

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672
6049 HOUSE RESOURCES

453

H J R

33

HOUSE COMMITTEE REPORT

(9)

Date Referred: January 9, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: 4-17-89

The RESOURCES Committee recommends that:

HOUSE BILL NO. 33 [EXTEND FISHERIES BUSINESS TAX CREDIT]
"An Act amending and extending the fisheries business tax credit."

- [] be replaced with _____ [] the same title
[] have 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 Revenue 9/13/89
[] zero fiscal note
[] zero with analysis

APPROVES PREVIOUS:

- [] fiscal note(s) published:

[] zero fiscal notes(s) published:

SIGNING DO PASS:

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

Clyde Davidson
George Gorkie Jr.

Frank Mendicino NO REC
Bill Hudson - Need more info!
Best Sharp - Do Not Pass
Richard Kopey no Rec
Mike Aviano no rec
Mike Davis NO REC

Clyde Davidson
Chairman's signat re

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
OPERATING						
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
CAPITAL						
CAPITAL	0	0	0	0	0	0
REVENUE						
REVENUE	<6700.0>	13700.0>	13700.0>	13700.0>	0	0

FUNDING: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
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:

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
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 *Steven E. Kettel* Phone: (907) 465-2320
Division: Income and Excise Audit Date: March 13, 1989
Approved by Commissioner: Hugh Malone *Hugh Malone* Date: March 13, 1989
Agency: Department of Revenue

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

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.

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.

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>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
7.9	5.0	5.2	5.3	5.6	5.8

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 \$58,854,564. 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.

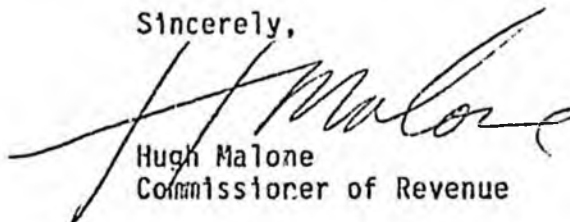
The total revenue the State received from the Fisheries Business Tax returns (AS 43.75) for FY 87 amounted to \$27,257,450. The minimum potential credits which may offset these revenues over the next three years based on applications approved to date are:

	<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 Grussendorf
January 20, 1988
Page 2

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

Sincerely,

A handwritten signature in cursive script, appearing to read "H. Malone", written in dark ink. The signature is fluid and somewhat stylized, with a long horizontal stroke at the end.

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.

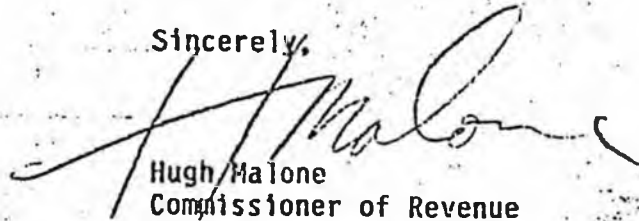
The Honorable Sam Cotten
January 20, 1989
Page 2

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 the typed name and title.

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	\$196,737.00	\$78,366.00	\$139,756.02			
1987	CHIGNIK	\$351,509.00	\$175,750.00	\$296,021.00	\$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	\$965,929.00	\$482,964.50	\$765,928.63	\$482,964.32	\$327,540.39	\$327,540.39		\$155,423.93
1987	CORDOVA	\$382,647.00	\$191,323.50	\$191,323.50	\$193,103.00	\$91,360.00	\$91,360.00		\$191,743.00
1987	CRAIG	\$385,000.00	\$192,500.00	\$493,071.16	\$246,935.58	\$67,011.88	\$67,078.51		\$179,857.07
1987	ERUK	\$435,645.00	\$217,822.50	\$608,203.00	\$304,101.50	\$91,914.30			
1987	EXCURSION INLET	\$282,237.00	\$141,118.50	\$687,135.00	\$343,567.50	\$85,472.55			
1986	HOONAH	\$195,515.00	\$97,757.50	\$349,428.62	\$174,714.31	\$47,265.70	\$47,265.70		\$127,449.61
1986	JUNEAU	\$3,000.00	\$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	KEHAI	\$550,810.00	\$275,405.00	\$277,203.00	\$138,601.50	\$21,470.72	\$21,470.72		\$104,589.19
1986	KEHAI	\$234,400.00	\$117,200.00	\$241,349.61	\$120,674.81	\$103,319.00	\$103,319.00		\$17,525.00
1986	KEHAI	\$49,553.00	\$24,776.50	\$49,883.34	\$24,941.67	\$24,776.67	\$24,776.67		\$0.00
1986	KEHAI	\$88,400.00	\$44,200.00	\$88,400.47	\$44,200.24	\$15,044.30	\$15,044.30		\$29,155.93
1987	KEHAI	\$383,500.00	\$191,750.00	\$383,500.00	\$191,750.00	\$157,042.26	\$157,042.26		\$34,707.74
1987	KEHAI	\$96,629.00	\$48,314.50	\$96,629.00	\$48,314.50	\$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		\$201,603.00
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	\$4,224,633.65	\$2,112,316.83	\$4,226,633.65	\$2,113,316.83	\$410,151.30	\$410,151.30		\$1,703,165.53
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	\$140,203.33	\$140,203.33		\$0.00
1987	KODIAK	\$160,438.00	\$80,219.00	\$139,770.19	\$69,885.10	\$69,800.21	\$68,478.00		\$84.69
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		\$45,314.74
1987	KODIAK	\$777,670.00	\$388,835.00	\$754,637.39	\$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	MAKNEK	\$32,940.00	\$16,470.00	\$49,553.34	\$24,776.67	\$24,776.67	\$24,776.67		\$0.00
1987	MAKNEK	\$68,000.00	\$34,000.00	\$63,001.00	\$31,500.50	\$197,118.47			
1987	MAKNEK	\$239,126.00	\$119,563.00	\$119,563.00	\$0.00	\$0.00			
1987	MAKNEK	\$106,500.00	\$53,250.00	\$101,431.71	\$50,715.86	\$50,715.86	\$0.00		\$50,715.86
1987	PETERSBURG	\$2,706,847.06	\$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	PORT BAILEY	\$364,653.00	\$182,326.50	\$45,791.00	\$22,950.50	\$57,713.68			
1987	S. MAKNEK	\$36,639.00	\$18,319.50	\$0.00	\$0.00	\$0.00	\$0.00		\$18,319.50
1987	SLWARD	\$616,087.00	\$309,043.50	\$618,087.00	\$309,043.50	\$1,573,143.18	\$1,573,143.18		\$89,323.82
1987	SITKA	\$126,423.00	\$63,211.50	\$25,422.97	\$12,711.49	\$12,711.49	\$12,711.49		\$0.00
1987	SITKA	\$524,251.00	\$262,125.50		\$0.00				
1987	TOSTAK	\$139,395.00	\$69,697.50	\$65,697.50	\$34,848.75	\$40,535.09	\$40,970.60		\$28,727.13
1986	UNALASKA	\$12,483,742.00	\$6,241,871.00	\$16,878,360.00	\$8,439,180.00	\$284,296.44	\$293,016.18		\$8,156,163.82
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	\$93,392.50	\$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		\$36,934.50
1987	YAKUTAT	\$1,224,435.00	\$612,217.50	\$1,749,717.28	\$874,858.64	\$417,179.31	\$417,179.31		\$457,679.33
TOTALS		\$55,488,269.05	\$27,744,134.53	\$38,013,886.75	\$19,006,943.38	\$6,758,134.43	\$6,714,793.39		\$22,729,372.05
8 UNEXAMINED RETURNS		\$8	BRINDLE MEMORIAL SCHOLARSHIP CREDIT						

