

Correspondence

STATE OF ALASKA

THE LEGISLATURE

1986

Source

Legislative
Resolve No.

SCR 42

51



Relating to a legislative committee to study the state's tax policy.

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

WHEREAS the State of Alaska has a tax structure that has not been comprehensively reviewed for fairness and equity; and

WHEREAS it is in the state's best interest to have a long-term tax policy that is broad, stable, and accountable; and

WHEREAS the State of Alaska lacks the necessary information to develop a comprehensive approach to existing state taxes, tax credits, licenses and user fees; and

WHEREAS an examination of the relationship between minimizing taxes and fostering economic growth is critical to the understanding of the state's tax structure;

BE IT RESOLVED by the Alaska State Legislature that under Uniform Rule 21 a joint special committee on tax policy is established consisting of three members of the senate appointed by the president of the senate, three members of the house of representatives appointed by the speaker of the house, three ex-officio members from the private sector appointed by the governor and one ex-officio representative each from the Office of Management of Budget and the Department of Revenue to conduct research, hold public hearings and take testimony and collect data on the state's tax policy; and be it

FURTHER RESOLVED that before the committee dissolves on the 11th day of the Second Session of the Fifteenth Legislature, it submit a written report to the legislature that addresses the merits of and makes recommendations concerning a long-term, broad-based and stable tax policy to minimize taxes and foster economic growth.

ARCO Alaska, Inc.
Post Office Box 100360
Anchorage, Alaska 99510
Telephone 907 265 6511

65C4 1986



Harold C. Heinze
President

December 2, 1986

Senator Frank Ferguson
Chairman
Joint Special Committee on State Tax Policy
1024 W. 6th Avenue, Suite 203
Anchorage, Alaska 99501

Dear Senator Ferguson:

The Joint Special Committee on State Tax Policy's recent meetings have focused in large measure on the Economic Limit Factor and its applications to the North Slope oil fields. While the presentations made to the Special Committee addressed impact on state revenues in detail, we would like to present a producers' perspective of ELF and its impact on future oil production.

The ELF statute as enacted is recognition of the simple economic fact that as production declines in a well, the cost of producing a barrel increases. As a result, ELF is a mechanism to help ensure that oil field development is not prematurely terminated and serves as an incentive to further invest in fields such as Kuparuk, Lisburne and even Prudhoe Bay to maximize total production and extend the life of the field. In short, ELF is one mechanism the State has provided to produce more oil, provide more jobs and to continue jobs longer than would be the case with a flat severance tax rate.

We do not concur with the statements made at the hearings that ELF was a tax break not contemplated by the legislature. To the contrary, we believe the legislature knew full well the ramifications of the scheduled tax impact when it enacted ELF and created a sophisticated mechanism that provided severance tax income to the State without those taxes causing premature abandonment of production.

Today, ELF is an important consideration in ARCO Alaska's investment decisions on the North Slope. Perhaps even more important in our considerations is

Senator Frank Ferguson
Page 2

the issue as to whether or not we as an industry can plan on a stable share of revenue to be provided as taxes for the privilege for operating in this great state. To us, a stable tax policy in Alaska is the single most important contribution the legislature can make to provide a business environment which is conducive to continued petroleum exploration, development and operations.

Thank you for considering my comments. I would be happy to meet with you or other committee members to discuss these issues further at your convenience.

Very truly yours,

Harold C. Heinze
Harold C. Heinze

/pfm



Official Business

Alaska State Legislature

JOINT SPECIAL COMMITTEE ON TAX POLICY

Pouch V
State Capitol
Juneau, Alaska 99801

September 19, 1986

Mr. John R. Kemp
Division Manager
Conoco Inc.
3201 "C" Street, Suite 200
Anchorage, Alaska 99503

Dear Mr. Kemp:

Thank you for your letter of September 4 to the Tax Policy Committee. Copies were distributed to the committee members at the September 11 meeting and acknowledgement of your correspondence was read into the minutes.

At the meeting, the committee heard presentations on the ELF while discussion on that topic and other oil and gas issues were held to a minimum. The chairman deferred in-depth discussion to a future committee meeting to allow time for the committee to analyze all the material presented.

Sincerely,

A handwritten signature in cursive script, appearing to read "Frank".

Frank R. Ferguson
State Senator
Co-Chair, Tax Policy Committee

cc: Rep. Grussendorf, Co-Chair, Tax Policy Committee



Alaska State Legislature

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

JOINT SPECIAL COMMITTEE ON STATE'S TAX POLICY

August 25, 1986

Mr. William W. Hopkins
Alaska Oil and Gas Association
121 W. Fireweed Lane, Suite 207
Anchorage, AK 99503-2035

Dear Mr. Hopkins:

Thank you for offering the assistance of the AOGA Tax Committee in assessing Alaska's oil and gas tax structure and policy.

Although the state's Tax Policy Committee has no specific request from you at this time, we are open to comments and information that you may wish to provide.

The next meeting of the Tax Policy Committee is planned for September 11 at 10:00 a.m. at the Anchorage Legislative Information Office. The topic of this meeting will be the Economic Limit Factor and a portion of the meeting will be open for public comment.

Thank you again for contacting me.

Sincerely,

Frank R. Ferguson
Frank R. Ferguson
Alaska State Senator

cc: Rep. Ben Grussendorf, Co-Chairman
Tax Policy Committee

Alaska Oil and Gas Association



121 W. Fireweed Lane, Suite 207
Anchorage, Alaska 99503-2035
(907) 272-1481

August 20, 1986

Senator Frank Ferguson, Co-Chairman
Joint Special Committee on Tax Policy
P.O. Box V
Juneau, Alaska 99811

Dear Senator Ferguson:

Alaska's tax statutes and regulations have undergone numerous changes over the past 15 years. Many of these individual tax changes have been made without an analysis of their overall impact on fairness, equity and economic stability.

