

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672  
99 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

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**Investment**  
**Measurement**  
**Service**

**CALLAN ASSOCIATES INVESTMENT MEASUREMENT REVIEW**  
**SAMPLE REPORT**

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Callan Associates Inc.

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**CALLAN ASSOCIATES INVESTMENT MEASUREMENT REVIEW**

**EXHIBITS AND TABLES**

*continued*

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*The following statistical analysis was prepared by CAI Consulting Corporation, an affiliate of Callan Associates Inc., utilizing secondary data from statements provided by the plan trustee and/or custodian. CAI computer software and selected information in CAI's database. Reasonable care has been taken to assure the accuracy of the CAI computer software and database. CAI disclaims responsibility, financial or otherwise, for the accuracy or completeness of this report. Copyright 1977 by CAI Consulting Corporation.*

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## INTRODUCTION

This report presents an investment performance review for the Trust using time- and dollar-weighted results. Performance of the Trust is compared to various market indicators and a selection of funds managed by a diversity of institutions.

Equity market trends are reflected by the Standard & Poor's 500 and the Dow Jones Industrial Average. The Callan Associates database of comparatives consists of a large sample of equity-oriented funds. Comparison of the Trust to these funds provides a means of evaluating a manager's performance relative to other investment managers throughout the country. The database funds are grouped into the following management categories.

- Bank-pooled funds divided into two groups according to total employee benefit assets under management
- Insurance company separate accounts
- Mutual funds with growth and growth-plus-income objectives
- Investment counselor portfolios, individually managed for nontaxable trusts

The Trust's long-term fixed-income investments were also measured in relation to a sample of bank-pooled fixed-income funds and market indicators, including U.S. Treasury Bills.

Time-weighted performance results are directly attributable to security selection. The effects of fluctuations in cash flows or asset size are minimized by giving equal weight to each quarter's return. In contrast, the dollar-weighted results measure a portfolio's actual investment return by including the effects of all cash flows. Both time- and dollar-weighted rates of return reflect income and capital appreciation and are stated in compound annual terms for periods in excess of one year.

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*The following pages summarize Trust results in relation to the market indices and median returns for each management category.*

**CALLAN ASSOCIATES INVESTMENT MEASUREMENT REVIEW**  
**EXHIBITS AND TABLES**

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**Time-Weighted Fixed-Income Comparisons**

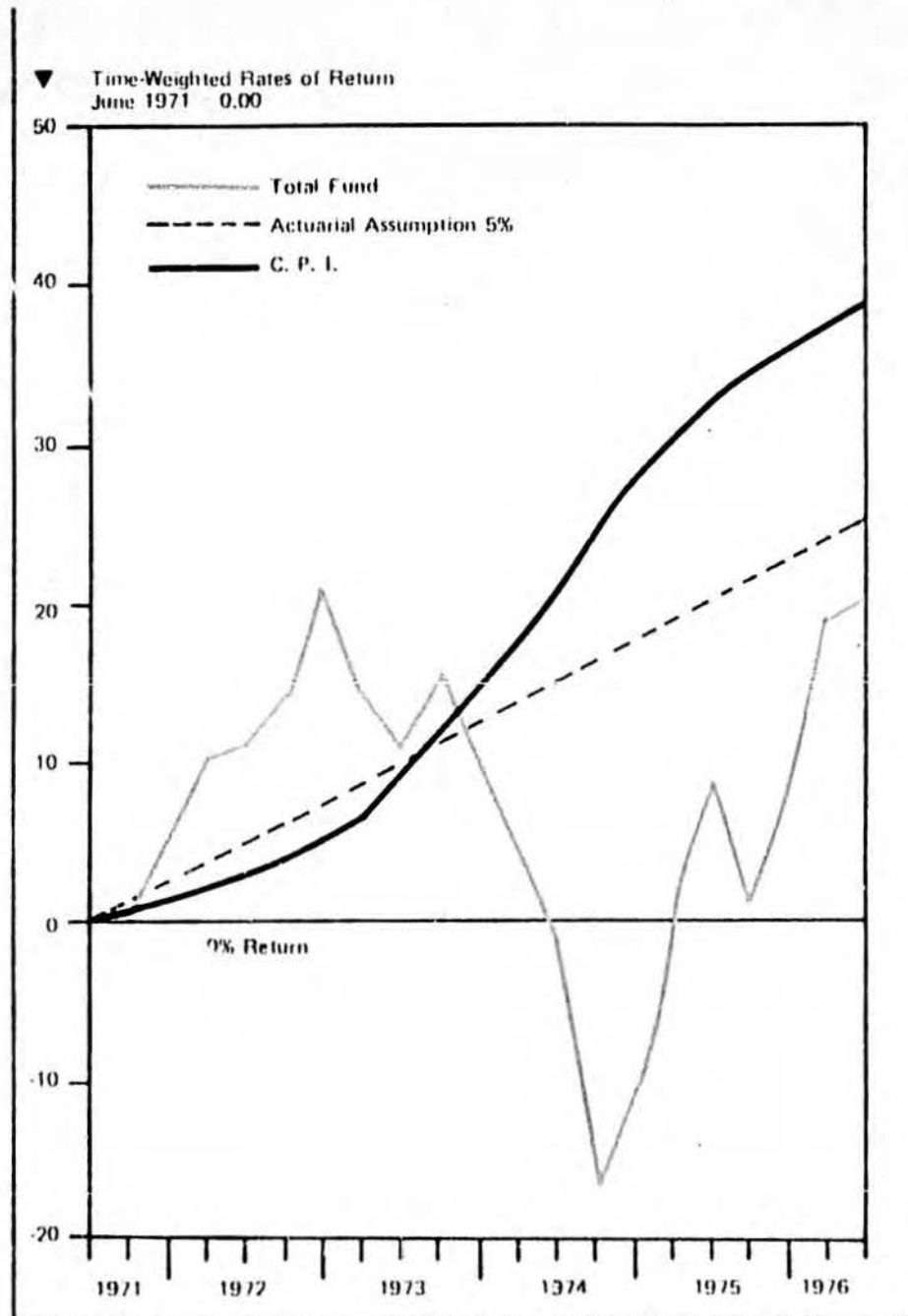
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**PERFORMANCE SUMMARY**  
**FUND OBJECTIVES**  
**FIVE YEARS ENDED JUNE 30, 1976**



*The graph above shows the cumulative time-weighted returns for the Fund in relation to the actuarial assumption rate and the Consumer Price Index over five years.*

**PERFORMANCE SUMMARY**  
**INTERPORTFOLIO RETURNS**




<i>Cumulative Periods Ended June 30, 1976</i>	<i>One Year</i>	<i>Five Years</i>
<b>Trust Results</b>		
<b>Account 1</b>		
Equities	2.25%	(0.22)%
Fixed-Income	10.50	7.22
Cash Equivalents	7.14	7.64
Total Assets	5.60	2.39
<b>Account 2</b>		
Equities	19.98	4.37
Fixed-Income	10.72	4.91
Cash Equivalents	6.68	6.66
Total Assets	14.73	4.99
<b>PRISA</b>		
Total Assets	7.22	-
<b>Composite</b>		
Equities	10.44	1.94
Fixed-Income	10.65	6.19
Cash Equivalents	7.25	7.09
Total Assets	10.01	3.74
<b>Market Indicators</b>		
Standard & Poor's 500	13.99%	4.67%
Dow Jones Industrials	18.92	6.75
S&P AAA Bonds	7.29	4.37
U.S. Treasury Bills	5.57	6.02
Salomon Bond Index	10.37	6.72
Kuhn Loeb Bond Index	13.01	-

*Cumulative time-weighted results are presented as percentage change, restated in compound annual terms for periods in excess of one year. Trust returns are broken down by portfolio, and are shown in relation to market indicators.*

**COMPARATIVE EQUITY PERFORMANCE  
FIVE YEARS ENDED JUNE 30, 1976**

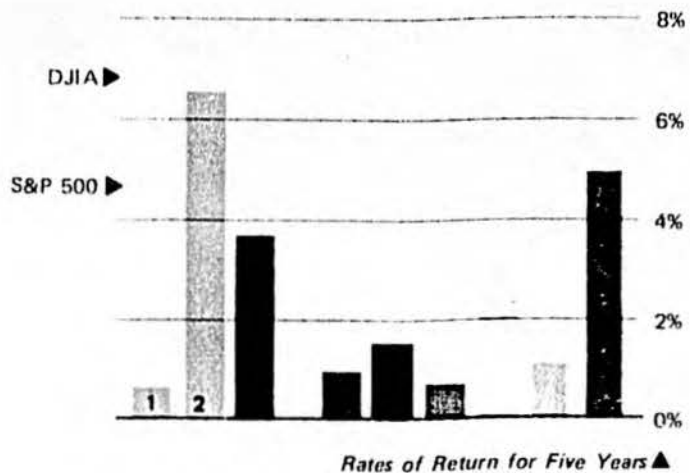
**TRUST RESULTS**

*Equities Plus Cash*

-  **1** Account 1
-  **2** Account 2
-  **Composite**

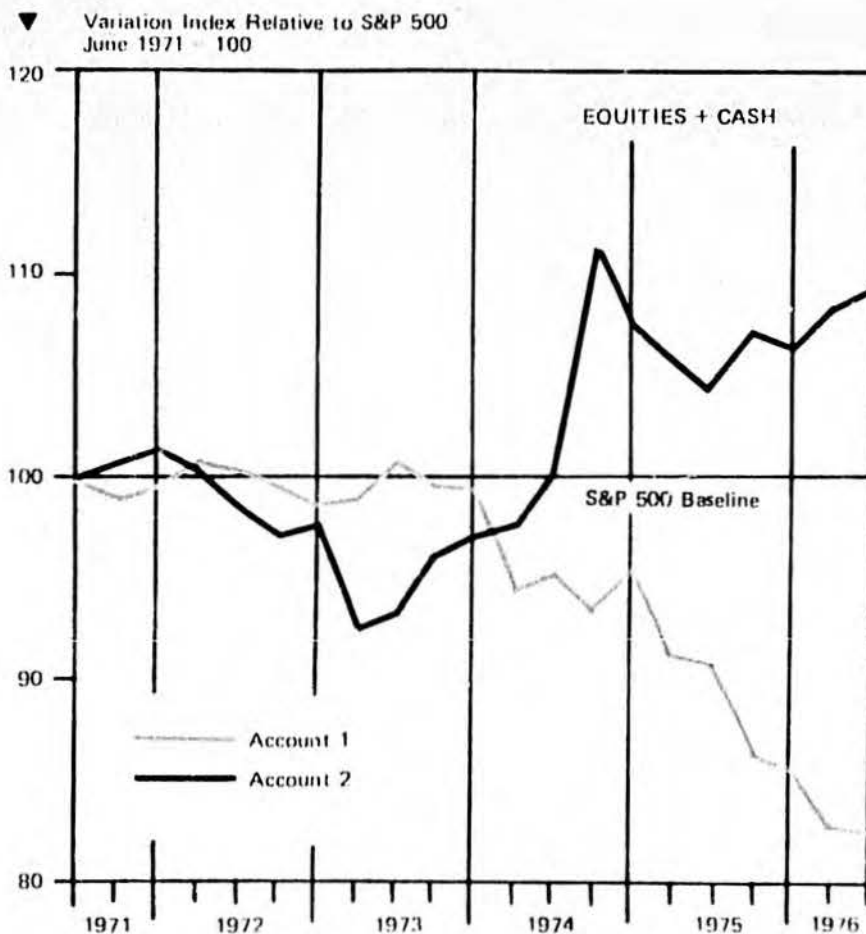
**EQUITY DATABASE MEDIANS**

-  *Large Banks -- Pooled Equities*
-  *Medium Banks -- Pooled Equities*
-  *Insurance Separate Accounts*
-  *Mutual Funds -- Growth + Income*
-  *Mutual Funds -- Growth*
-  *Investment Counselor Portfolios*



*The graph above shows performance results for the Trust relative to the equity market and the median returns of the Callan equity-oriented database.*

**COMPARATIVE EQUITY PERFORMANCE**  
**VARIATION FROM THE MARKET**



*The cumulative effect of quarterly variations in the Trust's equity performance relative to the market is illustrated in the graph above. Results of the Standard & Poor's 500 are equated to 100 throughout the period and those of the Trust are shown in relation to this constant. The lines of cumulative variation ascend when quarterly returns are higher than the Standard & Poor's and rise above the baseline when overall performance is superior to the market.*

