

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1519 SCOMM 55: JNT. SPEC. COMM. ON STATE TAX POLICY, 1986-1987 1319

Endicott
Miscellaneous Information
1985-2010

Year	Field Intangibl Dev. Cost (1000)	Dev. Cost (1000)	Taxbase (1000)	Statutory Cur. Law	Sev. Tax HB 353	Sev. tax \$/bar Cur. Law	Calculate Econ. L.F.	E L F. Applied	Actual Sev. Tax % Cur. Law	Fed. Taxable Inc. Cur. Law	State Taxable Inc. Cur. Law	Reserves (1000 bar)
1982	0	0	0									
1983	0	0	0									
1984	0	0	0									
1985	0	0	0	0.1225	0.1225	1.80	1.80	0.000	0.0000	(0)	(0)	375,000
1986	400,000	180000	220000	0.1225	0.1225	1.69	1.69	0.000	0.0000	(150,219)	(49,400)	375,000
1987	800,000	360000	440000	0.1225	0.1225	1.37	1.37	0.000	0.0000	(195,657)	(193,200)	375,000
1988	800,000	360000	440000	0.1225	0.1225	1.30	1.30	0.490	0.0600	(298,652)	(288,482)	356,750
1989	0	0	397173	0.1225	0.1225	1.24	1.24	0.538	0.0658	(291,859)	(266,745)	320,250
1990	0	0	358515	0.1225	0.1225	1.22	1.22	0.538	0.0658	39,306	55,315	283,750
1991	0	0	323620	0.1225	0.1225	1.20	1.20	0.538	0.0658	122,629	139,164	247,250
1992	0	0	292121	0.1225	0.1225	1.27	1.27	0.538	0.0658	220,973	236,641	210,750
1993	0	0	267953	0.15	0.1225	1.62	1.32	0.467	0.0700	191,308	207,675	179,725
1994	0	0	248392	0.15	0.1225	1.61	1.32	0.457	0.0685	163,551	178,496	152,350
1995	0	0	232677	0.15	0.1225	1.60	1.31	0.439	0.0659	136,514	149,970	128,625
1996	0	0	217956	0.15	0.1225	1.72	1.41	0.488	0.0732	148,888	161,754	104,900
1997	0	0	205228	0.15	0.1225	1.84	1.51	0.498	0.0748	150,645	161,622	83,000
1998	0	0	194241	0.15	0.1225	1.92	1.57	0.511	0.0767	150,996	160,117	62,925
1999	0	0	184788	0.15	0.1225	2.01	1.64	0.505	0.0757	160,364	166,630	44,675
2000	0	0	176694	0.15	0.1225	2.08	1.70	0.513	0.0769	157,005	161,640	28,250
2001	0	0	169815	0.15	0.1225	2.05	1.68	0.505	0.0757	141,516	145,422	13,650
2002	0	0	166509	0.15	0.1225	2.01	1.64	0.204	0.0307	73,016	74,399	6,350
2003	0	0	164889	0.15	0.1225	1.95	1.59	0.000	0.0000	35,252	36,119	2,700
2004	0	0	0	0.15	0.1225	1.99	1.63	0.000	0.0000	0	(0)	2,700
2005	0	0	0	0.15	0.1225	1.90	1.55	0.000	0.0000	0	(0)	2,700
2006	0	0	0	0.15	0.1225	1.78	1.46	0.000	0.0000	0	(0)	2,700
2007	0	0	0	0.15	0.1225	1.69	1.38	0.000	0.0000	0	(0)	2,700
2008	0	0	0	0.15	0.1225	1.61	1.31	0.000	0.0000	0	(0)	2,700
2009	0	0	0	0.15	0.1225	1.54	1.26	0.000	0.0000	0	(0)	2,700
2010	0	0	0	0.15	0.1225	1.52	1.24	0.000	0.0000	0	(0)	2,700

Notes: All dollars have been deflated to 1985 value. Inflation factors based on Department of Revenue "Revenue Sources", January, 1986, page 40.
Oil price projections based on Department of Revenue "Petroleum Production Revenue Forecast", December, 1985.
Annual oil production projections from "Historic and Projected Oil and Gas Consumption", Department of Natural Resources, January 1986, page 11.
Prepared by the House Research Agency, January 1986.

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Lisburne
Miscellaneous Information
1985-2010

Year	Field Intangibl	Taxbase	Statutory	Sev. Tax	Sev. tax	Calculate	E.L.F.	Actual	Sev. Tax	Fed. Taxable	State Taxable	Reserves				
	Dev. Cost	Dev. Cost	(1000)			Econ. L.F.	Applied	Sev. Tax	%	Inc.	Inc.	(1000 bar)				
	(1000)	(1000)		Cur Law	HB 353	Cur Law	HB 353	Cur Law	HB 353	Cur Law	HB 353	Cur Law	HB 353			
1982	0	0	0													
1983	0	0	0													
1984	0	0	0													
1985	400,000	180000	220000	0.1225	0.1225	2.14	2.14	0.000	0.000	0.0000	0.0000	(50,219)	(49,400)	8,712	(4,400)	495,000
1986	800,000	360000	440000	0.1225	0.1225	2.04	2.04	0.000	0.000	0.0000	0.0000	(195,657)	(193,200)	17,424	(8,800)	495,000
1987	800,000	360000	440000	0.1225	0.1225	1.71	1.71	0.571	0.571	0.0700	0.0700	(230,469)	(228,939)	100,448	110,298	476,750
1988	0	0	420533	0.1225	0.1225	1.64	1.64	0.457	0.457	0.0560	0.0560	(235,338)	(234,506)	116,151	123,583	454,850
1989	0	0	396827	0.1225	0.1225	1.58	1.58	0.405	0.405	0.0496	0.0496	(170,143)	(169,344)	131,514	131,872	429,300
1990	0	0	375300	0.1225	0.1225	1.56	1.56	0.400	0.400	0.0490	0.0490	181,349	181,891	146,926	141,163	400,100
1991	0	0	350394	0.1225	0.1225	1.54	1.54	0.400	0.400	0.0490	0.0490	300,002	300,878	162,176	152,856	367,250
1992	0	0	324557	0.15	0.1225	1.98	1.62	0.383	0.383	0.0575	0.0470	339,836	344,048	177,420	180,095	330,750
1993	0	0	300625	0.15	0.1225	2.04	1.66	0.505	0.505	0.0757	0.0618	338,989	344,638	176,248	180,413	294,250
1994	0	0	278458	0.15	0.1225	2.03	1.66	0.519	0.519	0.0779	0.0636	331,437	337,917	175,318	172,352	257,750
1995	0	0	259978	0.15	0.1225	2.02	1.65	0.517	0.517	0.0775	0.0633	290,697	297,314	158,840	147,180	224,900
1996	0	0	244642	0.15	0.1225	2.14	1.75	0.509	0.509	0.0764	0.0624	275,790	280,483	143,589	148,304	195,700
1997	0	0	231654	0.15	0.1225	2.26	1.85	0.512	0.512	0.0767	0.0627	264,719	267,790	130,557	150,072	169,420
1998	0	0	220551	0.15	0.1225	2.34	1.91	0.510	0.510	0.0765	0.0625	255,013	256,529	118,970	151,472	145,695
1999	0	0	211118	0.15	0.1225	2.43	1.98	0.502	0.502	0.0753	0.0615	254,670	253,642	107,289	162,465	124,525
2000	0	0	203023	0.15	0.1225	2.50	2.04	0.507	0.507	0.0761	0.0621	243,235	241,129	97,110	160,808	105,545
2001	0	0	195987	0.15	0.1225	2.47	2.02	0.508	0.508	0.0761	0.0622	221,858	219,762	88,167	147,353	88,390
2002	0	0	189918	0.15	0.1225	2.43	1.99	0.499	0.499	0.0749	0.0612	199,011	197,048	79,622	132,411	73,060
2003	0	0	184596	0.15	0.1225	2.37	1.93	1.000	1.000	0.1300	0.1225	163,263	165,419	72,260	105,604	59,190
2004	0	0	179968	0.15	0.1225	2.41	1.97	1.000	1.000	0.1500	0.1225	141,298	143,788	64,998	89,831	46,780
2005	0	0	175854	0.15	0.1225	2.32	1.90	1.000	1.000	0.1500	0.1225	130,475	132,465	59,534	83,411	35,465
2006	0	0	172223	0.15	0.1225	2.20	1.80	1.000	1.000	0.1500	0.1225	107,932	110,512	54,097	65,257	25,245
2007	0	0	169049	0.15	0.1225	2.11	1.72	1.000	1.000	0.1500	0.1225	88,634	91,571	48,717	50,429	16,120
2008	0	0	166556	0.15	0.1225	2.03	1.65	1.000	1.000	0.1500	0.1225	65,113	67,831	37,913	34,355	8,820
2009	0	0	164713	0.15	0.1225	1.96	1.60	1.000	1.000	0.1500	0.1225	44,336	46,881	30,010	21,360	3,345
2010	0	0	163499	0.15	0.1225	1.94	1.58	1.000	1.000	0.1500	0.1225	26,521	28,671	22,133	11,388	0

Notes: All dollars have been deflated to 1985 value. Inflation factors based on Department of Revenue "Revenue Sources", January, 1986, page 40.
Oil price projections based on Department of Revenue "Petroleum Production Revenue Forecast", December, 1985.
Annual oil production projections from "Historic and Projected Oil and Gas Consumption", Department of Natural Resources, January 1986, page 11.
Prepared by the House Research Agency, January 1986.

MEMORANDUM

Division of Strategic Planning
Office of Management and Budget
MS 0164

TO: Mary Halloran
Office of the Speaker

DATE: 11 Dec. 1986

FROM: Gregg Erickson *GKE*
Senior Economist

SUBJECT: Revenue from Separate Accounting

The tables below show, under alternative assumptions, the additional revenue the state would receive if the modified apportionment method of taxing petroleum corporate income were replaced with the separate accounting method. Note that separate accounting raises substantially more than modified apportionment, even using DOR's higher estimates of field operating costs, and even under the more pessimistic oil price scenarios.

A full set of tables is attached for each set of cost assumptions, along with our earlier memo describing the basis for OMB's lower estimates of likely field costs.

TABLE 1
FISCAL 1987
REVENUE GAINS FROM ADOPTING SEPARATE ACCOUNTING
UNDER ALTERNATIVE PRICE AND OPERATING COST ASSUMPTIONS
(millions of dollars)

	<u>Field Operating Costs</u>	
	<u>DOR</u> Cost <u>Assumption</u>	<u>OMB</u> Cost <u>Assumption</u>
<u>Oil Price Scenario</u>		
Dec. 1986 Mean Case	\$59	\$92
Dec. 30 Percent Case	\$22	\$54

TABLE 2
FISCAL 1988
REVENUE GAINS FROM ADOPTING SEPARATE ACCOUNTING
UNDER ALTERNATIVE PRICE AND OPERATING COST ASSUMPTIONS
(millions of dollars)

	<u>Field Operating Costs</u>	
	<u>DOR</u> Cost <u>Assumption</u>	<u>OMB</u> Cost <u>Assumption</u>
<u>Oil Price Scenario</u>		
Dec. 1986 Mean Case	\$148	\$180
Dec. 30 Percent Case	\$60	\$92

TABLE 1 OMB COSTS

SUMMARY OF REVENUE UNDER CURRENT INCOME TAX AND UNDER SEPARATE ACCOUNTING
(millions, based on Dec. 1986 forecast)

Fiscal Year	State Tax Under Current Law*	MEAN CASE		30 PERCENT CASE	
		State Tax Under Separate Accounting**	Gain (Loss) Due To Separate Accounting	State Tax Under Separate Accounting†	Gain (Loss) Due To Separate Accounting
1987	\$111	\$203	\$92	\$165	\$54
1988	\$110	\$290	\$180	\$202	\$92

*DOR Dec. 1986 forecast value; DOR provides only single point projections for the corporate income tax.

**From Tables 2 & 3.

†From Tables 2 & 4.

DRAFT-Division of Strategic Planning, OMB, 12/10/86.

TABLE 2
TRANS-ALASKA PIPELINE SYSTEM
ALASKA OIL AND GAS CORPORATE INCOME TAX PAYMENTS UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Pipe- line Thru- put (MM/D)	Estimated Tariff (\$/B)	Total Rev- enue	Prop- erty Tax	Oper- ating Costs	Amort- ization & Depre- ciation	Uncapi- talized Interest	Net Income	In- come Tax
FISCAL YEAR									
1987	1.81	4.25	2,808	126	232	269	382	1,799	169
1988	1.73	3.76	2,374	138	242	269	352	1,373	129

Notes:

Columns 1 & 2: Memorandum, Wright to Cowper, Dec. 3, 1986, Table II.

Column 3: (column 1)*(column 2)*(365 days).

Column 4: OMB estimates, 10/30/86.

Columns 5-7: V. Wright, memorandum to Nordale, Oct. 31, 1985, Table 5 (FY '87-'88 property tax adjusted by OMB for effects of TAPS settlement).

Column 8: (column 3)-(sum of columns 4-7).

Column 9: (.094)*(column 8).

DRAFT-Division of Strategic Planning, OMB, 12/10/86.

TABLE 3 *OMB COSTS*
PRODUCING FIELDS-MEAN CASE:
ALASKA OIL AND GAS CORPORATE INCOME TAX UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

FISCAL YEAR	(1) Well- head Value (\$/B)	(2) Daily Produc- tion (MMB/D)	(3) Revenue at Well- head	(4) State Royalty	(5) Produc- tion & Conser. Tax	(6) Prop- erty Tax	(7) Oper- ating Costs	(8) Depre- ciated Dev. Costs
1987	5.51	1.81	3,640	436	505	222	495	1,173
1988	8.61	1.73	5,437	676	582	246	474	1,315
FISCAL YEAR	(9) Amort. Of Acqui. Costs	(10) Federal Wind- fall Profits Tax	(11) Interest Expense	(12) Explor- ation Expense	(13) Adminis- trative Costs	(14) Other Deduc- tions	(15) Net Alaska Produc- tion Income	(16) Alaska Produc- tion Income Tax
1987	8	0	136	26	165	118	356	33
1988	25	0	139	0	158	114	1,708	161

Notes:

Columns 1 & 2: Memorandum, Wright to Cowper, Dec. 3, 1986, Table II.
Column 3: (365 days)*(column 1)*(column 2).
Columns 4-5: Dec. 1986 Petroleum Revenue Forecast (from C. Logsdon).
Columns 6-7: OMB estimates, 10/30/86.
Columns 8-9: Vincent Wright, memorandum to Nordale, Oct. 31, 1985.
Column 10: OMB estimates.
Column 11: Wright, op. cit.
Columns 12-13: OMB projections.
Column 14: Wright, op. cit.
Column 15: (column 3)-(sum of columns 4-14).
Column 16: (.094)*(column 15).

DRAFT-Division of Strategic Planning, OMB, 12/10/86.

TABLE 4 OMB COSTS
PRODUCING FIELDS-30 PERCENT CASE:
ALASKA OIL AND GAS CORPORATE INCOME TAX UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

FISCAL YEAR	(1) Well- head Value (\$/B)	(2) Daily Produc- tion (MMB/D)	(3) Revenue at Well- head	(4) State Royalty	(5) Produc- tion & Conser. Tax	(6) Prop- erty Tax	(7) Oper- ating Costs	(8) Depre- ciated Dev. Costs
1987	4.74	1.81	3,131	369	460	222	495	1,173
1988	6.68	1.73	4,218	520	455	246	474	1,315
FISCAL YEAR	(9) Amort. Of Acqui. Costs	(10) Federal Wind- fall Profits Tax	(11) Interest Expense	(12) Explor- ation Expense	(13) Adminis- trative Costs	(14) Other Deduc- tions	(15) Net Alaska Produc- tion Income	(16) Alaska Produc- tion Income Tax
1987	8	0	136	26	165	118	(41)	(4)
1988	25	0	139	0	158	114	773	73

Notes:

Columns 1 & 2: Memorandum, Wright to Cowper, Dec. 3, 1986, Table II.

Column 3: (365 days)*(column 1)*(column 2).

Columns 4-5: Memorandum, Wright to Cowper, Dec. 3, 1986, Table 1.

Columns 6-7: OMB estimates, 10/30/86.

Column 6-9: Vincent Wright, memorandum to Nordale, Oct. 31, 1985.

Column 10: OMB estimates.

Column 11: Wright, op. cit.

Columns 12-13: OMB projections.

Column 14: Wright, op. cit.

Column 15: (column 3)-(sum of columns 4-14).

Column 16: (.094)*(column 15).

DRAFT-Division of Strategic Planning, OMB, 12/10/86.

TABLE 1 *DOR COSTS*

SUMMARY OF REVENUE UNDER CURRENT INCOME TAX AND UNDER SEPARATE ACCOUNTING
(millions, based on Dec. 1986 forecast)

Fiscal Year	State Tax Under Current Law*	MEAN CASE		30 PERCENT CASE	
		State Tax Under Separate Accounting**	Gain (Loss) Due To Separate Accounting	State Tax Under Separate Accounting†	Gain (Loss) Due To Separate Accounting
1987	\$111	\$170	\$59	\$133	\$22
1988	\$110	\$258	\$148	\$170	\$60

*DOR Dec. 1986 forecast value; DOR provides only single point
projections for the corporate income tax.

**From Tables 2 & 3.

†From Tables 2 & 4.

DRAFT-Division of Strategic Planning, OMB, 12/10/86.

TABLE 2
TRANS-ALASKA PIPELINE SYSTEM
ALASKA OIL AND GAS CORPORATE INCOME TAX PAYMENTS UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Pipe- line Thru- put (MM/D)	Estimated Tariff (\$/B)	Total Rev- enue	Prop- erty Tax	Oper- ating Costs	Amort- ization & Depre- ciation	Uncapi- talized Interest	Net Income	In- come Tax
FISCAL YEAR									
1987	1.81	4.25	2,808	126	232	269	382	1,799	169
1988	1.73	3.76	2,374	138	242	269	352	1,373	129

Notes:

Columns 1 & 2: Memorandum, Wright to Cowper, Dec. 3, 1986, Table II.

Column 3: (column 1)*(column 2)*(365 days).

Column 4: OMB estimates, 10/30/86.

Columns 5-7: V. Wright, memorandum to Nordale, Oct. 31, 1985, Table 5 (FY '97-'88 property tax adjusted by OMB for effects of TAPS settlement).

Column 8: (column 3)-(sum of columns 4-7).

Column 9: (.094)*(column 8).

DRAFT-Division of Strategic Planning, OMB, 12/10/86.

