

MINUTES
SENATE FINANCE COMMITTEE
April 20, 2006
1:05 p.m.

CALL TO ORDER

Co-Chair Lyda Green convened the meeting at approximately [1:05:56 PM](#).

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Fred Dyson
Senator Bert Stedman

Also Attending: SENATOR GARY STEVENS; ROD BETIT, President and Chief Executive Officer, Alaska State Hospital and Nursing Home Association; RICHARD MANDSAGER, MD, Director, Division of Public Health, Department of Health and Social Services; JOHN MACKINNON, Deputy Commissioner, Department of Transportation and Public Facilities; TONY NEWMAN, Program Officer, Division of Juvenile Justice, Department of Health and Social Services; DAN DICKINSON, CPA, Consultant to the Department of Revenue; CHERIE NIENHUIS, Petroleum Economist, Tax Division, Department of Revenue;

Attending via Teleconference: From an offnet location: CATHY HANSEN, Attorney, Office of Victims' Rights, Legislative Affairs Agency; ROB MINTZ, Assistant Attorney General, Oil, Gas and Mining Section, Civil Division, Department of Law; From Anchorage: STACY STEINBERG, Chief Assistant Attorney General, Statewide Section Supervisor, Collections and Support Section, Civil Division, Department of Law; GAIL VOIGTLANDER, Chief Assistant Attorney General, Statewide Section Supervisor, Torts and Worker's Compensation Section, Civil Division, Department of Law; From Kenai: LARRY KREJCI

SUMMARY INFORMATION

SJR 19-TASK FORCE ON HOSPITAL INFECTIONS

The Committee heard from the sponsor, the Department of Health and Social Services and a hospital association. An amendment was adopted and the resolution was reported from Committee.

SB 271-AUTHORIZE HWY PROGRAM PARTICIPATION

The Committee heard from the Department of Transportation and Public Facilities. The bill was reported from Committee.

SB 10-PARENTAL LIABILITY FOR CHILD'S DAMAGE

The Committee heard from the sponsor, the Office of Victims' Rights, the Department of Law, the Department of Health and Social Services and a parent. The bill was held in Committee.

SB 305-OIL AND GAS PRODUCTION TAX

The Committee heard a presentation by the Department of Law and a consultant to the Department of Revenue. The bill was held in Committee.

#SJR19

[1:06:17 PM](#)

SENATE JOINT RESOLUTION NO. 19
Relating to creating the Task Force to Assess Public
Reporting of Health Care Associated Infections.

This was the first hearing for this bill in the Senate Finance Committee.

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SENATOR GARY STEVENS, sponsor of the resolution, explained it would create a task force to make recommendations on the establishment of a reporting system. Approximately two million infections are acquired each year in hospitals and an estimated 90,000 people die as a result of these infections. The cost to consumers is between \$4.5 and \$11 billion a year. This problem must be addressed.

Senator Gary Stevens outlined the interim task force that would be appointed to review experience to date with public reporting

of hospital-associated infections. The task force would also be charged with drafting legislation for consideration during the next legislative session. Additionally the task force would provide a timeline for implantation of the recommendations and establish a reporting system.

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Co-Chair Green asked whether the January 31, 2007 termination date of the task force would be appropriate.

[1:09:17 PM](#)

Senator Gary Stevens answered the time allowed would be sufficient, as the work could be completed in three meetings.

Co-Chair Green asked the process to determine membership on the task force.

Senator Gary Stevens affirmed that in conjunction with the Department of Health and Social Services, it was determined that the membership of the task force would be comprised of professionals and legislators.

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Co-Chair Wilken, citing the language of lines 15 through 17 on page 2, asked why the resolution specifically prohibited the public members of the task force from receiving reimbursement for travel expenses. He understood the decision to not provide compensation, but suggested that travel costs be reimbursed.

Senator Gary Stevens agreed this would be appropriate. The intention was to secure membership from those willing to participate at their own expense. Such reimbursement by the State would incur some cost, but he was willing to support the proposal. The task force members representing the Alaska Native Tribal Health Consortium (ANTHC), the Alaska Chapter of the Association of Professionals in Infection Control and Epidemiology and the Alaska State Hospital and Nursing Home Association (ASHNHA) could also represent "a consumer of health care who resides in rural Alaska" or "a consumer of health care who resides in urban Alaska".

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Co-Chair Wilken acknowledged this, but surmised that volunteers willing to participate in holding the seats designated for a consumer of health care residing in rural Alaska and the consumer of health care who resides in urban Alaska should receive reimbursement for at least their travel and lodging expenses.

Co-Chair Green pointed out that legislators and State employees holding positions in similar commissions do not receive special compensation. Travel and lodging is paid however.

Senator Gary Stevens suggested that the meetings be held in Anchorage, where most members would reside.

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Amendment #1: This conceptual amendment would provide State reimbursement of travel and other expenses for the seats designated for "a consumer of health care who resides in rural Alaska" and "a consumer of health care who resides in urban Alaska".

Co-Chair Wilken moved for adoption. He noted those holding the remaining designated seats would receive reimbursement from the agencies or organizations they represent.

There was no objection and the amendment was ADOPTED.

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ROD BETIT, President and Chief Executive Officer, Alaska State Hospital and Nursing Home Association, testified in support of the resolution. The issue is important and should be addressed in a timely manner. He agreed the number of hospital acquired infections could be reduced.

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RICHARD MANDSAGER, MD, Director, Division of Public Health, Department of Health and Social Services, testified to his efforts with the sponsor to conceive the proposed task force. Six other states have reporting requirements for infectious diseases contracted in hospitals. The task force could review

these systems and garner information from both the positive and negative aspects of the other states' programs.

Dr. Mandsager informed that the state of Vermont formed a similar task force a year prior, which proposed legislation based in its findings. The resolution before this Committee would allow for the same process.

Dr. Mandsager spoke to complexities of the issue in Alaska. Twenty-five years ago, only 30 percent of surgical care was performed as outpatient care; currently, almost 75 percent is done in this manner. Although the title of the resolution specifies "health care associated infections", he recommended the focus should be inclusive and consider all forms of surgical care delivery. This would make the task force progress more difficult.

Dr. Mandsager further cautioned that data reporting would be problematic with smaller institutions. Because the volume of smaller institutions is low, the reported percentages of any infections could be misleading.

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Senator Olson asked the hardship such reporting requirements would cause smaller health clinics that are not in-patient care facilities.

Dr. Mandsager told of preliminary discussions held with the ASHNHA on this issue. The Association as well as the ANTHC would participate in the task force because of the potential impacts to its member health care providers. Recommendations of the task force would ultimately be determined by cost and value returned from investment. To be a "worthwhile exercise" the process must ensure that institutions could afford to participate so consumers could receive accurate information of value.

Senator Olson asserted that accreditation is important for smaller hospitals, and asked whether this process would impact a clinic's efforts in achieving or maintaining accreditation.

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Dr. Mandsager responded that a joint commission, which awards accreditation, was undertaking the same effort of reporting hospital surgical standards. The states that have already implemented reporting requirements of hospital acquired infectious diseases include the process in the licensure and certification of institutions allowed to operate in that state. The same would occur for Alaska if similar reporting requirements were instituted.

[1:21:00 PM](#)

Senator Olson asked how less commonly known infections would be addressed under the proposal.

Dr. Mandsager replied that the "scope" of which diseases would require reporting would be determined by the task force. The states that appear to have the most success with implementing a reporting system have opted to limit the number of infection types to be reported to those with higher frequency and have broad applicability. The size of the data system and the costs would be too large if reporting of all infection types were required. Once capacity and "learning" has been established for a limited number of types, the governing body could determine to require reporting of additional types of infections.

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Senator Dyson commented on Dr. Mandsager's goal of achieving an extensive health education and information system for the State. This resolution represents "a step in the first portion" of accomplishing this.

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Senator Dyson offered a motion to report SJR 19, 24-LS1657, as amended, from Committee with individual recommendations and a new fiscal note.

Without objection, CS SJR 19 (FIN) was MOVED from Committee with a forthcoming fiscal note. The zero fiscal note, dated 4/24/06, from the Legislature, was submitted to the Senate Secretary.

AT EASE [1:24:03 PM](#) / [1:24:32 PM](#)

#SB271

[1:24:36 PM](#)

SENATE BILL NO. 271

"An Act authorizing the commissioner of transportation and public facilities to participate in certain federal highway programs and relating to that authorization; relating to powers of the attorney general to waive immunity from suit in federal court related to those programs; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Co-Chair Green reminded that this bill would provide the statutory authority necessary for the establishment of a pilot program proposed by US Congressman Don Young of Alaska. The provision relating to immunity waivers is necessary to reduce delays.

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Senator Stedman clarified that no changes were proposed to the original version of the bill previously heard in Committee.

Co-Chair Green affirmed.

Senator Stedman recalled that concern was expressed about the amount of the fiscal note and the increased number of positions this bill would entail. Funding for additional positions is included in the FY 07 Operating Budget earlier reported from Committee. He was not convinced that the proposed program would improve the process to the extent that the costs would be warranted.

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JOHN MACKINNON, Deputy Commissioner, Department of Transportation and Public Facilities, testified that funding for the additional positions as listed in the fiscal note is not included in the FY 07 Operating Budget. The program would be funded primarily with federal funding, but would require State matching funds. The Department supports the creation of this program. It would benefit Alaska by streamlining the process and

allowing for decision-making "in house" within the Department rather than by the federal government. The cost is low in comparison to the large program. The cost savings incurred in one year from streamlining a project would pay for the operation of the program.

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Senator Stedman expressed concern of the potential risk exposure to the State by waiving this sovereign immunity. He asked if more exposure to liability could occur than anticipated.

Mr. McKinnon had contacted the federal Highway Administration and learned it had little litigation history on this issue. In cases of litigation resulting from accidents the court directed that certain changes be made to prevent additional crashes. He told of a case involving the state of Utah in which hearings on an environmental impact statement were held as an open meeting forum and information was inadvertently posted and made public.

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Senator Stedman pointed out that few roads had been constructed in Alaska in the last 20 years. New roads would improve commerce and travel. He asked if this legislation is intended to facilitate the construction of new roads or just shorten the length of time to resolve "the inevitable" litigation by one year.

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Mr. McKinnon expressed the Department's intent to address this undertaking "seriously" by following procedure correctly but also to provide "checks and balances" to ensure against errors. This program would provide no guarantee against litigation. In the history of these State projects, two cases have been litigated against; Illiamna/Nondalton road and bridge project, which is still pending, and the Whittier Tunnel. The State and federal agencies have prevailed to date on all actions relating to these projects.

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Senator Olson asked the amount of time until the federal funding is eliminated and the State would be required to assume all

costs to operate this program, as is occurring with many other programs.

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Mr. McKinnon answered that the provisions of this legislation would be part of the federal highway aide program. The federal funding is assured for five years for this six-year program. He presumed that if federal funding for highway construction were eliminated nationwide "serious mutiny" would occur.

