

579

SRES

HB

720

-

HB

830

0072

HB

720

COMMITTEE REPORT  
SENATE

6/2/78

FURTHER: FINANCE

Date: 6-14-78

Mr. President:

The Committee on RESOURCES has had CSHB 720 (Fin)  
State Land

under consideration and (a majority of the committee) (the committee reports it back as follows)

( ) recommends it do pass ( ) recommends it do not pass

( ) recommends it do pass with attached amendment(s)

( ) recommends it be replaced with CS for \_\_\_\_\_

and \_\_\_\_\_ ( ) new title ( ) same title

( ) AND attaches a Letter of Intent ( ) New Fiscal Note

( ) reports it back without recommendation

( ) and recommends it be referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

\_\_\_\_\_  
\_\_\_\_\_  
*Murray*  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*No Rec. when returned*  
*DO NOT PASS*  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*R. Poland*  
\_\_\_\_\_  
Chairman

# STATE OF ALASKA

## DEPARTMENT OF FISH AND GAME

OFFICE OF THE COMMISSIONER

SUPPORT BUILDING  
JUNEAU 99801

JAY S. HAMMOND, GOVERNOR

June 10, 1978

The Honorable Kay Poland  
Alaska State Legislature  
Pouch V  
Juneau, Alaska 99811

Dear Senator Poland:

Yesterday you requested the Department to poll the Board of Game to determine their views regarding CSHB 960 (Finance) as written regarding the "subsistence issue" and the establishment of a "Division of Subsistence" in the Department by legislative mandate. Insofar as was possible we contacted the Board members yesterday afternoon and evening with the results as indicated below. Six of the seven members were reached--Jim Rearden, Clint Buckmaster, Charles Evans, Darrell Farman, Pete Nelson, and Sam Harbo; Sidney Huntington was not available.

- (1) All six were opposed to the legislation as written; I feel confident in saying that I believe Sidney Huntington also would be opposed.
- (2) Four, and to that I would add Huntington to make five, were opposed to any such legislation being passed regardless of language; two--Chuck Evans and Clint Buckmaster--felt they could support CSHB 960 if the Department's suggested amendments were adopted.

In addition, we attempted to poll the Board of Fisheries as well, but were less successful. Only four of the seven were reached--Nick Szabo, Gordon Jensen, Herman Schroeder, and Calvin Fair. All were opposed to CSHB 960 as written. Szabo was opposed to any legislation being passed. Jensen, Schroeder, and Fair felt they could support the bill if the Department's suggested amendments were adopted.

I will stick my neck out and say that I think all members of the two Boards believe that there is little need for this kind of legislation and that the subsistence question can be handled quite adequately under a modified

regulatory system (which we are working on now). I believe too that all would object to the Legislature establishing any organizational unit within the Department by State law, as has been done already with regard to the Fisheries Rehabilitation, Enhancement and Development Division.

The Department would like to propose two additional amendments to CSHB 960. Again, both were overlooked in our previous review and, again, I apologize for that lack. Our proposals are as follows:

- (1) p.5 Sec. 11 (Sec. 10 as per Dept.'s earlier recommendations)  
AS 16.05.257(h)(2) lines 26-29.

We suggest the elimination of this section, and instead leave the existing language presently in the Statutes. Present language reads as follows:

(2) "subsistence hunting area" means an area designated by the board as primarily important for subsistence use and in which it is unlikely that subsistence needs will be met if recreational hunting, including hunting for trophy purposes, is permitted or if certain methods and means are continued. (s 1 ch 199 SLA 1975; am s 2 ch 269 SLA 1976)

The language stated in CSHB 960 would be too narrow and I believe not in compliance with the State Constitution because of discrimination in permitting only subsistence hunting in a "subsistence hunting area." The existing Statute language is more flexible in that control of hunting also could be handled via "methods and means," as well as by other regulatory constraints.

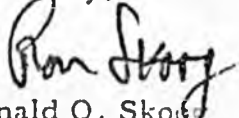
- (2) p.6 Sec. 14. AS 16.05.930(e), lines 17-18.

Language here needs to recognize the responsibility of the Boards to set regulations. I suggest that it be amended to the following:

Line 17-18 "...except that the appropriate Board or the Commissioner by delegation of the appropriate Board may prohibit...."

Thanks again for allowing us to state our views regarding this important piece of legislation.

Sincerely,



Ronald O. Skoog  
Commissioner

FEDERAL - STATE  
LAND USE PLANNING COMMISSION  
FOR ALASKA

Office of the Co-Chairman

Kory -

here are some  
other ideas I  
gave the Governor  
on land credits.

Walt

Federal-State  
Land Use Planning Commission  
For Alaska

March 9, 1978

Honorable Jay S. Hammond  
Governor of Alaska  
Pouch A  
Juneau, Alaska 99811

Dear Governor Hammond:

In reviewing the concept of land credits, one of the major problems as we defined it to you in our letter of March 3 was to mitigate the effects of those persons who would acquire land with no object other than for resale. After reviewing other land distribution programs, including past State programs, it seems to us that combining your concept of land credits with some use requirements on land might be a most attractive system for placing land in private hands and insuring an orderly development of the State.

Under this proposal, land credits would be acquired by residency in the manner in which you have proposed. However, in order to validate his land credits the individual would have to place improvements upon the land he secured. The value of the improvements would then validate his land credits up to the total amount which the individual has credited.

For example, a person with 15 years residence would have \$15,000 in credits. If he purchased land from the State to the value of \$20,000 and then placed \$20,000 in improvements upon that land, he would validate all of his credits and in essence acquire the land for only \$5,000, the difference between his credits and the total purchase price.

Cash could always be substituted for land credits, thus, individuals who did not want to make improvements now are not foreclosed from either land purchase or the later use of their credits.

In this system, the individual with long residency will still, in essence, acquire free land or almost free land, but he must use it thereby contributing to the total development of the State. This would insure that lands would not be taken out of production to be held for long periods

purely for speculative purposes as has happened to so much of the land sold under earlier State sales and acquired under Federal homestead programs. This system could be applied on any State land disposal program including commercial lands if desirable. The residency requirement will largely insure that it will be used primarily for residences, farms, and other individual type uses, rather than corporate uses.

I believe a large segment of the public would find this a most attractive addition to land credits because it would benefit that segment of society which was contributing the most to the State overall. It would also allow the substitution of "sweat equity" for cash, thus allowing persons to contribute up to 60 or 70 percent of the total value in their own labor.

I do not believe that the problems of assessing improvements would be insurmountable. I also believe that a system of conveying interim title could be worked out which would satisfy the financial institutions which would be involved in financing these improvements.

Sincerely,

/s/ Walter B. Parker

Walter B. Parker  
State Co-Chairman

WBP:go

Federal-State  
Land Use Planning Commission  
For Alaska

March 2, 1978

Honorable Jay S. Hammond  
Governor of Alaska  
Pouch A  
Juneau, AK 99811

RE: Proposed Alaska Homestead Land Credit Act

Dear Governor Hammond:

We have reviewed the proposed Alaska Land Credit Act as incorporated in the draft of February 24, and we ask you to consider the following points:

1. Generation of Purchasing Power: On the basis of rough estimates, it is clear that the Act would generate an immense amount of potential purchasing power which can be applied to State lands. Current population levels, \$200,000,000 worth of credits would be added each year (400,000 x \$500). In addition, as soon as the Act takes effect, there will be a backlog of purchasing power held by people who have resided in Alaska for more than a year. Time does not allow for a complete estimate of this backlog, but it is fairly safe to assume that there is a core of at least 100,000 long-term Alaskan residents who have been in the State for 20 years. Their accumulated purchasing power alone amounts to \$1,000,000,000 (100,000 x 20 years x \$500).

Only a fraction of this purchasing power will be exercised immediately. Census data indicates that roughly 40 percent of the recipients of credits will be below the 18-year-old age limit and many people will choose to accrue several credits before using them. Instead of immediate spending of credits, there will be a gradual build up of purchasing potential as people store their credits, as \$200,000,000 or more worth of credits is added each year, and as new citizens reach the age of 18. From the preceding estimates, it is reasonable to assume that by 1985 there will be at least \$1,000,000,000 worth of land credits held by people over 18.

1. The attached memo to Michael C.T. Smith supports these estimates. Average residency of the total Anchorage population is 9.4 years.

2. Land Demand: The credit system will make potential purchasers of State land out of people who have never entertained the idea of acquiring State property before. People will strive to buy land whether or not they need it for use purposes, simply to cash in on their credits. Credits will give every citizen a vested interest in rapid State land disposal and the Administration will be subjected to enormous pressures to put land on the market as rapidly as possible regardless of the supply of available land on the private market and regardless of whether State land is actually needed for use purposes. Some lands may be used, but turning credits into cash would inevitably be the overwhelming objective of most people.
  
