



**Regional Citizens' Advisory Council** / "Citizens promoting environmentally safe operation of the Alyeska terminal and associated tankers."

In Anchorage: 3709 Spenard Road / Suite 100 / Anchorage, Alaska 99503 / (907) 277-7222 / FAX (907) 277-4523  
In Valdez: P.O. Box 3089 / 130 South Meals / Suite 202 / Valdez, Alaska 99686 / (907) 834-5000 / FAX (907) 835-5926

**MEMBERS**

February 26, 2021

Alaska State Chamber of Commerce

Representative Andy Josephson  
Room 502

Chugach Alaska Corporation

State Capitol Building  
Juneau, AK. 99810

City of Cordova

**SUBJECT:** Support for HB 104 "An Act relating to vehicle registration and registration fees; relating to the motor fuel tax; and providing for an effective date"

City of Homer

City of Kodiak

Dear Representative Josephson:

City of Seldovia

The Prince William Sound Regional Citizens' Advisory Council (PWSRCAC) is an independent nonprofit corporation whose mission is to promote the environmentally safe operation of the Valdez Marine Terminal and associated tankers. Our work is guided by the Oil Pollution Act of 1990 (OPA 90) and our contract with the Alyeska Pipeline Service Company. PWSRCAC's 18 member organizations are communities in the region affected by the 1989 Exxon Valdez oil spill, as well as commercial fishing, aquaculture, Alaska Native, recreation, tourism, and environmental groups.

City of Seward

City of Valdez

City of Whittier

Community of Chenega

PWSRCAC supported a previous version of this bill (SB 115), which was introduced by Senator Bishop last session, and is pleased for the opportunity to do so again. PWSRCAC's primary interest in HB 104 is the amendment to Section 5 at AS 43.40.005 (a). While PWSRCAC strongly supports the amendment to Section 5, namely the increase to the refined fuel tax that will support the Spill Prevention and Response (SPAR) Division of ADEC, it does not take a position on other aspects of HB 104 that fall outside of the organization's mission and mandate.

Community of Tafitlek

Cordova District Fishermen United

Kenai Peninsula Borough

Kodiak Island Borough

The SPAR operating budget is designed to be self-sustaining and not dependent upon Undesignated General Fund (UGF) appropriations. The Division's operating funds come from a 4 cents per barrel surcharge on oil produced in Alaska, a .95 cents surcharge on refined fuel products, and a combination of penalties, cost recovery, and investment income. SPAR expenditures exceed revenues by over \$1 million per year and the SPAR account balance is projected to be in the red by FY 2025. The immediate budget deficits can be traced to decreased oil production and the fact that electric cooperatives and municipalities were determined to be exempt after the refined fuel surcharge was adopted in 2015.

Kodiak Village Mayors Association

Oil Spill Region Environmental Coalition

Port Graham Corporation

Prince William Sound Aquaculture Corporation

The SPAR Division has absorbed the loss of 17 positions since 2015. The Governor's proposed operating budget for FY 2022 contains cuts that eliminate another 5 positions. The cumulative impacts of on-going staffing

reductions has serious consequences that include high staff turnover, difficulty filling vacant positions, and the loss of institutional knowledge. The Division now must make difficult decisions about what to prioritize and how to do less with less while still meeting statutory responsibilities. While this is taking place, the workload has remained steady and even increased in some areas. For example, SPAR presently has a caseload that includes 2,400 active contaminated sites.

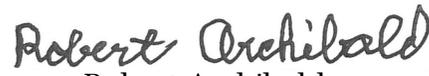
SPAR does the critical work of observing exercises and enforcing the regulations that prevent oil spills, responding if a spill occurs, and protecting Alaska's economy, people, and environment. It is important to ensure that the Division has a budget and staffing levels that are adequate and sustainable enabling it to fulfill its statutory responsibilities. Increasing the surcharge on refined fuel products by a half cent would sustainably fund SPAR and be consistent with the intent of the Legislature when the surcharge was enacted in 2015.

Thank you again for sponsoring HB 104. For your reference, we are also attaching the Council's legislative priority briefing sheet which speaks directly to the challenges within SPAR and the need to provide the revenue adjustment contained in HB 104.

Please do not hesitate to contact us if you have any questions or desire more information.

Sincerely,

  
Donna Schantz  
Executive Director

  
Robert Archibald  
Board President

Enclosure: PWSRCAC Oil Haz Fund Legislative Briefing Sheet 2021



## Prince William Sound Regional Citizens' Advisory Council

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Citizens promoting environmentally safe operation of the Alyeska terminal and  
associated tankers.

