

550

SRES

SB

103

-

SB

141

SB

103

# COMMITTEE REPORT

1/28/77

SENATE

\*\*Finance

4/18/77

Date

Mr. President:

The Committee on RESOURCES has had SB 103  
oil and gas properties production tax  
under consideration. A majority of the members of the Committee

- recommends it do pass
- recommends it do not pass
- recommends it do pass with attached amendment(s)
- recommends it be replaced with CS for SB 103 and that  
CS for SB 103 do pass
- (and) recommends it be referred to the \_\_\_\_\_  
committee
- reports it back without recommendation
- AND attaches a report of its intent
- (other) \_\_\_\_\_

### MEMBERS SIGNING THE MAJORITY REPORT:

<u>Tillion</u>	<u>Do Pass</u>	<u>Adams</u>	<u>Do Pass</u>
<u>Boyer</u>	<u>No Rec</u>	<u>John Fisher</u>	<u>Do Pass</u>
<u>Armstrong</u>	<u>Do Pass</u>		
<u>Frederick</u>	<u>No Rec</u>		

### MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

\_\_\_\_\_ recommends: \_\_\_\_\_

\_\_\_\_\_ recommends: \_\_\_\_\_

\_\_\_\_\_ recommends: \_\_\_\_\_

AGU 546603

J. P. ...  
Chairman

AMENDED

# MEMORANDUM

# State of Alaska

TO: R. D. Stevenson  
Special Assistant  
Department of Revenue

DATE: February 18, 1977

FILE NO:

TELEPHONE NO:

FROM: Thomas K. Williams *TKW*  
Director  
Petroleum Revenue Division  
Department of Revenue

SUBJECT: SB 103 and HB 144  
(identical Bills)

At the outset I would note that the Department of Revenue has recently released its review of Alaska's present taxation methods as they apply to the oil and gas industry. Within that review is the production tax, and recommendations regarding this tax have been made by the Department. This will shortly be followed up with specific bills.

SB 103 and HB 144 are identical. They incorporate a number of suggestions made last Session by the Administration to improve the production tax; however, these Bills do not reflect the latest recommendations in the Department's tax study. The most notable difference is that these Bills retain the basic "stair step" approach based on productivity, while the Department proposes a "curve" (instead of "steps") based on the actual economic condition of a property. The Department's recommendation recognizes and adapts itself to the fact that different areas of the State have different scales of economic production (i.e., in some places a far greater amount of production is needed to break even than is needed in others).

No simple set of "steps" can be structured for statewide application that will reduce the economic effect of the tax as the production of a property declines toward the minimum needed to break even. Either the tax will accommodate Cook Inlet operations and be too insensitive for non-coastal Native lands (whose break-even rates of production will more closely resemble the break-even rates for Prudhoe Bay than those for the Inlet), or else they will reflect the economic scale of operations for Native lands and Prudhoe Bay and give too much away to the Inlet operations.

If the "stair step" approach is to be retained despite its defects, the change to average well productivity as the basis for the "steps" is an improvement over the present tax. Both Bills make this change. However, they seem to give a bit too much away in their present definition of average daily per well production." A well operated only one day in the month would count the same as one operated every day of the month. To prevent the "one-day well" tax dodge, it is suggested that something along the lines of the following be used:

AGO 546598 +

R. D. Stevenson  
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Page Two

(15) "average daily per well production" means the amount calculated by dividing the total number of barrels of oil produced from a lease or property during the calendar month by the well-days for that lease or property for the calendar month.

(16) "well-days" means the total obtained by determining the number of days each well of a lease or property was operated during the calendar month and then adding those numbers together for all the wells of that lease or property.

Again, this suggestion is made only if "stair steps" are to be retained: it would be unnecessary if the Department's proposed Economic Limit Factor (ELF) is adopted instead.

Despite the difference between "stair steps" and the ELF, these Bills do contain a number of the Administration's recommendations last Session that would still be beneficial.

Most important of these is the specification of the point at which the production is to be valued. There was litigation over this question for Cook Inlet production, and only the fact that the tax is being paid on the cents-per-barrel basis keeps the controversy from boiling up anew. A similar situation could develop at Prudhoe Bay. Specifying the valuation point corrects this and prevents a problem from arising.

Another good feature of the Bills is their proposal to extend the tax to flared gas and to tax that gas at a higher rate. Without a cents-per-Mcf tax, however, the percent-of-value tax could have little if any effect. A producer presumably would argue (before the courts?) that its flared gas has zero value or else why would it be flared.

Neither Bill would change the ordinary gas production tax rate to achieve rate parity with oil. This flaw in the existing tax structure was pointed out in the Department's tax study.

TKW/fm

cc: Sterling Gallagher  
Commissioner of Revenue

John R. Messenger  
Deputy Commissioner of Revenue

CSSB 103 (FINANCE)

OIL AND GAS PROPERTIES PRODUCTION TAX

A. Difference between CS (Resources) and CS (Finance)

All of the changes occur on page 3. Three words were deleted from the Resources version (See attached page 3, CSSB 103). Language was added to 43.55.012 (c) stipulating a date certain for the rebuttal hearing relative to setting the economic limit of production, and the use of the results of that hearing (See attached page 3. CSSB 103 Finance).

The two added words to sub-paragraph (d) decrease the latitude of the supplies allowed for deduction, and limit fuel deductions to only those actually purchased rather than any used from production.

B. Difference between the CS and the original Bill(s)

1. In general, the CS is a combination of SB 103 and SB 238, with a greater similarity to the latter. Whereas SB 103 was based on a stair-step approach of specific percentages, from zero to 14 percent for specific ranges of production, the CS provides for a smooth curve from zero to 12.5 percent of taxation versus the rate of production, through the entire spectrum of production.
2. The cents per barrel floor provision is maintained somewhere between SB 103 and SB 238, but closer to the existing ceiling than not.
3. Both SB 103 and SB 238 contained price indexing mechanisms though of different natures. The CS has eliminated both the Wholesale Price Index of SB 103 and the Gross National Product Deflator of SB 238.
4. The point of production in both SB 103 and 238 was the point of metering. The CS moves the point of production back to the wellhead, as is presently being done.
5. The gross value of production in both SB 103 and 238 was determined at the point of metering. In addition, SB 238 used the price of delivered imported oil in computing gross value. The CS determines gross value at the wellhead based on delivered price of Prudhoe oil or gas, as is presently being done.
6. Both SB 103 and 238 tax gas flared under permit from DNR. The CS removes the tax from such flared gas.

C. Analysis, CSSB 103

1. CSSB 103 imposes a tax on the gross value of oil or gas, at the wellhead, produced from any lease or property in Alaska.
2. The tax is computed through a formula which has an upper marginal limit expressed as a percent, a cents per barrel floor, an exponential factor, and an economic limit factor.
3. The upper limit, the cents per barrel floor, and the exponential factor are the constants which will be fixed upon passage of this Bill. The economic limit factor is a variable whose size is to be henceforth computed in the manner described in the Bill.
4. The upper marginal limit is set at 12.5%. When mitigated by an economic limit factor of 100 barrels, it becomes an effective 12%. The floor is set at 65 cents, which when mitigated by an economic limit factor of 100 barrels becomes an effective 52 cents (approximate). The higher the economic limit factor, the lower the effective rate of taxation. The exponential factor is designed to give relief to Cook Inlet. If it is lowered or removed, Cook Inlet will pay a much higher effective rate than it presently pays.
5. The use of an economic limit factor recognizes that the cost of production varies from field to field. Thus, two properties producing identical quantities of oil may pay a different tax, depending on the circumstances and location of production.
6. As a point of beginning the State assumes an economic limit of 100 barrels (no tax paid on the first 100 barrels). The taxpayer will get as many barrels free from taxation, over 100, as he can conclusively prove he needs to continue operating.
7. The Bill specifically recites the expense items that can and cannot be deducted from operational costs in computing the economic limit factor.
8. Due date for the tax is moved from the last day of the month to the 20th day.
9. Taxable amount is the oil or gas produced rather than that removed and sold.
10. Under CSSB 103, the effective rate of taxation on the Cook Inlet field has been reduced from 8.9% to 7.9%, with several marginal leases being reduced to zero.

11. Under CSSB 103, the effective rate of taxation on the Prudhoe Bay field has been increased from 7.7% to 12.0%. This is approximately a 50% tax increase on oil production, and an approximately 62% tax increase on total field production when the increase on gas is counted in.

1 or property is presumed to be 100 barrels times the number of well days  
2 for the lease or property during the month for which the tax is to be  
3 paid, [unless] the taxpayer at a formal hearing under AS 43.05.240 [pro-  
4 vides] clear and convincing evidence of a different monthly production  
5 rate at the economic limit for the lease or property. The monthly  
6 production rate at the economic limit for the lease or property based  
7 upon the clear and convincing evidence of the taxpayer shall be calcu-  
8 lated by dividing the value determined under (e) of this section into  
9 the average monthly direct operating cost determined under (d) of this  
10 section.

