

HOUSE FINANCE COMMITTEE
January 26, 2023
1:32 p.m.

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CALL TO ORDER

Co-Chair Johnson called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Neal Foster, Co-Chair
Representative DeLena Johnson, Co-Chair
Representative Julie Coulombe
Representative Mike Cronk
Representative Alyse Galvin
Representative Sara Hannan
Representative Andy Josephson
Representative Dan Ortiz
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Adam Crum, Commissioner Designee, Department of Revenue;
Dan Stickel, Chief Economist, Economic Research Group, Tax
Division; Colleen Glover, Director, Tax Division.

SUMMARY

REVENUE FORECAST: DEPARTMENT OF REVENUE

Co-Chair Johnson reviewed the meeting agenda.

^REVENUE FORECAST: DEPARTMENT OF REVENUE

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ADAM CRUM, COMMISSIONER DESIGNEE, DEPARTMENT OF REVENUE, introduced himself and staff.

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DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, introduced himself.

COLLEEN GLOVER, DIRECTOR, TAX DIVISION, introduced herself.

Mr. Stickel introduced a PowerPoint presentation titled "Fall 2022 Forecast Presentation: House Finance Committee," dated January 26, 2023 (copy on file). He began on slide 2 and briefly outlined the presentation agenda:

1. Forecast Background and Key Assumptions
2. Fall 2022 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
4. Oil and Gas Production Tax Audit Update

Mr. Stickel moved to slide 4 titled: "Background: Fall Revenue Forecast." He detailed the revenue forecast was published by the Department of Revenue (DOR) in mid-December in the Revenue Sources Book (RSB). The department also published an updated forecast each spring. He explained that the RSB was an annual publication that included information about the state's revenue sources and key forecast variables from the Tax Management System, state accounting system, and other state agencies. The department's Economic Research Group maintained 10-year forecast models for all of the state's major revenue sources. The RSB fulfilled a statutory requirement for the governor to provide a revenue forecast ahead of the budget release, in addition to the statutory requirement for a long-term fiscal plan.

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Mr. Stickel turned to slide 5 and discussed fall forecast assumptions. He pointed out the forecast came in a period of continued uncertainty. He detailed that recent events in China had highlighted some of continuing uncertainty related to the COVID-19 pandemic. The ongoing conflict in Europe reflected some of the geopolitical uncertainty. Additionally, there was uncertainty associated with Federal Reserve policy and other variables. He noted the DOR forecast was one plausible scenario within a range of potential outcomes.

Mr. Stickel addressed key assumptions of the forecast on slide 5:

- Investments: Stable growth in investment markets, 7.00% for FY 2023 and 7.05% for FY 2024+.
- Federal: The forecast incorporates stimulus funding as of December 1, 2022, includes updated estimates of IIJA funding.
- Petroleum: Alaska North Slope oil price of \$88.45 per barrel for FY 2023 and \$81.00 per barrel for FY 2024.
- Non-Petroleum: Continued economic growth. 90% of capacity assumption for 2023 cruise season, minerals prices based on futures markets.

Mr. Stickel noted the returns shown in the first bullet point under key assumptions on slide 5 pertained to the Permanent Fund. He elaborated on the third bullet point above and relayed the forecast included oil prices at \$75 per barrel beyond FY 24 in the 10-year forecast period. He referenced the fourth bullet point and noted there had been talk among economists and press about potential economic slowdown. The department's forecast assumed if there was any slowdown it would be short and mild. The department was forecasting a total cruise ship capacity of slightly over 1.6 million passengers, sailing at a capacity of 90 percent. He referenced minerals prices based on futures markets and noted that futures prices had pulled back a bit since the spring forecast.

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Representative Galvin pointed to slide 5 and the roughly 7 percent return on investments in FY 23 and FY 24. She asked for the return on investment from FY 22. She remarked that the Permanent Fund return for the last year had been -1 percent, while the return had been close to 30 percent the

year before last. She asked for comment on the vast swing. She asked Mr. Stickel to point out areas where a lower than projected return of 7 percent could have a large impact.

Mr. Stickel replied that FY 21 was a record return for the Permanent Fund and financial markets had pulled back a bit in FY 22. The forecast was for more moderate returns going forward at 7 and 8 percent for FY 24. He noted there was a slide later in the presentation that put a sensitivity analysis around potential investment returns.

Representative Galvin asked Mr. Stickel to point out areas where a lower than predicted return of 7 percent could have a large impact.

