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 changes and increases.

* * *

Much nonsense has been bantered about a "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 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 oil lobbies are
located in force and their representatives exercise the greatest influence—just as they are trying to in' Alaska.

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.

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 . . ." You know the rest.

I agree that we should encourage whatever development will benefit Alaska. But we should not encourage development at the expense of 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 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!). 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 monies 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 for what purpose 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.

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

It is 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 $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 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 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 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?


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
if that were a valid issue for oil companies to argue).

Think of some major undertakings that could be built from current revenues—if we only had more income.

The construction of a new state capital, assuming we move it, should not really require bonding. By using only a small part of increased revenues—say $20-30 million a year—we could build a new capital on a pay-as-we-go basis.

With more income, we could meet the state’s hydroelectric energy requirements, we could build railroad extensions, we could build the Knik Arm crossing, and whatever else we—the state—determine we need.

I am not suggesting that these expenditures be made. That is a matter for much more analysis, public debate, and legislative determination. What I am pointing out is that there is no end to Alaska’s needs.

* * *

One last point. In approving the establishment of the permanent fund, Alaska’s voters accepted the philosophy of using non-renewable resources to help underwrite Alaska’s future.

There are two ways of getting the most out of the state’s non-renewable resources: (1) obtain maximum revenue from the extraction of such resources, or (2) leave them in the ground.

The value of resources not produced has in recent years appreciated much faster than any revenues derived from invested resources income. In the case of oil, the value tripled over the past few years. Thus, the second option is not as preposterous as it may seem at first glance.

We are, however, in an era when the nation faces serious energy resources deficiencies. Therefore, although it might actually be in the state’s economic interest to go slow on oil development and conserve the resource in the ground, the national interest demands that we facilitate petroleum production. But such production in the national interest should not be at the expense of Alaska’s future. And the only way we can assure that is by taking a full share of resources value through taxation and related means.
In conclusion, I believe that it is in the public interest to increase taxes on oil and gas at this time. If the situation changes in the future, if more major discoveries are made, the state can reevaluate its revenue situation. But we will never have a chance to make up for any income foregone as a result of taking to heart industry arguments that really don’t have any validity.