

LEG. FINANCE - BILLS 1977 - 1978 934

SB 232 thru CSSB 238

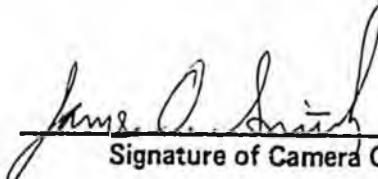
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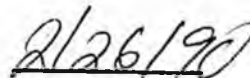
RECORDS CERTIFICATION



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.



Signature of Camera Operator



Date

COMMITTEE REPORT
SENATE

3/15/77

_____ Date

Mr. President:

The Committee on FINANCE has had SB 232
~~special appropriation to Dept. of Ed for Transportation Museum of Alaska, Inc.~~
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 SB 232 and that
CS for SB 232 do pass
- (and) recommends it be referred to the _____
committee
- reports it back without recommendation
- AND attaches a report of its intent
- (other) _____

MEMBERS SIGNING THE MAJORITY REPORT:

<u>[Signature]</u>	<u>[Signature]</u>	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

<u>[Signature]</u>	recommends: <u>No Pass</u>
_____	recommends: _____
_____	recommends: _____

[Signature]
Chairman

Original sponsor: Kerttula

IN THE SENATE

BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 232

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Department of Education for the Transportation Museum of Alaska, Inc.; and providing for an effective date."

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

* Section 1. The sum of \$68,000 is appropriated from the general fund to the Department of Education for the purpose of making a direct grant to the Transportation Museum of Alaska, Inc.

* Sec. 2. This Act takes effect July 1, 1977.

Introduced: 3/9/77
Referred: State Affairs and
Finance

02

1 IN THE SENATE

BY KERTTULA

2 SENATE BILL NO. 232

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the (Depart-
7 ment of Education for) the Transportation Museum of
8 Alaska, Inc.; and providing for an effective date."

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

10 * Section 1. The sum of \$68,000 is appropriated from the general fund to
11 the (Department of Education for the) purpose of assisting) the Transportation
12 Museum of Alaska, Inc.

13 * Sec. 2. This Act takes effect July 1, 1977.

14
15 *1969 - Fire loss: - 68,000 fire loss:*
16
17 *for the purpose of a dev't*
18 *grant to the T.M. Inc.*
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Alaska State Legislature

POUCH Y, STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

April 4, 1977

TO: John Sackett, Chairman
Senate Finance Committee

FROM: Jalmar Kerttula

SUBJECT: SB 232 - Special appropriation to the
Department of Education for the Trans-
portation Museum of Alaska, Inc., and
providing for an effective date.

Last year the Alaska Fair Historical, Educational and Arts Foundation, Inc. signed a Memorandum of Understanding with the State of Alaska to assume possession of all the assets, artifacts and memorabilia of the Old Alaska Transportation Museum which was partially destroyed by the fire in 1973.

The insurance settlement paid to the State in the amount of \$3,000 for damages sustained was placed in the General Fund. The building has now been dismantled and transferred to the Palmer Fair Grounds which involved a considerable expenditure of physical and financial resources. The \$68,000 would assist in erecting the fire damaged building to be used as a restoration workshop and storage area. Backup material attached.

745-4493

Transportation Museum of Alaska Inc.

Jack E. Maze, Curator

Senator Jalmar Kerttula
Pouch V
Juneau, Alaska 99811

February 11, 1977

Last year the Alaska State Fair Historical, Educational and Arts Foundation, Inc. signed a Memorandum of Understanding with the State of Alaska to assume possession of all the assets, artifacts and memorabilia of the old Alaska Transportation Museum which was partially destroyed by the fire of 1973.

The enormity of the task of rebuilding the burned and battered hulks that survived the fire soon became apparent to our staff. In order to do the job justice, it was decided that a new corporation should be formed that would bring new expertise to the Board of Directors and add greater dimension in the aviation field. The Transportation Museum of Alaska, Inc. is the result.

Added to the museum's troubles was the fact that for three years many of the artifacts that were moved from the old museum were stored in buildings with leaky roofs, compounding the damage inflicted by the fire. Happily, the museum building has now been dismantled and moved, along with all the artifacts and memorabilia to the State Fairgrounds at Palmer, where they are presently stored out of the elements. This involved a considerable expenditure of resources.....physical and financial.

In addition to the historic aircraft in our possession, the Alaska Yukon Chapter of the National Railway Historical Society has contributed two box cars from the Copper River Northwestern Railway, a troop sleeper car, troop kitchen car, battery operated mine engine, mining cars, the Ice Worm used between Portage and Whittier in the mid-60's and artifacts housed in the six centennial cars owned by the City of Palmer. The City of Palmer has made a perpetual loan of these cars and a locomotive. With the caboose loaned by Tillie Reeve, we have a complete train, section house and hundreds of rail artifacts. Road beds for eight hundred feet of track have been prepared, adjacent to the Whit section house. Land artifacts consist of early snow-machines, dog sleds, eight wagons, homemade snowshoes, etc. Old farm machinery, aircraft and equipment have been and are being donated.

At the present time, we are requesting the State to transfer their Memorandum of Understanding to T.M.A., Inc. We also look to the State for the same assistance proffered the former museum. One item of vital interest to us is the sixty eight thousand dollars insurance money that was paid to the State and placed in the General Fund. We have been told that legislative action is necessary for us to obtain this money.

The Memorandum of Understanding referred to in the first paragraph of this letter makes it very clear that the State of Alaska is involved to a great extent in the operation of our Museum. This involvement should make us eligible for assistance in funding the operating and capital improvements of this unique and valuable museum. Portions of the Memorandum of Understanding which spell out

Transportation Museum of Alaska Inc.

Jack E. Maze, Curator

(2)

the State/Museum relationship are quoted below:

I. PURPOSE:

A. It is the purpose of this Memorandum of Understanding to allow the FAIR to take possession of the artifacts and equipment contained in the Transportation Museum in order to ensure their preservation and display.

II. DURATION OF AGREEMENT:

The term of this Agreement commences on the 1st day of July, 1976, and runs indefinitely as long as the FAIR manages and displays said artifacts to the benefit and availability of the public.

III. GROUNDS FOR TERMINATION OF THE AGREEMENT:

C. Determination by the STATE that the PROPERTY is not being used, operated or managed in accordance with the terms and conditions of the Agreement.

VI. ADDITIONAL TERMS AND CONDITIONS OF THE AGREEMENT:

E. The FAIR shall maintain and keep PROPERTY in good repair and operating condition.

G. The FAIR shall furnish to the STATE reports, certificates, statements and inventories requested by the STATE, and shall make available to the STATE upon request, all appropriate records and reports to the PROPERTY.

I. The FAIR shall secure and furnish in full force and effect adequate liability insurance to cover all claims including personal injury or property damage that might arise out of the FAIR'S transportation, preservation, display or other use of the property, during the life of the Agreement, for which the STATE might in any way be held liable, and further agrees to hold harmless and indemnify the STATE for any expenses it may be required to pay as a result of any such injury or property damage.

K. The FAIR may not assign or transfer any part of this Agreement, nor may it transfer possession of, or remove from Palmer, Alaska, or dispose of the PROPERTY, or any part thereof, without written consent of the Commissioner of Education "

T.M.A., Inc. will be open to the public Wednesday through Sunday. School tours will be encouraged. Being centrally located, thousands of Alaskans and tourists will view Alaska Transportation History. If the Alaska State Fair, Inc. can generate one hundred forty-seven thousand visitors in eleven days, how many visitors will the Transportation Museum have in two hundred and sixty days?

Our immediate need is to erect the building removed from Anchorage. The build-

Transportation Museum of Alaska Inc.

Jack E. Maze, Curator

(3)

ing when erected will require insulation, wiring, light fixtures, plumbing and heating. At the present time, we have artifacts stored in five (5) Fair buildings and they must be moved by mid-July. The building encompasses eight thousand square feet and will be for storage of static displays, artifacts awaiting restoration, workshop and temporary museum office. Ultimately, we plan on having a permanent exhibition building with rotating displays, located in the proximity of the railroad display. Land has been set aside and is partially fenced for security.

We are asking you, imploring you, the Alaska Legislative body, to support us in our first two years, after which time we will be significantly self-supporting. Your immediate support is needed to:

- (a) Restore the sixty-eight thousand from the General Fund.
- (b) Provide operating costs in the amount of one hundred thousand dollars a year for two years.
- (c) Provide funds for capital improvements in the amount of one hundred fifty thousand per year for two years.

Like the mythical bird, Phoenix, help us to rise from the ashes and again be fresh and beautiful.

Sincerely,

Jack E. Maze
Jack E. Maze Curator

JEM:kf

AWS.
2-25-77
AWH

SR Box S-875 • Palmer, Alaska 99645 • Phone (907)

745-4493

**Transportation Museum
of Alaska Inc.**

Jack E. Maze, Curator

February 23, 1977

*ms.
2-28*

Sen. Jay Kerttula
Pouch V
Juneau, AK 99811

In order to keep the Legislative Body up to date on events pertaining to the Transportation Museum of Alaska, we are enclosing this article as it appeared in the February 17th issue of the "Frontiersman". The article gives a rather comprehensive view of the Museum and its aims.

To further these aims we desperately need the support of the Legislature. Help us keep the Transportation Museum of Alaska open, and an important part of Alaskan history alive.

Sincerely,

Jack E. Maze
Jack E. Maze
Curator

Enc.

ssj

'Phoenix' rises at Fairgrounds.

BY KAREN LEE

Jack Maze, curator-manager of the newly formed Transportation Museum of Alaska, talks about the mythical bird Phoenix often these days.

The Phoenix, a lone bird living in the desert of Egyptian myth for hundreds of years, consumed itself in fire, then rose from its own ashes to begin another long life. Three years ago, fire damaged a number of planes and part of the building at the old Alaska Transportation Museum. Now, Maze is overseeing restoration of the damaged planes as a basis for a new five-part Transportation Museum of Alaska.

In 1976, when Maze was special projects director for the Alaska State Fair, the planes and museum remnants were moved to Palmer. Also turned over to the fair were more than a dozen railroad cars and Whitney Section House.

Last month, at Jan. 13 meeting, the fair set the museum on its own feet, with a new corporate structure, a ten-member board of directors, use of a building on the fairgrounds and financial underwriting for six months. Normal operation and restoration of the museum began Feb. 15.

Named to the board were James Baker, president, Jim Ekstedt, first vice president; Jim Hitchcock, second vice president; George Chapman, secretary; Low Conrad, treasurer; Len Melton, James Hermon, Guy Woodings, Verne France, and Millie Johnson. All but Ekstedt, Hitchcock and Chapman are members of the Alaska State Fair board.

Ekstedt, a plant engineer at Matanuska Telephone Association, came to Palmer in 1946. He has been flying since 1946. He is a Palmer City member and a borough assemblyman.

Hitchcock, owner-operator of Caribou Cabins and also a borough assemblyman, started to fly in 1964. He has been in Alaska since 1934.

Chapman owns Matanuska Air Service, which he opened in 1957. He came to Alaska in 1946, and began flying in 1951.

The Transportation Museum of Alaska will have five categories, according to curator Maze. They include air, rail, land, water and farm.

So far, water is the lightest category. The biggest artifact in that division is a Coast Guard bell, weighing several tons.

A collection of farm equipment is being started, Maze said. Artifacts to date include a manure spreader, walking plow, treadle grindstone, a horse-drawn working sled and others.

The land category at the new museum has five antique snowmobiles, including the first known example of the motorized snow sled to come to Alaska (a Polaris).

The air division has quite a list of stock, but none of it yet is in viewable condition. Maze estimates the first two planes will be ready for display outdoors in another two months.

Out on the fairgrounds, the fair has provided the Hoskins building for a workshop. There are two aircraft indoors now, being made over by restorer Grant Chapman.

The two are a PT-8 Cunningham-Hall biplane and an SR-JR Stinson on skis.

Grant is fabricating many of the parts as he goes, and having a good time doing it. "When I need something, I just make it fit. And the great thing is I don't have to worry about airworthiness, because these planes will never fly," he says.

Both he and Maze give much of the credit for the fast pace of the restoration to Palmer high school's cooperation (see accompanying story).

Not only are the shop classes involved with lathe work and fabrication, but the home economics class is doing upholstery and the wood-working class contributes wing pieces and other parts.

"It really helps us a lot; we don't begin to have the equipment they do in shop. And it gives the kids something worthwhile to do in class. They can see their work being used," Grant said.

The museum has only sketchy information on the two planes they are now restoring.

The radial engine Stinson SR-JR, a type fairly commonly used in early day Alaska, was owned at one time by Warren (Ace) Dodson, now a pilot for Wien Air Alaska. With Dodson's cooperation, several missing parts, including a stabilizer, have been found.

