

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990  
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royalty in exchange for exclusive exploration and development rights to the Native holdings on the coastal plain. The cash value is below the Interior Department's appraised value in this case, but the Native corporation received the added benefit of receiving land trade advice from the two companies (Chevron and BP) that drilled the KIC well on private land in the coastal plain (see the later section on the 1983 KIC/ASRC trade). With guidance from these companies, which have unique knowledge of the coastal plain's subsurface, the Native corporation is willing to accept a lower cash bonus and a higher royalty share (3).

The oil corporations involved in the trades are supportive for various reasons. Clearly the trades offer the opportunity to acquire potentially valuable interests early and noncompetitively, perhaps giving the participants an advantage over other companies that can't acquire rights until the federal government conducts a leasing process. The participating companies might gain the chance to drill wells (and thus get important subsurface information) before the federal government schedules any leasing on the coastal plain; the companies will then have a distinct advantage

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3 - The reference here is to the proxy statement of Koniag, Inc., released in October 1987. At meetings of the House Resources Committee in February 1987, Koniag's representative opposed opening the land trade process to public review until after the agreements were final. Koniag also would not reveal which companies it had entered into exploration/development agreements with. Koniag initiated the land trade process in the early 1980's, according to Interior Department and congressional documents.

over the government and other companies in determining the coastal plain's oil and gas potential. They also might escape some of the disadvantages of acquiring publicly-owned oil and gas rights, possibly including some environmental regulation and monitoring and more expert royalty management. If the known agreements are indicative of those that have not been made public, the royalty payments to Native corporations could be significantly lower than payments to the federal government would be.

Thus the companies involved in the land exchanges might gain earlier, less expensive, and less encumbered oil and gas interests in the coastal plain. Although some of the oil companies are in fact reluctant to press the land trades because of these apparent advantages, they indicate that they would be missing a prime opportunity if they were not to become involved in the trades at this stage. Some oil companies not involved in the trades have been actively opposing them on Capitol Hill.

#### Public reaction to the trades

Much of the land trade controversy was foreshadowed in February 13 hearings held by the House Resources Committee. At the hearings, a representative of Interior Assistant Secretary Bill Horn was unable to answer committee members' questions about key parts of the trade process, including

land appraisals and public process. Representing the Native corporation that initiated the land trade negotiations, one witness objected to public review of the draft trade documents, including the draft agreements. (As a result, the agreements, the tract selection meetings, and the land appraisals remained confidential until after agreements were signed in July and August.)

Though still involved in the trades at the time, the State of Alaska testified to "the difficulty of insinuating itself as a full-fledged partner" in the trade discussions and objected to the secrecy of the process. The atmosphere of the hearings was electric, confirming some legislators' belief that the proposed trades were untimely and would be bad for Alaska and the United States.

Since the hearings, negative public reaction to the land trades has been manifested in several ways. Later in February, the State of Alaska dropped out of the land exchange negotiations, questioned the equity and openness of the process, and began to oppose the proposed trades on Capitol Hill. In late October Governor Cowper wrote Interior Secretary Hodel to protest the land exchanges on public policy grounds.

Within months Trustees for Alaska filed suit against the Interior Department to prevent consummation of the

trades, claiming that Interior has violated public process and federal environmental laws, and has subverted the ANILCA 1002 mandate to study coastal plain resources and make management recommendations (4).

In July, Rep. George Miller (chairman of a key Interior subcommittee in the House of Representatives) requested an investigation of the trades by the General Accounting Office. This investigation started up in October 1987 and is expected to be completed in the spring of 1988.

Many members of the Senate Energy Committee, including Chairman Bennett Johnston, have expressed opposition to the proposed trades. In August 1986, eleven senators (some on the Committee) signed a letter to Interior Secretary Hodel suggesting that any trade discussions be suspended until after the coastal plain issue is considered. At hearings of the Energy Committee in June 1987, several senators voiced opposition to the trades; reportedly at Chairman Johnston's request, the Interior Department recently suspended activity on the trades and has at least postponed the mandated environmental impact analysis that would be necessary before

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4 - This case, Trustees for Alaska et al. vs. William P. Horn et al., is in the U.S. District Court for Alaska. The motion for a preliminary injunction was argued in July 1987, but as of this writing no decision has been passed down. However, the Interior Department has publicly committed to preparing a Legislative Environmental Impact Statement, with full public review of the already-signed agreements, before presenting the agreements to Congress for approval.

the trades could be presented in Congress by the Interior Department.

Even Alaska congressman Don Young, who has supported the trades, recognized the wave of opposition growing in Congress and helped introduce statutory language, attached to an unrelated bill, to prevent the Interior Department from finalizing the trades without congressional approval. The bill was passed by the U.S. House of Representatives and is awaiting action in the Senate. Senator Ted Stevens, a strong supporter of the land trades, has reserved comment on such language, saying that he believes the Interior Department has authority to complete the trades administratively (an opinion not universally shared). Senator Stevens also believes the threat of the trades could become an important pressure mechanism to force a potentially reluctant Congress into action on the coastal plain legislation late in 1988. Senator Murkowski's staff has indicated that the Senator does not oppose the language requiring congressional approval of the land trades.

The negative reaction to the trade proposals seemed to defy the partial justification of them offered by some supporters in Alaska: that the trades would smooth the progress of coastal plain legislation in Congress. This justification was offered in testimony before the House Resources Committee and was often cited by state Senate

leaders who included pro-trade language in the Alaska Senate's version of an Arctic Refuge resolution passed over to the House about ten days before the end of the legislative session (5).

#### The 1983 KIC/ASRC trade

Some of the public reaction to the trade proposals is attributable to better understanding of a 1983 trade between the Interior Department and two North Slope Native corporations, the Arctic Slope Regional Corporation (ASRC) and the Kaktovik Inupiat Corporation (KIC). This trade, based on provisions of ANILCA regarding ASRC/KIC inholdings in the Gates of the Arctic National Park and Preserve, resulted in the transfer of 112,000 acres of federal land in the coastal plain near the North Slope village of Kaktovik. In the final documentation supporting the trade, the Interior Department reduced its valuation of the coastal plain acreage from \$390 million to about \$6 million -- less than \$50/acre -- for some of the highest potential oil and gas lands in North America.

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5 - Ironically, much as the issue has bogged down discussion of the coastal plain issue in Congress (contrary to the hopes of some supporters), the inclusion of pro-trade language in the Senate's draft resolution became the single obstacle preventing passage of an Alaska legislative resolution supporting coastal plain oil and gas exploration and development.

This dramatic reduction in value in the 1983 trade has drawn the attention of Congress. It is one subject of the General Accounting Office investigation ordered by California Congressman George Miller.

Since the 1983 trade, Chevron has drilled an exploratory well on the affected lands in partnership with the private landowners. There is widespread speculation (including a front-page story in the Wall Street Journal) that the company has made a major discovery, but the well data are confidential and proprietary to the company. (In the trade agreement, the Interior Department did not reserve rights to acquire the well data from the so-called "KIC well", even though the data could have been enormously valuable in evaluating the coastal plain's oil and gas potential. As a result, only the Native corporations involved in the trade, and their industry partners, have access to the KIC well data, which might give them an advantage over the federal government in knowing subsurface geology.)

The KIC/ASRC trade lands apparently are not subject to the 70% revenue sharing requirement that affects lands selected under the Claims Act. At this point the trade appears to be fully accomplished; it is probably too late for Congress to look into the trade or for any revenue-sharing requirement to be established.

August 1987: the trades are signed

The new trade proposals have not faded away in the face of public concern, however. In August 1987 the Interior Department came to agreement with six groups, all representing Alaska Native corporations, to trade oil and gas rights under 168,000 coastal plain acres in return for 891,000 acres of inholdings in Alaska wildlife refuges (6). An Interior Department lobbying team, composed of several high-level officials, has visited congressional offices to raise support for the proposed trades, and the Native corporations' lobbying effort is growing. The State of Alaska continues to oppose the trades, as do some uninvolved oil companies. At least unofficially most informed members of Congress indicate that they will not consider the trade issue until after there is a final decision on whether or not to open the coastal plain to oil and gas leasing.

The Native corporations involved in the trades and their oil industry partners in some cases have better subsurface information than the state or federal governments, by virtue of their access to well data from

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6 - Some of the trade acreage to be acquired by the Interior Department must be managed in accordance with Refuge management plans. Other acreage will be developable only in the distant future. There is also some question about the priority of obtaining only refuge acreage in the trades, while important national park inholdings remain in non-federal ownership and may be developed.

privately drilled exploration wells outside the 1002 area and their larger investment in research and analysis of publicly available information. Thus it appears that the federal government will alienate, possibly with less knowledge of the land value than is available to the recipients, the best oil and gas acreage in the Refuge.

According to officials at the Alaska Department of Natural Resources, the signed agreements affect some of the most promising acreage in the coastal plain, such as major structures that might hold oil and gas. One department official has stated that the 280,000 acres involved in the 1983 and 1987 trades are probably more valuable than the remaining 1.3 million acres of the coastal plain not included in the trades. In other words, the trades have "high-graded" the potential oil and gas values on the coastal plain.

#### Impacts of the trades

Although they could be huge, the potential revenue losses to the state and federal governments resulting from the trades have not been estimated. (See the later section on Revenue and Leasing Issues for a broader discussion of the coastal plain's revenue potential.) It is clear, however, that the federal government will lose bonus bids on affected acreage, could lower the value of any federal

lands leased in the future (if exploration of the trade lands is unpromising and effectively condemns adjacent acreage), and might receive much lower royalties and rentals than it would have received in a competitive bidding situation. From the State's perspective, the trades might eliminate the existing 90% revenue entitlement for production from affected federal lands. Also the State will not receive any bonus revenues on trade acreage, as the payment to the federal government has been made in the form of land as part of an exchange, rather than a direct sale, according to the Interior Department.

Based on independent mapping and analysis completed before the trades were announced, state geologists dispute the Interior Department's representation of potential oil and gas structures in the coastal plain, because the 1902 report did not depict oil and gas potential associated with sedimentary deposition and with the Marsh Creek anticline. For this reason the trades could include much more valuable acreage than assumed by the Interior Department. State geologists believe that the trades affect large portions of the best areas on the coastal plain.

There are other objections to the proposed trades, expressed mostly by congressional and State officials but shared by some conservationists. The land appraisals are adjusted for subjective public-interest values that the

Interior Department may have difficulty justifying; in fact, the entire appraisal procedure has been questioned by State officials. Additionally, by including only wildlife refuge lands in the trades, the Interior Department is neglecting the acquisition of high-value national park inholdings in Alaska. Some of these national park inholdings have been the subject of intense trade negotiations in the past, but trading pressure for these park parcels suddenly died when the coastal plain trades began heating up. Also, the Interior Department fails to acquire subsurface of the inholdings; future mineral and oil and gas development could still occur on these lands.

The trades also seem to have other effects. There is concern that they could reduce state and federal regulatory authority over oil and gas conservation by transferring all oil and gas rights. They may include some submerged lands claimed or owned by the State of Alaska. There is the possibility that the agreements may not adequately ensure rights of access, environmental protection, and sharing of subsurface data. According to the Governor's Office, state agencies will review the draft agreements for such concerns if the Interior Department provides opportunities for public comment in the environmental impact analysis process.

The State of Alaska's alternative

Several proposals have been offered as alternative ways for the federal government to acquire important inholdings without reducing federal revenues or conducting the trade process behind closed doors. Senator Johnston and Representative Jones have put forward bills that would dedicate some portion of the coastal plain revenue stream to refuge inholding acquisition and refuge improvement.

After withdrawing from the trade negotiations, the State of Alaska proposed a new approach to land trades that would restore equity and public process. The proposal was for a competitive lease sale for coastal plain oil and gas rights, after the congressional decision to open the coastal plain, at which any park or refuge inholder could bid with land credits equal to money. Despite its attractiveness as a competitive process which could secure more trade lands for the Interior Department and protect public interests, this proposal was not adopted by the Interior Department. Notably, this alternative would deprive the federal Treasury and the State of bonus revenues, but the goals of preserving royalties and acquiring inholdings could be achieved, and more inholdings might be acquired.

## ENVIRONMENTAL ISSUES

The coastal plain of the Arctic National Wildlife Refuge is widely recognized as valuable habitat for many species of flora and fauna, and is regarded by some as a prime wilderness that deserves permanent protection. The Interior Department, the State of Alaska, and oil industry experts believe that oil exploration and development can occur through most or all of the coastal plain without serious or irreparable environmental degradation; on the other hand, some conservationists and subsistence users oppose opening any of the coastal plain because of the possible environmental effects.

National issues: Wilderness and energy policy

The first environmental concern, according to conservation representatives, is wilderness protection. Designation of the coastal plain into the National Wilderness Preservation System, prohibiting any sort of development on the affected public lands, is a high priority for some national and state conservation groups. (The Wilderness proposal is before Congress in Rep. Mo Udall's HR 39. See the later section on Congressional and legislative activity.)

Wilderness advocates who addressed the House Resources Committee emphasized the importance of Wilderness designation separate from environmental protection. The designation of a Wilderness area on the coastal plain would show the nation's commitment to protecting an important part of the Arctic coastline and would prevent energy development unless it became imperative at some future date.

Closely associated with the Wilderness argument is another regarding national energy policy. Critics say that the Reagan administration has defunded and dismantled energy planning, especially for conservation programs. For the administration now to request access to the coastal plain appears to show the administration's energy policy is entirely supply-sided, without recognition of the gains that can be made by employing conservation and alternative technologies. In contrast, administration officials believe that the United States faces serious energy shortages unless there is a long-term commitment to domestic exploration and production; the opening of the coastal plain would be a key element in the administration's energy program.

#### Managing environmental impacts

Other environmental issues relate more to mitigation or prevention of environmental impact. In particular, environmental concerns relate to habitat protection for

major species such as the Porcupine caribou herd, musk ox, polar bear, wolf, and fox; management of industrial wastes, particularly as they affect air and water quality; and control over oilfield-associated transportation development. Both advocates and opponents of coastal plain development have used the Prudhoe Bay experience to support their arguments for or against opening the coastal plain.

"Unnecessary adverse effects" and new authorities. In the 1002 study the Interior Department proposed a new standard for environmental regulation of any oil and gas exploration and development on the coastal plain: the prevention of "unnecessary adverse effects."

