

ALASKA  
7272

LEGISLATURE  
HOUSE STATE

COMMITTEE  
AFFAIRS

FILES

1991-1992

8672

ISSUE, ANWR MAY HAVE A BETTER CHANCE, BUT MAKE NO MISTAKE: IT WILL STILL BE AN UPHILL BATTLE.

TO WIN THIS FIGHT, WE MUST LAY THE GROUNDWORK NOW. CREATING AN ANWR BLUE RIBBON COMMISSION LIKE THE ONE THAT HELPED US PROTECT OUR INTERESTS IN THE ALASKA LANDS DEBATE IS ONE STEP TO CONSIDER. ANOTHER IS TO CONSIDER ALLOWING ALASKANS TO EARMARK UP TO \$50 OF THEIR PERMANENT FUND DIVIDEND CHECK TO FUND SUCH A COMMISSION AND THE NATIONAL GRASSROOTS WORK THAT WILL HAVE TO BE DONE TO PREVAIL. IF ALASKANS DON'T TAKE DECISIVE ACTION TO OPEN ANWR, THE FUND'S INCOME WILL SOON HAVE TO BE DEVOTED TO BASIC GOVERNMENT SERVICES, AND THE DIVIDEND PROGRAM WILL BECOME AN HISTORICAL FOOTNOTE. IF ANWR IS OPENED, THE CONTRIBUTIONS BACK TO THE FUND COULD EXCEED \$25 BILLION -- A RETURN ON INVESTMENT THAT NOT EVEN DAVE ROSE COULD MATCH.

PROTECTING ALASKA'S FAMILIES IS A CRUCIAL CHALLENGE ON BOTH THE FEDERAL AND STATE LEVEL. THE

PRESIDENT HAS ANNOUNCED A BOLD NEW INITIATIVE THAT WOULD DEDICATE \$100 BILLION FOR OUR NATION'S HEALTH CARE SYSTEM, INCLUDING THE KIND OF PREVENTATIVE CARE THAT LED TO EARLY DETECTION OF MY CANCER.

THERE ARE SOME WHO SAY THAT'S NOT ENOUGH, AND AS A RESULT, THERE ARE 498 HEALTH CARE REFORM BILLS PENDING IN CONGRESS -- ALMOST ONE PER MEMBER! IT WILL, NO DOUBT, BE A LONG, HOT SUMMER.

WE HAVE MADE PROGRESS IN IMPROVING HEALTH CARE IN RURAL ALASKA, BUT WE MUST ADDRESS THE NEEDS OF URBAN ALASKANS, TOO. I HOPE AS FEDERAL HEALTH CARE REFORM UNFOLDS WE CAN WORK TOGETHER TO AVOID DUPLICATION AND ENSURE THAT EVERY ALASKAN HAS ACCESS TO BASIC HEALTH CARE.

WHILE WE HAVE MADE SOME STRIDES IN THE WAR AGAINST DRUGS, DRUG ABUSE AMONG ALASKANS CONTINUES TO BE A PROBLEM. AT A RECENT CONFERENCE OF ALASKANS INVOLVED IN DRUG ABUSE PREVENTION, TREATMENT, AND ENFORCEMENT, THEY TOLD ME THERE WERE TWO THINGS YOU

COULD DO TO HELP.

(1) MODIFY ALASKA'S ASSET FORFEITURE STATUTE SO STATE LAW ENFORCEMENT CAN MORE EFFECTIVELY SEIZE THE ASSETS OF DRUG PUSHERS.

(2) ESTABLISH A STATE CONSPIRACY STATUTE TO STRENGTHEN THE HAND OF THOSE FIGHTING THE DRUG PUSHERS PREYING ON ALASKA'S FAMILIES.

WHILE GENERALLY ALASKANS ARE AMONG THE MOST HIGHLY EDUCATED PEOPLE IN THE COUNTRY -- A TESTIMONY TO OUR TEACHERS AND OUR STUDENT LOAN PROGRAM -- MANY RURAL ALASKANS LAG BEHIND. I WILL JOIN WITH YOU AND OTHER ALASKANS -- PARTICULARLY THE PARENTS AND TEACHERS INVOLVED IN OUR EDUCATIONAL SYSTEM -- TO MAKE SURE THAT THE NEW NATIONAL EDUCATION LEGISLATION WORKS IN ALASKA.

ONE OF THE BEST WAYS TO PROTECT FAMILIES IS TO PROVIDE MEANINGFUL WORK FOR PARENTS, AND ONE OF THE KEYS IS EDUCATION. ALASKA'S NEW JOB CORPS CENTER SUFFERED A TEMPORARY SETBACK AGAIN, WHEN THE

DEPARTMENT OF LABOR ANNOUNCED THAT IT WOULD NOT RELEASE CONSTRUCTION FUNDS FOR THE PROJECT. FRANK, DON, AND I INTEND TO MEET WITH SECRETARY OF LABOR LYNN MARTIN TO MAKE OUR OPPOSITION CLEAR.

A NEW ERA HAS BEGUN IN THE WORLD -- ONE THAT WILL SHAPE THE LIFE OF OUR NATION AND STATE IN WAYS WE CAN'T EVEN IMAGINE NOW. THE CHALLENGES ARE MANY, BUT I CONTINUE TO HAVE FAITH IN THE ABILITY OF ALASKANS TO MEET THEM IN INNOVATIVE WAYS. YOU AND I HAVE BEEN ENTRUSTED BY THE PEOPLE OF ALASKA WITH THE TASK OF DEVISING WAYS TO MEET THOSE CHALLENGES.

RATHER THAN SPEND A LOT MORE TIME DISCUSSING WHAT THE CONGRESSIONAL DELEGATION IN PARTNERSHIP WITH ALASKANS WAS ABLE TO ACCOMPLISH, OR REPEAT WHAT YOU'VE ALREADY HEARD FROM SENATOR FRANK MURKOWSKI OR CONGRESSMAN DON YOUNG, I'LL NOW ASK THE PAGES TO DISTRIBUTE A REPORT, WHICH DISCUSSES THE IMPORTANT EVENTS OF THE LAST SESSION OF CONGRESS IN MORE DETAIL.

THANK YOU AGAIN FOR ALLOWING ME TO VISIT WITH YOU  
TODAY. I LOOK FORWARD TO WORKING WITH YOU THIS YEAR,  
AND I'D BE GLAD TO TAKE ANY QUESTIONS YOU MIGHT HAVE.

April 8, 1991

**Overview of the  
1991 Arctic National Wildlife Refuge  
Recoverable Petroleum Resource Update**

**Summary of Findings**

The 1991 update of recoverable petroleum resources in the 1987 Arctic National Wildlife Refuge, Alaska, Coastal Plain Assessment, also known as the 1002 Report, makes a considerable contribution to the knowledge and understanding of the petroleum geology of the 1002 area of the Arctic National Wildlife Refuge (ANWR). This study reaffirms most of the conclusions and estimates made in the 1002 Report, and increases the level of confidence that ANWR is part of the North Slope oil province. This is demonstrated by the increase in the marginal probability of economic success from 19 percent in the original assessment to 46 percent in the current assessment. The increase in marginal probability means that ANWR has a higher potential for oil discovery. The overall Minimum Economic Field Size (MEFS) for the 1002 area has been lowered from about 0.44 billion barrels of oil (BBO) to about 0.40 BBO. The mean resource estimate has increased from 3.23 to 3.57 BBO.

**Introduction**

The original recoverable resource assessment was included in the 1002 Report, published in 1987. It was well received in reviews of the report by industry and the scientific community, but, as was its intent at that time, was considered conservative. The intent of Section 1002(h) of ANILCA was to give the Secretary of the Interior sufficient information to make an informed decision for his recommendation to Congress pertaining to oil and gas leasing in the 1002 area. The 1991 assessment was prepared as a part of routine updating of resource assessments that takes place every 2 to 5 years and that reflects new and reinterpreted geological data, state-of-the-art engineering, current tax provisions, and updated economic data.

Because Congress intended for the 1987 assessment to be conducted with as little impact on the 1002 area as possible, they did not authorize the drilling of test wells. Therefore, the only sources of information available for the 1002 study were records from wells drilled in the surrounding area and about 1,300 line miles of seismic reflection data shot by a consortium of 25 companies on an approximate three-by-six mile grid in the 1002 area. Selected gravity readings collected by industry from the 1002 area and the results of surface geologic work conducted by in-house and various outside sources in and around the coastal plain were also available and beneficial to the study. With this amount of information and given the timeframe for completion of the study, a conservative approach was taken in order not to overestimate the economically recoverable hydrocarbon potential in the area.

Since the 1002 Report was completed in 1987, the BLM in Alaska has obtained access to information from four wells drilled near or adjacent to ANWR. They are Tenneco's Aurora No. 1, Unocal's Hammerhead No. 1, and Shells' Corona No. 1, all located offshore from ANWR, and Unocal's Leflingwell No. 1, located onshore West of ANWR (figure 1). The BLM also obtained approximately 800 line miles of the original seismic data that was reprocessed by

industry to enhance the resolution of seismic reflectors of the shallower Brookian sequence rocks and to help increase the understanding of this sequence. Additionally, some offshore seismic lines near ANWR became available. These new data were used in the current analysis. In addition, an in-house study of the petroleum geology of northeastern Alaska through the Mackenzie Delta in western Canada enhanced the understanding of the regional geology. Surface samples of potential reservoir rocks also were analyzed to assess reservoir parameters. Furthermore, the 1991 assessment utilized a LANDSAT analysis of the bedrock geology of the "bulge" of the mountain front south of the 1002 area.

In August 1990, the Department of Energy's (DOE) Idaho National Engineering Laboratory (INEL) issued a draft study of oil and gas development on the North Slope. This was combined with an in-house analysis and a survey of major companies operating on the North Slope to update the engineering and costing of ANWR development. Updated DOE forecasts of oil prices were also included in the analysis.

### Geological and Geophysical Analysis

The new and reinterpreted data resulted in an analysis that, although not vastly different from the 1002 report, gave the BLM a greater degree of confidence in their original recoverable resource assessment of 1987, and also increased their knowledge and understanding of the complicated petroleum geology which exists in and around the 1002 area.

The geology studies and seismic information suggested the necessity of updating correlations of the pre-Ellesmerian basement rocks across the area. Elements of these rocks were important to almost all of the previously mapped prospects. The BLM developed a more detailed description of the depositional systems involved in ANWR stratigraphy. This was important in the Brookian sequence rocks as to their location, extent in the subsurface, and relationship to similar rocks in the Canadian Beaufort/Mackenzie Delta area which have successfully tested and produced oil and gas. The new data provided a higher degree of confidence in determining the nature of geological plays described in the original 1002 Report. This is important to the definition of drilling objectives in the mapped prospects.

The geophysical analysis incorporated the new well data, gravity data, and reprocessed seismic data obtained during the 1983-84 and 1984-85 seasons. The reprocessed seismic data provided better resolution to the seismic reflectors defining the shallow (Brookian) part of the section. This allowed the BLM to map several structural closures within this sequence. These prospects were delineated within the area previously mapped as trends (figure III-10 in the 1002 Report). Most of these new prospects are small and either would not be developed or would be developed in conjunction with the prospects mapped in the 1002 Report, over which the new prospects lie. However, in one case, the prospective target is a stratigraphic prospect of some significance. The gravity data correlated well with the seismically mapped structures of the 1002 area, helping to confirm this aspect of the 1987 Report. Geophysical information from the new wells around ANWR was useful for fine-tuning some of the sonic velocities that were used in the original mapping of the 1002 area. The velocity corrections provided more accurate depths to some of the prospects and also supported the reassessment of prospective reservoirs (drilling objectives).

In some of the prospects.

### PRESTO Model Inputs

The PRESTO (Probabilistic Resource ESTimates, Offshore) model was used to develop resource estimates. One or more prospective targets were defined for each identified prospect based on the potential for reservoir rocks. Reservoir parameters consisted of risks of no hydrocarbons and probability distributions of the physical characteristics of targets within prospects. Three levels of risk were defined: the risk that no recoverable hydrocarbons existed in the area, in each prospect, and in each prospective target in each prospect. Since gas was assumed to be uneconomic, only four parameters were defined for each target: the probability that the resource is oil (rather than gas), and distributions of productive acreage (acres), pay thickness (feet), and oil recovery factor (bbls/acre-foot). Engineering and economic input for PRESTO consisted of specifying minimum economic field sizes. Minimum recoverable resource sizes were set for each of the prospects.

### Reservoir Parameters

The 1991 PRESTO inputs of reservoir parameters evolved from updating the ANWR geologic and geophysical database described above. The changes included the addition of a new stratigraphic prospect mapped in the Brookian sequence, and other new prospects associated with the previously identified prospects. Some PRESTO inputs were derived by an iterative process. After each PRESTO run, the sampled means of the geologic parameters were reviewed to ensure that they accurately modeled the database of the regional geologic parameters. Iterative runs were necessary in cases where choices of the PRESTO input parameters were restricted. In these cases, a decision had to be made on which available input choice most accurately modeled the database of regional geological parameters. These updates resulted in revisions of geological risks, play assignments, and the distributions for unit thicknesses, oil recoveries, and productive acres (or trapfill).

**Geologic Risk.** Geologic risk played a major part in a PRESTO assessment and was the most subjective of the input parameters. In the 1987 resource assessment, ANWR was studied as a separate basin and considered a frontier area. Using other frontier areas as analogs, a rule-of-thumb approach was used in determining individual prospect risks. No prospect was considered to have a risk of less than 90 percent, i.e. no prospect could have a probability of success of greater than 10 percent. This approach assured that the PRESTO-generated probabilities of economic success would be consistent with other frontier onshore areas of the United States. However, reviews of the ANWR assessment by the National Academy of Science and the Department of Energy suggested that this assumption led to conservative resource estimates and unrealistically low probabilities of success.

The current resource update used the regional petroleum geology study, including the additional well data and the interpretation of reprocessed seismic data, to develop an improved understanding of the stratigraphic framework of the 1002 and surrounding area. With this information, it appeared more appropriate to consider the 1002 area as part of the North Slope

oil province, rather than as a rank wildcat frontier area, with ANWR the middle section between the Prudhoe Bay area complex and the discoveries in the Mackenzie Delta area (figure 2). In the North Slope province, hydrocarbons were thought to have been generated and trapped by a variety of mechanisms with the probability of an oil or gas show being very high. Therefore, the probability of a new oil or gas discovery under these conditions was considerably greater than reported in 1987. Consequently, the PRESTO inputs and the geologic prospect risk developed in 1991 reflected this situation, resulting in lower prospect risks and area risk. Each prospect in the 1991 assessment update was studied individually, and each had a risk computed for it derived from the USGS/BLM play risks and the BLM seismic risk. This allowed PRESTO to calculate a conditional economic probability for each prospect and eliminated the previous constraint.

As in the 1987 assessment, this analysis assumed a dependence between prospects. Assuming complete independence implies that all of the prospects in the area would be tested in the course of exploration without incorporating the acquired geologic information that became available as the exploration proceeded. Observations of drilling activities on the North Slope and the current knowledge of the geology of ANWR, resulted in an agreement with the 1987 assessment that only 4 to 6 prospects would be tested in the 1002 area to determine its economic viability. Prospects tested later would be dependent on the results of the first tests.

**Play Assignments.** Plays were extended or reassessed based on well data, seismic data and the regional geology study; potential reservoirs within prospects were then updated.

**Unit Thickness.** Adjustments were made to several prospects based on offshore well data and a regional geology study.

**Oil Recovery.** The oil recovery factor calculations were in part based on the gas-oil ratio (GOR). Literature research showed that the GOR used in the original assessment was conservative and not representative of those found on the North Slope. Oil recovery was recalculated using a more accurate figure for GOR.