These three areas: fairness, equity and stability have been points of concern for the petroleum industry over these years. We are pleased that the Joint Special Committee on Tax Policy will be addressing the fairness and equity of current and proposed tax changes and the destabilizing effect of multiple tax changes.

The Alaska Oil and Gas Association has a Tax Committee, composed of members of individual company tax departments, which together represent more expertise and experience in corporate and petroleum industry taxation than is likely to be found anywhere else in Alaska. We would like to take this opportunity to offer the assistance of our Tax Committee as the Joint Special Committee considers the appropriate future Alaska tax policy.

Please let me know if we can be of any assistance to the Joint Special Committee on Tax Policy.

Sincerely,

A handwritten signature in dark ink, appearing to read "William W. Hopkins", is written over the typed name.

WILLIAM W. HOPKINS
Executive Director

dw8:857



Alaska State Legislature

JOINT SPECIAL COMMITTEE ON STATE'S TAX POLICY

Official Business

Pouch V
State Capitol
Juneau, Alaska 9981

August 13, 1986

Mr. Harold C. Heinze
ARCO Alaska, Inc.
P.O. Box 100360
Anchorage, Alaska 99510

Dear Mr. Heinze:

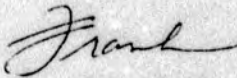
Thank you for contacting us about addressing the Tax Policy Committee on economic issues affecting the oil and gas industry.

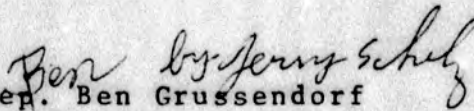
The committee plans at its next meeting to hear a presentation on the economic limitation factor by the administration. The objective of the presentation is for education/information purposes only. You are welcome to present pertinent information to the committee at this time or before.

In its early phases, the Tax Policy Committee will primarily focus on research and data gathering. Policies and proposals will be entertained at a later phase in the committee process. Be assured that ARCO as well as other oil and gas industry representatives will be given ample opportunity to address proposals and policy issues which may arise.

We will inform you of the exact date of the next meeting as soon as it is firmed up.

Sincerely,


Sen. Frank R. Ferguson
Co-Chairman


Rep. Ben Grussendorf
Co-Chairman

ARCO Alaska, Inc.
Post Office Box 100360
Anchorage, Alaska 99510
Telephone 907 265 6511

● AUG 11 1986



Harold C. Heinze
President

August 7, 1986

Honorable Frank Ferguson
and Honorable Ben Grussendorf
Co-Chairmen of the Special Committee
on Tax Policy
Pouch V
Juneau, AK 99811

Dear Senator Ferguson and
Representative Grussendorf:

It has come to my attention that during your research on Alaska's tax policies, you will be discussing a number of issues which impact the economics of the oil and gas industry. I request that ARCO Alaska, Inc. be allowed to present testimony on any proposals regarding oil and gas taxation. These issues are vital to my company's continued operation, investment, and job creation in Alaska.

Thank you for your consideration.

Sincerely,

Harold C. Heinze



Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

June 24, 1986

Barbara Yondorf
Program Director, Fiscal Affairs
National Conference on State Legislatures
1050 17th Street, Suite 2100
Denver, Colorado 80265

Dear Ms. Yondorf:

We are requesting your assistance in obtaining information about state tax studies and structures for use by the Alaska Special Joint Committee on State's Tax Policy.

This request is twofold. First, we are interested in acquiring copies of tax studies for the District of Columbia and the following states: Hawaii, Iowa, Minnesota, Pennsylvania, Texas, Washington, and West Virginia.

Secondly, we would like to review the tax structures of other states having a strong natural resource or tourism-based economy similar to Alaska. Other states include (but need not be limited to) California, Colorado, Florida, Louisiana, Montana, Nevada, North Dakota, Oklahoma, Utah, and Wyoming.

Any information you can provide would be appreciated, as would suggestions for obtaining information from other sources. If you have any questions regarding this request please contact Peggy Sepulveda at Senator Ferguson's office (907-465-4923).

Thank you for your assistance.

Sincerely,

A handwritten signature in cursive script, reading "Frank Ferguson".

Senator Frank R. Ferguson
Co-Chairman
Special Joint Committee on
State's Tax Policy

A handwritten signature in cursive script, reading "Ben Grussendorf".

Representative Ben Grussendorf
Co-Chairman
Special Joint Committee on
State's Tax Policy



Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

June 20, 1986

Hal Brown
Attorney General
Box K
Juneau, Alaska 99811

Dear Hal:

As Chairman of the Joint Special Committee on State's Tax Policy, I would appreciate your consideration of allowing your assistant, Deborah Vogt, to be available to the committee for legal assistance since she is very knowledgeable about tax issues.

I don't anticipate the committee meeting very often once we have our initial meeting which will be some time the third week of July, 1986.

This committee can be very instrumental in getting a good tax policy only if we have good people working on this important issue.

For informational purposes, you will find enclosed a copy of 'Potential "Elf" Problem', prepared by Mary Halloran of Representative Grussendorf's office.

Please contact Peggy Sepulveda in my Juneau office at 465-4923 or Box V, Juneau, Alaska, 99811 with your decision on this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Frank".

