

HOUSE/SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2549

at Sand Point. Mr. Thomson said the cost per square foot is about \$80. He explained that they start with a beginning figure of \$100 a square foot which takes into consideration inflation and designing and architectural fees. This ends up to be about \$80 a square foot for actual construction.

Mr. Barber asked about the possibility of the BIA moving out of the school picture in the near future. Commissioner Lind said there are some legislators who have asked about the State picking up these responsibilities. He added that there is a resolution which calls for a study of the planning for the State to take over the BIA schools. He said at this point the State has been unable to arrive at an agreement because they have received no guarantee of federal support for the period when the schools are being phased over to the State. Commissioner Lind added that there will be a study done on this with the report coming back to the legislature next year.

Mr. Warwick questioned the cost of hot lunch facilities. He asked how much could be subtracted if these facilities were deleted. Mr. Thomson said not more than \$100.0. Mr. Warwick asked who would pay for the hot lunches. Commissioner Lind said this would probably work the same way that it does in S.O.S. He said those who are able to pay do while there will be federal subsidy for those who cannot pay.

Mr. Warwick asked if they were satisfied with the architectural fees. Commissioner Lind said yes, at this point in time. Mr. Warwick suggested an in-house architect.

Mr. Warwick asked if there was a possibility of a bond issue next year for S.O.S. Commissioner Lind said he did not know if S.O.S. is planning to come in with a request. He added that they have not given this a great deal of thought. He said they are trying to look at all the needs of rural education. In answer to Mr. Warwick, Commissioner Lind said their major efforts are being focused on secondary needs. If they ask for additional funds, it would be in this area.

Mr. Guthrie pointed out that there is a discrepancy because S.O.S. estimates \$270.0 for equipment for schools while the Department of Education states this should be \$100.0. Mr. Thomson said he did not see any way they

Commissioner Lind said that a general rule of thumb is about 10% of the actual construction cost for equipment. Discussion followed.

Recess: The meeting recessed at 3:30 p.m.

11344

HOUSE FINANCE COMMITTEE
October 18, 1973
2:25 P.M.

PRESENT All members of the Finance Committee with the exception of Mr. Hillstrand. Members of the House of Representatives. Also present were: Mr. Stan Thompson, Borough Mayor of Kenai Peninsula Borough; Ben Delahy, Attorney for Kenai Peninsula Borough; Jerry Heier, Assessor for Kenai Peninsula Borough;

HB 1 Vice Chairman Haugen stated that the purpose of the meeting was specifically related to HOUSE BILL NO. 1 (An Act providing for taxes on property used in the exploration for, production of, or pipeline transportation of gas or unrefined oil). Mr. Haugen asked Mr. Stan Thompson, Borough Mayor of the Kenai Peninsula Borough to begin testimony.

Mr. Thompson spoke in opposition to the bill, strongly urging that it not be passed as it would undermine all local government and would take the tax base away from the Kenai Borough and its cities. [See Page 16 of the Minutes for a copy of his testimony.]

Upon completion of Mr. Thompson's testimony, Mr. Warwick stated that the assessed valuation for the North Slope Borough would approach \$2 billion towards the end of 1979. Assuming that there would be a natural gas pipeline, he said it could conceivably add another billion to that one borough. He noted that Valdez was in a similar situation at \$830 million. He asked if this was an inequity which Mr. Thompson felt the Legislature should do something about.

Mr. Thompson agreed it was an inequity, but didn't feel it was any more of a one for the North Slope Borough to have in relation to Anchorage, for example, than it had had in the past, although the situation had been reversed a little. He thought the State had many means of doing something about the inequity without getting into the Ad Valorem part of it.

Mr. Warwick asked whether he would be for the bill if they could insure that the bill that passed would not have an effect on their millage rate. Mr. Thompson replied that they were opposed to the concept of the State taxing real and personal property.

Mr. Warwick asked what cities in the Kenai Peninsula Borough had gas and oil related properties within them, and Mr. Thompson said the City of Kenai had 12% of its tax which was gas and oil related, while the City of Soldotna had a lesser percentage. He added that although for Seward and Homer, the percentage was negligible, they had considerable potential.

Mr. Warwick then asked about service areas, and Mr. Thompson replied that a majority of the North Kenai Service area was oil and gas related. He said it was somewhere around 70% or better. The Hospital Service Area was around 60%. He said those were guesses and that he would get the exact figures later.

Mr. Fink asked whether most of the oil and gas related facilities on North Kenai would be effected by the bill. Mr. Thompson stated that the pipelines definitely would be and the services which were sales taxed would be.

Mr. Fink asked how much effect the bill would have on the Fire Service District, and Mr. Thompson replied that in the North Kenai area, a large portion was under liquification plants and refineries, which he understood were not going to be effected by the bill. He asked Mr. Jerry Heier, Assessor for the Kenai Peninsula Borough, to give more of a breakdown.

Mr. Heier stated that in the North Kenai area the total assessed valuation was \$72 million and of that approximately \$17 million to \$18 million was in pipelines and related facilities.

Mr. Fink noted that 1/3 to 1/4 of the property would be effected by the bill. He went on to say that Mr. Byron Mallott, Commissioner of the Department of Community and Regional Affairs, had testified that morning that the taxability of a facility ought to bear some relationship to the service provided by that facility locally. Mr. Thompson agreed that it should have some definite bearing on what services were received.

Mr. Thompson stated it was his personal feeling that the local areas should be able to levy ad valorem taxes to cover their needs as they seem them. If the State wished to go above and beyond what the local areas feel are their needs, that would be all right.

Mr. Miller asked where he would have any objection if they modified the proposal so that the municipality could levy

an amount equal to its needs and the State could take the balance up to 30 mills. Mr. Thompson said that would be fine, if the State took above and beyond the needs of the municipality.

Mrs. Miller asked whether the 5 mills was strictly related to the pipelines, and Mr. Thompson said that it didn't relate to liquification plants and refineries.

Mr. Specking stated that last year the ad valorem tax measure covered only pipelines up to 20 or 30 inches. He asked whether Mr. Thompson had considered modification along these lines. Mr. Thompson replied that Anchorage had recently passed a resolution along those lines, but as far as the Kenai Peninsula Borough was concerned, by exempting everything everything except pipelines above 24 inches, they would be protected.

Mr. Fink asked what millage rate the platforms were presently subjected to, and Mr. Thompson stated that most were outside of the service areas. Mr. Heier noted that the platforms were all outside the North Kenai Fire Service district, but were within the hospital district.

Mr. Thompson pointed out that this year the Hospital District was 0 millage. He added that they hadn't budgeted it yet for the coming year, but his guess was about 1/2 mill.

Mr. Fink referred to the loss of sales tax that Mr. Thompson had implied and stated that the Attorney General had indicated that the only thing that wouldn't have a sales tax on it would be those which were capitalized. Mr. Thompson said if that was right, he must have been reading the bill wrong.

Mr. Fink reiterated that sales tax would be allowed on all commodities which were not capitalized. Mr. Thompson said that would put a different light on it.

Mr. Malone wanted to follow up on that question on sales tax loss anticipated under Section 30, paragraph 2(C) where it says "taxes on the sale or use of services used in or associated with the property or in its erection, construction, maintenance or operation". Mr. Thompson said that was what he had been reading.

The next person to testify was Mr. Ben Delahy, Attorney for Kenai Peninsula Borough.

Mr. Delahy stated he had been with the Kenai Peninsula Borough since February 1. Prior to that he was with the City of Fairbanks. He had also worked with the Bureau

of Land Management. Mr. Delahy stated that in 1972 the Legislature had passed the new Municiple Code. Gathering together all of the laws effecting municipalities was a great step forward, he said, but if they were to pass HB 1, they would be taking a step backwards because of the inequities in it.

Mr. Delahy went on to speak about the inequities. He noted there were differences between oil and gas companies, and for example, a shoe store in the amount of investment and in terms of the gamble for no or great return. He felt when they limited taxation to one industry to 20 mills while others may be taxed up to 30 mills, there was an inequity against other businesses within the State. He pointed this out with respect to other businesses within the town of Seward which already have a 20 mill levy. The only way to move that is up.

Mr. Delahy owns a home in Kenai where the tax levy is 10.5 mills and about 12% of the tax base is on oil and gas facilities. If the bill passed, the return to the city from the oil base is limited to an effective 5 mills, which means on those oil properties there would be a shortage of 5.5 mills. Somebody has to pay for it--every property owner, every home owner, and every shop owner has to pay higher. He felt it was certainly unfair to limit contribution from oil and gas for municiple services and have that made up by other citizens in the area.

Mr. Delahy was aware that in other states, the ad valorem was often left for states. Normally, in the ones he had been in contact with, the municipalities were not restricted. The state usually passed its own levy on top of the municiple levy. He felt a minor amendment to this bill could do the same thing. They would need a modification of Section 10(B) which now states that political subdivisions can levy tax not to exceed 7 mills. This could be changed so that political subdivisions would assess their collection taxes subject to AS 29. This would allow them to assess, levy, and collect for their own needs. The last sentence of that paragraph would read "tax collected would be credited under Section A". The State would still be taking the difference between the levy the State makes and what is necessary for municiple purposes. He suggested a statewide equalization Board might be of great value throughout the state relative to properties. He thought it would give fairness.

Mr. Delahy referred to sales taxes. He had not heard Mr. Havelock's speech that morning, but he thought Havelock might have glossed over some of the aspects of Section 30.

He asked them to look at Subsection 2. What is taxable property under this Chapter? Mr. Delahy stated that if sales taxes lost were not merely a restriction of 7 mills, but a loss of sales tax, an increase of sales tax, or a mill levy, someone must pay unless the services the citizens have been getting are restricted.

Mr. Delahy felt some amendments to this particular act as suggested in 10(B), which would take municipalities out from under the restrictions of the Act and levy a state-wide tax that would still gather revenue in the unorganized Borough would be something to consider.

Mr. Delahy said perhaps some of the exemptions should be removed from this bill. For example, the exemption until construction of the pipeline could be eliminated and then they could tax on the material that is there. He admitted that the argument of the oil companies was a strong one-- they were going to build, until stopped by court action. However, he pointed out that anyone else whose plans were interrupted by court action still had to pay taxes.

Mr. Delahy stated he found the bill very confusing.

Mr. Haugen then asked Mr. Jerry Heier, Assessor for Kenai Peninsula Borough, to give his testimony.

Mr. Heier stated he had been Assessor for Kenai Peninsula Borough since October of 1964. Prior to that he had been an appraiser in Sacramento, California, and had been in the business a total of 15 years. In the past two years, he has made trips to California, Texas, and Louisiana to study their methods of assessment and valuation of the oil industry. He is the immediate and past president of the Alaska Assessors Officers. He was making his presentation as an assessor rather than as the Borough Assessor. Mr. Heier said that during the week of October 8, the Alaska Assessors Officers Association had met in Anchorage for two days. Assessors were present from the North Slope Borough, the Fairbanks North Star Borough, Matanuska-Susitna, Anchorage, Kodiak, Kenai, Juneau, and Sitka. They studied the proposed bill and passed a resolution opposing it.

There were a number of reasons for opposing the bill. First of all, they felt someone would have his hands full going from one side of the State to another. They felt the local assessors should keep track.

Mr. Delahy referred to Section 43.56.020. Exemptions. He said there were several areas to be looked at. One was

One is Subsection (5) the value of intangible drilling and development expenses and exploration expenses. He said this was further defined in Section 263(C) of the United States Internal Revenue Code. A description of acceptable exemptions would be found in any assessor's or appraiser's manual, particularly, what is called the oil company's intangibles.

Mr. Heier stated that all costs incurred in developing a well are intangible except the actual cost of hardware involved. Thus, installation is intangible and drilling itself is intangible. The cost of connecting roads are intangible. He pointed out that they had a pretty broad exemption. In dollars and cents a gas or oil well may have an actual cost of \$1 million and be assessed at \$200,000, the cost of the steel and 20% of the actual cost. He didn't think that seemed quite reasonable.

Mr. Heier referred to Subsections 7 and 8 which exempt real and personal property which is intended to be used. He felt they could have a far reaching effect. He asked why any property should be exempt merely because it is waiting to be used. Ordinarily a contractor is responsible for future jobs and is taxed on what he has when he has it, and not when he intends using it. He asked why one industry should receive consideration.

Mr. Heier called their attention to Section 43.56.030 which exempts property from all other taxes imposed by the State and local governments except the one of local sales tax. He asked why single out an industry that has to pay property tax and exempt it from other taxes merely because it does pay property tax. He asked about the other industries that pay property tax. He asked whether the State had the right to collect property tax on the oil industry when it is on the condition that they don't have to pay other taxes that everyone else has to pay.

He went on to speak about Sec. 43.56.060. He said that Subsection D(1) and (2) spelled out how they should be assessed. He said no allowance would be made for costs of actual utility for pipeline. Depreciation would be on the shorter line method without normal consideration given to use, utility or normal market value. There is no consideration for replacement value. According to the bill, you have to start with the cost and all you can do is depreciate it. Estimated by these formulas, the Kenai Peninsula Borough would lose 40% of valuation in oil industry properties. He didn't believe the oil

industry assessed it at 140% of the true value. He didn't believe any state should assess them at 60% of value especially when other properties were assessed at 100% by statute.

Mr. Heier said he had worked with (against) the oil companies for nine years and they drive a hard bargain. They will take whatever you are willing to give away. Mr. Heier told them not to lock themselves into a position where the oil industry starts out with a free hand. To Mr. Heier's way of thinking, the bill is one sided and not in the best interests of the State.

Mr. Fink asked how they arrived at assessment of a well in the Kenai Peninsula. Mr. Heier said they study costs of all wells on the Peninsula and arrive at an average cost for wells. They don't assess the actual hole. After studying historic costs and current costs of wells, they arrive at a per foot evaluation for installation. They take the per foot value and provide 65% assessment against that well. That well would not be depreciated any lower than that figure and it is open to be reset if inflationary costs go up considerably. He said it went from 65% to 0% the day it was abandoned.

Mr. Fink asked to have something in writing concerning the methods which Louisiana, California, and Texas use in assessing.

Mr. Barber asked whether tax benefits were being given to the oil industry to attract them to the Kenai Peninsula as a location. Mr. Heier said it had been a State incentive which the Borough had participated in.

Mrs. Fischer asked whether the tax incentive act was up to the local entity. As Mr. Heier understood it, the local government could participate in that payments were made by companies involved in lieu of property taxes, and that was the extent of it.

Mr. Tillion commented that the Kenai Peninsula Borough had opposed the industrial incentive Act since the first year he had been in the Legislature.

Mr. Saylor asked the Kenai Peninsula current mill levy. Mr. Heier said it was 5 mills borough wide.

Mr. Fink said the pipelines go through various taxing districts. He asked how much would be involved in the different service areas. He requested these figures in writing.

Mr. Haugen asked what percentage the oil companies paid of the total taxes collected. Mr. Heier said the total was \$500 million and the oil properties assessed value was \$320 million, so it was a little better than 60 per cent.

Mrs. Chance asked what the sales tax was. Mr. Heier said it was 3% Borough wide, an additional 1% for the City of Kenai and Homer. Mrs. Chance asked the total revenue generated. Mr. Heier estimated it at \$1,500,000. Mrs. Chance asked that he provide them with the percentage generated by ad valorem.

RECESS The Committee recessed at 4:15 P.M.

AFTER RECESS
4:35 P.M.

PRESENT: All members of the Finance Committee with the exception of Representative Hillstrand; members of the House of Representatives; Bob Ross, Administrator of Capital Improvement Funds, Kenai Peninsula Borough; Herb Lehfeldt, City Manager, Valdez; John A. Carlson, Mayor, Fairbanks North Star Borough; Harold Pomeroy.

Representative Haugen called the meeting to order and asked the first witness for his testimony.

HB 1 Bob Ross, Administrator of Capital Improvement Funds, Kenai Peninsula Borough, introduced himself and stated he controlled the largest budget in the Kenai Borough. He first wished to explain Kenai's position on the state incentive act, and said when the Collier and Phillips plants came up the state requested the Kenai Borough Assembly to stamp approval or disapproval on the incentive act. The state was trying to get local government to make a decision. They sat down with individual oil companies on an individual basis and negotiated. At that time, the mill levy in the Kenai Borough was 5 mills. They negotiated on a zero basis, with the value going up as the plants were built, to remain at a pre-determined level when the plant was complete and then to decrease. The sum extracted from the oil companies was equivalent to the amount of tax which would have been received on a graduated basis. There was no precise formula, but at the time of negotiations there was no idea of the inflation which would occur, continued Mr. Ross.

