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AMENDMENT

Offered in the House

by Attorney General

TO: HOUSE BILL NO. 59

AMENDMENT PAGE 1 LINE 14:

DELETE "employed" and insert "actually used or designed as intended for use" in its place.

PAGE 1 LINES 26-28

DELETE lines 26-28 and substitute: "chapter does not apply to property upon which an ad valorem tax was levied by a city or a borough for the tax year beginning January 1, 1973, and upon which the tax continues to be levied for each succeeding tax year."

PAGE 4 LINE 16

DELETE "production and"

MONTH March, 1973

DATE	ACTIONS	BILLING INFORMATION
March 13, 1973	Transcription of Hearing Tape John Havelock, Speaker ,	\$52.50

I'm John Havelock, State Attorney General. With me today are Fred who is the Director of Audit in Parks and Revenue, Larry , who is deputy commissioner of the treasury and Assistant Attorney General Rick Garnet. I have from the chairman a letter relating to HB 59 of which you require whether ... considering the revenue contemplated on the bill right of way leasing act adopted last year. Whether these measures have not already assured sufficient funds, new funds raised to meet a conservative budget such as the legislature would be included to adopt. These issues relate primarily to economic questions which is why I had these meetings with the Department of Revenue people here today and I will just make a few comments from a policy point of view ^{rather} referring the issues to these able gentlemen who have information, copies of which have been distributed to you here which I think will be of to you at today's hearing. By way of summary, let me say that we appreciate the opportunity to respond to this questions because of the widespread illusion throughout the state that the legislature, by virtue of its acts last year, have already adopted measures which constitute and ignore the revenue increase constituting a tremendous burden, particularly on the oil industry, and this is an illusion. It is not true that last year your incremental revenues measures were adopted. The property tax which was introduced last year as one of the several measures tend to be considered together which cause of of time of problems also not adopted. As far as the revenue aspects go, this is one of the more critical revenue measures which was introduced at that time and I think that it would appear still a very conservative measure at that by considering the overall situation. In reviewing very briefly the measures which were adopted last year, first of all the cents per barrel tax is essentially a revenue guarantee measure in that it is a floor tax and it was not considered to be primarily a measure for raising more revenue to meet the contemplated revenue gain of the state. We do not know at this time whether in fact that cents per

barrel tax will even go into effect because we don't know what the market conditions will be at the time the oil flows. The second measure, another measure, is the regulatory act which, of course, is not a revenue measure at all. The right of way bill which has been a center of controversy, perhaps more so than the floor tax with the industry, a good deal of uncertainty about the revenue impact of that measure this last year because of the changes in the measure up to the last minute, the revenue there, because of the various variables that came into it, we were unable to last year give tentative answers as to the revenue act after that bill. We have now at some expense and after very careful perusal of the way the bill operates and the way the measure would operate we have eliminated those uncertainties. There are still variables which are involved which change the impact and the income and revenue results of the tax. We are in a position to identify the variables for you, to give you both the range of revenue estimates that can be expected and use the most probable case, and we can do so, I believe, definitively. As to the property tax of HB 59 before you, I think it is worth emphasizing that the issue the community is considering on this bill is not whether property taxes applicable to the pipeline should exist, that the status quo is maintained, the property taxes will prevail on the pipeline and that they will be levied by municipal government. What is really of more concern is how much revenue, what the millage rate should be, and the form of distribution from the tax and the proposal for a state administered tax which was put before you previously and is put forth before you again this year with the hope that the legislature can make rational decisions as to what the revenue capability of that tax should be and the manner which the benefits from that tax should be distributed. Now it has been said that the property tax singles out a single industry which is unfair, and I would like to make a few comments on that, but before I do I would like to point out that local governments are just as capable of levying taxes, principle incidents of which involve upon the pipeline,

as the status. I think in the long run it is better before the industry that a tax of this nature be administered at a state level. in the long run better equity to have a tax on a property of this magnitude subject to state control with termination by the entire legislature.

*Can I interrupt just....is it your feeling that once a tax is levied by the state that is a preemption over the local government?

That depends upon the form of the measure adopted. This particular bill essentially constitutes a preemption with a redistribution.

*It is your opinion now, informally I understand, that this would in fact do that.

Yes, that is the case.

*Thank you.

To get into our comment on the effect of local government taxes which is that if you do nothing, what happens is that the result of the deductability of property taxes, you are essentially providing for a distribution system whereby those areas of general government is subsidizing particular municipal government which have the opportunity to apply the tax as a result of the deductability of property tax state income tax. So, again, the status quo hardly guarantees any more of a magnitude of the enterprise, the size of the assets involved in relationship to all the other assets of the state put together makes it highly relevant and pertinent and appropriate for the legislature to consider how this entity is to be taxed and how major pipelines are to be taxed. Large pipelines may not have the last of them. How this classification of property has increased. To answer the question of the singling out, we have barely singled out a particular instance. I suppose it is true that any tax adopted by the legislature has a distribution burden which effects some people more than others and I don't think that tax alone really has anything to do with fairness or unfairness. I would like to note,

for instance, in terms of whether the rest of the economy is "bearing its fair share". The gross receipt tax is the major tax burden to a large number of industries. So, I think that to just look at the property tax alone and say that the incidents of property tax are more on one than on another is simply to state a truism of taxation generally and I don't think it relates fairness. Other examples of distribution, in our state, we have a very high level of personal income tax relative to the rest of the country and I think it is a demonstration of the willingness of the people of Alaska to meet their fair share of the burden of the cost of running a government. A third factor is responsible budgeting. Responsible Budgeting, particularly under exercising real belt tightening activity also has its contribution frequently for those who are least able to bear it to the cost of running government in terms of decreased services and loss of necessary sustenance. It is also rational for the policy to adopt taxes which have different incidents and burdens on different aspects of the economy. It is not in the state's interest to levy the same level of taxation of new growth that is in a state where one of the critical issues for the next two decades is the extent to which we can broaden the base of the economy. It is not rational for the policy to impose substantial burdens on that form of new industry when there are forms of industry available which are quite capable of paying a larger share of the burden of maintaining essential governmental services. The underlying principle in the fairness, after all, since the income tax amendment to the constitution in 1916 is that the taxation or the level of taxes should be associated with ability to pay and I think it is apparent, as it has been for a decade or more, that ability to pay is very much within the range of resource, commercial activity, business associated with the petroleum industry in this state and I think it is misleading to think of the tax project of the oil industry as just another small grocery or gas station entirely and enormous aspects of the economy through the legislature should look at it as an entity without having it necessarily associated with a small share on the Yukon