The old set of board skis mounted on the Stinson were an amazing bit of luck, says Grant. One day last fall, Wasilla resident Frank Smith walked in to donate a set of Kinner Skis which had been laying in his backyard for many years. Grant looked up the SR-JR data, and found that the Kinnners had been approved for use on the museum's model. So, with a quick metal paint job, the cracked wood skis went on.

The Cunningham-Hall biplane is thought to have been once owned by Byers in the Interior, who used it to supply mining and trapping routes in the Solomon River country from Fairbanks.

Only six of the PT-6 planes were ever built. They resulted from a partnership in 1929 between a coachmaker (Cunningham) and aircraft designer (Hall).

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Phoenix' rises at Fairgrounds.

BY KAREN LEE

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. . . Transportation Museum created

The PT-6 (meaning personal transport-six place) was powered by a 300-horse Wright radial engine, the first item to be completely readied for display when Grant began rebuilding.

The plane has a metal frame, but is mostly fabric-covered. The fabric work is being done now.

The museum's airplane was built in 1930, a year after the first PT-6 was finished. In those days, it cost \$13,900, and carried a payload of around 900 pounds.

When finished, the museum plans to paint the biplane black with a red stripe, using the original color pattern.

When these two planes are ready for viewing, the museum plans to begin on its amphibian Keystone-Leonine. Including on this plane's former owner list is Gov. Jay Hammond. The amphib was wrecked in Shirley Lake, and donated to the museum somewhat later.

Also due for next restoration is a Fairchild 71, formerly owned by Bob Reeve when he operated out of Valdez. The 71 is equipped with mud skis.

The museum has several other planes in various stages of fire damage or disrepair, all moved to Palmer last fall in a 12-day marathon by the fair, Alaska National Guard and several organizations.

Eventually, Maze hopes to build an exhibit hall near the Whitney Section House. For the present, planes will be stored and displayed outside as they are completed.

The section house, part of the rail display, was moved to its Palmer resting spot last summer and filled with a historic post office exhibit.

Also moved to Palmer area, but not yet to its final siding

next to Whitney Section House where a number of historic rail cars.

Included is the six-piece Alaska Centennial train. It is filled with a pages-long list of rail-related material, such as locomotive bells, golden spike, seats, tickets, spittoons, track levellers, tie equipment, switch lamps, model trains and so on and on.

Other cars are Army troop sleepers, a boiler built for the Panama Canal Railroad, diesel locomotive number 1000, a Copper River and Northwestern Railway box car, and mine cars.

Caboose number 1017 is on loan to the museum from Mrs. Tillie Reeve.

Also on display this summer will be the Ice Worm, a school bus type vehicle fitted with railroad wheels. It carried about eight passengers on the Portage-Whittier route in 1985 and 1986.

Donations of equipment or artifacts in any of the five categories will be accepted, Maze said. Loans will generally not be taken.

If the owner first has the items appraised, their value may be deducted from the year's income, under IRS non-profit rules.

The museum is now accepting subscriptions. Regular memberships cost \$25. However, "any and all contributions will be gratefully received," Maze said.

With its solid base in the air and rail divisions, Transportation Museum of Alaska is convinced it will once again be a major statewide attraction, this time in Palmer.

The old Phoenix legend served the Egyptians as a symbol of immortality and self-continuity. And that, after all, is what museums are all about.

Transportation Museum of Alaska Inc.

Jack E. Maze, Curator

March 3, 1977

Senator Jalmar Kertulla
Pouch V
Juneau, AK 99811

Dear Jay:

Thank you for your letter of February 28th. We have received numerous letters of support from the House, and Lisa Rudd is sponsoring a bill through the Committee of Community and Regional Affairs.

We are certainly counting on your support in the Senate and requesting that a bill be introduced in this Chamber to coincide with the House bill. We have received only one letter from the Senate, Pat Rody, who pledges his support of the Museum.

We must move our temporary restoration workshop and office out of the Hoskins building on the Fairgrounds to allow the Fair full utilization of their building this summer. While we have moved the former exhibition building up from Anchorage, we desperately need funds to erect it on the Fairgrounds for the purpose of giving the Museum a home of its own.

When erected the building's purpose will be four-fold. A restoration workshop, storage area, exhibition hall and office. Dick Engen, Director of Libraries & Museums has advised us that the building is not suitable for exhibition and our future plans include a smaller building for that purpose.

We know that you are aware of the present situation and hoping that you will exert all possible influence on the Senate to see that a bill is introduced and passed. We deeply appreciate your help and support in this matter.

Sincerely,

Jack
Jack E. Maze
Curator

ssj

Full bill will be drafted
fully
where is my
Museum bill
it should be
drafted

Transportation Museum of Alaska Inc.

Jack E. Maze, Curator

March 11, 1977

Senator Jay Kertulla
Pouch V
Juneau, AK 99811

Dear Jay,

We appreciate the fine support you are giving us in the Senate. In regards to your assistance in removing the \$68,000 Insurance money from the General Fund.

In addition to this money, we are also requesting from the Legislative Body funding in the amount of \$100,000 per year, for 2 years as operating monies and \$150,00 per year, for 2 years as capital monies.

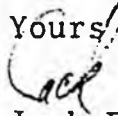
The operating funds would enable us to continue with restoration of all artifacts that were damaged in the fire and enable us to continue to place them on the grounds for public viewing. The capital funds would help us erect the fire damaged building that was moved from Anchorage to the Fairgrounds, to be used as a restoration workshop and storage area. The balance of these monies would enable us to erect a permanent exhibition building.

We understand from the House that there may be difficulty in removing the \$68,000 from the General Fund. The bill that is presently being proposed in that Body would appropriate a total sum of \$300,000, instead of the aforementioned division. This amount of money would be used for insurance, operational and capital purposes.

A possibility for additional funding was brought to my attention by John Stripe. A few years ago the Legislature supposedly appropriated approximately a half million dollars for a Museum in Barrow which has never been used, and the money has not been returned to the General Fund. Could you do a little research on this, and find out if by any chance we could have these funds?

Thanking you in advance for any help you may give us. If I may be of any assistance to you in regards to other legislative actions, do not hesitate to call me.

Yours Truly,


Jack E. Maze, Curator

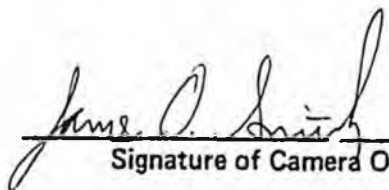
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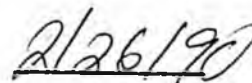


RECORDS CERTIFICATION



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.


Signature of Camera Operator


Date

Introduced: 3/9/77
Referred: Judiciary and Finance

1 IN THE SENATE

BY THE STATE AFFAIRS COMMITTEE

2 SENATE BILL NO. 233

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the public employees' retirement
7 system; and providing for an effective date."

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

9 * Section 1. AS 39.35 is amended by adding a new section to read:

10 Sec. 39.35.155. PART-TIME MAGISTRATE SERVICE. (a) A magistrate
11 is entitled to service credit for part-time service as a magistrate
12 after January 1, 1961. Benefits are not payable for part-time service
13 before July 1, 1977, unless the magistrate makes retroactive contribu-
14 tion to the system for the period of time that service credit is claimed.

15 (b) In order to obtain service credit under this section, a magis-
16 trate shall make an election to do so and shall verify his period of
17 prior part-time service before July 1, 1978. When eligibility for prior
18 part-time service credit has been established, an indebtedness shall be
19 determined equal to four and one-quarter per cent of the total compensa-
20 tion paid to the magistrate during the period of prior part-time service
21 claimed. Interest as prescribed by regulation accrues on this indebted-
22 ness commencing July 1, 1978. Any outstanding indebtedness which exists
23 at the time a magistrate retires will necessitate an actuarial adjust-
24 ment to the benefits payable based upon that prior part-time service.

25 (c) A magistrate receiving retirement benefits under this chapter
26 on July 1, 1977 is eligible to receive increased benefits based on prior
27 part-time service as described in (a) of this section. To receive prior
28 part-time service credit, a retired magistrate must verify his prior
29 part-time service before July 1, 1978. When that service has been

1 verified for a retired magistrate to receive prior part-time service
2 credit, he is entitled to receive an increased benefit which shall be
3 actuarially adjusted to reflect his indebtedness for the credit. The
4 indebtedness shall be calculated in the same manner as described in (b)
5 of this section. The effective date of this increased benefit is the
6 beginning of the month following that in which eligibility has been
7 established.

8 (d) The employer shall make contribution to the system for any
9 magistrate who elects to obtain prior part-time service credit and whose
10 eligibility for that service credit has been established. This contri-
11 bution shall be made before July 1, 1978 and shall be based upon the
12 employer contribution rate established under sec. 250 of this chapter
13 for fiscal year 1978, multiplied by the total compensation paid to the
14 magistrate during the period of claimed prior part-time service.

15 (e) The service credit granted under this section shall be deter-
16 mined on a pro rata basis to that which would have been earned as a
17 full-time magistrate.

18 * Sec. 2. This Act takes effect July 1, 1977.
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In SFC 5/11/77

Original sponsor: State Affairs
Committee

Offered: 5/11/77
Referred: Finance

1 IN THE SENATE BY THE JUDICIARY COMMITTEE

2 CS FOR SENATE BILL NO. 233
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 TENTH LEGISLATURE - FIRST SESSION
5 A BILL

6 For an Act entitled: "An Act relating to the coverage of former magistrates
7 in public employees' retirement system; and providing
8 for an effective date."

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

- 10 * Section 1. AS 39.35 is amended by adding a new section to read:
- 11 Sec. 39.35.155. FORMER MAGISTRATES. A magistrate who terminated
- 12 his employment before July 1, 1977 may be included retroactively in the
- 13 system and receive service credit for time previously served as a
- 14 magistrate if, before July 1, 1978, he makes retroactive contributions
- 15 equal to what he would have made if he had been participating in the
- 16 system.
- 17 * Sec. 2. This Act takes effect July 1, 1977.

29

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SB 233
Title An Act Relating to the Public Employees' Retirement System
Requested by Kerttula Date 3/14/77

II. FISCAL DETAIL

Agency Affected Alaska Court System
Program Category Affected _____
Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES		55.0				
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS. CLAIMS. ETC.						
TOTAL	0	55.0	0	0	0	0

FUNDING (Thousands of Dollars)

GENERAL FUND	0	55.0	0	0	0	0
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This Bill extends retirement service credit for part-time magistrates back to 1960. The part-time magistrates must make a retroactive contribution to the retirement system, and the Court System must pay in the employer portion of this retroactive contribution.

This Bill would affect 30 part-time magistrates, who earned a total of \$490,000 in wages during the period specified in the Bill. The one-time cost to the Court System would, therefore, be \$55,000.

IV. DATE March 14, 1977 PREPARED BY *William B. Samson*
AGENCY Alaska Court System
PHONE 274-8611
Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

COMMITTEE REPORT
SENATE

5/11/77

_____ Date

Mr. President:

The Committee on FINANCE has had SB 233
public employee's retirement program
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 _____ and that
CS for _____ do pass
- (and) recommends it be referred to the _____
committee
- reports it back without recommendation
- AND attaches a report of its intent
- (other) _____

MEMBERS SIGNING THE MAJORITY REPORT:

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

_____ recommends: _____
_____ recommends: _____
_____ recommends: _____

_____ Chairman

COMMITTEE REPORT
SENATE

**Finance

3/9/77

5-10-77

Date

Mr. President:

The Committee on JUDICIARY has had SB 233
public employees' retirement program 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 SB-233 *new title* and that
CS for _____ do pass
- (and) recommends it be referred to the _____
committee
- reports it back without recommendation
- AND attaches a report of its intent
- (other) _____

MEMBERS SIGNING THE MAJORITY REPORT:

<u>Hohman</u>	<u>do pass</u>	_____
<u>Ziegler</u>	<u>" "</u>	_____
<u>Colburn</u>		_____
<u>Hillion</u>		_____

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

_____ recommends: _____

_____ recommends: _____

_____ recommends: _____

George Hohman
Chairman

Original sponsor: State Affairs
Committee

Offered: 5/11/77
Referred: Finance

1 IN THE SENATE

BY THE JUDICIARY COMMITTEE

2 CS FOR SENATE BILL NO. 233

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the coverage of former magistrates
7 in public employees' retirement system; and providing
8 for an effective date."

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

10 * Section 1. AS 39.35 is amended by adding a new section to read:

11 Sec. 39.35.155. FORMER MAGISTRATES. A magistrate who terminated
12 his employment before July 1, 1977 may be included retroactively in the
13 system and receive service credit for time previously served as a
14 magistrate if, before July 1, 1978, he makes retroactive contributions
15 equal to what he would have made if he had been participating in the
16 system.