Frank R. Ferguson
Alaska State Senator

Enclosures

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

JUL 31 1986

BILL SHEFFIELD, GOVERNOR

REPLY TO:

☐ 1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

☐ 1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

July 30, 1986

☒ POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

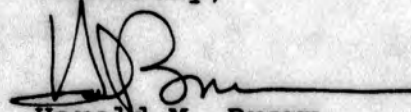
Frank R. Ferguson
Alaska State Senator
P.O. Box V
Juneau, AK 99811

Attention: Peggy Sepulveda

Dear Senator Ferguson:

Thank you for your letter of June 20, 1986 regarding the Joint Special Committee on State's Tax Policy. At your request, I am happy to instruct Deborah Vogt to provide whatever assistance she can to the committee.

Sincerely,



Harold M. Brown
Attorney General

HMB:jf

cc: Deborah Vogt
Assistant Attorney General



National Conference of State Legislatures

1050 17th Street
Suite 2100
Denver, Colorado 80265
303/623-7800

President David E. Nething
Majority Leader
North Dakota Senate

Executive Director
Earl S. Mackey

July 8, 1986

Ms. Peggy Sepulveda
Office of Senator Ferguson
Pouch V
State Capitol
Juneau, AK 99811

Dear Peggy:

Enclosed is my report on state tax systems that I mentioned on the telephone the other day. It shows in general how different Alaska looks compared to the other states.

As I indicated to you, I have been involved in the planning of many of the recent state tax studies and I'm familiar with most of them. I would be pleased to assist Alaska as it re-examines its tax system.

Sincerely,

Steven D. Gold
Director of Fiscal Studies

P.S. I also enclose a flyer on a new book about oil and Colorado's economy.

SDG/kj

enc.

Ohio Valley Industrial & Business Development Corporation
P.O. Box 1029, Wheeling, WV 26003
304-232-7722

July 14, 1986

Ms. Peggy Sepulveda
c/o State Senator Frank Ferguson
P. O. Box V
Juneau, AK 99811

Dear Ms. Sepulveda:

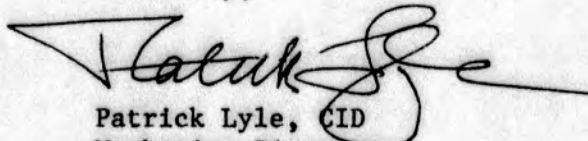
In 1984, the West Virginia Tax Study Commission conducted a thorough examination of our state's tax structure. Their report is, I believe, what you are seeking. Copies may be obtained through:

Office of Legislative Services
East Wing 132
State Capitol
Charleston, WV 25305
(304) 348-2040

Additionally, The State Journal, a West Virginia business publication, published a series of articles this year based on a study released last year by the Kentucky Economic Development Corporation, which compares the effects on four hypothetical corporations of the tax structures in 13 states, West Virginia included. For copies of the study, I suggest you contact the Kentucky Economic Development Corporation or The State Journal (304-344-1630).

I hope this information will be helpful to you.

Sincerely,


Patrick Lyle, CID
Marketing Director

PL:keh

INFORMATION REQUESTS - TAX POLICY MEETING
December 4 & 5, 1986

p. 3
REP. SUND asked if there is a cents-per-barrel floor in other states and what the numbers are.

CHARLES LOGSDON replied that he did not have that information with him but that the Dept. of Revenue does a comparative severance tax paper that can be provided to the committee. He stated that Alaska's floor was relatively high, but that other states have different cents-per-barrel rates depending on field production.

p. 10
REP. MARTIN said it was mentioned at a previous meeting that past legislators had planned only on the potential of oil production decreases and increases, and that no one took into consideration a decline in oil prices. He said it seemed the Dept. of Revenue did give scenarios to the legislators so that they would think of the potential of decreased oil prices. He asked if the major factors could be re-evaluated to see if that was a consideration when the legislators looked at severance tax rates and separate accounting. He said it is important to know whether the legislators and the Dept. of Revenue based their conclusions on both aspects of production and oil prices.

NUMBER 346

CHARLES LOGSDON said a previous presentation indicated the severance tax currently in effect was targeted strictly toward productivity. There is the introduction of price sensitivity of the Production at the Economic Limit (PEL). Since the price was very stable at the time the tax was considered, it was not perceived as being an important issue.

p. 30
NUMBER 597

BART GARBER said he had a concern with fairness because when you shift to dividends in lieu of income as a source of state revenue it is shifted disproportionately like the sales tax over to lower income groups. They would gain disproportionately more from the dividend than they would lose under an income tax. He was curious if there were any figures about the administrative costs of an income tax and if they were significant. He asked what percentage of the return does administration take and how much bigger government has to get to collect and enforce an individual income tax.

VINCE WRIGHT said it is an area the department is looking at. He was unsure of the percentage, but it was an insignificant figure in terms of rate of return.

P.31 NUMBER 3

DAVE RASLEY asked what part of income earned by people who are from out of state would be captured with a state income tax.

VINCE WRIGHT said he was unsure, but they had done a previous study that broke out part-time residents that he could refer back to, but there was some leakage.

REP. SUND said he thought the number was over \$100 million out of \$300 million.

REP. MARTIN said two scenarios were done, one was 17% and the other 23%.

P.41 REP.-ELECT BROWN commented on Rep. Martin's concern about loss of jobs and that she felt that it was not necessarily the case that adoption of option five would reduce overall drilling. One of the points in pursuing it would be to get more drilling and more development of smaller areas. She said she would like to see an analysis of what affect it would have on a large field.

P.47 GORDON HARRISON said in the previous day's discussion an intriguing alternative came up regarding the options of modified apportionment and separate accounting, which was further examination of apportioned factors that are used in the modified apportionment now. He referred to Ms. Vogt's discussion of the problem of including production reserves as a factor in the formula and was curious to know if it could be a productive avenue for study by tax experts.

