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STATE OF ALASKA
Division of Elections
Office of the Lieutenant Governor

September 3, 2013

Vic Fischer
PO Box 201348
Anchorage AK 99520-1348

Re: 13SB21 Notice of Proper Filing

Dear Mr. Fischer:

Pursuant to AS 15.45.465, the lieutenant governor has delegated to me the duties imposed on him by AS 15.45.250-15.45.460 (see attached written delegation).

I have reviewed your petition for the referendum on Senate Bill No. 21 and have determined that the petition was properly filed. My notice of proper filing is enclosed.

Specifically, pursuant to AS 15.45.370, the petition was signed by qualified voters (1) equal in number to 10 percent of those who voted in the preceding general election; (2) resident in at least three-fourths of the house districts in the state; and (3) who, in each of the house districts, are equal in number to at least seven percent of those who voted in the preceding general election in the house district. Sufficient signatures were also timely filed on July 13, 2013 consistent with article XI, section 5 of the Alaska Constitution and AS 15.45.370(2).

The Division of Elections verified 45,664 voter signatures and 40 house districts, which exceeds the 30,169 signature requirement based on the 2012 General Election. A copy of the Petition Statistics Report prepared by the Division of Elections is enclosed.

Pursuant to AS 15.45.410, the following ballot title and proposition have been prepared with the assistance of the attorney general. This ballot title and proposition are identical to that proposed in the Attorney General Opinion recommending certification of the referendum application and that which appeared on the petition booklets.

13SB21
An Act Relating to the Oil and Gas Production Tax, Interest Rates on Overdue Taxes, and Tax Credits

Voters are asked to approve or reject a law amending provisions of Title 43 of the Alaska Statutes governing the oil and gas production tax and oil surcharge (collectively,

“production tax”) and the statutory interest rate for delinquent taxes. The law provides a corporate income tax credit for qualified oil and gas service-industry expenditures and establishes an Oil and Gas Competitiveness Review Board in the Department of Revenue.

The law makes several changes to the production tax. For oil and gas produced after January 1, 2014, the law increases the base tax rate on the annual production tax value of oil and gas produced from leases or properties in the state from 25 percent to 35 percent. The law eliminates the “progressivity tax,” which applies only in a month in which a producer’s average monthly production tax value exceeds \$30.

The law provides that qualified oil and gas produced from leases or properties on the North Slope would be eligible for a 20-percent reduction (called a “gross revenue exclusion”) in the gross value at the point of production. The gross revenue exclusion applies only to oil and gas produced from a lease that was not in a unit on January 1, 2003, from a new participating area (reservoir), or from acreage added to an existing participating area.

The law provides for an additional 10-percent gross revenue exclusion for oil and gas produced from a North Slope unit that consists solely of state leases for which the lessee (the producer of the oil and gas) is obligated to pay the state a royalty share (in money or in kind) that exceeds 12.5 percent of the value of the oil or gas produced from the lease.

The law provides that North Slope tax credits may be used to permit a taxpayer to apply a credit against its tax, or receive a certificate, in a single calendar year (instead of allowing only half the credit to be applied in a single calendar year).

The law adds two new tax credits for North Slope producers of oil and gas that may be applied against the producer’s production taxes. Neither credit is transferable or redeemable for cash, nor may any unused portion be carried forward to a later calendar year. The first is a credit of \$5 per barrel of taxable oil that qualifies for the gross revenue exclusion. The second is a sliding-scale credit for each barrel of North Slope taxable oil that does not qualify for a gross revenue exclusion. The sliding-scale credit varies, and is based on \$10 increments of the gross value at the point of production. It ranges from \$8 a barrel in a month in which the average gross value at the point of production is less than \$80 a barrel to \$0 a barrel when the average gross value at the point of production equals or exceeds \$150 a barrel. At a gross value between \$100 and \$110 per barrel, the credit would be \$5 per barrel.

The law eliminates the 20-percent tax credit for qualified capital expenditures on the North Slope after January 1, 2014.

The law amends the carried-forward credit for losses incurred to explore, develop, or produce North Slope oil and gas by increasing the loss credit to 45 percent of a loss from January 1, 2014, to January 1, 2016. After January 1, 2016, the North Slope loss credit would be

35 percent. The law does not change the 25-percent loss credit for expenditures incurred south of the North Slope.

