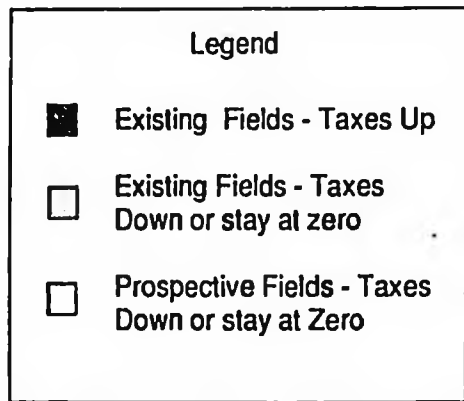
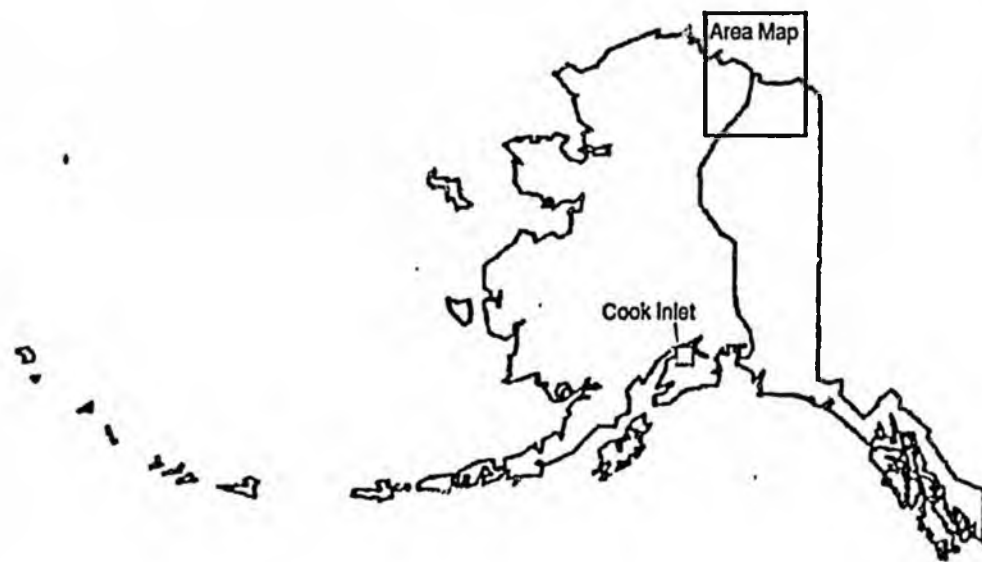
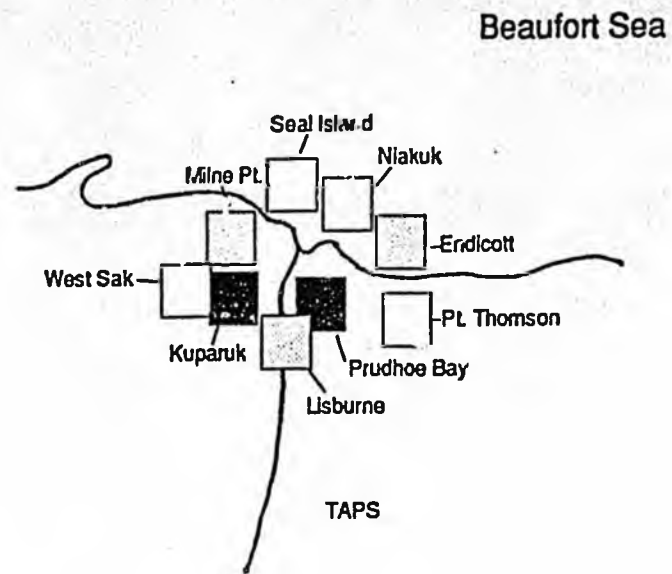


LEGISLATIVE FINANCE-HOUSE / SENATE FINANCE COMM. FILES 8879

HB 118 cont. - HB 120 463 54

State of Alaska
 Approximate Field Locations
 (Current and Prospective Fields)



Date: April 20, 1989

INCREMENTAL SEVERANCE TAX EXAMPLE
 KUPARUK EXAMPLE
 THE ADDITION OF 1 WELL PRODUCING AT THE AVERAGE RATE
 ACTUAL DEC'88 FIGURES

4-May-89

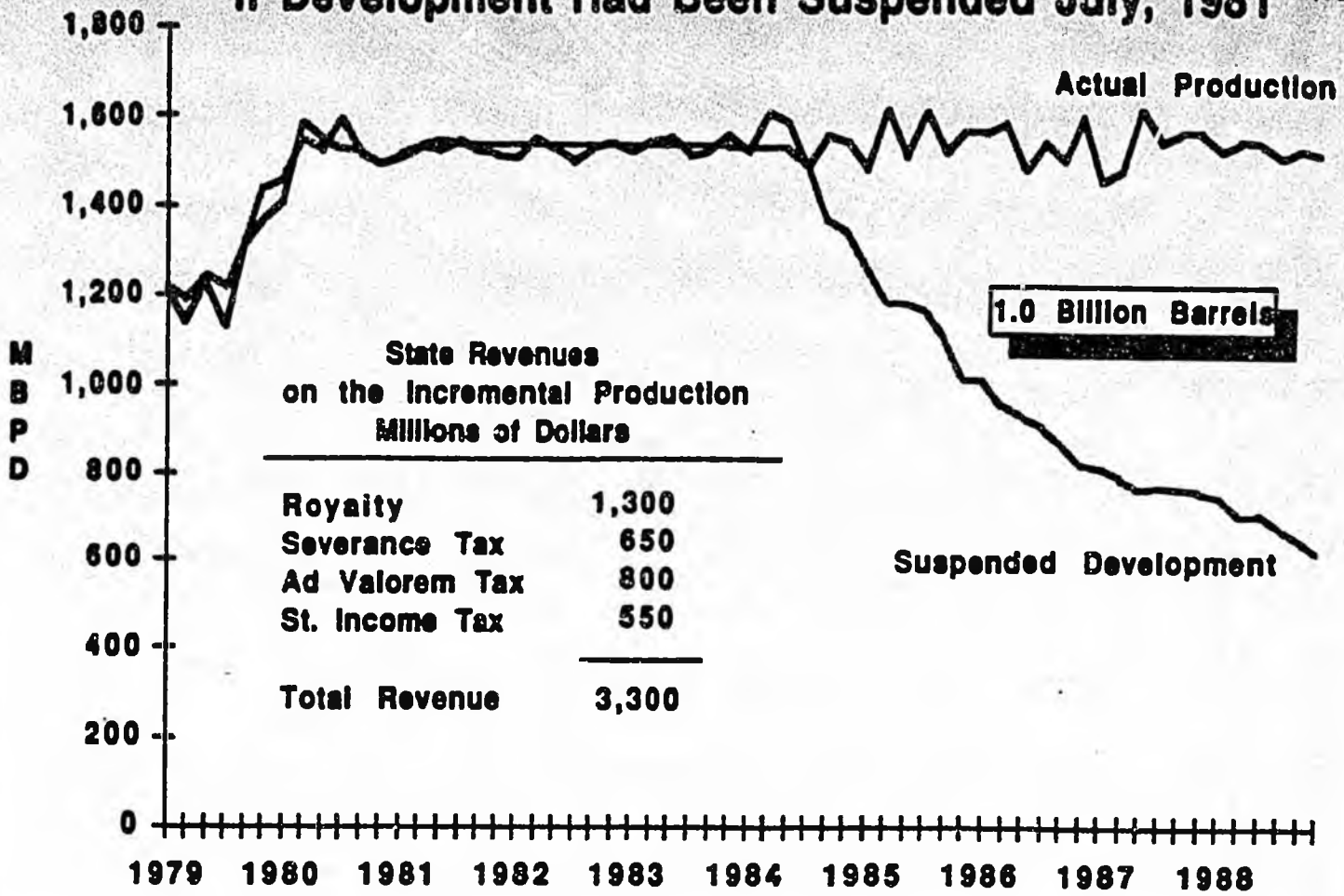
| | CURRENT LAW | | HB-118 | | | |
|----------------------------------|-------------|----------------|----------|----------------|--------------------------------|----------|
| | BASE | +1 WELL | BASE | +1 WELL | | |
| PRODUCTION MBPD | 307.2 | 308.1 | 307.2 | 308.1 | CURRENT ELF | 0.564894 |
| TOTAL PRODUCTION MBL/MO | 9,522.37 | 9,552.27 | 9,522.37 | 9,552.27 | X STATUTORY RATE | 27.90% |
| WELLS | 318 | 319 | 318 | 319 | = EFFECTIVE RATE | 15.7605% |
| BBL/DAY/WL | 965 | 965 | 965 | 965 | X INCREMENTAL MBBLs | 26.17 |
| ELF | 0.564894 | 0.564894 | 0.883291 | 0.883817 | X W/H PRICE | 5.90 |
| EFFECTIVE TAX RATE | 8.4734% | 8.4734% | 13.2494% | 13.2573% | = TOTAL TAX \$M | \$24.33 |
| TOTAL FIELD TAX M\$ | 4,165.46 | 4,178.55 | 6,513.28 | 6,537.63 | + INCREMENTAL MBBLs | 26.17 |
| TOTAL FIELD TAX \$/BBL | 0.500 | 0.500 | 0.782 | 0.782 | = INCREMENTAL TAX \$/BBLBBL | \$0.930 |
| <u>INCREASE IN TAX \$M</u> | | <u>13.08</u> | | <u>24.35</u> | | |
| <u>INCREASE IN MBBLs</u> | | <u>26.17</u> | | <u>26.17</u> | | |
| INCREMENTAL SEVERANCE TAX \$/BBL | | \$0.500 | | \$0.930 | | |

SFD 5/11/89
 Hugh Gray
 ARCO

Prudhoe Bay Production

SFC 5/11/89
Hugh Matley
ARCO

If Development Had Been Suspended July, 1981



Prudhoe Bay 1981-1988 Industry Investment

| | \$ MM |
|------------------------------|----------------|
| Additional Wells | 2,550 |
| Producing Wells 450 | |
| Injection Wells 123 | |
| Other Wells 23 | |
| Waterflood | 2,099 |
| Production Facilities | 1,475 |
| Gas Handling | 470 |
| Enhanced Oil Recovery | 620 |
| Other | 820 |
| Total | \$8,040 |

SFC 5/4/89
Hugh Motley
ARCO

Testimony, ELF

Juneau, AK

Good afternoon. My name is ~~Ben Olson~~ I am Senior Vice President of Operations of ~~ARCO~~ Alaska, Inc. I appreciate the opportunity to offer testimony today concerning yet another proposed modification to the Economic Limit Factor of the Alaska Oil and Gas Properties Production Tax.

I feel certain that it will come as no surprise to you that ARCO Alaska opposes any changes to the Economic Limit Factor (ELF) which would have the effect of increasing the oil and gas industry's tax burden. We certainly identify with your problems concerning the potential budget deficit generated by the drop in crude oil prices. We have had to make a number of difficult decisions because of lower crude prices, including organizational restructuring and substantial reductions in costs, because our revenues, like yours, were and are, tied to the price of crude oil.

Our economics for making investment decisions contain two principal components. Estimated prices and estimated costs. We know we can't control prices, and we have learned we don't have the ability to predict them very well either. That leaves only cost. Other than the actual costs of transporting the crude oil, the largest single cost we have in Alaska is not the result of the remoteness of the fields or even the cold. The largest single item of cost we face in Alaska is taxes. Higher costs or lower prices result in exactly the same thing -- more oil left in the ground -- more oil that could be recovered becomes

uneconomic to recover. That oil which is left in the ground because it is uneconomic will not return any royalties to the State, and it's from these royalties that the contributions are made to the Permanent Fund. It will not result in the payment of any production tax nor generate any income tax. Oil left in the ground will not create jobs. It will not utilize the facilities already available for its production, therefore, those facilities will generate less ad valorem tax revenues. The ELF helps to reduce the regressive effect of a gross production tax and prevent the premature cessation of oil production. Short-term fixes resulting in higher costs today have the result of removing jobs today and revenue from the future.

High crude prices have meant more tax and more royalty for the state. Those high prices have also equated to more crude oil reserves and more jobs to produce those reserves. However, reserves are not the equivalent of the total amount of crude oil in a reservoir. There is also an economic consideration. Reserves are instead only equal to the amount of crude oil that can be economically produced. Added crude reserves come when prices have been high enough to provide the economic incentive to pay for the technology specific to each reservoir and to pay for workers and equipment to implement that technology in each reservoir. Low prices mean reduced crude reserves; high costs likewise mean reduced crude reserves.

I want to show you this afternoon some information about the Kuparuk River Unit which should give you cause to move carefully in considering changes to the ELF. It is my understanding that the administration has prepared the 1990 budget based on a \$14 Gulf Coast North Slope crude price. I would like to call your attention to Exhibit I, which indicates the impact on the Kuparuk River Unit

of a \$14.01 crude oil price. Kuparuk is the second largest oil field in North America with a current daily production rate of around 300,000 barrels. Our studies indicate nearly a billion barrels of oil can be produced with the existing wells and facilities. Half as much again is recoverable with additional capital spending. One might suppose that this field is an extremely profitable investment. But contrary to what you read in the papers or see on television, at \$14 a barrel, Kuparuk is anything but profitable. As the exhibit so clearly shows, the State already, with the current ELF, receives more than 100% of the available net revenue on each incremental barrel of crude.

Even at its current peak production rate, only the State of Alaska, not the Kuparuk investors, receives a profit. These numbers paint a rather bleak picture at \$14 a barrel. How can increasing the production tax burden by more than 100% over the next ten years, as HB-118 would do, be justified when you look at the economics? The State would certainly appear to be receiving a great deal more than a fair share of the available revenue.

The producer's return on each incremental barrel of oil will determine whether additional investments are made to produce more oil. Kuparuk has no natural gas cap to force the oil from the ground. From the day the first barrel was lifted, pressure has been decreasing, and production on a per-well basis would decline without extensive additional investment in enhanced recovery projects. These new investments are very costly and can only provide for a slower decline in production than would otherwise occur. The loss per barrel that you see is the amount that must support the economic decision of whether we continue to create additional crude oil reserves in the Kuparuk River Unit. Do we operate a drilling rig to do well workovers to produce more barrels when we

lose \$.14 on each barrel? Does it look better to double the production tax and increase the loss to \$.32? There is not a multiplier or an exponent which will convert this loss to an economic incentive to spend more money, to generate more barrels at a loss. What is at issue is the one half billion barrels in the ground that require additional wells and investment to produce.

We are currently looking at a long-range plan for Kuparuk involving what we hope to be a continuing development package. As attached Exhibit II shows, there are many development projects left to be done at Kuparuk, and they would require additional capital of almost \$1.6 billion and would create additional Alaskan jobs amounting to nearly 4000 man years of construction. Many of those projects will stay on the drawing board unless we have higher crude oil prices or lower costs -- or both. We can't do it without your help. The industry can't live with low prices and higher taxes. Among these projects, for example, is a drill site on the periphery of the Kuparuk field. Our plans call for a project consisting of 12 wells to be drilled on the site, providing an additional 12 million barrels of new oil reserves. Under the State's price forecasts and the present tax laws, this project is only marginally economic. If HB-118 is enacted, this project won't happen. Twelve million barrels of oil and effectively \$35 million in State revenue will be left in the ground. Of the \$35 million, \$7 million would go into the Permanent Fund.

The importance of tax burden in a project evaluation cannot be overstated. The ELF plays a pivotal role in mitigating the regressive nature of the Alaska production tax by taking into account the economic realities of oil field operations. Those realities are that it doesn't matter how large or small the field is, what does matter is that each new project must stand on its own by showing

a positive net present worth. Although prices are still very low, the current ELF provides a small but measurable incentive to help reduce some of the costs associated with producing more oil.

When I initially came to Alaska in 1968, the severance tax rate was 1%. A step production tax was introduced in 1974 to help mitigate the production tax burden on wells whose production was at certain low levels. This step methodology was modified in 1977 with the introduction of the ELF, and the maximum statutory rate was increased to 12.25%. Again in 1981 the statutory rate was increased to 15%, the highest production or severance tax rate in the nation. In addition, the application of the ELF was limited during the first ten years of production. As the curves in Exhibit III indicate for the Kuparuk Field, the burden on the production tax has not only changed by calculation method, but it has continually increased. Kuparuk would clearly be paying less production tax under prior laws than it would be paying under HB-118. As the top line of the graph plainly shows, HB-118 does not provide a slowly declining tax rate, or even a step decline, as production drops off. HB-118 is more on the nature of a cliff, where the production of the wells in the field must be so low before any reduction in tax is realized that under North Slope economic realities, the wells could not be operated at these production levels. This can be restated by saying that the Kuparuk Field will shut down before the ELF in HB-118 mitigates anything but an insignificant amount of the production tax.

An increase in taxes also has the direct effect of reducing the amount of capital available for exploration and production in the state. The modification of the ELF embodied in HB-118 is an increase in taxes. This bill provides only a short term revenue boost to cover excessive current government spending. It will not

solve the fiscal difficulties the state now faces, and if it is enacted, it will be at the expense of long-term stability and growth. Too much of the oil industry's resources are being drained out of resource development and into government. It is time for the Legislature to set the pace for Alaska by putting into place policies that attract new investment and provide incentives to increase current investments. The current ELF formula does help to provide incentives to increase production, while HB-118 severely limits those incentives and effectively reinstates the regressive inequities of the gross production tax.

In closing, I would like to state that ARCO Alaska believes that HB-118 will not be advantageous to the economy or the citizens of Alaska. Its enactment would place an onerous additional tax burden on the oil industry that would remove to other states or countries funds that could otherwise be spent on additional investment in Alaska. HB-118 would create a disincentive to future Alaska exploration and development and will not maximize the recovery of Alaska's oil resources. ARCO Alaska strongly opposes House Bill 118.

