

SENATE FINANCE COMMITTEE
January 24, 2025
9:01 a.m.

[9:01:13 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Mike Cronk
Senator James Kaufman
Senator Jesse Kiehl
Senator Kelly Merrick

MEMBERS ABSENT

Senator Donny Olson, Co-Chair

ALSO PRESENT

Senator Cathy Giessel; Senator Robert Yundt; Adam Crum, Commissioner, Department of Revenue; Dan Stickel, Chief Economist, Department of Revenue; Dale Yancey, Tax Director, Department of Revenue.

SUMMARY

PRESENTATION: REVENUE FORECAST - DEPARTMENT OF REVENUE

Co-Chair Hoffman discussed the agenda.

^PRESENTATION: REVENUE FORECAST - DEPARTMENT OF REVENUE

[9:02:15 AM](#)

ADAM CRUM, COMMISSIONER, DEPARTMENT OF REVENUE, introduced himself and relayed that the department would be discussing the fall 2024 revenue forecast.

[9:02:43 AM](#)

DAN STICKEL, CHIEF ECONOMIST, DEPARTMENT OF REVENUE, discussed a presentation entitled "Fall 2024 Forecast Presentation - Senate Finance Committee" (copy on file).

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

1. Forecast Background and Key Assumptions
2. Fall 2024 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
 - Petroleum Revenue by Land Type

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

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

- Released December 12, 2024
- Historical, current, and estimated future state revenue
- Discussion and information about major sources of state revenue
- Official revenue forecast used for final budget process
- Located at tax.alaska.gov

Mr. Stickel noted that past revenue forecasts were available at www.tax.alaska.gov. He explained that in the fall the department published the Revenue Sources Book (RSB), which was an over-100-page publication with detailed information on the state's revenue sources and a variety of data going back for ten years. There was a ten-year forecast for different revenue sources. He noted that the publication utilized data from the state's accounting system and also from numerous other state agencies including the Department of Natural Resources (DNR) and the Alaska Permanent Fund Corporation (APFC). He noted that the publication fulfilled two statutory requirements.

Mr. Stickel turned to slide 5, "Fall Forecast Assumptions":

- The economic impacts of financial and geopolitical events are uncertain; DOR has developed a plausible scenario to forecast these impacts.

- Key Assumptions:

- o Investments: Stable growth in investment markets, 7.90% for remainder of FY 2025 and 7.65% for FY 2026+.

- o Federal: The forecast incorporates stimulus funding as of December 1, 2024, includes updated estimates of potential IIJA funding. FY 2027+ assumed to grow with inflation.

- o Petroleum: Alaska North Slope oil price of \$73.86 per barrel for FY 2025 and \$70.00 per barrel for FY 2026.

- o Non-Petroleum: Continued economic growth. 1.6 million cruise passengers, five-year recovery for fisheries taxes, minerals prices based on futures markets.

Mr. Stickel emphasized that the forecast was a discrete forecast that highlighted one set of numbers within a range of potential outcomes, and there was a range of uncertainty. The forecast oil price for FY 25 included five months of prices with a projection for the remaining months. He discussed projections for non-petroleum revenue. The forecast assumed future operation of existing mines without new mines coming on.

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Mr. Stickel considered slide 6, "Relative Contributions to Total State Revenue: FY 2024," which showed a graphical depiction of total revenue from all different funds. In FY 24, state revenue totaled \$16.3 billion with the largest contributions being federal receipts, investment earnings, and petroleum revenue. All other revenue sources amounted to about 7.4 percent of the total. He pointed out that the other industries that contributed a smaller portion of state revenue did make large contributions to employment and the overall economy of the state.

Mr. Stickel displayed slide 7, "Relative Contributions to Total State Revenue: FY 2025," which was a similar graphic slide to the previous. He pointed out that for FY 25, there was \$16.8 billion forecast for state revenue, with 92

percent of the revenue share being federal, investments, and petroleum.

Mr. Stickel showed slide 8, "Fall 2024 Revenue Forecast."

