

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2623

DNR

EXECUTIVE SESSION
SENATE FINANCE COMMITTEE

AFTER RECESS
March 20, 1973
2:10 p.m.

Present: All members; Milt Barker, staff Fiscal Analyst.

Nat. Chairman Groh called the meeting to order and stated that
Res. the committee was still in executive session and that the
purpose of the meeting was to hear the sub-committee
report on the budget category Natural Resources, FY 74.

No official action was taken; the meeting recessed.

Recess: The meeting recessed at 3:00 p.m.

EXECUTIVE SESSION
SENATE FINANCE COMMITTEE
AFTER RECESS
March 21, 1973
3:10 p.m.

Present: All members; Milt Barker, staff Fiscal Analyst.

As the committee was still in executive session, no other persons were present.

Natural Res.Mgmt & Env. Consv. Chairman Groh called the meeting to order and stated that the purpose of the meeting was to hear further reports of the sub-committee on the budget category Natural Resource Management and Environmental Conservation, FY 74.

No official action was taken; the meeting adjourned.

Adjourn: The meeting adjourned at 5:05 p.m.

EXECUTIVE SESSION
SENATE FINANCE COMMITTEE
March 22, 1973
9:10 a.m.

Present: All members. Also present was Milt Barker, Fiscal Analyst.

As the committee met in Executive Session, no other persons were present.

NAT. RES. Chairman Groh called the meeting to order. The purpose of
& ENVIR. the meeting was to hear further reports to the full committee
CONSER- by the subcommittee on the Natural Resources and Environmental
VATION Conservation FY 74 budget.

No official action was taken.

Recess: The meeting recessed at 9:45 a.m.

AFTER RECESS
March 28, 1973
2:30 p.m.

Present: All members; Rupert Andrews, Director of Sport Fish; Howard Metzgar, Division of Sport Fish; Rich Guthrie, staff Fiscal Analyst.

CSHB 64 Chairman Groh called the meeting to order and presented COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 64 (supplemental appropriation to the University of Alaska - \$1,011,000) to the committee for consideration. Discussion followed. Senator Butrovich moved that the bill be put out with individual recommendations. The motion carried and those voting "do pass" were Senators Groh and Butrovich. Those voting "do not pass" were Senators Sackett and Lewis, and those voting "no rec" were Senators Ray and Poland.

Senator Groh announced that Mr. Rupert Andrews, and Mr. Howard Metzgar, were present as representatives from the Department of Fish and Game, Division of Sport Fish, and would speak on the Senate version of the FY 74 budget in regard to their division. Discussion and explanation followed concerning the Senate Finance Committee figure.

No further official action was taken; the meeting adjourned.

Adjourn: The meeting adjourned at 3:00 p.m.

PUB

PROT

EXECUTIVE SESSION
SENATE FINANCE COMMITTEE
March 13, 1973
1:40 p.m.

Present: All members with the exception of Senators Lewis and Sackett.

Chairman Groh called the meeting to order. The subcommittee on the Public Protection FY 74 budget reported to the full committee. No official action was taken.

Adjourn: There being no further business, the meeting adjourned at 3:00 p.m.

JUST.

SENATE FINANCE COMMITTEE
February 15, 1973
9:15 a.m.

Present: All members with the exception of Senators Lewis and Ray. Also present were staff members Rich Guthrie and Robert Grogan, Fiscal Analysts, and Bill Miles, Administrative Assistant to Senator Groh.

ALASKA
COURT
SYSTEM
BUDGET

Chairman Groh called the meeting to order. The purpose of the meeting was discussion of the Alaska Court System budget. Due to a misunderstanding in the scheduling of the meeting, Mr. Robert N. Reeves, Administrative Director of Courts, was not present to testify.

Recess: Chairman Groh called for a recess. He informed members of the committee that they would resume business at 11:00 a.m., at which time Mr. Reeves would be present. The meeting then recessed at 9:20 a.m.

AFTER RECESS
February 15, 1973
11:00 a.m.

Present: All committee members with the exception of Senator Lewis. Also present were Robert Grogan, Fiscal Analyst, Bill Miles, Administrative Assistant to Senator Groh, and Ellen Wolfe, reporter for the Daily Alaska Empire. Mr. Robert N. Reeves, Administrative Director of Courts, was also present. Senate President Terry Miller entered the meeting at 11:20 a.m.

ALASKA
COURT
SYSTEM
BUDGET

Chairman Groh called the meeting to order. The purpose of the meeting was to discuss the Alaska Court System budget. He referred to the hand-out distributed by Mr. Reeves which compared the Court System's request to the Governor's budget figures. (Hand-out is attached to this set of minutes.)

Senator Palmer moved and asked unanimous consent that a letter be sent to Mr. Reeves and the Alaska Court System requesting standards of what necessitates delegating a magistrate to an area. The information should then be presented to the committee. No objection, so ordered.

Other requests made by the committee regarding the position of magistrate were as follows:

1. A list of magistrate positions filled; where those positions are located; the population of the community in which they are located.
2. Summaries of magistrates' reports to the magistrate supervisor.
3. A breakdown of duties performed by a magistrate.

In regard to the Court System's \$131,000 request for books for the Anchorage library, Senator Groh requested certification from a judge that the judges actually did need \$131,000 worth of new books.

Senator Groh then referred to the rental amount of \$420 paid annually by the Court System for the use of space for magistrates' quarters in various communities and villages. He asked that the committee be provided with information on how \$420 became the "set" figure.

In regard to the upgrading of libraries, Senator Groh requested that Mr. Reeves provide the committee with information of how many lawyers there were in Wrangell, and how many contested

cases there were per year in Wrangell.

Discussion followed on whether or not court fees had been increased or reviewed over the last five or ten years. Senator Groh stated that he would write to Mr. Reeves and the Judicial Council regarding recommendations that should be made (if any) on court fees.

Extensive discussion followed regarding the number of the Court System's authorized positions. Mr. Reeves stated that although the Court System has been authorized 249 positions, there are actually more people that have been hired. Senator Butrovich requested complete information as to the number of authorized positions for the Court System, the number of employees hired above the authorized figure and how (where funds were obtained) they were hired, and the amount of money involved.

All information in response to the requests noted in these minutes is to be presented to the committee during a future meeting on the Alaska Court System budget with Mr. Reeves.

Adjourn: The meeting adjourned at 12:00 noon.

ALASKA COURT SYSTEM
Comparison of Court Request with Governor's Budget
FY 1974

	FY 72 Actual	FY 73 Authorized	Changes	Court Request 1974	Reductions	Governor's Budget 1974
JUDICIAL COURT:						
Personal Services	600.7	663.7	-0-	663.7	-0-	663.7
Travel	30.5	33.0	11.4	44.4	(4.0)	40.4
Contractual Services	62.9	52.2	17.0	69.2	-0-	69.2
Commodities	9.6	10.1	12.1	22.2	(2.0)	20.2
Equipment	13.8	4.7	(4.7)	-0-	-0-	-0-
Building Improvements	0.9	-0-	3.5	3.5	(3.5)	-0-
Extensions	32.1	19.2	33.0	52.2	-0-	52.2
Sub-Total	<u>750.5</u>	<u>782.9</u>	<u>72.3</u> (1)	<u>855.2</u>	<u>(9.5)</u>	<u>845.7</u>
JUDICIAL DISTRICTS:						
Personal Services	3,423.5	4,293.6	357.8	4,651.4	(324.8)	4,326.6
Travel	63.5	95.1	32.9	128.0	(18.5)	109.5
Contractual Services	1,482.1	1,917.0	1,215.6	3,132.6	-0-	3,132.6
Commodities	95.2	59.5	45.7	105.2	-0-	105.2
Equipment	94.6	300.0	(211.5)	88.5	-0-	88.5
Building Improvements	23.9	70.4	12.1	82.5	(34.5)	48.0
Extensions	6.6	6.6	14.3	20.9	-0-	20.9
Sub-Total	<u>5,189.4</u>	<u>6,742.2</u>	<u>1,466.9</u> (2)	<u>8,209.1</u>	<u>(377.8)</u>	<u>7,831.3</u>
JUDICIAL SERVICES:						
Personal Services	228.7	341.4	0.1	341.5	(0.1)	341.4
Travel	1.1	6.2	2.1	8.3	-0-	8.3
Contractual Services	34.4	16.7	76.6	93.3	-0-	93.3
Commodities	259.7	145.0	109.5	254.5	-0-	254.5
Equipment	2.8	26.1	(26.1)	-0-	-0-	-0-
Building Improvements	-0-	6.0	5.9	11.9	-0-	11.9
Sub-Total	<u>526.7</u>	<u>541.4</u>	<u>168.1</u> (3)	<u>709.5</u>	<u>(0.1)</u>	<u>709.4</u>

ALASKA COURT SYSTEM
Comparison of Court Request with Governor's Budget
FY 1974

	FY 72 Actual	FY 73 Authorized	Changes	Court Request 1974	Reductions	Governor's Budget 1974
ISTRATION:						
Personal Services	396.1	540.3	-0-	540.3	-0-	540.3
avel	42.1	50.3	1.0	51.3	-0-	51.3
ntractual Services	136.0	52.5	168.8	221.3	(27.0)	194.3
mmodities	24.9	17.0	10.7	27.7	(-0-)	27.7
uipment	29.8	20.5	(20.5)	-0-	-0-	-0-
Sub-Total	<u>628.9</u>	<u>680.6</u>	<u>160.0</u> (4)	<u>840.6</u>	<u>(27.0)</u>	<u>813.6</u>
TOTALS	<u>7,095.5</u>	<u>8,747.1</u>	<u>1,867.3</u>	<u>10,614.4</u>	<u>(414.4)</u>	<u>10,200.0</u>
COURT SYSTEM:						
Personal Services	4,649.0	5,839.0	357.9	6,196.9	(324.9)	5,872.0
avel	137.2	184.6	47.4	232.0	22.5	209.5
ntractual Services	1,715.4	2,038.4	1,478.0	3,516.4	27.0	3,489.4
mmodities	389.4	231.6	178.0	409.6	2.0	407.6
uipment	141.0	351.3	(262.8)	88.5	-0-	88.5
ilding Improvements	24.8	76.4	21.5	97.9	38.0	59.9
nsions	38.7	25.8	47.3	73.1	-0-	73.1
TALS	<u>7,095.5</u>	<u>8,747.1</u>	<u>1,867.3</u>	<u>10,614.4</u>	<u>(414.4)</u>	<u>10,200.0</u>

