



March 13, 2014

The Honorable Cathy Muñoz
State Capitol Room 421
Juneau AK, 99801

Re: House Bill 325 – Oil Spill Prevention Fund

Dear Representative Muñoz,

The Alaska Chamber is writing to respectfully state our opposition to House Bill 325 (HB 325), legislation that will increase the fund cap and per barrel tax on eligible oil produced in state. Like you, we do support the effort to begin a discussion on how best to protect the public good of having funds available to prevent and respond to a spill of oil or other toxic pollutants.

The Alaska Chamber is an organization dedicated to improving the business environment in Alaska. The Alaska Chamber represents hundreds of businesses from Ketchikan to Barrow that share a common goal: to make Alaska a viable and competitive place to do business. To ensure a strong, competitive economic environment, we must ensure that our regulatory and tax structures are reasonable and appropriate.

The per barrel tax increase proposed in HB 325 affords us an opportunity to share several concerns about the Response Fund (Fund) which we believe need to be addressed before any increases to revenue sources for the Fund are considered. Specifically, Alaska Chamber members are dismayed about the current usage with respect to the funding sources as well as the Department of Environmental Conservation's stewardship of the Fund.

Since its inception, the allowable usage for the Fund has steadily expanded. However, the primary funding mechanism has remained substantially unchanged. The vast majority of funds come from a single industry, yet the proceeds from the tax have been increasingly used for administrative costs and costs unrelated to the intent of the Fund. Over time financial responsibility for incident, spill and civil charges has been increasingly defined as a liability of the responsible parties, which makes sense in the context of the original intent of the Fund. However, the intent of the Fund has changed and oversight requirements have become lax while a single industry maintains the burden of funding the vast majority of the program.

Of particular concern is that the Fund has grown to increasingly cover state administrative and general environmental program costs unrelated to spill clean up.



Yet the Fund continues to be funded with a targeted industry tax. Interestingly, the oil producing industry already bears complete financial responsibility for environmental and civil damages that may result from a potential spill.

The expenditure allocations from the Fund demonstrate how it is actually being used. Looking at the most recent publicly available report from FY '05-07 for the Prevention and Emergency Response Program, 72% of the costs were attributed to Program Administration. That program includes expenditures for canneries, telecommunications, power generators, Alaska Railroad, and schools. Of course, it also includes very high administrative costs.

Similarly, reports on the Contaminated Sites Program show 53% of costs were attributed to Program Administration. Less than half of the program expenditures were for contaminated sites and of that amount, and only 3% of the contaminated sites were attributed to "Businesses" or "Fuel Suppliers/Oil Producers." The rest were "State Agencies", "Cities, Boroughs, and School Districts", the "U.S. Government", etc.

The Fund today differs significantly from its original intent. Poor stewardship of a large public resource created for a specific purpose has Alaska targeting a single industry to cover state administrative costs, liabilities of various industries, and environmental support of Alaska's cities and schools. On behalf of Alaska's business community, we respectfully request a thoughtful dialogue about the intent of the Fund, the funding sources of the Fund, and use of the Fund prior to any increases to Fund being advanced through HB 325.

Sincerely,

A handwritten signature in blue ink that reads 'Rachael Petro'.

Rachael Petro
President/CEO