P.49 REP. MARTIN said it was clear to him over the summer that the population is opposed to increased taxation on the oil industry because they recognize the disparity. Regarding property taxes, there is a need for evaluation of which local communities are getting the most out of that. There was discussion in the past about how much the North Slope Borough and Valdez gets and how much of a drain it is to state revenue as a whole. An evaluation should be made of the fairness to the various local government recipients compared to the state rather than an evaluation of an increase of property tax.

P.51 REP. SUND said the next question would be what the impact of doing that would be on society. (re: personal income tax)

VINCE WRIGHT said in discussing the economic impacts the department may have to contract outside because they do not have the inhouse models necessary to do that additional analysis. Also, staff is being reduced so they are short of labor. It would involve a lot of analysis and the university may have that capability as well as private consultants. The department has the capability, but they would require additional people.

GORDON HARRISON said it is a very difficult analysis to do. There is a model at the university that might shed some light on that. He expressed hope that the upcoming Dept. of Revenue report will describe in theoretical terms the economic impact issues.

p. 53
REP. MARTIN asked if the Dept. of Revenue could work with the Dept. of Labor to get the latest statistics of population of the work force to pinpoint where the bulk of the income tax would come from in terms of area of the state and political representation. It is important from a political point of view. Alaska is the only state that has a simple majority of twenty-one in the house and eleven in the senate, every other state has at least two-thirds of each body. Because of malapportionment, the majority of legislators do not represent the majority of the people, nor would they represent the majority of the taxpayers.

NUMBER 654

BART GARBER said there were a couple of previous information requests related to this. One was about dedicated taxes, and the other was a request he made which was similar to Rep. Martin's concern about distribution of the labor force and income.

GORDON HARRISON said they were diligently working on that when their staff person, Tom Chester, took another job in Washington, D.C. So, there has been a delay, but they are still working on it. They are trying to get an income distribution model of the state to be able to say what the liability would be for various income levels under various tax proposals.

Chapter 130

to the Department of Administration for payment as a grant under AS 37.05.-315 to the City of Seward for equipment.

* Sec. 492. The sum of \$4,988,500 is appropriated from the general fund to the Department of Administration for payment as a grant under AS 37.05.-315 to the City of Kotzebue for a public safety facility.

* Sec. 493. The sum of \$5,118,000 is appropriated from the general fund to the Department of Administration for payment as a grant under AS 37.05.-315 to the City of Nome for the port project.

* Sec. 494. The sum of \$88,000 is appropriated from the general fund to the Department of Health and Social Services for payment as a grant under AS 37.05.316 to the Southeastern Counseling Center for equipment.

* Sec. 495. The sum of \$1,178,880 is appropriated from the general fund to the Legislative Affairs Agency for the joint special committee on tax policy to conduct a comprehensive review of the state's tax policy on economic growth and employment.

* Sec. 496. The sum of \$50,000 is appropriated from the general fund to the Department of Community and Regional Affairs for payment as a grant under AS 37.05.315 to the City of Kotzebue as matching funds for a federal grant to construct a community facility.

* Sec. 497. The sum of \$84,000 is appropriated from the general fund to the Department of Education for payment as a grant under AS 37.05.316 to Perseverance Theater for facilities.

* Sec. 498. The sum of \$20,000 is appropriated from the general fund to the Department of Administration for payment as a grant under AS 37.05.315 to the North Slope Borough for a senior citizen van in Pt. Hope.

* Sec. 499. The sum of \$88,600 is appropriated from the general fund to the University of Alaska, Fairbanks Geophysical Institute for an Air/Land Chemical Monitoring System in Arctic Northwest and Western Alaska.

* Sec. 500. The sum of \$80,000 is appropriated from the general fund to

Chapter 130

the Department of Education, division of museums, for payment as a grant under AS 37.05.316 to the Institute of Alaska Native Arts, Inc. for a cultural enhancement program.

* Sec. 501. The sum of \$8,000 is appropriated from the general fund to the Legislative Affairs Agency for the Rural Research Agency research activities.

* Sec. 502. The sum of \$69,600 is appropriated from the general fund to the Department of Community and Regional Affairs for payment as a grant under AS 37.05.316 to Manillaq Manpower for a summer youth program.

* Sec. 503. The sum of \$50,000 is appropriated from the general fund to the Department of Community and Regional Affairs for payment as a grant under AS 37.05.316 to Manillaq Manpower for the Satellite Computer Assisted Network (SCAN).

* Sec. 504. The sum of \$514,000 is appropriated from the general fund to the Department of Community and Regional Affairs for payment as a grant under AS 37.05.316 to the Alaska Native Foundation for the Cape Beaufort Coal Feasibility Project final phase.

* Sec. 505. The sum of \$9,000 is appropriated from the general fund to the Department of Administration for payment as a grant under AS 37.05.315 to the City of Hooper Bay for public safety building code upgrade.

* Sec. 506. The unexpended and unobligated balance of the appropriation made in sec. 251, ch. 105, SLA 1985 (Education - Instructional Television projects - \$436,331) is repealed and reappropriated to the Department of Education, adult and vocational education, for operation of the Alaska Career Information System for the fiscal year ending June 30, 1987.

* Sec. 507. The sum of \$24,000 is appropriated from the general fund to the Department of Transportation and Public Facilities for the installation of a flashing light near the Homer Middle and Junior High School.

