

Leg. Finance-House & Senate Finance Comte Files (1991-1992) 876

WALTER J. HICKEL
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 3, 1991

The Honorable Richard I. Eliason
President of the Senate
P.O. Box V
Juneau, AK 99811

236

Dear President Eliason:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill appropriating the surplus general fund revenue remaining at the end of fiscal year 1991 to the Alaska debt retirement fund. This bill is one of three legislative measures that make up my Alaska debt retirement fund proposal; the others, which accompany this bill, are a bill statutorily establishing the fund and a proposed constitutional amendment establishing the fund in the Constitution.

The objectives of the Alaska debt retirement fund are discussed in detail in the transmittal letter accompanying the bill mentioned above. Briefly, the fund has two purposes: first, to set aside part of this year's surplus revenue to help pay Alaska's future general obligation debt service and municipal school debt reimbursement; and second, to establish a long-term source of revenue to pay for debt service and to fund capital projects that will broaden Alaska's economic base.

This appropriation bill would reserve the fiscal year 1991 surplus revenue for the long-term benefit of all Alaskans. This revenue surplus is expected to be a one-time event. With the declining production at Prudhoe Bay, we must commit to retiring our debt and building a broader, value-added economy. The Alaska debt retirement fund will serve that purpose. The bill would also repeal a pending appropriation of the fiscal year 1991 general fund surplus to the statutory budget reserve fund (AS 37.05.540). I believe that a redesignation of the purpose of the appropriation will bring more lasting benefits to the state and its political subdivisions than the same money would provide in a general reserve fund.

I urge your support for this appropriation bill.

Sincerely,

A handwritten signature in cursive script that reads "Walter J. Hickel".

Walter J. Hickel
Governor

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Proposed Technical Amendment to SB 236

On line 4, delete the words "available for appropriation."

The purpose of the amendment is to make the wording of the bill consistent with the terminology now used by the Department of Administration.

Proposed Amendment to SB 235

On page 2, lines 4-5, and page 3, lines 28-29, amend (3) to read:

- (3) if the payments authorized in (1) and (2) of this subsection are satisfied to the extent required by law, the remaining balance of the fund may be appropriated to finance the design and construction of capital projects.

The purpose of the amendment is to clarify the intent that general obligation debt service and municipal school debt reimbursement are to be fully funded from the debt retirement fund before any remaining balance may be appropriated for capital projects.

WALTER J. HICKEL
GOVERNOR



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A handwritten signature in cursive script that reads "Walter J. Hickel".
Walter J. Hickel
Governor

SB 238

() USE COMMITTEE REPORT

(11)

Date Referred: May 17, 1991

FURTHER REFERRALS:

Date of Committee Action: 5/19/91

The FINANCE Committee considered:

CSSB 238(FIN)

CS FOR SENATE BILL NO. 238 (FINANCE)

RURAL DEVELOPMENT INITIATIVE FUND

"An Act relating to the rural development initiative program."

RECOMMENDATIONS:

be replaced with _____ the same title

a new title

have attached amendments(s)

do pass

do not pass

no recommendations

individual recommendations

additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

fiscal impact _____

fiscal note(s) DEPT 5/19/91

zero fiscal note _____

zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
Eileen P. Maclean <i>Maclean</i>	<input checked="" type="checkbox"/>				
Boyer					
Tau Brown <i>Brown</i>	<input checked="" type="checkbox"/>				
Koponen					
JACKO	<input checked="" type="checkbox"/>				
Barnes	<input checked="" type="checkbox"/>				
Sharp	<input checked="" type="checkbox"/>				
Phillips	<input checked="" type="checkbox"/>				
Wasson	<input checked="" type="checkbox"/>				
Wm	<input checked="" type="checkbox"/>				
NAVAVE	<input checked="" type="checkbox"/>				

Mike Navarre *E P Maclean*
CHAIRMAN'S SIGNATURE

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 238

Revision Date: 5/13/91 Department Affected: Dept. Community & Regional Aff
 Title: RURAL DEVELOPMENT INITIATIVE PROGRAM BRU: EMPLOYMENT/TRAINING/RURAL DEVELOPMENT
 Component: COMMUNITY DEVELOPMENT ASSISTANCE
 Sponsor: SENATORS ADAMS & HOFFMAN
 Requestor: _____ COMPONENT SERIAL NO.

1	1	7	9
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	1,000.0	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER			47.3	236.2	236.2	283.5
TOTAL	1,000.0	-0-	47.3	236.2	236.2	283.5

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.) See attached.

Prepared By: Remond Henderson, Director Phone: 465-4708
 Division: Administrative Services Date: May 13, 1991
 Approved by Commissioner: Edgar Blatchford
 Agency: Department of Community and Regional Affairs Date: 5/13/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

This fiscal note supercedes a prior note - provided for HB 256, and SB 238. HB 256 was a companion measure introduced in the House. HB 256 was linked, fiscally, to HB 222 insofar as the bill appropriated \$10 million to capitalize the REDIF. With the demise of HB 222 the prior fiscal note for HB 256 and SB 238 is moot. The funding source and level for SB 238 is unknown at this time and, therefore, the fiscal note is reduced. (see position paper).

The one million dollars is included as a contribution to the REDIF as a funding source. The one million dollars is identified in the Governor's FY92 capital budget for rural development grants and is one of the Hickel Administration's priorities. but currently it is not reflected in the Senate's Capital budget. Therefore, we have requested that level of funding for this bill.

The zero operating budget for the REDIF is justified by the capacity of our existing RDF operations system to absorb this small amount of funds.

Finally, the "other" sources of revenue reflect an estimate of income from loans made with the one million dollars.

CS FOR SENATE BILL NO. 238 (FINANCE)
 IN THE LEGISLATURE OF THE STATE OF ALASKA
 SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Offered: 5/15/91
 Referred: Finance

Sponsor(s): SENATORS ADAMS, Hoffman

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the rural development initiative program."

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

3 * Section 1. AS 44.47 is amended by adding new sections to read:

4 ARTICLE 11A. RURAL DEVELOPMENT INITIATIVE PROGRAM.

5 Sec. 44.47.300. RURAL DEVELOPMENT INITIATIVE FUND. (a) The rural
 6 development initiative fund is created in the department. Unless provided otherwise in the
 7 appropriation act, an appropriation to the fund is retained in the fund for use under
 8 AS 44.47.800 - 44.47.820 and does not lapse at the end of a fiscal year. Each year the
 9 commissioner shall request an appropriation to the fund of interest and other income earned on
 10 loans or investments of the fund. Money in the fund may be appropriated for costs of
 11 administering AS 44.47.800 - 44.47.820.

12 (b) The commissioner may place money from the fund into a special reserve account as
 13 necessary. The commissioner may use money in the account to protect the state's security
 14 interest in collateral on loans made from the fund, to protect the state's interests in investments

1 made from the fund, or to defray expenses incurred during foreclosure or other legal proceedings
2 involving loans or investments made from the fund.

3 (c) The commissioner may use money from the fund to provide for loan information
4 officers under AS 44.47.155.

5 Sec. 44.47.810. RURAL DEVELOPMENT LOANS. (a) The department may use
6 money from the rural development initiative fund to make a loan of up to \$100,000 to a person,
7 or a loan of up to \$200,000 to two or more persons, to be used for working capital, equipment,
8 construction, or other commercial purposes by a business located in a community with a
9 population of 5,000 or less. A person who has received a loan under this subsection may not be
10 granted another loan until after the original loan is entirely repaid.

11 (b) The department shall require collateral for each loan made under this section and
12 shall require that a reasonable amount of money from other nonstate sources be committed for
13 use on any project or enterprise for which money from a loan will be used. The department by
14 regulation may establish other conditions for loans. The department shall by regulation establish
15 rates of interest that are not less than six percent per year and terms of repayment for loans made
16 under this section.

17 Sec. 44.47.820. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR
18 FORECLOSURE. The department shall dispose of property acquired through default or
19 foreclosure of a loan made from the rural development initiative fund. Disposal shall be made
20 in a manner that serves the best interests of the state, and may include the amortization of
21 payments over a period of years. The commissioner shall request an appropriation to the fund
22 of proceeds from disposal of property under this section.

Alaska State Legislature

Al Adams
District L

WHILE IN SESSION
P.O. Box V
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OUT OF SESSION
P.O. Box 333
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3111 C Street
Anchorage, Alaska 99503
(907) 561-7622

Official Business

May 16, 1991

TO: Representative Navarre, Co-Chair
Representative MacLean, Co-Chair
House Finance Committee

FROM: Sen. Adams *APA*

RE: Hearing for SB 238

Please schedule SB 238: An Act relating to the rural development initiative program, at your earliest convenience.

Attached is a "white paper" from the Department of Community and Regional Affairs on how they envision this loan program working.

As you know, a major roadblock to rural economic development is access to capital. This bill would allow the department to make loans to be used for working capital, equipment, construction, or other commercial purposes for businesses in communities with populations of 5000 or less.

This bill addresses a missing link in our rural economic development program. I believe we need to take action on this proposal this session.

I appreciate your attention to this matter.

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

- P.O. BOX B
JUNEAU, ALASKA 99811-2100
PHONE: (907) 465-4700
- 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
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May 13, 1991

POSITION PAPER

RE: SB 238

Sponsor: Adams, Hoffman

Program Effects on Bill:

Under current law, the Department is directed to promote development of rural areas of the state and is authorized to "... formulate a coordinated program to broaden and diversify the economic base of rural areas;" (Ch. 47, Article 3)

The Department currently administers a Revolving Development Fund (RDF) under the Rural Economic Development Initiative (REDI) program.

The RDF is capitalized with Federal Community Development Block Grant (CDBG) receipts. A pilot program, the RDF has proven the utility of a rural financing program, but has also highlighted the need for additional, more-flexible monies to be directed towards this program. The federal monies only allow the Department to address certain limited types of opportunities.

The impact of SB 238 shall be to structure and implement a state-funded development program.

If SB 238 is passed, DCRA staff shall expend a minimum of six months to prepare regulations for public review. These regulations are expected to be extensive, requiring the review and input from numerous agencies, rural business persons, banks, and the general public. Once developed, the regulations will be subject to a public hearing process and possible revision.

A one million dollar fiscal note is appended which will provide some initial capitalization of the fund once the regulations are adopted. This one million dollars is reflected within the Governor's FY92 Capital Budget request and is one of the Hickel Administration's priorities, but currently is not reflected in the Senate Capital Budget plan.

This fiscal note assumes that existing staff can manage the development, design, and initial implementation of the regulations.

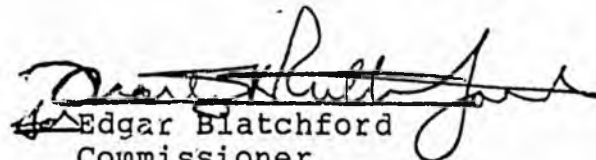
May 13, 1991
Position Paper
SB 238
Page Two

The existing staff structure utilized for the CDBG RDF program may be used initially to support the program.