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Mr. Stickel turned to slide 6 titled "Relative Contributions to Total State Revenue: FY 2022." He pointed out that federal and petroleum revenue generated the majority of revenue in FY 22. He highlighted investments showed net losses for the year for the first time since 2009. He added the losses came on the heels of record returns in FY 21. All of the other revenue sources combined added up to slightly over 12 percent in total state revenue in FY 22. Total state revenue of approximately \$8.7 billion.

Representative Hannan found it rather startling that federal revenue had accounted for almost 80 percent of the state's revenue in FY 22. She asked whether it pertained to COVID funding. She asked if there should always be a ratio showing the state always received more federal funding than from other sources.

Mr. Stickel replied there were a couple of things going on when looking at the federal share of revenue for FY 22. First, there was a high numerator with many of the one-time COVID funds in FY 22 combined with a lower denominator resulting from investment losses. He remarked that the next slide for FY 23 would show a more typical year.

Mr. Stickel turned to slide 7 titled "Relative Contributions to Total State Revenue: FY 2023." The department was expecting the three major sources of revenue - investment earnings, federal revenue, and petroleum - all generated about one-third of total state revenue. All other

sources combined were forecasted to generate slightly over 7 percent of total state revenue.

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Mr. Stickel advanced to a table titled "Unrestricted Revenue Forecast: FY 2022 and Changes to Two-Year Outlook" on slide 9. The slide showed a comparison of some of the changes between the fall and spring forecast. He highlighted that the spring forecast (released in early 2022) had come out during a period of unprecedented volatility. He detailed the forecast had come out right as the conflict in Ukraine had begun, which had caused significant uncertainty and volatility around oil prices. As the markets had gained more stability, the outlook for oil prices had come down; therefore, DOR had reduced its FY 23 forecast for Alaska North Slope (ANS) oil prices by \$12.55 per barrel and the FY 24 forecast had been reduced by \$9.00 per barrel.

Mr. Stickel continued to review slide 9. He directed attention to the line pertaining to the Permanent Fund transfer and unrestricted general fund (UGF) revenue. He explained the Permanent Fund transfer was calculated based on 5 percent of the ending value and the first five of the last six fiscal years. He elaborated that the Permanent Fund transfer for FY 23 had been known when DOR generated its spring forecast. He pointed out that the FY 24 forecast had been reduced by about \$75 million based on lower investment returns. The department had reduced its total unrestricted revenue forecast for FY 23 by about \$1.1 billion and its FY 24 forecast by about \$700 million, almost entirely due to the reduction in the oil price forecast.

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Mr. Stickel moved to slide 10 showing the total state revenue forecast for FY 22 to FY 24. He explained that the revenue forecast included four categories of revenues. He detailed that UGF revenues were available for general appropriation for any purpose. He noted that budget discussions often focused on UGF revenue. The designated general fund (DGF) revenues were technically available for appropriation but were customarily appropriated for a specific purpose. For example, half of the alcohol tax revenue was customarily appropriated for alcohol and drug

abuse treatment and prevention. The "other restricted revenue" category included restricted revenue that was not available for general appropriation. The revenues had some restriction by federal law, constitution, and/or debt covenants. He used the following examples: the constitutional dedication of royalty revenue to the Permanent Fund or tax revenue from aviation fuel which was federally required to support airports. The last category was federal revenue where the federal government placed different restrictions on how the funds could be used. Total state revenue in FY 22 was approximately \$8.7 billion. The forecast projected total state revenue at slightly over \$15 billion in FY 23 and FY 24. The UGF portion was about \$6.9 billion in FY 22 with a forecast of \$7.2 billion and \$6.9 billion in FY 23 and FY 24 respectively.

Representative Stapp asked if the increase in federal receipts from FY 23 to FY 24 was due to the anticipation of federal funds for capital projects such as broadband.

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Mr. Stickel answered that the federal revenue forecast was provided by the Office of Management and Budget (OMB). He deferred to OMB for specifics. He stated that the federal infrastructure bill [Infrastructure Investment and Jobs Act (IIJA)] was included in the forecast. He speculated it was the reason for the increase.