**Productive Acres or Trapfill.** Trapfill is the percentage of the maximum areal extent of the trap that contains recoverable oil or gas. Given the maximum acreage for a trap, the trapfill can be converted to a distribution of productive acres. There is very little information available regarding trapfill. In the 1987 1002 assessment of in-place resources, a play analysis was conducted in which trapfill was represented by a seven point distribution. The assessment of recoverable resources, however, required a prospect analysis and utilization of the PRESTO model. Since the seven-point distribution is not available in PRESTO, a triangular distribution for trapfill was substituted for the calculation of recoverable resources in the 1987 report. However, the 1991 update used a lognormal distribution for trapfill. With the current uncertainty regarding trapfill, it was judged that a lognormal distribution better describes field size distributions found in nature.

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## Minimum Economic Field Size Analysis

Combining the Minimum Economic Field Size (MEFS) with the reservoir parameters in the PRESTO model produces the economically recoverable resource estimates. The inputs into the MEFS analysis can be grouped into four categories: engineering and costs, taxes, macroeconomics, and reservoir characteristics. The result of the MEFS analysis was a slight lowering of the MEFS. Each prospect has its own MEFS, but overall the MEFS decreased from about 440 million barrels to about 400 million barrels. This figure is applicable to western prospects. The eastern prospects, needing a longer pipeline to reach TAPS, required about 550 million barrels as opposed to the 660 million barrels in the 1002 Report.

The MEFS analysis for the 1002 Report was described in the Appendix, Economics of Oil and Gas Production from ANWR for the Determination of Minimum Economic Field Size, by Young and Hauser (1986). In 1990, the Department of Energy's (DOE) Idaho National Engineering Laboratory (INEL) conducted an extensive literature review, convened public hearings, and collected industry comments for a study of North Slope oil and gas development potential. This included an examination of potential development in the 1002 area. The draft of this study was published in August 1990. The BLM Alaska State Office reviewed this report, compared it with internal information, and followed it with a survey of companies operating on the North Slope to resolve inconsistencies and obtain industry comments on specific data and conclusions presented in the DOE/INEL draft report.

**Engineering and Costing.** Engineering on the North Slope since the 1002 Report analysis has been more evolutionary than revolutionary. The 1987 1002 analysis had been modeled after the Kuparuk field development. The 1991 analysis incorporated more recent development such as at the Endicott and Milne Point fields which have demonstrated further refinements such as smaller pad sizes that slightly lowered costs and decreased environmental impacts. Endicott is an offshore field developed on gravel islands where space is limited; Milne Point is a small field north of the Kuparuk field.

The major engineering and costing assumption incorporated into this analysis is the stand-alone assumption. This means that development of any prospect must cover all the costs of facilities and transportation requirements by itself. In other words, there is no cost sharing consideration for multiple field development, either simultaneous or sequential. This assumption was used in the 1002 Report. The DOE/INEL study reported tests of some hypothetical examples of multiple small discoveries and noted the resultant impact on minimum economic field sizes. This required them to make assumptions as to which prospects and under what conditions the prospects could share costs, which generally are unreliable and tend to be very subjective. The 1991 update focused on fields with sufficient significance to justify initial development in the 1002 area. Although smaller fields would be economic as a result of this development and would likely be developed later, they are not included in the resource assessment. The engineering and costing focused on minimum economic field sizes since PRESTO only requires the use of this threshold field size.

Exploration assumptions did not change from the 1002 Report: one exploration well drilled into the crest of the prospect the year after leasing, followed by two delineation wells each of the next

3 years into the deepest parts of the prospect. Since there was little recent data available on North Slope exploration, particularly in remote areas, the DOE/INEL study estimated these costs based on the 1002 Report exploration costs. However, BLM's later survey of industry indicated that this estimate was too low. This resource assessment used a cost function based on the industry survey and was consistent with the cost of drilling the KIC well on Native lands within the 1002 area. The BLM will continue to gather engineering and cost information related to new technology, and will consider them in any future updates.

The DOE/INEL study contained an extensive review of production facilities and their costs. The facilities are similar to those used in the 1002 Report, and take into account improvements in the footprint and efficiency. The DOE concentrated on the cost savings from facility sharing. While this is of interest with regard to later development of smaller adjacent fields, the present resource assessment is primarily concerned with initial development. The DOE/INEL estimated a cost surcharge of 15 percent for the first development in a remote area. The BLM's industry survey concurred with DOE's estimates for facilities costs.

The engineering of development drilling has changed little from the 1002 Report. In both the DOE/INEL study and this resource assessment, the number of wells required is still calculated as before. The DOE/INEL hypothesized different categories of development based on field size. For fields relevant to the MEFS analysis, DOE used the same development schedule as the 1002 Report, i.e., 6 years of development drilling with production starting in the 5th year of development and production peaking the year after completing the development. The BLM's industry survey strongly indicated that this was too long as it should be only 5 years of drilling with production starting in the 5th year and peaking the following year. The costs of development provided more disagreement. The DOE estimated a cost function for development drilling based on actual costs in existing fields, demonstrating how costs have declined dramatically over the past decade. However, DOE felt that these costs would not apply to a remote area such as the 1002 area and revised the 1002 Report cost functions, essentially eliminating the cost reductions gained in the past decade. The DOE then applied a learning curve to reduce costs by one-half over 5 years. Industry strongly disagreed with these estimates, indicating that the latest advances used at Endicott and Milne Point fields would also apply to 1002 developments. Costs would initially be somewhat higher than in existing fields, but would quickly drop as infrastructure was built up and the operators became familiar with ANWR. Thus, at depths to fifteen thousand feet, the estimated costs were much less than the DOE costs, in some cases were as low as one-half the DOE cost. At deeper depths costs increased rapidly, approaching DOE's costs at around twenty thousand feet.

Based on the DOE/INEL study and the concurrence of industry, the estimated production schedule was similar to that in the 1002 Report except that these small fields would have a 15 rather than a 12 percent annual decline. This assessment used two refinements in engineering that were introduced in DOE/INEL's North Slope study: using the increasing water cut and the decline in the number of active producing wells. Water cut is the percentage of fluid production that is water. As a field is depleted, the water cut increases. At the start of production, it is assumed that 40 percent of wells drilled are used for injection. As the reservoir gets depleted,

some production wells are converted to injection wells. The water cut is used in calculating operating costs, while the number of active producers is used in the severance tax calculation. Analyzing the existing fields on the North Slope, DOE obtained a more accurate representation of production costs based on total fluid production rather than oil production. Industry concurred with these costs and they were used in this resource assessment.

The DOE/INEL reviewed the three components of transportation costs; a pipeline from ANWR to TAPS, a tariff for using TAPS to Valdez, and tankering from Valdez to the lower 48. The TAPS tariff is comparable to the numbers in the 1002 analysis. This assessment used the same spreadsheet used by the State of Alaska to estimate future tariffs, including the costs of corrosion abatement and increased oil spill response capability. The DOE found that the average tanker cost was less than that used in the 1002 Report due to a higher proportion going to the West Coast rather than the Gulf Coast. The DOE did not have data to update the costs for the pipeline from the 1002 area to TAPS and thus used the function from the 1002 Report. However, industry strongly disagreed with this estimate. Based on their own internal studies of a pipeline from the 1002 area to TAPS, industry provided the lower cost estimates used in this resource estimate.

The stand-alone assumption and the facilities and ANWR pipeline costs are the primary factors for determining the MEFS. The development drilling costs also become a major factor for every deep, low yield prospect.

**Taxes.** Several changes have occurred in taxes since the 1002 analysis. The Federal tax code has changed but generally had little effect. Assuming development by a major oil company, the modification of the tax deductions is offset by the reduction in the corporate tax rate. The minimum tax provisions were assumed to have no impact. The State altered its severance tax by raising the tax for very large fields. Since this analysis is looking for the minimum economic field size, this change had only a marginal impact.

**Macroeconomics.** The macroeconomic assumptions covered four areas: discount rate, oil prices, the role of natural gas, and inflation. The discount rate used in this assessment was the same used by Young and Hauser for the 1002 Report, i.e., a real after-tax rate of 10 percent. The oil price scenario used was the DOE National Energy Strategy Reference Case. This resulted in a lower price schedule than that used in the 1002 Report, but was closer when taking into account the delay in opening the 1002 area of ANWR. Natural gas was still assumed to be uneconomic for purposes of estimating the MEFS due to the uncertainty of available transportation and the huge reserves already available on the North Slope. Although the gas eventually may be developed, the decision to develop the 1002 area in the next 10 years will not depend on the development of natural gas resources. Inflation is assumed to average four percent a year rather than the six percent used in the 1002 Report. This figure is comparable to inflation rates used in the DOE report and long range analyses by firms as DRI/McGraw-Hill. Since inflation was incorporated in cost and price escalation as well as the nominal discount rate, the impact on the MEFS was marginal. The decline in the price estimates was offset by the decline in the costs, resulting in the lower MEFS.

Reservoir Characteristics The reservoir parameters previously described were used in estimating the MEFS. For each prospect, a risk-weighted average oil recovery factor was calculated, conditioned on the existence of hydrocarbons in the prospect. In testing a resource size for the MEFS, the average recovery was used to calculate the number of acres required to contain oil. If the acres required exceeded the areal extent of the prospect, then the maximum productive acreage was used, increasing the recovery factor to that necessary to yield the tested resource size. The acreage in turn determined the number of wells needed to develop the prospect.

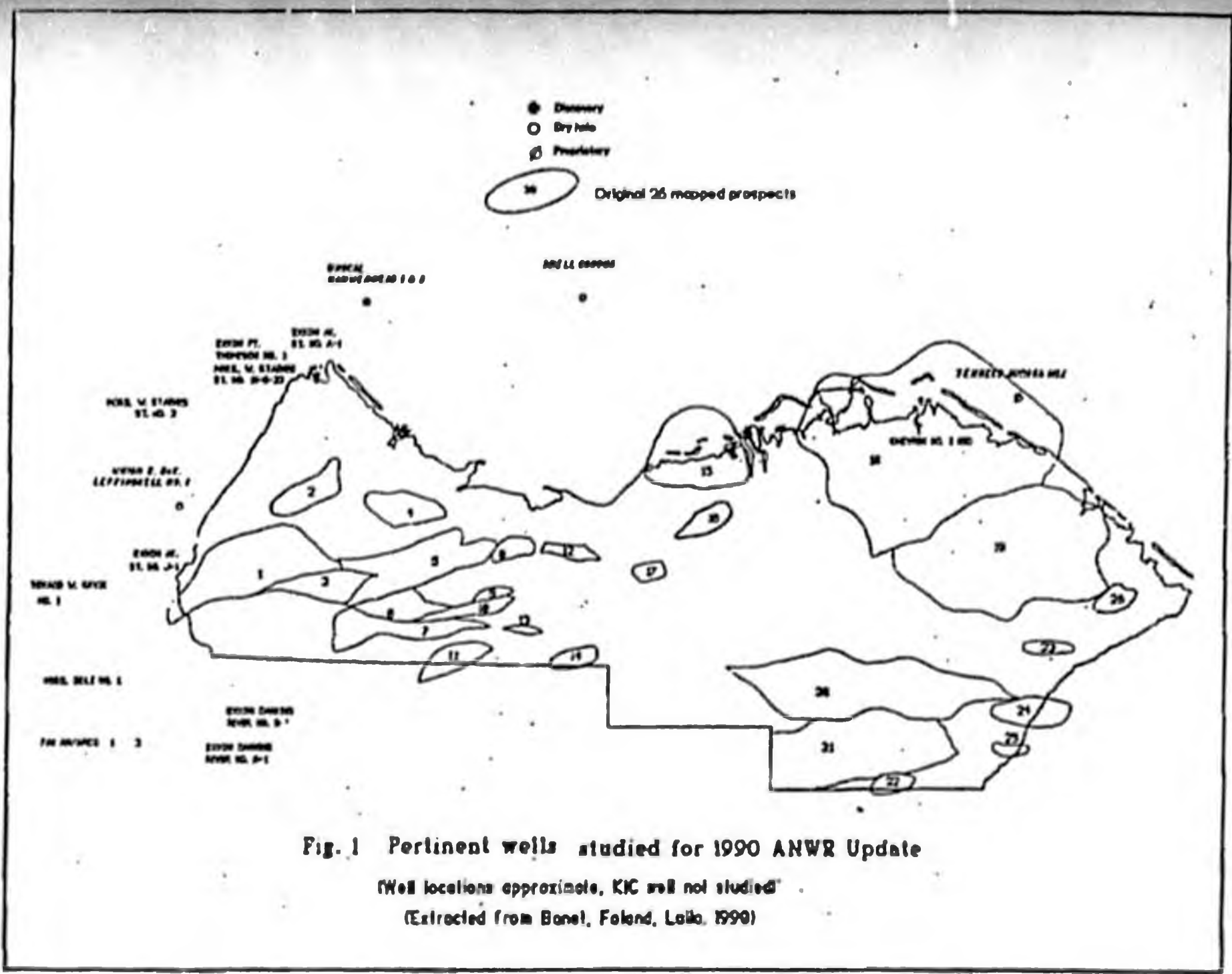
### PRESTO III Analysis Results

The results of this new study show that at the mean, there are 3.57 billion barrels of conditionally economically recoverable oil resources for the 1002 area with a marginal probability of economic success of 46 percent. The large increase in the marginal probability was due to:

1. Adding a reservoir to some of the prospects which made their economic probability greater;
2. Increasing the number of mapped prospects;
3. No longer considering the 1002 area as a frontier area for oil exploration and not constraining the individual prospect probability of success; and
4. Having a slightly smaller economic field size.

### Conclusion

Mineral assessment is a dynamic process. As new information becomes available, it will be necessary to review previous assumptions and models and, if necessary, make adjustments to previous assessments. The BLM has gained considerable experience and improved its expertise in analyzing the complicated foreland fold and thrustbelt type geology which exists in ANWR. The 1991 ANWR assessment update has reaffirmed the previous resource estimates and increased the confidence that these resources will be found. This confidence level is reflected in the increase in the marginal probability from 19 percent to 46 percent.



