

HB

596/597

598

FISCHER

Key bills → 572
170

} Bill. value ...
be passed by
themselves

Look of diff sides handwriting ...
small ...

Look up ... bills ...
partly ...

The ... 572 ... 572

... as fully ...
and ...

... 50 ...
...
...

596

...
2 ...

12, 120 > also ...

HB 520 → ^{LaQuinto, and ANC} Court purchase of residence
HB 521 → per HB 552.

Students should be ordinary students,
not create a student form.

Are you up for student at
level level.

It would make sense if

← local level

← regional level

597-598: No. 10, will need to be
sanitized after 5/1/00

Direct communication and not
indirect, unless a case like
that is a case

~~For~~ To be a real case is to be in the public domain
a matter is to be in the public domain

HB 598 → MORE APPROPRIATE THAN 997

In Favor of combining

- Much greater outreach than present department

- There is a question of fit. In a sense all depts. are interrelated.

Very concerned in getting a community approach started

Feels the Doc has not done sufficient, but also in your opinion

4/2/74

... is consistent in total context. AK could incorporate its own findings, even waits for AMA results.

AMA should be fully integrated, not just in paper.

- The kind of ...
 - ...
 - ...
 - ...
 - ...
 - ...
 - ...
 - ...
 - ...
 - ...

with the law

to ...

1. ...
2. ...
3. ...
4. ...
5. ...
6. ...

History 3 for ...
 ...
 ...

Large - Small - ...

Historic

9-16-72

← Books —

— N. Slope bars: with the 50 times
higher per capita. →

— and last, historically to be lower

15 mills → 45 45 per year per year
20 " 25 60 45 per year per year

(Li 22 other appropriate)

The local Boundary Commission, shall hold hearings at appropriate places within the unorganized town prior to proposing tentative division of the unorganized area into ~~the~~ unorganized towns. Following the ~~pro~~ publication of tentative boundaries of the unorganized towns, the local Boundary Commission shall hold at least one hearing within the confines of the ~~the~~ proposed tentative unorganized town prior to making final decisions as to the division of the unorganized town.

Delete all of Sec 2

add

Sec 2 - Nothing in this Act
may be construed to affect any
bus organization petitions

Now pending or pending in
the future, but the local
Boundary Commission shall

take into consideration the
District No. 200 in dividing
the unorganized bus, in

considering ~~the~~ any organizing
petition.

Introduced: 2/7/72
Referred: Local Government
and Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 596

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SEVENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act providing for boroughs in the unorganized
7 borough; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 07 is amended by adding a new chapter to read:

10 CHAPTER 04. BOUNDARIES AND ORGANIZATION OF BOROUGHS

11 IN THE UNORGANIZED BOROUGH.

12 ARTICLE 1. BOUNDARIES, ADMINISTRATION AND INCORPORATION.

13 Sec. 07.04.010. BOUNDARIES. By the tenth day following the
14 convening of the first session of the Eighth Legislature, the Local
15 Boundary Commission shall propose to the legislature a division of the
16 unorganized area of the state into unorganized boroughs. The Local
17 Boundary Commission may propose adjustments to the boundaries of exist-
18 ing boroughs to the extent necessary to secure conformity with the
19 standards for borough boundaries set forth in the statutes and in the
20 Constitution of the State of Alaska. A proposed adjustment of existing
21 boundaries shall provide for those transitional matters the commission
22 considers necessary or appropriate. The boundaries proposed by the
23 Local Boundary Commission become effective 45 days after presentation
24 or at the end of the session whichever is earlier, unless disapproved
25 by resolution concurred in by a majority of the members of each house.
26 The proposed division is not subject to modification by the legislature
27 as an alternative to disapproval, and if disapproved by the legislature
28 the proposed division made in accordance with this section is of no
29 effect.

*SAME AS
MAY 1972 CORPS?*

1 Sec. 07.04.020. ADMINISTRATION. Unorganized boroughs shall be
2 administered by the Department of Community and Regional Development
3 as prescribed by the legislature.

4 Sec. 07.04.030. ADVISORY COUNCIL. In each unorganized borough
5 the lieutenant governor, within 60 days of the establishment of unorg-
6 anized boroughs in the manner provided in sec. 10 of this chapter shall
7 provide for election of an advisory council of 11 members. The council
8 may participate in an advisory capacity in the development and imple-
9 mentation of state programs and projects relating to the borough.
10 Elections of council members shall be held every four years.

11 Sec. 07.04.035. COUNCIL MEMBERSHIP. At the time of election and
12 during their tenure advisory council members shall be qualified voters
13 of the state and residents of the borough. A vacancy on the advisory
14 council shall be filled by a person qualified for election to the
15 advisory council and selected by majority vote of the remaining members
16 of the council. If a majority of seats on the advisory council are
17 vacant concurrently, the lieutenant governor shall fill the vacancies
18 by appointment of persons qualified for election to the advisory
19 council.

20 Sec. 07.04.040. INCORPORATION. A percentage, determined in
21 accordance with AS 07.10.020(B), of the qualified voters of an unorgan-
22 ized borough may petition for organization of the borough as a borough
23 of the first, second or third class in the manner provided in AS 07.10
24 and 07.17, except that the petition need not include matter relating to
25 boundaries.

26 ARTICLE 2. HOME RULE CHARTERS.

27 Sec. 07.04.050. ADOPTION OF CHARTER. An unorganized borough
28 established under this chapter may adopt a home rule charter in the
29 manner prescribed by AS 29.40.010 - 29.40.030 and AS 29.85.110(a) - (d),

YES THE NEW HOME
RULE BORO HAVE TO
BECOME AN ORGANIZED,
1.5 to become HOME RULE,

1 except that the advisory council elected in accordance with sec. 30 of
2 this chapter shall perform the duties assigned to city councils, and
3 except that the charter commission shall consist of 11 members. Vacan-
4 cies on the charter commission shall be filled in the same manner as
5 vacancies on the advisory council.

6 Sec. 07.04.060. ORGANIZATION. The charter commission shall
7 initiate organization of the borough in accordance with the terms of
8 the charter by submission of the charter to the Department of Community
9 and Regional Development. The charter shall be submitted within one
10 year of the first meeting of the commission. The department shall
11 review the charter in light of the circumstances of the particular
12 borough and, within 120 days from receipt shall transmit the charter,
13 together with its findings and recommendations, to the Local Boundary
14 Commission.

15 Sec. 07.04.070. HEARING. The Local Boundary Commission shall
16 hold at least one hearing in the area proposed to be organized for the
17 purpose of hearing public comment on the charter.

18 Sec. 07.04.080. LOCAL BOUNDARY COMMISSION DETERMINATION. The
19 Local Boundary Commission, within 90 days from receipt of the charter
20 and the recommendations and findings of the Department of Community and
21 Regional Development, shall determine whether the charter meets stand-
22 ards for organization established by the laws and the Constitution of
23 the State of Alaska and by regulations adopted by the commission.

24 Sec. 07.04.090. REJECTION OF CHARTER. If the Local Boundary
25 Commission determines that the charter fails to meet the standards for
26 organization it shall reject the charter stating in writing its reasons
27 for the rejection.

28 Sec. 07.04.100. AMENDED CHARTER. A charter commission, within 60
29 days of rejection, may prepare and submit to the Department of

1 Community and Regional Development an amended charter fairly meeting
2 the stated objections to the original charter. The amended charter
3 shall be evaluated in the same manner as the original charter. No more
4 than one original and one amended charter may be submitted within one
5 12 month period.

6 Sec. 07.04.110. RATIFICATION OF CHARTER. If the Local Boundary
7 Commission determines that the charter meets the standards for organ-
8 ization it shall notify the lieutenant governor. As soon thereafter as
9 practicable the lieutenant governor shall provide for an election in
10 the borough on the question of whether or not the charter is ratified
11 and for election of the officers provided for in the charter. The
12 election shall be preceded by publication and posting of the proposed
13 charter by the lieutenant governor substantially in the manner provided
14 for other charter elections in AS 29.85.150.

15 Sec. 07.04.120. CERTIFICATION OF RESULTS. If a majority of the
16 votes cast by the qualified voters of the borough are against ratific-
17 ation the lieutenant governor shall so certify and shall certify that
18 the charter is defeated. If a majority of the votes cast by the quali-
19 fied voters on the question are in favor of ratification the lieutenant
20 governor shall so certify and declare that the borough in which the
21 election was held is an organized borough and a municipal corporation
22 in accordance with the terms of the charter. The lieutenant governor
23 shall also certify the names of those candidates who received the great-
24 est number of votes for the offices established by the charter.

25 Sec. 07.04.125. VOTERS, ELECTIONS AND COSTS. (a) A person
26 is qualified to vote in a borough election authorized in this chapter
27 if he is qualified to vote in state elections and if he is a resident
28 of the borough.

29 (b) The lieutenant governor shall supervise elections under this

1 chapter as provided for supervision of other borough elections under
2 AS 07.10.120(d).

3 (c) The state through the office of the lieutenant governor
4 shall assume the costs of elections and charter preparation under this
5 chapter.

6 * Sec. 2. Nothing in this Act may be construed to affect any organiz-
7 ation petition pending on the effective date of this Act. All such petitions
8 shall be acted upon in the manner provided by law in effect prior to the
9 effective date of this Act.

10 * Sec. 3. AS 07.05.010 and AS 07.05.040 are repealed.

11 * Sec. 4. This Act takes effect July 1, 1972.
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

Introduced: 2/7/72
Referred: Local Government
and Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 597

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SEVENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act providing for assessment, levy, collection and
7 distribution of a property tax; and providing for an
8 of effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 43 is amended by adding a new chapter to read:

11 CHAPTER 77. PROPERTY TAX.

12 ARTICLE 1. LEVY, ASSESSMENT AND COLLECTION.

13 Sec. 43.77.010. LEVY OF TAX. An annual tax of 15 mills is
14 levied each tax year, beginning January 1, 1973, on the full and true
15 value of taxable real and personal property located in the state.

16 Sec. 43.77.020. EXEMPTIONS. The following property is exempt
17 from the tax levied in sec. 10 of this chapter:

18 (1) an owner-occupied single family dwelling, and the land
19 it stands on, including but not limited to condominiums to the extent
20 of the interest of an owner, and household goods and personal effects,
21 including but not limited to farm equipment, inventory, mechanic's
22 tools and other equipment necessary to the business of the taxpayer
23 and other property of the taxpayer of any description otherwise
24 taxable under this chapter; however, an exemption under this paragraph
25 may not exceed \$50,000;

26 (2) property exempt under AS 29.10.336;

27 (3) unimproved land;

28 (4) aircraft weighing 6,000 pounds or less;

29 (5) boats and vessels otherwise taxed by a city or borough.

*UNLAWFUL
COPY
AND
IF PERB
FROM*

1 Sec. 43.77.030. CREDIT. A credit is allowed to an owner on the
2 tax payable with respect to particular property under this chapter equal
3 to the full amount of ad valorem tax levied by a city or borough on
4 the same property for the same tax year and not satisfied by means of
5 a tax credit or by means of a tax incentive.

6 Sec. 43.77.040. LOCAL EFFORT EXCLUSION. No return need be filed
7 nor tax paid by any person with respect to property located in a city
8 or borough for any tax year as to which the Department of Revenue
9 certifies that the amount of tax which would be levied under this
10 chapter in the city or borough for that year exceeds the amount of
11 revenue raised or anticipated from all local taxes in the city or
12 borough during the tax year next preceding.

13 Sec. 43.77.050. ASSESSMENT. Assessment of property in unorganized
14 boroughs subject to the tax levied under this chapter shall be carried
15 out by the office of the state assessor in the Department of Community
16 and Regional Development in the manner provided in AS 29.10.378 -
17 29.10.453 for first class cities, except that the state assessor in
18 the Department of Community and Regional Development shall function
19 in place of the local assessor and a state assessment review officer
20 shall function in place of the city council sitting as a board of
21 equalization.

22 Sec. 43.77.060. STATE ASSESSMENT REVIEW OFFICERS. The commis-
23 sioner of community and regional development shall appoint at least
24 five qualified persons to serve at his pleasure as state assessment
25 review officers. At least one such person shall be appointed from
26 each of the four judicial districts.

27 Sec. 43.77.070. COMPENSATION, PER DIEM AND EXPENSES. State
28 assessment review officers receive no compensation but are entitled
29 to per diem and expenses authorized by law for boards.

How much
EXPANSION will
B - needed in
Assessor's office?
1977?

How many
of these?

WHAT KIND OF
PERSON IS THE
TREASURER?
EXPERIENCE?

How many
appears over
year assessment?

Should comparison
be with Board Assessor?

1 Sec. 43.77.080. POWERS AND DUTIES. Each state assessment review
2 officer has the powers and duties with respect to assessment in un-
3 organized boroughs of a city council sitting as a board of equalization
4 with respect to first class cities.

5 Sec. 43.77.090. HEARINGS. The commissioner of community and
6 regional development shall assign annually at least one state assess-
7 ment review officer to hear assessment appeals at appropriate locations
8 in each election district.

9 Sec. 43.77.100. REAL PROPERTY RECORDING. To assist in assessment
10 of real property subject to tax under this chapter, no recorder may
11 accept for filing any document of transfer unless the document shows on
12 its face a legal description of the property, the names and addresses
13 of the buyer and seller, the date of the sale, and the purchase price,
14 attested to by the transferee, except that, the recorder may accept,
15 in place of this information on the document of transfer, a sworn
16 statement of the transferee containing the same information. The
17 statement shall be held in confidence for use only by the office of
18 the state assessor.

19 Sec. 43.77.110. COLLECTION AND ENFORCEMENT. The tax levied in
20 this chapter is payable in full to the Department of Revenue on
21 September 30 of the tax year. A penalty of ten per cent shall be
22 added to delinquent taxes and interest at the rate of six per cent a
23 year shall accrue on all unpaid taxes, excluding penalties, from the
24 due date until paid in full. Collection of the tax levied in this
25 chapter shall be carried out by the Department of Revenue in the manner
26 provided in AS 29.10.456 - 29.10.537 and AS 29.10.348 - 29.10.351
27 for first class cities.

28 Sec. 43.77.120. PROCEEDS OF TAX. Money collected under this
29 chapter shall be deposited in the general fund.

1 Sec. 43.77.130. LIEN FOR TAX. The tax levied under this chapter
2 and interest and penalty set out in sec. 110 of this chapter are
3 liens upon the property assessed and taxed. With respect to property
4 located outside an organized borough and outside of a city, the tax
5 liens provided by this chapter are prior and paramount to all other
6 liens or encumbrances against the property assessed. With respect
7 to property located in cities and boroughs the tax liens provided by
8 this chapter are prior to all liens and encumbrances against the
9 property assessed except liens for taxes levied by the city or
10 borough.

11 Sec. 43.77.140. FALSE STATEMENT. A person who knowingly makes
12 a false statement in a return required under this chapter as to the
13 amount, location, kind or value of property subject to taxation with
14 intent to evade the taxation is guilty of a misdemeanor and upon
15 conviction is punishable by a fine of not more than \$500 or by im-
16 prisonment for not more than five days, or by both, together with the
17 costs of prosecution.

18 ARTICLE 2. REVENUE SHARING AMONG UNORGANIZED BOROUGHES.

19 Sec. 43.77.160. DISTRIBUTION OF PROCEEDS. The legislature is
20 authorized to appropriate each year as shared revenue for the benefit
21 of unorganized boroughs an amount equal to the net amount of revenue
22 raised under this chapter in the preceding year on property located
23 in unorganized boroughs. Revenue so appropriated shall be administered
24 by the Department of Community and Regional Development. The depart-
25 ment shall hold and utilize for the benefit of each unorganized
26 borough an amount determined in accordance with secs. 170 - 190 of
27 this chapter.

28 Sec. 43.77.170. DIRECT RETURN. From the appropriation authorized
29 under sec. 160 of this chapter an amount equal to the net revenue

5 MILLS GO BACK
TO THE UNORGANIZED
BORO OF ORIGIN

INDEXES

1 raised by a five mill levy on property taxable under this chapter
2 within each unorganized borough shall be held and used for the benefit
3 of the unorganized borough where the particular property is located.

4 Sec. 43.77.180. DISTRIBUTION. Revenue appropriated under sec.
5 130 of this chapter, less revenue allotted in accordance with sec.
6 170 of this chapter, shall be held and used for the benefit of each
7 unorganized borough in accordance with the ratio of its distribution
8 index to the sum of the distribution indices of all unorganized
9 boroughs.

10 Sec. 43.77.190. DISTRIBUTION INDEX. The distribution index
11 of each unorganized borough is based upon its wealth, cost of services,
12 population and area and is determined by the following formula:

13
$$D = \frac{FaCP}{2 F_p}$$

GIVE
EXAMPLE OF
HOW IT WORKS

14 where D = distribution index
15 Fa = average fiscal capacity of unorganized boroughs
16 Fp = fiscal capacity of the particular unorganized borough
17 C = cost of service which is the cost as determined by the
18 state assessor for each tax year in each particular unorganized
19 borough of providing education, water, sewer, police, fire, adminis-
20 trative and other government services expressed as a percentage of the
21 average cost of such services in all unorganized boroughs.
22

23 P = population of the particular unorganized borough as a
24 percentage of total population of unorganized boroughs.

25 Sec. 43.77.200. DEFINITIONS. In this chapter

26 (1) "taxable real and personal property" means property
27 not exempt from taxation under the constitution and laws of the
28 state; particularly the term does not include property exempt under
29 sec. 20 of this chapter, in AS 29.10.342, in AS 29.10.343 and in

1 29.10.344; the term otherwise includes property exempted from
2 taxation by home rule charter provision and property exempted from
3 execution under AS 09;

4 (2) "real property" means property defined in AS
5 29.10.552(1);

6 (3) "personal property" means property as defined in AS
7 29.10.552(3) excluding money on deposit;

8 *HOME-OWNED?* (4) "unimproved land" means land with respect to which the
9 state assessor in the Department of Community and Regional Development
10 determines that no current physical addition or alteration which
11 enhances the utility, value, or income producing potential exists;

12 (5) "fiscal capacity" means the total assessed value within
13 an organized borough divided by its population.