Comments:

The Department strongly supports passage of the bill. Our experience has shown that there is considerable interest in and need for rural loans. However, the current funding source (CDBG) contains many restrictions and is highly bureaucratic.

The presence of state dollars can eliminate two important restrictions. Namely, the current requirement that the RDF loan must go through a municipality; and second, that the RDF loan is limited to second class cities or municipalities.


Edgar Blatchford
Commissioner

SB 238: AN INITIATIVE OF HOPE
A perspective provided by the
Department of Community and Regional Affairs
Rural Development Division

BACKGROUND: *SB 238 proposes to establish a Rural Development Initiative Fund (REDIF) within the Department of Community and Regional Affairs. This document constitutes a "White Paper" by DCRA staff to explain various sections contained in the legislation well as synopsise a proposed structure for the REDIF.*

In the early 1980's, the Alaskan banking system was awash with cash, and in an expansionist mode. Competition among banks led to increases in services in rural Alaska. Alaska National Bank of the North, United Bank of Alaska, and National Bank of Alaska expanded into rural Alaska. The economic contraction in the mid-80's led to the failure of the most aggressive banks due primarily to the collapsed value of their urban portfolios. Former bank officials for both UBA and ANB contend that the rural portfolios of the two banks were among their most reliable performers. The strength of rural investment is reflected in the relative performances of the housing loan portfolios of AHFC compared with those of the primarily rural DCRA HAD program. When AHFC was faced with huge defaults in the late 1980's, mostly from urban and suburban markets -- into the low double digits -- the HAD portfolio, primarily rural, performed with a default rate under 5%.

Generally it is the case that rural borrowers are lifelong Alaskans with extensive family ties within the state. Such clients are not likely to walk away from a debt. With proper underwriting and servicing of the deal, including the "hometown banker" approach to technical assistance to the client, a rural Alaskan investment can be as solid as any around.

Yet during the Governor's Conference on Small Business, particularly in the rural areas, one of the greatest needs identified was access to capital.

The Department of Community and Regional Affairs currently administers a gap financing program funded with federal Block Grant dollars called the "Rural Development Fund" (RDF) as part of its REDI menu of programs. In the first 9 months of start-up, the program has provided nearly \$400,000 in financing and leveraged over a million dollars for rural and small city entrepreneurs. The Department of Commerce has also been managing a loan program with federal dollars and while DCRA has been aggressively marketing its program, both agencies face the same fundamental constraints in the use of federal dollars.

Nevertheless, the RDF and the Small Business Development Loan program remain two of the few financing sources available to rural businesses.

There is no "equity investment" program currently available to rural Alaskan businesses. If debt capital is scarce in rural Alaska, "seed capital" is non-existent.

In other states, models have been developed for equity investment facilities from the Small Business Administration's SBIC/MSBIC (Small/Minority Business Investment Corporation) program to the Michigan Strategic Fund's BIDCO (Business and Industrial Development Corporation) to Arkansas' "Good Faith Fund".

HB 256 AND SB 238--Commentary
Page 2

PART I: COMMENTARY

A. SECTION 44.47.800 subsection (b) "...The commissioner may place money from the fund into a special reserve account as necessary..."

This part is included to permit the fund to operate in case of loss. This reserve account will be interest-bearing. The interest from the account should revolve back into the principal of the fund. An initial cap for reserves should probably be 30% of loans and investment outstanding. When a track record for the fund is established, the reserves will be reduced to match actual performance. By the end of the third year of operation, the fund manager should be able to make such an adjustment.

B. SECTION 44.47.800 subsection (c) "...The commissioner may use money from the fund to provide for loan information officers..."

The goal of the REDIF is to achieve self-sufficiency in operations. Past loan programs which failed, did so because they were not designed to be self-financing. The key to success of the REDIF shall be the presence of a strong and effective technical assistance team located in the field offices. The loan information officers will constitute the "front line" of a field operation which will ensure "Deal flow". The staff, together with the Economic Development Specialist, will operate to assist in "portfolio management". Both deal flow and portfolio management are major strategic thrusts within REDIF to help ensure success.

C. SECTION 44.47.810 subsection (a) "...Loan limitations and population cap for eligible communities..."

This section places a limitation of \$100,000 for an individual or \$200,000 for more than one individual per deal. No client who has received one loan is eligible to receive another until the current loan is "entirely repaid". The intent of this part is to ensure that there will be adequate distribution of the limited resources available through the REDIF. The population cap was placed at 5,000 to ensure that rural regional centers would have access to the funding as well as smaller villages. A village microeconomy is not a stand-alone unit. Even subsistence economic activities integrate regional rather than strictly local resources. The cash economic activities of rural Alaska fall together as a "trade area" and not just as a collection of local and statewide units.

The viability of a trade area is determined by the magnitude of "pull" which its regional centers exhibit (T. Nakazawa, et al, 1989). Consequently, it would not be adequate to address rural Alaskan Development in terms of the village microeconomy alone but it would be necessary to address expansion and development in the rural regional centers as well.

D. SECTION 44.47.820 "...Investment in Rural Business..."

This section extends the capacity of the REDIF to purchase equity in rural projects. The intent here is to purchase a preferred, non-voting class of stock. Purchase should be linked to securing other elements of REDIF funding or other financing.

HB 256 AND SB 238--Commentary
Page 3

For example, an EDS (or another financial consultant) might package a project which requires equity that is beyond the capacity of the rural business. A bank and, say, the Community Enterprise Development Corporation (CEDC) are participating in the package. The loans, however, cannot be made without equity (say, 20% in the deal). The business is able to come up with 5% equity leaving an equity gap of 15%. The entrepreneur agrees to form a stock corporation. The entrepreneur, with assistance from the Department of Commerce, forms a limited stock corporation and offers the REDIF investment fund an option on stock equal to the equity gap. An investment advisory board established by the commissioner of DCRA to advise staff (see "ADVISORY BOARD", below) approve the investment and the deal is made. Most investments will be small (called "micro-investments") in the magnitude of less than \$10,000. An equity position will only be considered when it secures some form of other financing and all other debt, equity, and grant options have been exhausted.

This section also allows the REDIF to induce private-sector investments in rural projects by underwriting them. For example, the commissioner may periodically issue an RFP requesting proposals from rural partnerships including, typically, a bank and a village corporation. Proposals are then received which identify projects which have merit but are deemed "too risky". The REDIF staff analyze the projects and recommend some to the investment advisory for underwriting. When the board agrees, a conditional guarantee will be written against loss. Funds from the REDIF will be set aside in an interest bearing account equal to the guarantee. As the project develops and the risk declines, REDIF will withdraw in favor of private underwriting. Fees will be charged for underwriting which will accrue to the REDIF.

Part II: SB 238 and 256 A Rural Economic Development Initiative Fund (REDIF)
for Alaska

Both the sponsors of the legislation and the DCRA/REDI staff feel that the REDIF should be structured both as a debt and as an investment (equity) facility. The program could be structured as follows. The major strategic thrust of this program may be summarized in a single word: "PARTICIPATION".

Participation refers to the act of joint financing of a project by two or more parties. "Bank participation" is a term used when one or more of those parties is a bank. "Participatory agreement" is a document which establishes the conditions for a party's participation. "Leveraging" refers to the use of equity to attract multiples of other funds into a deal. The objective of the REDIF is to make private investment possible by establishing incentives for participation. This is done in three ways:

- (1.) REDIF subordination of interest in collateral in a loan participation agreement with a bank (filling a collateral gap);
- (2.) REDIF financing equity to ensure the participation of other financing parties (filling an equity gap);
- (3.) the REDIF providing underwriting guarantees for investments in rural Alaska without which such investments cannot be made (filling a surety gap).

HB 256 AND SB 238--Commentary
Page 4

A. Low-Interest Loan Program

This program would complement the Federal funds used to capitalize both the DCRA and the CDBG loan programs. The State dollars will provide new flexibility to that program and allow a better "mix" of funds to generate more deals for Rural Alaskans. With interest and terms comparable to the REDI/RDF program, this program would provide loans to rural businesses for working capital, Machinery and Equipment, construction, leasehold improvement, and site purchase. The program would be both direct and participatory. "Direct Loans" are those made directly by the REDIF to the client and not through an intermediary, such as a local government; "Participatory Loans" are those that involve other lenders and are sometimes made through them.

Loans for enterprises that *help diversify* the local economy will be a priority. For example, a loan made for an enterprise that promotes tourism, small fish processing, added-value timber and wood development, botanicals, or small manufacturing would constitute diversification initiatives and be of high priority. Loans that *provide for community multipliers* will be a priority. For example, a cafe where there is not one, a medical service which will pay for itself, a movie theater where none exists. Another priority for the program will be businesses that *provide for import substitution*. Examples include production of wood planks to supply boardwalks and other local construction, a commercial ammunition reloading business to supply local and regional hunters, a local repair business -- all might be examples of import substitution deals.

B. Good Faith Group Loans

Frequently, borrowers will not have collateral or tangible assets to contribute to the start-up costs of a new business. At times, there are compelling reasons to support the enterprise. For example, if the borrower has good character, necessary skills and is highly motivated; if the enterprise achieves the objectives of the program and there is a demonstrable market niche for a proposed product or service, then there is compelling interest in the EDS and the LIOs in pursuing financing for the business. Such opportunities will occasionally "group" together as they would, say, among middle-Yukon fishermen who know one another well and who may share financing objectives (in this example for small value-added processors).

This component of the REDIF will be patterned after similar programs developed by the Winthrop Rockefeller Foundation in Arkansas and the Shorebank Corporation in Chicago. The good faith fund concept is based upon individuals of good character coming together and, with business planning provided by consultants, securing a line of credit as a syndicate guaranteed by each individual. Although unsecured, the debt that is generated as the credit is "drawn down" becomes the responsibility of the syndicate. If the individual borrower within the syndicate fails to meet his or her obligation, the others in the syndicate lose their credit options until the debt is repaid.

This type of structure has been shown to do several things. First, it creates a solid support base for each business in the syndicate. Second, it tends to diversify resources available to each business as they share market information, equipment, etc. Third, there is a "counter-cycling of down periods" that balances good times and bad times. Fourth, the portfolio of shared liability spreads risk and recovery, which is good for the security of the fund.

HB 256 AND SB 238—A Description**Page 5****C. Entrepreneurship Loans**

These loans would be made in conjunction with the Entrepreneurship Training Program that has been operated for two years in both Bethel and Fairbanks. Approximately 50 rural entrepreneurs have been trained through the Entrepreneur Training Program conducted by both the Yukon Kuskokwim Campus of the University of Alaska in Bethel and the UAF SBDC in Fairbanks, the latter in conjunction with the Tanana Chiefs Conference Employment and Training Program. A six-week intensive course in business management results in certification and a fundable business plan. The candidates for the limited training slots are drawn from among rural entrepreneurs with new or expanding businesses.

