

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1221 SCOMM 46: HOUSE SPEC. COMMITTEE ON OIL AND GAS 1985-86

2/5/86

COOK INLET GAS SUMMARY

Lease interpretation: Under the terms of its oil and gas lease contracts with the oil companies, the state is entitled to royalty payments determined by the higher of the price received by an oil company under its sales contract, or the value of the gas at the time of production. This means that the price received under a long-term gas sales contract does not control royalty valuation in those instances where inflation and market forces have caused the current value of the gas to be higher than the contract price.

DNR policy:

(1) As land manager for the citizens of the entire state, it is DNR's responsibility to obtain fair value for the state's oil and gas resources by collecting the full royalties to which the state is entitled under its oil and gas leases.

(2) DNR should not selectively abdicate its responsibility to enforce the royalty terms of the Cook Inlet gas leases just because utility companies have agreed as part of their gas purchase contracts to reimburse the oil companies for royalty collections made by the state. Any consumer subsidy should be the result of an affirmative, direct subsidy by the legislature as part of a comprehensive energy policy.

(3) DNR should not divert from uniform enforcement of the oil and gas leases, since such action could, in addition to directly reducing revenues from any leases from which royalties are not fully collected, also indirectly cause a much larger reduction in state revenues by impairing the state's ability to enforce the royalty provisions of the North Slope leases.

The potential consumer impact result from actions by Chugach, not the state. The risk that gas values might escalate to values in excess of the long-term gas sales price was a circumstance foreseen by the parties to those sales contracts. This is demonstrated by the fact that the contracts between the oil company lessees and Chugach Electric Association, Inc. (Chugach) specifically assign to Chugach the risk of any rise in royalty obligations. The state was not a party to those sales contracts. The contract price, the absence of an adequate price escalator or price reopener, and the assignment to Chugach of the risk of increased royalty obligations were all conditions established by contract between Chugach and the lessees without state participation.

Existing law provides an adequate mechanism for long-term royalty certainty: DNR is sympathetic to the desirability of long-term certainty in royalty matters. However, new statutory authorities are not necessary in order to provide such certainty. Royalty certainty can be attained by negotiation of long-term in kind gas sales contracts which parallel the contracts between the state's

lessees and their gas purchasers. This would allow an opportunity for DNR, the royalty board, and the legislature to evaluate the adequacy of the royalty over the life of the contract. This is preferable to being locked into a long-term royalty value set by prices established by lessees without any notice to or participation from the state.

Litigation: Last March DNR notified the Cook Inlet lessees of its determination to enforce the leases. The notices asserted that the most recent (December 1982) major contracts from the Kenai and Beluga River fields (the "APL II contracts") established the current value. These contracts had a base contract price of \$2.05 per mcf in 1985. The state subsequently indicated its readiness to accept a lower royalty value if presented with evidence that the current value of gas in Cook Inlet is less than the price established under the APL II contracts. Union, Marathon, ARCO, Chevron and Shell responded to the notices by suing the state.

Recent Cook Inlet Gas Sales Contracts:

Date of Contract	Purchaser	Field	Starting Base Price
1982	APL (Enstar)	Beluga	\$2.32
1982	APL (Enstar)	Kenai, Beaver Creek or McArthur River	\$2.32
1983	Chugach	Cannery Loop	\$1.80
1984	APL (Enstar)	Lewis River	\$1.80
1985	Tesoro	Kenai, Beaver Creek or McArthur River	\$2.01

Settlements achieved: In the last two months of 1985 DNR's royalty enforcement actions achieved significant success. Settlements relating to gas royalties due on production from the Kenai Field, and involving Marathon, Union, Alaska Pipeline Company (Enstar), CIRI, the U.S. Department of the Interior and the state, yielded the state about \$4 million in retroactive royalties, and will bring in excess of \$6.5 million per year more than the amounts which would have been paid under the lessees' prior reporting practices (including those increases attributable to the state's 90% interest in federal onshore royalties). Under the lessees' theory, the royalties would have been variously between \$0.21 and \$0.61 per mcf; under the settlement, the lessees will pay \$1.95 per mcf during 1986. The \$1.95 is squarely within the gas values established by recent Cook Inlet gas sales contracts, as well as the values established by Enstar's pending rates (\$2.1854 for Schedule C purchasers - "Large Commercial Service", and from \$1.6480 to \$2.0158 for sales to power plants). The settlements confirm the soundness of the royalty enforcement action taken last spring.

Remaining disputes: The major remaining dispute relates to the Beluga River field, the primary source of gas for Chugach.

Settlement negotiations during the last six months have failed to produce any resolution. Options explored have included underlifting the state's royalty share, thus delaying the royalty into the future; an in kind sale to Enstar or Chugach; and an in value settlement. The lessees (ARCO, Chevron and Shell) assert that they should not be required to contribute any monies to any settlement, since their sales contract with Chugach requires Chugach to reimburse the lessees for any additional royalty amount the state collects. Chugach, in turn, has been unwilling to agree to an acceptable value, and has indicated that it will seek legislative relief. Recently, the state made a formal offer to its lessees to settle the dispute for \$1.50 per mcf. This offer was rejected, but settlement efforts and discussions continue.

Consumer impact. Chugach estimates that a royalty rate of \$2.05 per mcf on state leases would increase retail consumer rates only about 2.32%, assuming the lessees were successful in asserting that their contracts with Chugach permitted them to pass the royalty burden on to Chugach, and further assuming that the APUC permitted Chugach to pass the burden on to its consumers. DNR estimates that a \$2.05 royalty would increase state revenues by about \$2.8 million per year. Under the \$1.50 per mcf settlement offer, the increased royalty income would fall to about \$2 million per year, and the magnitude of retail consumer impact would be correspondingly reduced to less than 2%. (A two per cent increase on a monthly bill of \$30 would be only \$0.60).

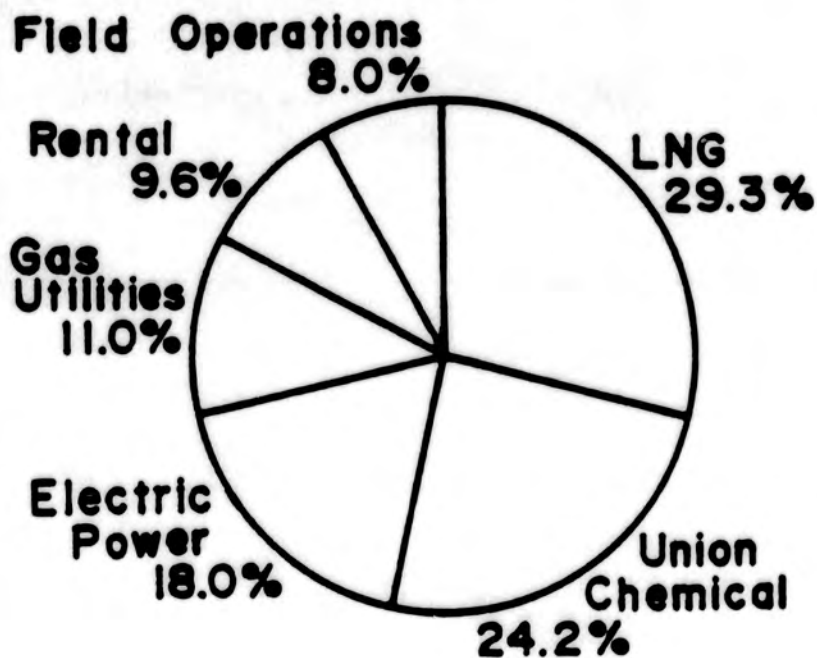
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COOK INLET GAS ROYALTY SETTLEMENTS
(State leases and State share of federal royalties)

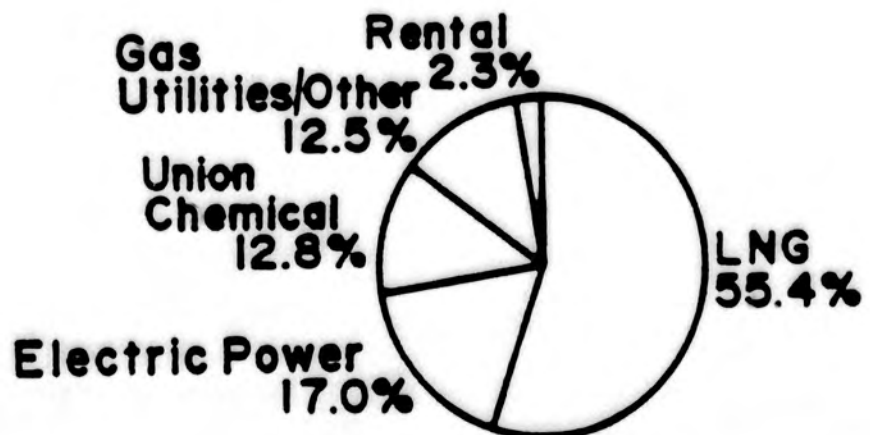
Lessee	Scope of Settlement	Retro- active Payment (millions)	Current Monthly Value Under Settlement (per Mcf)	Estimated Additional Royalties per year (millions)
Phillips	North Cook Inlet Field gas sold as LNG in Japan	\$36.3	\$2.32	\$12.00
Marathon	Kenai field gas sold as LNG in Japan	\$ 4.3	\$2.32	\$ 0.75
Union and Marathon	All of Union's Kenai field gas disposition (including the following: urea/ammonia plant, rental gas, Enstar), plus Marathon's dispositions to Enstar under Enstar's 1975 contract	\$ 4.1	\$1.95	6.90
Total		<u>\$44.7</u>		<u>\$19.65</u>

COOK INLET

Total Sales

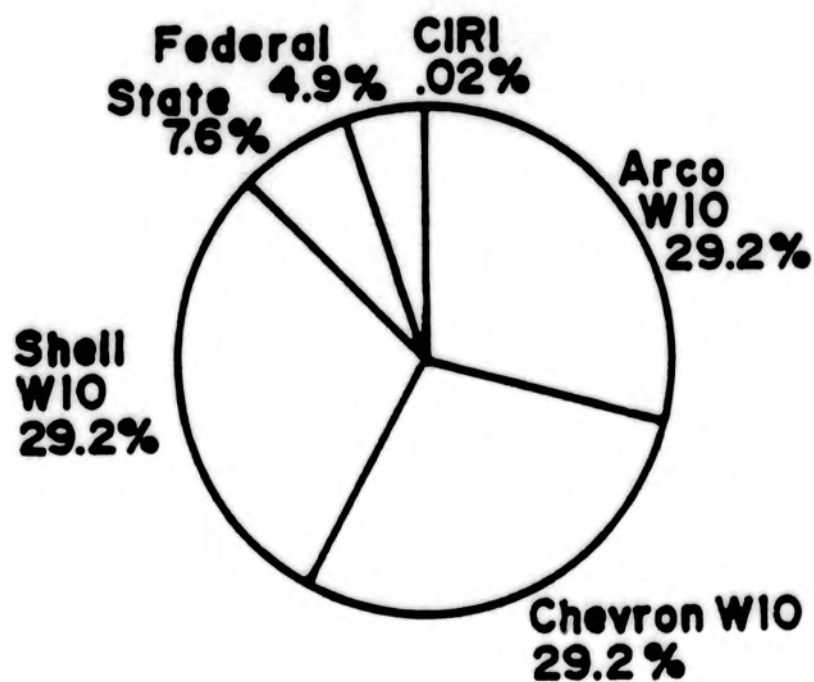


State Royalty Disposition

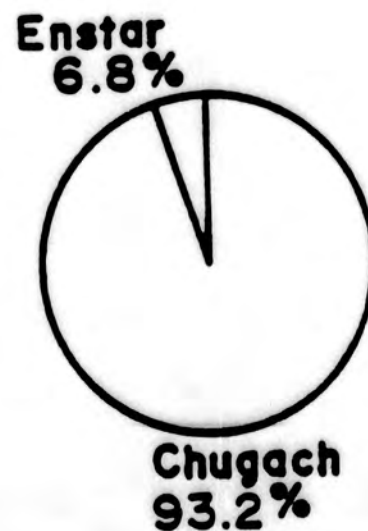


BELUGA FIELD

Royalty And Working Interest Ownership

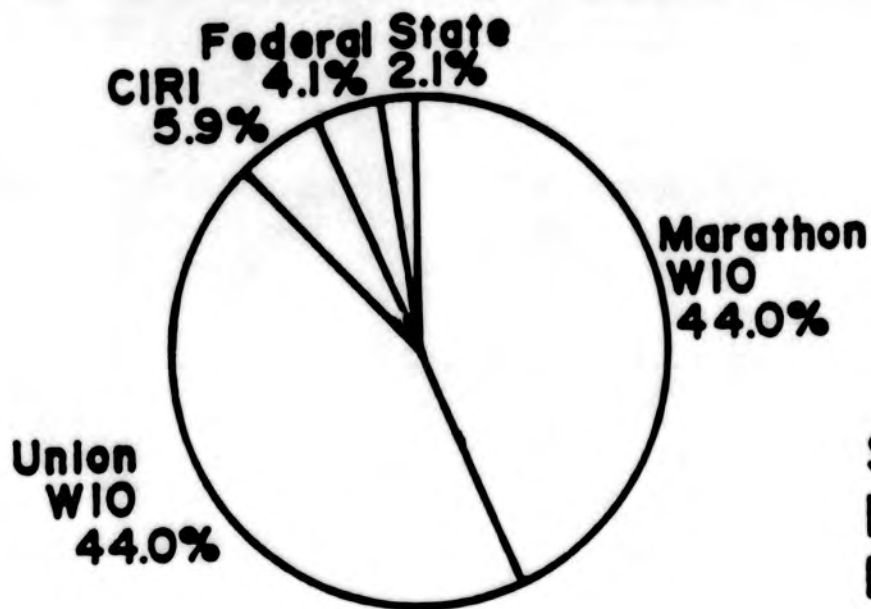


State Royalty Disposition

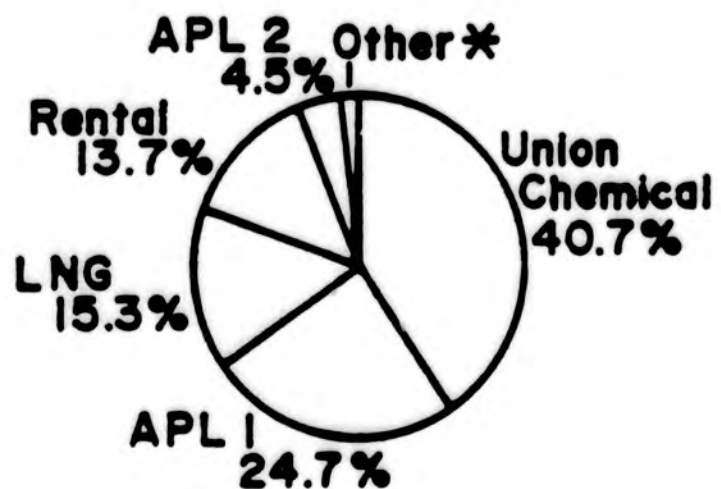


KENAI FIELD

Royalty And Working Interest Ownership



State Royalty Disposition



* APL-Nikiski 0.4%
 Union-Chevron Exchange 0.2%
 City Of Kenal 0.5%

COOK INLET GAS PRODUCTION
(For 1984)

