THE BOND BUYER

Alaska governor signs oil tax credit bond bill amid lawsuit threat

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Alaska Gov. Bill Walker has signed a bill allowing the state to issue bonds to pay off tax credits it owes to oil producers – even as the new law faces a lawsuit.

The governor's office said the policy change saves the state money in the long run by paying off $1 billion in oil and tax credits at a discount. Walker signed the bill Wednesday at a union hall in Fairbanks.

Last year, the Alaska legislature ended the oil and tax credit program – aimed at small producers and explorers – but money is still owed to those already holding credits.

In a statement, Walker's office said the payout provides oil and gas companies money to invest while saving the state money.

The state will sell $1 billion in bonds to pay producers early in exchange for a small discount that would help finance the state's debt, under the plan.

"We expect to see new jobs and increased exploration activity as a result of this legislation," he said in a statement Wednesday. "Alaska's economy is on the right track thanks to progress we made this year by working together across party lines to advance innovative solutions, including the one that became law today."

Under the law, the state will create the Alaska Tax Credit Certificate Bond Corp. to sell the bonds. The bonds are subject to appropriation – relying on the legislature appropriating enough money to pay them off each year.

Eric Forrer, a former University of Alaska regent, filed a lawsuit in May, days after the bill was approved by the legislature, seeking to block the state from implementing the plan.

The lawsuit claims the plan violates the state's constitution, which only allows for state debt to be incurred for capital improvement projects or housing loans for veterans programs following voter approval.

In a May 2 legal opinion, Attorney General Jahna Lindemuth wrote that “financing tools like those proposed in this bill are not prohibited by the Alaska Constitution.”

The proposed bonds would not be considered debt as they would be “subject entirely to the legislature’s discretion to appropriate funds for that purpose, and the bonds give bondholders no recourse against the state,” the opinion says.

Forrer’s attorney has called that language an attempt to circumvent the state’s prohibitions.