

Leg. Finance - House & Senate Finance Comte Files (1973-74)

SB/HB 1 cont. , 318

I N D E X

T O

SESSION LAWS OF ALASKA

FIRST SPECIAL SESSION - 1973

	Chapter
Appropriation to administer taxes on property used in exploration, etc., of gas or unrefined oil (FSS-SCS CSHB 2 am FCC)	2
Land, relating to lease or sale of state land for pipeline purposes (FSS-SCS CSHB 8)	8
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RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

4/26/89
Date

COMMITTEE REPORT

SENATE

11/2/73

Mr. President:

Date 11/8/73

The Committee on FINANCE has had CS 1111

(BY UNIFORM BILL)
under consideration. A Majority of the members of the Committee

- () recommends it DO PASS
- () recommends it DO NOT PASS
- () recommends it DO PASS WITH ATTACHED AMENDMENT(S)
- (X) recommends it BE REPLACED WITH CS FOR CS 1111 AND THAT

CS FOR CS 1111 I am DO PASS in reported CS 1111

() "and" recommends it BE REFERRED TO THE

COMMITTEE

- () reports it back WITHOUT RECOMMENDATION
- () "other"

Members signing the Majority report:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ Chairman

A M E N D M E N T

Offered in the SENATE

By _____

To: _____ SENATE BILL NO. _____

_____ HOUSE BILL NO. _____

AMENDMENT: Page 8 Line 19

A M E N D M E N T

OFFERED IN THE HOUSE:

By: Finance Committee

To: CS HOUSE BILL No. 1

SENATE BILL No. _____

PAGE: _____

LINE: _____

Page 3, line 3 - After "property" insert "except for the sales tax on the first \$1,000 of each sale" and delete all material in parenthesis and the parenthesis.

Page 3, line 10 - Between the word "operation" and the semi-colon insert "(except for the sales tax on the first \$1,000 of each sale) "

Page 5, line 26 - After the word "property" insert "
", adjusted to take into account any diminution in value"

Page 11, line 8 - After "facilities" before the semi-colon add " : "taxable property" does not include permanent residences or office buildings requiring substantial local government services "

A M E N D M E N T

OFFERED IN THE HOUSE:

BY: Finance Committee

To: cs HOUSE BILL No. 1

SENATE BILL No. _____

PAGE: _____

LINE: _____

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" , adjusted to take into account any diminution in value"

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Return to the House for filing with bill

A M E N D M E N T

OFFERED IN THE HOUSE:

By: Finance Committee

To: CS HOUSE BILL No. 1

SENATE BILL No. _____

PAGE: _____

LINE: _____

- 1 Page 3, line 5 - After "property" insert "except for the sales tax on the first \$1,000 of each sale" and delete all material in parenthesis and the parenthesis.
- 2 Page 3, line 10 - Between the word "operation" and the semi-colon insert "(except for the sales tax on the first \$1,000 of each sale)."
- 3 Page 5, line 26 - After the word "property" insert ", adjusted to take into account any diminution in value"
- 4 Page 11, line 8 - After "facilities" before the semi-colon add " : "taxable property" does not include permanent residences or office buildings requiring substantial local governmental services."

Oct. 17, 1973

COMMITTEE REPORT

HOUSE

Mr. Speaker:

Date October 24, 1973

The Committee on Finance has had House Bill 1

under consideration. A Majority of the members of the Committee

recommends it DO PASS

recommends it DO NOT PASS

recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR 1131 AND THAT
CS FOR 1151 DO PASS

"and" recommends it BE REFERRED TO THE _____
COMMITTEE

reports it back WITHOUT RECOMMENDATION

"other"

Members signing the Majority report:

_____ Specking (S) _____

Members NOT concurring in the Majority report:

MAZURK recommends: NO REC

_____ recommends:

Chairman

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

JUNEAU 99801

MEMORANDUM

TO: Honorable Tom Fink
Speaker
House of Representatives

DATE: October 17, 1973

FROM: Milt Barker
Fiscal Analyst
Legislative Finance

SUBJ: Ad Valorem Tax--
Assessed Value

There is more uncertainty surrounding the value at which the TAPS line will be assessed than has been publicly acknowledged. Although a \$4.5 billion figure is being quoted as the cost of the line, taxable assets will be no more than \$4.0 billion at most since capitalized interest, facilities transferred to the State, and perhaps some other costs will be excluded.

Even the valuation of the taxable assets is open to wide variation. Various methods or factors can be considered in arriving at assessed value including actual cost and the economic value or income stream the line is capable of producing. In instances where the recoverable reserves prove to be less than required to sustain full pipeline operation over its physical life, depreciation is to be accelerated.

Thus, the ad valorem tax as a source of revenue is not entirely insulated from political and economic uncertainties. One possible way to reduce some of these risks might be to set as a minimum assessed value that which the ICC determines as a base for allowed rate-of-return. The oil companies would ordinarily seek higher valuations for this purpose so as to increase their rate-of-return.

It may be of interest to note the relative advantages and disadvantages to the State of increased costs for the pipeline. The ICC allows a maximum return of 7% on investment. Thus, for every additional \$1 million in pipeline cost, TAPS could charge annually an additional \$76,600 in tariffs, assuming 35 years to recover principal and earnings of 7%. If there is a cents-per-barrel tax, the only detriment to the State at the wellhead, which is reduced by the amount of the pipeline tariff increase, is in the royalty. Thus, the State would suffer a loss of 12.5% of the \$76,600 in royalty receipts, or \$9,600. This would be a maximum and would be less if the oil companies sought a lesser rate-of-return on their pipeline operation.

By comparison, if the State has a 20 mill ad valorem tax on the pipeline, every \$1 million of additional assessed value would bring in an additional \$20,000 to the State. This would result in \$13,000 to State government and \$7,000 to local governments if a full 7 mills were shared with local government.

M E M O R A N D U M

TO:

DATE:

FROM: Milt Barker
Fiscal Analyst
Legislative Finance

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Alaska State Legislature

Senate

JUNEAU, ALASKA

NOVEMBER 11, 1973

Honorable Terry Miller,
President of the Senate
Honorable Tom Fink,
Speaker of the House of Representatives

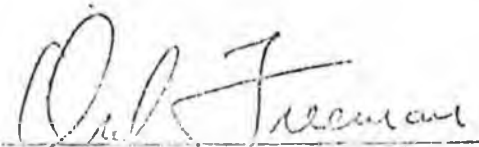
Gentlemen and Members of the Senate and House:

You have directed the attention of the members of the Free Conference Committee that considered Free Conference Committee Substitute for Senate Committee Substitute for Committee Substitute for House Bill No. 1 (ad valorem tax on oil and gas exploration, production and pipeline transportation property) to Section 5 of the bill.

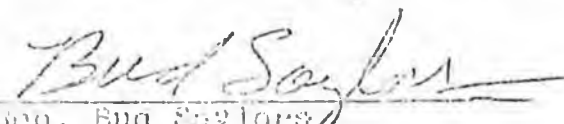
Section 5 of the bill amends AS 29.53.055 to provide that the limitations on municipal taxation proposed in Section 45 as well as those existing limitations in Section 50 of AS 29.53 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonded indebtedness.

The language of Sec. 55 originally was adopted to avoid general obligation bonds being denominated as limited tax bonds which would result in higher interest costs. It is the intent of the Committee that Section 5 of the bill is not intended to expand local governments' right to tax facilities covered by this act but only to give local governments the right in case of default or pending default on bonds to exceed the limits in Sec. 45 and 50 of AS 29.53.

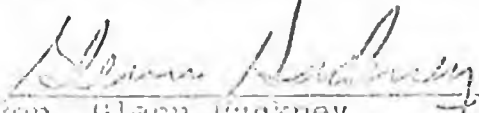

Sen. Bill Ray, Chairman


Rep. Carl Freeman, Chairman


Sen. John Sutrolien


Rep. Bud Saylor


Sen. W. L. Decker


Rep. Glenn Mackney

CITY OF ANCHORAGE, ALASKA
RESOLUTION NO. 69-R-73

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ANCHORAGE, ALASKA, STATING THE POSITION OF THE CITY COUNCIL ON, AND RECOMMENDATIONS CONCERNING, THE OIL INDUSTRY AND PIPELINE LEGISLATION WHICH WILL BE THE SUBJECT OF THE OCTOBER, 1973, SPECIAL SESSION OF THE ALASKA LEGISLATURE.

WHEREAS, certain legislation will be considered by the Alaska Legislature in the October, 1973, Special Session; and

WHEREAS, said legislation involves, among other considerations, the methods by which ad valorem taxes on certain oil-industry-related property will be assessed, collected and disbursed; and

WHEREAS, the City Council, after review of said legislative proposals, has determined that the legislation has a direct and significant impact upon the role of local government and upon the highest and best use of the State's assets; and

WHEREAS, the City Council, after a review and discussion of said legislation, desires to formally state its position upon the basic issues and policies involved in said legislation,

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF ANCHORAGE RESOLVES:

1. The City Council opposes the State's levying of ad valorem taxes within organized cities and boroughs except in those cases covered by paragraph 2, below.