14 Sec. 43.77.210. REGULATIONS. The Department of Community and
15 Regional Development and the Department of Revenue may adopt regula-
16 tions as appropriate to carry out their respective duties under this
17 chapter.

18 * Sec. 2. This Act takes effect on the day after its passage and
19 approval or on the day it becomes law without approval.
20
21
22
23
24
25
26
27
28
29

1 IN THE HOUSE

BY THE LOCAL GOVERNMENT COMMITTEE

2 HOUSE CONCURRENT RESOLUTION NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SEVENTH LEGISLATURE - SECOND SESSION

5 Relating to a study of the rami-
6 fications of a statewide property
7 tax.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS legislation is pending before the legislature which, if enacted,
10 would levy a real and personal property tax of 15 mills in the state with
11 certain exemptions provided for; and

12 WHEREAS the proposed legislation further provides for a revenue-sharing
13 program for distribution of the net proceeds of the proposed tax to unorgan-
14 ized boroughs; and

15 WHEREAS at the present time many questions remain concerning estimates
16 of how much revenue such a tax would create; how much taxable property there
17 is, especially in those areas comprising the unorganized borough; how much it
18 would cost to administer the tax collections and distribution; and additional-
19 ly, there is a lack of knowledge about the effects of many other aspects of
20 the proposed legislation; and

21 WHEREAS the only manner in which reasonably accurate information can be
22 garnered concerning these matters is through thorough study and evaluation
23 of the unorganized borough;

24 BE IT RESOLVED by the Alaska Legislature that the Legislative Council
25 is requested to direct and oversee a study of the practical effects of the
26 proposed legislation (HB 597), to be conducted by the Local Affairs Agency,
27 the Department of Revenue, the Department of Administration, and all other
28 appropriate agencies and persons as determined by the council; and be it

29 FURTHER RESOLVED that in addition to directing and coordinating the

1 work of the executive departments involved, the council shall do everything
2 it considers necessary for the successful, impartial analysis of this legis-
3 lation, including the holding of public hearings in the unorganized borough;
4 and be it

5 FURTHER RESOLVED that the Legislative Council submit its report, includ-
6 ing a summary of what the effects of this legislation would be on the
7 unorganized borough, to the First Session of the Eighth Legislature.

8 *with in two days - -*

Introduced: 2/7/72
Referred: Local Government
and Finance

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 598

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SEVENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act providing for a state tax on property used in
7 connection with exploration for and transportation of
8 unrefined oil and gas; and providing for an effective
9 date."

10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 * Section 1. AS 43 is amended by adding a new chapter to read:

12 CHAPTER 56. OIL AND GAS EXPLORATION AND
13 TRANSPORTATION PROPERTY TAX.

14 Sec. 43.56.010. LEVY OF TAX. (a) An annual tax of 20 mills is
15 levied each tax year, beginning January 1, 1973, on the full and true
16 value of all the taxable real and personal property employed in the
17 state in the exploration for and transportation of unrefined oil and
18 gas, except that the tax levied under this section does not apply to
19 property with respect to which an ad valorem tax is payable to a city
20 or borough on January 1, 1972 and on January 1 of any succeeding year
21 during which a tax is levied under this section.

22 Sec. 43.56.020. EXEMPTIONS. In addition to property excluded
23 under sec. 90(6) of this chapter, the following property is exempt
24 from the tax levied under this chapter

- 25 (1) producing oil or gas leases;
26 (2) machinery, appliances and equipment used in and around
27 a well producing oil or gas and actually used in the operation of a
28 well; and
29 (3) oil and gas produced in the state upon which gross

*Give example
of
state property*

1 production taxes are paid.

2 Sec. 43.56.030. IN LIEU OF OTHER TAXES. Payment of the tax
3 levied under this chapter is in lieu of all ad valorem taxes on
4 property subject to tax under this chapter now or hereafter imposed by
5 the state, or by a city or a borough.

6 Sec. 43.56.040. ASSESSMENT AND COLLECTION. Property subject to
7 the tax levied under this chapter shall be assessed and collected in
8 the manner provided in AS 43.77.050 - 43.77.090, AS 43.77.110, and
9 AS 43.77.130 - 43.77.140.

10 Sec. 43.56.050. DEPOSIT IN GENERAL FUND. The annual revenue from
11 the tax levied under this chapter shall be deposited in the general
12 fund.

13 Sec. 43.56.060. AUTHORIZATION OF APPROPRIATION. There is
14 authorized to be appropriated each year an amount equal to the sum of
15 the amounts deposited in the general fund under sec. 50 of this
16 chapter. The amount appropriated under authority of this section shall
17 be administered by the Department of Community and Regional Development.

18 Sec. 43.56.070. DISTRIBUTION. As soon as practicable following
19 the annual appropriation provided for in sec. 60 of this chapter,
20 the Department of Community and Regional Development shall distribute
21 to the treasurer of each taxing unit, and shall segregate and hold
22 for the benefit of each unorganized borough, an amount which bears the
23 same ratio to the total amount of the annual appropriation as the
24 distribution index of the governmental unit bears to the sum of the
25 distribution indices of all ^{UNORGANIZED BORO} governmental units.

26 Sec. 43.56.080. DISTRIBUTION FORMULA. The distribution index of
27 each governmental unit is based on its cost of services, wealth and
28 population and is determined annually in accordance with the following
29 formula

DOES IT MAKE
ANY DIFFERENCE
WHAT THEIR ARE
IN DIFFERENT
THAN - HB 597

$$D = \frac{PCF_c}{F_p}$$

- where D = distribution index
- P = total population of the governmental unit as a percentage of the statewide total population
- C = cost of service index
- F_p = fiscal capacity
- F_a = statewide fiscal capacity.

Sec. 43.56.090. DEFINITIONS. In this chapter

- (1) "taxing unit" means any organized borough or city levying ad valorem taxes whether located within or outside an organized borough;
- (2) "governmental unit" means an organized borough or a city levying ad valorem taxes whether located within or outside an organized borough, and an unorganized borough;
- (3) "fiscal capacity" means the ratio of total taxable assessed value to total population within a governmental unit;
- (4) "statewide fiscal capacity" means the ratio of total taxable assessed value to total population for the state as a whole;
- (5) "cost of service index" means the cost as determined by the state assessor in the Department of Community and Regional Development for each tax year in each particular governmental unit of education, sewer, water, police and fire protection, road construction and other governmental services expressed as a percentage of the average cost of those services in the state as a whole;
- (6) "taxable real and personal property" means property not exempt from taxation under the constitution and laws of the state or of the United States, but does not include any subsurface estate or property used in a consumer distribution system. The term includes

g (?)

Give Example

Give Example

22

1 otherwise taxable property exempted from taxation under home rule
2 ordinance or charter.

3 Sec. 43.56.100. REGULATIONS. The Department of Community and
4 Regional Development and the Department of Revenue may adopt regula-
5 tions as appropriate to carry out their respective duties under this
6 chapter.

7 * Sec. 2. This Act takes effect on the day after its passage and
8 approval or on the day it becomes law without approval.
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

MEMORANDUM

TO: Representative Mike Miller

DATE:

FROM: Rick Garnett

SUBJECT:

Last minute changes threw this out of final form. However, it contains the major changes that we had in mind. when the time comes to print we can run it off together with any committee changes since we have it on MTST.

DISCUSSION COPY

The Local Gov. Committee

IN THE HOUSE

BY THE RULES COMMITTEE
BY REQUEST OF THE GOVERNOR

CS for HOUSE BILL NO. 598

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act providing for a state tax on property used in connection with transportation of unrefined oil and gas; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

• Section 1. AS 43 is amended by adding a new chapter to read:

CHAPTER 56. OIL AND GAS

TRANSPORTATION PROPERTY TAX.

Sec. 43.56.010. LEVY OF TAX. An annual tax of 20 mills is levied each tax year beginning January 1, 1973, on the full and true value of taxable real and tangible personal property employed in the transportation of unrefined oil and gas. With respect to a facility employed for part of a tax year in such a manner as to render it taxable under this chapter or partly so employed for a full tax year, the value of the facility taxable under this chapter shall be proportionate to the employment. Property taxable under this chapter does not include property employed in the construction of facilities taxable under this chapter as distinct from the facilities themselves; however, with respect to pipelines and other facilities taxable under this chapter which may be under construction or awaiting construction, full and true value for each tax year prior to completion shall be measured by the costs incurred or accrued with respect to the facility as of the assessment date. The tax levied under this chapter does not apply to property with respect to which an ad valorem tax is payable to a city or borough on January 1, 1972 and on January 1 of any succeeding year during which a tax is levied under this chapter.

Sec. 43.56.020. EXEMPTIONS. In addition to property excluded under sec. 150(6) of this chapter, the following property is exempt

1 from the tax levied under this chapter

2 (1) producing oil or gas leases;

3 (2) machinery, appliances and equipment used in and around
4 a well producing oil or gas and actually used in the operation of
5 a well; and

6 (3) oil and gas produced in the state upon which gross
7 production taxes are paid.

8 Sec. 43.56.030. IN LIEU OF OTHER TAXES. Payment of the tax
9 levied under this chapter is in lieu of all ad valorem taxes on
10 property subject to tax under this chapter now or hereafter imposed
11 by the state, or by a city or a borough.

12 Sec. 43.56.040. ASSESSMENT. Assessment of property subject to
13 the tax levied under this chapter shall be carried out by the office
14 of the state assessor in the Department of Community and Regional
15 Affairs substantially in the manner provided in AS 29.10.378 -
16 29.10.453 for first class cities, except that the state assessor in
17 the Department of Community and Regional Affairs shall function in
18 place of the local assessor, and the State Assessment Review Board
19 shall function in the place of the city council sitting as a board of
20 equalization.

21 Sec. 43.56.050. STATE ASSESSMENT REVIEW BOARD. The commissioner
22 of community and regional affairs shall appoint at least five qualified
23 persons to serve at his pleasure as a State Assessment Review Board.
24 At least one such person shall be appointed from each of the four
25 judicial districts.

26 Sec. 43.56.060. PER DIEM AND EXPENSES. Members of the State
27 Assessment Review Board shall be compensated and are entitled to per
28 diem and expenses authorized by law for boards.

29 Sec. 43.56.070. POWERS AND DUTIES. The State Assessment Review

1 Board has the powers and duties with respect to assessment of
2 property taxable under this chapter of a city council sitting as a
3 board of equalization with respect to first class cities.

4 Sec. 43.56.080. COLLECTION AND ENFORCEMENT. The tax levied in
5 this chapter is payable in full to the Department of Revenue on
6 September 30 of the tax year, except that, the Department of Revenue
7 may by regulation provide for prepayment of taxes and payment by
8 installments. A penalty of ten per cent shall be added to delinquent
9 taxes and interest at the rate of eight per cent per annum, or four
10 percentage points above the per annum rate charged member banks for
11 advances by the 12th Federal Reserve District that prevailed on the
12 first day of the month preceding the commencement of that calendar
13 quarter, whichever is greater, shall accrue on all unpaid taxes,
14 excluding penalties, from the due date until paid in full. Collection
15 of the tax levied under this chapter shall be carried out by the
16 Department of Revenue substantially in the manner provided in
17 AS 29.10.456 - 29.10.537 and 29.10.348 - 29.10.351 for first class
18 cities.

19 Sec. 43.56.090. LIEN FOR TAX. The tax levied under this chapter
20 and interest and penalty set out in sec. 080 of this chapter are
21 liens upon the property subject to tax under this chapter. The liens
22 provided by this section are prior and paramount to all other liens
23 or encumbrances upon the same property.

24 Sec. 43.56.100. FALSE STATEMENT. A person who knowingly fails
25 to file a return when due or makes a false statement in a return
26 required under this chapter as to the amount, location, kind or value
27 of property subject to taxation with intent to evade the taxation is
28 guilty of a misdemeanor and upon conviction is punishable by a fine
29 of not more than \$1000 or by imprisonment for not more than six months.

1 or by both, together with the costs of prosecution.

2 Sec. 43.56.110. DEPOSIT IN GENERAL FUND. The annual revenue
3 from the tax levied under this chapter shall be deposited in the
4 general fund.

5 Sec. 43.56.120. AUTHORIZATION OF APPROPRIATION. There is
6 authorized to be appropriated to the Department of Community and
7 Regional Affairs each year an amount equal to the sum of the
8 amounts deposited in the general fund under sec. 110 of this
9 chapter, less costs incurred or anticipated in administration of the
10 tax for the year of levy.

11 Sec. 43.56.130. DISTRIBUTION. As soon as practicable following
12 the annual appropriation provided for in sec. 120 of this chapter,
13 the Department of Community and Regional Affairs shall distribute
14 to the treasurer of each taxing unit, and shall segregate and hold
15 for the benefit of each unorganized borough, an amount which bears
16 the same ratio to the total amount of the annual appropriation
17 under sec. 120 of this chapter as the distribution index of the
18 governmental unit bears to the sum of the distribution indices of
19 all governmental units.

20 Sec. 43.56.140. DISTRIBUTION INDEX. The distribution index
21 of each governmental unit is based on its cost of services, wealth
22 and population and is determined annually in accordance with the
23 following formula

$$24 \quad D = \frac{PCF_a}{F_p}$$

25
26 where D = distribution index

27 P = total population of the governmental unit as a percentage
28 of the statewide total population

29 C = cost of service index

1 F_p = fiscal capacity

2 F_a = statewide fiscal capacity.

3 Sec. 43.56.150. DEFINITIONS. In this chapter

4 (1) "taxing unit" means any organized borough or city
5 levying ad valorem taxes whether located within or outside an
6 organized borough;

7 (2) "governmental unit" means an organized borough or a
8 city levying ad valorem taxes whether located within or outside an
9 organized borough, and an unorganized borough;

10 (3) "fiscal capacity" means the ratio of total taxable
11 assessed value to total population within a governmental unit;

12 (4) "statewide fiscal capacity" means the ratio of total
13 taxable assessed value to total population for the state as a whole;

14 (5) "cost of service index" means the ratio as determined
15 by the state assessor of the average cost of materials and personal
16 services, weighed equally, in a particular governmental unit to the
17 average cost of materials and personal services in the state as a
18 whole for each tax year. In determining the cost of service index
19 the state assessor may utilize such standards of reference as federal
20 cost of living data, state employee regional pay differentials and
21 other measures and standards which in his opinion tend to reflect
22 cost differentials of construction materials, labor, and other
23 components of the overall cost of local government operations;

24 (6) "taxable real and tangible personal property" means
25 property not exempt from taxation under the constitution and laws
26 of the state or of the United States, but does not include any
27 subsurface estate or property used in a consumer distribution system.
28 The term includes otherwise taxable property exempted from taxation
29 under home rule ordinance or charter.

1 Sec. 43.56.160. REGULATIONS. The Department of Community and
2 Regional Affairs and the Department of Revenue may adopt regulations
3 as appropriate to carry out their respective duties under this
4 chapter, including regulations governing determination of the
5 population valuation and cost factors in sec. 140 of this chapter.

6 * Sec. 2. This Act takes effect on the day after its passage and
7 approval or on the day it becomes law without approval.
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

MISSOURI GEOLOGICAL SURVEY

Geological Notes

Field Notes

1880-1881

1882-1883

1884-1885

1886-1887

April 6, 1972

MEMORANDUM

TO: George Hohman, Chairman
House Finance Committee

FROM: Mike Miller, Chairman
House Local Government Committee

George -

Attached is a letter which I requested from the Administration relative to estimates of income available to each borough and the unorganized borough under HB 598. As Rich Garnett indicates, these are rough guesses, but they nonetheless represent some idea of how revenues would be distributed. I would like to renew my suggestion, however, that some of the funds destined for the unorganized boroughs be considered, instead, for funding this proper and responsive department.

March 15, 1972

MEMORANDUM

TO: John Rader, Chairman
Senate Local Government Committee

FROM: Mike Miller, Chairman
House Local Government Committee

John -

Vic Fischer requested that we provide you with copies of the minutes of his testimony to the House Local Government Committee relative to the administration's 'package' in the unorganized borough. The minutes are attached. However, inasmuch as our minutes are necessarily brief and capsulized, I would strongly recommend that you listen to the tapes of Mr. Fischer's presentation. The tapes are also attached and we would like to have them back when you are through with them. Mr. Fischer's presentation to the House Local Government Committee was very beneficial and constructive.

*distributed 3/14/72
to all members*



House of Representatives

March 15, 1972

MEMORANDUM

TO: Members of the House Local Government Committee

FROM: Mike Miller, Chairman
House Local Government Committee *MM*

SUBJECT: Governor's recommended package relative to creation of unorganized boroughs and taxation in the unorganized borough.

As you are aware, the committee is currently considering HB's 521, 596, 597, 598. HB 521 was passed out today and on Friday I would like for the committee to consider the other three bills.

The following are my recommendations, all of which are open for additional thought and amendments.

HB 596 - I believe we should pass this bill essentially as is. It sets up the framework by which the present unmanageable unorganized borough can be divided into smaller units. This is a bill with which a beginning can be achieved along the road toward an eventual local government for these areas.

