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Governor Bill Walker STATE OF ALASKA

July 8, 2016

The Honorable Kevin Meyer
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Meyer:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to oil and gas production taxes and tax credit reform.

This bill would build off the substantial work by this Legislature in both regular and special session to put the State on a path for a sustainable fiscal future. While I recognize that Chapter 4, 4SSLA 2016, represents hard won compromises, difficult choices, and significant steps towards a sustainable fiscal future, it is simply not enough. More work must be done to correct the State's unsustainable system of oil and gas production tax credits.

First, in the recent and potentially future oil price climate, oil and gas producers and explorers are incurring losses. This has resulted in large tax credits for use against oil and gas production tax liability and hefty requests for purchase from the oil and gas tax credit fund. This bill would reduce, in 2017, the amount of tax credits available for a company incurring a net operating loss for expenditures incurred north of 68 degrees North latitude ("North Slope"). In 2018, the tax credit would be eliminated for North Slope expenditures.

Second, the bill would increase the minimum tax amount for certain oil and gas produced on the North Slope beginning in 2017. When the price for North Slope oil is above \$55, the bill would provide that the minimum tax amount may not be less than five percent of the gross value at the point of production.

Third, the bill includes provisions designed to promote good governance practices. The bill would also enable the Department of Natural Resources to release seismic data, obtained through oil and gas tax credits, if a lease is terminated or relinquished. Finally, the bill would institute reasonable and time sensitive changes to the interest rate applicable to delinquent taxes.

This bill builds on the Legislature's commendable work on Chapter 4, 4SSLA 2016. I do not lightly suggest these changes. But, the changes in this bill, along with critical changes to the administration

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of the Permanent Dividend Fund, would help protect the State's fiscal future from the volatility of oil prices. I urge your prompt and favorable action on this measure.

Sincerely,



Bill Walker
Governor

Enclosure