**Fig. 1 Pertinent wells studied for 1990 ANWR Update**  
 (Well locations approximate, KIC well not studied)  
 (Extracted from Bonet, Foland, Lallo, 1990)

# MAJOR OIL / GAS DISCOVERIES

North Slope, Alaska and Mackenzie Delta, Canada

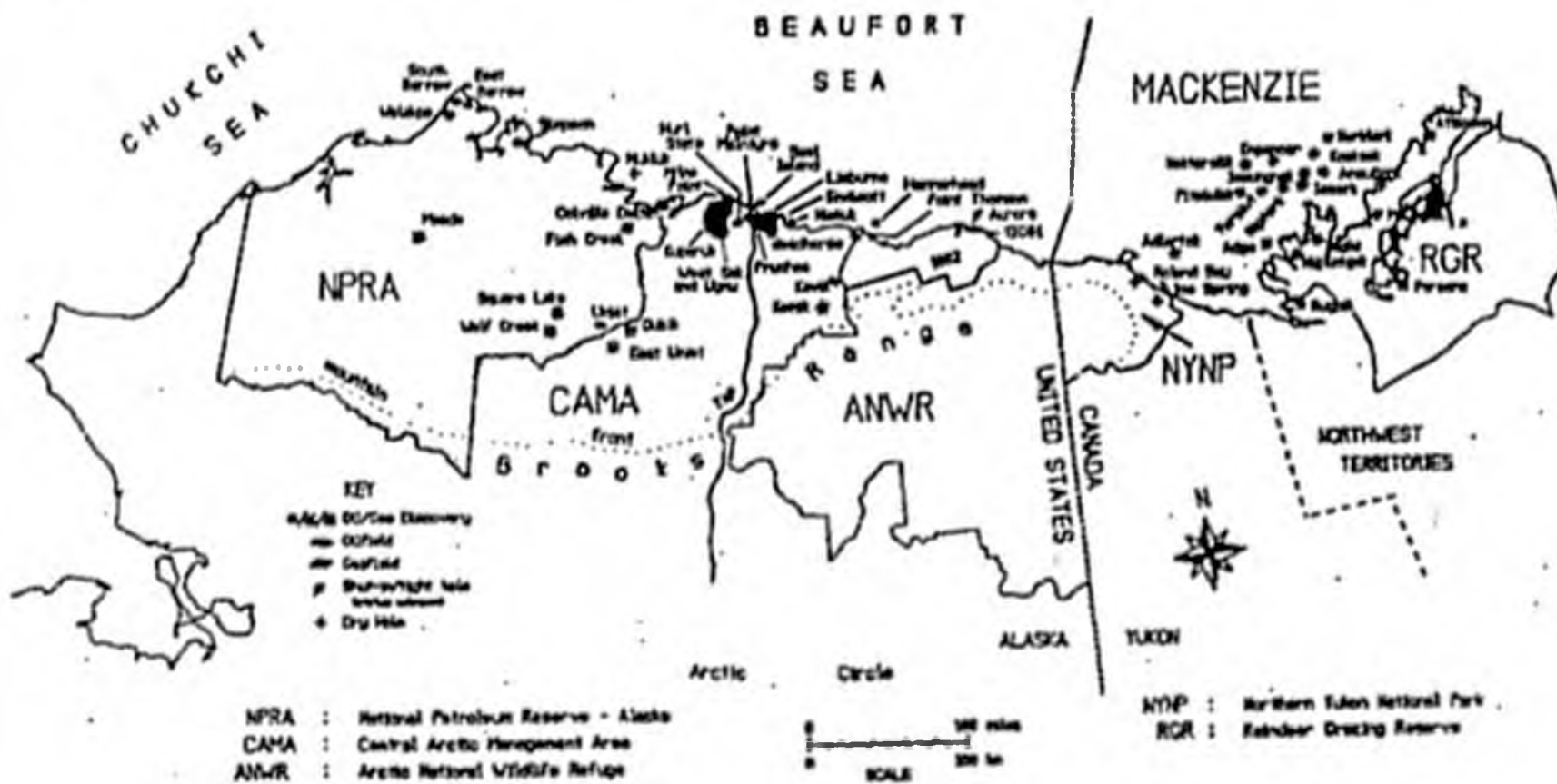


Fig. 2 Northern Alaska/Canada Oil & Gas discoveries

(From Banet, 1998, in press)



# House State Affairs Committee

## Representative Gene Kubina, Chair

DATE: February 28, 1992

PLACE: Capitol Room 102

**SUBJECT OF MEETING:**

- HB 506 - Relating to PF Dividend Check-Off for ANWR Support
- HCR 51 - Relating to Organ and Tissue Donation Week
- HCR 52 - Relating to Alcohol-Related Birth Defects

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
Cecil Reed	C/O J. MISS High Risk Families Coalition	CDD - 3406 Glacier Hwy	99821	737-3567	586-1470	<input checked="" type="radio"/>	<input type="radio"/>	HCR 52
Rud M. Grant	REVENUE				Y 238	<input type="radio"/>	<input checked="" type="radio"/>	HB 506
Bob Stalwaker	RETIREMENT DIVISION				X 4470	<input type="radio"/>	<input type="radio"/>	SB 381
Tom Williams	PF-D DIVISION	Revenue			Y 2323	<input checked="" type="radio"/>	<input type="radio"/>	HB 506
						<input type="radio"/>	<input type="radio"/>	
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# House State Affairs Committee

## Representative Gene Kubina, Chair

**DATE:** February 28, 1992

**PLACE:** Capitol Room 102

**SUBJECT OF MEETING:**  
 CSSR 381 - Relating to Health Insurance Info for PERS Retirees  
 HB 404 - Relating to Deadline for Certain Candidates  
 HB 327 - Relating to Primary Elections

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ W/CH BILL?
Paula Torrel	Sen Kittula	P.O. Box V	99811		465 1200	<input checked="" type="radio"/> Y	<input type="radio"/> N	SB 381
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
						<input type="radio"/> Y	<input type="radio"/> N	
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						<input type="radio"/> Y	<input type="radio"/> N	

HB

507

(7)

HOUSE COMMITTEE REPORT

Date Referred: March 13, 1992

FURTHER REFERRALS:

Date of Committee Action: 3/23/92

The STATE AFFAIRS Committee considered:

HB 507

HOUSE BILL NO. 507

LBC ANNEXATION PROPOSALS

"An Act relating to certain annexation proposals submitted by the Local Boundary Commission to the legislature."

RECOMMENDATIONS:

the same title

be replaced with \_\_\_\_\_  a new title

have attached amendment(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dep)

APPROVES PREVIOUS: (Dep/Dir)

fiscal impact \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

zero fiscal note \_\_\_\_\_

zero fiscal note(s) C+24 3-13-92

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Eugene St. Hubert</i>	<input checked="" type="checkbox"/>	<i>T. Mosey</i>		<input checked="" type="checkbox"/>	
<i>M. P. ...</i>	<input checked="" type="checkbox"/>	<i>E. ...</i>		<input checked="" type="checkbox"/>	

*Eugene St. Hubert*  
CHAIRMAN'S SIGNATURE

## STATE OF ALASKA

## LOCAL BOUNDARY COMMISSION

WALTER J. HICKEL, GOVERNOR

333 W 4TH AVE., SUITE 220  
ANCHORAGE, ALASKA 99501-2341  
(907) 269-4500

March 20, 1992

The Honorable Gene Kubina, Chairman  
House State Affairs Committee  
Room 102  
State Capitol  
Juneau, Alaska 99801-1182

RE: HB 507

Dear Representative Kubina:

I regret that I am unable to be present at the March 23 House State Affairs Committee hearing on HB 507. Please accept this letter in lieu of my direct testimony.

The Local Boundary Commission opposes HB 507. The Commission carefully considered this bill at its meeting of March 17.

The legislation would restrict the Commission's authority to grant a deferred effective date for certain annexations. Although seldom used, this authority has been vitally important in carrying out the duties of the Commission.

During my 12 years on the Commission, deferred annexations have been granted only twice. In 1984, the Commission approved a 2 year deferred annexation allowing residents of the City of Haines and the Haines Borough to consider unification of their two governments. The only other time was the recent annexation of the Greens Creek Mine to Juneau.

With respect to the Juneau annexation, the Commission could have used the step annexation process set out in AS 46.47.567(b)(2) to accomplish its objectives. However, the law is written in a manner which requires resident voters to approve step annexation. The territory in question is uninhabited.

As a preferred alternative to HB 507, the Commission urges the House State Affairs Committee to amend AS 46.47.567(b)(2) to permit step annexation of uninhabited territory. We believe it would be wrong to begin to create artificial constraints to the exercise of duties of the Constitutionally-based Local Boundary Commission.

Thank you for your consideration.

Sincerely,



Charles B. Bettisworth  
Chairman

REPRESENTATIVE  
JERRY MACKIE

P.O. BOX 13  
CRANDAL ALASKA 99581  
(907) 826-3008 OFFICE  
(907) 826-2930 HOME

CHAIRMAN  
CENTRALITY & REGIONAL AFFAIRS COMMITTEE

VICE CHAIRMAN  
TRANSPORTATION COMMITTEE

# Alaska State Legislature



House of Representatives

WILEY JUREAU  
P.O. BOX V  
JUREAU ALASKA 99511  
(907) 485-4825

## MEMORANDUM

TO: Representative Gene Kubina, Chair *GKWB*  
House State Affairs Committee

FROM: Representative Jerry Mackie *JM*

DATE: March 18, 1992

RE: Scheduling of HB 507

HB 507, relating to certain annexation proposals submitted by the Local Boundary Commission to the Legislature, has been referred to your committee. I respectfully request a hearing on this bill at your earliest convenience.

I am attaching a copy of my sponsor statement on HB 507, along with the necessary backup materials. Please contact me if you need any additional information.

# STATE OF ALASKA

STEVE COWPER, GOVERNOR

## DEPT. OF COMMUNITY AND REGIONAL AFFAIRS

### MUNICIPAL AND REGIONAL ASSISTANCE DIVISION

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NOME, ALASKA 99762-0041  
PHONE: (907) 643-8437

RECEIVED

AUG 3 1990

CBJ - LAW DEPT.

July 31, 1990

Mr. John Corso  
Deputy Attorney  
City and Borough of Juneau  
155 South Seward Street  
Juneau, AK 99801

Dear Mr. Corso:

You recently inquired about step annexation and the option to defer the effective date of annexation in regard to the Greens Creek Mine.

We believe that the Local Boundary Commission has the authority to delay the effective date of an annexation. In a January 17, 1984 opinion (copy enclosed), Assistant Attorney General James L. Baldwin concluded:

We believe the provisions of section 12 (Article X of the State Constitution) do not restrict the power of the local boundary commission to delay the operative date of the boundary change. . . .

There is no express provision in either the statute or the regulations dictating the time that a boundary change is to become operative. Therefore, the only restraint on the agency's choice of annexation method is the requirement that there be no abuse of discretion.

We are uncertain, however, whether the option of step annexation would be appropriate in this instance. Laws allowing step annexation were enacted as an alternative to immediate annexation. The step annexation provision allows for gradual assimilation of contiguous areas into a municipality where direct annexation would be premature or impractical. We are unaware of circumstances which indicate that it may be "premature or impractical" for direct annexation of the Greens Creek Mine to the City and Borough of Juneau.

EXHIBIT A

BOUNDARY ANNEXATION INFORMATION

Mr. John Corso  
July 31, 1990  
Page Two

Further, laws regarding step annexation provide only for the annexation to a city of contiguous territory "upon a majority approval of the voters of the contiguous area to be annexed . . ." (see AS 44.47.567(a)(4), AS 44.47.567(b)(2) and 19 AAC 10.740 - 790). Whether a unified municipality could annex an unpopulated area using this method is unclear.

If you wish to further consider the option of step annexation, we would appreciate the opportunity to discuss the matter with you. Please contact Dan Bockhorst or myself.

Sincerely,

  
Marty Rutherford  
Director

enclosure: January 17, 1984 memorandum from James L. Baldwin

cc with enclosure:

The Honorable Bruce Botelho, Mayor, City and Borough of Juneau  
Members of the Local Boundary Commission  
Marjorie Odland, Assistant Attorney General

EXHIBIT A

# MEMORANDUM

# State of Alaska

TO: Jim Sanders  
Local Boundary Commission

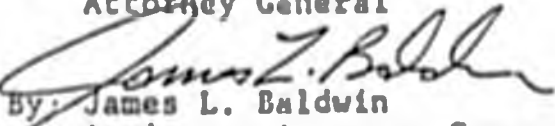
DATE: January 17, 1984


FILE NO:

TELEPHONE NO: 465-3600

FROM: Norman C. Gorsuch  
Attorney General

SUBJECT: Delaying effective  
date of boundary  
change

  
By: James L. Baldwin  
Assistant Attorney General  
Governmental Affairs-Juneau

  
By: Fran Bremer, Legal Intern  
Governmental Affairs-Juneau

You have asked us whether the local boundary commission can validly delay the effective date of a boundary change for two years, contingent on the holding of an election for the unification of the Borough and City of Haines. The answer is yes.

Article X, section 12 of the Alaska Constitution provides for the establishment of a local boundary commission, which may present a proposed boundary change to the legislature within the first 10 days of the session. Section 12 provides, "[t]he change shall become effective forty-five days after presentation or at the end of the session, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house." AS 44.47.583 repeats essentially the same language: "the change becomes effective 45 days after the presentation ...."

An examination of the minutes of the constitutional convention shows that the wording of section 12 was not intended to set a definite date on which the boundary change was to physically occur. 4 Proceedings of the Alaska Constitutional Convention 2750-2753 (Jan. 20, 1956). Rather, the language was intended as a limit on the legislature's power to disapprove a proposed boundary change.

At the convention, an amendment was introduced which required active legislative approval of a proposed boundary change. The delegates discussed the merits of permitting the proposed change to occur without legislative intervention, and rejected the amendment. 4 Proceedings at 2751. It is clear from comments made during floor debate that the delegates' main concern was the potential for delay caused by conditioning a boundary change on legislative approval. A delegate noted that a boundary change could be "difficult to get through if it is going

## EXHIBIT C

to affect somebody's constituents." Id. Others noted that changes must be submitted to the legislature "but in the press of business ... they may not get around to consider such little things as a minor boundary change ..." and that "this little boundary adjustment will go from session to session ... because they won't have time to make it approved." Id. The 45-day limit on the legislature's power to disapprove avoided the possibility that the boundary change could go "from session to session" without being decided. See also A.L.I.V.E. Voluntary, 606 P.2d 769 (Alaska 1980)(discussion of article X, section 12 in terms of the power of the legislature to veto executive action).

We believe the provisions of section 12 do not restrict the power of the local boundary commission to delay the operative date of the boundary change. Alaska courts have recognized that annexation decisions involve policy choices that are incapable of judicial resolution. Port Valdez Co., Inc. v. City of Valdez, 522 P.2d 1147 (Alaska 1974); U.S. Smelting, Refining & Mining Co. v. Local Boundary Comm'n., 489 P.2d 140 (Alaska 1971). The local boundary commission was created to provide an expert and experienced agency to make these policy choices within the guidelines set out by law and regulation. See Town of Stillwater v. Minn. Municipal Comm'n., 219 N.W.2d 82, 87 (Minn. 1974)(commenting on the Minnesota Municipal Commission, whose structure and function is similar to that of the local boundary commission). Accordingly, the statutory scheme grants the commission broad power in matters affecting local boundaries. AS 44.47.565 -- 44.47.583. There is no express provision in either the statute or the regulations dictating the time that a boundary change is to become operative. Therefore, the only restraint on the agency's choice of annexation method is the requirement that there be no abuse of discretion. Port Valdez, 522 P.2d at 1151. The commission's decision to allow a two-year delay was a reasoned choice between the competing objectives of encouraging cooperation between the city and borough, and that of settling boundary questions promptly to facilitate planning and assure responsiveness to current conditions. The commission's choice of method -- to delay the operative date -- is analogous to an agency's power to delay the effective date of a regulation under AS 44.62.180(4). We, therefore, conclude that the commission has the power to delay the operative date of the annexation for two years.

FB/pjg

EXHIBIT C

## MEMORANDUM

## State of Alaska

TO: Marty Rutherford, Director  
Municipal & Regional Asst. Div.  
Dept. of Community & Regional  
Affairs

DATE: July 23, 1985

PHONE NO: 366-034-86

TELEPHONE NO: 455-3600

FROM: Harold M. Brown  
Attorney General

SUBJECT: LBC authority to detach an area from an organized borough

By: Jonathan B. Rubini  
Assistant Attorney General  
Governmental Affairs-Juneau

You have asked whether the Local Boundary Commission (LBC) enjoys the legal authority to present to the legislature a petition which provides for the detachment of an area from an organized borough if, but only if, the area to be detached is included within a newly-formed borough. Upon your request to expedite our review of this matter, we stated our oral advice that the LBC does enjoy the requisite legal authority. We briefly set out our views below.

We are advised that the North Slope Borough presently has under consideration a proposal to detach that portion of the borough which is included within the NANA Regional Corporation. The area in question includes the Pad Dog mineral deposit, and inclusion of the Red Dog site is considered essential to the formation of a new borough encompassing the NANA Regional Corporation territory.