HB 597 - Although there is merit in establishing a degree of taxation in the unorganized borough, there seems to be a great number of questions relative to technique and procedure. Too, there is question as to the amount of wealth that exists in the unorganized borough. And, there has been question in the committee whether 15 mills is an appropriate tax amount. This leads me to believe that the legislature, through its legislative council, should continue to explore these questions in the interim between sessions, should hold hearings on the subject both within and outside the unorganized borough, and should return next session with a definitive bill to recommend on this subject. I am having a resolution drafted to accomplish this.

HB 598 - Basically, I think there is a lot to be said in favor of this bill. However, I do have one amendment I would like to suggest. Instead of simply taxing the oil interests at a rate of 20 mills, and then distributing these taxes on the formula suggested in the bill, I would strongly suggest that we assign 5 mills out of the

REPRESENTATIVE MIKE MILLER

COMMITTEES

CHAIRMAN, LOCAL GOVERNMENT COMMITTEE
MEMBER, RULES AND STATE AFFAIRS COMMITTEE

MEMORANDUM

Members of the House Local Government Committee

March 15, 1972

Page 2

20 to be given directly to the organized or unorganized borough where the taxable property is located. The balance of the 15 mills would be distributed state-wide as per the Governor's formula. For your information, the following is a breakdown of distribution among the unorganized boroughs and the unorganized areas as well. These figures assume that the State Assessor's office is correct in its estimate of \$300 million of taxable property presently in the North Slope area, \$50 million around Fairbanks and approximately \$50 million in Valdez.

Bristol Bay Borough	\$ 174,000
Sitka Borough	96,000
Juneau Borough	258,000
Fairbanks Borough	928,000
Anchorage Borough	1,680,000
Kenai Borough	198,000
Ketchikan Borough	186,000
Kodiak Borough	126,000
Mat-Su Borough	120,000
Haines Borough	24,000
North Slope Borough	1,560,000
Unorganized Borough	2,650,000

I am hopeful we can resolve this question before Clem leaves over the weekend.

STATE OF ALASKA

WILLIAM A. EGAN, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K — STATE CAPITOL
JUNEAU 99801

March 6, 1972

The Honorable Mike Miller, Chairman
House Local Government Committee
Alaska State Legislature
Juneau, Alaska 99801

Re: HB 598

Dear Chairman Miller:

Your suggested amendment of HB 598 may be accomplished by inserting a new section after sec. 060 along the following lines:

From the appropriation authorized under sec. 060 of this chapter, an amount equal to the revenue raised by a five mill levy on property taxable under this chapter shall be remitted to the treasurer of the taxing unit or held and used by the Department of Community and Regional Affairs for the benefit of the unorganized borough, as the case may be, in which the property is located.

A corresponding change in the following section would make it clear that the amount of revenue distributed by formula is the total revenue raised less the five percent remitted to the area where the property is located.

In order to preserve some of the equalization effect of the distribution formula, we suggest that the fiscal capacity of each area where taxable property is located be adjusted to account for the direct payment. That is, in assessing the wealth of an area which receives 25% of the proceeds from the tax on property in the area, it is equitable to treat that area as though its tax base included 25% of the value of the taxable property in the area.

The Honorable Mike Miller

March 6, 1972

- 2 -

Granting to the area the revenue from the first five mills is tantamount to leaving 25% of the property as part of the local tax base. In such case, that 25% would be included in the calculation of the area's fiscal capacity. The same should be true where only the form of the transaction is varied by the State collecting the full tax and remitting 25% of the revenue.

Examples 1) and 2) below illustrate the estimated comparative effect of calculating with and without reattribution on revenue allotted to the North Slope.

Example 3) shows the North Slope share without a direct return.

Example 4) and 5) show the North Slope share with 2.5 mill and 3.5 mill direct returns respectively.

Example 6) shows estimated revenue to organized boroughs assuming 5 mill direct return.

Example 7) shows estimated revenue to the unorganized area as a whole.

Once pipeline construction is under way, the figures involved will increase by multiples of 10 or more.

All calculations are estimates only. Exact operation of the distribution formula must await accurate assessment figures for the unorganized parts of the State and cost of service figures for all areas.

It will be noted by comparison of examples 3, 4, & 5 that the North Slope receives more revenue without direct return than with return at 2.5 or 3.5 mills. This is because the formula as originally conceived was designed to take full account of the existing poverty level of rural areas such as the North Slope.

Addition of wealth directly makes that area more on a par with other parts of the State, and accordingly reduces its share under the formula.

Present estimate of total 598 property:

North Slope	300,000,000	
Fairbanks	50,000,000	
Valdez	50,000,000	400,000,000
Total revenue =	400,000,000	
	<u> 2</u>	
	8,000,000.00	

The Honorable Mike Miller

March 6, 1972

- 3 -

1) Share of North Slope (with reattribution)

$$\frac{.02 \times 300,000,000}{4} + \frac{\text{PCFa}}{\text{Fp}} \times 6,000,000$$

Where P = population = 3,312
C = cost of service = 2
Fa = state average fiscal capacity (value per capita)
= 9,923
Fp = North Slope fiscal capacity = $\frac{81,000,000}{3,312}$ (75,000,000
reattributed + 6 others)
= 24,456

$$1,500,000 + \frac{3,312 \times 2 \times \frac{9,923}{24,456}}{270,838} \times 6,000,000 = 1,560,000$$

= 19.5 percent of total revenue

2) Share of North Slope (without reattribution)

$$1,500,000 + \frac{3,312 \times 2 \times \frac{9,923}{1,811}}{270,838} \times 6,000,000 = 2,340,000$$

= 29.2 percent of total revenue

3) Share of North Slope without direct return

$$\frac{3,312 \times 2 \times \frac{9,923}{1,811}}{270,838} \times 8,000,000 = 1,144,000$$

= 14.3 percent of total 598 revenue

4) Share of North Slope with 2.5 mill (12.5%) direct return

$$(12.5\% \times 6,000,000) + \frac{3,312 \times 2 \times \frac{9,923}{12,832}}{270,838} \times 7,000,000 = \$876,000$$

= 10.9 percent of total 598 revenue

5) Share of North Slope with 3.5 mill (17.5%) direct return

$$(17.5)(6,000,000) + \frac{3,312 \times 2 \times \frac{9,923}{16,757}}{270,838} \times 6,600,000 = \$1,142,000$$

= 14.2 percent of total 598 revenue

6) Estimate of Distribution Among Organized Boroughs (with 25% direct return)

<u>Fa</u> <u>Fp</u>	<u>Boroughs</u>	<u>Multiplier x Total Revenue</u>	<u>Share</u>	<u>\$ Per Capita</u>
2.2	Bristol Bay	.029 x 6 million	174,000	49.32
.75	Sitka	.016 x 6 million	96,000	15.43
.87	Juneau	.043 x 6 million	258,000	19.43
1	Fairbanks	250,000 + .113 x 6 million	928,000	30.95
.74	Anchorage	.280 x 6 million	1,680,000	16.32
.57	Kenai	.033 x 6 million	198,000	12.80
.86	Ketchikan	.031 x 6 million	186,000	18.53
.90	Kodiak	.021 x 6 million	126,000	19.52
.85	Mat-Su	.020 x 6 million	120,000	18.56
.93	Haines	.004 x 6 million	24,000	17.10
2 x .41	North Slope	1,500,000 + .010 x 6 million	<u>1,560,000</u>	471.48
TOTAL			5,350,000	
			AVERAGE	26.15

7) Estimated Total to Unorganized Areas

	8,000,000	Total
	<u>5,350,000</u>	To Organized
	2,650,000	To Unorganized
5 mills to Valdez	<u>250,000</u>	
	2,400,000	remainder of unorganized boroughs

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

WILLIAM A. EGAN, GOVERNOR

POUCH K — STATE CAPITOL
JUNFAU 99801

April 3, 1972

The Honorable Mike Miller, Chairman
House Local Government Committee
Alaska State Legislature
Juneau, Alaska 99801

Dear Chairman Miller:

You asked for estimates of the amounts of revenue which would be distributed to organized boroughs under HB 598 in the first year.

Our assumption is that the tax will produce approximately \$8,000,000 total revenue.

The figures on page 4 of our letter of March 6, 1972, show estimated distribution if 25% of the revenue attributable to particular property is returned directly to the municipality where the property is located.

Without direct return, the 2,000,000 otherwise allotted directly to Valdez, Fairbanks and the North Slope would be spread over all the boroughs in the same proportions as the first 6,000,000.

Reference to the share of a borough means the share of the borough itself and tax levying cities within the borough, as available assessment figures apply to the borough as a whole.

The share of the North Slope is based on an assumption that costs there are twice as great as for the state as a whole and that per capita wealth is approximately one fifth the state average. If the North Slope cost and wealth figures turn out to be closer to the statewide norm, that borough's share would be reduced.

If it is desired to insure a certain absolute minimum to the North Slope we recommend following your earlier thought and allotting to the place where taxable property is located a certain millage off the top.

It should be stressed that these estimates are only slightly better than guesswork because of the present lack of valuation and

The Honorable Mike Miller

April 3, 1972

- 2 -

cost data for the whole state.

<u>Borough</u>	<u>Multiplier x Total Revenue</u>	<u>Share</u>	<u>\$ Per Capita</u>
Bristol Bay	.029 x 8 million	232,000	66.20
Sitka	.016 x 8 million	128,000	20.58
Juneau	.043 x 8 million	344,000	25.51
Fairbanks	.113 x 8 million	904,000	29.16
Anchorage	.280 x 8 million	2,240,000	21.77
Kenai	.033 x 8 million	264,000	16.11
Ketchikan	.031 x 8 million	248,000	24.70
Kodiak	.021 x 8 million	168,000	26.27
Mat-Su	.020 x 8 million	160,000	24.38
Haines	.004 x 8 million	32,000	23.93
North Slope	.143 x 8 million	<u>1,144,000</u>	345.14
	TOTAL	5,864,000	
		AVERAGE	29.59

Estimated Total to Unorganized Areas

8,000,000	Total
<u>5,864,000</u>	To Organized
<u>2,136,000</u>	Outside Organized boroughs

per capita outside organized areas = $\frac{2,136,000}{70,670} = 30.16$

I trust these estimates will be of some assistance.

Yours very truly,

JOHN E. HAVELOCK
ATTORNEY GENERAL

By: Richard W. Garnett III

Richard W. Garnett III
Assistant Attorney General

RWG:fw

STATE OF ALASKA

WILLIAM A. EGAN, GOVERNOR

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K — STATE CAPITOL
JUNEAU 99801

February 28, 1972

File w/590-2-8
The Honorable Mike Miller, Chairman
House Local Government Committee
Alaska State Legislature
Juneau, Alaska

Dear Chairman Miller:

I would like to take the opportunity to comment on several conspicuous errors, confusions and misstatements reportedly made by Mr. Victor Fischer, Director of the Institute of Social, Economic and Governmental Research at the University of Alaska, in his testimony before your Committee last Saturday involving House Bills 596, 597 and 598. I fear the trend in Mr. Fischer's do-little-or-nothing approach is that decision making in rural Alaska will become more and more subject to control by large commercial enterprises, particularly oil related industry, not the people of the region.

To begin with, Mr. Fischer has apparently muddled the two tax proposals made by the Administration in his mind and believes that both are to be applied Statewide. On the contrary, the proposed 15 mill property tax will be collected only from the unorganized borough, and it will be distributed only to the unorganized borough. Only the proposed 20 mill tax on oil and gas exploration and transportation property, which is in lieu of all other taxes on the same property, will be levied and distributed Statewide. It is important to note that the Trans-Alaska pipeline will be the greatest source of revenue available for distribution to local governments under this 20 mill tax.

Mr. Fischer has said that he found the general property tax measure based on "extremely disturbing and obnoxious" principles. The principle underlying both tax measures is that the money be collected and distributed fairly and evenly. It is a principle derived from the equal protection clause of the Constitution of the United States. This principle is not implied, but is spelled out by a detailed distribution formula in each measure based on number of people and cost of services.

The potential conflicts between State and local areas envisioned by Mr. Fischer evaporate on a more careful

The Honorable Mike Miller
Alaska State Legislature

February 28, 1972
- 2 -

reading of the bills involved. His view that the organization of a prospectively wealthy borough would be opposed by the remainder of the unorganized borough is not sufficiently thought out. Currently in Alaska there are inherent inter-regional conflicts between taxing and non-taxing areas. Governor Egan's taxing proposals will reduce these conflicts significantly, providing money where there is now little or none.

The conflict Mr. Fischer envisions between those areas of the unorganized borough that have differing potential for wealth shows no sign of materializing. On the contrary, the continuing unity of the various Native regions of the State augers well for future cooperation among regions. The Administration's unified approach has strengthened the prospect of cooperation and diminishes the likelihood that major commercial interests will attempt to play one region off against another as would occur if each new region made a separate decision to tax or not to tax and at what level, as envisioned by Mr. Fischer. The unity of purpose, despite wealth differentials, is illustrated by the Alaska Federation of Natives, which, though it represents a majority of the residents of the unorganized borough, has endorsed the creation of the North Slope Borough, the richest region within it. In addition, noting that the proposed revenues in the area of that proposed borough would far exceed the requirements of the borough, representatives of the Arctic Slope Native Association stated in testimony before the Local Boundary Commission that they were not opposed to legislation that would result in a substantial share of the revenue derived from property tax revenues raised in the North Slope being distributed on a Statewide or other revenue-sharing basis where needed. This type of action demonstrates the irrelevance of Mr. Fischer's gloomy predictions of inter-regional warfare.

It is ironic that Mr. Fischer endorses the idea of creating local government units throughout the State, as embodied in HB 596, while attacking the financial measures which will make a meaningful level of service in those local government units possible. Surely, the creation of governmental units without the necessary funding would do no more than create bitterness and disillusionment as expectations of local government service founder for want of funds.

This package of legislation, together with Governor Egan's proposed Department of Community and Regional Development, is designed to avoid the chaos that would be created

Executive Board

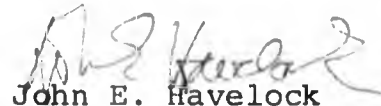
The Honorable Mike Miller
Alaska State Legislature

February 28, 1972
- 3 -

by an inequitable or nonexistent formula of revenue distribution. While further testimony may develop some points that may be cured by minor amendments, the proposals are sound and will serve to allow the people in Alaska's rural areas to advance themselves.

I regret the necessity of having to criticize Mr. Fischer's testimony on these measures since he is both a respected member of Alaska's academic community and a principal architect of the Borough provisions of the State Constitution. Doubtlessly, a heavy burden of other responsibilities to be discharged while he was in Juneau precluded him from giving the measures before the House Local Government Committee the careful study that usually precedes his comments.

Sincerely,


John E. Havelock
Attorney General

JEH:jt

cc: Victor Fischer



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 20, 1972

The Honorable Mike Miller
Chairman, Local Government
Committee
Alaska House of Representatives
Pouch V, Capitol Building
Juneau, Alaska 99801

Dear Chairman Miller:

At my request a bill providing for a property tax in the unorganized borough was placed before the Legislature as House Bill 597. The same bill has been introduced for consideration by the Senate as Senate Bill 365.

The bill was conceived in response to a growing conviction within my Administration and throughout the State that the present property tax structure is wasteful and inequitable. It is wasteful because it permits potential sources of revenue to remain untapped merely because of their location within presently unorganized areas of the State. It is inequitable because persons residing within presently organized areas pay an ad valorem tax by way of contributing to the cost of the services they receive, while persons and industries located outside organized areas make no such contribution.

The inequity of the present situation exists also among organized areas. The accident of location of natural resources leads to great disparities among regions in the amount of revenue which may be raised by ad valorem taxes. Because of the nature of the property involved, the disparity in wealth bears little or no relation to the relative need for services among the various areas.

In an effort to meet these issues, I proposed a tax which would reach property now escaping all tax, which would, to a large extent, equalize the tax burden as between organized and unorganized areas, and which would mitigate, through a revenue-sharing formula, the unnatural revenue allocation which will persist under a hands-off local taxator policy.

Both the House and Senate Local Government Committees have held hearings on the bill in question. The bill has been criticized, often in a helpful and constructive manner, with respect to particular aspects of its operation. Some of the views expressed reflect confusion over the more complex features of the bill, others reflect differences of philosophy with respect to exemptions, and some reflect an adamant refusal to face the realities of the State's financial situation and in particular the desperate need for revenue in support of local government activities as the State's capability to provide this support levels off.

With the prospect of revenue from oil severance taxes and royalties receding daily it is my firm belief that the State cannot afford a cavalier attitude toward any source of public revenue. Such an attitude would be particularly inappropriate with respect to a universally accepted, tried and proven method of revenue raising such as the ad valorem property tax.

It is my firm conviction that the assumptions and ideas behind the proposal embodied in House Bill 597 and the basic machinery contained in that bill for implementing those ideas have been untouched by the testimony presented before the Local Government Committees. Many of the technical problems cited may be dealt with by simple amendments. Other difficulties which have been raised are of a sort customarily handled through regulations adopted by the taxing authority.

My Administration has not sought to mask the difficulties of administering a program such as that proposed in House Bill 597. The problems are quite real. Ad valorem property taxation is a highly complex subject. Such taxes have been the topic of a large volume of legislation and perhaps an even larger volume of litigation. Several times in the past the State of Alaska has attempted unsuccessfully to discover means to tap this elusive but essential revenue raising source on a Statewide basis.

However, I believe that Alaska, as a matter of economic necessity as well as social policy, will have to eliminate the waste and inequity of current taxes levied on the value of property within its borders, even though initial costs in terms of dollars and administrative adjustment may be considerable.