EXPLANATION

1. SUPREME COURT:

A. Travel request was increased to cover more sessions of the court and administrative travel for the Chief Justice.	11.4
B. Contractual services was increased by 5% per year inflation factor based on 1972 actual costs	17.0
C. Commodities increased to cover actual costs of supplies for printing	12.1
D. Equipment request reduction	(4.7)
E. Building Improvements - Remodeling of printing shop area	3.5
F. Pensions increased to provide for payments for Justice Dimond's retirement and Justice Boney's dependents	<u>33.0</u>

Totals - Footnote 1

72.3

2. JUDICIAL DISTRICTS:

A. Personal Services

Deputy Clerk of Court for Juneau District Court - full time
Deputy Clerk of Court for Ketchikan District Court - full time
Part-time Magistrate for Wrangell-Petersburg - 3 months
District Judge for Valdez
Two bailiffs for Anchorage Courts
Deputy Clerk of Court for Palmer
3 Part-time Clerks of Court for Bail Bond project - 6 months
20 Temporary Clerks of Court for assumption of City Court
and Superior and District Courts merger

District Judge for Fairbanks
One bailiff for Fairbanks Court
One Secretary for Fairbanks District

TOTAL Personal Services 357.8

B. Travel request was increased to cover projected costs of bush trials 32.9

C. Contractual services

2. JUDICIAL DISTRICTS: (Continued)

F. Building improvements	
Sitka Superior Court library	6.9
Sitka District Court decorating	1.0
Haines Court remodeling	6.9
Nome Superior Court	3.2
Nome District Court	5.8
Magistrate Courts	7.8
Anchorage Clerk's office	3.8
Kodiak Superior Court	8.5
Anchorage District Court	6.5
Kodiak District Court	1.5
Dillingham Magistrate	8.5
Palmer Magistrate	8.5
Fairbanks Superior Court	9.4
Fairbanks Clerk's Office	1.2
Tok Magistrate	3.0

Total Request	82.5
Less prior year	<u>70.4</u>

Increase	12.1
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G. Pensions increased to cover costs of Judge Kelliher retirement	<u>14.3</u>
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Total - Footnote 2	1,466.9
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3. JUDICIAL SERVICES:

A. Personal Services error in rounding	0.1
B. Travel increased for training librarians, recorders and transcribers	2.1
C. Contractual Services increased to cover costs of rental machines formerly charged to administration	76.6
D. Commodities increase to cover costs of library supplements and recording supplies	109.5
E. Equipment request reduction	(26.1)
F. Building Improvements	
Remodeling to provide library space	
Wrangell	2.5
Petersburg	4.0
Nome	5.4
Sub-Total	<u>11.9</u>
Less prior year	<u>6.0</u>
Net Increase	<u>5.9</u>

Total - Footnote 3	<u><u>168.1</u></u>
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4. ADMINISTRATION:

A. Travel increase for Judicial Qualifications Commission	1.0
B. Increase to assume data processing from Department of Administration	168.8
C. Commodities increase to cover 5% inflation factor based on actual costs for 1972 FY	10.7
D. Equipment request reduction	<u>(20.5)</u>

Total - Footnote 4

160.0

SENATE FINANCE COMMITTEE

February 21, 1973

9:05 a.m.

Present: All members with the exception of Senator Ray; Mr. Robert Reeves, Administrative Director of Courts; Mr. George Morrison, Deputy Director/Comptroller of Courts; Mr. Bob Grogan, staff Fiscal Analyst.

Alaska
Court
System Chairman Groh called the meeting to order and stated that the committee would discuss the Alaska Court System budget. Discussion and questioning of witnesses followed. Mr. Reeves handed out a list of existing magistrates. He stated that those names preceded with an "X" were those who were made magistrates to help facilitate their main job as Public Administrator. These magistrates handle some cases, but are not paid as magistrates. Mr. Reeves made another handout which was a comparison of the Court System request with the Governor's budget. (See end of minutes for these handouts.)

Senator Groh stated that since the committee members had to attend session, they would meet again with Mr. Reeves and Mr. Morrison the following morning. And, there being no further discussion, the meeting was adjourned.

Adjourn: The meeting adjourned at 9:50 a.m.

MAGISTRATES

William R. Nix (333-5935) 279-0664
Magistrate Supervisor x320

941 Fourth Avenue
Anchorage 99501

Linda F. Munn, Secretary 279-0664
Magistrate Supervisor x346

941 Fourth Avenue
Anchorage 99501

FIRST JUDICIAL DISTRICT

Mrs. Frances J. Shapley (826-3451) ... 826-3522
*Carl W. Heinmiller (766-2471) 766-4611
Mrs. Maxine Savland (945-3384) 945-3222
*Richard N. Siangco (789-9878) 586-5381
Daniel P. Fay, Jr. (785-3651) 785-3651
William E. Marks (225-5528) 225-3141
L. N. Carson 735-4101
*Mrs. Kristen C. Billings (772-3239) .. 772-4468
*Mrs. Virginia Burfield (983-2316) 983-2368
Ernest W. Hillman 747-3292
*Joel Wing, Clerk of Court (844-3651) . 844-3513
(Mrs. Cecelia C. Mapes (784-3345) 784-3366
(Mrs. Linda Fay, Recorder (844-3384) 844-3313
* Recorder

Box 2, Craig 99921
Box D, Haines 99827
Box 963, Hoonah 99829
Pouch U, Juneau 99801
Box 387, Kake 99830
Box 707, Ketchikan ... 99901
Pelican 99832
Box 1009, Petersburg . 99833
Box 495, Skagway 99840
Box 910, Sitka 99835
Box 869, Wrangell 99929
Box 1, Yakutat 99689
Box 869, Wrangell 99929

Business
PhoneMailing
AddressZip
CodeSECOND JUDICIAL DISTRICT

Mrs. Sadie Neakok (852-6361)	852-4800	Box 276, Barrow	99723
Louis Hadley, Sr. (443-2922)	443-2922	Buckland	99727
vacant	-	Emmonak	99581
Leonard Apangalook	-	Gambell	99742
Miss Janet Napoleon	-	Hooper Bay	99604
Mrs. Amelia K. Blastervold	-	Kiana	99749
Fletcher F. Gregg (442-3857)	442-3501	Box 257, Kotzebue	99752
Mrs. Marie T. Beans	-	Box 184, Mt. Village ..	99632
Darrell W. Hutton (443-2893)	443-2471	Box 431, Nome	99762
Charlie Harvey	-	Noorvik	99763
David O. Frankson	-	Point Hope	99766
Jonas Ramoth	-	Selawik	99770
*Sebastian J. Cowboy	thru Bethel	Box 1, Saint Marys ...	99658
vacant	-	radio operator	
Lowell Anagick	624-3169	Teller	99778
Jim Aveoganna, Sr.	-	Unalakleet	99684
Clarence Ongtawasruk	-	Wainwright	99782
		Wales	99783

THIRD JUDICIAL DISTRICT

X Mrs. Ronnie Bray	279-0664	941 Fourth Avenue	
	x311	Anchorage	99501
George H. Provine	279-0664	941 Fourth Avenue	
	x147	Anchorage	99501
*Karl Heiker	532-2440	Box 85, Cold Bay	99571
*R. W. MacDonald (424-7417) ..	424-3378	Box 760, Cordova	99574
*Elmer L. Smith	842-3721	Box 209, Dillingham ..	99576
(Dillingham Clerk: Kathryn Madson)			
*Sheldon S. Sprecker (822-3345)	822-3219	Box 86, Glennallen ...	99588
Mrs. Wilma Kay Jones (235-8577)	235-8517	Box 134, Homer	99603
(Homer Clerk: Ethyl Evans)			
*Jess H. Nicholas, Jr. (262-4383)	283-4891/2	Drawer I, Kenai	99611
(Kenai Clerk: Ione Wisdom)			
*John Waller	486-5766	Box 1367, Kodiak	99615
(Kodiak Clerk: Brigitte McBride)			
*Elmer S. Harrop	246-3541	Box 121, Naknek	99633
*Mrs. Dorothy B. Saxton (745-3080)	745-3080	Box 847, Palmer	99645
Mrs. Linda Wright (as of 12/1/72)	383-2661	Box 15, Sand Point ...	99661
*Mrs. Genevieve Schaefermeyer (224-5774)	224-3075	Box 596, Seward	99664
*Mrs. Rose Parks ... (223-6795)	223-6795	Seldovia	99663
George Rukovishnikoff, Jr.	Ak Radio	Saint Paul Island	99660
Arthur L. Birt, Jr.	581-1266 RCA-(401)	City of Unalaska ...	99685
*Mrs. F. Kay Bond (835-4394)	835-4393	Box 646, Valdez	99686

* Recorder

November 24, 1972

FOURTH JUDICIAL DISTRICT

	<u>Business Phone</u>	<u>Mailing Address</u>	<u>Zip Code</u>
*Mrs. L. Arlene Clay	675-4325	Box 547, Aniak	99557
Mrs. Helen Edge	543-2298	Box 93, Bethel	99559
Mrs. Barbara J. Wright	-	Cantwell	99729
Herschel E. Crutchfield	895-4615	Delta Junction	99737
*Colonel Lincoln E. Ost	452-5762	604 Barnette, Fairbanks	99701
Nelson H. Moore (662-2336)	662-2336	Box 100, Fort Yukon	99740
*Mrs. Cecelia Burgett (person/person) ..	656-1225	Box 85, Galena	99741
Galena State Trooper office	446-3378		
Yako J. Brink	-	Kasigluk	99609
vacant	-	Manley Hot Springs	99756
*Robert L. Magnuson (524-3586) ~~vacant~~ ..	524-3586	Box 31, McGrath	99627
Mrs. Hilma K. Shavings	-	Nunivak Island, Mekoryuk	99630
*Mrs. Ann M. F. Johnson (832-5441) ...	832-5441	Box 177, Nenana	99760
(See Magistrate Brink, Kasigluk) ...	-	Nunapitchuk	99641
*Harry F. Havrilack	A.C.S.	Rampart	99767
*Mrs. Eileen Kozevnikoff (366-7765) ..	366-7985	Box 112, Tanana	99777
*Mrs. Mary Waters (883-2722)	883-2721	Box 187, Tok	99780
Jack Lincoln	-	Nelson Island, Tununak .	99681

