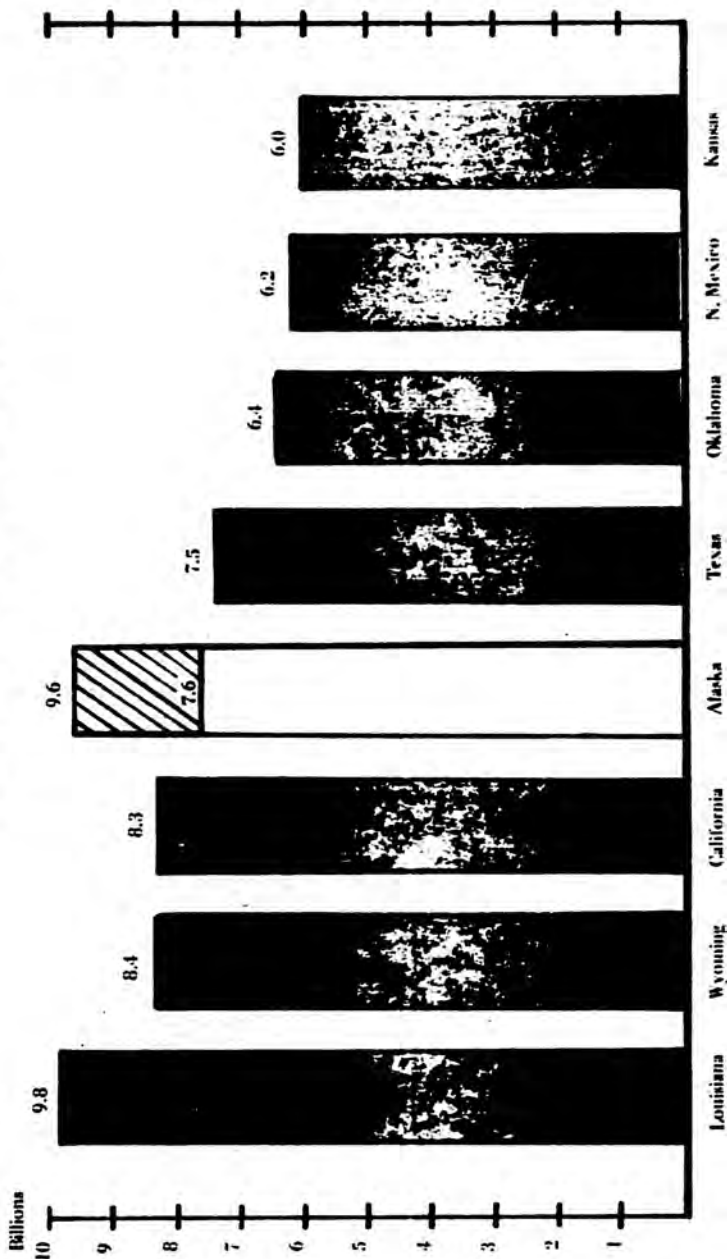


HOUSE/SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2670

HCS
CSSB
238

Tax Comparison



May 7, 1977

HOUSE JOURNAL
SUPPLEMENT

No. 60

FISCAL NOTECSSB
159

I. REQUEST
 Bill/Resolution No. CS SB 159
 Title Leasing of State land other than for extraction of natural resources
 Requested by _____ Date _____

II. FISCAL DETAIL
 Agency Affected Natural Resources
 Program Category Affected NRMEC
 Budget Request Unit(s) Affected Land and Water Management

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES	53.0	53.0	55.6	58.4	61.3	
200 TRAVEL		3.0	3.2	3.3	3.5	
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		56.0	58.8	61.7	64.8	

FUNDING (Thousands of Dollars)

GENERAL FUND		56.0	58.8	61.7	64.8	
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		2	2	2	2	
PART TIME						
TEMPORARY						

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

Will provide an Appraiser I and Appraiser II. These positions were in Governor's budget and prior fiscal note on this bill assumed approval.

We will be unable to meet re-appraisal requirements in a timely manner without either these positions or an equivalent amount to contract for appraisals.

IV. DATE _____ PREPARED BY Thomas Blunt
 AGENCY Natural Resources
 PHONE 645-2400
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

HOUSE FINANCE COMMITTEE
Thursday, April 14, 1977
1:35 p.m.

PUBLIC RADIO CALL-IN TO BEGIN AT 3:00 p.m.

All members of the Committee were present. Chairman Cowper called the meeting to order at 1:35 p.m. He then summarized the happenings of the past few days for the benefit of the radio audience.

Chairman Cowper stated that Mr. Donaldson had a reply to the administration's statements of this morning. Mr. Donaldson said he would like to play a tape of a conversation between Ken Showalter and Paul Liefman, Wainwright Securities. Portions of the tape: How did the differences in cash flow percentage come out differently? Liefman: For expenditures that occurred prior to '77 the cash flow numbers would be increased and cash flow numbers after that would be deflated. In the end you come up with a number of 19.1%. Q-How would an investor look at this? Liefman: It's our thought that most people would look at a real rate of return excluding inflation. Q-Why did you use a 9.4% income tax and a new severance tax? Liefman: Two reasons-- We feel the crude oil pricing questions and pipeline tariff issue are more important in an absolute sense. Q-Are you endorsing increased taxes in Alaska? Liefman: While there are some problems with the different tax structures, we feel that their current arrangement here is more than adequate in what occurs to us to be high economic rents. The cash flow from Prudhoe Bay has to cover the dry holes in other areas.

Representative Gruening commented that since Mr. Liefman was not present it was hard to ask him questions. Chairman Cowper said he didn't remember any testimony to the effect that the Wainwright Securities people supported taxation. It was none of Ken Showalter's business what Mr. Liefman's view was on increased taxation. Mr. Liefman had no business commenting on Alaska Taxes.

At Representative Buchholdt's request, Mr. Donaldson commented on the statements of Mr. Messenger made this morning. Mr. Carcher of Sohio commented: We wondered why our numbers were so different. Both numbers include severance taxes and ad valorem taxes and income taxes. Mr. Messenger's were calculated a little differently. He included other things. Mr. Carcher explained the differences in calculations.

Chairman Cowper thanked Mr. Carcher and Mr. Donaldson. He then introduced Dwayne Carlson who had asked to testify.

Mr. Carlson's testimony in part: In the years that I have been here I have tried to follow taxation hearings. In following the taxation hearings I find one thing that bothers me. The state uses examples of foreign countries taxing to 17-18%. On the

other hand the industry points to lower tax rates in other states. I think neither are relevant. Alaska needs to decide what they want for their resources. It makes no difference how it relates to other states or countries. We need to determine what we want and set that price. The future Alaskans are entitled to your putting the money in the bank now. I hope you won't be fearful of the argument that if you tax now you will not get exploration of marginal fields. If we leave the marginal fields sit we may ensure future income. The Alaskan legislature has been unfair to the industry in one way. Each year they are faced with the uncertainty of what the taxes will be. We should come up with a formula that would hold for two or three years. Let us determine what is a fair price and then let us hold to it and not worry about other states and other foreign countries.

Chairman Cowper thanked Mr. Carlson. Dick Grove of Marathon Oil, Anchorage, asked to testify.

Mr. Grove's testimony in part: Marathon is mainly in the Cook Inlet and the Kenai Peninsula. We were one of the early explorers in Alaska. It's interesting to compare the tax structure now with the ones in the 60s. In the '60s the people of Alaska were trying to entice people to come to the state. The question now is what is Alaska's fair share. Marathon believes that the current tax base is equitable to the state. We do not believe that any of the tax bills before the Committee should be passed. We think the inequities in the current tax structure should be eliminated on the cents per barrel question. (The remainder of Mr. Grove's written testimony follows the minutes.)

At this point in the meeting the public radio call-in began. The first call was from Mayor Eben Hopson, North Slope Borough. A copy of his testimony is attached.

The next call was from Boyd Keeling, Anchorage, but reception was so poor that testimony was undecipherable.

The next call was from Rev. Schmidt: I am calling to give testimony in opposition to the proposed oil and gas legislation. I have lived in Alaska since 1962, and in Anchorage for the past seven years. Many things are unique about Alaska--among them is the spirit of the Yukon.

(Minutes continued on next page.)

HOUSE FINANCE COMMITTEE
Thursday, April 14, 1977
3:20 p.m.

(Public Radio Call-in in progress)

PUBLIC RADIO
CALL-IN

Rev. Schmidt cont. - At a time when federal government seems to be attempting to decrease taxes and controls on private industries, Alaska seems to be increasing the taxing and controls. It would be better if the business community were allowed to retain its profits, reinvesting them to expand the economic community and provide more jobs. Should be a friend and encouragement to private enterprise, rather than a deterrent. Alaska cannot afford to drive away industry. Valuable time of the elected leaders should not be spent on considering tax measures.

Rev. Schmidt
(cont.)

employee of
British Petroleum

Rep. Cowper - You are an employee of British Petroleum, is that correct?

Answer: Yes

Dave Knutson, Anchorage - Personal comments regarding testimony given earlier regarding severance taxes in Cook Inlet - believe those comments were made by a representative from Marathon because they are currently selling gas at 44¢. The contract between Phillips and Marathon oil in Tokyo calls for rehabilitation of tax structures when necessary. They have stated in a letter dated July 1, 1975, to Guy Martin, because the sales will be at Alaska Pipeline company prices, effectively establishes the wellhead price. Marathon assumes that the ceiling price to be paid out of Kenai is the price being paid by the pipeline company. A "nit-pick" calculation did produce a wellhead value approaching 70¢. The price being paid by Marathon is understating the value at approximately 30 MCF a year. The BTU price in Tokyo is rising, the cost being charged L & G is rising, establishing a severance tax on the basis of 10% is not out of line. Marathon is making 20¢ per MCF over and above what Phillips is making.

Dave Knutson

Alaska state
employee

Rep. Cowper - Mr. Knutson is a state employee.

Vic Fischer, Institute for Social and Economic Research, University of Alaska - see attached written testimony.

Vic Fisher
U of A

Dennis Harris, lifetime resident of Juneau - Very concerned, believe that Alaska really needs this money to revitalize the nonrenewable resources that are going to be taken out. There are so many unknown factors, but Alaska should do everything it can to derive the maximum benefits.

Dennis Harris
Juneau resident

Testimony by Byron Whelan, Tax Counsel, Standard Oil of California, (with So-Cal for 24 years) - Have tried to make this presentation as concise and comprehensive as possible. In five parts:

Byron
Whelan,
Standard
Oil of Cal

1. In 1976, before commencement of the Prudhoe Bay production, the oil industry paid over one-half of the taxes collected throughout the state.

2. Alaska oil and gas production tax - explains how it works and the tax rate.

3. Implications of the Alaska property tax - discrimination against oil industry. No other producing state imposes a property tax at the state level.

4. Comparison of tax burden in Alaska with other states. Utilized those taxes which directly relate to the producing function. Analysis shows Alaska producer is paying larger rate than any other state.

Several concerns regarding the Department of Revenue's presentation, i.e. Louisiana total figures for property tax and wage tax. Property tax burden on a ratio of \$4.5 to \$1.0; our ratio shows something like \$30 to \$1.0. We believe the state must have used certain assessment value. In Louisiana they don't use an assessment figure they use a schedule. In using the schedules, the assessed valuation figure would have been six times that of Alaska.

5. Summarizes the income taxation of multi-state corporations operating in Alaska and compares Alaska with other states.

Reflecting on the data contained in these papers (attached copies) the state has done a very thorough job in taxing the oil industry. State has eliminated certain tax deductions and is ranking as one of the two biggest oil taxing states in the country.

Also presenting the Committee (see attached) an analysis of Alaska's present and future. Future taxes based upon belief that consideration of this study is very important to the questions of the petroleum industry's fair share of taxes and the state's needs. Study reveals that by 1981 the oil company's contribution will equal approximately 119% of the state's revenues at that time, exemplifies the huge surplus which will have accumulated. These figures are based upon last year's more conservative projections. Latest report shows surplus to be \$8.5 billion by 1985.

We hope that the industry papers will provide assistance in consideration of the industry taxation in Alaska.

Larry Wilson, Associate Tax Counsel, Union Oil Company of California - Brief background of personal experience

Larry Wilson
Union Oil
Company of
Calif.
4/14/77

in oil industry taxation matters. The proposed taxation would subsidize some activities while discouraging others. (See attachment - "Special Analyses Budget of the United States Government, Fiscal Year 1978") We have attempted to demonstrate how the tax has been allotted. Explanation of the attached Analyses.

Larry Wilson
Union Oil Co.
(cont.)

If such a radical approach to taxation is to be made, it should be made to all taxpayers at the same time. The suggested approach could lead to distorted results.

Second point in the analyses deals with deleting the sales factor. This matter is not as simple as has been indicated by previous testimony. It is important to bear in mind that a state can constitutionally tax the actual income derived within the boundaries of the state only.

Chmn. Cowper asked Mr. Wilson how long the remainder of his testimony would take and Mr. Wilson replied that it would take approximately another hour. The Chairman informed him that the Committee would not be able to allow that much time and requested that Mr. Wilson submit his testimony in writing as the witnesses had been previously requested to do.

Mr. Wilson protested that Union Oil Company is the biggest oil producer in the state and that they have a lot at stake in this matter. The Chairman reminded Mr. Wilson that he had stated on the previous day that the presentation of Mr. Whelan and his combined would take approximately forty minutes and his alone had already taken thirty minutes. Mr. Wilson agreed to submit the remainder of his testimony in writing.

Chmn. Cowper commented that the matter would be referred to the Ways and Means Subcommittee and that the decisions would most likely be made more from the written testimony and written reports than anything else.

Rep. Gruening, Ways and Means Subcommittee Chairman, stated that they do not intend to take testimony, but that the public is welcome to attend.

Roger Lange, Employee of Bristol Bay Native Corporation and Sealaska Corporation and past President of Alaska Federation of Natives gave brief testimony requesting that the Legislature give the effect of the proposed taxation on the Native Corporations in the state.

Roger Lange
employee of
Bristol Bay
Native Corp.

Chmn. Cowper thanked Mr. Lange for his testimony and the other persons who testified and requested that they submit written testimony to his office or Rep. Gruening's.

Meeting adjourned at 5:00 p.m.

Adjourned

Tape #4 and #5 - "Oil and
Gas Policy" Log 1997 (#4)
to Log 1618 (#5).

4/14/77



JUNEAU ALASKA

Alaska State Legislature House

HOUSE FINANCE COMMITTEE

Thursday, April 14, 1977

Hearings on Oil & Gas Policy

8:30 Administration

10:00 -RECESS-

Rm. 126

1:30 - 4:00 Live Radio Coverage

1:30 Chairman's Opening Remarks

1:45 Mr. G. Byron Whealen
Chevron

2:05 Mr. Vic Fischer
Institute for Social
, and Economic Research
University of Alaska

2:25 Mr. Dwayne Carlson
AFL-CIO, Alaska

2:45 Mr. Eben Hopson
Mayor, North Slope Borough

3:00 Public radio call-in

4:00 Mr. Larry Wilson
Union Oil Co. of Calif.