3. Land Supply: The question then becomes whether the Administration can make lands available in quantities that will match the purchasing power generated by the land credit system and, more basically, whether this is desirable in terms of public and private costs and benefits. In answering the first question, it is important to recognize the real requirements in terms of time and money for making State lands available for conveyance to private citizens. To give private citizens marketable title and reasonably useable and accessible land, lands must be surveyed and rights-of-way or easements fitting the topography must be reserved to and through lands which are conveyed. Otherwise, public and private lands beyond will be land-locked and rendered useless and valueless. These requirements--survey and access reservation--are minimal. Lands should also be inventoried so that suitable lands are made available. There should be a process of consultation with local government. Under the State Constitution, public notice is required before any land may be disposed.

All these components of a responsible land offering require time and people. Between 1964 and 1974, during the most intense era of State land disposal, when land was disposed in 20- and 40-acre tracts, with nothing more than paper section line access, the State was only able to sell 138,000 acres and to lease 323,000 acres, an average of about 46,000 acres per year over a period of about 10 years.

If the State were to try again to make about 50,000 acres available each year--which, as under the previous program, would also necessitate selling land without useable access in tracts far larger than required for individual use--it still would not be able to satisfy the purchasing power generated by land credit build up. At an average value of \$1,000 per acre, 50,000 acres per year would only provide \$50,000,000 worth of available land. This amounts to only one-quarter of the amount of credit value added each year and one-twentieth the build up in credits anticipated by 1985.

4. Impact on Other Uses: This lag between the build up of spendable credits and the supply of available State land will generate intense pressures to put land on the market, simply so people can cash in their credits. In relation to this pressure, actual land needs for individual use will cease to be a significant consideration. It will be argued that by granting credits, the State assumes an obligation to make lands with a commensurate amount of real estate value available for private acquisition. Since real estate values diminish rapidly as one moves to inaccessible lands far from communities and road and water access, the pressure will be to dispose much of the State lands near road access, waters, and communities. But these are also the lands that often have conflicting values for other purposes. Under the demand/supply ratios that we have projected, it will be extremely difficult to maintain an appropriate balance between lands for private use and accessible public lands that can be used for resource development and for hunting, fishing, snowmobiling, skiing, and other public purposes.

5. Impact of the Bill on Land Prices: Two possible outcomes may result, depending upon disposal procedures followed. Assuming the State lands are made available at a fixed price at or below "fair market value," then the effect of the program will lead to an overall decrease in land prices or result in a lower growth rate for land prices than would occur in the absence of such a program. The reasoning is as follows: Creation of land credits, applicable only to State land disposals, will shift land demands from the private sector to State lands, resulting in decrease in demand for land in the private sector. Secondly, after initial disposal of State lands, these lands become part of the aggregate supply of private sector lands. In other words, there will have been an increase in the supply of private sector lands. The effect of both the demand and supply schedule shifts will be to reduce overall land prices, either in absolute terms or with respect to the rate of growth.

It is worth noting that this program would be concurrent with transfer of lands to the Natives under ANCSA. This increase in the supply of private sector lands will also exert downward pressures on overall land prices. At the same time, the land credit program, also creating downward pressure on land prices, tends to reduce the value of Native lands.

The second possible outcome occurs if State lands are disposed of under a competitive bidding process. In this case, the individual can be expected to pay, as a maximum, an amount equal to that which would have prevailed in the private sector. However, to this maximum "out of pocket" figure may be added the value of land credits (since they are "free" and cannot be

used otherwise) thus resulting in a dollar transaction figure greater than that which would have occurred in the private sector. The result in this case is an artificial inflation of land prices. While such inflation may not be sustained by the private sector (the private sector will not pay more for a parcel acquired in such a manner than the parcel would have traded for in the private sector) the State may help perpetuate such prices if future State land value appraisals reflect these transactions.

6. Impact of "Re-disposal": A situation may develop in which individuals attempt to "cash in" their land credits. Since these credits are not transferable or assignable, the only way to convert them to cash is to acquire land and dispose of the land in the private sector. Since the land was acquired using free land credits, an individual may be willing to dispose of his land for substantially less than the initial transaction price. In this case, the overall effect on land prices would be downward.

An alternative scenario of some importance is one in which a major land acquiring corporation offers to "cash out" land credits. This might result in the corporation acquiring a large number of scattered tracts, or alternatively might provide a means for acquiring large contiguous tracts. In short, the land credits proposal may provide a device for concentrating land ownership.

7. Constitutionality: While our staff has not yet had an opportunity to do detailed research, we have reservations about the constitutionality of Section AS 38.05.057(d). Even though the residency period for initial qualification to participate in the program is relatively short, this subsection is suspect because it provides for the accrual of benefits on the basis of durational residency. This preference for long-term residents over short-term residents may abrogate provisions of the Constitution which were adopted to foreclose states from providing special benefits to their own citizens, a situation which occurred frequently under the Articles of Confederation, the precursor of the Constitution. In examining the constitutionality of subsection (d), this central tenet must be viewed within the context of a few cases which have permitted states to provide limited preferences to local residents in the allocation of natural resources. Because subsection (d) is so integral to the conceptual foundation upon which the land credit act is premised, we believe that the type of research which we are suggesting must be undertaken before this draft legislation is finalized.

8. Difficulty in Administering Residency Requirement: Beyond the legal considerations just mentioned, we believe that subsection (d) would be extremely difficult to administer. The enactment of this subsection would necessitate the creation of a large and costly bureaucracy to determine the validity of hundreds of thousands of residency claims, each of which would involve different sets of facts. Even if such a bureaucracy were established, the difficulties inherent in disproving a claim of residency and the great monetary benefits involved could well generate widespread abuse of the program. This possibility is increased in the situation under discussion here, because the draft legislation does not mandate objective criteria for proof of residency. In our opinion, the likelihood of future administrative and pragmatic problems associated with the implementation of subsection (d) should weigh heavily in any decision to propose the land credit act.
9. Leasing: We note that Section 2(a) of the bill refers to leases, whereas Section 2(e) says that credits cannot be used for lease payments. We expect that the practical effect of such a prohibition would be to virtually eliminate leasing as a tool for State land availability, since any State land program to which credits cannot be applied would be very unpopular. That outcome would be unfortunate, since leasing is well suited as a means of protecting long run public interests while allowing current use. Because trust land transactions must be at market value, trust lands must be exempted from any credit program. If this is done, there is no reason to exempt leased lands in general.
10. Growth Inducement: Essentially, the program pays people \$500 per year to live in Alaska. Such a program is bound to generate considerable national publicity. The program's potential to attract people to Alaska should be considered.

In summary, we think that the land credit program will generate additional pressures for very rapid disposal of State lands that may jeopardize sound land administration. Although similar pressures would occur under a homestead program, the pressure generated by the land credit approach would be more pervasive, since benefits would accrue to each citizen automatically without any significant initiative. Moreover, since land credits could be applied to most State land disposal programs, the effects described above would affect State land administration on an across the board basis. Clearly, we want to make lands available for private use, but this can be done effectively under an array of well suited programs without a credit system. The land policy bill, developed in cooperation with members of your Administration, embodies this concept.

We appreciate the complexity of current circumstances surrounding State land issues, and complement you on the consideration that is being devoted to this extremely important matter. The Commission and its

staff stand ready to help in anyway that we can as your deliberations continue.

Sincerely,

*Walter B. Parker*

Walter B. Parker  
State Co-Chairman

Sincerely,

*Esther C. Wunnicke*

Esther C. Wunnicke  
Federal Co-Chairman

Enclosure (1)

1. Memo dtd. 2/28/78 to Michael C.T. Smith from George Gee, re. Population and Residency in Ga

DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF LANDS  
PLANNING & CLASSIFICATION SECTION

MICHAEL C. T. SMITH  
Assistant Commissioner

February 28, 1978

THRU: STEPHEN REEVE, Chief *SM*  
Planning & Classification

*GG*  
GEORGE GSE, Senior Planner  
Planning & Classification

Population and  
Residency in  
Alaska

This memorandum is in response to your request for background data on Alaska's population and average length of residence within the state. Specifically, it is addressed to three questions:

1. How many persons in Alaska's population are 18 years or older? How many are younger than 18?
2. What are the average years of residence for persons 18 years and over and for persons under 18 years of age?
3. Are there distinctive patterns of change in the age distribution of Alaska's population and in the average length of residency?

As you know, we have reached the late intercensal years and accurate population information has become extremely scarce. Even estimates of total state population from different credible sources show significant divergence. Detailed data on demographic characteristics such as age and residency are practically nonexistent. Notions for these will have to be distilled from other types of information found to be available and pertinent. Thus, the best we have at hand is an assortment of rule-of-thumb indicators which, despite built-in limitations, provide a basis for making some reasonable conjectures.

1. How many persons are 18 years or older? The Alaska Department of Labor estimated the July 1976 state population to be 413,289 persons. The U.S. Census Bureau's conservative estimate of 382,000 people generally is considered less reliable. However, the Bureau develops its population total with an age profile component:

	<u>Percentage</u>
	9.7
5-17	27.5
18-44	46.3
45-64	14.1
65 and over	2.4

Applying these results to Labor's estimate of 413,289 people, approximately 63 percent, or 259,000 persons, would be 18 years of age or over, while 153,780 persons would be under 18.