The Kenai Peninsula Borough is levying 5 mills today and the state said they would receive 7 mills, actually equivalent to the borough levying 5 mills, stated Mr. Ross. The borough actually would not be hurt. The borough is only an animal surrounding five cities and four service areas. If the borough loses a portion of their tax base, or a portion is not fairly evaluated, then the borough would suffer. Mr. Ross gave as an example a citizen in Seward, where the borough does not provide much service and is trying to keep the tax base down.

Mr. Ross stated he can't predict how much money the borough would lose, since he did not know the target. He did not know how much would be thrown into the sack and could not give projections, but was concerned that local government would not be able to assess. The main concern was that if the state assesses the oil companies at 7 mills, then possibly the borough should tell other taxpayers they should only pay at 60% because of the 40% loss on the oil companies.

The Kenai Peninsula Borough has bought bonds and also initiated a program when the citizens did not want new projects from bond money; they wanted to raise taxes. In the capital improvement program, continued Mr. Ross, the Assembly has granted \$1 million, which is only a portion of the program. Facilities need to be up-graded to be usable, not new ones built and not bonded, but done on the basis that it is done today and it is paid for by the citizens that are using it.

Mr. Ross said the representatives from the Kenai Peninsula Borough were present to protect their tax base, and protect their right to extract taxes needed on an equal and fair manner to all members of the borough. Current taxes in the Kenai Borough are 5 mills plus a 3% sales tax. The central hospital district is now at zero, but next year they want capital improvements and there probably will be some slight millage rate. North Kenai fire service is 1.4 mills, the South hospital district 1.7 mills, Soldotna water 3 mills, Homer 12 mills plus a 1% sales tax, Kenai 10.5 mills plus a 3% sales tax, Soldovia 13.5 mills, Seward 20 mills, Soldotna 14 mills plus a 3% sales tax, and Mr. Ross said the people are paying taxes. It can be argued they are levying in a rich borough, but why penalize them by taking a method and structure that is providing good service to the people, concluded Mr. Ross.

Questions were opened to members of the Finance Committee, and Rep. Saylor asked if Mr. Ross had discussed the financial implications of the bill with financial consultants relating to bonded indebtedness. Mr. Ross replied he had not, but the finance director would be in Juneau soon and could answer that question. Rep. Saylor requested this information be provided by the finance director

Herb Lehfeldt, City Manager, Valdez, introduced himself and said he was accompanied by three Council members and the Mayor of Valdez. He was representing the citizens of Valdez and said they are deeply concerned about the ad valorem tax, which takes the tax prerogative away from municipalities. This is the single source by which municipalities are funded and in planning a budget, only the number of mills necessary to fund services for the citizens are levied. Cities are different and each citizenry demands different levels of service. The bill will provide no incentive for cities to levy less than 7 mills, since the state will absorb the balance.

The city of Valdez chose not to levy a personal property tax, but have a 4% sales tax. Under the proposed bill, it becomes practically obligatory to put on a personal property tax to benefit. This tax may be desirable and necessary to enhance services; however, this decision should be made at the local level, continued Mr. Lehfeldt. Under Chapter 29, 30 mills is the maximum and Valdez does not tax to that extent. All properties assessed by the state would be removed from the city's taxation and capital improvements would suffer. Reducing the tax base would affect Valdez's ability to bond, and Mr. Lehfeldt said they did not feel this was what was intended and the bill requires scrutiny. The cities' statutory

rights to levy taxes should not be usurped, as cities must be able to borrow money for capital improvements.

Representative Fink asked the assessed property valued in Valdez and the property levy. Mr. Lehfeldt replied there were three service areas; the central city at 15 mills, the adjacent area (which receives decreased services) 12 mills, and the outer areas (receiving minimum services) 10.5 mills. Rep. Fink said many feel industry should pay around 20 mills, maybe more or less. If Valdez had a \$1 billion installation, it seemed to Rep. Fink they wouldn't charge 20 mills, and he asked Mr. Lehfeldt if he did not feel the state should place an ad valorem tax on this. Mr. Lehfeldt stated municipalities should be able to levy taxes first and then the state should have access to whatever they felt necessary or desirable. Their position was the pipeline would be both real and personal property, and they would not object to the state taxing personal property. Replying to further questions from Rep. Fink, Mr. Lehfeldt said Valdez exempts only those exempt under state statute. He thought it would be desirable to have no exemptions other than by state statute for both personal and real property taxes.

John Carlson introduced himself to the representatives and said he was present as the Mayor of the Fairbanks North Star Borough and as President of the Municipal League. The League has not taken official action as of this date, but a proposed policy statement says the ad valorem tax should not erode the tax base of local government.

As Mayor, Mr. Carlson said he has viewed the need of funds for the state and realized legislation must be passed to meet the needs. They did not oppose the state ad valorem tax as long as the need for local taxation was realized. Exemptions allowed should be scrutinized and a uniform tax base created. The proposed bill provides for a Board of Review, and Mr. Carlson said he would like to see local representation on this board for input on valuation set.

In Fairbanks, Mr. Carlson said they don't have the oil impact to tax such as they have in Valdez. Currently their tax base is 6.5 mills for a return of about \$2.4 million, with a 2% tax in the borough for \$2.6 million. 50% of their revenue comes from the sales tax. An additional sales tax of 3% is charged in Fairbanks and an additional 2% in the North Pole. Estimating the pipeline at 7 mills maximum, Mr. Carlson said they would receive about \$2 million in revenue. In projecting needs for the coming year, \$2 million revenue will barely meet the needs for school facilities and increased needs. Fairbanks would not derive any income from the pipeline as it does not come through the city. Looking at the 7 mill limitation, Mr. Carlson said he would like

to recommend a higher minimum than is in the proposed bill, with a 20 to 30 mill levy on the state's portion. Distribution of oil and gas revenue would have an effect on the deliberations, which would have an effect on the final decision, concluded Mr. Carlson.

Rep. Saylor's questioned the total assessed value in the North Star Borough and Mr. Carlson said there was \$340 million in real property only. Rep. Saylor's then asked the taxable portion of the pipeline, to which Mr. Carlson replied \$273 million. He said there were only 87 miles of the line and one pumping station, and estimating the funds needed just for borough administration, impact needs would amount to about \$700,000 to \$900,000, not including school impact if there was a large influx of children. \$273 million is at the full and true value with the exemptions as they are presently proposed. Under the bill as proposed, the \$273 million may be an enlarged amount and there may be other properties exempt, continued Mr. Carlson. Rep. Saylor's stated he could not see that the impact would eat up that much money, since the line would more than double assessed value and more than double income.

Rep. Specking noted there was talk about refineries being built in the Fairbanks area, and feeder lines would be located within the city. He asked Mr. Carlson his opinion about feeder lines, to which Mr. Carlson replied he felt that the lines would be a taxable facility. There would be about 11 miles of line to the refinery, and municipalities would want to retain their right to levy on these feeder lines.

Rep. Freeman said he agreed with the philosophy of autonomous local government, but in this case there would be an unequal distribution of money received from the state's natural resources. If the theory that the natural resources of the state belong to all the people of the state is accepted, how can the right of local government to come up with a 20 or 30 mill tax be accepted. A rip-off in an area where it is not reasonable must be prevented, and Rep. Freeman asked if Mr. Carlson had a solution. Mr. Carlson said an assumption must be made that local governments would not rip off all the funds. If a 10 mill levy were available, local governments may only levy 1 or 2, and it can't be assumed they would all levy at 7 mills or some type of legislation would be needed to stop it.

Rep. Orsini asked if the impact to Fairbanks of several million dollars was a gross or net figure. Mr. Carlson said just based on the pipeline will bring new people and new construction, but he didn't believe there would be much construction in the way of new residences. However, he replied it was a gross figure.

Rep. Fink asked if he had considered what Fairbanks might receive if money went to the state and was returned through revenue sharing. Mr. Carlson said he did not have any figures, but the location of Fairbanks would mean a limited amount of assessed valuation. Both

ends of the line will benefit through additional exploration in the North Slope and the development of a terminal in Valdez. The impact will be great in Fairbanks and they will be looking toward revenue sharing. Rep. Fink noted most of the state's money is spent on a per capita basis and revenue sharing is per capita. It seemed to him that Fairbanks would come out much better if the state handed out the services than by local taxes. Mr. Carlson agreed and said it would probably be better than a 10 mill levy. In this way, Fairbanks would not oppose the state's ad valorem tax as long as there was an opportunity for them to levy as local government.

Rep. Fink then asked if the borough would be disturbed if the state said there would be no exemptions on personal property tax. Mr. Carlson said the only exemptions they have now are as listed by the state, but there is no personal property tax, only real property.

Rep. Orsini returned to the question of the impact on the community by people demanding services; however, people would be paying sales tax and personal property tax. He asked Mr. Carlson if he had computed the net impact. Mr. Carlson said he felt they would not derive that much in taxes to meet the increased demands. On sales tax, Fairbanks has been increasing about 5 to 6% per year, and other taxes would be running a year behind. It is a matter of timing and amounts of money, since people would be arriving in spring and summer months. Rep. Orsini then asked if the additional people would cost money in the long run or would they cause a temporary problem due to cash flow. Mr. Carlson said it would be a problem in the long run since they are in need of schools right now. Based upon present shared revenues, they will be worse off.

Rep. Huber asked if a so-called "bedroom community" was an asset or a drain on the community. Mr. Carlson said they are a detriment, since more services are provided than is received in taxes from such a community. Rep. Huber then asked that Mr. Carlson provide the Chairman of the Finance Committee with the official action of the North Star Borough Assembly and anything else of interest to the committee.

Rep. Guy asked if Mr. Carlson would look at the pipeline as an improvement to the existing property. Mr. Carlson said the pipeline may be considered personal property; therefore, if assumed as real property there would be no problem in taxing it. However, he did not think they would have the prerogative to determine in the borough whether it was real or personal property. Replying to further questions from Rep. Guy, Mr. Carlson said at the present time any property owned by oil companies is now on tax rolls.

Rep. Eliason asked if there were any plans to expand the borders of the North Star Borough. Mr. Carlson said it was discussed several years ago, but there are no plans at the present time.

Replying to further questions, Mr. Carlson said the only advantage in expanding the borough would be to take in any areas which would enhance taxes. It could be more practical to look towards expansion to the west rather than north, towards Nenana and Dunbar.

Harold Pomeroy introduced himself, saying he represented only himself and appeared as a private citizen. He lived originally on the Kenai Peninsula and was now living in Anchorage. His entire life had been spent in public administration, occasionally elected to public office. Mr. Pomeroy commended Mr. Carlson for his stand on the subject, and asked the representatives to study carefully every word spoken by Byron Mallott earlier in the day.

The proposed oil legislation is of such sheer magnitude, continued Mr. Pomeroy, that it creates problems of inequity. It would be impossible to be totally equitable, but the legislature must find something that is viable and feasible. Mr. Pomeroy said he was not testifying against the 20 mill tax as it is inequitable to tax at 7 mills; however, alternatives are being worked out and needed in order to arrive at something reasonable.

The Department of Community & Regional Affairs distributed copies on this subject, continued Mr. Pomeroy, and there must be some ceiling on the "take" or ceiling on the total assessed value. A measure that is no more than so many total dollars taken per capita, which Mr. Pomeroy said would not make much difference if the North Slope had 3, 4, or 5 times per capita than in Anchorage. The state pays most of the bill for education and half of the bill for bonds, and provides the police for small areas.

Kenai has enjoyed a favorable position, said Mr. Pomeroy, but the oil industry will create problems as many people move to the state. The impact can not be solved by any formula devised; however, it may be desirable to have a special impact fund to help with these difficulties. There were difficulties in Kenai, but Mr. Pomeroy said they did not have any overwhelming problems. This problem is so much bigger that it may create overwhelming problems, but it is an overall state problem.

Mr. Pomeroy said he would not comment on anything else mentioned at the meeting, but did want to say that the problems which Mr. Heier referred to about assessing concerned a subject which is imprecise. It may be possible with local government to deal with this subject, but there is a difference between local government and dealing with millions of dollars of property. The industry must have some idea of total payments to the state in taxes.

Referring to the sales tax, Mr. Pomeroy said we have the toughest sales tax in the U. S., on retail sales, rents, services, etc., however there is a limit to that sales tax for the first \$500 of each individual sale. That was done purposely and for the most part the oil industry in Kenai pays sales tax for hauling, diesel fuel, etc.

Rep. Warwick asked if Mr. Pomeroy had any recommendations for the proposed bill, to which Mr. Pomeroy replied he believed the 7 mill measure is a faulty measure. He recommended taking the average assessed value of local taxing jurisdictions within the state and stating no one may tax at a levy higher than double that figure - if \$15,000 then may levy to \$30,000, which would put the Kenai Peninsula about where it was now. Manufacturing plants are excluded in the Kenai Peninsula and he expected liquifaction plants should be included in state tax. Mr. Pomeroy described a new liquifaction plant of great size, which would be a \$200 million plant, and noted there would probably be \$200 to \$400 million in assessed value in additional plants. It seemed to him that the state should strive for as much equity as possible, without doing definite harm to local jurisdiction such as the Kenai Peninsula.

Replying to a question from Rep. Malone, Mr. Pomeroy said he believed the revenue projections on oil are very conservative. Rep. Malone then asked if depreciation should go on a production basis or should be based on replacement costs. Mr. Pomeroy said he did not believe it should be based on replacement costs. His impression from the liquifaction plant was it was a tight operation, as their contract runs to a complete termination when the plant has no value. He said this must be taken into consideration that the plant is depreciating to absolute zero when through operating. He said he did not believe that assessed value would increase if replacement costs were used; however, said he did not know how to reconcile the apparent inconsistencies.

Rep. Malone then questioned platforms in Cook Inlet and Mr. Pomeroy said there was a situation when one drilling company said their rig was worth \$350,000. It was assessed at \$3,500,000 and the company paid the bill since that was its true value.

Rep. Parker questioned the impact on Anchorage when Kenai was going through the oil boom. Mr. Pomeroy agreed that Anchorage did feel the impact; however, it will be greater this time. Every area will feel it. Mr. Pomeroy continued by saying he did not see in any proposal any reference to shared revenue, and he didn't know what the revenue is or will be. He would like to see written into a provision an increase in revenue sharing, and hoped there would be enough to divide up and share. Upon further questioning from Rep. Parker, Mr. Pomeroy said the impact was greater in Kenai than in Anchorage in terms of transients, drunkenness, etc.

The meeting adjourned at 6:00 P.M.

ATTACHMENT TO OCTOBER 18 FINANCE COMMITTEE MEETING MINUTES

I am Stan Thompson - Kenai Peninsula Borough Mayor and resident of Nikisiki or North Kenai which is 24 miles North of the town of Kenai.

GENTLEMEN:

When the Governor first made his speech setting out the proposals that we are now faced with, our immediate reaction was that the State was going to take - steal if you will - our right to tax the real and personal property of our Boroughs and cities.

Our next reaction was turned to the realization that even this 7 mill return is an iffy type thing - we might get 7 mills back or might not at this stage. Then as we looked over the bills, we realized that - due to the states proposed assessing rules - the State would leave a pile of money on the table. This would hurt the State but would also hurt our Borough in that the supposed 7 mill return would (due to their type of assessing) return only about an equivalent of 5 mill.

As we contacted other Boroughs and cities, we found an increasing resentment and apparition to the philosophy of the State's taking the ad valorem rights in any one industry.

We held the meetings with City and Borough officials - one in Anchorage, one in Kenai, and one in Juneau, and attended various other hearings such as the one Mr. Hillstrand called in Anchorage.

The Borough and cities of the State have reached an amazing unanimity of feeling. Their resolution in ^{opposition} ~~apparition~~ to the Governor's bill are coming from almost all over the State. None have come out in ^{all} favor of the bill.

At all of the hearings held the portions that drew almost unanimous disapproval was the ad valorem tax. All officials seemed to feel very strongly that this right to tax the real and personal property within municipalities should remain the prerogative of the municipality and that the state should keep hands off.

The state has other taxing means at its disposal and it was, I believe, an almost unanimous feeling that cities and boroughs should retain that right; for as sure as night follows day, the taking of the ad valorem tax in this resource would some day be followed by the taking of another until in the logical end, the cities and boroughs would each year

have to go to the state, hat-in-hand to prove their need and to receive their "allowance".

