Opinions

To fix the fiscal gap, don't change oil taxes

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Alaska should leave oil taxes alone this year.

Oil-tax credits are another issue. The Legislature should stop that growing liability now.

But the underlying SB 21 tax system is not the cause of our fiscal problem and the current proposal to change it would do little to bridge the budget gap.

I came to this conclusion after calming the instinctive jerking of my knee in response to a lifetime of owner-state slogans. An essential step to good governing is accepting the legitimacy of your opponent's point of view. Even if Alaska is the owner-state and the oil companies our adversaries, they could still be right.

The context is a budget deficit of some $3 billion. How and when it is solved will determine our state's economic future, our children's education, our public safety and how many of us will leave.

[Economists say recession will last three more years, followed by a smaller, poorer Alaska]

The Legislature has a limited set of tools and choices.

At the top of the list, legislators can restructure the Alaska Permanent Fund and its dividend program and impose an income tax. To fairly share the burden, those actions must be paired. No solution works without them, financially or politically.

The Legislature can also cut the budget and reduce oil-tax credits. Those are the tools it has used so far.

The budget is down substantially. I'm doubtful much more cutting can be done without excessive harm to schools and public safety.

Bad schools and an out-of-control drug culture would give us the Appalachia version of Alaska's future, a place without opportunity, populated by people who are stuck here. That's where Senate Republicans' no-tax plan would lead.

[Senate plan to balance budget without taxes founded on rosy assumptions]

Besides the budget, the Legislature cut oil-tax credits last year. Senate Republicans went along with ending credits in Cook Inlet and trimmed some credits on the North Slope. Democrats reacted as if nothing happened, but the changes reduced Alaska's future liability from $250 million a year to $150 million. (That's after some of the credits phase out.)

The state used to pay oil producers up to 85 percent of their costs on projects, including for work done up to last year, according to the Alaska Department of Revenue.

That was a sucker deal, as oil industry executives privately told me. It incentivized bad bets with very little chance of the state treasury recovering its investment. Think about the cards you would play in a poker game if you only had to put up 15 percent of your wager.

The money we are still spending doesn't necessarily make sense either. We owe around $500 million on past credits and that cost will approach $1 billion by June 30, 2018, with no change to the law, said Ken Alper, director of the state tax division. And that's not counting unexpected future work that would create more credits.

However, after laws scheduled to phase out are gone, new credits would make up only about 5 percent of the annual deficit. They do need further reduction and rationalization, but it is not our largest issue.

The Legislature's final tool is to raise oil taxes, the money companies pay in addition to property tax, corporate tax and a 12.5 percent royalty.

Some Democrats and old-time owner-staters say Alaska should get one third of the value of all oil that leaves the state, regardless of how much it costs to produce. At the current $55 price for West Coast delivery of our oil, a one-third take for the state would leave $37 per barrel for the industry.

Tax data shows the average cost of production and transportation is $41 a barrel, so the one-third idea would mean companies would lose money after state taxes. New oil, which costs more, would be an even worse deal.

Instead, we tax the net profit from oil production. After deducting costs, Alaska takes a share of what's left.

I never supported the net profit concept. Business people know you don't take a share of the net if you can't control costs that determine how much net there is. But we chose the system and confirmed it with a statewide vote in 2014.

Alaskans divided then, and we continue to diverge because we see the oil industry in two different ways. The owner-state perspective is that oil is a source of government revenue. The private-sector perspective is that oil is a source of jobs.

Cost cutting has reduced Alaska's production and transportation cost from $46 to $41 per barrel. That leaves more net for the state to tax. But the $5 savings came at the cost of thousands of oil industry layoffs. Alaska's high production costs are partly paid to Alaskans.

From their point of view, the idea of dividing up of shares between the state and the industry leaves out a share. Alaskans get a share through oil industry expenses. That share depends on keeping the oil industry profitable at a long-term price under $60 a barrel.

[*Legislative indecision has extended and worsened Alaska's recession*]

Besides, the idea of a one-third tax on the gross is a political posture, not a real proposal.

The proposal on the table, HB 111, would stop most of the rest of the credits from accumulating within a few years, and would adjust the tax system by increasing the minimum tax and taking care of some other details. The tax increase part of the bill is projected to raise $45 million for next year's budget and $75 million the following year, depending on oil production and price.

It's a good bill. The changes make sense and the cost is not so high as to drive away investment. But it's not a good idea to change taxes this year.

First, the money won't make enough of a difference. It would cover less than 2 percent of the fiscal gap.

Second, the bill is complex and most legislators probably don't understand it. Even Rep. Andy Josephson, D-Anchorage, co-chair of the committee that wrote the bill, admits he doesn't understand every aspect of the oil tax system. And he is among the Legislature's smartest members.

The complexity of oil tax issues consumes entire legislative sessions. Nothing drives deeper partisan warfare.

Which brings me to a final reason not to raise oil taxes. We need compromise, and the easiest compromise is on the issue the other side cares most about.

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