

ALASKA LEGISLATURE

1501

HOUSE and SENATE FINANCE COMMITTEE FILES, 1995-1996

**SB**

**109**

**SFIN**

**FILE**

#2 3/28/95  
(S) L3C, FIN

# FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. SB 109

Revision Date: \_\_\_\_\_  
Title: An act relating to certain licenses and applications  
for licenses.  
Sponsor: Senator Ellis  
Requester: Senator Ellis

Department Affected: Education  
BRU: Executive Administration  
Component: Teacher Certification

COMPONENT SERIAL NO. \_\_\_\_\_ 1240

**Expenditures/Revenues:**

(Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	17.8	17.8	17.8	17.8	17.8	17.8
TRAVEL	2.0					
CONTRACTUAL	1.0					
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>20.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>

CAPITAL						
---------	--	--	--	--	--	--

REVENUE FUIID SOURCE:						
-----------------------	--	--	--	--	--	--

**FUNDING:**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other: 1007 I/A Receipts	20.8	17.8	17.8	17.8	17.8	17.8
<b>TOTAL</b>	<b>20.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>

**POSITIONS:**

FULL-TIME	1.0					
PART-TIME	-1					
TEMPORARY						

Estimate of current year (FY95) impact: \$ \_\_\_\_\_

**ANALYSIS:** (Attach a separate page if necessary.) SB 109 would require the Department of Education, Teacher Certification Office, to compare each initial and renewal certificate applicant received daily against a consolidated list of persons in noncompliance provided by the Department of Revenue. The department would need to reclassify and fill an existing vacant part-time Clerk I to an Administrative Clerk II position to assist with the additional processing required in this legislation. SB 109 would also require the State Board to adopt regulations and there would be related travel and advertising costs. Teacher Certification staff would be involved in developing department regulations. Funding would come through a RSA with the Department of Revenue, Child Support Enforcement Agency (CSED) contingent upon approval of the fiscal note for CSED.

Prepared by: Christine Niemi, Teacher Certification Administrator Phone: 465-2857  
 Division: Administrative Services Date: 3/24/95  
 Approved by Commissioner: [Signature] Shirley Holloway  
 Agency: Education Date: 3/24/95

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

SB 109

# FISCAL NOTE

3128/95  
(S) L3C, FIN

**STATE OF ALASKA**  
**1995 LEGISLATIVE SESSION**

**BILL NO. SB 109**

Revision Date: \_\_\_\_\_  
 Title: Child Support Nonpayment/Licensing Ban  
 Sponsor: Senator Ellis  
 Requestor: \_\_\_\_\_

Department Affected: Commerce and Economic Development  
 BRU: Banking, Securities and Corporations  
 Component: Banking, Securities and Corporations  
 COMPONENT SERIAL NO. 1233

**Expenditures/Revenues:** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	29.1	24.3	24.3	24.3	24.3	24.3
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>29.1</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>

CAPITAL EXPENDITURES	0	0	0	0	0	0
----------------------	---	---	---	---	---	---

CHANGE IN REVENUES ( )	0	0	0	0	0	0
------------------------	---	---	---	---	---	---

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
1007 Interagency Receipts	29.1	24.3	24.3	24.3	24.3	24.3
<b>TOTAL</b>	<b>29.1</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>

Estimate of current year (FY 95) cost: \$ 0

**POSITIONS**

FULL-TIME	.33	.33	.33	.33	.33	.33
PART-TIME						
TEMPORARY						

- ANALYSIS:** (Attach a separate page if necessary.)
- \$26.0 for FY 96 and \$21.2 for the remaining years will be used to fund one-third of an analyst/programmer for the Department of Commerce and Economic Development. This person will be shared by the Division of Banking, Securities and Corporations, Division of Insurance, and the Division of Occupational Licensing. This position is necessary to program and maintain the programs for matching records.
  - \$3.1 is the cost of receiving a 9-track ASCII tape, bimonthly, from the Central Registration Depository (CRD). The CRD is the central national agency for licensing security agents and broker dealers. The cost is \$510 per tape x 6 tapes per year.

Prepared by: W. F. Kirkpatrick, Director  
 Division: Banking, Securities and Corporations

Phone: 465-2521  
 Date: 5-10-95

Approved by Commissioner: William L. Hensley  
 Agency: Commerce and Economic Development

Date: 3-24-95

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**  
 For further distribution information call the Governor's Legislative Office

**SENATE COMMITTEE REPORT**  
**First Committee of Referral**

DATE: 3/6/95

FURTHER: Finance

Date of 5-Day Notice: 3/23/95  
 (in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: \_\_\_\_\_

Labor and Commerce Committee considered SB 109

Certain licenses and applications for licenses for persons who are not in substantial compliance with orders, judgments, or payment schedules for child support, etc.

*4 FN's*

and recommends:

be replaced with CS SB 109 (LC)

adopt previous CS (        )

attached amendment(s)

adopt Letter of Intent by \_\_\_\_\_ Committee

further referral to the \_\_\_\_\_ Committee

Senate Bill:

same title  
 new title

House Bill:

same title  
 technical title  
 new: SCR# \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>[Signature]</i>	<input checked="" type="checkbox"/>	<i>Hiko Miller</i>	<input checked="" type="checkbox"/>		
<i>[Signature]</i>	<input checked="" type="checkbox"/>	<i>John Ferguson</i>	<input checked="" type="checkbox"/>		
CHAIR: <i>Tom Kelly</i>	<input checked="" type="checkbox"/>				

**NEW FISCAL NOTE(S):**

Department SB & CS Date Zero Fiscal

Department	Date	Zero	Fiscal
<u>CED</u>	<u>3/17/95</u>		<input checked="" type="checkbox"/>
<u>CED</u>	<u>3/13/95</u>		<input checked="" type="checkbox"/>
<u>Educators</u>	<u>3/14/95</u>		<input checked="" type="checkbox"/>
<u>CED</u>	<u>3/10/95</u>		<input checked="" type="checkbox"/>

**PREVIOUS FISCAL NOTE(S):\***

Department Date Zero Fiscal

Department	Date	Zero	Fiscal

APPROPRIATION -- no fiscal note

\*include fiscal notes accompanying Governor's bill

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

3/15/95  
(S) LRC, EN  
BILL NO. SB 109

Revision Date: \_\_\_\_\_  
Title: Certain licenses for persons who are not  
in compliance with child support orders/payments  
Sponsor: Ellis  
Requestor: House STA

Dept. Affected: Health and Social Services  
BRU: State Health Services  
Component: EMS Training & Licensing  
COMPONENT SERIAL NO. 297  
See also (SN#): \_\_\_\_\_

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	1.0	1.0	1.0	1.0	1.0	1.0
TRAVEL						
CONTRACTUAL	0.5	0.2	0.2	0.2	0.2	0.2
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	1.5	1.2	1.2	1.2	1.2	1.2

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGES IN REVENUES						
---------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (please specify) 1007 I/A	1.5	1.2	1.2	1.2	1.2	1.2
TOTAL	1.5	1.2	1.2	1.2	1.2	1.2

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of any current year (FY95) cost: 30.0

ANALYSIS: (Attach a separate page if necessary)

Most of the reviewing of licensing will be done during the renewal period of November through February. During this time, it is estimated that 40 hours of overtime will be required @ \$24.42/hour or \$976.80.

In addition, \$0.2 will be needed for the extra postage and printing of temporary licenses. During the first year \$0.3 will be needed for modifying the data base which will allow for electronic check of records against the list of debtors.

The funds will be transferred from the Department of Revenue, Child Support Enforcement Division for these activities.

There is no impact on FY95.

Prepared by: Peter M. Nakamura, MD, MPH  
Division: Public Health  
Commissioner: Karen Ferdon, Commissioner  
Agency: Department of Health & Social Services

Phone: (907) 465-3090  
Date: 03/09/95

Date: 3/10/95

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
For further distribution information, call the Governor's Legislative Office

FISCAL NOTE SUMMARY

SB-109 - CHILD SUPPORT NONPAYMENT LICENSING BAN

<u>NO.</u>	<u>DEPT.</u>	<u>DATE</u>	<u>FY-96</u>
1	C&ED (Banking, Sec. & Copr.)	3/24/95	29.1
2	DOE (Executive Admin.)	3/24/95	20.8
3	C&ED (Insurance)	3/24/95	26.0
4	C&ED (Occupational Lic.)	3/24/95	83.5

FISCAL NOTE DID NOT TRAVEL WITH THE BILL:

H&SS (St. Health Svcs - EMS Training & Lic	3/10/95	1.5
--	---------	-----

TOTAL: 160.9

NEW

DPS (DMV)	4/3/95	228.8	582.8 Rev.
DOR (CSED)	4/4/95	519.4	1,062.5 Rev.
DH&SS (Assistance Payments)	4/21/95	(180.0)	

FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. CS SB 109 (L & C)

Revision Date: \_\_\_\_\_ Dept. Affected: Health and Social Services  
 Title: An Act relating to certain licenses BRU: Assistance Payments  
and child support Component: AFDC  
 Sponsor: Ellis  
 Requestor: Senate Finance COMPONENT SERIAL NO. 220

**Expenditures/Revenues:** (Thousands of Dollars)

OPERATING	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	(180.0)	(396.0)	(435.6)	(479.2)	(527.1)	(579.8)
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>(180.0)</b>	<b>(396.0)</b>	<b>(435.6)</b>	<b>(479.2)</b>	<b>(527.1)</b>	<b>(579.8)</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGES IN REVENUES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	(90.0)	(198.0)	(217.8)	(239.6)	(263.5)	(289.9)
1003 GF Match	(1,152.5)	(2,535.5)	2,889.1)	(3,068.0)	(3,374.8)	(3,712.2)
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF, Program Receipts	1,062.5	2,337.5	2,571.3	2,828.4	3,111.2	3,422.3
1006 GF, MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
Other 1007 I/A Receipts	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>(180.0)</b>	<b>(396.0)</b>	<b>(435.6)</b>	<b>(479.2)</b>	<b>(527.1)</b>	<b>(579.8)</b>

**POSITIONS:**

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

Estimate of any current year (FY95) cost: \$ NONE

ANALYSIS: (Attach a separate page if necessary)

The Department of Revenue projects increased child support collections as a result of this legislation.

When child support collections cause the total income of an AFDC family to exceed the AFDC program income limit, the family is ineligible for AFDC. In such cases, the child support is paid directly to the family and no AFDC payment is made. Thus, the increased child support collections anticipated as a result of this legislation reduce the cost of the AFDC program.

Prepared by: Jim Nordlund, Director Phone: 465-2640  
 Division: Division of Public Assistance Date: 7/21/95  
 Approved by Com: Karen Perdue Date: 7/21/95  
 Agency: Department of Health & Social Services

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information call the Governor's Legislative Office

**ANALYSIS (cont.):**

When they apply, all AFDC applicants assign to the State the right to child support collected on behalf of the AFDC child(ren) as long as the child(re) remain on AFDC. Fifty percent of the amount of child support collected on behalf of AFDC recipient families is transferred to the AFDC component as GF Program Receipts. These funds replace AFDC GF Match funds. Collections made on behalf of children whose families are eligible for AFDC do not reduce the total cost of the AFDC: they shift AFDC program funding from GF Match to GF Program Receipts.

Assumptions:

Calculations are based on the Department of Revenue projection of the increase in child support collections produced by this legislation.

The overall decrease in AFDC program costs is based on the following assumptions:

The monthly AFDC caseload is decreased by an average of 100 cases beginning in January, 1996.

The caseload reduction increases by 10 percent each fiscal year after FY 96.

Average monthly AFDC grant of cases that leave the caseload because of this legislation is \$300.

The shift in funding source calculation is based on the Department of Revenue projection of increased revenues resulting from this legislation.

Calculations**AFDC benefit cost avoidance: AFDC caseload reductions**

	<u>Total</u>	<u>GF Match</u>	<u>Fed Recipients</u>
FY 96:	(180.0)	(90.0)	(90.0)
FY 97:	(396.0)	(198.0)	(198.0)
FY 98:	(435.6)	(217.8)	(217.8)
FY 99:	(479.2)	(239.6)	(239.6)
FY 00:	(527.1)	(263.6)	(263.5)
FY 01:	(579.8)	(289.9)	(289.9)

ANALYSIS (cont.):

Shift in funding source: Collections on behalf of AFDC recipient children

	<u>GF Match</u>	<u>GF/ Prog Receipts</u>
FY 96:	(1,062.5)	1,062.5
FY 97:	(2,337.5)	2,337.5
FY 98:	(2,671.3)	2,671.3
FY 99:	(2,828.4)	2,828.4
FY 00:	(3,111.2)	3,111.2
FY 01:	(3,422.3)	3,422.3

**FISCAL NOTE**

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. SB 109

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Child Support Nonpayment/Licensing Ban BRU: Child Support Enforcement Division  
 Component: Child Support Enforcement Division  
 Sponsor: Senator Ellis  
(S)FIN COMPONENT SERIAL NO. 111

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	189.1	351.7	355.8	380.4	395.7	411.5
TRAVEL						
CONTRACTUAL	284.0	270.2	274.9	279.8	285.1	290.4
SUPPLIES	3.2	6.4	6.4	6.4	6.4	6.4
EQUIPMENT	83.1					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>519.4</b>	<b>628.3</b>	<b>647.1</b>	<b>666.7</b>	<b>687.2</b>	<b>708.3</b>

CAPITAL EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01

CHANGE IN REVENUE: ( )	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
	1,062.5	2,337.5	2,571.3	2,878.4	3,111.2	3,422.3

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	342.8	414.7	427.1	440.0	453.5	467.5
1003 GF Match						
1004 GF						
1005 GF Program Receipts						
1006 GF/MHTIA						
1018 Federal Incentive Payments	176.6	213.6	220.0	220.7	233.7	240.8
<b>TOTAL</b>	<b>519.4</b>	<b>628.3</b>	<b>647.1</b>	<b>666.7</b>	<b>687.2</b>	<b>708.3</b>

Estimate of any current year (FY95) cost: \$ 0.0

**POSITIONS**

FULL-TIME	8	8	8	8	8	8
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation will increase collections by approximately 25%. In the first year these increased collections will generate \$2,125,000 in AFDC reimbursement, one half of which will be retained by the state. National statistics reveal that about 45% of the population is employed in non-traditional occupations and their wages are not reported to state Departments of Labor. Self-employed obligors have a very low child support payment compliance rate. Currently 64% of Alaskans with child support orders do nothing. More than half of these individuals have the ability to pay, but work in a cash or self-employed position. This legislation will require that self-employed obligors establish a reporting mechanism with AFSA to obtain or retain their occupational license. Similar legislation has been enacted in 44 other states and is pending in Congress. (Continued on additional page)

Prepared by: Glenda Straube, Director Phone: 268 6201  
 Division: Child Support Enforcement Division Date: 4/3/95  
 Approved by: [Signature]  
 Commissioner: Wilson Cindon Date: 4/4/95  
 Agency: Dept. of Revenue

PREPARED TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information, call the Governor's Legislative Office

**ANALYSIS, CONTINUED:**

This analysis assumes an effective date of 1/1/98 and annual cost increases of 4%. Implementation is expected to require 8 Child Support Enforcement Officer I's which will ensure prompt review of proposed license denials. Contractual costs include interdepartmental expenditures as obtained from various affected agencies. Internal operating expenditures are based on estimates used in CSED FY 98 operating budget. (See attached worksheets.) Equipment costs are reflected in FY 98 only. No State general fund contributions are anticipated as program expenditures will be offset by the increase in federal incentives provided from related AFDC collections.