11 (d) The average monthly direct operating cost for oil production  
12 operations of the lease or property shall be determined based on the  
13 number of months operated during the preceding 12-month period. The  
14 direct operating costs include [drilling] supplies, fuel, routine mainte-  
15 nance, and wages and benefits of employees working on the production  
16 operations. The direct operating costs do not include capital expendi-  
17 tures, tangible or intangible drilling expenses, costs of well work-  
18 overs, costs for replacement or repairs (other than routine maintenance),  
19 depreciation or amortization, taxes, insurance, overhead, money paid or  
20 set aside (or booked as being paid or set aside) to cover the cost of  
21 terminating the oil production operations of the lease or property, or  
22 any other cost not directly related to the oil production operations of  
23 the lease or property.

24 (e) For the purposes of this chapter, the gross value of oil shall  
25 be calculated as provided in sec. 150 of this chapter, and the gross  
26 value of gas shall be calculated as provided in (h) of this section.

27 (f) Before February 15 of each year or within six months after  
28 commencement of production for a lease or property, the department shall  
29 notify the producer of gas of the monthly production rate at the economic

1 limit for each lease or property in the state for that year. The  
2 monthly production rate at the economic limit for a lease or property  
3 shall be determined at a formal hearing under AS 43.05.240 and must be  
4 established by clear and convincing evidence presented by the taxpayer  
5 at that hearing. The monthly production rate at the economic limit for  
6 the lease or property based upon the clear and convincing evidence of  
7 the taxpayer shall be calculated by dividing the value determined under  
8 (h) of this section into the average monthly direct operating cost  
9 determined under (g) of this section.

10 (g) The average monthly direct operating cost for gas production  
11 operations of the lease or property shall be determined based on the  
12 number of months operated during the preceding 12-month period. The  
13 direct operating costs include drilling supplies, fuel, routine mainte-  
14 nance, and wages and benefits of employees working on the production  
15 operations. The direct operating costs do not include capital expendi-  
16 tures, tangible or intangible drilling expenses, costs of well work-  
17 overs, costs for replacement or repairs (other than routine maintenance),  
18 depreciation or amortization, taxes, insurance, overhead, money paid or  
19 set aside (or booked as being paid or set aside) to cover the cost of  
20 terminating the gas production operations of the lease or property, or  
21 any other cost not directly related to the gas production operations of  
22 the lease or property.

23 (h) The value at the point of production of gas produced from the  
24 lease or property shall be determined on the basis of the highest price  
25 paid for gas of like quality and pressure in the same field.

26 (i) The department may aggregate two or more leases or properties  
27 (or portions of them), for purposes of determining economic limit  
28 factors under this section and applying them to sec. 11 of this chapter,  
29 when economically interdependent oil or gas production operations are

1 or property is presumed to be 100 barrels times the number of well days  
2 for the lease or property during the month for which the tax is to be  
3 paid. The taxpayer may rebut this presumption at a formal hearing  
4 under AS 43.05.420 by providing clear and convincing evidence of a  
5 different monthly production rate at the economic limit for the lease  
6 or property. The hearing shall be held before February 15 of the year  
7 or within six months after commencement of oil production for a lease  
8 or property. The monthly production rate at the economic limit for  
9 the lease or property based upon the clear and convincing evidence  
10 of the taxpayer shall be calculated by dividing the value determined  
11 under (e) of this section into the average monthly direct operating  
12 cost determined under (d) of this section and shall be used for purposes  
13 of this section for all oil production during that calendar year from  
14 the lease or property.

15 (d) The average monthly direct operating cost for oil production  
16 operations of the lease or property shall be determined based on the  
17 number of months operated during the preceding 12-month period. The  
18 direct operating costs include production supplies, purchased fuel,  
19 routine maintenance, and wages and benefits of employees working on the  
20 production operations. The direct operating costs do not include  
21 capital expenditures, tangible or intangible drilling expenses, costs of  
22 well workovers, costs for replacement or repairs (other than routine  
23 maintenance), depreciation or amortization, taxes, insurance, overhead,  
24 money paid or set aside (or booked as being paid or set aside) to cover  
25 the cost of terminating the oil production operations of the lease or  
26 property, or any other cost not directly related to the oil production  
27 operations of the lease or property.

28 (e) For the purposes of this chapter, the gross value of oil shall  
29 be calculated as provided in sec. 150 of this chapter, and the gross

1 value of gas shall be calculated as provided in (h) of this section.

2 (f) Before February 15 of each year or within six months after  
3 commencement of gas production for a lease or property, the department  
4 shall notify the producer of gas of the monthly production rate at the  
5 economic limit for each lease or property in the state for that year.  
6 The monthly production rate at the economic limit for a lease or property  
7 shall be determined at a formal hearing under AS 43.05.240 and must be  
8 established by clear and convincing evidence presented by the taxpayer  
9 at that hearing. The monthly production rate at the economic limit for  
10 the lease or property based upon the clear and convincing evidence of  
11 the taxpayer shall be calculated by dividing the value determined under  
12 (h) of this section into the average monthly direct operating cost  
13 determined under (g) of this section.

14 (g) The average monthly direct operating cost for gas production  
15 operations of the lease or property shall be determined based on the  
16 number of months operated during the preceding 12-month period. The  
17 direct operating costs include drilling supplies, fuel, routine mainte-  
18 nance, and wages and benefits of employees working on the production  
19 operations. The direct operating costs do not include capital expendi-  
20 tures, tangible or intangible drilling expenses, costs of well work-  
21 overs, costs for replacement or repairs (other than routine maintenance),  
22 depreciation or amortization, taxes, insurance, overhead, money paid or  
23 set aside (or booked as being paid or set aside) to cover the cost of  
24 terminating the gas production operations of the lease or property, or  
25 any other cost not directly related to the gas production operations of  
26 the lease or property.

27 (h) The value at the point of production of gas produced from the  
28 lease or property shall be determined on the basis of the highest price  
29 paid for gas of like quality and pressure in the same field.

PRUDHOE BAY

EFFECT OF PROPOSED SEVERANCE TAX INCREASES  
CSSB 103

(In Millions)

Oil Revenues*	=	\$139,146	
Oil Tax @ 7.7%	=	10,714	(Current Rate)
Oil Tax @ 12.0%	=	16,697	(Proposed Rate)
Increase on Oil	=	\$ 5,983	

Gas Revenues**	=	\$ 20,700	
Gas Tax @ 4%	=	828	
Gas Tax @ 10%	=	2,070	
Increase on Gas	=	\$ 1,242	

INCREASE ON BOTH OIL AND GAS = \$7,225 +62.2%

\* 1977-2005, From Wainwright Securities 4/1/77 Report

\*\* Assumes 23 trillion CF Total Production at a constant \$1.00 per MCF Wellhead Price.

THE LEGISLATURE OF THE STATE OF ALASKA  
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SB 103

Title Act concerning the oil and gas properties production tax

Requested by \_\_\_\_\_ Date \_\_\_\_\_

II. FISCAL DETAIL

Agency Affected Revenue

Program Category Affected General Government - Fiscal Services

Budget Request Unit(s) Affected Petroleum Revenue

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	None	None	None	None	None	None

FUNDING (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
FULL TIME	None	None	None	None	None	None
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This Bill would facilitate the administration of the present production tax, making it fully auditable for the first time since "stair steps" were introduced into the statute in 1970. No additional staff or other costs are anticipated to administer this Bill. Assuming a full and fair market price for Prudhoe Bay oil, estimated receipts under the Bill for production from the main reservoir of that field would be \$131.3 million in FY 78, \$205.6 million in FY 79, \$362.4 million in FY 80, \$585.9 million in FY 81 and \$636.3 million in FY 82. Further comments (which are hereby incorporated into and made part of this Analysis) on the Bill appear in the attached memorandum from Thomas Williams to R. D. Stevenson.

IV. DATE February 18, 1977

PREPARED BY Thomas R. Williams

AGENCY Revenue

PHONE (907) 276-1363

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

AGO 546623 +

RICHARD KILGORE Okay, I would then like to turn to the severance tax. As I said in my general remarks, if you're interested in raising the severance tax, both of these bills that we're going to consider seem to in general follow our guidelines, and has to do with more the specifics of how each one of them works. We'll start with HB 144, SB 103. This bill does several things. One is it moves to lease averaging rather than wells in the calculation, and we think that makes an awful lot of sense from the administrative standpoint, and probably should be done even if you don't raise the severance tax, probably even amending your present severance tax would do that, and would make sense. Page 1, Line 11 of the bill moves the point of tax from the wellhead to a new point of production which is later defined.

SENATOR HUBER - How is this defined?