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Senator Olson clarified that State funding would not be required to "backfill" a reduction or elimination of federal funding for five years.

Mr. McKinnon responded the federal funding would be assured for at least five years and most likely longer.

Senator Olson asked if State assumption of this process would affect the eligibility to receive federal funding.

Mr. McKinnon surmised this undertaking would not make the State more or less eligible for federal funding for transportation projects.

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Co-Chair Wilken offered a motion to report the bill, 24-GS2042\A, from Committee with individual recommendations and accompanying fiscal notes.

There was no objection and SB 274 was MOVED from Committee with fiscal note #1 for \$647,400 from the Department of Transportation and Public Facilities and zero fiscal note #2 from the Department of Environmental Conservation.

#SB10

[1:35:12 PM](#)

CS FOR SENATE BILL NO. 10(JUD)

"An Act relating to civil liability for damage to or destruction of property by minors; relating to court

revocation of a minor's privilege to drive; relating to restitution for certain acts of minors; and amending Rule 60, Alaska Rules of Civil Procedure."

This was the first hearing for this bill in the Senate Finance Committee.

Senator Dyson, co-sponsor of this legislation with Senator Gretchen Guess, told of significant vandalism perpetrated by minors. He and Senator Guess combined their efforts to address this issue.

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Senator Dyson explained this bill would continue efforts of establishing a "common law" system to recompense victims for damages against them and restore the victim to a pre-offense condition. The trend is "moving away from" a system practiced in American law in which "you pay your fines to the king."

Senator Dyson qualified that the provisions of this bill could appear "awkward", but assured they would ensure that the person who causes the property damage would be the "first one up" to recompense the victim. This would also apply to minors who commit these offenses. A minor would be responsible for the first \$5,000 in restitution. The minor offender's driver's license could be revoked, Alaska Permanent Fund Dividend garnished, and a payment schedule imposed that could extend to beyond their reaching the age of 18 until the debt is satisfied.

Senator Dyson noted that if the minor offender has a parent, that parent could be held liable for restitution of that portion of damages that exceed \$5,000, with a maximum liability of \$15,000. Liability for that portion of damages exceeding \$20,000 would revert to the minor who would be required to pay the restitution until the victim was fully compensated.

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Senator Dyson addressed the issue of an "uncontrollable child", informing that this legislation includes a provision to exempt parents from this liability if the parent notified authorities that the child was a runaway. In these instances, the minor would be liable for restitution of all damage costs. For those

minors held in State custody, this bill would exempt foster parents from the liability with the State paying the parental obligation.

Senator Dyson stressed that someone must be held responsible for repaying the victim.

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CATHY HANSEN, Attorney, Office of Victims' Rights, Legislative Affairs Agency, testified via teleconference from an offnet location that this legislation includes several positive aspects to assist in securing restitution for victims. The Office of Victims' Rights (OVR) supports the concept of consistency involving laws that affect the ability of a crime victim to obtain restitution. The cost of the damage and the ability of the victim to collect restitution should not depend on whether a juvenile is sentenced to informal probation, adjudicated as a delinquent or whether the offender or his parents are sued in instances in which the State chooses to not prosecute the offence.

Ms. Hansen reported that an important part of the criminal process for victims is restitution. Victims often "pay a high emotional price" and should not additionally be required to bear the economic cost of the juvenile delinquent acts. Victims must bear the financial cost upfront and must often wait months or years for payment. This delay includes the process of adjudication of the offender and collection. Some victims are never paid.

Ms. Hansen reminded that voters in 1994 approved an amendment to the Alaska Constitution that instituted a constitutional right to victims' restitution. The OVA supports full restitution for victims and prompt payment when possible, but could not support any legislative change that would not promote this goal.

Ms. Hansen therefore expressed concerns with the language of this bill that would limit a juvenile's responsibility to \$5,000 of the total cost of damage. The victims should be paid "first". Parents paying on behalf of the juvenile have the ability to withhold dividends and obtain repayment in other manners. Requiring the juvenile to make the payment directly could interfere with the victim's right to obtain restitution.

Ms. Hansen furthered that parental liability should not be limited to \$15,000, especially if the parent has the financial ability to pay more. Making the parent totally responsible for the restitution would provide incentive to the parent to ensure the debt is paid.

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Senator Dyson asked if these concerns were raised when this bill was heard by the Senate Judiciary Committee.

Ms. Hansen answered they were, reiterating notes from her testimony provided to that committee.

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STACY STEINBERG, Chief Assistant Attorney General, Statewide Section Supervisor, Collections and Support Section, Civil Division, Department of Law, testified via teleconference from Anchorage that the Section collects restitutions in juvenile delinquency cases that have undergone the formal adjudication process in which the court has ordered a restitution judgment. The Collection and Support Section does not become involved in informal restitution cases. She was available to speak to the Department's ability to collect restitutions for victims under the provisions of this bill.

Ms. Steinberg directed attention to Section 13 of the Senate Judiciary Committee substitute, which would insert new subsections to AS 47.12.120 and pertaining to restitution in formal juvenile delinquency cases. Under the provisions of the new subsections, collecting restitution would take longer and would require more resources of the Department to collect the same amount of money.

Ms. Steinberg continued that the provisions of Section 13 would eliminate joint and severable liability between the juvenile and the parent and would also establish a structure in which liability would be divided between the juvenile and the parent.

Ms. Steinberg explained that under the existing joint and severable liability procedure, a court order for the juvenile to pay \$5,000 in damages also holds the parent responsible. The Department could collect the entire amount or any combination of

the entire amount from either parent or the juvenile, depending upon which party has the financial resources.

Ms. Steinberg gave an example of how the provisions of this legislation would be executed "in the practical world". Under the proposed system, collection of the \$5,000 could only be received from the juvenile. Approximately two-thirds of the cases the Section handles involve \$5,000 or less. Generally, the juvenile does not have many financial resources and payment is primarily secured through garnishment of Alaska Permanent Fund dividends. Under the existing system, in situations in which the juvenile and parents have limited financial resources, up to three dividends could be garnished each year; one from each parent and one from the juvenile, until the debt is paid. The proposed system would only allow for garnishment of the juvenile's dividend. This would extend the amount of time before the victim is recompensed from approximately two years to five years for a restitution of \$5,000.

Ms. Steinberg explained that the Collections and Support Section currently "opens one file" for each claim. Under the proposed system, three files would be necessary. More resources would be required to collect the same amount of restitution. The fiscal note reflects this in listing the addition of a paralegal or legal assistant position at a cost of \$110,000 per year, in addition to approximately \$6,000 in the first year to purchase equipment and other necessities for the position.

Ms. Steinberg continued that the Section would be required to establish and administer payment plans for juveniles, a process that requires more time and resources than a one-time collection.

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Senator Dyson appreciated the witness' comments about joint and severable liability. In reality, many of the cases involve a single parent who is "struggling" to raise the child. He understood that the existing system allows collection from a non-custodial parent who could have little involvement in the child's life.

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Ms. Steinberg responded that the Department could only collect from a parent who is listed in the judgment. In some cases two parents are listed, and other cases only list one parent. The Department does not receive information explaining why two parents are not listed in a judgment.

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Senator Dyson had anticipated Ms. Steinberg would speak to the public policy issue of whether collecting from both parents is appropriate. However, he understood the witness' testimony to expound on the issue of effectively and efficiently collecting judgments.

Ms. Steinberg affirmed.

[1:59:14 PM](#)

Senator Dyson agreed that a provision requiring the juvenile offender to pay the first \$5,000 of restitution could delay the process of recompensing the victim. He asked if Ms. Steinberg could suggest an alternative amount.

Ms. Steinberg responded that generally juveniles do not have the necessary financial resources to fulfill the restitution obligation. Juveniles should be attending school and at most, would have a part-time job. The most common means of collection of restitution from juveniles is through garnishment of Alaska Permanent Fund dividends. She preferred restitution be ordered as a joint judgment from the juvenile and the parent. Otherwise, she would suggest the juvenile be held responsible for a lesser amount.

[2:01:00 PM](#)

Senator Dyson emphasized that the witness's suggestions were based on practicality. However, the Alaska Constitution stipulates the responsibility for rehabilitating juvenile offenders. Holding them responsible for restitution could assist in their rehabilitation. He asked if personal property, such as vehicles and electronic equipment could be confiscated from the offenders.

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Ms. Steinberg stressed that the Collections and Support Section does not have the resources to undertake that sort of collection activity. Even if able to obtain a court order to confiscate property, the Section does not have a system to sell the property and give proceeds to the victim.

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Senator Olson asked about instances in which an offender, upon realizing the Alaska Permanent Fund dividend would be garnished, does not apply to receive the dividend.

Ms. Steinberg replied that in most instances the juvenile does apply to receive the dividend. The court could order that an application be filed and a provision requiring such a court order included in this legislation would be beneficial. She would research the number of instances in which the juvenile did not apply for a dividend knowing it would be garnished.

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Senator Dyson cited Section 7 of the committee substitute, which allows the court to order an offender to apply for the dividend for the purpose of satisfying restitution.

[2:05:24 PM](#)

GAIL VOIGTLANDER, Chief Assistant Attorney General, Statewide Section Supervisor, Torts and Worker's Compensation Section, Civil Division, Department of Law, testified via teleconference from Anchorage to Section 5 and Section 6 of the committee substitute. Section 5 would amend AS 34.50.020(a) to allow a "governmental organization" to recover damages in addition to a private party and inserts language providing for the allocation of the first \$5,000 of liability to the juvenile, up to \$15,000 liability to the parent, and any additional liability to the juvenile. Section 6 would repeal and reenact AS 34.50.020(b) to provide for State liability for an act of an unemancipated minor in the custody of the State. The Torts and Worker's Compensation Section has been contacted by victim's rights organizations expressing concern that these provisions would hamper restitution efforts.

Ms. Voigtlander stated this legislation would create a "strict liability" for parents. Alaska case law includes two case

rulings establishing the parental responsibility for addressing behavioral problems of their children. However, some minors, especially when older, could be difficult to control.

Ms. Voigtlander pointed out that foster parents and others overseeing juveniles in State custody would not be held liable for property damage. Only a small percentage of juveniles held in State custody are institutionalized and under the direct supervision of State employees. Most are in the care of foster parents, other relatives, or parents. The State is only involved in the placement of these children and not in oversight of their behaviors. Therefore, she questioned the State's financial liability for damages inflicted by a juvenile while held in State custody.

Ms. Voigtlander stated that under the provisions of this legislation, a juvenile could be ultimately held liable for more than \$20,000. This debt could provide a disincentive for offenders to improve themselves and secure a good job.

Ms. Voigtlander pointed out that the language of the Senate Judiciary Committee substitute would not provide clarity in exempting foster parents, "runaway" shelters, and other similar care givers, from liability.

