Prominent Alaskans back oil tax relief

CREDITS AND CUTS: Parnell gains allies as legislators seek assurances that breaks will result in jobs and production.

By LISA DEMER
ldemer@adn.com

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JUNEAU -- A political struggle over Gov. Sean Parnell's proposal to give huge tax breaks to Alaska oil producers is heating up, and prominent Alaskans are interjecting themselves into the debate to call for a more oil-friendly climate.

Parnell wants to expand oil-patch tax credits and cut tax rates in the hopes of spurring exploration and sending more oil down the trans-Alaska pipeline. He said he'll draw billions from state savings to make up any budget shortfalls.

Critics, including House Democrats, worry the state is rushing to give away too much with no promise of new oil production in return.

Administration officials acknowledged to the House Resources Committee this week that the changes from House Bill 110 could cost the state $2 billion a year.

Oil revenue is the lifeblood of Alaska state government. Steady declines in production have alarmed government and business leaders for years. Production has fallen by two-thirds from its 1988 peak of 2 million barrels of oil a day to just over 600,000 barrels a day.

The state expects to collect about $4.7 billion this year in oil revenue for general spending, and more than half of that comes from the tax on oil production profits at issue in the Legislature.

Amid the backdrop of the legislative debate, a new group that includes former governors, business and union leaders, and Native corporation executives is predicting a dismal future without new oil production that an easing of the tax could spur.

'RUNNING ON EMPTY'

Television ads from the Make Alaska Competitive Coalition have started airing this week. The ads feature images of a little girl mixed with footage of the pipeline and oil fields.

"By the time 6-year-old Ava gets to high school, the trans-Alaska pipeline could be shut down," the ad warns. "If we don't stop the decline, we'll all pay the price: a state income tax, no PFD, fewer state services."

The solution, the coalition says, is new oil production.

The group is not taking any money from oil producers, and is not lobbying legislators for any particular bill, tax incentive or tax cut, said former University of Alaska President Mark Hamilton, a coalition steering committee member.

The coalition includes a number of big Alaska names: former Democratic Govs. Tony Knowles and Bill Sheffield, former House Speaker Gail Phillips, freight company Lynden Inc. chief executive Jim Jansen, former banker Ed Rasmuson, and Northrim Bank chairman and chief executive Mark Langland.

The group wants to educate the public on the reality of declining oil, Hamilton said.

"Folks, you do something about this, or the end game is certain," he said Tuesday. "If you don't explore, the oil continues to go down, down, down."

Texas produces more oil than Alaska. California is poised to do so, and within a few years, so could North Dakota, said coalition spokesman Jason Moore.

Names of everyone contributing to the effort are listed on the group's Web site, www. makealaskacompetitive.com, though not the specific amounts each donated, Moore said. The campaign officially kicks off today and will include television and print ads. The group hopes to raise $1 million for the effort, Moore said.

"Alaska's pipeline is running on empty," the coalition says on its Web site. "Make Alaska #1 Again."

SKEPTICISM IN THE HOUSE

State House Democrats on Tuesday told reporters they want more oil exploration too, but have numerous concerns with the governor's bill, including the speed in which it is being pushed through.

"The bottom line is that the industry has said our tax rate is adversely impacting investment, exploration and spending in Alaska but they are unwilling to commit to doing any investment, exploration or spending in exchange for a lower tax rate," said state Rep. Berta Gardner, D-Anchorage and a member of the House Resources Committee that has been hearing the bill for the past couple of weeks.

Rep.Scott Kawasaki, D-Fairbanks and another Resources Committee member, said the Legislature needs more time and the Parnell administration needs to provide more information. "They're basing a $2 billion potential gamble on oil company information and anecdotal evidence," Kawasaki said.

The governor's bill is a giveaway that will drain an important state savings account in five or six years, Gardner said.

The existing tax, Alaska's Clear and Equitable Share, or ACES, was a hallmark of former Gov. Sarah Palin's administration. It includes provisions for tax credits if oil companies spend money for exploration or maintenance of existing fields, as did the tax system before it.

From 2006 through this budget year, oil companies are expected to claim about $3 billion in tax credits, but the state has been unable to say how much was for drilling versus maintenance.

THE GOVERNOR'S PITCH

The governor told reporters Tuesday that he's been meeting with individual legislators to win support for his bill.

It would replace the 3-year-old ACES system, which raises the tax rate as oil prices rise, with a new system that would limit the tax collection. It also would expand tax credits.

If the tax cuts were approved, the governor said the state would have a budget gap for several years that it could close by tapping savings and cutting spending.

"That's what the savings are there for, to be that bridge," Parnell said.

But over 30 years, the governor said, the assumption is that oil companies would reinvest much of the money saved from lower taxes. He said tens of thousands of jobs would be created.

"I know that if we do nothing that we are going to continue to hold onto ... a pipeline that is about a third full," Parnell said.

If one new well is drilled, that's hundreds of jobs, Parnell said. He's trying to create an investment climate that creates hundreds of new wells by offering credits both within existing fields and new ones, he said.

The governor said he's disappointed the state Senate has yet to take up his tax proposal.

Senate President Gary Stevens, R-Kodiak, said the governor's bill will be heard in March.

The question, Stevens said, is that without evidence of new exploration despite existing tax credits amounting to $3 billion, how can legislators be sure new jobs and new oil production will result from even bigger tax breaks?

"That's a real concern and we're not getting those answers, I think, from Big Oil at this time," Stevens said.

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