**ANS Net Revenue
Kuparuk River Field**

| | <u>Current Law</u> \$/bbl | <u>HB-118</u> \$/bbl |
|---|------------------------------|-------------------------|
| Assumed Crude Price | 14.01 | 14.01 |
| Tanker Freight | 2.70 | 2.70 |
| Quality Differential | 0.40 | 0.40 |
| TAPS Tariff | 3.11 | 3.11 |
| Kuparuk Pipeline | 0.70 | 0.70 |
| Pipeline Loss - | 0.10 | 0.10 |
| Wellhead Price | <u>7.00</u> | <u>7.00</u> |
| | | |
| Production Cost and Capital Recovery | <u>5.43</u> | <u>5.43</u> |
| Total Net Revenue | 1.58 | 1.58 |
| | | |
| State Royalty | 0.82 | 0.82 |
| Severance Tax | 0.54 | 0.82 |
| Property Tax | 0.44 | 0.44 |
| State Income Tax | <u>-0.01</u> | <u>-0.02</u> |
| Total State | 1.79 | 2.06 |
| | | |
| Federal Income Tax | <u>-0.07</u> | <u>-0.17</u> |
| | | |
| Producer Profit | -0.14 | -0.32 |

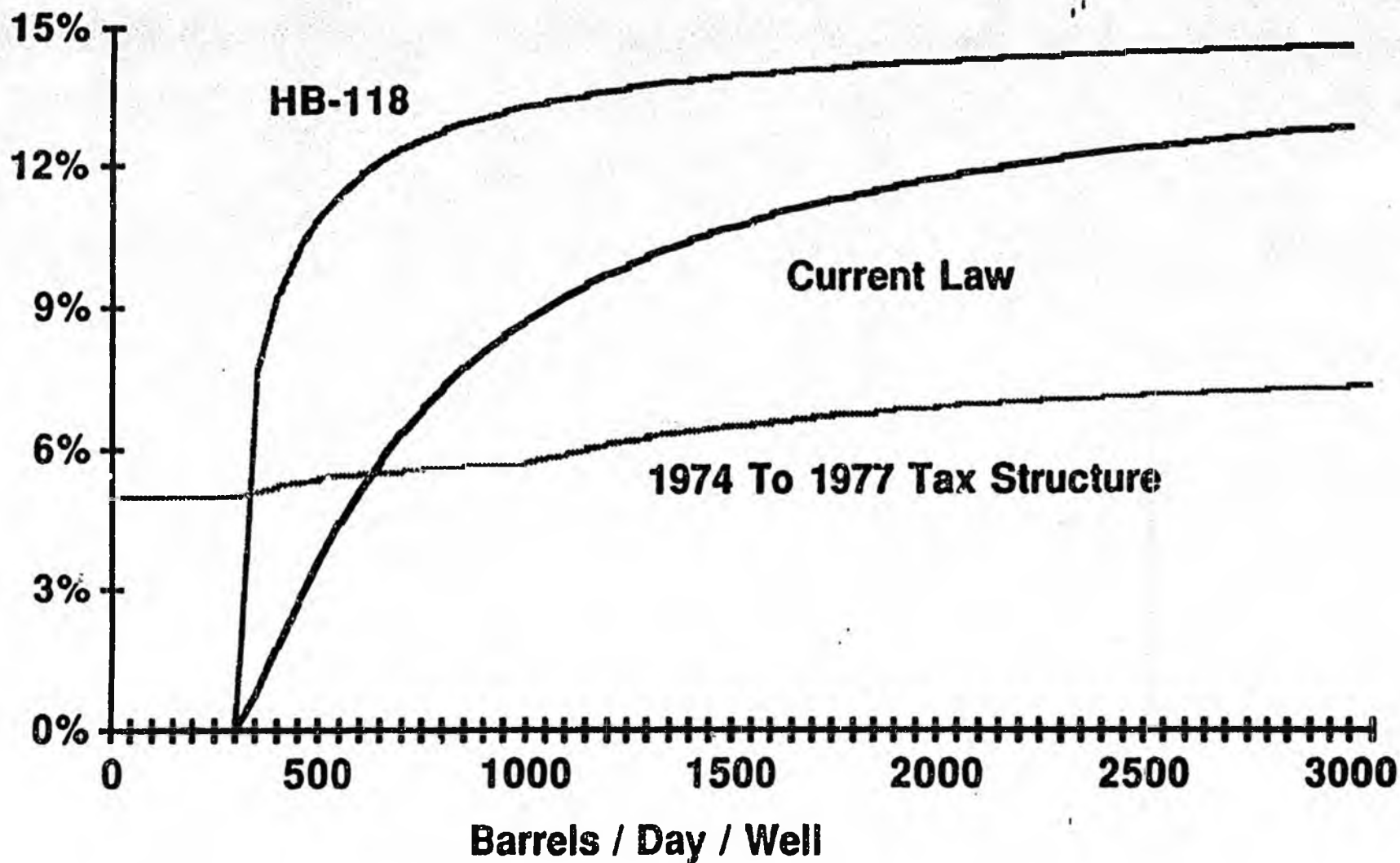
Source:
Barclays de Zoete Wedd, September 1988
Alaska Department of Revenue October 1988
State of Alaska Royalty and Severance Methodology

PROJECT PORTFOLIO

KUPARUK

| <u>Project</u> | <u>Description</u> | <u>Timing</u> |
|------------------------------|--|---------------|
| <u>Drilling</u> | | |
| • Peripheral Drillsite 2K | Selective peripheral DS development on 160 acre spacing. Total of 98 additional wells | 1989 SU |
| • Peripheral Drillsite 3R | | 1989 SU |
| • Peripheral Drillsite 2M | | 1990 SU |
| • Peripheral Drillsite 2L | | 1990 SU |
| • Peripheral Drillsite 3G | | 1990 SU |
| • Rem. Peripheral Dev. | 14 drillsite expansions, 6 new drillsites, 180 additional wells 1 rig 1989, 2 rigs thereafter | 1990===> |
| <u>Waterflood/EOR</u> | | |
| • LIP-3 Expansion | Additional water handling capacity @ CPF-3 | 1990 SL |
| • Infill Drill @ DS 1Y/2Z | 22 new wells. Improve EOR efficiency | 1989===> |
| • Infill Drill @ DS 1A | 16 wells. Seed for Phase I Infill | 1989 SU |
| • Phase I Infill Drilling | 160 + 80 acre accelerate reserves | 1991 SU |
| • Fullfield EOR | 19 drillsites staged over 4 years | 1991 SU |

Effective Severance Tax Rates For Kuparuk



SFC 5/4/89



BP EXPLORATION

BP Exploration (Alaska) Inc.
900 East Benson Boulevard
P.O. Box 196612
Anchorage, Alaska 99519-6612
(907) 561-5111

TESTIMONY
BY
BP EXPLORATION (ALASKA) INC.
TO THE
~~SENATE FINANCE COMMITTEE~~
REGARDING
~~SCS CSFB 118 (THE "ELF" BILL)~~
~~May 4, 1989~~

Good Morning. My name is ~~Thomas J. Williams~~, and I am here to testify on behalf of BP Exploration (Alaska) Inc. about the changes to the Economic Limit Factor (ELF) under House Bill 118.

Before discussing the proposed new formula for the ELF, I would first like to address briefly the so-called "Duncan amendment" added to the bill, which would dedicate part of the additional revenue from the new ELF formula to the oil and hazardous substance release fund -- let me call it the "spill fund" for short. This change is unnecessary in light of the special tax of five cents a barrel that the Senate has already passed. It is also unnecessary because none of the money from changing the ELF could go into the spill fund without annual appropriations, and you do not need a special statute on the books in order to make such an appropriation. Therefore, we recommend deleting this amendment from the bill.

We also recommend deleting the retroactivity section from the Resources Committee Substitute, because it is unfair.

Let me now turn to the proposed change in the ELF formula itself. We oppose the new formula under consideration, for two different kinds of reasons. One kind relates to the inappropriateness of any kind of tinkering with the ELF to raise taxes now, when fields are entering their decline. The other relates to the special foolishness that this particular formula embodies.

The present ELF formula is working perfectly well and as intended. Without an ELF, the production tax is regressive. That is, it would tax profitable and unprofitable fields at the same rate. The ELF makes the tax progressive by setting the rate higher for more profitable fields, lower for less profitable ones. Every field during its life makes a transition from a profitable phase to an increasingly less profitable one, until at last the cash costs equal revenues and production ceases.

Alaska has the highest nominal production tax rate in the country -- over three times higher than Texas, for example. The justification for such a high rate was and remains the fact that the ELF will scale the rate down as profitability drops. This means production is not left in the ground because of the tax.

Our figures show that the profitability of Prudhoe Bay has dropped by more than 65% from 1981 to 1988, because of higher production costs and lower prices. Analysis advanced by the Administration confirms the fact of a major decrease in profitability since 1981. Yet, with HB 118's ELF formula, this drop in

profitability would be matched by a minuscule drop in rate from 15% to 14.9 percent. If all goes as the Administration predicts, the tax rate will drop again for Prudhoe Bay in 1994 -- from 14.9% to 14.8 percent. With such an ELF field size becomes the dominant factor in determining the tax rate, and the concept of profitability is simply thrown out the window. This is not how ELF is supposed to work.

Contrary to claims that the present ELF is unfair to Alaska, the State's current structure of royalty and taxes is working extremely well. In 1981, when I was Commissioner of Revenue, the State was receiving 30% of the production revenue "pie." Compared to 1981, the State's share has soared over the last three years to 72% in 1986, 39% in 1987 and 49% last year, according to BP's data. This time of soaring for the State coincides with a period of significantly lower profitability for oil producers in Alaska, also beginning in 1986. According to its audited financial statements, BP's return on its North Slope investment (10%) during the last three years has underperformed that achieved by the Alaska Permanent Fund (12%), which took far less risk than BP was taking. Surely such a split of the "pie" over the past three years cannot be called unfair to the State.

The present ELF has also worked perfectly fine for small marginal fields. This, again, is contrary to what advocates of changing the ELF have said. Milne Point is often cited by them as an example of the ELF's failure to work. But the fact is, the present ELF had reduced the tax rate to zero during the last half

of the time that field was in production. No ELF -- not the present one, not the one in HB 118 -- can do more than that to help a field. Milne Point's problems had nothing to do with the production tax.

Moreover, there are no new, small North Slope fields that would be developed any sooner if the ELF is changed. Niakuk is waiting for a causeway permit. Milne Point is already coming back into production, without any change in ELF. Point McIntyre is still being evaluated to see if it is commercial. Seal Island awaits further improvement in the mid- to long-range price outlook, as well as an economically feasible permit for linking it to shore.

Supporters of HB 118 are emphasizing small fields to the detriment of large ones. It seems as if, for them, big is bad and smaller is better. This is backwards. Bigger is better. The importance of large fields for Alaska, both in the past and for the future, can scarcely be overstated. Without Prudhoe Bay, there would have been no TAPS, no Kuparuk, no Endicott, no Lisburne, no Milne Point. Without a large commercial field in ANWR, there will be no pipeline from ANWR to TAPS. Big fields are the keys that open the doors to the development of any smaller satellite fields that might be in their vicinity.

But big fields are more than that. They are themselves some of the very best opportunities we have for adding new reserves and extending production. Adding just 1% to the recoverable reserves of Prudhoe Bay is more than all the production that has

ever come out of Cook Inlet. In Kuparuk, too, there are projects that together could add half a billion barrels to its recoverable reserves -- nearly nine Niakuks, more than four Milne Points.

Despite the opportunities that big fields represent and the spin-offs that they can generate, House Bill 118 harks back to a pygmy world where "small is better." Not only are big fields bad, not only do they need to be inflicted with onerous taxes for their largeness, regardless of their profitability -- but HB 118 actually creates a new tax incentive to make large fields small, while creating a disincentive against making small fields any larger.

In testimony to the previous committees considering this bill, we have demonstrated mathematically that HB 118 will increase tax rates for larger fields even though they can have exactly the same amount of profit as a smaller one. If the field is large enough, the tax actually becomes larger than the entire amount of the profit. We have also shown that fields with the same percentage of production going to cover the cash costs of getting that production out of the ground can be taxed at radically different rates, depending on how large they are. When Prudhoe Bay is down to 500 B/D per well as Lisburne is now, the rate for Prudhoe (11.95%) will be nearly a thousand times greater than the rate for Lisburne (0.016%), simply because Prudhoe will still be larger than Lisburne is now. The proof for both of these effects is attached to my written testimony.

Similarly, with field size in the exponent, adding new production to a field will increase the tax rate on all of the existing production from that field. If a new project is added to slow the decline, the extra production from that project will bear the burden not only of a higher rate, but it will also have to support the additional burden of an increased rate on all of the other production from the field. For a project is to go forward despite these disincentives of HB 118, it would have to be sufficiently robust, economically, to overcome this handicap and still allow me to get my money back out of the project with a reasonable profit. Otherwise, I'll put the money in a bank or do something else with it, instead of putting it into this Alaskan project.

I think creating this type of reward for smallness is terrible public policy and very foolish. This is not Lilliput, where Gulliver was a giant and where smallness may have been worth pursuing for its own sake. This is Alaska, and here there is nothing to dictate that big is bad and small is beautiful.

Putting field size into the ELF formula exponent, as HB 118 does, divorces ELF from the central idea of the percentage of production that is going to cover cash lifting costs. Field size becomes paramount, and with it comes the pernicious incentive, demonstrated in our example, to keep fields small and to let them get smaller.

Is this to be the key for Alaska's future, to discourage fields from being fully and quickly developed? As an Alaskan, I

for one hope not. When it comes to oil fields, big is not bad, it's better. That's what we should be fostering with tax incentives -- growth and sound development. Smaller is not better, and we should not create tax incentives to foster smallness.

Thank you for this opportunity to speak.

Prudhoe Bay

Average Production Rate per Well = 500 B/D
Number of Wells (projected) = 745
Fieldwide Production = 372,500 B/D

$$\begin{aligned} \text{"A"} &= (1 - [\text{PEL}/\text{TP}]) \\ &= (1 - [(300*745)/372,500]) \\ &= 0.400000 \end{aligned}$$

$$\begin{aligned} \text{"B"} &= [150,000/(\text{TP}/\text{Days})] \\ &= [150,000/372,500] \\ &= 0.402685 \end{aligned}$$

$$\begin{aligned} \text{"C"} &= [(460*WD)/\text{PEL}] \\ &= [(460*WD)/(300*WD)] \\ &= [460/300] \\ &= 1.533333 \end{aligned}$$

$$\begin{aligned} \text{Tax Rate} &= \text{ELF} * 15\% \\ &= [A^{(B^C)}] * 15\% \\ &= [0.400000^{(0.402685^{1.533333})}] * 15\% \\ &= [0.400000^{0.247902}] * 15\% \\ &= [0.796801] * 15\% \\ &= 11.95202\% \end{aligned}$$

Lisburne

Average Production Rate per Well = 500 B/D
Number of Wells (projected) = 81
Fieldwide Production = 40,500 B/D

$$\begin{aligned} \text{"A"} &= (1 - [\text{PEL}/\text{TP}]) \\ &= (1 - [(300*81)/40,500]) \\ &= 0.400000 \end{aligned}$$

$$\begin{aligned} \text{"B"} &= [150,000/(\text{TP}/\text{Days})] \\ &= [150,000/40,500] \\ &= 3.703704 \end{aligned}$$

$$\begin{aligned} \text{"C"} &= [(460*WD)/\text{PEL}] \\ &= [(460*WD)/(300*WD)] \\ &= [460/300] \\ &= 1.533333 \end{aligned}$$

$$\begin{aligned} \text{Tax Rate} &= \text{ELF} * 15\% \\ &= [A^{(B^C)}] * 15\% \\ &= [0.400000^{(3.703704^{1.533333})}] * 15\% \\ &= [0.400000^{7.445755}] * 15\% \\ &= [0.001089] * 15\% \\ &= 0.01634\% \end{aligned}$$

EFFECTS OF CHANGING THE ELF ON DIFFERENT
SIZED FIELDS WITH THE SAME AMOUNT OF PROFIT

ASSUMPTIONS

| | |
|--|------------------|
| Price per Barrel | \$7.36 |
| Production Needed to Cover Operating Cost | 300 B/D per well |
| Profit (\$ per day) | \$7,360 |
| Profit (B/D) | 1,000 |
| State Royalty Share | 12.50% |

| Total Production | Wells | Profit (\$/D) | SB 97 Tax (\$/D) | HB 118 Tax (\$/D) |
|---------------------|-------|------------------|---------------------|----------------------|
| 31,000 | 100 | \$7,360 | \$0.0000453 | \$0.000000000000006 |
| 61,000 | 200 | 7,360 | 0.25 | 0.0047 |
| 91,000 | 300 | 7,360 | 9.94 | 5.35 |
| 121,000 | 400 | 7,360 | 81.66 | 148.71 |
| 151,000 | 500 | 7,360 | 329.91 | 1,016.40 |
| 181,000 | 600 | 7,360 | 903.38 | 3,548.36 |
| 211,000 | 700 | 7,360 | 1,948.68 | 8,547.76 |
| 241,000 | 800 | 7,360 | 3,588.79 | 16,431.79 |
| 271,000 | 900 | 7,360 | 5,915.97 | 27,265.75 |
| 301,000 | 1000 | 7,360 | 8,992.83 | 40,889.43 |
| 331,000 | 1100 | 7,360 | 12,856.71 | 57,030.21 |
| 361,000 | 1200 | 7,360 | 17,525.00 | 75,377.76 |
| 391,000 | 1300 | 7,360 | 22,999.89 | 95,626.09 |
| 421,000 | 1400 | 7,360 | 29,272.53 | 117,494.13 |
| 451,000 | 1500 | 7,360 | 36,326.21 | 140,733.53 |
| 481,000 | 1600 | 7,360 | 44,138.91 | 165,129.88 |
| 511,000 | 1700 | 7,360 | 52,685.12 | 190,500.56 |
| 541,000 | 1800 | 7,360 | 61,937.30 | 216,691.27 |
| 571,000 | 1900 | 7,360 | 71,866.86 | 243,572.18 |
| 601,000 | 2000 | 7,360 | 82,444.92 | 271,034.33 |
| 751,000 | 2500 | 7,360 | 144,085.03 | 414,328.17 |
| 901,000 | 3000 | 7,360 | 218,012.58 | 563,165.99 |
| 1,051,000 | 3500 | 7,360 | 301,647.96 | 714,329.07 |
| 1,201,000 | 4000 | 7,360 | 393,030.40 | 866,360.07 |
| 1,351,000 | 4500 | 7,360 | 490,677.84 | 1,018,575.70 |
| 1,501,000 | 5000 | 7,360 | 593,460.96 | 1,170,652.32 |

TESTIMONY OF
GERALD SERENA

FOR
EXXON COMPANY, U.S.A.

BEFORE THE
SENATE FINANCE COMMITTEE

SCS CSHB No. 118

MAY 4, 1989

05-02 1989 11:01 FID-74-107108 BUS

FOR THE U.S. SEN. S. 102

SFC 5/4/89

MY NAME IS GERALD SERENA AND I AM A TAX LAWYER FOR EXXON COMPANY, U.S.A. WE APPRECIATE THE OPPORTUNITY TO COMMENT ONCE AGAIN ON LEGISLATION PROPOSED TO MODIFY THE ECONOMIC LIMIT FACTOR. IN PREVIOUS HEARINGS BEFORE COMMITTEES OF THE HOUSE AND SENATE, EXXON HAS MADE CLEAR ITS OPPOSITION TO ANY PROPOSALS THAT WOULD EFFECTIVELY ELIMINATE THE BENEFIT OF ELF FOR THE PRUDHOE BAY AND KUPARUK FIELDS. OUR MESSAGE HAS NOT CHANGED.

THIS BILL WOULD SIGNIFICANTLY INCREASE PRODUCTION TAX ON 90% OF ALASKA'S OIL PRODUCTION. THIS INCREASED COST OF PRODUCTION WOULD ADVERSELY AFFECT INVESTMENT IN FUTURE PRUDHOE BAY DEVELOPMENT PROJECTS. THESE PROJECTS ARE ECONOMICALLY MARGINAL IN THE SAME SENSE THAT THE START-UP OF SOME SMALLER FIELDS ON THE NORTH SLOPE MIGHT BE MARGINAL. SUCH PROJECTS ARE NECESSARY TO OPTIMIZE PRODUCTION FROM PRUDHOE BAY, WHICH IS CRUCIAL TO ALASKA'S ECONOMIC FUTURE.

ALASKA'S PRODUCTION TAX LAW IS COMPREHENSIVE, WELL-REASONED, AND EFFECTIVE. IT COMBINES TWO ESSENTIAL ELEMENTS -- THE HIGHEST NOMINAL TAX RATE IN THE UNITED STATES, AND AN ECONOMIC LIMIT FACTOR WHICH REDUCES THIS RATE ON A FIELD-BY-FIELD BASIS AS MEASURED BY PRODUCTION RATE PER WELL IN THE FIELD.

IT HAS WORKED UP TO NOW AND IT WILL CONTINUE TO WORK AS DESIGNED AS PRUDHOE BAY PRODUCTION DECLINES.

THE PRODUCTION TAX ON OIL FROM PRUDHOE BAY IS HIGH ENOUGH BY ANY STANDARDS. WHEN COMBINED WITH THE OTHER STATE TAXES ON NORTH SLOPE PRODUCTION OPERATIONS, IT IS CLEAR THAT OUR INDUSTRY IS CONTRIBUTING ITS FAIR SHARE OF STATE TAX COLLECTIONS. WHEN YOU COMBINE TAXES AND ROYALTIES, OUR INDUSTRY ACCOUNTS FOR ABOUT 85% OF STATE REVENUES. FURTHERMORE, ROYALTIES AND OTHER LEASE PAYMENTS HAVE ESTABLISHED THE \$10 BILLION ALASKA PERMANENT FUND.