The REDIF vision would be to add an actual loan committee review at the end of the training course with funding commitments from the REDIF Entrepreneurial Loan Program contingent upon committee recommendations.

D. Village Corporate Capital Pooling

The loss reserves will help to insure capital pooling agreements between village corporations and other investors. The capital pool would be structured to make private-sector reinvestment into rural communities possible. This program allows the REDIF to induce the private-sector to make investments in rural projects by underwriting those investments. For example, the commissioner may periodically issue an RFP requesting proposals for rural partnerships including, typically, a bank and a village corporation.

Proposals would then be received which identify projects which have merit but are deemed "too risky". The REDIF staff analyze the projects and recommend some to the investment advisory for underwriting. When the board agrees, a conditional guarantee will be written against loss. Funds from the REDIF will be set aside in an interest-bearing account equal to the guarantee. As the project develops and the risk declines, REDIF will withdraw in favor of private underwriting. Fees will be charged for underwriting which will accrue to the REDIF.

E. REDIF Venture Fund

An equity investment component of the REDIF would provide "seed" capital for promising projects. The REDIF venture fund would be based upon the model of the much VenCap Alberta Corporation, a venture capital corporation created with endowments from Alberta's oil royalties. VenCap provides investments that are secured by capital stock in the venture. Owners of the venture will retain first right of refusal on any stock liquidation by REDIF. The REDIF may subordinate its interest in favor of that of a leveraged participant if it is determined by the REDIF Board that there is a "reasonable expectation" that the leveraged capital will enhance the value of REDIF's holdings. Obviously the REDIF venture fund will be looking at "micro" and "mini" projects rather than the larger projects.

HB 256 AND SB 238--A Description
Page 6

A major, but not the only, target here is "technology transfer and application" in the rural marketplace. ALASKA SCIENCE AND TECHNOLOGY - funded research, for instance, has demonstrated some practical technologies that may be applicable in the rural marketplace. Examples are the low-head hydro demonstration project and the aerobic humus toilet that have been shown to be practical for rural areas.

Each investment will seek to achieve a medium-yield present value Rate of Return (IRR) at the end of a specified term.

F. Fund Reserves

A principal reserve will be maintained by a contract fund manager in a secure, liquidable portfolio. This reserve will function both as a loss-reserve and contingency fund. The target return on these reserves should be a medium market rate for securities.

G. REDIF Operating Costs

AS 44.47.155 authorizes the Department to establish rural Loan Information Officers (LIOs). The LIOs would be placed within the Community Development Assistance component of the Community Development BRU to be supervised by the Statewide Economic Development Specialist. Also, these operating funds would be used for costs associated with an investment advisory Board.

SB 238

SENATE FINANCE COMMITTEE REPORT

DATE: 5/10/91

FURTHER:

DATE TURNED INTO OFFICE: 5-14-91

The Finance Committee considered SENATE BILL NO. 238

"An Act relating to the rural development initiative program."

and recommended:

replace with _____ CS SB 238 (FIN)
 or adopt _____ CS _____

same title
 new title
 technical title change (HB only)

attached amendment(s)
 _____ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

ATTACHES NEW FISCAL NOTE(S):

Dept/Date:

fiscal note(s) DCRA 5-13-91 \$1,000.0

APPROVES PREVIOUS:

Dept/Date:

fiscal note(s) _____

zero fiscal note(s) _____

zero fiscal note(s) _____

appropriation-no fiscal note

SIGNING DO PASS:

OTHER RECOMMENDATIONS:

[Handwritten signatures]

[Handwritten signature: Peter G. (NO REC)]

1. *[Signature]* 2. *[Signature]* Do pass
Co-Chairs: Signatures and Recommendations

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 238

Revision Date: 5/13/91 Department Affected: Dept. Community & Regional Aff
 Title: RURAL DEVELOPMENT INITIATIVE PROGRAM BRU: EMPLOYMENT/TRAINING/RURAL DEVELOPMENT
 Component: COMMUNITY DEVELOPMENT ASSISTANCE
 Sponsor: SENATORS ADAMS & HOFFMAN
 Requestor: _____ COMPONENT SERIAL NO.

1	1	7	9
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	1,000.0	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER			47.3	236.2	236.2	283.5
TOTAL	1,000.0	-0-	47.3	236.2	236.2	283.5

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.) See attached.

Changes in CS50238 (Fin) reflect NO FISCAL CHANGE from the original fiscal note. This fiscal note is appropriate.

5-14-91 AD
date Comte Aide (initial)

Prepared By: Remond Henderson, Director

Phone: 465-4708

Division: Administrative Services

Date: May 13, 1991

Approved by Commissioner: Edgar Blatchford

Agency: Department of Community and Regional Affairs

Date: 5/13/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

This fiscal note supercedes a prior note - provided for HB 256, and SB 238. HB 256 was a companion measure introduced in the House. HB 256 was linked, fiscally, to HB 222 insofar as the bill appropriated \$10 million to capitalize the REDIF. With the demise of HB 222 the prior fiscal note for HB 256 and SB 238 is moot. The funding source and level for SB 238 is unknown at this time and, therefore, the fiscal note is reduced. (see position paper).

The one million dollars is included as a contribution to the REDIF as a funding source. The one million dollars is identified in the Governor's FY92 capital budget for rural development grants and is one of the Hickel Administration's priorities, but currently it is not reflected in the Senate's Capital budget. Therefore, we have requested that level of funding for this bill.

The zero operating budget for the REDIF is justified by the capacity of our existing RDF operations system to absorb this small amount of funds.

Finally, the "other" sources of revenue reflect an estimate of income from loans made with the one million dollars.

Final

**CS FOR SENATE BILL NO. 238 (FINANCE)
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - FIRST SESSION**

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): SENATORS ADAMS, Hoffman

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the rural development initiative program."

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

3 * Section 1. AS 44.47 is amended by adding new sections to read:

4 ARTICLE 11A. RURAL DEVELOPMENT INITIATIVE PROGRAM.

5 Sec. 44.47.800. RURAL DEVELOPMENT INITIATIVE FUND. (a) The rural
6 development initiative fund is created in the department. Unless provided otherwise in the
7 appropriation act, an appropriation to the fund is retained in the fund for use under
8 AS 44.47.800 - 44.47.820 and does not lapse at the end of a fiscal year. Each year the
9 commissioner shall request an appropriation to the fund of interest and other income earned on
10 loans or investments of the fund. Money in the fund may be appropriated for costs of
11 administering AS 44.47.800 - 44.47.820.

12 (b) The commissioner may place money from the fund into a special reserve account as
13 necessary. The commissioner may use money in the account to protect the state's security
14 interest in collateral on loans made from the fund, to protect the state's interests in investments

L

1 made from the fund, or to defray expenses incurred during foreclosure or other legal proceedings
2 involving loans or investments made from the fund.

3 (c) The commissioner may use money from the fund to provide for loan information
4 officers under AS 44.47.155.

5 Sec. 44.47.810. RURAL DEVELOPMENT LOANS. ~~(b)~~ The department may use
6 money from the rural development initiative fund to make a loan of up to \$100,000 to a person,
7 or a loan of up to \$200,000 to two or more persons, to be used for working capital, equipment,
8 construction, or other commercial purposes by a business located in a community with a
9 population of 5,000 or less. A person who has received a loan under this subsection may not be
10 granted another loan until after the original loan is entirely repaid.

11 (b) The department shall require collateral for each loan made under this section and
12 shall require that a reasonable amount of money from other nonstate sources be committed for
13 use on any project or enterprise for which money from a loan will be used. The department by
14 regulation may establish other conditions for loans. The department shall by regulation establish
15 rates of interest that are not less than six percent per year and terms of repayment for loans made
16 under this section.

17 Sec. 44.47.820. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR
18 FORECLOSURE. The department shall dispose of property acquired through default or
19 foreclosure of a loan made from the rural development initiative fund. Disposal shall be made
20 in a manner that serves the best interests of the state, and may include the amortization of
21 payments over a period of years. The commissioner shall request an appropriation to the fund
22 of proceeds from disposal of property under this section.

CS FOR SENATE BILL NO. 238 (FINANCE)
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): SENATORS ADAMS, Hoffman

A BILL

FOR AN ACT ENTITLED

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7 or a loan of up to \$200,000 to two or more persons, to be used for working capital, equipment,
8 construction, or other commercial purposes by a business located in a community with a
9 population of 5,000 or less. A person who has received a loan under this subsection may not be
10 granted another loan until after the original loan is entirely repaid.

11 (b) The department shall require collateral for each loan made under this section and
12 shall require that a reasonable amount of money from ^{other non-state} ~~private~~ nongovernmental sources be
13 committed for use on any project or enterprise for which money from a loan will be used. The
14 department by regulation may establish other conditions for loans. The department shall by
15 regulation establish rates of interest that are not less than six percent per year and terms of
16 repayment for loans made under this section.

17 Sec. 44.47.820. DISPOSAL OF PROPERTY ACQUIRED BY DEFAULT OR
18 FORECLOSURE. The department shall dispose of property acquired through default or
19 foreclosure of a loan made from the rural development initiative fund. Disposal shall be made
20 in a manner that serves the best interests of the state, and may include the amortization of
21 payments over a period of years. The commissioner shall request an appropriation to the fund
22 of proceeds from disposal of property under this section.

*delete private non-gov.
to other non-state*

FISCAL NOTE

No. 1

Version: SB 238

(S) Publish Date: 5/10/91

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: _____

Department Affected: Community & Regional Affairs

Title: Rural Development Initiative Program

BRU: Employment/Training/Rural Development

Component: Community Development Assistance

Sponsor: Senators Adams & Hoffman

Requestor: _____

COMPONENT SERIAL NO.