* Recorder

X Also Coroner-Public Administrator

ALASKA COURT SYSTEM
Comparison of Court Request with Governor's Budget
FY 1974

	FY 72 Actual	FY 73 Authorized	Changes	Court Request 1974	Reductions	Governor's Budget 1974
SUPREME COURT:						
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Equipment	13.8	4.7	(4.7)	-0-	-0-	-0-
Building Improvements	0.9	-0-	3.5	3.5	(3.5)	-0-
Pensions	32.1	19.2	33.0	52.2	-0-	52.2
Sub-Total	<u>750.5</u>	<u>782.9</u>	<u>72.3</u> (1)	<u>855.2</u>	<u>(9.5)</u>	<u>845.7</u>
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Pensions	6.6	6.6	14.3	20.9	-0-	20.9
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Equipment	2.8	26.1	(26.1)	-0-	-0-	-0-
Building Improvements	-0-	6.0	5.9	11.9	-0-	11.9
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ALASKA COURT SYSTEM
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FY 1974

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TOTALS	<u>7,095.5</u>	<u>8,747.1</u>	<u>1,867.3</u>	<u>10,614.4</u>	<u>(414.4)</u>	<u>10,200.0</u>
TOTAL COURT SYSTEM:						
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Commodities	389.4	231.6	178.0	409.6	2.0	407.6
Equipment	141.0	351.3	(262.8)	88.5	-0-	88.5
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Pensions	<u>38.7</u>	<u>25.8</u>	<u>47.3</u>	<u>73.1</u>	<u>-0-</u>	<u>73.1</u>
TOTALS	<u>7,095.5</u>	<u>8,747.1</u>	<u>1,867.3</u>	<u>10,614.4</u>	<u>(414.4)</u>	<u>10,200.0</u>

EXPLANATION

1. SUPREME COURT:

A. Travel request was increased to cover more sessions of the court and administrative travel for the Chief Justice.	11.4
B. Contractual services was increased by 5% per year inflation factor based on 1972 actual costs	17.0
C. Commodities increased to cover actual costs of supplies for printing	12.1
D. Equipment request reduction	(4.7)
E. Building Improvements - Remodeling of printing shop area	3.5
F. Pensions increased to provide for payments for Justice Dimond's retirement and Justice Boney's dependents	<u>33.0</u>

Totals - Footnote 1

72.3

2. JUDICIAL DISTRICTS:

A. Personal Services

Deputy Clerk of Court for Juneau District Court - full time
Deputy Clerk of Court for Ketchikan District Court - full time
Part-time Magistrate for Wrangell-Petersburg - 3 months
District Judge for Valdez
Two bailiffs for Anchorage Courts
Deputy Clerk of Court for Palmer
3 Part-time Clerks of Court for Bail Bond project - 6 months
20 Temporary Clerks of Court for assumption of City Court
and Superior and District Courts merger

District Judge for Fairbanks
One bailiff for Fairbanks Court
One Secretary for Fairbanks District

TOTAL Personal Services 357.8

B. Travel request was increased to cover projected costs of bush trials 32.9

C. Contractual services

2. JUDICIAL DISTRICTS: (Continued)

F. Building improvements		
Sitka Superior Court library	6.9	
Sitka District Court decorating	1.0	
Haines Court remodeling	6.9	
Nome Superior Court	3.2	
Nome District Court	5.8	
Magistrate Courts	7.8	
Anchorage Clerk's office	3.8	
Kodiak Superior Court	8.5	
Anchorage District Court	6.5	
Kodiak District Court	1.5	
Dillingham Magistrate	8.5	
Palmer Magistrate	8.5	
Fairbanks Superior Court	9.4	
Fairbanks Clerk's Office	1.2	
Tok Magistrate	3.0	
Total Request	82.5	
Less prior year	<u>70.4</u>	
Increase		12.1
G. Pensions increased to cover costs of Judge Kelliher retirement		<u>14.3</u>
Total - Footnote 2		1,456.9

3. JUDICIAL SERVICES:

A. Personal Services error in rounding		0.1
B. Travel increased for training librarians, recorders and transcribers		2.1
C. Contractual Services increased to cover costs of rental machines formerly charged to administration		76.6
D. Commodities increase to cover costs of library supplements and recording supplies		109.5
E. Equipment request reduction		(26.1)
F. Building Improvements		
Remodeling to provide library space		
Wrangell	2.5	
Petersburg	4.0	
Nome	5.4	
Sub-Total	<u>11.9</u>	
Less prior year	<u>6.0</u>	
Net Increase		<u>5.9</u>

Total - Footnote 3 168.1

4. ADMINISTRATION:

A. Travel increase for Judicial Qualifications Commission	1.0
B. Increase to assume data processing from Department of Administration	168.8
C. Commodities increase to cover 5% inflation factor based on actual costs for 1972 FY	10.7
D. Equipment request reduction	<u>(20.5)</u>

Total - Footnote 4

160.0

SENATE FINANCE COMMITTEE

February 22, 1973

9:00 a.m.

Present: All members with the exception of Senators Palmer and Sackett. Staff members present were Mr. Robert Grogan, Fiscal Analyst, and Mr. William Miles, Administrative Assistant to the Senate Finance Chairman. Also present were Mr. Robert N. Reeves, Administrative Director of Courts, Alaska Court System, and Mr. George Morrison, Deputy Administrative Director of Courts.

Chairman Groh called the meeting to order. The purpose of the meeting was to discuss the Alaska Court System budget.

ALASKA
COURT
SYSTEM
BUDGET

Mr. Reeves referred to previous requests made by the committee and presented the following information in response to those requests:

In regard to the rent paid for magistrates' quarters in Alaska communities, Mr. Reeves explained that \$420 per year was an exact figure for all magistrate locations. He said that this is a fixed fee where a magistrate operates from his home, maintains his office and holds court. Mr. Reeves' office has established the \$420 amount from experience and feels it is reasonable compensation for the use of the magistrate's home.

Mr. Reeves then referred to the request regarding the number of lawyers in Wrangell. He stated that there were no lawyers with offices there at present. He added that there had been 211 law cases of various types last year in Wrangell.

Senator Groh then stated that there would be a meeting with the Judicial Council and Senate and House Finance Committees in Juneau on February 27 to consider a review of court fees. Senator Groh suggested that Mr. Reeves also attend that meeting.

Discussion then followed on Personal Services in the Alaska Court System budget. Senator Groh requested that Mr. Reeves provide the committee with information on the number of people presently employed by the Court System, and what jobs those employees have.

Discussion then followed on the new Anchorage Court House. Mr. Reeves presented a breakdown of space to be utilized by various state offices.

Senator Butrovich then referred to the changes made in jury

fees. Mr. Morrison stated that he could provide the committee with "dollars and cents" results in the near future.

Senator Groh then stated that Mr. Reeves had indicated that they were requesting the building of additional court houses in Bethel, Craig, Barrow, Valdez, and Yakutat. Mr. Reeves stated that these facilities will be very small. Senator Groh said that he wished the committee members to be advised that the request had been presented to the Chairman.

Adjourn: There being no further business, the committee recessed at 9:50 a.m.

EXECUTIVE SESSION
SENATE FINANCE COMMITTEE
AFTER RECESS
March 22, 1973
1:40 p.m.

Present: All members; Bob Grogan, staff Fiscal Analyst.

As the committee was still in executive session, no other persons were present.

Admin. Chairman Groh called the meeting to order and stated that
of the purpose of the meeting was to hear the sub-committee
Justice report on the budget category, Administration of Justice,
FY 74.

No official action was taken; the meeting recessed.

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

DEV

EXECUTIVE SESSION
SENATE FINANCE COMMITTEE
March 20, 1973
9:10 a.m.

Present: All members. Also present were Milt Barker, Staff Fiscal Analyst, and Senator J. Kerttula.

As the committee was meeting in Executive Session, no other persons were present.

DEVEL-
OPMENT

Chairman Groh called the meeting to order. The purpose of the meeting was to hear reports to the full committee by the subcommittee on the Development budget - FY 74.

No official action was taken.

Recess: The meeting recessed at 9:50 a.m.

EXECUTIVE SESSION
SENATE FINANCE COMMITTEE
March 20, 1973
11:00 a.m.

Present: All members. Also present were Milt Barker, Staff Fiscal Analyst, and Senator J. Kerttula.

As the committee was meeting in Executive Session, no other persons were present.

DEVEL-
OPMENT

Chairman Groh called the meeting to order. The purpose of the meeting was to hear further reports to the full committee by the subcommittee on the Development budget - FY 74.

Recess: The meeting recessed at 11:15.

AFTER RECESS
11:45

The committee continued to consider the Development budget.

No official action was taken.

Recess: The meeting recessed at 12:00 noon.

EXECUTIVE SESSION
SENATE FINANCE COMMITTEE
AFTER RECESS
March 20, 1973
1:40 p.m.

Present: All members with the exception of Senator Lewis; Milt Barker, staff Fiscal Analyst.

Development Chairman Groh called the meeting to order and stated that the committee was still in executive session and that the purpose of this meeting was to hear the sub-committee report on the budget category Development, FY 74.

No official action was taken; the meeting recessed.

Recess: The meeting recessed at 2:00 p.m.

PUB

WORKS

EXECUTIVE SESSION
SENATE FINANCE COMMITTEE
March 7, 1973
9:10 a.m.

Present: All members; George Easley, Commissioner of Public Works;
Jay Hogan, House Fiscal Analyst.

