HB
219
(Outer Cont.
Shelf Resources)
#2

MERITS OF HB 219

1. Places municipalities in the driver's seat for any OCS-related shoreside development.

2. Creates a land management tool which is applied statewide and thus is not a disincentive to development.

3. Provides money to finance costs of local planning not presently covered by CEIP or other grants.

to require municipal standards that would not overburden the locality but stay within the law

SHORTCOMINGS OF BILL AS CURRENTLY WRITTEN

1. Local approval or veto of a proposed facility need not be consistent with existing local or State plans.

2. Standards for permit evaluation are not specified. No procedural or substantive rights of developers are enumerated or protected.

3. HB 219 is not tied to the Coastal Management Act and its requirements.

4. Three years advance notice of construction plans may not be feasible in all cases.

SUGGESTED IMPROVEMENTS

1. To limit potential arbitrary uses of local approval or veto of a proposed facility by:

> a. Requiring municipal decisions to be consistent with existing and emerging plans and policies under the Coastal Management Act;
>
> or b. Establishing decision guidelines in the bill to ensure that a municipal approval or veto is to protect the public welfare and is consistent with Coastal Management policies;
>
> or c. Grant municipalities the power to suspend a permit application for one year while a Coastal Management program is written.

Each alternative should clarify the procedural rights of the developer.

2. Make the advance planning requirement more flexible so that developers will not be penalized by changes in their plans caused by forces beyond their control.

July 5, 1977

I. Summary of HB 219

The onshore facilities construction permit bill was proposed in the Tenth legislature - First session by representative Parr and eighteen others. It is designed to provide municipalities affected by offshore energy development with a means of exercising control over the location and public costs of OCS related onshore development.

Under the bill, each facility must obtain a permit prior to beginning construction. Permits cannot be issued without local approval from the municipality where the facility will be located. Thus, local units are given a bargaining tool which can be used to negotiate over the location and types of OCS related facilities. If negotiation fails to satisfy local needs, municipal denial of project approval will bar issuance of the permit and prevent construction of the facility in that municipality.

Permit fees generated under the bill are to be used to plan for and minimize the public costs of the OCS related onshore development. Fee amounts are proportionate to the projected impacts of the facility. (see table 1) At least 50% of the fees will go directly to the municipality where the facility is being built. An additional 45% of the fees will benefit the municipality in the form of state assistance.

This 45% of the fees will be allocated among state agencies and the municipality by DCRA according to their relative responsibilities for the provision of public facilities and services necessitated by the development. State assistance will be in forms of planning, legal expertise, and the direct provision of services such as education, transportation, and health care.

HB 219 proposes two alternative fee schedules. One measure of fees is based on population growth and the cost of government. The alternative measure is based solely on the value of the proposed development. For each facility, the formula producing the highest fee is used.

Using the valuation measure of fees, the amount of revenues produced by a development is related to the size of the proposed facility. Facility value is roughly predictable by the stages of the oil extraction process. During exploration, support facilities on shore will be valued at $10 million or less. Based on a value percentage fee calculation, a $10 million facility would pay $250,000 in fees. (see table 1) If oil is discovered, shore processing facilities will have a much higher value. The very large processing facility at Valdez is valued at $1.2 billion dollars. Fees for a facility that size would be $6 million dollars. Although the scale of the terminal at Valdez represents the largest type of terminal which may be built to service offshore oil, it is obvious that processing facilities will generate large fees. Table 1 gives examples of fees produced by different sized production facilities.

July 5, 1977

House bill 219 provides an important boost to local preparation for OCS - onshore facilities. Developers are required to submit plans to the state three years in advance. This advance notice allows time for local assessment of the project and definition of a local policy in regard to the project. Advance reporting also requires the developer to disclose information which will assist municipal decision making.

Municipalities may use fees paid to cover planning and capital improvements costs. Independent legal assistance, land use and financial planners, and administrative assistance may be paid for out of the fees. Localities can use the planning process to control growth and establish a pattern for evaluating subsequent land use demands.

Status of the bill: HB 219 was not reported out of committee in the first session. Public hearings are being held to explain the bill and provide a channel for local input into the legislative process.

July 5, 1977

TABLE 1

REVENUES THAT THE FEES WILL GENERATE

EXPLORATORY STAGE

IF the facility is valued at $5 million	fee = $100,000
IF the facility is valued at $20 million	fee = $250,000

Most of the facilities built to service OCS exploration will cost $10 million or less. The assessed value of the service base at Yakutat is $5.5 million as of the first of 1977.

DEVELOPMENT AND PRODUCTION STAGE

IF the facility is valued at $500 million	fee* = $2.5 million
IF the facility is valued at $750 million	fee = $3.75 million
IF the facility is valued at $1 billion	fee = $5.0 million
IF the facility is valued at $1.2 billion	fee = $6.0 million

The oil terminal at Valdez will process 1.2 million barrels of oil per day and is valued at 1.2 billion dollars. If the largest possible find is made in the Northern Gulf, shore terminal capacity will need to be 650,000 barrels per day at a value of approximately $800 million. Also a larger discovery in the NOrthern Gulf would require a Liquified Natural Gas terminal with one billion cubic feet per day capacity at a value of approximately one billion dollars.

*These fees for the production stage are calculated at a straight one half percent. If the developer failed to provide three year advance information, the fees would double.

02-001B (Rev. 10/76)

STATE of ALASKA

MEMORANDUM

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

TO: Members of House Committee
Community and Regional Affairs

DATE: August 9, 1977

FILE NO:

TELEPHONE NO:

FROM: Robert Shoaf
Summer Intern

SUBJECT: HB 219

Our critical examination of HB 219 focuses on a few major topics:

A. Local approval power
B. Prior planning by developers
C. Fee schedule

A. Local approval power
Local approval power and permit fees are the two major features of the onshore facilities construction permit. A permit will not be issued without local approval. Municipalities are not required to have planning and zoning in place to make this local decision. Areas that do exercise land use controls do not have to make their decision inconsistent with existing municipal plans and ordinances.

Regardless of how the permit is classified, the local approval power is regulatory in nature and should be designed to protect private property rights. Private property uses cannot be abridged by government unless the public intervention is reasonably related to public welfare. Traditionally, to prevent arbitrary public intervention in private land use, police power controls established standards for intervention (by planning and zoning) in advance.

The Division of Community Planning feels that local approval power in HB 219 is an essential tool which will enable municipalities to manage OCS onshore development. However, municipal decisions must be directed to protect the public welfare. Furthermore, HB 219 should be coordinated with coastal planning under the Coastal Management Act.

Three alternatives are available to remove the arbitrary nature of local approval.

1. Prior planning
OCS onshore facilities siting decisions will be made in the context of coastal planning under Alaska's Coastal Management Act. Local decisions under HB 219 should adhere to approval District Coastal Management Programs. In municipalities where no management programs have been written, local decisions should be in accordance with any existing land use controls and with the principles and emerging plans of the Coastal Management Act.

It is not certain that District Programs under CMA will produce the type of specific standards needed to guide local development decisions. Additionally, not every municipality may be able to afford adequate, on going planning.

2. Guidelines in HB 219
To guide local decisons and to prevent arbitrariness the legislature can incorporate guidelines for municipal decision making in HB 219. Because of the comprehensive mandate for coastal planning in the Coastal Management Act, these guidelines should mirror the policies of CMA.

Guidelines could require that municipal evaluation of a onshore facility construction proposal consider the environmental, social and economic impacts of the project. Approval of a project could issue when a City Council or Municipal Borough found that these impacts were manageable. For example, a municipality could base its decision in part, on whether or not the necessary supportive public facilities and services will be available when the development is completed.

Evaluation of a proposal will require detailed assessment of the proposal and its effects on a municipality. A third alternative is to structure a municipality's use of this assessment period so that local land use plans are produced to serve as a guide for the municipal decision.

3. Interim Planning
This alternative grants municipalities the power to suspend construction of an onshore facility for a reasonalble time while District Coastal Management Programs are written and implemented. These programs would place the municipal decision in a more comprehensive framework than would the reliance on guidelines. Additionally, the municipal programs would serve as a guide for future management of OCS impacts, and as a basis for ongoing planning.

If a municipality chooses to approve a proposal without suspending construction pending implementation of a District Program, local approval should be based on positive findings that the impacts of the project are manageable.

In this alternative, HB 219 would only serve municipalities who have not yet written District Management programs.

B. Prior planning by developers
The requirement of three years advance notice of construction plans by developers (section 41.45.110, May 28, 1977 version) may not be feasible. Uncertainties not controlled by developers, such as Federal OCS leasing policies, may interfere with their ability to accurately project construction plans three years in advance.

When external factors dictate a change in plans for OCS onshore activities, developers should be able to change their plans without the excessive penalty of doubling the permit fee. To allow flexibility, the advance planning requirement might be reduced to two years, with changes in plans allowed with one years notice, unless waived by a municipality. Additionally, the Department of Community and Regional Affairs should determine what advance information is feasible in terms of progress of lease sales and exploration.

Statutory Language To Structure Municipal Decisions

Alternative 1: Prior planning — losses

"Local approval or denial of a permit shall be in accord with existing or emerging Coastal Management Programs, policies and guidelines.

Alternative 2: Guidelines — best

"Local permit approval may be granted by a City Council or Borough Assembly if it finds:

a. That the use will not materially endanger the public health or safety if located where proposed:

1. That the municipal water supply will be of sufficient quality and quantity to meet the increased demand attributable to the facility;
2. That the proposed use will not have an unreasonable impact of the coastal environment;
3. That the necessary supportive public facilities and services will be available as the demand for them attributable to the facility increases;
4. That associated land and water transportation will minimize degradation of waterfront uses.

b. That the proposed facility is in accord with existing plans and regulations;

c. That the use will not substantially injure the value of adjoining or abutting property, or is a public necessity;

d. That the use will not unreasonably disrupt the social and economic well-being of the municipality."

facts positive finding to

Alternative 3: Interim planning — moratorium so that plan can be written

HB 219 should specify whether the decision to utilize the moratorium or proceed immediately will be an administrative or legislative one.

Language to implement alternative three should be placed in a new section of the bill. The new section could state:

"Local Approval of an Onshore Facilities Construction Permit.

"When a developer of an OCS onshore facility requests local approval of its proposal, the municipal assembly or council shall meet to make one of two possible decisions.

"If the assembly finds that the project will be consistent with state and local plans then existing under Alaska's CMA [or consistent with enumerated standards], then local approval may be given.

shouldn't allow the permit [illegible]

"If the assembly finds that the proposal is not consistent with these guidelines [or will have a significant impact on coastal resources which is not adequately managed by present planning] or is not consistent with the local health, safety and welfare, then the assembly, by a majority vote, may choose to impose a two year moratorium on the proposal, during which time the municipality shall prepare a district coastal management program (See A.S. 46.35.030) to guide subsequent local decisions.

"If a municipality already has implemented a coastal management program, this section does not apply and the local permit decision shall be made in accordance with the policies and procedures of that plan.

"Once a moratorium is imposed, the municipality should contact the Department of Community and Regional Affairs to make arrangements to locate any funds needed for planning."

local approval power most impt, there of did not dwell on need to change fee structure

January 1977
(Revises June 1975 Schedule)

PROPOSED OCS PLANNING SCHEDULE

SALE AREA	1976						1977												1978												1979												1980											
	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
44 Gulf of Mexico		F		N	S																																																			
CI Cook Inlet		P			F		N	S																																																	
47 Gulf of Mexico					E	P		F	N	S																																														
42 North Atlantic				E		P			F		N	S																																												
43 South Atlantic								E		P		F		N	S																																										
46 Kodiak									E		P			F		N	S																																									
45 Gulf of Mexico							T			E		P			F		N	S																																								
48 Southern California	C		D				T						E		P			F		N	S																																			
49 Mid-Atlantic					C		D			T						E		P			F		N	S																																	
Beaufort Sea (near shore)										State - Federal Sale											1/																																		
51 Gulf of Mexico							C		D			T						E		P			F		N	S																													
53 General Pacific							C		D					T						E		P			F		N	S																											
54 S. Atlantic Blake Plateau											C		D			T						E		P			F		N	S																									
50 Beaufort Sea 2/													C		D			T						E		P			F			N	S																					
55 Northern Gulf of Alaska																C		D			T						E		P			F		N	S																			
52 North Atlantic																	C		D			T						E		P			F		N	S																		
56 South Atlantic																				C		D			T						E		P			F		N	S																
58 Gulf of Mexico																					C		D			T						E		P			F		N	S															
57 Bering - Norton																							C		D			T						E		P			F		N	S													
59 Mid Atlantic																										C		D			T						E		P			F		N	S												
60 Bering Sea St George																												C		D			T						E		P			F		N	S										
61 Cook Inlet																															C		D			T						E		P			F		N	S							
62 Gulf of Mexico																																C		D			T						E		P			F		N	S						
63 General Pacific																																		C		D			T						E		P			F		N	S			
64 Kodiak - Aleutian																																			C		D			T						E		P			F		N	S

Director, Bureau of Land Management

C - Call for Nominations
D - Nominations Due
T - Announcement of Tracts
E - Draft Environmental statement
1/ State May Conduct Sale

P - Public Hearing
F - Final Environmental Statement
N - Notice of Sale
S - Sale
2/ Within 60 Foot Isobath or Technology Capability

Sales are contingent upon technology being available for exploration and development. A decision whether to hold any of the lease sales listed will not be made until completion of all necessary studies of the environmental impact and the holding of public hearings, as a result of the environmental, technical, and economic studies employed in the decision making process, a decision may, in fact, be made not to hold any sale on this schedule.

ONSHORE EMPLOYMENT ASSUMPTIONS

Category		Employment
Rig Service		25 per rig
Platform Service:	Installation	100 per platform
	Drilling	80 per platform
	Production	40 per platform
Administration		15 per rig
		40 per platform
Service Bases		15 per berth
Oil Terminals:	250,000 b/d	150 per terminal
	350,000 b/d	200 per terminal
	450,000 b/d	250 per terminal
	600,000 b/d	300 per terminal
LNG Plants:	1 billion cu.ft./d	200 per terminal
	1.6 billion cu.ft./d	300 per terminal

Offshore Employment Assumptions

Operation		Number of Jobs/Activity
Rig		115
Platform:	Installation and Hook-up	300
	Drilling	250
	Production	140
Lay-barge		250
Bury-barge		100

Construction Employment Assumptions

NUMBER OF JOBS / ONSHORE FACILITY		YEAR 1	YEAR 2	YEAR 3	YEAR 4
Service Base	2 berth	75	150		
	3-4 berth	100	200		
	4 berth	125	250		
Oil Terminal	250,000 b/d	150	600	1,200	300
	350,000 b/d	200	800	1,500	500
	450,000 b/d	200	1,000	1,900	600
	600,000 b/d	300	1,200	2,300	700
LNG Plant	1 billion cu.ft./d	300	1,300	2,500	800
	1.6 billion cu.ft./d	500	2,000	4,000	1,200

POPULATION OF CITIES

Yakutat	442
Cordova	2,406
Seward	1,823
Homer	1,538
Seldovia	612
Kodiak	4,960
Unalaska	510
Dillingham	1,176
City of St. Paul	456
Nome	2,585
Kotzebue	2,431
Barrow	2,307

TOTAL DIRECT AND INDIRECT EMPLOYMENT: NORTHERN GULF

YEAR	NO FIND	MODERATE FIND NO PIPELINE	MODERATE FIND PIPELINE	HIGH FIND	BONANZA
1976	240	240	240	240	240
1977	670	905	906	1123	1251
1978	905	1790	1790	1900	2155
1979	477	1366	1366	2843	3677
1980	240	1366	1669	3540	4745
1981		906	2336	4375	6140
1982		953	3242	5705	6681
1983		1353	2691	5218	9385
1984		2060	2360	7348	11,382
1985		2623	2923	8899	13,728
1986		2439	2739	6401	9622
1987		2299	2599	5349	8248
1988		2069	2369	4887	7803
1989		1838	2138	4173	6918
1990		1585	1895	3671	5840

TOTAL DIRECT AND INDIRECT EMPLOYMENT: WESTERN GULF

YEAR AFTER LEASE SALE	YEAR	NO FIND	MODERATE FIND NO PIPELINE	MODERATE FIND PIPELINE	HIGH FIND
1st	1980	239	321	322	322
2nd	1981	454	834	834	1181
3rd	1982	669	1337	1447	2227
4th	1983	244	925	1145	2049
5th	1984		751	1160	2535
6th	1985		530	1265	3360
7th	1986		1021	2251	4791
8th	1987		1421	3311	3791
9th	1988		1179	1622	2885
10th	1989		1920	2145	3584
11th	1990		1653	2079	3378
12th	1991		1736	1961	3261
13th	1992		1505	1730	3030

SOURCE: Department of Community & Regional Affairs

	LEASE SALE AREA										ORGANIZATION			PLANNING TOOLS					
	Lower Cook Inlet (11)	Gulf of Alaska (12)	Kodiak Basin (13)	Aleutian Shelf (14)	Bristol Bay (15)	Bering Sea - St. George	Bering Sea - Norton Basin	Chukchi Sea (17)	Beaufort Sea (18)	CLASSIFICATION	Planning and Zoning Commission	Professional Planning Staff	Coastal Resource District (7/77)	Coastal Management Program (anticipated date of adoption)	OCS Planning Study (including EDA Title IX)	Comprehensive Plan (date of publication)	Capital Improvements Program (date of publication)	Zoning Ordinance	POPULATION (1976)
MUNICIPALITY OF ANCHORAGE	■	■	■	■	■	■	■	■	■	Unified home rule boro.	■	■	■	1979		1961(b)	1963	■	175,603
Yakutat		■								First class city	■		■	1980(a)	■	1976		■	442
Cordova		■								Home rule city	■		■	1980(a)		1976		■	2,406
KENAI PENINSULA BOROUGH	■	■	■							Second class borough	■	■	■	1979	■	1970	1967	■	19,407
KODIAK ISLAND BOROUGH			■							Second class borough	■	■	■	1980	■	1968(c)		■	7,901
Unalaska				■	■	■				First class city			■	1978(a)		1977			510
Dillingham					■					First class city	■		■	1980(a)		1970			1,176
BRISTOL BAY BOROUGH					■					Second class borough	■		■	1980		1966	1966	■	1,147
City of St. Paul						■				Second class city				(a)					456
Nome							■			First class city	■		■	1980(a)		1968	1968		2,585
Kotzebue								■		Second class city	■		■	1980(a)		1971(d)	1975		2,431
NORTH SLOPE BOROUGH								■	■	Home rule borough	■	■	■	1979		1973	1974		12,614

(a) Cities within the unorganized borough. Nearby areas in the unorganized borough may be affected by OCS development and may eventually be organized into coastal resource service areas. Coastal management plans for service areas may be adopted later than 1980.

