

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672

5613 HOUSE COMMUNITY & REGIONAL AFFAIRS

that regulation of small utilities is at the core of its public protection function, especially given the geographic and demographic characteristics of Alaska. The Commission also believes that the burden and cost of regulation on smaller utilities can and should be reduced administratively, and it is currently addressing this issue.

As the auditor points out, it is extremely difficult to quantify the cost of regulation, both to the regulated and to the regulator. At the same time, it is relatively easy to inflate or deflate cost figures to support a given predisposition for or against regulation. Regardless of amount, costs are relatively meaningless unless they are compared to benefits.

The Commission agrees with the auditor that the primary benefits of regulation are a financially stable utility which provides reliable, safe service to all customers at reasonable, non-discriminatory rates. With the exception of 22 water companies, the utilities affected by this recommendation are providing service in rural Alaska and are predominantly electric utilities. It has been the Commission's experience that the need for regulation and the potential benefits provided by regulation are frequently greater for smaller utilities than for larger utilities for many reasons, including, the logistical challenge of operating in remote locations; inexperienced personnel; unsafe facilities as a result of non-compliance with the National Electric Safety Code; lack of familiarity with utility management, maintenance, and accounting procedures; discriminatory actions by utility management; failure to request rate increases when needed; and procurement of wrong equipment. In addition, it can be argued that the consumers in rural Alaska are even more captive than those in the urban areas, and, therefore, are particularly dependant on a high level of protection.

Although the reduction in workload would be approximately commensurate with the loss of Commission staff over the past three years if this recommendation were enacted, and from that standpoint may be appealing, the Commission does not believe that the public interest would be served by wholesale deregulation of utilities serving perhaps the most (or one of the more) vulnerable segment(s) of the ratepaying public.

The Commission believes that the concern about the cost of regulation that has been voiced by the auditor as well as others, for the most part, is directed at the expense (both in time and dollars) associated with regulatory requirements when a utility desires or needs to change its rates. The Commission has recognized for some time that the regulatory scheme that exists and has been applied to both large and small utilities should be examined. To that end on February 3, 1989, the Commission has issued a Notice of Inquiry. The purpose of the Inquiry is to receive information which would assist the Commission in proposing regulations to simplify rate and other regulatory proceedings for smaller utilities. A copy of this order is attached. (See Appendix A.)

In summary, the Commission believes that the issue of the cost of regulation as it relates to the smaller-sized utilities can be substantially mitigated through administrative procedures rather than legislation which would eliminate the important public protection function today provided by economic regulation.

However, if the Legislature believes public policy is better served by deregulating smaller utilities, the Commission would propose, as it did in response to the 1985 Sunset Audit, the following amendment to AS 42.05.711 to expand the deregulation election process found in AS 42.05.712 which would replace the provisions of AS 42.05.711(e), (f), (g), and (i):

All utilities which have gross revenues of \$500,000 or less may elect to be exempt from the provisions of AS 42.05, other than AS 42.05.221-42.05.281, under the procedures described in AS 42.05.712.

This approach conforms with the Commission's position that regulation for utilities that heretofore have been regulated should be continued unless the people most affected, the consumers, vote to become deregulated.

The Commission also concurs with the auditor's suggestion that consideration be given to reducing the number of customers required to petition for regulation under AS 42.05.711.

**Recommendation No. 1E**

Alaska Statute 42.05 should be amended to cease mandatory economic regulation of certain utilities owned by political subdivisions.

The Commission supports the philosophy underlying this recommendation. However, the Commission does not believe that elimination of AS 42.05.711(b)(2) is necessary to achieve the auditor's objective and has proposed an alternative legislative approach and language.

It is reasonable that if regulation is elected at one time by a governing body as currently provided under AS 42.05.711(b)(1), then a future governing body should have similar authority to vote to revoke that election. If such revocation is exercised, it is presumed that the public protection function provided by the Commission will be assumed by the governing body of the

political subdivision, thus giving affected consumers a forum and recourse for concerns and complaints.

The Commission recognizes that this recommendation presently affects only the Municipality of Anchorage. It is pertinent to consideration of this recommendation that, at the present time, there are a number of outstanding issues before, and outstanding requirements by, the Commission for the Anchorage Water and Wastewater Utility (sewer), the Anchorage Telephone Utility, and the Anchorage Municipal Light and Power Department.<sup>1</sup> It is reasonable to assume that the Anchorage Assembly would take into consideration the status and results of proceedings before the Commission at such time as it considers any decision to end economic regulation by the Commission.

---

<sup>1</sup>Docket U-87-47 is an investigation into the general management practices of Anchorage's sewer utility. In Dockets U-88-18 and U-87-61 the Anchorage Telephone Utility is before the Commission requesting a 54.83% rate increase and responding to an investigation into the general and financial management practices of the utility. Commission decisions are currently pending in these sewer and telephone cases. At the present time, the Municipal Light and Power Department is required to provide an equity management plan and obtain Commission approval before further debt refunding is issued because of its poor financial condition.

Rather than eliminating AS 42.05.711(b)(2), as the auditor appears to suggest, AS 42.05.711(b) should be expanded to provide for deregulation of a municipal entity if its governing body so elects, once competition no longer exists between it and other utilities, and to allow the governing body of a political subdivision to revoke a previous election. The Commission believes it is desirable to continue a protective mechanism for regulated utilities in the event a future situation arises involving competition with a municipal utility. Proposed language is attached. (See Appendix B.)

**Recommendation No. 2**

Alaska Statute 42.05 and 42.06 should be amended to more fully allocate the costs of regulation.

The Commission concurs in part, and opposes in part, this recommendation. The Commission agrees with the auditor's suggestion that, in light of the current economic climate as well as a recent court decision, discussion should be focused on the appropriate method to fund this agency. Clearly, the time is ripe to evaluate funding options; however, the Commission disagrees with the method of funding advocated by the auditor. Regardless of the outcome of the broader funding discussion, the Commission concurs that AS 42.05.651(a) should be amended to allow interim allocations during a proceeding and to exclude the Commission from bearing any costs of a hearing or investigation.

MUNICIPALITY OF ANCHORAGE  
Summary of Economic Effects - Utilities

AO Number: 89-51 Title: Municipal Regulation of Utilities

Sponsor: Enterprise Activities

Preparing Agency: Municipal Light & Power/OMB Others Affected: ATU-AWWU-SWS

CHANGES IN REVENUES AND EXPENSES

(Thousands of Dollars)

	FY 6mo. 89	FY 90	FY 91	FY 92	FY 93
Operating Expenses:					
ATU - Regulation Expense (Net)	(154)	(306)	(306)	(306)	(306)
ML&P - Regulation Expense (Net)	(123)	(245)	(245)	(245)	(245)
AWWU - Regulation Expense (Net)	(68)	(137)	(137)	(137)	(137)
SWS - Regulation Expense	8	15	15	15	15

Expense Recap: (1989-6 months only)

	<u>ATU</u>	<u>ML&amp;P</u>	<u>AWWU</u>	<u>SWS</u>
APUC Regulation Expense Savings	(168)	(133)	(100)	-0-
New Municipal Regulation Expense	14	10	32	8
Net change in Expense	(154)	(123)	(68)	8

Expense Recap (1990 and outyears)

	<u>ATU</u>	<u>ML&amp;P</u>	<u>AWWU</u>	<u>SWS</u>
APUC Regulation Expense Savings	(335)	(265)	(200)	-0-
New Municipal Regulation Expense	29	20	63	15
Net Change in Expense	(306)	(245)	(137)	15

Impact on General Government (Yes or No) No

Public Sector Economic Effects: \$3,029,000 savings over the next 4 years 6 months. The public sector effect of Municipal regulation by commissions as an alternative to the current requirement to be regulated by the APUC would be to reduce Utility operating expenses. The avoided costs above are comprised of attorney fees, consulting contracts, expert witness cost and some reduction in internal cost created by an assumed simplification of the rate making process. New expenses include increased compensation for commissioners, supplies, advertising and court reporting. Under self regulation the utilities will continue to incur some level of professional service expenses. However, the reductions noted result from more abbreviated and less protracted rate hearings. Costs were derived using a three year average and assuming six (6) months in 1989. No allowance has been made in succeeding years for inflation.

During past legislative sessions the APUC has proposed bills requesting a .55% charge on gross revenues on all regulated utilities and a .14% gross revenue charge for all utilities exempt from their jurisdiction. If such a bill were to pass it would result in an immediate extra cost to the utilities of approximately \$725,000 per year based on 1987 gross revenues, if regulated.

Private Sector Economic Effects:

The private sector effects of regulation by Municipal commissions would be a reduction in utility operating cost which may alter the timing of rate increases.

If further explanation is necessary, a separate page may be attached.

Coordinated by: Fred Traber *Fred Traber* Telephone: 343-4462

(Name, Title)

Validated by OMB: \_\_\_\_\_

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

Approved by: \_\_\_\_\_

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

Director, Preparing Agency

Concurred by: \_\_\_\_\_

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

Director, Affected Agency:

Approved by: \_\_\_\_\_

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

Executive Manager

For

## UTILITY COMMISSION EXPENSE DETAIL

### AWWU

26 Regular meetings @ \$210	\$ 5,460
28 Special meetings for rates, tariffs, & budget @ \$280	7,840
16 Hearings for rates and tariffs @ \$700	11,200
12 Hearings for complaints @ \$700	8,400
Supplies	1,000
Court Reporter for 54 meetings @ \$300	16,200
Advertising for 54 meetings @ \$200	10,800
Rental space for 16 hearings @ \$100	1,600

---

\$62,500

### ATU

24 Regular meetings @ \$210	\$ 5,040
10 Special meetings @ \$280	2,800
4 Hearings for rates & tariffs @ \$700	2,800
2 Hearings for complaints @ \$700	1,400
Supplies	1,000
Court Reporter for 30 meetings @ \$300	9,000
Advertising for 30 meetings @ \$200	6,000
Rental space for 6 hearings @ \$100	600

---

\$28,640

### SWS

12 Regular meetings @ \$350	\$ 4,200
2 Special meetings @ \$280	560
3 Hearings for budget & rates @ \$700	2,100
Supplies	500
Court Reporter for 15 meetings @ \$300	4,500
Advertising for 15 meetings @ \$200	3,000

---

\$14,860

### ML&P

12 Regular meetings @ \$210	\$2,520
6 Special meetings @ \$280	1,680
2 Hearings for rates @ \$700	1,400
6 Complaint hearings @ \$700	4,200
Supplies	500
Court Reporter for 20 meetings @ \$300	6,000
Advertising for 20 meetings @ \$200	4,000

---

\$20,300

ALASKA PUBLIC UTILITIES COMMISSION  
COMMENTS ON HB 549\*  
FEBRUARY 26, 1990  
PAGE 1 OF

The Commission believes that the changes proposed by HB 549 are contrary to sound public policy and therefore opposes its enactment. As currently written, AS 42.05.711(b) sets out the presumption that utilities owned and operated by political subdivisions are exempt from Commission regulation as to rates and quality of service. Paragraph (2) of this subsection creates an exception in cases where such utilities directly compete with another utility. In that instance, the competing utility as well as all other utilities owned by the political subdivision become subject to regulation.

The Commission believes that the existence of the current statutory language provides for a level of public protection which extends beyond the mere resolution of utility "turf wars." Subsection .711(b)(2) also protects the public from the possibility of a municipality (or other political subdivision) subsidizing its utility to thwart competition.

-----  
\*Commissioner D.P.O'Tierney was out of State and did not participate in the Public Meeting where the Commission discussed this legislation.

Alaska Public Utilities Commission  
Comments on HB 549  
February 26, 1990  
Page 2 of 3

Under regulation, the Commission provides reasonable assurance that the competitive playing field remains level. In the absence of regulation, the potential for uneconomic competition is real. Consequently, the Commission supports the continuation of subsection .711(b)(2) as sound public policy but offers the modification described below.

As noted, the current statutory language requires the regulation of all utilities owned and operated by a political subdivision even if only one of them is found to be in direct competition with another utility. This provision assists the monitoring of transactions and cost allocations between utilities to ensure that cross-subsidization does not occur. The Commission is satisfied, however, that its ability to investigate such issues would not be substantially impaired if non-competing utilities owned or operated by political subdivisions were not regulated as to rates and quality of service. Since this "catch-all" provision seems to have been the most objectionable, the Commission would not oppose substitute language which still required the regulation of a competing utility but did not require the regulation of all other utilities owned by the political subdivision. A proposed committee substitute is provided for your consideration.

Alaska Public Utilities Commission  
Comments on HB 549  
February 26, 1990  
Page 3 of 3

PROPOSED COMMITTEE SUBSTITUTE FOR HB 549

\* Section 1. AS 42.05.711(b) is amended to read:

(b) Except as otherwise provided in this subsection, public utilities owned and operated by a political subdivision of the state, or electric operating entities established as the instrumentality of two or more public utilities owned and operated by political subdivisions of the state, are exempt from this chapter, other than AS 42.05.221 - 42.05.281 and 42.05.385. However,

(1) The governing body of a political subdivision may elect to be subject to this chapter; and

(2) A utility or electric operating entity that is owned and operated by a political subdivision and that directly competes with another utility or electric operating entity is subject to this chapter [AND ANY OTHER UTILITY OR ELECTRIC OPERATING ENTITY OWNED AND OPERATED BY THE POLITICAL SUBDIVISION IS ALSO SUBJECT TO THIS CHAPTER].

**STATE OF ALASKA  
1990 LEGISLATIVE SESSION**

BILL VERSION: \_\_\_\_\_  
PUBLISH DATE: \_\_\_\_\_

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: APUC  
 Title: relating to the exemption of BRU: APUC  
Municipal utilities from APUC  
 Sponsor: \_\_\_\_\_ Components: \_\_\_\_\_  
 Requestor: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	(176.4)	(176.4)	(176.4)	(176.4)	(176.4)	(176.4)
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>(176.4)</b>	<b>(176.4)</b>	<b>(176.4)</b>	<b>(176.4)</b>	<b>(176.4)</b>	<b>(176.4)</b>

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

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

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	(176.4)	(176.4)	(176.4)	(176.4)	(176.4)	(176.4)
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>						

**POSITIONS:**

FULL-TIME	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
PART-TIME						
TEMPORARY						

**ANALYSIS :** (Attach a separate page if necessary)

SEE ATTACHED

Prepared by: T. S. Morinski, II, Executive Director Phone: 276-6222  
 Division: Alaska Public Utilities Commission Date: 2/26/90

Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
 Agency: Dept. of Commerce & Economic Development

Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

**Analysis: Fiscal Note for HB549**

If enacted, HB549 would operate to immediately deregulate the utilities owned by the Municipality of Anchorage (MOA) which are currently regulated by the APUC. Although only 4 of 119 regulated entities (3.4%), given their size and complexity, the MOA utilities constitute a much larger workload component. Even when factoring out those areas which will continue to be jurisdictional under other sections of AS 42.05 (i.e. certifications, interconnections, wholesale power agreements, access charges, etc.), the APUC estimates that its workload will be decreased by approximately 10% if HB549 becomes law.

A 10% reduction in the Personal Services line item, commensurate with the anticipated workload decrease, equates to 4.0 FTE positions. The distribution of impact results in staffing reductions per the following probable scenario: 1.5 Utility Financial Analysts, .5 Utility Tariff Analyst, .5 Utility Engineer, .5 Consumer Protection and Information Officer, and 1.0 support position.

Original sponsor(s): REP. ZAWACKI, Collins

1 IN THE HOUSE

BY THE C&RA COMMITTEE

2 CS FOR HOUSE BILL NO. 549 (C&RA)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the exemption from regulation by  
7 the Alaska Public Utilities Commission of public  
8 utilities owned and operated by political subdivi-  
9 sions."

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

11 \* Section 1. AS 42.05.711(b) is amended to read:

12 (b) Except as otherwise provided in this subsection, public  
13 utilities owned and operated by a political subdivision of the state,  
14 or electric operating entities established at the instrumentality of  
15 two or more public utilities owned and operated by political subdivi-  
16 sions of the state, are exempt from this chapter, other than AS 42.-  
17 05.221 - 42.05.281 and 42.05.385. However,

18 (1) the governing body of a political subdivision may elect  
19 to be subject to this chapter; [AND]

20 (2) a utility or electric operating entity that is owned  
21 and operated by a political subdivision and that directly competes  
22 with another utility or electric operating entity is subject to this  
23 chapter with respect to the service for which there is direct compe-  
24 tition; and

25 (3) a utility furnishing telecommunications service that is  
26 owned and operated by a political subdivision that has a population of  
27 more than 150,000 is subject to this chapter [AND ANY OTHER UTILITY OR  
28 ELECTRIC OPERATING ENTITY OWNED AND OPERATED BY THE POLITICAL SUBDIVI-  
29 SION IS ALSO SUBJECT TO THIS CHAPTER].

H

B

5

7

6

# HOUSE COMMITTEE REPORT

(5)

Date Referred: March 12, 1990

FURTHER REFERRALS:

Date of Committee Action: 3/26/90

FINANCE

The COMMUNITY & REGIONAL AFFAIRS Committee considered:

HB 576

HOUSE BILL NO. 576

FIRE PROTECTION OUTSIDE MUNICIPALITIES

"An Act relating to the provision of fire protection services by a municipality outside its boundaries."

[ ] be replaced with \_\_\_\_\_ [ ] the same title  
[ ] a new title

[ ] have attached amendment(s)

- do pass  
 do not pass  
 no recommendation  
 individual recommendations  
 additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(s):

- [ ] fiscal impact  
 zero fiscal note *C&RA, Public Safety*  
[ ] zero with analysis

APPROVES PREVIOUS:

- [ ] fiscal note(s) published: \_\_\_\_\_  
[ ] zero fiscal notes(s) published: \_\_\_\_\_

SIGNING DO PASS:

SIGNING OTHER THAN DO PASS:  
(Do Not Pass, No Recommendation, Amend)

Eileen B. Mulvan

Cheri Davis

Eugene Kubina

Richard [Signature]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Eileen B. Mulvan

Chairman's signature

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

- P.O. BOX B  
JUNEAU, ALASKA 99811-2100  
PHONE: (907) 465-4700
- 949 E. 36TH AVENUE, SUITE 400  
ANCHORAGE, ALASKA 99508-4302  
PHONE: (907) 563-1073

March 14, 1990

POSITION PAPER

RE: House Bill 576

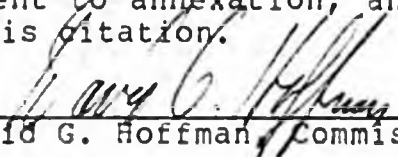
SPONSOR: House C&RA Committee

Program Effects of the Bill

The bill amends AS 29.35.020(a) by adding language which would authorize municipalities to exercise the power of fire protection outside their boundaries. Existing AS 29.35.020(a) authorizes municipalities to provide the following services outside their boundaries: parks, playgrounds, cemeteries, emergency medical services, solid and septic waste disposal, utility services, airports, streets (including ice roads), trails, transportation facilities, wharves, harbors and other marine facilities.

Comments

Extraterritorial powers have been added to AS 29.35.020 incrementally as needed or requested by municipal governments. This bill to permit fire protection powers appears to fit within this tradition and would clear up existing ambiguities as to the power of municipalities to exercise this service on an extraterritorial basis. The provision of this service is not expected to act as a deterrent to annexation, any more than the other powers listed under this citation.

  
\_\_\_\_\_  
David G. Hoffman, Commissioner

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_  
 Title: "An Act..fire protection services  
 ..municipality outside its boundaries."  
 Sponso: House C&RA  
 Requestor: \_\_\_\_\_

Agency Affected: Community & Regional Affairs  
 BRU: \_\_\_\_\_  
 Components: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	-0-	-0-	-0-	-0-	-0-	-0-
<b>CAPITAL</b>						
<b>REVENUE</b>						

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	-0-	-0-	-0-	-0-	-0-	-0-

**POSITIONS:**

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

**ANALYSIS : (Attach a separate page if necessary)**

There is no fiscal effect for FY 90.

Prepared by: Carol Carroll *Carol Carroll*  
 Division: Municipal & Regional Assistance  
 Approved by Commissioner: David C. Hoffmann *David C. Hoffmann*  
 Agency: Community & Regional Affairs

Phone: 465-4750  
 Date: 3/14/90  
 Date: 3-14-90

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Public Safety  
 Title: An Act Relating to Fire Protection BRU: Fire Prevention  
by a Municipality Outside Its Boundaries.  
 Sponsor: House C&RA Component: Fire Prevention  
 Requestor: Representative Maclean Operations

EXPENDITURES/REVENUES: (Thousands of Dollars) (Inflation not included)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER/PROG RCPT						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

No fiscal impact.

Prepared by: Gordon E. Brunton  
 Division: Fire Prevention

Phone: 465-4331  
 Date: 3/14/90

Approved by Commissioner: Arthur English  
 Agency: Department of Public Safety

Date: 3-14-90  
 Page 1 of 1

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

- P.O. BOX B  
JUNEAU, ALASKA 99811-2100  
PHONE: (907) 465-4700
- 949 E. 36TH AVENUE, SUITE 400  
ANCHORAGE, ALASKA 99508-4302  
PHONE: (907) 563-1073

February 26, 1990

POSITION PAPER

RE: Senate Bill 438

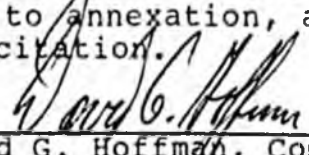
SPONSOR: Senator Coghill

Program Effects of the Bill

The bill amends AS 29.35.020(a) by adding language which would authorize municipalities to exercise the power of fire protection outside their boundaries. Existing AS 29.35.020(a) authorizes municipalities to provide the following services outside their boundaries: parks, playgrounds, cemeteries, emergency medical services, solid and septic waste disposal, utility services, airports, streets (including ice roads), trails, transportation facilities, wharves, harbors and other marine facilities.

Comments

Extraterritorial powers have been added to AS 29.35.020 incrementally as needed or requested by municipal governments. This bill to permit fire protection powers appears to fit within this tradition and would clear up existing ambiguities as to the power of municipalities to exercise this service on an extraterritorial basis. The provision of this service is not expected to act as a deterrent to annexation, any more than the other powers listed under this citation.



\_\_\_\_\_  
David G. Hoffman, Commissioner

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: DCRA  
 Title: An act relating to fire  
protection outside municipalities BRU: \_\_\_\_\_  
 Sponsor: Senator Coghill Components: \_\_\_\_\_  
 Requestor: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

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

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

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

**POSITIONS:**

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

**ANALYSIS :** (Attach a separate page if necessary)

Prepared by: Jim Plummer Phone: 465-4750  
 Division: Municipal & Regional Assistance Date: 2/26/90  
 Approved by Commissioner: David C. Hoffman Date: 2-26-90  
 Agency: Community & Regional Affairs

Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

DEPARTMENT OF PUBLIC SAFETY

BILL NO: SB 438 DATE: February 20, 1990  
TITLE: An act relating to the provision of fire protection services by a municipality outside its boundaries. CONTACT: Gordon Brunton 465-4331

This bill would authorize a municipality to provide fire protection services outside its boundaries.

The bill amends AS 29.35.020(a), adding "fire protection services" to other facilities and services currently authorized, such as parks, cemeteries, emergency medical services, sewage disposal, airports, etc. The authority to provide fire protection, while permissive, will provide statutory authority for the extraterritorial service.

Unincorporated areas outside municipalities, especially in rural areas, may benefit by having fire protection not currently available.

The Department of Public Safety supports passage of SB 438.

*Arthur English*  
-----  
Arthur English  
Commissioner

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Public Safety  
 Title: An act relating to fire protection  
by a municipality outside its boundaries. BRU: Fire Prevention  
 Sponsor: Senator Coghill Component: Fire Prevention  
 Requestor: Senate C & R A Operations

EXPENDITURES/REVENUES: (Thousands of Dollars) (Inflation not included)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER/PROG RCPT						
TOTAL	0	0	0	0	0	0

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

No fiscal impact.

Prepared by: Gordon E. Brunton *GB*  
 Division: Fire Prevention  
 Approved by Commissioner: Arthur English *A.A. English*  
 Agency: Department of Public Safety

Phone: 465-4331  
 Date: 2/15/90  
 Date: 3-30-90  
 Page 1 of 1

*Ph*  
*2/15/90*

*Alaska*  
**MUNICIPAL**  
*League*


TELEPHONE  
(907) 586-1325  
FAX 463-5480

217 SECOND STREET, SUITE 200  
JUNEAU, ALASKA 99801

February 23, 1990

FEB 26 1990

TO: Senator Mike Szymanski, Chair, and  
Committee Members  
Senate Community and Regional Affairs Committee

FROM: Scott A. Burgess, Executive Director 

SUBJECT: SB 438 - Relating to provision of fire protection services by a  
municipality outside its boundaries

SB 438 would add fire services to the list of facilities and services municipalities may provide outside their boundaries. It also clarifies that municipalities have the authority to regulate the use and operation of facilities and services provided to the extent that the jurisdiction in which they are located does not regulate them.

Under present law, municipalities do not have the specific authority to provide fire services outside their boundaries, which means that fire departments must justify each decision to operate outside their boundaries on the basis of life safety issues. A fire department may want to provide protection to, for instance, a residence just outside municipal boundaries to protect property within the boundaries, but questions of liability coverage as well as an unwillingness to expose the department to public criticism about operating outside the taxing district may deter such a decision.

Giving fire departments authority to provide fire services outside their boundaries would insure that liability and workers compensation insurance would cover all job-related actions of firefighters. It would also extend fire fighters' statutory immunity for job-related actions to actions outside municipal limits.

The Alaska Municipal League supports this legislation as providing greater protection for municipalities, for municipal fire fighters, including volunteers, and for the general public.

cc: Senator Jack Coghill

CSS/LEG:SB398

# CITY OF PALMER



231 W. EVERGREEN AVE.  
PALMER, ALASKA 99645



A HOME BUILT CITY



Phone (907) 745-3221

February 22, 1990

The Honorable Jack Coghill  
Senator  
State of Alaska  
Box V  
Juneau, Alaska 99811

RE: Senate Bill 438  
Fire Protection Service Outside Municipalities

Dear Senator Coghill,

I have read Senate Bill 438 which has been proposed by you and Senator Fischer and fully support it.

