figure to work with. He thought there could be a risk of different price numbers being used, which would be chaotic.

[9:06:53 AM](#)

Senator Wielechowski asked whether Mr. Stickel would be doing updates in the event of large market fluctuations that could affect the state's investment income.

Mr. Stickel mentioned a projection spreadsheet from the Alaska Permanent Fund Corporation (APFC) that was updated monthly. He shared that DOR looked to the UGF revenue and would send out notifications on a 10 percent variance from the official forecast.

Co-Chair Stedman clarified that the payout from the Permanent Fund used 5 percent POMV, with a 5-year lookback, and would not be affected by any variances. He warned that other tax revenue could be affected. He understood that if the variance was less than 10 percent - there would be no update.

Mr. Stickel answered in the affirmative.

Co-Chair Stedman reiterated the importance of having an agreed upon number.

9:08:27 AM

Mr. Stickel discussed the presentation "Fall 2021 Forecast Presentation," (copy on file).

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

1. Forecast Background, Economic Indicators, and Key Assumptions
2. Fall 2021 Revenue Forecast
  - Total State Revenue
  - Unrestricted Revenue
3. Petroleum Forecast Assumptions Detail
  - Oil Price
  - Oil Production
  - Oil and Gas Lease Expenditures
  - Oil and Gas Transportation Costs
  - Oil and Gas Credits

9:09:10 AM

Mr. Stickel showed slide 3, "Forecast Background and Key Assumptions."

Mr. Stickel referenced slide 4, " Background: Fall Revenue Forecast":

1. Historical, current, and estimated future state revenue
2. Discussion and information about major revenue sources
3. Prepared in accordance with AS 37.07.060 (b)(4), and supports long term plan under AS 37.07.020
4. Official revenue forecast used for Governor's budget proposal; updated in spring
5. Located at tax.alaska.gov

Mr. Stickel noted that the fall revenue forecast had been published in December 2021 and was the departments annual publication containing historical and forecasted revenues. Data had been gathered from the tax accounting system, the state accounting system, and numerous state agencies. He

shared those various models had been maintained within the economic research group for all the state's major revenue sources over the 10-year time horizon of the forecast. The forecast document fulfilled two statutory obligations; that the governor provides a revenue forecast for the current and coming fiscal year, and the statutory requirement for a long-term fiscal plan document out of the Office of Management and Budget (OMB). The fall forecast is used to underlie the initial budget proposal and was followed up by a spring forecast released in early April.

[9:10:43 AM](#)

Mr. Stickel turned to slide 5, "Key Alaska Economic Indicators":

1. Real State GDP: \$50.2 billion in Q3 2021 (annualized)
  - Down 0.6% from Q2 2021, up 0.2% from Q3 2020
2. Employment: 304,100 in November 2021
  - Up 7,200 (2.4%) compared to November 2020
3. Wages & Salaries: \$4.8 billion in Q2 2021
  - Up 10.8% from Q1 2021, up 6.6% from Q2 2020
4. Alaska Bankruptcies: 214 for calendar year 2021, 313 for calendar year 2020
  - Compared to 400 for calendar year 2019
5. Foreclosures: 78 in Q1 2021, 395 for calendar year 2020
  - Compared to 147 in Q1 2020 and 729 for calendar year 2019
6. Housing Starts: January -November: 1,496 in 2021 vs 1,335 in the same period for 2020
  - 1,493 for calendar year 2020 vs 1,689 for calendar year 2019
7. Delinquency Rates: 0.6% for mortgages 30-89 days delinquent, 0.4% for mortgages 90+ days delinquent at end of Q2 2021
  - Compared to 0.8% for mortgages 39-89 days delinquent, 0.6% for mortgages 90+ days delinquent for the same period in 2020

Mr. Stickel said that 4<sup>th</sup> quarter numbers for the GDP would be released in March. He said that compared to 2020, the state was up by approximately 7 thousand jobs and compared to the lows of the Covid recession the state was up by 26 thousand jobs; the state was still down by 51 thousand jobs from the pre-Covid highs in July 2019. He mentioned that

the biggest job losses were in the areas of hospitality, tourism, and oil and gas. He related that wages and salaries in the state had somewhat recovered from the Covid lows. He discussed federal help with housing during the COVID-19 pandemic. He said that programs with private entities and the government had helped to keep people in their homes.

[9:14:00 AM](#)

Senator von Imhof asked about a table to represent the seven items on slide 5, to better observe trends. She pondered the mortgage delinquency rate and wondered how much funding the Alaska Housing Finance Corporation (AHFC) had remaining from federal pandemic relief funds.

Co-Chair Stedman asked Mr. Stickel to bring the information to committee, and informed that AHFC would be before the committee and could speak to the remaining federal funds for mortgage relief.

[9:15:21 AM](#)

Mr. Stickel considered slide 6, "Fall Forecast Assumptions":

- The economic impacts of COVID-19 are uncertain; DOR has developed a plausible scenario to forecast these impacts.
- Key Assumptions:
  - o Investments: Stable growth in investment markets, 5.86% for FY 2022 and 6.20% for FY 2023+.
  - o Federal: The forecast incorporates stimulus funding as of 11/30/2021, partially reflecting IIJA funding.
  - o Petroleum: Alaska North Slope oil price of \$75.72 per barrel for FY 2022 and \$71.00 per barrel for FY 2023.
  - o Non-Petroleum: No explicit COVID-related adjustments for FY 2022 forward, except tourism; full recovery assumed by 2023.

Mr. Stickel noted that the department had been able to incorporate preliminary numbers related to forthcoming infrastructure funding and would review prior to the spring revenue forecast. He said that the futures market projected

\$68/bbl.. for FY 31. He stated that most economic activity had returned to pre-pandemic numbers except for the tourist industry.

[9:17:44 AM](#)

Co-Chair Stedman asked about the futures price assumption.