Article X, section 12 of the Alaska Constitution provides for the establishment of the LBC, and further directs the LBC to "consider any proposed local government boundary change." (Emphasis added.) Boundary changes approved by the LBC are presented to the legislature and "shall become effective forty-five days after presentation ... unless disapproved by a [concurrent resolution]."

We have previously stated our view that the LBC enjoys broad, inherent legal authority in the discharge of its constitutional and statutory obligations. 1962 Inf. Op. Att'y Gen. (J66-585-C1; Oct. 25) (copy attached). Our conclusion in this regard reflects the series of Alaska Supreme Court decisions which reflect the court's deference to recommendations and procedures adopted by the LBC. See Port Valdez Co. v. City of Valdez, 522 P.2d 1147 (Alaska 1974); Osau v. City of Billingsham, 439 P.2d 130 (Alaska 1968); Fairview Public Utilities District Number One v. City of Anchorage, 500 P.2d 340 (Alaska 1973). Osau is particularly illuminating, since in that case the court explicitly noted that the LBC enjoys the authority to dissolve a city notwithstanding the absence of express statutory authority to do so. Osau, 439 P.2d at 103.

EXHIBIT D

Marty Rutherford, Director  
 CNA--Municipal & Regional Assoc. Division  
 366-034-86

July 23, 1985  
 Page 72

The immediate question is whether the constitutional effective date provision precludes the LSC presentation of a qualified boundary change, that is, a proposal which takes effect at some point -- and for some reasons -- unrelated to the 45-day provision. In most instances, the affirmative action of the legislature is required to initiate legislative action. In this instance, as in the case of legislative review of executive orders under article III, section 23, the constitution uniquely authorizes legislative "approval" through inaction. The provision reflects deference to the LSC and a desire to compel expeditious legislative attention to a LSC proposal. The constitutional provision should not be construed as a substantive limit to the otherwise broad delegation of legislative powers to the LSC. Indeed, the effective date provision is not necessarily in conflict with the broad authority of the LSC. Viewed properly, the effective date clause relates to the LSC proposal, not the underlying boundary change. Were the LSC to exercise its inherent authority to present a qualified proposal to the legislature, the proposal -- as qualified by the LSC -- takes effect 45 days after submission unless disapproved by concurrent resolution. Accordingly, we believe that the LSC enjoys the legal authority to present a qualified proposal to the legislature.

It is further noted that regulations adopted by the LSC further confirm the authority to present a qualified proposal. 19 AAC 10.240(b) provides:

(b) If, in fulfilling the requirement of (a) of this section, the petitioners have proposed the incorporation of a new municipality, the commission will, in its discretion, condition approval of the detachment upon voter approval of the incorporation proposal.

The regulation expressly authorizes the LSC to condition a detachment petition upon the subsequent incorporation of a municipality including the detached area. By direct implication, the regulation reflects that the LSC may condition a detachment petition upon the subsequent incorporation of a new borough. See 1982 Inf. Op. Att'y Gen. (J66-335-81; Oct. 23). See generally U.S. Smelting, Refining and Mining Co. v. Local Boundary Comm'n. 407 P.2d 240 (Alaska 1971).

If you have any other questions, please feel free to call.

JBR/pig  
 Enc.

EXHIBIT D

C. REASONS FOR IMMEDIATE ANNEXATION

DCRA believes that immediate annexation of the territory is warranted for the following reasons.

1. Territory Currently Needs CBJ Services

The LBC concluded in its written statement of decision concerning the CBJ annexation adopted October 8, 1990, that:

The area is in need of municipal services which the CBJ can provide more efficiently than another municipality or the State. Thus, the standard set out in 19 AAC 10.190(a)(3) is satisfied. This conclusion is based upon the following findings.

While the area has no permanent residents, it is a major industrial site in close proximity to Juneau. More than 200 individuals reportedly work at the Greens Creek Mine. All of these individuals are believed to reside within the boundaries of the CBJ.

The CBJ would provide the following direct services to the area upon annexation:

- emergency police services (offered in a limited capacity and only in emergencies);
- search and rescue;
- emergency medical services;
- planning, zoning and coastal management;
- tax assessment and collection; and
- building inspection.

In addition, services delivered by the CBJ in other locations, but available to the workers in the annexed area include:

- Juneau public school system;
- Juneau International airport;
- Juneau hospital;
- Juneau harbor facilities;
- social services;
- recreation facilities;
- day care facilities; and
- museums.

Thus, the LBC has concluded that there are presently unfulfilled needs for municipal services in the area proposed for annexation. KGCNC officials dispute this finding of the LBC. In their comments of April 15, 1991 (see appendix), Mr. Clark states:

There is not a single service that the CBJ can offer that Greens Creek "needs". The mine is completely self-sufficient and has its own emergency response

team for medical problems. With respect to support services for mine employees, the mine employees pay for those services through their own taxes.

The Department's argument goes on to state that KGCMC has a need for planning and zoning and coastal management, tax assessment and collection, and building inspection. These are the very problems associated with annexation that both the CBJ and KGCMC are seeking to avoid by deferral and thus, the statement is ludicrous on its face.

Mr. Clark seems to suggest that the mine should be viewed in an isolated fashion -- totally separate from the community of Juneau. In DCRA's view, KGCMC "needs" the services of the CBJ because it requires an educated, healthy, protected workforce -- one which travels to and from work on roads maintained by the CBJ and uses other facilities and services of the CBJ.

While the Greens Creek Mine may have its own emergency response team, any injured worker requiring serious medical attention is likely to receive such at the Juneau hospital. Regardless of the extent to which the mine endeavors to be self-supporting, any calamity of the mine site would likely require direct services from the CBJ (police, EMS, search and rescue).

Arguments that residential property and sales taxes pay an appropriate share of the costs of providing services to local residents are unpersuasive. The 1990 taxable value of residential real property within the boundaries of the CBJ amounted to only 50.7% of the total taxable property in the CBJ (\$609,218,700 of \$1,200,903,075 - source: State Assessor).

Thus, the territory proposed for annexation is in need of services and it is appropriate that all taxable properties within the CBJ contribute to the financial support of the local government.

## 2. Law Contemplates Immediate Annexation

The LBC's standards for annexation to boroughs (19 AAC 10.200) require that:

The commission will not approve an annexation unless the annexing organized borough demonstrates to the satisfaction of the commission that it is capable of extending and willing to extend services to the annexed area in accordance with this subsection. If possible, areawide and non-areawide borough services shall be extended to the annexed area immediately. . .

The LBC formally concluded in its October 8, 1990 statement of decision that "the CBJ is capable of extending and willing to extend areawide services to the 140 square mile area proposed for annexation in accordance with 19 AAC 10.200." DCRA is

*2 more State  
likely vs.  
propos. vs.  
cash based*

unaware of any circumstance which suggests that it is not possible to extend immediate services to the Greens Creek Mine upon annexation. As such, the LBC's regulations contemplate that annexation occur immediately.

#### D. CONCERNS OVER DUE PROCESS

Mr. Clark indicates in his comments of April 15, 1991 that "KGCMC has previously asserted and continues to assert that the LBC did not have authority to approve the application for annexation after it was withdrawn by the CBJ Assembly on July 13, 1989".

DCRA and the LBC have taken every conceivable measure to ensure the rights of KGCMC in this matter. The reconsideration process has followed all of the steps which would be required of a new petition.

Mr. Clark's comments of April 15 conflict with testimony provided to the Commission in November (see appendix). The November testimony states on page 5:

Greens Creek urges the commission to grant its request for reconsideration because the proper measure of due process has not occurred to date. In order to rectify the situation, the CBJ petition with the 1994 deferred effective date should be noticed and the LBC procedures begun anew. This would give all interested parties the opportunity to submit testimony on the issue and allow the commission to make an informed decision. (emphasis added)

The concerns expressed by Mr. Clark last November were fully addressed in the procedures used in the reconsideration DCRA believes that these procedures are in substantial compliance with all applicable requirements.

#### SECTION III - CONCLUSIONS AND RECOMMENDATION

The CBJ initiated its petition for annexation in May of 1989. That annexation, which might have been implemented as early as March of 1990, was delayed by one year as a result of the model boundaries project. The annexation was delayed an additional year as a result of the current reconsideration proceedings. The earliest that the annexation could now be implemented is March of 1992. The Greens Creek Mine has already gained nearly one million dollars in tax relief.

The Department does not believe that further delay in the annexation of the Greens Creek Mine is warranted. This position is based upon the following:

- The LBC has formally concluded that the Greens Creek Mine is presently in need of municipal services.

- Standards for borough annexation contemplate the immediate extension of services to newly annexed areas.
- The taxes and regulatory burden placed upon the Greens Creek Mine are not unreasonable when viewed in the context of the size of the mine, its impact upon Juneau and the taxing and regulatory practices of the CBJ.
- If the annexation is deferred to provide financial relief to the Greens Creek Mine, others in Alaska are likely to seek similar treatment. Manipulating regional government boundaries in such a fashion is counter to the Constitutional provisions requiring boroughs to "embrace an area and population with common interests to the maximum degree possible".
- The deferral would have adverse financial impacts on the State.
- The deferral is contrary to the State's goal of diminishing reliance on the State to support local services.

DCRA notes that delays in the annexation proceedings have already resulted in substantial tax savings to the mine. The annexation might have been effected as early as March, 1990; the earliest it can now be implemented is March, 1992. These delays have resulted in projected tax savings to the mine amounting to \$972,000.

DCRA does not dispute the critical public benefit associated with ensuring the viability of the mine. However, to the extent that deferral of taxes may be necessary to accomplish that end, DCRA stresses that the CBJ enjoys independent authority to grant full relief from municipal sales and property taxes to the mine following annexation.

Therefore, DCRA recommends that the LBC deny the proposed deferral of the annexation.

**DIVISION OF LEGAL SERVICES**

**LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA**

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

240 Main Street, Suite 500  
Juneau, Alaska 99801-2101

**MEMORANDUM**

February 11, 1992

**SUBJECT:** Effective Dates of LBC (Work Order No. 7-LS1980)

**TO:** Representative Jerry Mackie

**FROM:** Tamara Brandt Cook  
Director *TBC*

You have asked whether the Local Boundary Commission (LBC) may include a delayed effective date in an annexation proposal submitted to the legislature. It is not clear to me that the LBC now has the authority to delay the effective date of an annexation. Article X, section 12 of the state constitution provides:

**Section 12. Boundaries.** A local boundary commission or board shall be established by law in the executive branch of the state government. The commission or board may consider any proposed local government boundary change. It may present proposed changes to the legislature during the first ten days of any regular session. The change shall become effective forty-five days after presentation or at the end of the session, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house. The commission or board, subject to law, may establish procedures whereby boundaries may be adjusted by local action. (Emphasis added)

The legislature has included this language in AS 44.47.567, so it could be argued that the effective date of an annexation submitted to the legislature as a boundary change has been established as a matter of both constitutional and statutory law.

It is true that the legislature has provided for gradual or step annexations for cities under AS 44.47.567. The Supreme Court appears to have accepted the power of the legislature to do so, despite the language of the constitution regarding the effective date of changes. (Port Valdez Company, Inc. v. City of Valdez, 522 P.2d 1147 (Alaska 1974)) But it may be that the court does not consider a step annexation to amount to a special effective date, since the beginning of the annexation process may coincide with the constitutionally established effective date. In any case, it does not appear that the legislature has authorized even step annexations for boroughs, much

Representative Jerry Mackie  
February 11, 1992  
Page 2

less delayed effective dates. There is, I think, at least a question as to whether the LBC can, on its own initiative, provide for a delayed effective date.

TBC:mi  
92-021.mai

prevents the LBC from acting on the petition for annexation. The relationship of the Greens Creek area to Juneau and adjacent regions (particularly the Chatham region) was fully considered by the LBC. Interested parties from adjacent regions had ample opportunity to provide written comments and oral testimony to the LBC on this matter. While the 140 square mile area has undeniable social, cultural and geographic ties to the Chatham area, the LBC finds that this area has even stronger ties to Juneau.

Commission's Initial Position on the Proposal to Defer the Effective Date of the Annexation

On August 20, the CBJ Assembly rescinded its withdrawal of the annexation petition, but made the rescission subject to the LBC deferring the effective date of the annexation to January 1, 1994. Juneau advised the LBC of the proposal to defer in an August 22, 1990 letter from the CBJ Manager which enclosed three pages of testimony by Cliff Davis, Manager of the Kensington Greens Creek Mining Company (KGC/MC). The proposal to defer the effective date of the annexation was intended to extend the municipal tax exempt status of the mine development. Mr. Davis' testimony stated:

... by delaying annexation until 1994, Greens Creek would be given a breathing space to become profitable before taxation begins. We have stabilized the economics at very low margin, but must improve them considerably to secure the mine's long-term future. We have considered a number of options for doing this, most of which require large capital expenditures. We want to get this behind us before we are annexed and begin paying taxes.

The LBC considered the proposed deferral at its meeting on September 6, 1990. The LBC concluded the information and arguments presented by the CBJ and the mining company did not sufficiently justify a deferred effective date.

The LBC felt that to grant the request for the deferred effective date would set a poor precedent. It would allow organized boroughs to "kick up" parts of the unorganized borough without exercising jurisdiction and control over those areas. The Commission concluded that the request to defer the annexation for approximately 33 months was counter to the interests of the State.

The LBC noted that the CBJ Assembly had the capacity to grant tax relief to the mine without affecting the interests of the State. AS 29.43.000(a) authorizes the CBJ to enact an ordinance to "partially or totally exempt all or some types of economic development property from taxation for up to five years" and that such exemptions may even be extended beyond the five year period under certain restrictions. Thus,

the CBI could unilaterally grant the property tax deferral which it initially sought on behalf of the Mine.

Further, exemptions in Alaska enjoy very broad and liberal authority to grant exemptions from the sales taxes they levy. The LBC believes the CBI could legally enact a sales tax exemption (e.g. "exemption of sales to economic development properties") to provide sales tax relief to the mine for whatever period of time desired by the CBI Assembly.

Granting such exemptions would not affect the level of local support required for operation of public schools required under Alaska's Public School Foundation Program. Regardless of any property or sales tax exemptions, the CBI would be required to contribute an additional estimated \$248,000 in support of its public schools as a direct result of the assessment, beginning in FY 94 (see AS 14.17.025).

It, however, the Commission agreed to the January 1, 1994 deferred effective date, this would defer the effective date of the additional required local contribution for schools for two years. The LBC believed this result would have been counter to the interests of the State.

In consideration of all of these points, the LBC concluded that if the CBI truly wished to defer the effective date of the assessment until January 1, 1994, the current pension should be demand and the CBI should reimburse its pension for assessment in two years.

Commission's Final Report on the Arctic Assessment

Based upon its findings and conclusions, the Commission ordered:

1. That The City and Borough of Juneau, Alaska Pardon for the Assessment of Certain Onshore and Offshore Areas in Stephens Passage and Admiralty Inlet, dated May 31, 1989, is approved.
2. That a recommendation for the assessment of the territory required in the assessment petition noted in # 1 above be submitted to the First Regular Session of the Seventeenth State Legislature during the first ten days of the Session.
3. That the assessment take full effect forty-five days after presentation of the recommendation noted in # 2 above, or at the end of the First Regular Session of the Seventeenth State Legislature, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house.

4. That, upon the effective date of the annexation, the Department of Community and Regional Affairs issue a Certificate of Boundaries to reflect the annexation of territory to the City and Borough of Juneau.