TABLE 4 *DOR COSTS*
PRODUCING FIELDS-30 PERCENT CASE:
ALASKA OIL AND GAS CORPORATE INCOME TAX UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

FISCAL YEAR	(1) Well- head Value (\$/B)	(2) Daily Produc- tion (MMB/D)	(3) Revenue at Well- head	(4) State Royalty	(5) Produc- tion & Conser. Tax	(6) Prop- erty Tax	(7) Oper- ating Costs	(8) Depre- ciated Dev. Costs
1987	4.74	1.81	3,131	369	460	222	707	1,173
1988	6.68	1.73	4,218	520	455	246	676	1,315
FISCAL YEAR	(9) Amort. Of Acqui. Costs	(10) Federal Wind- fall Profits Tax	(11) Interest Expense	(12) Explor- ation Expense	(13) Adminis- trative Costs	(14) Other Deduc- tions	(15) Net Alaska Produc- tion Income	(16) Alaska Produc- tion Income Tax
1987	8	0	136	26	297	118	(384)	(36)
1988	25	0	139	0	297	114	432	41

Notes:

Columns 1 & 2: Memorandum, Wright to Cowper, Dec. 3, 1986, Table II.
Column 3: (365 days)*(column 1)*(column 2).
Columns 4-5: Memorandum, Wright to Cowper, Dec. 3, 1986, Table 1.
Columns 6: OMB estimates, 10/30/86.
Column 7: DOR estimate (R. Marks, 12/9/86)
Column 8-9: Vincent Wright, memorandum to Nordale, Oct. 31, 1985.
Column 10: OMB estimates.
Column 11: Wright, op. cit.
Columns 12: OMB projections.
Column 13: DOR estimate (R. Marks, 12/9/86).
Column 14: Wright, op. cit.
Column 15: (column 3)-(sum of columns 4-14).
Column 16: (.094)*(column 15).

DRAFT-Division of Strategic Planning, OMB, 12/10/86.

TABLE 3 *DOR COSTS*
PRODUCING FIELDS-MEAN CASE:
ALASKA OIL AND GAS CORPORATE INCOME TAX UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

FISCAL YEAR	(1) Well- head Value (\$/B)	(2) Daily Produc- tion (MMB/D)	(3) Revenue at Well- head	(4) State Royalty	(5) Produc- tion & Conser. Tax	(6) Prop- erty Tax	(7) Oper- ating Costs	(8) Depre- ciated Dev. Costs
1987	5.51	1.81	3,640	436	505	222	707	1,173
1988	8.61	1.73	5,437	676	582	246	676	1,315
FISCAL YEAR	(9) Amort. Of Acqui. Costs	(10) Federal Wind- fall Profits Tax	(11) Interest Expense	(12) Explor- ation Expense	(13) Adminis- trative Costs	(14) Other Deduc- tions	(15) Net Alaska Produc- tion Income	(16) Alaska Produc- tion Income Tax
1987	8	0	136	26	297	118	12	1
1988	25	0	139	0	297	114	1,367	129

Notes:

Columns 1 & 2: Memorandum, Wright to Cowper, Dec. 3, 1986, Table II.
Column 3: (365 days)*(column 1)*(column 2).
Columns 4-5: Dec. 1986 Petroleum Revenue Forecast (from C. Logsdon).
Columns 6: OMB estimates, 10/30/86.
Column 7: DOR estimate (R. Marks, 12/9/86)
Columns 8-9: Vincent Wright, memorandum to Nordale, Oct. 31, 1985.
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Columns 12: OMB projections.
Column 13: DOR estimate (R. Marks, 12/9/86).
Column 14: Wright, op. cit.
Column 15: (column 3)-(sum of columns 4-14).
Column 16: (.094)*(column 15).

DRAFT-Division of Strategic Planning, OMB, 12/10/86.

MEMORANDUM

COPY

Division of Strategic Planning
Office of Management and Budget
MS 0164

TO: Vince Wright
Chief, Research Section
Dept. of Revenue

DATE: 28 Oct. 1986

FROM: Gregg Erickson
Senior Economist

SUBJECT: North Slope Variable Production Costs

In Table 4 of your Oct. 31, 1985 memorandum to Mary Nordale on the fiscal effects of separate accounting I notice that lifting costs implicit in the analysis are much higher than estimates from other sources.

ESTIMATES OF NORTH SLOPE LIFTING COSTS

Wright Memorandum To Nordale ¹ <u>10/31/85</u>	Petroleum Intelligence Weekly ² <u>6/24/85</u>	First Boston Corporation ³ <u>4/15/86</u>
\$2.58/barrel	\$1.00/barrel	\$1.00/barrel

The difference is significant. Had the lower estimates been used it would have increased annual separate accounting tax revenue by more than \$100 million. Since you are updating the separate accounting analysis, you may wish to pursue this matter further, particularly since recent cost cutting efforts by the operators may have reduced costs by even more.⁴

Notes:

1. Memorandum from Vincent D. Wright to Mary Nordale, Oct. 31, 1985, Table 4, "All Producing Fields." Figures apply to all North Slope production. Per barrel figure is for FY '87, "total oper'tg costs" (\$1,367 million) plus "admin cost" (\$307 million), divided by FY '87 output-- (1.7808 mil. B/D) * (365 days) = 650 million barrels.

2. "Alaskan Producers To Feel The Squeeze If Prices Fall Again," *Petroleum Intelligence Weekly*, June 24, 1985, pp.1-3. Estimate is of "production cost" in "Alaskan North Slope Crude Production." The article estimates current state income tax collections at an average "rate of 3 % for all producers."

3. Thomas Petrie and Suzanne Cook, *Alaska's Prudhoe Bay Field: An Oil Price/Cash Flow Sensitivity Analysis*, First Boston Corporation, April 15, 1986, p. 14. Costs are estimated to escalate at four percent annually.

4. Frederick Rose, "Weakness in Oil Prices Is Forcing Economies At Alaskan Oil Field," *The Wall Street Journal*, October 21, 1986, p. 1.

cc: Gordon Harrison

Overview and Sectional Analysis - HB 353

Overview.

Separate accounting and apportionment by formula. Whenever a business operates in more than one state, and a state wishes to impose a corporate income tax on that business, some method must be used to determine how much of the business' overall income was earned within the taxing state. There are two historic solutions to this problem: the separate accounting approach and the formula apportionment approach. Separate accounting, sometimes known as the "direct" method, the "arm's length" method, or the "separate entity" method, does what those names imply: it treats the in-state activity as if it were a separate entity dealing at arm's length with the remainder (the out-of-state portion) of the corporation. It looks only at in-state revenues and expenses and ignores the remainder of the corporate activity outside the state. Apportionment by formula, on the other hand, looks at the overall income of the corporation, both in-state and out-of-state. It then attributes a part of that overall income to the taxing state by a formula based on certain indicators of business presence such as payroll, property and sales. Thus, if one half of each of a business' payroll, property and sales are in the state, that formula would attribute one half of the corporation's overall income to the state.

Historically, states have generally preferred to use apportionment formulas rather than separate accounting because they are easier to administer, and because of a fear that

corporate taxpayers, under separate accounting, can manipulate intercompany transactions so that their books show that little or no profit was earned in the taxing state.

History of corporate income tax in Alaska. Prior to 1978, Alaska used a form of formula apportionment for all corporate taxpayers. Between 1974 and 1978, the legislature studied carefully how the standard apportionment formula (based on payroll, property and sales) would work for oil production income when Prudhoe Bay production began. The legislature determined that the formula would be an extremely defective tool for properly determining the income from production in Alaska. Some of the reasons follow: since oil production is generally far more profitable than the other activities of an oil company (such as refining and marketing), and since formula apportionment looks at the overall profitability of a company, the profitability of production is diluted when a formula is used. Further, none of the traditional factors used in the formula is suited to oil production in Alaska. The property factor does not include the value of the oil itself, but rather only the cost of the lease and the value of the wells. Thus, the most important asset which an oil company has (its oil reserves) is not reflected in the formula. The sales factor is not sensitive to the magnitude of production in Alaska, since only a few barrels are sold in Alaska. No matter how many more barrels are produced, the sales

factor attributes the sale of that oil out-of-state. Finally, oil production is not labor intensive, so that the payroll necessary for oil production is disproportionate to the payroll necessary for refining and marketing. As a result of the failure of the formula to properly attribute income to Alaska, oil companies would pay tax on only a fraction of the income which they actually earn in Alaska, and thus the effective tax rate for oil producers would be only a fraction of the effective tax rate for other businesses.

For all these reasons, the legislature adopted the separate accounting approach (AS 43.21) in 1978. Separate accounting for oil production takes the wellhead value of the oil (gross income) and deducts all the costs associated with producing that income to arrive at net income, which is then taxed at the general corporate income tax rate. For pipelines, net income is the income reported to the Federal Energy Regulatory Commission (FERC) with minor adjustments.

Shortly after the law was passed in 1978, the major oil companies challenged the law in Arco v. State. They claim primarily that separate accounting is invalid under the Commerce Clause of the United States Constitution.

By 1981, more than \$2 billion had been collected under the challenged statute and it was estimated that by 1986, when the litigation might finally be resolved, the state's potential

liability would rise to more than \$9 billion. There were attempts to settle the litigation in the 1981 session. After those attempts failed, the legislature, recognizing that the \$9 billion contingent liability was too great a risk to take, passed a bill which did three things. First, it made retroactive amendments to AS 43.21 which resolved many of the oil companies' complaints about that act. Second, it repealed the separate accounting statute for tax years beginning in 1982, and adopted in its place a modified apportionment formula. This system uses a two factor (extraction and property) formula for producers, and a two factor (property and sales) formula for pipelines and, if a taxpayer does both, a three factor (extraction, property and sales) formula. This modified formula is better than the old standard three factor formula, but does not determine in-state income as accurately as separate accounting. Finally, the 1981 legislation raised the severance tax from a nominal rate of 12.25% to a nominal rate of 15%. At the time the bill was passed, it was estimated that the net effect of changing both the income tax and the severance tax would be a slight decline in revenue over the long term.

In 1983, an Anchorage superior court ruled that AS 43.21 is constitutional. The oil companies appealed, and the case is presently pending before the state supreme court. A decision could come out anytime within the next 18 months.

Section-by-section Analysis

Section 1.

Expresses the legislature's reasons for returning to the separate accounting method of determining the in-state income of a multi-state taxpayer that produces or transports by pipeline oil or natural gas.

Section 2.

Amends the corporate income tax chapter that applies to all corporations (AS 43.20) to indicate that a taxpayer that is exploring, producing, or transporting by pipeline oil or gas in the state is subject to the separate accounting provisions of new AS 43.22. Further, this section modifies the calculations for an AS 43.20 taxpayer (for example, a company that does business in Alaska other than production, but has production income in another state or a company doing business in Alaska that is affiliated with a company which has production or pipeline income) to separate out exploration, production and pipeline transportation income from the apportionment provisions of that chapter. The second part of this section is a "mirror image" of the provision in the separate accounting chapter which accounts for a 43.22 taxpayer's "other" income (AS 43.22.040). Thus,

whichever chapter a taxpayer is subject to, the production and pipeline income will be separately accounted and the remainder of the income will be apportioned by formula.

Section 3.

Enacts a new chapter applicable to taxpayers engaged in exploration, production and pipeline transportation of oil and gas in the state. The section largely re-enacts the separate accounting law which was in effect prior to 1981 with minor modifications which clarify certain aspects of the former approach. Under the new chapter, a taxpayer's in-state exploration and production income is separately accounted (AS 43.22.020). Gross income is wellhead value. From this, the taxpayer deducts taxes, royalty payments, operating costs, interest, depreciation, overhead, and other costs associated with production to arrive at net income. There is no deduction for the Windfall Profits Tax. Recent cases have held that it is permissible for a state to treat that tax as it treats other federal income taxes, and not provide for a deduction. Pipeline income under the statute is simply the net income that the corporation reports to FERC with minor modifications (AS 43.22.030). Any other income of the corporation, such as refining, marketing or

marine transportation income, is calculated by the formula apportionment method. AS 43.22.040.

(Due to a drafting error, there is no Section 4.)

Section 5.

Reduces the severance tax to the pre-1981 amendment level of 12.25%. The section recognizes that when separate accounting was repealed in 1981, the severance tax was raised. The current nominal rate is 15%.

Section 6.

Repeals the current modified formula apportionment method for taxing oil and gas production and pipeline transportation income.

Section 7.

Makes the separate accounting provisions of the Act retroactive to January 1, 1985. Tax laws should operate throughout entire tax years; commonly, when tax laws are enacted mid-year, they are retroactive to the beginning of that year.

Section 8.

Delays applicability of the severance tax reduction provision until January 1, 1987. This delay is intended to recoup the unanticipated loss of revenue which resulted from the 1981 legislation.

Section 9.

Makes the Act take effect only if the state Supreme Court wholly affirms the decision of the lower court upholding the validity of former AS 43.21. Thus, if the court were only to uphold part of the former act or were to send the case back to the lower court for any reason, the Act will not become effective. Additionally, the section does not address the possibility of the United States Supreme Court reversing the Alaska court.

Recent History of Alaska Corporation Net Income Tax
Prepared by Audit Division
March 13, 1985
Alaska Department of Revenue

- I. 1975 through 1977 AS43.20.011(e)
All corporations paid tax on net income derived from sources in the state. Tax rate equaled 5.4 percent plus a 4 percent surtax on income over the Federal surtax exemption. Oil companies were required to use worldwide combination using the unitary concept. All multistate taxpayers were required to use the standard three factor formula of property, payroll and sales.
- II. 1978 AS43.20.011(e)
Regular corporations tax rates remained the same. The surtax exemption was set at \$50,000.

1978 AS43.21.010
Companies deriving income from the production or pipeline transportation of crude oil or natural gas are to calculate net income under AS43.21 using separate accounting. Their tax rate remained the same as for regular corporations. The standard three factor formula remained in effect.
- III. 1981 AS43.20.011(e)
The tax rates applicable to all corporations were revised and the surtax exemption eliminated. Progressive rates from 2 percent on income over \$10,000 to 11% on income over \$4 million was set.
- IV. 1982 AS43.20.011(e)
Regular corporation's tax rates were revised slightly with a top tax rate of 9.4% for income exceeding \$90,000.

1982 AS43.20.072
The separate accounting law at AS43.21 was repealed effective 12/31/81. AS43.20.072, applicable to oil and gas producers and pipeline companies was enacted bringing the companies back under combination and apportionment under the unitary concept. Special apportionment factors specifically for these groups were devised.

ALASKA CORPORATE NET INCOME TAX ON OIL AND GAS FIRMS

I. STANDARD THREE-FACTOR APPORTIONMENT APPROACH (AS 43.20): 1959-1977

Although Alaska was the first state to adopt the Uniform Division of Income for Tax Purposes Act (UDITPA) in 1959, there was apparently no effective field audit program instituted by the Department of Revenue until after the state became a member of the Multistate Tax Compact in 1970. See AS 43.19. Therefore, historic compliance with the filing method was at a low level in the early 1970's and departmental experience with the tax was relatively new.

During the period 1972-74, the department established a field audit program within the Audit Division in order to audit the tax returns of multistate and multinational corporate taxpayers. At the outset it became obvious that the standard three-factor formula would work to the detriment of Alaska in the case of extractive industries.

Historically, the three-factor formula (which was incorporated in UDITPA and Article IV of the Multistate Tax Compact) worked well for manufacturing and mercantile corporations that had sales in states in which the manufacturing did not take place. Alaska's economy, on the other hand, and particularly the extractive industries within Alaska, were not at all comparable to the manufacturer/mercantile situation. In fact, the great value of our extractive industries is in the raw material which is exported from the state and not sold within the state; yet the exhaustion of a nonrenewable resource is an economic consideration that is completely absent in the "standard" three-factor formula. The large wage and property factors which are part of the UDITPA formula are also generally not representative of the extent of business activities, and the profits from them, in the State of Alaska with respect to extractive industries. Hence, there was growing legislative concern that the apportionment formula would not adequately reflect the actual value of the resource extracted and exported from Alaska.

Furthermore, the base to which the formula is applied is the federal tax base. That tax base is determined by Congress and Congress, in setting tax policy to meet national goals, often provides tax incentives which may or may not be appropriate for Alaska to adopt. These include such things as accelerated depreciation, percentage depletion, intangible drilling costs, investment credit, domestic international sales corporations, etc. Undoubtedly these serve the interest of the United States as a whole, but they do not necessarily help Alaska and may indeed be detrimental for the state. For example, allowing intangible drilling costs on a worldwide basis could erode the Alaska tax base (i.e., federal taxable income) if drilling costs were disproportionately incurred outside of

Alaska. In short, federal incentives, when incorporated automatically into Alaska's income tax, could serve to drain state income tax revenues without providing offsetting economic benefits. A study in January 1977 by Professors Jerome M. Zeifman and Kenneth G. Ainsworth, entitled "The Taxation of the Petroleum Industry Under Alaska's Corporate Income Tax," included a table which indicated the difference between book income and taxable income for a sampling of the oil companies operating in Alaska. In 1973, that difference was over one billion, eight hundred million dollars; in 1974, over three billion dollars; and in 1975, almost one billion, six hundred million dollars.

The problem, then, was seen to be an eroded tax base being apportioned to Alaska by the use of a formula which did not reflect the value and depletion of the raw material being extracted and exported from Alaska.

II. SEPARATE ACCOUNTING (AS 43.21): 1978-1981

In 1978, the Legislature proposed a possible solution to this problem with the passage of AS 43.21, the Oil and Gas Corporate Income Tax. Basically, 43.21 is a separate accounting method wherein all of the income and expense elements are defined by statute. Income is divided into three types; (1) income from oil and gas production; (2) income from oil and gas pipeline transportation; and (3) income from any other activities.

The determination of taxable income from oil and gas production starts with the calculation of gross income. Basically, the gross income from the production of oil and gas is its gross value at the point of production. There are several ways of determining that value, such as actual prices or value received, posted prices in the same field, prevailing prices of oil and gas in the same field, etc. The deductions from gross income in order to arrive at the net taxable income include royalties paid in kind or in value; production property taxes paid; direct costs in operating the lease or property; depreciation based on the units of production method; amortization of lease acquisition payments and taxes paid prior to commencement of commercial production; interest expense not capitalized during construction; expenses of unsuccessful exploration of oil and gas in the state including acquisition costs, abandonment of properties, dry-hole costs, and geological and physical exploration costs related to the abandoned properties; general overhead and administrative expense; income from the production of oil and gas which is divided among the regional native corporations under the Alaska Native Claims Settlement Act; and the Windfall Profits Tax. Interest and overhead, however, are presumed not to exceed the corporation's total interest and overhead expenses, multiplied by a fraction of which the numerator is the corporation's real and tangible personal property used directly in the production of oil and gas from a lease or property in the state and the denominator of which is all such property of the consolidated business. The corporation may rebut this presumption by satisfactorily demonstrating that its actual expenses in Alaska are greater.