**COMPARATIVE EQUITY PERFORMANCE**  
**CUMULATIVE TIME-WEIGHTED RETURNS**

<i>Cumulative Periods Ended June 30, 1976</i>	<i>1 Year</i>	<i>2 Years</i>	<i>3 Years</i>	<i>4 Years</i>	<i>5 Years</i>
<b>Equities Plus Cash</b>					
Account 1	3.28%	7.09%	(2.45)%	(1.84)%	0.67%
Account 2	19.26	20.71	9.65	5.89	6.55
Composite	11.06	13.74	3.37	1.99	3.70
<b>Market Indicators</b>					
Standard & Poor's 500	13.99%	15.09%	4.25%	3.22%	4.67%
Dow Jones Industrials	18.92	17.34	8.94	6.47	6.75
<b>Median Rates of Return</b>					
Bank Pooled Equity Funds-I	7.39%	10.53%	0.71%	(2.12)%	0.93%
Bank Pooled Equity Funds-II	7.23	10.56	1.12	(0.65)	1.74
Insurance Separate Accounts	10.08	12.71	2.88	(1.03)	0.70
Growth & Income Mutual Funds	14.32	16.64	6.06	1.78	3.13
Growth Mutual Funds	9.31	14.13	2.65	(2.09)	1.02
Inv. Counselor Portfolios	10.65	12.93	4.74	1.88	4.93
<b>Position in Total Sample</b>					
<b>Equities Plus Cash</b>					
Account 1	173 of 209	178 of 208	176 of 198	121 of 192	107 of 167
Account 2	20 of 209	28 of 208	27 of 198	15 of 192	14 of 167
Composite	80 of 209	83 of 208	91 of 198	58 of 192	50 of 167

*Cumulative time-weighted investment results are presented as percentage change, stated in compound annual terms for periods in excess of one year. The Trust's position relative to the Callan Associates database is included for each interval.*

**COMPARATIVE EQUITY PERFORMANCE**  
**ENDING VALUES BASED ON \$100 INVESTMENTS**

<i>Cumulative Periods Ended June 30, 1976</i>	<i>\$100 Invested For:</i>				
	<i>1 Year</i>	<i>2 Years</i>	<i>3 Years</i>	<i>4 Years</i>	<i>5 Years</i>
<b>Equities Plus Cash</b>					
Account 1	\$103	\$115	\$93	\$93	\$103
Account 2	119	146	132	126	137
Composite	111	129	110	108	120
<b>Market Indicators</b>					
Standard & Poor's 500	\$114	\$132	\$113	\$114	\$126
Dow Jones Industrials	119	138	129	129	139
<b>Median Aggregate Values</b>					
Bank Pooled Equity Funds-I	\$107	\$122	\$102	\$92	\$105
Bank Pooled Equity Funds-II	107	122	103	97	109
Insurance Separate Accounts	110	127	109	96	104
Growth & Income Mutual Funds	114	136	119	107	117
Growth Mutual Funds	109	130	108	92	105
Inv. Counselor Portfolios	111	128	115	108	127
<b>Position in Total Sample</b>					
<b>Equities Plus Cash</b>					
Account 1	173 of 209	178 of 208	176 of 198	121 of 192	107 of 167
Account 2	20 of 209	28 of 208	27 of 198	15 of 192	14 of 167
Composite	80 of 209	83 of 208	91 of 198	58 of 192	50 of 167

*The results above represent the value of a \$100 investment at the end of each period reviewed. The Trust's rankings relative to the Callan Associates database are identical to the time-weighted cumulative standings on the preceding page.*

**COMPARATIVE EQUITY PERFORMANCE**  
**INTERIM TIME-WEIGHTED RETURNS**

<i>Recent Quarters and Calendar Years</i>	1973	1974	1975	<i>First Quarter 1976(1)</i>	<i>Second Quarter 1976(1)</i>
<b>Equities Plus Cash</b>					
Account 1	(13.97)%	(29.22)%	22.58%	11.22%	1.84%
Account 2	(15.07)	(18.53)	36.42	16.88	3.17
Composite	(14.36)	(24.11)	29.11	14.11	2.55
<b>Market Indicators</b>					
Standard & Poor's 500	(14.68)%	(26.36)%	37.12%	14.96%	2.46%
Dow Jones Industrials	(13.32)	(23.61)	44.72	18.33	1.35
<b>Median Rates of Return</b>					
Bank Pooled Equity Funds-I	(18.58)%	(27.58)%	29.48%	11.89%	1.64%
Bank Pooled Equity Funds-II	(18.07)	(25.76)	27.58	11.34	0.98
Insurance Separate Accounts	(19.61)	(26.37)	29.99	11.80	2.44
Growth & Income Mutual Funds	(17.00)	(23.03)	34.19	14.34	3.23
Growth Mutual Funds	(23.64)	(27.02)	33.47	14.85	1.99
Inv: Counselor Portfolios	(11.78)	(20.56)	23.87	10.87	2.27
<b>Position in Total Sample</b>					
<b>Equities Plus Cash</b>					
Account 1	56 of 196	164 of 206	161 of 209	134 of 209	117 of 209
Account 2	68 of 196	49 of 206	33 of 209	25 of 209	62 of 209
Composite	62 of 196	102 of 206	105 of 209	58 of 209	80 of 209

(1) Actual percentage change, not annualized.

*The purpose of the table above is to isolate Trust returns over recent quarters and calendar years. This provides a basis for analyzing the impact of short-term results on the cumulative standing of the Trust.*

**COMPARATIVE EQUITY PERFORMANCE**  
**TIME-WEIGHTED RETURNS OVER MARKET CYCLES**

<i>Rising and Declining Equity Markets</i>	<i>Rising Market 6/71- 12/72</i>	<i>Declining Market 12/72- 9/74</i>	<i>Rising Market 9/74- 6/76</i>	<i>Full Period 6/71- 6/76</i>
<b>Equities Plus Cash</b>				
Account 1	14.34%	(29.25)%	28.45%	0.67%
Account 2	13.30	(21.14)	36.55	6.55
Composite	14.19	(25.25)	32.45	3.70
<b>Market Indicators</b>				
Standard & Poor's 500	15.23%	(27.13)%	38.46%	4.67%
Dow Jones Industrials	13.22	(22.34)	39.46	6.75
<b>Median Rates of Return</b>				
Bank Pooled Equity Funds-I	14.43%	(30.78)%	32.61%	0.93%
Bank Pooled Equity Funds-II	14.10	(27.30)	29.14	1.74
Insurance Separate Accounts	11.26	(28.15)	32.18	0.70
Growth & Income Mutual Funds	10.66	(26.76)	36.66	3.13
Growth Mutual Funds	10.74	(32.06)	37.98	1.02
Inv. Counselor Portfolios	16.13	(23.61)	28.37	4.93
<b>Position in Total Sample</b>				
<b>Equities Plus Cash</b>				
Account 1	72 of 167	115 of 196	143 of 208	107 of 167
Account 2	88 of 167	28 of 196	63 of 208	14 of 167
Composite	77 of 167	64 of 196	106 of 208	50 of 167

*The table above summarizes performance during rising and declining market intervals. Relative strengths and weaknesses may be indicated by the Trust's position in the total sample during the different market periods.*

**COMPARATIVE EQUITY PERFORMANCE**  
**CUMULATIVE DOLLAR-WEIGHTED RETURNS**

<i>Five Years Ended June 30, 1976</i>	<i>Account 1</i>	<i>Account 2</i>	<i>Composite</i>
Equities Plus Cash	0.19%	4.18%	2.01%
<b>Market Indicators</b>			
Standard & Poor's 500	4.15%	0.98%	2.81%
Dow Jones Industrials	6.22	4.06	5.31
<b>Median Rates of Return</b>			
Bank Pooled Equity Funds-I	0.52%	(3.02)%	(1.07)%
Bank Pooled Equity Funds-II	1.47	(1.85)	0.31
Insurance Separate Accounts	0.49	(2.21)	(1.09)
Growth & Income Mutual Funds	2.78	0.35	1.65
Growth Mutual Funds	0.94	(3.53)	(1.16)
Inv. Counselor Portfolios	4.82	1.73	3.66
<b>Relative Ranking</b>			
Bank Pooled Equity Funds-I	26 of 40	1 of 40	7 of 40
Bank Pooled Equity Funds-II	20 of 32	3 of 32	7 of 32
Insurance Separate Accounts	10 of 18	1 of 18	4 of 18
Growth & Income Mutual Funds	24 of 28	5 of 28	12 of 28
Growth Mutual Funds	18 of 29	5 of 29	7 of 29
Inv. Counselor Portfolios	20 of 25	3 of 25	18 of 25
Position in Total Sample	113 of 167	13 of 167	50 of 167

*In order to permit interfund comparisons on a dollar-weighted basis, beginning asset values and cash flows of the Trust are applied to each market index and database fund. Comparative results therefore represent compound annual growth rates adjusted to the cash flow conditions of the Trust.*

**COMPARATIVE EQUITY PERFORMANCE**  
**ENDING VALUES DERIVED FROM PORTFOLIO CASH FLOWS**  
**(\$000)**

<i>Five Years Ended June 30, 1976</i>	<i>Market Values at June 30, 1976</i>		
	<i>Account 1</i>	<i>Account 2</i>	<i>Composite</i>
Equities Plus Cash	\$6,836	\$8,288	\$15,123
<b>Market Indicators</b>			
Standard & Poor's 500	\$8,670	\$7,119	\$15,789
Dow Jones Industrials	9,746	8,243	17,989
<b>Median Aggregate Values</b>			
Bank Pooled Equity Funds-I	\$6,978	\$5,830	\$12,746
Bank Pooled Equity Funds-II	7,399	6,186	13,781
Insurance Separate Accounts	6,965	6,076	12,736
Growth & Income Mutual Funds	8,001	6,903	14,837
Growth Mutual Funds	7,165	5,677	12,684
Inv. Counselor Portfolios	9,009	7,384	16,518
<b>Relative Ranking</b>			
Bank Pooled Equity Funds-I	26 of 40	1 of 40	7 of 40
Bank Pooled Equity Funds-II	20 of 32	3 of 32	7 of 32
Insurance Separate Accounts	10 of 18	1 of 18	4 of 18
Growth & Income Mutual Funds	24 of 28	5 of 28	12 of 28
Growth Mutual Funds	18 of 29	5 of 29	7 of 29
Inv. Counselor Portfolios	20 of 25	3 of 25	18 of 25
Position in Total Sample	113 of 167	13 of 167	50 of 167

*Dollar-weighted results are expressed above in aggregate dollar terms. Trust results equal the actual ending market value of assets. Comparative results represent hypothetical ending values after investing the Trust's beginning assets and actual cash flows.*

## COMPARATIVE FIXED-INCOME PERFORMANCE

FIVE YEARS ENDED JUNE 30, 1976

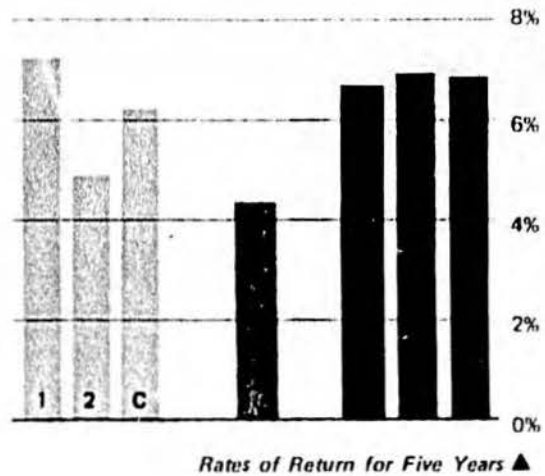
### TRUST RESULTS

#### Fixed-Income Portfolios

- 1 Account 1
- 2 Account 2
- C Composite

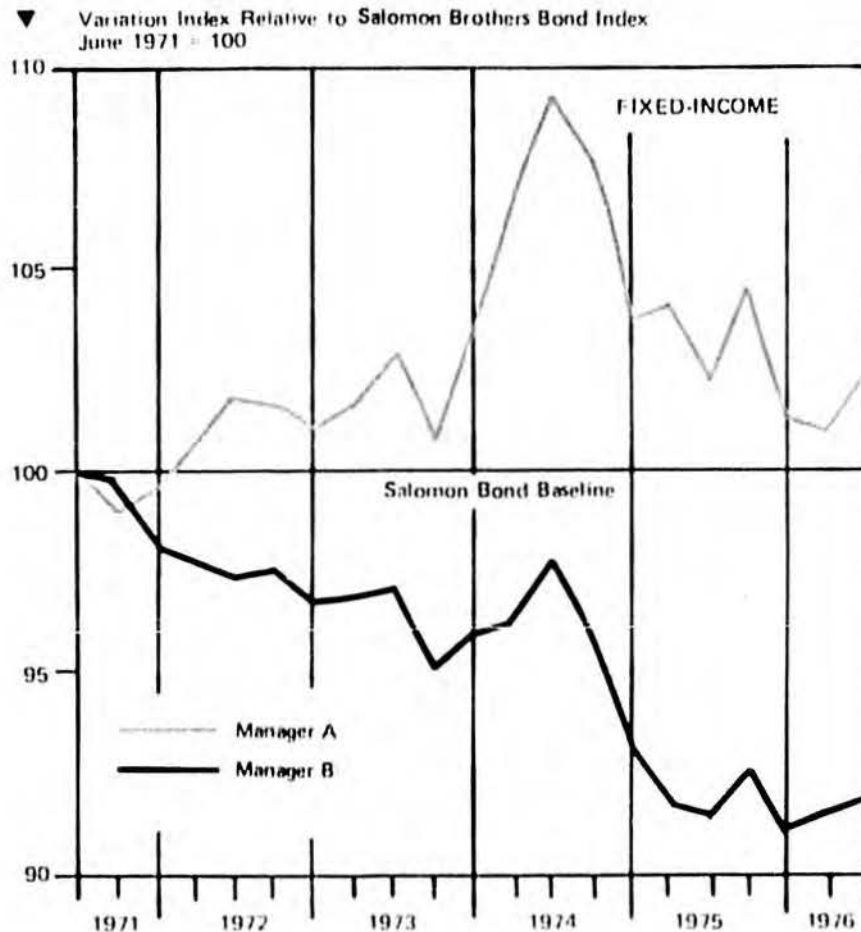
### FIXED-INCOME COMPARATIVES

- Standard & Poor's AAA Bonds
- U. S. Treasury Bills
- Salomon Brothers Bonds
- Kuhn Loeb Bonds
- Banks - Pooled Fixed-Income