IN 1988, AVERAGE DAILY OIL PRODUCTION AT PRUDHOE BAY DECLINED TO 1,450,000 BARRELS FROM THE 1,500,000 AVERAGE ACHIEVED IN PRIOR YEARS, AND WE ANTICIPATE THAT THIS DECLINE WILL CONTINUE. THIS WAS INEVITABLE. IT WAS DELAYED UNTIL NOW BY AN EFFICIENT AND OPTIMAL DEVELOPMENT PLAN THAT CONTINUES TO BE IMPLEMENTED. SINCE INITIAL DEVELOPMENT, EXXON HAS EVALUATED AND SUPPORTED SEVERAL PROJECTS TO INCREASE RECOVERY AT PRUDHOE BAY. THE COST PER BARREL FOR THESE PROJECTS TO INCREASE RECOVERY WAS TWICE THE COST OF THE INITIAL DEVELOPMENT.

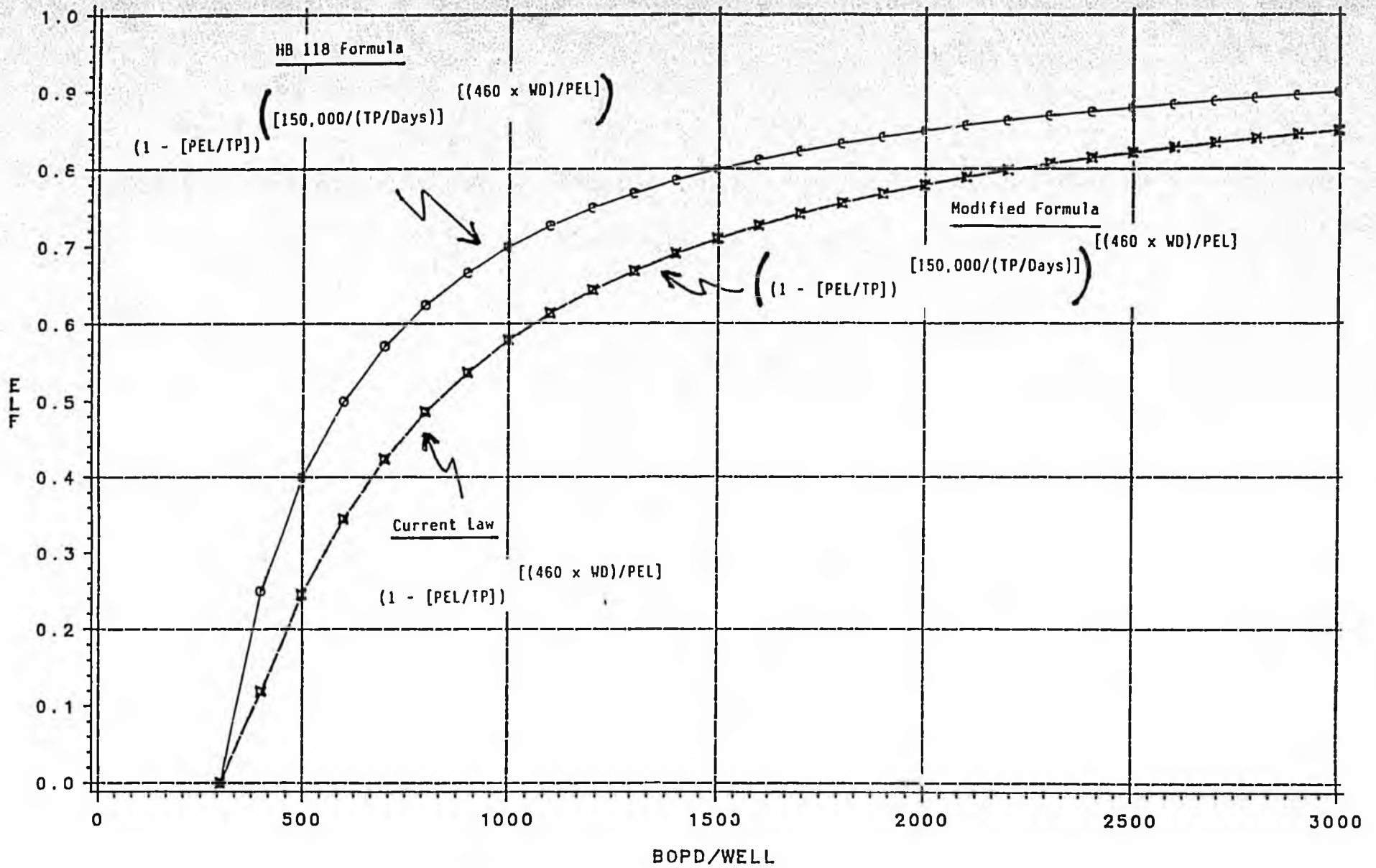
AFTER CURRENT DEVELOPMENT IS COMPLETED, IT IS ESTIMATED THAT 10 BILLION BARRELS OF OIL WILL BE LEFT IN FORMATION AT PRUDHOE BAY. H.B. 118 WOULD INCREASE THE COST OF PRODUCING THOSE BARRELS AND THEREBY REDUCE THE INCENTIVE TO UNDERTAKE SUCH PROJECTS. FUTURE PROJECTS TO MAINTAIN PRODUCTION AND INCREASE RECOVERABLE RESERVES AT PRUDHOE BAY WILL COST MORE THAN FIVE TIMES AS MUCH AS THE INITIAL DEVELOPMENT. IT IS CONCEIVABLE THAT UNDEVELOPED MARGINAL RESERVES AT PRUDHOE BAY MIGHT EXCEED THE POTENTIAL RESERVES OF ALL THE SMALLER FIELD PROSPECTS ON THE NORTH SLOPE IDENTIFIED TO DATE.

H.B. 118 IS BASED ON THE ASSUMPTION THAT LARGER OIL FIELDS SHOULD CONTRIBUTE PRODUCTION TAXES AT A HIGHER RATE THAN SMALLER FIELDS. TAX POLICY MAKERS SHOULD NOT CONFUSE THE PRODUCTION RATE OF A FIELD WITH ITS PROFITABILITY. THE PRUDHOE BAY FIELD IN DECLINE IS A PERFECT EXAMPLE.

OUR RECOMMENDATION TODAY IS THE SAME AS IT HAS BEEN AT ALL THE PRIOR HEARINGS ON THIS LEGISLATION. WE URGE YOU NOT TO SUPPORT H.B. 118. IT WILL ADVERSELY AFFECT FUTURE DEVELOPMENT INVESTMENT AT PRUDHOE BAY. SUCH INVESTMENT IS NEEDED TO MAXIMIZE OIL PRODUCTION, THEREBY INCREASING THE STATE'S ROYALTY AND PRODUCTION TAX BASE.

HB 118 - ELF FORMULA SENSITIVITIES

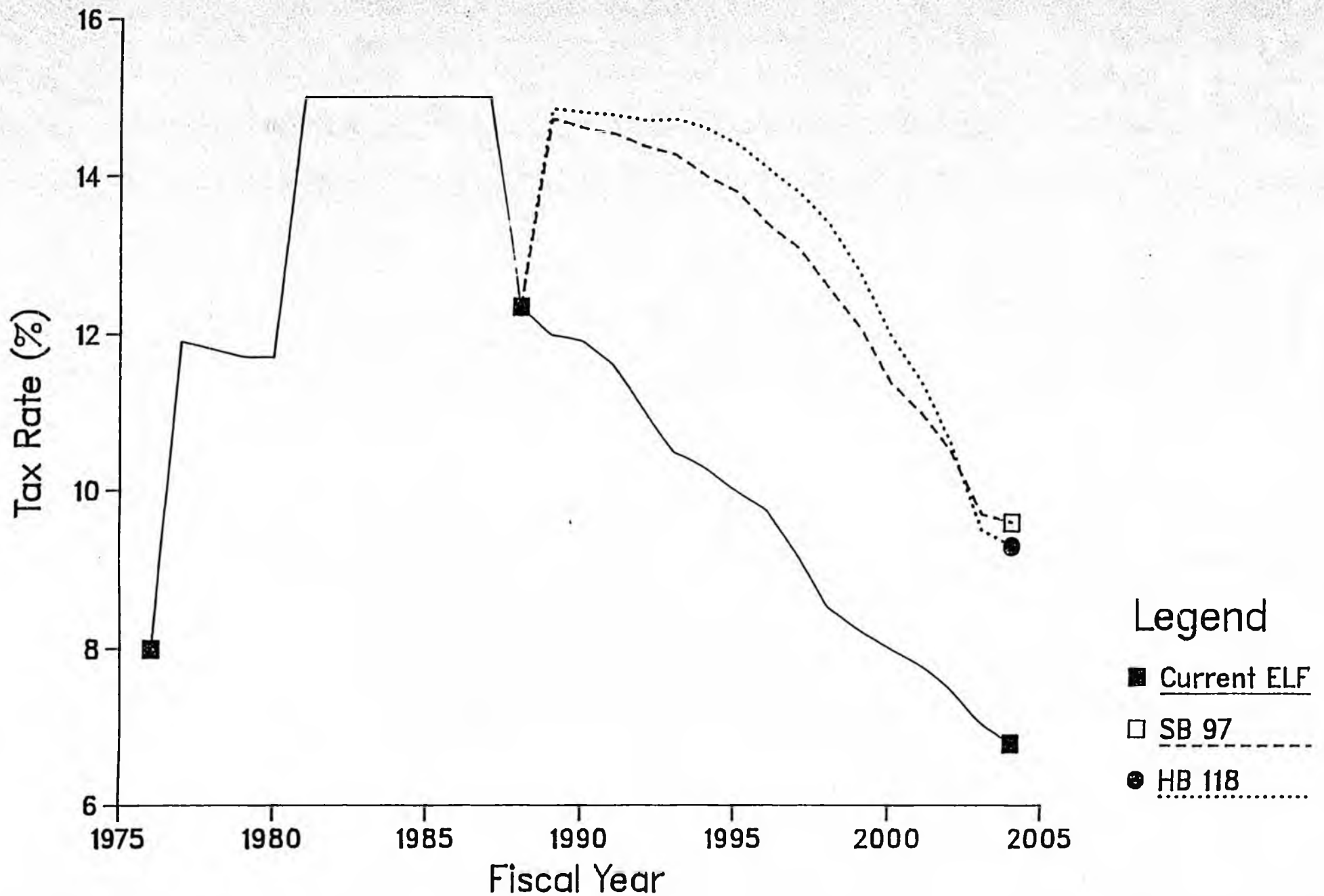
150,000 BOPD FIELD



X X X X CURRENT TAX
 O O O O HB 118 FORMULA
 □ □ □ □ MOD FORMULA

PBU Historical and Projected Tax Rate

Includes SB 97 and HB 118 Impacts



Legend

- Current ELF
- SB 97
- HB 118

Attachment 9

Jobs from a Small Offshore Oilfield

I. Exploration

| | |
|------------------------|-------------|
| Drilling | 285 |
| Island Construction | 480 |
| Transportation Support | 150 |
| Base Camp | 150 |
| Total | <u>1065</u> |

II. Development

| | |
|------------------------|-------------|
| Drilling | 300 |
| Island Construction | 480 |
| Transportation Support | 75 |
| Base Camp | 240 |
| Total | <u>1095</u> |

III. Production

| | |
|------------------------|-------------|
| Production | 450 |
| Island Maintenance | 330 |
| Transportation Support | 75 |
| Base Camp | 240 |
| Pipeline Maintenance | 75 |
| Total | <u>1170</u> |

Assumes two twelve hour shifts with a two week on / one week off rotation.

Source: Abstracted from Han-Padron Associates, Beaufort Sea Petroleum Technology Assessment, Technical Report No. 112, prepared for Minerals Management Service, Alaska Outer Continental Shelf Region, Leasing and Environment Office, Social and Economic Studies Unit, March 1985.

6-May-89

Shares of ANS Net Revenue

| | Note | Kuparuk Ak DOR High Case 3/89 | | | CSHB-118 Kuparuk Ak DOR High Case 3/89 | | |
|----------------------|------|-------------------------------|----------------------|----------------------|---|----------------------|----------------------|
| | | Weighted Average \$/bbl | Gulf Coast \$/bbl | West Coast \$/bbl | Weighted Average \$/bbl | Gulf Coast \$/bbl | West Coast \$/bbl |
| DOR Crude Oil Price | 3 | 18.21 | 18.96 | 17.84 | 18.21 | 18.96 | 17.84 |
| DOR Tanker Freight | 3 | 1.77 | 2.99 | 1.06 | 1.77 | 2.99 | 1.06 |
| Quality Differential | 1 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 |
| DOR TAPS Tariff | 3 | 3.02 | 3.02 | 3.02 | 3.02 | 3.02 | 3.02 |
| Kuparuk Pipeline | 1 | 0.70 | 0.70 | 0.70 | 0.70 | 0.70 | 0.70 |
| Pipeline Loss | 1 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Wellhead Price | | 12.22 | 11.70 | 12.56 | 12.22 | 11.75 | 12.56 |
| Production Cost | 1 | 2.01 | 2.01 | 2.01 | 2.01 | 2.01 | 2.01 |
| Overhead & Interest | 2 | 0.67 | 0.67 | 0.67 | 0.67 | 0.67 | 0.67 |
| Capital Recovery | 1 | 3.41 | 3.41 | 3.41 | 3.41 | 3.41 | 3.41 |
| Total Net Revenue | | 6.12 | 5.65 | 6.46 | 6.12 | 5.65 | 6.46 |
| State Royalty | 4 | 1.47 | 1.41 | 1.51 | 1.47 | 1.41 | 1.51 |
| Severance Tax | 3 | 0.95 | 0.91 | 0.97 | 1.43 | 1.38 | 1.47 |
| Property Tax | 1 | 0.44 | 0.44 | 0.44 | 0.44 | 0.44 | 0.44 |
| State Income Tax | 5 | 0.10 | 0.09 | 0.11 | 0.08 | 0.07 | 0.09 |
| Total State | | 2.95 48% | 2.85 50% | 3.03 47% | 3.42 56% | 3.30 58% | 3.51 54% |
| Federal Income Tax | | 1.08 18% | 0.95 17% | 1.17 18% | 0.92 15% | 0.90 14% | 1.00 16% |
| Producer Profit | | 2.09 34% | 1.85 33% | 2.27 35% | 1.78 29% | 1.55 27% | 1.95 30% |

Notes:
 1 Barclays de Zoete Wedd, September 1988
 2 ARCO Annual Report 1988
 3 Alaska Department of Revenue March 1989
 4 Royalty 1/8 less processing fee
 5 St Income Tax Estimated 3%
 State of Alaska Royalty and Severance Methodology

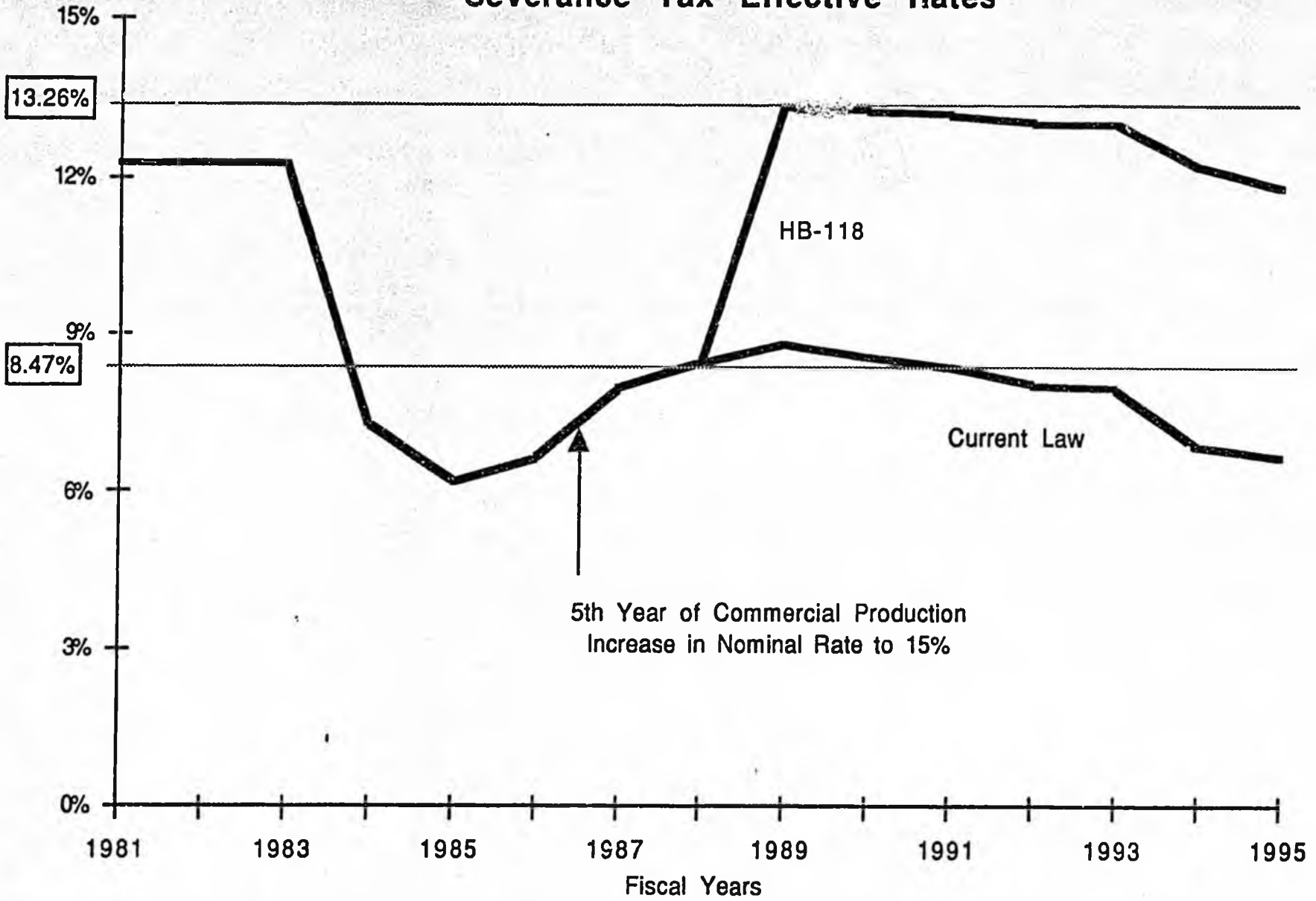
5/6/89

5/6/89: SFC
Macy; ARCO

#4

Attachment D

Kuparuk River Field Severance Tax Effective Rates



5/6/89

#3

SFC: 5/6/89
Mottus, ARCO

MEMORANDUM

State of Alaska
Office of the Governor
Division of Policy

TO: The Hon. Bill Hudson
Alaska State Representative

DATE: March 18, 1989

FROM: Gregg Erickson *GKE*
Senior Economist

SUBJECT: Would The ELF Change Cause Oil To Be Lost?

You asked us to address your concern that the proposed change in the economic limit factor might adversely affect development within the Prudhoe Bay or Kuparuk fields.

Factors Affecting Future Production

The industry claims that oil will be left in the ground at Prudhoe and Kuparuk, the two fields that will have their tax rates increased, if the ELF legislation is adopted.

The general economic principle underlying this concern is valid, but countervailing factors are also at play:

- The new ELF should increase drilling, production and employment in the truly marginal fields, like Niakuk, Endicott, Milne Point, probably Point McIntyre, and importantly, most if not all fields yet to be discovered.¹ In these fields the severance tax will either be sharply reduced or eliminated entirely. These smaller fields are likely to require more labor-intensive development, so focusing benefits on them is likely to maximize the number of jobs generated from oil development.² For example, it takes 30 percent more labor to produce a barrel at Endicott than in Alaska as a whole.³
- The new law encourages peripheral and in-fill drilling even at the big fields. Producers who add wells to maintain production or retard natural decline at Prudhoe or Kuparuk will be rewarded

¹ Fields with low per-well production, as will likely be the case at West Sak and as is the case in Cook Inlet, will pay no tax under either the current or proposed ELF.