The net income of oil and gas pipeline transportation, basically, is the net operating income that is reported to the Federal Energy Regulatory Commission or that would be reported to that commission in the case of the pipelines that are not regulated by FERC. That number is modified by adding back taxes on or measured by net income. There are also limitations on interest and overhead expenses that may be deducted.

With respect to income from activities other than the production of oil and gas from a lease or property in the state or pipeline transportation of oil or gas in the state, the income is apportioned to the state, starting with the total taxable income or consolidated business less that portion of its entire income attributable to production and pipeline transportation of oil and gas worldwide. The apportionment formula is modified so that the numerator and denominator of the property, payroll and sales factors are each calculated without reference to that portion of property, payroll, or sales directly related to the production of oil or gas in the state or the pipeline transportation of oil or gas in the state.

The separate accounting method, despite the oil industry's historic praise for its precision in attributing income was not well received by the industry. In fact, a lawsuit, Atlantic Richfield Co., et al., vs. State of Alaska, was filed against the state. In that case, the plaintiffs raised the issues of equal protection and commerce clause violations. They argued that a special method of taxation is discriminatory, that duplicate taxation would result, and that the tax created an undue burden on interstate commerce. The state denied the allegations.

Basically, the legislature was concerned that the lawsuit would drag out for several years, leaving in doubt the state's right to keep the five to eight billion dollars that would be collected from the application of AS 43.21 during that time. The legislature decided that it was not desirable to have such a large potential refund contingent upon the outcome of a lawsuit. Hence, during the 1981 session the legislature decided to limit the effective time for the operation of AS 43.21 and thereby limit the state's exposure to the refund risk. Starting in 1982, a different method of calculating oil and gas production and transportation income taxes was introduced based on a modified apportionment formula. The legislature also modified and increased the severance tax to offset the reduction in income tax revenue, but the net result was still a substantial decrease in total revenues.

III. MODIFIED APPORTIONMENT (AS 43.20.072): 1982-PRESENT

The new income tax adopts a modified apportionment formula with a modified federal income tax base. In order to resolve the problems inherent in the standard approach, the legislature required that intangible drilling and development costs, which are generally expensed under the Internal Revenue Code, be capitalized and depreciated as a part of the well cost; second, that depletion be limited strictly to cost depletion; and third, the depreciation be based on Section 167 of the

Internal Revenue Code as it existed on June 30, 1981. This, of course, eliminates the application of the new accelerated capital recovery system (ACRS) under the recently passed federal legislation.

The precise apportionment formula to be applied to this tax base depends on the nature of the taxpayer's business in the State of Alaska. If the taxpayer is subject to the tax but not engaged in the production of oil and gas from a lease or property in the state, then the apportionment formula is a two-factor one--basically the property factor under the Multistate Tax Compact, along with a modified sales factor. If the taxpayer is subject to the tax but is not engaged in the pipeline transportation of oil and gas in the state, then the formula again has two factors--a modified property factor and what we call an "extraction" factor. If the taxpayer is engaged in both production of oil and gas from a lease or property in the state and pipeline transportation of oil and gas in the state, then the formula has three factors: the sales factor as modified, the property factor, and the extraction factor. The sales factor is modified to include tariffs received by pipeline companies in both its numerator (Alaska tariffs) and its denominator (worldwide tariffs). The property factor has been modified to include cumulative intangible drilling and development costs, whether capitalized or expensed for federal tax purposes. The innovative extraction factor is the number of barrels of oil (or equivalents of gas) produced in the state divided by the number of barrels of oil (or equivalents of gas) produced worldwide. For equivalency purposes, six mcf of gas count the same as one barrel of oil. Depending on the type of oil and gas activities the taxpayer has in the state, the appropriate apportionment formula is applied to the adjusted federal taxable income and the end result is the income earned in Alaska. That Alaska taxable income is subject to a graduated rate schedule where all income over ninety thousand dollars is taxed at 9.4 percent.

Fundamentally, the difference between the Alaska formula and the Multistate Tax Compact is the extraction factor. The other adjustments are merely to bring the sales and property factors in line with the true extent of business activity that pipeline and production operations represent. The extraction factor is an appropriate measure for determining income earned within Alaska since it gives weight to the value of the nonrenewable resource that is extracted and permanently removed from the state. Unlike the destination sales factor in the standard UDIPTA formula, which is appropriate in measuring the impact of sales in another state on the income of a manufacturing or mercantile corporation, the extraction factor is a resource-based factor which recognizes that value exists in the raw material before it is exported from the state and that the resource can never be reextracted within the state again.

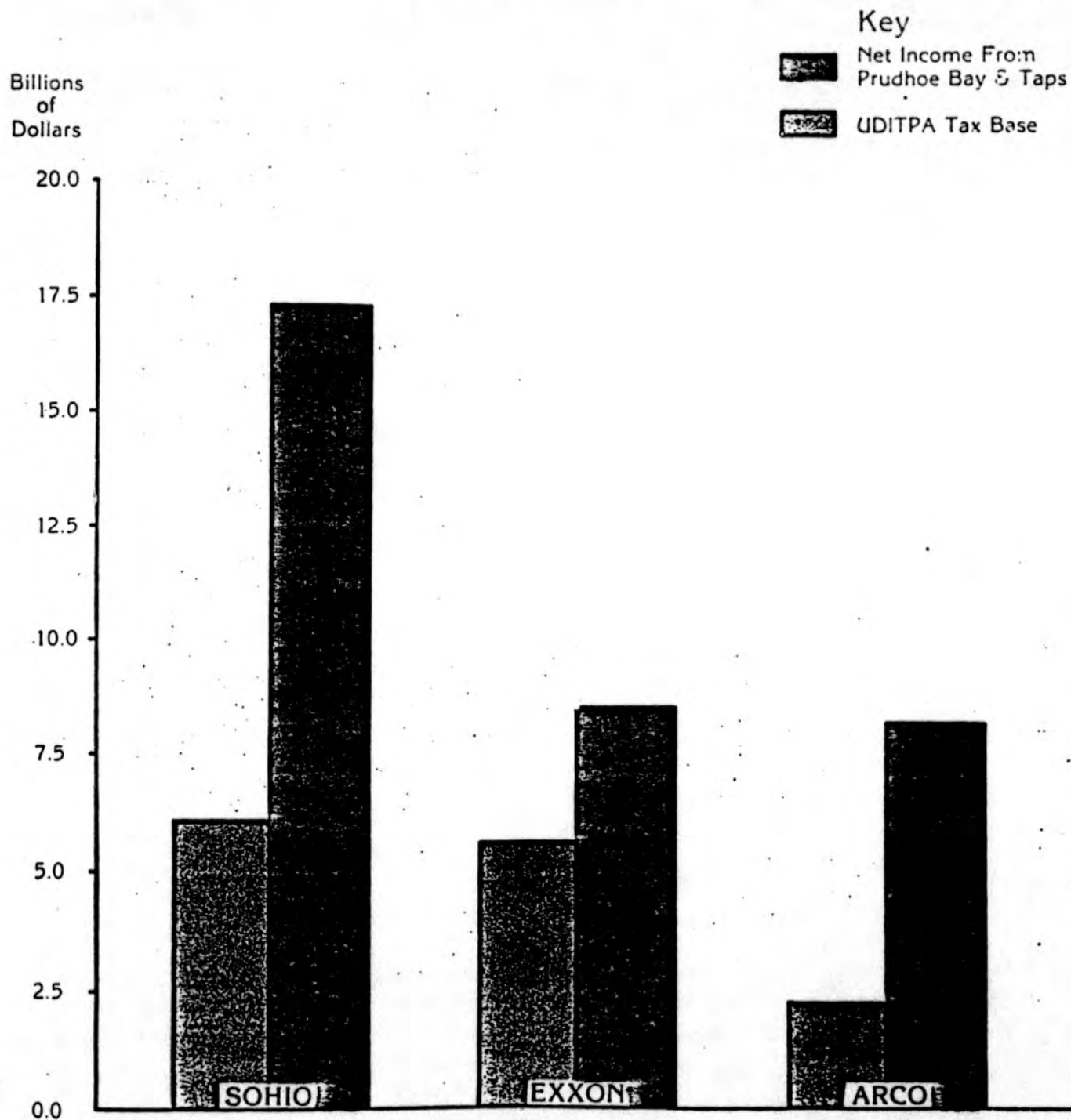
OIL AND GAS CORPORATE INCOME TAX

Sec. 1, ch. 110, SLA 1978

* Section 1. LEGISLATIVE FINDINGS AND INTENT. The legislature finds and declares that the method of apportioning income for tax purposes under the "Uniform Division of Income for Tax Purposes" formula embodied in the Multistate Tax Compact (AS 43.19) and AS 43.20.065 does not fairly represent the extent of the business activities in this state of multistate corporations engaged in the production and pipeline transportation of crude oil and natural gas in Alaska. The legislature therefore intends that, in accordance with the provisions of art. IV, sec. 18 of the Multistate Tax Compact (AS 43.19), the income tax of all corporations engaged in the production or pipeline transportation of oil or natural gas in or directly associated with this state shall be assessed by the tax administrator under this Act. The legislature further intends that the assessment of income tax against a multistate corporation engaged in the production or pipeline transportation of oil or natural gas shall be commensurate with the tax that would be assessed against a corporation owning and operating only those assets of the multistate corporation which are in or directly associated with this state.

Net Income From Prudhoe Bay and Taps

Compared With
UDITPA Tax Base
(Life of Field)



Source: Arthur Anderson Study, Exhibit VIII(a)(R. 2899)

HYPOTHETICAL TAXPAYER

STATE A (Manufacturing)

Cost of Production:
\$4/unit

Transfer Value:
\$5/unit

STATE B (Sales)

Distribution and
Marketing Costs:
\$4/unit

Retail Sales
Price:
\$10/unit

Separate Accounting Income: (1000 units)

Gross income (transfer
value X 1000) = \$5,000
Cost of production
(X 1000) = \$4,000

Net Income = \$1,000

Gross income (retail
sales X 1000) = \$10,000
Cost of goods
(transfer X 1000) = \$5,000
Cost of sales
(X 1000) = \$4,000
Net Income = \$1,000

Total Corporate Net Income = \$2,000

Three Factor Formula Income:

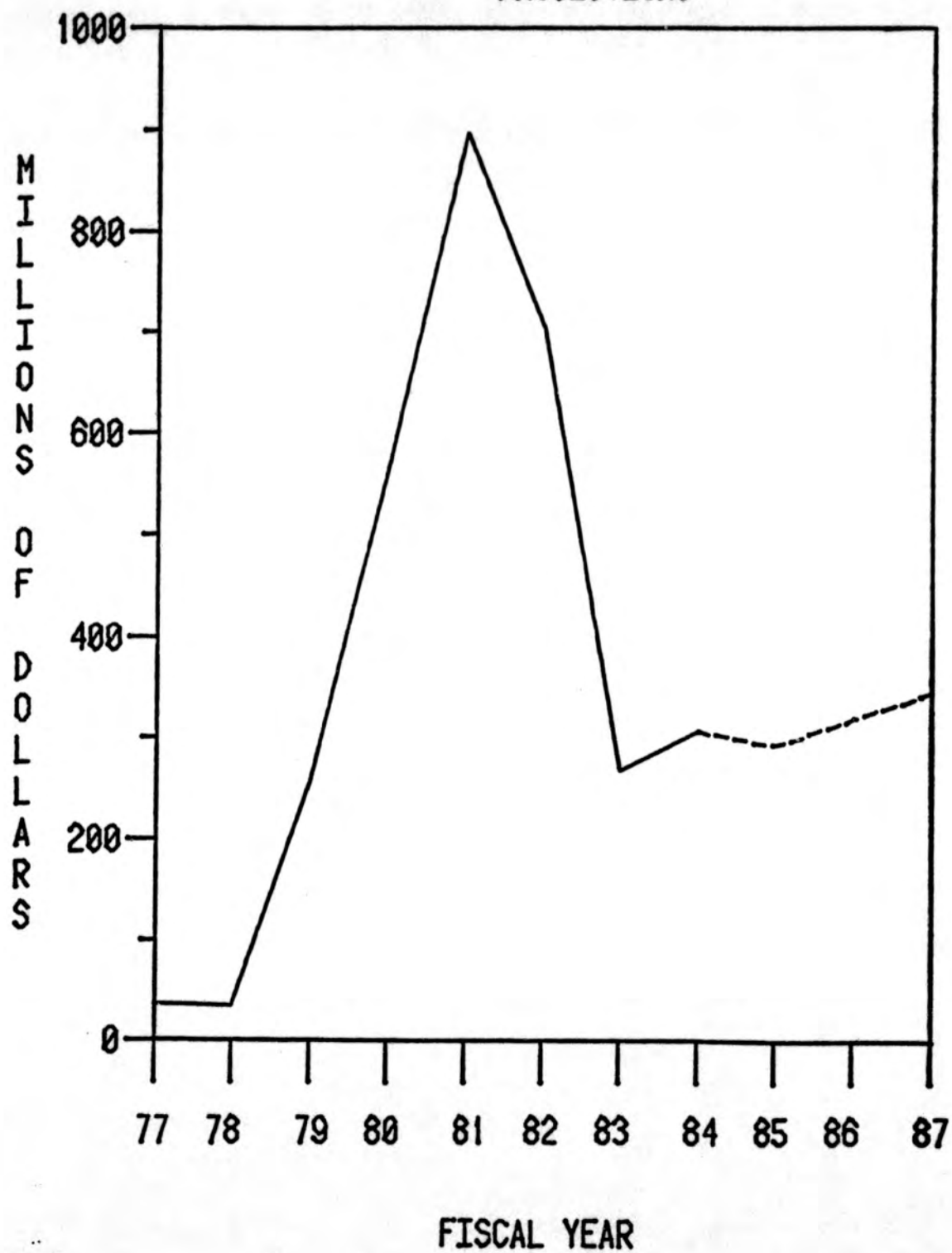
(Formula assumptions: all property State A; ½ payroll each state; all sales State B)

Formula Income:
Property Payroll Sales
1/1 1/2 0
Factor average: 1/2
Net Income (1/2 X \$2,000) = \$1,000

Formula Income:
Property Payroll Sales
0 1/2 1/1
Factor average: 1/2
Net Income (1/2 X \$2,000) = \$1,000

CORPORATION INCOME TAX
(FY 1977-87)

— ACTUALS
- - - PROJECTIONS



CORPORATION INCOME TAX

CODE 038

<u>Fiscal Year Ended</u>	<u>Net Collections</u>	<u>\$ Increase Over Prior Fiscal Year</u>	<u>% Increase Over Prior Fiscal Year</u>	<u>% of Estimate Realized</u>
-30-84*	\$304,621,369.64	\$38,315,821.55	14.39	100.87
-30-83*	266,305,548.09	(437,355,937.75)	(62.15)	98.63
-30-82*	703,661,485.84	(191,181,234.04)	(21.36)	100.67
-30-81*	894,842,719.88	329,513,452.02	58.29	101.00
-30-80*	565,329,267.86	307,854,028.97	119.57	100.38
-30-79*	257,475,238.89	223,971,580.65	668.50	108.64
-30-78	33,503,658.24	(2,007,321.14)	(5.65)	89.94
-30-77	35,510,979.38	Base Year	Base Year	100.60

*For the Fiscal Years 6-30-79 through 6-30-84, Code No. 038 (Corporation Income Tax) and Code No. 039 (Formerly Oil & Gas Corporation Income Tax) have been combined under one single Code No. 038 (Corporation Income Tax).

In 1955 the Alaska Legislature enacted two measures that imposed a tax on the production of crude oil and natural gas in the state. One of those statutes represents the foundation from which the state's existing oil and gas production properties tax evolved but the rate of tax at that time was only one percent of the gross value of that production. The other statute, that has since been repealed, was a conservation tax of five mills for each barrel of oil and every 50,000 cubic feet of gas produced.

Between 1955 and 1967 no changes were made in this tax structure. Then, in 1967, the legislature convened in a special session to provide statutory relief for the victims of the Fairbanks flood in that year. Faced with these emergency programs, the legislature enacted an additional one percent disaster severance tax based on the gross value of oil and gas production.

In 1968 the legislature raised the "regular" production tax from one percent to three percent, but did not change the one percent disaster severance tax or the five mill conservation tax.

In 1979, the legislature by amendment, embodied a progressive or "stair-stepped" rate structure for oil based on average daily production per well. The rates were three percent on the first 300 barrels per day, five percent on the next 700, six percent on the next 1,500 and eight percent on the production exceeding 2,500 barrels per day. Gas production was taxed at four percent. Since the one percent disaster severance tax and the five mill conservation tax were simultaneously repealed, there was no increase in the overall nominal gas tax rate.

In 1972 the Joint Pipeline Impact Committee requested legislation be enacted to protect state revenues from unacceptably low wellhead prices at Prudhoe Bay as the result of the high pipeline tariffs that could stem from either inadequate tariff regulation or construction cost overruns, or both. In response to that request the legislature enacted a cents-per-barrel tax with a credit for royalties paid to the state. If the cents-per-barrel tax, minus the royalty credit exceeded the tax collected under the existing percentage-of-value method, then the cents-per-barrel tax would be payable; however, almost immediately after this tax was enacted it became subject to litigation.

As a result, the tax measure that emerged from the 1973 Special Session of the Legislature repealed the royalty credit provision, increased the effective tax rate as it would apply to oil production by increasing the effective floor of the cents-per-barrel tax from \$2.65 to \$3.375 and instead of four "stair steps" there were three: the first 300 barrels a day from a well were taxed on the higher of five percent of the oil's value or \$0.16875 per barrel, the next 700 at six percent or \$0.2025 per barrel, and all production over 1,000 barrels a day at eight percent or \$0.27 per barrel. In addition, the cents-per-barrel amounts

increased or decreased by two percent for each degree of API gravity above or below 27 degrees. Thus a complete schedule of three cents-per-barrel rates (one for each "stair step") could be established for various API gravities. The whole schedule of rates was in turn to be increased or decreased monthly based on changes in the Wholesale Price Index for crude oil, published by the U.S. Bureau of Labor Statistics. The tax on gas production remained a simple four percent of value. In addition, an oil and gas regulation and conservation tax at a rate of \$0.00125 per barrel removed or sold was enacted during this legislative session.

In 1976 no changes were made to the production tax rates but the legislature did replace the "cash price prevailing" language with "prevailing value" and enacted a section titled "Determination of Gross Value". That section of the production tax statutes made it very clear that value is to be determined by using reasonable costs of transportation, if any. Therefore, to the extent of any previous confusion these changes made it obvious that the legislature did not believe the terms price and value were necessarily synonymous and that taxable gross value is to be determined by subtracting reasonable transportation costs from the full consideration realized by the producer at the point of sale.