This new standard has not been defined and differs from other existing standards. However, industry representatives found the proposal acceptable. Many congressional committee members questioned the wisdom and utility of the new terminology. Environmental representatives sought a higher, more positive standard of environmental protection.

The Interior Department also asked for two new authorities in legislation opening the coastal plain: 1) the authority to compel "non-duplication" of facilities, so that oil development facilities would not proliferate beyond need; and 2) new right-of-way granting authorities, so that

special needs could be met, duplication avoided, and the process expedited.

Caribou. Of major national and state concern is protection of the Porcupine caribou herd. Most summers this herd migrates from the Canadian Arctic into Alaska to calve on the coastal plain. In the draft 1002 report issued in late 1986, the Interior Department identified "core" calving areas and stated that maximum foreseeable oil and gas development could displace or reduce the herd and its habitat by 20-40%. The final 1002 study removed references to the core calving area and did not attempt to quantify the habitat or herd damage that could result from oil and gas development on the coastal plain. Instead the final report discussed areas of concentrated caribou calving, seemingly a semantic distinction from core calving areas. However, the change has aroused a great deal of controversy.

State biologists, who had stated their support for the core calving area concept in the draft 1002 report, disputed the new presentation of calving data and insisted that the core calving area concept is viable. Industry biologists supported the Interior Department's revision of the calving information. The Interior Department recommended that Congress allow leasing throughout the coastal plain because the data, as presented, showed that the herd would be able to find adequate calving ground.

Alaska and Yukon Territory villagers dependent on the caribou migration are also deeply concerned about the protection of the herd. Some are opposed to coastal plain development because of the possibility that calving ground could be lost, affecting the size of the herd, its health, and migratory patterns.

Concern about potential impacts of leasing in the main calving grounds on the Jago River -- comprising about 240,000 acres -- caused the State of Alaska to recommend that Congress defer any leasing in this area for ten years to allow study of the Porcupine herd and potential impacts from oil and gas exploration and development. Industry representatives criticized the State for not offering a study plan, but there was strong interest in Congress in protecting the caribou herd and the calving grounds by providing for later leasing and special management (7).

Adequacy of the 1002 study. Other environmental issues were raised in testimony before congressional committees and in field trips by some members of Congress. A subcommittee of the House Merchant Marine and Fisheries Committee paid special attention to a June 1987 letter from the Region X office of the Environmental Protection Agency to the

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7 - A January 1987 memo from Alaska Fish and Game Commissioner Don Collinsworth provides some detail on the state's recommended research plan for the coastal plain, particularly for caribou studies.

Interior Department criticizing many aspects of the final 1002 report (8). Although the EPA testified before Congress that most of the issues were close to being resolved, there still appeared to be division between the two departments regarding the measures that would be necessary to protect the coastal plain if oil development were to proceed.

Before the Senate Energy Committee, several industry representatives advocated that Congress deem the 1002 study adequate to meet the requirements of the National Environmental Policy Act (NEPA) for oil and gas leasing in the coastal plain. Industry representatives and the Interior Department recognized that there might be further requirements under NEPA for project development and transportation, but indicated that not doing an environmental impact statement on the leasing decision could remove 18-24 months from the probable exploration and development program for the coastal plain. Conservationists strongly opposed the inclusion of any language affecting the NEPA process, advocating a complete environmental impact statement process prior to any administrative decision on coastal plain leasing.


The Interior Department and industry representatives also advocated that the coastal plain legislation include a

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8 - Senator Johnston also requested a review of the 1002 report by the Congressional Research Service. This review was somewhat critical of aspects of the final report submitted to Congress.

special provision for expedited judicial review of any litigation brought forward during the NEPA process. A similar provision was included in the Trans-Alaska Pipeline Authorization Act in 1973.

The Prudhoe Bay legacy. Several environmental organizations, including Trustees for Alaska, the National Wildlife Federation, and the Natural Resources Defense Council, got together to investigate the history of oil development at Prudhoe Bay. In a report scheduled for release in November 1987, the groups showed that the record indicates a large number of oil spills, the illegal disposal of some oil and gas wastes (apparently by subcontractors working for lessees), poor management of solid wastes such as scrap metal and oil barrels, and air quality degradation from flaring of natural gas. Many of the problems at Prudhoe Bay appear to have occurred early in the development of the field, and most have been corrected. However, the report questioned the ability of state and federal regulators to set adequate safeguards and then enforce them.



Meanwhile, industry representatives and Interior Department officials stated that the Prudhoe experience had been valuable and environmentally successful. They believe that the most recent North Slope development, at Endicott, shows that the industry now knows how to conduct oil and gas

development operations with maximum environmental sensitivity.

Federal-state regulatory cooperation. One of the state's major concerns is coordinating environmental regulation with federal agencies. Using the model of cooperative regulation developed during construction of the Trans-Alaska Pipeline, the State suggested a joint committee for setting, monitoring, and enforcing regulations.

Industry representatives objected to this suggestion based on the fear that the cost of joint regulation might be shifted to the industry with little environmental benefit. The oil industry believes that the record of North Slope development shows that environmental regulation can be carried out adequately without special regulatory committees.

#### Summary

On hearing testimony from both environmental advocates and the oil industry, congressional committees showed a strong interest in assuring environmental protection on the coastal plain in the event that there is a decision to open the Refuge. Senator Johnston, chairing the Senate Energy Committee, said that he believes the legislation should maximize environmental protection while eliminating

unnecessary delays in leasing. This could lead to a detailed and explicit set of development stipulations in the legislation itself, even though the industry appears to oppose such explicitness in the legislation. It might also result in a waiver of the NEPA environmental impact statement process for the leasing decision itself.

#### REVENUE AND LEASING ISSUES

Interior Assistant Secretary Bill Horn has estimated that leasing of the entire 1002 area could produce bonus revenues of two to four billion dollars (9). He has also proposed land exchanges that would eliminate the most prospective acreage in the coastal plain from competitive bonus bidding and has asked Congress to allow leasing under a "stand-alone" leasing authority, rather than under the Mineral Leasing Act of 1920, the usual leasing statute on public lands. Horn has also requested authority to suspend leases pending completion of transportation systems for oil and gas. Horn believes that Congress should give the Secretary authority to conduct leasing throughout the 1002

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9 - Horn did not make clear how these bonus revenue estimates were arrived at, or whether they exclude the potential trade lands. The bonus revenue will be affected by a large number of factors, including land trades, royalty rates, current and projected oil prices at the time of the lease sale, results of any further exploration programs or analysis before the lease sales, environmental regulation, which lands are available for leasing, and the length of the leases.

area, including calving grounds, and for lands not included in trades advocates a cash bonus/fixed royalty lease sale like most federal sales.

Horn's proposals for leasing could slow down the oil and gas program for the coastal plain. First, using a new oil and gas leasing statute, the Interior Department would be forced to deviate from its standard leasing practices, even though the leasing methods might be similar. Second, the Department is likely to find that leasing of tracts in the coastal plain requires new regulations, a slow and difficult process. Third, a new leasing process will certainly be more susceptible to challenge in the courts. Last, the possibility that leases will be suspended pending the construction of a transportation system raises the potential for speculation on leases, where lessees might sit on leases for years without developing them (10).

Some representatives of the oil industry have suggested employing standards from the Outer Continental Shelf leasing system, including provisions for offering large blocks of acreage and providing for state and local participation in the leasing process. The advantage of using an existing

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10 - The lease suspension provision has not been thoroughly explained by the Interior Department. If it allows suspension only after a discovery and during transportation construction, opportunities for lease speculation might be limited.

leasing process is that it could save time and prevent costly litigation.

National revenue issues

As shown below, under the section called "Alaska's entitlement," the Interior Department's "average" case for oil and gas discoveries on the coastal plain would produce enormous revenues for the nation and the State of Alaska. At a time when federal budget deficits are historically high while funding for most land management and conservation programs is actually being reduced, the nation faces a major question, in the event that Congress decides to open the coastal plain to oil and gas exploration and development: how should the revenues from coastal plain oil and gas activity be managed, for the benefit of the nation and in fairness to the State of Alaska?

There are two major issues at stake in consideration of the national interest. First, should the Interior Department trade away coastal plain oil and gas rights for Alaska refuge inholdings? Will the nation receive full value for its oil and gas resources, forgoing cash bonuses and royalties, in such trades? And second, should the State of Alaska's share of coastal plain oil and gas proceeds be reduced from 90%?

Alaska's congressional delegation and most congressional observers indicate that Congress will not pass legislation opening the coastal plain to oil and gas development unless there is a concomitant reduction of Alaska's 90% share, probably to the 50% level. Although the State of Alaska opposes this reduction and might litigate if the Congress acts unilaterally, Secretary Horn has indicated that he believes the State's case would not be successful. As of this writing Secretary Horn has requested but not received an Interior Department Solicitor's Opinion on the revenue entitlement issue.

The chairman of the Senate Energy Committee, Senator Bennett Johnston of Louisiana, introduced a bill (S 735) that will reduce Alaska's share of coastal plain royalties, rentals, and bonuses to 50%. The other 50% would be evenly divided between the U.S. Treasury and the Land and Water Conservation Fund. A draft bill released by the Chairman of the House Merchant Marine and Fisheries Committee would also reduce the State's share to 50%, with the federal share going entirely to refuge enhancement programs.

#### Exploration only?

Several interest groups have proposed that Congress should allow oil and gas exploration alone, and postpone any decision on oil and gas leasing and development. This

proposal could include government-sponsored exploration (as occurred in the National Petroleum Reserve - Alaska) or could provide incentives to oil companies to conduct subsurface exploration with no guarantees of development rights. The draft Merchant Marine committee bill would allow four exploration wells prior to studies by the National Academy of Sciences and a presidential finding on oil and gas leasing in the coastal plain.

Most observers agree that the exploration-only alternative is unlikely to gain congressional approval. Based on experience in other areas and on the possibility that revenues could be delayed or reduced, Congress will probably decide either to open the coastal plain to leasing or leave it closed.

#### Alaska's entitlement

Under the Mineral Leasing Act of 1920, with amendments in the Alaska Statehood Act, the State of Alaska is entitled to 90% of the proceeds from oil and gas activity on federal lands in Alaska, including bonuses. The State regards this entitlement as part of the "solemn compact" entered into between Alaska and the United States at Statehood, and there is some question as to whether the U.S. Congress may unilaterally reduce the entitlement without Alaska's consent.

The issue of revenue sharing is vastly important to Alaskans. It is important for the state to be treated equitably with citizens of other western states, which receive (directly in cash and indirectly in deposits to the Reclamation Fund) 90% of federal oil and gas revenues.

It is also fiscally important. If the coastal plain does yield the "average" case projected by the Interior Department in the 1002 report (3.2 billion barrels recoverable), conservative estimates indicate that the State of Alaska will receive up to \$600 million/year in royalties from coastal plain production (11). In most years, royalty revenue would be about twice as high as severance tax revenue. This income could supplement state revenues at a time when Prudhoe Bay income is expected to decline rapidly and steeply.

If Alaska's entitlement were reduced to 50%, royalty and severance tax income would likely be more even. However, two points should be noted with regard to the reduction of royalty income.

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11 - This estimate is based on several assumptions: 1) the State retains its 90% entitlement; 2) production beginning in the year 2000 from one or two major fields; 3) oil at \$33/barrel in 1984 dollars; and 4) no adjustment for land exchanges, which could drastically affect the royalty revenue projections.

First, royalty income is assured. Unlike severance tax revenue (which could be adjusted by the State in future years), it cannot be reduced by the federal government, the state, or oil and gas lessees, except in very unusual cases. When reductions in Alaska's oil and gas severance tax recently took effect, the State's income from oil and gas was reduced by \$100-150 million per year. Many observers regard royalty income as more dependable and less subject to litigation and politically influenced adjustment than severance tax revenue.

Second, under current Alaska law one-half of royalty and bonus revenue received by the State from coastal plain oil and gas leasing will be deposited in the Alaska Permanent Fund. (No portion of severance tax revenues is deposited in the Fund.) Revenues from coastal plain development would immediately become the largest source of new income for the Permanent Fund, as only 25% of Prudhoe Bay revenues is deposited in the Fund. Thus, any measure that reduces the State's royalty income from the coastal plain -- in land exchanges or in reduction of the 90% entitlement -- could prevent hundreds of millions of dollars a year from reaching the Permanent Fund.

Clearly it is in the interest of Alaska citizens to maintain the 90% entitlement. However, according to our congressional delegation, it may be unrealistic to expect

the Congress to proceed with any action at all on the coastal plain unless the State agrees to accept a lesser percentage of the potential revenue. Most congressional observers indicate that the State can expect to maintain the 50% share received directly by other western states for oil and gas production from federal lands.

#### Resident hire

Alaska's economy has been severely affected by reduced oil prices worldwide. Exploration and new production have declined; the Milne Point field has been shut in until prices return to higher levels. Many jobs have been lost. Some observers say that there has been an exodus out of Alaska, while unemployment rises. Inevitably, these effects of Alaska's boom and bust resource-based economy create stress on social services and infrastructure. So the issue of providing jobs for Alaska residents out of coastal plain exploration and development has commanded a lot of attention in Alaska.

According to legal experts, the U.S. Congress has authority to require some level of Alaska hire in the event of oil and gas leasing in the coastal plain. The most likely way of requiring Alaska hire would be for Congress to instruct the Secretary of the Interior to stipulate, in

federal oil and gas leases, the desired employment conditions.

With Alaska's economy in difficulty, and with the historic controversy about Alaska hire on past oil and gas projects in the state, Alaska's congressional delegation might attempt to convince Congress of the need for Alaska hire language in any bill that opens the coastal plain to oil and gas activity. The possibility of achieving passage of Alaska hire language might be improved if the State's revenue entitlement is reduced from the usual 90%. At this time most national labor organizations are waiting to make any commitment on the coastal plain issue until there is an indication of how Congress will treat employment.

There has been some controversy about whether the legislation might encourage local hire, Alaska hire, or union hire. Each has advantages for different interest groups that might have special influence in Congress; however, it is unclear whether any single resident hire provision will succeed.