	Total MMCF/Month	State Royalty MMCF/Month
Beluga River Field		
For: Chugach	1673	125
Enstar	<u>121</u>	<u>9</u>
Total	1794	134
Kenai Field		
For: APL 1	2029	42
APL 2	369	8
APL Nikiski	31	1
APL Kenai	41	1
Union Chevron Ex	16	1
Rental gas	741	15
Rental gas extra	389	8
Ammonia-Urea	3352	67
LNG	<u>1261</u>	<u>25</u>
Total	8229	168
McArthur River Field		
For: Rental gas and ammonia-urea	355	44
Beaver Creek Field		
For: APL 2	789	0
Lewis River Field		
For: APL 2	153	19
North Cook Inlet Field		
For: LNG	<u>3932</u>	<u>491</u>
GRAND TOTAL	15,250	856

Excerpts from Lease Form DL-1
Pertaining to the Pricing of Royalty Products

11. ROYALTY ON PRODUCTION. Except for oil and gas used on said land for development and production or unavoidably lost, Lessee shall pay Lessor as royalty the following:

(a) On oil 12-1/2 percent in amount or value of the oil produced and saved and removed or sold from said land.

(b) On gas 12-1/2 percent in amount or value of the gas produced and saved and sold or used off said land or used for the extraction of natural gasoline or other products therefrom.

(c) On associated substances 12-1/2 percent in amount or value of such substances produced and saved and removed or sold from said lands.

15. ROYALTY IN VALUE. At the option of Lessor, which may be exercised from time to time upon not less than six months' notice to Lessee, and in lieu of royalty in kind, Lessee shall pay to Lessor the field market price or value at the well of all royalty oil and/or gas. All royalty that may become payable in money to Lessor shall be paid on or before the last day of the calendar month following the month in which the oil or gas is produced. The payments shall be accompanied by copies of run tickets or other satisfactory evidence of sales, shipments, and amounts or gross production.

16. PRICE. The field market price or value of royalty oil or gas shall not be less than the highest of: (1) The price actually paid or agreed to be paid to Lessee at the well by the purchaser thereof, if any; or (2) The posted price of Lessee in the field for such oil or gas at the well, if any; or, (3) The prevailing price received by other producers in the field at the well for oil of like grade and gravity or gas of like kind and quality at the time such oil or gas is removed from said land or run into storage, or such gas is delivered to an extraction plant.

RECENT CONTRACTS AND PURCHASE AGREEMENTS

	<u>Purchaser</u>	<u>Field or Seller</u>	<u>Starting Base Price</u>
1977	Pac Alaska	Cook Inlet	\$1.46 per mcf
1982	Enstar	Beluga River	\$2.32
1982	Enstar	Beaver Creek Field	\$2.32
1982-83	Chugach	Beluga River	\$1.40-1.60
	(Peaking Gas)		
1983	Chugach	Cannery Loop	\$1.80
1984	Enstar	Lewis River	\$1.80
1985	Tesoro	Marathon	\$2.01
1985	AEG&T	Enstar	\$2.04
	(Homer Electric)		
1985	ML&P	Enstar	\$1.60
	(Anchorage)		

**ALLOCATION OF GAS SOLD FOR CONSUMER USE
(Assuming the State Prevails in the Pricing Dispute)**

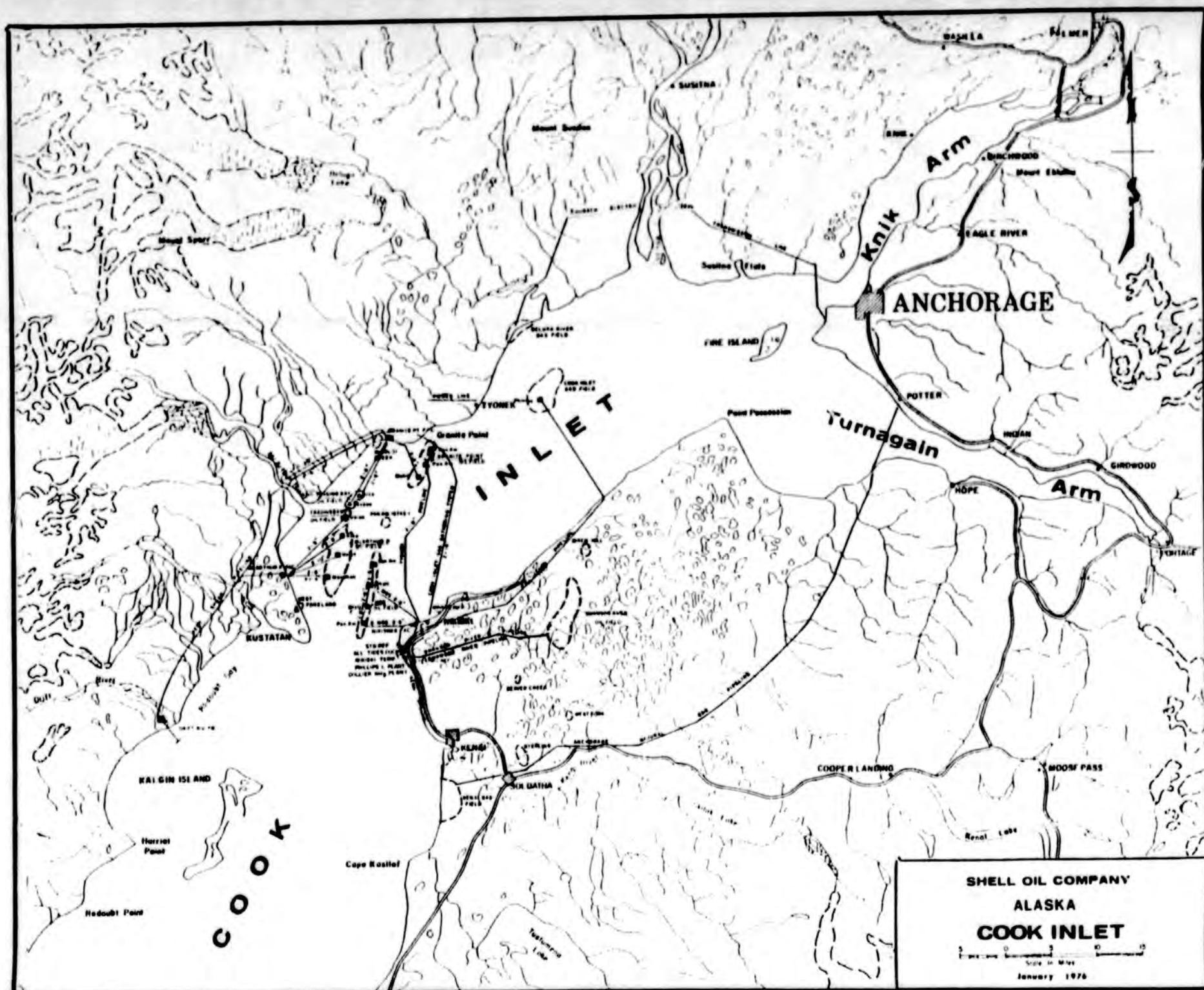
	<u>TOTAL MMCF/MONTH</u>	<u>STATE ROYALTY SHARE MMCF/MONTH</u>
Beluga River Field		
Chugach - low priced	1548	0
- high priced	125	125
Enstar - high priced	121	9
Kenai Field		
Enstar (APL 1) - low priced	1776	0
- high priced	254	42
Enstar (APL 2) - high priced	368	8
Enstar (Nikiski) - low priced	32	1
Enstar (City of Kenai) - low priced	41	1
Beaver Creek Field		
Enstar - high priced	789	0
Lewis River Field		
Enstar - high priced	153	19
 Subtotal - low priced	 3397	 2
Subtotal - high priced	1810	203
GRAND TOTAL - all prices	5207	205

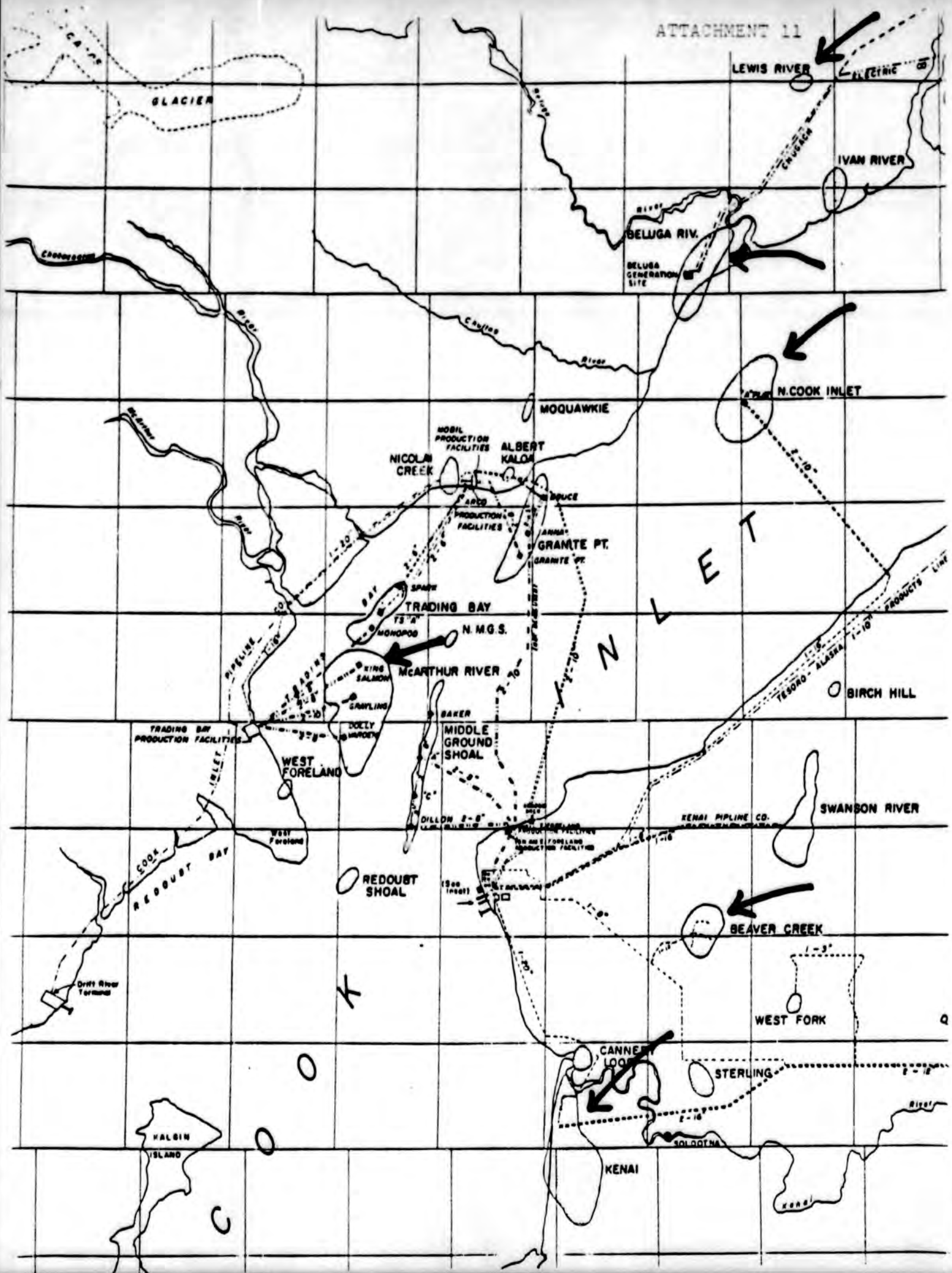
2/5/86

COOK INLET GAS ROYALTY CHRONOLOGY

<u>Month</u>	<u>Year</u>	<u>Description of Event</u>
March	1964	<u>Foster v. Atlantic Refining Company</u> , 329 F.2d 485 (5th Cir. 1964) holds that long-term contract price does not control royalty valuation when market value rises, even if this is burdensome on the lessee.
May	1965	Chugach Electric Association, Inc. enters into 20 year contracts with ARCO, Chevron and Shell for Beluga River gas, with an initial price of 15.2 cents per mcf, subject to a volume limit.
January	1973	Chugach renegotiates its 1965 contracts, extending the term to 1998 (unless the new, higher volume limit is reached earlier). The 1986 base price under those contracts is about 21 cents per mcf.
November	1982	Chugach obtains supplemental gas deliveries under the 1973 contract at a base price of \$1.48 per Mmbtu (approximately equivalent to \$1.48 per mcf).
December	1982	Alaska Pipeline Company (Enstar) signs contracts for gas deliveries from Beluga River (with Shell) and Kenai (with Marathon) at a price of \$2.32 per mcf, with annual adjustments based upon fuel price fluctuations (the "APL-II" contracts). This is the first totally new contract for Beluga River gas subsequent to the 1973 Chugach contract under which there were any deliveries.
March	1984	<u>Piney Woods County Life School v. Shell Oil Company</u> , 726 F.2d 225 (5th Cir. 1984), reh. den. 750 F.2d 69, cert. den. 105 S.Ct. 1868 (1985) reaffirms the soundness and continued validity of the rule in <u>Foster</u> , above.
May	1984	The state and Phillips settle their dispute concerning the valuation of Cook Inlet gas from state leases which is sold as LNG in Japan, using a formula which initially yields a royalty of \$2.40 per mcf.
May	1984	The federal government informs Union that virtually all gas royalties from the Kenai field, including gas sold under below-current-market, long-term contracts with Enstar, must be valued in accordance with the price under the APL-II contracts.
November	1984	DNR determines, in consultation with the Department of Law, to enforce the Cook Inlet lease terms requiring payment of gas royalty on the basis of current value.