RICHARD KILGORE - It's defined back on Page 4, line 9, gross value at the point of production means for oil, the value of the oil at the point where it is metered or measured in a condition of pipeline quality on the premises of the lease or property from which it is recovered. So in some cases it would change the point of taxation from the wellhead to somewhere beyond up to a point where it was meter measured and made put in pipeline conditions, so it clearly, and this is pointed out by someone else, moves the point of taxation

and in a sense in certain situations it would tend to tax the transportation and upgrading of the crude oil. That's clearly the case.

SENATOR HUBER - I think it had another reason for being in there. I think it was on account of that Kenai deal to where if they transferred our royalty share portion that went into resale that they were subject to the APUC, and doing it this way, while they pushed their royalty share through our line, they were not subject to our APUC. There was quite a problem on that in Kenai, it happens to be in gas, but we're talking jointly here and I think this was done for the company's benefit.

RICHARD KILGORE - Well, I think also in Cook Inlet, as I understand it, there have been continuing disputes about questions of wellhead and where one taxes, and I think this is all intended to straighten this matter out by legislation. This is where it is, and we don't have to argue about backing out transportation or whatever, this is what they're talking about. This makes administration of it easier, clearly, I think that some of the testimony yesterday it was complained that there would be a cost to the companies in a sense that they wouldn't be taxed on transporting and upgrading. I think that if it's administratively easier and there is a cost, perhaps what you should do here is get a better idea of what you're really talking about in terms of cost and dollars and

cents. What is really the extra costs that companies would bear by doing this, or some idea. I think that's how you would have to assess that. Now lets look at the tax rates in this bill. I think you are all familiar with the fact that it adds higher well brackets and puts in these higher brackets at higher tax rates than exist in the present legislation, and it also lowers the tax rates, both the cents per barrel tax and the percentage tax for lower productivity wells. Now, just to give you a rough idea of what this does, and I'd like to just give you some numbers on how it would seem to us to effect, say, Prudhoe Bay, and then look at the Cook Inlet situation under this bill. All the numbers I'm going to use are ease of comperability for 27 gravity crude oil. Now, in Prudhoe Bay, and I'm assuming for purposes of this calculation that the wellhead value on Prudhoe Bay is say \$7.50 per barrel just as illustriative. Under the present tax for a 5,000 barrel a day well in Prudhoe Bay, and these figures are cents per barrel of gross production not of taxable production, but you still get an idea of the relative increase in the tax. The present tax for 5,000 barrel a day well at \$7.50 is 49 and 1/2 cents per barrel of gross production. This tax for the same well, a 5,000 barrel a day well would raise the tax to 68.9 cents. That's about a 37% increase in taxation of a 5,000 barrel a day well in Prudhoe Bay. If you went to a 10,000 barrel a day well, the percentage increase and the tax is greater. As against

about 51 cents at the present time, this tax would raise it to about 80 cents, so on a very productive 10,000 barrel a day well at Prudhoe Bay, the increase there would be about 58%, increased through this tax over what you have today. The effective rate on gross barrels produced would go from about 7.3% on a 10,000 barrel a day well to about 12.2% under the new tax, so this is what it does to Prudhoe Bay, very significant increases. And the percentage as I gave you were really the effective rate on taxable barrels going from 7.8 to 12.2. So you are ending up on the very productive well, you end up with an average effective rate on taxable barrels of just under 12 and 1/2 percent in Louisiana. I think that's what was intended. So that's the impact it has on Cook Inlet, I mean on Prudhoe Bay. Now, lets look at Cook Inlet, and particularly the old oil because we've always been worried about effective taxation of old oil. Now, this bill does retain the cents per barrel feature that exists in the present bill, and it retains the cents per barrel feature with basically the same floor price as you have today. It works out for 27 gravity crude to about \$6.10 today. So it retains that, but what it does at the same time is that it does lower the rates of taxation both percentage and the cents per barrel taxes in the lower well brackets, so despite the cents per barrel feature still being in there, it does lower taxes on low productivity wells below what they are today. I'll again give you some examples, and they'll

again be on the same basis as before. 27 gravity crude, and these are figures on a gross barrel basis. At the present time a 100 barrel a day well in Cook Inlet would be on the cents per barrel tax and it would pay 26.6 cents per barrel. This bill on a 100 barrel a day well would eliminate the tax. It would go to zero, and a very substantial gain for a 100 barrel per day well. For a 300 barrel a day well, would also pay under the present tax, 26.6 cents. Under this bill, under our calculations, it would drop that 26.6 to 14.2 cents per barrel. So you have about a 12 and 1/2 cent reduction for a 300 barrel a day well, and if you move up to a 500 barrel a day well, you still get a reduction. Under the present tax it would be 28.7 cents. Under SB 103 it would be 21.2. So even for a 500 barrel per day well, you're going down by about 7 and 1/2 cents per barrel, and in fact this new tax as compared with the present lowers the tax up to somewhere wells in the range of 1,000 to 2,000 barrels a day. Somewhere in that range, the new tax gets higher than the old tax, so it does provide very significant relief for low productivity wells.

SENATOR HUBER - Madam Chairman - the figures which we have in the committee they are open to him now, I think, I just wonder when he finishes there. If you have any dispute with those, I think that they confirmed his testimony.

RICHARD KILGORE - Yes Senator, we did do our own homework on this obviously, and we have had a chance to look at what legislative affairs has, and they coincide with what I'm testifying here.

SENATOR HUBER - I was wondering. It would help us a lot to know that they do or don't or if there are differences.

RICHARD KILGORE - No they don't they calculate the same way we do.

Now, so this bill does, I think, meet our objections really to the present taxation of old oil at Cook Inlet which has the high effective rates because of the cents per barrel feature. At least its present operator would reduce the tax substantially for low productivity wells, and we think that's a good feature of this bill. I should point out though, this bill does retain cents per barrel and it does retain escalation of that cents per barrel, so it is possible that under this bill we would again be back in the same problem that we have today. If the escalation manages to raise the cents per barrel tax high enough, we could be back in this problem again of taxing old oil in Cook Inlet at high prices, it's possible. The potential is still in this bill.

SENATOR HUBER - This evades it from present time, and we might have to look at it again in future years if we don't do something with cents per barrel.

RICHARD KILGORE - Yes, it may be back again.

SENATOR HUBER - Well, I'd sure look at it again, Madam Chairman, than I would to have Tom Fink for Governor.

RICHARD KILGORE - I think I was on record the first time I testified as saying that if you do retain a cents per barrel that perhaps what you do is at least consider no further escalation in cents per barrel, and perhaps that could be in this bill too. I don't know. I want to only point out that it could happen again. So that's basically what this tax does. It raises fairly significantly, the tax in Prudhoe Bay, but it does lower the tax considerably on low productivity old oil priced wells in Cook Inlet. It also has a severance tax for gas that is flaired, and a very substantial one, five times the rate. I think before you do this kind of thing and add such a tax, you ought to look very carefully at where gas is being flaired and why. There has been testimony yesterday about safety flairs and so on. I think you ought to look very carefully at what it is that you would be taxing and why the flairing is going on at the present time. Now, if what you're really trying to do is tell companies to find a use for this flaired

gas and find markets for it, I think that at the very least if there is gas being flaired now which you think you could find markets for, therefore you're going to try to compel people through this tax, somebody used the word incentive the other day, but you're compelling them through this tax that at least you ought to provide somebody with a grace period before they would pay this tax. That is, you wouldn't start right away. You would make it clear to them that they had certain time within which to find markets for this. You wouldn't penalize them in the meantime, but if you don't find gas for which it's logical to find markets, that you would say at some point in the future you're going to start paying a tax on this, so you had better get busy and look for markets. I don't think I.....

SENATOR HUBER - I think, Madam Chairman, that we should make sure in there. I think we should find out the required safety flair of no more than a certain amount except during an emergency blowout or something like that. The idea was, as long as it's economically unfeasible to take small amounts of gas and reinject them, the State loses its royalty share on it, and the nation loses the energy strictly because at a given space in time, using if you will excuse me, a cash discounting flow and everything else, that we determine its value and we say it's nothing, and what's nothing is moving down the pike another twenty or thirty years may be all we have, and in the Bay, in spite of an absolute no

flair restriction has been allowed to flair and everybody knows it. Somehow or other, it does have to be stopped, and if you make it so it isn't economically feasible to flair, then it becomes economically feasible to build a small compressor system for saving.

GEORGE SILIDES - Madam Chairman, I know that the flairing \_\_\_\_\_ as Huber pointed out, \_\_\_\_\_ that the flairing of course, and the word allowed is important, they get permission from the State, and we have to do something about the bill, that we don't have competition between the taxing department and the Department of Oil and Gas Conservation. They are the ones that give the permission, and you have to apply and you have to point out that it's being done with safety and so on. I don't think that the bill intended to penalize somebody for entering into a safety feature, and so am I correct Mr. Kilgore?

RICHARD KILGORE - I would assume that that's the intent. You'r not really interested in taxing gas.....