The production tax was amended again in 1977 when the legislature enacted a statute to adopt an economic limit factor (ELF) for the purpose of reducing the effective production tax rate as the amount of production from a lease or property declines. Therefore, while the nominal tax rate for oil was 12.25 percent, and 10 percent for gas, in both cases the actual rate was determined by applying the ELF. The cents-per-barrel and cents-per-mcf rates were also subject to the ELF. Nominally they were 6.4 cents per mcf (corresponding to a 64 cent floor), 60 cents per barrel for "old oil" (a \$4.90 floor) and 80 cents for all other oil (a \$6.53 floor). Before being reduced by the ELF, the cents-per-barrel amounts were adjusted up or down by a half-cent for each degree above or below 27 degrees API gravity. There is no automatic escalator for either the cents-per barrel or cents-per-mcf rates; instead the Department of Revenue could recommend any changes to the rates that may be appropriate in light of transaction prices and market conditions. Also, the removed and sold standard that historically was used as the measure of taxable production was changed to a produced standard. At the same time, as a result of Alaska's protracted royalty litigation with oil and gas producers in the Cook Inlet area, the definitions of the point of production were either established or better defined.

It is also noteworthy that some of the complexities of this 1977 legislation caused the Department of Revenue to promulgate the state's first substantive interpretive production tax regulations that eventually became the nucleus of the more sophisticated versions promulgated by the Department in 1980, 1981 and 1982.

The remaining major amendment to the production tax statute occurred in 1981 when the nominal rate of tax on oil was changed from

12.25 percent to 15 percent on any oil produced after June 30, 1981 from a lease or property that was in commercial production prior to that date. The nominal rate of tax on oil produced from a lease or property coming in to production after that date is 12.25 percent during the first five years of production and 15 percent thereafter. Also, modifications were made to the economic limit factors for both gas and oil. The major impact of this legislation changed the effective rate of this tax on over 90 percent of the oil produced in Alaska from approximately 11.5 percent to 15 percent. That change, based on the unaudited reported value of production, increased the amount of production tax revenues by about \$350 million for FY 82 and \$325 million for FY 83.

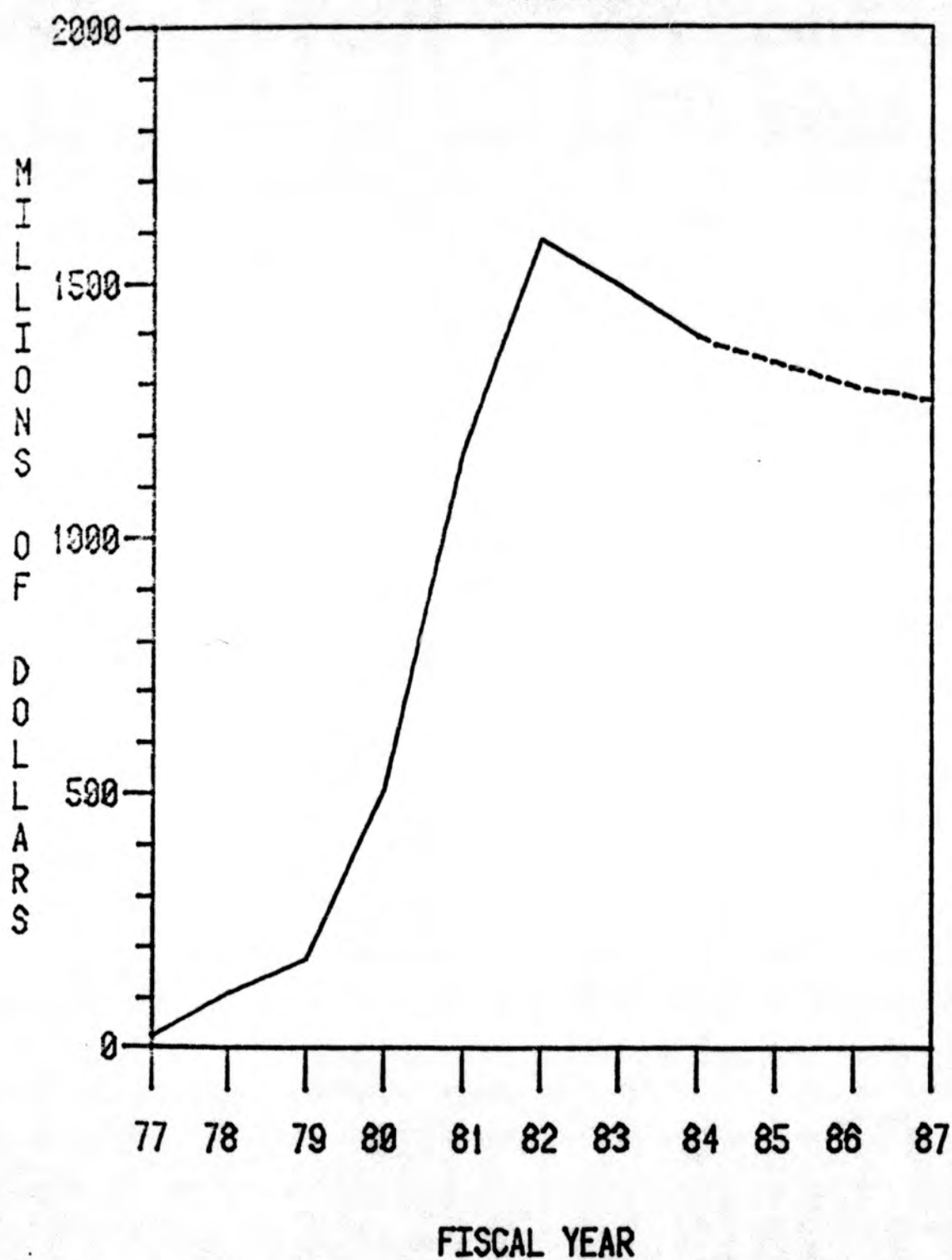
On the following page is a summary of production events and tax changes by year beginning in 1954.

OIL AND GAS PRODUCTION AND TAX TIMELINE

- 1954 - BLM issued 272 oil and gas leases
- 1955 - Oil and gas conservation tax enacted (5 mills)
 - Production tax enacted (1% of value of production)
- 1957 - Swanson River oil discovered
- 1959 - Kenai gas field discovered
- 1962 - Cook Inlet oil discovered
- 1965 - Three additional Cook Inlet oil fields discovered
- 1967 - Fairbanks struck by flood
 - 1% disaster severance tax enacted
- 1968 - Legislature increased oil severance tax from 1% to 3%
 - Prudhoe Bay oil discovered
- 1969 - Prudhoe Bay lease sale
- 1970 - Disaster severance and conservation taxes repealed
 - Oil production tax changed to a graduated tax
 - Gas severance tax increased to 4%
- 1972 - Minimum tax established based on "cents per barrel" equivalent to percent of value tax on oil with wellhead value of \$2.65 .
- 1973 - Effective oil tax rates increased
 - Five mill tax on oil for conservation reenacted
 - OPEC quadrupled world market price for crude oil
- 1977 - Nominal tax rate on oil increased to 12.25%
 - Nominal tax rate on gas increased to 10%
 - Economic Limit Factor introduced to adjust effective tax rates
 - New floors for oil and gas severance taxes established
 - Prudhoe Bay oil began flowing to Valdez
- 1979 - Prudhoe Bay well head prices increased from \$5.80 per barrel in January to \$10.57 in June as a result of the loss of imports from Iran.
- 1981 - Nominal tax rates on oil increased to 15%
 - Tax on oil production beginning after 6/30/81 remained 12.25% for the first five years of production
 - Oil ELF equal to 1 if calculated to be greater than 0.7 during first 10 years of production
 - Kuparuk field production began

OIL & GAS PRODUCTION TAX
(FY 1977-87)

— ACTUALS
--- PROJECTIONS



OIL & GAS PRODUCTION TAX

CODES 065 & 068

<u>Fiscal Year Ended</u>	<u>Net Collections</u>	<u>\$ Increase Over Prior Fiscal Year</u>	<u>% Increase Over Prior Fiscal Year</u>	<u>% of Estimate Realized</u>
6-30-84	\$1,392,302,205.76	\$(101,025,121.56)	(6.77)	101.86
6-30-83	1,493,327,327.32	(87,782,646.75)	(5.55)	98.65
6-30-82	1,581,109,974.07	411,232,234.21	35.15	100.00
6-30-81	1,169,877,739.86	663,716,104.67	131.13	98.70
6-30-80	506,161,635.19	332,580,692.53	191.60	101.03
6-30-79	173,580,942.66	65,980,455.42	61.32	104.32
6-30-78	107,600,487.24	83,948,336.98	354.93	101.32
6-30-77	23,652,150.35	Base Year	Base Year	87.25

STATE OF ALASKA
OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

April 27, 1983

Mr. David Teal
Issues Analyst
House Research
Pouch Y
Juneau, AK 99811

Re: Reduction in revenues attributable to FCCS SB524, Ch. 116 SLA 1981

Dear Mr. Teal:

You have requested that this department prepare an estimate of the effects of the enactment of Ch. 116, SLA 1981, which amended the oil and gas corporate income tax and the oil and gas severance tax. Those amendments can be summarized as follows:

1. AS 43.55, prior to the amendments, provided for a tax on oil production amounting to 12.25 percent of the gross value at the point of production modified by an economic limit factor (ELF) set forth in AS 43.55.013. The ELF factor on Prudhoe Bay production during FY 1982 was approximately .9249 which led to an effective rate of 11.33 percent. This rate would decline as production at Prudhoe Bay became more marginal. The ELF on Cook Inlet production in FY 1982 averaged approximately .2864 which led to an effective rate of 3.51 percent. The tax rate on gas was 10 percent of the gross value at the point of production modified by an ELF factor.

2. Ch. 116 SLA 1981 increased the rate of tax to 15 percent on oil production (except that for fields commencing commercial production after June 30, 1981, the rate would be 12.25 percent for the first five years) times the ELF factor which was equal to one as long as it exceeded .7 during the first ten years of production. See AS 43.55.011(b) and AS 43.55.013(b)(4). Thus the rate on Prudhoe Bay production is currently $15\% \times 1 = 15\%$, Kuparuk is $12.25\% \times 1 = 12.25\%$, and Cook Inlet is $15\% \times .2864 = 4.30\%$. The gas severance tax rate was unchanged although the gas ELF factor calculation was modified. See AS 43.55.013(g). The increased severance tax rates were made effective July 1, 1981, or at the outset of FY 82.

David Teal
April 27, 1983
Page 2

3. The oil and gas corporate income tax method set forth in AS 43.21 known as separate accounting was repealed and a new modified apportionment scheme was enacted effective January 1, 1982, which is contained in the new AS 43.20.072. This new method for attributing oil and gas income to the state combined with the introduction of a graduated rate structure set forth in AS 43.20.011(e) which decreased revenues from the overall corporate income tax.

In our view, the best way to illustrate the comparative revenues of the previous oil and gas tax structure with the structure put in place by the 1981 amendments is to compare the revenues which would be derived by both methods under the pricing assumptions contained in our March 1983 revenue forecast. The attached Table I should demonstrate the relationship.

It should be noted that the positive result in FY 82 was due to the early effective date of the severance tax increase and the fact that AS 43.21 remained in effect during the first half of FY 82. It should also be noted that, beginning with FY 84, estimates are consistently based on the department's more conservative 30 percent case, not the mean case generated by the Pet Rev model. However, this should not impact significantly the relationship of total revenues being compared.

Sincerely,

Vincent D. Wright
Vincent D. Wright
Chief of Research

VDW:jas

Enclosures

Table I
Change in Petroleum Corporate Income Tax and
Oil and Gas Severance Tax Due to Enactment of SB 524
FY 82-90 - March 1983 Forecast Assumptions
(millions \$)

Old Law

<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	1158.96	968.82	2127.78
83	1104.72	933.91	2038.63
84	814.87	753.47	1568.34
85	805.93	699.32	1505.25
86	844.18	726.56	1570.74
87	882.56	757.50	1640.06
88	910.19	762.58	1672.77
89	980.54	798.68	1779.22
90	950.18	769.37	1719.55

New Law

<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	1581.10	668.90	2250.00
83	1479.59	235.00	1714.59
84	1111.15	243.00	1354.15
85	1116.56	255.00	1371.56
86	1184.07	273.00	1457.07
87	1227.58	285.00	1512.58
88	~~1291.67~~	300.00	~~1591.67~~
89	1157.41	324.00	1481.41
90	1083.98	308.00	1391.98

Change Due to New Law - New Law less Old Law

<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	+422.14	-299.92	+122.22
83	+374.87	-698.91	-324.04
84	+296.28	-510.47	-214.19
85	+310.63	-444.32	-133.69
86	+339.89	-453.56	-113.67
87	+345.02	-472.50	-127.48
88	+381.48	-462.58	-81.10
89	+176.87	-474.68	-297.81
90	+133.80	-461.37	-327.57

Table 1
Change in Petroleum Corporate Income Tax and
Oil and Gas Severance Tax Due to Enactment of SB 524
FY 82-90 - June 1983 Forecast Assumption--30% Case FY 84-90
(million \$)

<u>Old Law</u>			
<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	1157.10		
83	1109.73	968.08	2125.18
84	919.01	944.81	2054.54
85	947.43	836.75	1755.76
86	995.92	805.76	1753.19
87	1044.93	841.43	1837.36
88	1077.71	867.18	1912.11
89	1135.33	882.82	1960.53
90	1091.80	923.68	2059.01
		867.79	1959.09

<u>New Law</u>			
<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	1581.10		
83	1493.70	668.90	2250.00
84	1279.24	236.20	1729.90
85	1308.64	250.00	1529.24
86	1409.66	282.00	1590.64
87	1474.31	312.00	1721.66
88	1292.36	363.00	1837.31
89	1365.47	399.00	1691.36
90	1271.20	421.00	1786.47
		446.00	1717.20

Change Due to New Law - New Law less Old Law

<u>FY</u>	<u>Severance Tax</u>	<u>Income Tax</u>	<u>Total</u>
82	+424.00		
83	+383.97	-299.18	+124.82
84	+360.23	-708.61	-324.64
85	+361.21	-586.75	-226.52
86	+413.74	-523.76	-162.55
87	+429.38	-529.44	-115.70
88	+214.65	-504.18	-74.79
89	+230.14	-483.82	-269.17
90	+179.40	-502.68	-272.54
		-421.29	-241.89

IN THE SUPREME COURT FOR THE STATE OF ALASKA

ATLANTIC RICHFIELD COMPANY; ARCO
PIPE LINE COMPANY; BP ALASKA,
INC.; EXXON CORPORATION; EXXON
PIPELINE COMPANY; SOHIO ALASKA
PETROLEUM COMPANY; and SOHIO
PIPE LINE COMPANY.

Appellants,

VS.

STATE OF ALASKA; ALASKA DEPARTMENT OF REVENUE; ALASKA DEPARTMENT OF ADMINISTRATION; COMMISSIONER OF REVENUE ROBERT D. HEATH, and COMMISSIONER OF ADMINISTRATION LISA RUDD,

Appellees.

Supreme Court
No. S-52

Superior Court Nos.
3AN-79-1903 Civil
3AN-80-1542 Civil

AFFIDAVIT OF ROBERT D. HEATH

STATE OF ALASKA)
FIRST JUDICIAL DISTRICT) ss.

I, ROBERT D. HEATH, being first duly sworn declare:

1. I am Commissioner of the Department of Revenue for the State of Alaska and have held that post since January 21, 1983.

2. I directed my staff to prepare the following estimates based on information from department collection records, tax returns, taxpayer financial reports and other sources.

3. The figures for AS 43.21 earnings and tax liability are based upon initial collections less refunds and credits plus audit assessments collected. Because AS 43.21 tax returns are still being audited, the figures below are not final

collections. Moreover, certain retroactive refunds and credits for AS 43.21 tax years are still being processed.

4. Estimates of AS 43.20 taxes under a modified approach are based upon best available information.

5. The figures below reflect the most current information on the earnings and taxes collected by the State of Alaska under AS 43.21 and my best judgment on what would have accrued had AS 43.20, as presently amended, been in effect during the same period. These figures pertain only to the appellants in the above-captioned action, and do not consider either the AS 43.21 or possible AS 43.20 liability of other taxpayers.