Mr. Stickel turned to slide 11 titled "Unrestricted Revenue Forecast: FY 2022 to FY 2024 Totals." He relayed that the remainder of the revenue slides would focus on the UGF forecast as it had the most flexibility and discretion around how the monies could be used in the budget. He stated that investment revenue and petroleum revenue were two of the largest sources of unrestricted revenue. Investments contributed about \$3.1 billion in unrestricted revenue in FY 22 and were forecast at \$3.4 billion in FY 23 and slightly over \$3.5 billion in FY 24. The primary element was the percent of market value (POMV) transfer from the Permanent Fund. Petroleum revenue generated \$3.5 billion in FY 22 and was forecast at \$3.4 billion in FY 23, and \$2.9 billion in FY 24. Lastly, various non-petroleum, non-investment revenue sources were expected to contribute about \$450 million in FY 23 and \$474 million in FY 24. He

would review each of the categories in more detail on coming slides.

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Representative Galvin referenced the non-petroleum revenue line for FY 23 and FY 24 on slide 11. She asked if it factored into the governor's plan to bring carbon credits to market for Alaska.

Mr. Stickel clarified that the revenue forecast was based on current law and did not include any new revenue sources or proposed legislation.

Mr. Stickel moved to slide 12 titled "Unrestricted Investment Revenue: FY 2022 to FY 2024 Totals." The Permanent Fund transfer alone was anticipated to account for between 43 and 62 percent of unrestricted revenue annually over the 10-year revenue forecast. Additionally, there was a small amount of unrestricted revenue from other investments, which represented primarily earnings on cash balance in the General Fund. He highlighted an investment loss in FY 22 due to the impact of vastly rising interest rates on various fixed income investments. The department was expecting the returns on the General Fund investment to return to small positive revenues in FY 23 and beyond.

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Mr. Stickel turned to slide 13 titled "Unrestricted Investment Revenue: Percent of Market Value (POMV) Transfer Forecast." The chart showed the estimated transfer from the Permanent Fund to the General Fund was estimated to reach about \$4.5 billion by FY 32 based on an assumption of 7.05 percent long-term annual return and a 5 percent POMV payout. He explained the department had looked at a range of possible investment returns including a high and low case representing a 10th percentile and a 90th percentile. The low case showed a fairly flat POMV transfer and the high case showed a strong increase. The information on the slide indicated the Permanent Fund transfer was a fairly stable revenue source, especially compared to petroleum with its significant price volatility. Part of the stability pertained to how the transfer was calculated. He detailed that the calculation was based on the annual average market value of the first five of the last six fiscal years, which smoothed out year-to-year fluctuations.

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Mr. Stickel moved to slide 14 titled "Unrestricted Petroleum Revenue: FY 2022 to FY 2024." He relayed there were four primary sources of unrestricted revenue from petroleum. He relayed that the state levied a property tax on all oil and gas property in the state, which was a fairly stable revenue source generating slightly over \$100 million per year. He pointed out it represented only the state's share of property tax revenue. The majority of property tax on oil and gas went to the municipality where the property was located; municipalities received about \$450 million from oil and gas property taxes in FY 22.

Mr. Stickel continued to review UGF revenue on slide 14. Petroleum corporate income tax was levied on most but not all corporations doing business in Alaska. The tax generated just under \$300 million in FY 22. Based on improved profitability in the industry, the forecast was \$390 million in FY 23 and \$320 million in FY 24. He noted that one impact pertained to some loss carryback provisions in the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. He explained the CARES Act enabled corporations to carryback any net operating losses in 2018, 2019, and 2020 to potentially receive refunds on prior year taxes paid. He relayed that the State of Alaska adopted federal corporate income tax code and automatically adopted any changes to the federal tax code unless the state specifically opted out. Since 2020, which had been a difficult year for oil and gas, there had been some losses and about \$79 million of refunds were paid out in FY 22. Absent the refunds, the revenue would have been a bit higher.

Mr. Stickel explained that the oil and gas production tax was the state's severance tax on petroleum. For the North Slope it consisted of a net profits tax with a gross minimum tax floor. At current oil prices, DOR expected most of the companies to be paying under the net profits tax and the tax was expected to bring in \$1.6 billion in FY 23 and about \$1.2 billion in FY 24. The last major source of UGF petroleum revenue was royalties from oil and gas production on state land. Royalties brought in about \$1.3 billion UGF in FY 22 and was forecast to bring in \$1.3 billion in FY 23 and \$1.2 billion in FY 24. He pointed out there was a significant amount of restricted revenue from royalties

including deposits to the Permanent Fund and School Fund. He would provide more detail on the assumptions behind the petroleum revenue forecast later in the presentation.

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Representative Stapp asked for the driving factor in the increase in the mineral bonuses and rents line on slide 14.

Mr. Stickel answered the increase reflected an expected recovery of lease sales. He elaborated that some lease sales did not happen during COVID and there had been some delays. The department expected leases to return to a more historically normal level.

