

HB

11

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Version: HB 11
 (H) Publish Date: 3/14/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title: Deposits to the Permanent Fund BRU: Revenue Operations
 Component: Permanent Fund Dividend
 Sponsor: Representative Rokeberg
 Requester: House Resources Committee Component No.: 981

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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						
-----------------------------	--	--	--	--	--	--

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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See Page 2 for analysis.

Prepared by: Larry Persily, Deputy Commissioner Phone 465-5469
 Division: Department of Revenue Date/Time 3/11/03 10:35 AM
 Approved by: Larry Persily, Deputy Commissioner Date 3/11/2003
 Agency: Department of Revenue

FISCAL NOTE #1

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. HB11

ANALYSIS CONTINUATION

This legislation would, over time, result in slightly reduced Permanent Fund dividends as less money is deposited into the fund from royalty payments. With the reduced royalty deposits into the fund, there would be less money to invest and fewer investment earnings to distribute through the dividend program.

Based on the Permanent Fund Corporation's December 2002 earnings projections, and the Department of Revenue's Fall 2002 Forecast, we project the following change in dividends under this legislation:

	October 2005	2006	2007	2008	2009	2010	2011	2012
Status Quo	\$719	\$780	\$1,062	\$1,314	\$1,529	\$1,691	\$1,841	\$1,962
HB11	\$718	\$778	\$1,058	\$1,307	\$1,519	\$1,677	\$1,824	\$1,942

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: HB 11
 (H) Publish Date: 3/14/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title: Deposits to the Permanent Fund BRU: Permanent Fund Corp.
 Component: Permanent Fund Corp.
 Sponsor: Representative Rokeberg
 Requester: House Resources Committee Component No. 109

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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 ()	(54,232.9)	(45,828.8)	(45,291.9)	(43,050.5)	(37,682.9)	(38,520.0)
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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—Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The legislation would reduce oil royalty contributions to the Permanent Fund principal.

The bill would have no effect on the operating budget of the Alaska Permanent Fund Corporation.

Prepared by: Robert D. Storer, Executive Director Phone (907)465-2047
 Division: Alaska Permanent Fund Corporation Date/Time 3/10/2003 1:00: PM
 Approved by: Larry Persily, Deputy Commissioner Date 3/11/2003
 Agency: Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: HB 11
(H) Publish Date: 3/14/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Deposits to the Permanent Fund BRU Revenue Operations
Component Tax Division
Sponsor Representative Rokeberg
Requester House Resources Committee Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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 ()	54,232.9	45,828.8	45,291.9	43,050.5	37,682.8	38,520.0
-------------------------------	-----------------	-----------------	-----------------	-----------------	-----------------	-----------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill would set all royalty contributions to the Permanent Fund at the constitutionally mandated 25%. This would reduce the contribution rate to the Permanent Fund on royalties from leases issued on or before February 15, 1980 from 50% to 25%.

Based on the Department of Revenue Fall 2002 production and price assumptions, this would increase deposits to the General Fund by approximately \$40 million to \$55 million annually. This legislation would reduce royalty deposits to the Permanent Fund by the same amount.

Prepared by: Chuck Logsdon, Chief Petroleum Economist Phone 269-1019
Division Tax Division Date/Time 3/11/03 9:10 AM
Approved by: Larry Parsily, Deputy Commissioner Date 3/11/2003
Agency Department of Revenue

Passed

House Finance Committee Vote Sheet

DATE: 3/27

SUBJECT: HB 11

MEMBER

YES

NO

MOSES		✓
STOLTZE		✓
WHITAKER	✓	
CHENAULT	—	
CROFT		✓
FOSTER	✓	
HAWKER	✓	
JOULE	✓	
MEYER	✓	
HARRIS	✓	
WILLIAMS	✓	
TOTAL:		

PASSED: 7-3

FAILED: _____

Failed 4-6

AMENDMENT

#1

TO BE OFFERED IN THE HOUSE FINANCE COMMITTEE

OFFERED BY REPRESENTATIVE CROFT

TO: HB 11

Page 1, line 6, after "Alaska" insert:

"and relating to the disposition of permanent fund income;"

Page 2, after line 19, a new subsection is added to AS 37.13.145:

"(e) AS 37.13.140 and AS 37.13.145(b) may not be amended unless the amendment is approved a majority of the voters voting on the question."

Renumber the following bill section accordingly.

ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE ASSIGNMENTS

RULES COMMITTEE, CHAIRMAN
LABOR & COMMERCE COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON OIL & GAS, MEMBER
LEGISLATIVE ETHICS COMMITTEE, MEMBER

website: <http://www.akRepublicans.org/rokeberg/>



INTERIM:
716 WEST 4TH AVENUE, SUITE 300
ANCHORAGE, AK 99501
PHONE: (907) 269-0117
FAX: (907) 269-0119

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

Representative Norman Rokeberg

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

SPONSOR STATEMENT FOR HB 11

BY: Representative Norman Rokeberg

Title: An Act relating to deposits to the Alaska permanent fund from mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral revenue sharing payments received by the state from mineral leases, and bonuses received by the state from mineral leases, and limiting deposits from those sources to the 25 percent required under art IX, sec. 15, Constitution of the State of Alaska; and providing for an effective date.

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

HB 11 proposes changes to a statute -- not the Constitution. Article IX, Section 15 of Alaska's 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 recognized excess revenues existed (GF revenues for FY 81 totaled \$4.07 billion) and wisely decided to raise the amount of royalties and bonuses deposited into the Permanent Fund to 50 percent. This surplus situation with state revenues no longer exists today.

It is time for the State to redirect the extra 25% to the General Fund. Passage of this bill would generate an estimated \$43.3 million (average) per year over the next seven years, and \$54.1 million in FY 2004 at an estimate \$23.25 per barrel average.

As the Prudhoe Bay and Kuparuk fields - which currently contribute to the General Fund at a 25 percent rate - diminish, we need to replace that production with the new, smaller satellite fields (for example, Alpine, and North Star) contributing at the same 25 percent rate not at a larger 50 percent rate.