(b) Comprehensive plan for the Municipality of Anchorage is being updated.

(c) Comprehensive plan updated for Port Lions in 1975 and for Near Island in 1974.

(d) Land use element of comprehensive plan for Kotzebue updated in 1976.

Figure 1

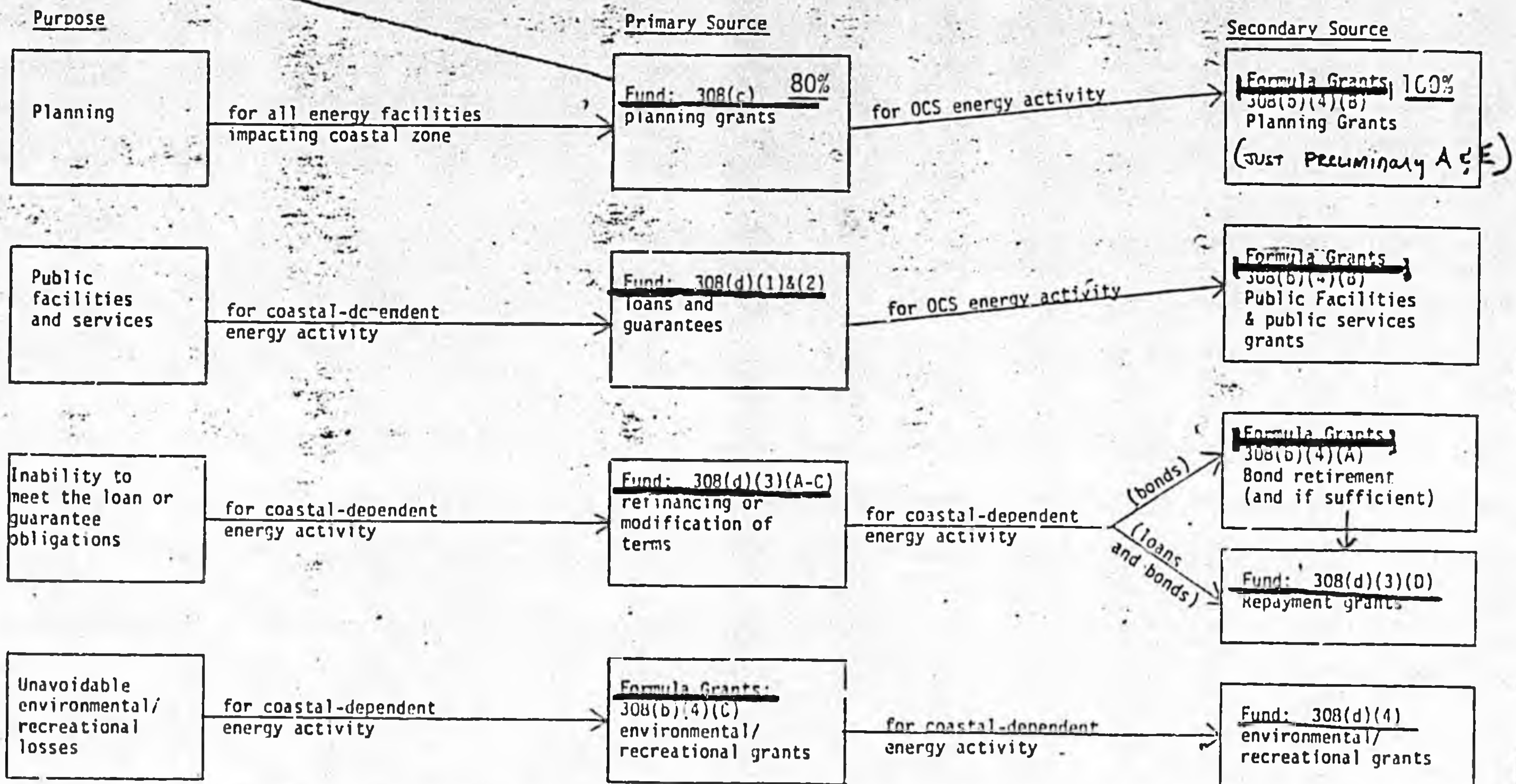
PLANNING CAPABILITIES

15% of $3.5 million divided equally among 34 coastal states = approximately $15,000

85% of $3.5 million alloted on basis of need

Figure 1

PL 94-370 Coastal Energy Impact Program: Primary and Fund 308(c) Planning Grants



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Formula Grants	308 (b)	U.S. $ 10 million	AK: $ 1,178,643	
Credit Assistance ("Fund")	308 (d)(1), (2), (3)	110 "	48,612,975	Past
Planning Grants	308 (c)	3.5 "	365,466	FY
Environmental/Recreational Grants	308 (d)(4)	1.5 "	662,904	more to come

Fed Reg. for CEIP

(1) Preliminary planning for the consequences of new or expanded energy facilities significantly affecting the coastal zone, including

(i) analysis of government or private industry siting policies;

(ii) devising strategies for the public purchase of land or the establishment of other enforceable land-use controls for lands upon or near which energy development is to take place;

(iii) devising methods of protecting environmental resources, as defined in §931.72, threatened by the siting, construction, operation, or expansion of new or expanded energy facilities; or

(iv) conducting risk management studies, hazard analyses, emergency contingency planning and coordination studies, and assessment of mitigating measures for maintaining or improving public safety threatened by the siting, construction, expansion, or operation of new or expanded energy facilities.

(2) Planning for the consequences of a specific new or expanded energy facility significantly affecting the coastal zone, including

(i) study of and planning for economic, social, or environmental consequences of the siting, construction, expansion, or operation of a new or expanded energy facility such as

(A) increased population;

(B) changes in employment patterns, including those in fishing and tourism;

(C) changes in demand for public facilities, public services, and housing;

(D) local price inflation;

(E) changes in patterns of tax and user fee revenues or inter-governmental transfers;

(F) effects on fishing and tourism resources;

(G) effects on beaches, sand dunes, air quality, water quality, or other environmental or recreational resources;

(H) shoreline erosion;

(I) ecological effects; and

(J) effects on public safety.

(ii) conducting analyses required for state or local regulatory decisions related to energy facilities, including licenses, leases, permits, and zoning ordinances;

(iii) performing cost/benefit analyses or otherwise comparing the consequences of alternate energy facility sites or types;

(iv) devising strategies for recovering compensation from appropriate parties for any adverse effects caused by the energy facility involved;

(v) forecasting employment, population, public facility and public service needs and costs, and tax or user-fee revenues;

(vi) planning for the public facilities eligible for financing under Subpart E of this part;

(vii) study of and planning for the secondary consequences, including environmental and economic consequences, of alternative types and sites of public facilities eligible for financing under Subpart E of this part; and

(viii) study of and planning for the consequences of the phasing out of energy facilities.

(3) Carrying out projects necessary to administer assistance under Section 308, including;

(i) collecting data and analyzing information required in §§931.48 (a)(5) and 931.78(c)(4) for environmental impact assessment;

(ii) designing and carrying out an intrastate allocation process as described in Subpart J of this part; and

(iii) paying other reasonable costs of administering assistance under section 308

UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
Rockville, Maryland 20852

April 21, 1977

Committee members -
For your information
Lisa

RECEIVED
APR 25 1977
DEPT. OF COMMUNITY
AND REGIONAL AFFAIRS

Mr. Kevin Waring
Department of Community and Regional Affairs
Community Planning
Pouch B
Juneau, Alaska 99811

Dear Kevin:

It was good seeing you again last week. I hope our meetings on the Coastal Energy Impact Program (CEIP) - both in Juneau and in Anchorage -- were productive and useful from your perspective.

I have read the draft your staff provided me of Alaskan House Bill 219. The permit-fee provisions of this legislation certainly could provide Alaskan communities with significant assistance in planning for and dealing with the effects of new onshore energy and support facilities and I can say with certainty that this proposed legislation would create a useful complement to the CEIP. The provisions of the bill, I feel, would not be duplicative of the CEIP in any way.

By providing credit assistance -- loans and guarantees -- for front-end financing of new public facilities and services needed as a result of coastal energy activity, the CEIP acts in effect, as a source of last resort.

The regulations implementing the CEIP encourage a state or community to internalize the costs of energy development (as HB 219 would). And, since CEIP assistance is largely in the form of loans -- not grants -- the Federal Impact Program creates an incentive for the state or community to charge a private developer with the full costs that the development imposes on the state or community.

As has been emphasized before, the CEIP cannot be used as a complete solution to the energy impact problems of any state, the CEIP is only one tool that can be employed in conjunction with other tools (such as the permit-fee system perhaps) to deal in a comprehensive way with all the effects of energy development.

It appears to us that the provisions of the legislation when used in conjunction with those types of assistance that are available through the CEIP, could go a long way to solving Alaska's energy impact problems.

Sincerely,

Irwin Feldman for

Joellyn K. Murphy
Director
Office of Federal Programs

SUMMARY OF TESTIMONY ON HOUSE BILL 219

SHORE FACILITY USE PERMITS

T. M. Matthews
Exxon Company, U.S.A.

My name is Tom Matthews. I am Manager of Engineering for Exxon in Alaska. I appreciate the opportunity to offer comments on the bill before this committee, House Bill 219, concerning shore facility use permits. I would like to talk about the premise of the bill and how that is false and what the real impacts of OCS exploration and development activities are.

The basic premise of the bill is that there are immediate major impacts and demands on state and municipal public services from OCS activities and that no revenue accrues to the state or municipalities affected. A second premise of the bill is that OCS caused demands for public services exceeds revenues even more than onshore energy projects.

I would like to point out that the basic premise is false on both points and will point out why. The second premise is an incredible statement in view that the petroleum industry now pays over 60% of the revenues that go into the state's unrestricted general fund and will grow to 85% in a few years. Certainly the industry doesn't require 85% of the public services. The bill, however, assumes all of the premises are true and wants to recover all costs associated with impacts. It thus requires of every person exploring, developing, or producing under a valid OCS lease, a permit for anything leased, contracted, constructed, or in any way provided to support shore facility activity during exploration development, production or transportation. One could stretch this to the ludicrous extremes of requiring a permit to rent an Avis car or lease an ERA helicopter, and restricts a person's right to privately contract and conduct business in a normal manner. This would also place indirect restrictions on a person exploring from doing business with native corporation shore base facility plans at Yakutat, Icy Bay, Cape Chimak, etc., as the permit/impact fee alleged by the state might be too expensive.

The permit cost or fee is based on the state's assessment of maximum population increase occurring over the next 20 years from OCS development multiplied by current per capital cost estimates. This apparently assumes no dry holes and full discoveries everywhere. This is essentially paying a tax today for something that might happen in the future. The tax is reduced by the state's projections for revenues and grants associated with OCS development.

The revenues and grants are discounted to reduce them to present day dollars. Amazingly, according to the bill, however, the future population costs are not.

These cost impacts are based on the state's projections of future population increases. Reported in earlier testimony, these impacts were said to be 95,000 to 100,000 people and impact costs ranging from $400 to $685 million. These numbers were originally developed by the Office of Management and Budget in Washington, D.C. They assumed all lease sales occurring simultaneously, simultaneous discovery and development in all areas, no use of existing population, and simultaneous with a Trans-Alaska gas pipeline. Even OMB admits these numbers are inaccurate; not indicative of actual probabilities. (See attached.) The state's numbers are further based on North Sea experience. This is inaccurate. North Sea development was very accelerated. Essentially all attractive acreage, about 40% of the total North Sea was leased in a 3-4 year period. Currently there are 44 exploratory rigs working in the North Sea. At the peak there were nearly 50. At the end of this year, there will be 45 major producing platforms. Over 100 oil and gas discoveries have been made, 50 of them major. Contrast this to less than 5% of the total OCS acreage in the United States being leased since its inception and a maximum of 5 to 6 exploratory rigs forecast for Alaska OCS exploration. Furthermore in the North Sea, sites were set up to construct rigs, platforms, ships, etc. This will not be done in Alaska. Existing yards in the Northwestern states and Japan will most likely be used and new yards will not be constructed in Alaska. Evidently the countries involved in the North Sea such as the United Kingdom decided on a program of energy development and, as a result, will be energy self-sufficient within a couple of years. Perhaps the United States should have the same program objectives in action rather than just in thought.

Let's review what then are some real impact numbers in Alaska, based on actual experience in exploratory work that has resulted from the Northern Gulf of Alaska lease sale #39 that occurred in early 1976. Today three $50 million dollar semi-submersible rigs are drilling in the OCS area of Alaska, Exxon, ARCO, and Shell.

Exxon has established a temporary shore base at Seward to provide the primary logistical support for its Gulf of Alaska exploratory operations.

A 30-acre tract three miles north of Seward was leased by Exxon to be used as a storage area for pipe and other materials. Radio communications equipment also has been installed at this site and at Yakataga, which includes a small warehouse. Exxon also has leased a small tract near the Alaska Railroad Docks for open storage of heavier items such as anchors and chain.

Two large workboats, each approximately 210 feet long by 40 feet wide, will be used to transport fuel, equipment and material from the Alaska Railroad dock to the Alaskan Star. After drilling operations begin, personnel will be transported to the rig by helicopter from Yakutat which provides a shorter flying distance from Seward. Most of Exxon's tracts are more than 200 miles from Seward and approximately 100 miles from Yakutat.

Exxon's work force in Seward, including company and contract employees, will include about four people to handle and dispatch materials and to man the radios. In addition, it is anticipated that local subcontractors will require about eight residents on either a full or part-time basis for shore transportation and material handling. Additionally, 13 people will be used in supply and logistics, therefore a total of about 25 Alaska residents will be employed in Seward, Anchorage, Yakataga, and Yakutat by Exxon and its contractors.

The overall work force -- including rig crews, helicopter and workboat crews and onshore personnel -- will total approximately 200. Essentially all of these crew personnel will be from out of state and will fly back to the Lower 48 during their time off. These are experienced offshore crewmen who travel around the world, wherever rigs such as the Alaskan Star operate. These people work 2 weeks on/2 weeks off and are flown back to their homes during off times.

On the short term then, the impact of Exxon's operations in the Seward area will consist of a limited amount of local employment and as much in the way of goods and services as can be provided locally for an operation of this nature. These goods and services are estimated at $750,000/month.

ARCO/Shell indicate in recent publications that their total shore facility force in Yakutat totals 36, most of which were hired from existing local residents, with similar types of operations for goods and services. These numbers represent the real evidence of impact during exploratory operation as offshore development is not people intensive but capital intensive. It in no way resembles the people intensive construction of the Alyeska pipeline.