The most egregious problem with respect to levy and collection of an ad valorem tax is the present lack of reliable, factual information on the location, type, and

March 20, 1972

value of property within the present unorganized areas. Because the State, as a whole, has never been the subject of a thorough mapping and assessment effort, these crucial items of information may only be estimated.

Yet these and other difficulties will not be diminished by indefinite delay. The sooner we can begin, the more nearly ready the State will be to secure for its people a fair share of taxation from development we know will come.

Those of us who have faith in the future development of Alaska believe strongly that within a relatively short period of time substantial development will take place in presently unorganized areas. We also believe that such development should pay its fair share for the support of government services the demand for which will be generated by the development itself.

In spite of my conviction that a property tax will, in the near future, become an important source of revenue, I acknowledge a need in the short run for more exact information concerning the impact of the tax. Accurate data on the value and location of property within the State is important to the design of the tax.

In addition, we recognize that major development in the unorganized areas will proceed only after the oil transportation problems presently plaguing the State are resolved, and only when investment activity stemming from the Native Claims Settlement begins.

A relatively short delay in implementation of this tax measure could yield significant benefits in terms of certainty and equity in its operation. Accordingly, I propose that the Legislature delay action on House Bill 597 and Senate Bill 365 until the next legislative session so that some of the unknowns presently surrounding operation of the proposed tax can be dealt with.

As a necessary adjunct to such delay, I endorse the proposal of the House Local Government Committee to submit the question of an ad valorem tax in the unorganized borough to the Legislative Council for study of its practical and legal aspects and for hearings to elicit public sentiment on the most desirable form for such a tax. The study should be undertaken in conjunction with the new Department of Community and Regional Affairs and should be broad enough to allow a report on the use of property taxes and regional equalization generally.

The Hon. Mike Miller

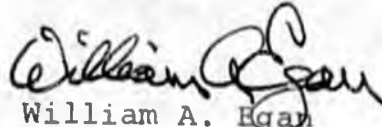
-4-

March 20, 1972

Our experience with House Bill 597 has been instructive, both to the Administration and, I believe, to the Legislature and the public. We are now in a better position to deal with the technical problems that exist than we were at the commencement of this session.

I am convinced that careful consideration of the ad valorem tax idea by the Legislative Council and Department together with suggestions from the public and whatever expert assistance may be required, will further demonstrate the necessity and the feasibility of a tax and equalization program substantially similar to that contained in House Bill 597.

Sincerely,


William A. Egan
Governor

MEMORANDUM

State of Alaska
DEPARTMENT OF LAW

Frank [unclear]
of [unclear]

17-596,597,598

TO:

Byron I. Mallott
Director
Local Affairs Agency

DATE : February 24, 1972

FROM:

John E. Havelock
Attorney General

SUBJECT: North Slope Borough Proposal

By:

Richard W. Garnett III
Assistant Attorney General

Some time ago you asked each department to comment on the proposed North Slope Borough. The Department of Law postponed its comment until this time because we believed that legal questions would arise only after the record before the Local Boundary Commission was complete.

A representative from this office attended the Barrow hearing. Recordings of the hearing and the exhibits offered by all parties were utilized for study and review of the present state of the record.

The basic decision on borough incorporation is committed by law to the commission and to the people of the area proposed for incorporation. This being so, the scope for commentary on the legality of the proposal is limited. The following comments are directed toward evaluation of the record before the commission and are intended to point out the areas of possible vulnerability should the incorporation be approved by the commission and subsequently tested in court.

Legal Setting. The Constitution of Alaska defined boroughs as a new entity, previously unknown to Alaska government, and, as they hoped, a new start in regional government for America as a whole.

The constitutional limitations on the formation of boroughs were very broad, allowing for maximum flexibility, but required that the legislature set further standards for the new form of government and prescribe the manner and condition of their formation.

The legislature has the power to establish boroughs on its own initiative. When it does so, it is bound only by the broad limitations in the constitution. The legislature has also prescribed the manner in which boroughs may be formed by local option, providing both a procedure which must be followed if a borough is to be formed by local option and substantive standards for the approval of a proposed borough by the Local Boundary Commission to which the power to approve has been delegated by the legislature. In prescribing these procedures and substantive

Byron I. Mallott
February 24, 1972
Page 2

rules the legislature can be and in fact has been more restrictive on the formation of boroughs through administrative action than it might be in acting directly through an exercise of legislative power.

The Supreme Court of Alaska has indicated that it will compel compliance with the procedures prescribed by the legislature in actions taken by the Boundary Commission. See United States Smelting, Mining and Refining Company v. Local Boundary Commission, et al., No. 727, Sept. 29, 1971. There is no reason to suppose that they will depart from the rule defined in the U. S. Smelting case in proceedings of the Local Boundary Commission undertaken under AS 07.10.110.

One of the rules of administrative action to which the courts will hold the Local Boundary Commission is that any action taken by the commission, or any other administrative body exercising powers of some consequence, must be supported by evidence with respect to each substantive requirement established by the legislature in its delegation of power. See, e.g., Atlantic Ref. Co. v. Public Service Com., 360 U.S. 378. It need not be uncontradicted; it need not conform to formal legal rules of evidence. See, e.g., Dickerson v. U.S., 346 U.S. 389. But there must be some evidence in a form upon which reasonable men might make informed judgments in the course of their affairs.

There is also substantive law to the effect that this evidence must be of record, in a form reviewable by the court. See, e.g., Crowell v. Benson, 285 U.S. 22. That the members of the commission or the Director of the Local Affairs Agency have personal knowledge of issues and facts not of record which bring them to the conclusion that a proposed borough in fact meets substantive standards does not get the commission past the procedural hurdle. It is this legal proposition which the commission should keep in mind as it reviews the record in this proceeding.

Constitutional Guidelines. The proposed borough raises the most fundamental questions about the nature of boroughs.

The minutes of the convention include some discussion of the nature and size of boroughs. On page 2621, Vol. 4 of the minutes, borough size was discussed:

"COGHILL: For instance, would Fort Yukon, Big Delta, Nenana, Fairbanks be in one borough?

PRESIDENT EGAN: Mr. Victor Rivers.

V. RIVERS: Well, it would not seem to me that that would be a feasible arrangement. The matter of size is one of that changes with time, and the trend in the states is as the population increases

is to give larger areas and consolidate counties into larger groups. They had a great deal of trouble in the old days because they could not travel so very far and they tried to tie a county down to the size you could drive a horse to the boundary and back in one day. That concept has fallen by the board. The idea of how large these would be would have to be determined by the state advisory group in local government working with the people to decide as to what extent their boundaries should cover. That doesn't mean one type of economy; most any area will have a composite type of economy. You have a common interest in certain types of economic activities, and insofar as possible, it would be the determination to try to make an entity or an area that had common interests but would not be so big as to be unwieldy but would not be so small as to be too expensive. It is a matter of the exercise of judgment which has been left to the local level with the advice and assistance of the state department in connection with local government.

COGHILL: Mr. Rivers, I realize it is being left to a power, but I was trying to get the Committee's thinking as to how big they would be. Would they be about the same size as our election districts as set up by the apportionment board, or smaller?

V. RIVERS: I did some research on size and counties, Mr. Coghill, and the Texas Charter set up that the counties should be 900 square miles. Now, there are other areas that run as high as 2,500 square miles, and that is in the nature of a large county, although in some counties they run as high as 4,000 square miles but that is in isolated instances; but around the neighborhood of anywhere from 1,000 to 2,500 square miles seems to be about the average of the larger size counties."

And on page 2627:

"DAVIS: Mr. Rivers, I realize that under the article as it is written that the boundaries of boroughs are going to be set by a board established by the legislature. But I would like to pursue a little bit further the question that Mr. Coghill had asked about what the Committee's thinking is concerning areas that might properly fit into a borough, and since I am familiar with it and so are you with our own area,

Byron I. Mallott
February 24, 1972
Page 4

I thought I might ask somewhat of the thinking of the Committee in an area such as that. Would your idea of a borough for the Anchorage area comprise, say the area from Portage to the Knik Bridge or something like that including the greater Anchorage area and possible Chugiak, or would it include the Anchorage area plus the Matanuska Valley, or would it be, say the Seward area and Anchorage and the Matanuska Valley all together? What is your thinking about the size of an area like that?

V. RIVERS: Mr. Davis said I am familiar with that area. We discussed various areas through the Territory; in our thinking, of course, we must allow for the changes that occur due to the changes required by time and the area which you first described would probably, from Portage to Knik Bridge, would embrace an area of probably 500 square miles or 400 square miles, and would be about what I would visualize as the initial borough, but I can readily see as 50 years pass by, where, under the consolidation plan some of them might consolidate and bring in the further area you mentioned. The first step would probably be not of a nature so large as to be too unwieldy. The next step, as transportation, communications, and roads develop, might well result in having it twice as large by a consolidation of one or more of these borough areas and their boundaries. Does that answer your question?"

Though the area of the proposed North Slope Borough is over 87,500 square miles, or approximately 21 times the largest figure mentioned in the course of convention discussion on borough size, we do not believe that size alone would rule out a North Slope Borough. In our view the constitutional vision could encompass such a borough provided other prerequisites of local option borough government were present.

Statutory and Constitutional Standards. Whatever insights may be gleaned from the minutes of the convention, the source of specific standards is Article X, section 3 of the constitution which provides:

The entire State shall be divided into boroughs, organized or unorganized. They shall be established in a manner and according to standards provided by law. The standards shall include population, geography, economy, transportation, and other factors. Each borough shall embrace an area and population with common interests to the maximum degree possible. The legislature shall classify boroughs and prescribe their powers and functions. Methods by which

boroughs may be organized, incorporated, merged, consolidated, reclassified, or dissolved shall be prescribed by law.

The standards which must be met in proceedings before the commission under this provision are set forth in AS 07.10.130 which provides:

No area may be incorporated as an organized borough unless it conforms to the following standards.

(1) The population of the area proposed for incorporation shall be interrelated and integrated as to its social, cultural, and economic activities. The population shall be qualified and willing to assume the duties arising out of incorporation, shall have a clear understanding of the nature of the undertaking for which they ask, and shall be large enough and stable enough to warrant and support the operation of organized borough government.

(2) The boundaries of the proposed organized borough shall conform generally to the natural geography of the area proposed for incorporation shall include all areas necessary and proper for the full development of integrated local government services, but shall exclude all areas such as military reservations, glaciers, icecaps, and uninhabited and unused lands unless such areas are necessary or desirable for integrated local government.

(3) The economy of the proposed organized borough shall encompass a trading area with the human and financial resources capable of providing an adequate level of governmental services. In determining the sufficiency and stability of an area's economy, land use, property valuations, total economic base, total personal income, present and potential resource or commercial development, anticipated functions, expenses, and income of the proposed organized borough, shall be considered.

(4) The transportation facilities in the area proposed for incorporation shall be of such a unified nature as to facilitate the communication and exchange necessary for the development of integrated local government and a community of interests. Means of transportation may include surface (both water and land) and air. Areas which are accessible to other parts of a proposed organized borough by water or air only may not be

Byron I. Mallott
February 24, 1972
Page 2

included within the organized borough unless access to them is reasonably inexpensive, readily available, and reasonably safe. In considering the sufficiency of means of transportation within a proposed organized borough, existing and planned roads and highways, air transport and landing facilities, boats and ferry systems, and railroads, shall be included.

As the statute is worded, compliance with each of the statute standards is a prerequisite to incorporation.

Before discussing in detail the extent to which the record supports formation of the proposed first class borough, we wish to comment briefly upon the relation between the proposal and HB 596, which provides for division of the entire state into boroughs. In our view, standards for borough incorporation must be read in light of the powers to be exercised by the borough. Because a borough with extensive power affects the people of the area more profoundly than a limited borough or unorganized borough, it follows that the applicable standards may be applied with greater strictness in the former case than in the latter. HB 596 provides initially for unorganized boroughs. Accordingly, a North Slope borough created in accordance with HB 596 could in theory meet constitutional and statutory standards even if it were determined that an unlimited first class borough does not.

In addition, HB 596 provides for legislative approval of boundaries drawn under its authority. Where the borough is in effect formed by legislative action, the boundaries must be deemed in conformity with statutory standards, as the legislature has plenary power over creation of local government units within the state. The same presumption of validity does not of course apply to boundaries created by the commission under statutory standards and subject only to local option approval.

The Record. In our view, the present record may need supplementation to withstand judicial scrutiny of the incorporation in several respects, including the requirements

- 1) That the population be qualified and willing to assume the duties arising out of incorporation, and have a clear understanding of the nature of the undertaking for which they ask.
- 2) That the boundaries exclude glaciers, icecaps, and uninhabited, unused lands unless such areas are necessary or desirable for integrated local government.
- 3) That areas which are accessible to other parts of a proposed borough by water or air only may not be included within the organized borough unless access to them is reasonably inexpensive, readily available and reasonably safe.

The requirements are discussed in order below:

1. Nature of undertaking: Between July 25, and August 4, 1971, representatives from the Local Affairs Agency visited each of the five villages in the proposed borough. The agency scheduled in each village a hearing for discussion of the borough proposal, and prepared a report of each meeting.

With respect to Kaktovik, the agency report noted:

Both the Kaktovik city council members present and the most knowledgeable persons in the audience evidenced little knowledge about governmental structure and operation...

It was obvious at our meeting that the Kaktovik city council had not conducted any work sessions on the North Slope Borough petition and had not as yet formulated any position statements on the petition...

Local self-government of the Kaktovik community is still in embryonic stage, the city of Kaktovik having been incorporated only in March of this year. Accordingly, it was not surprising to find that the concept of municipal government for the local community, much less the area wide borough concept, is not yet very well understood in Kaktovik.

With respect to Anaktuvuk Pass, like Kaktovik quite remote physically from Barrow, the agency representatives report similar impressions expressed as follows:

As in other communities visited on this trip, the officials, and residents of the village exhibited little knowledge about the Arctic Slope Native Association petition for the North Slope Borough...

Parenthetically, it might be noted that clear statements of opposition cannot really be expected because of the general lack of knowledge of the borough concept [of] government.

In Barrow, Wainwright and Point Hope the agency found varying degrees of interest in the proposal and in each case noted that a considerable educational effort would be needed to provide any assurance of a basic understanding of borough government among the people.

The proposed at-large election of the borough assembly and preemptive effect of the borough's areawide first class city powers on fourth class cities are only illustrative of the tremendous impact the borough would have on citizen participation in local government on the North Slope. The commission may lack sufficiently positive evidence of an understanding of these and other operational features of the borough on the part of the average citizen. Granted that an educational program might improve the situation, a court nevertheless might find that the statute contemplates a higher level of understanding by the populace prior to formation than has been exhibited to the commission.

2. Territory: A borough is not to include uninhabited and unused lands unless such areas are necessary or desirable for integrated local government. In our view a court would find that the area does include uninhabited and unused lands, as those terms are normally used. The issue is whether such lands are necessary or desirable for integrated local government. With respect particularly to the western part of the borough, a court could conclude, on the basis of the record, that the degree of integration which could be achieved between Barrow and the combined total of 222 inhabitants of Kaktovik and Anaktuvak Pass does not warrant inclusion of those villages.

3. Transportation: The statute requires that where air or water afford the only link between different areas of a proposed borough such travel must be reasonably inexpensive, readily available and reasonably safe.

The cost, schedule and routing of commercial air travel from Barrow to each of the remaining villages in the area, as reported by the Local Affairs Agency, are as follows:

Point Hope-Kotzebue-Fairbanks-Barrow: The one-way fare is about \$149.00 and would require an overnight in Kotzebue unless a charter was available from Point Hope to Kotzebue.

Anaktuvuk Pass-Fairbanks-Barrow: The one-way fare is \$130.00. Schedule flights from only Anaktuvuk Pass to Fairbanks are available on Tuesdays and Saturday. The Tuesday flight only can make same day connections to Barrow.

Kaktovik-Fairbanks-Barrow: The one-way fare is \$122.00 and in the winter months, regularly scheduled flights to and from Kaktovik to Fairbanks are scheduled for Wednesday only. A charter flight (skis or pontoons only) might be available between these two cities

Byron I. Elliott
February 24, 1972
Page 2

because wheel planes owned and operated by charter groups are not allowed to land on the gravel strip at Kaktovik.

There is an I.T.T. charter (Wien Consolidated F27) running between Barrow and Kaktovik as well as Kaktovik and Barrow. This charter services the DEWline stations, and, if space is available and permission is granted from I.T.T. in Fairbanks, persons may ride the charter. The one-way fare is \$49.00.

Wainwright-Barrow: Scheduled mail flights are available two days a week. The on-way fare is \$22.00. Charter flights are usually available.

It may be argued that weekly or biweekly flights with round trip costs up to \$300.00 do not amount to readily available, reasonably inexpensive travel. The possibility, presented by petitioners at the Barrow hearing, that the state may subsidize airline traffic among the five villages probably would be considered too remote and contingent to meet a standard which speaks in terms of conditions existing as of the time of incorporation.

Prudhoe Bay. The discussion above is directed toward the constitutional concept of a borough and the extent to which the five existing villages meet the statutory standards for incorporation. The installation at Prudhoe Bay must also be considered. With respect to the statutory standards, is the population at Prudhoe Bay "interrelated and integrated as to its social, cultural and economic activities" with the rest of the North Slope area? The record is bare of evidence on this point, except testimony of an oil company representative of the self-containment of Prudhoe Bay.

Another point likely to be raised in a court challenge to the borough is the constitutionality of including Prudhoe Bay in light of its remoteness from other population centers in the area and the fact that it contains the only substantial concentration of taxable property on the North Slope.