1	1	7	9
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	234,169.31	245,877.77	258,171.65	271,080.23	284,634.24	298,865.9
TRAVEL	53,378.04	50,000.00	50,000.00	50,000.00	50,000.00	50,000.0
CONTRACTUAL	36,000.00	35,000.00	35,000.00	35,000.00	35,000.00	35,000.0
SUPPLIES	3,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.0
EQUIPMENT	12,000.00	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
LAND & STRUCTURES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
GRANTS, CLAIMS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
MISCELLANEOUS	- 0 -	- 0 -	- 0 -			
TOTAL OPERATING	338,547.35	331,877.77	344,171.65	357,080.23	370,634.24	384,865.9

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER	338,547.35	331,877.77	344,171.65	357,080.23	370,634.24	384,865.9
TOTAL						

POSITIONS: *Pending development of a funding source

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)

See attached

Changes in CS SB 238 (CRA) reflect NO FISCAL CHANGE from the original fiscal note. This fiscal note is appropriate.
date 5/9/91 Pick Salie Comte Aide (initial)

Prepared By: Remond Henderson, Director

Phone: 465-4708

Division: Division of Administrative Services

Date: 4/18/91

Approved by Commissioner: Edgar Blatchford

Agency: Community & Regional Affairs

Date: 4/18/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

Position Title LOAN INFORMATION OFFICER		No. of Positions 1	Range / Step 19	Barg. Unit PX
Time Status FULL-TIME	Staff Months 12	Location Nome		Election District L2
TYPE OF EXPENDITURE		Amount	Justification	
Salary	58,186.80		<p>This position will specialize in the Rural Economic Development Initiative Fund (REDIF) program and will provide workshops and disseminate information about the program. The position will function as circuit-riding training and technical assistance resources.</p> <p>The position will provide a critical client service by screening and linking projects with the packaging skills of the Economic Development Specialist (EDS). This position will be the first to encounter a project and will perform a project intake which assesses the project and the character of the potential client. The position will screen the project to determine whether it can be supported and provide assistance as needed. The position will be trained in field operations, basic financial and business analysis, business writing, communication and negotiating skills.</p> <p>The positions will be based in the Department of Community & Regional Affairs' Nome Regional Office serving the Northwestern region and the Kotzebue Sound area.</p>	
Benefits	20,416.51			
Premium Pay	- 0 -			
Other	- 0 -			
Total Personal Services	78,603.31	78,603.31		
Travel		17,700.00		
Contractual		12,000.00		
Commodities		1,000.00		
Equipment		4,000.00		
Other				
Total Cost		113,303.31		
FUNDING SOURCE FOR TOTAL COST				
Federal Receipts	1002			
G.F. Match	1003			
General Fund	1004			
I-A Receipts	1007			
CIP Receipts	1061			
Other		113,303.31		

**Request For
New Position**

AGENCY Community & Regional Affairs
 BRU Employment/Training/Rural Development
 COMPONENT Community Development Assistance

FY 92

Page : 2 of 4
 Revised Date: _____

Position Title LOAN INFORMATION OFFICER		No. of Positions 1	Range / Step 19	Barg. Unit PX
Time Status FULL-TIME	Staff Months 12	Location Dillingham		Election District N3
TYPE OF EXPENDITURE		Amount	Justification	
Salary	55,263.60		<p>This position will specialize in the Rural Economic Development Initiative Fund (REDIF) program and will provide workshops and disseminate information about the program. The position will function as circuit-riding training and technical assistance resources.</p> <p>The position will provide a critical client service by screening and linking projects with the packaging skills of the Economic Development Specialist (EDS). This position will be the first to encounter a project and will perform a project intake which assesses the project and the character of the potential client. The position will screen the project to determine whether it can be supported and provide assistance as needed. The position will be trained in field operations, basic financial and business analysis, business writing, communication and negotiating skills.</p> <p>The positions will be based in the Department of community & Regional Affairs' Dillingham Regional Office serving the Bristol Bay area.</p>	
Benefits	19,628.33			
Premium Pay	- 0 -			
Other	- 0 -			
Total Personal Services	74,891.93	74,891.93		
Travel		17,978.04		
Contractual		12,000.00		
Commodities		1,000.00		
Equipment		4,000.00		
Other				
Total Cost		109,869.97		
FUNDING SOURCE FOR TOTAL COST				
Federal Receipts	1002			
G.F. Match	1003			
General Fund	1004			
I-A Receipts	1007			
CIP Receipts	1061			
Other		109,869.97		

**Request For
New Position**

AGENCY Community & Regional Affairs

BRU Employment/Training/Rural Development

COMPONENT Community Development Assistance

FY 92

Page 3 of 4

Revised Date: _____

Position Title LOAN INFORMATION OFFICER		No. of Positions 1	Range / Step 19	Barg. Unit PX
Time Status FULL-TIME	Staff Months 12	Location Bethel		Election District 114
TYPE OF EXPENDITURE		Amount		
Salary	59,913.00	<p>Justification</p> <p>This position will specialize in the Rural Economic Development Initiative Fund (REDIF) program and will provide workshops and disseminate information about the program. The position will function as circuit-riding training and technical assistance resources.</p> <p>The position will provide a critical client service by screening and linking projects with the packaging skills of the Economic Development Specialist (EDS). This position will be the first to encounter a project and will perform a project intake which assesses the project and the character of the potential client. The position will screen the project to determine whether it can be supported and provide assistance as needed. The position will be trained in field operations, basic financial and business analysis, business writing, communication and negotiating skills.</p> <p>The positions will be based in the Department of Community & Regional Affairs' Bethel Regional Office serving the Southwestern region, including the Yukon-Kuskokwim Delta area.</p>		
Benefits	20,761.07			
Premium Pay	- 0 -			
Other	- 0 -			
Total Personal Services	80,674.07			
Travel	17,700.00			
Contractual	12,000.00			
Commodities	1,000.00			
Equipment	4,000.00			
Other				
Total Cost	115,374.07			
FUNDING SOURCE FOR TOTAL COST				
Federal Receipts	1002			
G.F. Match	1003			
General Fund	1004			
I-A Receipts	1007			
CIP Receipts	1061			
Other		115,374.07		

Request For New Position

AGENCY Community & Regional Affairs

BRU Employment/Training/Rural Development

COMPONENT Community Development Assistance

FY 92

Page 4 of 4

Revised Date: _____

STATE OF ALASKA
1991 LEGISLATIVE SESSION

Revision Date: _____

Department Affected: Community & Regional Affairs

Title: Rural Development Initiative Program

BRU: Administration & Support

Component: Administrative Services

Sponsor: Senators Adams & Hoffman

Requestor: _____

COMPONENT SERIAL NO.

1	1	7	9
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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	49,452.65	51,925.28	54,521.54	57,247.61	60,110.00	63,115.5
TRAVEL	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00
CONTRACTUAL	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00
SUPPLIES	1,000.00	500.00	500.00	500.00	500.00	500.00
EQUIPMENT	3,000.00	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
LAND & STRUCTURES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
GRANTS, CLAIMS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
MISCELLANEOUS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TOTAL OPERATING	57,452.65	56,425.28	59,021.54	61,747.61	64,610.00	67,615.5

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
* OTHER	57,452.65	56,425.28	59,021.54	61,747.61	64,610.00	67,615.5
TOTAL						

POSITIONS: *Pending development of a funding source

FULL-TIME	1	1	1	1	1	1
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)

SEE ATTACHED

Changes in CS SB 238 (CRA)
reflect NO FISCAL CHANGE from the original
fiscal note. This fiscal note is appropriate.

5/9/91 Rick Solie PT.
date Comte Aide (initial)

Prepared By: Raymond Henderson, Director

Phone: 465-4708

Division: Division of Administrative Services

Date: 4/18/91

Approved by Commissioner: [Signature]

Agency: Department of Community & Regional Affairs

Date: 4/18/91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

Position Title ACCOUNTANT II		No. of Positions 1	Range / Step 16	Barg. Unit GGU
Time Status FULL-TIME	Staff Months 12	Location JUNEAU		Election District C1
TYPE OF EXPENDITURE		Amount		
Salary	35,166.60			
Benefits	14,286.05			
Premium Pay	- 0 -			
Other	- 0 -			
Total Personal Services	49,452.65	49,452.65		
Travel		2,000.00		
Contractual		2,000.00		
Commodities		1,000.00		
Equipment		3,000.00		
Other		- 0 -		
Total Cost		57,452.65		
FUNDING SOURCE FOR TOTAL COST				
Federal Receipts	1002			
G.F. Match	1003			
General Fund	1004			
I-A Receipts	1007			
CIP Receipts	1061			
Other		57,452.65		
		<p>Justification</p> <p>This position will be responsible for posting transactions associated with the Rural Economic Development Initiative Fund as well as the monthly reconciliation of of fund activities as recorded in subsidiary ledgers with AKSAS, the state accounting system. This will involve approximately 10 million dollars in funding activities.</p> <p>This position will prepare monthly financial statements to determine the availability of funds for loans and work with the Division of Finance in preparing year end loan receivables and closing adjustments.</p> <p>This position will be based in the Department of Community & Regional Affairs, Division of Administrative Services, Juneau office.</p>		

**Request For
New Position**

AGENCY Community & Regional Affairs

BRU Administration & Support

COMPONENT Administrative Services

FY 92

Page 2 of 2

Revised Date: _____

SB240

SENATE FINANCE COMMITTEE REPORT

DATE: 5/8/91

FURTHER:

DATE TURNED INTO OFFICE: 5-19-91

The Finance Committee considered SENATE BILL NO. 240

"An Act making an appropriation to the Department of Revenue for the fisheries tax refund program for payments based on the harvest of fish; and providing for an effective date."

and recommended:

- replace with _____ CS
 - or adopt _____ CS SB 240 (C&RA)
 - attached amendment(s)
 - _____ letter of intent adopted
- same title
 - new title
 - technical title change (HB only)

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

ATTACHES NEW FISCAL NOTE(S):

Dept/Date:

fiscal note(s) _____

zero fiscal note(s) _____

appropriation-no fiscal note

APPROVES PREVIOUS:

Dept/Date:

fiscal note(s) _____

zero fiscal note(s) _____

SIGNING DO PASS:

OTHER RECOMMENDATIONS:

1.

Bob R. ...

John Duncan No Rec
Al Adams No Rec
Dick Stutz No Rec
Rich Gels (No Rec)
Keith ... No Rec

Co-Chairs: Signatures and Recommendations

CS FOR SENATE BILL NO. 240 (CRA)
 IN THE LEGISLATURE OF THE STATE OF ALASKA
 SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

Offered:	5/8/91	
Referred:	Finance	
Funding Information:	General Fund	\$3,500,000
	Other Funds	<u>-0-</u>
		\$3,500,000

Sponsor(s): SENATOR ZHAROFF

A BILL

FOR AN ACT ENTITLED

1 "An Act making an appropriation to the Department of Revenue for the fisheries tax
 2 refund program for payments based on the harvest of fish; and providing for an effective
 3 date."

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

5 * Section 1. PURPOSE. To hold harmless municipalities whose tax receipts were affected by
 6 reduction of payments of the fisheries business tax, it is the purpose of this Act to provide additional
 7 refunds payable to municipalities so that the municipalities are compensated for the decrease in the
 8 proceeds of the fisheries business tax during fiscal year 1990 caused by the Exxon Valdez oil discharge
 9 disaster.

10 * Sec. 2. The sum of \$3,500,000 is appropriated from the general fund to the Department of Revenue
 11 to be allocated and paid to municipalities that suffered the loss of fish tax revenue (AS 43.75.130)
 12 because of the Exxon Valdez oil spill and have entered into an agreement with the Department of
 13 Revenue to reimburse the state for up to the amount of the allocation if, and to the extent that, the
 14 municipality receives a recovery from another person or entity as compensation for lost fish tax revenues

1 for fiscal year 1990.

2 * Sec. 3. The unexpended and unobligated balance of the appropriation made by this Act lapses into
3 the general fund December 31, 1991.

4 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).



