

ALASKA LEGISLATURE COMMITTEE BILL FILES - 1987 - 1988 8879

HB 327 thru HF 329 LA. F: 335

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HOUSE COMMITTEE REPORT

(11)

Date referred: 1/18/88

FURTHER REFERRALS:

DATE: 1-28-88

The Finance Committee has considered HB 327

"An Act relating to penalties for violating the Alaska Historic Preservation Act; and providing for an effective date."

RECOMMENDS:

- replace with CS HB 327 (FIN) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published 1-18-88
- zero with analysis

SIGNING DO PASS:

[Signature]
Ronald J. Tamm
[Signature]
[Signature]
Kay Wallis
Mike Lewis
[Signature]
[Signature]

SIGNING OTHER RECOMMENDATIONS:

[Signature]
 Chairman's signature

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Dept. of Corrections
 Title: "An Act relating to penalties for BRU: _____
violating the Alaska Historic Preservation Act"
 Sponsor: Representative Davis & Kopenen Components: _____
 Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This legislation would have minimal impact on the Department of Corrections.

Susan E. Knight

Prepared by: Susan Knighton Phone: 465-3376
 Division: Director of Administrative Services Date: 1-15-88

Approved by Commissioner: Susan Humphrey-Barnett Date: _____
 Agency: Department of Corrections

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

FISCAL NOTE

REQUEST:

Revision Date: 05/17/87
Title: An act relating to penalties for violating the AHPA
Sponsor: Davis, Koponen
Requestor: House Judiciary

Agency Affected: Natural Resources
BRU: Parks and Recreational Management
Components: Historic Resource Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Because HB 327 is an upgrade in existing penalties, there should be no additional costs incurred by the Department of Natural Resources.

Prepared by: Lawrence Ostrovsky, Special Assistant Phone: 465-2400
Division: Commissioner's Office Date: 01/14/88

Approved by Commissioner: *Judith R. Bowring* Date: 01/14/88
Agency: Department of Natural Resources

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

Original sponsors: Davis and Koponen

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 327 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to penalties for violating the
7 Alaska Historic Preservation Act; and providing for
8 an effective date."

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

10 * Section 1. AS 41.35.210 is repealed and reenacted to read:

11 Sec. 41.35.210. CRIMINAL PENALTIES. A person who is convicted
12 of violating a provision of this chapter is guilty of a class A misde-
13 meanor.

14 * Sec. 2. AS 41.35 is amended by adding a new section to read:

15 Sec. 41.35.215. CIVIL PENALTIES. In addition to other penalties
16 and remedies provided by law, a person who violates a provision of
17 this chapter is subject to a maximum civil penalty of \$100,000 for
18 each violation.

19 * Sec. 3. This Act takes effect July 1, 1988.
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21
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23
24
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FISCAL NOTE

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OTHER						
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PART-TIME						
TEMPORARY						

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Susan E. Knight

Prepared by: Susan Knight Phone: 465-3376
 Division: Director of Administrative Services Date: 1-15-89
 Approved by Commissioner: Susan Humphrey-Barnett Date: 1/15/89
 Agency: Department of Corrections

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

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

400 WILLOUGHBY AVE.
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400

OFFICE OF THE COMMISSIONER

January 14, 1988

The Honorable John Sund
Chairman, House Judiciary Committee
State House of Representatives
P.O. Box V
Juneau, Alaska 99811

Dear Representative Sund:

Subject: HB 327 relating to penalties for violating
the Alaska Historic Preservation Act.

Background

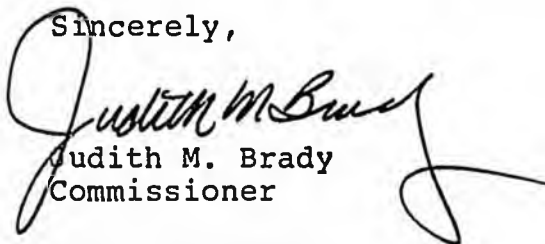
HB 327 increases criminal penalties for appropriating, destroying or otherwise harming any historic, prehistoric or archeological resources of the state. HB 327 provides that violations will be a Class A misdemeanor and provides for a civil penalty of up to \$100,000.

Introduction of a civil penalty will provide a substantial monetary deterrent which does not exist under present law, as archeological artifacts and items such as historic aircraft parts often have substantial monetary value.

Recommendation

The Department of Natural Resources supports HB 327 and recommends its passage out of the House Judiciary Committee.

Sincerely,



Judith M. Brady
Commissioner

cc: Rod Swope
Bob Evans
Bill Sponsors
Committee Members
Department of Law

MEMORANDUM

State of Alaska

Department of Natural Resources, Division of Parks and Outdoor Recreation

TO: Tom Moyer
Legislative Aide
Representative Davis' Office
Alaska State Legislature

FROM: Judith E. Bittner *JB*
Chief, Office of History & Archaeology
Department of Natural Resources

REF: Changes to
ACC.11.16

APR 24 REC

The Alaska Historic Preservation Act, (AS 41.35.010) formulates as state law the preservation and protection of Alaska's historic, prehistoric and archaeological resources from loss, desecration and destruction. Title 11, Chapter 16 of the Alaska Administrative Code, establishes implementing regulations to deal with jurisdiction, title to collected items, the permitting process, reports, etc. related to these resources.

It is unlawful for a person to appropriate, excavate, remove, injure, or destroy without a permit from the Commissioner, any historic, prehistoric or archaeological resources of the state. There is, quite properly, a broad definition given to "historic, prehistoric and archaeological resources" under 41.35.230 ("deposits, structures, ruins, sites, buildings, graves, artifacts, fossils, or other objects of antiquity which provide information pertaining to the historical or prehistorical culture of people in the state as well as to the natural history of the state.") Penalties are established under Section 41.35.200 for possessing, selling, buying or transporting within the state, or offering to sell, buy or transport within the state, historic, prehistoric or archaeological resources taken or acquired in violation of this section. Violators are guilty of a misdemeanor and, upon conviction, are punishable by a fine of \$1,000, or by imprisonment for not more than six months, or by both. (AS 41.35.210)

I am certain that aircraft and parts thereof are adequately covered under AS 41.35.230. Alaskan historic aircraft have been accorded recognition as historic artifacts and/or objects of antiquity by the Governor's Historic Sites Advisory Committee (established under AS 41.35.110) in nominations to the National Register of Historic Places and by award of grants to recover rare, endangered aircraft. I would suggest that changes should not be made to Section 11.16.110, a portion of the implementing regulations that define administrative responsibility for historic sites as being within the Division of Parks and Outdoor Recreation. Any changes in State law should, more appropriately, be made to AS 41.35.200. Mr. Long's efforts are in the right direction; as State Historic Preservation Officer I would support efforts to increase the penalty for violation of 41.35.200 from a misdemeanor to a felony.

MOYER. REP



Alaska State Legislature

Representative Mike Davis

P.O. Box V
Juneau, Alaska 99811
(907) 465-4930/4941

Interim Office:
P.O. Box 81435
Fairbanks, Alaska 99708

MEMORANDUM

TO: Members of House Judiciary Committee

FROM: Rep. Mike Davis *Mike*

DATE: January 11, 1988

RE: HB 327: An Act relating to penalties for violating the Alaska Historical Preservation act; and providing for an effective date.

The Alaska Historic Preservation Act protects historic, prehistoric and archeological resources, including deposits, structures, ruins, sites, buildings, graves, artifacts, fossils, or other objects of antiquity which provide information pertaining to the historical or prehistorical culture of the people in the state as well as the state's natural history. This protection exists only on state land. The act does not pertain to federal or private land. HB 327 provides a higher level of protection for historical resources by increasing the penalties for violating the act.

Alaska has an unusually rich and largely undisturbed reserve of historic objects. These resources are often sought by collectors undeterred by current penalties or the need to preserve these objects for the public good. It is no exaggeration that ivory and bone tools used by Eskimos, great wood carvings of the Tlingits, dinosaur bones found on the North Slope and World War II relics strewn around the state and across the Aleutians are priceless.

Current law provides penalties of a \$1,000 fine, six months imprisonment or both for violating the act--penalties inadequate to protect the state's historical resources. HB 327 would increase the criminal penalties for violation of existing law to those of a Class A misdemeanor, no more than a \$5,000 fine, one year imprisonment, and adds civil penalties of up to \$100,000.

Passage of HB 327 would provide an effective deterrent against unauthorized destruction or theft of historic objects protected by the Alaska Historic Preservation Act on state lands and would heighten awareness among Alaskans and visitors of the value of these unique and diverse resources.

WORLD
452-2688

ALL DOWN PARKA, \$125.

MARK GAS & diesel heaters for interior & engine cooling systems of cars & trucks. Full repair & service on all types of gas heaters. Roger Lang's Volkswagen Shop. 479-2748.

MOVING - NEW BROWN plaid loveseat with oak trim; 1 year old brown naugahyde couch with olive trim, both good condition. 488-0101.

MUST SELL!! 1970 CJ-5, 3600 or best offer. 3 1974 Ski-Doo snowmobiles. 3600 or best offer. 1,000 for all. 456-7762. ask for Luann Berkley.

NEW TORO ELECTRIC snow shovel. 100' cord included. \$75. Call 479-7674.

OWATONNA SKID LOADER (like Bob Cat), V-4 Ford propane engine. Gas or propane. Good running condition. \$4,500. 488-3967.

PIONEER VIDEO DISC player w/ remote control, 70 movies. \$3,600 value. Must sell. \$1,000. 457-1912 after 5pm.

POOL TABLE, \$75. New Scandia jacuzzi. 8'x8'x3'. Pump, filter, used boiler. \$4,000 or best. 457-8318.

POOL TABLE WITH accessories. \$225. 2 chrome mag wheels with fair tires. 10x15 Chevy. \$125. 479-4605.

POOL TABLE, 8 sticks, accessories. 3 1/2'x7'. New cover. \$500. Wood typewriter desk. 32x60. \$50. 488-2691.

PORTABLE CIRCULAR SAW MILL. Beisaw arbor, 30" and 42" diameter blades. Best offer. 451-6845.

REDUCE YOUR HEATING BILLS. Save money on your heating bills. Purchase a new dress for your savings. Call 452-4154.

REWARD FOR INFORMATION on location of intact World War II aircraft: P-39, P-40, P-47, P-51 or P-43. Dave, 209-638-5406 collect.

SALE

PANTHER 440
\$2,850

REGULARLY \$3,499
See at
NORTHERN POWER

433 3rd St., G-2
452-2748

SATON BEAVER
4x4, under 1000 lbs
blade and
650 Yamaha
Cub, fuser
Miscellaneous

SHEEP
12, 10, 10
10

WARN WINCHES
5000 lbs, 10000 lbs
2' x 10' Rental. 488-2748

December 1, Marshall Drive off
P... and Skyline.

LEAVING ALASKA, like new winter clothes sizes 10-12, boots and miscellaneous. Saturday, 12/1, 9am-12pm. 4953 Dartmouth #2.

MOVING SALE: Saturday, 12/1, 10am-3pm. Mary Kay sell-out plus lots of goodies. Everything priced to go. 100 10th Avenue, 2CA.

MOVING SALE, furniture, household items, some tools, lawn furniture. 1228 Denali Way. Saturday only, 9am-3pm, December 1.

A MOVING SALE. Plants, Christmas toys, exercise bicycle, desks, shelves, microwave, new bicycle, TV, stereo, collector albums. 452-4855.

TV, STEREO, sewing machine, hexagon aquarium, mirrored plant stands, beds, desk, wicker, clothes. Saturday & Sunday, 10am to 4pm, 229 West St.

2 APT. SALE: Christmas tree, 50,000 BTU Sears furnace, hand-crafted items, antique sewing machine. 1453 Etelson St. Apt. A & C. 451-0163.

160 Aircraft & Equipment

ALASKA'S WING
SPECIAL
LIMITED TIME OFFER
456-4706, Metro Field.

CESSNA 170B, 180 Lycoming, CS prop, Avcon conversion. Leaving state and MUST sell this super clean, well-equipped bird. See at Fair International. Call for details: (in Delta) at noon, or after.

FLIGHT INSTRUCTION for yours. FAA designee. Flight test examiner. 488-3649.

FLIGHT ALASKA
Cut rate

FOR 18

168

50 HP EVENRUDE outboard. Completely rebuilt. Bored .020 size \$1,500. Pierce Enterprises. 3926 evenings.

170 Motorcycles—See 12

**ALASKA
FUN CENTER**

Your motorcycle headquarters. Parts and accessories for all makes.

Yamaha
Honda
Kawasaki
Suzuki

THREE
WHEELS
1817 COLLEGE RD

ALI



ALASKA HISTORICAL and TRANSPORTATION MUSEUM

Box 920 • Palmer, Alaska 99645 • Tel: (907) 745-4493

Honorable Ted Stevens
United States Senator
147 Russell Office Building
Washington, D.C. 20510

11/14/85

Dear Senator Stevens,

We need your help!!! We have been working with the State of Alaska Office of History and Archeology, the Governors Office, The Army Corps of Engineers and aviation historical groups across Alaska to formulate and expedite a rational plan for the assessment, recovery and exhibit placement, in Alaska, of World War II aircraft wrecks.

It has been a difficult process, but substantial progress has been made. The Governor of Alaska requested a plan dealing with the W.W. II aircraft recovery and exhibit from a coalition of groups in October of this year and the plan was produced and submitted on time. In cooperation with the mentioned state or federal agencies initially the coalition of non profit groups included this museum, as an established " physical " museum facility in Palmer, the Alaskan Aviation Committee of Anchorage and has expanded to include the Interior Alaska and Arctic Aeronautical Foundation of Fairbanks, which at this time is developing an aviation collection within the Gold Dome at Alaskaland.

At this critical time when we are getting an " Alaskans for Alaska " effort well underway a potentially major disaster is in the making. A combined group of in state and " outside " salvors has gone to both Unalaska and Umnak Islands and gathered up the remains of at least seven P-40 W.W.II fighter aircraft for shipment to the Lower 48 states. This involves federal lands and has been done without the necessary federal permits which should have been obtained from the U.S. Fish and Wildlife Service. It is also the second violation by the same group within several months as similar violations recently occurred on Amchitka Island and were documented by the U.S. Fish and Wildlife Service.

Our concern arises from the fact that the U.S. Fish and Wildlife Service has been forming a position on this particular instance which maintains that the violators will be fined (\$250) for their trespass, but that they can have these historically important aircraft!!! For your information a rock bottom price for a flyable P-40 at this time is in the range of \$400,000. As useful parts alone the assembled wrecks represent, we estimate , a figure substantially in excess of \$400,000. Not a bad return for a couple of \$250 fines!!!

762-

Per Dave Olson of the U.S. Fish and Wildlife Office in Anchorage his agency is about to claim ownership of all other documented wrecks on their lands, but as these particular wrecks have been moved it would be difficult to prove ownership.

This is an indefensible position!! We have photographs of the wrecks in question as they were in place on federal lands, and this documentation has existed for years, these wrecks were included in our plan which was requested by the Governor of Alaska and the helicopter pilot in Dutch Harbor who actually airlifted these wrecks for the salvors has pointed out the origin points to Alaska State Troopers.

Is the U.S. Fish and Wildlife Service acting in an ethical, professional and non biased manner on this issue?? We believe not particularly when their past performance, please see the enclosed information, indicates that at least some U.S. Fish and Wildlife personnel in Alaska seem to have played favorites with Lower 48 collectors in the past. An Alaskan group long on the field definitely came out second best to the Confederate Airforce, in Texas. Does perhaps someone or a number of people in Alaskas U.S. Fish and Wildlife Service have a vested interest in the outside sale of these materials? Perhaps this question should also be examined.

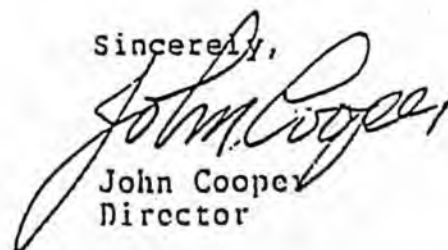
What we want at this time is your help in stopping the drain of historical materials from Alaska which in turn will help us get in place an Alaskan system for dealing with these materials. We want the authority for collection or disposal of W.W.II aircraft, or any important aviation materials, on federal lands to be turned over to the State of Alaska Office of History and Archeology. At this moment we specifically want authority for the P-40s in question to be turned over to the State of Alaska Office of History and Archeology. That agency can then in turn work with our museum and its allied preservation groups to insure quality exhibits within Alaska and perhaps a funding base, via sales of aviation materials deemed surplus, for other important aviation history preservation activities.

We have included a letter we wrote to another historical group recently as part of our effort to include Alaskan interests in the current Army Corps of Engineers Aleutians/W.W.II cleanup impact study. It should clearly illustrate our position on historical aviation preservation in Alaska.

In closing I would like to add that after a great deal of effort and real pain on the part of Alaskans the proposed U.S. Fish and Wildlife stand on the P-40s in question will set a precedent which will virtually open Alaska up to a salvors "Gold Rush". Irreplaceable historical aircraft remains of high educational and exhibit value, worth virtually millions of dollars, will disappear and what will be left for our people, our children?

Please contact us for whatever additional information you might need.

Sincerely,



John Cooper
Director

THE ALASKAN
HISTORICAL AIRCRAFT
SOCIETY

2397 East 47th Court
Anchorage, Alaska 99507
907-276-1807

June 7, 1979

Dear Sir:

The Alaskan Historical Aircraft Society would like to ardently protest the occurrence of a situation and the conduct of certain federal agencies. During April and May a group of gentlemen representing the Confederate Air Force of Harlingen Texas arrived in Alaska with a DC-3 cargo aircraft and a helicopter. Their intent was to salvage as much WWII aircraft or aircraft parts as was feasible. Their journeys took in the Alaskan Peninsula (King Salmon - Cold Bay - Chernofski) and eventually to Adak, a restricted entry Navy base in the Aleutians. There they spent five days and flew on government O.A.S. aircraft in the company of FWS personnel to areas containing actual or reported WWII aircraft wreckage. The survey aircraft was originally chartered to serve the native population at Atka Village, through the BIA. In questioning John Moore, Director of BIA in Juneau, he claims that BIA did not authorize the flying excursions by Confederate Air Force people. He indicates that the flights were FWS authorized as "refuge survey flights." He feels that the "truth" would never have come to light except that the aircraft got stuck in the sand at Tanaga Bay (a rich historical area) and was 18 hours overdue for doing BIA work. The Coast Guard was called out for a search mission.

The FWS refuge manager in Adak, Mr. John Martin, indicates he thought that the flights had been authorized by BIA and the Office of Aircraft Services claims it doesn't know exactly what went on or who paid for the flights. All they did was fly the airplane and land it where ever the CAF indicated. The Confederate Air Force maintains the largest

THE ALASKAN HISTORICAL AIRCRAFT SOCIETY

2397 East 47th Court
Anchorage, Alaska 99507
907-276-1807

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group flying WWII aircraft in the world and is a major salvager of aircraft, world wide.

The Alaskan Historical Aircraft Society has been working long and hard in a volunteer effort to preserve WWII aircraft in Alaska as valuable historic objects. These machines relate to an important stage of Alaska's development, not to mention the commendable services and events of human courage and sacrifice during the Aleutian Campaign. We're up against the fact that these museum objects are worth tens of thousands of dollars each on vintage aircraft market. Our complaint is this: why is a major aircraft salvager from the states afforded an expeditious tour of Aleutian wreckage sites apparently with government assistance and at government expense when the Alaskan Historical Aircraft Society cannot get similar accommodation when seeking to do the federal mandated task of gathering information for the National Register of Historic Places. This nomination work is necessary to get recognition of these aircraft as historic objects and thus cause them to be preserved in the interest of future generations of Alaskans. It is reflected in Executive Order 11593, and 36 CFR800 _____, that the various federal agencies have a responsibility to do this work. These machines are rare and are historic in the finest sense of historic value. We have established this with the submission and acceptance by the State of Alaska of our nominations of the P-38 on Attu and B-24D at Atka...nominations we put together from photos gleaned from private citizens in Nevada and Massachusetts; information that should have been provided by the federal government in light of Executive Order No. 11593 and 36 CFR800. The work is recognized and endorsed by the Manager of Federal Antiquities of the Heritage Conservation Recreation Service in Wash. D.C. Even though the nomination work is the responsibility of the federal agencies, our small group has endeavored to do it out of pocket and in spare time. We do this because the FWS Service in particular claims to have no time, manpower or funds to conduct such a survey and furthermore cannot offer us any assistance whatsoever in doing their job. They say only that they will issue us a special use permit. They cannot spare any people to assist or accompany us. When we ask what assurance we have that the machines are properly protected until a proper evaluation is done, the FWS claims no one can get into Adak without security clearance and must have legitimate interest there and that, according to Mr. Owen Vivian of the FWS, no salvage

THE ALASKAN
HISTORICAL AIRCRAFT
SOCIETY

2397 East 47th Court
Anchorage, Alaska 99507
907-276-1807

Page 3

personnel would have entry to refuge lands. Yet the people with FWS in Adak can get aircraft together and find time to visit sites with prominent aircraft salvagers.