*The graph above shows performance results for the Trust relative to the fixed-income market and the median return for the Callan fixed-income database funds*

**COMPARATIVE FIXED-INCOME PERFORMANCE**  
**VARIATION FROM THE MARKET**



*The cumulative effect of quarterly variations in the Trust's fixed-income performance relative to the market is illustrated in the graph above. Results of the Salomon Brothers Bond Index are equated to 100 throughout the period and those of the trust are shown in relation to this constant. The line of cumulative variation ascends when quarterly returns are higher than the Bond Index and rises above the baseline when overall performance is superior to the bond market.*

**COMPARATIVE FIXED-INCOME PERFORMANCE**  
**CUMULATIVE TIME-WEIGHTED RETURNS**

<i>Cumulative Periods Ended June 30, 1976</i>	<i>1 Year</i>	<i>2 Years</i>	<i>3 Years</i>	<i>4 Years</i>	<i>5 Years</i>
<b>Fixed-Income Portfolios</b>					
Account 1	10.50%	9.15%	5.41%	5.46%	7.22%
Account 2	10.72	9.21	3.52	3.77	4.91
Composite	10.65	9.19	4.46	4.60	6.19
<b>Market Indicators</b>					
S & P AAA Bonds	7.29%	5.08%	2.72%	3.06%	4.37%
Treasury Bills	5.57	6.17	6.76	6.50	6.02
Salomon Bond Index	10.37	12.67	5.58	5.35	6.72
Kuhn Loeb Bond Index	13.01	13.85	6.16	-	-
Kuhn Loeb L.T. Bond Index	-	-	-	-	-
Kuhn Loeb Gov't. Bond Index	-	-	-	-	-
<b>Median Rates of Return</b>					
Bank Pooled-Income Funds	10.69%	10.62%	5.87%	5.54%	6.81%
Mutual Fixed-Income Funds	-	-	-	-	-
Insurance Fixed-Income Funds	-	-	-	-	-
<b>Position in Total Sample</b>					
<b>Fixed-Income Portfolios</b>					
Account 1	31 of 56	46 of 54	37 of 53	29 of 52	17 of 51
Account 2	28 of 56	46 of 54	52 of 53	50 of 52	50 of 51
Composite	30 of 56	46 of 54	49 of 53	48 of 52	40 of 51

*Time-weighted results for the fixed-income portion of the Trust are shown above in relation to relevant market indicators and a sample of bank pooled fixed-income funds.*

**COMPARATIVE FIXED-INCOME PERFORMANCE**  
**INTERIM TIME-WEIGHTED RETURNS**

<i>Recent Quarters and Calendar Years</i>	1973	1974	1975	<i>First Quarter 1976(1)</i>	<i>Second Quarter 1976(1)</i>
<b>Fixed-Income Portfolios</b>					
Account 1	3.56%	(2.86)%	11.72%	4.06%	1.60%
Account 2	0.22	(6.01)	12.11	4.92	0.43
Composite	1.79	(4.42)	11.89	4.51	1.00
<b>Market Indicators</b>					
S & P AAA Bonds	1.16%	(4.17)%	8.00%	4.25%	(0.47)%
Treasury Bills	7.23	8.00	5.82	1.29	1.20
Salomon Bond Index	1.10	(3.05)	14.63	4.22	0.30
Kuhn Loeb Bond Index	1.55	(5.97)	17.04	5.58	1.00
Kuhn Loeb L.T. Bond Index	-	-	-	-	-
Kuhn Loeb Gov't. Bond Index	-	-	-	-	-
<b>Median Rates of Return</b>					
Bank Pooled-Income Funds	2.44%	(1.86)%	12.64%	4.16%	1.12%
Mutual Fixed-Income Funds	-	-	-	-	-
Insurance Fixed-Income Funds	-	-	-	-	-
<b>Position in Total Sample</b>					
<b>Fixed-Income Portfolios</b>					
Account 1	10 of 52	37 of 54	38 of 55	32 of 56	11 of 56
Account 2	44 of 52	48 of 54	33 of 55	16 of 56	55 of 56
Composite	32 of 52	44 of 54	37 of 55	25 of 56	40 of 56

(1) Actual percentage change, not annualized.

*The table above presents the performance record of fixed-income investments over recent interim periods.*

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**ASSET ALLOCATION**  
**INTRODUCTION**

This section deals with the dollar growth of assets and allocation of these assets to the various Trust portfolios. Overall growth is equivalent to the gain in value from inception to the end of the period. The formula for the growth of assets within the total Trust or its individual portfolios can be stated as follows:

$$\text{Asset Growth} = \frac{\text{Ending Market Value}}{\text{Beginning Market Value}} + \text{Net New Investment} + \text{Investment Return}$$

**Market Value** Trust assets valued at market as of the beginning and ending of the indicated period.

**Net New investment** Total contributions, including any transfers of funds, less payments to beneficiaries under the plan and miscellaneous Trust expenses including custodial and management fees.

**Investment Return** Based on:

*Income* All dividends and interest received on assets held by the Trust.

*Capital Appreciation* Realized gains or losses on assets sold by the Trust plus unrealized gains or losses on current investments.

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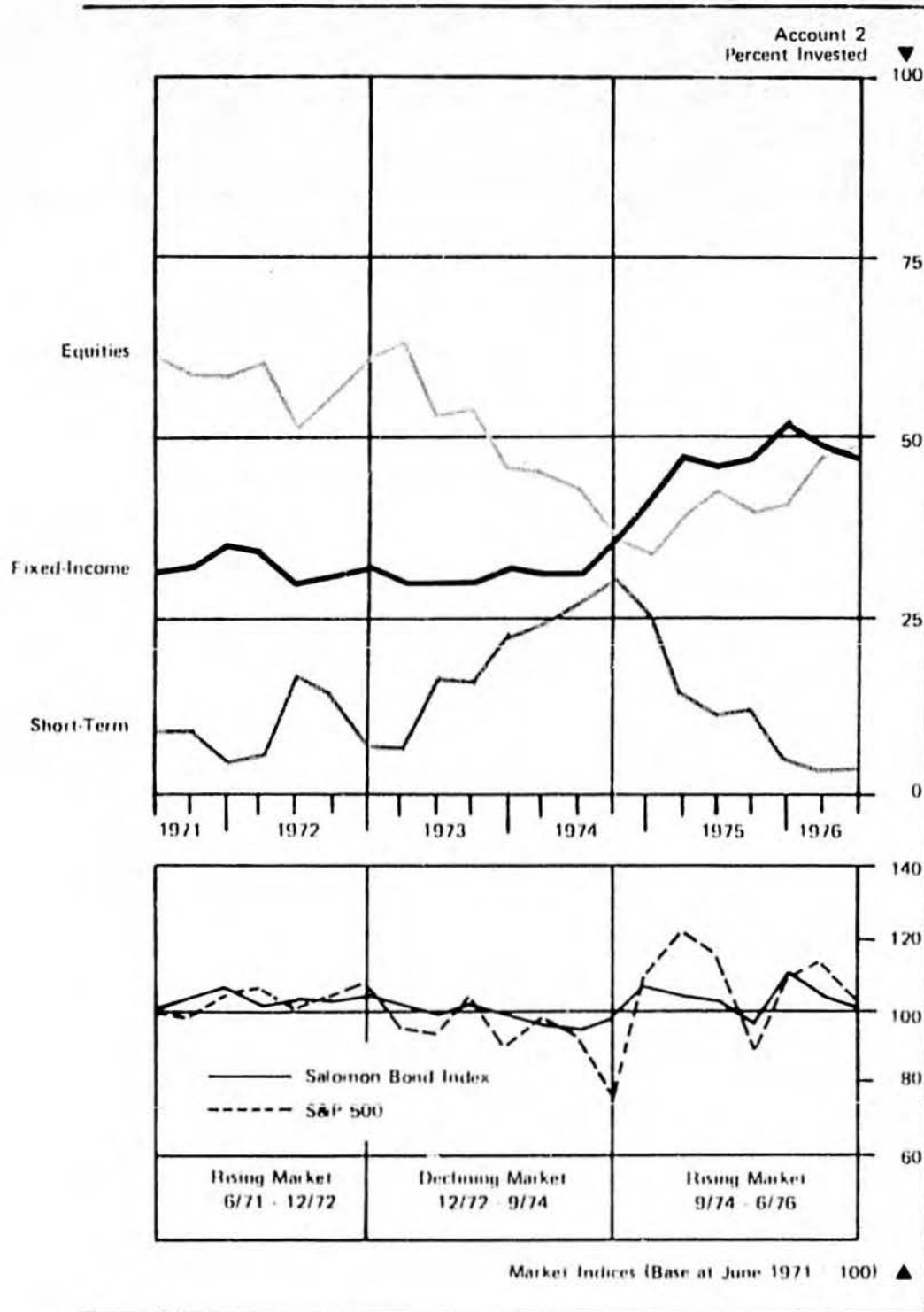
*The tables in this section include market valuations and net new investment for the Trust portfolios.*

**ASSET ALLOCATION**  
**TABLE OF ASSET GROWTH**  
**(\$000)**

<i>Five Years Ended 6/30/76</i>	<i>Ending Market Value</i>	=	<i>Beginning Market Value</i>	+	<i>Net New Investment</i>	+	<i>Investment Return</i>	
							<i>Earned Income</i>	<i>+ Capital Appreciation</i>
<b>Total Assets</b>								
Account 1	\$14,457		\$11,848		\$ 1,909		\$1,012	\$ (312)
Account 2	16,317		4,271		8,873		1,170	2,003
PRISA	1,710		0		1,500		210	-
Composite	32,484		16,119		12,282		2,392	1,691

*The table above shows the dollar increase in assets based on the change in market value. The sources of growth are net new investment and investment return, as shown in the formula heading the table.*

## ASSET ALLOCATION ASSET DISTRIBUTION GRAPH



**ASSET ALLOCATION**  
**ASSET DISTRIBUTION**  
**(\$000)**

<i>Quarter Ending</i>	<i>Equities</i>	<i>% of Total</i>	<i>Long Term Fixed</i>	<i>% of Total</i>	<i>Cash &amp; Short Term</i>	<i>% of Total</i>	<i>Total Assets</i>	
<b>Account 2</b>								
1971	June	2,538	59.4	1,338	31.3	393	9.2	4,271
	September	2,551	58.9	1,366	31.5	414	9.6	4,332
	December	2,683	59.2	1,613	35.6	232	5.1	4,529
1972	March	2,810	60.0	1,601	34.2	275	5.9	4,687
	June	2,909	52.0	1,700	30.4	987	17.6	5,597
	September	5,690	55.1	3,196	30.9	1,443	14.0	10,330
	December	6,781	61.8	3,461	31.6	723	6.6	10,967
1973	March	6,427	62.7	3,079	30.0	742	7.2	10,249
	June	6,641	53.3	3,742	30.1	2,066	16.6	12,450
	September	7,064	53.6	3,972	30.1	2,152	16.3	13,189
	December	5,616	45.0	4,032	32.3	2,845	22.8	12,494
1974	March	5,483	44.6	3,841	31.2	2,980	24.2	12,305
	June	4,880	41.9	3,663	31.4	3,110	26.7	11,653
	September	3,657	35.4	3,604	34.9	3,062	29.7	10,324
	December	3,703	34.0	4,368	40.1	2,814	25.9	10,886
1975	March	4,812	39.1	5,821	47.3	1,681	13.7	12,314
	June	5,774	42.8	6,184	45.9	1,526	11.3	13,485
	September	5,265	41.4	5,968	46.9	1,499	11.8	12,733
	December	5,734	41.8	7,090	51.7	892	6.5	13,717
1976	March	7,126	46.8	7,287	47.9	812	5.3	15,226
	June	7,502	48.2	7,274	46.7	785	5.0	15,562

*The quarterly distributions for each account are presented by market value and percentage allocation. They are grouped in the following categories; equities, including convertible securities; fixed-income investments, and cash-plus-short-term holdings.*