Ms. Voigtlander informed that existing regulation provides that foster parents in certain circumstances could request up to \$5,000 restitution from the Department of Health and Social Services for damages caused by a juvenile in their care. This bill would eliminate this ability and require foster parents to seek recompensation from the juvenile.

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LARRY KREJCI testified via teleconference from Kenai, on behalf of himself and his wife, Olga. They have ten children, all of whom have been home-schooled and receive "good grades". One daughter, however, left the house without their knowledge or permission and was subsequently date raped. Since that experience, this daughter's behavior changed. She would run away to Anchorage, overdosed on drugs and was sexually active. They attempted to help her and arrange for counseling, but with no success. Police officers could return her home, but the parents could not legally detain her in the house. They had her driver's license revoked, although she indicated intent to drive

regardless and ultimately wrecked her car. He was concerned about their liability for her actions.

2:18:06 PM

TONY NEWMAN, Program Officer, Division of Juvenile Justice, Department of Health and Social Services, introduced himself and read his testimony into the record as follows.

The Division appreciates any effort to assist it in its mission to hold juvenile offenders accountable for behaviors that cost Alaskans emotional and financial difficulty. We've appreciated the co-sponsor's willingness to consult and work with us to try and create a bill that enhances juvenile accountability.

The mission of the Division of Juvenile Justice, as described in AS 47.12.010, is to promote a balanced juvenile justice system that imposes accountability of juvenile offenders, equips juvenile offenders with the skills needed to live responsibly and productively, and also affords protection and redress to victims.

It is this third piece - promoting the safety and restoration of victims and communities - that we are concerned is jeopardized by this bill.

The restitution payment structure set up by the bill (with the YOUTH ONLY is responsible for the first \$5,000 in damages, the parent for the next \$15,000, and the YOUTH ONLY responsible for any remainder) will likely slow down the speed with which victims are repaid for damages and will not encourage youth and their parents to work together to address the damages caused by delinquent acts.

Whether a juvenile case is managed informally or formally, the provisions of the bill related to juvenile restitution removes the current joint and [severable] liability system that encourages parents and youths to work together to see that restitutions to victims are repaid promptly and in full. While this conceivable may have the effect of holding juveniles more directly and individually accountable to their victims, in the end it will result in victims having to wait for the youth to gather, either through permanent fund dividend payments or through work, the money.

Imagine a youth who has committed \$3,000 in damage. Under current statute, Juvenile Justice staff or the courts are able to order and collect that restitution directly from parents or the courts are able to order and collect that restitution directly from parents and the youth at once. Even if the youth and parent have no other source of cash income, they'd be able to repay most (if not all) of that restitution within a year by together using their permanent fund dividends. If you remove the requirement that parents participate, the victim would now have to wait three years for the youth to make annual payments of approximately \$1,000 each.

So: while we support efforts to hold youth accountable, we are concerned about doing this at a cost to victims. AS 47.12.010, the statute describing the goals and purpose of the state's juvenile justice system, states that one of Alaska's goals is to "ensure that victims of crimes committed by juveniles are afforded the same rights as victims of crimes committed by adults". This bill contradicts that statute by providing a restitution repayment scheme that will take longer for victims of juvenile crimes to be repaid than victims of crimes by adults, and as such, gives us serious concern.

An additional concern with the bill is that related to driver's license revocations. The bill states that a juvenile formally adjudicated for any delinquent offense shall have their driver's license revoked. (Currently, driver's licenses shall be revoked only for minor consuming violations, misconduct involving a controlled substance, and offenses involving the illegal use or possession of a firearm.)

The Division is unaware of any evidence linking effectiveness of driver's license revocations with reducing offenses that have nothing to do with driving. The Division has spent the past few years focusing and investing heavily in research-based approaches to work with delinquent youth. Legislation that imposes far-reaching punitive measures without regard to whether the proposal has been linked to reduction in offenses is inconsistent with the mission of the Division and a data-driven approach.

I want to re-emphasize that the Division takes its mission of holding juvenile offenders accountable seriously. We have worked to see that juvenile offenders managed through informal processes have repaid over 90% of the restitution payments owed to victims over the past several fiscal years; and we have worked closely with the Department of Law, collections unit to ensure that restitutions ordered through the formal court system are repaid promptly and in full.

The Division is eager to work with the Legislature to explore ways that further increase accountability for juvenile offenders in ways that are compatible with out obligation toward victims and the community.

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Senator Dyson asked if the witness intended to infer that no evidence exists to demonstrate that revocation of a juvenile offender's driver's license would motivate them to repay their debt.

Mr. Newman clarified that evidence is not available supporting a theory that revocation would result in behavior changes.

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Senator Dyson requested Committee members share concerns and suggestions regarding this legislation with him.

Co-Chair Green ordered the bill HELD in Committee.

AT EASE [2:24:10 PM](#) / [2:32:02 PM](#)

#SB305

[2:32:05 PM](#)

CS FOR SENATE BILL NO. 305(RES)

"An Act providing for a production tax on oil and gas; repealing the oil and gas production (severance) tax; relating to the calculation of the gross value at the point of production of oil or gas and to the determination of the value of oil and gas for purposes of the production tax on oil and gas; providing for tax credits against the tax for

certain expenditures and losses; relating to the relationship of the production tax on oil and gas to other taxes, to the dates those tax payments and surcharges are due, to interest on overpayments of the tax, and to the treatment of the tax in a producer's settlement with the royalty owners; relating to flared gas, and to oil and gas used in the operation of a lease or property under the production tax; relating to the prevailing value of oil or gas under the production tax; relating to surcharges on oil; relating to statements or other information required to be filed with or furnished to the Department of Revenue, to the penalty for failure to file certain reports for the tax, to the powers of the Department of Revenue, and to the disclosure of certain information required to be furnished to the Department of Revenue as applicable to the administration of the tax; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the tax, and to the deposit of tax money collected by the Department of Revenue; amending the definitions of 'gas,' 'oil,' and certain other terms for purposes of the production tax, and as the definition of the term 'gas' applies in the Alaska Stranded Gas Development Act, and adding further definitions; making conforming amendments; and providing for an effective date."

This was the 13th hearing for this bill in the Senate Finance Committee.

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DAN DICKINSON, CPA, Consultant to the Department of Revenue, introduced Mr. Mintz.

[2:33:10 PM](#)

ROB MINTZ, Assistant Attorney General, Oil, Gas and Mining Section, Civil Division, Department of Law, testified via teleconference from an offnet location and gave a presentation titled "Comparing CSSB 305(RES) to CSSB 305(FIN) (version P)" [copy on file]. He explained the color coding system utilized in the presentation with red text indicating key words and phrases that are unchanged from the original version of the bill; Yellow text indicating changes included in the Senate Resources

Committee substitute, and Pink text indicating changes included in the Senate Finance Committee substitute, Version P.

[NOTE: In the text of these minutes, the color coded language is contained in quotation marks preceded by the version of the bill in which that language was amended, (RES) or (FIN). Language color coded as red to indicate it is unchanged from the original version of the bill introduced at the request of Governor Murkowski is shown in quotation marks also and is preceded by (GOV). Brackets shown in the presentation have been inserted by the authors of the presentation. Quotations not preceded by a bill version reference were inserted by the authors of the presentation.]

[2:34:20 PM](#)

Page 2

RES, Section 32

FIN, Section 37

New production tax provisions apply to oil and gas produced on or after:

April 1, 2006 (RES)

July 1, 2006 (FIN)

Mr. Mintz noted the difference effective dates of the proposed Petroleum Production Tax (PPT).

[2:34:53 PM](#)

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RES, Section 5

AS 43.55.011(e)

There is levied upon the producer ... a tax for all "oil and gas" (GOV) produced "each month" (GOV) ... "[except for] a lessor's royalty interest" (RES) ... The tax is equal to "25" (RES) "percent" (GOV) of the "production tax" (RES) "value" (GOV) ... under AS 43.55.160.

Mr. Mintz outlined the changes made in the Senate Resources Committee substitute to the original bill.

[2:35:30 PM](#)

Page 4

FIN, Section 5

AS 43.55.011(e)

There is levied upon the producer ... a tax for all "oil and gas" (GOV) produced "each month" (GOV) ... "[except for] a lessor's royalty interest" (RES) ... The tax is equal to "25" (FIN) "percent" (GOV) of the "production tax" (RES) "value" (GOV) ... under AS 43.55.160.

Mr. Mintz pointed out that the language of the Senate Finance Committee substitute is identical to the Senate Resources Committee substitute with the exception of the percentage rate.

[2:35:50 PM](#)

Page 5

RES, Section 5 (cont.)

AS 43.55.011(f)

There is levied upon to producer ... a tax for all oil and gas produced each month ... the ownership or right to which constitutes a "lessor's royalty interest" (RES) ... The tax is equal to "five percent of the gross value at the point of production" (RES) ... ["for existing leases" (RES)]

- BUT...

Mr. Mintz explained this language pertains to tax on private royalty share. Private royalty shares comprise a small amount of production; however, the issue must be resolved.

[2:36:38 PM](#)

Page 6

RES, Section 5 (cont.)

AS 43.55.011(f) (cont.)

The tax is equal to "1.5 percent of the gross value at the point of production" (RES) ... ["for existing COOK INLET BASIN leases" (RES)]

- AND...

Mr. Mintz noted the exception provided in the Senate Resources Committee substitute for operations located in Cook Inlet.

[2:36:48 PM](#)

Page 7

RES, Section 6 (cont.)

AS 43.55.011(f) (cont.)

The commissioner shall "recommend to the legislature" (RES) the rate of tax ["for FUTURE leases" (RES)]

Mr. Mintz qualified this language would only apply to leases already in effect.

[2:37:08 PM](#)

Page 8

FIN, Section 5 (cont.)

AS 43.55.011(f)

There is levied upon to producer ... a tax for all oil and gas produced each month ... the ownership or right to which constitutes a "lessor's royalty interest" (RES) ... "five percent of the gross value at the point of production" (RES) "of the oil ... 1.667 percent of the gross value at the point of production of the gas [PERIOD]" (FIN)

Mr. Mintz stated this represents significant changes made in the Senate Finance Committee substitute.

[2:37:56 PM](#)

Page 9

FIN, Section 36

The Department of Revenue is directed to study and report to the legislature by 2013 on the private royalty tax rates and whether they should be changed in the future.

Mr. Mintz read this language inserted in the Senate Finance Committee substitute.

[2:38:32 PM](#)

Page 10

RES, Section 5 (cont.)

AS 43.55.011(g)-(h)

[When West Coast ANS is "above \$40/Bbl" (RES)] there is levied upon the producer "of oil" (RES) a tax ... equal to
"(West Coast ANS - 40) * .2% *
(ANS Prevailing Value) * 75% *
(amount of oil production)" (RES)

Mr. Mintz noted this language pertains to the progressivity tax that would be levied when oil prices were high.