#### Reconsideration

Three weeks later, KCCMC filed a timely request for reconsideration of the LBC's decision. The request for reconsideration raised the following claims:

1. Once the petition had been withdrawn by the CBJ, the LBC had no authority to approve it.
2. After the CBJ reinstated its petition, the matter should have been treated as a new petition, beginning with new notice of the filing of the petition.
3. The LBC did not seriously consider the CBJ's request to defer the effective date of the annexation.
4. The LBC's decision on the proposed deferral was made without substantive discussion and the conclusions presented in its statements of decision were not supported by the record.
5. The LBC was arbitrary in that it approved the petition based upon the action of the CBJ Assembly on September 17, 1990 (which did not provide for an immediate effective date, given the pending reconsideration) but denied the proposed deferral without debate.
6. The LBC's decision to approve the CBJ's petition was arbitrary in light of its denial of a similar annexation petition from the Fortbelts North Star Borough.

On November 8, 1990, the CBJ filed a response to the request for reconsideration. The response stated that "the city and borough believes that reconsideration of the reinstated amended petition with the 1994 effective date proposal as set forth in CBJ Resolution No. 1462 (Government) is appropriate". The following three reasons were cited as the basis for the CBJ's position:

1. The CBJ Assembly action of September 17, 1990 was not intended to preclude reconsideration.
2. Neither the statutes nor LBC regulations provided procedures for withdrawal or amendment of petitions.

3. Reconsideration would result in a full hearing on the CBI's  
reinstated amended petition.

On November 10, the LBC voted to reconsider its earlier denial of the proposed deferral of the annexation. The LBC limited reconsideration to the effective date of the annexation. That is, approval of the annexation itself was not to be reconsidered.

The CBI filed a brief urging the LBC to approve the proposal to defer the annexation. Copies of the brief were served by the CBI on 62 interested parties. Notice of the proposal to defer the annexation was also served on 62 parties by the CBI, and the notice was published three times in the *Jessau Empire*. KCCMC also filed a brief in support of the deferral. The Mayor of the City of Kake was the only other party to offer written comments on the matter by the February 11, 1991 deadline.

DCEA's draft report recommending against the proposed deferral was released for public review on March 15, 1991. Interested parties were given until April 15, 1991 to comment on the draft. DCEA then issued its final report and recommendations on the proposed deferral, still recommending against granting the deferral.

The LBC's Findings and Conclusions on Deferral

On June 29, 1991, the LBC held a public hearing on the proposal to defer the annexation. Then, based upon the evidence before the Commission, including but not limited to the briefs filed by the CBI and KCCMC, the report and recommendation of DCEA, other written submissions and testimony to the LBC at the June 29 hearing, the Commission made the following findings and conclusions.

Conclusion #1

The deferred effective date would serve valid public purposes.

The annexation is warranted for the reasons stated in the Commission's October 8, 1990 statement of decision. However, it appears that municipal tax and regulatory burdens imposed prior to 1994 may jeopardize the long-term viability of the mine.

According to testimony from the CBI at the June 29, 1991 hearing, concerns over the impacts of annexation upon the mine were not present in 1988 when the annexation petition was filed. However, a subsequent decline in the price of silver and zinc altered the profitability of the mine.

CBI David, Manager of the Greens Creek Mine, stated in an affidavit dated April 15, 1991, that "I[he] Greens Creek Mine is not currently profitable and will not be profitable under current circumstances." The record also indicated that the mine col-

back on employee pay and benefits in order to reduce costs. Further, KCCMC officials testified that the mine had asked vendors to reduce the cost of supplies provided to the mine as a consequence of the downturn in the price of ore.

In addition to efforts to reduce costs, mine officials contemplated an expansion of the operations to enhance profitability. If the territory were annexed to the CBI, any expansion would be subject to land use regulation by the CBI. KCCMC officials testified that the municipal permits for the expansion would likely exceed \$200,000.

CBI officials testified that KCCMC had proven itself to be a very responsible organization with a sound environmental record. Any expansion of the mine would be subject to federal and state environmental laws. CBI officials expressed no concern over the prospect of expansion of the mine while it was outside the jurisdiction of the CBI.

In addition to relief from permit fees, CBI officials testified that temporary relief from municipal taxes and property taxes was warranted. The Greens Creek Controller testified that deferral of the annexation until 1994 was projected to save the mine a minimum of nearly \$635,000 in taxes and permit fees. The CBI and the KCCMC reached an accord that deferral of the annexation until 1994 would provide sufficient relief from regulation and taxes to help ensure the long-term viability of the mine.

Because the Greens Creek Mine, which directly employs more than 200 Junction residents, is an important part of the Junction economy, its well-being is critical to the interests of Junction. In turn, healthy communities are vital to the interests of the State.

#### Conclusion #2

Deferral of the annexation is a reasonable mechanism to grant temporary relief from taxes and regulation.

While the CBI has authority to grant taxes and property tax relief to the mine following annexation, it would be impractical for it to do so. Once property and sales tax exemptions are enacted by local ordinance, they are likely to be difficult to repeal. Thus, any tax exemptions could well extend beyond the short-term period desired in this particular case.

Further, any property and sales tax exemptions granted to the Greens Creek Mine are likely to be requested by others in the CBI. In order to earn legally sound exemptions, CBI officials testified that it might be necessary to extend the exemptions to others. Testimony from CBI officials indicated that the CBI Assembly considered, but rejected, the option of local tax exemptions because of these concerns.

**The Commission's Order of Decision**

Based upon the findings and conclusions set out in its Statement of Decision, the Commission ordered as follows:

1. That the annexation of approximately 140 square miles to the City and Borough of Juneau (as noted in the LBC's October 8, 1990 Statement of Decision) be given an effective date of January 1, 1994.
2. That a recommendation for the annexation of the subject territory with an effective date of January 1, 1994, be submitted in accordance with Article X, § 12 of the Constitution of the State of Alaska to the Second Regular Session of the Seventeenth State Legislature during the first ten days of the Session (i.e. no later than January 22, 1993).
3. That upon the effective date of the annexation, the Department of Community and Regional Affairs issue a certificate of boundaries of the City and Borough of Juneau reflecting the subject annexation. Provided, however, that the City and Borough of Juneau first submit documentation to the Department demonstrating full legal compliance with the Voting Rights Act of 1965, 42 U.S.C. § 1973, as it relates to this annexation.

**SUBMISSION TO THE LEGISLATURE**

In accord with these two decisions - one approving the annexation itself, and one approving the deferred effective date - the LBC is submitting to the Legislature the proposed annexation of approximately 140 square miles to the City and Borough of Juneau, to be effective January 1, 1994. The recommendation of the Local Boundary Commission approving this annexation takes effect 45 days after its submission to the Legislature, or at the end of the session, whichever is earlier, unless disapproved by a concurrent resolution by a majority of the members of each house.

The post-annexation boundaries of the City and Borough of Juneau would be as follows:

Beginning at Point Coke near McLaughlin Bay in Stephens Passage at North 57° 47' 30" Latitude and West 133° 47' Longitude.

# STATE OF ALASKA

## DEPT. OF COMMUNITY & REGIONAL AFFAIRS

### OFFICE OF THE COMMISSIONER

March 9, 1992

### POSITION PAPER

RE: HB 507

SPONSOR: Representative Mackie

#### Program Effects of Bill:

This legislation would prohibit the Local Boundary Commission (LBC) from submitting an annexation proposal having a deferred effective date (other than a step annexation under AS 44.47.567 (b)(2)) to the legislature.

#### Comments:

In the more than 33 years since statehood, there have only been two instances where the Local Boundary Commission has submitted deferred annexation proposals to the legislature.

The first instance involved an annexation to the City of Haines in the mid-1980's. When the LBC approved an annexation, officials of the Haines Borough asked the Commission to defer the annexation for two years so that local officials could bring a unification proposal before the voters. The deferral was granted.

The second instance involved the present annexation of the area around Greens Creek mine to the City and Borough of Juneau. The rationale for the deferral requested by Juneau was to limit financial hardship (from taxes and municipal land use regulation) on the property owner in the territory proposed for annexation.

In the Greens Creek annexation, the petitioners considered the step annexation process set out in AS 44.47.567 (b)(2). This option was not available, however, because the process requires approval of voters within the territory to be annexed and the territory in question was uninhabited. DCRA opposed the deferral request due largely to the fact that the CBJ had authority under existing law to grant tax relief. The LBC chose to approve deferral of the annexation.

WALTER J. HICKEL, GOVERNOR

150 THIRD STREET  
JUNEAU, ALASKA 99801-1291  
PHONE: (907) 465-4700

949 E. 26TH AVENUE, SUITE 400  
ANCHORAGE, ALASKA 99508-4302  
PHONE: (907) 563-1872

Position Paper on HB 507  
March 9, 1992  
Page Two

HB 507 was introduced in response to the deferred annexation of the Greens Creek mine by the CBJ. While in the judgment of the Department that deferral lacked merit, there may be other annexation proposals in the future that warrant deferral.

The Department urges restraint in proposals to limit the options available to the LBC. HB 507 should be opposed unless AS 44.47.567 (b)(2) is amended in the same legislation to allow step annexations of uninhabited territory.

*Edg. Blatchford*  
Edgar Blatchford, Commissioner

# FISCAL NOTE

STATE OF ALASKA  
1992 LEGISLATIVE SESSION

BILL NO. HB 507

Revision Date: \_\_\_\_\_  
 Title: "...relating to certain annexation proposals submitted by the Local Boundary Commission..."  
 Sponsor: Representative Mackie  
 Requestor: (H) CRA

Department Affected: Community and Regional Affairs  
 BRU: \_\_\_\_\_  
 Component: \_\_\_\_\_  
 COMPONENT SERIAL NO. 

0	0	0	0
---	---	---	---

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL</b>						
<b>REVENUE</b>						
<b>FUND SOURCE:</b>						

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	0.0	0.0	0.0	0.0	0.0	0.0
FEDERAL FUNDS						
OTHER						
<b>FUND SOURCE:</b>						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

**POSITIONS:**

FULL-TIME	0.0	0.0	0.0	0.0	0.0	0.0
PART-TIME						
TEMPORARY						

Estimate of current year impact: \_\_\_\_\_

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Remond Handicobn Phone: 465-4708  
 Division: Administrative Services Division Date: 3/10/92  
 Approved by Commissioner: Elen B. Lewis Date: 3-6-92  
 Agency: Department of Community and Regional Affairs

REPRESENTATIVE  
JERRY MACKIE

P O BOX 73  
CRAND ALASKA 99821  
(907) 826-3008 OFFICE  
(907) 826-2930 HOME

CHAIRMAN  
COMMUNITY & REGIONAL AFFAIRS COMMITTEE

VICE CHAIRMAN  
TRANSPORTATION COMMITTEE

# Alaska State Legislature



## House of Representatives

WILE IN JUNEAU  
P O BOX V  
JUNEAU ALASKA 99811  
(907) 485-4025

### SPONSOR STATEMENT

HB 507

HB 507 would prohibit the Local Boundary Commission (LBC) from submitting an annexation proposal with a deferred effective date to the legislature.

This bill was introduced as a result of the Community and Regional Affairs Committee's hearings on the annexation of the Greens Creek Mine by the City and Borough of Juneau. When I read the reports of the Department of Community and Regional Affairs (DCRA), and the decisions of the LBC on the proposal, my instinctive reaction was to agree that delayed effective dates are not good public policy.

On September 6, 1990, the LBC stated that the deferred effective date set poor public policy, would allow an organized borough to "lock-up" parts of the unorganized borough without exercising jurisdiction or control, and was counter to the interests of the state (see Senate House Joint Journal Supplement No. 18, page 9).

On June 4, 1991, the Department of Community and Regional Affairs, in their analysis and recommendation to the LBC on the deferred effective date of the Greens Creek Annexation, pages 15-16, stated that the standards for borough annexation contemplate immediate annexation, would have an adverse financial impact on the state, and is contrary to the state's goal of diminishing reliance on the State to support local services. Additionally, DCRA felt that an annexation deferred to provide relief from taxation would inspire others to seek similar treatment; that such manipulation of government boundaries is counter to the Constitutional provisions requiring boroughs to embrace an area and population with common interests to the maximum degree possible.

SPONSOR STATEMENT

Sponsor Statement  
HB 507

Article X, section 12 of the Constitution, regarding annexation proposals submitted for legislative approval, provides that The change shall become effective forty-five days after presentation or at the end of the session, whichever comes earlier. I believe this section of the constitution is what DCRA was referring to in their 1991 report regarding standards for annexation contemplating immediate annexation. Even our own legal staff agrees that there is a legitimate question as to whether the LBC can provide for a delayed effective date (see February 11, 1992 opinion, work order No. 7-LS1980).

I believe HB 507 will place into statute what the members of the Constitutional Convention envisioned regarding borough boundaries, and I urge your support.

(7)

Date Referred: February 18, 1992

FURTHER REFERRALS:

State Affairs

Date of Committee Action: 3/11/92

The COMMUNITY AND REGIONAL AFFAIRS Committee considered:

HB 507

HOUSE BILL NO. 507

LBC ANNEXATION PROPOSALS

"An Act relating to certain annexation proposals submitted by the Local Boundary Commission to the legislature."

RECOMMENDATIONS:

be replaced with \_\_\_\_\_  the same title

have attached amendments(s)  a new title

do pass

do not pass

no recommendations

individual recommendations

additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal impact \_\_\_\_\_

fiscal note(s) \_\_\_\_\_

zero fiscal note DEA

zero fiscal note(s) \_\_\_\_\_

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<u>Cheri Davis</u>	<input checked="" type="checkbox"/>				
<u>[Signature]</u>	<input checked="" type="checkbox"/>				
<u>[Signature]</u>	<input type="checkbox"/>				
<u>Richard [Signature]</u>	<input checked="" type="checkbox"/>				

[Signature]  
CHAIRMAN'S SIGNATURE



# House State Affairs Committee

## Representative Gene Kubina, Chair

DATE: March 23, 1992

PLACE: Capital Room 102

**SUBJECT OF MEETING:**  
 HR 348-Relating to Grp Health & Life Insur.: State Empl  
 HB 507-Relating to IBC Annexation Proposals  
 HB 565-Relating to Approp: Contr. Settlement Costs  
 HR 3 -Relating to Change Terms of Represen.to 4 Yrs  
 HR 72-Relating to Compensation for Legislators  
 SB 337-Relating to Retirement Incentive Program  
 HR 63-Relating to Support Military at Ft Richardson

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
Sandra Wicks	DCRA				4750	(Y) N	if needed on HB 507
Jerry Brown	R. Phillips			22	4545	(Y) N	if needed HR 63
Wilbur	SOA				2722	Y (N)	HB 565 / SB 337
Don Koch	DN of INSURANCE	P.O. Box 110805 IN.	47311		2577	ANSWER BY 7:30 (N)	HB 348
Carolly Izly	OMB				3308	(Y) N	SB 337
Cheryl J. Beck	OMB					(Y) N	HB 565
Mike Mc Miller	Admin					Y (N)	HB 565
Deann Coran	Admin				4404	Y (N)	
Don Jim Duncan						Y N	
Rep Randy Phillips						Y N	
						Y N	

HP

525

file 1

# STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX 5  
JUNEAU, ALASKA 99811-0400  
PHONE: (907) 465-2300  
TELEFAX: (907) 465-2389

March 18, 1992

The Honorable Niilo Koponen  
Alaska State Legislature  
State Capitol Building, Rm. 503  
Juneau, AK 99801

Dear Representative Koponen:

I received your memorandum of March 12, 1992, expressing your concerns with the status of fiscal notes on legislation which you have introduced and which affect the Department of Revenue.

In regard to HD 522 which deals with a Real Estate Conveyance Tax, this bill has not been scheduled for a hearing. HB 523, Business License Tax, has been scheduled for a hearing in Labor & Commerce Committee and we have begun work on a fiscal note. HB 524, Limited Entry Permit Transfer Tax, is not scheduled for a hearing.