Mr. Stickel replied that the quoted number was \$68/bbl. in 2031, which was at the end of the ten-year horizon. An upcoming slide would address oil price specifically.

Co-Chair Stedman asked about looking back at the futures price yearly for the last eleven years. He did not believe that today's price could have been predicted 11 years ago.

Mr. Stickel agreed there was a lot of uncertainty around oil prices. He shared that the department had done analysis and found that the futures market tended to provide the lowest error rate.

Co-Chair Stedman expressed concerned that some could consider there was more certainty in the price than there actually was.

[9:19:34 AM](#)

Senator Olson asked to go back to slide 5. He considered the foreclosure rate in item 5 and wondered whether there was a difference between rural and urban Alaska.

Mr. Stickel was sure there was a difference and offered to provide more detail.

[9:20:18 AM](#)

Senator von Imhof asked about POMV projections being updated monthly. She worried about inflation eroding returns. She asked whether Mr. Stickel did anything internally to look at assumption for the next 36 moths assuming the inflation did not abate to pre-pandemic levels.

Mr. Stickel stated that the department did not make significant changes to the projections that came from the APFC. He noted that the APFC contribution had stability due to the POMV transfer.

Senator von Imhof thought inflation was hard to track. She assumed that the department was discussing how inflation infiltrated their assumptions.

[9:22:21 AM](#)

Co-Chair Bishop asked about inflation and what number Mr. Stickel was using for inflation.

Mr. Stickel noted that the inflation assumption used by DOR was 2.5 percent annually per Callan and Associates. He said that there had been talk surrounding whether the inflation was transitory, and the issue was being closely followed.

Co-Chair Bishop appreciated that DOR was watching the number for possible readjustment.

Co-Chair Stedman thought current inflation numbers would be larger than 2.5 percent. He commented that an inflation cycle of 5, 6, 7 percent - the entire return would go into inflation proofing the permanent fund.

[9:24:03 AM](#)

Senator Wielechowski asked what state budgetary costs would increase if the inflation number was significantly higher.

Mr. Stickel deferred the question OMB. He thought there would be some items and revenue sources that would be impacted more than others.

Co-Chair Stedman thought the committee could ask the OMB director to detail what was indexed to inflation and what in the budget that was linked to inflation. This would help the committee craft a budget in preparation for future inflation numbers.

[9:25:45 AM](#)

Co-Chair Bishop commented that the more the state considered potentially rising inflation the smaller the supplemental ask in FY 24.

[9:26:03 AM](#)

Mr. Stickel displayed slide 7, "Relative Contributions to Total State Revenue: FY 2021," which showed graphical

representation of relative importance in the sources of total state revenue:

**Total State Revenue: \$29.8 Billion**

Investment Earnings 65.7 percent  
Federal Revenue 25.4 percent  
Petroleum 5.3 percent  
Other Revenues 2.7 percent  
Non-petroleum Corporate Income 0.4 percent  
Fisheries 0.3 percent  
Tourism 0.1 percent  
Mining 0.1 percent

Mr. Stickel noted that there had been two windfalls in FY 21, including an exceptionally high return on the permanent fund and the revenue from the various federal stimulus packages.

Co-Chair Stedman noted that the investment earnings revenue was mainly the earnings of the permanent fund and was not the 5 percent payout of the fund, which was the revenue used for the budget.

Mr. Stickel agreed and noted that the permanent fund returned 29.7 percent for FY 21, and then the POMV was based on 5.25 percent of the five-year average. He said there was a significant amount of additional earnings that amounted to approximately \$16 billion.

Co-Chair Stedman asked Mr. Stickel to rework the chart to include the 5 percent coming into the treasury for expenditures considered by the committee. He thought it would provide clarity as to where the revenue was coming from that would be included in the yearly budget.

Mr. Stickel offered to restate the slide to just show the UGF revenue to the state.

Co-Chair Stedman thought that would be sufficient.

[9:28:58 AM](#)

Senator Wielechowski asked about the return for the Alaska Retirement Management (ARM) Board. He assumed the ARM board returns were not included on the slide.

Mr. Stickel noted that the ARM Board returns were not considered state revenue.

Co-Chair Stedman asked Mr. Stickel to elaborate on the ARM board revenue.

Mr. Stickel explained that the ARM Board managed retirement funds for state and other public employees. He said that returns on the retirement funds were not considered to be state revenue for the purposes of department's revenue source document.

Co-Chair Stedman interjected that there would be a chance for the committee to look deeper into the ARM board returns and compare them with those of the permanent fund.

[9:30:25 AM](#)

Mr. Stickel displayed slide 8, "Fall 2021 Revenue Forecast."

Mr. Stickel looked at slide 9, "Total Revenue Forecast: FY 2021 to FY 2023 Totals and Percent Change from FY 2021," which showed a table that represented another view of total state revenue from all revenue sources. He relayed that the state revenue came from four primary sources including investments, federal receipts, petroleum revenue, and non-petroleum revenue. He furthered that in addition to those there were four budget restriction categories: unrestricted general fund revenues, designated general funds, other restricted revenue, and federal revenue. He explained how funds were siloed into restricted and unrestricted revenue in DOR budget documents. He stated that in FY 21 the state received \$29,764.6 in total state revenue - the highest in the history of the state. Forecasted totals for FY 22 and FY 23 was \$13,370.4 and \$14,598.3, respectively. The far-right column offered the percentage change in FY 20 to FY 23 and FY 22 to FY 23.

Co-Chair Stedman asked for more detail on restricted revenues. He wondered why it was dropping from \$16 billion in FY 21 to \$1.4 billion in FY 22.

