RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

BREAKFAST MEETING

Thursday, April 6, 2017

1. Call to order – Ralph Samuels, RDC Past President
2. Self Introductions
3. Head Table Introductions
4. Staff Report – Marleanna Hall, Executive Director
5. Program and Keynote Speaker:

Are we there yet?
The Legislature's winding road toward a fiscal solution

Andrew Jensen, Managing Editor, Alaska Journal of Commerce

Next Meeting: Thursday, April 20:

Update on Federal Legal Issues Facing the State of Alaska
Attorney General Jahna Lindemuth, State of Alaska

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Alaska's 'fair share' includes much more than production taxes

By: Jim Jansen and Marc Langland
Guest commentary, Alaska Journal of Commerce

The economic future of Alaska may depend upon how the legislature interprets and acts on the words: "Fair Share."

Keep Alaska Competitive supporters know that it will take a combination of elements to fix our fiscal crisis: continuing to cut state government, restructuring the Permanent Fund with Senate Bill 26, and stable, competitive tax policies.

Alaska's oil tax policy is very complex and extremely difficult to understand, especially for those of us who are not in the petroleum industry or are not accountants. Our legislators in Juneau face very difficult and critical decisions regarding these often confusing tax issues. The decisions they make in the next two months may determine if Alaska has a viable, long term economic future or a failed economy.

The question is: Do Alaska's current oil tax laws fairly compensate Alaska, and are they competitive with other oil jurisdictions to attract investment to our state?

Too often, people only look at Alaska's production taxes when asking this question.

It is important to consider all of the taxes, royalties and fees imposed on the oil industry: royalty: 12.5 percent to 16 percent of revenue (i.e. royalty is on "gross" value); state corporate income taxes: 9.4 percent of profits; property taxes, local and miscellaneous taxes; and of course, federal income taxes.

We believe that Alaska's tax take is more than fair to our state, especially at lower oil prices, while providing a competitive environment for the petroleum industry to invest here.

The following information is available from the Alaska Department of Revenue, or the KEEP Alaska Competitive website (KeepAlaskaCompetitive.com):

At low oil prices, Alaska takes in substantial income from the oil industry. For example, at $30 oil prices, Alaska takes in $1.9 billion per year in taxes, while the oil industry loses more than $1 billion.

At high oil prices, Alaska also takes even more revenue from the oil industry. For example, at $100 oil prices, Alaska takes in about $5.5 billion while the oil industry earns less than $4 billion.

At all prices, Alaska takes in more than the oil industry earns in profits.

Keep in mind that the oil industry pays for 100 percent of the expenses, provides 100 percent of the capital and takes most of the risks.

We can only see two ways for Alaska to reverse the impact of the current recession: a catastrophic event, like a war in the Middle East, or we attract investment to our state with competitive taxes and regulations.

It is also important to note that Alaska is a high cost oil province. It is critical that our tax policies, in addition to these high operating costs, do not drive investment away. We must always remember that these investors can take their dollars anywhere in the world that provides the highest returns to their shareholders. Alaska must compete for these investments.

Most of us agree that Alaska needs continued investment and production of oil through our pipeline. We also agree that we need the jobs associated with oil production.

If Alaska's leadership can solve our fiscal crisis now, maintain its competitive oil tax policy, restructure the Permanent Fund with SB 26, market our abundant resources, attract investment and control our spending, the future of our great state can be very positive.
We MUST get this right.

Jim Jansen is chairman of Lynden. Marc Langland co-founded Northrim Bank and served as its chairman until he retired at the end of 2015. Jansen and Langland are the co-chairs of KEEP Alaska Competitive.

RESOURCE DEVELOPMENT COUNCIL
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Alaska's Fiscal Crisis

For more than 20 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.

Low oil prices, a historic long-term decline in production, and unsustainable state spending are the root causes of today's budget problem.

The state's operating budget is on an unsustainable path. Unrestricted general fund (UGF) spending should be $4.1 billion or less and State budget reserves should be used to aid in the transition to a sustainable budget.

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 the precipitous drop in oil prices driving oil revenues to new, lower levels, the time has come to use some of the earnings to fund services.

Budget cuts and taxes alone cannot bridge the fiscal gap. Alaska needs to use Permanent Fund earnings, but only in a sustainable manner.

University of Alaska economist Scott Goldsmith has proposed using both current revenues and earnings from the state's portfolio of assets to pay for public services.