February	1985	U.S. District Judge Fitzgerald rules that Marathon must pay royalties on Kenai Field gas sold as LNG in Japan based upon the Japan sales price, less costs of transportation. Marathon calculates the netback value under the order to be about \$3.00 per mcf, while the federal government calculates the value to be about \$3.60 per mcf. The accounting remains in dispute in District Court, while the District Court's February 1985 decision is under appeal to the Ninth Circuit.
March	1985	By written notice, DNR informs its Cook Inlet lessees of its determination to enforce the royalty requirements of the leases.
May/June	1985	All Cook Inlet gas producers file separate lawsuits seeking judicial declaration of their royalty obligations under the leases.
July	1985	The state and Marathon settle their dispute concerning the royalty value of Kenai Field gas sold as LNG in Japan in accordance with the terms of the May 1984 Phillips settlement.
November	1985	The state, federal government and CIRI (all royalty owners in the Kenai field) settle most royalty issues for production from the Kenai field. Most significantly, royalty on gas used in Union's urea and ammonia plant and used to promote greater oil production from the Swanson River oil field, is set at \$1.85 per mcf for 1985 and \$1.95 per mcf for 1986, with annual adjustments thereafter based upon fluctuations in fuel oil prices.
November	1985	The Secretary of the Interior issues a definitive order holding that Cook Inlet gas sold by Union and Marathon to Enstar must be valued for royalty purposes according to current market values.
December	1985	The state, federal government and CIRI enter into a settlement agreement on the value of the royalty on Kenai gas sold to Enstar under long-term contracts. Under this settlement, the royalty owners receive \$1.85 per mcf for the part of 1985 at issue, and will receive \$1.95 per mcf for 1986 production, with annual adjustment thereafter based upon fluctuations in the oil prices.
January	1986	The state offers to the producers to settle the dispute concerning the royalty value of gas sold to Chugach. This \$1.50 per mcf offer is rejected by the producers, but settlement discussions continue.







RECORDS CERTIFICATION



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Signature of Camera Operator


Date

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Department of Commerce and Economic Development Position Paper on HB 445, entitled "An Act relating to information on royalty oil and gas."

The Department of Commerce and Economic Development (DCED) does not oppose this bill but raises some questions on the appropriateness of the task's placement under its purview.

The department currently does not engage in an activity related to the oil and refining industries similar in nature to the one proposed by HB 445. Hence, an appropriate amount of start-up costs will have to be incurred to get the system going. Meanwhile, the Department of Natural Resources (DNR) already collects the information on the sale volume and prices of royalty oil and gas.

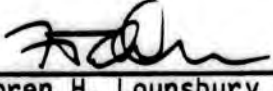
In addition, DNR is required to perform projections of future oil and gas consumption in the State. Such projections could be made more reliably by demand and supply market analysis of refined products. Retail prices collected as a requirement of HB 445 would be an inseparable part of demand projections of refined products.

However, a certain amount of duplication of effort may be acceptable in exchange for other benefits derived by holding DCED responsible with the execution of the Act's requirements. The following suggestions for the program are made with this in mind.

The Department suggests that the ammendment to AS 38.05.183, Section 1, paragraph j, be extended to require reporting of refinery product prices, not just volumes. As it stands, item 2 of that paragraph is ambiguous.

Because there are few crude oil and gas producers and few refiners in the state, information collected from these sources should become a routine after the first year. A more difficult task would be tracking the wholesalers' and retailers' prices on a regional basis. The distribution component of products rapidly multiplies the number of contacts to be made in order to collect the required information. Consequently, a surveying approach is proposed for this component of the program. Surveys will be conducted only quarterly and some regions will be consolidated to keep costs down. If the number of wholesalers and retailers are large, a statistical sample will be used, again for cost containment reasons.

A major concern of the Act would be to conduct analyses based on the information collected, in order to answer policy questions. These questions may involve supply of cheap oil and gas to refiners to keep final product prices low, determination of the reasons for regional higher product prices or the maximization of state revenues received from royalty oil and gas. For this reason, we request an Economist II position, who will respond to analysis requests from the Legislature.


 Loren H. Lounsbury
 Commissioner
 2/12/86
 Date

STATE OF ALASKA 1986 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : CS HB 445
 Title : An Act relating to information
on royalty oil and gas.
 Sponsor : Marco A. Pignalberi
 Requestor : _____
 Date of Request : _____

FISCAL DETAIL

Agency Affected : Commerce & Econ. Dev.
 BRU : Economic Development Advocates
 Components : Research Analysis and
Support

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES	-0-	98.2	101.1	104.1	107.2	110.4
TRAVEL	-0-	6.3	3.2	3.3	3.4	3.5
CONTRACTUAL	-0-	39.4	38.4	39.6	40.8	42.0
SUPPLIES	-0-	3.1	2.0	2.1	2.2	2.3
EQUIPMENT	-0-	9.3	1.0	1.0	1.1	1.1
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	156.3	145.7	150.1	154.7	159.3

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

REVENUE						
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FUNDING : (Thousands of Dollars)

GENERAL FUND	-0-	156.3	145.7	150.1	154.7	159.3
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	156.3	145.7	150.1	154.7	159.3

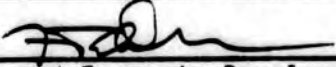
POSITIONS :

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

ANALYSIS : Attach a separate page if necessary

Note: A 37% inflation rate is used from FY 88 through FY 91.

Prepared by : Orhan Yildiz Phone : 465-2017
 Division : Research Analysis and Support Date : 2/12/86

Approved by Commissioner :  Date : 2/12/86
 Agency : Commerce and Economic Development

Distribution (by Agency preparing fiscal note) :

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

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CS HB 445

Assumptions: This fiscal note is prepared with the assumption that the mandates of the proposed HB445 will be an addition to the existing tasks of the Economic Analysis Section, which is part of the Economic Development Advocates BRU. In preparing an estimate of personal services the FY 86 salary schedule and the FY 87 benefit schedule (Appendix C of FY87 budget instructions) were used.

Additionally, it is assumed that the royalty oil and gas related volume and price statistics will be obtained directly from the Department of Natural Resources, which currently compiles this information. Hence, the estimates of personal services and travel expenditures reflect this assumption.

Part of the data will be collected through reports of refiners. It is assumed that refiners will be required to report not only the volume and price of royalty oil purchased, but also the prices and volume of the slate they produce. The wholesale and retail prices for refined products will require periodic regional surveys. Here we propose a quarterly survey to be done by a subcontractor.

Program Summary: Collect and compile information on the price and volume of royalty oil and gas, and refinery products from the royalty fuels. Produce a monthly report of average regional production and prices. Prepare an annual summary report, with a brief description of the regional market conditions for various refined products and the impact of possible alternatives in allocating the royalty fuels among in-state refiners.

1. Positions: Two new positions, an Economist II and a Research Analyst II, will be added to the existing staff of the Economic Analysis Section. They will be supervised by an existing Economist III to assure timely production of reports and analysis. See the attached position descriptions.
2. Other Expenditures: A survey of wholesale and retail prices will be subcontracted. There will also be travel expenditures to initially establish the reporting format and requirements of the refiners and subsequently to perform occasional audits to establish reliability of information. Equipment purchases (personal computers) will be made to facilitate compilation and analysis of data. Other contractual expenditures will be mostly the cost of preparing monthly reports. The cost breakdown of expenditures, other than personal services, is given on the following page.

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CS HB 445

Travel:

5 trips to refineries (@ \$352 each)	\$1,760
5 trips to oil and gas producers (@ \$422)	2,110
Per diem expenditures (30 days)	2,400
TOTAL	\$6,270

Contractual:

Survey of wholesalers and retailers	\$28,000
Publications (printing)	7,000
Mailing	1,000
Telephone Communications	2,400
Computer Softwares	1,000
Maintenance	800
TOTAL	\$40,200

Supplies:

Stationary & copier supplies	\$ 400
Forms	400
Desk Supplies	800
Data Processing supplies	1,500
TOTAL	\$3,100

Equipment:

Chairs and bookcases	\$ 600
Electronic calculators	300
Two wang workstations (@ 3.5 each)	7,000
Wang installation	600
TOTAL	\$8,500

Position Title Research Analyst II			No. of Positions 1	Range/Step 16	Barg. Unit 6	Gov. Leg.	Approval	Disapp.
Time Status FTP	Staff Months 12	RP Number	Location Juneau		Election District			
Type of Expenditure			Justification					
		Amount	Research Analyst II will contact the Department of Natural Resources, crude oil and gas producers, refiners and the subcontractor to receive volume and price data on products in a timely manner. He will enter this information on the computer and perform necessary computations to produce the monthly report. RA II will train the suppliers of information on how to fill forms and check the consistency of provided data.					
1	2	3						
Salary	32.4							
Benefits	10.3							
Premium Pay								
Other								
Total Personal Services		42.7						
Travel		3.2						
Contractual		19.7						
Commodities		1.6						
Equipment		4.7						
Other								
Total Cost		29.2						
Receipt Code	Funding Source							
	Federal Receipts 1002							
	G. F. Match 1003							
	General Funds 1004		71.9					
	I-A Receipts 1005							
	Program Receipts 1028							
	CIP Receipts 1061							
	Other							
For B&M Use Only Key Number _____								

**Request For
New Position**

Agency Commerce & Economic Development
BRU Economic Development Advocates
Component Research, Analysis & Support

FY 87

Page _____ of _____
Revised Date _____

Position Title Economist II			No. of Positions 1	Range/Step 20A	Barg. Unit G	Gov.	Approv.	Disapp.																									
Time Status FTP	Staff Months 12	RP Number	Location Juneau		Election District	Leg.																											
<table border="1"> <thead> <tr> <th>Type of Expenditure</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>2</td> </tr> <tr> <td>Salary</td> <td>42.8</td> </tr> <tr> <td>Benefits</td> <td>12.7</td> </tr> <tr> <td>Premium Pay</td> <td></td> </tr> <tr> <td>Other</td> <td></td> </tr> <tr> <td>Total Personal Services</td> <td>55.5</td> </tr> <tr> <td>Travel</td> <td>3.1</td> </tr> <tr> <td>Contractual</td> <td>15.7</td> </tr> <tr> <td>Commodities</td> <td>1.5</td> </tr> <tr> <td>Equipment</td> <td>4.7</td> </tr> <tr> <td>Other</td> <td></td> </tr> <tr> <td>Total Cost</td> <td>29.0</td> </tr> </tbody> </table>			Type of Expenditure	Amount	1	2	Salary	42.8	Benefits	12.7	Premium Pay		Other		Total Personal Services	55.5	Travel	3.1	Contractual	15.7	Commodities	1.5	Equipment	4.7	Other		Total Cost	29.0	Justification The Economist II in FY 87 will draft a reporting form for the refiners and a survey questionnaire for refined product retailers and wholesalers; write a request for proposal to subcontract four quarterly surveys of retail and wholesale prices of refined products; design the data compilation and analysis of collected information; and write up the monthly and annual summary reports. The Economist II will supervise the Research Analyst II, who will be responsible for day-to-day contact with sources and collection of information.				
Type of Expenditure	Amount																																
1	2																																
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Contractual	15.7																																
Commodities	1.5																																
Equipment	4.7																																
Other																																	
Total Cost	29.0																																
<table border="1"> <thead> <tr> <th>Receipt Code</th> <th>Funding Source</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td></td> <td>Federal Receipts 1002</td> <td></td> </tr> <tr> <td></td> <td>G. F. Match 1003</td> <td></td> </tr> <tr> <td></td> <td>General Funds 1004</td> <td>84.5</td> </tr> <tr> <td></td> <td>I-A Receipts 1005</td> <td></td> </tr> <tr> <td></td> <td>Program Receipts 1028</td> <td></td> </tr> <tr> <td></td> <td>CIP Receipts 1061</td> <td></td> </tr> <tr> <td></td> <td>Other</td> <td></td> </tr> </tbody> </table>			Receipt Code	Funding Source	Amount		Federal Receipts 1002			G. F. Match 1003			General Funds 1004	84.5		I-A Receipts 1005			Program Receipts 1028			CIP Receipts 1061			Other								
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For B&M Use Only Key Number _____																																	

**Request For
New Position**

Agency Commerce & Economic Development
BRU Economic Development Advocates
Component Research, Analysis & Support

FY 87

Page _____ of _____
Revised Date _____

Bannister
2/20/86/

Original sponsor: Pignalberi

1 IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON OIL AND GAS

2 CS FOR HOUSE BILL NO. 445 (Oil & Gas)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to information on royalty oil and
7 gas."

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

9 * Section 1. AS 38.05.183 is amended by adding new subsections to read:

10 (h) The department shall collect and compile information neces-
11 sary to determine on a monthly basis a representative

12 (1) price paid for state royalty oil and gas by in-state
13 refiners;

14 (2) refinery gate sales price of in-state refined fuel
15 products;

16 (3) wholesale or market exchange sales price of in-state
17 refined fuel products; and

18 (4) retail price of in-state refined fuel products.

19 (i) The commissioner may not enter into a noncompetitively-bid
20 contract of more than one year for the sale of state royalty oil or
21 gas to an in-state refiner unless the refiner agrees to provide infor-
22 mation to, and assist or allow the collection of information by, the
23 department on a monthly basis to determine the representative monthly
24 wholesale price, market exchange sales price, and refinery gate sales
25 price of the in-state refined fuel products of the refiner.