17 * Sec. 2. This Act takes effect July 1, 1977.

Introduced: 3/9/77
Referred: Judiciary and Finance

233

1 IN THE SENATE

BY THE STATE AFFAIRS COMMITTEE

2 SENATE BILL NO. 233

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the public employees' retirement
7 system; and providing for an effective date."

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

9 * Section 1. AS 39.35 is amended by adding a new section to read:

10 Sec. 39.35.155. PART-TIME MAGISTRATE SERVICE. (a) A magistrate
11 is entitled to service credit for part-time service as a magistrate
12 after January 1, 1961. Benefits are not payable for part-time service
13 before July 1, 1977, unless the magistrate makes retroactive contribu-
14 tion to the system for the period of time that service credit is claimed.

15 (b) In order to obtain service credit under this section, a magis-
16 trate shall make an election to do so and shall verify his period of
17 prior part-time service before July 1, 1978. When eligibility for prior
18 part-time service credit has been established, an indebtedness shall be
19 determined equal to four and one-quarter per cent of the total compensa-
20 tion paid to the magistrate during the period of prior part-time service
21 claimed. Interest as prescribed by regulation accrues on this indebted-
22 ness commencing July 1, 1978. Any outstanding indebtedness which exists
23 at the time a magistrate retires will necessitate an actuarial adjust-
24 ment to the benefits payable based upon that prior part-time service.

25 (c) A magistrate receiving retirement benefits under this chapter
26 on July 1, 1977 is eligible to receive increased benefits based on prior
27 part-time service as described in (a) of this section. To receive prior
28 part-time service credit, a retired magistrate must verify his prior
29 part-time service before July 1, 1978. When that service has been

1 verified for a retired magistrate to receive prior part-time service
2 credit, he is entitled to receive an increased benefit which shall be
3 actuarially adjusted to reflect his indebtedness for the credit. The
4 indebtedness shall be calculated in the same manner as described in (b)
5 of this section. The effective date of this increased benefit is the
6 beginning of the month following that in which eligibility has been
7 established.

8 (d) The employer shall make contribution to the system for any
9 magistrate who elects to obtain prior part-time service credit and whose
10 eligibility for that service credit has been established. This contri-
11 bution shall be made before July 1, 1978 and shall be based upon the
12 employer contribution rate established under sec. 250 of this chapter
13 for fiscal year 1978, multiplied by the total compensation paid to the
14 magistrate during the period of claimed prior part-time service.

15 (e) The service credit granted under this section shall be deter-
16 mined on a pro rata basis to that which would have been earned as a
17 full-time magistrate.

18 * Sec. 2. This Act takes effect July 1, 1977.
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ALASKA STATE LEGISLATURE

1977 Legislature FIRST Session

SENATE BILL NO. 233...

By THE STATE AFFAIRS COMMITTEE

"An Act relating to the public employees' retirement system; and providing for an effective date."

public employees' retirement program

Introduced in the Senate ... 2/9/77

HISTORY IN THE SENATE

1977

Read first time and referred to Committee on

Judiciary & Finance

39
511

Reported back with recommendation that *jud. replace w/PS do pass to Governor*

Read second time and

Read third time and

PASS Effective Date
Yeas Yeas
Nays Nays
Absent Absent
Excused Excused

Reconsideration

PASS Effective Date
Yeas Yeas
Nays Nays
Absent Absent
Excused Excused

Reported correctly engrossed
Signed by President
Sent to House

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19

Read first time and referred to Committee on

Reported back with recommendation that

Read second time and

Read third time and

PASS Effective Date
Yeas Yeas
Nays Nays
Absent Absent
Excused Excused

Reconsideration

PASS Effective Date
Yeas Yeas
Nays Nays
Absent Absent
Excused Excused

Reported correctly engrossed
Signed by Speaker
Returned to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19

Received from House

Reported correctly enrolled

Sent to Governor

..... By Governor

Filed with Lt. Governor

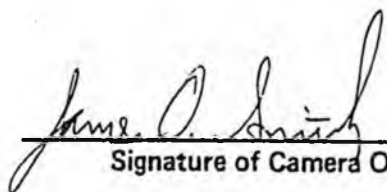
Chapter No.



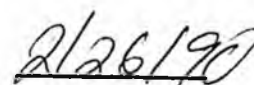
RECORDS CERTIFICATION



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.



Signature of Camera Operator



Date

HOUSE
JOURNAL SUPPLEMENT

May 7, 1977

No. 60

Finance Committee Chairman's Report
on HCS CS SB 238,
the Oil and Gas Properties Production Tax

HCSCS
SB
238

PART I. SUMMARY OF TESTIMONY

Hearings were held from April 12 to April 14 by the House Finance Committee to take testimony on bills dealing with state taxation of the oil industry. Testimony was presented by consultants for the committee, representatives of the state Department of Revenue, the oil industry and by other individuals.

The first witness, Mr. Niall Trimble, Principal Economist for the Alaska Department of Community and Regional Affairs, testified that Alaska continues to be a most attractive prospect for oil development. Alaska still offers the oil industry high profits, low taxation relative to other areas of the world, outstanding geological prospects, and security of supply.

Mr. Trimble concluded that the oil industry will remain and continue to expand its activities in Alaska whether or not the modest tax increase proposed by the administration is adopted.

Professor Jerome Zeifman, Professor of Law at the University of Santa Clara and formerly Senior Counsel to the United States House Judiciary Committee, specializing in state-federal tax relations, testified that current state tax policy (i.e. the multi-state tax compact), with its use of federal taxable income, substantially erodes the State's tax base. He observed that changes in state and local taxation have never caused companies to change the location of their exploration and development efforts. In response to industry arguments that no tax increases ought to be considered when state budget surpluses are anticipated, Mr. Zeifman reminded the committee of the Biblical injunction to store grain in the seven fat years to avoid famine in the seven lean years.

Professor Edward Shaffer of the Department of Economics at the University of Alberta pointed out that oil will provide Alaska's major source of capital for the next several decades. This capital can be turned into human capital by way of education and health, or into direct business capital, which provides a stream of employment and income for a rising standard of living for Alaska's residents.

HCSCS

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Adequate transformation of capital can only take place, Dr. Shaffer noted, by effective state government tax policy and, in part, by the use of the Alaska Permanent Fund. An increase in state tax revenues from the oil industry was necessary, in his view, to sufficiently finance the diversification of the Alaska economy, since the oil industry would otherwise use a substantial part of its profits for investment in other parts of the world. Diversification of Alaska's economy could take place through long-term loans from the Alaska Permanent Fund, or through capital budgets for transportation, communication, and the like.

Professor Schaffer pointed to the experience of oil production in Alberta and Nigeria and copper mining in Zambia and Chile, where these industries have not, in-and-of themselves, fostered economic diversification. Dr. Shaffer believes that local processing, business expansion or new businesses spurred by the oil industry in Alaska would likewise not be large-scale, and will decline as oil production declines.

Mr. Joseph Kemp, a noted specialist in the field of oil taxation, and Senior Lecturer in Economics at the University of Aberdeen, Scotland, commented on the many parallels between oil development in Scotland and in Alaska. He noted that the discoveries near Scotland came in the late 1960's, after payment of relatively modest lease fees for exploration rights. Following the fourfold rise in oil prices in 1973, North Sea oil fields were, like the Prudhoe field, suddenly capable of large returns (up to 50% on a discounted cash flow basis.)

Mr. Kemp explained that much of these windfall profits were surplus to amounts needed by the companies to develop the North Sea fields and to search for additional fields. Despite tax raises in 1975 of 60 to 70 percent of total profits, there was no slowing of oil industry activity in the North Sea.

Mr. Kemp described the unusual action taken by the people of the Shetland Islands, who secured compensation from the oil industry to provide for the social and economic disruption caused by oil development activities. This compensation, he said, is being used to rebuild and diversify local industries and to pay the costs of providing additional public facilities, a function possibly similar to that of the Alaska Permanent Fund.

The Department of Revenue offered data gathered from the tax commissioners of eight states which show that Alaska ranks fourth among the states in total oil and gas taxation.

Alaska would rank second, following Louisiana, if the tax measures proposed by the Administration are passed.

Moreover, the proposed tax increases will not, according to the administration, have a major impact upon the rate of profitability. Using the assumptions and data of the report by Wainwright Securities, the changes reduced discounted cash flow returns on the field by less than 1% (in nominal terms).

The Administration strongly urged raising the well-head value at which the cents-per-barrel severance tax goes into effect (from the present \$6.33 to \$7.50). In addition, the Administration recommended that the wellhead value floor (at which the cents-per-barrel tax would go into effect) should rise with inflation relative to the Gross National Product deflator (instead of the Wholesale Price Index, which for some years has been going up more rapidly than the cost of living). These provisions would give the State an "insurance policy" against Federal or corporate manipulations of wellhead values and would help protect the State's revenues.

HCS35
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Numerous witnesses from the oil companies appeared before the committee and there was a certain amount of repetition in this testimony. The following is a summary of each of the arguments directed against the bills:

Several of the companies pointed out that the State of Alaska had signed contracts with them in 1964, 1966 and 1969 to lease the land at Prudhoe Bay. They felt that the state was trying to "change the rules of the game" by the unfair use of the state's taxing power.

Even though taxation increases will probably not affect industry willingness to remain at Prudhoe Bay, it could reduce the incentives for further oil exploration and development, the witness said.

Oil company witnesses stressed the need for tax rates in Alaska to stay in line with other states, and since they alleged that tax rates on oil in Alaska were already the highest in America no further increases should be allowed.

Oil company witnesses, while avowing the readiness of the industry to pay its share of taxation actually required by the state, expressed reluctance to pay higher taxes when the Department of Revenue was predicting budgetary surpluses.

Producers in the Kenai-Cook Inlet area warned that higher taxes would compound the problems they face as a result of Federal price controls and the greater costs in the later stages of field recovery.

Most of the testimony from oil company witnesses was largely philosophical in nature, without specific attacks on the provisions of the bills before the committee or the research reports that lay behind them. However, the testimony from one company-Exxon-differed sharply from the others. Exxon submitted to the committee its own economic analysis of the profitability of the Prudhoe Bay field. This study was the first detailed industry comment on the profitability report prepared for the Legislature by consultant Dr. Michael Tanzer over 15 months ago.

A number of errors of fact in the Exxon testimony are already apparent:

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1. In questioning the accuracy of the probable rate of profitability of the Prudhoe Bay Field established by the Tanzer reports, Exxon witness Monte Taylor stated that no allowance was made for payment of reserves tax by the companies. Payment of reserves tax was in fact included in the calculations presented on pages 42-43, 49 and 94 of Tanzer's first report to the Legislature.

2. Mr. Taylor also stated that Tanzer did not deal with payments in respect to property tax. In fact, Tanzer covered this on pages 44, 47 and 49 of the first report.

3. Mr. Taylor also criticized the Tanzer report for not including \$900 million in bonus bids paid in the 1969 lease sale. He neglected to mention that 90% of these payments were for areas outside the boundaries of the oilfield under consideration. These payments were not made by the principal leaseholders in Prudhoe Bay.

4. The Exxon study asserted that the return on the field and the pipeline should be considered together. However, since pipeline tariffs have first claim on any return from Prudhoe Bay, it is clear that the risks involved on the two investments are of different orders of magnitude. These differences are reflected in the willingness of banks to finance 85-90% of the pipeline costs, compared with only 45-55% of field development costs. Dr. Milton Lipton of Walter Levy & Associates and Dr. Walter Mead of the University of California both concur in the validity of treating the pipeline as a separate profit center.

Likewise, Messrs. Lipton and Mead agreed that Exxon's inclusion of \$1.8 billion for construction of new tankers in the capital cost of field development is improper.

Mr. Taylor contrasted the DCF rate of return produced by Exxon (18%) with that contained in the latest report from Tanzer (29%). He did not inform the committee that Exxon's figure was a constant dollar rate of return, which took out the effects of inflation. If it were done on the same basis as Tanzer's, the Exxon rate would be around 25%.

The Exxon representative attacked Dr. Tanzer's approach in excluding the cost of the pipeline from field investment, describing it as "faulty economic analysis, ... naive and illogical" and "completely unrealistic". Mr. Taylor admitted that he did not know of any independent, published economist who agreed with his views, and "had not tried to find one."

One individual witness, Mr. Eben Hobson, Mayor of the North Slope Borough, focused on the need for the industry to become "good corporate citizens" and to pay the taxes they can well afford to bear. Mr. Roger Lang, appearing for the Bristol Bay Native Corporation, expressed fears that some Native regional corporations might be adversely impacted in their search for, and development of, medium and marginal prospects under their lands.