SENATOR HUBER - But that board still has the power and makes the exemptions and has been constantly making the exemptions, and it's a matter of record, both at Prudhoe Bay and elsewhere, they make the exemptions, they're legally made, but the product is gone, the resource is gone, it is flaired, and so at least putting in a fairly stiff recovery there does at

least give us something off of our severance tax that went up in flair too.

GEORGE SILIDES - Madam Chairman, I might make another comment. I think that in view of the comments being made, we're going to have to look into the legality of being able to tax a safety feature.

SENATOR HUBER - No, we don't tax the safety feature. Let's not get crossways on that. We should put an exemption in here for the safety flair only, and somewhere we need to come up with a figure of what is the amount that may be flaired to date per well or per safety flair. We definitely shouldn't tax them on what is a safety requirement. But there isn't a provision. The gas that's being burned in significant, is not being burned in so called legal actual safety flairs. It's being flaired otherwise by legal permits by the board.

CHAIRMAN POLAND - I think we have to check with the Board as to why they are giving the tax.

SENATOR HUBER - That's why the Governor's bills has it in it. That's why committee's bills has had this for two years, and we should certainly, like Dick says, make sure that we don't tax the necessary safety flairs. I asked yesterday what

was, and they said a million cubic feet. That's a thousand MCF's a day. I'm not sure that that isn't considerably over what's needed to burn there in case, I need a good definition of a safety flair.

RICHARD KILGORE - I think also you might consider if you really feel the gas is being flaired that you don't want to be flaired other than as safety purposes or whatever, that's something you might consider as an alternative just tightening up your regulatory bill and your regulations rather than do it through a taxing approach.

SENATOR HUBER - We've done everything but tar and feather the board.

REPRESENTATIVE OSTERBACK - Madam Chairman, could anybody tell us how much gas they will be flairing at Prudhoe Bay? Anything that burns is energy. We're talking about we're running short of energy. Somebody talked about the railroad. If they took it in there, they could take out about a hundred tanks of gas a day, and they didn't think it would be enough to pack that out with flairing, and that would be an awful lot of energy, but most of us don't really know what this gas is with the flairing, but I know anything that burns is energy, and we're talking we're running out of energy. So I think there should be something done about it. Anything

that you can save as energy, you can sell. There's no problem in that.

RICHARD KILGORE - Well, I agree with you, if what we're really talking about is waste, then I think we should eliminate that. It is energy, and you're absolutely right, and I think you should look very carefully at what's going to happen at Prudhoe Bay, and how your regulatory people will handle it.

SENATOR HUBER - Might we, Madam Chairman, Al brought it up and it's very important. I think that it's understood that they have stopped flaring or are to stop flaring. It was only for that refinery that they flaired at Prudhoe Bay, and they didn't pump it back down the gas well even though they were drawing gas out to run the refinery because it would have cost more money than the gas was worth, so naturally the gas was worth nothing, so it wouldn't cost money to pump it back down into the ground. If it had a value of 20 cents an MCF, it would have been a lot cheaper to pump it back down into the ground, but just so that the record is straight, we aren't really looking for flaring at Prudhoe Bay, but if you will take a look at the Valdez terminal, you will find that we don't flair no more, but we've got three huge oxidizers there, and there's going to be a tremendous amount of energy unless the LPG's that are in that gas and the vapors that are in the gas at Valdez,

unless there's a plant built to recover those and use them which is not in the plan, it is going to effectively flair trillions of BTU's before Valdez is over with. That's because the plant and the tanks will not stand the pressure in the storage.

GEORGE SILIDES - Madam Chairman, I think the point is well made that something's got to be done about defining what is meant by safety gas, what is being wasted, and I think also that the bill had intended to address the bottom of the possible wasting of carbon dioxide. There was a considerable amount in this particular natural gas, and I suppose what we're getting to is that we have to do something about those things, either by definition or by amending the bill. I think this is a point that we're going to have to look into. I don't think we're going to get it solved right here.

SENATOR HUBER - I think they're willing, George, not to flair the carbon dioxide, but I'm not sure if they will get rid of it.

GEORGE SILIDES - It doesn't burn anyway, Senator.

CHAIRMAN POLAND - We'll be checking on this flaring part.

SENATOR HUBER - Well, it's important on both ends. I think that the bill needs to not penalize them, but by all means

should be retained in the bill, and we may of course have to put it in in some other places. I don't think this is going to effect it when it comes to the flairs in Valdez.

SB

105

COMMITTEE REPORT

SENATE

\*\*Finance

1977/77

4/25/77

Date

Mr. President:

The Committee on RESOURCES has had SB 105  
Alaska net income tax under consideration. A majority of the members of the Committee

- recommends it do pass
- recommends it do not pass
- recommends it do pass with attached amendment(s)
- recommends it be replaced with CS for SB 105 and that  
CS for SB 105 ~~do pass~~ Individual Recommendation
- (and) recommends it be referred to the \_\_\_\_\_  
committee
- reports it back without recommendation
- AND attaches a report of its intent
- (other) \_\_\_\_\_

MEMBERS SIGNING THE MAJORITY REPORT:

<u>[Signature]</u>	<u>No Rec.</u>	_____
<u>[Signature]</u>	<u>Do Pass</u>	_____
<u>[Signature]</u>	<u>DO PASS</u>	_____

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

[Signature] recommends: No Rec.

\_\_\_\_\_ recommends: \_\_\_\_\_

\_\_\_\_\_ recommends: \_\_\_\_\_

Callit signed No Rec.

[Signature]  
Chairman

# STATE OF ALASKA

*Gov. Conf. Room*

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5 - JUNEAU 99811

April 25, 1977

*Tax avoidance  
Profit shifting*

*accepted and  
was item 12  
2 altered*

The Honorable Kay Poland  
Chairman  
Senate Resources Committee  
Alaska State Legislature  
Juneau, AK 99801

Dear Senator Poland:

You have asked the Department of Revenue to testify on the proposed CS for SB 105 relating to the Alaska net income tax act. Specifically you have asked the department to respond to ways in which the bill may be changed to improve the administration of the tax. Accordingly I have included the technical changes and administrative changes which we would recommend.

1. page 1, line 25  
delete the reference "AS 43.20.066" and insert the following in its place "AS 43.20.011"
2. page , line 2 *as modified*  
after the word "accordance" delete the following phrase "with section 18 of article IV of the Multi-State Compact (AS 43.19.010) and"
3. page 2, line 3  
after the word "secs." delete the phrase "12-14" and insert the following in its place "67-69"
4. page 2, line 8  
after the word "under" delete the phrase "secs. 11(e) and (f) of this chapter" and insert the following in its place "sec. 11(f) of this chapter."
5. page 2, lines 9 and 10  
after the word "chapter" delete the rest of the sentence and insert the following in its place "shall be calculated using gross income and deductions from gross income as defined in this section."
6. page 2, line 11  
delete the word "revenue" and insert "income" in its place.
7. page 2, line 12  
delete the words "wellhead value" and insert the phrase "value of oil and gas produced" in its place.

~~///~~

8. page 2, line 15  
delete the word "revenue" and insert the word "income"  
in its place.
9. page 2, line 25  
after the word "the" insert the word "direct"
10. page 2, line 28  
after the word "services" insert the phrase "and not  
including indirect costs or overhead"
11. page 3, line 5  
after the word "capitalized" insert the phrase "and  
also including the amortization of"
12. page 3, line 20  
after the word "properties" insert the phrase "after a  
well has been plugged and abandoned."
13. page 3, between lines 25 and 26  
insert the following:  
(e) deductions from gross income under this section shall  
not include expenses previously deducted on a return filed  
under this chapter.
14. page 6, line 21  
delete the word "consolidated" and insert the word  
"combined" in its place.
15. page 6, line 21  
delete the word "allocation" and insert the word  
"apportionment" in its place.
16. page 7, line 15  
delete the reference "As 43.20.330" and insert "AS 43.20.335"  
in its place.
17. page 8, between lines 3 and 4  
insert the following:  
Sec. 43.20.075 BOOKS AND RECORDS. The department may  
provide by regulation the manner in which books and records  
must be kept and maintained for purposes of determining  
gross income and deductions from gross income under  
secs. 67-69 of this chapter.

Sincerely,



John R. Messenger  
Deputy Commissioner

# STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF REVENUE

STATE OFFICE BUILDING

POUCH SA - JUNEAU 99811

March 16, 1977

The Honorable Kay Poland  
Chairman  
Senate Resources Committee  
Alaska State Legislature  
State Capitol Building  
Juneau, Alaska

Re: Senate Bill No. 105

Dear Senator Poland:

Senate Bill No. 105, an Act relating to the Alaska net income tax was introduced in the Senate on January 31, 1977 and was referred to the Senate Resources and Finance Committees.

For the consideration of the Senate Resources Committee, I am enclosing a Fiscal Note prepared by Mr. Gary L. Jenkins, Director, Audit Division, Department of Revenue, Juneau.