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### **THE OIL AND HAZARDOUS SUBSTANCES RELEASE PREVENTION AND RESPONSE FUND IS UNSUSTAINABLE AND REVENUE ADJUSTMENTS ARE NECESSARY.**

#### **Problem Statement**

Reduced revenue from several financing sources has resulted in a chronic and continuing revenue shortfall for the Oil and Hazardous Substances Release Prevention and Response Fund (Oil Haz Fund). This revenue shortfall diminishes the ability of the State to prevent oil spills and hazardous substance releases, maintain an adequate level of readiness, and adequately respond should a spill occur. The Oil Haz Fund is currently not sustainable and the problem cannot be fixed through budget cuts alone. The Legislature is encouraged to take proactive action by making financing adjustments that ensure the sustainability of the Oil Haz Fund.

#### **Background on the Oil Haz Fund**

The Oil Haz Fund was designed to be self-sustaining to ensure that the Department of Environmental Conservation (DEC) has adequate funds on hand for immediate response to oil spills and hazardous substance releases, and for maintaining an effective prevention program, without the need for annual General Fund appropriations. The Oil Haz Fund is comprised of two separate accounts with separate revenue streams: the Prevention Account and the Response Account.

The Prevention Account provides most of the operational funding for the DEC Spill Prevention and Response (SPAR) Division. It is funded by a 4 cents per barrel surcharge on crude oil produced in Alaska, which is paid by the producers; a .95 cent surcharge on refined fuel products, which is paid by dealers or users of refined fuels; and a combination of settlement penalties, cost recovery, and investment income.

Prevention Account expenses exceed total revenues by over \$1 million every year. The account balance is projected to be depleted by FY 2025. Revenues have been less than originally expected for two main reasons. In 2015, when the surcharge on refined fuel was enacted, it was not anticipated that municipalities and electric cooperatives would be exempt. The second reason is that oil throughput in the pipeline has steadily decreased.

The Response Account is primarily funded by a 1 cent per barrel surcharge on crude oil produced in Alaska, paid by the producers. Settlement penalties, cost recovery, and investment income provide supplemental funding. The Response Account is generally used to respond in emergency situations to oil spills and hazardous substance releases. Again, due to decreased oil production, this account is declining.

In recent years, the Response Account has been used to respond to the release of hazardous substances in areas where it is uncertain if cost recovery will ever occur. For example, \$9.4 million has been appropriated to address Per- and Polyfluoroalkyl (PFAS) substance contamination at state airports and adjacent communities and \$17.6 million was spent to address the Wrangell junkyard contaminated site. In both situations the polluter has not paid contributing to a continuing decline in the balance of the Response Account (currently \$31 million) along with Alaska's ability to respond adequately to a major oil spill or hazardous substance release.

### **Oil Haz Fund: Bottom Line**

The lack of sustainable funding for the SPAR Division through the Prevention Account is a critical and immediate problem, and a declining balance in the Response Account creates greater risk to Alaska's ability to respond to an oil spill or hazardous substance release. The Oil Haz Fund is a critical program that is no longer being funded at levels necessary to sustain it.

### **Challenges within the SPAR Division**

The SPAR Division has absorbed the elimination of 17 positions since 2015. The Governor's FY 2022 Operating Budget proposes cuts that would eliminate five more, four of which are senior level positions. The elimination of positions, combined with a high personnel turnover rate due to budget instability and difficulty filling vacant positions, has serious consequences. These consequences include stress and increased workload for the employees that remain and the loss of experience and institutional knowledge. The SPAR Division currently has a caseload that includes 2,400 active contaminated sites.

Additional oversight duties such as railroads, contaminated sites, and non-tank vessels have been added without corresponding budget increases. Over the years the types of spills the SPAR Division responds to have changed. Recently, the predominate types have been small spills from unregulated sources due to aging infrastructure and tank overfills.

The Division is beyond doing more with less and is now having to make difficult choices about how to do less with less and still meet its statutory responsibilities.

### **SPAR Division: Bottom Line**

The State must be able to adequately engage in oil spill and hazardous substance release prevention activities and robustly respond if pollution occurs, which is critical to protecting the environment, economy, and health, safety, and welfare of Alaskans. It is imperative that the SPAR Division maintain the ability to carry out its responsibilities and that the future sustainability of the Prevention Account is ensured. This situation requires an immediate response by the Legislature.

### **Council Recommendations**

- Raise the .95 cent per gallon surcharge on refined fuel products to 1.5 cents as proposed in HB 104. This amount will be sufficient to close the revenue gap for the Prevention Fund and meet the original Legislative intent when the surcharge was enacted.
- Reject the five additional staff cuts to the SPAR Division resulting from the proposed budget cuts by Governor Dunleavy. The slight raise in the refined fuel surcharge will enable the Division to retain these positions.