

**ALASKA LEGISLATURE**

**HOUSE and SENATE FINANCE COMMITTEE FILES**

**2003-2004**

**2438**

**1/29/03**

**CONFIRM:  
COMM. OF  
DEPT. OF  
REVENUE  
CORBUS**

**HFIN**

**FILE**

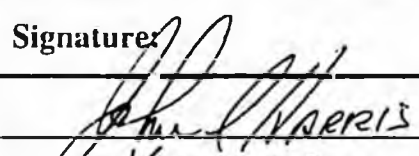
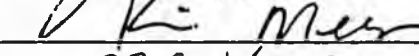
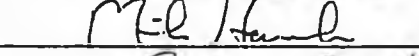
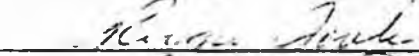

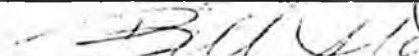
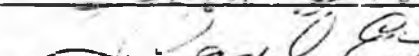



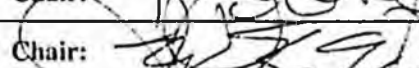
## CONFIRMATION COMMITTEE REPORT

Action date: 1/29/03

In accordance with AS 39.05.020, the Finance Committee has reviewed the qualifications of the following Governor's appointee and recommends that this name be forwarded to a joint session for consideration:

**Commissioner - Department of Revenue**  
 William A. Corbus  
 Appointed: 12/09/2002

This does not reflect intent by any of the members to vote for or against this individual during any further sessions for the purposes of confirmation.

Signature:	Printed Last Name
	HARRIS
	Meyer
	Hawker
	Jule
	CROFT
	STOLTZ
	MOSES
	STEVEN
	Whitaker
Chair: 	FOSTER
Chair: 	Williams

Please return to the Chief Clerk's office.

W. A. Corbus  
January 27, 2003

Subj: Commissioner, DOR Legislative Confirmation Notes for Hearings

1. Honored to be nominated by the Governor as Commissioner of Revenue
  - a. An honor to serve this State and Governor
  - b. I will strive to the best of my abilities to carry out the responsibilities of this office
  - c. I am looking forward to working with you to make Alaska a better place to live for current and future generations
  
2. Summary Bill Corbus background - (have resume if needed)
  - a. 4 years on Wall St., NYC, in public utility security analysis and investment banking
  - b. 32 yrs electric utility management with Alaska Electric Light and Power Company - Juneau
  - c. Board of Directors - 3 different banks -1972-2002, most of the time
  - d. Trustee ASPIB, 6 years, 2 years as the initial chairman
  - e. Gov. Knowles Gas Pipeline
  - f. During this time active in State, civic and charitable activities including B of D of State C of C, numerous boards & commissions, etc.
  
3. Investment Process - see Treasury Division Investment Processes and Policy (on DOR Webbsite)
  - a. Treasury, PF, ASPIB employs a modeling process based upon a statistical technique known as Mean Variance Analysis - Markowitz
    - 1.) Diversification - with respect to different classes of investment securities - debt, equities, real estate - develop capital markets assumptions for each investment class:
      - 1.) expected returns
      - 2.) variance of returns
      - 3.) covariances of returns
    - 2.) Input this information into a model which creates the efficient frontier - the optimum proportional mix of securities (asset

- allocation) to create the highest return a given risk for any given proportion
  - b. The use model output to determine the final asset allocations - the objective, one considers
    - 1.) Risk tolerance of a given fund
    - 2.) Need for protection from inflation
    - 3.) Need for liquidity
    - 4.) Current income requirements versus long term appreciation
  - c. What upon the objective and efficient frontier, select the appropriate asset allocation.
    - 1.) 90% of performance relates asset allocation; 10% to market timing and security selection
    - 2.) Provide bands to asset allocations
    - 3.) Investment staff makes investments following these guidelines
  - d. Follow up
    - 1.) Monitor process in particular adherence to asset allocation - on a monthly basis
    - 2.) Reassess asset allocation annually
- 4. Prudent Investor Rule
  - a. ERISA (Employee Retirement Income Security Act of 1974)
  - b. A fiduciary shall discharge duties solely in the best interests of the participants and beneficiaries
  - c. Use of care, skill, prudence and diligence acting like a knowledgeable (prudent\_ man
  - d. Diversification
- 5. The Permanent Fund - what did the Governor say
  - a. A fresh look at the Permanent Fund; evaluate proposals for fundamental change
  - b. Fees for charitable contributions
  - c. Re-examine fees
  - d. Major dialogue with companies we invest in - how can they help create jobs in Alaska
  - e. Commissioner, DOR - speaks only for himself
    - 1.) Will follow the Governor's direction
    - 2.) Can entice charitable contributions and yet follow the Prudent Investor Rule - yes I believe so
- 6. Legislation proposed by DOR
  - a. PFD - technical issues, Jan 1
  - b. CSED - sunset, other clean up

- c. ABC - sunset
  - d. Municipal bond bank - raise cap
7. CSED/PF Div complaints
- a. Process for handling
    - 1.) Informal
    - 2.) Formal - DOR hearing officers, not part of Division
    - 3.) Superior Court
  - b. Current complaint backlog - on CSED
 

1.) 1999	3222
2.) 2000	1826
3.) 2001	1439
4.) 2002	1144
8. Budget Deficit
- a. Governor's State of State Speech; work with Governor to encourage resource development
  - b. 5 year Plan; first year belt tightening
  - c. Oil
    - 1.) Ways to enhance recovery
      - 1.) Existing fields
      - 2.) Heavy oil
    - 2.) More exploration - by large and small companies
      - 1.) Improved access
      - 2.) Reduce permitting time
    - 3.) Changes to statutes and regulations
    - 4.) State infrastructure investment
9. Other questions
- a. AIDEA - conflict of interest
  - b. PCE - DOR manage \$150m endowment; from a State prospective don't know enough to comment
  - c. Personnel-still forming team; team members will adhere to this Administration's philosophy
  - d. Gas Pipeline - involve others
  - e. Barrow gambling - AG looking into
  - f. AHFC - will probably take seat myself
  - g. Endowment concept - don't know enough to comment
10. Presentation
- a. Good eye contact
  - b. Keep simple, short
  - c. Don't answer anymore than necessary
  - d. Don't allow wedge between the Gov and me
  - e. Don't kid around

Possible questions that may be asked during the Senate Finance confirmation QUESTIONS hearing

1. Please tell the committee a little bit about yourself and what your goals are for the Department of Revenue.
2. How can the Legislature help you to accomplish your objectives?
3. Governor Murkowski issued Administrative Order No. 202 in the interest of an efficient administrative and requested all departments to perform internal performance audits. The performance audits are to be coordinated by the Office of Management of Budget. What is the status of the Department of Revenue performance audit?
4. Excluding the Permanent Fund Corporation, Child Support Enforcement and Mental Health Trust - the autonomous functions housed within the department - the Department of Revenue has about 500 employees. The department has two deputy commissioners and an administrative services director with a staff of 16 employees. Have you given any thought to restructuring or streamlining this agency?
5. In the State of State Address Governor Murkowski indicated that he would like the Permanent Fund Corporation to invest in companies that invest in Alaska. As a Trustee of the Permanent Fund Corporation how to you view the Governor's directive?
6. Do you have any suggestions or recommendations for increasing state revenue?

Post-It* Fax Note	7871	Date	1/28	# of pages	1
To	Linda Weht	From	Sheila		
Co./Dept.		Co.			
Phone #		Phone #			
Fax #	2389	Fax #	4714		

W. A. England  
Jan. 23, 2003

PF - DIV PROGRESS + STATISTICS

ESSED - present  
process for new Director

Investment Strategy

Use of Permanent Fund

New approach to investment activities

Read Quid special -

What are Paul's money management - will we see any real development  
a. ASPIB  
b. PF - \$30M

Permanent investment rules

PF - improved efficiency of resources -

Don't bring up new budgets

got on no

How to have the go:  
Nothing forward to verifying each year  
I can't know but we'll get back to you  
start on learning more -

Heather - Wager Round Committee

Regulation - updating aspect of investment

HIFC Revenue -

Legislative issues

**Subject:** Legislative issues**Date:** Wed, 15 Jan 2003 17:17:48 -0900**From:** Larry Persily <Larry\_Persily@revenue.state.ak.us>**Organization:** Department of Revenue**To:** Barbara Miklos <barbara\_miklos@revenue.state.ak.us>,  
Douglas Griffin <doug\_griffin@revenue.state.ak.us>,  
Dan Dickinson <dan\_dickinson@revenue.state.ak.us>,  
Larry Meyers <larry\_meyers@revenue.state.ak.us>,  
Elizabeth Martin <betty\_martin@revenue.state.ak.us>, baderg@jds.k12.ak.us,  
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Paul Dick <paul\_dick@revenue.state.ak.us>,  
bob Bartholomew <bbartholomew@alaskapermfund.com>,  
Bob Storer <Rstorer@alaskapermfund.com>,  
Deven Mitchell <deven\_mitchell@revenue.state.ak.us>

Here is the first round of legislative decisions from the governor's office on Department of Revenue bills:

- Raising the borrowing limit for the Alaska Municipal Bond Bank Authority. Yes. Governor will introduce.
- CSED sunset bill. Governor ~~likely~~ will introduce, ~~but still thinking~~. Maybe more news next week.
- ABC sunset bill. Governor's office will shop for a friendly majority legislator to introduce.
- Children's Trust and Public School Trust endowment. No decision yet.
- Improvements to CSED statutes (corporate assets, license suspension, paternity). Yes. Governor will introduce.
- Tobacco tax stamps. No decision yet.
- Improvements to PFD statutes (administrative penalties for fraud, prohibit third-party assignments, deadlines). The governor's office will shop for a friendly legislator to introduce.
- Change ABC funding source from general fund program receipts to receipt-supported services. No. The governor's office is closing the door on any further such funding switches.
- Change ABC statute to reduce license fees for common carriers with multiple licenses. No decision yet.

As in the past, we are not to discuss the bills with legislators until the governor introduces the measure. (Hey, I'm just the messenger on this.)

Call if there are any questions. / Larry



*Drafted and ready to introduce*

**2003 LEGISLATIVE PROPOSAL FORM**

*Handwritten initials/signature*

DEPARTMENT: Department of Revenue

**SUBJECT OF PROPOSED BILL:**

To raise the limit on the amount of revenue bonds the Alaska Municipal Bond Bank Authority can issue in any one year, and to raise the limit on the total outstanding bond debt the Bond Bank may carry.

DEPARTMENT PRIORITY NO: 1

SPECIFY: Governor's Legislation  Friendly Legislation

**SUMMARY OF INTENT:**

- AS 44.85.100(b) limits the Bond Bank to issuing no more than \$50 million in revenue bonds in any one year. Already this year (Fiscal 2003), the Bond Bank has received applications from municipalities for more than \$56 million in revenue bonds. Failure to raise the limit would hurt communities willing to pay their own way for projects. The Bond Bank board of directors requests raising the limit to \$75 million per year.
- AS 44.85.170(c) limits the Bond Bank to no more than \$300 million in outstanding bonds and notes at any time. The Bond Bank currently has \$227.5 million in outstanding bonds, with up to \$70 million more planned or anticipated this fiscal year. Hitting the limit would stop municipalities from proceeding with projects or prevent them from using the financially more attractive debt terms available through the Bond Bank. The Bond Bank's board of directors requests an increase in the indebtedness limit to \$500 million. In 1983 the limit was raised from \$150 million to \$200 million. In 1984 the limit was raised from \$200 million to \$300 million.

**ESTIMATED FISCAL IMPACT:**

None. Municipalities that use the Bond Bank to issue bonds pay all of the debt service on the bonds. The Bond Bank has sufficient reserve capacity to continue financing capital projects up to the requested \$500 million cap.

**WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL:** None.

**WHO WILL SUPPORT THIS BILL:** All of the municipalities that use the Bond Bank and may use the Bond Bank in the future to issue debt.

**WHO WILL OPPOSE THIS BILL:** No opposition is expected, except perhaps from people who do not understand that Bond Bank debt is not a direct liability of the state.

**IDENTIFY AND DESCRIBE ANY PREVIOUS STATE OR FEDERAL LEGISLATION OR SIMILAR EFFORTS IN OTHER STATES WHICH AFFECT OR RELATE TO THIS PROPOSAL**

\_\_\_\_\_  
Commissioner's Signature

\_\_\_\_\_  
Date

*drafted and ready to introduce*

*[Handwritten signatures and initials]*

**2003 LEGISLATIVE PROPOSAL FORM**

**DEPARTMENT:** Department of Revenue

**SUBJECT OF PROPOSED BILL:** To extend the sunset provisions affecting the operations of the Child Support Enforcement Division.

**DEPARTMENT PRIORITY NO:**   1  

**SPECIFY:** Governor's Legislation   X   Friendly Legislation     

**SUMMARY OF INTENT:**

This legislation would lift the sunset provisions on the collection and reporting of Social Security numbers and on the financial institution data match program of the Child Support Division. These programs are required by federal law. Sunset provisions adopted in the 2001 session will invalidate these programs on June 30, 2003. In addition to the loss of federal funds to the state, failure to remove the sunset date would seriously hinder the Division's ability to collect money owed to tens of thousands of children.

**ESTIMATED FISCAL IMPACT:**

The fiscal impact lies in the loss of federal child support matching funds (about \$15.1 million in FY02) and TANF block grants (about \$60.3 million) as the penalty for failing to comply with federal law. These funds can be withheld if the statutes are allowed to sunset and Alaska is out of compliance with federal law. There is no fiscal impact to keeping the laws on the books.

**WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL:** Other departments, such as the Division of Occupational Licensing, will be required to continue to collect and report Social Security information to CSED. Since this is now the routine, there would be no effect from this legislation.

**WHO WILL SUPPORT THIS BILL:** Parents dependent on the Child Support Division to collect money needed to raise their children.

**WHO WILL OPPOSE THIS BILL:** Opposition to the collection of Social Security numbers has in the past focused on the perceived increase in the potential for identity theft, and the belief that the numbers should not be used for identification purposes. The financial institution data match program was new in 2001, and some legislators expressed concern over potential issues of privacy and government intrusion into personal finances. We anticipate that the subsequent positive experience with this tool will ease those concerns and a majority of legislators will support the bill.

**IDENTIFY AND DESCRIBE ANY PREVIOUS STATE OR FEDERAL LEGISLATION OR SIMILAR EFFORTS IN OTHER STATES WHICH AFFECT OR RELATE TO THIS PROPOSAL**  
None

\_\_\_\_\_  
Commissioner's Signature

\_\_\_\_\_  
Date

**2003 LEGISLATIVE PROPOSAL FORM***for the shop*

DEPARTMENT: Department of Revenue

**SUBJECT OF PROPOSED BILL:**

To extend the Alcoholic Beverage Control Board past its sunset date of June 30, 2003.

DEPARTMENT PRIORITY NO:   2  SPECIFY: Governor's Legislation  Friendly Legislation **SUMMARY OF INTENT:**

The 1999 Legislature (Ch74, SLA99) extended the ABC Board to June 30, 2003. We request legislation for the 2003 session to extend the board through June 2007.

ESTIMATED FISCAL IMPACT: None.

Operating:

Capital:

Revenue:

**WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL:**

Department of Public Safety, which provides law enforcement services for the ABC Board; and the Department of Law, which provides legal services to the board.

**WHO WILL SUPPORT THIS BILL:**

The alcohol industry likely will support the bill, and health care and substance abuse organizations and municipalities also will support the bill.

**WHO WILL OPPOSE THIS BILL:**

Opposition could come from alcohol industry members who have had unpleasant experiences in the past with the ABC Board.

**IDENTIFY AND DESCRIBE ANY PREVIOUS STATE OR FEDERAL LEGISLATION OR SIMILAR EFFORTS IN OTHER STATES WHICH AFFECT OR RELATE TO THIS PROPOSAL**

None.

Larry Persily, Deputy Commissioner

Sept. 21, 2002

**2003 LEGISLATIVE PROPOSAL FORM**

**DEPARTMENT:** Revenue

**SUBJECT OF PROPOSED BILL:** To amend the statutes for the Alaska Children's Trust, Alaska Heritage Endowment Fund and Public School Trust to provide for an annual payout of no more than 5 percent of the rolling average of the market value of each fund.

**DEPARTMENT PRIORITY NO:** 3

**SPECIFY:** Governor's Legislation  X  Friendly Legislation    

**SUMMARY OF INTENT:** Amend the statutes governing the investment of the Children's Trust, AS 37.14.220, Alaska Heritage Endowment Fund, AS 37.14.500, and the Public School Trust, AS 37.14.170, to provide for an annual payout of no more than 5 percent of the market value of each fund. This will provide a more reliable source of funding for these trusts, and allow for more rational investment strategies. The existing statutes for these funds impose a complex set of calculations to compute the annual payout and to inflation proof the trust funds. This new payout rule would be similar to the statutes adopted for the Arctic Winter Games Team Alaska Trust in 2001 and the Alaska Veterans Memorial Endowment Fund in 2002.

**ESTIMATED FISCAL IMPACT:** The legislation would not require an increased appropriation for the Department of Revenue's management of the funds. Payouts from the funds would be about the same as under existing statute for the short term, though it is possible the annual distribution could increase over the long term.

**WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL:**  
Department of Health and Social Services, Department of Education and Early Development

**WHO WILL SUPPORT THIS BILL:** Supporters of the Children's Trust, Heritage Endowment and Public School Trust.

**WHO WILL OPPOSE THIS BILL:** None anticipated.

**IDENTIFY AND DESCRIBE ANY PREVIOUS STATE OR FEDERAL LEGISLATION OR SIMILAR EFFORTS IN OTHER STATES WHICH AFFECT OR RELATE TO THIS PROPOSAL**  
None

\_\_\_\_\_  
Commissioner's Signature

\_\_\_\_\_  
Date

*drafted and ready to introduce*

**2003 LEGISLATIVE PROPOSAL FORM**

DEPARTMENT: Department of Revenue

**SUBJECT OF PROPOSED BILL:** This legislation would make three statutory changes for the Child Support Division: 1) Allow the Division to pursue paternity and child support in cases of incest or rape at the request of the mother; 2) Improve the driver's license suspension program; and 3) Allow the Division to pursue assets hidden behind corporations or other business structures.

DEPARTMENT PRIORITY NO:   4  

SPECIFY: Governor's Legislation   X   Friendly Legislation     

**SUMMARY OF INTENT:**

- 1) Existing statute prohibits the agency from attempting to establish paternity in any case involving incest or forcible rape and does not allow for the mother (or her parents when she is a minor) to have a choice if they want to establish paternity and collect child support. This proposed change would give the mother (or her parents) that choice.
- 2) Currently, driver's license suspension is halted when the non-custodial parent enters into a payment agreement with the Division. If the parent defaults on that agreement, the Division is required to start the process again at the very beginning, which takes 210 days. Scofflaw obligors abuse this loophole by entering into a payment agreement at the last minute, then cease making payments, thus gaining a reprieve from the suspension while denying support to their children for another 210 days. In some cases the evasion is used repeatedly, and it's a major source of complaints from custodial parents. The Division would like to amend the law to allow us to pick up where we left off in cases of repeated non-compliance.
- 3) This would deal with S Corporations, limited liability companies and limited partnerships. An increasing number of self-employed parents have realized we cannot attach corporate accounts in the same way we do personal accounts, and are using these entities to hide assets. The result is a time-consuming, often unsuccessful process to collect child support.

**ESTIMATED FISCAL IMPACT:** None.

**WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL:**

Department of Law and the Division of Motor Vehicles.

**WHO WILL SUPPORT THIS BILL:** Supporters of the driver's license suspension program, and parents who are owed child support.

**WHO WILL OPPOSE THIS BILL:**

This is complex legislation and can be expected to generate resistance at the start, but we believe we can successfully manage a well-crafted bill through the legislature.

**IDENTIFY AND DESCRIBE ANY PREVIOUS STATE OR FEDERAL LEGISLATION OR SIMILAR EFFORTS IN OTHER STATES WHICH AFFECT OR RELATE TO THIS PROPOSAL** None

\_\_\_\_\_  
Commissioner's Signature

\_\_\_\_\_  
Date

**2003 LEGISLATIVE PROPOSAL FORM****DEPARTMENT:** Revenue**SUBJECT OF PROPOSED BILL:** Require tax stamps on packs of cigarettes sold in Alaska on which state taxes have been paid.**DEPARTMENT PRIORITY NO:** 5**SPECIFY:** Governor's Legislation  Friendly Legislation 

**SUMMARY OF INTENT:** We believe there is significant, improper importation into Alaska of untaxed cigarettes. Enforcement of the state cigarette tax is difficult without a stamp on each pack of cigarettes brought into the state. A tax stamp on a cigarette pack would allow an investigator immediate visual identification of untaxed cigarettes. In addition, the federal Contraband Cigarette Tax Act prohibits interstate transportation of unstamped cigarettes into states that require a stamp. Thus, under this legislation, federal officials would be able to participate in the effort to reduce cigarette smuggling into Alaska. As of Jan. 1, 2002, Alaska was one of only four states in the nation that do not require a tobacco tax stamp on packs of cigarettes imported into their state (Hawaii added the requirement in 2001). We believe a cigarette tax stamp would be an effective tool as Alaska combats this problem.

