

SENATE FINANCE COMMITTEE

May 4, 2023

1:43 p.m.

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CALL TO ORDER

Co-Chair Olson called the Senate Finance Committee meeting to order at 1:43 p.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick

MEMBERS ABSENT

Senator David Wilson

ALSO PRESENT

John Sonin, Self, Douglas.

PRESENT VIA TELECONFERENCE

Ed Davis, Self, Fairbanks; Sean McGuire, Self, Fairbanks; Randy Beltz, Self, Anchorage; Caroline Storm, Self, Anchorage; Merrick Peirce, Self, Fairbanks; Leila Kimbrell, Executive Director, Resource Development Council for Alaska, Anchorage; Pete Stokes, Self, Anchorage; Catherine Chambers, Self, Anchorage; Allen Strah, Self, Eagle River; Edward Wesley, Self, Anchorage; Richard Gustafson, Self, Homer; Jesse Carlstrom, Self, Anchorage; Richard Faulkner, Self, Anchorage; Christine Resler, ASRC Energy Services, Anchorage; Joe Mathis, Self, Anchorage; Arleigh Hitchcock, Self, Fairbanks; Kelly Droop, Self, Anchorage; Christine Williams, Self, Anchorage; Lois Epstein, Self, Anchorage; Laurie Funyani, Self, Anchorage; George Pierce, Self, Kasilof; Katie Capozzi, President, Alaska Chamber of Commerce, Anchorage; Donald Bullock, Self, Douglas; Carl Berger, Self, Anchorage; Laura Bonner, Self, Anchorage.

SUMMARY

SB 114 OIL & GAS PRODUCTION TAX; INCOME TAX

SB 114 was HEARD and HELD in committee for further consideration.

#sb114

SENATE BILL NO. 114

"An Act establishing an income tax on certain entities producing or transporting oil or gas in the state; relating to the oil and gas production tax; and providing for an effective date."

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Co-Chair Olson relayed that the committee had previously heard the bill on March 31, and had adopted a committee substitute (CS).

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Co-Chair Olson OPENED public testimony.

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JOHN SONIN, SELF, DOUGLAS, spoke in support of the bill. He thought the bill was an economical re-establishment of balance in the economy. He mentioned Reaganomics. He was in support of re-shifting the wealth and creating synergy with our labors, which allowed our society to be civilized. He thought the additional wealth meant more funds for education. He supported an educated voter populace. He thought that after some very imbalanced approaches to a fiscal plan in the state, more money for producers would induce more production. He thought an autocratic society was being created. He emphasized the need for trust, which he felt was the key to capitalism.

Co-Chair Olson asked if Mr. Sonin was in support of the bill.

Mr. Sonin relayed that he was in support of the bill. He reiterated that more trust was necessary.

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ED DAVIS, SELF, FAIRBANKS (via teleconference), testified in support of the bill. He had worked in the oil industry for 28 years. He identified what he thought was a disturbing trend. He relayed that he had worked on the Trans-Alaska Pipeline System (TAPS) for 20 years. He referenced SB 21 [oil and gas tax legislation passed in 2013] and mentioned promises of outlying oilfield development. He referenced Smith Bay, the Great Bear Field, and other areas. He mentioned large oil discoveries. He thought when SB 21 was first introduced, there had been claims that the pipeline would be restored to one million barrels a day for a well-funded state government. He thought the trends were exactly the opposite of what was promised. He wanted the industry to develop the fields that were promised.

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SEAN MCGUIRE, SELF, FAIRBANKS (via teleconference), testified in support of the bill. He thought that Alaska was getting less money for its oil than anywhere else in the world. He mentioned promises from the oil companies and layoffs after passage of SB 21. He referenced cuts to schools and programs at the University of Alaska (UA). He recalled speaking with Senator Bishop. He thought Republicans had given oil companies a gift in the form of SB 21 and hoped that the state would get some money back.