² Jobs from marginal field development can be very significant. Endicott required in 1988 a workforce of approximately 560 persons. Frank Baker, "Oil activity increasing on North Slope," Juneau Report (Standard Alaska Production Company), April 1988, p. 1.

³ Endicott labor productivity = (100,000 B/D)/560 jobs; Alaska oil industry labor productivity = (2,000,000 B/D)/8,600 jobs.

with lower marginal and average tax rates, just as they are under the existing ELF. What is eliminated under the proposed ELF is the direct drilling subsidy documented by ARCO in their 1987 testimony to House Finance. The reduced rates under the field ELF (CSHB 164, from 1987) and the subsidy inherent in the current law are both demonstrated in the attached summary of the ARCO comparison.

- Even assuming jobs were foregone at Prudhoe and Kuparuk in the near term due to the tax increase, they would be more than recouped later, when taxes will be lower than under current law. As with small fields, the declining stages of production from large fields tend to require more labor-intensive production methods. Staging capital investments to shift production slightly into the future is likely to have no effect on lifetime production totals, but could boost the number of jobs created.

Engineering and Economic Evidence

But what will actually happen? The state's expert witness, Mr. Chatterton, an experienced petroleum engineer, noted the industry's concern with the production effects of HB 118. He expressed his opinion last month in testimony before House Resources:

"[T]here is advertising in the papers and so forth that would tend to give the impression that if this House Bill 118 were passed into law as you now have it, why it would create all kinds of havoc in the oil and gas production end of the industry.... I just submit to you that it won't make one difference. [T]he industry will still continue at the level of activity that they now are carrying out, that that level of activity may even increase...."

I appreciate the opportunity to vent my ire that has developed over what I consider misleading advertising or disinformation, or misinformation, whatever you want to call it."⁴

The state's petroleum economists, examining this same issue from a quite different perspective, have produced economic evidence that tends to support Mr. Chatterton's engineering

⁴ House Resources Committee Testimony of Chat Chatterton, Chairman, Alaska Oil and Gas Conservation Commission, 23 February 1989, H.R.C. tape 89-141.

judgment.

Over several years the economists have published the details of a set of computer models that simulate the complex economics of field development on the Alaska North Slope.⁵ They have used these models to examine ANS oil development with and without the ELF change. The most significant result was that no statistically significant impact (positive or negative) could be detected from the tax change in HB 118.⁶

Obviously, this kind of model depends greatly on its assumptions. The computer model and documentation have been made available to the industry to review and critique. Industry sources say they disagree with the finding, but have provided only anecdotal evidence in support of their position.⁷ Nevertheless, we believe that the the producers have also used sophisticated models to investigate the effects of proposed tax change on ANS development economics.

Historical Perspective

The ELF question became a public policy issue in 1985. That year oil producers ran an advertising and public information campaign which centered on the claim that marginal field development was one of industry's major objectives in Alaska.

"We must have stable tax policies in order to make the risks associated with marginal fields worth taking," stated Sohio's George Nelson in a March speech.⁸ A typical advertisement said the state would lose jobs if it didn't

⁵ Roger Marks, "Measuring the Incentive to Drill a Development Well Under Alaska's Severance Tax Structure," Alaska Department of Revenue Working Paper, Nov. 1987. Also, Roger Marks and J. William Moore, "A Model To Assess Economic Feasibility and Optimum Production Volume for North Slope Fields," *Journal of Petroleum Technology*, Aug. 1987, pp. 943-954.

⁶ The state's analysis suggests that the average expected result from adopting HB 118 would be 2.5 million barrels of added production between now and 1993 (about one day of extra production over the entire period), then less production during the 1993 to 2014 period (equal to about one day of postponed production during each year of that period), and finally, additional intervals of added production in 2015 and beyond. The standard deviations are quite large in comparison with the small effects being shown. This forces a statistical conclusion that the impact of changing the law, if any, is too small to detect. The effect, if any, is lost in the noise of the many randomized variables, including oil prices, that the model takes into account in its calculations.

⁷ Also see Stan Jones, "Of ELF, state and oil: Industry can't back up claims," *Anchorage Daily News*, March 15, 1989, p A1, A8.

⁸ *Alaska Journal of Commerce and Pacific Rim Reporter*, Mar. 11, 1985.

provide an investment climate that will encourage oil companies and other businesses to develop new ventures....[S]maller fields already have been discovered on the North Slope. But they are marginal fields....⁹

Responding to oil industry concerns, the Department of Revenue initiated studies to determine the economic effects of the suggested tax changes. These studies, particularly the computer simulations, suggested that adverse development impacts could indeed be expected at marginal fields under the tax proposals then being considered.¹⁰

Tax changes that would leave significant quantities of economically producible oil in the ground were clearly unacceptable on policy and political grounds. The author of this memorandum and others at OMB were asked to try to develop revenue-raising oil tax alternatives that would not cause any aggregate loss of production or jobs. OMB proposed the "field ELF" formula, specifically designed to improve the economics of smaller fields while collecting more from the distinctly non-marginal Prudhoe and Kuparuk.¹¹

Modeling tests by the Department of Revenue suggested that the formula performed well. The "field ELF" was introduced in the House in 1987, as an element of a committee substitute for the administration's ELF suspension bill. Different versions have evolved in the House and Senate and are being considered this year in HB 118 and SB 97.

Conclusions

It is our judgement that the ELF change is unlikely to have any discernible impact, positive or negative, on overall Alaska oil investment or production. By tilting development incentives in favor of fields with lower daily production, the new ELF is likely to have a positive effect on employment.

⁹ ARCO Alaska, Inc., advertisement, *Alaska Journal of Commerce and Pacific Rim Reporter*, Oct. 14, 1985.

¹⁰ The studies were reported later by Charles Logsdon, "Analysis of ELF Alternatives," Alaska Department of Revenue for the Joint Special Committee on Tax Policy, Dec. 1986. The tax alternatives then under consideration included elimination of the ELF, elimination of the ELF's application to the floor price, and an upward revision of the floor price.

¹¹ In the "field ELF" formula, daily production and per-well productivity jointly determine the ELF value and percentage severance tax.

The Hon. Bill Hudson, March 18, 1989, page 5

cc: Members, Senate Special Committee on Oil and Gas
Members, House Finance Committee
The Hon. H.A. "Red" Boucher

Attachment

Attachment D

5/6/89

ARCO Kuparuk Example

| | <u>Current Law</u> | <u>Proposed Law</u> |
|---|------------------------|-------------------------|
| Change in Annual Gross Revenue | \$981,000 | \$981,000 |
| Change in Annual Severance Tax | (\$37,846) | \$58,611 |
| Tax Rate on Incremental Production | -3.9% | 6.0% |
| Average Tax Rate Before Drilling | 7.820% | 10.944% |
| Average Tax Rate After Drilling | 7.806% | 10.938% |
| Percent Change in Average Tax Rate Due to Drilling | -0.180% | -0.055% |

Kuparuk River Field
Actual March Production Rates
for the 2 most recently completed
Drillsites

| <u>WELL</u> | <u>March'89 Daily Production</u> | <u>WELL</u> | <u>March'89 Daily Production</u> |
|-------------|--|-------------|--|
| 3 O - 1 | 1904 | 3 H - 2 | 3960 |
| 3 O - 8 | 930 | 3 H - 8 | 2194 |
| 3 O - 10 | 878 | 3 H - 5 | 1984 |
| 3 O - 14 | 866 | 3 H - 18 | 1293 |
| 3 O - 5 | 802 | 3 H - 16 | 1127 |
| 3 O - 2 | 788 | 3 H - 19 | 1054 |
| 3 O - 6 | 619 | 3 H - 3 | 563 |
| 3 O - 4 | 580 | 3 H - 21 | 536 |
| 3 O - 7 | 507 | 3 H - 4 | 494 |
| 3 O - 9 | 502 | 3 H - 20 | 346 |
| 3 O - 16 | 452 | 3 H - 13 | 263 |
| 3 O - 18 | 413 | 3 H - 1 | 180 |
| 3 O - 11 | 322 | 3 H - 14 | 121 |
| 3 O - 17 | 261 | 3 H - 10 | 119 |
| 3 O - 3 | 253 | 3 H - 11 | 1 |
| 3 O - 15 | 239 | | |
| 3 O - 12 | 215 | | |
| 3 O - 13 | 68 | | |
| <hr/> | | <hr/> | |
| Average | 589 | Average | 949 |

CHANGING THE ELF: A REVIEW OF THE 1989 ISSUES

- The Central Issue: Whether the riches of Alaska's resources should go mostly to outsiders who provide the capital and technology, or whether a reasonable share should go to benefit Alaskans.
- Jobs and Future Production: Engineering testimony showed no loss of production from the ELF change. Econometric studies support that finding. The industry's contrary assertions don't hold up according to a *Daily News* article, "Of ELF, state and oil: Industry can't back up claims."
- Marginal Fields: Conoco, the working interest owner at the small Milne Point Field supports the proposed change in the ELF formula. The bill *reduces* taxes on fields that need the help.
- The Formula: Analysis prepared for Sen. Halford shows almost equal sensitivity to both field size and per-well production.
- The So-called "Deal": Alaska's constitution prohibits any "deal." Sohio's 1981 see-you-in-court letter shows there was no "deal."
- The ELF Subsidy: ARCO's analysis from 1987 shows how the existing ELF results in a subsidy (a negative severance tax).
- Per Barrel Profits: At today's prices, production and transportation profits in Alaska come to \$6.62 per barrel. Changing the ELF formula will reduce that by only 3 percent, to \$6.41 per barrel.
- Overall Profits: The oil companies have made profits of \$42 billion off their Alaska operations. At today's oil prices, the companies can expect to generate in Alaska \$7.0 billion in cash -- including \$4.9 billion profits -- this year alone.
- Reinvestment: In 1989, the companies only plan to reinvest \$750 million. The industry is liquidating its Alaska operations.
- Shares: At today's oil prices the companies are collecting 46.5 percent of the available net income from Alaska operations. Alaska state and local governments are collecting only 28.6 percent.

CHANGING THE ELF: A REVIEW OF 1989 ISSUES

*prepared for the Senate Finance Committee
May 5, 1989*

by

*Gregg Erickson
Division of Policy*

The purpose of this submission is to review and summarize from our perspective the issues and arguments of the ELF debate as they unfolded in the five legislative committees that previously heard the ELF legislation.

The Administration's Perspective

In February, we offered the House Resources Committee the administration's overview of the ELF tax issue. We argued that the major question is to determine how much of the riches of Alaska's resources should go to benefit the outsiders who provide the capital and technology to exploit this resource, and how much should go to benefit the Alaskans who are its owners. We showed that this is the same basic issue that Alaska has faced throughout its history, with its furs, salmon, gold, the copper ore at Kennicott, and other resources, first under Russian and later American colonial rule, and unfortunately also as a state. However technical or heated the topic became, we tried to keep this historical perspective in view.

The oil industry's representatives didn't think the issue should be cast in these terms. They accused us of appealing to excessive emotionalism. But they never argued that dividing the benefits wasn't really at the heart of this question.

Jobs, Future Development, and Marginal Fields

In February, the main thrust of the industry's arguments to our first committee of referral, House Resources, was that the ELF change would actually hurt Alaska by reducing employment and

future production. ARCO in particular focused on the effects of the change on Kuparuk. We provided testimony from Mr. Chatterton, an engineer with over 40 years of experience in petroleum production, whose professional opinion was that the the ELF change would have no impact on the pace of development at Kuparuk or Prudhoe. The companies presented no engineering evidence to refute the testimony.

While the industry used advertising to imply that jobs would be lost, Anchorage Daily News reporter Stan Jones later took a hard look at their assertions and wrote an article that ran under the headline "Industry can't back up claims." The administration's numbers, on the other hand, showed that only about 70¢ of the value of every barrel shipped goes to pay wages in Alaska; we showed that more than 10 percent of that 70¢ goes to outsiders working in Alaska. The industry offered no contrary evidence.

In the House Finance Committee, ARCO presented an analysis designed to show how the ELF change would kill an incremental drilling project at the Kuparuk field. Careful inspection showed that the project was uneconomic even without the ELF change, but what we found interesting was that the net cost of the change to the oil companies that own Kuparuk was shown as only 18¢. The cost at Prudhoe is higher, and -- like all severance tax figures -- it is sensitive to oil prices. From our point of view, however, the 18¢ figure put the magnitude of the proposed change in its proper perspective. Hardly a day goes by that does not see oil prices changing by more than 18¢ per barrel. The companies, their development plans, and oil industry jobs survive those little changes quite well.

In testimony to House Finance and in a memorandum to Representative Hudson we described the state's econometric models of North Slope field development. The models supported the expert engineering evidence that the ELF change would have no significant effects on production. We made our computer model and documentation available to the industry to review and critique. They said they disagreed, but all they provided to support their position was anecdotes. They did not attempt to refute our econometric findings with evidence from their own more

sophisticated field models.¹

We also talked about the positive effect that this bill would have on developments at the smaller fields. Conoco, the company that owns the working interest in the Milne Point field, agreed and testified in favor of the new ELF formula.

All of this worked to refute the industry's arguments the ELF legislation would threaten Alaska jobs, now or in the future. We knew from the outset that this refutation was absolutely essential if the bill was to pass -- job losses would be unacceptable on both policy and political grounds. We think we successfully made our case in this regard.

The ELF Formula

In each committee of referral we described the philosophy behind the the new ELF formula, but it wasn't until the bill reached the Senate Special Oil and Gas Committee that we were forced to go deeply into the mechanics and mathematics of the formula. From the beginning of this debate the complexity of the ELF formula has demanded special efforts to explain how the new formula would work. We didn't always succeed, but Roger Marks, the petroleum economist who originally developed the version of the formula in HB 118, made it reasonably understandable in his presentation to the Senate Oil and Gas Committee.

For their part, industry representatives claimed in each committee that the administration had made a mistake in where the parenthesis were placed in the formula. We explained why the formula was written as it was. No doubt the industry representatives understand our explanation; they certainly heard it more than once. But for members of this committee, here it is again.

HB 118 enacts two changes, both of which affect the dividing line between fields that pay more under the HB 118 and those that pay less. One of these changes is of course the new formula. Were this the only change, the dividing line would fall at about 115,000 barrels per day total field production. The other factor that affects

¹ ARCO's representative did present a graph of an hypothetical Prudhoe decline that would have resulted if investment in the field had ceased in 1981. He said the analysis was a product of that corporation's CRAY supercomputer. [Hugh Motley, Testimony to Senate Finance, 4 May 1989.]

the dividing line is the elimination of the so-called "rounding rule." Depending on whether their ELF's are above or below .7, that may make HB 118 a good deal for future fields producing as much as 300,000 barrels per day. Taking both factors into account, the administration estimates that fields below an average of 150,000 barrels per day will probably benefit from the bill.

Exxon's representative continues to argue that we really meant for the formula (by itself) to benefit fields below 150,000 barrels per day, and except for our having gotten the parenthesis in the wrong place, that would have been the result.

We think Exxon's point is a red herring, designed to confuse and divert attention from the real issues. Nevertheless, Mr. Marks, who developed both this version of the formula and the 150,000 estimate, is ready to respond to further questions.

Another "formula" issue that was repeatedly raised by the companies representatives has to do with field size. The existing ELF formula is based on per-well production. The new formula adds total field production. In House Finance we offered evidence that big fields tend to have lower costs per barrel -- that there are economies of scale -- and that this is a major factor in profitability.²

The oil spokesmen allege that the formula gives overwhelming weight to changes in field size, and effectively ignores changes in per-well production. Where wells are producing more than 500 B/D, field size is indeed given more weight in the formula than the per-well average, but as we showed in a memorandum and spreadsheet provided to Senator Halford, in no case is the formula's sensitivity to per-well production less than 70 percent of its sensitivity to total production. It is simply inaccurate to say that the formula "ignores" changes in per-well productivity.

"The Revenue Neutral Deal" & Other Problems

Industry supporters (but not the industry representatives themselves) often asked committee members to recall the so-called

² ARCO's Lee Nunn provided the best example of the scale economies in oil production: "The Lisburne flow station will cost about the same as a similar flow station at Prudhoe Bay, but will process only 300 million barrels of oil over its lifetime compared with the stations at Prudhoe Bay, which process more than 1.5 billion." ["Marginal Fields: Minimizing the Risks," *Alaska Construction and Oil*, July 1985.]

"deal" the industry was supposed to have made with the state in 1981. There was no shortage of evidence to refute this. We presented the constitutional provisions prohibiting such deals. We presented the 1981 "see-you-in-court" letter from Sohio's Richard Donaldson disavowing any "settlement." We presented the March 1981 joint statement of Gov. Hammond and legislative leaders in which they agreed that "any changes which would give large sums of money to the oil industry at the expense of the people of Alaska are unacceptable." And finally, we showed that the 1981 legislation cost the state more than a billion dollars in lost tax revenue.

The BP representative conceded the loss, but argued that it wasn't very significant. So what if we lost a few more percentage points? Anyway, he asserted, the re-application of the ELF to Prudhoe in 1987 caused significant growth in jobs.

In the House Resources Committee we showed only 600 oil industry jobs had been gained since the ELF reapplied at Prudhoe, and that the increase in oil prices, not tax changes, was responsible for that modest growth.

In contrast, the administration provided evidence of the problems with the existing ELF. Using an example provided by ARCO, we showed that the existing ELF can produce a negative severance tax: instead of collecting a tax for the right to sever the resource, under the conditions assumed by ARCO, Alaska pays the corporation a direct subsidy for drilling an incremental well.

Neither BP or ARCO disputed that a subsidy exists under the current law. BP said the subsidy is too small to matter much, given the cost of new wells. ARCO took a different tack, suggesting that the tax subsidy induces so many additional wells to be drilled that it actually makes the state money from additional royalty. That reasoning leads to the preposterous conclusion that the state would get the greatest revenue if it repeals the severance tax outright.

Profits, Reinvestment, and Shares

Profits have been a good issue for our side. Virtually every other jurisdiction with publicly owned oil resources gets more for its oil than Alaska. We heard lots of explanations of why this is so, but

not a single oil company witness or document denied that it is the case.

In March, in House Finance, we provided Professor Deakin's analysis. For the 1969-87 period it showed that the oil industry in Alaska earned extraordinary profits on its Alaska operations -- \$46 billion, and an after-tax 30 percent annual return on investment. The industry sniped at the study, but declined to provide their own calculations of overall industry profits. We think the study stands unrefuted.

Of course the industry has provided some profit figures to the committees, but they are always *production* profits. Their representatives argue that the issue here is a production tax, so the pipeline isn't relevant.

We don't think the argument has worked very well for them. People recognize that the pipeline is integral to North Slope oil production, and everyone knows the production and pipeline ownerships are nearly the same. The TAPS settlement has allowed access to indisputable information showing that pipeline profits have lately been accounting for over one-third of tariff charges (two-thirds if we look at pre-tax profits). The pipeline isn't your ordinary public utility.

Even some of the industry's figures on production profits have been remarkably misleading. ARCO's representative persists in presenting calculations that show his company paying a \$2.70 per-barrel tanker charge to ship its oil to the Gulf Coast, notwithstanding the fact that all of ARCO's oil goes to the West Coast, a tanker trip that only costs 98¢ per barrel. The persistence was puzzling in view of the damage we think it did to the company's credibility.

Company representatives argued that severance taxes in Alaska are the highest in the nation. Our response showed that Texas and most other states don't allow any transportation charges as deductions against their severance tax, and that states like Texas also have reserves taxes, which Alaska doesn't have. We showed that seven states had an average 1987 severance tax per barrel higher than Alaska. Finally, we showed that if Texas or any other U.S. state adopted Alaska's severance law, not a single field in that state would pay a penny of tax.

Early in this debate we noted the great disparity between the \$750 million the industry says it plans to reinvest in Alaska in 1989, and the \$2.7 billion in profits they would earn in our state (not to mention the additional \$2.1 billion in other cash that would leave Alaska). To our chagrin, few seemed very concerned with this disparity. At today's oil prices the companies can expect to remove \$7.0 billion from Alaska in 1989. So far they have not announced any change in the planned \$750 million reinvestment. We still think that the disparity in these numbers deserves more attention than it has received. It reflects an industry liquidating its Alaska assets. We regret that we didn't find a better way to present this issue.