However, it could go one step further. In the Matanuska-Susitna Borough, Fire Service Areas have been established and one is the Grater Palmer Fire Service Area. The City of Palmer has its own fire department and contracts with the Matanuska-Susitna Borough to provide fire service to the areas which are a part of the Greater Palmer Fire Service Area.

The majority of the residents as well as the Fire Service Area supervisors would like to be a part of the City of Palmer Fire Department rather than under the Matanuska-Susitna Borough auspices. There are several reasons for this desire, but most importantly are the joint funding and managerial operation of the department.

In expanding your proposed Senate Bill 438 to incorporate the ability of a Fire Service Area to petition a municipality for fire protection services, this would alleviate a problem such as ours as well as other fire service areas throughout the State.

*Letter from City of Palmer 2/22/90*  
A GROWING FRONTIER IN THE HEART OF THE MATANUSKA VALLEY

The Honorable Jack Coghill  
February 22, 1990

If you feel an amendment to your Bill would be in order and need additional information, you may contact either Chief Dan Contini or myself regarding this issue.

Should you have any questions, please feel free to contact me.

Yours truly,

---

David L. Soulak  
City Manager  
City of Palmer

DLS/cac

cc: Fire Chief Dan Contini  
Representative Curt Menard  
Representative Ron Larson  
Senator Jalmar Kerttula  
Senator Mike Szymanski  
Alaska Municipal League

# City of Klawock Alaska

P.O. Box 113  
Klawock, Alaska 99925

Phone: (907) 755-2261  
or: (907) 755-2262

*"Site of the First Cannery in Alaska"*

February 20, 1990

Senator Coghill  
Fouch V  
Juneau, AK 99811

Dear Senator Coghill,

The City of Klawock supports Senate Bill 438 which would include fire protection under extra territorial jurisdiction for this would provide needed fire protection for the residents residing outside of the City limits such as a trailer court where approximately One Hundred persons reside and fire protection for the Klawock Alaska Timber Saw Mill which employs approximately One Hundred persons in three shifts and lives and property of those residing on the Saw Mill site. In fact the City had submitted an application for a fire protection grant to provide needed fire protection for the residents of Klawock and those residing outside of the City limits. The grant application was rated high by one of the review board but rated low by two others because they believed that the fire department should not leave the City limits to extinguish fires.

In the past the Klawock Volunteer Fire Department has responded to fires outside the City limits. In 1989 the Klawock Volunteer Fire Department had to respond to Sanitary Landfill fires. Had those fires not been extinguished, the cities of Klawock and Craig would not have had a site to dispose of solid waste. The Klawock Volunteer Fire Department has also responded to emergency medical, police and fires in the trailer court outside the City limits and fires at the Saw Mill. Had the Saw Mill been destroyed or even partially destroyed by fire many would be unemployed until necessary repair work was completed, also lives and property were in jeopardy. Therefore it is very important to those living and working outside City limits to have fire protection. This has been discussed with the insurance company. There should not be an increase in insurance premium for the City. Currently the City does face potential liability by City limits. Passage of Senate Bill 438 would eliminate that liability and provide needed fire protection for those living and working outside the City limits.

An amendment to Senate bill 438 that should be considered is Police Protection. Currently City police jurisdiction is within City limits. Alaska State Troopers deputize City police to allow the City police to respond to police protection needs outside City limits. Does deputizing City Police Officers to allow them to respond to police protection needs outside City limits protect the City from any potential liability should the City police be unable to respond to police protection needs within the City limits because the City police was responding to police protection needs outside the City limits? It is the City tax payers that are paying the wages of the City police officers. Also the City has no documentation to justify or authorize spending City tax dollars for police protection outside the City limits, nor does the City derive any revenues other

Continued...

Senator Coghill  
February 20, 1990  
Page TWO

than for traffic violations for police protection outside the City limits.

The aforementioned are mentioned in consideration as a possible amendment to Senate Bill 438.

Respectfully,

Aaron T. Isaacs, Jr.  
Mayor

by: Al P. Macasaet, Sr.  
Administrative Assistant

AM/lf

H

B

5

7

7

# HOUSE COMMITTEE REPORT

(5)

Date Referred: March 12, 1990

FURTHER REFERRALS:

RESOURCES, FINANCE

Date of Committee Action: 4/24/90

The COMMUNITY & REGIONAL AFFAIRS Committee considered:

HB 577

HOUSE BILL NO. 577

OIL & HAZARDOUS SUB. IMPACT ASSISTANCE

"An Act concerning the exercise of authority and recovery of damages by the state and its municipalities and villages in matters relating to environmental conservation; relating to state assistance to municipalities and villages for expenses for prevention and abatement of environmental degradation; establishing an oil and hazardous substance municipal impact fund in the Department of Community and Regional Affairs; ... <sup>(See attached)</sup>

[ ] be replaced with CSHB 577 (C&RA) [ ] the same title [ ] a new title

[ ] have attached amendment(s)

- do pass
- [ ] do not pass
- [ ] no recommendation
- [ ] individual recommendations
- [ ] additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(S):

APPROVES PREVIOUS:

- fiscal impact C&RA
- [ ] zero fiscal note
- [ ] zero with analysis

- [ ] fiscal note(s) published: \_\_\_\_\_
- [ ] zero fiscal notes(s) published: \_\_\_\_\_

SIGNING DO PASS:

SIGNING OTHER THAN DO PASS:  
(Do Not Pass, No Recommendation, Amend)

Eileen P. McKeon

Eugene A. Kukerina

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Cheri Davis - No Rec.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Eileen P. McKeon  
Chairman's signature

The COMMUNITY & REGIONAL AFFAIRS Committee considered:

HB 577

HOUSE BILL NO. 577

OIL & HAZARDOUS SUB. IMPACT ASSISTANCE

"An Act concerning the exercise of authority and recovery of damages by the state and its municipalities and villages in matters relating to environmental conservation; relating to state assistance to municipalities and villages for expenses for prevention and abatement of environmental degradation; establishing an oil and hazardous substance municipal impact fund in the Department of Community and Regional Affairs; and amending provisions applicable to the suspension and reimposition of the oil and gas production tax oil surcharge to provide money to that fund; and providing for an effective date."

STATE OF ALASKA  
1990 LEGISLATIVE SESSION

BILL VERSION : CSIB 577 (C&RA)

PUBLISH DATE : 4/24/90

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: An act concerning municipal assistance/oil spill fund  
Sponsor: Resources Committee  
Requestor: House C&RA

Agency Affected: Environmental Conservation  
BRU: Environmental Quality  
Components: Environmental Quality

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	115.1	144.0	144.0	144.0	144.0	144.0
TRAVEL	7.5	10.0	10.0	10.0	10.0	10.0
CONTRACTUAL	20.0	24.0	24.0	24.0	24.0	24.0
SUPPLIES	2.5	3.0	3.0	3.0	3.0	3.0
EQUIPMENT	12.5	15.0	15.0	15.0	15.0	15.0
LAND&STRUCTURES	0.0	0.0	0.0	0.0	0.0	9.0
GRANTS,CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	157.6	196.0	196.0	196.0	196.0	205.0

CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
---------	-----	-----	-----	-----	-----	-----

REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
---------	-----	-----	-----	-----	-----	-----

FUNDING: (Thousands of Dollars)

GENERAL FUND	157.6	196.0	196.0	196.0	196.0	196.0
FEDERAL FUNDS	0.0	0.0	0.0	0.0	0.0	0.0
OTHER	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	157.6	196.0	196.0	196.0	196.0	196.0

POSITIONS:

FULL-TIME	2.0	3.0	3.0	3.0	3.0	3.0
PART-TIME	1.0	0.0	0.0	0.0	0.0	0.0
TEMPORARY	0.0	0.0	0.0	0.0	0.0	0.0

ANALYSIS: (Attach a separate page if necessary)

See attached

Prepared by: Lynn Kent

Division: Environmental Quality

Phone: 465-2630

Date: 4/24/90

Approved by Commissioner: A. D. Gyle

Agency: Environmental Conservation

Date: 4/24/90

Distribution (by preparer) :

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_  
 Title: An Act relating to municipal assistance  
 Sponsor: House Resources Committee  
 Requestor: \_\_\_\_\_

Agency Affected: Community & Regional Affairs  
 BRU: \_\_\_\_\_  
 Components: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	144.5	149.4	154.0	159.1	164.0	169.4
TRAVEL	10.0	10.0	10.0	10.0	10.0	10.0
CONTRACTUAL	3.0	3.0	3.0	3.0	3.0	3.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>157.5</b>	<b>162.4</b>	<b>167.0</b>	<b>172.1</b>	<b>177.0</b>	<b>182.4</b>
<b>CAPITAL</b>						
<b>REVENUE</b>						

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER	157.5	162.4	167.0	172.1	177.0	182.4
<b>TOTAL</b>	<b>157.5</b>	<b>162.4</b>	<b>167.0</b>	<b>172.1</b>	<b>177.0</b>	<b>182.4</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY	3.0	3.0	3.0	3.0	3.0	3.0

**ANALYSIS :** (Attach a separate page if necessary)

There is no fiscal impact anticipated in FY 90.

Please see attached.

Prepared by: Jim Plasman, Deputy Director  
 Division: Municipal & Regional Assistance

Phone: 465-4750  
 Date: \_\_\_\_\_

Approved by Commissioner: David C. Bellman  
 Agency: Community & Regional Affairs

Date: 4-6-90

**Distribution (by preparer):**

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Position Title <b>Local Government Specialist IV</b>		No. of Positions <b>1</b>	Range/Step <b>19A</b>	Barg. Unit <b>GGU</b>
Time Status <b>Permanent</b>	Staff Months <b>12</b>	Location <b>Anchorage/Juneau</b>		Election District
		Justification		
		This position will be needed to provide technical assistance to local government administrators in determining the extent of local impacts, developing and implementing strategies for community recovery, and applying for the grant monies to carry out these strategies. The funding source would be a percent of the total funds available.		
Type of Expenditure		Amount		
<b>1</b>	<b>2</b>	<b>3</b>		
Salary	40.0			
Benefits	13.4			
Premium Pay				
Other				
Total Personal Services		53.4		
Travel		10.0		
Contractual		3.0		
Commodities				
Equipment				
Other				
Total Cost		66.4		
Funding Source for Total Cost				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004			
I-A Receipts	1006			
CIP Receipts	1061			
Other		66.4		

**Request For  
New Position**

Agency Community & Regional Affairs  
 BRU Local Government Assistance  
 Component Training & Development

Page 2 of 4  
 Revised Date

**FY 91**

Position Title Grants Administrator 11		No. of Positions 1	Range/Step 17A	Barg. Unit GGU
Time Status Permanent	Staff Months 12	Location Anchorage/Juneau		Election District
Type of Expenditure		Justification		
1	2	3		
Salary	34.8	During the recent oil spill, DCRA administered an oil spill grant program of \$1,160,000. Based on experience with this program, one position to prepare grant/contractual documents will be needed during program activity. This position would be responsible for developing the agreement, reviewing payment requests, monitoring the project until completion, then finally closing out the grant. This position is budgeted here at salary for 12 months funded from the amount designated in the bill.		
Benefits	12.2			
Premium Pay				
Other				
Total Personal Services	47.0			
Travel				
Contractual				
Commodities				
Equipment				
Other				
Total Cost		47.0		
Funding Source for Total Cost				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004			
I-A Receipts	1006			
CIP Receipts	1061			
Other		47.0		

**Request For  
New Position**

Agency Community & Regional Affairs  
 BRU Administration & Support  
 Component Administrative Services

Page 3 of 4  
 Revised Date

**FY 91**

Position Title Accountant II		No. of Positions 1	Range/Step 16A	Barg. Unit GGH
Time Status Permanent	Staff Months 12	Location Juneau		Election District
Type of Expenditure		Justification		
1	2	3		
Salary	32.4	An Accountant II will be needed to respond to the increased activity that would be generated by a program of this size. Staff in the fiscal section of DCRA are presently working to capacity due to addition of new and expanded programs in recent years.		
Benefits	11.7			
Premium Pay				
Other				
Total Personal Services		44.1		
Travel		This position would have fiscal oversight of all billings, entries on the state accounting systems and report preparation for management.		
Contractual				
Commodities				
Equipment				
Other		Funding source would be part of a percent of total funds available.		
Total Cost				
Funding Source for Total Cost				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004			
I-A Receipts	1006			
CIP Receipts	1061			
Other		44.1		

**Request For  
New Position**

Agency Community & Regional Affairs  
 BRU Administration & Support  
 Component Administrative Services

Page 4 of 4  
 Revised Date

**FY 91**

A M E N D M E N T

OFFERED IN THE HOUSE

TO: HB 577

Page 2, line 3, after "boundaries;":

Insert "however, this paragraph does not authorize a municipality to enforce an ordinance outside its boundaries to regulate exploration, development, or production of oil, gas, or minerals in a manner inconsistent with the state's management of those resources when the state is the owner of the land, tideland, or submerged land; the ordinance adopted must be consistent with a regional master plan for the region in which the municipality is located if a plan has been prepared by the Department of Environmental Conservation under AS 46.04.210;"

Page 2, following line 4:

Insert a new bill section to read:

"\* Sec. 2. AS 29.35.200 is amended by adding a new subsection to read:

(d) A first class borough that exercises power necessary to contain, clean up, or prevent a release or threatened release of oil or a hazardous substance, and exercise a power granted to a municipality under AS 46.04, AS 46.08, or AS 46.09 shall exercise its authority in a manner that is consistent with a regional master plan for the region in which the borough is located if a plan has been prepared by the Department of Environmental Conservation under AS 46.04.210."

