

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

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Senator Gary Wilken
Alaska Senate
State Capitol Room 518
Juneau, AK 99801-1182

Dear Senator Wilken:

This letter is in response to your letter of August 18, 2006 concerning the proposed contract under the stranded gas development act.

In that letter, you recite the history of the 1973 special session that crafted the special Oil and Gas Production and Pipeline Properties property tax, essentially unamended from that time to this as Alaska Statute 43.56. However, you caution that

even though members of the Eighth legislature crafted an even-handed tax bill, several events have occurred over the intervening years to skew the wealth to one area of the state.

Even assuming that your analysis is correct, all subsequent legislatures over the past 30 plus years have chosen not to amend AS 43.56 to redress the putative skewing of state wealth. At another point in your letter you discuss a "unique formula specifically approved for the borough" for calculating mill rates - but please remember that the formula was written into statute by the legislature and then subsequently upheld by the Alaska Supreme Court. While some years ago the Senate did pass a bill which would have affected the balance, it did not become law or overturn the 1973 rules. The legislature and the courts have spoken clearly and it is their guidance we must follow.

Accordingly, the instructions to the negotiating team were to preserve for the legislature *all those powers pertinent to dividing revenues between the state and political subdivisions currently reserved to the legislature*. The contract did just that. Your careful analysis of Exhibit G will have shown you that not a dollar is dispersed to a municipality by formula except where that formula includes the municipalities' mill rate over 20. (In article 18, the legislature will disperse 125 million or more dollars in impact funds directly to municipalities or through other ways of mitigating impacts.). If the legislature chooses to limit certain municipalities to a mill rate of ten under certain conditions, it may choose to. If the sole municipality so limited were the North Slope

Borough - as it was in prior the legislative attempt - then under the contract a significant amount of money will shift from that borough to the state.

I appreciate your offer to work together to craft a solution to what you characterize as a misallocation of our state's resources. But the contract leaves this as a matter for the legislature to decide - it need not play a role in our negotiations with the producers. In the contract we have preserved the flexibility so that if the state arrives at a solution different than current law, that solution will flow through to the contract.

The reason administration officials were directed to speak against your amendment 12 on August 8, 2006 was that we believed that its core idea - that "the method of distribution of payments received in lieu of taxes are not effective unless the methods are enacted by law"- was already true.

Very truly yours,



William A. Corbus
Commissioner