RESOURCE DEVELOPMENT COUNCIL
Growing Alaska Through Responsible Resource Development

Alaska's Fiscal Challenge

Long-term Fiscal Plan
For more than 25 years, RDC has advocated for a long-term fiscal plan, including efforts to limit unrestricted General Fund spending to a sustainable level, support some use of the Permanent Fund earnings as part of a fiscal plan, and tax policy and incentives that encourage future investment in Alaska's resource industries.

Permanent Fund Earnings
Permanent Fund earnings need to be part of a long-term, sustainable solution to Alaska's fiscal situation. State law allows these earnings to be used to support essential services.

Governor Jay Hammond's vision for the Permanent Fund included the eventual use of the fund's earnings to help pay for essential government services. With TAPS throughput running at three-quarters empty and oil prices at relatively low levels, the time has come to use some of the earnings to fund services.

Responsible Tax Policy
Raising taxes on Alaska's natural resource industries will hamper future investment and lead to lower state revenues, less jobs and a weaker private sector. The private sector is the foundation of Alaska's economy and its underlying health is the key to sustaining jobs, state government and the overall economy.

To sustain our economy, Alaska needs to encourage new investment, jobs and production by maintaining a stable, competitive tax structure. Conversely, the more Alaska taxes commodity-producing companies, the less likely they will invest in future production.

Alaska's natural resource industries are not asking for a decrease in taxes, but they are asking for stability, which includes a fiscal policy that encourages investment in our state and keeps Alaska open for business.

Alaska's oil and gas, mining, tourism, fishing and forest industries already have skin in the game, paying significant taxes to state and local governments, and providing jobs to Alaskan families. Instead of increasing taxes, risking jobs and future investment, Alaska needs to incentivize economic growth and business investment, which will grow the revenue pie for both the private and public sector.

Oil taxes
Alaska cannot increase oil production by increasing taxes. Alaska cannot tax away the industry's incentive to invest and still expect to have a sustainable economy.

While it is tempting to collect every dollar possible from the industry through increased taxation, doing so makes Alaskan projects less competitive with those elsewhere and robs Alaska of the investment capital required to expand existing fields and discover new ones. Higher taxes on the industry will do more harm to our economy. Conversely, more investment means more production and more revenue for the state.

Oil taxes talking points:

- The latest proposal to increase taxes (HB 288) represents the eighth major tax change in the last 13 years. Imposing a significant 75% increase in the minimum production tax will do nothing to encourage production.

- HB 288 will further cement Alaska's poor reputation in the oil and financial sectors, jeopardizing the billions of dollars in new investment necessary to bring on promising new fields and new production.

- The new tax bill will make Alaska less competitive with other oil and gas jurisdictions by raising costs in an already high-cost Arctic environment, creating more harm to Alaska's largest industry and the state's economy.

- HB 288 risks stalling the growing momentum in investment and production on the North Slope. Alaska needs that investment now more than ever to keep oil production up.

- New oil plays on the North Slope could trigger a major increase in TAPS throughput by adding over 400,000 bpd of new oil into the pipeline with commensurate economic benefits across the state. Maintaining stable tax policy is key to keeping Alaska competitive with other regions and seeing these projects come into production.

- The Legislature should be focused on attracting more industry investment, especially since the state earns 12.5% on North Slope production through its royalty share, which accounts for the lion's share of oil revenue at lower prices.
- Encouraging investment and production will have a much larger and significant positive impact on Alaska than the marginal revenue raised from the proposed tax hike.

- The oil industry has traditionally accounted for 88 percent of Alaska's unrestricted general fund revenues. Even in these times of lean oil prices, oil provides 74 percent of the state's unrestricted general fund revenues and supports one-third of our economy.

- Under the current oil tax system, Alaska's share is higher than the producers' at every price point. In fact, the state gets paid even when companies are operating at a loss because it still collects royalties, property tax, and a gross production tax.

- The current oil tax system sets a higher minimum floor than the previous tax system, while setting a stable and predictable rate when oil prices rise again. At current prices, Alaska's oil tax policy has brought hundreds of millions of dollars more in tax revenue to the state than it would have under the previous system.

- Alaska cannot control the price of oil, but it can control what kind of business climate we create here: one that encourages continued investment and more oil for TAPS.

- Oil tax reform in 2013 made Alaska more competitive and a more attractive place to invest. Oil companies have responded with billions of dollars in new projects. Alaska saw no production decline in 2014, a slight dip in 2015, followed by the first production uptick in 14 years in 2016 when 514,000 barrels per day were produced. In 2017, production increased to 526,000 bpd and it is estimated production will reach 533,000 bpd this year. Oil tax reform played a significant role in the production increases, reversing an annual 6% decline.

- The ramp up in North Slope production and activity demonstrates the current fiscal system is working.

- In 2016, the Legislature passed House Bill 247, which phased out tax credits in the Cook Inlet, and sunsetted exploration credits on the North Slope, among other changes. Last year the legislature passed HB 111, which rolled back credits companies earn by making new investments, making it more difficult for small companies to do business in Alaska's high-cost Arctic region. The full economic impact of HB 247 and HB 111 has yet to be understood. Introducing yet another tax bill is short-sighted.

- It takes an annual industry investment of $3 to $4 billion to keep production levels stable on the North Slope. This requires a stable, durable and competitive tax policy to fund Alaska projects.