2. In those cases where oil and gas transmission lines cross the boundary lines of organized boroughs or cities in unorganized boroughs within the State we agree with the State's levying ad valorem taxes on such oil and gas transmission lines and on the related collection, storage and distribution facilities necessary to such lines, even though portions of such lines may be within organized cities and boroughs. However, all other real or personal property owned or used by the petroleum industry shall be subject to local ad valorem taxes the same as other properties subject to such taxes.

Page Two

taxes.

3. Preferential treatment should not be given to the oil industry by establishing a maximum rate of taxation different than that contained in State statutes for local government ad valorem taxation.

4. Each local government should be required to uniformly assess and levy ad valorem taxes.

5. Sufficient funds from any State ad valorem tax or taxes should be identified, set aside and appropriated to the benefit of the local governments, both for the purpose of fully funding and expanding general shared revenue and for reimbursement of additional costs of pipeline impacts borne by local governments.

6. Oil or gas pipelines and their related processing systems which have been or are built primarily to supply local areas with gas, oil and other petroleum products should not be subject to State ad valorem taxation in organized local governmental units.

Publication of this resolution shall be made by posting a copy thereof on the City Hall Bulletin Board for a period of ten (10) days following its passage and approval.

Passed and approved by the City Council of the City of Anchorage, Alaska, this 17th day of October, 1973.

ATTEST:

Deanne Pike
City Clerk

George W. Sullivan
Mayor

Ad Valorem Tax

The statewide ad valorem tax on oil and gas properties proposed by Governor Egan is basically the proposal contained in CSHB 245 from last session. Appendix A contains copies of CSHB 245 and a fiscal note outlining both the administrative costs for such a tax and the revenues expected from it.

CSHB 245 and the Governor's proposal both call for a 20 mill tax on the full value of all real and tangible personal property used in the production and transportation of oil and gas. Additionally, the Governor includes taxation of property used in exploration, which would be a reason for his estimate of revenue from this tax having increased to \$125 million when production begins from the fiscal note's estimate of roughly \$90 million. However, inflation accounts for most of this increase because the estimated cost of TAPS has risen from \$3.5 billion to \$4.5 billion.

When the administration's revised revenue projections become available, they will be based on an assessed value of \$4 billion for TAPS because roughly \$500 million of capitalized interest, facilities turned over to the State, etc., will be excluded from taxable assets.

The actual value at which TAPS will be assessed may vary substantially depending on the method of assessment used, especially if the assessed value is tied to the economic value or income stream the line is capable of producing as is frequently done.

Both proposals also call for a 7 mill rebate to the local government in which the taxable property is located. The projections in Appendix A show these rebates. An alternative would be to share 7 mills with all local governments based on population. This could be done in a simple manner by appropriating funds equivalent to the 7 mills to the Municipal Revenue Sharing Program, to be allocated pro rata as a bonus to current entitlements. If some mix of these approaches is desired, the 7 mills, or for that matter, any other millage, could be split--say 3 mills and 4 mills--to be allocated in each of these ways.

Severance Tax

The accompanying charts depict the impact of the proposed change in severance taxation. In the existing North Slope situation, the cents per barrel tax with royalty credit would produce a constant 50¢ per barrel of revenue up to wellhead values of \$2.65; thereafter, the percentage (of wellhead value) severance tax portion of existing law would be in effect because it yields greater revenue (12.5% royalty and 6.4% severance tax after the royalty exemption for a total State take of 19%).

Under Governor Egan's proposed law, there would be a constant 25¢ per barrel severance tax (adding the 12.5% royalty produces the sloping line on the chart) up to a wellhead value of \$3.37; thereafter, the existing percentage severance tax schedule would be in effect.

Thus, for wellhead values above \$3.37, the fiscal impact of either approach will be the same, while for wellhead values between 2.65, the proposed law would yield greater revenue. Below \$2.25, existing law is more advantageous. There is some expectation that wellhead values will be above \$3.37; and thus there would be no increment in revenue over the existing law although the Governor's press release claimed \$30 million of additional revenue for the proposed law.

The second chart shows the Cook Inlet situation. For most wells, the cents per barrel tax portion of existing law is not in effect because the low barrels-per-day production rates cause the percentage tax to yield greater revenue. In Cook Inlet, wellhead values now average \$3.53. At this price, Egan's proposed severance tax would add 1¢ per barrel over existing law, bringing in an additional \$690,590 in revenue in FY 74.

Right-of-Way Leasing

The existing law provides for a right-of-way lease based on the higher of two formulas--one relating to pipeline assets, and the other to net earnings of the pipeline. According to the joint stipulations in the oil companies' suit against the State, the asset formula,

"AS 38.35.140(a), would require a minimum aggregate payment by the TAPS owners to the State of approximately \$72,739,800 (or \$2,078,280 per year), if TAPS were constructed for a throughput capacity of 2,000,000 barrels per day. The minimum aggregate rental payment would be approximately \$67,900,000 (or \$1,940,000 per year) if TAPS were constructed for a throughput capacity of 1,200,000 barrels per day."

Expected revenues under the net earnings formula depend on the manner in which net earnings are calculated. The joint stipulations anticipated three possible variations:

"(1) 'Proposed regulations' multiplies both 'net earnings' and 'total assets' (as those terms are used in AS 38.35.140(a)(2) by a term referred to as the Alaska Land Factor (ALF). The Alaska Land Factor is defined as the length of right-of-way over land in which the state has an ownership interest divided by the total length of the pipeline in the state. Such factor is 0.3181. This formula also provides that in determining 'net earnings', both the minimum rental under AS 38.35.140(a)(1) and the percentage rental

State right-of-way (249 of the 789 miles) is between \$384,248 and \$467,612 assuming a value of \$87 - \$106 per acre. Thus, the revenue to be received under this approach can be expected to be rather small. A common practice in leasing by the Department of Natural Resources has been to charge an annual rental equivalent to 6% of the fair market value.

Staff copy:

TESTIMONY
OF
GUENTER M. CONRADUS
SENIOR ECONOMIST
MATHEMATICAL SCIENCES NORTHWEST, INC.

AGO 787583 +

MSNW

I have been asked by the Borough government of the North Slope Borough to appear before you and testify to the economic effects of various bills presently before this Legislature.

I will confine my testimony to two bills. One bill amends AS 43 by adding a new Chapter Number 56, OIL AND GAS EXPLORATION, PRODUCTION AND PIPELINE TRANSPORTATION PROPERTY TAXES, and is entitled:

"An Act Providing For Taxes On Property Used In The Exploration For, Production Of, Or Pipeline Transportation Of Gas Or Refined Oil; And Providing For An Effective Date."

The other bill amends AS 43.55.010, GROSS PRODUCTION TAX, and is entitled:

"An Act Relating To the Oil and Gas Property's Production Tax; And Providing For An Effective Date."

Before discussing the specific impacts of the proposed legislation on the North Slope Borough and other boroughs within whose boundaries hydrocarbon exploration, production, and transportation occurs, I would like to briefly comment on the rationale for and the principles of taxation in general.

In democratic governments, be they local, state, or national, the people voluntarily tax themselves in order to obtain benefits which cannot be acquired by each individual member of society acting alone, or to obtain those benefits at lower costs. The best example of such a tax is that which is contributed by everybody for the purpose of the common national defense.

POLICY OBJECTIVES OF TAXATION

Taxes are levied, and the real resources acquired by taxation are disbursed, with three objectives in mind:

1. Based upon the will of the people as expressed through their representatives, the total resources available to a society are divided into that segment which is used by private persons for private use and another segment which is used for the common welfare of all citizens. The taxing and expenditure policies allocate the society's total resources between the private and the public sectors.
2. Because the free-enterprise system is not without imperfections, and because such imperfections may threaten the welfare of the society, resources are collected through taxation and redistributed through the budgetary process in order to assure a more equitable distribution of both income and wealth.
3. Because the free-enterprise system does not guarantee economic stability of the system, does not guarantee employment to everyone who is willing and able to work, and does not guarantee the stability of prices, the collection of resources by taxation and their distribution through the budgetary process is designed to stabilize the level of economic activity and assure orderly economic growth.

PRINCIPLES OF TAXATION

Through time, several principles of taxation have evolved. The first principle is that a tax should be equitable. Equitability of taxation requires that a tax be universal and be uniform.

Universality requires that all income or wealth in the same class, or of the same type, should be treated in like manner. Thus, the universality principle requires, for instance, that all property, whether it produces income now or in the future, be taxed - or not be taxed.

The other equity consideration is one of uniformity. All taxable income or wealth in the same class, or of generally the same characteristics, must be taxed at the same tax rate, must bear the same effective tax burden.

The next principle of taxation is that of efficiency. Among alternative taxes which may be levied, that tax which requires the least resources in administration and collection is preferred.

Finally, a "good" tax must be neutral in its effect upon the allocation of economic resources. A preferred tax is one which does not disturb the market forces which allocate goods and services in a free-enterprise system.