4:45 Mr. Richard Grove
Marathon Oil Co.

TESTIMONY OF MAYOR EBEN HOPSON, NORTH SLOPE BOROUGH
BEFORE THE HOUSE FINANCE COMMITTEE

ON THE

PROPOSED OIL & GAS TAX MEASURES

(Presented by Telephone, April 14, 1977)

Mr. Chairman. Because the North Slope Borough is directly concerned with State oil and gas tax policies, I am happy to have this opportunity to comment upon the tax measures under consideration. I am aware that many spokesmen for our Native regional corporations have come out against changes in our oil and gas tax structure on the basis of comparative marginal profitability of potential oil and gas reserves in their regions. They make the point that a tax program based primarily upon the profitability of the Prudhoe Bay field would inhibit the economic development of other regional oil, gas and other resources. I don't think that the new OPEC-dominated oil market will allow this to happen. In earlier times, when the oil industry was allowed to exploit Middle East reserves on its own terms (which often resulted in a glutted market), the fears of our regional corporations toward proposed tax adjustments might have been justified. But, the arguments being advanced by our regional corporation executives reflect tax avoidance arguments that were developed in other times, in other lands, and in far different economic circumstances. In view of today's supply and demand situation in the oil market, it is foolish for oil corporations to advance

their old and obsolete arguments that once may have been effective. Threats to just sit on high potential leaseholds in rural Alaska do the oil industry no good, and merely reinforce the growing lack of public confidence in the oil industry.

I feel that the American oil industry is one of our great national strengths, and I am concerned by the widespread lack of public confidence in the industry. If the strength and flexibility of the American oil industry are to be preserved as important national strengths, the industry is going to have to earn back much of the national trust that it once enjoyed. Oil corporations are going to have to learn to become better citizens. They are going to have to learn that what once might have passed muster as proper tax avoidance is now widely regarded as inexcusable avoidance of public responsibility. Paying their taxes honestly and openly computed is an important part of the burden of citizenship and public corporate responsibility. This burden is all the more heavy in Alaska because the oil industry is exploiting publicly-owned oil and gas reserves.

The people of Alaska are partners with the oil industry at Prudhoe Bay, and they have a right to expect their Legislature to insure maximum public benefit from this partnership. The Legislature has a clear responsibility to adjust taxes on Prudhoe Bay oil income to meet the new OPEC market conditions

in which it will be sold. Nobody can say that Alaska moved too fast to raise taxes on Prudhoe Bay oil without due consideration. Many good people in both the House and the Senate have spent months of study and deliberations on this problem, and the tax package before you represents good cooperation between the Legislature and the Executive Branch. But, with Prudhoe Bay production about to begin, the time for deliberation is over. We cannot responsibly allow Prudhoe Bay oil to be sold at today's prices without adjusting taxes upward.

I do not believe that the bills under discussion would create disincentives for exploration or development elsewhere, or that they would create a hostile business environment for the oil industry in our State. Rather, this legislation would result in the rehabilitation of the oil industry's low public esteem. House Bill 322, especially, would help the industry deal honestly with the State by requiring them to pay taxes openly and honestly, computed as should be required of corporations exploiting publicly-owned oil and gas reserves. The oil corporations should understand that the bad old ways are about over, and that they shouldn't count on using their multi-national status to hide from their public responsibility to pay fair taxes on income earned in Alaskan enterprise.

Mr. Chairman. We need your help with House Bill 323, and the

new language contained on page 1 between lines 19 and 24. This language is the latest development in an ugly story of irresponsible efforts at oil industrial tax avoidance that began in 1972 when our regional borough government was organized. Like Native people elsewhere throughout rural Alaska, we on the Arctic Slope had been told that democratic self-determination through local government would come to our villages when resource development produced a tax base able to sustain local government. The rules were there for any to follow. The drafters of our State Constitution took pains to provide for the organization of local government in rural Alaska, and I served in the State Senate when the municipal code was first drafted. We knew the rules and we followed them. We didn't know that they would be changed. Local government is, after all, the political foundation of America, and is a natural result of frontier resource development. Local government in rural Alaska will be the one sure lasting benefit of our national exploitation of Alaska's non-renewable resources. The organization of the North Slope Borough was a natural democratic development resulting from the exploitation of Prudhoe Bay.

The oil industry responded to our Borough organization as if it was a politically unnatural and unjust development. After winning against the oil industry's court challenges, our Borough had to defend itself against political attack in

Juneau in 1973. Without consulting anybody at our Borough, or any of our attorneys, about his plans, Governor Egan sent a bill to the 1973 Special Session that would have completely cancelled the North Slope Borough's revenue authority at Prudhoe Bay. I am told that this and other bills in the 1973 Special Session tax package was drafted by oil corporation lawyers with the cooperation of then-Attorney General John Havelock. Had this bill been enacted, our Borough today would be merely a local government project of the State's Department of Community & Regional Affairs. It was argued that our Borough government had a moral responsibility to share our tax base with the rest of the State. But, nobody had previously made this argument about Anchorage's large tax base, or the large oil industrial tax base on the Kenai Peninsula. It was only when we Inupiat of the Arctic Slope organized local government that the doctrine of municipal oil industrial tax base sharing was advanced as a kind of reversed revenue sharing program in which the State would share our Borough's tax base on terms imposed by the State.

After a hard struggle, we were able to leave the infamous 1973 Special Session with just part of our former revenue authority intact. We were left with ad valorem tax revenue authority at Prudhoe Bay limited to just \$1000 per year per capita, and with Prudhoe Bay sales and use tax authority

limited to the first \$1000 of each sale. One \$15 million sale could yield only \$30 in revenue, for instance.

After the destruction of our local revenue authority in 1973, we got the oil corporations' lawyers to agree to not go to court against our sales of general obligation bonds to build new village schools, utility systems, houses, and other public facilities so badly needed by our communities. In 1974 and 1975, however, we were hit by severe dollar devaluation in the Arctic, resulting from the wasteful and inflationary operations of the industry at Prudhoe Bay and the construction of the trans-Alaska oil pipeline. Our \$1000 property tax limitation became impossible to live with. Last year the legislature agreed to raise our ad valorem tax limitation to \$1500 per capita, and we also decided to levy separately for debt service under the unrestricted authority of AS 29.53.055. We levied under the restricted authority of AS 29.53.045 for our operational budget, and under .055 for debt service. As soon as we did so, without consulting with the Borough or our attorneys to determine what harm it might do us, the Commissioner of Revenue wrote to our Prudhoe Bay taxpayers to inform them that taxes collected by our Borough under .055 would not be credited against the 20-mill State ad valorem levy on Prudhoe Bay property. This resulted in a series of law suits that resulted in the closing of the bond

market to the North Slope Borough last summer in the middle of our construction season, resulting in a multi-million dollar loss to the North Slope Borough through the cost of closing down several partially completed construction projects, and lost construction seasons in a hotly-inflationary construction cost spiral that is still climbing sharply today.

I feel that the added language on page one of HB 323 is a hangover from the 1973 Special Session, and represents the continued hostility of the State Department of Revenue against local government in rural Alaska. We have been placed in the middle of an argument between the oil corporations and the State that should never have been permitted to begin in 1973. We do not feel that the State should ever take over property taxation from local government. But as long as it has, we feel that all taxes paid to the Borough for both operations and debt service should be credited to the State's levy. Mr. Chairman. This can be done by eliminating the word "not" from line 21 of page 1 of HB 323. But, I would hope that in these times of more open politics, and return to the traditional values of American government, you would completely restore all of the North Slope Borough's revenue authority, and thus eliminate our need to levy under .055 for debt service. Certainly our full revenue authority should be re-

stored when production begins at Prudhoe Bay, and the State's need to share the North Slope Borough's revenue authority is over. In the meantime, the change we seek on line 21 would result in our being able to immediately sell general obligation bonds, and to use the 1977 construction season to renew construction of the homes, schools and utilities that we so badly need.

To sum up, I believe that you have a responsibility to bring Prudhoe Bay oil taxes in line with the new OPEC oil market of today. I feel that the State should force the oil corporations to openly and honestly compute and pay fair Alaskan income taxes. And I feel that the State should return to the North Slope Borough its unrestricted traditional ad valorem revenue authority at Prudhoe Bay.

I would be glad to answer questions, and our legislative consultant, Lew Dischner, is with you in Juneau to answer questions, as is Bob Dupere, our financial consultant. These men are old and good friends of mine, and of the North Slope Borough. They know the full story of our problems and I hope that you will call on them if you have questions.

Thank you very much for enabling me to testify before your Committee from my office in Barrow.

R. E. Grove
Manager, Anchorage Division
Production, U.S. & Canada



P.O. Box 2380
Anchorage, Alaska 99510
Telephone 907/274-1511

April 15, 1977

The Honorable Steve Cowper
Chairman, House Finance Committee
Alaska State House of Representatives
Pouch V - State Capitol Building
Juneau AK 99811

Dear Representative Cowper:

Enclosed is a copy of my formal testimony presented at the hearing of the House Finance Committee on Oil and Gas Taxation on April 14, 1977.

Again, I want to thank you and your committee for this opportunity to present our views, as a Cook Inlet operator, on the Administration's tax package.

If I can be of additional service in this matter, please feel free to call on me.

Yours very truly,

A handwritten signature in cursive script, appearing to read 'R. E. Grove'.

enc.

R. E. GROVE TESTIMONY
BEFORE HOUSE FINANCE COMMITTEE

April 14, 1977

Juneau, Alaska

I am Dick Grove, Anchorage Division Manager for Marathon Oil Company. I want to thank you for this opportunity to present Marathon's views on the proposed oil and gas tax legislation now under consideration by your committee.

With the volume of anti-free enterprise testimony expressed by several State consultants over the past couple of days, it is imperative that Marathon enter its views in the record from the standpoint of a Cook Inlet producer. Although our company does have a small interest (0.05%) in the Prudhoe Bay Field, Marathon's principal operations are confined to the McArthur River and Trading Bay fields in the Cook Inlet and the Swanson River, Kenai, and Beaver Creek fields on the Kenai Peninsula.

Marathon as The Ohio Oil Company was one of the early industry explorers of Alaska, having entered the scene back in the mid-50s. We helped conquer the early hostile environment problems in the Inlet. We were involved in bringing natural gas to the city of Anchorage. In reviewing past history, it is interesting to compare the current State taxing philosophy with the one present in the 1960s. Tax incentives were then available to encourage industry to come to the State and develop her natural resources.

Times have certainly changed with the discovery of Prudhoe Bay, the largest oil accumulation in the United States. Most states would be elated to have a discovery of this magnitude situated on royalty producing state leases. They would welcome the industry with its expertise to conquer the Arctic wilderness. However, now that the impossible has been accomplished, the taxing authority is treating the industry as an adversary.

The basic question now being asked is - "What is Alaska's fair share?". Marathon believes that the current tax rates are more than equitable to the State. In some cases, the threshold of incentive has already been breached. We are of the opinion that none of the oil and gas tax bills now under consideration by your committee should be passed. Further, it is suggested that the inequities in the present severance tax law should be amended by discarding the discriminatory cents-per-barrel provision and its faulty inflation compensator. A realistic economic limit approach is needed in the present law to eliminate premature well abandonments which result in the loss of vital oil and gas reserves and lease royalties to the State.

The technical critique presented earlier to your committee by Mr. Whealen and Mr. Wilson adequately covers the franchise tax and property tax legislation, and it is unnecessary for me to elaborate on these bills. However, as a Cook Inlet operator, Marathon would like to take this opportunity to address in some

detail the inequitable provisions contained in the severance tax bill, House Bill 321.

The authors proclaim that HB 321 reflects the ultimate in severance tax law. It eliminates the stair-step, producing rate vs. tax, approach which has created problems in the present law. It purports to compensate for the stage of depletion of a property and its relation to the economic limit. In addition, it introduces a modern inflation compensator, GNP Deflator. Oh yes, it also accomplishes its basic goal of substantially increasing the tax burden on both oil and gas.

Concisely, HB 321 contains the inequities of a price-per-unit of production tax which is defined by an artificial floor price of \$7.50 per barrel and 64¢ per MCF of gas. Unfortunately for Marathon and other operators in the Cook Inlet, our oil prices are controlled by the Federal Energy Administration (FEA) and are set far below this synthetic floor price. Specifically, Marathon's lower-tier oil price of \$4.89 per barrel at McArthur River Field could be assessed with a basic severance tax of 75¢ or an equivalent tax rate of 15.34% of actual wellhead value. This is an unjust variance from the 10% of value stated in the bill which only becomes operative when the wellhead crude price exceeds \$7.50 per barrel. Similarly, none of our natural gas is sold at a price approaching the 64¢ per MCF floor price stated in the bill. Again, we would be taxed at a much higher rate than the basic 10% of value specified in the bill.

It should be apparent that the present severance tax law and HB 321, contain the same inequity - the tax rate is controlled by a high artificial floor price. Not only are the Cook Inlet producers compelled to accept a low FEA regulated value for their crude oil, but the State of Alaska's severance tax burden is imposed utilizing an unrelated high floor price which is constantly inflating with time.

The deficiency in the Economic Limit Factor (ELF) advanced by HB 321 has been stressed by Mr. Richard Kilgore, the State's consultant with the Walter J. Levy Associates, during the Joint Resources Committee hearings last month. In theory, the ELF appears to serve a worthwhile purpose, but a careful analysis of its performance as production declines shows that it only results in superficial tax relief for a marginal producer. The bill specifies an economic limit of 100 barrels per day per well. This low limit is hardly representative of offshore or Arctic field operations. The operator is permitted to go to hearing to modify this limit, but the procedure allows very confining guidelines. For example, although a Cook Inlet operator is receiving a lower-tier crude price, he must justify a change in the ELF by using the world oil price corrected for transportation back to the wellhead. Also, minimal actual operating costs are allowed, which obviously makes the hearing route an exercise in futility.

With regard to the inflation compensator, why is an attempt made to adjust severance tax rates for inflation when the price of both oil and gas is rigidly controlled by two Federal agencies, the FEA and the Federal Power Commission (FPC)? This complication could easily be eliminated by confining severance tax assessments to actual wellhead prices with the percent of value concept.

One other feature of HB 321 deserves comment. This concerns the multiple severance tax penalty placed on flared gas. Flares as a safety measure are operating with the consent and approval of the Department of Natural Resources. A platform flare is the same as a pilot light in a gas stove. It must function continuously in order to safely ignite any excess gas created by an emergency, accident, or upset. A tax penalty on a safety device used for the protection of platform workers is impossible to comprehend.

