

HB

1 2 4

STEVE COWPER  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

April 19, 1987

The Honorable Tim Kelly  
Chair, Senate Labor and  
Commerce Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Senator Kelly:

As you are aware, HB 124 is in your committee. I feel this legislation is quite important to the proper operation and functioning of my administration.

I would appreciate your committee review and action on this legislation and your personal assistance to move this bill out of your committee. As we both know, this legislative session will soon be drawing to a close.

If you have any questions please contact my legislative office and either George or Bob will see that the appropriate people promptly respond to you.

Thank you for your continued support.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written over the typed name and title.

Steve Cowper  
Governor

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

February 10, 1987

The Honorable Ben Grussendorf  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the oil and gas conservation tax.

The primary purpose of the bill is to adjust the existing oil and gas conservation tax in AS 43.57.010 to provide enough additional revenue to the state to cover the amount of the operating costs of the Alaska Oil and Gas Conservation Commission ("commission"). An oil and gas conservation tax is included in most of the conservation Acts of the 30 oil and gas producing states. The tax would be in the amount of four mills per barrel of crude oil and 50,000 cubic feet of natural gas. Proceeds from the tax would be placed in the general fund. The commission has calculated that approximately \$2,680,000 would be collected annually if this bill were enacted.

The concept of a tax related to oil and gas conservation activities is not new to the state. Section 15, ch. 40, SLA 1955, which created the commission, provided funding by levying a tax on the gross amount of oil and gas produced. The tax rate was then five mills per barrel of oil and per 50,000 cubic feet of natural gas. After statehood, sec. 15 became AS 31.05.130 and 31.05.140.

The original tax was repealed effective July 1, 1970, by ch. 247, SLA 1970.

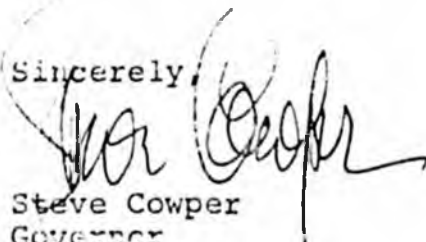
Effective July 1, 1974, AS 43.57.010, the Oil and Gas Regulation and Conservation Tax, was enacted. Sec. 1, ch. 5, FSSLA 1973. This tax is still in effect. It assesses a tax of 1.25 mills (one-eighth of one cent) per barrel of oil, a 75 percent reduction from the amount of the conservation tax levied up to July 1, 1970. The amount of revenue generated

Hon. Ben Grussendorf

Page 2

by this tax is not even equal to the operating costs of the commission, and may be perceived by the oil and gas industry as little more than a "nuisance tax." As described earlier, the tax in AS 43.57.010 would be adjusted to include a tax on production of natural gas, and to increase the amount of the tax.

Sincerely



Steve Cowper  
Governor



STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

REQUEST \_\_\_\_\_  
Revision Date: 2/17/87  
Title: Relating to the Oil and Gas Conservation Tax  
Sponsor: Rules Committee  
Requestor: Governor

Bill Version: HB 124  
Publish Date: HOUSE 3/25/87  
Agency Affected: Revenue  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	408	1561	1501	1391	1341	1241

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary

This bill would increase the conservation tax on oil production from 1.25 mills per barrel to 4.0 mills per barrel. At the same time a conservation tax would be levied on natural gas production at the rate of 4.0 mills for every 50,000 cubic feet. This proposed change would increase State revenues by approximately \$1.5 million per year. This analysis assumes an effective date of March 1, 1987.

Prepared By: Charles L. Logsdon *Charles L. Logsdon* Phone: 276-5364  
Division: Research/Revenue Date: 2/17/87

Approved by Commissioner: Hugh Malone *Hugh Malone* Date: \_\_\_\_\_  
Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

TESTIMONY BEFORE SENATE LABOR & COMMERCE COMMITTEE  
IN SUPPORT OF H.B. 124

MONDAY, MAY 4, 1987

Mr. Chairman - members of the Senate Labor and Commerce Committee, thank you for the opportunity to testify before you and your committee in support of H.B. 124. For the record, I am Chat Chatterton, Chairman of the Oil and Gas Conservation Commission.

Mr. Chairman, with your indulgence I will briefly summarize the legislative history of Alaska's oil and gas conservation tax. I believe this history will serve to bring into perspective the purpose of H.B. 124.

Chapter 40 of the 1955 Session Laws of Alaska established the Oil and Gas Conservation Commission. It also enacted a tax of 5 mils for each bbl of oil and for each 50,000 cu ft of gas produced and sold.