SENATOR FRED F. ZHAROFF

ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259

DURING SESSION:


P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

MEMORANDUM

TO: Senator Pat Pourchot, Co-Chairman
Senate Finance Committee

FROM: Senator Fred F. Zharoff 

DATE: May 9, 1991

SUBJ: Hearing Request for CS SB 240 (C&RA)

The purpose of this memo is to request scheduling of CS SB 240 (C&RA), "An Act making an appropriation to the Department of Revenue for the fisheries tax refund program based on the harvest of fish; and providing for an effective date."

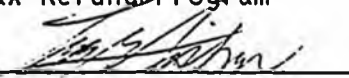
The intent of this bill is to reimburse communities for lost fish tax revenue as a result of the Exxon Valdez oil spill. The bill as currently structured would appropriate \$3.5 million to the Department of Revenue to allocate to municipalities that suffered loss of fish tax revenue due to the spill. In addition, the bill would require the municipalities to reimburse the state should the municipality recover fish tax revenue as a result of litigation with Exxon.

A similar version of this bill was before the Senate last session (SB 461), and was in Senate Finance when the legislature adjourned.

Thank you for your consideration of this request

Attachments

DEPARTMENT OF REVENUE
BILL NO: HB 276
TITLE: Appropriation for the Fisheries
Tax Refund Program

APPROVED: 
DATE: April 24, 1991

POSITION PAPER

The Department of Revenue has reviewed HB 276 and the Senate companion SB 240 and with minor amendment supports the legislation.

As a result of the Exxon Valdez oil spill of March 25, 1989 many Prince William Sound and Gulf of Alaska communities suffered a substantial loss of fish tax revenues. These bills intend to use the state's general fund to assist those communities who can demonstrate actual financial losses as a direct result of the spill. We estimate these losses to total approximately 3.5 million dollars. The department will carefully review claims from individual communities including detailed back-up to substantiate the claims and to determine the amount to be paid from this bill. The municipalities will continue to pursue their claims with Exxon, and before receiving proceeds from this legislation will agree to reimburse the State up to the amount paid from this bill if they prevail in court or through settlement. The State will cooperate with the municipalities in pursuit of their claims to Exxon.

There appears to be no question that the communities lost these revenues as a result of the spill. Last year it appeared that a settlement with the municipalities would be paid by Exxon; the largest questions were entitlements which have now been documented. It is our understanding that Exxon has been seeking a broader settlement with the municipalities, and refuses to pay the fish tax claims separately. For many communities the fish tax revenue is a major part of their operating revenues (20-50%). The municipalities have all the data necessary, including estimated potential catch and actual prices necessary to prepare and submit detailed claims for reimbursement of lost revenues.

Since the State of Alaska collects the fish tax and pays 50% to the municipalities, there is some question as to the strength of the municipalities legal position to collect the raw fish tax loss from Exxon since the municipalities are beneficiaries but not legal collectors of raw fish tax. In addition, the spill settlement by the State places the municipalities at a further disadvantage in pursuit of their claims. For these reasons, we support payment of these claims by the State of Alaska to make the municipalities whole from the Oil Spill. The municipalities have suffered large loss and should not be expected to absorb the loss of the raw fish tax revenue as well. Because of receiving these funds the municipalities will be better able to afford the pursuit of their claims against Exxon for fish tax and other major impacts. The amendment we suggest at this time is a reduction of the amount in section #2 from \$4.5 million to \$3.5 million.

This Position Paper supplements the fiscal note analysis prepared on April 19, 1991. The comments in that document relate, properly, to the mechanical functions in DOR relative to this legislation. This Position Paper addresses the philosophical position of whether it is right or wrong for the State to make this appropriation.



217 Second Street, Suite 200 ■ Juneau, Alaska 99801 ■ Tel (907) 586-1325. Fax (907) 463-5480

April 18, 1991

In Support of SB 240 - Making an appropriation to the Department of Revenue for the fisheries tax refund program

The Alaska Municipal League supports SB 240, which will allow for the allocation of funds to municipalities that lost revenue from the fisheries business tax as a result of the *Exxon Valdez* oil spill. The League urges rapid consideration and passage of this legislation.

Fisheries business tax revenue is critical to the financial stability of many Alaskan communities. Providing these funds now, with the stipulation that municipalities must agree to reimburse the state for up to the amount of the allocation if, and to the extent that, the municipality receives compensation for these lost revenues from another source, will enable affected municipalities to provide basic services to their citizens without further interruption as a result of the oil spill.

From ADPFF

OILSPILL IMPACTS

This report lists commercial and subsistence fisheries impacted through August 22, 1990.

While thought to be comprehensive, it is not intended to represent a complete or final listing of all adjustments to commercial fisheries to date.

There have been several closures, cancellations, and postponements to commercial and subsistence fisheries in Alaska as a result of oil spilled from the "Exxon Valdez" on March 24, 1989. These include:

COMMERCIAL

Prince William Sound

Herring. The gillnet and purse seine sac roe and pound and wild roe-on-kelp fisheries were canceled April 3, 1989 prior to opening. The food and bait fishery began November 1, 1989 in the General Herring District. The harvest quota for this fishery was revised to conform with the 1990 spawning biomass estimate and was set at 1,760 short tons. However, because of existing market conditions, only 646.1 tons were harvested and the fishery was closed on November 12, 1989.

Pot Shrimp. This fishery was closed while in progress because of the high potential for direct contact of gear and catch with oil on noon, April 3, 1989. This closure was anticipated to run until the fishery was scheduled to reopen by regulation, August 15, 1989. However, aerial surveys from August 3 through 8 indicated the presence of oil in waters of the Traditional Harvest Area. The fishery remained closed until March 15, 1990 when the season opened by regulation. However, a small portion of the Traditional Harvest Area was closed on March 15 because of the presence of oil. The area includes waters near Knight, Eleanor, and Smith Islands.

Trawl Shrimp. Closed 12:00 noon, April 9, 1989. This fishery was scheduled to reopen August 15, but aerial surveys indicated the presence of oil in the areas where the fishery was scheduled to occur. The Port Wells area reopened March 1, 1990 and the remainder of the Sound will probably remain closed until weather improves in the spring and aerial surveys are possible.

Sablefish (black cod). Did not open as scheduled April 1, 1989 because of the oil spill. This fishery reopened in inside waters

only, in conjunction with the halibut opening at noon on June 12. This fishery closed on December 31, 1989. Sablefish was not reopened during the remainder of 1989 in outside waters because the Gulf of Alaska sablefish quota had been filled. The 1990 season did open as scheduled April 1.

Northern Area Dungeness crab. Was closed April 30, 12:00 noon. It reopened on January 1, 1990.

King crab

The entire Prince William Sound Registration Area was closed to the commercial harvest of all species of king crab during the 1989-1990 fishing season on October 1, 1989. Aerial surveys located oil in Knight Island Passage and adjacent bays. Knight Island Passage is the primary harvest area for brown king crab in the Sound. The brown king crab fishery, like other crab fisheries, depends upon the capture by pots and subsequent live holding of legal size males before they are sold to processors. The live holding of male crabs requires a fresh supply of sea water to be supplied to the crabs until the fishing vessel reaches port. Due to the fact that winter storms can move oil into the fishing areas, monitoring the area on a timely basis is impractical. Due to oil, which persists in the area of known fishing for brown king crab, there is an appreciable likelihood that the adulteration of crab or fouling of gear and vessels will occur. The red and blue king crab fisheries will not occur due to low abundance.

Groundfish. This fishery was closed at noon on April 30, 1989. It reopened with the June 12 halibut opener. Incidental catches indicated no contamination, and this fishery remains open (except for bottom trawl gear) at this time.

Miscellaneous shellfish. On April 24, 1989, it was announced that no miscellaneous shellfish permits would be issued to harvest these species in Prince William Sound until the danger of oil contamination had passed. To date no requests have been received for permits to harvest miscellaneous shellfish in the Sound, and none are expected to be issued prior to mid-April 1990.

Salmon

Eshamy District commercial drift and set net salmon fishery (100,000 chum surplus to hatchery needs, plus harvests of other species) did not open for the 1989 season, as was announced May 19, 1989. This District did not open for the 1989 season.

Most waters of the Northern District surrounding Naked and Perry Islands remained closed due to beach oiling.

Most waters of the Culross Island Subdistrict (224-30 & 40) remained closed to salmon fishing during the 1989 season because of exposure to frequent oil sheen.

The Southwestern District did not open for the 1989 season due to oil.

The Montague District (227) remained closed for the 1989 season. This area includes the inside shoreline of the Montague District, 227-10 and 227-20.

All of the commercial salmon fisheries in the Prince William Sound Management Area closed at noon, September 30, 1989.

In 1990, it was announced that two small beaches in the Eshamy District would remain closed because of the presence of oil. After re-evaluation on July 5, the two areas were determined not to pose an appreciable likelihood of fouling commercial fishing gear or adulterating product. They were therefore re-opened July 9, and remained open during regular fishing periods in the Crafton Island Subdistrict. These areas were:

1) Eshamy Bay: approximately 700 yards at the southern entrance into the bay between shore markers located at approximately $60^{\circ}27.85'$ N. lat., $147^{\circ}57.80'$ W. long. and $60^{\circ}27.90'$ N. lat., $147^{\circ}57.40'$ W. long. and extending 300 yards seaward.

2) Foul Bay: the shoreline surrounding the rock island in the middle portion of the Bay located at approximately $60^{\circ}34.95'$ N. lat., $148^{\circ}03.60'$ W. long. and extending 300 yards seaward.

On July 27 it was announced that several areas would be closed to commercial fishing because of the appreciable likelihood of fouling fishing gear or adulterating product. Those areas closed effective at 8:00 a.m. Monday, July 30 until further notice were:

1) Latouche Island: approximately 3.5 miles of the northern shoreline between markers located at approx. $60^{\circ}03.83'$ N. Lat., $147^{\circ}53.08'$ W. long. on the west shore and $60^{\circ}03.05'$ N. lat., $147^{\circ}48.93'$ W. long. on the east shore and extending 300 yards seaward;

2) Eleanor, Ingot, and Knight Island: all waters extending 300 yards seaward of the Eleanor, Ingot and Knight Island coastlines north of $60^{\circ}25.0'$ N. lat.

Upper Cook Inlet

Salmon

With the exception of a very minor opening of a small portion of the Central District, the commercial drift gillnet season was canceled because of oil. In addition, the Department closed

setnets in that portion of the Upper Subdistrict south of the Kasilof River for the 12-hour regular fishing period on Friday July 7, 1989, because of presence of oil on the beaches. All other setnet fisheries and fishing periods were managed according to run strength.

The commercial salmon fisheries in Upper Cook Inlet closed in early September 1989.

Lower Cook Inlet

Pot shrimp (Outer District). This fishery was closed at noon April 30 because of the presence of oil. It reopened at noon on July 7, 1989.

Miscellaneous shellfish. On April 24, 1989, it was announced that no miscellaneous shellfish permits would be issued to harvest these species in the Outer and Eastern Districts until the danger of oil contamination had passed. To date no requests have been received for permits to harvest miscellaneous shellfish from these two districts. All shellfish fisheries in the remaining districts of Cook Inlet are managed according to abundance, effort, and existing regulations.