Mr. Stickel looked at slide 9, "Unrestricted Revenue Forecast: FY 2024 and Changes to Two-Year Outlook," which showed a table that showed some of the key changes to the unrestricted revenue forecast compared to the spring forecast was released in early 2024. For oil prices, the forecast decreased by \$4.14/bbl for FY 25 to \$73.86/bbl. The FY 26 forecast was reduced by \$4/bbl down to \$70/bbl. The new forecasts included updated information from the futures market, and some additional FY 25 actual data. He recounted that the previous day DNR had indicated the oil production forecast for FY 25 was decreased by about 10,000 barrels per day (bpd) to about 467,000 bpd. For FY 26, there was a reduction of about 12,600 bpd down to 469,500 bpd. He pointed out that there had been an earlier version of the presentation that erroneously did not include the brackets around the change in ANS oil price for FY 26, which denoted a reduction in the forecast.

Mr. Stickel addressed the Permanent Fund (PF) transfer, listed at the bottom of the table, and noted that due to the way the transfer was calculated, the FY 26 amount was known. Performance at the end of 2024 exceeded expectations and the amount increased by about \$9 million. For total Unrestricted General Fund (UGF) revenue, the reduction was about \$220 million for FY 25 and about \$232 million for the FY 26 forecast. Reduction in oil price outlook was the primary driver for the changes.

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Co-Chair Stedman asked about the oil price and production volume. He reflected on the recent change of federal administration and whether the department anticipated any forthcoming changes compared to a month previously.

Mr. Stickel reflected that oil prices had been trending slightly above the fall forecast. He noted that there was a forthcoming slide that looked at current prices and outlook. He reflected on the new administration and thought there was a lot of optimism regarding potential opportunities, which had not been factored into the forecast.

Co-Chair Stedman discussed volume and noted that the state was having a warmer-than-expected winter, which tended to slow production. He made note of the 12,000 bpd production decrease and wondered why there was a downward trend. He asked if the warm winter would potentially impact the forecast for spring.

Mr. Stickel did not have the production tracking at hand. He thought the state was largely on track with the fall forecast for production.

Co-Chair Stedman asked if the warm weather would affect production.

Mr. Stickel noted that generally warm weather tended to put a damper on production due to reservoir dynamics and gas handling.

Co-Chair Stedman explained that members were concerned with the revenue projections meeting some of the expenditure wishes of some colleagues in the building. He thought producing a balanced budget might be tough.

Commissioner Crum reflected on current production values and was happy to share information with the committee.

[9:15:25 AM](#)

Mr. Stickel addressed slide 10, "Total Revenue Forecast: FY 2024 to FY 2026 Totals," which showed total state revenues from all sources for FY 24 as well as the forecast for FY 25 and FY 26. He noted that when looking into total state revenue, it was broken into four categories that were consistent with how the categories were used for budgetary purposes. The UGF could be appropriated by the legislature for any purpose and were typically the primary focus of budget discussions. He discussed Designated General Fund (DGF) revenues, which were technically available for appropriation but customarily used for specific purposes. There was a lesser level of discretion around the revenues. He used the example of the Vehicle Rental Tax, which was deposited into a special sub-account of the General Fund and appropriated to fund tourism development and marketing.

Mr. Stickel addressed other restricted revenue, or funds which were truly restricted with little discretion for

appropriation. He used the example of the Commercial Vessel Passenger Tax, which federal law dictated the state had to use in direct support of the cruise ship industry and passengers. He discussed federal revenue and noted that the federal government put provisions around how the state could use different federal receipts, so it was shown as restricted revenue. In total, the state received \$16.3 billion in total state revenue for FY 24, with a forecast of \$16.8 billion for FY 25 and \$15.7 billion for FY 26.

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Mr. Stickel advanced to slide 11, "Unrestricted Revenue Forecast: FY 2024 to FY 2026 Totals," which pulled out the UGF portion of revenue from the previous slide. He noted that the unrestricted revenue would be the focus for the remainder of the presentation. He pointed out that the largest portion was the investment revenue, which contributed \$3.7 billion in FY 24, and was forecast to contribute \$3.8 billion for FY 25 and \$3.9 billion for FY 26. The largest portion of the investment revenue was the percent-of-market-value (POMV) transfer from the PF to the General fund that began in 2019. Petroleum revenue generated about \$2.5 billion of unrestricted revenue in FY 24 and was forecast at \$1.8 billion in FY 25 and \$1.7 billion in FY 26. Non-petroleum revenues were forecast to contribute a little under \$600 million per year in FY 25 and FY 26.