#### CONGRESSIONAL ACTION

There are a number of bills before Congress that would affect the coastal plain's leasing status or revenue

distribution from the coastal plain if it is opened to oil and gas activity. Bills to establish a national Wilderness area have been introduced by Rep. Morris Udall (HR 39) and Senator Bill Roth (S 1804). Bills to open the entire coastal plain to oil and gas development were introduced by Rep. Don Young (S 1082) and Senator Frank Murkowski (S 1217). The Chairman of the House Merchant Marine and Fisheries Committee, Rep. Walter Jones, has developed a "compromise" bill that could be introduced anytime; the Senate Energy and Natural Resources Committee has been working on another compromise version that could come forward as a new bill. The Chairman of that committee, Senator Bennett Johnston, has also introduced a separate bill reducing Alaska's share of royalty and bonus revenues and devising a new formula for federal receipts (S 735).

By the fall of 1987 several congressional committees were considering coastal plain issues -- the House Interior Committee, the House Merchant Marine and Fisheries Committee, and the Senate Energy and Natural Resources Committee. The Senate Committee on Environment and Public Works was expected to become involved at a later date.

Members of Congress generally expected the Senate to take the lead on the proposed legislation, with the Energy Committee doing most of the work and passing out legislation for action by the full Senate by early 1988. On the House

side, committee members and staff acknowledged that the coastal plain discussion is much less focused and that House action will probably wait until after the Senate has passed a bill. Some observers believe that the House must act in the spring to assure that a conference committee can finalize legislation before the 1988 campaign starts up.

#### CONCLUSION

By Representative Sam Cotten  
House Resources Committee  
State of Alaska

It is my personal conclusion, and I believe that of most Alaskans and members of the state legislature, that the coastal plain of the Arctic National Wildlife Refuge should be opened to responsible oil and gas exploration, development, and production.

Benefits from oil and gas activity in the coastal plain could include revenues for the United States and Alaska, the oil industry, and at least one and perhaps all of the regional Native corporations. Other benefits could include reduced dependence on foreign sources of oil and stronger economies in many states that rely on oil and gas activity.

It is my opinion that the land trades, as proposed by the Department of the Interior, would benefit the Alaska Native corporations and the oil industry at the expense of

the general public, including Alaskans and the Alaska Permanent Fund as well as the national treasury.

Other differences include the revenue sharing question, particularly Alaska's existing entitlement to 90% of public land oil and gas revenues under the Mineral Leasing Act of 1920 and the Statehood Act. (The land trades could have a big effect on federal and state royalties, and they make the issue of revenue sharing even more controversial.) Whether Congress may unilaterally amend the revenue-sharing formula is a question no one can answer definitively at this time, but it is important for Alaska to be treated in an equitable fashion.

Even after hearing several days of testimony on environmental issues, I do not claim to have any expertise as a wildlife biologist; therefore I am limited in my ability to determine whether the Porcupine caribou herd will be adversely affected by development on the coastal plain. There are clearly legitimate concerns among subsistence users of the herd that need careful attention. I put a lot of faith into the statements of biologists who have studied the herd, including the state's Fish and Game staff. I hope that Congress will listen to these experts and establish a leasing program that will protect the caribou herd from destruction.

Neither am I an environmental scientist or expert. I do know that the land managers should be required to maintain high standards to prevent adverse effects in transportation development, air and water quality, and waste management. The potential oil and gas value of the coastal plain suggests that we can afford the best protection. Obviously I don't favor a Wilderness designation for the coastal plain without knowledge of its oil and gas resources.

#### ACKNOWLEDGMENTS

Numerous sources assisted the Resources Committee staff in the preparation of this report. These include Governor Steve Cowper's Juneau and Washington, D.C. offices, namely Rod Swope, John Katz, Maggie Moran, and Eric Laschever; staff in the Department of Natural Resources in Anchorage and Juneau; and staff in the Departments of Fish and Game and Environmental Conservation. At the Interior Department, Bob Gilmore and John Doebel assisted. Staff in the offices of Senator Frank Murkowski, Senator Ted Stevens, and Representative Don Young were helpful. During the legislative session several representatives of Alaska Native corporations provided important information. Interest groups representatives, including oil and gas and

environmental organizations, have been consulted and were both forthcoming and informative.

HB

30

HOUSE COMMITTEE REPORT

(9)

Date Referred: February 10, 1989

FURTHER REFERRALS:

Date of Committee Action: 2-21-89

The RESOURCES Committee considered:

HB 30

HOUSE BILL NO. 30

[RECREATION RIVERS ADVISORY BOARD]

"An Act relating to membership on the Recreation Rivers Advisory Board."

RECOMMENDS:

- replacing with CS HB 30 (C+RA)  the same title
- the attached amendment(s)  a new title
- 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
- zero with analysis

APPROVES PREVIOUS:

- fiscal note(s) published: \_\_\_\_\_
- zero fiscal notes(s) published: 2-10-89

SIGNING DO PASS:

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

[Signature] No Rec  
[Signature]  
[Signature] No-Rec  
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[Signature]  
 Chairman's signature

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

#1

BILL VERSION: HB 30

PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

REQUEST:

Revision Date: 30-Jan-89 Agency Affected: Natural Resources  
 Title: An Act relating to membership on BRU: Land & water Management  
the Recreation River Advisory Board  
 Sponsor: Larson Components: \_\_\_\_\_  
 Requestor: Community & Regional Affairs

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND&STRUCTURES						
GRANTS,CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

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

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0.0					

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Larry Ostrovsky Phone: 465-2400  
 Division: Commissioners Office Date: 30-Jan-89

Approved by Commissioner: Lennie Gorsuch Date: 30-Jan-89  
 Agency: Department of Natural Resources

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

# STATE OF ALASKA

#3

STEVE COWPER, GOVERNOR

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

400 WILLOUGHBY AVE.  
JUNEAU, ALASKA 99801-1796  
PHONE: (907) 465-2400

January 31, 1989

The Honorable Eileen MacLean  
Chair, House Community and Regional  
Affairs Committee  
P.O. Box V  
Juneau, AK 99811

Dear Representative MacLean:

Subject: HB 30, An Act relating to membership on the Recreation Rivers Advisory Board.

Background: The Governor appointed the original eleven member board. Six of these representatives are from Anchorage, three from the borough, and one from Glennallen. One representative from Kenai recently resigned because of time constraints. The Governor's Office is in the process of appointing a new representative who may be a borough resident. The Mat-Su Borough mayor, assemblymen, and some borough residents are concerned that there is inadequate borough representation on the advisory board.

Position: The Department of Natural Resources supports public participation in our planning process, and this bill would allow more people to participate in the process. A broad spectrum of interests are currently represented on this board. All parties should be involved as early as possible. Public comments from the first round of public meetings will be reviewed over the next few weeks. Issues will be identified during early February, and working groups will begin work on the resource assessment beginning in late February. All advisory board members should be involved in this part of the process. As required by law, the plan must be completed for review by the Legislature by December 1990.

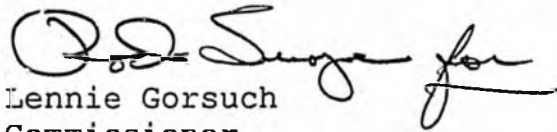
Currently, government agencies are represented on the planning team, and interest groups on the advisory board. The planning team is the decision-making body, and the borough has a seat on this team. Some of the meetings will be held jointly with the planning team and the advisory board. If assembly members are added to the planning team, they will be the sole organization represented on both bodies. The Department of Natural Resources

January 31, 1989

will work closely with the advisory board whatever the final configuration may be and will cooperate with the borough to coordinate state and borough policies for the river corridors.

We look forward to working with you and the members of the committee on this legislation.

Sincerely,

  
Lennie Gorsuch  
Commissioner

cc: Committee Members  
Bill Sponsors  
Bob Evans  
Denby Lloyd  
Gary Gustafson

# Alaska State Legislature



Session Address:  
STATE CAPITOL BUILDING  
BOX V  
JUNEAU, ALASKA 99811  
(907) 465-3727

Interim Address:  
BOX 53  
PALMER, ALASKA 99845  
(907) 745-3826 - Palmer  
(907) 376-8628 - Wasilla

Representative Ronald L. Larson  
District 16B

TO: House Resources Committee members  
FROM: Ronald L. Larson *R.L.*  
DATE: February 13, 1989  
RE: CSHB 30 (C&RA)

Recently referred to your committee for consideration is CSHB 30 (C&RA), an Act relating to the membership of the Recreational Rivers Advisory Board. Please allow me this opportunity to share some of my thoughts on this bill.

The Recreation Rivers system was created during the Fifteenth Legislature. In short, six management units within the Matanuska-Susitna Borough were given a new classification of "recreational rivers". An eleven member advisory board was established to gather public input, and to draft a management plan for the Department of Natural Resources.

Of the eleven individuals initially appointed, three members were residents of the Mat-Su Borough, non of which represented local government concerns, or the Mat-Su Borough's overall planning process. Judging from the many comments received during the interim, Mat-Su residents have concerns with their degree of representation on the board, along with coordination between the advisory board and local governments.

Under the new version drafted in the House Community & Regional Affairs Committee, the governor would appoint the mayor of Mat-Su Borough (or the mayor's designee), and a member of the Borough Planning Commission. Within the original provisions of HB 30, these positions would have been designated and appointed by the mayor of the Mat-Su Borough.

In conclusion, CSHB 30 (C&RA) is an effort to provide local representation and coordination to the Recreation Rivers Advisory Board.

MATANUSKA-SUSITNA BOROUGH  
RESOLUTION SERIAL NO. 88-249

A RESOLUTION OF THE ASSEMBLY OF THE MATANUSKA-SUSITNA  
BOROUGH REQUESTING ALTERATIONS IN THE MEMBERSHIP OF THE  
SUSITNA BASIN RECREATION RIVERS MANAGEMENT PLAN ADVISORY  
BOARD

---

WHEREAS, the State of Alaska is developing a management plan for certain rivers designated recreational rivers in the Susitna Area Plan; and

WHEREAS, the Governor has appointed an advisory board to assist in the development of the management plan; and

WHEREAS, a majority of the membership of that advisory board are not residents of the Matanuska-Susitna Borough; and

WHEREAS, each of the subject rivers lies wholly within the boundaries of the Matanuska-Susitna Borough; and

WHEREAS, the effects of management recommendations resulting from the plan will be most directly felt by residents and land owners within the Borough; and

WHEREAS, the economy and environment of the Matanuska-Susitna Borough will bear the brunt of impacts of the plan; and

WHEREAS, residents of the area would be most knowledgeable of the area and most acquainted with issues related to planning in the area;

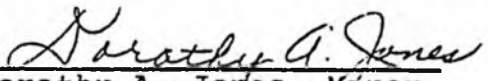
NOW THEREFORE BE IT RESOLVED that the Assembly of the Matanuska-Susitna Borough requests that the Governor of the State of Alaska restructure the membership of the Susitna

Reso: 88-249  
AM: 88-590

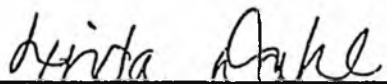
Basin Recreation Rivers Management Plan Advisory Board so that a majority of the members are residents of the Matanuska-Susitna Borough.

BE IT FURTHER RESOLVED that the Assembly requests that some representation on the committee be given to residents of the upper Susitna River drainage area.

PASSED AND APPROVED by the Assembly of the Matanuska-Susitna Borough this 20 day of December, 1988.

  
Dorothy A. Jones, Mayor

ATTEST:

  
Linda Dahl, Borough Clerk

(SEAL)

RS/pmg1040

Reso:88-249  
Am. 88-590

## RECREATIONAL RIVERS ADVISORY

MEMBER	APPT	REAPPT	REAPPT	TERM
Allen Bingham 301 West Northern Lights, #601 Anchorage Anchorage	88/11/07	0/00/00	0/00/00	89/06/09
Ray Craig Box 154 Glennallen Subsistence	88/11/07	0/00/00	0/00/00	90/06/09
Carl L Dixon Riversong Lodge Skwentna Private Property Owner	88/11/07	0/00/00	0/00/00	91/06/09
H. Clifton Eames 700 "H" Street, No. 4 Anchorage Conservation	88/11/07	0/00/00	0/00/00	91/06/09
Charles Heath 425 Klouda Wasilla c-oriented/comm.users	88/11/07	0/00/00	0/00/00	93/06/09
Noel H Kopperud 351 West Swanson Ave., Suite 3 Wasilla Other Recreational	88/11/07	0/00/00	0/00/00	93/06/09
David W Law 300 East Fireweed Lane Anchorage Sportfishing	88/11/07	0/00/00	0/00/00	92/06/09
Ron McAlpin 8341 East 11th Court Anchorage Sporthunting	88/11/07	0/00/00	0/00/00	90/06/09
Donald E Sherwood 1640 Brink Avenue Anchorage Powerboat Users	88/11/07	0/00/00	0/00/00	89/06/09

REVISION DATE: 2/1/89

RECREATIONAL RIVERS ADVISORY

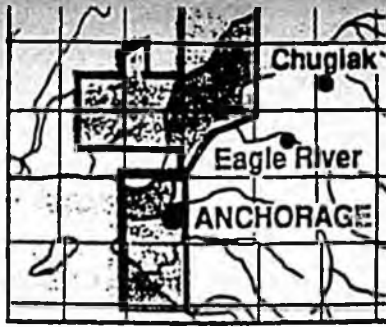
<u>MEMBER</u>	<u>APPT</u>	<u>REAPT</u>	<u>REAPPT</u>	<u>TERM</u>
Drew Sparlin 37010 Cannery Road Anchorage 99611 Commercial Fishing	88/11/07	0/00/00	0/00/00	92/06/09
Richard W Tindall 6821 Sherwood Avenue Anchorage 99504 Forest Products	88/11/07	0/00/00	0/00/00	89/06/09

y have not been  
mans. Many res-  
e "railbelt" hunt  
in and rabbits for  
raid that the he-  
er the food chyn,  
water, she says.  
al, which is an  
here in the area,  
g the herbicides  
f other environ-  
-id (page 6)

560,000 acres will be offered for drilling.

The areas in lease sale 67-A were selected based upon nominations by oil companies of sites they think have potential. However, the names of the companies and their technical data are confidential.

Land within the Mat-Su borough could bring in local revenue through real estate and personal  
(See Oil page 6)



Red indicates lease area.