**ASSET ALLOCATION**  
**NET NEW INVESTMENT**  
**(\$000)**

Quarter Ending		Equities	Long Term Fixed	Cash & Short Term	Total Assets	S&P 500 Index	S&P AAA Index
<b>Account 2</b>							
1971	June	-111	-11	122	-	100.0	100.0
	September	7	-23	16	-	99.4	102.9
	December	-8	193	-185		103.9	108.6
1972	March	-20	-21	42	0	109.9	108.8
	June	150	79	708	938	110.6	109.8
	September	2,655	1,462	444	4,562	115.0	111.4
	December	559	175	-734	0	123.6	113.9
1973	March	378	-387	9	0	117.6	113.9
	June	619	658	1,301	2,579	110.8	114.2
	September	-178	232	53	107	116.1	111.8
	December	-621	60	636	75	105.5	115.3
1974	March	113	-63	75	125	102.5	114.0
	June	-36	-32	69	-	94.8	112.1
	September	107	128	-141	95	71.0	107.6
	December	-203	520	-311	5	77.7	110.5
1975	March	-50	1,278	-1,195	33	95.5	112.1
	June	75	179	-184	70	110.2	115.4
	September	130	-88	-42	0	98.1	114.4
	December	-34	661	-626		106.6	119.3
1976	March	281	-148	-103	30	122.6	124.4
	June	131	-43	-36	51	125.6	123.8

*Net new investment for the total Trust is equivalent to net contributions or the excess of deposits over withdrawals. For portfolio segments, it is the excess of purchases over sales and reinvested income. Net new investment within asset categories reflects the allocation of net contributions as well as shifts in funds from one portfolio to another.*

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**ASSET ALLOCATION**  
**EQUITY TURNOVER RATES**

<i>Years Ended June 30</i>	<i>Account 1</i>	<i>Account 2</i>
1972	28%	24%
1973	31	44
1974	25	8
1975	9	13
1976	25	9

---

*Turnover measures shifts in investments within the equity portfolio other than those resulting from the flow of new money. The rate is derived by dividing the lesser of purchases or sales by the average market value for the period. Since it is based on the lesser of purchases or sales, it reflects the level of exchange rather than total activity within the portfolio.*

**CALLAN ASSOCIATES DATABASE**  
**LARGE BANKS - POOLED EQUITY FUNDS**

<i>San Francisco</i>	Bank of America
<i>San Francisco</i>	Bank of California
<i>New York City</i>	Bank of New York
<i>New York City</i>	Chase Manhattan Bank
<i>New York City</i>	Chemical Bank
<i>Cleveland</i>	Cleveland Trust Company
<i>Hartford</i>	Connecticut Bank & Trust Co.
<i>Chicago</i>	Continental Illinois National Bank and Trust Company
<i>San Francisco</i>	Crocker National Bank
<i>Detroit</i>	Detroit Bank and Trust Company
<i>Philadelphia</i>	Fidelity Bank
<i>Dallas</i>	First National Bank in Dallas
<i>Boston</i>	First National Bank of Boston
<i>Chicago</i>	First National Bank of Chicago
<i>Denver</i>	First National Bank of Denver
<i>Portland</i>	First National Bank of Oregon
<i>New York City</i>	First National City Bank
<i>Philadelphia</i>	First Pennsylvania Banking and Trust Company
<i>Philadelphia</i>	Girard Bank
<i>Hartford</i>	Hartford National Bank and Trust Company
<i>New York City</i>	Manufacturers Hanover Trust Company
<i>New York City</i>	Marine Midland Bank
<i>Detroit</i>	National Bank of Detroit
<i>Chicago</i>	Northern Trust Company
<i>Minneapolis</i>	Northwestern National Bank of Minneapolis
<i>Philadelphia</i>	Provident National Bank
<i>Dallas</i>	Republic National Bank
<i>Seattle</i>	Seattle-First National Bank
<i>Boston</i>	Shawmut Bank of Boston, N.A.
<i>Boston</i>	State Street Bank & Trust Company
<i>Toledo</i>	Toledo Trust Company
<i>Los Angeles</i>	Union Bank
<i>Boston</i>	United States Trust Company
<i>Winston-Salem</i>	Wachovia Bank and Trust Company, N.A.
<i>San Francisco</i>	Wells Fargo Bank
<i>Wilmington</i>	Wilmington Trust Company

**CALLAN ASSOCIATES DATABASE**  
**MEDIUM BANKS - POOLED EQUITY FUNDS**

<i>Washington DC</i>	American Security & Trust Company
<i>Honolulu</i>	Bishop Trust Company, Ltd.
<i>Chicago</i>	Central National Bank of Chicago
<i>Des Moines</i>	Central National Bank and Trust Company
<i>Cincinnati</i>	Central Trust Company
<i>Louisville</i>	Citizens Fidelity Bank and Trust Company
<i>Baltimore</i>	Equitable Trust Company
<i>Cincinnati</i>	Fifth Third Bank
<i>Honolulu</i>	First Hawaiian Bank
<i>Phoenix</i>	First National Bank of Arizona
<i>Birmingham</i>	First National Bank of Birmingham
<i>Cincinnati</i>	First National Bank of Cincinnati
<i>Oklahoma City</i>	First National Bank and Trust of Oklahoma City
<i>St. Paul</i>	First Trust Company of St. Paul
<i>Milwaukee</i>	First Wisconsin Trust Co.
<i>Fort Worth</i>	Fort Worth National Bank
<i>Chicago</i>	La Salle National Bank
<i>Milwaukee</i>	Marine National Exchange Bank
<i>Baltimore</i>	Maryland National Bank
<i>Dallas</i>	Mercantile National Bank
<i>Memphis</i>	National Bank of Commerce
<i>Helena</i>	Northwestern Bank & Union Trust Company
<i>Toledo</i>	Ohio Citizens Trust Company
<i>Seattle</i>	Peoples National Bank of Washington
<i>Philadelphia</i>	Philadelphia National Bank
<i>Seattle</i>	Rainier National Bank
<i>St. Louis</i>	St. Louis Union Trust Company
<i>Atlanta</i>	Trust Company of Georgia
<i>Cleveland</i>	Union Commerce Bank
<i>New Haven</i>	Union Trust Company
<i>Denver</i>	United Bank of Denver, N.A.
<i>Los Angeles</i>	United California Bank
<i>Kansas City MO</i>	United Missouri Bank

**CALLAN ASSOCIATES DATABASE**  
**INSURANCE COMPANIES - SEPARATE ACCOUNTS**

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<i>Hartford</i>	Aetna Life & Casualty Co.
<i>Des Moines</i>	Bankers Life Company
<i>Bloomfield</i>	Connecticut General Life Insurance Corp.
<i>New York City</i>	Equitable Life Assurance Society of the United States
<i>Boston</i>	John Hancock Mutual Life Insurance Company
<i>Springfield</i>	Massachusetts Mutual Life Insurance Company
<i>St. Paul</i>	Minnesota Mutual Life Insurance Company
<i>New York City</i>	Mutual Benefit Life Insurance Co.
<i>New York City</i>	Mutual of New York
<i>Boston</i>	New England Mutual Life Insurance Company
<i>Minneapolis</i>	Northwestern National Life Insurance Company
<i>Los Angeles</i>	Occidental Life of California
<i>Newport Beach</i>	Pacific Mutual Life Insurance Co.
<i>Newark</i>	Prudential Insurance Company of America
<i>Hartford</i>	Travelers Corporation

**CALLAN ASSOCIATES DATABASE**  
**MUTUAL FUNDS - GROWTH & INCOME OBJECTIVES**

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<i>New York City</i>	Affiliated Fund, Inc.
<i>Los Angeles</i>	American Mutual Fund, Inc.
<i>Kansas City MO</i>	David L. Babson Investment Fund, Inc.
<i>New York City</i>	Broad Street Investing Corporation
<i>New York City</i>	Bullock Fund, Ltd.
<i>Boston</i>	Colonial Fund, Inc.
<i>Wilmington</i>	Delaware Fund, Inc.
<i>New York City</i>	Dividend Shares, Inc.
<i>Boston</i>	Eaton & Howard Stock Fund
<i>Boston</i>	Fidelity Fund, Inc.
<i>Denver</i>	Financial Industrial Fund, Inc.
<i>Elizabeth</i>	Fundamental Investors, Inc.
<i>New York City</i>	Guardian Mutual Fund, Inc.
<i>Englewood CA</i>	Hamilton Funds Series H-DA
<i>Minneapolis</i>	Imperial Capital Fund, Inc.
<i>Los Angeles</i>	Investment Company of America
<i>Boston</i>	Massachusetts Investors Trust
<i>New York City</i>	National Securities Growth Fund
<i>New York City</i>	One William Street Fund, Inc.
<i>New York City</i>	Pine Street Fund, Inc.
<i>Boston</i>	Scudder, Stevens & Clark Common Stock Fund, Inc.
<i>Chicago</i>	Selected American Shares, Inc.
<i>Boston</i>	State Street Investment Corporation
<i>Chicago</i>	Stein, Roe & Farnham Stock Fund, Inc.
<i>New York City</i>	United Income Fund, Inc.
<i>Milwaukee</i>	Wisconsin Fund, Inc.

**CALLAN ASSOCIATES DATABASE**  
**MUTUAL FUNDS - GROWTH OBJECTIVES**

<i>Los Angeles</i>	AMCAP Fund, Inc.
<i>Houston</i>	American General Capital Growth Fund
<i>Greenwich</i>	American Investors Fund, Inc.
<i>Elizabeth NJ</i>	Anchor Growth Fund, Inc.
<i>Boston</i>	Chase Fund of Boston
<i>New York City</i>	Chemical Fund, Inc.
<i>Los Angeles</i>	Comstock Fund, Inc.
<i>New York City</i>	Dreyfus Fund Incorporated
<i>New York City</i>	Energy Fund Incorporated
<i>Boston</i>	Fidelity Trend Fund, Inc.
<i>Valley Forge PA</i>	Ivest Fund, Inc.
<i>New York City</i>	Johnston Mutual Fund Inc.
<i>Boston</i>	Keystone Growth Fund (K-2)
<i>New York City</i>	National Investors Corporation
<i>New York City</i>	Oppenheimer Fund, Inc.
<i>Redding</i>	Penn Square Mutual Fund
<i>Baltimore</i>	T. Rowe Price Growth Fund, Inc.
<i>Boston</i>	Putnam Growth Fund
<i>San Mateo</i>	Research Equity Fund, Inc.
<i>Baltimore</i>	Rowe Price New Horizons Fund, Inc.
<i>Boston</i>	Salem Fund, Inc.
<i>Topeka</i>	Security Equity Fund, Inc.
<i>Chicago</i>	Supervised Investors Growth Fund, inc.
<i>Chicago</i>	Technology Fund, Inc.
<i>Los Angeles</i>	Transamerica Capital Fund, Inc.
<i>Kansas City MO</i>	United Accumulative Fund
<i>New York City</i>	Value Line Fund, Inc.
<i>Valley Forge PA</i>	Windsor Fund, Inc.

## CALLAN ASSOCIATES DATABASE

### INVESTMENT COUNSELORS - INDIVIDUAL PORTFOLIOS

<i>San Francisco</i>	BA Investment Management Corporation
<i>Boston</i>	Batterymarch Financial Management Corporation
<i>Los Angeles</i>	George D. Bjurman & Associates
<i>Portland</i>	Capital Consultants, Inc.
<i>Los Angeles</i>	Cole, Ayer, McCully & Light, Inc.
<i>Portland</i>	Columbia Management Co.
<i>New York City</i>	Davis, Palmer & Biggs, Incorporated
<i>Houston</i>	Eagle Management & Trust Company
<i>Boston</i>	Endowment Management & Research Corporation
<i>Houston</i>	Fayez Sarofim & Company
<i>Boston</i>	Fidelity Management & Research Investment Service
<i>Houston</i>	Funds Advisory Company
<i>San Francisco</i>	Harris, Bretall & McEldowney, Inc.
<i>Minneapolis</i>	IDS Advisory Corporation
<i>Philadelphia</i>	INA Capital Management Corp (Formerly Philadelphia Investment Company)
<i>New York City</i>	Jennison Associates Capital Corporation
<i>Boston</i>	Keystone Investment Management Company, Inc.
<i>San Francisco</i>	Loomis, Sayles & Company, Inc.
<i>Atlanta</i>	Montag & Caldwell, Inc.
<i>Seattle</i>	Pringle, Flinn, Elvins & Donahoe, Inc.
<i>Washington DC</i>	J. W. Redmond & Company
<i>San Francisco</i>	Rosenberg Capital Management
<i>Englewood</i>	Templeton, Dobbrow & Vance
<i>Boston</i>	Thorndike, Doran, Paine & Lewis, Inc.
<i>Los Angeles</i>	Trust Company of the West
<i>New York City</i>	Wertheim Asset Management Services Incorporated

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*Data submitted by investment counselors is updated quarterly on no more than three of their largest and oldest fully discretionary (equity-oriented) pension portfolios. The investment results reflect total account performance on each of these individual portfolios. The average equity commitment at June 30, 1976 was 89.5 percent, with the balance in cash, cash equivalents and bonds.*