Groundfish (Outer and Eastern Districts). This fishery was closed at noon on April 30, 1989 because of oil. It reopened to all species except sablefish, June 12 in conjunction with the 24-hour halibut period. Sablefish was not reopened in 1989 because the Gulf of Alaska sablefish quota had been filled.

Smelt Smelt was closed along with groundfish in the Outer and Eastern Districts at noon on April 30, 1989. When groundfish reopened, smelt fishing remained closed.

Herring Sac Roe (Outer and Eastern Districts). These fisheries did not open for the 1989 season because of the presence of oil. This was announced April 15, 1989, prior to the anticipated opening date of April 20.

Salmon. Kamishak District commercial salmon fishery. This seine fishery opened by regulation June 1, 1989 and was closed by emergency order on June 9 because of oil. Portions of the Kamishak District north of Contact Point were opened after July 20 based on run strength. The Tutka Bay Subdistrict north of the HEA powerlines was closed to seining at 6 a.m., July 10. It was reopened at noon the same day after further assessment showed the commercial fishery would not be impacted. The commercial salmon season in Lower Cook Inlet closed August 26, 1989.

Kodiak

Herring Sac Roe. . Approximately 34 of 56 management units closed

during the duration of the fishing season, because of oil impacts. The 1989 Kodiak sac roe GHJ was approximately 2,415 short tons.

Salmon. The commercial season was scheduled to get underway June 9, 1989. The fisheries were postponed until June 19, when only the setnet fishery in the Alitak District opened; there were approximately 114 days fished in this setnet fishery by 87 fishermen. The only other commercial opening to occur during the 1989 salmon season was a two day seine opening in Karluk Lagoon, on the westside of Kodiak Island, in mid-September. About five seiners took part in that fishery, netting fewer than 5,000 salmon. The entire Kodiak Management Area closed to commercial salmon fishing at the conclusion of the Lagoon fishery.

Chignik

Salmon The Chignik fishery opened on Monday June 12, 1989 at 11:00 a.m. However, portions of the Eastern District were closed due to the presence or close proximity of oil in the Kilokak Rocks area, and in Imuya and Wide Bays. The Department announced a 24-hour fishing period beginning at 9:00 a.m. June 26 for a portion of the Chignik Bay District. The area was limited to a small portion of this district due to the presence of oil in surrounding areas. The documented presence of mousse and sheen in Chignik Bay near Anguvik Island, coupled with a minimal monitoring effort, justified the closure of the commercial salmon fishery effective 10:00 p.m., Monday, June 26 for the remainder of the announced period. Because of the presence of oil contaminants within Chignik Lagoon in sufficient quantities to pose a risk of contaminating gear and/or product, the commercial salmon fishing periods scheduled for Thursday, July 27 and Sunday, August 5 were canceled. Commercial fishing opportunities remained restricted to Chignik Lagoon of the Chignik Bay District. Fisheries were held when sockeye escapements into the system justified them.

SUBSISTENCE/PERSONAL USE

Prince William Sound

Much of the Southwestern District and the western shoreline of Green Island was closed to subsistence fishing June 6, 1989. The only areas remaining open to subsistence fishing for those residents domiciled in the Southwest District are Eshamy Lagoon, Jackpot Bay, and inside Sawmill and Crab Bays.

Cook Inlet, Kodiak, and Chignik

There have been no closures to subsistence fisheries because of oil. Subsistence fishermen have been cautioned to select fishing areas that show no signs of oil impact.

RECEIVED APR 22 1991

FINAL REPORT

**Economic, Social, and Psychological
Impact Assessment of the
Exxon Valdez Oil Spill**

Prepared for:

**Oiled Mayors Subcommittee
Alaska Conference of Mayors**

Prepared by:

Impact Assessment, Inc.

2160 Avenida de la Playa, Suite A
La Jolla, California 92037

911 West 8th Avenue, Suite 402
Anchorage, Alaska 99501

November 15, 1990

Excerpt from Oil Spill Impact Assessment: A-File
1990

Revenue Impacts

Fiscal impacts were differentially distributed among the communities according to variations in preexisting revenues and expenditure patterns.

The importance of this finding is that the unique circumstances of each community's pattern of revenues and expenditures must be understood to assess total impacts from this event. For example, within the four revenue sources cited above, there were several types of losses communities experienced, according to the prominence of these sources for specific communities, including:

- Sales Tax losses varied among the communities according to whether or not the community had a sales tax, the rate of taxation, damage to local industries that were affected by the spill, and other such factors. Sales tax losses were reported for the following reasons:
 - Loss due to fishery closures.
 - Retail business losses.
 - Boat rentals.
 - Exxon's failure to pay on rentals.

It is important to note that payments to individuals in communities, even in excess of typical earnings, do not necessarily translate into equivalent levels of sales and use tax revenues prior to the spill.

- Transient Occupancy Tax losses are attributable to the spill through shifts in types of persons residing in communities. In one instance spill workers became semipermanent residents in transient quarters, and local ordinances exempted these individuals from this tax, thus resulting in a net loss of revenue to the city.

- Raw Fish Tax revenues are a significant source of intergovernmental revenues to 15 cities and three boroughs in the affected region. Fish tax is calculated on the basis of the value of fish processed, with the normal method of allocation being 50% to the state and 50% local (with 25% to the borough and 25% to the city within a borough in those instances). Data for FY 1990 indicate that in each of these jurisdictions, with the exception of Valdez, there were decreases in fish taxes resulting from a combination of closed fisheries

and decreased fish prices, which were affected by the oil spill. (It should be noted that while raw fish tax revenues provide an important springboard for the discussion of impacts and general recommendations, there has been no fine-grained workup to date of raw fish tax levels for close analysis.)

- Harbor Revenues impacts occurred in most coastal communities. The principal cause of depressed revenues was from boats giving up berths while working for Exxon. (It should also be noted that in some communities that saw heavy harbor utilization for the cleanup process, revenues did not increase significantly, as harbor facilities are typically used to capacity during the summer. But they experienced substantial increases in operations and maintenance costs through increased volume demands. Harbor use trends were highly variable from community to community.)
- Rents and Leases were generally sources of income for communities, but the smaller Group B and Village communities received reimbursements from Exxon or VECO for services rendered, whereas larger communities generally did not experience these same problems. Similarly, these smaller communities often agreed "on a hand shake" to certain rates for reimbursements only to have the billings at these rates reduced. As noted elsewhere, a common tactic employed by Exxon or VECO was the use of verbal contracts and agreements with community representatives for many kinds of services. When, after a period of days, weeks, or months that industry contact person would be "reassigned," the basis for, conditions of, or express understandings achieved in that relationship would, effectively, be dissolved. This was particularly problematic in the smaller communities where such violations of personal trust left a residue of unreimbursed expenses and a lingering sense of betrayal.

While these types of issues address fiscal impacts from the event, preparation for any future disaster needs to assess community-specific revenues and expenditures and plans need to be developed that address how impacts can be mitigated or prevented.

Expenditure and Cost Impacts (Unreimbursed)

Local governments were not reimbursed for many costs associated with the Exxon Valdez oil spill and cleanup.

Interviews with department heads and key administrative staff in communities indicated that expenditure and revenue data from the fiscal templates completed by the communities do

SB 240

RES waived 5/20/91

FINANCE COMMITTEE REPORT

(11)

Date Referred: May 20, 1991

FURTHER REFERRALS:

Date of Committee Action: 5/7/92

The FINANCE Committee considered:

CSSB 240(CRA)

CS FOR SENATE BILL NO. 240 (CRA)

APPROP: FISHERIES TAX REFUND PROGRAM

"An Act making an appropriation to the Department of Revenue for the fisheries tax refund program for payments based on the harvest of fish; and providing for an effective date."

RECOMMENDATIONS:

be replaced with HCSSB 240 Fin

[] the same title

[] a new title

[] have attached amendments(s)

[x] do pass

[] do not pass

[] no recommendations

[] individual recommendations

[] additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept)

APPROVES PREVIOUS: (Dept/Date)

[x] fiscal impact DOR 5-7-92

[] fiscal note(s) _____

[] zero fiscal note _____

[] zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
Mike Navarre	[x]	Barnes		[x]	
Mary Boyer	[x]	Sharrs		[x]	
Tan Brown	[x]	Phillip		[x]	
Koponen	[x]				
Kausen	[x]				
Ulmer	[x]				

Mike Navarre
CHAIRMAN'S SIGNATURE

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. SB 240

Revision Date: May 7, 1992
Title: Appropriation for fisheries tax refund program
Sponsor: Zharoff
Requestor: _____

Department Affected: Department of Revenue
BRU: Revenue Operations
Component: Income and Excise Audit
COMPONENT SERIAL NO. 1 1 3

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LANDS & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL						
REVENUE FUND SOURCE	(3,500.0)	0.0	0.0	0.0	0.0	0.0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0.0	0.0	0.0	0.0	0.0	0.0
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

Estimate of current year impact: 0.0

ANALYSIS: This bill appropriates funds from the general fund to the Department of Revenue to be allocated and paid to municipalities that suffered the loss of fish tax revenue because of the Exxon oil spill.

Prepared By: Paul Dick Phone: (907) 465-2320
Division: Income and Excise Audit Date: May 7, 1992

Approved by Commissioner: Darrel J. Rexwinkel Date: 5/7/92
Agency: Department of Revenue

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Ofc., & Impacted Agency(ies).

HOUSE CS FOR CS FOR SENATE BILL NO. 240 ()
IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - SECOND SESSION

BY

Offered
Referred:

Sponsor(s): SENATOR ZHAROFF

A BILL

FOR AN ACT ENTITLED

1 "An Act making appropriations to the Department of Law for payment to municipalities
2 for losses of fisheries tax revenue suffered as a result of the Exxon Valdez oil spill; and
3 providing for an effective date."

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

5 * Section 1. PURPOSE. To hold harmless municipalities whose tax receipts were affected by
6 reduction of payments of the fisheries business tax, it is the purpose of this Act to provide additional
7 refunds payable to municipalities so that the municipalities are compensated for the decrease in the
8 proceeds of the fisheries business tax during fiscal year 1990 caused by the Exxon Valdez oil discharge
9 disaster.

10 * Sec. 2. The amounts received by the state for municipal raw fish tax revenue (AS 43.75.130) lost
11 because of the Exxon Valdez oil spill and received as a result of litigation the state has initiated against
12 Exxon or Alyeska or their respective related companies are appropriated from the general fund to the
13 Department of Law for allocation to the municipalities that suffered the loss of municipal raw fish tax
14 revenue under an agreement entered into between all of the municipalities and the Department of Law.

1 * Sec. 3. The amounts received by the state for municipal raw fish tax revenue (AS 43.75.130) lost
2 because of the Exxon Valdez oil spill and received as a result of claims filed before the Trans Alaska
3 Pipeline liability fund are appropriated from the general fund to the Department of Law for allocation
4 to the municipalities that suffered the loss of municipal raw fish tax revenue under an agreement entered
5 into between all of the municipalities and the Department of Law.