* Sec. 508. Section 34, ch. 107, SLA 1983, page 65, line 8 is amended SCS CSNB 574(Fin)



Official Business

Alaska State Legislature

Senate

JUN 23 1986

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: Committee Members

FROM: Senator Frank R. Ferguson, Chairman *FRF*
Joint Special Committee on State's Tax Policy

DATE: June 20, 1986

SUBJ: First Committee Meeting

The governor has not appointed the three ex-officio members of the private sector to the Joint Special Committee on State's Tax Policy as of yet. Hopefully, a decision will be made in the near future.

I have asked Mary Halloran from the Speaker's Office to poll the members for our first meeting preferably in Anchorage the third week of July.

If any of you need TR's for transportation, the contact person in my office will be Peggy Sepulveda in Juneau at 465-4923.

I've inquired and requested of the Attorney General that he make Debra Vogt available to the committee as the committee legal expert.

The Department of Revenue and OMB may make a short presentation at our first meeting of what information they have already compiled.

For informational purposes, you will find enclosed a copy of 'Potential "Elf" Problem', prepared by Mary Halloran.

Enclosure

cc: Gordon Harrison, OMB
Richard Monkman, Dept. Revenue
Greg Erickson, OMB
Jim Ayers, Governor's Office
Deborah Vogt, Dept. Law

April 18, 1986

POTENTIAL "ELF" PROBLEM

Alaska's petroleum severance tax is a major source of the state's revenues, an estimated \$770.5 million of the \$2077.6 million projected for FY 87. North Slope producers currently pay the full 15 percent nominal severance tax rate, with a downward adjustment scheduled to begin in 1987 on the Prudhoe Bay field.

The formula for the adjustment of the nominal severance tax rate is called the economic limit factor, fondly known as the ELF. Under the ELF, actual severance tax paid equals [ELF X statutory tax rate]. The severance tax features an 80c/barrel minimum tax, supposedly an insulating barrier from low oil prices. But, the 80c/barrel minimum tax is also subject to the ELF under AS 43.55.011(a). The ELF is not operative until its calculated value is .7 or less, or until a field begins its eleventh year of production.

The ELF formula is:

$$[(460 \times WD)/PEL]$$

$$ELF = (1 - PEL/TP)$$

This unwieldy formula can be simplified to the following:

1.533

$$\text{Current ELF} = (1 - 300/\text{well production})$$

(See Attachment A for further explanation of terms and detail).

The controlling factor of the ELF formula is the PEL. Put simply, PEL is the amount of production needed to cover direct operating costs. Under current statute, that amount is specified to be 300 barrels per day. But, as wellhead values decrease, PEL increases since it takes more barrels to cover actual operating costs. The producers can request a change in the official PEL, based on one month's market prices and four consecutive months' of operating costs. Given the predictions that prices will stay low, on average, for the next 18 months, then operating costs will be proportionately larger as a percentage of the total production than in the past. As the PEL increases, the value of ELF decreases, eventually becoming zero. A zero ELF means, of course, zero severance taxes.

Low wellhead prices make it conceivable that producers will request the necessary administrative hearing(s) to increase the PEL which will, in turn, decrease the ELF, which will, in turn, decrease the amount of severance tax received by the State. The Dept. of Revenue calculates that at today's prices the PEL is greater than 300 barrels/day at three North Slope fields - Kuparuk, Milne Point and Lisburne.

The ELF for Prudhoe Bay production becomes sensitive to price after wellhead prices go below \$2/barrel, or \$11/barrel on the West Coast and \$13.50 on the Gulf. The Prudhoe Bay wellhead value becomes zero at a West Coast market price of \$6.50 and a Gulf Coast price of \$9.00. Thus, it may be to the producers' economic advantage to ask for a new Prudhoe Bay PEL/ELF calculation if the price falls to \$11 West Coast and \$13.50 Gulf. Prudhoe Bay will provide between 83.7 and 86 percent of the expected FY87 production.

The ELFs for the Kuparuk, Milne Point and Lisburne fields are considerably more sensitive to probable oil prices than is Prudhoe Bay.

The ELF for Kuparuk becomes sensitive to prices when the wellhead price falls below \$3/bbl. The Kuparuk ELF reaches .7 at approximately \$12.50 West Coast and \$15.00 Gulf, and drops to zero at \$8.10 West Coast and \$10.60 Gulf. Kuparuk will provide between 11.8 and 12 percent of the expected FY87 production.

The ELF for Milne Point becomes sensitive to prices when the wellhead falls below \$5.00/bbl. The Milne Point ELF reaches .7 at approximately \$13.70 West Coast and \$16.20 Gulf, and drops to zero at \$10.30 West Coast and \$12.80 Gulf. Milne Point will provide between 1.6 and 2 percent of the expected FY87 production.

Production at Lisburne is still scheduled to begin in December 1986 or early 1987. The Lisburne ELF also becomes sensitive to prices when the wellhead drops below \$5.00/bbl. The Lisburne ELF reaches .7 at approximately \$10.60 West Coast and \$13.10 Gulf, and drops to zero at \$7.20 West Coast and \$9.50 Gulf. If Lisburne goes on line on schedule, it will provide about 2.7 percent of the expected FY87 production.

To trigger the re-evaluation of the value of the PEL/ELF, the producers must request an administrative hearing, either by February 15 of the affected year or within the first six months after commencement of a field's production. Once set, the ELF cannot be changed during that calendar year [AS 43.55.013(d)].

