

302

HRES

HB

808

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HB

849

4622 Parsons Avenue  
Anchorage, Ak. 99504  
March 3, 1976

Rep. Bob Bradley  
Pouch V  
Juneau, Ak. 99801

Dear Mr. Bradley;

I am concerned about House Bill No. 808, Homesite Entry. While such a program appears to be an ideal procedure for providing "Land for Alaskans"; the Act, as currently written, lacks requirements and contains restrictions which seem to work against this goal.

The only mention of residence is in connection with conflicting applications. Does other State law contain residential requirements for obtaining land from the State? If not, could a residential requirement be included in this Act?

A second, perhaps minor point, is the size and shape of the parcels. Could they be described by aliquot parts? In the long run it might save the State money since reviewing survey plats and the eventual disposal of odd shaped tracts of land created by scattered entries would be unnecessary.

Other than the apparent lack of a residential requirement I am most disappointed by and in disagreement with the property ownership restriction. Is this Act really designed to provide "Land for Alaskans" or land for newcomers and seasonal workers, etc.? Property ownership is sometimes very difficult to prove.

Is it even feasible to attempt to check records not maintained by ADL? How about home ownership outside of Alaska or ownership of a mobile home on a rented space?

The ownership clause will, for the most part, restrict the very people who have chosen to make Alaska their home. These individuals and families should certainly have the first opportunity to acquire small tracts for homesites for either permanent or recreational dwellings. The occupancy requirements, limit of one non-transferable permit per applicant, and State law restricting the total acreage a person can obtain through State land programs should be sufficient to insure that abuses by land speculators will not be a problem.

Again, I want to make the point that while the Act could be effective in providing homesites for Alaskans, it probably will not be if it is passed in its present form. It is very nice to see a land disposal program designed to put small tracts into private ownership as opposed to the auction of large tracts to developers who can afford to hold land for possible future profits. However, a program which encourages people, who are as yet uncommitted to Alaskan living, to obtain cheap land while many of the people who vote and pay the taxes that will fund such a program are effectively prohibited from acquiring such homesites is hardly fair to residents.

Hopefully something has been learned from the problems which arose in the Open-to-Entry program. The State should by now be able to provide a program that will make land available at a reasonable cost to Alaskans!

Sincerely yours,

*Michelle Elliott*

Michelle Elliott

Alaska State Legislature

File HB 808

REPRESENTATIVE  
SAM R. COTTEN  
P.O. BOX 298  
EAGLE RIVER, ALASKA 99577

WHILE IN JUNEAU  
POUCH V  
JUNEAU, ALASKA 99811



CHAIRMAN  
COMMUNITY & REGIONAL  
AFFAIRS COMMITTEE  
VICE-CHAIRMAN  
RULES COMMITTEE  
MEMBER  
JUDICIARY COMMITTEE

House of Representatives

March 18, 1976

Michelle Elliot  
4622 Parsons Ave  
Anchorage, AK. 99504

Dear Michells:

Thank you for your March 3rd letter concerning HB 808, authorizing state land to be made available as homesites. I share many of your concerns.

The House Resources Committee has not yet held hearings on this bill, but I have sent a copy of your letter to the Chairman, Nels Anderson. I am sure that many of these points will be brought out in committee discussion of the bill.

One additional concern that I have is that the Division of Lands should be directed to dispose of land in this manner rather than permitted to do so.

If these problems get straightened out, I think we can have a strong program.

Sincerely yours,

Sam R. Cotten

SRC:veh  
cc: Rep. Nels Anderson, Chairman  
House Resources Committee

MEMO

To: Nels Anderson  
From: Jamie Love  
Re: HB 808  
Date: 3/3/76

808

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I have reviewed the homesite bill and discussed the various goals of the bill with Guy Martin. As you undoubtedly know, Dept. of Natural Resources has a great many problems with this bill. From what I can determine, they feel that the division of lands does not have the capability to effectively administer the program and provide the necessary enforcement of the elements of the program which will be subject to the most abuses.

From a review of the bill, it does appear as if it will be a complex task to insure that applicants for patents actually meet all the criteria and that without some type of active supervision of the program, we could very well experience the same types of abuses which led to the close of the open entry program. I would suggest discussing the problem of enforcement and supervision of the program with officials of the division of lands.

One item, which is apparent from a quick reading of the bill, is that applicants who own habital dwellings are precluded from applying for homesites, but it is possible for an individual to own any amount of land, which could be used for building a home and still apply for the homesite as well, as long as the applicant lived on the homesite and not on the other property he owned. This probably should be changed.

I like the concept of giving preference to applicants based upon length of residence, (AS 38.05.327 (a) (5)), but suggest that your committee get an Attorney General or legislative affairs opinion on the

constitutionality of this. I am sure that some type of residency requirement is desired and indeed should be included in any bill which is passed, but the legislature should be realistic about the possibilities of a residence section surviving a court test.

Section 38.05.327 (a) states that upon satisfying the conditions for patent, a person receives a free and unencumbered title to the land. If there are fears about speculators taking advantage of this program, the legislature might consider conveyance of less than full title to the land. For example, the state could convey the land to the applicant, for use as a principal place of residence, without the transfer rights to the land except to heirs. Another possibility would be to allow the state to share in profits from transfers of title by giving the state the right to appraise the land and structures being sold and tax a percentage of the sale price which is attributed to the value of the land. Steps like these could well keep abuses at a minimum, since any profit motive would be discouraged.

Over all, I am not really committed one way or another on this bill. I feel that one reason that this bill and others have been introduced is that the division of lands has not yet produced any concrete proposals of its own to bring land disposition policies up to date. I have been urging both Mike Smith and Guy Martin to initiate some type of effort which will lead to a clear policy statement from the division of land regarding the new administrations disposition policies.

TRAPPERS CABIN AND CACHE . . .  
Typical of hundreds throughout Alaska and  
the Yukon, on the Little Tok River.

Dear Sir,

I've heard a little  
(very little) about an  
upcoming 2 acre homestead  
my bill. Will you send  
a copy to me at:

6611 E. 12

Anch. AK 99504 ?

Thanks!

Wm. Mearns Jensen

ALASKA COLOR CARD CO., BOX 1466, ANCHORAGE, ALASKA 99501

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Mels Anderson

Chairman House Resources Com.

Capitol Bm 118

Juneau AK.

Wm. Mearns Jensen  
3/16

# B 406

March 12, 1974

Rep. Nels Anderson  
Chairman of the House  
Revenue Committee  
Capitol Room 118  
Juneau, Alaska 99801

Re: 2 acre Homesteads

Dear Rep. Anderson:

Being a Divorcee with one child to support, a low Alaska and surviving no ability; I feel I am eligible for the 2 acre Homesteads that are now being considered in the Legislative.

As you know, the oil impact has changed the life style for many Alaskans, especially the Aleutians like myself, whom the vast state to world and the pipeline due to family obligations - but are still not able to afford the inflated real estate costs that have skyrocketed in the last few years - what to mention the almost prohibitive costs we are now faced to pay.

This Homestead bill is the answer for such people like myself and

over our Senior citizens that  
have chosen to stay in Alaska.

I would appreciate any addi-  
tional information you might  
have concerning this very important  
legislation - the progress that  
is being made and also if  
there is anything that I, and  
other Alaskans can do to speed  
this along.

My address is:

Sheedra Jensen  
P.O. Box 4-60  
Anchorage, Alaska 99509

Sincerely,

Sheedra Jensen

~~line 24 add 2~~

1st amendment

Page 1 line 28 Change "five" to "seven"

2nd Page 2 line 16 delete "together with  
members of same household"

3rd Page 2 line 23 'delete all after  
"stole"; -- add comma, "and who"  
+ language of 6A.

add ~~all~~ "be of legal age of majority.

and applicant must have 3 years  
of residence in Alaska.

B) and applicant must have proof  
of continuous residence by  
affidavit.

Page 4 line 5 Change specific to  
reasonable.

## Review and Report - House Bill 808

By: Department of Natural Resources

General - Because there is a clearly-felt need for a program like that described in H. B. 808, and because the sponsorship of the bill indicates that active consideration of the bill is desired, the Department of Natural Resources has undertaken a detailed and serious review of the legislation and offers the following report. It includes the following sections: An overview of the bill and its purposes as it now stands (including an evaluation of the cost to the homesite recipient); a summary of legal issues; summary of administrative issues; fiscal impact information; and suggested modifications.