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RANDY BELTZ, SELF, ANCHORAGE (via teleconference), spoke in opposition to the bill. He relayed that he was a lifelong Alaskan and worked for North Star Terminal and North Star Equipment Services. He asserted that North Star employees also were in opposition to the bill. He asserted that passage of the bill would hurt the residents of the state and hurt the workforce. He thought the bill was bad for Alaska businesses.

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CAROLINE STORM, SELF, ANCHORAGE (via teleconference), testified in support of SB 114. She was a self-employed architect. She cited that ConocoPhillips had reported \$18.7 billion profit in 2022. She contrasted that the amount the legislature was debating adding to the Base Student

Allocation (BSA) was only .01 percent of ConocoPhillips profit. She cited that the oil companies had spent \$25 million in a campaign to vote no on a proposition in 2020. She mentioned a presentation to the committee wherein someone advocated for the oil industry profits and longevity. She noted that oil would always be needed for materials. She questioned whether the state would bow to pressure from the oil industry or prioritize the needs of its children. She thought the state needed a young populace to drive the economy. She cited outmigration of the 18- to 35-year-old age group.

Co-Chair Olson handed the gavel to Senator Merrick.

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MERRICK PEIRCE, SELF, FAIRBANKS (via teleconference), spoke in support of the bill. He estimated that with \$74/bbl oil and a 500,000 barrels per day (bpd) throughput, there was a roughly \$13 billion gross value of oil taken from the state each year, with a paltry return. He considered that the bill was a very modest reform. He referenced the passage of SB 21 and thought Senator Bishop had committed to making changes if the bill did not work. He thought the damage from SB 21 was quantifiable and asserted that since SB 21 the state had paid producers more to produce oil and in credits than the producers had paid in production taxes.

Mr. Peirce thought before SB 21, the state received an average of \$3.8 billion per year in production tax revenue. He thought that UA and the Alaska Marine Highway System (AMHS) were worse off. He thought the state had spent from savings and reduced dividends and estimated that the cost to each Alaskan was over \$50,000 per family of five. He mentioned outmigration in the state, and thought the governor supported a highly regressive sales tax. He thought the sales tax would force the poor to subsidize oil companies. He thought the credits paid to oil companies under SB 21 had cost the state over \$7.2 billion. He thought a smart fiscal plan for the state would involve passing SB 114, getting a fair value for the state's oil, and growing the Permanent Fund.

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LEILA KIMBRELL, EXECUTIVE DIRECTOR, RESOURCE DEVELOPMENT COUNCIL FOR ALASKA, ANCHORAGE (via teleconference),

testified in opposition to the bill. She explained that the Resource Development Council of Alaska (RDC) represented the state's fishing, tourism, timber, mining, and oil and gas industries. She mentioned expanding the state's economic base through development of natural resources. She supported responsible fiscal policy balanced with a meaningful spending limit, reducing the deficit, and stability in tax policy. She did not support a substantial increase of taxes on one industry.

Ms. Kimbrell mentioned a version of the bill that would remove the ringfencing provision, which she thought had created concerns with respect to current investment on the North Slope. She thought there were concerns regarding what she perceived as the targeted nature of provisions in the bill pertaining to S Corporations. She thought the provisions unfairly discriminated against one company. She opposed the reduction in per-barrel tax credits. She mentioned federal challenges with decisions limiting the state's development potential. She asserted that changing tax policy in the state would worsen the investment climate and threaten jobs and revenue.

[2:02:07 PM](#)

PETE STOKES, SELF, ANCHORAGE (via teleconference), spoke in opposition to the bill. He relayed that he was a consulting engineer that lived in Anchorage. He compared the bill to Alaska's Clear and Equitable Share (ACES) and thought passing the bill would decrease capital spending on existing fields and result in decreased production and state revenue and jobs. He asserted that SB 21 resulted in a stable tax regime and North Slope exploration and development. He mentioned Pikka and Willow and other development areas. He thought any increase in state taxes or decrease in credit would lead to decline.

[2:04:06 PM](#)

CATHERINE CHAMBERS, SELF, ANCHORAGE (via teleconference), testified in opposition to the bill. She believed the long-term impact of the bill would hurt the economy and result in more people leaving the state. She discussed the problem of outmigration.