For Prudhoe Bay, the ELF kicks in automatically under current statute on June 17, 1977, although a change could take place as early as the beginning of 1987. A changed PEL/ELF could be established for Kuparuk, effective January 1, 1987, while different PEL/ELFs for both Milne Point and Lisburne fields could be established retroactive to the beginning of production as both fields are or will be in their respective first six months of production. Once the PEL/ELF is changed, its new valuation is set for the calendar year. Whether a change takes place depends on market prices and the producers' willingness to request the necessary administrative hearing this fall. Under the provisions of AS 43, the hearing would be confidential and action would proceed without any notification to the legislature.

Also, the statute does not provide the Dept. of Revenue with discretionary powers. The direct operating costs are tightly and narrowly defined in statute [AS 43.55.013(e)]. Thus, the request would be evaluated on mathematics -- does it now take more than 300 barrels per day to pay direct operating costs? At this time it appears that the actual PEL is more than 300 barrels/day in the Kuparuk, Milne Point, and Lisburne fields.

At risk is some portion of about \$38.5 million in FY 87 severance taxes from Milne Point, Lisburne, and Kuparuk production. The Dept. of Revenue and OMB expect the loss of at least \$12 to 14 million. The \$38.5 million equals about 5% of total severance taxes expected, or about 2% of total state revenues. Also at risk is some portion of about \$28.2 million in FY 88 severance taxes, or about 2% of total state revenues.

These calculations are based on the March 1986 revenue projections, including TAPS. For FY87, Milne Point and Lisburne are each expected to bring in \$7.7 million, while Kuparuk would bring in \$23.1 million for the period January 1, 1987 through June 30, 1987. For FY88, Milne Point, Lisburne, and Kuparuk should generate \$56.4 million in severance taxes. Half this amount, or \$28.2 million would be at risk because the new ELF's would remain in effect through the calendar year 1987.

A simple statutory change can provide a fundamental protection for the State's severance tax income so that it is never calculated on less than the 80c/bbl floor set out in AS 43.55.011(c).

The necessary language would be as follows:

* Section 1. AS 43.55.011(a) is amended to read:

Sec. 43.55.011. OIL PRODUCTION TAX. (a) There is levied upon the producer of oil a tax for all oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation. The tax is equal to either the percentage-of-value amount calculated under (b) of this section, multiplied by the economic limit factor determined for the oil production of the lease or property under AS 43.55.013, or the cents-per-barrel amount calculated under (c) of this section, whichever is greater[, MULTIPLIED BY THE ECONOMIC LIMIT FACTOR DETERMINED FOR THE OIL PRODUCTION OF THE LEASE OR PROPERTY UNDER AS 43.55.013]. If the amounts calculated under (b) and (c) of this section are equal, the amount calculated under (c) [(b)] shall be treated as if it were the greater for purposes of this section.

* Section 2. Section 1 of this Act takes effect immediately in accordance with AS 01.10.070(c).

This language does not attempt to solve another identified issue - inflation-proofing the cents-per-barrel floor. The 80c/bbl floor was originally established in 1977, and has not been revised since that time, despite the considerable effects of inflation during the past nine years. In today's dollars, the 80c of 1977 would be about \$1.25.

There also exist potential problems with royalty revenue. At zero wellhead value, the State receives no royalty revenue except from those sales contracts which specify a premium over "in value" price. Those contracts affect only about 25% of the royalty share, providing 30c to 35c/barrel premium. (The following royalty contracts currently provide premiums above the "in value" price: Tesoro- second contract, 13.876% of Prudhoe Bay royalty production; Chevron, 9.6% of Prudhoe Bay royalty production; GVEA, 2.667% of Prudhoe Bay royalty production; and Petrostar, 19.198% of Kuparuk royalty production).

Unfortunately, the economic interests of the producers and the State are not the same because of the TAPS tariff, shipping costs, and the producers' federal taxes. It is apparently in the producers' economic interests to maintain the flow of Prudhoe Bay oil until the market price drops to approximately \$3 on the West Coast and \$5.50 on the Gulf. Thus, the State could conceivably find itself in the situation where its royalty oil has little or no value in terms of state revenues yet the oil is pumped daily into TAPS. In fact, there is even the remote possibility of a 70c/bbl cleaning and dehydration charge on all royalty barrels being levied against the State by the producers even when the wellhead value is zero.

The possible actions necessary to protect the State's royalty revenue seem to be administrative in nature, and would involve cooperative negotiations with the producers. In contrast, the severance tax floor can be fixed only through legislative action.

NORTH SLOPE PRODUCTION AND THE ELF

FIELD	PRUDHOE BAY	KUPARUK	MILNE POINT	LISBURNE
Wellhead price at which field becomes sensitive to ELF	\$2.00 or less/bbl	\$3.61 or less/bbl PEL > 300 at 3.61 WH	\$5.00 or less/bbl PEL > 300 at \$4.85 WH	\$5.00 or less/bbl PEL > 300 at \$4.90 WH
Sales price/value at which ELF reaches .7 West Coast Gulf	Now above .7 7.15 WC 9.65 Gulf	Now below .7 Approx 12.50 WC 15.00 Gulf	Now below .7 Approx 13.70 WC 16.20 Gulf	Now below .7 Approx 10.60 WC 13.10 Gulf
Sales price/value at which ELF reaches 0 West Coast Gulf	6.50 WC 9.00 Gulf	> \$1.20 Wellhead 8.10 WC 10.60 Gulf	> \$1.50 Wellhead 10.30 WC 12.80 Gulf	> \$1.50 Wellhead 7.20 WC 9.50 Gulf
Time period for confidential hearing request	By Feb. 15, 1987	By Feb. 15, 1987	(1) Within first 6 months of production (by May 15, 1986) or (2) By Feb. 15, 1987	(1) Within first 6 months of production (Scheduled to begin Dec. 1986 or Jan 1987), or (2) Feb 15, 1987, whichever is latest
Time period when new ELF would apply	1987	1987	(1) Retroactive to beginning of production or (2) 1987, depending on timing of request	(1) Retroactive to beginning of production or (2) 1987
Basis for calculation of current direct operating costs (PEL)	300 bbls/day	300 bbls/day	300 bbls/day	300 bbls/day
Percentage of North Slope production: w/o Lisburne with Lisburne	86% 83.7%	12% 11.8%	2% 1.6%	N/A 2.7%
Percentage of expected severance tax for FY 87 (based on March forecast) and dollar value	92% \$708.9 million	6% \$46.2 million	1% \$7.7 million	1% \$7.7 million
Percentage of expected severance tax for FY 88 (based on March forecast) and dollar value	89.4% \$476.5 million	7.1% \$37.8 million	1.3% \$6.9 million	2.2% \$11.7 million