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
AKUTAN		\$403,000.00		
ALITAK		\$98,000.00		
ANCHORAGE		\$430,000.00		
ANCHORAGE		\$381,600.00		
BETHEL		\$51,000.00		
CHIGNIK		\$491,643.00	\$305,000.00	NO PRIOR APPROVAL
CORDOVA			\$23,830.00	MESSHALL
CORDOVA		\$1,062,792.00		
CORDOVA		\$902,100.00		
CORDOVA			\$79,550.00	COMPUTER
CORDOVA		\$832,802.00	\$61,650.00	INVENTORY CONTROL/NPA
DILLINGHAM		\$682,400.00		
EGEGIK		\$26,250.00		
EGEGIK		\$110,500.00		
EKUK		\$1,836,997.00		
FLOATERS			\$360,000.00	FLOATERS
GUSTAVUS		\$60,000.00		
GUSTAVUS		\$5,030.00		
HAINES		\$39,000.00		
HOMER		\$239,300.00		
HOMER			\$5,557.00	NO PRIOR APPROVAL
JUNEAU		\$8,000.00		
JUNEAU		\$589,000.00		
KASLOF		\$774,413.00	\$93,707.00	VARIOUS
KASLOF RVR		\$381,600.00		
KENAI			\$9,000.00	SKIFF/MOTOR
KENAI		\$437,225.00	\$14,500.00	RADIO EQUIP
KENAI			\$3,000,000.00	BUY EXISTING FCLTY
KENAI		\$996,558.00		
KENAI			\$42,864.00	NO PRIOR APPROVAL
KENAI		\$460,000.00	\$10,000.00	TRUCK/RADIO
KENAI		\$1,256,450.00	\$364,600.00	VARIOUS
KENAI		\$192,626.00		
KENAI		\$241,450.00		
KETCHIKAN		\$186,260.00		
KETCHIKAN		\$617,105.00		
KODIAK		\$422,590.00	\$20,000.00	TRUCK/PHONE/PAVING
KODIAK		\$1,635,000.00	\$15,000.00	VEHICLE
KODIAK	\$6,000.00	\$32,600.00	\$15,000.00	COMPUTER
KODIAK		\$1,136,600.00		
KODIAK		\$4,215,000.00		
KODIAK		\$218,800.00	\$18,000.00	NO PRIOR APPROVAL
KODIAK		\$935,000.00	\$1,085,000.00	WAREHOUSE/TRUCK OVERHAUL
KODIAK		\$450,000.00		
KODIAK ISL		\$244,300.00	\$189,900.00	COMPUTER
NAKNEK		\$417,075.00	\$38,592.00	BUNKHOUSE/MESSHALL
NAKNEK		\$1,303,000.00	\$291,300.00	TRUCK/BKHSE/BULLDZR
NORTH POLE		\$57,140.00		
PELICAN		\$59,100.00		
PETERSBURG		\$1,944,600.00		
PETERSBURG		\$70,350.00		
FORT GRAHAM		\$124,623.00	\$25,739.00	COMPUTER
PT BAILEY		\$494,000.00		
S NAKNEK		\$801,480.00		