[2:39:10 PM](#)

Page 11

FIN, Section 5 (cont.)

AS 43.55.011(g)-(h)

When "price index is above 45" (FIN) there is levied upon the producer of oil "or gas" (FIN) a tax equal to ".1%" (FIN) of "production tax value" (FIN) times price index

"price index = production tax value per barrel - 45" (FIN)

Mr. Mintz stated that the language of the Senate Finance Committee substitute is similar to that of the Senate Resources Committee substitute. He explained the price index calculation.

[2:40:59 PM](#)

Page 12

So...

The Resources CS has three production tax components:

- (1) 25% of net value (now called "production tax value") except for lessor royalty share
- (2) 5% or 1.5% of gross value for lessor royalty share
- (3) A progressive-rate tax on prevailing value of oil only, including lessor royalty share

Mr. Mintz overviewed this information.

[2:41:32 PM](#)

Page 13

And...

The Finance CS also has three production tax components:

- (1) 22.5% of net value (now called "production tax value") except for lessor royalty share
- (2) 5% of oil gross value and 1.667% of gas gross value for lessor royalty share
- (3) a progressive-rate tax on net value of oil gas (excluding 2.3 of gas gross value), no including lessor royalty share

Mr. Mintz gave a comparison of the variations of the three components between the Senate Resources Committee Substitute and the Senate Finance Committee substitute.

[2:42:44 PM](#)

Senator Stedman understood the intent of the discussion is to address the issue of progressivity at a later time.

[2:42:55 PM](#)

Mr. Mintz affirmed.

[2:43:31 PM](#)

Mr. Dickinson stated that additional information would be overviewed later in the presentation.

2:43:56 PM

Page 14

RES, Section 22

AS 43.55.160(a)

"production tax" (RES) "value" (GOV) ... is the total of the "gross value at the point of production" (GOV) of ... oil and gas ... from "all leases or properties" (GOV) in the state, Less "lease expenditures" (GOV) ... as "adjusted" (GOV)

Mr. Mintz read this language.

2:44:41 PM

Page 15

AS 43.55.160(a)

"production tax" (RES) "value" (GOV) ... is the total of the "gross value at the point of production" (GOV) of ... oil and "one-third of the gross value at the point of production of the gas" (FIN) ... from "all leases or properties" (GOV) in the state, Less "lease expenditures" (GOV) ... as "adjusted" (GOV)

Mr. Mintz noted the Senate Finance Committee substitute follows the basic concept of the Senate Resources Committee substitute, with one significant change pertaining to gas.

2:45:24 PM

Page 16

RES, Section 28

FIN, Section 32

AS 43.55.900(7)

"gross value at the point of production" means

For "oil" (GOV), the value ... at the ... meter ... in ... "pipeline quality" (GOV)

For "gas" (GOV) ... the value ... where ... metered ["after any separation or gas processing" (GOV)]

And

Page 17

RES, Section 20

FIN, Section 24

AS 43.55.150(a)

... gross value at the point of production is calculated using the reasonable "costs of transportation" (GOV) ...

Mr. Mintz noted neither committee substitute changes the original language.

[2:46:23 PM](#)

Page 18

RES, Section 21

AS 43.55.150(d)

"if the commissioner completes a detailed fiscal analysis and determines ... the long-term fiscal interests of the state [would be served]" (RES) ...the department "may allow" (GOV) ... gross value [to be calculated based upon "DNR or U.S. Dep't of Interior" (GOV)] royalty ... valuation [or] another "formula ... that reasonable estimates" (GOV) a value ...

Mr. Mintz explained this language of subsection (d) of the Senate Resources Committee substitute.

[2:47:02 PM](#)

Page 19

FIN, Section 25

AS 43.55.150(d)

"if the department determines [it would improve efficiency & economy of tax administration and be reasonably accurate and not biased toward understating tax]" (FIN) ... the department "may allow" (GOV) ... gross value [to be

calculated based upon "DNR or U.S. Dep't of Interior" (GOV)] royalty ... valuation [or] another "formula ... that reasonable estimates" (GOV) a value...

Mr. Mintz accepted the concept expressed in the language of the Senate Finance Committee substitute, but cautioned that it would change the "details of the determination" in ways "more specifically relevant to the reasons why" it would or would not be "desirable" to allow "use of a simplified formula". A simplified formula would not produce the same result for each month as would application of a standard calculation. However, over time, the simplified formula should never understate the tax liability.

[2:48:21 PM](#)

Page 20

RES, Section 22
FIN, Section 26

AS 43.55.160(c)
... lease expenditures ... are the "total" (GOV) costs "upstream" (GOV) of the point of production ... on or after "April 1" (RES) "July 1" (FIN), 2006 ... that are the "direct, ordinary, and necessary" (GOV) costs of "exploring for, developing, or producing" (GOV) oil or gas ... in the state.

Mr. Mintz remarked this page demonstrates that the basic definition of lease expenditures has not changed; only the effective date.

[2:48:57 PM](#)

Page 21

RES Section 22

AS 43.55.160(c) (continued)
In determining ... ["direct, ordinary, and necessary" (GOV)] costs ... the department shall give substantial weight ... to typical "industry practices and standards" (GOV) ... as to [billable] costs ... under "unit operating agreements" (GOV) ... and ["DNR net profits share lease regulations" (GOV)].

Mr. Mintz explained this language, which has not been changed in either committee substitute. The Department of Natural Resources would be directed to follow industry practices and standards utilized in joint operating agreements between partners.

[2:49:54 PM](#)

Page 22

FIN Section 26

AS 43.55.160(c) (continued)

This CS gives priority to industry practices and standards. DNR's net profit share lease regulations are looked to only if industry practices and standards do not address a subject or are not clear or not uniform.

Mr. Mintz characterized this as an "important refinement".

[2:50:48 PM](#)

Page 23

Section 22/26

AS 43.55.160(d) provides specific examples of, and exclusions from, "direct costs"

- FIN CS adds "depletion" to exclusion of depreciation/amortization
- FIN CS clarifies language of several exclusions
- FIN CS deletes RES CS exclusion for "disuse", dismantlement, restoration, etc.

Mr. Mintz stated this page provides additional detail of deductible lease expenditures provisions.

[2:52:32 PM](#)

Page 24

Section 22/26 (cont.)

- FIN CS retains RES CS fair market rule for non-arm's length transactions but deletes RES language referring to IRS provisions.
- Note: fair market rule for adjustments to lease expenditures is moved from subsec. (1) to sub-subpar. (e)(3)(A)(ii)
- FIN CS deletes RES CS treatment of "relinquished assets"

Mr. Mintz supported the concept contained in the Senate Resources Committee substitute. The Department of Revenue could review and make adjustments if a transaction did not reflect fair market value.

[2:54:35 PM](#)

Mr. Dickinson elaborated on the concept to adjust for assets that were "turned", defining this as equipment purchased and disposed in one year, and new equipment that would perform the same function purchased the following year. This issue could be significant in rural areas such as the North Slope.

[2:55:20 PM](#)

Page 25

RES, Section 22

AS 43.55.160(g)

... a producer that is "qualified" (GOV) ... and "produces under 55,000 BOE/day" (RES) may reduce the net value by "deducting an allowance" (GOV) ... "equal to the following fraction of the production tax value: $(5,000 - 0.2 * [\text{average daily production} - 5,000]) \div \text{average daily production}$ " (RES)

Mr. Mintz noted the Senate Resources Committee substitute replaced the language providing a \$73 million allowance contained in the original version of the bill with language providing for 5,000 BOE average daily production. This change would eliminate one tax and institute a different tax at higher oil prices.

[2:56:18 PM](#)

Page 26

RES, Section 22

AS 43.55.160(h) - producer's "qualification" (RES) for an allowance. "Expires 12/31/2013)." (RES)

This is an anti-splitting provision to prevent abuse of the per producer allowance under AS 43.55.160(g).

It is essentially the same anti-splitting provision that is in sec. 21 of the original bill, for the \$73 million per producer allowance.

Mr. Mintz told how this language stipulates that the producer must demonstrate to qualification to the Department of Revenue.

[2:56:41 PM](#)

Page 27

FIN, Sec. 26 (cont.)

"Allowance" (RES) provision in RES CS version (AS 43.55.160(g) & (h)) is replaced with a new "credit" (FIN) provision in FIN CS (AS 43.55.170)

Credit = "22.5% of production tax value" (FIN) of up to "5,000 barrels per day" (FIN) of production

Up to \$14 million/yr, non-transferable, not carried forward, expires 2016

Mr. Mintz stated that because the tax rate is 22.5 percent the credit rate is also 22.5 percent, and would offset the tax "exactly" if an operator produced no more than 5,000 barrels per day.

Mr. Mintz qualified this provision "has some limitations" in that as production increased, operators would still receive credit for 5,000 barrels per day.

[2:58:09 PM](#)

Page 28

FIN, Sec. 26 (cont.)

Credit provisions of AS 43.55.170 has essentially the same anti-splitting provision as the Governor's bill and the RES CS

AS 43.55.170(c)

Mr. Mintz read this information into the record.

[2:58:30 PM](#)

Page 29

FIN, Section 36

Department of Revenue is directed to study the effects of the AS 43.55.170 credit on exploration, encouraging new entrants, etc., and report to the legislature by 2015, including recommending whether to extend credit provision.

Mr. Mintz pointed out the lapse date of the credit provision.

[2:59:07 PM](#)

Page 30

RES, Section 13

AS 43.55.024(a)

... a producer ... that incurs a "qualified capital expenditure" (GOV) ... may ... elect ... to take a "tax credit" (GOV) in the amount of "20 percent" (GOV) of that expenditure.

Mr. Mintz noted this is another credit provision that is identical in the original version of the bill and the Senate Resources Committee substitute.

[2:59:29 PM](#)

Page 31

FIN, Section 12

AS 43.55.024(a)

... a producer ... that incurs a "qualified capital expenditure" (GOV) ... may ... elect ... to take a "tax credit" (GOV) in the amount of "25 percent" (FIN) of that expenditure.

["But only if the producer agrees to share exploration data with DNR - as in SB 185" (FIN)]

Mr. Mintz outlined the changes contained in the Senate Finance Committee substitute. This provision qualifying the tax credit on providing the Department of Natural Resources with exploration data is intended to make the new tax structure consistent with statutes enacted a previous legislative session as SB 185.

[3:00:24 PM](#)

Page 32

Section 12/13 (cont.)

AS 43.55.024(h)(2)

"qualified capital expenditure" does "not" (RES) include an expenditure incurred ... "for ... an extended period of disuse, dismantlement, removal ... or abandonment ... or for the restoration of a lease, field, [etc.]" (RES)

FIN CS deletes that exclusion.

Mr. Mintz explained this pertains to the definition of "qualified capital expenditure". The Senate Resources Committee substitute added an exclusion, which was deleted in the Senate Finance Committee substitute. The difference would likely be negligible as these types of expenditures would generally not be capital expenditures.