**ESTIMATED FISCAL IMPACT:** The Tax Division would require a small operating increment of about \$150,000 a year to deal with the stepped-up enforcement and to pay for the state-supplied tax stamps, but we believe the tax stamp requirement and enforcement work could result in a gain in tax revenue to the state of at least \$1 million a year. The state also would see a small revenue drop from the credit allowed against tobacco taxes to reimburse distributors for the cost of applying the state tax stamp, but the department expects that the additional revenue from tighter tax enforcement could more than cover the cost of the tax credit to businesses.

**WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL:**

Department of Law.

**WHO WILL SUPPORT THIS BILL:** Anti-smoking groups and legitimate sellers of cigarettes in Alaska who fear unfair competition from the importation of untaxed cigarettes into the state and sellers of untaxed cigarettes.

**WHO WILL OPPOSE THIS BILL:** One small, in-state cigarette distributor opposed the bill during the 2002 session as an unfair burden (the cost of applying the stamps to cigarette packages). The department tried to work with the distributor to adjust the tax credit for applying the stamps to help ease the burden on small businesses.

\_\_\_\_\_  
Commissioner's Signature\_\_\_\_\_  
Date

Good to start

**2003 LEGISLATIVE PROPOSAL FORM**

**DEPARTMENT:** Department of Revenue

**SUBJECT OF PROPOSED BILL:** To make four changes in the statutes governing the Permanent Fund Dividend program: 1) To change the start of the application period from Jan. 2 to Jan. 1 each year; 2) To set the deadline for applications on the first business day after March 31 when the March 31 deadline falls on a holiday or weekend; 3) To allow the Division to assess civil penalties in cases of fraud; and 4) To prohibit applicants from assigning their dividends to pay off another person's debt.

**DEPARTMENT PRIORITY NO:**   6  

**SPECIFY:** Governor's Legislation   X   Friendly Legislation       

**SUMMARY OF INTENT:**

- 1) Because of online filing capabilities, the old start date of Jan. 2 for applications is invalid and the Division can accept applications on Jan. 1. The old date in statute is a holdover from the days when applications had to be filed in person or by mail.
- 2) This change would put into statute the Division's current practice of extending the application deadline when March 31 falls on a holiday or the weekend.
- 3) Existing statute requires the District Attorney to file criminal charges in cases of dividend fraud. Although that may be appropriate for severe cases, many fraud cases do not reach that level and could be handled by administrative fines and penalties.
- 4) Existing statute allows applicants only to assign their dividends to authorized government agencies. This proposal would clarify that applicants may assign their dividends only to cover their own debt. This would block a loophole in the statute that could be used by persons attempting to buy dividends and having the seller assign his or her dividend to a third party as a so-called debt.

**ESTIMATED FISCAL IMPACT:** None.

**WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL:**  
Department of Law.

**WHO WILL SUPPORT THIS BILL:** This legislation should have wide support.

**WHO WILL OPPOSE THIS BILL:**  
No opposition is expected, except from those who do not like any changes in the dividend program or those who do not favor civil penalties for dividend fraud.

**IDENTIFY AND DESCRIBE ANY PREVIOUS STATE OR FEDERAL LEGISLATION OR SIMILAR EFFORTS IN OTHER STATES WHICH AFFECT OR RELATE TO THIS PROPOSAL**  
None

\_\_\_\_\_  
Commissioner's Signature

\_\_\_\_\_  
Date

**2003 LEGISLATIVE PROPOSAL FORM**

*No*

**DEPARTMENT:** Department of Revenue

**SUBJECT OF PROPOSED BILL:** To change the budget funds source for the Alcoholic Beverage Control Board from General Fund Program Receipts to Receipt-Supported Services.

**DEPARTMENT PRIORITY NO:**   7  

**SPECIFY:** Governor's Legislation   X   Friendly Legislation     

**SUMMARY OF INTENT:**

By switching from General Fund Program Receipts to Receipt-Supported Services, the ABC Board would be allowed to use its license fees to become a self-supporting agency (similar to many other programs throughout several departments that generate enough revenue from their own receipts to cover their operating expenses).

**ESTIMATED FISCAL IMPACT:** None.

- Operating:**
- Capital:**
- Revenue:**

**WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL:** None.

**WHO WILL SUPPORT THIS BILL:** This legislation would be of interest only to those who deal with budget and policy matters; it would not change the mission or the operations of the ABC Board.

**WHO WILL OPPOSE THIS BILL:** The same legislators who have objected to such fund switches in the past.

**IDENTIFY AND DESCRIBE ANY PREVIOUS STATE OR FEDERAL LEGISLATION OR SIMILAR EFFORTS IN OTHER STATES WHICH AFFECT OR RELATE TO THIS PROPOSAL**

Larry Persily  
Commissioner's Signature

October 16, 2002  
Date

*no  
ASMER*

**2003 LEGISLATIVE PROPOSAL FORM**

**DEPARTMENT:** Department of Revenue

**SUBJECT OF PROPOSED BILL:** To change statute (AS 04.11.180) to provide for lower alcoholic beverage dispensary license fees for some common carriers, such as airlines and operators of passenger railroad cards. The lower fee would apply only to common carriers that hold licenses for multiple aircraft, rail cars or ships.

**DEPARTMENT PRIORITY NO:** \_\_\_\_\_

**SPECIFY:** Governor's Legislation  Friendly Legislation \_\_\_\_\_

**SUMMARY OF INTENT:** The intent is to amend the state's alcoholic beverage license fee structure to ease the burden on common carriers that are required to purchase a state liquor license for each aircraft or rail car or ship. For example, Alaska Airlines, with more than 100 aircraft, has to purchase a state liquor license for every aircraft that could possibly fly into Alaska. The Alcoholic Beverage Board, which will meet Jan. 30-31 in Juneau to formalize its position on this legislation, believes it is justifiable to lower the fees for such multiple-license holders. This is the same intent as was behind SB215 last session, sponsored by the Senate Transportation Committee, which passed the Senate but died in House Finance. The bill would have amended the statute to collect the full license fee on a carrier's first 10 licenses, and a reduced fee on all licenses after that. Last year's bill as written would have applied only to Alaska Airlines. This year's proposal would be expanded — in fairness — to apply to more than just the one airline.

**ESTIMATED FISCAL IMPACT:** The estimated loss to the state in license fees would total about \$40,000 per year.

**WHAT OTHER DEPARTMENTS WILL BE AFFECTED BY THIS PROPOSAL:**  
None.

**WHO WILL SUPPORT THIS BILL:** The airline, cruise ship and railroad tourism industry.

**WHO WILL OPPOSE THIS BILL:** It is possible that some may see this legislation as a softening of the state's position on the enforcement of alcohol laws, but it has nothing to do with enforcement. It is simply a better way of applying license fees.

**IDENTIFY AND DESCRIBE ANY PREVIOUS STATE OR FEDERAL LEGISLATION OR SIMILAR EFFORTS IN OTHER STATES WHICH AFFECT OR RELATE TO THIS PROPOSAL**

\_\_\_\_\_  
Commissioner's Signature

\_\_\_\_\_  
Date

1/29/03 - DOR

ALASKA PUBLIC OFFICES COMMISSION  
2221 E. NORTHERN LIGHTS, #128  
ANCHORAGE, AK 99508-4149  
907/276-4176 - FAX 276-7018

**ALASKA PUBLIC OFFICES COMMISSION  
2002 PUBLIC OFFICIAL FINANCIAL DISCLOSURE STATEMENT**

**BACKGROUND INFORMATION**

1. This report is for judges and magistrates; board and commission members; candidates for governor and lieutenant governor; the incumbent governor and lieutenant governor; executive branch public officials; incumbent municipal officials and municipal candidates; and candidates for the legislature who are NOT incumbent legislators.
2. This report is for the preceding calendar year, so include any information about financial interests held between January 1, 2001 and December 31, 2001.
3. You must show your financial interests and those held by your spouse, spousal equivalent, dependent children and non-dependent children living with you during the preceding calendar year. **NOTE: Municipal officers are not required to disclose information about their spousal equivalent.**
4. If you need help, call APOC at 276-4176.
5. **SIGN THIS REPORT ON THE LAST PAGE**

NAME: William A. Corbus 465-3761 465-2389  
Phone Fax Number

OCCUPATION: Engineer

MAILING ADDRESS: P.O. Box 110400 Bill Corbus@revenue.state.ak.us  
(Street Address or Post Office Box) E-Mail Address  
Juneau, AK 99811  
(City/Town and Zip Code)

OFFICE HELD OR SOUGHT (CHECK ONE): State  Municipal

OFFICE: Commissioner of Revenue TERM OF OFFICE: From Dec. 16, 2002 to unknown  
TITLE: Commissioner of Revenue, State of Alaska

TYPE OF STATEMENT (CHECK ONE):

- CANDIDATE STATEMENT Must be filed with your declaration of candidacy
- INITIAL STATEMENT For newly appointed state and municipal officials
- ANNUAL STATEMENT Due by March 15

SPOUSE OR SPOUSAL EQUIVALENT: Karen Drennan Corbus

DEPENDENT CHILDREN: Booker C. Drennan

NON-DEPENDENT CHILDREN LIVING WITH YOU: \_\_\_\_\_

**SCHEDULE A1  
SOURCES OF INCOME OVER \$1000**

**Salaries Employment**

If NONE reportable, check box →

Report the name of each employer who paid you, your spouse or spousal equivalent, dependent children or non-dependent children living with you more than \$1,000 during calendar year 2001. See page 12 of the instruction manual for more help.

Name of filer, spouse, spousal equivalent, or child: William A. Corbus

Employer's Name: Alaska Electric Light and Power Company

Name of filer, spouse, spousal equivalent, or child: William A. Corbus

Employer's Name: Alaska Power & Telephone Company - directors fees

Name of filer, spouse, spousal equivalent, or child: William A. Corbus

Employer's Name: First National Bank Alaska - directors fees

Name of filer, spouse, spousal equivalent, or child: \_\_\_\_\_

Employer's Name: \_\_\_\_\_

**Self-Employment**

If NONE reportable, check box →

List the name and address of each source of self-employment which paid you, your spouse or spousal equivalent, dependent children or non-dependent children living with you more than \$1,000 during calendar year 2001. If the business is non-retail, list the first and last name of each client or customer who paid the business over \$1,000.

Self-employment includes: sole proprietor, partnership, limited liability company, shareholder in a professional corporation; or if you held (individually or with another family member) more than 50% of the stock in a corporation. For more help with this section, see pages 13-15 of the Manual.

Name of filer, spouse, spousal equivalent, or child: \_\_\_\_\_

Business Name: \_\_\_\_\_

Business Address: \_\_\_\_\_

Retail  Non-Retail  (If you check non-retail, list clients/customers below.)

Name of client/customer: \_\_\_\_\_

Name of filer, spouse, spousal equivalent, or child: \_\_\_\_\_

Business Name: \_\_\_\_\_

Business Address: \_\_\_\_\_

Retail  Non-Retail  (If you check non-retail, list clients/customers below.)

Name of client/customer: \_\_\_\_\_

**SCHEDULE A2  
SOURCES OF INCOME OVER \$1000**

**Rental Income**

If NONE reportable, check box →

List the first and last name of each tenant from whom over \$1000 was received during calendar year 2001. If property is located outside Alaska and managed by a person other than you, your spouse, spousal equivalent, dependent child or non-dependent child living with you, you may list the managing agent instead of listing each tenant. See page 16 of the manual for more help with this section.

Owner (filer, spouse, spousal equivalent, or child)

Tenant(s)

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**Dividends and Interest**

If NONE reportable, check box →

Report the name of the source of all dividends, interest and capital gains over \$1000 earned during calendar year 2001.

- List the financial institution(s) in which cash accounts or CD's were held.
- List the name(s) of the asset such as a stock, bond, mutual fund or other entity which paid you, your spouse, spousal equivalent or child dividends, interest or capital gains of more than \$1000 last year, whether held directly or through a brokerage account. See page 17 of the manual for more help.
- (Report the assets of a retirement account or trust on page 6)

Recipient (filer, spouse, spousal equivalent, or child)

Name of Source of Income

William A. Corbus

Alaska Energy and Resources Company

William A. Corbus

First National Bank Alaska

William A. Corbus

Keycorp

William A. Corbus

Wells Fargo Bank

William A. Corbus

Plumb Creek Timber Company

William A. Corbus

Liberty Newport Tiger Fund

Karen Drennan Corbus

Zurich Money Market Fund

**Other Income**

If NONE reportable, check box →

List each source of income over \$1000 not listed elsewhere on this statement, including income from the sale of real property; Permanent Fund Dividend; social security; retirement; longevity bonus, the assets of an IRA cash-out; the name of the person who paid alimony or child support; government entitlements; honoraria and shared living expenses. See page 18 of the manual for more help.

Recipient (filer, spouse, spousal equivalent, or child)

Name of Source

William A. Corbus

Permanent Fund Dividend

Karen Drennan Corbus

Permanent Fund Dividend

Booker C. Drennan

Permanent Fund Dividend

THE  
FOLLOWING  
DOCUMENT(S)  
ARE  
POOR  
ORIGINAL  
COPIES

Karen Drennan Corbus

Permanent Fund Dividend

Booker C. Drennan

Permanent Fund Dividend

**Gifts**

If NONE reportable, check box →

List the source of gifts which have a value of or cumulative value of more than \$250 except gifts received from a spouse, spousal equivalent, parent, child, sibling, grandparent, aunt, uncle, niece or nephew. Some examples of gifts include: cash, a debt that is forgiven, scholarships, and discounts not extended to the general public. See page 19 of the manual for more examples and help with this section.

**Recipient (filer, spouse, spousal equivalent or child)**

**NAME OF SOURCE**

William A. Corbus

Mary Louise Corbus, mother

Brooker C. Drennan

Mary Louise Corbus, step grandmother

**SCHEDULE B  
BUSINESS INTERESTS**

**Business Interests**

If NONE reportable, check box →

Report all business relationships even if they were not sources of income to you, your spouse, spousal equivalent, or dependent children and non-dependent children living with you during calendar year 2001.

- List ownership interests as a shareholder, regardless of income, that are not listed elsewhere on this Statement. (A list of the names of publicly traded stocks such as IBM or Microsoft may be listed by name only on a separate page.)
- List other interests as a shareholder owner, partner, officer, or director including native corporations.
- List involvements in profit and non-profit corporations as a director or officer.
- List interests in limited liability companies.

Describe the business's activity with enough detail to tell a reader what the organization actually does.

See page 20 of the manual for more help.

Name of filer, spouse, spousal equivalent, or child: William A. Corbus

Business Name: Alaska Energy and Resources Company (AERC)

Business Address: 5601 Tongard Court, Juneau, AK 99801

Nature of Interest: stockholder, director, officer

Description of Business's Activity: holding company - primarily electric utility/real estate holdings

Name of filer, spouse, spousal equivalent, or child: William A. Corbus

Business Name: Alaska Electric Light and Power Company - wholly owned AERC subsidiary

Business Address: 5601 Tongard Court, Juneau, AK 99801

Nature of Interest: director, officer, employee

Description of Business's Activity: electric utility

Name of filer, spouse, spousal equivalent, or child: William A. Corbus

Business Name: AJT Mining Properties, Inc. - wholly owned AERC subsidiary

Business Address: 5601 Tongard Court, Juneau, AK 99801

Nature of Interest: director, officer  
Description of Business's Activity: real estate holdings  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: AJT Land Company – wholly owned AERC subsidiary  
Business Address: 5601 Tongsgard Court, Juneau, AK 99801  
Nature of Interest: director, officer, employee  
Description of Business's Activity: real estate holdings  
American Reclamation Group, Red Dog Mining Company  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: Lake Dorothy Hydro, Inc. – wholly owned subsidiary of Alaska Electric Light and Power Company  
Business Address: 5601 Tongsgard Court, Juneau, AK 99801  
Nature of Interest: director  
Description of Business's Activity: company proposing to develop Lake Dorothy Hydroelectric Project  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: AJT Land Company – wholly owned AERC subsidiary  
Business Address: 5601 Tongsgard Court, Juneau, AK 99801  
Nature of Interest: director, officer, employee  
Description of Business's Activity: real estate holdings  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: Snettisham Electric Company – wholly owned by Alaska Electric Light and Power Company  
Business Address: 5601 Tongsgard Court, Juneau, AK 99801  
Nature of Interest: director  
Description of Business's Activity: shell company – potential owner of Snettisham Hydroelectric Project  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: Systems Northwest, Inc. – wholly owned AERC subsidiary  
Business Address: 5601 Tongsgard Court, Juneau, AK 99801  
Nature of Interest: director  
Description of Business's Activity: mostly dormant data processing company  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: Franklin Dock Enterprises, LLC  
Business Address: 240 Main Street Court, Suite 600, Juneau, AK 99801  
Nature of Interest: member, representing the 50% ownership interest of AJT Mining Properties, Inc.  
Description of Business's Activity: real estate holdings/tourship dock-Juneau  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: American Reclamation Group, LLC

Business Address: 425 G Street, Suite 713, Anchorage, Ak 99501  
Nature of Interest: member, representing the 15% ownership interest of AJT Mining Properties, Inc.  
Description of Business's Activity: mining  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: Red Diamond Mining Company  
Business Address: 1114 Glacier Avenue, Juneau, AK 99801  
Nature of Interest: director, representing 15% ownership interest of AJT Mining Properties, Inc.  
Description of Business's Activity: mining properties  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: Alaska Power & Telephone Company  
Business Address: 191 Otto Street, Port Townsend, WA 98368  
Nature of Interest: director, representing 10% interest of Alaska Electric Light and Power Company  
Description of Business's Activity: electric and telephone utility, highway paving  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: Develop Juneau, Inc.  
Business Address: 301 Seward St., Juneau, AK 99801  
Nature of Interest: stockholder, director, officer  
Description of Business's Activity: Juneau apartment rentals (primarily for out of town legislators)  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: Kimshan Corporation  
Business Address: 3192 Pioneer Avenue, Juneau, AK 99801  
Nature of Interest: director  
Description of Business's Activity: mining  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: Alaska Sealife Center  
Business Address: P. O. Box 1329, Seward, Ak 99664  
Nature of Interest: member of Board of Governors  
Description of Business's Activity: non profit corporation dedicated to marine mammal research  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: Hospice & Homecare of Juneau  
Business Address: 3200 Hospital Drive, Juneau, AK 99801  
Nature of Interest: director  
Description of Business's Activity: non profit corporation dedicated to caring for the chronically ill and dying  
Name of filer, spouse, spousal equivalent, or child: William A. Corbus  
Business Name: College of Fellows, University of Alaska Southeast  
Business Address: 11120 Glacier Highway, Juneau, AK 99801  
Nature of Interest: member  
Description of Business's Activity: dedicated to supporting the university - primarily through fund raising

Business Address: 5601 Tongard Court, Juneau, AK 99801

Nature of Interest: stockholder

Description of Business's Activity: holding company - primarily electric utility/real estate holdings

Publicly held Companies/mutual funds - William A. Corbus:

Wells Fargo Bank

Key Corp

First National Bank Alaska

Northrim Bank

Northeast Utilities

Barrick Gold Company

Plumb Creek Timber Company

Polaroid Corporation

The MONY Group

Liberty Newport Tiger Fund - Z

Smith Barney Large Cap Value Fund - Class A

Karen Drennan Corbus

Fidelity Cash Reserve Fund

Lowell Investors Associates - real estate limited partnership

Zurich Money Market Fund

Booker C. Drennan

Fidelity Mortgage Security Fund

42 Janus Fund

## SCHEDULE C

### REAL PROPERTY INTERESTS/RENT TO OWN

#### Real Property Interests

If NONE reportable, check box →

Report all real property interests such as a home or rent to own home, rental property, vacant, recreational or business property, including real estate held through a trust or sold during calendar year 2001.

Include a street address, city and state or complete legal description for each piece of property listed. Do not use mile post markers or post offices boxes.

Do not list an interest in real property held through a limited partnership here. List the name of the limited partnership in the "Business Interests" section on page four of this Statement.

Use copies of this page if you need additional space to complete this section.  
See page 21 of the manual for more help.