2. What are the average years of residence for these groups?

First, only three sources of information were found to shed light on this issue. A 1977 survey in the Anchorage area gave the following years of residency distribution for about 1200 households:

<u>Years of Residence in Anchorage</u>	<u>Percentage of Households</u>
0-1.9	19.8
2-3.9	17.6
4-7.9	21.0
8-14.9	18.0
15-24.9	15.5
25+	8.0
Mean years of residence	= 9.4 years
Median years of residence	= 6.0 years.

A similar 1976 survey of 408 households in the North Star Borough yielded these findings:

<u>Years of Residence in North Star Borough</u>	<u>Percentage of Households</u>
0-1	26
2-3	18
4-10	23
11-20	17
20+	16

Median years of residence = 6.4 years

Although these results are for households instead of individuals, they can probably be taken as indicative for the latter. Only about 15 percent of the respondents in both surveys indicated they had lived somewhere else in Alaska prior to moving to their respective municipality. Thus, something like 6 to 10 years would probably provide a fair range for average length of residence for people in these two major population centers of Alaska.

There is very little basis for determining how residency differs for people under and over 18 years of age. The 1970 census for Alaska does suggest some basis for guessing derived from the responses to the question: Where did you live in 1965?

- a. one-third of the children between 0 and 9 years of age were 5 year residents;
- b. 40 percent of the children ages 10 to 19 were 5 year residents;
- c. only about 14 percent of people 20 to 29 were 5 year residents;
- d. between 25 and 30 percent of the people between 30 and 44 years were 5 year residents;
- e. over half of the people 45 years and older were 5 year residents.

... considered repro...  
... If the And...  
... rates of residency for those who...  
... would mean that there were some 2...  
... accumulated by people 18 years and...  
... estimated .8 million for the remain...

3. No longstanding trends were  
quick review of changes in t...  
of Alaska's population since

	1960	1970
Under 18:	*39.8%	39.9%
Over 18:	*60.2%	60.1%

No data at all was useful for determining changes  
patterns.

\* estimated from data  
years rather than 18 ye

HB

763

HOUSE RULES COMMITTEE LETTER OF INTENT TO ACCOMPANY HB 763

It is the intent of the Legislature that after passage of HB 763 the board of directors of the Commercial Fishing and Agriculture Bank shall institute a plan of work to include:

(1) work with federal farm credit system representatives to develop policies and agreements formalizing the working relationship between the bank and the Spokane Bank for Cooperatives and the Federal Intermediate Credit Bank of Spokane;

(2) the completion of sufficient market research to determine the initial capital needs of the bank and projections for future capital requirements; and

(3) the completion of a financial proposal to be submitted to the commissioner of revenue in support of a preferred stock offering memorandum, specifying the board's suggestions for terms of the stock and a schedule of stock repurchase by the bank.

STATE OF ALASKA  
THE LEGISLATURE

POUCH 7 - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

March 27, 1978

MEMORANDUM

SUBJECT: HB 763: W.O. #15/R

TO: The Honorable Alvin Osterback

FROM: John Williams  
Research Analyst 

You have asked that we prepare an analysis of HB 763, an Act relating to commercial fishing and agriculture. Following is a general description of the bill. We will first discuss the bill from a general perspective and then specifically address the issues of the purpose of the development bank, the structure, financial aspects, and the eligibility requirements.

OVERVIEW

HB 763 repeals the commercial fishing loan act (AS 16.10.300-370) and creates the Commercial Fishing and Agriculture Cooperative Development Bank (it does not repeal the Alaska Agricultural Loan Act--AS 3.10). The bank is subject to the provisions of the cooperative corporation laws (AS 10.15.005-600) except as otherwise specifically provided for in the bill.

The bank is to be initially capitalized via purchase by the State of non-voting preferred stock in the corporation. The initial seed money is to be repaid to the State within 20 years from the profits of the bank and from the purchase of stock by fishermen and farmers. If the State's initial investment is not returned within 20 years, the commissioner of Commerce and Economic Development may dissolve the corporation.

The bank may borrow money, lend money, guarantee loans, joint venture in loans with institutions of both the public and private sectors, hold equity interest in enterprises of its members (not to exceed 49%), and may issue bonds.

PURPOSE

Section 2 of HB 763 describes five purposes of the Act (economic assistance for Alaskan commercial fishermen and farmers, to encourage utilization of agrarian and fishery resources, encourage technological devel-

opment in those two renewable resource industries, and to promote a more rapid development of the agricultural industry). The bill will also have the effect of encouraging members of those industries to form cooperatives and perform decision making through peer group processes. The intended impact, however, is to insure the availability of financial resources for expansion of the fishing and agricultural industries in the State.

### STRUCTURE

The bank is clearly modeled after components of the federal farm credit system, which were initially financed by the federal government and subsequently fully owned and financed by the members. The federal seed money was repaid, at which time federal involvement in the system was terminated (other than as a regulatory overseer).

The Commercial Fishing and Agriculture Cooperative Development Bank is established as an instrumentality of but separate from the Department of Commerce and Economic Development (Sec. 3). It is governed by a Board of Directors (three in number), with the initial directors appointed by the Governor. Subsequent directors are elected by the shareholders and serve three year terms. The directors are charged with filing the articles of incorporation and with adopting bylaws. They shall also establish the value for and issue stock in the bank, as well as set out a schedule of guidelines for loans made by the bank. A director of the bank is prohibited from voting on matters for which he or she has a conflict of interest (Sec. 41.45.190).

### FINANCIAL ASPECTS

#### Capitalization

The bank is initially capitalized by the sale of preferred stock to the State (50-80% of issuance) and to members. Membership stock is issued in the amounts and with the value determined by the Board of Directors.

Sections 41.45.120-180 provides for bonding powers. The bank may issue bonds at its discretion, except that the maturity of any issue may not exceed 30 years, and the bank may not pledge the full faith and credit of the State. All property and bond issuances of the bank are tax exempt and legal investments for fiduciaries.

Sec. 41.45.210(15) allows the bank to borrow money and issue secured or unsecured evidence of indebtedness.

#### Lending

As mentioned earlier, the bank is fashioned after the farm credit system. To be eligible to borrow from the bank, a lender must be a participant in the bank. The farm credit system specifies that a member must own at least 10% of the value in stock of an outstanding loan. A minimum participation is not specified in HB 763.

The bill leaves broad discretion to the Board of Directors in determining loan policy. Sec. 41.45.210 specifies that the bank may make variable rate or fixed rate loans, provide for extensions of loan terms (for poor fishing or farming seasons), make loans jointly with other public or private institutions, guarantee or endorse obligations of other corporations, and accept subordinate loans as security.

Sec. 41.45.210(18) allows the bank to provide "technical services" to shareholders to enhance their ability to obtain financial assistance from the bank.

### Investments

The bank is given broad powers to invest its resources. Sec. 41.45.210(7) provides for the bank to "invest in projects conducted by shareholders of the bank by purchase of the capital stock of corporations involved in such projects, except that no investment in capital stock may exceed 49 per cent of the capital stock of a corporation". Subparagraph (8) of the same section provides for the bank to invest in projects relating to the development of farms, storage and processing of farm produce, etc. except that no investment may exceed 49% of the capital stock. There is no similar provision specifically allowing the bank to invest in "vertically integrated" fishing operations.

### ELIGIBILITY

Sec. 41.45.210(1) describes the eligibility requirements. Applicants must be members of the bank to be eligible to receive loans. Eligible recipients are defined as "commercial fishermen and farmers or...corporations, partnerships, or joint ventures 51 per cent of which are owned by commercial fishermen or farmers who are state residents...."

Eligible activities do not appear to be limited to strictly fishing or farming. Subparagraphs (7) and (8) of Sec. 41.45.210 allow the bank to invest in activities conducted by shareholders of the bank. Subparagraph (7) is not specific as to what kinds of projects the bank may invest in, other than the projects must be projects "conducted by the shareholders". Subparagraph (8) specifies that bank investments may be made in the development and operation of vertically integrated activities relating to farming.

The bill is not specific as to what loan applications are eligible for consideration by the bank, except that loans are made only to members and members must be either commercial fishermen or farmers. Loan applications submitted by members for projects outside the purview of either fishing or agriculture are presumably eligible, unless otherwise provided for by the Board of Directors in the articles of incorporation or bylaws.

JW:dh

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS for HB 763 (am)

Title An Act relating to commercial fishing and agriculture

Requested by Representatives Osterback and Gardiner Date 5/26/78

II. FISCAL DETAIL

Agency Affected Departments of Commerce and Economic Development and Revenue

Program Category Affected Development/Treasury

Budget Request Unit(s) Affected Economic Enterprise/Treasury Management

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL			150.0			
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
General Fund Equity Investment			2,000.0			
TOTAL			2,150.0			

FUNDING (Thousands of Dollars)

GENERAL FUND			2,150.0			
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME			0			
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

\$150,000 is appropriated as one time only setup costs for the bank. The attached sheet gives the breakdown of that \$150,000 which will be used for organizational and setup purposes.

The initial capitalization of the bank is to be \$2 million in preferred stock investment from the General Fund. It is anticipated that the \$2 million will be necessary after December, 1978. The stock shall be repurchased within 20 years. The bank is intended to become a member owned private institution.