# FISCAL NOTE

No. 4

Bill Version: SB 109

B (S) Publish Date: 3-30-95

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

Revision Date: March 17, 1995  
 Title: An Act relating to certain licenses.... for persons  
who are not in substantial compliance...with child support,...  
 Sponsor: Senator Ellis  
 Requestor: Senator Ellis

Department: Commerce and Economic Development  
 BRU: Occupational Licensing  
 Component: Operations  
 COMPONENT SERIAL #: 1844

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	41.5	41.5	41.5	41.5	41.5	41.5
TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	29.7	29.7	29.7	29.7	29.7	29.7
SUPPLIES	1.0	1.0	1.0	1.0	1.0	1.0
EQUIPMENT	6.3					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>83.5</b>	<b>77.2</b>	<b>77.2</b>	<b>77.2</b>	<b>77.2</b>	<b>77.2</b>
<b>CAPITAL EXPENDITURES</b>						
<b>CHANGE IN REVENUES</b>	<b>83.5</b>	<b>77.2</b>	<b>77.2</b>	<b>77.2</b>	<b>77.2</b>	<b>77.2</b>

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other (Inter Agency Receipts)	83.5	77.2	77.2	77.2	77.2	77.2
<b>TOTAL</b>	<b>83.5</b>	<b>77.2</b>	<b>77.2</b>	<b>77.2</b>	<b>77.2</b>	<b>77.2</b>

Estimate of any current year (FY 95) cost: \$ 00

POSITIONS	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
FULL-TIME	1	1	1	1	1	1
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary)

SB 109 prohibits the division of occupational licensing from issuing or renewing a license for a person who is not in compliance with orders, judgments, or payment schedules for child support. To comply with this bill, the division will be responsible for adapting the division's computerized licensing records to compare with the records provided by the child support enforcement division, coordinating the notification of applicants who are not in compliance, issuing the temporary licenses provided for in the bill, and responding to inquiries and complaints made to the division for refusing to issue or renew a license. (Continued on attached pages.)

Prepared by: Jennifer Strickler Admin Officer Phone: 465-2144  
 Division: Occupational Licensing Date: 3/17/95  
 Approved by Commissioner: William L. Henley Date: 3/24/95  
 Agency: Commerce and Economic Development

# FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO.: SB 109

ANALYSIS: (Continued)

## DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT FISCAL NOTE CALCULATIONS FOR SB 109

Last year, the child support enforcement division estimated the number of licensees not in compliance with child support requirements to be between 1,350 and 5,000. A preliminary match of occupational licensees against the child support database reported a 5,200 match in names although not all of these individuals may be in violation of child support requirements. Therefore, this fiscal note is based on the lower estimate of 1,350.

The estimated costs to the division of occupational licensing to implement SB 109 are as follows:

### PERSONAL SERVICES:

\$ 41.5

*The request of one position identified below is contingent upon approval of a Paralegal position requested in the division's FY 96 Operating Budget. Although the Paralegal position was requested to implement the student loan default program (a program with similar responsibilities to those established in this bill), the division anticipates utilizing part of that position to provide support to the child enforcement program as well. If the position is not authorized, this fiscal note will be revised to add staff since the one position shown below is not sufficient to fully implement the provisions of this bill alone and the division is unable to absorb further responsibilities without additional staff resources.*

1 - Occupational Licensing Examiner I, Range 12, PFT, Juneau

This position will analyze the 1,350 applicants matched by computer with the child support enforcement data and provide further manual analysis to determine which applicants are not in compliance with child enforcement requirements; send notices to the applicants; communicate with child support enforcement for release information; coordinate with other licensing staff for the issuance of a temporary license; coordinate withholding of licenses with enforcement staff, etc.

### TRAVEL:

\$ 5.0

The travel associated with SB 109 is for the purpose of checking on licensees who continue to practice without a license after expiration of the 150 day temporary permit. The cost identified is based on four two-day trips between Anchorage and Juneau, three two-day trips between Anchorage and Fairbanks, and trips to other areas of the state as necessary.

**CONTRACTUAL:**

**\$ 29.7**

Costs for contractual services covers:

Printing of temporary permits and licenses, \$1.0

Telephone and fax costs, \$3.5

Certified mail and other postage costs, \$4.5

Computer programming costs, \$20.7 (this funding is based on one-third of a programmer position of which full costs are anticipated to be shared with two other divisions)

**SUPPLIES:**

**\$1.0**

The cost of supplies is estimated to be \$1.0 for the new position.

**EQUIPMENT: (One-time costs)**

**\$ 6.3**

This is a one-time cost for equipment and office set-up for the new position.

**TOTAL:**

**\$83.5**

**REVENUE:** Inter-Agency Receipts to cover program costs.

**FUND SOURCE:** The division anticipates funding to be provided by inter-agency receipts from the Department of Revenue, which may include federal funding received by that department.

Fees collected by licensees affected by SB 109 can be used to offset the amount of inter-agency receipts from the Department of Revenue. Unlike the general fund program receipts from other licensing programs, the requirements of this bill do not relate to "regulation of the profession", therefore, licensing fees of an occupation will not be increased to pay for compliance with the requirements of this bill.

# FISCAL NOTE

No. 5  
 Bill Version: SB 109  
 (S) Publish Date: 3-30-95

STATE OF ALASKA  
 1995 LEGISLATIVE SESSION

BILL

Revision Date: \_\_\_\_\_  
 Title: Child Support Nonpayment/Licensing Bar.  
 Sponsor: Senator Ellis  
 Requestor: \_\_\_\_\_

Department: Commerce and Economic Development  
 BRU: Insurance  
 Component: Operations

COMPONENT SERIAL NO. 354

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	26.0	21.2	21.2	21.2	21.2	21.2
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>26.0</b>	<b>21.2</b>	<b>21.2</b>	<b>21.2</b>	<b>21.2</b>	<b>21.2</b>

CAPITAL EXPENDITURES

CHANGE IN REVENUES

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other 1007 Interagency Receipts	25.0	21.2	21.2	21.2	21.2	21.2
<b>TOTAL</b>	<b>25.0</b>	<b>21.2</b>	<b>21.2</b>	<b>21.2</b>	<b>21.2</b>	<b>21.2</b>

Estimate of any current year (FY 95) cost: \$ 00

POSITIONS  
 FULL-TIME \_\_\_\_\_  
 PART-TIME \_\_\_\_\_  
 TEMPORARY \_\_\_\_\_

ANALYSIS: (Attach a separate page if necessary)  
 There are three divisions impacted by this legislation within the Department of Commerce & Economic Development: Insurance, Banking, Securities, & Cert. and Occupational Licensing. Each division is preparing a fiscal note which reflects one-third of the cost of an Analyst/Programmer IV, R-19 since each of our licensing programs will have to be modified and maintained for the new licensing and notice requirements to be implemented by this legislation. It is the intent of each division to RSA these funds to DCED's Division of Administrative Services since the data processing unit for the department is within that division.

Prepared by: Joan Brown, Administrative Officer Phone: 465-2597  
 Division: Insurance Date: 3/13/95  
 Approved by Commissioner: William L. Hensley Date: 3/21/95  
 Agency: Commerce and Economic Development

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information, call the Governor's Legislative Office

# FISCAL NOTE

No. 2  
 Bill Version: SB 109  
 (S) Publish Date: 3-30-95

STATE OF ALASKA  
 1995 LEGISLATIVE SESSION

Revision Date: \_\_\_\_\_  
 Title: An act relating to certain licenses and applications for licenses.  
 Sponsor: Senator Ellis  
 Requester: Senator Ellis

Department Affected: Education  
 BRU: Executive Administration  
 Component: Teacher Certification

COMPONENT SERIAL NO. 1240

**Expenditures/Revenues:**

(Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	17.8	17.8	17.8	17.8	17.8	17.8
TRAVEL	2.0					
CONTRACTUAL	1.0					
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>20.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>

CAPITAL

**REVENUE FUND SOURCE:**

**FUNDING:**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other: 1007 L/A Receipts	20.8	17.8	17.8	17.8	17.8	17.8
<b>TOTAL</b>	<b>20.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>	<b>17.8</b>

**POSITIONS:**

FULL-TIME	1.0					
PART-TIME						
TEMPORARY						

Estimate of current year (FY95) impact: \$ \_\_\_\_\_

**ANALYSIS:** (Attach a separate page if necessary.) SB 109 would require the Department of Education, Teacher Certification Office, to compare each initial and renewal certificate applicant received daily against a consolidated list of persons in noncompliance provided by the Department of Revenue. The department would need to reclassify and fill an existing vacant part-time Clerk I to an Administrative Clerk II position to assist with the additional processing required in this legislation. SB 109 would also require the State Board to adopt regulations and there would be related travel and advertising costs. Teacher Certification staff would be involved in developing department regulations. Funding would come through a RSA with the Department of Revenue, Child Support Enforcement Agency (CSED) contingent upon approval of the fiscal note to CSED.

Prepared by: Christine Niemi, Teacher Certification Administrator Phone: 465-2857  
 Division: Administrative Services Date: 3/24/95  
 Approved by Commissioner: [Signature] Shirley Holloway  
 Agency: Education Date: 3/24/95

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

# FISCAL NOTE

No. 1

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

Bill Version: SB109

(S) Publish Date: 3-30-95

Revision Date: \_\_\_\_\_

Title: Child Support Nonpayment/Licensing Ban

Department Affected: Commerce and Economic Development

BRU: Banking, Securities and Corporations

Component: Banking, Securities and Corporations

Sponsor: Senator Ellis

Requestor: \_\_\_\_\_

COMPONENT SERIAL NO. 1233

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	29.1	24.3	24.3	24.3	24.3	24.3
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>29.1</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>
<b>CAPITAL EXPENDITURES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>CHANGE IN REVENUES ( )</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
1007 Interagency Receipts	29.1	24.3	24.3	24.3	24.3	24.3
<b>TOTAL</b>	<b>29.1</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>	<b>24.3</b>

Estimate of current year (FY 95) cost: \$ 0

**POSITIONS**

FULL TIME	.33	.33	.33	.33	.33	.33
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary.)

- \$25.0 for FY 96 and \$21.2 for the remaining years will be used to fund one-third of an analyst/programmer for the Department of Commerce and Economic Development. This person will be shared by the Division of Banking, Securities and Corporations, Division of Insurance, and the Division of Occupational Licensing. This position is necessary to program and maintain the programs for matching records.
- \$3.1 is the cost of receiving a 9-track ASCII tape, bimonthly, from the Central Registration Depository (CRD). The CRD is the central national agency for licensing security agents and broker-dealers. The cost is \$510 per tape x 6 tapes per year.