Two weeks ago in the Senate Oil & Gas Committee we used the companies' own cost figures to show how the net income from Alaska oil is being shared. Apart from the companies' wish to disregard the pipeline earnings, they have not disputed this analysis. At current oil prices, and assuming 1988 costs, it shows that the state is collecting 28.6 percent of the net income from Alaska oil operations, compared to the 46.5 percent going to the industry. For those who think there is something magic about a 30 percent share, it was another reason to support the ELF change.

Shares of ANS Net Revenue

6-May-89

| | Note | Kuparuk Ak DOR Low Case 3/89 | | | CSHB-118 Kuparuk Ak DOR Low Case 3/89 | | |
|----------------------|------|------------------------------|----------------------|----------------------|--|----------------------|----------------------|
| | | Weighted Average \$/bbl | Gulf Coast \$/bbl | West Coast \$/bbl | Weighted Average \$/bbl | Gulf Coast \$/bbl | West Coast \$/bbl |
| DOR Crude Oil Price | 3 | 12.67 | 13.42 | 12.33 | 12.67 | 13.42 | 12.33 |
| DOR Tanker Freight | 3 | 1.56 | 2.79 | 0.98 | 1.56 | 2.79 | 0.98 |
| Quality Differential | 1 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 |
| DOR TAPS Tariff | 3 | 3.11 | 3.11 | 3.11 | 3.11 | 3.11 | 3.11 |
| Kuparuk Pipeline | 1 | 0.70 | 0.70 | 0.70 | 0.70 | 0.70 | 0.70 |
| Pipeline Loss | 1 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Wellhead Price | | 6.80 | 6.32 | 7.04 | 6.80 | 6.32 | 7.04 |
| Production Cost | 1 | 2.01 | 2.01 | 2.01 | 2.01 | 2.01 | 2.01 |
| Overhead&Interest | 2 | 0.67 | 0.67 | 0.67 | 0.67 | 0.67 | 0.67 |
| Capital Recovery | 1 | 3.41 | 3.41 | 3.41 | 3.41 | 3.41 | 3.41 |
| Total Net Revenue | | 0.70 | 0.22 | 0.94 | 0.70 | 0.22 | 0.94 |
| State Royalty | 4 | 0.79 | 0.73 | 0.82 | 0.79 | 0.73 | 0.82 |
| Severance Tax | 3 | 0.53 | 0.49 | 0.55 | 0.80 | 0.74 | 0.83 |
| Property Tax | 1 | 0.44 | 0.44 | 0.44 | 0.44 | 0.44 | 0.44 |
| State Income Tax | 5 | -0.03 | -0.04 | -0.03 | -0.04 | -0.05 | -0.03 |
| Total State | | 1.73 246% | 1.62 732% | 1.78 189% | 1.99 284% | 1.86 842% | 2.05 218% |
| Federal Income Tax | | -0.35 -50% | -0.48 -215% | -0.29 -30% | -0.44 -63% | -0.56 -252% | -0.38 -40% |
| Producer Profit | | -0.68 -97% | -0.92 -417% | -0.55 -59% | -0.85 -121% | -1.08 -490% | -0.73 -78% |

Note: 1 Barclays de Zoete Wedd, September 1988
 2 ARCO Annual Report 1988
 3 Alaska Department of Revenue March 1989
 4 Royalty 1/8 less processing fee
 5 St Income Tax Estimated 3%
 State of Alaska Royalty and Severance Methodology

SFC. 5/6/89

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800


LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

May 2, 1989

SUBJECT: SCS CSHB 118 (Resources)

TO: Senator John Binkley
Senator Rick Uehling,
Co-Chairs
Senate Finance Committee

FROM: Jack Chenoweth 
Legislative Counsel

If you do nothing else to the Senate Resources Committee Substitute to House Bill 118, now in your committee, before reporting the bill you should make the following technical corrections (as an amendment to SCS CSHB 118 (Res) or as a new committee substitute):

Page 2, line 9, after "date"
Insert: "of sec. 1"

Page 2, line 16
Delete "Act"
Insert "section"

Page 2, line 21
Delete "Act"
Insert "section"

Taken altogether, the changes became necessary because there is no longer a single effective date applicable to all parts of the bill.

Thank you.

JC:gc
WKG10/036

1 IN THE SENATE

BY ADAMS

2

SENATE BILL NO. 97

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

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

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

9 * Section 1. AS 43.55.013(b) is repealed and reenacted to read:

10 (b) The economic limit factor for oil production of a lease or
11 property shall be computed according to the following formula:

12 $(1 - [PEL/TP]) \exp ([55,000,000 \times WD] / [PEL \times TP / \text{Days}])$

13 where: PEL = the monthly production rate at the economic limit;

14 TP = the total production during the month for which the tax
15 is to be paid;

16 WD = the total number of well days in the month for which
17 the tax is to be paid;

18 Days = the number of days in the month for which the tax is to
19 be paid; and

20 where "exp" indicates that the expression following it is an exponent.

21 * Sec. 2. AS 43.55.013(d) is amended to read:

22 (d) The monthly production rate at the economic limit for a
23 lease or property is [PRESUMED TO BE] 300 barrels times the number of
24 well days for the lease or property during the month for which the tax
25 is to be paid. [THE TAXPAYER MAY REBUT THIS PRESUMPTION AT A FORMAL
26 HEARING UNDER AS 43.05.240 BY PROVIDING CLEAR AND CONVINCING EVIDENCE
27 OF A DIFFERENT MONTHLY PRODUCTION RATE AT THE ECONOMIC LIMIT FOR THE
28 LEASE OR PROPERTY. THE HEARING SHALL BE HELD BEFORE FEBRUARY 15 OF
29 THE YEAR OR WITHIN SIX MONTHS AFTER COMMENCEMENT OF OIL PRODUCTION FOR

1 A LEASE OR PROPERTY. THE MONTHLY PRODUCTION RATE AT THE ECONOMIC
2 LIMIT FOR THE LEASE OR PROPERTY BASED UPON THE CLEAR AND CONVINCING
3 EVIDENCE OF THE TAXPAYER SHALL BE CALCULATED BY DIVIDING THE VALUE
4 DETERMINED UNDER (f) OF THIS SECTION INTO THE AVERAGE MONTHLY DIRECT
5 OPERATING COST DETERMINED UNDER (e) OF THIS SECTION AND SHALL BE USED
6 FOR PURPOSES OF THIS SECTION FOR ALL OIL PRODUCTION DURING THAT CALEN-
7 DAR YEAR FROM THE LEASE OR PROPERTY.]

8 * Sec. 3. AS 43.55.013(e) and (f) are repealed.

9 * Sec. 4. This Act is retroactive to January 1, 1989, and applies to
10 oil produced after December 31, 1988.

11 * Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA
1989 LEGISLATIVE SESSION

Bill Version: CSHB 118 (RES)
Publish Date: HOUSE 3/20/89

FISCAL NOTE

REQUEST:

| | |
|--|---|
| Revision Date: <u>March 7, 1989</u> | Agency Affected: <u>Department of Revenue</u> |
| Title: <u>Oil & gas properties production tax - ELF; providing an effective date</u> | BRU: <u>Oil & Gas Audit Division</u> |
| Sponsor: <u>House Finance Committee</u> | Components: _____ |
| Requestor: <u>House Resources</u> | |

EXPENDITURES/REVENUES: (Thousands of Dollars)

| | FY 89 | FY 90 | FY 91 | FY 92 | FY 93 | FY 94 |
|------------------------|---------------|----------------|----------------|----------------|----------------|----------------|
| OPERATING | | | | | | |
| PERSONAL SERVICES | 0 | 0 | 0 | 0 | 0 | 0 |
| TRAVEL | 0 | 0 | 0 | 0 | 0 | 0 |
| CONTRACTUAL | 0 | 0 | 0 | 0 | 0 | 0 |
| SUPPLIES | 0 | 0 | 0 | 0 | 0 | 0 |
| EQUIPMENT | 0 | 0 | 0 | 0 | 0 | 0 |
| LANDS & STRUCTURES | 0 | 0 | 0 | 0 | 0 | 0 |
| GRANTS, CLAIMS | 0 | 0 | 0 | 0 | 0 | 0 |
| MISCELLANEOUS | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OPERATING | 0 | 0 | 0 | 0 | 0 | 0 |
| CAPITAL | 0 | 0 | 0 | 0 | 0 | 0 |
| REVENUE | 49,000 | 126,000 | 144,000 | 163,000 | 187,000 | 180,000 |

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: See attached page for analysis.

Prepared By: Roger Marks Phone: 277-5627
Division: Dept. of Revenue, Oil & Gas Audit Division Date: March 7, 1989

Approved by Commissioner: Hugh Malone Date: 3/8/89
Agency: Department of Revenue

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

Fiscal Analysis

This bill modifies the economic limit factor (ELF) formula used in computing the production (severance) tax on oil.

The bill (1) introduces the rate of field production into the exponent of the current ELF formula; (2) repeals the so-called "rounding rule," the provision of current law which states that for any month during the first 10 years of commercial oil production for which the computed ELF of a lease or property exceeds 0.7 the ELF shall be considered to be one; and (3) fixes the production at the economic limit (PEL) at 300 barrels times the number of well days in the month.

This bill is retroactive to January 1, 1989, and applies to oil produced after December 31, 1988. Because the severance tax on oil for a given month is due during the following month, a tax change which takes effect on January 1 would not affect revenues until February. Depending on the actual passage date of the bill, the FY 89 amounts may not be actually collected until FY 90.

This fiscal note was calculated using the oil price and production assumptions of the Department of Revenue's Fall 1988 Petroleum Production Revenue Forecast mid-case scenario updated for actual data through November of 1988. That forecast was predicated on Alaska North Slope crude prices at the U.S. Gulf of \$13.25 a barrel in FY 89 and \$12.89 a barrel in FY 90. 1/

Additional revenues for future years in millions of dollars are as follows:

| | |
|------|-----|
| 1995 | 174 |
| 1996 | 169 |
| 1997 | 163 |
| 1998 | 153 |
| 1999 | 152 |
| 2000 | 144 |
| 2001 | 136 |
| 2002 | 129 |
| 2003 | 117 |
| 2004 | 110 |
| 2005 | 104 |
| 2006 | 91 |
| 2007 | 80 |
| 2008 | 60 |
| 2009 | 45 |
| 2010 | 29 |

1/ Had the fiscal note used the oil price and volume assumptions of the "Consensus Revenue Analysis" of January 24, 1989, the FY 89 fiscal impact would be \$56 million, and the FY 90 fiscal impact would be \$132 million. That analysis was predicated on Gulf ANS prices of \$14.07/bbl in FY 89 and \$14.30/bbl in FY 90.

Date: March 1, 1989

Price/Revenue Sensitivity Matrix for HB 118
 (Millions of \$)

| ANS @ US Gulf (\$/bbl) | Fiscal Year | | | | | |
|------------------------------|-------------|------|------|------|------|------|
| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
| 10.35 | 28 | 89 | 89 | 97 | 100 | 96 |
| 12.70 | 42 | 113 | 114 | 123 | 135 | 129 |
| 15.00 | 56 | 149 | 149 | 159 | 170 | 160 |
| 17.35 | 70 | 185 | 186 | 196 | 208 | 196 |
| 19.70 | 84 | 216 | 218 | 230 | 243 | 216 |
| 22.00 | 98 | 251 | 254 | 278 | 273 | 239 |

Assumptions:

1. Production and well assumptions from Department of Revenue mid scenario Fall 1988 forecast.
2. HB 118 effective date January 1, 1989.
3. The variation in revenue between years is a function of a number of factors, including:
 - A. The changing relative tax rates under the current ELF and HB 118.
 - B. The effect of price on production levels. (e.g. West Sak economic at \$18/bbl.)
 - C. The effect of changing production and wells on ELF under either formula.

И

В

1

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9

HOUSE COMMITTEE REPORT

(11)

Date Referred: April 7, 1989

FURTHER REFERRALS:

Date of Committee Action: 4/24/89

The FINANCE Committee considered:

HB 119

HOUSE BILL NO. 119

[CHANGE AREA COST DIFFERENTIAL]

"An Act relating to the area cost differential for school districts; and providing for an effective date."

RECOMMENDATIONS:

- [] be replaced with CSHB 119 (HESS) [X] the same title
- [] have 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):
(Dept)

APPROVES PREVIOUS: (Date/Dept)

- [] fiscal impact _____
- [] zero fiscal note _____
- [] zero with analysis _____

- [✓] fiscal note(s) DOE 4/7/89
- [] zero fiscal note(s) _____
- [] zero fn/analysis _____

SIGNING DO PASS:

Ronald J. Larson Larson

SIGNING:

(Check appropr. column)

| | Do Not Pass | No Rec | Amend |
|---|-------------|--------|-------|
| <u>[Signature]</u> Hoffman | X | | |
| <u>[Signature]</u> Swackhammer | | X | |
| <u>[Signature]</u> Brown | | X | |
| <u>[Signature]</u> Koponen | | X | |
| <u>[Signature]</u> Ulmer | | X | |
| <u>[Signature]</u> Barnes | | X | |
| <u>[Signature]</u> Phillips | | ✓ | |
| <u>[Signature]</u> Krieger | | | ✓ |
| <u>[Signature]</u> Wallis | | | ✓ |
| CO- <u>[Signature]</u> Chairman's Signature | | | |
| CO- <u>[Signature]</u> | | | |

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Education
 Title: Area Cost Deffernetial For
School Districts BRU: K-12 Support
 Sponsor: House HESS Components: Foundation
 Requestor: House HESS

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 89 | FY 90 | FY 91 | FY 92 | FY 93 | FY 94 |
|-------------------|-------|--------|--------|--------|--------|--------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | (22.8) | (45.6) | (68.4) | (68.4) | (68.4) |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | | (22.8) | (45.6) | (68.4) | (68.4) | (68.4) |

| | | | | | | |
|---------|--|--|--|--|--|--|
| CAPITAL | | | | | | |
|---------|--|--|--|--|--|--|

| | | | | | | |
|---------|--|--|--|--|--|--|
| REVENUE | | | | | | |
|---------|--|--|--|--|--|--|

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------|--|--------|--------|--------|--------|--------|
| GENERAL FUND | | (22.8) | (45.6) | (68.4) | (68.4) | (68.4) |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | | | | | | |

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS : (Attach a separate page if necessary)

The impact of phasing in the McDowell Study cost differentials over three years for each school district in the state is outlined in the attached spreadsheet.

Prepared by: Mary Hakala Phone: 465-2800
 Division: Commissioner's Office Date: 4/6/89
 Approved by Commissioner: William G. Demmert Date: 4/6/89
 Agency: Education

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Adopted

1 ALASKA PUBLIC SCHOOL FOUNDATION FUNDING PROGRAM

2 FYSO LEGISLATIVE PROJECTION AS 14.17

3
4 PREPARED 4/5/89 HB 119
5 BASED ON

No. 1
CSHB 119 (HESS)
HOUSE 4/7/89

| 6 | PROJECTED | AS REPORTED | COLUMN 3 |
|----------------------|---------------|---------------|-------------|
| 7 SCHOOL | FYSO | FYSO | LESS |
| 8 DISTRICT | STATE AID | STATE AID | COLUMN 2 |
| 9 | | | |
| 10 | | | |
| 11 ADMK | \$2,185,403 | \$2,207,203 | \$21,600 |
| 12 ALASKA GATEWAY | \$4,643,800 | \$4,598,400 | (\$45,400) |
| 13 ALUTSIAN REGION | \$1,750,444 | \$1,760,444 | \$10,000 |
| 14 ANCHORAGE | \$142,653,962 | \$142,653,962 | 0 |
| 15 ANNETTE ISLAND | \$1,181,188 | \$1,221,568 | \$40,380 |
| 16 BERLING STRAIT | \$11,977,158 | \$12,035,758 | \$58,600 |
| 17 BRISTOL BAY | \$1,542,840 | \$1,579,040 | \$36,200 |
| 18 CHATHAM | \$2,230,673 | \$2,299,673 | \$69,000 |
| 19 CHURCH | \$1,154,300 | \$1,181,500 | \$27,200 |
| 20 COPPER RIVER | \$4,748,121 | \$4,731,321 | (\$16,800) |
| 21 CORDOVA | \$2,211,486 | \$2,284,486 | \$73,000 |
| 22 CRAIG | \$1,273,832 | \$1,296,632 | \$22,800 |
| 23 DELTA GREENY | \$4,302,137 | \$4,271,337 | (\$30,800) |
| 24 DILLINGER | \$2,503,779 | \$2,521,179 | \$17,400 |
| 25 FAIRBANKS | \$51,113,347 | \$50,902,347 | (\$211,000) |
| 26 GALENA | \$1,076,974 | \$1,088,174 | \$11,200 |
| 27 HALDIES | \$1,919,954 | \$1,904,954 | (\$15,000) |
| 28 HODDGM | \$1,344,806 | \$1,378,806 | \$34,000 |
| 29 HYDRABURG | \$944,004 | \$941,884 | (\$2,120) |
| 30 IDITAROD | \$4,336,946 | \$4,336,946 | 0 |
| 31 JUNEAU | \$17,971,471 | \$17,971,471 | 0 |
| 32 KANE | \$1,138,441 | \$1,149,641 | \$11,200 |
| 33 KACHINASSKURT | \$998,634 | \$998,634 | 0 |
| 34 KENAI | \$32,247,213 | \$32,247,213 | 0 |
| 35 KETCHIKAN | \$8,903,122 | \$8,903,122 | 0 |
| 36 KING CONE | \$989,808 | \$1,011,408 | \$21,600 |
| 37 KILBUCK | \$1,046,964 | \$1,088,964 | \$42,000 |
| 38 KODIAK | \$11,258,595 | \$11,213,195 | (\$45,400) |
| 39 KUSKOKUM | \$4,532,907 | \$4,532,907 | 0 |
| 40 LAKE & PECKOLLA | \$4,540,682 | \$4,540,682 | 0 |
| 41 LOWER KUSKOKUM | \$26,399,207 | \$26,264,207 | (\$135,000) |
| 42 LOWER YUKON | \$9,451,133 | \$9,518,133 | \$67,000 |
| 43 NAT-SO | \$32,838,888 | \$32,838,888 | 0 |
| 44 NEENAH | \$1,441,988 | \$1,525,988 | \$84,000 |
| 45 NEPE | \$4,378,988 | \$4,334,988 | (\$44,000) |
| 46 NORTH SLOPE | \$4,421,931 | \$4,421,931 | 0 |
| 47 NORTHWEST ARCTIC | \$12,911,796 | \$12,911,796 | 0 |
| 48 PELICAN | \$649,979 | \$649,979 | 0 |
| 49 PETERSBURG | \$2,786,182 | \$2,786,182 | 0 |
| 50 POKHLEP | \$1,447,998 | \$1,496,998 | \$49,000 |
| 51 RAILHELY | \$3,868,416 | \$2,882,416 | (\$986,000) |
| 52 SARD POBY | \$1,254,338 | \$1,276,338 | \$22,000 |
| 53 SITKA | \$6,042,363 | \$6,042,363 | 0 |
| 54 SKAGWAY | \$843,019 | \$843,019 | 0 |
| 55 SOUTHEAST ISLAND | \$4,568,473 | \$4,427,473 | (\$141,000) |
| 56 SOUTHWEST HERRING | \$4,977,737 | \$5,016,737 | \$39,000 |
| 57 ST. PETER'S | \$1,348,444 | \$1,364,444 | \$16,000 |
| 58 TANNAN | \$874,875 | \$882,875 | \$8,000 |
| 59 UNALASKA | \$1,177,448 | \$1,186,448 | \$9,000 |
| 60 VALDEZ | \$2,544,226 | \$2,487,226 | (\$57,000) |
| 61 WICKIAC | \$2,418,488 | \$2,418,488 | 0 |
| 62 YAKUTAT | \$1,028,333 | \$1,045,333 | \$17,000 |
| 63 YUKON FLATS | \$4,121,488 | \$4,022,488 | (\$99,000) |
| 64 YUKON-COYUKUK | \$5,019,436 | \$5,033,436 | \$14,000 |
| 65 YUPIIT | \$3,271,367 | \$3,261,367 | (\$10,000) |
| 66 | | | |
| 67 | | | |
| 68 | | | |
| 69 | | | |
| 70 TOTALS | \$669,643,738 | \$669,428,938 | (\$214,800) |
| 71 | | | |
| 72 | | | |