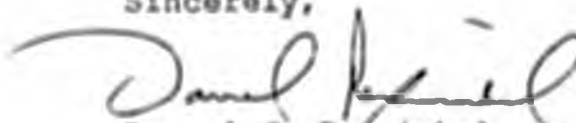
The Department of Revenue has reviewed your proposed legislation relating to the taxation of personal income, House Bill 525. As would be expected in legislation dealing with this complex area of law, the implications and meanings of the sections of this bill are complex and interrelated. The department has determined that preparation of a fiscal note taking into account all the provisions of the proposed legislation would require approximately 300 hours of effort to calculate revenues and cost. We are simply not in a position to devote staff effort of this magnitude in a short time period.

I have attached a fiscal note for legislation dealing with personal income tax which the legislature considered in 1987. When reviewing this material it should be remembered that the legislation as well as the current state demographics are significantly different as would be the resultant calculations. In 1987, when the last calculation was done, the cost estimate to operate the program by the Department of Revenue was \$1,345,000. Cost in today's dollars would be approximately \$1,715,000. Revenues to the state would total between \$250 and \$400 million. As your legislation moves through the process, the Department of Revenue will devote time to the effort of arriving at a fiscal note that reasonably accommodates all of the bill's provisions.

It is my understanding that the effort to develop a fiscal note in 1987 required approximately six months of Department of Revenue staff time to prepare the cost and revenue analysis. Based on our current staffing, the majority of this time would now result in reduced audit efforts and therefore reduced revenues. The effort in 1987 was reviewed by Legislative Finance Division and a copy of their April 21, 1987 analysis is attached.

I apologize for any misunderstanding of our efforts that may have occurred and encourage you to contact this office when concerns arise in the future.

Sincerely,



Darrel J. Rekwinkel  
Commissioner

cc: Max Hodel, Chief-of-Staff, Office of the Governor  
Paul Fuhs, Legislative Liaison, Office of the Governor  
Larry E. Myers, Director Income & Excise Audit Division  
Rod Mourant, Special Assistant to the Commissioner  
Representative Davidson  
Representative Finklestein  
✓ Representative Kubina  
Representative Mackie  
House Finance Committee  
Senate Finance Committee

Enclosure

DJK:rm  
92-065

# STATE OF ALASKA

## THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION  
POUCH WF-STATE CAPITOL  
JUNEAU, ALASKA 99811  
PHONE: (907) 464-3795

### MEMORANDUM

DATE: April 21, 1987

TO: Rep. Al Adams, Chairman  
Louann Cutler, Professional Assistant  
House Finance Committee

FROM: Cameron Kashani, Revenue Analyst <sup>ck</sup>  
Legislative Finance Division

SUBJ: Fiscal Note for HB 154

At your request, I have reviewed and evaluated the fiscal note on Individual Income Tax which was prepared by the Department of Revenue (DOR). The following represents my recommendations on the proposed fiscal note dated March 23, 1987.

At the present time it seems more appropriate to address FY88 implementation costs of the Individual Income Tax, since any future expectation would reflect speculation rather than having any logical foundation. Therefore, I have prepared a fiscal note for the House Finance Committee which only includes FY88 implementation cost figures.

In the review of the Department's fiscal note, I took the liberty of speaking with various authorities of the Department of Revenue, the National Conference of State Legislatures, The National Association of Tax Administrators, the Department of Administration, and the Data Processing Coordinator of the State of North Dakota.

According to the National Association of Tax Administrators, the States of Vermont and North Dakota could be used as examples because of their comparability to the State of Alaska with respect to population size and the number of expected returns.

From the historical standpoint, in FY82, Legislative Audit Division had conducted a special audit on the Department of Revenue in order to determine the positions associated with the repealed individual income tax. Findings of this study revealed the following individual income tax positions:

	Audit	Admin. Services	Enforcement
PFT	27	17	12
OTHER	7	10	0

It should be noted that the Governor's Proposed Individual Income Tax calls for a flat rate which is closely akin to the Federal Tax Law. Therefore, the need for extensive auditing and, to some extent, enforcement would be considerably reduced.

The attached fiscal note prepared by the Legislative Finance Division differs from the Department's fiscal note dated 3/13/87. The following changes are noteworthy:

#### Audit

- a) Reclassify 1 PFT Revenue Auditor IV to Revenue Auditor III
- b) Reclassify 1 PFT Clerk IV to Clerk III
- c) Delete 1 PFT Clerk Typist II
- d) Reduce funding for contractual and equipment

#### Enforcement

The main difference between DOR's fiscal note and the one prepared by Legislative Finance Division is the forwarding of the hiring time which would eliminate the need for any enforcement activities till FY89. Assuming a filing deadline of April 15, 1988 with 60 days appeal period, any enforcement and collection effort during FY88 would seem unnecessary and could be postponed to the following year. Moreover, the existing manpower within the Division of Enforcement seems to suffice any temporary need.

#### Administrative Services

- a) Delete 1 PFT Chief Income Tax Operations
- b) Delete 1 PFT Publication Specialist I
- c) Delete 1 PFT Accounting Clerk III
- d) Reclassify 1 PFT Personnel Assistant II from PFT to PFT
- e) Reclassify 1 PFT Supply Officer II from PFT to PFT
- f) Reduce funding for contractual, supplies, and equipment to reflect the cost associated with the deleted positions.

I had asked Jan Daniel of the Department of Administration's Data Processing Section to speak with the authorities in the States of North Dakota and Vermont in order to obtain a more realistic scenario with respect to design, development and implementation of a computer system for the State Individual Income Tax. Enclosed is a copy of his memorandum regarding this subject.

There may be some problems with respect to finding qualified programmers who can accomplish the aforementioned tasks in a timely fashion. The legislature may want to give the Department the authority and the freedom to hire qualified programmers who can meet the qualification criteria set forth by the Department. However, after the initial setup, the need for maintenance of the system would be less than what's indicated in the Department's fiscal note.

On the technical side of the issue, the Department is proposing to use Wang computer systems. This could be interpreted as user preference and would seem more appropriate if other systems are also taken into consideration. No doubt, further research is required prior to implementation which could alter the existing scenario.

Commissioner's Office

- a) Delete the Economist II position and its corresponding expenditure in all other line items.

It seems that the existing resource within the Research Section on the Commissioner's Office and the Governor's Office would provide adequate support with respect to tax issues.

Public Services

- a) Reduce the funding for 1 PFT Revenue Office Manager from 12 months to six months.

In brief, it would be more feasible if all the functions were consolidated into one single component called Individual Income Tax Division. One should bear in mind the problems that the Legislature has had with the PFD functions especially when determining PFD positions and their corresponding expenditures. Further, close monitoring of the implementation process by the State Legislature would be recommended.

(enclosure)

# MEMORANDUM

# State of Alaska

TO: Cameron Kashani  
Revenue Analyst  
Legislative Finance

DATE: April 17, 1987

FILE NO:

TELEPHONE NO: 465-2220

From: Jan Daniels, Director  
Data Network Services  
Department of Administration

SUBJECT: Income tax  
processing

I have investigated the fiscal note filed by the Department of Revenue dealing with the processing requirements of a state personal income tax. In order to understand the requirements of an income tax system I contacted two states which are currently processing this type of work. The information is as follows:

## 1. State of Vermont.

- a. Contact: Robert Barne: 802-828-2300.
- b. # of returns: 340,000
- c. Current year only- no amended.
- d. System developed in 1971.
- e. Cost of development in 1971: \$125,000.
- f. Time of development: 18 months.
- g. # of programmers during development: 5.
- h. # of maintenance programmers: 3.
- i. # of data entry personnel: 5 permanent + 7 temporary.
- j. DP cost for running system: \$80,000 year appx.
- k. Type of system: batch.

## 1. State of North Dakota.

- a. Contact: Don Johnson 701-224-2048.
- b. # of returns: 300,000.
- c. Prior year processing - amended.
- d. System developed in 1986.
- e. Cost of development: Not known.
- f. Time of development: 7 months.
- g. # of programmers during development: 7.
- h. # of maintenance programmers: 3.
- i. # of data entry personnel: 6 permanent + 12 temporary.
- j. Employer information matching provided.
- k. DP cost for running system: \$120,000.
- l. Type of system. Online, Adabas, Natural.

The DP portion of the fiscal note appears to be well within the bounds of what other states have found to be true operational costs for income tax systems. The use of the Wang for data entry appears to make a great deal of sense in that the data entry system is available during the times Revenue needs to schedule it for peaks and they have demonstrated the effectiveness of this process in the Permanent fund dividend system.

**STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE**

Bul Version: HB 154  
Publish Date: \_\_\_\_\_

**REQUEST:** \_\_\_\_\_  
Revision Date: \_\_\_\_\_  
Title: Relating to the taxation of  
income derived by individuals  
Sponsor: \_\_\_\_\_  
Requestor: \_\_\_\_\_

Agency Affected: Revenue  
BRU: Audit, Admin. Services, Public  
Services, Treasury  
Components: \_\_\_\_\_

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		550.8				
TRAVEL		33.0				
CONTRACTUAL		571.2				
SUPPLIES		9.8				
EQUIPMENT		171.6				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>		<b>1345.0</b>				
<b>CAPITAL</b>						
<b>REVENUE</b>						

**FUNDING:** (Thousands of Dollars)

GENERAL FUND	1345.0				
FEDERAL FUNDS					
OTHER					
<b>TOTAL</b>	<b>1345.0</b>				

**POSITIONS:**

FULL-TIME	21				
PART-TIME	0				
TEMPORARY	0				

**ANALYSIS :** (Attach a separate page if necessary)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Prepared by: Cameron Kashani, Revenue Analyst Phone: 465-3795  
Division: Legislative Finance Division Date: 4/20/87

Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
Agency: \_\_\_\_\_

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)  
State Secretary

**STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE**

**REQUEST:** \_\_\_\_\_

BUI Version: HB154

Publish Date: \_\_\_\_\_

Revision Date: \_\_\_\_\_

Agency Affected: Revenue

Title: State Individual Income Tax

BRU: Audit

Sponsor: \_\_\_\_\_

Components: \_\_\_\_\_

Requestor: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		130.4				
TRAVEL		6.5				
CONTRACTUAL		24.2				
SUPPLIES		4.5				
EQUIPMENT		15.0				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>		<b>210.9</b>				

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

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

**FUNDING: (Thousands of Dollars)**

GENERAL FUND		210.9				
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>		<b>210.9</b>				

**POSITIONS:**

FULL-TIME		6				
PART-TIME						
TEMPORARY						

**ANALYSIS : (Attach a separate page if necessary)**

\_\_\_\_\_

Prepared by: Cameron Kashani, Revenue Analyst

Phone: 465-3795

Division: Legislative Finance Division

Date: 4/20/87

Approved by Commissioner: \_\_\_\_\_

Date: \_\_\_\_\_

Agency: \_\_\_\_\_

**Distribution (by preparer):**

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

Division of Audit  
Fiscal Note Analysis

Assumptions:

The Audit Division will administer the individual income tax laws to insure compliance with Alaska Statutes. Although calendar year tax returns will not be due until 1989, a withholding tax system must be in place and operative by January 1, 1988. Additional staff must be hired and fully trained to accomplish the following:

1. Compliance. This function will be accomplished by utilizing both tax examiner and auditor staff. Tax examiners, more typically, will handle desk review and less complex issues. Auditors will complete field audits and deal with more sophisticated and complex tax issues.
2. Appeals Coordination. These positions will be staffed by both tax examiners and auditors depending on the complexity and issues involved.
3. Payroll Withholding. This function will be accomplished by staffing of tax examiners to reconcile employers quarterly withholding, returns, monthly deposits and annual statements. They will maintain and reconcile the employees W-2's to the employers returns.
4. Return Examination and Processing. This function will be completed by clerks and tax examiners. The field returns will be checked for accuracy and completeness. Payments will be posted to the appropriate returns, and desk reviews will be completed to process the returns. Selected returns will be forwarded to an auditor for examination.
5. Public Education and Staff Training. This function will be performed by audit level staff members. Public education of the individual income tax laws and filing requirements will be accomplished through seminars conducted in various locations throughout the state and by training staff members dealing with the public. Staff training is necessary to maintain a competent level of employee and educate staff to the new and changing tax laws.

A schedual of estimated costs to operate the Audit Division programs are as follows:

Personal Services - FY 88

1 PFT Revenue Auditor III, R18, @ \$4,016/Mo including salary and benefits for 9 months	36.1
1 PFT Tax Examiner III, R14, @ \$3,115/Mo including salary and benefits for 9 months	28.0
1 PFT Tax Examiner II, R12, @ \$2,673/Mo including salary and benefits for 9 months	24.1
1 PFT Tax Examiner I, R10, @ \$2,468/Mo including salary and benefits for 9 months	22.2
1 PFT Clerk III, R8, @ \$2,222/Mo including salary and benefits for 9 months	20.0
1 PFT Clerk Typist III, R8, @ 2,222/Mo including salary and benefits for 9 months	20.0
	<u>150.4</u>

Travel - FY 88

6.5

This figure reflects a one time travel cost for employer training to be conducted in various locations throughout the State in conjunction with Public Services Division.

Contractual - FY 88

Warg terminals & software , 34.5

Supplies - FY 88

4.5

Equipment - FY 88

Microfilm, printer, desks, chairs, etc. 15.0

Total Expenditures

210.9

**STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE**

**REQUEST:** \_\_\_\_\_  
 Revision Date: \_\_\_\_\_  
 Title: State Individual Income Tax  
 \_\_\_\_\_  
 Sponsor: \_\_\_\_\_  
 Requestor: \_\_\_\_\_

BUI Version: HB154  
 Publish Date: \_\_\_\_\_

Agency Affected: Revenue  
 BRU: Administrative Services  
 \_\_\_\_\_  
 Components: \_\_\_\_\_  
 \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		356.9				
TRAVEL		10.0				
CONTRACTUAL		394.1				
SUPPLIES		6.4				
EQUIPMENT		151.6				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>		<b>907.1</b>				
<b>CAPITAL</b>						
<b>REVENUE</b>						

**FUNDING: (Thousands of Dollars)**

GENERAL FUND		907.0				
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>		<b>907.0</b>				

**POSITIONS:**

FULL-TIME		14				
PART-TIME		2				
TEMPORARY						

**ANALYSIS: (Attach a separate page if necessary)**

\_\_\_\_\_

Prepared by: Cameron Kashani, Revenue Analyst Phone: 465-3795  
 Division: Legislative Finance Division Date: 4/20/87

Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
 Agency: \_\_\_\_\_

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Revisor
  - Office of Management and Budget
  - Impacted Agency(ies)
  - Senate Secretary

Administrative Services  
Fiscal Note Analysis

1. The Administrative Services Division will be responsible for the following functions relative to the Alaska Individual Income Tax Withholding system and the Alaska Individual Income Tax Return Processing system.

- a) Design, purchase and distribute all necessary tax returns and related forms.
- b) Process all tax returns, including mail handling, microfilming, document review, data capture and filing.
- c) Process all remittance of tax due which is received with tax returns.
- d) Design, program, test, document, and maintain the automated Alaska Individual Income Tax Withholding system and Alaska Individual Income Tax Processing system.
- e) Process and account for all individual income tax refunds to individuals.
- f) Establish an automated billing subsystem for routine tax deficiencies, penalty and interest.
- g) Acquire and maintain computer capacity to accommodate the two systems and the access required by the department's users.

2. The Department of Revenue will contract with a bank to provide a "lock-box" function, with employees depositing all individual income taxes on a monthly basis.

3. The Department of Administration's data processing chargeback system will require that the Department of Revenue budget for the cost of data processing resources used by withholding system and returns processing system. The total chargeback is budgeted in Administrative services.