River or a trading center or something in terms of the ability to meet the burden of government. It was in assisting in the pushing of this pipeline project to the earliest completion possible within the last year that I have had cause to re-read legislative history of the Alaska Statehood Act with the premise of Alaska statehood that with a small population such as this state had, with very little independent income base capable of supporting government, with enormous unmet needs, that it would be the oil industry that would pay for a very large share of the growth of the state. The state was not a feasible political entity without a larger share, a very large share, of the burden supporting that state coming from the petroleum industry and that is to say the legislative history that I have just stated would prove that. With that induction, Mr. Chairman, I would like now to refer to some of the particulars like calling on the property tax impact by calling on Mr. Fred _____ of the Department of Revenue to give you some figures and explain perhaps some of the exhibits before you.

which
Mr. Chairman, House Bill 59 proposes a property tax on oil and gas transportation facilities is apparently straight forward in terms of projecting revenue estimates. The bill provides that a tax of 20 mills shall be leveled on the pipeline as of any given January 1. It also provides for a sharing back to the local jurisdiction through which the pipeline passes based upon 20% of the value of the line in such jurisdiction. Before you on the first page of the exhibit handed out, we show our projections for fiscal year 1974 thru 1983 with the first line indicating the total tax collected by the state less the amount to be shared through local governments and the net revenues to state treasury. Beneath that is a table showing a breakdown of the local government's share of the tax among the three local governments through which the pipeline should pass. The basis for the projections is a total cost of the pipeline's total ultimate value of 3.5 billion dollars with the construction occurring primarily in 1973, '74, '75 and into the middle of 1976.

*are you open for questions? Any questions?

Mr. Fink: It just seems to me that the figure you had on that last year was 80 million. How did you arrive at the maximum of 70 million this time?

Last year's projection did not project to 80 million, they projected up to 59 million which would be the value in 1977. The 70 million dollar ultimate is based on the 3 1/2 billion dollar completion costs at the 20 mill rate.

(Mr. Fink) Your bill originally last year was on the pipeline only. I know I am digging out finance projections and we threw the tank farms and the gathering lines in which apparently you have done in this year's bill except you have excluded this twenty-one inch which seems

You say that the pipeline and the tank farm and the gathering lines, all that, will cost a maximum of 3.5 million dollars?

Yes, sir.

If there are no other questions I would like to call on Deputy Commissioner to discuss the relationship of that to the revenue and manager projections of the state.

Mr. Chairman, and guests, I would like to call your attention to a five or six page booklet that we prepared this morning which is, in fact, copies of a computer projections showing in effect the property tax and several other variables on the general fund at the end of each year. By this afternoon we should have this information available in short form which is somewhat easier to digest. But, until then, I went through and specifically as possible as to what these projections indicate. I will be available for questions, of course, at any time in my testimony. We turn to projection one which is run number 15. It is based on the assumption that construction of the pipeline will begin in fiscal year 1974, inflation of the line and production will begin in fiscal year 1977. With the revenues included the revenues from the right-of-way leasing act assuming a 4% ICC rate of return. A separate page in the handout that I believe you all have shows exactly what that 4% ICC return means in dollars to the state. For the first through the fifth year

of operation the 4% return indicates

to the

state about 2 million dollars. It is not until very late in the operation of the pipeline, in the tenth and twentieth year, that you see high revenues. In the average of 35 years it is 15.4 million. This 4% ICC return we believe will be the most likely and the most reasonable. It is, in addition, the case that the oil companies did mention directly to the Governor that they were intending to run the following testimony this March regarding ownership of the pipeline. So, we really feel confident that there will be a 4% dividend and rate of return as measured by the ICC.

*I think you all read something in the paper today about the oil companies saying it would cost them 150 million. Do you know what the difference between their computation and yours is?

I cannot understand that completely. A 150 million or even a higher figure quoted in the paper is just not reasonable. I don't understand the cause of it. It can only be based on ICC returns so large as to be incredible.

*Now you've got 7% here. Is that the maximum they can charge under ICC or can they charge 8%?

There was a ruling many years ago that 8% ICC return was allowable. How much they can charge under ICC really is a question of the degree that ICC will expect this pipeline of their jurisdiction and whether they find anything unique in the Alaskan pipeline.

*Even at your 7% you show only 25 million the first year and an average of 40 million.

That's right.

*Do you think that they could be talking about a lot higher unit?

No, I do not. Again, the cost, the economic analysis, and many of the factors seem to be the same yet the numbers are apparently different. I do not understand it.

These returns are based on our latest look at the economics, our latest look at the regulations the state has adopted and our most likely projection for what, in fact, will occur in terms of revenue.

*Alright, the other thing is that all of your print-outs are based on a 4% on the right-of-way. Apparently they use a higher figure. Then again, why do you think they will use 4% rather than 7% or something else?

Well, first of all they told us. Secondly, and most important, it is in their best interest to use a 4% ICC return. Let me try to explain it very simply. The higher the return on the line, the lower the bulkhead value of the oil in the ground and what is the incentive of the oil companies that have a high bulkhead value in the ground? It is a depletion allowance. The tax advantage, which is a percentage of the bulkhead value of the oil produced. So, clearly as we examine it, running the pipeline at a high tariff causes the overall rate of return of the pipeline and the owner to decline, not increase. Again, because of the dominant tax advantages of the depletion allowance.

*In effect, there would be different parties involved like in the pipeline shipping their oil. Do you think it is the same that....

At this time the unit agreement has not been completed on the North Slope so we are not certain at this date what oil company will own what percentage of the pool. Neither has the oil companies agreed to my knowledge about which oil company will own what percentage of the two million barrel a day pipeline. So, in fact, there is an opportunity of changing the amount of oil ownership as well as the opportunity of changing the amount of pipeline ownership.

*Is that all Mr. Fink? Miller.

*I have a question. I see that these revenue projections are based upon the pipeline construction beginning in fiscal year 1974. May I assume that your assumptions are January 1, 1974, as this would make a big difference whether this was January 1 or

December 1. Exactly what month did you pick? This could make a tremendous difference in the entire projections.

I believe I understand the question. There are a total of five projections here, three which are based on pipeline construction beginning fiscal year 1974 and the final ones are based on a statistical look, if you will, on pipeline construction beginning in fiscal year 1975. The question as I understand it was a six month postponement followed construction beginning this summer. Is that correct?

*Would it make a difference on your entire twenty year projections depending upon what month you were picking up here. It would be the same thing on oil flow. It starts flowing in 1977, say a six month delay in the construction of the pipeline. I mean to be completed from their estimate of three years.

I agree. These projections, again, show construction beginning in the summer and then construction on a one year delay. The question as I understand it is what is the effect of construction being delayed six months together with a three year construction period. The pending of this administration and any delay at the beginning of the construction will be offset by a compression of the construction period. We have shown you here perhaps the best case and a worse case. delay and a year delay. We are working at this time to look at various six month delays as communicated earlier since everything is, in fact, offset split between fiscal years, Backup from this project will and it will be some time before we statistical look, if you will, of the effect of the six month delay.

