

HB

846

COMMITTEE REPORT

HOUSE

FINANCE

2/27/76

Mr. Speaker:

Date 4-21-76

The Committee on RESOURCES has had HB 846

under consideration. A Majority of the members of the Committee

() recommends it DO PASS

() recommends it DO NOT PASS

() recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR HB 846 AND THAT

CS FOR HB 846 DO PASS

() "and" recommends it BE REFERRED TO THE _____

COMMITTEE

() reports it back WITHOUT RECOMMENDATION

() "other"

Members signing the Majority report:

<u>[Signature]</u>	<u>[Signature]</u>	_____
<u>[Signature]</u>		_____
_____	_____	_____
_____	_____	_____

Members NOT concurring in the Majority report:

<u>[Signature]</u>	recommends: <u>no</u>
_____	recommends:
_____	recommends:
_____	recommends:
_____	recommends:

[Signature] Chairman

Today I saw a god go down in death.

I saw the splendid figure sway and crash.

I heard the stricken earth's deep shuddered breath
and

Trading Bay: Marathon concerned with the
Realty - Doug Bailey
excluding existing pipelines, Rights of way + leases.
exclude oil treatment plant.

W3 846 Fisheries Impact Council

line 26 pg 1 4 public members appointed by the
pg 2 line 7 provided that ^{at least} 2 are public members.
pg 4 - change ^{to} 50,000 from 100,000
pg 3 providing minimum wage

FISHERIES ECONOMIC IMPACT COUNCIL

--Fisheries Economic Impact Council and Department of Commerce & Economic Development (DEE)

- 1. Forecast income from Alaska Department of Fish and Game fishery run predictions by fishery
- 2. Evaluate income forecast
- 3. Identify potential fishery failures
- 4. Review and submit recommendation to the Governor for proclaiming fisheries failure area.

--Governor Evaluate Recommendation of Fisheries Economic Impact Council

- 1. Declare fisheries failure area(s)
 - a. Request (charge) the Fisheries Economic Impact Council to proceed with plans for State's response
 - b. Alert Governor's cabinet members of potential fisheries failure and inform cabinet members of this decision.
- 2. Ignore recommendation
 - a: Request Fisheries Economic Impact Council to monitor situation
 - b. Declare fisheries disaster at a later date
 - c. Proceed as in "a" above

--Fisheries Economic Impact Council activity related to fishery failure

- 1. Evaluate current State capital expenditure plans for target area
- 2. Recommend to Governor what projects which could be expedited to stimulate income earning opportunities.
- 3. Fisheries Economic Impact Council develop plans (in cooperation with Department of Commerce & Economic Development and other State agencies) to impact employment opportunities
- 4. Continue to monitor fishing activity throughout the State (concentrate on anticipated fishery failure areas.)
- 5. Advise the Governor as the fishing season progresses (still possible to take action).

ASSUMPTIONS

1. That the bill has passed
2. That the Governor has appointed the council members to the Fisheries Economic Impact Council
3. That the Alaska Department of Fish and Game has prepared forecasts for the 1977 fishing season and that there are expectations that at least one area is expected to have a poor fishing season

J

A PROFESSIONAL CORPORATION

March 18, 1976

Honorable Nels A. Anderson, Jr.
Chairman, House Resources Committee
and House Resources Committee
Members
Pouch V, State Capitol Building
Juneau, Alaska 99811

Re: House Bill 846 - Fisheries
Economic Impact Council

Dear Chairman Anderson and
Members of the House Resource Committee:

This letter is written on behalf of the American
Insurance Association.

The subject bill is a praiseworthy attempt to provide economic relief for areas hard hit by fishing-run failures, and the Association is sympathetic with its goals. We wish, however, to comment on the bond waiver provision in proposed Sec. 44.33.300, at the bottom of page 3 of the the bill. The intent of this provision is apparently to make it easier for contractors in an economically impacted area to bid on public contracts, and thereby make it easier for public contract money to be pumped into the depressed area. It may, however, have an unintended and adverse result. The bonds referred to in this section are those set out in AS 36.25.010, and are of two different kinds. Under 36.25.010(a)(1), a performance bond must be provided the state on contracts over \$2,000.00. If that bond is not given, and the

Honorable Nels A. Anderson, Jr.
March 18, 1976
Page 2

performance is not forthcoming, the state is the loser, and would have no alternative but to place the contract with some other contractor and proceed with whatever remedies it may have against the defaulting contractor. The more serious problem is created by waiver of the bond required by 36.25.010(a)(2), which is a payment bond, "for the protection of all persons who supply labor and material in the prosecution of the work provided for in the contract." If such a bond is not provided, then persons and firms supplying materials and labor to the government project, in reliance upon payment under the contract, are given no protection against a contractor who fails and whose assets are inadequate or unavailable. This could be particularly serious in an already economically impacted area such as is being addressed by this bill. Presumably, this legislation would be intended to provide as much work and sales opportunity in the impacted area as possible. Local suppliers and laborers would be involved in the project. The impact upon them of a defaulted contract would predictably be especially severe.