Mr. Stickel informed that the largest source of investment revenue was the earnings on the permanent fund. He pointed out that the revenue was shown in two places, the POMV transfer under UGF, and earnings on the Permanent Fund

above the POMV transfer, considered restricted revenue. He related that for FY 21, when the fund returned almost 30 percent, the transfer to the UGF was \$3.1 billion and the additional earnings were considered restricted revenue, which was the bulk of the \$16.3 billion of other restricted investment revenue. Going forward the forecast showed more modest earnings, and earnings above and beyond the transfer were projected to be less. He noted the decline from \$16.3 billion in FY 21, to \$1.4 billion in FY 22, which had entirely to do with the outstanding returns witnessed in 2021.

[9:35:17 AM](#)

Co-Chair Stedman thought markets tended to regress to the mean return, and 30 percent was not the historical average for the fund. He thought the state could expect the number to be substantially zero, or the number could potentially venture into the negative.

Mr. Stickel agreed. He added that if the return was shown to be less than the POMV transfer, the number would veer into the negative. He said that this had happened in the past. He stated that the historical return on the permanent fund had been approximately 9 percent annually and projections of a 6.2 percent, long-term annual return incorporated the assumption that returns would be less than they had been historically going forward.

Co-Chair Stedman informed that the committee would soon have updates from APFC, and the fund consultants had projected lower than average long-term returns over the next decade and had cautioned about the very high price of the asset classes. He thought that the information presented today could confuse some people in the building, and he thought any presentations should explain the situation in detail.

[9:37:47 AM](#)

Senator Wielechowski was confused by the investment revenue. He questioned the numbers on the slide pertaining to the percentage of return on the permanent fund.

Co-Chair Stedman explained that the forecasted numbers for FY 22 and FY 23 needed to be added together.

Senator Wielechowski replied that he had taken the \$1.4 billion and divided it by the value of the permanent fund, which resulted in a 1.6 percent return.

Mr. Stickel stated that there were other small investment pieces included in the other restricted revenue, above and beyond the permanent fund. He explained that the value of the permanent fund, the POMV draw, and the money in other categories were all part of the equation. He offered to provide more detail on how the numbers were derived.

Co-Chair Stedman understood Senator Wielechowski's question and asked for more detail on the figures. He thought further information from Callan would be helpful.

[9:39:38 AM](#)

Senator von Imhof asked to discuss DGF. She recalled Mr. Stickel had mentioned there was DGF that went into the "school fund." She which school fund he was referencing.

Mr. Stickel noted that there were at least two school-related funds. There was a school fund that received a constitutionally dedicated portion of royalties and the Public-School Trust fund received revenue from various sources.

Senator von Imhof asked whether the Higher Education fund was involved.

Mr. Stickel answered "no."

Senator von Imhof asked about designated funds. She thought in the past many designated funds were used to fund different programs each year. She understood that recently, with issues surrounding the reverse sweep, the DGF went into the general fund. She asked how the DGF revenue interrelated with the general fund with the administrations new approach to the reverse sweep.

Mr. Stickel explained that the revenue forecast showed the revenue to each of the designated funds and did not address the question of the reverse sweep. He thought the question was best addressed by OMB.

Senator von Imhof thought that they were not designated funds if they ended up in the general fund as unrestricted funds.

Mr. Stickel noted that any of the DGF were customarily appropriated for a specific purpose were technically available for the legislature to appropriate in any way.

Co-Chair Stedman thought Senator von Imhof had posed a good question about the reverse sweep. He explained that the administration's refusal to honor the reverse sweep was a new financial exercise that the committee would need resources to navigate.

[9:42:54 AM](#)

Senator Wilson asked for further explanation on federal receipts. He mentioned American Rescue Plan Act (ARPA) funds, and Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) funds.

Mr. Stickel stated that the department had worked with OMB to work through the federal receipt numbers. He shared that FY 23 had the last of the Covid-19 related funds. There was an assumption that federal infrastructure receipts would be received over a 5-year time horizon. He stated that the 10-year revenue forecast showed a drop off in the forecast in the later 2020s. He thought OMB could provide additional detail.

Co-Chair Stedman understood 40 percent of the federal funds would be through competitive grants.

Mr. Stickel clarified that in preparing the forecast conservatively, the department had not included the reverse sweep, which was why DGF funds were shown as designated revenue. He noted that return assumption and balances for the reserved fund the did not include the reverse sweep. There was a footnote in the Revenue Sources Book that addressed the topic.

Co-Chair Stedman stated that the footnote was significant.

[9:45:35 AM](#)

Mr. Stickel addressed slide 10, "Unrestricted Revenue Forecast: FY 2021 to FY 2023 Totals," which showed a table with the following information:

**Revenue Type: Unrestricted General Fund**

Investment Revenue - Alaska Permanent Fund

History FY 21 - \$3,091.5

Forecast FY 22 - \$3,069.3

Forecast FY 23 - \$3,360.6

Investment Revenue - Other Investments

History FY 21 - \$29.4

Forecast FY - \$13.0

Forecast FY 23 - \$18.8

Petroleum Revenue

History FY 21 - \$1,217.6

Forecast FY 22 - \$2,274.6

Forecast FY 23 - \$2,082.3

Non-Petroleum Revenue

History FY 21 - \$444.3

Forecast FY 22 - \$375.1

Forecast FY 23 - \$476.1

**Subtotal**

FY 21 \$4,782.8

FY 22 \$5,731.9

FY 23 \$5,937.7

[9:46:54 AM](#)

Mr. Stickel advanced to slide 11, "Unrestricted Revenue Forecast: FY 2021 and Changes to Two-Year Outlook," which showed a table reflecting the historical and projected numbers for Alaska North Slope Oil, Permanent Fund Transfer, Unrestricted Revenue - excluding Permanent Fund Transfer, and Unrestricted Revenue - Including Permanent Fund Transfer. He cited that oil prices had increased by \$14.72/bbl. for FY 22 to \$17.72/bbl., \$9.00/bbl. for FY 23 to \$71.00/bbl.. He noted that the rise had to do with the recovery and stabilization of the markets as the economy recovered from the Covid-19 recession. He cited no change to the FY 22 forecast for the Permanent Fund transfer, which was calculated on the first 5 of the previous 6 fiscal years. He said that based on strong returns, the forecast for the transfer in FY 23 had increased by \$153.6.