26 (j) A person who contracts to purchase royalty oil from the
27 state under this section under a noncompetitively-bid contract of more
28 than one year for in-state use shall provide to the commissioner,
29 during the period that the purchaser takes, refines, transports, or

1 otherwise deals with the purchased royalty oil, a report for the
2 preceding month that indicates for the purchased royalty oil

3 (1) the volume of oil taken;

4 (2) the products, including residual oil, produced from the
5 oil;

6 (3) the volume of oil sold in the state; and

7 (4) the volume of oil exported from the state.

8 * Sec. 2. AS 38.05.965 is amended by adding a new paragraph to read:

9 (24) "fuel products" means all oil and gas refined products
10 produced at an in-state refinery from state royalty oil and gas.

11 * Sec. 3. AS 38.05.183(j) enacted by sec. 1 of this Act applies to
12 noncompetitively-bid contracts of more than one year for the purchase of
13 royalty oil for in-state use from the state that are entered into on or
14 after the effective date of this Act.
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STATE OF ALASKA 1986 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date : 2/19/86

REQUEST

Bill/Resolution No. : CSHB 445
 Title : An Act Requiring Refiners
TO Submit...
 Sponsor : Signalberi
 Requestor : Signalberi
 Date of Request : 2/17/86

FISCAL DETAIL

Agency Affected : Natural Resources
 BRU : Oil & Gas
 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES	3900	3900	3900	3900	3900	3900
TRAVEL	500	500	500	500	500	500
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	4400	4400	4400	4400	4400	4400

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

REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND	4400	4400	4400	4400	4400	4400
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME	1/12	1/12	1/12	1/12	1/12	1/12
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Ned Farquhar Phone : 465-2400
 Division : Commissioner's Office Date : 465-2400

Approved by Commissioner : *Esther C. Wimmer* Date : 2-19-86
 Agency : Department of Natural Resources

Distribution (by Agency preparing fiscal note) :

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

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : CSHB 445
 Title : An Act relating to information
on royalty oil and gas.
 Sponsor : Marco A. Pignalberi
 Requestor : _____
 Date of Request : _____

FISCAL DETAIL

Agency Affected : Commerce & Economic Development
 BRU : Economic Development Advocates
 Components : Research and Support

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	-0-	55.0	58.0	60.6	63.0	65.5
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	55.0	58.0	60.6	63.0	65.5

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

REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

DCED plans to subcontract the task in the form of a telephone survey and report the results of this survey on a monthly basis. It is assumed that transactions of royalty oil and refined products, as well as transaction prices, will be reported to DCED by oil producers and refiners.

Prepared by : Orhan Yildiz, Chief Economist
 Division : Research and Support

Phone : 465-2079
 Date : February 13, 1986

Approved by Commissioner : [Signature]
 Agency : Commerce & Economic Development

Date : 2/13/86

Distribution (by Agency preparing fiscal note) :

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

Original sponsor: Pignalberi

1 IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON OIL AND GAS

2 CS FOR HOUSE BILL NO. 445 (Oil & Gas)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to information on royalty oil and
7 gas."

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

9 * Section 1. AS 38.05.183 is amended by adding new subsections to read:

10 (h) The department shall collect and compile information neces-
11 sary to determine on a monthly basis a representative monthly

12 (1) price paid for state royalty oil and gas by in-state
13 refiners;

14 (2) retail price of in-state refined fuel products;

15 (3) refinery gate sales price of in-state refined fuel
16 products; and

17 (4) wholesale or market exchange sales price of in-state
18 refined fuel products.

19 (i) The commissioner may not enter into a contract for the sale
20 of state royalty oil or gas to an in-state refiner unless the refiner
21 agrees to provide information to, and assist or allow the collection
22 of information by, the department on a monthly basis to determine the
23 representative monthly wholesale price, market exchange sales price,
24 and refinery gate sales price of its in-state refined fuel products.

25 (j) A person who contracts to purchase royalty oil from the
26 state under this section shall provide to the commissioner, during the
27 period that the purchaser takes, refines, transports, or otherwise
28 deals with the purchased royalty oil, a report for the preceding month
29 that indicates for the purchased royalty oil

- 1 (1) the volume of oil taken;
2 (2) the products, including residual oil, produced from the
3 oil;
4 (3) the volume of oil sold in the state; and
5 (4) the volume of oil exported from the state.

6 * Sec. 2. AS 38.05.965 is amended by adding a new paragraph to read:

7 (24) "fuel products" means all oil and gas refined products
8 produced at an in-state refinery from state royalty oil and gas.

9 * Sec. 3. AS 38.05.183(j) enacted by sec. 1 of this Act applies to
10 contracts for the purchase of royalty oil from the state that are entered
11 into on or after the effective date of this Act.
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Bannister
1/30/86

Original sponsor: Pignalberi

IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON OIL AND GAS

CS FOR HOUSE BILL NO. 445 (Oil & Gas)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to information on royalty oil and gas."

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

* Section 1. AS 38.05.183 is amended by adding new subsections to read:

(h) The Department of Commerce and Economic Development shall collect and compile information necessary to determine on a monthly

basis the ^{representative} monthly

(1) price paid for state royalty oil and gas by in-state refiners;

(2) retail price of in-state refined fuel products;

(3) refinery gate sales price of in-state refined fuel products; and

(4) wholesale or market exchange sales price of in-state refined fuel products.

(i) The commissioner may not enter into a contract for the sale of state royalty oil or gas to an in-state refiner unless the refiner agrees to provide information to, and assist or allow the collection of information by, the Department of Commerce and Economic Development on a monthly basis to determine the average monthly wholesale price, market exchange sales price, and refinery gate sales price of its in-state refined fuel products.

after the effective date of
this act

(j) A person who ^{contracts to} purchase royalty oil from the state under this section shall provide to the commissioner, during the period that the

1 purchased royalty oil, a report for the preceding month that indicates
2 for the purchased royalty oil

3 (1) the volume of oil taken;

4 (2) the products, including residual oil, produced from the
5 oil;

6 (3) the volume of oil sold in the state; and

7 (4) the volume of oil exported from the state.

8 * Sec. 2. AS 38.05.965 is amended by adding a new paragraph to read:

9 (24) "fuel products" means all oil and gas refined products
10 produced at an in-state refinery from state royalty oil and gas.

11 * Sec. 3. AS 44.33.020 is amended by adding a new paragraph to read:

12 (28) collect and compile information necessary to determine
13 on a monthly basis the ^{representative} monthly prices of

14 (A) royalty oil and gas purchased from the state; and

15 (B) fuel products sold by in-state refiners and made
16 from royalty oil or gas purchased from the state.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-485-2400

February 7, 1986

The Honorable Marco Pignalberi
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Pignalberi:

* As you requested, the Department has examined House Bill 445, which is entitled "An Act relating to information on royalty oil and gas." The bill calls for the submission and gathering of a variety of data to enable precise estimates of the consumer benefits attributable to in-state royalty oil contracts. The availability of such data would enhance considerably the department's ability to address this very complex and recurring question.

The department annually gathers the data mentioned in this bill that pertain to the regional and intrastate movement of refined products. That task represents a large share of the staff time embodied in the Historical and Projected Oil and Gas Consumption report. As was mentioned in my letter to you of February 4, 1986, some reporting requirements are also contained in the royalty contracts held by Tesoro and Chevron. A similar clause appears in the Petro Star/Chevron royalty contract presently before the Legislature.

With some exceptions, the new data sought under House Bill 445 relates to wholesale and retail product prices. The implementation of the reporting and data gathering system for those prices is the department's main area of concern with this bill. The foremost difficulty with obtaining such data stems from the language of the royalty oil contracts presently in force or before the Legislature. MAPCO, Tesoro, and Chevron, which together nearly constitute the State's refining industry, did not negotiate their long-term royalty oil contracts with price reporting provisions. Such a provision would doubtless be regarded as a material item by those refiners.

The absence of direct wholesale information from those refiners severely undermines the ability of this or any other department to gather such data. Of the first set of four data items listed in this legislation, the refinery

February 7, 1986

gate sales price (3) and the wholesale and market exchange sales price (4) would be affected by this limitation. As presently written, a number of areas would also be left to the interpretation of the agency charged with this task. For example, the distinction between refinery gate, wholesale, and market exchange prices is not clear.

The interpretation of the term "regional" as it corresponds to "average" may also prove troublesome. For instance, the second data item shown in the bill refers to the retail price of refined products. While such prices would be relatively easy to gather, they vary substantially within the State according to region. Further, considerable price variation can be expected within any region selected since transportation costs, even over small distances, account for much of that variation. A hypothetical region such as Western Alaska, where retail prices in Dutch Harbor are markedly less than those of Bethel, is a case in point. The retail price differentials between Fairbanks and remote locations in the Interior region provide a further example. Since there are nearly as many "retail price regions" as there are remote settlements in Alaska, the attempt to produce average retail prices on a regional basis, if this is intended, would not yield meaningful figures.

The apparent utility of the data requested is to learn the price effects of state royalty oil contracts. However, the task of relating retail prices to refinery gate prices, even when available, is much complicated by the interim activities of transportation and distribution. In that process, the ownership of refined products may change several times before reaching the final consumer. These factors are a prime obstacle to a satisfactory measurement of the price effects of royalty oil contracts to in-state refiners. The measurement of those price effects must entail a comparison to some base case. That base case would be the price of Alaska refined products in the absence of state royalty oil contracts. This in turn depends on the actual cost of refining, including the amortization of refinery capital stock at present value. Such sensitive cost data would not likely be made available to the State. Generally, the price advantages traceable to a royalty oil contract could not exceed the difference between the cost of royalty oil and the cost of alternative feedstocks, plus what value the purchasers may place on the advantages of a long-term contract.

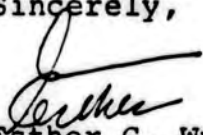
The cost to the department of implementing this bill is very dependent on which agency is given the task of compiling the information, the bill's interpretation, and the degree of cooperation from in-state refiners. As now written, the

February 7, 1986

* fiscal impact in DNR is negligible since the Department of Commerce and Economic Development is responsible for compiling the information. If it is decided to give DNR this responsibility and under the most demanding interpretation with no cooperation from in-state refiners beyond their present contractual obligations, the department conservatively estimates that the equivalent of one staff member would be permanently assigned to this task. This preliminary estimate is based on a discussion with staff from the University's Institute of Social and Economic Research and the department's previous experience with the annual Historical and Projected Oil and Gas Consumption report.

I hope this is helpful. Please contact Kay Brown if you would like additional information.

Sincerely,


Esther C. Wunnicke
Commissioner

cc: Kay Brown, Director
Division of Oil and Gas

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-485-2400

February 4, 1986

The Honorable Marco Pignalberi
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Pignalberi:

I am writing in response to your recent information requests of the department regarding mental health lands and royalty oil.

It would be costly and take a great deal of staff time to reproduce a complete set of maps, status plats, and reports on state mental health lands. Instead, we have provided your office a copy of the Alaska-wide map indicating townships containing mental health lands. I also would be willing to meet with you to describe the programs and would gladly put our microfiche records and hard-copy reports at your disposal if you or your staff wish to do research in Juneau or Anchorage. Please let me know if you need anything more on this topic.

The department does not keep a royalty oil chart of the kind that you requested, and it would be expensive and time consuming to undertake the preparation of one. Similar information is available in the historic oil and gas supply/demand report submitted annually to the Legislature. The House Research Agency might be able to prepare a chart like the one you have requested.

* In response to your inquiries of January 16 and January 30, 1986, on royalty oil management, I would like to raise several points helpful to your consideration of a bill calling for specific reporting requirements of in-state royalty oil purchasers. Presently, two of the state's four in-state refiners are contractually obligated to report on a monthly basis most of the data listed in your letter. The long-term negotiated royalty contract for Petro Star/Chevron presently before the Legislature also contains those reporting obligations, but on a quarterly basis. The earlier

February 4, 1986

Mapco contract contains no regular reporting obligation, however, the contract calls for Mapco to consult with the state prior to exporting refined products from Alaska. (See Sec. 3.3 and 3.3.1 of the contract.)

Section 2.12 of the Tesoro, Chevron, and Petro Star/Chevron royalty oil contracts states in part that the purchaser shall report "the quantity of refined petroleum products produced and marketed in the State of Alaska...." While this section does not explicitly call for the product slate of the purchaser, the purchasers have, as a matter of practice, included their product slate with the monthly report. Petro Star, which has a very narrow product slate, is expected to follow suit. To avoid prospective competitive disadvantages, Chevron has requested that its monthly report be held confidential.

* In addition to a more explicit requirement with respect to product slate, the department believes there may be merit to your suggestion for an export report requirement. However, this information may be roughly deduced by comparing the volume of products marketed in Alaska to the volume of refined products produced in Alaska. The volume of residual oil may be obtained in a similar manner.

As your letter acknowledges, it probably would be difficult at this point to tighten the reporting requirements of Mapco, Tesoro and Chevron. We are also precluded against taking such action with the Petro Star/Chevron contract for two reasons: 1) Petro Star has virtually no capacity for export, and 2) Petrostar's limited product slate may be ascertained by examining its report of the volume of refined products produced in Alaska, as the product ratios of this simple distillation refinery are relatively inflexible. Nevertheless, I believe the reporting requirements you are considering may be of some aid to the department's data gathering efforts in the future. Naturally, the degree of resistance to these requirements on the part of a potential purchaser is an offsetting factor.

*

* With respect to the additional price related data mentioned in your correspondence of January 30, 1986, the royalty contracts presently in force or before the Legislature do not call for the reporting of such price information. As for the last two items of that correspondence regarding the volume of oil sold in and exported from the state, I believe you are referring to refined products and perhaps residual oil, all of which is either directly or indirectly attainable from Tesoro, Chevron, and Petro Star.

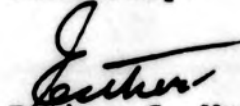
The Hon. Marco Pignalberi

-3-

February 4, 1986

We are preparing a response to your most recent information request regarding HB 445 and will be in touch with you as soon as our work is complete. If you have any further questions, please contact me or Kay Brown, Director of the Division of Oil and Gas.

Sincerely.