Very truly yours,



R. D. Stevenson  
Special Assistant

cc: The Honorable John C. Sackett  
Chairman  
Senate Finance Committee  
Alaska State Legislature  
State Capitol Building  
Juneau, Alaska

Gary L. Jenkins, Director  
Audit Division  
Department of Revenue  
Juneau, Alaska

THE LEGISLATURE OF THE STATE OF ALASKA  
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. Senate Bill No. 105  
 Title An Act relating to the Alaska net income tax  
 Requested by Senate Resources Committee Date 2-1-77

II. FISCAL DETAIL

Agency Affected Revenue  
 Program Category Affected Fiscal Services  
 Budget Request Unit(s) Affected Audit Division

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES		88.1	317.8	317.8	353.3	353.3
200 TRAVEL		5.0	70.0	70.0	75.0	75.0
300 CONTRACTUAL		10.2	105.2	65.2	70.0	70.0
400 COMMODITIES		.6	2.0	2.0	2.2	2.2
500 EQUIPMENT		1.8	6.0	1.0	1.8	1.0
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>	<b>-0-</b>	<b>105.7</b>	<b>501.0</b>	<b>456.0</b>	<b>502.3</b>	<b>501.5</b>

FUNDING (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
GENERAL FUND	-0-	105.7	501.0	456.0	502.3	501.5
FEDERAL FUNDS						
OTHER (Specify)						


POSITIONS

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
FULL TIME	-0-	3	10	10	11	11
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This bill will necessitate an Audit staff of 8 Field Auditors with a Clerk Typist III and a Tax Examiner to handle the clerical, typing and return processing duties. The other costs are related to the development of the computer processing systems and costs related to the positions. See memo attached to R. D. Stevenson dated 2/3/77.

IV. DATE 2-3-77

PREPARED BY   
 AGENCY Audit Division  
 PHONE 465-2320

Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

## STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5 - JUNEAU 99811

April 25, 1977

The Honorable Kay Poland  
Chairman  
Senate Resources Committee  
Alaska State Legislature  
Juneau, AK 99801

Dear Senator Poland:

You have asked the Department of Revenue to testify on the proposed CS for SB 105 relating to the Alaska net income tax act. Specifically you have asked the department to respond to ways in which the bill may be changed to improve the administration of the tax. Accordingly I have included the technical changes and administrative changes which we would recommend.

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provide by regulation the manner in which books and records  
must be kept and maintained for purposes of determining  
gross income and deductions from gross income under  
secs. 67-69 of this chapter.

Sincerely,



John R. Messenger  
Deputy Commissioner

SB

1/13

SB 460  
HB 361

Introduced: 2/2/77  
Referred: Resources and  
Finance

BY CROFT, BRADLEY, RADER  
AND RODEY

1 IN THE SENATE

2 SENATE BILL NO. 113

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 A BILL

5 For an Act entitled: "An Act making a special appropriation to the Department  
6 of Fish and Game to purchase real property known as the  
7 Rabbit Creek Rifle Range within Potter Point State Game  
8 Refuge; and providing for an effective date."

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

10 \* Section 1. The sum of \$75,000 is appropriated from the general fund to  
11 the Department of Fish and Game to purchase real property known as the Rabbit  
12 Creek Rifle Range within the area known as the Potter Point State Game Refuge.

13 \* Sec. 2. The real property described in sec. 1 of this Act shall be  
14 maintained as waterfowl habitat, refuge access, and a continued limited use  
15 shooting facility.

16 \* Sec. 3. Any funds not used in the purchase of the property described in  
17 sec. 1 of this Act shall be used to develop safety and sound abatement  
18 features on the rifle range.

19 \* Sec. 4. The unexpended and unobligated portion of this appropriation  
20 lapses into the general fund June 30, 1978.

21 \* Sec. 5. This Act takes effect immediately in accordance with AS 01.10.-  
22 070(c).

23

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March 9, 1978

Hugh Malone, Chairman  
House Finance Committee  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

Dear Mr. Malone:

Re: Potter Point Shooting Range - HB 381

Representative Lisa Rudd has requested a clarification from my department concerning funding sources and amounts required for the purchase of Potter Point Shooting Range. Some confusion arose, and to a certain extent remains, over the availability of federal aid matching funds on a three (federal) to one (state) basis. These are the so-called Pittman-Robertson funds that form the bulk of the Game Division's budget. It is now my best estimate that funds will be available and I recommend that the sum of \$50,000 be appropriated from the general fund for matching with \$150,000 of federal aid monies to purchase and improve the Potter Point Shooting Range.

Sincerely,

James W. Brooks  
Commissioner

cc: Lisa Rudd

# MEMORANDUM

# State of Alaska

TO: Ronald J. Somerville  
Regional Game Supervisor  
Anchorage

DATE: April 25, 1975

FILE NO:

TELEPHONE NO:

FROM: Jack E. Alexander  
Hunter Safety Coordinator  
Anchorage

SUBJECT: Rabbit Creek Rifle Range

The Rabbit Creek Rifle Range located approximately 10 miles south of Anchorage on the Potter Flats is presently the only area readily available to an estimated 40,000 firearm owners and users.

## Need

The Department of Fish and Game's involvement in the range came about primarily as a result of the lack of safe facilities needed in the Hunter Education program for instruction and practice in firearms training. It soon became apparent that the need for safe shooting facilities far exceeded that of training an estimated 2,000 hunter safety students annually in the Anchorage area. Adequate firearms training facilities are also lacking for local and state law enforcement agencies. However, the largest need for shooting facilities is in the area of general public shooting.

In addition to firearms training the residents of the Anchorage area have indicated a strong support for year round recreational shooting facilities and programs. Beside the recreational aspect, benefits to the local and state government will no doubt be a reduction in the hazards and conflicts associated with uncontrolled shooting. It is generally felt that an easily accessible range would reduce the frequency of nuisance and indiscriminate shooting along roadsides, litter collection points, etc.

A number of alternate range sites in the Anchorage area have been examined, however, distance, unsuitable topography, high cost of land and lack of controlling authority have eliminated these areas from further consideration.

A count of people utilizing the existing facilities at the Rabbit Creek site and a survey of their interest was conducted during the first two weekends of March (see attachment). During this 4 day period 714 people were observed shooting. During the fall of 1974 when the range operated 7 days a week an estimated 700 people utilized range facilities weekly.

## History

The range came into existence as a result of a patent granted by the Bureau of Land Management under authority of the public purposes act (62 and SLAT.,476, 43U.S.C. Section 15) to the Alaska Range Association in 1961. The patent stipulates under a reversionary clause that the land is to be used for recreational firearms and archery range only until the year 1986.

The range operated under the supervision of Dave Drew, President of the Alaska Range Association from its inception until the fall of 1973 when his supervisory activities were suspended due to health problems. Unsupervised and unrestricted public use of the range occurred from that time until the fall of 1974. Without supervision and controlling authorities indiscriminate use of firearms occurred on and adjacent to the Rifle Range. Crowded and unsupervised range conditions forced shooters away from the range and generally towards the railroad tracks and nearby residential areas. In the fall of 1974, the Department of Fish and Game obtained a one year lease with an option to purchase on the property under authority of the Federally funded Hunter Education Program (PL-92-558 and PL-91-503).

The Department of Fish and Game is proposing through legislative action the Rabbit Creek Range be purchased with available federal Pittman-Robertson and state general fund monies. The range is to be a public shooting range, available also for hunter safety and law enforcement training.

## Operation and Maintenance -

The range will be operated and policies developed on a cooperative agreement basis with the Greater Anchorage Area Borough, Parks & Recreation Division. Maintenance costs will be covered by user fee. Presently an estimated 15,000 to 20,000 people use the range annually.

## Cost -

An appraisal conducted by the Alaska Department of Highways estimates the values of the property at approximately \$148,000. However, the price is subject to negotiation and is likely to be closer to \$100,000. An engineer's estimate of construction cost is not available, however, with labor and equipment provided by the National Guard, Navy and Army reserves cost should remain under \$50,000.

The basis for funding is \$52,000 in surplus Federal hunter safety monies and \$48,000 in PR funds plus the \$50,000 state general fund matching monies.

Planned Developments -

The diversity of shooting interest requires many considerations in range development. Rifle sighting, pistol and shotgun facilities are being considered. The type and number of facilities will rest heavily with the ability to control such activities. Basic safety and noise control features will include earth fills for bullet stops and a parallel baffling system.