We feel this historical resource is being compromised by someone in the federal government. Aviation represents a fourth of Alaska's 20th Century development and not much has been done to save it in a heritage sense. The Alaska Historical Aircraft Society is trying desperately to preserve this history. Would you please earnestly investigate this matter? What we want to know is this:

1. Who sponsored the Confederate Air Force with the Navy at Adak.
2. Who paid for the accommodations and the government aircraft for the CAF survey team. Who authorized the aircraft's use. (FWS; USN; BIA; OAS) (aircraft costs: \$324/day + \$247/hr. for fuel + Misc.)
3. Where exactly did the crew from the CAF fly to and what did they take away.
4. Why does FWS personnel have time to accompany the people on permit (#A1-179-9 for Max Hoffman; CAF 116-S Ridge Ct. Ft. Collin, Col) and cannot assist the Alaskan Historical Aircraft Soc. personnel trying to perform federal mandated duties.
5. What part did the OAS play in this and what did pilot Dave Macelroy experience during the flights (i.e. log books)
6. Why cannot the AHAS get similar cooperation in their efforts to save this resource for Alaska.
7. Why are efforts to do nominations on valuable WWII aircraft being blocked by federal apathy.

If we cannot get some assistance, soon these historic aircraft will be scattered and broken down for parts and used to line the pockets of a few entrepreneurs. It's going to look bad if it is done with government assistance. Thank you for your time and energy concerning this situation. We know that you are busy.

Sincerely,

Dale Jackson

Sheila Dewey

Ted Spencer
President

Vice President

Treasurer

1 IN THE HOUSE

BY DAVIS AND KOPONEN

2

HOUSE BILL NO. 327

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to penalties for violating the
7 Alaska Historic Preservation Act; and providing for
8 an effective date."

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

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14 * Sec. 2. AS 41.35 is amended by adding a new section to read:

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16 and remedies provided by law, a person who violates a provision of
17 this chapter is subject to a maximum civil penalty of \$100,000 for
18 each violation.

19 * Sec. 3. This Act takes effect July 1, 1987.

HB

328

HOUSE COMMITTEE REPORT

(11)

Date referred: 7/1/87

FURTHER REFERRALS:

DATE: 7-2-87

The Finance Committee has considered HB 328

"An Act relating to salaries of certain state employees who are not members a collective bargaining unit; and providing for an effective date."

RECOMMENDS:

- replace with _____ the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
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ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Cal Adams

Pat Kauder

Donald D. Lane

Tilman Gou

Chumley

Mark Boyer

Kay Brown

SIGNING OTHER RECOMMENDATIONS:

Steve Thayer

Mike De

Don

Cal Adams

 Chairman's signature

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____
 Revision Date: _____
 Title: Salaries of State employees
not members of bargaining units
 Sponsor: Governor/Rules
 Requestor: Governor

Bill Version: HB 328
 Publish Date: HOUSE 7/1/87

Agency Affected: All
 BRU: All
 Components: All

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		-0-				
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		-0-				

CAPITAL		—				
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REVENUE		—				
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FUNDING: (Thousands of Dollars)

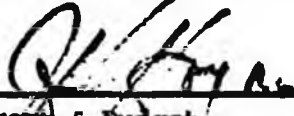
GENERAL FUND		-0-				
FEDERAL FUNDS						
OTHER						
TOTAL		—				

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Additional amounts required are shown as zero. Funding for amounts required is currently included in HB 75, the General Appropriations Act, Sec. 22.

Prepared by: Jay Hogan  Phone: 465-3568
 Division: Office of Management & Budget Date: 6/30/87

Approved by Commissioner: _____ Date: _____
 Agency: _____

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

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 328

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act relating to salaries of certain state employ-
7 ees who are not members of a collective bargaining
8 unit; and providing for an effective date."

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

10 * Section 1. SALARIES OF CLASSIFIED AND PARTIALLY EXEMPT EXECUTIVE-
11 BRANCH EMPLOYEES NOT IN A COLLECTIVE BARGAINING UNIT. Notwithstanding
12 AS 39.27.011(a), the basic monthly salaries of classified and partially
13 exempt employees who are not members of a collective bargaining unit estab-
14 lished under AS 23.40 shall be adjusted by the same percentage of adjust-
15 ments in the basic monthly salaries paid to members of the general govern-
16 ment collective bargaining unit, for any period beginning after June 30,
17 1987. The adjustments for the classified and partially exempt employees
18 not in a collective bargaining unit shall be made in the same pay period
19 that a new pay plan is implemented for the general government unit by the
20 state. The classified and partially exempt employees who are not in a
21 collective bargaining unit shall be paid according to AS 39.27.011(a) until
22 the first pay period of implementation of a new pay plan for the general
23 government unit.

24 * Sec. 2. SALARIES OF EMPLOYEES OF THE JUDICIAL AND LEGISLATIVE
25 BRANCHES AND EXEMPT EMPLOYEES OF THE EXECUTIVE BRANCH. Salary adjustments
26 comparable to those received by the classified and partially exempt employ-
27 ees of the executive branch under sec. 1 of this Act shall be made for the
28 following employees:

29 (1) permanent and temporary employees of the judicial branch,

1 except justices and judges;

2 (2) permanent and temporary employees of the legislative branch;

3 (3) permanent and temporary employees of the executive branch
4 who are in the exempt service under AS 39.25.110, and who are not members
5 of a collective bargaining unit established under the Public Employment
6 Relations Act (AS 23.40).

7 * Sec. 3. SALARIES OF EMPLOYEES OF THE UNIVERSITY OF ALASKA. Notwith-
8 standing sec. 2(3) of this Act, the salaries of employees of the University
9 of Alaska who are not members of a collective bargaining unit shall be
10 adjusted in accordance with the compensation policy of the board of regents
11 of the University of Alaska.

12 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).
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STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF LAW

P.O. BOX K—STATE CAPITOL
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600

OFFICE OF THE ATTORNEY GENERAL

July 1, 1987

M E M O R A N D U M

TO: Honorable Steve Cowper
Governor

FROM: Grace Berg Schaible
Attorney General

BY: *B. Jordan for*
Arthur H. Peterson
Assistant Attorney General
Legislation/Regulations Section

RE: Attached sponsor substitute
for SB 311 and HB 328 (state
employee salaries)

At Commissioner Garrey Peska's request, we have prepared the attached sponsor substitute for SB 311 and HB 328, introduced in the special session this morning. The only difference between the original version and this one is the addition of express language in sec. 2(2) to make clear that legislators are not covered by this bill's salary-reduction requirement; this will parallel sec. 2(1)'s exemption for justices and judges. Although, in both cases, the existing phrase "permanent and temporary employees of the [judicial] [legislative] branch" at least arguably exempts judicial officers and legislators, this added wording makes the exemption clear.

A draft transmittal letter for this sponsor substitute is also attached.

GBS:AHP:nb

cc w/enc: Hon. Garrey Peska, Commissioner
Dept. of Administration

Jay Hogan, Director
Division of Budget Review
Office of Management and Budget
Office of the Governor

D R A F T

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a sponsor substitute for HB 328 and SB 311 to add an express exemption for legislators from the salary-reduction requirement of the bill, rather than rely on the implication of the present language. This addition will parallel the bill's current exemption for justices and judges, and its omission from the original version was merely an oversight.

Sincerely,

Steve Cowper
Governor

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

June 30, 1987

The Honorable Ben Grussendorf
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that empowers appointing authorities to adjust the salaries of certain state employees not covered by a collective bargaining agreement. Under the authority of art. II, sec. 9, of the Alaska Constitution, and in accordance with my proclamation of June 15, 1987, I am presenting this bill to you as containing a new subject that the legislature may consider during the special session I called by that proclamation.

The enactment of this bill would provide specific authority for adjustments to the salaries of certain state employees not covered by collective bargaining. The statutory pay schedule in AS 39.27.011(a), which establishes the salaries of many of those employees, is based on the pay plan for the general government unit (GGU). I believe that it is appropriate to reduce those salaries if the range and step amounts of the GGU pay plan are reduced in the collective bargaining process. I have been advised that a unilateral change without specific authority presents a risk of successful legal challenge. The authority conferred by this bill will eliminate that risk. Provisions in the bill will authorize the other branches of state government and the university to implement salary adjustments for their employees.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper".

Steve Cowper
Governor

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 HOUSE BILL NO. 328

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act relating to salaries of certain state employ-
7 ees who are not members of a collective bargaining
8 unit; and providing for an effective date."

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

10 * Section 1. SALARIES OF CLASSIFIED AND PARTIALLY EXEMPT EXECUTIVE-
11 BRANCH EMPLOYEES NOT IN A COLLECTIVE BARGAINING UNIT. Notwithstanding
12 AS 39.27.011(a), the basic monthly salaries of classified and partially
13 exempt employees who are not members of a collective bargaining unit estab-
14 lished under AS 23.40 shall be adjusted by the same percentage of adjust-
15 ments in the basic monthly salaries paid to members of the general govern-
16 ment collective bargaining unit, for any period beginning after June 30,
17 1987. The adjustments for the classified and partially exempt employees
18 not in a collective bargaining unit shall be made in the same pay period
19 that a new pay plan is implemented for the general government unit by the
20 state. The classified and partially exempt employees who are not in a
21 collective bargaining unit shall be paid according to AS 39.27.011(a) until
22 the first pay period of implementation of a new pay plan for the general
23 government unit.

24 * Sec. 2. SALARIES OF EMPLOYEES OF THE JUDICIAL AND LEGISLATIVE
25 BRANCHES AND EXEMPT EMPLOYEES OF THE EXECUTIVE BRANCH. Salary adjustments
26 comparable to those received by the classified and partially exempt employ-
27 ees of the executive branch under sec. 1 of this Act shall be made for the
28 following employees:

- 29 (1) permanent and temporary employees of the judicial branch,

1 except justices and judges;

2 (2) permanent and temporary employees of the legislative branch;

3 (3) permanent and temporary employees of the executive branch
4 who are in the exempt service under AS 39.25.110, and who are not members
5 of a collective bargaining unit established under the Public Employment
6 Relations Act (AS 23.40).

7 * Sec. 3. SALARIES OF EMPLOYEES OF THE UNIVERSITY OF ALASKA. Notwith-
8 standing sec. 2(3) of this Act, the salaries of employees of the University
9 of Alaska who are not members of a collective bargaining unit shall be
10 adjusted in accordance with the compensation policy of the board of regents
11 of the University of Alaska.

12 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).
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~~HOUSE COMMITTEE REPORT~~

7/1/87

Date referred:

FURTHER REFERRALS:

DATE: 7-2-87

The Finance Committee has considered HB 329

"An Act making appropriations to the budget reserve fund and to the general fund, and balancing the budget; and providing for an effective date."

RECOMMENDS:

- replace with CS HB 329 (FIN) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Al Adams
Pat Kunkel
Chas. ...
Kay Wallis
Pat ...
Ray Brown
Mark ...

SIGNING OTHER RECOMMENDATIONS:

Ronald ...
Mike ...
Al ...
John ...

Al Adams
 Chairman's signature

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 329 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SPECIAL SESSION

5 A BILL

6 For an Act entitled: "An Act making appropriations to the budget reserve
7 fund, the general fund, and the permanent fund, and
8 balancing the budget; and providing for an effective
9 date."

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

11 * Section 1. The sum of \$250,000,000 is appropriated from the general
12 fund to the budget reserve fund (AS 37.05.156).

13 * Sec. 2. An amount sufficient to offset any negative amount in the
14 "Available Fund Equity/Balance" for the general fund as reported for
15 June 30, 1988, on the "State of Alaska, All Fund Types and Account Groups,
16 Combined Balance Sheet" in the State of Alaska's "Annual Financial Report"
17 for fiscal year 1988, published under AS 37.05.210(2), is appropriated from
18 the budget reserve fund (AS 37.05.156) to the general fund.

19 * Sec. 3. If the "Available Fund Equity/Balance" for the general fund
20 as reported for June 30, 1988, on the "State of Alaska, All Fund Types and
21 Account Groups, Combined Balance Sheet" in the state's "Annual Financial
22 Report" for fiscal year 1988, published under AS 37.05.210(2), is a posi-
23 tive amount, that amount is appropriated from the general fund to the
24 budget reserve fund (AS 37.05.156).

25 * Sec. 4. If the Department of Revenue determines that the cash balance
26 of the general fund in the state treasury is insufficient to pay obliga-
27 tions of the general fund under appropriations at any time during fiscal
28 year 1988, the amount necessary to meet those obligations is appropriated
29 from the budget reserve fund (AS 37.05.156) to the general fund. If the

1 amount in the budget reserve fund is insufficient to meet those obliga-
2 tions, the amount necessary to meet those obligations is appropriated from
3 the earnings reserve account of the Alaska permanent fund (AS 37.13.145) to
4 the budget reserve fund.

5 * Sec. 5. An amount equal to the amount appropriated and transferred
6 from the earnings reserve account of the Alaska permanent fund under sec. 4
7 of this Act is appropriated from the general fund to the principal of the
8 Alaska permanent fund. The appropriation made by this section may be
9 transferred to the Alaska permanent fund principal upon a determination by
10 the Department of Revenue that the cash balance of the general fund is
11 sufficient to pay other obligations of the general fund during the fiscal
12 year in which the transfer is made.

13 * Sec. 6. The appropriations made by this Act are not one-year appro-
14 priations and do not lapse under AS 37.25.010.

15 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).
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UPDATED REVENUE INFORMATION
(In Thousands of Current Dollars)

	FY 87 (MEAN CASE)	FY 88 (30% CASE)
FORECAST: 6/8/87	1,741,300	1,716,100
ADJUSTMENTS		
CORPORATE TAXES	30,000	
PROPERTY TAXES	(7,200)	
SEVERANCE TAXES *	10,415	
ROYALTIES *	8,030	
LEASE SALE (50%) **	700	2,600
TOTAL	1,783,245	1,718,700
NET DIFFERENCE	41,945	2,600

* IF THE CURRENT OPEC FIXED PRICE STRUCTURE HOLDS.

**CAMDEN BAY LEASE SALE (\$6.6 MILLION) HELD JUNE 30, 1987. DUE TO THE TIMING OF COLLECTIONS, SOME RECEIPTS ARE SHOWN AS FY 88 REVENUE.

**REVISIONS TO REVENUES AND APPROPRIATIONS:
1986 AND 1987 LEGISLATIVE SESSIONS**

**Revisions to
6/8/87 Estimate**

REVISIONS TO GOVERNOR'S JUNE 8 \$317.3 MILLION PRE-VETO DEFICIT ESTIMATE:

	<u>Unrestr. G.F. (\$ Millions)</u>	
Revision to Extraordinary Payments to General Fund	33.3	3.3 GF Camden Bay lease sale; 30.0 est. increased corp. petroleum income tax (based on tax receipts subsequent to June 8, 1987)
Reductions to administrative transfers not in 1986 AFR	(1.5)	Reduction to 1986 transfers (see OMB worksheet, rev. 6/20/87): (\$0.4 million reduction to AHFC transfer; \$1.1 million reduction to ASBA transfer)
Adjust for vetoes to FY 87 Operating Program Supplementals	6.4	Vetoes to HB 127 Fin (am)
Capital Project Clean-Up Reserve Reduction	86.0	DOT/PF 6/3/87 estimate of reduction to reserves that will result from completion of CIP clean-up project.
Proposed Capital Projects	(80.0)	Proposed capital budget
Operating Vetoes	23.1	Vetoes to operating legislation (6/30/87)
<hr/>		
Subtotal: changes to FY 87-88 Unrestricted GF Surplus (Shortfall)	67.3	
June 8 estimated surplus (shortfall)	(317.3)	6/8 pre-veto estimated year-end balance (combined FY 87-88 shortfall; excludes reserves; no allowance for labor increment or FY 88 supplementals)
<hr/>		
Revised Estimate: FY 87-88 Unrestr. G.F. surplus (shortfall)	(250.0)	6/30 estimated year-end balance (combined FY 87-88 shortfall; excludes reserves; no allowance for labor increment or FY 88 supplementals)

Policy Division

7/1/87

SECTION III.
THE DOWNSIDE RISKS

MEMORANDUM

State of Alaska

TO: The Honorable Steve Cowper
Governor of Alaska

DATE: June 5, 1987

FILE NO.:

THRU: Hugh Malone, Commissioner
Department of Revenue

TELEPHONE NO.: 465-2173

SUBJECT: June Revenue Forecast

FROM: Vincent D. Wright *VW*
Chief of Research
Department of Revenue

The Department of Revenue, per your instructions, has put together the unrestricted revenue forecast approximately one month earlier than is normally the case. You should be aware that by moving up the schedule we have not had the benefit of evaluating key information such as economic and tax data normally available, seasonal factor trends, nor the results from the OPEC meeting scheduled for the latter part of June.

There has been a great deal of speculation recently that oil prices will continue to improve and the State's revenue position in corresponding fashion. This may very well be true. However, there are factors that still suggest tremendous downside risk relative to oil prices and I will touch on some of these in this letter.

The fundamentals of supply and demand do not support current oil prices. The underlying reason for relatively high oil prices is a political solution (i.e. the OPEC agreement established during December of 1986) which is still very tenuous at this time. The reasons for this are outlined below and it is crucial that the decision makers recognize these facts and adjust their thinking relative to expected revenues accordingly.

The Economics

1. Oil prices are relatively high because OPEC has restricted production and partly because refiners worldwide have been purchasing oil in vast quantities in anticipation of still higher prices. So what we have are very large inventories on hand. Unleaded gasoline stocks in this country alone are 30% higher than a year ago. Crude stocks in the U.S. are fairly close to their levels of last year and worldwide they are considerably higher than a year ago.
2. The value of the dollar has declined in the last 24 months relative to Japanese and some European currencies. Since OPEC oil is pegged in terms of the dollar, it has been relatively cheap and so this too has served as a stimulant to overseas refiners to purchase and thus build large stocks of crude.

The Honorable Steve Cowper
June 5, 1987
Page 2

3. The increasing self-assuredness on the part of OPEC that their December 1986 agreement has succeeded in controlling world oil markets is now leading to overproduction. Their second quarter quota is 15.8 million barrels per day but they are now producing between 16.5 to 17 million barrels per day. Saudi Arabia is becoming worried about the increasing tendency on the part of some OPEC members to step-up their cheating.
4. Higher levels of inflation are occurring. Last year the Consumer Price Index (CPI) was 1.9%. Now inflation is running between three and four percent and is projected by many to continue to climb. Higher inflation means higher interest rates which in turn means higher costs in storing oil. At some point this could lead to a divestiture of oil inventories. Hence, dumping of crude on world markets could occur.
5. The projected economic growth of the U.S. and other countries is sluggish at best. Worldwide GDP growth for non-communist countries is expected to run 2.5% next year. Thus, the demand for petroleum related products will be affected.
6. Alternative energy sources such as natural gas, of which large reserves exist around the world to operate utility and industrial plants, are currently on a btu parity value with various crudes. During those earlier years (the late 70's and early 80's) of relatively high oil prices, many existing utility and industrial users retrofitted to handle alternative fuels like natural gas. Further, newer plants built during the last few years have concentrated on diversifying so as to be able to burn alternative sources of energy should oil prices once again soar. The point is that competition from substitute fuels is more intense than ever and will likely act to restrain the upward movement of oil prices in the future.
7. Historically, demand for oil in this country has dropped and for the last several years to the tune of approximately 1 million barrels per day during the summer months. This same phenomena occurs throughout the rest of the world as well. The primary reason for this is destocking due to less heating oil usage. Since this has happened almost every year for over a quarter of a century, there is no reason to anticipate that the situation will change. The drop in demand for oil due to seasonal factors is just around the corner.
8. Refiners in the U.S. and elsewhere are now experiencing a squeeze on refinery or profit margins i.e. crude costs are going up relative to the price of the finished product. Refiners would like to raise product prices to cover their costs. But over time higher prices will act as a damper on demand.

In conjunction with the problem just mentioned is the fact that the OPEC quota of 15.8 million barrels per day does not apply to OPEC refinery operations of which there are a growing number. Hence, an increase in the output of refined products is taking place. This means more competition which should theoretically lead to lower prices for the finished product. This in turn translates into less demand for crude which means downward pressure on prices.

If arguments one through eight are considered as a whole, then the potential for oil prices faltering if not dropping is tremendous.