Overview - The following relates to the bill as presently drafted:

1. Like many State programs, the bill operates as a subsidy and should be recognized as such to be balanced against its benefits. While the land will be free (See Table I) to the successful applicant, it will not be free to the taxpayer, who will pay administrative costs, the cost of State land given away, and the costs of later State and local services. The public benefits of the program may well be found to overbalance the costs, some of which are estimated herein.
2. The purpose of the bill appears to be a mix between homesteading and a homesite approach, and might be further defined so as to identify the intended beneficiaries of the program. As later sections on residency will indicate, this could be a difficult issue.
3. For the location of "homesite" areas, the bill has been sensitive to the need for this program to fit into overall planning and staff capabilities within the Department of Natural Resources and the Division of Lands. An additional area of needed specificity might well deal with the number of such sites desired each year and the general regional locations desired. Also, a distinction of some magnitude exists between a program in rural areas and one near settled areas. The implications of this difference are outlined in other sections of this report.
4. The problem of "residence" is a substantial one. As the bill now stands, non-residents will be favored. They are entitled to own State land, the length of residency test is legally questionable, the migrant non-resident would be less likely to own another dwelling, and seasonal workers would be more likely to be able to satisfy the 5-month "live on" requirement. The possibility of in-migration by non-residents to gain free land

would probably be determined by the size of the program and could be substantial.

5. On issues other than residence, it appears likely that low income (individuals unlikely owners of another dwelling), seasonal workers, students, retired persons, migrants and similar groups would be favored. Those who own land, but not other habitable dwellings would be eligible as well. The patterns regarding land recipients would vary greatly between a rural homesite area and one near settled areas.

6. Speculation under this bill is delayed and diminished. However, after patent is given (three years) the land may be the subject of speculation. The best answer to this is to either give less than full title at the end of three years, or give title with covenants against subdivision or certain designated users.

7. The cost of future State and local services issue is not resolved, even though nothing in this bill is intended to create them. It is dubious if any legal disclaimer could be made to avoid such future taxpayer costs. Nonetheless, they are unpredictable subject to need and demand, and are certainly State and local costs to be considered in later years in homesite areas.

8. Cost of settlement - the bill intends that Alaskans might settle at "a cost reasonably within their means". As pointed out, it is hoped tax program will assist Alaskans now renting or leasing or non-residents with similar circumstances. The following analysis is a rough idea of the cost to a 2-acre recipient under the program looking both at a "bush" and "close-in" site. All assumptions are stated:

The costs associated with the bill vary according to the location of the two-acre tracts. In the bush situation, the costs would include numerous plane trips to and from the site to move the family, building materials, and supplies in as well as provide for the families' travel in and out of the area associated with each five-month period over the three-year period. Other expenses include costs associated with the materials for the habitable dwelling, the survey, and the potential loss of wages during the five month periods in the bush (assuming that it is the head of the household who applies). If the tract is close to a settled area, the major costs are associated with the dwelling itself and include a downpayment on a trailer or money for construction costs, and possibly water, sewer and foundation fees.

Table I summarizes the estimated expenses for each situation for the land recipient.

Cost Items	(3)	
	Remote Area	Close-In
Applicant Permit	\$10.00	\$10.00
Transportation (a) (family of 4)		
1. To move	6 trips - \$780	\$200
2. Other trips	6 trips - \$780	
3. House Materials	3 trips - \$390	
4. Supplies	3 trips - \$390	
Habitable Dwelling Costs		
1. Materials	\$1,000	\$3,000 (downpayment on trailer)
2. Water and sewer	-0-	\$2,000
3. Foundation	-0-	\$1,000
Surveying Costs	\$ 800 - \$1200 (d)	\$500 (state group survey)
Potential Loss of Wages (b)	15 months - \$15,000	None
TOTAL COSTS	<u>\$4,150 to \$4,550</u> without wage losses	<u>\$6,710</u>
Value of Property Received (c)	\$500 to \$1,000	\$5,000 to \$10,000

- (a) Assumes a fifty-mile one-way plane ride at a cost of \$130 per trip. Trips are calculated on the basis of transportation needed over a 3 year period.
- (b) Varies according to individual situations.
- (c) Assumes a per-acre cost of \$400 to \$500 in a bush area and \$2,500 - \$5,000 cost in urban area.
- (d) Assumes several homesite applicants jointly survey property. For a single individual in a bush area, it may cost as much as \$2,000.

The table indicates that the expenses required to get started under the homesite bill are understandably greater in the area than the bush area due to initial habitable dwelling costs. This observation, however, does not recognize the potential loss of wages associated with the bush area and the non-recoverability of the bush transportation costs. Furthermore, the start-up costs in the bush areas are significantly greater than the land costs whereas in the settled area the opposite situation exists.

Consequently, the two acres of land provided by the homesite program would provide a major boost to a person's ability to own a habitable dwelling near a settled area. The use of homesite land made available near urban areas may fulfill the Bill's intent.

#### Administrative Issues

In its attempt to ensure that the purposes of the program are not violated and the State's interest not abused, the bill creates administrative responsibilities necessary to the program, but nonetheless demanding. The administrative analysis assumes that the sponsors desire enforcement, and maintenance of a credible program which avoids the abuses of prior open to entry programs.

- (1) Implementing the bill would require a number of verification procedures.
  - (a) Sec. 2(a) The land has to be suitable for erection of a residential dwelling to use as a permanent abode. This implies verification by the State of the availability of water, the suitability of the land to accept a dwelling, and the suitability of the land for accepting a sewage system. This would be a large administrative task.
  - (b) The State would have to verify that the applicant did not own a habitable dwelling elsewhere. This is very difficult without a residence requirement. Even with a residence requirement, an applicant should be required to certify that he does not own a dwelling with penalties for false statement.
  - (c) The State would have to verify and arbitrate length of Alaskan residency if a lottery system is not used to resolve conflicts.
  - (d) The State would have to verify that the dwelling meets the conditions for a habitable dwelling.
  - (e) The State would have to verify if the dwelling was occupied for the required time and determine if head of household has been occupying the land.
  - (f) If the permit was revoked, the State would have to verify if the conditions of revocation had been met. If not, it would be the State's responsibility to locate the applicant or reclaim the land at taxpayer's expense.

(2) Since the State will only paper survey the land, the applicant will be responsible for locating the tract on the ground. Experience indicates that this leads to disputes and administrative problems when the final surveying is done due to improvements which are made outside original boundaries, etc. This could be solved by having the State survey the land first and charge the applicant.

(3) The bill does not clearly indicate the length of time the application or permit will be valid. Is it valid for only three (3) years from the time of issuance or time of occupancy? Could the permit continue indefinitely if all the stipulations are not met?

(4) The condemnation procedure may require a large administrative force, although this is not clear at this time.

(5) Although it is not the bill's intension to make money, a \$10.00 filing fee is unrealistic since this fee is inadequate to even set the wheels in motion regarding verification of the applicant's credentials. Similarly, the costs in time of setting up a file would more nearly approximate \$50.00 or more. This fee should also be non-refundable which may possibly discourage capricious filings.

(6) Sec. 2(a) If the intent of the bill is to provide full-time occupancy for the applicant and not just part-time or recreational occupancy, the five month provision should be changed to at least eight (8) months. A five month occupancy implies only a part-time commitment to the improvements and stipulations in the bill. This would mean that housing and other developments such as sewers, etc. would be of much lower quality than if the land were occupied full-time.

#### ESTIMATED STATE IMPLEMENTATION COSTS

State expenses required to implement the Homesite program include administrative costs for additional staff salaries and travel expenses as well as homesite land value costs. This section briefly outlines the required administrative services, estimates the associated administrative expense, and calculates the value of land which might be provided as homesites.

For the purposes of this analysis, it is assumed that the administrative regions in which homesites are located will generally correspond to the three existing Division of Lands Districts: Southeastern District (SED), Southcentral District (SCD), and the Northcentral District (NCD). It is also assumed that sites will either be in remote areas or areas close to existing settlements. In order to set a range for the program costs, the analysis provides 100 available sites in each region as a minimum program response and 1,000 sites in each region as a maximum response.

### Administrative Costs

The estimated costs of the program are based on the following scenarios: The program, which would be set up on a statewide basis, must furnish homesite lands from existing patented or tentatively approved state lands. These lands would need to be field inspected for their homesite suitability and land planning reports prepared. After being approved by the Planning Section and/or the Land Use Planning Commission, the land would be classified. During this time, systems must be set up to qualify the applicants by checking the application background material against court recordings, title recordings, voter registrations, etc. Once this was accomplished, provisions for choosing recipients would be established. Following this preparation, actual management of the program would begin. This would include enforcement capability during the three-year residency period.

The following estimates of personnel and travel expenses are based upon the assumptions and the knowledge of time and costs involved in the initiation and management of the past Open-to-Entry Program.

