S B
284

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER SB 284

SPONSOR Eliason

BILL TITLE Oil & gas properties production tax

DATE REFERRED 4-17-89

HEARING SCHEDULED 4-24-89

FISCAL NOTE PREPARED

SPONSOR CONTACTED Mary 4916

INTERESTED PARTIES CONTACTED

✓ Gregg Erickson, OMB 3568
✓ Sheila Helgath, SAC 3114
✓ Cliff Groh / Hugh Malone
✓ Jim Kelly 2047

OTHER

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE 4-20-89
IN ACCORDANCE WITH UNIFORM RULE 23

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

FURTHER O&G
RES
FIN

DATE TURNED INTO OFFICE 4-24-89

4/17/89
Mr. President:

STATE AFFAIRS Committee considered SB 284

certain revenue from mineral sources and to the oil and gas properties production tax; efd

and recommended:

[ ] replace with CS ________ [] same title
[] new title

[ ] attached amendment(s) and

[ ] ________ letter of intent adopted

[ ] do pass

[ ] do not pass

[ ] no recommendation

[X] individual recommendations

[ ] further referral to ________

FISCAL NOTE(S) attached [ ] zero [X] positive fiscal impact
[ ] appropriation no FN attached [ ] Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

Al Adams

OTHER RECOMMENDATIONS

Jan Faiks No Rec
Tim Kelly No Rec

Pat Pourchot no rec
Chair signature and recommendation

[ ] Committee backup attached

S284.TXT
4/24/89

SB 284 RELATING TO REVENUE FROM MINERAL SOURCES AND TO THE OIL AND GAS PROPERTIES PRODUCTION TAX

TO TESTIFY/ANSWER QUESTIONS

SEN. ELIASON, SPONSOR (MARY)

HUGH MALONE/CLIFF GROH, DEPT. REVENUE

GREGG ERICKSON, O.M.B.

SHEILA HELGATH, SENATE ADVISORY COUNCIL

F.Y.I.

ELF FORMULA IN BILL IS SAME AS SENATE JUDICIARY PROPOSAL (i.e. THE HOUSE-PASSED VERSION BUT WITHOUT RETROACTIVITY).

EFFECT ON PERMANENT FUND: INCREASE CORPUS, SO INCREASE EARNINGS, SO INCREASE DIVIDENDS, SO REQUIRE MORE INFLATION PROOFING.

THE INCREASE FROM 25% TO 43% IS "WHAT WORKS". AS CALCULATED BY SENATE ADVISORY COUNCIL, THE REVENUES GENERATED BY THE PERCENTAGE INCREASE WILL APPROXIMATE THE REVENUES GENERATED BY THE ELF. NUMBERS ARE IN PACKET -- IS ACTUALLY A LITTLE "OVERFLOW" TO THE GENERAL FUND EACH YEAR.

Impact on PF

Alaska Permanent Fund Corporation
P.O. Box 4-1000 Juneau, Alaska 99802-4100
(907) 465-2047 Telecopy (907) 586-2057

M E M O R A N D U M

DATE: April 19, 1989

TO: Senator Dick Eliason

FROM: Jim Kelly JK
Research & Liaison Officer

SUBJECT: **Analysis of Senate Bill No. 284**

Attached are two financial projections and three charts prepared by the Alaska Permanent Fund Corporation at your request.

Financial Projection #1: This is the status quo case as of March 31, 1989. It provides the benchmark against which to compare and contrast any changes to current law.

Financial Projection #2: This projection depicts the impact of enactment of Senate Bill No. 284. It is the Corporation's understanding that this bill would increase from 25% to 43% the rate of contribution to the Permanent Fund of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state on or after July 1, 1989, from mineral leases issued on or before December 1, 1979.

In other words, the dedicated revenues which have been flowing to the Permanent Fund at the 25% contribution rate would be increased to the 43% level, and those revenues which have been flowing at the 50% contribution rate would continue unchanged.

Commentary on the Charts: In all cases, the Department of Revenue Spring 1989 low-case forecast is used.

Chart #3 compares the contribution of dedicated revenues to the Permanent Fund each year from 1990 - 2005 under both the status quo and SB 284.

Chart #4 again compares those contributions, but also depicts them in relation to the total amount of state oil revenues projected to be received each year from 1990 - 2005.

Chart #5 compares the cumulative total contributions under the status quo and SB 284 with the cumulative total state oil revenues projected to be received during that same period.

The following analysis concerns itself with certain impacts on the Permanent Fund (all figures except per capita dividends are in millions of dollars):

1) How would this proposal affect the growth of Fund principal?

Fund Principal Balance

	Status Quo	Projection #2 (SB 284)
June 30, 1989:	9,135	9,135
June 30, 2000:	18,229	19,542
June 30, 2005:	23,390	25,214

2) How would it affect the level of Fund net income produced in the future?

Annual Net Income

	Status Quo	Projection #2
Fiscal 1989:	838	838
Fiscal 2000:	1,634	1,749
Fiscal 2005:	2,100	2,263

3) How would it affect total dividend distributions (in millions) and the amounts of annual per capita dividends?

Dividend Distributions

	Status Quo	Projection #2
June 30, 1989:	459	459
June 30, 2000:	772	821
June 30, 2005:	1,001	1,077

Per Capita Dividend Payments

	Status Quo	Projection #2
Calendar 1989:	$ 840.00	$ 840.00
Calendar 2000:	1,097.00	1,170.00
Calendar 2005:	1,294.00	1,397.00

4) How would it affect inflation-proofing transfers?

Inflation-Proofing Transfers

	Status Quo	Projection #2
June 30, 1989:	358	358
June 30, 2000:	862	928
June 30, 2005:	1,099	1,186

5) How would it affect amounts of dedicated state revenues?