IV. DATE 5/26/78

PREPARED BY John Williams

AGENCY Legislative Affairs Agency

PHONE 465-4918

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

The following is a general breakdown of the anticipated use to be made of the \$150,000 one time appropriation to the Commercial Fishing and Agriculture Bank board of directors.

1. Personal Services

- A. Bank Executive Director with salary similar to State range 23, salary of \$36,120 plus benefits of 20% (\$7,224).....\$43,344
- B. Clerk Typist with salary similar to State range 8, salary of \$12,660 plus benefits of 20% (\$2,532)..... 15,192

2. Travel

- A. Board-6 meetings, 5 members at \$350 per trip..... 10,500
- B. Executive Director-12 trips at \$350 per trip (per diem included)..... 4,200

3. Contractual

- A. Rent-250 sq. ft. at \$1.25 per sq. ft./mo. 3,700
- B. Telephone/communications..... 1,800
- C. Postage, etc..... 600
- D. Printing and Advertising..... 1,600
- E. Professional fees and services (includes research and legal fees of organization).. 65,000

4. Commodities

- A. Office Supplies..... 600

5. Equipment

- A. 2 desks, 2 chairs..... 1,100
- B. File cabinets, book cases..... 400
- C. Calculator, typewriter, and misc..... 800

TOTAL FY-79.....\$148,836

IPMAFUB AHG

4-078249E053 02/22/78

ICS IPMNTZZ CSP

5094567393 TDMT SPOKANE WA 213 02-22 0804P EST

PMS HONORABLE ALVIN OSTERBACK, REPORT DELIVERY

MEMBER HOUSE OF REPRESENTATIVES

ALASKAN STATE LEGISLATURE COPY MESSAGE , FONE ASAP

JUNEAU AK 99801

REFERENCE HOUS BILL 763 DUE FOR MARKUP SESSION OF RESOURCES

COMMITTEE, PLEASE CONSIDER THE FOLLOWING THE FEDERAL INTERMEDIATE

CREDIT BANK OF SPOKANE UNDER THE FARM CREDIT ACT OF 1971 IS CHARGED

WITH THE SUPERVISION OF PROVIDING SHORT AND INTERMEDIATE TERM CREDIT

FOR AGRICULTURE, INCLUDING FARMERS, RANCHERS AND HARVESTERS AND

PRODUCERS OF AQUATIC PRODUCTS FOR THE STATE OF ALASKA BY PRODUCTION

CREDIT ASSOCIATION AND OTHER FINANCING INSTITUTIONS. COMMENCING IN

THE LATE 60S THE NORTHWEST LIVE STOCK PRODUCTION CREDIT ASSOCIATION

HAS EXTENDED AGRICULTURAL CREDIT TO QUALIFIED FARMERS AND RANCHERS

IN ALASKA. IN 1973, NORTHWEST LIVE STOCK PRODUCTION CREDIT

ASSOCIATION ALSO BEGAN FINANCING FISHERMAN FISHING IN ALASKAN

WATERS. TO DATE, EXPERIENCE HAS BEEN SATISFACTORY.

THE FEDERAL INTERMEDIATE CREDIT BANK OF SPOKANE WOULD NOT REGISTER  
OBJECTION TO THE CREATION OF A COMMERCIAL FISHING AND AGRICULTURAL  
COOPERATIVE DEVELOPMENT BANK AS PROPOSED IN HOUSE BILL 763. IN FACT,  
THE FICB OF SPOKANE LOOKS FORWARD TO WORKING CLOSELY WITH THE BANK  
WHEN AUTHORIZED IN ITS CREATION. THIS IS PARTICULARLY IMPORTANT  
BECAUSE THE PROPOSED BANK SHOULD BE STRUCTURED SO AS TO QUALIFY FOR  
DISCOUNTING LOANS WITH THE FEDERAL INTERMEDIATE CREDIT BANK OF  
SPOKANE.

FOR FURTHER INFORMATION, CONTACT THE FEDERAL INTERMEDIATE CREDIT  
BANK OF SPOKANE WEST 705 FIRST AVE SPOKANE WASHINGTON 99204,  
TELEPHONE (509) 456-7380. SINCERELY,

WILLIAM F BARRATT PRESIDENT FEDERAL INTERMEDIATE CREDIT BANK  
OF SPOKANE

HB 763

EARL R. COMBS, INC.

CONSULTANTS IN ECONOMICS AND PLANNING

2737 - 77th Ave. S.E. • Mercer Island, WA 98040 • (206) 232-3991 • TWX 32-9472 MIS MRID

March 27, 1978

Rep. Al Osterback, Chairman  
House Resources Committee  
Pouch V State Capitol  
JUNEAU, AK 99811

Dear Al:

As reported to your office by phone on March 27, I would recommend that the Resources Committee consider the following changes to HB763:

1) Section 1 - FINDINGS

The concept of the target group for assistance throughout Section 1 (fishermen and farmers) could be expanded to include processing firms and other businesses whose primary function is to service farmers and fishermen, by referring to "agriculture and fishing businesses" instead of "farmers and fishermen". This would appear to make the FINDINGS more consistent with Sec. 41.45.210 POWERS OF THE BANK as written (and as proposed for change in the remainder of this letter).

Sec. 41.45.210 POWERS OF THE BANK

Para (1) line 25, remove; replace with , and to seafood and agriculture processors, marketers and firms providing technical services to the agriculture and fishing industries for projects which will establish a facility within Alaska or which will establish or expand a market for the harvests of resident commercial fishermen or farmers.

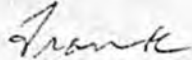
Para (7) and (8) could be clarified by merging them and defining target projects as defined under para (1). This could be done by adding of the type approved under para (1) of this section at the end of line 7. Paragraphs (7) and (8) would then be replaced by a single paragraph:

(7) invest in projects conducted by shareholders of the bank of the type approved under para (1) of this section by purchase of the capital stock of corporations involved in such projects, except that no investment in capital stock may exceed 49 percent of the capital stock of a corporation;

March 27, 1978  
Rep. Al Osterback  
Page 2

I am hopeful that these comments will be of assistance. If any clarification is needed, please contact me.

Sincerely,



Franklin L. Orth  
Senior Economist

FLO:TOE

HB

773

COMMITTEE REPORT  
SENATE

FURTHER: FINANCE

2/23/78

Date: \_\_\_\_\_

Mr. President:

The Committee on RESOURCES has had CSRD 773 (Fin) special appropriation to Dept. of Fish & Game, division of commercial fisheries

under consideration and (a majority of the committee) (the committee reports it back as follows)

- recommends it do pass                       recommends it do not pass
- recommends it do pass with attached amendment(s)
- recommends it be replaced with CS for \_\_\_\_\_
- and \_\_\_\_\_  new title               same title
- AND attaches a Letter of Intent               New Fiscal Note
- reports it back without recommendation
- and recommends it be referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

[Signature]  
[Signature]  
[Signature]  
[Signature]  
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 \_\_\_\_\_

[Signature]  
 Chairman



CS/HB 773 folder

## ALASKA TROLLERS ASSOCIATION

P.O. BOX 5825  
KETCHIKAN, ALASKA 99901  
907-225-9638  
January 27, 1978

The Honorable Mike Miller  
Pouch V  
Juneau, Alaska, 99811

Dear Representative Miller;

The Alaska Trollers Association Logbook Program, now entering its third year, has been deemed an important and needed undertaking by fishermen, resource managers and ocean scientists. The enclosed letters of commendation from the North Pacific Fishery Management Council and the National Marine Fisheries Service bear this out. Much of the initial two years has been devoted to generating interest and cooperation for the program, training fishermen in data collection techniques and determining the types of information that could best be obtained. Even so, much useful information has already been obtained. Attached is a list of the reports available from our office.

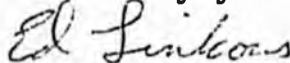
The Logbook Program is the only source of information providing detailed catch and fishing effort data for the Alaska power troll salmon fishery. It also provides virtually the entire data base for determining abundance, distribution and migration patterns of marine mammals in southeast Alaska waters and for monitoring trends in the southeast Alaska marine ecosystem. In 1978, with only a small increase in time and effort for participating fishermen, the Logbook Program will be used to help obtain better information for recoveries of tagged salmon, better understanding of incidence of salmon diseases and parasites and better knowledge of the accuracy of the Alaska fish ticket data collection system.

None of the above information can be feasibly collected by existing state, federal or private agencies. The cost of ship-time and personnel alone would be prohibitive - roughly \$2.7 million! Only Alaska Trollers Association can provide such data at a relatively modest cost, since we rely on voluntary efforts of fishermen. However, we do require a central office staffed with a biologist and secretary-administrator to ensure efficient management and coordination of the Program.

