

The Birth of Alaska's Current Oil and Gas Property Taxes

February 22, 2002

The clear intent of the 1973 legislators who adopted the current laws on oil and gas property tax and limits on municipal debt was that no municipality be allowed to monopolize that wealth. Recent representations by the current North Slope Borough leadership otherwise are simply false. On October 25, 2001, North Slope Borough Mayor Ahmaogak told the Alaska Support Industry Alliance that the Borough should be allowed to monopolize Alaskans oil and gas property wealth saying:

“ I’m sorry. A deal is a deal. Its like a treaty to us...”

But a review of the official legislature history reveals a very different “deal”. In 1973, Governor Egan wisely recognized Alaska’s need for new revenue laws on oil, gas, and pipelines. To consider these issues, he called for the First Special Session of the Eighth Legislature to begin on October 17th, 1973. **There is no doubt that his vision and that of the Legislature was that Alaska’s newfound oil and gas wealth was to be shared by all Alaskans.** One of the issues debated was the property tax on oil and gas properties. Governor Egan’s transmittal letter to the Speaker of the House concluded with the following:

“For the convenience of the Legislature’s initial consideration, this measure has been based on previously deliberated legislation which would **return seven mills to local governments** that have property subject to the tax within their boundaries.”

“Surely, we all favor a plan that treats all areas of the state equitably. It will be for the Legislature, with its representation of all areas of Alaska, **to balance the needs of local government against the needs and interests of other communities and the state as a whole.**”

Governor Egan’s transmittal letter on another bill, which was to modify oil production taxes concluded in part:

“...in order that the full increase intended from all oil fields in Alaska will **bring a larger amount of money into the people’s treasury** from their petroleum resources.”

The Senate Community and Regional Affairs Committee report included a theory section which began:

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“ The bill reported by this committee is based on the premise that the Trans-Alaska Pipeline, defined in the bill as an Interborough Common Carrier, is a State asset insofar as taxation is concerned. It is basic to this premise that the State by the sole taxing authority and that the **tax revenues derived should go into the General Fund of the state to be equitably divided by some revenue sharing devise so that all the people of the State benefit.**”

“Even though the North Slope Borough will have both temporary and permanent impact, still the tax base available to them would be so disproportionate to the rest of the state as to **produce a shocking inequity**..... With a population of 4,000 persons, the borough would have a tax base of \$187,500 per capita. The State average tax base is \$12,000 per capita. Anchorage, for example, is \$17,500 per capita. Both the House and the Senate bills adopted the same mechanism and limited the per capita revenues. In the House it was limited to \$1,000 per persona and in the Senate \$2,000 per person. **The figures suggested by either the House or the Senate provided per capita revenues greatly in excess of those received by any other community in the State.** Anchorage, for example, has total tax revenues of approximately \$350 per person. The higher \$1,000 (or possibly \$2,000) figure can be justified for the North Slope Borough because of the higher living costs in the North Slope Borough, the excessive costs for such things as sewers, schools, etc..... Although the \$1,000 or perhaps the \$2,000 may be rational as a per capita limit on the North Slope, neither of these figures is rational as a limit for Valdez.”

Commissioner of Community and Regional Affairs Byron Mallott testified that:

“...the impact of the oil industry is statewide. He said perhaps they should allow more **broad sharing of revenues** derived from a particular resource base.”

Senator Warwick stated that the main concern with regard to this legislation is that:

”Some people feel that **various boroughs may take advantage of the tax base to the detriment of the rest of the state.**”

PMayor Hopson of the North Slope Borough spoke in opposition to that position stating:

“That his borough just passed a two-year budget amounting to \$5 million; all for education and none for community services.”

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Private citizen Harold Pomeroy stated in part:

“... that the problem was stated very clearly by Senator Rader in his committee before which I testified last Saturday, in which he said the question is **you tax where the property is to be taxed and you spend it where the people are.**”

Senator Silides prepared his own substitute bill for the Senate Finance Committee. He introduced this substitute saying

“The basis of the proposal was that **the revenue received from taxes belongs to all the people of Alaska.**”

The 1973 legislation that was passed is still on the books. After it was passed, Mayor Hopson said:

“We were able to reach a compromise that enabled the Borough to retain its revenue authority, but we were limited in our ability to tax oil property to \$1,000 per capita. The State levied a 20 mill property tax on all oil production property in the State, and **taxes paid to the North Slope borough up to our \$1,000 per capita limitation would be credited to the new State ad valorem oil tax.** Our previous authority to tax oil in the ground, and the proven oil reserves, was nullified. “

The clear intent of the framers of the current law was that the Oil and Gas property tax wealth of the North Slope was to be shared statewide. The proof of this can be found in the Journals of the 1973 Special Session.

There is no question that a compromise was reached during the Oil and Gas Legislative Special Session held in late 1973. But it was NOT THE DEAL Mayor Ahmaogak claims. It is clear that the legislators and testifiers at the special session strongly believed that since the oil and gas reserves were a natural resource owned by all Alaskans and that all Alaskans should share the benefits of these resources including the property taxes

What did the 1973 village elders think? Mayor Eben Hopson testified in 1976 before the ‘Berger Inquiry on the Experience of the Arctic Slope Inupiat With Oil and Gas Development in the Arctic’ - a Canadian commission that conducted an exhaustive two-year study on the likely impact of oil and gas development throughout the western Canadian arctic.

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“Today the Prudhoe Bay oil field is a remarkable Arctic sight to behold. Nearly \$3 billion has been invested there to tap its proven 7.6 billion barrels of oil, and 26 trillion cubic feet of natural gas. The assessed valuation of taxable property at Prudhoe Bay is \$2.20 billion, from which the State of Alaska raises over \$200 million annually in property taxes, and from which our North Slope Borough realized \$13.5 million this year in tax revenue.”

The Mayor also expressed concerns of impacts of oil and gas development in his borough:

“We know that we are building in an artificially inflated climate, and our capital debt will be with us long after the boom is over, much like a hangover.”

“I am very concerned about the long-term economic impact of oil and gas development upon our Arctic community. We are riding the crest of a high economic wave, and I fear about where it will deposit us, and how hard we will land.”

So it is clear that the North Slope Borough Mayor in 1973 had a very different view of “the deal” than current Mayor Ahmaogak. A view that did not allow the North Slope Borough to monopolize the oil and gas property wealth of Alaskans.