Predicting specific long-term impact is more difficult, and even impossible at this time, because there are too many variables and unknowns. Future actions by Exxon will depend on whether discoveries are made, how much oil or gas is discovered, where it is located, and whether there are additional lease sales in the western gulf and the lower Cook Inlet.

In any case, there will be no boom or bust effect on the economics of coastal communities such as Seward. If Exxon or any other company makes a discovery in the Gulf, it will take at least three to ten years to bring it on production, depending on permit procedures and construction times. During the early part of this period, many of the uncertainties will have been answered, and decisions regarding the location of permanent shore-support facilities will be made.

That discussion shows what the real operations today are. Twenty-five people in Exxon's operation, essentially all existing Alaskans. Yet under this bill, before we could have begun, we would have been required to obtain permits for the rental warehouses, property leases, railroad dock usage, helicopter contracts, and communications facilities; essentially everything and pretty ridiculous.

The point was made that no revenues accrue to local or state entities from this current operation. Even in view of the non-existence of impacts on state or local public services, let us talk about the revenue being received:

In Seward, we pay 3% sales and use taxes. We pay wharfage fees and property taxes on land improvements. Add to this the benefit to local employment and economy. Other municipalities also receive property taxes and use taxes. The state receives income taxes from the individuals employed. Franchise and business licensee taxes for all businesses utilized are increased as their gross proceeds increase. The state gets 2¢ to 4¢ per gallon on the 10,000 gallons per day of fuel that the rig operations use. At the state number of $7000 per capita for public services, this alone would pay for public service costs of all of the people involved in Exxon's operation even if they were new additions to Alaska.

Furthermore the state income tax on companies such as Exxon is based on a three factor formula of revenue, people, and property. As these three factors go up, so does the state income tax take from Exxon. These revenues, of course, will be even more true and increase in the future if development takes place.

There are also currently existing federal programs that grant monies for OCS impacts that negate the need for new state permit fees/taxes. The 1976 amendments to the 1972 CZMA Act placed $1.6 billion for use by states. $800 million are in various grant forms and $800 million are in assistance, loans, and partial grants. The Senate-House Conference Committee estimated Alaska would be eligible for 25% of the funds.

In summary, our position is that the need for the bill is non-existent. No major demands have been realized. There are no immediate problems nor is there evidence there will ever be a problem. Current facility and service demands are fully paid for in existing revenues plus additional funds are available from federal CZMA program grants.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 28, 1977

Mr. Keith Arnold
Assistant Manager
Alaska Oil and Gas Association
308 G Street, Suite 217
Anchorage, Alaska 99501

Dear Mr. Arnold:

The enclosed paper describes the approach used to derive the direct employment estimates for Alaskan OCS development underlying the figures cited in the Coastal Zone Management Newsletter enclosed in your letter of January 21.

We do not consider the figures quoted in the Newsletter to be valid estimates of the expected impacts in Alaska of OCS development. Those figures were prepared in an analysis done in May of 1975. The purpose was to determine the rough order of magnitude of OCS development impacts based upon deliberately pessimistic assumptions. It would then be possible, despite the great uncertainties, to credibly say that the likelihood of even more severe impacts would be negligible.

The estimates, therefore, were deliberately biased upwards at several stages in the analysis in order to produce an "upper limit" or "worst case" estimate. Some of the major sources of bias are:

- The leasing scenario used was the OCS planning schedule which was later published in June of 1975. It was recognized as a very ambitious and optimistic schedule for Alaska. Actual leasing in Alaska is likely to be spread over a substantially longer period than that schedule had anticipated. The impacts will also be spread over a longer period, reducing the infrastructure needs toward a level based on the "permanent" direct employment.

- The development scenario following each lease sale assumed very rapid exploration and development.

- It was assumed that all direct employment in every affected Alaskan region will be of people new to that region. This is clearly unrealistic.

The paper calculated a peak direct employment of 19,200 and a permanent direct employment of 8,100 resulting from the OCS development scenario examined. In order to arrive at a total population increase figure and a total infrastructure cost figure, the following steps were taken:

- The peak and permanent direct employment were averaged, giving 13,650. It was assumed that public infrastructure needs would be based on this volume of direct employment.

- It was assumed that all direct employment was by people new to the Alaskan areas in question.

- This direct employment of new residents was multiplied by a direct to total employment multiplier of 2.75 and a total employment to population multiplier of 2.5, giving a total additional population of 94,185.

- The total infrastructure cost was derived from this population figure by using $7,250 per capita.

It is unfortunate that these figures are receiving a wide circulation which characterizes them as OMB projections of future OCS impacts in Alaska. Their purpose was not to project the most likely future, but rather to show that, even when unrealistically pessimistic assumptions are used in the analysis, the calculated impacts are manageable.

I believe that the paper and the further steps described above are self-explanatory. However, if you have any further questions about the analysis, we will be glad to address them.

Sincerely yours,

Donald E. Crabill
Deputy Associate Director
for Natural Resources

Enclosure

May 24, 1977

Options for CRA Input on HB 219

A. Justification for bill.

Document the actual potential for onshore impacts , and the inability of local governments to plan for, control, and pay for these impacts.

In a narrative, describe how HB 219 provides a mechanism for control.

B. Local concerns.

Examine and address anticipated local concerns and objections to HB 219. For example, discuss the bill's effect on local property tax, on local regulatory powers and autonomy, on the localities' ability to attract development, and on the development of facilities not included within the bill's coverage.

C. Legal issues.

Explore legal issues which could be used by onshore developers to challenge the bill. Federal issues are interstate commerce, preemption, conflict and equal protection. State issues are local legislation, double taxation, ~~delegation~~, and preemption by the feds of taxing powers.

D. Planning issues.

Does the Act accomplish its pupose? What powers are given to local units? Are regional needs addressed? Is the role of CRA appropriate for it? How does the

not addressed

p. 3 - possible reference to regional concerns & perhaps now tie it in c̄ CM

- where is the within 10 mile - that state makes the approval?? leave it c̄ muni when there is someone there.

- cut out section that pays back

Coastal Management bill (HB 342) affect HB 219, especially in terms of local actors and pertinent issues? Does the proposed severance tax potentially alter the role of HB 219?

E. Drafting.

Suggestions for improvement in drafting HB 219 either to reflect the same substantive/procedural goals at present or to add to those goals.

F. Alternative ~~means~~ under existing law.

What techniques presently exist for local and state authorities to plan and pay for onshore developments related to OCS energy development. For example, are special assessment bonds (AS 29.63.085) or special tax rates (AS 29.63.010) or special tax zones (AS 29.53.405) useful in passing the additional costs of development to the developer? Will loans under the Coastal Energy Impact Program be useful to local units.

conditional

Role of local zoning powers, especially contraband use.

2. We have been economically depressed for 17 years. We are hesitant to support legislation that could adversely affect a company's decision to locate here.

3. We are reluctant to comment even though we like the concept. We will take it up with the council Monday night.

Draft - 2/25/77

H.B. 219

The Anchorage Times of February 16 reports Senator Ted Stevens as saying that Congress has directed the Interior Department to accelerate off-shore oil and gas leasing. Although Alaska has been successful in delaying the leasing of the Outer Continental Shelf off it shores, it appears that the honeymoon may be over and we may soon see an accelerated program of leasing going on.

The Supreme Court has decided that all of the lands beyond the 3-mile limit belong to the Federal Government. This means that any revenues--severance taxes, royalties or other--will go to the Federal Government. There is no provision for the State to collect any revenue from this activity. The state will, however, have impact on its shores because of the on-shore facilities necessary to support the development.

An estimate by the President's office of Management and Budget gives the impact cost for infra-governmental infra-structure for the State of Alaska as 680 million dollars. A later estimate by the Department of Community and Regional Affairs is somewhat lower. Here the cost is estimated to be somewhat over 400 million dollars. No legislation so far passed by Congress or envisioned, will compensate the State on this order of magnitude.

It is my belief that Alaskan taxpayers should not bear the impact costs involved in OCS production so that persons in other parts of the country may continue to run their air-conditioners, drive their cars at 70 miles per hour or waste heating oil because of inadequate insulation in their houses.

The purpose of HR 219 is to compensate for the on-shore impacts caused by the OCS development.

The State cannot force the Federal Government to furnish such compensation. It can, however, require the companies exploiting the OCS territory to pay for the on-shore impact costs. The bill provides that the amount of uncompensated impact is estimated and that this amount is the price of the building permit for the on-shore facilities.

UNIVERSITY OF ALASKA
A Publication of the Alaska Sea Grant Program

Vol. 4, Number 5
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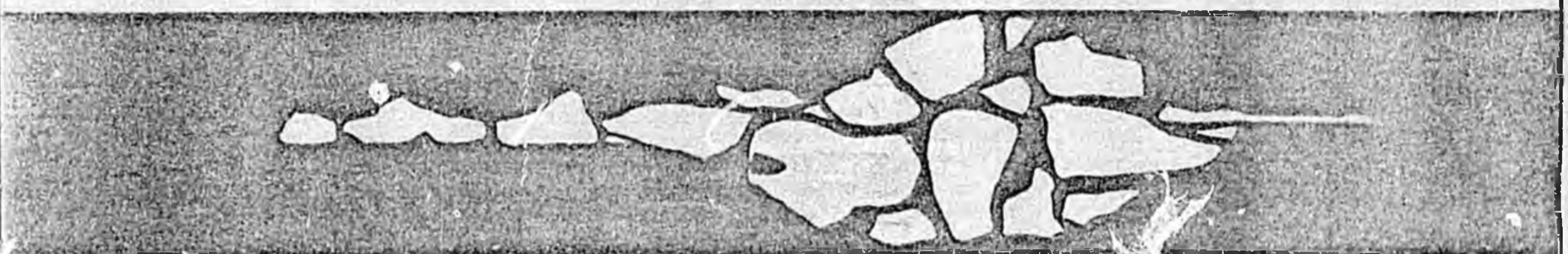
ALASKA Seas and Coasts

A Newsletter for the Alaska Commercial Fishing Industry



THE ALASKA OCS - An update

By John Williams

Until recently, John Williams served as a Marine Advisory Program Agent with the University of Alaska. He was involved with seafood processing and coastal resource activities.

Because of the rapid changes in the policies and scheduling of the development of the Alaskan outer continental shelf, and the ... time lapse between completion of a story and the delivery of Alaska Seas and Coasts, *some points contained in this article may have changed. More information will be presented soon in* Citizen's Handbook — The Alaska OCS. *The publication will be presented by the Alaska Sea Grant Program with partial funding by the State of Alaska.*

OCS UPDATE

ALASKA — One down — eight to go.

In April of this year, the Department of the Interior leased the first outer continental shelf (OCS) oil development tracts off the coast. The sale, located in the northeast Gulf of Alaska from Icy Bay to Kayak Island, netted over 500 million dollars in bonus bids for the Department of the Interior, which administers the OCS program through the Bureau of Land Management (BLM). This is the first of nine scheduled sales on Alaska's OCS.

Shell Oil Company began exploratory drilling in the Icy Bay region on September 1, with Sedco 706, a semisubmersible drilling rig. In October, ARCO began exploratory drilling operations with the semisubmersible Ocean Ranger, recently transferred from the Bering Sea.

Sedco 706 is 330 feet high with its derrick upright, 245 feet wide, and 295 feet long. It provides living quarters for 96 men, and storage space sufficient to drill for several weeks without resupply. The drilling rig is held in place by anchors connected to computer controlled tension winches, which compensate for wind, waves, and current to keep the rig located over the undersea well.

Next on BLM's agenda is a sale scheduled for lower Cook Inlet, followed by a western Gulf of Alaska (Kodiak) sale. Cook Inlet could go on the auction block early next year, with the Kodiak sale following later in 1977.

OCS IMPACTS

In early 1976, the federal government estimated that OCS leasing would create 90,000 oil jobs in Alaska to be filled by trained personnel and that this would cost state and local governments in excess of $600 million to supply the necessary services and facilities to these new residents. This dollar figure did not consider families of the oilmen or the jobs created in the service industries which accompany the oil business. An additional 1.3 to 1.7 jobs will likely be created in service industries for each new oil job.

The Coastal Zone Management Act of 1972 (CZM) was amended this year to help states in planning and funding coastal energy development activities. The CZM amendments of 1976 created a $1.2 billion national impact fund. Eight hundred million dollars of the fund is in the form of loans for environmental and economic planning, schools, highways, hospitals, guaranteed bonds, etc.

The remaining $400 million is available as grants to be used as a back-up system for the loan fund. Money from this source will be distributed to states based upon a formula considering the number of offshore acres leased, the volume of oil and gas produced, population influx, etc.

The federal government's assistance to states coping with the onshore effects of OCS development is much more limited than for mineral resource development on federal lands contained within state boundaries. In this situation, the federal royalty from the resource is shared with the state from which it was extracted and can be used in any manner that state government chooses. The royalty from OCS petroleum development is not shared by the federal government with adjacent states. In the case of OCS resources, state and local governments must apply for impact monies for specific purposes and be able to prove that it is a reasonable request.

In addition to the burden of proof requirement, states receiving OCS impact monies must already have or be

(Continued on page 2)

(Continued from page 1)

making "reasonable progress" toward a coastal management plan as outlined in the CZM Act. Legislative support for development of such a plan for Alaska's coast has been minimal. The Legislature may have another look at coastal management legislation in the upcoming January session.

NEW ADMINISTRATION

Because of Jimmy Carter's election, many people in Alaska are now trying to assess the impact the new administration will make on the OCS lease schedule and procedures. To date, Carter has not been specific on the issue. He has, however, expressed some concern about the accelerated pace of lease sales and its impact on federal revenues from the leases.

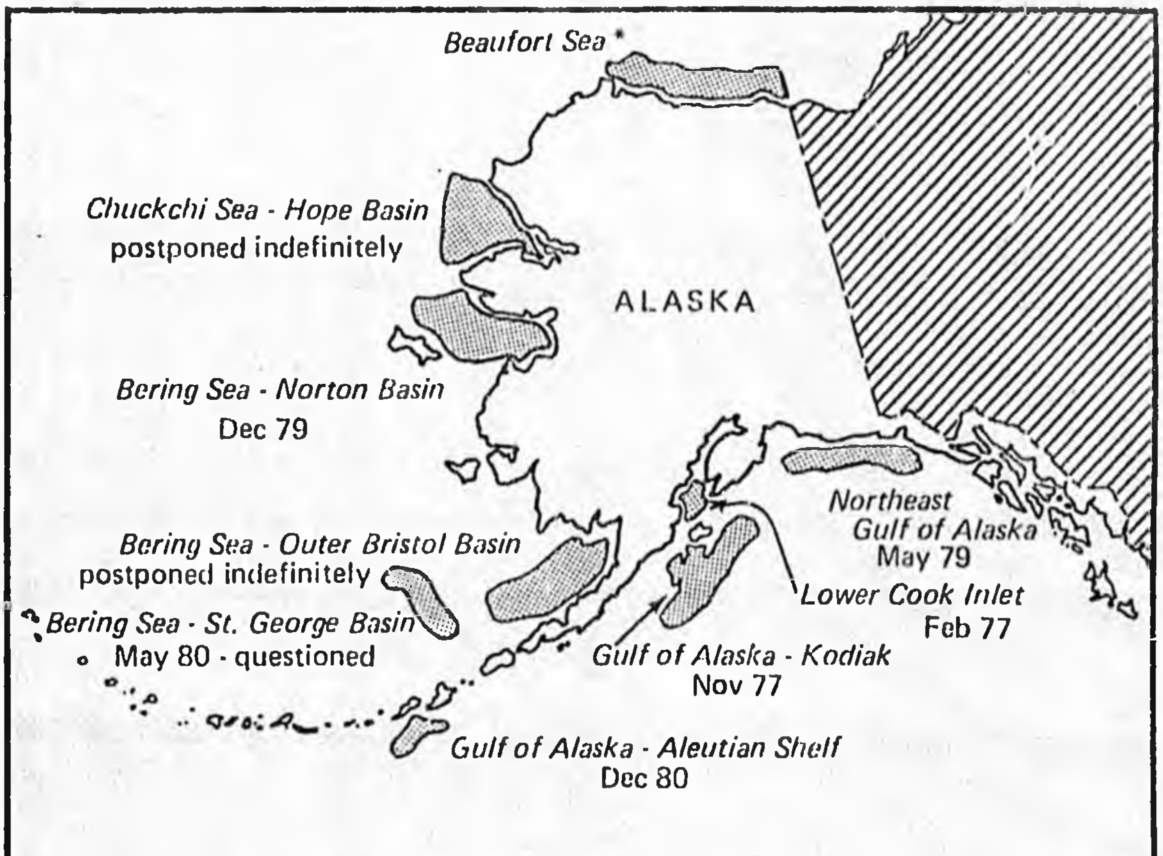
With a Democratic congress and president, chances seem better that some changes will be made in the OCS Lands Act, under which the OCS is administered. Senator Jackson (D-Washington) wants new amendments completed and signed by late spring. The amendments reportedly would consider states' interests to a much greater degree, and involve state and local governments in the process.

