This Land Is My Land

(Conclusion of Two Parts)

By HELEN L. ATKINSON

It is much simpler for an oil company to deal with only one entity—such as the state—rather than a lot of individuals. An oil company pays the state a bonus (highest bid so far $1,509/acre) and then pays the state $1 an acre a year rent for the land. If an oil company drills and doesn't find oil—the state keeps the bonus plus whatever rent has been paid before the lease is dropped.

If an individual sells his lease to a company and a "dry hole" is drilled, the state is paid the same rent, but no bonus. However, the individual still has to pay federal and state income tax on whatever he got from the oil company for his lease.

If an oil company drills and finds oil, then the company has to pay the state a royalty of 12½% on each barrel of oil produced, plus a severance tax (presently 3%). Each company is allowed a 27½% depletion credit. A company with world-wide operations could distribute losses and gains and pay federal tax on net profit of total operations—rather than just Alaskan operations. If they owned property in a community they would pay real property taxes. Sales tax would be paid on goods purchased locally. Companies based out of state pay no state taxes or corporate tax.

If an individual sells his lease he has to pay federal and state tax on his income from the sale. He usually negotiates for an overriding royalty of 1% to 6% (even up to 25%). This will actually amount to much more than his negotiated price if his lease has a producing well, and the individual will have to pay federal and state tax on this royalty income additionally.

An individual selling his lease to an oil company would be in a higher federal income tax bracket. The rate would depend on how he elected to receive his payment. If he were a resident of Alaska initially he would pay 16% of his federal tax as state tax. If he lived and invested in the Fairbanks area he would pay real property taxes of 9.6 mills to the City and 15 mills to the North Star Borough. The 3% City tax and 2% Borough sales tax on all goods purchased with his additional income would also directly benefit the community if he chose to remain.

But back to the competitive side again—there is no doubt an oil company could bid higher on a competitive bid than an individual. Although Burglin and Miklautsch got their blocks of land near Prudhoe on a competitive bid—their bid was just $1 an acre because no one else bid on the block. Prudhoe hadn't been discovered yet. Now it would be impossible to pick up any Arctic acreage for such a low price.

Technically the people who should know the most about the overall geology and potential of the Slope ARE in the state's Oil and Gas Division of the Department of Natural Resources. Every oil company is REQUIRED to send in drilling reports and submit cores from the wells. This information is classified and confidential and cannot be released to the public for two years.

As quoted in the press the state's Oil and Gas division director said "Competitive leasing is the only way to go." When asked how much the state would realize from a competitive sale he replied "To even hint at it would be improper." No competitive bid figures

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from past state sales in Alaska were given, nor were competitive sales in other states mentioned.

Although, the oil companies and the state know the potential of the area in question, the rest of us can only guess. In an attempt to show both sides of the picture—competitive vs. non-competitive—a study was made by three Fairbanksans. Maximum and minimum figures were used—based on known and given facts. Some of the constants and variables used were:

Twenty years was considered to be the average life of an oil well. State law permits 16 wells leasing block, but only 1.6 producing wells per lease was assumed (since only one out of ten wells is usually a producer in a new area.) One computation was run for a dry hole. The flow of oil from a producing well was diminished at the rate of 3% per year; $3.06 was used as the dollar value of a barrel of high gravity oil at the wall head; the field was considered to be 40-60-and 80% developed; and production was calculated at 2000 to 8000 barrels a day.

Royalty payments, severance taxes, state and federal income taxes, borough and city property and sales taxes, and depletion allowance were all based on the value of a 1970 dollar (decreasing in value to 1990 at the rate of 1% a year.) A dollar turns over seven times (average) in a community, and profit on investments was figured at 8%. Investment in real estate was computed at 75% of spendable income and sales tax figured at 25% of spendable income since sales tax is not charged on construction.

Computations became too complicated to analyze by "long hand" so mathematical possibilities were analyzed by computer. There are 324 possible combinations. Here are a few examples:*

Competitive:

Assume $13/acre bonus on lease with a producing well. 60% of the land is developed and 4000 barrels/day of oil is produced. The company pays the state 12½% royalty on production and 3% severance tax:

Revenue to the state. . . . .$7,828,904.30.
Revenue to the federal, and local government. . . . . . none.

Non-competitive:

Assume $10/acre negotiated sale to oil company. 60% of land is developed and 4000 barrels/day of oil is produced. 4% over-riding royalty is paid to the individual and he invests at 8% profit. The company pays the 12½% royalty and 3% state severance tax.

Revenue to the state. . . . . $9,267,770.75.
Revenue to federal government. . . . .$2,432,372.42.
Revenue to local government. . . . .$208,006.71.
(Plus $838,246.59 in buildings)

Difference: $4,079,245.58.

*Figures may be checked with Sci-Com Inc., 3550 Airport Rd., Fairbanks, Alaska 99701

Competitive:

Assume $1500/acre bonus, that it is 40% developed, that an 8000 barrel/day well was producing, and the state still gets the 12½% royalty and 3% severance tax.

Revenue to the state. . . . .$9,329,122.12.
Revenue to federal and local governments. . . . none

Non-Competitive:

Assume $12000/acre negotiated, 40% development, 8000 barrels /day of oil; 4% royalty (over-riding), and 8% profit.

Revenue to the state. $9,288,122.12
Revenue to federal government. . . . .$4,999,139.57.
Revenue to local government. . . . .$370,235.44.
(plus $1,215,458.87 in buildings)

Difference: $5,328,044.67.

My only conclusion can be that you should draw your own conclusion. I am not a lease-broker, I do not own an oil and gas lease, but I have lived in Alaska for forty years and plan to stay for forty more. I too am interested in "what is best for the state of Alaska." Which method of leasing do you think is best? Why?