Mr. Stickel noted that the next few slides would walk through the unrestricted revenue types, beginning with investment revenue.

Mr. Stickel looked at slide 12, "Unrestricted Investment Revenue: FY 2024 to FY 2026 Totals," which showed a table. He highlighted that the PF transfer alone was expected to contribute between 59 percent and 64 percent of unrestricted revenue over the next ten years. In addition to the transfer, there was a small amount of other unrestricted revenue, representing primarily earnings on cash balances of the General Fund, which amounted to a little under \$150 million in FY 24. He expected a decline to about \$88 billion in FY 26, based on an expectation of lower interest rates on cash.

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

which showed a bar graph depicting the estimated POMV transfer forecast from FY 25 to FY 35. The transfer was estimated to be over \$3.5 billion each year over the ten-year forecast, steadily increasing to nearly \$5 billion by 2035. The forecast was based on an assumption of a 7.65 percent long-term annual return for the PF, and 5 percent market calculation. The five percent calculation was based on the average ending market value for the first five of the last six fiscal years, which made it a fairly stable revenue source. He thought it was important to note that the transfer included funds for both government services and the Permanent Fund Dividend (PFD). Statute did not dictate how the split was made.

Co-Chair Hoffman asked about the major source of revenue to operate state government prior to passage of SB 26 in 2019.

Mr. Stickel relayed that prior to 2019, oil and gas was the primary source of revenue. There were several years that the state was running budget deficits, which led to the change to incorporate a portion of investment revenue to fund government services.

Co-Chair Hoffman thought the practice was a major change for the state.

Mr. Stickel agreed.

Co-Chair Hoffman noted that prior to 2019, no revenue was spent from the Earnings Reserve Account (ERA).

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Co-Chair Stedman commented on slide 13. He noted that Commissioner Crum was on the PF board. He shared that some members had concerns related to the PF asset allocation being too heavily in illiquid investments, which restricted the fund's ability to generate cash. He understood that there was a requirement for the PF to maximize growth and returns. He made note of the 5 percent payout.

Commissioner Crum affirmed that he sat as a trustee on the Alaska Permanent Fund Corporation. He spoke to the liquidity risk, which he described as a constant point of discussion with trustees and staff. He shared that the total return of 7.9 percent in FY 24 was barely making the inter-generational equity goals of the original intent of

the fund. He noted that the fund used a long-term assumption of 2.5 percent for inflation, along with the 5 percent draw, so there was a real return of 7.5 percent. He mentioned the statutory requirement to maximize risk-adjusted returns. He cited that there was a realized gains versus unrealized gains issue with an asset allocation like the one the fund presently had. He thought the two-account system of the ERA and the corpus limited how much was spun out. He mentioned APFC Trustee paper 10 from the previous year, which illustrated the benefits of combining the two accounts.

Commissioner Crum relayed that the PF had been in "dire straits" the previous fall. He mentioned a recent analysis by Callan, which showed the risk of not having available earnings in FY 27 and beyond for the POMV had decreased somewhat but would be a risk going forward. He imagined the topic would be a large point of discussion at APFC's upcoming quarterly meeting in February. He noted that APFC Executive Director Deven Mitchell had been doing public outreach on the topic.

Co-Chair Hoffman clarified that the requirement to join the two funds required a constitutional amendment. The change would take 14 votes in the Senate and 27 votes in the House in order for the matter to come to a vote of the people.

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Co-Chair Stedman appreciated the comments. He thought the question of whether five percent was the appropriate rate would be a topic of conversation going forward. He discussed increasing risk exposure by chasing returns.

Mr. Stickel referenced slide 14, "Unrestricted Petroleum Revenue: FY 2024 to FY 2026 Totals," which showed a table with a breakout of the different sources of unrestricted petroleum revenue. He highlighted four main sources including oil and gas production tax, which was expected to bring about \$563 million in FY 25 and \$441 million in FY 26. He addressed petroleum corporate income tax, which was on qualifying oil and gas corporations doing business in the state. The department forecast \$210 million for FY 25 and \$250 million for FY 26. He spoke to the oil and gas property tax. Any property tax levied by municipalities was allowed as a credit against state tax. The state generated

a little over \$130 per year from the property tax, with over \$500 million generated for municipalities.