Denali State Park Development, Mat-Su Borough	235,000		235,000
Kenai Peninsula Develop- ment, Kenai	255,000		255,000
Kachemak Bay State Park Acquisition, Homer	300,000		300,000
Pleasant Camp Acquisition & Adaptive Use, Haines	75,000		75,000
Ninilchik Camp Develop- ment, Kenai	75,000		75,000
Caines Head Recreation Area Development, Seward	800,000		800,000
Chugach State Park Development, Anchorage	725,000		725,000
<del>Marriott Hunt Lake Development</del>	<del>50,000</del>	<del>50,000</del>	
Chugach Park Road Acqui- sition-Glenalps	40,000		40,000
Department of Fish and Game			
Vessel Equipment Placement, Various	54,000	54,000	
Crystal Lake Hatchery Improve- ment Petersburg	284,000	284,000	
Sonar Scanning Equipment, SE Alaska	15,000	15,000	
Starrigavan Bay Weir and Dock Improvement, Sitka	157,500	157,500	
Central District Water Inven- tory Equipment	60,000	60,000	
SE District Water Inventory Equipment	50,000	50,000	
Fairbanks Regional Office Generator	22,300	22,300	
Sockeye Substrate Incubation Units	445,000	445,000	
Big Lake Expansion, Central Alaska	315,000	315,000	
Tutka Expansion, Homer	420,000	420,000	
<del>Bylina Bay Aquaculture Study</del>	<del>25,000</del>	<del>25,000</del>	
Deer Mountain Hatchery Repairs	30,000	30,000	
<del>Gape Blossom Stream Fishery Project</del>	<del>15,000</del>	<del>15,000</del>	
<del>Rabbit Creek Riffle Range</del>	<del>200,000</del>	<del>50,000</del>	<del>150,000</del>
<del>Cushman Creek Riffle Range - Fairbanks</del>	<del>55,000</del>	<del>55,000</del>	
<del>Montrose Creek Trap Range</del>	<del>100,000</del>	<del>25,000</del>	<del>75,000</del>
<del>Sitka Riffle Range</del>	<del>25,000</del>	<del>25,000</del>	
<del>Putnam Creek Riffle Range</del>	<del>25,000</del>	<del>25,000</del>	
Willow River Stream Clearance	40,000	40,000	
Department of Public Safety			
Single Sideband Marine Radios, Statewide	54,000	54,000	
VHF Marine Radios, Statewide	16,500	16,500	
VHF Portable Radios	61,500	61,500	
Citizen Band Portable Radios, Statewide	1,200	1,200	
Department of Environmental Conservation			

NATURAL RESOURCE MANAGEMENT AND ENVIRONMENTAL CONSERVATION

Department of Fish and Game - Various Rifle Ranges

Rabbit Creek Rifle Range deleted \$200,000

Cushman Street Rifle Range, Fairbanks, deleted \$55,000

Montana Creek Trap Range deleted \$100,000

Sitka Rifle Range deleted \$25,000

Petersburg Rifle Range deleted \$25,000

These reductions delete these projects which, in my opinion, enter the state into a new and potentially large arena of state funding. While, when viewed in isolation, these programs are certainly desirable, it is felt that the projects could best be performed by interested private groups or funded at the local level. This effort I feel should not begin to rely on state support. Accordingly, rather than play favorites and include some projects while deleting others, I have felt it imperative that an across-the-board reduction be made.

TRANSPORTATION

Department of Highways - Various Road Projects

The vetoes that I have made in this area are based upon the belief that the legislature has in this instance appropriated state funds for streets and roads that are now the responsibility of local government. The State of Alaska does have a Local Service Roads and Trails program which provides state bond funds on a formula basis to be meted out by local prioritization by political subdivisions for expenditure on locally controlled and maintained roads. If the roads chosen by the individual legislators for state funding within their various districts are a priority to the citizens in the political subdivision, they can be upgraded or constructed through either local funding or through the state funded Local Service Roads and Trails grant program arranged by the priorities of the local government. My bond package presented to the legislature in January and the final bill which passed the legislature contained \$7.5 million for this very purpose. The reductions are itemized as follows:

SB

128

COMMITTEE REPORT

SENATE

\*\*Finance

2/4/77

3/11/77

Date

Mr. President:

The Committee on RESOURCES has had SB 128 commercial fishing licensing under consideration. A majority of the members of the Committee

- recommends it do pass
- recommends it do not pass
- recommends it do pass with attached amendment(s)
- recommends it be replaced with CS for SB 128 and that CS for SB 128 do pass
- (and) recommends it be referred to the \_\_\_\_\_ committee
- reports it back without recommendation
- AND attaches a report of its intent
- (other) \_\_\_\_\_

MEMBERS SIGNING THE MAJORITY REPORT:

William \_\_\_\_\_

Michael \_\_\_\_\_

John \_\_\_\_\_

\_\_\_\_\_

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

Francis recommends: No Rec

John recommends: No Rec

\_\_\_\_\_ recommends: \_\_\_\_\_

Chairman

THE FOLLOWING PAGES WERE TREATED AS  
A UNIT IN THE ORIGINAL FILE.

# STATE OF ALASKA

## COMMERCIAL FISHERIES ENTRY COMMISSION

JAY S. HAMMOND, GOVERNOR

POUCH KB - JUNEAU 15001

February 23, 1977

The Honorable Kay Poland  
Chairman, Senate Resources Committee  
Capitol Building  
Juneau, Alaska 99801

Dear Senator Poland:

Enclosed please find a report explaining the rationale behind Senate Bill No. 128. This should assist you and your committee when reviewing the bill. If questions should arise which are not answered in the report, please do not hesitate to contact the Commission.

The Commission, along with the Departments of Fish and Game, Revenue, and Public Safety, have worked for months formulating a fair, simple and practical system of commercial fishing licensing. The new system we are proposing will result in eliminating State agency duplication of time and effort, create a much needed data base, and most important will eliminate much of the bureaucratic paperwork for the fishermen.

We have received wholehearted support from fishermen and fishermen's groups we have discussed this new program with. I urge your approval of the new licensing program proposed in SB 128.

Sincerely,



Roy A. Rickey  
Chairman

RAR:d1

Enclosure

A REPORT ON  
SENATE BILL NO. 128

by The Commercial Fisheries Entry Commission

with the concurrence of:  
The Department of Fish and Game  
The Department of Revenue  
The Department of Public Safety

February 22, 1977

SENATE BILL NO. 128

"An Act relating to commercial fishing licensing and providing for an effective date."

Introduction

The Governor's bill entitled "An Act relating to commercial fishing licensing and providing for an effective date" presents the legislature with a new program of commercial fisheries licensing. The departments of Fish and Game and Revenue and the Commercial Fisheries Entry Commission designed this program to ease the paperwork for the fisherman, to save time and money for the State and to increase the accuracy and availability of the licensing data base.

Program Description

The new licensing program eliminates the gear and commercial licenses, separates the vessel license from an assigned operator and creates a crewmember license similar to the commercial license. A renewed entry permit will be the only requirement for a gear operator in order to participate in a fishery. A vessel used in commercial fishing must be licensed and no indication of who will operate the boat will be needed. People who participate in the fishery as crewmembers will have to obtain a crewmember license.

A resident, non-resident fee system for permits will be initiated in the proposed licensing program. This will compensate for revenue previously received for gear and commercial licenses based on residency. The 3 to 1 non-resident fee ratio used for gear licenses will be adopted for the permit fee schedule.

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The Alaska Fishermen's Fund will be maintained at its current level. This Fund provides for the treatment and care of Alaska commercial fishermen who are injured or become ill in commercial fishing activities. The Commercial Fisheries Entry Commission will assume responsibility for the transfer of money to cover each permit holder. The Department of Revenue will also transfer money to the fund for each crewmember license sold.

#### Revenue Analysis

The gear and commercial fishing licenses are being discontinued and will no longer contribute to the State's commercial license revenue. The anonymous vessel license and the new crewmember license will only partly make up for this loss. The rest must come from increased permit fees.

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As seen in Table I, State revenues derived from the four types of license and permits now available approximated \$1.5 million for each of the last four years. The new system is expected to produce \$2.6 from the new vessel and crewmember

licenses and entry permits. The increase in revenue will come mainly from the three to one non-resident to resident permit fee differentiation.

Vessel license revenue will be based on a new fee. An anonymous \$20 fee will replace the previous \$10 fee for a resident vessel operator and \$30 fee for the non-resident. When the \$20 fee is applied to the number of vessel licenses sold in the past, vessel revenue totals \$254,380, approximately \$100,000 more than previous years. (Table II)

To project crewmember license revenue, the number of commercial license sold to persons who did not also have a gear license is used to estimate the number of people who were crewmembers. The percentages of resident and non-resident commercial licenses sold in the past are applied to the estimated number of crewmembers so total anticipated revenue can be derived. As seen in Table III projected 1978 crewmember revenue is \$113,550.

These two amounts of new fee revenues, \$254,380 for vessel licenses and \$113,550 for crewmember licenses make up only a quarter of total revenues collected in the past. Under the new program the additional revenue must come exclusively from permit fees.

