this provision be substituted with "fair market value of the interest at the time the option is exercised. . ." Sen. Sackett moved to amend the Resources CS to include the language suggested by Mr. Havelock and asked unanimous consent. No objection, so ordered. Sen. Groh moved to adopt the sub-section (3) as amended and asked unanimous consent. No objection, so ordered.

The meeting recessed at 11:55 A.M.

AFTER RECESS
1:30 P.M.

PRESENT: All members. John E. Havelock, Attorney General. Interested members of the Senate, House of Representatives, oil industry, local government and administration. Steve Weiner, Joe LaRocca, Elaine Mitchell, reporters.

CSSB 3

Sen. Groh called the meeting to order for further discussion of CS for SENATE BILL NO. 3 (An Act relating to leases of rights-of-way over state land for the transportation of oil, products or natural gas).

Sen. Groh said the committee would continue work on the Senate Resources Committee Substitute and referred to Section 12, sub-paragraph (4), which he believed was an illegal provision. Mr. Havelock recommended the deletion of the first 2-1/2 lines, up to the semi-colon, and Sen. Lewis so moved. The committee approved the deletion by a vote of 4 to 3, and approved the sub-section by a vote of 4 to 3.

Sen. Ray moved the adoption of sub-section (5) and asked unanimous consent. Mr. Havelock noted there was no objection, and no objection was heard from the committee. Sub-section (5) was adopted.

Sen. Ray moved and asked unanimous consent to adopt sub-section (6). No objection, so ordered.

Referring to sub-section (7), Mr. Havelock explained this contained two regulatory provisions from the Texas statutes, both asking for some standard other than the person wanting to make the connection should bear the cost. As written, this could be the subject of litigation. The committee discussed whether this should be retained as a covenant of the lease or put in the regulatory act. Mr. Havelock suggested taking the provisions of (10) from the Governor's bill instead of (7) and (8) from the Resources CS. Sen. Ray said he was opposed to this language, and perhaps a compromise could be worked out. Committee discussion followed.

Sen. Palmer moved to adopt sub-section (7) from the Resources CS, to which Sen. Lewis objected. The motion was approved by a vote of 4 to 3, and sub-section (7) was adopted.

Sen. Ray suggested an amendment to sub-section (8), as he believed the language in the Resources CS would be a burden on interstate

commerce. Sen. Ray moved the adoption of his amendment. Mr. Havelock said he would not object as he did not believe it would be a problem of litigation; however, returning to sub-section (7) he would prefer deleting the word "exchange" on line 16 and inserting it on line 15, before the word "delivery." Mr. Heard, legal counsel for Exxon, said sub-section (7) was at the center of the lawsuit. The basic difference between the Resources CS and the Governor's bill was "if the expense involved will not impair the ability of the lessee to perform its duty . . ." Mr. Heard explained this could be construed to mean that the line must continue connections although unprofitable, due to the fact that money will be made in the lower 48 and their duty to the public as a common carrier would not be impaired. Mr. Heard continued by explaining this appeared to be an illegal standard, as each connection should stand on its own feet. It was acceptable in Texas because the regulatory commission never tried to make a pipeline company do this -- if they tried it would be challenged in the court. The difference was that the provision here was written in a lease, and the covenants require the lessee to comply. The committee discussed whether this should be replaced with the words "economically feasible."

The meeting recessed briefly at 2:30 P.M.

AFTER RECESS
2:45 P.M.

Sen. Groh called the meeting back to order.

Returning to sub-section (7) in the Resources CSSB 3, Mr. Havelock submitted new language to be inserted following the word "pipeline;" on line 17. Sen. Groh moved to rescind the previous action on Sec. 38.35.120, sub-section (7) and insert the language prepared by the Attorney General. Sen. Lewis stated he had a motion on the floor to rescind the previous action and insert "economically feasible" in place of "if the expense involved will not impair the ability. . ." Sen. Ray asked that the motion be divided. Sen. Lewis moved to rescind the committee's previous action on sub-section (7), motion carried by a vote of 4 to 3. Sen. Lewis moved to insert the language "economically feasible," motion failed by a vote of 5 to 2. Sen. Groh moved to adopt the language written by the Attorney General: "provided that if the connection is not economically feasible. . ." on line 17. Upon vote, 5 members were in favor of the motion, 2 opposed. Sub-section (7) was adopted as amended.

Sen. Ray moved to delete the language "if the expense involved . . ." and insert "as". Mr. Havelock said there was difficulty with the language in sub-section (8), but it was a new section in the Resources CS and therefore he was not in a position to say if it was a point

of litigation; however, he believed this was beyond the power of the state to regulate. Mr. Havelock recommended the deletion of sub-section (8). Sen. Ray repeated his motion to amend the language and moved to accept sub-section (8) as amended. Upon vote, the committee accepted (8) as amended by a vote of 5 to 2.

Referring to sub-section (9) in the Resources CS, Mr. Havelock said he saw no problem with this provision. Sen. Palmer moved this be adopted and there was no objection. Rep. Malone asked if (c) under sub-section (9) could be deleted and replaced with new language concerning damage as a result of oil spills. Mr. Havelock argued that nothing in the proposed language limited the liability to "spills" and the $100 million absolute liability would result in much expense without any accident taking place due to insurance costs. Rep. Malone said it would be better to have the insurance and not need it than not to have it and need it. Mr. Havelock added this had been covered in the federal act, which put in liability on oil spills. Sen. Rader said he felt as Rep. Malone did that the line should operate under absolute liability. The cost of the insurance could be picked up by the people in the lower 48 buying oil and gas at increased prices. Sen. Palmer moved and asked unanimous consent that the Resources CS sub-section (9) be adopted. No objection, so ordered.