Mr. Stickel continued to address the revenue sources on slide 14, with the largest source from royalties and related revenues, which brought in about \$1.15 billion in FY 24. The royalties and related revenues were forecast at \$942 million for FY 25 and \$898 million for FY 26. The funds represented the state's portion of oil and gas production as the owner of leases on state land. Additionally, there was a significant amount deposited into the PF and the School Fund.

Co-Chair Hoffman referenced Mr. Stickel's citation of \$500 million in property tax for municipalities. He noted that the funds were only available for those municipalities that were incorporated. He asked if the municipalities had to be on the gas line such as the North Slope, Fairbanks, and Valdez Boroughs to have access to the taxes.

Mr. Stickel answered affirmatively. He relayed that municipalities had the ability to levy property tax on property within the municipalities. He noted that the North Slope Borough was a major recipient of property tax.

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Mr. Stickel turned to slide 15, "Unrestricted Non-Petroleum Revenue: FY 2024 to FY 2026 Totals," which showed a table with a breakout of unrestricted non-petroleum revenues, the largest component of which was taxes. The largest portion of taxes was the non-petroleum corporate income tax, which was forecast at \$210 million for FY 25 and \$230 million for FY 26. The FY 26 amount showed a bit of an increase from prior years, after lower taxes during Covid-era losses. He expected corporate income taxes collection to increase as well as corporate profitability. He mentioned other taxes including excise taxes, fisheries taxes, the Insurance Premium Tax, and the Large Vessel Gambling Tax. He pointed out the negative \$1 million in Mining License Tax in FY 24, due to some large refund payouts and weak minerals prices (particularly for zinc) in 2023 which led to lower payments in 2024.

Mr. Stickel cited that the total non-petroleum taxes were forecast to generate a little over \$440 million for the next two years. He addressed the "Other" category which

generated a little over \$140 million per year the following two years. The category consisted of a variety of licenses and permits, charges for services, non-petroleum rent and royalties, and miscellaneous revenues such as dividends from state-owned corporations.

Senator Kiehl acknowledged that the work on the data for the presentation had been completed some weeks ago. He thought that the state did not have its own corporate income tax code but rather based its take on federal taxes. He was curious about the newfound alignment in Washington D.C. He asked about DOR's comfort level with the forecast for increased corporate income tax when the conversation seemed to be about corporate income tax cuts.

Mr. Stickel affirmed that the state used the federal tax code for a starting point for corporate income tax. For non-petroleum revenues, the state apportioned total federal income to the state, but the tax rate was set by the legislature. He thought that interestingly, if the federal government were to cut the corporate income tax rate and it led to additional economic activity, it could increase the tax base for Alaska's corporate income tax. He thought based on the latest information DOR had a decent amount of confidence around the forecasts. He pointed out that corporate income tax was one of the more volatile revenue sources that had a range of uncertainty.

Senator Kiehl thought what the federal government charged as a rate did not affect the state's take. He was concerned with what into the taxable line. He thought a great deal of the work that Congress tended to do on the tax code had an effect on how much income ended up subject to tax at all. He was interested to see whether the matter was simple or not.

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DALE YANCEY, TAX DIRECTOR, DEPARTMENT OF REVENUE, reflected that during the first Trump Administration the federal corporate rate was reduced from 35 percent to 21 percent, but the rate change did not impact the state, which was using worldwide income, which was apportioned to Alaska. He thought if the rates were reduced further, it would not affect the state. He noted that the state did "rolling conformity." He agreed that if the federal government changed what was in the base, it could affect the state.

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 showing the ten-year forecast for Alaska North Slope (ANS) crude oil prices from the fall forecast to the spring forecast for 2024. He noted that based on the latest futures market projections, there had been a slight reduction in the price outlook for all years in the forecast. There was a reduction of \$4.14/bbl For FY 25 and a \$4/bbl reduction for FY 26, with smaller reductions for each of the following years. He noted that DOR had generated the price forecast on December 1 and used the last five trading days of November as a sample from the futures market to generate the revenue forecast. He explained that DOR used the futures market because it provided a transparent and timely methodology for doing the forecast.