Mr. Duane Carlson testifying for the AFL-CIO, Alaska, advanced the view that oil taxes in other states were "their own business" and that Alaska's goal must be a consensus on the "price we want for our resources". Until that occurs, he said, the industry had a legitimate complaint about unstable tax policy in Alaska. However, he said the price Alaska chooses to set should not depend on whether or not Alaska has predicted budgetary surpluses.

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Mr. Vic Fisher, a senior member of the Institute of Social and Economic Research, University of Alaska, set out a "one-time" theory of taxation, arguing that oil, primarily Prudhoe Bay, is the only known source of large revenues for Alaska for decades to come. He challenged industry claims that such revenues are "surplus" to Alaska's real needs, noting the great cost of needed capital improvements in most of rural Alaska, using the North Slope Borough's plans as an example.

PART II. NEW INFORMATION

The new facts that emerged from the House Finance hearings include:

- a) Industry acknowledgement that Alaska's taxation on oil is much lower than that found in the vast majority of oil producing areas in the world.
- b) According to the administration's calculations, based on information from tax commissioners of eight oil producing states, Alaska does not have the highest oil taxes in the U.S. Alaska now ranks fourth and will, after the passage of these bills, rank second.
- c) The discounted cash flow (DCF) analysis of returns appears to be the main technique used by the oil companies in estimating the profitability of an oil field.
- d) The risks for the pipeline are in a lower category than for the field itself and that returns on the pipeline investment are limited by U.S. law to 7%.
- e) The Administration and Drexel-Burnham studies of DCF returns on Prudhoe Bay were 26% and 27% (at today's dollars and setting aside pipeline and tanker investment). Both studies used medium estimates for oil production and both made the conservative assumption that the companies will pay an effective 48% Federal income tax rate. Several companies admitted, however, that they paid far less than the full Federal rate.
- f) The Administration offered data showing that the proposed taxes would lower DCF returns on Prudhoe Bay by less than 1%. Witnesses appearing in behalf of the oil companies conceded this point.
- g) BP and SOHIO stated that passage of the tax bills would make no difference to their future operations. They will continue their investment in Prudhoe Bay and will continue their exploration program in Alaska.

PART III. CONCLUSIONS

HCSCS The industry spoke of the "unfairness" of changing
SB the tax rules after they had made substantial investments
238 in Prudhoe Bay. Since 1973, though, the price of oil has
more than quadrupled, dramatically increasing the value of
this field without any effort on the part of the com-
panies. While inflation and environmental constraints
have pushed up total costs, total profits have risen even
further. There must be a balance of the "loss" of profits
which the companies could not, and did not, expect against
the responsibility to protect the long-run interests of
Alaskans.

Certainly the oil companies would have been expected
to come to the state if the costs of the pipeline or
mistaken estimates of recoverable reserves had trapped
them under the previous, depressed prices. No contract
prevents the industry from asking for, and receiving, lower
severance and other taxes. Dr. Shaffer reported that
companies in Alberta broke a joint venture agreement with
the province for extracting oil from tar sands (the Syncrude
project) until new terms were obtained, including higher
government aid.

No oil company has ever had an agreement with the
state of Alaska that taxes would not be raised in the
future.* To the contrary, the oil companies holding the
major leases on the North Slope fully expected that taxes
would in fact be raised even before the oil flowed.

The industry emphasized that higher taxation could
discourage further oil activity in the state. They did
not, however, explain why this might occur when Alaska
does offer exceptional discovery prospects, higher profits
and lower taxes as compared to many parts of the world,
and security of supply, (i.e. no risks of revolution, war,
expropriation and, in Prudhoe Bay, the absence of the
disruptions associated with off-shore operations.)

It appears on the hearing record that oil prices, the
size of reserves and the costs of extraction will be far
more critical in determining the magnitude of future oil
exploration and development than the modest tax proposals
before this committee.

In particular, weight should be given to the Ad-
ministration's study (which used industry-based data),
which shows that the severance tax proposal reduces DCF
profits by less than 1%, a reduction which BP and SOHIO
witnesses frankly stated would not cause them to halt
investment in Prudhoe Bay or reduce present plans for
exploration.

The claim by the industry that Alaska's oil and gas
taxes are the highest in the nation, thereby lessening
Alaska's competitive position, is contradicted by the
Administration's claim that Alaska now ranks fourth among
the states and would move to second with the passage of
their bills.

* No such agreement could exist, since Article IX, Section
1, of the Constitution of the State of Alaska prohibits the
surrendering of the power of taxation.

In making its comparison, the Department of Revenue superimposed tax structures of other states on the production, income and property in Alaska. To be conservative, the Department excluded sales and use taxes, special pipeline taxes, and other taxes unique to other jurisdictions. The analysis of eight state tax commissioners appears to be more credible, but regardless of the past decisions of other states, Alaska is not and should not be bound by those past decisions alone.

HCSCS
SB
238

First, the oil fields found in other states are now in large part in the later years of their life--smaller, and less profitable (often only stripper wells are involved).

Secondly, virtually all leases in the lower 48 states are on private rather than public lands and therefore do not involve the extraction of non-renewable resources belonging to all the people. The primary concern here is that the people of Alaska receive a satisfactory return for the extraction of non-renewable resources.

The industry contended that Alaska has all the revenues it needs, as proven by the prediction that a major "surplus" will accumulate in the Alaska Permanent Fund and the general fund.

Moreover, in recent statewide media presentations, the oil industry praises the Permanent Fund but makes much of the assertion that no legitimate purpose is given for the predicted surpluses.

Nevertheless, one of the major objectives of the Permanent Fund is to develop an economic base for Alaska beyond the monolithic oil industry. Viewed in this light, the use of oil revenues to diversify the Alaska economy is certainly as worthy a purpose as is, for example, Mobile Oil's recent takeover of Montgomery Wards.

The final shape of the Alaska Permanent Fund is open, but there is wide consensus that it can be used both to provide savings and income for the years after oil declines and to build a diversified, private economy and a new tax base. The capital projects from the general fund or bonding will hopefully complement those broad goals. No one knows whether Alaska will, in fact, have a surplus; since no one knows, today, what will be the needs as oil production inevitably declines.

As for the problems of the Kenai-Cook Inlet operators, the Administration has pointed out that Federal price relief is available and that Federal controls may go on a stand-by basis in 1979 under the Energy Act. Yet there are delays in obtaining price relief, and the future of controls is uncertain. Moreover, as most of these fields are declining, it is sound policy to provide, in advance, that oil recovery and revenues be stretched out as long as possible.

Accordingly, a formula has been adopted that will immediately reduce severance taxes in the Kenai-Cook Inlet area and will, in future years, reduce the rates there more sharply than in other, more profitable areas.

HCSCS It was argued by the industry that they were suf-
SB fering an undue burden from taxation at existing rates.
238 Specifically, the data in SOHIO Submission One reveals,
 according to Walter Levy & Associates, that the effective
 income tax on the oil industry under the current law will
 not exceed about 2.5%, as opposed to the 9.4% in the
 statute. The oil industry never denied that most Alaskan
 businesses pay a higher effective rate. This arises from
 the large subsidies in the Federal taxable income figure
 on which our tax is based today* and because the actual
 value of North Slope production is not reflected in oil
 property, sales, and payrolls in the state (the factors
 ncw used to divide income).

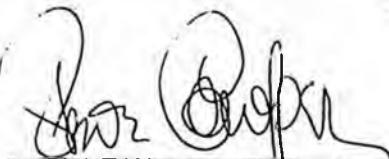
 In the course of the hearings, one major conflict
 kept emerging - the state's need for incentives versus the
 desires of Alaskans to turn oil capital, which can never
 be replaced, into uses that will provide benefits for the
 present and future generations.

 It is the task of the Legislature to balance these
 desires, and the uncertainties that go with each of them.

 Given the tax relief that the administration's sever-
 ance tax proposal will afford the economically marginal
 oil and gas fields and the relatively modest increase in
 taxation the proposal places on the highly productive
 and profitable oil and gas fields, House Finance Committee
 Substitute for CS for SB 238* represents a balanced and
 reasonable adjustment to the present tax law.

 HB 322, the corporate franchise tax, as well as HB 145,
 the direct accounting approach recommended by the Sub-
 committee on Oil and Gas Taxing and Leasing Policy, merely
 represent a mechanism to produce an effective rate equal
 to that which the present income tax law is supposed to
 recover for Alaska.

 In light of the testimony and a thorough review
 of the analysis and study of tax proposals over the past
 three years, a majority of the members of the House Finance
 Committee recommends passage of HCS for CS for SB 238.



Rep. Steve Cowper, Chairman
House Finance Committee

* Last year, the largest oil companies in Alaska reported \$3 billion more income to stockholders than they were required to report to the I.R.S.

* House Finance Committee Substitute for CS for SB 238 is essentially the Governor's bill.

MAJOR PROVISIONS OF THE OIL AND GAS
PROPERTIES PRODUCTION TAXHSCS
SB
238

The severance tax for oil is set at 12.5 percent of the wellhead value, or \$.9375 per barrel, whichever is higher. The cents-per-barrel "trigger" is set at a wellhead value floor of \$7.50, a floor which escalates at the rate of the GNP deflator. The floor, combined with the escalator, gives the state "downside protection" from the risks of changes in Federal pricing policy or attempts by the oil companies to shift costs from the fields to the pipeline and tankers (thus lowering wellhead values) or to move profits to the refinery, marketing, and distribution phases of their operations (thus lowering the profits exposed to taxes in Alaska). The \$7.50 floor was not criticized by the industry as unreasonable, and the escalator is seen as being essential to insure that Alaska's revenues keep pace with the rising value of Alaska's oil and to protect the purchasing power of the state's dollars.

By raising the minimum economic limit factor (ELF) from 100 to 300 barrels, the special problems of marginal producers, such as those on the Kenai-Cook Inlet fields, are recognized. The ELF formula has been altered with an exponent that speeds the fall in severance tax for marginal fields.

The definitions of "gross value at the point of production" in Section 7 avoid the instability that came from the six years of litigation over the pricing of Cook Inlet oil.

The severance tax rate for gas is set at 10 percent of value, or \$.064 per thousand cubic feet, whichever is greater. Again, there is a floor under revenues, guarded by the GNP deflator. Again, because of the ELF formula, the less profitable a field, the more rapidly the severance tax ends. The former tax on all flared gas (a drafting error in the original bill) has been replaced by a penalty on gas use exceeding that allowed by the State Conservation Committee for safety flaring and for operating purposes on a lease.

OUTLINE OF HCS CSSB 238

The House Finance Committee Substitute for Committee Substitute for Senate Bill No. 238 provides for a production tax on oil and gas which has the following characteristics:

FOR OIL,

1. A 12.5% of value tax; or,
2. A \$.9375 per barrel tax (\$7.50 floor price), whichever is higher;
3. An escalator for the cents per barrel tax based on the GNP deflator;

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HCSCS
SB
238

4. An economic limit factor (ELF) which reduces the effective tax rate as production approaches the economic limit; and
 - (a) which presumes 300 barrels per day as the economic limit subject to the taxpayer demonstrating otherwise; and
 - (b) which contains an exponent that further reduces the effective rate for leases with an economic limit of less than 300 BPD; and
 - (c) which relies on the free market price of imported oil for determining the economic limit;
5. A definition of the point of production.

FOR GAS,

1. A 10% of value tax; or
2. A \$.064 per thousand cubic feet tax, whichever is higher;
3. An escalator for the cents per MCF tax based on the GNP deflator;
4. An economic limit factor which reduces the effective tax rate as production approaches the economic limit; and
 - (a) which requires a hearing to determine the economic limit; and
 - (b) which relies on the highest field price within 100 miles for such determination;
5. A penalty on gas flared in excess of that authorized for safety equal to the production tax on gas;
6. A definition of the point of production.

Prepared by:

Legislative Affairs Agency
Research Division 6 May 77

OUTLINE OF CSSB 238 am

The Senate Resources Committee Substitute for Senate Bill No. 238 as amended in the Senate provides for a production tax on oil and gas which has the following characteristics:

FOR OIL,

1. A 11.5% of value tax; or
2. A \$.75 per barrel tax (\$6.52 floor price), whichever is higher;
3. No escalator for the cents per barrel tax;

4. An economic limit factor (ELF) which reduces the effective tax rate as production approaches the economic limit; and
- (a) which presumes 100 barrels per day as the economic limit subject to the taxpayer demonstrating otherwise; and
 - (b) which contains an exponent that further reduces the effective tax rate for leases with an economic limit of less than 750 BPD; and
 - (c) which relies on the free market price of imported oil for determining the economic limit;
5. No definition of the point of production.

HCSCS
SB
238

FOR GAS,

- 1. A 10% of value tax; or
- 2. A \$.064 per thousand cubic feet tax, whichever is higher;
- 3. No escalator for the cents per MCF tax;
- 4. An economic limit factor which reduces the effective tax rate as production approaches the economic limit; and
 - (a) which requires a hearing to determine the economic limit; and
 - (b) which relies on the highest field price within 100 miles for such determination;
- 5. No penalty on gas flared in excess of that authorized for safety.
- 6. No definition of the point of production.