Some of the speakers pointed out great and minor faults of the proposed legislation. One very knowledgeable speaker said, "the oil companies involved couldn't have worked out a better package for themselves". Another pointed out that many of the present taxable oil related items suddenly wouldn't be taxed at all due to the above exceptions, at a great loss to the borough and/or city and to the state (for instance, the intangibles). Also many items, such as stockpiled materials or machinery would not be taxed until actual construction of the pipeline began. Furthermore, items, goods and services presently being taxed through sales tax would suddenly become exempt - why?

It was pointed out that under this bill the oil industry couldn't be taxed beyond 20 mills maximum; while every other industry could be taxed 30 mills. Hardly a fair or wise situation. Why this limitation and favoritism for one industry?

It was mentioned by Mr. Havelock that the Kenai Borough just charges 5 mills so they wouldn't get hurt. Let me explain and digress a bit on that point if I may.

The Kenai Borough does charge 5 mills over the entire borough on every person or industry, no exemption other than the state's senior citizen exemption. This 5 mills is on all real and personal property at 100% valuation. Furthermore, the Borough has a 3% sales tax. This makes an equivalent of 10 mills borough wide, or at last years assessed value. However, this goes further. Our 5 cities have different tax rates from a low of 10.5 mills to a high of 20 mills in Seward. Now this is on top of the borough's 5 mills. Here we have in the Kenai Borough a city with a 20 mill tax plus a borough 5 mill tax plus a 3% sales tax for a total equivalent of approximately 30 mills. Yet this bill would return to this city a maximum of 7 mills, and 7 to the borough even at our assessing values. In other words, the rest of this city's taxpayers would have to be taxed heavier to pay for the oil impact on them. Is that what we can expect from the State and the oil industry?

But even this isn't all. We also have service areas in our borough. These service areas are just that--to provide services. The North Kenai Fire Service District is an example. This service wouldn't be needed without the impact of the industrialization of that area (located about 15 miles north of Kenai.) The income to support this fire service is a 1.4 mill tax on the real and personal property of that area; yet according to this bill this service area would immediately be bankrupt with their funds going again to the state and no return, as service areas aren't even considered in this bill.

Now, while I'm on this and while the state is contemplating seeing how much monies they can take from us; remember, we, in Kenai, have had our oil impact; percapita, much rougher than anything Fairbanks or Anchorage will see. We, over 15,000 people, bonded to build 10 new schools, many millions of dollars, and, now, we are paying for those bonds. We did this with no special state help, no special grants, no special loans, no impact funds. Now, for heaven's sake, don't try to take from us our means of paying for these bonds.

We are a frugal Borough, very conservative. We have only 26 regular borough employees including secretaries and janitors. We have also 10 maintenance personnel who do all the maintaining of our 40 schools and buildings. That's it. That's our crew. Yet we have 5 first class cities, 1 second class city, 3 native villages and 7 recognized entities such as Hope, Cooper Landing, Ninilchik, etc.

We are not squandering our oil income. We are paying back our debts from our impact. We have pulled in our belts. Our borough mill rate is low but, as I have pointed out, our tax is diversified and in some cities, it is already comparable to 30 mills. Please don't take our right to tax for our own use away from us and make us as any other city or borough fully dependent on the state's whim.

At one meeting, it was also brought out quite strongly by George Miller of the Kenai Native Association that really what is being attempted is to take away from the North Slope Borough what is rightfully and lawfully theirs. Just as the forests of Southeastern belong to those areas;

the ever returning salmon are of value to the areas they come back to; the gold mines and copper mines are localized; just as the stores and businesses and offices belong to Anchorage, so does the North Slope oil related real and personal property belong to the North Slope. We aren't asking for the tax base from Anchorage real estate, or those fish, or the forests or mines; nor should we ask for the property taxes from the oil in the North Slope. Of course we are not forgetting the State and all of us have shared the lease money from this oil. The State does have the power to tax the product-- the oil, the fish, the stumpage plus the business and income tax derived from all of them.

It should be suggested that if the state legislature would act as the Borough Assembly of the unorganized boroughs as they are supposed to and would levy a tax on the unorganized portion, possibly this would help the State in their financial difficulties. Or perhaps they should consider a state wide sales tax with a return to each municipality.

I would strongly urge that you do not pass this bill which would definitely unnerve all local government and would take the tax base away from the Kenai Borough and its cities.

STANLEY F. THOMPSON
Borough Mayor
Kenai Peninsula Borough

HOUSE FINANCE COMMITTEE

October 20, 1973

9:50 A.M.

PRESENT: All members of the Finance Committee except Mr. Hillstrand. Members of the House of Representatives. Also present were: Mr. John Havelock, Attorney General; Mr. Wilson Condon, Assistant Attorney General; Mr. Larry Eppenbach, Deputy Commissioner of Treasury; Mr. Frederick Boetsch, Director of Revenue Audit.

HB 1 Vice Chairman Haugen called the meeting to order and asked if there were any questions of the Administration concerning HOUSE BILL NO. 1 (Taxes on property used in the exploration for, production of, or pipeline transportation of gas or unrefined oil).

Mr. Warwick stated that some of the Representatives had been working on a Committee Substitute for HB 1, and would be asking the Administration to appear at a subsequent date when they had a draft of that bill.

Mr. Guy asked Mr. Havelock whether exemptions two and three applied to permits speculative in nature. Mr. Havelock replied the exemption was valid whether or not the entrance was speculative.

Mr. Guy then asked what kind of revenue they could expect on production property. Mr. Havelock referred the question to Mr. Boetsch, Director of Revenue Audit.

Mr. Boetsch stated that total estimates for production properties in FY 79 would have a taxable value of \$899 million and would produce about \$18 million in taxes. He said there were different figures for each year. He said for total properties in 79, the valuation would be just over \$5 billion and that would bring in just a little over \$100 million.

Mr. Orse said he was not clear as to what happened on the unit of production depreciation method when they discover X million barrels of oil and it turns out to be 2X million barrels.

Mr. Havelock gave the following example: In year 1 the proven reserves are one million barrels and they produce 10% so 10% of the cost is depreciated. In year 2, they discover there are really two million barrels left at that time, but production is still 100,000 barrels, so now the rate of production is 5%. Each year the production of that year is related to proven reserves in existence at that time. It is possible

for proven reserves to fluctuate each year.

Mr. Miller said that as he read the bill, the ad valorem would not apply until construction actually started. He wondered whether construction was considered started when they were only constructing a road the first year. Secondly, in regard to the North Slope Borough, since the tax was not applicable until construction actually started, he wondered whether it would void out their current levy.

Mr. Havelock answered the second question first. He said that the 73 levy of the North Slope Borough would be unaffected. The 74 levy would be foreclosed by the provisions in this Act as to whether or not the construction had commenced.

Mr. Havelock went on to say that just the pipeline and pipeline related and production properties dependent on the pipeline would be exempt. Exploration equipment is still subject to taxes. He said that the construction commencement date is a work of art and defined in paragraphs two through ten. It depends upon whether conditions prevail where a reasonable person would start construction.

Mr. Fink referred to the method of valuation. He noted they had heard testimony and a good argument made for value of property at fair market value as opposed to their method. He wondered whether the method would make much difference.

Mr. Havelock replied it would be a considerable change. The fair market value method would introduce an element of uncertainty in property that doesn't have a fair market value. He said the question was whether they were going to value production equipment on fair market value and create considerable uncertainty because there was not the same kind of market in production facilities. He asked how they would figure fair market value excluding intangibles that would go into the price. He didn't think the fair market value was appropriate, and added that from the industry point of view it would give uncertainty because it would depend on the assessor.

Mr. Fink stated the Assessor from Kenai had indicated the valuations would be higher.

Mr. Condon, Assistant Attorney General, answered that with respect to production property, the valuation would be less. With respect to the pipelines, they use actual cost depreciated on an annual straight line allowance with no inflation factor. He said their pipeline formula would tend to lead to higher valuation. With respect to the gathering lines, in Kenai they

assess at 55% of actual cost feasible, and it is an arbitrary figure they picked when they started assessing.

Mr. Fink said valuations of this type of property seem difficult. He asked whether they couldn't take advantage of increased value, and argued that everyone present could see that home values were going up. It was difficult for him to see how the value of the pipelines would go down instead of up. When everyone else in the State was treated one way, he didn't know why they should be treated differently.

Mr. Condon pointed out that exploration facilities were treated the same as everyone else. In regard to production facilities, he said they should consider that they also charge production tax which is on what those facilities actually do. He said that in the past they had not charged production facilities because they felt that the production tax was in lieu of the property tax. The depreciation schedule in the bill with respect to production facilities was selected remembering the production tax.

Mr. Fink asked where the language was to key in and kick up assessment until they find oil. Mr. Eppenbach said page 4, last line, and page 5, first line.

Mr. Fink asked the regulation of ICC that the 8% applied to. Mr. Eppenbach answered it was the valuation of the pipeline in any year. He said they don't use it because of some of the elements that are taxable personal or real property. Mr. Eppenbach didn't know that they couldn't tax working capital. He said there were other property taxes for railroads and express companies that were being taxed on a going concern basis. He said when they were trying to single out a class of property to apply tax to, they agreed to present a piece of property that would not include working capital or interest capitalized.

Mr. Fink stated that in the case of the pipeline they were talking about the owners being able to charge a tariff based on increasing value. Mr. Eppenbach replied he didn't think the ICC value was going to go up.

Mr. Fink referred to page 3, line 10. He asked if that didn't refer to the increased value of the pipeline. Mr. Eppenbach replied that in the first year a 6% additional amount was added. That is their estimate of what ICC will provide for and the estimate of the working capital. From the second year on, the pipeline depreciates consistent with ICC depreciation tables which are different for different classes of property, but do have a 50 year life.

Mr. Fink asked whether Mr. Eppenbach thought the value of the pipeline would go down over fifty years. Mr. Eppenbach believed ICC will reduce valuation from time to time and not increase it.

Mr. Fink asked him to assume operating expenses go up every year. Mr. Eppenbach said they would go up because costs go up. The value of the pipeline at the end of its useful life could be less than a house, perhaps have a negative value. He said it may reduce value to effective actual value.

Mr. Fink noted that Mr. Eppenbach said the ICC pattern does not go up, and they assume a 3% increase in the rest of the program to cover the inflation part of it. Mr. Eppenbach replied that inflation was not the right word. The 3% in-

Eppenbach thought fair tax value should be considered with economic utility.

Mr. Fink asked whether Mr. Eppenbach supported the ad valorem bill as written, and Mr. Eppenbach said yes, he supported it on the basis that it was a favorable and important part of the overall package.

In answer to a question from Mr. Warwick, Mr. Eppenbach said the valuation would go up slightly the first year and down slightly for the rest of its life. They expect the ICC value will be over a 50 year period and trend lower.

Mr. Warwick thought it would be advisable to have definitions included in the bill.

Mr. Malone asked what intangible development expenses were, and Mr. Havelock replied there were forms of activity involved in the development of a well other than drilling itself, like building a road.

Mr. Malone asked whether development expenses were exempt from taxation. Mr. Havelock said they had in mind that they were levying a production tax also that picks up revenue from that investment. He said some kinds of intangibles were exempt because of the difficulty the assessor has in picking them up.

Mr. Malone asked if it wouldn't simplify things if they just used the valuation placed on the pipeline for return by ICC. Mr. Havelock said no, because they have a different method of doing it. He said they could adopt into law their tables, but it would result in a different revenue picture and would not be satisfactory to the oil companies either.

Mr. Malone thought it would simplify the State's assessment procedure and put it on a parity with the tariff. Mr. Havelock didn't think the State's problem was that complex.

Mr. Malone was concerned about the construction commencement date and the exemption of properties before construction. He could understand why this applied to the TransAlaska Pipeline, but he didn't know why that distinction should be made for future pipelines.

Mr. Havelock replied that the history of the Alaska pipeline and the environmental problems associated with development have made early investment of money into pipelines a high risk procedure. Prior to permits being issued, there are many delays. They felt the situation indicated that it might be fair to give them a break on that.

In answer to a question from Mr. Malone, Mr. Havelock said it was true that all oil fields have a tendency to be high producers early.

Mr. Malone asked for revenue projections. Mr. Eppenbach referred him to a sheet entitled "Summary of Property by Area and Type" where the tax was 20 mills. It read as follows:

FY 75	-	\$14 million
FY 76	-	\$33 million
FY 77	-	\$54 million
FY 78	-	\$78 million
FY 79	-	\$81.5 million
FY 80	-	\$79 million

Mr. Malone asked whether in early years it was reasonable to put in projections of revenue from pipelines. Mr. Eppenbach replied in the second of the first few years it was reasonable to put in a normal value. He thought the third and fourth years should have an impact on it. He said they were suggesting that in FY 79 the line should have a value of \$1 billion.

Mr. Orsini didn't feel the initial valuation seemed reasonable because of the delay and because the value has risen. Mr. Eppenbach said that was because he was referring to the price of the pipe, and that was merely a paper increase in value because the corporations had no opportunity to sell it.

Mr. Eppenbach pointed out that they can tax the income of the oil companies, and that they fully intend to.

In answer to a question from Mr. McVeigh, Mr. Eppenbach said that should the value of oil continue to increase, then the valuation of the pipeline for tax purposes would reflect it.

Mr. McVeigh said Mr. Eppenbach was saying that the rise in cost of oil would not be reflected. Mr. Eppenbach said it wouldn't be reflected in the property taxes, but in other taxes it would be.

Mr. Miller asked whether projections had been made on the income which would come available if construction started at a time rather than March. Mr. Boetsch, Director of Revenue Audit, stated that if construction started on January 1, the \$8 million would increase by 1/3.

RECESS

Meeting recessed at 11:15

AFTER RECESS

11:25 A.M.

Vice Chairman Haugen called the meeting back to order and said they would continue with discussion of HB 1.

Mr. Fink asked about the agreement the Administration had made with the oil companies. He asked if the companies had agreed not to resist the ad valorem tax and the cents per barrel tax if the right of way bill, the pipeline permit, and the bill to take the royalty off, were to pass. Mr. Havelock said that was essentially true.

Mr. Naughten asked whether in the research done in computing the full and true value of the property he had looked at the history of ICC's valuation of pipelines throughout America. Mr. Havelock said he had looked very closely.

Mr. Naughton said that in testimonies before the Impact Committee they heard that no pipeline in America is worth less than it was in the beginning.

Mr. Eppenbach said that every indication they got was that ICC would reduce the value.

RECESS

Meeting recessed at 11:50 A.M.

AFTER RECESS

1:40 P.M.

PRESENT: All members of the Finance Committee with the exception of Rep. Hillstrand. Members of the House of Representatives. Carl Hille, Finance Director, Kenai Peninsula Borough; John E. Havelock, Attorney General; Larry Eppenbach, Deputy Commissioner of Treasury; Frederick P. Boetsch, Director of Revenue Audit; O. K. Gilbreth, Reservoir Engineer, Division of Oil & Gas.

HB 1 Vice Chairman Haugen called the meeting to order and asked if there was further testimony on House Bill No. 1 (Providing for taxes on property used in the exploration for, production of, or pipeline transportation of gas or unrefined oil).

Carl Hille, Finance Director, Kenai Peninsula Borough, introduced himself and thanked the legislators for the job they were doing. He stated the Kenai Peninsula Borough was quite concerned about proposed legislation pertaining to the ad valorem tax and its effect on local municipalities. Kenai is a conservative borough, working hard to be fiscally responsible, and the proposed legislation scares the citizens, continued Mr. Hille. The Kenai Borough has no exemptions on any classes of property other than those provided under state statute, and Mr. Hille said the bill is very unpalatable.

Rep. Saylor asked if Mr. Hille had discussed the financial impact of this bill with the financial adviser regarding bonded indebtedness. Mr. Hille replied he did not discuss it with him as the bill itself is so vague. He could not see how the bill could pass as written, and if it were amended it could be changed completely. Rep. Saylor then asked if there would be problems if the bill passed in its present form, taking away a good portion of the tax base from the Kenai Borough. Mr. Hille said he could not tell now what the full ramifications and impact would be; however, the Borough assessor estimated that \$300 million would be taken away from the assessed \$500 million, which would have a significant impact.