Esther C. Wunnicke
Commissioner

cc: Tom Koester, Department of Law
Kay Brown, Division of Oil and Gas
Tom Hawkins, Division of Land and
Water Management
Jim Ayers, Governor's Office



RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

SCOMM

#46:23

Bannister
4/2/86.

1 IN THE HOUSE

BY ADAMS BY REQUEST

2 SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 491

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the disposition of federal funds
7 received by the state from competitive leasing of oil
8 and gas in the National Petroleum Reserve - Alaska;
9 and providing for an effective date."

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

11 * Section 1. FINDINGS. The legislature finds that:

12 (1) the United States Congress by P.L. 96-514 (42 U.S.C. 6508)
13 provided that the state receives 50 percent of the funds received from
14 competitive leasing of oil and gas in the National Petroleum Reserve -
15 Alaska;

16 (2) 42 U.S.C. 6508 further provides that in the allocation of
17 the funds received by the state, the state shall give priority to those
18 subdivisions of the state most directly or severely impacted by the
19 development of oil and gas leased under 42 U.S.C. 6508;

20 (3) since 1982 the state has received approximately \$47,360,000
21 from the federal government under the terms of 42 U.S.C. 6508; of that
22 amount, approximately \$18,000,000 has been placed in the general fund and
23 spent by the state for various state programs; approximately \$23,680,000
24 has been placed in the permanent fund and \$182,000 in the public school
25 fund; the remainder, approximately \$5,450,000, has been placed in the
26 National Petroleum Reserve - Alaska, special revenue fund established by
27 ch. 94, SLA 1984; of that amount, \$3,700,000 has been appropriated for
28 grants to local governments or for state projects; approximately \$1,750,000
29 still remains in the fund;

1 (4) in a decision dated March 18, 1986, a superior court of the
2 state ruled in City of Barrow, et al. v. State, et al., 1JU-85-2634 Civil,
3 that the state violated the terms of 42 U.S.C. 6508 by failing to establish
4 a rational system by which political subdivisions impacted by oil and gas
5 development in the National Petroleum Reserve - Alaska could apply for and
6 receive funds on a priority basis; the court has required the state to
7 segregate and account for all funds received under 42 U.S.C. 6508 before
8 1984, including money received under 42 U.S.C. 6508 that has been deposited
9 in the permanent fund under AS 37.13.010 or appropriated to the National
10 Petroleum Reserve - Alaska, special revenue fund under ch. 94, SLA 1984,
11 but excluding funds previously expended for purposes other than compliance
12 with 42 U.S.C. 6508; it also appears from the decision that the court would
13 make the National Petroleum Reserve - Alaska money that was deposited in
14 the public school fund (AS 37.14.110 - 37.14.150) subject to the same
15 segregation and accounting requirements as the money deposited in the
16 permanent fund; and

17 (5) because of the continuing nature of congressional appro-
18 priations under 42 U.S.C. 6508, and in order to rectify the state's past
19 failure to establish a system by which claims of local governments to 42
20 U.S.C. 6508 funds could be determined and dealt with on a priority basis,
21 it is necessary to change the National Petroleum Reserve - Alaska, special
22 revenue fund regarding segregation and allocation of the money received
23 under 42 U.S.C. 6508 and to establish criteria by which grants may be made
24 from the fund to impacted municipalities.

25 * Sec. 2. AS 37.13.010(a) is amended to read:

26 (a) Under art. IX, sec. 15 of the state constitution, there is
27 established as a separate fund the Alaska permanent fund. Except as
28 otherwise provided by AS 37.25.040, the [THE] Alaska permanent fund
29 consists of

1 (1) 25 percent of all mineral lease rentals, royalties,
2 royalty sale proceeds, net profit shares under AS 38.05.180(f) and
3 (g), and federal mineral revenue sharing payments received by the
4 state from mineral leases issued on or before December 1, 1979, and 25
5 percent of all bonuses received by the state from mineral leases
6 issued on or before February 15, 1980;

7 (2) 50 percent of all mineral lease rentals, royalties,
8 royalty sale proceeds, net profit shares under AS 38.05.180(f) and
9 (g), and federal mineral revenue sharing payments received by the
10 state from mineral leases issued after December 1, 1979, and 50 per-
11 cent of all bonuses received by the state from mineral leases issued
12 after February 15, 1980;

13 (3) [ANY] other money appropriated to or otherwise allo-
14 cated by law to the Alaska permanent fund.

15 * Sec. 3. AS 37.25 is amended by adding a new section to read:

16 Sec. 37.25.040. NATIONAL PETROLEUM RESERVE - ALASKA, SPECIAL
17 REVENUE FUND. (a) The National Petroleum Reserve - Alaska special
18 revenue fund is established. The fund consists of all money disbursed
19 to the state by the federal government under 42 U.S.C. 6508 (P.L. 96-
20 514) since December 12, 1980, less the amount deposited in the general
21 fund and expended by the state by general fund appropriations before
22 the establishment of the National Petroleum Reserve - Alaska special
23 revenue fund under ch. 94, SLA 1984.

24 (b) The commissioner of revenue shall manage the National Petro-
25 leum Reserve - Alaska special revenue fund.

26 (c) The Department of Community and Regional Affairs shall adopt
27 regulations under which municipalities impacted by National Petroleum
28 Reserve - Alaska development may apply for and receive grants to
29 alleviate the impact. The department shall give priority in the

1 allocation of grants to municipalities that are experiencing or will
2 experience the most direct or severe impact from oil and gas leasing
3 activities within the National Petroleum Reserve - Alaska. A munic-
4 ipality may use grant funds received under this subsection only for
5 the following activities and services to alleviate the impact of the
6 oil and gas leasing activities under 42 U.S.C. 6508 within the
7 National Petroleum Reserve - Alaska:

8 (1) planning;

9 (2) construction, maintenance, and operation of essential
10 public facilities by the municipalities; and

11 (3) other necessary public services provided by the munic-
12 ipalities.

13 (d) Funds disbursed under (c) of this section may not be used
14 for the retirement of municipal debt.

15 (e) It is the intent of the legislature that each year the
16 balance in the National Petroleum Reserve - Alaska special revenue
17 fund be appropriated to the Department of Community and Regional
18 Affairs for subsequent allocation to municipalities that demonstrate
19 present impact, or the need to determine or plan for future impact,
20 from development under 42 U.S.C. 6508.

21 (f) Amounts received by the state under (a) of this section and
22 not required for grants to municipalities under (c) of this section
23 shall lapse to the general fund at the end of each fiscal year and be
24 available for use by the state for the following facilities and ser-
25 vices:

26 (1) planning;

27 (2) construction, maintenance, and operation of essential
28 public facilities; and

29 (3) other necessary public services.

1 * Sec. 4. Chapter 94, SLA 1984 is repealed.

2 * Sec. 5. The National Petroleum Reserve - Alaska special revenue fund
3 established by sec. 3 of this Act is a continuation of the fund established
4 by sec. 2, ch. 94, SLA 1984, repealed by sec. 4 of this Act, and the bal-
5 ance of the ch. 94, SLA 1984 fund shall be transferred accordingly.

6 * Sec. 6. This Act takes effect immediately in accordance with AS 01.-
7 10.070(c).
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Bannister ✓
4/16/86

Original sponsor: Adams by request

1 IN THE HOUSE

BY THE HOUSE SPECIAL COMMITTEE
ON OIL AND GAS

2 CS FOR HOUSE BILL NO. 491 (Oil and Gas)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the disposition of federal funds
7 received by the state from competitive leasing of oil
8 and gas in the National Petroleum Reserve - Alaska;
9 and providing for an effective date."

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

11 * Section 1. FINDINGS. The legislature finds that:

12 (1) the United States Congress by P.L. 96-514 (42 U.S.C. 6508)
13 provided that the state receives 50 percent of the funds received from
14 competitive leasing of oil and gas in the National Petroleum Reserve -
15 Alaska;

16 (2) 42 U.S.C. 6508 further provides that in the allocation of
17 the funds received by the state, the state shall give priority to those
18 subdivisions of the state most directly or severely impacted by the devel-
19 opment of oil and gas leased under 42 U.S.C. 6508;

20 (3) since 1982 the state has received approximately \$47,360,000
21 from the federal government under the terms of 42 U.S.C. 6508; of that
22 amount, approximately \$18,000,000 has been placed in the general fund and
23 spent by the state for various state programs; approximately \$23,680,000
24 has been placed in the permanent fund and \$182,000 in the public school
25 fund; the remainder, approximately \$5,450,000, has been placed in the
26 National Petroleum Reserve - Alaska special revenue fund established by ch.
27 94, SLA 1984; of that amount, \$3,700,000 has been appropriated for grants
28 to local governments or for state projects; approximately \$1,750,000 still
29 remains in the fund;

1 (4) in a decision dated March 18, 1986, a superior court of the
2 state ruled in City of Barrow, et al. v. State, et al., 1JU-85-2634 Civil,
3 that the state violated the terms of 42 U.S.C. 6508 by failing to establish
4 a rational system by which political subdivisions impacted by oil and gas
5 development in the National Petroleum Reserve - Alaska could apply for and
6 receive funds on a priority basis; the court has required the state to
7 segregate and account for all funds received under 42 U.S.C. 6508 before
8 1984, including money received under 42 U.S.C. 6508 that has been deposited
9 in the permanent fund under AS 37.13.010 or appropriated to the National
10 Petroleum Reserve - Alaska special revenue fund under ch. 94, SLA 1984, but
11 excluding funds expended before 1984 by general fund appropriations; it
12 also appears from the decision that the court would make the National
13 Petroleum Reserve - Alaska money that was deposited in the public school
14 fund (AS 37.14.110 - 37.14.150) subject to the same segregation and ac-
15 counting requirements as the money deposited in the permanent fund; and

16 (5) because of the continuing nature of congressional appro-
17 priations under 42 U.S.C. 6508, and in order to rectify the state's past
18 failure to establish a system by which claims of local governments to 42
19 U.S.C. 6508 funds could be determined and dealt with on a priority basis,
20 it is necessary to change the National Petroleum Reserve - Alaska special
21 revenue fund regarding segregation and allocation of the money received
22 under 42 U.S.C. 6508 and to establish criteria by which grants may be made
23 from the fund to impacted municipalities.

24 * Sec. 2. AS 37.13.010(a) is amended to read:

25 (a) Under art. IX, sec. 15 of the state constitution, there is
26 established as a separate fund the Alaska permanent fund. Except as
27 otherwise provided by AS 37.25.040, the [THE] Alaska permanent fund
28 consists of

29 (1) 25 percent of all mineral lease rentals, royalties,

1 royalty sale proceeds, net profit shares under AS 38.05.180(f) and
2 (g), and federal mineral revenue sharing payments received by the
3 state from mineral leases issued on or before December 1, 1979, and 25
4 percent of all bonuses received by the state from mineral leases
5 issued on or before February 15, 1980;

6 (2) 50 percent of all mineral lease rentals, royalties,
7 royalty sale proceeds, net profit shares under AS 38.05.180(f) and
8 (g), and federal mineral revenue sharing payments received by the
9 state from mineral leases issued after December 1, 1979, and 50 per-
10 cent of all bonuses received by the state from mineral leases issued
11 after February 15, 1980;

12 (3) [ANY] other money appropriated to or otherwise allo-
13 cated by law to the Alaska permanent fund.

14 * Sec. 3. AS 37.25 is amended by adding a new section to read:

15 Sec. 37.25.040. NATIONAL PETROLEUM RESERVE - ALASKA SPECIAL
16 REVENUE FUND. (a) The National Petroleum Reserve - Alaska special
17 revenue fund is established. The fund consists of all money disbursed
18 to the state by the federal government under 42 U.S.C. 6508 (P.L. 96-
19 514) since December 12, 1980, less the amount deposited in the general
20 fund and expended by the state by general fund appropriations before
21 the establishment of the National Petroleum Reserve - Alaska special
22 revenue fund under ch. 94, SLA 1984.

23 (b) The commissioner of revenue shall manage the National Petro-
24 leum Reserve - Alaska special revenue fund.

25 (c) The Department of Community and Regional Affairs shall adopt
26 regulations under which municipalities impacted by National Petroleum
27 Reserve - Alaska oil and gas development under 42 U.S.C. 6508 may
28 apply for and receive grants to alleviate the impact. The department
29 shall give priority in the allocation of grants to municipalities that

1 are experiencing or will experience the most direct or severe impact
2 from oil and gas development under 42 U.S.C. 6508 within the National
3 Petroleum Reserve - Alaska. A municipality may use grant funds re-
4 ceived under this subsection only for the following activities and
5 services to alleviate the impact of the oil and gas development under
6 42 U.S.C. 6508 within the National Petroleum Reserve - Alaska:

7 (1) planning;

8 (2) construction, maintenance, and operation of essential
9 public facilities by the municipalities; and

10 (3) other necessary public services provided by the munic-
11 ipalities.

12 (d) Funds disbursed under (c) of this section may not be used
13 for the retirement of municipal debt.

14 (e) It is the intent of the legislature that each year all of
15 the money in the National Petroleum Reserve - Alaska special revenue
16 fund be appropriated to the Department of Community and Regional
17 Affairs for subsequent allocation to municipalities that demonstrate
18 present impact, or the need to determine or plan for future impact,
19 from oil and gas development under 42 U.S.C. 6508.

20 (f) Amounts received by the state under 42 U.S.C. 6508 and not
21 required for grants to municipalities under (c) of this section shall
22 lapse at the end of each fiscal year as follows:

23 (1) 50 percent to the principal of the Alaska permanent
24 fund;

25 (2) .5 percent to the public school fund (AS 37.14.110 -
26 37.14.150); and

27 (3) the remainder to the general fund for use by the state
28 for the following facilities and services:

29 (A) planning;

1 (B) construction, maintenance, and operation of essen-
2 tial public facilities; and

3 (C) other necessary public services.

4 * Sec. 4. Chapter 94, SLA 1984 is repealed.

5 * Sec. 5. The National Petroleum Reserve - Alaska special revenue fund
6 established by sec. 3 of this Act is a continuation of the fund established
7 by sec. 2, ch. 94, SLA 1984, repealed by sec. 4 of this Act, and the bal-
8 ance of the ch. 94, SLA 1984 fund shall be transferred accordingly.