In summary, we have attempted to objectively evaluate the economic impact of the pending tax bills on Marathon's current Alaskan operations. For example, if the Governor's original package, containing House Bills 321, 322, and 323, was enacted, it would increase our total State tax bill by more than 85%. Severance taxes would escalate 74% even though approximately \$1.1 million in gas severance tax would be "passed through" to the purchaser. The bulk of this would ultimately be paid

by the Anchorage gas consumers. The franchise tax, HB 322, would triple our income tax obligation. Similarly, HB 323 would add about 28% to our total property tax. The latter would attempt to tax our two LNG tankers which are engaged in international commerce and Marathon's ownership in the Kenai LNG plant operated by Phillips.

Thus, Marathon as a Cook Inlet producer is now paying the State of Alaska 12 cents per gross income dollar based on the existing tax statutes. We could be obligated to pay 22¢ per gross dollar if the Administration's tax package is enacted.

Comment: Incidentally, I would like to comment on the statistics quoted by Mr. John Messinger of the Department of Revenue earlier today. You will recall that he testified that Alaska ranks fourth in oil and gas taxes paid by producers behind Louisiana, Wyoming, and California. Having had some recent Wyoming experience, this came as a surprise. I have checked with our Casper, Wyoming office and find Marathon, who is the second largest producer in the state, pays a 9.6 cents per gross income dollar to the state. This compares with our Alaska payment of 12 cents per dollar.

To reiterate, Marathon believes the present Alaska oil and gas tax rates are more than adequate. This is apparent from a review of tax levels assessed by the other more mature producing states in the United States. Current tax burdens have already had a dampening effect on extra recovery schemes. With the exception of Prudhoe Bay, the capacity to produce liquid hydrocarbons in the State is on the decline. It should be one of the State's goals to encourage the exploitation of existing reserve potentials by removing unnecessary tax burdens on such operations. This is obviously not the intent of the current group of tax bills.

The most prominent anomaly in the entire oil and gas taxation area has yet to be mentioned during my testimony. Where is the need for added State revenue? The forecast presented by the Commissioner of Revenue indicates an enormous surplus in the General Fund in the years to come. How can the Executive and/or Legislative branches of government consider placing a heavier unneeded tax on the one industry who is keeping the State financially sound? That question has yet to be answered satisfactorily by anyone in State Government.

This concludes my prepared testimony.

R. E. Grove

Wilson 4-14-77



SPECIAL ANALYSES BUDGET OF THE UNITED STATES GOVERNMENT

FISCAL YEAR

1978

repeal of all itemized deductions resulting in tax expenditures. This hypothetical revenue gain would be \$21.2 billion in 1978, whereas the simple sum of the tax expenditures for each separate item is \$31.3 billion. The estimate for the combined effect of all such deductions was derived from a model of the tax system that accounts for the interaction between tax expenditure provisions and the provisions of the normal structure. In particular the model provides that individuals would take the standard deduction if itemized deductions were repealed. No comparable estimate can reasonably be made for the combined effect of a hypothetical repeal of all exclusion provisions.

A few aggregations of related tax expenditure items are presented and discussed in the next section. These aggregates have been specially estimated so as to account for the interactions referred to above but do not consider the effect of changes in behavior. Where tax expenditures for both individuals and corporations result from the same tax code provision, such as the investment tax credit, the two estimates may appropriately be added together.

TAX EXPENDITURES BY FUNCTION

Estimates of tax expenditures are grouped together by functional category and presented in table F-1. The estimates are shown separately for individuals and corporations. Wherever possible, particular tax expenditures have been classified according to the functional categories used for budget outlays. Many tax expenditures do not, however, fit into these categories and for this reason three special functional categories have been added: business investment; personal investment; and other tax expenditures.

A brief description of each of the special tax provisions for which a tax expenditure estimate is shown in table F-1 follows.

National defense.—The supplements to salaries of military personnel, including provision of quarters and meals on military bases and quarters allowances for military families, and virtually all salary payments and reenlistment bonuses to military personnel serving in combat zones, are excluded from tax. Disability-related military pensions received by current retirees are largely excluded from taxable income. The Tax Reform Act of 1976 terminated the exclusion of noncombat related disability pensions for those who entered the armed services after September 24, 1975.

International affairs.—Prior to 1976, a U.S. citizen was generally able to exclude up to \$20,000 a year of foreign earnings if the taxpayer were a bona fide resident of a foreign country. After 3 years of foreign residence a taxpayer could exclude up to \$25,000 a tax year of foreign earnings. The Tax Reform Act of 1976 modified these provisions, limiting the exclusion to \$20,000 only for employees of U.S. charitable organizations and reducing it to \$15,000 for all others, denying tax credits for foreign taxes paid on excluded income, and taxing income beyond the amount eligible for exclusion at the higher bracket rates which would apply if the excluded income were also subject to tax. The estimates also reflect the tax-exempt status of certain allowances received by Federal employees working abroad.

Table F-1. TAX EXPENDITURE ESTIMATES BY FUNCTION¹

(In millions of dollars)

Description	Corporations			Individuals		
	1976	1977	1978	1976	1977	1978
National defense:						
Exclusion of benefits and allowances to Armed Forces personnel.....				1,020	1,095	1,260
Exclusion of military disability pensions.....				90	105	115
International affairs:						
Exclusion of gross-up on dividends of LDC corporations.....	40					
Exclusion of income earned abroad by U.S. citizens.....				145	120	135
Deferral of income of domestic international sales corporations (DISC).....	1,220	1,030	1,190			
Special rate for Western Hemisphere trade corporations.....	50	35	25			
Agriculture:						
Expensing of certain capital outlays.....	85	80	70	455	370	440
Capital gain treatment of certain income.....	10	10	15	315	330	350
Natural resources, environment, and energy:						
Exclusion of interest on State and local government pollution control bonds.....	110	170	220	50	75	100
Exclusion of payments in aid of construction:						
Water and sewage utilities.....		15	10			
Expensing of exploration and development costs.....	640	610	600	160	105	150
Excess of percentage over cost depletion.....	1,010	1,035	1,060	285	275	300
Pollution control: 5-year amortization.....	10	-80	-130			
Capital gain treatment of royalties on coal and iron ore.....	15	20	20	40	45	50
Capital gain treatment of certain timber income.....	290	300	325	95	95	100
Commerce and transportation:						
Exemption of credit unions.....	145	165	185			
Exclusion of certain income of cooperatives.....	410	455	490	-155	-165	-170
Corporate surtax exemption.....	4,170	4,650	4,250			
Deferral of tax on shipping companies.....	110	90	70			
Railroad rolling stock: 5-year amortization.....	-25	-35	-40			
Financial institutions: Excess bad debt reserves.....	485	560	645			
Deductibility of nonbusiness State gasoline taxes.....				710	795	880
Community and regional development:						
Housing rehabilitation: 5-year amortization.....	15	10	5	25	20	10
Education, training, employment, and social services:						
Exclusion of scholarships and fellowships.....				195	250	285
Parental personal exemptions for students, ages 19 and over.....				720	750	770
Deductibility of contributions to educational institutions.....	190	215	240	510	540	565
Deductibility of and credit for child and dependent care expenses.....				250	840	870
Credit for employing AFDC and public assistance recipients.....	10	15	15			
Health:						
Exclusion of employer contributions to medical insurance premiums and medical care.....				4,490	5,195	5,840
Expensing of removal of architectural barriers to the handicapped.....		5	10			
Deductibility of medical expenses.....				2,315	2,585	2,870
Income security:						
Exclusion of social security benefits:						
Disability insurance benefits.....				330	380	430
OASI benefits for aged.....				2,725	3,125	3,460
Benefits for dependents and survivors.....				645	730	795

See footnote at end of table.

Table F-1. TAX EXPENDITURE ESTIMATES BY FUNCTION¹

Description
Income security—Continued
Exclusion of railroad retiree benefits.....
Exclusion of sick pay.....
Exclusion of unemployment benefits.....
Exclusion of workmen's compensation.....
Exclusion of public assistance.....
Exclusion of special benefits for miners.....
Net exclusion of pension contributions:
Employer plans.....
Plans for self-employed and nonexcluded other employee plans.....
Premiums on group-term life insurance.....
Premiums of accident and health insurance.....
Income of trusts to finance employment benefits.....
Meals and lodging (other than employer contributions to plans).....
Employee stock ownership plans through investment tax credits.....
Exclusion of capital gain on life insurance.....
Excess of percentage standard income allowance.....
Additional exemption for the elderly.....
Additional exemption for over 65.....
Retiree's income credit and earned income credit.....
Veterans benefits and services:
Exclusion of veterans disability benefits.....
Exclusion of veterans pension benefits.....
Exclusion of GI bill benefits.....
General government: Credits and deductions:
Charitable contributions.....
Revenue sharing and general tax credits.....
Exclusion of interest on general local debt.....
Credit for corporations in U.S. possessions.....
Deductibility of nonbusiness expenses (other than on owner-occupied line).....
Interest: Deferral of interest on:
Business investment:
Exclusion of interest on State and local government bonds.....
Excess first-year depreciation.....
Depreciation on buildings in rental housing.....
Other.....
Expensing of research and development.....
Expensing of construction costs.....
Capital gain: Corporate (other than timber).....
Investment credit.....

See footnote at end of table.

Table F-1 TAX EXPENDITURE ESTIMATES BY FUNCTION—Continued
(In millions of dollars)

Description	Corporations			Individuals		
	1976	1977	1978	1976	1977	1978
Personal investment:						
Dividend exclusion				430	455	480
Capital gain: Individual (other than farming and timber)				7,320	7,030	7,360
Exclusion of interest on life insurance savings				1,655	1,815	1,995
Deferral of capital gain on home sales				845	890	935
Deductibility of mortgage interest on owner-occupied homes				4,870	5,435	6,030
Deductibility of property taxes on owner-occupied homes				4,030	4,500	4,995
Deductibility of casualty losses				310	345	380
Credit for purchase of new home				650	100	
Other tax expenditures:						
Deductibility of charitable contributions (other than education)	350	400	445	4,360	4,900	5,475
Deductibility of interest on consumer credit				2,105	2,310	2,565
Maximum tax on earned income				605	730	855

MEMORANDUM

Combined effect of provisions disaggregated above:

Capital gains	865	885	905	7,770	7,500	7,860
Exclusion of interest on State and local debt	3,110	3,475	3,925	1,645	1,850	2,090
Deductibility of State and local nonbusiness taxes				10,865	12,125	13,460
Deductibility of charitable contributions	540	620	685	4,870	5,440	6,040

1 All estimates are based on the tax code as of Dec. 31, 1976.

The 1976 Act repealed a special provision for U.S. firms operating in a less developed country (LDC). When a foreign subsidiary of a U.S. corporation operating in a LDC repatriated dividends to its parent corporation, that income could, under prior law, be reported net of foreign income taxes paid. U.S. tax liability was then calculated on that net amount and the foreign tax taken as a credit. For non-LDC corporations, foreign source income must now be "grossed up" by adding back in an amount equal to foreign taxes paid. Under prior law the failure to "gross up" dividends by the amount of the foreign taxes paid to LDCs resulted in a tax expenditure.

The profits of a domestic international sales corporation (DISC) are not taxed to the DISC but instead are taxed to the shareholders when distributed to them. This deferral was available for 50% of the export income of a DISC prior to 1976. The Tax Reform Act of 1976 permits DISC benefits to the extent that current export gross receipts exceed 67% of the DISC's average for a 4-year moving base period (initially 1972-75) which will move forward year-by-year after 1979. DISCs with less than \$150,000 of taxable income are exempt from the incremental rule. The Tax Reduction Act of 1975 denied DISC benefits to exporters of energy products and the 1976 Act terminated DISC benefits for 50% of military sales.

The 1976 Act phases out the 14-percentage-point tax rate reduction provided under prior law for domestic corporations qualifying as Western Hemisphere trade corporations.

Agriculture.—Paying corporations certain costs as credit for inventories on payments. The Tax Reform Act forms of tax treatment accrual accounting agricultural activity costs.

Capital gains tax on orchards, vineyards.

Natural resources. State and local government control facilities of oil. The volume of oil growing rapidly in the Tax Reform Act by customers to aid of aiding the conservation of capital rather than.

Certain capital production may be over the useful life of intangible drilling the cost of development for mine shafts, tunnels amounts deducted wells to be recaptured property by treating that they exceed expenses were capitalized the well. The Act drilling costs in a capitalized and an cost depletion method.

Extractive industries and percentage depletion not immediate life of the property for the depreciation businesses in the percentage of gross to 5% for certain 65% of net income not limited to the basis for "cost depletion recovered through intangible drilling percentage depletion expenditure and depletion and exp would be significant.

Table F-1. TAX EXPENDITURE ESTIMATES BY FUNCTION¹—Continued
(In millions of dollars)

Description	Corporations			Individuals		
	1976	1977	1978	1976	1977	1978
Income security—Continued						
Exclusion of railroad retirement system benefits	-----	-----	-----	190	200	205
Exclusion of sick pay	-----	-----	-----	195	50	55
Exclusion of unemployment benefits	-----	-----	-----	3,335	2,745	2,445
Exclusion of workmen's compensation benefits	-----	-----	-----	590	705	810
Exclusion of public assistance benefits	-----	-----	-----	95	100	105
Exclusion of special benefits for disabled coal miners	-----	-----	-----	50	50	50
Net exclusion of pension contributions and earnings:						
Employer plans	-----	-----	-----	7,290	8,715	9,940
Plans for self-employed and others	-----	-----	-----	1,060	1,305	1,535
Exclusion of other employee benefits:						
Premiums on group-term life insurance	-----	-----	-----	765	800	835
Premiums of accident and accidental death insurance	-----	-----	-----	65	70	75
Income of trusts to finance supplementary unemployment benefits	-----	-----	-----	10	10	10
Meals and lodging (other than military)	-----	-----	-----	310	330	350
Employer contributions to prepaid legal expense plans	-----	-----	-----		5	10
Employee stock ownership plans (ESOP) funded through investment tax credits	25	245	255	-----	-----	-----
Exclusion of capital gain on home sales if over 65	-----	-----	-----	40	40	70
Excess of percentage standard deduction over low-income allowance	-----	-----	-----	1,140	1,285	1,410
Additional exemption for the blind	-----	-----	-----	20	20	20
Additional exemption for over 65	-----	-----	-----	1,145	1,220	1,280
Retirement income credit and credit for the elderly	-----	-----	-----	110	495	440
Earned income credit	-----	-----	-----	220	215	205
Veterans benefits and services:						
Exclusion of veterans disability compensation	-----	-----	-----	595	655	690
Exclusion of veterans pensions	-----	-----	-----	30	30	35
Exclusion of GI bill benefits	-----	-----	-----	305	255	200
General government: Credits and deductions for political contributions	-----	-----	-----	35	40	35
Revenue sharing and general purpose fiscal assistance:						
Exclusion of interest on general purpose State and local debt	2,845	3,105	3,470	1,520	1,680	1,880
Credit for corporations in U.S. possessions	240	285	310	-----	-----	-----
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes and gasoline)	-----	-----	-----	7,255	8,095	8,990
Interest: Deferral of interest on savings bonds	-----	-----	-----	550	565	625
Business investment:						
Exclusion of interest on State and local industrial development bonds	150	195	235	75	90	110
Excess first-year depreciation	40	45	45	140	135	145
Depreciation on buildings in excess of straight line:						
Rental housing	100	100	100	405	405	425
Other	225	210	200	200	180	175
Expensing of research and development expenditures	1,325	1,395	1,450	25	30	30
Expensing of construction period interest and taxes	415	475	500	215	150	140
Capital gain: Corporate (other than farming and timber)	545	555	550	-----	-----	-----
Investment credit	7,655	8,640	9,670	1,810	1,970	2,205

See footnote at end of table.