Renumber the following bill sections accordingly.

Page 2, line 8, after "AS 46.09":

Insert "; the borough shall exercise its authority under this paragraph in a manner that is consistent with a regional master plan for the region in which the borough is located if a plan has been prepared by the Department of Environmental Conservation under AS 46.04.210."

Page 2, line 15, after "basis.":

Insert "The borough shall exercise its authority under this subsection in a manner that is consistent with a regional master plan for the region in which the borough is located if a plan has been prepared by the Department of Environmental Conservation under AS 46.04.210."

A M E N D M E N T

OFFERED IN THE HOUSE

TO: HB 577

Page 2, line 27:

Delete "the social and economic effects arising from"

Insert "the additional costs of reasonable and appropriate functions and services that arise out of"

Page 3, lines 1 - 2:

Delete "cost of social and economic effects on"

Insert "additional costs of reasonable and appropriate functions and services by"

Page 3, line 26:

Delete "necessary"

Insert "reasonable"

Page 13, line 28:

Delete "incremental"

Insert "additional"

Delete "public services"

Insert "a reasonable and appropriate function or service"

Page 13, line 29:

Delete "an actual discharge of oil or"

Insert "the discharge of"

Page 13, line 29, through page 14, line 3:

Delete "and the costs of providing additional services incurred in response to the actual discharge of the oil or pollutant (, AND ALL INCIDENTAL ADMINISTRATIVE COSTS)]"

Insert ", including [AND ALL INCIDENTAL] administrative expenses for the incremental costs of providing the function or service"

Page 17, line 18:

Delete "incremental"

Insert "additional"

Page 17, lines 18 - 19:

Delete "services and the costs of providing additional services"

Insert "a reasonable and appropriate function or service"

Page 17, line 20:

Delete "[, AND INCIDENTAL ADMINISTRATIVE COSTS]"

Insert ", including [AND INCIDENTAL] administrative expenses for the incremental costs of providing the function or service"

Page 19, lines 1 - 2:

Delete "incremental"

Insert "additional"

Page 19, lines 2 - 3:

Delete "services and the costs of providing additional services"

Insert "a reasonable and appropriate function or service"

Page 19, line 4:

Delete "[, AND INCIDENTAL ADMINISTRATIVE COSTS]"

Insert ", including [AND INCIDENTAL] administrative expenses for the incremental costs of providing the function or service"

A M E N D M E N T

OFFERED IN THE HOUSE

TO: HB 577

Page 11, line 7:

Delete "the state, [OR] a municipality, or a village"

Insert "the state or a municipality, or to the natural resources that are owned by a village"

Page 11, line 8:

Delete "incremental"

Insert "additional"

Page 11, lines 8 - 9:

Delete "providing services and the costs of providing additional services"

Insert "a function or service, including administrative expenses for the incremental costs of providing the function or service,"

Page 19, line 9:

Delete "This Act is"

Insert "Sections 11 and 12 of this Act are"

A M E N D M E N T

OFFERED IN THE HOUSE

TO: HB 577

Page 6, following line 26:

Insert a new section to read:

"Sec. 29.60.570. IMPACT ASSESSMENT. (a) If, in response to a release of oil or a hazardous substance, municipalities or villages apply for grants under AS 29.60.530, the commissioner shall, after consulting with and securing the written approval of the attorney general, make an assessment of the social and economic effects of the release of the oil or hazardous substance on the municipalities, the villages, and the region in which the discharge occurs. The commissioner may make the assessment by

- (1) using staff of the department;
- (2) contracting with a municipality or other entity for the assessment; or
- (3) authorizing a municipality or other entity to make the assessment and supporting that effort by a grant.

(b) Only one assessment may be completed under this section for each declaration of a disaster emergency.

(c) The commissioner may pay the costs of the assessment from money available in the fund."

A M E N D M E N T

OFFERED IN THE HOUSE

TO: HB 577

Page 7, lines 5 - 22:

Delete all material and insert:

"(4) "village"

(A) means a place in which 25 or more persons reside as a social unit that is not incorporated as a municipality under state law;

(B) does not include a place within a borough if the power, function, or service for which the grant application is submitted is exercised or provided by the borough on an areawide or nonareawide basis at the time the grant application is submitted."

Page 12, line 16, through page 13, line 1:

Delete all material and insert:

"(36) "village" means a place in which 25 or more persons reside as a social unit that is not incorporated as a municipality under state law."

Page 14, lines 9 - 24:

Delete all material and insert:

"(19) "village" means a place in which 25 or more persons

reside as a social unit that is not incorporated as a municipality under state law."

Page 17, line 26, through page 18, line 17:

Delete all material and insert:

"(12) "village"

(A) means a place in which 25 or more persons reside as a social unit that is not incorporated as a municipality under state law;

(B) does not include a place within a borough if the relevant power, function, or service is exercised or provided by the borough on an areawide or nonareawide basis at the time the grant application or request for reimbursement is submitted."

# STATE OF ALASKA

STEVE COWPER, GOVERNOR

## DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

April 20, 1990

REPLY TO:

1031 W 4th AVENUE SUITE 200  
ANCHORAGE, ALASKA 99501-1994  
PHONE: (907) 276-3550  
FAX: (907) 276-3697

1st NATIONAL CENTER  
100 CUSHMAN ST. SUITE 400  
FAIRBANKS, ALASKA 99701-4679  
PHONE: (907) 452-1568  
FAX: (907) 456-1317

P.O. BOX K—STATE CAPITOL  
JUNEAU, ALASKA 99811-0300  
PHONE: (907) 465-3600  
FAX: (907) 463-5295

Hon. Eileen MacLean, Chair  
House Community & Regional Affairs Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Re: HB 577 -- Municipal  
Assistance/Oil Spill Fund

Dear Representative MacLean:

The Department of Law has two concerns with respect to HB 577, currently in the House Community & Regional Affairs Committee.

First, we are concerned with the way the term "villages" is defined and used in the bill. With respect to villages, the bill is basically divided into two parts. The first part would create a grant program for villages to pay for certain expenses incurred as the result of a release of oil or hazardous substance. (Sections 1-4.) Funding would be provided from the \$.05 per barrel conservation surcharge on oil (AS 43.55.210), through a new fund called the oil and hazardous substance municipal impact fund. (Section 4.) In addition, the commissioner of DEC would be authorized to use money from the oil and hazardous release response fund to pay for other impacts to a village because of a release of oil or hazardous substance. (Sections 17-19.) Our concerns about the treatment of villages do not involve these sections.

However, in another part of the bill, villages are included, along with the state and municipalities, as entities that would be entitled to recover for natural resource damage, damages to persons and property, whether private or public, and certain other costs typically recoverable only by governments; villages would also be entitled to the same defenses from liability as the state or a municipality. (Sections 11-13.) To the extent that these sections are designed to enhance the ability of communities on a local level, however organized, to deal on several levels with

the complex impacts of a release of oil or hazardous substance, we see no problems. We are concerned, though, that these sections could be interpreted as state recognition that certain "villages" have governmental powers, authority over public land, and authority to exercise what normally are governmental functions. Furthermore, the reference to "natural resource damage" may lead to conflicts over who has a "trust" responsibility for state-owned land and resources that are used by village members. For example, who would be the trustee and have a right to recover for damages to tidelands, which are state-owned, if used by villagers for subsistence?

We suggest that the committee clarify, through either a letter of intent or a modification of proposed AS 46.03.822(a) in Section 11 of the bill, that the purpose behind these sections is not to recognize governmental powers or authority over public lands for villages, either directly or indirectly, on the basis of their status as an Indian Reorganization Act council or traditional Indian council. We would also suggest that proposed AS 46.03.-822(a) be further amended to clarify that a village can recover only for damages sustained to resources owned by the village. The committee may also wish to consider redefining village for purposes of the bill; one possibility would be to define village as "an unincorporated community with a residential population of 25 or more which is a social unit." See, e.g., 19 AAC 60.900(2).

Our other concern relates to Section 25, which makes this bill retroactive to March 24, 1989. The validity of retroactive legislation is currently under challenge in a suit by the oil producers against the state regarding the retroactive provisions of the ELF amendments. If payments are made under this legislation from the oil and hazardous release response fund to municipalities for past expenses relating to the Exxon Valdez spill, thereby requiring the oil producers to pay an additional surcharge under AS 43.55.230 to replenish the fund, we believe the producers will likely challenge the validity of this retroactive provision. This retroactivity clause may be especially vulnerable, since it extends back considerably beyond the current calendar year, which has traditionally been the acceptable length of time for retroactive tax legislation. We are merely pointing this out for your consideration, although the Department of Law is prepared to defend this or any other retroactivity provision.

Hon. Eileen MacLean, Chair  
House Community & Regional Affairs  
Committee

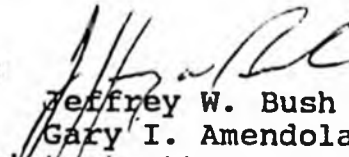
April 20, 1990  
Page 3

We hope this letter is helpful to you in your deliberations.

Sincerely yours,

DOUGLAS B. BAILY  
ATTORNEY GENERAL

By:

  
Jeffrey W. Bush and  
Gary I. Amendola  
Assistant Attorneys General

JWB:GIA:jf

cc: Hon. John Binkley  
Hon. Rick Uehling, Co-Chairs  
Senate Finance Committee

STATE OF ALASKA  
THE LEGISLATURE

POUCHY STATE CAPITOL  
JUNEAU, ALASKA 99801  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 5, 1990

SUBJECT: House Bill 577 -- sectional analysis

TO: Representative Eileen MacLean, Chair  
House Community & Regional Affairs Committee

FROM: Jack Chenoweth  
Legislative Counsel

This bill draft is based on proposals first offered by mayors of municipalities whose communities bore the brunt of the Exxon Valdez disaster. The measure generally follows a suggested model prepared by Perkins Coie, an Anchorage-based law firm, to broaden the ability of municipalities and villages to address and receive compensation for their efforts to contain and clean up spilled oil and hazardous substances.

This bill establishes a second fund, parallel to, but not duplicative of, the existing oil and hazardous release response fund (AS 46.08.040). The principal distinction between the two funds is this: the existing oil and hazardous substance release response fund is intended to be the principal source of money for expenditures incurred by any eligible party within the state directly for oil and hazardous substance discharge containment and clean up, and by the state (alone) for incremental and additional public services prompted by that containment and clean up; the new municipal impact assistance fund would serve as a source of assistance to municipalities (alone) for incremental and additional public services prompted by necessary containment and clean up. There would be no overlap.

\*

Municipal extra-jurisdictional authority:

These changes to Title 29 were sought by mayors and officials of municipalities who bore the burden of the Exxon Valdez spill and clean up.

Bill sections 1 - 3, amendments to various sections of AS 29.35, extend the authority of municipalities to exercise containment and clean up of spilled oil and hazardous substances if the spill occurs outside the municipal boundaries. The change made by bill section 1 specifically prescribes how extra-jurisdictional containment and clean up authority may be legally assumed by a municipality while the changes made by bill sections 2 and 3 authorize the exercise of extra-jurisdictional containment and cleanup authority for second and third class boroughs, respectively. (First class boroughs already enjoy general authority; home rule boroughs [e.g. North Slope Borough] and unified municipalities [e.g. Anchorage, Juneau, Sitka] already enjoy that authority under existing law, so it is not necessary to amend the law in any way to authorize municipalities of those classes to so act.)

\*

State financial assistance to municipalities for municipal services:

Bill section 4 establishes a new "oil and hazardous substance municipal impact fund" and describes the manner of its administration. The fund is established in the Department of Community and Regional Affairs, and that department is given the principal responsibility for its administration.

There is a codified statement of policy and purpose (AS 29.-60.500) underpinning the municipal impact assistance program. Sections establish the fund and spell out its general purpose ["to make grants under AS 29.60.530 for actual expenses incurred by municipalities and villages"] (AS 29.60.-510), and authorize appropriations by the legislature to the fund (AS 29.60.520).

The principal provision applicable to the new "impact assistance fund" is AS 29.60.530. The legislation would permit the commissioner of community and regional affairs to make grants to a municipality that is

. . . affected by release of oil or a hazardous substance and demonstrating extraordinary municipal expenditures that are beyond the reasonable capability of the municipality or village to meet from the municipality's or villages' current revenue sources.

(Page 3, lines 16 - 20). The specific expenditures that may qualify for grant assistance are those affected by prevention, containment, and clean up efforts are enumerated in subsection (b). Grant approval would be based on the determination by the commissioner by application of the three factors specifically identified in subsection (c) together with any "other criteria the department considers appropriate." (Page 5, line 4.) Subsection (d) authorizes the commissioner to reject a grant application, while subsection (e) authorizes the commissioner to prioritize or rank grant applications when requests exceed available resources, and specifies the ranking criteria. Subsection (f) permits partial payment of an approved grant. To better assure that the grants are used to offset extraordinary municipal initiatives in response to a spill emergency, the section includes language prohibiting the municipality receiving the grant from using the grant to reduce municipal tax rates or retire its bonded indebtedness.