To date we have received a grant of \$40,000 from the State of Alaska for fiscal year 1977 (administered through a contract with A.D.F. & G. to University of Alaska Sea Grant Program). We had also anticipated receiving a grant of \$25,000 from the federal government (through Outer Continental Shelf Environmental Assessment Program) but have run into delays due to a series of unfortunate misunderstandings. Although we have sufficient funds to print 1978 Logbooks and Annual Reports on 1977 Logbook data, we are in need of funds to run our office for the remainder of fiscal year 1977. We need an additional \$20,000 to continue operations on a "bare bones" level. Therefore, we are asking that you support a request for \$20,000 in supplemental funding from the State Legislature 1978 fiscal year budget to go to our Logbook Program. Additionally, we hope you will ensure that our program is funded in the 1978 fiscal year budget at the increased level of \$65,000. Considering the amount of valuable information our program is able to provide just in the area of fisheries, this is certainly a modest and reasonable funding request.

Fishermen have long desired a voice in the management of the resource they depend upon for their livelihood, and are certainly in the best position to collect much needed information. The Logbook Program has shown that fishermen are responsive and responsible resource users. We hope that you will help us in our efforts to continue and improve our Logbook Program. Please let us know if we can provide you with any further information. We look forward to hearing from you.

Sincerely yours,



Ed Linkous, President

SF/sn  
Enclosures

## TROLL LOGBOOK PROGRAM REPORTS

1976 Southeast Alaska Troll Logbook Program, Marine Mammal Sightings: Detailed Summary. February 1977. A.D.F.& G. in cooperation with A.T.A., U. of A. Sea Grant and N.M.F.S. 80p.

1976 Troll Logbook Program: General Data Summary by Period and Area. A.D.F.& G. in cooperation with A.T.A., U. of A. Sea Grant and N.M.F.S. 200p.

Graphic Representations of Sea Surface Temperature Data from the 1976 Southeast Alaska Troll Log Book Program. 1977. Northeast and Alaska Fisheries Center Processed Report, N.M.F.S. 80p.

Feeding Habits of Salmon in Southeast Alaska based on Logbook Data and Stomach Samples Collected by Alaska Trollers Association. M.S. Thesis, U. of A. in progress.

Alaska Trollers Association Troll Logbook Program: Annual Report from 1976 Logbook Data. A.T.A., U. of A. Sea Grant, A.D.F.&G. and N.M.F.S. in press (printed by U.of A. Sea Grant).

Relative Abundance and Distribution of Small Chinook Salmon (*Oncorhynchus tshawytscha*) in Commercial Troll Fishing Waters North and West of Cape Spencer, Southeast Alaska. 1977 A.T.A. Technical Report. 33p. (Printed in Industry's Appraisal of the Alaska Salmon Troll Plan)

Harold E. Lokken, Chairman  
Jim H. Branson, Executive Director

Suite 32, 333 West 4th Avenue  
Post Office Mall Building



Mailing Address: P.O. Box 3138DT  
Anchorage, Alaska 99510

Telephone: (907) 274-4563  
FTS 265-5435

December 19, 1977

Mr. Ed Linkous  
Alaska Trollers Association  
P. O. Box 5825  
Ketchikan, AK 99901

Dear Ed,

The North Pacific Council asked me to write to the Alaska Trollers Association through you, commending you and your organization for the objective response you made to the first draft of the Council's management plan for the troll salmon fishery and your help in developing additional material for their consideration when they adopted the plan.

As you will recall, the Council, at the December meeting, was enthusiastic about the Alaska Trollers Association's logbook program recognizing the value of the information that can be derived from this voluntary effort. They want to work closely with you, both in that program and in the development of revisions to the troll management plan.

We are planning on holding a one-day work session to develop research proposals for the troll fishery along the lines suggested by the Council at its last meeting. It will be held in Juneau as early in January as we can schedule everyone. We'd like to have one or two representatives from the Trollers and your fishery biologist, Mr. Stephen Fried attend. Don Collingsworth will be coordinating the workshop and will keep you advised of the time and place. The Council will fund travel for up to two of your members and Mr. Fried for this workshop.

Sincerely,

A handwritten signature in dark ink, appearing to be 'JMB', written over a horizontal line.

Jim H. Branson  
Executive Director



March 9, 1977

Mr. Ed Linkous  
P.O. Box 5325  
Ketchikan, AK 99901

Dear Ed:

Jon Rowley delivered a progress report at a recent Interagency Technical Committee meeting which summarized the Troll Log Book Program for 1977.

We were pleased with the progress of this cooperative program and believe that it should be continued and refined. In addition to the data generation potential, the Troll Log Program elicits vastly improved communications between fishermen, scientists and administrators.

We support the Troll Log Program and will do all we can to assist it.

Sincerely,

Harry L. Rietze  
Director, Alaska Region

LOGBOOK PROGRAM BUDGET FY 1979  
for  
Program and Data Management

Salaries and Wages	
Project Leader 12 months @ \$2,000	\$24,000
Project Secretary 6 mos. @ \$1,000	6,000
Benefits (10% of salary and wages)	3,000
Taxes (State and Federal)	4,500
Travel (including Logbook Workshops prior to fishing season, travel to Fairbanks to help with data reduction, travel to N.P.F.M.C., A.D.F.&G., and N.M.F.S. meetings)	8,000
Supplies	1,000
Services	
Data Coding and Checking	3,500
Office Rental and Utilities	3,500
Communications (phone and postage)	1,500
Copying and Drafting	2,000
Logbook Printing (1979, 300 copies)	2,500
Annual Report Printing (1979, 400 copies)	2,500
Newsletter ( 4 times yearly, 400 copies)	500
Equipment (including drafting materials, electronic calculator)	2,500
Total	<hr/> \$65,000

HB

815

COMMITTEE REPORT  
SENATE

5/10/78

FURTHER: None

Date: 5/30/78

Mr. President:

The Committee on RESOURCES has had CSHB 815 (Fin)  
oil and gas conservation

under consideration and (a majority of the committee) (the committee reports it back as follows)

- recommends it do pass                       recommends it do not pass
- recommends it do pass with attached amendment(s)
- recommends it be replaced with CS for CS HB 815

and \_\_\_\_\_  new title     same title

AND attaches a Letter of Intent                       New Fiscal Note

reports it back w <sup>individual</sup>thout recommendation

and recommends it be referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

[Handwritten Signature]  
[Handwritten Signature]  
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from paper DO PASS with attached amendment

\_\_\_\_\_

\_\_\_\_\_

AGO 885864

R. Polaris  
Chairman

Testimony Before  
Alaska Senate Resources Committee  
on  
CSHB 815

My name is Thomas H. Krueger. I am an attorney  
for Exxon Company, U.S.A. and am located in Los Angeles.  
I appreciate the opportunity to appear before this Committee  
and present testimony for Exxon.

CSHB 815 operates to amend various chapters in Titles 31  
(Oil and Gas) and 38 (Public Lands) of the Alaska statutes. Much  
of the Bill deals with unitization and unitized operation of  
oil and gas pools. Exxon is and has long been a strong supporter  
of unitized operations designed to enhance recovery, promote  
resource conservation, prevent waste, eliminate unnecessary  
operations and safeguard correlative rights of the parties  
involved. Thus, we are interested greatly in presenting our  
views on this Bill to the Committee.

Several portions of CSHB 815 appear to be proper and  
acceptable revisions of the State's oil and gas law, and we  
will not take up your time discussing these provisions. There  
are, however, three areas in the Bill that are of considerable  
concern to us.

D 1  
Common Good

Section 7 of the Bill, which amends the unitization provisions of A.S. 31.05.110(b), deletes one of the findings of the Department of Natural Resources ("DNR") essential to a DNR order of unitization. Under current law, the DNR must find, among other things, that unitization and the adoption of a unitized method(s) are "for the common good and will result in the general advantage of the owners of the oil and gas rights within the pool or portion of it directly affected." The Bill proposes to eliminate the finding of resultant general advantage to the affected property owners, leaving only the finding that unitization and adoption of one or more unitized methods of operations are for the "common good". Significantly, "common good" is not defined.

In Exxon's view, unitization should result to the general advantage of the owners of the oil and gas rights, including the royalty owners directly affected, as well as to the "common good". If it does not, it should not be ordered by the State. The current provision is fair and should not be changed.

Under the Bill, the DNR could make the requisite finding that unitization, etc. are for the "common good" in a context where it would not result in

the general advantage of the owners of the oil and gas rights directly affected thereby. If DNR-ordered unitization were approved in such a context, serious constitutional questions could arise as applied to property owners who, in fact, were not benefited by and did not approve unitization, etc. of their interests. These questions could take the form of deprivations of liberty and property without due process of law.

② Underlifting  
overlifting

Section 10 of the Bill, which would apply to all units created after June 30, 1978, allows underlifting and overlifting of unit production only when it does not create waste; and, regardless of waste, underlifting and overlifting may be permitted by the commissioner for temporary periods when there are extraordinary disruptions to the owner's production disposal systems. Further, this section restricts the recovery of underlifted oil to a daily rate not to exceed 10 percent of a working or royalty interest owner's share of daily production at the time of underlift recovery.

Exxon strongly supports the prevention of waste, but does not consider the first portion of this section to be necessary. Waste is already prohibited by the statutes and the Department of Natural Resources is fully empowered to carry out the purposes of AS 31.05.