Mr. Stickel highlighted slide 18, "Petroleum Detail: Nominal Brent Forecasts Comparison as of January 21, 2025," which showed a line graph that compared DOR's forecast with various other sources earlier in the week. The comparison included Brent future's prices from the federal Energy Information Agency, the most recent future market projections, and an average analyst forecast from Bloomberg. He noted that DOR compared to Brent prices because Brent was an international benchmark that was widely forecast and tended to trade at a valuation quite similar to ANS crude. He thought it was a bit of good news that oil price had increased a bit since the fall forecast. He thought for the next year or so, the state's forecast would be slightly conservative by about \$5/bbl to \$10/bbl. Beyond the next year or so there was general consensus that oil prices would remain in the roughly \$70/bbl range, plus or minus \$5/bbl or \$10/bbl.

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Mr. Stickel looked at slide 19, "Petroleum Detail: UGF Relative to Price per Barrel (without POMV): FY 2026," which showed a graph. The slide put dollar values to the concept that oil price might not be exactly what was forecast. For FY 26 the graph was based on an ANS price forecast of \$70/bbl, which equated to \$2.4 billion in UGF

revenue excluding the PF transfer. The slide showed how the revenue number would change at different prices. The graph showed that for each dollar change in the oil price equated to about \$35 million of UGF revenue. At higher prices, the delta changed to about \$75 million per barrel and at lower prices it changed to about \$25 million per barrel. He noted that the slight curve on the graph had to do with the progressive element of the state's production tax system.

Co-Chair Stedman considered the previous chart and price estimates. He pondered what position the state would be in with the CBR balance if the price would hit the mid-60s in two fiscal years. He discussed three-year forecasts versus longer term ten-year forecasts.

Mr. Stickel relayed that his group provided a detailed sensitivity analysis to the legislature and the administration so as to understand what impact different oil prices had on revenues. He referenced Appendix A1 in the RSB, which provided the same information from slide 19 for FY 27 and FY 28. There was a more detailed version that could be provided to anyone with an interest.

Co-Chair Stedman hoped to get members interested in looking at a three-year and five-year projection. He thought it would be a lot more difficult if oil prices were around \$65/bbl.

Co-Chair Hoffman relayed that several departments had indicated that the target for a "safe" CBR balance was around \$5 billion. He asked Commissioner Crum if the department had an amount it considered as a comfortable balance in the CBR.

Commissioner Crum mentioned daily cashflow purposes. He noted there was a working agreement between DOR, the Office of Management and Budget (OMB), and Department of Law as to the absolute floor of the account, which was in the \$400 million to \$500 million range. He noted that long-term projections included comprehensive analysis including the following fiscal year. He asked if an analysis including four years out based on total expenditures would be helpful.

Co-Chair Hoffman answered "yes."

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Co-Chair Stedman pondered concerns with the spending appetite in the building, and thought it might not be correlated with the revenue expectations. He thought taking a good look at a reasonable five-year expectation might help balance expenditures more easily.

Co-Chair Hoffman believed the matter would become clear on the following Monday when OMB presented a proposed budget. He thought one proposal had a deficit of more than \$1.5 billion, which would take a substantial amount of the CBR balance, a prospect he was not interested in.

Commissioner Crum appreciated the clarification. He noted that the projections being discussed were not regularly presented in an aggregated format. He agreed to work with the committee and OMB to compile the information on forecasted revenues as requested.

Mr. Stickel addressed slide 20, "Petroleum Detail: North Slope Oil Production Forecast," which showed a line graph that was a summary of information presented by DNR the previous day. The graph showed the North Slope oil production forecast for the next ten years, as well as a high case and a low case. He summarized that the story for the next several years was one of stability, and production would remain in the 460,000/bpd to 500,000/bpd range as natural declines in the mature existing fields were offset by additional drilling in the fields. Once beyond 2027 and 2028, stability was overlaid by additional production expected from new fields coming online, Pikka and Willow being the largest.

Mr. Stickel advanced to slide 21, "Petroleum Detail: Changes to North Slope Oil Production Forecast," and showed how the forecast changed between the spring 2024 and fall 2024 forecasts. There were reductions to the annual production outlook for FY 25 through FY 27 in particular. For FY 31 and beyond, there were some increases in the forecast based on confidence of the new fields coming on.