The payment and performance bond requirements of Alaska Statutes relating to public contracts are required for good policy reasons, and it appears that those policies are especially strong when dealing with public contracts in an economically depressed area. The protection that such bonds provide for the small businessman is invaluable, and it would appear unwise to take that protection away.

We would be happy to provide any further information on this provision that you may find helpful, and I

Honorable Nels A. Anderson, Jr.
March 18, 1976
Page 3

would appreciate an opportunity to testify briefly on this matter when it is scheduled for hearing.

Very truly yours,

M. T. THOMAS

bcc: Robert W. McCann
Victor Slevin

MEMORANDUM

State of Alaska

TO: Frances Ulmer
Legislative Assistant
Governor's Office

DATE: March 5, 1976

FILE NO:

TELEPHONE NO:

FROM: Arthur H. Peterson
Assistant Attorney General
Department of Law

SUBJECT: HB 846 (fisheries impact
council) and HB 642 (fishery
impact fund)

You have indicated that the House Resources Committee is interested in favorably reporting out HB 846 and attaching HB 642 to it, and you asked whether the latter is invalid as creating a "dedicated fund" under art. IX, sec. 7 of the Alaska Constitution.

We believe that HB 642, as written, is invalid. Presumably, its drafters were relying on a literal reading of the phrase "tax or license" in art. IX, sec. 7. However, this department no longer believes that that is a sound interpretation of that constitutional provision. The May 2, 1975 opinion of this department on the dedication of revenues (copy attached) applies a broader interpretation of the prohibition, reading the phrase as meaning "revenues".

Nevertheless, there are many "dedicated" or special funds of the state which are valid. We believe that the invalidity of HB 642 could be avoided by using wording something like the following for the proposed AS 37.11.010(b) (with the indicated amendments here showing the changes in the original bill, not existing law);

(b) An amount equivalent to not less than two per cent of the receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land may [SHALL] be appropriated by the legislature to [DEPOSITED IN] the Alaska fishery impact fund.

This language would avoid the dedicated fund problem and would serve as a guide for legislative appropriation while not attempting to bind the legislature invalidly. (I might add that the second sentence of the proposed AS 37.11.010(a) is rather confusing and should be re-worded.)

AHP:md

Handwritten signature/initials

J

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Very truly yours,

M. T. THOMAS

bcc: Robert W. McCann
Victor Slevin

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

March 19, 1976

SUBJECT: Evaluation of HB 846, Fisheries Impact Fund, and Recommended Changes (W.O. #2379)

TO: The honorable Nels Anderson

FROM: James Owers *J.O.*
Research Analyst

Council Membership

With respect to Sec. 44.33.260, MEMBERSHIP AND VACANCIES, it should be pointed out that the Commercial Fisheries Entry Commission has a fulltime research staff devoted to analyzing economic data from the fisheries. The committee may, therefore, wish to consider adding the chairman of the Commercial Fisheries Entry Commission to the Fisheries Economic Impact Council. This would insure coordination of all those agencies with relevant data.

Definition of Base Period

In Sec. 44.33.310 "base period" is defined as "any 10 years after 1950, not necessarily continuous, during which a fishery produced at economically acceptable levels as determined by the Alaska Department of Fish and Game."

It should be pointed out that the Department of Fish and Game has no expertise to determine what is "economically acceptable." This would

appear to be more appropriately handled by the council. In any case, with rising economic expectations and a near doubling in the number of fishermen over the last 15 years, what may be "acceptable" may not be even biologically possible. Certain fisheries practically never produce at "economically acceptable" levels because many of the participants have non-economic goals, such as the hand troll fishery and certain set net fisheries. A more realistic approach would appear to be for the council to select a base period which is "reasonably representative" of economic conditions in the fishery.

There does not appear to be any need to extend the base period further back than 1960 and five years would appear adequate. This would greatly simplify data problems and, in any case, average salmon production during the 1960's exceeded the 1950's. A large number of the fisheries in the state barely existed or did not exist at all prior to 1960, such as the Arctic-Yukon-Kuskokwim salmon fisheries and many shellfish fisheries. The table attached at the end of this memo shows a base period between 1969 and 1973 for the 19 salmon fisheries which have limited entry. This appears to be reasonably representative of dollars produced by these fisheries. Even though production was about average, total revenues reached record and near record levels, even adjusting for inflation.