Rep. Barber asked what proportion of mills would be affected if \$300 million were lost as a tax base. Mr. Hille replied the borough has 5 mills now. The sales tax last year yielded \$1.4 million and property tax yielded \$1.372 million. Rep. Barber noted the reduction would eliminate about 25% of the borough's tax base, and Mr. Hille said he could not identify how much of the sales tax now pertained to the oil industry. The borough would need to go through a one-year cycle to see the effect.

Rep. Warwick noted an alternative would be to do away with the 7 mill rebate and allow boroughs to tax up to a point, double the average tax assessment of the state, and asked the effect on

bonding. Mr. Hille said the present law allows boroughs to tax without limitation, and just the effect of the limitation to repay bonded debt would influence the bond people. He believed they would be concerned about that aspect, and too many negative factors would force interest rates up.

HB 4 The committee referred to House Bill No. 4 (Relating to the oil and gas properties production tax).

Rep. Specking questioned page 1, line 18, referring to the tax upon the total production from each lease, and asked if the crude oil is measured coming from the well or after cleaning. Mr. Havelock said it is measured after cleaning, and Mr. Gilbreth noted the amount removed by cleaning varies from well to well. In Cook Inlet about 12 to 14% is removed through cleaning. The general practice is to measure the oil as it comes out of the well, then it goes through a treating system and measured by a meter after cleaning. Only total waste is removed from the oil. Some sediment may be reclaimed, and in the lower 48 some is put on roads.

Rep. Warwick questioned the change in the language of the bill on page 1, which Mr. Gilbreth explained as follows: The present statute provides that the tax is levied on the daily average production from each well. An operator takes two tests per day to determine the capabilities, and to determine what portion comes from each well the tests must be analyzed, involving daily paperwork. The range may vary from 100 barrels per day to 2,000 barrels per day, depending on how the operator operates the well; therefore, it is difficult to determine what the daily average well is. The new language provides that the tax will be based on the total production from each lease or property, thus saving paperwork.

Rep. Warwick asked what effect this would have on severance tax, to which Mr. Gilbreth said it would have the effect of minimizing the calculations on taxes. Under the present law, the minimum tax has the effect of lowering the effective tax rate and, in running samples of actual calculations last year versus eleven months of calculations by the new method, the average rate was 8.2% lower. The new proposal will actually result in a reduction, but the tax rates shown in the new schedule will offset the reduction.

Rep. Fink asked the average number of cents per barrel severance tax from Cook Inlet under existing law. Mr. Gilbreth said it is about 19-20¢ per barrel. The proposed bill is very slightly higher - about .8 or .9 of one cent per barrel. The 8% reduction mentioned applies in Cook Inlet because the wells range from 100 to 3,000 BPD, but Mr. Gilbreth did not think it would apply on the North Slope because the wells will have the same capabilities during the life of

the legislature did not receive printing the old scale, less the 8% reduction, down. Mr. Gilbreth said the table state as a whole, and table 2 was the day. The figures for 1974, 75, 76 inlet, because nothing will be coming those years. Beyond that, the North legislation, Cook Inlet would not drop Gilbreth, as it would amount to less and create no immediate effect. Rep. project the price of oil going up Gilbreth replied this 15¢ escalation

ons reflect a superior method of tax. 25¢ per barrel is reached. The being reduced, continued Mr. Havelock, and the loss. The rate will drop and figures can be used that it would have been possible to make 8% more if the schedule was not used. Rep. Fink noted that table 2 versus table 5 shows nearly a 2¢ per barrel drop, even though the price of oil has gone up. He asked why rates per barrel should be reduced in Cook Inlet. Mr. Havelock said the problem in writing the bill was that it would apply both to Cook Inlet and the North Slope, and should produce good general results. He did not see how the schedule could be changed without affecting the North Slope.

Rep. Fink then said Alaska should receive taxes on oil on the same basis as other states, which receive ad valorem taxes, cents per barrel, royalties, etc. He stated they are charging 20-25% value of oil, while Alaska is not doing that. Even worse, the effect would be to lower what is received from Cook Inlet. Mr. Havelock replied that, compared with other states, Alaska will have the highest tax revenue, higher than any other state as far as total overall take. There could be an argument to raise the severance tax, but Mr. Havelock said that was not what the special session was called to do.

Mr. Boetsch said Alaska would be higher than other states in percentage terms, both ad valorem and severance. Rep. Fink said royalty should be considered also, in order to compare with other states. Mr. Boetsch said anyone charging royalty is getting 1/8, while Rep. Fink noted that Louisiana is getting 1/6. Mr. Boetsch quoted the following figures of total severance and ad valorem taxes from other states: Texas 7.7%; Louisiana 6.6%; California 7.8%; Oklahoma 7%; Wyoming 7%; New Mexico 6.7%; Kansas 4%. Rep. Fink noted California gets a 50% royalty on wells producing over 500 BPD. In California and Louisiana, the most significant part is royalty, continued Rep. Fink, while in Alaska the state is the royalty owner. Under this bill, since we

CORRECTION

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

the field. Rep. Fink noted the legislature did not receive print-outs on Cook Inlet, and using the old scale, less the 8% reduction, would cause Cook Inlet to go down. Mr. Gilbreth said the table distributed referred to the state as a whole, and table 2 was the base case mentioned the other day. The figures for 1974, 75, 76 and 77 are essentially Cook Inlet, because nothing will be coming from the North Slope during those years. Beyond that, the North Slope prevails. In proposed legislation, Cook Inlet would not drop substantially, continued Mr. Gilbreth, as it would amount to less than .001¢ per barrel, and would create no immediate effect. Rep. Fink asked if the state did not project the price of oil going up by 15¢ per year, to which Mr. Gilbreth replied this 15¢ escalation would offset the 8% reduction.

Mr. Havelock stated the calculations reflect a superior method of administering the tax. Overall, 25¢ per barrel is reached. The tax at Cook Inlet is not being reduced, continued Mr. Havelock, and there is no revenue loss. The rate will drop and figures can be recalculated that it would have been possible to make 8% more if the schedule was not used. Rep. Fink noted that table 2 versus table 5 shows nearly a 2¢ per barrel drop, even though the price of oil has gone up. He asked why rates per barrel should be reduced in Cook Inlet. Mr. Havelock said the problem in writing the bill was that it would apply both to Cook Inlet and the North Slope, and should produce good general results. He did not see how the schedule could be changed without affecting the North Slope.

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are the owner, why don't we wind up as well as California, Texas, and Louisiana, queried Rep. Fink. Look at the total picture and Alaska is low. Mr. Havelock stated he was not telling the legislature what the market would bear, just that this would mean more money than Alaska was getting before. This type of research (what the market would bear) has not been undertaken by any state. Rep. Fink said the State of Alaska is entitled to its share in dealing with the commodity of oil.

Rep. Hartig asked if there are metering devices on the platforms in Cook Inlet, to which Mr. Gilbreth replied yes. There are meters to measure individual wells and meters on shore. He added it is essentially impossible to determine a true reading from the platform.

Rep. Huber questioned the projections on per lease value and asked if there were any computer runs based on the effect on wells on the North Slope. Mr. Gilbreth said the wells on the North Slope are very prolific and have essentially the same capability during the life of the field. Most will average fairly close and not have the wide swing in daily production as is common in Cook Inlet. Initially there will be no drop in revenue from the North Slope. The proposed legislation will, over a ten-year period, more than offset the 8% when the North Slope comes into production, estimating there is no significant difference up there. Mr. Gilbreth said he believed it would be insignificant, so the only problem now is Cook Inlet. Rep. Huber noted it would be a good idea for the legislature to look at the North Slope and see if the averaging is costing the state money, as it could be changed at some future time.

Rep. Hartig noted it has now been determined what the operators in Cook Inlet agreed to in this proposed legislation, and asked if there were any other such instances, such as the oil transporting dispute. Mr. Havelock said this was still in litigation.

The committee referred to House Bill No. 5 (Levying an oil and gas regulation and conservation tax) and Rep. Hartig asked if anything had been done covering administrative costs. Mr. Havelock said there were no figures, but he did not believe it would be significant. Rep. Hartig asked if there was any thought to placing the tax somewhere else, and the reply was no. The 1/8¢ tax remains in effect on this bill.

Rep. Haugen explained fiscal notes have been requested on all bills and would be ready shortly.

Rep. Miller noted the term "conservation" as used in the tax was not used in connection with the environment. Mr. Havelock agreed, and said it was a term understood by the people paying this tax and actually was used in connection with conversation of the resource.

The meeting adjourned at 2:45 P.M.

HOUSE FINANCE COMMITTEE

October 21, 1973

3:25 p.m.

All members of the Finance Committee with the exception of Mr. Hillstrand. Members of the House of Representatives. Also present were Mr. Robert E. Sharp, Anchorage City Manager, and Mr. John Spencer, Anchorage City Attorney.

Representative Haugen, Vice Chairman of the Finance Committee, called the meeting to order and called upon Mr. Sharp to present testimony on House Bill 1; see Page 35 of the minutes for a copy of his prepared statement to the House Finance Committee.

Mr. Sharp informed the Committee members and other legislators that Anchorage Mayor George Sullivan would arrive in Juneau at a later date to express his views on the pipeline legislation. A copy of Mayor Sullivan's statement concerning the levy of ad valorem taxes on certain oil properties was distributed to the legislative body (see copy attached to minutes on Page 44).

Mr. Sharp stated that the City Council of Anchorage is against the levying of ad valorem taxes in organized cities and boroughs by the State of Alaska; but due to the magnitude of the pipeline project, the City Council has made an exception and has outlined their recommendations to the legislature through Resolution No. 69-R-73 (see Page 47 of the minutes).

With regard to a series of charts presented to the Committee, Mr. Sharp stated that the Operation and Maintenance Pipeline Impact Requirements' statistics represented impact from an oil pipeline only (see Page 40 for complete series of charts).

Mr. Sharp, on behalf of the Anchorage City and Borough, stressed the importance of proper identification of the ad valorem tax in order to provide impact areas with the necessary assistance.

Mr. John Spencer, Anchorage City Attorney, then testified before the Committee on the legal aspects of Resolution No. 69-R-73. He stated that under the Exemptions section of HB 1, a question could be raised by (for example) a pipeline company in Texas who felt they were being treated differently; this would be in opposition to Article IX, Section 2 of the Alaska Constitution

which states: "Nondiscrimination. The lands and other property belonging to citizens of the United States residing without the State shall never be taxed at a higher rate than the lands and other property belonging to residents of the State."

Mr. Spencer then referred to Section 7 of the Constitution (Article IX) which states, with regard to dedicated funds, "The proceeds of any state tax or license shall not be dedicated to any special purpose..." Mr. Spencer stated that funds collected from the ad valorem tax should be identified and therefore subject to appropriation by the Legislature. Mr. Spencer said that royalties are not subject to dedication limitation, therefore 25 percent of the ad valorem tax derived from tank farms, etc., were identified and subject to appropriation, but not limited to appropriation (1969 Attorney General's opinion to Representative Fink); then it is possible to write into the bill that that money could be appropriated from royalties.

Regarding the impact aspect of the pipeline, Mr. Spencer informed the representatives that there has been a dramatic increase in crime, accident, and other related case-loads since 1970, when the impact of the pipeline began. Mr. Spencer said that certain legislation could be passed now which would guarantee funds in this area, to be funded later from royalties, from which there is no prohibition against dedication. Mr. Spencer stressed that sufficient funds should be set aside to fund these particular kinds of problems.

Mr. Spencer then stated that he did not see prohibition or particular limitations on the per capita maximum (\$1,000 as written in proposed CSHB 1) although there is a millage limitation rate of 30 mills. He said that the Constitution gives the state that authority if it is carried out on a universal basis without particular limitation set out to particular municipalities.

Following Mr. Spencer's testimony, Representative Haugen opened the meeting to questions from the Finance Committee members and other legislators.

In response to Mr. Freeman, Mr. Spencer stated that the standards for assessment are set on a state level in Article IX, Section 3 of the Constitution. Standards for appraisal, however, must be set out by statute which gives local governments leeway--but the standards must be set out for the entire state.

In response to Mr. Freeman, Mr. Spencer said that the State may be subject to an equal protection type of lawsuit if one pipeline

is taxed at 20 mills, another at 30 mills, and the same benefits are given to both.

Mr. Barber referred to the proposed CSHB 1 with the \$1,000 limitation per capita and asked under what conditions taxes become confiscatory. Mr. Spencer said that that question arises when there is no rational basis between the taxes and the service provided. Mr. Barber then asked how far an increase was possible above the \$300 per capita in Anchorage before becoming confiscatory. Mr. Spencer said it would again depend upon the services provided. If a 20 mill tax is raised to 30 mills, and no more services are provided, the increase may be confiscatory. Mr. Barber then asked if it were necessary to prove the authenticity of taxes in court. Mr. Spencer said it was not; the services are worth much more than the taxes.

Mr. Warwick then asked if the North Slope Borough had a confiscatory problem now. Mr. Spencer replied that although he was not that familiar with the situation, a confiscatory tax has been or will be contemplated. Again, in response to Mr. Warwick, Mr. Spencer stated that the taxes may not be confiscatory if hospitals, schools, etc., are provided as services.

In response to Ms. Chance, Mr. Spencer said that at present, if the State wants to contract with local governments, it does and it pays for it. The City of Anchorage would like to see twenty-five per cent of the ad valorem tax on the pipeline and related facilities (levied solely by the State) to be identified and subject to appropriation for the local government's need. Mr. Spencer stated that this would take a constitutional amendment.

In response to Ms. Chance, Mr. Sharp stated that he could not give a figure as to the estimated increased per capita cost in operation of the government. Mr. Sharp then stated that 37 per cent of the City's total expenditures comes from property tax; the rest comes from court fines, state and federal grants, etc.

In response to Mr. Union, Mr. Sharp stated that the City of Anchorage says the maximum millage rate (30 mills) today should apply to all classes of property including oil properties. Mr. Union then asked if the City objected to a maximum of 30 mills with a 20 mill levy. Mr. Sharp said they don't object.

Mr. Orsini pointed out that although the City has estimated how much more it will need because of pipeline impact, it has not estimated how much they will obtain in revenues. He then asked Mr. Spencer if it was correct that local governments, in trying to levy an ad valorem tax, must show proof of that tax by virtue of services provided, but that it was

not necessary for the State to do so. Mr. Spencer stated that there must be some rational basis for a tax that is levied--state, federal or otherwise, and they must show the value of that tax to the people.

In response to Mr. Orsini, Mr. Spencer stated that if local governments tax a particular facility because they need money to provide services, there may be a problem if the facility is isolated and no one has access to it.

Mr. Spencer then stated that the \$2.2 million figure previously referred to was the operating maintenance budget figure, not the capital budget figure.

In response to Mr. Eliason, Mr. Sharp said that the City Council had not discussed whether taxation should not commence until the construction of the line had actually begun.

In answer to Mr. Warwick, Mr. Sharp stated that the Council feels there should be no local levy, but that the state should give money back to the local governments.

Ms. Banfield then asked Mr. Sharp if, when the Anchorage City Council and Borough Assembly met, they considered that if the tax were raised to 30 mills, then it may decrease the cents per barrel tax. Mr. Sharp said he did not think the Council addressed itself to that area nor was aware of that particular relationship.

In reply to Mr. Fink, Mr. Sharp stated that the 7 mills written into the bill is effective for local governments on that class of property; 7 mills become a limit and a different limit than other properties.

Mr. Fink stated that the pipeline does not require public services, and therefore, contrary to the belief of the Anchorage City Council, the dollar per capita limit is reasonable. Mr. Fink pointed out that the Legislature cannot get involved in the area of impact on communities; the State has a limitation under the Governor's call for this Special Session, and thus could not get into those local governments' positions of not feeling the pipeline impact.

In reply to Mr. Degnan, Mr. Sharp stated that the City of Anchorage wanted the following: (1) the existing shared revenue program to be fully funded; (2) impact communities to be reimbursed for their costs; (3) a program for capital impact.

Representative Miller asked Mr. Sharp's opinion on the decision of the State to levy 30 mills, and allow each

municipality to assess whatever their current levy is. If confiscatory, that would be between municipality and the courts. Mr. Sharp said that would be discriminatory because no one is levying 30 mills on other classes of property.

Mr. Miller gave the following example: while the State levies 30 mills, Valdez would levy 11 mills on their portion of the pipeline because their current millage rate is 11. No local entity would get all 30 mills unless they were levying 30 mills on their own people.

Mr. Sharp said that such a plan was inequitable because Valdez would be levying 30 mills against oil properties. What the state wants to take off in direct revenue cannot be identified.