Selections: This phase would require the services of a full-time Land Management Officer IV (L.M.O.IV) and a Land Management Officer (L.M.O. II) and a Land Management Assistant I (L. M. A. I) to adequately supervise and coordinate the program on a state-wide basis. The services of a Cartographer II and two Planners would be required. District offices would need additional personnel for initial field examination in the category of an L.M.O. I plus budgetary monies for remote as well as close-in travel and per diem. Land planning reports instigated by the districts would need processing thereby necessitating additional classification workload and thus personnel.

Qualifying of Applicants: An adequate, though not necessarily stringent check of the applicant's legal qualification would be necessary requiring adding personnel to existing district's rosters, as well as personnel to set up and oversee the auctions and/or lotteries.

Enforcement of Management: Enforcement for compliance would require that field inspection be a continuing and time consuming item requiring coordination and administration work by people out of the District as well as headquarter offices.

District Office Expenses: The District offices would require two new positions and a substantial increase in travel funding. The estimates set forth below assume a minimum program of 100 and a maximum program of 1,000 homesites per District per year.

District Office Expenses

in Dollars/year

<u>District</u>	<u>Personnel Salaries (a)</u>	<u>Regional Travel Costs</u>			
		<u>100 Units/District</u>		<u>1,000 Units District</u>	
		<u>Remote Areas (b)</u>	<u>Close-in Areas (c)</u>	<u>Remote Areas</u>	<u>Close-in Areas</u>
Southeastern					
L.M.O. II	27,224	18,000	3,600	180,000	36,000
L.M.A. I	17,742				
Southcentral					
L.M.O. II	27,224	18,000	3,600	180,000	36,000
L.M.A. I	17,742				
Northcentral					
L.M.O. II	31,516	18,000	3,600	180,000	36,000
L.M.A. I	20,271				
TOTALS	141,719	54,000	10,800	540,000	108,000

- (a) Employees' salaries include base salary plus State provided benefit costs.
- (b) Remote area refers to any area which cannot readily be inspected, but requires a charter (boat or plane) to inspect. Known costs are transposed with emphasis on flying as the fastest means of verification of compliance. 10/25 inspections per day within a 100-mile radius of the district offices. If areas greater than 100 miles are opened, then inspection time/costs will increase in proportion.
- (c) Close-in refers to areas available to highway, railbelt and nearby water access which can be reached with relative ease. After the fact costs are predicated on a monthly check basis, with between 25/50 inspections per day.

Headquarters Expenses: A staff of seven full-time employees to oversee selections, classifications, contracts, lotteries and servicing of the program would be needed in the Anchorage headquarters office.

Headquarters Expenses

in Dollars/year

<u>Position Title</u>	<u>Salary</u>	<u>Travel Costs (a)</u>	
		<u>Remote</u>	<u>Close-in</u>
1 L.M.O. IV	32,058	1,500	300
2 L.M.O. II	54,448	3,000	600
1 Cartographer II	21,800	1,200	1,200
1 L.M.A. II	20,271		
2 Planners - 16	23,490		
- 18	<u>27,224</u>		
<b>TOTAL EXPENSES</b>	<b>179,291</b>	<b>5,700</b>	<b>2,100</b>

(a) Travel costs are limited to one trip for three headquarters personnel to District Offices to observe field work. The Cartographer would be expected to make several trips for record coordination purposes.

Advertising Costs: Three days public notice in a major paper would cost \$250.00. Such a notice would have to be printed at least twice a year in a paper in each District with a total cost of \$1,500.00.

Total Administrative Costs

in Dollars/year

	<u>300 Homesites</u>		<u>3,000 Homesites</u>	
	<u>Remote</u>	<u>Close-In</u>	<u>Remote</u>	<u>Close-In</u>
3 District Offices				
Salaries	141,719	141,719	141,719	141,719
Travel	54,000	10,800	540,000	108,000
Headquarters				
Salaries	179,291	179,291	179,291	179,291
Travel	5,700	2,100	5,700	2,100
Newspaper Costs	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>
<b>TOTAL COSTS</b>	<b>382,210</b>	<b>335,410</b>	<b>868,210</b>	<b>432,659</b>

## Value of State Public Land Given in the Program

Sales in the various districts indicate approximate values which can be used in estimate value lost if the State provides home-site land free rather than at the fair market value. Though great disparity exists between individual values for both remote and close-in properties, the median values have been used for this analysis. Land in remote areas has been valued at \$400 to \$500 an acre and land close in to settled areas valued at \$2,000 to \$2,500 an acre. All homesites are assumed to be of the 2-acre lot size.

Values of Homesite Lands

in Dollars/Year

<u>District</u>	<u>100 Sites/District</u>		<u>1,000 Units/District</u>	
	<u>Remote</u>	<u>Close-in</u>	<u>Remote</u>	<u>Close-In</u>
Southeastern	100,000	500,000	1,000,000	5,000,000
Southcentral	80,000	400,000	800,000	4,000,000
Northcentral	<u>80,000</u>	<u>400,000</u>	<u>800,000</u>	<u>4,000,000</u>
TOTAL COSTS	260,000	1,300,000	2,600,000	13,000,000

## Summary

Summary of State Homesite Program Costs  
(Land Value and Administration Expenses)a

In Dollars/Year

Site Processed Per Year	<u>Remote Areas</u>			<u>Close to Settlement Areas</u>		
	<u>Land Value<sup>d</sup></u>	<u>Admin</u>	<u>Total</u>	<u>Land Value<sup>e</sup></u>	<u>Admin.</u>	<u>Total</u>
300 <sup>b</sup>	260,000	382,210	642,210	1,300,000	335,410	1,635,410
3,000 <sup>c</sup>	2,600,000	868,210	3,468,210	13,000,000	432,659	13,432,659

a. Does not include ancillary costs to the State for required services such as new schools, etc.

b. 100 sites per District for 3 districts.

- c. Maximum number of sites - 1,000 per district for 3 districts.
- d. Assumes a cost of \$400 to \$500 an acre for remote areas.
- e. Assumes a cost of \$2,000 to \$2,500 an acre for close to settlement areas.

State Costs per Homesite Unit  
in Dollars/Unit

Location	Per Year	Total Costs	Per Site	Per Acre
Remote	300	642,210	2,140.70	1,070.35
Remote	3,000	3,468,210	1,156.07	578.04
Close-in	300	1,635,410	5,451.37	2,725.68
Close-in	3,000	13,432,659	4,475.55	2,237.77

- a. A site is assumed to be 2 acres.

LEGAL ISSUES

1. Subsection 2(a)5 - Is it constitutional to award homesite permits on the basis of length of residency? This stipulation may be unconstitutional and would probably be challenged in court. However, there are some inherent problems in this system even if it may be shown to be legal. Who would be awarded a permit if all applications were non-residents? This particular stipulation would also create an administrative burden just resolving disputes of length of residency. This problem could be solved by using a lottery system for all applicants rather than length of residence.
2. Subsection 2(a)6 - Is it legal to restrict land applicants to those who don't own habitable dwellings? The basic concept of providing land to a restricted segment of the population based on a standard of need is probably legal. However, defining and drawing the line as to what segment really is in need is where the problem arises. The line has to be drawn very carefully. For example, in this bill someone could own large amounts of land and still be eligible as an applicant. If it is shown to be legal, the State should probably require filing of certification by the applicant that they hold no title or interest in a habitable dwelling and provide a penalty for making a false statement in this certification.
3. Section 2(e) - Does the State have a legal responsibility to provide services to its residents regardless of their status? Such things as providing an education, protection, and other social services will have to be provided at some cost to the State. The further away the land is from present developments, the higher the probable costs. Education and possible unemployment insurance or welfare costs are two examples. The services alluded to in the bill probably mainly concern such things as road building and maintenance costs which can be transferred to the applicant, but as discussed above, there are significant costs which the applicant can't be expected to assume. It appears to be legally impossible to discriminate among citizens of the State based on their land status.
4. Section 2(b) - If it is the intent of the bill to completely limit conveyance of the permit, the language will have to be tightened up. Inability to assign or otherwise transfer the rights under the permit, will still allow the applicant to hold all his rights but to sublease the land for other uses such as, for example, a campground.

5. Would it be legal to amend the bill to apply to Alaskan residents only? There may be a better case for this stipulation than the length of residence stipulation, since it has already been widely discussed regarding local hire, but there remains a legal question on this issue.

#### POSSIBLE MODIFICATIONS

The following are suggested modifications which begin to solve some of the policy, planning, and administrative problems mentioned above.