6. The figures below are expressed in millions of current dollars and have been rounded to the nearest \$1 million.

7. Total net income subject to tax under AS 43.21 is:

<u>YEAR</u>	<u>AS 43.21 EARNINGS TAXED</u>
1978	\$ 1,588,000,000
1979	4,125,000,000
1980	7,637,000,000
1981	<u>7,617,000,000</u>
TOTAL	\$20,967,000,000

8. Total AS 43.21 net collections to date:

<u>YEAR</u>	<u>AS 43.21 NET COLLECTIONS</u>
1978	\$ 148,000,000
1979	387,000,000
1980	648,000,000
1981	<u>838,000,000</u>
TOTAL	\$2,021,000,000

9. Estimated alternate tax liability under the AS 43.20 modified formula apportionment approach would be:

<u>YEAR</u>	<u>AS 43.20 ESTIMATED ALTERNATE TAX</u>
1978	\$ 66,000,000
1979	165,000,000
1980	216,000,000
1981	<u>176,000,000</u>
TOTAL	\$ 623,000,000

10. The net tax difference between AS 43.21 tax liabilities and estimated AS 43.20 tax liabilities is:

<u>YEAR</u>	<u>DIFFERENCE BETWEEN AS 43.21 AND AS 43.20 TAX LIABILITY</u>
1978	\$ 82,000,000
1979	222,000,000
1980	432,000,000
1981	<u>662,000,000</u>
TOTAL	\$1,398,000,000

11. The estimated interest that would be payable on a refund of the difference between AS 43.21 and AS 43.20 tax liabilities:

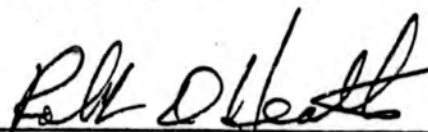
<u>YEAR</u>	<u>INTEREST ON ESTIMATED REFUND*</u>
1978	\$ 40,000,000
1979	89,000,000
1980	138,000,000
1981	<u>159,000,000</u>
TOTAL	\$426,000,000

*Interest through 4/27/84

12. The estimated total refund liability of the State is:

<u>YEAR</u>	<u>ESTIMATED TOTAL REFUND LIABILITY</u>
1978	\$ 122,000,000
1979	311,000,000
1980	570,000,000
1981	<u>821,000,000</u>
TOTAL	\$1,824,000,000

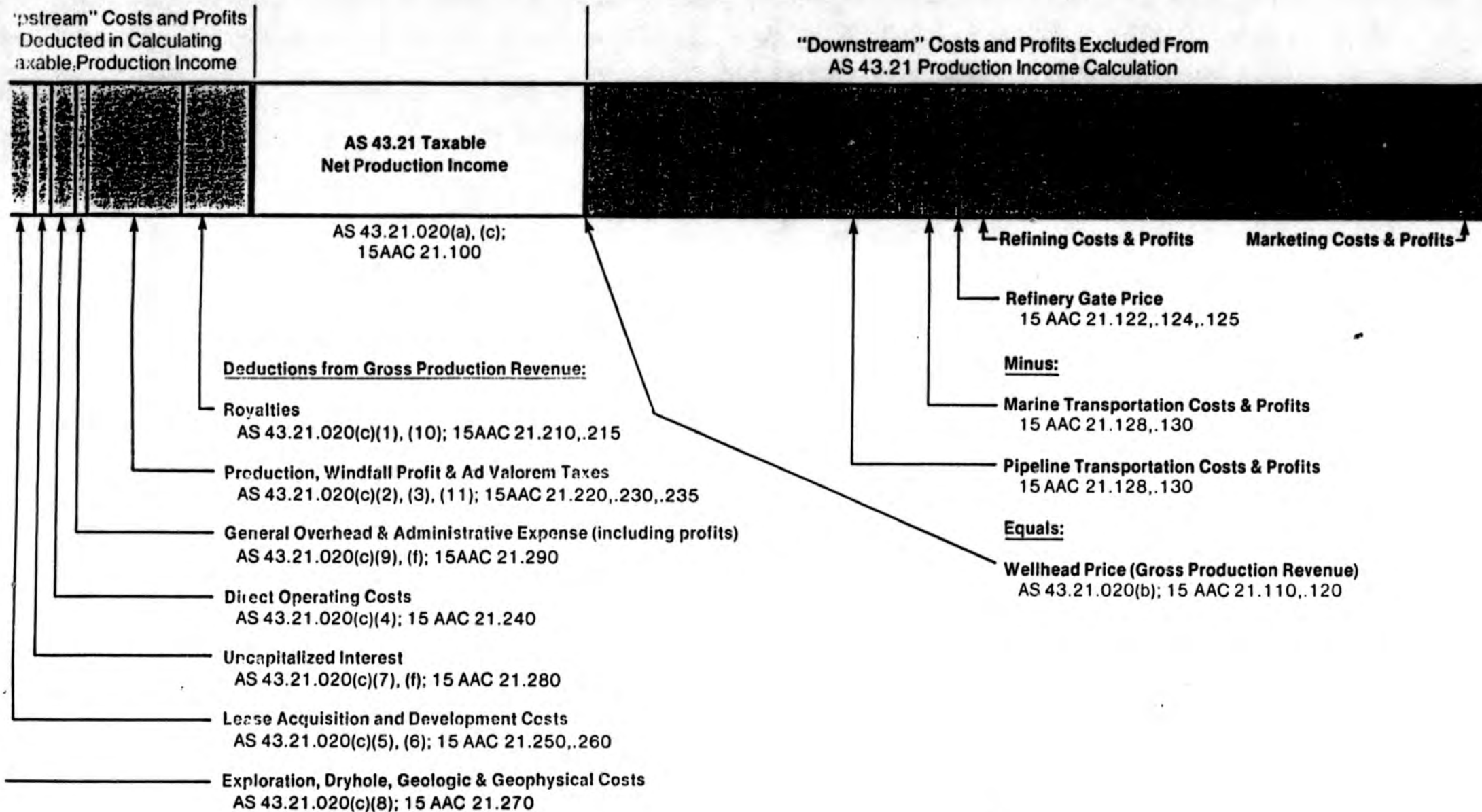
Further your affiant saith naught.


Robert D. Heath, Commissioner
Department of Revenue

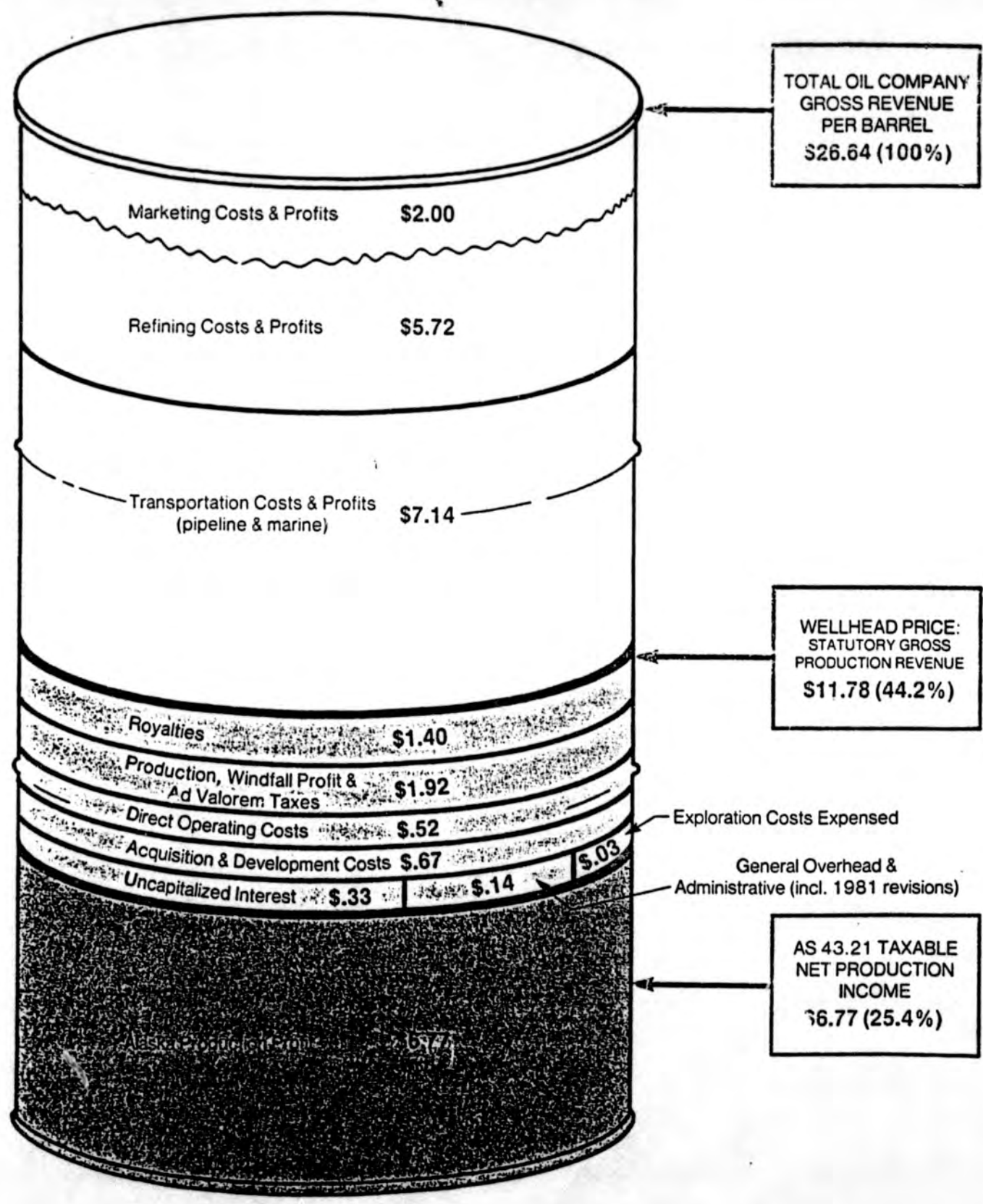
SUBSCRIBED AND SWORN TO before me this 27th day of April, 1984.


Notary Public, State of Alaska
My commission expires: 12/9/84

AS 43.21 TAXABLE NET PRODUCTION INCOME CALCULATION
EXCLUDES ALL COSTS AND PROFITS OF UPSTREAM AND DOWNSTREAM ACTIVITIES



**ESTIMATED REVENUES AND COSTS
PER BARREL OF ALASKAN CRUDE OIL
1978 - 1980**



SOURCE: Deakin 2d Supplemental Affidavit ¶ 15.



Alaska State Legislature

Representative Mike Davis

Pouch V
Juneau, Alaska 99811
(907) 465-4930/4941

Interim Office:
P.O. Box 81435
Fairbanks, Alaska 99708

TO: All Representatives
FROM: Rep. Mike Davis
DATE: March 4, 1986
RE: Oil Company Taxation

I am passing along a packet of newspaper articles given to me by one of my constituents. He wanted legislators to be aware of the events surrounding the switch from separate accounting to modified apportionment in 1981.

5/20/81

They should have listened

The oil companies keep chipping away at the Legislature with expensive lobbying and advertising campaigns in an attempt to reduce the amount of taxes they pay our state. They've been unsuccessful so far and we hope that situation remains unchanged.

Big oil companies claim Alaska is taxing their incomes unfairly, that they ought to be taxed just like every other Alaskan business rather than in a way they say makes them pay a higher effective rate.

They say the Alaskan tax setup results in double taxation of some of their income. That's true to a degree: the federal windfall profits tax, which was passed after we Alaskans passed our oil tax law, does result in some instances of double taxation. The law also taxes the companies on part of their income for which they might also be liable for taxes in other states.

It's important to keep in mind, though, that this law was passed to keep the companies from claiming that most of their income came from outside Alaska and therefore was not subject to Alaskan taxes even though much of their income was drawn from Alaskan oil.

All in all, what we have now is not a bad system. Our state, owner of the oil at Prudhoe Bay, gets about a third of the income from that oil; the oil companies, who put up the money to develop and run the field get about a third; and the federal government, which has done just about nothing but collect taxes from Prudhoe Bay, gets a third.

Certainly our state leaders were correct earlier this year when they said that, while they would consider adjustments in the tax laws, they would not consider getting less money from the oil. The oil companies could have saved themselves considerable money by paying attention to that clear statement.

5/21/81

Don't settle for less

We're glad to see our state's political leaders moving to make sure we continue to get a fair share of the income from our North Slope oil. Under consideration before the Legislature is a bill that would provide a backup tax that would take effect only if the oil companies are successful in their lawsuit to overturn the present state income tax they pay.

Big Oil has mounted an advertising and lobbying campaign to get the state to repeal the special income tax and put oil companies back under our state's regular business income tax. To do so would cost the state a considerable amount of income and state leaders have been wise to resist those efforts.

The backup tax would be a 25-mill levy on producing oil reserves and is estimated to bring the state almost exactly the same amount of money as we're getting now under the income tax. This bill might even win oil company approval because it also would end the double taxation caused by the federal windfall profits tax.

The oil companies have said they're being taxed unfairly in Alaska. This bill should put an end to that complaint and if it is to be passed, we'd like to see the companies pledge to drop their tax lawsuit.

But the companies also have claimed they're being taxed too heavily. That, however, is a claim that the state rightly disputes. The oil at Prudhoe Bay, after all, belonged to our state and we're getting a third of the money it generates.

Given the massive needs of Alaskans and their communities, we don't think that's an unreasonable share.

Editorial Opinion and Comment of

FAIRBANKS 6/13/81

Daily News-Miner

"Independent in All Things — Neutral in None"

Other opinions expressed on this page do not necessarily reflect those of the Daily News-Miner.

Legislative vandalism

If we didn't know better we'd think it was still April—April 1, to be precise—because the goings-on in the state House of Representatives Thursday night and Friday certainly have every mark of being a massive joke. Unfortunately, it's a joke at the expense of the rest of us who live in this state.

What happened was fairly, simply. Egged on by Republican Senate leaders (who ought to know better), the two minority parties in the House revolted against the Democratic majority. The 16 Republicans and two Libertarians finally succeeded in breaking the shaky 22-vote Democratic majority and electing a different Speaker in a move the losers angrily denounced as, among other things, illegal.

One would presume that on Monday when the House is to reconvene the joke will be over, all the players returned to their previous positions and some legislative business conducted. There are, after all, a few little things remaining to be done before this record-long session can adjourn—little things like our state's operating budget for the new fiscal year that begins in 2½ weeks, \$750 million worth of capital improvements, an appropriation to bring cheap hydroelectric power to most Alaskans.

We're not saying that the majority in the House has done such a hot job so far. It hasn't. That's partly the fault of the majority Democrats themselves because their organization has been weak, faltering and fragmented all session. And it's partly the fault of the minority Republicans and Libertarians, who have taken every opportunity to obstruct and delay business.

But we have trouble seeing how any new leadership in the House at this late date is going to have a positive effect. A change cannot help but delay the already long and tedious session. Two top items, the budgets for state operations and capital improvements, had been pretty well settled earlier this week. If it stands, the new leadership certainly will want to reopen those budgets, and probably many other items as well.

Meanwhile, Alaskans continue spending nearly \$40,000 a day for this sort of legislative vandalism. Is there not leadership enough in Juneau to put a merciful and swift end to this sorry show?

Daily News - Miner

"Independent in All Things — Neutral in None"

Other opinions expressed on this page do not necessarily reflect those of the Daily News-Miner.

6-10-81

Keep oil taxes up

Negotiating an out-of court settlement to the lawsuit the Prudhoe Bay oil producers have filed over Alaska's income tax would be a good solution to a hard problem—but not if it means giving up a substantial part of our state's income.

That's why we're glad to see the Legislature keeping the pressure on. The state House Tuesday passed a bill providing a backup tax that would take effect if the state loses the lawsuit. The Senate is likely to reject the bill and send it to a conference committee where the proposed settlement being discussed can be considered.

That's not to be interpreted as Senate opposition to the backup tax; it's merely a tactical maneuver. Senate leaders say that if no compromise can be reached they probably will pass the new tax legislation.

At stake is the amount of money we Alaskans will continue to receive for our North Slope oil. At present we're getting about 32 per cent, the oil companies are getting almost the same amount and the federal government is getting about 36 per cent through its tax system.

The oil companies are making two claims: that we're taxing them unfairly and that we're making them pay too much. Thirty per cent would be about the right amount for Alaskans to get, they say. That would mean \$1.4 billion less for us through 1985. Legislative leaders and the governor have stood united on this issue. We might make some changes in the tax law but we won't accept less money for our oil.

It may be that developments after we passed the oil income tax in 1978—namely the federal windfall profits tax—have caused the Alaskan tax system to become unfair. And our leaders have said they'd be willing to correct that problem. But there's a big difference between taxes that are unfair and taxes that are too high.

Certainly our taxes on Big Oil are not too high. The oil was ours in the first place and Alaskans are entitled to a fair amount of money for it. So, if we can negotiate an end to the oil companies' lawsuit, let's do it—but let's also not give up any of our badly needed oil income.

Don't pay the ransom 6-18-81

Big Oil & Co. seem to be rubbing their hands in anticipation and licking their chops over the turn-about in leadership in the state House of Representatives. By various accounts, the Republican-led coalition that upset the shaky Democratic House leadership last week means that chances will improve for reaching an out-of-court settlement in the lawsuit the Prudhoe Bay oil companies have filed against our state's income tax.

We hope that's a mistaken assessment because we can see not the least reason for the people of this state to give up half a billion dollars a year in income from their North Slope oil. That's the ransom the oil companies are demanding for dropping their lawsuit against our state's special oil and gas income tax.

Earlier this legislative session, the governor and leaders of the Legislature agreed to consider changing some of the provisions of the oil tax law that result in unfair double taxation. But they were emphatic that the state would not allow any significant cut in our total income from the oil.

We thought that was a reasonable proposal then and we still do. Unfortunately, some of the new House leaders have other ideas. Rather than passing the backup tax—which would protect our income in the event we lost the lawsuit—they prefer the out-of-court settlement the oil companies are offering. It escapes us how our new legislative leaders can even consider the oil companies' proposal that we give up \$500 million a year from a resource that belongs to the people of Alaska.

We're getting a little less than a third of the Prudhoe Bay income now. The oil companies are getting almost a third and the federal government is getting the rest. Why should we receive less?

Perhaps Gov. Jay Hammond, who agreed to the earlier idea of taking no less money for our oil, while perhaps removing unfair aspects from the tax law, ought to take a walk down one flight of stairs in the Capitol and have a talk with our new legislative leaders about that issue.

The conversation ought to be an interesting one in light of the fact that unless the governor changes his mind, any deal the new legislative leaders try to make with the oil industry will be worthless. Gov. Hammond already has said we Alaskans won't take less money for our oil. And he has ample means to back up that position.

State roundup

Backup oil tax faces House vote

JUNEAU—A new "backup" oil tax—intended to protect Alaska from the risk of losing a multibillion-dollar lawsuit pending over the state's oil and gas corporate income tax—was slated for a House vote today.

The tax won a strong endorsement from the House Finance Committee on Sunday, but is expected to spark some opposition on the floor. House Speaker Jim Duncan, D-Juneau, predicted the Democrats have the 21 votes needed to pass the measure, but there was an indication Sunday that some members of the bush caucus might withdraw their support.

The Finance Committee agreed to tack the tax onto a Senate-passed bill that would increase the maximum investment credit that corporations can claim against the state's corporate income tax from \$9,000 to \$360,000.

The proposed new oil tax would be a 25-mill (2.5 per cent) levy on the value of producing oil reserves, with the levy set at 30 mills for the first year only. The tax would take effect in July, but the oil companies would be allowed to credit their payments made under the challenged income tax against the new reserves tax.

Revenue Commissioner Tom Williams estimates the net result of the new tax would be a slight reduction in taxes for the oil industry.

After the oil and gas income tax was enacted in 1978, The three major Prudhoe Bay producers—Exxon, Arco and Sohio—filed suit challenging its constitutionality. The companies are paying the tax under protest, but state officials estimate that if the state loses the suit, the state could be forced to repay \$8 billion to \$9 billion.

The potential loss of revenue prompted House and Senate leaders, and Gov. Jay Hammond, to draft a backup tax.

Poll finds support for move bill veto

ANCHORAGE—A poll commissioned by a group of Gov. Jay Hammond's supporters indicates most Alaskans support his veto of a bill that would have amended the FRANK initiative on capital move costs, an Anchorage newspaper reported today.

The Anchorage Daily News reported the poll was commissioned by the Governor's Club and was conducted by Ditman Research Associates.

Hammond last week vetoed the bill amending the initiative and putting it on the 1982 ballot because he said it did not reflect the full costs of a capital move.

The newspaper reported that the poll showed 51 per cent of those surveyed agreed Hammond should veto any measure not giving voters a chance to vote on the move's full costs. It said the poll showed 42 per cent opposed to such a veto.