#5  
2-14  
FtSMN

# m questioning suspect

ldwin.  
what you want, lit-  
win replied.

videotape shows  
Baldwin out of his  
ly by the face and  
iping him on the

20 minutes or so,  
question the finally  
ll handcuffed sus-

thing wrong with

you?" Baldwin repeatedly asked the officer. "Pardon me, sir, are you under the influence of drugs and alcohol?" he parroted to Crim.

After being read his rights, Baldwin insisted he didn't understand them and asked Crim to read them again. The second time he said he still didn't understand them.

"How much did you drink?" Crim asked Baldwin.

"You mean water?" the suspect replied. "Specify yourself."

Then the large man's demeanor seemed to change. He leaned toward Crim and told him he had a cute face. He said he'd like to give him a "big, wet kiss."

Saying "I love you," several times, he aimed loud kisses at the officer. Pushing Baldwin away, Crim grabbed him by his shirt, and shoved the man into a file

(See Videotape page 12)

## Officials want more seats on boards

By ERIC TROYER

Frontiersman staff

Valley officials have asked Gov. Steve Cowper to consider putting more Valley residents on state advisory boards.

"We call Palmer Alaska's best kept secret, but sometimes I think the whole borough is considered that," said Palmer Mayor George Carte.

The Cowper administration was criticized recently for having only three Valley residents on the advisory board for the state recreational rivers plan, which will affect many of the Susitna Valley rivers.

Boards dealing with forestry management and tourism, important aspects of the Valley economy, also lack Valley representa-

(See Boards page 6)



FRONTIERSMAN/ERIC TROYER

Borough Mayor Dorothy Jones listen to Gov. Steve Cowper about the upcoming state budget, education and other issues attended by the Borough Assembly and a number of

# Herbicides

(Continued from Page 1) mental issues," Sheldon says. They took the railroad to court and successfully stopped the railroad from using the herbicides before, she said.

Burgoyne said the herbicides "are labeled for use in the entire United States, including Alaska. Hexazinone is essentially a grass killer and triclopyr is a brush killer."

Sheldon said that governmental approval does not necessarily mean that a pesticide is safe. "The govern-

ment has been known in the past to approve things that turned out later to be toxic or harmful to humans and wildlife. And there is a lack of trust now in this kind of approval."

She believes local residents would prefer the railroad control vegetation through cutting.

However, she is willing to look at the results of this new test with an open mind. "I certainly wouldn't have a problem with anything where they are trying to reach the truth."

# Oil

(Continued from property taxes. A 100,000 acres are Health Lands, an of hundred acre University land.

Also proposed are tracts on the of Anchorage, a the northwestern Kenai Peninsula large section of off-shore acreage Trading Bay and Bay on the west Cook Inlet.

The tracts are over a wide area. eas extend to H the northern edge clude the upper L

# Boards

(Continued from Page 1) tion, Borough Mayor Dorothy Jones and others have complained.

After meeting with officials in Palmer on Saturday, Cowper said there are sometimes fluctuations in regions being represented on advisory boards and that his administration runs totals from time to time to

check out representation.

"I think in time that it will even itself out," he said, adding that he worked with the Valley's legislative delegation in choosing the rec rivers advisory board. He said he had thought there were five Valley residents on the board.

"I think it's a valid point," he said.

# Cowp

(Continued from separate from, bu along with, the Fund. Earnings fr ucation fund wi into that fund.

The education l not be tapped and then only the



Lordy, Lordy Betty-Betty is 40 Happy Birthday yesterday Luv ya, C.A.B.



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Gorilla Firew half way betwee

★ NOW OPEN thru

Gorilla Firew



# Valley officials criticize makeup of river board

By CHARLES P. WOHLFORTH  
Daily News reporter

**PALMER** — A board appointed by the governor to decide how the Sustina Valley's recreational rivers will be used is under fire from Mat-Su officials for not representing the Valley.

Only three of eleven members of the board have Valley addresses.

The Mat-Su Borough Assembly passed a resolution Tuesday calling for the board to be restructured so that the majority of members are Valley residents.

Wednesday, Rep. Ron Larson, D-Palmer, released a bill he will file to add two members to the board who would be appointed by the borough mayor.

Gov. Steve Cowper could not be reached for comment Wednesday. Terence O'Malley, a spokesman, said Cowper would take the matter under advisement.

The assembly's resolution passed unanimously.

Larson's bill would add two members to the board to represent the borough government, from the assembly or the planning commission. The mayor would choose them, and could be a member.

"My intent is not to infringe of the governor's power to appoint, but to provide more representation from the borough on this important committee," Larson said.

The board already has begun holding hearings on a management plan for the Sustina River.

# Man pleads no contest to killing brother

The Associated Press

**JUNEAU** — A Juneau man pleaded no contest to second-degree murder Monday for the fatal shooting of his older brother following a drinking party at the home they shared Dec. 10.

Brent A. Brockway, 20, agreed to enter the plea to the reduced charge, but there was no agreement concerning a sentence, said Margot Knuth, an assistant district attorney. No sentencing date was set.

Brockway originally was charged with first-degree murder shortly after the slaying of Kevin Brockway, 24. Knuth said the shooting resulted in part from Kevin's attacks on Brent.

Kevin struck Brent in the face at least twice during the party and Brent went into his bedroom. After the party was over and Kevin went to bed,



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1-VIKING 992 Computer	1-BERNINA - Matic 810
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	SERGERS
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# Alaska Environmental Lobby, Inc.

P.O. Box 22151 Juneau, Alaska 99802

907-586-2345

## AEL ISSUE PAPER - HB 30 RECREATION RIVERS ADVISORY BOARD

The Alaska Environmental Lobby is in substantial agreement with House Bill 30. We believe it is important that the Recreation Rivers Advisory Board be able to expand its scope as the Recreation Rivers program grows. We want to enter into the record that, based upon conversations with the bill's sponsor, our understanding of the bill is that the Recreation Rivers Advisory Board can be easily altered to accommodate the expansion of the recreation river program into areas beyond the Matanuska-Susitna Borough.

Though our preference is for an advisory board consisting purely of private citizens, we understand the need to improve local representation on the board, and believe that the amended Section 2 is a workable solution

February 20, 1989  
House Resources Committee  
Larry Landry, AEL Volunteer

ALASKA CENTER FOR THE ENVIRONMENT • ALASKA CHAPTER SIERRA CLUB • JUNEAU GROUP SIERRA CLUB • SITKA GROUP SIERRA CLUB  
KNIK GROUP SIERRA CLUB • DENALI GROUP SIERRA CLUB • ANCHORAGE AUDUBON SOCIETY • ARCTIC AUDUBON SOCIETY  
DENALI CITIZENS COUNCIL • ALASKA FRIENDS OF THE EARTH • JUNEAU AUDUBON SOCIETY • KACHEMAK BAY CONSERVATION SOCIETY  
KENAI PENINSULA AUDUBON SOCIETY • OTHER AUDUBON SOCIETIES • TEMA LANA CONSERVATION • ALASKA WILDLIFE ALLIANCE  
SITKA CONSERVATION SOCIETY • NORTHERN ALASKA ENVIRONMENTAL CENTER • SOUTHEAST ALASKA CONSERVATION COUNCIL



# Alaska Environmental Lobby, Inc.

P.O. Box 22151 Juneau, Alaska 99802

907-586-2345

## AEL ISSUE PAPER - HJR 14 SOLID WASTE MANAGEMENT IN THE ARCTIC

The Alaska Environmental Lobby is in general agreement with the concept of House Joint Resolution 14, but believes that it should create a greater impetus to search for solutions than it does at present.

While we appreciate the Environmental Protection Agency's motives in closing all solid waste facilities that do not meet regulatory requirements, we also realize that severe environmental and logistical constraints limit the development and operation of disposal facilities in much of rural Alaska. There are no easy answers in finding a new place to dump villages' trash. The EPA should be flexible in managing solid waste disposal in the state's small, remote communities. Too frequently, the closure or absence of a landfill in rural communities has meant that, for lack of a better alternative, garbage is thrown into the nearest convenient spot or left to wash away. Obviously, this is not the answer.

We agree that state agencies and villages need more time to develop a long-term approach to solid waste management than the few months allowed under the EPA's current agenda. Still, a complete exemption from EPA's rules -as requested in HJR 14- does not give either the state or villages the incentive to aggressively pursue solutions. We suggest that a temporary exemption, requiring continuing state review of alternative solutions, would prevent random and disorganized disposal and encourage communities to seek answers.

In addition, we are unclear about the definition of "remote and isolated communities." These are relative terms and do not necessarily prevent a community from meeting EPA standards; for example, Nome and Quinhagak are in very different situations and have varying resources with which to attack the solid waste problem, yet both may be considered remote and isolated.

With these few changes, the Alaska Environmental Lobby would speak strongly in favor of HJR 14. We are interested in the state's agenda and strategy for grappling with the waste management problem, any potential for funding, and who will be affected by these actions.

House Resources Committee  
February 21, 1989  
Karen Wood and Larry Landry

H B

3 3

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

STEVE COWPER, GOVERNOR

STATE OFFICE BUILDING  
P.O. BOX SA  
JUNEAU, ALASKA 99811-0400

November 14, 1988

UNCLASSIFIED

To Whom It May Concern:

The Capital Expenditures Fisheries Tax Credit Program allows fisheries businesses to reduce their tax liability by up to 50% each year over a three year period. This is a temporary program which allows for capital expenditures made in tax years 1987-1989 may be claimed as credits on tax returns through tax year 1991.

Qualifying capital expenditures are those which are made for a shore-based facility and which "increase product diversity, or production efficiency and capacity, or improve product quality, at a shore-based fisheries business facility in the state, or contribute to the development of a cooperative seafood industrial park in the state" (AS43.75.032(a)).

The capital expenditure must be approved by the Department of Revenue in advance of the expenditure, and may not be approved for more than 50% of the capital expenditure.

The credit may be increased by an additional 25% of the capital expenditure by the municipality in which the improvement is to be made or the equipment is to be used. The fisheries business must submit a copy of the tax credit application to the municipality within 10 days after submitting it to the State. To approve the credit, the municipality must adopt an ordinance directing the State to reduce the municipality's revenue share of the tax by an amount not to exceed 25% of the capital expenditure.

To take the credit on the tax return, the equipment or improvement to depreciable property must be effectively placed in service in the state in a prior or current tax year for which the credit is claimed. Although the credit may only be granted for expenditures made to shore-based facilities, the credit may be applied against the fisheries business' total tax liability, including liability which is incurred from floating facilities.

For further information, please contact:

Income & Excise Audit Division  
Fisheries Unit  
P.O. Box SA  
Juneau, AK 99811  
(907) 465-2371

**Alaska Fisheries Business**  
**TAX CREDIT APPLICATION**  
 AS 43.75.032

COMPLETE A SEPARATE  
 APPLICATION FOR EACH  
 SHORE-BASED OPERATION.

The laws establishing the fisheries business tax credits are printed on the back of this application. Please read them carefully before completing this form.

For Calendar Tax Year	Fisheries Business License Number	Physical Location of Operation (If operating within a municipality, you must write in the name of the municipality.)	Federal EIN or Social Security Number*
Name of Person, Firm or Corporation		Contact Person	* If your business has not been issued a federal employer identification number (EIN), you are required to provide your social security number so that the Department of Revenue may administer the tax laws of Alaska, AS 43.05.080. The information is used by the department for identification purposes.
Mailing Address			
City, State, Zip Code		Daytime Telephone Number	

1. A.W. "WINN" BRINDLE MEMORIAL SCHOLARSHIP ACCOUNT CREDIT. Enter the total dollar value of actual or planned contributions made to this scholarship account (AS 14.43.250)..... \$ \_\_\_\_\_

2. CAPITAL EXPENDITURES CREDIT. CAUTION. To qualify for the credit, capital expenditures must be approved by the Department of Revenue in advance. Attach to this application an itemized statement showing the approximate date each capital expenditure will be made, and an explanation of how the capital expenditure qualifies for the credit. (See AS 43.75.140 on the back of this page for definitions.)

A. Enter the total estimated value of capital expenditures to be made during the tax year that increase product diversity, or production efficiency and capacity, or improve product quality, at the shore-based fisheries business location entered above. .... \$ \_\_\_\_\_

B. Enter the total estimated value of capital expenditures to be made during the tax year that contribute to the development of a cooperative seafood industrial park in Alaska. .... \$ \_\_\_\_\_

Enter the name and location of the park: \_\_\_\_\_

\_\_\_\_\_

3. ADDITIONAL CAPITAL EXPENDITURES CREDIT. The fisheries business tax credit may be increased by up to an additional 25% of the amount of the capital expenditure. This credit is available only to the extent that the municipality and/or borough requests the Department of Revenue to reduce the amount of shared revenues the municipality and/or borough would normally receive. To apply for this credit increase, submit a copy of this application to the municipality and/or borough within 10 days after this application is submitted to the Department of Revenue.

**THIS SPACE FOR REVENUE USE ONLY**

Approved Expenditures	Date	Disapproved Expenditures	Date

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: HB 33  
PUBLISH DATE: 1/9/89

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: An Act Amending and Extending the  
Fisheries Business Tax Credit  
Sponsor: Cato, etc.  
Requestor: Resources and Finance

Agency Affected: Revenue  
BRU: Income & Excise Audit  
Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
<b>CAPITAL</b>						
	0	0	0	0	0	0
<b>REVENUE</b>						
	(6700)	(13700)	(13700)	(13700)	(13700)	(13700)

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: See attached pages.

Prepared By: Steven E. Kettel  
Division: Income and Excise Audit

Phone: (907) 465-2320  
Date: April 13, 1989

Approved by Commissioner: Hugh Malone  
Agency: Department of Revenue

Date: April 13, 1989

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

## SECTIONAL ANALYSIS

Section 1 extends the maximum period for which a fisheries business may receive a credit against their fish tax liability from three to five years.

Section 2 also extends the maximum period of time from 3 to 5 years the amount a municipality may increase the fish tax credit by foregoing up to one-half of their share of fish tax collections.

Section 3 extends the unused credit carryover to correspond to the 5 year election period in Section 1.

Section 4 increases the maximum amount of credit that may be claimed to 75% of the taxpayers total tax liability if a municipality participates in the credit program. Current law provides a 50% maximum whether or not a municipality participates.

Section 5 makes a technical change to adopt the five year credit period.

Section 6-8 provides a sunset provision on the fish tax credit of December 31, 1995.