Name of filer, spouse, spousal equivalent, or child: William A. and Karen Drennan Corbus

Street Address or Legal Description: Lots 5 & 6 Little Sheep Creek Subdivision, 5810 Thane Road

Nature of Interest: Ownership principal residence  
(Option to Buy, Ownership, Leasehold) Current Use (Optional)

Name of filer, spouse, spousal equivalent, or child: William A. Corbus

Street Address or Legal Description: Lots 1.2.3&4 Little Sheep Creek Subdivision, 5810 Thane Road

City or Borough and State: Juneau, AK

Nature of Interest: Ownership vacant land  
(Option to Buy, Ownership, Leasehold) Current Use (Optional)

Name of filer, spouse, spousal equivalent, or child: William A. Corbus

Street Address or Legal Description: Twin Glacier Creek, Taku River

City or Borough and State: Juneau, AK

Nature of Interest: Lease-U.S. Forest Service, Perm. No. 5462-01 leasehold for recreational cabin  
(Option to Buy, Ownership, Leasehold) Current Use (Optional)

Name of filer, spouse, spousal equivalent, or child: William A. Corbus

Street Address or Legal Description: Lots 1,2 & 3, Chatham Subdivision

City or Borough and State: located near Funter Bay, AK (not located in a city or borough)

Nature of Interest: ownership recreational cabin  
(Option to Buy, Ownership, Leasehold) Current Use (Optional)

Name of filer, spouse, spousal equivalent, or child: William A. Corbus

Street Address or Legal Description: U.S.M.S. 1589 A&B, Taku River

City or Borough and State: Juneau, AK

Nature of Interest: tenants in common with Remington Low and Beatrice Fox vacant land  
(Option to Buy, Ownership, Leasehold) Current Use (Optional)

**SCHEDULE D**  
**BENEFICIAL INTEREST IN RETIREMENT ACCOUNTS/TRUSTS**  
**Exceeding \$1000**

**Retirement Accounts Trusts** If NONE reportable, check box →

Report each beneficial interest in a retirement account or trust held by you, your spouse, spousal equivalent, dependent children and non-dependent children living with you that exceeded \$1000 during calendar year 2001. Trusts include employee benefit accounts (pension and profit-sharing accounts), retirement accounts (IRA, 401K, SEP, Keogh) and family trust funds. Assets of a trust include stocks, bonds, mutual funds, cash accounts, CD's, real property, and interests in limited partnerships.

- Name the trustor (the person or employer who provided the funds or assets for the trust).
- List the assets by name such as IBM stock or Templeton Growth Fund.

See page 22 of the manual for more help.

William A. Corbus - beneficiary  
Name of filer, spouse or spousal equivalent, or child: Extent of Interest (Percent)

Alaska Energy and Resources Company - Money Savings Pension Plan (Define Contribution by employer only) Manager, Diversified Investment Advisors, 4 Manhattanville Rd, Purchase N.Y. 10577  
Name of the person or entity who provided the funds or assets (Trustor)

Name of the person or entity who provided the funds or assets (Trustor)

Intermediate Horizon Fund – Merganser Cap Mgt, Payden & Rygel,, Goldman Sachs, 1740 Advisors, Putnam Advisory Company, Dresdner RCM Global Investors, Capital Guardian Trust, Ark Asset Management, Mackinley Capital

Intermediate/Long Horizon Fund - Merganser Cap Mgt, Payden & Rygel,, Goldman Sachs, 1740 Advisors, Putnam Advisory Company, Dresdner RCM Global Investors, Capital Guardian Trust, Ark Asset Management, Mackinley Capital

International Fund – Capital Guardian Trust

William A. Corbus - beneficiary

Name of filer, spouse or spousal equivalent, or child:

Extent of Interest (Percent)

Alaska Energy and Resources Company – 401 (K) Plan - (Defined Contribution by employee only),

Manager, Diversified Investment Advisors, 4 Manhattanville Rd, Purchase N.Y. 10577

Name of the person or entity who provided the funds or assets (Trustor)

International Fund - Capital Guardian Trust

Name(s) of the stocks, bonds, mutual funds or other assets contained in the retirement account or trust

William A. Corbus - beneficiary

Name of filer, spouse or spousal equivalent, or child:

Extent of Interest (Percent)

William A. Corbus - IRA

Name of the person or entity who provided the funds or assets (Trustor)

Franklin Templeton World Fund – Class A

Name(s) of the stocks, bonds, mutual funds or other assets contained in the retirement account or trust

William A. Corbus - beneficiary

Name of filer, spouse or spousal equivalent, or child:

Extent of Interest (Percent)

KeyCorp Director Deferred Compensation Plan – phantom KeyCorp common stock

Name(s) of the stocks, bonds, mutual funds or other assets contained in the retirement account or trust

Karen Drennan Corbus

Name of filer, spouse or spousal equivalent, or child:

Extent of Interest (Percent)

State of Alaska Supplemental Benefits System

Name of the person or entity who provided the funds or assets (Trustor)

60% S&P 500 Index Fund, 20% Target 2010 Fund, 20% Gov/Corp Bond Fund

Name(s) of the stocks, bonds, mutual funds or other assets contained in the retirement account or trust

Karen Drennan Corbus

Name of filer, spouse or spousal equivalent, or child:

Extent of Interest (Percent)

State of Alaska, Deferred Compensation Plan

60% Small Cap Index Fund, 20% S&P 500 Index Fund, 20% Brandeis International Fund

Name(s) of the stocks, bonds, mutual funds or other assets contained in the retirement account or trust

Karen Drennan Corbus

Name of filer, spouse or spousal equivalent, or child:

Extent of Interest (Percent)

IRA

42 Janus Fund

Name(s) of the stocks, bonds, mutual funds or other assets contained in the retirement account or trust

**SCHEDULE E  
LOANS, LOAN GUARANTEES, AND DEBTS  
OF \$1000 OR MORE  
NATURAL RESOURCE LEASES**

**Loans, Loan Guarantees, and Debts**

If NONE reportable, check box →

Report the name of each creditor or lender to whom more than \$1000 was owed during calendar year 2001 by you, your spouse, spousal equivalent, dependent children and non-dependent children living with you.

List financial obligations including mortgages on property sold during calendar year 2001 delinquent taxes, alimony, child support payments; medical bills; mortgage, boat and auto loans; business and personal loans; escrow's; student loans; signature loans; and promissory notes. Loans include secured, unsecured and contingent loans. Do not report credit card obligations or revolving charge accounts.

Circle whether the entity is a lender, creditor or guarantor. See page 23 of the manual for more help with this section.

William A. Corbus  
Name of Debtor (filer, spouse, spousal equivalent or child)

Saloman Smith Barney  
Name of Lender/Creditor/Guarantor

\_\_\_\_\_  
Name of Debtor (filer, spouse, spousal equivalent or child)

\_\_\_\_\_  
Name of Lender/Creditor/Guarantor

\_\_\_\_\_  
Name of Debtor (filer, spouse, spousal equivalent or child)

\_\_\_\_\_  
Name of Lender/Creditor/Guarantor

**Natural Resource Leases**

If NONE reportable, check box →

List all natural resource leases, including mineral, timber, or oil leases held or offered during calendar year 2001 by you, your spouse or spousal equivalent, dependent children and non-dependent children living with you; a partnership, professional corporation of which you are a member; or a corporation in which you, your spouse, spousal equivalent, or children (or combination of them) held a controlling interest. See page 24 of the manual for more help.

AJT Mining Properties, Inc.  
Leaseholder  
held  
Indicate: Bid, held or offer made

Tideland lease-ATS 1570, Tract B  
Nature of Lease  
ADL 104789  
Identity of Lease and Description

AJT Mining Properties, Inc.  
Leaseholder  
held  
Indicate: Bid, held or offer made

Red Russet Mining Claim  
Nature of Lease  
ADL 543485  
Identity of Lease and Description

American Reclamation Group.  
Leaseholder  
held  
Indicate: Bid, held or offer made

lease for mining property  
Nature of Lease  
ADL 672124  
Identity of Lease and Description

**SCHEDULE F  
GOVERNMENT CONTRACTS AND LEASES  
CERTIFICATION**

**Contracts and Offers to Contract**

**If NONE reportable, check box → X**

List all contracts and offers to contract with the state or instrumentality of the state during calendar year 2001 held, bid or offered by you, your spouse or spousal equivalent, dependent children and non-dependent children living with you, a partnership or professional corporation of which you are a member; or a corporation in which you or your family members listed above (or a combination of them) held a controlling interest.  
See page 25 of the manual for more help.

\_\_\_\_\_  
Name(s) of Contractor

\_\_\_\_\_  
Contracting Agency/Department

\_\_\_\_\_  
Indicate: Bid, held or offer made

\_\_\_\_\_  
Contract number and description

\_\_\_\_\_  
Name(s) of Contractor

\_\_\_\_\_  
Contracting Agency/Department

\_\_\_\_\_  
Indicate: Bid, held or offer made

\_\_\_\_\_  
Contract number and description

**CERTIFICATION**

I certify under penalty of perjury that the information in this Statement is, to the best of my knowledge, true, correct and complete. A person who makes a false sworn certification which he or she does not believe to be true is guilty of perjury.

*William A. Corbus*  
\_\_\_\_\_

January 13, 2003  
\_\_\_\_\_

SIGNATURE

DATE

William A. Corbus  
\_\_\_\_\_

Juneau, Alaska  
\_\_\_\_\_

Printed Name of Filer

Place

**Where to file this Statement**

**MUNICIPAL OFFICIALS AND CANDIDATES** - File Statements with the local City or Borough Clerk in the jurisdiction where you hold or seek office

**STATE CANDIDATES:** - File Candidate Statements with the Division of Elections along with your Declaration of Candidacy

**State officials:** - File initial and annual Statements with the Alaska Public Offices Commission at:

2221 E. Northern Lights #128  
Anchorage, AK 99508-4149  
Telephone 907/276-4176  
FAX 907/276-7018

OR PO Box 110222  
Juneau, AK 99811-0222  
240 Main, Rm. 201  
Telephone 907/465-4864

Schedule D (continued)  
Beneficial Interest in Retirement Accts/Trusts

Boris Drennan Trust

Trustees - William B. Rozell, 617 Willoughby Ave., PMB 506, Juneau, AK  
99801

Trust provider - Charles S. Drennan (deceased)

Beneficiary - Booker C. Drennan

Assets

Alaska Pacific Bank money market fund  
Prudential Jession Growth Fund  
Prudential International Growth Fund  
Andrx Corporation - common stock  
Boeing Company - common stock  
Boron Lepore & Assoc., Inc. - common stock  
Cyber Group - common stock  
Hewlett Packard Co. - common stock  
Intel Corp. - common stock  
Medtronic Inc. - common stock  
Nike Inc CL B - common stock  
Pepsico Inc. - common stock  
Smithkline Beech -ADR  
Watson Pharmaceuticals - common stock  
Wedbush Morgan Securities

Karen S. Drennan Trust

Trustees - William B. Rozell, 617 Willoughby Ave., PMB 506, Juneau, AK  
99801

Trust provider - Charles D. Drennan (deceased)

Beneficiary - Booker C. Drennan

Assets

Advanced Micro Devices - common stock  
Andrx Corporation - common stock  
Boeing Company - common stock  
Boron Lepore & Assoc. Inc. - common stock  
Cybear Group - common stock  
Fox Entertainment Grp, Inc. Class A - common stock  
Intel Corporation - common stock  
International Business Machines - common stock  
Microsoft Corp. - common stock  
Nike Inc CL B - common stock  
Watson Pharmaceuticals - common stock  
U.S. Government Bonds  
USS 1164 FR, Juneau, Alaska - real estate, vacant land

Drennan Family Trust

Trustees - William B. Rozell, 617 Willoughby Ave., PMB 506, Juneau, AK  
99801

Trust provider - Charles D. Drennan (deceased)

Beneficiary - Karen Drennan Corbus

Assets

Smith Barney Money Market Fund  
Alaska Pacific Bank - interest earning checking account  
First Commercial Bank of Gideon, Missouri Money Market Fund  
Pimco Fund  
Prudential Financial Dividend Fund

Lot 279B Peggy Doyle Subdivision, Memphis, Tennessee  
Gold Street Partnership  
Interest in 302 Gold Street Building  
Lot 4, Block 10, Juneau Townsite  
Juneau, Alaska

Charles and Truda Drennan Foundation

Trustee - Karen S. Drennan Corbus

Trustee provider - Charles S. Drennan (deceased) and other small contributors

Beneficiaries - scholarships for graduates of Gideon High School, Gideon, Missouri

Assets

Alaska Federal Savings & Loan Money Market Fund  
Smith Barney Money Market Fund

Corbus Family Revocable Marital Trust

Trustee - William A. Corbus

Trust Provider - William Corbus (deceased) and Mary Louise Corbus

Beneficiary - Mary Louise Corbus (deceased Dec. 24, 2001), then William A. Corbus, George Barclay Corbus and Barclay Fleming Corbus

Assets

Alaska Energy and Resources Company - common stock  
Money Market Account - Union Bank of California

Corbus Family Non-Revocable Marital Trust

Trustee - William A. Corbus

Trust Provider - William Corbus (deceased) and Mary Louise Corbus

Beneficiary - Mary Louise Corbus (deceased Dec. 24, 2001), then William A. Corbus, George Barclay Corbus and Barclay Fleming Corbus

Assets

Money Market Account - Union Bank of California  
Certificates of Deposit - Union Bank of California  
Alaska Energy and Resources Company - common stock

Corbus Family By Pass Trust

Trustee - William A. Corbus

Trust Provider - William Corbus (deceased)

Beneficiary - Mary Louise Corbus (deceased Dec. 24, 2001), then William A. Corbus, George Barclay Corbus and Barclay Fleming Corbus

Assets

Money Market Account - Union Bank of California

Mary Louise Corbus Revocable Trust

Trustee - William A. Corbus

Trust Provider - William Corbus (deceased) and Mary Louise Corbus

Beneficiary - Mary Louise Corbus (deceased Dec. 24, 2001), then William A. Corbus, George Barclay Corbus and Barclay Fleming Corbus

Assets

Union Bank of California - checking account, interest earning  
Union Bank of California - certificates of deposit

UBS Paine Webber Resource Account Money Market Portfolio  
Mid-Continent Development - oil/gas limited partnership  
Oxford Group - oil/gas limited partnership  
KC Corp - common stock  
Promisory Note for loan to George Barclay Corbus  
New York Stock Exchange

Alltel Corp.  
AT&T Corp.  
At&T Wireless Corp.  
Avaya Inc.  
Bank of New York Co., Inc.  
Bank of America Corp.  
Boykin Lodging Trust, Inc.  
California Water Services Group  
Conoco Inc.  
Du Pont de Nemours  
Edison International  
El Paso  
Freeport-McMoran Copper & Gold Class A  
Freeport-McMoran Copper & Gold Class B  
IMC Global, Inc.  
Keycorp  
Kimberly Clark Corp.  
Lucent Technologies Inc.  
McMoran Exploration Co.  
NCR Corp.  
Newport News Shipbuilding, Inc.  
Northrop Grumman Corp.  
Pactiv Corp.  
PG & E Corp  
Pharmacia Corp.  
Potash Corp Sask Inc. Canada  
Progress Energy Inc.  
Questar Corp.  
Qwest Communications International, Inc.  
SBC Communications, Inc.  
Schwitzer Mauduit International Inc.  
Scottish Power PLC ADR  
Sierra Pacific Resources  
Sprint Corp. (PCS Group)  
Sprint Corp.  
Tenneco Automotive Inc.  
Verizon Communications  
Vodafone Group ADR  
El Paso Energy Partners, LP  
Enbridge Entergy Partners  
Kinder Morgan Energy Partners, MLP  
Northern Boarder Partners, LP  
Santa Fe Energy Trust  
Teppco Partners, LP

Over the Counter - Safeco Corp.

Paine Webber Pace International Equity Investment Fund, Class A

Alaska Public Offices Commission  
2002 Conflict of Interest Statement  
Additional Statement of William A. Corbus

In the process of filling out my 2002 Conflict of Interest Statement for the Alaska Public Offices Commission I have come to believe that the forms provided do not provide the opportunity for me to disclose certain business relationships. Therefore, I am attaching the following addition to my 2002 Statement of Conflict of Interest.

I am an Officer, Director and major stockholder of the Alaska Energy and Resources Company. Wholly owned subsidiaries of the Alaska Energy and Resources Company include Alaska Electric Light and Power Company (AELP), AJT Mining Properties, Inc., Alaska Land and Pier Company, AJT Land Company, Systems Northwest of Alaska, Snettisham Electric Company and Lake Dorothy Hydro, Inc. I am also an Officer and Director of each subsidiary.

AELP is the electric utility which provides service to the City and Borough of Juneau (CBJ). In addition AELP is the owner of 10% of the total outstanding shares of Alaska Power & Telephone Company common stock. AELP provides electric service to the State of Alaska at numerous locations within the CBJ. Alaska Power & Telephone Company provides electric and telephone services to the State at numerous locations throughout Alaska.

AELP in 1998 entered into a long term power sales agreement with the Alaska Industrial Development and Export Authority (AIDEA), an agency of the State, to purchase all the electric capability of the Snettisham (Snettisham) Hydroelectric Project. AELP is also the sole guarantor of the bonds issued by AIDEA to consummate their purchase of Snettisham from the U.S. Government. AELP's affiliate, the Snettisham Electric Company, has an option to purchase Snettisham from AIDEA if certain conditions are satisfied.

AJT Mining Properties, Inc. owns real estate within the CBJ primarily in the form of patented mining claims. AJT Mining Properties, Inc. and the CBJ have combined some of their properties into two separate mining unitization agreements (Juneau Gold and Douglas Gold). In 1997 Echo Bay Mines Ltd. cancelled its mining leases with Juneau Gold and Douglas Gold.

Alaska Public Offices Commission  
2221 E. Northern Lights, #128  
Anchorage, Alaska 99508-4149  
907/276-4176 FAX 907/276-7018

**SCHEDULE G  
REPORTING A CLOSE ECONOMIC ASSOCIATION**

**If NONE reportable, check box and sign below →**

NAME OF FILER: William A. Corbus

Please Print

DEPARTMENT: Revenue

**Disclosure of a close economic association,  
in accordance with AS 39.50.030**

Person with whom association exists: Alaska Energy and Resources Company

Person's Status: (public official, legislator, lobbyist etc.) : \_\_\_\_\_

Description of economic association: I along with my brother and nephew are the majority owner of the outstanding common stock of the Alaska Energy and Resources Company, the holding company for the Alaska Electric Light and Power Company. The Alaska Electric Light and Power Company's service territory is the City and Borough of Juneau. The Company (1) sells electricity to the State of Alaska (2) has a complex financial arrangement for purchase of Snettisham hydroelectric energy from the Alaska Industrial Development and Export Authority (an agency of the State of Alaska). Other affiliates of the Alaska Energy and Resources Company leases land and mining claims from the State as described elsewhere in my 2001 APOC Report.

**For those with a lobbyist spouse or spousal equivalent, report the name and address of each employer of the lobbyist and the total monetary value received from each of the lobbyist's employer:**

\_\_\_\_\_  
\_\_\_\_\_

Report changes in the employers within 48 hours of the change.

I certify under penalty of perjury that the information in this Statement is, to the best of my knowledge, true, correct and complete. A person who makes a false sworn certification which he or she does not believe to be true is guilty of perjury.

*William A. Carbus*  
*Commissioner of Revenue*

Signature

*Jan 13. 2003*

Date

See reverse side of this form and page 26 of the POFD Manual for further assistance

Alaska Public Offices Commission  
2221 E. Northern Lights, #128  
Anchorage, Alaska 99508-4149  
907/276-4176 FAX 907/276-7018

**AMENDED**  
**SCHEDULE G**  
**REPORTING A CLOSE ECONOMIC ASSOCIATION**

If **NONE** reportable, check box and sign below →

NAME OF FILER: William A. Corbus

Please Print

DEPARTMENT: Revenue

**Disclosure of a close economic association,  
in accordance with AS 39.50.030**

Person with whom association exists: Alaska Energy and Resources Company

Person's Status: (public official, legislator, lobbyist etc.) : Larry Marklev

Description of economic association: I along with my brother and nephew are the majority owner of the outstanding common stock of the Alaska Energy and Resources Company, the holding company for the Alaska Electric Light and Power Company. The Alaska Electric Light and Power Company's service territory is the City and Borough of Juneau. The Company (1) sells electricity to the State of Alaska (2) has a complex financial arrangement for purchase of Snettisham hydroelectric energy from the Alaska Industrial Development and Export Authority (an agency of the State of Alaska). Other affiliates of the Alaska Energy and Resources Company leases land and mining claims from the State as described elsewhere in my 2001 APOC Report. The Alaska Electric Light and Power Company retains lobbyist Larry Marklev to represent it before the Alaska Legislature and Administration on matters related to electric utilities. Appropriate lobbyist reports are filed with APOC

For those with a lobbyist spouse or spousal equivalent, report the name and address of each employer of the lobbyist and the total monetary value received from each of the lobbyist's employer:

---

---

Report changes in the employers within 48 hours of the change.

**I certify under penalty of perjury that the information in this Statement is, to the best of my knowledge, true, correct and complete. A person who makes a false sworn certification which he or she does not believe to be true is guilty of perjury.**

*William A. Colas*

*Commissioner of Revenue*

Signature

Jan. 15, 2003\*

Date

See reverse side of this form and page 26 of the POFD Manual for further assistance

\*This updates my Schedule G filed January 13, 2003

## Additional Statement of William A. Corbus

January 27, 2003

In the process of filling out my 2002 Conflict of Interest Statement for the Alaska Public Offices Commission I have come to believe that the forms provided do not provide the opportunity for me to disclose certain business relationships. Therefore, I am attaching the following addition to my 2002 Statement of Conflict of Interest.

I am an Officer, Director and major stockholder of the Alaska Energy and Resources Company. Wholly owned subsidiaries of the Alaska Energy and Resources Company include Alaska Electric Light and Power Company (AELP), AJT Mining Properties, Inc., Alaska Land and Pier Company, AJT Land Company, Systems Northwest of Alaska, Snettisham Electric Company and Lake Dorothy Hydro, Inc. I am also an Officer and Director of each subsidiary.

AELP is the electric utility which provides service to the City and Borough of Juneau (CBJ). In addition AELP is the owner of 10% of the total outstanding shares of Alaska Power & Telephone Company common stock. AELP provides electric service to the State of Alaska at numerous locations within the CBJ. Alaska Power & Telephone Company provides electric and telephone services to the State at numerous locations throughout Alaska.

AELP in 1998 entered into a long term power sales agreement with the Alaska Industrial Development and Export Authority (AIDEA), an agency of the State, to purchase all the electric capability of the Snettisham (Snettisham) Hydroelectric Project. AELP is also the sole guarantor of the bonds issued by AIDEA to consummate their purchase of Snettisham from the U.S. Government. AELP's affiliate, the Snettisham Electric Company, has an option to purchase Snettisham from AIDEA if certain conditions are satisfied.

AJT Mining Properties, Inc. owns real estate within the CBJ primarily in the form of patented mining claims. AJT Mining Properties, Inc. and the CBJ have combined some of their properties into two separate mining unitization agreements (Juneau Gold and Douglas Gold). In 1997 Echo Bay Mines Ltd. cancelled its mining leases with Juneau Gold and Douglas Gold.

Under Schedule B I am listed as a Director of the Red Diamond Mining Company representing the 15% interest of AJT Mining Properties, Inc. (an affiliate of Alaska Energy and Resources Company). In connection with the Red Diamond Mining Company I am party to a Voting Trust Agreement dated January 30, 2000 wherein fellow Director, E. Neil MacKinnon and myself, vote the Red Diamond Mining Company shares of Mary A. Nordale.

I am also party to a Voting Trust Agreement of the Shareholders of Hyak Mining Company dated May 20, 2002. Neither I nor my family have a beneficial interest in Nyak Mining nor as a result of being party to this Trust. Hyak Mining Company is gold mining company located in the Berners Bay area to the north of Juneau. It has 15 mining claims filed with the State of Alaska as follows: Luck Chance (ADL 349102), Hyak No. 1 Amended (ADL 309740), Hyak No. 2 Amended (ADL 309741), Hyak No. 3 Amended (ADL 309742), Hyak No. 4 (ADL 323364), Hyak No. 5 (ADL 323365), Hyak No. 6 (ADL 323366), Hyak No. 7 (ADL 323367), Hyak No. 8 (ADL 323368), Hyak No. 9 (ADL 503245), Hyak No. 10 (ADL 503246), Hyak NO. 11 (ADL 503248), Hyak No. 1A (ADL 509891) and Hyak No.2B (ADL509892).

**Schedule B (Continued)**

**January 27, 2003**

**Name of filer, spouse, spousal equivalent, or child:** William A. Corbus

**Business Name:** Alaskans United

**Business Address:** 1063 West 20<sup>th</sup> Ave., Anchorage, AK 99503

**Nature of Interest:** director, officer

**Description of Business's Activity:** non profit organization dedicated to grass roots effort inform Alaska's of the State's financial condition and importance of adopting a financial plan



Official Business

# Alaska State Legislature

House of Representatives

Office of the Chief Clerk

State Capitol, Room 216  
Juneau, AK 99801-1182  
Phone: (907) 465-3725  
Fax: (907) 465-5334

## MEMORANDUM

Date: January 21, 2003

To: Representative Harris, Co-chair  
Representative Williams, Co-chair  
Finance Committee

From: Suzi Lowell *sl*  
Chief Clerk

Subject: Governor's Appointments

Speaker Kott referred the following Governor's appointment to the Finance Committee:

**Commissioner - Department of Revenue**  
William A. Corbus  
Appointed: 12/09/2002

The resume and committee report are attached for your use.

Attachments as noted

December 2002

RESUME

William A. Corbus  
5601 Tongard Court  
Juneau, Alaska 99801

Tel: 907-780-2222-Office  
907-585-6208-Home  
907-463-6332-FAX  
E Mail: bill.corbus@aelp.com

EMPLOYMENT

April 1988 - present	President Alaska Energy and Resources Company
December 1978 - April 1988,	President & General Manager Alaska Electric Light and Power Company
January 1997 - August 2002	
March 1970 - December 1978	Assistant Manager Alaska Electric Light and Power Company
November 1965 - November 1969	Stone & Webster, New York City Public utility accounting and financial planning, 1965-1967 Public utility security analysis, 1967-1969

EDUCATION

Stanford University, Bachelor of Science,  
Industrial Engineering, 1959  
Amos Tuck Graduate School of Business Administration,  
Dartmouth College, Master of Business Administration,  
Finance Major, 1965

MILITARY

United States Naval Reserve - Rank on termination of active  
duty - Lieutenant, Junior Grade  
USS Leonard F. Mason (DD 852), CIC Officer, March 1960 -  
August 1962  
Coastal District Advisor to Vietnamese Navy, Vung Tau,  
Vietnam, August 1962-September 1963

## **BUSINESS AND PROFESSIONAL**

B. M. Behrends Bank  
Director, July 1972-November 1989  
Vice Chairman, July 1984-November 1989  
Key Bank of Alaska  
Director, May 1990-December 1996  
First National Bank of Anchorage  
Director, March 2000-present  
Alaska State Pension Investment Board  
Trustee, 1993-1999  
Chairman, 1993-1994  
Alaska Power & Telephone Company  
Director, 1996-present  
Registered Electrical Engineer (Alaska Reg. No. EE 3580)

## **CIVIC**

City and Borough of Juneau Charter Commission, 1972  
Director, Alaska State Chamber of Commerce, 1973-1975,  
1991-1994  
Bartlett Memorial Hospital, Juneau  
Director 1971-1981  
President 1980  
Capital Site Selection Commission, 1975-1976  
Capital Site Planning Commission, 1978-1979  
New Capital Site Planning Commission, 1981-1982  
Alaska Growth Policy Council 1981-1982  
University of Alaska - Juneau Advisory Board, 1985-1990  
Director, Juneau Boy Scout Council, 1988-1992  
Director, Catholic Community Service, 1995-1999  
Governor's Alaska Highway Natural Gas Policy Council, 2000  
Director, Juneau Hospice & Home Care, 2000-present

## **FAMILY**

Wife-Katie, Son-Booker

## **HOBBIES**

Hunting, fishing, skiing

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 110400  
JUNEAU, ALASKA 99811-0400  
TELEPHONE: (907) 465-2300  
FACSIMILE: (907) 465-2389

January 31, 2003

Representative John Harris  
Representative Bill Williams  
Co-Chairmen  
House Finance Committee  
Alaska State Legislature  
Juneau, Alaska

Dear Co-Chairmen Harris and Williams:

At the January 29 House Finance Meeting where I appeared before you as the Commissioner of Revenue-Nominee, six questions were asked for which I did not have answers. As promised, here are my responses.

Representative Meyer:

Q: Is it the Department of Revenue's intent to add investigators to the Alcoholic Beverage Control Board function?

A: The ABC Board is placed under DOR for administrative purposes only. ABC has an independent Board of Directors appointed by the Governor, and the board and staff operate pretty much autonomously from the department. The ABC's proposed budget is forwarded by DOR without comment to OMB, where it is scrutinized before submission to the Legislature. It is my understanding that the proposed FY03 budget included an additional ABC investigator position, but the Legislature chose not to fund that budget increment. We are not sure whether the Governor's FY04 budget will include a similar budget request.

Q: On Table 15, pg. 51, of the Fall 2002 Revenue Forecast, unrestricted oil revenues are shown falling off, yet on Figure 1, pg. 14, Alaska North Slope production, on the basis of barrels per day, is projected to grow to higher levels than present levels. Why don't revenues also grow?

A: Oil revenues include property taxes, corporate income taxes, production taxes and royalties. Projected property taxes trend generally down as the assessed value of the Trans-Alaska Pipeline and other older oil production investments decrease with time. Corporate income taxes are expected to decrease due to projected lower prices in the future and, to be honest, we are being cautious in our corporate tax estimates until we

know more about the effects of the mega-mergers of several of the major North Slope producers. Because of the mergers, and Alaska's tax apportionment structure, Alaska will assess its tax on a smaller slice of a larger corporate pie. Production taxes are projected to gradually fall off because of the ongoing reduction in output from large, high-tax rate fields such as Prudhoe Bay and the lowering of the effective production tax rate due to the ELF (Economic Limit Factor) on new fields. The combined fall-off of the three types of oil and gas taxes results in a projected overall annual reduction in oil revenues during the period 2004-2010.

Q: Are NPR-A royalties different?

A: The NPR-A is on Federal lands. The State of Alaska receives 50% of all rents, bonuses and royalties the U.S. Government receives. The first draw on the state's receipts (as detailed in statute) is reserved for those communities impacted by oil and gas related activities in the NPR-A. After that draw on the funds, the remainder of the bonuses and royalties goes to the Permanent Fund, the Public School Fund and the General Fund.

Representative Croft:

Q: Why is NPR-A restricted and what is it restricted to?

A: The land within NPR-A is owned by the U.S. Government. In 1980 Congress authorized the Secretary of Interior to offer competitive leases within NPR-A, with 50% of the lease revenue (bonuses and royalties) to go to the State of Alaska. Federal law specifies that the State use the money for planning, construction, maintenance and operation of essential public facilities and other necessary provisions of public services. The law also states: "Provided further, that in the allocation of such funds the state shall give priority to use by subdivisions of the state most directly or severely impacted by development of oil and gas leased under this act." This was followed several years later by litigation between the State and the North Slope Borough and communities therein contesting that they had not received these funds from the State (The money at issue came from a federal lease sale in NPR-A. A settlement was reached and the legislature adopted statutes that provide for the affected communities to first make their request for the funds, and then 25% of the remainder goes into the Permanent Fund, 0.5% to the Public School Fund, and whatever is left, to the General Fund. The Department of Community and Regional Affairs (now Department of Community and Economic Development), in response to Legislative direction, funds special grants to communities impacted by NPR-A activities. Such monies temporarily placed in the General Fund are those referred to on pg. 49 of the *Fall 02 Revenue Sources Book* as restricted while waiting for DCED to determine how much of the money will go out as community grants. Whatever is left would be distributed according to statute. These restrictions on bonus and lease payments do not apply to production tax revenues the state would receive if oil production commences in NPR-A.

Q: Effectiveness of Oil Revenue Forecasts.

A: Attached is a summary of actual versus forecasted oil revenues and prices covering the period 1981-2002 prepared by Chuck Logsdon, Chief Petroleum Economist, of the Department of Revenue.

Q: Will ANWR save us?

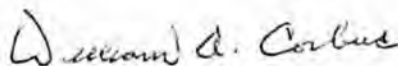
A: Please refer to pg. 17 of the *Fall 02 Revenue Sources Book*. The U.S. Geological Survey estimates ANWR contains 10.3 billion barrel of technically recoverable oil. The USGS also estimates that at \$22 barrel 4.4 billion barrels is recoverable from ANWR. The U.S. Energy Information Agency estimates nine years will pass between Congressional approval for oil drilling in ANWR and first production. If Congressional approval is received, the first barrel of oil will not be delivered until after the end of the 2010 forecast period. ANWR will not directly impact the State's fiscal situation in the short run.

Representative Stoltze

Q: Concerning the alcohol tax. When will it be effective and when will the State start receiving revenues from it?

A: The Statute became effective October 1, 2002, which means the state will receive revenues based on the higher tax rate for eight months in Fiscal 2003 (tax payments are received the month after sales). Due to stockpiling by wholesalers and retailers in anticipation of the higher tax rates, taxable purchases fell significantly in October and November. We expect retailers and consumers will work their way through that inventory this winter, and we hope to see tax returns in March or April that we could reasonably compare to returns from past years to judge the true effect of the tax increase.

Very truly yours,



William A. Corbus  
Commissioner

Enclosure

**One Year Ahead Forecast Error Based on  
Alaska Dept of Revenue Spring Forecast of Next Fiscal Year Revenue  
General Fund Unrestricted Forecast Compared to Actual  
(Millions \$)**

**One Year Ahead ANS Market Oil Price Forecast Track Record  
Department of Revenue Spring Revenue Forecast (\$/Barrel)  
(\$ per Barrel)**

Fiscal Year	Significant Not Forecasted Event	Forecast	Actual	Error	% Error	Fiscal Year	ANS Projected	ANS Actual	Dif	Absolute Dif	Mean Sq Error
1981		3254.9	3718.2	-463.3	-12.5	1981	28.32	34.92	-6.60	6.60	43.56
1982		5175.7	4108.4	1067.3	26.0	1982	30.26	32.04	-1.78	1.78	3.17
1983		2747.7	3631	-883.3	-24.3	1983	23.58	30.31	-6.73	6.73	45.29
1984		2728.7	3390.1	-661.4	-19.5	1984	30.66	29.26	1.40	1.40	1.95
1985		3418.2	3260	158.2	4.9	1985	27.50	27.89	-0.39	0.39	0.15
1986	Price Crash	2900	3075.5	-175.5	-5.7	1986	24.64	22.03	2.61	2.61	6.81
1987		2077.6	1799.4	278.2	15.5	1987	19.03	17.28	1.75	1.75	3.06
1988		1532.6	2305.8	-773.2	-33.5	1988	14.97	16.12	-1.15	1.15	1.32
1989		1772.5	2186.2	-413.7	-18.9	1989	14.17	14.61	-0.44	0.44	0.19
1990	ELF Changed	1995.8	2507.2	-511.4	-20.4	1990	15.31	17.22	-1.91	1.91	3.65
1991	Gulf War	2428.2	2986.6	-558.4	-18.7	1991	19.15	21.57	-2.42	2.42	5.86
1992	Tax Settlements	2124.7	2462.6	-337.9	-13.7	1992	15.92	16.64	-0.72	0.72	0.52
1993		1939.8	2352	-412.2	-17.5	1993	15.86	17.83	-1.97	1.97	3.88
1994	Price Crash	2303.8	1652.5	651.3	39.4	1994	18.38	14.05	4.33	4.33	18.75
1995		1696.9	2082.9	-386	-18.5	1995	13.97	16.77	-2.80	2.80	7.84
1996		1774.7	2133.3	-358.6	-16.8	1996	16.52	17.74	-1.22	1.22	1.49
1997		1910.1	2494.9	-584.8	-23.4	1997	16.67	20.90	-4.23	4.23	17.89
1998	Iraq Exports Allowed	2063.4	1927.1	236.3	12.9	1998	18.44	15.86	2.58	2.58	6.66
1999	Price Crash	1865.0	1291.3	573.7	44.4	1999	15.32	12.73	2.59	2.59	6.71
2000	OPEC big cuts	1338.1	2081.7	-743.6	-35.7	2000	13.57	23.27	-9.70	9.70	94.09
2001	More OPEC cutting	1887.1	2372.4	-485.3	-20.5	2001	22.78	27.85	-5.07	5.07	25.70
2002		1777.7	1653.9	123.8	7.5	2002	22.35	21.78	0.57	0.57	0.32
<b>Cumulative Error 1981--2001</b>		<b>50713.2</b>	<b>55373</b>	<b>-2378.1</b>	<b>-8.4</b>	<b>Average</b>	<b>19.76</b>	<b>21.30</b>	<b>-1.42</b>	<b>2.86</b>	<b>13.59</b>
<b>Cumulative Error 1990--1999</b>		<b>23327.6</b>	<b>26244.5</b>	<b>-1688</b>	<b>-11.1</b>	<b>Std Dev.</b>	<b>5.61</b>	<b>6.41</b>	<b>3.48</b>	<b>2.38</b>	<b>22.21</b>

- Comments:
1. The Dept of Revenue has on average underestimated revenue
  2. Since oil prices have such a tremendous effect on 80% of the revenues to the General Fund missing the oil price average 18 months out by \$2.00 per barrel would cause a 10% error at \$20/bbl
  3. Oil price volatility is high, over the last 21 years the average price was \$21.30/bbl with a standard deviation of \$6.41/bbl
  4. If you look at the change in DOR forecast from year to year you see that the forecast price is usually close to the prior year actual this because forecasters continually rebenchmark their forecasts to the most recent experience.

**1/29/03**

**OVERVIEW:**

**DEPT. OF**

**REVENUE,**

**ASTF**

**HFIN**

**FILE**

1/29/02  
DOR.

Department of Revenue  
Oil Price Forecast Summary

DOR Forecasted Price of  
ANS Crude Oil

<i>Fiscal Year</i>	<i>Fall <u>2000</u></i>	<i>Fall <u>2001</u></i>	<i>Spring <u>2002</u></i>	<i>Fall <u>2002</u></i>
2002	24.28	20.55	21.50	21.48
2003	22.06	18.81	20.50	25.94
2004	21.06	19.72	19.50	23.25
2005	20.38	19.61	19.50	22.00
2006	17.25	17.50	18.50	22.00
2007	17.25	17.50	17.50	22.00
2008	17.25	17.50	17.50	22.00
2009	17.25	17.50	17.50	22.00
2010	17.25	17.50	17.50	22.00

1/29/03  
DOR

FALL 2002

# REVENUE SOURCES BOOK

Forecast & Historical Data



## Tax Division

Tony Knowles, Governor  
Wilson L. Condon, Commissioner  
Dan E. Dickinson, Director  
Charles Logsdon, Chief Petroleum Economist

**KEY CONTACT PERSONS**  
**For Questions Related To This Forecast**

Alaska Department of Revenue  
Tax Division  
Robert B. Atwood Building  
Suite 500  
Anchorage, Alaska 99501  
(907) 269-1011 Voice  
(907) 269-6644 Fax  
<http://www.tax.state.ak.us>

Dan E. Dickinson, Director  
(907) 269-1011  
[dan\\_dickinson@revenue.state.ak.us](mailto:dan_dickinson@revenue.state.ak.us)

Charles Logsdon, Chief Petroleum Economist  
(907) 269-1019  
[charles\\_logsdon@revenue.state.ak.us](mailto:charles_logsdon@revenue.state.ak.us)

Denise Hawes, Economist/ Editor  
(907) 269-1020  
[denise\\_hawes@revenue.state.ak.us](mailto:denise_hawes@revenue.state.ak.us)

**KEY CONTACT PERSONS**  
**For Questions Related To Specific Topics In This Forecast**

**Constitutional Budget Reserve**

Larry Persily  
Alaska Department of Revenue  
Treasury Division  
(907) 465-5469  
[larry\\_persily@revenue.state.ak.us](mailto:larry_persily@revenue.state.ak.us)

**Alaska Permanent Fund**

Chris Phillips  
Alaska Department of Revenue  
Alaska Permanent Fund Corporation  
(907) 465-2047  
[cp\\_phlips@alaskapernfund.com](mailto:cp_phlips@alaskapernfund.com)

**Non-Petroleum Revenue**

Brett Fried  
Alaska Department of Revenue  
Tax Division  
(907) 465-3682  
[brett\\_fried@revenue.state.ak.us](mailto:brett_fried@revenue.state.ak.us)

**Restricted General Fund Revenue**

Brad Pierce  
Office of the Governor  
Management and Budget  
(907) 465-4677  
[Brad\\_pierce@gov.state.ak.us](mailto:Brad_pierce@gov.state.ak.us)

# STATE OF ALASKA

Department of Revenue

Office of the Commissioner

Tony Knowles, Governor

P.O. Box 110400

Juneau, Alaska 99811-0400

Telephone: (907) 465-2300

Facsimile: (907) 465-2389

November 26, 2002

The Honorable Tony Knowles  
Governor of Alaska  
P.O. Box 110001  
Juneau, AK 99811-0001

The Honorable Frank Murkowski  
Governor-elect of Alaska  
P.O. Box 110001  
Juneau, AK 99811-0001

Dear Governor Knowles and Governor-elect Murkowski:

This is my last Revenue Sources Book after almost eight years as commissioner at the Department of Revenue. That means I have given you our best estimates, our wisest projections and our most knowledgeable forecasts 16 times since 1995. I would like to think we have been right more times than not in our semi-annual Revenue Sources Books, and I certainly hope this month's long-term change in our price forecast comes true.