Sen. Groh referred to sub-section (10), and Mr. Havelock said the only concern was with the words "public interest." Mr. Havelock added that Mr. Condon had said the use of these words could be a litigable risk, and suggested the addition on line 8 of "protection of the" public interest. Replying to a question from the committee, Mr. Heard, legal counsel for Exxon, said he preferred the section pertaining to this subject in the original bill, page 10, section 15. Sen. Groh moved to insert "protection of the" and the motion was approved by a vote of 5 to 2. Sen. Sackett moved to adopt the sub-section as amended and the motion was approved by a vote of 5 to 2.

Sen. Ray moved and asked unanimous consent to adopt sub-section (11). No objection, so ordered.

Sen. Ray moved and asked unanimous consent to adopt sub-section (12). No objection, so ordered.

Sen. Sackett moved and asked unanimous consent to adopt sub-section (13). No objection, so ordered.

Sen. Ray moved and asked unanimous consent to adopt sub-section (14). No objection, so ordered.

Sen. Ray moved and asked unanimous consent to adopt sub-section (15). No objection, so ordered.

Sen. Groh referred to sub-section (16). Mr. Havelock recommended that line 18 after "take any action that" be changed to include "the state could not constitutionally require by the direct exercise of state regulatory authority or any action that is". Committee discussion followed.

The meeting recessed briefly at 3:40 P.M.

AFTER RECESS
3:55 P.M.

Sen. Groh called the meeting back to order.

Sen. Ray moved and asked unanimous consent for the adoption of the Resources CS sub-section (16), to which Sen. Lewis objected. The motion was approved by a vote of 4 to 3.

Sen. Ray moved and asked unanimous consent to adopt sub-section (b). No objection, so ordered.

Sen. Ray moved and asked unanimous consent to adopt sub-section (c). No objection, so ordered.

Referring to Section 13, Sen. Ray moved to delete the language under the Resources CS. Mr. Havelock said the initial proposal in the Governor's bill took care of the job and there were problems with the committee substitute. Sen. Ray amended his motion to delete Sec. 13 from the committee substitute and insert the section from the Governor's bill. The committee discussed condemnation laws. Returning to the motion on the floor, the committee voted 4 in favor, 3 opposed, to delete the committee substitute language and insert the section from the Governor's bill.

Sen. Palmer moved and asked unanimous consent to adopt Section 14 from the Resources CS. No objection, so ordered.

Sen. Ray moved and asked unanimous consent to adopt Section 15 from the Resources CS. No objection, so ordered.

Sen. Ray moved and asked unanimous consent to adopt Section 16 from the Resources CS. Sen. Lewis objected. Mr. Havelock suggested inserting "protection of the" before "public interest" on line 29. Sen. Palmer objected. Sen. Ray moved to adopt Section 16 with the amendment proposed by Mr. Havelock. Motion carried by a vote of 5 to 2.

Sen. Groh moved and asked unanimous consent to adopt Section 17 from the Resources CS. No objection, so ordered.

Sen. Ray moved and asked unanimous consent to adopt Section 18 from the Resources CS. No objection, so ordered.

Referring to Section 19, Mr. Havelock recommended sub-section (b) be repealed also, along with (c) and (d) as written in the Resources CS. Sen. Ray moved to adopt Section 19 as amended by Mr. Havelock and asked unanimous consent. Sen. Sackett objected. Upon vote, the motion carried by 4 to 3.

Mr. Havelock recommended Section 20 should include language limiting objections to "who has a direct financial interest in the lease". Sen. Ray moved that Sec. 38.35.225 appearing in the Governor's bill replace Section 20 in the Resources Committee Substitute. Upon vote, the motion carried by 5 to 2. Sen. Ray further moved that the language "who has a direct financial interest in the lease" be included in Section 20 and asked unanimous consent. Sen. Sackett objected. Motion carried by a vote of 4 to 3.

Sen. Ray moved and asked unanimous consent for the adoption of Sections 21 through 30 from the Resources CS. Mr. Havelock said he saw no problem with the balance of the bill. No objections were heard from the committee, so ordered.

Sen. Groh noted a technical problem existed regarding a provision for eminent domain. Under the 1972 act, the power of the pipeline companies to exercise eminent domain was taken away, and Sen. Groh said this would restore it. Sen. Groh moved to adopt this section and asked unanimous consent. No objection, so ordered.

Returning to sections which had not been approved by the committee, Sen. Groh referred to Section 9. Mr. Havelock said he saw no problems and Sen. Palmer moved the adoption of Section 9 from the Resources CS. Sen. Groh objected. Upon vote, the motion carried by a vote of 5 to 2.

Sen. Ray moved and asked unanimous consent to adopt Section 10 from the Resources CS. No objection, so ordered.

Referring to Section 12, Mr. Havelock suggested the deletion of the language from lines 18 through 25 concerning common purchaser language. Sen. Ray moved to delete this language from sub-section (1) and asked unanimous consent. Sen. Sackett objected. Upon vote,

motion was approved by a vote of 4 to 3. Sen. Ray moved and asked unanimous consent to adopt sub-section (1) as amended. No objection, so ordered.

Mr. Havelock referred to sub-section (3), page 7, and suggested new language. Sen. Ray moved for the adoption of the language as suggested by the Attorney General and asked unanimous consent. Sen. Palmer objected, and the motion carried by a vote of 5 to 2.

Sen. Ray moved and asked unanimous consent to report Finance Committee Substitute for Senate Bill No. 3 from committee with individual recommendations. No objection, so ordered.

The meeting adjourned at 5:00 P.M.

SENATE FINANCE COMMITTEE
November 7, 1973
10:30 A.M.

PRESENT: All members with the exception of Sen. Poland. Sen. George Silides. John Havelock, Attorney General; Wilson L. Condon, Assistant Attorney General; Byron Mallott, Commissioner, Dept. of Community & Regional Affairs. Interested members of the Senate, House of Representatives, oil industry, local government and administration. Steve Weiner, Elaine Mitchell, reporters.