Thirty-seven per cent of the 482 respondents statewide indicated the cost of maintaining the existing capital in Juneau should be subtracted from move costs when determining the full costs of a new capital.

Fisherman charged with illegal catch, sale

ANCHORAGE (AP)—An Anchorage commercial fisherman has been charged with illegally catching, possessing and selling salmon.

Fish and Wildlife protection officers from Soldotna and Anchorage arrested Charles Davis last week, following a three-year investigation of his activities.

Fish and Wildlife Lt. Steve Reynolds said Davis is charged with taking king salmon from a beach site on the west side of Cook Inlet and selling those fish in Anchorage for \$4 a pound.

Dissidents plotting coup against House leadership

— By JEAN KIZER —
Associated Press Writer

JUNEAU—Dissident House lawmakers were plotting today to overthrow House Speaker Jim Duncan and other Democratic leaders and stage a coup that would put a coalition leadership in power, lawmakers confirmed this morning.

"It could happen. I've seen a list that had 25 votes on it (to overthrow). But whether it actually happens is anybody's guess," said one House Republican who asked to remain anonymous.

But several other lawmakers predicted the ouster would occur as soon as the House floor session convened. Democrats were huddled in a hastily called party caucus this morning, and the floor session was delayed indefinitely.

Under one interpretation of the Legislature's rules, it would take 21 votes to oust Duncan. The list of lawmakers backing the coalition was rumored to include most or all members of the 18-member minority, which includes 16 Republicans and two Libertarians, and a handful of dissident Democrats.

Never before in the history of the Alaska Legislature has a presiding officer of either chamber been deposed, or an organization overthrown.

Sources said the new leadership slate

—under consideration calls for veteran Ketchikan Democrat Oral Freeman to take over as speaker, with GOP leader Rep. Joe Hayes, R-Anchorage, as Rules Committee chairman and Rep. Russ Meekins, D-Anchorage, as chairman of the Finance Committee. Freeman and Meekins joined a coalition leadership a few years ago.

Hayes confirmed the rumored slate was "very possible" but he declined further comment except to say a chance definitely exists that a reorganization could occur.

An angry Duncan, D-Juneau, and a core of other House Democrats were scrambling this morning to derail the threat of a coup—which has been rumored all session, but not taken seriously until recently, when the pressure of a long session began to build.

When asked if the ouster appeared possible, Duncan snapped. "I don't know anything about it." However, he had just emerged from a meeting of top Democrats, who were called in hastily to discuss ways to thwart the possibility of an overthrow.

One aide close to a key House Democrat said the push for reorganization was sparked on Thursday, when Duncan told fellow Democrats during a leadership caucus that he expected the session to last for at least another two weeks. Duncan has

said publicly that he thought the session could end by this weekend.

Several House lawmakers—mostly Republicans, but also some Democrats—have said during recent weeks that they are unhappy about what they consider lack of direction and leadership in the House.

GOP lawmakers have made repeated attempts since the session began to forge a coalition leadership, but their efforts apparently gained a burst of momentum in recent days when some disgruntled members of the House bush caucus and a handful of other Democrats began talking seriously about joining a coalition.

After a bitter, 22-day organization fight in January, Duncan was put in the speaker's chair with the shaky backing of the 22-member Democratic caucus—including a core of about eight bush lawmakers who originally were among Duncan's strongest supporters.

But in recent weeks there have been indications that some members of the bush caucus were unhappy with their treatment by the House leadership.

Sen. Frank Ferguson, D-Kotzebue, said today that Rep. Al Adams, D-Kotzebue, is spear-heading the reorganization. Adams declined to comment. Ferguson predicted the overthrow definitely would happen and said it would "speed up the session and the bush will be treated more fairly."

Rumors fly in Juneau on reasons for coup

By DAVID RAMSEUR
News-Miner Bureau

JUNEAU—While his colleagues scurried about the capitol building after Monday's House coup, Rep. Al Adams was quietly studying the state budget in a third floor conference room.

Helping the freshman Kotzebue Democrat with his cram session were two aides. One was Adams' regular staffer, and the other was an aide to Sen. Frank Ferguson, also a Kotzebue Democrat.

The halls of the capitol have been filled with rumors that the last three days of upheaval in the Legislature were orchestrated by lobbyists and senators.

Some observers, including Democrats who were unseated over the weekend, have suggested the coup was designed to aid the oil companies, telecommunications industry or the pockets of members of the new ruling junta.

Adams' instructors on the budget Monday afternoon may lend weight to that theory for some observers.

Adams is slated to chair the powerful Finance Committee. He and Ferguson are long-time friends and political allies, and Ferguson, a member of the Senate finance panel, wields considerable power in the Senate.

But Adams, a former Fairbanksan who once worked at the satellite tracking station in Fox, adamantly denies any collusion.

"No lobbyist or anyone at all had anything to do with it," Adams said in his small, fifth floor office Monday afternoon.

Other lawmakers including Ferguson, and lobbyists for a variety of interests deny the charges. Anchorage Republican Sen. Ed Dankworth went so far as to deny any involvement in the House shake-up on the Senate floor Monday.

But the reasons for the coup are still unclear. Dissident Democrats say they left their party for the initial overthrow Friday afternoon because the House organization under Speaker Jim Duncan wasn't working.

House members complained their bills weren't getting passed, deals hadn't been fulfilled and there was no end to the session on the horizon. Bush members complained the \$107 million allocated them in the capital budget was nearly \$100 million short of what they were promised.

But others say the overthrow is the beginning of something deeper than achieving short-term political goals. Some lawmakers and other legislative observers say the unusual pact between Libertarians, bush Democrats and Republicans, who are largely from Anchorage, is the beginning of a new political era.

The nation and Alaska have recently taken a swing to the right. The reign of liberal Democrats, who have ruled the Alaska House the past seven years, was expected to end in the 1982 election.

Under the reapportionment plan being reviewed by Gov. Jay Hammond, that seems even more likely. Now, many of the Democrats expected to return to the House in 1982 are from the bush, whose districts have not been substantially reworked by the Reapportionment Board.

At the same time, life in the bush has changed over the past couple of years. According to Native lawmaker Adams, the social programs such as rural education have had an effect in the bush.

"The trend toward the cash economy has changed the bush way of life," Adams said.

Now, rural Native residents demand industries to provide jobs, and bush legislators are expected to "bring home the bacon" in even greater quantities to provide those jobs.

"There's no question in my mind that the attitude of these bush people is 100 per cent opposite from last year's bush caucus," said two-term Rep. Bob Bettisworth, R-Fairbanks.

"This group doesn't want to see their people benevolent to the Legislature."

Ferguson may have suggested as much when he proposed three separate Alaskan states earlier in the session, one of which would include just the bush.

That change may account for the recent alignment between Chamber of Commerce Republicans and bush Democrats.

The Republicans in the new coalition are expected to rework the state's operating and capital budgets to give more to Anchorage.

The bush, which traditionally doesn't get a big share of the operating budget because it lacks large numbers of state employees, will probably push for increases in the capital budget.

Substantial changes promised

Adjournment House's top goal

By DAVID RANSEUR
News-Miner Bureau

JUNEAU—When Rep. Sally Smith assumed control of House employees and office space as head of the Rules Committee back in February, one of her first official acts was to remove a row of chairs from the second floor hallway leading into the House chambers.

That action by the Fairbanks Democrat was roundly criticized by Republicans who complained women and elderly tourists would be deprived of a place to rest.

Smith, whose office door opens onto that hallway, said people sitting there made it too noisy.

Wednesday morning when lawmakers and lobbyists arrived at the Capitol they found the chairs back in their old place.

That's just one of the changes under way by the Republican-dominated coalition that took control of the House Tuesday. Other changes, promise coalition leaders, will be more substantial than moving chairs around.

According to the new ruling group in the House, the top priority and one of the main reasons for the coup is a quick adjournment. June 23 has been targeted as the adjournment date, which would set a record for the longest legislative session in state history.

Before that happens, House leaders say they have a number of changes they want to make and a number of measures they want to pass. The extent of those changes is still tentative.

"If we start messing around with things much, we'll be here half the summer," said Rep. Dick Randolph, L-Fairbanks.

The coalition's policy committee is drawing up a list of priorities to exchange with the Senate, said committee member Randolph. That list is expected to include:

- A hydroelectric bill that would include a commitment for financing for the proposed Susitna dams and others throughout the state. The measure being considered is similar to a Senate version and doesn't include several changes added by House Democrats.

- A municipal assistance measure providing communities with \$1,000 per capita this year, rather than over two years as had been worked out by Democrats.

- Changes in the operating and capital budgets. Coalition leaders say there will be few major changes in the operating budget because it's too late in the session but the capital budget will

likely be considerably altered.

At the urging of Randolph and other Fairbanks coalition members, Rep. Brian Rogers, D-Fairbanks, will retain his seat on the budget free conference committee. Rogers, who was opposed by other coalition members, will stay to protect Fairbanks interests, Randolph said.

- A settlement with the oil companies on the proposed "backstop" tax. House Democrats and Gov. Jay Hammond had been pushing for the tax in case the state loses its court battle with the oil industry but Republicans favor settling out of court on the issue.

That settlement could include a significant reduction in oil revenues to the state and a change in the current tax laws.

Fairbanks coalition members say a number of bills of special interest to the interior, many of which have been stuck in committees dominated by Democrats, will now be considered. They include:

- A bill extending the life of the state Guide Licensing and Control Board. The board was slated to go out of existence this year but it will probably be extended one year, said Libertarian Rep. Ken Fanning, co-chairman of the Resources Committee under the coalition.

- The lands bill abolishing the 100,000-acre-a-year quota may receive more attention. The bill has been in the Senate Finance Committee at least a month and Fanning said he will renew the push to get the bill passed.

But finance panel Chairman Sen. Don Bennett, R-Fairbanks, has indicated he wants changes in that measure, so its future is still indefinite.

- The Alaska Energy Center, a Fairbanks-based group established at the urging of Rogers, may be abolished, Randolph said. The Senate already wants to kill the center and the House is likely to concur.

- A mining loan bill, a top priority of Rep. Bob Bettisworth, R-Fairbanks, but which has been stuck in committee, may be approved.

- Funding for the Big Dipper is as likely under the new as old House organization. Several Fairbanks lawmakers have lobbied to have Dipper funding included in the capital budget but Hammond opposes anything other than the traditional road and bridge projects in that budget.

Local delegation agrees to disagree

News-Miner Bureau

JUNEAU—Fairbanks' nine legislators routinely boast about the cohesiveness and good relations among themselves, even though the delegation includes three philosophically diverse parties.

But when it comes to sitting down to work, it hasn't always been so smooth.

Earlier this legislative session, for example, the delegation split while trying to compile a list of local priorities and hasn't met in a working session since.

"The rhetoric is for public consumption, but basically it just doesn't work that way," said Libertarian Rep. Dick Randolph.

That state of affairs, say Fairbanks lawmakers, won't change under the new House organization. The delegation, they say, will continue to attempt to work together, and probably continue to disagree.

"I don't think it's going to make a significant difference," said Democratic Sen. Charlie Parr.

For several years, this one included, the delegation has been dominated by Democrats. According to Republican Rep. Bob Bettisworth, that has meant Democratic priorities have been the ones to receive legislative attention.

Under the new House coalition however, Republicans and Libertarians are running the House and Fairbanks'

three Democratic House members find themselves in the minority.

But they say they've tried to keep the delegation nonpartisan in the past and hope to maintain that when working for Fairbanks issues.

"We know how to get along personally to get anything done," said Democratic Rep. Fred Brown.

Several unlikely alignments will result from the House shake-up. For example, Libertarian Rep. Ken Fanning, slated to co-chair the House Resources Committee, will probably work closely with Democratic Sen. Bettye Fahrenkamp, who chairs the same panel in the Senate.

Bettisworth, who gets a seat on the powerful House Finance Committee, is already being tutored by Democratic Rep. Brian Rogers, a former member of that panel.

The Democrats say they don't resent their hometown colleagues being at the top because they didn't orchestrate the take-over that toppled the Democratic organization earlier this week.

"They were not leaders of the illegal coup," Rogers said.

And the Democrats promise to work with the Republicans and Libertarians to achieve ends beneficial to Fairbanks.

Says Fahrenkamp: "If the delegation is not together, we're in trouble."

22 cast votes for Speaker Hayes

JUNEAU AP—A three-party coalition elected Anchorage Republican Joe Hayes as speaker of the House Tuesday on a 22-0 vote that Democrats challenged as illegal. The lawmakers who voted for Hayes include:

Republicans (15)

Mitch Abouf of Anchorage; Ramona Barnes of Anchorage; Bob Bettisworth of Fairbanks; Mike Beirne of Anchorage; Bernie Bylsma of Anchorage; Dave Cuddy of Anchorage; Rick Halford of Chugiak; Ernie Haugen of Petersburg; Hayes; Terry Martin of Anchorage; Ray Metcalfe of Anchorage; Joe Montgomery of An-

chorage; Pat O'Connell of Soldotna; Randy Phillips of Eagle River; Eric Sutcliffe of Unalaska.

Democrats (5)

Al Adams of Kotzebue; Bette Cato of Valdez; Joe Chuckwuk of Dillingham; Jack Fuller of Nome; Vern Hurlbert of Sleetmute.

Libertarians (2)

Ken Fanning of Fairbanks; Dick Randolph of Fairbanks.

Rep. Charles Anderson, R-Anchorage, also is a member of the coalition, but was absent for the vote. Most Democrats were present, but refused to vote because they said the floor session was illegal.

Legislators struggle over oil tax

6/23/81

By The Associated Press

JUNEAU—The 1981 Legislature, the longest in Alaska history, entered its 163rd day today with House-Senate negotiators still struggling to reach an elusive agreement on two major issues—oil taxes and a constitutional limit on state spending.

The oil tax issue loomed as the key roadblock to a Wednesday night adjournment goal set by leaders from both chambers.

But Senate Finance Co-Chairman Ed Dankworth, R-Anchorage, said he thinks the House-Senate free conference committee that's trying to resolve the issue will accept a proposal he laid on the table Monday.

However, several House lawmakers don't like the approach, and Gov. Jay Hammond is still pushing to put the issue before voters—a suggestion labeled a "cop out" Monday by a top Exxon official.

Lawmakers are trying to devise a way to protect the state from the potential loss of several billion dollars in revenue that are at stake in a pending lawsuit filed by the three major Prudhoe Bay oil producers against Alaska's corporate oil and gas income tax.

Under Dankworth's proposal, the state would repeal the income tax law and replace it with an income tax that is figured on an apportionment formula based on the companies' federal taxable income. Dankworth's proposal also calls for the state's severance production tax to be hiked to an effective rate of 15 per cent, with some other modifications made to it.

According to Revenue Commissioner Tom Williams, the result would be an estimated loss of about \$141 million in state revenue through 1985—or an average loss of \$35 million per year. However, the annual loss would increase significantly after 1987, according to Mark Wilton, an aide to the House-Senate special oil and gas committee.

If Dankworth's proposal is adopted, it would not halt litigation over the \$1.5 billion the state already has received under the challenged income tax, which was enacted in 1978. Industry spokesmen made it clear Monday that even if the tax is repealed, they will continue to fight in court for the money already paid.

Monte Taylor, Exxon's manager of Alaska operations, called Dankworth's proposal "a grab bag of bills floating around" and said it would do "nothing to settle the lawsuit."

Taylor and other industry officials also made it clear the companies likely would file suit against the new tax, and also working on a challenge to the state's entire oil tax structure.

Meanwhile, Hammond is continuing to push for the issue to go before voters, but Taylor called that idea a "cop out."

Hammond has proposed passage of a so-called "backup" tax, which was approved by the House. The backup tax, a 25-cent tax on producing oil reserves, would take effect this year. However, the payments made under the oil income tax could be credited against the new tax, resulting in little net change in the amount the oil companies pay.

6/19/81

State oil revenue audit chiefs to resign

JUNEAU—Department of Revenue Commissioner Tom Williams announced that two department directors are resigning—Robert Johnson, director of the state's petroleum revenue division, and Gary Jenkins, chief of the audit division.

Williams said Johnson has administered the state's petroleum tax laws for nearly seven years, and has played a major role in starting programs to audit oil and gas corporate income tax collections and royalty oil receipts.

Johnson said he is leaving his two-year post with department on June 30 to practice law. Johnson, who lives in Anchorage, formerly was a state assistant attorney general.

Jenkins has directed the audit division for nearly seven years, and is leaving his post July 6 to run a private consulting firm in Juneau.

He has been responsible for the overall management of the state's individual, corporate and business tax programs. For more than two years, he also has headed the Child Support Enforcement Agency, which collects child support payments.

Williams has not named replacements to fill the jobs.

June 24, 1981

HOUSE JOURNAL

2615

House Passage Last Day of Session

FCCSSB 524 continued

FCCSSB 524 EFDS

Yeas: 23 Abood, Adams, Anderson, Barnes,
Beirne, Bettisworth, Bylama, Cato,
Chuckvuk, Cotten, Cuddy, Fanning,
Fuller, Halford, Hayes, Huribert,
Martin, Metcalfe, Montgomery,
O'Connell, Phillips, Randolph,
Sutcliffe

Nays: 14 Brown, Buchholdt, Carney, Clocksin,
Duncan, Freeman, Grussendorf, Malone,
Meekins, Miller, Moss, Rogers, Smith,
Vaaka

Not
Voting: 3 Gardiner, Haugen, Zharoff

Representative Meekins changed his vote from "yea" to "nay."

Representative Freeman changed his vote from "yea" to "nay."

Representative Carney changed his vote from "yea" to "nay."

And so, the effective date clauses were not adopted.

FCCSSB 524(efd failed H)

FCCSSB 524(efd failed H) was referred to the Chief Clerk for return to the Senate.

CSSHB 50(Fin)(efd failed)

Representative Brown withdrew his motion with regard to the adoption of FCCSHB 50 (page 2603 of the journal). There being no objection, it was so ordered.

1746

SENATE JOURNAL

June 24, 1981

Senate Passage

SB 524 cont'd

The question being: "Shall FREE CONFERENCE CS FOR SENATE BILL NO. 524 (relating to taxes; eff. date) pass the Senate?" The roll was taken with the following result:

FCCS SB 524

Yeas: 17 Bennett, Bradley, Colletta,
Dankworth, Eliason, Ferguson,
Fischer, Gilman, Hohman, Kelly,
Kerttula, Mulcahy, Ray, Rodey,
Sackett, Sturgulewski, Ziegler

Nays: 2 Parr, Stinson

Excused: 1 Fahrenkamp

Senator Kerttula changed his nay vote to yea.
Senator Rodey changed his nay vote to yea.

and so, FREE CONFERENCE CS FOR SENATE BILL NO. 524 passed the Senate.