Section 9 provides transition rules allowing municipalities to adopt an ordinance conforming to the change in this bill.

### HB 33/CURRENT LAW COMPARATIVE ANALYSIS

	<u>HB 33</u>	<u>CURRENT LAW</u>
1. AUTHORIZED PERIOD FOR EXPENDITURE	1987-1991	1987-1989
2. PERIOD CREDIT AVAILABLE	1987-1995	1987-1991
3. CARRY-OVER PROVISION	5 year	3 year
4. POTENTIAL FISCAL IMPACT	\$74.5 Million	\$35.2 Million
5. MAXIMUM CREDIT AVAILABILITY *	75 % tax liability	50% tax liability

\* requires municipal approval and participation

## BILL ANALYSIS

The present fish tax credit program has been widely utilized by the shorebased fisheries processing industry. Nearly \$136 million in shorebased investment has been proposed since 1986 and the Department continues to approve additional millions in proposed expenditures each month.

Actual tax credits taken to date total \$6.7 million. This represents credits for expenditures made in 1987 only. 1988 expenditures and the corresponding credits will be claimed by the end of March 1989. Due to higher than expected returns in some salmon fisheries, and higher prices for many species, we anticipate both an increase in fish tax collections for 1988 and a corresponding increase in fish tax credits claimed.

## FISCAL IMPACT OF HB 33

We project that fish processors will continue to take advantage of this program into the 1990's. The attached schedule anticipates that by expanding the number of years that capital expenditures will create tax credits, an estimated \$74.5 million in general funds may be lost. To calculate this impact we have made several broad assumptions.

- 1) Expenditures will level out to \$40 million per year for each additional year of the program.
- 2) The fish tax collections will increase 10% in FY89 and 5% thereafter based upon increased product capacity and productivity through capital expansion.
- 3) We assume that the last tax year for which credits will be granted is 1995.

## DEPARTMENT POSITION STATEMENT

The Department of Revenue opposes this legislation for the following reasons:

- 1) As the fiscal note reports, this legislation has substantial impact on general fund revenues.
- 2) This legislation does not mandate municipal participation. The Department favors an amendment requiring cities and boroughs which benefit from the capital expansion to give up a portion of their revenues.
- 3) The Department believes that many of the expenditures have been made and will be made in the future regardless of whether a credit is offered.
- 4) Shorebased fisheries businesses already fully constructed are put at a competitive disadvantage against those new entries to the market.

PREPARED BY:

PROJECTED REVENUE IMPACT

STEVEN E. KETTEL

FISHERIES BUSINESS TAX CREDIT (AS 43.75.032)

INCOME & EXCISE AUDIT  
MARCH 14, 1989

\$ in millions

TAX YEAR FISCAL YEAR	EXISTING CREDIT PROGRAM				PROGRAM UNDER SB74					PROGRAM TOTALS	SB74 TOTALS
	1987 1988	1988 1989	1989 1990(a)	1990 1991	1991 1992	1992 1993	1993 1994	1994 1995	1995 1996		
APPROVED EXPENDITURES	55.5	62.4	38.4	40.0	40.0	N/A	N/A	N/A	N/A	236.3	100
CREDIT APPROVED	27.7	31.2	19.2	20.0	20.0	N/A	N/A	N/A	N/A	118.1	
CREDIT APPLIED (REVENUE LOSS)	6.7	11.0	11.8	12.4	13.0	13.7	13.7	13.7	13.7	109.7	74.5
CREDIT AVAILABLE FOR CARRYFORWARD	21.0	41.2	48.6	56.2	63.2	49.5	35.8	22.1	8.4		

SUMMARY

FISHERIES TAX LIABILITY BEFORE CREDIT APPLIED	29.2	(b)32.1	33.7	35.4	37.2	39.0	39.0	39.0	39.0	323.6	
CREDIT APPLIED	(6.7)	(11.0)	(11.8)	(12.4)	(13.0)	(13.7)	(13.7)	(13.7)	(13.7)	(109.7)	
MUNICIPAL SHARE	<u>(14.6)</u>	<u>(16.0)</u>	<u>(16.8)</u>	<u>(17.7)</u>	<u>(18.6)</u>	<u>(19.5)</u>	<u>(19.5)</u>	<u>(19.5)</u>	<u>(19.5)</u>	<u>(161.7)</u>	
GENERAL FUND SHARE	7.9	5.1	5.1	5.3	5.6	5.8	5.8	5.8	5.8	52.2	

(a) TY 1989 expenditures to 3/10/89 amount to 18.4 million. Balance of calendar year expenditures at 20 million. TY 1991 through 1992 annual expenditures estimated at 20 million per year.

(b) Tax liability is an estimate based on an increase in resource value and production. Fisheries Business tax returns are due March 31 of the following year. The rate of increase is estimated at 5% to FY 1993 and remained constant through FY 1996.

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: An Act Amending and Extending the Fisheries Business Tax Credit  
Sponsor: Cato, etc.  
Requestor: Resources and Finance

Agency Affected: Revenue  
BRU: Income & Excise Audit  
Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>CAPITAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>REVENUE</b>	<b>&lt;6700.0&gt;</b>	<b>&lt;13700.0&gt;</b>	<b>&lt;13700.0&gt;</b>	<b>&lt;13700.0&gt;</b>	<b>0</b>	<b>0</b>

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Steven E. Kettel  
Division: Income and Excise Audit

Phone: (907) 465-2320  
Date: March 13, 1989

Approved by Commissioner: Hugh Malone  
Agency: Department of Revenue

Date: March 13, 1989

Distribution (by preparer):

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

HB 33

Prepared by: Steven E. Kettel  
March 15, 1989

### BILL ANALYSIS

The present fish tax credit program has been widely utilized by the shorebased fisheries processing industry. Nearly \$80 million in shorebased investment has been proposed since 1986 and the Department continues to approve additional millions in proposed expenditures each month.

Actual tax credits taken to date total \$6.7 million. This represents credits for expenditures made in 1987 only. 1988 expenditures and the corresponding credits will be claimed by the end of March 1989. Due to higher than expected returns in some salmon fisheries, and higher prices for many species, we anticipate both an increase in fish tax collections for 1988 and a corresponding increase in fish tax credits claimed.

### FISCAL IMPACT OF HB 33

1988

We project that fish processors will continue to take advantage of this program into the 1990's. The attached schedule anticipates that by expanding the number of years that capital expenditures will give rise to tax credits, an estimated \$63.2 million in general funds may be lost. To calculate this impact we have made several broad assumptions.

- 1) Expenditures will level out to \$40 million per year for each additional year of the program.
- 2) The fish tax collections will increase 10% in FY89 and 5% thereafter based upon increased product capacity and productivity through capital expansion.
- 3) We assume that the last tax year for which credits will be granted is 1995.

- Fish Tax collected  
- Definitive statistics

### DEPARTMENT POSITION STATEMENT

The Department of Revenue opposes this legislation for the following reasons:

- 1) As the fiscal note reports, this legislation has substantial impact on general fund revenues.
- 2) This legislation does not mandate municipal participation. The Department favors an amendment requiring cities and boroughs which benefit from the capital expansion to give up a portion of their revenues.
- 3) After the initial capital expansion which was encouraged by this program, the Department believes that many of the expenditures will be made regardless of whether a credit is offered.

*Tax credit has been very successful.*

PROJECTED REVENUE IMPACT  
 FISHERIES BUSINESS TAX CREDIT (AS 43.75.032)  
 (\$ in millions)

PREPARED BY:

STEVEN E. KETTEL  
 INCOME & EXCISE AUDIT  
 MARCH 13, 1989

TAX YEAR FISCAL YEAR	EXISTING CREDIT PROGRAM				PROGRAM UNDER HB33			TOTAL
	1987 1988	1988 1989	1989 1990(a)	1990 1991	1991 1992	1992 1993	1993 1994	
APPROVED EXPENDITURES	55.5	62.4	38.4	40.0	40.0	N/A	N/A	236.3
CREDIT AVAILABLE	27.7	31.2	19.2	20.0	20.0	N/A	N/A	118.1
CREDIT APPLIED (REVENUE LOSS)	6.7	11.0	11.8	12.4	13.0	13.7	13.7	82.3
UNUSED CREDIT	21.0	20.2	7.4	7.6	7.00	0	0	
CREDIT AVAILABLE FOR CARRYFORWARD	21.0	41.2	48.6	56.2	63.2	49.5	35.8	
FISHERIES TAX LIABILITY BEFORE CREDIT APPLIED	29.2	(b)32.1	33.7	35.4	37.2	39.0	39.0	245.6
FISHERIES TAX LIABILITY AFTER CREDIT APPLIED(c)	22.5	21.1	21.9	23.0	24.2	25.3	25.3	163.3

(a) TY 1989 expenditures to 3/10/89 amount to 18.4 million. Balance of calendar year expenditures at 20 million. TY 1990 through 1991 annual expenditures estimated at 20 million per year.

(b) Tax liability is an estimate based on an increase in resource value and production. Fisheries Business tax returns are due March 31 of the following year. The rate of increase is estimated at 5% to FY 1993 and remained constant through FY 1994.

(c) General fund receipts after revenue sharing:

1987	1988	1989	1990	1991	1992
<u>7.9</u>	<u>5.0</u>	<u>5.2</u>	<u>5.3</u>	<u>5.6</u>	<u>5.8</u>

January 20, 1988

The Honorable Ben Grussendorf  
Speaker of the House  
P.O. Box V  
Juneau, AK 99811

Dear Mr. Speaker:

The following is a report of the Fisheries Business Tax Credit Program. In accordance with AS 43.75.034 the Alaska Department of Revenue must present a report not later than the 15th day of the legislative session on the Fisheries Business Tax Credit Program under AS 43.75.032. The spreadsheet attached gives the details of the estimated expenditures which have been approved for the credit.

Total expenditures approved for the 1987 calendar year were \$59,854,564. Total expenditures denied were \$3,312,339. Generally, expenditures denied were made before the effective date, or were being claimed by floating fish processors. The estimated expenditures approved in advance by the Department of Revenue were for the following types of equipment and facilities:

1. Plant modifications and facility upgrading;
2. Baader filleting skinning machines;
3. ice houses and refrigeration equipment;
4. new and replacement of various pumps and cannery equipment;
5. bottomfish and surimi processing equipment;
6. forklifts, loaders, cranes, booms, etc.

The increase in processing capacity and employment are difficult to measure at this point as these expenditures have received only a tentative approval in many cases and the expenditures have not yet been made. The 1987 tax year is the first year the credit is available so the tax credits have not been claimed on a return. Those returns are not due until March 31, 1988.

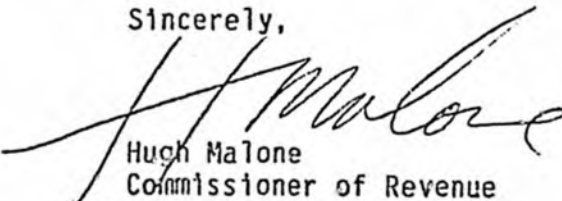
The total revenue the State received from the Fisheries Business Tax returns (AS 43.75) for FY 87 amounted to \$27,267,450. The minimum potential credits which may offset these revenues over the next three years based on applications approved to date are:

	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>
<u>Minimum</u> Estimated Revenue Loss	\$13,600,000	\$13,600,000	\$2,200,000

The Honorable Ben Crussendorf  
January 20, 1988  
Page 2

Approval of additional expenditures for credit in 1988 and 1989 will undoubtedly increase these estimates.

Sincerely,



Hugh Malone  
Commissioner of Revenue

HM:JH:sp  
88-14

January 20, 1989

The Honorable Sam Cotten  
Speaker of the House  
P. O. Box V  
Juneau, AK 99811

Dear Mr. Speaker:

The following is a report of the Fisheries Business Tax Credit Program. In accordance with AS 43.75.034 the Alaska Department of Revenue must present a report not later than the 15th day of the legislative session on the Fisheries Business Tax Credit Program under AS 43.75.032.

This program allows fisheries businesses to reduce their tax liability by up to 50% each year over a three year period. This is a temporary program which allows for capital expenditures made in tax years 1987 through 1989 to be claimed as credits on tax returns through tax year 1991.

Qualifying expenditures must be approved by the Department of Revenue in advance and must "increase product diversity, or production efficiency and capacity, or improve product quality, at a shore-based fisheries business facility in the state, or contribute to the development of a cooperative seafood industrial park in the state" (AS43.75.032(a)).

The municipality in which the capital improvements are made may grant the fisheries business an additional credit of 25%. This reduces the municipality's share of the tax that they would ordinarily receive. The total credit taken against the business tax liability each year still may not exceed 50%.

The attached spreadsheets give the details of the estimated expenditures approved for tax credit in 1988 and the actual credits taken for 1987. Total expenditures approved for the 1988 calendar year were \$62,484,038.00. Total expenditures denied were \$8,781,373.00. Generally, denials were for expenditures made prior to approval from the Department, or for expenditures that did not qualify for the credit. Actual credits taken against 1987 taxes which directly reduced FY88 State revenues totaled \$6,714,793.00.

The expenditures were made for the following types of equipment and facilities:

- plant modifications and facility upgrades;
- Baader filleting skinning machines;
- ice houses and refrigeration equipment;
- new and replacement of various pumps and cannery equipment;
- bottomfish and surimi processing equipment;
- forklifts, loaders, cranes, booms, etc.

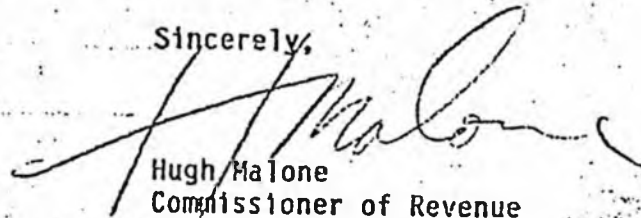
The Honorable Sam Cotten  
January 20, 1989  
Page 2

One city granted the additional credit available for municipal participation in 1987. This did not reduce the city's share of the tax because the tax liability did not exceed the amount of credit already granted by the state. In 1988 three cities participated by granting credit to four processors.

To date no business has sought approval of a credit for construction of an industrial seafood park.

If you have any further questions, please let us know.

Sincerely,

A handwritten signature in cursive script, appearing to read "H. Malone", written in dark ink over a light background.