Notes for testimony on Oil and Gas Taxation by
Victor Fischer, Professor of Political Science and Regional Planning
Institute of Social and Economic Research
University of Alaska
before House Finance Committee, Alaska State Legislature, Juneau
April 14, 1977

Mr. Chairman, members of the committee:

I am testifying today as an individual concerned with some of the key policy issues involved in the taxation of oil and gas by the State of Alaska.

Much of Alaska's future depends upon the legislature's and the governor's ability and willingness to face these issues and act accordingly. What you do may well determine whether Alaska gets raped and ripped off once more, or whether the state and its citizens participate in the benefits that come from resource development.

I will not, for two reasons, delve into the different taxation proposals. First of all, I consider the means of taxation secondary to questions of whether and how much to tax. Secondly, I am not an expert in petroleum taxation or economics. (The institute has specialists in these areas, but I'm not here representing either ISER or the University of Alaska.)

In approaching this whole subject, I start with the belief that the state has the power, the right, and the justification to levy taxes on oil and gas to benefit and meet the needs of the people of Alaska now and in the future. And to me this means that the state should go after the maximum possible ^{oil revenue} share for Alaska.

I primarily want to deal with oil and gas taxation policy issues in terms of the arguments that have been raised by industry and other representatives in ^{their adamant opposition to} ~~response~~ changes and increases.

* * *

Much nonsense has been bantered about the "fair deal" principle of oil taxation. Mostly we have been fed a phony line, a bunch of gibberish.

We've been told that the oil companies bought leases with the understanding that tax rules wouldn't be changed in the future. That's pure nonsense, and every oil executive knows that. Oil companies, in fact, made allowances for future tax levels significantly higher than those prevailing at the time—1 or 2c per barrel . . . The only "compact" pertained to lease terms. As a sovereign state, Alaska could change its tax laws every year if it wished, and everyone knows that, especially the oil companies, and that's why they are here so much of the time making sure we don't do what we have every legal and moral right to do.

And speaking of lease terms—a number of studies ^{and innumerable consultants} have shown that if anyone didn't get a "fair deal" from Prudhoe Bay oil leasing, it was the Alaska public. Several independent studies have concluded that the state should have received billions of dollars in 1969, rather than the paltry \$900 million. From that standpoint, it would be only appropriate to now square the deal!

Rather than talking about any concept of "fair deal," we should be concerned about fair value. In the case of oil and gas, we are dealing with a common property, ^{with} community resources that belong to this generation and to Alaskans in the future. No fixed formula really gets at the question of what is a fair value payment to the people of Alaska. We have long struggled to arrive at a point where the willing buyer meets the willing seller. We still need to keep trying, for I greatly doubt that our existing tax structure is at that magic point.

In working toward establishing a fair value for Alaska's resources, we must keep moving toward the point at which we have tangible evidence that the industry is "walking away." Only at that point are we at the critical point. ~~■~~ Until we reach it, we are giving away resources or values that belong to Alaskans of the present and the future. And when we do reach the tipping point, we can then decide how far and in what direction to make further adjustments.

* * *

"Oil taxation in Alaska is equal to or higher than any other state . . ."

That proves nothing to me. It may simply be that other states are far too low . . .

Just the other day I read an article in the *Economist* about oil taxation in Texas, and it was clear that ~~that~~ ^{that} particular state has had a traditional policy of keeping oil prices low. I am sure that goes for every other oil-producing state, for that is where ^{the are located in force} oil lobbies and their ^{representatives} ~~exercise~~ exercise the greatest influence—just as they are trying to in Alaska.

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It seems to me that if comparisons are made, they should be with OPEC and other nations. It is there that you will find situations comparable to ours: Where a sovereign government is out to extract maximum benefits from oil development without killing off the industry.

* * *

"Should not single out the oil industry . . ."

Every state and nation singles out the major industry, the concentrations of wealth, those most capable of paying.

It was because the Territory was unable to effectively tax the Guggenheims and the salmon industry that they were not singled out—and because of that, Alaska and its people have been worse off ever since.

* * *

"Oil development pays for itself . . ."

Yes, but not always.

~~That's~~^{It's} pretty well true of oil found on state lands. But state lands account for only one-tenth of the estimated speculative recoverable oil and gas resources in Alaska. Federal offshore resources account for about two-thirds of the totals projected for oil and gas, and as of now, their development would be a pure net liability to the state.

Current ISER analyses ~~show~~ that federal OCS leasing will generate a cost of \$220 million to the state in 1990. And even this projection is very conservative, for it is predicated on two precarious assumptions: (1) that the state receives federal grants equivalent to 10% of federal OCS revenues, and (2) that the state is able to levy income taxes on OCS workers regardless of where they live . . . Without these two assumptions being realized, the 1990 cost to the state would exceed the \$220 million by \$50 to \$100 million.

In general, it must be recognized that oil development is responsible—directly and

indirectly—for population growth, social problems, unemployment, community facility needs, and many other things that—in the end—result in increased state expenditures.

* * *

"Oil industry should be encouraged rather than discouraged . . ." "If the state raises taxes, the industry will . . ." ~~the industry will~~ *You know the rest.*

I agree that we should encourage whatever development will benefit Alaska. But we should not encourage development at the expenses of ~~Alaskans~~ Alaskans. Above all, we must make sure that we don't give away potential benefits where we get nothing in return. And this can readily happen under at least two circumstances.

First, we may simply tax too low to make any difference . . . Twenty years ago, Alaska had a severance tax rate of 1%. When proposals came up before the legislature to double the tax—to 2%—~~screams~~ screams went up from the oil industry and its friends that we will discourage future exploration and development in Alaska . . . And when the next time came around for tax increase proposals, we heard the same threats. Just as we hear them now, from some of the same people.

No one wants to pay taxes (and I wish I had some way of threatening IRS tomorrow that I'll take my marbles to Canada if they don't lay off me! ~~to me~~). Thus, I don't blame them for using every argument in the book. But our past experiences, as well as our common sense, tell us that we shouldn't necessarily accept all their arguments and, as they might say in the industry, leave any potential tax ~~money~~ ^{money} on the table. Especially when we have no commitments from the industry that we will get anything in return for a low tax rate.

Secondly, I believe that we better have a good idea of what it is that we are being asked to encourage ^{and} ^{purpose} for what we are to keep our taxes lower. I just have a very strong hunch that what we do will have little effect on whether any additional major oil discoveries will be made in Alaska. This is particularly so because most projected reserves are on federal lands, both offshore and onshore.

Alaska's energy nest egg may be far smaller than initially surmised.
In fact, there is no guarantee whatsoever that any more giant fields will be found. ^{Just} last week we were advised that Pet 4 may be a bust. No end of state inducements will bring

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discoveries if there is no oil to be discovered.

It is ~~that~~ my conviction that the state should adopt policies and strategies premised on Prudhoe Bay being a one-time event. That means we must secure Alaska's future on the basis of Prudhoe, without maintaining false hopes for further bonanzas. If some other giant fields are discovered, that would be fine; but at least we will not have given away what may be a chance of a lifetime to meet Alaska's needs . . .

An oil lobbyist, trying to make a totally different point, was recently quoted as saying: "When Prudhoe Bay production begins to decline in 20 years, what will the state look for in the way of revenue, if there have not been other fields discovered and economic endeavors that would encourage economic viability in the state?" (sic) Exactly my question, my point.

Economic viability will come from making the best of our present opportunities, which, to me, above all, means taxing Prudhoe to build up the Permanent Fund and otherwise build Alaska's base. It will not come through giving money to the oil industry in the form of lower taxes.

And future revenues will also be available only if we use what may be a one-time opportunity to build a basis for an adequate income stream in the future. Our present tax structure won't make this possible. Let me run through a quick projection of what kind of revenue situation we might be facing.

Assume for the moment that there are no more major fields brought in and that by year 2,000, or somewhere around that time, oil and resultant revenues decline or cease . . . Let's further assume that by severe holding down of state expenditures we have managed, without resorting to tax increases, to accumulate a fund balance of \$20 billion (a rather generous assumption).

That \$20 billion could function as an annuity to help cover future state expenditures. BUT, that would be far from enough to sustain even the present level of spending. In fact, we would be about 25% short of meeting funding requirements, even with that colossal amount of savings.

Thus, if we consider the \$20 million an annuity, it would, at 7%, bring an income of about \$2,000 per capita (assuming, conservatively, a year 2,000 population of 600,000). To

get some feel for what that means, you have to deflate that to 1977. Using an inflation rate of 5%, we come up with a 1977 value of \$650.

What this means is that ~~■~~ our oil-produced savings of \$650 together with non-petroleum revenues of \$900, would, in effect, produce a total income ^{equivalent to} of \$1,550 per capita in 1977 . . . Compare that to per capita state expenditures of roughly \$2,000, and you see that we have a significant revenue gap . . . And this, in effect, is what Alaska will face when petroleum revenues run out in the future—be it year 2,000, or whenever—unless we think in terms of taxing and saving; not just in terms of what seems “fair” today, but ~~also~~ ^{taking} into account revenue needs of the future.

To deal with this situation, we must start thinking, and making revenue and expenditures projections, not ~~just to~~ ^{just to} 1985, but to year 2,000 and beyond. What looks like a massive surplus that we may be building up from Prudhoe Bay revenues may be totally inadequate to sustain the state in the long run. Only an adequate savings program based on greatly increased revenues will provide for Alaska's future at the time when the oil industry may be a figment of the past.

If we raise our taxes to adequate levels now, we can always lower them if we find a need for incentives. But there is no indication now that incentives are needed or that higher taxes will scare the industry away, especially since most projected activities will take place in areas where the state will receive no benefits.

* * *

“Oil and Gas taxes will generate income in excess of state needs . . . ” “Not justified by state needs . . . ” etc.

That, of course, is utter nonsense. Not only in the long run, as I have just discussed, but also in terms of Alaska's present needs.

For the past several years—both under the Egan and Hammond administrations, per capita state expenditures have, in terms of real dollars, been kept at an effectively static level. Department of Revenue expenditure projections actually appear to show a decline of per capita spending in the years to come. (“Alaska's Oil and Gas Tax Structure,” February 1977, p. IV-31.) This holding down of state spending in no way says that the state and its people have no needs.

Let's take a look at rural Alaska, and here the North Slope Borough starts providing us with an initial measure of unmet needs.

While the total North Slope population is somewhere in excess of 10,000, by the time you discount that by oil-related employees at Prudhoe and elsewhere and by people on federal installations, you come down to about 4,000 residents who are actually served by the borough. During the last fiscal year, the borough spent more than \$14 million on non-capital expenditures, or about \$3,500 per permanent resident. Half of this amount was raised through local taxes, essentially property taxes, levied on the oil industry. This money is being spent for a whole variety of local services—everything from education to street maintenance to utilities and law enforcement, zoning, and cultural preservation. In essence, the North Slope Borough is spending the equivalent of \$1,750 per capita in a rural region for "needs" that are not being met by the state or anyone else.

I believe that it is quite fair to assume that the needs of the rest of rural Alaska are at least as great as those of the North Slope. If we assume that, we come up with an annual unmet expenditure need of \$180 million.

Let's take a similar look at capital projects. The North Slope Borough has a total of \$56 million in authorized bonds for capital improvements: Schools, roads, power and heating plants, water, sewer, housing, and other projects, excluding \$11.5 million scheduled for Prudhoe Bay sanitary facilities. Assuming once more that similar needs exist throughout the rest of rural Alaska, the resultant need for capital improvements in rural areas is about \$15 billion!

It is obviously ~~by~~ ridiculous to even suggest that greater income is not justified by existing needs. Just because the state is currently not doing much to meet these needs doesn't mean that such needs don't exist.

I have, so far, mentioned only rural areas. What about the cities? Are there no unmet needs?

How about our transportation system in the state? Is there no need for more and better roads? Better airports? Docks and harbors? Ferry system extensions? *Better communications?*

Are there no more educational needs? Health needs? Law enforcement needs? Cultural enrichment needs? Is there no need for expanded local government revenue sharing?

No one can tell me there are no state needs that would justify more state income (even

Whelan

4-14-77

ALASKA TAXATION OF
THE PETROLEUM INDUSTRY

Alaska Oil and Gas Association
January, 1977

FOREWORD

This paper, in five parts, summarizes the taxation of the petroleum industry in the State of Alaska.

Part I lists the major oil and gas taxes and royalties received by the State and expresses these as a percentage of total Unrestricted General Fund Revenues.

Part II describes the Oil and Gas Production Tax and shows the details of this complex tax together with examples of the tax calculation using current data and tax rates.

Part III describes the system of property taxation imposed on petroleum industry properties, both at the state and local level, and demonstrates the magnitude and importance of these taxes.

PART IV compares the combined property tax and production tax burden on oil production in Alaska with that of the other major oil producing states.

Part V summarizes the income taxation of multi-state corporations operating in Alaska and compares Alaska with other states.

PART I
STATE OF ALASKA REVENUE SOURCES

Assertions have been made that the oil industry is not paying its fair share of taxes to the State of Alaska. However, an objective review of Alaska's existing, comprehensive tax structure will clearly demonstrate that such assertions are simply untrue. Revenues from existing tax laws, royalties and other sources are sufficiently funding the costs of operating state government and are also expected to produce very large surplus funds in the future.

Attached is a comparative listing of direct oil and gas related revenues included within Alaska's total Unrestricted General Fund Revenue. The purpose of this listing is to show the percentage of revenues emanating from oil and gas related sources as compared to other sources.

The periods listed are Fiscal Years 1976 and 1981. Data for FY 1976, the most recent period, is taken from the State of Alaska Annual Financial Report. Fiscal Year 1981, four years after start-up of Prudhoe Bay Field production, was selected as a period when the Field would likely be on full production and the reserves taxes paid in 1976 and 1977 would have been substantially recovered out of production taxes. Data for FY 1981 are estimates from a study prepared by the Legislative Affairs Agency in May 1976.

It is significant to note that the percentage of revenue from direct oil and gas related sources was 54.7% in FY 1976 and is estimated by the Legislative Affairs Agency

to be 79.3% in FY 1981.