The remainder of the new sections in bill section 4 are intended to provide for smooth operation of the fund. AS 29.60.540 establishes a record-keeping requirement. AS 29.60.550 directs preparation and submission of an annual report. AS 29.60.560 permits the commissioner to adopt necessary regulations. AS 29.60.590 sets out pertinent definitions.

\*

Financing the new municipal impact assistance fund:

Bill sections 5 - 10 identify a source of money for the new fund. That source is the same nickel-per-barrel addition or surcharge to the state severance tax (technically, the oil and gas "properties production tax" as it applies only to produced oil) first imposed during the 1989 legislative session to support the oil and hazardous substance release response fund in AS 46. The proposed legislation contemplates that the proposed fund will have a normal operating balance of \$10 million available to assist municipalities.

Bill section 5, amending AS 43.55.220, authorizes use of revenue from the surcharge for appropriation into the municipal impact assistance fund.

Bill section 6 amends the mechanism applicable to trigger the off-again on-again feature of the nickel-per-barrel surcharge to make it applicable to expenditures from both the existing oil and hazardous substance release response fund and the proposed municipal impact fund.

Bill sections 7 and 8 increase the benchmark figure applicable to the trigger mechanism from \$50 million to \$60 million, while bill section 9 revises the mechanism so that, as a condition of surcharge imposition, the legislature must appropriate not only to restore the balance of the existing oil and hazardous substance release response fund to \$50 million, but also must restore the balance of the proposed municipal impact fund to \$10 million.

The amendment proposed by bill section 10, an uncodified provision, is intended to assure that, from the inception of the nickel-per-barrel surcharge, its collection is not to be suspended until a total of \$60 million is received in order to meet the normal operating balances of the two funds--\$50 million in the existing oil and hazardous substance release response fund and \$10 million in the proposed municipal impact fund.

\*

Other technical and corrective changes sought based on the Exxon Valdez experience:

The remaining bill sections, also developed in conjunction with the initial Perkins Coie request, make technical and corrective changes sought by mayors of municipalities who bore the brunt of the Exxon Valdez disaster and cleanup. Here, as noted earlier, there have been changes incorporated to assure that municipalities eligible for financial assistance under the municipal impact fund of AS 29.60 are not also eligible for assistance for those same expenditures from sources in AS 46.

Bill section 11: AS 46.03.822(a) defines the scope of a person's liability under the "Strict Liability" provisions of that chapter (AS 46.03). Under the first amendment proposed by this bill section, that liability would be extended to strict liability for damage to the natural resources of a village and for containment and removal efforts undertaken by a village (page 11, lines 5 and 7). Under the second, "incremental costs of providing public services" and "costs of providing additional public services" incurred "by the state, a municipality, or a village" would be recoverable from the spiller under this subsection (page 11, lines 7 - 10). Bill section 12 makes a pair of related changes, providing definitions of the terms "public services" and "village" that are introduced in bill section 11.

AS 46.04 generally addresses the subject of oil discharge and cleanup. Current AS 46.04.020(e) establishes a basis for agreements between parties to facilitate containment and cleanup. Bill section 13, amending the reimbursement agreement provision of AS 46.04.020(e), adds to the parties with whom the Department of Environmental Conservation may enter into cooperative agreements to include municipalities and villages. (The change supports a compensation arrangement modified by the amendments made in section 18, later in the bill.)

Oil discharge contingency plans are documents important to protection of the environment. The amendment made by addition of subsection (h) in bill section 14 directs the commissioner of environmental conservation to consult with a larger number of groups and to disseminate draft contingency plans to the public for review and comment.

Bill section 15 amends the definition of "containment and cleanup" applicable to AS 46.04 to add "discharged oil" as a legitimate object of containment and cleanup efforts. More significantly for purposes of this measure, the amendment of the definition of the term incorporates reference to certain incremental and additional public services costs "incurred in response to the actual discharge of . . . oil or a pollutant" and the costs of "additional services incurred in response to an actual discharge of . . . oil or [a] pollutant" as expenses qualifying within the definition.

Bill section 16 sets out additional definitions for two terms, "public services" and "village," that are added by the changes made to provisions of AS 46.04 in the bill.

Bill sections 17 - 21 amend the scope of expenses incurred that are compensable from the oil and hazardous substance release response fund, the existing "470" fund that carries a normal balance of \$50 million dollars. This fund is currently managed by the commissioner of commerce and economic development.

The amendments set out in bill section 17 would (1) permit the money in the fund to be used for preparing "assessments," including assessments of social and economic effects of a discharge or threatened discharge; (2) authorize compensation of costs incurred by a village as a result of a discharge or threatened discharge; and (3) serve as a source of additional grants.

Bill section 18 incorporates amendments substituting mandated payment of compensation for actual abatement expenses incurred, whether by a municipality or by a village under an oil spill cleanup agreement, and further broadens authorized payment by the state from the fund if the response of the municipality or village council was "an appropriate" response, not just a "necessary emergency first response" to a release or threatened release.

The grant provision of bill section 19 is new. The section describes how municipalities and villages may receive "grants . . . to enable [them] to carry out an emergency first response to a release or threatened release." The grants would come from money available in the existing oil and hazardous substance release response fund, and would be payable on application, based on short deadlines (i.e. "as promptly as possible"), under regulations and procedures established by the commissioner of environmental conservation.

Bill sections 20 and 21 make the same amendments to the definition of "containment and cleanup" and add definitions of "service" and "village" to AS 46.08 that are described earlier with reference to the changes made to AS 46.04.

AS 46.09 is a chapter that addresses release of hazardous substances. The amendment to AS 46.09.060(b) made by bill section 22 is, in a sense, a technical change that gives to municipalities, for purposes of environmental protection, the broadest possible authority under all pertinent environmental-related chapters of AS 46 exercisable within the municipality's boundaries. (This change complements the amendments proposed in bill sections 1 - 3 applicable to extra-jurisdictional authority outside the municipality's boundaries.)

Bill sections 23 and 24 make the same amendment to the definition of "containment and cleanup" and add the definition of "service" to AS 46.09 that are described earlier with reference to the changes made to AS 46.04 and AS 46.08.

The legislation is made retroactive to March 24, 1989--the date of the Exxon Valdez oil spill (bill section 25)--and carries an immediate effective date (bill section 26).



Official Business

# Alaska State Legislature

P.O. Box A  
State Capitol  
Juneau, Alaska 99811

HOUSE BILL 577, relating to oil and hazardous substance municipal impact funding

## BACKGROUND OF THE LEGISLATION

This legislation was drafted in response to the concerns expressed by the "oiled mayors" of the communities affected by the March 24 Exxon Valdez oil spill. Funds were provided by the State DEC to the communities for their emergency first response expenses, such as the purchase of boom material, etc.

However, these communities also experienced far-ranging social and economic impacts as a result of the spill; there was an increased need for health services, an increase in public safety services, public utility services, housing services and an increased usage of public facilities, such as the harbors. These increased services placed an incredible burden on the communities, and there was no state fund or mechanism in place to assist the communities with the costs of these additional and incremental services which had been incurred. Additionally, there is also going to be a loss of revenue, such as that generated by the raw fish tax, inasmuch as so much fishing time was lost. True, Exxon did reimburse the communities for some of their costs but not all of the costs were covered and the need is still there.

The Oil Spill Commission recognized this "gap" and addressed the need for local service impact funding in Recommendations 53 and 54 of the Commission Report; specifically, the Commission recommended that a separate fund be created to help local governments with the unreimbursable costs caused by an oil or hazardous substance release.

## SUMMARY OF HOUSE BILL 577

House Bill 577 addresses the above concerns and needs by:

- 1) Broadening the powers of municipalities and villages under AS 29 and under AS 46 to enable them to more effectively deal with the release or threatened release of oil or a hazardous substance;

2) Establishes a separate grant program - the municipal impact fund -which is administered by the Department of Community and Regional Affairs. This fund would serve as a source of assistance to municipalities and villages for incremental and additional services prompted by necessary containment and clean-up.

This fund is parallel to, but not duplicative of, the existing oil and hazardous release response fund (the 470 Fund). The 470 fund is intended to be the principal source of readily available money for expenditures incurred by any eligible party directly for oil and hazardous substance discharge containment and clean up and by the state (alone) for incremental and additional public services prompted by that containment and clean up. Speaking more specifically, the 470 Fund is often spoken of as the "emergency first response fund."

The legislation sets out certain criteria which must be met for a community to be eligible for a grant and it also specifies the types of services which qualify for payment.

3) The source of funding for this municipal impact fund is the same nickel-per-barrel surcharge to the state severance tax first imposed during the 1989 legislative session to support the 470 Fund in AS 46. In order to provide a mechanism for funding, this new municipal impact fund under Title 29, House Bill 577 would increase the cap on the \$.05 per barrel surcharge from its present \$50 million to \$60 million and the additional \$10 million would be appropriated to this municipal impact fund. The other \$50 million would continue to be appropriated by the Legislature to the 470 Fund.

4) The legislation also takes up a portion of the "strict liability" provisions of existing law (46.03.822) in order to clarify that "spillers" are liable for certain additional service costs incurred by the state, municipalities and villages and it clarifies that these provisions are retroactive to the date of the spill.

5) House Bill 577 also establishes a new grant program in the Department of Environmental Conservation. At present, the Department may reimburse municipalities and village councils for costs related to emergency first response. This legislation would spell out in much greater detail than in existing law how municipalities and village councils may receive "grants" for emergency first response expenditures. This is not to be confused with the Title 29 municipal impact fund which is established in HB 577 to fund the cost of additional and incremental services and functions which are not emergency first response.

#### COMPARISON OF HOUSE BILL 577 AND CSSSSB 359 (OIL AND GAS)

CSSSSB 359 (Oil and Gas) is presently in Senate Resources and while the overall thrust of the legislation is similar to House Bill 577,

there are some specific differences which may be noted. The following are not all of the differences but they do include the major differences:

- 1) CSSSSB 359 (Oil and Gas) does not establish a separate fund for the municipal impact grants. Rather, it provides that up to \$10 million of the \$50 million (maximum) in the 470 Fund may be appropriated to the Department of Community and Regional Affairs for these grants.
- 2) The Senate Bill also provides for a "trigger mechanism" whereby the Governor must make a declaration of disaster emergency in order for the municipal impact fund to be activated. Both the drafters of the House bill and Senator Szymanski, the sponsor of SSSB 359 felt that this was not necessary because the mechanism was built into the criteria in the bill.
- 3) The Senate Bill does not include a provision for clarifying the retroactivity of the strict liability in AS 03.822. This provision is felt to be very important by the oiled mayors.
- 4) Whereas the House Bill 577 provides for a emergency first response grant program under AS 46 for municipalities and villages, the Senate version provides for a cash advance to these entities.
- 5) Senate Oil and Gas Commitee was concerned that a municipality or village not benefit from an impact assistance grant if the discharge is eventually shown to be the recipient's responsibility. Hence, proposed AS 29.60.590 of the Senate bill authorizes a recovery of grant money paid under the municipal impact grant fund if the Commissioner determines that the municipality or village receiving the grant is responsible for the underlying spill.

(prepared by Senator Mike Szymanski)



Impact Assessment, Inc.

Economic, Social, Psychological Impacts  
of the *Exxon Valdez* Oil Spill

## INTERIM REPORT #1

# ANALYSIS OF FISCAL IMPACTS TO LOCAL JURISDICTIONS

911 West 8th Avenue, Suite 402  
Anchorage, Alaska 99501  
(907) 272-6811 (Office)  
(907) 272-6558 (Fax)

2160 Avenida de la Playa, Suite A  
La Jolla, California 92037  
(619) 459-9461 (Office)  
(619) 459-9461 (Fax)

# IMPACT ASSESSMENT, INC.

911 WEST 8TH AVENUE, SUITE 402 • ANCHORAGE, ALASKA 99501

TELEPHONE (907) 272-6811 • FACSIMILE (907) 272-6518

Mr. Gordon Gould, *City Manager*  
City of Kodiak  
710 Upper Mill Bay Rd.  
Kodiak, Alaska 99508

March 1, 1990

Grant #AK-OSG 90-5  
Socioeconomic Impact Study

## Interim Report #1: Group A Fiscal Impact Assessment Template Summary

Dear Mr. Gould:

This document is the first of two Interim Reports to be submitted in progress toward completion of the final report for the "Economic, Social, and Psychological Impacts of the *Exxon Valdez* Oil Spill." The focus of this Interim Report is a preliminary assessment of the fiscal impacts of the oil spill on local governments (boroughs and cities).

This report is intended to summarize progress to date. It is not intended to be viewed as a final product -- the last completed Group A template was only just received three days ago, entered, and run for consistency. This does not mean, however, that the established schedule for completion of Task 1 elements has been significantly deferred by the delayed delivery of the primary data. We have proceeded as scheduled in the development of the framework, tables, and analytical approach to be applied to templates and are actually somewhat ahead of schedule with respect to the analysis itself. On the other hand, there is still considerable analytic work to be done and it is important to recognize that this is but an interim report on what will be a more extensive and detailed Task 1 product.

Second, in any report of this nature, there will inevitably be requests for clarification, additional information, and further analysis or interpretation. We will continue to work closely with the Oiled Mayors to either respond promptly to these requests or to arrange for a more extended examination of selected issues in subsequent reports. In addition, this is a particularly opportune time, during the early stages of the process, for reviewers to critique the objectives, direction, and content of the preliminary fiscal impact analysis and we particularly welcome review comments.