The following definition of "base period" is offered for the committee's consideration based on the above comments:

"Base period," means any five years after 1960, not necessarily continuous, during which a fishery produced a reasonably representative total annual catch value as determined by the council."

Definition of Fisheries Failure

In the present bill a fisheries failure "means income to the participants in a fishery dropped below 50 per cent of the average annual income for the base period..." The first problem with the existing language is that it appears to be comparing total revenue produced by a fishery with individual earnings. Suppose a fishery has a base period income of 10 million dollars with 1,000 participants, or in other words an average income of \$10,000 per fisherman. Does the language in the existing bill mean that if the number of fishermen increases to say 2,500 fishermen that a fishery failure has occurred, since average income to participants in the fishery will have dropped to \$4,000?

It is suggested that this ambiguity be removed and that the committee adopt language that would make it clear that in all cases the total catch value of the fishery will be used, if that is in fact the committee's intent.

There is nothing in the present language that makes it clear that the council is dealing primarily with biological failures. For example, in the present bill a large price reduction could be considered a "fisheries failure." On several occasions prices in shellfish fisheries have more than dropped in half when catches have remained constant. In addition, the Board of Fisheries may well make "man made" fisheries failures by a decision to eliminate a certain type of gear in an area or reduce the catch allocation to a particular fishery. For example, it is likely that increased restrictions on the interception of Bristol Bay fish by Alaska Peninsula fishermen will be forthcoming. In 1972 the Board eliminated the Southeast set net fishery. Should this be considered a

"fisheries failure"?

There does not appear to be an adequate definition of a "fishery." Does this mean the Alaska salmon fishery or the Prince William Sound drift gill net fishery?

It is not stated that the council should adjust for inflation. With a 7% rate of inflation, fish prices could well double over the next 10 years along with operating costs and related items, yet the council would have to wait until revenues dropped to 25% of their present level before a fisheries failure could be declared.

Also, no justification has been submitted for requiring the total annual catch value to drop below 50% of the average for the base period. As the analysis at the end of this memo shows, this may not be practical. In certain fisheries where incomes are already low and where there is little alternative employment, acute problems may be felt long before this, particularly in fisheries that do not fluctuate as widely as the salmon fisheries, such as halibut. Furthermore, since the purpose of the council is to advise and recommend action to the governor, there does not appear any reason why the council should be locked into a rigid mechanical formula.

The second requirement for a fisheries failure is that "the average family income of all residents of the designated area as determined by the council is below the Federal Social Security Administration Poverty Guideline ..." There appear to be several problems with this requirement; two technical and the other more philosophical. First, there do not appear to be adequate statistics relating to family incomes. The main source of earnings information is unemployment insurance and state and local government payroll information. This information is related to

individuals, not families. Second, there are several federal agencies which publish poverty guidelines depending on the purpose of their program. Those used by the Limited Entry Commission, for example, are published by the Community Services Administration. It appears that Social Security Administration guidelines are contingent upon, among other things, bank deposits, home ownership, and other assets held by an applicant for benefits. The best approach would appear to be to leave out the specific agency who would supply poverty guideline statistics and leave this up to the council's discretion. The third problem is that, regardless of the number of families that may be above or below the poverty guideline in a certain locality, fishermen impacted by a fisheries failure may still not be able to find employment. Thus the real issue appears to be whether alternative employment is available. It would appear that one duty of the council could be to define availability or lack of alternative employment. For example, it could be a function of population, economic diversification, regional unemployment or some combination. This approach would appear to have the advantages of relying on existing data as well as dealing with the fundamental problem, which is to provide employment to fishermen who cannot find work in other fisheries or other sectors of the economy. Again, no justification or studies are submitted by the administration to show that the existing formula is practical or workable.

The following definition of a fisheries failure is offered for the committee's consideration. This definition still leaves the method of calculating inflation up to the council, and it is possible that it will still be difficult to sort out biological from economic causes of fisheries

failures. In addition, a definition of "fishery" borrowed from AS 16.-43.380 is used here since extensive data files of both the department of Fish and Game and the Limited Entry Commission are organized this way.

"Fisheries failure" means that the total catch value in a fishery, adjusted for inflation, has, for biological reasons, dropped significantly below the base period total catch value and that few alternative employment opportunities exist for fishermen in the region.

"Fishery" means the commercial taking of a specific fishery resource in a specific administrative area with a specific type of gear.