Prepared by:

Legislative Affairs Agency
Research Division
6 May 1977

HOUSE JOURNAL
SUPPLEMENT

May 7, 1977

No. 60

HCS
CSSB
238

EFFECTIVE SEVERANCE TAX RATES IN PERCENT FOR PRESENT LAW,
HOUSE FINANCE COMMITTEE SUBSTITUTE FOR
COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 238,
AND
SENATE RESOURCES COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 238 am

<u>Field Units</u>	<u>Present Law</u>	<u>House Finance CS CSSB 238</u>	<u>Senate Resources CSSB 238am</u>
Beaver Creek	8.3	0	1.1
Granite Point			
280001	7.7	5.5	2.3
280002	7.5	1.0	0.8
280012	7.0	0	0
280022	8.0	4.2	1.5
McArthur River			
520001	10.5	14.7	8.6
520002	9.0	5.6	2.3
520003	8.8	7.7	3.7
Middle Ground Shoal			
524001	5.6	1.8	1.0
524002	6.0	4.4	1.9
524003	5.8	5.0	2.5
524013	5.6	3.8	1.7
Swanson River			
772001	10.4	1.0	0.6
772002	0	0	0
Trading Bay			
800001	7.6	0	0.6
800002	7.2	0	0
800003	0	0	0
800004	8.5	0	0.1
800005	7.1	0	0
Production Weighted Kenai- Cook Inlet Composite	8.9	8.4	4.9
Prudhoe Bay	7.7	12.2*	10.4*

*Assuming an economic limit of 750 bbl/day.

Prepared by:

Legislative Affairs Agency
Research Division
6 May 1977

COMPARISON OF TOTAL* SEVERANCE TAX REVENUES GENERATED BY PRESENT LAW,

HOUSE COMMITTEE SUBSTITUTE FOR
COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 238
AND
COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 238 AMENDED

Field	Millions of Dollars*		
	Present Law	House Finance CS CSSB 238	Senate Resources CSSB 238am
FY 1978:			
Kenai-			
Cook Inlet	23.5	22.3	13.1
Prudhoe Bay**	171.4	270.8	227.8
TOTAL	192.7	293.1	242.9
FY 1979:			
Kenai-			
Cook Inlet	19.6	19.0	11.1
Prudhoe Bay**	255.8	397.6	349.4
TOTAL	275.4	416.6	360.5
FY 1980:			
Kenai-			
Cook Inlet	18.2	16.3	9.3
Prudhoe Bay**	303.7	471.9	413.6
TOTAL	321.9	488.2	422.9

* All figures are gross, EDIC has NOT been credited.

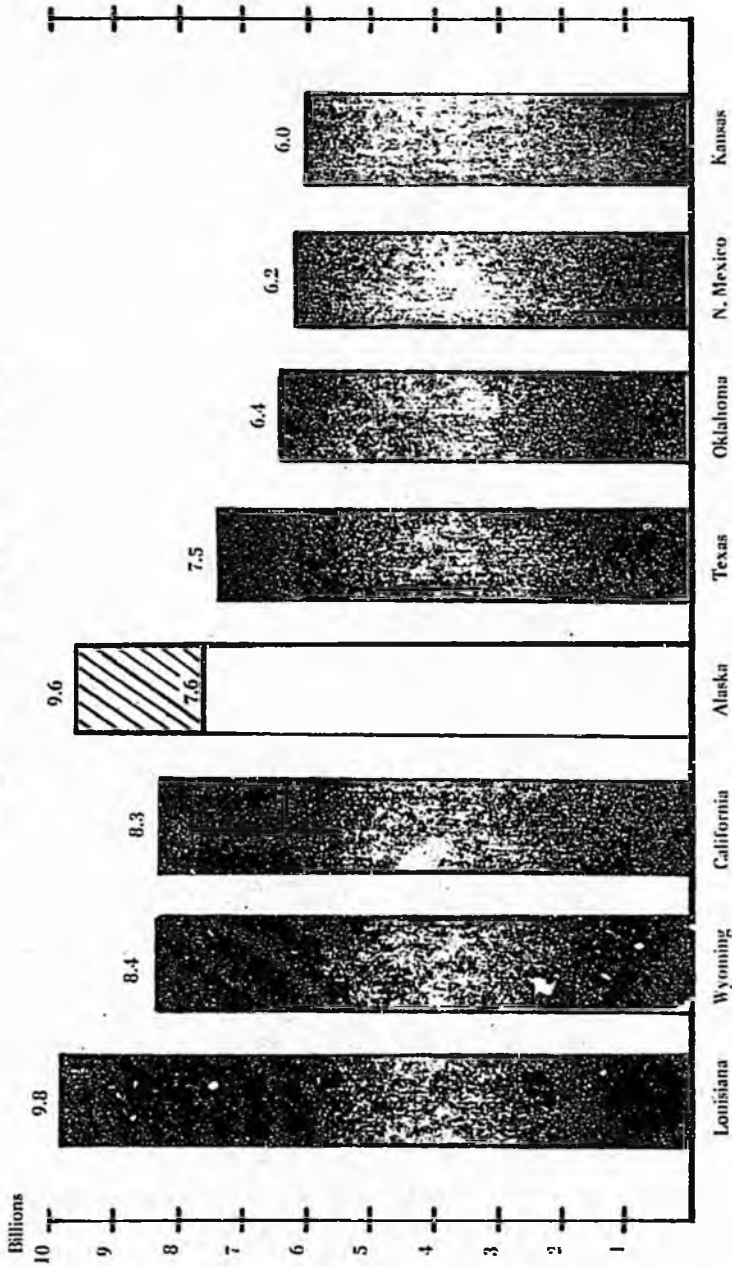
** Assume wellhead value at Prudhoe Bay Oil is \$7.38/bbl in FY78 with 5% inflation thereafter.
Assume economic limit at Prudhoe Bay is 750 bbl/day.

Prepared by:

Legislative Affairs Agency
Research Division
6 May 1977

HCS
CSSB
238

Tax Comparison



FISCAL NOTE

CSSB
159

I. REQUEST
Bill/Resolution No. CS SB 159
Title Leasing of State land other than for extraction of natural resources
Requested by _____ Date _____

II. FISCAL DETAIL
Agency Affected Natural Resources
Program Category Affected NRMEC
Budget Request Unit(s) Affected Land and Water Management

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES	53.0	53.0	55.6	58.4	61.3	
200 TRAVEL		3.0	3.2	3.3	3.5	
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		56.0	58.8	61.7	64.8	

FUNDING (Thousands of Dollars)

GENERAL FUND		56.0	58.8	61.7	64.8	
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		2	2	2	2	
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Will provide an Appraiser I and Appraiser II. These positions were in Governor's budget and prior fiscal note on this bill assumed approval.

We will be unable to meet re-appraisal requirements in a timely manner without either these positions or an equivalent amount to contract for appraisals.

IV. DATE _____ PREPARED BY Thomas Blunt
AGENCY Natural Resources
PHONE 645-2400
Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. FCCS HCS CS SB 238
 Title An Act relating to oil and gas taxation.
 Requested by _____ Date May 23, 1977

II. FISCAL DETAIL

Agency Affected Department of Revenue
 Program Category Affected Petroleum Revenue
 Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES		29.9	31.4	32.9	34.6	36.3
200 TRAVEL		1.5	1.5	1.5	1.5	1.5
300 CONTRACTUAL		16.5	17.3	18.1	18.1	19.8
400 COMMODITIES		.8	.8	.8	.8	.8
500 EQUIPMENT		1.0	1.0	1.0	1.0	1.0
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		49.7	52.0	54.3	56.8	59.4

FUNDING (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
GENERAL FUND		49.7	52.0	54.3	56.8	59.4
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		1/	1/	1/	1/	1/
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III) The severance tax as adopted by the free conference committee provides an extremely complex tax system. It will require an additional position to provide additional data processing and research support on a continuing basis. This is required because of split cents-per-barrel tax rates and economic limit factors in the severance tax for different areas in the state. Also, this additional support is needed to review and compile information for purposes of establishing specific economic limits for properties in the state.

In addition, the bill provides that the Department of Revenue shall annually review the prices received for oil and gas produced in Alaska, the value of that oil and gas, as well as the general level of prices in Alaska and the nation, and submit a written report with recommendations for proposed changes in the cents-per-barrel tax rates based upon that review. The additional position would do the necessary ground work for preparation of the report and recommendation. This review will be extremely important, as pricing actions by the federal government and actions by oil and gas companies could substantially erode our revenues. An annual revision of the cents-per-barrel tax rates could prevent the potential erosion of our severance tax revenues.

IV. DATE May 23, 1977 PREPARED BY John R. Messenger
 AGENCY Department of Revenue
 PHONE 465-2300
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

HOUSE FISCAL NOTE
CS for CS 58 238
NR 321

I. REQUEST
Bill/Resolution No. _____
Title Oil and Gas Properties Production Tax
Requested by _____ Date March 7, 1977

II. FISCAL DETAIL
Agency Affected Department of Revenue
Program Category Affected Petroleum Revenue Division
Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	None					

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						
	None					

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

HOUSE BILL 238 (20)

IV. DATE March 7, 1977 PREPARED BY John R. Messinger, Deputy Commissioner
AGENCY Department of Revenue
PHONE 465-2300
Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

COMMITTEE REPORT

HOUSE

3/5/77

3-5-77

Date

Mr. Speaker:

The Committee on FINANCE has had CSSE 238 am.

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 CSSE 238 am. and that CS for CSSE 238 am. do pass
- (and) recommends it be referred to the _____ committee
- reports it back without recommendation
- AND attaches a report of its intent
- (other) _____

MEMBERS SIGNING THE MAJORITY REPORT:

[Signature] _____ [Signature] _____

[Signature] _____ [Signature] _____

[Signature] _____ _____

[Signature] _____ _____

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

[Signature] recommends: Yes

[Signature] recommends: No

[Signature] recommends: No

Chairman

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST
Bill/Resolution No. _____
Title Oil and Gas Properties Production Tax
Requested by _____ Date March 7, 1977

II. FISCAL DETAIL
Agency Affected Department of Revenue
Program Category Affected Petroleum Revenue Division
Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	None					

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify)						
	None					

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

IV. DATE March 7, 1977 PREPARED BY John R. Rosser, Deputy Commission
AGENCY Department of Revenue
PHONE 465-2300
Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

278

March 11, 1977

The Honorable John L. Rader
President of the Senate
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. President:

Under the authority of art. III, sec. 18 of the Alaska Constitution, and in accordance with AS 24.30.060(b) and the Uniform Rules of the Alaska State Legislature, I am transmitting a bill relating to the oil and gas properties production tax.

As a result of a recent study of Alaska's oil and gas tax structure, the Department of Revenue has recommended several changes in the state's production or "severance" tax. This bill incorporates those specific recommendations.

Currently the state's oil production tax is calculated according to "stair stepped" rates depending upon the level of production for the lease or property. As currently structured the tax may have an adverse impact upon a particular property as it reaches its economic limit. The "stair step" approach may not alleviate this adverse effect since the economic limit may vary substantially from one part of the state to another. This is because it may be more costly to produce and transport the oil in the more remote areas of the state. Accordingly, the bill contains an economic limit mechanism which automatically scales the tax rate down as the production nears its economic limit. This will insure that the tax will not unduly inhibit oil production as it reaches its economic limit.

One of the immediate dangers which face the state's revenue picture is the potential for artificially depressed pricing of the state's North Slope oil. This could result from federal pricing decisions or excessive

tariff costs from the wellhead to the refinery. To insulate the state's petroleum revenues from these forces, the bill provides for a mechanism which would raise the cents-per-barrel floor to correspond to a mid-range market value for North Slope oil and tie that floor to an index which will let the floor keep pace with inflation.

One of the Department of Revenue's recommendations -- the oil and gas surtax -- which was designed to offset revenue losses due to depressed pricing of North Slope oil and which was to be imposed only on holders of state-owned leaseholds was deleted on the advice of this department because of the substantial legal problems involved.

The bill places the tax on gas at a parity with the tax on oil. Currently gas is taxed at only 4 percent while oil is taxed from 5 to 8 percent. The bill would tax both oil and gas at 10 percent. In addition, the bill sets a cents-per-Mcf floor for the gas tax similar to the cents-per-barrel floor for oil. This new floor for gas corresponds to the highest market price in the state, and it too is tied to an index to keep pace with inflation.

Sincerely,

Jay S. Hammond
Governor

Original sponsor: Rules Committee by
request of the Governor

Offered: 5/2/77
Referred: Finance

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 238

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas properties produc-
7 tion tax; and providing for an effective date."