9 * Sec. 6. This Act takes effect immediately in accordance with AS 01.-
10 10.070(c).
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1 IN THE SUPERIOR COURT FOR THE STATE OF ALASKA

2 FIRST JUDICIAL DISTRICT AT JUNEAU

3 CITY OF BARROW, CITY OF WAINWRIGHT,)
4 and NORTH SLOPE BOROUGH,)

5 Plaintiffs,)

6 v.)

7 STATE OF ALASKA, WILLIAM SHEFFIELD,)
8 Governor of Alaska, MARY NORDALE,)
9 Commissioner, Department of)
10 Revenue, State of Alaska,)

11 Defendants.)

FILED IN THE TRIAL COURTS
STATE OF ALASKA, FIRST DISTRICT
AT JUNEAU

MAR 18 1986

Clerk of Court

By PB Deputy

No. 1JU-85-2634 Civil

12 SUMMARY ORDER

13 Plaintiffs move for summary judgment on their
14 complaint for declaratory relief. Specifically, they seek a
15 judicial declaration that the defendants (hereinafter, the
16 State) have violated the terms of P.L. 96-514 (42 U.S.C. 6508)
17 by (a) failing to segregate funds received from the federal
18 government, (b) failing to establish a system by which political
19 subdivisions impacted by oil and gas development in the National
20 Petroleum Reserve - Alaska (hereinafter, NPR-A) could apply for
21 or receive funds to impacted subdivisions on a priority basis as
22 required by the federal law and (c) appropriating those funds to
23 the general use of the State of Alaska. (Plaintiffs alterna-
24 tively seek parallel declaratory relief on the basis of breach
25 of fiduciary duty to administer a trust created by P.L. 96-514.)
26 Plaintiffs additionally seek a declaration that ch. 94, SLA
27 1984, requires all funds (past or future) received by the State
28 from the federal government under P.L. 96-514 to be placed in a
29 special revenue fund and made available for appropriation by the
30 legislature under a system which complies with the requirements
31 of P.L. 96-514. Lastly, plaintiffs seek injunctive relief
32 (a) requiring the State to segregate and account for all funds
received under P.L. 96-514 and to administer those funds in

1 accordance with law and (b) prohibiting the State from expending
2 any P.L. 96-514 revenues (past or future) until a system is
3 established for lawful administration and disposition of such
4 funds.

5 The State has filed a cross-motion for summary judgment,
6 arguing first that the plaintiffs' complaint does not
7 state a cause of action. The State argues to this result from
8 its conclusion that P.L. 96-514 imposes no judicially enforce-
9 able conditions on Alaska's receipt of NPR-A revenues.
10 Additionally, the State argues (a) that the plaintiff municipal-
11 ities have no right to share in NPR-A revenues in advance of
12 actual commercial production from NPR-A; (b) that the State is
13 entitled to deposit a portion of NPR-A revenues directly into
14 the Alaska Permanent Fund upon receipt; (c) that the State is
15 under no obligation to adopt specific procedures whereby
16 political subdivisions may apply for and receive NPR-A funds;
17 (d) that plaintiffs' delay in bringing this action bars their
18 claims for relief as to moneys already expended by the State;
19 (e) that any State obligation with respect to NPR-A funds should
20 be deemed satisfied through the sharing of state revenues with
21 the plaintiff municipalities under other programs; and (f) that
22 ch. 94, SLA 1984, does not affect NPR-A revenues which were
23 received and spent by the State prior to the date on which that
24 law became effective.

25 The parties have both requested expedited handling of
26 this motion. Oral argument was heard one week after the
27 briefing was completed. In order to avoid further delay¹ in
28

29
30 1. The six-week period during which this case has
31 been held under advisement coincides almost exactly with the
32 period during which the undersigned has been the only superior
court judge present in Juneau.

1 announcing the court's decision, the court's conclusions on the
2 above issues are set out below in summary fashion.

3 1. Mandatory Duty Regarding Allocation of NPR-A Revenues.

4 A. P.L. 96-415 provides that half of all receipts
5 from sales, rentals, bonuses and royalties on leases pertaining
6 to lands in the National Petroleum Reserve - Alaska shall be
7 paid by the federal government to the State of Alaska "for
8 (a) planning, (b) construction, maintenance and operation of
9 essential public facilities, and (c) other necessary provisions
10 of public service." In the allocation of such funds, the
11 federal act establishes a mandatory duty on the State of Alaska
12 to "give priority to use [of NPR-A funds] by subdivisions of the
13 state most directly or severely impacted by development of oil
14 and gas leased under [P.L. 96-514]."

15 B. The duty imposed by P.L. 96-514 ultimately falls
16 upon the Alaska Legislature (because it has the spending power),
17 and it includes the duties to examine the claimed needs of
18 subdivisions arising from oil and gas development impacts, to
19 evaluate them and, if the claimed needs are found to exist, to
20 rank them in order of priority, and to meet or satisfy them out
21 of NPR-A revenues.

22 C. The duty set out above may be met through exist-
23 ing entities and the budget review process; it is not necessary
24 that a new apparatus be created to receive NPR-A claims.

25 2. When the Duty Arises.

26 The duty arises upon the commencement of any "develop-
27 ment" of the subject tracts. Because "development" includes
28 "any step taken in the search for . . . hydrocarbons" (as well
29 as capture, production and marketing of same), it is clear that
30 the duty arises well before actual commercial production and
31 exists at least as early as when test wells are being drilled.
32 Of course, in evaluating claimed impact needs, and in

1 determining whether they truly exist, the legislature certainly
2 may take into account the likely pace of exploration, the
3 likelihood of further exploration, the likelihood of actual
4 commercial production which may result and its likely pace, etc.

5 3. Automatic Deposit into Permanent Fund.

6 The State cannot, consistent with its obligations
7 under P.L. 96-514, automatically deposit 50% (or any amount) of
8 all NPR-A revenues into the Alaska Permanent Fund. Such action
9 clearly contravenes the mandatory duty placed on the State by
10 the very law which authorizes payments to the State (since such
11 payments are made on the condition that the State "give priority
12 to use [of such funds] by subdivisions of the state most
13 directly or severely impacted" by the developments of leased
14 lands). Rather than a direct deposit to the permanent fund, the
15 State must first resort to the process referred to in Parts 1-B
16 and 1-C above to examine the claimed needs of impacted subdivi-
17 sions and to rank any found to exist. Because the language of
18 the federal act is so broad concerning the allowable objects of
19 state expenditure of NPR-A funds ("other necessary provisions of
20 public service"), it is conceivable that an allocation of NPR-A
21 revenues to the permanent fund might be allowable after the
22 State complies with the mandatory duty imposed on it to evaluate
23 needs and establish priorities. But this difficult question
24 need not be resolved now, for on the undisputed facts before the
25 court the State has made no effort at all to meet the duty
26 imposed upon it. The automatic deposits into the permanent fund
27 clearly violate the federal law.

28 4. Plaintiffs' Delay in Filing Lawsuit.

29 By virtue of their delay in bringing this action,
30 plaintiffs are barred from obtaining relief as to any moneys
31 already expended by the State. Because the State is under a
32 duty under federal law to undertake an evaluative process to

1 prioritize claims, and because it would be impossible to
2 recreate the conditions under which that process would have
3 taken place in 1982 and 1983 (for example), the State would be
4 prejudiced by an order now requiring it to place into a special
5 fund monies which have been expended for other purposes and an
6 order requiring it to make allocations based on a system of
7 priorities which cannot be recreated. There is no bar, however,
8 as to those funds which have been placed in the NPR-A reserve
9 account since 1984, and there is no bar as to those funds
10 deposited directly into the Permanent Fund.

11 5. Satisfaction.

12 Summary judgment on this defense is denied. Even
13 assuming that the amount of development-related impact needs of
14 the plaintiffs for the period 1981 - 1985 could somehow be known
15 by this court without formal legislative determination under the
16 process mandated by the federal act, there would remain factual
17 matters in dispute. The court, however, adopts the position of
18 the State that it may show satisfaction to the extent that it
19 shows that a given appropriation to plaintiffs was for needs
20 arising out of oil and gas development-related impacts.

21 6. Ch. 94, SLA 1984.

22 Having determined that federal law imposes a mandatory
23 duty upon the State as set out above, it is unnecessary to
24 consider whether state law too forbids the practices complained
25 of here by plaintiffs. Under the supremacy clause of the
26 federal constitution, federal law controls. Whether ch. 94, SLA
27 1984, also requires, as a matter of state law, that which
28 P.L. 96-514 requires therefore need not be decided.

29 CONCLUSION

30 Having reached the above conclusions, the court
31 declares the rights of the parties and orders as follows:

32 //

- 1 (1) The State has violated P.L. 96-514 by failing to establish
2 a system by which political subdivisions impacted by oil
3 and gas development in the NPR-A could apply for and
4 receive funds on a priority basis.
- 5 (2) The State has violated P.L. 96-514 by appropriating NPR-A
6 funds to the general use of the State of Alaska without
7 giving priority to those uses specified in P.L. 96-514.
- 8 (3) The State is required to segregate and account for all
9 funds received under P.L. 96-514, other than those already
10 expended.
- 11 (4) The State is required to administer funds received under
12 P.L. 96-514 in such a way that it gives priority to the use
13 of such funds by subdivisions most directly or severely
14 impacted by development of oil and gas leased under
15 P.L. 96-514.
- 16 (5) As to the defense of satisfaction, that matter must be
17 reserved for trial on the factual issue whether any appro-
18 priations to plaintiffs during the years in question were
19 for needs arising from impacts related to oil and gas
20 development.

21 The matter will be scheduled for trial at counsel's
22 request upon the filing of a proposed scheduling order signed by
23 all parties, or a scheduling conference will be set if counsel
24 are unable to agree upon a schedule for trial.

25 IT IS SO ORDERED.

26 DONE at Juneau, Alaska, this 18th day of March, 1986.

27
28 Walter L. Carpeneti
29 Walter L. Carpeneti
30 Superior Court Judge
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32

North Slope communities win court victory

By CHUCK KLEESCHULTE

THE JUNEAU REPORT

3/19/86

Several North Slope communities and the North Slope Borough Tuesday won a suit protesting how state government has allocated federal oil leasing grant funds. What their victory is going to be worth to them, if anything, however, is unclear.

It could, however, cost the state's \$7.1 billion permanent fund over \$20 million in lost revenues.

The North Slope Borough and the towns of Barrow and Wainwright last November sued the state, arguing that since 1980, Alaska has violated federal law. They claimed the state had not been dispensing specifically to local communities part of some \$47.4 million the state received as a result of federal bonuses, leases and royalties stemming from oil exploration in the National Petroleum Reserve-Alaska.

The North Slope communities argued that Congress required that the state should give priority to subdivisions directly affected by oil and gas leasing in allocating the funds. The suit argued the state never set up a system for accounting for or dispensing the funds to North Slope communities on the basis of their need for capital improvements and, in fact, illegally appropriated part of the money for the state's permanent fund.

The state in its defense argued the federal law did not require it to set up a specific procedure to allocate the funds for capital improvements. It argued it needed to place part of the money into the permanent fund to comply with state constitution-

al requirements, and even if it did need to give North Slope communities funds, it had done so through the state's normal revenue sharing and municipal grant programs.

The communities, however, claimed that of the millions the state received from oil leasing, only \$2.4 million of the money had been specifically earmarked for North Slope capital improvements.

Juneau Superior Court Judge Walter Carpeneti ruled in the slope communities' favor on the merits, saying federal law made it clear that some system had to be established by the state to make sure that political subdivisions "most directly or severely impacted" received priority treatment in spending of the funds.

Carpeneti also ruled that the state's automatic deposit of part of the money into the permanent fund was improper until the needs of the communities had been assessed. Carpeneti's ruling, however, said the state specifically does not have to make good for any funds the state should have given the communities for capital needs prior to 1983.

The ruling does say the communities can return to court and argue for receipt of a part of the \$23.7 million that was deposited into the permanent fund.

The ruling pleased attorneys for the North Slope, but left both sides studying their next moves.

Susan Burke, a partner in the local law firm of Gross and Burke that represented the North Slope and its communities, said she was pleased by the

outcome. "We didn't get as much as we asked for, but it's much more than a hollow victory to get a court to agree the state didn't follow the federal law and has been misappropriating the funds," said Burke.

Assistant Attorney General Tom Koester said the state believes the fact that Carpeneti didn't require it to pay for past violations showed that any violations were inadvertent. Koester said he did not know what would happen now, as far as the state setting up a specific formula for allocating future grant revenues, or concerning the future for funds already placed in the permanent fund.

"It opens up the interesting possibility that the court might order some money taken from the fund. Its appropriation, however, is clearly still up to the legislature, so what happens now is unclear," Koester said.

Given that the oil industry has had no success in finding oil in the NPRA and given current prices, it's unclear whether any near-term exploration will be occurring in the reserve, meaning little new money may be turned over to the state. The last funds came in 1983 from \$16.7 million paid by oil companies to lease 18 tracts south of Barrow.

Carpeneti in his ruling invited attorneys to schedule a trial on the permanent fund allocation issue. Burke, however, said her clients might wish to talk with legislators about a possible out-of-court settlement prior to scheduling further court arguments.

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

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

MEMORANDUM

April 2, 1986

SUBJECT: SSHB 491
TO: Representative Al Adams
FROM: Theresa L. Bannister *TB*
Legislative Counsel

This memo accompanies the revised sponsor substitute that you requested for HB 491.

I believe that Susan Burke and I have worked out most of the concerns stated in my April 1, 1986 memo. However, please note the following comments about the bill.

(1) It appears that Judge Carpeneti would treat the NPR-A funds deposited in the public school fund the same as the funds deposited in the permanent fund, so I have not excluded them from the funds that are to be included in the NPR-A special revenue fund in Sec. 37.25.040(a); however, please be aware that the court has not stated this explicitly in the opinion.

(2) Ms. Burke indicates that the legislative history of 42 U.S.C. 6508 is clear that the term, "subdivision of the state" was meant to mean municipalities; therefore, the word "municipality" is used throughout Sec. 37.25.040; however, please be aware that since "subdivision of the state" is not defined in the federal statute, it is possible that the term could still be interpreted otherwise by a court.