CSHB 1 Sen. Groh called the meeting to order for testimony on COMMITTEE SUBSTITUTE FOR 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).

Sen. Groh said the committee should solve the issues at question in the various committee substitutes offered; the House bill referring to a $1,000 limitation, the Community & Regional Affairs committee substitute offered by Sen. Rader's committee, and a draft submitted for a committee substitute by Sen. George Silides. Sen. Ray moved to use the Senate CS for HB 1 as the working document offered by the Community & Regional Affairs committee. Mr. Havelock said most of the work they had done was on the Committee Substitute as amended by the House. The committee discussed which version should be used as a working copy.

Sen. Poland and Joe LaRocca joined the meeting at 10:40 A.M.

Sen. Ray stated he had taken suggestions to the Attorney General's office on the concept of allowing those boroughs and municipalities in existance as of January 1, 1973, that have taxable items within their jurisdiction to tax at 7 mills or $1,000, whichever was greater. Areas and municipalities that did not have any taxable items within their jurisdiction but did have direct impact would receive a tax credit in impact money, not less than $10 nor more than $20 per capita. A second classification of impacted areas not directly impacted would get not more than $10 per capita. The third element would involve any municipality or borough incorporating after January 1, 1973, with which the state would share up to 7 mills an equal amount that they would collect on their taxation without exemptions except any part, portion or facility of the pipeline. Sen. Ray said he had submitted this premise to the Attorney General's office to refine.

Mr. Havelock said the legislation concerns a number of issues, and it would be beneficial to discuss on an issue by issue basis. The first issue was what would be in the tax base; what property would be included, what property excluded. Second is the matter of assessment; who would assess, state or local governments. The third issue would be exemptions, including such things as sales tax or dollar limits. Fourth, evaluations; using replacement costs or other costs. Mr. Havelock said a bill could be worked out after these issues were decided.

Sen. Butrovich stated the first thing to decide was whether the legislation would pass the special session. From a time standpoint, CSHB 1 am had been through the House, and it seemed a reasonable starting point to Sen. Butrovich. Sen. Sackett agreed. Sen. Lewis moved and asked unanimous consent to work with CSHB 1 am. Sen. Sackett said the question still remained as to whether an ad valorem tax bill would be passed. Sen. Groh said he felt it was the duty of the committee to bring a bill to the floor; whether it passed or not was another question. There was no objection to Sen. Lewis' motion, so ordered.

Sen. Lewis asked to hear from Sen. Silides concerning the draft of a committee substitute which Sen. Silides had prepared. Sen. Ray objected, saying the Attorney General could point out problem areas. Sen. Silides said his purpose at the meeting was to assist the committee, and he felt it would be beneficial to hear his explanation.

Sen. Groh asked Sen. Silides to proceed, and Sen. Silides said the committee had before them a draft of a bill prepared but not introduced. It took a simplistic view, although there were a number of problems. The attitude of the House bill was too restrictively punitive, continued Sen. Silides. Sen. Silides then explained the draft he had prepared, section by section (see bill file for copy of committee substitute for HB 1 prepared by Sen. Silides).

The first page corresponded to the House bill rather than Sen. Rader's bill, explained Sen. Silides. The basis of the proposal was that revenue received from taxes belongs to all the people of Alaska.

Sen. Ray left the meeting at 11:00 A.M.

Sen. Silides continued with a page-by-page explanation of the committee substitute he had prepared, and distributed a report to the committee which indicated returns to communities under a 3.3 assessment. (See bill file for a copy of the report).

Sen. Groh questioned the total amount of taxation, assuming a 20 mill levy, which would be received in 1975. Sen. Silides referred to the revenue report previously distributed and replied the amount would be $12.8 million, including the TAPS line but excluding Kenai. Sen. Groh asked how much the North Slope borough would receive, to which Sen. Silides replied $3 million.

Mr. Havelock stated the question remained as to what should be put in the tax base. He explained what had been included in the Governor's bill and said moveable property could be left to local taxation if the state did not tax it. The impact would follow the jobs and the equipment follow the people; therefore, it would bear a real relationship to pipeline impact. Mr. Havelock explained that Sen. Rader's committee substitute excluded production property also, which he felt carried its own weight in terms of local economy and would not place a burden on any local economy. With the exception of exploration property, there remained a problem of jurisdiction-hopping among local governments by taxing moveable property. The committee discussed the problem.

Mr. Havelock said the next issue involved exemptions and the House version had a solution. The question of revenue sharing related to the other two issues, continued Mr. Havelock, and he said Byron Mallott had prepared a proposal which was not completed in time for the Senate Community & Regional Affairs committee's consideration.

Byron Mallott, Commissioner, Department of Community & Regional Affairs, explained he had submitted a report to the Finance Committee regarding a 200% formula. (See bill file for a copy of the report.) He felt strongly that a 200% formula responded to the major problems advanced in all the revenue sharing proposals submitted previously. He was concerned with the revenue limit and equity involved; for example, a tax base levying 1 mill in the Kenai Peninsula would achieve for that borough about $129,000. The same mill levy in the North Slope borough would create $1,720,000, or 13 times the amount. There would be a basic inequity to that sort of formula.

Sen. Groh questioned the formula prepared by Mr. Mallott. Mr. Mallott said the state-wide per capita average would be determined on an annual basis, and doubled for each local government in the state. Using $12,650 as the present state-wide per capita average would result in about $25,000, which would be multiplied by each local government's population. For a population of 2,000, the local government would have a taxable base of $50 million.