The Department of Revenue believes the long-term average price for Alaska North Slope crude oil will be \$22 a barrel, a significant boost from the \$17 to \$18 average of the 1980s and 1990s. We don't take this forecast lightly, and we know there are many who will disagree with our assessment of world oil prices. The Organization of Petroleum Exporting Countries has been successful the past three years in managing its oil production to hold average prices at the low end of its target price range of \$22 to \$28 a barrel. ANS prices closely track the price of seven different OPEC crudes, the so-called OPEC "basket" price, and North Slope crude has averaged about \$22 a barrel during that time.

But even with a higher long-term outlook for ANS prices, the state still faces a large gap between its revenue and the cost of providing public services. That gap, which we cover by drawing down the Constitutional Budget Reserve, was \$738 million in Fiscal 2002 and is estimated at \$747 million in Fiscal 2003 and \$896 million in Fiscal 2004. If our oil price and production forecast is correct, the \$1.029 billion gap in Fiscal 2005 will empty out the Budget Reserve Fund.

It's not low oil prices that are causing the gap. Prices have been good, much better than the 1986-2000 average, coming in at \$21.78 per barrel in Fiscal 2002 and projected at \$25.94 in Fiscal 2003 (this year's price has averaged \$26.45 year to date as of November 25). We expect prices to weaken, slipping to \$23.25 in Fiscal 2004 and then settling in at around \$22 a barrel as a long-term average.

North Slope production has fallen, however, adding to our money woes. After climbing back to the million-barrels-a-day level in Fiscal 2002, production is expected to stay below that level through Fiscal 2007 - slipping to a low of 956,000 barrels in Fiscal 2007 - after which we forecast a bump back above 1 million barrels a day through the pipeline. Future production is predicated on sufficient private investment, and reasonable public fiscal policies, to attract the exploration and development capital needed to find and produce more oil from Alaska's North Slope.

Knowing the importance of our production forecasts, we don't just take our own word for it - we review our projections with oil industry representatives, and we rely to a great extent on our contract petroleum engineer.

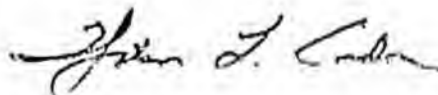
Putting it all together, as I stated earlier, we expect the Budget Reserve Fund to run out of money at the end of Fiscal 2005. Our price projections are based on the scenario that the world does not go to war with Iraq. If, however, we are wrong, and there is a war, we expect oil prices to spike at around \$30 per barrel in 2003. Although that would produce additional revenue for Alaska, we also expect that prices will fall after a war as Iraq boosts its own production to raise needed cash to rebuild the country. We have included tables showing estimated state oil revenues under several scenarios, including war, no war, our new long-term average price of \$22, and what would happen if the world reverts back to an average price in the \$17 range.

And, although we all would like to avoid these options if we could, we have included a shortened version of our Fiscal Options section from the Spring 2002 Revenue Sources Book. Certainly, Alaska may need to consider the use of Permanent Fund earnings and/or broad-based taxes in the future, and we want everyone to have the information readily available.

Finally, I want to invite you to read our special section in this Revenue Sources Book in which we review the economic opportunities that lie ahead for oil and gas development in Alaska. Some may disagree with some of our analysis, which is OK. The purpose behind this section is to educate Alaskans on the issue and to explain the possibilities for new developments and the costs behind turning them into realities.

As I leave office, I wish you, Governor Knowles, well in whatever you pursue, and I wish you, Governor-elect Murkowski, a successful career as Alaska's ninth governor. Although I will no longer be at my desk, I am confident that the entire staff at the Department of Revenue is ready to help the new administration and Legislature with any fiscal issue - please call on them.

Sincerely,



Wilson L. Condon  
Commissioner

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# I. INTRODUCTION

## Why Issue a Revenue Forecast?

The goal of the semi-annual Revenue Sources Book is simply to describe state revenue in specific and complete terms for anyone who wants to ask: "Where does the state get its money?" And while it does not advocate specific actions or policies, it clearly explains Alaska's potential for new resource development - and revenue - as it also explains some of the unpleasant realities of state finances. Thinking of life as a continuous lesson in school, this is a textbook for policy makers and others interested in Alaska's fiscal past, present and future.

Public finances have long been an issue of interest to Alaskans. How much does the state earn from its public resources? How much does the oil and gas industry pay to the treasury? And what about the fishing industry, mining, user fees and other taxes? How much are we earning on our investments, especially the Permanent Fund, and how much from our state endowments and public corporations? All good questions, and all are answered in this book.

Until two years ago, the Department of Revenue forecast books were all about oil. Sort of like the Harry Potter books, the storyline was the same in each volume. Our storyline was world oil prices, world oil supply and world oil demand. It wasn't as exciting as dragons and flying broomsticks, but oil prices captured Alaskans' interest just as strongly. However, there is much more to understanding Alaska's public finances than just the price of oil, even though oil revenues from production taxes, property taxes, royalties and corporate income taxes still pay most of the state's bills.

Although oil prices are still important, the state's dependence on the Constitutional Budget Reserve Fund - and our search for a long-term fiscal plan for the state - has brought a new element to our revenue forecasts. In addition to forecasting the price and production of Alaska North Slope oil, the department also tries to answer how much money will be needed from the Budget Reserve to balance state spending, when the savings account might run out, and what we can do to avoid running the reserve to empty.

As Alaskans' interest has expanded from wanting simply an oil price forecast to needing projections for investment earnings, the budget gap and Budget Reserve, and information on all state revenues, so too has the Department of Revenue's semi-annual forecast book expanded in size.

All of this information is helpful in answering the questions of how much is needed to pay for public services, where to get the money, and what we can do to ensure Alaska's fiscal health.

On the technical side, Sections V through X of the report include explanations of restricted funds (money restricted by the constitution, state statute, customary practice or federal designation) and explanations of unrestricted funds (money generally available for appropriation each year). The unrestricted revenue category is the focus of legislative and public debate each year, because it's this money that pays for many of our public services and the day-to-day operations of state government.

Revenue listed in the first table in the Executive Summary shows the new money available for appropriation each fiscal year, including oil revenue, non-oil revenue, federal revenue and investment earnings. This table does not include balances in existing funds such as the Constitutional Budget Reserve Fund or the Permanent Fund Earnings Reserve Account. The revenue that went into those funds was counted in previous years and should not be counted twice.

## What's In This Report?

This Fall 2002 Revenue Sources Book is organized into 12 sections:

- I. Introduction**
- II. Oil and Gas Production Opportunities**  
This special section examines opportunities available for new oil and gas production in Alaska.
- III. Executive Summary**
- IV. Fiscal Options**  
This section briefly describes some revenue options for balancing the state's budget.
- V. Oil Revenue**  
This section covers revenue from oil and gas production taxes, corporate income taxes, property taxes and royalties.
- VI. Non-Oil Revenue (Except Federal and Investment)**  
This section summarizes revenue from alcohol, tobacco, fisheries, estate and motor fuel taxes, non-oil corporate income taxes, user fees, and several other revenue sources.
- VII. Federal Revenue**  
This section describes federal spending in Alaska and federal revenue received by state government.
- VIII. Investment Revenue**  
This section includes investment earnings from the Alaska Permanent Fund, the Constitutional Budget Reserve Fund, the General Fund and other state investments.
- IX. State Endowment Funds**  
This section compares basic policies governing six of the state's endowment funds.
- X. Public Corporations and the University of Alaska**  
This section summarizes information about the University of Alaska and eight public corporations treated as separate component units of state government for financial reporting purposes.
- XI. Rosetta Stone**  
The purpose of this section is to reconcile three different documents published by three separate agencies — the Revenue Sources Book, published by the Department of Revenue; the Summary of Appropriations, published by the Legislative Finance Division; and the Comprehensive Annual Financial Report (CAFR), published by the Finance Division of the Department of Administration.
- XII. Appendices**  
This section contains the General Fund Sensitivity Matrices, Unrestricted Petroleum Production and Royalty Revenue Forecast, Historical and Projected Crude Oil Prices and Production, and Historical General Fund Unrestricted Revenue and Petroleum Revenue.

## Glossary

- **General Fund Revenue:** General Fund Revenue has different meanings in different contexts. In the state's official financial reports, General Fund Revenue is used to designate the sum of Unrestricted General Purpose Revenue, General Fund subaccount revenue (such as the Alaska Marine Highway System revenue) and federal dollars spent through the General Fund. See for example the Comprehensive Annual Financial Report at <http://www.state.ak.us/local/akpages/ADMIN/dof/fin-afr.htm> that shows General Fund Revenue of over \$4 billion for FY 2001. However, for budgeting purposes, General Fund Revenue sometimes excludes both federal money or money earned in subaccounts of the General Fund. For example see the Legislative Finance Fiscal Summary, which shows General Fund Revenue of about \$2.3 billion for FY 2001. The \$1.7 billion difference is attributable in large measure to the treatment of federal money and General Fund subaccounts.
- **General Fund Unrestricted Revenue:** Revenue designated as General Fund in the state accounting system (AKSAS). This includes revenues we show as restricted in this report, such as shared taxes or Alaska Marine Highway System revenues.
- **Unrestricted General Purpose Revenue:** Revenue not restricted by the constitution, state or federal law, trust or debt restrictions or customary practice. Most legislative and public debate over the budget each year centers on this category of revenue. In deriving this figure from General Fund Unrestricted Revenues, we have excluded customarily restricted revenues such as shared taxes and Alaska Marine Highway System revenues.
- **Restricted Revenue:** Revenue restricted by the constitution, state or federal law, trust or debt restrictions or customary practice. The legislature can of course at any time remove restrictions that are solely imposed by either Alaska statute or customary practice. When these dollars are restricted General Fund revenues, they are either recorded in a restricted subaccount of the General Fund or are General Fund taxes customarily shared with other entities.
- **Federal Revenue:** When the federal government gives money to states, it restricts how that money can be used. Highway and airport construction funds, Medicaid and education funding cannot be used for other purposes. In addition to restricting how the money is spent, the federal government often requires states to put up matching funds to qualify for the federal funding.

▪ Dedicated Revenue: Restricted revenue recognized as such under the applicable provisions of the Alaska Constitution fits into this category. Other than the mineral revenue constitutionally dedicated to the Permanent Fund, all of the other revenue sources in this category were restricted by statute before statehood and therefore are not subject to the constitutional prohibition against dedicated funds. They include such funds as the Fish and Game Fund, Disabled Fisherman's Fund and Public School Fund.

▪ Restricted Program Receipts: This revenue is earmarked in state statute or by contract for specific purposes. Examples include University of Alaska tuition payments, marine highway receipts, payments to various revolving loan funds, airport revenues and public corporation receipts. Some of this revenue is actually dedicated as a consequence of the provisions of Article 18, Section 11 of the Alaska Constitution (airport revenues). The remainder, while statutorily earmarked, may be appropriated to purposes other than those reflected in the example if the legislature so chooses (marine highway receipts).

▪ Customarily Restricted Revenue: Though not specifically dedicated by statute, these revenue sources have historically been treated by the legislature as if they were restricted. The largest item in this category is Permanent Fund earnings in excess of what is needed each year for dividends and inflation proofing. Though the money could be spent as unrestricted revenue, the legislature has always chosen to retain it in the Permanent Fund's Earnings Reserve Account or appropriate it to the fund's principal.

▪ Permanent Fund Statutory Income: The annual Permanent Fund dividend is based on statutory income. This is the sum of realized gains and losses of all Permanent Fund investment transactions during the year, plus interest, dividends and rents earned by the fund. Though the legislature may appropriate the earnings for any purpose it chooses, the historical practice has been to restrict the use of realized income to dividends and inflation proofing, and then either leaving the excess in the Earnings Reserve Account or transferring it to the principal of the Permanent Fund.

▪ Permanent Fund GASB (or Market) Income: Under standards adopted by the Governmental Accounting Standards Board, the Permanent Fund's income - and that of any other government fund - is the difference between the purchase price of the investments and their market value at a given point in time, plus any dividends, interest or rent earned on those investments. Under GASB standards, the Permanent Fund does not have to sell the investment to count the gain or loss as it changes value. It's called "marking to market," that is, measuring the value of the fund's investments by the current market price. This can produce a much different picture than Permanent Fund Statutory Income, which does not reflect fluctuating investment values until the assets are sold.

▪ Constitutional Budget Reserve Fund: Created by voters in 1990, the Constitutional Budget Reserve Fund holds the proceeds from settlements of oil and gas and mining tax and royalty disputes since July 1, 1990. It generally requires a three-quarters majority vote of each chamber of the legislature to withdraw money from the fund.

## II. OIL AND GAS PRODUCTION OPPORTUNITIES

### Oil Production as an Economic Opportunity

#### Introduction

Promoting resource development was one of the major themes of Alaska's just-concluded election, which prompts several questions. What are the major opportunities for additional oil development over the next decade? What is needed to exploit these opportunities? And if these opportunities are successful, how will they affect Alaska's public finances? Finally, what can state government do to help or, if it makes a mistake, hinder that development?

Oil development in Alaska may someday occur outside the Cook Inlet and North Slope areas, but that is unlikely over the next 15 years. Though small when compared to the North Slope, the health of the Cook Inlet oil patch will continue to be important, especially for the livelihood of Kenai Peninsula residents. However, new oil development opportunities in Cook Inlet are unlikely to significantly contribute to Alaska's treasury. To find that kind of money, we must look north.

North Slope oil production commenced in 1977 and reached a peak rate of just over 2 million barrels per day in 1988. North Slope production then declined for 13 consecutive years to just over 990,000 barrels per day in Fiscal Year 2001. (See Figure 10, Page 37, and Appendix D.) In Fiscal 2002, it increased a small 1.4% to 1,003,343 barrels per day. We now believe that was a one-year exception, and we forecast a steady, modest decline in North Slope production to 955,000 barrels per day between Fiscal 2003 and 2007. On average, over this five-year period, this new forecast reflects a reduction of about 80,000 barrels per day from our spring estimate.

Much of this reduction comes in our lower forecast of heavy-oil production from the West Sak formation in the Kuparuk Unit and the Schrader Bluff formation in the Milne Point Unit. We had anticipated the producers would invest substantially more money to boost production in both fields.

Beginning in Fiscal 2008, new fields coming online should elevate total production back over the million-barrels-a-day level, and we project North Slope production to exceed 1 million barrels a day from Fiscal 2008 through 2012. Production could start down again after Fiscal 2013 unless producers have significant exploration success, which will require the commitment of substantial money to the exploration and development of new fields.

Is there a significant possibility for increases in North Slope oil production over what we have forecast? That's the positive question, but what about the negative? And what are the chances that production levels may fall short of our forecast? The answer to these questions depends in large part on the amount of money exploration and production companies spend to develop oil resources that have already been discovered on the North Slope and to discover additional oil. Those spending decisions depend — in great part — on world oil prices and government regulatory and fiscal policies. The key in all this is that producers need to spend money so that the state can make money from its oil resources.

There is no question that state government policy decisions will affect the level of investment in North Slope oil exploration and development. And state government decision-makers will have to decide what policies are most likely to maximize the public benefit from North Slope production. However, those decision-makers will not all agree upon what constitutes maximum public benefit. Some would no doubt seek to maximize public revenue, while others would favor an increase in the level of private economic activity — including jobs — in place of some potential public revenue.

Finally, state government's take could be set so high that exploration and production companies invest elsewhere than in Alaska. If this happened, an increased government take in the short run could actually reduce Alaska's total take from oil over the long term. On the other hand, a policy of encouraging development by diminishing the government share could also reduce total take. The balance, sought by the host government in every oil province of the world, is to take a healthy share of the profits derived from oil while remaining competitive in the world marketplace for oil and gas investment dollars.

## **Assumptions and Rules-of-Thumb**

Some of the exploration and producing companies with interests on the North Slope announce their capital expenditure plans each year. What do those plans indicate about the likely amount of future production? To answer this question precisely we would need to be privy to internal company information and analysis not available to us. However, equipped with a few rules-of-thumb, an armchair analyst can make a rough translation of the producers' announced capital plans into likely future production.

Here are the assumptions and rules-of-thumb that we use: <sup>(1)</sup>

- **Prospectivity of the North Slope.** The producers we have talked with tell us the North Slope is still a "world class" geological basin to explore for oil.
- **Finding Costs.** We assume that on average it costs \$1 to find a barrel of oil on the slope. <sup>(2)</sup> This is a weighted average of our estimate of the cost for finding new fields (just over \$1 per barrel) and for finding new satellite accumulations near already discovered fields (\$0.60 per barrel). Some North Slope producers have a policy to pursue only satellites. Some pursue both new fields and satellites.
- **Reserve Replacement.** Companies trying to maintain a constant level of worldwide production also try to maintain a constant reserve base. Consequently, if a company or group of companies want to maintain the production rate from a particular area (e.g. the North Slope), we would expect them to invest enough in exploration to maintain a relatively constant reserve base in that same area. Therefore, over time, a constant North Slope production level would require exploration expenditures of \$1 for each barrel of newly found oil reserves to replace each barrel of production. Companies can also add to their reserves by spending on new technology to turn uneconomic oil into economically recoverable reserves, such as heavy oil.

(1) These rules-of-thumb come from our discussions with the North Slope producers and our review of available literature.

(2) According to Cambridge Energy Research Associates' (CERA's) "White Paper Outlook for Alaska" (November 1999) ("White Paper") at page 12, "The best performers' North Slope exploration costs are currently about \$1.00 per barrel..." BP has recently stated it costs them \$2.50 per barrel to find oil in Alaska, but they stated that as one reason why they are discontinuing their frontier exploration activity on the slope. Steve Marshall, President, BP Exploration Alaska, Inc. Speech to Fairbanks Chamber of Commerce, March 22, 2002.

(3) Exxon puts the cost of developing Point Thomson's 400 million barrels of reserves at \$1.2 billion. BP puts the cost of developing 55 million barrels of Schrader Bluff heavy oil at \$150 million. MIX, the enhanced oil recovery project at Prudhoe Bay, cost \$160 million for 50 million barrels. There are other rules-of-thumb that some use to derive future production rates from current capital spending: (1) for greenfield development, \$15 million to \$20 million for every 1,000 barrels per day of peak-rate production; and (2) for infill drilling, \$5 million to \$7 million for 1,000 barrels per day. These rules-of-thumb are consistent with the \$3 per barrel estimate we use in this analysis.

- **Development Costs.** Once found, we assume it costs an average of \$3 per barrel to drill and build the facilities to produce North Slope oil. Cambridge Energy Research Associates (CERA), in its 1999 White Paper on Alaska's development prospects, stated that it costs \$2.50 per barrel to develop North Slope oil. However, a survey of recent announcements regarding field developments indicate that the companies' target is close to \$3 per barrel. <sup>(3)</sup>
- **Affordable Development.** A significant amount of the oil that has been found on the slope cannot be developed for \$3 per barrel, but as technological advances are made more of this found oil can be developed economically at \$3 per barrel. In the short term, a producer could maintain its current production level by spending just enough to develop found oil. Eventually, however, technological advances will run up against geologic constraints, and the company's \$3 per barrel oil will decline unless new fields are discovered. This newly discovered oil will cost the companies' \$4 per barrel - \$1 to find the barrel and \$3 to develop it.
- **Minimum Capital Expense.** There is a great deal of discovered oil on the slope that has been developed but not yet produced. Even after building the facilities needed to produce that oil, the companies still must spend additional capital over the years to keep those facilities operable and safe. This spending is often called LTO, or "License to Operate" capital, and is in addition to routine operating and maintenance expense on the slope. An example of LTO capital would be installation of pollution control equipment to meet new government standards. Based on discussions with the North Slope operators, we estimate the annual LTO expense at about 2% of existing and planned total capital expense for the facility. Consequently, we used a North Slope LTO expense of \$300 million per year for this analysis. This is a fixed cost, and it is the minimum amount of capital spending needed to recover the reserves already developed and slated for recovery. Companies view LTO as "non-rate" expenditures, or expenditures that are not made to increase proven reserves. Our LTO estimate may include more than some companies would characterize as LTO for accounting purposes.

In thinking about the cost of finding and developing new oil fields, it is important to remember that future oil prices are uncertain. What that means is even when oil prices are high, producers still make their capital expenditure decisions based on average or low prices — they do not go out and spend more money on high-cost projects just because today's prices may be high. The fact is they are reluctant to gamble investment dollars on high oil prices in the future. As a result, these rules-of-thumb, adopted in a low-oil price environment, seem to apply even in times of higher oil prices.

### Department of Revenue Production Projections for Discovered Fields

The table on the next page reflects the following: (1) the Department of Revenue estimates of the amounts of original oil in place for all of the fields discovered on the North Slope; (2) the amounts of production from each of these fields through the end of June 2002; (3) our estimates of the amounts of additional oil recovery from each of these fields over the balance of their productive lives; and (4) our estimates of the total amounts of production from each of these fields.