1. The bill should insure that the State is not forced to provide free homesites in areas not physically suitable or appropriate at this time for settlement (i. e. far away from settled areas).
2. The bill's clause for proper planning should be emphasized to assure the State is not forced to make homesites available before proper planning is completed. A maximum number of homesites a year might be stipulated.
3. The bill must provide the State Division of Lands with the necessary manpower and financial resources required to wisely and efficiently manage the additional program. The problems associated with the lack of resources available for the open-to-entry program testifies to the crucial importance of this assumption.
4. The bill should emphasize that the State would decide where homesite lands will be offered and shall lay such lands out for homesite selection in accordance with area plans. This includes the assumptions that the lands offered in the next few years will be near settled areas and can be made available adjacent to each other in the specified areas.
5. The bill should provide that the State could place logical covenants on land given away. The recipient might not receive unrestricted title in appropriate circumstances. For example, the State may require that even after patent, the land could not be further subdivided.
6. A lottery system should be substituted for the length of residence clause.
7. The bill should provide a strong enforceable residency requirement for entitlement under the program.

8. If the intent of the bill is for permanent residency, the five-month clause should be changed to at least 8 or 9 months.
9. Certification and penalties for false information should be included if the intent is to limit applicants only to those who don't own dwellings.
10. Since lands near settled areas would initially be best for the homesite program, the bill should require that the Borough approve of site locations as well as participate in the planning process.
11. The language in the last sentence in Section 2(b) needs to be tightened since the words "assigned or otherwise transferred" are inadequate to prevent conveyance.
12. State services would have to apply to applicants as well as all other citizens. Section 2(e) is cosmetic and legally meaningless.
13. The entire program should have a fixed expiration date (4 years). If it is working, it can be renewed; if not, the political problems with repeal will be reduced.

*File*

Chris Miller  
4100 Balchen Drive  
Anchorage, Alaska 99503

March 19, 1976

Representative Nels Anderson  
Capital Room 118  
Pouch V  
Juneau, Alaska 99801

Dear Representative Anderson,

I am writing in regard to House Bill 808. In being a long-time resident of Alaska and wanting to obtain land at a price I can afford, I am interested in seeing the bill passed. After reading the conditions and qualifications required and comparing them to the present policy, I feel it would provide a good and equitable opportunity for state residents to take advantage of their home land as well as contribute to it.

One thing you can count on: Only independent people will take advantage of the homestead act. Isn't this the type of person that brings stability to the state? As it is, only wealthy individuals can buy land in Alaska. It seems unfair to always be playing into their hands. So, I support the bill and I am very interested in any information concerning it.

Sincerely,

*Chris Miller*

Chris Miller

HB

840

Copies to  
Truman Embury  
Herman Schroeder  
12 Regional Corps  
B.B.NA.

Members of board of Fish

Requesting Comments

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, GOVERNOR

POUCH 5 - JUNEAU 99811

March 4, 1976

The Honorable Nels Anderson  
Chairman  
House Resources Committee  
Alaska State Legislature  
State Capitol Building  
Juneau, AK

Re: House Bill No. 840

Dear Mr. Anderson:

House Bill No. 840, an Act relating to commercial fish licensing was introduced in the House on February 25, 1976 and was referred to the House Resources and Finance Committees.

For the consideration of the House Resources Committee, I am enclosing a copy of a memorandum and accompanying schedules prepared by R. H. Pilcher, Manager, Juneau Field Office, Department of Revenue advising of estimated additional revenues and problems of administration and that no additional costs of administration are anticipated as concerns the proposed legislation.

If you or any members of the House Resources Committee have any questions on the material submitted, please telephone the writer at 465-2397 and I will contact Mr. Pilcher for further information or testimony at a hearing.

Very truly yours,



R. D. Stevenson  
Special Assistant

Enclosures

cc: The Honorable Hugh Malone  
Chairman  
House Finance Committee

The Honorable Nels Anderson -2-

March 4, 1976

The Honorable William Parker  
Chairman  
House Rules Committee

R. H. Pilcher  
Manager, Juneau Field Office  
Department of Revenue



**MEMORANDUM****State of Alaska**

TO:  R.D. Stevenson  
 Special Assistant  
 Department of Revenue

DATE: March 2, 1976

FROM: *R.H. Pilcher*  
 R.H. Pilcher  
 Manager  
 Juneau Field Office

SUBJECT: House Bill No. 840

Passage of HB 840 will:

1. Increase all salmon and long line vessel, gear, and personal commercial fishing license fees threefold, and
2. Require fishermen to renew licenses in person annually before March 31st, except under circumstances of extreme hardship, effective January 1, 1977.

EFFECT ON TREASURY

Based on calendar year 1975 license sales, passage of HB 840 will result in a dollar revenue increase of approximately \$1,634,300.00 for distribution to the General Fund and to the Fishermens fund. (See attached breakdown of revenue estimates).

PROBLEMS OF ADMINISTRATION

The Department of Revenue presently sells commercial fishing licenses to an applicant who applies and pays the fees in person, through an agent, or through the U.S. Mails.

Under the present license structure the various processors can contract for the fishermen and have them fill out applications. The processors can send in groups of applications and a check to cover the license fees thus eliminating the necessity for the individual to come up with the money. Under HB 840 the individual fisherman will have to come up with the money, not only for the licenses but for the transportation to the license agent, which will bring severe hardship for many. Yet this bill specifically states that "financial inability to travel shall not be considered extreme hardship".

The Department of Revenue maintains 36 stations throughout Alaska Coastal areas and Fairbanks, where all three types of commercial licenses are sold (personal, vessel and gear) and another 23 stations where just personal licenses are sold. (See list and map attached). Many Alaska residents, as well as non-residents, will have to travel many miles in order to apply in person for a license to fish commercially. In addition if a resident of Southeast Alaska fishes Bristol Bay, he will have to travel to Bristol Bay before the deadline to purchase his licenses.

The majority of applications are at present received at locations within the areas that will be fished with the greater percentage

being received by mail. It would be quite unfeasible from the vendor standpoint to have to issue all of the licenses while the person was present. Most of the commissioned vendors operate businesses in addition to handling license sales and they are able to handle mail orders during times when they are not required to take care of their own work. By being able to regulate the work we have been able to secure fairly competent vendors in most locations. We would lose some of these people if the proposed law went into effect since the rate of commission would not make it worthwhile to hire additional help for this short period of time.

#### COST OF ADMINISTRATION

It is anticipated that passage of HB 840 will have little, if any, effect on costs of administration.

ESTIMATED REVENUES BASED ON CALENDAR 1975 COMMERCIAL FISH LICENSE SALES  
USING PROPOSED INCREASE IN LICENSE FEES. HB 840.

RECEIPT CODE	TYPE OF LICENSE	NUMBER SOLD	GROSS	COST	NET
126	Vessel	11,630	476,172	16,798.11	459,373.89
127	Troll Line	2,810	149,760	2,882.76	146,877.24
128	Long Line	1,393	111,870	2,727.21	109,142.79
129	Drift Gill Net	4,511	318,630	14,051.16	304,578.84
130	Set Gill Net	3,139	107,700	3,396.09	104,303.91
131	Beach Seine	30	1,200	31.95	1,168.05
132	Purse&Hand Purse Seine	1,265	363,540	12,425.13	351,114.87
133	*Beam Trawl	57	3,150	(15.43)	3,165.43
134	*Otter Trawl	172	14,100	102.33	13,997.67
135	*Shellfish Pots	936	28,875	344.16	28,530.84
136-40%	*Clam Diggers	168	452.	35.79	416.21
137-40%	Res Comm Fishermen	16,064	192,756	14,929.56	176,826.44
138-40%	Nonres Comm Fishermen	5,796	208,656	13,676.88	194,979.12
139	*Scallop Dredge	6	300	5.53	294.47
140	*Comm Fish Ext Fees		945.	-0-	945.00
SUBTOTAL - TO GENERAL FUND		*47,977	1,978,106.	81,391.23	1,896,714.77
843-60%	*Clam Digger's		678	-0-	678.00
844-60%	Res Comm Fishermen		289,134	-0-	289,134.00
845-60%	Nonres Comm Fishermen		312,984	-0-	312,984.00
SUBTOTAL TO FISHERMENS FUND			602,796	-0-	602,796.00
TOTAL RECEIPTS		47,977	2,580,902	81,391.23	2,499,510.77

GROSS SALES	\$ 2,580,902.00
COST OF SALES	81,391.23 - 3.154%
NET RECEIPTS	<u>\$ 2,499,510.77</u>
1975 RECEIPTS	865,168.67
REVENUE INCREASE	<u>\$ 1,634,342.10</u>