Mr. Stickel turned to slide 15 showing UGF revenue from non-petroleum sources with taxes accounting for the largest component. He remarked that typically corporate income tax accounted for the largest portion of the tax component, bringing in \$112 million in FY 22 and expected to generate \$105 million in FY 23 and \$125 million in FY 24. The impacts of the net operating loss carrybacks for corporate income tax also applied to non-petroleum corporations. He discussed that the pandemic was very challenging for some of the corporations in the tourism industry in particular, including airlines and transportation companies. There had been some significant refunds in FY 22, amounting to about \$80 million. Absent the refunds, the FY 22 revenue would have been around \$190 million. The forecast for FY 23 and FY 24 was based on earnings projections and reflected the potential for a bit of an economic slowdown.

Mr. Stickel reviewed other significant taxes on slide 15 including the mining license tax, insurance premium tax, fisheries tax, and various excise taxes. In total, nonpetroleum taxes were expected to generate about \$330 million in FY 23 and \$335 million in FY 24. The bottom line of the table showed "other" non-petroleum UGF revenue and included things like rents and royalties on mining on state land, fines and forfeitures, charges and services, and other miscellaneous revenue such as dividends to the state from state-owned corporations.

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Representative Galvin looked at the substantial decrease in revenue associated with mining licenses in FY 24 and asked for detail.

Mr. Stickel answered that minerals prices had been strong and the reduction to the mining tax in FY 24 reflected two things. First, the futures market was adjusting that minerals prices would pull back a bit resulting in slightly lower revenue. The forecast also incorporated assumptions about a potential increase in operating costs in response to some of the cost of inflation.

Representative Cronk looked at the fisheries statistics. He asked if the decrease in the revenue was due to any collapse in a certain fishing industry. He wondered about the loss of \$4 million [in FY 23 and FY 24].

Mr. Stickel answered that the fisheries projections accounted for some of the expected lower value in certain fisheries. Additionally, FY 22 included revenue from a particularly strong salmon year.

Representative Josephson asked if the total loss due to the carryback provision from net operating losses was about \$170 million. He thought Mr. Stickel had stated the loss was about \$80 million from petroleum and \$90 million from other sources.

Mr. Stickel answered that for FY 22 the impacts were [a loss of] about \$80 million for non-petroleum and \$79 million from petroleum.

Representative Josephson surmised it came in the form of less revenue. He asked for verification the state did not "cut anyone a check."

Mr. Stickel replied there were two options a company had related to the carryback losses. He explained that a company could request a refund for prior year taxes paid. He detailed the refund would be revenues a company had already paid to the state. A company could also choose to carry the losses forward and apply them to reduce a current tax payment.

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Representative Hannan asked about tobacco revenue received by the state. She referenced federal multistate litigation revenue the state received from tobacco. She remarked that if the state did not comply with the federal smoking age of 21, the federal government would reduce the state's share. She asked if the federal government had notified the state that if it did not comply it would receive reduced funding. She asked for details.

Mr. Stickel responded that the unrestricted tobacco revenue on slide 15 represented a portion of the state's cigarette tax revenue and revenue from the other tobacco products tax. He clarified that a significant portion of the cigarette tax revenue was considered restricted and was not reflected in the table. In addition, the state received revenue from the Tobacco Master Settlement Agreement, which was considered to be restricted revenue and was reflected in the fines and forfeitures section of the Revenue Sources Book. The federal government had changed its minimum [smoking] age to 21. Alaska had not conformed in state statute; however, most if not all retailers in the state were conforming to the federal law. The department had not incorporated any potential decrement or impact to its revenue forecast and he not prepared to speak to the nuances of the policy.

Representative Hannan asked if the federal treasury would notify the state if it was going to reduce the amount Alaska received through the Tobacco Master Settlement Agreement.

Mr. Stickel replied that he would follow up on the question.

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Representative Ortiz looked at slide 15 showing fisheries taxes of \$26 million in FY 23 and mining license taxes of \$52.5 million. He returned to slide 7 showing percentages of revenue coming into the state into the state in FY 23. He pointed out that slide 7 indicated fisheries taxes accounted for 0.7 percent of the state's revenue in FY 23 and mining contributed 0.4 percent. He observed that fisheries contributed a higher percentage of the revenue; however, the numbers indicated fisheries taxes were lower than mining taxes.