During Fiscal Year 1976, Unrestricted General Fund revenues exceeded expenditures to the extent that the ending balance or surplus increased \$125.6 Million to \$504.9 Million. Of this amount, \$337.8 Million is designated as available for appropriation. Fiscal Year 1976 was the first year since about 1970 that revenues have exceeded expenditures.

State of Alaska
Unrestricted General Fund Revenues
(\$ Millions)

<u>Type of Revenue</u>	<u>Fiscal Year 1976</u>		<u>Fiscal Year 1981</u>	
	<u>Actual (1)</u>		<u>Estimate (2)</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Directly Oil and Gas Related</u>				
Oil & Gas Property Tax	83.3		154.4	
Oil & Gas Reserves Tax	223.1			
Oil & Gas Production & Cons. Tax	28.0		425.5	
Oil & Gas Royalties	47.4		877.6 (3)	
Oil & Gas Mineral Rentals	4.0			
	<u>385.8</u>	<u>54.7%</u>	<u>1,457.5</u>	<u>79.3%</u>
Other Revenue	<u>319.7</u>	<u>45.3%</u>	<u>379.4</u>	<u>20.7%</u>
Total Revenue	705.5	100%	1,836.9	100%

- (1) State of Alaska Financial Report for Fiscal Year Ended June 30, 1976 (Statement #9)
- (2) Table 2, Revenue and Expenditure Projection Analysis for 1975-1985 prepared by Legislative Affairs Agency, State of Alaska, May 26, 1976.
- (3) Subject to 25% allocated to Permanent Fund and subject to 16% of certain royalties for Native Claims Settlement Act Fund until \$500 Million paid therein.

PART II
ALASKA OIL AND GAS PRODUCTION TAX

SUMMARY

- . The Alaska Oil Production Tax is calculated either as a percentage of value or under a cents-per-barrel schedule; the greater of the two is the tax payable.
- . The cents-per-barrel production tax schedule is an arbitrary floor or "reference price" keyed to changes in the national Wholesale Price Index for oil. Thus, when that Index increases the cents-per-barrel tax rates automatically increase, even though Alaska oil prices may not have changed.
- . Virtually all of the Cook Inlet Basin oil production is "old" oil which is priced on the lower tier schedule but is taxed on the higher cents-per-barrel tax schedule.
- . The effective production tax rate on individual oil wells varies from 5% to about 11% of the producer's share of gross revenue.
- . The average oil production tax rate in Alaska in 1975 was 8.1%, a rate exceeded by only one major producing state.
- . Alaska's production tax rate on oil has increased from 1% (on 7-17-68) to today's average rate of 8.1%.
- . In Fiscal Year 1976, Alaska collected \$27.9 Million in oil and gas production taxes.
- . After North Slope production comes on stream, the State will receive hundreds of millions of dollars annually from the production tax at current rates.

ALASKA OIL AND GAS PRODUCTION TAX

The State of Alaska imposes a substantial tax on the production of oil and gas within the State. The tax is imposed upon all oil and gas production except that portion representing State or Federal royalties.

The production tax on gas is equal to 4 percent of the value of the gas produced.

The Alaska production tax on oil has an artificial revenue device unique as compared to the production taxes of other states in that it not only looks to a percentage of value of the oil as a measure of the tax, but alternately contains a sizeable minimum "cents-per-barrel" tax (or a "reference price" floor) irrespective of the actual oil price. This arbitrarily produces continued revenues to Alaska at one of the highest rates in the country.

The production tax on oil is based upon the average daily production of each producing well. As mentioned, the tax is calculated under two methods: the percent-of-value method and the cents-per-barrel method. The tax actually paid is the tax which is the higher under the two methods.

Both methods of computing the tax use the same sliding production scale, i.e., the lowest rates apply to the first barrels from the well per day and the higher rates to the last barrels. Since January 1, 1974, the sliding scale of production and the rates for the respective calculation methods have been as follows:

Calculation Method

<u>Average Daily Production from a Well</u>		<u>Percent of Value</u>	<u>Cents-per-Barrel (Before Adjustments)</u>
First	300 bbls	5%	\$.16875
Next	700 bbls	6%	.2025
Over	1,000 bbls	8%	.2700

The above cents-per-barrel rates set out in the statutes must undergo certain adjustments to determine the cents-per-barrel rates actually applied in tax calculations for a particular month. These adjustments take into account (1) differences in gravity of oil, and (2) month-to-month changes in the Bureau of Labor Statistics Wholesale Price Index of Crude Petroleum ("Index").

In applying the percent-of-value schedule to oil production from a particular well, the first 300 barrels of average, daily production are taxed at 5 percent of value, the next 700 barrels at 6 percent of value, and the value of all barrels of average, daily production over 1,000 barrels is taxed at 8 percent of value.

Under the alternate cents-per-barrel method, the number of barrels within each of the above ranges is multiplied by a cents-per-barrel rate. If the total tax under the cents-per-barrel method is greater than the tax under the percent-of-value method, then the tax under the cents-per-barrel method will be the tax payable.

As noted earlier, the statutory cents-per-barrel rates must be adjusted, in two ways:

- (1) The above statutory rates are adjusted upward

2 percent for each degree of gravity of the oil above 27 degrees and are adjusted downward 2 percent for each degree below 27 degrees.

(2) Another adjustment is made to reflect changes in the Wholesale Price Index of oil which have occurred after January 1, 1974. The amount of change in the Index since January 1, 1974, becomes the percentage change applied to the stated cents-per-barrel rates when notification is given by the Department of Revenue. The latest pronouncement by the Department, effective for December 1976 production, notified taxpayers that the Index and thus the cents-per-barrel rates have risen 80.85% since January 1, 1974.

The application of the oil production tax can be made clear by an example using current actual data and tax rates for a single day of production. Assume a well on a state lease producing 1,400 barrels per day of 35-degree oil valued at \$4.8407 per barrel.* The royalty rate to the State is one-eighth (i.e., 175 bbls).

*The value in the example is an "old" controlled oil price under Federal Energy Administration controls. About 95% of oil at Cook Inlet is "controlled" oil.

Percent-of-Value Calculation

First 300 bbls x \$4.8407 = \$1,452.21 x 5% =	\$ 72.61
Next 700 bbls x \$4.8407 = \$3,388.49 x 6% =	\$203.31
Last 400 bbls x \$4.8407 = \$1,936.28 x 8% =	<u>\$154.90</u>
	\$430.82
Less: Portion of Tax (1/8) Attributed to Exempt Royalty	<u>\$ 53.85</u>
Daily Production Tax (Percent-of-Value Method)	\$376.97 =====

Cents-Per-Barrel Calculation
(using December 1976 rates)

First 300 bbls x \$.3539 per bbl =	\$106.17
Next 700 bbls x \$.4248 per bbl =	\$297.36
Last 400 bbls x \$.5664 per bbl =	<u>\$226.56</u>
	\$630.09
Less: Portion of Tax (1/8) Attributed to Exempt Royalty	<u>\$ 78.76</u>
Daily Production Tax (Cents-Per-Barrel Method)	\$551.33 =====

Since the cents-per-barrel calculation produces the higher rate, \$551.33 would be the production tax owed on the day's production. This example demonstrates that the cents-per-barrel tax acts as a "floor" or minimum tax.

The percentage of production tax burden varies with a well's production rate as shown below (calculated in the same manner as the example using "old" oil in the Cook Inlet Basin):

<u>Average Daily Production From a Well (bbls/day)</u>	<u>Production Tax as % of Producer's Share of Daily Production</u>
560	8.0%
880	8.3%
1,400	9.3%
1,800	9.8%
2,400	10.3%
4,800	11.9%

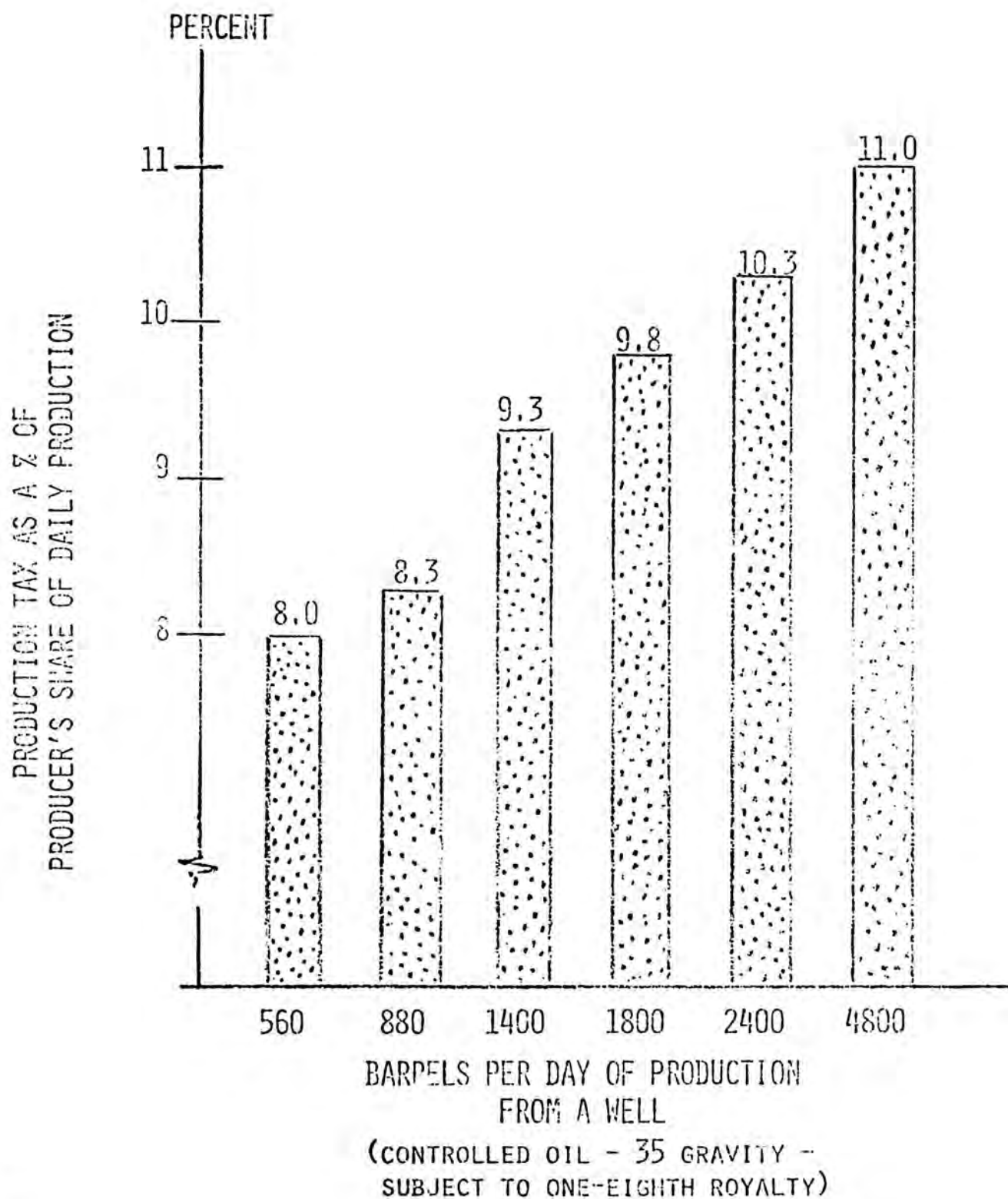
As mentioned, the elaborate Alaska tax calculation described above produces one of the highest tax rates in the Nation. As shown above, the cents-per-barrel method of calculation, which currently applies to most Alaska oil production, results in a tax which represents a substantially higher percentage than the percent-of-value rates set forth in the Alaska statute. Current tax rates on individual wells vary from 5% to more than 10% of production value, the industry average approximating 8.1%.

The substantial increase in the national crude oil wholesale price index has been primarily due to increased oil prices in states other than Alaska and thus has resulted in completely inequitable tax rate increases upon Alaska's oil, which oil is predominantly controlled at much lower prices. It is assumed that this resultant inequity was not intended by the Alaska legislature when it enacted the provision gearing the tax "floor" to the Index.

When first imposed in 1955, the Alaska oil production tax was only 1% of value. It has steadily increased to today's high rates which in some cases exceed 10%.

For the fiscal year ended June 30, 1976, the oil and gas production tax revenue to the State of Alaska was \$27,901,118. Looking ahead to combined North Slope and Cook Inlet production the State will receive hundreds of millions of dollars in revenue annually from its production tax based on current tax rates.

PRODUCTION TAXES UNDER CENTS-PER-BARREL RATES FOR
DECEMBER 1976 PRODUCTION AT VARYING PRODUCTION LEVELS -
EXPRESSED AS A PERCENTAGE OF PRODUCER'S SHARE OF DAILY
PRODUCTION



PART III
ALASKA PROPERTY TAXES

SUMMARY

- . The petroleum industry pays property taxes to both the state and municipalities. Properties of individuals and other businesses are taxed only by municipalities.
- . Alaska is the only major producing state which levies substantial state property taxes on only the petroleum industry.
- . In Fiscal Year 1978, total collections from the 20-mill tax are projected at approximately \$200 Million.
- . In the Cook Inlet Basin, the 20-mill property tax takes approximately 2% of the producers share of gross revenue.
- . In Fiscal Year 1976, the petroleum industry paid \$118 Million on the "20-Mill Hardware Tax" - \$34 Million to municipalities and \$84 Million to the state.
- . In addition to the "20-Mill Hardware Tax" payments, the petroleum industry paid an additional \$9.1 Million property taxes in 1976 on locally assessed properties.
- . The Oil and Gas Reserves Tax was enacted for two years to meet an expected revenue shortfall for Fiscal Years 1976 and 1977, prior to the start of North Slope production.
- . Reserves Tax payments in 1976 were \$223 Million and are estimated at \$260 Million in 1977.
- . Approximately 99% of the Reserves Tax is paid by the Prudhoe Bay Field lease owners.

ALASKA PROPERTY TAXES

Property taxes play an important role in the overall taxation of Alaska's petroleum industry both in terms of the amount of taxes paid and the selective manner in which the taxes are levied.

In recent years, property taxes in Alaska have been assessed and collected at the "local" (municipal) level and have not been levied by the state. This system still applies to all properties in the state except for petroleum industry properties. Beginning in 1974, new laws have gone into effect under which the state began taxing certain petroleum industry properties. These new and highly selective tax laws, designed for and applicable only to the petroleum industry, are described below:

AS 43.56: Oil and Gas Exploration, Production and Pipeline Transportation Property Taxes.

This law, commonly referred to as the "20-Mill Hardware Tax", was enacted by the 1973 Special Session of the Legislature and became effective on January 1, 1974. Properties taxable under this law include virtually all properties situated in the state used in the exploration for, production of, and pipeline transportation of oil and gas.