Budget - Chairman Groh called the meeting to order and stated that
Dept. of the committee would discuss the Public Works budget with
Public Commissioner Easley. General questioning and discussion
Works followed. It was decided that the committee would consider
the budget further and would develop a policy concerning
the major problems within the Public Works budget.

There being no further business, the meeting adjourned.

Adjourn: The meeting adjourned at 10:00 a.m.

EXECUTIVE SESSION

AFTER RECESS

March 19, 1973

3:40 p.m.

Present: All members; Jay Hogan, staff Fiscal Analyst.

Trans-
porta-
tion Chairman Groh called the meeting to order and stated that the committee was still in executive session and that the purpose of this meeting was to hear the sub-committee report on the budget category Transportation, FY 74.

No official action was taken; the meeting was adjourned.

Adjourn: The meeting adjourned at 5:05 p.m.

GEN

GOVT

EXECUTIVE SESSION
AFTER RECESS
SENATE FINANCE COMMITTEE
March 15, 1973
11:00 a.m.

Present: All members with the exception of Senator Sackett. Also present was Robert Grogan, Fiscal Analyst.

GENERAL
GOVERN-
MENT

Chairman Groh called the meeting to order. The purpose of the meeting was to hear the subcommittee on the General Government FY 74 budget report to the full committee.

It was decided to postpone the review of one BRU until Commissioner George Easley (Department of Public Works) or Deputy Commissioner Bob Dwyre could speak to the committee members.

Recess: Senator Ray moved that the committee recess at 12:00 noon. No objection, so ordered.

EXECUTIVE SESSION
AFTER RECESS
SENATE FINANCE COMMITTEE
March 17, 1973
11:50 a.m.

Present: All members with the exception of Senator Sackett. Also present was Mr. Robert Grogan, Fiscal Analyst.

As the committee was meeting in Executive Session, no other persons were present.

GENERAL
GOVERN-
MENT

Chairman Groh called the meeting to order. The purpose of the meeting was to hear the subcommittee on the General Government FY 74 budget report to the full committee.

No official action was taken.

Recess: The committee recessed at 12:00 noon. An Executive Session was scheduled for 1:30 p.m.

EXECUTIVE SESSION
AFTER RECESS
SENATE FINANCE COMMITTEE
March 17, 1973
1:30 p.m.

Present: All members with the exception of Senator Sackett. Also present was Mr. Robert Grogan, Fiscal Analyst.

As the committee was meeting in Executive Session, no other persons were present.

GENERAL
GOVERN-
MENT

Chairman Groh called the meeting to order. The purpose of the meeting was to hear further reports to the full committee by the subcommittee on the General Government FY 74 budget.

No official action was taken.

Recess: The committee recessed at 2:45 p.m. and scheduled to reconvene in Executive Session at 3:30 p.m.

EXECUTIVE SESSION
AFTER RECESS
March 17, 1973
3:30 p.m.

Present: All members with the exception of Senator Sackett; Bob Grogan, staff Fiscal Analyst.

General Gov't Chairman Groh called the meeting to order and stated that the committee was still in executive session and that the purpose of this meeting was to hear the sub-committee report on the budget category General Government, FY 74.

No official action was taken; the meeting was recessed.

Recess: The meeting recessed at 4:30 p.m.

CIP

EXECUTIVE SESSION
SENATE FINANCE COMMITTEE
March 24, 1973
1:30 p.m.

Present: All members. Also present were J. H. Hogan, Director of Legislative Finance; Rich Guthrie, Senate Fiscal Analyst; and staff Fiscal Analysts Glen K. Vernon, Milt Barker, and Robert Grogan.

As the committee was meeting in Executive Session, no other persons were present.

FY 74
OPERATING
BUDGET Chairman Groh called the meeting to order. The purpose of the meeting was to review all figures previously recommended by the subcommittee and full committee on the FY 74 Operating Budget.

A motion was made to approve the total General Fund figure for the Operating Budget - \$333,030,300. No objection, so ordered.

CAPITAL
PROJECTS The committee then approved the total figure of \$67,632,400 for Capital Projects.

HB 58 Following discussion regarding the language to be inserted in the bill, the committee adjourned at 4:15 p.m.

SENATE FINANCE COMMITTEE

October 25, 1973

2:10 P.M.

PRESENT: All members with the exception of Senator Palmer. Eben Hobson, Mayor, North Slope Borough; Guenter M. Conradus, Senior Economist, Mathematical Sciences Northwest; Vernon L. Snow, Attorney, North Slope Borough; Ben Delahy, Attorney, Kenai Peninsula Borough; Jerry Heier, Assessor, Kenai Peninsula Borough; Lawrence Eppenbach, Deputy Commissioner of Treasury; and representatives from the administration, oil industry and press interested in the proposed legislation.

SB 1 Senator Groh called the meeting to order and stated the purpose of
SB 4 the meeting was to hear testimony on SENATE BILL NO. 1 (Providing for taxes on property used in the exploration for, production of, or pipeline transportation of gas or unrefined oil) and SENATE BILL NO. 4 (Relating to the oil and gas properties production tax).

Mr. Guenter M. Conradus testified in opposition to the proposed legislation (see page 4 for a copy of his testimony).

Senator Groh questioned Mr. Conradus about possible inequities which may occur if the legislation was not enacted, to which Mr. Conradus replied inequities would occur only if you assumed the North Slope Borough would tax up to its limit and keep the funds there. The solution, according to Mr. Conradus, would be to leave to local jurisdiction those tax bases they deem necessary for their own services. He stated that all the North Slope Borough asked was the state not erode its tax base, and questioned whether the balance of the state was prepared to support the North Slope Borough if the tax base were removed. 78% of the Borough's revenue is collected through property taxes.

Senator Ray asked the millage rate on the North Slope Borough now. Mr. Hobson said they ended the first two years of operation at a 6.6 mill rate, but now have \$197 million tax base on which is levied a 24.9 mill levy. Exemptions are allowed on single family, owner-occupied homes up to \$20,000, for a total amount of \$840,000.

Replying to a question from Senator Groh, Mr. Conradus said he was opposed to fixed levies and opposed to exemptions. He was opposed to the 7 mill limitation. The state could levy any taxes they wished, but Mr. Conradus believed the North Slope should be allowed to levy taxes on their property.

Senator Ray asked why the mill levy was so high in the North Slope Borough, to which Mr. Snow explained the North Slope Borough came into existence legally on July 1, 1972, at which time they were legally allowed to impose a property tax. The borough operated on borrowed money while preparing assessment rolls. To pay expenses of the first and second fiscal year, the borough set a mill levy of 6.6 for a yearly budget of \$5 million. The oil companies went to court and the court issued a temporary injunction against collecting taxes on oil and gas until the case was settled. In order to raise funds to meet the borough's budget and to conduct litigation against the oil companies, the mill levy was raised to 24.9. Mr. Hobson added it was the intention of the borough to raise exactly the same amount of money from the \$197 million tax base as on the \$750 million of assessed valuation. Mr. Hobson said he wanted to have municipalities maintain their tax with no limitations and he did not like exemptions; in fact, he thought it unconstitutional to create exemptions.

Senator Groh asked for opinions on the House Finance Committee Substitute for HB 1 and SB 1. Mr. Conradus noted the committee substitute gives license to limit to \$1,000 per capita. His first question was if the purchasing power of \$1 is the same in Juneau or Anchorage as on the North Slope. Secondly, is the state going to conduct an annual census; if so, it would pay to fly people up from Seattle for the census.

The committee discussed ad valorem taxes in other states. Mr. Conradus said the mill rates in California go as high as 21 on 25% of the market value. He added that, even with the proposed legislation, the Alaska tax burden is significantly below what prevails in California.

Senator Groh thanked Mr. Conradus for his testimony and asked Vernon L. Snow, Attorney, North Slope Borough, for his opinion.

Mr. Snow said the proposed legislation was the result of secret conferences with the oil industry and reverse a long-standing American tradition by taking control from local government. Mr. Snow noted the same exemptions occur in SB 1 and SB 4, and both bills must pass or the oil industry will be free on exemptions. The state, as well as local government, will be down the drain.

Mr. Snow asked why the oil industry should be exempted on \$4.8 billion in assets, while a homeowner in Anchorage is under a 23 mill levy. 98% of the tax base in the North Slope Borough and 60% of the tax base in the Kenai Peninsula Borough will be wiped out under the bill authorizing the state to take 20 mills and the borough receiving 7 mills. Replying to a question on the

\$4.8 billion in oil assets, Mr. Snow said this was the value of the oil in the ground today and the income it could produce.

Senator Ray left the meeting at 3:15 P.M.

Turning to SB 1, Mr. Snow referred to the exemptions and asked what the words "intended to be used" and "intended" meant. Who will make the judgment on whether material is intended to be used on the pipeline, and Mr. Snow gave examples of problem areas. Senator Groh said the committee was aware that this language must be clarified, and asked if anyone from the administration could explain paragraphs 7 and 8. Mr. Eppembach said the intent would be to exempt the pipeline itself and nothing else.

Mr. Snow then asked if exploration and production offices in Anchorage would be exempt. He also questioned the State Review Board appointed by the Governor. Some of the problems have been changed by the House Finance Committee Substitute, and Mr. Snow thought their changes basically good. Referring to page 9, Remedy, Mr. Snow thought it might be possible for companies to take the oil and let the lease go, and the state should not look to leases alone.

Concluding, Mr. Snow said the state could levy a tax on top of the borough's tax, but local government should be allowed to levy taxes.

Mr. Delahy and Mr. Heier stated they would prefer to return to another meeting on SB 1 if not required to testify at this meeting, and Sen. Groh said they would be invited to speak at the next meeting on this legislation.

The meeting recessed at 3:25 P.M. and the witnesses left the meeting.

AFTER RECESS
3:30 P.M.

SB 7 Sen. Groh noted SB 7 had been referred to the finance committee and asked if the committee wished to hold hearings on this bill. Sen. Lewis said he had heard testimony from the oil companies that they didn't care if this bill passed or not, and Sen. Butrovich agreed it was not too important at this time. The committee decided to take up SB 7 at their next meeting, October 26, 10:30 A.M.