**CALLAN ASSOCIATES DATABASE**  
**BANKS - POOLED FIXED-INCOME FUNDS**

<i>Indianapolis</i>	American Fletcher National Bank & Trust Co.
<i>Washington DC</i>	American Security and Trust Company
<i>San Francisco</i>	Bank of America
<i>San Francisco</i>	Bank of California
<i>New York City</i>	Bank of New York
<i>Chicago</i>	Central National Bank in Chicago
<i>Des Moines</i>	Central National Bank and Trust Company
<i>Cincinnati</i>	Central Trust Company
<i>New York City</i>	Chase Manhattan Bank
<i>New York City</i>	Chemical Bank
<i>Cleveland</i>	Cleveland Trust Company
<i>Louisville</i>	Citizens Fidelity Bank and Trust Company
<i>Chicago</i>	Continental Illinois National Bank and Trust Company
<i>San Francisco</i>	Crocker National Bank
<i>Detroit</i>	Detroit Bank and Trust Company
<i>Baltimore</i>	Equitable Trust Company
<i>Cincinnati</i>	Fifth Third Bank
<i>Phoenix</i>	First National Bank of Arizona
<i>Birmingham</i>	First National Bank of Birmingham
<i>Boston</i>	First National Bank of Boston
<i>Chicago</i>	First National Bank of Chicago
<i>Denver</i>	First National Bank of Denver
<i>Portland</i>	First National Bank of Oregon
<i>New York City</i>	First National City Bank
<i>St. Paul</i>	First Trust Company of St. Paul
<i>Chicago</i>	Harris Trust and Savings Bank
<i>Chicago</i>	La Salle National Bank
<i>New York City</i>	Manufacturers Hanover Trust Company
<i>New York City</i>	Marine Midland Bank
<i>Milwaukee</i>	Marine National Exchange Bank
<i>Dallas</i>	Mercantile National Bank
<i>Detroit</i>	National Bank of Detroit
<i>Chicago</i>	Northern Trust Company
<i>Helena</i>	Northwestern Bank & Union Trust Company
<i>Minneapolis</i>	Northwestern National Bank of Minneapolis
<i>Toledo</i>	Ohio Citizens Trust Company

**CALLAN ASSOCIATES DATABASE**

**BANKS - POOLED FIXED-INCOME FUNDS**

*continued*

<i>Philadelphia</i>	Philadelphia National Bank
<i>Seattle</i>	Rainier National Bank
<i>Dallas</i>	Republic National Bank
<i>Seattle</i>	Seattle-First National Bank
<i>Boston</i>	Shawmut Bank of Boston, N.A.
<i>Boston</i>	State Street Bank & Trust
<i>Toledo</i>	Toledo Trust Company
<i>Atlanta</i>	Trust Company of Georgia
<i>Los Angeles</i>	Union Bank
<i>Denver</i>	United Bank of Denver, N.A.
<i>Los Angeles</i>	United California Bank
<i>Kansas City MO</i>	United Missouri Bank
<i>Boston</i>	United States Trust Company
<i>Winston-Salem</i>	Wachovia Bank & Trust Company
<i>San Francisco</i>	Wells Fargo Bank
<i>Wilmington</i>	Wilmington Trust Company

*David R. Wood*  
601 California Street  
San Francisco  
(415) 986-1213

*Gerald Murchison*  
Time & Life Building  
Rockefeller Center  
New York  
(212) 541-4100

*John T. Story*  
29 South La Salle Street  
Chicago  
(312) 346-3536

*George Wiley*  
523 West 6th Street  
Los Angeles  
(213) 628-0791

SCOMM

#9:9

CONTRACT BETWEEN  
STATE OF ALASKA  
LEGISLATIVE FINANCE DIVISION  
AND  
MIKE DOOGAN

The parties to this agreement are the LEGISLATIVE FINANCE DIVISION, hereinafter referred to as the "Division", on behalf of the House Finance Committee, and MIKE DOOGAN, hereinafter referred to as the "Contractor."

The purpose of this agreement is to provide consulting services to the House Finance Committee through the Division.

IT IS, THEREFORE, MUTUALLY AGREED THAT:

CLAUSE I. - STATEMENT OF WORK

The Contractor shall prepare a report to the House Finance Committee on revenue issues involving the State of Alaska. The report shall be a review of existing information on oil and gas revenues and oil and gas tax revenues to the state, written in easily understandable language. The report shall include, but not be limited to, past, present and proposed revenue measures and their impacts upon the oil and gas industry and the State of Alaska.

CLAUSE II. - PERIOD OF PERFORMANCE

- (A) Work under Clause I shall be performed between February 6, 1978, and April 6, 1978, with the final draft report due by March 31, 1978, with the provision that the period of performance may be extended by mutual agreement of the parties.
- (B) This agreement may be terminated
  - (1) by either party on 10 days' written notice to the other party, or
  - (2) by mutual consent of the parties to this agreement.

CLAUSE III. - COMPENSATION AND METHOD OF PAYMENT

- (A) The Contractor shall be compensated as a contract employee at a rate of \$15.22 per hour. The Division will make necessary arrangements for such compensation to be remitted to the Contractor on or about the first and fifteenth days of each month and shall advise the Contractor of information or records that may be necessary to process such payments. Payments under this clause are not to exceed \$8,000.
- (B) Travel expenses of the Contractor while on the business of the Division or the House Finance Committee, approved by the Division prior to the Contractor's incurring the expenses, shall be reimbursed according to Article 2 of AS 39.20 and the regulations enacted pursuant to Article 2 of AS 39.20. Payments under this clause are not to exceed \$2,000.
- (C) Deductions from the Contractor's compensation shall be made for federal withholding tax, Alaska withholding tax and social security.

CLAUSE IV. - PROJECT DIRECTOR

Performance of the work specified in this agreement shall be under the general direction of Rep. Steve Cowper, Chairman of the House Finance Committee, or his designee.

CLAUSE V. - REPORTS

The Contractor shall keep the Project Director informed as to the progress of the work performed under this agreement and shall provide progress reports as specified by him.

CLAUSE VI. - RECORDS, DOCUMENTS, AUDIT

The Contractor shall maintain accurate records, including detailed time records, as may be required by the Division. The records are subject to inspection by the Division at all reasonable times. All documents,

reports, and writings performed under this contract are, upon delivery to the Division or at termination of this agreement, the property of the Division. The Committee shall have the full right to use these documents for its purposes, or otherwise, when and where the Committee may designate without any claim on the part of the Contractor for additional compensation.

CLAUSE VII. - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either of the parties to this agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the date indicated.

CONTRACTOR:

STATE OF ALASKA  
LEGISLATIVE FINANCE DIVISION

By: \_\_\_\_\_  
Mike Doogan

By: \_\_\_\_\_  
Jay Hogan, Director

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

APPROVED BY:

\_\_\_\_\_  
Rep. Steve Cowper, Chairman  
House Finance Committee

#9

A GUIDE TO ALASKA'S OIL AND GAS REVENUES

PREPARED UNDER CONTRACT WITH THE  
DIVISION OF LEGISLATIVE FINANCE  
ON BEHALF OF THE  
HOUSE FINANCE COMMITTEE

by Mike Doogan

March 31, 1978

## SCOPE OF REPORT

This report is intended primarily as a translation, an attempt to describe in English what the state's revenue picture looks like, particularly the oil and gas revenue segment.

There are no astounding new discoveries hidden in the following pages. In a sense this report is 'superficial' in that it does not attempt to explore specific issues in depth. The author has not read everything written on state revenue or even everything written on state oil and gas revenue. He has not even talked to all parties involved. He has simply attempted to understand the major factors influencing state revenue and, in turn, report them in a way others are likely to be able to understand.

This report is written from an 'objective' viewpoint, in that the author has attempted to allow the reader to draw his own conclusions from the facts presented. Those facts which seem critical to an understanding of the state revenue picture, however, are emphasized. In the last section of this report, Facts and Options, the author expresses some opinions. These opinions are solely the author's.

## A DEFINITION

Throughout this report the phrase 'oil and gas industry' is used. Generally, the phrase refers to all companies involved in oil and gas operations. But in the case of specific operations -- the Prudhoe Bay field or the trans-Alaska pipeline, for example -- the phrase is used to mean those companies directly involved.

## THE SOURCES OF STATE REVENUE

The State of Alaska receives money from many sources. The Department of Revenue, the state agency that handles this money, divides it into three

types: unrestricted revenues (money available for any purpose of government), restricted revenues (money received by the state for a specific purpose), and special funds (money used by the state for a specific purpose) :

The operations of government mainly are financed from unrestricted revenues. These revenues are divided into five categories: taxes, license and permit fees, intergovernmental receipts, state resource revenues, and miscellaneous revenues.<sup>2</sup>

Taxes provide most of the unrestricted revenues. According to the department's estimate for fiscal year 1979-<sup>3</sup> (that is, July 1, 1978 to June 30, 1979), taxes will provide some 63 percent of unrestricted revenues.

Next in size are state resource revenues, about 34 percent; license and permit fees, about 2 percent; intergovernmental receipts, about .65 percent; and miscellaneous revenues, about .35 percent.<sup>4</sup>

Taken all together these categories, the department estimates, will provide \$928.5 million during fiscal year 1979. <sup>5</sup>

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<sup>1</sup> Alaska's Revenue Sources FY 77-79, Research Section, Department of Revenue. An example of restricted revenues is money received from the federal government for educational programs. An example of special funds is the state's Scholarship Loan Fund.

<sup>2</sup> Alaska's Revenue Sources FY 77-79. Intergovernmental receipts are revenues shared with the state by the federal government.

<sup>3</sup> Alaska's Revenue Sources FY 77-79, FY 79 figures are used because they do not contain reserves tax payments which the state no longer receives.

<sup>4</sup> Alaska's Revenue Sources FY 77-79, The percentages are the author's, based on the department's figures, and are meant to show orders of scale, not to precisely predict the future.

<sup>5</sup> Alaska's Revenue Sources FY 77-79, This figure does not contain Alaska Native Claims payments, a 25 percent Permanent Fund contribution, or a 5 percent Renewable Resources Development Fund contribution. The legislature's estimate, found in Senate Committee Substitute for House Concurrent Resolution 97 Amended Senate (Senate CS for HCR 97 am S) is \$18.1 million higher (\$946.6 million) because the legislature decided the Renewable Resources Development Fund contribution is available for appropriation in fiscal year 1979.

Right now, the state also has a surplus; money not spent in previous years. The liquid portion of that surplus (the part that is in 'ready cash')<sup>6</sup> is estimated by the legislature to be \$273.6 million for fiscal year 1979.<sup>7</sup> The legislature has decided that at least \$250 million of this surplus will not be spent during fiscal year 1979.<sup>8</sup>

These estimates for fiscal year 1979 provide an example of the sources of revenue to the state. But where does the money come from?

Although there is some dispute over exactly how much state revenue the oil and gas industry provides, there can be little dispute it provides the majority.

A pair of examples illustrates this point. The industry estimates it will provide 67 percent of the state's tax revenue in fiscal year 1978.<sup>9</sup> The state Division of Legislative Finance estimates the industry will provide 61 percent of all unrestricted revenues in fiscal year 1978 and 67.8 in fiscal year 1979.<sup>10</sup>

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<sup>6</sup>The balance of the approximately \$600 million surplus is not 'ready cash' because it is invested in long-term commitments such as state loans and Alaska mortgages.

<sup>7</sup>Senate CS for HCR 97 am S

<sup>8</sup>Senate CS for HCR 97 am S

<sup>9</sup>Let's Talk..., Public Affairs Department, Exxon Company, U.S.A., and What Alaskans Should Know About: Jobs Resources and Government, Alaska Resources Development Committee, Alaska Oil and Gas Association.

<sup>10</sup>Oil and Gas Taxes, Milt Barker, Fiscal Analyst, Division of Legislative Finance, February 17, 1978.

Medium-range estimates show the oil and gas industry, barring the unforeseen, will continue to provide the majority of state unrestricted revenues for some time to come. <sup>11</sup>

#### The Nature of Oil and Gas Revenues

The state receives direct oil and gas revenues principally from five sources; (1) bonuses, (2) royalties, (3) Oil and Gas Production Properties taxes (severance taxes), (4) Oil and Gas Exploration, Production and Pipeline Property taxes (property taxes), (5) corporate income taxes paid by oil and gas companies. <sup>12</sup>

What follows is a description of each of these sources.

#### BONUSES

"Usually the bonus is the money paid by the lessee for the execution of an oil and gas lease by the owner. Another form is called an oil or royalty bonus. This may be in the form of an overriding royalty reserved to the landowner in addition to the usual one-eighth royalty." <sup>13</sup>

Typically, the state's bonuses have been of the first type: a lump sum paid for the rights to a lease. The most famous example is the approximately \$900 million in bonuses received in 1969 for North Slope leases. <sup>14</sup>

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<sup>11</sup>In fact most estimates show an increase in the proportion of oil and gas revenues to total unrestricted revenues through 1985. See particularly State Revenue Outlook Through 1985, Richard G. Haggart, Research Analyst, Division of Legislative Research, November 17, 1977.

<sup>12</sup>The other three direct sources are state mineral lease rentals, federal mineral revenue sharing payments and Oil and Gas Regulation and Conservation Taxes. They are estimated to provide \$2.5 million, \$1.5 million, and \$.5 million respectively in fiscal year 1979.