While we can and should continue to make budget reductions, we would be foolish to ignore this source of General Fund revenue in solving our budget problem, as well as planning for the future development of Alaska's resources. Prudent fiscal management requires this statutory change. HB 11 is a small step in the right direction.

I strongly urge you to support this much needed, fiscally-prudent legislation.

ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE ASSIGNMENTS:

RULES COMMITTEE, CHAIRMAN
LABOR & COMMERCE COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON OIL & GAS, MEMBER
LEGISLATIVE ETHICS COMMITTEE, MEMBER

website: <http://www.akrepublicans.org/rokeberg/>



INTERIM:
716 WEST 4TH AVENUE, SUITE 300
ANCHORAGE, AK 99501
PHONE: (907) 269-0117
FAX: (907) 269-0119

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

Representative Norman Rokeberg

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

March 6, 2003

Dear Colleague:

HB 11 returns the percentage of all mineral lease royalties and bonuses deposited into the Permanent Fund to the constitutionally mandated 25 percent (please see the attached bill packet).

HB 11 would provide Alaska with a source of General Fund revenue while staying true to the purposes of the Permanent Fund and the intent of our constitution. As the table in your bill packet indicates, passing this bill would generate an extra \$43 million average per year, plus bonus revenues, over the next seven years.

Governor Murkowski had emphasized resource development as way to solve Alaska's fiscal future. The deposits received from passage of HB 11 would be the equivalent of finding another Northstar-sized field producing approximately 60,000 barrels per day.

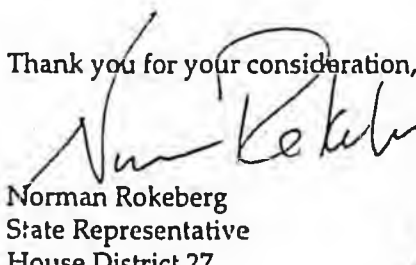
This plan will not only help our present economic situation, it will also allow for prudent management of potential future mineral royalties. As the wealth of older fields such as Prudhoe and Kuparuk diminish, we must look at replacing them with newer fields such as Alpine to ensure continued return to the corpus of the Permanent Fund.

- This plan is only a first step of any plan to fill the fiscal gap.
- Alaska cannot save its way to prosperity.
- Repealing the 1980 legislative action is a TAX avoidance measure.

It is time for the legislature to begin taking steps to help solve our budget problem, and to plan for the potential future development of Alaska's resources. HB 11 can help us succeed on both fronts and I would appreciate your support on this legislation.

Some members have voiced concerns that this bill could be construed as a raid on the Permanent Fund. **It Is Not!** It is a statutory change that recognizes the fiscal reality of our state without raising taxes. Therefore, please get back to me if you need additional information or if I have your support.

Thank you for your consideration,


Norman Rokeberg
State Representative
House District 27

PS: Look at the attached revenue impacts.

Attachments



Alaska State Legislature

Please enter into the record my testimony to the House Finance
committee name

Committee on HB 11 Deposits to the Perm Fund, dated March 27, 2003
bill # / subject public hearing date

Gentlemen & Ladies:

I strongly oppose HB 11 as I believe it is against the will of the people in the state of Alaska. The people spoke in the Sept. 14, 1999 vote and said, "No, don't touch the PFD without our approval." This bill does nothing more than erode their dividend and put more funds into government disposal. It is also affecting the already low confidence in our legislature in dealing with the real problem of overspending and efficiency in our government. Throwing re funds at this overspending problem does not solve it.

How about the many, many grants that need looking at? That's the people's money given away to special interest that does not get returned - a one-way trip. That should be a top priority. It's the Alaskans that pay for this.

I believe there is many areas that need to be slimmed down in size and cost before any higher expense for the average Alaskan is considered. I believe, as many do, that your efforts should be in preserving the PFD and investing more of the principle of the fund within the borders of our state. Then we Alaskans would at least be able to have the use of this fund. The present loss of around 6 billion dollars in investments outside of the state is unacceptable. The so-called "prudent man" rule is not working. I suggest that the legislature do something about that instead of looking to take more from the Alaskan citizens.

What should be done by the legislature is passing HJR 3 as written. This would go a long way to restoring confidence in government.

I would like to expect you gentlemen and ladies will do the right thing and defeat HB 11 for the betterment of our citizens and pursue correcting this overspending of previous legislatures.

Thank you,

Signed: Ed Martin, Sr.
Testifier

A handwritten signature in black ink, appearing to read "Ed Martin, Sr.", written over a horizontal line.

Self
Representing (optional)

44332 Sterling Hwy #36 Soldotna, AK 99669
Address

(907) 262-6829
Phone number



Alaska State Legislature

Please enter into the record my testimony to the House Finance

committee name

Committee on HB 11 / Permanent Fund Deposits

bill # / subject

Date, March 27, 2003

I would like to go on record as being **OPPOSED to HB 11.**

HB 11 further illustrates this legislature's inability to reduce state government cost to a sustainable level. Please do **NOT** seriously consider this or any new funding source until **ALL** public money given to private businesses, individuals, municipal assistance, and non-profit organizations, has been completely eliminated.

Oil production from the North Slope is now less than 50% of the peak years, but total government spending in Alaska is now higher than it was in the 1980's. Total oil revenues continue to decline, and there is no realistic end of this trend in sight. Government spending by the legislature and administration has **FAILED MISERABLY** to follow this decline in revenues.

HB 11 is **NOT** the answer to our state budget woes. **Cutting non-essential spending IS.** In my opinion HB 11 does nothing more than encourage continued uncontrolled excessive government spending! No informed citizen of Alaska will ever seriously consider new revenue sources until all public funds used for non-essential spending have been completely eliminated.

Our limited resources should ONLY be spent funding essential government services such as education, roads, public health & safety. Until you reach that point, do not come to me asking for more money.

Please learn to say, "NO" to requests from or for municipal assistance, corporate welfare, faith based initiatives, clubs, fraternities, business associations, chambers of commerce, the municipal league, individuals, political action committees, lobbyists, religious organizations, and everyone else with their hands out, asking for **OUR** money! Please tell them we have higher priorities for the limited money available. Once you make these cuts, there will be plenty of money left for education, highways and public safety.