The Politics

1. The incentives for the thirteen member OPEC group to hold together their agreement of December 21, 1986 and even adjust it if necessary to insure success are fairly clear-cut. All members are experiencing a negative cash flow situation and some are deeply indebted to the other countries and the world banking system. Coupled with this is the fact that since 1982, with the drop in the price of oil, economic stagnation has plagued most of these countries. The political pressures from within these countries to rectify the situation are tremendous. But OPEC's struggle to succeed in holding together their December accord is fraught by divergent economic, religious, political and financial interests.
2. The Saudis have once again adopted the role of swing producer (i.e. adjusted output below their 4.1 million barrel per day quota in order to make the OPEC agreement viable) but we believe this is only temporary in light of their monetary situation. In fact, as I write this, the latest data available suggests that Saudi Arabia is producing at or close to their quota of 4.1 million barrels per day. They currently have the capability to produce more than twice this amount. The Saudis' projected deficit this year is expected to be \$15 billion and they are rapidly drawing down their liquid assets. Their resolve to hold the line is there but they do not have the resources to continue much longer. More production cuts may be necessary if OPEC is to maintain its current price structure, but the economic realities may limit Saudi Arabia's ability to play the key role that it has in the past. And it must be kept in mind that Saudi Arabia is the only member of OPEC who has consistently assumed this responsibility in the past.

The irony of this whole thing is that Saudi Arabia with its vast reserves (publicly known proven reserves are in excess of 167 billion barrels of oil) of low cost oil has the ability to flood world markets thus forcing out higher cost competitors in the process. The end result would be plunging oil prices but the Saudi's revenues would increase. Holding them in check at this stage of the game is the threat of aggression on the part of some of their neighbors who would be severely damaged economically, financially, and politically if the Saudis were to initiate such a plan.

3. The Iran/Iraq war is a thorn in the side of all concerned. The Iraqis absolutely refuse to go along with their allotted quota of 1.466 million barrels per day and are currently producing between 1.8 and 2 million barrels per day. This excludes production from the Saudi and Kuwaiti Neutral Zone which is utilized to finance the Iraq war. Moreover, a new pipeline from the northern part of the country across Turkey to the Mediterranean Sea is scheduled for completion this winter and will add an additional 500,000 barrels a day to Iraq's export capacity. Iraq also plans to build a second line to the Red Sea port of Yanbu in addition to the one just completed. This new line is expected to pump an additional 1.6 million barrels per day, 18 months from now. In view of the war effort and their indebtedness to the Saudi and Kuwait governments, Iraq has no choice but to go all out. It is literally a matter of survival.

On the other hand if Iraq and Iran settle their war, production from these two countries could increase even more dramatically in an effort to rebuild their shattered economies.

4. After countless discussions over an extended period of time, OPEC has persuaded many non-OPEC countries that it is to their benefit to assist in the overall effort to control oil markets. Hence, the Soviet Union, Egypt, Norway, Mexico and others have contributed in some form or fashion but this support is wavering. And for some countries such as Mexico with large excess oil producing capacity and on the verge of financial collapse, except for the aid of the international banking system, the situation is highly intolerable.
5. The next OPEC meeting scheduled for the latter part of June will be a test to see if the current OPEC agreement survives. One of the major problems confronting OPEC, which Saudi Arabia and others recognize, is the confidence on the part of some that the problem has been resolved and that OPEC is once again in control. Hence, some members are demanding that a higher official price be established. Others such as the UAE are demanding that their respective quotas be increased and if not, they will increase production regardless. The UAE is one of those OPEC members that has been a chronic cheater this last year. Although third quarter OPEC quotas are scheduled to increase to 16.6 million barrels per day, the fundamentals of supply and demand do not support the current agreement let alone the additional demands of member countries or the increased production scheduled shortly to come on-line. Hence, in the last few weeks we have observed the more responsible members of OPEC attempting to prevail upon those less responsible to stay with the current agreement. The responsible members of OPEC are cognizant of the fact that the current agreement could come completely unraveled, and to ask for more is pushing the whole situation to the brink where once again the specter of plunging oil prices could become a reality.

The Honorable Steve Cowper
June 5, 1987
Page 5

Off to the sidelines are the non-OPEC countries confronted by their own economic, political, and financial problems, closely watching and doubting OPEC's resolve. Many of these countries refuse to make further concessions and are waiting to decipher the results of the next OPEC meeting. Even then, assuming a favorable OPEC accord, some of these countries might quietly seize the opportunity to move in and take advantage of the situation as they have so often in the past and abandon their own agreements with OPEC. The end result, of course, would be to undermine any OPEC accord.

The Conclusions

What does the above thumbnail sketch boil down to? It is quite obvious that there are few if any economic fundamentals suggesting that prices will continue to increase and many reasons why they might decrease. The situation is one where OPEC actions, via delicate political maneuvering to control supply and demand, serve to bolster prices. And this is an area where the cohesiveness of OPEC, as alluded to above, is beset by problems.

What does this portend relative to oil prices? Will they increase? If OPEC can restrain individual members from engaging in widespread violations of the current agreement, if non-OPEC countries continue to offer both tacit and overt support, if worldwide demand for petroleum products does not reverse itself, and if inventories are reduced throughout the summer, then prices should steady and perhaps increase next winter. But the professional traders who put their money on the line are betting that prices will drop this winter as is evident by trading in the futures market. This means that prudence dictates a cautious approach relative to the State's spending plans.

Having considered the aforementioned economic and political factors, plus pro and con arguments that I will not elaborate on here, and using what available data we have acquired since the last forecast to run through our computer models, the results of our analysis are outlined below.

The updated unrestricted revenue numbers are \$1,674.1 million, \$1,716.1 million, and \$1,672.1 million for FY 87, FY 88, and FY 89 respectively. The changes, when compared to the March forecast, represent increases of \$75.7 million, \$183.5 million, and \$82.4 million for FY 87, FY 88 and FY 89 respectively.

The FY 87 number must be adjusted upward by \$67.2 million for TAPS legal expenses and refunds. When this adjustment is made, the bottom line for FY 87 then amounts to \$1,741.3 million.

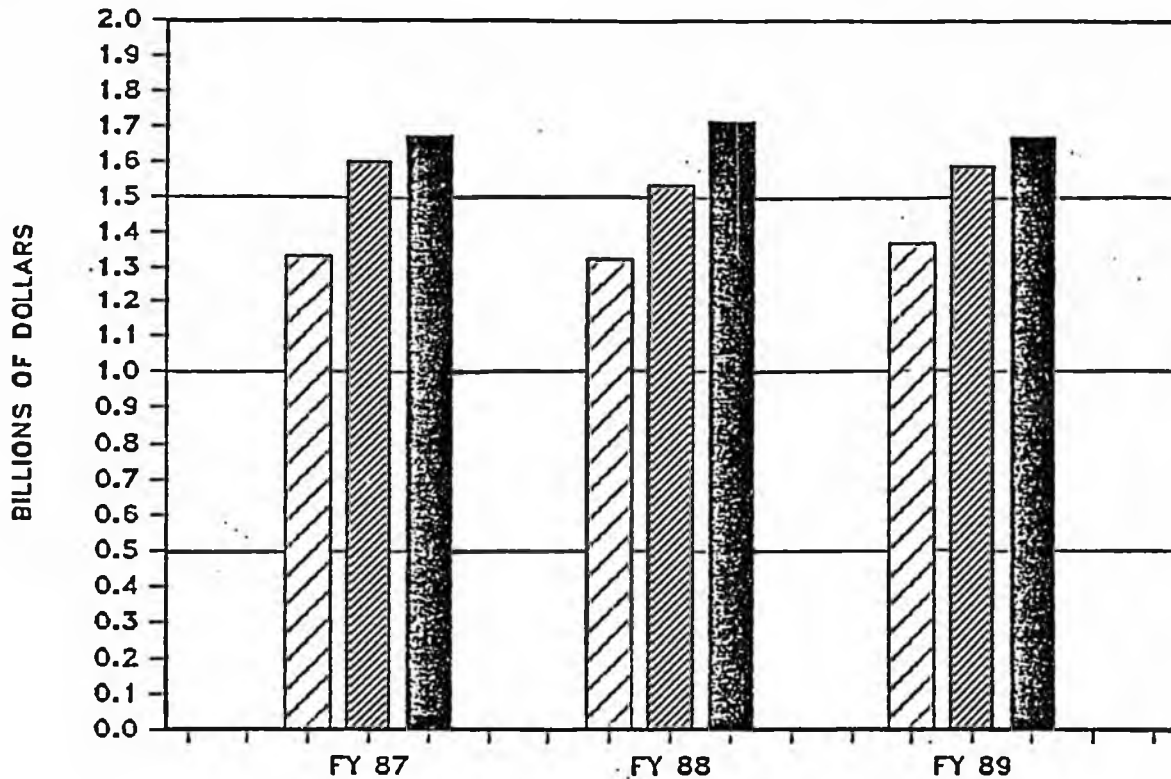
Please note that the FY 87 number represents the mean case whereas the figures for FY 88 and FY 89 represent the more conservative 30% case.

I have attached for your perusal the details of this forecast along with the basic underlying assumptions, a short history of the State's revenue picture, and charts indicating the nominal versus real dollar outlook.

VDW:mkw

FIGURE 1
GENERAL FUND UNRESTRICTED REVENUES
 (COMPARISON OF PRIOR FORECASTS)

JANUARY 1987 ESTIMATES
 MARCH 1987 ESTIMATES
 JUNE 1987 ESTIMATES



FY 87 Estimates

January 1987	1.3342 billion
March 1987	1.5984 billion
June 1987	1.6741 billion

FY 88 Estimates

January 1987	1.3250 billion
March 1987	1.5326 billion
June 1987	1.7161 billion

FY 89 Estimates

January 1987	1.3739 billion
March 1987	1.5897 billion
June 1987	1.6721 billion

* IT SHOULD BE NOTED THAT ALL "SPECIAL SETTLEMENTS" HAVE BEEN EXCLUDED IN FY 87 IN ORDER TO BE CONSISTENT IN COMPARING PRIOR FORECASTS. THE FY 87 BOTTOM LINE WOULD INCLUDE AN ADDITIONAL \$65.7 MILLION (TAPS REFUNDS/LEGAL EXPENSES) AND \$1.5 MILLION (ARCO COURT COSTS).

TABLE I
General Fund Unrestricted Revenues
(Thousands of Current Dollars)

<u>Taxes</u>	<u>FY 1987 Estimate June</u>	<u>FY 1988 Estimate June</u>	<u>FY 1989 Estimate June</u>
<u>Income</u>			
Corporate-General	14,000	15,000	15,500
Corporate-Petroleum	95,000	110,000	110,000
<u>Gross Receipts</u>			
Alaska Business License	2,000	2,000	2,000
Fish-Canned/Shorebased (1)	16,600	8,800	8,800
Fish-Floating	9,000	8,000	8,000
Seafood Marketing	1,400	1,200	1,200
Salmon Enhancement	4,200	3,800	3,800
Insurance Companies	23,600	22,000	21,000
Electric & Telephone Co-ops	1,900	1,900	1,900
Mining License Tax	300	400	400
<u>Severance</u>			
Oil & Gas Production (2)	624,300	637,900	630,400
Oil & Gas Conservation	800	700	700
<u>Property</u>			
Oil & Gas	109,000	80,000	71,000
<u>Sale/Use</u>			
Alcoholic Beverages	12,800	12,300	12,000
Fuel Taxes-Aviation (3)	8,100	7,800	7,700
Fuel Taxes-Highway (3)	17,500	18,900	18,700
Fuel Taxes-Marine (3)	5,000	4,700	4,600
Tobacco Products	6,600	6,400	6,300
<u>Other</u>			
Estate	1,100	700	700
Total Taxes	<u>953,200</u>	<u>942,500</u>	<u>924,700</u>
<u>Licenses & Permits</u>			
Business (4)	9,500	9,800	9,800
Non-Business	20,000	21,000	21,000
Total Licenses & Permits	<u>29,500</u>	<u>30,800</u>	<u>30,800</u>
<u>Intergovernmental Receipts</u>			
Federal Shared Revenues (5)	8,800	8,500	8,500
<u>State Resource Revenue</u>			
<u>Sale/Use</u>			
Bonus Sales (5) (6) (7) (8)	2,500	-0-	-0-
Investment Earnings (9)	160,000	100,000	65,000
Rents (5) (6) (7) (8)	5,500	6,000	6,500
Royalties (2) (5)	437,900	556,200	562,900
Sale of State Property	8,000	9,000	9,000
Gravel, Timber, etc. (10)	8,000	2,500	2,500
<u>Facilities Related Charges</u>			
Airports	1,600	1,600	1,600
Ferry System-Southeast	29,000	30,000	31,200
Ferry System-Southwest	3,800	3,900	4,000
Other	5,000	5,000	5,000

Service Related Charges

Court System	5,300	5,400	5,600
Other	6,000	4,700	4,800
Total State Resources			
Revenues	672,600	724,300	698,100
Miscellaneous Revenues	10,000	10,000	10,000
<u>Unrestricted Revenues</u>	<u>1,674,100</u>	<u>1,716,100</u>	<u>1,672,100</u>
Plus: Special Settlements (11)	67,200	-0-	-0-
<u>Total Unrestricted Revenues (12)</u>	<u>1,741,300</u>	<u>1,716,100</u>	<u>1,672,100</u>

(1) The FY 88 and FY 89 figures reflect the recent enactment of a shorebased fisheries business tax credit per Ch. 79, SLA 1986, effective July 1, 1986. The canned fisheries business tax has been combined into a single category with the shorebased since the tax credits are applied against the aggregate return and cannot be allocated by specific processing type.

(2) The FY 87 forecast assumes the mean case. The forecasted numbers for FY 88 and FY 89 assume the 30 percent case; however, if the mean case had been utilized for FY 88 and FY 89, the production taxes would change to \$717.9 million and \$732.3 million, respectively. The royalty figures would change to \$626.3 million and \$666.8 million respectively. All of the forecasted numbers include the estimated TAPS settlement.

(3) In FY 86 and FY 87 the Department of Revenue began to levy marine fuel taxes on watercraft motor fuel users who purchased fuel out-of-state but consumed fuel in transit through the state. On March 30, 1987, the State adopted hearing decision #87-07 which established that marine fuel users who merely consumed fuel in transit could not be retroactively taxed. In line with this decision, the Department of Revenue is refunding with interest any taxes collected under the earlier interpretation. This forecast estimates that refunds plus interest will total \$1.8 million and assumes that the majority of these refunds will be paid in FY 87. All motor fuel tax refunds are paid from the Highway Fuel Tax Account.

(4) Figures reflect the recent shift in occupational licensing fees and insurance permit fees from General Fund Unrestricted Revenues to Restricted Program Receipts.

(5) Net Permanent Fund contribution by Ch. 18 SLA 1980.

(6) Reflects state lease sales of \$0.9 million held June 24, 1986 (Sale 49 - Cook Inlet), and \$0.3 million held January 27, 1987 (Sale 51 - Prudhoe Bay Uplands). Due to the timing of collections, receipts from the June 1986 lease sale are shown as FY 87 revenue. The bonus figures represent the General Fund's 49.5 percent share.

(7) The FY 87 figure reflects the OCS "8(g)" revenue-sharing settlement of \$4.0 million. The General Fund share represents 49.5 percent of the aforementioned total, whereas the Permanent Fund will receive 50.0 percent. The remaining 0.5 percent will be distributed to the Public School Fund.

(8) The Department of Natural Resources projects the following FY 87, FY 88, and FY 89 state lease sales: FY 87 (Sale 50 - Camden Bay); FY 88 (Sale 54 - Kuparuk Upland, Sale 55 - Demarcation Point); and FY 89 (Sale 52 - Beaufort Sea, Sale 56 - Alaska Peninsula). However, bonus bids are impossible to anticipate prior to sales; therefore, no estimates are provided.

(9) The investment earning projections presented reflect the current composition of General Fund assets and current interest rates. The projections also reflect a drawdown in the level of the General Fund assets over the projection period. The projected drawdown in assets is a result of projected revenue cash inflows consistent with the current revenue forecast and projected expenditure cash outflows consistent with the estimated FY 88 operating budget which was passed by the Legislature before any gubernatorial vetoes. Also, no capital budget appropriations for FY 88 were factored into the expenditure cash outflow projection because no capital budget was passed by the Legislature.

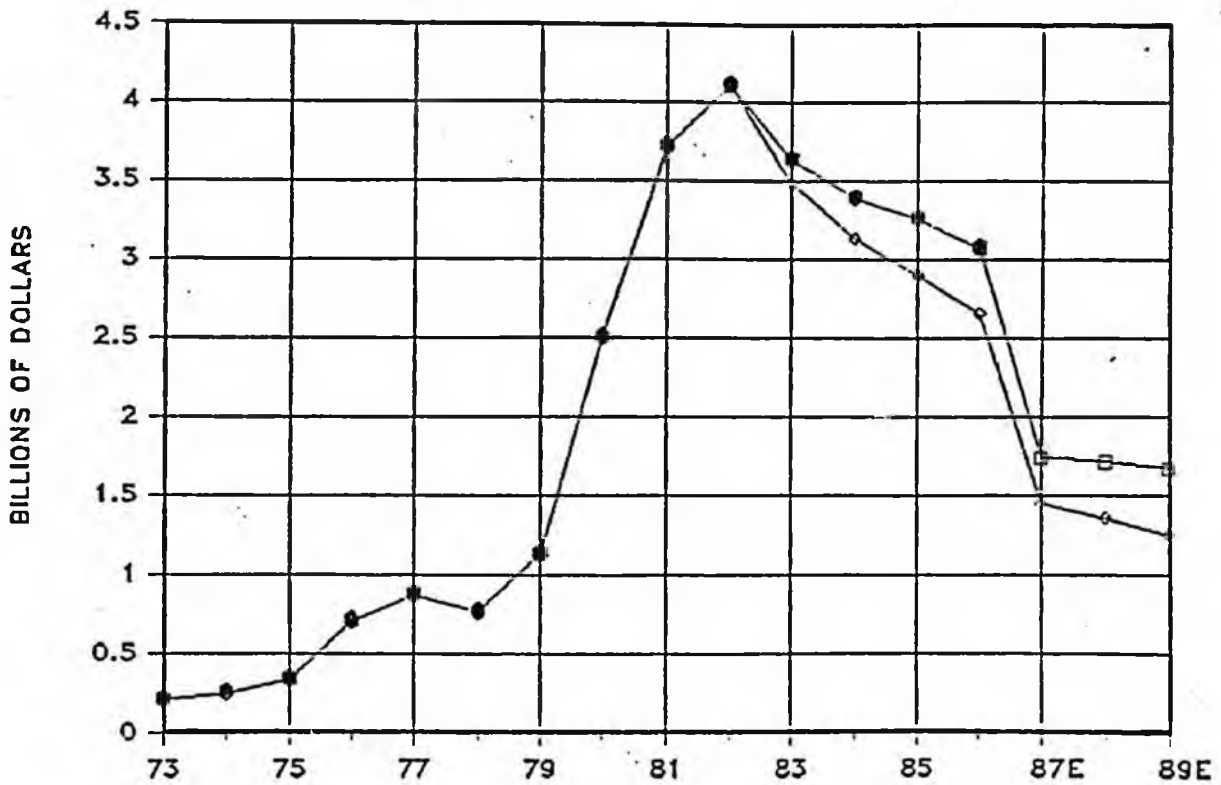
(10) The FY 87 estimate reflects increased construction of roads and drilling pads as projected by the Department of Natural Resources.

(11) The FY 87 figure reflects the estimated General Fund portion from refunds and expenses for prior years relative to the TAPS case (\$65.7 million) and court costs relative to the ARCO settlement (\$1.5 million). Consequently, \$67.2 million is projected to be received during FY 87, but this figure is subject to future audits.

(12) The State, per AS 38.05.180, will be granting incentive credits against royalties, severance taxes, and rentals to the oil companies for drilling exploratory wells. The deduction is approximately \$2.9 million which has not been subtracted from the aforementioned FY 87 figure of \$1,741.3 million. Additional credits are anticipated in subsequent years.