*(Mr. McVay) Just a few questions....as I understood you correctly, you feel probably the best guess is that the pipeline will be allowed a 4% ICC return. Is that.....

We are assuming, and we have substantially believed that the pipeline will be run at a 4% return .

*Just generally speaking, isn't it true that the ICC regulation of the rates look to the total amount paid at setting the percentage figure. In other words, anyone

is entitled to make a return on a dollar and the return is somehow related to the cost of the project. In other words, 4% would not be very much of a return on a small utility or a small line, but 4% could be an awful lot of money on a huge line. Is that the kind of factor; do you see my point?

Yes, Mr. Chairman, I do. This 4% return is on the total ICC evaluation. That pipeline may be financed 80% by debt, 85% or 90%. So, for a hypothetical situation, if it was financed 90% by debt then the 4% return would provide a return to equity of in excess of 35% as well as, of course, pay off all the debts.

*That would have a tendency to drive that percentage figure down, right?

That would not be taken into account by the ICC.

*I see.

So, they would at a 4% return provide for return to equity of substantially in excess of 35%. The ICC looks at the total value of the line and the total return of the total value.

Mr. Chairman, the 4% that we calculate is based upon the economics of the industry and what they would do, or the industry would do, from the point of view of maximizing their own profits. It is not a prediction as to what if the ICC regulates the line, the ICC maximum allowable would be. There is no way to tell that at this point. But what we're looking at is that the existing pattern of ownership distribution of the pipeline and of the oil, that it is the maximum economic return to the integrated company it would be achieved at approximately the 4% rate.

*Some companies would be better off than others?

There is a difference in that this is a stand alone pipe-line. Supposing you had a pipeline owner that had no oil then it would be his interest to charge the highest possible tariff available. We are dealing with integrated companies. We are dealing with companies ~~WAL~~ that negotiate with each other. We are dealing with a situation

where there is not a gross prosperity between the ownership of the oil and the ownership of the pipeline. That is, considering them all together it is very close, although there are differences among the owners in tax. They are quite free to negotiate and we believe it is in their commercial interests to negotiate to produce a more even distribution of pipeline ownership that is going to be close to....

*And that will tend to drive it down. (Chairman)

It will tend to, therefore, drive the tariff down because the overall effect is a maximization of profits and freedom to federal income tax. Should I continue, Mr. Chairman, to.....

*Yes, go ahead, if there are no more questions at this time.

Well, the chart number one, the computer print-out, shows that if operating expenses were to increase about 7% each year that even with the construction of the pipeline beginning this summer, there would be a negative balance in the general fund at the end of the 1980's. The revenue estimates which are contained in this projection include not only the right-of-way leasing revenues but as well the proposed taxes that the legislature is now considering at this time and these are summarized and displayed regarding the revenue effect of these taxes on an additional page supplied to you. We call the aggregate of the four taxes the tax package.

The comments regarding this projection on the tax package is included. Projection number two on the following page includes the estimated net revenue to the treasury property tax. The only difference between this projection and the first one is that here we show the positive general fund balance as well we are in a position to increase operating expenditures at an 8% level each year instead of a 7% level showing zero. Here we show an average balance in the general fund stabilizing between 2 and 4 hundred billion throughout the period. Again, this chart is based on the assumption that construction begins in summer. The next chart from 33B identical to the one I just talked about, the second one, except that you know increase operating expenditures 10% a year. Recalled to this committee several

years ago we were talking about expansion growths in the neighborhood of 10% to 15% a year and here we see it even at the 10% level, the general fund goes down below zero in fiscal year '82. Again, assuming construction begins in summer. The final two graphs of computer displays are a statistical lock at a one year delay. Here with all the revenues included, ^{but} calculated statistically, the effect is shifting out; the property tax revenues, the cents per barrel, the right-of-way leasing revenue. We show that even at a 5% rate of increase in operating expenditures for a one year period in fiscal year '78, the general fund dips below zero but then substantially increases. So, we have, in fact, a U-shaped curve. The last chart increases operating expenditures by 5% to 7% and keeps everything else the same. Here we see a negative general fund in fiscal year '78 but it begins to stabilize at that level, so even though there are a number of minus signs, you see a stable pace, an equilibrium solution, but below zero when we have a property tax with a one year delay of the pipeline.

(Mr. Fink) there is one thing that I don't understand. That is that the current use expenditures and general cash balances. I don't.... what is that?

The numbers displayed for the general fund at the end of the year are the unencumbered balances in the general fund. By unencumbered I mean after all the bills issued against the general fund have been paid, the net balance. Any particular expenditure level, be it either not written bills or not bills vendored, we have, or, excuse me, they have not billed us, and if they have we have not yet paid them, which all means that there is cash available maybe at all times somewhat greater.

(Mr. Fink) So, you are assuming that 20% of the prior year's money hasn't been spent so the figure really in each case is 20% of the general fund expenditure of the previous year higher than what you should? A cash balance.

Back to what we are doing, Mr. Chairman, is trying to estimate our investment revenue based upon the fact that the cash balance will always be somewhat higher. I would like to point out to this committee, however, that the budget projections the unencumbered balance has great significance. It is not at this time legal to have negative balances in the general fund.

(Mrs. Miller) In other words, we are going to be broke must faster unless we pass this property tax. Is that what it amounts to?

Yes.

(Mrs. Miller) Another question. What effect does this have on oil in-kind that the state is forced to accept? Aren't we, in fact, taxing our own oil? And how is this going to effect the entire situation? Aren't you taking out of one pocket and putting in another, and if so, how much?

That is a very good question although somewhat technical. Let's assume a set of events sometime in the 1980's when the cents per barrel tax is no longer in effect. This is certainly going to be the case. Prior to that time, of course, we will not be taking out of one pocket and putting into another in no terms since the cents per barrel tax will provide us with a revenue tax income. When, in fact, the state the value tax, if it does, then dollar for dollar property tax income to both the state and the local governments would be paid for by a reduction in the state's royalty and severance share of about 20¢ as opposed to 19¢ of every dollar of income we will receive on the property tax. So you might say then that late in the 1980's the net millage rate would not be 20 mills but perhaps 18 mills.

(Mrs. Miller) What bearing would this have on other pipelines. I note Mr. Havelock made reference to other large pipelines which may be built in the state. _____ Ziegler referred to such possibilities as construction of a natural gasline. Now

what happens since they go under the interstate. What happens ^{about} gas and the fine there. As well as taxation on that you have to have an entirely different set of circumstances. If we are going to apply this to all of our pipelines aren't you going to have an entirely different situation there?