Mr. Barber asked Mr. Sharp if the anticipated \$200,000,000 Kenai Peninsul liquifaction plant would warrant reconsideration of the City's expression of taxation. Mr. Sharp said that it would not because although industries are highly mechanized, various services must still be provided for various people in the community. Mr. Barber then pointed out that the \$200,000,000 facility is more of a tax base than some cities have; the oil industry is highly automated and does not require a great number of employees.

There being no further questions or discussion, the meeting adjourned at 4:45 p.m.

CITY OF ANCHORAGE

October 1973

STATEMENT OF ROBERT E. SHARP, CITY MANAGER, REGARDING PROPOSALS FOR THE LEVY OF A STATE AD VALOREM TAX ON CERTAIN OIL PROPERTIES; THE EFFECT OF THE TRANS-ALASKA OIL PIPELINE CONSTRUCTION ON THE CITY OF ANCHORAGE; AND DISPOSITION OF STATE AD VALOREM TAX REVENUES.

The position of the Council on the State Administration's proposal for a 20-mill State ad valorem tax is expressed in Resolution 69-R-73 which has been furnished to this committee and all members of the Legislature. Mayor Sullivan's statement concerning the Council's position has, or will be presented to this committee. Therefore, this statement is addressed to other aspects of the levy of a State ad valorem tax and the ultimate disposition of the revenues from such a tax.

The principal justification, as we see it, for the State to levy an ad valorem tax on oil properties is the amount of assessed value the Trans-Alaska Pipeline, and others to follow, will create in a few local government jurisdictions compared with the local government services and facilities these local governments will be required to supply. The State levy of an ad valorem tax should be considered as the mechanism by which all units of local government which experience an impact from oil and gas pipeline construction can rightfully receive their fair share of this revenue to offset impact costs.

The City of Anchorage and the Greater Anchorage Area Borough will have to accommodate about 24,000 new people as a result of the oil pipeline construction, according to the Department of Interior's forecast. Recent

information from Alyeska Pipeline Company indicates this figure may be low. The Anchorage community will have the greatest impact of any single community in the State.

The State Shared Revenue per capita grants (and other programs) constitute a substantial portion of local government revenues, and this program should be fully funded. However, the costs of the services for which these grants are received far exceed the amount of the grants. Therefore, we feel the new State revenue sources from the ad valorem tax levy should be used to increase the amount of existing per capita grants and possibly bring new services into the State Shared Revenue program.

Capital improvement requirements as a result of the oil pipeline construction will cause serious financial problems for both the General Fund and certain utility funds of the City of Anchorage. We feel both loan and grant programs may be needed if this new oil-related population is to be adequately served by local government.

We have made several analyses, copies of which are attached to this statement. I would like to briefly discuss each of them.

General Fund Revenues: We have taken the 1973 fiscal year budget of the City of Anchorage, superimposed thereon the percent each class of revenue bears to the total and the per capita value of each class of revenue. The revenues from real and personal property taxes with over 37 percent of the total is the largest single revenue source. Intergovernmental revenues follows with 15.1 percent from the State government and 7.3 percent from

the federal government, for a total of 22.4 percent from other governments.

Other major categories include:

Charges for Services	11.6 %
Other Taxes	8.5 %
Contributions from City Utilities	6.7 %
Fines and Forfeitures	4.6 %
Cost Recoveries - Bonds	3.6 %
Miscellaneous	3.4 %
Licenses and Permits	1.9 %

The attached analysis also shows the per capita amount realized from each revenue category.

We hope this data will be helpful in your consideration of the several proposals put forth on disposition of State ad valorem tax revenues.

General Fund Appropriations: We have similarly taken a tabulation of the General Fund appropriation of the City of Anchorage for operations and maintenance and superimposed thereon the percent of each class of expenditure account and sub-account and the per capita value of each major expenditure class. It is readily apparent that Public Safety, with over 38 percent, and Debt Service, with over 22 percent, constitute over 60 percent of the City's general governmental budget. These two categories, along with public works will be hardest hit by oil impact activities.

Pipeline Operations Impact: This tabulation summarizes the major operations impact from pipeline construction and covers 1973 and 1974. The oil pipeline impact actually started in the Anchorage area in 1970, and the relatively high 1973 budget reflects this fact, although we did not actually identify the oil pipeline impact costs therein. Housing starts, with

resulting costs to the City for subdivision improvements, public utility plant and other costs, have been accelerated in this area since 1969. There is currently a surplus of housing (except for low rent units, and to a lesser extent moderate cost units) units in the Anchorage area. For this reason, the 1974 pipeline operations impact cost of \$1.9 million is conservative, inasmuch as it only represents identifiable costs over 1973. Nonetheless, the per capita cost of the pipeline operations impact amounts to \$29.29 for 1974. We believe the gas pipeline construction is likely to start within about two years following the start of oil pipeline construction. Accelerated oil and gas exploratory and production activities are certain to occur and add more to these impact costs. Therefore, the ultimate impact cost is expected to be greater than we have been able to analyze to date, and we expect this construction impact to continue for at least five to six years after the oil pipeline is started.

Impact of Oil Pipeline on Capital Improvement Program: We have prepared a tabulation showing the impact on the City's Capital Improvement Program for 1974 and 1975 from the oil pipeline construction. It reflects net total of \$21.4 million in this two-year period. Over \$12 million of this total is for governmental facilities which include subdivision improvements, storm sewers, public buildings, docks and other facilities.

The pipeline construction will require the City to advance construction of new sources of supply facilities by two to three years. The financial position of the Water Utility Reserve Fund will not permit this accelerated construction. Financial assistance to this fund is mandatory.

We started general planning for this important improvement several years ago. In 1972 we thought the most logical expansion was a dam on Ship Creek, estimated to cost about \$16 million, of which we hoped for Department of Housing and Urban Development assistance of 50 percent and State assistance of 25 percent. The Water Utility Revenue Fund was considered capable then to handle the remaining 25 percent. The State included \$4 million in its bond program in 1972 for water and sewer grants, and these funds should be available. However, DHUD has discontinued any water grants, and no other federal program has been approved to date to replace DHUD grants. This creates an immense water utility financing problem for the City.

The City has an engineering study for source of supply expansion scheduled for completion in December of this year. This study will recommend a project and contains more accurate cost estimates than we have today. In any event, the City will require more in State assistance than we asked for in 1972.

We feel both grants and loans should be considered to meet pipeline impact on capital improvement programs in the affected communities.

In conclusion, the City of Anchorage feels the State Administration's ad valorem tax proposal should be approved with modifications set out in Resolution Number 69-R-73 and that the proceeds from this tax should first be used to fully fund existing State Shared Revenue programs and to enhance this program, and that sufficient amounts should be reserved to make pipeline impact grants for operations and capital needs in the affected communities.

CITY OF ANCHORAGE
Revised Revenues 1973 As Of 9/30/73

	<u>Amount</u>	<u>Per Cent</u>	<u>Per Capita Valuc (1)</u>
<u>Taxes - Real & Personal</u>			
Real	\$ 5,398,360	29.0	
Personal	1,467,580	7.9	
Penalty & Int. Delinquent Taxes	50,000	.3	
	<u>6,915,940</u>	37.2	\$117.78
<u>Taxes - Other</u>			
Payment in Lieu City Utilities	1,398,826	7.6	
Franchise Tax - Gas	135,743	.7	
Franchise Tax - Electric	40,757	.2	
	<u>1,575,326</u>	8.5	26.83
<u>Licenses and Permits</u>	350,860	1.9	5.98
<u>Fines and Forfeitures</u>	861,100	4.6	14.67
<u>Intergovernmental Revenues</u>			
State of Alaska Business License	1,191,213	6.4	
State of Alaska Liquor License	105,000	.6	
State of Alaska Aviation Fuel	19,680	.1	
State of Alaska Cannery Tax	4,351		
State of Alaska Shared Revenues	1,478,323	8.0	
Federal Civil Defense	28,280	.1	
Federal Revenue Sharing	1,337,529	7.2	
	<u>4,164,376</u>	22.4	70.92
<u>Contributions from City Utilities</u>	1,240,173	6.7	21.12
<u>Charges for Services</u>			
State Highway Maintenance	250,000	1.3	
GAAB Libraries	312,240	1.7	
Spenard Police	1,034,890	5.6	
School Crossing Guards	53,820	.3	
Emergency Communication 911 State	9,030	.1	
Emergency Communication 911 GAAB	53,060	.3	
Recreational Activities	222,720	1.2	
Traffic Electronics	52,210	.3	
Public Works-Misc. Work Orders	59,690	.3	
Other Misc. Receipts	101,050	.5	
	<u>2,148,710</u>	11.6	16.18
<u>Cost Recoveries</u>			
Bond Principal	409,775	2.2	
Bond Interest	254,567	1.3	
Port Crane Insurance	14,100	.1	
	<u>678,442</u>	3.6	11.55
<u>Miscellaneous Revenues</u>			
Interest	38,000	.2	
Rental Revenues	263,200	1.4	
Loussac Foundation	25,000	.1	
Other Misc. Revenues	305,882	1.7	
	<u>632,082</u>	3.4	10.76
<u>Appropriation Year End Surplus</u>	27,604	.1	.47
	<u>18,594,613</u>	100.0	<u>\$296.26</u>
<u>Federal & State Grants</u>	1,580,996		
	<u>\$20,175,609</u>		

(1) Per Capita value is based on a population of 58,718 and does not include military annexation of 17,892. The costs for Spenard Police and GAAB Library services are not included.

CITY OF ANCHORAGE
Revised Appropriations 1973 As Of 9/30/73

	<u>Employees</u>	<u>Amount</u>	<u>Per Cent Total Budget</u>	<u>Per Capita Costs(1)</u>
<u>Mayor & Council</u>	1	\$ 78,660	.4	\$ 1.34
<u>City Manager</u>				
Administration	12	145,125	.8	
Personnel	7	98,900	.5	
Internal Audit	4	40,405	.2	
Community Promotion		99,579	.5	
Human Relations	4	62,590	.4	
Data Processing	39	-0-		
	<u>66</u>	<u>446,599</u>	<u>2.4</u>	7.61
<u>City Clerk</u>	<u>10</u>	<u>127,552</u>	<u>.7</u>	2.17
<u>Law</u>				
City Attorney	15	249,870	1.3	
Property Management	7	31,060	.2	
	<u>22</u>	<u>280,930</u>	<u>1.5</u>	4.78
<u>District Court</u>	<u>12</u>	<u>160,334</u>	<u>.9</u>	2.73
<u>Finance</u>	<u>114</u>	<u>451,030</u>	<u>2.4</u>	7.68
<u>Public Safety</u>				
Police City	160	2,768,932	14.9	
Police Spenard	41	920,240	4.9	
Fire	78	2,114,490	11.4	
Civil Defense	3	56,560	.3	
Traffic Engineering	19	792,910	4.2	
Building Safety	22	440,920	2.4	
	<u>323</u>	<u>7,094,052</u>	<u>38.1</u>	105.14
<u>Public Works</u>				
Administration	5	32,850	.2	
Engineering	15	148,290	.8	
Engineering Projects	70	1,305,690		
Engineering Projects		(1,305,690)		
Building Maintenance	52	211,940	1.1	
Street Maintenance	53	2,186,810	11.8	
Merrill Field	6	99,060	.5	
	<u>201</u>	<u>2,678,950</u>	<u>14.4</u>	45.62
<u>Library</u>				
City	29	464,380	2.5	7.91
GAA Borough	23	277,768	1.5	
	<u>52</u>	<u>742,148</u>	<u>4.0</u>	
<u>Parks & Recreation</u>	<u>120</u>	<u>1,574,985</u>	<u>8.5</u>	26.82
<u>Museum</u>	<u>6</u>	<u>177,728</u>	<u>1.0</u>	3.03
<u>Miscellaneous</u>	<u>0</u>	<u>511,348</u>	<u>2.7</u>	8.71
<u>Debt Service</u>	<u>0</u>	<u>4,144,574</u>	<u>22.3</u>	70.58
<u>Cash Match Federal & St. Grants</u>		<u>125,723</u>	<u>.7</u>	<u>2.14</u>
<u>Total</u>	<u>927</u>	<u>18,594,613</u>	<u>100.0</u>	<u>\$296.26</u>
<u>Federal & State Grants</u>		<u>1,580,996</u>		
		<u>\$20,175,609</u>		

(1) Per Capita costs are based on a population of 58,718 and do not include military annexation of 17,892. The costs for Spenard Police and GAAB Library services are not included.

CITY OF ANCHORAGE - OPERATION & MAINTENANCE PIPELINE IMPACT REQUIREMENTS - 1974

	1973			1974		1974		
	Revised Budget			Pipeline Impact		Required Budget		
	Personnel	Budget	Per Cent of Total	Personnel	Budget	Personnel	Budget	Per Cent of Total
<u>Public Safety</u>								
Police City	160	2,768,932	14.9	41	793,160	201	3,562,092	17.2
Police Spenard(1)	41	920,240	4.9	16	312,900	57	1,233,140	5.9
Fire City	78	2,114,490	11.4	25	511,200	103	2,625,690	12.6
Civil Defense	3	56,560	.3	0	-0-	3	56,560	.3
Traffic Engineering	19	792,910	4.3	1	23,723	20	816,633	3.9
Building Safety(2)	22	440,920	2.4	2	39,087	24	480,007	2.3
	<u>323</u>	<u>7,094,052</u>	<u>38.2</u>	<u>85</u>	<u>1,680,070</u>	<u>408</u>	<u>8,774,122</u>	<u>42.2</u>
<u>Parks & Recreation</u>	120	1,574,985	8.5	16	217,080	136	1,792,065	8.6
<u>Library</u>								
City	29	464,380	2.5	1	56,050	30	520,430	2.5
GAAB(3)	23	277,768	1.5	2	65,800	25	343,568	1.7
	<u>52</u>	<u>742,148</u>	<u>4.0</u>	<u>3</u>	<u>121,850</u>	<u>55</u>	<u>863,998</u>	<u>4.2</u>
Public Works Street Maintenance	53	2,186,810	11.8	1	44,620	54	2,231,430	10.7
Other City	<u>379</u>	<u>6,996,618</u>	<u>37.5</u>	<u>6</u>	<u>121,090</u>	<u>385</u>	<u>7,117,708</u>	<u>34.3</u>
Total	<u>927</u>	<u>18,594,613</u>	<u>100.0</u>	<u>111</u>	<u>2,184,710</u>	<u>1,038</u>	<u>20,779,323</u>	<u>100.0</u>
Per Capita Cost(4)		296.26			29.29		311.46	

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	Population July 1, 1973		Population Jan. 1, 1974		Population Jan. 1, 1975	
	City	Borough	City	Borough	City	Borough
Normal Civilian Population	48,350	122,500	48,350	128,100	50,700	128,100
Military	24,500	24,500	24,500	24,500	24,500	24,500
Pipeline Impact	3,760	13,400	6,700	22,700	11,350	22,700
Total	76,610	160,400	79,550	175,300	86,550	175,300

- (1) Funded by Spenard Service District.
- (2) The 1973 budget for Building Safety is funded with \$85,843 Pipeline Impact.
- (3) Funded by Greater Anchorage Area Borough - Non-Areawide Service Library.
- (4) Per Capita costs exclude the 17,392 military annexed in 1973 and Spenard Police and GAAB Library.

October 19, 1973

CITY OF ANCHORAGE

IMPACT OF OIL PIPELINE ON CAPITAL IMPROVEMENT PROGRAM

Initial	<u>1974</u>	<u>1975</u>	<u>Total</u>
Subdivision Paving	2,092,500	187,500	2,280,000
Storm Sewer System	727,500	62,500	790,000
Public Buildings & Other Facilities	<u>5,000,000</u>	<u>4,000,000</u>	<u>9,000,000</u>
Total General Fund Pipeline Impact	7,820,000	4,250,000	12,070,000
Water	17,075,000(1)	(12,245,000)	4,830,000
Electrical	<u>300,000</u>	<u>4,200,000</u>	<u>4,500,000</u>
	17,375,000	(8,045,000)	9,330,000
GRAND TOTAL IMPACT	25,195,000	(3,795,000)	21,400,000

- (1) Initial preliminary engineering study of water resources will be available December, 1973. The preliminary costs for 1974 contain estimates for the construction of a dam on Ship Creek.