A number of authorities indicate that a municipality may not include remote, sparsely populated areas for the sole purpose of taxation, where the area taxed will receive little or no benefit from the municipality. See, e.g., cases in 62 C.J.S., "Municipal Corporations," § 9, p. 86, 2 McQuillen, Municipal Corporations, (3rd Ed.) §2.23a, p. 696. If, however, such areas are integral parts of the territory proposed for incorporation the fact that services would not immediately be commensurate with taxation does not appear to be an absolute bar to inclusion.

Byron I. Mallott
February 24, 1972
Page 10

Summary and Recommendations. In order to avoid the disruptive effect of a court decision overturning incorporation of a North Slope Borough, the commission should consider whether the record before it is adequate to satisfy each element of the statutory standards.

If the commission feels that the record is adequate in all respects, it should, of course, approve the petition.

As its second alternative, if the commission is satisfied that a sufficient hearing has been had on all points prerequisite to formation of a borough, and the weight of evidence is against formation of the borough, it may deny the petition.

Finally, if the commission does not believe that an adequate hearing has been had on all points, it may wish to seek possible additional evidence. If, even with additional evidence, the commission is unable to satisfy itself that the record supports compliance with the statutory standards, it should postpone approval until such time as a more readily sustainable proposal can be formulated.

RWG:rw



THE FOLLOWING DOCUMENT(S) MAY NOT FILM
LEGIBLY BECAUSE OF POOR QUALITY OF THE
ORIGINAL.

HUMBLE OIL & REFINING CO

116-599
~~505-365~~

Alaska H.B. 599
State Property Tax of 15 mills
on Real and Personal Property

As indicated by our testimony on H.B. 598, we are not opposed to broad based property taxes generally, but we are opposed to property taxes which classify or exempt certain property so that the tax becomes discriminatory. Once exemptions are granted, there is a continuous erosion of the tax base by use of exemptions.

The exemptions provided by this bill are so large that they effectively classify property so that only business property in the unorganized area is subject to tax.

Again, as with H.B. 598 to so classify property in this manner is an inequitable method of raising revenue. The homestead exemption is too great. A comparable homestead exemption in other states permitting such an exemption would be between \$5,000 - \$10,000 based on 100% valuation.

Also, the exemption for unimproved land is unnecessary and inequitable. There is no reason for land owners or speculators to benefit by exemption from this tax.

This bill, if enacted, should also specify that oil and gas reserves and the equipment necessary to produce such reserves are not subject to this tax. Such property is already subject to State production tax.

41-20
HJMSLE
OIL & REFINING CO.

Re: Alaska H.B. 598
State Property Tax of 20 mills on
Property Used in Exploration for
and Transportation of Unrefined
Oil and Gas

Our comments today are made generally in opposition to a narrow-based property tax on certain types of property. We are not opposed to property taxes generally, as they are one of the primary revenue sources for local governments, but we are opposed to this type of "special" property tax. A selective tax of this type is unfair and discriminatory in that it singles out a particular activity for taxation without imposing a similar burden on other activities. Thus, a taxpayer owning property used in exploration for or in transportation of oil or gas, in addition to paying the same taxes other taxpayers pay, must pay this additional tax.

One thing that helps to attract new business to a state is a stable and fair tax policy. A tax such as proposed by this bill indicates neither a stable nor a fair tax policy. By singling out particular activities for a special tax, Alaska's ability to attract new businesses in the future could be impaired. New businesses could anticipate that a special tax may be in their future in Alaska. A special tax on exploration equipment will also tend to discourage exploration efforts in Alaska with the resulting shift in effort to other parts of the world. While recognizing that all taxpayers desire to lower their tax burden, adequate employment opportunities are also important. These opportunities depend upon a tax system that is fair to commercial and industrial taxpayers.

Further, such a special tax is unfair in that the particular industry would be paying more than its fair share of the cost of government. The U. S. Constitution requires equal protection of the laws to all taxpayers and

any selective tax imposed on one or few taxpayers always raises the question of constitutionality. All industries and taxpayers should pay for the cost of government not just the specially taxed industry. A special tax would also have the tendency to cause the cost of government to go up unnecessarily since so few taxpayers are footing the bill.

Heavy dependence by a state on a narrow-based tax can create serious problems. For example, Texas, at one time, relied heavily on a severance tax. When it became necessary to limit production, the state had a severe budgetary crisis. The crisis could have been averted if the state had not been so dependent on this one tax.

Another comment we would like to make is in regard to property taxes generally. The rate of a property tax levy should not be a fixed rate, but should be a variable rate up to a certain maximum with some relationship to budgetary needs to arrive at a proper rate. For a state to raise more money than it actually needs to run its programs is inconsistent with the way government should function. In states with large pipeline investment, the average effective property tax rate on this type of investment is less than 10 mills -- even though such states have a greater population density.

Another point that we would like to make is that once a state begins a system of taxation which classifies different kinds of property, there is no logical stopping point. The different types of property to be subject to tax and the rate of tax can become political footballs with little relationship to economic considerations.

In conclusion, we are not opposing this bill just because it is a tax bill, nor are we opposing it just because it is a property tax bill. We are opposing it because it is an unfair and discriminatory tax falling on few taxpayers. We believe that a broad-based tax program, with our company paying its fair share, which raises sufficient revenues to pay for the cost of government is preferable.

March 13, 1972

Introduction

Background

Return in Law Branch

HB 597 ~~is~~ the so called state property tax in the unorganized branch is actually a state wide property tax in your own words. I have not my against a state wide property tax. Many of the states in which I have had experience have state wide property tax laws. Although the trend by constitutional amendments in many states is to eliminate the state from the property tax business. I am opposed to a state wide property tax that incorporates so many exemptions as contemplated in ~~HB 597~~ HB 597

Q: ~~the~~ ~~idea~~ ~~of~~ ~~a~~ ~~fair~~ ~~and~~ ~~equitable~~ ~~state~~ ~~property~~ ~~tax~~ ~~as~~ ~~a~~ ~~tax~~ ~~to~~ ~~be~~ ~~levied~~ ~~on~~ ~~all~~ ~~taxable~~ ~~property~~ ~~in~~ ~~the~~ ~~state~~ ~~placed~~ ~~in~~ ~~a~~ ~~general~~ ~~fund~~ ~~and~~ ~~used~~ ~~for~~ ~~the~~ ~~benefit~~ ~~of~~ ~~all~~. The bill does not meet these criteria. It does not meet the exemption provided.

Sec. 43.77.010 read

020 read

(1) read

Since the "excess" functions as applicable to the taxpayer and not the property why go to the bother of listing all the property in the sections. It would be just as easy to say "all property of a taxpayer not otherwise exempt by this chapter, that exceeds \$50,000 in valuation is taxable."

Unimproved land is exempt - What is an improved land? Under the definition section, unimproved land means (read definition) I submit that this is going to be a very arbitrary decision for the assessor to make under this definition. I'll guarantee ~~if~~ if you take most the privately owned

land in this state, outside the cities and parishes, the fact that an oil well is going to be drilled on any piece of that land the value of that land will increase. Just as if you contacted someone owning so-called unimproved land in the bush for the purpose of building an air strip and tourist facilities, the value of that land is going up. ~~The clearing of land also increases its value.~~ Now it may not completely stop just as the oil well may be a dry hole but still the value increases. The clearing of land also increases its value. Under this situation, I don't think there is any unimproved land anywhere in the state.

Boards and vessels owned by a city or borough are exempt. I wonder why the \$50,000 exemption doesn't apply to this particular class of property?

Now then after your \$50,000 exemption, the balance of your property tax is credited to you and to the city or borough. As I understand it of the balance of your property as taxed locally at 10 mills, as an example, then only 5 mills of the state levy would apply, which brings me to Sec. 42.77.045 which says just the opposite. (Please explain.)

It is impossible to say in drafting but I wanted to bring it to the attention of the committee just in case someone hadn't already. Our town borough official remarked that perhaps the state would force the borough to increase their taxes so none of their properties would be taxable by the state.

What the bill all does, I see it as a very costly program of assessment administration, all property in the state will have to be appraised to determine what property is taxable even tho' the \$50,000

Exemption applies. M. is well have to be appropriate for mapping and parcel numbering system. But the present taxing districts. Appraisal firms will have to be hired to do this work and they don't come cheap. It would be impossible to do this work prior to the Jan. 1, 1973 taxing date.

As a result, the tax will be paid by just a few major industries and commercial properties in the district of the four being in the unorganized borough. What incentives will those being in the unorganized borough have to organize if someone else is providing them with tax revenues.

Turning to ^{HB 593} ~~HB 593~~ - This is a discriminatory tax levied against tax by a property within a jurisdiction. I know of no other states that have taken this type of discrimination action.

Under the 15 mill tax is levied as districts of the only the unorganized borough. The 20 mill tax is levied of to all taxing units within the unorganized borough on a very complicated formula. But it precludes the taxation of this property by the borough if the property was not taxed on Jan. 1, 1972. In other words, property of the gas line that is located in the borough after Jan. 1, 1972, cannot be taxed by the local taxing jurisdiction. If the gas line is located in the unorganized borough, the 70% of the gas line and another 30% of the North Star Borough is subject to tax jurisdiction, the line may pass through. The Penai Borough would be prevented from taxing the gas line that is now being constructed. Penaitton feels that the Penai Borough should be able to tax the line because they

are providing related services from tax revenues.

A portion of the line will be in a special fire protection district, all of the line will be in a special hospital district and in the borough school district.

There are no dependents in the bill of exploration and transportation expenses. You are kind of transportation of equipment and gas as being required to pipelines but trucks carry crude oil, tankers carry crude oil, large tankers carry crude oil. Air planes and helicopters are used for exploration purposes. Many supply companies in Anchorage, Kenai, and Sitka stock equipment and supplies for exploration purposes. As our stock market will not be taxed. Well drilling rigs which are now stacked waiting for better jobs to be taxed? I find when the line looks about to be opened to exploration and production, should the Kenai Borough be able to tax this equipment since they will be receiving the greatest benefit from the equipment. I discussed these bills yesterday with Kenai Borough officials and they are determined to say the least that the state attempt to prevent them. They being this most important source of revenue in the borough.

In summary ¹¹⁸²¹⁷ ~~to~~ is a discriminatory tax aimed at revenue raising. There is already having unmountable problems and prompts the borough from using this valuable revenue source. ¹¹⁸²¹⁷ ~~to~~ ~~is~~ after considering all the questions ends up being a very expensive way of taxing a few for the benefit of just a few. Kenai opposes both bills.

Mr. Shaw said that would be my statement. I will attempt to answer my questions.

SUMMARY OF LOCAL GOVERNMENT PROGRAM

House Bills 552, 596, 597, and 598 are designed to function together as a program for keeping the states constitutional promise with respect to the rural areas of the state.

HB 596 is the starting point of the program. That bill provides for establishment of borough boundaries which conform to statutory and constitutional standards.

The unorganized boroughs so formed will serve as administrative units for provision of state services and for the revenue sharing features of the proposed property taxes.

The people within each unorganized borough may at their option proceed toward organization either as boroughs of a particular class or as home rule boroughs. This option provides the flexibility necessary to accommodate different conditions within the state, as well as state level review of local government organization.

The second feature of the program is the Department of Community and Regional Development created in HB 552. As the number of local government units increases the need for increased state capacity to meet local government needs is apparent. The new department is designed to have the capability to assist local government units to solve a wide variety of problems, including problems related to economic development. The department is empowered particularly to serve as the arm of the legislature in providing services to unorganized boroughs. In addition, the department administers the revenue sharing under the proposed property tax bills.

HB 597 provides for a general property tax of 15 mills. The tax includes a \$50,000. personal exemption and a credit for the amount of tax paid to any organized city or borough. A local effort exclusion is designed to eliminate whole cities and boroughs from the reach of the tax where the local tax effort is such that the

total of all local taxes is greater than the revenue that would be raised under the state tax. Because of the exemption, credit and exclusion features, it is anticipated that very little, if any, additional tax would be paid by an individual resident of any organized city or borough.

The tax is structured as a statewide tax because of the view of the Department of Law that a special kind of tax levied only within the unorganized borough could be challenged on equal protection grounds. Some commentators have suggested that the tax could be levied on the unorganized borough by the legislature acting in its capacity as assembly of the unorganized borough. The difficulty with such an approach is that under present law the assembly of a first class borough would not have the power to enact a tax with the special features of the proposed tax. Accordingly, it may be doubted that the legislature acting as an assembly would have such power.

It has been suggested that the 15 mill rate of the state tax will compel the cities and boroughs to raise their tax rates to 15 mills in order to exclude the state tax. However, this view neglects the effect of the \$50,000 exemption. To illustrate, in every case where a taxpayer owned as much as 100,000 dollars worth of taxable property ^{and the town would be the taxpayer} was located levied at a rate of 7.5 mills or more, no state tax would be paid on that property since 15 mills on the \$50,000 taxable by the state would be equaled and cancelled out by 7.5 mills levied on the full 100,000 value.

If only the individual level were considered, it would be possible for a person owning a great deal of property located in an area where the tax rate was very low to pay a small amount of state

tax. However, the local effort exclusion provides that if the total tax revenue from all tax sources exceeds the state tax, no tax is paid by anyone within that city or borough. Because of the \$50,000 exemption and the exemption of certain whole classes of property, it is virtually certain that established municipalities would be excluded under this provision, since the great majority of people would pay no state tax but would pay some municipal tax, if only a sales tax.

The revenue sharing feature of the tax implements a major purpose of the program. That purpose is to make available the resources to enable new boroughs to provide an adequate level of services for their inhabitants. Under HB 597 the legislature is authorized to appropriate the full amount of net revenue from the tax for the benefit of unorganized boroughs. The "authorized to appropriate" formula is dictated by the state constitutional prohibition against earmarking of tax revenues.

The revenue appropriated is administered by the new Department of Community and Regional Development. The money will be held in separate accounts for each particular unorganized borough. The share of each unorganized borough will be determined in accordance with a formula which takes account of population, present wealth, and the cost of providing services. In other words, if it cost twice as much to provide services in one area as in another the first area would receive twice the revenue per capita in order to insure the same level of service. If the first area were also only half as wealthy in terms of taxable revenue per capita as the second area,

the share of the first area would again double per capita with respect to the second area.

HB 598 is designed to complement HB 597. HB 598 provides for a tax of 20 mills on property used in the exploration for and transportation of unrefined oil and gas. The class of property subject to the tax is oil and gas field equipment of all kinds except those types of property production exemption under the provisions of the severance tax. The 20 mill rate was selected as the approximate level of tax to which such property is subject by organized boroughs at the present time.

The oil and gas property tax is exclusive of all other state and local taxes on the same property, including the 15 mill tax under HB 597. Local governments which now tax property of the same category as that taxable under HB 597 would continue to tax that property which is part of its tax base as of January 1, 1972. New property of that class, that is, property which becomes taxable after January 1, 1972 wherever located would be subject to the 20 mill state tax exclusively.

The rationale for the state tax as the exclusive tax on oil property is that such property provides immense taxable value to certain areas without regard to the level of services required in those areas. It is believed that the vast revenue anticipated from taxation of oil and gas related property is properly considered a state resource rather than the exclusive property of the area where the property is located. Any other approach would lead to such great disparities in the ability of local government to provide necessary services that equal protection problems arise. Recent court cases

in California, Texas and elsewhere have held that the level of school financing cannot depend on the relative taxable wealth of school districts. The Department of Law has indicated its belief that the same principle is applicable to other essential local government services.

However, it is also felt that this revenue like other property tax revenue is properly utilized for the benefit of local governments. Accordingly, the revenue from the state oil and gas property tax is distributed to all local government units, including cities, organized boroughs and unorganized boroughs, in accordance with the same formula that governs distribution of the general property tax revenue under HB 597.

Though far from complete or perfect, it is believed that the program outlined above, if enacted, would provide a dramatic proof of the state's willingness to move in an innovative manner toward creation of a fair and workable statewide system of local government.

EXAMPLE OF OPERATION OF HB 597

WITHIN ORGANIZED BOROUGH

CASE - Juneau Service Area #4
Auke Bay

TOTAL assessed value real and personal		13,255,000
TOTAL held by persons owning over \$50,000		4,295,900
per capita exemption under HB 597	50,000	
no. of persons owning more than 50,000	<u>x 47</u>	
TOTAL exemption	2,350,000	<u>2,350,000</u>
TOTAL taxable under HB 597		1,945,900
mill rate under HB 597		<u>.015</u>
TOTAL tax due under HB 597		<u><u>29,188.50</u></u>

Amount levied by borough

tax base	13,255,000	
mill rate	<u>.0119</u>	
	157,734	157,734
tax base	13,255,000	
2.5 mill rate	<u>.0025</u>	
	33,137.50	33,137.50

* In borough wide analysis sales tax and cigarette tax would be added to borough property levy.

Miller

Sigvrien T. Savok
Buckland, AK. 99727
Feb. 11, 1972

Senator William L. Mensley
Box 33
Kotzebue, AK. 99752

Dear Senator:

After reading your speech made on January 22, 1972 about levying taxes on unorganized boroughs on the Senate Floor I am a little perturbed on how the tax payers in our region are going to understand. We are in the process of understanding what profit, and non-profit corporations are. This I feel is still a scramble with many of our people.

Now we are facing organized, and unorganized boroughs. This to me is much more complicated for we in the sticks are not familiar with this. Also when the state government started this borough system they should first complete the process. There is no reason to rush this levy upon our tax payers who are not prepared. We in the past have been trying to go along with the many changes our state government has had which are, Village IRA, 14th Class City, District, and now organized and unorganized boroughs. When are our lawmakers at the capitol going to stop jumping from one thing to the other whether complete, or incomplete. What will happen in the future when taxes are to be made, and we have to explain things like profit and non-profit, and organized and unorganized. This is no time to have our people mixed-up.