The "20-Mill Hardware Tax" is administered by the Department of Revenue. Taxable properties are assessed each year at full and true value and are taxed at a rate of 20 mills (2%). The municipality in which the property is situated levies and collects its own taxes, based on the state assessments, at the same tax rate as applied to locally assessed properties.

Taxes paid to municipalities may be credited against the 20-mill state levy. Municipalities are required to levy the tax on both real and personal property of the oil and pipeline companies even though, in several instances, local ordinances provide property tax exemptions for personal property of individuals and businesses other than petroleum. If the property is located in the unorganized area of the state, the entire "20-Mill Hardware Tax" is paid to the state. Other classes of property in the unorganized area pay no property taxes.

With the very rapid pace of construction on the TAPS line and the Prudhoe Bay oilfield, the 20-mill tax has quickly become a major revenue source for both the state and the municipalities. The following chart demonstrates the rapid build-up and magnitude of this particular Petroleum Industry Tax.

State and Municipal Revenues From AS 43.56,
the "20-Mill Hardware Tax" (\$Millions)

<u>TAX YEAR</u>	<u>FISCAL YEAR</u>	<u>MUNICIPAL REVENUE</u>	<u>STATE REVENUE</u>	<u>TOTAL</u>
1974	74-75	6	7	13
1975	75-76	10	16	26
1976*	75-76	24	68	92
1977	76-77	27	144	171
1978	77-78	29	170	199

* Payment date advanced from September 30 to June 30.

In the above chart, the figures for tax years 1974

through 1976 are actual. Figures for tax years 1977 and 1978 are estimates based on data provided to the Department of Revenue by the pipeline owners and oilfield operators.

In addition to taxes paid on properties taxable under AS 43.56, (the 20-Mill Hardware Tax) the Petroleum Industry in 1976 also paid approximately \$9.1 million in property taxes on properties assessable on the local tax rolls.

As taxable valuations have increased, some municipalities have been able to lower their tax rates while at the same time increasing total tax revenues. A reduction in the tax rate by a municipality reduces taxes on homeowners and local businesses but does not reduce taxes on oil and pipeline properties since the tax rate on these properties is, in any event, a total of 20 mills.

For producers in the Cook Inlet basin, the 1976 20-Mill Hardware Tax payments represented approximately 2% of the producers' gross oil revenue. We are not aware of any other state which levies property taxes of this magnitude selectively on only the Petroleum Industry.

AS 43.58; Oil and Gas Reserves Ad Valorem Tax.

This law, commonly known as the "Reserves Tax", was enacted by the 1975 Legislature and became effective January 1, 1976 for a period of two years. Properties taxable under this law are interests in "proven reserves" of oil and gas whether or not the reserves are producing. New discoveries are exempted for a period of five years. An exemption is also

provided until all permits are obtained or until construction commences on a transportation facility or system to transport the oil or gas to market.

For each of the two years the tax is to be effective, taxable properties will be evaluated as of January 1, assessed at full market value, and taxed at a rate of 20 mills (2%). A credit is allowed against the Reserves Tax for oil and gas production taxes paid, if any, during the preceding year. The amount of Reserves Tax actually paid may be recovered out of one-half of future monthly production tax payments. This unusual structuring of the Reserves Tax was designed to meet anticipated revenue shortfalls in Fiscal Years 1976 and 1977, prior to start-up of North Slope oil production. It appears this objective has been accomplished and the Reserves Tax is expected to expire on schedule at the end of 1977.

The Reserves Tax is payable in June of the tax year and all collections are deposited in the State General Fund Account. Revenue from the Reserves Tax was \$223 Million in 1976, a figure which astoundingly approximates two-thirds of the total gross income from oil of all producers in Alaska in 1975. The Reserves Tax estimate for 1977 is approximately \$260 Million. Almost 99% of this tax is levied against the Prudhoe Bay Field, a field upon which virtually no historical data (e.g. production rates, product value, operating costs, transportation costs, etc.) necessary to make a realistic appraisal is available.

PART IV
A COMPARISON OF PROPERTY TAX AND PRODUCTION TAX
BURDENS IN THE MAJOR OIL PRODUCING STATES

SUMMARY

- . Cook Inlet oil producers paid 8.1% of their 1975 gross revenue in production taxes and 2% in property taxes (excluding the Reserves Tax).
- . This combined production tax and property tax burden of 10.1% is one of the highest in the nation.
- . Alaska's tax burden of 10.1% is substantially greater than the comparable tax burdens in Texas, California, and Oklahoma and is exceeded only by Louisiana.
- . Alaska is the only major producing state in which substantial property taxes are levied on the petroleum industry at the state level, (\$83 Million in Fiscal Year 1976).
- . In addition to the oil and gas taxes, Alaska also receives substantial revenues from oil and gas royalties - 12.5% on state lands and a substantial share on federal lands in the state.
- . Alaska's share of production including taxes and royalties (estimated to be about 21% of value) is substantially greater than any other state.
- . In Fiscal Year 1976, the petroleum industry paid the State of Alaska and local governments \$368 Million in oil and gas production taxes, property taxes and reserves taxes. This figure exceeds by \$12 Million the total value of the producers share of all oil and gas produced in Alaska in 1975.

A COMPARISON OF PROPERTY TAX AND PRODUCTION TAX
BURDENS IN THE MAJOR OIL PRODUCING STATES

Companies engaged in oil exploration and production activities routinely keep abreast of the tax burdens imposed in the various states for purposes of budgeting expenditures, making economic evaluations of new prospects, and for financial planning. Oil and gas production taxes and/or property taxes are utilized in most of the producing states and frequently are the major taxes levied on production activities. These taxes are commonly combined in determining the tax burden for a particular state and for comparing tax burdens of various states.

There is attached a schedule which sets forth the approximate level of property and production taxes in the leading eight oil producing states. Consistent with common practice in the industry, the taxes in this schedule are expressed as a percentage of the producer's share of gross value of production. These are not merely statutory tax rates. In this manner, tax burdens of individual states can best be compared irrespective of differences in tax structures, tax rates, or methods of calculation.

The following is a brief description of property tax and production tax practices in the major producing states and in Alaska.

Property Taxes:

In states where property taxes are imposed on oil and gas properties, the tax is levied, with minor exceptions,

at the municipal or local level only. In Texas and Kansas, a nominal state levy is added to the municipal levies. Alaska is the only state in this group which levies a substantial tax on oil and gas properties at the state level in addition to the local tax levies.

In two states, Texas and California, reserves are analyzed each year as to estimated market value and are assessed and taxed at the prevailing local tax rate. Tangible equipment is also taxed either separately or as part of the total value of the property. In some other states, property taxes are levied on a percentage of the prior year's revenue and/or on well equipment and field facilities.

In states other than Alaska, non-producing leasehold or other interests are either exempted from taxation or, where taxed, the assessments are generally nominal. The Alaska Reserves Tax is believed to be the only instance where non-producing reserves are being subjected to sophisticated appraisals and large tax liabilities.

Production (Severance) Taxes:

Production taxes are generally levied at the state level only, although in a few states a portion of the levy is returned to local government. Except for Alaska, all of these states which impose a production tax on oil calculate the tax on a percentage of the gross value of production. In Alaska the Production Tax paid is the higher as calculated under (1) a percentage of value of production, or (2) a cents-per-barrel of production. (The latter is, in essence, a minimum

rate of tax which fluctuates with the Wholesale Price Index of oil.)

Alaska Taxes:

It is commonly believed that Alaska's Production Tax rate on Cook Inlet production is from 5 to 8%. Actually, since about 95% of the production is "old" oil, priced on the lower tier, most of the production tax is calculated on the cents-per-barrel basis (an arbitrary floor). While effective tax rates on individual wells can vary from 5% to more than 10%, the effective rate for industry was 8.1% for the year 1975.

The effective rate for the "20-Mill Hardware Tax" was 2%, comparing 1975 revenues with 1976 taxes.

Therefore, under existing Alaska tax laws, the average Alaska oil producer is paying 10.1% of his gross revenue for production and property taxes. The effect of the substantial Alaska Reserves Tax (a temporary tax recoverable out of future production taxes) is not included in this tax burden. However, as is readily apparent, even excluding the Reserves Tax, the combined property and production tax burden on Alaska oil producers is greater than any major producing state, except Louisiana, when viewed from an overall industry standpoint.

In addition to the substantial tax revenues received by Alaska from the Petroleum Industry, it is significant to note that Alaska is the only state to receive royalty on virtually all existing production and known reserves in the state - 100% of the royalty (12.5%) on state lands and 90% reimbursement on

federal lands (except for federal lands designated as parks or wildlife refuge). In Texas and Louisiana, only 0.6% and 1.9%, respectively, of the production is on state-owned lands. Accordingly, combined revenue received by the State of Alaska from taxes and royalties gives Alaska a far greater share of the production (estimated to be about 21% of value) than is enjoyed by any other state.

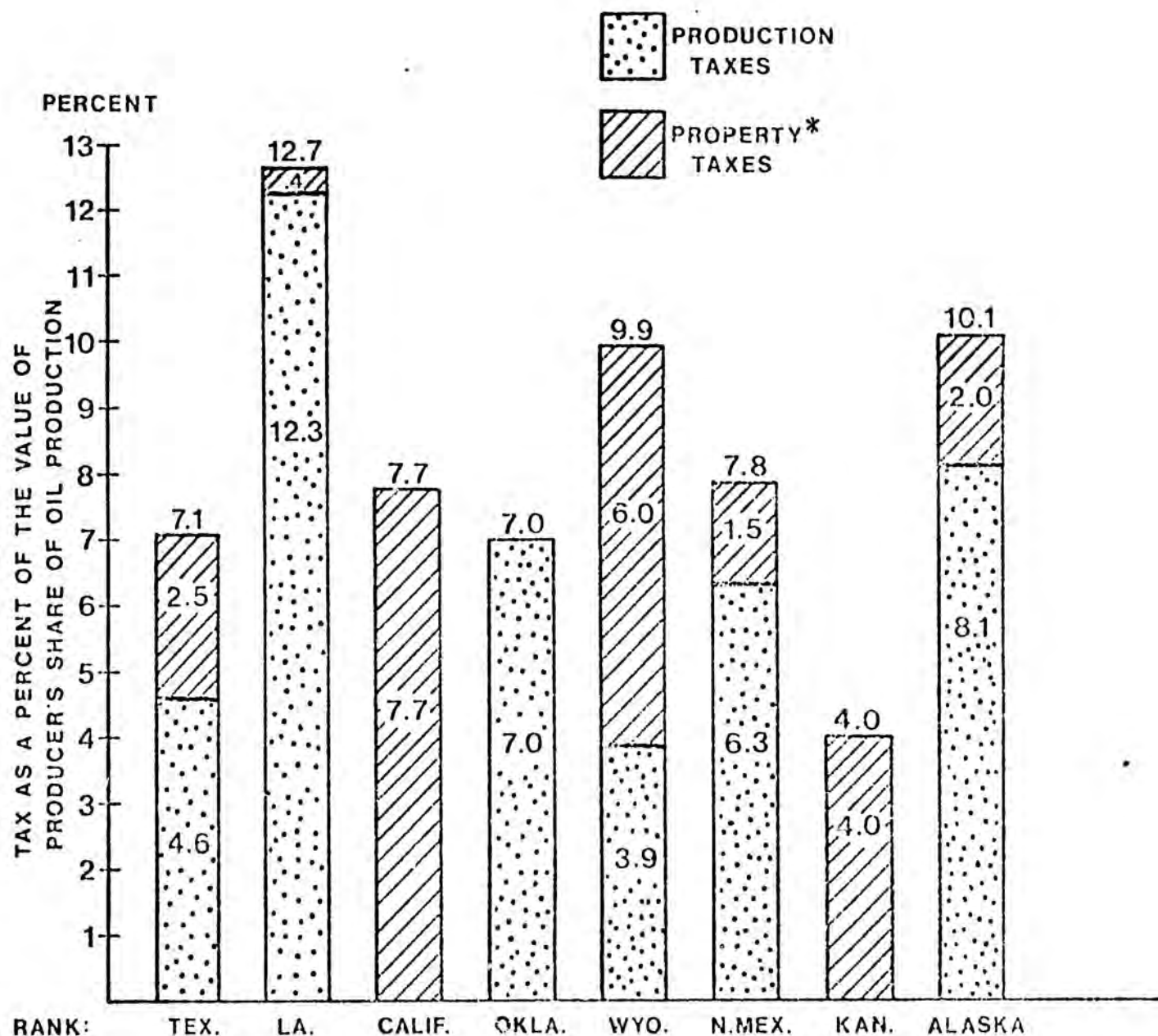
PROPERTY TAX AND PRODUCTION TAX BURDENS
ON PRODUCERS OF OIL IN THE EIGHT LARGEST
OIL PRODUCING STATES

<u>Rank</u>	<u>State</u>	Tax as a Percent of the Value of Producer's Share of Oil Production		
		<u>Production Tax</u>	<u>Property Tax</u>	<u>Total</u>
		%	%	%
1.	Texas	4.6	2.5	7.1
2.	Louisiana	12.3	0.4	12.7
3.	California	None	7.7	7.7
4.	Oklahoma	7.0	Nil	7.0
5.	Wyoming	3.9	6.0	9.9
6.	New Mexico	6.3	1.5	7.8
7.	Kansas	Nil	4.0	4.0
8.	Alaska (Cook Inlet Basin)	8.1	2.0	10.1

Comments:

- (a) Property tax data is estimated, industry statewide average except for Alaska which is for the Cook Inlet Basin only.
- (b) Property tax data includes all property taxes levied by states, municipalities, schools, etc. The nominal conservation and regulatory levies are not included with production taxes.
- (c) Property tax data does not include taxes on the TAPS line or other common carrier pipelines.
- (d) Alaska property tax data does not include the Reserves Tax.

PROPERTY TAX AND PRODUCTION TAX BURDENS ON PRODUCERS OF OIL IN THE EIGHT LARGEST OIL PRODUCING STATES



*PROPERTY TAX DATA IS ESTIMATED, INDUSTRY STATEWIDE
AVERAGE; DOES NOT INCLUDE TAXES ON PIPELINES NOR
ALASKA RESERVES TAXES

PART V
ALASKA CORPORATE INCOME TAX

SUMMARY

- . Alaska joined the Multi-State Tax Compact in 1970, two years after the discovery of the Prudhoe Bay Field.
- . Under Compact rules, multistate businesses apportion to Alaska a share of their total net taxable income by means of a three-factor apportionment formula used by most states throughout the country.
- . This apportionment formula is designed to assure each state a fair share of taxable income and to protect the taxpayer from duplicative taxation. Alaska gets a fair share of taxable income from the petroleum industry as well as other multistate businesses.
- . The apportionment formula results in some companies paying taxes to Alaska without having earned any income from their Alaska operations.
- . Alaska's Corporate Income Tax rate of 9.4% is one of the highest in the nation. The rate in Oklahoma and Louisiana is 4%. California's rate is 9%.
- . Some states, including Texas and Wyoming, do not have an income tax.
- . Alaska has eliminated the allowance of percentage depletion deduction, the job development investment tax credit and certain other deductions.
- . Some producing states, notably Oklahoma and Louisiana, still allow a deduction for percentage depletion as an incentive for additional oil and gas exploration.
- . Alaska's revenue from the Corporate Income Tax has steadily increased from \$6.1 Million in Fiscal Year 1971 to \$31.1 Million in Fiscal Year 1976.
- . Continued expansion of Alaska's economy together with oil and gas production from the North Slope, are expected to make the Corporate Income Tax an even more significant revenue source in the future.

