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Alaska Oil and Gas Association president and CEO testifies on HB 247, Governor Walker's oil tax legislation

In tough times, industry asks that government "do no harm" to Alaska's largest economic driver

Juneau, AK- Feb. 29, 2016- Today, Alaska Oil and Gas Association President and CEO Kara Moriarty testified before the House Resources Committee on House Bill 247, Governor Walker's oil and gas tax bill. In her testimony, Moriarty asserted that at low oil prices, the oil and gas industry is cash flow negative, and that additional costs and taxes will make an already bad financial situation worse. Among the points made by Moriarty:

- More than one-third of Alaska's jobs are tied to the oil and gas industry. For every direct job the industry provides, 20 additional jobs are created throughout Alaska's economy; no other industry comes close to that magnitude of multiplier in Alaska.

- Oil and gas development costs grew 90 percent since 2000, but inflation grew only 40 percent during the same period. In other words, over the past 15 years, costs have surged more than two times the rate of inflation. This is yet another compelling factor and financial stressor on industry in Alaska.

- Some have recently asserted that all new oil after 2002 will pay zero taxes if prices remain under $70 per barrel. In fact, the Department of Revenue forecasts that Gross Value of Reduction (GVR) will average only about eight percent of Alaska's overall oil production for the next 15 years. Alaska's legacy fields will continue to provide the lion's share of production for years to come.

- According to the Department of Revenue's Fall 2015 Revenue Sources Book, the estimated average cost of producing a barrel of oil on the North Slope – before a company pays even one penny of tax – is $52 per barrel. Oil prices currently hover around $30 per barrel.

- The Administration's tax proposal represents the sixth major tax change in the last 11 years. Prior changes came from unprecedented high oil prices, or aimed to incentivize development in the state. However, the motivation behind this current proposal is not to improve the fiscal system for the industry or create incentives for further development and increased production. Rather, it is purely driven by the state's desire for more money, now.

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- The Walker Administration acknowledges the industry is suffering tough economic times; in fact, according to their testimony last week, if prices average around $40/barrel for 2016, the industry will suffer more than $1 billion “loss” in the state of Alaska. If the state keeps the current structure and does nothing, spending a $1 billion more than industry is taking in will have a negative impact on Alaska’s economy, considering the industry is the largest private economic driver in the state.
- HB 247 increases government take. In fact, enalytica’s Janak Mayer demonstrated and explained “that the cumulative impact of the proposed changes would be to shift up government take in lower oil prices. In times of high investment /low prices, effective government take exceeds 100 percent.”
- The governor’s proposal would increase the minimum gross tax from four percent to five percent. Although a one percentage point increase might not sound significant to some, it reality, it represents at least a 25 percent increase for those companies who already pay the 4 percent minimum tax.
- The Governor’s proposal would forbid companies from using any earned or available tax credits to reduce the minimum tax below the new five percent floor. It is likely that there will be companies, large and small, that have earned “new oil” tax credits or exploration, drilling or tax loss credits from prior year investments, while also operating in a loss position due to low oil prices. For those companies, using those tax credits is the only way they can also continue to invest in the state. The proposal would delay, or possibly deny, vital economic recovery.
- For smaller companies or newcomers to the state who have yet to make a profit in Alaska, they don’t pay the four percent minimum tax, so under the governor’s proposal, they would go from paying zero in production tax because they don’t make a profit, to immediately being hit with a five percent gross tax, a punitive tax increase described by Director Ken Alper as an “infinite increase.”
- Raising taxes on companies that are reporting losses or are in negative cash flow positions is neither a prudent nor feasible long-term solution, and is certainly not sound tax policy. To cripple the oil industry is a misguided attempt to address short-term concerns that will actually result in greater long-term harm to the state’s economy.
- AOGA is not advocating for a tax decrease or for relief while industry struggles though extraordinarily low prices. AOGA does ask, however, that the industry that has supported 85 percent of Alaska’s revenue since statehood, and at this trying time, policymakers **do no harm** to the long-term viability of the oil and gas industry in Alaska, for the benefit of all Alaskans.

AOGA’s presentation and testimony are posted to www.aoga.org. In addition, AOGA’s position paper and sectional analysis of HB 247 can be found on AOGA’s website.

AOGA is a professional trade association whose mission is to foster the long-term viability of the oil and gas industry in Alaska for the benefit of all Alaskans.

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