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

9 * Section 1. AS 43.55 is amended by adding new sections to read:

10 Sec. 43.55.011. OIL PRODUCTION TAX. (a) There is levied upon the
11 producer of oil a tax for all oil produced from each lease or property
12 in the state, less any oil the ownership or right to which is exempt
13 from taxation. The tax is equal to either the percentage-of-value
14 amount calculated under (b) of this section or the cents-per-barrel
15 amount calculated under (c) of this section, whichever is greater,
16 multiplied by the economic limit factor determined for the oil produc-
17 tion of the lease or property under sec. 13 of this chapter. If the
18 amounts calculated under (b) and (c) of this section are equal, the
19 amount calculated under (b) of this section shall be treated as if it
20 were the greater for purposes of this section.

21 (b) The percentage-of-value amount equals 12.5 per cent of the
22 gross value at the point of production of taxable oil produced from the
23 lease or property.

24 (c) The cents-per-barrel amount equals \$.65 per barrel of taxable
25 oil produced from the lease or property, as adjusted by sec. 12 of this
26 chapter.

27 (d) When the cents-per-barrel amount calculated under (c) of this
28 section is greater than the percentage-of-value amount calculated under
29 (b) of this section, an amount not less than \$.05 for each barrel of

1 taxable oil produced shall be paid by the state out of its royalties
2 from the oil whenever payment by the state is required under the revenue-
3 sharing provisions of sec. 9 of the Alaska Native Claims Settlement Act
4 (P.L. 92-203, 85 Stat. 688, 43 U.S.C. 1601 et seq.) into the Alaska
5 Native Fund, until all amounts paid in the fund equal \$500,000,000.

6 Sec. 43.55.012. ADJUSTMENTS IN TAX RATES. (a) The amounts set
7 out in sec. 11(c) and sec. 16(c) of this chapter shall be increased or
8 decreased by a percentage equal to the percentage of change in the Gross
9 National Product Deflator published by the Bureau of Economic Analysis
10 of the United States Department of Commerce, or 7.5 per cent per year,
11 whichever is the lesser of the two. Changes in tax rates will be com-
12 puted based on changes in the Gross National Product Deflator from that
13 of the First Quarter 1977 Gross National Product Deflator. The depart-
14 ment shall post the changes in the tax rates periodically and shall
15 notify every person producing oil in the state of the changes.

16 (b) The cents-per-barrel amount set out in sec. 11(c) of this
17 chapter applies to oil of 27 degrees API gravity. For each degree of
18 API gravity less than 27 degrees the cents-per-barrel amount shall be
19 reduced by \$.005 and for each degree of API gravity greater than 27
20 degrees the cents-per-barrel amount shall be increased by \$.005 except
21 that oil above 40 degrees API gravity shall be taxed as 40 degree oil.
22 In applying the gravity adjustment under this subsection, fractional
23 degrees of API gravity shall be disregarded.

24 Sec. 43.55.013. ECONOMIC LIMIT FACTOR. (a) The economic limit
25 factor for oil production of a lease or property equals

$$26 \quad (1 - [\text{PEL}/\text{TP}]) \exp ([300 \times \text{WD}]/\text{PEL})$$

27 Where: PEL = the production rate at the economic limit;

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

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

3 Where "exp" indicates that the expression following it is an exponent.

4 (b) The economic limit factor for gas production of a lease or
5 property equals one minus the ratio of the monthly production rate at
6 the economic limit to the production during the month for which the tax
7 is to be paid.

8 (c) The monthly production rate at the economic limit for a lease
9 or property is presumed to be 100 barrels times the number of well days
10 for the lease or property during the month for which the tax is to be
11 paid. The taxpayer may rebut this presumption at a formal hearing
12 under AS 43.05.420 by providing clear and convincing evidence of a
13 different monthly production rate at the economic limit for the lease or
14 property. The hearing shall be held before February 15 of the year or
15 within six months after commencement of oil production for a lease or
16 property. The monthly production rate at the economic limit for the
17 lease or property based upon the clear and convincing evidence of the
18 taxpayer shall be calculated by dividing the value determined under (e)
19 of this section into the average monthly direct operating cost deter-
20 mined under (d) of this section and shall be used for purposes of this
21 section for all oil production during that calendar year from the lease
22 or property.

23 (d) The average monthly direct operating cost for oil production
24 operations of the lease or property shall be determined based on the
25 number of months operated during the preceding 12-month period. The
26 direct operating costs include production supplies, purchased fuel,
27 routine maintenance, and wages and benefits of employees working on the
28 production operations. The direct operating costs do not include
29 capital expenditures, tangible or intangible drilling expenses, costs of

1 well workovers, costs for replacement or repairs (other than routine
2 maintenance), depreciation or amortization, taxes, insurance, overhead,
3 money paid or set aside (or booked as being paid or set aside) to cover
4 the cost of terminating the oil production operations of the lease or
5 property, or any other cost not directly related to the oil production
6 operations of the lease or property.

7 (e) For the purposes of this chapter, the gross value of oil shall
8 be calculated as provided in sec. 150 of this chapter, and the gross
9 value of gas shall be calculated as provided in (h) of this section.

10 (f) Before February 15 of each year or within six months after
11 commencement of gas production for a lease or property, the department
12 shall notify the producer of gas of the monthly production rate at the
13 economic limit for each lease or property in the state for that year.
14 The monthly production rate at the economic limit for a lease or property
15 shall be determined at a formal hearing under AS 43.05.240 and must be
16 established by clear and convincing evidence presented by the taxpayer
17 at that hearing. The monthly production rate at the economic limit for
18 the lease or property based upon the clear and convincing evidence of
19 the taxpayer shall be calculated by dividing the value determined under
20 (h) of this section into the average monthly direct operating cost
21 determined under (g) of this section.

22 (g) The average monthly direct operating cost for gas production
23 operations of the lease or property shall be determined based on the
24 number of months operated during the preceding 12-month period. The
25 direct operating costs include drilling supplies, fuel, routine mainte-
26 nance, and wages and benefits of employees working on the production
27 operations. The direct operating costs do not include capital expendi-
28 tures, tangible or intangible drilling expenses, costs of well work-
29 overs, costs for replacement or repairs (other than routine maintenance),

1 depreciation or amortization, taxes, insurance, overhead, money paid or
2 set aside (or booked as being paid or set aside) to cover the cost of
3 terminating the gas production operations of the lease or property, or
4 any other cost not directly related to the gas production operations of
5 the lease or property.

6 (h) The value at the point of production of gas produced from the
7 lease or property shall be determined on the basis of the highest price
8 paid for gas of like quality and pressure in the same field.

9 (i) The department may aggregate two or more leases or properties
10 (or portions of them), for purposes of determining economic limit
11 factors under this section and applying them to sec. 11 of this chapter,
12 when economically interdependent oil or gas production operations are
13 not confined to a single lease or property. The department may also
14 segregate a lease or property into two or more parts, for purposes of
15 determining economic limit factors under this section and applying them
16 under sec. 11 of this chapter, when two or more economically independent
17 oil or gas production operations are being conducted on it.

18 (j) A determination of the monthly production rate at the economic
19 limit for a lease or property is retroactive to January 1 of the current
20 year. For production of a lease or property commencing after January 1,
21 the determination of the monthly production rate at the economic limit
22 for that lease or property made within six months after the commencement
23 of production is retroactive to the commencement of production.

24 Sec. 43.55.016. GAS PRODUCTION TAX. (a) There is levied upon the
25 producer of gas a tax for all gas produced from each lease or property
26 in the state, less any gas the ownership or right to which is exempt
27 from taxation. The tax is equal to either the percentage-of-value
28 amount calculated under (b) of this section or the cents-per-Mcf amount
29 calculated under (c) of this section, whichever is greater, multiplied

1 by the economic limit factor determined for gas production of the lease
2 or property under sec. 13 of this chapter. If the amounts calculated
3 under (b) and (c) of this section are equal, the amount calculated under
4 (b) of this section shall be treated as if it were the greater for
5 purposes of this section.

6 (b) The percentage-of-value amount equals 10 per cent of the gross
7 value at the point of production of the taxable gas produced from the
8 lease or property.

9 (c) The cents-per-Mcf amount equals \$.064 per thousand cubic feet
10 of taxable gas produced from the lease or property as adjusted by sec.
11 12 of this chapter.

12 Sec. 43.55.017. RELATION TO OTHER TAXES. (a) Except as provided
13 in this chapter and in ch. 58 of this title, the taxes imposed by this
14 chapter are in place of all taxes now imposed by the state or any of its
15 municipalities, and neither the state nor a municipality may impose a
16 tax upon

17 (1) producing oil or gas leases;
18 (2) oil or gas produced or extracted in the state;
19 (3) the value of intangible drilling and exploration ex-
20 penses.

21 (b) The taxes imposed by this chapter are in place of all taxes
22 imposed by a municipality upon oil or gas in place or nonproducing oil
23 or gas leases or properties.

24 (c) The taxes imposed by this chapter are not in place of the tax
25 imposed by ch. 57 of this title or income taxes, franchise taxes or
26 taxes upon the retail sale of oil or gas products.

27 * Sec. 2. AS 43.55.020(a) is amended to read:

28 (a) The gross production tax on oil or gas shall be paid monthly.
29 The tax is due on the 20th [LAST] day of each calendar month on oil or

1 gas produced [REMOVED OR SOLD] from each lease or property during the
2 preceding month. If the tax is not paid before the end of the month in
3 which it becomes due, the tax becomes delinquent.

4 * Sec. 3. AS 43.55.030(a)(1) is amended to read:

5 (1) a description of the lease or property from which the oil
6 or gas was produced [REMOVED OR SOLD], by name, legal description, lease
7 number or by accounting code numbers assigned to the department;

8 * Sec. 4. AS 43.55.030(a)(3) is amended to read:

9 (3) the gross amount of oil or gas produced [REMOVED OR SOLD]
10 from the lease or property, and the percentage of the gross amount owned
11 by each producer for whom the tax is paid;

12 * Sec. 5. AS 43.55.030(a)(4) is amended to read:

13 (4) the total value of the oil or gas produced [REMOVED OR
14 SOLD] from the lease or property owned by each producer for whom the tax
15 is paid; and

16 * Sec. 6. AS 43.55.140 is amended by adding a new paragraph to read:

17 (12) "well days" means the number of days in which a well is
18 operating during a month.

19 * Sec. 7. AS 43.55.010, 43.55.015 and 43.55.140(10) and (11) are re-
20 pealed.

21 * Sec. 8. This Act takes effect July 1, 1977 and applies to production
22 during the month of July, 1977, and succeeding months.

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Original sponsor: Rules Committee by request
of the Governor

Offered: 5/7/77
For Today's Calendar

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2

HOUSE CS FOR CS FOR SENATE BILL NO. 238

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

TENTH LEGISLATURE - FIRST SESSION

5

A BILL

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For an Act entitled: "An Act relating to the oil and gas properties pro-
duction tax; and providing for an effective date."

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

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* Section 1. AS 43.55 is amended by adding new sections to read:

10

Sec. 43.55.011. OIL PRODUCTION TAX. (a) There is levied upon the
producer of oil a tax for all oil produced from each lease or property
in the state, less any oil the ownership or right to which is exempt
from taxation. The tax is equal to either the percentage-of-value
amount calculated under (b) of this section or the cents-per-barrel
amount calculated under (c) of this section, whichever is greater,
multiplied by the economic limit factor determined for the oil produc-
tion of the lease or property under sec. 13 of this chapter. If the
amounts calculated under (b) and (c) of this section are equal, the
amount calculated under (b) of this section shall be treated as if it
were the greater for purposes of this section.

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(b) The percentage-of-value amount equals 12.5 per cent of the
gross value at the point of production of taxable oil produced from the
lease or property.

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(c) The cents-per-barrel amount equals \$.9375 per barrel of tax-
able oil produced from the lease or property, as adjusted by sec. 12 of
this chapter.

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(d) When the cents-per-barrel amount calculated under (c) of this
section is greater than the percentage-of-value amount calculated under
(b) of this section, and payment by the state to the Alaska Native fund

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1 out of the state's royalties on that oil is required under the revenue
2 sharing provisions of sec. 9 of the Alaska Native Claims Settlement Act
3 (P.L. 92-203, 85 Stat. 688, 43 U.S.C. 1601 et seq.), that payment shall
4 be not less than \$.05 for each taxable barrel of oil produced until all
5 amounts paid in the fund equal \$500,000,000.