The State of Alaska has conducted an ongoing battle with the Department of the Interior over the presently proposed lease schedule and procedures. In a letter dated August 4, 1976, Governor Hammond submitted the State's proposal for an OCS lease schedule to Secretary of the Interior Thomas Kleppe. The Secretary had promised to reassess the Alaska OCS sale schedule, which presently calls for nine sales in three years. What actions the lame duck Ford Administration may take on this matter prior to January 20 are uncertain, although at press time negotiations were ongoing to dramatically revamp the present BLM schedule.

Hammond bases his schedule on a number of factors of importance to the people and environment of Alaska. His reasons for slowing down the sale pace include the cumulative effects which would result from the present accelerated lease schedule and the impact on communities and people unprepared for the rapid influx of large development. Hammond also wanted time for further study of the physical hazards and potential environmental risks, especially in the ice covered western and northern waters, and time to prepare the management sectors of state and local government to deal with the many implications of petroleum development on the frontier Alaska OCS.

Hammond's proposal, substantiated by considerable research by state agencies, would extend the schedule to six years, and would not include scheduled sales in the federal areas of the Beaufort Sea, Bristol Bay, or St. George Basin until further research and industrial technology are achieved. The state would agree to hold a joint state/federal lease sale in the shallow, inshore Beaufort Sea area in the fall of 1977 in place of a federal Beaufort Sea sale in the deeper, shear ice zone.

Many of the changes resulted from recommendations by Governor Hammond in his August letter to Interior Secretary Kleppe. The new sale dates reflect a compromise between the rapid schedule and Hammond's proposed delays. The Department of the Interior and the state disagreed on the need to complete environmental studies before scheduling a lease sale.



PROPOSED LEASE AREAS

Included in Interior's proposed new OCS lease schedule are changes brought about because of the state's insistence on a slower, more cautious pace in Alaska.

**The Beaufort Sea lease area is subdivided into at least three zones generally characterized by distance from shore, water depth, type of ice and anticipated ice motion. The leases for this area in the current schedule are: near shore, Mar. 78; less than 60 ft. water depth, Feb. 79; greater than 60 ft. water depth, not scheduled.*

OCS sale

OCS Impact

Anch News Jan 31, 1976

95,000 people due in oil migration

JUNEAU (AP) — Gov. Jay Hammond said Friday a new federal study indicated Alaska would carry a vast share of the population increase expected from accelerated development of oil resources on the outer continental shelf.

A report compiled by the Office of Management and Budget (OMB), Hammond said, showed that of the more than 147,000 persons who would be attracted by development off all states, nearly 95,000 would come to Alaska by 1985.

Such a migration of new residents would bulge Alaska's current population by more than 25 per cent.

Other figures from the OMB report, disclosed by Hammond at a news conference, projected rapid development of offshore oil and gas tracts nationwide would generate $951 million in additional government "infrastructure" in the next 10 years.

Of that total, $683 million was allocated to Alaska, more than seven times the cost of government services expected in any other region.

"This is just a working paper," Hammond said of the report. "Whether or not the figures are firm is debatable, but it is what the federal government is keying into their assessment of impact upon the state of Alaska.

"And, I think it is very dramatic in its revelation."

Bob Palmer, chief of staff to Hammond, said he had obtained the figures during a trip to Washington Monday. They are part of a report to be distributed to coastal states soon, he said.

A copy of the full report was not available.

Hammond has been an outspoken critic of Interior Department plans for conducting nine major lease sales off Alaska during the next three years, including one in the northeast Gulf of Alaska early this year.

A study conducted by the state last year concluded that costs associated with the leasing program would mean an additional $300 tax burden for each Alaska resident annually.

Interior Secretary Thomas Kleppe has delayed the gulf sale while he considers criticism by the Environmental Protection Agency and the President's Council on Environmental Quality leveled at an environmental impact statement on the sale.

Other figures from a portion of the report released by Hammond predicted peak employment in Alaska during the 10-year period would be 19,200 workers, with permanent employment set at 8,100.

Net additional new employment was projected to be 13,650 persons.

CAPITAL NEEDS FOR EXISTING AND NEW OIL AND GAS FIELDS 1975 THROUGH 1985

(Billions of Dollars)

	Area	Capital Outlays
1	Alaska - Onshore	$ 41.9
1-A	Alaska - Offshore	22.1
2	Pacific Coast States	15.5
2-A	Pacific Ocean, Except Alaska	20.2
3	Western Rocky Mountain States	8.8
4	Eastern Rocky Mountain States	13.0
5	West Texas and Eastern New Mexico	37.5
6	Western Gulf Basin	57.8
6-A	Gulf of Mexico	75.7
7	Mid-Continent	21.0
8	Michigan Basin)	
9	Eastern Interior)	11.7
10	Appalachia)	
11	Eastern Gulf and Atlantic Coastal Plain	1.6
11-A	Atlantic Ocean	13.1
	Area Unidentified[a/]	5.7
	Total	$345.6

Source: The backup data for the figures used is cited in a study entitled "Domestic Petroleum Industry Capital Needs and Availability, 1975 - 1985" published by The Standard Oil Company of Ohio on April 14, 1975. The $345.6 billion shown above is the oil and gas exploration and development portion of the $411 billion of petroleum industry needs for all purposes on Table I of the Appendix of that report.

a/ Includes certain naval lands and military reservations and lands with heavy hydrocarbons in California and certain other locations.

Richard M. Donaldson, Standard Oil Co. of Ohio,
Resource Comm hearings March 23-30, 1976

OCS Impact Aid

By Sen. Ted Stevens

President Ford recently signed the Coastal Zone Management Act Amendments of 1976 into law. This new government program will provide a $1,200,000,000 impact assistance fund for states and municipalities affected by outer continental shelf oil and natural gas development.

The Office of Coastal Zone Management, which is part of the National Oceanic and Atmospheric Administration, will be administering the impact assistance program. That office is presently drafting regulations which will serve as guidelines for the disbursement of funds. Draft regulations have been published in the Federal Register so that they may be viewed by the public, and the Office of Coastal Zone Management is soliciting comments from interested citizens and public groups in the formul ion of final regulations.

The Office of Coastal Zone Manage ent is particularly interested in Alaska problems. During the month of August the Coastal Zone Management Advisory Committee, the Citizens Advisory Committee to the Office of Coastal Zone Management, was in Alaska for a tour of areas of the state which potentially could be impacted by outer continental shelf oil and gas development. The members of the Advisory Committee went to Juneau, Yakutat, Anchorage, and Kenai. All of the members found the trip to be informative and they learned a great deal about Alaskan problems.

The Coastal Energy Impact Assistance program has an authorization level of $800 million in loans and $400 million in grants. The grants are to be used for planning, to meet the needs created by unavoidable ecological losses, and any other projects which are necessary and cannot be funded under the loan program. The $800 million loan program is for public facilities and services.

Under a series of amendments which I sponsored, the loans issued by the federal government can go either to the state or to the municipalities. The full faith and credit of the United States is pledged to these loans — not the credit of the state or municipality. Therefore, the complex system of referendums required for normal state or municipal indebtedness is unnecessary.

In order for a state or municipality to receive a loan, it must first set out a revenue schedule to the Secretary of Commerce in which the state or municipality assures the Secretary that income which the state or municipality would receive from the oil and natural gas development over a 20-year period would be sufficient to pay off the loan. Should that income fail to accrue for any reason, the Secretary must automatically forgive the balance of the loan indebtedness.

Many Alaskan communities will be interested in receiving planning grants from the Office of Coastal Zone Management. The Act provides for $50 million in planning grants, to be awarded to states and municipalities impacted by outer continental shelf oil and gas development. These are non-matching grants in which the federal government puts up 100% of the money. These monies can be used for any planning activities to meet the on-shore impa of outer continental shelf oil and natural gas activities. The Off of Coastal Zone Management informs me that they are working as expeditiously as possible to see that planning grants are awarded to Alaskan communities at the earliest possible date. Since the Office of Coastal Zone Management is presently drafting regulations to implement the Act, it has not yet begun receiving grant applications.

The Coastal Zone Management Act Amendments of 1976 will be of substantial benefit to the Alaska fishing industry. In areas of the state which are impacted by outer continental shelf oil and natural gas development, impact assistance funds may be used to build harbor and dock facilities, breakwaters, aids to navigation, and other facilities of general benefit to the entire maritime community. I also expect that impact assistance funds may be used to build aquaculture facilities. In the unlikely event that a major oil spill occurs, an aquaculture facility could be used to offset any damage which was incurred to fish stocks. It is therefore essential that these facilities be built prior to the production of oil and natural gas. I have strongly urged the Office of Coastal Zone Management to include aquaculture facilities in its funding program.

In addition to impacts resulting from outer continental shelf oil and natural gas development, the coast energy impact fund can be used to meet the impacts resulting from the transportation of energy resources through the coastal zone. This means that state municipalities located in the coastal zone, such as Valdez, which are the transportation centers for oil, natural gas, or coal would also be eligible to receive funding. The city of Valdez is potentially eligible to receive funding as a result of the trans-Alaska pipeline project. Looking ahead a few years, in the event that Alaska ships coal to the southern 48 states, port facilities for the operati would also be eligible to receive impact assistance funds.

The Office of Coastal Zone Management expects to be finished drafting its regulations by April of 1977. Dr. Robert Knecht, Associate Administrator for Coastal Zone Management of the National Oceanic and Atmospheric Administration, has advised me that he expects the first funds from the impact assistance program to be available for states and municipalities sometime in April or May of 1977.

On May 17, 1971, Cornell University ornithologists announced what they said was the first successful rearing of a wild bird of prey hatched from an artificially inseminated egg.

In the bloody battle of Jutland, the German navy slugged it out with the British navy in the North Sea in 1916. It was the only major sea battle of World War I.

Anchorage Times
May 12, 1976

Young Raps Impact Aid

By BETTY MILLS
Times Washington Bureau

WASHINGTON — A bill to compensate coastal states for the adverse impact of offshore oil drilling would not provide adequate funds, Rep. Don Young, R-Alaska, says.

The House will consider legislation Friday which would provide $50 million in automatic state grants to meet the onshore impact of development on the outer continental shelf in the next two fiscal years. It also would authorize $125 million in discretionary funds administered by the secretary of commerce in the next five years.

In minority views submitted with the report on the bill, Young said the funding "is not sufficient to cover the costs that the local and state government will have to bear as a result of the federal development.

"This will leave the states in serious economic straits, especially in the more heavily impacted areas, from overcrowded schools and services, insufficient sewage systems, poor roads and higher state and local taxes," the congressman said.

Young said the per capita cost of offshore development from increased population, based on growth figures from the Alaska pipeline, would be $1,630 to the state government and $351 to the local government. The projected population growth directly attributable to oil development is 94,000 by 1985, according to estimates of the Office of Management and Budget. The total cost to state and local governments from offshore oil development would be $186,214,000 per year, Young said.

"While the revenue received from the Alaska pipeline was sufficient to meet much of the cost of impact funding, this is presently impossible to meet since no revenue is coming into the state as a result of OCS development," Young said.

The congressman said the authorization to coastal states must be increased.

"The state deserves the money for investment for other worthy projects, instead of underwriting the cost of a federal project," Young said. "The OCS is a federal project and should be a federal responsibility."

Next Three Years Hold Plans For Other Areas

Today's lease sale of tracts in the northeastern Gulf of Alaska is the first of nine federal outer continental shelf oil and gas lease sales planned off Alaska's shores during the next three years.

The accelerated leasing program is aimed at making the United States more energy self-sufficient, says Edward Hoffman, manager of the Alaska Outer Continental Shelf Office.

The tentative schedule calls for two more sales this year. Tracts in Lower Cook Inlet are to be leased this fall, possibly by October, and tracts in the western Gulf of Alaska, in the Kodiak area, are scheduled to be leased in December.

Other sale areas on the federal schedule include Bering Sea (St. George area), March 1977; Beauford Sea, October 1977; Outer Bristol Basin, December 1977; Bering Sea (Norton Basin), August 1978; Gulf of Alaska, Aleutian Shelf October 1978, and Chukchi Sea (Hope Basin), December 1978.

Offshore Alaska has an estimated petroleum potential of 60 billion barrels of oil and 340 trillion cubic feet of gas, according to the Alaska Outer Continental Shelf Office.

An estimated 40 per cent of the nation's "frontier areas" which are untouched by the drill lie off Alaska's shores. Another 40 per cent lie onshore, said Dr. V. E. McKelvey, director of the U.S. Geological Survey. But both are subject "to some of the worst operating conditions known on our planet," he said.

Offshore, drifting sea ice, 50- to 75-knot winds, 25-foot waves, protracted periods of darkness and occasional major earthquakes all present potential hazards, McKelvey pointed out in a Dallas speech in September.

"Onshore, temperatures reach well below zero and logistic problems are staggering. In addition, the entire area is 1,000 to 2,000 miles away from a major energy market. One does not have to look far to understand why this area has been left alone until now."

Anch. Times Apr 13, 1976

13, 1976

N-M Dec 13, 76.

Kenai mayor testifies on Coastal Act

ANCHORAGE (AP)—The mayor of the Kenai Peninsula Borough has testified in Washington before a U.S. House subcommittee looking into regulations proposed for implementation of 1976 amendments to the Coastal Zone Managemet Act.

The Anchorage Times Washington Bureau reports Mayor Don Gilman told the House oceanography subcommittee Friday that Alaska needs money immediately to plan for offshore oi exploration and development.

Grants are available for suc planning under the amendments passed by Congress this year. The office of coastal-zone management of the U.S. Department of Commerce has prepared draft regulations for implementation.

Gilman told the subcommittee the Borough is a microcosm of the issues and problems the nation faces in preparing for impact of drilling on the outer continental shelf (OCS).

He said the borough's population is expected to increase 50 per cent in the next seven years during preparation for lease sales in the northern Gulf of Alaska, lower Cook Inlet and the western gulf.

Gilman told the subcommittee, "Our present community facilities and services are either at or beyond their planned capacity."

He said increased population, whether temporary or permanent, cannot occur without severe impact unless funds are accessible for planning and providing needed services.

Some subcommittee members were critical of the draft regulations. Rep. Pierre Dupont, RDel., told assistant administrator for coastal zone management Robert Knecht he had "misconstrued the intent of Congress."

"I don't know how you think you have the authority to add things in your regulations that Congress did not provide," said Dupont, who will leave the House next month to become governor of Delaware. "Congress has once again been frustrated by the fourth branch of government—the bureaucracy."

N-M Dec 13, 76

Nome should prepare for sales

NOME (AP)—The president of the Northwest Alaska Chamber of Commerce says it is time this Bering Sea community began preparing for upcoming oil and gas lease sales on the outer continental shelf.

Jack Carpenter announced formation of the chamber's OCS Planning Committee at a chamber meeting in Nome Friday.

He said OCS leasing will begin in the Nome area in about two years and its impact "should be dynamic."

Carpenter told the chamber that he spoke in Kotzebue last week with Patrick Dobey, manager of Alaska's Petroleum Department and head of the state's OCS leasing program.

He said Dobey quoted him some figures which indicate how significant that impact will be. For example, he said, "a dredge out there will cost $1,000 a minute, and they will have five such dredges going."

Carpenter said there is a possibility local businesses will be bought out by persons involved in oil exploration and development.

"These are the kinds of things we have to start looking at—the impact of these funds being spent in Nome," he said, adding he believes Nome can learn from the experiences of other communities.

Guest speaker at the meeting was Frank Murkowski, state chamber president and president of Alaska National Bank, who said the impact of the Alaska Native Claims Settlement Act on the state's business community has been significant. He noted most Alaska Natives are staying here and using the settlement funds to develop the state.

And he said while some Natives have made mistakes in their dealings with the business community, "by the same token, they are developing, and every time you make a mistake you look at your own life and you learn by it. And how many opportunities are you afforded because of that knowledge?"

this company expects added industry spending of $25-30 million for detail work.

The company says the most heavily mapped regions for reconnaissance are the mid-Atlantic, North Atlantic, off southern California, and in the eastern Gulf of Alaska and Lower Cook Inlet. More reconnaissance remains to be done in the South Atlantic, off northern California, in the Western Gulf of Alaska, Bering Sea, and Beaufort Sea.