Sen. Palmer said the North Slope borough needed to catch up on services provided, and he did not think they should be limited to a $25,000 ceiling as opposed to Anchorage which presently used a tax base of $17,500 per capita. Sen. Palmer said it did not seem equitable. Mr. Mallott said the Department of Community & Regional Affairs had looked at the North Slope borough and did not believe they would be unable to meet local government needs within this tax base. The rationale of the formula was to attempt to derive revenue that would allow the state sufficient money to respond to needs on a state-wide basis. Sen. Groh noted the local governments look to the state for revenue-sharing funds. Committee discussion followed.

The meeting adjourned at 12:05 P.M.

SENATE FINANCE COMMITTEE
November 8, 1973
9:15 a.m.

PRESENT — All Committee members. Senators Rader and Terry Miller. Byron Mallott, Commissioner, Department of Community and Regional Affairs; Mr. John Havelock, Attorney General; other interested parties including members of the administration, city and borough governments; and members of the press, Ms. Elaine Mitchell and Mr. Steve Weiner.

HB 1 — The meeting was called to order. The purpose of the meeting was consideration of various proposals on House Bill 1 (Ad Valorem Tax--providing for taxes on property used in the exploration for, production of, or pipeline transportation of gas or unrefined oil).

Senate President Terry Miller then stated that this bill is the key which could lead to adjournment. Senator Miller stated that Senate Committee Substitute for CSHB 1 (by Community and Regional Affairs Committee) should be used as an operating tool. Senator Rader, Chairman of the aforementioned Committee, has cleared up the problems created in the House draft of the bill.

Senator Miller stated that the change would be to allow local governments to tax up to a certain limit. Senator Miller said that the $1,000 per capita figure (as proposed by the House) would be used on the inter-borough portion of the line. Senator Miller stated that if the Committee felt this was too generous a figure, because of the boroughs at the ends of the line, the $2,000 figure could be reduced to $1,500 for terminal facilities at each end; the bill will lend itself to that compromise. Senator Miller said that the problem with this legislation is that it is not a sound concept; nothing can make the bill equitable, but this solution comes as close as any other.

Senator Palmer pointed out that by taking the proposed population of Fairbanks, the amount of pipeline in the North Star Borough and appraised value of $300,000,000, and the 30 mill limit, the North Star Borough may raise approximately $9,000,000, whereas with the number of people involved, the 200% formula as proposed by the Department of Community and Regional Affairs, would produce much less than the $50,000,000 coming out of potential revenues raised by the $1,000 per capita. Senator Palmer stated that the 200% formula would still result in Fairbanks being able to tax at a full 30 mill levy, which they probably will not do, however.

Senator Groh said that although it is impossible to do during this Special Session, would the possibility of the state requiring a tax effort of local communities be comparable to what the communities will get from the state? Senator Groh asked if the state should say that the local governments will not be able to tax this facility to the $1,000 limit unless they make some local tax effort on behalf of their residents. Senator Miller replied that that will happen anyway.

Senator Miller then said that it is important, if possible, to preserve the concurrent taxation situation; local governments should be able to tax up to a limit, and the state can tax the rest, rather than have the state having full taxing authority and rebate portions back to the local governments. Senator Miller said the local governments will have to go through an annual appropriations process with the Legislature if they cannot tax to a certain limit. He then stated that he realized that most Committee members feel that the facility is a trans-Alaska facility, and therefore, proceeds should go to everyone in the state, but there should be reasonable taxation along the pipeline. Senator Miller stressed that the Legislature should not take action which discourages future local governments.

Senator Ray then distributed copies of his proposal (see Page 128 of minutes) and briefly outlined the draft to the Committee. He said he had attempted to outline areas wherein problems lie; Senator Ray felt that the Committee should address itself to these problems.

Senator Groh then asked Senator Ray if he had an amount in mind which would be available for impact. Senator Ray said that with possible population figures of 150,000 in Anchorage and 50,000 in Fairbanks, you are talking about approximately $4 million which is within the limits of $5 million of impact money provided in Senate Bill 2.

Mr. Havelock, Attorney General, stated that the limit of $1,000 per capita or 7 mills, whichever is greatest, has the same problem as the 7 mills found in the original bill; it is not an effective limit.

Mr. Havelock stated that in section (b) of Senator Ray's proposal, revenue sharing is advocated, and municipalities must depend on revenue sharing allowances. Senator Ray stated that there is a theory that municipalities should not have the right to tax oil companies within their boundaries. Mr. Havelock stated that he was not taking a position in this matter, but that if the revenue sharing approach is, in fact, a problem, then there is a problem in Senator Ray's proposal; Mr. Havelock stated that there may not be a problem if it is agreed upon to take the revenue sharing approach.

Senator Ray told the Committee that the language in his proposal was not yet perfected. The main idea was Senator Rader's approach of only the state doing the taxing.

Senator Ray stated that the Commissioner of Community and Regional Affairs, Byron Mallott, is suggesting that rather than have a $1,000 per capita limit, a limit of 200% of average statewide valuation should be used. Mr. Mallott was asked what effect this would have on Kenai and Fairbanks. Mr. Mallott replied that it would have no effect on either of them; they would have their entire tax base remaining, although Kenai falls closer to the limit. Mr. Mallott said it would effect the North Slope Borough and Valdez and any new local governments created along the pipeline. Senator Groh then asked what the effect actually is--not necessarily in terms of figures--on the North Slope and Valdez. Mr. Larry Carroll, Department of Revenue, stated that the effect is to hold their base of valuation of property so it would not exceed 200% of the statewide average. Mr. Carroll said that it will show what the total valuations are and the base they can tax upon. He said it is a way to create more equity between boroughs.

Mr. Havelock stated that if the Committee does not feel that 200% is enough, they can change it to 250%. However, the percentage formula is much better than the $1,000 per capita because it provides better flexibility since the percentage formula moves with the value of the dollar.

Senator Groh then asked Senator Palmer if he would accept this formula if the 200% were changed to 250%. Senator Palmer stated that the change would be better, but he still preferred Senator Miller's proposal.