Senator Mensley I agree with your speech and am willing to put my future into an understanding form of State Government.

Cordially,
Sigvrien T. Savok
Sigvrien T. Savok

Camp Denali

McKinley Park, Alaska 99755



Winter Address

Box D, College, Alaska
99701

Box D, College, Alaska 99701
February 8, 1972

Governor William A. Egan
State Capitol
Juneau, Alaska 99801

Dear Governor Egan:

RE: Property tax for the unorganized
borough

We have read with dismay your proposal for placing a tax on property valued above \$50,000 in areas outside organized boroughs. The object as stated is to raise needed revenues for the State of Alaska, and to distribute the tax burden more equitably between those living in the boroughs and those who pay no property taxes because they live outside of local government boundaries.

While there is certainly some justification for requiring some property owners and businesses outside of organized boroughs to contribute their share of the cost of state government and services, there should be a more comprehensive definition of just who should pay than the criteria of property assessed at over \$50,000.00.

For example, property owners in areas such as Big Delta, get the benefits of year-round road maintenance, state police, schools, visiting health nurse, etc. - as much or more than we receive living in a rural area of the North Star Borough. On the other hand, our place of business, which is a wilderness tourist camp in the Kantishna area just north of the boundary of Mt. McKinley National Park, has only a 2½ month season of operation, because the road through the park is closed by snow most of the year (and maintained by the Federal Government when it is open). We have one mile of access road from the boundary of the park to our camp entrance, and this we have had to maintain largely through our own efforts during the twenty years we have been in business. There are no schools closer than 120 miles away; and we get no federal, state, or local

services. We must provide for our own needs - road maintenance, snow removal, electricity, etc. We have no telephone or bus service, must go 90 miles for our mail, get no health services, fire protection, nor police services.

We have built Camp Denali entirely with our own efforts and money; our operation has cost the State of Alaska not one cent in services or subsidies. We do contribute considerably to the tourist income of the State of Alaska. In our twenty years of continuous operation, we have provided services and facilities which have attracted several thousand visitors and recreationists to enjoy a vacation at Camp Denali, and these guests have distributed a goodly amount of money throughout the state as they visited other areas in connection with their stay with us. In the building and operation of Camp Denali we have spent and will continue to spend a sizable amount of money, most of which goes to support other Alaskan businesses. In addition, because Camp Denali is too inaccessible to provide a year-round living situation, we reside in the North Star Borough for nine months of the year, and pay property and sales taxes to the local government unit.

We find it ironic that the state should give tax incentives and subsidies to attract new businesses and industry to Alaska, yet propose to tax those businesses which are already here and contributing to the economy and good public relations of Alaska without costing the state a dime. A recent news story in the Fairbanks Daily News Miner related how spokesmen for the Alaska Visitor's Association have proposed a \$5 million loan fund to finance facilities outside of the Anchorage and Fairbanks areas, pointing out that state banks hesitate to loan money to the travel industry because they feel it is seasonal and a high risk. Placing high property taxes on such property could tip the scales for many a business between getting by and total failure.

Since Camp Denali provides accommodations for over 40 persons, our buildings and capital improvements, even though built largely by our own hands using local materials (ie: logs, etc.) over a period of 20 years, would no doubt be appraised far above the \$50,000 minimum at present building values.

We have presented our own case as an example. We are sure there are many other Alaskans who would be hurt by the proposed property tax on land outside of organized boroughs. For instance, what about the roadhouses and resorts along the Denali and Steese highways, which are also remote, get little state services, yet because of no winter road maintenances, have only a summer income, and must live in town during the winter? Many, like ourselves, would be forced out of business with a property tax assessment on top of all the other obstacles to making a living in the "bush".

We hope that you will take into consideration these small businesses in the bush in setting up tax regulations, so that you don't sink us while aiming at the big boys (Prudhce Bay oil wells, etc.)

Sincerely,

Celia M. Hunter
Ginny Hill Wood
Celia M. Hunter & Ginny Hill Wood

Co-Owners and Operators

File in 6.

DUPERE & ASSOCIATES, INC.
510 6TH STREET
JUNEAU, ALASKA 99801
TELEPHONE 586-3553

February 22, 1972

STATEMENT OF
ROBERT J. DUPERE, CONSULTANT TO
THE ARCTIC SLOPE NATIVE ASSOCIATION
IN RESPONSE TO THE LETTER DATED FEBRUARY 15, 1972
FROM DIRECTOR, LOCAL AFFAIRS AGENCY,
CONCERNING

"Specifically, the Commission is interested in obtaining written response concerning the following House Bills:

- H.B. 596: An Act providing for boroughs in the unorganized borough and providing for an effective date.
- H.B. 597: An Act providing for assessment, levy, collection and distribution of a property tax; and providing for an effective date.
- H.B. 598: An Act providing for a State tax on property used in connection with exploration for and transportation of unrefined oil and gas; and providing for an effective date."

GENERAL COMMENT

The petition for the North Slope Borough and the subsequent incorporation of such borough if the people saw fit to vote for same does not (I repeat -- does not) conflict with the intent of the Administration's package reflected in H.B. 596, 597 and 598. This is especially so if the ultimate goals of said package are home rule boroughs throughout the State in place of what is now known as the unorganized borough.

THE UNORGANIZED BOROUGH BILL, H.B. 596:

To the extent that the purpose of H.B. 596 is greater control by the people of a region over their own affairs, H.B. 596 is a step in the right direction. Although the bill does not direct the Boundary Commission to

divide the State into unorganized boroughs on a regional basis, the effect of the proposed AS 07.04.010 would be to create regional governments that would have much in common in terms of area and population with the proposed North Slope Borough.

The proponents of the North Slope Borough also look favorably on the proposed AS 07.04.040, by which an unorganized borough can organize itself. Clearly this provision, as does the whole bill, reflects the premise that regional boroughs are feasible, although in terms of population served and extent of area, they may differ from some of the presently existing boroughs.

A more direct and decisive approach could be considered -- legislation directing an election on 1st class boroughs for each of the federally recognized regional Native areas, excluding presently organized boroughs; thereafter, as is the plan for the North Slope Borough, a charter commission can draft a home rule charter in accordance with current law which can tailor local government to fit the circumstances.

If the area did not vote favorably for a borough, then the provision of Sec. 07.04.030, Advisory Council, per H.B. 596, should come into play.

H.B. 596 is consistent with the North Slope Borough proposal because the North Slope people are already providing leadership and direction toward local self-government which is apparently the ultimate goal of the Administration's package.

So, why hold up progress in this regard?

STATEWIDE MINIMUM PROPERTY TAX, H. B. 597:

H.B. 597 provides for a minimum 15-mill tax rate statewide. Utilizing the Local Affairs consultant's projections, the following distribution

of North Slope taxes is projected for the State if said bill is passed:

	<u>Assessed Value</u>	<u>To North Slope Millage</u>	<u>Borough Revenue</u>	<u>Balance to State Millage</u>	<u>Revenue</u>
June 30, 1972	\$260,000,000	2.2	\$575,000	12.8	\$3,328,000
June 30, 1973	\$260,000,000	3.1	\$810,000	11.9	\$3,094,000
June 30, 1974	\$325,000,000	2.6	\$860,000	12.4	\$4,030,000

These taxes are left over for other State purposes; this would also be the case of the present boroughs. Example: The Fairbanks North Star Borough has a 5-mill levy; thus 10 mills would go to the State.

TRANSPORTATION PROPERTY TAX, H. B. 598:

This bill allows the Kenai Borough and to an extent the Anchorage Borough to continue to tax the present oil and gas transportation facilities and future exploration facilities since these Boroughs had such taxes in effect on January 1, 1972 while all other boroughs will be denied the power to tax such facilities. The borough on the immediate short end of this bill will be the Fairbanks North Star Borough which will receive the impact burden during the pipeline construction and during the intense exploration and drilling of the fields; however, the North Star Borough would be prohibited by AS 43.56.010 from levying taxes on oil facilities within its territorial limits that have yet to be constructed.

While the future tax base of the proposed North Slope Borough is lessened by this bill with revenues going to the General Fund of the State, this bill still would not cripple the North Slope Borough. It would, of course, cripple the tax base of Valdez, where a \$100,000,000 transport facility is planned.

But it would appear that a more equitable bill would be to structure the tax provisions along the lines of H.B. 597 which gives credit for the local tax per AS 43.77.030 and allows all future boroughs to include said improvements within their tax base if they need to sell bonds and raise funds to meet the local service needs.

This bill with the modifications outlined can be a very valuable State/Borough/City government fund-raising tool.

UNIFORM STATEWIDE SALES AND USE TAX

It would appear for consistency the Administration should have introduced a statewide consumer sales and use tax. Such a tax could eliminate most of the regressive features of the present local sales taxes by exempting the basic necessities of life; such as fuel, food, clothing, rentals; and charge for luxury and high value items; thus eliminating the present situation where a 3% sales tax provides the only local revenue in areas in which the poorest people in the nation reside. Thus, following H.B. 597, credit should be given to those who pay such taxes locally.

UNIFORM LOCAL INCOME TAX

The Administration's package should have also contained a "local" option for a hitch-hike local income tax for local governments -- preferably on the borough level.

Thus, those areas that receive impact employment far ahead of the investment in plant and improvements may gain the capacity to meet the operating budget pressures and the capital improvement needs for the basic utilities, streets, and educational facilities.

The local option could be anywhere from 20% to 30% of the State's income tax or 3.2% to 4.8% of the amount paid in Federal taxes.

HAROLD E. POMEROY
4048 WRIGHT STREET
ANCHORAGE, ALASKA 99504

March 14, 1972

Full

Senator John Pader
Chairman
Senate Local Government Committee
Pouch V - State Capitol
Juneau, Alaska 99801

Dear Senator Pader:

Thank you for the courtesies extended to me yesterday by you and the members of the Committee. The following summary of my views concerning the bills being considered is submitted in the hope this may be useful when the Committee is making its determinations.

SENATE BILL FOR "DEPARTMENT OF COMMUNITY AFFAIRS"

The economic development function should be removed from the bill; the bill has a separate primary purpose -- to assist and to improve local governments, in their development, and particularly in their ever-more intricate inter-governmental relations. The House Local Government Committee has already removed economic development from the bill (HB 552).

SENATE BILL 363 ORGANIZATION IN THE UNORGANIZED BOROUGH

The basic purpose to initiate action in the unorganized borough is timely. The provisions for "unorganized boroughs" are constructive. Sections 07, 04, 06 and 050 indicate intent that present law for organized boroughs shall be considered suitable to unique conditions of the remote area. Isolating distances, population distribution and local government financing considerations are so different from elsewhere that workable "regional" borough government, particularly with respect to borough-local city government relations, needs to require an additional class of borough, or other legislative provision to fit the situation. Formerly, see illustration: Most cities/villages have too little capacity to raise revenue from normal local sources for urgent community purposes; the legislature is responsible for ensuring that an appropriate portion of any available revenue shall be allocated to cities on an equitable basis for their local community purposes.

SUGGESTIONS: a) Drop from 363 all reference to organized and charter boroughs; b) provide for investigation to determine what additional provisions of the borough act appear appropriate, with specific recommendations to be made to the legislature by _____ (date) next session. Provide a suitable appropriation to implement the provisions of sections 07.04.010, 020, 030, 035 and foregoing suggestions (a) and (b) from date of enactment of SB 363 to 6/30/73. Perhaps include a statement of purpose in 363 to the effect the intent is to initiate action for improvement of governmental service in the unorganized borough and provide the basis for enactment of such provisions of law as are appropriate for "regional" boroughs at the first session of the eighth legislature.

SENATE BILL 365 -- 15 MILL TAX -- FOR REVENUE IN THE UNORGANIZED BOROUGH

This is a legitimate source of revenue urgently needed in the communities in the unorganized borough. It is consistent with application of the property tax now to \$2.7 billion in property in organized boroughs and cities. Due to the spotty distribution of productive enterprises of substantial value in the unorganized borough, there is no other feasible and rational source for significant amounts of needed revenue -- unless the legislature were to tap a new source, such as a statewide sales tax, or drastically increase the income tax.

The effect of the revenue to be made available will be the means to secure matching grants for numerous programs for community developments and services so badly needed. The infusion of money will produce economic benefits that will exceed by far any local individual property tax payments. There are two reasons for this: major productive enterprises will pay an overwhelmingly large percentage of the total property tax; the grant and shared cost programs can double or triple the actual total cash coming into the community for public services.

A moderate "homestead" exemption -- of owner occupied homes -- will accomplish the principal legitimate purpose for which an exemption can be defended. There should not be blanket exemption of unimproved land. There is no logic in freeing the owner of a "wilderness estate" purchased from the State as "a good investment" from paying a property tax on the investment, for example. There is no logic in freeing the owner of a \$50,000 seiner and gear from paying any property tax, while the owner of a \$100,000 crab boat and gear with which he makes his living pays a tax on \$50,000. Boats and vessels should not be exempt as provided in Sec. 43.77.010 (5), as there are industry work boats, and floating drilling vessels, that are worth from hundreds of thousands of dollars to several million dollars each.

March 14, 1972

The cost and time required for property mapping and assessing has been grossly exaggerated. I have "expertise" in this field from directing and directly participating in this task for 15,000 parcels in the Kenai Peninsula Borough when it was organized. I am confident the job in the unorganized borough can be completed in about 14 months at less than half the million dollar figure that has been tossed out.

The cost of the mapping and assessing -- which will be a valuable asset for many uses other than its primary purpose -- can be advanced by the State and recovered from the proceeds of the first tax levy. The work will have to be done in any event for unorganized regional boroughs which choose to organize, following the initial actions under SB 365.

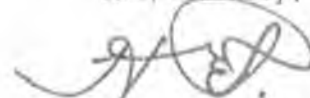
Notes on the mapping and assessing are in attachments.

The provisions for distribution of the revenue from the 15-mill levy should provide that a sum per capita, weighted by the differences in costs of public services among regions, should be returned to each incorporated community. The total so distributed should probably be at a rate that would return not less than 75 percent of all the revenue available, to the communities for their local internal use, if all communities in a region were incorporated.

SENATE BILL 364 -- 20 MILL TAX

With respect to SB 364 -- 20 mill tax, I can do no more than repeat that it is reasonable to apply the ad valorem tax to such property equally with the application of the same tax to all other property normally subject to the property tax. To apply the tax to one segment of one industry seems to me to be inequitable and to create an uncertainty as to what to expect in the future. -- Is a policy being established and what is it?

Respectfully,



Harold E. Pomeroy

HET/kd

Attachments

NOTES ON MAPPING AND ASSESSING IN THE UNORGANIZED BOROUGH

It is not necessary to draw assessor maps for all the geography of the unorganized borough. Large areas that are unoccupied can be accounted for by township listings or by use of USGS sheets.

Large areas with one or two -- or a very few ownerships -- can have these spotted on USGS sheets by paste-ons of parcel numbers, and even other information.

The Division of Lands has data, by auction, for all parcels it has sold. An auction list shows each parcel by description, appraised value, bid price, its sale later "over the counter" if not sold at the auction. Where there is a subdivision instead of scattered parcels, there is a map.

The Division of Lands has a card index of all parcels sold since Statehood. This is invaluable and a great time saver, together with status plats and other data the Division is always generous with supplying.

If there has been a Division of Lands sale of "wilderness estates" land around a lake, and this is all the private ownership land in the township in which it is located, the basic record can be the auction map. From this, a suitable map can be redrawn for parcel numbering, if necessary. The general location can be spotted on a USGS sheet.

For properties in the foregoing illustration, each owner can be sent a suitable form for reporting cabins and other improvements. From this, plus the Division of Lands data, a suitable first assessment can be made without assessor on the ground inspection.

In many Native villages there has been primarily land occupation for dwelling purposes rather than formal ownership. Values of the dwelling sites, even if owned, are usually low, as is the value of dwellings. Assuming at least a "homestead" exemption, there are many villages in which the assessing job will be negligible -- at least for the initial record and for several years. To strain out the lower value exempt properties there can be a suitable form for reporting individual family dwellings and other property of consequence. A review of these can eliminate thousands of properties without on the ground individual inspections and appraisal of value. This will be entirely satisfactory for the initial assessing -- and indefinitely -- with subsequent development and new building of value to be accounted for in a normal way as it occurs.

After accounting for an overwhelming percentage of excluded properties as indicated above, there will be many villages in which there may be as few as a half dozen properties requiring precise records and evaluations.

For some of the larger communities, such as Kotzebue and Bethel, for which ASHA has recently made comprehensive development planning studies and reports, there is land use and other data of great value accumulated by ASHA.

The following home rule, first and second class cities in the unorganized borough area levy the property tax and, therefore, are already mapped and assessed: Cordova, Petersburg, Valdez, Wrangell, Eagle, Menana, Nome, Skagway, Unalaska, Craig, Dillingham, King Cove, Pelican, Yakutat. Hoonah, Kake, Klawock, Hydaburg and Saint Mary's have the property tax power but are not presently exercising it.

Mining claims are recorded in the Division of Mines and Geology, Department of Natural Resources. They don't have to be visited for assessing or mapping, except for the handful that are developed to the point of improvements of significant value.