As to the part of this section which limits the rate of recovery of underlifted oil, we see no need for the restriction that is imposed or for the state to intervene in this area. The details of underlifting and overlifting are matters that can best be worked out satisfactorily by the oil and gas resource owners. By imposing this restriction, which produces no apparent benefit to anyone, unforeseen future problems may be created.

3. Sections 11 and 16 of the Bill would remove the requirement that state-ordered unitization be acceptable to 62.5% of the lessees and 62.5% of the royalty owners within the unit area (with certain exclusions). Under these provisions, the State, without working or royalty owner concurrence, could mandate unitization, including the details of unit participation, unitized management of further development and operation of the unit area, cost and expense apportionment, financing, etc.

Exxon believes that unitized operations are best accomplished through voluntary agreement between the persons whose property interests would be affected. In this way, interested persons are consulted and mutual agreement reached in a manner satisfactory to those concerned. This promotes harmony and contributes to the achievement of

unit operations. Under present law, compulsory unitization must be acceptable to working and royalty interest owners of at least 62.5 percent of the unit area, thereby insuring comfortable majority support and satisfaction. This provides some degree of assurance both that only meritorious unit projects are considered and approved and that the State will not be forced to act on applications for unitization which are lacking in merit and reasonable support.

Exxon Company, U.S.A. is presently participating in more than 370 reservoir-wide and field-wide unitization projects throughout the United States, all of which have been formed voluntarily or with majority consent of both royalty and working interests. We have found that when a project has merit, its benefit will be recognized by the resource holders and it will be implemented. In our experience, we have seen no need for government-dictated unitization; however, we do support the concept of state-ordered unitization where majority, but not total, agreement is reached for unitization amongst the participants.

We question that enactment of Sections 11 and 16 would serve to benefit all interest owners in a pool since the sections eliminate the necessity for working and royalty interest approval for State unitization as provided under current Alaska law. There is no

need for this legislation since (a) to Exxon's knowledge, no unitization project which was needed in the State of Alaska has failed to materialize as a result of failure to reach sufficient agreement among the persons affected, and (b) present conservation laws contain sufficient authority for unitization and conservation of oil and gas resources. If the Bill is enacted, the only way that a dissatisfied person could object to State-ordered unitization affecting him would be to resort to litigation.

Finally, if the State were to undertake unitization by unilateral action, it would be put in the position of addressing many complex technical, operating, financial and legal issues normally handled by the operators. This would require a large expansion of its staff, and could delay the unitization process. Many of these issues that the State would set itself up to resolve would impact only upon the working interest owners and not upon the State.

In summary, Exxon believes that there is no need to change existing law on this subject and supports retention of voluntary and majority consent unitization as presently provided for in the statutes.

In summary, Exxon opposes that portion of Section 7 of the Bill which removes the required finding that unitization and adoption of unitized method(s) will result in the general advantage of the owners of the oil and gas rights. Present law on this subject is reasonable and fair and should not be changed. In addition, Exxon is opposed to Section 10 of the Bill since the provisions it adds concerning underlift and overlift appear to be unnecessary. The restriction on the rate of recovery of underlifted oil could cause problems in the future. Finally, we are strongly opposed to Sections 11 and 16 which allow for unitization by unilateral state action.

**STATE OF ALASKA**  
**THE LEGISLATURE**

POUCH V. STATE CAPITOL  
JUNEAU ALASKA 99811  
907 465 3500

LEGISLATIVE AFFAIRS AGENCY

March 1, 1978

MEMORANDUM

SUBJECT: HB 815 (W.O. #12/R)

TO: The Honorable Al Osterback, Chairman  
House Resources Committee

FROM: Richard G. Haggard  
Research Analyst

This memorandum is in response to your request that we prepare a summary analysis of HB 815, relating to oil and gas conservation.

Section 1

Amends AS 31.05.030(d) and allows the Department of Natural Resources to require oil or gas well operators to measure and monitor pressures within oil or gas pools. Such pressure monitoring would provide an additional source of information for state conservation authorities in terms of seeing that state conservation objectives are met.

Section 2

Amends AS 31.05.030(e) and allows the Department of Natural Resources to regulate the production rate of oil and gas from a well or property for purposes of meeting state conservation objectives.

Section 3

Amends AS 31.05.030(a)(1) and allows the Department of Natural Resources to require that oil or gas well operators make, and file the results of, flow test information from wells drilled for oil or natural gas. Such flow test information would be covered under the confidentiality provisions of AS 31.05.035(c).

Section 4

Amends AS 31.05.035(c) and provides that only operators of oil and natural gas wells may require confidential treatment of data submitted to the Department of Natural Resources in relation to state conservation requirements. The current statute does not specify which parties may require confidential treatment of data.

Section 5

Amends AS 31.05.060 by adding a new subsection (b) which requires that any action by the Department of Natural Resources under AS 31.05 that has state-wide or general application will be performed in accordance with the Administrative Procedure Act (AS 44.62), except that any action by the Department under AS 31.05 with respect to a single well or field will be performed in accordance with regulations of the department designed to afford persons affected by the action notice and an opportunity to be heard.

Section 6

Amends AS 31.05.110(b) by removing the requirement that a unitization agreement, if promulgated, "...will result in the general advantage of the owners of the oil and gas rights within the pool or portion of it directly affected..."

Section 7

Amends AS 31.05.110(c) in the following manner:

1. Makes discretionary the Department of Natural Resources' authority to determine the size and area of operating units.
2. Revises the terms by which the department determines the area of an operating unit from "...the area of a pool or portion of it..." to "...the boundary of the area...".
3. Makes discretionary the department's authority to limit unitization agreements to single pools or portions of single pools.
4. Removes the requirement that unitization agreements can cover only those areas of a pool or pools which have been defined and determined to be productive of oil and gas by actual drilling operations.

Section 8

Amends AS 31.05.110(h) by deleting references to "one-eighth" landowner royalty shares. The amendatory language would take into account circumstances where the landowners royalty share was other than one-eighth (12.5%).

Section 9

Amends AS 31.05.110(i) by forbidding either underlifting or overlifting of an "aliquot" (a fraction) of unit production unless an emergency order for such under- or overlifting is approved by the department. "Emergency order" is not, however, defined either in HB 815 or the current statute.

Section 10

Amends AS 31.05.170(11) by defining the drilling of unnecessary wells to carry out the general conservation purposes of AS 31.05 as "waste".

Section 11

Amends AS 31.05.170(12) by clarifying the definition of a "cubic foot of natural gas" and by changing the pressure measurement base for defining a "cubic foot of natural gas" from 14.65 pounds per square inch absolute to 14.73 pounds per square inch absolute (conforming Alaska's law to both federal standards and those of the Interstate Oil Compact).

Section 12

Amends AS 38.05.180 relating to the leasing of public lands, by adding the requirement that no lease under section 180 may be issued without inclusion of the language of AS 31.05.110(h) (providing for the assessment of unitization costs) as part of the lease. Section 12 also provides that leases issued in violation of this requirement shall be construed as containing the language of AS 31.05.110(h).

Section 13

Amends AS 43.55.140(2) relating to Alaska's oil and gas severance tax, by changing the pressure measurement base for defining "one cubic foot of gas" from 14.65 pounds per square inch absolute to 14.73 pounds per square inch absolute (again, conforming Alaska's law to the federal and Interstate Oil Compact standard).

Section 14

Provides that the Act will take effect July 1, 1978.

324A S. Willoughby  
Juneau, Alaska 99801

May 15, 1978

Senator Chancy Croft  
Alaska State Senate  
Pouch V  
Juneau, Alaska 99811

SENATOR  
FZAND

Dear Senator Croft:

As the sponsor of Senate Bill 503, relating to the establishment of an Oil and Gas Conservation Commission, you already know that the House has passed House Bills 815 and 830 on much the same subject.

There is, however, a small technical change which could be made to your bill or to the appropriate House bill, which change would have a potential benefit to the State of Alaska in excess of \$135 million.

The details of the cost savings to the State are related in the accompanying letters to Representatives Chatterton and Malone and to Secretary Schlesinger.

Put simply, the suggested change would give the state the option of keeping its "excess" or "surplus" oil in the ground until markets can be found which have low transportation costs & consequent high royalty income levels--or until the Federal government can be persuaded to compensate Alaska for continued production on behalf of the East Coast even at low royalty rates for Alaska.

The change involves giving the Commission the right to set prorationing rates for "conservation or marketing purposes". (The underlined words need to be added to either the House bill or to your bill to make the Commission's rights explicit rather than implicit.)

The other change to reach this desirable end is in the definition section: the definition of "waste" should include "the production of oil or gas at a rate greater than economic market demand."

As the letter to Representative Buchholdt points out, "economic market demand" is purposely left vague to allow the Commission to decide whether to maximize production or revenue, whether or not to leave oil excess to West Coast demand in the ground or to produce oil to satisfy East Coast demand.