Mr. Stickel answered it had to do with restrictions on how the revenue could be used. He explained that the mining license tax was considered entirely UGF revenue, whereas 50 percent or more of the fisheries taxes were shared back to municipalities. Additionally, there were various fisheries assessments that were entirely shared with the beneficial organizations. He summarized that the state received all of the mining revenue and only a portion of the fisheries revenue.

Co-Chair Edgmon referenced the carbon tax credit revenue and remarked the committee had just heard a presentation from the Office of Management and Budget that included carbon tax revenue in the 10-year plan. He thought the 10-year plan was held to the same standard as the revenue forecast where unrealized or future revenues were not included. He asked if he was mistaken. He asked who came up with the number if it was possible to include hope for new revenue in the 10-year forecast.

Mr. Stickel answered that DOR produced a 10-year forecast of state revenue based on current law with no additional revenue sources incorporated. He noted the forecast was also developed agnostic to the budget. The forecast was provided to OMB, which was responsible for developing the 10-year plan. He deferred to OMB for detail.

Co-Chair Edgmon stated that it was the answer he had been looking for. He stated that the number of carbon tax credits was based on something and had he known, he would have dug into the data further.

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Mr. Stickel moved to a chart on slide 17 titled "Petroleum Detail: Changes to Long-Term Price Forecast" showing the fall 2022 forecast compared to the spring forecast released earlier in 2022. The forecast methodology used the futures market for its price forecast for as many years as were available (the chart used the futures market outlook through 2029) and applied an inflation adjustment. The fall price forecast had been generated on December 7 using futures market prices for the first five trading days in December, which resulted in a reduction to the forecast of about \$12.55 per barrel for FY 23 and a reduction of about \$9.00 per barrel for FY 24. The reduction was not as significant between the spring and fall forecasts in the

later years of the forecast. He noted it related to volatility going on in the oil price market when the spring forecast had been produced (i.e., related to the conflict in Ukraine). He stated as markets had stabilized somewhat, the near-term prices had come down a bit.

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Representative Galvin asked about the certainty of the price of oil and the forecast. She stated that a drop of \$9 made a big difference to legislators in terms of the budget. She asked for information on the history of the oil forecast. She remarked on the current global volatility. She remarked it would be a very important decision in the current session.

Mr. Stickel qualified oil prices as extremely uncertain. He reported that ever since the COVID-19 pandemic, oil prices had seen historically high volatility. The forecast reflected the most likely case within a wide range of potential outcomes. He would present a sensitivity analysis later in the presentation demonstrating the impact of higher or lower oil prices on state revenue.

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Mr. Stickel turned to slide 18 titled "Petroleum Detail: Nominal Brent Forecasts Comparison as of January 24, 2023." He noted the chart had been updated earlier in the week. He explained that DOR compared the ANS price to Brent prices because Brent was a global benchmark that was widely traded. Typically, ANS traded very close to Brent oil. The chart showed a comparison to the current futures market outlook, an average forecast from a variety of industry analysts, and the short-term energy outlook from the Energy Information Agency. He highlighted for the current fiscal year the DOR forecast was a bit lower than some of the other revenue sources, but in 2024 and beyond, it was in the range of the other revenue sources. In general, the other sources suggested oil price stabilizing in the \$70 to \$80 per barrel range, which was consistent with the department's revenue forecast.

Mr. Stickel moved to slide 19 titled "Petroleum Detail: UGF Relative to Price per Barrel (without POMV): FY 2024." The slide addressed a scenario where the DOR forecast turned out to be wrong. He stated that oil prices were inherently

uncertain and the likelihood of prices coming in exactly as forecast was pretty low. The slide showed the department's FY 24 forecast of \$3.4 billion UGF revenue before accounting for the Permanent Fund transfer based on an average oil price of \$81.00 per barrel for ANS. He detailed that in FY 24, each \$1.00 change in oil price above or below the forecast led to a \$70 million difference in UGF revenue. He explained that the value per dollar was a bit higher at oil prices exceeding about \$90 per barrel and was a bit lower at oil prices below about \$70 per barrel.

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Mr. Stickel showed a North Slope petroleum production forecast on slide 20 including a high and low case. He noted the information was a recap of information recently provided to the committee by the Department of Natural Resources (DNR). The official forecast was for stable to slightly increasing oil production. The slide also included the high and low cases, which were meant to speak to another source of uncertainty in the forecast. The official forecast was about 550,000 barrels per day, but the range could be below 300,000 or above 800,000.