The answer to your question is that if we would wish to look ahead and see the construction of a gas pipeline either somewhat parallel to past line or....then we are talking about an event that may be completed no earlier than 1980 so in terms of revenue effect, it would not be immediate here, even in long-term ten-year projections which I have shown you except for, perhaps, the last few years.

In addition, as a revenue generator, there would of course be additional revenue regarding other pipelines. I would like to point out that the construction of a gas line is in the forecast at this time, the hardware, the machinery needed to construct a gas line in Alaska could only be available at the completion of the oil pipeline. We still believe that the oil pipeline will be completed by the summer of 1976. Construction of the gasline could considerably begin at that time although we have not yet estimated the period construction of the gasline, including our years of looking at the period of construction of the oil pipeline. It causes us to be rather cautious. It might well be, Mr. Chairman, that the legislature at some point might wish to consider adjusting the mill levy in order to reflect the other sources of revenue which might be available in time. That certainly is an option available to the legislature.

(Mr. Huber) Mr. Havelock, is it just a continuing state of discussion . Isn't it also pretty nearly impossible at this time to put together just how the gasline would fit in because of the differences in operation, taxation and liquidation of its rates by the federal government. You couldn't look and say that at a given time the gasline is equal against the pipeline so you could look for traces much related to this.

I think, Mr. Huber, that in terms of projection it isn't possible for us to talk about rational projection there without adding hypothetical situations. I don't think at this point, Mr. Chairman, whether we are going to have a few miles of gasline going to the Canadian border or trans-Alaska line. That factor alone makes any kind of computation highly speculative. Technology at this point would be applied in the prospect. It is pretty hard to tell at this point, but technically could, no doubt with the tremendous growth in pipelines,

The problem is the immediate to early years that we're addressing, but as always during tax policies, there is a need to adjust tax policies in the later years to accomodate certain standards as they become clear at that time.

(Mr. Huber) Continuing just a little farther I would like to ask you about one part of the question. I just wanted it clear that it wasn't something that you could project. I then take that these two sheets in this section that we see here today don't reflect considerably more accurate information than anything we have in all of our testimony, all of which of last year and this is then as this is what we think we're going to have to live with and any other things that we are getting are much more tenuous, like that gasline, I think, where you would be mixing something that is uncertain in which this, then, is a pretty good certainty.

I think you have summed it up well, Mr. Huber. Its the statement, far more tentative than any other statement previously made on the subject.

(Mr. Huber) I think, Mr. Chairman, that I understand and I agree with the testimony here today

(Mr. Malcolm ?) Would it unrefine oil and unrefine gas?

Well, the bill is drafted to exclude pipelines that might carry refined gas where the different set of economics has to refined gas lines and lines such as the Anchorage-Fairbanks line now existing for products line.

() Is it conceivable that the gas, either the or natural gas from the oil might have to be dried or put through some process prior to transportation in which case it would no longer be unrefined.

I don't believe that it certainly will give it some treatment to extract some of the particles. I don't believe that the nomenclature used would call that refined.

I don't believe that it constitutes change for legislative purposes here. I might add, incidently, that in terms of administration policy we have, refering basicially to your earlier question, that the legislature feels that it wants to broaden the base of tax to cover smaller pipelines, to cover product lines, we have no policy objection to that that we can see of those arguments that can be raised regarding the effect of disturbing economic consumption when certain lines are obstructed and so on instead of assumption that economic management prevails. We don't believe any such set of assumptions exist in regard to this pipeline which is now contemplated for construction. So, it is the impact from tax that can be readily taken into account, for instance their tarif or what have you and the manner which they sign their ownership and so on can take into consideration the legislative measures adopted. But, there is always the option of broadening the base which you would want carefully to do. This is certainly from the legal point of view in this classification.

() Well, the only thing that bothers me is that in the definition of unrefined in oil and gas you wouldn't want anything happening on the North Slope

but it is part of the natural process for preparing a product for shipment that would take it out of the category of unrefined oil and gas.

A pertinent point, Mr. _____, I will ask Mr. Garnet to research that and give the committee any language that appears appropriate.

(_____) I was wondering how

a 20% share. We are talking about the inactive property tax in terms

Mr. Chairman, the basis for the sharing is to share back to the local jurisdictions. An amount which would be equal to the local mill levy applied to 20% of the value of the pipeline passing through that local jurisdiction. Now the idea here is to provide to the local government some reimbursement for the impact of the line through the local government, but as Mr. Havelock pointed out earlier, not to allow the particular area to let's say become enriched at the expense of other areas by having the state subsidize the entire amount. So, 20% is a number that is arrived at as a means of sharing back to the local government at some extent and not the entire value of the line.

(_____) What I was wondering is is the administration

I don't believe that in our type there is any number

(_____) Also, I'm not sure of the wording, what happens if the local

jurisdiction changes its bill? Would this still just operate by the year that the bill went into effect?

in answering that question, the way it is written, it is true that if the jurisdiction raises its overall mill levy on all property tax in this jurisdiction, there would be a corresponding increase in the amount that it would get back under this 20% revision here. We think there are certain limitations that the local jurisdictions from taking such action, partly because there is a third bill

And, in the normal course of things the raise in the local mill levy would apply to the rest of the property in the jurisdiction of the pipeline. So, normally, you would have the political restraint furnished by that interconnection.

() Also, what happens what all these new boroughs start forming around the pipeline? That's not taken care of in any of these projections. I mean, are they going to be excluded?

The way the bill is set up now any new borough that is formed along the pipeline borough get the benefit of this return, section 120, the same as the existing boroughs. It is also true that the payments to those new boroughs would have some effect on the net available to the state. It is very difficult at this time to predict exactly how that go but it could be very soon. It has been suggested that there is at least a possibility, a legal possibility, that say whole new boroughs would be in the position to take advantage of this provision by in effect exempting most other types of property besides the pipeline and raising the mill levy way up, thus increasing the revenue one would get out of this provision. Now, to guard against this possibility, it has been suggested that a maximum limit be put in on the borough mill rate that might apply. Such as , for instance, instead of saying that the borough gets an amount of money equal it's mill levy on 20%, say it gets an amount attributed to it mill levy up to a maximum of 20 mills

or something of that sort.