Analysis of "Acceptable" Incomes in Certain Alaskan Salmon Fisheries

In 1974 an economic survey of fishermen examined what fishermen themselves felt was a reasonable level of gross earnings. The following table shows the average response for each fishery. The response fishermen gave appears fairly realistic in view of operating costs in each fishery and a comparison with prevailing wage scales in such industries as logging and contract construction. In the second column of the table, this figure has been multiplied by the number of entry permit holders in each fishery to provide an estimate of the total revenue each fishery would have to produce so that the average earnings of fishermen would equal an "acceptable" level. This amount can then be compared to the average total earnings in each fishery over the five years between 1969 and 1973.

What is immediately apparent is the wide difference between what may be considered "acceptable" and what has actually occurred even

during a period of relative prosperity in the salmon fisheries (see graph). In fact, the average earnings of fishermen over the five year period, even adjusting for inflation, is less than half what was considered "acceptable." In many fisheries, even record high years did not produce an "acceptable" level of earnings.

JO:jm

70 + MILLIONS OF DOLLARS

60 +

50 +

40 +

30 +

20 +

10 +

1960-1964
AVERAGE = \$36.8 MILLION

1965-1969
AVERAGE = \$43.8 MILLION

1970-1974
AVERAGE = \$58 MILLION

BASE YEARS, ALASKA SALMON FISHERIES

'60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70 '71 '72 '73 '74

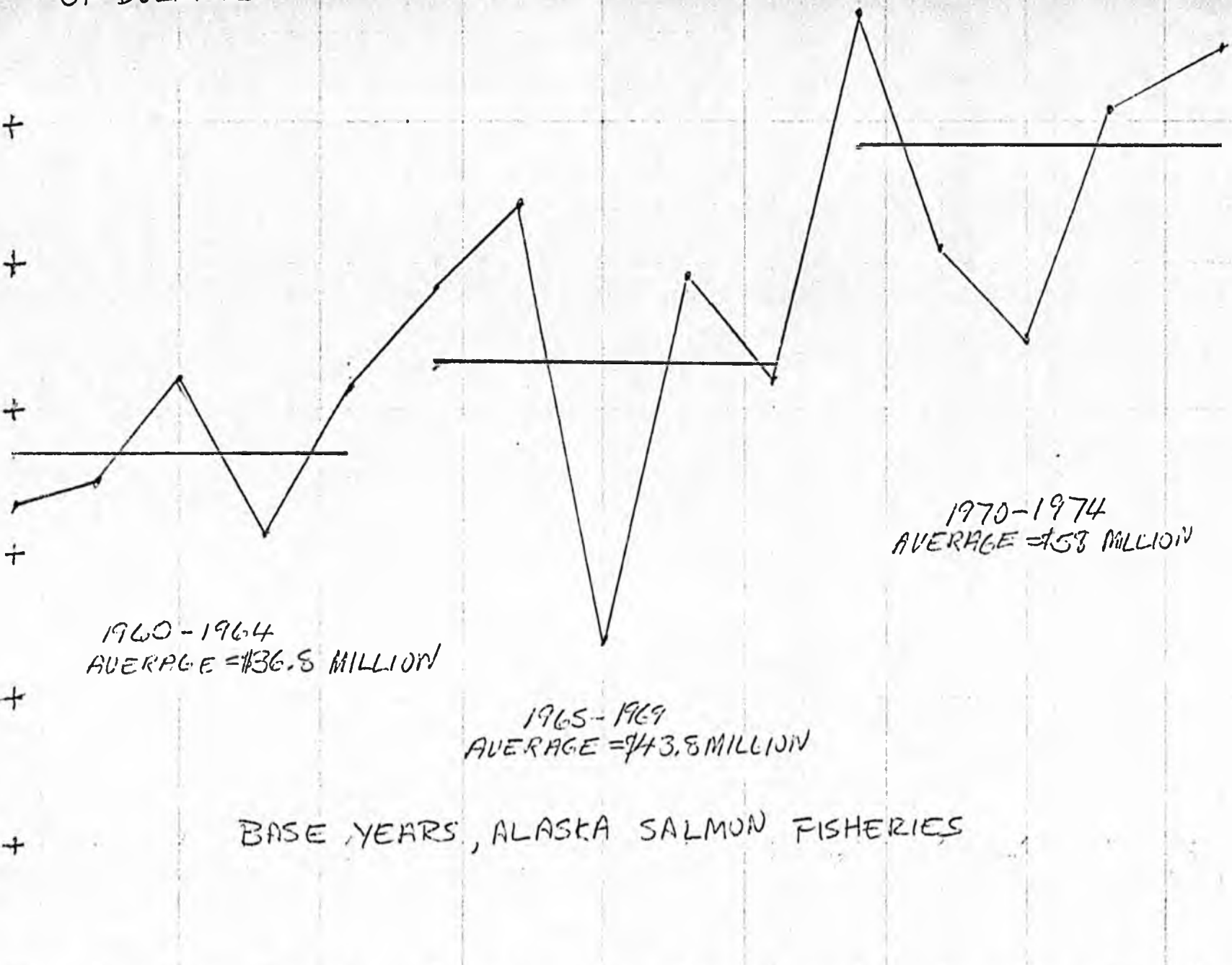


TABLE 1
TOTAL REVENUE BY SALMON FISHERY
ADJUSTED BY WHOLESALE PRICE INDEX

1969-1973
(In thousands of dollars)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>5 year Average</u>
<u>Southeast</u>						
Purse Seine	\$4,177	\$9,456	\$8,573	\$13,168	\$13,376	\$9,750
Drift gill Net	2,785	3,108	3,054	5,489	7,588	4,404
<u>Yakutat</u>						
Set Gill Net	329	226	394	479	952	476
<u>Prince William Sound</u>						
Purse Seine	3,997	2,584	6,163	<u>1/</u>	4,796	4,385
Drift Gill Net	2,472	3,680	2,656	2,780	3,727	3,063