Finally, I would like to take this opportunity to thank the finance directors of each of the affected Group A communities. This report could not have been attempted without their commitment to the process. Completion of the templates required long hours, often an additional burden to government, and in some cases during precisely the worst period of time (January) for finance directors. To a very real degree, the quality of the content of this report is due to their investment in configuring and completing the data collection templates. In addition to helping quantify impacts sustained to date, these templates will be invaluable in providing a consistent data collection methodology for documenting the longer-term impacts of the oil spill on local government.

Sincerely,



John S. Petterson, Ph.D.  
*President*



Impact Assessment, Inc.

Economic, Social, Psychological Impacts  
of the *Exxon Valdez* Oil Spill

## INTERIM REPORT #1

# ANALYSIS OF FISCAL IMPACTS TO LOCAL JURISDICTIONS

911 West 8th Avenue, Suite 402  
Anchorage, Alaska 99501  
(907) 272-6811 (Office)  
(907) 272-6558 (Fax)

2160 Avenida de la Playa, Suite A  
La Jolla, California 92037  
(619) 459-9461 (Office)  
(619) 459-9461 (Fax)

## TABLE OF CONTENTS

	<u>page</u>
EXECUTIVE SUMMARY	
1.0 INTRODUCTION .....	1-1
1.1 Organization .....	1-2
1.2 Overview of Analytical Approach .....	1-2
1.3 Acknowledgements .....	1-4
2.0 LOCAL GOVERNMENT REVENUE .....	2-1
2.1 Introductions .....	2-1
2.2 Revenue Structure .....	2-1
2.3 Revenue Impacts .....	2-3
Impact Linkages .....	2-3
Overview of Impacts .....	2-4
Demographic & Private Sector Bus. Impacts .....	2-4
Local Gov't Revenue Impacts .....	2-5
Observation and Findings .....	2-7
Taxes .....	2-8
Charges for Services .....	2-11
Miscellaneous Revenues .....	2-13
Other Revenue Sources .....	2-13

2.4	Summary .....	2-25
	Interpretation .....	2-25
	Major Findings .....	2-26
3.0	LOCAL GOVERNMENT EXPENDITURES .....	3-1
3.1	Introduction .....	3-1
3.2	Recent Patterns in Local Government Spending .....	3-1
3.3	City of Cordova .....	3-4
3.4	City of Valdez .....	3-5
3.5	Kenai Peninsula Borough .....	3-5
3.6	City of Homer .....	3-6
3.7	City of Kenai .....	3-7
3.8	City of Seward .....	3-8
3.9	City of Soldotna .....	3-9
3.10	Kodiak Island Borough .....	3-9
3.11	City of Kodiak .....	3-10
3.12	Summary .....	3-29
4.0	SPILL RELATED REVENUES AND EXPENDITURES .....	4-1
4.1	Introduction .....	4-1
4.2	Quantified Oil Spill Revenues and Expenditures .....	4-2
4.3	Estimated Effect of Spill on 1989 and 1990 Revenues and Expenditures .....	4-4

5.0	FISH TAX ANALYSIS .....	5-1
5.1	Introduction .....	5-1
5.2	Simplifying Assumptions .....	5-2
5.3	Bases for Estimation .....	5-3
5.4	Analysis .....	5-5
5.5	Summary .....	5-12
	APPENDIX A .....	A-1
	LIST OF REFERENCES .....	R-1

## LIST OF TABLES AND EXHIBITS

	page
Table 2-1 Sales Tax Revenue by Local Government Jurisdiction .....	2-9
Table 2-2 Comparison of 1988 and 1989 Sales Tax Revenue by Local Government Jurisdiction .....	2-10
Table 2-3 Charges for Service Revenue by Local Government Jurisdiction .....	2-12
Table 2-4 License and Permit Revenue by Local Government Jurisdiction .....	2-14
Table 2-5 Fine and Forfeiture Revenue by Local Government Jurisdiction .....	2-15
Table 2-6 Template #2 for Community of Cordova: Revenues by Source .....	2-16
Table 2-7 Template #2 for Community of Valdez: Revenues by Source .....	2-17
Table 2-8 Template #2 for Kenai Peninsula Borough: Revenues by Source .....	2-18
Table 2-9 Template #2 for Community of Homer: Revenues by Source .....	2-17
Table 2-10 Template #2 for Community of Kenai: Revenues by Source .....	2-20
Table 2-11 Template #2 for Community of Seward: Revenues by Source .....	2-21
Table 2-12 Template #2 for Community of Soldotna: Revenues by Source .....	2-22
Table 2-13 Template #2 for Kodiak Island Borough: Revenues by Source .....	2-23

Table 2-14	Template #2 for Community of Kodiak: Revenues by Source .....	2-24
Table 3-1	Real Per Capita Local Government Expenditure .....	3-2
Table 3-2	Summary of Local Government Expenditures by Object Category .....	3-3
Table 3-3a	Personnel Expenditures by Service Function - Cordova .....	3-11
Table 3-3b	Operations & Maintenance Expenditures by Service Function - Cordova .....	3-12
Table 3-4a	Personnel Expenditures by Service Function - Valdez .....	3-13
Table 3-4b	Operations & Maintenance Expenditures by Service Function - Valdez .....	3-14
Table 3-5a	Personnel Expenditures by Service Function - Kenai Peninsula Borough .....	3-15
Table 3-5b	Operations & Maintenance Expenditures by Service Function - Kenai Peninsula Borough .....	3-16
Table 3-6a	Personnel Expenditures by Service Function - Homer .....	3-17
Table 3-6b	Operations & Maintenance Expenditures by Service Function - Homer .....	3-18
Table 3-7a	Personnel Expenditures by Service Function - Kenai City .....	3-19
Table 3-7b	Operations & Maintenance Expenditures by Service Function - Kenai City .....	3-20

Table 3-8a	Personnel Expenditures by Service Function - Seward .....	3-21
Table 3-8b	Operations & Maintenance Expenditures by Service Function - Seward ...	3-22
Table 3-9b	Personnel Expenditures by Service Function - Soldotna .....	3-23
Table 3-9a	Operations & Maintenance Expenditures by Service Function - Soldotna .....	3-24
Table 3-10a	Personnel Expenditures by Service Function - Kodiak Borough .....	3-25
Table 3-10b	Operations & Maintenance Expenditures by Service Function - Kodiak Borough .....	3-26
Table 3-11a	Personnel Expenditures by Service Function - Kodiak City .....	3-27
Table 3-11b	Operations & Maintenance Expenditures by Service Function - Kodiak City .....	3-28
Table 4-1	Oil Spill Related Revenues and Expenditures by Local Government Jurisdiction .....	4-3
Table 4-2	Estimated Spill Related Changes in Revenues and Expenditures by Local Government Jurisdiction .....	4-6
Exhibit 1	Local Government Fish Tax Earnings (1986-1988) .....	5-6
Exhibit 2	Value of 1988 Salmon Harvests .....	5-8
Exhibit 3	Value of Projected 1989 Salmon Harvests .....	5-9

Exhibit 4  
Projection of 1989 Fish Tax Distribution by Fishery Area ..... 5-10

Exhibit 5  
Local Government Fish Tax Earnings (1986-1988, 1989 projection) ..... 5-11

Appendix A  
Local Government Demographic and Tax Data ..... A-1

## EXECUTIVE SUMMARY

### Introduction

This report is the first in a series of interim reports prepared for the Oiled Mayors by Impact Assessment, Inc. It is part of a larger ongoing study of the economic, social, and psychological impacts of the *Exxon-Valdez* oil spill and cleanup. The primary objective of this first interim report is to provide a preliminary assessment of how the oil spill and cleanup affected the fiscal position of nine local government entities addressed by this component of the study: seven larger (Group A) cities (Valdez, Cordova, Seward, Kenai, Soldotna, Homer, and Kodiak) and the Kenai Peninsula, and Kodiak Island Boroughs. In presenting this information, this interim report summarizes on-going analysis of the effects of the oil spill and cleanup on: (1) local government revenues; (2) local government expenditures; (3) oil spill related expenditures and revenues; and (4) fish taxes.

### Local Government Revenues

The Exxon-Valdez oil spill on March 24, 1989 led to two major sources of impact: (1) the oil spill cleanup activity and (2) fishery closures. These events continue to have concurrent positive and negative effects on specific revenue sources. In general, one preliminary finding emerges from this examination of local government revenues in 1989: seven out of nine jurisdictions received more total revenue in 1989 than in 1988, with one exception where a large state capital grant was received in 1988.

Examination of historical data indicates there are four major sources of revenues for the local jurisdictions discussed in this report: charges for services, taxes, inter-governmental revenues, and miscellaneous revenues. In each of the jurisdictions examined, there is variation in the significance of each of these revenue sources in the total pattern of government revenues. In the aggregate these four sources should be an indicator of the over-all impacts of the oil spill on local government revenues. However, since some of the inter-governmental revenues and miscellaneous revenues result from lagged payments that are not yet available for inclusion in this analysis, this interim report only develops the revenues from charges for services and certain taxes.

Charges for services vary by service and by jurisdiction. Consequently, a complex picture emerges regarding service related income. Water and sewer revenues appeared to exceed 1988 revenues during the post-spill months in three jurisdictions but tended to follow the 1988 pattern in others. Harbor and port revenues increased 22 percent from FY 1988 to FY 1989. This increase was more than double the average annual growth rate observed in earlier years. Revenues during the post-spill months tended to exceed the 1988 revenues in most jurisdictions. Of the three jurisdictions reporting airport revenues (Valdez, Soldotna and the City of Kenai), a comparison with comparable 1988 revenues indicates that Valdez had a 7-percent increase in revenues, Soldotna a 1-percent increase and Kenai an 18-percent decrease. Among the jurisdictions reporting hospital revenues all reported increases ranging from 1-to-9 percent. The "All Other" category of expenditures reported by eight of the jurisdictions indicates an increase in this revenue source among seven of these government entities.

There are several sources of tax revenue among the nine jurisdictions examined: sales, hotel/motel, property, and fish tax. Technically the fish tax is an intergovernmental transfer and consequently it is not reflected in tax revenues. However, given the importance of this "tax" issues regarding 1989 fish tax are summarized as a separate section of this report.

Sales tax revenues are a direct reflection of private sector business activity. Therefore, the sales tax impact of the oil spill may be positive, negative or neutral, depending upon the timing and mix of spill cleanup and fisheries activity. Sales tax revenues in 1989 reflect sales activity in the post-spill months of April through September. They were 49 percent above the revenues representing the two pre-spill quarters. This compares with a 39 percent increase for comparable time periods in 1988.

Hotel/motel tax revenues reflect in-migration of short-term and transitory residents. Beyond the normal impacts of tourism, these revenues should increase with the spill cleanup activity and be adversely affected by fisheries decline and cleanup shutdown. Hotel/motel taxes were also higher in 1989 than in 1988. Much of this increase is observed in the post-spill months.

Revenues from property taxes that would reflect 1989 impacts will not be received until calendar year 1990. Consequently, this revenue source is not reflected in the fiscal data reported by local jurisdictions for this analysis.

## Local Government Expenditures

In general, per-capita local government spending among jurisdictions examined in this study exhibited a pattern of real (inflation-adjusted) decline in recent years. Five out of nine jurisdictions experienced real, per-capita decline between fiscal years 1986 and 1988. The number of jurisdictions that exhibited decline in real, per-capita total spending increased to seven out of nine between fiscal years 1988 and 1989. This real, per-capita decline occurs in connection with rising absolute levels of government spending among local government jurisdictions. Strong population growth in 1989 (as reported by the Alaska Department of Community and Regional Affairs) among several study jurisdictions underscore the per-capita decline in government spending. Observed population expansion may reflect oil-spill cleanup population movement and settlement into the study region.

Increases in Personnel and Operations & Maintenance (O&M) expenditures from fiscal 1988 to fiscal 1989 were concentrated in five important service function categories, not directly related to oil spill cleanup. Ranked in order of the incidence of expenditure increase, these five service functions are:

- o Public Works
- o Public Safety
- o Port/Harbor
- o Health & Hospital
- o General Government

These five service function categories account for the bulk of local government expenditure increases for the personnel and O&M object categories. Furthermore, they represent the kind of public service functions most likely to be impacted by an event like the *Exxon-Valdez* oil spill and cleanup. However, further analysis is required to investigate possible indirect connections between observed patterns of local government spending increases and the oil spill and cleanup events of 1989.

Concerning direct oil spill cleanup expenditures, eight out of nine local government jurisdictions reported direct personnel and O&M expenditures for oil spill cleanup during fiscal year 1989 and the first six months of fiscal year 1990.

# **CORRECTION**

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

## Local Government Expenditures

In general, per-capita local government spending among jurisdictions examined in this study exhibited a pattern of real (inflation-adjusted) decline in recent years. Five out of nine jurisdictions experienced real, per-capita decline between fiscal years 1986 and 1988. The number of jurisdictions that exhibited decline in real, per-capita total spending increased to seven out of nine between fiscal years 1988 and 1989. This real, per-capita decline occurs in connection with rising absolute levels of government spending among local government jurisdictions. Strong population growth in 1989 (as reported by the Alaska Department of Community and Regional Affairs) among several study jurisdictions underscore the per-capita decline in government spending. Observed population expansion may reflect oil-spill cleanup population movement and settlement into the study region.

