



DOING DEMOCRACY

Discussion Guide

Ballot Measure No. 1: A Referendum to Repeal SB 21: An Act Relating to the Oil and Gas Production Tax, Interest Rates on Overdue Taxes, and Tax Credits

On **Tuesday, August 19, 2014** your vote will determine the amount of money the State of Alaska will collect in taxes from the development of state-owned oil and gas resources. The choice is deceptively simple: vote yes or no. The details are complex.

To help you better understand the issue, this discussion guide offers the following three perspectives:

- 1) *Legislators who voted for SB 21*
- 2) *Legislators who voted against SB 21*
- 3) *Citizens who brought you this referendum*

History of ACES

Governor Sarah Palin proposed legislation in 2007 to increase taxes on the oil industry in Alaska. In her transmittal letter introducing HB 2001 to the legislature she explained, “The bill would provide tax incentives and credits for the oil and gas industry to increase exploration for, and development of, Alaska’s oil and gas resources at any price range.” It proposed to do this by increasing the state’s share of escalating oil prices in world markets. The legislature passed HB 2001 calling it Alaska’s Clear and Equitable Share (ACES).

Lieutenant Governor Sean Parnell became Governor on July 26, 2009 following Governor Palin’s resignation and was re-elected to the position in 2010. In January of 2011, he proposed legislation to repeal ACES – HB 110.

The bill failed to pass the Alaska Senate and died with the end of the 27th legislature. With the convening of the 28 legislature in 2013 Governor Parnell reintroduced the measure as SB 21 citing the following reasons in his transmittal letter:

- *“Legislation is necessary to drive new investment to create new Alaska production and new opportunities for Alaskans.”*
- *“The bill simplifies the oil and gas production tax by repealing the progressive tax rate structure in Alaska’s current tax system....The repeal of the progressive tax rate structure in this bill encourages the type of long-term planning and investment needed to promote new investment in new production in Alaska.”*

Senate Bill 21 passed the Alaska Legislature and Governor Parnell signed it into law on June 24, 2013 stating:

“I applaud legislators for fostering an open, respectful, and honest dialogue with Alaskans,” Governor Parnell said. “They have passed legislation that meets our four guiding principles: this legislation is fair to Alaskans, it encourages new production, it is simple and restores balance to the system, and the tax structure is competitive and durable. Alaska’s oil comeback starts now.”¹

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Perspective 1:

Legislators who voted for SB 21

Proponents of SB 21 argue that it is necessary to reduce the tax rate on the production and sale of Alaska's petroleum resources to create a more attractive investment climate. They believe this is necessary to attract the capital needed to increase exploration and development which will increase future production. They argue that increased production will increase employment and future income to the state.

Rep. Mike Hawker, R-Anchorage:

*"This is a turning point for Alaska. We've witnessed the catastrophic effects of a poorly conceived, punitive tax regime that takes so much from industry that we scare off investment. This legislation finds the sweet spot: the greatest possible share for Alaska while offering a competitive investment for industry. Tonight, the Legislature has decided it wants a better future for Alaska than production decline; we want opportunity, investment, production, a thriving industry and a healthy state bank account down the road. And with SB 21, we open the door to that future."*²

Senate Majority Leader John Coghill, R – North Pole:

*"The state needed to change ACES to encourage new production. ... ACES is now widely regarded as having key, critical failings: The most important that the public should be aware of is that the high level of government take reduced the competitiveness for private capital, especially at high prices. In other words, oil companies saw more favorable capital expenditures in other more stable jurisdictions, where their cash margins and profitability was higher. Oil companies, with limited assets, look to those jurisdictions first for new, profitable production."*³

Perspective 2:

Legislators who voted against SB 21

Opponents of this legislation argue there is no evidence to support the belief that our present tax rates (ACES) are an obstacle to oil industry investment in future production. They noted that the legislation did not require an increase in exploration or development investment as a condition for receiving reductions in taxes. They concluded that foregoing income now based solely on the hope that it would increase future production is not in the best interests of the state.