Co-Chair Johnson asked if the numbers included the Willow and Pikka fields. She asked for detail on the variations included in the forecast.

Mr. Stickel answered that the new fields were included in the forecast on a risked basis as previously described by DNR. The DNR forecast accounted for the uncertainty around the timing and production of the fields by only incorporating a portion of the potential production from those fields. The numbers were included in the official forecast on slide 20. The high and low cases represented uncertainty on performance of wells and fields projected in the future.

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Mr. Stickel discussed changes to the North Slope petroleum production forecast on slide 21. The chart looked at the next five years of expected production in the most likely case compared to the spring revenue forecast. He explained there were only minor changes to the official forecast, especially in the near-term. He elaborated that projects were generally progressing about as was expected in the

spring forecast. There had been some minor reductions from the spring forecast, but still a trend of stable to slightly increasing production overall.

Mr. Stickel discussed a chart on slide 22 titled "Petroleum Detail: North Slope Allowable Lease Expenditures." The chart showed how allowable lease expenditures for the North Slope had changed over the past decade and how they were expected to change over the coming decade. The allowable lease expenditures represented any operating and capital costs incurred by companies that were allowed to be deducted into the state's production tax. He explained it included most, but not all of the costs of producing oil in the state. The slide also included a 10-year history of oil and gas employment to show the general correlation between company spending and employment on the North Slope. The allowable lease expenditures were tracked for two reasons. First, as an input into the oil production tax forecast as a net profit based tax. Second, as an indicator of company activity.

Mr. Stickel elaborated on slide 22. He shared that in FY 22 North Slope capital expenditures had been about \$1.4 billion in FY 22 and operating expenditures had been about \$2.5 billion. The expenditures reflected continued lower levels of activity following the COVID-19 pandemic recession. He relayed that activity had begun to pick up over the last several months. He stated it was a robust winter of activity on the North Slope and the department was expecting a rebound in overall company spending in the current fiscal year through FY 25 followed by a stabilization with capital expenditures at about \$2.5 billion per year. The department expected operating expenditures to slowly increase over time due to a combination of inflationary impacts as well as the cost of operating some of the new fields expected to come online.

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Representative Josephson stated that in HB 111 bill there had been a seven-year or ten-year window for companies to use their carryforward lease expenditures. He asked if the allowance had been for nonproducers and producers. He asked for verification that under the current regime, nonproducers needed to begin producing or in a relatively short window costs could not be absorbed or subtracted from profits.

Mr. Stickel explained that for purposes of calculating the production tax value (the net profits), allowable lease expenditures were allowed to be deducted from the value of oil production when calculating their tax. He expounded that a company with sufficient gross revenue would be able to apply the costs in the year incurred, whereas a company without sufficient gross revenue would earn a carryforward lease expenditure. He explained it enabled a company to realize the benefit of the spending in a future year. There was a provision where the value of the carryforward lease expenditures reduced by 10 percent annually beginning with the eighth or eleventh year after the carryforward was earned depending on whether the carryforward was earned for a project in production or not in production.

Representative Josephson thought it suggested if a company was going to try to get into production it had better understand the rocks and have a good sense it would come online within the specific time window or it would suffer. He noted it was a ticking clock and the window was not huge for producers.

Mr. Stickel answered it put some pressure on companies. The reduction in the value of the carryforwards was unconventional when compared to other jurisdictions. He explained that several other jurisdictions provided an uplift where the value increased over time. He stated it was a unique provision in Alaska's tax law.

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Co-Chair Edgmon was interested in how Willow fit into the scheme of things going forward. He looked at slide 21 and noted that Willow was awaiting a record of decision based on the environmental impact statement. He considered that first oil was expected six years after the final investment decision (FID). He believed Mr. Stickel had stated that the blue line reflecting fall 2022 took that into consideration. He asked if the blue line contemplated a potential hiccup with the project where it took longer for first production to occur. Alternatively, he asked if the blue line reflected the anticipation that Willow would be online in the near future.

Mr. Stickel responded that the production forecast shown on slide 21 was the same forecast presented by DNR. He

explained that DNR produced the production forecast and DOR collaborated on the process. He stated that the comparison of the spring and fall forecasts on slide 21 primarily represented a reevaluation of some of the near-term projects and the performance and activities of major (existing) fields. The impact of some of the new developments was largely beyond the five-year window shown on slide 21. The reason for the five-year outlook was to focus on the next several years and the more certain portion of the production forecast.

Co-Chair Edgmon surmised that Willow would play a significant part in overall oil production over time, but perhaps not necessarily in the window of time being presented to the committee.