FIGURE 2
GENERAL FUND UNRESTRICTED REVENUES
 (NOMINAL DOLLARS VS. REAL DOLLARS)

- ACTUALS(NOM\$)
- ESTIMATES(NOM\$)
- ◇ ACT/EST(REAL\$/1982)



Revenue Actuals
(Nominal \$)

FY 73	.2082 billion
FY 74	.2549 billion
FY 75	.3334 billion
FY 76	.7098 billion
FY 77	.8743 billion
FY 78	.7649 billion
FY 79	1.1330 billion
FY 80	2.5012 billion
FY 81	3.7182 billion
FY 82	4.1084 billion
FY 83	3.6310 billion
FY 84	3.3901 billion
FY 85	3.2600 billion
FY 86	3.0755 billion

Revenue Estimates
(Nominal \$)

FY 87	1.7413 billion
FY 88	1.7161 billion
FY 89	1.6721 billion

Revenue Actuals/Estimates
(Real \$/1982)

FY 82	4.1084 billion
FY 83	3.4826 billion
FY 84	3.1347 billion
FY 85	2.9002 billion
FY 86	2.6584 billion
FY 87	1.4532 billion
FY 88	1.3587 billion
FY 89	1.2559 billion

TABLE II

Key Assumptions for June 1987
 Petroleum Revenue Projections
 For FY 1987 - FY 1989

<u>Fiscal Year</u>	<u>(\$/bbl) Mean Wellhead Value</u>	<u>(\$/bbl) 30% Wellhead Value</u>	<u>Mean TAPS Throughput (MMbbs/day)</u>	<u>Mean Rate Inflation %</u>
1987	\$7.22	\$7.05	1.84	3.59
1988	\$9.90	\$8.81	1.87	5.41
1989	\$10.44	\$8.84	1.89	5.42

Sales Price for
Alaska North Slope Crude Oil at Los Angeles, California

	<u>Weighted Average</u>	<u>30% Case</u>	
FY 87	\$13.16	\$12.99	per barrel
FY 88	\$14.70	\$13.61	per barrel
FY 89	\$14.83	\$13.23	per barrel

Sales Price for
Alaska North Slope Crude Oil at Houston, Texas

	<u>Weighted Average</u>	<u>30% Case</u>	
FY 87	\$14.38	\$14.21	per barrel
FY 88	\$15.89	\$14.80	per barrel
FY 89	\$16.04	\$14.44	per barrel

Weighted Average TAPS Tariff

FY 87	\$4.25	per barrel
FY 88	\$3.59	per barrel
FY 89	\$2.84	per barrel

SECTION IV.
THE 30% CASE VERSUS THE MEAN CASE

TEXAS

=====

PATTY LEO (512) 463-4919
OIL ANALYST-COMPTROLLER'S OFFICE

FORECAST: BASED ON STATEWIDE AVERAGE TAXABLE PRICE WHICH CORRESPONDS TO
A NET OR WELLHEAD PRICE (NO GRAVITY ADJUSTMENT LIKE HTI).

FY 88	\$15.37 PER BARREL	16.45	} PER JUNE 23 TELEPHONE CALL.
FY 89	\$16.17 PER BARREL	17.05	
FY 90	\$17.93 PER BARREL	19.26	
FY 91	\$20.22 PER BARREL	21.06	

AVERAGE PRICE FOR FY 87 WAS \$15.11 PER BARREL.

LEGISLATURE ADJOURNS ON JUNE 1 FACING A ONE BILLION DOLLAR DEFICIT CARRY-OVER FROM
FY 87 TO FY 88. SPECIAL SESSION LAST YEAR ENACTED TEMPORARY INCREASES TO MOTOR FUEL
AND SALES TAXES, WHICH HAVE NOW BEEN EXTENDED. GOVERNOR HAS DECLARED THAT AN
INDIVIDUAL INCOME TAX WOULD BE ENACTED ONLY IF APPROVED BY VOTERS.

SPECIAL SESSION (30 DAY) BEGAN JUNE 22.

CALIFORNIA

=====

JEFF ADAMS (213) 590-5234
STATE LANDS COMMISSION

FORECAST: BASED ON POSTED PRICE FOR SPECIFIC CALIFORNIA FIELDS.
FOLLOWING PRICES USED FOR 87-88 AND 88-89 FORECASTS:

1. WILMINGTON, LONG BEACH \$14.15 PER BARREL
(80% OF PETROLEUM REVENUES)
2. ORANGE COUNTY \$14.62 PER BARREL
3. SANTA BARBARA \$11.80 PER BARREL
(LOW GRADE)

REQUIRED BY STATUTE TO PROVIDE ESTIMATES TO LEGISLATURE EVERY SIX MONTHS--BUT USUALLY
PROVIDED EVERY THREE MONTHS.

OKLAHOMA

=====

MR. McELLANEY (405) 521-4144
OFFICE OF THE BUDGET

FORECAST: BASED ON THE SPOT PRICE OF OKLAHOMA SHEET ON THAT SPECIFIC DAY.

1. CERTIFICATION - FY88
NOV. 1986.....\$16.50 PER BARREL
2. RECERTIFICATION - FY88
FEB. 1987.....\$16.50 PER BARREL

NO ECONOMIC FORECAST--ONLY SPOT PRICE. CONSTITUTIONAL AMENDMENT REQUIRES CERTIFICATION
OF THE PRICE OF OIL BY THE COMMISSIONER OF TAXATION PRIOR TO CONVENING OF THE LEGISLATURE
ON JAN 1. PRICE IS RECERTIFIED IN FEBRUARY DURING THE LEGISLATIVE SESSION AND UTILIZED IN
DETERMINING REVENUES AVAILABLE FOR THE SUCCEEDING FISCAL YEAR BUDGET.

WYOMING

=====

JIM ORR (307) 777-7881
CO-CHAIRMAN, REVENUE ESTIMATING GROUP

FORECAST: USES FORWARD FUNDED BUDGET--REVENUES COLLECTED DURING A CALENDAR YEAR WILL BE APPROPRIATED TOWARD THE NEXT BUDGET YEAR.

1. CY87 REVENUES...FY89 BUDGET \$14.65 PER BARREL
2. CY88 REVENUES...FY90 BUDGET \$20.00 PER BARREL
(WILL POSSIBLY BE LOWERED IN NEXT UPDATE)

BASE PRICE ESTIMATE DETERMINED BY THE CONCENSUS REVENUE ESTIMATING GROUP IN OCTOBER PRIOR TO THE CONVENING OF THE LEGISLATIVE SESSION ON JANUARY 1. UPDATES PUBLISHED DURING THE YEAR AS NEEDED BY THE LEGISLATURE AND GOVERNOR. ESTIMATING GROUP COMPOSED OF THE FOLLOWING:

CHIEF OF RESEARCH, LEGISLATURE
UNIVERSITY ECONOMIST
REPRESENTATIVE OF STATE AUDITOR/TREASURER
STATE GEOLOGIST
REPRESENTATIVE OF DEPT OF REVENUE

LOUISIANA

=====

DAVID HOPPENSTEDT (504) 342-7006
ECONOMIST - BUDGET OFFICE

FORECAST: BASED ON THE PRICES FOR SOUTH LOUISIANA SWEET.

FY 87-88 \$19.00 PER BARREL

AVERAGE PRICE FOR FY 86-87 WAS \$15.10 PER BARREL.
FORECASTED PRICE DETERMINED BY CONCENSUS FORECASTING GROUP AND DERIVED FROM CURRENT SEVERANCE TAX COLLECTION RETURNS. LONG-TERM MODELS ARE USING PROJECTIONS OF THE U.S. ENERGY ADMINISTRATION (PREVIOUSLY HAD RELIED ON KHARTON).
ECONOMY LOST APPROX 29,000 JOBS IN OIL/GAS EXTRACTION LAST YEAR, AND HAS GAINED BACK ONLY 1,000 CURRENTLY. REVENUE MEASURES WERE ENACTED LAST YEAR TO OFFSET THE SHORTFALL DUE TO LOWER OIL PRICES. SALES TAX AND INDIVIDUAL INCOME TAX EXEMPTIONS WERE TEMPORARILY REMOVED (DUE TO SUNSET AFTER FY 87-88), USER FEES WERE INCREASED, AND DUE DATES ON SOME FEES AND TAXES WERE AMENDED TO ENHANCE CASH FLOW.

...ry whatever its losses are through its liability insurance. He said that Texaco estimates its total flood damage at between \$30,000 and \$100,000. At Sun in Oklahoma City, operations manager Wayne Frost said the floods are becoming a regular occurrence about once a year, and Sun pays for its damages through its liability insurance.

Although unlike the self-insured majors, independent operators usually aren't so well covered, Oklahoma Independent Petroleum Assn. officials said they're looking into such insurance for their members on a group rate to lessen the cost. A new insurance plan was scheduled to be looked at during 1987 by the group's board.

LA. NOTES UPTURN

Baton Rouge 6/1--An oil and gas firm active in Louisiana has nominated 120 tracts of state-owned land and water bottoms for the state's July 15 lease sale, according to officials of the Louisiana Office of Conservation that administers the lease sales.

An agency spokesman said it was "the first time ever" one company nominated so many tracts of state land. The name of the company will be made public later this week.

Meanwhile, nominations for leases and drilling permits are climbing in the state. According to the agency, drilling permits issued by the state trailed 1986 levels during January through March, but April and May figures topped those of a year ago.

Many of the the past permits were for shallow gas wells in North Louisiana, but lately there has been a shift to deeper South Louisiana wells.

Tracts nominated for the state lease sale have been averaging about 35 for the last 18 months, but have climbed to 66 for the June sale, 167 for the July sale and are already at 60 and climbing for the August sale.

"The industry is beginning to recover," says Herbert Thompson, Louisiana Office of Conservation commissioner, and "a lot of it stems back to stabilization of oil prices."

Thompson said many Louisiana oil and gas firms have recently recalled between 10 and 15% of the workers laid-off over the last two years.

LOUISIANA UPS PROJECTED OIL PRICES

Baton Rouge 6/1--The Louisiana House of Representatives raised from \$19/bbl to \$19.60 the projected average price of oil for the coming fiscal year, which begins in July.

The 60 ct change would bring about \$24-million of additional money into state coffers, which depend heavily on severance taxes. Budget analysts estimate that for every \$1 change in the price of crude at the wellhead, another \$40-million in state severance taxes are collected. However, the additional money--raised through the state's 12.5% wellhead-value severance tax--would still leave the state with a \$100-million budget shortfall.

AWARD TO COASTAL IN NATURAL GAS PL SUIT UPHELD IN U.S. DISTRICT COURT

Houston 6/1--A jury's damage award to Colorado Interstate Gas Co. (Coastal Corp.) was upheld by a U.S. District Court in Cheyenne, Wyo., but the judge reduced the amount Natural Gas Pipeline Co. (Occidental Petroleum) must pay to \$412-million from \$549-million.

Judge Clarence A. Brimmer's ruling denied all of NGPL's

\$65,000/day and the interest has increased to \$13-million since the Nov. 10, 1986, entering of judgment in the case.

The jury's verdict last October found that NGPL breached its service agreement with Colorado Interstate, intentionally and improperly interfered with Colorado Interstate's contract to buy natural gas from Champlin Petroleum Co., breached its duty of good faith and fair dealing, and attempted to monopolize the transportation of gas from the Rocky Mountain area.

U.S. RIG COUNT DROPS

Houston 6/1--The current U.S. rig count is down four from a week ago (ON 5/27), Baker-Hughes reports. Following are Baker-Hughes' latest weekly figures for the total number of active drilling rigs in the U.S. and Canada, compared with the like periods last month and last year:

	6/1/87	5/4/87	6/2/86
U.S.	758	780	723
California	61	63	40
Colorado	18	14	12
Louisiana	108	101	106
Oklahoma	109	132	109
Texas	254	261	219
Canada	100	38	46

#

DRI CONFERENCE

DRI Energy's European Energy Outlook Conference will be held June 23 and 24 at the Amsterdam Marriott Hotel in Amsterdam, the Netherlands, focusing on the outlook for European energy supply demand and prices one year after the oil collapse. For more information contact DRI Energy. Telephone in Paris, 33 1 42.60.27.00, or in the U.S., 617/860-6655.

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4/17/87

WHEN ROOMS GO BUST

Impacts of Price Plunge Go Beyond Producing States

THERE ARE SOLID indications that last year's crude oil price plunge has affected the general economies not only of oil-producing states but the nation as a whole. An American Petroleum Institute report that included a survey of the 10 top producing states (Alaska, California, Colorado, Kansas, Louisiana, New Mexico, North Dakota, Oklahoma, Texas and Wyoming) points to increased business and bank failures nationwide as evidence.

U.S. business failures were up 6.9 percent in 1986 compared to 1985, with the total number reaching 61,232 last year compared to 57,253 a year earlier, according to Dun and Bradstreet Co. The region that most strongly contributed to the national increase was the financial firm's "West South Central" area — the heart of the oil patch — where business failures soared 59.9 percent in 1986, 12,704 from 1985's 7,943. API said that if this region's states of Texas, Louisiana and Oklahoma had not been included in the national average, Dun and Bradstreet calculates that the national business failure average would have fallen 2.1 percent year-to-year.

The financial firm found that in its "Mountain States" region, including the producing states of Wyoming, Colorado and New Mexico, business failures rose 10 percent in 1986 to 5,894 from 5,359 the previous year.

When it came to bank failures, API noted that the nationwide total continued to climb last year, hitting 145 compared to 120 in 1985 (including one Federal Deposit Insurance assistance transaction) and 79 in 1984. Among the 10 producing states, only North Dakota had no failures the past three years.

The FDIC said that three other producing states recorded the highest per state number of failed banks last year: Texas with 26, Oklahoma with 16 and Kansas with 14. The number of bank failures in the other API-surveyed producing states were one in Alaska, eight in California, seven in Colorado, eight in Louisiana, two in New Mexico (the only state with a decline from the previous year when three of its banks failed) and seven in Wyoming.

Within those producing states, bankruptcies, including all types of cases filed under Chapters 7, 11 and 13 of the federal bankruptcy code, rose in every state. Texas had 32,442 bankruptcy cases filed in U.S. federal district bankruptcy courts in 1986, up 57.4 percent from the 20,604 cases filed in 1985.

Similarly, said API, the number of cases filed in other states rose 66.2 percent in Alaska, 25 percent in California, 55.8 percent in Colorado, 31.1 percent in Kansas, 46.6

percent in Louisiana, 41.0 percent in New Mexico, 39.3 percent in North Dakota, 55.9 percent in Oklahoma and 29.9 percent in Wyoming.

In terms of unemployment, Louisiana became the state with the highest jobless rate last year when it rose from 228,000, or 11.5 percent unemployed, in 1985 to 261,000, or 13.1 percent. Of the 10 API-surveyed states, only California, whose economy is so diversified that it only felt what API described as a ripple effect from the price plunge, posted a lower unemployment rate in 1986 (6.7 percent) than in 1985 (7.2 percent).

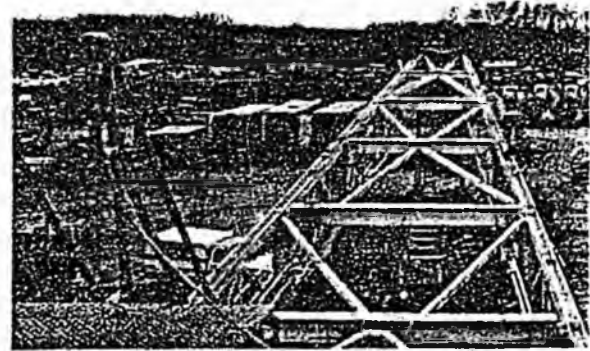
Alaska's jobless rate rose from 9.7 to 10.8 percent, Colorado's from 5.9 to 7.4 percent, Kansas' from 5.0 to 5.4 percent, New Mexico's from 8.8 to 9.2 percent, North Dakota's from 5.9 to 6.3 percent, Oklahoma's from 7.1 to 8.9 percent, Texas' from 7.0 to 8.9 percent and Wyoming's from 7.1 to 9.0 percent.

One of the more striking changes has been in how the states themselves regard energy as they prepare their budgets for the coming fiscal year.

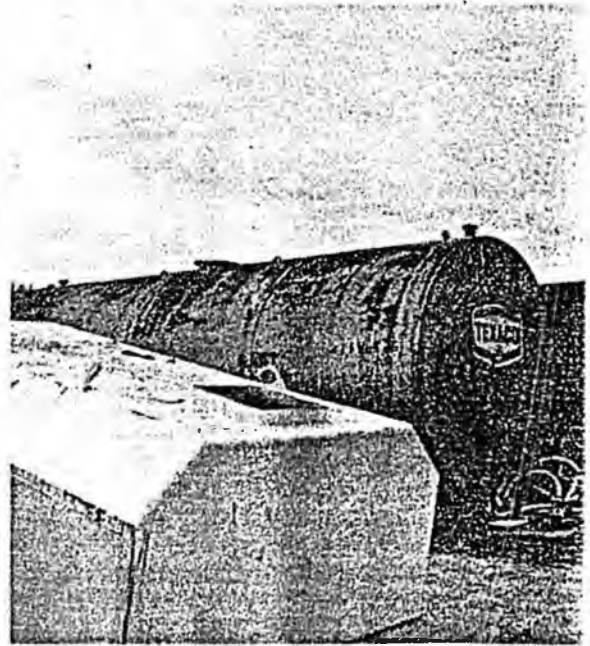
- Alaska historically based its budget with 80 percent dependence on taxes from oil operations there. News reports indicate, however, that the drop in world oil prices cost the state some \$1 billion in tax revenue last year. The state is reducing the level of its spending and seeking support from other sources, letting oil and gas supply two thirds of the projected revenues.

- While California's economy showed no discernably direct impact from the oil industry's downturn, it has reflected what API described as an "obvious ripple effect." The original budget forecast for fiscal 1987 called for \$36.3 billion in revenue. The current mid-fiscal year update dropped that to \$35.9 billion due to slower economic growth and economic uncertainty. While California receives some oil-related revenue from state-owned lands, it has no severance tax and a much more diverse economy than the other nine API-surveyed producing states.

- Colorado's September 1986 budget forecast projected that, with then-current revenues, it would have a \$3.7 billion fiscal year-end deficit. The fiscal year budget was then about \$2 billion. The state expected to gain about \$100 million under the federal tax reform law and planned to place that money in reserve. Gov. Roy Romer and the legislature also unofficially agreed to borrow from special state funds to finally balance the present fiscal year budget. A 2 percent across-the-board spending restriction (Continued on page 9)



EVERYTHING BUT THE RIG was up for grabs last week at an auction of an out of business oil field supply company to see photos by Rebecca Tallent)



OKLAHOMA AUCTIONEERS are diversifying from oil like this into supplies and furniture associated with business of the energy downturn.

Auctioneers Not Only Businesses That Are

"I sure appreciate the bust. It's made me a lot of money."

An auction company security guard in Oklahoma City

ONE OF THE MORE booming businesses in Oklahoma today is the auction industry.

venues petroleum to Gov. January related account state's b

estimates of how much the oil industry contributes to the Houston economy range from 30 to 70 percent. Regardless, the oil industry and Houston are inseparable. What hit the city so hard wasn't so much from the major oil companies as it was from the service companies.

Manufacturing oil field equipment was a major business: Baker International, Cameron Iron Works, Camco, Hughes Tool, Galveston-Houston Co., Smith, Dresser, Schlumberger, Stewart and Stevenson, Marathon-LeTourneau, etc. The upcoming merger between Baker

The Houston Economic Development Council (HEDC) was created two and a half years ago as a response to the downturn in the economy and the publicity about that downturn.

"There is a technical infrastructure based here because of the oil industry. We can do just as well for a number of other industries," Viehweger pointed out.

There is a strong presence of international financial institutions. Houston is one of the lowest cost air centers in the United States. The city is the gateway to Mexico and Latin America. It's one of the

of its space operations to Houston. A manufacturing company is moving from Taiwan to an old oilfield equipment plant here.

"You don't get a second chance at a good first impression," Viehweger pointed out. "A lot of people pass through who might impact a decision four or five years from now. If you leave them feeling good, it could have a future benefit."

And, as Houston's growth over the past few years has shown, the city doesn't leave much room for ghosts to linger very long.

— Scott L. Weeden

Key Element of Every Strategy

will make the state another racing ground.

For many Oklahomans and small businesses, the bust of the oil industry has severe financial problems because of the collapse of Penn Square Bank in Oklahoma City seemed to trigger another boom: a wave of failing banks.

Since Jan. 1, Oklahoma has seen an average of one bank failure per week, and Federal Deposit Insurance Corp. estimates have privately predicted the trend to continue for the rest of 1987.

Though most recent bank failures have primarily been due to poor lending practices or bad loans in real estate, some state bankers are saying all of the problems go back to the 1979-82 oil boom when real estate prices grew at such a rate that housing, office and hotel space was at a premium. At the end of the boom, the bankers argue, the state would have maintained a normal market pattern and real estate developers would not have overbuilt.

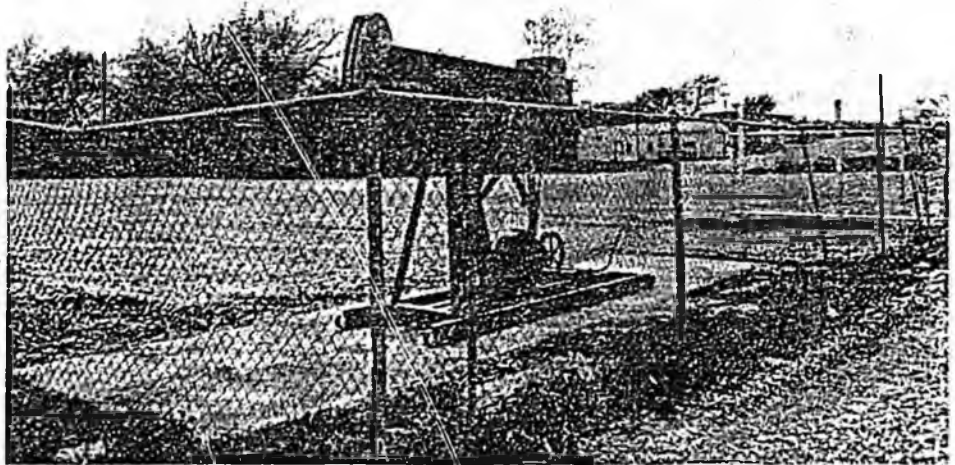
In the meantime, the auctions continue as Oklahoma tries to diversify.