Please show true leadership at this difficult time, by voting NO on HB 11. Thank you.

Signed:

Mike McBride

Testifier

Self

Representing (optional)

PO Box 6

Kenai, Alaska 99611-0006

Address

907/776 5444

Phone number

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LEGISLATIVE RESEARCH REPORT

FEBRUARY 12, 2003



REPORT NUMBER 03.101

ESTIMATED IMPACT ON THE GENERAL AND PERMANENT FUNDS IF PERMANENT FUND CONTRIBUTIONS WERE AT 25 PERCENT OF MINERAL INCOME

PREPARED FOR REPRESENTATIVE NORMAN ROKEBERG

BY PATRICIA YOUNG, MANAGER

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, the 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

Over the past few years, we have sent you several tables showing actual contributions to the permanent fund from mineral revenues in past years, as well as projected revenues from oil and gas royalties for future years. You asked for an update of material sent to you previously.

Table 1 shows projected future contributions and includes assumptions regarding oil prices and production. Charles Logsdon, petroleum economist at the Alaska Department of Revenue, provided the predictions using data from the department's fall 2002 forecast. As you can see from Table 1, the department's fall 2002 forecasting model predicts that if all deposits to the

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 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.

permanent fund were at 25 percent of income, additional deposits to the general fund would average about \$41 million annually over the next 11 years.

The Department of Revenue estimates contributions based on production forecasts on a field-by-field basis. As the table indicates, the model predicts oil prices at approximately \$26 per barrel for FY 2003, with decreases thereafter. The oil prices assumed on the spreadsheet can be changed to roughly estimate the revenue impact on the permanent and general funds as oil prices vary.³

It should be noted that the small amount of mineral rent deposited into the state treasury, primarily from coal leases, is not 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 and revenues from as yet undiscovered fields are not included in the figures.**

Table 2 shows actual contributions to the permanent fund from mineral royalties for the years 1990 through 2002. To enable you to look in one place for both past actual deposits and future predictions, Table 2 also repeats (from Table 1) the projected estimated gains to the general fund for the years 2003 through 2013.

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

³ Although possible, the Department of Revenue notes that the daily production numbers on the spreadsheet cannot be as easily changed. Changes to production figures depend on what fields are assumed to change from the baseline and would have to be re-estimated by the department.

TABLE 1

Projected Contributions to the Permanent and General Funds

If All Oil & Gas Leases Contributed to the Permanent Fund at 25 Percent of Income, FY 2003 - FY 2013

Fiscal Year	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
	ANS West Coast Price	TAPS, Marine, Other Allowable Costs	Royally 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 Royalties	Contribution to the General Fund from North Slope Oil Royalties	Contribution to the General Fund from North Slope Oil Bonuses	Contribution to the Permanent Fund from North Slope Oil Royalties	Contribution to the General Fund from North Slope Oil Royalties	Estimated Gain to the General Fund from Oil Royalties	Estimated Gain to the General Fund from Royalties & Bonuses
									Millions of Dollars	Millions of Dollars	Millions of Dollars	Millions of Dollars	Millions of Dollars	Millions of Dollars	Millions of Dollars
Dollars	Dollars	Dollars	Millions of Barrels/Day	Millions of Dollars	Percent	Millions of Dollars	Percent	G*H	G-I		G*25%	G-L	M-J	N+(.5*K)	
2003	\$25.94	\$5.41	\$20.53	0.994	\$7,444.9	13%	\$944.6	30%	\$286.4	\$658.3	\$4.0	\$236.2	\$708.5	\$50.2	\$53.0
2004	\$23.25	\$5.37	\$17.88	0.997	\$6,526.1	13%	\$821.0	31%	\$255.9	\$565.1	\$4.0	\$205.2	\$615.7	\$50.6	\$54.2
2005	\$22.00	\$5.44	\$16.56	0.992	\$5,996.3	12%	\$736.8	31%	\$226.9	\$509.9	\$4.0	\$184.2	\$552.6	\$42.7	\$45.8
2006	\$22.00	\$5.59	\$16.41	0.971	\$5,816.9	12%	\$706.1	31%	\$215.9	\$490.1	\$4.0	\$176.5	\$529.5	\$39.4	\$45.3
2007	\$22.00	\$5.70	\$16.30	0.956	\$5,685.1	12%	\$672.0	30%	\$201.6	\$470.4	\$4.0	\$168.0	\$504.0	\$33.6	\$43.1
2008	\$22.00	\$5.74	\$16.26	1.010	\$6,011.6	12%	\$698.8	30%	\$207.6	\$491.2	\$4.0	\$174.7	\$524.1	\$32.9	\$37.7
2009	\$22.00	\$5.72	\$16.28	1.091	\$6,479.3	11%	\$741.1	30%	\$220.3	\$520.8	\$4.0	\$185.3	\$555.8	\$35.0	\$38.5
2010	\$22.00	\$5.83	\$16.17	1.074	\$6,340.8	11%	\$723.5	30%	\$216.0	\$507.5	\$4.0	\$180.9	\$542.7	\$35.1	\$38.8
2011	\$22.00	\$6.00	\$16.00	1.036	\$6,050.5	11%	\$692.6	30%	\$206.2	\$486.3	\$4.0	\$173.1	\$519.4	\$33.1	\$36.1
2012	\$22.00	\$6.02	\$15.98	0.970	\$5,659.1	11%	\$650.5	30%	\$192.2	\$458.3	\$4.0	\$162.6	\$487.9	\$29.6	\$32.3
2013	\$22.00	\$6.22	\$15.78	0.904	\$5,207.1	12%	\$600.6	29%	\$176.1	\$424.5	\$4.0	\$150.2	\$450.5	\$26.0	\$29.0

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 to the Permanent and General 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 fall 2002 revenue forecast. Figures include oil and gas royalties and bonuses but the relatively small amount of rent from mineral leases is not included.

SOURCE: Alaska Department of Revenue, Tax Division (Charles Logsdon).