Mr. Stickel answered that Willow was a very significant potential development to the state. The forecast included potential future production and associated development expenditures on a risked basis that acknowledged the potential for delays or the probability that a project would occur.

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Mr. Stickel moved to slide 23 showing a history and forecast of North Slope transportation costs (also called netback costs). He explained that transportation costs reflected the cost of getting oil to market and were subtracted from the value of oil for production tax and royalty purposes. Transportation costs included feeder pipelines tariffs, the Trans-Alaska Pipeline System (TAPS) tariff, and tanker costs to transport the oil to market typically on the West Coast. In FY 22, the average transportation cost for ANS was \$9.77 per barrel. The forecast was for \$9.92 per barrel in FY 23 and \$9.37 per barrel in FY 24. The department was forecasting the transportation cost would remain under \$10 per barrel until FY 32. The stable transportation cost was a function of the stable to increasing production forecast, which was offsetting impacts of inflation. He added the forecast for transportation costs decreased a bit from FY 23 to FY 24. He explained that marine transportation costs had been fairly elevated in 2022 and 2023 and the department was expecting the costs to moderate in FY 24.

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Representative Stapp asked why there was a projected down trend in transportation projections. He highlighted that previous slides showed forecasted increases in capital and operating expenditures, in addition to inflationary pressure on production. He thought the state should be expecting less revenue off of the same per barrel oil of production if costs to produce the oil were rising.

Mr. Stickel answered that slide 22 showing lease expenditures represented total expected expenditures for operating the fields. The department was anticipating some moderate increases in the cost of operating the fields and in capital expenditures associated with investments in new fields. He pointed to slide 23 included values on a per barrel basis. He detailed that a pipeline tariff represented the cost of operating a pipeline divided by the number of barrels going through the pipeline. He explained that a fairly stable operation cost for a pipeline, the cost on a per barrel basis decreased. The marine transportation costs saw increases in FY 22 and FY 23 due to the overall tightness in the shipping market related to difficulty in getting marine transportation for a variety of goods and services. He highlighted that a significant component in the marine transportation cost was the price of fuel. He stated as there had been some moderations in the global supply chain issues, the department was expecting decreased pressures on operations cost and with the reduction in oil price would decrease the cost of fuel for the tankers.

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Ms. Glover spoke to slide 24 titled "Petroleum Detail: Tax Credits for Purchase Detail." Prior to 2016, there were statutory oil and gas tax credits that allowed a taxpayer to use credits against their tax liability or the state could purchase the credits back. The provisions had been changed in 2016 and 2017 to eliminate the cash provision. She relayed the state still owed a balance to some certificate holders. The state had been paying the balance over time and it was about \$384 million at the start of FY 23. There was a statutory formula based on the price of oil and total production taxes levied. The FY 23 budget assumed a \$330 million appropriation. Oil prices had reduced in the fall 2022 forecast, which had reduced the statutory calculation to \$281 million for FY 23. She stated the FY 23

budget for the tax credits was a little unique because of a \$60 million supplemental for FY 22. The full amount shown on the slide was \$341 million including \$281 million for FY 23 and the \$60 million supplemental for FY 22. The blue bar shown for FY 23 reflected a balance of about \$43 million. She noted the gray bar for FY 24 reflected the credits to be paid out.

Co-Chair Johnson asked for verification that the gray bar [in FY 24] on slide 24 reflected the remaining credits owed. She asked if the budget included the funding.

Ms. Glover replied affirmatively and relayed the \$43 million was included in the budget. The state could not share the information owed to individual taxpayers. There was a provision in law specifying DOR was to provide an annual report to the legislature showing each entity that received money the previous calendar year and the amount received. She relayed the letter was transmitted earlier in the month. She explained it provided a good indication of entities receiving the credits on an annual basis. She relayed that of the \$281 million in the budget for FY 23 and the \$60 million in the supplemental budget, the department had dispersed \$196 million in July of 2022. There had been unique "not to exceed" budget language in the FY 23 budget based on actual taxes levied. She explained taxes had not all been levied. She expounded that after the spring forecast and based on oil prices for production tax, the department would determine the remainder, if anything, to be paid out for FY 23.

[2:40:19 PM](#)

Representative Josephson stated the plan had been to spur development, but delay had resulted in third parties getting control of the certificates. Now that the state was paying the amounts, he asked if they would be debts the state owed where a return could not be identified.