"Fringe" properties such as inactive mines that have, in effect, been "abandoned on site" as to improvements due to cost of removal greater than recovery value, don't have to be visited for record purposes initially, if at all. Example: While assessing in the Kenai Peninsula Borough, the assessor planned to fly to Muka Bay -- a \$175 charter -- to inspect a mine property. Instead, the farmer who took supplies to a squatter at Muka Bay periodically, was interviewed and supplied adequate information for the record. I don't know if the property has been visited to this day unless the assessor wanted a scenic outing.

In Prince William Sound on 21-mile-long Knight Island, there is one 14-acre private property containing old cannery buildings. The property has been purchased for progressive development as a lodge. One of the old buildings is being used now. The price paid for the property can be secured. The owners have many snapshots of the property. It is not necessary to visit the island, neither for the initial assessing nor for mapping. Adequate information can be secured by mail. The property can be spotted on the USGS sheet. In subsequent years a special assessor's map can be drawn showing the one parcel on the island to a desired scale, if this is advantageous.

As to land patented to Natives, there will be accurate U.S. patents describing the parcels and the parcels can be located on BLM plats or other records. Squatter use of dwelling sites by villagers and along streams does not impose on the assessor the obligation, or necessity for assessing purposes, of surveying villages. Rough descriptions of the properties from the reports of owners/squatters, already referred to, will be adequate for record purposes initially.

H.E.P.

HEP/EA

HAROLD E. POMEROY

Swift Water

BOX 747 - SOLDOTNA, ALASKA 99669
1010 Wright Street, Anchorage,
Alaska

February 23, 1972

Local Boundary Commission
c/o State Economic Opportunity Office
311 West Fourth Avenue
Anchorage, Alaska 99501

Gentlemen:

This responds to letter from Mr. Elliott's office inviting comments on bills SB 1, SB 2 and SB 3. The activities of these bills are as follows:

These bills are evidence of the need for legislation on the subjects to which they are addressed: (a) forward planning in the municipalities, (b) a source of revenue for the activities in the municipalities, (c) the revenue potentials of unincorporated areas of state to be incorporated into the municipalities.

Each of the bills can be killed in one particular and they could be permissibly amended for total rejection. This would be unacceptable subjects requiring attention. The interests of the State and all the people and of the people most directly affected will be damaged by doing nothing at all.

In the 20th century legislator should take the one fresh step in bringing government services providing for or only a forward planning of activities in the unincorporated areas. This of itself is good.

It provides that the Boundary Commission shall define the permanent boundaries of "unincorporated areas", and subsequent laws which may follow them, a step has been missed. The legislature first needs to act and have

answered the question: what additional provisions of borough legislation are required to fit the conditions which prevail in the unorganized borough. Until there is a decision on this the Boundary Commission would have to guess as to boundaries suitable for future boroughs, as there are now no clear directions to go by.

Sections 27.01.040 and 050 concerning incorporation of organized and charter boroughs lead to the mistaken inference - whatever may be intended - that present provisions of law for organized and charter boroughs are in general suitable to the conditions of the unorganized borough. This wouldn't alter the facts. The same most distinctness prevailing as between the unincorporated and organized areas of the State and the provisions outlining and reserving the freedom of the Constitution provided that "... the entire state shall be divided into boroughs, organized or unorganized..." remains little changed today. The legislative classification and logical inference from the provisions of the Constitution by means of specific legislation for organized boroughs, and redressal to the established, designated unorganized borough and logical action to be taken in it. In most of the unorganized borough areas most of the conditions prevailing at the time of the adoption sixteen years ago are likely to remain little changed for another sixteen years or longer.

The Legislative and Judicial Commission and Councils for action in it, will even if action is taken to carry out these questions today are: Is the present situation and conditions of the unorganized state, as a result of the provisions of the Constitution, such that it is necessary to amend the Constitution to provide for the unorganized areas? Should the Constitution be amended to provide for the unorganized areas? The addition of provisions to the Constitution is a matter of great importance.

The first thing that comes to mind is the fact that the

subject of the report is very important and

it is necessary to have a clear understanding of

the situation in order to be able to make

the necessary decisions. It is also important

to have a good knowledge of the facts and

figures. This will help us to see the

importance of the problem and to find

the best way to solve it. It is also

important to have a good knowledge of the

history of the problem and to know the

views of the different people concerned.

This will help us to see the

importance of the problem and to find

the best way to solve it. It is also

important to have a good knowledge of the

history of the problem and to know the

views of the different people concerned.

This will help us to see the

importance of the problem and to find

the best way to solve it. It is also

important to have a good knowledge of the

history of the problem and to know the

views of the different people concerned.

This will help us to see the

importance of the problem and to find

installations at Prudhoe Bay may exceed the total assessed value of all boroughs and cities in the State. By the time the gas transmission facilities and lines are also installed the assessed value on the North Slope may be a third of the present total assessed value in the State. The assessed value per capita would be about 13 times as much on the North Slope as the average in all other taxing jurisdictions.

Pertinent to the subject of disparity among localities in capacity to pay the cost of public services is a Daily News "Alaska Forum" column, 11-17-71, copy attached. I believe this contains information useful to the Commission in its work.

The State Administration recognizes that the unique property tax resource situation that is developing in the State will create an unacceptated injustice among the people in capacity to afford needed public services and facilities, and that the State cannot afford the luxury and extravagance of ignoring the problem.

HB 597 is a partial solution but the condition is of such magnitude that more extensive measures are required. In fact it is a statewide property tax that is needed, with all proceeds allocated back to local and regional governments. Such a tax may be applied and administered in several ways, some perhaps more acceptable than others, but political difficulties might be insurmountable in any event.

The piecemeal approach of HB 597 may be more readily accepted from some standpoints. However, the very fact that it is piecemeal creates some very serious questions that need to be resolved.

The question is not simply whether to do anything at all about the subject to which HB 592 is addressed; it is rather to seek the soundest and most equitable action that is feasible. The problems should not be permitted to overshadow the fact that the bill approaches a subject with which the Legislature must deal or it will have made a very bad decision indeed.

On the question "as to how these bills should affect any action the Commission may take on the North Slope Borough petition": it seems that in the face of the far-reaching implications of the three bills and the report of the subjects with which they deal, action approving the petition would be inappropriate.

The committee which have had the honor to be appointed by the Legislature on 1-25-65 to study the subject of the North Slope Borough petition and the bills have the honor to report to the Legislature on the bills.

Very truly yours,

[Handwritten signature]
MEMBER, LEGISLATURE

HP/r

Equalizing cost of

Anchorage Daily News, Wednesday, November 17, 1971-7

public services

By HAROLD E. POMEROY

Revenue sharing is commonly thought of primarily as shifting costs of government activities from one level of government to another. The principal reasons are that local governments are confronted with disproportionate costs for essential services in relation to their tax resources and that higher levels of government — state and federal — have greater tax resources from which to draw. For the same reasons states are more and more looking to the federal government for revenue sharing. Revenue sharing not only has the effect of lifting a percentage of the cost an activity from one level of government to another; it tends to equalize the total tax burden among local governments with widely varying tax resources. This problem deserves and must receive more attention than it has gotten up to now.

The California Supreme Court has highlighted the inequality among local school districts in capacity to pay for education. An example showed that one district raised twice as much money per school child with half the tax rate of another district. This means that in the poorer district the people would have to pay a four-mill tax rate to raise as much money per child as a one-mill rate would raise in the more affluent district. The court said this is unconstitutional.

THE SITUATION at which the court has struck is an intolerable inequity. In 1931 I spent one year correcting such an inequity in Los Angeles county. The Los Angeles metropolitan school system had four times the assessed value per school child of the Huntington Park school system. This was largely an area of bedroom communities. The workers peopled the factories in the metropolitan area and their purchases in downtown Los Angeles contributed significantly to the prosperity of the downtown merchants. The industrial city of Vernon, in the metropolitan area adjacent to the bedroom area, had \$50 million assessed value and a population of 23. It was obvious that the people and resources of the entire area affected by the proposed school consolidation were interdependent in the production of an economically healthy society.

Alaska Forum

Harold E.
Pomeroy

Today's Alaska Forum guest columnist is Harold E. Pomeroy, former chairman of the Kenai Peninsula Borough. He also served as Alaska director of Civil Defense.

Mr. Pomeroy spent his entire career in public administrations. Before moving to Alaska, he was U.S. secretary of the Allied Mission for Austria; mayor of South Gate, Calif.; field advisor for the League of California Cities.



The consolidation effort was successful. It is regrettable that it has taken 40 years for school financing inequity to come to the nationwide attention it is now receiving.

In state support of education, Alaska has a long head start on other states, except for Hawaii, which finances schools entirely from state level. Our program minimizes the local inequalities in capacity to raise money for schools by state support of 90 per cent of the cost of standard operations, equalized to take into account variations in assessed value per school child. In state support of capital improvements the program is less adequate.

EVEN THOUGH there is less inequity among local school districts here than elsewhere in financing education, it is a matter of relative severity. The discrimination to which the California court addressed itself does exist to some degree. The subject will likely be considered in the next legislative session.

The state is not in a comfortable position to take over any larger part of the local school costs unless additional state revenues are secured. There is a choice of two obvious ways to do this: increase present state taxes or levy a new state tax such as a statewide sales tax; tap the property tax by a statewide levy for school purposes.

It seems unlikely the legislature will, in the next two or three years, increase state taxes significantly if at all. Many local government officials would undoubtedly oppose use of a statewide property tax levy on the ground that this would be the first step in encroachment on the area of ad valorem property taxation which has in practice been reserved to the local governments.

STATE EXPENDITURES for education in the unorganized borough, the area of the state outside the 10 organized boroughs, could be eased by the legislature levying a property tax area wide in the unorganized borough for education throughout the area. The revenue thus secured locally for the local share of school costs would reduce the costs now paid directly out of state revenues by a like amount. The money saved would help a little in minimizing further the inequities in local school costs among the organized borough and city school districts. The tax in the unorganized borough could also give an immense boost in improving the educational program in the rural and remote areas of the state.

There is much merit in the legislature taking action to levy a tax in the unorganized borough. At the same time the property tax should be thoroughly studied in the light of a unique development in potentially taxable property resources. This is the concentration of huge investments in petroleum industry installa-

tions in a few locations dictated by where oil and gas are found.

A significant related consideration is that except for the temporary exploration and development activity boom periods, the operations are highly capital intensive with the ratio of investments to worker as high as \$1 million to one — far more for the pipeline.

THE SITUATION described can cause a wide disparity among local governments in capacity to pay for necessary and desirable services, and in grossly inequitable taxation. The inequity is not confined to financing education; it is significant as to other functions and services of government. A current local government proposal is a good illustration.

The proposal is that the Kenai — North Kenai area secede from the Kenai Peninsula Borough and establish a separate one. There will probably be another gas liquefaction plant in the area. The investment may be between \$50 million and \$80 million and there may be no more than 35 or 40 workers. The assessed value of the proposed borough might be from \$30,000 to \$40,000 per capita compared with about \$8,000 for the remainder of the Kenai Peninsula Borough. Put in terms of services, one mill of tax rate in the proposed borough would buy four or five times as many library books as the same tax in the remaining Kenai Peninsula Borough. Thus the homeowners and other taxpayers in the Kenai Peninsula Borough would have to pay four or five times as much in taxes as the proposed borough to secure the same level of public service.

It is the unique situation which is developing in industrial investments subject to the property tax that would be responsible for the glaring inequity in tax burden for a given level of public services among the people of the Kenai Peninsula if a separate borough were tolerated. The prospective additional liquefaction plant for the North Kenai area is illustrative. The plant might require a taxable investment of \$60 million or more and yet account for only 200 of the

population of the area by reason of requiring so few workers. The assessed value would be \$300,000 per capita for this added population on the basis of the figures used for this illustration. The plant itself would be self contained—another predominant characteristic

of such installations—and require neither water, sewer, power nor any other local government service of significance. This is 25 times the assessed value per capita in the Anchorage Area Borough.

PUBLIC SERVICES are becoming progressively more extensive, intensive and expensive. The trend is unlikely to be reversed as the demand continues for more and better services and needs mount continuously, particularly for people services, as the complications and pressures of society increase.

We cannot afford to treat the organization of local government as a sporting proposition, as a game of chance, to see who is going to get the greatest advantage over his neighbor.

The needs of the state and local governments will continually put pressure on all sources of revenue. The state must be alert to guard against inefficient and ineffective application of any of the available forms of taxation and any narrowing of the tax base.

THE UNIQUE characteristic of oil and gas development, production, processing and transportation investments confronts the state with the necessity of treating the application of the ad valorem tax to such investments as a matter of state concern. The taxable value of the pipeline project may equal about half of all the property in the state now subject to the property tax. Even if the state should secure ownership of the project the taxable property in the Prudhoe Bay area will reach several hundred million dollars in value by the time the natural gas starts to market.

The state's concern for the well-being of the people is paramount. The state's stake in financing local government is large and will grow more in the future. In addition to school support and revenue sharing for police, fire, road and recreation services, millions of dollars are being com-

mitted to paying a portion of local water and sewer systems.

In large part the petroleum industry properties cannot be considered the exclusive province of local governments which might be able to capture them. If this problem were to be ignored there would be the growth of situations of insupportable inequities and inefficiencies in taxation and loss of revenue urgently needed to moderate the problem of many small communities with such meager tax resources that the people suffer various degrees of privation in needed public services.

IT IS NOT likely that all inequities in capacity to raise revenue for public services will be equalized soon. To do so would require that the state raise all revenue and parcel it out equally. This would inevitably sharply restrict local freedom to act. We can insure that inequities are not permitted to become more severe and thus avoid bigger problems to untangle in the future. The Kenai case has been used as an example as it precisely illustrates the luxury of inequality and unfairness that we cannot afford, that in the public interest must be avoided or minimized.

It should be noted that the problem of disparity in tax resources which this statement singles out as a matter for immediate major concern originates out of the developments of major natural resources the revenues from which should inure largely to the benefit of all the people equally. The disparity is not arising out of the local industry and initiative of the people of one community as compared with another of generally equal opportunities and potentials.

We can do no better than to take our basic guidance from section one of article one of the Constitution of Alaska which states in part: "... all persons are equal and entitled to equal rights, opportunities and protection under the law ..."

Supplement to testimony presented before House Local Government Committee, February 28, 1972. (These notes dictated following the meeting, as time did not permit completion of oral discussion.)

With reference to HB 596:

This is extension of remarks on prepared statement concerning the assumption in this bill that present legislation for organized boroughs does fit the conditions in the remote areas that, in fact, are vastly different from those in the areas of most of the presently organized boroughs. In this connection, it is noted that once an organized borough is put in operation it may proceed to home rule charter status. In fact, because of deficiencies in present legislation to fit unique conditions in the unorganized borough, it would be virtually essential that a borough incorporated under present law to prepare a charter to make up for the absence of suitable state legislation to meet the conditions.

Unfortunately, the result of this would be tantamount to saying that the state doesn't really care what the financial, organizational and jurisdictional arrangements are going to be in the huge regions of the unorganized borough that may become organized boroughs. The state must have a paramount concern in framework of government subordinate to it, both from the standpoint of interest of the citizens concerned, and as to the states' responsibilities for various governmental services and activities and effective relationships between the State and the subordinate governments in discharging these responsibilities.

To summarize:

It is unsound to leave the matter of organized borough like government in the unorganized borough to a "business is usual" approach. It is the state that must provide the basic policies and

standards for regional borough type governments suitable to the unique conditions of the remote areas.

With reference to HB 597:

Sec. 43.77.170 places a 5 mill limit on "direct return". A mill rate has little meaning for this purpose as the assessed value of property subject to taxation may vary greatly from place to place and time to time. If the feature of this section is to be in the bill, I would have the direct return based upon dollars in tax revenue per capita. This would be fair and equitable.

With reference to the \$50,000 exemption:

I have the uncomfortable feeling that this goes too far. The revenue raised by a tax in the unorganized borough will be a stimulus to activity that will raise economic levels and improve tax paying capacity. I can't get away from the reaction that any tax program that seems to be based heavily on the proposition "tax everybody else but us" is rather unhealthy.

With reference to Sec. 43.77.030 and 040 -- "Credit" and "Local Effort Exclusion", I wonder if the effect would not be, in any local jurisdiction in which the total local tax take would be less than the state levy, that the local jurisdiction would simply increase the local ad valorem rate so that to "keep the money at home rather than let it go to the state". I have not given much thought to this, but if my concern seems valid, perhaps the committee should give the matter some consideration.

With reference to HB 598:

I refer to my extemporaneous addition to the last paragraph on Page 4 of my written statement in which I said following "However, the very fact that it is piecemeal creates some very serious questions that must be resolved": For example, by applying to oil industry property only, it has significant aspects of a special additional tax on oil and gas, as distinguished from a tax state-wide on all non-renewable source industrial property, for example, or on all property normally subject to the property tax (barring some exemptions that might be determined desirable).

Undoubtedly, the members of the committee have taken note of a certain inequity in exempting from the tax any property to which the ad valorem tax is paid to a city or borough on January 1, 1972. There is such property to a very substantial value in the Kenai Peninsula Borough and which now pays a 5 mill tax. Some of this property is also under industrial incentive tax exemption. This adds to the inequality in taxation as between this property and that which would be taxed under HB 598.

As long as the property tax is a significant source of revenue for public purposes -- and is likely to continue to be for an indefinite time -- I believe the legislature must address itself to the problem of disparity among localities in capacity to pay for public service: rather than just accept come what may in great wealth in one locality and poverty in another. It is a poor approach, however, to pick out one class of property of one industry rather than looking at the whole situation.

TESTIMONY BY WALTER LEVY AND MILTON LIPTON

BEFORE ALASKA HOUSE FINANCE COMMITTEE

3/15/72 & 3/16/72

JUNEAU, ALASKA

(George Hohman, Chairman)

APRIL 1, 1972

7:35 p.m.