[3:01:19 PM](#)

Page 33

Section 12/13 (cont.)

AS 43.55.024(b)

A producer ... may elect to take a "tax credit" (GOV) ... of "25" (RES) "22.5" (FIN) percent of a carried-forward "annual loss" (GOV) [which is the amount of a previous year's "lease expenditures" (GOV) that were "not deductible" (GOV) because they would have reduced the "production tax value" (RES) of the oil and gas below zero].

Mr. Mintz stated that the reduction of the tax credit in the Senate Finance Committee substitute is necessary to offset the change of the production tax to 22.5 percent made in the same committee substitute.

[3:02:13 PM](#)

Page 34

Section 12/13 (cont.)

AS 43.55.024(d)-(f)

A producer entitled to a tax credit may apply to the Dep't of Revenue for a "transferable tax credit certificate" (GOV). Once issued, a certificate may be used for its face value, but a transferee may not apply a certificate to reduce its tax liability by more than "20 percent" (GOV) during a calendar year.

Mr. Mintz pointed out this provision is unchanged from the original version of the bill.

[3:03:01 PM](#)

Page 35

Section 12/13 (cont.)

AS 43.55.024(i) - "nontransferable credit for transitional investment expenditures" (RES)

... transitional investment expenditures [TIE] are ... "capital expenditures" (GOV) [incurred "4" (RES) "/2001 through" (GOV) "4" (RES) "/2006" (GOV)] ["7" (FIN)/2001 through "7" (FIN) /2006] ... less ... [proceeds from] the "sale ... of assets" (GOV) ... acquired ... as a result of [those] capital expenditures.

Mr. Mintz stated the dates are changed to conform.

[3:03:13 PM](#)

Page 36

Section 12/13 (cont.)

AS 43.55.024(i) (cont.)

- A producer may ... take a "tax credit" (RES) ... of "20 percent" (RES) of the producer's ["TIE" (RES)] but only [up to] "one-half of the producer's qualified capital expenditures" (RES) ... during the month
- Credits are "non-transferable" (RES)
- Credit provision "expires April 1" (RES) ["July 1" (FIN)] ", 2003" (RES)

Mr. Mintz noted this pertains to the same subsection (i) as the previous page.

[3:03:29 PM](#)

Page 37

FIN, Sections 13-17

AS 43.55.025 (from SB 185)

The FIN CS

- Extends the sunset for these exploration credits to 2016 statewide
- Fixes an ambiguity re: \$20 million cap for Cook Inlet
- Makes conforming amendments

Mr. Mintz overviewed these changes contained in the Senate Finance Committee substitute.

[3:04:32 PM](#)

Page 38

RES, Sections 7, 12

AS 43.55.020(a) and (g)

- 95 percent of principal production tax (AS 43.55.011(e)), net of credits, due each month. Remaining portion due at end of next calendar quarter.
- 100 percent of tax on lessor royalty interest (AS 43.55.011(f)) due each month.
- Bill does not specify payment of progressive-rate oil tax (AS 43.55.011(G)).

Mr. Mintz remarked this relates to payment of the tax. Discrepancies in payments of less than 95 percent of the actual tax would be subject to interest. No interest would be assessed on discrepancies of up to five percent of the actual tax because that amount would not be due until the following quarter of the calendar year.

[3:06:06 PM](#)

Page 39

FIN, Section 7

AS 43.55.020(a)

"95 percent" (RES) of "total" (FIN) production tax (AS 43.55.011(e)-(g)), net of credits, due "each month" (RES). Remaining portion due "March 31 of following year" (FIN).

Mr. Mintz contended this provision would be "much simpler" for both the tax payer and the Department of Revenue. The "true-up" was changed from quarterly to annual because financial information is not available by the end of the next calendar year quarter.

[3:07:03 PM](#)

Page 40

FIN, Section 11

AS 43.55.020(f) - "Prevailing value"

The Governor's bill clarified that prevailing value applies where there is "no actual sale" (GOV) of oil or gas. The FIN CS also clarifies that where there is a sale, prevailing value may be calculated for the "month during which the sale occurred" (FIN) when that makes more sense than the month during which the oil or gas was produced.

Mr. Mintz commented that this language does not pertain to the PPT system, but is nonetheless important.

[3:08:59 PM](#)

Page 41

And finally ...

RES Section 25, FIN Section 29

The RES CS increased the oil conservation surcharge under AS 43.55.300 from 3 cents per barrel to 5 cents.

The FIN CS increases it from 3 cents per barrel to 4 cents.

Mr. Mintz overviewed this information.

[3:09:44 PM](#)

Senator Hoffman, referencing Page 24, asked the justification of deleting the language in the Senate Resources Committee substitute relating to "relinquished assets".

Mr. Mintz deferred to Mr. Dickinson. Mr. Mintz surmised the issue to be more theoretical than problematic.

[3:10:39 PM](#)

Mr. Dickinson defined "relinquished asset" as provided for in the Senate Resources Committee substitute as "an asset that is first acquired by the producer before the effective date of this section and has been replaced by the producer's later purchase of an asset that serves substantially similar function as an asset that was relinquished." This language should be included as "a test" in determining eligibility of capital investments made by producers on the North Slope. Producers would be unlikely to import assets to the North Slope for only the purpose of receiving a tax credit.

[3:11:44 PM](#)

Senator Hoffman asked if this would apply even for high value purchases.

[3:11:52 PM](#)

Mr. Dickinson could not guarantee this would not occur. However, the process required proof that the asset was new.

[3:13:07 PM](#)

Co-Chair Wilken spoke to private royalty interest. He recalled debating the issue and subsequently directing the commissioner to provide the legislature with recommendations on future private royalty exploration and development and production. However, the language of the Senate Finance Committee substitute stipulates five percent of oil gross value and 1.667 percent of gas gross value for lessor royalty share up to the year 2013. He asked the reasoning for this change.

[3:13:52 PM](#)

Mr. Dickinson replied that the Senate Resources Committee substitute provided that the commissioner would set the future tax rate. The Murkowski Administration determined this would be inappropriate and that the legislature should instead establish the rate in statute. It would be appropriate for the commissioner to make a recommendation of the tax rate and to implement the rate established by the legislature. The two branches of government should remain separate.

Mr. Dickinson also pointed out that the Senate Resources Committee substitute provided a specific tax on private royalties for existing leases. However, producers considering new leases would not know the future rates. Although the legislature could always implement changes to existing rates, the proposed system would provide no rates whatsoever. Therefore a rate for all private royalties should always be in place. The commissioner could recommend the rate be changed or remain unchanged.

Mr. Dickinson addressed the establishment in the Senate Resources Committee substitute of a rate of five percent for oil and 1.667 percent for gas. The Administration did not support the geographic differentials, although a separate rate for some gas projects could be appropriate. Administratively, "there is no confusion over what's gas and what's oil;" however "net value" is unclear. "A reduction at the gross value level" would instead be appropriate and would "have the additional virtue of

keeping the twenty percent applied to everything." A two-step process would be applied for gas resulting in a "lower effective rate". Because the gross value is utilized, the two "implicit" rates are stated in the presentation.

Co-Chair Wilken indicated he would return to this issue at a later time.

[3:17:15 PM](#)

Senator Hoffman asked the effect on the State of the removal and abandonment costs as provided for in the Senate Finance Committee substitute and overviewed on Page 23 of the presentation.

[3:18:12 PM](#)

Mr. Dickinson replied, "I don't believe the dollars at stake are [a] huge issue." He continued, "I believe that the costs of abandonment: abandoning something, dismantling it, restoring what was there back to the State required by the lease is an important part of the business cycle. It's a duty. It falls on the person who's done the leasing." Although perceived as "a company leaving the state," as the fields "mature" some would be shut down yet the producers would still operate elsewhere in Alaska. Two small fields in Prudhoe Bay are no longer operable and the holders of those leases continue to operate other fields.

Mr. Dickinson noted this matter was not addressed in the original version of the bill or in the Senate Finance Committee substitute. As a result, these costs would be treated the same as any other "ordinary, necessary business expense."

[3:19:22 PM](#)

Senator Hoffman asked if the original Trans Alaska Pipeline System (TAPS) was not intended to be "covered" under this provision, as it was anticipated to extend to the year 2050.

[3:19:43 PM](#)

Mr. Dickinson explained that a "fraction of the penny" or "over a penny now" is paid for every barrel transported through TAPS

and held specifically for future abandonment costs. This legislation would not change the existing system.

[3:20:42 PM](#)

Co-Chair Wilken, referencing the same presentation page, asked if the exclusions from direct costs would allow for "double counting", as normal accounting practices require holding funds aside in anticipation that a site would be abandoned. These would be considered annual operating expenditures at this point. At the time of actual abandonment, the costs could be deducted again if the specific exclusion were not included in this legislation.

[3:21:21 PM](#)

Mr. Dickinson answered this is not the intent. Before an expense could be accounted for as a future liability it must be "identifiable with a sufficient amount of certainty." A reserve account could be established, but funds deposited into it could not be deducted from income at the time of deposit. He gave the value of pension funds as an example of this situation.

Mr. Dickinson emphasized the "focus" is on actual costs or cash flows. For example, amortization, depletion or depreciation is not allowed. Only a "cash outlay" would be considered a direct cost. The only exception would be payment of a tariff for a downstream asset.

[3:23:06 PM](#)

Co-Chair Wilken clarified that funds deposited into a producer established "sinking fund" would be an expense to the producer, but not considered an expense for tax purposes.

[3:23:35 PM](#)

Senator Stedman reposed the question noting, "When there is abandonment and there's a PPT tax calculated, there is no credit taken against the PPT tax for abandonment." He asked if "any other charges taken against it from the abandonment the PPT tax."

[3:23:58 PM](#)

Mr. Dickinson affirmed that capital is an investment for future benefit; abandonment would not generally be considered as such. Abandonment costs would be considered an ordinary and necessary expense. Each dollar spent on abandonment would reduce the PPT tax by 22.5 percent under the provision of the Senate Finance Committee Substitute.

[3:24:59 PM](#)

Senator Bunde understood that abandonment costs, when expended would be considered ordinary business deductions that could be taken against corporate income tax.

Mr. Dickinson affirmed.

Senator Bunde asked if these expenses could also be deducted from the PPT tax liability.

Mr. Dickinson again affirmed.

Senator Bunde characterized this as "double dipping".

Mr. Dickinson explained that this would involve two different taxes. Costs of operation on the North Slope would be considered a deduction from both PPT and corporate income tax.

[3:26:59 PM](#)

Senator Olson questioned the absence of a geographical differential on investments related to natural gas development because operations in Cook Inlet are mostly developed but not developed on the North Slope.

[3:27:43 PM](#)

Mr. Dickinson agreed that Cook Inlet contains "very mature wells"; however, new development is still occurring in that region.