Another company says the industry's spending to date for geophysical work amounts to about $35 million along the East Coast and $45 million off Alaska, with more multimillion-dollar programs required.

The company estimates about 70,000 line-miles of seismic data costing $25 million has been gathered off the East Coast since 1968 in programs involving group shoots and nonexclusive work by several contractors. This doesn't include spending by individual companies. Gravity, magnetic, and refraction-type surveys to date could add another $10 million to the total geophysical costs.

And future investments in frontier geophysical operations could pile still another $15-20 million on total costs, the company says.

It places industry's total outlay at $45 million for 150,000 miles of marine seismic off Alaska, with another 100,000 miles required at a cost of $50 million.

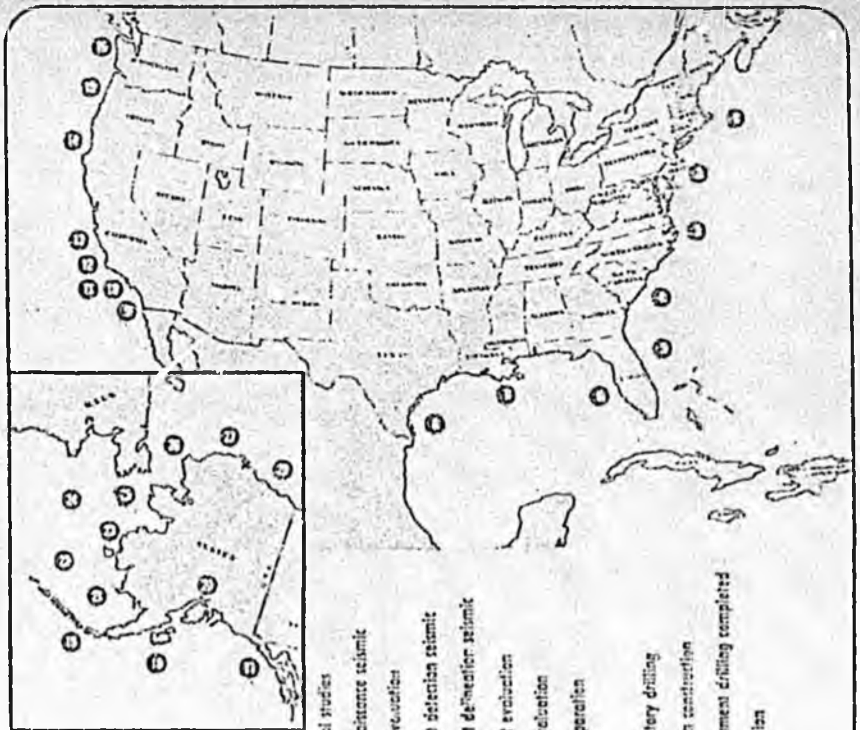
Several operators report difficulty in shooting off Alaska, particularly in the Gulf of Alaska and the Beaufort Sea.

Seismic-acquisition programs in the stormy gulf are subject to frequent and lengthy interruptions due to heavy seas and high winds. What's more, seismic data generally isn't of highest quality, because a thick layer of glacial till and large boulders obscures the Tertiary and Cretaceous objectives.

In the Beaufort Sea, shooting depends on pack ice moving out in the summer. And the ice hasn't cleared enough to permit seismic acquisition for a number of years. As a result, the federal portion of the Beaufort Sea shelf isn't well covered by seismic lines.

A major company says its offshore-frontier program has run into "no unusual shooting problems" except those related to Arctic ice, permit restrictions, currents which make it hard to keep cables aligned, and logistical problems in certain areas.

What's happening in Offshore U.S. basins



Basin	Regional studies	Reconnaissance seismic	Basin evaluation	Prospect detection seismic	Prospect delineation seismic	Prospect evaluation	Tract evaluation	Bid preparation	Sale	Exploratory drilling	Platform construction	Development drilling completed	Production
Georges Bank trough	★	★	★	★	★	★							
Baltimore Canyon trough	★	★	★	★	★	★	★						
Cape Fear arch	★	★	★										
Southeast Georgia embayment	★	★	★										
Blake Plateau trough	★	★	★										
Gulf of Mexico Eastern	★	★	★	★	★	★	★	★	★	★			
Gulf of Mexico Central	★	★	★	★	★	★	★	★	★	★	★	★	★
Gulf of Mexico Western	★	★	★	★	★	★	★	★	★	★			
California borderlands	★	★	★	★	★	★	★	★	★				
Santa Barbara Channel	★	★	★	★	★	★	★	★	★	★	★	★	★
Santa Maria basin	★	★	★										
Santa Cruz basin	★	★	★										
Arena Bodega basin	★	★	★										
Eel River basin	★	★	★										
Astoria basin	★	★	★										
Olympic basin	★	★	★										
Gulf of Alaska	★	★	★	★	★	★	★						
Kodiak shelf	★	★	★										
Aleutian shelf	★	★	★										
Lower Cook Inlet	★	★	★	★									
Bristol basin	★	★	★										
St. George basin	★	★	★										
Bering shelf	★	★	★										
St. Matthew basin	★	★											
Norton basin	★	★											
Hope basin	★	★											
Arctic Offshore basin	★	★	★										
Beaufort basin	★	★	★										

Source: Shell Oil Co.

OGJ

Action by areas. Structures involved in the first proposed sale of Gulf of Alaska tracts and in the Baltimore Canyon off the East Coast have been well delineated by numerous seismic surveys in the past several years, says Exxon's Jones. In fact, Jones says, these proposed-sale tracts are well explored up to the point of drilling.

He sees little if any additional seismic work being done in the Gulf of Alaska sale area and the Baltimore Canyon prior to sales. However, additional acquisition of in-fill data is likely after sales.

OIL & GAS JOURNAL JAN 19 '76

Jones believes companies will wait until they obtain leases before investing in more data. The first wells in each area, he predicts, will have considerable impact on subsequent seismic activity.

Esso Seismic Inc.'s Kirsten Bravo shot about 1,000 miles of seismic line last September in the Baltimore Canyon and Georges Bank for Exxon.

The Georges Bank area isn't far behind the Baltimore Canyon in the amount of seismic data available to companies, Jones tells the Journal. There may be a last-minute flurry of proprietary shooting in Georges Bank in the coming months if it appears the sale will come off in August as proposed.

Jones predicts considerable seismic activity in the South Atlantic next spring and summer. Not much seismic data have been gathered on the Southeast Georgia Embayment or the broad, deepwater Blake Plateau.

Jones expects a rapid buildup of group, speculative, and proprietary shooting within 600 ft of water on the Southeast Georgia Embayment. A gradual increase is predicted for the Blake Plateau, which isn't scheduled for a sale until mid-1978.

Because basins off northern California, Washington, and Oregon are believed by industry to be very poor petroleum prospects, Jones doubts there will be any rush to acquire new data there.

Very little seismic data are available in Offshore Alaska basins, other than in the Gulf of Alaska.

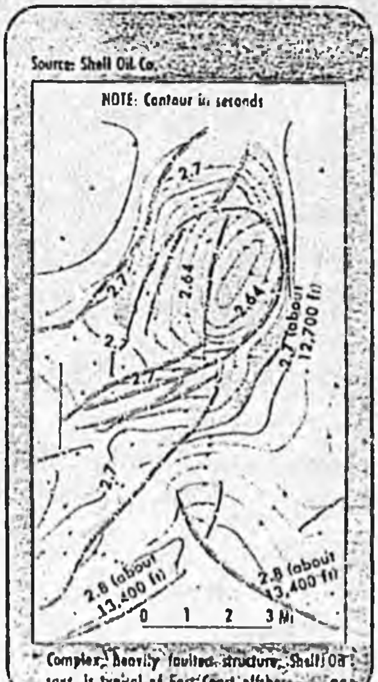
Industry is in the midst of an active exploratory effort in the Lower Cook Inlet, although acquisition programs there currently are shut down for the winter. Jones expects a spurt of shooting and possibly core or deep-stratigraphic drilling this summer.

The Kodiak shelf also should be an active area in the coming months, if it appears the proposed December sale will materialize. A very coarse grid of seismic data is available on Kodiak.

Although exploration on this shelf is still in an early stage, Jones believes industry can generate and interpret enough data in the coming months to be fully prepared for a December sale.

Seismic data in the Bering Sea consist of a very coarse grid over only a portion of the area, in the Bristol basin. Most of the current data was acquired beginning in the summer of 1973. Activity speeded up in the summer of 1974, and Jones predicts considerable shooting and possibly core drilling will take place in the next few summers.

Atlantic prospect*



* Complex, heavily faulted structure, Shell Oil says, is typical of East Coast offshore. OGJ

USGS reconnaissance surveys indicate six or seven distinct basins in the Bering Sea, Jones reports.

The Exxon explorationist also foresees increased seismic activity in the unexplored Aleutian shelf, Norton basin, and Hope basin. The latter, he says, has been the scene of proprietary shooting by one or two companies.

Stratigraphic tests. The Sedco J semisubmersible is drilling the first of two Offshore East Coast stratigraphic tests (see cover photo) for a 31-company group led by Ocean Production Co. And more tests are planned in other regions as part of industry's program to collect the first subsurface information in offshore frontiers.

Spudded last Dec. 14, the initial East Coast test is projected to 16,000 ft. Site for the B-2 test is 73.6 miles off the New Jersey coast in the Baltimore Canyon (see map, OGJ, Oct. 20, 1975, p. 39).

The Ocean Production group also will use Sedco J to drill its second 16,000-ft test, designated G-1, more than 100 miles off the Massachusetts coast in the Georges Bank area.

Combined cost of the two operations is a little less than $18 million to determine porosity and permeability in Jurassic and younger sediments.

Among future work, Exploration Services Co. Inc., Ventura, Calif., proposes to drill a 12,000-ft stratigraphic test in Lower Cook Inlet beginning in March. Estimated cost is $5.5 million at a site in 19-14s-22w.

Exploration Services also is trying to generate 3,000-5,000-ft tests on the Kodiak shelf, Exxon's Jones reports.

West Coast sources say a second attempt may be made this summer to drill a stratigraphic test in the Gulf of Alaska, where mechanical problems halted a similar test last October. Last year's hole reached the 5,100-ft level — far short of its 16,500-ft goal — at a reported cost of $12 million.

Earlier deep stratigraphic drilling included two holes on the Outer Continental Shelf off South Texas. Drilled by two 32-company groups, the tests revealed poor characteristics in potential reservoirs. This poor showing was reflected in low bonuses offered in Feb. 4 and May 28, 1975, sales of federal leases.

Discouraging results from another stratigraphic test, this one drilled off southern California, drew part of the blame for the generally low level of bonuses offered at last December's federal lease sale off California (OGJ, Dec. 22, 1975, p. 15).

On-structure drilling has yet to take place in the frontiers. And only this can determine if known structures hold oil and gas.

Gulf's Carter believes results of on-structure drilling in the Gulf of Alaska will have a strong influence on predrilling evaluation of the Kodiak shelf, Bristol basin, and Bering shelf. Likewise, Baltimore Canyon drilling will determine to a great degree how much leasing and exploration Georges Bank, Southeast Georgia Embayment, and Blake Plateau will attract.

Drilling problems. Several companies surveyed by the Journal declare the Gulf of Alaska presents some of the frontier regions' thorniest problems in exploration, drilling, and production. Lesser problems are foreseen in most other areas of the offshore frontier.

"To be economic, a structure in the Gulf of Alaska will have to contain several hundred million barrels of reserves," Gulf's Carter says. He doesn't see gas as a viable exploration target because of enormous development costs.

Severe storms, strong currents, and

though its presence is widely known to the industry because of seismic work in the area.

It resembles a huge oval about 25 miles long and 10 miles wide, starting near the 3-mile line offshore and extending southwest into the center of the Icy Bay sale area.

"There is room here for another Prudhoe Bay field," says one company geologist. "But no one suggests that it will turn out to be another Prudhoe Bay. It's extremely rare to find a big structure filled with oil. What I am saying is that there is room here for another Prudhoe Bay. We just hope that it contains several billion barrels of oil.

"But if it's going to have anything big, it must have pay sections which are tremendously thick, and it certainly must have better porosity than the same formations onshore.

"Just because it is offshore, or downdip, doesn't mean it would have more porosity. That would not be a valid geological supposition. But we can reasonably expect some porosity. If we have that, we must also have the source beds to contribute the oil. Everything has to come together just right."

Operating costs. Companies preparing to bid on Gulf of Alaska leases have tempered their enthusiasm for the area in the past 2 years because of the great surge in offshore drilling and production costs.

The semisubmersible rigs which will be used for most of the drilling, plus other supporting services, will cost an estimated $100,000/day. This would mean that a well which took 100 days to drill would cost $10 million.

A shallow test may cost only $7 million, but if there is any trouble with the hole, the price tag of an exploratory well could rise to $15 million.

And finding oil is just the first step. Constructing platforms which meet the weather, ocean-bottom, and earthquake specifications will start at $100 million. Laying pipelines to a shore base, or constructing an offshore loading terminal, will add to the mounting costs.

Because of such prospective costs, companies are counting on reasonable crude prices to recoup their investments and make a profit.

"We couldn't go into the Gulf of Alaska for oil priced at $3 to $4/bbl," says one oil-company executive. "If we found a 5-billion-bbl field, we could make it on $5 to $6 oil. But if it's just a 1-billion-bbl field, we would need $10. We couldn't develop a 500-million-bbl field at today's oil prices."

Economics such as this will have a dampening effect on bids at the sale.

The rigs. Two semisubmersible rigs are being built by the Kaiser Shipyards near San Francisco specifically for use in the Gulf of Alaska. Others will be available from shipyards in Japan and other yards of Southeast Asia.

SUN OIL CO. estimates development of 100,000 b/d of production in the Gulf of Alaska would cost $500 million to $1.1 billion, depending on water depth.

That is based on estimated development costs ranging from $5,000 to $11,000 per daily barrel of production, depending on water depth, M. D. (Zeke) Noble says.

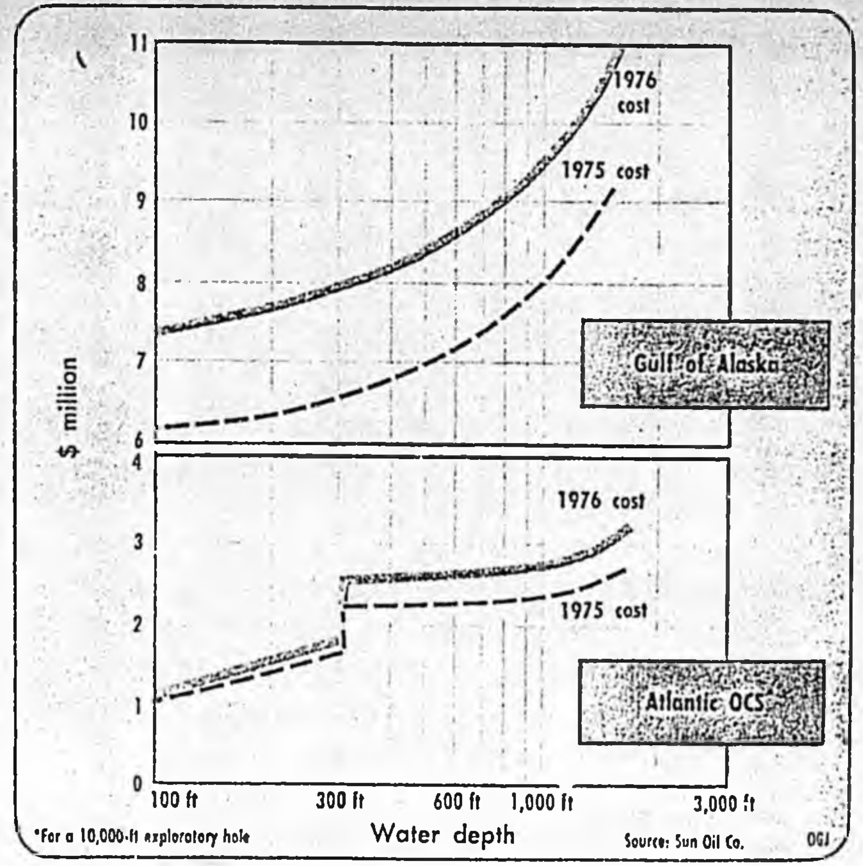
Noble, president of Sun's newly formed Sunmark Exploration Co., and J. Dwayne Taylor, an executive vice-president of Sun, spoke to the Houston Society of Financial Analysts on Mar. 17. Taylor described the purpose of Sun's recent reorganization.

Gulf of Alaska. In the face of such ferocious costs, how high must the price of oil be to support development.