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Mr. Stickel looked at slide 22, "Petroleum Detail: North Slope Allowable Lease Expenditures," which a graph. The graph depicted data on costs of production reported on production tax return, which were deductible in the net

profits portion of the production tax calculation. He noted that DOR liked to look at lease expenditures as an important barometer of industry investment and spending in the state. He pointed out that in FY 24, capital expenditures on the North Slope were \$4.2 billion, and operating expenditures were an additional \$2.9 billion. He cited that FY 24 saw significant spending and new spending on new fields. There was a forecast of an additional increment to investment in FY 25 based on continued high levels of spending at the new developments and continued drilling at existing fields. Over the long term, he expected continued robust spending with capital expenditures stabilizing at a little under \$3.5 billion per year. On the operating expenditures side, there were modest annual increases forecast throughout the time horizon based on a combination of inflation and field operating costs.

Mr. Stickel pointed out that there was a risk adjustment made to lease expenditures, similar to that of the production forecast. For new developments, if there was an 80 percent probability assigned to production, the same probability would be applied to the lease expenditure forecast. If all of the fields came online as hoped, there was potential for additional investment in the state above and beyond what was shown, as well as additional production.

Senator Kiehl appreciated the forecast. He looked at the trend line for capital expenditures going back and asked if the level tended to stabilize or if it went dramatically up and down.

Mr. Stickel relayed that there were two factors related to capital expenditures, including oil price. In a high-price environment, there was cost inflation as well as increased funds for spending. In a low-price environment, companies would cut back on spending. He considered the existence of major projects and higher levels of capital expenditures. He thought for several years the state would see high levels of capital expenditures regardless of price.

Senator Kiehl thought it was important for the committee to think about the impact of the fluctuations on what funds the state had to work with. He thought the legislature should consider how to ride out the peaks and valleys.

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Co-Chair Stedman considered per-barrel credits and thought the state had the ability to calculate the level closely for years. He pondered that with other mechanisms there was now greater difficulty in accurately estimating the credits based against revenue without going to the department for further information. He thought there seemed to be "de-linking," which he thought was concerning. He asked for explanation and reasoning as to the lack of clarity. He referenced current expansion on the North Slope.

Mr. Stickel relayed that the state had a complex oil and gas tax system, which had been referred to by consultants as one of the most complex in the world. He summarized that for the North Slope, production tax consisted of a net profits tax, and a gross minimum tax floor. He discussed the two types of taxable per-barrel credits. Companies could apply the credits to reduce the tax down to the minimum tax floor. He explained that around \$70/bbl oil prices, the state was in a situation where some producers in the state would be paying above the minimum tax floor; and some companies would be paying at or below the minimum tax floor, meaning the companies could not receive the full \$8/bbl taxable credit. When attempting to calculate the tax in aggregate, it would be a very different number than looking at company-specific calculations, due to the difference in company portfolios and investments.

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Co-Chair Stedman asked for more detail on the carry-forward credit, and how it worked on a higher level. He considered having a future presentation in more detail.

Mr. Stickel explained that when a company was making investments in the state, there were three possible situations: a company could be at or above the minimum tax floor, a company could be paying at the tax floor but had a profit, and a company could be in a net operating loss (NOL) situation. For those with slope-wide profits below zero and new entrants, any investments beyond the zero gross value would generate a carry forward annual loss, which could be used to offset future tax liabilities. There were several provisions around the carry forward annual losses.

Co-Chair Stedman considered development that was underway, which he thought appeared to be accelerating. He anticipated substantial expenditures in the billions, and capital expenditures which might be carried forward. He pondered increasing oil production and pipeline volume, but without much increase in revenue. He pondered explaining to the public and understanding mechanisms at work. He thought the members needed to understand the cycle of multiple stages of investment. He wanted to minimize misinformation and confusion when there was not big revenue increases expected for several years.

[10:02:37 AM](#)

Mr. Stickel agreed that Co-Chair Stedman was correct in that there was a time lag in revenue received for new projects. He noted that there was a gross value reduction (GVR) provision that offered a tax benefit on the production tax for the first three to seven years, that was a significant benefit for new production. Depending upon where the production was located, the royalty impacts differed widely. He noted that an upcoming slide would speak to the topic in more detail.