ALASKA CORPORATE INCOME TAX

The Alaska Corporation Income Tax is a tax imposed upon corporate net income much in the same manner as the income tax on the earnings of individuals. The determination of taxable income is based primarily upon the Internal Revenue Code and Federal rules, as is the case with a number of the other states.

In addition, Alaska is a regular member of the Multi-state Tax Compact, an organization comprised of a number of states throughout the country having as one of its objectives the development of a reasonable degree of uniformity in application and compliance of state income taxes with respect to multistate businesses. As a consequence, Alaska has joined with those other states in adopting the Uniform Division of Income for Tax Purposes Act (UDITPA) as part of the Multistate Tax Compact.

UDITPA results in the apportionment to Alaska of a portion of the net taxable income earned by any of the companies, including oil companies, which do business both within and without the State. Apportionment of the income to Alaska is accomplished through the use of a three-factor formula percentage which is the ratio of property, payroll and sales within Alaska to total property, payroll and sales located everywhere. That percent then is the portion of the taxpayer's total income which is apportioned to Alaska and taxed. The three-factor formula is commonly used by the states.

The approach for apportioning income is intended to assure that the income of multistate taxpayers will not be subjected to duplicate taxation. Any move away from this uniformity,

such as separate accounting or allocation of exploration and production income, could result in duplicate taxation and stimulate enactment of Federal legislation to regulate state taxation of multistate corporations.

Apportionment works both ways to maintain uniform state taxation throughout the Nation. Aside from minimizing duplicate taxation, it also assures each state of its equitable share of taxes from multistate companies. Specifically, such companies in a loss position in a given state but generally having an overall profit will still pay tax to the loss state under apportionment. For example, some companies who have not as yet received any income from Alaska oil or gas production are nevertheless taxable under the Alaska Corporation Income Tax Law on their overall income utilizing the apportionment method.

Comparisons with Other States

A comparison of the above method of taxation with the methods used in other states (including the Multistate Tax Compact states), clearly demonstrates that the State of Alaska has not fallen behind the others in terms of tax rate, nor in terms of what amounts of income are subject to tax or what deductions are allowable:

1. Tax Rates

As indicated by the attached chart, Alaska's effective Corporate Income Tax rate of 9.4% is one of the highest in the nation. It is more than double the 4% rates of tax

assessed in other oil producing states such as Louisiana or Oklahoma and even exceeds the 9% rate assessed by California.

2. Deductions

As a consequence of Alaska legislation and changes in the federal rules aimed specifically at the oil industry, the allowance of percentage depletion, with very limited exceptions, has been eliminated in Alaska. In addition, foreign tax credits and income tax deductions have been abolished, the investment tax credit was virtually eliminated, and the DISC tax exemption has been repealed for exported, non-renewable resources. It is of significance to note that certain other major oil producing states, such as Oklahoma and Louisiana, still provide for a deduction based upon percentage depletion.

Consolidated Income Changes

The Alaska Law provides for the filing of consolidated or combined returns. As a result, if the facts and circumstances permit, Alaska can require the inclusion of all of the income of any oil company and its affiliates (as determined by the Federal Internal Revenue Code) as part of a single unit, in order to

determine what portion of the total income should be taxed by Alaska. This approach gives the State broad authority to prevent income shifting.

Future Tax

Alaska presently has an effective and far ranging corporate income tax and one which should result in very substantial revenues to the State. And, as indicated, it is in no way subservient to the income tax laws of other states and in certain significant respects is more stringent in application than in other major oil producing jurisdictions. With Alaska's joining the Multistate Tax Compact in 1970, its corporate income tax compliance and enforcement practices have steadily improved. This, along with its growing economy, has already resulted in a dramatic increase in Alaska corporation income tax receipts (from \$6.1 million in FY 1971, to \$17.3 million in FY 1975, and to \$31.1 million in FY 1976).

It is reasonably foreseeable that with Alaska's continued economic expansion together with future North Slope production, there will be even a significantly greater increase in future income tax revenues to the State under the current law.

TABLE OF MAXIMUM STATE CORPORATE
INCOME TAX RATES (EFF. 1/1/77)

<u>State</u>	<u>Percent</u>	<u>Notes</u>
ALASKA	9.4	Includes 4% surtax
Alabama	5.0	-
Arizona	10.5	Over \$6,000
Arkansas	6.0	Over \$25,000
California	9.0	-
Colorado	5.0	-
Connecticut	10.0	-
Delaware	7.2	-
District of Columbia	9.0	Plus 10% surtax through 1977
Florida	5.0	-
Georgia	6.0	-
Hawaii	6.435	Over \$25,000
Idaho	6.5	-
Illinois	4.0	-
Indiana	6.0	-
Iowa	10.0	Over \$100,000
Kansas	6.75	Includes 2-1/4% surtax over \$25,000
Kentucky	5.8	Over \$25,000
Louisiana	4.0	-
Maine	7.0	Over \$25,000
Maryland	7.0	-
Massachusetts	8.33	Alternative plus 14% surtax
Michigan	NONE	-
Minnesota	12.0	-
Mississippi	4.0	Over \$5,000
Missouri	5.0	-
Montana	6.25	-
Nebraska	4.675	Over \$25,000
Nevada	NONE	-
New Hampshire	7.0	-
New Jersey	7.5	-
New Mexico	5.0	-
New York	10.0	Alternative taxes
North Carolina	6.0	-
North Dakota	6.0	Over \$15,000
Ohio	8.0	Stock value over \$25,000
Oklahoma	4.0	-
Oregon	7.0	Increases to 7.5 on 1/1/78
Pennsylvania	9.5	-
Rhode Island	8.0	-
South Carolina	6.0	-
South Dakota	NONE	-
Tennessee	6.0	-
Texas	NONE	-
Utah	6.0	-
Vermont	7.5	Over \$20,000
Virginia	6.0	-
Washington	NONE	-
West Virginia	6.0	-
Wisconsin	7.9	Over \$6,000
Wyoming	NONE	-

ALASKA'S FISCAL CONDITION -
PRESENT AND FUTURE

Alaska Oil and Gas Association

January, 1977

ALASKA'S FISCAL CONDITION--PRESENT AND FUTURE

Current State of Alaska fiscal reports, along with future revenue and expenditure projections prepared by the State, indicate that Alaska now has and throughout the foreseeable future will have ample revenues to meet its public needs without changes to its present tax structure. Under the existing tax structure these State projections show that by FY 1985 the Permanent Fund balance will approximate \$1.6 billion and the General Fund balance will approximate \$3.0 billion, or a total of some \$4.6 billion--all over and above projected expenditures. The projections clearly portray the petroleum industry as the predominant source of revenue (to the extreme point of providing the State with nearly 118% of total expected expenditures in FY 1981).

As of the end of FY 1976, the General Fund balance rose to \$504.9 million, of which \$337.8 million has been deemed available for funding operations in FY 1977, according to a report from the Department of Administration to Governor Jay S. Hammond.

During 1976, the Legislative Affairs Agency analyzed a revenue and expenditure study prepared by the Department of Revenue covering fiscal years 1975 through 1985. As a part of its Memorandum of May 26, 1976, the Agency prepared detailed schedules showing actual revenue and expenditure data for

FY 1975 and estimated revenues and expenditures for FY 1976 through FY 1985 based upon certain assumptions as to start-up of North Slope operations. Revenues from both petroleum industry and non-petroleum industry sources were studied in connection with current tax law, together with expenditure assumptions, to arrive at projections of Alaska's future fiscal position. Petroleum industry revenue projections were based on presently known oil and gas reserves on the North Slope and at Cook Inlet.

There is attached Table 1 (constructed from those tables in the Legislative Affairs Agency analysis relating to July 1, 1977 North Slope production start-up) which shows, through FY 1985, the estimates of revenues and expenditures and Permanent Fund and General Fund accumulations, together with the contribution to those State revenues from the petroleum industry. While the projections of revenue and accumulated Fund balances show huge amounts based on carefully considered data by the State, even those projections appear to be understated since they do not include any assumptions of revenue to the State from the following:

1. Production taxes and royalties from North Slope gas production;
2. Property taxes from gas production equipment and gas pipelines;

3. Increased corporation income taxes resulting from North Slope oil and gas operations;

4. Revenue to the State from any future lease sales, together with production taxes, property taxes, income taxes, and royalties resulting from any oil and gas operations on such leases.

Added revenues from the first three categories omitted from the projections will, however, occur as the anticipated development operations take place. Any one of these omitted categories will involve large sums of revenue to the State of Alaska in addition to the projections already made as reflected in Table 1. While further lease sales are not definitely established at the present time, such lease sales nevertheless appear likely and would add further revenue to the State not reflected in Table 1.

Also attached is Table 2 which sets forth the amounts of total revenue actually collected from within the State of Alaska as "Unrestricted General Fund Revenue" for FY 1975 and FY 1976 (as reported in the published Financial Reports for those years), together with the amounts included within those totals which were contributed directly from the petroleum industry. As shown, the percentages of Unrestricted General Fund Revenue contributed by the petroleum industry were 25.9% and 54.7%, respectively, in FY 1975 and FY 1976.

With regard to the petroleum industry contribution to State revenues in future years, the Legislative Affairs Agency data projects the petroleum industry's contribution to Unrestricted General Fund Revenue as rising to nearly 80% by FY 1981, as shown in Column (19) of Table 1. But, as noted previously, omitted categories of revenue in the projections would indicate that this percentage is understated.

Regarding future State expenditures, Table 1 shows petroleum industry revenue projected to equal about 67% of total expenditures in FY 1977, rising to about 90% in FY 1978 and FY 1979, and projected to exceed total expenditures in FY 1980 and later years (reaching nearly 118% in FY 1981). Again, even these percentages would appear to be understated by reason of the omitted categories of revenue referred to previously.

Table 1

STATE OF ALASKA

ESTIMATES BY FISCAL YEARS OF UNRESTRICTED
GENERAL FUND REVENUE, PERMANENT FUND BALANCES,
EXPENDITURES, GENERAL FUND BALANCES AND CONTRIBUTION
TO STATE REVENUES FROM OIL INDUSTRY SOURCES

(Millions of Dollars)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Oil and Gas Royalties		Oil and Gas Severance Tax		Reserves Tax	Federal Royalties	Conservation Tax	Property Tax	Revenue from Oil Industry (Cols 1-8)	Other Revenues	Total General Fund Revenue	Revenue Subject to Permanent Fund
Fiscal Year	Prudhoe Bay	Cook Inlet	Prudhoe Bay	Cook Inlet								
1975	-0-	40.0	-0-	26.6		1.9		6.5	75.0	258.4	333.4	-0-
1976	-0-	49.2	-0-	24.7	220.0	1.9		86.4	382.2	272.6	654.8	-0-
1977	-0-	51.0	-0-	23.3	269.0	1.8		128.2	473.3	266.2	739.5	26.4
1978	435.5	52.2	115.8	21.5		1.0	0.5	152.1	778.6	252.8	1,031.5	408.2
1979	543.8	54.2	144.7	20.3		1.0	0.5	154.4	918.9	292.8	1,211.7	599.0
1980	746.3	59.0	193.5	21.4		1.0	0.5	154.4	1,281.1	336.1	1,517.2	806.4
1981	812.9	63.7	402.5	22.5		1.0	0.5	154.4	1,457.5	379.4	1,836.9	877.6
1982	812.9	67.3	432.5	23.2		1.0	0.5	148.2	1,485.6	435.1	1,920.7	881.2
1983	812.9	69.3	432.5	23.5		1.0	0.5	142.3	1,482.0	502.4	1,984.4	883.2
1984	812.9	72.5	432.5	24.2		1.0	0.5	136.6	1,480.2	582.1	2,062.3	886.4
1985	833.1	76.0	459.2	24.9		-0-	0.5	131.1	1,554.8	669.2	2,224.0	939.2

(13)	(14)	(15)	(16)	(17)	(18)	Oil Industry Revenue Shown in Col. (9) as a % of:		Fiscal Year
						(19) Total General Fund Revenue (Col. 11)	(20) General Fund Expenditures	
Payment to Permanent Fund	Permanent Fund Balance	Net General Fund Revenue	General Fund Expenditures	General Fund Sur/(def)	General Fund Balance			
-0-	-0-	333.4	490.0	(156.6)	379.3	22.5%	15.3%	1975
-0-	-0-	654.8	626.4	28.4	407.7	58.4%	61.0%	1976
6.6	6.6	732.9	705.9	27.0	434.7	64.0%	67.0%	1977
122.2	128.6	909.3	871.6	37.7	472.4	75.5%	89.3%	1978
149.8	278.6	1,061.9	990.8	71.1	543.5	75.8%	92.7%	1979
201.6	480.2	1,315.6	1,124.6	191.0	734.5	77.8%	105.0%	1980
219.4	699.6	1,617.5	1,240.9	376.6	1,111.1	79.3%	117.5%	1981
220.3	919.9	1,700.4	1,259.8	440.6	1,551.7	77.3%	117.9%	1982
220.8	1,140.7	1,763.6	1,300.0	463.6	2,015.3	74.7%	114.0%	1983
221.6	1,362.3	1,840.7	1,400.0	440.7	2,456.0	71.8%	105.7%	1984
234.8	1,597.1	1,989.2	1,500.0	489.2	2,945.2	69.9%	103.7%	1985

SOURCE:

Revenue and Expenditure Projection Analysis for 1975-1985
 (Table 2 and Table 12)
 Legislative Affairs Agency
 State of Alaska
 (May 26, 1976)

Table 2

STATE OF ALASKAREVENUE CONTRIBUTION BY PETROLEUM INDUSTRY

	<u>Years Ending June 30</u>	
	<u>1975</u>	<u>1976</u>
Total Unrestricted General Fund Revenue Derived From Within Alaska	\$333,671,684 =====	\$705,494,564 =====
Amounts Derived Directly From Petroleum Industry, Included in Total Unre- stricted General Fund Revenue:		
Oil & Gas Production and Conservation Taxes	\$26,619,821	\$ 27,978,434
Oil & Gas Property Taxes	6,565,871	83,282,417
Royalties on Oil & Gas	39,901,599	43,123,113
Federal Shared Royalties on Oil & Gas	8,679,378	4,249,621
Federal Shared Mineral Rentals	1,166,291	807,108
Oil & Gas Reserves Tax	-	223,146,615
Mineral Lease Rent	3,568,038	3,203,608
	<u>\$86,500,998</u> =====	<u>\$385,790,916</u> =====
Percent of Unrestricted General Fund Revenue From the Petroleum Industry	25.9%	54.7%