Though the Sooner State will never completely leave petroleum, Holmes said government needs to lead the diversification by encouraging private industry to move away from the petroleum markets into other areas. Oklahoma has a lot to offer, he maintained, despite its current financial crisis.

Oklahoma has an environment with a lot of opportunity," said Holmes. "There is a lot of money to be made here if you use a five-year horizon. By the end of summer there will be some really positive signs of economic health, some really solid signs."

In the meantime, auctioneers like Ritchie and others continue preparing for their next auction. While they may not be selling a mechanical gorilla, such as was sold at an FDIC auction last June, the former oil field pipe and service yards are lined up with bulldozers, trucks, road building equipment and cars, all waiting to go to the highest bidder.

— Rebecca Tallent



AN EMPTY PIPE YARD along South Eastern Avenue in Oklahoma City was once used by now-defunct Sterling Pipe and Supply Co. The grounds have been bought by Bouvard Supply. (Oil Daily photo by Rebecca Tallent)

With Their Oil and Gas Tax Revenues Down, Producing States Have Slashed Spending

(Continued from page 8)

placed by then-Gov. Richard Lamm has also been retained, created some \$26 million in budget cuts.

• Kansas cited a lower than expected agribusiness as well as oil and gas severance tax collection for general fund collections dropping \$20 billion through the first quarter of fiscal 1987. That was partly offset by the state legislature's having raised the sales tax 1 percent in the last session. Gov. Mike Hayden proposed and received approval of a 3.8 percent budget cut during the fiscal year's final half to assure that the state finished the fiscal year with a \$130 million reserve. Since that is about the amount Kansas expects to receive from the federal government under tax reform, that will allow the state to distribute the federal windfall to its residents.

• Louisiana Gov. Edwin M. Edwards ordered a 10 percent cut by most state agencies, along with a 5 percent cut in state education aid, to trim the state's budget deficit by \$232 million. That left the state with a \$255 million deficit in the current fiscal year, ending July 1, and a \$200 million de-

ficit carried over from the previous fiscal year. Edwards had previously ordered budgets cut 3 percent due to declining oil and gas revenues. His October estimates based the state budget on \$15.50 per barrel oil prices, down from last summer's \$17 per barrel estimate. The legislative office currently projects prices at \$19 per barrel for the coming fiscal year, but that estimate is expected to be adjusted downward in the next few months, API quoted a legislative spokesman as saying.

• New Mexico's fiscal 1987 budget was unchanged in recent months, largely because a June general session of the state assembly reduced the per barrel oil price budget estimate from \$22 to \$13, trimming appropriations 2 percent and increasing revenues about \$52 million with a temporary personal income tax hike at the same time. 1987 legislative projections of oil prices called for \$15 per barrel during fiscal 1988 and an austerity budget with neither cuts nor growth, along with some modest decreases depending on whether there is a salary increase for state employees.

(Continued on page 14)

support a recommendation for full leasing without serious environmental damage, provided proper safeguards are followed.

Coalition Pleased

The contradiction between the description of potential impacts and the leasing recommendation

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4 WEEKS RISK-FREE

If *NGW* hasn't proven its value to me by then, I'll cancel and owe absolutely nothing! But if the information helps me make better decisions and

rather than there being a 50-50 chance of 3.2 billion barrels being available for recovery, only a 20 percent chance exists of there being an oil field being discovered at all. But if one is found, then there is a 50-50 chance of its being 3.2 billion barrels. He also notes the draft rates only a 5 percent chance of there being a field as large as Prudhoe Bay — 9 billion barrels or slightly larger.

Mahoney also notes that the "economic recoverability" test is oil prices of \$33 per barrel.

be economic.

He also said the economic recoverability estimates were based on overall economics and experience with Prudhoe Bay reservoir recovery rates of 35 to 45 percent, which represents conventional recovery techniques only.

ANWR "economic recoverability" projections also assume conventional recovery only. Horn said that given likely advances in recovery techniques and technology, the "more appropriate" oil estimates were the reserves-in-place projec-

British Petroleum and Standard Oil Co. on the part of the coastal plain owned totally by the Kaktovik Inupiat Corp. is in fact a large strike. Fueling the speculation is the tighter-than-usual secrecy surrounding the well.

But the Alaska Coalition's Mahoney sees it as a ploy by the oil industry to bring additional pressure to bear on Congress to open ANWR for leasing.

Mahoney expects the one-in-five chances of there being an oil field to be either watered down or omit-

his coalition orders the Alaskan office of the Fish and Wildlife Service to clean up language that the Canadian government pointed to as justification for its contention that the area should be declared wilderness.

That language in the draft notes that development-induced caribou habitat changes "could result in a major population decline and change in distribution of 20-40 percent, based on the amount of calving and insect-relief habitats to be adversely affected."

With Energy Tax Revenues Guttled

Producing States Slashed Budgets as Oil Prices Fell

(Continued from page 9)

• North Dakota was another state whose revenues suffered from agricultural as well as energy downturns. The state reduced its revenue estimate by \$115 million early in 1986, with a 4 percent, or \$45 million, cut in expenditures during March. A special legislative session in December let the state increase sales tax by 10 percent and reduce expenditures another \$10 million. The state's budget office projects an oil price fluctuation of \$16 to \$18.50 per barrel over the next two years, and anticipates no new drilling in that time.

• Oklahoma is recovering from summer flood damage as well as the oil price plunge, with its legislature having cut non-education expenditures \$27.9 million, or 2.9 per-

cent annualized, from the previous fiscal year's budget of \$2.31 billion. Although the state budget director expects no shortfall in the current fiscal year, Oklahoma will face a \$348.1 million, or 15 percent, shortfall for fiscal 1988, when revenue is projected to be \$1.96 billion. Among the tax measures proposed by new Gov. Henry Bellmon are tax increases of 4 cents per gallon on gasoline and 3 cents on diesel fuel.

• Texas, despite temporary tax increases passed during two special sessions of the legislature last summer, will face a \$1 billion deficit for the two-year budget period ending Aug. 31. In the first session, lawmakers cut some \$600 million from the original projected \$2.9 billion shortfall by delaying employee pay dates until after the

end of the fiscal year and eliminating 3 percent pay raises, ending refunds to municipalities of interest earned on local trust accounts, and assurances by the state's attorney general that it would not have to pay \$100 million in contested corporate franchise tax receipts during fiscal 1987.

During the second special session, the deficit was further cut to \$976 million with more than \$700 million in spending cuts and passage of two temporary tax measures, effective between Jan. 1 and Aug. 31, 1987, that increased the general sales tax from 4.25 to 5.25 percent and diesel and gasoline taxes from 10 to 15 cents per gallon (contributing an estimated \$568 million in added revenues). The 1987 legislature voted to extend

the tax increases indefinitely instead of letting them expire at the end of the fiscal biennium.

• Wyoming's legislature revised appropriations for the 1987-88 biennial budget to \$752.3 million in general funds, down about 2.7 percent from the original \$773 million appropriated for the period. Part of the reduction was based on the state's estimate of \$11 per barrel oil prices for 1987 and \$12 per barrel for 1988, with the 1988 projection expected to be increased slightly when the state revenue committee meets in May. The original revenue estimate, including severance tax revenue, estimated world oil prices at \$23.50 per barrel.

— Nick Snow

PETROLEUM FUTURES

New York Mercantile Exchange Crude Oil

Months	Dollars Per Barrel					Estimated Volume	Date: April 16, 1987	
	Open	High	Low	Close	Change		High	Low
May	18.48	18.71	18.42	18.64	+ 0.17	n/a	18.75	10.70
Jun	18.15	18.18	17.99	18.11	- 0.02	n/a	18.47	10.70
Jul	17.95	17.98	17.76	17.83	- 0.11	n/a	18.27	10.85
Aug	17.84	17.85	17.40	17.71	- 0.13	n/a	18.20	13.95
Sep	17.78	17.78	17.59	17.64	- 0.13	n/a	17.95	15.20
Oct	17.72	17.75	17.61	17.62	- 0.13	n/a	17.95	15.20
Total*						n/a		

* Total open interest represents all months traded.

New York Cotton Exchange, Liquefied Propane Gas (In contracts of 1,000 barrels)

Months	Cents Per Gallon				Open Interest	Date: Apr. 16 1987
	Opening Range	High-Low	Close	Settle		
May	23.75B-24.35A	— —	23.75B-24.25A	24.00	83	— —
June	— 23.75B	— —	24.00B-24.50A	24.25	177 + 3	— —
July 87	— 23.75B	— —	23.75B-24.50A	24.12	203	— —
Aug 87	— 23.75B	— —	23.75B-24.25A	24.00	4	— —
Sept	— 23.75B	— —	24.00B-24.50A	24.25	2	— —

Saudi Medium/ANS Differential U.S. Gulf (\$/bbl)

<u>Date</u>	<u>Average ANS Reported Price</u>	<u>Delivered Saudi Price</u>	<u>Differential</u>	
March 1986	15.07	18.28	-3.21	
April	13.27	16.04	-2.77	
May	12.54	16.29	-3.75	Data Used for
June	11.81	14.69	-2.88	June Forecast
July	10.39	12.17	-1.78	Average = -2.65
August	11.18	14.55	-3.37	(rounding error
September	12.89	16.60	-3.71	present)
October	12.88	15.26	-2.38	Average Absolute
November	12.88	14.85	-1.97	Difference = .79
December	14.34	15.38	-1.04	
January	15.43	18.61	-3.18	
February	16.23	17.13	-0.90	
March	16.58	18.53	-1.91	Differential
April	16.57	18.54	-1.04	since OPEC
May	16.93*	18.89	-1.39	fixed prices
June	16.90*	18.86	-1.36	Average = -1.32
				Average Absolute
				Difference = .28

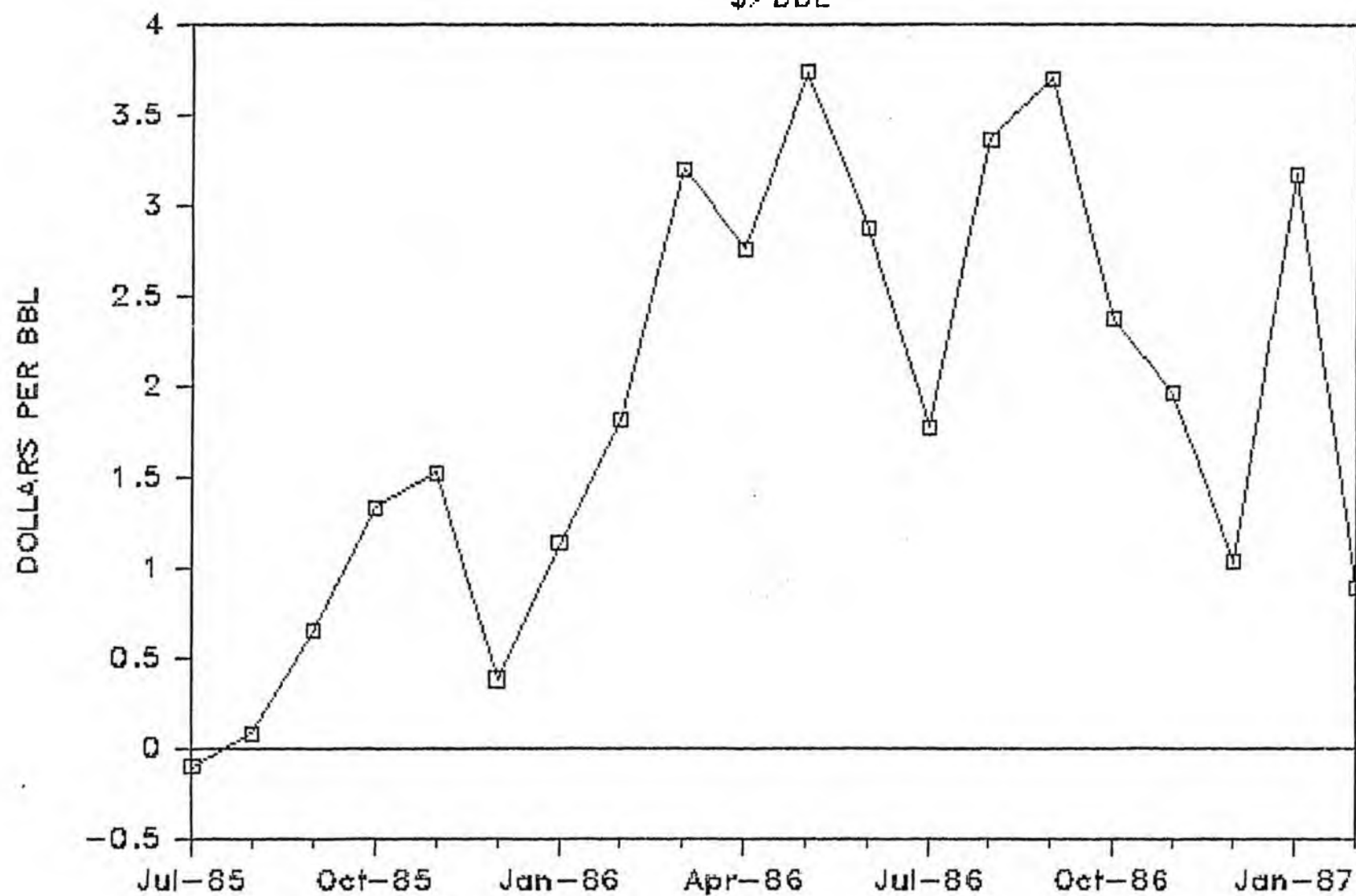
* Estimated

FY 1988 Average ANS Price U.S. Gulf June 1987 Forecast

Projected Average Saudi Medium Price	\$17.00/bbl
Persian Gulf to U.S. Gulf Tanker Cost	<u>1.55</u>
Landed Cost Saudi Medium U.S. gulf	18.55
ANS/Saudi Differential	<u>-2.65</u>
Average U.S. Gulf Price	\$15.90/bbl

SAUDI/ANS GULF DIFFERENTIAL

\$/BBL



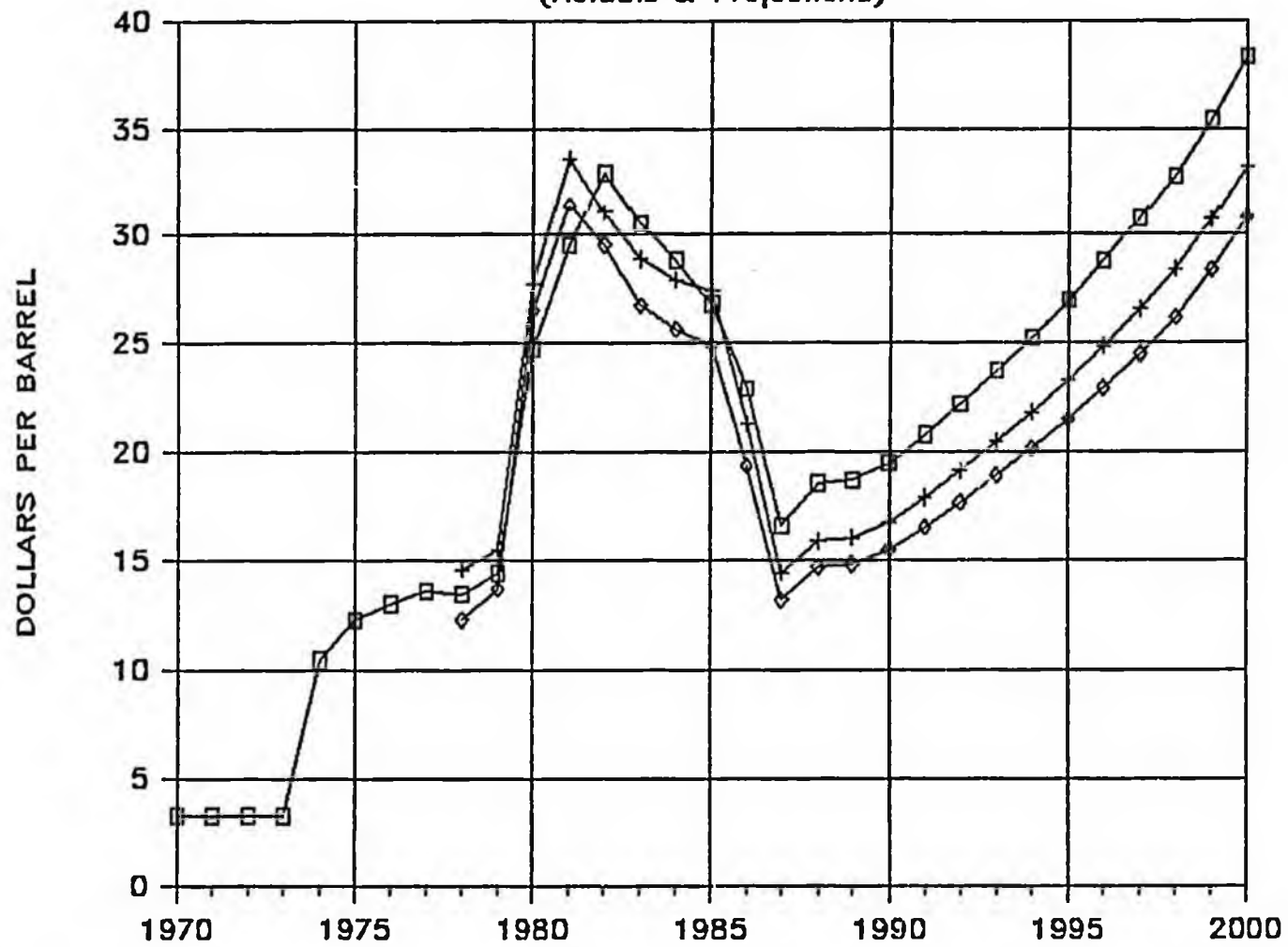
SAUDI/ANS GULF DIFFERENTIAL
(Dollars per barrel)

	SAUDI	ANS	DIFF
Jul-85	26.93	26.84	-0.09
Aug-85	26.92	27.01	0.09
Sep-85	26.94	27.60	0.66
Oct-85	26.91	28.25	1.34
Nov-85	26.90	28.43	1.53
Dec-85	26.50	26.89	0.39
Jan-86	23.21	24.35	1.14
Feb-86	18.32	20.14	1.82
Mar-86	15.07	18.28	3.21
Apr-86	13.27	16.04	2.77
May-86	12.54	16.29	3.75
Jun-86	11.81	14.69	2.88
Jul-86	10.39	12.17	1.78
Aug-86	11.18	14.55	3.37
Sep-86	12.89	16.60	3.71
Oct-86	12.88	15.26	2.38
Nov-86	12.88	14.85	1.97
Dec-86	14.34	15.38	1.04
Jan-87	15.43	18.61	3.18
Feb-87	16.23	17.13	0.9

SECTION V.
THE OIL PRICE VOLATILITY AND THE STATE'S ECONOMY

CRUDE OIL PRICES

(Actuals & Projections)