Dedicated State Revenues

	Status Quo	Projection #2
June 30, 1989:	192	192
June 30, 2000:	67	114
June 30, 2005:	18	31

Compared to the status quo, the most noticeable effects of adoption of the changes depicted in this proposal would be as follows:

Fund principal would be $1.3 billion larger in 2000 and $1.8 billion larger in 2005.

Net income would be $115 million larger in 2000 and $163 million larger in 2005.

The dividend distribution would be $49 million larger in 2000 and $76 million larger in 2005.

Per capita dividends would be $73 larger in 2000 and $103 larger in 2005.

The inflation-proofing transfer would be $66 million larger in 2000 and $87 million larger in 2005.

The dedicated state revenues would be $47 million larger in 2000 and $13 million larger in 2005.

For Your Information: These projections are based on a certain set of basic assumptions; the numbers shown on these sheets would change if different assumptions were used. The assumptions used in the preparation of each projection are listed at the bottom of each projection sheet, and explained herein.

It is the Corporation's policy to use conservative assumptions wherever possible. Thus, the Fund's long-term rate of return is projected to average 3% per year after inflation; long-term inflation is projected to average 6% per year; and the assumptions for numbers of future dividend recipients and amounts of future dedicated State oil revenues are taken from the Department of Revenue's most recent "low case" forecast.

PLEASE NOTE THAT THE CORPORATION NEITHER SUPPORTS NOR OPPOSES ANY PROPOSED CHANGES TO THE CURRENT USE OF FUND EARNINGS, EXCEPT AS THEY MAY RELATE TO THE PROPER EXERCISE OF THE TRUSTEES' FIDUCIARY RESPONSIBILITIES AS REQUIRED UNDER THE PRUDENT INVESTOR RULE.

#1
Status Quo

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of March 31, 1989

	PRINCIPAL						INCOME							
								Distributions				Reserves		
FY	FY Begin Balance	Appro-priations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall	Net Income	Dividends	Per Capita Dividends*	Inflation Proofing	General Fund	Add (Delete)	FY End Balance	FY
78			54		54		2				1			78
79	54		84		139		8				7			79
80	139		344		483		32	12			12			80
81	483	900	385		1,769		150	28			28	59	59	81
82	1,769	800	401		2,969		368	71	$1,000.00		71	185	244	82
83	2,969	400	421	231	4,021		471	108	$386.15	231	110	110	354	83
84	4,021	300	366	151	4,838		530	175	$331.29	151		203	557	84
85	4,838	300	368	235	5,741		658	217	$404.00	235		206	763	85
[illegible]	5,741		323	216	6,281		1,021	303	$556.26	216		501	1,264	86
[illegible]	6,281	1,264	171	148	7,864		1,069	391	$708.19	148		529	529	87
88	7,864		418	303	8,585		789	424	$826.93	303		62	591	88
89	8,585		192	358	9,135		838	459	$840.00	358		20	611	89
90	9,135		172	465	9,772		819	477	$817.00	465		(123)	489	90
91	9,772		149	595	10,516		974	473	$794.00	595		(94)	395	91
92	10,516		141	639	11,296		1,035	470	$774.00	639		(75)	320	92
93	11,296		134	686	12,116		1,101	501	$809.00	686		(85)	235	93
94	12,116		128	735	12,979		1,170	535	$850.00	735		(109)	135	94
95	12,979		114	786	13,878		1,241	580	$904.00	786		(124)	11	95
96	13,878		104	709	14,692	130	1,314	615	$942.00	709		(11)		96
97	14,692		98	737	15,526	151	1,389	653	$981.00	737				97
98	15,526		95	777	16,397	161	1,468	691	$1,019.00	777				98
99	16,397		85	818	17,300	171	1,549	731	$1,058.00	818				99
0	17,300		67	862	18,229	181	1,634	772	$1,097.00	862				0
1	18,229		56	906	19,190	191	1,721	815	$1,136.00	906				1
2	19,190		51	952	20,193	203	1,811	859	$1,176.00	952				2
3	20,193		17	999	21,209	214	1,904	905	$1,215.00	999				3
4	21,209		17	1,047	22,274	226	2,000	952	$1,255.00	1,047				4
5	22,274		18	1,099	23,390	239	2,100	1,001	$1,294.00	1,099				5
Cumulative Totals:		3,964	4,973	14,453	23,390	1,865	29,164	13,218	$21,990.82	14,453	229			

[illegible]MPTIONS:

4.08% Inflation Rate FY 89	5.00% Inflation Rate FY 90	6.00% Inflation Rate FY 91-05
9.21% Rate of Return FY 89	8.00% Rate of Return FY 90	9.00% Rate of Return FY 91-05

* SOURCE: Dedicated Revenues and Population Projections From Alaska Department of Revenue Spring 1989 Low-Case Revenue Forecast Except 1989 Estimate of 530,000 Eligible PFD Applicants By DOR Permanent Fund Dividend Division