STATE OF ALASKA, DEPARTMENT OF REVENUE, FISH AND GAME LICENSE DIVISION

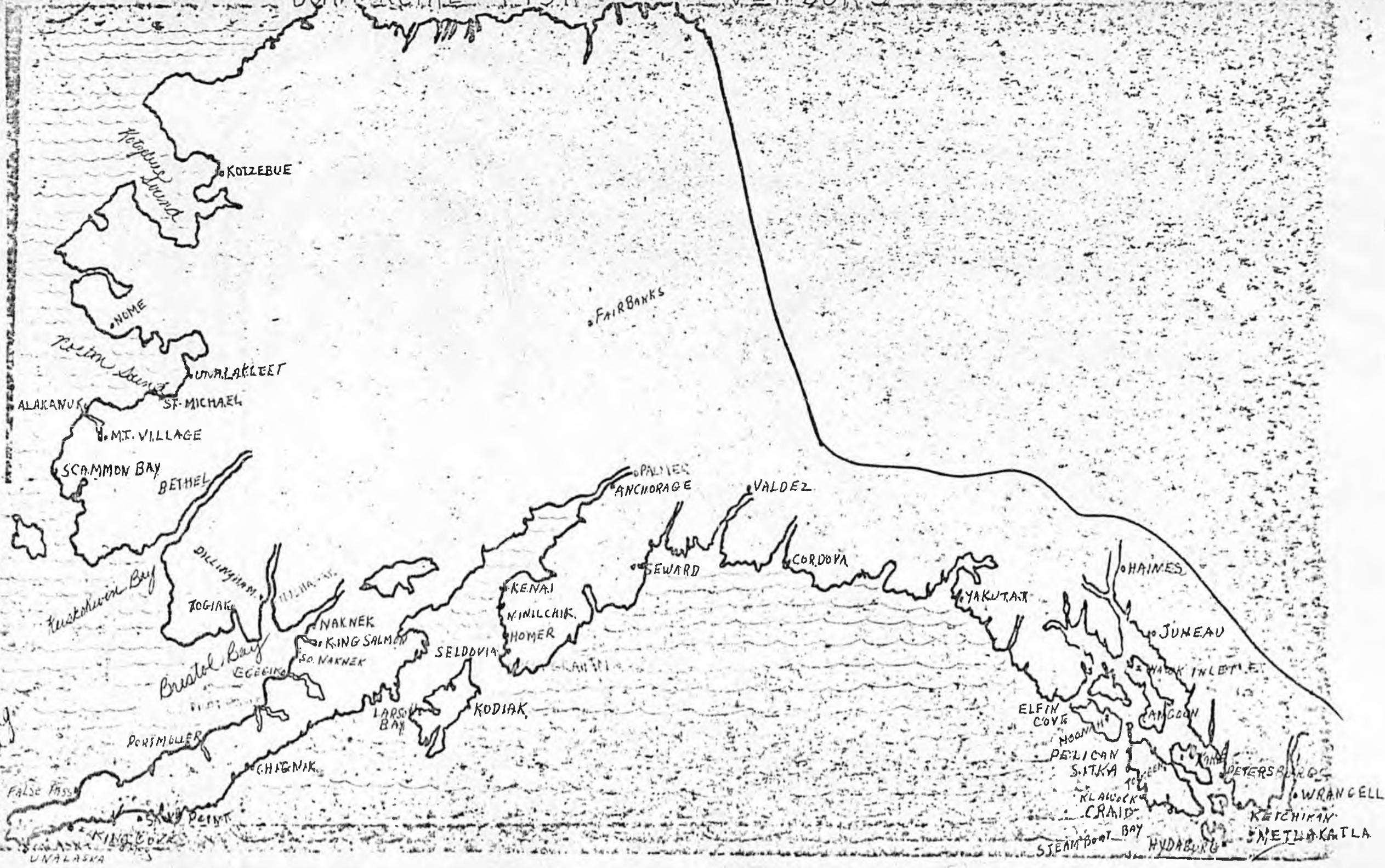
1976 COMMERCIAL FISH LICENSE OFFICER LIST

VENDORS INDICATED WITH AN \* ARE SUPPLIED WITH PERSONAL LICENSES ONLY. 2-27-76

1. Frank Alstrom  
Alakanuk, Alaska 99554
2. Alaska Dept. of Fish and Game  
Anchorage, Alaska 99501
3. Richard L. Powers  
Angoon, Alaska 99820
4. Judy Horn  
Bethel, Alaska 99559
5. \*B. L. Hall  
Chignik Lagoon, Alaska 99565
6. Ellen Dettinger  
Cordova, Alaska 99574
7. Ralph Pirtle  
Cordova, Alaska 99574
8. Patricia Ann Bippus  
Craig, Alaska 99921
9. Mike Nelson  
Dillingham, Alaska 99576
10. Tom Ward  
Dillingham, Alaska 99576
11. \*Parascovia Deigh  
Egegik, Alaska 99579
12. \*Mike Lee  
Egegik, Alaska 99579
13. Mary Jo Lord  
Elfin Cove, Alaska 99825
14. Alaska Dept. of Fish and Game  
Fairbanks, Alaska 99701
15. \*William E. Bright  
False Pass, Alaska 99583
16. Dave Olerud  
Haines, Alaska 99827
17. \*Randy Caldwell  
Hawk Inlet, Alaska 99828
18. Alaska Dept. of Fish and Game  
Homer, Alaska 99603
19. \*Arthur D. Aspaas  
Homer, Alaska 99603
20. Thomas G. Carney  
Homer, Alaska 99603
21. Marlene Johnson  
Hoonah, Alaska 99829
22. \*Alice Kitkoon  
Hydaburg, Alaska 99922
23. Kathleen G. Conn  
Juneau, Alaska 99801
24. \*Robert N. Blanchard  
Kake, Alaska 99830
25. Darlene Crostich  
Ketchikan, Alaska 99901
26. Helen Hille  
Kenai, Alaska 99611
27. \*David Williams  
King Cove, Alaska 99612
28. Arnold Omholt  
King Salmon, Alaska 99613
29. \*Christian A. Peterson  
Klawock, Alaska 99925
30. Alaska Dept. of Fish and Game  
Kodiak, Alaska 99615
31. \*Hewit Kirkpatrick  
Kodiak, Alaska 99615
32. Barbara Steckel  
Kotzebue, Alaska 99752
33. \*Don Overmiller  
Larson Bay, Alaska 99624
34. \*Karl Cook  
Metlakatla, Alaska 99926

35. Henry Wilde Sr.  
Mt. Village, Alaska 99632
36. \*Elmer Hauke  
Naknek, Alaska 99633
37. \*Lionel Kagley  
Naknek, Alaska 99633
38. \*Tibor Young  
Naknek, Alaska 99633
39. Ernest Tiemann  
Ninilchik, Alaska 99639
40. Bonnie Deneen  
Nome, Alaska 99762
41. William E. Odell  
Pelican, Alaska 99832
42. Norma Tefjord  
Petersburg, Alaska 99833
43. Dept. of Fish and Game  
Petersburg, Alaska 99833
44. \*David Kashiwagi  
Port Moller, Alaska 99695
45. \*Rita Martinsen  
Sand Point, Alaska 99661
46. Elaine Giles  
Seldovia, Alaska 996633
47. Luella Wilfong  
Seward, Alaska 99664
48. Alaska Dept. of Fish and Game  
Sitka, Alaska 99835
49. \*John Connor  
South Naknek, Alaska 99670
50. \*Gary R. Johnson  
South Naknek, Alaska 99670
51. \*Odd Skogstad  
South Naknek, Alaska 99670
52. \*Henry Gunderson  
Steamboat Bay, Alaska
53. George E. Walters  
St. Michael, Alaska 99659
54. Sylvia Geraghty  
Tokeen, Alaska 99901
55. Mary Ann Haugen  
Unalakleet, Alaska 99684
56. \*Martha G. Norton  
Unalaska, Alaska 99635
57. Eileen Cruver  
Valdez, Alaska 99686
58. Alaska Dept. of Fish and Game  
Wrangell, Alaska 99929
59. Cornelia Howard  
Yakutat, Alaska 99689

# COMMERCIAL FISH VENDORS



# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, GOVERNOR

POUCH 5 - JUNEAU 99811

April 1, 1976

Honorable Nels Anderson  
Chairman  
House Resources Committee  
Alaska State Legislature  
State Capitol Building  
Juneau, Alaska

Re: House Bill No. 840

Dear Mr. Anderson:

Under the date of March 4, 1976 I forwarded to you a copy of a memorandum and accompanying schedules prepared by R. H. Pilcher, Manager, Juneau Field Office, Department of Revenue advising of estimated additional revenues and problems of administration and further advising that no additional costs of administration would be anticipated as concerns the proposed legislation.