Taylor says the price should be in the range of $14-16/bbl. And Noble says "a great deal of Gulf of Alaska potential would not be developed at today's prices." If the Gulf of Alaska sale occurs as scheduled on Apr. 13, Noble says, first production probably could not take place until 1981.

Sun also has revised upward its cost estimates for exploratory drilling in the Gulf of Alaska (see graph). A year ago, Sun estimated a 10,000-ft exploratory hole in 300 ft of water would cost about $6.5 million. Noble now estimates the same well would cost $8 million. He estimates a well on some of the known structures in deeper waters of the Gulf of Alaska would cost $9 million.

Gulf of Alaska, Atlantic wildcat costs*



N-M Dec 17, '76

Federal report says

Pipeline construction has sped deterioration of state's highways

ANCHORAGE (AP)—The federal Department of Transportation reports that trans-Alaska pipeline construction has speeded the deterioration of Alaska state highways—and says the federal government has no responsibility for repairs.

Alaska's Gov. Jay Hammond has fired off telegrams protesting that conclusion to Vice President Nelson Rockefeller, House Speaker Carl Albert, Transportation Secretary William Coleman and Federal Highway Administrator Norbert Tiemann.

Hammond noted the trans-Alaska pipeline was mandated by the U.S. Congress. This year's federal highways appropriations bill includes a section directing the Federal Highway Administration to study the need for special federal aid in building or repairing roads necessary for energy-related projects.

"This is another Catch-22," the governor stated. "Why should the study go forth if precedent has been established that there is no federal responsibility for impacts to highways used for the nation's energy needs?"

Coleman stated in his report to Vice President Nelson Rockefeller, president of the Senate, "This report of initial finding documents the fact that pipeline construction has accelerated deterioration of several state highways at a more rapid rate than highways not subjected to such traffic.

"The report further establishes that repair and restoration of the damaged highways is not a federal responsibility."

The report estimates some $300 million would be needed for reconstruction made necessary by pipeline construction.

The state sought $70 million from Congress for emergency repairs during the last session. That bill passed the Senate but was downed by the House.

In August, Sen. Ted Stevens, R-Alaska, said he believed the DOT study would indicate damage exceeded the $70-million figure, adding, "There is no question it is a federal responsibility."

Coleman said the department report is an interim study and makes no recommendation for a final solution to the problem.

MEMORANDUM

FROM: Mike Davis, Administrative Assistant

RE: Phone Conversation with Larry Powell, Major of Yakutat. - OCS IMPACT.

DATE: March 10, 1977

"We have had a direct impact since Sept. last year. The construction of the service base took place during the year preceding that."

We have five service boats servicing two rigs with service base.

Presently, some of the city services are impacted.

a. Water supplies
b. All the people working on the rigs move thru the airport. (There is an attempt to not have people in town. But, we are experiencing bad weather, so we can have anywhere from 15-25 people (or more) stuck in town.)

These demands should remain constant for the next two years (from Shell and Arco).

Exxon and Gulf will begin supplying their rigs with five service boats. Some of these will be based in Yakutat (which means a greater movement of people thru town).

We are looking for things to escalate...traffic thru the airport, the service base will need to be enlarged to handle the increased activity.

"Fact: We are faced with increasing our fire protection capability both onshore and offshore (due to the increased industrial activity). We will need to have a full time policeman (currently we have a trooper and a part-time policeman)."

"I would very much like a copy of the bill and background material." (sent 3-10-77).

MED:ab

City of Kenai
BOX 580
KENAI, ALASKA 99611
telephone: 283-7535

copies for committee members

March 9, 1977

Honorable Lisa Rudd
State of Alaska
House of Representatives
Pouch V
Juneau, Alaska 99811

RE: House Bill #219

Dear Representative Rudd:

House Bill 219, as proposed, clearly makes the developer of OCS resources liable for costs relative to the impacts generated from construction of shore-related facilities.

The principle of this proposed legislation has been long established in American municipalities, though normally called "off-site improvements", required as a result of significant development; commercial, industrial and housing.

The legislation, as proposed, is long overdue. The boroughs ought to be the agencies to establish such legislation, through their planning and zoning mandates; however, in the absence of borough action, then the State is obviously compelled to act.

The City of Kenai has been victimized by the absences of such legislation and, therefore, we are obliged to support this legislation, not only for our own protection, but for the greater good of the State.

If there are any problems in this proposed legislation, it is in Section 41.45.030 "Fees". The language is unclear and needs clarifying.

Our congratulations on the introduction and grateful support for the legislation.

For the Mayor and Council of the City of Kenai, Alaska, I am

Sincerely,

John E. Wise

John E. Wise,
City Manager

JW:dd

February 24, 1977

TO: LISA
FROM: JUDITH

RE: HB 219

Sec. 41.45.030. FEE FOR SHORE FACILITIES PERMIT.

In arriving at the permit fee, gross impact cost and development revenue are the two factors being estimated as follows:

Step 1.

anticipated population increase

x

per capita costs of state and local government

= gross impact cost

Step 2.

estimated pertroleum taxes

general property taxes for onshore facilities

income taxes from residents in affected area

\+ OCS and gas grants   summed and discounted

= development revenue

Definition:

"discounted on a cash flow basis"

Money has a "time value", in the sense that it can be reinvested and earn future profits, a dollar of profit today is worth more to a corporation than a dollar of profit ten years from now. It is this truism which underlies the widespread corporate use of the discounted cash flow, or DCF, method of analysis for computing the rate of profit on different investments. As is implied by the name of the method, discounted cash flow analysis involves two basic elements: a cash flow of costs and profits over time, and discounting these flows by some factor to take into account the greater value of near money as compared to far money.

Step 3.

gross impact cost

- <u>development revenue</u>

= the fee for a shore facilities construction permit

1. Mike Davis should have some back-up information for us by Frieday which apparently includes a statement attesting to the constitutionality of this concept.

2. On advice from Jim Rhode of House Finace, I contacted Gregg Erickson from the Division of Research Services to let him know of the hearing on HB 219 for Monday. Mr. Erickson is an economist and he and his staff are apparently well versed regarding this bill; either himself or one of his staff will be on hand for the meeting.

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

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

M E M O R A N D U M — March 14, 1977

SUBJECT: HB 219 Coastal Zone Development Permits (W.O. 3562)

TO: The Honorable Lisa Rudd
Chairman
House Committee on Community and Regional Affairs

FROM: Gregg K. Erickson
Director of Research

Jack Chenoweth
Staff Attorney

Introduction

As you requested, we have consulted with the sponsor of this legislation in an attempt to deal with some of the practical and legal problems that have been raised with it in testimony before your committee. In doing so we have developed an alternative approach for meeting the needs which we understand prompted the introduction of this legislation. After consultation with the sponsor, and as a practical matter related to the limited amount of time available, we have devoted most of our efforts towards developing this concept (which we might for shorthand call the "monopoly franchise approach") rather than the "permit approach" embodied in HB 219. If the committee wishes to proceed with the concept we have outlined here, we could draft legislation and have it before you for initial mark up by Wednesday morning. You may, of course, elect to stick with the "permit approach", and in this event we would shift our efforts towards resolving, insofar as we can, the technical problems that have been noted.

The legislative findings and declaration of purpose contained on page 1 of the bill delineate the needs that have prompted its introduction. As we understand them, these are the need for a mechanism which will insure that companies developing outer continental shelf (OCS) resources pay the net costs to the communities impacted by that development. In addition, it has been emphasized to us that the payment of these net costs should be at an early stage of the development when the community impact is at its most severe, and that there should be an equitable mechanism for sharing the payments among the state and local communities.

The Permit Approach

When one of us (Erickson) testified before you last week, some of the practical problems involved in implementing the bill as it is currently written were discussed. These are summarized as follows:

1. The *Estimation Problem.* In order to determine the fee to be charged for a permit, it would be necessary to look many years into the future and estimate both the costs and benefits derived from OCS development. These are obviously very difficult to determine. The biggest factor in the input is, of course, whether or not the exploration phase is successful. The possibility of future federal assistance adds additional uncertainty. Even if one could predict the unfolding of events with certainty, there would remain a great deal of room for subjective differences in the evaluation of the cost of those events. For example, a city with a high level of unemployment and substantially under-utilized coastal infrastructure (such as docks and staging areas) might evaluate the cost of OCS development as close to zero, whereas another community with stable employment and little room for physical expansion of facilities might find the same type of development very costly.

2. The *Allocation Problem.* In the initial phase of OCS development, at the time when these permit fees would be assessed, there would undoubtly be many companies involved in the exploration process. However, the most serious impact on the community will occur during the development phase. It is conceivable that one company could be responsible for all such development. It would probably be inappropriate to allocate all the OCS development costs imposed on a given community against the many companies involved in the exploration phase, when only one of them would derive the benefits from it.

3. The *Incidence Problem.* If and when one has been able to determine the net costs of OCS development, and who should pay them, a problem remains in fashioning a mechanism whereby that payment is extracted. Under the language currently contained in HB 219 it is possible that certain types of business organizations would be able to escape entirely the payment of the fees that this legislation is designed to assess. For example, the wharf run by a third party, financed only by wharfage charges would not appear to be covered. There would seem to be a strong incentive for this type of institutional arrangement to develop if this legislation were to be adopted in current form.

In addition to the practical difficulties adherent in this legislation, it also raises some major and serious legal issues. During the past week you have had the opportunity of hearing representatives of the oil industry do this--at length. While we do not accept at face value all the legal arguments raised in this discussion, we do believe that legislation of this sort would be vulnerable to legal challenge on a number of points, including, among those summarized by Mr. Gene Wiles, the constitutional arguments touching upon equal protection and interference with interstate commerce.

Government Monopoly Franchise Approach

Because of the practical and legal problems associated with the bill as currently written, we examined other possible methods of fullfilling the purposes of this legislation as we understand them. In the course of this examination and our review of the surprisingly extensive literature that has accumulated recently on the coastal impact of OCS development, we have been struck by the fact that those areas that have been at least partly successful in dealing with OCS impact have been so by virtue of their ability to gain control over some vital component of the onshore infrastructure necessary to support offshore development. Probably the most distinct example where this mechanism has been used is in the Shetland Islands, where legislation was adopted which gave the county ownership in and effective control over the port and staging facilities necessary for the North Sea development. [1] In both Kodiak and Yakutat, similar though perhaps less successful efforts, based on patterns of land tenure, have been made to extract from OCS developers some of the onshore costs of their activities.

We would suggest that you consider creating by legislation a class of activities related to the onshore aspects of OCS development, the conduct of which would be reserved to and monopolized by the state. There are certain precedents for this approach. The legislation enacted by the British Parliament confirming broad authority in the Zetland County Council, (supra, note 1) serves as one model, though significant differences in the structures, functions, and powers of levels of government, and the differing constitutional bases between the British and American legal systems limit the comparison.

In the context of past American practice, the pre-eminent precedent may well be the Port of New York Authority, established in 1921 in a compact between the states of New York and New Jersey as a corporate and political body to serve as the means to "better [co-ordinate] the terminal, transportation, and other facilities of commerce in, about, and through the Port of New York" with broad powers to construct and maintain, directly or by lease, terminal and transportation facilities within the port district, but without necessarily impairing the authority of the respective states and their local governments to develop and improve transportation facilities and services. [2]

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1 *Zetland County Council Act, Elizabeth II, 1974 (chapter viii). See also Sagalkin, "Comparative Analysis of Planning Laws of Scotland and Alaska", Memorandum to Jessie Dodson, January, 1977.*

2 *N.J.S.A. 32:1-1 et seq.*

Similar arrangements addressing coordination of marine, land, and air transportation within port areas have been adopted throughout the country. We suggest that a like approach initiated by the state in response to ever-increasing demands upon the transportation, ports, and other public facilities of the coastal areas--allowing for inclusion of affected local governments as partners with the state--would serve the dual purpose of improving coordination and development of facilities necessary for outer continental shelf petroleum activity while providing the means to assure that the net public costs of development are borne by the principal users of the affected facilities.

If you accept this approach, its implementation could be vested in a "Outer Continental Shelf Service Authority". Firms about to engage in outer continental development in an area, requiring new or increased onshore facilities, would provide the Authority with as detailed as possible specification of the sites and facilities they would like to have to supply those operations. In reponse to this initiative and after payment of a modest "earnest money charge" the Authority would form a "Regional OCS Facilities Corporation". If the proposed facilities are to be within the boundaries of any existing local government, the local government will automatically be a 50% partner in the regional facilities corporation. The corporation would then negotiate with the offshore developers concerning the terms and conditions under which the facility is to be built. The entire cost of the facility would be borne by the offshore developers, and, in addition, they would be required to pay a franchise fee. This fee would be a matter of free negotiation between the regional facilities corporation and the offshore developers, but it could not be higher than the present value of the net costs expected to be incurred in the community as a result of the OCS development over some reasonable span of time. By setting this upper limit on the franchise charge, one would hopefully avoid a successful legal challenge of the arrangement on the grounds that the fee was an arbitrary and undue burden on interstate commerce.

Although involving a lump sum component, the franchise fee could also contain within it specific mechanisms to provide for cost adjustments or continuing payments; clauses triggering such payments could be written into the franchise agreement. For example, if exploration is successful and development begins, such as a clause could require a second lump sum payment be negotiated.

The franchise payment receipts would be shared between the state and local government on a basis to be established in the legislation, perhaps in an arbitrary allocation, such as 50-50, or perhaps (with more difficulty) on the basis of some formula related to impact. In areas where no local government exists, the state would be the sole owner of the regional facilities corporation, but might share the fee with any local government subsequently obtaining jurisdiction over the facility site.

The legislation and the monopoly authority would not apply to existing facilities, but would apply to any significant expansion of those facilities. "Expansion" could be defined in terms of the amount of cargo or goods passing through them, or with respect to additional investment in them. Any such increase or additional investment would require the creation of a regional facilities corporation and the negotiation of a franchise fee.

All profits from the facility would go to the OCS operators to be shared among them in accordance with whatever arrangement they determined to be equitable. They, rather than the corporation itself, could be given the responsibility of operating and managing the facility.

In order to insure that the OCS supply facilities are sited in the most logical locations, corporation would have power of eminent domain, but this could only be exerised with the approval of both the state and local government co-owners.

Since the franchise fees would be a matter for negotiation between the developers and the governments, each individual community would have the opportunity to assess for itself, subject to the maximum limitations established in general terms in the legislation, the "franchise fee" necessary to compensate it for the expected onshore development costs. Thus, if a community wishes to encourage such development, it would be able to do so by setting relatively lower franchise fees.

Governance of the Authority would be by directors appointed by the governor subject to confirmation by the legislature. The chief executive officer of the authority would be the Commissioner of Community and Regional Affairs. The regional facilities corporations would be governed by boards appointed in equal numbers by the Commissioner of Community and Regional Affairs and the local government. The state members would be drawn from the authority's governing board. A majority of a corporation's directors would be required to approve establishment of or change in franchise fees or arrangements.

GKE:JC:mo

cc: The Honorable Charles Parr

> Dorothy — Exxon implied that they were paying workers for AK. based company. Could you find this on tape & set it up for me today? Thanks.

HB 219

Statement, Parr, March 15, 1977

I am sorry that conflicting committee meetings did not permit me to be here during oil company testimony on HB 219. Over the weekend, however, I have listened to the tapes of that testimony and would like to offer a few comments.

Mr. Mathews of Exxon made quite a point of the fact that the North Sea was a case of rushed development whereas only 5% of the U.S. OCS had been developed over a number of years. Against his statement should be read the attached pages from the Baldwins' book: Onshore Planning for Offshore Oil: Lessons from Scotland. (Appendix 1)

The Exxon representative further indicated that very few jobs would be made available for Alaskans, that the bulk of the work force would be brought in to the rigs or platforms by air from the Lower 48, spend two weeks at work (beyond the three-mile limit) and fly home again. Two points: They don't intend to train and hire Alaskans-which would benefit our economy- and it seems unlikely that the state will collect any income tax from those workers who neither live nor work within the three-mile limit.

Also, the Committee should compare the above statements with that by Mr.Showalter of SOHIO, that the OCS development will help unemployment following completion of pipeline construction, hiring skilled workers who live in Anchorage.

Mr. Matthews and Mr. Wiles (Shell Oil) stated that the number of people will be small. It is up to the Committee to decide whether to accept their figures or those prepared by Mr. Waring and Mr. Trimble. My own preference is to assume the higher figures, require the companies to submit payrolls and other data, and give them a rebate if they have indeed been overcharged.

The Committee might also note that expansion of a water, wewer, electric power, or school systems does not happen over-night. The community simply cannot wait until the development phase hits to begin construction of needed facilities.