**Table 1. Projected ANS Production from Discovered Producing Fields  
Million Barrels**

	Original Oil In Place	Production Through FY 2002	Currently Projected Additional Production	Total Estimated Production
Prudhoe Bay (Oil and NGLs)	23,700	10,670	3,400	14,070
Prudhoe Bay satellites (Midnight Sun, Aurora, etc.)	1,400	17	500	517
Lisburne	1,800	140	40	180
Point McIntyre	900	350	170	520
Greater Point McIntyre Area (Niakuk, etc.)	300	110	50	160
Kuparuk	6,000	1,820	1,140	2,960
Kuparuk satellites excl. heavy oil (Tabasco, Tarn, etc.)	400	40	140	180
West Sak <sup>(1)</sup>	12,000	6	370	376
Milne Point- Kuparuk and Sag River <sup>(2)</sup>	1,000	150	220	370
Milne Point- Schrader Bluff <sup>(1)</sup>	1,600	20	310	330
Duck Island Unit (Endicott, Eider, Sag Delta)	1,200	430	170	600
Badami	160	4	2	6
Alpine	1,100	30	460	490
Northstar	<u>300</u>	<u>10</u>	<u>200</u>	<u>210</u>
<b>Subtotal</b>	<b>51,860</b>	<b>13,797</b>	<b>7,172</b>	<b>20,969</b>
<b>Discovered non-producing fields</b>				
Alpine Satellites (Nanuq, Fiord, etc.)	395	0	180	180
Liberty	300	0	150	150
Point Thomson and Others (Sourdough, Yukon Gold)	1,400	0	560	560
Sandpiper	150	0	60	60
NPR-A (Rendezvous/Spark)	800	0	400	400
Ugnu <sup>(1)</sup>	7,000	0	0	0
OCS Offshore (Kuvlum, Hammerhead) <sup>(3)</sup>	<u>1,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Subtotal</b>	<b>11,045</b>	<b>0</b>	<b>1,350</b>	<b>1,350</b>
<b>Total</b>	<b>62,905</b>	<b>13,797</b>	<b>8,522</b>	<b>22,319</b>

(1) These are heavy oil deposits.

(2) Kuparuk refers to the formation in the Milne Point Unit, not the Kuparuk River Unit.

(3) These fields' barrels were not economic to produce in the mid-1990s. For offshore stand-alone developments the minimum economic field size is 1 billion barrels, and each of these fields is smaller than this. However, these fields may become economic to produce if either technological advances allow for lower development costs or the fields can produce as satellites to larger fields.

Historically, North American oil production operations have recovered about 35 percent of the original oil in place from developed fields. Where modern technology, including water flooding and other means of pressure maintenance are employed, the typical recovery rate in the Lower 48 is 40 percent. But we're doing better than that in many fields in Alaska.

If the projections set forth in Table 1 are realized, about 35 percent of the original oil in place in the discovered North Slope fields will be produced. But if we eliminate the amounts attributable to the three heavy-oil accumulations presented in the table (West Sak, Ugnu and Milne Point-Schrader Bluff), the projections in the table reflect an ultimate recovery of 51% of the original oil in place. Our projected recovery from the main Prudhoe Bay reservoir is almost 60%, and technological innovation may improve this recovery rate, depending in great part on how much the producers invest to develop those reserves. A 1% increase in recovery from the Prudhoe Bay field is the equivalent of finding a new field with 237 million barrels of economically recoverable oil.

Getting back to the heavy-oil accumulation at West Sak, Ugnu and Milne-Schrader, these reserves are enormous, amounting to 20.6 billion barrels of oil in place, or almost a third of the original oil in place in all the discovered fields on the North Slope. Unlike the highly productive sandstone formation at Prudhoe Bay, we project that a little over 3%, or 712 million barrels, of this oil will be recovered. This relatively cold, heavy or viscous oil flows poorly and is difficult to extract from the reservoir. The reservoir rock containing these accumulations crumbles easily, causing sand to impede the flow of oil. Viscous oil is also less valuable because it contains a smaller proportion of the lighter, more valuable hydrocarbons found in conventional oil. Technological developments (horizontal wells and jet pumps, for example) have improved the economic feasibility of recovering some of this oil, but most of it will probably remain uneconomic and in the ground.

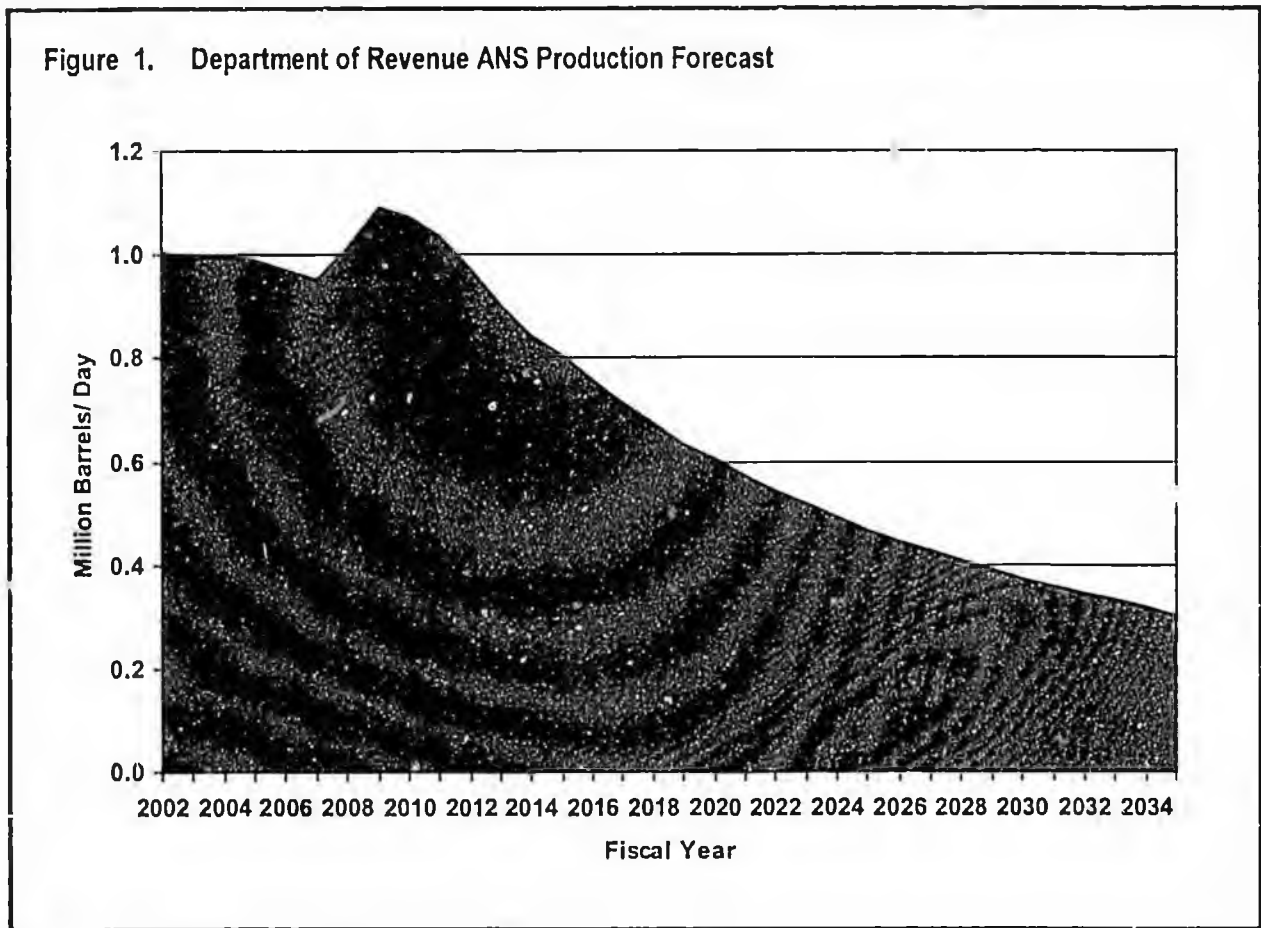
State tax policy could have some effect on whether this oil is produced, but the geology of the reservoir and the cost of extraction have as much to do with production rates as state tax policies.

The estimated production volumes set forth in the column "Currently Projected Additional Production" in Table 1 match (with one small exception) the production volumes the Department of Revenue would normally include in its periodic revenue forecasts. This column includes the department's production estimates from already-discovered fields. Our periodic revenue forecasts, for the most part, also reflect only production from discovered fields. However, where particular circumstances lead us to believe current exploration activity is very likely to result in new production within the next five years, we include estimated production from those undiscovered fields in our forecast.

In this forecast we have included production from as-yet-unverified Kuparuk satellite prospects. The producers have explored and continue to explore in the Kuparuk area. They have enjoyed a high rate of success in finding Kuparuk satellites, and they can bring these satellites on line in three years or less, given the available facilities at Kuparuk. Therefore, we reasoned that to leave these barrels out of the short-term forecast would understate likely production. This forecast includes 99 million barrels from these Kuparuk satellites, with production beginning in Fiscal 2005 at 5,000 barrels per day and peaking in 2007 at 20,000 barrels per day.

That's really what most people look for in our spring and fall production forecasts — how much oil will be produced each year. To arrive at those projections, we take the total production volumes in the "Currently Projected Additional Production" column from Table 1 and allocate those volumes year-by-year to reflect our estimate of the time when the oil will actually be produced. Figure 1 on the next page reflects this production profile. See also Table 8, Page 37; Table 20, Page 60; and Appendix D.

Figure 1. Department of Revenue ANS Production Forecast



The Department of Revenue estimates there could be 8.5 billion barrels of additional production from currently discovered North Slope fields (Table 1). Approximately 3.8 billion of those 8.5 billion barrels could be recovered with only those investments needed to preserve the integrity and safety of the facilities (the LTO investments referred to previously).<sup>(4)</sup> Production of the other 4.7 billion barrels would require significant additional investment. Table 2 on the next page reflects these amounts field by field.

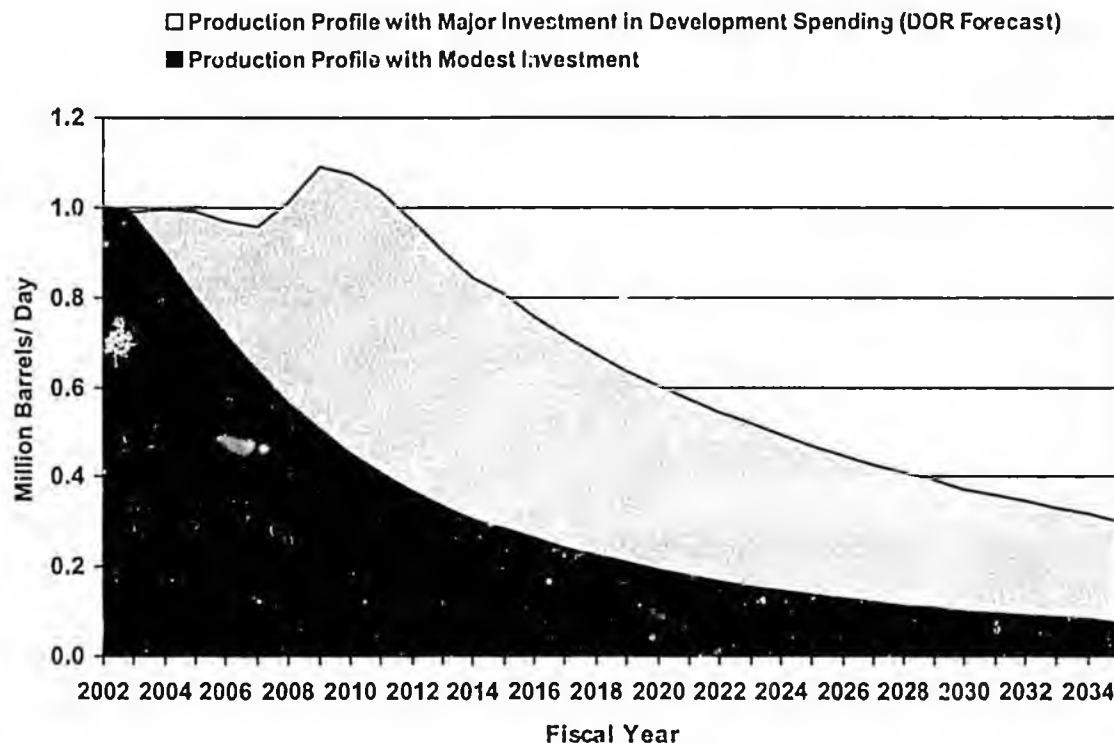
Figure 2 on Page 16 reflects these amounts by year. Clearly then, about one-half of the oil in this forecast will require major additional investment. If that investment is not made, is delayed, or is less than anticipated, then production will fall short of what we forecast.

(4) We derived this 3.8 billion barrels as follows: 1) For fields on decline, we derived a reserve amount and a corresponding production profile for this moderate investment case by first eliminating the reserves and production from anticipated development drilling and EOR/facility expansion projects. Then, we calculated an initial field decline rate by looking at production from each field as a whole (or in some cases at an isolated group of wells in that field) during a period of relatively low investment in that field or field area. We assumed the decline would be exponential (a constant year by year percentage decline) rather than hyperbolic (percentage decline slowing over time); 2) for newer fields not yet on decline, we used a lower-end reserve number in estimating a production profile; and, 3) finally, we assumed no new fields would be discovered and brought online in a moderate investment world.

**Table 2. North Slope Remaining Oil Reserves Categorized by Investment Required  
Modest Additional Investment or Major Additional Investment  
Million Barrels**

	Remaining Reserves Recoverable with Modest Additional Investment	Additional Reserves Recoverable with Major Additional Investment	Total Possible Remaining Reserves from Both Modest and Major Investment
<b>Producing Fields</b>			
Prudhoe Bay (Oil and NGLs)	1,400	2,000	3,400
Prudhoe Bay satellites (Midnight Sun, Aurora, etc.)	160	340	500
Lisburne	40	0	40
Point McIntyre	130	40	170
Greater Point McIntyre Area (Niakuk, etc.)	50	0	50
Kuparuk	850	290	1,140
Kuparuk Satellites excl. heavy oil (Tabasco, Tarn, etc.)	140	0	140
West Sak	50	320	370
Milne Point- Kuparuk and Sag River	170	50	220
Milne Point- Schrader Bluff	120	190	310
Duck Island Unit (Endicott, Eider, Sag Delta)	130	40	170
Badami	2	0	2
Alpine	380	80	460
Northstar	<u>130</u>	<u>70</u>	<u>200</u>
<b>Subtotal</b>	<b>3,752</b>	<b>3,420</b>	<b>7,172</b>
<b>Discovered Non-Producing Fields</b>			
Alpine Satellites (Nanuq, Fiord, etc.)	0	180	180
Liberty	0	150	150
Point Thomson and Related Fields (Sourdough, Yukon Gold)	0	560	560
Sandpiper	0	60	60
NPR-A (Rendezvous/Spark)	0	400	400
Ugnu	0	0	0
OCS Offshore (Kuvlum, Hammerhead)	<u>0</u>	<u>0</u>	<u>0</u>
<b>Subtotal</b>	<b>0</b>	<b>1,350</b>	<b>1,350</b>
<b>Total</b>	<b>3,752</b>	<b>4,770</b>	<b>8,522</b>

Figure 2. ANS Production Forecast  
Modest Investment vs. Significant Investment



## New Discoveries

According to the most recent assessments by the U.S. Geological Survey, new discoveries in five areas could significantly add to North Slope reserves within the next few decades: (1) the National Petroleum Reserve-Alaska (NPR-A), (2) Arctic National Wildlife Refuge (ANWR), (3) Central North Slope, (4) Eastern Thrust Belt, and (5) Beaufort Shelf.<sup>(5)</sup> Discovery and development of these potential reserves will depend on oil prices, Alaska's competition for oil exploration investment dollars worldwide and, in the case of ANWR, congressional action.

### NPR-A.

NPR-A probably contains 9.3 billion barrels of technically recoverable oil, according to the Geological Survey's 2002 assessment of the area. However, the federal agency believes this oil is mostly in relatively small accumulations of 32 million to 256 million barrels. They do not believe NPR-A contains a field as large as Kuparuk (6 billion barrels of original oil in place), let alone one the size of Prudhoe Bay (over 23 billion barrels of original oil in place). Another disadvantage is that USGS believes NPR-A's oil is spread out in multiple accumulations the size of Alpine (429 million barrels), Tarn (70 million barrels) and Nanuq (40 million barrels). These fields, they say, are scattered over an area of 36,000 square miles.

(5) The Minerals Management Service (MMS) made this assessment in 2000.

Due to the small size of the oil reservoirs and the high cost of transporting oil from those reservoirs to market, USGS estimates that NPR-A's reserves are uneconomic at West Coast ANS prices of \$20 a barrel or less. However, at a West Coast price of \$22 per barrel, 1.3 billion barrels would be economically recoverable. If West Coast ANS prices were \$25 per barrel, 3.7 billion of the 9.3 billion barrels would be economic.

In addition to anticipated but undiscovered oil, NPR-A contains some already discovered oil. ConocoPhillips last year announced a discovery on the east side of NPR-A. The Department of Revenue believes that discovery will yield 400 million barrels of recoverable reserves from multiple accumulations, and we have included these barrels in our forecast. These 400 million barrels are included in the estimate of 1.3 billion barrels of economically recoverable oil from NPR-A at \$22 a barrel. We forecast production from this discovery to begin in Fiscal 2008 at a rate of 30,000 barrels per day and peaking at 95,000 barrels per day in 2011. Meanwhile, ConocoPhillips plans to continue drilling exploratory wells in NPR-A.

### ANWR.

Though the USGS estimates that ANWR contains only slightly more technically recoverable oil than NPR-A (10.3 billion barrels vs. 9.3 billion barrels), ANWR's oil is probably contained in larger reservoirs, according to the USGS. For that reason, USGS believes the ANS West Coast price would have to fall below \$16 for all of the projected ANWR reserves to become uneconomic. At \$22 per barrel, USGS believes 4 billion barrels of ANWR reserves would be economic (vs. 1.3 billion for NPR-A at the same price). However, ANWR has major hurdles to overcome, including congressional approval, environmental impact studies and lease sales before any exploratory wells could be drilled. Thus the U.S. Energy Information Agency estimates that nine years will pass between congressional approval for oil drilling in ANWR and first production.

### Adding New Discoveries to Our Production Forecast.

Using the Geological Survey's assessment of North Slope oil potential and assuming a long-term West Coast price of \$22 per barrel, the following table reflects the USGS projection of economically recoverable reserves from future North Slope discoveries.

**Table 3. USGS- Estimated Economically Recoverable Reserves  
From New North Slope Discoveries at \$22 per barrel ANS Price  
Millions of Barrels**

<u>Undiscovered Fields</u>	<u>Reserves</u>
NPR-A Net of Rendezvous	900
Central North Slope Satellites	1,500
Eastern Thrust Belt and Foothills	900
ANWR	4,400
Beaufort Shelf Federal Offshore	<u>2,600</u>
<b>Total Undiscovered</b>	<b>10,300</b>

BP recently announced it was using a Brent price of \$16 per barrel to evaluate the economic feasibility of its oil production investments worldwide. This price closely approximates a U.S. West Coast ANS price of \$16 per barrel, and is slightly below the long-term average price for North Slope crude over the 15-year period 1986 through 2000. Other North Slope producers have not officially announced the oil prices they are using to evaluate the feasibility of new projects. However, we believe some are using a price that is closer to the price the Department of Revenue is projecting in this forecast.

For several years the Department of Revenue has consistently forecast that ANS prices would continue to maintain the long-run average of \$16 to \$17 per barrel that persisted from 1986 to 2000. As we explain later in this forecast, we are changing our long-run outlook and we are forecasting a substantial increase in the long-run delivered West Coast price of ANS to \$22 per barrel. If we are correct in making this change, and if exploration and production companies interested in the North Slope were to base their investment decisions on this higher price, then we believe the production profile reflected in Figure 3 on the next page would be an optimistic — but perhaps achievable — target. We have not included any production from ANWR in this profile because congressional action is required before new exploration could commence there.