() The possibility, of course, that exists now in the absence of this bill is not something that is

There is a figure given not too long ago. We had asked questions the last time we had about what is the relative taxation, the total taxation, on the oil companies in Alaska as opposed not just to the United States but with foreign countries. There was a figure that was given in the newspaper from a release I assume from the Governor's office, as I remember it was something like 51¢ for Alaska, I guess this is for and I guess it was something like \$3.50 for

We has asked for this information before

We will look into that further. The 50¢ figure would be the accumulation of and that, in fact,

(Mr. F nk) I have a couple questions, one to extend Mr. () question on refined and unrefined. I tend to think that the language you have is a more correct language, but with your reasons, if they decide to refine it on the north slope it would take them a year or two to do it in which case we could correct it. And secondly, if you put anything other than refined in there you will upset the local government taxes in the Anchorage area because they all have some various pipelines of refined fuel and I assume that's why

Now, the other part, the one part that puzzles me under your local share here. I think it ought to be changed. They have a....you don't say that local government will necessarily get that money, of course, cause you can't dedicate it. You say that the legislature may appropriate up to that figure. It seems to me that it makes a lot more sense to allow local government to tax, let's say, up to 20 mills on say 15% of the evaluation, in which case the local government knows they're going to get their money. It isn't up to the legislative here as your bill will make it up to

legislative whim. And, secondly, of course, you can put the tie down on the amount that local government is going to get as opposed to the discussion we just had with the 30 mills. For example, if the government only wanted to tax 15 mills, of course they wouldn't get the full benefit which you're suggesting that the legislature give them. Do you have any particular objection to taking the route of allowing local government to charge the tax, deduct it, from what they pay the state government, and put some limits upon the millage, and, of course, you would limit the percentage of value they can tax. Do you have any objections to that approach because I know it was kicked around last year at the House Finance and they preferred that approach, now you've come back with a little different approach.

Mr. Fink, if I might comment on that, I don't think there is any basic strong objection to approach. I just would mention the reason it was done this way in the first place. The concept was just that it was easier and simpler to have only one entity per state handle this tax and assess it and send

I think you could consider
alot of value. I don't believe there was
strong objection to

(Mr. Huber)

During the last hearing I asked the oil
company witnesses if they had assessed that this was not a discriminatory tax that
had really had really protected us against local government taxation which could
be higher. I'd like to make it sure, my question, assuming that we do not pass
this taxation bill in any manner, and assuming maximum liberty that the local
government entities that are or may be formed in the future along with all of this
pipeline now or would have under current law. I want your assessment or agreement
that this , whichever it might be, that actually
would be liable to more tax under our present local government structure than they

are under this bill.

That is somewhat speculative because terms of their potential liability, it would be, of course, far in excess as provided for in this bill insofar as there are not substantial limits perhaps in terms of letting the sky is essentially the limit as far as that goes. There are.....

(Mr. Huber) I was assuming 30 mills under the borough's present....plus the deficit.

I'm not sure that 30 mills is necessarily a constraint on the whole. I would have to check the statute on that, but I don't recall, frankly, if it did. There is another aspect, of course, that I would speculate as being present in oil company or industry's thinking about it which would be the smaller units of government are traditionally in the long run, regardless of what they may be in the short run, but in the long run they are far more subject to being controlled by the industry, they do not have the resources to match large industrial conglomerates. So, it is possible that they might for some reason think it was in their best interest to deal with those large numbers of small government entities. This is speculation on my part.

(Mr. Huber); Mr. Chairman, I started this line of questioning and I did mention it during the last hearing we had when an oil company was testifying here on a bill. The reason for this is that last year in considering these same items, the Fairbanks , naturally we people from the Fairbanks area looked into this, and we have about 70 miles of the proposed pipeline which will pass through the North Star Borough. We saw that with our maximum taxation in that same class borough being allowed at 30 mills, and that we could do this, that ^{we could do this} with a far greater amount of money that we could extract from that pipeline operation and put into

local government for that 70 miles than we would get from the state, even though the state does have some shared revenue. We also saw the problems. This is why immediately I saw this partly a protective measure to oil companies in this state with their pipeline that would stabilize their taxation rather than making it the of all organized boroughs. And then I wanted to ask one more question on that. Assuming that all of this pipeline was not now covered by organized boroughs and that we didn't pass this, we know that the local boroughs, or the local governments which are formed, would tax, wouldn't it then be possible for the legislature acting as the unorganized borough to do their duty and set and collect that portion of tax to make it fair
Could it be done or is it excluded?

Well, we did have if I understand you correctly, we did have a proposal for a tax on the unorganized borough which was offered to the legislature previously on it, so there is, I believe, that there could be a tax from the unorganized borough for those purposes. In exercising the protection that comes to the industry, , we would want to overlook the protection to the statewide interest of all the people of the state involved. The asset does really create the burdens which come with the pipeline and this development are not all ⁱⁿ a corridor along side the pipeline, particularly in the long run. And, I think that legislative interest, or statewide interest, to assure that the revenue capabilities which are to be distributed on an equitable basis for all the people of the state.

(Mr. Huber) Thank you, Mr. Chairman. I didn't want it to be construed that I oppose this because 70 miles goes through the North Star Borough, but I wanted to bring out that this is a definite shelter for the oil companies to what they could have if we taxed them on a local level.

(Mr. Nalton?) I don't quite understand the last sentence in section one. The tax levied under this chapter does not apply to property subject to taxation by city or borough on January, 1973, or January 1 of each succeeding tax year. If the North Slope Borough had an _____ tax in all the pipes stored up there on the North Slope, _____ in that provision...

The first thing I would like to mention, we talked about this before,

_____ and the question came up whether the

_____ meant that the tax was actually levied or whether the stuff was located in a place where a tax could have been levied. And that question, of course, is relevant to the North Slope Borough situation. Most of them had a potential to levy a tax before January 1, 1973. Now, in the amendments that we proposed to this in our last meeting, we changed to wording to say that the tax levy does not apply to property under which an _____ tax was levied by a city or borough for the year beginning January 1, 1973, and continues to be levied for each succeeding year. Now, I think the effect of this language is simply to make sure that the existing property tax, the base, in any jurisdiction, any existing jurisdiction as of January 1, 1973, is not disturbed. It is in a sense a grandfather clause for existing property tax basis and to make sure that this tax only reaches the new property as declared for the pipeline. I'm not sure if I have answered your particular question, but that's the fact.

(Mr. Nalton?) Right. I didn't have the amendments. Mr. _____ just handed me his copy _____ . That was all that I had.

(Mrs. Miller) All these projections were based upon a 20 mill rate?

That's correct.

(Mrs. Miller) Then your testimony is considerably higher than anything else that

has been levied in this type of a tax. Would you agree with this? We heard testimony that the average is 10 to 12 mills.

That is true as to a status quo. It would be considerably higher if you assume no further formation of borough government. It's significantly higher now than . I think the North Star Borough is, I think, the heaviest taxing jurisdiction.

(?) in the North Star Borough to come off to 28.4.

(Fink?) (?) You were referring to the nationwide one, weren't you? Ya, well, I think that the big hooker there is that it is a 100% evaluation and I think that in the area of 22-2500% evaluation is the norm throughout the United States. Now, you can find them in all different rates depending upon their assessed evaluation. I think that 20 is a good figure across the country on a 100% evaluation. I would disagree with anyone who would say that it is less.