Mr. Stickel addressed total unrestricted revenue for FY 21, which was \$119.3 above the forecasted number. The numbers for FY 22 and FY 23 had increase by \$1,000.4 and \$656.1, respectively. He noted that the oil production forecast for FY 21 changed by \$119.3, FY 22 by \$1,000.4, and FY 23 by \$809.7. He related that current oil markets suggested that there could be more money above and beyond what was projected on the slide. He noted that the oil production forecast was not reflected on the slide. He revealed that production had increased in FY 22 by 27,000 barrels per day, and 24,000 barrels per day in FY 23.

Mr. Stickel looked at slide 12, "Unrestricted Investment Revenue: FY 2021 to FY 2023 Totals," which provided a table showing more detail on the sources of unrestricted investment revenue. The permanent fund transfer was expected to account for between half and two-thirds of unrestricted revenue every year for the 10-year revenue forecast. He stressed the importance of the fund as an asset and a source of revenue for the state. He said that the fund transfers were just over approximately \$3 million and included a small amount of additional unrestricted investment revenue that was primarily earnings on cash balances in the general fund.

[9:50:29 AM](#)

Mr. Stickel showed slide 13, "Unrestricted Investment Revenue: Percent of Market Value (POMV) Transfer Forecast":

- Permanent Fund total return for FY 2021 of 29.7%
- The statutory POMV rate changed to 5% beginning FY 2022.
  - For FY 2019 -FY 2021 this rate was 5.25%.
- Forecast assumes Permanent Fund's long-term total return expectation of 6.20% for FY 2023+; 5.86% for FY 2022.
- Differing Permanent Fund returns and petroleum deposits could significantly alter actual POMV amounts.

Mr. Stickel relayed that the transfer from the permanent fund to the general fund over the next ten years was estimated to be over \$3 billion per year, increasing to \$4.6 billion by FY 31. He reiterated the stability of the fund as a revenue source for the state.

Senator von Imhof asked if the projection included a \$3 billion ad hoc draw.

Mr. Stickel replied that the baseline forecast did not consider any additional draws beyond the statutory transfer.

Senator von Imhof asked whether a stress test could be done that overlaid actual past returns with projected future returns.

Mr. Stickel replied in the affirmative. He added that a fiscal model had been made public that considered different permanent fund return values, including an option to overlay historical returns in the model.

[9:51:36 AM](#)

Mr. Stickel referenced slide 14, "Unrestricted Petroleum Revenue: FY 2021 to FY 2023 Totals," which showed a table of the four main sources of petroleum revenue: Petroleum Property Tax, Petroleum Corporate Income Tax, and Royalties. He said the property tax was levied by the state, applied to all oil and gas property in the state, and was a stable revenue source, generating approximately \$100 million yearly. He added that there was an additional \$400 million generated by municipalities each year.

Mr. Stickel addressed corporate income tax, which was a tax on the profits of certain oil and gas companies doing business in the state. He shared that the Covid-19 recession had been challenging for the oil industry and that the state had paid out \$19 million in refunds for FY 21. He relayed that with the improvement in the oil industry fundamentals the forecast for positive revenue for FY 22 was \$145 million and \$240 million in FY 23. There was a provision of the Coronavirus Aid, Relief, and Economic Security (CARES) Act that allowed for corporations to carryback net operating losses from tax years 2018 through 2020. They could carry those back up to five years and receive refunds for previous taxes paid; the provision applied to certain companies that saw losses in the 2020 Covid-19 recession. He said that the net impact of the provision was \$2.4 million in FY 21 and \$50 million in FY 22.

[9:54:04 AM](#)

Mr. Stickel looked at production tax, which consisted of the severance tax on petroleum and on the North Slope included a net profit tax with a gross minimum tax floor. Given the current price levels, it was expected that most companies would be paying above the minimum tax through the time horizon of the forecast. He pointed out to the committee that the forecasted production tax for FY 22 was approximately \$1 billion and \$741 million in FY 23.

Mr. Stickel spoke to royalties, which were the largest single source of revenue forecasted to bring in approximately \$1 billion over the next two fiscal years. He added that additional constitutionally mandated deposits to the permanent fund and the school fund were not reflected on the slide.

[9:55:09 AM](#)

Senator Wielechowski asked what the impact would be to petroleum corporate income tax if Hilcorp were incorporated as a C Corp as opposed to an S Corp.

Mr. Stickel could not speak to specific companies due to confidentiality rules. He stressed that not all companies doing business in the state were subject to the corporate income tax. He cited that about 70 percent came from companies that were subject to the tax. If the state were to extend the corporate income tax to the additional companies it could potentially generate \$80 million to \$100 million in additional revenue at the forecast price.

Senator Wielechowski understood that applying the tax to companies that operated in the state and currently did not pay the corporate income tax could generate \$80 million to \$100 million in FY 22 and FY 23.

Mr. Stickel replied in the affirmative.

[9:56:16 AM](#)

Senator Wilson asked about carryback provisions and whether the state had challenged the issue in court.

Mr. Stickel was not sure about challenging the provisions, but he knew other states had different ways of conforming to federal tax code. He said that some states had opted out

of the provisions but that the state had not attempted to do so.

Senator Wilson asked whether the idea had been considered to protect state revenue.

Mr. Stickel stated that under current law, companies were not allowed to carryback losses. The CARES Act provisions were specific to 2018, 2019, and 2020. He said that if the federal government were to change the law again in the future, the state would automatically adopt the federal law, but could opt out through legislation.