□ SAUDI-US GULF

+ ANS-US GULF

◇ ANS-WEST COAST

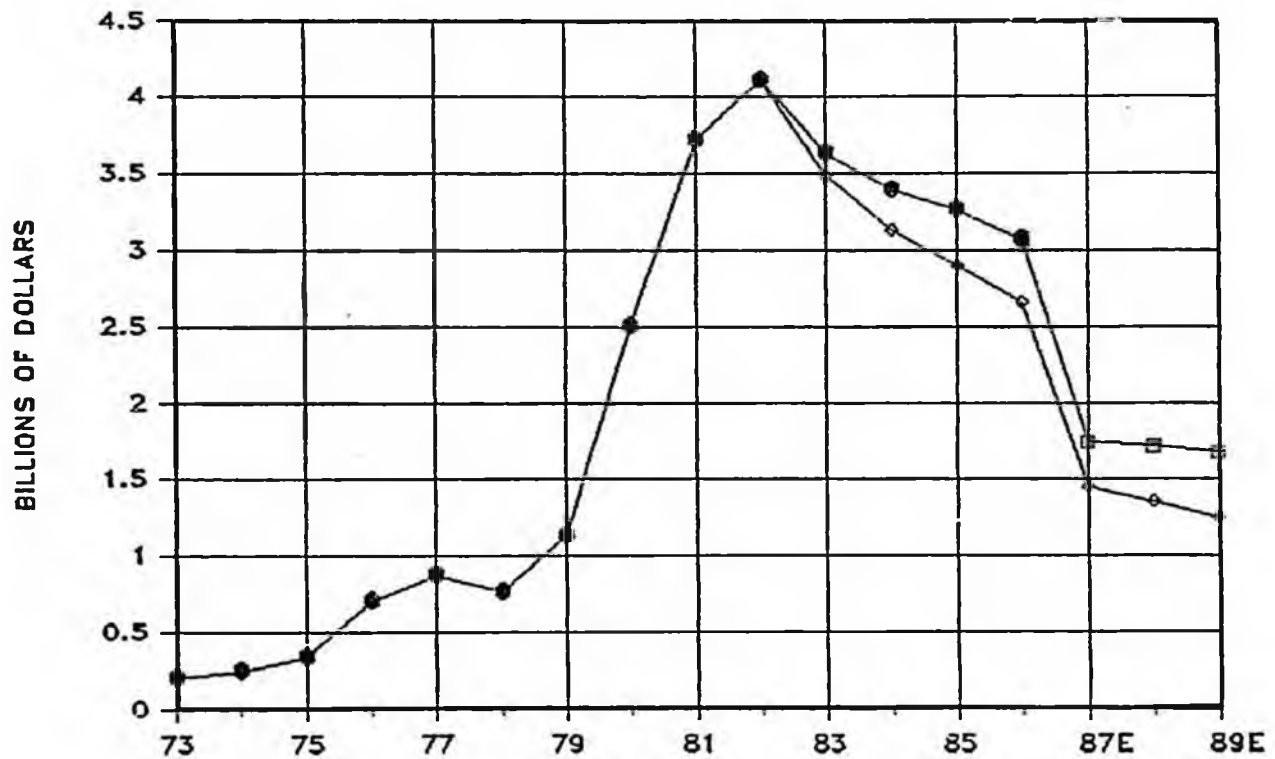
ACTUAL & PROJECTED CRUDE OIL PRICES
(Dollars per Barrel)

FISCAL YEAR	SAUDI US GULF	ANS US GULF	ANS WEST COAST
1970	3.25		
1971	3.25		
1972	3.25		
1973	3.25		
1974	10.45		
1975	12.30		
1976	13.04		
1977	13.61		
1978	13.46	14.60	12.30
1979	14.41	15.50	13.70
1980	24.75	27.68	26.50
1981	29.45	33.67	31.43
1982	32.99	31.07	29.50
1983	30.51	28.86	26.75
1984	28.79	27.91	25.64
1985	26.80	27.40	24.95
1986	22.90	21.28	19.35
1987	16.61	14.43	13.19
1988	18.54	15.99	14.70
1989	18.69	16.04	14.83
1990	19.45	16.74	15.48
1991	20.77	17.88	16.51
1992	22.18	19.12	17.67
1993	23.71	20.46	18.91
1994	25.23	21.79	20.14
1995	26.94	23.26	21.46
1996	28.77	24.85	22.92
1997	30.74	26.56	24.47
1998	32.85	28.39	26.19
1999	35.45	30.69	28.37
2000	38.34	33.26	30.78

Unrestricted Revenues

(NOMINAL DOLLARS VS. REAL DOLLARS)

- ACTUALS(NOM\$)
- ESTIMATES(NOM\$)
- ◊ ACT/EST(REAL\$/1982)



Revenue Actuals (Nominal \$)

FY 73	.2082 billion
FY 74	.2549 billion
FY 75	.3334 billion
FY 76	.7098 billion
FY 77	.8743 billion
FY 78	.7649 billion
FY 79	1.1330 billion
FY 80	2.5012 billion
FY 81	3.7182 billion
FY 82	4.1084 billion
FY 83	3.6310 billion
FY 84	3.3901 billion
FY 85	3.2600 billion
FY 86	3.0755 billion

Revenue Estimates (Nominal \$)

FY 87	1.7413 billion
FY 88	1.7161 billion
FY 89	1.6721 billion

Revenue Actuals/Estimates (Real \$/1982)

FY 82	4.1084 billion
FY 83	3.4826 billion
FY 84	3.1347 billion
FY 85	2.9002 billion
FY 86	2.6584 billion
FY 87	1.4532 billion
FY 88	1.3587 billion
FY 89	1.2559 billion

The State's Economy

Characteristics

1. (a) The State of Alaska Government receives approximately 80% of its revenue from oil related activities.
- (b) The State of Alaska does not have the diversified economic base that other oil producing states do.
- (c) The State's entire economy including our loan programs, municipal revenue sharing programs, educational programs, much of our employment, and a good part of our private business activities is based on the flow of oil money through State government.

The Oil Picture

Characteristics

2. (a) The current oil price structure is one whereby delicate political maneuvering by OPEC, a cartel type organization, is influencing the demand and supply for oil and thus oil prices.

- (b) The history of cartels and/or organizations similar to OPEC is such that they are characterized by periods of success and failure. This trend will undoubtedly continue. And oil prices will continue to be volatile as they have in the past.
- (c) Uncertainties relative to future consumption and production suggest that there is no guarantee that the world oil market will support the current OPEC price structure in the future. What we have is a political solution which is tenuous at best. In fact the longer the current OPEC accord holds the more strain it will be subjected to and thus the more likely the possibility of a collapse in oil prices i.e. there will be increasing demands among members to either produce more oil or increase prices or both.
- (d) The fact that within OPEC you have low cost production and its members are obtaining relatively high oil prices is a problem in itself. This serves as an incentive for individual members to cheat by stepping up production or offering discounts. Hence, the OPEC accord could fall apart. Right now, of course, the success of OPEC is due in large part to the fear of economic or financial failure. This is the underpinning for their success today.

In short, cartel type arrangements go through cycles of success and failure and it is best to reflect on this history before we step out there and declare that current spot prices are what we should build our annual budgets on.

The Primary Goal of this State

A Stable Budget and Thus Stable Economic Growth

In March of 1987, \$15 per barrel oil was the supposed norm of the oil industry. Now it is \$18 per barrel. A few weeks from now it might be \$25 per barrel or by then it could even be back down to \$10 per barrel. The point is that the oil industry and others in this forecasting business change their opinions and can do so overnight. Is it prudent to base the State's annual budget which in turn affects our entire economy on this approach? I think not. To tie the yearly budget to the volatility of oil prices, regardless of how accurate the forecasts might be, is to whipsaw an economy such as ours and create economic havoc for our businesses and populace in the process.

So, whither go we? We need to stabilize the budgetary approach and thus the economy in the process. To do this we need to maintain a targeted budget amount year after year not subject to the wild gyrations of oil prices.

Further, we must back this targeted budget with some type of reserve fund. Thus, if oil revenues come in over and above the targeted budget amount, we can put them in the reserve fund. And if in any year oil revenues come in under the targeted budget amount, we can pull monies from our reserve fund in order to meet our targeted budget amount and

thus achieve steady economic growth in the process. If this were accomplished the state would also be able to provide predictable service levels to its citizens and enhance its credit standing in the financial world.

In order to accomplish this, however, we must as a first step break this hypnotic trance with oil prices that seems to have captivated us all.

JUNE 10, 1987

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Carol A. Wood
Managing Editor

ANCHORAGE TIMES:

Whither go we?

THE RAGING DEBATE over how much money the state is going to collect in the next 12 months has now run 577 miles all the way from Juneau to Anchorage and it has not yet reached a conclusion. Our leaders would rather fight than switch. Even when their facts switch, they won't.

It's about the market price of oil, a dull subject except for the fact that everybody and everything in Alaska depends on it.

It is a tiresome debate. It went beyond our attention span long ago.

The governor looks over his horizon and sees oil at \$13 a barrel. The Senators predict \$15. And when we look around us we find it is actually selling at \$18.25. Yet the debate goes on.

THE POLITICOS keep it going. They want to grind axes, and the budget debates gives them the chance.

The governor has declared publicly that he must have an income tax law,

extra taxes from the oil industry and money from the permanent fund earnings. If he calls a special session, it will probably mean that he has a scheme he thinks will compel the legislators to bend his way.

But it isn't clear that they will bend. The Senate says it won't.

THE EXCITEMENT is not confined to the political ring. There's plenty for the rest of us.

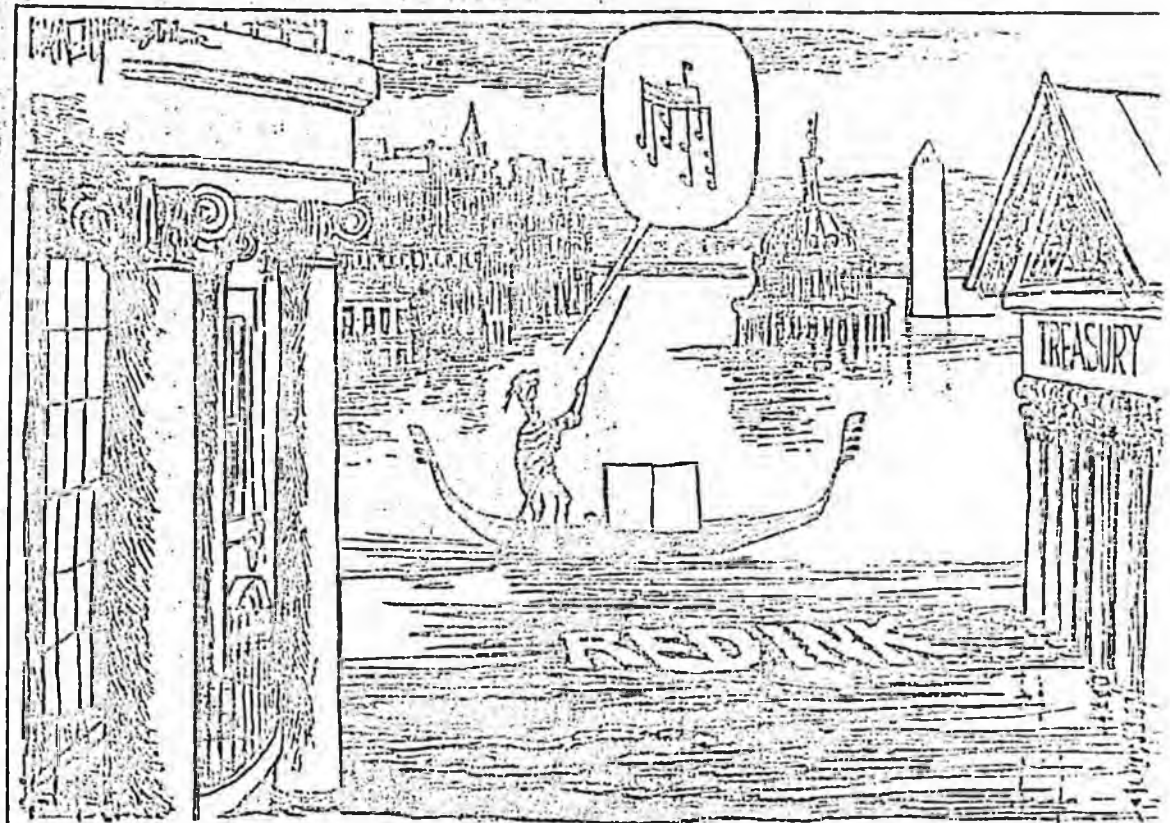
It's thrilling when the price of oil jumps to \$18.25 and the state starts rolling in money again.

The governor may be a pessimist but Mr. Horton, the Mr. Big of Standard Oil, says it is reasonable to base budgets on the expectation that oil will be \$18. He says he runs the Standard budget on that figure.

That's good enough for most of us. We would be happy if we could run this state as well as he runs Standard.

Good life

THIS CITY has lost a for supplies. He did it with



GIPPER THE GONDOLIER

Inaugural auditors spoil the part

WASHINGTON — Trust the auditors, egged on by William Proxmire, to rain all over a national picnic. The General Accounting Office, at the senator's request, recently released an auditor's report on the presidential inaugural of 1985. The ceremonies cost the government a bundle, and the GAO thinks much of the outlay was illegal.

The senior senator from Wis-

Conservative view



by James J.

doctors and corpsmen, 74 p relations people, and two wyers, presumably assigned figuring out how to spend money legally.

Like every auditor's re the GAO's report to Sen Proxmire is crammed with tifying details. On Jan. 18 members of the Marine C Drum and Bugle Corps formed at an auditor's co-

meet the intergovernmental group of Indonesia, which groups the country's main western donors. Various members of the group, including the World Bank and the International Monetary Fund, have said Indonesia must further deregulate its trade and industry and ease its restrictive business regulations to lower business costs and cope with falling oil revenues.

Wardhana said the new measures, contained in a Presidential decree, reduce the number of business permits to two from the previous four, abolish the need for permit renewals and allow a production output increase up to 30%. The decree also allows industries to diversify their products as long as they're still within the same commodity grouping. Permits also will be given for commodity groups rather than per commodity, reducing the permit areas to 387 from the previous 2,490, Wardhana said.

KUWAIT-EAST GERMANY: The Kuwait-East Germany joint committee on economic, trade, technical and scientific cooperation will hold its sixth session today, says OPEC News Agency. Faisal Abdul Razak al-Khaled, who's heading the Kuwaiti delegation, said the committee will examine ways to promote bilateral trade cooperation. Development of industrial and agricultural cooperation between the two countries also will be discussed, he said. An agreement on scientific cooperation between Kuwait's Institute for Scientific Research and the East German Center of Professional Training will be signed during the meeting, according to Opecna. Seeking markets for Kuwaiti products in East Germany also will be discussed, Opecna reports al-Khaled saying.

UNITED STATES

60% SAUDI-OWNED FIRM BUYS TEX. REFINERY, PLANS VENTURE TO IMPORT SAUDI PRODUCTS

Houston 6/11--Arabian Shield Development Co. said it purchased an 18,500 b/d refinery in Silsbee, Tex., and is setting up plans with a Saudi partner to import an as-yet-undetermined volume of Saudi products into the U.S.

Company chairman Jack R. Crichton declined to disclose the purchase price of the refinery but noted that book value of the assets involved in the transaction is more than \$5-million. American Shield, a subsidiary of Arabian Shield, acquired the refinery by purchasing from Marvin and Marie Bomer all the capital stock of Texas Oil & Chemical Co. II, Inc., which owned and operated the refinery through its South Hampton Refining Co. subsidiary.

"The refinery currently is taking condensate and natural gasoline and upgrading them to hexanes and pentanes and selling the products as a base for chemical use," Crichton said. "It's a profitable operation."

Although unwilling to name the Saudi partner in the plan to import products because not all documents in the arrangement have been signed, Crichton said American Shield, South Hampton and Marvin Bomer have formed a joint venture to work with the Saudi company. American Shield will

LIMITED PARTNERSHIPS AS CORPORATIONS

Washington 6/11--House Democrats are considering taxing master limited partnerships as corporations--a move that may increase taxes on major oil companies and independents, according to a memo from Ways & Means minority chief of staff A. L. Singleton.

The June 8 memo to Republicans outlines many of the revenue options Democrats are considering in raising funds to meet what are expected to be about \$18-billion in revenue shortfalls from the FY 1988 budget.

If master limited partnerships are taxed as corporations, some majors that have used the scheme to help fend off takeovers, as well as other oil companies, could face higher taxes. Just how much higher is unclear since no revenue estimates have been made available.

Other revenue-raising measures include imposing a \$5/bbl tax on all oil that would raise \$104.9-billion over five years; a \$5/bbl import fee that would raise \$38.5-billion; a 12 cts/gal increase in motor fuel excise taxes that would raise \$54.4-billion; and a 3% broad-based tax on energy consumption that would raise \$26-billion over five years.

Also under review is a proposal to add a 33% bracket for individual taxpayers and keep a 28% limit on capital gains, which would raise \$43.7-billion over five years. The Tax Reform Act set the top individual rate at 28%. Raising the top marginal corporate rate to 35% from 33% would raise \$13.4-billion.

OKLA. PANEL SETS DEADLINE FOR GAS COMPLAINTS

Oklahoma City 6/11--Oklahoma Senate Select Committee on Natural Gas Trade Practices set a June 30 deadline for complaints about natural gas pipelines, according to Sen. Giles (D-Pocassett), committee chairman.

Included in information the committee is requesting are comments filed with and transcripts from Federal Energy Regulatory Commission hearings relating to take-or-pay liability, any allegations of breach of take-or-pay contracts, documents relating to failure to take gas reflecting oversupply and information reflecting sharing or non-sharing of take-or-pay payments or settlements with royalty owners.

The Select Committee, formed in March, has subpoena power to investigate natural gas trade practices in Oklahoma by interstate and intrastate pipeline companies.

Steve Kelley, executive vice president of Oklahoma Independent Petroleum Assn., urged his members to participate in the hearings, set for this summer. "This is the opportunity to get your story told and to hopefully prevent future abuses," Kelley said in a letter to OIPA members.

STANDARD OIL'S HORTON SEES U.S. TAKING MYOPIC VIEW TOWARD SOLVING ENERGY NEEDS

New York 6/11--Growing protectionist sentiment in the U.S. is disturbing, and Congressional calls for an oil import tariff are misplaced, Robert Horton, chairman and CEO of Standard Oil said at a meeting of the Financial Writers Assn. here today.

"I think the oil import tax is wrong in principle," he

Standard Oil's Horton says:

Alaska, oil industry share common goals in uncertain future



The Juneau Report is published by Standard Alaska Production Company (SAPC) Government Affairs Department to provide an overview of issues and legislation as they relate to the petroleum industry. Opinions of authors expressed here do not necessarily reflect the opinions of the company. The Juneau Report is edited by Jim Palmer. Inquiries should be directed to him or Bob Straub, SAPC Government Affairs, 563-5403 or 563-5537.

In this issue:

- Primary election, Page 3
- North Slope activity, Page 3
- Alaska's economy, Page 4



Editor's Note: During a visit to Alaska in early September, Standard Oil Company's Chairman and CEO Robert Horton addressed the Anchorage Chamber of Commerce. In his speech Horton compared Alaska to an oil company, saying that during the uncertain times ahead, Standard Oil and Alaska will have to employ some of the same strategies to "protect the enterprise" The following is the text of Horton's speech.

I won't review the revolutionary economic impact of building TAPS, with those 22,000 high paying jobs and the other 6,500 who built the Prudhoe Bay facilities. But I will say that even today Standard Oil has 1,300 Alaskans earning over \$100 million a year, including benefits. And I think it's fair to claim at least another thousand jobs — worth another \$100 million or so a year in payroll — among the Alaskans doing business with us.

So I hope it is clear to others, as it is abundantly clear to me, that we are terribly important to Alaska and Alaska

"... the critical need for producers is a sense of stability in our dealings with the state."

is terribly important to us. I'd like to share with you a few perceptions from the viewpoint of an oilman. And perhaps you would allow me a few observations on what this might mean to Alaska and your future.

I can sum up the condition of world oil today in two words: "Not good." World prices yo-yo up and down with every bit of news out of OPEC. All spring, oil experts played Pollyanna as the price dived. In June and July, Pollyanna turned into Cassandra as gloom prevailed. In August we had modified euphoria over OPEC's temporary production quota. And now in September we see a distinct firming of prices — but how long will that last?

I'm amused by the outside reaction to my early insistence, back in April, on having Standard Oil arrange our strategic affairs on the premise that the price of crude will average \$15 a barrel throughout the rest of the 1980s. First I was called too pessimistic. Then I was considered a rank optimist. Now these days I seem to be smack in the middle of many forecasts. Heaven knows what next week will make me!

The main thing we can be certain of for quite a few years is volatile oil prices. Almost certainly lower on average than in our salad days, but moving all over the place. For instance, we could well see last summer's lows revisited. In the meantime, the world's high-cost producers are cutting back and shutting in. In the United States, this means stripper wells in the Lower 48 — with perhaps fully a third of all current domestic production there disappearing over the next few years.

Thoughtful people realize that the long-term result of today's shakeout means less future oil to compete with OPEC, as well as the demise of most research into alternative fuels. So far, however, whenever oilmen deliver this message, there has been a tendency to say: "So what?"

About the only good results I see of today's situation is that people down in the Lower 48 no longer automatically believe the myth that bad times for oil mean good times for everybody else. If the U.S. and other oil consuming nations are undergoing a boom these days, I'd hate to see a bust.

"I can sum up the condition of world oil today in two words: not good."

million altogether, is royalty oil for the state. At approximately 8 o'clock this evening — give or take a minute or two — the 5 billionth barrel of Prudhoe Bay oil will be clocked into Pump Station One up on the North Slope.

So we've done very well and Alaska has reaped immense rewards. We're paying Alaska some \$350 million in taxes even in this very bad year. On average, Standard Oil pays roughly 40% of the entire tax revenues of the state. Altogether, Alaska has received \$6.7 billion in tax money from us, plus those 300 million barrels of royalty oil. We paid some of that amount in cash, rather than kind — thus far about \$2.3 billion. So in sum, Standard Oil has paid over \$9 billion in cash to Alaska over the years and has invested a further \$12 billion.

