March 7, 2017

The Honorable Andy Josephson and the Honorable Geran Tarr
Alaska State Representatives
Co-Chairs, House Resource Committee
State Capitol Rooms 102 and 126
Juneau, AK 99801

Dear Co-Chairs Josephson and Tarr:

The purpose of this letter is to provide you with responses to the questions asked of the Department of Revenue (DOR) during Tax Director Ken Alper’s presentation to the House Resources Committee on February 17, 2017. Please see questions in italics and our responses immediately below the questions.

1. Clarification regarding the Exploration Incentive Credit.

During the February 17, 2017 presentation, it was incorrectly stated that the Department of Natural Resources’ Exploration Incentive Credit was never used. To clarify, the credit was last used in the early 1990’s, but has not been used since and was repealed in 2016.

2. Provide an updated version of Slide 15 showing annual industry investment.

Please see the following slide with the additional information that was requested. The new last column of information shows total statewide lease expenditures as reported on tax returns and monthly information forms.
3. Create versions of Slide 16 and 17 breaking out North Slope and Non-North Slope activity.

Slide 16 of the February 17, 2017 presentation compared production tax revenue to statewide tax credits (note, the table was incorrectly labeled “Statewide Tax Credits and Unrestricted Petroleum Revenue” in the original presentation and should have been labeled “Statewide Tax Credits and Production Tax”). Slide 17 of the February 17, 2017 presentation compared unrestricted petroleum revenue to statewide tax credits.

Please see the attached document:
   I. Statewide Tax Credits Compared to Production Tax and Unrestricted Revenue, FY 2007 – FY 2026

      This document contains a write-up and requested graphs:
      1) North Slope Tax Credits and Production Tax Revenue
      2) Non-North Slope Tax Credits and Production Tax Revenue
      3) North Slope Tax Credits and Unrestricted Petroleum Revenue
      4) Non-North Slope Tax Credits and Unrestricted Petroleum Revenue

Please note that the historical breakout by area of unrestricted petroleum revenue from FY 2007 to FY 2015 is not available, so the attached charts have an assumption related to this split between North Slope and Non-North Slope that is described in the Key Assumptions Section in the attached document.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,

[Signature]

Randall Hoffbeck
Commissioner

Attachment:
   I. Statewide Tax Credits Compared to Production Tax and Unrestricted Revenue, FY 2007 – FY 2026
Title: Statewide Tax Credits Compared to Production Tax and Unrestricted Revenue, FY 2007 - FY 2026

Preparer: Ky Clark, Economist, 465-8222 and Dan Stickel, Chief Economist, 465-3279

Date: 3/2/2017

Purpose: To show the amount of production tax and unrestricted petroleum revenue compared with tax credits by area, broken down by North Slope and Non-North Slope, as requested by the House Resources Committee.

Data Source: Fall 2016 Revenue Sources Book, pgs. 79-80, and supporting data/analysis

Key Assumptions: For the purpose of this analysis, it is assumed from FY 2007 to FY 2015 that the Non-North Slope share of production tax revenue, after credits used against tax liability, was $5 million for each fiscal year. Historical breakout by area of unrestricted petroleum revenue from FY 2007 to FY 2015 is not available at this time. DOR is in the process of performing additional analysis to more accurately estimate the historical breakout of both production tax revenue and unrestricted petroleum revenue by fiscal year. All other assumptions are in the Fall 2016 Revenue Sources Book.

History: Charts were prepared using the Spring 2016 Revenue Sources Book and those charts were used in a presentation for the House Resources Committee on January 30, 2017. The included new charts have been updated using the Fall 2016 Revenue Sources Book. After subsequent presentation to the House Resources Committee on February 17, 2017, they requested these same slides be broken down by North Slope and Non-North Slope areas in four separate charts.

Disclaimer: The Department of Revenue is in the process of reviewing and updating the data on which this analysis is based. As a result, future analysis could have different results.

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North Slope Tax Credits and Production Tax Revenue

Note: Repurchased credits in the Fall 2016 RSB assume that all credits available for repurchase are funded in FY 18 and beyond.
Non-North Slope Tax Credits and Production Tax Revenue

Note: Repurchased credits in the Fall 2016 RSB assume that all credits available for repurchase are funded in FY 18 and beyond.
North Slope Tax Credits and Unrestricted Petroleum Revenue,
Historical for FY 2016, Forecast for FY 2017 - FY 2026

Note: Repurchased credits in the Fall 2016 RSB assume that all credits available for repurchase are funded in FY 18 and beyond.
Non-North Slope Tax Credits and Unrestricted Petroleum Revenue, Historical for FY 2016, Forecast for FY 2017 - FY 2026

Unrestricted Petroleum Revenue Before Any Credits
Unrestricted Petroleum Revenue After Credits Used Against Tax Liability
Unrestricted Petroleum Revenue Net of Repurchased Credits
Net Operating Loss (NOL) Credits End-of-Year Balance

Note: Repurchased credits in the Fall 2016 RSB assume that all credits available for repurchase are funded in FY 18 and beyond.