Senator Wilson asked whether DOR would put in a piece of legislation to make the change.

Mr. Stickel thought that the deputy commissioner could speak to policy issues.

[9:58:33 AM](#)

Co-Chair Stedman noted that the deputy commissioner would be made available to respond to the question.

[9:59:03 AM](#)

Senator Wielechowski pointed out that the administration had testified in committee that it planned to introducing legislation pertaining to the issue.

Co-Chair Stedman said that the question would be asked of the deputy commissioner and OMB. He noted that staff could research past committee minutes for the content of past conversations on the issue in committee. He said that the 35 percent severance tax rate had been set to match the federal corporate tax rate. He noted that the federal rate had been lowered into the 20s and that the issue should be revisited.

[10:00:17 AM](#)

Senator Wielechowski asked whether companies compensated twice for net operating losses, one at the federal level and again at the state level.

Mr. Stickel requested clarification of the question.

Senator Wielechowski explained that corporate income taxes under the CARES Act, allowed companies to go back and deduct losses. He wondered whether companies were allowed to deduct losses on federal taxes and then again on their state taxes and be doubly compensated.

Mr. Stickel stated he would not call it "double compensation." He explained that, under CARES, if a company experienced net income loss in 2018, 2019, or 2020, the loss could be carried back and applied against income and taxes paid in a prior year and receive a refund. He added that it would be as if the loss had occurred earlier in the process. For federal income tax purposes, a company could retroactively reduce its federal tax liability. He stated that state tax liability could be reduced to reflect the current percentage of tax liability.

[10:02:32 AM](#)

Mr. Stickel turned to slide 15, " Unrestricted Non-Petroleum Revenue: FY 2021 to FY 2023 Totals," which showed a table with additional detail about UGF revenue. The largest component was taxes, and typically non-petroleum corporate income tax generated the most revenue at \$102.8 million in FY 21. He furthered the \$15 million was forecasted in FY 22, which reflected net operating loss related refunds under the CARES act on the non-petroleum industries. He noted that there were several industries that had been significantly impacted by the recession. The tax was projected to increase to \$120 million in FY 23. The net impact of carry-back refunds was a 6.7 million reduction on FY 21, and \$76.7 million in FY 22, and were incorporated into the numbers on the slide. The state had received and paid some of the refunds, which were currently coming to fruition. He pointed out that the Mining License Tax had brought in \$9 million in FY 21, which was expected to increase to \$48.9 million in FY 22. He said that the increase was related to low collection in FY 21 due to the impact of Covid-19 and the recession in the mining industry.

Mr. Stickel continued to address slide 15. He mentioned the Refined Fuel Surcharge, which generated \$6.4 million in FY 21, then was shown as zero for FY 22 and FY 23. He shared that the omission of the tax in FY 22 and FY 23 was due to a change made to conform with budget documents presented by OMB and LFD and would now be shown as designated funds. He

the department forecasted the total non-petroleum revenue for FY 22 and FY 23 at \$375.1 million and \$476.1 million, respectively.

[10:05:23 AM](#)

Senator Wilson asked about the Alaska's corporate income tax structure as compared to other states.

Mr. Stickel explained that a three-factor apportionment methodology was used for corporate income tax, which included the share of property, payroll, and sales in Alaska, compared to the rest of the country. The three factors were averaged to determine the taxable income. He said this was like other states and there were many variations on the apportionment factors, and different ways states determined the factors. There were several states that had gone in other directions entirely such as a gross receipts tax. He said that broadly speaking, the state's methodology was not unusual.

Co-Chair Stedman referenced Senator Wielechowski's earlier question and stated that not only did the state have a look back provision on petroleum corporate income tax, but all corporate income tax; to determine the full impact, the taxes were all added together.

[10:07:25 AM](#)

Senator Olson asked about the reason for the non-petroleum corporate income tax falling in FY 22.

Mr. Stickel relayed that the \$15 million forecast for FY 22 incorporated 476.7 million of estimated refunds due to CARES. He added that it also incorporated lower historical levels of payments as some companies were still recovering from the recession.

[10:08:13 AM](#)

Senator Wielechowski was curious about new mines that were expected to be listed to cause the forecasted increase in non-petroleum corporate income tax in FY 22 and FY 23.

Mr. Stickel considered the mining license tax and noted that the state was not incorporating any new, large mines. He said that the difference between the numbers in FY 21,

compared to FY 22 and FY 23, was that FY 21 collections had been abnormally low. Several of the mines had experienced challenges with the COVID-19 pandemic, which had negatively affected profits. He stated that with the recovery in the economy, and with higher mineral prices, the collections were expected to bounce back to historical levels.

[10:09:12 AM](#)

Mr. Stickel showed slide 16, "Petroleum Forecast Assumptions Detail."

Mr. Stickel displayed slide 17, "Petroleum Detail: Changes to Long-Term Price Forecast," which showed a line graph of the fall 2021 oil price forecast through 2030 compared to the spring forecast. He relayed that the department had made a change to its oil price forecast methodology in fall. The new methodology looked at the futures market for the next two years and assumed that prices would increase with inflation thereafter. He drew attention to the red dotted line, which showed a steady 2 percent annual increase to the forecast. Beginning with the fall forecast, DNR used the futures market for as many years out as futures market data was available. The change was made to provide a more accurate and reasonable projection of oil prices. He shared that the change had been made with the hope to focus on policy decisions surrounding whether the oil price forecast was reasonable. The Economic Research Group had found that the more years of the futures market incorporated into the forecast, the less possibility of error in the oil price forecast. There was always uncertainty around oil price forecasts, but it was found that the more futures market data used, the better the forecast. He thought the analysis had been compelling, and the department had collaborated with OMB and LFD, both of which had agreed it was a reasonable change.

Co-Chair Stedman asked for the addition of a line on slide 17 representing the futures price back to 2018.