The law also extends the exploration tax credit under AS 43.55.025 for five years for certain exploration projects, and removes a qualifying requirement related to well distance for exploration wells drilled outside the Cook Inlet sedimentary basin and south of the North Slope.

The law amends the tax limitation on gas used in the state so it would not apply to gas first produced after December 31, 2012, and before January 1, 2027, from leases outside the Cook Inlet sedimentary basin and south of the North Slope.

The law also lowers the interest rate that applies to overdue taxes from five percent above the applicable federal rate, or 11 percent, whichever is greater, to three percent above the applicable federal rate.

The law substitutes the Alaska Net Income Tax Act for the progressivity tax as a suggested funding source for the legislature to consider when appropriating funds to the Community Revenue Sharing Fund.

The law adds a credit to the Alaska Net Income Tax Act for expenditures related to the oil and gas service industry. Expenditures that can qualify for credit include manufacturing or modifying tangible personal property in Alaska if that property will be used in the exploration, development, or production of oil and gas. The credit may not exceed \$10 million in a calendar year, and applies only against a taxpayer's corporate income tax liability. The credit may not be transferred or redeemed for cash, and any unused portion may be carried forward for five years. An expenditure that is the basis for this credit may not be used as a deduction from the taxpayer's income tax, a credit or deduction under another provision in Title 43, or for any federal tax credit that a taxpayer may take under Alaska law.

The law establishes an Oil and Gas Competitiveness Review Board in the Department of Revenue. The Board's duties include considering fiscal policies and levels of investment relating to oil and gas exploration, development, and production in the state and reviewing the state's competitive position to attract and maintain investment in the oil and gas sector in the state. The Board is required to make reports to the legislature in 2015 and 2021. Under the law, the Board would exist until February 28, 2021.

Most of the law would take effect on or after January 1, 2014, except for sections related to transferable tax credits. Those sections would apply retroactively to January 1, 2013.

A yes vote rejects the law. A no vote approves the law.

SHOULD THIS LAW BE REJECTED? Yes or No.

Pursuant to article XI, section 5 of the Alaska Constitution and AS15.45.420, this ballot proposition will appear on the election ballot of the first statewide general, special, or primary election that is held more than 180 days after adjournment of the legislative session at which the act to be referred was passed. Accordingly, barring an unforeseen special election, this proposition is scheduled to appear on the August 19, 2014 statewide primary election ballot.

Please be advised that under AS 15.45.460, any person aggrieved by my determination set out in this letter may bring an action in the superior court to have the determination reviewed within 30 days of the date on which notice of the determination was given.

Because your petition was properly filed, I will be refunding the \$100 deposit that accompanied your application. If you have questions or comments about the ongoing referendum process, please contact me at (907) 465-4611.

Sincerely,



Gail Fenumiai
Director

Enclosures

cc: Michael C. Geraghty, Attorney General
Lieutenant Governor Mead Treadwell

STATE OF ALASKA
DIVISION OF ELECTIONS
JUNEAU

NOTICE OF PROPER FILING

I, GAIL FENUMIAI, DIRECTOR OF THE DIVISION OF ELECTIONS FOR THE STATE OF ALASKA, under the provisions of Article XI of the Constitution of the State of Alaska and under the provisions of AS 15.45, and pursuant to the written delegation of the lieutenant governor under AS 15.45.465, hereby provide notice that the referendum petition for Senate Bill No. 21, which was received on July 13, 2013, and known as 13SB21, is properly filed.

Consistent with AS 15.45.370-390, I have determined that the referendum sponsors have filed a petition signed by qualified voters (1) equal in number to 10 percent of those who voted in the preceding general election; (2) resident in at least three-fourths of the house districts in the state; and (3) who, in each of those house districts, are equal in number to at least seven percent of those who voted in the preceding general election in the house district. I have also determined that sufficient signatures were timely filed on July 13, 2013 consistent with article XI, section 5 of the Alaska Constitution and AS 15.45.370(2).

Accordingly, and pursuant to article XI, section 5 of the Alaska Constitution and AS 15.45.420, and absent an intervening special election, I shall place the ballot title and proposition on the election ballot for the statewide primary election on August 19, 2014.



IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed hereto the Seal of the State of Alaska, at Juneau, Alaska,

This 3rd day of September 2013

A handwritten signature in blue ink, appearing to read "Gail Fenumiai", is written over a dotted line.

DIRECTOR, DIVISION OF ELECTIONS