Increases in Personnel and Operations & Maintenance (O&M) expenditures from fiscal 1988 to fiscal 1989 were concentrated in five important service function categories, not directly related to oil spill cleanup. Ranked in order of the incidence of expenditure increase, these five service functions are:

- o Public Works
- o Public Safety
- o Port/Harbor
- o Health & Hospital
- o General Government

These five service function categories account for the bulk of local government expenditure increases for the personnel and O&M object categories. Furthermore, they represent the kind of public service functions most likely to be impacted by an event like the *Exxon-Valdez* oil spill and cleanup. However, further analysis is required to investigate possible indirect connections between observed patterns of local government spending increases and the oil spill and cleanup events of 1989.

Concerning direct oil spill cleanup expenditures, eight out of nine local government jurisdictions reported direct personnel and O&M expenditures for oil spill cleanup during fiscal year 1989 and the first six months of fiscal year 1990.

## Oil Spill Related Revenues and Expenditures

All boroughs and cities within the oil spill area, except Soldotna, were directly affected by the Exxon Valdez oil spill. Total spill-related revenue reported by all nine local government jurisdictions through the end of calendar year 1989 was \$6,136,000. Of this amount, \$131,000 or two percent of the total is in outstanding invoices. Due to differences in accounting treatment, this \$6,136,000 may also include advances of funds made by Exxon or the State which may be applied to continuing oil spill response expenditures. Total expenditures to date are reported at \$6,091,000. Of this amount, \$5,562,000 has been billed and/or reported as expended to date, leaving \$529,000 as unbilled or unreported. The most current information provided by local jurisdictions suggests that of the amounts billed for reimbursement, less than one percent of the total was deleted from payments by Exxon Corporation.

Kenai Peninsula Borough was advanced \$2,000,000 by Exxon Company, USA, to finance oil spill response activities within the borough. Under this borough's accounting system, this money was treated as an advance. Funds applied to offset expenditures are taken as revenue at the time the expenditure is incurred, and the outstanding balance of the advance is then reduced. As of December 31, 1989, approximately \$387,000 is being held for continuing oil response costs. Of the \$1,612,000 expended, the borough reports that \$661,000 was passed through to other agencies (\$432,000 to Group A cities, approximately \$180,000 to U.S. Parks Service, and \$50,000 to Seldovia). All applicable expenditures within the Borough have been reported to Exxon as drawdowns from the \$2,000,000 advance.

Kodiak Island Borough reports they have received \$1,730,000 from Exxon of which \$99,000 was passed through to the City of Kodiak. To date the borough has reported \$1,455,000 being invoiced, of which \$354,000 was to the State of Alaska and \$1,101,000 was billed to Exxon. Based on the information provided and taking into account \$326,000 in unbilled or unreported expenditures, the Borough has \$204,000 in unapplied funds remaining. It is unknown whether these are for expenditures in other operating accounts which have not yet been included, or whether the entire amount is available for continuing oil spill response.

The local government jurisdictions in this report were requested to quantify their estimates as to how the oil spill affected revenues and expenditures for 1989, and to estimate how they would be affected during 1990. A review of the general financial information submitted reveals that in most coastal areas there were substantial increases in sales taxes, business licenses, fines, and enterprise fees and charges. It must be assumed, where otherwise not reported, these increases resulted primarily from oil spill cleanup response. The increases were sufficient in size to offset losses in the same revenue sources resulting from decreased fishing and tourist activity. Increases due to oil spill response are of a one time nature affecting only the entity's economy during 1989, while losses from commercial fishing activities resulting from the spill may well continue into future years.

Sales taxes were strongly impacted. The influx of large numbers of people required for the massive cleanup efforts created increased consumer purchases. At the same time, a substantial amount of the materials and supply purchases by Exxon, or their contractors, were channeled through local merchants. The resulting increase in taxable sales was more than sufficient to offset short-term loss of sales taxes due to declines in business resulting from commercial fishing closures. Also, as fisherman gear up early in the year, the gear purchased for 1989 due to this spill, may not have been used, making it available for the 1990 fishing season. This may materially reduce the need to purchase new gear in the spring of 1990. Such loss of business will be reflected in 1990 sales tax collections. In addition, if further major fishing closures are required, this will have a further deleterious effect on local businesses, causing further reductions in sales tax collection.

A decline in one aspect of a local economy tends to have a domino effect on other sections. Thus, such a decline can also adversely affect other revenues dependent on the economic well being of the area. Contending with this loss of revenue may require that the jurisdiction either reduce the quality of services to its residents or that the loss be made up by increasing property tax rates, which in turn would increase property revenue.

#### Raw Fish Tax Impacts

Fish tax represents an important revenue source for local governments; there is a high probability that this revenue source was affected by the *Exxon Valdez* oil spill. Unfortunately, changes in raw fish taxes are not reflected in the completed fiscal impact assessment templates because fish taxes paid by processors to the State of Alaska during 1989 are not redistributed to local jurisdictions until mid-1990. Thus, in order to quantify any loss of fish tax resulting from the *Exxon Valdez* oil spill it is necessary to (1) project the value of fish that would have been landed in 1989 had the fisheries been conducted under normal conditions, (2) place a value on these fish, and (3) then derive an appropriate "without oil-spill" distribution of those revenues among the affected communities.

Information provided in the templates and the Alaska Department of Revenue, the total fish tax distribution to the affected boroughs and communities was \$3,242,572 for the 1986 fishing season, \$4,158,836 for the 1987 season, and \$8,640,153 for the 1988 season. Our projection of what the total fish tax distribution would have been for 1989 is \$9,218,674. Provisional community and borough entitlements are then derived on the basis of post-season appraisals of actual fish runs and likely harvest levels.

The 1988 distribution formed the basis for computing the relationship between total salmon harvest values in 1988 and total projected salmon harvests by fishery area in 1989. This ratio, in turn, was applied to the total projected value of the 1989 season to derive the relative distribution among jurisdictions.

## 1.0 INTRODUCTION

This interim report was prepared for the Oiled Mayors'. It is part of a larger ongoing study of the economic, social, and psychological impacts of the *Exxon Valdez* oil spill and cleanup. The fiscal analysis contained here is the first in a series of interim reports prepared by Impact Assessment, Inc.

During the period of massive oil-spill cleanup, local governments responded to the disaster. They committed community facilities, equipment, and personnel to help coordinate cleanup operations and to address sudden shifts in demand for local public services. The mayors in affected communities in Prince William Sound, the Kenai Peninsula, Kodiak Island, and the Alaska Peninsula joined forces and formed the "Oiled Mayors" Subcommittee of the Alaska Conference of Mayors. On behalf of the Oiled Mayors', the City of Kodiak issued a Request for Proposals calling for an integrated study of the economic, social, and psychological impacts of the oil spill and its cleanup. Four technical objectives are contained in the Scope of Work. They are:

- o Task 1: Fiscal Impact Assessment
- o Task 2: Business Impact Assessment
- o Task 3: Psychosocial Impact Assessment
- o Task 4: Final Technical Report

Work on Task 1 involved a series of meetings with participating Finance Directors of the larger (Group-A) local government jurisdictions to develop a fiscal assessment data collection instrument. A final set of "Fiscal Templates" were prepared and distributed to local government finance officers in Group-A communities in mid January 1990. This interim report is based largely on the results of the completed Fiscal Templates submitted by nine participating local government jurisdictions:

Kenai Peninsula Borough  
Homer  
Kenai City  
Seward  
Soldotna

Kodiak Island Borough  
Kodiak City

Cordova  
Valdez

The goal of this ongoing study is to provide the Oil Mayors' with a comprehensive and systematic assessment of what happened to their communities as a result of the oil spill and cleanup. The results will be used to enhance oil spill impact mitigation, to plan and protect against future recurrences, and to inform appropriate legislative action.

The objective of this first interim report is to provide a preliminary examination of how the oil spill affected the fiscal position of the cities and boroughs of Prince William Sound, Kenai Peninsula, and Kodiak Island.

## 1.1 Organization

This report is organized into five sections, plus an Executive Summary. Section 1.0, this introduction, provides an overview of how this report fits into the overall study. Section 2.0 examines local government revenues. It provides an overview of the revenue structure of the affected jurisdictions before and during the oil spill and cleanup, and investigates the extent and magnitude of local government revenue impacts from the events surrounding the oil spill. Section 3.0 reviews local government expenditures over recent years to quantify the nature and extent of direct oil spill expenditures and to probe for evidence of expenditure patterns that may be indirectly related to the oil spill and cleanup. In Section 4.0, spill-related revenues and expenditures are compiled for each local government jurisdiction. This section summarizes reimbursements received and claims submitted by local government jurisdictions for expenditures made as a direct result of the oil spill and cleanup activities. Section 5.0 provides a preliminary baseline assessment of what raw state fish tax receipts would have been had the oil spill not occurred. Special attention was given to raw state fish tax revenues for several reasons. First, fish tax revenues represent an important and growing source of revenues to local government jurisdictions. Second, this revenue source represents a direct link between the local economy and government operations. Third, redistribution of the state raw fish tax to local governments lags substantially behind actual fish harvesting and processing activity. Final fish tax revenue disbursements for fish processed in 1989 may not occur until June or July of 1990.

## 1.2 Overview of Analytical Approach

The trend-analysis approach was used in Sections 2.0 and 3.0 to track revenue and expenditure levels for several years to observe whether the fiscal pattern during the impact year differs from a baseline of prior years. Since most of the local governments report on a fiscal year basis, the most recent fiscal year data available was for that ending June 30, 1989. Unfortunately, FY 1989 covers only three and one-half months of the post-spill impact period, and can provide only a glimpse of possible impacts beyond those identified by the documentation of reimbursement and claims. This interim report includes observations about these impacts. Data from FY 1986, FY 1987, FY 1988 and FY 1989, however, also provide essential components of a baseline for evaluating impacts during the post-spill period and in the future.

In some cases, the trend analysis approach was applied to monthly data for selected revenue sources. Similar comparisons can also be made for selected expenditure categories (e.g., personnel and operations/maintenance). A basic assumption in this approach is that the "no-spill" baseline revenues and expenditures in 1989 are closely aligned with the composition and magnitude of revenue patterns in 1988. This ignores special circumstances that may influence the magnitude of revenue sources in any particular year, as well as patterns observed in earlier years. A preferred approach is to develop a no-spill, 1989 baseline estimate for selected revenues and expenditures by adjusting the 1988 calendar year data to reflect both historic patterns and special circumstances, and then to compare that baseline with the actual 1989 calendar year data to derive the revenue and expenditure impacts. This kind of approach will be included in the fiscal baseline analysis in the final report.

Section 4.0 incorporates an approach that documents the spill-related reimbursements received and claims made by the jurisdictions. These include the revenues received from Exxon, other private parties and the state and federal government as reported in the jurisdiction's oil-spill account. While this approach provides a useful preliminary assessment of impacts, it is incomplete on at least two grounds. First, it reflects only those costs perceived by local officials and recognized by the reimbursement entity as valid spill-related claims; therefore, some costs related to clean-up activity may not be included. Second, it reflects, at best, only those costs and reimbursement revenues related to the clean-up activity, and does not take into account the fiscal impacts related to either the closure or dislocation of the fishing industry or the subsequent shut-down of the spill cleanup activity.

The above approaches capture only quantitative impacts for 1989 that can be discerned from the jurisdiction's financial statements. Not accounted for in these approaches are the costs of increased service demands for specific service functions, the costs of added capacity or the costs resulting from resources diverted within the local government to cleanup activity or diverted from personal use to expanded responsibility. Additional quantitative data as well as information about how the oil spill affected the structure and process of local government service delivery are now being collected. In the Final Report, quantitative analysis will be supplemented with understandings about "what the numbers mean" gleaned from the process information regarding local government service delivery.

Finally, these approaches capture only those impacts accrued to the local governments in 1989. They do not take into account any impacts extending into 1990 or beyond. Nor do they reflect impacts in other sectors of the local or regional economy. Many important revenue sources have a time lag between the time an event occurs and the time the revenue is actually received by the local government. As noted above, the impact of the 1989 fisheries closure on state fish tax revenues will not be observed by the jurisdictions until June 1990 and the effect of fluctuating property values due to the 1989 fisheries closure and the boom and bust nature of the cleanup activity may not be reflected in property tax revenues until after July 1990; that is, in fiscal year 1991. These delayed impacts are noted in this report. However, it is obvious that fiscal impacts tied to the events of March 24 will continue into the future. A quantitative assessment of longer-term impacts is beyond the scope of this study. However, this preliminary assessment is sufficient to indicate the need for an on-going monitoring program to assess impacts that accrue to local governments in future years.

### 1.3 Acknowledgements

The scope of work call for a data collection effort that may be unprecedented in its depth and breadth for fiscal impact analysis. We emphasized in the template instructions that "the quality of the study and the usefulness of the results to affected communities will depend primarily on the accuracy and detail of the information provided by each jurisdiction included in the study." The effort committed to the development and completion of the Fiscal Templates and, therefore, the quality of data on which this analysis is based is a credit to the finance officers and staff of each local government.

## 2 LOCAL GOVERNMENT REVENUES

### 2.1 Introduction

The first part of this section presents an overview of the pre-spill revenue structure of the local governments affected by the oil spill. Major sources of revenue are identified and ranked by order of importance for FY 1986. Significant changes in the order of importance for the period FY 1986 to FY 1989 are noted. The second part examines revenue sources most likely to be impacted by the oil spill and cleanup events. Observations about revenue trends are made from a preliminary analysis of the data that has been received.