<sup>13</sup>Handbook of Oil Industry Terms and Phrases, R.D. Langenkamp, The Petroleum Publishing Company, Tulsa, Oklahoma, 1974, Page 14.

<sup>14</sup>An example of the second type of bonus is that offered to the federal government during last fall's Outer Continental Shelf lease sale.

The Department of Revenue estimates that no money will be received from bonuses during fiscal year 1979. <sup>15</sup>

#### ROYALTIES

"A share of the gross production of the oil and gas on a property by the landowner without bearing any of the cost of producing the oil and gas. The usual landowner's royalty is one-eighth of gross production." <sup>16</sup>

With the exception of the dispute over field gathering and treatment charges to be discussed later, this is the current status of state royalties.

The Department of Revenue estimates that royalties will provide \$250.8 million during fiscal year 1979. <sup>17</sup>

#### SEVERANCE TAXES <sup>18</sup>

This is a tax on oil and gas produced in the state.

The first major element of the severance tax is the 'wellhead value' of the oil or gas. Wellhead value is the sale price of the oil or gas minus the costs of delivering it to the point of sale. <sup>19</sup>

The second major element is the 'economic limit factor', a figure, provided by a mathematical formula, which determines the rate of taxation.

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<sup>15</sup>Alaska's Revenue Sources FY 77-79

<sup>16</sup>Handbook of Oil Industry Terms and Phrases, Page 76.

<sup>17</sup>Alaska's Revenue Sources FY 77-79

<sup>18</sup>The current severance tax is set forth in AS 43.55.

<sup>19</sup>Wellhead value and its importance to oil and gas revenues is examined in greater detail later.

The tax is the greater of (a) 12.25 percent of the wellhead value multiplied by the economic limit factor or (b) a number of cents per barrel of oil or thousand cubic feet of gas multiplied by the economic limit factor.

The economic limit factor makes the severance tax a sliding scale tax rather than a flat rate tax. Leases producing oil or gas at a high volume pay a higher tax than leases producing at a low volume. Leases producing only enough to pay 'overhead costs' pay no severance tax at all. <sup>20</sup>

The Department of Revenue estimates that severance taxes will provide \$176 million during fiscal year 1979. <sup>21</sup>

#### PROPERTY TAXES <sup>22</sup>

"This law, commonly referred to as the '20-Mill Hardware Tax', was enacted by the 1973 Special Session of the Legislature and became effective on January 1, 1974. Properties taxable under this law include virtually all properties situated in the state used in the exploration for, production of, and pipeline transportation of oil and gas. <sup>23</sup>

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<sup>20</sup>'Overhead costs' are defined in law as "royalty, production supplies, purchased fuel, routine maintenance and wages and benefits of employees working on the production operation. Additional direct operating costs not listed in this section may be included only after their inclusion in a regulation adopted by the department."

<sup>21</sup>Alaska's Revenue Sources FY 77-79

<sup>22</sup>The current property tax is set forth in AS 43.56.

<sup>23</sup>The law provides (in 43.56.020) exemptions from local taxes on oil and gas production property rights, oil and gas leases, oil and gas in place, oil and gas produced or extracted in the state, the value of intangible drilling and exploration expenses, pre-construction property for oil and gas pipelines and related facilities. Exemptions from state taxes are provided (in 43.56.210) for property used solely for the retail distribution or liquifaction of natural gas and permanent residences, office buildings requiring substantial local government services, or oil and gas pipeline systems owned and operated by a certified public utility regulated by the Alaska Public Utilities Commission.

"The '20-Mill Hardware Tax' is administered by the Department of Revenue. Taxable properties are assessed each year at full and true value and are taxed at a rate of 20 mills (2%). The municipality in which the property is situated levies and collects its own taxes, based on state assessments, at the same rate as applied to locally assessed properties. Taxes paid to municipalities may be credited against the 20-mill state levy<sup>24</sup>...If the property is located in the unorganized area of the state, the entire '20-Mill Hardware Tax' is paid to the state."<sup>25</sup>

The Department of Revenue estimates that property taxes will provide \$170.6 million during fiscal year 1979.<sup>26</sup>

#### CORPORATE INCOME TAXES <sup>27</sup>

"The Alaska Corporate Income Tax is a tax imposed upon corporate net income much in the same manner as the income tax on the earnings of individuals. The determination of taxable income is based primarily upon the Internal Revenue Code and Federal rules, as is the case in number of other states.

"In addition, Alaska is a regular member of the Multistate Tax Compact, an organization comprised of a number of states throughout the country having as one of its objectives the development of a reasonable degree of uniformity in application and compliance of state income taxes with respect to multistate businesses. As a consequence, Alaska has joined with other states in adopting the Uniform Division of Income Tax Purposes Act (UDITPA) as part of the Multistate Tax Compact.

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<sup>24</sup>Thus, if a municipality taxes at 9 mills, the balance of the 20-mill tax, or 11 mills, would go to the state.

<sup>25</sup>Alaska Taxation Of The Petroleum Industry, Alaska Oil and Gas Association, January 1977.

<sup>26</sup>Alaska's Revenue Sources FY 77-79

<sup>27</sup>The current corporate income tax is set forth in AS 43.20.011(e).

"UDITPA results in the apportionment to Alaska of a portion of the net taxable income earned by any of the companies, including oil companies, which do business both within and without the state. Apportionment of the income to Alaska is accomplished through the use of a three-factor formula which is the ratio of property, payroll, and sales within Alaska to total property, payroll, and sales located everywhere. That percent then is the portion of the taxpayer's total income which is apportioned to Alaska and taxed." <sup>28</sup>

The Department of Revenue estimates that total corporate income taxes will provide \$65.6 million in fiscal year 1979. <sup>29</sup> Of this total, the department estimates oil and gas corporate income taxes will provide \$23.7 million. <sup>30</sup>

Of these five principal sources of oil and gas revenue, the first two are ownership revenues. Bonuses and royalties are paid to the state because it holds the ownership of the resources. The other three sources are tax revenues.

The significance of this is that the state could not afford to operate without its ownership revenues.

To put it another way: if the land on which oil and gas is being produced was in private ownership, the state would not receive royalties and bonuses. Without estimated royalties, and the state's unrestricted revenues would be \$677.3 million for fiscal year 1979, instead of the \$928.5 million estimated.

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<sup>28</sup>Alaska Taxation of the Petroleum Industry

<sup>29</sup>Alaska's Revenue Sources FY 77-79

<sup>30</sup>Oil and gas company corporate income taxes are not shown as a separate item in the department's estimates. This figure was received verbally from the department. It is disputed by industry sources who say payments will be some \$10 million to \$15 million higher.

This would require a sharp reduction in the state budget, which provides financing for the services provided by the state.

#### The Identity of Oil and Gas Revenue Producers

Some 95 percent of oil and gas revenues currently flow to the state from a single source: production of oil from the Prudhoe Bay field and associated activity. <sup>31</sup>

The Prudhoe Bay field is the largest single reservoir of oil and gas discovered in the United States. Estimated recoverable oil reserves (that is, oil that can be produced commercially) are some nine billion barrels, while estimates of the total size of the field run to 20 billion barrels.

Prudhoe Bay oil is being recovered by two oil companies, British Petroleum (BP) and Atlantic Richfield (ARCO), under an agreement among the owners.

In addition to the state with its 12.5 percent share <sup>32</sup>, the other Prudhoe Bay owners are: <sup>33</sup>

BP-Sohio <sup>34</sup>	53.15
ARCO	20.27
Exxon	20.27
Mobil	2.09
Phillips	2.04
Chevron	.84
Getty	.54
Amerada-Hess	.53
Marathon	.04
Placid	.04
Louisiana Land	.03
Hunt Group	.085

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<sup>31</sup>This percentage is a consensus figure drawn from state and industry sources.

<sup>32</sup>The state's share comes out of the other owners' shares and is not in addition to them.

<sup>33</sup>These figures are from the Department of Natural Resources' Office of Minerals and Energy.

<sup>34</sup>As in all cases where British Petroleum and Sohio are mentioned, it is not clear which company is which. Simply put, the BP-Sohio merger arrangements have the author baffled.

The single outlet for this oil is the trans-Alaska pipeline which transports the oil from Prudhoe Bay to Valdez. The pipeline is owned by Alyeska Pipeline Service Company, a consortium of eight oil companies. The owners, and their shares, are:<sup>35</sup>

Sohio	33.34
Arco	21.00
Exxon	20.00
BP	15.84
Mobil	5.00
Union	1.66
Phillips	1.66
Amerada-Hess	1.50

From the pipeline terminal at Valdez the oil continued via tanker to a refinery. Currently, some of the oil is being refined on the West Coast while the rest is being shipped through the Panama Canal to Gulf Coast refineries.

At least some of the companies who own Prudhoe Bay oil and a share of the pipeline also own tankers to carry the oil and refineries to process it.

Each of these separate operations is designed to make a profit. The production profit comes from the sale of the oil at the refinery. The transportation profit is built into the rates charged for the service.

#### The Uncertainties of Oil and Gas Revenues

Unlike these "vertically integrated" companies, the state takes its primary ownership revenues, royalties, from the value of the oil in the marketplace.

This value is the wellhead value, computed by taking the current

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<sup>35</sup>These figures are from the ICC staff protest of the pipeline tariffs requested by the owners as shown in TAPS Tariffs, Milt Barker, Fiscal Analyst, Division of Legislative Finance, November 15, 1977

sale price of the oil in the marketplace and deducting the costs of delivering it.

The wellhead value also is critical in determining revenues from the state's severance tax.

Because it is affected by a number of factors, the wellhead value is unstable, making revenue based on it uncertain. Some of these factors are matters of dispute between the state and the oil industry.

A brief discussion of these disputes follows.

#### Field Gathering

The Prudhoe Bay owners are deducting from the wellhead value for royalty payments charges for gathering, cleaning and dehydrating the oil between the well and the pipeline. The state contends that these deductions should not be made. The matter is currently in state Superior Court.

#### Pipeline Tariffs

The state and others contend that the tariffs (that is, charges for transporting oil) requested by the pipeline owners are too high. Lower interim tariffs were established by the Interstate Commerce Commission. These interim tariffs were set aside temporarily by the United States Supreme Court, which has yet to make a final decision on the interim tariffs. Meanwhile, the Federal Energy Regulatory Commission, the successor to the Interstate Commerce Commission in handling pipeline tariffs, has begun its process for determining final pipeline tariffs.

#### Tanker Charges

Recently, the state suggested that tanker charges for transporting Prudhoe Bay oil from Valdez to the refinery are too high.<sup>36</sup> The Department

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<sup>36</sup>See Recommended Changes in Alaska's Oil and Gas Production Tax Rates for 1978, the Alaska Department of Revenue.

of Revenue has received money from the legislature to study these tanker charges in more detail.

Each of these disputes affects the amount of revenue the state will receive from its primary ownership source, royalties. Likewise, lower wellhead values reduce the state's revenue from severance taxes because the value of the oil is a factor in computing the tax.

In short, each additional penny paid to owners and shippers is something more than a penny of potential revenue that will not flow to the state.

Besides these disputes between the state and the oil and gas industry, other factors bear directly upon the state's revenues from Prudhoe Bay.

A brief discussion of these follows.

#### Production Schedule

The production schedule for Prudhoe Bay calls for the rapid removal of oil, rising to a peak and then turning downward in 1985.

The production schedule raises two revenue-related questions.

First, are the economic interests of the other owners and the state the same? Some have suggested that the other owners are interested in producing the most oil in the shortest time even at the expense of total production from the field. The state, on the other hand, is interested in producing the most possible oil, even at the expense of rapid production.<sup>37</sup>

Second, is the oil worth more to the state in the ground? This question arises because the value of oil is appreciating. By investing

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<sup>37</sup>This possible difference in interests is based on a theory called the "discounted cash flow" rate of return. Simply put, the DCF theory dictates that companies make an investment as late as possible and recover it as early as possible so that the money invested and the profit it earns can be reinvested as quickly as possible. So, oil produced late in the production schedule has a diminishing value because it cannot be reinvested quickly, and because of erosion caused by inflation.

the dollars it gets for its oil, the state can make a certain rate of return. The question is whether that rate of return is greater or lesser than the appreciation of the value of the oil in the ground.

#### West Coast Surplus

Currently, not all Prudhoe Bay oil can be sold on the West Coast. This has caused some owners to have to ship their oil through the Panama Canal to the Gulf Coast. The added tanker charges lower the wellhead value of this oil, thereby lowering the state's severance tax revenue from that oil.

#### Federal Pricing Decisions

The federal government has the power to set the value of Prudhoe Bay oil in the marketplace through decisions on pricing and entitlements treatment.

The government's initial decisions were the best that could be asked, setting the price of Prudhoe Bay oil at the level of imported oil and allowing equal treatment with imported oil under its entitlements program.<sup>38</sup>

Later, the government subjected Prudhoe Bay oil to an entitlements penalty in California, lowering the California sale price an estimated 50 cents to 75 cents per barrel.

Further entitlements action is expected soon.<sup>39</sup>

#### The "Free Market Theory"

In addition to the uncertainties that apply "specifically" to

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<sup>38</sup>The entitlements program is designed to equalize the purchase and processing costs to refiners across the country. Thus, in theory, lower-cost oil is penalized in order to equalize the position of refiners having to purchase higher-cost oil.