Ms. Glover answered that looking at the end report identifying the recipients was telling information. For example, she highlighted a recipient that was currently producing versus a recipient that had only conducted exploration. She relayed there were provisions in law allowing the certificate holder to assign the certificates to someone else within 30 days of the date they applied. She explained that if a company had assigned its credits to

another entity and it was receiving money back from the state, the company would pay the assignee. She stated there was much less owed at present than there had been. The number was not static and nothing to prevent a taxpayer from using the credits against their tax liability. She remarked that some companies did not have a tax liability because they were explorers and did not yet have production. She added that with higher oil prices there had been a need to use some of the credits, which had reduced the balance. Companies could also sell credits to a party that could use them against a tax liability. She stated the number was dynamic.

[2:42:53 PM](#)

Representative Stapp asked if the total outstanding amount was \$384 million.

Ms. Glover answered it had been \$384 million at the beginning of the fiscal year and the state had paid \$196 million.

Representative Stapp asked if the remaining amount was a final liability owed by the state.

Ms. Glover answered the amount owed was "almost a maximum amount"; however, it was not definitive. She explained there could be audit disputes and there was potential for the amount to change. New credits could not be earned; therefore, the only way the balance would increase would be based on an audit and litigation.

Representative Stapp remarked that inflation was the state's friend when paying its debts. He asked how far out the state could "slow pay" the debt in order to lower its liability.

Ms. Glover responded there was a suggested formula in statute and the appropriation was controlled by the legislature. There had been some years where no money had been appropriated. The department forecast the amount suggested under statute.

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Representative Hannan stated the intention of the legislature the prior year had been to pay the credits off;

however, it had not been possible due to the way it had been structured. She asked how it had been determined what did not get paid. She wondered if payments had been made equally or if oldest credits due were paid first. The legislature had heard smallest companies say they had the largest burden. She wondered what had not been paid.

Ms. Glover answered that it was another piece of information included in the annual report. She explained that the credits were tracked by years or buckets based on when an entity applied. There were statutory provisions on how the state paid them. The state had paid all of the 2015 credits owed. The state had paid \$196 million with the same percentage going to everyone. There was different statute for 2017 going forward, which used a ranked order based on Alaska hire, which created challenges for the department to administer. She highlighted the report showed the 2017 balance at \$131 million and the others were shown by year.

[2:47:03 PM](#)

Ms. Glover provided an oil and gas production tax audit update on slide 26:

- Audit Completion and Catchup Plan:
 - All audits through 2017 are complete
 - 2018 and 2019 audits complete by 3Q 2023
 - 2020 audits complete by 4Q 2024
 - Goal is to strive for three-year cycle
- Improvements to Reach Goal
 - Continue to leverage technology
 - Ability for taxpayers to use customer portal
 - Effective two-way communications
 - Consistent audit practices and documentation
 - Stable Tax Regime

Ms. Glover elaborated on the slide. She noted that the oil and gas production tax audits were unique in comparison to the department's other tax programs. She explained that all of the other tax programs in statute had a three-year statute of limitations for the state to generate any audit assessment. The oil and gas production tax audits had a six-year statute of limitations, which had changed in 2007 when the system had gone from a gross tax to a net profits tax. There were pros and cons to having the longer statute of limitations. The downside was audits were issued six years after a company filed its tax returns, which had

created some interesting dynamics. The department wanted to be more current on its audits and aligned with the other tax programs on a three-year cycle. She noted that some smaller companies were less time consuming than others. The department audited all of its producers annually, which was unique compared to the other tax programs.

Ms. Glover addressed the second half of slide 26 regarding improvements made allowing the department to reach its goal. The tax revenue management system funded by the legislature was robust and enabled taxpayers to file online.

[2:50:55 PM](#)

Representative Galvin looked at slide 7 showing relative contributions to total state revenue which was based primarily on investment earnings, federal, and petroleum in thirds. She noted the presentation primarily focused on the petroleum portion. She asked if a future presentation would focus on federal funding and investment earnings.

Co-Chair Johnson asked for clarification on the request.

Representative Galvin replied that she was not certain what the future presentations would be. She requested to hear a future presentation on the federal and investment earnings portion of the revenue in more depth.

Commissioner Crum replied that the federal revenue side was under the purview of OMB. The department was working with OMB and the Alaska Permanent Fund Corporation (APFC) on a future presentation.

Co-Chair Johnson reviewed the schedule for the following day.

ADJOURNMENT

[2:56:03 PM](#)

The meeting was adjourned at 2:56 p.m.