The meeting adjourned at 3:35 P.M.

I have been asked by the Borough government of the North Slope Borough to appear before you and testify to the economic effects of various bills presently before this Legislature.

I will confine my testimony to two bills. One bill amends AS 43 by adding a new Chapter Number 56, OIL AND GAS EXPLORATION, PRODUCTION AND PIPELINE TRANSPORTATION PROPERTY TAXES, and is entitled:

"An Act Providing For Taxes On Property Used In The Exploration For, Production Of, Or Pipeline Transportation Of Gas Or Refined Oil; And Providing For An Effective Date."

The other bill amends AS 43.55.010, GROSS PRODUCTION TAX, and is entitled:

"An Act Relating To the Oil and Gas Property's Production Tax; And Providing For An Effective Date."

Before discussing the specific impacts of the proposed legislation on the North Slope Borough and other boroughs within whose boundaries hydrocarbon exploration, production, and transportation occurs, I would like to briefly comment on the rationale for and the principles of taxation in general.

In democratic governments, be they local, state, or national, the people voluntarily tax themselves in order to obtain benefits which cannot be acquired by each individual member of society acting alone, or to obtain those benefits at lower costs. The best example of such a tax is that which is contributed by everybody for the purpose of the common national defense.

POLICY OBJECTIVES OF TAXATION

Taxes are levied, and the real resources acquired by taxation are disbursed, with three objectives in mind:

1. Based upon the will of the people as expressed through their representatives, the total resources available to a society are divided into that segment which is used by private persons for private use and another segment which is used for the common welfare of all citizens. The taxing and expenditure policies allocate the society's total resources between the private and the public sectors.
2. Because the free-enterprise system is not without imperfections, and because such imperfections may threaten the welfare of the society, resources are collected through taxation and redistributed through the budgetary process in order to assure a more equitable distribution of both income and wealth.
3. Because the free-enterprise system does not guarantee economic stability of the system, does not guarantee employment to everyone who is willing and able to work, and does not guarantee the stability of prices, the collection of resources by taxation and their distribution through the budgetary process is designed to stabilize the level of economic activity and assure orderly economic growth.

PRINCIPLES OF TAXATION

Through time, several principles of taxation have evolved. The first principle is that a tax should be equitable. Equitability of taxation requires that a tax be universal and be uniform.

Universality requires that all income or wealth in the same class, or of the same type, should be treated in like manner. Thus, the universality principle requires, for instance, that all property, whether it produces income now or in the future, be taxed - or not be taxed.

The other equity consideration is one of uniformity. All taxable income or wealth in the same class, or of generally the same characteristics, must be taxed at the same tax rate, must bear the same effective tax burden.

The next principle of taxation is that of efficiency. Among alternative taxes which may be levied, that tax which requires the least resources in administration and collection is preferred.

Finally, a "good" tax must be neutral in its effect upon the allocation of economic resources. A preferred tax is one which does not disturb the market forces which allocate goods and services in a free-enterprise system.

GENERAL IMPLICATIONS OF PROPOSED LEGISLATION AMENDING AS 43 AND AS 43.55.010

The proposed amendment to AS 43, Sec. 43.56.010 (a) imposes an annual tax of 20 mills on the full and true value of taxable property.

Sec. 43.56.010 (b) permits political subdivisions to levy a tax not to exceed 7 mills of the full and true value of the taxable property and credits up to 7 mills of the local political subdivisions' tax levy against the 20 mill levy imposed by the State of Alaska.

If this legislation is adopted, the Legislature has, in effect, created a very special class of property. The legislation has the effect that all properties employed in the exploration, production, and pipeline transportation of oil and gas must annually pay to the State and the local governments 20 mills of the full and true value of such properties. I do not know why a tax rate of 20 mills was chosen.

Other classes of property taxed within the State by political subdivisions bear different effective tax burdens. The result of such a fixed tax rate is discriminatory. It imposes on the exploration, production and pipeline transportation properties an effective tax burden which is either higher or lower than that borne by other, like properties located within the boundaries of the various political subdivisions. The proposed tax rate of 20 mills may not only be discriminatory with respect to the effective tax burdens borne by other classes of property but, it may be discriminatory in the context of the income tax.

Any property tax levied on an asset which yields an income stream can be translated into an income tax. For example, an asset that yields a perpetual annual income of \$50.00 with a market rate of interest (discount rate) of ten percent, has a market value of \$500.00. A two-percent (20 mills) tax on the value of the asset results in an annual tax liability by the owner of the asset of \$10.00. We can, alternatively, then express this two-percent property tax on the value of the asset as a percentage of the asset's annual income. Thus, the property tax of two percent can be translated into an income tax of 20 percent ($\$10.00/\$50.00$). Applying a tax rate different from the 20 mills proposed for oil and gas properties to other income producing property results in a different rate of "income taxation." Suppose that a property which has a market value of \$500.00 and yields \$50.00 in annual income is subject to a 30-mill property tax levy. The payment of the property tax of \$15.00 implies an "income tax" of 30 percent ($\$15.00/\$50.00$), fully 50-percent greater than that imposed on the property which pays only 20 mills. In order for the

uniformity principle to hold, all classes of wealth which yield an annual income stream and all income from wealth must be subject to the same "income tax."

Sec. 43.56.010 (b) limits the tax rate which can be levied by the political subdivisions to a maximum of 7 mills. I see two problems resulting from such limitation. First, in those jurisdictions where the present effective tax rate on exploration, production, and pipeline transportation properties is less than 7 mills of true and full market value, the full 7 mills will automatically be levied on those oil and gas properties which remain taxable. Not levying the full 7 mills means not accepting a "free good" and transferring locally generated tax funds to the state treasury. Thus, in those jurisdictions where the general tax rate is less than 7 mills, the taxable oil and gas properties would bear a disproportionately larger tax burden. In other jurisdictions with larger general tax rates, the prohibition against levying a local tax in excess of 7 mills against a greatly reduced oil and gas property tax base either requires a reduction of local services or increases the tax burden which must be borne by other, non-oil and gas-related properties within those jurisdictions. Again, the uniformity principle of taxation is violated.

Sec. 43.56.020 violates the uniformity principle of taxation. It exempts certain oil and gas-related properties from taxation and has the effect of creating a "most favored" class of property.

Basic equity considerations require that when oil and gas leases, whether producing or not, are exempt from the property taxation, other leases and leasehold rights, whether producing current income or not, be similarly exempt from taxation. Yet, political subdivisions do presently and will continue to tax leasehold rights of individuals who have recreational properties on State and Federal land, for instance, and will continue to tax other resource leasehold rights.

If property intended to be used primarily for pipeline transportation of gas or unrefined oil, or for the production of gas or unrefined oil to be transported by that pipeline is exempt from taxation, then other properties used for the production and transportation of other commodities must likewise be exempt from the property tax.

If property used in connection with the erection, construction, installation, operation or maintenance of facilities for pipeline transportation of gas or unrefined oil, or facilities for production of gas, or unrefined oil to be transported by that pipeline, will be exempted from taxation, other properties intended for the purpose of constructing, operating, or maintaining other classes of property should have the benefit of equal tax treatment.

The effect of the exemption of one class of property to the exclusion of all other properties is twofold. First, a reduction in the tax liability borne by an asset will be capitalized by the owner and results in a once-and-for-all windfall gain to him. If we assume a tax base consisting of two pieces of property, each of which produces an annual revenue before property taxes of \$60.00, and assume a property tax of

\$10.00 per year, net revenue of \$50.00 is earned by each property. If we further assume a market rate of interest (discount) of ten percent, each property would have a market value of \$500.00 ($\$50.00/\$0.10$). Exempting one of the two pieces of property from the tax increases its annual net revenue to \$60.00 and, therefore, increases the (tax-exempt) capital value of the asset to \$600.00 ($\$60.00/\$0.10$), a 20-percent gain.

Secondly, if the community still requires tax revenues of \$20.00 per year and now collects it from the non-exempt asset, its annual net revenue will decrease to \$40.00 and the capital value will fall by 20 percent to \$400.00 ($\$40.00/\$0.10$). The result of such tax discrimination is that the tax-exempt property now has a 50-percent greater capital value (\$600.00) than the taxed property (\$400.00).

I would hope that this Legislature is aware that the ultimate effect of both Sec. 43.56.010 (a) and (b) and Sec. 43.56.020 (1) to (8) is a windfall gain accruing to one industry at the expense of all other properties and property owners in the State of Alaska and all other industries not equally favored. It results in a highly discriminatory tax structure and leads to a bad allocation of economic resources.

The history of the property tax is replete with evidence that one exemption begets another. Other property owners will rightfully demand equal treatment and the process of the erosion of the tax base begins.

The proposed legislation is very vague about the ownership requirements of exempt properties employed in the exploration, production, and transportation properties. It is not clear whether the tax-exempted

properties are only those owned by the various oil and gas companies and the Alyeska Pipeline Service Company, or whether the exemption also applies to private contractors furnishing goods and services to companies engaged in the exploration, production, and pipeline transportation of gas. If the latter is the case, the ramifications, the economic impact of the legislation are far greater. The question which remains to be answered is "where, and based upon what principles, do the exemptions begin, and where do they end?"

I have stated earlier that exempting certain oil and gas properties from taxation, given certain expenditure requirements on the part of the political subdivisions, will result in increased tax burden borne by the remaining taxable property. This results not only in windfall capital gains to those who are exempt from taxation and windfall capital losses to those who are taxed, but the result is also one of economic inefficiencies.

The property tax, as any other tax, is a cost of doing business. A relatively or absolutely higher tax burden imposed upon the producers of some goods or services translates into relatively higher prices of the taxed goods. The result is that the consumer will reduce his consumption of those goods and services whose price has risen (relatively or absolutely) due to the property tax imposed and his real standard of living is automatically reduced. Conversely, the product produced by tax exempt properties will be priced relatively lower (because of the absence of the property tax) and consumption increases. While increased consumption of a good or service is normally equated with an increased standard of living

(increased well-being), it is not clear that the decrease in the well-being caused by the reduction in the consumption of the taxed good is compensated by the increase in the well-being caused by an increased consumption of the non-taxed good, e.g., petroleum products or natural gas.