October 19, 1973

CITY OF ANCHORAGE

October 1973

STATEMENT OF MAYOR GEORGE M. SULLIVAN CONCERNING THE LEVY OF AD VALOREM TAXES
BY THE STATE OF ALASKA ON CERTAIN OIL PROPERTIES.

The Anchorage City Council and Greater Anchorage Area Borough Assembly held a work session on October 16, 1973, and developed a common position on the State Administration's proposal to levy a 20-mill ad valorem tax on certain oil-industry-related property. Each of these governing bodies have adopted formal resolutions setting out their position on this important matter.

For the record, there is enclosed with this statement a copy of Resolution Number 69-R-73 of the City Council of the City of Anchorage. The purpose of this statement is to expand on the provisions of this resolution.

The City Council feels strongly that the State of Alaska, as a matter of policy, should not levy ad valorem taxes in organized boroughs and cities. The local governments depend on property tax revenues as a principal source of revenue for providing a host of local government services ranging from schools to law enforcement. Generally the property owner is paying as much ad valorem tax as he can afford to pay without the State levying still additional property taxes.

However, after a great deal of thought and consideration, the Council feels that the Trans-Alaska Pipeline, and other oil and gas pipelines that may follow, is of such magnitude and changed circumstances that an exception to their general policy position is warranted. Therefore, the Council agrees

that the State of Alaska should levy an ad valorem tax, but on only the Trans-Alaska Pipeline or other pipelines in this classification for this reason. Paragraph two of Resolution 69-R-73 is specific in defining the type of real and personal property the State should tax to include only properties used in the transportation of oil and gas. This paragraph further limits the State's tax to those pipelines which cross the boundaries of organized boroughs or cities in unorganized boroughs within the State. This paragraph states that all other real and personal property owned or used by the petroleum industry shall be subject to local ad valorem taxes the same as other properties subject to such taxes.

The Council feels that all oil properties should be subject to the maximum ad valorem tax rate (currently 30 mills) established by law for local governments, regardless of whether or not such taxes are levied by the State or local governments, or a combination of such levies.

Paragraph five of the resolution outlines the City's position for disposition of the revenues derived from the State's ad valorem tax levy. A portion of these funds should be used to fully fund existing State revenue sharing programs. The current appropriation is sufficient to fund only some eighty percent of the amounts authorized by law. The revenue source should also be considered to enhance these general State shared revenue programs which have been of great assistance to local governments in providing essential services and to minimize the property taxes collected by local governments. Finally, the oil pipeline construction and operation is going to have a tremendous impact financially on a number of local governments, including particularly the cities of Fairbanks, Anchorage and Valdez and the Fairbanks North Star Borough and Greater Anchorage Area Borough, North Slope

Borough, Pt. Barrow, Copper Center and other villages along the route of the Pipeline. The City of Anchorage and Greater Anchorage Area Borough are planning on providing services to some 24,000 additional people that are expected within the second year of construction of the oil pipeline, and we know a gas pipeline will follow shortly. The revenues from the State's ad valorem taxes should be used to reimburse the local governments for the additional costs resulting from the oil pipeline impact.

In closing, the Council feels that oil or gas pipelines and their related processing systems which have or may be built in the future primarily to supply local areas with gas, oil and other petroleum products should not be subject to a State ad valorem tax. We have specific reference to the Anchorage Natural Gas pipeline which is used to transport gas to customers in Kenai, Anchorage, Eagle River and other locations. If such a tax were levied, it would eventually be passed along to the consumers served by this and other pipelines in this class that will be built in the future.

We urge the legislature to consider the recommendations of the Anchorage City Council.

CITY OF ANCHORAGE, ALASKA
RESOLUTION NO. 69-R-73

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ANCHORAGE, ALASKA, STATING THE POSITION OF THE CITY COUNCIL ON, AND RECOMMENDATIONS CONCERNING, THE OIL INDUSTRY AND PIPELINE LEGISLATION WHICH WILL BE THE SUBJECT OF THE OCTOBER, 1973, SPECIAL SESSION OF THE ALASKA LEGISLATURE.

WHEREAS, certain legislation will be considered by the Alaska Legislature in the October, 1973, Special Session; and

WHEREAS, said legislation involves, among other considerations, the methods by which ad valorem taxes on certain oil-industry-related property will be assessed, collected and disbursed; and

WHEREAS, the City Council, after review of said legislative proposals, has determined that the legislation has a direct and significant impact upon the role of local government and upon the highest and best use of the State's assets; and

WHEREAS, the City Council, after a review and discussion of said legislation, desires to formally state its position upon the basic issues and policies involved in said legislation,

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF ANCHORAGE RESOLVES:

1. The City Council opposes the State's levying of ad valorem taxes within organized cities and boroughs except in those cases covered by paragraph 2, below.

2. In those cases where oil and gas transmission lines cross the boundary lines of organized boroughs or cities in unorganized boroughs within the State we agree with the State's levying ad valorem taxes on such oil and gas transmission lines and on the related collection, storage and distribution facilities necessary to such lines, even though portions of such lines may be within organized cities and boroughs. However, all other real or personal property owned or used by the petroleum industry shall be subject to local ad valorem taxes the same as other properties subject to such taxes.

Page Two

taxes.

3. Preferential treatment should not be given to the oil industry by establishing a maximum rate of taxation different than that contained in State statutes for local government ad valorem taxation.

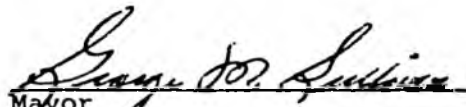
4. Each local government should be required to uniformly assess and levy ad valorem taxes.

5. Sufficient funds from any State ad valorem tax or taxes should be identified, set aside and appropriated to the benefit of the local governments, both for the purpose of fully funding and expanding general shared revenue and for reimbursement of additional costs of pipeline impacts borne by local governments.

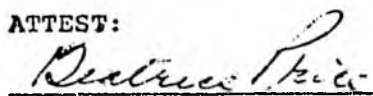
6. Oil or gas pipelines and their related processing systems which have been or are built primarily to supply local areas with gas, oil and other petroleum products should not be subject to State ad valorem taxation in organized local governmental units.

Publication of this resolution shall be made by posting a copy thereof on the City Hall Bulletin Board for a period of ten (10) days following its passage and approval.

Passed and approved by the City Council of the City of Anchorage, Alaska, this 17th day of October, 1973.


Mayor

ATTEST:


City Clerk

HOUSE FINANCE COMMITTEE

October 22, 1973

9:15 A.M.

PRESENT: All members of the Finance Committee with the exception of Rep. Hillstrand. Representative Mike Miller. Homer L. Burrell, Director, Division of Oil & Gas; Frederick P. Boetsch, Director of Revenue Audit; Jerry Heier, Assessor, Kenai Peninsula Borough; Ben Delahy, Attorney, Kenai Peninsula Borough; Charles Cranston, Assessor, North Slope Borough; Jim McHale, Assessor, North Slope Borough; and other people interested in the proposed legislation.

HB 1 Vice Chairman Haugen called the meeting to order for the purpose of further discussion on HOUSE BILL NO. 1 (Providing for taxes on property used in the exploration for, production of, or pipeline transportation of gas or unrefined oil). A draft of a finance committee substitute for HB 1 was distributed to those present.

Rep. Warwick asked for comments by the administration on the committee substitute. Homer Burrell, Director, Division of Oil & Gas, said he had just received the second draft of the committee substitute and was only prepared to comment on the first draft. He noted the first work copy had the possibility of taxation over 20 mills, and said this would create a slight problem locally and the borough act may need to be amended. Rep. Warwick explained the proposed legislation's intent was that the state would levy a 20 mill tax but not preclude municipalities from levying ad valorem taxes on real and personal property in some manner up to an amount of \$1,000 revenue received per capita. The intent was that this would not affect the old law unless revenue exceeded \$1,000 per capita. After further discussion, Mr. Burrell suggested he and Rep. Warwick work together to draft legislation which would accomplish the concept envisioned by the Finance Committee.

Continuing through the bill, Mr. Burrell noted that in Sec. 20 the administration bill listed 8 exemptions while the committee substitute listed only 4. There would be no apparent change in deletion of sub-sections 5 and 6, but Mr. Burrell thought the deletion of sub-sections 7 and 8 would have the effect of making pipeline equipment and production equipment taxable immediately. He could not say how the industry would react to this, but it was Mr. Burrell's personal opinion that they probably would not object if they got the permit quickly. Rep. Warwick noted language could be inserted that the tax would apply unless the pipeline was enjoined. Mr. Burrell questioned this language, as it was questionable as to whether Alyeska was now enjoined but was legally prohibited. Mr. Burrell added it was set out in detail in the administration bill, page 10, sub-section (C), because the pipeline can be delayed administratively.

Rep. Haugen questioned page 1, sub-section (2), "oil or gas leases or properties" and Mr. Burrell replied "properties" was used to refer to any contractual rights which may exist to extract oil and gas. It may not be the best term, but has been used traditionally. Josh Wright asked if this might apply to oil buildings in Anchorage and Fairbanks. Mr. Burrell said Sec. 43.56.210 (4) "taxable property" defines what is applicable. Dr. Wright thought it was not explicit to a layman and would like to see it further defined. Mr. Burrell thought it was explicit enough, and added the Division of Oil & Gas was conducting surveys in Prudhoe Bay and would have as much information as the oil industry so Alaska will be in a position to add on reserves due to their own information.

Mr. Burrell stated that by deleting Sec. 30 on the administration bill, ad valorem taxes could be charged up to 50 mills, and this was not a portion of the negotiated agreement with the industry. Rep. Warwick said this was not the intent and other language will be worked out.

Under Sec. 40, Rep. Saylor suggested the following language after the word "pleasure" on line 13 of the Governor's bill: "each of whom must be knowledgeable of assessment procedures and is not required to be a resident of the State of Alaska."

Sec. 60 Assessment - Mr. Burrell said there was an apparent omission since nowhere was local government given the power to assess. Rep. Warwick said the language on line 13 could be deleted - "not within an organized municipality" - which would simplify the bill. Mr. Burrell noted uniform assessment procedures are necessary, otherwise each borough may try to outdo the other. "Full and true value" is a problem, and there are many different methods of assessment. How can you determine the full and true value of a \$4 billion installation asked Mr. Burrell. Rep. Saylor said the actual cost of construction conceivably could be the full and true value. Original construction costs could be used, and appreciated or depreciated accordingly. Mr. Burrell stated this apparently allows for inflation and deflation but that is all. When the oil is gone it is worthless, although it still could be appraised at \$4 billion. Units of production tie it to its economic life, but its physical life must be considered also. When it is economically dead, it will be down to zero -- or actually have a negative value similar to the Cook Inlet platforms which will cost money to take down. Physically it is good for about 35 to 50 years, but Mr. Burrell said this was not known since there has never been a pipeline of this size and on permafrost. In the south, the lifetime is based on 28 years for tax purposes, and in Cook Inlet 14 years. Replying to a question from Rep. Barber, Mr. Burrell said the units of production basis covers the pipeline as long as there is oil going through it.

Mr. Burrell continued by saying he defied a tax assessor to determine "full and true value". Under Sec. 60 of the Governor's bill, sub-section (a) is a provision for what is assessed. The first year is prorated. (b) Deals only with exploration equipment, based on market value. This would cover helicopters, light planes, seismic equipment, nod wells, track vehicles, trucks - whatever is used for exploration. Mr. Burrell added this would probably cover drilling rigs, also. (c) Cover production equipment. The tax assessor would check the equipment, old and new, and tax accordingly, using actual cost less depreciation. This would commence on the construction date. (d) Pipeline and pipeline equipment. It starts with the actual cost as a basis, but is depreciated on the economic life, except in the event the physical life is different. Taking a \$4 billion installation as the cost with production high in the initial years, it would decrease rather steeply and then level off as production levels off. It will depreciate to probably half value during the first ten years, and is to the oil companies advantage. However, if more oil is discovered (assuming the pipeline has an unlimited physical life), the line would again increase and flatten out, depending on how much oil is discovered.

Jerry Heier, Assessor, Kenai Peninsula Borough, questioned the units of production formula to be used, as he could not find in the bill any reference to units of production. He also questioned the first part of the section pertaining to the pipeline saying the value was based on the economic life, since economic life is one factor, cost is another, and replacement cost is another major factor. Mr. Burrell referred to page 5, line 3, saying, in effect, that if too much line is built and oil is depleted, then the state would return to an actual cost basis. Mr. Heier asked why it was actual cost rather than replacement cost, to which Mr. Burrell said it was part of the negotiations with the oil companies. He added that everything is a big trade and this was part of the bargain.

Continuing, Mr. Burrell said wells are on a unit of production basis, but the pipeline is not depreciated on units of production but on straight line. Mr. Heier asked if the Division of Oil & Gas could furnish the state assessor's office projections well by well as to future production. Mr. Burrell said it could be done more accurately on a field basis, as one well could dry up immediately. Rep. Miller asked why the pipeline is based on straight line depreciation, and wouldn't it be better to use a units of production basis. Mr. Burrell replied it could be done this way, but on the very expensive pipeline it results in high amortization which is not in the best interest of the state. In the first year or two, when the production rate is low, the state wants straight line rather than units of production.

Rep. Specking asked if the field could be re-evaluated and if the language in the bill protects the state in this regard. Mr. Burrell said yes, the property value increases as more oil is discovered.

Continuing, Mr. Burrell said reserves means the amount recoverable at today's technology and today's prices.

Ben Delahy, Attorney, Kenai Peninsula Borough, said he could not see that the oil companies gave up anything in the proposed legislation. Mr. Burrell said the property tax gets the state some money at an earlier date than if the state waited for the pipeline to get in production. The oil companies are willing to pay statewide property taxes at an earlier date for limits on other taxes; however, Mr. Burrell stated this by no means makes the assessment technique sacred or the mill levy sacred. He added this was no time for the legislature to think about one area or another, but to consider the whole state. Mr. Delahy argued that, since the state has the right to tax, they don't need the approval of the oil companies, and asked what the state was getting in exchange. Mr. Burrell said the tax, and as far as he knows all the oil companies doing business in Alaska have agreed to it.

Recess: The meeting recessed at 10:35 A.M.

AFTER RECESS
10:50 A. M.

Vice Chairman Haugen called the meeting to order and asked the members of the committee to leave their bill folders in the committee room for additional material to be inserted when received. Jay Hogan distributed a fiscal note for HB 6 to be put in the folders.

Rep. Warwick questioned page 5 of the Governor's bill, sub-section (3), as he did not understand the language. Mr. Burrell replied this referred to natural disaster or legal prohibition on the line. In case of earthquake, fire, etc., the line would be reduced in value, or possibly damaged to the extent of having no value. Rep. Warwick noted the oil companies are amply protected, but protection is not given to the state, and the committee substitute deleted sub-section (e) because of this. Mr. Burrell noted the deletion was not part of the original agreement with the oil industry.

Questioning intangibles, Rep. Warwick asked what was levied in the North Slope Borough and Kenai. Mr. Heier replied Kenai made their assessments based on existing severance tax laws and previous exemptions in the laws were for machinery, equipment and appliances. Intangibles which can now be assessed are casing, tubing and also installation costs. Another intangible which Kenai does not assess is the actual drilling of the well. Rep. Warwick asked how the bill could be worded to exempt intangibles that Kenai presently does not assess. Mr. Heier said where drilling and development

expense was referred to, the word "development" could be deleted. Mr. Delahy asked if exploration expenses could be deleted, to change the value of intangible drilling and exploration expenses. Mr. Heier agreed, saying he assumed development meant development of the well. Mr. Delahy said the casing had a value on the dock in Seattle, another value in Kenai, and another value in the well. He said on that basis it should be taxable, including the work of putting it in place. Mr. Burrell noted the net effect would be to tax intangible completion costs, and intangibles involved in exploration are not taxed in Kenai. Mr. Heier stated he would have no objection if the "and development expense" portion of item 5 is deleted, since basically this is what is being done on the Kenai Peninsula.