Prepared by: Willis F. Kirkpatrick, Director  
Division: Banking, Securities and Corporations

Phone: 465-2521

Date: 5-10-95

Approved by Commissioner: William L. Hensley  
Agency: Commerce and Economic Development

Date: 3-24-95

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

For further distribution information call the Governor's Legislative Office

# FISCAL NOTE

**STATE OF ALASKA**  
**1995 LEGISLATIVE SESSION**

**BILL NO: CSSB 109(L&C)**

Revision Date _____	Dept. Affected <u>Public Safety</u>	
Title: <u>An Act relating to child support enforcement, suspending driver's license</u>	BRU	<u>Motor Vehicles</u>
Sponsor: <u>Senator Ellis</u>	Component	<u>Driver Services/Field Services</u>
Requestor: <u>S L&amp;C</u>	COMPONENT SERIAL NO.	<u>0500 &amp; 0502</u>

**EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)**

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	155.5	83.3	83.3	83.3	83.3	83.3
TRAVEL	1.5	1.5	1.5	1.5	1.5	1.5
CONTRACTUAL	23.8	11.9	11.9	11.9	11.9	11.9
SUPPLIES	2.0	1.0	1.0	1.0	1.0	1.0
EQUIPMENT	40.0					
LAND & STRUCTURES						
GRANTS CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>222.8</b>	<b>97.7</b>	<b>97.7</b>	<b>97.7</b>	<b>97.7</b>	<b>97.7</b>

CAPITAL EXPENDITURES	0.	0.	0.	0.	0.	0.
----------------------	----	----	----	----	----	----

CHANGE IN REVENUES (1004 Revenue Code)	582.8	183.2	183.2	183.2	183.2	183.2
--	-------	-------	-------	-------	-------	-------

**FUNDING: (Thousands of Dollars)**

1002 Federal Receipts						
1003 GE Match						
1004 GE	222.8	97.7	97.7	97.7	97.7	97.7
1005 GE/Program Receipts						
1006 GE/MHTIA						
Other						
<b>TOTAL</b>	<b>222.8</b>	<b>97.7</b>	<b>97.7</b>	<b>97.7</b>	<b>97.7</b>	<b>97.7</b>

Estimate of current year (FY 95) impact \$ \_\_\_\_\_

**POSITIONS:**

FULL-TIME	4	2	2	2	2	2
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS (Attach a separate page if necessary)

SEE ATTACHED

Prepared By	Juanita Mensley	Phone	465-2650
Division	Motor Vehicles	Date	3/30/95
Approved by Commissioner		Date	4-3-95
Agency	Ronald L. Orr, Dept. of Public Safety		

**PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE**

For further distribution information call the Governor's Legislative Office

Fiscal Note Analysis  
CSSB 109 (L&C)

This bill impacts the Division of Motor Vehicles by requiring the suspension of a driver's license of any person who is not in substantial compliance with a child support order. Under the provisions of this bill, the Division of Child Support Enforcement will be required to send the notice of driver license suspension to a person who is found to be in non-compliance with a child support order. The notice will give the person 150 days to comply with the order. If after the 150 days the person is not in compliance, the Division of Child Support Enforcement will notify DMV to suspend the driver's license. Once notice is received, from CSED, DMV will take action to suspend the driver's license.

The impact to DMV will be the actual suspending of the driver's license and the process of re-issuing of the license once the person is in compliance with the child support order.

CSED has notified DMV there are approximately 10,702 obligors who are in excess of \$2500.00 or more in arrears. DMV verified through a computer verification that approximately 35% of the obligors driver's licenses are currently suspended, revoked or have warrant warrants for their arrest for some reason. Because of this, it is estimated 3,500 driver's license suspensions will be generated the first year. It is further estimated after the first year's initial suspension action, the number of driver license suspensions will be reduced. It is estimated in the future years, 1,000 driver's licenses will be suspended for non-support.

The impacts from this bill will result in 7,000 updates to the driving record of the persons whose license is being suspended. One computer entry to add the suspension to the driving record, and another entry to end the suspension once the person has complied. Reinstating the driver's license will also impact the DMV field offices. The Motor Vehicle Representative will be required to see proof from CSED that the person is in compliance with their child support order before reinstating the driver's license. It is estimated 90 percent of all persons whose license is suspended will reinstate their driver's license. A \$100.00 reinstatement fee is charged anytime a person has had their license suspended or revoked within a 10 year period preceding application for a driver's license. It is estimated 1,575 individuals will pay the \$100. If the license is suspended or revoked more than one time within a 10 year period preceding application, a \$250 reinstatement fee is required. It is estimated 1,575 individuals will be required to pay the \$250. It is estimated the amount of additional new general fund program receipt revenue generated by this bill is approximately \$582.8 for FY96 and \$183.2 in the following years.

Total number of suspension notices received from CSED by DMV	3,500
Total number of suspension notices being ended when a person complies	3,150
Total number of license reinstatements	3,150

<u>OPERATING</u>	<u>FY96</u>	<u>FY97</u>
<u>Personal Services</u>	Salary and Benefits	
Driver Services Supervisor R14 (Juneau)	\$47.2	\$47.2
Motor Vehicle Representative II (Juneau)	\$36.1	
2 Motor Vehicle Representative II (Anch) (2 FY96 @ \$36.1)	<u>\$72.2</u>	<u>\$36.1</u>
TOTAL PERSONAL SERVICES	<u>\$155.5</u>	<u>\$83.3</u>
<u>Travel</u>		
Administrative Travel for mainline supervisor	\$1.5	\$1.5
<u>Contractual</u>		
Computer line charges (Mainframe connection) \$0.5 per workstation	\$2.0	\$1.0
Telephone lease and line charges	\$2.2	\$1.1
Office lease space allocation 880 sq ft @ \$1.85 per sq ft	<u>\$19.6</u>	<u>\$9.8</u>
TOTAL CONTRACTUAL	<u>\$23.8</u>	<u>\$11.9</u>
<u>Supplies</u>		
Routine office supplies	\$2.0	\$1.0
<u>Equipment</u>		
4 Computer workstations @ \$10.3 each (One time costs)	\$40.0	
TOTAL OPERATING	<u>\$222.8</u>	<u>\$97.7</u>

Fiscal Note Analysis  
CSSB 109 (L&C)

<u>REVENUE</u>	<u>FY96</u>	<u>FY97</u>
3,150 Reinstatements: 1,575 @ \$100; 1,575 @ \$250	\$551.3	
3,150 Duplicate license fees @ \$10	\$31.5	
990 Reinstatements: 495 @ \$100; 495 @ \$250		\$173.3
990 Duplicate license fees @ \$10		\$9.9
<b>TOTAL REVENUE</b>	<b>\$582.8</b>	<b>\$183.2</b>

# FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. SB 109

Revision Date:	Dept. Affected:	Revenue
Title: <u>Child Support Nonpayment/Licensing Ban</u>	BRU: <u>Child Support Enforcement Division</u>	
Sponsor: <u>Senator Ellis</u>	Component: <u>Child Support Enforcement Division</u>	
<u>GFIN</u>	COMPONENT SERIAL NO.	<u>111</u>

**Expenditures/Revenues** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	189.1	351.7	365.8	390.4	395.7	411.3
TRAVEL						
CONTRACTUAL	294.0	270.2	274.9	279.9	285.1	290.8
SUPPLIES	3.2	6.4	6.4	6.4	6.4	6.4
EQUIPMENT	83.1					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>519.4</b>	<b>628.3</b>	<b>647.1</b>	<b>666.7</b>	<b>687.2</b>	<b>708.3</b>

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )	1,092.5	2,337.5	2,571.3	2,828.4	3,111.2	3,422.3
------------------------	---------	---------	---------	---------	---------	---------

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	342.3	414.7	427.1	440.0	453.5	467.5
1003 GF Match						
1004 GF						
1005 GF Program Receipts						
1006 GF MMTIA						
1018 Federal Incentive Payments	176.6	213.6	220.0	226.7	233.7	240.8
<b>TOTAL</b>	<b>518.9</b>	<b>628.3</b>	<b>647.1</b>	<b>666.7</b>	<b>687.2</b>	<b>708.3</b>

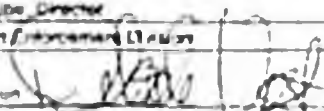
Estimate of any current year (FY95) cost: \$ 00

**POSITIONS**

	8	4	8	8	8	8
FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS** (Attach a separate page if necessary)

This legislation will increase collections by approximately 25%. In the first year, these increased collections will generate \$2,125,000 in AFDC Yr. 1 payments, one-half of which will be retained by the State. Statistical studies reveal that about 45% of the population is employed in non-vocational occupations and their wages are not retained within the Department of Labor. Self-employed obligors have a very low child support payment compliance rate. Currently 64% of Alaskans with child support orders pay nothing. More than half of these individuals have the ability to work, but work in a cash or self-employed position. This legislation will insure that self-employed obligors are both on the MMTIA plan and pay that MMTIA tax to obtain or retain their occupational license. Similar legislation has been enacted in fourteen states and is pending in Congress. (Continued on additional page)

Prepared by: <u>Glenda Straube, Director</u>	Phone: <u>268 8201</u>
Division: <u>Child Support Enforcement Division</u>	Date: <u>4/3/95</u>
Approved by: 	Date: <u>4/11/95</u>
Commissioner: <u>Wilson Condon</u>	
Agency: <u>Dept. of Revenue</u>	

PREPARED TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
For further distribution information, call the Governor's Legislative Office

**ANALYSIS, CONTINUED:**

This analysis assumes an effective date of 1/1/96 and annual cost increases of 4%. Implementation is expected to require 8 Child Support Enforcement Officer I's which will ensure prompt review of proposed license denials. Contractual costs include interdepartmental expenditures as obtained from various affected agencies. Internal operating expenditures are based on estimates used in CSED FY 96 operating budget. (See attached worksheets.) Equipment costs are reflected in FY 96 only. No State general fund contributions are anticipated as program expenditures will be offset by the increase in federal incentives provided from related AFDC collections.

FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. CS SN 109 (I. & C)

Revision Date \_\_\_\_\_ Dept. Affected: Health and Social Services  
 Title: An Act relating to certain licenses and child support BRU: Assistance Payments  
 Component: AFDC  
 Sponsor: Ellis  
 Requestor: Senate Finance COMPONENT SERIAL NO. 220

**Expenditures/Revenues:** (Thousands of Dollars)

OPERATING	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	00	00	00	00	00	00
TRAVEL	00	00	00	00	00	00
CONTRACTUAL	00	00	00	00	00	00
SUPPLIES	00	00	00	00	00	00
EQUIPMENT	00	00	00	00	00	00
LAND & STRUCTURES	00	00	00	00	00	00
GRANTS, CLAIMS	(180.0)	(396.0)	(435.6)	(479.2)	(527.1)	(579.8)
MISCELLANEOUS	00	00	00	00	00	00
<b>TOTAL OPERATING</b>	<b>(180.0)</b>	<b>(396.0)</b>	<b>(435.6)</b>	<b>(479.2)</b>	<b>(527.1)</b>	<b>(579.8)</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGES IN REVENUES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	90.0	(198.0)	(217.8)	(239.6)	(263.5)	(289.9)
1003 GF Match	(1,152.5)	(2,535.5)	(2,889.1)	(3,168.0)	(3,374.8)	(3,712.2)
1004 GF	00	00	00	00	00	00
1005 GF Program Receipts	1,062.5	2,337.5	2,671.3	2,828.3	3,111.2	3,422.3
1006 GF M-NTIA	00	00	00	00	00	00
Other 1007 A Receipts	00	00	00	00	00	00
<b>TOTAL</b>	<b>(180.0)</b>	<b>(396.0)</b>	<b>(435.6)</b>	<b>(479.2)</b>	<b>(527.1)</b>	<b>(579.8)</b>

**POSITIONS:**

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

Estimate of any current year (FY95) cost: \$ NONE

ANALYSIS: (Attach a separate page if necessary)

The Department of Revenue projects increased child support collections as a result of this legislation.

When child support collections cause the total income of an AFDC family to exceed the AFDC program income limit, the family is ineligible for AFDC. In such cases, the child support is paid directly to the family and no AFDC payment is made. Thus, the increased child support collections anticipated as a result of this legislation reduce the cost of the AFDC program.

Prepared By: Jim Nordlund, Director Phone: 465-2540  
 Division: Division of Public Assistance Date: 4/21/95  
 Approved by Com: Karen Petersen Date: 4/21/95  
 Agency: Department of Health & Social Services

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information call the Governor's Legislative Office

**ANALYSIS (cont.):**

When they apply, all AFDC applicants assign to the State the right to child support collected on behalf of the AFDC child(ren) as long as the child(re) remain on AFDC. Fifty percent of the amount of child support collected on behalf of AFDC recipient families is transferred to the AFDC component as GF Program Receipts. These funds replace AFDC GF Match funds. Collections made on behalf of children whose families are eligible for AFDC do not reduce the total cost of the AFDC; they shift AFDC program funding from GF Match to GF Program Receipts.

Assumptions:

Calculations are based on the Department of Revenue projection of the increase in child support collections produced by this legislation.

The overall decrease in AFDC program costs is based on the following assumptions:

The monthly AFDC caseload is decreased by an average of 100 cases beginning in January, 1996.

The caseload reduction increases by 10 percent each fiscal year after FY 96.

Average monthly AFDC grant of cases that leave the caseload because of this legislation is \$300.

The shift in funding source calculation is based on the Department of Revenue projection of increased revenues resulting from this legislation.