GENERAL IMPLICATIONS OF PROPOSED LEGISLATION AMENDING AS 43 AND AS 43.55.010

The proposed amendment to AS 43, Sec. 43.56.010 (a) imposes an annual tax of 20 mills on the full and true value of taxable property.

Sec. 43.56.010 (b) permits political subdivisions to levy a tax not to exceed 7 mills of the full and true value of the taxable property and credits up to 7 mills of the local political subdivisions' tax levy against the 20 mill levy imposed by the State of Alaska.

If this legislation is adopted, the Legislature has, in effect, created a very special class of property. The legislation has the effect that all properties employed in the exploration, production, and pipeline transportation of oil and gas must annually pay to the State and the local governments 20 mills of the full and true value of such properties. I do not know why a tax rate of 20 mills was chosen.

Other classes of property taxed within the State by political subdivisions bear different effective tax burdens. The result of such a fixed tax rate is discriminatory. It imposes on the exploration, production and pipeline transportation properties an effective tax burden which is either higher or lower than that borne by other, like properties located within the boundaries of the various political subdivisions. The proposed tax rate of 20 mills may not only be discriminatory with respect to the effective tax burdens borne by other classes of property but, it may be discriminatory in the context of the income tax.

Any property tax levied on an asset which yields an income stream can be translated into an income tax. For example, an asset that yields a perpetual annual income of \$50.00 with a market rate of interest (discount rate) of ten percent, has a market value of \$500.00. A two-percent (20 mills) tax on the value of the asset results in an annual tax liability by the owner of the asset of \$10.00. We can, alternatively, then express this two-percent property tax on the value of the asset as a percentage of the asset's annual income. Thus, the property tax of two percent can be translated into an income tax of 20 percent ($\$10.00/\50.00). Applying a tax rate different from the 20 mills proposed for oil and gas properties to other income producing property results in a different rate of "income taxation." Suppose that a property which has a market value of \$500.00 and yields \$50.00 in annual income is subject to a 30-mill property tax levy. The payment of the property tax of \$15.00 implies an "income tax" of 30 percent ($\$15.00/\50.00), fully 50-percent greater than that imposed on the property which pays only 20 mills. In order for the

uniformity principle to hold, all classes of wealth which yield an annual income stream and all income from wealth must be subject to the same "income tax."

Sec. 43.56.010 (b) limits the tax rate which can be levied by the political subdivisions to a maximum of 7 mills. I see two problems resulting from such limitation. First, in those jurisdictions where the present effective tax rate on exploration, production, and pipeline transportation properties is less than 7 mills of true and full market value, the full 7 mills will automatically be levied on those oil and gas properties which remain taxable. Not levying the full 7 mills means not accepting a "free good" and transferring locally generated tax funds to the state treasury. Thus, in those jurisdictions where the general tax rate is less than 7 mills, the taxable oil and gas properties would bear a disproportionately larger tax burden. In other jurisdictions with larger general tax rates, the prohibition against levying a local tax in excess of 7 mills against a greatly reduced oil and gas property tax base either requires a reduction of local services or increases the tax burden which must be borne by other, non-oil and gas-related properties within those jurisdictions. Again, the uniformity principle of taxation is violated.

Sec. 43.56.020 violates the uniformity principle of taxation. It exempts certain oil and gas-related properties from taxation and has the effect of creating a "most favored" class of property.

Basic equity considerations require that when oil and gas leases, whether producing or not, are exempt from the property taxation, other leases and leasehold rights, whether producing current income or not, be similarly exempt from taxation. Yet, political subdivisions do presently and will continue to tax leasehold rights of individuals who have recreational properties on State and Federal land, for instance, and will continue to tax other resource leasehold rights.

If property intended to be used primarily for pipeline transportation of gas or unrefined oil, or for the production of gas or unrefined oil to be transported by that pipeline is exempt from taxation, then other properties used for the production and transportation of other commodities must likewise be exempt from the property tax.

If property used in connection with the erection, construction, installation, operation or maintenance of facilities for pipeline transportation of gas or unrefined oil, or facilities for production of gas, or unrefined oil to be transported by that pipeline, will be exempted from taxation, other properties intended for the purpose of constructing, operating, or maintaining other classes of property should have the benefit of equal tax treatment.

The effect of the exemption of one class of property to the exclusion of all other properties is twofold. First, a reduction in the tax liability borne by an asset will be capitalized by the owner and results in a once-and-for-all windfall gain to him. If we assume a tax base consisting of two pieces of property, each of which produces an annual revenue before property taxes of \$60.00, and assume a property tax of

\$10.00 per year, net revenue of \$50.00 is earned by each property. If we further assume a market rate of interest (discount) of ten percent, each property would have a market value of \$500.00 ($\$50.00/\0.10). Exempting one of the two pieces of property from the tax increases its annual net revenue to \$60.00 and, therefore, increases the (tax-exempt) capital value of the asset to \$600.00 ($\$60.00/\0.10), a 20-percent gain.

Secondly, if the community still requires tax revenues of \$20.00 per year and now collects it from the non-exempt asset, its annual net revenue will decrease to \$40.00 and the capital value will fall by 20 percent to \$400.00 ($\$40.00/\0.10). The result of such tax discrimination is that the tax-exempt property now has a 50-percent greater capital value (\$600.00) than the taxed property (\$400.00).

I would hope that this Legislature is aware that the ultimate effect of both Sec. 43.56.010 (a) and (b) and Sec. 43.56.020 (1) to (8) is a windfall gain accruing to one industry at the expense of all other properties and property owners in the State of Alaska and all other industries not equally favored. It results in a highly discriminatory tax structure and leads to a bad allocation of economic resources.

The history of the property tax is replete with evidence that one exemption begets another. Other property owners will rightfully demand equal treatment and the process of the erosion of the tax base begins.

The proposed legislation is very vague about the ownership requirements of exempt properties employed in the exploration, production, and transportation properties. It is not clear whether the tax-exempted

properties are only those owned by the various oil and gas companies and the Alyeska Pipeline Service Company, or whether the exemption also applies to private contractors furnishing goods and services to companies engaged in the exploration, production, and pipeline transportation of gas. If the latter is the case, the ramifications, the economic impact of the legislation are far greater. The question which remains to be answered is "where, and based upon what principles, do the exemptions begin, and where do they end?"

I have stated earlier that exempting certain oil and gas properties from taxation, given certain expenditure requirements on the part of the political subdivisions, will result in increased tax burden borne by the remaining taxable property. This results not only in windfall capital gains to those who are exempt from taxation and windfall capital losses to those who are taxed, but the result is also one of economic inefficiencies.

The property tax, as any other tax, is a cost of doing business. A relatively or absolutely higher tax burden imposed upon the producers of some goods or services translates into relatively higher prices of the taxed goods. The result is that the consumer will reduce his consumption of those goods and services whose price has risen (relatively or absolutely) due to the property tax imposed and his real standard of living is automatically reduced. Conversely, the product produced by tax exempt properties will be priced relatively lower (because of the absence of the property tax) and consumption increases. While increased consumption of a good or service is normally equated with an increased standard of living

(increased well-being), it is not clear that the decrease in the well-being caused by the reduction in the consumption of the taxed good is compensated by the increase in the well-being caused by an increased consumption of the non-taxed good, e.g., petroleum products or natural gas.

Another aspect of exempting oil and gas properties from taxation is the effect the property tax, or its absence, has on the rate of production of oil and gas. If the property tax on oil and gas leases, and oil and gas recoverable from a reservoir is viewed as a tax on inventory, removing such a tax, in fact, provides an incentive not to produce. Imposing a cost on holding an inventory of recoverable oil and gas reserves in place, on the other hand (assuming a market can be found and market prices are not adversely affected by and increase in the supply), stimulates production.

The energy crisis which is upon us and developments in the Middle East (both the price increases demanded by the oil exporting countries and the threat of a total refusal to sell) require that Alaska oil be brought to market as soon as possible. Any incentive to not produce as soon as technically possible and economically practicable, or in the quantities possible, counters our national economic and political objectives.

I have indicated, above, that exempting one class of property from taxation requires that the revenue needs of the political subdivisions must be met by other, still taxable classes of property. Let me assume, however, that oil and gas properties bear their equal, fair share of the total property tax burden borne by all classes of property in the State of Alaska. The question that needs to be answered is, "Who pays the tax?" The final incidence of the property tax can be separated into a tax and

a price component. Any taxes paid by owners of property used in the exploration, production, and transportation of oil and gas, including taxes on leaseholds, are considered a business expense for the purpose of reporting federal income tax liabilities and are deductible. An increase in business expenses of \$1.00 (due to the property tax) implies a real increase in cost to the corporation of only \$0.52, given a 48-percent corporate income tax. Thus, approximately one-half of any oil and gas property tax revenues raised in the State of Alaska are effectively borne by all taxpayers, in fact, all citizens of the fifty states of the Union.