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

BILL SHEFFIELD, GOVERNOR

REPLY TO:

☐ 1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

☐ 1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

☒ POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

July 8, 1986

Mary Halloran
Office of Representative Grussendorf
Speaker of the House of Representatives
P.O. Box V
Juneau, AK 99811

Re: Tax Policy Committee
Meeting
Our file: 663-86-0570

Dear Mary:

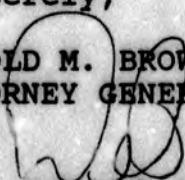
As you know, I will be unable to attend the first meeting of the Tax Policy Committee. I have asked Barbara Herman, Chief of the Oil, Gas and Mining Section of our office in Anchorage, to attend in my stead. Barbara was the Chief of the Commercial Section here in Juneau before going to Anchorage; she is very knowledgeable about both tax matters and oil and gas matters. She should be able to answer any questions that might come up at that meeting.

I understand that the meeting will be at the Anchorage Legislative Information building on Monday, July 21. Would you please let Barbara know the time and room number? She can be reached through our Anchorage office -- 276-3550 -- or through the Oil and Gas Section at 277-8661.

Thank you.

Sincerely,

HAROLD M. BROWN
ATTORNEY GENERAL

By: 
Deborah Vogt
Assistant Attorney General

DV:jf

cc: Barbara Herman
Chief, Oil, Gas & Mining
Anchorage, AGO

Standard Alaska
Production Company
900 East Benson Boulevard
P.O. Box 196612
Anchorage, Alaska 99519-6612
(907) 564-5423

G.N. Nelson
President

STANDARD
ALASKA PRODUCTION

July 25, 1986

Senator Frank Ferguson
Alaska State Senate
Pouch V
Juneau, AK 99811

Attn: Peggy Sepulveda

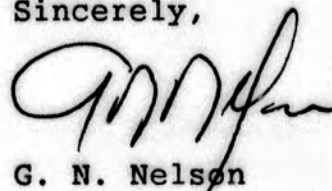
Dear Senator Ferguson,

Per our conversation after the first meeting of the Joint Special Committee on Alaska's Tax Policy, I have reviewed my schedule to see which dates in September I have available to attend the next commission meeting.

I am already committed on the following dates: September 8, 9, 15, 16, 17 and could not attend a meeting on these days. I am available on these dates: September 2, 3, 4, 5, 10, 11, and 12.

Thanks for your consideration, Senator, in taking these dates into account when you schedule the next commission meeting.

Sincerely,



G. N. Nelson

cc: Mike Scott
Senator Ferguson's Office
P. O. Box 131
Kotzebue, Alaska 99752

MEMORANDUM

State of Alaska

TO: Mary Halloran
House Speaker's Office

SEP 22 1986

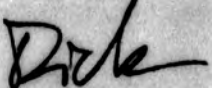
DATE: September 18, 1986

FILE NO.:

THRU:

TELEPHONE NO.: 465-2302

SUBJECT: Scheduling Next Tax
Study Committee


FROM: Richard D. Monkman
Deputy Commissioner, Taxation
Department of Revenue

I will be out of state from October 10, 1986 through November 1, 1986. If the next Tax Study Committee meeting could be set for October 8 or 9, 1986, I will be able to attend.

Thanks!

RDM:mkw

cc: Peggy Sepulveda, Senator Ferguson's Office

MEMORANDUM

State of Alaska

AUG 22 1986

TO: Mary Halloran
Legislative Assistant
Joint Special Committee
on Tax Policy

DATE: August 20, 1986

FILE NO.:

THRU:

TELEPHONE NO.: 465-2302

SUBJECT: September Committee
Meeting

FROM: 
Richard D. Monkman
Deputy Commissioner, Taxation

I received your notice that the Joint Tax Policy Committee will be meeting on September 11, in Anchorage, and have marked the date in on my calendar.

My notes from the July 24 meeting in the Speaker's office indicate that the Department of Revenue will be responsible for two presentations at the meeting: (1) a general overview of the concept of severance taxes with an introduction to the economic limit factor, to be followed by a technical presentation on the workings of the ELF by the Office of Management and Budget; and (2) a presentation of the back taxes situation and the Department of Revenue's strategy for accelerating collection of the back taxes.

I will handle the introduction to severance taxes, and am planning on about a 20 to 30 minute presentation. I do not know how long OMB plans on taking to discuss the inner workings of the beast. Deborah Vogt will also be attending. She is very knowledgeable on the ELF, and may be able to answer questions the committee members have on legal issues.