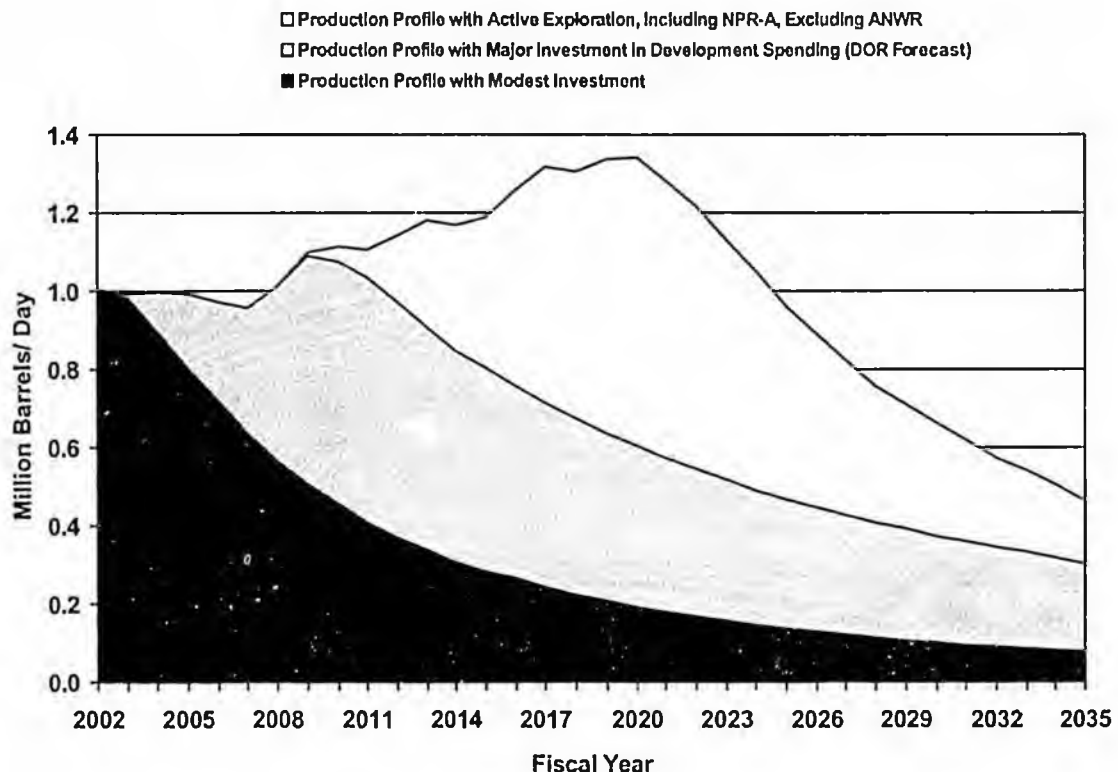
#### **Attracting and Monitoring Investment Dollars.**

Additions to North Slope production can come in two ways: 1) recovering a greater proportion of the oil in already discovered fields, or 2) discovering new fields or satellites to discovered fields. Over the next decade we project that adequate spending on discovered fields would maintain North Slope production near the million-barrels-a-day level. To keep production at or above a million barrels a day in the following decade, however, companies will have to discover new fields and new satellites to existing fields this decade. Then as discovered field production spending declines, companies will have to spend more money to bring production online from new satellites and new fields.

The figure on the next page illustrates the relationship between investment dollars spent to find and develop oil on the North Slope and the vitality of the oil industry in Alaska over the next two decades and beyond.

- If North Slope producers invest only at the level required to maintain the safety and integrity of the current production infrastructure, the dark-colored dotted area reflects the likely production profile.
- If the companies involved invest significantly to produce oil that has already been discovered, then the production forecast reflected by the light and dark dotted areas is, we believe, the likely profile. Our current revenue forecast is based upon this production profile.
- If immediate, substantial, successful and continuing exploration occurs, the top line volume profile — or more — may be attainable.
- Finally, even if exploration investments and successes are less than these optimistic hopes, unexpected additional discoveries would add to our forecast projections.

**Figure 3. ANS Production Forecast  
Modest Investment vs. Significant Investment vs. New Discoveries**



For discovered fields, we believe it will cost \$3 per barrel to drill the necessary wells and provide the infrastructure to produce the additional 4.7 billion barrels of discovered North Slope oil requiring substantial investment. (These are the 4.7 billion barrels of the 8.5 billion barrels already discovered on the slope that require significant investment, as opposed to the 3.8 billion barrels that could be produced with more moderate investments in the operations, safety and integrity of the facilities.) Therefore, to fully replace the 365 million barrels of reserves (1 million barrels per day) produced each year, the companies must spend around \$1.1 billion per year (\$3 per barrel x 365 million barrels).<sup>(6)</sup> In addition, the companies must spend \$300 million per year in LTO capital just to preserve the safety and integrity of their facilities and to maintain a base flow of oil.

For undiscovered fields, and to maintain at least a million barrels a day of production in the following decade, new fields will need to be discovered this decade at a projected finding cost of \$1 per barrel.

(6) As development spending on discovered fields declines, development spending on newly discovered fields must increase to maintain production levels.

Therefore, to find most of the 6 billion of possible new-field barrels estimated by the Minerals Management Service and USGS, the companies must spend \$300 million to \$365 million per year <sup>(7)</sup> in exploration spending at NPR-A, the Central North Slope satellites, Eastern Thrust Belt and foothills, and Beaufort Shelf. That's in addition to the \$1.4 billion per year in ongoing development spending on past, present and future discovered fields.

In sum, to reach our most optimistic forecast, the companies will need to spend \$1.7 billion to \$1.8 billion a year in capital spending. (These investment amounts are only for exploration and development on the North Slope; they do not include downstream investments in the Trans-Alaska Oil Pipeline or marine vessels).

### What Do We Know About Current Investment Levels on the North Slope?

ConocoPhillips reports its investments in Alaska in its annual 10K statements filed with the Securities and Exchange Commission and in its annual reports to shareholders. While BP does not separately reports its Alaska investments in its annual reports to securities regulators or its shareholders, it has publicly announced its investment plans for its North Slope operations. ExxonMobil neither separately reports nor publicly announces the amounts it plans to invest in its share of North Slope operations. Since all of ExxonMobil's current North Slope operations are conducted in partnership with other companies and since those partners make public the amount of their Alaska North Slope exploration and development investments, we believe it is possible to derive a reasonably close approximation of ExxonMobil's North Slope investments. Other companies currently active on the North Slope - ChevronTexaco, Anadarko and EnCana — publicly disclose the amounts of their North Slope capital spending programs.

From the information we have been able to compile, the Department of Revenue estimates that over the three-year period 2000-2002 the pertinent companies averaged \$1.4 billion in annual exploration and production investment on Alaska's North Slope. This is \$300 million to \$400 million below the annual investment level we believe is required to achieve the top production profile reflected in Figure 3 on Page 19. Although \$300 million to \$400 million may represent only a 20% shortfall in our back-of-the-envelope estimations, much of the deficiency is in exploration spending. Lack of exploration spending makes our production forecast for as-of-yet-undiscovered barrels highly speculative.

It looks as though North Slope exploration and production investment for the current year will be about \$1.2 billion. This is a 20% drop from spending in the years immediately preceding 2002. Certainly, the completion of new facilities at Northstar and Alpine account for most of that reduction in 2002. Still, we believe companies are spending less in both development and exploration than they need to replace current production on the schedule we have forecast.

The three major North Slope producers currently take different approaches to adding to their reserve and production base on the North Slope. ConocoPhillips has an active wildcat exploration program and is actively exploring NPR-A. It also has an active satellite exploration program. BP has almost completely abandoned North Slope wildcat exploration, but it has made a significant commitment to the application of new technology to its heavy-oil interests in the Milne Point-Schrader Bluff reservoir and to search for satellite accumulations near the major producing reservoirs. ExxonMobil, it would appear, is seriously moving ahead with the potential development of the Point Thomson field. If that field is developed, BP, ConocoPhillips and ChevronTexaco — as partners in that field — will have to share in that investment. Other than Point

(7) Our most optimistic forecast has production declining below a million barrels a day in 2023. The \$300 million of exploration spending postpones the decline another decade. To discover enough barrels to totally replace the 365 million barrels of reserves produced each year will take at least \$365 million a year.

Thomson, ExxonMobil, like BP, is missing from frontier exploration and development on the North Slope, although it continues to pay its partner share in Prudhoe Bay production investments and satellite exploration there.

### Great Expectations.

To maintain — and with luck increase — Alaska's North Slope oil production at a million barrels per day, this analysis leads to the conclusion that for each barrel leaving the North Slope, \$5 must come back to pay for new exploration and development. Is this a realistic expectation? Figures 4 and 5 on Page 23 provide one perspective for thinking about this question.

These two figures depict the per-barrel free cash flow available from North Slope production under two different price scenarios using our current forecast of North Slope costs in Fiscal 2008, the first year we expect production from NPR-A. The costs reflected for the Explorer-Producer would all be actual out-of-pocket costs assuming the company has no ownership interest in feeder pipelines, TAPS or marine tankers. The Integrated-Producer could receive an additional free cash flow roughly \$2 per barrel as a consequence of its ownership interests in pipelines and tankers.

At a \$22-per-barrel West Coast ANS price, the free cash flows attributable to North Slope production for both the Integrated-Producer at Prudhoe Bay and the Explorer-Producer in NPR-A would be about \$7.30 per barrel. We need to hope they will invest more than two-thirds of that amount in new exploration and production if we are to enjoy the benefits of million-barrels-per-day production after 2010. At a \$17.70-per-barrel West Coast ANS price (the average price from 1986 to the present), the per barrel free cash flow attributable to North Slope production operations for both hypothetical producers would be about \$5.25 per barrel. A \$5-per-barrel exploration and production reinvestment would consume almost all of this projected free cash flow, leaving very little to pay interest or dividends for the capital invested in North Slope production operations.

Looking at it coldly from the perspective of the investor, after setting aside money for reserve replacement through exploration and development, there is roughly \$2.25 left over from \$22 oil to pay interest and dividends. But at a price of \$17 per barrel, after subtracting for reserve replacement, the investor essentially gets nothing. It is clear that Alaska needs world oil markets to forget the \$17 average price of the past 15 years.

What about new entrants and investors in Alaska? They must bring hundreds of millions of dollars raised from production or investment elsewhere to Alaska. Presumably, they believe Alaska will be a better investment than their alternatives, including the original source of the cash. We must also recognize that the current major investors in Alaska are worldwide, integrated producers evaluating broad portfolios of opportunities. Although we can encourage them to reinvest in Alaska, movement of capital between projects and regions is one of the economic advantages of a large integrated company.

As Alaska matures, companies already producing here will probably require that Alaska operations are positive or at least cash neutral. That is, Alaska oil producers should not expect infusions of money from parent companies but must pay for future opportunities from their own Alaska operations. On the other hand, new entrants must be willing to accept periods of negative cash flow while they explore and develop before any oil — and money — starts to flow.

## What Can the State Do to Make This Investment More Likely?

### ▪ Require the Investment.

The state could write investment or work commitments into future oil and gas leases, obligating leaseholders to those commitments. If the company doesn't do the work, the state could either take back the lease or require the leaseholder to allow another company to step in and do the work. But such lease terms would probably reduce both the price and marketability of future leases. The state cannot unilaterally change the terms of existing leases.

### ▪ Provide Incentives Through Tax Deductions or Tax Credits.

Although there are some nuances, fundamentally the more the government takes, the less there is to reward industry for making investments. Consequently, the lower the government take, the more likely the producer or explorer will invest. The incentive, if it is optimally structured, may lower the government's short-term take with the hope of increasing the long-term public benefit, or it may maintain the current level of total tax revenues while shifting the burden among producers.

The proceeds from producing oil in Alaska are taxed the same whether they are reinvested in Alaska or elsewhere in the world. The state could modify its production tax or income tax laws to provide a credit or a deduction for reinvestment in Alaska exploration or production. Alaska is particularly alone among major oil producers in not treating oil dollars that are reinvested here more favorably than oil dollars invested elsewhere.

### ▪ Make Alaska's Fiscal System Less Regressive.

When oil prices are very low, the state and federal government together take more than 100 percent of the profit from Alaska oil operations. When oil prices are high, the total government take from Alaska oil operations is low compared to comparable oil-producing provinces. This occurs because three major features of Alaska's fiscal system — the 20-mill property tax, the production tax and the royalty provisions in state leases — are not based on profits. Even when prices are so low that oil production operations are unprofitable, the state continues to receive a share from some or all of these sources.

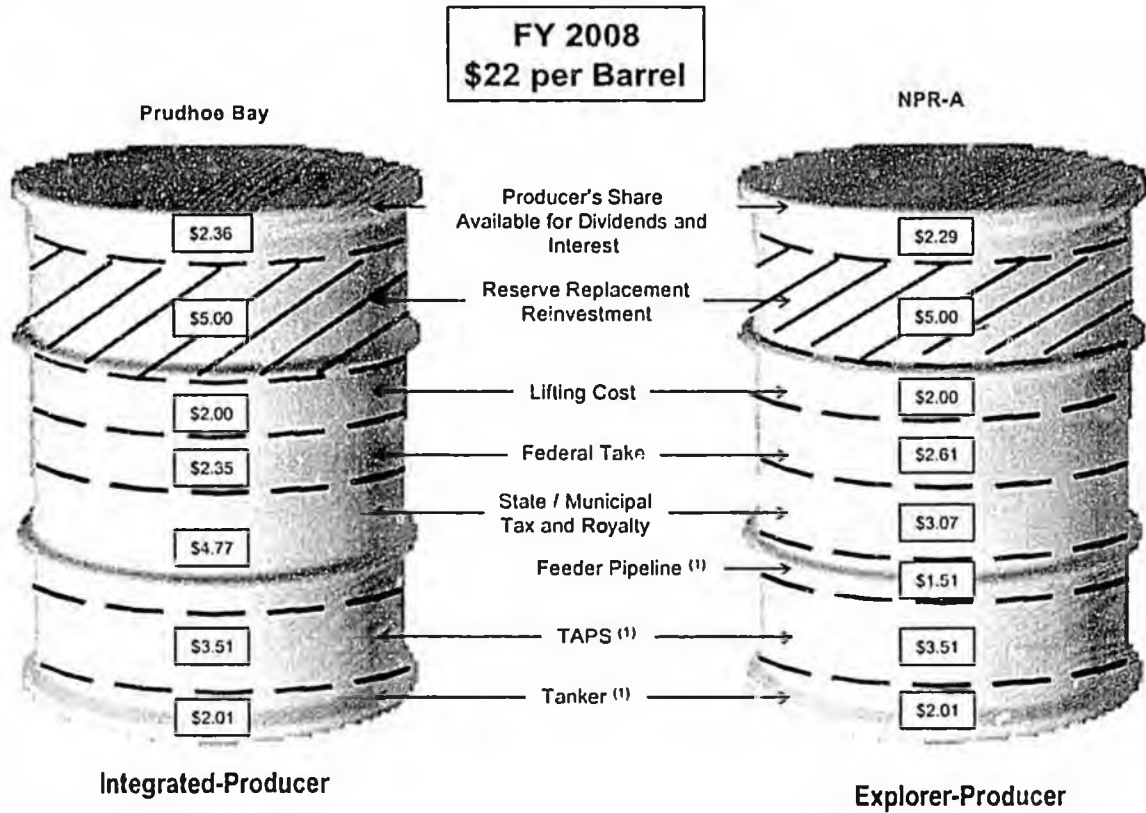
The state could modify its fiscal system to make it less regressive and thus share the risk of low oil prices and earn more when oil prices were high. Properly structured, such a modification could yield more total revenue for the state while at the same time making Alaska a less risky place to explore and produce oil.

A less regressive, more progressive fiscal system would require fiscal discipline by the state government, however. When oil prices were high, the state would have to save for the time when oil prices were low. One need only look to the Province of Alberta to appreciate the difficulties governments can encounter in managing huge swings in oil and gas revenue caused by a very progressive fiscal system.

### ▪ Eliminate the Structural Deficit in Alaska's Public Finances.

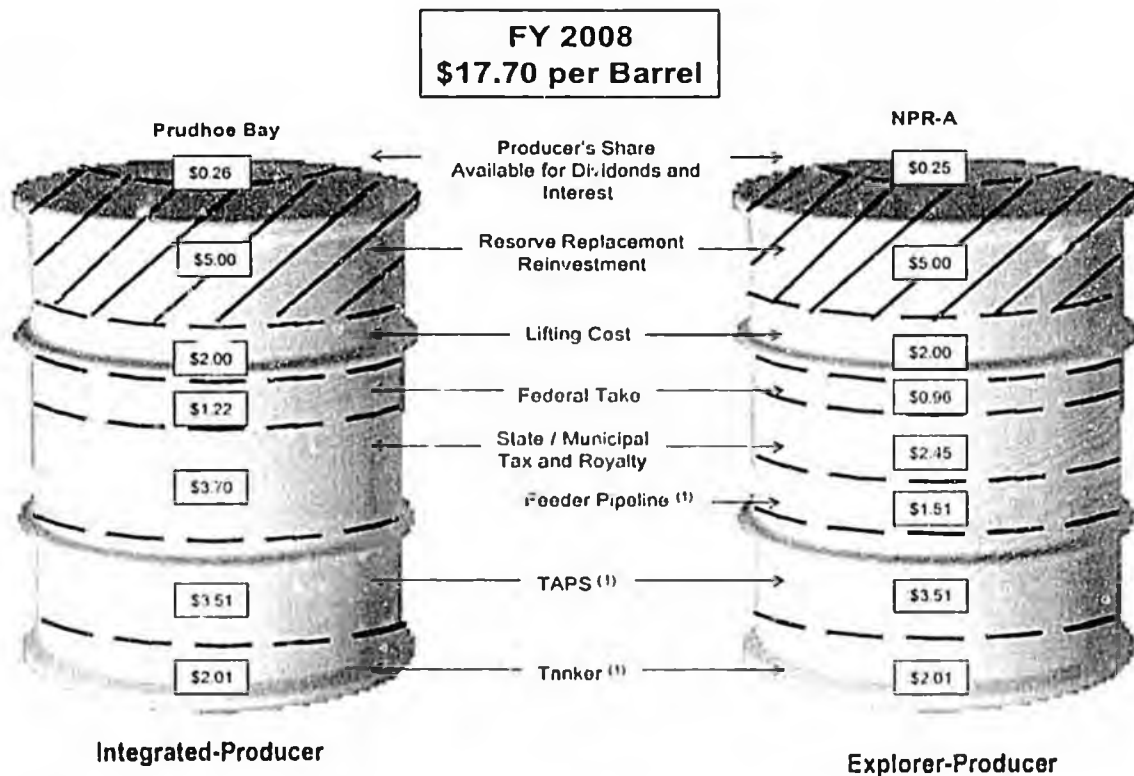
Current or would-be investors in the oil exploration and production opportunities in Alaska are necessarily going to be less willing to invest here if they believe they will be the ones called upon to plug our structural deficit with a "gap tax."

Figure 4. ANS Cash Flow With \$5 Reserve Replacement Reinvestment



(1) These are notional tariff values and include capital recovery so an owner of the asset may recapture some of these costs.

Figure 5. ANS Cash Flow With \$5 Reserve Replacement Reinvestment



(1) These are notional tariff values and include capital recovery so an owner of the asset may recapture some of these costs.

# Gas Production as an Economic Opportunity

## North Slope

Alaska's North Slope contains large amounts of natural gas. Prudhoe Bay holds approximately 24 trillion cubic feet (tcf), with 8 tcf at Point Thomson. Other discovered sources make for 35 tcf total discovered gas, and geologists estimate there may be as much as 100 tcf. Commercializing North Slope gas is one of the state's largest potential economic development prizes. A 100-tcf gasline project at 4.5 billion cubic feet (bcf) per day would support a vibrant gas exploration and production industry in Alaska, providing \$400 million to more than \$1 billion a year in public revenue for almost 60 years, depending on the cost of the project and gas prices.

Unfortunately, the gas has not been commercialized due to its distance from markets and the cost risks of arctic construction. Sponsors estimate a gas pipeline to the Midwest would cost \$20 billion. This distance creates high transportation expenses, adding to the cost of the gas in a competitive marketplace. If gas prices in the markets cannot cover the expenses and a reasonable profit, the project will not be feasible. Potential project sponsors have looked at lowering the unit costs by increasing the size of the project to ship more gas, but a large project creates its own set of risks, mainly the potential for a large loss if unfavorable events unfold.

The project faces two main risks: (1) the construction cost overrun risk, and (2) the commodity price risk, the latter probably being more problematic. The pipeline will only be financed under conditions where the sponsors agree to pay the tariff regardless whether the gas is shipped. That is the only way investors would agree to loan money for the pipeline. Those "ship-or-pay" contracts mean that even if gas prices are less than the full tariff, the producers would still have to pay the tariff — and lose money on each gas molecule they sell.

Part of the problem for a gasline is that the transportation costs (the pipeline tariff) eat up about 75% of the value of the gas when it's sold coming out of the line. That doesn't leave much margin to cover production costs, taxes, exploration and development costs and profit if gas prices take a tumble. The story is much different for North Slope oil, where the transportation costs consume only 25% of the value when oil prices are in the \$20 range.

Because of the slimmer margin for natural gas, the commodity price risk is a problem for the Alaska project. Project sponsors and investors need to focus on what gas prices will be for the next 30 years, the expected term of bonds sold to finance the project.