Responsible Tax Policy

Raising taxes on Alaska's natural resource industries at this time will hamper future investment. Higher taxes in this low-priced commodity environment for oil, minerals, and fish could be a game changer for Alaska, leading 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 oil industry through increased taxation, doing so makes Alaskan projects less competitive with those elsewhere and robs the companies of the investment capital they require to expand existing fields and discover new ones. In the long run, increasing taxes on the industry will do more harm to Alaska's economy. Conversely, more investment means more production, more revenue for the state, and more jobs for Alaskans.

The oil industry has traditionally accounted for 88 percent of Alaska's General Fund revenues and is the largest property tax payer in the North Slope Borough and Kenai Peninsula Borough. Even in these times of low oil prices, oil provides 67 percent of the state's unrestricted revenues and supports one-third of our economy.

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.

The current oil tax system is balanced, setting 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.

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.

Oil tax reform in 2013 made Alaska more competitive and a more attractive place to invest. Oil companies have responded with over $5 billion 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. Oil tax reform played a significant role in the production increase in 2016.

New oil plays by ConocoPhillips, Caelus, and Armstrong could trigger a major reversal in TAPS throughput by adding up to 550,000 barrels per day of new oil into the pipeline with commensurate economic benefits across the state. Maintaining a stable tax policy with incentives to invest is key to seeing these projects come into production.

The new 2017 oil tax policy proposal (HB 111) represents the seventh major tax change in the last 12 years. Imposing significant tax increases and eliminating access to critical incentives will do nothing to increase production. It creates more harm to Alaska's largest industry and the state's economy as a whole.

Raising taxes on companies that are reporting negative cash flow positions is not sound tax policy.

Raising taxes and eliminating tax credits could slow or stop investment. Alaska needs that investment now more than ever to keep oil production up to protect Alaskan jobs and businesses as well as the revenue that production generates for the state.

In 2016, the Legislature passed House Bill 247, a major piece of oil tax legislation. That bill phased out tax credits in the Cook Inlet, and sunsetted exploration credits on the North Slope, among other changes. The full economic impact of this legislation has yet to be understood. Introducing yet another tax bill before seeing how the current law is performing is short-sighted, and could jeopardize recent gains achieved in Alaska's oil industry.

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

RESOURCE DEVELOPMENT COUNCIL
Growing Alaska Through Responsible Resource Development

April 4, 2017

Will Collingwood
Alaska Department of Environmental Conservation
P.O. Box 111800
Juneau, AK 99801-1800

Submitted via email to: will.collingwood@alaska.gov

Re: Alaska Pollutant Discharge Elimination System Permit #AK-0053341

Dear Mr. Collingwood:

The Resource Development Council for Alaska, Inc. (RDC) is writing to urge your timely approval and reissuance of the Alaska Pollutant Discharge Elimination System (APDES) permit #AK-0053341 for the Pogo Mine near Delta, operated by Sumitomo Metal Mining Pogo LLC.

RDC is a statewide business association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, tourism and fisheries industries. RDC's membership includes Alaska Native Corporations, local communities, organized labor, and industry support firms. RDC's purpose is to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

The Pogo Mine began operating in 2006 and over the past decade of operation has demonstrated a high standard for environmental stewardship.

The Pogo Mine adds to the State of Alaska economy as a whole, making significant annual payments to the state, including corporate taxes, the mining license tax, and royalty payments for mining on state land.

Moreover, the Pogo Mine and its employees don't only add to Alaska's economy, but both also provide generous support to local charities and organizations, as well as the University of Alaska.

In addition to the local and statewide benefits described above, Pogo Mine employed 320 direct full-time employees in 2016, with a payroll in excess of $42 million. These family wage-paying jobs are among the highest in the City of Delta Junction and the nearby Fairbanks North Star Borough.

Further, a 2013 economic study by the McDowell Group estimated an additional 215 induced local jobs were related to Pogo Mine operations. More recently, in 2016, Pogo worked with nearly 300 businesses in Alaska, spending almost $800 million.

In conclusion, RDC urges the Department of Environmental Conservation to approve this APDES permit in a timely manner to help encourage the expansion and increased production of existing deposits such as the Pogo Mine. As our state faces a fiscal crisis, it is also imperative projects be allowed to go through Alaska's well-vetted permitting process and show investors that Alaska is "open for business."

Thank you for the opportunity to comment on this APDES permit.