TABLE 2
Contributions to the Permanent and General Funds
from Mineral Lease Income
(millions of dollars)

FISCAL YEAR	Current Deposits to the Permanent Fund From Mineral Leases			If PF Contributions @ 25%	
	Contributing at 25%	Contributing at 50%	TOTAL	Contributions to the Permanent Fund	Gain to the General Fund
1990 (a)	\$261.8	\$8.4	\$270.2	\$266.0	\$4.2
1991 (a)	\$431.0	\$16.7	\$447.7	\$439.3	\$8.4
1992 (a)	\$304.2	\$14.8	\$319.0	\$311.6	\$7.4
1993 (a)	\$269.6	\$13.2	\$282.8	\$276.2	\$6.6
1994 (a)	\$202.3	\$9.1	\$211.3	\$206.8	\$4.5
1995 (a)	\$267.8	\$10.6	\$278.4	\$273.1	\$5.3
1996 (a)	\$236.1	\$18.2	\$254.3	\$245.2	\$9.1
1997 (a)	\$281.2	\$39.4	\$320.6	\$300.9	\$19.7
1998 (a)	\$217.2	\$30.8	\$248.0	\$232.6	\$15.4
1999 (a)	\$136.6	\$21.4	\$158.0	\$147.3	\$10.7
2000 (a)	\$227.9	\$45.2	\$273.1	\$250.5	\$22.6
2001 (a)	\$295.9	\$55.0	\$351.0	\$323.5	\$27.5
2002 (a)	\$187.7	\$63.3	\$251.0	\$219.3	\$31.7
2003 (b)			\$286.4	\$236.2	\$50.2
2004 (b)			\$255.9	\$205.2	\$50.6
2005 (b)			\$226.9	\$184.2	\$42.7
2006 (b)			\$215.9	\$176.5	\$39.4
2007 (b)			\$201.6	\$168.0	\$33.6
2008 (b)			\$207.6	\$174.7	\$32.9
2009 (b)			\$220.3	\$185.3	\$35.0
2010 (b)			\$216.0	\$180.9	\$35.1
2011 (b)			\$206.2	\$173.1	\$33.1
2012 (b)			\$192.2	\$162.6	\$29.6
2013 (b)			\$176.1	\$150.2	\$26.0

NOTES:

(a) 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 Due the Permanent Fund for Post Chapter 13 Leases" reports. **Included are all mineral royalties, rents, interest, and bonus bids.**

(b) Projected deposits--based on the Alaska Department of Revenue's fall 2002 revenue forecast (same data as presented in Table 1). **Included are oil and gas royalties and bonuses.**

SOURCES:

(a) Alaska Department of Natural Resources, SSD/FSS (Cathy Poulos).

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

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TIME TO CHANGE COURSE ON . . .

Royalty split

REP. NORM Rokeberg's proposal to return the state's share of oil royalty and bonus revenues to the original formula would be a sensible step toward solving the state's fiscal gap.

When the Alaska Permanent Fund was established in 1976, state law called for 25 percent of the state's oil lease royalty and bonus revenues to be channeled into the fund and invested for the future. The other 75 percent went to the General Fund to pay state government costs.

But in 1980 North Slope crude oil production was climbing rapidly and money was flooding into the state treasury. So the Legislature decided to increase the Permanent Fund's share from leases signed after 1980 to 50 percent.

socking away a larger share of future revenues made sense at the time. It kept the money from being squandered on unneeded projects.

But North Slope oil production is now down by half from its peak more than a decade ago. And revenues are down accordingly, leaving the state with a budget deficit of \$1.2 billion.

Part of the shortfall has been made up by drawing down the Constitutional Budget Reserve, a fund established from one-time settlements of oil price disputes with energy companies. But that money will be exhausted in a few years and new approaches are needed to avert a fiscal meltdown.

ROKEBERG'S proposed approach would move about \$54 million a year into the General Fund. That's not enough to bridge the cash gap, but it would be a step in the right direction. It would have a minimal impact on Permanent Fund dividend checks. The first small cut in individual payouts would be seen in 2007 and climb to \$20 by 2012.

Critics are claiming the move would be a raid on the Permanent Fund, but it's time for them and everyone else to realize that some things must change if the state is to pay its bills without imposing an income tax or a statewide sales tax.

In our book levying such taxes just to be able to send out dividend checks would be fiscal insanity. Oil and gas royalties and bonuses are state financial resources and — if needed — should be used to fund essential state services.

Imposing new and onerous taxes would unnecessarily take hundreds of millions of dollars out of the economy and out of the pockets of individual Alaskans.

The dividends are not and should not be an entitlement. They are a nice bonus share of oil revenues and should be paid when possible. If the Legislature takes a series of intelligent steps — perhaps starting with the Rokeberg plan — they will be paid for years to come.

It's time to make a real start at bridging the fiscal gap. Government can and should be cut, and revenues should be

Congress

By WALTER W.

There's a little known Davis-Bacon Act of 1931 the books today. Before law is and its effects, let some of the language us 1930s, to push the Congress.

Rep. John Cochran o he had "received numer in recent months about tractors employing low- mechanics getting work an employees from the Sou

Alabama Rep. Clayto plained. "Reference has contractor from Alaban New York with bootleg fact. That contractor ha labor that he transport them in cabins, and it sort that is in competitio bor throughout the count

Rep. William Upshu of the "superabundance or large aggregation of Negro labor," which is a real problem, "you are confronted with in any community."

New York's Sen. Robert Bacon replied, "I just mentioned the fact because that was the fact in this particular case, but the same you should bring in a laborers or if you brought union laborers from any

Other congressmen support for the Davis ways that were more to pressing their racially agenda. They railed ag labor, "cheap labor," a ported labor."

AFL president William clear what his union's colored labor is being moralize wage rates."

You might ask, "Wha Bacon Act? The Davis federal law that mand

Th

ADW



Anchorage

Michael J. Sexton, President and Publisher

Founded in 194

Fuller A. Cowell, Publisher, 1993-1999
Gerald E. Grilly, Publisher, 1984-1993

OUR VIEW

Fund deposits

Rep. Rokeberg is right: State can trim amount it puts into savings

One of the great myths of Alaska's oil boom is that state lawmakers have spent just about everything that wasn't nailed down. In reality, only one-third of the money put into the Permanent Fund through last fiscal year came from deposits required by the constitutional amendment that voters approved in 1976.