In any market for any commodity, consumers will purchase the lowest-cost item. Ordinarily, markets evolve by having lower-cost supplies enter the market first, followed by higher-cost supplies as needed to meet demand. There can be only one price in a commodity market, thus the market price for the entire supply will be set by the marginal supply of the last quantity to enter the market. The price of the marginal supply, and thus the market price itself, will be the cost of producing that last unit to enter the market.

In the situation where a specific quantity (such as natural gas) is already in the market, and a lower-priced one subsequently presents itself, consumers will naturally gravitate toward the latter — and the former must match the lower price to stay competitive. This is the challenge for North Slope gas.

Accordingly, a North Slope gas project will not be economically feasible if the gas cannot be transported to market for less than what new competing gas supplies will cost. The market will not pay above the lowest-cost new supply available. Therefore, the feasibility of the project depends largely on how potential sponsors view competing supplies from competing sources. The commodity price risk revolves around whether there are material quantities of lower-price gas to meet the market demand.

Most financial resources recently have focused on a pipeline through Canada, splitting off to the Midwest and West Coast markets, as the most promising option. The potential numerous sources of competing supplies make this a risky project. These could come, for example, from the deepwater Gulf of Mexico, liquefied natural gas (LNG) imports from the Atlantic or Pacific Basin, coal-bed methane, or from new technologies brought on by higher prices, just to name a few. Accordingly, an Alaska project needs to shed — or share — some risks before ever becoming a reality. Certainly, anything that creates more risks is going in the wrong direction.

Although lots of people are working hard to reduce the project risks, one (or both) of two things appear critical if the project is to be economically attractive to sponsors and investors:

- The sponsors and investors must hold the view that Lower 48 gas prices will be high enough in the years ahead so that North Slope gas will be profitable.
- Efforts by the state and/or federal governments to reduce the project risk must be successful. These efforts could include a price support or other means of sharing the commodity price risk, similar to the tax credit provision of the federal energy bill that passed the U.S. Senate this past session but died with adjournment.

Some people believe the best option is to pipe the gas to tidewater, liquefy it, and ship it to Pacific Rim markets as liquefied natural gas (LNG). This may be more risky than a pipeline to the Lower 48. The Pacific Rim is extremely bountiful in gas supplies at tidewater that do not have to bear the cost of an expensive 800-mile arctic Alaska pipeline to reach tidewater. This puts Alaska at a significant competitive disadvantage to other producers with gas at tidewater.

Even if the LNG were to go to Mexico's Baja Peninsula and then by pipe into California, as some have suggested, Alaska still would be at a price disadvantage. LNG tanker costs are relatively insignificant compared to the 800-mile pipeline, and the pipeline disadvantage would more than offset any shipping advantage Alaska might otherwise have over LNG supplies from Indonesia, Australia or East Timor. Moreover, at this time there are no LNG receiving terminals or even plans to start construction on the Baja, where environmental concerns are apparent. If an LNG project were smaller than 4.5 bcf/day, state revenues would be reduced accordingly.

Despite the odds, many Alaskans have not given up on an LNG project. More than 60% of Alaska voters on November 5 approved a ballot measure to create the Alaska Natural Gas Development Authority to acquire and sell gas and build, own and operate a natural gas pipeline for LNG export. It is not clear that the authority reduces any of the risks that are a barrier to development and may, in fact, transfer many of those financial risks to the state. Supporters of the ballot measure say the project would cost \$12 billion for 2 bcf/day.

Finally, another option for North Slope gas commercialization is a process where gas can be converted to high-value liquids and marketed with the oil. The technology for this "gas-to-liquids" process (GTLs) is still in the pre-feasibility stage, and at this time it would be prohibitively expensive to use on the North Slope.

## Cook Inlet

Annual gas consumption and production in Cook Inlet over the past 20 years has been fairly steady at about 200 billion cubic feet (bcf). Cook Inlet currently has about 2.5 tcf of reserves, or a little over 10 years of consumption. Consumption is allocated approximately 15% to power generation, 15% to gas utilities, 40% to liquefied natural gas (LNG) exports to Japan from the Phillips' terminal at Kenai, and 30% to ammonia/urea production at Agrium's Nikiski plant.

Most Cook Inlet gas was discovered in a few very large fields in the late 1950s and 1960s. Since consumption has not changed materially over this period, the years of remaining reserves have decreased notably over the past several years. Also, there have not been large discoveries in recent years. This has caused many people to be concerned that Cook Inlet is running out of gas.

This, however, may be a premature conclusion. The large discoveries of gas years ago created a supply situation such that new supplies were not needed and any new discoveries would go unsold for years. Thus there was little incentive to look for gas. In the Lower 48, for example, annual discoveries have nearly offset annual consumption, and proven reserves have stood relatively constant at eight years. Companies do not need to invest in developing more new supplies than are needed to keep pace with consumption.

Accordingly, increased exploration is beginning to occur in Cook Inlet to find reserves to meet future demand. There is a large inventory of prospects, and it remains to be seen which ones produce how much gas.

### III. EXECUTIVE SUMMARY

#### A. Total Revenue

Table 4 summarizes the state's total revenue outlook by major revenue component (Preliminary FY 2002 and projected FY 2003-2004). Preliminary revenue amounts have not been audited.

Table 4. Total Revenue \$ Million		Preliminary FY 2002	FY 2003	FY 2004
<b>Oil Revenue</b>				
<u>Unrestricted</u>				
Property Tax		49.6	44.3	44.0
Corporate Income Tax		178.4	160.0	200.0
Production Tax		496.3	522.5	438.3
Royalties (including Bonuses & Interest)		<u>595.8</u>	<u>741.2</u>	<u>644.4</u>
<b>Subtotal</b>		<b>1,320.1</b>	<b>1,468.1</b>	<b>1,326.7</b>
<u>Restricted</u>				
Royalties to Permanent Fund & School Fund		264.2	327.2	295.6
Settlements to CBRF		90.2	30.0	20.0
NPRA Royalties, Rents & Bonuses		<u>1.7</u>	<u>34.8</u>	<u>2.9</u>
<b>Subtotal</b>		<b>356.1</b>	<b>392.1</b>	<b>318.6</b>
<b>Subtotal Oil</b>		<b>1,676.2</b>	<b>1,860.1</b>	<b>1,645.3</b>
<b>Non-Oil Revenue (Except Federal and Investment)</b>				
<u>Unrestricted</u>				
Taxes		177.6	171.4	176.8
Charges for Services		20.2	12.7	12.7
Fines and Forfeitures		10.6	10.6	10.6
Licences and Permits		42.2	32.5	33.2
Rents and Royalties		11.8	11.8	11.8
Other		<u>28.3</u>	<u>14.4</u>	<u>15.0</u>
<b>Subtotal</b>		<b>290.7</b>	<b>253.4</b>	<b>260.1</b>
<u>Restricted</u>				
Taxes		57.7	62.8	67.8
Charges for Services		232.2	306.0	308.4
Fines and Forfeitures		24.9	24.7	21.5
Licenses and Permits		25.6	25.9	26.1
Rents and Royalties		0.0	0.0	0.0
Other		<u>125.1</u>	<u>129.0</u>	<u>82.3</u>
<b>Subtotal</b>		<b>465.5</b>	<b>548.4</b>	<b>506.1</b>
<b>Subtotal Non-Oil (Except Federal and Investment)</b>		<b>756.2</b>	<b>801.8</b>	<b>766.2</b>

Table 4. Total Revenue, cont.  
\$ Million

	Preliminary FY 2002	FY 2003	FY 2004
<b>Federal Revenue</b>			
<u>Restricted</u>			
Federal Receipts	1,572.1	2,321.9	2,321.9
Subtotal Federal Revenue	1,572.1	2,321.9	2,321.9
<b>Investment Revenue</b>			
<u>Unrestricted</u>			
GeFONSI Pool Investments	35.4	25.6	11.6
Investment Loss Trust Fund	0.1	0.1	0.1
Interest Paid by Others	<u>7.6</u>	<u>5.0</u>	<u>5.0</u>
Subtotal	43.1	30.7	16.7
<u>Restricted</u>			
GeFONSI Pool Investments	10.6	7.2	3.4
Constitutional Budget Reserve Fund	122.3	83.7	48.5
Other Treasury Managed Funds	(0.8)	9.1	32.9
Alaska Permanent Fund (GASB) <sup>(1)</sup>	<u>(617.0)</u>	<u>129.0</u>	<u>1,815.8</u>
Subtotal	<u>(484.9)</u>	229.0	1,900.6
Subtotal Investment Revenue	(441.8)	259.7	1,917.3
<b>Grand Total</b>	<b>3,562.7</b>	<b>5,243.5</b>	<b>6,650.7</b>

(1) Governmental Accounting Standards Board (GASB) principles recognize changes in the value of investments as income or losses at the end of each trading day, whether or not the investment is actually sold.

Figure 6. FY 2002 Total Revenue — \$3.6 Billion

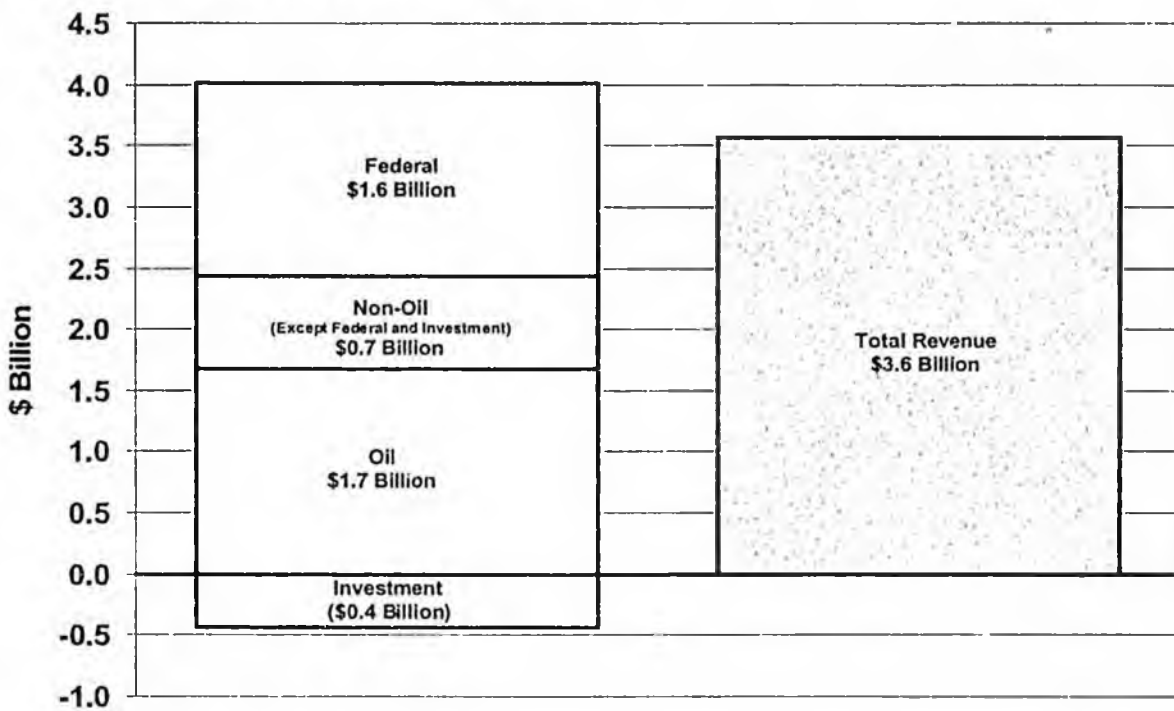
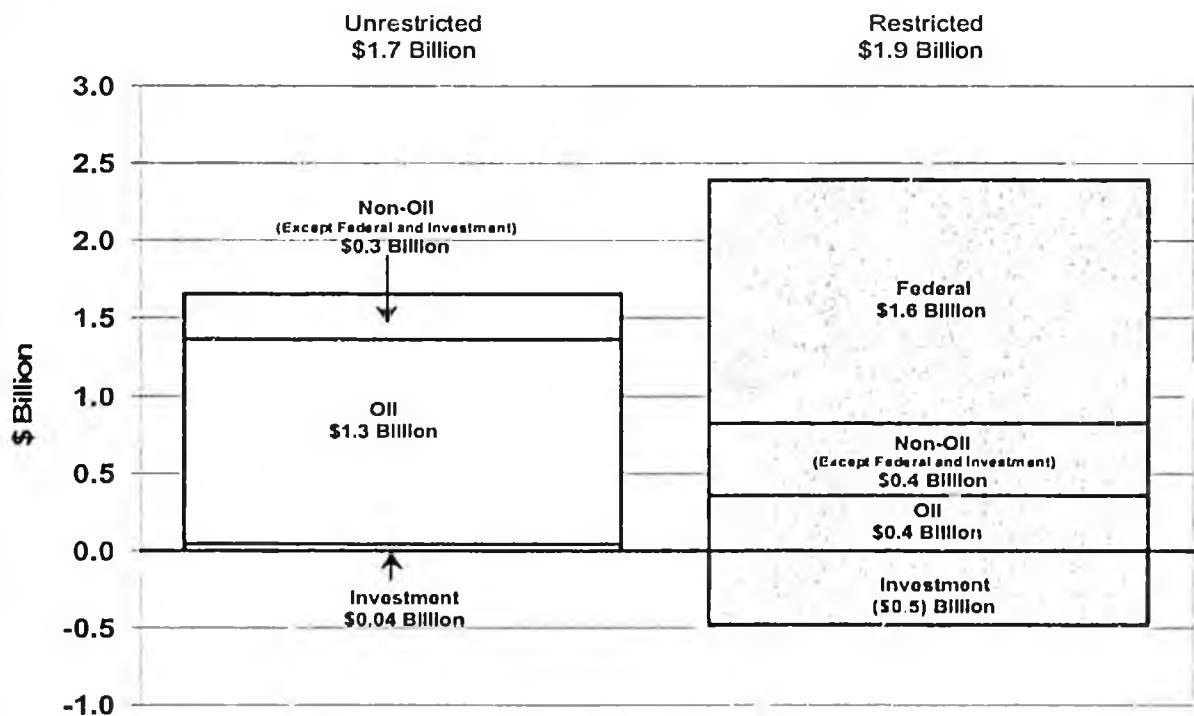


Figure 7. FY 2002 Unrestricted and Restricted Revenue



**Table 5. Total State Revenue, Preliminary FY 2002 and Projected 2003-2004 Unrestricted <sup>(1)</sup> and Restricted by Major Source  
\$ Million**

	Preliminary FY 2002	FY 2003	FY 2004
<b><u>Unrestricted</u></b>			
Oil Revenue	1,320.1	1,468.1	1,326.7
Non-Oil Revenue (Except Federal and Investment)	290.7	253.4	260.1
Investment Revenue	<u>43.1</u>	<u>30.7</u>	<u>16.7</u>
<b>Subtotal</b>	<b>1,653.9</b>	<b>1,752.2</b>	<b>1,603.5</b>
<b><u>Restricted</u></b>			
Oil Revenue	356.1	392.1	318.6
Non-Oil Revenue (Except Federal and Investment)	465.5	548.4	506.1
Federal Revenue	1,572.1	2,321.9	2,321.9
Investment Revenue	<u>(484.9)</u>	<u>229.0</u>	<u>1,900.6</u>
<b>Subtotal</b>	<b>1,908.8</b>	<b>3,491.4</b>	<b>5,047.2</b>
<b>Grand Total</b>	<b>3,562.7</b>	<b>5,243.5</b>	<b>6,650.7</b>

(1) Total unrestricted revenue as reported for AKSAS (Alaska State Accounting System) with adjustments for certain municipal sharing of statewide taxes and additional spending restrictions.

## **B. Unrestricted General Purpose Revenue**

Unrestricted General Purpose Revenue is the amount generally used for budget planning purposes. Table 6 on the next two pages sets out preliminary FY 2002 Unrestricted General Purpose Revenue and our revised forecast for FY 2003 and 2004.

We forecast Unrestricted General Purpose Revenue by first estimating General Fund Unrestricted Revenue, which includes all unrestricted revenue items in the Alaska State Accounting System (AKSAS), as well as certain program receipts. After consulting with the Governor's Office of Management and Budget and the legislature, we adjust our forecast of General Fund Unrestricted Revenue to derive a forecast of total Unrestricted General Purpose Revenue. Reductions include: (1) earmarking revenue for specific programs, (2) pass-through revenue for qualified regional aquaculture and dive fishery associations, and (3) revenue shared with local governments and organizations (e.g., fisheries taxes). Additions include transfers from the unclaimed property trust.

Table 6. Unrestricted General Purpose Revenue  
\$ Million

	Preliminary FY 2002	FY 2003	FY 2004
<b>OIL REVENUE</b>			
<u>Property Tax</u>	49.6	44.3	44.0
<u>Corporate Income Tax</u>	178.4	160.0	200.0
<u>Production Tax</u>			
Oil and Gas Production	486.7	513.1	428.7
Oil and Gas Hazardous Release	<u>9.6</u>	<u>9.4</u>	<u>9.6</u>
<b>Subtotal</b>	<b>496.3</b>	<b>522.5</b>	<b>438.3</b>
<u>Royalties</u>			
Mineral Bonuses and Rents	14.6	5.5	7.2
Oil and Gas Royalties	575.8	730.8	632.2
Interest Paid	<u>5.4</u>	<u>5.0</u>	<u>5.0</u>
<b>Subtotal</b>	<b>595.8</b>	<b>741.2</b>	<b>644.4</b>
<b>Subtotal Oil Revenue</b>	<b>1,320.1</b>	<b>1,468.1</b>	<b>1,326.7</b>
<b>NON-OIL REVENUE (EXCEPT FEDERAL AND INVESTMENT)</b>			
<u>Non-Oil Tax</u>			
<u>Sales and Use</u>			
Alcoholic Beverage	12.9	12.5	15.3
Cigarette	9.5	9.3	9.1
Other Tobacco Product	6.0	6.3	6.6
Insurance Premium	34.1	37.4	39.2
Electric and Telephone Cooperative	0.1	0.1	0.1
Motor Fuel Tax	<u>40.2</u>	<u>36.1</u>	<u>37.5</u>
<b>Subtotal</b>	<b>102.8</b>	<b>101.7</b>	<b>107.8</b>
<b>Corporate Income Tax</b>	<b>53.4</b>	<b>50.0</b>	<b>50.0</b>
<u>Fish Tax</u>			
Fisheries Business	12.7	11.1	11.1
Fishery Resource Landing	<u>2.6</u>	<u>3.5</u>	<u>3.5</u>
<b>Subtotal</b>	<b>15.3</b>	<b>14.6</b>	<b>14.6</b>
<u>Other</u>			
Mining	0.5	0.5	0.5
Estate	3.1	2.1	1.4
Charitable Gaming	<u>2.5</u>	<u>2.5</u>	<u>2.5</u>
<b>Subtotal</b>	<b>6.1</b>	<b>5.1</b>	<b>4.4</b>
<b>Subtotal</b>	<b>177.6</b>	<b>171.4</b>	<b>176.8</b>

(continued on next page)

Table 6. Unrestricted General Purpose Revenue, cont.  
\$ Million

	Preliminary FY 2002	FY 2003	FY 2004
<b>NON-OIL REVENUE (EXCEPT FEDERAL AND INVESTMENT)</b>			
<b><u>Charges for Services</u></b>			
General Government	17.0	10.0	10.0
Natural Resources	2.0	1.5	1.5
Other	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>
Subtotal	20.2	12.7	12.7
<b><u>Licenses and Permits</u></b>			
Motor Vehicle	35.7	29.8	30.5
Other	<u>6.5</u>	<u>2.7</u>	<u>2.7</u>
Subtotal	42.2	32.5	33.2
<b><u>Fines and Forfeitures</u></b>			
Other Settlements	5.0	5.0	5.0
Other Fines and Forfeitures	<u>5.6</u>	<u>5.6</u>	<u>5.6</u>
Subtotal	10.6	10.6	10.6
<b><u>Rents and Royalties</u></b>			
Land Leasing, Rental and Sales	10.8	10.8	10.8
Coal Royalties	0.6	0.6	0.6
Timber Sales	0.2	0.2	0.2
Cabin Rentals	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Subtotal	11.8	11.8	11.8
<b><u>Other</u></b>			
Miscellaneous	13.3	10.4	11.0
Unclaimed Property	<u>15.0</u>	<u>4.0</u>	<u>4.0</u>
Subtotal	28.3	14.4	15.0
Subtotal Non-Oil Revenue (Except Federal and Investment)	290.7	253.4	260.1
<b>INVESTMENT REVENUE</b>			
<u>GeFONSI Pool Investments</u>	35.4	25.6	11.6
<u>Investment Loss Trust Fund</u>	0.1	0.1	0.1
<u>Interest Paid by Others</u>	<u>7.6</u>	<u>5.0</u>	<u>5.0</u>
Subtotal Investment Revenue	43.1	30.7	16.7
<b>TOTAL UNRESTRICTED REVENUE</b>	<b>1,653.9</b>	<b>1,752.2</b>	<b>1,603.5</b>