Calculations**AFDC benefit cost avoidance: AFDC caseload reductions**

	<u>Total</u>	<u>GF Match</u>	<u>Fed Recipients</u>
FY 96	(180.0)	(90.0)	(90.0)
FY 97	(396.0)	(198.0)	(198.0)
FY 98	(435.6)	(217.8)	(217.8)
FY 99	(479.2)	(239.6)	(239.6)
FY 00	(527.1)	(263.6)	(263.5)
FY 01	(579.8)	(289.9)	(289.9)

## ANALYSIS (cont.):

Shift in funding source: Collections on behalf of AFDC recipient children

	<u>GF Match</u>	<u>GF/ Prog Receipts</u>
FY 96:	(1,062.5)	1,062.5
FY 97:	(2,337.5)	2,337.5
FY 98:	(2,671.3)	2,671.3
FY 99:	(2,828.4)	2,828.4
FY 00:	(3,111.2)	3,111.2
FY 01:	(3,422.3)	3,422.3

**SB**

**112**

**HFIN**

**FILE**

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: April 29, 1996

FURTHER REFERRALS:

Date of Committee Action: 5/1/96

The FINANCE Committee considered:

CSSB 112(RES)

CS FOR SENATE BILL NO. 112(RES)

DISCOVERY ROYALTY CREDIT

"An Act establishing a discovery royalty credit for the lessees of state land drilling exploratory wells and making the first discovery of oil or gas in an oil or gas pool in the Cook Inlet sedimentary basin."

recommends it be replaced with the following committee substitute HCS CS SB 112 (FIN) [X] the same title [ ] a new title

[ ] additional referral to \_\_\_\_\_ Committee [ ] attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dep)

APPROVES PREVIOUS: (Dep/Date)

[ ] fiscal note(s) \_\_\_\_\_

[X] fiscal note(s) Rev 3/29/96

DNR 3/25/96

[ ] zero fiscal note(s) \_\_\_\_\_

[ ] zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Richard Foster</i>	Foster	X			
<i>Alden Mulder</i>	Mulder	X			
<i>Tom Martin</i>	Martin	X			
<i>Sean Farrell</i>	Farrell	X			
<i>Tam Brown</i>	Brown				X
<i>John Kelly</i>	Kelly	X			
<i>John Grussendorf</i>	Grussendorf				X
<i>Mike Navarre</i>	Navarre				X

CHAIR'S SIGNATURE

*Richard Foster*

# FISCAL NOTE

No. 3

**STATE OF ALASKA**  
**1996 LEGISLATIVE SESSION**

Bill Version: CS SB 112 (RES)  
 (S) Publish Date: 3-25-96

Revision Date: Original Dept Affected: Natural Resources  
 Title: An Act establishing a discovery royalty credit BRU: Resource Development  
 for the lessees of state land drilling exploratory wells and... Component: Oil & Gas Development  
 Sponsor: Senate Resources  
 Requestor: Senate Finance Component Serial No. 439

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	91.0	91.0	91.0	91.0	91.0	91.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
----------------------	-----	-----	-----	-----	-----	-----

CHANGE IN REVENUES (I)						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	91.0	91.0	91.0	91.0	91.0	91.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>

Estimate of any current year (FY96) cost: \$ none

POSITIONS

FULL-TIME	1	1	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

**ANALYSIS:** (Attach a separate page if necessary)

This bill reinstates Discovery Royalty (which was repealed in 1969) as a means to reduce royalty payments under certain conditions for leases in Cook Inlet Sedimentary Basin.

It is apparent that the discovery royalty incentive has previously been geared toward frontier exploration. In frontier areas, the geologic risk of drilling an unsuccessful well is high, since little geological information is available to the operator prior to drilling. The element of risk was used by the state as an important yard stick for determining eligibility in some previous discovery royalty decisions in Cook Inlet. Cook Inlet was a frontier basin in the 1950's and 1960's. However, today, due to a long history of exploration and production, geologists consider Cook Inlet a mature petroleum province. Almost all wells drilled on state land in Cook Inlet are drilled in close proximity to other wells containing known oil or gas and should be considered step-out wells and not wildcat exploration wells. Step-out wells have relatively low exploration risk when compared to wildcat exploration wells.

Prepared by: Ken Boyd, Director Phone: 269-8800  
 Division: Oil & Gas Date: 22-Mar-96  
 Approved by Commissioner: [Signature] Date: 22-Mar-96  
 Agency: Natural Resources

Based on past experience, SB 112 will be very difficult to administer. Due to the issuance of pre-1970 conditional leases and the holding of other pre-1970 leases by unitization, the state has many current leases that still have a contractual right to a discovery royalty under the repealed program. As of January 1995, the state has 340 active leases that currently retain the discovery royalty provision, and the Division of Oil and Gas still actively manages the program. Under the previous discovery royalty program, thirteen applications were made for wells in Cook Inlet Basin, eight of which were granted and five were denied. Many of these applications were granted or denied only after years of litigation.

Although SB 112 attempts to eliminate many of the administrative problems with the old discovery royalty program, certain significant problems are inherent with both the repealed program and SB 112. These problems were recognized as far back as 1962 and remain today. It is doubtful that new regulations could eliminate the problems faced in the earlier program.

It is unlikely that the Division can draft regulations under the time constraints imposed by the bill.

Analysis of discovery royalty applications is a very time consuming process and will require the addition of one Petroleum Geologist.

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Discovery Royalty Credit BRU: Revenue Operations  
 Component: Oil and Gas Audit  
 Sponsor: (S) Resources  
 Requestor: (S) Rules COMPONENT SERIAL NO.: 115

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	.	.	.	.	.	.

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )	..... See Analysis .....
------------------------	--------------------------

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	.	.	.	.	.	.

Estimate of any current year (FY96) cost \$ \_\_\_\_\_

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This bill would grant a royalty rate of 5 percent to all oil and gas produced from the lease from which a discovery was made for a period of ten years following the date of discovery.

The revenue impact would depend on the size of the discovery and the timing of the development of the discovered oil and gas accumulation.

See attached analysis for potential revenue loss.

Prepared by: Chuck Logsdon Phone: 277-5627  
 Division: Oil and Gas Audit Date: March 28, 1996  
 Approved by Commissioner: Walter Long Date: March 28, 1996  
 Agency: Department of Revenue

PREPARED TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information call the Governor's Legislative Office

Fiscal Note Analysis  
CSSB 112 (RES)

This bill would grant a discovery royalty rate of 5% for production from a previously undiscovered oil or gas pool attributed to and under a lease in the Cook Inlet sedimentary basin for 10 years following the date of discovery of that pool. This would apply to oil discovered in the Cook Inlet 180 days following the enactment of the bill.

The revenue impact would depend on the size of the discovery and the timing of development of the discovered oil and gas accumulation. The following hypothetical Cook Inlet example would be indicative of the cost of the lower discovery royalty rate.

Oil = 2 wells \* 250 bbl/day/well \* 365 \* \$15/bbl \* (.125 - .05) = \$205,000 per year

Gas = 1 well \* 10,000 mcf/well \* 365 \* \$2.25/mcf \* (.125 - .05) = \$616,000 per year

adopted  
amended #1  
pt 2  
pg 4

HOUSE CS FOR CS FOR SENATE BILL NO. 112(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RESOURCES COMMITTEE

Offered: 4/29/96

Referred: Finance

Sponsor(s): SENATE RESOURCES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing a discovery royalty credit for the lessees of state land  
2 drilling exploratory wells and making the first discovery of oil or gas in an  
3 oil or gas pool in the Cook Inlet sedimentary basin."

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

5     \* Section 1. AS 38.05.134 is amended to read:

6             Sec. 38.05.134. CONVERSION TO LEASE. If the licensee requests and the  
7 commissioner determines that the work commitment obligation set out in an oil and  
8 gas exploration license issued under AS 38.05.132 has been met, the commissioner  
9 shall convert to one or more oil and gas leases all or part, as the licensee may indicate,  
10 of the area described in the exploration license that remains after the relinquishments,  
11 removals, or deletions required by AS 38.05.132(d)(2). A lease issued under this  
12 section

13                     (1) is subject to the acreage limitations imposed by AS 38.05.140(c);

14                     (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);

also

Pg 4  
LW 8:29

1 (3) must be conditioned upon a royalty in amount or value of not less  
 2 than 12.5 percent of production, except that the lessee who, proceeding under  
 3 AS 38.05.131 - 38.05.134, under a lease issued in the Cook Inlet sedimentary basin  
 4 who is the first to file with the commissioner a nonconfidential sworn statement  
 5 claiming to be the first to have drilled a well discovering oil or gas in a previously  
 6 undiscovered oil or gas pool and who is certified by the commissioner within one  
 7 year of completion of that discovery well to have drilled a well in that pool that  
 8 is capable of producing in paying quantities, [as that term is defined in  
 9 AS 38.05.180(f)(4)] shall pay a royalty of five percent on all production of oil or  
 10 gas from that pool attributable to that lease for a period of 10 years following the  
 11 date of [completion of the] discovery [well in] <sup>of</sup> that pool, and thereafter the royalty  
 12 payable on all production of oil or gas from the pool attributable to that lease  
 13 shall be determined and payable as specified in the lease; the payment of the five  
 14 percent royalty under this paragraph is authorized only to a holder of a lease who  
 15 meets the requirements of AS 38.05.180(f)(4):

passed

→

16 (4) must include an annual rent of \$3 per acre or fraction of an acre  
 17 initially paid to the state at inception of the lease and payable annually after that until  
 18 the income to the state from royalty under that lease exceeds the rental income to the  
 19 state under that lease for that year; and

20 (5) is subject to other conditions and obligations that are specified in  
 21 the lease.

22 • Sec. 2. AS 38.05.180(f) is amended to read:

23 (f) Except as provided by AS 38.05.131 - 38.05.134, the commissioner may  
 24 issue oil and gas leases on state land to the highest responsible qualified bidder as  
 25 follows:

26 (1) the commissioner shall issue an oil and gas lease to the  
 27 successful bidder determined by competitive bidding under regulations adopted by the  
 28 commissioner; bidding [ BIDDING] may be by sealed bid or according to any other  
 29 bidding procedure the commissioner determines is in the best interests of the state;

30 (2) whenever [ WHENEVER], under any of the leasing methods  
 31 listed in this subsection, a royalty share is reserved to the state, it shall be delivered

1 in pipeline quality and free of all lease or unit expenses, including but not limited to  
2 separation, cleaning, dehydration, gathering, salt water disposal, and preparation for  
3 transportation off the lease or unit area;

4 ~~(3) following [~~ FOLLOWING] a pre-sale analysis, the commissioner  
5 may choose at least one of the following leasing methods:

6 ~~(A) [(1)]~~ a cash bonus bid with a fixed royalty share reserved  
7 to the state of not less than 12.5 percent in amount or value of the production  
8 removed or sold from the lease;

9 ~~(B) [(2)]~~ a cash bonus bid with a fixed royalty share reserved  
10 to the state of not less than 12.5 percent in amount or value of the production  
11 removed or sold from the lease and a fixed share of the net profit derived from  
12 the lease of not less than 30 percent reserved to the state;

13 ~~(C) [(3)]~~ a fixed cash bonus with a royalty share reserved to the  
14 state as the bid variable but no less than 12.5 percent in amount or value of the  
15 production removed or sold from the lease;

16 ~~(D) [(4)]~~ a fixed cash bonus with the share of the net profit  
17 derived from the lease reserved to the state as the bid variable;

18 ~~(E) [(5)]~~ a fixed cash bonus with a fixed royalty share reserved  
19 to the state of not less than 12.5 percent in amount or value of the production  
20 removed or sold from the lease with the share of the net profit derived from  
21 the lease reserved to the state as the bid variable;

22 ~~(F) [(6)]~~ a cash bonus bid with a fixed royalty share reserved  
23 to the state based on a sliding scale according to the volume of production or  
24 other factor but in no event less than 12.5 percent in amount or value of the  
25 production removed or sold from the lease;

26 ~~(G) [(7)]~~ a fixed cash bonus with a royalty share reserved to the  
27 state based on a sliding scale according to the volume of production or other  
28 factor as the bid variable but not less than 12.5 percent in amount or value of  
29 the production removed or sold from the lease;

30 (4) notwithstanding a requirement in the leasing method chosen of  
31 a minimum fixed royalty share, on and after a date that is 180 days following the

1 effective date of this Act, the lessee under a lease issued in the Cook Inlet  
2 sedimentary basin who is the first to file with the commissioner a nonconfidential  
3 sworn statement claiming to be the first to have drilled a well discovering oil or  
4 gas in a previously undiscovered oil or gas pool and who is certified by the  
5 commissioner within one year of completion of that discovery well to have drilled  
6 a well in that pool that is capable of producing in paying quantities shall pay a  
7 royalty of five percent on all production of oil or gas from that pool attributable  
8 to that lease for a period of 10 years following the date of completion of the  
9 discovery well in that pool, and thereafter the royalty payable on all production  
10 of oil or gas from the pool attributable to that lease shall be determined and  
11 payable as specified in the lease; for purposes of this paragraph,

12 (A) the reduced royalty authorized by this paragraph is  
13 subject to the following:

14 (i) only one reduction of royalty authorized by this  
15 paragraph may be allowed on each lease that qualifies for reduction  
16 of royalty under this paragraph;

17 (ii) if, under this paragraph, application is made for  
18 a royalty reduction for a lease that was entered into before the date  
19 that is 180 days following the effective date of this Act, the  
20 commissioner may approve the application only if, on that date, the  
21 lease was a nonproducing lease that was not committed to a unit  
22 approved by the commissioner under (m) of this section, that is not  
23 part of a unit under (p) or (q) of this section, and that has not been  
24 made part of a unit under AS 31.05;

25 (iii) if application for a royalty reduction is made  
26 under this paragraph for a lease on which a discovery royalty was  
27 claimed or may be claimed under the discovery royalty provisions  
28 of former AS 38.05.180(a) in effect before May 6, 1969, the  
29 commissioner shall disallow the application under this paragraph  
30 unless the applicant waives the right to claim the right to a reduced  
31 royalty under the discovery royalty provisions of former

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13

AS 38.05.180(a) in effect before May 6, 1969; and

(iv) the commissioner shall adopt regulations setting out the standards, criteria, and definitions of terms that apply to implement the filing of applications for, and the review and certification of, discovery oil and gas royalty certifications under this paragraph; and

(B) "paying quantities" means quantities sufficient to yield a return in excess of operating costs, even if drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss; quantities are insufficient to yield a return in excess of operating costs unless those quantities, not considering the costs of transportation and marketing, will produce sufficient revenue to induce a prudent operator to produce those quantities.