Present: All members except Mr. Wright. Mr. Walter Levy and Mr. Milton Lipton, all participants, were also present.

Off. Chairman Hohman called the meeting back to order.

Mr. Wright:

Mr. Wright testified to the committee that basically the Committee was concerned with the potential problem that might develop from expansion of the pipeline. He stated that the pipeline would be running through unpopulated and unpopulated territory, and the population could vary from 10 to 20 million. He stated that it would be a considerable amount of money. Mr. Wright stated that he was told that the oil and the gas should be used for the benefit of the State in a number of ways and that Mr. Wright proposed on some of the points.

Mr. Wright stated that they were very uninformed about the physical situation of the area in Alaska. He said, for example, he was told that the total population of the State was 200,000 people, and that the State had a population of 200,000 people. He stated that the State had a population of 200,000 people.

Mr. Wright stated that if they did nothing, the local community would be criticized to put in a 10 to 20 million dollars. He said that it would be up to now by the government. He stated that the property tax applied to everyone. Consequently, he stated that when the resources were introduced it was a good case of property tax. He stated that the exclusion of property tax would be an oversight.

Mr. Wright stated that it was an oversight. He said that the local community would be criticized to put in a 10 to 20 million dollars. He said that it would be up to now by the government. He stated that the property tax applied to everyone. Consequently, he stated that when the resources were introduced it was a good case of property tax. He stated that the exclusion of property tax would be an oversight.

Mr. Wright stated that they were uninformed about the physical situation of the area in Alaska. He said, for example, he was told that the total population of the State was 200,000 people, and that the State had a population of 200,000 people. He stated that the State had a population of 200,000 people.

Mr. Wright stated that they were uninformed about the physical situation of the area in Alaska. He said, for example, he was told that the total population of the State was 200,000 people, and that the State had a population of 200,000 people. He stated that the State had a population of 200,000 people.

He thought they should look particularly at Texas and Louisiana. He felt the State should not get completely out of line with the precedence for severance tax. Mr. Levy felt that if by any chance the severance tax picture is not clear in some states, then it would be necessary to pick those most suitable to the State's interest.

He wondered whether the local communities should be allowed to take property tax on the line. He said it would really serve no purpose as it goes through a huge area without any opposition, so he didn't know what would happen.

Another thing Mr. Levy felt pertinent was that the line was not excluded from taxation. He said they should have a property tax on oil that would be completely in line with the property tax on another form of property. He wouldn't recommend bringing out the oil industry for either a higher or lower rate. He suggested they should not move ahead without knowing how severance tax is handled in other states.

Mr. Lipton said that information was available to them in connection with the whole policy of taxation on oil and gas from the Legislative Council. This was published in January of 1970. He added that Louisiana has a certain percentage production severance tax. The state statutes provide no further or additional license to be added or any additional value added to land.

Mr. Levy said they would have to have a more careful look at what kind of property taxes may or may not be possible. He said their attempt was to establish the level of severance tax. He said they should not look at refineries or pipelines as it was quite possible legislatures could still levy on such facilities.

Mr. Lipton said it was their indication that Louisiana could do that. He said that in Texas where there is a relatively low severance tax, local taxing is parallel.

Mr. Marshall reported that he had said earlier--if the boroughs were allowed to tax, it would be a lot of money, about \$70 million. He added if the severance tax was fair and reasonable. If it covered the pipeline from oil values there. Mr. Levy said he couldn't say what was fair and reasonable. On the other hand, he said that if every industrial facility in the State has to pay ad valorem taxes, there would be a problem in light that oil facilities be excluded.

Mr. Pitt said that in electrical corporations in the State they had some type of property tax. He said that some type of industry tax should be levied on local business rather than on the state. He said that in several

government boundaries. It was Mr. Pink's feeling that it was more fair and equitable to take a percentage of the profit.

Mr. Levy indicated that it was his instinct that the taxing power should be taken out of local governments. He thought that could be reasonably safe. Secondly, he thought that at this time it would be better to reserve the decision of what was to be done until the problems connected with the pipeline would be resolved.

Mr. Levy said that he had testified that afternoon on the potential of the ad valorem tax as further bargaining for contracts. He told the committee they should get copies of the transcript of his earlier testimony. He said that if a tax was in effect which would cost \$70 million a year, it was really very high.

Mr. Pink said that the Governor proposed an option because he felt it was the only way to get the value out of it for the State. He said that the Impact Committee was suggesting it be regulated for the same reason. Mr. Pink said the State has the right of way and can impose several conditions, but that it is difficult to produce revenue. The first way that the pipeline was regulated had the State could have control of the right of way. The other problem is that they are not happy with the small amount of people. Mr. Pink said that some of the legislation that all the Governor's and pipeline Impact Committees did, was that the State had the right of way. Mr. Pink thought it would be fair to give the State and the industry if they don't have the right of way and right-of-way. At the same time they would increase the Governor's purpose of not allowing the State to take all of the funds. He said that was the idea.

Mr. Levy felt that the major problem was to pass pipeline legislation that was fair and equitable to all parties and which encouraged future oil production and exploration in all areas. He went on to say that the intent of the Impact Committee was not to get increased revenue, but to give a benefit to the State. He said that revenue from the oil which would be equitable from their point of view and to stop a situation which would deprive the state of its fair share. He said that the bill was designed so that only if everything else failed, the revenue would come through a formula. He said that it was the intent of the Governor's proposal to give revenue. Mr. Levy went on to say that the revenue is not definitely revenue producing for which there is precedent and which is not discriminatory. He said that the bill was something they decided to handle as a favor, when they decided on the proper value, it would be done. He said that what was the intent was that they were not protected by local laws. He said that power would have to be taken away from them. He said it would be hard to handle.

The first thing I noticed when I stepped out of the plane was the humidity. It was a relief after the dry air of the flight. I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky. I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky. I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky.

As I walked through the city, I noticed the vibrant colors of the buildings and the lush greenery of the parks. The people were friendly and welcoming, and I felt like I had found a new home. I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky. I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky.

The weather was perfect, not too hot and not too cold. I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky. I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky.

I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky. I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky. I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky.

I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky. I had heard that Miami was a beautiful city, and I was not disappointed. The skyline was impressive, with several skyscrapers reaching towards the sky.

The pipe first proposed is now supposed to cost \$1 billion; it is going to cost \$3.5 billion. Also the market is thought to be available in California and Chicago - now it is limited to California because the new pipeline from Seattle to Chicago will probably not be built.

It was Mr. Levy's feeling that the ad valorem tax applied to everything. He said that if it was not the general rule of the law to exclude the ad valorem tax on facilities which are not production facilities, he saw no reason why they shouldn't have one - if oil is producing oil for sale; however, he did not feel it should be imposed until he could see the whole pipeline picture.

Mr. Tipton said he didn't know how they could evaluate the cost of producing a barrel of oil. Mr. Tink said they would just read out the value and what he said was the value would be the value - if someone didn't agree, then they could appeal it.

Mr. Tink said that the oil companies for many indicated they didn't want to get involved in a bid-ask or public financing situation. He said that if the oil industry would then have to pay for the pipeline, they would be the ones to pay for it. He said that they could give credit in production on the pipeline. He said that if the oil companies with the pipeline would reduce the production without the pipeline, the pipeline would be a possibility. He said that he would increase a cent per barrel but only when they could demonstrate it.

Mr. Tink said he would like to see the world protected from oil. If they didn't own part of a pipeline, Mr. Levy said they shouldn't have that production. In other places, there is a need for a pipeline between the oil value and the transportation costs. For example, in Texas they provide a main line of fuel production for refineries. He said that the well has a value of oil in the ground. The price for cost of oil is dependent on the value of the oil. He said that transportation cost from Texas to Chicago, and the cost of transporting the oil from Texas is recoverable in the value of the oil that enters the Chicago refinery. He said that in all the oil will have a fixed value and not be subject to transportation costs by tankers to California. He said that by pipeline from the North Hope to Alaska, the value is from the value of the oil. He said that, in effect, Alaska and Louisiana oil was "price makers" on the world. Alaska would have that possibility. Mr. Levy said that it was tremendously important, and that the production of oil was that any oil field has the possibility of being a price maker which are possible.

3/15/72

-21-

... but ...

... the ...

... the ...

... the ...

... the ...

... the ...

... the ...

he also didn't know of a state with the problem of flag
factors.

Mr. Pink said the State was trying to get into a business,
if just wanted to get out of the business. He seemed to him
that the best way to do it with the least difficulties was to
let the industry develop the business.

Mr. Levy said that an ad valorem tax was not the way and \$70
million was not the way. Everything else went against it.

Mr. Pink thought they should initiate a cents per barrel tax, and
let the companies do what they wanted, but under right of way if
the State felt that a new producer was getting "shuffled" the State
could come in. It appeared to him this would be much simpler.

Mr. Levy was not certain the oil companies would sign such a
lease. He didn't think the State could give up its responsibility
for continuing surveillance of oil.

Mr. Pink asked the purpose of regulations, and Mr. Levy said it
wasn't common sense. He said that it was important that a com-
modity couldn't be shipped, so the surveillance was necessary.

Mr. Lipton said that pipeline regulations were not unique to
Texas. He stated that Texas had tough regulatory statutes
over the pipeline. There in Texas were quite a range of regula-
tions on pipeline statutes of various states. He didn't think
the oil industry could reasonably take the position--when trans-
portation was so important--of objecting to arrangements over
regulation statutes. He pointed out that Texas had never relied
upon U.C.C. regulations to take care of its pipeline.

Mr. Levy asked whether they had been threatened by oil people
that if they didn't "buckle", they would move to Canada. He asked
whether they had heard that the oil people were discouraged by
the regulations there. He explained that the Canada Energy Board
had complete control in Canada. The C.E.B. has control over
trans-Canada pipeline with a full rate of return on capital use
of 9% which includes cost tax. It also has the right of inter-
fering with pipeline investments, which Mr. Levy had made it pos-
sible to operate.

Mr. Lipton said that when the severance tax was under review
there the industry was very opposed to a change in it. The
problem was addressed on the concept of a rate schedule. Regu-
lations are in effect which vary according to production and
are not for the extent of the lease.

Mr. Pink said a combination of right of way should be that if any

Mr. Levy said that he considered the debt bill had to come to a vote in the House of Representatives. He said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate.

Mr. Levy said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate.

Mr. Levy said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate.

Mr. Levy said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate.

Mr. Levy said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate. He said that the bill had to be passed by the House of Representatives and then sent to the Senate.

Mr. [unclear] that what Mr. [unclear] was proposing could mean a
25% increase in the present formula would yield. Again
pointed out that production was still four years away and
was time to take a good look. He thought they should follow the
policy designed to do the best possible job.

Meeting adjourned at 9:25 p.m.

Mr. Lipton said if it turns out these rates are fair and reasonable then the oil companies will have lost the state funds. He said he felt they could get a lot better than the 10% reputation. He added that the risks Alaska will face, should they take on ownership of the pipeline, will be the same as the risks the companies will take. Mr. Lipton added that the rate making role of the state set in 1940 was a reasonable one.

Mr. Lind asked if the companies do pay different rates could that be to the state's advantage? Mr. Lipton said there might be some relative and differences among them. He said that one advantage is that by having that sort of a lower rate will create an environment where would be the other companies, probably a higher rate. The major thrust of opinion is that perhaps a company that pays a lower rate is preferred with a reasonable rate and wouldn't have to do much more.

In answer to Mr. Lind, Mr. Lipton said the state might be in a position to argue that the prevailing market value is set by the highest rates on the basis of lower companies than would be the best that could be the best for the state. He said it is 2 1/2% off, even though it is a 10% rate, but a higher transportation rate.

Mr. Lipton said the Federal government is now reviewing the value of the pipeline and the state's role.

Mr. Lipton made a proposal of having a multiplying of 1.5. Mr. Lind said since there are a number of companies, they would have a lot of trouble to make. Mr. Lind said that all of the companies were companies which are a portion of the maximum of capital. He said he would assume the financing would be a joint venture. Mr. Lipton said they did not know what Mr. Lind said all the companies would be the same pump, same price and the same labor. Mr. Lipton said that the operating costs may not be the same. He said if Alaska is depending on 75% of the pipeline, it doesn't mean each owner is getting 75% of the capital. Mr. Lind asked what advantages the state would have to allow the companies to have on different ways. Mr. Lipton said he was not sure about the way in which they are in practice. The present capitalization costs plus they will have to be a reasonable rate on the pipeline.

pipeline is finished ICC will know the capitalization and everything involved -- then the companies will file tariffs. This will be the rates charged by each owner of the pipeline unless the ICC says no, it exceeds the rate making rule. Unless this is exceeded it automatically becomes the tariff. Mr. Lipton explained the 8% rate. This is 8% after tax profit to the pipeline operator including interest payment -- this is on total capital after all costs. He said the question has come up; can the state do anything about it. He said the whole purpose of the Governor in suggesting ownership, the purpose behind the administration's regulatory bill, the purpose behind the Pipeline Committee's leasing bill and the purpose behind an option to buy or equity, all of this is to provide the state with a bargaining position so they can in effect get the companies to agree to a very fair and reasonable rate. He said there are alternatives. One alternative is to force ICC into a review of rate procedure.

Mr. Lipton said if the state has its own concept of a fair and reasonable rate then the companies will know what position the state is taking. Before the pipeline is operating there will be an agreement. Mr. Lipton said the companies can be more relaxed if they know what the state means by reasonable approach. In answer to Mr. Pink, Mr. Lipton said he was talking about interstate rates. He said there is a body of legal opinion which feels the state may have jurisdiction over all oil from Prudhoe Bay to Valdez. He said if the state does not claim jurisdiction it will not have it. He said this would provide the state with an apparatus for determining what is a fair and reasonable rate for the movement of oil from Prudhoe Bay to Valdez. He said hopefully this would enable companies to understand the meaning of their because there would be a "handbook". He said if the state did not do this they may have the possibility of determining the prevailing value of the oil of the North Slope. He said if the state would have to protest before ICC they still be in a position to do so. He said a regulatory bill could not have to be something as strong that the oil companies would rise up in protest. There are existing pipeline regulations in effect. Mr. Lipton said he did not feel the companies would have very much of a reason to complain. He said the state regulatory body should

3/16/72

not have the right to increase rates upon the pipeline. It should have the right to suspend rates but to have a rate and insist the pipeline operator be made to pay before the final adjudication has been made goes too far. Mr. Lipton said he hoped that he was not making a plea for extreme legislation that will smack the "apple cart". He said they know what powerful incentive there is for oil companies to resist. He said the oil companies are entitled to a fair break but so is Alaska. Mr. Lipton said it is imperative to get started early.

Mr. King said the ICC determines a fair rate but asked if they look at the depreciation schedule and amortization schedule. Mr. Lipton answered there is an ICC rate of depreciation which applies to all pipelines. He said they would oppose any increase.

Mr. King compared the completion of the pipeline with a building. He said if he had a building and charged rent in the first two or three years and there could be no other profit he could not use the building. Mr. Lipton said during the first year of operation at 75¢ per barrel it would apply the ICC 2% rate to the 100 million per day and spend it over only 600,000 barrels per day. The rate would be so high the well head value would be very high. He said obviously they will not do that. He said they will look at the capital cost picture and rate of throughput and try to work out a profit. He said as the throughput builds up the profit will go down further.

In answer to Mr. King, Mr. Lipton said the amortization is not based on the total amount of oil that will flow through the pipeline. He said for valuation purposes they depreciate over 35 years on a straight line basis and for taxes they depreciate over 22 years on a constant of year digit basis. He mentioned that.

Mr. King asked how they could automatically assume the cost of the pipeline will be from \$3.5 to \$4 billion. Mr. Lipton said this is subject to error but they hope the large amount of error on the off side will be offset by revenue on the other side. Mr. Lipton said as far as he knew none of the companies had arranged with this cost. Mr. Lipton said the biggest thing is to get the tariff lines to cover under ICC regulations in the payment of capital -- this is a very important thing.

3/16/72

3/16/72

- 2 -

The first of the two items mentioned in the letter is the fact that the Commission has not yet received the information requested in the letter of 2/22/72. The Commission is currently reviewing the information received and will advise you of the results of its review as soon as possible.

The second item mentioned in the letter is the fact that the Commission has not yet received the information requested in the letter of 2/22/72. The Commission is currently reviewing the information received and will advise you of the results of its review as soon as possible.

The Commission is currently reviewing the information received and will advise you of the results of its review as soon as possible.

The Commission is currently reviewing the information received and will advise you of the results of its review as soon as possible.

of their value. Mr. Lipton said not necessarily if they work out an equalized tariff.

Mr. Lipton said they also feel that the impact of costs paid to a way of recovering could be developed in a company like Standard Oil of California (SO) in not in the pipeline. He said they would be paying with both hands. He said that they are now concerned with in to protect the public's economic interest in the value of oil produced.

Mr. Lipton said in addition to the taxing power, the state could also consider taxing power in the state income tax. He added that they could move to a progressive income tax. The revenue in a total of \$1.5 billion would have to be shared. The income tax and dividend tax. He said in this way the company would have full value of the 1977. For the time being to do with the income tax. He said the company would have to do with the income tax. He said the company would have to do with the income tax.

Mr. Lipton said in view of the "spoke" history of recovery, it is not at the federal level and at the state level. He said even so, but they know what they have to do. The state could do something different than other people have done. Mr. Lipton said the state would have to use the income tax and dividend tax. He said if this was not done, it would not be any different.

10:00 AM - 10:00 AM