4. The Permanent Fund Dividend program will stay intact in its current form.

5. The processing of Withholding and Individual Income Tax will be automated as much as possible.

6. The Alaska Individual Income Tax Withholding System must be in place before January 1, 1988.

7. The Alaska Individual Tax Return Processing System must be in place before January 1, 1989.

8. The fiscal note includes the incremental cost of providing space for the employees and equipment required by the department.

9. After reviewing the fiscal analyses of all divisions, an estimate of the additional computer resources needed has been made. This cost assumes:

a) The withholding and income tax processing systems will reside on DOA's mainframe computer and will be programmed in command-level CICS.

b) To gain the tremendous advantages in programming development offered by the Wang VS, Revenue will purchase a software package which allows an analyst/programmer to write programs on the Wang VS and have them translated to command level CICS to run on the mainframe, which offers economical storage and processing for large files.

10. Given the existing federal tax law, this bill requires all persons receiving a permanent fund dividend to file an Alaska Individual Income Tax Return. However, for purposes of this fiscal analysis, it is assumed that the final version would not require filing by a person whose only source of income is the Alaska Permanent Fund Dividend. Thus, most of Alaska's children would not have to file. If this proves not to be the case, there will be an incremental cost of processing the additional 180,000 tax returns.

Program Summary:

The Alaska Individual Income Tax will require the creation of two major processing systems:

- 1) Alaska Individual Income Tax Withholding System.
- 2) Alaska Individual Income Tax Return Processing System.

In addition to designing, programming and maintaining the two above mentioned automated systems, the Administrative Services Division will process, review, microfilm, and data capture approximately 70,000 withholding forms and 275,000 Alaska Individual Income Tax Returns annually. Refund warrants will be issued on approximately 213,750 of the returns filed. In addition, approximately 25,000 individual letters will be prepared, mailed, and controlled in response to persons who file incomplete tax returns or whose tax returns result in a mathematical adjustment.

Finally, the addition of such a major program to the Department of Revenue will definitely impact the ability of the Administrative Services Division to provide general administrative support services with the existing staff.

The Administrative Services Division will require staffing as early as FY 88 in order to design and establish the computerized processing system envisioned, and to produce the forms required.

9. After reviewing the fiscal analyses of all divisions, an estimate of the additional computer resources needed has been made. This cost assumes:

a) The withholding and income tax processing systems will reside on DCA's mainframe computer and will be programmed in command-level CICS.

b) To gain the tremendous advantages in programming development offered by the Wang VS, Revenue will purchase a software package which allows an analyst/programmer to write programs on the Wang VS and have them translated to command level CICS to run on the mainframe, which offers economical storage and processing for large files.

10. Given the existing federal tax law, this bill requires all persons receiving a permanent fund dividend to file an Alaska Individual Income Tax Return. However, for purposes of this fiscal analysis, it is assumed that the final version would not require filing by a person whose only source of income is the Alaska Permanent Fund Dividend. Thus, most of Alaska's children would not have to file. If this proves not to be the case, there will be an incremental cost of processing the additional 180,000 tax returns.

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The Administrative Services Division will require staffing as early as FY 88 in order to design and establish the computerized processing system envisioned, and to produce the forms required.

Personal Services - FY 88

1 PFT Analyst/Programmer V, R21, @ \$4,856/Mo including salary and benefits for 12 months	58.3
2 PFT Analyst/Programmer IV, R19, @ \$4,281/Mo including salary and benefits for 12 months	102.7
2 PFT Analyst/Programmer III, R17, @ \$3,730/Mo including salary and benefits for 6 months	44.8
1 PFT Clerk IV, R9, @ \$2,343/Mo including salary and benefits for 3 months	7.0
1 PFT Tax Examiner III, R14, @ \$3,115/Mo including salary and benefits for 5 months	15.6
3 PFT Document Processor I, R7, @ \$2,118/Mo including salary and benefits for 3 months	19.1
2 PFT Data Processing Clerk I, R8, @ \$2,222/Mo including salary and benefits for 3 months	13.3
1 PFT Personnel Assistant II, R14, @ \$1,557/Mo including salary and benefits for 12 months	18.7
1 PFT Supply Officer II, R16, @ \$1,757/Mo including salary and benefits for 12 months	21.1
1 PFT Clerk Typist III, R8, @ \$2,222/Mo including salary and benefits for 12 months	26.7
1 PFT Accounting Clerk III, R10, @ \$2,468/Mo including salary and benefits for 12 months	29.6
Total expenditures	356.9

The analyst programmer team will design, program, and maintain the two major systems mentioned earlier, including all subsystems and interfaces with the existing Revenue systems and the Alaska State Accounting System. All other positions will provide support in the following areas:

- a) Mailroom
- b) Microfilming
- c) Manual review of the tax returns
- d) Data capture
- e) Personnel, fiscal, supply and purchasing

Travel - FY 88

16.0

On-site review of selected tax return processing systems in other states and training for analyst/programmer in command level CICS and Wang VS Cobol.

Contractual - FY 88

1.	2 Wang 4250 workstations	12.2
2.	2 Wang emulator boards	1.6
3.	2 Wang 4230 key-punch terminals for 2 months	1.8
4.	Microfilm, with maintenance, 3 months	3.8
5.	4 phones, centrex costs, local and long distance	5.4
6.	Printing: Withholding Returns, Deposit Coupons, /w-4's, etc.	42.0
7.	Postage	22.0
8.	Chargeback for computer time from DCA	91.6
9.	Wang/IBM development package (NETROL-CAP) with maintenance	123.5
10.	Wang/IBM remote access software with maintenance	5.2
11.	Wang Disk Pack cleaning	.7
12.	IBM Control Unit Maintenance	.6
13.	Wang VS-100 I.O.P., Memory, Disk	
14.	Drive maintenanc	3.3
15.	DOR's additional office space requirement	80.8

Total Contractual

392.1

Supplies - FY 88

4.6

Equipment - FY 88

1.	Kodak film cabinet and carousel	1.2
2.	Wang VS-100 IOP (2)	7.2
3.	Wang VS-100 Memory (6 MB)	32.4
4.	Wang VS-100 Disk Drive (628 MB)	27.0
5.	Wang Disk Packs and IBM Control Unit	12.8
6.	Additional systems furniture	61.3
7.	Operational seating	4.7
8.	File cabinets, calculators, etc.	5.0
	Total Equipment	151.6

151.6

Total Expenditures

907.0

Travel - FY 88

10.0

On-site review of selected tax return processing systems in other states and training for analyst/programmer in command level CTS and Wang VS Cobol.

Contractual - FY 88

1.	2 Wang 4250 workstations	12.2
2.	2 Wang emulator boards	1.6
3.	2 Wang 4230 key-punch terminals for 2 months	1.8
4.	Microfilmer, with maintenance, 3 months	3.8
5.	4 phones, centrex costs, local and long distance	5.4
6.	Printing: Withholding Returns, Deposit Coupons, /w-4's, etc.	42.0
7.	Postage	22.0
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11.	Wang Disk Pack cleaning	.7
12.	IBM Control Unit Maintenance	.6
13.	Wang VS-100 I.O.P., Memory, Disk	
14.	Drive maintenance	3.3
15.	DOR's additional office space requirement	80.8

Total Contractual

392.1

Supplies - FY 88

5.5

Equipment - FY 88

1.	Kodak film cabinet and carousel	1.2
2.	Wang VS-100 IOP (2)	7.2
3.	Wang VS-100 Memory (6 MB)	32.4
4.	Wang VS-100 Disk Drive (628 MB)	27.0
5.	Wang Disk Packs and IBM Control Unit	12.8
6.	Additional systems furniture	61.3
7.	Operational seating	4.7
8.	File cabinets, calculators, etc.	5.0
	Total Equipment	151.6

Total Expenditures

907.0

**STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE**

**REQUEST:**

Bill Version: HB154

Publish Date: \_\_\_\_\_

Revision Date: \_\_\_\_\_

Title: State Individual Income Tax

Agency Affected: Revenue

BRU: Public Services

Sponsor: \_\_\_\_\_

Requestor: \_\_\_\_\_

Components: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		10.7				
TRAVEL		10.3				
CONTRACTUAL		98.0				
SUPPLIES		.5				
EQUIPMENT		5.0				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>		<b>139.7</b>				
<b>CAPITAL</b>						
<b>REVENUE</b>						

**FUNDING: (Thousands of Dollars)**

GENERAL FUND		139.7				
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>		<b>139.7</b>				

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS: (Attach a separate page if necessary)**

\_\_\_\_\_

Prepared by: Cameron Kahan, Revenue Analyst

Phone: 465-3795

Division: Legislative Finance Division

Date: 4/20/87

Approved by Commissioner: \_\_\_\_\_

Date: \_\_\_\_\_

Agency: \_\_\_\_\_

**Distribution (by preparer):**

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

-1-  
Public Services  
Fiscal Note Analysis

Assumptions:

1. Regulations will be promulgated requiring monthly or quarterly reporting of taxes withheld on wages.
2. Approximately 17,500 withholding reports and 275,000 annual individual income tax returns will need processing.
3. Public Services Division will provide individual income tax assistance to both businesses and individuals.
4. Public Services Division, in close association with the Audit Division, will develop employee training for the division and employer training for the public.

Personal Services - FY 88

1 PPT Revenue Office Manager, R15, @ 1646/Mo  
including salary and benefits for 12 months 19.7

Travel - FY 88

Employee training in conjunction with Audit  
Division and administrative travel 16.5

Contractual - FY 88

1. Advertising campaign, withholding requirements, income tax filing	45.0
2. Postage	30.0
3. Printing	5.0
4. Telephone charges	15.0
5. Messenger Services	2.0
6. Computer terminal maintenance	.5
7. Publications	.5
 Total Contractual	 98.0

Supplies - FY 88 .5

Equipment - FY 88 5.0

Total Expenditures 139.7

# STATE OF ALASKA 1987 LEGISLATIVE SESSION FISCAL NOTE

REQUEST: \_\_\_\_\_

Bill Version: HR154  
Publish Date: \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: Individual Income Tax

Agency Affected: Revenue  
BRU: Treasury

Sponsor: \_\_\_\_\_  
Requestor: \_\_\_\_\_

Components: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		37.8				
TRAVEL						
CONTRACTUAL		40.0				
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS & CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>		<b>77.4</b>				

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

**FUNDING: (Thousands of Dollars)**

GENERAL FUND		77.4				
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>		<b>77.4</b>				

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS: (Attach a separate page if necessary)**

Prepared by: Cameron Kashani, Revenue Analyst  
Division: Legislative Finance Division

Phone: 465-3795  
Date: 4/20/87

Approved by Commissioner: \_\_\_\_\_  
Agency: \_\_\_\_\_

Date: \_\_\_\_\_

**Distribution (by preparer):**

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Involved Agency(ies)
- Senate Secretary

Division of Treasury  
Fiscal Note Analysis

Assumptions:

1. Cash Management Section will develop the RFP and the contract to lockbox the monthly employers' withholding tax deposits, 17,500 payments per month.
2. Cash Management Section will perform the depository functions of the remittances attached to individual tax returns, 100,000 per year.
3. Cash Management Section will process all returned items (NSF checks, etc.), 1,500 per year.
4. Processing and deposit of penalty and interest payments.
5. Cash Management Section will provide the accounting to ACSAS and reconciliation between the bank, ACSAS, and the Department of Revenue's system for the tax payments on a consolidated basis.

Personal Services - FY 88

1 PPT Accounting Tech I, R12, @ \$2718/Mo including salary and benefits for 7 months	19.0
1 PPT Accounting Clerk II, R9, @ \$2310/Mo including salary and benefits for 6 months	13.8
Total Personal Services	<u>32.8</u>

Contractual - FY 88

Lockbox contract	<u>44.6</u>
Total Expenditures	<u>77.4</u>

Alaska State Capitol  
Juneau, AK 99801-1182  
XXXXXXXXXXXXXXXXXXXX  
XXXXXXXXXXXXXXXXXXXX  
(907) 465-4992

**Alaska State Legislature**  
**Representative Nillo Koponen**  
House District 21

119 N. Cushman, Suite 207  
Fairbanks, Alaska 99701  
(907) 456-8172

**SPONSOR STATEMENT**

**House Bill 525**

**"An Act relating to the taxation of income and to individual tax credits; and providing for an effective date."**

From 1984 to 1990, Alaska experienced a 51% increase in local government tax rates as a percentage of personal income -- from \$3.49 per \$100.00 of resident income to \$5.28 per \$100.00 -- due to reductions in state support resulting from budget cuts. Thus, Alaska jumped from 22nd to 4th in the nation in local government tax rates. In 1990, property taxes constituted 86.1% of all local taxes, with sales taxes comprising 12.7% and others (fish, personal property, etc.) making up the remaining 1.2%. Clearly, property owners are shouldering an increasingly unfair portion of the statewide tax burden.

At the same time, Outside fishing interests, oilfield service firms, construction companies and seasonal workers continue to profit from extraction of Alaskan resources. They share in Alaska's bounty and benefit from Alaskan infrastructure, but contribute little or nothing toward the services we provide for them. Some even collect Permanent Fund Dividends.

Whether or not the Alaska Legislature reduces the state operating budget for the coming fiscal year, Alaskans face the continuing dilemma resulting from declining oil revenues coupled with stable or increasing demands for government services. We must consider new measures to accrue revenue to the state, including taxes. Taxes should be simple, fair, stable from year to year and inexpensive to administer. It is desirable to implement an array of broad-based taxes set at low rates rather than to unduly burden any particular class of taxpayers.

HB 525 reimplements a statewide personal income tax, eliminated earlier in what is now widely recognized as a serious error. It does not solve all our revenue woes, but it does soften the fall and will surely bring average Alaskans more actively into annual budget discussions. This bill also includes the so-called "snowbird" or "Tax Tex" relief measure, which allows dollar-for-dollar credit for local and municipal taxes paid within the state. Finally, non-residents will begin to pay for the privilege of making money in Alaska and taking it all away.

*Annie*

# THE 1992 CASE AGAINST INCOME TAXES

READ ABOUT:

MAR 26 1992

1. HISTORY OF TAXES IN ALASKA.
2. WILLIAM PITT FATHERS INCOME TAX.
3. TARIFA HARBOURS THE TARIFF
4. WILL TAXING THE WORKING - CLASS CONTROL GOVERNMENT SPENDING?
5. INCOME TAXES VS. PERMANENT FUND DIVIDEND!

BY TERRY MARTIN

We have already indirectly paid a tax to the state by paying for the high cost of oil. The state saved these taxes in the name of the Permanent Fund.

There will always be the indigent, sick and old who cannot produce and must be taken care of by the rest of us. This is a form of charity which is right, rather than a form of government security, which is not a right. The bottom line is that it is of our own individual doing, earned by our hard work.

### THE HISTORY OF INCOME TAX

The first income tax, in the modern sense, was imposed in England by William Pitt in 1799 to help pay for the wars against Napoleon. It was abolished after the Peace of Amiens in 1802. The following year, when war broke out with France again, the tax was reimposed. After Waterloo, it was again abolished. Then, in 1842, the British government adopted the income tax as a permanent feature of its revenue system.

In 1861, the United States government levied a tax on income for the first time in its history. All income in excess of \$800.00 was taxed at a 3 percent rate. This wartime tax was abolished after the Civil War.

The 16th Amendment to the Constitution, legalizing federal income taxes as a permanent fund-raising device, was adopted in 1913. It began as an amendment to a bill in Congress lowering the tariff on imports. The idea was that the small deficit from reduced tariff receipts could be taken care of by a tiny tax on prosperous incomes. On incomes from \$4,000 to \$21,000 the bite was one percent. Few people made more than \$4,000 per year back then, and that amount had the buying power of at least \$42,000 in today's dollars. Therefore, since the tax didn't affect most Americans, few opposed the idea. It didn't seem important.