Well, up here in Alaska, we know all too clearly what the oil crash means. We know that the petroleum industry is the pack horse for the Alaskan economy and government, supplying at the last count some 80% of the state's governmental revenues. We also know that Alaskans must not depend on petroleum forever. The oil bonanza, while it will last a long time, will surely wind down as the years pass just as Alaska's first big boom in the fur trade, passed and the second, the Gold Rush, passed as well.

We would be deceiving ourselves if we depended upon finding more Prudhoe Bays. Still, there may well be more Endicotts or Lisburnes — and I remind you that Endicott alone is one of the ten biggest fields in the United States.

Continued on page 5

\$1 Billion less revenue?

Tough decisions on state budget

By Mike Bradner

Cutting a state budget may be a lot harder than building a budget. And, that's just what Alaska policymakers will have to do in the next several years — "downbuild" their budget.

Certainly oil prices will rise again sometime in the future. But this will not solve Alaska's immediate state budget problems. Increasing oil prices will even then only adjust the tilt in the downslope of state revenues.

However, we are not facing anything that we did not expect to face "someday." Alaska's budget has always been tied to the rise and decline of the immense Prudhoe Bay oilfield's production curve. There has always been a day of reckoning out there — "sometime." Collapsing oil prices simply pulled Alaska's longer term budget decline forward in time.

In many respects Alaskans have known about this day of reckoning since Prudhoe Bay was discovered in 1969. Prudhoe was so big that its decline would likely be impossible to offset with new fields. Even in the beginning, no one was blind to this reality. It was this concern, in part, that fueled the creation of the Alaska Permanent Fund in 1976.

But the surge of oil income that came with pipeline flow, federal price deregulation, and the OPEC actions of the late 1970s was unexpectedly large. It was almost overwhelming, and the pressure to spend escalated along with these increased revenues.

Alaska did spend! Right, wrong, good, bad, it doesn't make any difference now. The issue now is curtailing spending. This means keeping the best of state programs healthy and intact, and discarding the rest. Cutting budgets may sound easy when it's not your job, but when it is, it's a difficult and thankless one.

Continued on page 4

Balance the budget with Permanent Fund

By IMRE NEMETH

If a plan devised recently by the state Senata passes, spending budgets for the next few years would balance with income.

But not without a little help from the Permanent Fund.

That assistance, in the form of \$125 million in leftover earnings (after dividend checks and inflation proofing were withdrawn), would fill the holes in this year's budget, said Senate finance committee co-chairman John Binkley (R-Bethel).

Binkley and fellow finance co-chairman Don Bennett (R-Fairbanks) recounted their budget charting adventures before the Anchorage Chamber of Commerce last week.

The proposal makes a state income tax unnecessary.

It also fits in with a resolution passed by the Senate opposing further personal taxation as well as increased business tax.

Bennett said state tax wouldn't help attract firms thinking of moving to Alaska.

"The thing we have to demonstrate to the rest of the world, is that Alaska does have a stable tax base," he said. "If we can get through this low ebb, and show the rest of the world that we don't need to reach and strangle the private sector with increased taxation (businesses may get the hint)."

On the other hand, Bennett said the idea is not to attract sweat shop operations or a "society that can't support a good lifestyle."

As for the budget proposal, Bennett likened work by senators to a construction crew picking and choosing from the stacks of lumber available. One pile of wood or another in the scenario may be untouchable or have prior commitments, but the "goal is what's important," he said.

The Senate plan drew a measure of approval from those at Commonwealth North, an organization which had proposed corraling a state budget to within \$1.4 billion annually by 1991. President Malcolm Roberts expressed approval and said the Senate was heading in the right direction.

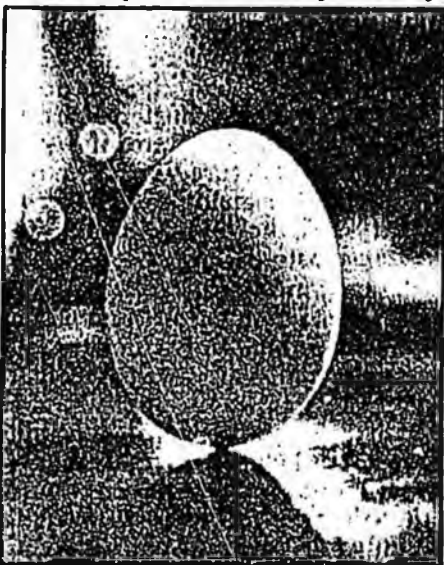
In the plan outlined by Binkley,

the budget for fiscal year 1987 is \$2.4 billion (with use of the \$426 million general fund budget reserve); for 1988, it's \$1.895 billion; for 1989, \$1.875 billion; and for 1990, \$1.818 billion.

Binkley said numbers used came directly from Gov. Steve Cowper's spending plan. The Senate's revenue projections were based on a conser-

vative \$15 per barrel of oil to 1990.

As for the \$213 million in FY 1987 capital budget spending, Binkley said he was confident legislation would be passed to free up what remains frozen. With federal matching highway funds, 1988 capital spending should approach nearly a half billion dollars, he added.



This egg was balanced on equinox and stayed there until the Sunday night earthquake ... and the state budget? EGG-BALANCING (AND PHOTO) BY TOM WATSON

Steady oil prices enhance state revenue projections

Revised computer-model-based state revenue forecasts were released by the Alaska Department of Revenue March 20.

Based on a yearly average price of oil at \$12.83 per barrel, the new forecast, if it holds through the fiscal year ending June 30, projects adequate revenue to erase a feared deficit this year.

An estimated 80 percent of Alaska general fund revenue derives from royalty and tax payments on produced oil.

The new quarterly numbers fore-

cast \$1.5 billion in revenue for FY 1988, and an additional \$471 million earnings in FY 1987. Revenue and petroleum forecasters assigned a 70 percent likelihood of the forecast holding true for this year at the \$13 price range for oil.

Added to a general fund budget reserve fund of some \$430 million and a portion of an estimated excess in Permanent Fund earnings of \$510 million, the state is expected to receive enough FY 87 cash to cover capital and operating expenses this year.

Dare To Compare

BUY OURS... OR THEIRS EITHER WAY, YOU GET

That goal is reducing government spending slowly over the next three years, Binkley said.

The proposal concentrates on keeping spending to a minimum and gradually bringing it into accord with earnings. Next year, the plan would use \$150 million of Permanent Fund leftover earnings. For fiscal year 1989, \$19 million more of the earnings would be used to caulk the cracks. Permanent Fund earnings use would be phased out for FY 1990.

According to state figures, the Permanent Fund will generate \$1,057,000,000 in FY 1987. Earnings after expenses were tabulated at \$430 million.

3 dimensionizer is under testing

The U.S. Forest Service has a new device that could speed productivity and lower costs by turning two-dimensional pictures into three-dimensional panoramas.

The device, an analytical stereoplotter, is currently being tested in Ketchikan, according to the Ketchikan Daily News.

It allows people to look at a photographed landscape and determine contour, slope, and geographic characteristics in the comfort of a warm, well-lit office. The Ketchikan District of the Forest Service has spent some time with one of four desk-sized analytical stereoplotters in existence. The other three reside in Norway.

Steve Reutebuch, a Forest Service researcher, likens it to a Viewmaster. "It's the same concept," he says.

The plotter uses two pictures of the same area taken from slightly different angles placed side by side on a flat table under an umbrella of mirrors and lenses. A person looking through the eye pieces sees what appears to be depth but in reality is illusion.

\$500

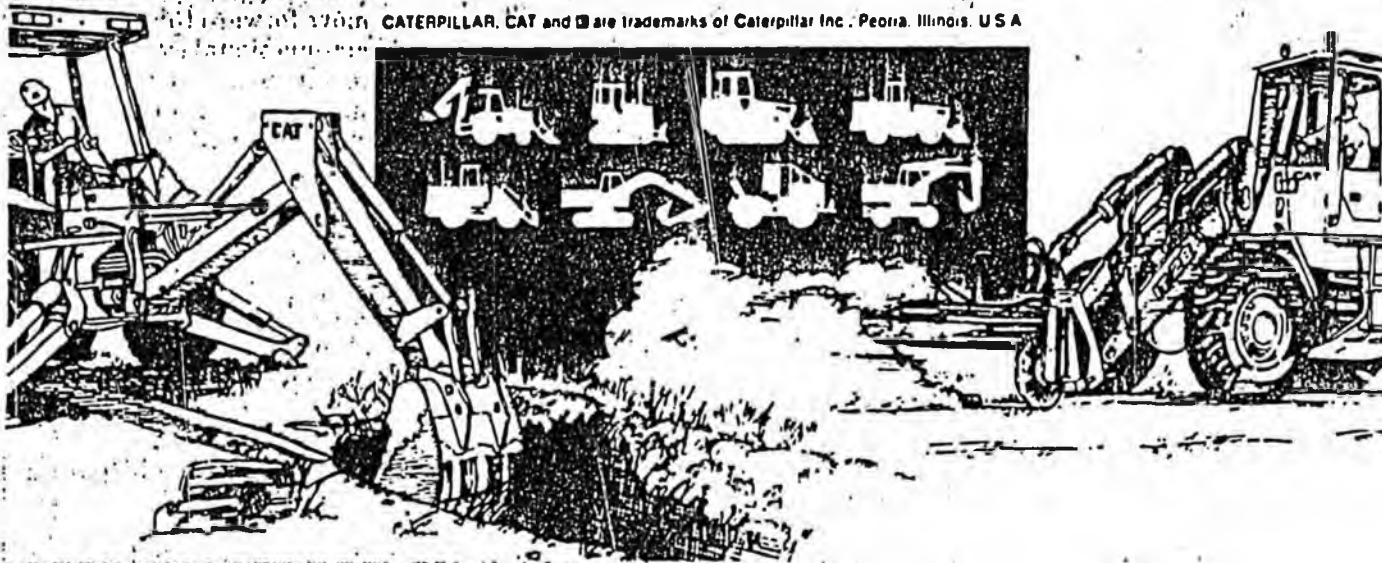
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**- FORECAST PERFORMANCE RECORD -
GENERAL FUND UNRESTRICTED REVENUES**

ALASKA DEPARTMENT OF REVENUE

JANUARY 1987

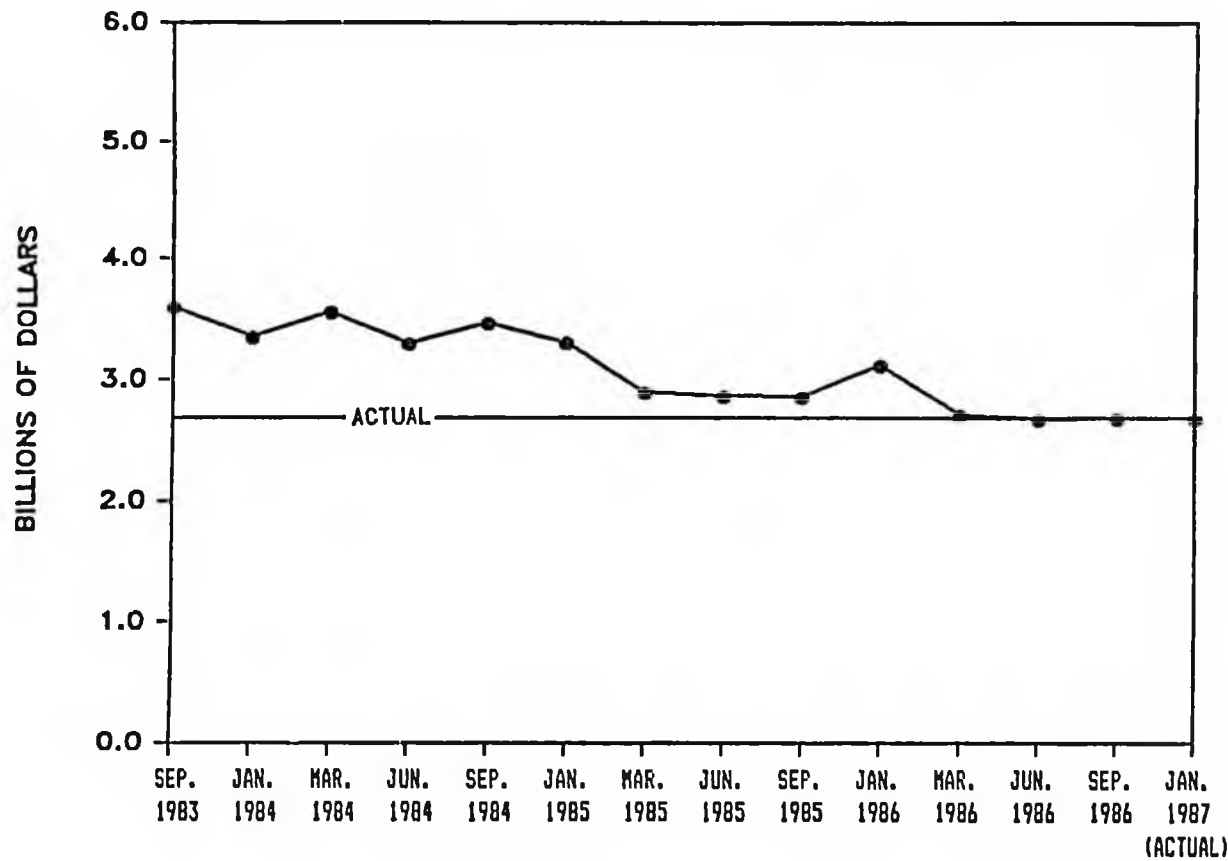
EXPLANATORY NOTES

THE DIVERGENCE BETWEEN ESTIMATED PROJECTIONS AND ACTUALS CAN SOMETIMES BE DUE TO CERTAIN EVENTS WHICH ARE BEYOND THE SCOPE OF A FORECASTER. THE FOLLOWING ITEMS ILLUSTRATE SOME OF THE MAJOR EVENTS WHICH SUBSEQUENTLY IMPACTED STATE REVENUES AT THE TIME THEY WERE INCORPORATED INTO THE FORECAST, BUT WHICH COULD NOT BE ANTICIPATED IN PRIOR FORECASTS.

- (1) SEPTEMBER 1978 ESTIMATES FIRST REFLECT THE INTRODUCTION OF THE CORPORATE-PETROLEUM INCOME TAX.
- (2) JULY 1979 ESTIMATES FIRST REFLECT THE FOLLOWING EVENTS:
 - (A) TAPS PIPELINE FLOW INCREASED DUE TO ADDING PUMPS AND DRAG REDUCING CHEMICALS.
 - (B) OPEC INCREASED CRUDE OIL PRICES DUE TO IRANIAN REVOLUTION.
 - (C) STATE OF ALASKA OFFICIALS NEGOTIATED SALE OF FRUDHOE BAY SADLEROCHIT ROYALTY VOLUME.
- (3) JANUARY 1980 ESTIMATES FIRST REFLECT BONUS SALE (\$342.2M) FROM BEAUFORT SEA LEASE SALE.
- (4) JANUARY 1980 ESTIMATES FIRST REFLECT GRADUAL DECONTROL OF OIL PRICES AND NO WINDFALL PROFITS TAX ON STATE ROYALTIES.
- (5) SEPTEMBER 1981 ESTIMATES FIRST REFLECT LAW CHANGE (CH. 116 SLA 1981) FOR CORPORATE-PETROLEUM INCOME TAX.
- (6) MARCH 1982 ESTIMATES FIRST REFLECT THE "30% CASE". ALL PRIOR FORECASTS HAD ADOPTED THE "MEAN CASE".
- (7) JANUARY 1986 ESTIMATES FIRST REFLECT SETTLEMENT OF THE TAPS CASE.

(If a one year revenue forecast is within plus or minus 10% of actual receipts, then from a statistical point of view that projection is said to be accurate. The Department of Revenue has been very fortunate, compared to international agencies engaged in the same forecasting business, in terms of its accuracy record during the last few years.)

HISTORICAL COMPARISON OF ALL PRIOR
REVENUE PROJECTIONS TO ACTUAL
- FY 1986 -



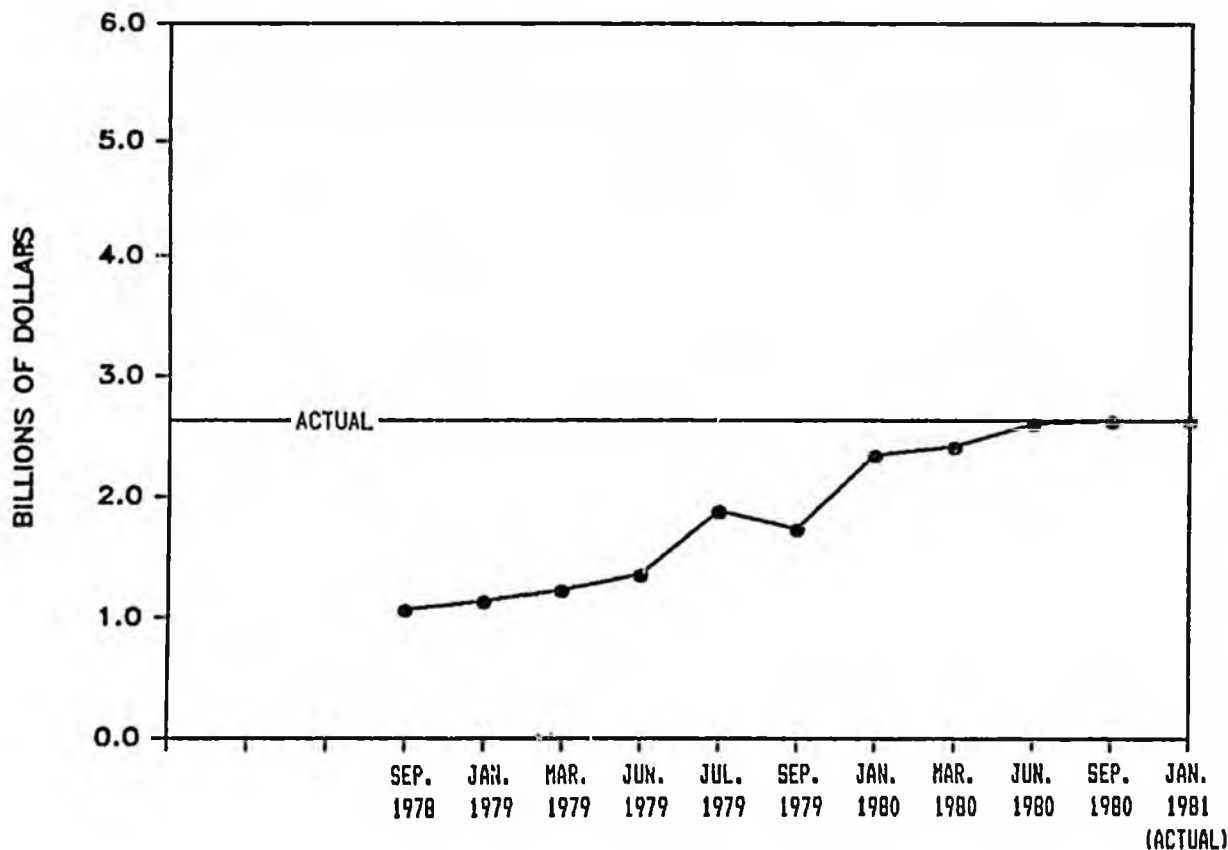
PROJECTIONS		
SEP.	1983	3.6076
JAN.	1984	3.3590
MAR.	1984	3.5657
JUN.	1984	3.3061
SEP.	1984	3.4737
JAN.	1985	3.3121
MAR.	1985	2.9000
JUN.	1985	2.8728
SEP.	1985	2.8612
JAN.	1986	3.1246
MAR.	1986	2.7211
JUN.	1986	2.6794
SEP.	1986	2.6819

ACTUAL		
JAN.	1987	2.6827

% OF ACTUAL	SEP. 1983	JAN. 1984	MAR. 1984	JUN. 1984	SEP. 1984	JAN. 1985	MAR. 1985	JUN. 1985	SEP. 1985	JAN. 1986	MAR. 1986	JUN. 1986	SEP. 1986	JAN. 1987
	134.5	125.2	132.9	123.2	129.5	123.5	108.1	107.1	106.7	116.5	101.4	99.9	100.0	100.0

• IT SHOULD BE NOTED THAT THE ABOVE AMOUNTS DO NOT INCLUDE ANY SPECIAL SETTLEMENTS. THE FY 06 BOTTOM LINE WOULD INCLUDE AN ADDITIONAL \$243.0 MILLION (ARCO SETTLEMENT) AND \$149.8 MILLION (TAPS REFUNDS/LEGAL EXPENSES).