6 Sec. 43.55.012. ADJUSTMENTS IN TAX RATES. (a) The amounts set
7 out in sec. 11(c) and sec. 16(c) of this chapter shall be increased or
8 decreased by a percentage equal to the percentage of change in the Gross
9 National Product Deflator published by Bureau of Economic Analysis of
10 the United States Department of Commerce. Changes in tax rates will be
11 computed based on changes in the Gross National Product Deflator from
12 that of the First Quarter 1977 Gross National Product Deflator. The
13 department shall post the changes in the tax rates periodically and
14 shall notify every person producing oil within the state of the changes.

15 (b) The cents-per-barrel amount set out in sec. 11(c) of this
16 chapter as adjusted by (a) of this section applies to oil of 27 degrees
17 API gravity. For each degree of API gravity less than 27 degrees the
18 cents-per-barrel amount shall be reduced by \$.005 and for each degree of
19 API gravity greater than 27 degrees the cents-per-barrel amount shall be
20 increased by \$.005 except that oil above 40 degrees API gravity shall be
21 taxed as 40 degree oil. In applying the gravity adjustment under this
22 subsection, fractional degrees of API gravity shall be disregarded.

23 Sec. 43.55.013. ECONOMIC LIMIT FACTOR. (a) The economic limit
24 factor for oil production of a lease or property equals

$$25 \quad (1 - [PEL/TP]) \exp ([300 \times WD]/PEL)$$

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

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

29 WD = the total number of well days in the month for which

1 the tax is to be paid; and
2 where "exp" indicates that the expression following it is an exponent.

3 (b) The economic limit factor for gas production of a lease or
4 property equals one minus the ratio of the monthly production rate at
5 the economic limit to the production during the month for which the tax
6 is to be paid.

7 (c) The monthly production rate at the economic limit for a lease
8 or property is presumed to be 300 barrels times the number of well days
9 for the lease or property during the month for which the tax is to be
10 paid. The taxpayer may rebut this presumption at a formal hearing under
11 AS 43.05.240 by providing clear and convincing evidence of a different
12 monthly production rate at the economic limit for the lease or property.
13 The hearing shall be held before February 15 of the year or within six
14 months after commencement of oil production for a lease or property.
15 The monthly production rate at the economic limit for the lease or pro-
16 perty based upon the clear and convincing evidence of the taxpayer shall
17 be calculated by dividing the value determined under (e) of this section
18 into the average monthly direct operating cost determined under (d) of
19 this section and shall be used for purposes of this section for all oil
20 production during that calendar year from the lease or property.

21 (d) The average monthly direct operating cost for oil production
22 operations of the lease or property shall be determined based on a
23 period of not less than four consecutive months. The direct operating
24 costs include only royalty, production supplies, purchased fuel, routine
25 maintenance, and wages and benefits of employees working on the produc-
26 tion operations. Additional direct operating costs not listed in this
27 section may be included only after their inclusion in a regulation
28 adopted by the department. The direct operating costs do not include
29 capital expenditures, tangible or intangible drilling expenses, costs of

1 well workovers, costs for replacement or repairs (other than routine
2 maintenance), depreciation or amortization, taxes, insurance, overhead,
3 money paid or set aside (or booked as being paid or set aside) to cover
4 the cost of terminating the oil production operations of the lease or
5 property, or any other cost not directly related to the oil production
6 operations of the lease or property.

7 (e) For the purpose of calculating the economic limit, the value
8 at the point of production of oil produced from the lease or property
9 shall be determined on the basis of the acquisition cost C.I.F. at West
10 Coast refineries for imported oil of like quality, minus the reasonable
11 cost of transportation between the point of production of the oil from
12 the lease or property and those West Coast refineries.

13 (f) Before February 15 of each year or within six months after
14 commencement of production for a lease or property the department shall
15 notify the producer of gas of the monthly production rate at the eco-
16 nomic limit for each lease or property within the state for that year.
17 The monthly production rate at the economic limit for a lease or pro-
18 perty shall be determined at a formal hearing under AS 43.05.240 and
19 must be established by clear and convincing evidence presented by the
20 taxpayer at that hearing. The monthly production rate at the economic
21 limit for the lease or property based upon the clear and convincing
22 evidence of the taxpayer shall be calculated by dividing the value
23 determined under (h) of this section into the average monthly direct
24 operating cost determined under (g) of this section.

25 (g) The average monthly direct operating cost for gas production
26 operations of the lease or property shall be determined based on a
27 period of not less than four consecutive months. The direct operating
28 costs include only royalty, production supplies, purchased fuel, routine
29 maintenance, and wages and benefits of employees working on the

1 production operations. Additional direct operating costs not listed in
2 this section may be included only after their inclusion in a regulation
3 adopted by the department. The direct operating costs do not include
4 capital expenditures, tangible or intangible drilling expenses, costs of
5 well workovers, costs for replacement or repairs (other than routine
6 maintenance), depreciation or amortization, taxes, insurance, overhead,
7 monies paid or set aside (or booked as being paid or set aside) to cover
8 the cost of terminating the gas production operations of the lease or
9 property, or any other cost not directly related to the gas production
10 operations of the lease or property.

11 (h) For the purpose of calculating the economic limit, the value
12 at the point of production of gas produced from the lease or property
13 shall be determined on the basis of the highest price paid for gas of
14 like quality and pressure in the same field or some other field within
15 100 miles in the state.

16 (i) The department may aggregate two or more leases or properties
17 (or portions of them), for purposes of determining economic limit factors
18 under this section and applying them to sec. 11 or sec. 16 of this chap-
19 ter, when economically interdependent oil or gas production operations
20 are not confined to a single lease or property. The department may also
21 segregate a lease or property into two or more parts, for purposes of
22 determining economic limit factors under this section and applying them
23 under sec. 11 or sec. 16 of this chapter, when two or more economically
24 independent oil or gas production operations are being conducted on it.

25 (j) A determination of the monthly production rate at the economic
26 limit for a lease or property is retroactive to January 1 of the current
27 year. For production of a lease or property commencing after January 1,
28 the determination of the monthly production rate at the economic limit
29 for that lease or property made within six months after the commencement

1 of production is retroactive to the commencement of production.

2 Sec. 43.55.016. GAS PRODUCTION TAX. (a) There is levied upon the
3 producer of gas a tax for all gas produced from each lease or property
4 in the state, less any gas the ownership or right to which is exempt
5 from taxation. The tax is equal to either the percentage-of-value
6 amount calculated under (b) of this section or the cents-per-Mcf amount
7 calculated under (c) of this section, whichever is greater, multiplied
8 by the economic limit factor determined for gas production of the lease
9 or property under sec. 13 of this chapter. If the amounts calculated
10 under (b) and (c) of this section are equal, the amount calculated under
11 (b) of this section shall be treated as if it were the greater for
12 purposes of this section.

13 (b) The percentage-of-value amount equals 10 per cent of the gross
14 value at the point of production of the taxable gas produced from the
15 lease or property.

16 (c) The cents-per-Mcf amount equals \$.064 per thousand cubic feet
17 of taxable gas produced from the lease or property as adjusted by sec.
18 12 of this chapter.

19 Sec. 43.55.017. RELATION TO OTHER TAXES. (a) Except as provided
20 in this chapter and in ch. 58 of this title, the taxes imposed by this
21 chapter are in place of all taxes now imposed by the state or any of its
22 municipalities, and neither the state nor a municipality may impose a
23 tax upon

- 24 (1) producing oil or gas leases;
25 (2) oil or gas produced or extracted in the state;
26 (3) the value of intangible drilling and exploration expen-
27 ses.

28 (b) The taxes imposed by this chapter are in place of all taxes
29 imposed by a municipality upon oil or gas in place or nonproducing oil

1 or gas leases or properties.

2 (c) The taxes imposed by this chapter are not in place of the tax
3 imposed by ch. 57 of this title or income taxes, franchise taxes or
4 taxes upon the retail sale of oil or gas products.

5 * Sec. 2. AS 43.55.020(a) is amended to read:

6 (a) The gross production tax on oil or gas shall be paid monthly.
7 The tax is due on the 20th [LAST] day of each calendar month on oil or
8 gas produced [REMOVED OR SOLD] from each lease or property during the
9 preceding month. If the tax is not paid before the end of the month in
10 which it becomes due, the tax becomes delinquent.

11 * Sec. 3. AS 43.55.020(e) is amended to read:

12 (e) Gas produced in excess of that needed for safety purposes
13 [AND USED], except gas used in the operation of a lease or property in
14 drilling for or producing oil or gas, or for repressuring, is considered,
15 for the purpose of this chapter and in the amount used, as gas produced
16 [REMOVED OR SOLD] from a lease or property. Gas flared beyond the
17 amount authorized for safety by the Department of Natural Resources
18 under AS 31.05.170(11)(H) is considered as gas produced, except that it
19 is subject to a penalty equal to the tax computed under sec. 16 of this
20 chapter as adjusted by sec. 12 of this chapter per thousand cubic feet
21 of gas for the month in which the gas was flared.

22 * Sec. 4. AS 43.55.030(a)(1) is amended to read:

23 (1) a description of the lease or property from which the oil
24 or gas was produced [REMOVED OR SOLD], by name, legal description, lease
25 number or by accounting code numbers assigned by the department;

26 * Sec. 5. AS 43.55.030(a)(3) is amended to read:

27 (3) the gross amount of oil or gas produced [REMOVED OR SOLD]
28 from the lease or property, and the percentage of the gross amount owned
29 by each producer for whom the tax is paid;

1 * Sec. 6. AS 43.55.030(a)(4) is amended to read:

2 (4) the total value of the oil or gas produced [REMOVED OR
3 SOLD] from the lease or property owned by each producer for whom the tax
4 is paid; and

5 * Sec. 7. AS 43.55.140 is amended by adding new paragraphs to read:

6 (12) "gross value at the point of production" means

7 (A) for oil, the value of the oil at the point where it
8 is metered or measured (by automatic custody transfer meter, tank
9 gauge, or other method approved by the commissioner) in a condition
10 of pipeline quality on the premises of the lease or property from
11 which it is recovered; however, if the oil is not of pipeline
12 quality when it is removed from the premises of the lease or pro-
13 perty from which it is recovered, or if the oil recovered from a
14 lease or property is not metered or measured (by automatic custody
15 transfer meter, tank gauge, or other method approved by the com-
16 missioner) on the premises of the lease or property from which it
17 is recovered, then the gross value at the point of production is
18 the value of that oil at the off-premises location where the oil is
19 first metered or measured (by automatic custody transfer meter,
20 tank gauge, or other method approved by the commissioner) in a
21 condition of pipeline quality;

22 (B) for gas recovered from or in association with oil,
23 the value of the gas at the point where it is accurately metered or
24 measured after separation from the oil; for gas run through a gas
25 processing plant, the gross value at the point of production is the
26 full consideration received by the producer for the gas if sold in
27 an arm's length transaction or, in the absence of an arm's length
28 transaction, is the sum of the value of the liquids extracted from
29 the gas at the plant and the value of the residue gas, less a

1 reasonable allowance for processing the gas at the plant and for
2 transporting the gas to the plant from the premises upon which the
3 oil production operation is conducted; and

4 (C) for gas not recovered from or in association with
5 oil, the value of the gas at the point where it is accurately
6 metered or measured or the value of the gas at the point of sale,
7 if any, on the premises of the lease or property from which the gas
8 is recovered, whichever is the higher value; for gas run through a
9 gas processing plant, the gross value at the point of production is
10 the full consideration received by the producer for the gas if sold
11 in an arm's length transaction or, in the absence of an arm's
12 length transaction, is the sum of the value of the liquids ex-
13 tracted from the gas at the plant and the value of the residue gas,
14 less a reasonable allowance for processing the gas at the plant and
15 for transporting the gas to the plant from the point where it was
16 accurately metered or measured;

17 (13) "oil production operation" means the operation by which
18 oil is recovered from a lease or property and rendered into oil of
19 pipeline quality, and includes any gathering done before the oil is
20 finally rendered into oil of pipeline quality;

21 (14) "pipeline quality" means good and merchantable condi-
22 tion;

23 (15) "well days" means the number of days in which a well is
24 operating during a month.

25 * Sec. 8. AS 43.55.010, 43.55.015 and 43.55.140(10) and (11) are re-
26 pealed.

27 * Sec. 9. This Act takes effect July 1, 1977 and applies to production
28 during the month of July 1977 and succeeding months.

Introduced: 3/11/77
Referred: Resources and Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 238

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the oil and gas properties pro-
7 duction tax; and providing for an effective date."

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

9 * Section 1. AS 43.55 is amended by adding new sections to read:

10 Sec. 43.55.011. OIL PRODUCTION TAX. (a) There is levied upon
11 the producer of oil a tax for all oil produced from each lease or
12 property in the state, less any oil the ownership or right to which is
13 exempt from taxation. The tax is equal to either the percentage-of-
14 value amount calculated under (b) of this section or the cents-per-
15 barrel amount calculated under (c) of this section, whichever is
16 greater, multiplied by the economic limit factor determined for the
17 oil production of the lease or property under sec. 13 of this chapter.
18 If the amounts calculated under (b) and (c) of this section are equal,
19 the amount calculated under (b) of this section shall be treated as if
20 it were the greater for purposes of this section.