5/1/96

NO OBJ / adopted

AMENDMENT I

OFFERED IN THE HOUSE  
TO: HCS CSSB 112(RES)

BY REPRESENTATIVE BROWN

1 Page 4, line 12:

2 Delete "(A)"

3 Page 5, line 6, following "paragraph":

4 Delete "; and"

5 Insert ";

6 Page 5, lines 7-13:

7 Delete all material

5/1/96

Failed 3-5

AMENDMENT 2

OFFERED IN THE HOUSE  
TO: HCS CSSB 112(RES)

BY REPRESENTATIVE BROWN

- 1 Page 2, line 3, following "issued":
- 2       Insert "after the effective date of this act"
- 3 Page 4, lines 17 - 24
- 4       Delete all material
- 5       Re-number accordingly

Failed 2-5

5/11/96

(conceptual amendment  
around all sections if need be)

AMENDMENT 3

OFFERED IN THE HOUSE  
TO: HCS CSSB 112(RES)

BY REPRESENTATIVE BROWN

- 1 Page 3, line 31, following "that is":
- 2 Delete "~~180~~ days"
- 3 Insert "~~one year~~ 270 DAYS"

NO OBJ



# Alaska State Legislature

## Senate Resources Committee

State Capitol  
Juneau AK 99801

Official Business

Sponsor Statement for:

Senate Bill 112: Discovery Royalty

When SB 112 was introduced by the Senate Resources Committee it was written for discussion purposes as the law had been when it was repealed in 1969 (1, CH 65 SLA 1969), recognizing that such terms as "in commercial quantities", "geologic structure" and "first discovery" would have to be discussed regarding their current relevance.

These vague terms resulted in litigation over the previous discovery royalty program. The committee has worked closely with the Department of Natural Resources and industry to write legislation that narrows the opportunity for litigation over who is awarded a discovery royalty under this proposal.

The new program is intended to reward not only the first person to drill a well resulting in a new discovery, but that person must also complete the well - resulting in production. The discovery royalty provision is available to all Cook Inlet Sedimentary Basin future leases and to non-producing, non-unitized leases entered into before the effective date of the act.

Lessees with leases under the old discovery royalty program may choose either that program or the new program, but not both.

It is the sponsor's intent that this legislation will encourage new activity in the Cook Inlet region.

SB112

## FACTS RE: FORMER DISCOVERY ROYALTY

### Former Definition

5% royalty for any production from a lease in the first 10 years following the discovery of oil and gas in commercial quantities in a geologic structure.

### Timeline

1937 - 1946, 1950 - 1958: Regulations under Federal Mineral Leasing Act establish discovery royalty for Alaska only.

1959: Alaska Land Act codifies federal regulation language into state statute; state lease form copies statute's language.

1962: Cook Inlet drilling races result in two blowouts: 45 days; 14 months. State grants discovery royalty for both.

1963: State regulations adopted.

1969: State legislature abolishes discovery royalty (ch 65, SLA 1969).

### Contentious

Many disputes, some over leases that never produced during the discovery royalty period.

Three Alaska Supreme Court decisions re: discovery royalty:

- Pan American, 455 P.2d 12 (Alaska 1969) (challenge by competitor)
- Union Oil, 526 P.2d 1357 (Alaska 1974) (denial of certification)
- Union Oil, 574 P.2d 1266 (Alaska 1978) (denial of certification)

Many administrative decisions by DNR.

### Litigation / Administrative Appeal Issues

What constitutes "first discovery", and is spud date relevant?

What are "commercial quantities", and is a controlled well test necessary?

What is a "geologic structure?"

What is the "discovery date?"

Does a discovery royalty apply to production from all zones in a lease?



APR 25 1996



## KENAI PENINSULA BOROUGH

144 N. BINKLEY · SOLDOTNA, ALASKA 99669-7599  
 BUSINESS (907) 262-4441 FAX (907) 262-1892

DON GILMAN  
 MAYOR

### POSITION PAPER - CS SB 112 (RES)

#### DISCOVERY ROYALTY CREDITS

The Kenai Peninsula Borough Assembly and administration supports CSSB 112 (Res) with minimum modifications, in that, the bill should cover lease holders and discovery royalty be effective upon the effective date of the bill. We do not support a "retro-activity" section which would cover current leases which are in production upon or prior to the effective date clause.

This bill is critical to the future of the Borough at a time when oil and gas exploration is almost non-existent compared to the activity in the 1960's which help create what we enjoy in the Borough today.

The State of Alaska had a discovery royalty program in effect throughout the 1960's and was later repealed because of new discoveries in the North Slope. It is very important to us that a royalty program be reinstated and this bill does just that, at a time when encouragement is needed to renew industry activity in the Cook Inlet Basin.

We seek your support in passage of this legislation. Independents can function in the State of Alaska and create the much needed job opportunities for our skilled residents as well as give hope to local suppliers and contractors that the Kenai Peninsula Borough can have a stable future for further investment opportunity.

Kenai Peninsula Borough

*Don Gilman*

Don Gilman, Borough Mayor

*4/25/96*


Date

*Andrew P. Scalzi*

Andrew P. Scalzi, Assembly President

*4/25/96*

Date



# Stewart Petroleum Company

Denali Towers North, Suite 1300  
2550 Denali Street, Anchorage, Alaska 99503  
(907) 277-4004 • FAX (907) 274-0424

TESTIMONY  
of  
WILLIAM R STEWART  
before the  
OIL AND GAS POLICY COUNCIL

MAY 25, 1995

Chairman Wunnicke and members of the Oil & Gas Policy Council, my name is Bill Stewart, President of Stewart Petroleum Company. I have 26 years of oil and gas industry experience in Alaska. Our company is a small Alaska based independent oil and gas exploration and production company active in Alaska and seven other states. Our primary area of interest within Alaska is Cook Inlet Basin. In late 1991, we were fortunate in discovering the West McArthur River Oil Field, a field of significant size on the west side of Cook Inlet. We are in the development stage at the present time. With a pipeline system in place, production of two wells is underway and a third well is currently drilling below 14,000' from an onshore location to an offshore bottom hole location.

According to available information, we are the first independent to establish commercial oil production in Alaska in modern times. (I say "modern times" because oil production was established by independents much earlier at Katalla in 1902. The field produced low gravity crude until their on-site refinery burned in 1933.) In fact, it may interest you to know that about 60 wells have been drilled here by independents, including the first well in Alaska. That well was drilled by a group of independents in 1898 on the Iniskin Peninsula utilizing cable tools and undoubtedly following up on natural oil seeps that still exist there today.

Back to modern times, I feel qualified because of my Alaska experience to discuss why we have very few independents here and what might attract more of them to the State. In general terms, I believe we have very few independents here for three basic reasons. Those reasons are Alaska's natural obstacles, it's man-made obstacles and its high operating costs.

### 1. Natural Obstacles

The natural obstacles include the obvious factors of climate, remoteness, and logistics. These are significant problems faced by both independents and major companies but they can be handled through proper planning. Without proper planning Alaska is very unforgiving. Independents without experience here fear these obstacles.

### 2. Man-made Obstacles

The man-made obstacles include lack of available lands (due to scarcity of fee lands, massive public interest land withdrawals in the form of riders to the Alaska Native Claims Settlement Act of 1971 and a State leasing system

which is restricted to competitive leasing only) as well as the regulatory rain forest which exists here. I mentioned earlier that we operate in seven other states. None of those states even begin to approach the kind of governmental micro management of oil and gas operations that we have here. Independent companies much larger than mine are afraid of the process and choose not to operate here.

### 3. High Operating Costs

The high operating costs are a function of both the natural obstacles and the man-made obstacles mentioned. I'm not sure which is the greatest contributor to these costs. Investment in our own project at West McArthur River exceeds \$50 million since 1991. Significant returns are just now beginning to be realized.

Fortunately, the story is not all bad at this point. I'm encouraged by the efforts of Governor Knowles toward attracting industry investment in Alaska and in forming this Council. I'm encouraged by the efforts of Commissioner Burden to streamline ADEC. I'm also encouraged by the oil and gas incentive programs being explored by the Alaska Legislature. At this point I would like to suggest several possible incentive programs, which may or may not be of interest to major companies, but which would definitely be of interest to independents, as follows:

#### 1. Royalty Reduction (Existing Fields)

I've been travelling for the past couple of weeks but I understand a final revision of the royalty reduction bill (HB 207) has passed both the House, and the Senate and is awaiting signature by the Governor. Basically, I feel that while the reasoning behind that legislation is to be commended, it is (as a practical matter) far too complex.

It's the sort of thing that endless audits and lawsuits are made of. While both major companies and the State of Alaska are perhaps well equipped for endless audits and lawsuits, independents are not.

If the opportunity should arise again, I would support a much simpler approach to royalty reduction. Such an approach would involve a predetermined formula based on production much like the ELF formula which has been in place for years. ELF effectively reduces the tax burden for smaller fields by application of the predetermined formula. A similar arrangement for royalty reduction would be a tremendous incentive for new activity for companies large and small who are operating smaller fields, at least small by Alaska standards.

## 2. Discovery Royalty

The State of Alaska had a discovery royalty program in effect until its abolishment in the early 1970's. Under the program, royalty burden (on the discovery lease only) was reduced from 12.5% to 5% for a period of ten years. Any and all wells located on the lease received the reduction. Perhaps this program or some variation thereof could be reinstated. The incentive created would result in more aggressive development schedules. Coordination with the Royalty Reduction Program discussed earlier would be involved.

## 3. Acreage Availability

At about the same time the discovery royalty program ceased to be, all State lands were classified for competitive bid only and prior non-competitive

programs were eliminated. The Federal government and many oil producing states maintain non-competitive leasing programs. The mentality in Alaska has been to maximize lease bonuses. It can be better for both industry and State if those dollars go into exploration and development activities resulting in long term production of oil and gas. Non-competitive programs could include openings for over-the-counter filing in relatively unexplored areas and a simultaneous filing program similar to the Federal program in other states. Parcels which do not receive bids at competitive sale could be reclassified non-competitive. It is always possible that new geological thinking will evolve and result in new activity on such parcels.

#### 4. Simplification of Permitting

I mentioned Alaska's regulatory rain forest earlier. The permitting system is overwhelming and often involves interagency conflict. Our operation has involved more than 40 permits to date and numerous field inspections both announced and unannounced. The system deters activity by the independent sector. Changing the system will not be easy. A "lead agency" concept for oil and gas may be a solution but not if it is simply another layer of regulation. The lead agency (probably Alaska Oil & Gas Conservation Commission) would eliminate or replace the existing permitting functions of other agencies and provide "one stop shopping" for industry. Also, reasonable time limits for issuance or rejection of a permit are needed. Considerable resistance to those concepts will be received from middle and lower level officials in the agencies. It is our experience that, while the Governor and the department heads may be working toward positive changes, the message does not filter down to the lower levels. We have

experienced on a number of occasions in our permitting efforts that the lower level officials do not simply "carry out policy" as would be expected. They "make policy" and that policy is usually "stop" or "no". These officials, of course, do not have the "answerability" of the elected or appointed officials above.

#### 5. Reduce DEC Financial Responsibilities Requirements

These requirements were created in the wake of the Exxon Valdez incident. Even with the reductions enacted in 1994 by the Legislature, the required coverages are very hard to come by for a small company, especially with the "Direct Access" provision required under insurance policies. By the way, we have elected to exceed the required coverages at West McArthur River but that was a business decision which may not be applicable in all cases.

#### 6. Development Funding Programs

With Alaska's high cost of operating, State funding for development activities could significantly encourage exploration and hopefully more discoveries by the independent sector. A development loan program, which would be available only after discovery in paying quantities and would not be for exploration purposes, would encourage aggressive development and benefit both the State of Alaska and industry. I know from experience that oil and gas operations do not fit the AIDA programs. A new funding mechanism would be required.

As indicated earlier, our project at West McArthur River has involved more than \$50 million in investment to date. During periods of drilling, approximately 40

full time on-site jobs are created together with approximately 20 support jobs in Anchorage and Kenai. Pipeline construction involved approximately 30 full time on-site jobs and 15 support jobs. After full development of the field, about 15 permanent on-site and support jobs will be involved in the producing operation. In addition to the taxes and royalties involved, the employment created by operations such as ours can only be good for Alaska's economy.

Despite the obstacles, independents can function in Alaska, but these types of incentives are needed. As an independent producer, we are in touch with many other independent producers. There are roughly 10,000 members in IPAA, the Independent Petroleum Association of America. Most of the IPAA members will never venture to Alaska, but in the wake of our success, we are beginning to hear expressions of interest from quite a few.

Thank you for inviting me to appear today. We look forward to continued work with the Council and we are prepared to assist with specific language to accomplish these suggested changes. In the meantime, I'll try to answer any questions you may have.

STEWART PETROLEUM COMPANY

By: 

W. R. Stewart, President

May 25, 1995



ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

Pouch Y. State Capitol  
Juneau, Alaska 99811  
(907) 465-1991

March 11, 1986

MEMORANDUM

TO: Representative Andre Marrou  
FROM: *G. Keiser*  
Gretchen Keiser  
Legislative Analyst  
RE: Oil and Gas Discovery Royalty Incentive  
Research Request 86-126

You requested us to provide information about a former provision in State statute which allowed a lessee to pay a reduced royalty on production for ten years following the discovery of commercial quantities of oil or gas. Specifically, you wanted to know:

- when and why the provision was dropped;
- how successful the provision was with respect to encouraging exploration;
- State revenue "lost" because of the reduced royalty; and
- State revenue ultimately gained because of the production of commercial quantities which would otherwise not have been discovered.

Brief History of the Discovery Royalty

The so called "discovery royalty" provision was dropped from Alaska Statute in 1969 (S 1, Ch. 65, SLA 1969). Prior to its deletion, the provision was as follows:

"...the holder of a lease who drills and makes the first discovery of oil or gas in commercial quantities in a geologic structure shall pay a royalty on all production under the lease of five percent for 10 years following the date of discovery and thereafter the royalty rate shall be not less than 12-1/2 percent..." [AS 38.05.180(a)]

Representative Marrou  
March 11, 1986  
Page Three

the first place.<sup>1</sup> In other words, the provision generally affected the timing of drilling in a prospective area after the decision to explore had been made.