The Limited Entry Law requires permit fees to "reasonably reflect the different rates of economic return for different fisheries". It also calls for the fees to be set by regulation, although a ceiling is mandated. SB 128 raises the ceiling from \$100 to \$500. The new permit fees will remain in about the same proportions as they presently exist. Some adjustments will be made to more closely reflect the rates of economic return for the various fisheries.

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A doubling of present permit fees closely reflects what the resident fisherman now pays in annual licenses and permits. However, with the 3 to 1 non-resident to resident ratio, the doubled fees will bring the State an extra million dollars in revenue. This extra revenue would bring the total money collected from commercial fishing licensing to \$2.6 million. Table IV compares portions of the new fee schedule with the old schedule.

The cost of managing, rehabilitating and enforcing the fisheries have increased at a rapid rate over the last few years and now totals \$17.6 million. Over the past 5 years the State has operated at an average inflation rate of 7% yet the price of commercial gear and vessel licenses have not increased since 1959. A bill which was passed in last year's Legislature doubled the cost of sports fishing licenses for residents from \$5 to \$10. SB 128 would allow a greater recognition of the State's costs in relation to commercial fisheries while at the same streamlining and improving its licensing program.

Table I  
1974-1976 Licensing Revenue

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>Projected 1978</u>
Gear	\$ 425,287	\$ 397,777	\$ 413,805	- - -
Vessel	\$ 152,486	\$ 158,704	\$ 160,737	\$ 254,380
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TOTAL	\$1,507,717	\$1,537,182	\$1,585,716	\$2,570,325

Total figures include money transferred to the Fishermen's Fund, approximately \$200,000 per year. The 1976 revenues for gear, vessel and commercial licenses are preliminary figures. The 1978 Commercial License entry represents revenue to be collected from Crewmember Licenses.

Table II

Vessel License Revenue

1975 Resident Licenses	10,369 @ \$10 =	\$103,690
1975 Nonresident Licenses	<u>2,350 @ \$30 =</u>	<u>\$ 70,500</u>
	12,719	\$174,190

Projected 1978 Vessel License Revenue:

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Table III

Crewmember License Revenue

1975 Commercial licenses less gear licenses:	7,373
73% resident or	5,382 licenses @ \$10/license = \$53,820
27% nonresident or	1,991 licenses @ \$30/license = \$59,730
Projected 1978 Crewmember License Revenue:	\$113,550

Table IV

## A COMPARISION OF OLD AND NEW RESIDENT LICENSE AND PERMIT FEES

	<u>Old System</u>			<u>New System</u>	
	Gear License	Commercial License	Permit	Total	Permit
	\$	\$	\$	\$	\$
Purse Seine (Based on 250 fathoms)	70	10	60	140	120
Drift Gill net (Based on 200 fathoms)	20	10	50	80	100
Set Net (Based on 150 fathoms)	15	10	20	45	40
Hand Troll	15	10	20	45	40
Power Troll	15	10	50	75	100
Long Line (Vessel length 26' or less)	25	10	20	55	40
Long Line (Vessel length over 26')	25	10	60	95	120
Pots (Vessel length 50' or less- based on 150 pots)	30	10	50	90	100
Pots (Vessel length over 50'- based on 150 pots)	45	10	100	155	200

Non-Resident fees are three times resident fees

A COMPARISON OF OLD AND NEW NON-RESIDENT LICENSE AND PERMIT FEES

	<u>Old System</u>			<u>New System</u>	
	Gear License	Commercial License	Permit	Total	Permit
Purse Seine (Based on 250 fathoms)	210	30	60	300	360
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A UNIT IN THE ORIGINAL FILE.

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A REPORT ON  
SENATE BILL NO. 128

by The Commercial Fisheries Entry Commission

with the concurrence of:  
The Department of Fish and Game  
The Department of Revenue  
The Department of Public Safety

February 22, 1977

## SENATE BILL NO. 128

"An Act relating to commercial fishing licensing and providing for an effective date."

### Introduction

The Governor's bill entitled "An Act relating to commercial fishing licensing and providing for an effective date" presents the legislature with a new program of commercial fisheries licensing. The departments of Fish and Game and Revenue and the Commercial Fisheries Entry Commission designed this program to ease the paperwork for the fisherman, to save time and money for the State and to increase the accuracy and availability of the licensing data base.

### Program Description

The new licensing program eliminates the gear and commercial licenses, separates the vessel license from an assigned operator and creates a crewmember license similar to the commercial license. A renewed entry permit will be the only requirement for a gear operator in order to participate in a fishery. A vessel used in commercial fishing must be licensed and no indication of who will operate the boat will be needed. People who participate in the fishery as crewmembers will have to obtain a crewmember license.

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75.  
160 40  
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A UNIT IN THE ORIGINAL FILE.

# Cordova District Fisheries Union

Headquarters: Box 939, Cordova, Alaska



February 18, 1977

Senator Kay Poland  
Alaska State Senate  
Pouch V  
Juneau; Alaska 99801

Dear Kay,

In regards to Senate Bill #128 "An Act relating to commercial fishing licensing and providing for an effective date".

Our response to this bill is negative. Outwardly this would appear as a move toward efficiency which in reality we doubt seriously that this is either an efficient or financially sound maneuver.

The efficiency of the postal service between Juneau and the coastal fishing communities at best leaves a lot to be desired. We have experienced delays of over a month between here and Juneau, and while this is extreme, weekly or longer delays are commonplace. The efficiency of the Limited Entry Commission and their computer is at least on the same par.

Elimination of the personal, human, aspect of filling out the necessary forms under the direct assistance of the local vendor will certainly have an adverse effect on many of the lesser educated, handicapped or otherwise incapable persons, especially persons from the village areas.

We do not feel at this time that the Alaskan fishing community as a whole is ready to cope with the Limited Entry Commission in Juneau armed with their computer, handling the majority of the fishing licenses.

If this bill is enacted we anticipate, lengthy delays, loss of the personal, 24 hour per day, 7 day a week, service now received from local vendors, and certainly not an increase of efficiency or reduction of cost to the State.

Your responsible consideration is requested in this matter.

Sincerely,

*Bob*

Bob Blake

Chairman

SB

1411

## SUMMARY OF STATE LAND GRANT STATUS

At Statehood, Alaska became heir to several federal land grants made during Alaska's territorial years in addition to being granted two significant land entitlements under the Statehood Act. The following is a summary of the State's progress in selecting its land entitlements under federal land grants.

### General Grant Lands

Section 6 (b) of the Statehood Act entitles the State to select up to 102.55 million acres of unreserved federal land in Alaska within twenty-five years of Statehood. The State has selected 67 million acres under this land entitlement and has seven years in which to select the balance over 35 million acres. These figures do not include the proposed land selection of 2.8 million acres now under review.

### Community Grant Lands

Under Section 6 (a) of the Statehood Act, Alaska is entitled to select 400,000 acres from National Forests and another 400,000 acres from ~~other public domain lands for the purpose of providing for community related needs.~~ Almost 320,000 acres remain to be selected out of the public domain land entitlement while over 360,000 acres remain in the National Forest land grant. The State has seven years to complete its community grant land selections.

### Mental Health Lands ←

Public Law 84-830, passed in 1956, gave the then Territory of Alaska ten years in which to select one million acres of unreserved federal land to be administered for the support of Alaska's mental health program. This land grant vested with the State of Alaska at statehood. The full entitlement of 1,000,000 acres has been selected.

### University Lands

Alaska was granted 100,000 acres of land to support a University program. The selection of this land is 99 percent complete. This grant supplements an earlier University grant of specific sections of townships certain in the Tanana Valley.

### Common School Lands

Alaska was granted sections (16 and 36) in each township of federal land which was surveyed at the time of Statehood for the support of Alaska's common school program. Over 100,000 acres have been received under this grant.

## LAND SELECTIONS

### Law and Written Policy

Although the Statehood Act was silent about the Federal purpose underlying the major grant of 102,550,000 acres to Alaska, congressional discussion prior to statehood emphasized the expectation that a transfer of land from Federal to State ownership would open Alaska for economic development. Alaska's Constitution speaks of both conservation and development, yet the dominant theme is development.

This context of Federal and State policy is reflected in the Alaska Land Act, the 1959 statute in which the State Legislature established the Division of Lands and structured its operations. The general policy statement in this statute repeats the State constitutional mandate to encourage settlement and development by making land available for use consistent with the public interest.<sup>1</sup> Land selection policy is specifically guided by Section 38.05.290 which directs the Commissioner of Natural Resources to "give preference of selection to land which will provide the maximum benefits to the people of the State."

The determinant policy guiding land selection by the Division has been to choose lands with potential for human habitation and economic development, preferably lands with a variety of such potentials. In the 1963 annual report, on the occasion of its five-year anniversary, the Division summarized the objectives guiding its activities:

"To further development—by making land, minerals, timber, gravel and other materials available for private development; working with individuals and existing or potential industries to assure maximum sustained use of resources.