<sup>39</sup>Federal Pricing Decisions Relating to Prudhoe Bay Oil, Richard G. Haggart, Research Analyst, Division of Legislative Research, January 11, 1978

Prudhoe Bay oil, there is an overriding uncertainty, based on the "free market theory" of oil value.

Under this theory, Prudhoe Bay oil competes with all other oil for sale in the world.

Prudhoe Bay oil suffers in this competition because the high costs of field development and operations and transportation make it more expensive in the marketplace.

Balancing these disadvantages somewhat are federal energy policy, which has a stated preference for domestic oil, and the fact that Prudhoe Bay provides a "secure" source of supply; that is, by domestic standards, a large volume of oil in a free enterprise location.

But these factors do not make the future of Prudhoe Bay oil certain. The same federal energy policy, for example, places a premium on conservation efforts. Insofar as these efforts are successful they will shrink the market, forcing Prudhoe Bay oil into competition in a smaller market.<sup>40</sup>

A second example is potential competition from Mexican oil. Continuing large finds of oil in Mexico, a relatively secure location closer to major U. S. markets than Prudhoe Bay oil, may serve to further reduce the market for Prudhoe Bay oil.<sup>41</sup>

A third example is potential competition from oil produced on the East Coast's Outer Continental Shelf, particularly the Baltimore Canyon. Any oil found would be closer to East Coast markets and would

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<sup>40</sup>For more on the implications of federal energy policy, see Preliminary Report for 1977, State Energy Policy Committee, January 10, 1978.

<sup>41</sup>Implications of Certain Petroleum Developments, Norman Bailey, February 19, 1978.

probably be cheaper to produce.<sup>42</sup>

These are not all the factors influencing the revenue from Prudhoe Bay oil, but they serve to illustrate the complexity and uncertainty of predicting and obtaining that revenue.

### Other Issues

In addition to these sources of uncertainty, the state currently faces a number of questions that relate directly to future oil and gas revenues.

A brief discussion of these follows.

#### Royalty Oil

The royalty oil question involves the state's ownership revenue. As an owner of oil with no transportation, refining or distribution capacity, the state's single option in obtaining ownership revenue is to sell its oil.

As a matter of ownership revenue, the important question is how much the state receives for its oil. By selling its oil down the pipeline to the Lower 48, the state receives, in theory, the "best price".

Proponents of in-state use of the state's royalty oil say they can pay this best price while offering added tax revenue and social benefits, particularly employment.

This position is embodied in a proposed royalty oil contract currently before the legislature.

#### Gas Pipeline Financing

Another matter involving the state's ownership revenue is a proposal from Northwest Alaskan Pipeline Company that the state participate in the

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<sup>42</sup>Implications of Certain Petroleum Developments, Norman Bailey, February 19, 1978.

financing of the Alaska Highway Pipeline Project, designed to deliver Prudhoe Bay gas to market in the Lower 48.

Proponents of state participation offer roughly the same types of incentives as those supporting the royalty oil contract: ownership and tax revenues and a variety of social benefits.<sup>43</sup>

The gas pipeline financing proposal differs from the royalty oil contract proposal in that currently there is no price, best or otherwise, for Prudhoe Bay gas. Because gas prices are regulated by the federal government, pricing policy and levels are currently before Congress.

From an ownership revenue standpoint, once a price is set the question becomes whether the project can deliver Prudhoe Bay gas to market at a cost low enough to allow repayment plus profit to those who financed it, including the state. The price also would have to be high enough, and the cost low enough, to allow the state to derive tax revenue.

Another revenue question is the effect on oil recoverability of removing the gas for shipment.<sup>44</sup>

#### Oil and Gas Conservation

A package of legislation, called the Malone-Chatterton bills, would restructure the state's Oil and Gas Conservation Commission and remove

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<sup>43</sup>See Statement of John G. McMillian and accompanying fact sheet presented February 15, 1978 to the House Special Committee on Royalty Oil and Gas and the Senate Resources Committee and Approximate Distribution of Benefits and Costs from Alaska Highway Gas Pipeline by the Federal Energy Regulatory Commission staff presented to the same committees February 16, 1978.

<sup>44</sup>See Review and Analysis of the Proposed Operating Plan and of the Studies and Computer Simulations of the Dynamics of the Sadlerochit Reservoir, Todd M. Doscher and Elmer L. Dougherty, Jr., October 1977.

it from the Department of Natural Resources.<sup>45</sup> Proponents of the bills cite the apparent conflict of a regulatory body being part of the agency charged with administering many of the state's ownership rights.

The addition of a power to regulate production of oil and gas to prevent "economic waste" would give the state a major tool with which to stabilize its revenues. The power to lower production to prevent economic waste would allow the state to preserve its oil and gas during times of low wellhead values or, as is the case now, surpluses in the best paying markets.

#### State Leasing Policy

A bill now before the Legislature would make substantial changes in the way the state leases its land.<sup>46</sup>

Leasing is a function of ownership, but, since it dictates the pace of exploration and development, it also is critical in the generation of oil and gas tax revenue.

Through leasing policy the state can control the timing, location and terms of its sales. Each of these elements is important in the generation of revenue.

Timing allows the state to lease when it needs revenue or clearly sets the need for future revenue.

Location allows the state to lease land which is likely to harbor oil and gas when revenue is needed.

Terms allow the state to match its rules for a sale to its revenue needs.

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<sup>45</sup>The package contains House Bills 791, 792, 815 and 830.

<sup>46</sup>The current leasing policy revisions are contained in House Bill 854.

In each case, broad discretion is important. To use leasing policy to stabilize state revenues, those administering state land should have the flexibility to match that policy with the state's revenue policy.

#### Federal Power

As illustrated by the cases of Prudhoe Bay oil pricing and entitlements and Prudhoe Bay gas pricing, the federal government has fairly broad discretionary powers over the future of state revenue. Other examples of this power abound.

First, the federal government is a large landowner in Alaska with oil and gas lands of its own to lease. This may mean that the state and federal government will compete for exploration efforts and markets.

Second, the federal government has banned the export of crude oil, cutting the state off from markets, particularly Japan.

Third, federal energy policy emphasizes conversion from gas and oil to coal for power production. If effective, this part of the policy will further constrict the market for Prudhoe Bay and other Alaska oil and gas. On the other hand, it may make the state's large coal deposits more attractive commercially.

These are but a few obvious examples of federal power, but they serve to illustrate the point that state policy must come to grips with that power.

#### Facts and Options

Even a brief review such as this points up the complexity of the state's oil and gas revenue picture. Adding such things as "second

generation dollars"<sup>47</sup> and "social impact"<sup>48</sup> generated by the oil and gas industry shows that to properly answer any specific question, like oil taxation, an understanding of complex and interrelated interests and conditions is required.

In addition, "facts" of Alaska oil and gas revenue are subject to interpretation according to the vested interest or philosophical bent of the reviewers.

But attempting to leave such interpretation aside, a short set of facts about state revenue is:

First, the state is heavily dependent upon oil and gas revenue and is likely to be for some time.

Second, the majority of that oil and gas revenue comes from Prudhoe Bay oil and is likely to do so for some time.

Third, the state receives two types of oil and gas revenue, ownership and tax.

Fourth, tax revenue is not sufficient to finance the state budget.

Fifth, all oil and gas revenue based on oil and gas value is unstable. This includes the state's two largest sources of revenue, royalties and severance taxes.

Sixth, the oil industry is among the forces causing this instability.

Before continuing, some explanation of fact six is in order.

Oil and gas companies with similar interests band together to act

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<sup>47</sup>A "second generation" oil revenue dollar would be, for example, a dollar of personal income tax paid by an industry employee.

<sup>48</sup>A "social impact" of oil and gas activity would be, for example, higher unemployment caused by an influx of pipeline workers who could not find other jobs when the pipeline was completed.

in those interests. In situations where the state's interests are opposed to the entire industry's, such as oil taxation, the industry and the state act as adversaries.

The same is true in situations like the pipeline tariff and the field gathering disputes, in which oil companies with similar interests have banded together in an attempt to extract maximum income. In the process of doing so, the companies are in effect attempting to deny revenue to the state.

So, from the point of view of state revenue, the industry and various segments of the industry are causing instability by forcing the state to defer, and perhaps forego, revenue.

This is not meant as a criticism. Since the industry and the companies that make it up are motivated by profit, their advocacy of their interests is logical, legal and necessary.

There are situations, such as pricing and entitlements for Prudhoe Bay oil, in which the state's interest and the industry's interest are similar. But in cases where the state and the industry are attempting to capture the same money, it is difficult to imagine them as anything but adversaries. State policy, then, must concentrate on defining and defending the state's interests.

What is the state to do to eliminate its revenue instability?

First, it must eliminate as many factors of uncertainty as possible. This will be done, eventually, in the field gathering and tariff disputes, although by third parties.

Likewise, the state can at least pare the size of its severance tax uncertainty by adopting what seems to it to be a reasonable cents-per-barrel floor. This is particularly necessary if information indicates that

the wellhead value is being manipulated through the charging of higher than necessary transportation fees.

Second, the state can attempt to evaluate those factors of uncertainty it cannot directly control. This must be done by developing the best information on matters as disparate as oil field engineering and the possible application of federal discretionary powers.

Third, the state can apply the lessons learned by it and other states and nations.

But, most important is that the state must attempt to create a policy to replace its current handling of oil and gas revenues.

The key to such a policy is the split nature of oil and gas revenues. The fact that the state receives two types of revenues dictates two main options.

The first is to make a policy of the current state of affairs. This requires a melding of the state's ownership and tax rights and revenues and the establishment of a total oil and gas revenue figure.

This option involves a variety of philosophical and practical problems. The main philosophical, and perhaps legal, problem is that as an owner/taxer the state possesses a peculiar combination of powers. The exercise of these combined powers raises questions about the rights of government.

The main practical problem is that the Prudhoe Bay deal has been cut. The state cannot easily, if at all, increase its ownership share of Prudhoe Bay. This means that any increase in the state's oil and gas revenues must come from taxes. Unless the state is prepared to substantially raise its taxes in one step, oil and gas tax stability would be unlikely.

The second option is to create a policy based on the split nature of oil and gas revenues. This requires a separation of the state's ownership rights and revenues from its tax rights and revenues.

The exercise of this option creates a whole series of choices, but two seem to stand out.

First, the state could combine all of its oil and gas ownership rights and revenues in a single department in the executive branch. The legislature and the governor would make policy and the state Department of Energy, to give it a name, would carry it out. In addition, the department would have clear responsibility for developing information and advocating the state's ownership position in the political process.

A benefit of this approach would be to separate and clarify the question of oil and gas taxation. Currently, all oil and gas revenue is the same in that it flows as unrestricted revenues into the state budget. Much of the debate over taxation involves its relationship to the state's total oil and gas "take". But the critical question in taxation is not how much the taxpayer gets but rather how much the taxpayer pays. In oil and gas taxation, the question from the state's viewpoint is whether or not oil and gas companies are paying taxes commensurate with the profit they are extracting from the state.

Second, the state could combine its ownership rights and revenues in a publicly-owned corporation, a state oil company. This company would function much as a private oil company functions, with the citizens of the state as "stockholders".

Making either of these choices would create further problems to be solved. But the process of examining these options and choices is fruitful because it reveals a final fact about state oil and gas revenue.

Alaska is an oil company as well as a state.

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Tanzer Economic Associates, Inc.

Impact of Increased Taxation on Oil Exploration  
and Development in Alaska, March 25, 1977

van Poolen, H. K. and Associates

Prediction of Reservoir Fluid Recovery, Sadlerochit  
Formation, Prudhoe Bay Field, January 1976

Warren, John S.

Position Paper on Alaska Oil and Gas Taxation

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EARL R. COMBS, INC.  
CONSULTANTS IN ECONOMICS AND PLANNING

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PF: Combs

April 25, 1977

Richard H. Eakins  
Director, Division of Economic Enterprise  
Alaska Department of Commerce and Economic Development  
Juneau, Alaska 99801

Dear Mr. Eakins:

Since our discussion last Monday I have had the opportunity to discuss the idea of getting started on a mariculture plan for Alaska with Representative Terry Gardiner and others. Most have responded favorably and encouraged me to submit a definitive proposal to you. No commitments were implied in any way in these discussions, but I was, of course, pleased with their response added to your own interest.

It is my plan to present a proposal for a study that will address four basic subjects. They are:

1. Review world mariculture activities in progress now and provide a summary report of these. Particular attention will be paid to approaches, ideas, or technology that might be appropriate for Alaska.
2. Consider development possibilities for currently underutilized marine species that may have future economic potential for Alaska.
3. Consider and suggest an organization plan that would effectively coordinate and integrate fishery development activities in Alaska among state, federal, institutional and private participants. Best utilization of natural production as well as mariculture systems would be the objective.
4. Provide conceptual definition of three or four mariculture projects that could be planned in detail and initiated in the immediate future. These would be pilot projects to demonstrate the feasibility of systems which appear to have commercial merit.