Commissioner Mallott explained that the computation that his department made with regard to the 200% was based on the examination of local governments' spending patterns, services, over-all assessed value, and the mill levies established by the local governments and the return from those levies; the department's judgement was that 200% was reasonable. He then added that the department plugged in the thought that they wanted to maximize the return to the general fund. He said that some other percentage might work better, but $1,000 per capita is not good on a long term basis for the future; he explained that at present, there is no great difference.

Senator Miller stated that from his standpoint, he did not have conceptual problems with the Commissioner's suggestion of the percentage formula, although Senator Miller felt it should be changed to 250%; Senator Miller added, however, that he felt the $1,000 per capita would work.

RECESS A recess was called at 9:55 a.m.

1.The State shall not tax more than 30 mills. The State shall

a. Return to municipalities with taxable items at least 7 mills or $1,000 per capita whichever is greatest who were incorporated on January 1, 1973. Provided, however, those municipalities allowing exemptions but who are now receiving more than 7 mills on their total taxable property shall receive a return equal to the actual millage rate they are receiving less exemptions.

b. Return to municipalities not having taxable items, but

i. who are able to show to an Administrative agency and/or a Legislative audit committee actual direct impact already being borne, not less than $10 per capita nor more than $20 per capita

ii. who are being impacted to a lesser degree than those included in i. and are able to show an Administrative agency and/or Legislative audit committee their adjunctive impact not more than $10 per capita.

c. Return to municipalities with taxable items who have incorporated after January 1, 1973 a sum equal to the millage rate on their total taxable property excluding any portion or part of the Trans-Alaska pipeline or its facilities.

DEFINITIONS:

1. Per capita population will be those figures shown in the 1970 national census.

2. A proportionate degree of direct or adjunctive impact under i. and ii. may be determined and combined to a lesser degree

2.

than that allowed in i.

3. Any municipality may qualify for additional funds if their impact is shown to be greater than that provided for as will be determined by an Administrative agency and/or Legislative audit committee.

4. Taxable items are ....(define pipeline and related facilities).

AFTER RECESS
10:10 A.M.

PRESENT All who were present before recess. In addition Mr. Fradley and Elaine Mitchell, reporters, were present.

Sen. Groh called the meeting back to order and stated they would continue discussion of Bill No. 1. He said that Sen. Salides had requested an opportunity to talk to them.

Sen. Salides stated that his bill on ad valorem tax was better than the two versions they had before them because: (1) It did not require imposition of another form of taxation; (2) It does not require a raise in mill rate; and (3) it does not cause interference in local agencies.

Sen. Groh said they would start working with House Finance Committee Substitute for HB 1 amended.

Sen. Ray moved that on page 1, line 14, they amend the millage rate to 30, and asked unanimous consent.

Sen. Groh objected.

Mr. Havelock stated that until they knew what they were taxing, they shouldn't really decide what the level of taxation should be. He thought that the first question imposed by Section 1 was, what is taxable property.

Sen. Ray withdrew his motion.

Sen. Groh asked Mr. Havelock to explain his recommendation on the question of taxable property.

Mr. Havelock said that most of the objections raised in terms of the administration's activity, was that taxable property involved equipment used in construction operation, and so on. He said they could drop out exporation and movables. If they did that it would require amendments all the way through the Bill.

At this point there was some difference in opinion as to whether it would be better to work from the House version of the Bill or Sen. Radar's bill.

RECESS A five minute recess was called at 10:25 A.M. to solve the problem.

AFTER RECESS
10:30 A.M.

Chairman Groh called the meeting back to order and stated they would work from the House Bill. He asked Mr. Havelock to continue with what he had been saying.

Mr. Havelock referred them to page 10, under Definitions, line 28. He said they would have to omit "or in the erection, construction, installation, operation or maintenance of facilities used in the exploration for, production of or pipeline transportation of gas or unrefined oil,". By doing this they would be deleting mobile equipment from the tax base. He said they would also have to delete "exploration for" on line 26.

Mr. Havelock said there were three ways they could deal with the taxation: (1) the pipeline alone; (2) the pipeline and production facilities; and (3) the pipeline, production facilities, and moveable equipment.

There was committee discussion on whether to adopt the 200-250% formula or the thousand dollar per capita approach.

Sen. Lewis moved they adopt the $1,000 per capita approach.

Sen. Ray said he would rather have the 250% formula rather than the $1,000 per capita limitation. There was discussion of this.

The question was called, and the motion failed 2:4.

Sen. Ray moved they adopt the percentage formula of 225%.

Sen. Palmer amended the motion to 250%. The question was called on the amended motion, and the motion carried 4:2.

Sen. Groh brought up the question of the definition of taxable properties.

Sen. Ray moved they adopt the concept of the pipeline plus facilities.

Sen. Groh asked whether, insofar as the North Slope was concerned, there would be a substantial addition of general fund revenue.

Sen. Rader said no, because they would be limited out before they even got to production facilities. Thus, it would make no difference to the North Slope.

Sen. Palmer said that by retaining production facilities, they were still allowing the local municipalities to tax up to the 250% level.

Mr. Eppenbach said it provided for the local borough and the State to levy on that property. In the House version on page 1, subsection (a) provides for the State and subsection (b) provides for the local government.

The question was called on Sen. Ray's motion, and the motion carried with 5 in favor.

Mr. Havelock said that in view of the fact that mobile property was left out, it was their recommendation that the State do the assessing of property left in.

Sen. Ray so moved.

Sen. Palmer asked to have Mr. Heier, Assessor for Kenai Peninsula Borough, speak. Mr. Heier said the only question that came to his mind was in regard to how the property would be assessed.

Sen. Ray amended his motion to allow the state to, in certain instances, delegate the power to assess.

Sen. Groh and Sen. Radar became involved in a discussion of the equalization problem.

A recess was called at 11:10 to solve the problem.

