Testimony
Senate Resources Committee – Tax Reform
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Twenty years of tax and investment climate stability began in Alaska with a press conference on March 18, 1981, along with associated legislation. I would ask you to enter this video link of the press conference to your record in this proceeding: https://vimeo.com/10293150.

This new era of tax and investment climate stability followed about a decade of annual tax increases as Alaskans struggled to define the 'fair share' of oil and gas revenues that would have them achieving their constitutional mandate to maximize natural resource benefits.

The press conference featured: Governor Jay Hammond, Senator Jay Kerttula (Senate President), Senator Don Bennett, Senator Ed Dankworth, Representative Jim Duncan (House Speaker), Representative Hugh Malone, Representative Sam Cotton and Representative Tony Vaska.

Together they announced that with bi partisan legislation (i.e. which they jointly supported) they had achieved for Alaska a "fair share" of oil revenues: 30%. In fairness, we should note that the general sentiment seemed to be that Alaska's share should not be 'less than 30%'. Citizens should also understand that while this group of officials made a decision and established a tax policy, such action does not automatically bind future legislatures to adopt or maintain the same policy. A student of government would also appreciate that while government policies may be changed*, the degree that they remain stable or unpredictable affects the reliability of the investment climate and the resulting inflow of investment*.

The first ten years of Y2K resulted in a very large, retroactive industry production tax (i.e. severance tax) increase, contentious debates among taxpayers and tax authorities, a return to tax instability and lack of clarity for investors who were considering gas pipelines and other projects. By 2013, Alaska's undiversified operating budget has become 90% dependent on oil revenue. Therefore, the fact that the Trans Alaska Pipeline System (TAPS) is nearly 3/4 empty and becoming further depleted at a rate of about 7% annually has put the social and economic future of our state in significant jeopardy. (Detroit has become fiscally insolvent and has lost over half its population, as reported this week. Part of its problem is an unfunded pension liability exceeding $6 billion; Alaska's unfunded pension liability, with a population similar to Detroit's, is over twice that of Detroit.)

Compounding Alaska's Post-Y2K anti-investment message was a 'natural gas reserves tax' voters' initiative sponsored by several Alaska lawmakers. The initiative failed in 2008, but its sponsors vowed to support it in upcoming election cycles.

Last year, legislators began talking of new, anti-industry legislation that would convert the State's oil and gas income tax from an 'apportionment formula' to a 'separate accounting' income tax. The 1981 press conference documented in the video, memorializes the Legislature's and Governor's successful effort to repeal a "separate accounting" income tax experiment that resulted in a lawsuit the government felt it would lose. While changing from "separate accounting" back to "apportionment", among other things, the Legislature increased the severance tax from 12.25% to 15%, including an economic limit factor to encourage production from depleting fields. Such stability led to much more oil production than the proven reserves (i.e. 9.6 billion barrels) upon which the original field development and Trans Alaska Pipeline System investments were based.

Alaska production is now dropping quickly as production blooms in competitive oil and gas regions. At the time of the 1981 press conference, Alaska was America's leading oil producing state, transporting about 2 million barrels per day through TAPS. The 49th State was providing the United States with about 20% of all domestic oil production. Now, Alaska provids less than half of domestic oil production and has fallen from its position as top domestic producer to 'also-ran' status behind North Dakota, Texas and possibly even California.

Thus, as Alaska had by 2008 become among the most costly places to engage in the oil and gas business, it had also become one of the most risky venues for new investment based on its uncertain initiative process and its unreliable--if not hostile--tax and regulatory policies.

Much of the anti-investment climate atmosphere here flows from a highly disciplined cadre of environmental activists. Some, but not all, labor unions oppose tax reform and seem to be more interested in short term, tax-revenue-supported, Davis-Bacon capital projects than in the State's long-term, economic sustainability.

Many private sector citizens and organizations have confronted this challenge but with the Obama Administration also executing a withering array of regulatory and lease sale policies and attacks, hope for free enterprise nourishment from Federal land activity in and around Alaska is also uncertain.

If asked what course of action to follow, in view of my observations over the last several decades, **I would suggest that the Legislature and Governor**:

1. Take appropriate steps to make Alaska a more competitive oil producing state and investment destination, by

2. Clarifying, simplifying and stabilizing Alaska's tax structure.
3. **I further recommend that decision makers**: recognize and appreciate Alaska's competitive **liabilities**, including: remoteness to the markets, high logistical costs, high labor costs, climactic and volcanic risk, added cost of pipeline and tanker transportation, etc., and
4. Recognize the **strengths** of competitors, almost all of whom have lower labor costs, great resource potential, are closer to markets (i.e. and, are mostly located near transportation hubs or at tidewater), operate in friendlier climates (i.e. many of which are tropical), have experienced and less expensive labor forces, have shorter logistical chains, and
5. That they carefully evaluate competing oil and gas jurisdictions using various tools, including statistical surveys performed by organizations like the Fraser Institute, and
6. That they agree on an oil and gas taxing regime that puts Alaska, statistically, in the low median range[1] of our competitors -- in the eyes of investors -- and
7. That they seek a way to offer guaranteed tax regime stability for one to two decades, perhaps by boldly creating a constitutional amendment permitting the Legislature more flexibility when trying to develop Alaska's resources in a world full of aggressive competitors.

To follow energy-related economic and energy activity in Alaska, rely upon:**northerngaspipelines.com/content/today-important-anniversary-29-years-ago-today-alaskas-leaders-defined-fair-share-oil-and-ga**

[1] "Low median" placement is intended to compensate for the non-statistical liabilities noted under 3. above.