This type of planning would seem to be very much in agreement with the intent of legislation establishing the Permanent Fund for Alaska. Realization of economic benefits to the state from mariculture and more complete resource utilization is probably several years in the future, however they could become substantial as the activities mature and prosper.

The objective of such a study would be to achieve a significant first step toward a better organized and more productive approach for fisheries development in Alaska rather than to attempt to direct the course of such development.

April 25, 1977

Page Two

Projects would be suggested based on their technical merit and economic potential, however as planning criteria developed in the study were applied, other activities might be selected for first implementation.

Our proposal will be mailed to you and Mr. Edenso by May 13th. I will be available to discuss it with you after your initial review when you desire. Representative Gardiner also requested a copy of the proposal, so I will be sending one directly to his office.

If you do feel that the approach suggested here is not appropriate or that the listed subjects should be changed, I would appreciate hearing from you soon.

Very truly yours,

  
Earl R. Combs  
President

cc: J. Edenso, Ak. Dept. of Rev.  
Rep. T. Gardiner ✓

11:b#

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HARVARD UNIVERSITY  
DEPARTMENT OF CITY AND REGIONAL PLANNING  
GUND HALL, ROOM 311  
CAMBRIDGE, MASSACHUSETTS 02138

617/495-2571

# 11  
(see 104)

To: Clark Gruening, Chairman, House Special Committee  
on the Alaska Permanent Fund

From: Belden Daniels

Date: November 14, 1977

Re: Annotated Comments on 11/3/77 Work Draft Paper to  
Create a Permanent Fund, Development Bank and  
Renewable Resources Fund

Bill Berrier has done a superb job in revising this second work draft paper for the committee in a very short period of time. What I have sought to do in the few days which I have had since Bill air-mail special delivered this draft to me is to try to comment in detail from a substantive standpoint on each section. I have done this in order to raise, for the committee, what substantive experience drawn from development finance in the lower 48, Canada, Europe and throughout the world is at issue in trying to be sure that the bill submitted to the Legislature in January 1978 reflects the highest current states of the art of: (1) investment portfolio management; (2) development finance; and (3) the cutting edge of research and development renewable resource finance.

If, at the November 18 and 19 meetings of the House Permanent Fund Committee, special direction can be given from a legal standpoint to Bill Berrier and Doug Pope and

BELDEN HULL DANIELS  
COUNSEL FOR COMMUNITY DEVELOPMENT  
4 SENTRY HILL PLACE  
BOSTON, MASSACHUSETTS 02114  
617-522-6885

7/25/77

Dear Clark — My time in Alaska both at work and at play with you and with others was a deep personal pleasure for me. Alaska has had an impact on me not unlike India in 1959 and Japan in 1963. It has changed my way of looking at things.

I have begun work on the items 2-5 of the new contract, and trust I'll be getting a copy from Gregg in the next few days.

Could Kathy also please send me a copy of the Advoante article? Thanks. Please tell her the 5 envelopes arrived safely today.

I would also appreciate having a form

meeting schedule and dates just as soon as they are ~~set~~ set. I am organizing my Fall teaching and travel schedule around the Alaska Trips.

The meetings in Juneau were very useful. As a result of them, I have reservations about the Arthur D. Little contract, the only copy of which I left with you.

Encloned is an article on the Maine Land Claims Case I thought you might like to see.

Please call or write if there is anything more I can do. I'll get drafts of 2-5 papers in August, see you in September, and Hinkle and I look forward to having you and Malinda with us in October.

Regards  
Belden

# Alaska State Legislature

SPECIAL COMMITTEE ON  
THE ALASKA PERMANENT FUND  
(907) 276-3433  
528 W. 5TH, SUITE 270  
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MEMBERS  
REP. CLARK GRUENING, CHMN.  
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REP. E. J. HAUGEN  
REP. RUSS MEEKINS  
REP. BILL MILES  
REP. LEO SCHAEFFER  
REP. RICK URION

## House of Representatives

September 28, 1977

The Honorable Hugh Malone  
1024 West Sixth  
Anchorage, AK 99501

Dear Mr. Speaker:

Enclosed is a copy of Belden Daniel's report, delivered to the Committee September 17 in Kotzebue.

Sincerely,

A handwritten signature in cursive script that reads "Mike".

Mike Doogan  
Administrative Assistant

MD:LAD

Enclosure

Malone  
Rader  
Sackett  
Schaeffer  
Sumner  
Kocsis  
Erickson  
Gallagher  
Haggart  
Olmer  
Williams

Plnt to

November 14, 1977<sup>2</sup>

from a substantive standpoint to me, I feel strongly that the three of us working together can produce a draft by the December 8-9 meetings which will reflect that highest present level of technical competence on a worldwide basis.

Please excuse the rather rough and ready style of this memo, but, given the short time there was to react it seemed to me important to raise as many questions as possible, and to worry about editorial style later. With the intensive help from my research associate, Judith Payne, we have been able to respond to this draft in fair detail by Sunday, November 13 in order to bring copies with me to Alaska this week.

I am sure that upon more relaxed reflection about each of these items both on the airplane flying to Alaska and discussions with Bill and committee members before the Friday-Saturday, November 18-19 meetings, it will be possible to refine many of these comments in a much more careful and thorough manner. Annotated comments to the draft follow:

For An Act entitled: "An Act relating to nonrenewable resource revenues; and providing for an effective date."

Why doesn't the bill title include something like: "An Act relating to nonrenewable resource revenues and creating the Alaska Permanent Fund"? Why does it say "providing for an effective date"? Is this an Alaskan legislative procedure we don't understand?

ARTICLE IV. STATE INVESTMENT OVERSIGHT COMMITTEE.

Sec. 24.20.600. STATE INVESTMENT OVERSIGHT COMMITTEE ESTABLISHED  
The State Investment Oversight Committee is established as a permanent interim committee of the legislature. The establishment of a committee recognizes the need of the legislature for technical review and oversight of the performance of all agencies of the state which perform lending, borrowing or investment functions.

The purposes of the oversight committee must be spelled out much more clearly in this or a separate section. They should be listed as are the purposes of the other sections of the Act and could simply be added after the last sentence in this section.

The purposes should include key points along this line: to ensure that the public purposes of these state agencies are met effectively and efficiently in such a way as to maximize the financial, economic, and social returns to the Alaskan people; to monitor the operating procedures of the agencies and hold the agencies fully accountable to the Alaskan people; to ensure that the agencies' actions are consistent with the economic development plans of the legislature and complementary to each other; and to seek to coordinate planning and review efforts of the legislature with those of the executive branch.

Our understanding is that this section gives the oversight committee the mandate to oversee not only the Permanent Fund, but all other state lending agencies as well. As the section is presently worded, this would begin immediately. A sentence should probably be added which would stipulate that the committee should

begin immediately to oversee the Permanent Fund and renewable resources fund, but that the other applicable agencies, such as the many Alaska loan funds or state pension and daily money management funds, will be added to the committee's mandate in the future, when the legislature (in joint session) approves their inclusion.

One more small point on this section: a "permanent, interim" committee sounds like a contradiction in terms. Shouldn't it simply be a "permanent" committee, or is this again an Alaskan legislative term?

Sec. 24.20.610. MEMBERSHIP. The committee is composed of eight members: the president of the senate, the speaker of the house, the chairmen of the house and senate finance committees, the house and senate minority leaders, and one member appointed from each house by the respective presiding officer. The committee shall select its own chairman.

It appears that membership was set at an even number so that it could be equally divided between the house and senate. This may be necessary to maintain the proper balance of powers, but it allows tie votes to deadlock the committee. Is there an appropriate ninth member for the committee?

Also, would it be appropriate to enlarge the committee some, say to eleven or thirteen, so that its tremendous responsibility could be shared by more legislators? As it stands now the most important, and probably the busiest, legislators make up the

majority of this new committee. They should be members, but they could (and probably would be eager to) share the load with a few others.

Sec. 24.20.620. TERM OF MEMBERSHIP. (a) The committee shall be organized within 15 days after the organization of each legislature. Members serve for the duration of the legislature during which they are appointed. If a member is reelected or his term of office extends into the next succeeding legislature, he continues to serve until reappointed or the appointment of his successor.

(b) When a member of the committee files a declaration of candidacy for an elective office other than that of member of either house of the legislature, and he has not resigned from membership on the committee, his committee membership terminates on the date of filing.

No comment; it sounds fine.

Sec. 24.20.630. VACANCIES. When a vacancy occurs in the statutory or appointive membership of the committee, the presiding officer of the house incurring the vacancy shall choose a successor. If the office of the president of the senate or speaker of the house of representatives becomes vacant and a vacancy from the affected house occurs among the membership of the committee, the remaining committee members from the house incurring the vacancy shall appoint a new member.

This section should make clear that it applies to vacancies occurring during a legislative session. Two more comments:

(1) This section appears to say that if, say, the senate finance committee chairman retires mid-session, the senate president can appoint any senator to take his place. Must not the new finance committee chairman fill the vacancy? It seems that this power should only apply to the appointive members of the oversight committee, not the statutory members.

(2) If the office of the Senate President or Speaker of the House is vacant, so will be the statutory position on the oversight committee. Hence, in the case described in this section, the committee would have two vacancies. Do we want to have the committee fill both vacancies? Or does the senate president's or house speaker's membership slot remain vacant until new legislators move up to fill these positions?

These points are not that critical, but we should think through all the possibilities and their implications before the bill goes any further.

Sec. 24.20.640. MEETINGS. The committee may meet during sessions of the legislature and during the interim between sessions at such times and places in the state as the chairman may determine. Members may receive, for the minimum time required to get to and from meetings and for the period while attending meetings, the same travel and per diem allowances provided by law for members of the legislature when attending sessions, except that members of the committee receive no per diem during legislative sessions other than the per diem allowance paid to other members of the legislature.

No comment; it sounds fine.

Sec. 24.20.650. POWERS. The committee has the power to

- (1) organize, adopt rules for the conduct of its business, and prescribe procedures for the comprehensive fiscal analysis, budget review and post-audit functions over those agencies of the state which perform lending, borrowing or investment functions;
- (2) hold public hearings, administer oaths, issue subpoenas, compel the attendance of witnesses and production of papers, books, accounts, documents and testimony, and have the deposition of witnesses taken in a manner prescribed by court rule or law for taking depositions in civil actions;

(3) require all state officials and agencies of state government to give full cooperation to the committee or its staff in assembling and furnishing requested information;

(4) hold public hearings relating to the confirmation of members of the permanent fund board of trustees, renewable resources development fund commission, and the development bank;

(5) prepare and distribute reports, memoranda, or other necessary materials;

(6) make recommendations concerning the structure and operating practices of all agencies of the state which perform lending, borrowing or investment functions;

(7) receive and review reports and post-audit analyses conducted by the Legislative Budget and Audit Committee relating to all agencies of the state which perform lending, borrowing or investment functions.

The powers in this section are presently too limited and not yet well enough articulated. The committee is to be a very strong one, so it needs more clout over the agencies it oversees.

Power (1) must be strengthened to include the power to approve and disapprove long-range (three- to five-year) investment plans of the applicable agencies, as well as their annual implementation plans. This power should be in this section; the description of the approval process, in turn, belongs in the duties section. To make clear our conception of the issue, however, we will describe both here.

Specific dates must be set for the review and approval process, so that the committee cannot stop investment agency operations just by stalling and, on the other hand, an investment agency cannot force the committee to review and approve a plan on short notice. Also, the process must give the executive branch a

chance for input. We need to think very seriously about the necessary timing, but it might look something like this:

Before May 1: Committee draws up guidelines for state priorities and investments to maximize the return to the Alaskan people. These guidelines would draw on state economic projections by sector and region. (a) They would state priorities in terms of economic sectors for investments, geographic areas for investments, and size of enterprises and projects to be assisted; (b) they would also include economic measures needed to stabilize the Alaskan economy and curb inflationary pressures; and (c) they would include social priorities for investments along specific dimensions: quality of jobs; environmental protection; affirmative action; and community relations. In each of these three areas, the committee would prioritize its guidelines and set them within a one-year framework and a three- to five-year one. Also it would define each priority in measurable terms.

May 1: Guidelines sent to Governor to be reviewed so they are consistent with the economic development plans of the executive branch. (It is extremely critical that the committee integrate its planning with that of overall economic development planning, so that the agencies reviewed will be as effective as possible. This was a key point in my report to the committee of July 11, 1977.)

By July 30: Guidelines modified by committee after Governor's comments. (The committee need not accept the Governor's recommendations.)

August 1: Guidelines sent to the investment agencies which the committee oversees.

August 1 - September 30: Investment agencies draw up three- to five-year plans and one-year plans, based on the guidelines, and their own statutory purposes, and submit the plans to the committee.

October 1 - December 31: Committee reviews and comments on the investment agencies' plans; agencies revise them and resubmit them; committee approves acceptable plans. Committee reviews and approves plans so they complement each other in meeting the committee's priorities and are consistent with each agency's own purposes.

January 1: Agencies begin implementing plans. An agency cannot begin operations until plan is approved by the committee. If no plan is approved by January 31, a joint legislative session must decide whether and under what conditions the agency may begin operations.