AFTER RECESS
11:20 A.M.

Sen. Groh called the meeting back to order and suggested they address themselves to the equalization problem during the regular session.

He stated that the next policy question before them was that of exemptions. He suggested they start on page 2 and go through them.

There was some discussion as to whether the exemptions in the ad valorem measure should be the same as the exemptions in the severance tax measure. Mr. Condon stated they didn't have to read the same. He said that the ad valorem one was specific and the severance tax is an in lieu of one. As far as the law is concerned, this one would prevail as far as the ad valorem was concerned.

There was no objection to leaving (1) as it was.

Sen. Sacket moved they delete (2) and insert "producing oil or

gas leases. Sen. Lewis objected. The question was called, and the motion failed with 2 in favor.

Sen. Lewis moved they approve (2) as it was written. The question was called, and the motion carried with 4 in favor.

Sen. Lewis moved they approve (3) as it was written. Sen. Sackett objected.

Sen. Sackett amended Sen. Lewis's motion so that (3) would be repealed. Sen. Lewis objected.

The question was called on the amendment, and the motion failed with 1 in favor.

The question was called on the main motion, and the motion carried with 4 in favor.

Sen. Ray moved they accept (4) as written. The motion carried.

Sen. Sackett moved they delete the word "development" in (5). There was no objection, it was so ordered.

Sen. Ray moved they accept (6) as written. There was no objection, it was so ordered.

Sen. Ray moved they accept (7) as written. Sen. Butrovich objected. He asked Mr. Condon to explain it.

Mr. Condon said that (7) prevented the State from taxing before the construction commencement date if they hadn't started by April 1. After April 1, they would be taxed whether they had started or not.

The question was called. There was no objection, it was so ordered.

Sen. Groh instructed the Attorney General's Office to prepare appropriate amendments for the Committee.

RECESS Meeting recessed at 11:50 A.M.

AFTER RECESS
1:30 P.M.

PRESENT: All members. John Havelock, Attorney General; Byron Mallott, Commissioner, Department of Community & Regional Affairs; Lawrence C. Eppenbach, Deputy Commissioner of Treasury. Steve Weiner, Joe LaRocca, reporters.

CSHB 1

Sen. Groh called the meeting to order for further discussion of COMMITTEE SUBSTITUTE FOR 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).

Sen. Palmer referred to page 2, line 26, and moved to add the word "other" before "ad valorem" and delete the word "all" on line 23 in the title of the section. John Havelock saw no problem. There was no objection from the committee, so ordered.

The word "retail" was suggested as an addition on page 3, line 3 and line 4, before the word "sale". Sen. Groh moved and asked unanimous consent to adopt this section, as amended by the addition. No objection, so ordered.

Section (B) was accepted by the committee. Mr. Havelock saw no problem with Sections (C) and (D), and the committee accepted them.

Sen. Palmer questioned the words "or other tax" in Section (E) and asked if there would be any conflict. Mr. Havelock said he saw no problem.

Sen. Ray moved for the adoption of Sec. .030 as amended and asked unanimous consent. No objection, so ordered. Sen. Palmer asked that the committee be allowed to return to these provisions for possible change if needed.

Sen. Groh referred to Sec. 040 and questioned the provision that members of the State Assessment Review Board need not be residents of the state. Mr. Havelock noted there was no duration requirement, and someone could fly up from Seattle; however, he was not sure it was a good idea. Sen. Ray moved and asked unanimous consent to delete the words "and is not required to be a resident of the state." No objection, so ordered.

Sen. Palmer noted the Community & Regional Affairs Committee Substitute had added the board members would be subject to confirmation by a majority of the members of the legislature in joint session, and moved and asked unanimous consent that this provision

adopted. Sen. Ray objected. Upon vote, the motion was approved by a vote of 6 to 1.

Sen. Ray moved to change the membership on the board from five members to three. Motion failed by a vote of 5 to 2.

Sen. Groh moved and asked unanimous consent to adopt Section 040 as amended. No objection, so ordered.

Sen. Palmer moved and asked unanimous consent to adopt Sec. 050. No objection, so ordered.

Referring to Sec. 060, Mr. Havelock said his office was preparing amendments which were not ready at this time, and the committee agreed to return to this section at a later time.

Mr. Havelock asked to refer to Sec. 010, and said he had conferred with Mr. Dupere representing the North Slope borough who had proposed lines 17 through 24 be stricken and new language substituted. (b) should read: "municipalities may levy and collect a tax under AS 29.53.050 (b) at the same rate of taxation that applies to other property taxes by the municipality." Section (b) would therefore be essentially a reference section, with sections (c) and (d) referring to administration by the state. Sen. Palmer questioned the language and Mr. Havelock read the remaining sections and explained same. Sen. Ray moved to return to the $1,000 per capita figure rather than the 250% assessed valuation, and the committee discussed. Upon vote, the motion carried by a vote of 5 to 2.

Sen. Groh asked if the language currently in CSHB 1 was adequate, to which Mr. Havelock replied the language suggested by the Dept. of Revenue should be inserted. Sen. Groh suggested substituting "authorized by" for "under" on line 22 of (b) and substitute "collected" for "levied" and so moved. Mr. Havelock said the language suggested by Mr. Dupere for this section had been suggested by bond counsel, and Sen. Groh withdrew his motion. Sen. Ray moved for the adoption of the new language submitted by Mr. Havelock, inserted in place of lines 17 through 27. Committee discussion followed, in which Sen. Groh explained the amendment offered by Mr. Havelock divided the existing language into different sections, but did not have a change in effect.

The meeting recessed at 2:10 P.M.

AFTER RECESS
2:40 P. M.

Sen. Groh called the meeting back to order.