Another aspect of exempting oil and gas properties from taxation is the effect the property tax, or its absence, has on the rate of production of oil and gas. If the property tax on oil and gas leases, and oil and gas recoverable from a reservoir is viewed as a tax on inventory, removing such a tax, in fact, provides an incentive not to produce. Imposing a cost on holding an inventory of recoverable oil and gas reserves in place, on the other hand (assuming a market can be found and market prices are not adversely affected by and increase in the supply), stimulates production.

The energy crisis which is upon us and developments in the Middle East (both the price increases demanded by the oil exporting countries and the threat of a total refusal to sell) require that Alaska oil be brought to market as soon as possible. Any incentive to not produce as soon as technically possible and economically practicable, or in the quantities possible, counters our national economic and political objectives.

I have indicated, above, that exempting one class of property from taxation requires that the revenue needs of the political subdivisions must be met by other, still taxable classes of property. Let me assume, however, that oil and gas properties bear their equal, fair share of the total property tax burden borne by all classes of property in the State of Alaska. The question that needs to be answered is: "Who pays the tax?" The final incidence of the property tax can be separated into a tax and

a price component. Any taxes paid by owners of property used in the exploration, production, and transportation of oil and gas, including taxes on leaseholds, are considered a business expense for the purpose of reporting federal income tax liabilities and are deductible. An increase in business expenses of \$1.00 (due to the property tax) implies a real increase in cost to the corporation of only \$0.52, given a 48-percent corporate income tax. Thus, approximately one-half of any oil and gas property tax revenues raised in the State of Alaska are effectively borne by all taxpayers, in fact, all citizens of the fifty states of the Union.

Since property taxes paid increase the cost of oil products and natural gas produced for sale in the market place, the market price of petroleum products and natural gas must, in the long-run, rise to cover all costs of production, including the property taxes. While it is impossible to determine precisely who bears the burden of the increase of the prices of petroleum products and natural gas without knowing what the consumers' response to price increases is, it is clear that Alaska consumers will bear but a very small fraction of the increased cost. An overwhelming percentage of the petroleum and the natural gas extracted from Alaska properties will be exported to the lower 48 states. The consumers there will ultimately end up providing the revenues which are vital to the political subdivisions as well as the State of Alaska as a whole.

THE IMPACT ON THE NORTH SLOPE BOROUGH

I should now like to turn to the specific impact of the proposed legislation on the North Slope Borough. I have reviewed the Borough's budget documents for the fiscal years 1972-1973 and 1973-1974.

The North Slope Borough relies very heavily on the property tax as its primary source of revenues. As Table 1 shows, the property tax represented 72.5 percent of all revenues collected during the fiscal year 1972-1973 and represented 78.4 percent of all revenues projected to be collected during the fiscal year 1973-1974. As Table 2 indicates, the property tax in the United States, as a whole, contributed only 39.8 percent of total local government revenue. In 1966-1967, the last year for which a census of government is available, property tax revenues constituted 33.2 percent of total local Alaska government (Table 3).

Equally startling is the observation that intergovernmental transfers represented only 10.8 percent and 8.3 percent of total revenues received by the North Slope Borough in FY 1973 and projected for FY 1974, respectively. This compares with a U.S. average receipt of intergovernmental revenues by local governments of 37.5 percent in 1970-1971. In 1966-1967, intergovernmental transfers provided 33.2 percent of total revenues received by all Alaska local governments (Table 3).

The above figures point out two facts. First, the North Slope Borough relies heavily upon the property tax as a source of funds to meet both operating expenditures and capital programs. Secondly, the admittedly brief history does not warrant any reliance on intergovernmental transfers as a significant source of borough revenues.

TABLE 1

NORTH SLOPE BOROUGH REVENUES
BY SOURCE, BY 1973 and FY 1974
(dollars)

Source of Revenue	FY 1973		FY 1974	
	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue ¹
Property Taxes	\$1,564,200	72.5	\$4,199,300	78.4
Sales Taxes	303,000	14.1	707,000	13.2
Licenses & Permits	1,000	0.1	1,000	0.02
Fines & Forfeitures	---	---	---	---
Intergovernmental Revenue	233,400	10.8	446,300	8.3
Charge for Services	5,000	0.2	5,000	0.1
Miscellaneous	50,000	2.3	---	---
	<u>\$2,156,600</u>	<u>100.0</u>	<u>\$5,358,600</u>	<u>100.2</u>

Source: North Slope Borough, Budget Document for FY 1973 and FY 1974.

¹Does not add to 100 due to rounding.

TABLE 2

LOCAL GOVERNMENT FINANCES FOR THE UNITED STATES
1970 - 1971⁽¹⁾

<u>REVENUE</u>		<u>PERCENT</u>
INTERGOVERNMENTAL		37.5
From State Government	33.8	
From Federal Government	3.7	
FROM LOCAL SOURCES		62.5
Taxes	47.1	
Property	39.8	
Other	7.3	
Charges and Miscellaneous	15.4	
TOTAL		100.0
<u>EXPENDITURE</u>		<u>PERCENT</u>
EDUCATION		46.3
Local Schools	43.8	
Higher Education	2.5	
FUNCTIONS OTHER THAN EDUCATION		53.7
Public Welfare	8.2	
Highways	6.1	
Health and Hospitals	6.2	
Police	4.7	
Interest on Debt	3.5	
Sewerage	2.8	
Fire Protection	2.5	
Parks and Recreation	2.2	
General Control	2.3	
Other Sanitation	1.5	
Financial Administration	1.2	
Other ⁽²⁾	12.4	
TOTAL		100.0

¹U. S. Bureau of the Census, Local Government Finances in Selected Metropolitan Areas and Large Counties: 1970-1971, Series GF71, No. 6, U. S. Government Printing Office, Washington, D.C., 1972.

²Airports, Correction, Public Buildings, Housing and Urban Renewal, Libraries, Natural Resources, Parking, Water Transport and Terminals.

TABLE 3

GOVERNMENTAL FINANCES

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Table 18. Finances of Local Governments and the State in Detail, by Level of Government:
1966-67

(Thousands of dollars)

Item	Total	State	Local
REVENUE	1,317,490	259,481	83,440
GENERAL REVENUE ONLY	1,290,273	243,250	72,455
INTERGOVERNMENTAL REVENUE	150,332	147,326	28,437
FROM FEDERAL GOVERNMENT	150,332	147,103	3,229
FROM STATE GOVERNMENT	(1)	-	25,209
FROM LOCAL GOVERNMENTS	(1)	223	(1)
REVENUE FROM OWN SOURCES	167,158	112,155	55,003
GENERAL REVENUE FROM OWN SOURCES	139,942	95,924	44,015
TAXES	65,843	58,169	27,674
PROPERTY	21,135	-	21,135
SALES AND GROSS RECEIPTS	21,346	16,198	5,148
GENERAL	5,078	-	5,078
SELECTIVE	16,269	16,198	70
MOTOR FUEL	7,077	7,077	-
ALCOHOLIC BEVERAGES	3,405	3,405	-
TOBACCO PRODUCTS	3,655	3,655	-
PUBLIC UTILITIES	317	247	70
OTHER	1,803	1,803	-
MOTOR VEHICLE LICENSES	4,305	4,306	-
INDIVIDUAL INCOME	22,692	22,692	-
OTHER AND UNALLOCABLE	16,353	14,973	1,380
CHARGES AND MISCELLANEOUS	54,099	37,755	16,343
CURRENT CHARGES	26,116	15,575	10,543
EDUCATION	5,699	3,814	1,885
SCHOOL LUNCH SALES (GROSS)	1,433	-	1,433
OTHER	4,267	3,814	453
HOSPITALS	-	-	-
SEWERAGE	4	-	4
SANITATION OTHER THAN SEWERAGE	735	-	735
LOCAL PARKS AND RECREATION	32	-	32
NATURAL RESOURCES	497	497	-
HOUSING AND URBAN RENEWAL	553	553	-
AIRPORTS	3,762	3,688	74
WATER TRANSPORT AND TERMINALS	807	-	807
PARKING FACILITIES	247	-	247
OTHER AND UNALLOCABLE	13,776	7,017	6,759
SPECIAL ASSESSMENTS	506	-	506
SALE OF PROPERTY	1,553	1,418	135
INTEREST EARNINGS	7,456	6,171	1,285
OTHER AND UNALLOCABLE	18,455	14,591	3,864
UTILITY REVENUE	10,870	-	10,870
WATER SUPPLY	2,525	-	2,525
ELECTRIC POWER	8,284	-	8,284
TRANSIT	-	-	-
GAS SUPPLY	-	-	-
LIQUOR STORES REVENUE	-	-	-
INSURANCE TRUST REVENUE	16,745	16,231	115
UNEMPLOYMENT COMPENSATION	11,079	11,079	-
EMPLOYEE RETIREMENT	5,224	5,109	115
OTHER	43	43	-

Source: U.S. Bureau of the Census, Census of Government, 1967, Vol. 7: State Reports No. 2, Alaska, U. S. Government Printing Office, Washington, D.C., 1967, p. 23.

The provision of vital social services such as local education, sewage treatment facilities, adequate and safe water supplies, and the creation of social capital is directly related to the Borough's ability to raise revenues through the taxation of properties within its boundaries. Any capacity to raise funds by the sale of general obligation bonds secured by the credit of the Borough is constrained by the local tax base. If this Legislature removes taxable properties from the jurisdiction of the boroughs, or eliminates the tax base via exemptions, it in effect stops any local development which is underway or has been planned for future years.

Sec. 43.56.010 (b) "permits" the North Slope Borough to levy a property tax not to exceed 7 mills on the full and true value of taxable property. But, the effect of Sec. 43.56.020 is to remove from the local jurisdiction the tax base to which a 7-mill levy may be applied; 0.07 percent (7 mills) times 0 equals 0. Permitting local jurisdictions to levy seven percent on a nonexistent tax base is a cruel hoax indeed.