Since legislators are used to arguments from self-interest, I suggest 10% of the savings come to me; these small changes will in any case benefit Alaska--and the oil companies--greatly by reducing high

Senator Chancy Croft

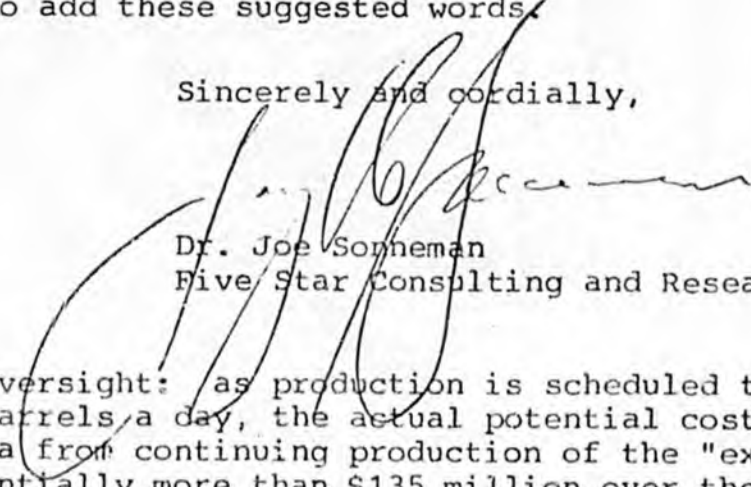
-2-

May 15, 1978

transportation costs on the "excess" oil. Or--and this may be ultimately the more likely possibility--the fact that Alaska has given itself this power may mean that the Federal government will either be willing to compensate Alaska for excess production on behalf of East Coast consumer states or will be willing to aid Alaska in realizing the Japanese barrel-for-barrel swap.

In short, this is a change which benefits Alaska: please do what is possible to add these suggested words.

Sincerely and cordially,



Dr. Joe Sonneman  
Five Star Consulting and Research

P.S.: There is one oversight: as production is scheduled to rise to 2 million barrels a day, the actual potential cost to the State of Alaska from continuing production of the "excess" oil will be substantially more than \$135 million over the three year period; the potential savings will also be more, therefore, if the change in SB503 or HB815 is effected.

cc; / Senator Poland  
Senator Sackett  
Senate President Rader  
Senator Ray  
Senator Hohman  
Senator Sumner  
Senator Huber  
Senator Rodey

AGO 885859

Title 31 - Chapter 05 - The States Oil and Gas Conservation Act was adopted in 1955 by the Territorial Legislature. The Act is virtually the Interstate Oil Compact Commission's Model Act. No substantive changes have been made to the Act since adaption, 23 years ago. The Model Act was drafted primarily for the purpose of providing States with the authority to protect correlative rights of private mineral land owners and prohibit waste.

HB 815 except for Section 15 deals solely with amendments to the Oil and Gas Conservation Statute 31-05. The intent of the bill is to improve Statute for application to Alaska which is primarily a public lands state rather than a private lands state typified by the uplands of oil producing south 48 states.

HB 815 incorporates in addition to the sponsors proposals amendments to Statute requested by the Department of Natural Resources and amendments to Statute requested by the industry. Several sections of the bill address requirements ~~from~~<sup>for</sup> the Industry, additional data deemed necessary to insure Alaska protection of correlative rights and prevention of waste. Other sections address housekeeping amendments to facilitate better administration of the Act.

The most substantive change to existing statute is provided by Section 16 of the bill. This is a policy question.

Current law 31.05.110(d) in addition to permitting voluntary unitization of many oil and gas leases in to one cooperative reservoir management unit, provides the State with the authority to mandate unitization providing that 62.5% or more of the lessees approve and 62.5% or more of the lessors approve.

Section 16 of the bill repeals the proviso for 62.5% or more approval; thus providing the State with the power to mandate unitization of Oil and Gas leases when deemed necessary to protect correlative rights and prevent waste.

You may ask why this power is needed. Oil and Gas reservoirs almost always have a habit of occurring beneath leases having different ownership interests. Unless the entire reservoir is managed as one unit "waste" as defined by Statute will generally occur and in fact waste as defined by Statute will most often be necessary to protect correlative rights. We have a show window example of such waste existing on State lands today. We need the statutory hammer to force unitization. After all, because of our severance tax law we have a vested interest in maximizing the ultimate recovery of oil and gas from all lands within the State regardless of ownership.

Of lesser significance are Sections 10 and 15 of the bill. Section 10 permits underlifting/overlifting of unit production only when it will not create waste excepting for temporary periods where the Commission finds extraordinary conditions have occurred.

Section 15 requires that all future oil and gas lease forms include the language set forth within the quotation marks. We would not be in the court today if such language had been adopted in earlier years.

A M E N D M E N T

OFFERED IN THE HOUSE: Senate Resources BY: Chatterton

TO: Senator Poland HOUSE BILL No. CSHB 815 (Finance)

SENATE BILL No. \_\_\_\_\_

PAGE: 7 and 9

LINE: Pg. 7 - Lines 20 & 23

Pg. 9 - Lines 3,4 & 6

Page 7, Line 20

(a) Delete - (the unit) immediately preceding the word Production.

(b) Add - or lease immediately following the word tract.

Page 7, Line 23

Add - or lease immediately following the word unit.

Page 9, Line 3 & 4

(a) Delete - (the unit) immediately preceding the word Production.

(b) Line 4 - Add - or lease immediately following the word tract.

Page 9, Line 6

Add - or lease immediately following the word unit.

*sl*  
\_\_\_\_\_

HB

830

COMMITTEE REPORT

SENATE

FURTHER: Finance

5/10/78

Date: 6/2

Mr. President:

The Committee on RESOURCES has had CSSSIA 830 (Fin) establishing the Alaska Oil and Gas Conservation Commission

under consideration and (a majority of the committee) (the committee reports it back as follows)

- recommends it do pass                       recommends it do not pass
- recommends it do pass with attached amendment(s)
- recommends it be replaced with SCS for CS SS HB 830 (Fin)

and \_\_\_\_\_  new title       same title

AND attaches a Letter of Intent       New Fiscal Note

reports it back without recommendation

and recommends it be referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

[Signature]

[Signature]

[Signature]

[Signature]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

No Rec.

\_\_\_\_\_

C. Tullion No Rec.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

AGO 885838

[Signature]  
Chairman

THE LEGISLATURE OF THE STATE OF ALASKA  
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST  
 Bill/Resolution No. CSSSHB 830  
 Title An Act establishing the Alaska Oil and Gas Conservation Commission  
 Requested by Commissioner Robert E. LeResche Date June 1, 1978

II. FISCAL DETAIL  
 Agency Affected Division of Oil & Gas Conservation of Department of Natural Resources  
 Program Category Affected NRMEC  
 Budget Request Unit(s) Affected Oil and Gas Conservation

EXPENDITURES (Thousands of Dollars)

	FY 78	1/2 year FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES		125.9	268.2	285.6	304.2	324.0
200 TRAVEL		3.0	6.4	6.8	7.2	7.7
300 CONTRACTUAL		76.0	152.0	243.2	257.8	273.3
400 COMMODITIES		1.0	2.2	2.4	2.5	2.7
500 EQUIPMENT		4.9	2.1	2.2	2.4	2.5
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
TOTAL		210.8	430.9	540.2	574.1	610.2

FUNDING (Thousands of Dollars)

GENERAL FUND		210.8	430.9	540.2	574.1	610.2
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		7	7	7	7	7
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Salaries, equipment and other provisions for three Commissioners, three personal secretaries and one Administrative Assistant to make the organization semi-independent. This assumes that budgeting, personnel, and fiscal work or basic administrative support would be provided by Department of Natural Resources or some other existing department. Existing staffing of the present Division of Oil and Gas would be utilized in total in the new Commission. The entire staff would have to relocate.

IV. DATE June 1, 1978 PREPARED BY Hoyle H. Hamilton  
 AGENCY Division of Oil and Gas Conservation  
 PHONE 279-1433  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

POSITION TITLE

Administrative Assistant

	<u>Type of Expenditure</u>	<u>Amount</u>	<u>Detail</u>
100	Personal Services	\$17,055	13,644 + 25% benefits=17,055
200	Travel	--	
300	Contractual	6,700	Rent, word processing, utilities, telephone
400	Commodities	300	
500	Equipment	<u>1,400</u>	
	Total	\$25,455	

Discussion

One Administrative Assistant required starting 1/1/79

POSITION TITLE

Secretary

	<u>Type of Expenditure</u>	<u>Amount</u>	<u>Detail</u>
100	Personal Services	\$17,055	13,644 + 25% benefits=17,055
200	Travel	--	
300	Contractual	8,200	Rent, word processing, utilities, telephone
400	Commodities	300	
500	Equipment	<u>1,400</u>	
	Total	\$26,955	

Discussion

Three secretaries required starting 1/1/79

POSITION TITLE

Commissioner

	<u>Type of Expenditure</u>	<u>Amount</u>	<u>Detail</u>
100	Personal Services	\$59,130	47,304 + 25% benefits=\$59,130
200	Travel	2,000	
300	Contractual	6,700	Rent, word processing, utilities, telephone
400	Commodities	300	
500	Equipment	<u>1,400</u>	
	Total	\$69,530	

Discussion

Three Commissioners required starting 1/1/79

THE LEGISLATURE OF THE STATE OF ALASKA  
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SSHB 830  
 Title An Act Establishing the Oil and Gas Conservation Commission  
 Requested by Commissioner LeResche Date 3/13/78

II. FISCAL DETAIL

Agency Affected Division of Oil and Gas Conservation of Department of Natural Resources  
 Program Category Affected NRMEC  
 Budget Request Unit(s) Affected Oil and Gas Conservation

EXPENDITURES (Thousands of Dollars)

	1/2 year					
	FY 78	FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES		8.5	18.2	19.3	20.6	21.9
200 TRAVEL						
300 CONTRACTUAL		3.3	7.1	7.6	8.1	8.6
400 COMMODITIES		.2	.3	.3	.4	.4
500 EQUIPMENT		.7	1.5	1.6	1.7	1.8
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		12.7	27.1	28.8	30.8	32.7

FUNDING (Thousands of Dollars)

GENERAL FUND		12.7	27.1	28.8	30.8	32.7
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

These estimates assume that the present Oil and Gas Conservation Committee would be selected for the new Commission serving in the dual capacity as Commissioner (Chief Petroleum Engineer), Commissioner (Chief Petroleum Geologist) and Commissioner (Director). Since there is not sufficient top level work to keep three commissioners busy, a savings of approximately \$400,000/year could be realized in this manner. Help is needed at the lower levels.