Sen. Groh asked if Kenai would receive double grants of $1,000 per person, one for the city and one for the borough, to which Sen. Palmer said yes. Sen. Groh asked if the committee wished this to be done; to which the committee replied they did not. Sen. Palmer said he hoped it would be the determination that all property be treated the same so homeowners and businessmen paying borough and city taxes would find the oil industry doing the same. Sen. Ray said it was not the intent to collect double taxes. After committee discussion, Sen. Groh distributed a draft of an amendment he had prepared, which was practically the same as the amendment in the House version of the bill; however, Sen. Groh said he would accept the Community & Regional Affairs committee substitute language. Sen. Ray moved to accept the Senate CS and asked unanimous consent. No objection, so ordered.

Sec. 070. Sen. Palmer moved to adopt the CSHB language for this section, to which Sen. Groh suggested "sec. 10 (a) of" be deleted. Sen. Palmer added "of each year" should be inserted after January 1 for clarity, and moved to adopt this section as amended. No objection, so ordered.

Sen. Palmer moved and asked unanimous consent to adopt Sec. 080. No objection, so ordered.

Referring to Sec. 090, Sen. Groh suggested "sec. 10 (a) of" should be deleted, and Sen. Palmer moved and asked unanimous consent that "only" be stricken after the words "annually the" on line 26. There were no objections to these changes. Sen. Palmer moved and asked unanimous consent that Sec. 090 be accepted as amended, no objection, so ordered.

Sen. Palmer moved the adoption of Sec. 100, to which there was no objection. Larry Eppenbach asked if the committee could return to this section at a later time.

Sen. Palmer moved and asked unanimous consent for the adoption of Secs. 110, 120, 130, and 140. No objection, so ordered.

Sen. Palmer moved and asked unanimous consent for the adoption of Sec. 150, to which Mr. Havelock said he would prefer new language in sub-section (c) as follows: "The tax levied under sec. 10 (a) of this chapter, interest and penalties collected with respect to

this levy shall be deposited in the general fund." Sen. Groh asked if a uniform taxation date should be established due to a potential problem if not on the same date. Mr. Dupere said the municipal code set a date of July 1 in order to get credit by December 30. Mr. Havelock added the assessment date should be the same but the levying date would not make any difference. Mr. Eppenbach stated it would be desirable for the amount of credit to be determined before the state sent out its levy, and the local governments should make their levy prior to that date. Sen. Groh said he wanted to be certain there were no problems from an administrative point, and he would not question it if those present were satisfied. Sen. Sackett moved and asked unanimous consent that Sec. 150 be adopted. No objection, so ordered.

Sen. Palmer moved and asked unanimous consent for the adoption of Sec. 160, 170, 180, 190, and 200. No objection, so ordered.

Referring to Section 210, Mr. Havelock said he had some changes. Sen. Palmer moved and asked unanimous consent that the words "for liquification" be added on line 28. No objection, so ordered. Mr. Havelock said sub-section (2) should be amended to read: " . . . the earlier of April 1, 1974; or the date . . ." in place of the present language regarding the construction commencement date. Sen. Palmer objected to the words "and development" on line 21, page 10, and they were deleted. Mr. Condon suggested new language for sub-section (6), and read same to the committee. Sen. Groh asked that the provision from Sen. Rader's bill be included referring to gas pipeline systems operating as utilities, and Sen. Ray moved and asked unanimous consent for the adoption of sub-section (6). No objection, so ordered.

Sen. Ray moved for the adoption of sub-section (7) and asked unanimous consent. No objection, so ordered.

Sen. Palmer moved to delete Sec. 2, to which Mr. Condon explained this section called for the repeal of an exemption allowance to municipalities on personal property, which appeared in the House bill and was not in the original bill. Sen. Palmer withdrew his motion. Sen. Ray moved for the adoption of Sec. 2. Mr. Mallott pointed out that many local governments have property which the state does not assess since it would not be worth the effort. He believed it was a good provision and the repeal in the House bill was a punitive device. Mr. Mallott did not think the entire section should be repealed. The committee agreed to delete Sec. 2.

Returning to page 1, Sec. 010 (b), Sen. Ray said he understood the difference between the $1,000 per capita limitation and 250% was negligible, and asked for an opinion from the administration.

Mr. Eppenbach said the effect on the general fund would be about $1 million per year in the early years and increase to about $4 million. Committee discussion followed, and Mr. Havelock was requested to prepare a new amendment for this section while the meeting recessed.

The meeting recessed at 3:20 P.M.

AFTER RECESS
3:55 P.M.

Sen. Groh called the meeting to order.

Mr. Havelock submitted a draft of an amendment to Sec. 060 to the committee. Sen. Ray moved and asked unanimous consent for adoption of the proposed amendment. No objection, so ordered.

Copies of a draft of an amendment for Sec. 010 were distributed by Mr. Havelock, substituting new language for sub-section (b). Sen. Ray moved and asked unanimous consent for adoption of (b), (c) and (d) as suggested by Mr. Havelock as it resolved the problems satisfactorily. No objection, so ordered.

Sen. Palmer referred to page 2, line 24, and suggested "and except for special assessments levied pursuant to AS 29.63" be included after the word "title". He moved and asked unanimous consent for the adoption of this language, no objection, so ordered.

Referring to sub-section (2), page 5, line 7, Sen. Groh said the House version used replacement costs less depreciation versus the original version which used actual costs. Sen. Palmer said this approach was used in the Kenai borough and it appeared satisfactory. Sen. Palmer moved the adoption of the House version. Sen. Groh noted there was a substantial difference between Kenai and a $4.5 billion pipeline, and the committee discussed which version should be adopted. Sen. Lewis moved to replace the word "replacement" with "actual." Sen. Ray said fair market value would be more appropriate. Sen. Groh referred to the motion made by Sen. Lewis, and Sen. Palmer asked that the record show the vote on this now was no commitment to the future. The motion passed by a vote of 4 to 3.