[3:29:10 PM](#)

Senator Hoffman noted the deletion of additional audit of lease expenditures requirements in Section 26(c) of the Senate Finance Committee substitute. He asked the reason for this.

[3:29:44 PM](#)

Senator Stedman furthered that changes to this subsection would also reduce a penalty from 20 percent to 5 percent.

[3:30:08 PM](#)

Mr. Dickinson read the language of the committee substitute as: "the Department of Revenue may authorize a producer, including a producer that is an operator, to treat as it's lease expenditures under this section, the costs paid by the producer that are billed to the producer by an operation in accordance with the terms of a unit operating agreement or similar operating agreement if the Department of Revenue finds that (1) the terms and conditions of the operating agreement are substantially similar with the Department of Revenue's determinations, and (2) at least one working interest owner party to the agreement, other than the operator, has a substantial incentive and ability to effectively audit billings under the agreement."

Mr. Dickinson understood this provision has remained unchanged from the original bill and the Senate Resources Committee substitute.

[3:31:22 PM](#)

Mr. Mintz affirmed. An "immaterial change" was made to clarify the inclusion of a producer that is also an operator.

[3:31:40 PM](#)

Mr. Dickinson informed that most operations occurring on the North Slope are through joint ventures involving one operator performing the functions and other working interest owners. He exemplified activities at Prudhoe Bay in which BP Exploration is the operator. BP Exploration expends the funds necessary to operate the field and each month, Conoco Phillips reimburses 36 cents on the dollar and ExxonMobil reimburses an additional 36 percent.

Mr. Dickinson stressed that multiple experts employed by the working interest owners continually review and audit the billings submitted by the operator. The working interest owners have a substantial interest in ensuring that the expenses are

valid and accurate. The intent of the provision of Section 26(c) is to allow the State to benefit from these efforts. The State's right to audit would not be forfeited.

3:34:40 PM

Mr. Dickinson then began over-viewing a handout titled, "PPT Revenue Studies, Senate Finance Committee, April 20, 2006" [copy on file.]

[Note: The pages in this document are not numbered and were not presented in the same order as contained in the packet. Several pages are untitled. For reference purposes, the Senate Finance Committee Secretary made a notation on each page of the corresponding timestamp in which that page was addressed in this hearing. General descriptive information of each page is provided in the body of these minutes when feasible. A copy of the handout can be obtained by contacting the Legislative Research Library at (907)465-3808.]

Mr. Dickinson stated that this presentation pertains to several technical questions posed in the previous two hearings on this bill.

3:35:41 PM

Cook Inlet

[Bar graph showing Daily Production BOE (6000 mcf gas = 1Bbl oil) of amounts 5,000 through 35,000 in 5,000 increments for Taxpayer listed as A, B, C, D, E, F, and G and delineated by Oil [blue], Gas [white], and Taxable Gas (after exclusion) [green]. A red dotted line indicates 5,000 BOE equivalent credit.]

Mr. Dickinson corrected an error on the page, which incorrectly stated "Annual Production BOE..." He identified the Taxpayer lettering as "typical taxpayers in the last year."

Mr. Dickinson noted that oil production has declined in this region, with two producers producing approximately 6,000 barrels per day and "four or five producers producing significantly less." Subsequently most oil produced in Cook Inlet would not be taxable under the provision of the "effective first credit". Most production in this region is of natural gas.

Mr. Dickinson continued explaining the bar graph as follows.

The combination of the white and green bars up there constitute the gas. What we've done here, is we've done a barrel of oil equivalent based on the BTU basis rule of thumb. It takes 6,000 cubic feet of gas makes one barrel of oil BTU equivalent. Clearly the values don't translate quite the same way, but for these purposes we're just going to use a six to one ratio of for a thousand cubic feet for a barrel of oil.

On that basis there are three producers who have large quantities of gas, in fact, well, one of them also has oil, but two of them don't have very much gas. The rule that you will see there is of the gas that they have, when they go to calculate their base PPT two-thirds of that will not calculate in the tax. Two-thirds of the revenue from that gas will not calculate in.

So what you will see here is, what is left after that exclusion is applied, is a very small about ten thousand cubic feet a day barrel of oil equivalent 60,000 cubic feet a day of taxable gas from those three tax payers.

There will be the two places where the blue lines extend above the red dotted line. In other words where there is more than 5,000 barrels of oil being produced by a single producer. There will also be some tax on the oil.

I hope what this slide illustrates is that through these two mechanisms, I think the taxpayers in Cook Inlet, both of these mechanisms, which are limits on size, effectively cover much of the production from the Cook Inlet.

This is a simplified diagram of how Cook Inlet might look as these two, the 5,000 barrel a day equivalent credit and the reduction in gas, are applied.

[3:39:20 PM](#)

Senator Stedman asked for clarification of the calculation of one-third of the gross revenue on gas and whether the calculation would be made before or after expenses were deducted.

[3:39:54 PM](#)

Mr. Dickinson explained that one-third of gross revenues derived from natural gas operations would be added to all gross revenues from oil operations. All upstream costs would be deducted from that amount, and the total would be taxed 22.5 percent for PPT.

[3:41:17 PM](#)

Senator Stedman predicted an adverse affect of this provision in situations involving an operator that only produces gas and has no revenues from oil production. Because all expenses would be deducted from one-third of the gross revenue, the tax due on the balance would be very low if any.

[3:42:04 PM](#)

Mr. Dickinson responded, "You would adversely affect your tax base both ways. Doing it the way the bill lays out would affect it more." He began to reference another page of the presentation.

[3:42:21 PM](#)

Senator Stedman interjected to request the presentation be made in an orderly manner, as his follow-up question was the affect of progressivity on natural gas development.

[3:42:44 PM](#)

Mr. Dickinson reiterated that the "six to one is really a Btu [British thermal units] equivalent". The price of oil was currently \$70 and a six-to-one equivalent would equal approximately \$12 of thousand cubic feet (mcf) of gas. Most prices for Cook Inlet natural gas would be significantly lower at approximately \$3 to \$4. In utilizing actual proceeds in calculating progressivity, Cook Inlet gas would "not be driving much of the progressivity calculation".

[3:43:53 PM](#)

Senator Stedman understood that progressivity would not be a significant factor in tax revenues collected on Cook Inlet natural gas productions. He deferred future discussion on this matter.

[3:44:01 PM](#)

Senator Bunde asked if the same provision of basing the tax on one-third of gross revenues derived from natural gas production would apply statewide.

Mr. Dickinson affirmed this provision would apply to all natural gas operations in the state. Currently gas is only produced from Cook Inlet with the exception of a small amount produced from the North Slope.

Senator Bunde shared Senator Stedman's concern that this provision would be "very taxpayer friendly". He suggested deducting expenses from the gross revenues and taxing one third of the net amount would provide greater return to the State. He requested a comparison of the two methods.

[3:44:55 PM](#)

Mr. Dickinson could create "a standard model or a standard deduction type arrangement". However, "As an average, it would be an average of a fairly broad range of costs associated with gas."

Senator Bunde wanted a comparison of the two methods for the taxpayer represented on the bar graph as "B".

[3:45:47 PM](#)

Co-Chair Green asked for clarification that "the one-third calculation [is] another way of saying that for the price on gas is \$7.50 and the price on oil is \$22.50 and we've just said it's one-third."

[3:46:13 PM](#)

Mr. Dickinson replied that the reverse would be true only in the effect that "where there is only a gross value at point of production, in other words where the royalty value is based on gross value at point of production, which is how private royalty interests are taxed. I think that the numbers put into this bill were meant to reflect the gas revenue exclusion. They're meant to line up with each other. I'm not saying which one drove the other. Clearly in terms of volume there's a much larger volume

in the non-royalty tax than there is on the royalty tax. But they are supposed to be exactly parallel."

Co-Chair Green asked if "it would be easier to understand, if you took the gross value of the gas and the gross revenue and then just multiplied it by 7.5 rather than take your expenses away from the total but then just multiply by 7.5 and then it's more clearly set out that the gas is intended to be less a unit versus the price per unit of oil."

[3:47:39 PM](#)

Mr. Dickinson agreed that such a calculation would essentially "have the same mathematical effect."

[3:48:07 PM](#)

Senator Stedman requested an explanation of the methodology of using the "one-third, which is 7 and a half" and clarification of how expenses would be applied, whether to the gross or the "one-third side". He understood that this method, as opposed to a method in which portions of each facility were identified as either producing oil or gas, is proposed for a reason. Providing "one point of calculation" is part of the reasoning.

Mr. Dickinson answered, "I think the Chair is absolutely correct. You could do it that way and I think what that emphasizes is that we are not reducing the incentives for production for gas. The credits are still available. The deduction at the higher rate is still available. And so, what's being created here is when those investments are being made. The PPT system is meant to support all those investments including explorations, which you can't differentiate. So the methodology, (a) it's difficult to do, and (b) it doesn't really line up with the vision of how this would work to [provide incentive for] investment. Certainly the step that the Chair has laid out is mechanically gets you to the same place."

[3:49:47 PM](#)

Co-Chair Green remarked that the discussion was "going way too deep" on an issue "that in the whole scheme of things is fairly minor."

[3:49:57 PM](#)

Senator Bunde understood the concept that gas is less valuable per unit and that a lower tax rate would be appropriate. However, he questioned the deduction of expenses from net revenue rather than gross revenue. He asked the monetary differences to "government take" or "industry loss".

[3:50:29 PM](#)

Mr. Dickinson reposed the question to ask how costs would be allocated between oil and gas activities and whether it would be done on a value basis, specific engineering identification basis, or volumetric basis. Costs associated with a "hole in the ground" from which both oil and gas was produced would be difficult to separately account for as either oil or gas related expenses. Instead under the method proposed in this legislation, "you really wouldn't be identifying costs so much as setting up a rule to create two buckets of cost."

[3:51:01 PM](#)

Senator Bunde clarified that under the provisions of the current committee substitute, expenses would be subtracted from the identified one-third of gross revenues from gas. He asked the difference of deducting expenses from the total gross revenue from gas before calculating one-third from which to base the tax. The expenses would be the same in either case.

[3:51:33 PM](#)

Mr. Dickinson responded that to utilize the second method suggested by Senator Bunde, it would be necessary to multiply some expenses by one rate and other expenses by a different rate. He posed a scenario of a producer expending \$7 million to operate a facility that receives well fluid and separates it into gas and oil. Senator Bunde's method would require a determination of which of those expenses are related to oil production and which to gas production."

Senator Bunde surmised that under the provisions of the bill, one-third of gross revenues from gas production would be taxed after all expenses were deducted. He again wanted to know the difference, given that the expenses would be unchanged, of deducting these expenses from the total gross revenue from gas rather than one-third of the gross revenue from gas.

Mr. Dickinson identified the problem as determining the amounts of the total expenses were related to gas activities versus oil activities. An arbitrary rule, such as that contained in the legislation could be established, or calculations of the expenses could be made. The costs for producing oil and gas are simple to calculate. Dividing those costs between oil and gas production is complicated.

