

The Alaskan Oil Revenue Question
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Oil prices are sailing beyond \$50 per barrel. New records are being set weekly. Meanwhile, Alaska's income from its declining resource treasure is only ~20% of the selling price. This is one of the lowest revenue "shares" of any government in the world. Profits from oil are higher than ever. At the same time, Alaska provides one of the safest, most secure places in the world to produce and market oil. Oil companies will not leave if we demand a fair share of oil profits. Shouldn't we get an equal share of this wealth from the oil we own?

Alaska has a system to get oil revenue. It involves a severance tax (15% by statute, but actually ~7.5% because of the ELF), and a royalty payment. A severance tax is a common oil tax system, which simply taxes an oil purchaser at the time the oil is removed ("severed") from the ground. The royalty fee is an additional fixed, one-eighth share of all oil produced, 12.5% of the oil wellhead price.

When ELF's Go Wrong

Back in 1989, the Alaska Legislature enacted the Economic Limit Factor (ELF), which was really a tax break to oil companies. It was meant to encourage development of marginal fields. But it is now hurting Alaskans because it sets a lower rate of the severance tax as the oil fields age. This is where ELF has gone wrong. It is no longer necessary to keep this tax break in place. It just reduces oil revenue at a time when oil prices are rapidly increasing, and our revenue share is declining. Surely Alaska can do better. If we do nothing to change the current share of revenue recovery, this treasure will be gone forever.

Something must be done to enhance Alaska's revenue from oil. This low revenue rate robs our future. It starves the Alaska Permanent Fund of revenue. The state should be putting some of this money aside in the Fund for the eventual time when it is necessary to use it for our needs. High oil prices may not last, but while they do, Alaska is wasting the precious oil by not getting a fair share of the oil price windfall. Our oil severance revenue can't be collected after the oil is removed from the ground. The time to act is now.

So how much difference in revenue (money) to the state are we talking about here?

If oil prices stay above 40 dollars per barrel, our present system will yield about 2 billion 664 million dollars, nearly equal to our state budget. This would mean no budget shortfall next year, regardless of what is done to change the oil revenue rate.

If the legislature changed the oil revenue laws to get the original full 15% Severance tax, with a progressively increased rate above \$20 per barrel, the state share could be 42.5 % of the total revenue. Our annual revenue would be: 5 billion 771 million dollars, **more than twice** what the present system yields.

Alaskans are getting only half what we should for our oil!

If we got what we should, applying new fair share revenue taxes while prices remain high, all of the following would be possible:

- **There would simply be no budget gap or fiscal problem. Alaska's revenue would exceed its budget, even with the Permanent Fund deposits deducted.**
- **There would be vastly increased deposits to the Permanent Fund, with corresponding increases in the Fund balance and Permanent Fund Dividends. This would also increase the strength and value of the Permanent Fund, making it more reliable and capable of handling our needs in the future.**
- **The prospect of tuition-free university or trades education, health care for all, and full funding of school budgets, roads, harbors, and airports becomes possible.**

Article VIII, section 2 of our Constitution states that Alaska's "Legislature shall 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". Legislators swear to uphold the Constitution when they take office. They are required to ensure we receive maximum benefit for our treasure of oil, particularly when production is in decline, and the price is rapidly increasing. What could be clearer?

Before you vote for State legislators this November, demand that they make these changes in our oil revenue system to afford us the future we deserve.