Hugh Malone  
Commissioner of Revenue

HM:SK:mga  
Enclosures  
89-16

EXPEND YEAR	LOCATION OF FACILITY	EXPENDITURE AMT APPROVED	TOTAL POTENTIAL CREDIT	1987 QUALIFYING EXPENDITURES	ACTUAL CREDIT AVAILABLE	CREDIT TAKEN PER RETURN	ADJUSTED CREDIT APPLIED	MUNICIPAL PARTICIPATION	POTENTIAL CARRYOVER AVAILABLE
1987	AKUTAN	\$200,000.00	\$100,000.00	\$0.00	\$0.00	\$58,031.18	\$0.00		\$0.00
1987	AKUTAN	\$13,688,000.00	\$6,844,000.00	\$0.00	\$0.00	\$0.00	\$0.00		\$6,844,000.00
1987	ALITAK	\$120,000.00	\$60,000.00	\$196,732.00	\$78,266.00	\$139,756.02			
1987	CHIGNIK	\$351,500.00	\$175,750.00	\$290,021.00	\$145,010.50	\$152,365.50	\$145,010.50		\$0.00
1986	CORDOVA	\$950,826.00	\$475,413.00	\$859,172.00	\$434,586.00	\$217,293.00	\$217,293.00		\$217,293.00
1986	CORDOVA	\$765,929.00	\$382,964.50	\$765,928.63	\$382,964.32	\$327,540.39	\$327,540.39		\$155,423.93
1987	CORDOVA	\$382,647.00	\$191,323.50	\$386,206.00	\$193,103.00	\$91,360.00	\$91,360.00		\$191,743.00
1987	CRAIG	\$385,000.00	\$192,500.00	\$493,871.16	\$246,935.58	\$67,011.83	\$67,078.51		\$179,857.07
1987	ENUK	\$435,645.00	\$217,822.50	\$668,203.00	\$334,101.50	\$91,914.30			
1987	EXCURSION INLET	\$282,237.00	\$141,118.50	\$687,135.00	\$343,567.50	\$85,472.55			
1986	HODNAH	\$195,515.00	\$97,757.50	\$349,428.62	\$174,714.31	\$47,265.70	\$47,265.70		\$127,449.61
1986	JUNEAU	\$1,000.00	\$1,500.00	\$4,084.00	\$2,042.00	\$2,141.98	\$2,042.00		\$0.00
1987	JUNEAU	\$1,500.00	\$750.00	\$1,678.96	\$839.48	\$839.48	\$839.48		\$0.00
1987	KASILOF	\$190,000.00	\$95,000.00	\$190,000.00	\$95,000.00	\$25,436.00	\$25,527.02		\$69,472.98
1986	KENAI	\$550,810.00	\$275,405.00	\$277,203.00	\$138,601.50	\$21,470.72	\$21,470.72		\$164,590.19
1986	KENAI	\$234,400.00	\$117,200.00	\$241,349.61	\$120,674.81	\$103,319.00	\$103,319.00		\$17,356.00
1986	KENAI	\$49,553.00	\$24,776.50	\$49,883.34	\$24,941.67	\$24,776.67	\$24,776.67		\$0.00
1986	KENAI	\$88,400.00	\$44,200.00	\$88,400.47	\$44,200.24	\$15,044.30	\$15,044.30		\$29,155.93
1987	KENAI	\$383,500.00	\$191,750.00	\$383,500.00	\$191,750.00	\$157,042.26	\$157,042.26		\$31,797.74
1987	KENAI	\$91,629.00	\$45,814.50	\$119,966.00	\$59,983.00	\$244,201.72			
1986	KETCHIKAN	\$731,699.00	\$365,849.50	\$731,699.00	\$365,849.50	\$97,072.85	\$97,072.85		\$268,776.65
1986	KETCHIKAN	\$558,221.00	\$279,110.50	\$797,347.00	\$398,673.50	\$197,071.00	\$197,071.00		\$201,693.00
1986	KETCHIKAN	\$1,160,000.00	\$580,000.00	PENDING	\$0.00				\$580,000.00
1987	KETCHIKAN	\$183,337.00	\$91,668.50	\$263,976.00	\$131,988.00	\$37,576.93	\$975,327.48		\$17,129.52
1987	KING COVE	\$2,500,000.00	\$1,250,000.00	\$0.00	\$0.00	\$80,000.00	\$80,000.00		\$1,250,000.00
1986	KODIAK	\$653,916.00	\$326,958.00	PENDING	\$0.00				\$326,958.00
1986	KODIAK	\$4,226,633.65	\$2,113,316.83	\$4,226,633.65	\$2,113,316.83	\$410,151.30	\$410,151.30		\$1,705,165.53
1986	KODIAK	\$2,091,994.00	\$1,045,997.00	\$0.00	\$0.00	\$0.00	\$0.00		\$1,045,997.00
1987	KODIAK	\$540,000.00	\$270,000.00	\$254,309.47	\$127,154.74	\$140,205.33	\$140,205.33		\$0.00
1987	KODIAK	\$160,438.00	\$80,219.00	\$139,770.19	\$69,885.10	\$69,800.21	\$68,478.00		\$11,669.00
1987	KODIAK	\$1,118,087.40	\$559,043.70	\$1,318,204.92	\$659,102.46	\$318,435.25	\$318,735.25		\$340,667.21
1987	KODIAK	\$1,472,527.00	\$736,263.50	\$1,472,527.00	\$736,263.50	\$690,948.76	\$690,948.76		\$65,314.74
1987	KODIAK	\$777,670.00	\$388,835.00	\$754,837.39	\$377,418.70	\$244,826.00	\$244,826.00		\$132,592.70
1987	KODIAK	\$235,000.00	\$117,500.00	\$48,642.07	\$24,321.04	\$18,386.46	\$18,386.46		\$5,934.58
1986	NAKNEK	\$82,940.00	\$41,470.00	\$49,553.34	\$24,776.67	\$24,776.67	\$24,776.67		\$0.00
1987	NAKNEK	\$68,000.00	\$34,000.00	\$63,301.00	\$31,500.50	\$197,118.97			
1987	NAKNEK	\$239,126.00	\$119,563.00	\$0.00	\$0.00				
1987	NAKNEK	\$106,500.00	\$53,250.00	\$101,431.71	\$50,715.86	\$50,715.86	\$0.00		\$50,715.86
1987	PETERSBURG	\$2,706,847.00	\$1,353,423.50	\$2,706,847.00	\$1,353,423.50				
1987	PETERSBURG	\$399,500.00	\$199,750.00	\$284,879.67	\$142,439.84	\$111,824.62	\$68,088.00		\$0.00
1987	PETERSBURG	\$77,000.00	\$38,500.00	\$85,276.74	\$42,638.37	\$42,638.27	\$42,638.27		\$0.00
1986	FORT BAILEY	\$364,653.00	\$182,326.50	\$45,901.00	\$22,950.50	\$57,713.88			
1987	S. NAKNEK	\$36,639.00	\$18,319.50	\$0.00	\$0.00	\$0.00	\$0.00		\$18,319.50
1987	SEWARD	\$618,087.00	\$309,043.50	\$616,087.00	\$309,043.50	\$1,573,143.10	\$1,573,143.10		\$99,323.82
1987	SITKA	\$126,423.00	\$63,211.50	\$25,422.97	\$12,711.49	\$12,711.49	\$12,711.49		\$0.00
1987	SITKA	\$524,231.00	\$262,115.50	\$0.00	\$0.00				
1987	TOGIAK	\$139,395.00	\$69,697.50	\$69,697.50	\$34,848.75	\$40,535.09	\$40,970.40		\$28,727.13
1986	UNALASKA	\$12,483,742.00	\$6,241,871.00	\$16,898,360.00	\$8,449,180.00	\$284,296.44	\$293,016.18		\$6,155,163.82
1986	UNALASKA	\$428,552.00	\$214,276.00	\$428,552.00	\$214,276.00	\$37,732.22	\$37,732.22	\$107,138.00	\$283,681.78
1987	UNALASKA	\$450,000.00	\$225,000.00	\$0.00	\$0.00	\$0.00	\$0.00		\$225,000.00
1986	VALDEZ	\$475,000.00	\$237,500.00	\$269,273.34	\$134,636.67	\$97,392.50	\$93,392.50		\$41,244.17
1987	WRANGELL	\$197,000.00	\$98,500.00	\$156,894.00	\$78,447.00	\$54,778.50	\$41,512.50		\$35,974.50
1987	YAKUTAT	\$1,224,435.00	\$612,217.50	\$1,749,717.28	\$874,858.64	\$417,179.31	\$417,179.31		\$457,679.53

TOTALS \$55,488,269.05 \$27,744,134.53 \$39,013,826.75 \$19,006,943.38 \$6,758,134.43 \$6,714,793.39 \$22,729,372.85

UNEXAMINED RETURNS \$1 BRINDLE MEMORIAL SCHOLARSHIP CREDIT

*approved it but does not mean they spent the \$*

1988 FISHERIES BUSINESS TAX CREDIT  
EXPENDITURE AMOUNTS APPROVED/DENIED  
PAGE 1

ENCLOSURE 2

LOCATION OF FACILITY	\$ AMOUNT PENDING	\$ AMOUNT APPROVED	\$ AMOUNT DENIED	REASON FOR DENIAL
AKUTAH		\$403,000.00		
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CORDOVA		\$902,100.00		
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KASLOF RVR		\$381,600.00	\$93,707.00	VARIOUS
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PT BAILEY		\$494,000.00	\$25,739.00	COMPUTER
S NAKNEK		\$801,460.00		

1988 FISHERIES BUSINESS TAX CREDIT  
EXPENDITURE AMOUNTS APPROVED/DENIED

ENCLOSURE 2  
REASON FOR DENIAL

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SEWARD	\$1,347,472.00				
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SITKA	\$60,624.00				
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STERLING				\$156,953.00	NO PRIOR APPROVAL
STERLING				\$75,000.00	OFFICE/STORE
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TOGIAK			\$163,000.00		
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UNALASKA				\$647,581.00	NO PRIOR APPROVAL
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UNALASKA				\$1,198,740.00	BOOKHOUSE
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VALDEZ				\$610,000.00	BOOKHOUSE/LOCKER RM
VALDEZ			\$5,470,721.00		
KRANGELL			\$104,000.00		
KRANGELL			\$13,000.00		
YAKUTAI			\$747,000.00		
TOTALS	\$6,000.00		\$62,484,038.00	\$8,781,373.00	

FISHERIES BUSINESS TAX CREDIT

CALENDAR YEAR 1989

UPDATED 03/09/89

DATE	TAX YEAR	LOCATION OF FACILITY	\$ AMOUNT APPROVED	\$ AMOUNT DENIED	REASON/ITEM DENIED
11/3/88	1989	ST PAUL ISLAND	\$2,527,000.00		
11/10/89	1989	DRY BAY (YAKUTAT AREA)	\$38,000.00		
11/10/88	1989	YAKUTAT	\$112,200.00	\$45,000.00	EMPLEE SHWR&GNEFATGR
11/10/89	1989	SITKA	\$133,500.00	\$3,000.00	COMMUNICATION SYSTEM
11/29/88	1989	SEWARD	\$1,250,000.00		
12/13/89	1989	KENAI	\$101,800.00		
12/8/88	1989	BETHEL	\$825,000.00		
12/15/88	1989	KODIAK	\$700,000.00		
12/15/88	1989	KODIAK	\$181,500.00		
12/15/89	1989	KODIAK	\$375,800.00		
12/19/89	1989	KODIAK	\$222,000.00	\$20,000.00	PRIOR EXPEDITURE
12/23/88	1989	TOGIAK	\$516,500.00	\$7,500.00	DND
01/04/89	1989	UNALASKA	\$14,000.00		
01/04/89	1989	CORDOVA	\$200,000.00		
01/04/89	1989	CORDOVA	\$162,000.00	\$200,000.00	EMPLEE ACCOHODATIONS
01/04/89	1989	KODIAK	\$19,000.00		
01/04/89	1989	CHIGNIK		\$75,924.00	MISC
01/10/89	1989	NAKNEK	\$382,518.00	\$500,000.00	BKHS/STRG BLDG
01/10/89	1989	JUNEAU		\$5,000.00	PRIOR EXPENDITURE
01/11/89	1989	KODIAK		\$12,278.97	TRUCK
01/12/89	1989	EXCURSION INLET	\$623,000.00		
01/12/89	1989	ALITAK	\$530,260.00		
01/12/89	1989	EKUK	\$91,000.00		
01/12/89	1989	EXCURSION INLET	\$158,000.00		
01/23/89	1989	KODIAK	\$9,335.40		
01/23/89	1989	SITKA	\$40,000.00		
01/19/89	1989	USANIK BAY	\$370,574.00	\$83,376.00	VHF/MESSHALL/WASTE DISPOSAL
01/19/89	1989	CORDOVA	\$1,022,758.00		
01/19/89	1989	CORDOVA	\$376,400.00		
01/20/89	1989	KETCHIKAN	\$2,002,000.00	\$65,000.00	LUNCH RM/OFFICE
02/13/89	1989	FORT BAILEY	\$131,000.00		
02/13/89	1989	FORT BAILEY	\$15,500.00		
02/13/89	1989	FORT BAILEY	\$19,500.00		
02/13/89	1989	FORT BAILEY		\$75,000.00	FUEL DOCK
02/13/89	1989	KENAI	\$29,000.00		
02/13/89	1989	KENAI	\$53,240.00		
02/13/89	1989	NAKNEK	\$37,880.00		
02/13/89	1989	EXCURSION INLET	\$27,000.00		
02/13/89	1989	EXCURSION INLET	\$78,000.00		
02/13/89	1989	ALITAK	\$190,000.00		
02/13/89	1989	ALITAK	\$37,000.00		
02/13/89	1989	KETCHIKAN	\$82,200.00		
02/13/89	1989	KENAI	\$1,059,750.00		
02/13/89	1989	KENAI		\$78,500.00	OFFICE/SFLY STGRS/BARCODE
02/13/89	1989	KENAI	\$830,000.00		
02/13/89	1989	SEWARD	\$1,195,000.00	\$5,000.00	RADIOS
02/13/89	1989	BETHEL	\$180,000.00	\$110,000.00	
02/16/89	1989	KENAI		\$20,000.00	DREDEINS
02/22/89	1989	KODIAK	\$8,344.00	\$5,955.00	ELEVATOR DOORS
02/23/89	1989	KENAI	\$20,000.00		
02/23/89	1989	KODIAK	\$211,125.00		
03/09/89	1989	JUNEAU	\$50,000.00		
03/09/89	1989	VALDEZ	\$97,000.00		
03/09/89	1989	JUNEAU	\$125,000.00		

TOTALS \$18,370,484.40 \$1,312,033.97 \$19,682,518.37

6-0370E  
Chenoweth  
3/13/89

Original sponsors: Cato, Grussendorf,  
and Hudson

1 IN THE HOUSE

2 CS FOR HOUSE BILL NO. 33 ( )  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act amending and extending the fisheries business  
7 tax credit; relating to fisheries business tax re-  
8 funds to municipalities; and providing for an effec-  
9 tive date."