Original sponsor: Larson

1 IN THE HOUSE BY THE HEALTH, EDUCATION AND
2 CS FOR HOUSE BILL NO. 119 (HESS) SOCIAL SERVICES COMMITTEE
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 SIXTEENTH LEGISLATURE - FIRST SESSION
5 A BILL
6 For an Act entitled: "An Act relating to the area cost differential for
7 school districts; and providing for an effective
8 date."
9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:
10 * Section 1. FINDINGS. The legislature finds that by making an adjust-
11 ment to the existing K-12 statutory area cost differential, as recommended
12 in a recent Legislative Budget and Audit Study, the funding formula will be
13 more equitable as to the true cost of education, for all districts of the
14 state.
15 * Sec. 2. AS 14.17.051 is amended to read:
16 Sec. 14.17.051. AREA COST DIFFERENTIAL. The area cost differen-
17 tial for a school district is as follows:
18 School District Area Cost Differential
19 Adak 1.29 [1.27]
20 Alaska Gateway 1.14 [1.19]
21 Aleutian East 1.33
22 Aleutian Region 1.31
23 Anchorage 1.00
24 Annette Island 1.08 [1.03]
25 Bering Strait 1.40 [1.39]
26 Bristol Bay 1.33 [1.27]
27 Chatham 1.10 [1.03]
28 Chugach 1.20 [1.14]
29 Copper River 1.13 [1.14]

| | | |
|----|-------------------|--------------------|
| 1 | Cordova | <u>1.20</u> [1.11] |
| 2 | Craig | <u>1.08</u> [1.03] |
| 3 | Delta/Greely | <u>1.14</u> [1.16] |
| 4 | Dillingham | <u>1.29</u> [1.27] |
| 5 | Fairbanks | <u>1.03</u> [1.04] |
| 6 | Galena | <u>1.33</u> [1.30] |
| 7 | Haines | <u>1.04</u> [1.05] |
| 8 | Hoonah | <u>1.10</u> [1.08] |
| 9 | Hydaburg | <u>1.08</u> [1.03] |
| 10 | Iditarod | 1.33 |
| 11 | Juneau | 1.00 |
| 12 | Kake | <u>1.10</u> [1.03] |
| 13 | Kashunamiut | <u>1.37</u> [1.33] |
| 14 | Kenai | 1.00 |
| 15 | Ketchikan | 1.00 |
| 16 | [KING COVE | 1.27] |
| 17 | Klawock | <u>1.08</u> [1.03] |
| 18 | Kodiak | <u>1.08</u> [1.09] |
| 19 | Kuspuk | 1.33 |
| 20 | Lake & Peninsula | <u>1.33</u> [1.31] |
| 21 | Lower Kuskokwim | <u>1.40</u> [1.42] |
| 22 | Lower Yukon | <u>1.37</u> [1.35] |
| 23 | Matanuska-Susitna | 1.00 |
| 24 | Nenana | <u>1.14</u> [1.20] |
| 25 | Nome | <u>1.36</u> [1.34] |
| 26 | North Slope | <u>1.49</u> [1.45] |
| 27 | Northwest Arctic | <u>1.43</u> [1.45] |
| 28 | Pelican | <u>1.10</u> [1.08] |
| 29 | Petersburg | 1.00 |

| | | |
|----|------------------|--------------------|
| 1 | Pribilof | <u>1.40</u> [1.30] |
| 2 | Railbelt | <u>1.14</u> [1.23] |
| 3 | SAND POINT | 1.27] |
| 4 | Sitka | 1.00 |
| 5 | Skagway | 1.05 |
| 6 | Southeast Island | <u>1.08</u> [1.04] |
| 7 | Southwest Region | <u>1.33</u> [1.31] |
| 8 | St. Mary's | <u>1.37</u> [1.30] |
| 9 | Tanana | <u>1.33</u> [1.30] |
| 10 | Unalaska | <u>1.29</u> [1.27] |
| 11 | Valdez | <u>1.08</u> [1.11] |
| 12 | Wrangell | 1.00 |
| 13 | Yakutat | <u>1.20</u> [1.08] |
| 14 | Yukon Flats | <u>1.36</u> [1.46] |
| 15 | Yukon-Koyukuk | <u>1.33</u> [1.34] |
| 16 | Yupit | <u>1.40</u> [1.41] |

17 * Sec. 3. The Department of Education shall implement the changes made
18 to the area cost differential in sec. 2 of this Act, in equal amounts over
19 the next three fiscal years, beginning July 1, 1989.

20 * Sec. 4. This Act takes effect July 1, 1989.

Alaska State Legislature



Session Address:
STATE CAPITOL BUILDING
BOX V
JUNEAU, ALASKA 99811
(907) 485-3727

Interim Address:
BOX 53
PALMER, ALASKA 99645
(907) 745-3326 - Palmer
(907) 376-8828 - Wasilla

Representative Ronald L. Larson District 16B

House Bill 119 An Act to Change Area Cost Differential by Representative Ronald Larson would change the portion of the public school foundation law that compensates a district for the cost associated with "doing business" in a particular geographic area. The area cost differential formula is a companion but separate from the formula that compensates for number of students, size of schools and number of communities within a school district.

The ACD Study was undertaken following the request by various individuals and groups alleging the ACD established in 1987, when the public school foundation formula was revised, was not accurate as it was taken from information that was collected by election district rather than school district and based only on personnel cost (didn't include operation cost). The Legislative Budget and Audit Committee contracted with the McDowell Group to prepare a study with recommendations that showed by school district:

1. personnel costs
2. operation costs
3. revenue and expenditure data per student

Presently the ACDs range from 1.0 to 1.46. HB119 calls for ACD from 1.0 to 1.49. Changes were modest resulting in 42 of the 53 districts changed by 5 points or less and only half of all districts (29) changed by less than 3 points. Eleven districts remained the same.

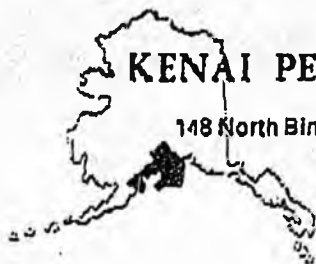
The concern that lead the Legislature to seek a study also lead to the appropriation of 3.5 million dollars for the express purpose of correcting any inequities found to exist as a result of this study.

Analysis by the Department of Education shows there will be no additional cost if the ACD were amended as called for in HB119. Although the purpose of the study was to insure appropriate compensation for the cost of business rather than to reduce public school expenditures, the findings do show it would require less funds if the proposed ACD were in effect. The information provided by the Department of Education shows the need for approximately \$200,000 less for the 1988-89 school year. The 3.5 million appropriated for correcting inequities will now be available for reappropriation and will most likely be reappropriated to fund a supplemental needed for the foundation program; thereby preventing the need to prorate the foundation program to all school districts in Alaska.

Swackhammer
A-

Anchorage Urban Influence Area: The Anchorage Urban Influence Area recommended differential is 1.00 for the three districts of Anchorage, Matanuska-Susitna and Kenai Peninsula. The Kenai Peninsula study result is actually 1.01, similar to some urban Southeast districts and is not considered statistically significant. Further, the Kenai district is compensated an extra 16% per student by the foundation formula for lower density and multisites.

Fig. 8
McDowell Study



KENAI PENINSULA BOROUGH SCHOOL DISTRICT

148 North Binkley Street • Soldotna, AK 99689 • Phone 907/262-6846

April 17, 1989

Rep. C. E. Swackhammer
House of Representatives
P. O. Box V
Juneau, AK 99811-3101

Dear Swack:

Pursuant to your request for administrative costs for schools in the Kenai Peninsula Borough located across the water or off of the road system as compared to schools on the road system, we submit the following information.

The schools we operate that are not connected to the road system have an enrollment of 352 students and a direct administrative cost of \$316,924 for next year, or an average per pupil cost of \$900. This compares to an enrollment of 8,125 students and \$4,058,381 at an average cost per pupil of \$499 for our schools located on the road system.

The above costs represent the direct administrative costs associated with each respective building and do not include the additional costs incurred by the central office administrative staff to provide services to schools located off of the road system. In order for central office personnel, i.e. superintendent, director of curriculum, director of special education and maintenance workers to provide services to schools off the road system, it is necessary to purchase air service, charter air service or barge service in addition to the additional travel time required by the staff.

The communities where we operate schools not located on the road system are:

- | | |
|-------------|-------------|
| Tyonek | English Bay |
| Seldovia | Razdolna |
| Port Graham | Voznesenka |
| Baluga | |

While our administrative costs are higher for these schools, we find that our educational and operation of plant costs are also higher on a per pupil basis.

I hope you find this information useful in your deliberations in Juneau.

Best Regards,

Fred Pomeroy
Superintendent

rd

1. Continue support for the existing foundation funding formula. Consider alterations to the unit value and the area cost differential.

Basically, we support the existing foundation funding formula. However, we would recommend that two areas of the formula be adjusted; unit value and the area cost differential for the KPBSD.

The basic unit value is currently \$60,000. We believe this figure should be adjusted to reflect any rise in the CPI. The unit value appears to be the most logical factor in the formula to adjust for inflation. For example, if the CPI increased one-half of one percent, the unit value would become \$60,300.

The area cost differential is the factor in the foundation formula that recognizes the higher costs of performing school business in Nome as compared to Anchorage or any of the 55 school districts.

Currently Fairbanks, Mat-Su, Anchorage, Juneau and the KPBSD all have an area cost differential factor of 1.00. The KPBSD maintains that our operational costs per student are higher than the other districts mentioned because of our geographic difference, in particular four schools across the water (English Bay, Port Graham, Seldovia and Tyonek).

For example, air fare alone is a significant cost item. Whenever it is necessary to transport students and staff to the road system for various meetings and activities we incur costs beyond the norm. Specifically, air fares are as follows:

| | |
|------------------------------|-------------------|
| English Bay/Homer Round Trip | - \$64.71 |
| Port Graham/Homer Round Trip | - \$64.71 |
| Seldovia/Homer Round Trip | - \$39.22 |
| Tyonek/Kenai Round Trip | -\$260.00/charter |

During the 1986-87 school year additional freight costs for flying food and school supplies to Tyonek, Port Graham, English Bay and Seldovia were as follows:

| | |
|-------------|--------------|
| Tyonek | - \$1,536.00 |
| Seldovia | - \$2,130.06 |
| English Bay | - \$2,098.42 |
| Port Graham | - \$1,426.36 |
| Total | \$7,190.84 |

Barge costs for fuel into Port Graham and English Bay involves four trips at \$2,850 per trip for a total of \$11,400.

Barge costs to Tyonek to transport large maintenance and supply items was \$8,500.

The KPBSD energy cost study as shown in Chart I relates that our fuel costs were the highest at English Bay and Port Graham with Seldovia in the fourth highest cost position.

Our rationale for a higher area cost differential factor is further documented by the following:

1. The Alaska Geographic Differential Study prepared for the State of Alaska by the McDowell Group shows the Kenai region with a 1.01 factor or 1% above the Anchorage area. See Chart II.
2. The Cooperative Extension Services, University of Alaska, in a "Cost of Food at Home Study", March, 1987, showed Kenai with a factor of 1.06 or 6% higher costs than Anchorage. A similar study in June, 1987, showed Homer at 1.23 or 23% higher than Anchorage, and Kenai at 1.09, or 9% higher than Anchorage. See Charts III and IV.

In conclusion, it is our understanding that \$200,000 was appropriated during the last legislative session to perform a definitive area cost differential study. To date, we are unaware of any study that would have further documented the need for adjustments in this area of the formula.



SOUTHEAST ISLAND SCHOOL DISTRICT

1621 TONGASS AVENUE SUITE 301
POST OFFICE BOX 8340
KETCHIKAN, ALASKA 99901
(907) 225-8658 OR 225-9659

Robert Weinstein
SUPERINTENDENT

April 4, 1989

Representative Johnnie Ellis
Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Representative Ellis:

Due to the limited time this morning for testimony regarding HB 119, I was unable to present the position of the Southeast Island School District with respect to this legislation. I am therefore submitting our position in written form.

The School District generally supports the revised differentials as some appropriate corrections are made, and certain inequities in the current formula are reduced.

When the original differentials were proposed, I did a considerable amount of research and expressed a great deal of concern regarding the appropriateness of using household cost data to reflect the relative costs of operating school districts.

Two of the major subindices used inappropriately were for housing and transportation, which alone accounted for between 40 and 50% of the household costs in each area of the state. The current study appears to correct this and similar problems with the earlier data, and more accurately reflects the cost of school district operations. It certainly shows what people in this area have been saying: the area differentials for Southeast Alaska school districts were, on a relative basis, inappropriately low.

Another reason to adopt the proposed changes in some form has to do with federal PL 874 requirements. It is my understanding that, when federal officials reviewed the new foundation plan to determine whether it met certain tests with respect to PL 874, so that a deduction from state aid could be made, the plan was approved in part because a showing could be made that the best available data at the time was used to establish the differentials. Now that the source of the original data is stating that better data is now available, it seems that some type of action is appropriate in order to avoid jeopardizing the current deductibility of the PL 874 funds from state foundation aid.

A few other suggestions which come to mind are as follows:

- (A) Additional consideration might be given to more regionalization of data. For example, in southern Southeast the data indicated that this school district had a cost of doing business of 11% above the base. However, the proposed differential puts us only 8% above the base. This was so our district would not stand out in southern Southeast among the rural districts with respect to area differentials. Given the relative locations of the school districts in this part of the state, that approach does make some sense. If this were to be applied to some other places throughout the state, such as northern Southeast Alaska, perhaps that would reduce some of the problems perceived in the proposed legislation in that there are differences between neighboring towns and districts.
- (B) Consideration should be given to a hold harmless provision so that no district loses funds due to a decrease in area differentials. If such a provision were implemented, the area differential perhaps would only decrease as the foundation unit increased in future years.
- (C) A provision should be made for the periodic updating of data every three to five years. This would assure that in future years we are not operating on completely antiquated data.

Sincerely,



Robert Weinstein
Superintendent

MEMORANDUM

State of Alaska
Department of Education

TO: William Demmert
Commissioner
Department of Education

DATE: December 28, 1988

FILE NO: FAC 1602

FROM: Tom Ryan 
Acting Director

SUBJECT: Foundation
Issues

Pursuant to your request we have analyzed the impact of adjustments to the foundation funding formula which would reduce the total state cost for this program. If the foundation program is underfunded without changes to the statute, then a proration of basic need as required by AS 14.17.225(b) would allow districts to exceed disparity limits. Therefore, if there are insufficient funds available to fully fund the program, rather than simply prorate entitlements based upon a unit value which has not been fully funded, the legislature should reduce the unit value in AS 14.17.056.

This change and others we have considered and rejected are discussed in more detail below. We are not promoting any of these options, and we have requested full funding of foundation program entitlements in our budget request.

Since FY 90 foundation information was not yet complete at the time of this analysis, and since the principles in operation are the same, our discussion below uses FY 89 data.

1. UNIT VALUE ADJUSTMENT

A change of the unit value from \$60,000/unit to \$59,500/unit (value set in AS 14.17.056) would have reduced the FY 89 full foundation entitlement by \$5,087,010. Each subsequent reduction of \$500 in the instructional unit value reduces the FY 89 entitlement by an identical amount, i.e. a \$1,000 change in unit value changes the foundation entitlement by \$10,174,020. Preliminary FY 90 data indicates that a foundation unit value of \$56,500 would produce a foundation entitlement of \$439,245,198 versus almost \$475 million with a \$60,000 unit.

Discussion: Unit value adjustments would not create any problem with disparity test calculations. The school district impact appears to be balanced. If the foundation program is underfunded and the unit value were left unchanged at \$60,000, then a proration of basic need as required by AS 14.17.225 (b) would allow districts to exceed disparity limits and jeopardize federal funding. Therefore, if there are insufficient funds available to fully fund the program, rather than simply prorate entitlements based upon a unit value which has not been fully funded, it is essential to reduce the unit value. This action simultaneously reduces entitlements and allowed local contribution, and so protects disparity limits.

2. INCREASE MINIMUM REQUIRED LOCAL CONTRIBUTION (MILL RATE)

If the required mill rate alone is changed (AS 14.17.025(1) and the ceiling (AS 14.17.025(2) remains at 35% of basic need, then the reduction in state aid would be as follows:

| <u>Mills</u> | <u>foundation</u> | <u>increment</u> | <u>total saved</u> | <u>Note:</u> |
|--------------|-------------------|------------------|--------------------|---|
| 4 | \$448,430,555 | | 0 | N.Slope/Valdez at 35% |
| 4.5 | 435,179,047 | \$13,251,508 | \$13,251,508 | Kenai reaches 35% |
| 5 | 426,294,829 | 8,884,218 | \$22,135,726 | Anchorage & Matsu -35% |
| 5.5 | 423,660,420 | 2,634,409 | \$24,770,135 | Fairbanks, Juneau Ketchikan, Unalaska -35% |
| 6 | 422,338,082 | 1,322,338 | \$26,092,473 | |

Discussion: This change would have no effect on the disparity test. However, it would have an unbalanced impact on school districts: most small municipal school districts would never reach the 35% ceiling, whereas the larger and more affluent municipal school districts would reach the ceiling on local share and therefore be able to appropriate less for schools. Therefore, although foundation entitlement decreases of up to \$26 million are possible with mill rate changes alone, the burden of such changes is unevenly distributed.

3. CHANGE LOCAL CONTRIBUTION PERCENTAGE CEILING

If the local contribution required by AS 14.17.025(2) is changed so that there is an increased maximum percentage (40%, 45%, or 50%, instead of 35%) then only the North Slope and Valdez would be affected. The increased ceiling on local share of basic need would increase the costs for the two districts and reduce the state's cost of the foundation program a like amount. A 4 mill tax in other municipal school districts does not generate enough to reach the existing 35% ceiling. The changes are linear, i.e. each 5% change in the ceiling changes the costs by the same amount since it is a percentage of the same figure: basic need.

each 5% increase costs North Slope \$593,790 (based upon FY 89 figures)
 each 5% increase costs Valdez 189,840
 each 5% increase reduces foundation 783,630

Discussion: An increase to a 50% ceiling by itself would reduce foundation entitlements by only \$2,350,890. Only the two districts will be affected until such time as the assessed valuation in other municipal school districts increases to a level at which the minimum required tax levy meets or exceeds the existing 35% of basic need ceiling.

Note: Except for North Slope and Valdez, every city borough school district currently contributes an equivalent of a 4 mill tax levy. If the North Slope and Valdez had the same requirement, that is if there were a higher ceiling or no ceiling, then the revenue generated would exceed the basic need of those districts by over \$40 million (\$38,443,979 for North Slope and \$2,456,739 for Valdez). This analysis suggests that some combination of increased mill rate and increased ceiling on local share would involve more school districts in increased local support and produce significantly more local contributions toward education, reducing the foundation payment entitlements significantly.