4/21/89
STATUS QUO

#2
SB 284

Alaska Permanent Fund Corporation

FINANCIAL PROJECTIONS
(in millions)

as of March 31, 1989

	PRINCIPAL						INCOME							
								Distributions				Reserves		
FY	FY Begin Balance	Appro-priations	Dedicated State Revenues*	Inflation Proofing	FY End Balance	Inflation Proofing Shortfall	Net Income	Dividends	Per Capita Dividends**	Inflation Proofing	General Fund	Add (Delete)	FY End Balance	FY
78			54		54		2				1			78
79	54		84		139		8				7			79
80	139		344		483		32	12			12			80
81	483	900	385		1,769		150	28			28	59	59	81
82	1,769	800	401		2,969		368	71	$1,000.00		71	185	244	82
83	2,969	400	421	231	4,021		471	108	$386.15	231	110	110	354	83
84	4,021	300	366	151	4,838		530	175	$331.29	151		203	557	84
85	4,838	300	368	235	5,741		658	217	$404.00	235		206	763	85
86	5,741		323	216	6,281		1,021	303	$556.26	216		501	1,264	86
[illegible]	6,281	1,264	171	148	7,864		1,069	391	$708.19	148		529	529	87
88	7,864		418	303	8,585		789	424	$826.93	303		62	591	88
89	8,585		192	358	9,135		838	459	$840.00	358		20	611	89
90	9,135		290	471	9,896		824	477	$818.00	471		(124)	487	90
91	9,896		252	609	10,758		991	475	$798.00	609		(93)	394	91
92	10,758		238	660	11,655		1,062	476	$783.00	660		(73)	321	92
93	11,655		227	713	12,594		1,139	510	$824.00	713		(83)	237	93
94	12,594		217	769	13,580		1,220	550	$873.00	769		(99)	139	94
95	13,580		193	826	14,600		1,302	600	$936.00	826		(124)	14	95
96	14,600		177	758	15,534	128	1,386	641	$983.00	758		(14)		96
97	15,534		165	787	16,486	155	1,472	684	$1,030.00	787				97
98	16,486		160	833	17,478	166	1,561	729	$1,077.00	833				98
99	17,478		143	880	18,501	178	1,654	774	$1,123.00	880				99
0	18,501		114	928	19,542	189	1,749	821	$1,170.00	928				0
1	19,542		96	977	20,614	202	1,846	870	$1,216.00	977				1
2	20,614		88	1,027	21,730	215	1,947	920	$1,261.00	1,027				2
3	21,730		29	1,079	22,837	227	2,049	971	$1,307.00	1,079				3
4	22,837		30	1,130	23,997	242	2,154	1,023	$1,352.00	1,130				4
5	23,997		31	1,186	25,214	256	2,263	1,077	$1,397.00	1,186				5
Cumulative Totals:		3,964	5,975	15,275	25,214	1,957	30,553	13,786	$22,000.82	15,275	229			

ASSUMPTIONS:

4.08% Inflation Rate FY 89
9.21% Rate of Return FY 89

5.00% Inflation Rate FY 90
8.00% Rate of Return FY 90

6.00% Inflation Rate FY 91-05
9.00% Rate of Return FY 91-05

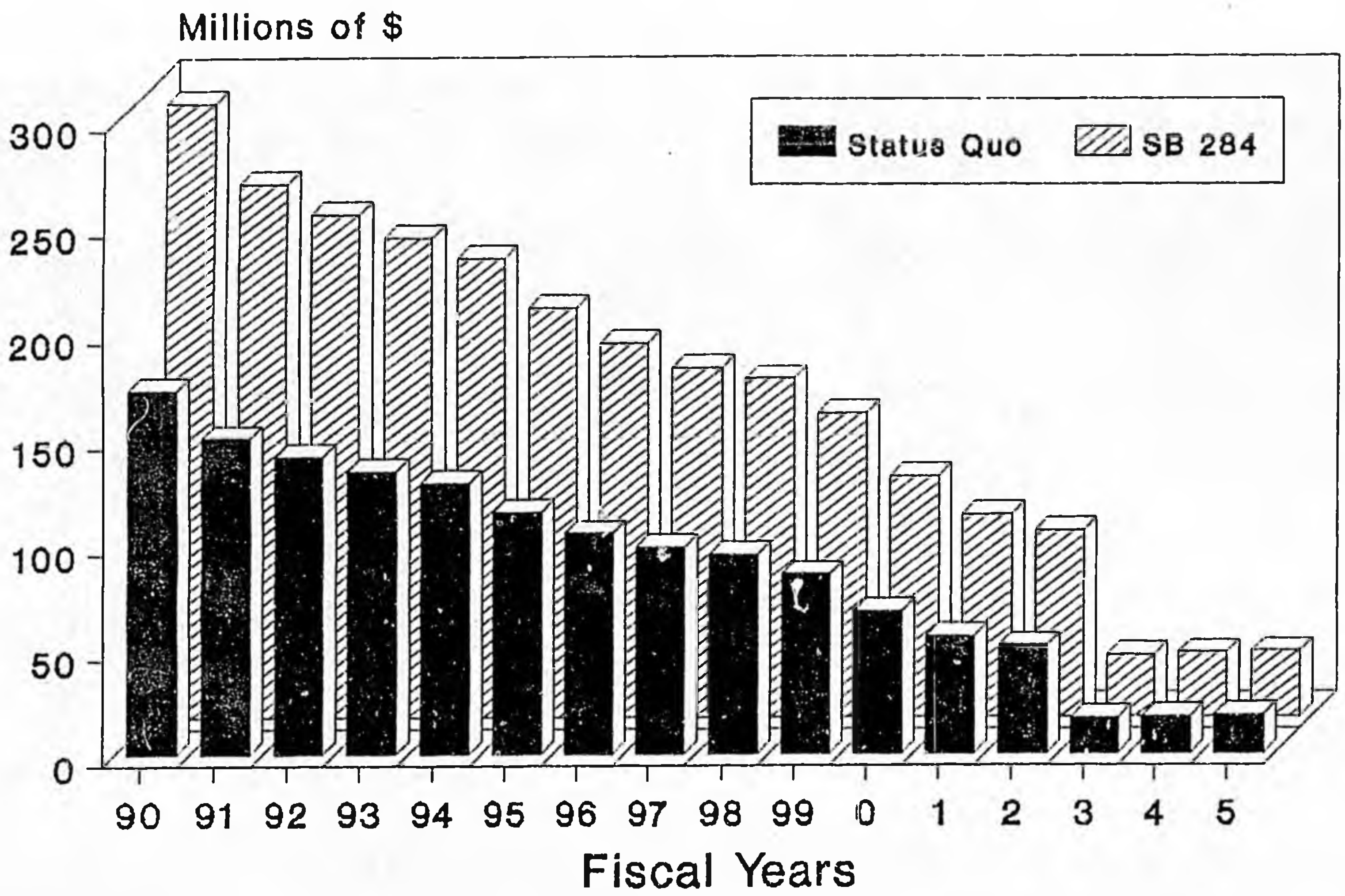
* SOURCE: Dedicated Revenues and Population Projections From Alaska Department of Revenue Spring 1989 Low-Case Revenue Forecast Except 1989 Estimate of 530,000 Eligible PFD Applicants By DOR Permanent Fund Dividend Division