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ALLEN STRAH, SELF, EAGLE RIVER (via teleconference), spoke in support of the bill. He felt that the bill did not go far enough to recapture the revenue that the state had given away unwarranted. He thought the \$8/bbl credit was an abomination. He wondered about proposals to tax Alaskans while providing benefits to oil company shareholders. He referenced SB 21. He referenced royalties that were not paid. He mentioned a decrease in development.

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EDWARD WESLEY, SELF, ANCHORAGE (via teleconference), spoke in support of the bill. He was a 50-year Alaska resident and former business owner. He relayed that he had benefitted from the oil and gas industry and shared that his wife had worked in the industry. He recognized that oil and gas was the primary revenue generator for the state, and also recognized the companies would prioritize stockholders. He thought the state should take the same approach and look out for its residents. He thought there were other revenue generators within the state, and that the state should support small businesses.

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RICHARD GUSTAFSON, SELF, HOMER (via teleconference), strongly supported the bill. He relayed that he had tried to testify previously but was unable to. He pondered how much money the state made on a barrel of oil and thought that since the passage of SB 21 the state was getting short-changed. He did not want the state to offer credits on Willow and Pikka.

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JESSE CARLSTROM, SELF, ANCHORAGE (via teleconference), testified in opposition to the bill. He was a lifelong Alaskan. He thought the bill would adversely affect businesses.

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RICHARD FAULKNER, SELF, ANCHORAGE (via teleconference), spoke in opposition to the bill. He commented that most all money spent in the state came from oil companies and oil.

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CHRISTINE RESLER, ASRC ENERGY SERVICES, ANCHORAGE (via teleconference), testified in opposition to the bill. She mentioned that her organization had over 2,000 employees that worked in the oil and gas industry. She thought the bill represented a massive tax increase that threatened to cripple the oil and gas industry. She mentioned higher energy prices and a potential natural gas shortage in Southcentral Alaska. She shared concerns about fewer jobs.

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Three additional individuals from ASRC Energy Services testified in opposition to the bill.

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JOE MATHIS, SELF, ANCHORAGE (via teleconference), testified in opposition to the bill. He had been in Alaska since 1975. He thought the industry was faced with an adversarial federal government with an administration that was trying to shut down the state's oil and gas industry. He thought the proposed legislation was negative. He thought the state should put efforts into putting more oil in the pipeline. He questioned whether the bill would put more oil in the pipeline and thought not.

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ARLEIGH HITCHCOCK, SELF, FAIRBANKS (via teleconference), spoke in support of the bill. She thought that for the past 40 years, oil companies had claimed to bring economic prosperity to Alaska but had needed economic support from the state. She thought the oil companies were the largest recipient of welfare in the state. She referenced money lost as stated by a previous testifier. She referenced the state's financial crisis and thought oil and gas companies had posted record profits year after year since the passage of SB 21. She referenced high fuel prices. She thought the companies were bankrupting current generations and robbing future generations of a livable climate. She thought the additional funds from the bill should be used to support communities and the transition off of fossil fuels. She referenced the transition to renewable energy and the estimate of 100,000 new energy jobs. She mentioned outmigration due to lack of jobs.

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Senator Merrick noted that 2:15 p.m. was the cutoff to sign up for public testimony.

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KELLY DROOP, SELF, ANCHORAGE (via teleconference), spoke in opposition to the bill. She thought Alaska was on the brink of job opportunities and future revenues from new oil and gas development. She commented on the cost of production. She thought producers would not continue to invest if oil taxes were changed.

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CHRISTINE WILLIAMS, SELF, ANCHORAGE (via teleconference), testified in support of the bill. She relayed that she was a Certified Public Accountant (CPA) with a small local firm. She thought permitting an S Corporation to profit off the state's resources was poor stewardship, and to offer tax credits was very bad. She pondered whether there were any other entities to buy BP's leases. She wondered if it was possible to require Hilcorp to create a C corporation for operations in Alaska. She thought elimination of tax credits was appropriate. She thought the state should be prudent with its share of the profits and investigate ways to embrace alternative energy.

[2:21:12 PM](#)

LOIS EPSTEIN, SELF, ANCHORAGE (via teleconference), spoke in favor of the bill. She was a licensed consulting engineer and had over 20 years' experience weighing in on oil and gas issues. She had served on two national committees addressing infrastructure. She recounted that she had worked to understand the impact of SB 21. She thought that Hilcorp's presence as a C Corporation had made the state's revenue picture worse under SB 21. She thought the modest adjustment of the bill was necessary. She asserted that the drop in state revenues since the passage of SB 21 had been dramatic.

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LAURIE FUNYANI, SELF, ANCHORAGE (via teleconference), spoke in opposition to the bill. She was a business owner in

Anchorage and was a direct service provider to oil and gas producers. She relayed that as the oil and gas industry expanded and contracted so did her employee base and bottom line. She thought the reduction in per-barrel credits would result in less money producers would invest in production. She mentioned ACES and thought it had made for a drop in production. She thought Alaska should help grow the number of producers rather than the government take.

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GEORGE PIERCE, SELF, KASILOF (via teleconference), testified in support of the bill. He thought the bill needed amendment. He asserted that oil and gas could be taxed. He thought oil companies invested profits outside the state. He mentioned that Prudhoe Bay had declined. He stressed that Alaska needed a fair share of its oil. He discussed producers that paid no income tax, and unfulfilled promises from oil and gas companies. He lamented a lack of growth for the PFDs.

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KATIE CAPOZZI, PRESIDENT, ALASKA CHAMBER OF COMMERCE, ANCHORAGE (via teleconference), spoke in opposition to the bill. She relayed that the Alaska Chamber of Commerce was founded in 1953 and was the state's largest statewide business advocacy organization. The chamber had a supportive position of the oil and gas industry in Alaska. She testified that the chamber had a specific position to support and encourage a positive investment climate that provided certainty and stability for statewide oil and gas activities, and to oppose efforts to increase oil and gas taxes. She thought the bill provisions could cripple the state's economy and pointed out that one in four jobs in the state was related to the oil and gas industry. She thought the provision targeting S corporations was of great concern and could lead to other additional taxation of S corporations in other sectors.

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DONALD BULLOCK, SELF, DOUGLAS (via teleconference), testified in opposition to the bill. He was a retired attorney and his family had moved to the state in 1955. He did not think the bill had proper consideration by the legislature. He was concerned with the production tax

provisions of the bill. He discussed production tax. He thought Alaska had a relatively low well-head value compared to other states. He thought the production tax was complex. He thought deductions and credits had to be considered in light of the production tax value to get a true picture of how competitive the state was. He discussed wellhead values. He thought the need for revenue was a poor reason for changing the tax on the industry that he thought provided the most to Alaskans.

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CARL BERGER, SELF, ANCHORAGE (via teleconference), spoke in support of the bill. He was a 58-year resident of the state. He thought the bill would apply the corporate income tax to all major oil producers in the state regardless of what form the company took in the state. He mentioned Hilcorp. He thought the bill would still not provide the state a fair return on its oil but was a step in the right direction. He emphasized that the state needed to get its fair share of oil profits in order to solve the problems in the state. He mentioned the outmigration of young people. He emphasized the need for job creation, education, and state services.

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LAURA BONNER, SELF, ANCHORAGE (via teleconference), testified in support of the bill. She had listed previous testimony by the Alaska Oil and Gas Association (AOGA). She thought testifiers had not addressed the fact that the passage of SB 21 had not increased production or investment, nor that the number of jobs had plummeted. She thought the most compelling testimony for the passage of SB 114 was from Dr. Mark Meyers, former DNR commissioner. She hoped that the committee would keep the comments under consideration. She thought passage of SB 114 would generate needed revenue and reform the poor tax system established by SB 21.

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Senator Merrick CLOSED public testimony.

SB 114 was HEARD and HELD in committee for further consideration.

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AT EASE

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RECONVENED

Senator Merrick discussed the agenda for the following day.

#

ADJOURNMENT

2:37:22 PM

The meeting was adjourned at 2:37 p.m.