(Mr. Guy?) The question has been asked probably

tax levy about the 30%
figure 030 on page two . I'm looking at particularly the section

and then also looking at the on

and My question is are the

Well, sir, let me see if I can explain what these things mean

The provision over here on page two, section 030, is to remove or replace that provision. It simply states that this 20 mill tax on the property subject to the tax will be the only tax on that property. In other words, in the category that we are talking about, this excludes local taxation. Now, over in the definition section here the _____ is referred to about _____ otherwise taxable property exempted from taxation under home rule, ordinance, or charter, I believe that the effect of that and the intent of that provision is just to make sure that a local government, _____ that the home rule power of a local government to exempt certain types of property is superior to the definition of the class of property we are trying to tax. This is combined, in effect, in these two provisions. This is to make sure that we do tax, that this tax does reach the property that's described without regard to what the borough, in exercise of its home rule powers, might do by way of creating exemption for this property. I don't think it's very likely that a borough would feel moved to create exemption for 48 inch pipelines, but to cover that contingency is the reason its there.

(Mr. Guy) What are you saying, Mr. Chairman? That this is an effort to levy taxes on property as we see them here on this bill on all levels of different government?

Yes, sir. The intent is to reach the property of the class described, where ever located, without regard to exemptions that a local government might porporte to create later.

(Mr. Huber) It is only a matter of clarification. Mr. Knott of the taxability of presently stored pipe in Alaska. I don't know what effects the North ^{Slope} Star Borough, but in the case of the North Star Borough we're taking a vote to _____. There is an exemption on personal property tax but its a relatively simple matter for the North Star Borough to tax personal

belonging to anyone with a one million dollar exemption, for instance, which would be an equitable spread, but which would still catch practicably only the pipeline, and the contractors, which wouldn't make the general public mad at all. They are now presently subject to this and with the revenue crunch they have throughout the state, unless some new form of taxation like this is passed, we are certainly going to have the boroughs reaching in to do it and the state having to come in and

. Mr. Havelock, do you have any conflict with a statement like that?

Well, as far as I'm concerned, that describes the situation as it is likely to develop.

(Mr. Huber) I'm trying to get the oil companies to believe that

Its going to cost a lot of money.

(Mr. Chairman) Any more questions from the rest of the committee?

If there are no more questions, I would like to distribute to you for your benefit copies of proposed regulations which have been promulgated by the Commissioner of Natural Resources which relate to the definition of terms in the right-of-way leasing act and which would, perhaps, be of some assistance to you. in looking at those revenue estimates. I might add the supplement the projections are based upon the assumption that the industry behaved, the owners behaved, in a rational manner. By rational in an economic vent, we mean a manner designed to maximize after tax verdict. In speculating about where they get their projections, some of these things have been quoted in the papers, one suggestion was offered that they actually anticipated being able to charge a tariff much higher than is allowed. We indicate that a high tariff would be, in our view, irrational

economic behavior. This does not mean, of course, that it is inconceivable that owners or of them might engage in economically irrational behavior, under the definition I have described. In doing so they would be pursuing other projections other than maximizing income of which perhaps the most obvious is the reduction.

(Mr. Huber) Certainly that is also part of our meeting

I certainly think it is a legislative responsibility, sir, yes. I might note that your anti-trust bill has been

(Mr. Huber)

I would have to consult with some of the

(Mr. Huber) Maybe you could send down to the Committee the idea for the high amount of priority on this and . I would kind of like to hear it.

I think they are both high priority bills, Mr. Huber.

(CHAIRMAN) If there are no more questions, the meeting is adjourned.

STATEMENT OF E. W. WELLBAUM

ON HOUSE BILL NO. 59

BEFORE THE RESOURCES COMMITTEE

ALASKA HOUSE OF REPRESENTATIVES

TUESDAY, JANUARY 30, 1973

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, MY NAME IS EDGAR W. WELLBAUM. I AM VICE PRESIDENT OF ALYESKA PIPELINE SERVICE COMPANY. I APPEAR TODAY TO TESTIFY ON HOUSE BILL NO. 59, AN ACT WHICH WOULD IMPOSE A STATE TAX ON PROPERTY USED IN TRANSPORTATION OF UNREFINED OIL AND GAS.

AT THE OUTSET, I WOULD EMPHASIZE TO THE UTMOST OF MY ABILITY THAT THE PETROLEUM INDUSTRY GENERALLY, AND THE MANAGEMENT OF ALYESKA PIPELINE SERVICE COMPANY PARTICULARLY, ARE IN FULL ACCORD WITH THE PROPOSITION THAT THE PETROLEUM INDUSTRY AND ALL OF ITS COMPONENTS SHOULD BEAR A FAIR SHARE OF THE TAX BURDEN OF ALL STATES IN WHICH THEY DO BUSINESS. WE ARE CORPORATE CITIZENS AND EXPECT TO SHARE OUR RESPONSIBILITIES WITH ALL OTHER CITIZENS. I THINK THE RECORD OF OUR INDUSTRY IN ALL OF THE OIL AND GAS PRODUCING STATES CONFIRMS THIS. ITS RECORD IN ALASKA IS NO EXCEPTION. WE RECOGNIZE THE AD VALOREM TAX AS A PROPER EXERCISE OF THE TAXING POWER OF A STATE. HOWEVER, WE ARE CONVINCED THAT IT IS NOT ONLY UNFAIR BUT OF MOST DUBIOUS WISDOM TO SINGLE OUT ONE INDUSTRY OR ANY COMPONENT OF IT OR ANY ONE SEGMENT OF THE CITIZENRY FOR SPECIAL TAXES WHICH CANNOT BE DISTRIBUTED TO THE BROAD BASE OF PRODUCTIVE ACTIVITY AND ENTERPRISE THROUGHOUT THE STATE. WE FEEL ENACTMENT OF THIS BILL WOULD BE AGAINST THE BEST INTEREST OF THE CITIZENS OF ALASKA INCLUDING THE PRESENT AND POTENTIAL ALASKAN BUSINESS INTERESTS.