[10:12:14 AM](#)

Co-Chair Stedman highlighted slide 18, "Petroleum Detail: Nominal Brent Forecasts Comparison as of January 11, 2022," which showed a line graph comparing how DNR's forecast compares to others over the next few years. He said that the Brent crude oil number was used for comparison because

it was a global benchmark crude, had widely available information and forecasts, and was a competitor in the market with ANS crude. He relayed that given the recent run-up in oil prices over the previous month, the forecast was on the low end for a couple of years and fell in line with other sources of revenue forecasts in future years.

[10:13:19 AM](#)

Mr. Stickel looked at slide 19, "Petroleum Detail: UGF Relative to Price per Barrel (without POMV): FY 2023," which showed a graph showing how unrestricted revenue for FY 23 would change with different oil prices. He noted that the baseline forecast was \$71/bbl.. for FY 23, and \$2.6 billion of UGF revenue, excluding the permanent fund transfer. Once above the oil price forecast, each additional dollar of oil price led to approximately \$65 million in increased UGF revenue for FY 23.

Co-Chair Stedman thought the committee would ask for future presentations to include the "working price", he did not think that any of the oil companies had testified to the prediction of high oil prices and that they generally focused on the lower side of prices when budgeting and making investment decisions. He thought that the committee should look at the structural deficit under different price scenarios.

Mr. Stickel stated that in the department's discussions with oil companies, the \$50/bbl.. to \$60/bbl.. was generally used when evaluating project economic. He stressed that while the hope was for high prices would continue, investment decisions were made using conservative numbers. He pointed to Appendix A1 on page 91 of the revenue sources book:

<https://tax.alaska.gov/programs/programs/reports/RSB.aspx?Year=2021>

Mr. Stickel relayed that the table showed what the unrestricted revenue for FY 23, FY 24, and FY 25 would be at a range of prices from \$20/bbl.. up to \$120/bbl.. He said he would be happy to provide additional information.

Co-Chair Stedman commented that it was nice to see a full range of prices.

[10:16:20 AM](#)

Mr. Stickel addressed slide 20, "Petroleum Detail: North Slope Petroleum Production Forecast," which showed a line graph showing slight increases to production. The graph assumed that drilling would resume in existing fields, with the expectation of new fields coming on. He said that the official production forecast was one scenario from a wide range of potential outcomes and depending on how new developments produced, there was a wide range of possibilities. He noted that fairly stable oil production was forecasted.

Co-Chair Stedman commented that he had requested bugle charts for numerous presentations to illustrate the risk exposure between high and low prices. He appreciated the slide and commented that it was easy to discern risk exposure over different volumes and prices.

[10:18:14 AM](#)

Mr. Stickel advanced to slide 21, "Petroleum Detail: Changes to North Slope Petroleum Production Forecast," which showed a line graph depicting the fall forecast for ANS oil production compared to the spring forecast. He cited that the forecast had increased for FY 22 and FY 23 due to increased drilling and activity in existing fields. The graph showed a slight decrease in the forecast in the out years due to uncertainties surrounding new developments.

[10:19:09 AM](#)

Mr. Stickel looked at slide 22, "Petroleum Detail: North Slope Allowable Lease Expenditures," which showed a line graph overlaying a bar graph showing how allowable lease expenditures had changed over the past decade, as well as a 10-year forecast and information pertaining to average oil and gas industry employment. The graph showed a strong correlation between company spending and employment. The costs for capital and operating expenditures were part of the production tax calculation, were deducted as such, and were an important measure of investment by companies. He shared that North Slope capital expenditures for FY 21 were \$1.5 billion and operating expenditures were \$2.4 billion; the two expenditures added together represented a decrease of \$2.7 billion, year over year, in oil industry investment in the state. The department forecasted a rebound in FY 22 and FY 23, as companies invested in new

developments and resumed drilling in major fields. He said that stabilization of capital expenditures was anticipated at approximately \$2 billion per year. He expected that cuts made over the last year in operating expenditures would be permanent as companies had discovered how to operate more efficiently. He noted that there was an increase in the forecast as new companies came online later in the forecasted period.

[10:21:07 AM](#)

Senator Wielechowski asked whether the permanent operating cuts included jobs and wondered whether there was a projection for the number of jobs in the oil field going forward.

Mr. Stickel thought the Department of Labor and Workforce Development produced employment forecasts. He reiterated the strong correlation between company spending and jobs. He thought it would be reasonable to expect and increase in jobs going forward.

Co-Chair Stedman said that information on the matter would be brought before the committee.

Senator Wielechowski commented that the state cut oil taxes in 2013 and had an oil tax initiative and referendum in 2014, changes which involved the expectation of more jobs, more investment, more revenue to the state, a growing permanent fund dividend, and 1 billion barrels of oil per day. He felt that none of those things had come to fruition. In 2020, there was another initiative that was supposed to save jobs and the permanent fund dividend, which resulted in more job losses and the permanent fund dividend cut by two-thirds. He thought it was important that there should be some accountability for the lack of positive results to the state based on the oil tax structure.

[10:23:26 AM](#)

Senator von Imhof noted that the graph on slide 22 started in 2012, and previous graphs began with 2018. She thought it would be helpful go back to 2012 in the previous graphs. She thought it was important to note that there was a lot of factors that affected capital investment decisions.

Co-Chair Stedman thought that the numbers could go back as far as 2008. He thought it would be nice to have the slide replicated with the non-deductible figures above the capital and operating expenditures. He thought there was confusion over the cost surrounding property tax and deductible and non-deductible expenditures. He recognized that non-deductible numbers would be smaller than the deductible but felt that the figure was significant in the overall numerics. He asked the x-axis of the graph on slide 22 include the actual numbers for clarity.

[10:26:42 AM](#)

Co-Chair Bishop commented on the employment numbers, and though the subject was worthy of committee discussion with the Department of Labor and Workforce Development.