Martin Richard, Director of the Audit Division, and Carl Meyer, Chief of Audit Appeals, will be at the meeting in order to go over the back tax situation for the committee. They will present the latest, updated, and most accurate list of back taxes, and will describe for the committee the major effort the Audit Division is making to collect these back taxes. We have accelerated the hearing/appeal process, and are focusing auditor and hearing officer attention on this problem as never before.

I spoke with Peggy, Senator Ferguson's aide, last week about the many requests for income tax related information at the last meeting. It was my understanding that the income tax discussion would be at the October or November committee meeting, and that we would not need to respond to the committee's many requests for information on income taxes until then. Peggy was inclined to believe that the committee wants the income tax information sooner. Could you please advise both me and OMB on this? The committee asked for a lot of information which will be difficult to obtain on such short notice.

Thanks!

cc: Deborah Vogt, Assistant Attorney General
Gordon Harrison, OMB
Martin Richard
Royce Weller



Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: Anchorage Legislative Information Office

FROM: Senator Frank R. Ferguson, Co-Chair
Representative Ben Grussendorf, Co-Chair
Joint Special Committee on State's Tax Policy

SUBJ: Announcement of Committee Meeting

DATE: July 10, 1986

There will be a work session of the State Tax Policy Committee held at the Anchorage LIO Conference Room on Monday, July 21, 1986 at 10:00 a.m. Although this is a work session, it is open to the public, but public testimony will not be taken at this meeting.

If you should have any questions, please contact Peggy Sepulveda of Senator Ferguson's office in Juneau at 465-2444.

Alaska State Legislature



Speaker of the House of Representatives

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-3720

Official Business

July 14, 1986

To: All Legislators

From: Frank Ferguson *FF*
Ben Grussendorf *BG*

On Monday, July 21, the Joint House-Senate Tax Policy Committee will hold an introductory work session at the Anchorage Legislative Information Office conference room. The session will begin at 10 a.m.

All legislators are invited to attend this and all sessions of the committee.



Official Business

Alaska State Legislature

Pouch V
State Capitol
Juneau, Alaska 99811

JOINT SPECIAL COMMITTEE ON STATE'S TAX POLICY

Committee Announcement

August 15, 1986

On Thursday, September 11, the Tax Policy Committee will meet in Anchorage at the Legislative Information Office conference room. The meeting will begin at 10:00 a.m.

The agenda will focus primarily on information about the Economic Limit Factor. A portion of the meeting will be set aside for public comment.

For further information, call 465-3862.

REPRESENTATIVE
BEN GRUSSENDORF

P.O. Box 888
SITKA, ALASKA 99835
(907) 747-8488

RULES COMMITTEE
LEGISLATIVE COUNCIL

DISTRICT 3
ELFIN COVE
PELICAN
PORT ALEXANDER
SITKA
TENAKEE

Alaska State Legislature



House of Representatives
SPEAKER OF THE HOUSE

WHILE IN JUNEAU
P.O. Box V
JUNEAU, ALASKA 99811
(907) 485-3884
(907) 485-3780

JOINT SPECIAL COMMITTEE ON TAX POLICY

COMMITTEE MEETING ANNOUNCEMENT

September 23, 1986

The Tax Policy Committee will meet on Wednesday, October 15, at 10 a.m. in the Legislative Information Office conference room, 1024 West 6th, Anchorage.

The agenda will include an overview of the state's corporate income tax and discussion of the severance tax economic limit factor.

For further information, call 465-3862.

(have name)

Steve Gould - NCSL (Denver)

Tax Studies: D.C. Bob Ebel (Directed) 10:45 - 7/7 - called - no ans.
202-653-0267 ↓

✓ Minn. Butterworth Publ. - for sale \$60⁰⁰ ny 7/7

✓ HI Jack Snyderhud
808-948 7446 7/7 - called - requested copy, spoke w/ Secy.
395-8031 (home)

TX
WASH
IOWA

Iowa - "not worth much" - Legis Service Bureau
515-281-3566

* Michigan - } Useful reports - Univ. Mich Press
* Indiana - } 2 vol. Ann Arbor, Mich.
Purdue Univ. Press
West Lafayette, Ind.

Received ✓ Penn. Prof. Bob Strauss 7/7 - called - will send copy
Final Report - 1981 Study
Nat'l Tax Assoc. Remarks also
412-268-2170

TX. Speaker's Office
512-463-1000

WASH. Revenue Dept. Director
206-753-5574

Charles McLure & John ...
Ohio having Tax conference in Sept. 5-6
Montana - Speaker's Office expressed interest in Tax study,
but backed off on major expenditure

✓ W. Virginia - Bill Dodge -
412-355-6903
(Pittsburg, Penn. #) info. 355-5252
412 644-1099 7/12 Called Nick Bianco - left
message to send report or call

✓ Terry Burkhardt - Econ. Dev. 304-232-7722 W. Virginia 7/14 called - left message
Pat Lyle - Private study - Ohio Valley Ind. & Bus. Org. - non-profit

Other contacts:

Current Tax Study - Louisiana

Jim Richardson

504-388-6745

doing best work currently

Books

MUAS
Fiscal Federalism & Taxation of Nat'l. Resources - Charles McLure
(Stanford)

Lexington Books - 1983

Editorial Office 617-862-6650 can tell # to order book

* State Energy Revenues Chapter - good overview

Steve Gold could xerox chapter if can't get book

Rand Corp. - Santa Monica

Report on Severance Taxes for California - (1984 or 1983)

* Workshop for Legis. Staff on Tax Studies - will send info. Announcement
Sept. 15-16th Dillon, Colo.

Steve Gold
Could come to Alaska couldn't come July 21st, but later dates
okay - is also editing book based on last October's conference.
hope to publish by end of year.

Will send copy