6 * Sec. 4. The unexpended and unobligated balance of the appropriations made by this Act lapses into
7 the general fund June 30, 1993.

8 * Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

HOUSE CONCURRENT RESOLUTION NO. 57

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RESOURCES COMMITTEE

Introduced:
Referred:

A RESOLUTION

1 Suspending Uniform Rules 24(c), 35, 41(b), and 42(e) of the Alaska State Legislature
2 concerning Senate Bill No. 240, making an appropriation to be allocated to municipalities
3 to compensate for the loss of fish tax revenue because of the Exxon Valdez oil spill.

4 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 That under Rule 54 of the Uniform Rules of the Alaska State Legislature, the provisions of
6 Rules 24(c), 35, 41(b), and 42(e) of the Uniform Rules, regarding changes to the title of a bill, are
7 suspended in consideration of Senate Bill No. 240, making an appropriation to be allocated to
8 municipalities to compensate for the loss of fish tax revenue because of the Exxon Valdez oil spill.

STATE OF ALASKA
House of Representatives
District 27

Representative Cliff Davidson
Chairman
House Resources Committee



Box V, Juneau, AK 99811
(907) 465-2487
Box 746, Kodiak, AK 99615
(907) 486-8250

TO: Representative Mike Navarre, Co-chair
Representative Eileen MacLean, Co-chair

FROM: Representative Cliff Davidson

DATE: 7 May 1992

SUBJECT: Senate Bill 240

The Exxon Valdez oil spill substantially reduced the 1989 commercial fishing effort throughout the spill area as the State of Alaska adopted a "zero tolerance" approach to oil tainted fish. This policy resulted in numerous fishing closures and a significant loss of raw fish tax revenue to both the state and the municipalities.

In October of 1991, the State of Alaska settled its oil spill claims with Exxon including claims for lost raw fish tax. However, that settlement specifically allowed the State to continue to press claims for municipal raw fish tax revenue lost as a result of the oil spill.

House Bill 276 and its companion bill Senate Bill 240 originally appropriated monies from the general fund to the municipalities for raw fish tax revenue estimated lost as a result of the oil spill. I have proposed a committee substitute that appropriates these revenues to the municipalities only after these monies are secured from the defendants (Exxon, Alyeska and the Taps Liability Fund) through negotiation or legal action. Furthermore, the proposed Committee Substitute would only provide reimbursement to the municipalities pending agreement between the municipalities and the Department of Law.

Passage of this proposed CS for SB 240 will necessitate a title change. Today, House Concurrent Resolution 57, providing for that title change, will be introduced on the House floor. Should the House Finance Committee pass SB 240 from committee, the title change resolution will be available to accompany this legislation to the floor. I urge your favorable consideration.

MEMORANDUM

TO: Representative Cliff Davidson

FROM: Matthew D. Jamin, attorney for and on behalf of the communities of Cordova, Seldovia, Seward, Homer, Kenai, Kenai Peninsula Borough, Whittier, Kodiak, Larsen Bay, Port Lions, Chignik, Lake and Peninsula Borough and Kodiak Island Borough

RE: CSHB 276

DATE: 5/6/92

In the geographic area affected by the Exxon Valdez Oil Spill, because of closures to fisheries in 1989, most municipalities received substantially less municipal fish tax than they would have but for the spill. The tax is normally collected by the State from fish processors at rates of up to 5% of the value of the price paid to fishermen. Normally, about one half that amount is passed through to municipalities under the statutes as their share.

When the State settled its claims against Exxon, it specifically reserved the right to pursue Exxon on behalf of the municipalities for their share of lost fish tax. This was done at the request of the municipalities to protect any argument that the oil companies might have made that they had no obligation to pay the municipalities since they lacked "standing" to make such a claim.

The State hopes soon to settle its claims for lost fish tax owed to municipalities not only from Exxon, but also from the other defendants in the litigation (primarily Alyeska and its parents) and from the Trans-Alaska Pipeline Liability Fund. When and if the State settles any such claims, HB 276 would specifically permit the Department of Law to enter into a sharing agreement with all the affected municipalities for distribution of any settlement proceeds. If such a settlement occurs when the legislature is not in session, it will not be necessary to wait before distribution of these badly needed funds can be made.

\hb276

SENATE FINANCE COMMITTEE REPORT

DATE: 4/15/92

FURTHER:

DATE TURNED INTO OFFICE: 5-6-92

The Finance Committee considered SENATE BILL NO. 242

"An Act relating to health insurance for small employers; and providing for an effective date."

and recommends:

[x] replace with CS SB 242 (FINANCE)
or [] adopt previous CS
[] attaches amendment(s)

[x] same title
[] new title
[] technical title change (HB only)

[] adopts Letter of Intent

[] further referral to the

[] do pass

[] do not pass

[] no recommendation

[x] individual recommendations

NEW FISCAL NOTES: Dept/Date
[x] zero fiscal notes DDA 5-4-92

PREVIOUS FISCAL NOTES: Dept/Date
[x] zero fiscal notes DCTED 4-7-92

[] fiscal notes

[] fiscal notes

[] appropriation--no fiscal note

DO PASS:

OTHER RECOMMENDATIONS:

Handwritten signature of Dick Stucky

Handwritten notes: Allene - No Rec, Ed Adams - No Rec, Kirk Kelly NO REC

1. Handwritten signature of Co-Chair

2. Handwritten signature of Co-Chair

Co-Chair: Signature/Recommendation

Co-Chair: Signature/Recommendation

FISCAL NOTE

BILL NO. CSSB 242(HES)

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act relating to health insurance for small employers; and providing for an effective date

Department Affected: Administration
BRU: Retirement and Benefits

Sponsor: Collins
Requestor: Senate Finance Committee

Component: Retirement and Benefits

COMPONENT SERIAL NO. 64

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS

FULL-TIME:	0	0	0	0	0	0
PART-TIME:	0	0	0	0	0	0
TEMPORARY:	0	0	0	0	0	0

Estimate of current year impact: none

ANALYSIS: (attach a separate page if necessary.) This bill would have no fiscal impact on the operating costs of the Division of Retirement and Benefits.

Prepared By: Garv Bader *Nancy M. Bader 5/4/92*
Division: Retirement and Benefits

Phone: 465-4470
Date: May 4, 1992

Approved by Commissioner: Nancy Bear Usher
Agency: Department of Administration

Date: 5/4/92

STATE OF ALASKA
1992 LEGISLATIVE SESSION

FISCAL NOTE

No. 2

Bill Version: CSSR 242(HES)

(S) Publish Date: 4-15-92

Revision Date: _____

Department Affected: Commerce & Econ. Dev.

Title: An Act relating to health insurance
for small employers

BRU: Insurance

Component: _____

Sponsor: Senators Collins, Menard, Pearce

Requestor: Collins

COMPONENT SERIAL NO.

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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND RESOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE:	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: 0

ANALYSIS (Attach a separate page if necessary.)

Prepared By: Ken Sykes, Insurance Market Analyst Phone: 465-2564

Division: Insurance Date: 4/7/92

Approved by Commissioner: Glenn A. Olds *[Signature]*

Agency: Department of Commerce & Economic Development Date: 4.7.92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legls. Ofc., and Impacted Agency(ies).

KS/dg11842D-1/040792a

Page 1 of 1

#2
RU
Adopted
5-6-92

AMENDMENT

OFFERED IN THE SENATE

TO: CSSB 242 (HES)

Page 21, line 15, before "but not more":

Delete "three"

Insert "two"

#1

Senet

7-LS0847N.1

Ford

4 05/03/92

5-year

*Adopted
as amended*

5-6-92

A M E N D M E N T

OFFERED IN THE SENATE
TO: CSSB 242(HES)

BY SENATOR COLLINS

Page 2, after line 14:

Insert a new bill section to read:

"* Sec. 4. AS 21.36.090(d) is repealed and reenacted to read:

(d) Except to the extent necessary to comply with AS 21.42.365, a person may not practice or permit unfair discrimination against a person who provides a service covered under a group disability policy that extends coverage on an expense incurred basis, or under a group service or indemnity type contract issued by a nonprofit corporation, if the service is within the scope of the provider's occupational license. In this subsection, "provider" means a state licensed physician, dentist, osteopath, optometrist, chiropractor, nurse midwife, advanced nurse practitioner, naturopath, physical therapist, or occupational therapist."

Renumber the following bill sections accordingly.

Page 22, after line 3:

Insert a new bill section to read:

"* Sec. 7. AS 21.86.260(a) is repealed and reenacted to read:

(a) Except as provided in this chapter, this title does not apply to a health maintenance organization that obtains a certificate of authority under this chapter. This subsection does not apply to an insurer licensed under AS 21.09 or a hospital or medical service corporation licensed under AS 21.87 except with respect to its health maintenance organization activities authorized by and regulated under this chapter."

Renumber the following bill sections accordingly.

Page 22, after line 31:

Insert a new bill section to read:

"* Sec. 9. AS 21.87.340 is repealed and reenacted to read:

Sec. 21.87.340. OTHER PROVISIONS APPLICABLE. In addition to the provisions contained or referred to previously in this chapter, the following chapters and provisions of this title also apply with respect to service corporations to the extent applicable and not in conflict with the express provisions of this chapter and the reasonable implications of the express provisions, and for the purposes of the application the corporations shall be considered to be mutual "insurers":

- (1) AS 21.03
- (2) AS 21.06
- (3) AS 21.09, except AS 21.09.090
- (4) AS 21.18.010
- (5) AS 21.18.030
- (6) AS 21.18.040
- (7) AS 21.18.120
- (8) AS 21.21.321
- (9) AS 21.36
- (10) AS 21.42.345 - 21.42.365, and 21.42.375
- (11) AS 21.51.120
- (12) AS 21.53
- (13) AS 21.54.020
- (14) AS 21.69.400
- (15) AS 21.69.520
- (16) AS 21.69.600, 21.69.620, and 21.69.630
- (17) AS 21.78
- (18) AS 21.89.040
- (19) AS 21.89.060
- (20) AS 21.90."

Renumber the following bill sections accordingly.

Page 23, line 2:

Delete "sec. 4"

Insert "sec. 5"

Page 23, line 4:

Delete "sec. 4"

Insert "sec. 5"

Page 23, line 17:

Delete "sec. 4"

Insert "sec. 5"

Page 23, line 23:

Delete "sec. 4"

Insert "sec. 5"

Page 24, line 1:

Delete "sec. 4"

Insert "sec. 5"

Page 24, line 3:

Delete "sec. 4"

Insert "sec. 5"

Page 24, after line 5:

Insert new bill sections to read:

** Sec. 12. AS 21.36.025 and AS 21.55 are repealed.

* Sec. 13. Sections 4, 7, 9, and 12 of this Act take effect July 1, 1997."