### 2.2 Revenue Structure

Local governments receive their revenues from six sources, which vary in order of importance among the jurisdictions impacted by the oil spill. Four sources: taxes, intergovernmental revenues, charges for services, and miscellaneous, provide at least 97 percent of the revenues in each of the nine jurisdictions studied. Two sources, licenses & permits and fines & forfeitures, account for even less than one percent of total revenue in many jurisdictions.

Charges for services was the leading revenue source of four entities (Cordova, Homer, Seward and City of Kodiak) in FY 1986. It ranked second, third or fourth in five jurisdictions. From FY 1986 to FY 1989, this source dropped in ranking in two entities. The major charges for services were for hospital (Cordova, Kenai Peninsula Borough, Seward, and Kodiak Island Borough), water and sewer (all but Kenai Peninsula Borough), and harbor and port (all but Kenai Peninsula Borough, Soldotna and Kodiak Island Borough).

Taxes ranked as the leading source for FY 1986 in three jurisdictions, was second-, third-, fourth-ranked in six entities. From FY 1986 to FY 1989, this source dropped in ranking in three jurisdictions and increased its ranking in one. Property taxes are collected in all jurisdictions and were the major source of FY 1986 tax revenue in four (Valdez, Kenai Peninsula Borough, Seward, and Kodiak Island Borough). Sales taxes provided the most FY 1986 tax revenue in five entities (Cordova, Homer, City of Kenai, Soldotna, and City of Kodiak) and are not a revenue source for Valdez or Kodiak Island Borough. Sales tax replaced property tax as the major source of FY 1989 tax revenue in Seward.

Intergovernmental revenues was the major source of FY 1986 revenue for three jurisdictions (Kenai Peninsula Borough, City of Kenai, and Kodiak Island Borough). It ranked second or third in six entities. From FY 1986 to FY 1989, this source increased from third to second place in Cordova, and dropped from second to third in Valdez and Homer.

Three jurisdictions (Valdez, Kenai Peninsula Borough, and Kodiak Island Borough) received state school revenues which was their highest or second high source of intergovernmental revenues.

All jurisdictions except Cordova received state capital grants, which ranked as the highest source of FY 1986 intergovernmental revenue for four entities (Valdez, Homer, City of Kenai, and Soldotna), and ranked second in two jurisdictions.

All nine local governments received state municipal assistance, which was the second largest source of FY 1986 intergovernmental revenue for five entities, and was first place in one (City of Kodiak).

State general revenue sharing was the third place source of FY 1986 intergovernmental revenues in five jurisdictions, and ranked first or second in two.

State operating grants were received by seven entities, and it ranked as third, fourth or fifth highest source of FY 1986 intergovernmental revenue in five.

Other state shared revenues ranked in fifth, sixth or seventh place among FY 1986 intergovernmental revenues in six of the eight jurisdictions receiving this source.

Eight entities received state raw fish tax in FY 1986; all nine received state raw fish tax in FY 1989. This source increased its ranking as a source of intergovernmental revenue from FY 1986 to FY 1989 in eight of the nine jurisdictions; the exception was Cordova where it ranked as the top source in FY 86 and FY 89.

Miscellaneous revenues was the fourth ranked source of FY 1986 total revenue in six jurisdictions, but ranked second or third in three entities. By FY 1989 it increased its ranking in three entities. Investment income was the leading source of miscellaneous income in seven jurisdictions and was the second leading source in the other two (Seward and City of Kodiak) behind other miscellaneous. Rents and leases were sources of miscellaneous income in six entities.

Licenses and permits were the fifth ranked source of FY 1986 revenue for eight jurisdictions, and not reported as a source by Kenai Peninsula Borough.

Fines and forfeitures ranked as the lowest source of FY 1986 revenue in seven jurisdictions, and were not a source in Kenai Peninsula Borough or City of Kodiak. These two sources switched fifth and sixth place rankings in FY 1989 in Cordova, Homer, City of Kenai, and City of Kodiak.

## 2.3 Revenue Impacts

This section examines patterns of change among revenue sources most likely to be impacted by the oil spill. Special attention is given to the timing of impacts, i.e., when the revenues were likely to be reflected in local government revenues. Some impacts may be observed during the year of impact while others are characterized by time lags in receipt of revenue. Several observations and tentative conclusions about oil spill cleanup impacts are drawn from these revenue data. Also, we suggest some precautions on interpreting these data in light of the differential timing of impacts.

### Impact Linkages

The Exxon-Valdez oil spill on March 24, 1989 led to two major sources of impact: 1) the oil spill cleanup activity and 2) closure of the fisheries. Each has positive and negative effects on specific revenue sources which may be acting concurrently or at different times. The boom and bust nature of the spill cleanup activity and the fisheries closure affected communities differently. Consequently, revenue impacts were likely to have been distributed unevenly across time and among affected communities. The following discussion establishes how two sources of impact are linked to changes in population and business activity and ultimately to changes in selected sources of revenue.

These linkages are derived from a model in which the sources of impact (Cleanup and fishery closures) and characteristics of the affected communities interact to influence economic and demographic conditions, public service demand, and local government costs and revenues. Key characteristics include: (1) total work force requirements and local availability of labor which affect the amount and timing of population influx or out-migration, which in turn affect the nature and magnitude of public service demands; (2) resource requirements and linkages with other economic sectors which are key determinants of private sector economic impacts; and (3) the level of investment in project or event-related facilities. All of these characteristics may be factors in the local public sector revenues generated by the event.

## Overview of Impacts

Demographic impacts are influenced by local community characteristics in several ways. First, the size of the local population, resident's skill levels, and the extent of underemployment and unemployment may determine the number of workers hired locally, and conversely, on the number who will be in-migrants. Second, local characteristics have a substantial influence on the settlement patterns of in-migrating workers and their families, as well as the number of workers who bring their families to the area. (City and Borough employment and population estimates, as well as other tax data, are summarized in Appendix A of this report.)

Private sector business impacts are influenced substantially by the local economic structure, which will affect the source of impact's ability to purchase supplies and materials locally and may influence the propensity of project workers to purchase goods and services locally.

Public service impacts are influenced by any excess capacity in the local public infrastructure, which will affect its ability to absorb new populations and the cost of meeting growing demands for services.

Fiscal impacts are also influenced substantially by local community characteristics. Differences in local tax structures can greatly affect the magnitude and timing of revenues derived from a source of impact and the accompanying population growth and related business activity. In addition, the arrangement of jurisdictional boundaries in relation to the places of changed economic activity and location of worker's residences can, in some cases, lead to substantial mismatches of cost and revenue impacts.

### Demographic and Private Sector Business Impacts

Many in-migrants were attracted to the impacted communities in search of employment in clean-up activities. The closure of the fisheries also caused resident workers to be dislocated from the fishing industry to the cleanup effort and supporting service activity. Further demographic shifts, including out-migration, were reported after the September phaseout of clean-up activity; such as residents using their savings and money earned from the oil spill cleanup to buy property in and relocate to other Alaskan or outside communities.

Private sector business impacts include changes in jobs, payrolls and sales in the community due to the source of impact, plus investment or disinvestment in plant facilities, business enterprises and/or housing, and changes in the local cost of living. These business impacts of the oil spill contain both boom and bust components, occurring simultaneously in some communities. On one hand, local economies could expect to benefit from: 1) the clean-up activity payrolls spent on purchases of consumer goods and services; 2) direct purchases by the clean-up operation of goods and services; and 3) potential investment in property & new construction by clean-up industry, local business expansion, and in-migrating workers.

On the other hand, the economic boom from clean-up activity could be expected to be offset in some communities by loss of fishing and fish processing, resulting in decreased purchases of goods & services by local consumers and by the fishing industry for inputs or processing, as well as decreased investment by the fishing sector in plant and equipment, and by workers and support service businesses in property and construction. Many adverse impacts may be long-term, extending beyond the summer of 1989. For example, because many fishing supplies purchased last spring never got used, the spill's effect on support services may not be apparent until well into 1990. Similar economic decline in the local communities could be expected due to the September phaseout of clean-up activity and uncertainty over the status of continued cleanup in 1990.

#### Local Government Revenue Impacts

The timing of revenue receipts vary substantially by type of revenue source. Changes in some revenue sources might be received almost immediately and thus could be reflected in the revenue figures for FY 1989 ending June 1989. However, revenue impacts associated with the oil spill and cleanup activity during for the April - June 1989 period as well for the July - December 1989 period may not be reported until late FY90 or early FY91. Furthermore, some revenue sources (e.g., property tax and raw fish tax) are lagged such that the increased revenue will not be received by the local government until 1990 or even after July 1, 1990 in FY91.

Charges for Services. Local government services and infrastructure were subjected to a barrage of simultaneous expectations which should be reflected to some extent in revenues received as charges for services. These impacts include, for example: 1) direct demands on public services by the clean-up operation; 2) demands on public services by increased population with increased income; and 3) demands on public services by people dislocated from the fishing industry and from the subsequent phaseout of the cleanup effort.

The clean-up operation directly placed added demands on water and sewer harbor and port, and airport services, which should be reflected in increased charges for services in some jurisdictions. Concurrently, these service functions may have faced decreased demand and received declining revenues due to the closure of fisheries and/or fish processing.

The added population with increased income placed such demands on public services as: 1) social services, police and fire services, and other city or borough services; 2) school changes resulting from short-term increases in population, shifting work loads, cancellations of classes, and other shifts in school-related activities resulting from the oil spill; 3) public health services related to coping with increases in population, including wastewater, drinking water, and infectious disease issues related to population increase; and 4) costs related to changes in use-patterns of city facilities, including changes in maintenance and utility costs. Changed demand for some of these services impact the charges for services revenue source.

Not to be overlooked are demands placed on public services such as health and social services, public safety, and general government during severe economic decline by people dislocated from the fishing industry and from the subsequent phaseout of the cleanup effort. The linkage between changes in economic activity and public service impacts is asymmetric. Local governments face increasing service demands in response to times of economic boom and bust. Increased service demand would be reflected in increased charges for services only to the extent of peoples' ability to pay.

Taxes. Sales tax revenues are a direct reflection of private sector business activity. They can be expected to increase due to injection of new dollars spent on purchase of local taxable goods and services from increased payrolls or direct purchases from clean-up activity. Concurrently, sales tax revenues can decrease due to declining purchases from decreased payroll and/or direct purchases from loss of fishing and subsequent phaseout of cleanup activity. Therefore, the sales tax impact of the oil spill may be positive, negative or neutral, depending upon the timing and mix of spill cleanup and fisheries activity. Furthermore, there is a lag of several months between date of sale and the receipt of sales tax revenue.

Property tax revenues are directly related to the assessed valuation of property, which also reflects the level of private sector business activity. This revenue source can be expected to increase with new investment and new construction during economic expansion and in-migration, to decrease with economic decline and out-migration, or to show no change if the increase in one type of business activity is offset by decrease in another business sector. Property tax revenues are lagged due to the assessment, collection and distribution process. For example, new construction taking place in 1989 will be entered on the assessment rolls on April 1, 1990; thus the increased revenue will not be received by the local government until after July 1, 1990. Changes in property value due to either inflated or declining markets may take even longer to work through the assessment cycle and distribution of tax revenue.

Hotel/motel tax revenues reflect in-migration of short-term and transitory residents. Beyond the normal impacts of tourism, these revenues should increase with the spill cleanup activity and be adversely affected by fisheries decline and cleanup shutdown. Like the sales tax, the hotel/motel tax revenues are distributed with a three-month time lag.

Intergovernmental Revenues. State raw fish tax is recorded not as a source of tax revenue but as an intergovernmental revenue because local governments receive it from the state government. The level of this source is directly related to the sales volume of raw fish processed by facilities located within the local jurisdiction. Because of the time lag in distribution, impacts of 1989 fisheries closures will be reflected in revenues received by local governments in June 1990.

Some intergovernmental revenues may be directly related to the oil spill to the extent that population is a factor in the allocation formula for distribution to local governments. Such revenue impacts of population change, however, would likely not show up as revenues until 1990 due to the population estimate as of July 1, 1989 and the time lag in the distribution of funds. Other intergovernmental revenues, such as state or federal grants, with the exception of specific state grants directly related to the spill, would depend on decisions by higher levels of government and be only indirectly related to the oil spill, if at all, and not likely be received in 1989.

Other Revenue Sources. Two revenues sources, while providing a very small portion of total local government revenues, are potential indicators of oil spill impact. Licenses and permits is a source that is sensitive to changes in both business activity and population, and fines and forfeitures is a source reflecting population change.

Three sources of miscellaneous revenues may also indicate oil spill impact. Rents and leases would likely increase with expanded business activity and decrease with business decline. Valdez Oil Spill revenues represent spill-related payments from Exxon, VECO or other private parties. Investment income might increase or decrease depending upon the cash-flow situation created by the timing of spill-related revenues and expenditures.

### Observations and Findings

Some preliminary observations about selected revenue impacts can be drawn from the revenue data that has been examined to date. These are based on partial analysis of fiscal year data from 1986 through 1989, augmented by an initial comparison of the available monthly data for the 1988 and 1989 calendar years, and reinforced by opinions expressed by the local finance directors about spill-related changes in 1989 revenues.