21 (b) The percentage-of-value amount equals 10 per cent of the
22 gross value at the point of production of taxable oil produced from
23 the lease or property.

24 (c) The cents-per-barrel amount equals \$.75 per barrel of taxable
25 oil produced from the lease or property, as adjusted by sec. 12 of
26 this chapter.

27 (d) When the cents-per-barrel amount calculated under (c) of
28 this section is greater than the percentage-of-value amount calculated
29 under (b) of this section, an amount not less than \$.05 for each

1 barrel of taxable oil produced shall be paid by the state out of its
2 royalties from the oil whenever payment by the state is required under
3 the revenue sharing provisions of sec. 9 of the Alaska Native Claims
4 Settlement Act (P.L. 92-203, 85 Stat. 688, 43 U.S.C. 1601 et seq.)
5 into the Alaska Native Fund, until all amounts paid in the fund equal
6 \$500,000,000.

7 Sec. 43.55.012. ADJUSTMENTS IN TAX RATES. (a) The amounts set
8 out in sec. 11(c) and sec. 16(c) of this chapter shall be increased or
9 decreased by a percentage equal to the percentage of change in the
10 Gross National Product Deflator published by Bureau of Economic Analysis
11 of the United States Department of Commerce. Changes in tax rates
12 will be computed based on changes in the Gross National Product Deflator
13 from that of the First Quarter 1977 Gross National Product Deflator.
14 The department shall post the changes in the tax rates periodically
15 and shall notify every person producing oil within the state of the
16 changes.

17 (b) The cents-per-barrel amount set out in sec. 11(c) of this
18 chapter as adjusted by (a) of this section applies to oil of 27
19 degrees API gravity. For each degree of API gravity less than 27
20 degrees the cents-per-barrel amount shall be reduced by \$.005 and for
21 each degree of API gravity greater than 27 degrees the cents-per-
22 barrel amount shall be increased by \$.005 except that oil above 40
23 degrees API gravity shall be taxed as 40 degree oil. In applying the
24 gravity adjustment under this subsection, fractional degrees of API
25 gravity shall be disregarded.

26 Sec. 43.55.013. ECONOMIC LIMIT FACTOR. (a) The economic limit
27 factor for oil production of a lease or property equals one minus the
28 ratio of the monthly production rate at the economic limit to the
29 production during the month for which the tax is to be paid.

1 (b) Before February 15 of each year or within six months after
2 commencement of production for a lease or property, the department
3 shall notify the taxpayer of the monthly production rate at the
4 economic limit for each lease or property within the state for that
5 year. The monthly production rate at the economic limit for a lease
6 or property is presumed to be 100 barrels times the number of well-
7 days for the lease or property during December of the preceding year,
8 unless the taxpayer at a formal hearing under AS 43.05.240 provides
9 clear and convincing evidence of a different monthly production rate
10 at the economic limit for the lease or property. The monthly produc-
11 tion rate at the economic limit for the lease or property based upon
12 the clear and convincing evidence of the taxpayer shall be calculated
13 by dividing the value determined under (d) of this section into the
14 average monthly direct operating cost determined under (c) of this
15 section.

16 (c) The average monthly direct operating cost for oil production
17 operations of the lease or property shall be determined based on a
18 period of not less than four consecutive months. The direct operating
19 costs include drilling supplies, fuel, routine maintenance, and wages
20 and benefits of employees working on the production operations. The
21 direct operating costs do not include capital expenditures, tangible
22 or intangible drilling expenses, costs of well workovers, costs for
23 replacement or repairs (other than routine maintenance), depreciation
24 or amortization, taxes, insurance, overhead, money paid or set aside
25 (or booked as being paid or set aside) to cover the cost of terminating
26 the oil production operations of the lease or property, or any other
27 cost not directly related to the oil production operations of the
28 lease or property.

29 (d) The value at the point of production of oil produced from

1 the lease or property shall be determined on the basis of the acqui-
2 sition cost C.I.F. at West Coast refineries for imported oil of like
3 quality, minus the reasonable cost of transportation between the point
4 of production of the oil from the lease or property and those West
5 Coast refineries.

6 (e) Before February 15 of each year or within six months after
7 commencement of production for a lease or property the department
8 shall notify the producer of gas of the monthly production rate at the
9 economic limit for each lease or property within the state for that
10 year. The monthly production rate at the economic limit for a lease
11 or property shall be determined at a formal hearing under AS 43.05.240
12 and must be established by clear and convincing evidence presented by
13 the taxpayer at that hearing. The monthly production rate at the
14 economic limit for the lease or property based upon the clear and
15 convincing evidence of the taxpayer shall be calculated by dividing
16 the value determined under (g) of this section into the average monthly
17 direct operating cost determined under (f) of this section.

18 (f) The average monthly direct operating cost for gas production
19 operations of the lease or property shall be determined based on a
20 period of not less than four consecutive months. The direct operating
21 costs include drilling supplies, fuel, routine maintenance, and wages
22 and benefits of employees working on the production operations. The
23 direct operating costs do not include capital expenditures, tangible
24 or intangible drilling expenses, costs of well workovers, costs for
25 replacement or repairs (other than routine maintenance), depreciation
26 or amortization, taxes, insurance, overhead, monies paid or set aside
27 (or booked as being paid or set aside) to cover the cost of terminating
28 the gas production operations of the lease or property, or any other
29 cost not directly related to the gas production operations of the

1 lease or property.

2 (g) The value at the point of production of gas produced from
3 the lease or property shall be determined on the basis of the highest
4 price paid for gas of like quality and pressure in the same field or
5 some other field within 100 miles in the state.

6 (h) The department may aggregate two or more leases or properties
7 (or portions of them), for purposes of determining economic limit
8 factors under this section and applying them to sec. 11 of this chapter,
9 when economically interdependent oil or gas production operations are
10 not confined to a single lease or property. The department may also
11 segregate a lease or property into two or more parts, for purposes of
12 determining economic limit factors under this section and applying
13 them under sec. 11 of this chapter, when two or more economically
14 independent oil or gas production operations are being conducted on
15 it.

16 (i) A determination of the monthly production rate at the economic
17 limit for a lease or property is retroactive to January 1 of the
18 current year. For production of a lease or property commencing after
19 January 1, the determination of the monthly production rate at the
20 economic limit for that lease or property made within six months after
21 the commencement of production is retroactive to the commencement of
22 production.

23 Sec. 43.55.016. GAS PRODUCTION TAX. (a) There is levied upon
24 the producer of gas a tax for all gas produced from each lease or
25 property in the state, less any gas the ownership or right to which is
26 exempt from taxation. The tax is equal to either the percentage-of-
27 value amount calculated under (b) of this section or the cents-per-Mcf
28 amount calculated under (c) of this section, whichever is greater,
29 multiplied by the economic limit factor determined for gas production

1 of the lease or property under sec. 13 of this chapter. If the amounts
2 calculated under (b) and (c) of this section are equal, the amount
3 calculated under (b) of this section shall be treated as if it were
4 the greater for purposes of this section.

5 (b) The percentage-of-value amount equals 10 per cent of the
6 gross value at the point of production of the taxable gas produced
7 from the lease or property.

8 (c) The cents-per-Mcf amount equals \$.064 per thousand cubic
9 feet of taxable gas produced from the lease or property as adjusted by
10 sec. 12 of this chapter.

11 Sec. 43.55.017. RELATION TO OTHER TAXES. (a) Except as provided
12 in this chapter and in ch. 58 of this title, the taxes imposed by this
13 chapter are in place of all taxes now imposed by the state or any of
14 its municipalities, and neither the state nor a municipality may
15 impose a tax upon

- 16 (1) producing oil or gas leases;
17 (2) oil or gas produced or extracted in the state;
18 (3) the value of intangible drilling and exploration expenses.

19 (b) The taxes imposed by this chapter are in place of all taxes
20 imposed by a municipality upon oil or gas in place or nonproducing oil
21 or gas leases or properties.

22 (c) The taxes imposed by this chapter are not in place of the
23 tax imposed by ch. 57 of this title or income taxes, franchise taxes
24 or taxes upon the retail sale of oil or gas products.

25 * Sec. 2. AS 43.55.020(a) is amended to read:

26 (a) The gross production tax on oil or gas shall be paid monthly.
27 The tax is due on the 20th [LAST] day of each calendar month on oil or
28 gas produced [REMOVED OR SOLD] from each lease or property during the
29 preceding month. If the tax is not paid before the end of the month

1 of pipeline quality on the premises of the lease or property from
2 which it is recovered; however, if the oil is not of pipeline
3 quality when it is removed from the premises of the lease or
4 property from which it is recovered, or if the oil recovered from
5 a lease or property is not metered or measured (by automatic
6 custody transfer meter, tank gauge, or other method approved by
7 the commissioner) on the premises of the lease or property from
8 which it is recovered, then the gross value at the point of
9 production is the value of that oil at the off-premises location
10 where the oil is first metered or measured (by automatic custody
11 transfer meter, tank gauge, or other method approved by the
12 commissioner) in a condition of pipeline quality;

13 (B) for gas recovered from or in association with oil,
14 the value of the gas at the point where it is accurately metered
15 or measured after separation from the oil; for gas run through a
16 gas processing plant, the gross value at the point of production
17 is the full consideration received by the producer for the gas if
18 sold in an arm's length transaction or, in the absence of an
19 arm's length transaction, is the sum of the value of the liquids
20 extracted from the gas at the plant and the value of the residue
21 gas, less a reasonable allowance for processing the gas at the
22 plant and for transporting the gas to the plant from the premises
23 upon which the oil production operation is conducted; and

24 (C) for gas not recovered from or in association with
25 oil, the value of the gas at the point where it is accurately
26 metered or measured or the value of the gas at the point of sale,
27 if any, on the premises of the lease or property from which the
28 gas is recovered, whichever is the higher value; for gas run
29 through a gas processing plant, the gross value at the point of

1 in which it becomes due, the tax becomes delinquent.

2 * Sec. 3. AS 43.55.020(e) is amended to read:

3 (e) Gas produced and used, except gas used in the operation of a
4 lease or property in drilling for or producing oil or gas, or for
5 repressuring, is considered, for the purpose of this chapter and in
6 the amount used, as gas produced [REMOVED OR SOLD] from a lease or
7 property. Gas flared under a permit granted by the Department of
8 Natural Resources under AS 31.05.170(11)(H) is considered as gas
9 produced, except that it is subject to a tax equal to twice the tax
10 computed under sec. 16 of this chapter as adjusted by sec. 12 of this
11 chapter per thousand cubic feet of gas for the month in which the gas
12 was flared.

13 * Sec. 4. AS 43.55.030(a)(1) is amended to read:

14 (1) a description of the lease or property from which the
15 oil or gas was produced [REMOVED OR SOLD], by name, legal description,
16 lease number or by accounting code numbers assigned to the department;

17 * Sec. 5. AS 43.55.030(a)(3) is amended to read:

18 (3) the gross amount of oil or gas produced [REMOVED OR
19 SOLD] from the lease or property, and the percentage of the gross
20 amount owned by each producer for whom the tax is paid;

21 * Sec. 6. AS 43.55.030(a)(4) is amended to read:

22 (4) the total value of the oil or gas produced [REMOVED OR
23 SOLD] from the lease or property owned by each producer for whom the
24 tax is paid; and

25 * Sec. 7. AS 43.55.140 is amended by adding new paragraphs to read:

26 (12) "gross value at the point of production" means:

27 (A) for oil, the value of the oil at the point where it
28 is metered or measured (by automatic custody transfer meter, tank
29 gauge, or other method approved by the commissioner) in a condition

1 production is the full consideration received by the producer for
2 the gas if sold in an arm's length transaction or, in the absence
3 of an arm's length transaction, is the sum of the value of the
4 liquids extracted from the gas at the plant and the value of the
5 residue gas, less a reasonable allowance for processing the gas
6 at the plant and for transporting the gas to the plant from the
7 point where it was accurately metered or measured;

8 (13) "oil production operation" means the operation by
9 which oil is recovered from a lease or property and rendered into oil
10 of pipeline quality, and includes any gathering done before the oil is
11 finally rendered into oil or pipeline quality;

12 (14) "pipeline quality" means good and merchantable condition

13 (15) "well days" means the number of days in which a well
14 is operating during a month.

15 * Sec. 8. AS 43.55.010, 43.55.015 and 43.55.140(10), and (11,) are
16 repealed.

17 * Sec. 9. This Act takes effect July 1, 1977 and applies to production
18 during the month of July 1977 and succeeding months.
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