Set Gill Net	177	84	<u>2/</u>	133	83	119
<u>Cook Inlet</u>						
Purse Seine	204	650	500	229	752	467
Drift Gill Net	1,454	2,164	1,297	2,237	4,023	2,235
Set Gill Net	1,071	1,444	906	1,842	2,281	1,508
<u>Kodiak</u>						
Purse Seine	9,345	8,720	5,534	7,019	1,893	5,902
Beach Seine	25	91	57	40	13	45
Set Gill Net	611	706	464	331	186	459

TABLE 1
TOTAL REVENUE BY SALMON FISHERY
ADJUSTED BY WHOLESALE PRICE INDEX

(Continued)

1969-1973
(In thousands of dollars)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>5 year Average</u>
<u>Chignik</u> Purse Seine	\$1,973	\$3,962	\$2,579	\$1,129	\$3,066	\$2,441
<u>Peninsula</u> Purse Seine	1,268	3,489	1,968	789	502	1,603
Drift Gill Net	1,480	2,055	1,529	1,413	1,155	1,526
Set Gill Net	188	345	210	119	272	226
<u>Bristol Bay</u> Drift Gill Net	12,399	30,952	17,309	5,633	3,372	13,953
Set Gill Net	1,560	2,214	1,875	372	221	1,248
<u>Statewide</u> Power Troll <u>3/</u>	2,772	5,490	4,536	5,332	8,047	5,235

Gross earnings have been adjusted by the wholesale price index using 1973 as a base year.

1/ closed in 1972

2/ closed in 1971

3/ estimated from total catch of both hand and power trollers

"ACCEPTABLE" EARNINGS IN ALASKA'S SALMON FISHERIES
(all figures in thousands of dollars)

	"Reasonable" Gross Earnings as Estimated by Fishermen	Total Earnings from Fishery Required to Produce Reason- able Earnings for all Operat- ing Units	Actual Average Total Earnings 1969-1973
<u>Southeastern</u>			
Purse Seine	\$ 31.9	\$ 12,660	\$ 9,750
Drift Gill Net	22.6	10,237	4,404
<u>Yakutat</u>			
Set Gill Net	14.9	2,235	476
<u>Prince William Sound</u>			
Purse Seine	26.9	6,402	4,385
Drift Gill Net	19.6	10,015	3,063
Set Gill Net	14.9	476	119
<u>Cook Inlet</u>			
Purse Seine	24.2	1,645	467
Drift Gill Net	14.5	7,902	2,235
Set Gill Net	14.9	10,221	1,508
<u>Kodiak</u>			
Purse Seine	32.8	12,070	5,902
Set Gill Net	11.1	2,031	459
<u>Chignik</u>			
Purse Seine	39.5	3,160	2,541
<u>Peninsula-Aleutians</u>			
Purse Seine	12.2	1,354	1,603
Drift Gill Net	17.9	2,774	1,526
Set Gill Net	7.8	600	226
<u>Bristol Bay</u>			
Drift Gill Net	16.4	27,371	13,953
Set Gill Net	12.4	9,957	1,248
<u>Statewide</u>			
Power Troll	15.3	13,693	5,235
TOTAL		\$134,803	\$53,865