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

11 \* Section 1. AS 43.75.032(a) is amended to read:

12 (a) A fisheries business is entitled to a credit of not more  
13 than 50 percent of the business tax liability under AS 43.75.015 for  
14 capital expenditures made during the tax year that (1) increase prod-  
15 uct diversity, or production efficiency and capacity, or improve  
16 product quality, at a shore-based fisheries business facility in the  
17 state, or (2) contribute to the development of a cooperative seafood  
18 industrial park in the state, if an application for the credit is  
19 approved by the department in advance of the capital expenditure. A  
20 fisheries business may claim a credit under this subsection for a  
21 maximum period of five [THREE] consecutive years. An applicant for  
22 the credit may elect to begin the five-year [THREE-YEAR] period with  
23 any tax year from 1987 through 1991 [1989]. A tax credit under this  
24 subsection may not be approved for more than 50 percent of a capital  
25 expenditure, plus any increase required under (b) of this section.

26 \* Sec. 2. AS 43.75.032(b) is amended to read:

27 (b) The amount of a credit under (a) of this section for a  
28 capital expenditure involving a shore-based fisheries business facil-  
29 ity or cooperative seafood industrial park located or to be located in

1 a municipality shall be increased by the amount by which the munic-  
2 ipality's fisheries business tax refund is reduced under AS 43.75.-  
3 130(c). The total amount of a credit increase under this subsection  
4 during a five-year [THREE-YEAR] period may not exceed 25 percent of  
5 the amount of the capital expenditure.

6 \* Sec. 3. AS 43.75.032(c) is amended to read:

7 (c) The portion of a capital expenditure that is eligible for a  
8 credit under this section but is claimed during a single tax year may  
9 not be carried back to a prior tax year but is available for the  
10 computation as a credit under this section for a subsequent tax year  
11 within the five-year [THREE-YEAR] period elected under (a) of this  
12 section.

13 \* Sec. 4. AS 43.75.032(f) is amended to read:

14 (f) The total tax credits that may be claimed under this section  
15 for a tax year for capital expenditures and scholarship contributions  
16 combined may not exceed

17 (1) 75 percent of the taxpayer's business tax liability  
18 under AS 43.75.015 for the tax year if a municipality adopts an ordi-  
19 nance under AS 43.75.130(c) reducing the municipality's tax refund for  
20 that tax year; or

21 (2) 50 percent of the taxpayer's business tax liability  
22 under AS 43.75.015 for the [THAT] tax year if a municipality has not  
23 adopted an ordinance under AS 43.75.130(c) reducing the municipality's  
24 tax refund for that tax year.

25 \* Sec. 5. AS 43.75.130(c) is amended to read:

26 (c) Within 60 days after a credit is approved under AS 43.75.032  
27 for a capital expenditure involving a shore-based fisheries business  
28 facility or cooperative seafood industrial park located or to be  
29 located in a municipality, the municipality may adopt an ordinance

1 direct the department to reduce the municipality's refund under this  
2 section over a period of not more than five [THREE] years by an amount  
3 not exceeding 25 percent of the capital expenditure.

4 \* Sec. 6. Section 7, ch. 79, SLA 1986, is repealed and reenacted to  
5 read:

6 Sec. 7. AS 43.75.130(c), 43.75.140(1), 43.75.140(7), and 43.75.-  
7 140(8) are repealed January 1, 1996.

8 \* Sec. 7. Section 8, ch. 79, SLA 1936, is amended to read:

9 Sec. 8. AS 43.75.034 is repealed February 15, 1996 [1992].

10 \* Sec. 8. Section 10, ch. 79, SLA 1986, is amended to read:


11 Sec. 10. Section 3 of this Act takes effect January 1, 1996  
12 [1992].

13 \* Sec. 9. APPLICABILITY TO EXISTING CREDITS. (a) The provisions of  
14 this Act apply to extend from three years to five years a tax credit  
15 claimed by a fisheries business under AS 43.75.032 and 43.75.130 for a tax  
16 year beginning after December 31, 1986, and before the effective date of  
17 this Act.

18 (b) Notwithstanding the time limitation for adoption of an ordinance  
19 imposed by AS 43.75.130(c), a municipality that, on or before the effective  
20 date of this Act, has adopted an ordinance directing the Department of  
21 Revenue to reduce the municipality's fisheries tax refund under AS 43.75.-  
22 130(c) for a period of not more than three years may amend the ordinance  
23 and direct the Department of Revenue to reduce that refund for a period of  
24 not more than five years.

25 \* Sec. 10. Sections 1 - 5 of this Act are retroactive to January 1,  
26 1987.

27 \* Sec. 11. This Act takes effect immediately under AS 01.10.070(c).  
28  
29



CHUGACH FISHERIES, INC.

FEB 10 1989

4241 - 21st AVENUE WEST, SUITE 204  
SEATTLE, WA 98199  
PHONE (206) 284-0804

January 10, 1989

Representative Bette Cato  
P.O. Box 775  
Valdez, AK 99686

Dear Representative Cato:

The purpose of this letter is to ask for your support in promoting the extension of the capital improvement tax credit program. I understand that review of the program is set for legislative session scheduled in January.

The program had allowed our company a chance to improve our ability to produce a better quality product as well as open new markets and in turn received higher value for our product. Our added capital expenditures had brought positive contributions to the Alaskan business communities as well as increased local employment.

I am aware of the fact that you're one of the original supporter of the program therefore counting on you for your continued support to our industry.

Thank you in advance for your support.

Very truly yours,  
Chugach Fisheries, Inc.



Larry Cambronero  
V.P. Operations

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

STEVE COWPER, GOVERNOR

STATE OFFICE BUILDING  
P.O. BOX 5A  
JUNEAU, ALASKA 99811-0400

January 20, 1989

The Honorable Tim Kelly  
President of the Senate  
P. O. Box V  
Juneau, AK 99811

Dear Mr. President

The following is a report of the Fisheries Business Tax Credit Program. In accordance with AS 43.75.034 the Alaska Department of Revenue must present a report not later than the 15th day of the legislative session on the Fisheries Business Tax Credit Program under AS 43.75.032.

This program allows fisheries businesses to reduce their tax liability by up to 50% each year over a three year period. This is a temporary program which allows for capital expenditures made in tax years 1987 through 1989 to be claimed as credits on tax returns through tax year 1991.

Qualifying expenditures must be approved by the Department of Revenue in advance and must "increase product diversity, or production efficiency and capacity, or improve product quality, at a shore-based fisheries business facility in the state, or contribute to the development of a cooperative seafood industrial park in the state" (AS43.75.032(a)).

The municipality in which the capital improvements are made may grant the fisheries business an additional credit of 25%. This reduces the municipality's share of the tax that they would ordinarily receive. The total credit taken against the business tax liability each year still may not exceed 50%.

The attached spreadsheets give the details of the estimated expenditures approved for tax credit in 1988 and the actual credits taken for 1987. Total expenditures approved for the 1988 calendar year were \$62,484,038.00. Total expenditures denied were \$8,781,373.00. Generally, denials were for expenditures made prior to approval from the Department, or for expenditures that did not qualify for the credit. Actual credits taken against 1987 taxes which directly reduced FY88 State revenues totaled \$6,714,793.00.

The expenditures were made for the following types of equipment and facilities:

- plant modifications and facility upgrades;
- Baader filleting skinning machines;
- ice houses and refrigeration equipment;
- new and replacement of various pumps and cannery equipment;
- bottomfish and surimi processing equipment;
- forklifts, loaders, cranes, booms, etc.

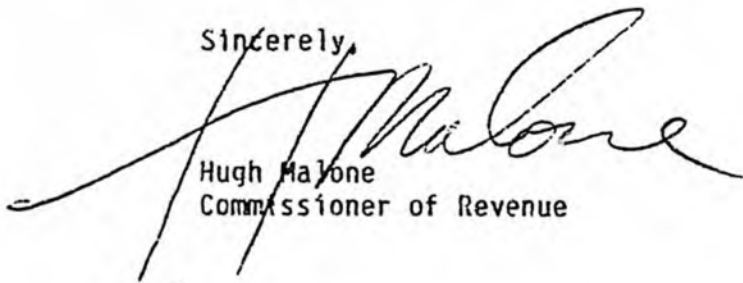
The Honorable Tim Kelly  
January 20, 1989  
Page 2

One city granted the additional credit available for municipal participation in 1987. This did not reduce the city's share of the tax because the tax liability did not exceed the amount of credit already granted by the state. In 1988 three cities participated by granting credit to four processors.

To date no business has sought approval of a credit for construction of an industrial seafood park.

If you have any further questions, please let us know.

Sincerely,

A handwritten signature in cursive script, appearing to read "H. Malone", written over the typed name and title.

Hugh Malone  
Commissioner of Revenue

HM:SK:mga  
Enclosures  
89-17

The Honorable Tim Kelly  
January 20, 1989  
Page 2

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Sincerely,

Hugh Malone  
Commissioner of Revenue

HM:SK:mga  
Enclosures  
0228R



1988 FISHERIES BUSINESS TAX CREDIT  
EXPENDITURE AMOUNTS APPROVED/DENIED

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1988 FISHERIES BUSINESS TAX CREDIT  
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# Alaska State Legislature

Senate Advisory Council



P.O. Box V  
State Capitol  
Juneau, Alaska 99811  
Phone: (907) 465-3114

## MEMORANDUM

TO: Senator Arliss Sturgulewski  
Alaska State Senate

ATTENTION: Frank Hoffman

FROM: Richard Rainery *RR*  
Senior Analyst

DATE: November 22, 1988

SUBJECT: Fisheries Business Tax Credit and Revenue Sharing Programs  
Research Request No. 88-003324

You have requested information concerning the consequences of implementing the Fisheries Business Tax credit program and the results of the municipal revenue sharing feature of the same tax, including the provision calling for phased activation of full revenue sharing for newly formed boroughs. While tax revenues derived from the sale of raw fish have been shared by the State of Alaska with the municipalities of origin for a number of years now, both the tax credit program and the new borough share phase-in are recent amendments to the law. As such, information concerning their influence on the seafood industry and municipal finances and economies is still sketchy. Your question is rather broad and while this memorandum will touch on all aspects of the tax credit and revenue sharing programs, the subject is broad as well. I refer you to a recent draft Senate Advisory Council report, Community Fisheries Development, which includes a discussion of state fisheries taxation policy for additional information. Copies have been provided to your office.

### I. Fisheries Business Tax Credit Program

Credits against the tax liabilities of seafood processing industry firms were made available for calendar years beginning in 1986. A firm may claim a credit of up to 50% of annual tax liability for the costs of certain capital investments at shoreside facilities. Eligible improvements, which must be approved in advance by the Alaska Department of Revenue (ADOR), include facilities which diversify products, increase efficiency, quality, and capacity or development of cooperative seafood industrial parks. The full amount of an approved credit may be applied against up to three years' tax liabilities. The basic intent of the tax credit, as well as some other aspects of the tax's structure, is to encourage expansion of existing facilities into new processes

and products and to entice new processing capacity to locate on Alaskan terra firma rather than operating at sea, which is the predominant trend at present, particularly in the groundfish fisheries.

Has the provision of the tax credit lured the seafood industry ashore? Within the near future there will be some fifty U.S. factory trawlers (most in excess of 200 feet in length) operating in the Alaskan Exclusive Economic Zone (EEZ), up from none just a few years ago. There are plans for at least two 600 foot processing vessels as well. These ships will not be replacing existing shore based capacity, but displacing the foreign processing components of at sea joint ventures as the "Americanization" of the EEZ continues. That process should be complete within about two years. It is predicted that 80% of the bottomfish catch will be processed at sea. A variety of factors assure that floating processing will predominate. Combined operations are more profitable, transshipment to tramp freighters is more efficient than calling at shore, better quality products are assured by immediate processing of catches, and suitable sites for plants are scarce on the Bering Sea coast. These are not absolutes, there are factors which favor shore based facilities<sup>1</sup>, but no reversal in the trend of the last few years is apparent yet.

Measuring the economic benefits of tax incentives in general is a difficult task. Despite the proliferation of special tax treatment for a variety of industries in states across the nation, rare has been the rigorous analysis of the economic effect of an incentive. Nor have state governments made concerted efforts to assess the revenue impacts of incentives. This is generally the case in Alaska. The fisheries business tax credit program is still too new to judge fairly and completely. It is true that, since the credit was implemented, processing companies have filed for and received approval from ADOR for a huge amount of expenditures for qualifying improvements. These are recorded in Table 1. It should be noted that these data are preliminary and "unaudited". Their value lies in their representation of gross magnitude rather than as a precise rendering of circumstances.

When lobbying for the enactment of the credit program, processing interests were careful not to claim that sensational growth of shore based processing capacity would result, but asserted that it was a necessary element in any meaningful attempt to spark such expansion. Approved applications for credits now exceed \$113 million in amount for calendar years 1987 and 1988. This represents a significant percentage of the assessed value of existing shore plants, perhaps as much as one third. Comprehensive estimates on statewide assessed values are not available, but a partial survey in 1987 identified about \$210,000,000 in capital assets (see Community Fisheries Development).

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<sup>1</sup>The fisheries business tax rate structure favors shore plants and capital and labor costs are lesser on land.

Table 1  
Fisheries Business Tax Credit Investments  
(Calendar Years 1987 and 1988)

	1987	1988*	Both Years
Approved Expenditure	\$55.2	\$58.6	\$113.8
Potential Credit	27.6	29.3	56.9
Actual Expenditure	37.6	39.9#	77.5
Actual Credit	18.5	19.9#	38.7
Credit Claimed	6.7	14.4	21.1

Source: ADOR, 1988.