The Cook Inlet discoveries listed in Attachment A occurred during the period of extensive oil and gas exploration of the many separate geologic structures in the region. It appears unlikely that the discovery royalty provision was instrumental in encouraging exploration beyond what was already warranted based on preliminary geophysical investigations.

The discovery royalty did provide some incentive to develop, produce and market discovered commercial quantities of oil or gas as quickly as possible. However, the incentive to produce was quite small because the reduced royalty provision applied only to the single lease where the discovery occurred. In the initial unitization covering the 63 leases in the Kuparuk River Unit, for example, only 0.0206 percent of the oil produced was allocated to the discovery lease.<sup>2</sup> Generally, hydrocarbon quality, ease of extraction, the cost of transportation, and market value were much more significant factors in the decision to develop an oil or gas field.

In 1978, a provision for exploration incentive credits was included in the extensive revision of Alaska's oil and gas leasing statute [Alaska Statute 38.05.180(1)]. The Commissioner of the Department of Natural Resources can provide credits--of up to 50 percent of the cost of exploratory drilling or geophysical work--to be applied against royalties, rentals or severance taxes payable to the State. According to Ed Phillips, Petroleum Economist for the department, the current exploration incentive credits (EICs) provide a much more significant inducement to drill than the old discovery royalty provision. Not only are EICs applicable to any exploratory well drilled by a lessee, but partners in the exploratory well (who may or may not be owners of that specific lease) may also receive EICs proportional to their involvement. The EICs provide for immediate recovery of a sizable portion of the exploratory costs (e.g. 30 to 40 percent) because the credits can be applied existing rental, royalty, or severance tax obligations.

---

<sup>1</sup>Affidavit of C.V. "Chet" Chatterton (Commissioner of the Alaska Oil and Gas Conservation Commission) in the Kuparuk River discovery royalty court case (BP Alaska et al. v. State of Alaska).

<sup>2</sup>Affidavit of Ed Phillips (Petroleum Economist for the Alaska Department of Natural Resources) in BP Alaska et al. v. State of Alaska.

ATTACHMENT A

Discovery Wells Granted the State Discovery Royalty Provision  
(Department of Law)

<u>Name of Well</u>	<u>Lessee (present names)</u>	<u>ADI. No.</u>	<u>Date of Discovery<sup>1</sup></u>	<u>First Affidavit or claim of discovery<sup>4</sup></u>	<u>Date of written decision granting discovery royalty<sup>5</sup></u>	<u>Effective date of the 10-year discovery royalty<sup>6</sup></u>	<u>Commencement of commercial production<sup>7</sup></u>	<u>Date 12 1/2 royalty replaced 5 1/2 discovery royalty rate<sup>8</sup></u>	<u>Period royalty actually reduced<sup>9</sup></u>
Falls Creel Unit No. 1	Chevron ARCO	00590	4-10-61	12-3-63	2-18-64	5-1-61	none <sup>7</sup>	no royalty ever paid	never used
Middle Ground Shoal No. 1	AMOCO Getty Phillips	17595	6-10-62	11-12-62	1-15-63	6-10-62	5-66 <sup>8</sup>	6-10-72 <sup>12</sup>	6 years, 1 month <sup>12</sup>
● Inlet State No. 1	Phillips	17589	8-21-62	11-12-62	11-24-64	9-1-62	3-69 <sup>8</sup>	9-72	3 years, 6 months
Acuga River Unit No. 1	Chevron ARCO Shell	17599	12-1-62	9-17-63	12-19-62	1-1-63	3-68 <sup>8</sup>	1-73	4 years, 10 months
Granite Point No. 1	Hobbit Union	18761	5-16-65	5-21-65	9-14-65	6-1-65	5-67 <sup>9</sup>	6-75	8 years, 1 month
Trading Bay No. 1-A	Union Marathon	18731	5-23-65	6-18-65	8-27-65	6-1-65	1-67 <sup>10</sup>	6-75	8 years, 5 months
Gonyling No. 1-A	Union Marathon	17594	9-29-65 <sup>2</sup>	10-28-65	1-19-82	10-1-65	10-67 <sup>10</sup>	10-75 <sup>10</sup>	8 years, 1 month
● Inlet Creek State No. 1	Teneco Superior	17598	4-28-66	5-23-66	8-19-66	5-1-66	10-68 <sup>8</sup>	no production <sup>13</sup> after 1972	no more than about 4 years
Prodhue Bay State No. 1	ARCO Exxon	28303	12-19-67 <sup>3</sup>	3-26-68	4-7-69	1-1-68	6-20-77 <sup>10</sup>	1/78	6 months, 11 days
Ugum No. 1	BP, Sohio ARCO	25633	4-7-69	9-15-69	11-12-82	5-1-69	12-13-81 <sup>11</sup>	12 1/2 royalty paid from 12-13-81, the first date of production	never used

EXHIBIT NO. 2

PAGE 1 OF 2

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services  
Department of Education  
State of Alaska

<u>Name of Well</u>	<u>Lessee (present names)</u>	<u>ADL No.</u>	<u>Date of Discovery<sup>1</sup></u>	<u>First Affidavit or claim of disc- covery<sup>4</sup></u>	<u>Date of written decision granting discovery royalty<sup>5</sup></u>	<u>Effective date of the 10-year discovery royalty<sup>6</sup></u>	<u>Commence- ment of commer- cial pro- duction</u>	<u>Date 12 1/2 royalty replaced 5 1/2 discovery royalty rate</u>	<u>Period royalty actually reduced</u>
Falls Creek Unit No. 1	Chevron ARCO	00590	4-10-61	12-3-63	2-18-64	5-1-61	none <sup>7</sup>	no royalty ever paid	never used
Middle Ground Shoal No. 1	AMOCO Getty Phillips	17595	6-10-62	11-12-62	1-15-63	6-10-62	5-66 <sup>8</sup>	6-10-72 <sup>12</sup>	6 years, <sup>12</sup> 1 month
● Inlet State No. 1	Phillips	17589	8-21-62	11-12-62	11-24-64	9-1-62	3-69 <sup>8</sup>	9-72	3 years, 6 months
Beluga River Unit No. 1	Chevron ARCO Shell	17599	12-1-62	9-17-63	12-19-62	1-1-63	3-68 <sup>8</sup>	1-73	4 years, 10 months
Granite Point No. 1	Hobill Union	18761	5-16-65	5-21-65	9-14-65	6-1-65	5-67 <sup>9</sup>	6-75	8 years, 1 month
Teeding Bay No. 1-A	Union Marathon	18731	5-23-65	6-18-65	8-27-65	6-1-65	1-67 <sup>11</sup>	6-75	8 years, 5 months
Grayling No. 1-A	Union Marathon	17594	9-29-65 <sup>2</sup>	10-28-65	1-19-82	10-1-65	10-67 <sup>10</sup>	10-75 <sup>10</sup>	8 years, <sup>10</sup> 1 month
● Inlet Creek State No. 1	Texaco Superior	17598	4-28-66	5-23-66	8-19-66	5-1-66	10-68 <sup>8</sup>	no production <sup>13</sup> after 1972	no more than about 4 years
Prudhoe Bay State No. 1	ARCO Exxon	28303	12-19-67 <sup>1</sup>	3-26-68	4-7-69	1-1-68	6-20-77 <sup>10</sup>	1/78	6 months, 11 days
Ugmi No. 1	BP, Sohio ARCO	25633	4-7-69	9-15-69	11-12-82	5-1-69	12-13-81 <sup>11</sup>	12 1/2 royalty paid from 12-13-81, the first date of production	never used

EXHIBIT NO. 2  
PAGE 1 OF 2

ATTACHMENT 3

Exploration Incentive Credits Certified  
by the State of Alaska

EXPLORATION INCENTIVE CREDITS  
 Report Month: August 1965

ADL	WELL	COMPANY	CERTIFICATION DATE	TOTAL AMOUNT
343109	G-2 Well	Exxon	10/5/83	\$6,197,625.00
		Sohio	12/27/83	\$4,152,408.75
		BP&E	10/5/83	\$2,045,216.25
344010	Leffingwell	Arco	10/2/84	\$3,706,000.00
		Union	10/2/84	\$3,706,000.00
344033	J-1 Well	Exxon	10/31/84	\$5,119,500.00
355005	Long Island Well	Exxon	11/14/84	\$1,378,076.00
		Sohio	11/14/84	\$1,378,076.00
345126	Totek Hills	Arco Alaska	8/02/85	\$715,530.81
GRAND TOTAL				\$28,398,432.81

Source: Alaska Department of Natural Resources, Division of Oil and Gas

COOK INLET BASIN

DATA SUMMARY

FOR

STATE OF ALASKA HOUSE OF REPRESENTATIVES

FINANCE COMMITTEE HEARING

RE: SENATE BILL 112



COOK INLET BASIN

DATA SUMMARY

FOR

STATE OF ALASKA HOUSE OF REPRESENTATIVES

FINANCE COMMITTEE HEARING

RE: SENATE BILL 112

APRIL 22, 1996

TABLE OF CONTENTS

<u>PART I:</u>	Cook Inlet Basin-Data Summary
	Map of Basin
<u>PART II:</u>	Discovery rates and historical oil & gas reserves. (Discussion)
	Graph comparing drilling and discovery rates during 1959 - 1969 and subsequent years. (PLATE "A")
	Bar chart showing oil & gas reserves discovered prior to, during and after "discovery royalty" provision. (PLATE "B")
<u>PART III:</u>	Estimate of remaining undiscovered oil & gas reserves (Discussion)
	Bar chart - <u>PLATE "C": Estimated Undiscovered Oil &amp; Gas Reserves - Cook Inlet Basin.</u>

PART IV:

Estimate of ultimate State of Alaska royalty values attributable to undiscovered oil & gas reserves. (Discussion)

TABLE "A": Estimated Value to State of Alaska Royalties on Undiscovered Oil & Gas Reserves - Cook Inlet Basin.

PART V:

Ancillary economic benefits to increased exploratory well rate. (Discussion)

PART VI:

Summary and Conclusions

Data sources

COOK INLET BASIN

DATA SUMMARY

FOR

STATE OF ALASKA HOUSE OF REPRESENTATIVES

FINANCE COMMITTEE HEARING

RE: SENATE BILL 112

APRIL 22, 1996

PART I

1. BASIN DESCRIPTION

The Cook Inlet Basin is an intermontane sedimentary basin trending NE-SW, bounded by the Southern Alaska Range and the Chugach Mountains and is roughly coextensive with the present Cook Inlet waters and immediately surrounding terrain.

It is an important hydrocarbon producing area containing numerous individual oil and gas fields.

2. BASIN SIZE

It is approximately 200 x 70 miles and contains 9,000,000 (+/-) surface acres.

3. OIL & GAS FIELDS

(Oil) 7 producing fields

(Gas) 22 total fields (11 producing; 11 shut-in)

4. ESTIMATED TOTAL  
PROVED  
RECOVERABLE  
RESERVES

(Oil) 1.35 Billion Bbls. (BBO)

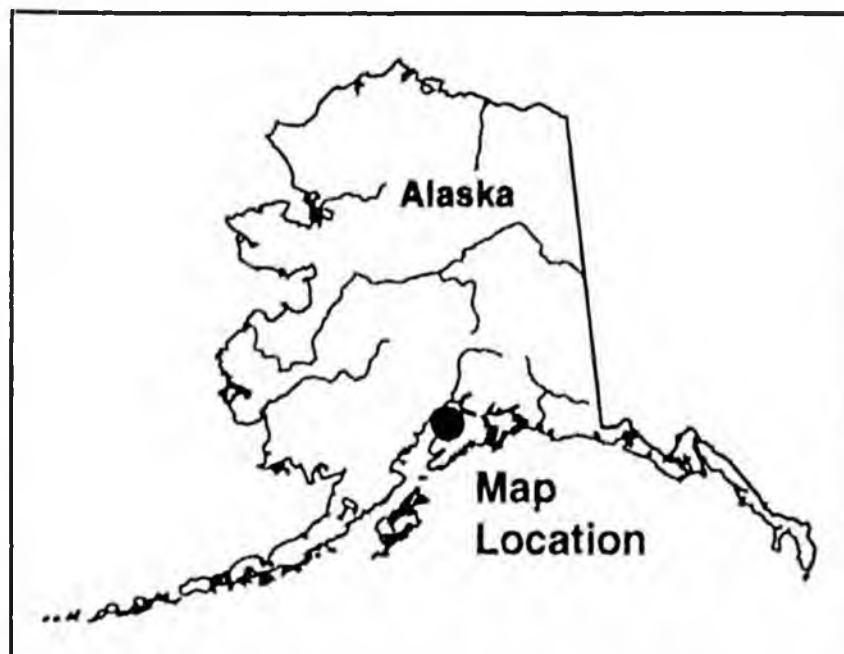
(Gas) 6.6 Trillion Cu. Ft. (TCF)

