



THE STATE  
of **ALASKA**  
GOVERNOR SEAN PARNELL

Department of Environmental  
Conservation

DIVISION OF ADMINISTRATIVE SERVICES

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The Honorable Cathy Muñoz  
Chair, House Finance Subcommittee  
State Capitol Room 421  
Juneau AK, 99801

Dear Representative Muñoz:

Thank you for the opportunity to provide you with a brief overview on the status of tsunami debris cleanup, and on the financing and management of the Prevention Response Fund on February 13<sup>th</sup>. During our meeting some questions arose that required additional information. I have responded to those questions below. If you would like additional information, or have additional questions, I am happy to assist.

***What is the total difference between the amounts attempted for cost recovery and the subsequent settlements that have been negotiated down? (Rep Kawasaki)***

In accordance with AS 46.08.070, the Department attempts to recover 100% of costs "incurred in the cleanup or containment of oil or a hazardous substance that has been released." Cost recovery processes that result in negotiated settlements are administered by the Department of Law. The Department of Law has indicated to DEC that it does not track the difference between attempted recovery amounts and the resulting settlements.

***How much does a 1 cent surcharge generate each year? (Rep Muñoz)***

According to the 2013 Fall Revenue Forecast from the Department of Revenue, each 1 cent surcharge on oil production is expected to generate \$1.62 million in FY2015, \$1.6 million in FY2016, and \$1.56 million in FY2017.

***Does DEC have Memorandums of Understanding with other emergency response agencies? Should the Legislature require such MOUs to ensure that communication is happening? (Rep Seaton)***

Regarding the spill response incident and resulting cost recovery process on Prince of Wales Island mentioned by Representative Peggy Wilson, the Department of Public Safety did not bill the responsible party in the incident described during the hearing. They filed charges using our statutory authority which resulted in the responsible party hiring an attorney and fighting those charges in court. DEC did bill the responsible party to recover our costs for overseeing the cleanup. Therefore, the responsible party was not double billed. DEC will work with Department of Public Safety to communicate better in the future. Since there was only one incident, DEC does not believe an MOU is necessary at this time.

***Please provide the committee with spill summary report for one year, rather than the 5-year aggregate. (Rep Seaton)***

Please see the attached FY2013 Spill Report Summary.

***What is the cost of one skimmer? (Rep P. Wilson)***

The skimmer pictured in the Department's presentation costs approximately \$30,000, but larger skimmers can cost much more. Skimmers are just one part of the oil spill response arsenal. Many pieces of equipment are necessary to effectively clean up spilled oil.

***Could Response Fund Administration expenses be capped at 10%? Should Response Fund Administration be funded from the Response Account rather than the Prevention Account? (Rep Seaton)***

SPAR cannot feasibly cap its administrative expenses at 10% because under AS 46.08.070, the Department must attempt to recover 100% of costs "incurred in the cleanup or containment of oil or a hazardous substance that has been released." To accomplish the recovery of administrative expenses, the division annually calculates an indirect cost rate based on accepted cost accounting principles. That indirect cost rate is applied to all cost recoverable spills and sites to ensure all participating parties are equally billed for indirect costs. Federal agencies approve this indirect rate for application on federal spills and sites.

The Response Fund Administration (RFA) component of the Division of Spill Prevention and Response (SPAR) is an administrative unit that supports the work of the entire division. RFA is the division's primary agent for cost recovery and works closely with the Department of Law. It also handles budgeting, accounting, procurement, human resources and any other administrative tasks for SPAR. The FY2015 operating budget for RFA is \$1,638.3 from the Prevention Account and it funds 15 administrative positions. All RFA positions are part of the division of SPAR's indirect cost pool, which is explained below.

Receipts from cost recovery are deposited back into the account where the site was established (either the Prevention Account or Response Account) with one exception – indirect costs. All cost recoverable spill and sites are charged an indirect rate. That indirect rate includes division-level and department-level indirect costs. In FY14, the total department indirect rate is 38.71% of direct personal services and this rate includes the divisional (SPAR) indirect rate of 19.9% of direct personal services. The SPAR division indirect cost pool consists of the entire RFA component plus the SPAR director and two support staff. In essence, all RFA positions are charged as indirect to every cost recoverable project.

If the cost recoverable site is funded from the Prevention Account then the revenue is deposited to the Prevention Account and the Prevention Account covers all the RFA costs. If the cost recoverable site is funded from the Response Account then the responsible party is billed for the indirect costs and the incoming indirect revenue is deposited to the Prevention Account (not the Response Account). The collection of indirect revenue is unique, as all other cost recovery revenue from Response Account spills and sites is deposited back into the Response Account.

In sum, all expenses for administering the cost recovery process are expensed from the Prevention Account and re-deposited to the Prevention Account once recovered. Hence, there is no need to fund any administrative costs from the Response Account.

***Does the state currently collect a tax on refined products? (Rep Muñoz) What would the tax or fee on refined products need to be at the first wholesale transfer or importation to sustain the Prevention Account? (Rep Seaton)***

The State levies a tax on certain refined petroleum products via the Motor Fuel Tax administered by the Department of Revenue. According to the Tax Division's Annual Report, the Motor Fuel Tax generated \$42.1 million in FY2013. Heating oil is specifically

exempted from the Motor Fuel Tax. For further information on the Motor Fuel Tax, please contact Johanna Bales, Deputy Director, Tax Division (907-269-6628).

Sincerely,



Tom Cherian  
Director, Division of Administrative Services

Enclosures: Division of Spill Prevention and Response – Summary of Spills FY2009-2013

Cc: Representatives Austerman and Stoltze, Co-Chairs, House Finance Committee  
David Teal & Danith Watts, Legislative Finance Division  
Christopher Clark, Staff to Representative Muñoz