



Alaska State Legislature
House and Senate
Democrats

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*Democrats, Former State Revenue Official, Call
for End To Unjustified Oil Tax Breaks*

Governors Hammond and Hickel say 1989 tax breaks need to be re-examined

JUNEAU – Today Democratic Representatives Les Gara, Eric Croft, Beth Kerttula and David Guttenberg filed legislation to help Alaskans recover a fair share for their oil. Former Governors Jay Hammond and Wally Hickel also stated this week that it is time to review the fairness of oil tax exemptions contained in a 1989 law known as “the ELF”, or Economic Limit Factor (Hammond’s full statement follows). Former Deputy Commissioner of Revenue Deborah Vogt, who supports the bill, said “the proposal is well thought out, and long overdue.”

“We can’t give away unjustified tax exemptions at the same time we don’t have enough money for our schools, roads and police departments.” Gara said. “Alaska’s oil belongs to all Alaskans”, said Guttenberg. Croft added, “The “Alaska Fair Share bill” meets our constitutional obligation to make sure Alaska’s oil provides ‘the maximum benefit to the people.’”

Because of oil tax breaks under the ELF, Alaska’s production tax rate has plummeted from 13.5% in 1993 to 7.5% today, and by 2013, down to 4%. Former Governor Hickel, stated: “The ELF needs to be re-visited to examine its fairness.”

While the state’s share for Alaska oil has fallen, corporate oil profits have soared. BP and Conoco Phillips reported net earnings of \$9 billion and \$7 billion respectively last year. According to the Department of Revenue, at recent oil prices of \$30/barrel the annual share corporations receive for Alaska oil would exceed total state oil revenue by \$1.2 billion.

At recent \$30/barrel prices, the bill would raise an additional \$400 million in revenue this year. That approximates the state budget gap at \$30/barrel oil. The bill raises more at higher prices, and an additional \$100 million at average prices, according to the Department.

(1 of 2)

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Sen. Bettye Davis, Sen. Johnny Ellis, Sen. Kim Elton, Sen. Lyman Hoffman, Sen. Hollis French, Sen. Gretchen Guess, Sen. Georgianna Lincoln, Sen. Donny Olson, Rep. Ethan Berkowitz, Rep. Sharon Cissna, Rep. Harry Crawford, Rep. Eric Croft, Rep. Les Gara, Rep. Max Gruenberg, Rep. David Guttenberg, Rep. Reggie Joule, Rep. Mary Kapsner, Rep. Beth Kerttula, Rep. Albert Kookesh, Rep. Carl Moses

Because of tax breaks in Alaska's ELF statute, 11 of the last 14 fields developed since 1989 pay none or almost none of Alaska's 15% Production Tax. The Alaska Fair Share bill establishes a modest minimum production tax of 5%. "This will provide a necessary balance by protecting the profitability of smaller fields, and providing a fair tax to the state as well," says Kerttula.

The bill also lets the state share in profits above \$20/barrel by slowly increasing the severance tax above that price. To encourage development, the Alaska Fair Share bill reduces the severance tax rate at low prices, when companies face the prospect of reduced profits, and possible investment losses.

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Governor Jay Hammond's statement: "I applaud Rep. Gara's efforts to re-examine ELF. Despite assurances its application would not lower the then agreed upon Alaskan share of our oil wealth "pie", subsequent circumstances indicate the state has, since the '80s, lost hundreds of millions which have instead gone into oil company coffers. The initial pie sharing agreement was roughly 1/3 to the state, 1/3 to the feds and 1/3 to the oil companies. Sen. Halford has shown me figures indicating the state's share has fallen to only around 20%. Perhaps there is justification for this. However, until that is assured, serving the best interests of Alaskans demands a re-evaluation such as Rep. Gara's legislation would compel. Be assured were the oil company's share of the pie being reduced by a third over the same period they would have long ago demanded such review."

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