Since property taxes paid increase the cost of oil products and natural gas produced for sale in the market place, the market price of petroleum products and natural gas must, in the long-run, rise to cover all costs of production, including the property taxes. While it is impossible to determine precisely who bears the burden of the increase of the prices of petroleum products and natural gas without knowing what the consumers' response to price increases is, it is clear that Alaska consumers will bear but a very small fraction of the increased cost. An overwhelming percentage of the petroleum and the natural gas extracted from Alaska properties will be exported to the lower 48 states. The consumers there will ultimately end up providing the revenues which are vital to the political subdivisions as well as the State of Alaska as a whole.

THE IMPACT ON THE NORTH SLOPE BOROUGH

I should now like to turn to the specific impact of the proposed legislation on the North Slope Borough. I have reviewed the Borough's budget documents for the fiscal years 1972-1973 and 1973-1974.

The North Slope Borough relies very heavily on the property tax as its primary source of revenues. As Table 1 shows, the property tax represented 72.5 percent of all revenues collected during the fiscal year 1972-1973 and represented 78.4 percent of all revenues projected to be collected during the fiscal year 1973-1974. As Table 2 indicates, the property tax in the United States, as a whole, contributed only 39.8 percent of total local government revenue. In 1966-1967, the last year for which a census of government is available, property tax revenues constituted 33.2 percent of total local Alaska government (Table 3).

Equally startling is the observation that intergovernmental transfers represented only 10.8 percent and 8.3 percent of total revenues received by the North Slope Borough in FY 1973 and projected for FY 1974, respectively. This compares with a U.S. average receipt of intergovernmental revenues by local governments of 37.5 percent in 1970-1971. In 1966-1967, intergovernmental transfers provided 33.2 percent of total revenues received by all Alaska local governments (Table 3).

The above figures point out two facts. First, the North Slope Borough relies heavily upon the property tax as a source of funds to meet both operating expenditures and capital programs. Secondly, the admittedly brief history does not warrant any reliance on intergovernmental transfers as a significant source of borough revenues.

TABLE 1

NORTH SLOPE BOROUGH REVENUES
BY SOURCE, BY 1973 and FY 1974
(dollars)

<u>Source of Revenue</u>	FY 1973		FY 1974	
	<u>Total Revenue</u>	<u>% of Total Revenue</u>	<u>Total Revenue</u>	<u>% of Total Revenue</u> ¹
Property Taxes	\$1,564,200	72.5	\$4,199,300	78.4
Sales Taxes	303,000	14.1	707,000	13.2
Licenses & Permits	1,000	0.1	1,000	0.02
Fines & Forfeitures	---	---	---	---
Intergovernmental Revenue	233,400	10.8	446,300	8.3
Charge for Services	5,000	0.2	5,000	0.1
Miscellaneous	50,000	2.3	---	---
	<u>\$2,156,600</u>	<u>100.0</u>	<u>\$5,358,600</u>	<u>100.2</u>

Source: North Slope Borough, Budget Document for FY 1973 and FY 1974.

¹Does not add to 100 due to rounding.

TABLE 2
 LOCAL GOVERNMENT FINANCES FOR THE UNITED STATES
 1970 - 1971⁽¹⁾

<u>REVENUE</u>		<u>PERCENT</u>
INTERGOVERNMENTAL		37.5
From State Government	33.8	
From Federal Government	3.7	
	<hr/>	
FROM LOCAL SOURCES		62.5
Taxes	47.1	
Property	39.8	
Other	7.3	
	<hr/>	
Charges and Miscellaneous	15.4	
	<hr/>	
	TOTAL	100.0
<u>EXPENDITURE</u>		<u>PERCENT</u>
EDUCATION		46.5
Local Schools	43.8	
Higher Education	2.5	
	<hr/>	
FUNCTIONS OTHER THAN EDUCATION		53.7
Public Welfare	8.2	
Highways	6.1	
Health and Hospitals	6.2	
Police	4.7	
Interest on Debt	3.5	
Sewerage	2.8	
Fire Protection	2.5	
Parks and Recreation	2.2	
General Control	2.3	
Other Sanitation	1.5	
Financial Administration	1.2	
Other ⁽²⁾	12.4	
	<hr/>	
	TOTAL	100.0

¹U. S. Bureau of the Census, Local Government Finances in Selected Metropolitan Areas and Large Counties: 1970-1971, Series GF71, No. 6, U. S. Government Printing Office, Washington, D.C., 1972.

²Airports, Correction, Public Buildings, Housing and Urban Renewal, Libraries, Natural Resources, Parking, Water Transport and Terminals.

TABLE 3

GOVERNMENTAL FINANCES

23

Table 18. Finances of Local Governments and the State in Detail, by Level of Government:
1966-67
(Thousands of dollars)

Item	Total	State	Local
REVENUE	1,317,490	259,481	83,445
GENERAL REVENUE ONLY	1,290,273	243,250	72,453
INTERGOVERNMENTAL REVENUE	150,332	147,326	28,437
FROM FEDERAL GOVERNMENT	150,332	147,103	3,229
FROM STATE GOVERNMENT	(1)	-	25,209
FROM LOCAL GOVERNMENTS	(1)	223	(1)
REVENUE FROM OWN SOURCES	167,153	112,155	55,003
GENERAL REVENUE FROM OWN SOURCES	139,942	95,924	44,015
TAXES	65,843	58,169	27,674
PROPERTY	21,135	-	21,135
SALES AND GROSS RECEIPTS	21,346	16,198	5,148
GENERAL	5,078	-	5,078
SELECTIVE	16,269	16,198	70
MOTOR FUEL	7,077	7,077	-
ALCOHOLIC BEVERAGES	3,406	3,406	-
TOBACCO PRODUCTS	3,655	3,655	-
PUBLIC UTILITIES	317	247	70
OTHER	1,803	1,603	-
MOTOR VEHICLE LICENSES	4,306	4,306	-
INDIVIDUAL INCOME	22,692	22,692	-
OTHER AND UNALLOCABLE	16,353	14,973	1,380
CHARGES AND MISCELLANEOUS	54,099	37,755	16,343
CURRENT CHARGES	24,118	15,575	10,543
EDUCATION	699	3,814	1,855
SCHOOL LUNCH SALES (GROSS)	433	-	1,433
OTHER	267	3,814	453
HOSPITALS	-	-	-
SEWERAGE	6	-	4
SANITATION OTHER THAN SEWERAGE	735	-	735
LOCAL PARKS AND RECREATION	32	-	32
NATURAL RESOURCES	497	497	-
HOUSING AND URBAN RENEWAL	563	563	-
AIRPORTS	3,752	3,688	74
WATER TRANSPORT AND TERMINALS	807	-	807
PARKING FACILITIES	247	-	247
OTHER AND UNALLOCABLE	13,776	7,017	6,759
SPECIAL ASSESSMENTS	506	-	506
SALE OF PROPERTY	1,553	1,410	135
INTEREST EARNINGS	7,456	6,171	1,285
OTHER AND UNALLOCABLE	18,455	14,591	3,874
UTILITY REVENUE	10,870	-	10,870
WATER SUPPLY	2,586	-	2,586
ELECTRIC POWER	8,284	-	8,284
TRANSIT	-	-	-
GAS SUPPLY	-	-	-
LIQUOR STORES REVENUE	-	-	-
INSURANCE TRUST REVENUE	16,346	16,231	115
UNEMPLOYMENT COMPENSATION	11,079	11,079	-
EMPLOYEE RETIREMENT	5,224	5,109	115
OTHER	43	43	-

Source: U.S. Bureau of the Census, Census of Government, 1967, Vol. 7: State Reports No. 2, Alaska, U. S. Government Printing Office, Washington, D.C., 1967, p. 23.

AGO 787597

The provision of vital social services such as local education, sewage treatment facilities, adequate and safe water supplies, and the creation of social capital is directly related to the Borough's ability to raise revenues through the taxation of properties within its boundaries. Any capacity to raise funds by the sale of general obligation bonds secured by the credit of the Borough is constrained by the local tax base. If this Legislature removes taxable properties from the jurisdiction of the boroughs, or eliminates the tax base via exemptions, it in effect stops any local development which is underway or has been planned for future years.

Sec. 43.56.010 (b) "permits" the North Slope Borough to levy a property tax not to exceed 7 mills on the full and true value of taxable property. But, the effect of Sec. 43.56.020 is to remove from the local jurisdiction the tax base to which a 7-mill levy may be applied; 0.07 percent (7 mills) times 0 equals 0. Permitting local jurisdictions to levy seven percent on a nonexistent tax base is a cruel hoax indeed.

The Advisory Commission on Intergovernmental Relations, in 1963, stated:

One factor that should be kept in view in determining the future position of the property tax is its close alignment with the outlook for local self-government. It is the only major tax adaptable to local use generally, regardless of the size and nature of the local jurisdiction. Aside from being a good revenue producer, it has the dependability and adjustability that local government needs. The required revenue yield can be obtained from year to year with a convenient range of flexibility and a satisfactory degree of precision, and the collectibility of both classes of property taxes is assured by an enforceable lien on the property.¹

¹ Advisory Commission on Intergovernmental Relations, The Role of the States in Strengthening the Property Tax, Vol. 1, U.S. Government Printing Office, Washington, D.C., June 1963, pp. 68, 69 (underlining supplied).