Since 1980, lawmakers have made \$6.9 billion of special appropriations to the fund. In addition, lawmakers in 1982 agreed to make whatever yearly deposits are needed to inflation-proof the fund. Those inflation-proofing deposits added another \$7.5 billion. All told, Alaska lawmakers can take credit for \$14.5 billion worth of extra savings in the fund.

Lawmakers also deserve credit for saving, at least temporarily, another large chunk of oil money. The state had billions of dollars worth of legal disputes with oil companies over their tax and royalty payments. As those cases were settled, the "windfalls" went into a budget reserve fund. Those deposits totaled more than \$7 billion.

When legislators and governors spent Alaska's oil money, they did not always spend it effectively. But they deserve more credit than they generally get for spending restraint. Alaska now produces only half as much oil as it did during the 1980s, so easy oil money is in short supply. Alaska lawmakers have relied heavily on the state's Constitutional Budget Reserve to maintain services without re-imposing broad-based taxes. That reserve will run out in two to three years. The resulting hole in the state budget could be \$1 billion or more every year thereafter.

Heading off this impending fiscal disaster is the most important challenge facing the state. Alaska can't build a stable, prosperous economy and a healthy society with a high quality of life until the state gets its finances under control.

While drawing from the budget reserve, though, Alaska continues to make substantial deposits in the Permanent Fund. Last fiscal year, the Permanent Fund received \$258 million in oil royalties and \$802 million for inflation proofing. The \$800 million in new savings was more than lawmakers took from the budget reserve to balance the state's books.

The \$258 million in royalty deposits included discretionary amounts committed to the Permanent Fund by a law passed in 1980, just as the oil boom got under way. Instead of putting the constitutionally required 25 percent of oil royalties into the fund, the 1980 law boosts the portion to 50 percent for fields leased after 1979.

That extra savings made sense when it looked as if the state would literally collect more spending money than it knew what to do with. Two decades later, though, money is much tighter, and highly popular programs like the Longevity Bonus and K-12 education funding are facing cuts.

State Rep. Norm Rokeberg, R-Anchorage, wants to trim the amount the state puts into savings each year. By limiting Permanent Fund deposits to the constitutionally mandated 25 percent of royalties, he would free up roughly \$30 million to \$50 million a year, depending on oil prices.

Trimming fund deposits would slightly reduce dividends in the future. But the effect would be tiny compared with changes driven by the gyrations of the financial markets.

Rep. Rokeberg persuaded his House colleagues to approve the same idea in 2001. The change would be best if done as part of a comprehensive fiscal plan that asks all Alaskans to share the burdens of stabilizing state finances. But trimming \$30 million to \$50 million from state savings deposits is a useful step that can and should be taken now.

Subject: Re: HB 11

Date: Wed, 29 Jan 2003 16:57:05 -0900

From: Larry Persily <Larry_Persily@revenue.state.ak.us>

Organization: Department of Revenue

To: Janet Seitz <Janet_Seitz@legis.state.ak.us>

CC: Heather Nobrega <Heather_Nobrega@legis.state.ak.us>, Bill Corbus <bill_corbus@revenue.state.ak.us>, charles_logsdon@revenue.state.ak.us, Dan Dickinson <dan_dickinson@revenue.state.ak.us>

In answer to your questions:

What tax rate would be needed to raise \$43.3 million a year in new revenue?

- 1) Sales tax: A statewide sales tax of 0.4% on all goods and services would raise approximately \$44 million per year.
- 2) Income tax: A personal income tax of 0.33% on adjusted gross income (no deductions) or 0.44% on taxable income (after deductions) would raise about \$45 million per year.
- 3) Motor fuel tax: A tax increase of 15 cents per gallon would raise about \$45 million per year.

How much oil would have to be discovered or pumped in order to generate \$54.1 million this year and/or average \$43.3 million over the years?

This is not an easy question to answer definitively because of the ELF. Individual well production rate, in addition to field size, will determine the production tax rate. For instance, another Northstar-sized field producing around 60,000 barrels per day with the most productive wells currently on the slope (around 12,000 barrels per day) would generate revenue to the general fund equivalent to the \$43 million average of HB11. On the other hand, if a field produced from wells averaging 2,000 barrels per day you would need a field that produced 70,000 barrels per day total to raise the same amount of revenue (because of the ELF multiplier in the tax rate). If you were talking about a bunch of satellite fields that would pay zero production tax because of ELF, you would need to fire up six fields of 20,000 barrels per day each, with average well production of 1,000 barrels per day, to generate the equivalent revenue from royalties alone (because there would be no production tax revenue).

Bottom line, you would need between 50,000 and 120,000 barrels of sustained daily production under current law to generate general fund revenues equivalent to HB11. Reserve wise this is probably something on the order of a field holding 150 million to 200 million barrels of oil.

Let me know if you need anything more.

Larry

Subject: HB11 dividend projections

Date: Wed, 29 Jan 2003 07:45:31 -0900

From: Larry Persily <Larry_Persily@revenue.state.ak.us>

Organization: Department of Revenue

To: Heather M Nobrega <heather_nobrega@legis.state.ak.us>

CC: bob Bartholomew <bbartholomew@alaskapermfund.com>, Chris Phillips <cphillips@alaskapermfund.com>

Heather,

We have calculated the projected Permanent Fund dividend through 2012 under the existing royalty deposit percentage in statute and the amended percentage as proposed in Rep. Rokeberg's HB11.

These calculations are based on financial data from the Permanent Fund Corporation as of Dec. 31, 2002, and the Department of Revenue's estimates for the number of future dividend applicants.

These are rounded off to the nearest \$10, so there may be a difference of a few dollars each year that doesn't show up on this chart. However, projecting future dividends down to a single dollar would mistakenly represent a level of precision that does not exist. That's why we round up (or down) to the nearest \$10. The \$10 difference doesn't start to show until the October 2010 dividend.