After a further review of the proposed legislation, I am respectfully enclosing a copy of a memorandum prepared by Katie Conn, Supervisor, Fish & Game Licenses, Department of Revenue indicating some further administrative problems. This information is transmitted to the House Resources Committee for your further consideration.

If you or any members of the House Commerce Committee have any questions on the material submitted, please contact the writer and I will contact either or both Mr. Pilcher and Mrs. Conn for further information or testimony at a hearing.

Very truly yours,



R. D. Stevenson  
Special Assistant

Enclosure

cc: The Honorable Hugh Malone  
Chairman  
House Finance Committee

The Honorable William Parker  
Chairman  
House Rules Committee

R. H. Pilcher  
Manager, Juneau Field Office  
Department of Revenue

Katie Conn  
Supervisor, Fish & Game Licenses  
Department of Revenue

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, GOVERNOR

POUCH 5 - JUNEAU 99811

March 4, 1976

The Honorable Nels Anderson  
Chairman  
House Resources Committee  
Alaska State Legislature  
State Capitol Building  
Juneau, AK

Re: House Bill No. 840

Dear Mr. Anderson:

House Bill No. 840, an Act relating to commercial fish licensing was introduced in the House on February 25, 1976 and was referred to the House Resources and Finance Committees.

For the consideration of the House Resources Committee, I am enclosing a copy of a memorandum and accompanying schedules prepared by R. H. Pilcher, Manager, Juneau Field Office, Department of Revenue advising of estimated additional revenues and problems of administration and that no additional costs of administration are anticipated as concerns the proposed legislation.

If you or any members of the House Resources Committee have any questions on the material submitted, please telephone the writer at 465-2397 and I will contact Mr. Pilcher for further information or testimony at a hearing.

Very truly yours,

R. D. Stevenson  
Special Assistant

Enclosures

cc: The Honorable Hugh Malone  
Chairman  
House Finance Committee

The Honorable Nels Anderson -2-

March 4, 1976

The Honorable William Parker  
Chairman  
House Rules Committee

R. H. Pilcher  
Manager, Juneau Field Office  
Department of Revenue

STATE  
of ALASKA

# MEMORANDUM

TO:  Ralph Kimlinger, Director  
Division of Collections  
Department of Revenue  
State Office Building, Juneau

DATE : March 26, 1976

FROM: Katie Conn, Supervisor *KAC*  
Fish and Game Licenses  
Dept. of Revenue, Juneau

SUBJECT: HB 840 Commercial Fish  
Licensing

House Bill 840 amends 16.05.440 to provide that all commercial licenses required by Sections 440 through 720 shall be renewed annually before March 31 of the year for which they are issued ..... and that all applications for initial licenses shall be submitted before March 31 of each license year.

16.05.450 is also amended to provide that a license may be issued to each person who files an application in person at places in the state designated by the commissioner.....together with the required fee. It adds a section which says the commissioner may permit persons to acquire commercial fishing gear licenses by mail under circumstances of extreme hardship, as determined by the commissioner. FINANCIAL INABILITY TO TRAVEL SHALL NOT BE CONSIDERED EXTREME HARDSHIP UNDER THIS SUBSECTION. (Emphases ours) The application shall be executed by the applicant under penalty of perjury.

This amendment is to subsection (a) only, therefore, we assume that subsections (b) and (c) remain unchanged.

We would like to amend our memorandum to Mr. Stevenson under date of March 2, 1976 in which we stated there would be little, if any, effect on the costs of administration. Additional research of the effect of the bill, if passed, brought up the following points that need clarification before we can estimate the amount of the increased administrative costs:

1. The amendment to 16.05.440 by using the term "all commercial licenses required by Sections 440 through 720" would be applicable to crew members as well as to gear and vessel licensees since they do not differentiate between personal, vessel or gear licenses. The administration of the March 31 deadline would be under the direction of the Commissioner of Revenue or his duly authorized deputy.

The bill does not amend or repeal 16.05.250 (14) which empowers the Board of Fish and Game to establish the times and dates during which the issuance of fish and game licenses, permits and registrations and the transfer of permits and registrations between registration areas, game management units or subunits, is allowed.

It further does not amend 16.05.065 which empowers the Commissioner of Fish and Game to extend the times and dates during which application may be made for fish and game licensing or registration under certain conditions. No reference was made to this section.

Since under the present structure licenses and registration are one operation for the salmon net fishery, it would be necessary to split this to two

operations with licensing imposing the March 31 deadline and Fish and Game imposing an April 15 and June 1 registration for this fishery.

We have been advised that if the Department of Fish and Game would have to set up a separate registration procedure in their area offices, they would no longer be able to handle commercial license sales in their offices. This would mean the loss of the sole vendors in Sitka, Wrangell, Fairbanks, Anchorage and Kodiak and the back-up vendors in Ketchikan, Petersburg, Cordova, Homer, Dillingham and King Salmon. This would be a severe blow for the commercial licensing program even with the existing regulatory deadlines.

We feel the conflicting statutes should be brought into conformity and that consideration be given to exempting crew members from having to comply with any deadline. We know that it would be a physical impossibility to actually issue the number of licenses sold each year through state and commission vendors by March 31 of each year since in most cases commission vendors handle the licensing within their places of business. It could only be administered by having the vendor accept the application and fees, furnish the licensee with a receipt and allow him to issue the licenses as rapidly as he could reasonably be expected to. This would mean mailing the issued licenses back to the licensee and in some areas could cause enough problems that some vendors would terminate their services.

The amendment to 16.05.450 requiring that each person who files an application must do so in person and pay the required fees. It further adds a section saying the commissioner may permit persons to acquire commercial fishing gear licenses by mail under circumstances of extreme hardship as determined by the commissioner. It further states that FINANCIAL INABILITY TO TRAVEL SHALL NOT BE CONSIDERED EXTREME HARDSHIP UNDER THIS SUBSECTION. We feel that clarification of several points is necessary to determine the additional administrative costs, and more clearly set up extreme hardship guidelines.

The residents of Alaska will be the hardest hit by having to appear in person to license since they are also required to appear in the area in which they register for fishing. Since financial inability to travel shall not be considered a hardship exemption from appearing in person, we feel that either definite guidelines should be set up within the bill or it should be amended to be allowed only in cases of serious illness or injury that prevent the applicant from traveling. In certain areas of Alaska which are considered poverty areas, financial inability to travel would be the only hardship they would have. It does not seem reasonable to set up another barrier for people who are receiving some sort of welfare assistance just to exist.

We would also point out that the permission is granted only for acquiring commercial fishing gear licenses and does not take care of acquiring personal licenses or vessel licenses. We would have to assume that they would still have to appear in person for purchase of those licenses and therefore the exemption for gear would be nullified.

DILLINGHAM VILLAGE COUNCIL  
P.O. BOX 247  
Dillingham, Alaska 99576

March 24, 1976

Mr. Nels Anderson  
District #16 Representative  
Pouch V  
Juneau, Alaska 99811

Dear Nels:

I looked over the legislation, House Bill No. 840, which you forwarded for review. As I stated clearly in Juneau I support the increase in liscensing fees. However under no circumstances can I accept the in person clause required of all applicants. The people in my district are unable to travel easily from their villages to central points. Such a restriction would work a great hardship on village fisherman. Particularly in view of the fact that financial inability to travel is not considered extreme hardship.

Perhaps the bill can be amended so that the application process can be further decentralized or localized. If authorized revenue personnel were available in more villages and people had ready access to them then this clause would be more palatable. But as it stands the amendments to Section 6 AS 16.05.450(a) spell difficulties for this area's fisherman.

We urge you remedy this defect in House Bill 840.

Sincerely yours,



Herman Schroeder  
President

HS/RMH

Wainilchik, Alaska

Mar. 22, 1976

Representative Nels Anderson,  
Juneau, Ak.

Dear Representative Anderson,

Enclosed are my comments on HB # 840 as you requested and I thank you for your consideration in this matter.

I believe all fishing and hunting licenses should be increased and at the same percentage. This percentage to be somewhere from 50% to 100%.

The same for all commercial fishing boats and all types of fishing gear.

Having to appear in person to get a license may not be so good. It could be a spot in the bill that the opponents could pick at.

In Sec. 9 page 3

Lines 27 & 28 ; I would like to see the wording read

A license is required for troll lines in the taking, catching, or landing of fish for commercial purposes in the waters of the state.