Removing this (oil and gas property) segment of the tax base from taxation and, perhaps next year, another segment, will ultimately lead to the total erosion of the tax base of the Alaska Boroughs and will result in the complete dependence of local government on the transfer of funds from the State or the Federal governments.

Reform of the property tax so that it may become a more powerful source of local revenue, will require the erosion of the base of the property tax be halted and even reversed. This also is mainly a task for state governments. Some of the erosion is so long-established and so widely spread so as to be "impervious to question" ... But local governments can fairly ask that the exemptions not be broadened ... Erosion by state legislation to provide hidden subsidies to private persons or firms is highly questionable.²

Reducing the tax base of the North Slope Borough to a fraction of its full-market value, has the effect of making its citizens wards of the State. Should that come to pass, one can only hope that the sovereign is generous and that intergovernmental transfers from the state government to the North Slope Borough government will equal the loss of present and expected future property tax revenue.

Rational and successful planning requires that the planners are assured of the resources necessary to implement their plans. The annual dependence upon the State appropriations process introduces elements of risk and uncertainty into the planning processes and will make effective local planning impossible.

Another aspect of the proposed legislation is its impact on local employment. If, as Sec. 43.56.060 proposed, the responsibility of

²J. A. Maxwell, Financing State and Local Governments, The Brookings Institution, Washington, D.C., January 1965, pp. 149, 150.

assessing oil and gas properties is transferred to the State Department of Revenue, the need for local assessment ceases. Since oil and gas properties represent an overwhelming fraction of the North Slope Borough's tax base, it follows that native employment in the Borough's Assessment Office will decrease significantly. The Borough has, over the past two years, invested heavily in native skills required for professional tax appraisal and assessment. These skills will be lost to the Borough. The staff of the Assessor's Office will either leave the area and seek employment outside of the Borough, or seek alternative, non-related employment in the Borough, or join the ranks of the unemployed. Either of the three alternatives robs the Borough of vital human skills.

Should the result of Sec. 43.56.060 be the creation of a parallel state assessment bureaucracy without reducing the employment in the local Assessor's Offices, the cost of collecting the property tax increases and efficiency criterion of taxation is violated.

ON CENTRAL ASSESSMENT

The most frequently voiced criticism of the property tax is that it lacks universality and uniformity, both within and between taxing jurisdictions as well as within and between classes of property.

The most frequent remedy called for (other than outright abolition of the property tax) is the elimination of inequitable assessment, competitive underassessment, and tax exemptions.

The assessment of Alaskan oil and gas-released properties based on statewide standards will be a step in the right direction. Joint state and local assessments by mutually agreed to standards is another alternative partial solution. But, if the state (or state and local) assessment standards applied to the oil and gas industry differ from those applied to other industries or other property, the result will be discriminatory.

If a fixed tax rate is employed in determining the oil and gas industries' tax liability, and that rate differs from those imposed in the various jurisdictions where the properties are located, differential effective tax burdens are imposed.

In order to mitigate any inequality of the treatment of properties in the same class, I propose that oil and gas properties be assessed by the state or joint state and local assessors in the same manner as other properties. Once the tax base has been determined, each jurisdiction may levy that tax rate prevailing within its jurisdiction. Thus, at least one of the variables which causes differential tax liabilities, the determination of the tax base, becomes a known constant.

SUMMARY

The proposed legislation amending AS 43 by adding Chapter 56 and amending AS 43.44.010 has a number of serious short and long-run implications.

The immediate effect is that the property tax bases of a number of political subdivisions of the State of Alaska will virtually disappear at the stroke of midnight on December 31, 1973. The magnitude of the

problems created for the local jurisdictions by the disappearance of the tax base can not yet be fully assessed. But, it is clear that existing plans for the operation of local governments and long-run capital improvements will have to be drastically altered.

For the long-run, this legislation represents the first step into the exemption inferno which has, for many decades, plagued most other states of the Union.

Discriminatorily exempting certain oil and gas properties from property taxation will raise the tax burden which must be borne by the rest of the property owners, will produce the justifiable demand for equal treatment by other taxpayers, and will result in the erosion of the traditional tax base of local governments and cause their complete financial dependence upon the state.

Statutorily fixing property tax rates at the state level removes one of the virtues of the property tax, its responsiveness to local needs and local conditions. The administration of the tax by the State Department of Revenue will create another level of bureaucracy, may duplicate local efforts, and may increase the cost of tax collection. Alternatively, if the state were to assume all the functions presently performed by the local assessors, skilled personnel may be forced to relocate, or find themselves in the ranks of the unemployed.

Exempting certain Alaskan oil and gas properties from property taxation may reduce the incentive to produce oil from known fields and reduce the state's total revenue from all taxes. Alaska will not benefit

from such tax exemptions. The result is that either market prices for petroleum products and natural gas paid by consumers in the lower 48 states are slightly reduced (the property tax constitutes but a very small fraction of the total cost of producing products for sale in the market), or that corporate profits increase.

MEMORANDUM

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

TO: V. Kent Dawson
Fiscal Analyst
Budget and Audit Committee

DATE : October 16, 1973

FROM: Byron I. Mallott *BIM*
Commissioner

SUBJECT:

I have given consideration to the matter of establishment of the State Assessment Review Board and assignment of assessment responsibilities, relative to property used in the exploration, production, and transportation of oil and gas, to the Department of Revenue in light of the municipal assessment functions monitored and supported by this Department, and suggest that the apparent differences in scope and purpose of the assessment of the referenced property, as set forth in the package submitted for legislative action, warrant separate placement.

Levy and collection of ad valorem taxes in the manner proposed by the referenced legislation is principally intended to return revenue to the State and, as such, is within the purview of that executive department principally concerned with collection, custody, and management of State funds. As a major source of revenues for continuing State programs, I am certain that the Department of Revenue will give close attention to activity that attends petroleum production on transportation activity, developing a system of accounting and assessment that values the subject property in a uniform manner.

This Department's assessment program has been limited to monitoring the practices of Alaska's municipalities, preparation and revision of a handbook on cost appraisal and other guidelines for municipal assessing, computation and determination of the full and true value of real and personal property as an adjunct of the school district Foundation Program, and direct responsibility in approving rebates to municipal governments for the senior citizens' property tax exemption.

Assessment procedures supportive of uniform treatment of oil and gas production properties preliminary to levy of ad valorem taxes for State functions is not a matter such that responsibility for assuring return of revenues should be placed in an executive department with mandate to provide maximum assistance to political subdivisions.

If, however, the Legislature suggests amendment or deletion of that provision vesting assessment, levy and collection in the State, reserving the ad valorem tax power to municipal governments in which the subject property has a situs or resolving to shift the emphasis such that municipalities may be provided a greater share of revenues received, consideration

V. Kent Dawson

-2-

October 16, 1973

may properly be given to the participation of the Department of Community and Regional Affairs in review and supervision of the individual efforts of political subdivisions in determining property values. Should the Legislature alternatively provide that revenues received from an ad valorem tax levied on oil property by the State be shared in some manner with all local governments, consideration may also properly be given to the participation of this Department in the administration of that sharing to the extent that State local governmental policy and programs may be maximized by that participation.

AGO 787605

Original sponsor: Rules Committee by
request of the Governor

Offered: 11/10/73

1 IN THE HOUSE

BY THE FREE CONFERENCE COMMITTEE

2 FREE CONFERENCE CS FOR SENATE CS FOR CS FOR HOUSE BILL NO. 1

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 EIGHTH LEGISLATURE - FIRST SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act providing for taxes on property used in the
7 exploration for, production of, or pipeline trans-
8 portation of gas or unrefined oil; and providing for
9 an effective date."

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

11 * Section 1. AS 43 is amended by adding a new chapter to read:

12 CHAPTER 56. OIL AND GAS EXPLORATION, PRODUCTION AND
13 PIPELINE TRANSPORTATION PROPERTY TAXES.

14 Sec. 43.56.010. LEVY OF TAX. (a) An annual tax of 20 mills
15 is levied each tax year beginning January 1, 1974, on the full and true
16 value of taxable property taxable under this chapter.

17 (b) A municipality may levy and collect a tax under AS 29.53.045
18 at the rate of taxation that applies to other property taxed by the
19 municipality. A tax collected by a municipality as authorized by
20 AS 29.53.045 shall be credited against the tax levied under (a) of this
21 section and shall be levied at a rate no higher than the rate applicable
22 to other property taxable by the municipality. No municipality may
23 exempt from taxation property authorized to be taxed under this chapter.
24 Exemptions shall be limited to those in AS 29.53.020 and 29.53.025 and
25 sec. 20 of this chapter.