Senator Bill Wielechowski, D - Anchorage:

Senator Wielechowski in an analysis titled, "Debunking Myths About ACES", contends:

*"Opponents of Alaska's oil tax system, known as 'ACES' or Alaska's Clear and Equitable Share, have manufactured a mountain of myths. Their purpose --to convince you that the world's largest oil companies, which are reaping record profits as you pay ever more for heating fuel and gasoline, deserve to get a tax break. Under ACES, investment and jobs are at all-time highs, the number of oil & gas companies doing business in Alaska has doubled, exploration is booming, and profits are strong."*⁴

Senator Gary Stevens, R - Kodiak:

*"Speaking on SB 21 in 2013 Stevens warned, 'This body has decided to place enormous trust in an industry that has often proved itself to be untrustworthy.' Stevens, who was Senate president last year when Parnell's bill died in the Senate, ... cited three major events, the Amerada Hess court case in the 1970s where a judge ruled the industry cheated Alaska out of nearly \$1 billion, the Exxon Valdez oil spill in 1989, and the VECO corruption scandal of 2006. 'Those three events are not the only abuses we have experienced – they're just the three you cannot forget,' Stevens said."*⁵

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Perspective 3: Referendum Petitioners

This referendum is before you because 52,649 Alaskans signed a petition requesting Alaskans be given their constitutional right to vote on the repeal of SB 21.

Statement of Referendum Petitioners Signed by Fisher, Hammond & Whittaker

*“ Alaskans do not support giving away over \$1 billion per year to anyone for nothing in return. The passage of Senate Bill 21 is a defining moment in state history, a moment in which the best interests of the Alaskan people were steamrolled by our own elected representatives in the legislature. Senate Bill 21 guarantees immediate deficit spending and threatens to impoverish our state while enriching Outside corporations and their shareholders.”*⁶

The People's Choice: How will you decide?

Two former Governors viewed citizens as shareholders in Alaska. Jay Hammond proposed the Permanent Fund as an investment of revenue from development of our natural resources that would generate dividends to citizens. Wally Hickel talked about Alaska as the owner state with citizens as stockholders responsible for making public investment choices.

Your vote on this referendum is an investment decision.

A Yes vote invests oil resource revenue with the state to provide services and facilities for the public.

A No vote invests oil resource revenue with the oil industry to encourage investment in oil exploration and development that will/may provide future benefits to the state.

Which choice will best serve:

The state constitutional mandate to “provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people” and

Your needs, your community's needs, and the needs of future generations?

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Footnotes

1. Governor Parnell press release, <http://gov.alaska.gov/parnell/press-room/full-press-release.html?pr=6452>
2. Retrieved from Alaska House Majority Website:
<http://www.housemajority.org/2013/04/14/house-passes-oil-tax-reform/>,
January 15, 2014
3. Alaska Business Monthly, <http://www.akbizmag.com/Alaska-Business-Monthly/November-2013/Coghill-OP-ED-Understanding-ACES-MAPA-and-Alaskas-Upcoming-Critical-Referendum-Decision/>,
Downloaded 1/16/14
4. <http://www.senatorbill.org/wp-content/uploads/2013/03/Debunking-Myths-about-ACES-March-2013.pdf>,
Downloaded 1/15/2014
5. McClatchy DC,
<http://www.mcclatchydc.com/2013/03/21/186507/alaska-senate-oks-oil-industry.html>,
Downloaded 1/15/2014
6. Statement of Referendum Petitioners,
<http://www.repealtheoilgiveaway.org/about-us-1.html>,
Downloaded 1/29/14
7. See Fiscal Note Number 14 for HCS CSSB 21(Fin),
<http://www.legis.state.ak.us/PDF/28/F/SB0021-14-5-041213-REV-Y.PDF>
8. State of Alaska Constitution, Article I,
<http://ltgov.alaska.gov/treadwell/services/alaska-constitution/article-i-96-declaration-of-rights.html>
9. State of Alaska Constitution, Article VIII Section 2,
<http://ltgov.alaska.gov/treadwell/services/alaska-constitution/article-viii-96A0natural-resources.html>