A letter from the Governor on FREE CONFERENCE CS FOR SENATE BILL NO. 524 and a new fiscal note appear in Senate Supplement No. 65 to today's journal.

The Secretary was requested to notify the House.

SB 50

The 2d Free Conference Committee report concerning CS FOR SENATE BILL NO. 50 (L&C) and HOUSE CS FOR CS FOR SENATE BILL NO. 50 (RLS) (page 1729) was before the Senate at this time.

Senator Rodey moved that the Senate adopt the Free Conference Committee Report.

The question being: "Shall FREE CONFERENCE CS FOR SENATE BILL NO. 50 (relating to unemployment insurance; eff. date) pass the Senate?" The roll was taken with the following result:

Foes call newest oil tax 'worst appr

JUNEAU (AP)—In the waning hours of the session, lawmakers narrowly approved a major revision of state oil tax laws that opponents blasted as a "fundamental mistake" that may cost the state \$400 million per year by the end of the decade.

But the chief proponents of the legislation, Sen. Ed Dankworth, R-Anchorage and state Revenue Commissioner Tom Williams, pushed for passage, saying the bill would ease some of the risk facing the state because of a multi-billion dollar lawsuit

pending against Alaska's corporate oil and gas income tax.

Rep. Hugh Malone, D-Kenai, disagreed, saying the revised tax "will have very different effects on different companies" and will "invite further litigation." He also said it will hike natural gas prices in Anchorage and southern Alaska, resulting in an estimated \$30 to \$40 increase in the average consumer's yearly bill.

During testimony on Dankworth's bill, several oil industry officials

predicted lawsuits would be filed over the tax.

"This probably represents the worst approach to solving the problem the state faces," Malone said. "The bill passed on a 21-17 vote in the House, while the Senate ballot was 17-2."

The problem the state faces is a lawsuit filed by the major Prudhoe Bay oil producers against Alaska's corporate oil and gas income tax, which was enacted in 1978. State officials say a final decision in the case probably would come by 1985, at which time the state could be forced to repay an estimated \$7 billion if the companies prevail.

Worried about the potential risk, a House-Senate free conference committee agreed Wednesday to adopt a little-discussed bill crafted by Dankworth.

The bill calls for the challenged income tax to be repealed. It would be replaced with a new income tax that is based on a completely different approach, and brings in substantially less revenue. To help make up the revenue loss, the bill calls for the state's severance (production) tax to be raised

from 12½ per cent to 15 per cent.

Besides dealing with oil taxes, the bill calls for a tax cut for small corporations who pay state income tax.

Williams said the state would lose an estimated \$141 million in revenue through 1985 if the new tax is signed into law.

But Reps. Terry Gardiner, D-Ketchikan, and Malone, two of the Legislature's most experienced members on oil and gas issues, said the new tax would result in a revenue loss of more than \$800 million per year by the end of the decade.

Gardiner said revenue analysts project the loss in revenue during the three-year period after 1987 at about \$1.8 billion.

During testimony before the free conference committee, Williams said he could not dispute the figures, but he added that it is very difficult to project revenues that far in the future because there are so many unknown factors.

If the projected revenue loss proves true, Williams said the Legislature would have the option of hiking taxes.

Halford argued that while the "the bill doesn't settle the lawsuit, it makes

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It was a \$6.3 billion spend

JUNEAU (AP)—If the 1981 Legislature is remembered for anything, it may be for lawmakers' inability to close the gates to the gold mine.

When the chaos settled after today's early-morning adjournment rush, lawmakers had divvied up nearly \$6.3 billion—despite only having an estimated \$5.7 billion available for spending.

Veteran observers of the Legislature said the 1981 session marked the first time in state history that Alaska lawmakers have appropriated more than Revenue Department officials said was available for spending.

But lawmakers took care of the problem by voting at the last minute before adjournment to delay spending about \$600 million worth of already approved appropriations until the 1982-83 budget year.

The quick bookkeeping chore had the effect of "balancing the budget," although lawmakers essentially borrowed from the money next year's Legislature will be able to spend.

The bulk of the \$6.3 billion—which is the equivalent of \$15,500 for every Alaskan—was earmarked for one of three major purposes: to fuel the state bureaucracy, to build hundreds of capital projects such as roads, dams and harbors, and to sock away in the Permanent Fund, the state's nest egg savings account.

Here is a brief overview of the way the state's money was spent, and a summary of the major legislation passed during the record 165-day session:

• Hydroelectric development. Lawmakers passed a massive hydro financing plan that appropriates \$535 million for dams and other power

projects and energy programs, and lays the foundation for a \$5 billion appropriation for power projects by 1986.

• Savings. The Legislature, at the urging of House Democrats and Gov. Jay Hammond, voted to sock away \$1.8 billion in the Permanent Fund over the next two years. At least \$1.4 billion is to be deposited this year.

• Capital construction. A record capital budget of \$765 million won approval, despite objections from some lawmakers who said so many capital projects already have been funded but not yet built, that many of the projects in this year's budget won't be constructed for years.

• Local projects. For the first time, lawmakers approved \$405 million to be doled out in per-capita payments to local municipalities and unorganized areas. The money is to be used for capital projects, social service programs, and—in communities of less than 1,000 people—for operating costs.

• Tax relief. Although a \$100-million property relief plan backed by most House Democrats did not get far, the Legislature approved \$64 million in state aid to municipalities. Several communities have opted to use the money to provide property and sales tax relief.

• Capital move. After months of debate, opponents and supporters of the capital move struck a compromise on a bill that paves the way for another vote in 1982 on the cost of moving the capital to Willow.

• Student loans. College students seeking money under the state's student loan program will be able to borrow up to \$6,000 per year and \$7,000 for graduate students if Hammond signs a bill passed earlier this week.

Malone urges Hammond veto oil tax

JUNEAU (AP)—One of the Legislature's chief spokesmen on oil tax issues has written Gov. Jay Hammond urging him to veto an oil tax bill that's estimated to result in a \$2.8 billion loss of state revenue over the next 10 years.

In a strongly worded letter to Hammond, Rep. Hugh Malone, D-Kenai, said the new tax would weaken the state's legal position, would invite expanded court challenges by the oil industry and would drop the state's share of Prudhoe Bay income below 30 percent—something Hammond and legislative leaders have said they oppose.

"You find on your desk a bill drafted secretly, circulated quietly and passed with only cursory testimony before the Legislature. It is a bill that has received

scant analysis and even less debate. I strongly urge you to veto" the bill, Malone said.

The compromise bill won approval from a free conference committee and passed both chambers moments before the Legislature adjourned.

Because the bill was drafted quickly, Malone said he is concerned that the Department of Revenue's projections of financial impact were not reviewed by any independent source.

According to the Revenue Department, the new tax would result in a loss of about \$140 million to the state through 1985. But based on estimates by the department and the Legislative Finance Division, Malone said the average loss per year would exceed \$500 million by 1988, resulting in an

estimated total loss of \$2.8 billion by 1991.

The legislation essentially revamps the state's oil tax structure by increasing the severance tax to 15 percent and repealing Alaska's oil and gas corporate income tax, which was enacted in 1978 and is under legal challenge by the major Prudhoe Bay oil producers.

In place of the challenged tax, the bill calls for a new income tax that's based on a different method of calculating tax liability.

While the challenged tax would be repealed, the \$1.5 billion already collected under it would remain in jeopardy, Malone said.

"The bill will greatly weaken the state's legal position with respect to the \$1.5 billion already at risk. Although the bill includes helpful technical amendments, the proposed switch (from one kind of income tax to another) in midstream...will hardly reassure the courts of the soundness of the past three years' collections" under the challenged tax, Malone told Hammond.

7/15/81

Williams urges oil tax bill be signed

JUNEAU—Revenue Commissioner Tom Williams said Tuesday he's encouraging Gov. Jay Hammond to sign a bill revising state oil tax laws, although a consultant has told Hammond the change could mean a \$2 billion loss of state revenue over the next decade.

ALASKA STATE AFL-CIO

2501 Commercial Dr.
Anchorage, Alaska 99510
907-338-6284

819 11th Ave.
Fairbanks, Alaska 99701
907-456-2030



*separate
accounting
file*

April 4, 1986

Dear Representative,

Contrary to rumors that have been spread by the Oil Industry the latest OMB analysis states that separate accounting is the best method of taxation for the benefit of the people of Alaska, even at todays low oil prices.

Sincerely,

Mano Frey

Mano Frey
Executive President
Alaska State AFL-CIO

MEMORANDUM

Division of Strategic Planning
Office of Management and Budget
MS 0164

TO: Gordon Harrison
Associate Director

FROM: Tom Chester *TC*
Senior Economist
Gregg Erickson *GE*
Senior Economist
Richard Fineberg
Policy Analyst

SUBJECT: Revenue From Separate Accounting

You asked us to determine the changes in revenue that would result from a return to the separate accounting method of calculating corporate petroleum income taxes. Using the March 1986 mean forecast case, additional revenue for FY 86-87 would be \$483 million. At the 30 percent level the expected increase is \$359 million. If separate accounting were adopted beginning in FY 87, the gains would be \$319 million at the mean and \$62 million at the 30 percent level for FY 87-88.

We assume that separate accounting would apply to income earned after the July 1 preceding adoption. The Department of Law informally advises that this would be constitutional, but a formal legal opinion should be requested if this option is pursued.

Calculations, attached in Tables 1-4, show that under the FY 1988 30 percent case assumptions, separate accounting produces less revenue for the state when compared to the forecast of revenue under present law. This result is an artifact of the methodology DOR uses to forecast revenue under modified apportionment. Currently, DOR provides only single point estimates for the modified apportionment tax. If the wellhead price falls to \$7.75 per barrel as assumed in the 30 percent case, revenue under modified apportionment will also fall. (Projected FY 87 modified apportionment revenue fell 24 percent between the January and March forecasts, from \$236.4 million to \$180 million.)

In our opinion, separate accounting will produce more revenue than the present system within the range of prices and production levels described in the March forecast for FY 86-88. Note, however, that revenue gains will be reduced significantly if separate accounting is made effective only for years after FY '86, and if oil prices continue to be depressed.

enclosures: Tables 1-4

cc: Ray Gillespie, Chief of Staff, OOG
Jim Ayers, Legislative Assistant, OOG
Jay Hogan, Associate Director
Deborah Vogt, Assistant Attorney General

TABLE 1

REVENUE UNDER CURRENT INCOME TAX AND UNDER SEPARATE ACCOUNTING
(millions, based on March 1986 forecast)

Fiscal Year	State Tax Under Current Law*	MEAN CASE		30 PERCENT CASE	
		State Tax Under Separate Accounting†	Gain (Loss) Due To Separate Accounting	State Tax Under Separate Accounting†	Gain (Loss) Due To Separate Accounting
1986	\$200	\$469	\$269	\$469	\$269
1987	\$180	\$393	\$213	\$270	\$90
1988	\$170	\$276	\$106	\$142	(\$28)

*Official DOR March 1986 forecast value; DOR provides only single point projections for the corporate income tax.

†Tax applied to income earned after June 30, 1985.

TABLE 2
TRANS-ALASKA PIPELINE SYSTEM
ALASKA OIL AND GAS CORPORATE INCOME TAX PAYMENTS UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Pipe- line Thru- put (MM/D)	Estimated Tariff (\$/B)	Total Rev- enue	Prop- erty Tax	Oper- ating Costs	Amort- ization & Depre- ciation	Uncapi- talized Interest	Net Income	In- come Tax
FISCAL YEAR									
1986	1.80	4.71	3,093	156	211	269	410	2,047	192
1987	1.80	4.56	2,995	145	232	269	382	1,967	185
1988	1.59	4.90	2,842	136	242	269	352	1,843	173

Notes:

Column 1: DOR March 1986 Revenue Forecast, memorandum from M. Nordale, March 12, 1986, Table II.

Column 2: (column 3)/(column 1)/365.

Column 3: net operating revenue requirement under TAPS settlement (projected by T. Horst, consultant to the Dept. of Law, March 24, 1986, adjusted by OMB to fiscal year basis), plus property tax and operating costs.

Columns 4-7: V. Wright, memorandum to Nordale, Oct. 31, 1985, Table 5 (FY '87-'88 property tax adjusted by OMB for effects of TAPS settlement).

Column 8: column 3-(sum of columns 4-7)

Column 9: (.094)*(column 8).

TABLE 3
PRODUCING FIELDS-MEAN CASE:
ALASKA OIL AND GAS CORPORATE INCOME TAX UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

FISCAL YEAR	(1) Well- head Value (\$/B)	(2) Daily Produc- tion (MMB/D)	(3) Revenue at Well- head	(4) State Royalty	(5) Produc- tion & Conser. Tax	(6) Prop- erty Tax	(7) Oper- ating Costs	(8) Depre- ciated Dev. Costs
1986	12.93	1.80	8,495	1,140	1,115	265	1,267	955
1987	11.65	1.80	7,654	973	986	316	1,367	1,173
1988	11.15	1.59	6,471	929	747	358	1,403	1,315
FISCAL YEAR	(9) Amort. Of Acqui. Costs	(10) Federal Wind- fall Profits Tax	(11) Interest Expense	(12) Explor- ation Expense	(13) Adminis- trative Costs	(14) Other Deduc- tions	(15) Net Alaska Produc- tion Income	(16) Alaska Produc- tion Income Tax
1986	1	40	132	221	292	124	2,944	277
1987	8	0	136	103	307	118	2,218	208
1988	25	0	139	27	322	114	1,092	103

Notes:

Columns 1-2: DOR March 1986 Revenue Forecast, memorandum from M. Nordale, March 12, 1986, Table II.

Column 3: (365 days)*(column 1)*(column 2).

Column 4: for 1986, forecast value in Nordale memorandum adjusted for perm. fund contributions (value/.75); for 1987-8, DOR, C. Logsdon, March 13, 1986.

Column 5: for 1986, forecast value in Nordale memorandum; for 1987-8, Logsdon to Chester, March 13, 1986.

Column 6-9: Vincent Wright, memorandum to Nordale, Oct. 31, 1985.

Column 10: OMB estimates.

Column 11: Wright, op. cit.

Column 12: OMB projections, reduced from figures in Wright by 10 %, 60 %, and 90 % in 1986-8 respectively.

Columns 13-14: Wright, op. cit.

Column 15: (column 3)-(sum of columns 4-14).

Column 16: (.094)*(column 15).

TABLE 4
PRODUCING FIELDS-30 PERCENT CASE*
ALASKA OIL AND GAS CORPORATE INCOME TAX UNDER SEPARATE ACCOUNTING
(millions of dollars except as noted)

FISCAL YEAR	(1) Well- head Value (\$/B)	(2) Daily Produc- tion (MMB/D)	(3) Revenue at Well- head	(4) State Royalty	(5) Produc- tion & Conser. Tax	(6) Prop- erty Tax	(7) Oper- ating Costs	(8) Depre- ciated Dev. Costs
1986	12.93	1.80	8,495	1,140	1,115	265	1,267	955
1987	9.02	1.80	5,926	799	771	316	1,367	1,173
1988	7.75	1.59	4,498	620	534	358	1,403	1,315
FISCAL YEAR	(9) Amort. Of Acqui. Costs	(10) Federal Wind- fall Profits Tax	(11) Interest Expense	(12) Explor- ation Expense	(13) Adminis- trative Costs	(14) Other Deduc- tions	(15) Net Alaska Produc- tion Income	(16) Alaska Produc- tion Income Tax
1986	1	40	132	221	292	124	2,944	277
1987	8	0	136	26	307	118	906	85
1988	25	0	139	0	322	114	(332)	(31)

*Mean case for fiscal 1986.

Notes:

Columns 1-2: DOR March 1986 Revenue Forecast, memorandum from M. Nordale, March 12, 1986, Table II.

Column 3: (365 days)*(column 1)*(column 2).

Column 4: for 1986, forecast value in Nordale memorandum adjusted for perm. fund contributions (value/.75); for 1987-8, DOR, C. Logsdon, March 13, 1986.

Column 5: for 1986, forecast value in Nordale memorandum; for 1987-8, Logsdon to Chester, March 13, 1986.

Column 6-9: Vincent Wright, memorandum to Nordale, Oct. 31, 1985.

Column 10: OMB estimates.

Column 11: Wright, op. cit.

Column 12: OMB projections, reduced from figures in Wright by 10 %, 90 %, and 100 % in 1986-8 respectively

Columns 13-14: Wright, op. cit.

Column 15: (column 3)-(sum of columns 4-14).

Column 16: (.094)*(column 15).

OIL TAXES

The battle of separate accounting may be over for 1986, but the war has only begun

BY CHUCK KLEESCHULTE

THE BATTLE OVER raising oil taxes this year was over long before the first shot was fired.

Last summer it appeared a major issue when lawmakers convened in Juneau this year would be a move to change the state's corporate oil and gas tax, shifting back to a system that had been in effect as recently as 1981. But even before the gavel came down on the final session of the 14th Alaska Legislature in 1985, it was crystal clear the oil industry had secured more than enough support to make a tax change impossible in this election year.

"It might make sense to change tax structures, but politically any bill to do so is dead. It doesn't have a chance in hell of being approved this year," says Rep. Al Adams, D-Kotzebue, chairman of the House Finance Committee and a leading proponent of separate accounting.

At issue is whether Alaska should return to its controversial petroleum tax law first approved in 1978 but repealed three years later out of fear it would be overturned by the U.S. Supreme Court. That tax, upheld by the high court earlier this year, could have forced the state to repay more than \$1.82 billion in back taxes to the oil companies had the U.S. Supreme Court ruling gone the other way.

Repeal of the act in 1981 did end the state's liability for repaying an additional \$6.5 billion to \$8 billion the tax might have earned Alaska before its constitutionality was determined by the federal court.



Adams: Tax change might make sense

The repeal and a hike in state severance taxes to offset the loss were expected to cost the state \$140 million in its first three years. Instead, because of miscalculations and the drop in world oil prices, state revenues through mid-1985 fell by about \$400 million, according to a Department of Revenue study completed in November.

The revenue drop, paired with the new Supreme Court decision, has prompted many lawmakers, especially in the House, to push for reinstitution of the old tax.

Before 1978, Alaska used the traditional method of taxing oil company profits, the so-called apportionment method. Under that system the state considered a company's worldwide earnings and figured its Alaska tax as a portion of the whole.

Legislators, however, decided since refining and marketing are much less profitable than production, the state's share of oil company profits should be based on the value of oil produced from the state. The concept created a system requiring so-called separate accounting.

In 1980 the U.S. Supreme Court in cases involving Wisconsin and Vermont rendered decisions that some

Duncan: New system result of 'bad information'



legal experts said implied the court would not favor separate accounting. Facing suit by the oil companies, lawmakers curbed their outstanding liability by repealing separate accounting and hiking the state's severance tax to 15 from 12-1/4 percent to make up most of the expected loss.