Commissioner Crum referenced Co-Chair Stedman's point about the cash-flow positive aspects of a project and relayed that DOR had an example on its website with an in-depth analysis of the Willow project. He noted that the project was massive and had over \$1 billion in annual capital expenditures but would not be cash-flow positive to the state until the early 2030's. He thought it was important to note that the project was cash-flow positive for other areas in jobs and property taxes. He thought Willow was a good example for the general public and noted that the report would be updated. The project as a whole would be expanding based on recent presidential action.

Co-Chair Stedman clarified that the discussion was centered on the timing of cash flows and project economics. He noted that changing the levers of the tax structure would change the economics of a project. He was concerned that members understood the economics of the working fields so as to not draw irrational conclusions.

[10:06:50 AM](#)

Mr. Stickel spoke to slide 23, "Petroleum Detail: North Slope Transportation Costs," which showed a bar graph. He explained that transportation costs reduced the value of oil for both tax and royalty calculation purposes. He noted that transportation costs included all the costs of getting oil to market, which took place mostly on the West Coast of the United States, including feeder pipeline tariffs, Trans-Alaska Pipeline System (TAPS) tariffs, and tanker transportation costs. The TAPS tariff and tanker costs were the largest components. In FY 24, the average cost of transporting oil to market was \$10.53/bbl. He relayed that DOR expected costs to be fairly stable over the ten-year forecast, reducing a little after FY 25 and remaining just under \$10/bbl. Marine transportation costs had increased over the last several years due to inflation and fuel prices, but were expected to stabilize. He expected the TAPS tariff to decrease over the ten-year forecast based on higher pipeline throughput. He explained that by having a larger number of barrels going through the pipeline, the cost per barrel for production decreased.

[10:08:59 AM](#)

Mr. Stickel referenced slide 24, "State Petroleum Revenue by Land Type," which had a table that addressed how the state benefitted in revenue from oil and gas production with respect to different types of land. He described the basic concept as not all oil was the same. He relayed that historically most production in the state was on state land with a standard 12.5 percent royalty and referenced Prudhoe Bay and Kuparuk. A lot of new production was from other lands with different ownership rates. State taxes (including production tax, corporate income tax, and property tax) were applied to all production in the state regardless of land ownership, and up to three miles offshore. Royalty rates varied depending upon ownership.

Mr. Stickel continued that for federal land and the Natural Petroleum Reserve-Alaska (NPRA) (including fields like the Moose's Tooth Unit and the Willow development), the federal government received the royalty for the land and shared half the royalty back to the state. The funds to the state had to be used to benefit the local communities impacted by the development, so the share of royalty from NPR-A was a pass-through.

Mr. Stickel continued that for federal waters three to six miles offshore, the Alaska National Wildlife Refuge (ANWR) or other land, the state received a share of the revenue without any restrictions under current law. There was a small portion of production from North Star and in Cook Inlet that were in federal waters within three to six miles off-shore. For federal waters beyond six miles offshore, there was no direct state revenue, however, were production to take place there could be potential positive impacts on state revenue with increased pipeline throughput and state economic benefits.

Mr. Stickel continued that for any private land (mostly Alaska Native corporation-owned land) the state did not get any direct royalty interest but did apply a tax on the private royalty interest. The tax was five percent of the private royalty value for oil and one and two-thirds percent for gas.

Co-Chair Hoffman thought the comments by Co-Chair Stedman related to the appetite [for spending] in the building were quite relevant and could apply to the Dunleavy Administration. He commented that the legislature had not heard from the administration regarding new revenue sources. He thought the past indicated that the administration would not venture into the subject. He wondered about the administration's position for the following two years, or if the subject had been discussed.

Commissioner Crum was unaware of any new legislation put forward by the governor related to new revenue sources.

Mr. Stickel turned to slide 25, "THANK YOU":

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Co-Chair Hoffman thanked the commissioner and his staff.

Co-Chair Hoffman discussed the agenda for the following meeting.

#

ADJOURNMENT

10:14:01 AM

The meeting was adjourned at 10:14 a.m.