1988 FISHERIES BUSINESS TAX CREDIT
 EXPENDITURE AMOUNTS APPROVED/DENIED
 PAGE 2

ENCLOSURE 2

LOCATION OF FACILITY	\$ AMOUNT PENDING	\$ AMOUNT APPROVED	\$ AMOUNT DENIED	REASON FOR DENIAL
SEWARD		\$3,121,000.00		
SEWARD		\$1,347,472.00		
SITKA		\$252,250.00	\$14,500.00	VARIOUS
SITKA		\$80,624.00		
STERLING			\$156,963.00	NO PRIOR APPROVAL
STERLING		\$235,000.00		
STERLING			\$75,000.00	OFFICE/STORE
TOGIAK		\$30,969.00		
TOGIAK		\$163,000.00		
UNALASKA		\$605,213.00	\$647,581.00	NO PRIOR APPROVAL
UNALASKA		\$16,500,000.00		
UNALASKA			\$1,198,740.00	BUNKHOUSE
VALDEZ		\$5,459,500.00	\$610,000.00	BUNKHOUSE/LOCKER RM
VALDEZ		\$5,470,721.00		
WRANGELL		\$104,000.00		
WRANGELL		\$13,000.00		
YAKUTAT		\$747,000.00	\$9,800.00	VARIOUS
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 SHHRSAGNERATOR
11/10/88	1989	SITKA	\$133,500.00	\$3,000.00	COMMUNICATION SYSTEM
11/29/88	1989	SEWARD	\$1,250,000.00		
12/13/88	1989	KENAI	\$101,800.00		
12/8/88	1989	BETHEL	\$885,000.00		
12/15/88	1989	KODIAK	\$700,000.00		
12/15/88	1989	KODIAK	\$181,500.00		
12/15/88	1989	KODIAK	\$375,800.00		
12/19/88	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 ACCOMODATIONS
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 BLDs
01/10/89	1989	JUNEAU		\$5,000.00	PRIOR EXPENDITURE
01/11/89	1989	KODIAK		\$12,276.97	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	UGANIK BAY	\$370,574.00	\$63,876.00	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	PORT BAILEY	\$131,000.00		
02/13/89	1989	PORT BAILEY	\$15,500.00		
02/13/89	1989	PORT BAILEY	\$19,500.00		
02/13/89	1989	PORT 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	\$882,200.00		
02/13/89	1989	KENAI	\$1,059,750.00		
02/13/89	1989	KENAI		\$76,500.00	OFFICE/SPLY ETCRS/BARCODE
02/13/89	1989	KENAI	\$880,000.00		
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		
03/02/89	1989	JUNEAU	\$50,000.00		
03/09/89	1989	VALDEZ	\$7,000.00		
03/09/89	1989	JUNEAU	\$125,000.00		

TOTALS \$18,370,654.40 \$1,312,033.97 \$19,682,718.37

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 1986, 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 SA
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.

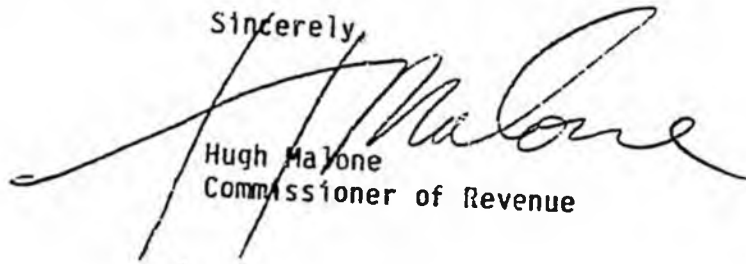
The Honorable Tim Kelly
January 20, 1989
Page 2

One city granted the additional credit available for municipal participation in 1987. This did not reduce the c'ty'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 "Hugh Malone", is 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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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,

Hugh Malone
Commissioner of Revenue

HM:SK:mga
Enclosures
0228R

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
AKUTAN		\$403,000.00		
ALITAK		\$98,000.00		
ANCHORAGE		\$430,000.00		
ANCHORAGE		\$381,600.00		
BETHEL		\$51,000.00		
CHIGNIK		\$491,543.00	\$305,000.00	NO PRIOR APPROVAL
CORDOVA			\$23,830.00	MESSHALL
CORDOVA		\$1,062,702.00		
CORDOVA		\$902,100.00		
CORDOVA			\$79,550.00	COMPUTER
CORDOVA		\$832,802.00	\$61,650.00	INVENTORY CONTRL/NPA
DILLINGHAM		\$682,400.00		
EBEGIK		\$26,250.00		
EBEGIK		\$110,500.00		
EKUK		\$1,836,997.00		
FLOATERS			\$360,000.00	FLOATERS
GUSTAVUS		\$60,000.00		
GUSTAVUS		\$5,050.00		
HAINES		\$39,000.00		
HOMER		\$239,300.00		
HOMER			\$5,557.00	NO PRIOR APPROVAL
JUNEAU		\$8,000.00		
JUNEAU		\$589,000.00		
KASILOF		\$774,413.00	\$93,707.00	VARIOUS
KASILOF RVR		\$381,600.00		
KENAI			\$9,000.00	SKIFF/MOTOR
KENAI		\$437,225.00	\$14,500.00	RADIO EQUIP
KENAI			\$3,000,000.00	BUY EXISTING FCLTY
KENAI		\$996,558.00		
KENAI			\$42,864.00	NO PRIOR APPROVAL
KENAI		\$460,000.00	\$10,000.00	TRUCK/RADIO
KENAI		\$1,256,450.00	\$364,600.00	VARIOUS
KENAI		\$192,626.00		
KENAI		\$241,450.00		
KETCHIKAN		\$186,260.00		
KETCHIKAN		\$617,105.00		
KODIAK		\$422,590.00	\$20,000.00	TRUCK/PHONE/PAVING
KODIAK		\$1,635,000.00	\$15,000.00	VEHICLE
KODIAK	\$6,000.00	\$32,600.00	\$15,000.00	COMPUTER
KODIAK		\$1,136,600.00		
KODIAK		\$4,215,000.00		
KODIAK		\$218,800.00	\$18,000.00	NO PRIOR APPROVAL
KODIAK		\$935,000.00	\$1,085,000.00	WAREHOUSE/TRUCK OVERHAUL
KODIAK		\$450,000.00		
KODIAK ISL		\$244,300.00	\$189,900.00	COMPUTER
NAKNEK		\$417,075.00	\$38,592.00	BUNKHOUSE/MESSHALL
NAKNEK		\$1,303,000.00	\$291,300.00	TRUCK/BKHS/BULLDZR
NORTH POLE		\$57,140.00		
FELICAN		\$59,100.00		
PETERSBURG		\$1,944,600.00		
PETERSBURG		\$70,350.00		
PORT GRAHAM		\$124,623.00	\$25,739.00	COMPUTER
PT BAILEY		\$494,000.00		
S NAKNEK		\$801,460.00		

1988 FISHERIES BUSINESS TAX CREDIT
 EXPENDITURE AMOUNTS APPROVED/DENIED

PAGE 2

ENCLOSURE 2

LOCATION OF FACILITY	\$ AMOUNT PENDING	\$ AMOUNT APPROVED	\$ AMOUNT DENIED	REASON FOR DENIAL
SEWARD		\$3,121,000.00		
SEWARD		\$1,347,472.00		
SITKA		\$252,250.00	\$14,500.00	VARIOUS
SITKA		\$60,624.00		
STERLING			\$156,963.00	NO PRIOR APPROVAL
STERLING		\$235,000.00		
STERLING			\$75,000.00	OFFICE/STORE
TOGIAK		\$30,969.00		
TOGIAK		\$163,000.00		
UNALASKA		\$605,213.00	\$647,581.00	NO PRIOR APPROVAL
UNALASKA		\$16,500,000.00		
UNALASKA			\$1,198,740.00	BUNKHOUSE
VALDEZ		\$5,459,500.00	\$610,000.00	BUNKHOUSE/LOCKER RM
VALDEZ		\$5,470,721.00		
WRANGELL		\$104,000.00		
WRANGELL		\$13,000.00		
YAKUTAT		\$747,000.00	\$9,800.00	VARIOUS
TOTALS	\$6,000.00	\$62,484,038.00	\$8,781,373.00	

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 facilities¹, 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).

¹The 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	18.8	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.² 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.

²Although 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 ADOR. 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

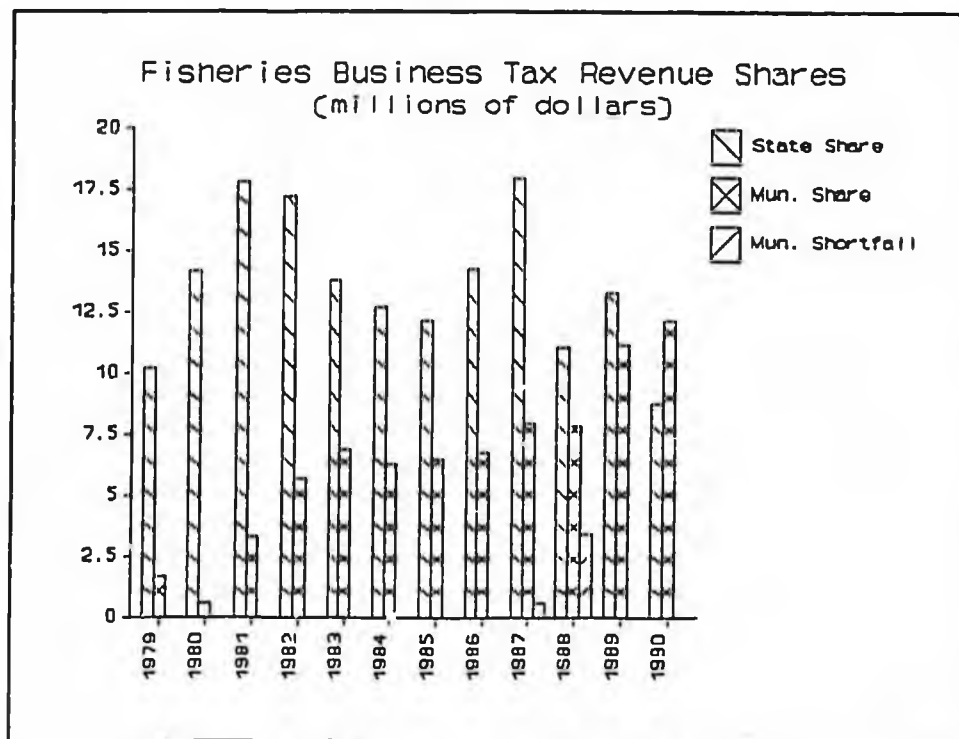


Figure 1 FY 1989 and FY 1990 shares estimated.

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 years 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.³ 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:

<u>FY 1989</u>	
State share	- \$13.3 million
Municipal share	- 11.2 million
Municipal shortfall	- 3.4 million
Credits	- 14.4 million

<u>FY 1990</u>	
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).

³The \$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
Page 8

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

Chairman, Senate Community and Regional Affairs Committee
Vice-Chairman, Senate Judiciary Committee
Member, Senate Resources Committee

295th SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508


White in Juneau
P. O. BOX 3
JUNEAU, ALASKA 99801
(907) 465-3818

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

H J R

36

HOUSE COMMITTEE REPORT

(9)

Date Referred: March 17, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: 4-14-89

The RESOURCES Committee considered:

HJR 36

HOUSE JOINT RESOLUTION NO. 36

[OPPOSE CAP ON FED FISH & WILDLIFE FUNDS]

Opposing a ceiling on federal appropriations from the Pittman-Robertson and Dingell-Johnson funds for wildlife and sport fish restoration projects.

RECOMMENDATIONS:

- be replaced with _____ the same title
- _____ a new title
- have attached amendment(s)
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S): _____
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact _____ fiscal note(s) _____
- zero fiscal note Hz. Res. Committee zero fiscal note(s) _____
- zero with analysis _____ zero fn/analysis _____

SIGNING DO/PASS:

[Handwritten signatures]
 Richard [unclear]
 [unclear]
 [unclear]
 [unclear]
 [unclear]
 [unclear]
 [unclear] Jacko

SIGNING:

(Check approp. column)

	Do Not Pass	No Rec	Amend

[Handwritten signature]

Chairman's signature

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Dept. Fish & Game
 Title: Oppose Cap on Fed Fish & Wildlife BRU: _____
 Funds _____
 Sponsor: Hoffman, Larson, Shultz, Menard, Navaree, Hudson, Davidson
 Requestor: House Resources Committee Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	-0-	-0-	-0-	-0-	-0-
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
----------------	------------	------------	------------	------------	------------	------------

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 : (Attach a separate page if necessary)

Prepared by: House Resources Committee Phone: 465-4944
 Division: Representative Curt Menard, Chairman Date: 4/14/89

Approved by Commissioner: _____ Date: _____
 Agency: _____

Distribution (by preparer):

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

STATE OF ALASKA

LYMAN F. HOFFMAN
REPRESENTATIVE



P. O. BOX V
UNEAU, ALASKA 99811
(907) 465-4530, 465-4453

HOUSE OF REPRESENTATIVES

DISTRICT 25

AKIACHAK
AKIAK
ATMAUTLUAK
BETHEL
CHEFORNAK
EEK
GOODNEWS BAY
KASIGLUK
KIPNUK
KONGIGANAK
KWETHLUK
KWIGILLINGOK
MEKORUK
NAPAKIAK
NAPASKIAK
NEWTOK
NIGHTMUTE
NUNAPITCHUK
OSCARVILLE
PLATINUM
QUINHAGAK
TOKSOOK BAY
TUNTUTLIAK
TUNUNAK

March 23, 1989

M E M O R A N D U M

TO: Representative Clif Davidson, Co-Chair
Representative Curt Menard, Co-Chair
House Resources Committee

FROM: Representative Lyman Hoffman

RE: House Joint Resolution 36 Opposing a Ceiling on
Federal Appropriations from the Pittman-Robertson and
Dingell-Johnson Funds for Wildlife and Sport Fish
Restoration Projects

I respectfully request a public hearing on this important resolution at your earliest convenience.

Included is background information about these federal funds that are allocated to the states and used for sport fish, wildlife, and access projects.

The federal FY90 proposed budget seeks to cap the Dingell-Johnson and Pittman-Robertson appropriations at \$100 million.

A strong message to the federal government from the Alaska Legislature is needed.

If there are questions concerning this resolution, please contact my office at your convenience.

Thank you.

1 IN THE HOUSE

BY HOFFMAN, LARSON, SHULTZ,
MENARD, NAVARRE, HUDSON AND
DAVIDSON

2

HOUSE JOINT RESOLUTION NO. 36

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

Opposing a ceiling on federal appro-

6

priations from the Pittman-Robertson and

7

Dingell-Johnson funds for wildlife and

8

sport fish restoration projects.

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

10

WHEREAS the current federal budget submitted to the Congress by the

11

Office of Management and Budget proposes a ceiling of \$100,000,000 on

12

appropriations for the federal aid to wildlife restoration program, known

13

as the Pittman-Robertson program, and for the sport fish restoration

14

program, known as the Dingell-Johnson program; and

15

WHEREAS federal funds for the Pittman-Robertson program and the

16

Dingell-Johnson program are derived from taxes and duties on sporting

17

equipment and fuel paid by sportsmen and other recreational users of wild-

18

life and fish resources; and

19

WHEREAS Pittman-Robertson funds and Dingell-Johnson funds are allo-

20

cated among the states and can be used only to support specific activities

21

related to wildlife, sport fish, and public access projects; and

22

WHEREAS the proposed ceiling on Pittman-Robertson funds and Dingell-

23

Johnson funds will drastically affect the activities of the divisions of

24

wildlife conservation and sport fish in the Alaska Department of Fish and

25

Game by a 40 percent reduction in funding for research and management on

26

wildlife and sport fish and for acquisition of public access; and

27

WHEREAS the sport hunting and sport fishing industries in the state

28

provide thousands of jobs and generate millions of dollars to the state

29

economy; and

MEMORANDUM

State of Alaska

DEPARTMENT OF FISH AND GAME

TO: Alison Elgee
Director
Office of Management and Budget FILE NO.:
Governor's Office

DATE: February 6, 1989

TELEPHONE NO.: 465-4100

SUBJECT: FY 90 Proposed
Federal Aid Cap

FROM: Don W. Collinsworth
Commissioner
Department of Fish and Game

The federal FY 90 budget submitted to Congress by the Office of Management and Budget proposes a \$100 million cap on both the Dingell-Johnson (D-J) and Pittman-Robertson (P-R) appropriations. As you know, these funds are derived from taxes and duties paid on sporting equipment and fuel by sportsmen and other recreational users. By law, these funds are allocated to the states and can be used only for specific activities for sport fish, wildlife, and access projects.

This proposed cap would have the following monetary impact to Alaska:

	<u>FY 89 Appropriations</u>	<u>FY 90 Appropriation With Cap</u>	<u>Loss of Funds</u>
D-J Program (Sport Fish Programs)	\$ 8,975.0	\$4,700.0	\$4,275.0
P-R Program (Wildlife Programs)	5,126.0	4,008.0	1,118.0
Totals	<u>\$14,101.0</u>	<u>\$8,708.0</u>	<u>\$5,393.0</u>

Such a reduction would have a devastating impact on our Sport Fish and Wildlife Conservation Divisions. Significant cuts in management and research programs would be necessary and personnel layoff would be definitely required.

While I am confident you are already aware of this proposal, I wanted to apprise you of its significant impact on our department and its programs, and the need to forward the

CORRECTION

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

1 IN THE HOUSE

BY HOFFMAN, LARSON, SHULTZ,
MENARD, NAVARRE, HUDSON AND
DAVIDSON

2

HOUSE JOINT RESOLUTION NO. 36

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IN THE LEGISLATURE OF THE STATE OF ALASKA

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SIXTEENTH LEGISLATURE - FIRST SESSION

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28

provide thousands of jobs and generate millions of dollars to the state

29

economy; and

1 WHEREAS subsistence users of the state's wildlife and fish resources
2 annually harvest millions of pounds of these resources for personal use and
3 benefit from the active research and management of wildlife and fish re-
4 sources supported by the Pittman-Robertson program and the Dingell-Johnson
5 program;

6 BE IT RESOLVED that the Alaska State Legislature respectfully ex-
7 presses its strong opposition to the proposal to place a ceiling on appro-
8 priations for the Pittman-Robertson program and the Dingell-Johnson pro-
9 gram.

10 COPIES of this resolution shall be sent to the Honorable George Bush,
11 President of the United States; the Honorable Dan Quayle, Vice-President of
12 the United States and President of the U.S. Senate; the Honorable Jim
13 Wright, Speaker of the U.S. House of Representatives; the Honorable George
14 J. Mitchell, U.S. Senate Majority Leader; the Honorable Gerry E. Studds,
15 Chairman of the Subcommittee on Fisheries and Wildlife Conservation and the
16 Environment of the U.S. House Committee on Merchant Marine and Fisheries;
17 and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S.
18 Senators, and the Honorable Don Young, U.S. Representative, members of the
19 Alaska delegation in Congress.

MEMORANDUM

State of Alaska

DEPARTMENT OF FISH AND GAME

TO: Alison Elgee
Director
Office of Management and Budget FILE NO.:
Governor's Office

DATE: February 6, 1989

TELEPHONE NO.: 465-4100

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FROM: Don W. Collinsworth
Commissioner
Department of Fish and Game

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Alison Elgee

-2-

February 6, 1989

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Thank you.

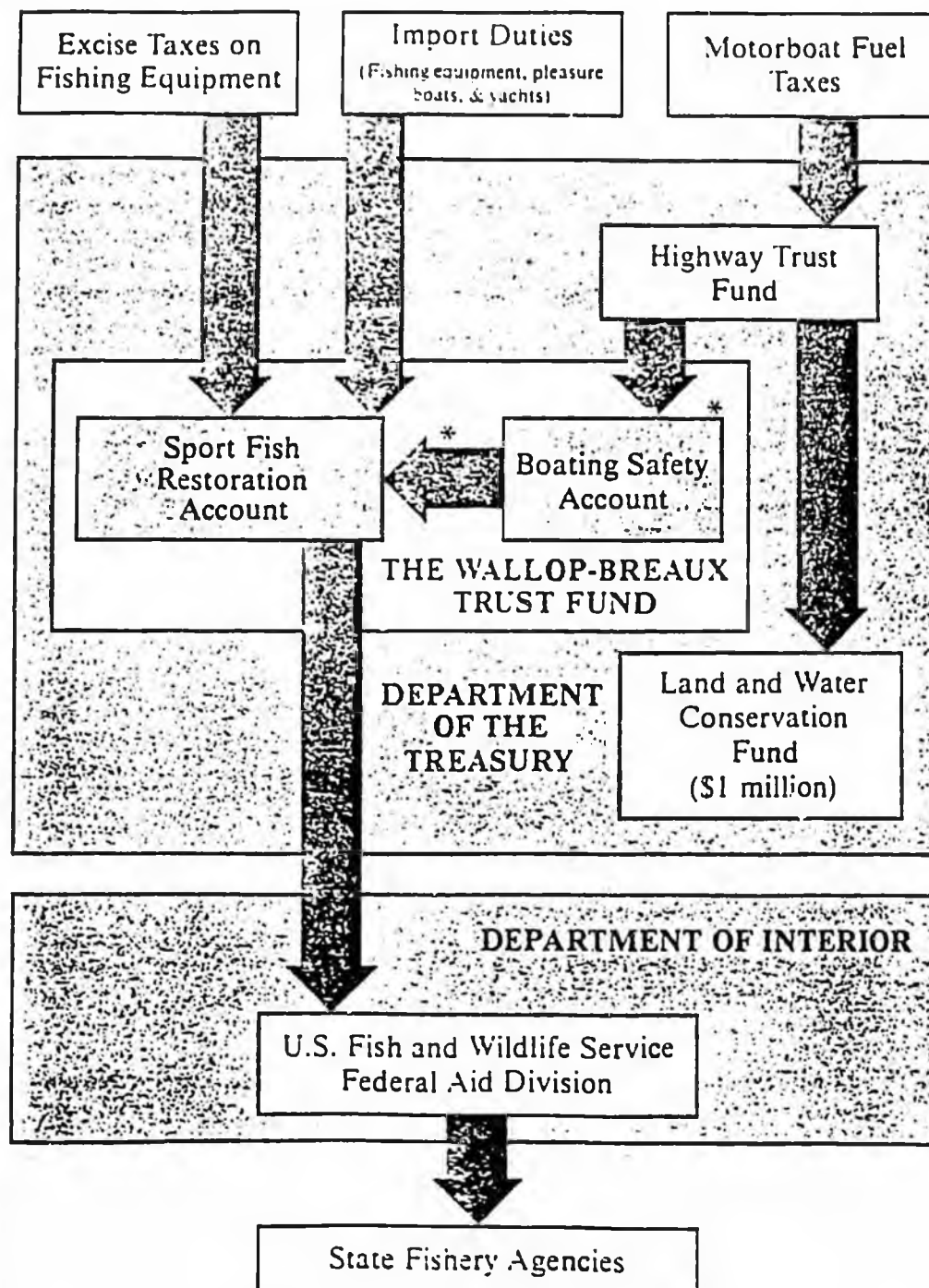
cc: Governor Steve Cowper

John Katz, Special Counsel for State/Federal Relations,
Washington, D.C.

Lew Pamplin, Director, Division of Wildlife Conservation,
ADF&G

Norval Netsch, Director, Division of Sport Fish, ADF&G

Figure 2. Flow of the Three Primary Sources of Wallop-Breaux Funds



*For Fiscal Year 1987 and 1988 the first \$60 million from the motorboat fuel tax is authorized by Congress to go into the Boating Safety Account, with the remainder going into the Sport Fish Restoration Account. The Boating Safety Account is administered by the U.S. Coast Guard.

BACKGROUND INFORMATION

Since statehood the U.S. Department of the Interior, U.S. Fish and Wildlife has provided funding to the State of Alaska, Department of Fish and Game (DFG) in accordance with the Federal Aid to States in Fish and Wildlife Restoration Acts. The Dingell Johnson (DJ) Program provides funding for sport fish restoration and the Pittman-Robertson (PR) Program provides funding for wildlife restoration. The federal government provides an allotment to each state based on the state's land area and number of licensed anglers and hunters. Allotments are limited to 5% of the total apportionments. Alaska is one of three states which receives the maximum allowed annual allotments.

Funds allotted to the states are derived from excise taxes on certain sporting goods. In 1985 the DJ Program was amended, significantly increasing the funds available for allotment beginning in FY 86. Revenues were increased through an expansion of the number of sporting goods subject to the excise tax, an allocation of the federal gasoline excise tax (the portion attributed to outboard motor users), and an imposition of import duties on custom yachts.

DFG must submit annual project proposals to U.S. Fish and Wildlife for approval to secure the State's available allotments. Federal participation is limited to a maximum of 75% of eligible costs and the State must provide the balance. Activities involving enforcement of fish and game regulations, or public relations activities conducted to promote DFG are specifically excluded from eligibility. The eligible purposes for funding are as follows:

Dingell Johnson (DJ) Program

Projects must be for the restoration, conservation, management, and enhancement of sport fish, and for provision of public use and benefits from these resources. Under the terms of the program, sport fish are limited to aquatic, gill-breathing, vertebrate animals, bearing paired fins, and having material value for sport or recreation.

The additional funds resulting from expansion of the DJ Program in 1985 are required to add to the existing state sport fishery program and not to substitute for or supplant other traditional funding sources. The state funded sport fish program includes all sport fish related expenditures by DFG, not just the required matching portion for federal funding. To comply with the maintenance of effort requirements, U.S. Fish and Wildlife requested that DFG establish its state funded sport fisheries base program by using FY 35 state funding or the average of FY 83 - FY 85.

The U.S. Department of the Interior determines whether substitution for or supplanting of state funding has occurred on a statewide sport fisheries program basis rather than project by project. This allows federal funds to be used for a particular project that has traditionally been state funded as long as the total state dollars spent on the sport fisheries program does not decrease. In other words if equivalent state funds are spent for traditionally federally funded projects or the state funded sport fisheries program increases proportionally for the federal funding of a traditionally state funded project, then supplanting will not have occurred and DFG will have complied with maintenance of effort requirements.

The U.S. Department of the Interior has also approved adjustments in the state funded sport fisheries base program when statewide budgets fluctuate. Base reductions must be justified and the percentage of reduction for state funded sport fish activities cannot be greater than the percentage of reduction for the whole department. The purpose of the maintenance of effort provision is to prevent the state funded sport fisheries program being targeted for reductions with the intent of using federal funds to replace state funds.

Ten percent of the total state apportionment is set aside by U.S. Fish and Wildlife for approved projects for recreational boating access facilities. Any portion of the 10% that is not expended or obligated within two years lapses back to the federal government. Not more than 10% of the State's annual apportionment may be spent on aquatic education projects. To date DFG has not spent any federal funds on aquatic education programs.