Charles Cranston, Attorney, North Slope Borough, asked to speak regarding intangible drilling and developing costs. He said in this tax bill, a property tax bill is being written, and he believed the legislature should adhere to normal property tax standards and concepts. This would be mixing property tax concepts with income tax concepts and result in no correlation with federal government taxes. Exemptions in (5), intangible drilling costs, have no place in a property tax bill. When the North Slope Borough assessed the property, they included value of intangible costs since it was an income tax exemption and not a normal property tax exemption. An oil and gas property is valued by assessing the entire production facilities as such. To segregate one type of costs and not another would be using a false concept of property tax evaluation, and intangibles should not be talked about in connection with property taxes. The entire provision should be deleted as it could be repealed by Congress next year. There is a movement to remove this favorable allowance to oil companies

Rep. Freeman asked if the deletion of development cost would upset the oil companies. Mr. Burrell said it would, and if he were on the committee he would ask Mr. Heier how the Kenai Peninsula Borough arrived at their tax procedure. Mr. Heier said intangibles are based on the interpretation of existing statutes, and attorneys advised them regarding existing severance tax provisions. The determination came from their legal advisor. Rep. Warwick asked how much money was involved. Mr. Burrell replied about \$150,000 per well, with 200 producing wells on the Kenai Peninsula and about the same number of the North Slope - total 400 wells.

Jim McHale, Assessor, North Slope Borough, asked what drilling costs would be, to which Mr. Burrell replied about 2/3 of the cost of the well - or probably \$1 million on a \$1.5 million well. Rep. Warwick asked if that should be part of the tax base, ignoring negotiations. Mr. Burrell said as far as he knew it has never been considered anywhere for ad valorem tax and he has never heard of intangible drilling costs included. Texas and California tax

reserves, but they don't have a severance tax. Mr. Burrell stated Alaska's severance tax is supposed to be in lieu of such a tax. Mr. Cranston said he had information that in California they do appraise complete oil fields. Development, exploration and maintenance are a part of the whole. Mr. Cranston stated the legislation is trying to involve property tax with income tax and this can't be done in normal tax procedures. Mr. Burrell said Mr. Cranston may be correct as far as California, but California has no severance tax. The Governor's bill is the highest in the nation, added Mr. Burrell.

Rep. Warwick asked for Mr. Burrell's comments regarding the finance committee substitute. Mr. Burrell replied that some of the changes in the second work copy have eliminated his comments. Replying to questions from Rep. Ferguson, Mr. Burrell said the Governor has proposed state-wide assessment because there are unique properties involved, such as oil or the line falling in one or two boroughs and not in another. The line is a very valuable property requiring very little service and there is an adequate tax base to cover this. Benefits should be spent state-wide and assessment practices should be uniform throughout the state. It is very complex and the state does not want one borough assessor fighting with another to see who can charge the most. Also, the state should not be put in a position of defending the oil companies against borough taxation.

Mr. Delahy said the bill goes beyond the pipeline or oil wells. It covers construction companies, which the borough assessor will tax under his formula while the state will tax at their level. The only way to equalize the resultant inequity would be for the state to take over all assessment. Rep. Warwick asked if the local assessors would assess the property or if it would be done by both local and state assessors. Mr. Burrell said one group must be responsible. Mr. Cranston noted the North Slope Borough is developing a core of local assessors of about 7 local residents. To place this within the state would take useful functions within the state and put them back in Juneau, which is not particularly in the best interests of the state. In California, continued Mr. Cranston, all assessment is done by the County Assessor and the State Board of Equalization reviews and equalizes. Assessment should be done at the local level, which would provide jobs locally. Mr. Burrell agreed that, when appraising residential property in California, it can be done locally, but Alaska is talking about a highly technical and complicated piece of property. Mr. Heier stated HB 1 is a negotiated package, while local jurisdiction assesses on the basis of Title 29. These two different starting points create the problem. In talking about California, continued Mr. Heier, they have no severance tax or very minimum. Pipelines, or inter-county property, are assessed at a state level and the

assessments are assigned back to the counties to guarantee uniformity. The problem would be if local government was allowed to assess within their jurisdiction and the state would overlap, since two different concepts are involved. The state could assess the oil property and taxes by local jurisdiction would be a credit against those assessed by the state. There would still be a problem, said Mr. Heier, in equity and fair assessment, which is one of the concerns of the oil companies.

Rep. Ose asked if California taxed 100% of full market value, to which Mr. McHale replied they taxed at 25% and have equalization on the basis of 100%.

Rep. Miller suggested guidelines be uniform throughout the state; however, the assessing would be done by the local assessor, with his decision appealable to a state board and from there to the courts. The review board and the courts could keep any borough from being unequal, but the initial assessing could be done at the local level. Mr. Heier said different calculations are used throughout the assessing industry, and also here there are two sets of values. The oil industry is assessed on one set and the home owners, business properties are assessed on another set of calculations spelled out in Title 29. Mr. Delahy added it depends on who is doing the levying and who is doing the assessing. Inequities would occur. If one borough is higher than another, there is an inequity. If the state makes the assessment on a portion of property throughout boroughs and the local municipalities assess the balance, there is inequity. If the state is going to assess a part of the property within the borough, the state should assess all of it to be equal, concluded Mr. Delahy.

Recess: The meeting recessed at 11:50 A.M.

AFTER RECESS
1:35 P.M.

PRESENT: All members of the Finance Committee with the exception of Mr. Hillstrand. Also present were: Mr. Byron Mallott, Commissioner of the Department of Community and Regional Affairs; John B. Chenoweth, Director of Local Government Assistance Division; Mr. Tom Brusard, Atlantic-Richfield Fiscal Tax Consultant; and Mr. Robert Underwood, Supervisor of Audits and local taxes in the Producing Division at Atlantic-Richfield.

CSHBI Vice Chairman Haugen called the meeting back to order and stated they would continue discussion of Committee Substitute for HB 1. He asked Mr. Tom Brusard, Atlantic-Richfield Fiscal Tax Consultant, to begin his testimony.

Mr. Brusard said he had not had time to study the Committee Substitute, but he was familiar with HB 1. There were some things he wanted to say in regard to Mr. Burrell's testimony that morning as to intent. As Mr. Brusard understands it, the intent is to provide local governments with the opportunity to go up to 20 mills, the existing millage, or the rate of \$1,000 per capita, whichever was lessor.

Mr. Brusard stated that the exemption from paying taxes before the date of construction had been a compromise between his industry and the State. The industry didn't feel they should have to pay taxes on property which was of no value to them, but the State insisted it needed revenue earlier.

Mr. Brusard then referred to Section 43.56.040, State Assessment Review Board. He said it was their desire to have some uniform standard of assessment. The best way to do this was to have a single entity to assess those standards.

Mr. Brusard stated he would like to turn the floor over to Mr. Robert Underwood because of his background in the assessment area in several of the other states.

Mr. Underwood said he was the Supervisor of Audits and local taxes in the Producing Division of Atlantic-Richfield. He wanted to speak about practices employed in other states in assessment of oil and gas properties, and said there were three approaches used. The first is used in Texas where they have a severance tax and also ad valorem applied by local governments. The second is used in Louisiana where the severance tax is used, but no ad valorem; and the third is used in California where there is no severance tax, but local governments do assess on an ad valorem basis. He added that some of the other states may use a combination of these techniques.

Mr. Underwood went on to say that there was a great deal of precedence in some of the other states for establishment of a statewide tax or statewide system for the assessment of oil and gas properties. This type of property is difficult to assess locally. Some of the states do allocate a portion back to local governments. He said he was not familiar with any state that places an assessment on the intangible cost of development of oil and gas wells, and his company has wells in 22 states.

Mr. Underwood said he had understood Mr. Cranston, Attorney for the North Slope Borough to say that in the State of California the local assessors place a value on the intangible drilling costs. Atlantic-Richfield operates 1500 wells in California, and this has not been true for them.

He said that in California they do make appraisals on producing property. They own property on which it has been the trend to determine value by the future income less what the cost of operating to produce will be.

Mr. Underwood wanted to say a word about the unit of production depreciation method proposed in the original bill. He said there were many methods which could be used to value oil field equipment, but this one is one of the most equitable. Under this system while production rates are high, taxes are high. Towards the end when production rates are low, taxes are lower.

He said uniform life time basis is another method. 50 to 55 percent of the cost is the value that will continue throughout the production life. There is also the use and production method. The problem is that property doesn't produce at a uniform rate.

Mr. Underwood felt that the unit of production depreciation method was equitable and that it would eliminate some of the nebulous concepts they would be confronted with under some other method such as market value.

Another thing their investigations reveal is that in other major oil and gas producing states the combined ad valorem and severance is 7 or 8 percent. Under the original proposal, Alaska is known to have the highest rate of taxation of any other state on the both combined. The rate will depend on what the wellhead value is. However, if they assume \$3, then it will be almost 11% as compared to the highest of 7 or 8 percent.

Mr. Wright said to take the Texas as valorem charge and crank in severance and royalty. He wanted to know what percentage that would be. Mr. Underwood said they had 16 2/3% royalty, 4.6% severance, and 3.1 ad valorem, so the percentage would be about 24%.

Mr. Miller pointed out that in Alaska the total taxes and owner royalties come to the state, so it wasn't fair to compare our combined ad valorem and property taxes to other states.

Mr. Underwood said that in his judgment, even if he did have the numbers, it wouldn't be meaningful because he thinks royalties should be governed by what is in the leases and not by what is in the tax law.

Mr. Brusard said one of the things they are trying to solve now is the issue of whether the legislature can retroactively change the terms of the lease.

Mr. Warwick said he would like to get Mr. Mallott, Commissioner of Community and Regional Affairs, to give his views on how the taxes should be divided up.

Mr. Mallott had Mr. Chenoweth, Director of Local Government in his department, along with him to testify.

Mr. Mallott felt every effort should be made to maximize the return to the State General Fund within the framework of the 20 mill recommendation. He realized that local governments must receive revenue in order to meet local governmental needs. He noted that he had sent down a paper to each member of the legislature with a number of alternatives with respect to the allocation of revenues within the 20 mill levy.

Mr. Warwick said he would like to have them review the allocation formula that is in the proposed committee substitute.

Mr. Mallott said they had run out some figures on the \$1,000 per capita formula, which would illustrate the effect of that formula.

Giving Valdez a population of 2,000 people at \$1,000 per capita yield. Under the \$1,000 per capita Act formula, Valdez in FY 75 would have a maximum mill levy of 15 mills. At that they would have reached the \$1,000 per capita maximum which would give Valdez a yield of \$1,965,000.

The Fairbanks North Star Borough would be working within a framework of a maximum of 30 mills under Title 29. Their

yield on a per capita basis would be only \$52.22 per capita, as opposed to Valdez which at 15.27 mills would have realized \$1,000 per capita. Obviously, under this formula, if the equity is that everybody can go to a thousand dollar on per capita basis, they are talking of some 500 mills in the Fairbanks North Star Borough.

The North Slope Borough could assess at a thousand dollars per capita with a mill levy of 14.15 mills at a yield of \$4,398,000.

The Kenai Peninsula Borough at a maximum of 30 mills under Title 29, under this formula could achieve a yield of a maximum of \$390 per capita.

The return to the State under that formula is predicated upon the State receiving the difference between the local government mill levy and the maximum of 20 mills.

FY 1975

		<u>Mills</u>	<u>Yield p/c</u>	<u>Projected Revenue</u>
VALDEZ	$\frac{2,000,000}{131,000,000}$	= 15.27	= \$1,000.00	= \$1,965,000
NORTH STAR BOROUGH	$\frac{54,000,000}{940,000,000}$	= 30.00	= 52.22	= 611,000
NORTH SLOPE BOROUGH	$\frac{5,000,000}{353,300,000}$	= 14.15	= 1,000.00	= 4,395,000
KENAI PENINSULA BOROUGH	$\frac{17,000,000}{221,000,000}$	= 30.00	= 390.00	= 1,414,000

Mr. Warwick asked Mr. Mallott what his recommendation was based on the information he had presented.

Mr. Mallott said that the 7 mills had been stuck in the bill to fill a gap. It had been picked up from some previous legislative action, and they have no specific recommendation.

Mr. Mallott went on to say that the impact of the oil industry is statewide. He said perhaps they should allow more broad sharing of revenues derived from a particular resource base. Disparities that exist among local governments would be to the extent that the legislature developed a formula to respond to it. Those are the kinds of things that have to be negotiated.

He said that in the past they had sent a number of formulas that attempt to respond to that to the legislature. One was the 200% of the statewide per capita average valuation. With respect to merely equalizing the disparity among local governments it is a good solution. However, that is the extent to which he can recommend it at this time.

Mr. Mallott went on to say that neither the thousand dollar per capita nor the 200% regulation really address the areas of a more general sharing of revenues from oil and gas properties. Within the principle that the Governor has stated, the legislature needs to look at that problem.

He said that after looking at the different formulas, he thought they ought to look in depth at trying to develop a formula that would include a revenue return to local governments to preserve some kind of a tax base in local government, making up a tax base related to numbers of people.

Mr. Warwick had a question on the 200% ceiling on the per capita assessed value. Mr. Mallott said that ~~this formula~~ responds to the problem of trying to equalize the impact on local governments and to do away with the difference in per capita values that might exist.

Mr. Warwick asked about the philosophy of letting communities tax oil property at the same rate they tax other real and personal property within their boundaries. Mr. Mallott said he would have reservations based largely upon the strong provision that oil and gas property is in a class by itself.

He went on to say that he thought the amount of tax realized from statewide property taxes on all property excluding oil and gas properties wouldn't be worth paying for assessment and administration of taxes. The oil and gas property in terms of size and impact on a statewide basis is so different from all other classes of property.

Mr. Mallott said they needed a formula that would allow the State to realize significant revenues from oil and gas property and still allow local governments a reasonable tax base of its own. The formula around 200% of average statewide value begins to address that issue.

Mr. Haugen said the Committee would have to have some time to sit by itself and put some ideas together, so after a short recess, they would come back into executive session.

RECESS

Meeting recessed at 2:55 P.M.

HOUSE FINANCE COMMITTEE
 October 23, 1973
 9:05 a.m.

PRESENT All members with the exception of Mr. Hillstrand. Staff members Josh wright, J. H. Hogan, Milt Barker. Representatives Fischer, Beirne, M. Miller, Degnan, Mr. Herb Lehfeltd, Valdez City Manager. Other interested parties.

Vice Chairman Haugen called the meeting to order. He informed the Committee that Eben Hopson, Mayor of the North Slope Borough, had requested that the Committee meet later in the day in order to hear testimony from a Seattle economist regarding House Bills affecting oil and gas exploration, production and pipeline transportation property taxes, and gross production tax. The meeting would take place after 1:00 p.m. at the convenience of the Committee.

HB 1 Mr. Haugen then called upon Mr. Barker who presented the following information with regard to proposed CSHB 1 (providing for taxes on property used in exploration for, production of or pipeline transportation of gas or unrefined oil).

	<u>Population</u>	<u>\$1,000/Per Capita</u>	<u>200% @ 20 Mills</u>	
FY-79	Valdez	2,500	\$2,500,000	\$2,596,000
	North Star	48,000	5,463,000	5,461,000
	North Slope	4,000	4,000,00	4,163,000
	Kenai	18,000	2,591,000	2,590,000
FY-76	Valdez	1,000	1,000,000	500,000
	North Star	32,000	6,800,000	6,800,000
	North Slope	3,000	3,000,000	1,500,000
	Kenai	16,000	10,000,000	8,000,000

Mr. Herb Lehfeltd, Valdez City Manager, stated that the assessed valuation of Valdez is \$14 million; \$320,000 is collected from two sources--\$160,000 from real property and \$160,000 sales tax. Mr. Lehfeltd stated that Valdez won't have the total amount the above figures represent, but will have the initial impact; they will have a higher population and lower assessed valuation. Mr. Lehfeltd said that as he read the bill, Valdez can levy up to 7 mills, but if they do the levying under present authorization, they can levy only on real property; if the state does it, then the levies would be applicable to personal property.

EXECUTIVE SESSION
October 23, 1973
10:35 a.m.

PRESENT All Committee members with the exception of Mr. Hillstrand. Staff members Josh Wright, J. H. Hogan, Milt Barker. Representatives M. Miller, Degnan, Hackney, Malone.

HB 2 Vice Chairman Haugen called the meeting to order. He stated that the Governor had agreed to write a letter amenable to appropriating \$5,000,000 (attached to House Bill 2 [Special appropriation to Department of Revenue to administer taxes on property used in exploration for, production of, or pipeline transportation of gas or unrefined oil, \$364,000]). Distribution of the money would require approval by the Governor and Budget and Audit. This fund will take care of local needs and will be considered "emergency impact money"; Mr. Warwick stated that it was believed that this money will never be used and will therefore lapse, but the fund will give communities assurance that there are monies available if needed. Mr. Warwick also said that the \$5,000,000 would be appropriated "to the Governor or whatever department he wishes--we will be notified".