\* As of November 1988.

# Estimates based on 1987 patterns.

Annual tax collections have ranged between about \$15 million and \$25 million since Fiscal Year 1980. One-half of total tax liabilities represents the upper limit on credits, if all processors had been eligible for the full 50%. It is not surprising that actual credits have been less than the approved level thus far; individual company tax bills are small enough that most larger credit amounts will have to be spread out over three years to be fully used. Credits claimed on 1987 tax returns reduced state revenues by \$6.7 million, only about one third the value of credits earned. 1988 expenditures are forecast to be only slightly higher than those of 1987, but credits will be more than double 1987 levels principally due to carryover from that year. State revenues have declined as a result. Increased harvest values have kept collections relatively high, but will not counterbalance the loss of income resulting from use of credits and the state's portion after revenue sharing has substantially decreased (see the next section for more details).

The fundamental issue, in light of this information, is whether the investments in question would have been made in the absence of the credit. The answer to that question is not clear. It presupposes knowledge of the innermost workings of corporate decisionmaking that is not usually available to government researchers. Certainly, it has been the position of business in general that tax incentives are meaningful and oftentimes essential elements in

certain decisions.<sup>2</sup> I certainly cannot dispute that position in this case. It is, however, not the claim of the Alaskan processing industry that these investments would not have occurred absent the credit. Rick Lauber, vice-president of the Pacific Seafood Processors Association (PSPA), says that he would not make that assertion. He does say that the level of investment since the enactment of the credit has surprised him, both the amount and the number of processors participating (over 40 in both years). He believes that the credit has definitely influenced the timing of investments. Given the rapid development of the Bering Sea bottomfish industry, that circumstance may be the real benefit of the credit, permitting the capture of a portion of the harvest for shore plants before the domestic processing sector becomes fully developed. It would seem, however, that the shore plant sector was in a "fish or cut bait" situation and in order to compete had to invest to adapt to the new fisheries and markets. The credit surely made those investments more attractive.

Mr. Lauber cited one case in which the credit was instrumental in a decision for a major expansion of one shore plant, although perhaps in an unforeseen manner. A major Aleutian processor had determined to expand capacity and diversify, but was debating whether to do so at an existing shore plant or to add to its fleet of floating processors. The plans of the newly formed Aleutians East Borough to assess a 2% tax on the sale of raw fish would have been the straw that tipped the scale in favor of at sea processing had it not been for the availability of the fisheries business tax credit. As a result, a \$14 million dollar expansion to the firm's shore plant went forward.

A significant portion of ADOR approved expenditures are for bottomfish processing. According to Dick Reynolds of the Office of Commercial Fisheries Development in the Alaska Department of Commerce and Economic Development, the following rough categories of investment were approved in 1987:

- |  |                  |
|--|------------------|
| 1. Docks, unloading, and holding facilities      | - \$ 4.7 million |
| 2. Ice or refrigeration/freezing facilities      | - 7.4 million    |
| 3. Buildings or utilities                        | - 16.2 million   |
| 4. Standard finfish/shellfish species processing | - 4.1 million    |
| 5. Other value added processing                  | - 2.4 million    |
| 6. Bottomfish fillets                            | - 8.9 million    |
| 7. Surimi  | - 9.9 million    |
| 8. Other (including fishmeal and oil processing) | - 4.4 million    |

Approximately \$40 million of the \$58 million total was identified by Mr. Reynolds as capital improvements for bottomfish processing plants, so it would seem as though the money (if indeed all these planned investments come to fruition) is largely being spent in that developing sector as intended by law.

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<sup>2</sup>Although most research has suggested incentives are not necessary or are poorly designed, there are respectable arguments on both sides of the issue.

At present little concrete information is available on how these investments, actual or prospective, will affect the Alaskan seafood industry and the overall state economy. The industry is presently booming, with the value of catches to fishermen and processors increasing on an annual basis, despite the fact that fewer of the most highly valued species, salmon, have been landed in each of the last two years. Construction of refrigeration facilities will enable processors to adapt to changing markets in which frozen salmon are displacing canned fish and in which frozen bottomfish fillets are an increasing piece of the pie. Frozen fish are generally higher in value than canned products and the fact that they may as well be held in inventory during periods of product surfeit should help to strengthen somewhat the market position of processors of Alaskan fish.

At this point it would be speculative to attempt to determine whether there have been any employment gains attributable to the credit program. While the credit focusses on capital investment, it is certain that some increased employment will result from capacity growth and product diversification. Whether new jobs will be filled by Alaskans or non-residents is the question. Recently about 70% of shore based processing jobs have been filled by non-resident seasonal workers. Statewide, seafood processing employment increased by 100 jobs (less than 1%) between August (a peak month) 1987 and August 1988. The increase appears to have been centered in Southeast Alaska, where little bottomfish is processed. If there is a substantial increase in workforce at bottomfish plants, that may be more likely to benefit the site communities since most such plants will operate on a year-round basis as opposed to the seasonal nature of the established fisheries. Even if labor is imported, many non-residents may perforce become de facto residents.

Although the financing of construction of new facilities is eligible under the credit program, no applications for new plants have been made says John Hansen, supervisor of the audit office of the Income and Excise Tax Division of ADCR. All approved expenditures have been for existing or previously planned investments. Credit use has yet to affect much of maritime Alaska; eligible investment occurred in but 22 communities in 1987. Some 63% of the dollar value of approved 1987 applications were from only three communities (Akutan, Kodiak, and Unalaska) and 87% originated in but 10 communities. In 1988, the top three (Kodiak, Unalaska, and Valdez) accounted for 60% of approved value, while the top ten sites had 89%.

A final note on the credit program: Mr. Lauber of PSPA asserts that the program could be of added benefit to the state, particularly in terms of resident employment if a clarification to the law were made. The processors believe that the construction of employee housing should qualify for the credit. ADOR has not agreed and has not approved such expenditures. PSPA contends that if apartment or detached housing were eligible under the program, permanent residents could be attracted to Alaskan communities. Many communities in which plants are located are chronically short of housing. The

provision of decent housing combined with year-round employment could, in Mr. Lauber's opinion, help to ameliorate the transient, temporary nature of most processing employment. He believes that if companies operating factory trawlers and other at sea processing vessels could qualify for credits for investments in housing, a number of such vessels could be enticed to homeport in Alaska. Of the fifty or so factory trawlers licensed to fish the Alaskan EEZ, no more than ten are homeported in Alaska. Increasing that number would obviously strengthen local and regional fishing and support sector economies.

II. The Fisheries Business Tax Revenue Sharing Program

The fisheries business tax has been a significant contributor to the state treasury (in relative terms) for only the last ten years. Total collections topped \$10 million dollars for the first time in FY 1979 and since FY 1981 have ranged from about \$19 million to \$26 million. Figure 1 displays state and municipal shares since FY 1979, with estimates for FY 1989 - 1990, and shortfalls in municipal shares for FY 1987 - 1988 when appropriations were insufficient for full funding. Since the 1981 amendment to the law which

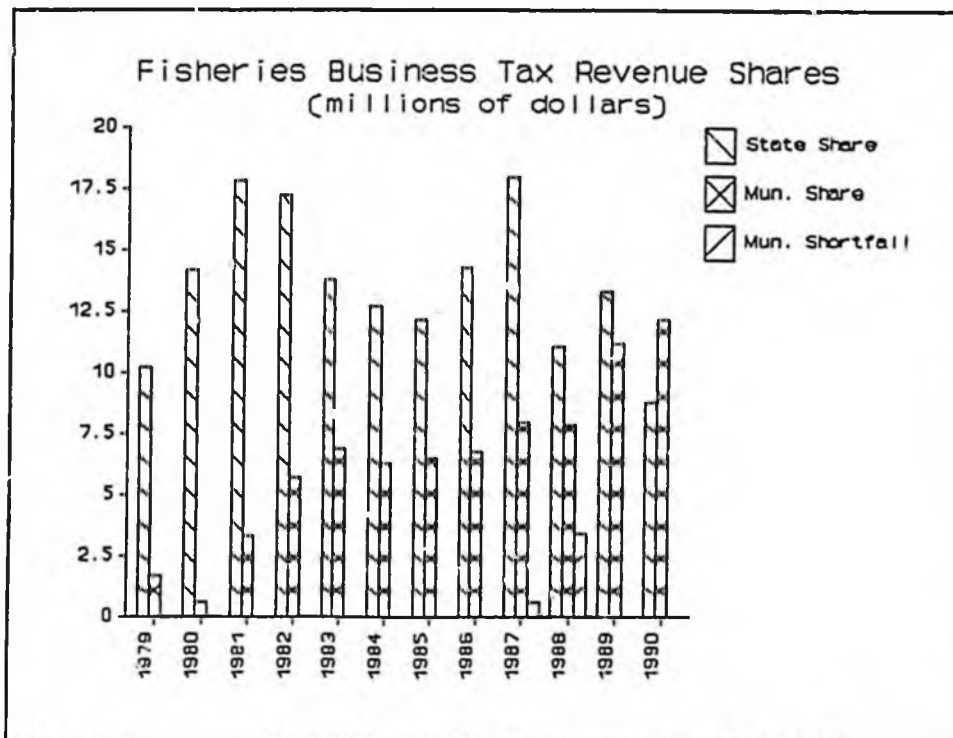


Figure 1 FY 1989 and FY 1990 shares estimated.

Source: ADOR, 1988.

increased the municipal share of locally generated revenues from 20% to 50%, municipal shares have been steadily rising. The proportion of state/municipal shares had settled into about a two thirds/one third pattern for the five year beginning in FY 1983. That relationship changed in FY 1988 as taxpayers began claiming credits. The state share dropped to only 49% of revenues with municipalities entitled to 51%, although the latter received only 35% as legislative appropriations were insufficient for full distribution.<sup>3</sup> Although total liabilities in FY 1988 were a record \$29.1 million, state revenues declined in absolute, as well as relative, terms, compared to the previous year. Strong harvests and good prices pushed up revenues, but the tax credit reduced the state share of the total by \$6.7 million for the year. Absent the credit, the rough FY 1983 - FY 1987 proportion of state/municipal shares would have prevailed.

ADOR projections of fisheries business tax revenues and the distribution of those revenues for the present and coming fiscal year (Elliot, pers. com., 1988) are as follows:

FY 1989

State share	- \$13.3 million
Municipal share	- 11.2 million
Municipal shortfall	- 3.4 million
Credits	- 14.4 million

FY 1990

State share	- \$ 8.8 million
Municipal share	- 12.2 million
Credits	- 8.9 million

The increased state share in FY 1989 reflects the high prices received by fishermen during 1988. The decline in FY 1990 is indicative of ADOR's opinion that those high prices will not be duplicated next year. The increase in the FY 1989 credit amount is the result of the carryover of approved but unclaimed FY 1988 credits (some \$23 million). As that carryover diminishes, the overall level of credits claimed is expected to decline in FY 1990. So for the period FY 1988 - FY 1990, the net state share of gross fisheries business tax collections is forecast to decline by \$30 million as a result of credits against the tax liabilities of processors. State revenues for the period are forecast to decline to levels comparable to those of FY 1979, before the present tax structure was adopted (FY 1989 must be regarded as an anomaly at present as inflated salmon prices raised the total ex-vessel value for those species for the 1988 calendar year by over 40% above the previous record).

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<sup>3</sup>The \$600,000 shortfall in FY 1987 distributions to municipalities was wiped out by a supplemental appropriation the following year. Supplemental funding for the FY 1988 shortfall has been requested by ADOR for FY 1990.

Senator Arliss Sturgulewski  
November 22, 1988  
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In 1987, the Alaska Legislature amended the revenue sharing formula for the fisheries business tax to provide for a phased implementation of the full share of revenues to be returned to newly formed boroughs for monies collected from organized municipalities within the boundaries of those boroughs. Under normal circumstances such monies are split evenly (25%/25%) between the community of origin and the encompassing borough. SB 162 altered the formula in AS 43.75.130 to give new boroughs a 5% share of revenue in the first year of operation, with the city retaining 45%. In each succeeding year, the borough share would increase by 5% and the city share decrease by 5% until the standard division came into effect at the commencement of the fifth calendar year of the borough's existence.

Only one borough, Aleutians East, has been incorporated since the effective date of the formula change. The Aleutians East Borough was incorporated on October 23, 1987, so the formula was applied only to the last quarter's tax receipts from the affected cities (Akutan, King Cove, and Sand Point). The borough has thus far received 5% of the revenues generated within those cities for just that final quarter of 1987. The formula amount was reduced further by the FY 1988 funding shortfall. Other municipalities received 70.39% of the revenue sharing funds due them; the Aleutians East Borough (and its constituent communities) received only 64.88% of the full entitlement as a result of their delayed submission of tax information to ADOR. Insufficient funding remained by that time to return the same portion of full funding to Aleutians East municipalities that was provided to the remainder of the state. The division of tax revenues (in thousands) generated in the borough for FY 1988 was as follows:

Aleutians East Borough	- \$ 6.2 (shortfall - \$ 3.3)
City of Akutan	- 244.3 (shortfall - 132.2)
City of King Cove	- 372.4 (shortfall - 201.6)
City of Sand Point	- 108.5 (shortfall - 58.7)
Total	- \$731.4 (shortfall - \$395.8)

It may appear as though the borough's share is substantially less than a 5% share of one quarter's tax collections. This impression is the result of the seasonal nature of fishery harvests. The bulk of the value of harvests are taken during the spring and summer quarters. In the last quarter of 1987, raw fish sales in these three cities amounted to only 13% of the year's sum.

Please inform us if there is any additional information you wish on this topic.

# Alaska State Legislature

RECEIVED JAN 13 1989

SENATOR  
ARLISS STURGULEWSKI

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## Senate

MEMORANDUM

January 9, 1989

TO: Senator Zharoff

FROM: Senator Sturgulewski 

RE: SB 74 "An Act amending and extending the fisheries business tax credit relating to fisheries business tax refunds to municipalities, and providing for an effective date."

Earlier this year I requested the Senate Advisory Council to look into the impact of the Fisheries Business Tax Credit program. I am sending their report on to you in hopes that it will be useful background for SB 74.

Enclosure