Further, the act established a special fund known as the Oil and Gas Conservation Fund. Monies collected under provisions of the act were credited to the Fund and appropriated to cover the operating expenses of the Commission.

The Oil and Gas Conservation Fund and the 5 mil tax rate remained unchanged until repealed effective July 1, 1970 by Section 2 Chapter 247 SLA 1970. This action eliminated not only the tax levy, but also a grandfathered dedicated fund.

Chapter 5 of the 1973 1st Special Session Laws enacted AS 43.57 the Oil and Gas Regulatory and Conservation Tax and effective January 1, 1974 levied a tax of 1/8 of a cent (1.25 mil) per barrel of oil produced. Proceeds are paid into the general fund.

Mr. Chairman, House Bill 124 proposes to amend AS 43.57 to generate revenue for the purpose of offsetting funds appropriated for operation of the commission. Unamended, receipts from the Oil and Gas Regulatory and Conservation tax will be approximately \$750,000 for FY'88. Passage of H.B. 124 will net approximately a \$1 1/2 million increase in revenue for about \$2 1/4 MM total.

Mr. Chairman, we realize that the 4 mil rate proposed generates revenue in excess of the agency's FY'88 \$1,445,500 appropriation request. There will be those who suggest the 4 mil rate should be reduced to the level that generates no more than 1 1/2 million for FY'88.

Mr. Chairman, during your deliberations in this regard, may I offer three points for your consideration.

- 1st. The revenue generated by the tax is a function of the volume of oil and gas produced in Alaska - not its value. Alaska production is forecast by most to be on the decline following FY'88. With a declining production scenario, the tax revenue will also decline.

2nd. The agency's workload does not decline as a function of production. In fact the workload may even increase.

3rd. Our FY'88 appropriation request is austere. In better times we would be asking for money to support our own independent reservoir management investigations. Without appropriate funding for these types of investigations, the regulator is hard pressed to challenge the reservoir management interpretations submitted by the regulated.

Mr. Chairman, there will be those within the industry we regulate who will bridle at the sight of H.B. 124. That is to be expected, for it is their job to pontificate in opposition to any tax increase however modest.

Mr. Chairman, other than this expected reaction, it will be surprising if the industry we regulate truly objects to H.B. 124. Once given a reasonable degree of certainty that the tax increase is necessary to assure the continued funding of a viable Oil and Gas Conservation Commission, I believe there will be silent acceptance of H.B. 124 by the industry.

Mr. Chairman, the industry successfully lobbied this body in 1984 to enact legislation which broadened the responsibility and regulatory scope of the Commission for the purpose of avoiding

regulation of Class II underground injection by a Federal Agency. The commission resisted seeking this program authority voluntarily because of its cost which requires a 25% General Fund, 75% Federal grant match.

Mr. Chairman, despite the cost of these added responsibilities, the agency's annual appropriation has steadily declined from \$2514.3 for FY '83 to \$1613.9 for FY '87. And the revised FY'88 request is for \$1445.5. This is a 42 1/2 percent or \$1068.8 funding decrease in five short years. Until the agency is able to demonstrate to you that it is paying its own way, one may expect a continuing declining trend in agency appropriations and further erosion of agency effectiveness. I do not believe that those we regulate will want this to happen.

Mr. Chairman, hopefully with your favorable consideration and with the passage of H.B. 124, the erosion of commission effectiveness due to a shortage of money will be arrested. That completes my direct Mr. Chairman; I shall try to answer any questions you or your committee may have.

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: HR 124

REQUEST \_\_\_\_\_

Publish Date: \_\_\_\_\_

Revision Date: 3/26/87

Agency Affected: \_\_\_\_\_

Title: Relating to the Oil and Gas Conservation Tax

BRU: \_\_\_\_\_

Sponsor: Rules Committee

Components: \_\_\_\_\_

Requestor: Governor

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	415	1694	1704	1628	1492	1449

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page if necessary  
 This bill would increase the conservation tax on oil production from 1.25 mills per barrel to 4.0 mills per barrel. At the same time a conservation tax would be levied on natural gas production at the rate of 4.0 mills for every 50,000 cubic feet. This proposed change would increase State revenues by approximately \$1.5 million per year. This analysis assumes an effective date of March 1, 1987. The numbers are based on our March 1987 forecast.

Prepared By: Charles Logsdon Phone: 276-5364  
 Division: Research/Revenue Date: 3/26/87

Approved by Commissioner: Hugh Malone Date: 3/27/87  
 Agency: Department of Revenue

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary