

HB

96

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 24, 1999

FURTHER REFERRALS:

Date of Committee Action: 4/13/99

The FINANCE Committee considered:

SSHB 96

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 96

DEPOSITS TO THE PERMANENT FUND

"An Act relating to deposits to the Alaska permanent fund; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 96 (FIN) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

AD TS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) _____ fiscal note(s) _____

zero fiscal note(s) _____ zero fiscal note(s) REV, 3/24/99

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Gene Therrien</i> Therrien			X	
<i>Ed Mulder</i> Mulder	X			
<i>Don Bunde</i> Bunde	/			
<i>Lisa Kohring</i> Kohring				X
<i>John Auster</i> Auster	X			
<i>Sp. M. Davies</i> DAVIES			X	
<i>Ben Grassendorf</i> Grassendorf			X	
<i>Carl E. Moses</i> Moses			X	
<i>Tom L. Davis</i> DAVIS	X			
<i>Ed Williams</i> Williams	X			
<i>FOSTER</i> FOSTER			X	

CHAIR'S SIGNATURE

Gene Therrien
 Therrien + Mulder

FISCAL NOTE

Bill Version: SSHB 96

(H) Publish Date: 3/24/99

**STATE OF ALASKA
1999 LEGISLATIVE SESSION**

Revision Date/Time (Note if correction) 3/22/99 Dept. Affected Revenue
 Title Deposits to the Permanent Fund BRU Revenue Operations
 Component _____
 Sponsor Rokeberg
 Requester House State Affairs Component Serial No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year (FY99) cost: 0.0

POSITIONS

Full-time	0	0	0	0	0	0
Part-time						
Temporary						

ANALYSIS: *No fiscal impact.*

Prepared by Peter A. Bushre
 Division Alaska Permanent Fund Corporation
 Approved by Wilson L. Condon
 Commissioner
 Agency Department of Revenue

Phone 465-2301
 Date/Time 03/22/99
 Date 3/22/99

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AMENDMENT 1

OFFERED IN THE HOUSE

TO: SSHB 96

Adopted
AS amended

- 1 Page 1, line 1, following "fund":
- 2 Insert "from mineral lease rentals, royalties, royalty sale proceeds, net profit
- 3 shares under AS 38.05.180(f) and (g), federal mineral revenue sharing payments received
- 4 by the state from mineral leases, and bonuses received by the state from mineral leases
- 5 and limiting deposits from those sources to 25 percent"

Conceptual Amendment
to clarify that The 25%
Refers to the Constitutionally
Mandated Amount under
Article 9, Section 15

FISCAL NOTE

Bill Version: SSHB 96

(H) Publish Date: 3/24/99

**STATE OF ALASKA
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CAPITAL EXPENDITURES						
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Part-time						
Temporary						

ANALYSIS: *No fiscal impact.*

Prepared by Peter A. Bushre Phone 465-2301
 Division Alaska Permanent Fund Corporation Date/Time 03/22/99
 Approved by Wilson L. Condon Date 3/22/99
 Commissioner _____
 Agency Department of Revenue

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STATE OF ALASKA

DEPARTMENT OF REVENUE

March 26, 1999

OFFICE OF THE COMMISSIONER

The Honorable Norman Rokeberg
State Capitol Room 24
Juneau, AK 99801

4/12/99
TONY KNOWLES, GOVERNOR

P.O. BOX 110400
JUNEAU, ALASKA 99811-0400
TELEPHONE: (907) 465-2300
FACSIMILE: (907) 465-2389

MAR 26 1999

Dear Representative Rokeberg,

The other day you asked that I provide you with more detailed information on the royalties and other mineral payments that would be affected by your proposed legislation, SS HB 96. The bill, of course, would reduce to 25% the contribution to the Permanent Fund of those mineral payments that are currently being made at the 50% rate.

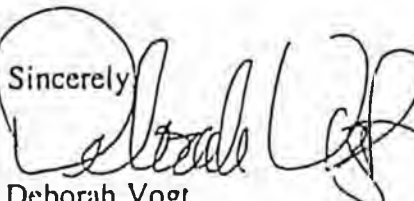
I have been able to put together some information. The first attachment is a break-out of the average contribution rate paid by the various oil fields. As you can see, some fields contribute at 25%, some at the full 50%, and many at a blended rate since the field includes both new and old leases. The second attachment is a price sensitivity matrix for the changed contribution rate.

Finally, I've included a spreadsheet showing this department's projections of the revenue effect of SS HB 96, out to 2020. The price assumptions in this model are as follows. For FY 1999 and 2000, they are the recently updated projections that have been communicated to the legislature. For FY 2001 and subsequent years, the assumptions come from the January 1999 update to the Fall 1998 forecast. As you can see, the second from the bottom line shows the general fund revenue effect of SS HB 96. These estimates include only oil and gas revenue; revenue from coal and other minerals would be added to these numbers. The oil revenue numbers include all oil revenue, including federal revenue sharing payments, and rents. There is no component for bonuses since a number would be too speculative.

The Department of Natural Resources does all the accounting for the mineral contributions to the Permanent Fund. The general fund impact of your proposed legislation will be shown on the fiscal note they prepare for the bill.

You should contact the Department of Natural Resources, Division of Mining and Water Management, directly for information about coal and locatable mineral leases. I spoke with Kerwin Krause there.

I hope this information answers some of your questions. Please let me know if there is anything else I can do.

Sincerely,

Deborah Vogt

cc: Carol Carroll
Kerwin Krause

99-021

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**PERMANENT FUND CONTRIBUTION RATES FOR NORTH SLOPE OIL FIELDS
ALASKA DEPT. OF REVENUE SPRING 1999**

25% Contributing Oil Fields	1999 est Prod. Millions Bbl/Day	Permanent Fund Average Contribution	Greater than 25% Contributing Oil Fields	1999 est Prod. Millions Bbl/Day	Permanent Fund Average Contribution
PRUDHOE	0.632	0.2500	PBU SCHRADER	0.000	0.5000
SAMBUCA	0.000	0.2500	KUPARUK	0.241	0.2533
MIDNIGHT SUN	0.003	0.2500	TARN	0.020	0.4587
PBU SATELLITE	0.000	0.2500	MILNE POINT	0.050	0.3759
WEST SAK	0.002	0.2500	SAG RIVER	0.000	0.3890
TABASCO	0.004	0.2500	ENDICOTT/SAGDELTA	0.043	0.3668
KUP SATELLITE	0.000	0.2500	BADAMI	0.003	0.5000
SCHRADER BLUFF	0.006	0.2500	PT MCINTYRE	0.121	0.3305
EIDER	0.004	0.2500	ALPINE	0.000	0.3250
LISBURNE	0.007	0.2500	NORTH STAR	0.000	0.5000
NIAKUK	0.030	0.2500	LIBERTY	0.000	0.5000
WEST BEACH/NORTH PRUDHOE	0.001	0.2500	KNOWN OFFSHORE	0.000	0.3890
N PRAY STATE	0.000	0.2500	NPRA	0.000	0.5000
KNOWN ONSHORE	0.000	0.2500	ANWR	0.000	0.5000
CRU Satellite	0.000	0.2500			
Total Production (Million Bbl/day)	0.689			0.477	

**PF Factor Sensitivity Matrix for Bringing All Leases to 25% contribution to
Permanent Fund Additional Revenue Into the General Fund
(Millions \$)**

	\$10/Barrel	\$12/Barrel	\$14/Barrel	\$16/Barrel	\$18/Barrel	\$20/Barrel
1999	3.53	4.75	5.97	7.19	8.41	9.63
2000	7.23	9.72	12.21	14.69	17.18	19.67
2001	7.04	9.55	12.06	14.56	17.07	19.58
2002	6.91	9.41	11.91	14.41	16.91	19.41
2003	9.26	12.65	16.03	19.42	22.80	26.19
2004	11.84	16.19	20.55	24.91	29.27	33.63
2005	9.51	13.57	17.62	21.67	25.72	29.78
2006	8.77	12.62	16.47	20.33	24.18	28.03
2007	7.51	10.91	14.31	17.71	21.11	24.51
2008	6.81	10.03	13.24	16.46	19.67	22.89
2009	6.12	9.12	12.12	15.12	18.12	21.12
2010	4.71	7.56	10.41	13.26	16.10	18.95
2011	3.96	6.54	9.13	11.72	14.31	16.90
2012	3.76	6.16	8.57	10.98	13.39	15.80
2013	3.17	5.41	7.64	9.88	12.11	14.34
2014	2.63	4.70	6.78	8.85	10.93	13.00
2015	2.24	4.21	6.18	8.14	10.11	12.08

Based on Department of Revenue Spring 1999 Permanent Fund Factors

OIL REVENUE SENSITIVITY MODEL

Based on the Department of Revenue Fall 1998 Revenue Forecast Models

Caution—Revenue Yield Factors are Fixed

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
OIL PRICE \$/bbl (ANS MARKET)	20.91	21.52	22.15	22.80	23.48	24.18	24.94	25.73	26.55	27.4
AVG. TAPS TARIFFS \$/bbl	3.63	3.52	3.75	4.01	4.21	4.54	4.86	5.20	5.56	5.93
AVG TANKER COST \$/bbl	3.09	3.14	3.19	3.24	3.30	3.35	3.41	3.46	3.52	3.58
AVG. OTHER PIPELINE TARIFFS \$/bbl	0.22	0.22	0.22	0.22	0.21	0.18	0.18	0.18	0.18	0.18
ANS WELLHEAD	13.97	14.64	14.99	15.33	15.76	16.11	16.49	16.88	17.29	17.71
TOTAL ANS PRODUCTION Million bbl/day	0.695	0.647	0.602	0.557	0.531	0.485	0.451	0.420	0.392	0.367
GROSS TAX AND ROYALTY TAKE % (includes Cook Inlet)	19.1	19.2	19.2	19.4	19.5	19.8	19.9	20.1	20.3	20.6
TAX AND ROYALTY TAKE % NET OF PERM FUND	15.2	15.3	15.3	15.5	15.5	15.8	15.9	16.1	16.2	16.4
GROSS TAX AND ROYALTY million \$	676.12	662.93	633.66	604.87	595.18	563.75	541.08	521.09	503.16	488.18
TOTAL PETRO TAX AND ROYALTY UNRESTRICTED million \$	539.78	528.62	504.84	482.39	474.61	450.14	431.86	415.80	401.42	389.38
OTHER UNRESTRICTED REVENUES	598.8603	591.872	584.9013	578.5083	572.9995	567.9556	563.2839	561.9942	558.2382	554.9178
TOTAL UNRESTRICTED REVENUES millions \$	1138.65	1120.50	1089.74	1060.90	1047.61	1018.10	995.15	977.79	959.66	944.30
Adjustment for Net Disposable	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7
TOTAL NET DISPOSABLE REVENUES millions \$	1075.95	1057.80	1027.04	998.20	984.91	955.40	932.45	915.09	896.96	881.60
*adjustments by Gov made for fall forecast										
PERM FUND CONTRIBUTION	136.33	134.30	128.82	122.48	120.58	113.61	109.22	105.30	101.74	98.80
*FY99, deduct \$1.51 million for taking out tobacco settlement \$ and including revenue carry forward										
*FY00, reduces Rev by \$21.9 million, tobacco settlement money adjustments made on line 6, Budget Interactive										
	3543.393	3457.177	3294.351	3117.406	3054.278	2850.89	2717.253	2590.456	2476.782	2372.775
	0.136085	0.137537	0.138851	0.140392	0.141496	0.143541	0.145019	0.146943	0.148858	0.15124
ROYALTY GROSS	482.2044	475.4883	457.4235	437.6603	432.1692	409.2201	394.0525	380.6494	368.6897	358.8595
CURRENT PF FACT	0.712519	0.71293	0.713395	0.71366	0.714129	0.715295	0.715384	0.715595	0.715922	0.717233
CURRENT GF ROYALTY	343.5799	338.9901	326.3236	312.3406	308.6244	292.7132	281.8988	272.3909	263.9532	257.3858
25% PF	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
NEW GF ROYALTY	361.6533	356.6162	343.0676	328.2452	324.1269	306.9151	295.5394	285.4871	276.5173	269.1446
ADDED GF ROYALTY FROM REDUCED PF CONTRIB	18.07336	17.62613	16.74408	15.90458	15.50248	14.20182	13.64061	13.09615	12.56406	11.7588
PERM FUND CONTRIBUTION if HB 96 passes	118.26	116.68	112.07	106.58	105.08	99.40	95.58	92.20	89.18	87.04

JIL REVENUE SENSITIVITY MODEL

"Short Stack"

Based on the Department of Revenue Fall 1998 Revenue Forecast Models

Caution--Revenue Yield Factors are Fixed

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
OIL PRICE \$/bbl (ANS MARKET)	12.00	13.00	15.91	16.24	16.67	17.13	17.61	18.10	18.62	19.16	19.72	20.31
AVG. TAPS TARIFFS \$/bbl	2.73	2.69	2.66	2.65	2.62	2.67	2.79	2.92	3.02	3.17	3.30	3.43
AVG TANKER COST \$/bbl	1.38	1.38	1.59	1.61	1.64	1.63	2.26	2.29	2.33	2.37	2.40	3.04
AVG. OTHER PIPELINE TARIFFS \$/bbl	0.11	0.12	0.15	0.21	0.27	0.27	0.26	0.24	0.23	0.23	0.22	0.22
ANS WELLHEAD	7.78	8.81	11.52	11.77	12.14	12.56	12.31	12.65	13.04	13.40	13.80	13.62
TOTAL ANS PRODUCTION Million bbl/day	1.166	1.047	1.064	1.035	1.049	1.076	1.031	0.979	0.919	0.871	0.824	0.768
GROSS TAX AND ROYALTY TAKE % (includes Cook Inlet)	23.2	22.8	21.8	20.8	20.1	20.0	19.7	19.4	19.4	19.3	19.2	19.1
TAX AND ROYALTY TAKE % NET OF PERM FUND	19.7	19.2	18.2	17.2	16.4	16.3	15.9	15.7	15.6	15.5	15.4	15.2
GROSS TAX AND ROYALTY million \$	768.69	768.81	976.21	925.90	936.65	986.62	910.13	876.98	848.12	823.26	796.12	727.32
TOTAL PETRO TAX AND ROYALTY UNRESTRICTED million \$	652.98	645.77	815.86	763.97	764.55	803.22	738.58	709.84	683.23	660.56	637.28	581.55
OTHER UNRESTRICTED REVENUES	662.1	649.2735	669.8301	683.8884	683.1268	665.1954	656.4635	645.1624	634.9059	625.6007	616.1982	606.8719
TOTAL UNRESTRICTED REVENUES millions \$	1315.06	1295.04	1485.69	1447.86	1447.68	1468.42	1395.05	1355.00	1318.14	1286.16	1253.47	1188.42
Adjustment for Net Disposable	-29.5	-46.8	-62.4	-62.6	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7
TOTAL NET DISPOSABLE REVENUES millions \$	1285.56	1248.24	1423.29	1385.26	1384.98	1405.72	1332.35	1292.30	1255.44	1223.46	1190.77	1125.72
*adjustments by Gov made for fall forecast	*	*										
PERM FUND CONTRIBUTION	115.71	123.04	160.35	161.93	172.09	183.40	171.55	167.14	164.89	162.71	158.84	145.77
*FY99, deduct \$1.51 million for taking out tobacco settlement \$ and including revenue carry forward												
*FY00, reduces Rev by \$21.9 million, tobacco settlement money adjustments made on line 6, Budget Interactive												
	3311.254	3368.633	4472.66	4447.432	4648.976	4933.387	4630.841	4520.549	4372.479	4259.756	4148.988	3617.101
	0.127197	0.13189	0.129082	0.12789	0.126976	0.127759	0.128311	0.129105	0.132087	0.134095	0.134929	0.134731
ROYALTY GROSS	421.1804	444.2912	577.3393	568.7817	590.3104	630.2829	594.187	583.6262	577.5473	571.2136	559.8181	514.2825
CURRENT PF FACT	0.738731	0.725327	0.724968	0.72414	0.715185	0.706568	0.708036	0.708239	0.711628	0.712298	0.713022	0.712288
CURRENT GF ROYALTY	311.1392	322.2565	418.5525	411.8774	422.1812	445.3376	420.7058	413.3471	410.9991	406.8743	399.1624	366.3171
25% PF	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
NEW GF ROYALTY	315.8853	333.2184	433.0045	426.5863	442.7328	472.7121	445.6402	437.7197	433.1605	428.4102	419.8636	385.7119
ADDED GF ROYALTY FROM REDUCED PF CONTRIB	4.746118	10.96192	14.452	14.70887	20.55164	27.37454	24.93446	24.37256	22.16137	21.53588	20.70112	19.3948
PERM FUND CONTRIBUTION if HB 96 passes	110.96	112.08	145.90	147.22	151.54	156.03	146.61	142.77	142.73	141.17	138.14	126.30



Alaska Permanent Fund Corporation

P.O. Box 25500 Juneau, Alaska 99802-5500

(907) 465-2047

MEMORANDUM

DATE: March 22, 1999

TO: Representative Norman Rokeberg

FROM: Jim Kelly, ^{JK} Director of Communications

SUBJECT: **Impact of HB 96 on Per Capita Dividends**

You have asked about the impact of your proposed bill, House Bill 96, on per capita dividends over the next five years, both compared to the status quo and assuming passage of a one-time \$4 billion transfer from the Fund's earnings reserve account to the CBRF per the Governor's proposal. Based on our financial analysis, the impact would be less than \$10 difference over the five years in either case.

cc: Executive Director
Board of Trustees
Governor's Legislative Liaison

ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE ASSIGNMENTS:

LABOR & COMMERCE COMMITTEE, CHAIRMAN
JUDICIARY COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON UTILITY RESTRUCTURING, MEMBER
SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT &
TOURISM, MEMBER



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ALASKA STATE CAPITOL
JUNEAU, AK 99801-1182
PHONE: (907) 465-4968
FAX: (907) 465-2040

e-mail: Representative_Norman_Rokeberg@legis.state.ak.us

Representative Norman Rokeberg

SPONSOR STATEMENT SSHB96

"An Act Relating to Deposits to the Alaska Permanent Fund"

This legislation returns the percentage of all mineral lease royalties and bonuses deposited into the Permanent Fund to the constitutionally mandated 25 percent.

SSHB96 proposes changes to a statute—not the Constitution. The Constitution states that "at least twenty-five percent 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." In 1980, the Legislature realized excess revenues existed (GF revenues for FY81 totaled \$4.07 billion) and wisely decided to raise the amount of royalties and bonuses deposited into the Permanent Fund to 50 percent.

It is time for the State of Alaska to redirect these deposits to the General Fund. Passage of this bill would generate an extra \$9.5 million in FY 00, and an extra \$16 million (average) per year—plus bonus revenues—over the next fifteen years.

As the Prudhoe Bay and Kuparuk fields—which currently contribute to the General Fund at a 75 percent rate—diminish, we need to replace them with the new, smaller satellite fields contributing at the same rate.

While we can and should make budget cuts, we would be foolish to ignore this source of General Fund revenue in solving our budget problem, as well as, planning for the potential future development of Alaska's resources. Prudent fiscal management requires this statutory change. SSHB96 is a small step in the right direction.

I urge you to support this legislation.

FISCAL NOTE

Bill Version: SSHB 96

(H) Publish Date: 3/24/99

**STATE OF ALASKA
1999 LEGISLATIVE SESSION**

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TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year (FY99) cost: 0.0

POSITIONS

Full-time	0	0	0	0	0	0
Part-time						
Temporary						

ANALYSIS: *No fiscal impact.*

Prepared by Peter A. Bushra Phone 465-2301
 Division Alaska Permanent Fund Corporation Date/Time 03/22/99
 Approved by Wilson L. Condon Date 3/22/99
 Commissioner _____
 Agency Department of Revenue

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ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE ASSIGNMENTS.

LABOR & COMMERCE COMMITTEE, CHAIRMAN
JUDICIARY COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON UTILITY RESTRUCTURING, MEMBER
SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT &
TOURISM, MEMBER

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Representative Norman Rokeberg

SECTIONAL ANALYSIS SSHB96

Deposits to the Alaska Permanent Fund

Prepared by Representative Rokeberg (via Legal Services)

Section 1: Provides that the permanent fund consists of 25 percent of the state receipts from itemized mineral sources and of money appropriated to the fund or allocated by law or former law to the fund.

Section 2: This Act takes effect immediately.

Legislative Research Report 99.052

February 16, 1999

Estimated Impact on the General Fund if Permanent Fund Contributions Were at 25 Percent of Mineral Income

Legislative Research Services
Division of Legal and Research Services
Legislative Affairs Agency
Alaska State Legislature

Prepared for Representative Norman Rokeberg
Prepared by Maria Gladziszewski, Manager



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PERMANENT FUND CONTRIBUTIONS AT 25 PERCENT OF MINERAL INCOME

Alaska Statute 37.13.010 specifies that 25 percent of income from mineral leases issued before December 1, 1979 must be deposited into the permanent fund.¹ For leases issued after December 1, 1979, required permanent fund contributions are 50 percent of income. You asked us to calculate the effect on the permanent fund and general fund if required deposits to the permanent fund were 25 percent of income from all mineral leases.²

Previously, we sent you a table showing actual contributions to the permanent fund from mineral revenues for the past eight years (1990-1998) as well as projected revenues from oil and gas royalties through 2013 (Legislative Research Report 99.010, December 1998). You asked for details--such as assumptions regarding oil prices and production--on how the projections were calculated. The attached table provides some of those details. Charles Logsdon, petroleum economist at the Alaska Department of Revenue, provided the predictions using data from the department's revised fall 1998 forecast. As you can see from Table 1, if all deposits to the permanent fund were at 25 percent of income, the Department's revised fall 1998 forecasting model estimates additional deposits to the General Fund averaging \$16 million annually over the next 15 years.

The Department of Revenue estimates contributions based on production forecasts on a field by field basis. As the table indicates, the price of oil used to calculate the contributions presented in Table 1 was \$11.58 for the remainder of 1999 and \$12.50 for 2000.³ When preparing the revised projections for this report, Mr. Logsdon discovered that he failed to subtract from the original numbers (presented in Research Report 99.010) the oil and gas royalties that go to the school fund. The revenue impact on the general fund, therefore, is less than estimated previously.

It should be noted that neither bonuses from mineral sales nor the small amount of mineral rent deposited into the state treasury, primarily from coal leases, is included in the department's forecasting model. Future revenue from currently undiscovered sources of oil are also not included in these projections. The additional general fund revenues predicted in Table 1, therefore, underestimate deposits to the extent that mineral rents, bonuses, and revenues from as yet undiscovered fields are not included in the figures; additional annual deposits to the general fund would likely exceed the figures presented in Table 1.

I hope you find this information useful. Please do not hesitate to contact us if you have questions or need additional information.

¹ This report discusses what happens to state mineral revenues once they are collected. Changes to AS 37.13.010 affect not the amount of revenue collected overall, but how much revenue is deposited into the permanent fund as opposed to the general fund. Deposits to the permanent fund under AS 37.13.010 derive mostly from petroleum (primarily oil royalties) but they also include some revenue from other minerals (mostly coal).

² The majority of mineral income deposited into the permanent fund comes from leases issued before December 1, 1979, and is, therefore, already deposited at the 25 percent rate. Alaska Statute 37.13.010 specifies that only the following incomes from leases issued after December 1, 1979 are subject to 50 percent deposits: mineral lease rentals, royalties, royalty sale proceeds, net profit shares, and federal mineral revenue sharing payments. Bonuses received by the state from mineral leases issued after February 15, 1980 are also subject to 50 percent deposits.

³ The oil prices assumed on the spreadsheet can be changed to roughly estimate the revenue impact of changing the 50 percent permanent fund contributing leases to 25 percent as oil prices vary. Production changes, though, depend on what oil fields are assumed to change from the baseline and would have to be re-estimated by the Department of Revenue.

**Projected Contributions to the Permanent and General Funds from Mineral Royalties
If All Leases Contributed to the Permanent Fund at 25 Percent of Royalties**

Fiscal Year	A	B	C	D	E	F	G	H	I	J	K	L	M	
	ANS West Coast Price	TAPS, Marine, Other Allowable Costs	Royalty Wellhead Price	Daily Production	Annual Value of Production for Royalties	Average Royalty Rate	North Slope Current Gross Royalties	Current Average Permanent Fund Contribution Rate	Current		If Permanent Fund Contributions @ 25%			
									Contribution to the Permanent Fund from North Slope Oil	Contribution to the General Fund from North Slope Oil	Contribution to the Permanent Fund from North Slope Oil	Contribution to the General Fund from North Slope Oil	Estimated Gain to the General Fund	
									Millions of Dollars					Millions of Dollars
Dollars		Millions of Barrels/Day		Millions of Dollars		Percent	Millions of Dollars		Percent	Millions of Dollars				
		A-B		C'D*365		E*F				G*H	G-I	G*25%	G-K	L-J
1999	\$11.58	\$5.05	\$6.53	1.177	\$2,805.3	13%	\$356.9	27%	\$94.7	\$262.2	\$89.2	\$267.7	\$5.5	
2000	\$12.50	\$4.80	\$7.70	1.117	\$3,147.9	13%	\$399.6	27%	\$109.4	\$290.1	\$99.9	\$299.7	\$9.5	
2001	\$15.90	\$4.99	\$10.91	1.146	\$4,564.2	12%	\$567.9	27%	\$155.8	\$412.1	\$142.0	\$425.9	\$13.8	
2002	\$16.23	\$5.06	\$11.18	1.159	\$4,726.2	12%	\$583.9	28%	\$164.3	\$419.6	\$146.0	\$438.0	\$18.3	
2003	\$16.66	\$5.11	\$11.55	1.175	\$4,952.7	12%	\$608.8	29%	\$175.6	\$433.2	\$152.2	\$456.6	\$23.4	
2004	\$17.13	\$5.17	\$11.96	1.139	\$4,985.1	12%	\$614.9	29%	\$177.0	\$437.9	\$153.7	\$461.2	\$23.3	
2005	\$17.61	\$5.93	\$11.68	1.060	\$4,519.7	12%	\$558.8	29%	\$159.7	\$399.1	\$139.7	\$419.1	\$20.0	
2006	\$18.10	\$6.10	\$12.00	0.987	\$4,324.4	12%	\$536.2	28%	\$152.0	\$384.2	\$134.0	\$402.1	\$18.0	
2007	\$18.62	\$6.25	\$12.37	0.925	\$4,175.7	13%	\$528.8	28%	\$149.5	\$379.3	\$132.2	\$396.6	\$17.3	
2008	\$19.16	\$6.45	\$12.71	0.859	\$3,995.0	13%	\$510.4	28%	\$143.9	\$366.4	\$127.6	\$382.8	\$16.4	
2009	\$19.72	\$6.63	\$13.09	0.799	\$3,817.6	13%	\$489.3	28%	\$137.6	\$351.7	\$122.3	\$367.0	\$15.3	
2010	\$20.31	\$7.42	\$12.89	0.746	\$3,508.4	13%	\$445.3	28%	\$125.1	\$320.2	\$111.3	\$334.0	\$13.8	
2011	\$20.91	\$7.69	\$13.22	0.695	\$3,355.1	13%	\$427.1	28%	\$119.9	\$307.2	\$106.8	\$320.3	\$13.1	
2012	\$21.52	\$7.64	\$13.88	0.647	\$3,274.6	13%	\$419.4	28%	\$117.5	\$301.9	\$104.8	\$314.5	\$12.7	
2013	\$22.15	\$7.94	\$14.21	0.602	\$3,125.2	13%	\$400.1	28%	\$112.1	\$288.1	\$100.1	\$300.2	\$12.0	

NOTES: Alaska Statute 37.13.010 specifies that 50 percent of income from mineral leases issued after December 1, 1979, must be deposited into the permanent fund. For leases issued before December 1, 1979, required permanent fund contributions are 25 percent of income. This table projects future deposits into both funds if contributions to the Permanent Fund from all leases were at 25 percent of income. Projections are based on the Alaska Department of Revenue's revised fall 1998 revenue forecast. Figures include oil and gas royalties only (i.e., mineral rents and bonuses are not included).

SOURCE: Alaska Department of Revenue, Oil & Gas Audit Division (Charles Logsdon).

Legislative Research Report 99.089

March 24, 1999

Additions to the Permanent Fund as a Result of AS 37.13.010

MAR 24 1999

Legislative Research Services
Division of Legal and Research Services
Legislative Affairs Agency
Alaska State Legislature

Prepared for Representative Norman Rokeberg
Prepared by Maria Gladziszewski, Manager



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THE EFFECT OF AS 37.13.010 ON PERMANENT FUND DEPOSITS

Alaska Statute 37.13.010 specifies that 25 percent of income from mineral leases issued before December 1, 1979, must be deposited into the permanent fund. For leases issued after December 1, 1979, required permanent fund contributions are 50 percent of income. You asked us to calculate how much this "additional" 25 percent has meant for the permanent fund over the years. As you can see from the following table, between FY81 and FY98, the permanent fund received approximately \$106 million as a result of the "additional" 25 percent of mineral income from certain leases.

FISCAL YEAR	Actual Deposits to the Permanent Fund From Mineral Leases (nominal dollars, in millions)			Additional Deposits to the Permanent Fund Resulting from the 50% Provision
	Contributing at 25%	Contributing at 50%	TOTAL	
1981 (a)	\$375.40	\$0.00	\$375.40	\$0.00
1982 (a)	\$388.30	\$0.00	\$388.30	\$0.00
1983 (a)	\$361.85	\$0.00	\$361.85	\$0.00
1984 (a)	\$352.25	\$0.00	\$352.25	\$0.00
1985 (a)	\$347.58	\$0.00	\$347.58	\$0.00
1986 (a)	\$278.58	\$25.70	\$304.28	\$12.85
1987 (a)	\$146.65	\$2.55	\$149.20	\$1.28
1988 (a)	\$236.34	\$7.70	\$244.03	\$3.85
1989 (b)	\$205.00	\$12.00	\$217.00	\$6.00
1990 (c)	\$258.99	\$11.25	\$270.24	\$5.62
1991 (c)	\$430.96	\$16.74	\$447.69	\$8.37
1992 (c)	\$304.19	\$14.78	\$318.97	\$7.39
1993 (c)	\$269.58	\$13.22	\$282.80	\$6.61
1994 (c)	\$202.26	\$9.06	\$211.32	\$4.53
1995 (c)	\$267.79	\$10.58	\$278.37	\$5.29
1996 (c)	\$236.13	\$18.17	\$254.30	\$9.09
1997 (c)	\$281.22	\$39.43	\$320.65	\$19.72
1998 (c)	\$217.22	\$30.79	\$248.01	\$15.40
TOTAL FY 81-98				\$106.0

NOTES and SOURCES:

(a) As listed in a previous Legislative Research Report (89.222); 1981-1988 actuals originally supplied by the Department of Revenue.

(b) Department of Revenue (Charles Logsdon); data based on prior years factors (3/99) supplied by Alaska Department of Revenue.

(c) Actual deposits--data compiled from actual transfers to the permanent fund that were listed in the state's accounting system (AKSAS) and in the "Additional Deposits to the Permanent Fund for Post Chapter 13 Leases" reports. Included are all mineral royalties, rents, interest, and bonus bids (Alaska Department of Revenue, Oil & Gas Audit Division).

I hope you find this information useful. Please do not hesitate to contact us if you have questions or need additional information.

Article IX

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.

A legislative post-audit is a review of the expenditure of public funds by all government agencies (legislative, executive and judicial) to ensure that the agencies spent the money in compliance with applicable laws and regulations. A post-audit contrasts with the pre-audit used in some states where expenditures are reviewed *before* payment is made. This section makes the auditor responsible to the legislature, as a potential conflict of interest exists if the post-auditor is appointed by and responsible to the governor, as is the case in some states.

State statutes that implement this section (AS 24.20.270) authorize the legislative auditor to undertake "performance" audits as well as financial audits. A performance audit evaluates a program's management and its effectiveness in meeting its goals.

Section 15. Alaska Permanent Fund

At least twenty-five percent 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.

A constitutional amendment in 1976 added this entire section. It mandates the creation of the Alaska Permanent Fund. An amendment was required because Section 7 prohibits dedicated funds. Although the permanent fund dedicates nontax petroleum revenue (royalties and lease-related revenue received by the state by virtue of its ownership of oil lands), the phrase "tax or license" used in Section 7 has been interpreted to encompass all forms of public revenue.

Dedicated funds normally specify the source of the revenue and the purpose for which it is to be expended (for example, motor fuel taxes are often dedicated to highway construction, lottery income to education, and so on). This provision specifies merely that certain money will be deposited to a special fund and invested, only the earnings of which may be appropriated by the legislature. Nonetheless, the fund represents a type of dedication because the deposits bypass the legislative appropriation process. The fund's earnings are not earmarked for a particular purpose by the constitution; they are deposited in the general fund "unless otherwise provided by law." The law on the matter provides that approximately half of the annual income of the fund is to be distributed on a per capita basis (the dividend program) and as much of the balance as necessary is to be deposited to the corpus (principal) of the fund to account for losses in the value of the fund due to inflation (so-called inflation-proofing). Any income remaining after these purposes are satisfied is deposited to a reserve account for future dividends and inflation-proofing.

**STATE OF ALASKA
FIVE-YEAR OIL AND GAS LEASING PROGRAM
1999 TO 2003**

1999 Sales

North Slope Areawide 1999	February
*Cook Inlet Areawide 1999	April
*Beaufort Sea Areawide 1999	October

2000 Sales

North Slope Areawide 2000	February
Beaufort Sea Areawide 2000	May
Cook Inlet Areawide 2000	August

2001 Sales

North Slope Areawide 2001	February
*NS Foothills Areawide 2001	April
Beaufort Sea Areawide 2001	May
Cook Inlet Areawide 2001	August

2002 Sales

North Slope Areawide 2002	February
Beaufort Sea Areawide 2002	May
Cook Inlet Areawide 2002	August

2003 Sales

North Slope Areawide 2003	February
Beaufort Sea Areawide 2003	May
Cook Inlet Areawide 2003	August

• Requires a Best Interest Finding

The sales scheduled for 2002 and 2003 are new to the Five-Year Oil and Gas Leasing Program. All other sales were proposed in the 1997 Five-Year Program. DNR has announced its decision to proceed with two sales – North Slope Areawide 1999 and Cook Inlet Areawide 1999. As for the rest of the schedule, if the decision is to proceed with a sale, a Sale Announcement, including the sale terms, bidding method, tract map, and mitigation measures will be issued 90 days prior to that sale. If a best interest finding or a supplement to a previous finding is required, it will be released at the same time as the Sale Announcement.

Summary

Prepared by C. Poulos; DNR, SSD, FSS-Anchorage
2/18/99

Calculation of the amount the PF would have received if all distributions were 25%.

	Transfers to PF	-	Additional Due Transactions	=	25% distribution to PF
FY90	\$270,236,651.14	-	\$4,217,045.54	=	\$266,019,605.60
FY91	447,694,592.87	-	8,368,975.31	=	439,325,617.6
FY92	318,971,140.31	-	7,390,570.50	=	311,580,569.8
FY93	282,799,605.82	-	6,608,482.69	=	276,191,123.1
FY94	211,324,505.64	-	4,531,341.61	=	206,793,164.0
FY95	278,367,321.07	-	5,287,842.48	=	273,079,478.6
FY96	254,298,653.60	-	9,086,004.67	=	245,212,648.9
FY97	320,648,410.01	-	19,712,887.29	=	300,935,522.7
FY98	248,017,152.43	-	15,396,645.13	=	232,620,507.3
	<u>\$2,632,358,032.89</u>	-	<u>\$80,599,795.22</u>	=	<u>\$2,551,758,237.67</u>

Transfers to PF = all revenues transferred to the Permanent Fund

Additional Due = the additional 25% due the Permanent Fund on 50% distribution revenues

hello.....

Subject: hello.....

Date: Thu, 18 Feb 1999 13:04:51 -0500

From: jcin <jgensel@alaska.net>

To: Representative_Norman_Rokeberg@Legis.state.ak.us

I agree with your HB 96..... good idea.

Also please make sure the personal income tax bill 91 gets stopped.
Its a totally unfair bill taxing the hard working citizens of Alaska.

At the very least a cap should be put on State Income tax (no one
pays more than annual Perm fund dividend).... and everyone should pay
something.

My ideas.... #1. Use perm fund to help operate State

#2. Use perm fund to help operate State.....

thanks..... john

John Gensel
125 East Redoubt Avenue
Soldotna, Alaska 99669

Rokeberg bill would boost state take of money from new oil leases

By SVEND HOLST

THE JUNEAU EMPIRE

Another plan is on the table to fill part of the gap between state spending and revenue.

Rep. Norman Rokeberg, an Anchorage Republican, introduced a bill Wednesday that would add some funds to state coffers by reducing the amount of oil lease money that flows into the Alaska Permanent Fund from new developments.

Juneau 2/18/99

Today, under a statute enacted in 1980, 50 percent of the state's mineral income — including leases, royalties, royalty sale proceeds and other such income — is funneled into the permanent fund.

Rokeberg's bill would lower that to 25 percent for any royalty money coming from new leases and the like initiated after July of this year. That's the level mandated by the Alaska constitution.

The change wouldn't raise

enough cash to fill the fiscal gap, Rokeberg said, but it's something worth talking about because it would increase state revenue.

If the Legislature's estimates of oil price and production are accurate, the changes House Bill 96 would make would add \$9.5 million to the state's general fund for the 2000 budget year, he said. Over 15 years, he said, the average would be about \$16 million per year.

"It's a relatively small amount,

but every dollar helps," Rokeberg said. "Any dollar we get by this method, we don't have to raise with taxes."

Bob King, press secretary for Democratic Gov. Tony Knowles, said today that the governor's staff hadn't had time to review the measure.

The bill is slated for review by two House committees — State Affairs and Finance.

ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE ASSIGNMENTS

LABOR & COMMERCE COMMITTEE, CHAIRMAN
JUDICIARY COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON UTILITY RESTRUCTURING, MEMBER
SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT &
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Representative Norman Rokeberg

PRELIMINARY RESULTS FROM THE ROKEBERG LEGISLATIVE QUESTIONNAIRE
1999 - 4,157 mailed; 253 returned or 6.08%. Questions 15 and 19.
(as of March 23, 1999)

15. In addition to the items in #9 above, please let me know if you generally favor or oppose the following as ways to address the fiscal gap:
- | | |
|---|------------------------------|
| a. Establish a state sales tax | Yes <u>114</u> No <u>123</u> |
| b. Re-establish a school tax | Yes <u>83</u> No <u>140</u> |
| c. Increase alcohol taxes | Yes <u>156</u> No <u>88</u> |
| d. Raise user fees and index fees to inflation | Yes <u>138</u> No <u>89</u> |
| e. Increase fishery, timber and mining taxes | Yes <u>102</u> No <u>129</u> |
| f. Establish new taxes on the tourism industry | Yes <u>144</u> No <u>91</u> |
| g. Increase oil and gas taxes | Yes <u>97</u> No <u>140</u> |
| h. Establish a seasonal sales tax | Yes <u>106</u> No <u>128</u> |
| i. Use a portion of the Permanent Fund earnings reserve to fund government operations | Yes <u>110</u> No <u>130</u> |
19. Alaska's Constitution mandates that 25% of oil and mineral leases, royalties and bonuses are deposited into the principal of the Permanent Fund. In 1980, the Legislature increased that to 50% of all new leases. If we repealed this law and went back to the original 25%, an extra \$12 million a year would be generated to help close the fiscal gap. Do you support changing the law back to the Constitution's 25%? Yes 164 No 72