THERE CAN BE NO DOUBT THAT HOUSE BILL NO. 59 SINGLES OUT THE TRANS ALASKA PIPELINE FOR THE IMPOSITION OF A VERY SPECIAL AND VERY

BURDENSOME TAX. THE BILL, IF ENACTED, WOULD IMPOSE ANNUALLY A TAX OF 20 MILLS ON "...PROPERTY EMPLOYED IN THE TRANSPORTATION OF UNREFINED OIL AND GAS." EXEMPTED ARE "...PIPELINES LESS THAN 21 INCHES IN DIAMETER." THIS LEAVES ONLY THE TRANS ALASKA PIPELINE TO BEAR THE BURDEN OF THE TAX. WITH SINGULAR IMPATIENCE, THE TAX WOULD BE IMPOSED BEFORE THE PIPELINE EXISTS, FOR IT APPLIES TO PIPELINES "...UNDER CONSTRUCTION OR AWAITING CONSTRUCTION...". FOR SUCH PIPELINES, THE VALUE IS DEFINED AS THE "...COSTS INCURRED OR ACCRUED...AS OF THE ASSESSMENT DATE" WHETHER OR NOT THE PIPELINE IS EVER COMPLETED.

I AM NOT A LAWYER AND I CERTAINLY DON'T MEAN TO RAISE ANY QUESTIONS ABOUT THE LEGALITY OF THE BILL. I AM MORE CONCERNED WITH ITS INTENT. LEGISLATIVE POLICY PROHIBITING THE PRACTICE OF SINGLING OUT ONE INDUSTRY OR ACTIVITY FOR SPECIAL TAXATION FINDS EXPRESSION IN THE CONSTITUTIONS OF EVERY STATE IN THE UNION. IN ALASKA, ARTICLE II, SECTION 19 PROHIBITS THE LEGISLATURE FROM ENACTING LOCAL OR SPECIAL LEGISLATION IF GENERAL LEGISLATION IS APPLICABLE: AND ARTICLE IX, SECTION 2 PROHIBITS TAXATION OF PROPERTY OF NON-RESIDENT CITIZENS AT A RATE HIGHER THAN THAT APPLIED TO PROPERTY OF RESIDENTS. WHILE HOUSE BILL NO. 59 MAY NOT LEGALLY VIOLATE EITHER OF THOSE PROVISIONS OF THE ALASKA CONSTITUTION, IT CLEARLY VIOLATES THEIR EXPRESSED POLICY AND SPIRIT, BOTH OF WHICH FORBID DISCRIMINATORY TAXATION AND OTHER LEGISLATION. NOT ONLY DOES HOUSE BILL NO. 59 SINGLE OUT THE TRANS ALASKA PIPELINE FOR SPECIAL TAXATION, IT TAXES AT ONE OF THE HIGHEST RATES IN THE STATE. THIS IS QUITE APPARENT FROM SECTION 43.56.120 OF THE BILL, WHICH WOULD AUTHORIZE ANNUAL APPROPRIATIONS TO THE TAXING JURISDICTIONS THROUGH WHICH THE PIPELINE WILL BE BUILT, BUT IT WILL RETURN TO SUCH A JURISDICTION ONLY THE AMOUNT OF TAX WHICH WOULD HAVE BEEN RAISED BY APPLICATION OF THE MILL LEVY OF THAT JURISDICTION FOR ANY

YEAR (COMPARED WITH THE 20 MILL LEVY IN THE BILL) TO ONLY 20% OF THE VALUE OF THAT PORTION OF THE PIPELINE LOCATED THEREIN. THUS, WHILE THE TAX UNDER HOUSE BILL NO. 59 WOULD BE IN LIEU OF ALL OTHER AD VALOREM TAXES, IT IS CLEARLY FAR IN EXCESS OF ANY OTHER AD VALOREM TAX IMPOSED BY ANY OTHER TAXING JURISDICTION THROUGH WHICH THE PIPELINE WILL BE BUILT.

THE STATE OF ALASKA MUST HAVE A WELL-PLANNED, FAR-SIGHTED, COMPREHENSIVE AND STABLE TAX BASE IF IT IS TO SATISFY ITS LONG-TERM FINANCIAL REQUIREMENTS, ACCOMMODATE THE INCREASING DEMANDS OF AN EXPANDING CITIZENRY AND MAINTAIN AN ATTRACTIVE CLIMATE FOR EXISTING AND NEW POTENTIAL BUSINESS INVESTMENT. INSTEAD OF WORKING TOWARD SUCH BENEFICIAL OBJECTIVES, HOUSE BILL NO. 59 WOULD ADD TO THE DEGENERATING POSTURE OF STATE TAXATION. AS YOU KNOW, SPECIAL LEGISLATION ENACTED TO APPLY SOLELY TO THE TRANS ALASKA PIPELINE HAS RESULTED IN COMPLEX LITIGATION WHICH MAY DELAY CONSTRUCTION AND POSTPONE PRODUCTION OF OIL AND GAS FROM PRUDHOE BAY ALONG WITH THE FLOW OF REVENUE AND ECONOMIC BENEFITS WHICH RESULT THEREFROM.

ENACTMENT OF HOUSE BILL NO. 59 WOULD BE ALL THE MORE REGRETABLE BECAUSE IT IS BY NO MEANS NECESSARY TO ANY EFFORT TO LEVY A FAIR AND PROPORTIONATE TAX ON THE PROPERTY AND ACTIVITY WHICH WILL BE INVOLVED IN THE TRANS ALASKA PIPELINE SYSTEM. THE RECORD CLEARLY SHOWS THAT THERE HAS NEVER BEEN THE SLIGHTEST OBJECTION FROM THE PETROLEUM INDUSTRY OR THE OWNERS OF THE TRANS ALASKA PIPELINE SYSTEM TO LEGISLATION WHICH APPLIES EQUALLY TO ALL CITIZENS AND TAXPAYERS IN THE TAXING JURISDICTION.

THERE IS NO DOUBT WHATEVER THAT IF AND WHEN OIL PRODUCTION STARTS AT PRUDHOE BAY AND MOVES THROUGH THE TRANS ALASKA PIPELINE SYSTEM TO VALDEZ, THE OIL INDUSTRY WILL PROVIDE THE LARGEST SHARE OF STATE REVENUE

THROUGH ROYALTY AND TAXES. IT IS THUS UNFAIR AND UNNECESSARY TO CREATE SPECIAL AND DISCRIMINATORY TAXES ON THE TRANS ALASKA PIPELINE SYSTEM. SINCE IT WILL BE ONE OF THE MAJOR ECONOMIC UNITS IN ALASKA AND WILL EMPLOY PROPERTY OF GREAT VALUE, IT IS INEVITABLE THAT ANY FAIR, EQUITABLE AND FAR-SIGHTED TAX PROGRAM WILL DERIVE A MAJOR PORTION OF ITS REVENUE FROM THE PIPELINE.