References were made to $1.6 billion (sic). A column by Senator Ted Stevens, which I furnished the Committee at its first hearing on HB 219, indicates

(1) a total of $1.2 billion, of which

(2) $800 million is for loans and

(3) $400 million is for grants, of which

(4) $50 million is for planning, the rest for unavoidable

ecological losses (fish?) and necessary projects which cannot be funded under the loan program.

It is hardly likely that Alaska will get the lion's share of the grant funds... .

Mr. Larry Vavra of Union Oil furnished information on the Collier plant in Kenai and its happy tax status. I should point out that the Collier plant has been paying only about 1/3 of what it should have paid in the North Kenai Fire Service Area. There has also been heavy (and uncompensated) impact on Keani and Soldotna, as Representative Malone can verify.

Mr. Wiles quoted the preparer of the Mathematerial Sciences Northwest study, "who spent more than three weeks in Scotland, Shetlands," to the effect that the "local authorities in Scotland, with the active cooperation of the oil companies and contractors had been able to effectively plan for on-shore development..." Some idea of the active cooperation may be gleaned from Appendix 2. (Baldwin, ibid).

A final point. Mr. Wiles discussed possible constitutional problems. Although not a lawyer, I'll venture the opinion that there are two sides to the case. See, for example, K & L Distributors, Inc. v. Murkowski, 486 P.2d 351(1971).

DRAFT
DCRA-2/76

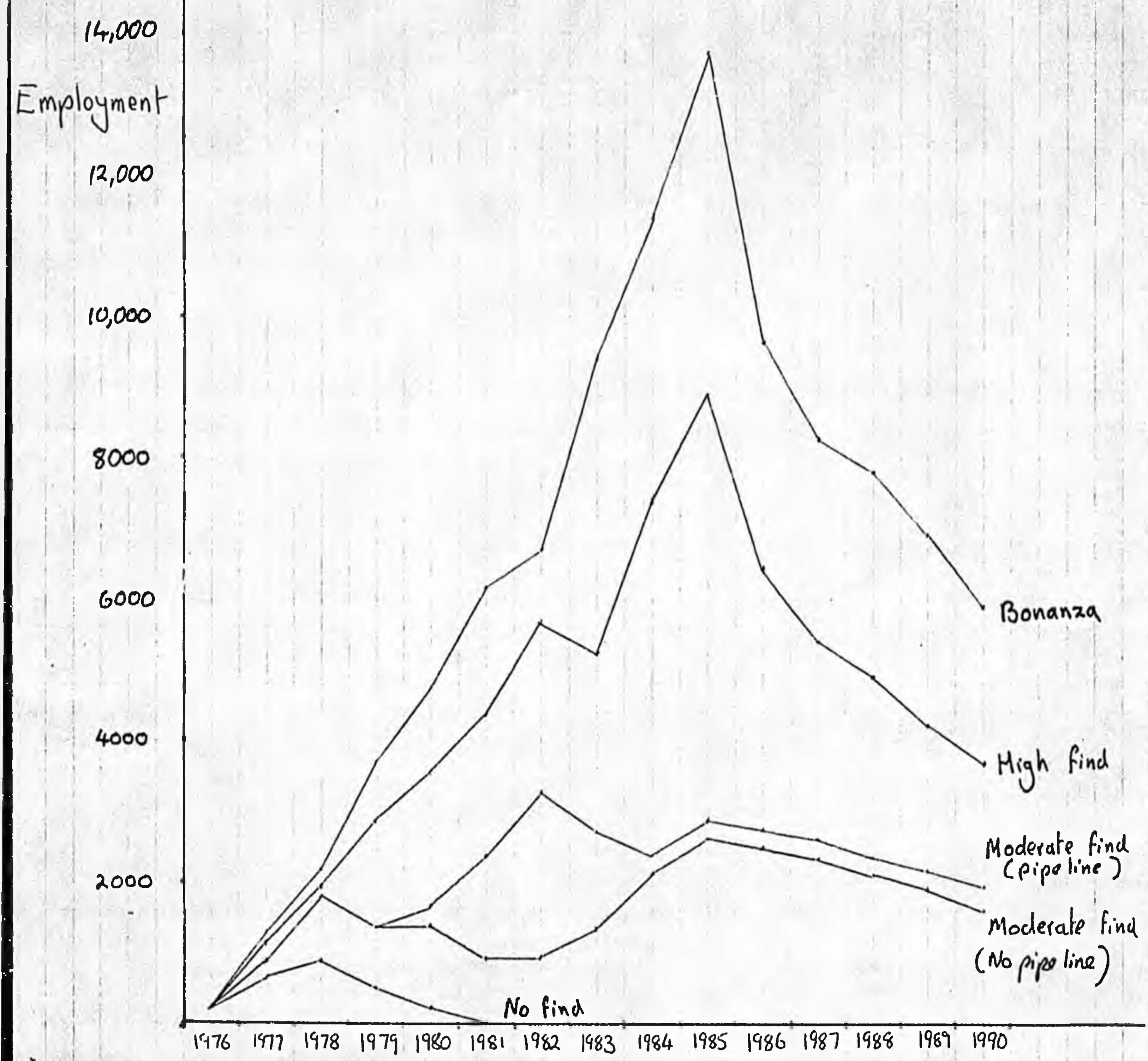
Table 2 Total ~~Import~~ Employment Direct and Indirect - Northern Gulf

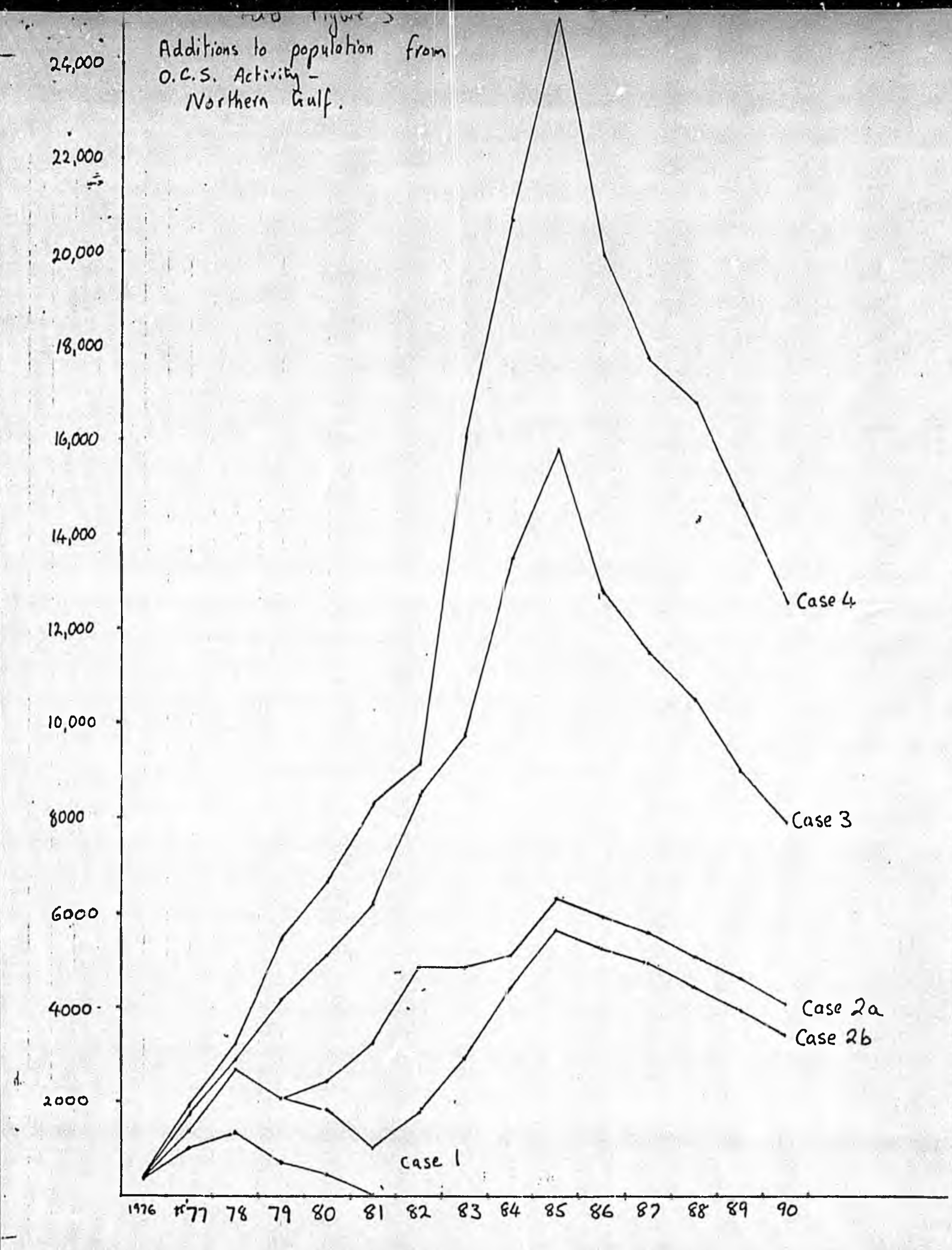
5 bil. bbl.

Year	No Find			Moderate Find ~~2a~~ Pipeline onshore storage			Moderate Find ~~2b~~ S.B.M loading from offshore buoy			High ~~3~~ Find			Bonanza ~~4~~			
	On	Off	Tot	On	Off	Tot	On	Off	Tot	On	Off	Tot	On	Off	Tot.	
76	84	156	240	84	156	240	84	156	240	84	156	240	84	156	240	
77	204	466	670	285	621	906	285	621	906	346	777	1123	484	777	1261	
78	285	621	906	548	1242	1790	548	1242	1790	658	1242	1900	884	1271	2155	
79	166	311	477	405	961	1366	405	961	1366	1081	1762	2843	1346	2331	3677	
80	84	156	240	708	961	1669	405	961	1366	1369	2171	3540	2414	2331	4745	
81				1375	1011	2386	285	621	906	2064	2311	4375	3719	2421	6140	
82				2034	1208	3242	315	638	953	3409	2296	5705	3536	3145	6681	
83				1233	1458	2691	465	888	1353	2555	2663	5218	5105	4280	9385	
84				968	1392	2360	668	1392	2060	3515	3833	7348	6023	5359	11,382	
85				1148	1775	2923	848	1775	2623	4933	3966	8899	7910	5828	13,728	
86				1118	1621	2739	818	1621	2439	3085	3316	6401	4845	4777	9,622	
87				1065	1534	2599	765	1534	2299	2280	3069	5349	3645	4603	8,248	
88				1005	1364	2369	705	1364	2069	2160	2727	4887	3525	4278	7,803	
89				945	1193	2138	645	1193	1838	1958	2215	4173	3340	3578	6,918	
90				863	1022	1885	563	1022	1585	1815	1856	3671	2978	2862	5,840	

Figure 1

Total Employment, Direct and Indirect Northern Gulf.





Additions to population from O.C.S. Activity - Northern Gulf.
24,000
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8000
6000
4000
2000
1976
77
78
79
80
81
82
83
84
85
86
87
88
89
90
Case 4
Case 3
Case 2a
Case 2b
Case 1

Table 4

Total Additional Population Northern Gulf

Year	No 1			2a			2b			3			4		
	On	Off	Total	On	Off	Total	On	Off	Total	On	Off	Total	On	Off	Total
1976	181	189	370	181	189	370	181	189	370	181	189	370	181	189	370
1977	439	565	1004	613	753	1366	613	753	1366	744	943	1687	910	943	1853
1978	613	753	1366	1178	1507	2685	1178	1507	2685	1298	1507	2805	1639	1569	3208
1979	357	378	738	871	1193	2064	871	1193	2064	1975	2188	4163	2450	2950	5400
1980	181	189	370	1235	1193	2428	871	940	1811	2361	2751	5112	3675	2968	6,643
1981				1964	1276	3240	613	374	987	3040	3136	6176	5148	3,136	8,284
1982				2806	2008	4814	677	1099	1776	4650	3830	8480	4227	4959	9,186
1983				2128	2692	4820	1000	1909	2909	4328	5409	9737	8050	8,000	16,050
1984				2081	2993	5074	1436	2993	4429	6043	7482	13,525	10,128	10,636	20,764
1985				2468	3816	6284	1823	3816	5639	7693	8084	15,777	12,827	12,087	24,914
1986				2404	3485	5889	1759	3485	5244	5701	7003	12,704	9,163	10,270	19,433
1987				2290	3298	5588	1645	3298	4943	4902	6598	11,500	7,837	9,896	17,733
1988				2161	2933	5094	1516	2933	4439	4644	5863	10,507	7,579	9,198	16,777
1989				2032	2565	4597	1387	2565	3952	4210	4762	8,972	6,966	7,693	14,659
1990				1855	2197	4052	1210	2197	3407	3902	3990	7,892	6,403	6,153	12,556
					64.5%			60.4%			50.0%			[illegible]%	

March 15, 1977

TO: LISA
FROM: JUDITH

RE: Income Tax of OCS drilling rig employees

Transcript - Verbatim 3/7/77

Ose: "These 75 or whatever, that are being brought up then, the only revenue is through income tax?"

Matthews: "That's right, because they don't live in the state and they don't place any demand or services on the state".

Kelly: "Why are we receiving income tax on these people, I don't think we are, are we?"

Matthews: "It depends on how their residency is established with the company. If they are working for a company that is established and franchised with the State of Alaska, and they're paid out of Alaska, then essentially a portion of their income is subject to Alaskan taxation."

Kelly: "Is the Alaska Star subject to Alaska taxation?"

Matthews: "Yes sir, being it's maintained and operated by a company called North-Star Drilling Company in Anchorage."

I spoke with Mike McCormick, Chief, Audit Services, Department of Revenue and between corporate and individual taxation. The company has a legal obligation to withhold taxes on employees who are residents of the state. The state can tax individuals who are non-residents for income earned within the state. The state has no legal jurisdiction to tax income earned outside of the state.

Charles Prokop of Exxon, testimony before the Council on Environmental Quality, September 26-27, 1973:

"As production grows it would become necessary to have more and more personnel 'on location' until within a year or so a sizable community would develop near the producing area. If we keep our assumption of 200,000 B/D production as an example area, we could expect approximately 20 modest size business buildings, and two small hotels for temporary personnel and approximately 400 homes for the 600 people directly employed. A similar number would be expected to live outside the area in nearby cities with heavy emphasis still on Anchorage.

Of course, new supporting services would grow into the communities to serve the families of the employees, providing new jobs for those not directly associated with the industry. This could produce a community of near 2400 people and the churches, schools, recreation and service buildings accompanying a small population center. Land use would be approximately 6 square miles . . . .

There are several locations on the coastline of the Gulf which would accommodate sizable communities. At present Yakutat and Cordova are the only towns in the area under discussion. Neither is large enough to absorb even a part of the increased population, but either could be enlarged substantially should their positions be strategic. Yakutat would probably be the most ideally located of the two."

OIL INDUSTRY EMPLOYMENT IN SCOTLAND

TABLE 5.6 CHANGES IN OIL INDUSTRY EMPLOYMENT, MARCH 1973–DECEMBER 1974

	Mar. '73	*Jun. '73*	*Sep. '73*	*Dec. '73*	*Mar. '74*	*Jul. '74*	*Oct. '74*	*Dec. '74*
Inverness and Easter Ross	1 840	1 795	2 040	3 205	4 175	4 375	3 520	4 025
Remainder of Highlands and Islands	50	65	50	85	395	930	1 365	1 565
North East	1 410	2 305	2 305[b]	3 730	4 065	4 715	5 495	6 925
Tayside	25	35	95	135	150	280	475	765
East Central[a]	665	770	910	975	1 815	2 530	2 430	2 080
West Central[c]	110	170	250	480	675	785	855	870
Total	4 100	5 140	5 650	8 610	11 275	13 615	14 140	16 230

a. East Central is equivalent to the Firth of Forth region as described in Chapter 6.
b. No fresh figure was published for this quarter, therefore previous total has been carried forward.
c. The figures for West Central Scotland do not include workers engaged in rig construction work in Clyde shipyards, e.g. Marathon, Clydebank. In December 1974 workers in this category numbered 1935.

Source: Department of Employment.

SOURCE: Hutcheson, MacGregor and Hogg, Alexander, <u>Scotland and Oil</u>, 1975, p. 61.