The Advisory Commission on Intergovernmental Relations, in 1963, stated:

One factor that should be kept in view in determining the future position of the property tax is its close alignment with the outlook for local self-government. It is the only major tax adaptable to local use generally, regardless of the size and nature of the local jurisdiction. Aside from being a good revenue producer, it has the dependability and adjustability that local government needs. The required revenue yield can be obtained from year to year with a convenient range of flexibility and a satisfactory degree of precision, and the collectibility of both classes of property taxes is assured by an enforceable lien on the property.¹

¹ Advisory Commission on Intergovernmental Relations, The Role of the States in Strengthening the Property Tax, Vol. 1, U.S. Government Printing Office, Washington, D.C., June 1963, pp. 68, 69 (underlining supplied).

Removing this (oil and gas property) segment of the tax base from taxation and, perhaps next year, another segment, will ultimately lead to the total erosion of the tax base of the Alaska Boroughs and will result in the complete dependence of local government on the transfer of funds from the State or the Federal governments.

Reform of the property tax so that it may become a more powerful source of local revenue, will require the erosion of the base of the property tax be halted and even reversed. This also is mainly a task for state governments. Some of the erosion is so long-established and so widely spread so as to be "impervious to question" ... But local governments can fairly ask that the exemptions not be broadened ... Erosion by state legislation to provide hidden subsidies to private persons or firms is highly questionable.²

Reducing the tax base of the North Slope Borough to a fraction of its full-market value, has the effect of making its citizens wards of the State. Should that come to pass, one can only hope that the sovereign is generous and that intergovernmental transfers from the state government to the North Slope Borough government will equal the loss of present and expected future property tax revenue.

Rational and successful planning requires that the planners are assured of the resources necessary to implement their plans. The annual dependence upon the State appropriations process introduces elements of risk and uncertainty into the planning processes and will make effective local planning impossible.

Another aspect of the proposed legislation is its impact on local employment. If, as Sec. 43.56.060 proposed, the responsibility of

²J. A. Maxwell, Financing State and Local Governments, The Brookings Institution, Washington, D.C., January 1965, pp. 149, 150.

assessing oil and gas properties is transferred to the State Department of Revenue, the need for local assessment ceases. Since oil and gas properties represent an overwhelming fraction of the North Slope Borough's tax base, it follows that native employment in the Borough's Assessment Office will decrease significantly. The Borough has, over the past two years, invested heavily in native skills required for professional tax appraisal and assessment. These skills will be lost to the Borough. The staff of the Assessor's Office will either leave the area and seek employment outside of the Borough, or seek alternative, non-related employment in the Borough, or join the ranks of the unemployed. Either of the three alternatives robs the Borough of vital human skills.

Should the result of Sec. 43.56.060 be the creation of a parallel state assessment bureaucracy without reducing the employment in the local Assessor's Offices, the cost of collecting the property tax increases and efficiency criterion of taxation is violated.

ON CENTRAL ASSESSMENT

The most frequently voiced criticism of the property tax is that it lacks universality and uniformity, both within and between taxing jurisdictions as well as within and between classes of property.

The most frequent remedy called for (other than outright abolition of the property tax) is the elimination of inequitable assessment, competitive underassessment, and tax exemptions.

The assessment of Alaskan oil and gas-released properties based on statewide standards will be a step in the right direction. Joint state and local assessments by mutually agreed to standards is another alternative partial solution. But, if the state (or state and local) assessment standards applied to the oil and gas industry differ from those applied to other industries or other property, the result will be discriminatory.

If a fixed tax rate is employed in determining the oil and gas industries' tax liability, and that rate differs from those imposed in the various jurisdictions where the properties are located, differential effective tax burdens are imposed.

In order to mitigate any inequality of the treatment of properties in the same class, I propose that oil and gas properties be assessed by the state or joint state and local assessors in the same manner as other properties. Once the tax base has been determined, each jurisdiction may levy that tax rate prevailing within its jurisdiction. Thus, at least one of the variables which causes differential tax liabilities, the determination of the tax base, becomes a known constant.

SUMMARY

The proposed legislation amending AS 43 by adding Chapter 56 and amending AS 43.44.010 has a number of serious short and long-run implications.

The immediate effect is that the property tax bases of a number of political subdivisions of the State of Alaska will virtually disappear at the stroke of midnight on December 31, 1973. The magnitude of the

problems created for the local jurisdictions by the disappearance of the tax base can not yet be fully assessed. But, it is clear that existing plans for the operation of local governments and long-run capital improvements will have to be drastically altered.

For the long-run, this legislation represents the first step into the exemption inferno which has, for many decades, plagued most other states of the Union.

Discriminatorily exempting certain oil and gas properties from property taxation will raise the tax burden which must be borne by the rest of the property owners, will produce the justifiable demand for equal treatment by other taxpayers, and will result in the erosion of the traditional tax base of local governments and cause their complete financial dependence upon the state.

Statutorily fixing property tax rates at the state level removes one of the virtues of the property tax, its responsiveness to local needs and local conditions. The administration of the tax by the State Department of Revenue will create another level of bureaucracy, may duplicate local efforts, and may increase the cost of tax collection. Alternatively, if the state were to assume all the functions presently performed by the local assessors, skilled personnel may be forced to relocate, or find themselves in the ranks of the unemployed.

Exempting certain Alaskan oil and gas properties from property taxation may reduce the incentive to produce oil from known fields and reduce the state's total revenue from all taxes. Alaska will not benefit

from such tax exemptions. The result is that either market prices for petroleum products and natural gas paid by consumers in the lower 48 states are slightly reduced (the property tax constitutes but a very small fraction of the total cost of producing products for sale in the market), or that corporate profits increase.

SENATE FINANCE COMMITTEE

October 26, 1973

10:35 A.M.

PRESENT: All members. Wilson L. Condon, Assistant Attorney General.
Joe LaRocca, reporter.

SB 7 Senator Groh called the meeting to order for the purpose of hearing testimony on SENATE BILL NO. 7 (Relating to common purchasers of oil; and providing for an effective date). The requirement as written in the right-of-way leasing provision had some potential difficulties, explained Senator Groh, and Mr. Condon from the Attorney General's office was present to testify. Mr. Levy and others in the industry have testified that they did not particularly care about this bill, but have clearly said that leaving the provision in the right-of-way leasing act would be wrong.

Mr. Condon stated the common purchaser bill is an attempt to duplicate what the Attorney General's staff believed exists in other state and federal law with respect to common purchasers; providing that people who are buying oil can buy without discrimination from those offering oil for sale. Mr. Condon said it was not likely that the state would need this provision for a number of years. He explained discrimination in purchases must be found before the requirement of common purchaser is invoked, and the commissioner is allowed flexibility in holding hearings. Because it has that discretionary element in it, some might view the legislation as being weak; however, Mr. Condon said the Attorney General's office did not think so.

Senator Ray asked who would make the determination as to whether Alyeska would be a common purchaser, to which Mr. Condon replied Alyeska will never be a common purchaser, as a practical matter. The companies who do buy oil, Union, Atlantic Richfield, Standard Oil of California, would be the companies likely to end up as common purchasers. Senator Ray noted they will be declared common carriers, under federal jurisdiction, and Mr. Condon agreed. The state will require them to be common carriers under the right-of-way leasing act.

Senator Ray asked if the act could preclude a refinery within the state from buying oil, to which Mr. Condon said the state could take its own royalty share in kind and sell to whomever it pleases. The legislature may wish to consider placing restrictions on the sale of gas or crude oil to make sure there is an adequate supply for the state, added Mr. Condon, but that is a separate problem.

Senator Sackett asked if the present law on the books took care of the problem, to which Mr. Condon replied it did not. Sen. Sackett asked if this bill was part of the litigation. Mr. Condon said the requirement that a pipeline buy all oil offered to it is in litigation. The state's position is that the definition is so vague that it does not impose a condition on the pipeline, while the oil industry contends that this obligation has never been imposed on any pipeline before.

Continuing discussion, Sen. Ray stated the penalty clause was too low. Sen. Lewis said Mr. Levy reported this didn't really amount to anything, as he assumed the oil companies here would abide by the law.

Replying to a question from Sen. Groh, Mr. Condon said he couldn't conceive of a situation where there would be an over-supply of oil. It was not likely that the commissioner would ever force anyone to be a common purchaser, especially if the oil shortage continued. The state could consider a pro-rationing act if the common purchaser act is necessary, but this does not have to be done now, added Mr. Condon. In 1970 the state was considering a common purchaser act, and Standard Oil complained since they did not foresee the oil shortage. If needed later, the state should have the law on the books, explained Mr. Condon, and if never used it would be a good insurance policy against the future.

Sen. Palmer moved SB 7 be passed from committee with a "do pass" recommendation.

Sen. Butrovich stated the word "commissioner" should be changed to "commission" throughout the bill. Mr. Condon explained the Dept. of Natural Resources and Division of Oil & Gas deal with this aspect; whereas the Pipeline Commission is concerned with the transportation of oil. Sen. Butrovich argued this was too much responsibility to be in the hands of one person, the commissioner of natural resources.

Sen. Poland moved the word "may" be changed to "shall" on page 1, line 14. The committee discussed, and voted in favor of the motion.

Sen. Ray moved the penalty clause, page 3, line 8, be changed to not less than \$1,000 nor more than \$10,000. Motion carried.

Sen. Butrovich moved the word "commissioner" appearing throughout the bill be changed to the word "commission" and Sen. Poland noted the definition on page 3, line 11, should be changed accordingly. Motion carried.

Sen. Palmer's motion to move the bill from committee was changed to a recommendation of "do pass with attached amendments" and the motion carried.

The meeting adjourned at 11:20 A.M.

NOTE: In drafting the amendments, Mr. Condon suggested a new section (a) be inserted to correctly reflect the committee's thinking. See page 27 for the explanation and the amendment.