"to furnish State revenues—by providing a solid base of recurring revenue from leases and sale contracts; producing immediate revenue through competitive oil and gas lease sales; reducing State expenses by furnishing gravel and materials, building sites, and rights-of-way for State and local government use.

1. Alaska Statutes, Section 38.05.350.

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

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DEC 17 1976

Mr. Jack Wick, President  
Konig, Inc.  
P.O. Box 746  
Kodiak, Alaska 99615

Dear Mr. Wick:

On July 16, 1976, we sent to each Regional Corporation an assessment of land entitlements under sections 14(a), 12(b), and 12(c) of the Alaska Native Claims Settlement Act (ANCSA) and requested comments or suggested corrections to be made to those estimates. Thus far we have received no material response. After further review of those estimates within the Department, we have developed some more refined figures to be used for planning purposes by the Department and by Native Corporations. These estimates are contained in enclosure 1 to this letter.

At this time, we are making an initial 12(b) entitlement allocation, enclosure 2. Subsequently, when more of the uncertainties are resolved, there may be additional allocations of 12(b) entitlement. However, this initial allocation is a firm minimum allocation made pursuant to section 12(b) of the ANCSA for the purpose of reallocation of the entitlement to the Village Corporations by the Regional Corporations. Enclosure 3 is a listing of the 12(b) entitlement allocation to each of the eleven Regions.

As you know, we recognize the need to permit reasonable overfiling in order to assure that each Native Corporation receives its full land entitlement under the ANCSA. However, it is apparent that in many cases there has been excessive overfiling which serves only to needlessly tie up land that should be made available for other purposes and delays the BLM's ability to process selections and convey the land. Moreover, in many cases, there has been no numerical priority assigned by the applicant corporation to its selections (43 CFR 2651.3 and 2652.3).

The Bureau of Land Management in Alaska will be directed to reject selections filed by Native Corporations which exceed the estimates in enclosure 1, as BLM reviews the selections which are pending adjudication. If selections are prioritized, they will be

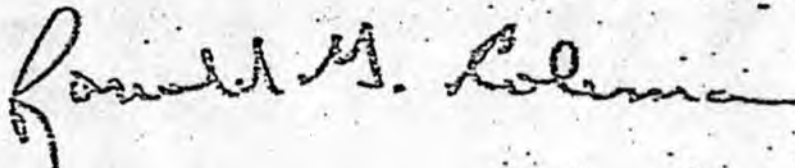


X-C Ron Swanson/Bo's Coxe 2/22/77

rejected on the basis of lowest priority first. If selections are not prioritized, they will be rejected on the basis of last filing first. Where a filing includes more land than the Corporation's entitlement, the BLM will reject selections beginning with the last unit of land described in the filing.

We realize that the reduction of overselections may create some difficulty for Native Corporations. However, it is clearly not the intent of the ANCSA that the selection process should indefinitely tie up nearly three times the entitlement provided the Native Corporations. We believe it is in the long-term best interests of all parties involved in the administration of the Act that the selections be brought more closely in line with the statutory entitlements.

Sincerely yours,



~~Assistant~~ Secretary of the Interior

Enclosures - 3

The studies have been completed and proposals developed. Most conservationists view the government's plan as excellent as far as it goes, but too conservative none-the-less. They have therefore organized an Alaska Coalition, developed their own proposals and presented them in bill form. Their D-2 bill along with several others are now before the Congress, which has a self-imposed deadline of December 18, 1978 for taking action on the proposed legislation. And knowing how long it takes to move controversial legislation through the national political mill, conservationists have decided to start pushing now - strong and hard.

To this end, Congressman Morris K. Udall (D-Arizona) has introduced the Alaska National Interest Lands Conservation Act of 1977 (HR 39). Conservationists are delighted that there are currently 75 co-sponsors for the Udall bill. The letters and telegrams coming into Congressional offices have already had an enormous impact; most of those members co-sponsoring the legislation were responding to this mail from home. Alaska's Congressman Don Young is not among the co-sponsors, however, and needs to hear from Alaskans on the issue. Interested persons can write both Congressman Udall and Young (all Congressmen can be addressed at: House Office Building, Washington, D.C. 20515) on this unprecedented conservation initiative, and express their views, be they pro or con.

The House Interior Committee chaired by Mr. Udall recently established a new Oversight and Alaska Lands Sub-committee which will have sole jurisdiction over the whole Alaska lands issue. John Seiberling of Ohio, one of the foremost environmental spokesmen in Congress, will be the chairman. This new development is received with great excitement by those working on the D-2 lands issue, for it guarantees that their views will be heard.

Once the Congress has dealt with the high priority strip mining legislation now before it, Mr. Seiberling's subcommittee anticipates holding field hearings on the Udall bill in Alaska and key cities in the Lower 48. This is expected to occur in early summer. The hearings will be followed by a "show me" trip to Alaska now being planned for House and Senate Interior Committee members and their wives for the August Congressional recess.

The Carter Administration has yet to develop a firm position on the D-2 lands question, but is watching proceedings in the Congress with keen interest. Key advisors are well aware that the proper decisions on this issue may well afford Mr. Carter the opportunity to become the greatest conservation President since Teddy Roosevelt.

Without question, conservationists view the Alaskan national interest lands as providing the last and greatest opportunity of our lifetime to dedicate vast and yet unspoiled ecosystems large enough to provide lasting protection to their unmatched wildland and wildlife values. The degree to which Alaskans and other U.S. citizens get involved will to a large extent determine the final outcome.

These and other questions pertaining to the Alaska D-2 lands issue will be addressed in ensuing editions of the Alaska Currently in our attempt to keep you fully informed as events unfold.

(Dave Cline is federal programs coordinator for the Alaska Coastal Management Program in Juneau. For further information he can be contacted at 465-4974).

Title to property.

SEC. 5. The State of Alaska and its political subdivisions, respectively, shall have and retain title to all property, real and personal, title to which is in the Territory of Alaska or any of the subdivisions. Except as provided in section 6 hereof, the United States shall retain title to all property, real and personal, to which it has title, including public lands.

Selection from public lands.

SEC. 6. (a) For the purposes of furthering the development of and expansion of communities, the State of Alaska is hereby granted and shall be entitled to select, within twenty-five years after the date of the admission of the State of Alaska into the Union, from lands within national forests in Alaska which are vacant and unappropriated at the time of their selection not to exceed four hundred thousand acres of land, and from the other public lands of the United States in Alaska which are vacant, unappropriated, and unreserved at the time of their selection not to exceed another four hundred thousand acres of land, all of which shall be adjacent to established communities or suitable for prospective community centers and recreational areas. Such lands shall be selected by the State of Alaska with the approval of the Secretary of Agriculture as to national forest lands and with the approval of the Secretary of the Interior as to other public lands: *Provided*, That nothing herein contained shall affect any valid existing claim, location, or entry under the laws of the United States, whether for homestead, mineral, right-of-way, or other purpose whatsoever, or shall affect the rights of any such owner, claimant, locator, or entryman to the full use and enjoyment of the land so occupied.

100,000 ac. ①

100,000 ac. ②

③

102,550,000 ac.

(b) The State of Alaska, in addition to any other grants made in this section, is hereby granted and shall be entitled to select, within twenty-five years after the admission of Alaska into the Union, not to exceed one hundred and two million five hundred and fifty thousand acres from the public lands of the United States in Alaska which are vacant, unappropriated, and unreserved at the time of their selection: *Provided*, That nothing herein contained shall affect any valid existing claim, location, or entry under the laws of the United States, whether for homestead, mineral, right-of-way, or other purpose whatsoever, or shall affect the rights of any such owner, claimant, locator, or entryman to the full use and enjoyment of the lands so occupied: *And provided further*, That no selection hereunder shall be made in the area north and west of the line described in section 10 without approval of the President or his designated representative.

(c) Block 32, and the structures and improvements thereon, in the city of Juneau are granted to the State of Alaska for any or all of the following purposes or a combination thereof: A residence for the Governor, a State museum, or park and recreational use.

(d) Block 19, and the structures and improvements thereon, and the interests of the United States in blocks C and 7, and the structures and improvements thereon, in the city of Juneau, are hereby granted to the State of Alaska.

Fish and wildlife resources.

(e) All real and personal property of the United States situated in the Territory of Alaska which is specifically used for the sole purpose of conservation and protection of the fisheries and wildlife of Alaska, under the provisions of the Alaska game law of July 1, 1943 (57 Stat. 301; 48 U. S. C., secs. 192-211), as amended, and under the provisions of the Alaska commercial fisheries laws of June 26, 1906 (34 Stat. 478; 48 U. S. C., secs. 230-239 and 241-242), and June 6, 1924 (43 Stat. 405; 48 U. S. C., secs. 221-228), as supplemented and amended, shall be transferred and conveyed to the State of Alaska by the appropriate Federal agency: *Provided*, That the administration and management of the fish and wildlife resources of Alaska shall be retained by the Federal Government under existing laws until the