Co-Chair Stedman agreed.

[10:27:40 AM](#)

Mr. Stickel spoke to slide 23, "Petroleum Detail: North Slope Transportation Costs," which showed a bar graph with a similar history and forecast for transportation costs. He noted that the costs were also known as net-back costs and were important because they reduced the value of the oil that was subject to both tax and royalty. He stated that the primary costs of transportation were the Trans-Alaskan Pipeline Tariff and the marine transportation costs. There were several other minor costs including, feeder pipeline tariffs and quality bank adjustments. The average transportation costs for North Slope oil were estimated at \$9.19/bbl. for FY 21, \$9.70/bbl. for FY 22, and \$9.09/bbl. in FY 23. The forecast showed expected transportation costs of under \$10 per barrel for the next decade. He related that any higher costs were expected to be offset by stable and increasing oil production.

[10:28:59 AM](#)

Mr. Stickel referenced slide 24, "Petroleum Detail: Tax Credits for Purchase Detail," which showed a bar graph. Illustrating tax credits for purchase detail. He explained that prior to 2016, there were various credits in statute which would be applied against liability or turned into credit certificate that the state could then purchase at face value. He shared that in 2016 and 2017 the legislature

put in place sunset provisions for the tax credits and all tax credits available for state purchase had been phased out. Companies were not earning new credits available for state purchase but there was an outstanding balance of approximately \$587 million in FY22 for tax credit certificates for activity performed prior to the sunsets. He noted that there was statutory formula which suggested an annual appropriation for purchase of those tax credits, based on 10 or 15 percent on the estimated production tax levied before subtracting tax credits. Leading up to 2016, the legislature funded the full amount of eligible tax credits for purchase every year, 2016 was the first year that less than the full amount outstanding was purchased. He continued that FY 20 and FY 21 were the first years that no appropriation was made for purchase of the tax credits. In FY 22, a total of \$54 million was appropriated for tax credit purposes. The chart showed what the buy down would look like if the statutory appropriation was made for FY 23 and beyond. He said that the FY 23 statutory appropriation was estimated at \$199 million; if that appropriation was made, and the statutory appropriation each year after that, the full balance of outstanding tax credits would be paid off by FY 26.

Co-Chair Stedman noted that the issue, along with budget cycles and fund sources, would be discussed at the table in the future. He directed committee attention to the fall 2021 revenue sources book and asked what credits the state would have to deal with in 2023. He asked for Mr. Stickel to speak to Cook Inlet. He referenced chapter 8 of the revenue sources book.

Mr. Stickel noted that table 8-4 of the revenue sources book could be found on pages 73 and 74 of the pdf. version of the book. (Copy on file.)

[10:32:36 AM](#)

Mr. Stickel stated that in terms of oil and gas credits that remained available, there was a small producer credit that had a phase out in place. He said that the largest credit was the taxable barrel, which was integral to the oil and gas production tax system and was the primary remaining credit.

Co-Chair Stedman cited page 75 of the sources book and requested clarification on the \$127 million listed for

qualified capital expenditures. He asked Mr. Stickel to continue down the list of expenditures for FY 23 as laid on in the table.

10:33:40 AM

Mr. Stickel reiterated he was looking at Table 8-4 on pages 74 and 75 of the 2021 fall revenue sources book. The top half of the table looked at credits purchased by the state and reflected all the outstanding tax credits that were earned back when companies could turn activity into credits that could be purchased by the state. He shared that the table reflected what credits would be purchased with the \$199 million statutory appropriation. He noted the \$127 million in FY 23 for various capital expenditures and carry forward credits for North Slope activity. He reiterated that those credits had been earned years ago. He relayed that the same break out was reflected on the slide for various tax credits connected to the \$199 million appropriation.

Mr. Stickel pointed to the bottom half of the table, which showed credits used against tax liability. He related that these current year credits were based on current activity, the largest of which was the per barrel credit amounting to approximately \$1.2 billion in FY 23. He offered to provide more detail in the future on the tax system. He spoke to minor amounts for small producer credits, which were estimated at approximately \$1 million for and \$3 million for non-ANS. The credit had a phase out provision in place. He said that the expectation for FY 23 was \$1.25 million of credits applies against tax liability and \$199 million of potential state purchase for credits.

Mr. Stickel directed committee attention to line 22, "Carried-Forward Credits Balance and Tax Value of Carried-Forward Annual Losses", which represented any older tax credits that were held by companies that were not eligible for state purchase or had chosen not to request state purchase. He stated that with the elimination of the capital expenditure credit, companies that did not have current production to apply lease expenditures against a tax calculation, earned a carry forward annual loss, which was multiplied by the 35 percent statutory tax rate to estimate the tax value of the carry forward annual losses. He said that the \$785 million on line 22 represented a potential claim against future tax revenue.

10:37:35 AM

Co-Chair Stedman asked Mr. Stickel to look at the beginning of the chart that showed the total credits purchased by the state at \$199 million. He wondered how the amount interacted with the previous slide in the presentation about oil tax credits for purchase.

Mr. Stickel looked at slide 24 and noted at the end of FY 22 the department estimated \$587 million of outstanding tax credits available for state purchase. He furthered that calculating in the FY 23 statutory appropriation of \$199 million - the net result would be \$388 million outstanding at the end of 2023.

Co-Chair Stedman asked whether slide 24 reflected the numerics of the total credits purchased by the state.

Mr. Stickel replied in the affirmative.

Co-Chair Stedman reminded the public that the expenses reflected on the slide were a liability that had to be addressed regardless of personal feelings about the current tax structure.

10:39:35 AM

Senator Wielechowski observed that the footnote on slide 24:

Per AS 43.55.028, statutory appropriation is 10% of production tax levied, before credits, when ANS price forecast is \$60 or higher. Statutory appropriation is 15% of production tax levied, before credits, when ANS price forecast is below \$60. Does not include changes in company behavior or credit transfers beyond FY 2022 as a result of making no appropriation or only making statutory appropriation.