Sincerely,

Marleanna Hall

Marleanna Hall
Executive Director

RESOURCE DEVELOPMENT COUNCIL
Growing Alaska Through Responsible Resource Development

House Finance Committee • CS HB 111 Oil Tax Bill
March 25, 2017

Good afternoon. My name is Marleanna Hall, and I am the executive director of the Resource Development Council. Thank you for the opportunity to testify today.

RDC is a statewide trade association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, fisheries and tourism industries. NEED TO INCLUDE ANCs RDC members are truly the life-blood of Alaska's economy. We believe the best approach to expand the economy and generate new revenues for the state is to produce more oil, attract more tourists, harvest more fish and timber, and mine more minerals.

With regard to the Committee Substitute for House Bill 111, raising taxes on companies during an extended period of low oil prices is not sound fiscal policy. The committee substitute will increase costs for our largest private sector industry and would send Alaska to the bottom of the competitive scale.

Increasing taxes on Alaska's oil industry will not increase throughput for the Trans Alaska Pipeline System, it will not encourage the development of promising new prospects on the North Slope, and it will not solve Alaska's fiscal crisis. Higher taxes at this time will likely deter investment and lead to lower state revenues and a weaker private sector over the long run.

CS HB 111 will jeopardize recent gains like the first oil production increase in 14 years, billions of dollars in new investment since 2013, and optimism about recent multi-billion barrel oil discoveries on the North Slope. If CS HB 111 becomes law, the production decline rates of six percent or more annually may reappear and Alaska will end up with a much smaller economy.

When you incentivize something, you get more of it. We need to incentivize the industry to drill more, create more wealth, increase activity, and aim for next year's production to be even higher than this year's. SB 21 that passed in 2013 and was affirmed by Alaskans in 2014 has brought new exploration, jobs, and continued investment to the state.

In conclusion, my members are not asking for a tax decrease during this time of low commodity prices like other states and countries are considering or have already implemented, but we do request that as the state considers changes, it do no harm to the state's largest industry.

Members of the HFIN committee, I urge you to reject this legislation and I thank you for the opportunity to offer comments today.

RESOURCE DEVELOPMENT COUNCIL
Growing Alaska Through Responsible Resource Development

March 17, 2017

Bureau of Land Management Central Yukon Field Office
222 University Avenue
Fairbanks, Alaska 99709

Via e-mail to: CentralYukon@blm.gov

To Whom It May Concern:

The Resource Development Council for Alaska, Inc. (RDC) is writing to comment on the Central Yukon Resource Management Plan (RMP).

RDC is a statewide business association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, tourism and fisheries industries. RDC's membership includes Alaska Native Corporations, local communities, organized labor, and industry support firms. RDC's purpose is to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

One of RDC's priorities is to encourage the new exploration and responsible development of Alaska's mineral resources. RDC supports Alternative D as it adheres most closely to the "multiple use" mandate of the Bureau of Land Management (BLM). Previously, RDC urged the BLM to incorporate resource management, such as opening the area to resource development, increased access for exploration, mineral leasing, mining, and oil and gas development.

Much of Alaska's federally managed lands are closed to responsible resource development, and Alternative D provides the greatest opportunities for public access, including potentially necessary access to State and private projects (primarily land owned by Alaska Native Claims Settlement Act [ANCSA] corporations), and provides opportunities for overland access to remote communities.

As this RMP will provide future direction for approximately 13 million acres of BLM-managed land in central and northern Alaska, including the Dalton Highway Corridor and central Yukon River watershed it is vital BLM plan for multiple use.

In addition, RDC urges the BLM to carefully review and incorporate the recommendations of the Alaska Miners Association (March 17, 2017).

RDC appreciates the opportunity to comment.

Sincerely,

Marleanna Hall

Marleanna Hall
Executive Director

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May 31, 2017

RESOURCE DEVELOPMENT COUNCIL

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Membership Form

RDC is a statewide business association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, tourism and fisheries industries. RDC's membership includes Alaska Native Corporations, local communities, organized labor, and industry support firms. RDC's purpose is to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

To join or to view a list of current RDC members, visit akrdc.org/membership

Contact Information:

Name: ______________________ Title: ______________________

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RDC is classified as a 501(c)(6) non-profit trade association. Membership dues and other financial support may be tax deductible as an ordinary business expense, but not as a charitable contribution. 16.9% of RDC support is non-deductible.

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