Respectfully

*Dan Garrouette*

Dan Garrouette

Board of Fisheries

DG/RG

Post Office Box 1633  
Kodiak, Alaska 99615  
March 22, 1976

The Honorable Nels Anderson  
Chairman  
House Resources Committee  
Pouch V  
Juneau, Alaska 99811

Dear Mr. Anderson:

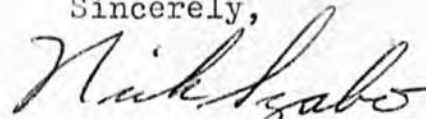
Thank you for the information you sent concerning House Bill No. 840 relating to commercial fish licensing.

I do not have any objection to the raising of license fees. I have long felt a substantial increase in license fees to be a more acceptable alternative to the present limited entry system. For example, if the fee for a commercial license for a resident were raised to \$1000 and the 3:1 ratio retained, then the non-resident fee would be \$3000. In certain cases the State could subsidize the resident license as it presently does by its issuing twenty-five-cent hunting, trapping and sportfishing licenses for individuals who fall below a certain economic level. I think a substantial increase in license fees would tend to eliminate the part-time fisherman and the amateur speculator who usually endangers not only himself but also everyone near him. Needless to say, it would have a similar effect on non-resident participation.

I have no strong feelings on the section that requires applicants to acquire licenses in person. While the intent seems to be to place a hardship on the nonresident, if it also puts a hardship on the resident, it may be self-defeating. I do not think it would create a hardship for residents in the Kodiak area, but I do not know how it would specifically affect other Alaskans in areas where vendors are less accessible.

Thank you for the opportunity to comment on this legislation.

Sincerely,



Nick Szabo  
Alaska Board of Fisheries

DILLINGHAM VILLAGE COUNCIL  
P.O. BOX 247  
Dillingham, Alaska 99576

March 24, 1976

Mr. Nels Anderson  
District #10 Representative  
Pouch V  
Juneau, Alaska 99811

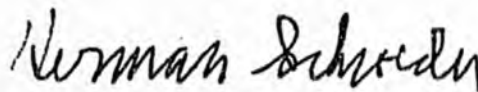
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HS/RMH

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Mar. 22, 1976

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Juneau, Ak.

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Respectfully

*Dan Garrouette*

Dan Garrouette  
Board of Fisheries

DG/RG

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March 22, 1976

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House Resources Committee  
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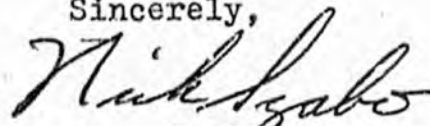
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Thank you for the opportunity to comment on this legislation.

Sincerely,



Nick Szabo  
Alaska Board of Fisheries

HB

846

# COMMITTEE REPORT

HOUSE

FINANCE

2/27/76

Mr. Speaker:

Date 4-21-76

The Committee on RESOURCES has had HB 846

under consideration. A Majority of the members of the Committee

( ) recommends it DO PASS

( ) recommends it DO NOT PASS

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

recommends it BE REPLACED WITH CS FOR HB 846 AND THAT  
CS FOR HB 846 DO PASS

( ) "and" recommends it BE REFERRED TO THE \_\_\_\_\_  
COMMITTEE

( ) reports it back WITHOUT RECOMMENDATION

( ) "other"

Members signing the Majority report:

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

Members NOT concurring in the Majority report:

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

[Signature] Chairman

Today I saw a god go down in death.

I saw the splendid figure sway and crash.

I heard the stricken earth's deep shuddered breath  
and

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

W3 846 Fisheries Impact Council

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

FISHERIES ECONOMIC IMPACT COUNCIL

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

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

--Governor Evaluate Recommendation of Fisheries Economic Impact Council

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

--Fisheries Economic Impact Council activity related to fishery failure

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

### ASSUMPTIONS

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

J

A PROFESSIONAL CORPORATION

March 18, 1976

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

Re: House Bill 846 - Fisheries  
Economic Impact Council

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Dear Chairman Anderson and  
Members of the House Resource Committee:

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

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

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

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

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

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

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

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

Very truly yours,

M. T. THOMAS

bcc: Robert W. McCann  
Victor Slevin

# MEMORANDUM

# State of Alaska

TO: Frances Ulmer  
Legislative Assistant  
Governor's Office

DATE: March 5, 1976

FILE NO:

TELEPHONE NO:

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

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

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

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

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

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

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

AHP:md

*Handwritten signature*

J

A PROFESSIONAL CORPORATION

March 18, 1976

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

Re: House Bill 846 - Fisheries  
Economic Impact Council

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Members of the House Resource Committee:

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

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

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

Very truly yours,

M. T. THOMAS

bcc: Robert W. McCann  
Victor Slevin

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

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

MEMORANDUM

March 19, 1976

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

TO: The honorable Nels Anderson

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

Council Membership

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

Definition of Base Period

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

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

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

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

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

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

### Definition of Fisheries Failure

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

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

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

"fisheries failure"?

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

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

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

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

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

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

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

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

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

#### Analysis of "Acceptable" Incomes in Certain Alaskan Salmon Fisheries

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

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

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

JO:jm

70 + MILLIONS OF DOLLARS

60 +

50 +

40 +

30 +

20 +

10 +

1960-1964  
AVERAGE = \$36.8 MILLION

1965-1969  
AVERAGE = \$43.8 MILLION

1970-1974  
AVERAGE = \$58 MILLION

BASE YEARS, ALASKA SALMON FISHERIES

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

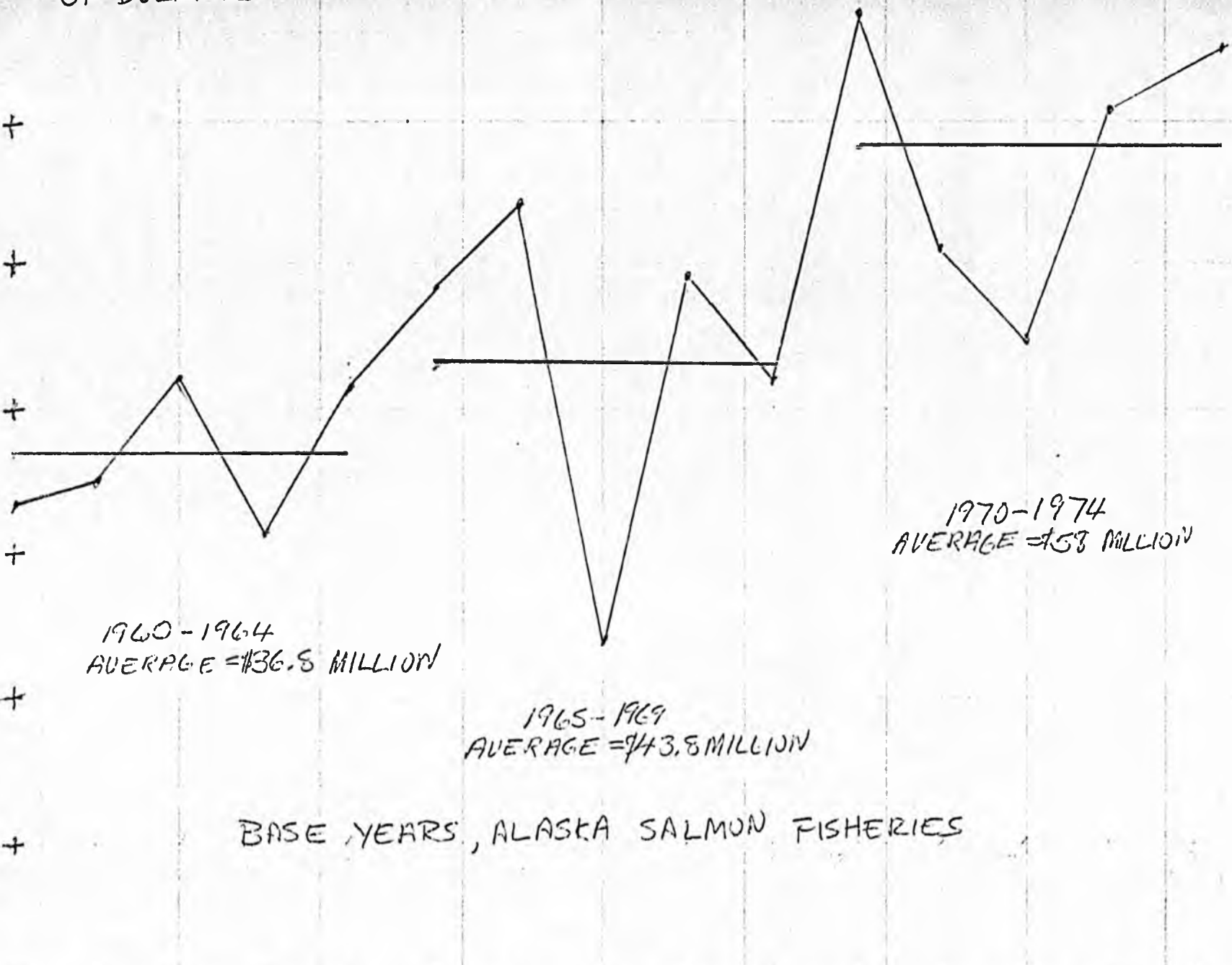


TABLE 1  
TOTAL REVENUE BY SALMON FISHERY  
ADJUSTED BY WHOLESALE PRICE INDEX

1969-1973  
(In thousands of dollars)

