March 1, 2017 - 6 p.m.

KEEP Testimony on HB 111 –Bill Corbus
House Resources Committee

Madam Chairman and members of the House Resources Committee, my name is Bill Corbus. I served as Commissioner of Revenue from 2003-2006. I have been working as a volunteer for KEEP Alaska Competitive since its inception. KEEP is co-chaired by Jim Jansen, Chairman of Lynden and Marc Langland, formerly Chairman & CEO of Northrim Bank. KEEP's membership of 5,000 is composed of Alaskans from all walks of life, a wide variety of businesses and professions and does not accept funding from the oil industry to support its activities.

First, and foremost, the bill as currently drafted would raise taxes on oil companies primarily at low oil prices. In our view that is precisely the wrong approach: when prices are down, the industry is either losing money and/or not recovering enough profit to continue to invest $4 to $6 billion per year in capital investments on the North Slope. Your proposal changes our tax structure to take more even when the industry is taking all of the risk that prices will increase enough to justify those expenditures.

That was not the philosophy of the SB 21 when it was passed. The legislature made a decision to share the risk with the oil industry – when prices were high we would take a greater share of profits and when prices were low, we would share in the downside for the sake of stabilizing investment and encouraging continued or expanded flow in TAPS in recognition of the rapid decline in production.

Because we adopted a net profit approach to taxation, we started off at a high (35%) tax rate. If we had adopted a gross tax that ignores the cost of production, the rate would have been much lower if we wanted to maintain industry presence here.

This was supposed to achieve stability over time – Alaska would become a predictable and rational partner through both high and low oil price environments. That approach is starting to work. Even when oil prices went below $30 barrel, the industry continued to invest on the North Slope, which is exactly what we want them to do. At higher tax rates, I do not believe this would have happened.

While many of the provisions of HB 111 deal with reversing course on SB 21, some deal with earlier provisions of ACES and other separate legislation that established the system of cashable credits resulting from Net Operating Losses (NOLs) as incentives for exploration.

Those provisions have done exactly what was intended which is to entice independent companies to Alaska. It has resulted in several new discoveries, which if developed, will provide us with future royalty and production income and maintain a workable flow in TAPS. At higher oil prices than exists today, this approach makes sense because we could afford to sacrifice some cash flow today for enhanced cash flow in the future.

At low oil prices and because of Alaska's massive budget deficit, we do not argue that it is inappropriate for the legislature to look more closely at this part of our tax structure to see there are effective ways of achieving a similar result with a lesser impact on cash flow to the state at low oil prices.

But we do encourage the legislature to spend the time and attention necessary to fully understand the options and to engage both the oil industry and the most- qualified experts when doing the critical analysis needed to estimate the likely impacts of any such decision.

At this point, it seems that the proposals are one sided – the state desires to cut its expenditures – without adequate consideration of the cost/benefit ratio of the impacts to future production by the companies which have come to Alaska because of the exploration incentives and continue to overwhelmingly contribute revenue to Alaska's budget.

So to sum this up, our KEEP supporters have been watching the proceedings on HB111 and the discussion in your committee, that given Alaska's situation, how should the State react?

We believe that the discussion should be on a long-term focus, not short-term to fill the gap on the back of the industries that must remain healthy. We supported SB-21, to get Alaska away from the punitive tax system, to change the industry's incentive to invest and produce oil vs. simply spend money. We also recognize that the State does not have the resources to "cash out" tax credits in the future when the prices are low; however, that does not mean that we shouldn't encourage investments during times of low prices by allowing credits and NOL's against production taxes for some time into the future when risk and development costs are mitigated and allow all parties to benefit.

We also believe that the primary focus should be on fixing the fiscal problem, focus on restructuring the Permanent fund, cutting costs, supporting reasonable and broad based revenue solutions, but don't kill the investment in the very resources that have built our State. We need more oil, but we also need stable and growing investment in fishing and mining too. We have the potential to grow oil production and mining too. We need these investments in Alaska to continue to make our businesses grow and thrive into the future.

Thank you for the opportunity to testify.

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