JUNEAU, ALASKA

Alaska State Legislature

Senate

October 26, 1973

MEMO: Senate Finance Committee

In Senator Poland's amendment, the committee agreed to change the word 'may' to 'shall' (page 1, line 14). Apparently, the intent of the committee was to be certain that hearings would be held if a complaint was filed; however, if only the one word was changed, it would not give the commission the power to initiate a hearing on its own discretion. Hence, in an effort to see that the commission be required to hold a hearing upon receipt of a complaint and that the commission is able to initiate a hearing, this new wording is proposed:

(a) Upon the complaint of a person having an interest in the production of oil from a field, the commission shall hold a hearing or hearings, or, at the commission's own discretion, the commission may hold a hearing or hearings, to determine if there has been unjust and unreasonable discrimination in purchases of oil offered for purchase within the state.

SENATE FINANCE COMMITTEE

October 29, 1973

10:30 A.M.

PRESENT: All members with the exception of Senators Palmer and Lewis.
Wilson L. Condon, Assistant Attorney General; members of the press.

SB 5 Senator Groh called the meeting to order for the purpose of discussing SENATE BILL NO. 5 (levying an oil and gas regulation and conservation tax; and providing for an effective date).

SB 5 was considered by the Resources Committee and the majority recommended "do not pass." Sen. Sackett explained that the Resources Committee felt the tax should be included in the severance tax by adding 1/8 of a cent to the severance tax, and Sen. Butrovich added he felt funds should be kept within the general fund rather than be "ear-marked" funds. He said it was important for the finance committee to keep tight control of all revenue, as the state appropriates from the general fund.

Sen. Lewis arrived at the meeting at 10:35 A.M.

Mr. Condon stated the legislation was prepared for two reasons: 1. Special costs will be imposed on the state, so a special tax should be imposed; and, 2. If included with the severance tax, revenue will not be received when the percentage production tax takes over. Assuming the legislature enacts a severance tax along the lines that the administration has recommended, then at some point the percentage production tax replaces the straight cents per barrel and this special tax would not be received, explained Mr. Condon.

Sen. Ray asked how much money was involved, to which Sen. Groh said \$75,000 prior to full production on the North Slope and \$700,000 per year after the North Slope is in full production. Sen. Ray said the state would be taking a chance by putting this in the severance tax, and should adopt the special tax as long as the oil industry agreed to it.

Sen. Ray moved the bill be passed from the finance committee with individual recommendations, and Sen. Lewis seconded the motion. Motion carried.

The meeting recessed at 10:45 A.M.

AFTER RECESS
10:30 A. M.

PRESENT: All members with the exception of Senator Palmer. John E. Havelock, Attorney General; members of the press.

SB 8 Senator Groh called the meeting to order for the purpose of discussing SENATE BILL NO. 8 (Relating to the lease or sale of state land for pipeline purposes; and providing for an effective date).

Sen. Sackett explained the Resources Committee's desire was to lease the land rather than sell it. The purchaser would have complete control over a specific location; for example, the terminal at Valdez. Sen. Butrovich said he objected to the bill because the state puts a minimum figure on other state land sales, and he did not think the oil companies should be given special consideration. The committee discussed the possibility of speculation and the Arabian interests buying land in Alaska.

Sen. Groh asked Mr. Havelock his opinion on a sale at fair market value or \$10 million, whichever is greater. Mr. Havelock stated there were two issues, as to whether the state would go competitive or whether the state goes lease or sale. On the competitive issue, Mr. Havelock said it didn't make sense to go competitively on the end of the line while the right-of-way is on a non-competitive basis. In the matter of sale or lease, the state should give recognition to the interests of restoring the ground to what it was previously, and switching to a lease would present the restoration problem. Mr. Havelock said fair market value would probably leave \$5 million on the table, as he felt a land appraisal would be well below \$10 million. Replying to a question from Sen. Sackett, Mr. Havelock said no one has appraised the land, not the state, and not the oil companies.

The problem is further complicated by the nature of the land ownership and what the industry would do. The state does not own the land at the present time, explained Mr. Havelock, as it is under Forest Service jurisdiction and the state has applied to have the land transferred under a Forest Service use permit. This could end in litigation, and Mr. Havelock said the purpose of the bill is to avoid delay. Replying to a question from Sen. Ray, Mr. Havelock said the procedure is equivalent to eminent domain, with a negotiated settlement before a court case.

Sen. Groh noted the lease plan of 55 years plus an option for an additional 55 years would put the payments on the installment

plan rather than receiving the money now. The committee discussed the pipeline corridor, which Mr. Havelock said varied from 100 feet up, or whatever width is necessary for the purpose of the line. Sen. Sackett noted the state could sell the pipeline corridor if money was needed now.

Sen. Butrovich said he preferred the lease for control, as lease stipulations could be written covering questions before the state. Discussion continued on sale versus lease.

The meeting adjourned at 11:20 A.M., with another meeting on SB 8 scheduled for October 30, 9:30 A.M.

SENATE FINANCE COMMITTEE
October 30, 1973
9:30 A. M.

PRESENT: All members with the exception of Senator Lewis. Members of the press.

SB 8 Sen. Groh called the meeting to order for the purpose of discussing SENATE BILL NO. 8 (An Act relating to the lease or sale of state land for pipeline purposes).

Sen. Ray moved to pass SB 8 from committee with individual recommendations. Sen. Groh asked if the committee wished to discuss the bill further or offer amendments.

Sen. Ray asked if it was possible to insert a clause reverting the land to the state if not used expressly for oil purposes, to which Sen. Groh said this would be possible under a lease provision. Sen. Ray noted the state would not realize \$10 million through a sale if the land were leased; however, he was interested in exploring the possibility of changing the bill from a sale to a lease provision.

Calling for the question on Sen. Ray's motion, the committee voted to move SB 8 from committee with individual recommendations.

SB 4 Sen. Groh brought SENATE BILL NO. 4 (An Act relating to the oil and gas properties production tax) before the committee for discussion. He asked what changes were made by the Resources Committee and Sen. Sackett replied the Resources Committee had passed a committee substitute, and copies were requested for the Finance Committee.

Recess: The meeting recessed at 9:50 A.M., to resume at 1:30 P.M. for discussion on CS SB 4.

AFTER RECESS
1:30 P. M.

PRESENT: All members. Senator Terry Miller. Members of the press.

CSHB 7 Senator Groh called the meeting to order and brought COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 7 (An Act relating to common purchasers of oil) before the committee for discussion.

Three different versions of the bill have been offered: Governor's bill, CSHB 7, and the Senate Finance version, and an analysis was distributed to the committee members detailing the differences (see page 37 for analysis). Sen. Groh suggested inserting the Senate Finance amendments to the Governor's bill in the committee substitute version offered by the House and reporting the bill out with a "do pass" recommendation. Sen. Sackett so moved and asked unanimous consent. No objection, so ordered.

SB 4 SENATE BILL NO. 4 (An Act relating to the oil and gas properties production tax) was brought before the committee for consideration.

Sen. Sackett stated the Governor had submitted a committee substitute, after noting the original bill wording "total production" would result in a loss of about \$1 million per year. "Average daily production" was inserted in the Governor's committee substitute, page 1, line 8, to correct this.

The resources committee substitute left Sec. 2 (b) as stated in the 1972 legislation, rather than exempting taxes on "oil or gas in place" and "the value of intangible drilling and development expenses and exploration expenses." Sen. Groh said taxing oil or gas in place is in litigation, and the resources committee substitute would leave the question in doubt. Sen. Palmer noted the Governor's bill did away with the local government's jurisdiction to tax on this property, and the Kenai Peninsula taxed intangible development expenses. Almost half of their tax base would be wiped out by the Governor's bill.

Continuing through the bill, Sen. Sackett said the resources committee substitute had inserted the words "on each of" in lines 5 through 9 of the Governor's bill pertaining to production level brackets.

The final change appeared on page 4, line 5, where definitions appeared in the Governor's bill which no longer applied to the resources committee substitute.

The committee discussed the changes, especially the section to tax oil in place. Sen. Butrovich said he apparently made an error in voting on the resources committee substitute, as it was not his intention to tax oil in place. Sen. Ray noted the over-riding issue

was whether municipalities have the right to tax oil and gas in place; however, it denied the state the right to tax oil and gas in place. The committee discussed whether to allow the state to tax and delete the political subdivisions.

Homer Burrell, Director, Division of Oil & Gas, was called to the meeting to testify. Sen. Groh asked the rationale for the exemptions in Sec. (b) of the Governor's bill.

Mr. Burrell said there were a few changes from the law on the books; (1) adding the words "to explore for or" which is traditional language used in many states to allow exploration whether or not on a lease. (2) The addition of "or properties, whether producing or not" covers a situation whereby the right to explore for oil or gas may be disposed of by some means other than a lease. (3) "Oil or gas in place" would preclude taxation of oil or gas in place. Most states use a severance tax as they feel taxes should be collected when revenue is received. Mr. Burrell added this is an addition to the present law, and is an item under litigation. Sen. Miller asked if this section challenged the right of municipalities to tax or challenged the right of assessment, to which Mr. Burrell replied it challenged the right of municipalities to tax at all. Sen. Ray asked if the Division of Oil & Gas was opposed to taxing oil and gas in place. Mr. Burrell replied yes, there was no revenue to the owner of the land; therefore, nothing to tax. Secondly, it discourages development and exploration. Sen. Ray asked if oil is taxed in place in California, to which Mr. Burrell replied a market is available for oil in California in 30 days. However, he added, California looks at revenue flow and taxes more on income than oil in place. There was no way to estimate how much oil is in the ground in Alaska and no way to estimate tax revenue.

Sen. Lewis questioned the value of intangible drilling and exploration expenses. Mr. Burrell said approximately 2/3 of the costs at Prudhoe Bay were intangible. He added there was no value to a dry hole; Sen. Ray noted this would discourage exploration. Replying to a question from Sen. Poland, Mr. Burrell said Texas does tax on the tangible equipment and then adds a severance tax, but it is considerably smaller than what is proposed in Alaska. In Texas and California the majority of the oil is owned by private citizens and a great deal of political pressure to keep the state taxes low.

Sen. Sackett asked why the state did not want to tax intangible development expense, sec. (6). Mr. Burrell said this was part of the negotiations with the oil companies, who were willing to exchange the property tax in return.

Sen. Palmer said the reason these items were deleted by the resources committee was because of the \$1,000 limitation. With this limitation, it didn't make any difference what local municipalities were allowed