EXHIBIT I

COMPARATIVE EMPLOYMENT DATA

1961-1974

KENAI-COOK INLET LABOR AREA

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	% Increase 1961-1970	% Increase 1961-1974
Total Civilian Work Force	2,512	3,123	3,274	3,318	2,914	3,883	5,415	6,475	6,262	5,560	5,508	5,967	5,748	6,179	121%	146%
Total Employment	2,102	2,664	2,723	2,830	2,510	3,383	4,936	5,892	5,510	4,745	4,594	5,022	4,831	5,375	126%	156%
Total Unemployment	410	459	551	488	404	500	479	583	752	815	914	945	917	970	99%	137%
Non-agricultural wage and salary employment	960	1,284	1,322	1,397	1,754	2,462	3,677	4,470	4,153	3,576	3,454	3,822	4,049	4,487	273%	367%
Mining	155	169	159	179	212	415	915	1,099	966	652	525	528	560	503	321%	225%
Contract Construction	57	94	99	128	259	**	821	1,209	736	354	398	433	343	441	521%	674%
Manufacturing	138	198	236	266	265	258	260	333	482	583	524	553	629	716	322%	419%
Transportation, communications and utilities	90	104	94	107	124	141	306	267	273	293	254	280	296	404	226%	349%
Trade	113	134	152	151	219	303	357	432	528	507	466	502	507	627	349%	455%
Finance, insurance and real estate	27	34	44	**	**	**	**	**	**	**	**	79	81	90	**	233%
Services	86	154	135	**	180	263	334	401	364	339	338	446	596	671	294%	680%
Miscellaneous	*	*	*	*	**	**	**	**	*	**	**	55	90	88	**	*
Government	294	397	403	380	445	595	611	641	70	751	873	946	947	947	155%	222%

*Services and miscellaneous aggregated

**Withheld to comply with disclosure regulations

SUGGESTION FOR LEGISLATION...

Establish, in the department of community and regional affairs, an OCS assistance fund.

Authorized appropriations could not exceed 2% of the estimate of taxes payable by industry to the state (exclusive of municipal share) under AS 43.56: for FY 78, that appears to be an authorized appropriation of $ 3.2 - $ 3.4 million. In later years, that would rise, on an annual basis, to $ 4.0 - $ 4.5 million, corresponding, through the time, with intensive development of onshore OCS support facilities.

After allowing small amount for departmental administration, the balance available would serve as a source of grants and loans.

Up to one-half of the annual appropriation could go for grants: these would be for "non-capital" costs, i.e. internal administration, local government employee hire, planning and implementation of comprehensive plan, etc. The balance would be available by way of loan to local governments for planning and construction of capital improvements and for vehicle and equipment purchase (fire trucks or whatever). Repayment of the loan portion would be predicated on the assumption that, when industry development of facilities in the town blossomed, the development would add enough to the tax base of the municipality taxable under the local government authority ($ 1500 per capita under AS 29.53 and AS 43.56) to permit repayment on reasonable terms.

Loans could be forgiven if the development of facilities in the community did not occur as anticipated and the commissioner thought that enforced repayment would work a hardship. Loan forgiveness requests would have to be submitted to the Legislature for non-disapproval.

Automatically terminate the authority to grant and loan (but not the continuing obligation to repay) in seven years; if the program worked well, the Legislature could remove that provision at a later date.

Oil companies would pay no additional front end tax. The state would extend assistance on the assumption that oil development support facilities would be covered by the 20 mill special property tax levy against the property when the facility finds its way on to the tax rolls. Repayment of loan portion would be from the increase in assessed value of taxable property located in the community by the OCS development.

Assure that no portion of the funding were withheld for internal state government use: the needs are "out there"; the Department's past practices have convinced some of the House Republicans that too much of the available federal support is being held back at the state level.

This is an update of the 1974 $ 10,000,000 "pipeline impact" program, with lesser amount of funding annually, spread over the period in which OCS development may be reasonably anticipated, with emphasis on repayment where possible (i.e. capital project support in communities having real possibility of expanded property tax base). Some additional state front end money now by way of grant should assist local governments qualify for federal grant, loan and bond guarantee support. Also, if SB 220 flies, the grants could go toward implementation of planning obligations and opportunities of local governments under it.

WORK DRAFT COPY WORK DRAFT COPY WORK DRAFT COPY

Original sponsor: (((must be on all CS's)))

BY ______________________

____

____

IN THE HOUSE / SENATE

__________ BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act establishing in the Department of Community and Regional Affairs an Outer Continental Shelf Financial Assistance Fund; and providing for an effective date."

"

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. LEGISLATIVE FINDINGS AND PURPOSE. (a) The Legislature finds that activities which occur in the waters of the Outer Continental Shelf adjacent to the territorial waters of the state require the construction of support facilities in onshore areas of the state contiguous to the projects; that the siting, planning, construction and operation of new or expanded onshore facilities and activities associated with supply of outer continental shelf projects involve demands for public facilities and services which, initially, are beyond the ability of local governments to meet; that ~~there/exists~~ Congress has responded to the need to make available financial support and assistance to states and local governments affected, but that the nature of the Congressional response suggests direct assistance to Alaska communities to improve their eligibility for and capacity to use that assistance; that the contribution of revenues from industry by way of taxes and fees due local governments will occur, ~~but/at/a/date/later~~ principally through the recoupment of taxes levied

and collected from the petroleum industry under AS 43.56, but that ~~the~~ collection of the tax by units of local government will occur only after the ~~commitment of~~ inclusion of real and personal property on assessment rolls. ~~and there exists~~

(b) It is the purpose of this Act to provide a mechanism by which municipalities may be provided loans and grants to plan for and improve the delivery of public services and to determine the need for and initiate development of necessary public facilities ~~services~~ prior to the advent of significant ~~development~~ activity within the municipality attributable to the support of outer continental shelf facilities and projects.

* Sec. 2. AS 44.47 is amended by adding new sections to read:

ARTICLE . OUTER CONTINENTAL SHELF FINANCIAL ASSISTANCE.

Sec. 44.47.350. OUTER CONTINENTAL SHELF ASSISTANCE FUND. There is in the Department of Community and Regional Affairs the Outer Continental Shelf Assistance Fund to carry out the purposes of secs. 360- 400 of this chapter. The fund may be used for no other purpose.

Sec. 44.47.360. POWERS AND DUTIES OF THE DEPARTMENT IN ADMINISTRATION OF THE FUND. (a) The Department shall

(1) make grants to municipalities for

(A) preparation and completion of comprehensive plans;

(B) implementation of comprehensive plans, whether or not prepared utilizing grants awarded under (A) of this paragraph, including, but not limited to, the adoption and enforcement of zoning and other land use controls reasonably related to shore facilities siting;

(C) municipal administration, including the exercise of general government powers authorized under AS 29.48.

(D) the acquisition of real property, or interests in real property, reasonably necessary to assure the implementation of a comprehensive plan adopted by the municipality; grants under this subparagraph are limited to the acquisition of real property in furtherance of concentration of outer continental shelf supply facilities within areas designated by the municipality in its comprehensive plan for industrial or related development and to the acquisition of necessary open space, park lands, watershed protection areas, or outdoor recreational facilities.

(2) make loans to municipalities for

(A) planning and construction of public facilities, whether or not the facilities ~~are~~ to be constructed are to be financed by direct municipal appropriation, general obligation bonds, loan or grant, and whether or not the completion of the facility contemplates use of bond guarantees available from an agency or instrumentality of the federal government under the Coastal Zone Management Act amendments of 1976;

(B) the purchase of vehicles and equipment reasonably necessary for the municipality to improve public safety and [illegible] services.

(b) The Department shall adopt regulations to implement administration of this section.

Sec. 44.47.370. LIMITATIONS. (a) Grants and loans provided under sec. 360 of this chapter may not be used to reduce current municipal tax rates or to retire existing municipal bonded indebtedness.

(b) Grants made under sec. 360(a)(1) of this chapter may not exceed, annually, one-half of the total amount appropriated by the Legislature to the fund for a fiscal year.

(c) No loan may be made under ~~this~~ sec. 360(a)(2) of this chapter unless the commissioner is satisfied that the money is not otherwise available to the municipality.

Sec. 44.47.380. LOAN INDEBTEDNESS. (a) No interest may be charged on a loan to a municipality approved by the commissioner under ~~this~~ sec. 360(a)(2) of this chapter.

(b) ~~The commit~~ A loan approved by the commissioner shall be repaid by the municipality within 10 years of the first inclusion of ~~property~~ outer continental shelf support facilities within the municipality subject to levy of the tax imposed by AS 43.56 on the assessment rolls prepared by the department of revenue or within 10 years of approval of the loan by the commissioner, whichever is later.

Sec. 44.47.390. LOAN FORGIVENESS. A municipality which has received a loan under ~~this~~ sec. 360(a)(2) of this chapter may ~~also~~ apply to the commissioner for forgiveness of a [redacted] loan, or any portion of the balance due. The commissioner may recommend that the loan be forgiven if he reasonably believes that the development of outer continental shelf support facilities within the municipality subject to the tax levied by AS 43.56 will not occur to the degree contemplated at the time the loan was approved and that repayment of the loan, or the remaining balance of the loan, would work a hardship on residents of the municipality. [redacted] A recommendation of forgiveness by the commissioner shall be presented to the legislature within the first ten days of a regular legislative session. A loan recommended for forgiveness by the commissioner shall be forgiven if, at the end of the legislative session in which a recommendation is presented, the Legislature has not adopted a concurrent resolution disapproving of forgiveness of the loan.

Sec. 44.47.400. FUND BALANCE. The legislature is authorized to appropriate annually to the fund established in sec. 350 of this chapter an amount not to exceed 2 per cent of the estimated receipts of taxes levied under AS 43.56 and returned to the state for inclusion in the general

* Estimated for FY 78: $3.3 million

*

fund for the fiscal year.

* Sec. 3. [redacted] This Act expires June 30, 1984.

* Sec. 4. This Act takes effect July 1, 1977.

March 15, 1977

TO: LISA
FROM: JUDITH

RE: Income Tax of OCS drilling rig employees

Transcript - Verbatim 3/7/77

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STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

DIVISION OF LOCAL GOVERNMENT ASSISTANCE

POUCH B – JUNEAU 99811

March 4, 1977

Mayors of Coastal Municipalities:

Yesterday, I received a phone call from Chuck Cohen; who, as you know, is our representative in Washington D.C., with responsibility for doing research and technical analyses of the new Coastal Energy Impact Program. Chuck advised me that a supplemental appropriation for FY '77, as prepared by President Ford and amended by President Carter, and a budget for FY '78, have been presented to the Congress in the following amounts:

FY '77- $10 million - Formula Grants
$110 million - Facilities Loans
$0.00 - Planning
$0.00 - Environmental or Recreational Grants

FY '78- $13 million - Formula Grants
$143 million - Facilities Loans
$0.00 - Planning
$0.00 - Environmental or Recreational Grants

From the proposed appropriations the federal Office of Coastal Zone Management has tentatively proposed to allocate to the State of Alaska and its municipalities the following amounts:

FY '77 (Supplemental)
$700,000 - Formula Grants
$31,900,000 - Facilities Loans
$0.00 - Planning
$0.00 - Enviromental or Recreational Grants

FY '78 (Budget)
$3,200,000. - Formula Grants
$68,600,000. - Facilities Loans
$0.00 - Planning
$0.00 - Enviromental or Recreational Grants

The most obvious omission from the proposed budgetary figures, in our view point, is the lack of appropriations for planning which would ordinarily precede application for facilities loans or formula grants. In other words, it appears the federal administration is putting the "cart before the horse" by providing funding for facilities without any funding being provided for necessary planning. Therefore, this date, Kevin Waring, Director of Community Planning, is preparing a draft of a letter for Governor Hammond's signature to members of our congressional delegation in Washington strongly urging that they amend the proposed FY '77 supplemental and FY '78 budget figures to include funds for planning. By way of this letter we encourage each of you to likewise send letters or telegrams to members of the Alaska Congressional Delegation in Washington, expressing your concern for the need for funding of planning under the C.E.I.P. As in the past, we would appreciate receiving a carbon copy of any correspondence you might send to the congressional delegation. As we understand it, the supplemental appropriation bill and the FY' 78 budget are now in Congressional committees. It is imperative that, if you propose to make your wishes known to the Congressional Delegation, letters or telegrams be sent A.S.A.P.

One week ago today, the Coastal Management Policy Committee of Governor Hammond's Administration, authorized the Department of Community and Regional Affairs to take the lead in the development of the intrastate allocation formula process as provided for in the federal regulations which implement the C.E.I.P. I had earlier requested that Chuck Cohen prepare a draft intrastate allocation formula for our consideration and I expect to receive that first draft sometime next week. Also, while in Fairbanks this coming week Kevin Waring will meet with representatives of the Institute of Social and Economic Research at the University of Alaska, to see if the Institute is willing to also draft a formula for the proposed intrastate allocation. We will be contacting you in the very near future with our proposal. Any finally adopted intrastate allocation formula, as we envision it, will include municipal representation and input regarding the distribution of the federal allocation for formula grants grams and facilities loans made available to the State of Alaska.

We again urge you to contact our congressional delegation in Washington if you share our concern that money should be appropriated for Coastal Energy Impact planning. We also appreciate any comments or concerns you might have as to the manner in which our Department is proceeding in drafting a proposed intrastate allocation formula for the Coastal Energy Impact Program.

Sincerely,

Palmer

Palmer McCarter
Director

cc: City Managers
Don Berry, Alaska Municipal League

McC/pc

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

DIVISION OF COMMUNITY PLANNING

POUCH B – JUNEAU 99811

March 22, 1977

The Honorable Lisa Rudd
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Rudd:

As requested by the House Community and Regional Affairs Committee, this letter summarizes the amount and status of matching grants-in-aid allocated by the Division of Community Planning to local governments for OCS-related planning over the immediate past and current fiscal years.

To date, a total of $590.6 in matching grants has been awarded or reserved for local OCS planning. Grants were funded from the following federal and state program sources:

(A) Federal HUD 701 Comprehensive Planning Assistance Program;
(B) Two federal OCS Supplemental Planning grants the Division obtained through the federal office of Coastal Zone Management;
(c) Federal Economic Development Administration title IX OCS grant for economic adjustment planning; and
(d) State Oil Impact Program.

The following Table identifies the locality, grant amount and status of each local grant.

Locale	Grant Amount	Project Status
HUD 701		
1. City of Cordova	18.0	completed
2. City of Yakutat	24.0	completed
3. City of Yakutat	6.7	completed
4. North Slope Borough	9.0	completed
5. City of Sand Point	15.0	current
	$72.7	

Locale	Grant Amount	Project Status
OCZM/OCS I (Total Grant: $300.0)		
6. Kenai Peninsula Borough	60.0	completed
7. Kenai Peninsula Borough	25.0	pending
8. Kodiak Island Borough	36.0	completed
9. Kodiak Island Borough	12.0	current
10. Alaska Native Foundation	18.0	completed
	$151.0	
OCZM/OCS II (Total Grant: $250.0)		
11. North Slope Borough	40.0	pending
12. Unalaska	25.0	current
13. Kodiak Island Borough	50.0	current
	$115.0	
EDA Title IX (Total Grant: $300.0)		
14. Kodiak Island Borough	45.0	current
15. City of Seward	30.0	current
16. Cities of Kenai-Soldotna	30.0	pending
17. Cities of Homer-Seldovia	30.0	pending
18. City of Yakutat	33.0	current
19. City of Cordova	30.0	pending
	$198.0	
State Oil Impact Grant Program		
20. City of Yakutat	$53.9	completed

The OCZM/OCS Supplemental Grants and the EDA Title IX Grant represent new federal grant program funds which were obtained at the initiative of the Division of Community Planning to help local governments underwrite the cost of much-needed OCS impact planning. Of course, since all these federal programs require local matching contributions ranging from one-half to one-fourth of the grant amount, employment of these federal grant funds by local governments still means that substantial outlays of local funds are necessary. This has placed a serious financial squeeze on those local governments with small tax bases (e.g., Yakutat) or high mil rates (e.g., Seward at 25.0 mils) and has unfortunately hampered their ability to take quick advantage of matching grant funds available through the Division.

To summarize, better than half of the federal funds ($464.0 out $850.0) obtained by the Division specifically for OCS planning over these two years has been allocated to local agencies for locally sponsored projects. The bulk of the remainder has been allocated either to other State agency projects uniquely the responsibility of the State (e.g., drafting of Department of Environmental Conservation's oil tanker traffic regulations, Department of Highways' Gulf of Alaska regional transportation planning) or to special planning projects of common benefit to local and state governments alike (e.g., Marine Service Base

Study; Employment Forecast Model; OCS Bibliography; Management of OCS-Related Industrial Development Handbook). In my judgment, it is more sensible and economical to undertake this latter type of studies once under State sponsorship for universal use and reference, than to have them undertaken time and again by each separate local government.

I will be glad to provide any additional information on these matters that the Committee may request.

Sincerely,

Kevin Waring

Kevin Waring
Director