Please let me know if you need any additional information. We will put this in a formal fiscal note for the first hearing on the bill.

Larry

<u>Status quo dividends</u>	<u>HB11</u>
October 2003 - \$1,170	\$1,170
October 2004 - \$880	\$880
October 2005 - \$720	\$720
October 2006 - \$780	\$780
October 2007 - \$1,060	\$1,060
October 2008 - \$1,310	\$1,310
October 2009 - \$1,530	\$1,530
October 2010 - \$1,690	\$1,680
October 2011 - \$1,840	\$1,820
October 2012 - \$1,960	\$1,940



Analysis of HB 11
Alaska Permanent Fund Corporation

Based on December 2002 financial projections (\$ in millions)

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	Totals
Dedicated mineral revenue status quo	\$322	\$291	\$261	\$256	\$251	\$246	\$248	\$237	\$221	\$206	\$2,539
Dedicated mineral revenue HB 11	\$322	\$237	\$215	\$211	\$208	\$208	\$209	\$198	\$185	\$174	\$2,167
Difference (Status Quo - HB 11)	\$0	\$54	\$46	\$45	\$43	\$38	\$39	\$39	\$36	\$32	\$372
Lump sum distribution to dividend fund per status quo	\$715	\$545	\$455	\$494	\$665	\$820	\$954	\$1,058	\$1,155	\$1,235	\$8,097
Lump sum distribution to dividend fund per HB 11	\$715	\$545	\$455	\$493	\$663	\$816	\$949	\$1,050	\$1,145	\$1,223	\$8,054
Difference (Status quo - HB 11)	\$0	\$0	\$0	\$1	\$2	\$4	\$6	\$8	\$10	\$12	\$43

Note: These projections represent only our best estimate of the median case rate of return; actual annual performance will vary with market volatility. Distributions shown for the Dividend are calculated and booked as payables at fiscal year end and actually paid out the following fiscal year. There may be slight differences due to rounding.

To: Representative Norm Rokeberg
From: Chuck Logsdon 269 1019
Date: January 22, 2003
Subject: HB 11

I have updated the charts that were prepared last April for HB 3 based on our Fall 2002 forecast
The higher current and projected oil prices have increased the estimate of the gain from HB 11 to over \$40 million per year through FY 2010

Basically I would summarize the information in the tables and charts in the different worksheets as follows:

1. Over the next 7 years, new leases will account for an average of over 22% of total production.
2. Over the next 7 years HB 11 will contribute on average just over \$40 million per year to the general fund under our current forecast assumptions.
3. Over time as the smaller new fields deplete relative to our old fields like Prudhoe, the gain from HB11 will diminish.
4. Although production from new leases has grown with Alpine and Northstar coming on line a good chunk of other new production will come from satellite fields that are mostly old leases within existing unitized production.
5. Alpine and Northstar are now approaching peak production. Northstar is all new leases and Alpine is over half new leases. This is a period where the gain from HB 11 is very attractive since in a few years these fields will begin to deplete. Any other major new lease oil is probably 5 to 10 years off or longer.
6. Finally, with respect to ANWR, the federal royalty passthrough may be watered down from 90% to 50%. Assuming leasing in 2004 and a modestly rapid development schedule we would not expect production to commence until after 2010.