What started this whole tariff business anyway? When the Moors were masters of Spain, their ships would lie in wait for merchant vessels coming through the Straits of Gibraltar bound for Italy, Greece and Egypt. The Moors were no fools, and instead of plundering the vessels, they levied a sort of blackmail, with a fixed scale of payment based on the value of the cargo. This amount was determined

# **CORRECTION**

**THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY**

*Annie*

# THE 1992 CASE AGAINST INCOME TAXES

READ ABOUT:

MAR 30 1992

1. HISTORY OF TAXES IN ALASKA.
2. WILLIAM PITT FATHERS INCOME TAX.
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5. INCOME TAXES VS. PERMANENT FUND DIVIDEND!

BY TERRY MARTIN

## THE 1992 CASE AGAINST INCOME TAXES IN ALASKA

They say it was individual pride of achievement that developed Alaska. The miracle of Alaska was forged when the dreams of men and women put on work clothes. As pioneers, they set forth armed with self-esteem, ambition, and the resolve to compete and excel on their own.

How ironic it is today that some of these same people and their children are demanding larger cash handouts because they arrived first.

Edward Gibbon wrote about the Athenians, "They wanted comfortable life and they lost it all - security, comfort and freedom. When they finally wanted not to give to society, but for society to give to them; when the freedom they worked for was freedom from responsibility, Athens ceased to be free and was never free again." They learned that when the people failed to exercise their control over government, the public servants turned to public masters.

The question is - when does a welfare state destroy the free society that established it? It is the sober truth that as long as government cares for the people, the people will not care for themselves. From great societies of the past: Rome, Athens, Great Britain, our forefathers instilled in their people the principle that nothing is free; that socialism pulls few up, but drags many down; and a completely unnecessary tax, used to prop up such a system, is nothing more than punishment for working.

Whenever the government spends or taxes a single dollar more than it needs, it sprouts another seed of poisonous inflation.

Looking to government for "security" destroys the self-reliance that built America and Alaska. You cannot vote yourself security - you must earn it. You cannot bribe poverty to go away - you must work it to death.

The encouragement of pressure groups to "get theirs" at the expense of the working people - by threatening elected officials with defeat - will destroy the self-reliant class and the will to achieve. If the state legislature had more confidence in a hard-work, free-enterprise future than in a cash-for-vote present, there would be a glorious Alaskan future, and it could start now.

We have already indirectly paid a tax to the state by paying for the high cost of oil. The state saved these taxes in the name of the Permanent Fund.

There will always be the indigent, sick and old who cannot produce and must be taken care of by the rest of us. This is a form of charity which is right, rather than a form of government security, which is not a right. The bottom line is that it is of our own individual doing, earned by our hard work.

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What started this whole tariff business anyway? When the Moors were masters of Spain, their ships would lie in wait for merchant vessels coming through the Straits of Gibraltar bound for Italy, Greece and Egypt. The Moors were no fools, and instead of plundering the vessels, they levied a sort of blackmail, with a fixed scale of payment based on the value of the cargo. This amount was determined

at their port of Tarifa; thus originated the word "tariff". Some people still think a tariff is a form of piracy, even after all these years of government sanction.

The history of Alaska's tax system has been described as follows by Claus M. Naske, a professor of history at the University of Alaska, Fairbanks:

"Territorial Alaska's tax system consisted of a conglomeration of heterogenous taxes imposed by both Congress and the territorial Legislature for different purposes, on different bases, with many forms of rate schedules and a variety of administrative provisions.

Congress imposed the first taxes in response to the gold rushes of the late 1890's. In 1899, it passed a criminal code and code of criminal procedure that, among other things, imposed some 43 license taxes on specific businesses.

Congress passed the second Organic Act in 1912, which, among other things, gave Alaska a territorial Legislature to meet biennially. Between 1913 and 1948, the Legislature developed a tax system of its own. It consisted of a number of taxes and fees levied on the fisheries and mining industries, Alaska's two major economic activities.

There also was an inheritance tax as well as a patchwork quilt of miscellaneous business, professional, and occupational taxes and fees. In addition, the territory also participated in the Federal Social Security Program on the same basis as the contiguous states, and after World War II, at the urging of Territorial Governor Ernest Gruening, the territorial Legislature provided a generous Veteran's Loan and Bonus Program financed by a general sales tax, 1 percent on retail and 0.5 percent on wholesale sales.

Still another character of the system then (and now) was the narrowness of the tax base. For example, the territorial tax commissioner reported that during the calendar years 1947 and 1948, some 91.25 percent of the tax revenues collected came from a mere five sources. The salmon industry contributed 21.25 percent, liquor excise taxes 21.31 percent, motor fuel and motor vehicles 15.65 percent, gross sales tax 28.8 percent, and the school head tax 4.12 percent.

Territorial residents had the habit of asking Congress to provide funds for any number of services. The federal government maintained Alaska's judicial system, managed its fish and game resources, paid the salaries and expenses of the Territorial Legislature, built its roads, trails and tramways and educated its Native children. The territory, it is true, made some minor annual contributions to some of these programs. By and large, however, the territory's hardy pioneers expected Uncle Sam to foot the bill for most activities normally conducted and paid for by territorial and local government.

Governor Gruening battled for 10 years, from 1939 until 1949, for a modern tax system. Finally, in the latter year, [the] Legislature passed a modern tax system, including a personal income tax."

From Reaching for a Star by Gerald Bowkett, an example of how Alaskans reacted to the imposition of the federal income tax:

### TAXATION WITHOUT REPRESENTATION

FAIRBANKS, April 4, 1956 - (AP) - A federal court jury ... last night freed an Alaskan who had pleaded not guilty to ... income tax evasion on grounds that he did not believe in "taxation without representation."

Jack Marier ... was found innocent of charges that he willfully failed to file income tax returns...

...The defendant's attorney, Edgar Paul Boyko of Anchorage, announced before the trial that he would make the case "a test of the income tax laws as applied to the Territory of Alaska."

...In his instruction, the judge [U.S. District Judge Vernon D. Forbes] had told the jurors that the defense of "taxation without representation" was not valid, but the jury could take this defense into account in determining whether or not Marier had willfully failed to file his returns...

...U.S. Attorney Ted Stevens said he did not believe that this case was in any way a test of the federal income tax laws as applied to Alaska ...

WASHINGTON, April 19, 1956 - (AP) - An Internal Revenue Service Spokesman today shattered any dreams Alaskans might hold that a recent Fairbanks jury verdict might relieve them from federal tax responsibility.

...[The spokesman said] ... the case ... "establishes no precedent ... In this particular case the jury found for the taxpayer. In their opinion, his failure to file was not willful. That and nothing more. He [Jack Marier] must pay tax's for all the years he failed to file or pay ..."

The state personal income tax imposed in 1949, remained in effect until it was repealed by the state legislature in 1980. In today's debate concerning the re-imposition of this tax, people seem to have forgotten that they used to pay state income tax, and how big a bite it took. That was and always should be the first direct bonus Alaskans receive in sharing the state's wealth from oil revenues. Those who are working can look at their paycheck and see \$0.00 taken out for state taxes.

All working Alaskans can compute their weekly or monthly dividend by simply multiplying their federal withholding tax by 16%, the amount of the tax at the time of its repeal. You may want to see your total tax dividends over the years since 1979. To do this, just add up your gross federal income tax for the last twelve years, and determine an additional 16% that would have gone to the state coffers.

The working people of Alaska have saved more than \$9 billion in state income taxes since the taxes were repealed in 1980. On the other hand, all Alaskans have received a total of \$3.125 billion in permanent fund dividend checks.

States with the highest taxes usually have the lowest growth rate in income and economic well-being. Higher taxes lessens economic growth. In Alaska, unstable industry taxes cause businesses to stay away. The best way for legislatures to improve economic conditions in any state is to reduce taxes of all natures.

A new adage was introduced to rationalize an income tax, namely "Who ever heard of representation without taxation?" I have and I see nothing wrong this. This the way our country has operated for more than 126 years, except for a brief period during the Civil War. What is really bad and certainly constitutionally questionable, is taxation without equal representation. Alaska is the only state where a simple majority in the legislature can impose a tax on its citizens - this means 21 members in the House of Representatives and 11 members of the Senate. Because our state is so malapportioned, the majority of legislators do not represent the majority of the citizens. This brings to mind the famous aphorism, "Power corrupts: absolute power corrupts absolutely." Few people realize the awesome power given to a few elected officials by Alaska's Constitution, Article IX, Section 1. One may wonder if the framers of the Alaska Constitution ever considered what the Boston Tea Party was all about.

Those who have the power of taxation are not necessarily the best informed. According to a special opinion editorial in the Washington Post on March 13, 1992 by George F. Will, the tax revolt of 1970s is alive and well in the 90s. In 1990 the people of New Jersey, the second richest state with a median household income over \$40,000, elected Governor Jim Florio, a Democrat, on the promise of no new taxes and won (sound familiar). Upon assuming office he promptly raised taxes far more than the deficit required. His tax increases had redistributive purposes, particularly for helping poor school districts.

The people of New Jersey did not feel as though they had anything extra for government to play with considering their style of living. They were most agitated about the \$2.8 billion tax increase - the largest in their state history. Thus, last November 1991, when Democrats controlled both houses of the state legislature, the voters returned the favor by replacing them with a veto-proof Republican majority in both houses.

To counter the newly promoted myth that "an income tax will encourage the public to decrease demands on government or force legislators to reduce spending," we need only to review ancient, medieval, and modern history. However, the quickest way of evaluating this myth is to acknowledge current budget problems of states with income taxes. Californians struggling with a major deficit in 1991 tried to solve its problems by increasing new taxes over \$7 billion and piling on an explosion of anti-growth regulations.

Throughout the nation's tax-cutting, grassroots legions are once again circulating statewide initiatives to try and control their legislature's excessive use of taxes. Here are a few initiatives proposed for November, 1992, that exemplify a freedom the Alaska citizens are deprived of since this state's constitution gives exclusive powers of taxation to the legislature only:

Oklahoma: Voters will consider a measure requiring voter approval of new taxes not approved by three-fourth of the legislature.

Michigan: Signature have been gathered for proposal to cut school property taxes by 30% over five years and limit future assessment hikes.

Colorado: Proposal would require voter approval of higher taxes, new debt and state spending hikes above inflation.

Oregon: Activists seek support for a move to require a vote of at least three-fifths of the legislature for tax hikes.

There are taxpayers' petition drives in a number of other states such as Arizona, Florida, North Dakota and Washington, but such is not allowed in Alaska. The last time a group of citizens tried this (1982), it was ruled as unconstitutional through an interpretation of an assistant attorney general that limiting the source of revenues for taxation would infringe on the untouchable powers of the legislature to appropriate. From this, one is to assume the powers of taxation are superior to the guaranteed right of petition in Alaska.

Taxing the working class and transferring the revenues to the non-working segment of a population is the worst sort of socialism a state government can practice. Can we not learn from the downfall of eastern Europe and the U.S.S.R.?

Every time the big spenders create a crisis in Alaska - "tax, tax, tax" is always their answer. They forward the idea that increased taxes reduces the size of government. People think the world of communism and socialism is over, unfortunately in Alaska the charms of these bells ring loudly in the halls of Juneau.

California's super crazy new cracker tax is another example showing that paying taxes does little to curtail the appetite of tax hungry liberal legislators. In order to balance the budget, or at least make a dent in the deficit, California increased the 6 percent sales tax by a cent and a quarter on sales of certain items such as magazines, ship and aviation fuel, bottled water, and snack foods. So what's a taxable snack? Not peanuts, pork rinds or doughnuts. All crackers are, except saltines, graham crackers, animal crackers and arrowroot. Granola bars are taxed, granola isn't. Hershey milk chocolate chips are exempt, a Hershey milk chocolate bar is taxed. Tostitos tortilla chips are exempt, Doritos tortilla chips are taxed. (Did someone forget to make a campaign contribution to the finance chairman or to the war chest of the controlling political party?)

The out-of-control spending frenzy of New York's government led to the raise of taxes over \$1 billion for each year from 1989 to 1991 (total \$3 billion) and still the fiscal year budget for 1992 faced a

\$6 billion deficit. This state, with the highest tax burden in the nation, will increase its spending another 7 percent this year with its credit rating cut to the third-lowest in the nation.

The myth of a tax paying public having control of a wild spending legislature should not be employed in Alaska. Be aware that a simple majority of legislators can impose a tax on a majority of the citizenry whom they do not represent. The time to speak out against the tax movement is now, not during the fall election.

Proponents of reimposing the income tax argue that, at 4%, the tax would be on par with what other states levy, but they overlook the fact that with a much higher per capita income, at \$28,182, Alaskans would end up paying more in hard dollars. The more you tax the people, the less ability they have for economic survival.

In 1986, Governor Cowper's Office of Management and Budget developed graphs and charts purporting to compare the income various family groupings would receive from the permanent fund to the amount they would pay in personal income tax. The idea behind it was to graphically illustrate how well-off taxpayers will be with the PFD offsetting their taxes. The graph was quite misleading. Remember, you must first include the total PFD received in your gross income, which causes your taxes to increase. Since the tax on the PFD is not withheld, you will pay, either by receiving a smaller federal refund, or by sending in a bigger check with your 1040 form.

For a single individual who must pay federal taxes on their PFD first, at an average of \$20.00 per \$100.00, or from an \$931.00 PFD check, subtract \$188.00. In this case, the individual may receive \$743.00 clear from their PFD after federal taxes, but would still have to pay an additional \$30.00 to the state income tax plus 4% of gross = \$1,440 of one's annual wages for a person whose income is \$36,000.

Misguiding assumptions were used to lead families and married couples into accepting the tax, instead of reducing the size of the PFD checks. The major misconception is not taking reality into computation. In the highest percentage of cases for families in Alaska both parents are working. Instances where a multi-member parent unit has only one breadwinner are clearly the exception, not the rule.

So, in computing how your family will actually advance in total income, be sure you include the tax to be paid by each working member of the family, and subtract it from the total dividends received.

The second major factor to be aware of is that these comparisons are made on tax levels of 3.2% and 5.6%. Once the tax is voted into law, how quickly will it rise? If the most recent state tax level at 16% of federal is used, how then does your gross tax level compare with PFD income? Be careful in the use of terms when you evaluate the difference of 16% of federal tax and 4% or 5% of your gross income. The income tax may sound much less (at 4% or 5%) but keep in mind that it loses the innocence of the so-called "truth", when the true intent gouges out the most tax.

A vivid example of this would be to look at an individual whose gross earnings are \$18,000. If this person is single with no dependents, whereas the federal tax would be \$2,505.60 in one year, 16% would amount to approximately \$400. This is compared to the wondrous savings of a personal income tax which would take 5% of the gross equalling \$900. In the same respect, one who earns \$36,000 gross would have \$6927 removed for federal tax, 16% of which is approximately \$1107 vs. the personal income tax of 5% on the gross amounting to \$1,800. Obviously there is major discrepancy resulting in a much greater amount paid through the personal income tax method. Yet again, it is evident that those who have the power of taxation are not necessarily the best informed.

When one considers the tremendous amount of revenue the State of Alaska received during FY 1980s, it is illogical, irrational, unnecessary and, most importantly unjustifiable to tax the working people of this state. Should we reduce the workers of Alaska to slavery to a government that has billions of dollars in savings, and gives out hundreds of millions of dollars in "cold" cash that no other state would dream of doing

Last year, 532,174 people applied for permanent fund dividend checks. Of that group, approximately 158,000 with incomes above \$15,000 would pay an income tax, if enacted. Remember, only working people and those with high pensions would pay taxes. For 1991, \$464 million was given out in dividend checks. All workers available for taxation would have to pay approximately \$3000 for state income taxes to equal this giveaway.