HISTORICAL COMPARISON OF ALL PRIOR
REVENUE PROJECTIONS TO ACTUAL
- FY 1980 -

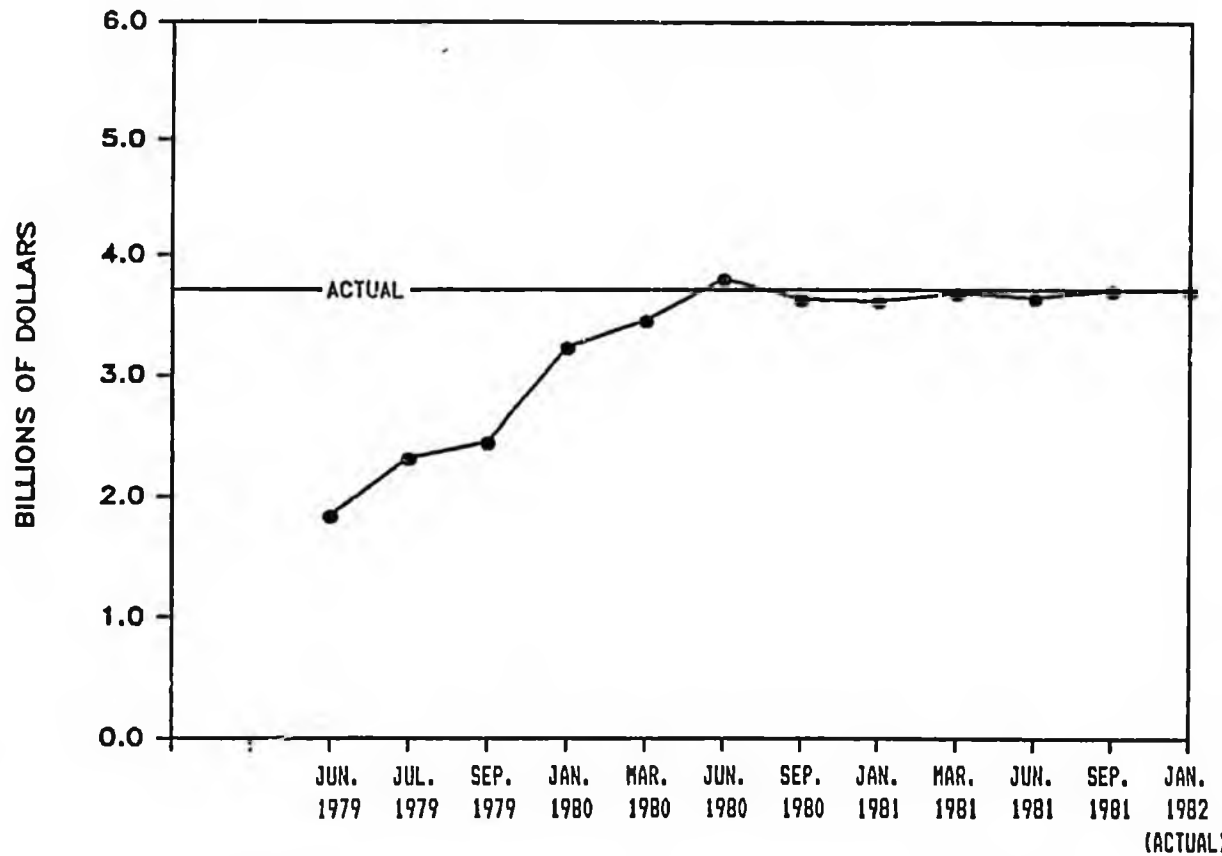


PROJECTIONS	
SEP. 1978	1.0649
JAN. 1979	1.1344
MAR. 1979	1.2346
JUN. 1979	1.3640
JUL. 1979	1.8882
SEP. 1979	1.7370
JAN. 1980	2.3466
MAR. 1980	2.4214
JUN. 1980	2.6083
SEP. 1980	2.6320

ACTUAL	
JAN. 1981	2.6326

% OF ACTUAL	40.5	43.1	46.9	51.8	71.7	66.0	89.1	92.0	99.1	100.0	100.0
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HISTORICAL COMPARISON OF ALL PRIOR
REVENUE PROJECTIONS TO ACTUAL
- FY 1981 -

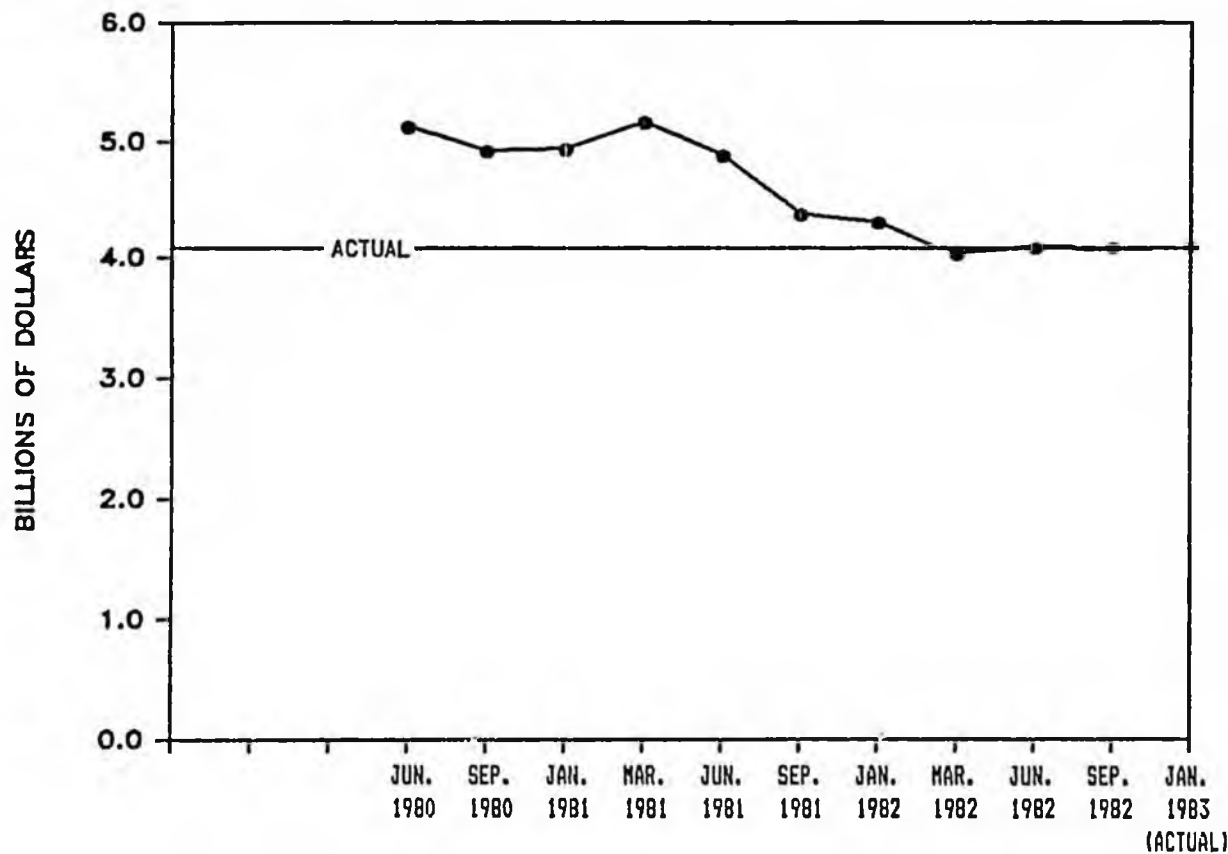


PROJECTIONS		
JUN.	1979	1.8462
JUL.	1979	2.3214
SEP.	1979	2.4528
JAN.	1980	3.2430
MAR.	1980	3.4609
JUN.	1980	3.8088
SEP.	1980	3.6415
JAN.	1981	3.6310
MAR.	1981	3.6978
JUN.	1981	3.6600
SEP.	1981	3.7168

ACTUAL		
JAN.	1982	3.7182

% OF ACTUAL	JUN. 1979	JUL. 1979	SEP. 1979	JAN. 1980	MAR. 1980	JUN. 1980	SEP. 1980	JAN. 1981	MAR. 1981	JUN. 1981	SEP. 1981	JAN. 1982
	49.7	62.4	66.0	87.2	93.1	102.4	97.9	97.7	99.5	98.4	100.0	100.0

HISTORICAL COMPARISON OF ALL PRIOR
REVENUE PROJECTIONS TO ACTUAL
- FY 1982 -



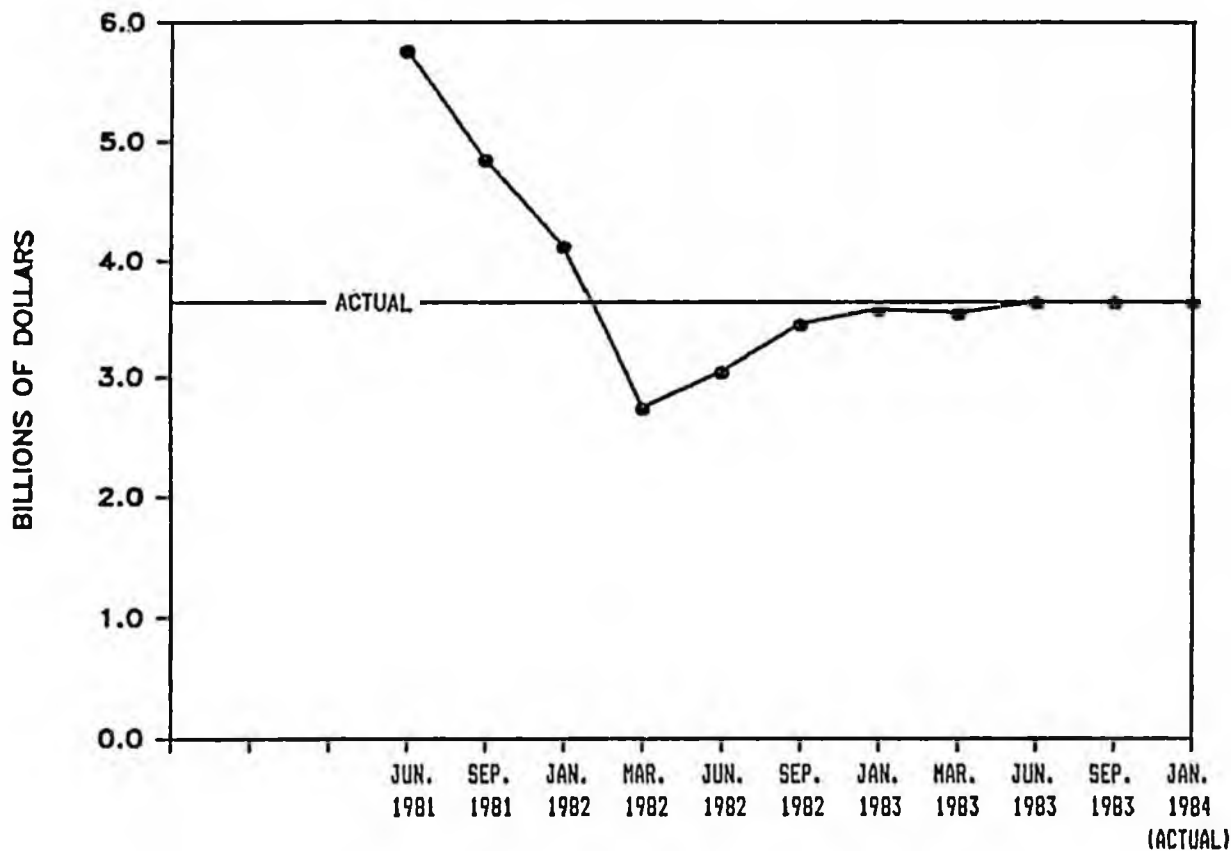
PROJECTIONS	
JUN. 1980	5.1398
SEP. 1980	4.9364
JAN. 1981	4.9551
MAR. 1981	5.1757
JUN. 1981	4.8953
SEP. 1981	4.4017
JAN. 1982	4.3358
MAR. 1982	4.0444
JUN. 1982	4.0989
SEP. 1982	4.1051

ACTUAL	
JAN. 1983	4.1084

% OF
ACTUAL

125.1	120.2	120.6	126.0	119.2	107.1	105.5	98.4	99.8	99.9	100.0
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HISTORICAL COMPARISON OF ALL PRIOR
REVENUE PROJECTIONS TO ACTUAL
- FY 1983 -



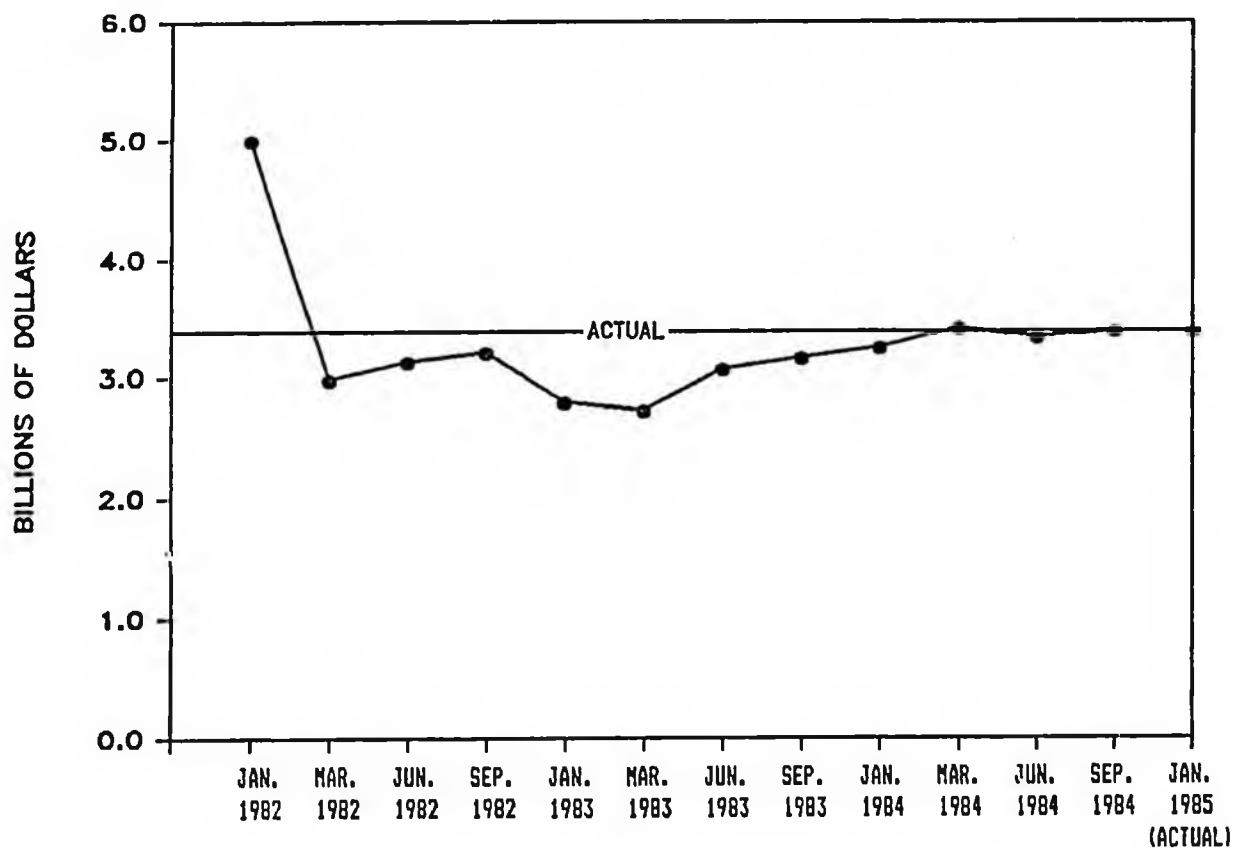
PROJECTIONS	
JUN. 1981	5.7665
SEP. 1981	4.8586
JAN. 1982	4.1337
MAR. 1982	2.7477
JUN. 1982	3.0501
SEP. 1982	3.4435
JAN. 1983	3.5677
MAR. 1983	3.5368
JUN. 1983	3.6305
SEP. 1983	3.6283

ACTUAL	
JAN. 1984	3.6310

% OF
ACTUAL

158.8	133.8	113.8	75.7	84.0	94.8	98.3	97.4	100.0	99.9	100.0
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HISTORICAL COMPARISON OF ALL PRIOR
REVENUE PROJECTIONS TO ACTUAL
- FY 1984 -



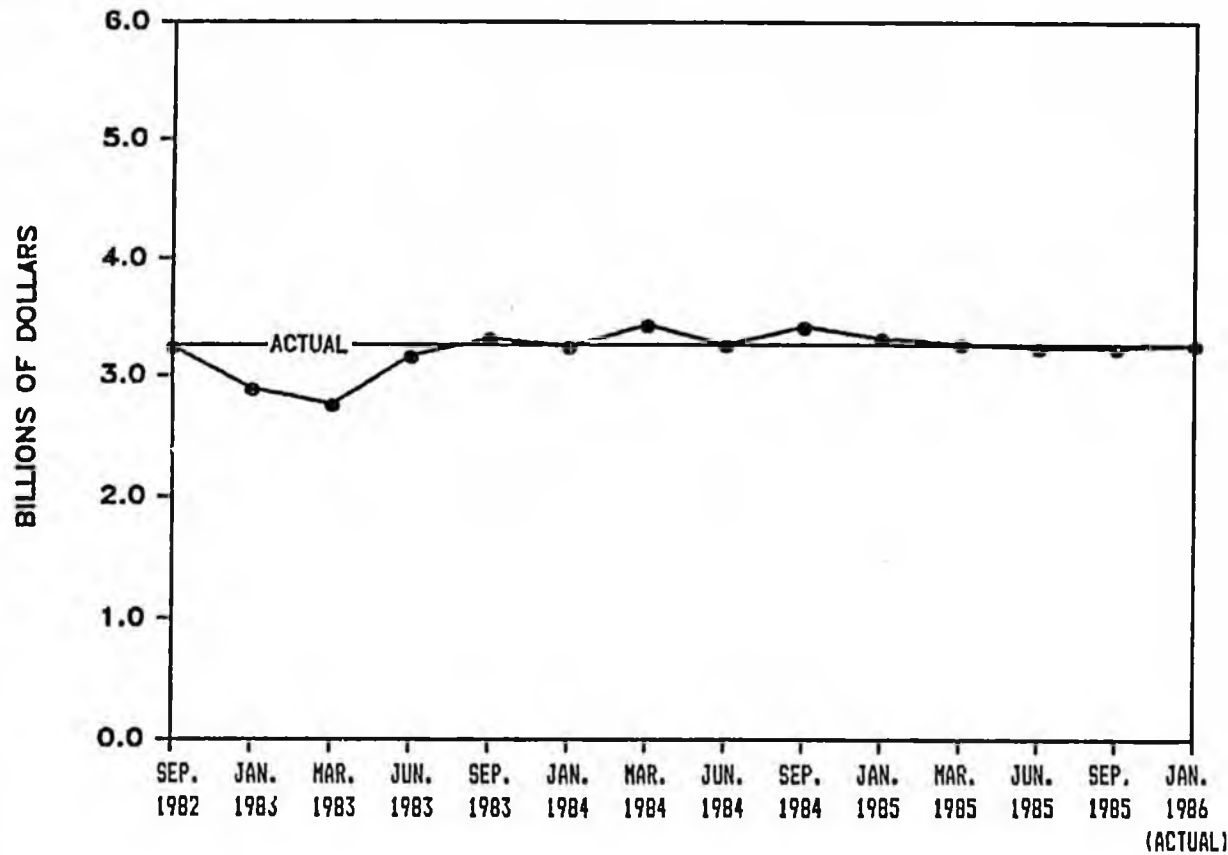
PROJECTIONS		
JAN.	1982	5.0053
MAR.	1982	2.9906
JUN.	1982	3.1350
SEP.	1982	3.2117
JAN.	1983	2.8048
MAR.	1983	2.7287
JUN.	1983	3.0712
SEP.	1983	3.1667
JAN.	1984	3.2474
MAR.	1984	3.4184
JUN.	1984	3.3354
SEP.	1984	3.3893

ACTUAL		
JAN.	1985	3.3901

% OF
ACTUAL

147.6	88.2	92.5	94.7	82.7	80.5	90.6	93.4	95.8	100.8	98.4	100.0	100.0
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HISTORICAL COMPARISON OF ALL PRIOR
REVENUE PROJECTIONS TO ACTUAL
- FY 1985 -



PROJECTIONS	
SEP. 1982	3.2431
JAN. 1983	2.8922
MAR. 1983	2.7606
JUN. 1983	3.1659
SEP. 1983	3.3127
JAN. 1984	3.2382
MAR. 1984	3.4182
JUN. 1984	3.2570
SEP. 1984	3.4033
JAN. 1985	3.3147
MAR. 1985	3.2633
JUN. 1985	3.2376
SEP. 1985	3.2343

ACTUAL	
JAN. 1986	3.2600

% OF ACTUAL	99.5	88.7	84.7	97.1	101.6	99.3	104.9	99.9	104.4	101.7	100.1	99.3	99.2	100.0
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