Source: State of Alaska Annual Financial Report For
Fiscal Years Ended June 30, 1975 and June 30,
1976 (Statement #9)

EFFECT OF PERMANENT FUND
(in millions)

YEAR	TOTAL REVENUES	PERMANENT FUND CONTRIBUTIONS	GENERAL FUND			PERMANENT FUND CUMULATIVE
		25% RATE	UNRESTRICTED REVENUE	EXPENDITURES	BALANCE	BALANCE
1975					483.2	-0-
1976	702.5	-0-	702.5	616.4	569.3	-0-
1977	880.0	2.4	877.6	728.1	718.8	2.4
1978	946.2	89.4	856.8	853.8	721.8	91.8
1979	1238.1	134.2	1103.9	1002.7	823.0	226.0
1980	1576.3	188.5	1387.8	1107.2	1103.6	414.5
1981	1911.7	211.4	1700.3	1227.3	1576.6	625.9
1982	2315.3	249.1	2066.2	1306.4	2336.4	875.0
1983	2736.4	303.3	2433.1	1250.1	3519.4	1178.3
1984	3158.3	347.5	2810.8	1328.8	5001.4	1525.8
1985	3494.2	380.0	3114.2	1410.0	6705.6	1905.8

YEAR	TOTAL REVENUES	PERMANENT FUND CONTRIBUTIONS	GENERAL FUND			PERMANENT FUND CUMULATIVE
		50% RATE	UNRESTRICTED REVENUE	EXPENDITURES	BALANCE	BALANCE
1975					483.2	-0-
1976	702.5	-0-	702.5	616.4	569.3	-0-
1977	880.0	4.8	875.2	728.1	716.4	4.8
1978	946.2	178.8	767.4	853.8	630.0	183.6
1979	1238.1	268.4	969.7	1002.7	597.0	452.0
1980	1576.3	376.9	1199.4	1107.2	689.2	828.9
1981	1911.7	422.9	1488.8	1227.3	950.7	1251.8
1982	2315.3	498.3	1817.0	1306.4	1461.3	1750.1
1983	2736.4	606.5	2129.9	1250.1	2341.1	2356.6
1984	3158.3	695.1	2463.2	1328.8	3475.5	3051.7
1985	3494.2	760.1	2734.1	1410.0	4799.6	3811.8

YEAR	TOTAL REVENUES	PERMANENT FUND CONTRIBUTIONS	GENERAL FUND			PERMANENT FUND CUMULATIVE
		75% RATE	UNRESTRICTED REVENUE	EXPENDITURES	BALANCE	BALANCE
1975					483.2	-0-
1976	702.5	-0-	702.5	616.4	569.3	-0-
1977	880.0	7.3	872.7	728.1	713.9	7.3
1978	946.2	268.2	678.0	853.8	538.1	275.5
1979	1238.1	402.7	835.4	1002.7	370.8	678.1
1980	1576.3	565.4	1010.9	1107.2	274.5	1243.6
1981	1911.7	634.3	1277.4	1227.3	324.6	1877.9
1982	2315.3	747.4	1567.9	1306.4	586.1	2625.3
1983	2736.4	909.8	1826.6	1250.1	1162.6	3535.1
1984	3158.3	1042.6	2115.7	1328.8	1949.5	4577.7
1985	3494.2	1140.1	2354.1	1410.0	2893.6	5717.8

Calculations assume construction of the El Paso Gas Line and expenditures related to the North Slope Haul Road and Capital Move. Effective date used for initial contribution to the Permanent Fund is March 1, 1977.

REVENUES
(in millions)

YEAR	TOTAL REVENUES	PETROLEUM RELATED REVENUES	ROYALTIES	PERMANENT FUND CONTRIBUTIONS			UNRESTRICTED G.F. REVENUES		
				25% RATE	50% RATE	75% RATE	25% RATE	50% RATE	75% RATE
1976	702.5	378.2	43.9	-0-	-0-	-0-	702.5	702.5	702.5
1977	880.0	490.3	38.8	2.4	4.8	7.3	877.6	875.2	872.7
1978	946.2	685.4	357.6	89.4	178.8	268.2	856.8	767.4	678.0
1979	1238.1	921.7	536.9	134.2	268.4	402.7	1103.9	969.7	835.4
1980	1576.3	1203.5	753.9	188.5	376.9	565.4	1387.8	1199.4	1010.9
1981	1911.7	1491.2	845.8	211.4	422.9	634.3	1700.3	1488.8	1277.4
1982	2315.3	1860.7	996.5	249.1	498.3	747.4	2066.2	1817.0	1567.9
1983	2736.4	2211.9	1213.1	303.3	606.5	909.8	2433.1	2129.9	1826.6
1984	3158.3	2519.9	1390.2	347.5	695.1	1042.6	2810.8	2463.2	2115.7
1985	3494.2	2716.4	1520.2	380.0	760.1	1140.1	3114.2	2734.1	2354.1

NON-PETROLEUM
RELATED
REVENUES

INTEREST EARNINGS ON
PERMANENT FUND CONTRIBUTIONS

	25% RATE	50% RATE	75% RATE
324.3	-0-	-0-	-0-
389.7	-0-	-0-	-0-
260.8	.1	.2	.3
316.4	6.4	12.8	19.2
372.8	15.1	30.2	45.3
420.5	26.9	53.8	80.7
454.6	39.6	79.2	118.8
524.5	54.4	108.8	163.2
638.4	72.5	145.0	217.5
777.8	93.2	186.4	279.6

Petroleum revenues are based on world oil prices as of November, 1976.

C. Richard Turnbow
Division Attorney
Production, U.S. & Canada

**Marathon
Oil Company**

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April 15, 1977

The Honorable Steve Cowper
Alaska State House of Representatives
Pouch V - State Capitol Building
Juneau, Alaska 99811

In Re: Finance Committee Hearings on
House Bills 321, 322, 324, and 328

Dear Representative Cowper:

We were pleased that our Manager, Dick Grove, was able to testify before your committee Thursday afternoon as to the unfair and unequal impact of proposed legislation on the industry and in particular as to Marathon Oil Company as a Cook Inlet producer.

I had intended to testify also on one matter, but as the hearing concluded, it was apparent that time did not permit further oral testimony and my brief point can as well be presented in writing.

I have been a member of the Marathon Oil Company Legal Department for almost twenty years and have had experience in production, marketing, refining, and pipeline legal matters at Terre Haute, Indiana, Tulsa Oklahoma, and Robinson, Illinois. Prior to coming to Alaska in February of this year, I had been in Robinson for the past eleven years where my experience with the legislature was limited to Illinois, Indiana and Michigan. As a newcomer to Alaska I can possibly bring some views up from the lower forty-eight.

My comment is limited to the Tanzer Report of March 27, 1977. In this report are examples of 85:15 and 95:15 division of the oil pie and inference that Alaska should take 62% of the oil pie (see page 27, table III-1).

My comments on the Tanzer Report are not so much as to what Dr. Tanzer said, but as to what he did not say. You will recall that all of the examples of governmental changes in oil tax rates were limited to Iran, Venezuela and Indonesia. These are examples of sovereign nations. Alaska is a sovereign state, not a sovereign nation. There is a subtle difference.

The Honorable Steve Cowper
April 15, 1977
Page Two

In Dr. Tanzer's conclusions he assumes that increased taxation by Alaska would reduce further exploration and development in Alaska. In assessing the benefits and the losses to Alaska of increased taxes he fails to mention the risk of concern of the Federal Government and of the sister states.

Enactment of an overall tax system which results in a disproportionate share of the oil pie when compared to tax systems in other states, could develop concern in the federal government and in the general public of the lower forty-eight. The federal government could be directed to challenge the loss of federal tax revenues to a state developing a budget surplus in the absence of a demonstrated "Public Purpose". The general public in the lower forty-eight feels that the Prudhoe Bay oil reserves belong to all of the people of the United States and not just to the people of Alaska. There could be public resentment of Alaska budget surpluses without Public Purpose and without governmental operating budget needs.

As a newcomer I examined the Alaska Statehood Act and found that there was provision that the Constitution of the State of Alaska should always be republican in form and shall not be repugnant to the Constitution of the United States and the principles of the Declaration of Independence. I also noted that the Alaska Constitution provides that no tax shall be levied except for a Public Purpose.

Query: Are taxes yielding a budget surplus "for a Public Purpose"?

Where there is public resentment and hue and cry over a disproportionate share of any pie a modern Federal Court may construe federal legislation, the Federal Constitution and a state constitution very broadly and could easily declare a tax system yielding a budget surplus not to be a tax for a Public Purpose or not in harmony with the Constitution of the United States or the principles of the Declaration of Independence.

Many people in the lower forty-eight could conclude that in our federal system the threshold of fairness has been breached when one state takes a disproportionate share of the oil pie when compared with other sister states.

I would appreciate it if you would file this comment in the official record of the above hearing.

Yours very truly,



C. Richard Turnbow
Division Attorney

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EXECUTIVE VICE PRESIDENT
LAWRENCE A. DINNEEN

April 11, 1977

The Honorable Steve Cowper
Alaska State House of Representatives
Pouch V, State Capitol Building
Juneau, Alaska 99811

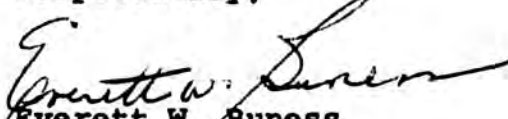
Dear Representative Cowper:

It is our understanding that the House Finance Committee will be holding hearings this week on Proposed Amendments to Oil and Gas Taxation.

Our Corporation would like to be represented at these hearings but unfortunately several of our officers are attending important meetings in Washington, D.C.

I am enclosing copies of statements made by Corporate Treasurer Oliver Leavitt and Executive Vice President Larry Dinneen to the Joint Senate-House Resource Committees on March 24th. These remarks are still appropriate and I would appreciate it if they could be entered in your records.

Respectfully,


Everett W. Bunes
Director

EWB/eb

Enclosures

ADDRESS TO JOINT SENATE - HOUSE RESOURCE COMMITTEES

ON THE

PROPOSED AMENDMENTS TO OIL AND GAS TAXATION

March 24, 1977

MADAM CHAIRMAN, MEMBERS OF THE COMMITTEES - MY NAME IS OLIVER LEAVITT. I AM SPEAKING TODAY AS A MEMBER OF THE EXECUTIVE COMMITTEE AND TREASURER OF THE ARCTIC SLOPE REGIONAL CORPORATION.

FIRST MAY I SAY THAT THE ARCTIC SLOPE REGIONAL CORPORATION APPRECIATES AND WELCOMES THE OPPORTUNITY TO BE HEARD ON THE NEW OIL AND GAS TAX PROPOSALS INASMUCH AS WE ARE A PROFIT ORIENTED, FREE ENTERPRISE ALASKAN CORPORATION AND BELIEVE THAT THE TAX PROPOSALS WOULD, IF ENACTED, CREATE A DEVASTATING FINANCIAL DILEMMA FOR MY CORPORATION AND EVERY OTHER NATIVE REGIONAL CORPORATION - NOT ONLY INITIALLY BUT FOR THE GENERATIONS THAT STAND TO FOLLOW AND SUCCEED TO THE RESULTS OF OUR COLLECTIVE ACHIEVEMENTS -OR FAILURES.

AS I'M SURE YOU KNOW, WE DO NOT ENJOY ANY REVENUES FROM PRODUCTION OF OIL AND GAS ON NATIVE OWNED OR SELECTED LANDS AT THE PRESENT TIME. HOWEVER WE ARE MOST OPTIMISTIC THAT WITHIN THE NEXT 5-10 YEARS OUR STOCKHOLDERS AS WELL AS ALL RESIDENTS OF ALASKA AND CITIZENS OF THIS COUNTRY WILL BE THE BENEFICIARIES OF NEW ENERGY SOURCES FOUND ON OUR LANDS.

I EMPHASIZE THE WORD NEED BECAUSE I THINK THAT IT IS WHAT THIS ENTIRE DEBATE OVER INCREASED TAXES WILL BOIL DOWN TO.

WE ARE CERTAINLY NO DIFFERENT THAN ANYONE ELSE YOU HAVE HEARD FROM AND WILL HEAR FROM IN THE FUTURE - OTHER THAN PUBLIC EMPLOYEES AND THEIR AGENTS - IN THAT WE CANNOT COMPREHEND OR FIND JUSTIFICATION IN TAXING NOT ON THE BASIS OF NEED BUT ONLY TO INCREASE REVENUES TO THE TREASURY OF THE STATE. FURTHER, I RESPECTFULLY SUBMIT THAT YOUR POSITION IS AT BEST TENUOUS, AND YOUR PURPORTED JUSTIFICATION FOR THE PROPOSED ENACTMENT IS SIMPLY NOT PERSUASIVE.

THE DEPARTMENT OF REVENUE'S OWN PROJECTIONS WHICH YOU RECEIVED IN JANUARY INDICATE A SURPLUS OF 8.7 BILLION DOLLARS IN THE GENERAL AND PERMANENT FUND BY 1985. THAT PROJECTION IS BASED ON EXISTING TAX LAW AND PROJECTED ROYALTIES AND ASSUMES NO NEW DISCOVERIES IN THE NEXT 8 YEARS. IF THE PROPOSED TAX PACKAGE - EITHER THE LEGISLATURE'S OR THE ADMINISTRATION'S VERSION - WERE ENACTED, THE 8.7 BILLION WOULD OBVIOUSLY SWELL TO A STAGGERING AMOUNT. LADIES AND GENTLEMEN, I ASK YOU, WHAT IN THE WORLD ARE WE DOING?

ANOTHER IMPORTANT FACTOR THAT SHOULD BE ADDRESSED IS THE INCONSISTENT POSITION OF THE STATE AS IT SIDES WITH THE OIL INDUSTRY ON ONE HAND TO ENCOURAGE THE FEA TO EXEMPT NORTH SLOPE PRODUCTION FROM CRUDE PRICE CONTROLS OR AT LEAST NOT TO IMPOSE PRICING OR ENTITLEMENTS PENALTIES ON NORTH SLOPE PRODUCTION.

IT IS A VALID ARGUMENT THAT POLICIES WHICH RESTRICT THE PRICE OF CRUDE OIL PRODUCED FROM FRONTIER AREAS, SUCH AS THE NORTH SLOPE, BELOW ACTUAL MARKET VALUE WILL LIMIT DEVELOPMENT AND NOT SERVE THE NATIONAL INTEREST.