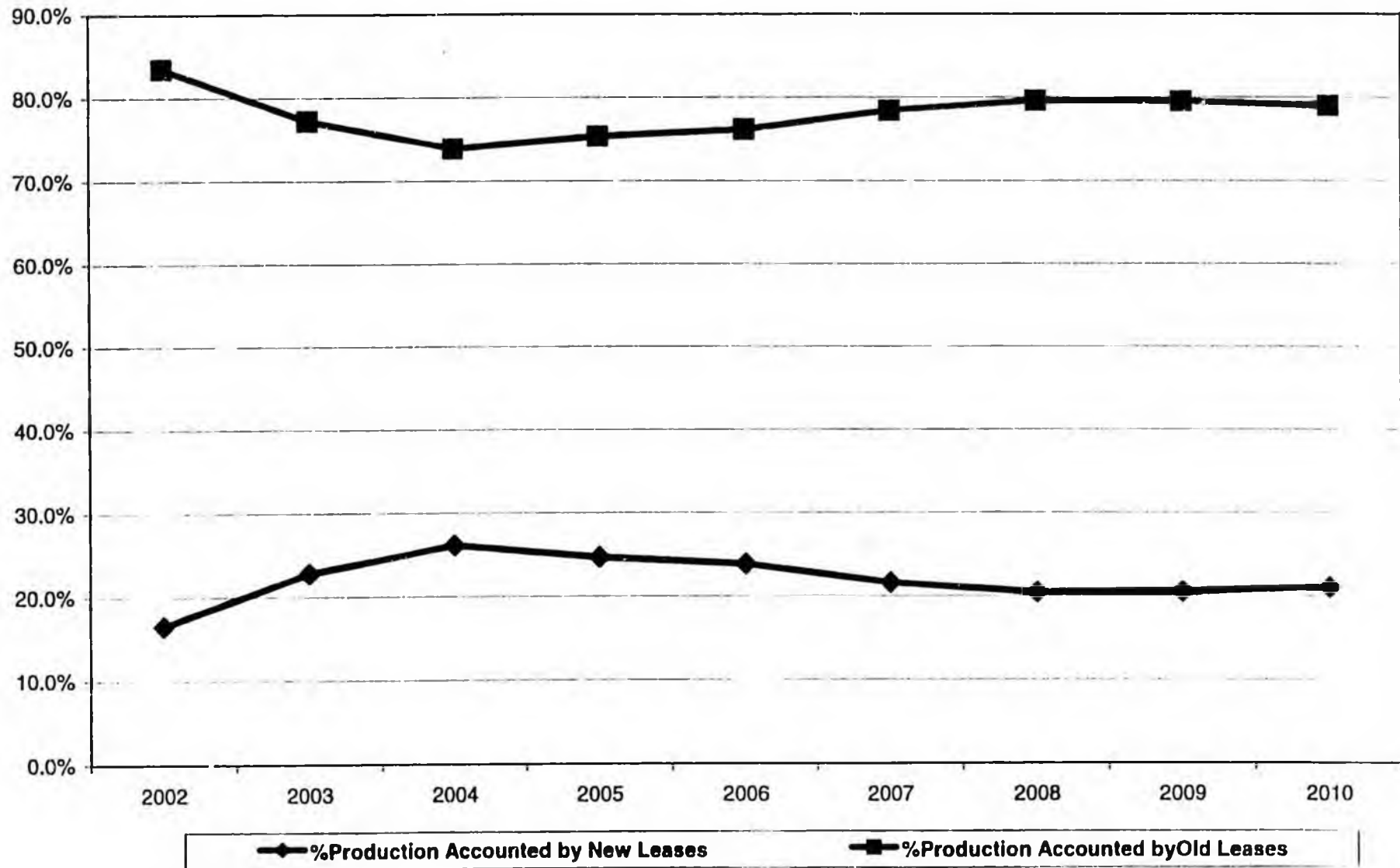
General Fund Gain to HB 11 Millions \$

2004	54.1
2005	45.8
2006	45.3
2007	43.1
2008	37.6
2009	38.5
2010	38.8
Average	43.3

CURRENT PERMANENT FUND CONTRIBUTION RATES FOR NORTH SLOPE OIL FIELDS
ALASKA DEPT. OF REVENUE FALL 2002 FORECAST

% Contributing Oil Fields	FY 2002	Permanent	Greater than 25% Contributing Oil Fields	FY 2002	Permanent	25%*vol	Other*vol
	Prod. Millions Bbl/Day	Fund Average Contribution		Prod. Millions Bbl/Day	Fund Average Contribution		
PRUDHOE	0.4873	0.25	KUPARUK	0.1754	0.2524	0.121824	0.044275
TABASCO	0.0028	0.25	TARN	0.0273	0.4587	0.00071	0.012526
PBU SATELLITES	0.0260	0.25	MELTWATER	0.00321	0.5000	0.006512	0.001605
EIDER	0.0017	0.25	MILNE POINT	0.0397	0.3696	0.000428	0.014689
WEST SAK	0.0060	0.25	SCHRADER BLUFF	0.0117	0.2901	0.001493	0.003407
LISBURNE	0.0102	0.25	SAG RIVER	0.0007	0.5000	0.00255	0.000362
NIAKUK	0.0191	0.25	ENDICOTT	0.0296	0.3169	0.004784	0.00938
EAST BEACH/NORTH PRUDHOE	0.0000	0.25	BADAMI	0.0017	0.5000	5.19E-06	0.000866
			PT MCINTYRE	0.0454	0.3308		0.015002
			ALPINE	0.0956	0.3950		0.037782
			NORTH STAR	0.0200	0.5000		0.009986
			NPRA	0.0000	0.5000		0
			ANWR	0.0000	0.5000		0
			sum			0.138305	0.149879
							0.287124
							0.707876 =wt avg contribution pl & sf
total FY 2002 Production	0.5532			0.4505			1.0037
Estimated Total Production (million Bbl/day)	0.5532			0.4505			1.0037

Alaska North Slope Oil Production from Old (25% to PF) and New (50% to PF) Leases



**Royalties to the General Fund with and without HB11 Based on the Department of Revenue
Fall 2000 Forecast Assumptions**