Mr. Warwick then asked if the money will automatically lapse at the end of the fiscal year. Mr. Hogan replied that it would depend upon the way intent was written.

Mr. Hackney asked how the funds will be used if, in fact, they are needed. Mr. Saylor stated that it will be done by direct appropriation. Mr. Wright stated that there may even be a combination of methods; for example, one group may need a program which would total \$100,000, and \$50,000 could be appropriated directly, while the remaining \$50,000 could be in loan form. Mr. Freeman pointed out that this fund is a "stop gap" until the regular session of the Legislature.

No official action was taken upon the \$5,000,000 proposal.

HB 1 The Committee then continued to discuss HB 1 and the two proposed formulas: \$1,000/per capita and \$200% @ 20 mills. Mr. Specking said he felt that the former proposal of \$1,000/per capita was unrealistic for the Valdez community. Mr. Specking stated that Valdez will be destroyed as it exists now, and it will have a difficult and immediate problem as a result of pipeline impact.

Mr. Warwick then moved that the House Finance Committee move out of Executive Session. Mr. Saylor objected. Mr. Warwick's motion passed 7:1.

DJOURN The Executive Session was adjourned at 11:00 a.m.

Mr. Warwick stated that, in the initial years, the \$1,000 per capita formula will yield more than the 200% limitation. The advantage of 200% limitation will be in later years because the mill rate will be used as a variable, as will the population; the larger the population, the larger the tax base.

Mr. Specking stated that when this tax is designed, it must be kept in mind that in the early years, the capital needs will be the greatest. Later, the total value of capital improvements will climb beyond what they project, but this tax measure should provide for those early years.

Mr. Warwick stated that the main concern is the need for cold cash during the early years. He said that it is commonly assumed that the Legislature, during the Special Session, is restricted from taking into consideration impact legislation; but through appropriation, it will be possible to take care of the situation by appropriating through one or two departments. Mr. Warwick said that the Legislature probably could not definitively express how they wanted the money appropriated, but they can appropriate a substantial sum of money for impact legislation in House Bill 2. All programs, cities, etc., applying for this money, would be approved by the Budget and Audit Committee.

RECESS

The meeting recessed at 9:30 a.m. to allow several committee members to approach the Governor for purposes of discussing this proposal.

AFTER RECESS
October 23, 1973
10:30 a.m.

Vice-Chairman Haugen called the meeting back to order.

Mr. Warwick moved for an Executive Session; there being no objection, it was so ordered.

All persons left the meeting with the exception of Committee members, Finance staff, and Representatives M. Miller, Degan.

AFTER EXECUTIVE SESSION
October 23, 1973
11:01 a.m.

PRESENT All Committee members with the exception of Mr. Hillstrand. Staff members Josh Wright, J. H. Hogan, Representatives M. Miller, Degnan. Mr. Homer Burrell, Director, Division of Oil and Gas, Mr. Chuck Cranston and Mr. Charles Hagens, North Slope Borough Attorneys.

HB 1

The meeting was called back to order. The subject of discussion was House Bill 1 (providing for taxes on property used in in exploration for, production of or pipeline transportation of gas or unrefined oil).

Mr. Warwick suggested that on Page 4, Line 29 (of the Governor's bill) and Page 5, Line 1, the language should read: "(2) determined on each January 1 thereafter with due regard to the replacement cost of the pipeline"....; this would allow for appreciation on the pipeline.

Mr. Barber suggested deletion of "diminution", Page 5, Line 19. Mr. Warwick stated that in that same line, a period should be placed after the word "property", and the remainder of the sentence deleted.

With regard to Page 5, Line 4, Mr. Warwick stated that he was not sure that the words "proven reserves" should remain. Mr. Specking stated that they are building that model now, and the State is currently in business proving or disproving reserves. In response to Mr. Warwick, Mr. Hogan said that concerning this question, the State's information will be as good as any company's in the industry; the State will be able to verify proven reserves. Mr. Specking stated that no matter what is done in this area, proven reserves will become a matter of litigation. He said that it is possible to write this bill in such a way as to prevent the contest of who is right on proven reserves.

Mr. Warwick suggested that "actual cost" be replaced with "replacement cost" on Page 5, Line 7.

On Page 5, Line 9, Mr. Specking stated that he questioned the word "full"; he stated that the line may never achieve what it is designed for. No depreciation will begin until full operation is achieved. Mr. Warwick felt that "full" should not be deleted.

Discussion followed regarding intangible drilling. Mr. Warwick stated that with a severance tax, you don't have intangible expenses. Mr. Wright stated that tax should not be levied while the oil companies are exploring and drilling; once they have a proven field however, they should then be taxed.

Mr. Homer Burrell, Director, Division of Oil and Gas, entered the meeting at the Committee's request. Mr. Ferguson then requested that Mr. Chuck Cranston and Mr. Charles Hagens, North Slope Borough attorneys, be present as well.

Discussion followed regarding the tax date; Mr. Warwick suggested that the language stating that taxation begins on January 1, 1974 unless oil companies' permits have been denied or unless they are enjoined from building. Mr. Cranston

Mr. Cranston stated that just because a piece of property sits idle does not mean a tax should not be levied upon it. Although it is not being used, it does have value which should be subject to the ad valorem tax; to do otherwise is not good tax policy.

Mr. Burrell asked Mr. Cranston what would happen if the permits are not issued until April 1, 1974. Mr. Cranston replied that the objective is that the boroughs should have the right to assess their mill levy notwithstanding prohibition from the state, whether there in failure of permit or injunction.

Mr. Barber then asked Mr. Cranston what effect this bill has on the North Slope Borough's current case in court. Mr. Cranston stated that he is not implying that the North Slope Borough is accepting the 7 mill levy, but if the bill were passed as presently worded, it would just about "render moot the position which the North Slope Borough has been asserting before the Superior Court for future tax years", and renders moot the contention that it may include within that tax the value of the intangible and developmental drilling cost. Mr. Charles Hagens stated that the position the oil companies are taking in Fairbanks litigation is written into this legislation.

With regard to exemption #5 in HB 1, Mr. Hagens stated that intangibles consist of fuel, materials, and the actual cost of putting "the hole in the ground". Mr. Hagens said that this particular exemption in the bill (#5) was written simply as another argument to take this amount of value out of taxation. Actually, it is totally irrelevant to this type of taxation because it has to do with Federal taxation.

Mr. Cranston then stated that the assessor must determine the net income from the particular field. He said that the assessor must take into consideration the income derived from the property and development expense and arrive at a net income figure.

Mr. Warwick then moved that Exemption #5 (the value of intangible drilling and development expenses and exploration expenses) be deleted from the bill. Mr. Specking pointed out that they are talking about \$1 billion. Mr. Wright stated that they were also talking about \$18 million in taxes.

Mr. Freeman then asked Mr. Burrell if his judgement was that if Mr. Warwick's motion passes, the State will be back in court. Mr. Burrell said that was his personal opinion, yes.

The question was called for, but no official action was taken.

RECESS There being no further discussion, the meeting recessed at 12:05 p.m.

AFTER RECESS
October 23, 1973
2:20 p.m.

PRESENT All members with the exception of Mr. Hillstrand. Staff members Josh Wright, J. H. Hogan. Representatives Degnan and Miller. Mr. Homer Burrell, Director, Division of Oil and Gas. Members of the Press. Representatives from Alaskan local governments, and other interested parties.

HB 1 Mr. Haugen called the meeting back to order. Copies of those changes desired by the Committee in House Bill 1 were distributed to all members.

Mr. Burrell led the Committee through those items changed in the markup copy.

He explained the change in Line 23, Page 9 of HB 1 as follows: after the words "construction commencement date" means, a colon (:) is inserted with the following (A) April 1, 1974; or (B) if earlier, the date the following occur: (etc.) Mr. Burrell said that they changed the date to 4/1/74 because although the Secretary of Interior may issue the pipeline permit by January, the Corps of Engineers may not issue their permits on stream crossings, and other environmental protection agencies must issue permits as well. Mr. Burrell also pointed out that the Legislature will be in session prior to the April date, and can change that date again, if it so desires.

With regard to the transitional clause on Page 11 of the Governor's bill, Mr. Burrell stated that they have tried to say (using current language) that if political subdivisions levy a 7 mill tax on equipment tied to specific commencement dates, they can. And if they do, it is creditable to the 20 mills, payable

to the state. Mr. Warwick said it should not all be; it should be pro-rated. Mr. Burrell pointed out that on Page 3, Line 29, and Page 4, Line 1, it states "The tax payable shall be prorated on the basis of the assessment year remaining."

Mr. Warwick then moved for deletion of exemption #5, Page 2, Lines 1 and 2, "the value of intangible drilling and development expenses and exploration expenses"(Sec. 43.54.020). Mr. Saylor's objected. The question was called for, and the vote was as follows:

Yeas: (2) Warwick, Ferguson
Nays: (6) Barber, Haugen, Freeman,
Saylor's, Specking, Ose
Absent: (1) Hillstrand

And so, the motion failed.

Mr. Saylor's then moved and asked unanimous consent that the following language be inserted on Page 3, Line 13, (Sec. 43.56.040, State Assessment Review Board) following the word "pleasure": "each of whom must be knowledgeable of assessment procedures and is not required to be a resident of the State of Alaska". Mr. Ferguson objected for the purposes of discussion.

Mr. Ferguson then stated that the Board's members should consist of borough citizens as well. It is necessary to have borough participation. Mr. Saylor's stated that it is up to the Governor's discretion to make appointments to the Board. He said that if an assessor from the North Slope Borough were appointed to the Board there could be a conflict in the setting of valuations. Mr. Ferguson pointed out that the Board will not have the overall power of the Commission. Mr. Ferguson referred to House Bill 9 (taxes on property used in the exploration for, production of, or pipeline transportation of gas or unrefined oil) which stated that the State Assessment Review Board shall consist of the state assessor and the assessor from each political subdivision having within their jurisdiction property that is subject to this chapter and three other members appointed by, and serving at the pleasure of, the Governor. Mr. Saylor's stated that such a clause seemed to allow unlimited numbers of board members, and he was opposed to that.

Mr. Saylor's renewed his motion. Mr. Ferguson objected, and stated that one member of the Board did not necessarily have to be a resident of the State, but not five. Mr. Saylor's stressed that his language would allow the best possible composition of the Board because it would bring in men with the most expertise; those men may be found without the state. Mr. Ferguson said he still wished to see some of the boroughs comprising the Board

because he felt they should be allowed to present their views. The state assessor could represent the boroughs.

Mr. Saylor's motion was renewed; the question was called for, and the vote was as follows for insertion of "each of who must be knowledgeable of assessment procedures and is not required to be a resident of the State of Alaska":

Yeas:	(7)	Haugen, Warwick, Saylor, Ose Freeman, Specking, Barber
Nays:	(1)	Ferguson
Absent:	(1)	Hillstrand

And so, the motion carried.

Mr. Specking moved to insert language requiring the "oil company" to be certificated by the state. Mr. Freeman objected. Mr. Burrell stated that everyone doing business in the state has to have a business license or certificate. Mr. Specking argued that it was difficult to sort out who was or was not certificated. Mr. Burrell said it was difficult to define "oil company" and that the term is too narrow. Mr. Saylor said that if one contractor enters the state and has 100 subcontractors who move their equipment to Alaska for three years for pipeline construction, it will be extremely difficult to identify those people, which would result in having no method of taxing them.

Mr. Specking renewed his motion on Page 10, Line 9, (Sec. 43.56.210) (2) (iii). The question was called for, and the vote was as follows:

Yeas:	(3)	Specking, Saylor, Ferguson
Nays:	(5)	Barber, Ose, Haugen, Warwick, Freeman
Absent:	(1)	Hillstrand

And so the motion failed.

Mr. Warwick then moved that on Page 1, in lieu of subsection (b) the following should be inserted: "Political subdivisions may levy a tax on the taxable property taxable under this chapter not to exceed 200% of the per capita assessed valuation for the state. A tax levied by a political subdivision under this subsection shall be credited against the tax levied under (a) of this section." Mr. Warwick also wished to include in his motion the repeal of the Residential Property Exemption found in AS 29.53.025(a).

Mr. Ferguson objected; he distributed a chart showing property exempted by communities in Alaska (see Page 7⁴ of minutes).

Discussion followed, and Mr. Freeman asked Mr. Warwick which communities he was taking into consideration with regard to his statement of political subdivisions may levy a tax on the real and personal property under this section not to exceed 200% of the average assessed valuation in the state. Mr. Warwick said the only practical way is to include only school districts because they are the only areas having assessed valuations. Mr. Freeman then asked why this method is better than the \$1,000/per capita. Mr. Warwick said that this approach will give them a larger tax base, and the \$1,000/per capita does not give consideration to increased cost of living. Mr. Freeman argued that \$1,000/per capita is three times as high as the current highest rate in the state now.

Mr. Ferguson then stated that he saw a problem with long range bonding; Mr. Warwick pointed out that with a cash flow of \$4 million, there will be no bonding problem for the North Slope borough.

Mr. Warwick stated that the main concern with regard to this legislation is that some people feel that various boroughs may take advantage of the tax base to the detriment of the rest of the state. Mr. Warwick then stated that he wished to allow those people in attendance who were representing the North Slope Borough an opportunity to speak.

Mr. Eben Hopson, Mayor of the North Slope Borough, stated (with regard to the \$1,000/per capita formula) that when you consider communities individually, they have no tax structure whatsoever. He said the \$4 million "windfall" services to the borough have been avoided for many years. He then stated that the budget the borough passed last year for a two year operation ran to a little more than \$5 million; none of that money is for community services, but rather for educational facilities alone. Therefore, \$4 million annual tax to the borough is not a "windfall".

Mr. Cranston, North Slope Borough attorney, stated that the millage rate for that borough was actually 24.9 rather than 20. It had been necessary to raise the millage rate in order to meet budgetary requirements.

Mr. Dupere, consultant to the borough, stated that regarding the salary scale, the borough's was comparable to that of the state, Mr. Dupere said that the villages in the borough are at an extreme disadvantage. Schools cannot be put in because there is no sewer or water.

Mr. Warwick then asked Mr. Dupere if he did not think that \$208 million was a sufficient tax base. Mr. Dupere said he did think it was sufficient, but the population would increase. Mr. Warwick

said that the tax base would increase as well.

Mr. Herb Lehfeldt, Valdez City Manager, then briefly outlined the population growth of Valdez through FY 73 through FY 79 and stressed the fact that there would be a temporary population of 6,000, an immediate impact.

Mr. Haugen called a recess at 4:15 p.m.

AFTER RECESS
October 23, 1973
4:30 p.m.

Mr. Haugen called the meeting back to order. Present were all members with the exception of Mr. Hillstrand, and all parties present prior to the recess of 4:15 p.m.

Mr. Warwick moved and asked unanimous consent for the adoption of the amendment to HB 1 (see page 75 of minutes for sheet listing all changes). Mr. Freeman objected and asked that each individual change be considered and voted upon by the committee.

Mr. Warwick then moved and asked unanimous consent that under the section "EXEMPTIONS", a new definition (6), page 10 should be added: (6) "Properties" as used in Exemptions (2) means mineral interests in oil and gas and working interests, royalty interests, and over-riding royalty interests in oil and gas leases. Mr. Freeman objected momentarily and then removed his objection. There being no objection to Mr. Warwick's motion, it was so ordered.

Mr. Warwick then moved for the adoption of the following:
Sec. 43.56.010 should read: "(b) Political subdivisions may levy a tax on the taxable property taxable under this chapter not to exceed 200% of the per capita assessed valuation for the state. A tax levied by a political subdivision under this subsection shall be credited against the tax levied under (a) of this section." and
Sec. 2. TRANSITIONAL PROVISIONS should read: "(a) During FY 74 and 75 political subdivisions having a population of not more than 5,000 persons may levy a tax on the taxable property taxable under this chapter and located within their boundaries not to exceed 250% of the per capita assessed valuation for the state.

Mr. Warwick moved for adoption of the above and asked unanimous consent. Mr. Barber and Mr. Freeman objected.

Mr. Barber asked Mr. Warwick how many cities in Alaska have 5,000 or under population. Mr. Warwick said that there are currently two cities. Mr. Barber pointed out that there will be other boroughs and town effected in future oil operations. Mr. Warwick said the transitional clause is limited to FY 74 and FY 75.