4/21/89
SENATE BILL NO. 284

#3

DEDICATED OIL REVENUES TO FUND

A Comparison of Status Quo and SB 284

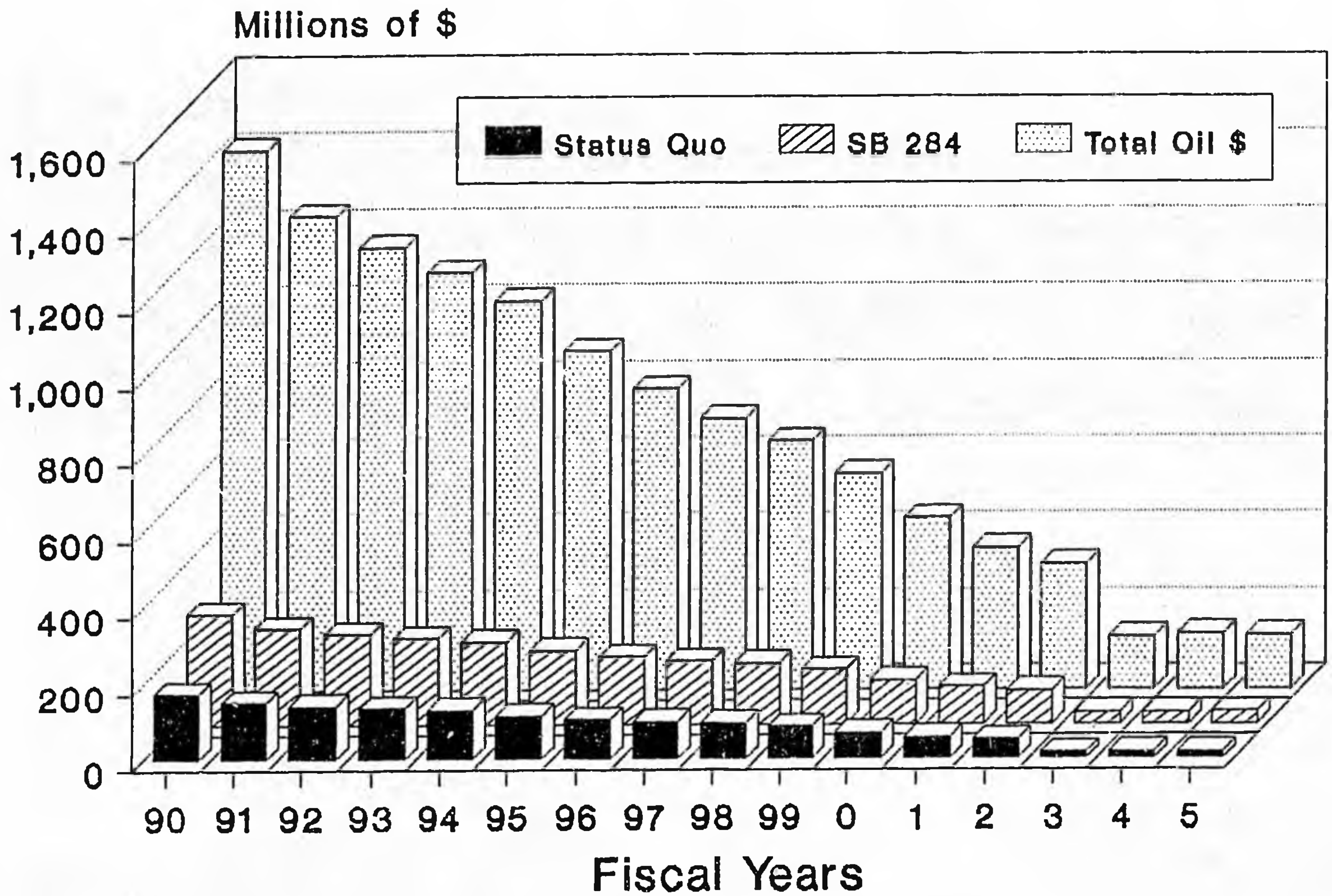


Source: APFC 4/21/89

#3

#:4

DEDICATED OIL REVENUES TO FUND COMPARED TO TOTAL STATE OIL $



Source: APFC 4/21/89

#4

#5

DEDICATED OIL REVENUES TO FUND AS A % OF TOTAL STATE OIL $ 1990 - 2005

(in millions)

Total State Oi[illegible] ies 1990-2005: $11.1 Billion

Source: APFC 4/21/89

#5

CASE 1

HOW THE ELF IS CALCULATED

ELF = (1 - [PEL/TP])exp(460*WD/PEL)

PEL = (Production at the Economic Limit) =
(300 barrels per day)*
(average number of operating wells during the month)*
(number of days of production for the month).

EXAMPLE

PEL = 300 barrels * 541 wells * 30 days = 4,869,000 barrels per month

TP = (Total Production for the field for the month) =
(average number of operating wells during the month)*
(number of days of production for the month)*
(average daily production per well).

EXAMPLE

TP = 541 wells * 30 days * 2477 barrels per well = 40,201,710 barrels per month

WD = (Well Days) =
(number of operating wells during the month)*
(number of days each well operates)

EXAMPLE

WD = 541 wells * 30 days = 16,230 well days

CALCULATION EXAMPLE

ELF = (1 - [PEL / TP])exp(460* WD / PEL)

ELF = (1 - [4,869,000/40,201,710])exp(460*16,230/4,869,000)

ELF = (1 - .1211) exp (1.533)

ELF = (.8789) exp (1.533)

ELF = .82

low case	addit tax from HB 118	perm fund contr	royalties	percent
1990	124	166	650	44.62
1991	117	144	563	46.36
1992	131	135	530	50.19
1993	135	129	506	52.17
1994	132	123	484	52.69
1995	120	110	430	53.49
1996	112	100	392	54.08
1997	107	94	366	54.92
1998	104	91	354	55.08
1999	98	81	317	56.47
2000	86	64	249	60.24
2001	75	52	209	60.77
2002	68	48	192	60.42
2003	0	0	0	0
2004	0	0	0	0
2005	0	0	0	0
2006	0	0	0	0
2007	0	0	0	0
2008	0	0	0	0
2009	0	0	0	0
2010	0	0	0	0

midcase	addit A tax from HB 118	perm B fund contr current	C royalties current LAW	percent
1990	171	242	948	43.57
1991	101	241	940	44.89
1992	192	241	939	46.11
1993	207	244	947	47.62
1994	207	236	914	48.47
1995	194	218	844	48.82
1996	180	207	795	48.68
1997	165	200	758	48.15
1998	157	192	728	47.94
1999	148	177	669	48.58
2000	139	162	612	49.18
2001	129	145	564	48.58
2002	110	135	509	48.13
2003	86	119	449	45.66
2004	69	107	406	43.35
2005	45	90	343	39.36
2006	21	83	318	32.70
2007	4	78	298	27.52
2008	-3	73	281	24.91
2009	0	51	174	29.31
2010	0	97	300	32.33

$\frac{A+B}{C}$

APPROX 25%

This column shows actual percent needed in AS37.13.010 (a)(1) to equal forecasted ELF increase plus current 25%

Source: Dept. of Revenue

What perm. fund contribution rates would have to be to have additional contributions equal to the increased revenues under HB 118, for different years and price scenarios.

high case	addit tax from HB 118	perm fund contr	royalties	percent
1990	215	321	1251	42.85
1991	243	341	1330	43.91
1992	263	359	1386	44.88
1993	275	393	1490	44.83
1994	272	417	1573	43.80
1995	254	420	1578	42.71
1996	236	426	1595	41.50
1997	214	433	1615	40.06
1998	170	474	1742	36.97
1999	165	467	1685	37.51
2000	153	464	1663	37.10
2001	153	453	1615	37.52
2002	175	454	1613	39.00
2003	167	443	1570	38.85
2004	158	446	1580	38.23
2005	149	439	1551	37.91
2006	139	461	1635	36.70
2007	126	454	1610	36.02
2008	94	448	1591	34.07
2009	60	437	1565	31.76
2010	11	447	1617	28.32

Alaska State Legislature

Senate Advisory Council

PO Box V
State Capitol
Juneau, Alaska 99811
Phone: (907) 465-3114

Explains 43% ~~what~~

MEMORANDUM

TO: Senator Dick Eliason
Alaska State Senate

FROM: Sheila F. Helgath, PhD
Legislative Analyst

DATE: April 18, 1989

SUBJECT: Contributions to Permanent Fund and General Fund as a Result of SB 284; Research Request #89-100049

Attached are three tables which show the additional amount of money the Permanent Fund and General Fund would receive if ELF were changed under SB 284 and the rate of royalty contributions were changed. The royalty rates has been calculated at 43%. 44%, and 45%.

If you have further questions please call.

attachments:

SB 284
43%

Table 1. The Effect of Changing the Portion of Royalty Contributions to the Permanent Fund Now Set at a 25 Percent Contribution Rate to 43% and ELF Under SB 284 (Millions Dollars/1)

Fiscal Year	ELF SB 284 (A)	PF @ 25% Current Contribution (B)	PF Royalty + ELF (A+B) (C)	Contribution to PF @ 43% (See Footnote/2) (D)	Amount of PF Contribution due to SB 284 (E)	Contribution to General Fund (C-D) (F)
1990	171	232	403	398	167	4
1991	181	230	411	395	165	16
1992	192	228	420	393	164	28
1993	207	229	436	394	165	42
1994	207	221	428	380	159	48
1995	194	204	398	351	147	47
1996	180	190	370	327	137	43
1997	165	179	344	308	129	36
1998	157	172	329	296	124	33
1999	148	157	305	270	113	35
2000	139	144	283	247	103	36
TOTAL	1,941	2,185	4,126	3,759	1,574	367

Source: Alaska Department of Revenue Forecasts for Spring 1989
Prepared by Senate Advisory Council April 18, 1989

/1 Rounding may cause some numbers not to total exactly.

/2 These amounts represent only that portion of the royalty contribution to the Permanent Fund that is currently contributed at a rate of 25%. The royalty rate for other contributions is 50%.

E = increased amt to PF
F = spillover to GF

A+B=C
D-B=E
C-D=F

44%

Table 2. The Effect of Changing the Portion of Royalty Contributions to the Permanent Fund Now Set at a 25 Percent Contribution Rate to 44% and ELF Under SB 284 (Millions Dollars/1)

Fiscal Year	ELF SB 284 (A)	PF @ 25% Current Contribution (B)	PF Royalty + ELF (A+B) (C)	Contribution to PF @ 44% (See Footnote/2) (D)	Amount of PF Contribution due to SB 284 (E)	Contribution to General Fund (C-D) (F)
1990	171	232	403	407	176	-5
1991	181	230	411	404	174	7
1992	192	228	420	402	173	19
1993	207	229	436	403	174	33
1994	207	221	428	389	168	39
1995	194	204	398	359	155	39
1996	180	190	370	335	145	35
1997	165	179	344	316	136	29
1998	157	172	329	302	131	26
1999	148	157	305	276	119	29
2000	139	144	283	253	109	30
TOTAL	1,941	2,185	4,126	3,846	1,661	280

Source: Alaska Department of Revenue Forecasts for Spring 1989
Prepared by Senate Advisory Council April 18, 1989

/1 Rounding may cause some numbers not to total exactly.

/2 These amounts represent only that portion of the royalty contribution to the Permanent Fund that is currently contributed at a rate of 25%. The royalty rate for other contributions is 50%.

45%

Table 3. The Effect of Changing the Portion of Royalty Contributions to the Permanent Fund Now Set at a 25 Percent Contribution Rate to 45% and ELF Under SB 284 (Millions Dollars/1)

Fiscal Year	ELF SB 284 (A)	PF @ 25% Current Contribution (B)	PF Royalty + ELF (A+B) (C)	Contribution to PF @ 45% (See Footnote/2) (D)	Amount of PF Contribution due to SB 284 (E)	Contribution to General Fund (C-D) (F)
1990	171	232	403	417	185	-14
1991	181	230	411	413	184	-3
1992	192	228	420	411	183	9
1993	207	229	436	413	183	24
1994	207	221	428	398	177	30
1995	194	204	398	367	163	31
1996	180	190	370	342	152	28
1997	165	179	344	323	143	22
1998	157	172	329	309	137	20
1999	148	157	305	283	126	22
2000	139	144	283	259	115	24
TOTAL	1,941	2,185	4,126	3,934	1,748	193

Source: Alaska Department of Revenue Forecasts for Spring 1989
Prepared by Senate Advisory Council April 18, 1989

/1 Rounding may cause some numbers not to total exactly.

/2 These amounts represent only that portion of the royalty contribution to the Permanent Fund that is currently contributed at a rate of 25%. The royalty rate for other contributions is 50%.

rec 4-19-89

ALASKA STATE LEGISLATURE - SENATE

SENATOR RICHARD I. ELIASON

LABOR & COMMERCE COMMITTEE, CHAIRMAN
RESOURCES COMMITTEE
RULES COMMITTEE
SPECIAL COMMITTEE ON HIGH SEAS SALMON INTERCEPTION
SELECT COMMITTEE ON LEGISLATIVE ETHICS

P.O. BOX 143
SITKA, ALASKA 99835

P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-4916

FAX (907) 465-4928

M E M O R A N D U M

TO: Sen. Pat Pourchot, Chairman
Senate State Affairs Committee

FROM: Sen. Dick Eliason

DATE: April 18, 1989

RE: SB 284, Relating to certain revenue from mineral sources and to the oil and gas properties production tax.

SB 284 was introduced yesterday and referred to the State Affairs Committee. I would very much appreciate your scheduling hearings on the bill as soon as possible.

SB 284 proposes to amend the Economic Limit Factor of the state's oil severence tax structure just as the Senate CS for HB 118 (the so-called "ELF bill") which was passed recently by the Senate Judiciary committee does. However, the significant difference is that this bill would, in effect, put the extra tax revenue which is generated into the Alaska Permanent Fund. This is accomplished by raising the percentage of oil royalty monies which flow directly into the Permanent Fund each year to approximate the amount of money generated by the amendments to the ELF.

Changes in the ELF are needed in order to accomplish its original goal of providing incentives for development in marginal oil fields. But a number of legislators and members of the public have been reluctant to amend the ELF, and simply allow that extra tax revenue to be spent to maintain a state budget which is inappropriately high. A better use of it would be to set it aside in the Permanent Fund to help ensure that the state will be able to provide basic government services in the future, when our oil revenues drop drastically.

If I can provide back-up information, or if you would like to discuss this legislation, please contact my office.

Thanks for your consideration.

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM April 24, 1989

SUBJECT: Sectional summary of SB 284

TO: Senator Dick Eliason

FROM: Tamara Brandt Cook TBC
Director
Division of Legal Services

Section 1. Currently 25 percent of mineral related income from leases issued on or before December 1, 1979 goes to the principal of the permanent fund. This section changes that so, if payment is received on or after July 1, 1989, 43 percent goes to the principal of the permanent fund.

Section 2. Alters the economic limit factor used for calculating taxes on oil production.

Section 3. Deletes material currently in subsection (d) relating to establishing this production rate as a presumption that is rebuttable by the taxpayer at a formal hearing.

Section 4. Deletes additional material from the current economic limit factor statute.

Section 5. Establishes an effective date tied to the fiscal year.

TBC:kb
wkk4/041

ALASKA CONSTITUTION

Section 6 - Public Purpose.

No tax shall be levied, or appropriation of public money made, or public property transferred, nor shall the public credit be used, except for a public purpose.

Section 7 - Dedicated Funds.

The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in Section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska. [Amendment approved November 2, 1976 - Effective February 21, 1977]

Section 8 - State Debt.

No state debt shall be contracted unless authorized by law for capital improvements or unless authorized by law for housing loans for veterans, and ratified by a majority of the qualified voters of the State who vote on the question. The State may, as provided by law and without ratification, contract debt for the purpose of repelling invasion, suppressing insurrection, defending the State in war, meeting natural disasters, or redeeming indebtedness outstanding at the time this constitution becomes effective. [Amendment approved November 2, 1982 - Effective December 24, 1982]

Section 9 - Local Debts.

No debt shall be contracted by any political subdivision of the State, unless authorized for capital improvements by its governing body and ratified by a majority vote of those qualified to vote and voting on the question.

Section 10 - Interim Borrowing.

The State and its political subdivisions may borrow money to meet appropriations for any fiscal year in anticipation of the collection of the revenues for that year, but all debt so contracted shall be paid before the end of the next fiscal year.

Back-Up for SB284

Section 11 - Exceptions.

The restrictions on contracting debt do not apply to debt incurred through the issuance of revenue bonds by a public enterprise or public corporation of the State or a political subdivision, when the only security is the revenues of the enterprise or corporation. The restrictions do not apply to indebtedness to be paid from special assessments on the benefited property, nor do they apply to refunding indebtedness of the State or its political subdivisions.

Section 12 - Budget.

The governor shall submit to the legislature, at a time fixed by law, a budget for the next fiscal year setting forth all proposed expenditures and anticipated income of all departments, offices, and agencies of the State. The governor, at the same time, shall submit a general appropriation bill to authorize the proposed expenditures, and a bill or bills covering recommendations in the budget for new or additional revenues.

Section 13 - Expenditures.

No money shall be withdrawn from the treasury except in accordance with appropriations made by law. No obligation for the payment of money shall be incurred except as authorized by law. Unobligated appropriations outstanding at the end of the period of time specified by law shall be void.

Section 14 - Legislative Post-Audit.

The legislature shall appoint an auditor to serve at its pleasure. He shall be a certified public accountant. The auditor shall conduct post-audits as prescribed by law and shall report to the legislature and to the governor.

Section 15 - Alaska Permanent Fund.

At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law. [Amendment approved November 2, 1976 - Effective February 21, 1977]

Alaska State Legislature

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman
Sen. Al Adams
Sen. Tim Kelly
Sen. Rick Uehling

P.O. Box V
State Capitol
Juneau, Alaska 99811

907-465-3712

Senate State Affairs Committee

MEMORANDUM

TO: Senate State Affairs Committee Members

FROM: Senator Pat Pourchot, Chairman

RE: April 24 Committee Meeting

DATE: April 24, 1989

Today at 1:30 in the Beltz Room the Senate State Affairs Committee will hear the following bills:

SJR 38, Proposing an amendment to the Constitution of the State of Alaska relating to terms of legislators

SJR 38 would, by Constitutional amendment, limit tenure in the Legislature to eight consecutive years. After serving eight years a person would again be eligible to seek legislative office at the second biennial election. SJR 38 would go before the voters at the next general election and, if approved, would take effect at the 1992 election.

Article III, sec. 5 of the Constitution limits governors to two full successive terms. After the two terms a person is not eligible to seek the governor's office until one full term has intervened.

SB 284, An Act relating to certain revenue from mineral sources and to the oil and gas properties production tax

SB 284 would amend the Economic Limit Factor of the state's oil severance tax structure in the same manner the Senate Judiciary CS for HB 118 (the "ELF bill") would. The additional tax revenue would effectively be deposited in the Permanent Fund through increasing from 25% to 43% the statutory percentage of mineral proceeds deposited in the fund. The increase would apply only to payments received by the state after July 1, 1989 from mineral leases issued prior to December 1, 1979.

It is my intent that the State Affairs Committee focus its attention on SB 284's impact on the Permanent Fund, rather than on the ELF provisions. According to the Permanent Fund Corporation, passage of SB 284 would result in the fund principal being $1.3 billion larger in the year 2000, net income being $115 million larger, per capita dividends being $73 larger, and the inflation proofing transfer being $66 million larger. The projections prepared by the corporation are attached.

SB 295, An Act relating to transfers to the dividend fund

SB 295 would exclude potential revenue from the State v. Amerada Hess case from the Permanent Fund earnings available for distribution as dividends. The fund's legally mandated share of money awarded after trial would be credited to the principal of the fund at the time of receipt. Income earned on that money could not be distributed to the dividend fund.

SB 295 is intended to eliminate certain due process arguments currently advanced by the defendants. Standard Alaska Petroleum, Exxon, and Chevron USA filed suit in federal court to prevent the case from being tried in Alaska on the grounds that any judge and jury would be biased because they have a financial stake (through the Permanent Fund Dividend) in the outcome. The U.S. District Court ruled in the State's favor; the matter is currently under appeal to the Ninth Circuit Court of Appeals.

Trial in the Amerada Hess case is scheduled for April 4, 1990. If the State prevails, we could receive from $400 million to $2.6 billion.

HB 34, An Act establishing durational residency requirements, not to exceed two years, for receipt of the permanent fund dividend and receipt of benefits under the longevity bonus program

HB 34 would increase the durational residency requirement for the permanent fund dividend program from 6 months to 2 years, and for the longevity bonus program from 1 year to 2 years. The bill provides that if a court rules the 2-year requirement invalid, the requirement is one year; if a court rules 1-year invalid, the requirement is the longest duration permitted by law. Current recipients would be "grandfathered in".

HB 34 raises constitutional questions. The Department of Law fiscal note ($30,000) anticipates legal challenge of the bill. The Department of Administration fiscal note indicates annual savings based on fewer persons being eligible.

Recent court rulings on Alaska's residency requirements include the Vest decision which struck down the Longevity Bonus requirement of residency since statehood, the Zobel decision which struck down the Permanent Fund Dividend disbursement mechanism based on number of years of residency, and the Andress decision which upheld the Alaska Student Loan requirement of residency for 2 years.

A summary of current statutory residency provisions is attached.

Introduced: 4/17/89
Referred: State Affairs, Oil and Gas,
Resources and Finance

6-1194E

IN THE SENATE

BY ELIASON, JONES, AND ADAMS

SENATE BILL NO. 284

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to certain revenue from mineral sources and to the oil and gas properties production tax; and providing for an effective date."

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

* Section 1. AS 37.13.010(a) is amended to read:

(a) Under art. IX, sec. 15 of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state before July 1, 1989, from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

(2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980;

(3) 43 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state on or after July 1, 1989, from mineral leases issued on or

Intent: amt. equal to amt ELF would generate → Permanent Fund before December 1, 1979;

(4) any other money appropriated to or otherwise allocated by law to the Alaska permanent fund.

* Sec. 2. AS 43.55.013(b) is repealed and reenacted to read:

(b) The economic limit factor for oil production of a lease or property shall be computed according to the following formula:

(1-[PEL/TP]) exp ([150,000/(TP/Days)] exp [(460 X WD)/PEL])

where: PEL = the monthly production rate at the economic limit;

TP = the total production during the month for which the tax is to be paid;

WD = the total number of well days in the month for which the tax is to be paid;

Days = the number of days in the month for which the tax is to be paid; and

exp = exponent.

* Sec. 3. AS 43.55.013(d) is repealed and reenacted to read:

(d) The monthly production rate at the economic limit for a lease or property is 300 barrels times the number of well days for the lease or property during the month for which the tax is to be paid.

* Sec. 4. AS 43.55.013(e) and 43.55.013(f) are repealed.

* Sec. 5. This Act takes effect July 1, 1989.

JERRYM.TXT

ALASKA STATE LEGISLATURE

Sen. Pat Pourchot, Chairman

Sen. Jan Faiks, Vice Chairman
Sen. Al Adams
Sen. Tim Kelly
Sen. Rick Uehling

P.O. Box V
Juneau, AK 99811

907-465-3712

Senate State Affairs Committee

May 10, 1989

Jerry McCutcheon
121 West 11th
Anchorage, Alaska 99501

Dear Jerry:

Although I'm sure you've seen the adjournment coverage in the newspaper, I wanted to drop you a note in regard to your last public opinion message on SB 284.

SB 284, which would have annually appropriated to the Permanent Fund the revenue generated by the change to the Economic Limit Factor, received Senate State Affairs Committee approval on April 24. And although the bill itself didn't make it any farther than that, there was a commitment made by the Governor and the legislature to appropriate $150 million to the Fund this year if ELF passed, which I'm sure you know it did.

Unfortunately, in an all-too-typical adjournment rush, some things were left on the table. One thing left was the Senate version of the supplemental appropriation bill which contained the $150 million deposit to the Fund. Fortunately, the commitment to make the deposit remains, and I am confident that it will be one of the first orders of business next session.

Jerry, thanks again for being in touch. I agree that tax increases should not be sought solely to increase state revenues, and that ELF is an argument over the State's "fair share" of the oil resource, not over money. It's for this reason that I support a portion of ELF revenues going into the Permanent Fund.

Sincerely,

Pat

Senator Pat Pourchot
Chairman

PP/ss

STATE OF ALASKA
1989 LEGISLATIVE SESSION

Bill Version: SB 284
Publish Date:

FISCAL NOTE

REQUEST:

Revision Date: April 24, 1989
Title: Oil & gas properties production/ permanent fund
Sponsor: Eliason, Jones, Adams
Requestor: Senate State Affairs

Agency Affected: Department of Revenue
BRU: Oil & Gas Audit Division
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	158,000	181,000	192,000	207,000	207,000

FUNDING: (Thousands of Dollars)

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: See attached page for analysis.

Prepared By: Roger Marks
Division: Dept. of Revenue, Oil & Gas Audit Division
Phone: 277-5627
Date: April 24, 1989

Approved by Commissioner: Hugh Malone H Malone
Agency: Department of Revenue
Date: 4/24/89

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Fiscal Analysis of SB 284

This bill modifies the economic limit factor (ELF) formula used in computing the production (severance) tax on oil, and also increases the contribution of proceeds from royalties to the Permanent Fund. This fiscal note addresses the ELF aspect only.

The bill (1) introduces the rate of field production into the exponent of the current ELF formula; (2) repeals the so-called "rounding rule," the provision of current law which states that for any month during the first 10 years of commercial oil production for which the computed ELF of a lease or property exceeds 0.7 the ELF shall be considered to be one; and (3) fixes the production at the economic limit (PEL) at 300 barrels times the number of well days in the month.

This bill's provisions on ELF are identical to those in SCS CS HB 118 (Judiciary) except that this bill has an effective date of July 1, 1989 Both bills lack an explicit date of application, the date on which the legislation first begins applying to oil production. This date of application will determine how much revenue is raised for FY 89 and FY 90.

If the bill applies to oil produced after this date	Revenues Raised for FY 89	Revenues Raised for FY 90
12/31/88	64	171
01/31/89	50	171
02/28/89	37	171
03/31/89	24	171
04/30/89	12	171
05/31/89	0	171
06/30/89	0	158
07/31/89	0	145
08/31/89	0	132

This fiscal note assumes that the date of application is June 30, 1989. The severance tax is paid monthly for the prior month. (For example, the tax for production in April is due in May.) As written, this bill will thus only raise revenues for 11 months in FY 90.

This fiscal note was calculated using the oil price and production assumptions of the Department of Revenue's Spring 1989 Petroleum Production Revenue Forecast mid-case scenario. That forecast was predicated on Alaska North Slope crude prices at the U.S. Gulf of $14.29 a barrel in FY 89 and $16.41 a barrel in FY 90.

Additional revenues for future years in millions of dollars are as follows:

1995	194
1996	180
1997	165
1998	157
1999	148
2000	139
2001	129
2002	110
2003	86
2004	69
2005	45
2006	21
2007	4
2008	(3)
2009	0
2010	0