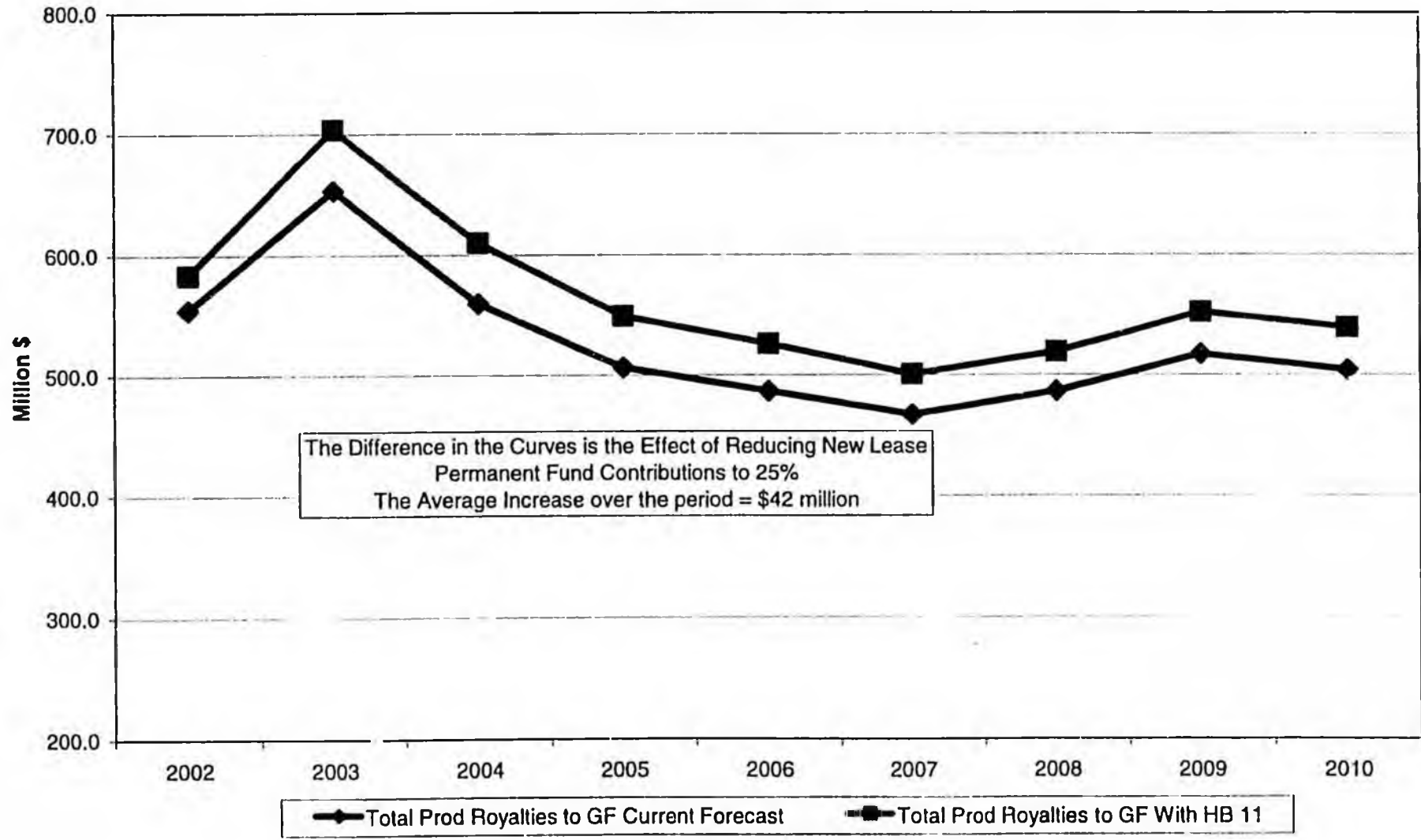


Illustration of the Impact of HB 11 on General Fund Cash Flow--Old Fields and New Fields

Fiscal Year	Perm Fund Factor = Fall 2002- cut)	New Field Extra % to PF	Old Lease Field %	Production	%Production Accounted by New Leases	%Production Accounted by Old Leases	NPRA	Forecast Market Price
2002	0.7079	0.0371	0.25	1.011	16.5%	83.5%		21.78
2003	0.6918	0.0532	0.25	0.994	22.8%	77.2%		25.94
2004	0.6833	0.0617	0.25	0.997	26.1%	73.9%		23.25
2005	0.6870	0.0580	0.25	0.992	24.7%	75.3%		22.00
2006	0.6892	0.0558	0.25	0.971	23.8%	76.2%		22.00
2007	0.6950	0.0500	0.25	0.956	21.6%	78.4%		22.00
2008	0.6980	0.0470	0.25	1.010	20.4%	79.6%	0.030	22.00
2009	0.6978	0.0472	0.25	1.091	20.5%	79.5%	0.065	22.00
2010	0.6964	0.0486	0.25	1.074	21.0%	79.0%	0.090	22.00
2011	0.6972	0.0478	0.25	1.036	20.7%	79.3%	0.095	22.00
2012	0.6996	0.0454	0.25	0.970	19.8%	80.2%	0.088	22.00
2013	0.7017	0.0433	0.25	0.904	18.9%	81.1%	0.079	22.00
2014	0.7036	0.0414	0.25	0.846	18.2%	81.8%	0.071	22.00
2015	0.7058	0.0392	0.25	0.806	17.3%	82.7%	0.064	22.00
2016	0.7065	0.0385	0.25	0.756	17.1%	82.9%	0.058	22.00
2017	0.7078	0.0372	0.25	0.713	16.5%	83.5%	0.052	22.00
2018	0.7089	0.0361	0.25	0.673	16.1%	83.9%	0.047	22.00
2019	0.7100	0.0350	0.25	0.635	15.7%	84.3%	0.042	22.00
2020	0.7112	0.0338	0.25	0.604	15.2%	84.8%	0.038	22.00
Average 2002--2010					21.9%			
Average 2003--2010					22.6%			

Illustration of the Impa

Fiscal Year	Forecast Price Wellhead	Total Prod		Total Bonus to GF	GF Gain from HB 3
		Royalties to GF Current Forecast	Total Prod Royalties to GF With HB 11		
2002	16.80	554.3	583.4		29.1
2003	20.53	653.5	703.8	5.5	53.0
2004	17.88	559.5	609.9	7.2	54.1
2005	16.56	506.2	548.9	6.2	45.8
2006	16.41	486.6	526.0	11.8	45.3
2007	16.30	467.0	500.7	18.8	43.1
2008	16.26	486.4	519.2	9.6	37.6
2009	16.28	517.1	552.1	7.0	38.5
2010	16.17	503.9	539.0	7.3	38.8
2011	16.00	482.9	516.0	6.1	36.1
2012	15.98	455.1	484.6	5.4	32.3
2013	15.78	421.5	447.5	6.0	29.0
2014	15.57	391.5	414.6	6.0	26.1
2015	15.39	371.0	391.6	6.0	23.6
2016	15.17	344.9	363.7	6.0	21.8
2017	14.94	322.2	339.1	6.0	19.9
2018	14.72	301.4	316.8	6.0	18.3
2019	14.48	281.1	295.0	6.0	16.9
2020	14.25	264.3	276.9	6.0	15.6
Average 2002--2010					42.8
Average 2003--2010					

SITE: Kenai LEOL

COMMITTEE: House Finance

DATE: 3-27-03

SUBJECT OF MEETING:

HB 11 Deposits to the Permanent Fund

UPDATE #:



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ADDRESS (MAILING & ZIP)

REPRESENTING

**TESTIFYING?
Y or N**

P R I N T YOUR NAME	ADDRESS (MAILING & ZIP)	REPRESENTING	TESTIFYING? Y or N
Ed Martin, Sr.	44332 Sterling Hwy #36 Soldotna, AK 99669	Self	Y
Email address:			HB 11
Fred Sturman	PO Box 513 Soldotna, AK 99669	Self	Y
Email address:			HB 11
James Price	PO Box 7043 Nikiski, AK 99635	Self	Y
Email address:	jprice@kenai.net		HB 11
Email address:			
Email address:			
Email address:			
Email address:			
Email address:			

SITE: Kenai LIO

COMMITTEE: House Finance

DATE: 3-27-03

SUBJECT OF MEETING:

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UPDATE #:



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P R I N T YOUR NAME

ADDRESS (MAILING & ZIP)

REPRESENTING

TESTIFYING?

Y or N

✓ Ed Martin, Sr.	44332 Sterling Hwy #36 Soldotna, AK 99669	Self	Y
Email address:			HB 11
✓ Fred Sturman	PO Box 513 Soldotna, AK 99669	Self	Y
Email address:			HB 11
✓ James Price	PO Box 7043 Nikiski, AK 99635	Self	Y
Email address:	jprice@kenai.net		HB 11
Email address:			
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