[3:53:04 PM](#)

Senator Bunde acquiesced due to time constraints, but contended that the costs could be deducted from either the full gross revenue from gas or one-third of the gross revenue from gas. Deducting costs from the one-third net would result in less tax paid to the State.

[3:53:23 PM](#)

Co-Chair Wilken referenced a chart that was earlier projected by Mr. Dickinson but not identified. Co-Chair Wilken asked if the axis would reflect all of Alaska.

Mr. Dickinson affirmed.

[3:53:37 PM](#)

Senator Stedman emphasized the point that revenues from gas taxed at a rate of 22.5 percent would be too high. Either form of calculation of the tax of one-third of the revenues would produce similar results.

[3:54:25 PM](#)

Per Barrel Progressivity Surcharge 2010

[Line graph depicting Per Barrel Progressivity in amounts of \$0 to \$50.00 shown in \$5 increments and ANS Price of \$40 through \$120 shown in \$10 increments of the House Resources Committee substitute, the Senate Resources Committee substitute, and the proposed Senate Finance Committee substitute.]

Mr. Dickinson noted that this chart, included in the handout, had already been addressed.

[3:54:44 PM](#)

Total Progressivity Surcharges 2006-2030 (\$B)

[Line graph depicting Progressivity Surcharge (\$B) in increments of 50 between zero and 200 and ANS Price in \$10 increments of \$40 through \$120 for the House Resources Committee substitute, the Senate Resources Committee substitute, and the Senate Finance Committee substitute.]

Mr. Dickinson explained that a rate would be applied against the calculated tax base. This is the progressivity. He referenced a chart presented at the previous hearing on this bill that addressed the effect per each barrel. The slide currently before the Committee "translates" the data into cumulative terms over 25 years and "adds up the difference." At current prices, the progressivity surcharge would add \$2 to \$3 billion in additional revenue over the 25 year period. Under the provisions of the House Resources Committee substitute, the additional revenue generated during this time period from oil priced at \$120 per barrel would be approximately \$200 billion.

[3:56:49 PM](#)

Distribution of Future Cash Flows Under SQ, Gov's Bill, Sen Res and Proposed Sen Fin CS* FY 2007-2016

[Spreadsheet and line graph listing Government Share of the current tax system and the various versions of SB 305 based on Alaska North Slope West Coast (ANS WC) price per barrel as follows:

Status Quo:	
\$30 ANS WC \$/bbl	56.2%
\$40	53.7%
\$50	52.6%
\$60	51.9%
\$70	51.4%
\$80	51.1%
Governor's Bill	
\$30 ANS WC \$/bbl	57.2%
\$40	57.1%
\$50	56.5%
\$60	56.5%
\$70	56.6%
\$80	56.6%

Senate Finance	
\$30 ANS WC \$/bbl	58.1%
\$40	57.9%
\$50	57.7%
\$60	57.9%
\$70	58.5%
\$80	59.1%
Senate Resources	
\$30 ANS WC \$/bbl	60.2%
\$40	59.9%
\$50	60.7%
\$60	61.5%
\$70	62.3%
\$80	63.2%]

*Assumes the Progressive tax is deductible only once from the PPT calculation for Resources CS; it is not deductible for Finance CS.

Mr. Dickinson explained this page relates only to progressivity and calculates the government share of the cash flow in "a year". This data demonstrates the effect of a change of one-tenths, two-tenths or three-tenths of a percent of the progressivity rate.

[3:57:55 PM](#)

Senator Bunde noted that if the long-range forecasted price of \$40 per barrel is realized, no progressivity tax would be collected.

Mr. Dickinson affirmed. The Senate Resources Committee substitute would provide for the progressivity tax for prices of \$41 per barrel and higher.

Mr. Dickinson qualified that because this information is based on a 25 year model, the costs could vary. The Senate Finance Committee substitute progressivity provision is "cost sensitive"; therefore progressivity would not be levied at prices of \$60 per barrel if costs were higher than \$15 per barrel.

[3:59:25 PM](#)

Senator Bunde asked why less tax would be collected on prices of \$60 per barrel than \$40 per barrel under the provision of the Senate Finance Committee substitute.

Mr. Dickinson replied that the State has a regressive system. He continued, "PPT does much to correct that"; however the situation would remain due to "the nature of" royalty and property tax. He emphasized, "As the total dollars goes up, the percentage goes down."

[4:00:24 PM](#)

Distribution of Future Cash Flows Under Sen Fin CS with .1%, .2% and .3% Progressivity FY 2007-2016

Spreadsheet and line graph listing Government Share at Alaska North Slope West Coast (ANS WC) price per barrel for three progressivity rates under the provisions of the Senate Finance Committee as follows:

Senate Finance CS .1% Progressivity:

\$40 ANS WC \$/bbl	57.9%
\$50	57.7%
\$60	57.9%
\$70	58.5%
\$80	59.1%
\$90	59.6%

Senate Finance CS .2% Progressivity:

\$40 ANS WC \$/bbl	57.9%
\$50	57.7%
\$60	58.0%
\$70	59.1%
\$80	60.2%
\$90	61.3%

Senate Finance CS .3% Progressivity:

\$40 ANS WC \$/bbl	57.9%
\$50	57.7%
\$60	58.1%
\$70	59.7%
\$80	61.3%
\$90	63.0%]

Mr. Dickinson noted this demonstrates the trend depicted on the previous page over a longer time period.

[4:00:44 PM](#)

Cumulative Revenues Attributable to Progressivity
Sen Fin CS and Sen Res CS, 2007-2030
Low Volume Scenario

[Line graph depicting the Revenues at certain ANS West Coast Prices under the provisions of the two committee substitutes as follows:

Senate Finance Committee Substitute:

\$50 ANS WC	\$0
\$60	\$0.2 billion
\$70	2.6 billion
\$80	6.0 billion
\$90	10.4 billion
\$100	15.7 billion

Senate Resources Committee Substitute:

\$50 ANS WC	\$4 billion [approximately]
\$60	7.7 billion
\$70	13.7 billion
\$80	21.1 billion
\$90	29.9 billion
\$100	40.1 billion

Mr. Dickinson explained this page presents the same information as provided in earlier presentations, although as cumulative revenues attributable to progressivity.

[4:02:26 PM](#)

Senator Hoffman noted this page presented the low volume scenario and that a high volume scenario was not provided. He asked if, "the high volume scenario would be with the lower taxes, more to the Governor's version and the low volume scenario would be more toward the Senate Resources [committee substitute] because of exploration incentives."

Mr. Dickinson responded, "Yes, we'd like to think that the high volume scenario lines up with what is happening with incentives and as a consequence there would be much more volume and much more revenue. The progressivity lines, I believe, would move exactly proportionately because the - it'd simply be more - the same thing happen in two more barrels."

[4:04:18 PM](#)

Effect of Tax Rate: Annual Oil Severance Tax (\$Millions)

Senate Finance CS with 22.5% and 25% Tax Rate at \$20, \$40, and \$60 per bbl, Low Volume Scenario
[Line graph depicting the trend of Severance Tax (\$Millions) of zero through 3,000 for the years 2005 through 2030 for tax rates of 22.5 percent and 25 percent.]

Mr. Dickinson pointed out that the differences in the amount of revenue would remain fairly consistent. He qualified this chart does not calculate in other factors and assumes all other provisions are consistent.

[4:06:16 PM](#)

Senator Dyson clarified this information represents a low volume scenario.

Mr. Dickinson affirmed.

[4:06:22 PM](#)

Cumulative Severance Tax Revenue, Senate Finance CS, with Tax Rates of 22.5% and 25%, 2007-2030 (\$B), Low Volume
[Line graph showing Cumulative Sev Tax Revenue (\$B) at ANS Price for the two tax rates with certain amounts noted as follows:

22.5 percent tax rate:	
\$40 ANS Price	\$18.9 billion
\$50	28.9 billion
\$60	39.6 billion
\$70	52.4 billion
\$80	66.2 billion
25 percent tax rate:	
\$40 ANS Price	\$21.8 billion
\$50	33.0 billion
\$60	44.8 billion
\$70	58.8 billion
\$80	73.7 billion

Mr. Dickinson pointed out the increased variances between the effects of the two tax rates as the price of oil increases.

[4:07:04 PM](#)

Senator Hoffman requested a comparison of this information to the existing tax structure to demonstrate the increases that would occur under the proposed methods.

Mr. Dickinson stated he would prepare such a comparison.

[4:07:30 PM](#)

Senator Stedman asked if the amount of \$70 "non-discounted" is held constant to the year 2030 in these charts. He surmised, "If we double that back in today's dollars that gap would severely implode in present value terms."

Mr. Dickinson affirmed this would occur "in present value terms." The presentation utilizes "real dollars" but does not account for the "time value of those dollars."

[4:08:54 PM](#)

Value of Credits against Capital Expenditures Under Senate Finance CS, at 20% and 25% Credit Rates, 2007-2030 Low Volume

[Line graph showing Value of Credits (\$mm) for Year at a 20% rate and a 25% rate with certain years and corresponding amounts noted as follows:

20% credit rate:

Year 2007	\$212 million
2011	210 million
2015	205 million
2019	197 million
2023	188 million
2027	180 million
2030	178 million

25% credit rate:

Year 2007	\$265 million
2011	263 million
2015	256 million
2019	246 million
2023	235 million
2027	226 million
2030	222 million]

Average annual credit value is \$50 million greater under 25% credit rate than under 20% credit rate.

Mr. Dickinson continued his presentation, explaining that the credits would be calculated after the rate was calculated for both progressivity and the tax base. The figures represented on the graph are driven by the assumptions of the level of capital investment more so than by price.

[4:09:24 PM](#)

Senator Stedman asked the dollar amount of capital expenditures utilized to generate these findings.

Mr. Dickinson responded that a figure of approximately \$1.1 billion was utilized for the year 2007. The amounts utilized decline over the next 20 years to approximately \$600 million.

[4:09:57 PM](#)

Senator Stedman asked the expectation of production in relation to capital expenditures.

Mr. Dickinson relayed arguments made to the Committee by other presenters contend that at the current level of investment, the low volume forecast would not be achieved. The data used in compiling this graph considers the current levels of investment and attempts to "create distribution of those dollars that we think will create the barrels that we're modeling." However, Senator B. Stevens "correctly identified the issue" that if this legislation was "successful" investment would increase. The graphs presented are intended to demonstrate the difference that "such an investment" would cause under the rates of 20 and 25 percent.

[4:11:10 PM](#)

Senator Hoffman requested clarification that "over 20 years, the total credit value would be \$1 billion additional between 20 and 25 percent."

Mr. Dickinson affirmed this is correct.