26 (c) If the total value of assessed property of a municipality
27 taxing under AS 29.53.045(c) exceeds the product of 225 per cent of
28 the average per capita assessed full and true value of property in
29 the state (to be determined by the Department and reported to each

1 municipality by January 15 of each year) multiplied by the number of
2 residents of the taxing municipality, the department shall designate the
3 portion of the tax base against which the local tax may be applied.

4 Sec. 43.56.020. EXEMPTIONS. (a) The following are exempt from
5 local taxes levied or authorized under sec. 10(b) of this chapter.

6 (1) property rights attached to or inherent in the right
7 to explore for or produce oil or gas;

8 (2) oil or gas leases or properties, whether producing or
9 not;

10 (3) oil or gas in place;

11 (4) oil or gas produced or extracted in the state;

12 (5) the value of intangible drilling expenses and exploration
13 expenses;

14 (6) an interest in property described in AS 43.55.010(b);

15 (7) before the construction commencement date, property
16 taxed under sec. 10(a) of this chapter which is committed by contract
17 or other agreement for use in this state primarily for pipeline trans-
18 portation of gas or unrefined oil or for the production of gas or un-
19 refined oil to be transported by that pipeline;

20 (8) before the construction commencement date, property taxed
21 under sec. 10(a) of this chapter which is committed by contract or other
22 agreement for use in this state primarily in the operation or mainten-
23 ance of facilities for pipeline transportation of gas or unrefined oil,
24 or facilities for production of gas or unrefined oil to be transported
25 by that pipeline.

26 (b) In (a)(2) of this section, "properties" means mineral inter-
27 ests in oil and gas and working interests, royalty interest, and over-
28 riding royalty interests in oil and gas leases.

29 Sec. 43.56.030. IN PLACE OF OTHER TAXES. Except for those taxes

1 imposed under ch. 55 and ch. 57 of this title, the taxes levied or
2 authorized under sec. 10(b) of this chapter are in place of

3 (1) all other ad valorem taxes or other taxes imposed by
4 a municipality on property subject to tax under this chapter or
5 exempted from taxation by sec. 20 of this chapter, and

6 (2) all other taxes imposed by a municipality on or with
7 respect to the property subject to tax under this chapter or exempted
8 from taxation by sec. 20 of this chapter, including, but not limited to,

9 (A) taxes on the retail sale or use of the property
10 except for the retail sales tax on the first \$1,000 of each sale;

11 (B) taxes on the sale or use of gas or unrefined oil;

12 (C) taxes on the sale or use of services used in or
13 associated with the property or in its erection, construction,
14 maintenance or operation except for the sales tax on the first
15 \$1,000 of each sale;

16 (D) taxes on or measured by gross or net income from
17 the property, including income from the exploration for, production
18 of, or pipeline transportation of gas or unrefined oil or property;
19 and

20 (E) any license, excise, fee, charge or other tax on
21 or pertaining to the property or services.

22 Sec. 43.56.040. STATE ASSESSMENT REVIEW BOARD. The State
23 Assessment Review Board is created within the Department of Revenue.
24 The board consists of five persons appointed by the governor to serve
25 at his pleasure, each of whom must be knowledgeable of assessment
26 procedures. Each board member is subject to confirmation by a majority
27 of the members of the legislature in joint session.

28 Sec. 43.56.050. PER DIEM AND EXPENSES. Members of the board
29 shall receive per diem and expenses authorized by law for boards and

1 commissions.

2 Sec. 43.56.060. ASSESSMENT. (a) The department shall assess
3 property for the tax levied under sec. 10(b) of this chapter and
4 AS 29.53.045 on property used or committed by contract or other agree-
5 ment for use for the pipeline transportation of gas or unrefined oil
6 or for the production of gas or unrefined oil at its full and true
7 value as of January 1 of the assessment year.

8 (b) The department shall assess property for the taxes levied
9 under sec. 10(a) of this chapter at its full and true value as of
10 January 1 of the assessment year except that in the case of taxable
11 property used or committed by contract or other agreement for the
12 pipeline transportation of gas or unrefined oil or for the production
13 of gas or unrefined oil to be transported by that pipeline, the first
14 assessment date shall be the construction commencement date. If the
15 construction commencement date is used as the assessment date, the tax
16 payable shall be prorated on the basis of the assessment year remaining.

17 (c) The full and true value of taxable property used or committed
18 by contract or other agreement for use in the exploration for gas or
19 unrefined oil, or in the operation or maintenance of facilities for the
20 exploration for gas or unrefined oil, is the estimated price which the
21 property would bring in an open market and under the then prevailing
22 market conditions in a sale between a willing seller and a willing
23 buyer both conversant with the property and with prevailing general
24 price levels.

25 (d) The full and true value of taxable property used or committed
26 by contract or other agreement for the production of gas or unrefined
27 oil or in the operation or maintenance of facilities for the production
28 of gas or unrefined oil is:

29 (1) on the construction commencement date the actual cost

1 incurred or accrued with respect to the property as of the date of
2 assessment;

3 (2) determined on each January 1 thereafter on the basis
4 of replacement cost less depreciation based on the economic life of
5 proven reserves.

6 (c) The full and true value of taxable property used or committed
7 by contract or other agreement for pipeline transportation of gas or
8 unrefined oil or in the operation or maintenance of facilities for
9 the pipeline transportation of gas or unrefined oil is:

10 (1) on the construction commencement date and until
11 January 1 following the date the pipeline begins to transport gas or
12 unrefined oil, the actual cost incurred or accrued with respect to the
13 property as of the date of assessment;

14 (2) determined on each January 1 thereafter with due regard
15 to the economic value of the property based on the estimated life of
16 the proven reserves of gas or unrefined oil then technically, economi-
17 cally and legally deliverable into the transportation facility;
18 however, if the proven reserves of gas or unrefined oil then techni-
19 cally, economically and legally deliverable indicate an economic life
20 materially shorter than the estimated physical life of the transporta-
21 tion facility, the full and true value is the actual cost reduced by
22 an annual allowance for depreciation on a straight line basis over
23 an economic life based on the actual elapsed life from the commencement
24 of full operation to the date of assessment plus the estimated remain-
25 ing life of the proven reserves of gas and unrefined oil then techni-
26 cally, economically and legally deliverable into the transportation
27 facility as of the date of the assessment;

28 (3) on the assessment date next following inability to use
29 or construct all or a substantial part of the facility for a period of

1 90 or more consecutive days because of natural disaster or legal pro-
2 hibition, or other events beyond the control of a person having owner-
3 ship or control of the property, adjusted to take into account any
4 diminution in value.

5 (f) For purposes of this section, "actual cost" and "replacement
6 cost" do not include interest capitalized before or during the period
7 of construction nor the value of intangible drilling expenses. In
8 the case of taxable property under construction, "actual cost" for
9 purposes of this section means the costs incurred or accrued with
10 respect to the property as of the date of assessment.

11 (g) The department may enter into agreements with a municipality
12 for the cooperative or joint administration of the assessing authority
13 conferred on the department by this section.

14 Sec. 43.56.070. RETURNS. (a) The department may require by
15 notice every person having ownership or control of an interest in
16 property taxable under this chapter to submit a return in the form
17 prescribed by the department, based on property values existing on
18 January 1 of each year, except as otherwise provided in this chapter.

19 (b) The department by written notice may require a person to
20 provide additional information within 30 days of the notice.

21 Sec. 43.56.080. INVESTIGATION. (a) The department may make an
22 investigation of property on which a return has been filed or of
23 taxable property upon which no return has been filed. In either case,
24 the department may make its own valuation of the taxable property,
25 which is prima facie evidence of full and true value.

26 (b) An employee or agent of the department may enter any premise
27 necessary for the investigation during reasonable hours and may examine
28 property and appropriate records. The owner of the taxable property
29 upon request shall furnish to the employee or agent of the department

1 reasonable assistance required for the investigation. If refused entry,
2 the department may seek a court order to compel entry.

3 (c) For the purpose of the investigation the owner of the taxable
4 property or his representative may be required to present himself for
5 examination under oath by the department.

6 Sec. 43.56.090. ASSESSMENT ROLL. The department shall prepare
7 annually the assessment roll for taxation under this chapter. The
8 roll shall contain:

- 9 (1) a description of all taxable property;
10 (2) the assessed value of all taxable property;
11 (3) the names and addresses of persons owning property
12 subject to assessment and taxation.

13 Sec. 43.56.100. ASSESSMENT NOTICE. (a) On or before March 1
14 of each year, the department shall send to every owner of taxable
15 property named in the assessment roll a notice of assessment, showing
16 the assessed value of the property. Notice of assessment is effective
17 on the date of mailing.

18 (b) The department shall send to a municipality a copy of the
19 notice of assessment on any taxable property which is assessed under
20 the provisions of this chapter and which is located in the municipality
21 and on which a tax is authorized under sec. 10(b) of this chapter.

22 Sec. 43.56.110. APPEAL TO THE DEPARTMENT. (a) An owner of
23 taxable property or a municipality receiving an assessment notice may
24 object to the assessment by advising the department in writing of the
25 objections to the assessment within 20 days of the effective date of
26 the notice.