If I can be of further assistance, please advise.

TLB: csh
c6/058



Official Business

Alaska State Legislature

House of Representatives

Al Adams
Chairman
Committee on Finance

April 1, 1986

WHILE IN SESSION
Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-3706

OUT OF SESSION
P.O. Box 333
Kotzebue, Alaska 99752
(907) 442-3320

1024 W. 6th
Anchorage, Alaska 99501
(907) 274-0615

TO: Members of the House Oil and Gas Committee
FROM: Representative Al Adams *ASA*
District 22
RE: ~~PROPOSED~~
SSHB 491

P.L. 96-514/ 42 U.S.C. 6508

P.L. 96-514 provides that the state shall receive 50% of receipts derived from competitive leasing of oil and gas in the National Petroleum Reserve-Alaska. It also provides that in the allocation of funds received by the state, priority shall be given to political subdivisions of the state most severely or directly impacted by the development of oil and gas leased under P.L. 96-514. The funds can be used for the following: planning; construction, maintenance, and operation of essential public facilities; and other necessary public services.

Funds Received by the State

Since 1982 the state has received approximately \$47.4 million from the federal government under the terms of P.L. 96-514. The attached table from the Department of Revenue shows the disposition of funds received by the state.

March 18, 1986 State Superior Court Ruling

In a decision on March 18, 1986, the State Superior Court ruled that the State has violated the terms of P.L. 96-514 by 1) failing to establish a process by which political subdivisions can apply for and receive funds on a priority basis, and 2) appropriating NPR-A funds to the general use of the State of Alaska without giving priority to those uses specified under P.L. 96-514.

The state is required to segregate and account for funds received under P.L. 96-514 prior to 1984, other than those already expended. (Those that went to the general fund..... see Dept. of Rev. memo.) The State is also required to administer the funds received in a manner which gives priority to impacted communities.

Proposed CS for HB 491

This bill sets up a fund based on the court order, and establishes a system by which claims of local governments may be dealt with on a priority basis.

The fund will consist of all money from the federal government pursuant to P.L. 96-514 since the effective date of the act, less the roughly 18 million that was expended by the state from the general fund prior to the establishment of the NPRA Special Revenue Fund under CH. 94, SLA 84.

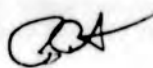
The fund will be managed by the Commissioner of Revenue. However, each year the balance of the NPR-A will be appropriated to Community and Regional Affairs for allocation to communities. Funds received by the state but not required for grants to municipalities will lapse to the general fund at the end of each fiscal year.

The Department of Community and Regional Affairs will adopt regulations under which communities can apply for funding and receive grants to alleviate impact. Priority will be given to those communities which are most directly or severely impacted.

**STATE OF ALASKA
DEPARTMENT OF REVENUE**

M E M O R A N D U M

TO: Milt Barker
Deputy Commissioner

FROM: Brian C. Andrews 
Comptroller

DATE: April 1, 1986

RE: National Petroleum Reserve - Alaska (NPRA) Revenues

To date, the State has received five payments constituting the 50% disbursed obligation of the Federal Government of NPRA revenues pursuant to P.L. 96-514. The receipts were deposited in the General Fund, Permanent Fund (AS 37.13.010), Public School Fund (AS 37.14.110), and NPRA Special Revenue Fund (Ch. 94, SLA 1984) in the following amounts:

<u>Date</u>	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Public School Fund</u>	<u>NPRA Special Revenue Fund</u>	<u>Total</u>
12-03-82	\$17,227,054.25	\$17,401,064.91	\$174,010.65	\$ -	\$34,802,129.81
11-08-83	816,490.18	824,737.55	8,247.37	-	1,649,475.10
01-03-85	-	3,784,368.48	-	3,784,368.47	7,568,726.95
06-19-85	-	1,671,217.79	-	1,671,217.79	3,342,435.58
01-29-86		<u>635,779.75</u>		<u>635,778.75</u>	<u>1,271,557.50</u>
Total	\$18,043,544.43	\$24,317,067.48	\$182,258.02	\$6,100,457.05	\$47,362,777.44

The contact at the Department of Natural Resources is Myrtle Paulk. The AKSAS collation code and account number are 1044119 and 6306.

BCA/mem

STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : SSSB 352/HB 491
 Title : An Act establishing a National
 Petroleum-Alaska Special Reserve Fund.

Sponsor : Ferguson / Adams by Request

Requestor : _____

Date of Request : _____

FISCAL DETAIL

Agency Affected : Community & Regional Affairs
 BRU : Local Government Assistance

Components : Training & Development,
 Grants Administration

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL		3.5	2.1	2.2	2.3	2.4
CONTRACTUAL		5.8	6.1	6.4	6.7	7.1
SUPPLIES		.3	.3	.3	.4	.4
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		9.6	8.5	8.9	9.4	9.9

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

REVENUE						
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FUNDING : (Thousands of Dollars)

GENERAL FUND		9.6	8.5	8.9	9.4	9.9
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

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

ANALYSIS : Attach a separate page if necessary

See page two, attached.

Prepared by : Doug Griffin, Deputy Director
 Division : Municipal & Regional Assistance

Phone : 465-4750
 Date : 04/01/86

Approved by Commissioner : Emil Notti
 Agency : Community & Regional Affairs

Date : 4/1/86

Distribution (by Agency preparing fiscal note) :

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

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. SSB 352/HB 491

ASSUMPTIONS

It is difficult to predict the level of funding in the National Petroleum Reserve-Alaska (NPRA) Special Revenue Fund for any given year. The level of funding will, of course, have some bearing on the degree of activity required to administer this program. For purposes of this fiscal note, we are assuming grant funding of approximately \$4 million. While the administration costs for the pass-through grants is budgeted as general funds, the Department believes that a small portion of the NPRA Special Fund could be directed for pass-through administration and would, therefore, appear as an interagency receipts under the other funds category.

It is also assumed that the municipal pass-through portion of this program will be patterned after the existing Rural Development Assistance Program. Therefore, regulation drafting and implementation will be relatively easy and can be accomplished with existing staff.

Annual inflation increases are factored in at 5%.

FISCAL BREAKDOWN

<u>Travel</u>	3,500
---------------	-------

Travel (to conduct public hearings on regulations and to assist small municipalities in availing themselves of these grant funds)

FY 87:

5 trips @ \$700 per (includes per diem)	3,500
---	-------

FY 88-91:

3 trips (exclude trips for regulation hearings) @ \$700 per	2,100
---	-------

<u>Contractual</u>	5,800
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Communications (toll calls, postage)	2,000
--------------------------------------	-------

Printing (applications, regulations, etc.)	2,000
--	-------

Advertising (regulations & availability of program)	1,500
---	-------

Photocopying	300
--------------	-----

<u>Supplies</u>	300
-----------------	-----

Office Supplies	300
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Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game



Andre Marrou
Representative

District 5

Kenai	Sterling
Soldotna	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolaevsk
Kasilof	Halibut Cove
Ninilchik	Clam Gulch

January 10, 1986

To: Mike Davis, Chairman, Oil & Gas Committee
From: Andre Marrou
Subject: SSHB 339, Limiting Municipal Oil & Gas Property Taxes

Thank you for your letter of December 18 requesting backup material for SSHB 339. Following is a brief synopsis of my intent and how the bill works.

Current State Law allows an oil and gas property tax payer to credit against their state obligation of 20 mills (AS 43.56.010a) all local taxes (AS 43.56.010d) on oil and gas property covered by AS 43.56. This has the effect of shifting a State-imposed property tax to municipal coffers.

The current property tax rate in the North Slope Borough is 18.4 mills, Valdez is 11.7 and the Kenai Peninsula Borough is 2.5 mills. The North Slope property tax appears excessive. Certainly, it is costing the State hundreds of millions of dollars (see attached chart). For example, the State's share of property tax has fallen drastically from 48% to 8% in five years. Meanwhile, the North Slope Borough's share has skyrocketed from 52% to 92%.

It would appear that the intent of the State's oil and gas property tax law was not to allow the North Slope Borough to finance an astronomical debt (\$97,373 per capita) and possibly jeopardize the State's bond rating should they default in these times of decreasing oil revenues. Note that, of the 20 mill State imposed property tax on Prudhoe Bay property, 18.4 of it goes to the North Slope Borough.

The residents of the North Slope Borough appear indifferent to their high tax¹ rate, perhaps because of a variety of exemptions that are available to them.

SSHB 339 proposes to split the State's 20 mill property tax 50/50 between the State and the borough. This is accomplished in Sec. 1 of the bill.

Sec. 2 of the bill is necessary to bring the statutes into compliance with limits set in Section one.

Sec. 3 exempts this tax limitation from applying to general obligation refunding bonds. Example: a municipality wishes to sell new bonds at a more favorable interest rate to pay off old debts at higher rates.

All the citations in this memo and in HB 339 refer to the old Title 29. These need to be updated.

More opinions, facts and figures will be forthcoming. I suspect you will agree that the amount of money in question merits a hearing and passage of this legislation from your committee. If this bill were in effect in 1984, it would have resulted in \$98,142,937 more in State revenues $[(\$234,511,201 / 2) - \$19,112,663]$.

¹ ANCSA sec. 21D; Indian Reorganization Act, 25 USC 465; Federal Supremacy Clause for Native Trust Lands; AS 18.55.250; \$10,000 Exemption per Assesment, AS 29.45.050(a).

Distribution of State Property Tax For the North Slope Borough

<u>Year</u>	<u>State Assessed Value</u>	<u>Gross Revenue</u>	<u>Local Credit</u>	<u>Net to State</u>	<u>Percent Increase</u>	<u>Percent of Gross to State</u>
1979	4,810,887,800	96,217,756	49,800,530	46,417,226		48.24
1980	5,450,597,290	109,011,946	55,974,326	53,037,620	14.26	48.65
1981	6,297,616,550	125,952,331	105,150,647	20,801,684	(60.78)	16.52
1982	7,722,388,820	154,447,776	126,781,999	27,665,777	33.00	17.91
1983	9,450,158,880	189,003,178	144,625,348	44,377,830	60.41	23.48
1984	11,725,560,030	234,511,201	215,398,538	19,112,663	(56.93)	8.15

SOURCE: DIVISION OF PETROLEUM REVENUE

Alaska State Legislature

COMMITTEES

Committee on Commerce and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Subcommittee on Fish and Game



Andre Marrou
Representative

February 28, 1986

To: Mike Davis, Chairman House Oil & Gas

From: Andre Marrou, Representative

Subject: HB 339 Fiscal Note

Here is the fiscal note for work draft of HB 339 dated Feb. 7.

I would like to point out that the revenue projections here, in my opinion, are severely under valued.

The preparer of the fiscal note took the position that the only increased revenue realized from HB 339 would come from section 4 of the bill which would limit new debt and new debt service by the North Slope Borough. Absent from the note are the increased revenues that would go to the State as the North Slope Borough retires its huge debt burden. This would be a direct result of section 2 of the bill.

According to the preparer of the fiscal note, if the North Slope Borough did not have plans to issue any new debt, there wouldn't be any fiscal implication at all. This is simply not true. If HB 339 were in effect today, the State would take in one half of a \$234,511,201 assessment --or \$117,225,600-- instead of \$19,112,663.¹ The rest --or \$215,398,538-- went to pay for North Slope Borough debt service.

The preparer of the fiscal note also assumed the North Slope Borough's new debt issue forecast to be credible.² However, experience shows that, as far as the North Slope Borough is concerned, the sky is the limit.

The property tax payers plan to invest another \$6,000,000,000 into Prudhoe Bay this summer. This should approximately increase the assessed value of Prudhoe Bay \$12,000,000,000 to \$18,000,000,000. That's 18 billion dollars of value that we are going to assess a 20 mill tax! This equals \$360 million dollars of potential State revenue that the North Slope Borough can siphon off, as it has done in the past, by issuing new debt. Therefore, the modest new debt forecasts for the North Slope Borough, outlined in line 7 of the 3rd page of this fiscal note, do not seem credible.

This bill has the potential of bringing in HUNDREDS OF MILLIONS of dollars in increased State revenue as the North Slope Borough pays off its current debt sometime between 1991 and 1996. This will be done with no increase in taxes on the oil and gas industry

¹ Based upon 1984 assessments.

² From the North Slope Borough's Capital Improvement Program FY 1986-1991, Table 14

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No: CS SS HB 339
Title: Limitation of oil and gas
municipal property taxes to pay for
bonds
Sponsor: Marrou
Requestor: House Oil & Gas
Date of Request: February 17, 1986

FISCAL DETAIL

Agency Affected: _____
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	10,500	17,700	17,100	28,100	55,600	51,100

FUNDING: (Thousands of Dollars)

GENERAL FUND	10,500	17,700	17,100	28,100	55,600	51,100
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	10,500	17,700	17,100	28,000	55,600	51,100

POSITIONS:

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

ANALYSIS: See attached analysis.

Prepared By: Milt Barker *MB*
Division: Treasury

Phone: 465-2350

Date: February 20, 1986

Approved by Commissioner: *Henry H. Stenhouse*

Agency: Department of Revenue

Date: 2/21/86

Distribution (by Agency preparing fiscal note):

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

CS SS HB 339
Fiscal Note Analysis

The only municipality possibly affected by CS SS HB 339 is the North Slope Borough as detailed in the attached table. However, there are two major loopholes in the CS that could mean the State would receive no additional revenue from property in the North Slope Borough.

First, the exemption for refunding bonds means that potentially no levies for existing debt would count toward the limit and therefore the second sentence of section 4 of the bill would not operate to limit issuance of new debt. This is because refunded debt is paid from the proceeds of refunding debt, not tax levies, and tax levies for the refunding debt are exempt. Thus, a municipality could wipe the slate clean as far as the limit is concerned by refunding all its debt. Technically, this could be fixed in the bill by putting the refunding exemption in a separate section and amending section 4.

The second loophole, to the extent the bill is meant to control debt issuance, is school debt. Since the State may pay 80 percent, 90 percent, or 100 percent of school debt service the major portion of such debt can be exempt from the limit in this bill. However, passage of HB 520 would limit State payments in the future for school debt.