6
J. J. Duncan
Adopted

Renumber the following bill section accordingly.

Page 24, line 6:

Delete "This"

Insert "Except as provided in sec. 13 of this Act, this"

(Fin)
CS FOR SENATE BILL NO. 242 ~~(HES)~~

IN THE LEGISLATURE OF THE STATE OF ALASKA
SEVENTEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

Offered: 4/15/92
Referred: Finance

Sponsor(s): SENATORS COLLINS, Menard, Pearce

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to health insurance for small employers; and providing for an effective
2 date."

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

4 * Section 1. PURPOSE. (a) The purpose of this Act is to

5 (1) promote the availability of health insurance coverage to small employers regardless
6 of their health status or claims experience;

7 (2) prevent abusive rating practices;

8 (3) require disclosure of rating practices to purchasers;

9 (4) establish rules regarding renewability of coverage;

10 (5) establish limitations on the use of preexisting condition exclusions;

11 (6) provide for development of "basic" and "standard" health benefit plans to be offered
12 to all small employers;

13 (7) provide for establishment of a reinsurance program; and

14 (8) improve the overall fairness and efficiency of the small group health insurance

1 market.

2 (b) It is not the purpose of this Act to shift the cost of providing health insurance to small
3 employers, to other insured persons, or to the state.

4 * Sec. 2. AS 21.36 is amended by adding a new section to read:

5 Sec. 21.36.025. UNFAIR MARKETING PRACTICES PROHIBITED. A person may
6 not violate the applicable provisions of AS 21.55.180.

7 * Sec. 3. AS 21.36.090(d) is amended to read:

8 (d) Except to the extent necessary to comply with AS 21.42.365 and AS 21.55, a person
9 may not practice or permit unfair discrimination against a person who provides a service covered
10 under a group disability policy that extends coverage on an expense incurred basis, or under a
11 group service or indemnity type contract issued by a nonprofit corporation, if the service is within
12 the scope of the provider's occupational license. In this subsection, "provider" means a state
13 licensed physician, dentist, osteopath, optometrist, chiropractor, nurse midwife, advanced nurse
14 practitioner, naturopath, physical therapist, or occupational therapist.

15 * Sec. 4. AS 21 is amended by adding a new chapter to read:

16 CHAPTER 55. SMALL EMPLOYER HEALTH INSURANCE.

17 ARTICLE 1. SMALL EMPLOYER HEALTH REINSURANCE ASSOCIATION.

18 Sec. 21.55.010. CREATION; MEMBERSHIP. A nonprofit incorporated legal entity to
19 be known as the Small Employer Health Reinsurance Association is established. Membership
20 consists of all insurers licensed to transact health insurance in the state that offer a health benefit
21 plan. All members shall maintain membership in the association as a condition of doing health
22 insurance business, or being able to offer subscriber contracts, in the state.

23 Sec. 21.55.020. BOARD OF DIRECTORS; ORGANIZATION. (a) The board of
24 directors of the association consists of nine individuals selected by participating members, subject
25 to approval by the director. The director shall endeavor to appoint at least six board members
26 who are also small employer insurers. If the director is unable to appoint six board members
27 who are also small employer insurers, the director may fill the remaining seats with any insurer.
28 In selecting members of the board, the director shall consider, among other things, whether all
29 types of participating members are fairly represented.

30 (b) To the extent possible, one board member shall represent a health maintenance
31 organization, one board member shall represent a hospital or medical service corporation, one

1 board members' principal health insurance business shall be in the small employer market, and
2 one board member's principal health insurance business shall be in the large employer market.
3 Members of the board may be reimbursed from the association for expenses incurred by them
4 as members, but may not otherwise be compensated by the association for their services. The
5 costs of conducting meetings of the association and its board of directors shall be borne by the
6 association.

7 (c) A member of the board serves for a term of three years and may be reappointed to
8 an unlimited number of terms. The term of a board member shall continue until a successor is
9 appointed. A vacancy on the board shall be filled by participating members, subject to approval
10 by the director. A board member may be removed by the director for cause.

11 Sec. 21.55.030. GENERAL POWERS. The association may

12 (1) exercise the powers granted to insurers under the laws of the state, except that
13 the association may not issue insurance;

14 (2) sue or be sued;

15 (3) enter into contracts with insurers, similar associations in other states, or with
16 other persons for the performance of administrative functions;

17 (4) establish administrative and accounting procedures for the operation of the
18 association;

19 (5) take legal action as necessary to avoid the payment of improper claims against
20 the association;

21 (6) define the array of health coverage products for which reinsurance will be
22 provided and issue reinsurance policies;

23 (7) establish rules, conditions, and procedures pertaining to the reinsurance of
24 members' risks by the association;

25 (8) establish actuarial functions appropriate to the operation of the association;

26 (9) assess members under the provisions of this chapter and make advance interim
27 assessments as may be reasonable and necessary for organizational and interim operating
28 expenses; interim assessments shall be credited as offsets against regular assessments due
29 following the close of the calendar year;

30 (10) appoint appropriate legal, actuarial, and other committees as are necessary
31 to provide technical assistance in the operation of the association, design of a policy or contract,

1 or to assist in other functions of the association;

2 (11) borrow money to accomplish the purposes of the association; notes or other
3 evidence of indebtedness of the association that are not in default are investments for insurers
4 and may be carried as admitted assets.

5 Sec. 21.55.040. PLAN OF OPERATION. (a) The association shall submit to the
6 director a plan of operation and amendments necessary or suitable to assure the fair, reasonable,
7 and equitable administration of the association. The director may, after notice and hearing,
8 approve the plan of operation if the director determines it to be suitable to assure the fair,
9 reasonable and equitable administration of the program on a proportionate basis under the
10 provisions of this section and it does not shift program costs to other insured persons or the state.
11 The plan of operation and amendments become effective upon approval in writing by the director.

12 (b) All members of the association shall comply with the plan of operation.

13 (c) The plan of operation must establish procedures for

14 (1) handling and accounting of program assets and money of the association and
15 for an annual fiscal report to the director;

16 (2) reinsuring risks under the provisions of this section;

17 (3) collecting assessments from all members to provide for claims reinsured by
18 the association and for administrative expenses incurred or estimated to be incurred by the
19 association;

20 (4) selection of an administering insurer and establish the administering insurer's
21 powers and duties; and

22 (5) provisions necessary or proper for the execution of the powers and duties of
23 the association.

24 Sec. 21.55.050. HEALTH CARE REINSURANCE. (a) A member may reinsure
25 coverage of an eligible employee of a small employer or a dependent of an eligible employee of
26 a small employer with the association only under the following provisions:

27 (1) regarding a small employer basic or standard health benefit plan, the
28 association shall reinsure the level of coverage provided;

29 (2) regarding a plan other than a small employer health benefit plan, the
30 association shall reinsure the level of coverage provided up to, but not exceeding, the level of
31 coverage provided in a small employer basic or standard health benefit plan;

1 (3) a small employer insurer may reinsure an entire employer group within 60
2 days of the commencement of the group's coverage under a health benefit plan;

3 (4) a small employer insurer may reinsure an eligible employee or dependent
4 within a period of 60 days following the commencement of the coverage with the small
5 employer; a newly eligible employee or dependent of a reinsured small employer may be
6 reinsured within 60 days of the commencement of coverage;

7 (5) the association may not reimburse a reinsuring insurer regarding the claims
8 of a reinsured employee or dependent until the insurer has paid an initial level of claims for the
9 employee or dependent of \$5,000 in a calendar year for benefits covered by the association;

10 (6) a small employer insurer may terminate reinsurance for one or more of the
11 reinsured employees or dependents of a small employer on any plan anniversary.

12 (b) Premium rates charged for coverage reinsured by the association shall be established
13 as required under (e) of this section and adjusted as follows:

14 (1) for whole group small employer reinsurance coverage, 1.5 multiplied by the
15 base premium rate established by the association for eligible employees, and dependents of
16 eligible employees, of a small employer all of whose coverage is reinsured with the association;

17 (2) for eligible employee or dependent reinsurance coverage, 5.0 multiplied by
18 the base premium rate established by the association.

19 (c) If a health benefit plan coverage for a small employer is entirely or partially reinsured
20 with the association, the premium charged to the small employer for a rating period for the
21 coverage issued under this section shall meet the premium rate requirements established under
22 AS 21.55.120.

23 (d) On or before March 1 of each year, the board shall determine and report to the
24 director the association's net loss for the previous calendar year, including administrative
25 expenses and incurred losses for the year, taking into account investment income and other
26 appropriate gains and losses. A net loss for the year shall be recovered by assessments collected
27 from reinsuring insurers. The board shall establish, as part of the plan of operation, a formula
28 by which to make assessments against reinsuring insurers. The assessment formula must be
29 based on each reinsuring insurer's share of the total premiums earned in the preceding calendar
30 year from health benefit plans delivered or issued for delivery to small employers in this state
31 by reinsuring carriers and each reinsuring insurer's share of the premiums earned in the preceding

1 calendar year from newly issued health benefit plans delivered or issued for delivery during the
2 calendar year to small employers in this state by reinsuring insurers. In determining an
3 assessment, if any, that is collected from a member, the following provisions apply:

4 (1) the formula established under this subsection may not result in a reinsuring
5 insurer having an assessment share that is less than 50 percent or more than 150 percent of an
6 amount that is based on the proportion of the reinsuring insurer's total premiums earned in the
7 preceding calendar year from health benefit plans delivered or issued for delivery to small
8 employers in this state by reinsuring insurers to total premiums earned in the preceding calendar
9 year from health benefit plans delivered or issued for delivery to small employers in this state
10 by all reinsuring carriers;

11 (2) the board may, with approval of the director, change the assessment formula
12 established under this section from time to time as appropriate; the board may provide for the
13 shares of the assessment base attributable to premiums from all health benefit plans and to
14 premiums from newly issued health benefit plans to vary during a transition period;

15 (3) subject to the approval of the director, the board shall make an adjustment to
16 the assessment formula for reinsuring carriers that are approved health maintenance organizations
17 that are federally qualified under 42 U.S.C. 300, to the extent, if any, that restrictions are
18 imposed on those organizations that are not imposed on other small employer carriers;

19 (4) premiums and benefits paid by a reinsuring insurer that are less than an
20 amount determined by the board to justify the cost of collection may not be considered for
21 purposes of determining assessments;

22 (5) annually before March 1, the board shall determine and file with the director
23 an estimate of the assessments needed to fund losses incurred by the association in the previous
24 calendar year;

25 (6) if the board determines that the assessments needed to fund the losses incurred
26 by the association in the previous calendar year will exceed five percent of total premiums earned
27 in the previous year from health benefit plans delivered or issued for delivery to small employers
28 in this state by reinsuring insurers, the board shall evaluate the operation of the program and
29 report its findings, including any recommendations for changes to the plan of operation, to the
30 director within 90 days following the end of the calendar year in which the losses were incurred;
31 the evaluation must include an estimate of future assessments, the administrative costs of the