Senator Wielechowski pointed out that oil was projected to be \$71/bbl. in 2023. He cited slide 14, which showed the 2023 projected oil and gas production tax to be \$741.2 million. He thought that 10 percent of \$741.2 million would be \$74 million and not \$199 million. He argued that the state should not be paying out \$199 million but \$74 million. He cited \$785 million in carry forward annual

losses cited in the revenue sources book and wondered where the figure derived from.

Co-Chair Stedman clarified that there was a per-barrel credit forecast to be \$1.2 billion that would be generated in FY 23. He furthered that other credits, in the amount of \$199 million, were historically generated by other companies. He thought it was important to parse the credits and not to combine them.

Co-Chair Stedman addressed the deductibility of expenditures in the tax structure as mentioned by Senator Wielechowski's question. He asked Mr. Stickel to provide further detail on the accounting process. He expressed concern for the mounting liability before the state.

[10:43:31 AM](#)

Mr. Stickel explained that generally there were two types of companies doing business on the North Slope. There were companies with existing production and newer entrants. For a company that did have current production in revenue, there was a slope-wide ring fence when calculating their oil production tax, which allowed them to deduct costs from the revenue from oil they were producing elsewhere in calculating their net profits tax. He shared that companies without current production earned carry-forward lease expenditures to offset future tax liability. He explained that the "tax value of carried forward annual losses" line in the revenue sources book represented the potential value of the expenditures that had been made by new entrants into the future.

[10:45:59 AM](#)

Co-Chair Stedman wanted to add that the carryforwards were not dissimilar to depreciation. He used the analogy of purchasing real estate, through which it was possible to deduct expenditures. He stressed that the quicker producers could recover their cash the more profitable the investment.

[10:50:00 AM](#)

He argued that the deductions of cost had to be allowed to make the economics work and the question was - how fast the

deduction as allowed and how many years could it be carried forward. He said that most deductions would be capped. He discussed the varying ideas at the table about how the time-value money equation should be handled. He stressed that the timing of the cashflow would affect the rate of return.

[10:52:02 AM](#)

Senator Wielechowski was concerned about net operating losses and thought many of the losses were being incurred on federal lands and fields for which the state would get zero or very little royalties or production taxes. He emphasized that the state needed the funds now. He wanted the people of the state to understand the connection between the deductible oil tax credits, refundable tax credits, net operating losses, corporate income tax losses, and other "corporate welfare" and the ability to pay a statutory dividend.

Senator Wielechowski continued his remarks. He thought the state was giving money away. He thought the reason that //

Co-Chair Stedman thought Senator Wielechowski's point

[10:54:28 AM](#)

Co-Chair Stedman wanted to make the point that all oil was not equal, and depending on the land ownership in the basin, severance taxes and royalties varied. He said that when giving incentives it was important to know who owned the land. He asked Mr. Stickel to give a 2023 breakdown of field ownership within the basin.

Mr. Stickel agreed to provide the detail for the North Slope.

Co-Chair Stedman reminded that when setting fiscal structure and offering stimulus it was important to know who owned the fields. He wanted to put a finer point on the funds coming into the state compared with the incentives the state was giving. He believed that separate ownership was a legitimate concern.

[10:56:54 AM](#)

Senator Olson commented that the issues being discussed had been discussed at the table for years and thought nothing had been done about the matter. He thought there was resistance, particularly in an election year. He suggested that the committee focus on the big picture.

[10:58:14 AM](#)

Senator von Imhof wanted to point out that Senator Olson and Senator Wielechowski recently mentioned revenue from fields on federal lands that the state would never receive. She stressed that much of the revenue in those fields went directly to Alaskans, bypassing state government.

[10:59:12 AM](#)

Mr. Stickel displayed slide 26, "Oil & Gas Production Tax Audit Status Report."

COLLEEN GLOVER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), noted the new forecast methodology and clarified that the division would report both a 10 percent increase and a 10 percent decrease. She offered to follow up with the committee with more information regarding corporate income tax or other topics.

Ms. Glover pointed out to the committee that the Oil and Gas Production Tax program was the only program that had a 6-year statute of limitations for assessments. All other programs were on a 3-year cycle.

Ms. Glover turned to slide 26, "Oil & Gas Production Tax Audit Update":

- Audit Completion and Catchup Plan:
  - o 2015 audits complete by 1Q 2022
  - o 2016-2017 audits complete by 2Q 2022
  - o 2018-2019 audits complete by 2Q 2023
  - o 2020 audits complete by 1Q 2024
  - o Reach and maintain three-year audit cycle by 2Q 2023
- Improvements to Reach Goal
  - o Automated processes vs manual processes which was a huge benefit due to teleworking
  - o Ability for taxpayers to use customer portal
  - o Effective two-way communications
  - o Continuous improvement

- o Consistent audit practices and documentation

[11:02:14 AM](#)

Senator Wilson referenced additional positions requested for the audit division to help with audits. He thought the positions had been eliminated. He asked where the department stood on the additional positions, and whether the 3-year timeline could be met without them.

Co-Chair Stedman asked Ms. Glover to craft a memo on the status on the backlog of the tax reviews for collections and refunds. He asked Ms. Glover to help Mr. Stickel to break down the carry forward credits for committee consumption.

Ms. Glover agreed to provide the information.

[11:03:37 AM](#)

Senator Wielechowski asked whether Ms. Glover was certain that the 2015 audit would be completed on time.

Ms. Glover had 100 percent confidence that the audit would be completed on time.

Co-Chair Stedman thanked the presenters for their time. He discussed housekeeping.

#

ADJOURNMENT

[11:05:24 AM](#)

The meeting was adjourned at 11:05 a.m.