27 (b) The department shall provide by regulation for notices of
28 appeals to interested persons and municipalities.

29 (c) Following an objection the department may adjust the assess-

1 ment and the assessment roll. An adjustment based on an objection
2 from an owner of taxable property or a municipality shall be made
3 within 30 days of the effective date of the notice of assessment.

4 Sec. 43.56.120. APPEAL TO THE STATE ASSESSMENT REVIEW BOARD.

5 (a) After a ruling by the department on an appeal made under sec. 110
6 of this chapter, the owner or a municipality may further appeal to the
7 board. The appeal must be filed in writing within 50 days of the
8 effective date of the notice of assessment.

9 (b) The board shall provide by regulation for notices of appeals
10 to interested persons and municipalities.

11 Sec. 43.56.130. HEARINGS OF STATE ASSESSMENT REVIEW BOARD. (a)
12 The board shall hear appeals filed under sec. 120(a) of this chapter.

13 (b) A majority of the board constitutes a quorum required to
14 transact business.

15 (c) The board shall provide by regulation for notices of hearings
16 to interested persons and municipalities.

17 (d) If an appellant fails to appear at the hearing, the board
18 may proceed with the hearing in his absence.

19 (e) The appellant bears the burden of proof at the hearing.

20 (f) The only grounds for adjustment of assessed value is proof of
21 unequal, excessive or improper valuation or valuation not determined in
22 accordance with the standards set out in this chapter, based on
23 facts stated in a written appeal timely filed or proved at the hearing.

24 (g) The board shall certify its determinations to the department
25 within seven days of the hearing.

26 (h) The department shall enter the changes and certify the final
27 assessment roll on or before June 1 of each year and by July 1 shall
28 mail to the owner of taxable property or his authorized agent a
29 statement of the amount of tax due.

1 (i) An owner or municipality may appeal to the superior court
2 for, and is entitled to, trial de novo of the board's action.

3 Sec. 43.56.140. SUPPLEMENTARY ASSESSMENT ROLLS. The department
4 shall include property omitted from the assessment roll on a supple-
5 mentary roll, using the procedures set out in this chapter for the
6 original roll.

7 Sec. 43.56.150. COLLECTION AND DEPOSIT. (a) The tax levied by
8 sec. 10(a) of this chapter is payable to the department on or before
9 September 30 of the taxable year.

10 (b) The department may provide for voluntary prepayment and for
11 payment by installments.

12 (c) The tax levied under sec. 10(a) of this chapter, interest
13 and penalties collected with respect to this levy shall be deposited
14 in the general fund.

15 Sec. 43.56.160. INTEREST AND PENALTY. When the tax levied by
16 sec. 10(a) of this chapter becomes delinquent, a penalty of 10 per cent
17 shall be added. Interest on the delinquent taxes, exclusive of penalty,
18 shall be assessed at a rate of eight per cent a year.

19 Sec. 43.56.170. LIEN FOR TAX. The tax levied under sec. 10(a)
20 of this chapter and the interest and penalty provided in sec. 160 of
21 this chapter are first and paramount liens on the property subject to
22 tax under this chapter.

23 Sec. 43.56.180. REMEDY. The remedy of distraint of property
24 set out in AS 43.20.270 applies to the tax levied by sec. 10(a) of
25 this chapter. However, only property subject to the tax may be dis-
26 trained.

27 Sec. 43.56.190. PENALTIES. A person who knowingly fails to
28 file a return when due, or who makes a false statement in a return
29 required under this chapter with intent to evade taxation is guilty of

1 a misdemeanor and upon conviction is punishable " a fine of not more
2 than \$1,000 or by imprisonment for not more than six months, or by both,
3 together with the costs of prosecution, notwithstanding the provisions
4 of AS 12.80.030.

5 Sec. 43.56.200. REGULATIONS. The board and the department may
6 adopt regulations in accordance with the Administrative Procedure Act
7 (AS 44.62) as appropriate to carry out their respective duties under
8 this chapter.

9 Sec. 43.56.210. DEFINITIONS. In this chapter

10 (1) "board" means State Assessment Review Board;

11 (2) "construction commencement date" means the earlier
12 of April 1, 1974 or the date the following occur:

13 (A) there has been issued to the owner or his agent
14 right-of-way permits, leases, and title and other rights in lands,
15 and other approvals, permits, licenses and certificates, by
16 federal, state and local agencies that a reasonable and prudent
17 person would consider adequate to commence construction of the
18 facilities in the expectation that all other approvals, permits,
19 licenses and certificates necessary for the completion of
20 facilities will be obtained;

21 (B) all approvals, permits, licenses and certificates
22 are in full force and effect, unrevoked and without any modifi-
23 cation, which might jeopardize the completion or continued
24 construction of the facilities; and

25 (C) no order, judgment, decree, determination or
26 award of a federal, state or local court or administrative or
27 regulatory agency enjoining, either temporarily or permanently,
28 the construction or the continuation of construction of the
29 facilities is in effect;

1 (3) "department" means the Department of Revenue;

2 (4) "gas" includes all natural gas and all hydrocarbons
3 produced at the wellhead not defined as oil;

4 (5) "intangible drilling expenses" means those expenses
5 defined in sec. 263(c) of the United States Internal Revenue Code
6 as defined on the effective date of this paragraph;

7 (6) "taxable property" means real and tangible personal
8 property used or committed by contract or other agreement for use
9 within this state primarily in the exploration for, production of,
10 or pipeline transportation of gas or unrefined oil (except for
11 property used solely for the retail distribution or liquefaction
12 of natural gas), or in the operation or maintenance of facilities
13 used in the exploration for, production of, or pipeline transportation
14 of gas or unrefined oil, including machinery, appliances, supplies,
15 equipment, drilling rigs, wells (whether producing or not), gathering
16 lines and transmission lines, pumping stations, compressor stations,
17 power plants, topping plants, processing units, roads, tank farms,
18 tanker terminals, docks and other port facilities, air strips and
19 communication equipment and facilities, maintenance equipment and
20 facilities, and maintenance camps and other related facilities; "taxable
21 property" does not include permanent residences, office buildings
22 requiring substantial local government services, or gas pipeline systems
23 operated as utilities and regulated by the Alaska Public Utilities
24 Commission;

25 (7) "unrefined oil" includes crude petroleum oil and other
26 hydrocarbons regardless of gravity which are produced at the wellhead
27 in liquid form and the liquid hydrocarbons known as distillate or
28 condensate recovered or extracted from gas other than gas produced in
29 association with oil and commonly known as casinghead gas.

1 * Sec. 2. AS 29.53.025(a) is amended to read:

2 (a) Municipalities may exclude or exempt or partially exempt
3 residential property from taxation by ordinance ratified by the voters
4 at a regular or special election. An exclusion or exemption authorized
5 by this section may not exceed \$10,000 for any one residence.

6 * Sec. 3. AS 29.53 is amended by adding a new section to read:

7 Sec. 29.53.045. TAX ON OIL AND GAS PRODUCTION AND PIPELINE
8 PROPERTY. (a) A municipality may levy and collect taxes on taxable
9 property taxable under AS 43.56 only by using one of the methods set
10 out in (b) or (c) of this section.

11 (b) A municipality may levy and collect a tax on the full and
12 true value of taxable property taxable under AS 43.56 as valued by
13 the Department of Revenue at a rate not to exceed that which produces
14 an amount of revenue from the total municipal property tax equivalent
15 to \$1,000 a year for each person residing within its boundaries.

16 (c) A municipality may levy and collect a tax on the full and
17 true value of that portion of taxable property taxable under AS 43.56
18 as assessed by the Department of Revenue which, when combined with
19 the value of property otherwise taxable by the municipality, does
20 not exceed the product of 225 per cent of the average per capita
21 assessed full and true value of property in the state multiplied by
22 the number of residents of the taxing municipality.

23 (d) By February 1 of each assessment year a taxing municipality
24 must inform the Department of Revenue which method of taxation the
25 municipality will use.

26 (e) For purposes of this section, population shall be determined
27 by the commissioner of community and regional affairs based on the
28 latest statistics of the United States Bureau of the Census or on other
29 reliable population data, and shall advise each municipality of its

1 population as so determined by January 15 of each year.

2 * Sec. 4. AS 29.53.050 is amended by adding a new subsection to read:

3 (b) No municipality, or combination of municipalities occupying
4 the same geographical area, in whole or in part, may levy taxes which
5 will result in tax revenues from all sources exceeding either (1)
6 \$1,000 a year for each person residing within their boundaries or (2)
7 when combined with the value of property otherwise taxable by the
8 municipality, the product of 225 per cent of the average per capita
9 assessed full and true value of property in the state multiplied by the
10 number of residents of the taxing municipality. If two or more muni-
11 cipalities occupying the same geographical area, in whole or in part,
12 attempt to levy a tax the combined levy of which would result in tax
13 revenues from all sources exceeding either (1) \$1,000 a year for each
14 person residing within their boundaries or (2) when combined with the
15 value of property otherwise taxable by the municipality the product of
16 225 per cent of the average per capita assessed full and true value of
17 property in the state multiplied by the number of residents of the
18 taxing municipality, the commissioner of community and regional affairs
19 shall apportion the lawful levy and equitably divide these revenues on
20 the basis of need, services performed and other considerations in the
21 public interest. For the purpose of this subsection, population shall
22 be determined by the commissioner of community and regional affairs
23 based on the latest statistics of the United States Bureau of the
24 Census or on other reliable population data.