CS SS HB 339 should not affect Valdez since the only new debt planned for issuance by Valdez is \$24 million of bonds to redeem bond anticipation notes maturing March 1, 1988. These bonds would be exempt from the 10 mill limit of SS HB 339 by virtue of the bill's exemption for refunding bonds.

The limit would not affect other communities with oil and gas property because 10 mills would support far more debt than is outstanding, or at least more than is outstanding excluding school debt.

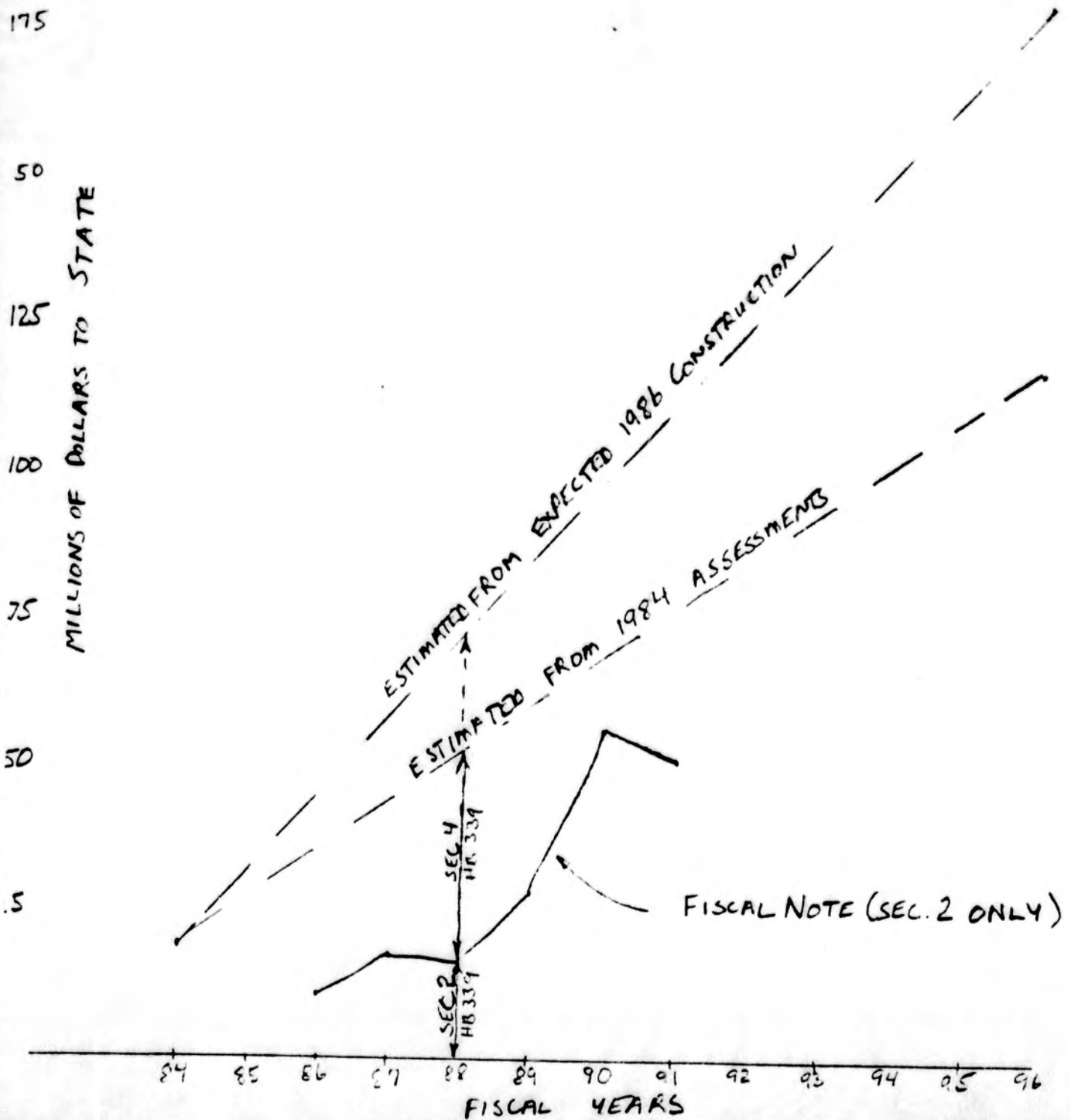
Additional State Revenue
Due to
Limitation of CS SS HB 339 on North Slope Borough
(\$ Millions)

	<u>FY 86</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>	<u>FY 91</u>
Full Property Value						
(1) State Assessed	12,563.3	13,000.0	13,500.0	13,500.0	13,500.0	13,500.0
(2) Local Assessed	<u>313.5</u>	<u>313.5</u>	<u>313.5</u>	<u>313.5</u>	<u>313.5</u>	<u>313.5</u>
(3) Total Full Value	12,876.8	13,313.5	13,813.5	13,813.5	13,813.5	13,813.5
(4) Limit on Taxable Value	2,397.1	2,397.1	2,397.1	2,397.1	2,397.1	2,397.1
(5) 10 Mill Limit on Debt Service	23.4	23.4	23.4	23.4	23.4	23.4
(6) Debt Service on Outstanding Debt (as to be partially refunded)	202.3	212.1	219.7	211.7	198.5	188.6
(7) New Debt to be Issued	52.9	28.0	28.0	154.0	-	-
(8) Debt Service on New Debt	10.5	17.7	17.1	28.1	55.6	51.1
(9) Additional State Revenue	10.5	17.7	17.1	28.1	55.6	51.1

Notes:

- (1 & 2) January 1, 1985 values from Alaska Taxable 1985, Department of Community and Regional Affairs
- (3) Rows (1) and (2)
- (4) 1985 statewide average full value of \$86,322 multiplied by 225% multiplied by 12,342 1985 North Slope Borough population
- (5) 1% of row ((4) + Row (3)) x Row (1)
- (6) From North Slope Borough Capital Improvements Program FY 1986 - FY 1991, Table 15, Column G minus Row 8 of this table.
- (7 & 8) From North Slope Borough Capital Improvements Program FY 1986 - FY 1991, Table 14
- (9) Row 8

EFFECTS OF HB 339 ON STATE REVENUES



Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game



Andre Marrou
Representative

District 2

Kenai	Sterling
Soldotna	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolai
Kasilof	Halibut Cove
Nimichik	Clam Gulch

February 13, 1986

To: Mike Davis, Chairman House Committee on Oil & Gas
From: Andre Marrou, Representative

Subject: HB 339, Oil & Gas Property Tax

The attached committee substitute dated February 7 has some technical improvements that further the original intent of this bill-- that intention is to split the revenues from the oil and gas property tax 50/50, municipality/State respectively. In 1984, the North Slope Borough assessed \$215,398,538 against a \$234,511,201 state tax bill. That is a 92/8 split of these revenues respectively.

The positive fiscal ramifications of this bill cannot be over-emphasized. We are talking about hundreds of millions of dollars of increased State revenue (\$\$\$) without any increase of oil taxes if we pass this bill!

The original intention of allowing the oil companies to deduct or credit their local tax against the State 20-mill property tax was to allow the municipalities to finance as necessary for providing local services to the oil and gas properties being taxed. However, the idea that Prudhoe Bay is receiving over \$200,000,000⁷⁰ in local services is ludicrous.

Since AS 43.56, Oil and Gas Property Tax, is a State tax, it is clear that the revenues from this tax were meant for legislative distribution except for those allowed for reasonable local services. It is an unforeseen result of the original legislation that this lopsided distribution of this tax should occur.

Original sponsor: Marrou

1 IN THE HOUSE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 339 ()

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the limitation on municipal
7 property taxation for the payment of bonds; and
8 providing for an effective date."

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

10 * Section 1. AS 29.10.200 is amended by adding a new paragraph to read:

11 (47) AS 29.47.200(a) - (general obligation bonds)

12 * Sec. 2. AS 29.45.100 is amended to read:

13 Sec. 29.45.100. [NO] LIMITATIONS ON TAXES TO PAY BONDS. The
14 limitations provided for in AS 29.45.080 - 29.45.090 do not apply to
15 taxes levied or pledged to pay or secure the payment of the principal
16 and interest on bonds. However, taxes levied under AS 29.45.080
17 [TAXES] to pay or secure the payment of principal and interest on
18 bonds may only be levied in an amount that does not exceed one percent
19 of the assessed value of property within the municipality taxed under
20 AS 29.45.080 [WITHOUT LIMITATION AS TO RATE OR AMOUNT], regardless of
21 whether the bonds are in default or in danger of default. This limi-
22 tation does not apply to taxes levied or pledged to pay or secure the
23 payment of general obligation refunding bonds used to refund a general
24 obligation bond issue.

25 * Sec. 3. AS 29.47.200(a) is amended to read:

26 (a) The full faith and credit of a municipality are pledged for
27 the payment of principal and interest on general obligation bonds.
28 Subject to AS 29.45.100, the [THE] municipality may levy ad valorem
29 taxes for payment [WITHOUT LIMITATION OF RATE OR AMOUNT TO PAY OR

1 SECURE THE PAYMENT] of the principal and interest on the bonds. This
2 subsection applies to home rule and general law municipalities [,
3 REGARDLESS OF WHETHER THE BONDS ARE IN DEFAULT OR IN DANGER OF DE-
4 FAULT].

5 * Sec. 4. The amendments to AS 29.45.100 and AS 29.47.200(a) made by
6 secs. 2 and 3 of this Act apply only to taxes levied or pledged to pay
7 general obligation bonds sold by a municipality on or after the effective
8 date of this Act. However, notwithstanding any other provision of law, a
9 municipality may not sell general obligation bonds after the effective date
10 of this Act until the municipality is in compliance with AS 29.45.100 and
11 AS 29.47.200(a) as amended by secs. 2 and 3 of this Act with respect to
12 taxes levied or pledged to pay all general obligation bonds without regard
13 to the dates of sale.

14 * Sec. 5. This Act takes effect July 1, 1986.
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SECTIONAL ANALYSIS CSSSHB 339 (Oil & Gas)

*Section 1.

This section makes this bill applicable to home rule municipalities.

*Section 2.

This section restricts a municipality's ability to tax to pay for bonds, only if it taxes oil and gas properties under AS 29.45.080. The 1% figure will allow municipalities to collect up to half of the 20 mill oil and gas property tax under AS 43.56.

*Section 3.

This section conforms the statutes to the limitation in section 2.

*Section 4.

This section clarifies that the taxing authority to pay off current existing debt will not be impaired.

This section is also a debt limiter that prevents municipalities from issuing more bonds after the effective date, if the taxes to pay those bonds exceed the limit in section 2.

DISTRIBUTION OF OIL & GAS PROPERTY TAX FOR NORTH SLOPE BOROUGH

NOTE: PROJECTION BASED UPON 1984 ASSESSMENTS

\$ MILLIONS OF DOLLARS

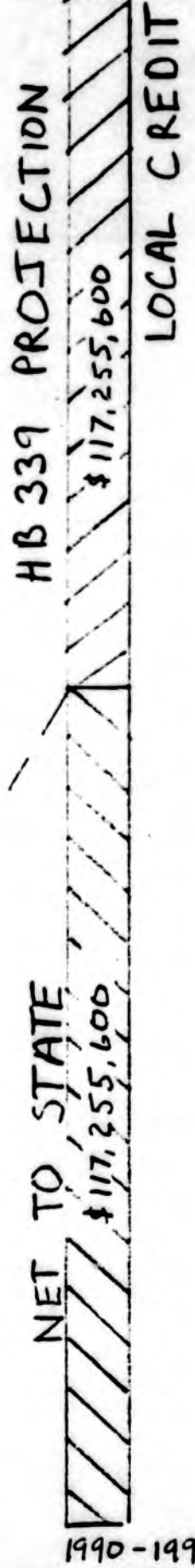


1979

NET TO STATE



1984



1990-1995

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game



Andre Marrou
Representative

District 5

Ketchikan	Wrangell
Soldotna	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Nikolai
Kasilof	Halibut Cove
Niilikuk	Clam Gulch

February 17, 1986

ALASKA CONSTITUTION SUPPORTS CSSSHB 339 (O&G)

Current State law allows for an inequitable share of the State's natural resources (about 58% of total oil & gas property taxes) to go to a relatively small number (about 2.2%) of our population. This is contrary to the intent of Alaska's Constitution.

From Article VIII of the Constitution, entitled "Natural Resources" (emphasis added):

Section 1, Statement of Policy

"It is the policy of the State to encourage... the development of its resources... for maximum use consistent with the public interest".

Section 2, General Authority

"The Legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State...for the maximum benefit of its people".

Section 6, State Public Domain

"Lands and interests therein... possessed or acquired by the State...constitute the State public domain."

Section 17, Uniform Application

"Laws and regulations governing the use and disposal of natural resources shall apply equally to all persons..."

Therefore, it seems clear that the Constitution intended for the State's natural resources to accrue to the benefit of all the State's citizens, not to a few privileged by sheer chance.

Alaska State Legislature

COMMITTEES:

Committee on Community and Regional Affairs
Committee on Transportation
Special Committee on Oil and Gas
Special Committee on Fisheries
Finance Sub-committee on Fish and Game



Andre Marrou

Representative February 17, 1986

District 5

Seward	Etling
Seldovia	Anchor Point
Homer	Port Graham
Seldovia	English Bay
Kachemak	Suklaess
Kasilof	Halibut Cove
Ninichik	Clam Gulch

SALIENT FACTS RE: CSSSHB339

°Of a \$234,511,201 tax bill due the State on Prudhoe Bay oil and gas property in 1984, 92% of it was credited to the taxpayer because the local municipality siphoned it off.

°In 1984, 2.26% of the State's population took 58% of all oil and gas property tax revenue (\$215,398,538), or, approximately 10% of all State revenue.

°The North Slope Borough is \$1.2 billion(!) in debt, or, \$97,373 per capita.

°The North Slope Borough leads the State with the highest debt to assessed valuation % ratio.

°The current situation encourages debt by municipalities.

°Inaction by the Legislature will result in continued reduction of State oil and gas property tax revenue and a higher local share.

°Oil prices will stabilize and increase eventually; hence, so will the assessed oil and gas property tax base..