5. ESTIMATED  
REMAINING PROVED  
RECOVERABLE  
RESERVES

(Oil) 120 million BO (MMBO)  
(Gas) 1.9 TCF

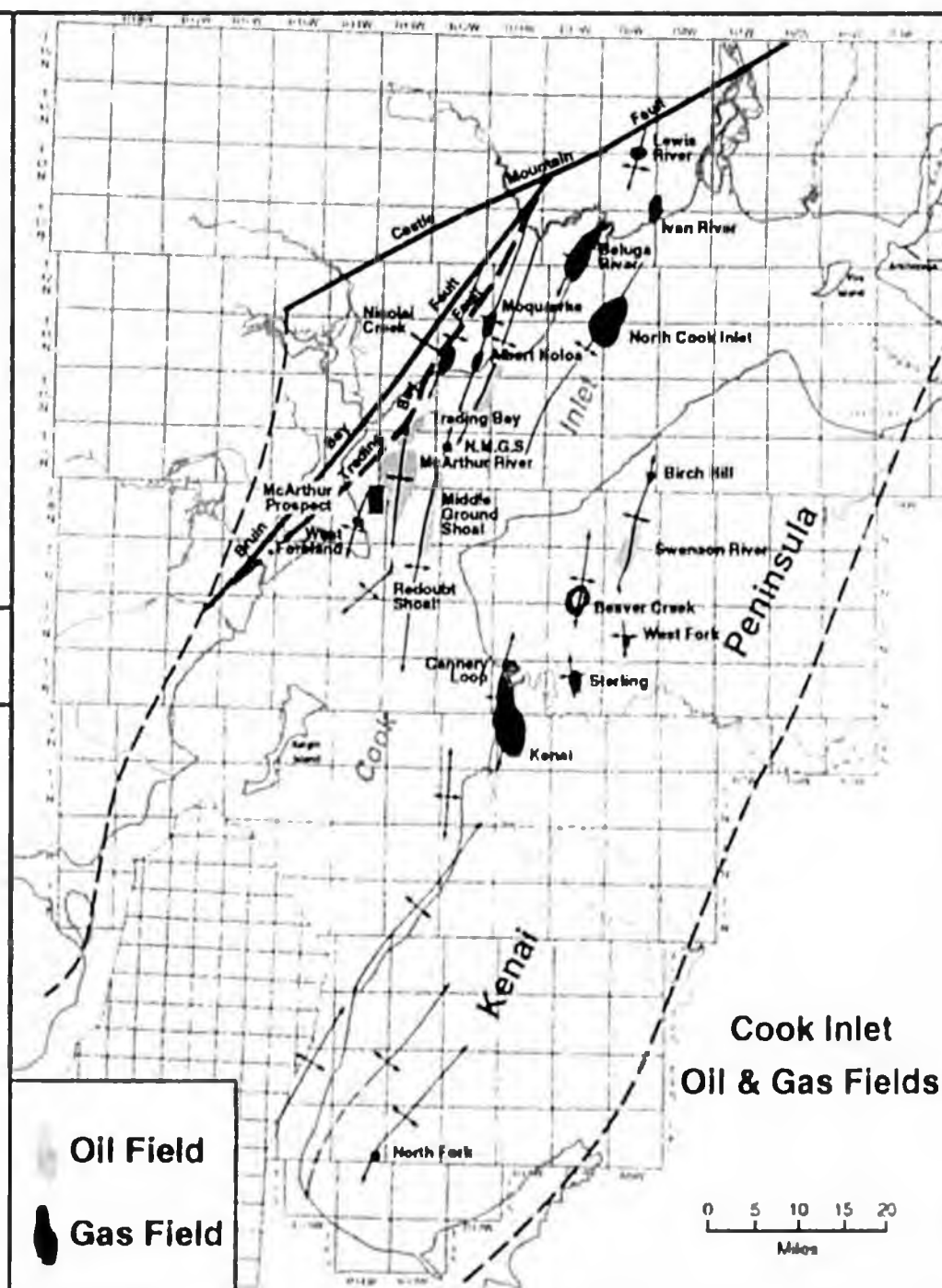
6. ESTIMATED  
UNDISCOVERED OIL  
& GAS RESERVES

(Oil) 1.00 Billion Bbls (BBO)  
(Gas) 2.0 TCF



**Alaska Vicinity Map**

**Oil & Gas Fields  
of the  
Cook Inlet Basin  
Alaska, USA**



## PART II

### Cook Inlet Basin - Discovery Rates & Historical Oil & Gas Reserves

PLATE "A" is appended comparing yearly exploratory wells drilled during the "discovery royalty" period of 1959 - 1969 versus the recent period of 1985 - 1995. During the "discovery royalty" period a total of 174 exploratory wells were drilled; in the latter, "non-discovery royalty" period 16 were drilled. This represents a decrease in exploration of 92%.

The appended PLATE "B": COOK INLET PRODUCING OIL FIELDS illustrates that prior to 1959, one field, Swanson River, was discovered with estimated ultimate reserves of 235 MMBO. During the "discovery royalty" period (1959-69) discoveries were made with an estimated ultimate recovery of 1,060 (1.06 BBO). Subsequent to 1969, two discoveries have been made which will aggregate less than 30 MMBO.

Note also that the fields discovered in 1957 - 1969 are approximately 91% depleted.

# Plate "A"

## Cook Inlet Exploratory Wells

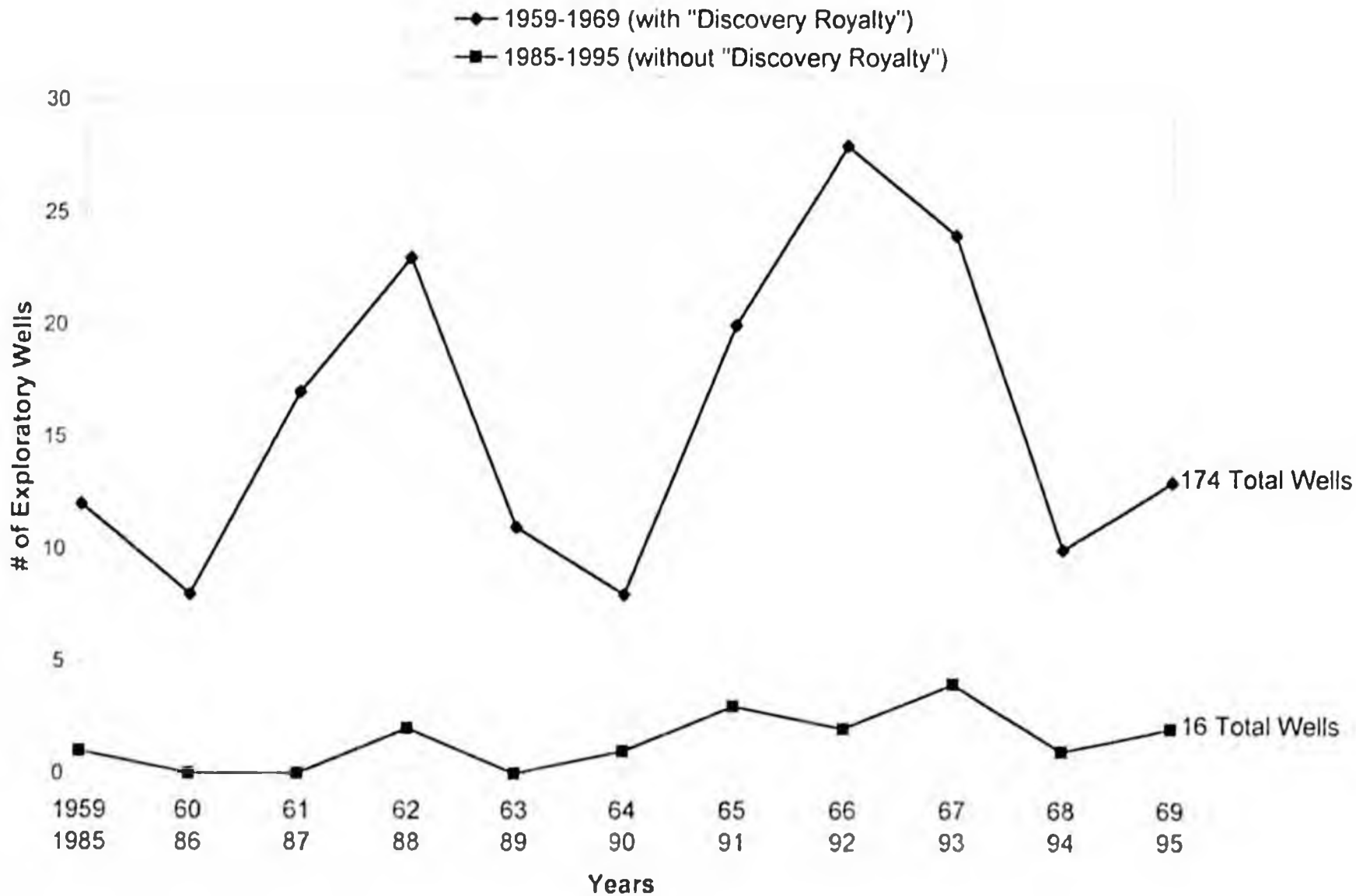
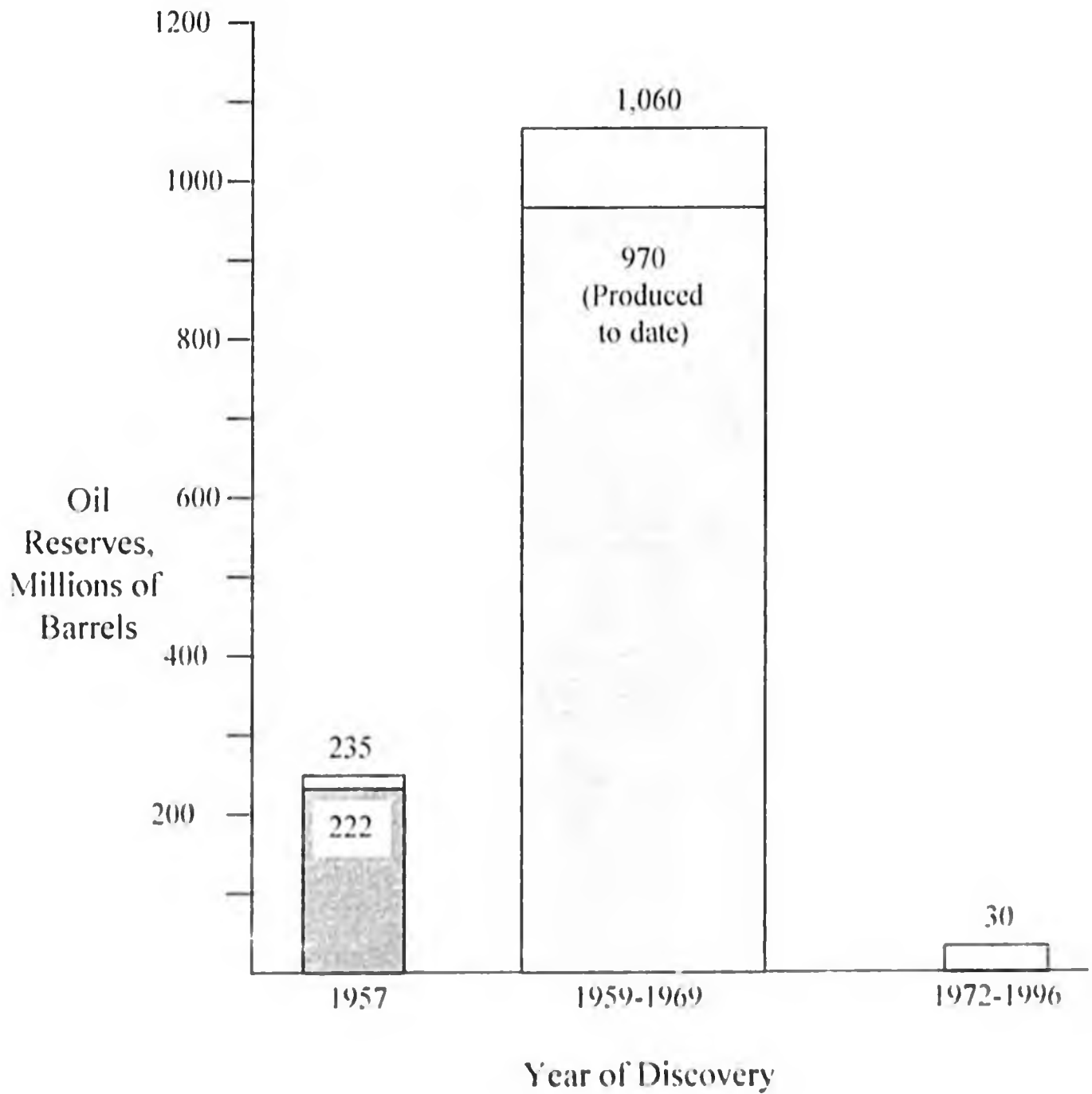


Plate "B"  
Cook Inlet  
Producing Oil Fields



## PART III

### Estimate of Undiscovered Oil & Gas Reserves

Geological estimates of undiscovered basinal reserves include basic estimates of: basin size and volume of potential reservoir rock, further quantified by consideration of: reservoir quality, volume of potential source beds, hydrocarbon content and thermal maturity of the source rocks, structural history of the basin and any known post-depositional or diagenetic changes in the reservoir rocks.