25 * Sec. 5. AS 29.53.055 is amended to read:

26 Sec. 29.53.055. NO LIMITATION ON TAXES TO PAY BONDS. The
27 limitations [LIMITATION] provided for in secs. 45 or [SEC.] 50 of
28 this chapter do [DOES] not apply to taxes levied or pledged to pay
29 or secure the payment of the principal and interest on bonds. Taxes

1 to pay or secure the payment of principal and interest on bonds may
2 be levied without limitation as to rate or amount.

3 * Sec. 6. This Act takes effect on January 1, 1974.
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STATE OF ALASKA

THREE LEGISLATURES

BUDGET AND AUDIT COMMITTEE

AUDIT DIVISION
POUCH W — ALASKA OFFICE BUILDING

FINANCE DIVISION
POUCH WF — STATE CAPITOL

JUNEAU 99801

MEMORANDUM

TO: Chairmen and Members
Senate & House Finance Committees

DATE: November 18, 1973

FROM: J. H. Hogan, *JHH* Director
Legislative Finance Division

SUBJ: 20 Mill Oil and Gas
Property Tax - SB 1

The enclosed Committee Report, reprinted from the Senate Journal, lists the changes contained in the Free Conference version from the original legislation introduced by the Governor. It is accurate with the exception of Paragraph 4.

After the Legislature adjourned, several of us discovered that the language discussed in Paragraph 4 did not say what we thought it did. In using as a base for the Free Conference Committee Bill the Senate version of House Bill 1, some contradictory language regarding exemptions was included (Sec. 43.056.020). The result is that property taxable under the Act is exempt from local taxation until after the construction commencement date--just the reverse of what everyone thought was being done.

I have been informed by the Attorney General's office that municipalities should prepare their 1974 tax assessment rolls to include property taxable under this Act even though, by law, they may not levy a tax on this property until after the construction commencement date. With the establishment of the construction commencement date, municipalities would then be in a position to levy a pro-rated tax on the assessed property for the remaining portion of the year.

Enclosed is a summary of tax receipts estimated for certain municipalities during the first and fourth years following the effective date of this Act.

JHH/af
Enclosures

AGO 787635 +

SENATE JOURNAL

ALASKA STATE LEGISLATURE
EIGHTH LEGISLATURE - FIRST SPECIAL SESSION

Juneau, Alaska

Sunday

November 11, 1973

SPECIAL COMMITTEE REPORTS

SCS
CSHB
1
(Fin)

Conference Committee Report

November 10, 1973

am S Mr. President
Mr. Speaker

The Conference Committee (with powers of free conference) which has had COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 1 am (ad valorem) and SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 1 (Finance) am S under consideration, recommends that FREE CONFERENCE COMMITTEE SUBSTITUTE FOR SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 1 be adopted.

Senate Members

House Members

/s/ Bill Ray, Chairman

/s/ Oral Freeman, Chairman

/s/ W. I. Palmer

/s/ A. M. Saylor Do not concur

/s/ John Butrevich

/s/ Glenn Hackney

The committee's analysis of the bill follows:

"FREE CONFERENCE COMMITTEE REPORT

ON

FREE CONFERENCE CS FOR SENATE CS FOR
CS FOR HOUSE BILL NO. 1

The Free Conference Committee has had Senate CS for CS for HB 1 under consideration and recommends it be replaced with Free Conference Committee Substitute for Senate CS for CS for House Bill No. 1. The principal changes in the Free Conference Committee Substitute from the Governor's bill as introduced are as follows:

NOTE: Paragraph 4, which interprets Sec. 43.056.020 (7 & 8), is incorrect. The language of the Act exempts property taxable under this Act from local taxation for the period preceding the construction commencement date. According to the Attorney General's office, municipalities should include appropriate property taxable under this Act on their assessment rolls prepared as of January 1, 1974. However, no tax may be levied against this pipeline-related property until after the construction commencement date. After the construction commencement date, the municipality presumably would levy the tax pro-rated over the remainder of the tax year.

AGO 787636

1. Sec. 43.56.010 (b) includes language stating "No municipality may exempt from taxation property authorized to be taxed under this chapter." The effect of this is to require Valdez and the North Star Borough to levy a personal property tax on pipeline related property. The same paragraph limits exemptions from municipal taxation to those currently allowed under the municipal code. SCS CSIB 1 (Fin) am S
2. Sec. 29.53.045 The bill as introduced limited political subdivisions to levying a tax not to exceed 7 mills on the value of taxable property taxable under the Act. The Free Conference Committee Substitute changes this limitation to allow municipal flexibility in levying up to an amount equivalent to \$1,000 in total revenue per person residing within its boundaries or a tax on an amount up to 225% of the average per capita assessed valuation in the state multiplied by the number of residents in the taxing municipality. Assessment of the "taxable property" will be done on a state-wide basis by the Board established in the Act.
3. Sec. 43.056.020 (b) A definition of the word "properties" as relating to mineral interests was inserted to make it clear that things such as office buildings and other similar property not related to production could not be "interpreted" as being exempt from this tax.
4. Sec. 43.056.020 (7) and (8) allow municipalities to continue to tax property under existing law subject to the \$1,000 per person or 225% per capita assessed valuation limitations through the period preceding the "construction commencement date." Without this change it was the committee's fear that municipalities might be precluded from taxing property during this period. The committee left taxation of construction equipment to municipalities.
5. Sec. 43.056.030 (2) (A) and (C) The committee adopted both the House and Senate concepts of authorizing municipalities to levy a retail sales or use tax on the first \$1,000 of each sale.
6. Sec. 43.056.040 Members of the Assessment Review Board were required to be knowledgeable of assessment procedures and are subject to confirmation by the legislature.
7. Throughout the Committee Substitute, certain consistent language changes have been made to clearly divide the taxing authorities contained in this legislation. Thus you will find inserted specific references to "Sec. 10 (a)" of this chapter which means that the committee substitute restricts the particular provision to dealing with state assessment and taxing matters. The other consistent change is to delete the words "political subdivision" and substitute "municipality." "Municipality" is a more precise reference to a taxing entity of local government.

- SCS 8. Sec. 43.056.050 (d) The Free Conference Committee
CSHB Substitute would value production equipment on the
1 basis of replacement cost. It was the feeling of the
(Fin) committee that the original proposed "actual cost"
am S reduced by depreciation might preclude assessment on
an appreciating value of the equipment. Depreciation
of production equipment was changed from "units of
production" to "economic life of proven reserves."
This change would tie depreciation directly to the
estimated useful life of the production equipment.
9. Sec. 43.056.210 (2) The definition of "construction
commencement date" has been changed to provide two
options. The construction commencement date for state
taxing purposes is to be either April 1, 1974, or the
date necessary permits or approvals, with no preventive
injunctions or decrees, are received should this date
occur earlier than April 1. The thinking here was that
the state would not tax property taxable under this Act
until such time as construction actually began. The
fixed date was inserted to insure good faith on the
part of the companies (if no permit were applied for,
obviously none could be granted). Should it be clear
by April 1 that further legal problems prevent the
start of construction, the legislature would be in
session and could amend the April 1 date to any other
date of its choosing.
10. Sec. 43.056.210 (6) The definition of "taxable pro-
perty" deletes reference to equipment used in the
construction of the pipeline thus leaving this equip-
ment taxable by municipalities. The definition was
clarified to include drilling rigs and wells, whether
producing or not. An additional definition of "taxable
property" was added excluding "permanent residences,
office buildings requiring substantial local government
services, or gas pipeline systems operated as utilities
and regulated by the Alaska Public Utilities Commission.
11. Sec. 2 amends AS 29.53.025 (a) to read: "Municipalities
may exclude or exempt or partially exempt residential
property from taxation by ordinance ratified by the
voters at a regular or special election. An exclusion
or exemption authorized by this section may not exceed
\$10,000 for any one residence."
12. Sec. 4. Adds a new subsection (b) to AS 29.53.050
to prevent the doubling up of tax receipts in taxing
municipalities where municipal boundaries overlap or
municipalities occupy the same territory.
13. Sec. 5. Language was added to AS 29.53.055 to make
clear that the limitations on municipal taxing
authority with respect to oil and gas properties
taxable under this chapter do not apply to taxes
levied or pledged to pay or secure the payment of
principal and interest on bonds.
14. Sec. 6. The effective date is January 1, 1974,
rather than immediately as proposed by the bill as
introduced.

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Bill Ray

Senator Bill Ray, Chairman

Oral Freeman

Representative Oral Freeman
Chairman