[4:11:45 PM](#)

Cumulative Revenue Loss Attributable to 5000 Bbl Mechanism
Sen Fin CS and Sen Res CS, 2007-2030
Low Volume Scenario

[Line graph depicting the trend of Revenue Loss (\$B) at ANS West Coast Price under the provisions of the committee substitutes with certain amounts noted as follows:

Senate Finance CS

\$20 ANS WC Price	\$0.1 billion [approximately]
\$30	0.6 billion
\$40	0.8 billion
\$50	1.3 billion
\$60	1.3 billion
\$70	1.3 billion

Senate Resources CS

\$20 ANS WC Price	\$0.2 billion
\$30	0.4 billion
\$40	0.5 billion
\$50	0.6 billion
\$60	0.8 billion
\$70	0.9 billion

Mr. Dickinson reminded that, under the provisions of the Senate Resources Committee substitute, production of less than 5,000 barrels would not be taxed. At production of more than 5,000, the number of barrels exempt from tax would decline. No exemption would be granted on production of 30,000 or more. The five largest producers operating in Alaska would receive no tax benefit from this provision.

Mr. Dickinson then reiterated that the provisions of the Senate Finance Committee substitute would exempt tax on at least 5,000 barrels for every producer. The effect of this would be minimal for large producers, although would still be granted.

Mr. Dickinson pointed out that due to these provisions, the Senate Resources Committee substitute would "have less effect on revenue" than the Senate Finance Committee substitute. The Senate Finance Committee substitute would allow certain credits that the Senate Resources Committee substitute would not.

[4:13:59 PM](#)

Co-Chair Wilken clarified that the difference of the impact of the two bill versions would be \$300 million annually at an ANS price of \$40.

Mr. Dickinson corrected that the amount would be cumulative over the period of 2007 through 2030. The amount would be approximately \$100 million at significantly higher prices.

[4:14:57 PM](#)

CHERIE NIENHUIS, Petroleum Economist, Tax Division, Department of Revenue, testified that the 5,000 barrel credit provision of the Senate Finance Committee substitute would only be effective through the year 2016. The results are charted on this graph as cumulative through the year 2030.

[4:15:44 PM](#)

Distribution of Future Cash Flows Under SQ, Gov's Bill, Sen Res and Proposed Sen Fin CS* FY 2007-2030

*Assumes the Progressive tax is deductible only once from the PPT calculation for Resources CS; it is not deductible for Finance CS.

[Spreadsheet and line graph listing Government Share at ANS WC Price at follows:

Status Quo:

\$30 ANS WC \$/bbl	56.9%
\$40	54.1%
\$50	52.7%
\$60	52.0%
\$70	51.5%
\$80	51.2%

Governor's Bill:

\$30 ANS WC \$/bbl	57.4%
\$40	57.4%
\$50	57.1%
\$60	57.2%
\$70	57.3%
\$80	57.3%

Senate Finance:

\$30 ANS WC \$/bbl	59.2%
\$40	58.9%
\$50	58.8%
\$60	58.9%
\$70	59.4%
\$80	59.9%

Senate Resources:

\$30 ANS WC \$/bbl	61.4%
\$40	61.9%

\$50	61.7%
\$60	62.5%
\$70	63.3%
\$80	64.1]

Mr. Dickinson explained this information is calculated after capital expenses are deducted. The percentages represent both State and federal taxes.

Mr. Dickinson detailed the chart.

[4:18:00 PM](#)

Senator Stedman surmised that the difference of the impact of a 22.5 percent tax rate should equally reflected between the 20 percent tax rate included in the original version of the bill and the 25 percent tax rate included in the Senate Resources Committee substitute. However, the Senate Finance Committee substitute figures are closer that those of the Governor's budget. He asked if this is due to the higher credit rate provided in the Senate Finance Committee substitute.

Mr. Dickinson answered, "Let's look at \$40. I believe that you've correctly identified that should form part of that shift. We can certainly go in and look at it more." He assured, "That certainly would have been my first reaction as well."

[4:18:58 PM](#)

Senator Stedman asked for verification that the information presented for the Senate Finance Committee substitute accounts for a 25 percent credit, the Senate Resources Committee substitute and the original bill versions account for a 20 percent credit.

[4:20:19 PM](#)

Effective Severance Tax Rate
 Sev Tax / Wellhead (less royalty)
 Low Volume Scenario

[Line graph comparing Eff Sev Tax Rate of ANS West Coast Price of the bill versions with certain percentages noted as follows:

Status Quo:
 \$20 ANS WC Price 4.9% [approximately]

\$30	5.0%
\$40	4.9%
\$50	4.9%
\$60	4.9%
\$70	4.8%
Governor's bill:	
\$20 ANS WC Price	>1.0% [approximately]
\$30	5.6%
\$40	9.5%
\$50	11.4%
\$60	12.9%
\$70	14.0%
Senate Finance Committee Substitute:	
\$20 ANS WC Price	>2.0% [approximately]
\$30	7.6%
\$40	11.7%
\$50	13.9%
\$60	15.5%
\$70	17.3%
Senate Resources Committee Substitute:	
\$20 ANS WC Price	>4.0% [approximately]
\$30	10.4%
\$40	14.5%
\$50	17.9%
\$60	20.5%
\$70	22.6%]

Mr. Dickinson detailed this information, noting this represents effective tax rates on gross value at the point of production.

[4:22:02 PM](#)

Senator Stedman asked if the targeted tax rates shown are calculated without the offset of the credits. The percentages would be lower with the inclusion of the credits.

Mr. Dickinson responded that the credits are included in these calculations. The percentages represent the tax obligation as a ratio to the total wellhead value.

Senator Stedman asked if the credit data reflects historical investment amounts or the amount of investment anticipated with the increased incentives provided in the change of the tax system.

Mr. Dickinson answered that this graph utilizes historical spending. Increased investment would reduce the percentage of tax liability in the years those investments were expended. Additional production as a result of increased investment would increase the percentages.

[4:23:40 PM](#)

Senate Finance CS Transition at 20% and 25%,
Annual Revenue Loss, 2007-2003

[Line graph depicting a Net Value of Allowance (\$mm) of 100 for the years 2007 through 2013 at a rate of 20 percent and approximately 125 at a rate of 25 percent for the same time period.]

Mr. Dickinson explained this information as follows.

If you look at the transition, transition investment expenditures they are - and this is not a difference between two bills. But the Senate Finance bill - the CS you have in front of you, generally has a 25 percent deduction for capital expenditures. However, the transitionals, the TIE, the transitional expenditures have a 20 percent. So this is simply indicating the effect every year that you would get. It's a difference between these two assuming they were utilized effectively at 70 percent. So I won't tell you, it's a sophisticated piece of analysis here. These are just two straight lines. But it just shows you the effect of roughly \$12 million a year from the difference between the 20 and the 25 percent."

Co-Chair Wilken requested clarification.

Mr. Dickinson corrected his calculations and estimated the difference to be approximately \$100.

[4:25:45 PM](#)

Effective Date Change From 04/01/2006 to 07/01/2006 at \$60 per Barrel Oil

[Line graph showing a line labeled as \$418 million]

Mr. Dickinson indicated that Senator Olson had requested the effect of changing the effective date from April 1 to July 1. The difference would be \$418 million calculated at oil prices of

\$60 per barrel. The actual amount would be higher, given that prices are currently \$70 per barrel.

[4:26:23 PM](#)

PPT and GRE Revenue in FY 2007 at \$60 per Barrel Oil
[Bar graph stating that Severance Tax Revenues of PPT Oil Revenue at a price of \$60 per barrel is approximately \$2.2 billion and Severance Tax Revenues of GRE is approximately \$100 million.]

Mr. Dickinson explained this demonstrates the effect of the "gas revenue stream". The total Severance Tax Revenues of PPT Oil Revenue at \$60 per barrel and Gas Revenue Exclusion (GRE) for FY 07 would be \$2.3 billion. The GRE represents approximately "five percent reduction in the total tax take, as a consequence."

[4:26:59 PM](#)

Cumulative Severance Tax Revenue under Governor's Bill as Written, with 22.5/20, and with 25/20, Low Volume Scenario 2006-2030

[Bar graph listing Cumulative Revenues of the existing tax structure and of different tax rates of a PPT structure at certain prices as follows:

Status Quo:	
\$20 ANS WC Price	\$2,095 million
\$40	8,001 million
\$60	12,496 million
Gov 20/20:	
\$20 ANS WC Price	\$ 256 million
\$40	15,587 million
\$60	33,259 million
Gov with 22.5/20:	
\$20 ANS WC Price	\$ 455 million
\$40	18,120 million
\$60	37,989 million
Gov with 25/20:	
\$20 ANS WC Price	\$ 670 million
\$40	20,654 million
\$60	42,719 million]

Mr. Dickinson qualified this information was requested, although it does not reflect the provisions of the Senate Finance Committee substitute. Instead, it demonstrates the effect of

different PPT tax percentage rates under the provisions of the original version of the bill. While revenues generated from a PPT structure would be greater than revenues generated under the existing tax structure at higher oil prices, revenue would be less than the status quo at lower oil prices.

[4:28:30 PM](#)

Cumulative Severance Tax Revenues under Governor's Bill as Written, with 22.5/20, and with 25/20, High Volume Scenario 2006/2050

[Bar graph listing Cumulative Revenues of the existing tax structure and of different tax rates of a PPT structure at certain prices as follows:

Status Quo:	
\$20 ANS WC Price	\$5,042 million
\$40	12,947 million
\$60	20,331 million
Gov 20/20:	
\$20 ANS WC Price	\$ 129 million
\$40	20,917 million
\$60	54,907 million
Gov with 22.5/20:	
\$20 ANS WC Price	\$ 207 million
\$40	24,982 million
\$60	63,208 million
Gov with 25/20:	
\$20 ANS WC Price	\$ 285 million
\$40	29,046 million
\$60	71,509 million]

Mr. Dickinson noted this chart presents the data from the previous chart, although for a high volume scenario.

[4:28:52 PM](#)

Co-Chair Wilken requested information regarding distribution of future cash flows under the provisions of this legislation utilizing a 25 percent tax rate and 25 percent credit rate.

Senator Bunde added a request for this information utilizing a 22.5 tax rate and 25 percent credit rate.

[4:29:53 PM](#)

Senator Stedman requested a comparison of the progressivity provision under consideration in the House of Representatives applied to the Senate Finance Committee substitute, similar to the comparison created by the consultant to the legislature, EconOne. He asked that this information be presented in one chart.

[4:31:04 PM](#)

Senator Bunde and Co-Chair Green thanked Mr. Dickinson and Ms. Nienhuis for their efforts in preparing this presentation.

Co-Chair Green announced that possible changes to the Senate Finance Committee substitute should be prepared for the following hearing on this bill.

AT EASE [4:31:34 PM](#) / [4:32:13 PM](#)

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ADJOURNMENT

Co-Chair Lyda Green adjourned the meeting at [4:32:10 PM](#)