4. CHANGE LOCAL CONTRIBUTION CEILING AND MILL RATE

This change places a greater burden on a larger number of municipal school districts and as a result more dramatically reduces foundation entitlements:

| <u>Minimum mills</u> | <u>Maximum % ceiling</u> | <u>foundation reduced</u> |
|---------------------------|------------------------------------|---------------------------|
| A 4.5 mill minimum with a | 40% ceiling reduces state payments | \$16,115,669 |
| | 45% | 17,081,593 |
| | 50% | 18,047,516 |
| A 5.0 | 40% | 29,569,410 |
| | 45% | 32,197,016 |
| | 50% | 33,162,939 |
| A 5.5 | 40% | 40,865,063 |
| | 45% | 45,920,400 |
| | 50% | 48,264,381 |
| A 6.0 | 40% | 45,516,307 |
| | 45% | 59,054,732 |
| | 50% | 62,269,611 |

Discussion: This change affects only who pays what share of basic need and therefore does not affect disparity calculations. Disparity tests are affected only by expenditures beyond the basic need amount.

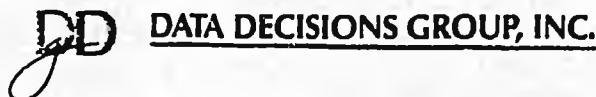
5. REAA INTEREST COUNTED AS LOCAL CONTRIBUTION

AS 14.17.025 (d) could be changed to require regional education attendance area school districts to contribute a local share in the amount of interest earnings. For FY 89 the amount of such earnings was projected to be \$2,211,984. This figure does not include interest earnings on capital project funds, but only interest on amounts in the general operating fund.

Discussion: Reducing state foundation payments to REAAs by interest earned on investments removes any incentive for investment and REAAs would likely cease the practice and eliminate the expense of managing these investments. Such a change would likely be counter-productive unless some incentive was retained for investment.

THE McDOWELL GROUP
MANAGEMENT AND ECONOMIC CONSULTANTS

a division of



February 13, 1989

Representative Ron Larson
House of Representatives
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

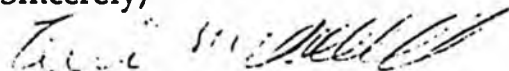
Dear Representative Larson:

The purpose of this letter is to address two questions concerning the final district differentials from the recently completed *Alaska School District Profiles and Differential Study*.

1. The Haines District inquired about adjusting their insurance differential. On their questionnaire they reported no property insurance costs because the administration of their insurance payments involves the Haines Borough. However, unlike any other borough government, the sole function of the Haines Third Class Borough is school finance and school funds were used by the borough to pay insurance premiums of \$19,613 in FY 1988, the year used for the study. Therefore, in our professional opinion the Haines School District should be credited with the payment of property insurance and their insurance expenditure weight and price differential adjusted accordingly. This would raise their geographic differential from 1.03 in our final report to 1.04.
2. In the first printing of Volume I, for which only a limited number of copies were printed, a typographical error existed for the Valdez District in one table in Chapter I. A 1.06 differential is shown and this should be corrected to 1.08. The copies from the major printing contain the correct differential of 1.08. Since the committee was given the copies of the first printing, any proposed legislation should be checked to insure a 1.08 for Valdez. Your office and Valdez were advised of this correction by phone in December.

Please call if you have any questions.

Sincerely,



D. Eric McDowell
Principal

Alaska State Legislature



Session Address:
STATE CAPITOL BUILDING
BOX V
JUNEAU, ALASKA 99811
(907) 465-3727

Interim Address:
BOX 53
PALMER, ALASKA 99645
(907) 745-3828 - Palmer
(907) 376-8628 - Wasilla

Representative Ronald L. Larson District 16B

House Bill 119 An Act to Change Area Cost Differential by Representative Ronald Larson would change the portion of the public school foundation law that compensates a district for the cost associated with "doing business" in a particular geographic area. The area cost differential formula is a companion but separate from the formula that compensates for number of students, size of schools and number of communities within a school district.

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3. revenue and expenditure data per student

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ASSOCIATION OF ALASKA SCHOOL BOARDS

316 W. 11th St. • Juneau, Alaska 99801-1510 • (907) 586-1083

POSITION PAPER

HB 119

Cost Differentials for School Districts

The Association of Alaska School Boards is concerned with the impact that the redistribution of the new area differentials will have on a number of small districts.

The impact of a decreased differential on a small district can be quite significant. Department of Education projections indicate. Four districts will receive cuts in excess of 5% of their state aid according to the McDowell scenario.

School districts are currently dealing with the suggestions from the Legislature to reduce their budgets due to revenue shortfalls from the State. This cost differential reduction to some districts, *on top* of possible reduced revenues from the State, may not provide some small districts with the latitude to adequately adjust to the redistribution of this new area cost differential.

AASB encourages the Legislature to insure that every consideration is made to protect the educational and operational integrity of each district in the State of Alaska.

SITKA SCHOOL DISTRICT



TO : House HESS Committee Members

FROM : Joe Beckford, Ass't. Sup't. *Joe B.*
Sitka School District

DATE : April 4, 1989

RE : House Bills 119 & 185

House Bill 119

My questioning of Mr. McDowell was meant to bring out that the area differentials are invalid as applied. In a market basket approach to determining a cost of living index, a wide range of expenses impacting a total budget are compiled. In the school district cost survey, a relatively few expenses are extrapolated out as if they impacted the whole school district's budget. While the cost of utilities, transportation, and freight comprise a relatively small portion of school district budgets, the area differentials they represent are applied to 100% of a district's entitlement. The area differentials should be adjusted according to how much of a school district's budget goes into expense categories truly impacted by differential costs. This is not being done. This and the dispersion calculations have a compounding effect which has significantly led to the creation of "have's" and "have not's" in state foundation funding. It has also led to a small number of communities which want a good basic educational program having to pay an extremely high amount of local funding in order to do so.

House Bill 185

Sitka School district could add to the scenarios that other single site school districts have provided in their testimony to show the wholesale cutbacks in people and programs which have occurred over the last several years; cutbacks which were the direct result of inadequate funding through an inequitable funding formula.

A good example of the problem can be shown by looking at next year's (FY'90) Basic Need calculations for Sitka Schools. Basic Need is what it should cost Sitka to carry out its educational program with the number of students and groupings of students (foundation units) for which it is eligible.

The inadequacy of Basic Need, as a realistic cost

determinant, can be shown by the following:

| | | |
|---|---|-------------------|
| - Basic Need (132.66 units x \$60,000.) | = | \$ 7,959,600. |
| - Sitka's salary and benefit costs | = | <u>7,855,122.</u> |
| | | \$ 104,122. |

After payroll expenses, Basic Need leaves the district with \$104,122. to pay the utilities (electricity, fuel oil, water, sewer, and garbage), insurance, mandated costs (i.e. audit, curriculum review, etc.), contracted services, and other expenses. Basic need, at full funding is not covering the bills let alone talk of prorating the basic need by 95%.

It is my understanding that the Department has put together an alternate proposal which would exclude Sitka and some of the other higher category districts from the relief sought under HB 185. They claim that the larger districts proposed for this relief have efficiency of size. If you look at the computation of Basic Need, efficiency of size has not been taken into consideration anyplace else in funding formulations. If you take Anchorage's Basic Need and divide it by their enrollment (38,685.23), you get \$ \$4,830.17 per pupil; Sitka's Basic Need (at 1657.90 enrollment) is \$4,943.24; a \$ 113.07 difference. However, Northwest Arctic School District, which is comparable to Sitka in size has a Basic Need per pupil of \$10,004.46.; a \$6,188.68 difference. Where has efficiency of size been taken into consideration in the foundation formulations ? The answer is nowhere, and that is a part of the problem that the small school district's face.

The Department's input on this issue is vacuous; it has no data or valid rationale to support its position because the facts are very clear; small single site school districts, of which Sitka is and should be a part, have taken a disproportionate higher reduction in state funding than other categories of school districts.

THE FOLLOWING DOCUMENT HAS
NOT BEEN FILMED BUT IS
AVAILABLE IN THE ORIGINAL
FILE

ALASKA SCHOOL DISTRICT PROFILES AND DIFFERENTIAL STUDY

SUMMARY OF RESULTS AND RECOMMENDATIONS

CHAPTER I OF VOLUME I

PREPARED FOR:

LEGISLATIVE BUDGET AND AUDIT COMMITTEE
ALASKA STATE LEGISLATURE

PREPARED BY:

THE MCDOWELL GROUP
A DIVISION OF
DATA DECISIONS GROUP, INC.

IN ASSOCIATION WITH
DR. NAT COLE

DECEMBER 1988



FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Area Cost Differential For
School Districts
Sponsor: Larson
Requestor: _____

Agency Affected: Education
BRU: K-12 Support
Components: Foundation

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 89 | FY 90 | FY 91 | FY 92 | FY 93 | FY 94 |
|------------------------|-------|----------|----------|----------|----------|----------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | (68,400) | (68,400) | (68,400) | (68,400) | (68,400) |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | | (68,400) | (68,400) | (68,400) | (68,400) | (68,400) |

| | | | | | | |
|---------|--|--|--|--|--|--|
| CAPITAL | | | | | | |
|---------|--|--|--|--|--|--|

| | | | | | | |
|---------|--|--|--|--|--|--|
| REVENUE | | | | | | |
|---------|--|--|--|--|--|--|

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------|--|----------|----------|----------|----------|----------|
| GENERAL FUND | | (68,400) | (68,400) | (68,400) | (68,400) | (68,400) |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | | | | | | |

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS : (Attach a separate page if necessary)

HB 119 would adjust foundation program "area cost differentials" as recommended by the McDowell Study. The bill would reduce State general fund costs by \$68,400 in FY90. District by district impacts are shown on the attached pages.

Prepared by: Tom Rvan
Division: Education Finance and Support Services

Phone: 465-2865
Date: 2/27/89

Approved by Commissioner: William G. Demmert
Agency: Education

Date: 2/27/89

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

RECEIVED
MAR 1 1989

11019

ALASKA PUBLIC SCHOOL FOUNDATION FUNDING PROGRAM
 AND LEGISLATIVE PROJECTION AS 14.17

| PREPARED 1/11/89 | BASED ON | | PERCENTAGE | |
|-------------------------|---------------|---------------|-------------|-------------|
| | | McDowell | | |
| | PROJECTED | STUDY | COLUMN 3 | OF CHANGE |
| SCHOOL | FY90 | FY90 | MINUS | COLUMN 3 TO |
| DISTRICT | STATE AID | STATE AID | COLUMN 2 | COLUMN 2 |
| 10 | | | | |
| 11 ADAK | \$2,185,503 | \$2,250,403 | \$64,900 | 2.96% |
| 12 ALASKA GATEWAY | \$4,663,300 | \$4,467,600 | (\$196,200) | -4.21% |
| 13 ALEUTIAN REGION | \$1,750,444 | \$1,781,044 | \$30,600 | 1.75% |
| 14 ANCHORAGE | \$142,653,962 | \$142,653,962 | \$0 | 0.00% |
| 15 ANNETTE ISLAND | \$1,151,138 | \$1,302,388 | \$121,200 | 10.26% |
| 16 BERING STRAIT | \$11,997,158 | \$12,112,958 | \$115,600 | 0.97% |
| 17 BRISTOL BAY | \$1,542,340 | \$1,651,440 | \$108,600 | 7.04% |
| 18 CHATHAM | \$2,230,873 | \$2,437,873 | \$207,000 | 9.28% |
| 19 CHUGACH | \$1,156,300 | \$1,231,900 | \$75,600 | 6.54% |
| 20 COPPER RIVER | \$4,748,121 | \$4,703,721 | (\$44,400) | -0.94% |
| 21 CORDOVA | \$2,211,436 | \$2,430,486 | \$219,000 | 9.90% |
| 22 CRAIG | \$1,273,032 | \$1,343,332 | \$70,300 | 5.56% |
| 23 DELTA GREELY | \$4,302,137 | \$4,209,737 | (\$92,400) | -2.15% |
| 24 DILLINGHAM | \$2,503,779 | \$2,555,979 | \$52,200 | 2.08% |
| 25 FAIRBANKS | \$51,113,347 | \$50,430,347 | (\$683,000) | -1.24% |
| 26 GALENA | \$1,076,974 | \$1,110,574 | \$33,600 | 3.12% |
| 27 HAINES | \$1,919,954 | \$1,874,954 | (\$45,000) | -2.34% |
| 28 HOONAH | \$1,363,806 | \$1,398,806 | \$35,000 | 2.19% |
| 29 HYDABURG | \$946,004 | \$993,404 | \$47,400 | 5.01% |
| 30 IDITAROD | \$4,336,946 | \$4,336,946 | \$0 | 0.00% |
| 31 JUNEAU | \$17,971,471 | \$17,971,471 | \$0 | 0.00% |
| 32 KAKE | \$1,138,441 | \$1,232,641 | \$94,200 | 8.27% |
| 33 KASHUNAMIUT | \$980,234 | \$1,034,234 | \$54,000 | 5.44% |
| 34 KENAI | \$32,247,213 | \$32,247,213 | \$0 | 0.00% |
| 35 KETCHIKAN | \$8,903,122 | \$8,903,122 | \$0 | 0.00% |
| 36 KING COVE | \$989,828 | \$1,054,628 | \$64,800 | 6.55% |
| 37 KULAHOCK | \$1,065,944 | \$1,134,944 | \$69,000 | 6.47% |
| 38 KODIAK | \$11,255,595 | \$11,128,395 | (\$127,200) | -1.13% |
| 39 KUSKOK | \$4,532,907 | \$4,532,907 | \$0 | 0.00% |
| 40 LAKE & PENINSULA | \$4,540,682 | \$4,624,082 | \$83,400 | 1.84% |
| 41 LOWER KUSKOKWIM | \$26,399,207 | \$25,946,207 | (\$453,000) | -1.72% |
| 42 LOWER YUKON | \$9,451,133 | \$9,652,133 | \$201,000 | 2.13% |
| 43 MAT-SU | \$31,838,033 | \$31,838,033 | \$0 | 0.00% |
| 44 NENANA | \$1,613,938 | \$1,529,938 | (\$84,000) | -5.20% |
| 45 NOME | \$4,797,902 | \$4,878,902 | \$81,000 | 1.69% |
| 46 NORTH SLOPE | \$6,512,331 | \$6,841,131 | \$328,800 | 5.05% |
| 47 NORTHWEST ARCTIC | \$12,987,756 | \$12,759,756 | (\$228,000) | -1.76% |
| 48 FELICAN | \$516,579 | \$526,779 | \$10,200 | 1.97% |
| 49 PETERSBURG | \$2,766,182 | \$2,766,182 | \$0 | 0.00% |
| 50 PRIBILOF | \$1,447,535 | \$1,593,935 | \$146,400 | 10.11% |
| 51 RAILELIT | \$3,018,416 | \$2,521,016 | (\$497,400) | -16.48% |
| 52 SAND POINT | \$1,254,838 | \$1,320,838 | \$66,000 | 5.26% |
| 53 SITKA | \$6,052,363 | \$6,062,363 | \$10,000 | 0.00% |
| 54 SKAGWAY | \$863,019 | \$863,019 | \$0 | 0.00% |
| 55 SOUTHEAST ISLAND | \$4,558,473 | \$4,766,073 | \$207,600 | 4.55% |
| 56 SOUTHWEST REGION | \$4,977,737 | \$5,076,737 | \$99,000 | 1.99% |
| 57 ST. MARY'S | \$1,340,661 | \$1,413,661 | \$73,000 | 5.46% |
| 58 TANANA | \$874,075 | \$899,875 | \$25,800 | 2.95% |
| 59 UNALASKA | \$1,177,460 | \$1,203,260 | \$25,800 | 2.19% |
| 60 VALDEZ | \$2,546,224 | \$2,371,024 | (\$175,200) | -6.88% |
| 61 WRANGELL | \$2,418,601 | \$2,418,601 | \$0 | 0.00% |
| 62 YAKUTAT | \$1,020,333 | \$1,155,933 | \$135,600 | 13.29% |
| 63 YUKON FLATS | \$4,121,488 | \$3,765,088 | (\$356,400) | -8.65% |
| 64 YUKON-KOYUKUK | \$5,019,436 | \$4,971,436 | (\$48,000) | -0.96% |
| 65 YUPIIT | \$3,271,367 | \$3,241,367 | (\$30,000) | -0.92% |
| 66 | | | | |
| 67 | | | | |
| 68 | | | | |
| 69 | | | | |
| 70 TOTALS | \$469,643,738 | \$469,575,338 | (\$68,400) | -0.01% |
| 71 | | | | |
| 72 | | | | |
| 73 STATE CORR STUDY --> | \$3,728,010 | \$3,728,010 | \$0 | |
| 74 VALDEZ CONTRACT --> | \$600,000 | \$600,000 | \$0 | |
| 75 MT. EDGECLUMBE ----> | \$1,426,397 | \$1,426,397 | \$0 | |
| 76 | | | | |
| 77 TOTAL STATE AID --> | \$475,398,145 | \$475,329,745 | (\$68,400) | |

