Proposed “Fair Share” Oil Tax Ballot Initiative:
Update to January 6, 2020 AOGA Presentation

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“One-third of the *gross revenues* from the sale of our oil is a good standard to apply in determining if Alaskans are getting their fair share. Governor Hammond was a key architect of our economic relationship with the oil industry. He stated the original agreement was one-third to the state, one-third to the federal government, and one-third to the producers.”
The Problem

• Gross pie needs to be allocated among 4 slices, not three

• The 4\textsuperscript{th} slice is the upstream operating and capital development costs
## Income Summary

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANS West Coast Price</td>
<td>$64</td>
</tr>
<tr>
<td>(Transportation)</td>
<td>-$9</td>
</tr>
<tr>
<td>Gross Value</td>
<td>$55</td>
</tr>
<tr>
<td>Upstream costs</td>
<td>-$24</td>
</tr>
<tr>
<td>Net Value</td>
<td>$31</td>
</tr>
</tbody>
</table>
Allocating $55 in Gross Value under Initiative

- Costs $24 (44%)
- State $18 (33%)
- Producers $10 (18%)
- Feds $3 (5%)
Gross Revenues

• A 3-way split of revenues implies:
  – The producers spend $24/bbl to develop oil
  – Sell oil for $55
  – Pay taxes
  – Make $55 less taxes

• Of course they make $55 less taxes and the upstream costs

• The only way there is a 3-way split is to take the upstream costs out
  – That is what net revenues are
Provisions of Oil Tax Ballot Initiative:
(How gets 1/3 of gross at current prices)

• 35% of net value
• 10% gross minimum when price less than $50 (up from 4%)
• Up to 15% gross minimum at $70 (up from 4%)
• Elimination of per barrel credit
• Additional progressivity of 15% of net value greater than $50 (market price of ≈ $90):
  – 70% marginal tax rate
Additional Provisions of Initiative

• Applies to units that have produced more than 400 million barrels cumulatively, and more than 40,000 barrels a day in previous year (Prudhoe, Kuparuk, Alpine)

• Ring fencing of units (a company cannot offset income from one unit with losses from another)

• Additional reporting requirements
Competitiveness Analysis

• Government take: percentage of net income that goes to government (all taxes & royalties)

• Issues of judgment
  – Which peer groups?
  – Which costs?
  – Which metrics (mean, median, etc.)?

• Peers – other similar jurisdictions that competes with Alaska for investment
  – Tax & royalty regimes
  – Democracies
  – Set in legislative setting
Govt Take @ $60 Oil Price
(Govt take includes all state & federal taxes & royalties)
Govt Take: Competitive Boundary
(Includes all state & federal taxes & royalties)
(Excludes Alaska)
Govt Take: Alaska Currently vs Competitive Boundary
(Govt take includes all state & federal taxes & royalties)
Allocating $31 in Net Value under Status Quo

- Producers $14 (45%)
- State $13 (43%)
- Feds $4 (12%)
Govt Take: Alaska Currently vs "Fair Share" Initiative vs Competitive Boundary
(Govt take includes all state & federal taxes & royalties)

340% tax increase
Allocating $31 in Net Value under Initiative

- State $18 (58%)
- Producers $10 (32%)
- Feds $3 (10%)