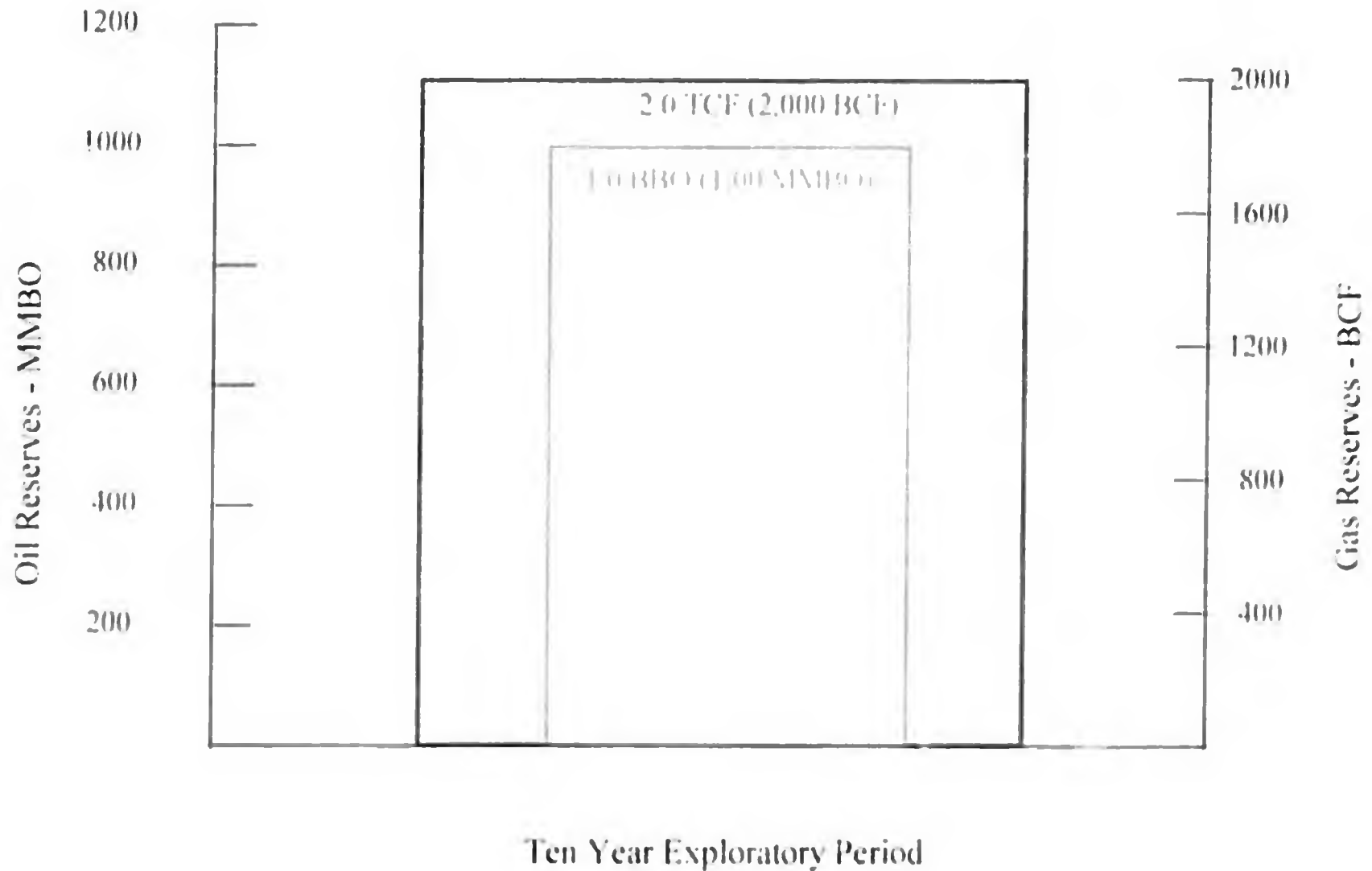
Various studies incorporating some or all of these parameters have been made and it is a generally held opinion that the Cook Inlet generating process, or "oil kitchen" generated considerably more hydrocarbons than can be accounted for in presently known resources. The unaccounted for or undiscovered portion of these reserves will not be found primarily in large, easily identifiable structural traps, but will be concentrated in more subtle traps: stratigraphic pinchouts, sub-thrust fault blocks, and diagenetically influenced reservoirs.

Exploration for these reserves will require a deeper geological understanding of historical basin processes, utilization of sophisticated seismic and other exploration systems and innovative drilling and completion techniques.

This will be an expensive search but the technology and will exists to do it. Only in this manner will these reservoirs be found.

Based upon private studies it is estimated that a reasonable figure of expectation for undiscovered oil and gas reserves is: 1.0 BBO and 2.0 TCFC. This would represent a replacement of 74% of the known oil reserves and 30% of the gas produced to date.

Plate "C"  
Estimated Undiscovered Oil & Gas Reserves  
Cook Inlet Basin



## PART IV

### Estimate of State of Alaska Royalty Values Attributable to Undiscovered Oil & Gas Reserves

Assuming that the estimate of 1.0 BBO and 2.0 TCFC (PART III, supra) is reached, and an average constant well-head price of \$15.00 per barrel for oil and \$1.70 per MCF of gas is maintained, these reserves would have a gross undiscounted value of \$15.0 billion to the oil and \$3.4 billion to the gas for a total of \$18.4 billion.

However, only a portion of the wells drilled would constitute "discovery wells"; based upon estimates of future field (and discovery tract) size, it is estimated that the "discovery royalty" of 5% would apply to no more than 20% of all wells drilled.

TABLE: "A" is appended setting forth Alaska royalty calculations for oil and gas reserves both "discovery royalty" and "regular royalty".

Note that the average royalty percentage received by the State of Alaska would be 11%. The total calculated value of these oil and gas royalties is: \$2.024 Billion.

Table "A"

Estimated Value to State of Alaska  
Royalties on Undiscovered Oil Gas  
Reserves - Cook Inlet Basin

ITEM	OIL	GAS
Total Reserves	1.0 BBO	2.0 TCF
Gross Value (Revenue) (\$15/BO and \$1.70/MCF)	\$15.0 Billion	\$3.4 Billion
Alaska Royalty On 20% "Discovery" Portion (5%)	\$150 Million	\$34 Million
Alaska Royalty On 80% "Non-Discovery" Portion (12.5%)	\$1.5 Billion	\$340 Million
Total Alaska Royalty (Gross Undiscounted Value)	\$1.650 Billion	\$374 Million
Average Alaska Royalty	11%	11%
Total Value Alaska Oil & Gas Royalty	\$2.024 Billion	

## PART V

### Ancillary Economic Benefits to Increased Exploratory Well Rate

The most obvious benefit to increased drilling is the creation of immediate jobs in and around the drilling operation. This would include primary drilling personnel and, as wells were brought on line, would also include personnel for production operations. At all times, support jobs (e.g. camp cook and catering, road maintenance, etc) would become available. These positions would be filled by local Alaskans.

The economy will benefit from injections of new dollars into the (local) capital stream and of course, real economic value will be created and tax bases increased.

It is estimated that each well drilled will create approximately 75 new jobs each of which will receive an average of \$60,000 (+/-) per year. Each calendar year of drilling activity per rig can therefore be anticipated to provide \$4,500,000 in real capital infusion, or approximately \$1,875,000 per individual well. This amounts to a total of \$28,125,000 (+/-) in direct payroll attributable to 15 exploratory wells.

## PART VI

### Summary & Conclusions

From the foregoing data it may be concluded that:

- 1) The Cook Inlet Basin is an important Alaskan hydrocarbon producing basin.
- 2) Presently known oil reserves of 1.35 Billion Barrels of Oil (BBO) are approximately 91% depleted.
- 3) During the years 1959 - 1969 a "discovery royalty" provision was in effect. During this period approximately 81% of the known reserves were discovered.
- 4) Discovery rates are tied directly to exploratory well rates. During 1959 - 1969 a total of 174 exploratory wells were drilled resulting in oil discoveries aggregating in excess of 1 Billion barrels of oil. During the recent period of 1985 - 1995 a total of 16 exploratory wells were drilled (a decrease of 92%) resulting in discoveries aggregating only 30 MMBO
- 5) It is estimated that the Cook Inlet Basin contains undiscovered reserves aggregating at least 1.0 BBO and 2.0 TCFG.
- 6) State of Alaska royalties received from these reserves would total approximately \$2.024 Billion.
- 7) Substantial economic benefits will accrue to local economies. Each exploratory well drilled will create approximately 75 new jobs and approximately \$1,875,000 in capital infusion on the local level.



\_\_\_\_\_  
WALTER D. WELLS

CERTIFIED PETROLEUM GEOLOGIST

American Association of Petroleum Geologists - CPG #3214  
American Institute of Professional Geologists - CPG #6993  
Alaska - CPG #AA-307

### Data Sources

Field discovery dates were taken from the: 1994 Statistical Report Alaska Oil & Gas Conservation Commission.

Production data and estimates of remaining discovered reserves were taken from the: March, 1995 Historical and Protected Oil & Gas Consumption - Alaska Department of Natural Resources - Division of Oil & Gas.

C

HOUSE COMMITTEE REPORT

4/29/96

(9)

Date Referred to Committee: April 2, 1996

FURTHER REFERRALS:

Finance

Date of Committee Action: 4-29-96

The RESOURCES Committee considered:

CSSB 112(RES)

CS FOR SENATE BILL NO. 112(RES)

DISCOVERY ROYALTY CREDIT

"An Act establishing a discovery royalty credit for the lessees of state land drilling exploratory wells and making the first discovery of oil or gas in an oil or gas pool in the Cook Inlet sedimentary basin."

recommends it be replaced with the following committee substitute HCSCSSB 112 (RES) [x] the same title [ ] a new title

[ ] additional referral to \_\_\_\_\_ Committee [ ] attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) APPROVES PREVIOUS: (Dept/Date) [ ] fiscal note(s) (2) [x] fiscal note(s) Senate DNR 3-25-96 REU (indeterminate) 3-29-96

[ ] zero fiscal note(s) [ ] zero fiscal note(s)

Table with columns: SIGNING WITH RECOMMENDATIONS, DP, DNP, NR, AM. Rows include signatures and names: DAVIS, Williams, Green, Ogan, Austerman, KOTT. Summary row: (3), (2), (1)

CG- CHAIR'S SIGNATURE [Signature]

**SB**

**112**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

S.C. 3/27/96

DATE: 3/20/96

DATE TURNED INTO OFFICE: 3/27/96

The Finance Committee considered SENATE BILL NO. 112

Establishing a discovery royalty credit for the lessees of state land drilling exploratory wells and making the first discovery of oil or gas in commercial quantities.

and recommends:

- be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous \_\_\_\_\_ CS SB 112 (RES)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to the \_\_\_\_\_ Committee

- Senate Bill:**
- same title
  - new title
- House Bill:**
- same title
  - technical change
  - new: SCR# \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>David Wiley</i>	✓	<i>Steve Ruzja</i>	✓		
<i>Paul G. Hunt</i>	✓	<i>Bill E. [unclear]</i>	✓		
<i>Bob [unclear]</i>	✓				
Co-Chair: <i>[Signature]</i>	✓	Co-Chair:			
Co-Chair: <i>Rich Halford</i>	✓	Co-Chair:			

**NEW FISCAL NOTE(S):**

Department                      Date    Zero    Fiscal


**PREVIOUS FISCAL NOTE(S):\***

Department                      Date    Zero    Fiscal

#3 Nat. Resources	3/22/96		91.0

APPROPRIATION -- no fiscal note

\*Include fiscal notes accompanying Governor's bill

# FISCAL NOTE

REPORTED OUT OF

SFC 3/21/96

#3

STATE OF ALASKA

BILL NO. CSSB112(RES)

1996 LEGISLATIVE SESSION

Revision Date: Original Dept Affected: Natural Resources  
 Title: An Act establishing a discovery royalty credit BRU: Resource Development  
 for the lessees of state land drilling exploratory wells and... Component: Oil & Gas Development  
 Sponsor: Senate Resources  
 Requestor: Senate Finance Component Serial No. 439

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	91.0	91.0	91.0	91.0	91.0	91.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>
<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>CHANGE IN REVENUES ( )</b>						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	91.0	91.0	91.0	91.0	91.0	91.0
1005 GF/Program Receipts						
1008 GF/MHTIA						
Other						
<b>TOTAL</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>	<b>91.0</b>

Estimate of any current year (FY96) cost: \$ none

POSITIONS

FULL-TIME	1	1	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

**ANALYSIS:** (Attach a separate page if necessary)

This bill reinstates Discovery Royalty (which was repealed in 1969) as a means to reduce royalty payments under certain conditions for leases in Cook Inlet Sedimentary Basin.

It is apparent that the discovery royalty incentive has previously been geared toward frontier exploration. In frontier areas, the geologic risk of drilling an unsuccessful well is high, since little geological information is available to the operator prior to drilling. The element of risk was used by the state as an important yard stick for determining eligibility in some previous discovery royalty decisions in Cook Inlet. Cook Inlet was a frontier basin in the 1950's and 1960's. However, today, due to a long history of exploration and production, geologists consider Cook Inlet a mature petroleum province. Almost all wells drilled on state land in Cook Inlet are drilled in close proximity to other wells containing known oil or gas and should be considered step-out wells and not wildcat exploration wells. Step-out wells have relatively low exploration risk when compared to wildcat exploration wells.

Prepared by: Ken Boyd, Director Phone: 269-8800  
 Division: Oil & Gas Date: 22-Mar-96  
 Approved by Commissioner: [Signature] Date: 22-Mar-96  
 Agency: Natural Resources

FISCAL ANALYSIS CSSB112(RES) continued...

Based on past experience, SB 112 will be very difficult to administer. Due to the issuance of pre-1970 conditional leases and the holding of other pre-1970 leases by unitization, the state has many current leases that still have a contractual right to a discovery royalty under the repealed program. As of January 1995, the state has 340 active leases that currently retain the discovery royalty provision, and the Division of Oil and Gas still actively manages the program. Under the previous discovery royalty program, thirteen applications were made for wells in Cook Inlet Basin, eight of which were granted and five were denied. Many of these applications were granted or denied only after years of litigation.

Although SB 112 attempts to eliminate many of the administrative problems with the old discovery royalty program, certain significant problems are inherent with both the repealed program and SB 112. These problems were recognized as far back as 1962 and remain today. It is doubtful that new regulations could eliminate the problems faced in the earlier program.

It is unlikely that the Division can draft regulations under the time constraints imposed by the bill.

Analysis of discovery royalty applications is a very time consuming process and will require the addition of one Petroleum Geologist.

**THE FOLLOWING PAGES MAY NOT  
FILM LEGIBLY BECAUSE OF THE  
POOR QUALITY OF THE ORIGINAL**