ALASKA PUBLIC SCHOOL FOUNDATION FUNDING PROGRAM
 FY90 LEGISLATIVE PROJECTION AS 14.17

PREPARED 1/11/89

| SCHOOL DISTRICT | FY90 PROJECTED UNITS | AREA COST DIFF. | FY90 ADJUSTED UNITS | FY90 PROJECTED BASIC NEED \$60,000 | REQUIRED LOCAL EFFORT | DEDUCTIBLE PL874 | PROJECTED FY90 STATE AID |
|------------------|----------------------|-----------------|---------------------|------------------------------------|-----------------------|------------------|--------------------------|
| ADAK | 54.02 | 1.27 | 68.61 | \$4,116,600 | \$0 | \$1,930,997 | \$2,185,603 |
| ALASKA GATEWAY | 55.32 | 1.19 | 77.73 | \$4,663,800 | \$0 | \$0 | \$4,663,800 |
| ALEUTIAN REGION | 25.89 | 1.31 | 33.92 | \$2,035,200 | \$0 | \$284,756 | \$1,750,444 |
| ANCHORAGE | 3,103.37 | 1.00 | 3,103.37 | \$186,202,200 | \$43,334,202 | \$214,036 | \$142,653,962 |
| ANNETTE ISLAND | 40.38 | 1.03 | 41.59 | \$2,495,400 | \$0 | \$1,314,212 | \$1,181,188 |
| BERING STRAIT | 192.85 | 1.39 | 268.06 | \$16,083,600 | \$0 | \$4,086,442 | \$11,997,158 |
| BRISTOL BAY | 30.25 | 1.27 | 38.42 | \$2,305,200 | \$472,721 | \$289,639 | \$1,542,840 |
| CHATHAM | 49.16 | 1.03 | 50.63 | \$3,037,300 | \$0 | \$406,927 | \$2,230,873 |
| CHUGACH | 20.38 | 1.14 | 23.80 | \$1,428,000 | \$0 | \$271,700 | \$1,156,300 |
| COPPER RIVER | 74.74 | 1.14 | 85.20 | \$5,112,000 | \$0 | \$363,879 | \$4,748,121 |
| CORCOVA | 40.56 | 1.11 | 45.02 | \$2,701,200 | \$464,414 | \$25,300 | \$2,211,486 |
| CRAIG | 23.45 | 1.03 | 24.15 | \$1,449,000 | \$155,135 | \$20,333 | \$1,273,032 |
| DELTA GREELY | 76.92 | 1.16 | 89.23 | \$5,353,300 | \$0 | \$1,051,663 | \$4,302,137 |
| DILLINGHAM | 43.47 | 1.27 | 55.21 | \$3,312,600 | \$486,205 | \$327,616 | \$2,503,779 |
| FAIRBANKS | 1,055.20 | 1.06 | 1,097.41 | \$65,844,600 | \$14,683,509 | \$47,744 | \$51,113,347 |
| GALENA | 18.69 | 1.30 | 24.30 | \$1,453,000 | \$78,340 | \$302,686 | \$1,076,974 |
| HAINES | 37.86 | 1.05 | 39.75 | \$2,353,300 | \$450,452 | \$14,594 | \$1,919,954 |
| HOOHAH | 25.19 | 1.08 | 27.21 | \$1,632,600 | \$90,288 | \$172,906 | \$1,368,806 |
| HYDABURG | 15.92 | 1.03 | 16.40 | \$984,000 | \$37,996 | \$0 | \$946,004 |
| IDITAROD | 63.90 | 1.33 | 84.99 | \$5,099,400 | \$0 | \$752,454 | \$4,336,946 |
| JUNEAU | 389.96 | 1.00 | 389.96 | \$23,397,600 | \$5,413,248 | \$12,381 | \$17,971,471 |
| KAKE | 22.35 | 1.03 | 23.02 | \$1,381,200 | \$70,921 | \$171,838 | \$1,138,441 |
| KASHUNAMIUT | 22.33 | 1.33 | 29.70 | \$1,782,000 | \$0 | \$401,166 | \$1,080,834 |
| KENAI | 774.01 | 1.00 | 774.01 | \$46,440,600 | \$14,086,937 | \$106,450 | \$32,247,113 |
| KETCHIKAN | 204.10 | 1.00 | 204.10 | \$12,246,000 | \$3,331,958 | \$10,920 | \$8,903,122 |
| KING COVE | 17.87 | 1.27 | 22.69 | \$1,361,400 | \$106,145 | \$265,427 | \$989,828 |
| KLACOCK | 22.82 | 1.03 | 23.50 | \$1,410,000 | \$38,712 | \$305,344 | \$1,065,944 |
| KODIAK | 212.38 | 1.09 | 231.49 | \$13,839,400 | \$2,378,504 | \$255,301 | \$11,255,595 |
| KULPLUK | 65.33 | 1.33 | 86.89 | \$5,213,400 | \$0 | \$680,493 | \$4,532,907 |
| LAKE & PENINSULA | 69.89 | 1.31 | 91.56 | \$5,493,600 | \$0 | \$952,918 | \$4,540,682 |
| LOWER KUSKOKWIM | 377.58 | 1.42 | 536.16 | \$32,169,600 | \$0 | \$5,770,393 | \$26,399,207 |
| LOWER YUKON | 167.61 | 1.35 | 226.00 | \$13,560,000 | \$0 | \$4,109,867 | \$9,451,133 |
| MAT-SU | 683.60 | 1.00 | 683.60 | \$41,016,000 | \$9,159,961 | \$18,006 | \$31,838,033 |
| MEWANA | 23.33 | 1.20 | 28.00 | \$1,680,000 | \$66,062 | \$0 | \$1,613,938 |
| MOPE | 67.30 | 1.34 | 90.18 | \$5,410,000 | \$560,332 | \$52,566 | \$4,797,902 |
| NORTH SLOPE | 137.09 | 1.45 | 198.78 | \$11,926,800 | \$4,150,440 | \$1,264,029 | \$6,512,331 |
| NORTHWEST ARCTIC | 139.93 | 1.45 | 201.40 | \$16,524,000 | \$632,184 | \$2,904,060 | \$12,987,756 |
| PELICAN | 8.63 | 1.08 | 9.32 | \$559,200 | \$42,621 | \$0 | \$516,579 |
| PETERSBURG | 57.88 | 1.00 | 57.88 | \$3,472,800 | \$692,336 | \$14,282 | \$2,766,182 |
| PEVILLOF | 24.46 | 1.30 | 31.80 | \$1,908,000 | \$0 | \$460,405 | \$1,447,595 |
| RANBELT | 41.45 | 1.23 | 50.98 | \$3,053,300 | \$0 | \$40,384 | \$3,018,416 |
| SAND POINT | 18.33 | 1.27 | 23.28 | \$1,396,800 | \$141,962 | \$0 | \$1,254,838 |
| SITKA | 132.65 | 1.00 | 132.65 | \$7,959,000 | \$1,896,637 | \$0 | \$6,062,363 |
| SKIDWAY | 17.23 | 1.05 | 18.09 | \$1,025,400 | \$221,834 | \$547 | \$863,919 |
| SOUTHEAST ISLAND | 86.65 | 1.04 | 90.12 | \$5,407,200 | \$0 | \$843,727 | \$4,558,473 |
| SOUTHWEST REGION | 82.73 | 1.31 | 108.38 | \$6,502,800 | \$0 | \$1,525,063 | \$4,977,737 |
| ST. MARY'S | 17.40 | 1.30 | 22.62 | \$1,357,200 | \$16,739 | \$0 | \$1,340,461 |
| TANANA | 14.33 | 1.30 | 18.63 | \$1,117,200 | \$46,048 | \$197,677 | \$874,075 |
| UNALASKA | 21.47 | 1.27 | 27.27 | \$1,636,200 | \$336,275 | \$72,465 | \$1,177,460 |
| VALDEZ | 53.38 | 1.11 | 64.80 | \$3,888,000 | \$1,331,610 | \$10,166 | \$2,546,224 |
| WASSELL | 47.31 | 1.00 | 47.31 | \$2,838,600 | \$417,379 | \$2,620 | \$2,418,601 |
| YAKUTAT | 13.36 | 1.08 | 14.42 | \$1,222,200 | \$76,168 | \$125,699 | \$1,020,333 |
| YUKON FLATS | 59.41 | 1.46 | 86.74 | \$5,204,400 | \$0 | \$1,082,912 | \$4,121,488 |
| YUKON-KOYUKUK | 79.61 | 1.34 | 106.68 | \$6,400,800 | \$0 | \$1,381,364 | \$5,019,436 |
| YUPIIT | 50.12 | 1.41 | 70.67 | \$4,240,200 | \$0 | \$968,833 | \$3,271,367 |

TOTALS 9,342.20 10,197.63 \$611,857,800 \$105,518,875 \$36,695,187 \$469,643,738

STATE CORR STUDY -----))) \$3,728,010
 VALDEZ CONTRACT -----))) \$600,000
 MT. EDGECLUMBE -----))) \$1,426,397
 TOTAL STATE AID -----))) \$475,398,145

ALASKA PUBLIC SCHOOL FOUNDATION FUNDING PROGRAM
 FY90 LEGISLATIVE PROJECTION AS 14.17

PREPARED 1/11/89

McDowell

| SCHOOL DISTRICT | STUDY | | FY90 PROJECTED BASIC NEED \$60,000 | REQUIRED LOCAL EFFORT | DEDUCTIBLE PL874 | PROJECTED FY90 STATE AID | |
|------------------|----------------------|-----------------|------------------------------------|-----------------------|------------------|--------------------------|---------------|
| | FY90 PROJECTED UNITS | AREA COST DIFF. | | | | | |
| ADAK | 54.02 | 1.29 | 69.69 | \$4,181,400 | \$0 | \$1,930,997 | \$2,250,403 |
| ALASKA GATEWAY | 65.32 | 1.14 | 74.46 | \$4,467,600 | \$0 | \$0 | \$4,467,600 |
| ALEUTIAN REGION | 25.89 | 1.33 | 34.43 | \$2,065,800 | \$0 | \$284,756 | \$1,781,044 |
| ANCHORAGE | 3,103.37 | 1.00 | 3,103.37 | \$186,202,200 | \$43,334,202 | \$214,036 | \$142,653,962 |
| ANNETTE ISLAND | 40.38 | 1.08 | 43.51 | \$2,616,600 | \$0 | \$1,314,212 | \$1,302,388 |
| BERING STRAIT | 192.35 | 1.40 | 269.99 | \$16,199,400 | \$0 | \$4,086,442 | \$12,112,958 |
| BRISTOL BAY | 30.25 | 1.33 | 40.23 | \$2,413,800 | \$472,721 | \$289,639 | \$1,651,440 |
| CHATHAM | 49.16 | 1.10 | 54.08 | \$3,244,800 | \$0 | \$306,927 | \$2,437,873 |
| CRESWICK | 20.23 | 1.20 | 25.06 | \$1,503,600 | \$0 | \$271,700 | \$1,231,900 |
| COPPER RIVER | 74.74 | 1.13 | 84.46 | \$5,067,600 | \$0 | \$363,879 | \$4,703,721 |
| COPPOVA | 40.56 | 1.20 | 48.67 | \$2,920,200 | \$464,414 | \$25,300 | \$2,430,486 |
| CRAG | 23.45 | 1.08 | 25.33 | \$1,519,300 | \$155,135 | \$20,833 | \$1,343,832 |
| DELTA GREELY | 76.92 | 1.14 | 87.69 | \$5,261,400 | \$0 | \$1,051,663 | \$4,209,737 |
| DUNLINGHAM | 43.47 | 1.29 | 56.08 | \$3,364,800 | \$436,205 | \$322,616 | \$2,555,979 |
| FARFARANKS | 1,055.20 | 1.03 | 1,086.86 | \$65,211,600 | \$14,683,509 | \$47,744 | \$50,480,347 |
| GALENA | 18.69 | 1.33 | 24.86 | \$1,491,600 | \$78,340 | \$302,686 | \$1,110,574 |
| GRANDES | 37.86 | 1.03 | 39.00 | \$2,340,000 | \$450,452 | \$14,594 | \$1,874,954 |
| HOUMA | 25.19 | 1.10 | 27.71 | \$1,662,600 | \$90,888 | \$172,906 | \$1,398,806 |
| HOUMBURG | 15.92 | 1.08 | 17.19 | \$1,031,400 | \$37,996 | \$0 | \$993,404 |
| ISOTAROD | 63.90 | 1.33 | 84.99 | \$5,099,400 | \$0 | \$762,454 | \$4,336,946 |
| JUDEAU | 389.96 | 1.00 | 389.96 | \$23,397,600 | \$5,413,248 | \$12,381 | \$17,971,671 |
| KAYE | 22.35 | 1.10 | 24.59 | \$1,475,400 | \$70,921 | \$171,838 | \$1,232,641 |
| KAYANAHUT | 22.33 | 1.37 | 30.59 | \$1,835,400 | \$0 | \$301,166 | \$1,034,234 |
| KEKAI | 774.01 | 1.00 | 774.01 | \$46,440,600 | \$14,086,937 | \$106,450 | \$32,247,213 |
| KETCHIKAN | 204.10 | 1.00 | 204.10 | \$12,246,000 | \$3,331,958 | \$10,920 | \$8,903,122 |
| KINGS LOVE | 17.87 | 1.33 | 23.77 | \$1,426,200 | \$106,145 | \$265,427 | \$1,054,628 |
| KULANOCK | 22.82 | 1.08 | 24.65 | \$1,479,000 | \$38,712 | \$305,344 | \$1,134,944 |
| KUOTAK | 212.38 | 1.08 | 229.37 | \$13,762,200 | \$2,378,504 | \$255,301 | \$11,128,395 |
| KUSKOK | 65.33 | 1.33 | 86.89 | \$5,213,400 | \$0 | \$580,493 | \$4,532,907 |
| LAKE & PENINSULA | 69.89 | 1.33 | 92.95 | \$5,577,000 | \$0 | \$952,918 | \$4,624,082 |
| LOWER KUSKOKWIM | 377.58 | 1.40 | 528.61 | \$31,716,600 | \$0 | \$5,770,393 | \$25,946,207 |
| LOWER YUKON | 167.41 | 1.37 | 229.35 | \$13,761,600 | \$0 | \$4,103,867 | \$9,652,133 |
| MAT-SU | 683.60 | 1.00 | 683.60 | \$41,016,000 | \$9,159,961 | \$18,036 | \$31,838,033 |
| MOANA | 23.33 | 1.14 | 26.60 | \$1,596,000 | \$66,062 | \$0 | \$1,529,938 |
| MOYE | 67.30 | 1.36 | 91.53 | \$5,491,800 | \$560,332 | \$52,566 | \$4,879,902 |
| NORTH SLOPE | 137.09 | 1.49 | 204.26 | \$12,255,600 | \$4,150,440 | \$1,264,029 | \$6,841,131 |
| NORTHWEST ARCTIC | 189.93 | 1.43 | 271.60 | \$16,296,000 | \$632,184 | \$2,904,060 | \$12,759,756 |
| PELICAN | 8.63 | 1.10 | 9.49 | \$569,400 | \$42,621 | \$0 | \$526,779 |
| PETERSBURG | 57.88 | 1.00 | 57.88 | \$3,472,800 | \$652,336 | \$14,282 | \$2,766,182 |
| PRINCELOF | 24.46 | 1.40 | 34.24 | \$2,054,400 | \$0 | \$460,405 | \$1,593,995 |
| RANBELT | 41.45 | 1.03 | 42.69 | \$2,561,400 | \$0 | \$40,384 | \$2,521,016 |
| SAND POINT | 15.33 | 1.33 | 20.38 | \$1,462,800 | \$141,962 | \$0 | \$1,320,838 |
| SITKA | 132.65 | 1.00 | 132.65 | \$7,959,000 | \$1,856,637 | \$0 | \$6,062,363 |
| SUNSHINE | 17.23 | 1.05 | 18.09 | \$1,085,400 | \$221,834 | \$547 | \$863,019 |
| SOUTHEAST ISLAND | 86.65 | 1.08 | 93.58 | \$5,614,800 | \$0 | \$348,727 | \$4,766,073 |
| SOUTHWEST REGION | 82.73 | 1.33 | 110.03 | \$4,601,800 | \$0 | \$1,525,065 | \$3,076,737 |
| ST. MARY'S | 17.40 | 1.37 | 23.84 | \$1,430,400 | \$16,739 | \$0 | \$1,413,661 |
| TAKNA | 14.33 | 1.33 | 19.06 | \$1,143,600 | \$46,048 | \$197,677 | \$899,875 |
| UNALASKA | 21.47 | 1.29 | 27.70 | \$1,662,000 | \$386,275 | \$72,465 | \$1,203,260 |
| VALDEZ | 53.38 | 1.06 | 61.88 | \$3,712,800 | \$1,331,610 | \$10,166 | \$2,371,024 |
| WAINWELL | 47.31 | 1.00 | 47.31 | \$2,838,600 | \$417,379 | \$2,620 | \$2,418,601 |
| YAKUTAT | 19.86 | 1.20 | 22.63 | \$1,357,800 | \$75,168 | \$125,699 | \$1,155,933 |
| YUKON FLATS | 59.41 | 1.36 | 80.80 | \$4,848,000 | \$0 | \$1,082,912 | \$3,765,088 |
| YUKON-KOYUKUK | 79.61 | 1.33 | 105.88 | \$6,352,800 | \$0 | \$1,381,364 | \$4,971,436 |
| YUSIT | 50.12 | 1.40 | 70.17 | \$4,210,200 | \$0 | \$968,833 | \$3,241,367 |

TOTALS 9,342.20 10,196.49 \$611,789,400 \$105,518,875 \$36,695,187 \$469,575,338

STATE CORR STUDY -----))) \$3,728,010
 VALDEZ CONTRACT -----))) \$600,000
 MT. EDGECLUMBE -----))) \$1,426,397
 =====
 TOTAL STATE AID -----))) \$475,329,745

HB

120

HOUSE COMMITTEE REPORT

Rules

(11)

Date Referred: April 11, 1989

FURTHER REFERRALS:

Date of Committee Action: 4/24/89

The FINANCE Committee considered:

HB 120

HOUSE BILL NO. 120 [EXTEND BOARD OF GOVERNORS/AK BAR ASSOC.]
"An Act extending the termination date of the Board of Governors of the Alaska Bar Association; and providing for an effective date."

RECOMMENDATIONS:

- [] be replaced with _____ [] the same title
- [] have 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):
(Dept)

APPROVES PREVIOUS: (Date/Dept)

- [] fiscal impact _____
- [] zero fiscal note _____
- [] zero with analysis _____

- [] fiscal note(s) _____
- [] zero fiscal note(s) _____
- [2] zero fn/analysis H. Jud: 4/11/89

Courts 4/11/89

SIGNING DO PASS:

SIGNING:

(Check approp. column)

Donald J. Larson Larson
Carl Swackhammer Swackhammer
Phillips Phillips
Barnes Barnes
Ulmer Ulmer

| | Do Not Pass | No Rec | Amend |
|---------------------------|-------------|-------------------------------------|-------|
| <i>Lyn Hoff</i> Hoffman | | <input checked="" type="checkbox"/> | |
| <i>T. Brown</i> Brown | | <input checked="" type="checkbox"/> | |
| <i>Koponen</i> Koponen | | <input checked="" type="checkbox"/> | |
| <i>Alve Rieger</i> Rieger | | <input checked="" type="checkbox"/> | |
| <i>Keywellis</i> Wallis | | <input checked="" type="checkbox"/> | |
| | | | |
| | | | |
| | | | |

CO- *Donald J. Larson*
 Chairman's Signature
 CO *Lyn Hoff*

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: HB 120
PUBLISH DATE: HOUSE 4/11/89

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: "Extending termination date of
Alaska Bar Association"
Sponsor: House Judiciary
Requestor: House Judiciary

Agency Affected: Alaska Bar Association
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 89 | FY 90 | FY 91 | FY 92 | FY 93 | FY 94 |
|-------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES | | 0 | 0 | 0 | 0 | 0 |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | | 0 | 0 | 0 | 0 | 0 |

| | | | | | | |
|---------|--|---|---|---|---|---|
| CAPITAL | | 0 | 0 | 0 | 0 | 0 |
|---------|--|---|---|---|---|---|

| | | | | | | |
|---------|--|---|---|---|---|---|
| REVENUE | | 0 | 0 | 0 | 0 | 0 |
|---------|--|---|---|---|---|---|

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS : (Attach a separate page if necessary)

The Alaska Bar Association is wholly funded through dues paid by its members. No State funds are used for its operations.

Prepared by: Max Gruenberg Phone: 465-4968
Division: Rep. Gruenberg, Co-Chair Date: _____
House Judiciary Committee
Approved by Commissioner: _____ Date: _____
Agency: _____

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Adopted

Adopted

STATE OF ALASKA 1989 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST: Bill Version: HB 120
 Publish Date: 1/27/89

Revision Date: Agency Affected: Alaska Court System
 Title: An act extending the termina- BRU: Trial Courts
 tion date of the Board of Governors ...
 Sponsor: Judiciary Committee Components:
 Requestor: House Judiciary

| EXPENDITURES/REVENUES: | | (Thousands of Dollars) | | | | | |
|------------------------|--|------------------------|-------|-------|-------|-------|-------|
| OPERATING | | FY 89 | FY 90 | FY 91 | FY 92 | FY 93 | FY 94 |
| Personal Services | | •••• | •••• | •••• | •••• | •••• | •••• |
| Travel | | •••• | •••• | •••• | •••• | •••• | •••• |
| Contractual | | •••• | •••• | •••• | •••• | •••• | •••• |
| Supplies | | •••• | •••• | •••• | •••• | •••• | •••• |
| Equipment | | •••• | •••• | •••• | •••• | •••• | •••• |
| Land & Structures | | •••• | •••• | •••• | •••• | •••• | •••• |
| Grants & Claims | | •••• | •••• | •••• | •••• | •••• | •••• |
| TOTAL OPERATING | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | | |
|---------|------|------|------|------|------|------|------|
| CAPITAL | •••• | •••• | •••• | •••• | •••• | •••• | •••• |
|---------|------|------|------|------|------|------|------|

| | | | | | | | |
|---------|------|------|------|------|------|------|------|
| REVENUE | •••• | •••• | •••• | •••• | •••• | •••• | •••• |
|---------|------|------|------|------|------|------|------|

| FUNDING: | | (Thousands of Dollars) | | | | | |
|---------------|--|------------------------|------|------|------|------|------|
| General Funds | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Federal Funds | | •••• | •••• | •••• | •••• | •••• | •••• |
| Other | | •••• | •••• | •••• | •••• | •••• | •••• |
| TOTAL | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| POSITIONS: | | | | | | | |
|------------|--|------|------|------|------|------|------|
| Full-time | | •••• | •••• | •••• | •••• | •••• | •••• |
| Part-time | | •••• | •••• | •••• | •••• | •••• | •••• |
| Temporary | | •••• | •••• | •••• | •••• | •••• | •••• |

ANALYSIS: (Attach a separate page if necessary)

No fiscal impact.

Prepared by: *Jan Strandberg* Jan Strandberg, General Counsel Phone: 264-8228
 Division: Alaska Court System Date: 02/10/89

Approved by: *Stephanie Cole, for* Arthur H. Snowden, II, Administrative Director Date: 02/10/89
 Agency: Alaska Court System

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

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