IN CONCLUSION, I WOULD EMPHASIZE THAT WE REQUEST NO EXEMPTIONS WHATEVER FROM ANY TAXATION, BUT ONLY THAT WE BE SPARED THE BURDEN OF SPECIAL AND DISCRIMINATORY TAXATION. WE BELIEVE THAT THIS BILL IS DISCRIMINATORY, UNFAIR, PREMATURE AND THAT IT SHOULD NOT BE CONSIDERED FURTHER AT THIS TIME. WE BELIEVE THAT ANY TAXATION OF THE TRANS ALASKA PIPELINE SYSTEM SHOULD BE CONSIDERED AS PART OF AND COORDINATED WITH A LONG-TERM TAX PROGRAM OF THE STATE AS IT APPLIES NOT ONLY TO TRANSPORTATION OF OIL AND GAS BUT TO OTHER ECONOMIC ACTIVITY AS WELL. WHEN CONSIDERED IN THAT CONTEXT, WE ARE CONFIDENT THAT THIS AND FUTURE ALASKAN LEGISLATURES WILL TAX THE TRANS ALASKA PIPELINE SYSTEM AS AN INTEGRAL PART OF A COORDINATED PROGRAM OF TAXATION WHICH WILL NOT SINGLE OUT ANY ACTIVITY OR INDUSTRY TO BEAR A DISCRIMINATORY OR DISPROPORTIONATE SHARE OF THE TAX BURDEN OF THE STATE.

March 19, 1973,

Rep. Selwyn Carroll and
Rep. Larry Peterson
Pouch V
Juneau, Alaska 99801

Dear Sirs:

H. B. No. 245.

As per your request when you were in Fairbanks I give you the following analysis of the above Bill:

1. At page -1-, lines 13 and 14, it states that the tax (and exemptions) shall apply to real and tangible personal property "employed in the production and transportation" of unrefined oil and gas.

This means that no tax could be levied by any city, borough or school district on any oil producing equipment in their districts except as outlined in H. B. 245. This is not, therefore, a pipe line bill but includes all producing leases. By way of example the Kenai Borough is now receiving some taxes from oil producing equipment (which for a long time were tax free) but this would be abolished under the above provision. This would also abolish the taxing of such equipment by school districts, cities or other government subdivisions. The impact is on these communities to provide schools, utilities and other facilities for the development of the oil fields but the taxing authority would be taken away by this bill.

2. Lines 25 through 29 again states that the only tax local government can levy on such "taxable real and tangible personal property employed in the production and transportation of unrefined oil and gas." is a levy of not more than 20 mills on not more than 25 per cent of the full and true value of such taxable property. This again exempts from local taxation 75% of the taxable property and limits such taxation on the remaining 25% by local government to 20 mills.

Under Sec, 43.56.020 headed "EXEMPTIONS" Page 2, Lines 5 through 7 and Under Sec. 43.56.030, headed "IN PLACE OF OTHER TAXES" it provides:

"the following property is exempt from the tax levied under this chapter: (1) producing oil or gas leases; (2) oil and gas produced in the state upon which gross production taxes are paid under AS 43.55."

This means that all producing oil and gas leases---and probably all equipment located thereon---would be exempt from taxation under the bill. It further means that all oil in storage in tanks on tank farms and leases, and all oil in pipe lines would be exempt from taxation. This is a very sizeable amount of personal property. I do not have the exact figures but the oil in the TransAlaska Pipe Line (or Alyeska) would amount to many millions of dollars worth of oil. In addition that in storage would also be large. These products would ordinarily be taxable as personal property and are taxed in most other oil producing states as such. This bill would exempt this property from taxes and Lines 8 through 11 provide that they would be in lieu of all ad valorem taxes on property subject to tax under this bill or any that are "hereafter imposed by the state, or by a city or borough". (Lines 10 and 11, Page 2).

Sec. 43.56.040, headed "ASSESSMENT" provides that the assessment of such property shall be

"carried out by the state assessor".

and that

"the state assessor shall function in place of the local assessor, and the State Assessment Review Board shall function in the place of the assembly or council sitting as a board of equalization."

Sec. 43.56.050 (lines 19, 20, 21, then provides

"The Governor shall appoint at least five qualified persons to serve at his pleasure as the State Assessment Review Board."

In ordinary language this means that no local government would have any authority over the assessment of such taxes but that the same would be done by State Officers who were

appointed by the Governor and who could be fired by him when he desired. These officers would have the power to reduce the assessed valuation of such property to a minimum and the property would not be assessed by the same officers who assessed other property in such districts, boroughs and cities. These offices would be sought by the owners of such oil producing and transportation equipment and they would try to stack them with their friends in order to reduce their taxes as much as possible. This could mean the loss of millions and millions of dollars in taxation to the boroughs, cities, school districts and state.

Line 1, page 3, provides that such taxes, including that due the boroughs, school districts and cities,

"is payable in full to the Department of Revenue".

This is followed at lines 26 and 27, page 3, with

"The revenue from the tax levied under this chapter shall be deposited in the general fund."

This means that even the 25% that was reserved for local government would be paid into the General Fund of the State of Alaska---and that if it was not first used for some other purpose that it would be returned to such local governments IF (1) A bill was introduced in each legislative session requesting the payment of the same to such local bodies, and, (2) Such bill was passed by such future legislative bodies and was not vetoed by the Governor.

Section 43.56.120 Then provides that the "State Assessor and the Department of Revenue may adopt regulations as appropriate to carry out their respective duties under this chapter."

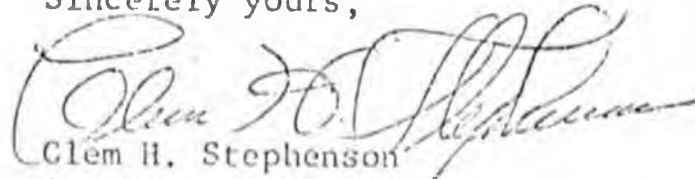
This gives away some more legislative power to a bureau. The same bureau that is appointed to assess, and collect, such taxes. This delegating of law-making power to those who are to enforce the laws and who are not elected by the people gives to the enforcer the power to make the laws---when the enforcers will be appointed under strong political pressure and may not represent the interests of the people of the State of Alaska.

Sec. 43.56.120, provides that "taxable real and tangible personal property" means machinery, appliances and equipment used in the operation of wells producing oil or gas and tank farms, tanker terminals, gathering and transmission lines, and related facilities." (Lines 6 through 13. This means that there will be no local taxation of any oil producing or transporting equipment in the State of Alaska---although the schools, utilities, housing, libraries, streets, police protection, and all other local government functions that are needed for the employees of the owners of such equipment, and the owners themselves, will have to be furnished mainly at the expense of the other taxpayers in the communities in which such oil production is located and through which such pipelines pass.

It is my opinion that if this bill is passed in this form that the State of Alaska should abolish all forms of local government and provide that every facility in the State of Alaska should be furnished by the State.

Hoping these comments may be helpful to you, I am

Sincerely yours,


Clem H. Stephenson
1555 Westwood Way
Fairbanks, Alaska 99701