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

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

(Continued)

1969-1973  
(In thousands of dollars)

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

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

1/ closed in 1972

2/ closed in 1971

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

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

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

HB

849

# STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH S - JUNEAU 99811

May 10, 1976

*File  
HB 849*

The Honorable Nels Anderson  
Chairman  
House Resources Committee  
Alaska State Legislature  
State Capitol Building  
Juneau, Alaska

Re: House Bill No. 849

Dear Mr. Anderson:

House Bill No. 849, an Act relating to the leases of state land for oil and gas and the taking of royalty gas from them, was introduced in the House on March 2, 1976 and was referred to the House Resources and Finance Committees.

For the consideration of the House Resources Committee, I am enclosing a copy of a memorandum prepared by Thomas K. Williams, Director, Petroleum Revenue Division, Department of Revenue, Anchorage, Alaska suggesting some amendatory language to the proposed legislation.

If you or any members of the House Resources Committee have any questions on the material submitted, please telephone the writer at 46J-2397 and I will contact Mr. Williams in Anchorage for further information.

Very truly yours,



R. D. Stevenson  
Special Assistant

cc: The Honorable Hugh Malone  
Chairman  
House Finance Committee

Thomas K. Williams  
Director, Petroleum Revenue Division  
Department of Revenue  
Anchorage, Alaska



"1776-A TRIBUTE FROM OUR STATE TO OUR NATION-1976"



AGO 546521 +

## MEMORANDUM

## State of Alaska

TO: R. D. Stevenson  
Special Assistant  
Department of Revenue

DATE: April 30, 1976

FILE NO:

TELEPHONE NO:

FROM: Thomas K. Williams *TKW*  
Director  
Petroleum Revenue Division

SUBJECT: SB 687; HB 849

In response to your request regarding SB 687 (introduced in the House as HB 849), the following is offered:

The Bill says it amends AS 38.05.181, but the statute it obviously is intended to amend is AS 38.05.180. AS 38.05.181 relates to geothermal resources.

The Bill would require future oil and gas leases to reserve an option to the State to defer receiving its royalty on production. It would not affect Treasury at this time since all expectations arise from leases already issued.

Administration of the Bill, and the decision to exercise the option in the future, would be the responsibility of the Department of Natural Resources.

TKW:dh

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD

JAY S. HAMMOND, GOVERNOR

11TH FLOOR, STATE OFFICE BLDG.  
POUCH M - JUNEAU 99811

March 22, 1976

The Honorable Nels Anderson  
Chairman  
House Resources Committee  
Pouch V  
Juneau, Alaska 99811

Dear Mr. Anderson:

The following comments on H. B. 349 were prepared by the Division of Oil and Gas and given by me as testimony before the House Resources Committee on March 20, at Commissioner Martin's request.

1. We think inclusion of a provision such as outlined in this bill will be completely undesirable to the operators and will result in a highly reduced bid for leases which contain this provision. The instances where the State might want to use the banking privilege will be few, but each lease will have to stand the burden of having the provision in it.

The following example will show the effect on both the State and the operator by assuming a gross production from a well of 2,000 MCF per day and assuming that the State elects "to bank" its gas or apply the provisions of the proposed bill:

Total Gross Production  
2,000 MCF/Day

Royalty share of total sales rate  
250 MCF/Day

Working interest share of total sales rate  
1,750 MCF/Day

If the working interest has to market the full gross production, he would market 114% of his normal daily production for a period of three years at which time the State could start taking its royalty gas.

If the State took the gas on the minimum terms proposed in the bill, then the State would take 906 MCF per day for a one year period. This would represent a 45% reduction in the total sales rate that the operator had been taking for the three year period, or it would represent a 52% reduction in the normal operator's take of 7/8ths of the sales rate. Thus the operator could not fulfill the terms of most gas transmission purchase contracts because of erratic takes. Also, the erratic volumes available and the short time probably would not permit the State to obtain a favorable price or contract for its royalty gas. There are some other aspects of this bill regarding deferring the State's royalty production. During the three year period this royalty production was deferred, the State could allow the operator to take the full 8/8ths share of the total sales volume. If this were the case, the production tax the operator would pay during this period would be higher in the amount of the additional royalty share that he would be producing and selling. If, however, the State should decide to defer its sale of royalty production by reinjecting the royalty volume, the State would have to pay for the operating cost incurred for the gas reinjection and the production tax would be less than if the operator were taking the full produced volume. When the State decided to take its deferred gas at some future date, and during the period of time in which it was taking the deferred volumes, the production tax would be lowered by whatever amounts these volumes resulted in. In summary, any time the State should decide to defer its gas production, there are many variables that come into play. For example, the State could start incurring operating costs if it elected to have its deferred gas reinjected. Its royalty would go to zero. During the period the gas is being deferred, there would be no royalty income. And of course, there would be larger amounts of royalty income during the period that it elected to take its deferred gas back. Production tax, likewise, would be fluctuating in the reverse fashion. There could be periods of higher production taxes if the operator takes the full sales volume of 8/8ths of the production stream, but the production tax would be reduced dramatically during the time period the State elected to take its deferred royalty production in kind. All of these factors should be considered before an option that was available to the State, such as deferring its royalty production, was exercised.


In addition to having undesirable current production and income effects, the following discussion indicates some other problems with the bill:

1. Delay in the recovery of gas will necessitate production at a later time when operating costs are high. If it is too late in the reservoir life, the operator may want to give the lease back to the State, or abandon the property if it is uneconomic for him to recover the State's gas.
2. If the operator is producing royalty gas and the lease reaches the economic limit, we would lose the unrecoverable hydrocarbons. The operator probably couldn't be forced legally to operate at a loss even though we hadn't recovered our royalty gas.
3. Uncertainties of the reservoir recovery mechanisms could add a risk to the recovery of deferred royalty gas. For example, water fingering causes early or premature breakthroughs and watering out of wells, or scale deposition on the formation face causes cessation of production, or casing leaks flood out the well bore. These are some of the common causes that might result in premature abandonment of the well or reservoir. In these cases, if all of the State's banked royalty gas has not been recovered, it would be lost forever.
4. The State would have to follow reservoir performance very carefully to be sure that adequate reserves remain and could be recovered before the economic life of the equipment expires. If the operator has to make a major investment in equipment to finish a recovery process, he may chose to plug and abandon or give the lease back. It is questionable if we could force him to make capital expenditures late in the life of the field that would not pay out. Normally, it is this equipment failure that ultimately determines the precise abandonment date.
5. The bill is anti-conservation. It would encourage the operator to produce his reserves early in the life and attempt earlier abandonment of properties if the State waited too long to take its oil or gas royalty.
6. We have been considering possible use of sliding scale royalties in our bidding and inclusion of the banking provision would be an administrative nightmare to determine the amount of royalty gas that might be produced at some future date. This would also affect the volume that was subject to the tax laws.

March 22, 1976

7. It would defeat one of the purposes of sliding scale royalties since royalty recoveries would be delayed until lower production rates are achieved. The purpose of sliding scale royalties is to receive higher royalty income when production rates are high and this bill would completely defeat that purpose. It would permit the operator to recover 8/8ths of the production while the "banking" provision is in effect and then require that State royalties be recovered at a later date or while production rates are low.
8. The State will lose current income if there is any delay in its recovery of royalty on the chance that it can be produced later. If one considers a 10 per cent present worth factor, we would have to receive delayed additional benefits approaching a minimum of 35 per cent to even recover the same income and we question if the State can afford to wait on recoveries for that period of time.
9. The operator cannot permit a sizeable disruption in his oil or gas sales because they are made on long term basis if possible. If leases are on the decline, the operator cannot plan his sales unless long lead times are available and he knows precisely how the future production availability will affect his contracts.
10. Considering all of the above problems and uncertainties, at best, the operators will discount future lease bids highly to provide for this provision and we don't think it is necessary in the first place.

Yours truly,

  
William C. Fackler  
Executive Director