Sen. Groh moved and asked unanimous consent that (3) be adopted. Mr. Havelock said there was no problem. No objection, so ordered.

Referring to (e), Mr. Havelock suggested the deletion of "and development." Sen. Sackett moved to accept this sub-section as amended. No objection, so ordered.

Sen. Groh asked if there were any other suggestions regarding CSHB 1, and Sen. Ray said there were still problems with actual versus replacement costs. After discussion, Sen. Palmer noted the effect of this section was several years down the line, and he thought it would be more expedient to accept the House version at this time. Mr. Havelock said the Governor's version had different language, and the House version would not produce as much revenue. Sen. Palmer moved to rescind the committee's previous action; upon vote the motion was accepted by a vote of 4 to 3. Sen. Butrovich moved and asked unanimous consent to adopt the Governor's wording in this section, and then amended his motion to include substituting "economic value" for "economic life." No objection, so ordered.

Mr. Havelock suggested the effective date of the bill be changed to December 31, 1973, in order to avoid conflict with the law suit. Sen. Ray so moved and asked unanimous consent. No objection, so ordered.

Larry Eppenbach suggested an amendment to Sec.190, to add the words "notwithstanding the provisions of AS 12.80.030." Sen. Ray so moved and asked unanimous consent. No objection, so ordered.

Sen. Ray moved and asked unanimous consent for the adoption of the Senate Finance Committee Substitute for CSHB 1 as amended, and it be reported from committee with individual recommendations. No objection, so ordered.

The meeting adjourned at 4:50 P.M.

SENATE FINANCE COMMITTEE
November 9, 1973
9:10 A.M.

PRESENT: All members with the exception of Sen. Lewis.
John Havelock, Attorney General; Lawrence C. Eppenbach, Deputy Commissioner of Treasury; Steve Weiner, reporter.

CSHB 2 Sen. Groh called the meeting to order and brought CS FOR HOUSE BILL NO. 2 (An Act making special appropriations to Dept. of Revenue to administer taxes on property) before the committee for discussion.

Members had a fiscal note explaining the breakdown of $364,000 to be appropriated to the Dept. of Revenue for administration, and Sen. Groh explained the House CS had appropriated $5 million to cities and boroughs for impact funds. Sen. Groh referred to a formula prepared by Sen. Ray, copies of which were distributed to the members of the committee.

Mr. Eppenbach said he would argue strongly that the $364,000 be appropriated for the administration of ad valorem taxes, as the Department of Revenue would handle the taxing in a professional manner and a staff could not be hired without adequate funding. Sen. Palmer agreed that the department should not be short-changed and should receive the $364,000 to do the job right. Sen. Groh asked for an explanation of the fiscal note; to which Kent Dawson replied he didn't see how the $364,000 could be spent. His recommendation was an appropriation to cover employment of a consultant, director and staff, who could then return for further funding when a sufficient amount is determined. Mr. Eppenbach said the personal services request was sufficient, but the request for funding contractual services was too small and funds could be transferred, if needed. He concluded that the department would lapse the funds if not used and would account for funds appropriated under this legislation; however, he thought a ceiling of $400,000 was more acceptable than a ceiling of $150,000.

Sen. Sackett moved and asked unanimous consent that $364,000 be appropriated to the Dept. of Revenue. No objection, so ordered.

Sen. Groh noted the second item for consideration was the amount of impact money to be appropriated and how these funds should be appropriated. Sen. Ray moved the figure of $5 million be adopted. Sen. Butrovich said he would not argue with that figure, but did want to know what would be done with the money.

Sen. Palmer suggested on line 19 "incurred because of Alaska pipeline construction activities" could be inserted after "services." Sen. Sackett said he had no objection to the impact money, but questioned what services would be provided from the funds.

Don Johnson, City Attorney's Office, Anchorage, said the $5 million could be considered a contingency fund, paid only when impact was shown to withdraw funds. The Anchorage Public Safety budget is comparable now to what the rest of the state budgets for any given year to this service, and is 44% of the total budget for Anchorage. There are currently 130 people on the street, and Mr. Johnson said they expect the number to increase by 46 as a result of the pipeline. Other cities will have additional water, sewer, power and school needs; the full phase of municipal services. If looking for guidance, Mr. Johnson said House Resolution No. 1 offers suggestions. Sen. Groh referred to HR 1 and said the important language there was "to which the community cannot adequately respond. . ." Sen. Palmer asked how this could be determined, to which Sen. Groh said the Governor and the Budget & Audit committee could make the decision.

Sen. Sackett questioned bonding aid, to which Sen. Groh said the regular session would provide another fund for bonding. The committee discussed the determination between normal growth and the impact of the pipeline. Sen. Ray asked if Mr. Havelock could draft an amendment including the suggestions of the committee and the formula prepared by Sen. Ray.

Sen. Ray moved and asked unanimous consent to adopt the $5 million figure for impact. No objection, so ordered.

Sen. Ray moved to include the formula he had prepared in an amendment to be drafted by Mr. Havelock, and said the other problems could be dealt with at the regular session. Upon vote, motion carried 4 to 3.

The committee recessed at 9:40 A.M.

AFTER RECESS
10:45 A.M.

Sen. Groh called the meeting to order and noted the committee members had a draft before them of an amendment, prepared by John Havelock, which was proposed to be inserted on line 23.

Sen. Ray moved the adoption of the amendment and asked unanimous consent. No objection, so ordered.

The committee noted the adoption of the amendment would necessitate deleting "Department of Revenue" from the title of the Committee Substitute.

Joe LaRocca joined the meeting at 10:55 A.M.

Sen. Groh moved and asked unanimous consent that Senate Committee Substitute for CSHB 2 be reported from committee with a "do pass" recommendation. No objection, so ordered.

A committee report for Senate Committee Substitute for CSHB 1 was distributed to the committee members for their approval.

The meeting adjourned at 11:00 A.M.