IV. DATE March 13, 1978 PREPARED BY O.K. Gilbreth  
 AGENCY Oil and Gas Conservation  
 PHONE 279-1433  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)

## POSITION TITLE

Administrative Assistant

	<u>Type of Expenditure</u>	<u>Amount</u>	<u>Detail</u>
100	Personal Services	\$17,055	13,644 + 25% benefits=17,055
200	Travel	--	
300	Contractur	6,700	Rent, word processing, utilities, telephone
400	Commodities	300	
700	Equipment	<u>1,400</u>	
	Total	\$25,455	

Discussion

One Administrative Assistant required starting 1/1/79

FISCAL NOTE

I. REQUEST SSHB 830  
 Bill/Resolution No. \_\_\_\_\_  
 Title An Act establishing the Alaska Oil and Gas Conservation Commission  
 Requested by Commissioner LeResche Date 3/13/78

II. FISCAL DETAIL  
 Agency Affected Division of Oil and Gas Conservation of Department of Natural Resources  
 Program Category Affected NRMEC  
 Budget Request Unit(s) Affected Oil and Gas Conservation

EXPENDITURES (Thousands of Dollars)

	FY 78	1/2 year FY 79	FY 80	FY 81	FY 82	FY 83
100 PERSONAL SERVICES		125.9	268.2	285.6	304.2	324.0
200 TRAVEL		3.0	6.4	6.8	7.2	7.7
300 CONTRACTUAL		25.6	54.6	58.1	61.9	65.9
400 COMMODITIES		1.0	2.2	2.4	2.5	2.7
500 EQUIPMENT		4.9	2.1	2.2	2.4	2.5
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>		<b>160.4</b>	<b>333.5</b>	<b>355.1</b>	<b>378.2</b>	<b>402.8</b>

FUNDING (Thousands of Dollars)

GENERAL FUND		160.4	333.5	355.1	378.2	402.8
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME		7	7	7	7	7
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Salaries, equipment and other provisions for three Commissioners, three personal secretaries and one Administrative Assistant to make the organization semi independent. This assumes that budgeting, personnel, and fiscal work or basic administrative support would be provided by Department of Natural Resources or some other existing department. Existing staffing of the present Division of Oil and Gas would be utilized in total in the new Commission.

IV. DATE March 13, 1978 PREPARED BY O.K. Gilbreth  
 AGENCY Division of Oil and Gas Conservation  
 PHONE 279-1533  
 Original: Legislative Finance  
 cc: Budget and Management  
 Prime Sponsor (if not Legislator Name)

POSITION TITLE

Commissioner

	<u>Type of Expenditure</u>	<u>Amount</u>	<u>Detail</u>
100	Personal Services	\$59,130	47,304 + 25% benefits=\$59,130
200	Travel	2,000	
300	Contractual	6,700	Rent, word processing, utilities, telephone
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	Total	\$69,530	

Discussion

Three Commissioners required starting 1/1/79

## POSITION TITLE

Administrative Assistant

	<u>Type of Expenditure</u>	<u>Amount</u>	<u>Detail</u>
100	Personal Services	\$17,055	13,644 + 25% benefits=17,055
200	Travel	--	
300	Contractual	6,700	Rent, word processing, utilities, telephone
400	Commodities	300	
500	Equipment	<u>1,400</u>	
	Total	\$25,455	

Discussion

One Administrative Assistant required starting 1/1/79

POSITION TITLE

Secretary

	<u>Type of Expenditure</u>	<u>Amount</u>	<u>Detail</u>
100	Personal Services	\$17,055	13,644 + 25% benefits=17,055
200	Travel	--	
300	Contractual	8,200	Rent, word processing, utilities, telephone
400	Commodities	300	
500	Equipment	<u>1,400</u>	
	Total	\$26,955	

Discussion

Three secretaries required starting 1/1/79

STATE OF ALASKA  
THE LEGISLATURE

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

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 21, 1978

SUBJECT: Draft Resources Committee Substitute for SSHB 830

TO: The Honorable C. V. "Chat" Chatterton

FROM: Gregg K. Erickson  
Director of Research

As you directed, we have engrossed the language you presented us yesterday into a work draft committee substitute for SSHB 830. The draft committee substitute is attached herewith.

Although we have incorporated your language into SSHB 830, as you specifically directed, we would caution that doing this has introduced a number of uncertainties into the bill. Among these are the following:

1. Sec. 31.05.015 COMPENSATION OF MEMBERS OF THE COMMISSION. By deleting the phrase "equal to that of a commissioner of a principal executive department" after the word "salary", you are presumably reserving to later legislative action the establishment of commissioners' salaries. If this is to be done in the course of the budgetary process, I would suggest that the staff of the Legislative Finance Division be contacted to insure that the salary allocation is made a separate line item, or that other appropriate steps are taken to insure that legislative intent with respect to salaries, whatever it might be, is fulfilled. If it is the legislative desire to have the members of this commission treated for salary purposes the same way as members of all other regulatory commissions, then it will be necessary to amend the Alaska Salary Commission Act (AS 39.23.050) in order to include the commission in the purview of the salary review body.
2. Sec. 31.05.023(b) and (c). The effect of your change to subsection (b) is to place the professional staff of the commission and the personal secretaries of each commissioner in the exempt service. If this is your intention, it would be desirable, although not strictly required, that a conforming amendment to AS 39.25.110 be adopted as well. The effect of your change will be to give the commission pretty much complete discretion with respect to establishing the salaries of its

AGO 885845 +

professional staff members (with the exception of the executive director) and the commissioner's personal secretaries, subject only to the overall constraint of having to live within their budget. Since you did not delete (d), we assume you wish to leave the executive director's salary pegged to that of a commissioner of a principal executive department.

3. Sec. 31.05.025 CONFLICT OF INTEREST. The language you provided would make employees, consultants and members of the commission subject to AS 39.50 and AS 39.51. We would call your attention to the fact that \*Sec. 2 of the bill already brings the commissioners under chapter 50. If it is desired to bring the employees and consultants of the department under this chapter, amendment to AS 39.50 will be required. Bringing consultants and employees under AS 39.50 will, of course, mean that they will be subject to the full public disclosure requirements now imposed on legislators and other "public officials" as defined in that chapter.

Subsection (b) of this section gives the governor authority to determine whether a conflict of interest exists, presumably based on the disclosures required under AS 39.50. It is not clear, however, what action the governor would take if he determines such a conflict exists, or what authority the governor would have in the event a member, consultant or employee of the commission disagreed with the governor's determination that a particular holding would impair the person's ability to act in the "best interests of the people of Alaska".

AS 31.51 will need to be amended if it is desired to bring consultants under its provisions.

4. Sec. 31.05.026 RELATIONSHIP TO DEPARTMENT OF NATURAL RESOURCES. We are not clear as to your intent in adding subsection (d). If subsection (c) is to be superseded, then it probably should be deleted as well. It would appear that your intent in (d) is to vest all information gathering responsibility in the commission. This could create difficulties for the department if it attempts to require persons conducting geophysical exploration or drilling on state lands to provide it with information to assist the state in planning for and conducting the leasing of oil and gas lands. Furthermore, it is not clear what exemptions would be allowed to "the general rule" that is described in subsection (d).

With respect to subsection (e) we are not clear as to the intent or effect of the first sentence. The second sentence of this subsection appears to encourage interagency agreements, but by enumerating the areas to which such agreements may be

entered into, and by specifying that they may be only for "the sole purpose of efficiency" the sentence could be construed as limiting such agreements to the areas enumerated, and for the purpose specified. Subsection (f) seems to speak to the same material as contained in subsections (a) and (b). We cannot judge what its effect would be, either taken together with (a) and (b) or standing alone.

A prior scheduling commitment to another committee will prevent us from attending your markup hearing this afternoon, but we hope these comments may be helpful.

GKE:jm  
Attachment

CC: The Hon. Hugh Malone (co-sponsor)