In 1984, however, the U.S. Supreme Court shifted directions, and in a California case sent out new signals implying greater latitude by states to use either tax system.

"The case was not right on point, but it was extremely useful to our legal position," says state Assistant Attorney General Deborah Vogt.

Last summer the Alaska Supreme Court, picking up on the new high court direction, upheld the constitutionality of the state act, directing the case toward the U.S. Supreme Court and giving additional momentum to lawmakers to return to separate accounting.

"I think there is a general view that we acted upon bad information when we repealed the old tax in 1981," says Rep. Jim Duncan, D-Juneau, a member of the House Finance Committee and a lawmaker leaning toward return to the old law.

Duncan says lawmakers were given faulty estimates of how much the new tax would cost the state and also



Gov. Bill Sheffield is applauded following a 1985 address to the Alaska Legislature. Legislators are (left to right) Sen. Bill Ray, D-Juneau; Sen. Arliss Sturgulewski, R-Anchorage; Senate President Don Bennett, R-Fairbanks; Rep. Sam Cotten, D-Eagle River; House Speaker Ben Grussendorf, D-Sitka, and Senate Majority Leader Rick Hatford, R-Chugiak.

inaccurate legal assessments of the chances of the state losing in future court cases.

Rep. Sam Cotten, D-Eagle River, the leading proponent of a return to the old tax, argues it is a better way for Alaska to get its "fair share" of the value of the oil owned by the state at Prudhoe Bay.

"Modified apportionment dilutes the companies' Alaska profitability because it gives the state a percentage of a company's worldwide income. If a company has a loss abroad, that loss is reflected in Alaska's tax share regardless of how profitable the company's in-state operations are," Cotten maintains.

Alaska Public Interest Research Group last summer said a study of the industry showed the state's share of total oil income fell 2 percent to 27 percent after the tax change, to \$3.3 billion from \$4.5 billion. The group also argues the oil industry is still so profitable in Alaska that a change in taxation will not discourage investment here.

MAJOR OIL COMPANIES, HOWEVER, have strongly objected to a return to separate accounting. They argue that the state's income is down not because of faulty tax estimates, but simply because no one predicted in 1981 that world oil prices would stop rising, much less plummet.

The industry argues the tax change is a tax hike—one coming at exactly the worst time, a time when prices and profits are down and investment capital for new Alaska exploration and development is becoming increasingly scarce.

Harold Heinze, president of ARCO Alaska, says a tax hike will dampen chances for massive new investment in Alaska, investment needed to tap oil from marginal North Slope fields like the West Sak Sands.

"Expensive long-term Alaskan projects must compete for increasingly limited capital with shorter-term, less costly projects elsewhere in the world. In the time of uncertainty over oil prices, to add the additional uncertainty of increased taxation (is a mistake)," Heinze said in House testimony last year.

"This state should have a stable tax policy," adds Mike Abbott, special projects coordinator for the Resource Development Council in Anchorage. "We have seen a massive influx of oil-related capital over the past three years. To throw a monkey wrench into the issue now doesn't make sense."

Cotten, however, argues that after separate accounting went into effect in 1978 the oil industry continued to do well here. Citing ARCO Alaska annual reports, he says the industry made the decision to proceed with development of the smaller Kuparuk oilfield despite separate accounting.

"Some oil companies would like us to believe they make their investment decisions based on taxes alone and that any tax changes will discourage exploration and development. Any businessman knows that is but one of a whole range of factors; the main issue is the rate of return," he says.

"What will have an adverse effect on exploration and development of marginal fields is falling oil prices, and unfortunately, neither the state nor Alaska producers have

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control over the price of oil."

He also argues that a return to the old tax would actually help the oil industry to invest in marginal fields since the new bill would roll back severance taxes and prevent the imposition of taxes on the less-profitable marginal fields until they are producing.

ADAMS ALSO DISMISSES industry arguments that changing taxes will harm the stability of the state's tax structure and thus drive off investment. "We've changed taxes nine times on the industry since statehood. Back in 1978 we thought we were creating the tax structure that would be the stable tax structure for decades--the tax to end all changes. But the industry didn't mind when we changed the rates in 1981," Adams says.

Regardless of the rhetoric, all sides agree the tax change never really had a chance this session.

The administration of Democratic Gov. Bill Sheffield, reading the handwriting early, sent out signals that Sheffield had no plans to support or push for the change.

The governor's reluctance may have been heightened in November when the Revenue Department released a new study saying that a change back to separate accounting over the next 20 years might actually cost the state long-term revenues. While separate accounting would earn the state more money over the next several years as the productivity of North Slope wells remains high, the study says, a "cross-over point" would be achieved in the mid-1990s when the present tax would earn the state more money from declining production.

Sheffield, a likely candidate for a second term, also may have read the public's pulse—one all legislative observers believe is strongly supportive of oil industry arguments against tax hikes on the industry that is accounting for more than 80 percent of the state's revenues.

Supporters of separate accounting tried hard to paint the tax change not as a hike, but as a return to original state policy. "I don't consider this a tax increase, not unless you consider the 1981 bill a tax decrease," Duncan said last year.

The oil industry, however, through testimony, company statements, television commercials and assistance from support industries, was quick to paint the tax change as a hike. And by

opinion polls, their view was the one that colored the electorate's attitudes.

According to a Louis Harris & Associates and Dittman Research poll taken in November on behalf of the Alaska Oil & Gas Association, nearly 70 percent of Alaskans prefer a cut in state spending to raising taxes to offset the state's revenue decline.

Nearly 75 percent said natural resource development is the key to state economic growth—a finding the industry used to suggest the electorate would not look favorably on lawmakers who discouraged oil industry growth by backing higher taxes.

The success of the industry's counterattack was not lost on lawmakers. House Speaker Ben Grussendorf, D-Sitka, days before the session started, confirmed that even in the House chances for passage of the bill were nil. And Sen. Frank Ferguson, D-Kotzebue, one senator who traditionally might have supported the hike, pre-filed legislation in January proposing a long-range study of state taxation policy, saying lawmakers would never pass any kind of tax hike in the election year.

DUE TO A DELIBERATE quirk in the proposed tax change, the state would have gained an immediate \$200 million to \$300 million windfall since the effective date for cutting the severance tax was delayed into next year to allow the state to recoup some of its recent losses. Even the possibility of extra revenue that could have gone toward capital projects in an election year hasn't helped supporters garner legislative support.

The oil industry looks like it has little to fear in the way of higher taxes from this session. It will hear much from legislators posturing to pressure the industry to settle up on a multimillion-dollar back tax bill, though ARCO Alaska may have defused some of the rhetoric by settling its portion of the bill with a payment of \$243 million on the eve of the opening of the session. "The real push this year is going to come in attempting to collect those back taxes," vows Duncan.

Adams says lawmakers who favor separate accounting should spend the year attempting to "educate the public" on the fairness and the need for the state to return to the old tax. So the issue is not dead, especially when next year's revenue estimates presently are much worse than even this year's gloomy predictions. □

MEMORANDUM

*Division of Strategic Planning
Office of Management and Budget
MS 0164*

TO: Vince Wright
Chief, Research Section
Dept. of Revenue

DATE: 14 Oct. 1986

FROM: Gregg Erickson
Senior Economist

SUBJECT: Separate Accounting Update

As you know, FCCSSB 524 (Chapter 116 SLA 1981) amended the Oil and Gas Corporate Income Tax (AS 43.21), and made other changes to Alaska's oil tax structure. As long as you are updating your October 31, 1985 memorandum on the fiscal effects of this legislation you might want to note that AS 43.21 as it existed before passage of FCCSSB 524 did not allow the deduction of federal windfall profits taxes imposed under section 4986 of the U.S. Internal Revenue Code. The 1981 legislation changed the law by allowing the deduction of such payments. (See *Sec. 7, on p. 11 of the bill, attached.) These deductions were allowed prospectively and retroactively (*Sec. 20, on p. 20.), but calculation of the post-1981 fiscal effects of ch. 116 should reflect the fact that if the Act had not passed, the deduction would not have been allowed.

Section 4986 taxes are no longer being collected on Alaska production, so the above point is academic as far as current calculations are concerned. On the other hand, should you reissue or update the historical data for 1981-1986, the "Pre-SB 524" column in Table 1 and the calculations in the associated tables will require correction to reflect that the pre-FCCSSB 524 regime did not allow the windfall deduction. In addition, the text of the October 31 memorandum would need to be revised on pages 5, 11, and 22.

Enclosure: FCCSSB 524

EXXON COMPANY, U.S.A.

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ALASKA OPERATIONS
WESTERN DIVISION

LARRY M. SMEDLEY
AREA MANAGER

April 7, 1986

Representative John Sund
Pouch V (MS3100)
Juneau, Alaska 99811

Dear Representative Sund:

Exxon is currently running a series of advertisements in newspapers throughout the state to explain the oil and gas tax issue. We are trying to present the information in a factual, non-threatening manner with emphasis on the need for cooperation between the state and the oil industry. Attached for your reference is a copy of the entire ad series.

You will notice the ads emphasize the need for stable tax policy to encourage additional investment. It would be helpful for our elected officials to state their belief in such a policy.

We hope you will find this information useful. Please call if you have any questions regarding the ads.

Sincerely,



LMS1/3831:dag
Enclosure

Straight Talk:

As oil prices fall, Alaska and its oil industry share some tough problems. Exxon has prepared a series of messages to discuss how increased oil taxes will affect us both.

Understanding is Everything

Exxon has been an Alaskan company for 32 years. The first 23 were spent exploring and then preparing to bring what we found to market. We spent 3 billion dollars before receiving a single dollar of income from Alaskan discoveries.

Since North Slope production began in 1977, Exxon has invested an additional 4 billion dollars to increase recovery from existing fields, develop other reserves and explore for more oil and gas onshore and offshore. Exxon is committed to Alaska.

Almost 90 percent of the State's current income is derived from oil. Like Exxon, Alaska is very dependent on oil. Our fates, in many ways, are tied together.

Over the next few weeks a critical issue affecting our industry and Alaska needs to be discussed. The issue centers on increased State taxation for Alaskan oil companies. We know this is a difficult and controversial subject.

Each of this series of newspaper messages will focus on a specific aspect of the oil tax issue. We hope you'll stay with us over the series. The more we understand each other, the better chance we have of working together to solve our common problems.



Straight Talk:

First in a Series

Alaska Is An Oil State



New legislation would increase taxes on Alaska's oil industry. A short-term benefit for the State . . . but we all lose in the long run.

Since the discovery of North Slope oil, Alaska has been the fastest growing state in the nation. Change has come rapidly. Many find it difficult to think in terms of Alaska being an "oil state." However, it is . . . because almost 90 percent of the State's revenue comes from oil.

Oil has always been Exxon's business. Today, the State of Alaska is in the same business. For the foreseeable future, Alaska and the oil industry must face the uncertainties of the business together.

Alaska is now among the top 3 oil producing states in the nation. It has the greatest potential for future growth. Unfortunately, Alaska also has the highest oil taxes of any major producing state.

Proposed legislation would raise Alaska's oil taxes even higher. Additional taxes would reduce future oil and gas investments and cost Alaska both jobs and income.

We would all lose in the long run.

Straight Talk:

Second in a Series

Profits for Tomorrow



Future investments depend upon today's profits.

Exxon invested more than 3 billion dollars in Alaska before receiving any income from oil discoveries. These dollars invested in Alaska came from our earnings outside Alaska.

Although we are a major owner in the Prudhoe Bay field and the developing Endicott and Lisburne projects, Exxon has invested more exploring and developing in Alaska than we have made in profits to date from these efforts.

We expect long-term earnings to justify the commitments we have made. However, many exploration efforts do not pay back the investments.

To support the continued search for new oil reserves and the development of existing fields for maximum recovery, it is necessary for companies like Exxon to earn reasonable profits from the fields which are producing.

Increased oil taxes would reduce the earnings available for future investments.

A stable tax policy will encourage the investments required for developing additional resources in Alaska.

Straight Talk:

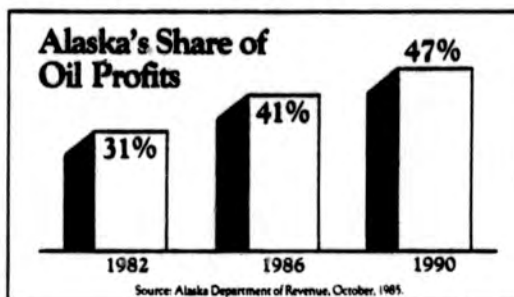
Third in a Series

How Much is Enough?

The State's share of oil profits is increasing under existing tax laws.

When Alaska's oil tax law was last changed, the State's share of oil production profits was approximately 30 percent with the Federal government receiving about half the remainder. At that time, State officials indicated that 30 percent was a fair share for Alaska.

Department of Revenue studies show that the State's share has now grown to 41 percent and under existing laws will increase to 47 percent by 1990.



Some have suggested that pipeline income should be combined with production income to determine the State's share. Because royalty and severance taxes do not apply to pipelines, the 30 percent yardstick would not be appropriate. Even under this new method, however, the State's share is growing.

Proposed legislation to raise oil taxes would further increase the State's share. However, additional taxes would result in less future investments, thereby reducing total income for both the State and the oil industry.

Stable tax policy will encourage development and benefit all Alaskans.

EXXON

Straight Talk:

Fourth in a Series

Marginal Fields, Marginal Projects



Stable tax policy helps marginal fields and projects.

Much of Alaska's future oil development will depend upon production from smaller fields and new recovery techniques applied to existing fields.

Many of the smaller oilfields currently being evaluated on the North Slope are faced with high costs and economics that are at best barely profitable. These are known as marginal fields.

Similarly, new techniques which can recover additional oil from existing fields are also being evaluated. Like the smaller oilfields, the economics of these projects are often marginal.

At Prudhoe Bay alone, more than 10 billion barrels of oil will be left unless future marginal projects can recover additional oil.

Stable oil taxes are needed to encourage development of the marginal fields and marginal projects which are so important to Alaska's future.

Straight Talk:

Fifth in a Series

Oil is a Long-Term Business

Stable tax policy encourages development.

Oil development in Alaska takes a long time. Ten years or more may be required from the time leases are purchased until oil production can be started—assuming a discovery is made. Another 20 or more years will likely be required to fully develop and produce the field.



Exploration and development decisions are based upon projections of economics many years into the future. In these decisions, we face risks and uncertainties such as future oil prices and future tax policy.

Since the discovery of oil at Prudhoe Bay, Alaska has changed its oil tax laws more than a dozen times. Continually changing tax laws increases uncertainty and adds risk to long-term investment decisions. This can tip the scales against some marginal projects.

Since 1982, Alaska's tax laws haven't changed. Maintaining a stable tax policy encourages additional investment and resource development in Alaska.



TABLE 1

REVENUE UNDER CURRENT INCOME TAX AND UNDER SEPARATE ACCOUNTING
(millions, based on Sept 1986 forecast)

Fiscal Year	State Tax Under Current Law*	MEAN CASE		30 PERCENT CASE	
		State Tax Under Separate Accounting**	Gain (Loss) Due To Separate Accounting	State Tax Under Separate Accounting†	Gain (Loss) Due To Separate Accounting
1987	\$130	\$261	\$131	\$214	\$84
1988	\$110	\$310	\$200	\$222	\$112

*Official DOR Sept. 1986 forecast value; DOR provides only single point projections for the corporate income tax.

**From Tables 2 & 3.

†From Tables 2 & 4.

DRAFT-Division of Strategic Planning, OMB, 11/2/86.

ALT
COST FIENDS

IN THE
Supreme Court of the United States

October Term, 1985

ATLANTIC RICHFIELD COMPANY; ARCO PIPE LINE COMPANY; EXXON CORPORATION; EXXON PIPELINE COMPANY; BP ALASKA, INC.; SOHIO ALASKA PETROLEUM COMPANY; and SOHIO PIPE LINE COMPANY,

Appellants,

VS.

STATE OF ALASKA, *et al.*,

Appellees.

On Appeal From the Supreme Court of Alaska

JURISDICTIONAL STATEMENT

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QUESTIONS PRESENTED

1. In light of this Court's decision in *Exxon v. Wisconsin*, 447 U.S. 207 (1980), that separate accounting may not be used to assign the production income of a unitary oil business to the state of production, but that such income is properly subject to apportionment among all states where the unitary business operates, may Alaska attribute all of such production income to itself without violating the Commerce and Due Process Clauses?

2. In light of *J.D. Adams Mfg. Co. v. Storen*, 304 U.S. 307 (1938), *Evco v. Jones*, 409 U.S. 91 (1972), and other decisions of this Court holding that a state may not, without apportionment, levy a tax on 100% of the income resulting from interstate sales, do the Commerce and Due Process Clauses permit Alaska to attribute to itself for taxation, without apportionment, 100% of the income appellants earn by selling crude oil from Alaska in other states?

3. In light of this Court's decisions in *Hans Rees' Sons, Inc. v. North Carolina*, 283 U.S. 123 (1931), and later cases that a state may not tax income out of all appropriate proportion to the business transacted in the state, did the Alaska court err in ignoring appellants' evidence of disproportionate taxation, including a showing that appellants were overtaxed in amounts ranging from 279% to 804%?

4. Is the Oil Tax permissible in light of this Court's decision in *Moorman Mfg. Co. v. Bair*, 437 U.S. 267 (1978), given that the Oil Tax produces multiple taxation and that the multiple taxation is the constitutional fault of Alaska because: (a) the Oil Tax is unapportioned; (b) the Oil Tax is tailored to interstate commerce; and (c) Alaska's taxes fail the constitutional requirement of internal consistency?

5. Is the measure of Alaska's Oil Tax reasonably related to a taxpayer's contacts with the state, as required by this Court's decision in *Commonwealth Edison Co. v. Montana*, 453 U.S. 609 (1981), where the tax is measured by income,

but the amount of tax does not vary as income-earning activities are shifted into or out of Alaska?

6. Does Alaska's Oil Tax discriminate against interstate commerce by conferring a direct commercial advantage on residents of Alaska, or deprive appellants of the equal protection of the laws, because the Oil Tax (a) enables Alaska to collect 95% of its revenues from one interstate business while freeing Alaska's citizens from any direct monetary contribution to their government; (b) gives Alaska firms a continuing tax advantage over non-Alaska firms; and (c) artificially channels oil exploration into Alaska by imposing a tax penalty on firms that choose to drill in other states?

PARTIES

The Alaska Department of Revenue, the Alaska Commissioner of Revenue, and the Alaska Commissioner of Administration were parties in the court below. A list of appellants' subsidiaries and affiliates is given in the Appendix.

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