Pittman-Robertson (PR) Program

Projects must be for the restoration, conservation, management, and enhancement of wild birds and wild mammals, or to provide for public use of and benefits from these resources. Projects for the education of hunters and archers in the skills, knowledge, and attitudes necessary to be a responsible hunter or archer are also eligible for PR funding. Expenditures for wolf control are specifically excluded.

Budget Information for States

Agency: Dept. of Interior, U.S. Fish & Wildlife Service
 CFDA Program Title: Federal Aid in Fish Restoration
 CFDA Program Number: 15.605
 Budget Account Number: 14-8151-0-7-303

(D. NIELL THUNSEN)

State/Territory	FY 1988 Actual Obligations	(Amounts in 000's) Estimated Obligations FY 1989		FY 1990	1990 State Estimated % of Total Based on Program Formula
		Carryover	New BA		
Alabama	\$2,024	\$512	\$2,473	\$1,583	1.68 %
Alaska	8,012	0	7,361	4,700	5.00
Arizona	3,934	200	3,209	2,026	2.18
Arkansas	1,621	2,227	2,606	1,634	1.77
California	7,794	1,208	7,361	4,700	5.00
Colorado	2,806	1,835	3,681	2,343	2.50
Connecticut	987	956	1,472	940	1.00
Delaware	871	695	1,472	940	1.00
District of Columbia	639	109	486	313	0.33
Florida	3,949	226	3,312	2,045	2.25
Georgia	2,388	924	2,974	1,877	2.02
Hawaii	1,096	1,471	1,472	940	1.00
Idaho	2,524	147	2,488	1,596	1.69
Illinois	4,480	489	3,106	1,977	2.11
Indiana	2,770	872	2,311	1,490	1.57
Iowa	2,485	638	2,149	1,300	1.46
Kansas	2,379	401	2,179	1,372	1.48
Kentucky	2,799	758	2,429	1,500	1.65
Louisiana	1,993	680	2,356	1,490	1.60
Maine	1,626	600	1,472	940	1.00
Maryland	1,756	575	1,472	940	1.00
Massachusetts	1,428	530	1,472	940	1.00
Michigan	8,624	0	5,521	3,649	3.75
Minnesota	5,697	194	5,329	3,368	3.62
Mississippi	1,809	583	2,046	1,311	1.39
Missouri	4,482	338	3,813	2,477	2.59
Montana	2,398	1,446	3,327	2,173	2.26
Nebraska	2,110	1,312	1,943	1,245	1.32
Nevada	1,919	2,187	2,267	1,441	1.54
New Hampshire	1,732	709	1,472	940	1.00
New Jersey	1,530	766	1,472	940	1.00
New Mexico	3,104	5	2,650	1,714	1.80
New York	3,768	54	3,725	2,453	2.53
North Carolina	2,146	926	2,135	1,349	1.45
North Dakota	1,595	3	1,605	1,010	1.09
Ohio	3,802	2,287	3,901	2,477	2.65
Oklahoma	3,089	324	2,753	1,719	1.87
Oregon	3,296	1,280	3,519	2,304	2.39
Pennsylvania	3,165	878	3,695	2,377	2.51
Rhode Island	1,628	939	1,472	940	1.00
South Carolina	1,810	90	1,664	975	1.13
South Dakota	2,023	185	1,796	1,130	1.22
Tennessee	2,624	552	2,621	1,733	1.78
Texas	7,048	862	7,361	4,700	5.00
Utah	2,866	51	2,459	1,550	1.67
Vermont	1,634	898	1,472	940	1.00
Virginia	2,536	391	2,311	1,491	1.57
Washington	3,413	1,251	3,342	2,164	2.27
West Virginia	1,312	223	1,472	940	1.00
Wisconsin	5,397	1,050	5,064	3,274	3.44
Wyoming	2,224	0	2,252	1,438	1.53
American Samoa	405	167	486	313	0.33
Guam	438	115	486	313	0.33
Northern Mariana Isl	778	86	486	313	0.33
Puerto Rico	1,071	1,017	1,472	940	1.00
Trust Territory	0	0	0	0	0.00
Virgin Islands	458	22	486	313	0.33
Indian Tribe Set Asi	0	0	0	0	0.00
Undistributed	6,619	1,063	7,192	6,000	N/A
Total	\$58,909	\$38,507	\$154,384	\$100,000	99.98 %

BUDGET INFORMATION FOR STATES

Agency: Department of the Interior, Fish and Wildlife Service
 CFDA Program Title: Federal Aid in Wildlife Restoration
 CFDA Program Number: 15.611
 Budget Account Number: 14-9923-0-2-303

P. F. MAN - ROBERTSON

State/Territory	FY 1988				1990 State Estimated % of Total Based on Program Formula
	Actual Obligations	Estimate Carryover	Obligations New BA	FY 1990	
Alabama.....	\$2,114	\$504	\$1,820	\$1,660	1.77%
Alaska.....	4,452	74	4,505	3,999	4.38
Arizona.....	2,655	344	2,345	2,062	2.28
Arkansas.....	1,789	112	1,738	1,597	1.69
California.....	4,315	851	3,929	3,441	3.82
Colorado.....	2,242	262	2,510	2,255	2.44
Connecticut.....	754	275	741	666	0.72
Delaware.....	609	18	597	533	0.58
District of Columbia.....	0	0	0	0	0.00
Florida.....	1,843	39	1,934	1,700	1.88
Georgia.....	2,303	1	2,324	2,121	2.26
Hawaii.....	954	1,169	597	533	0.58
Idaho.....	1,714	155	1,923	1,735	1.87
Illinois.....	2,229	816	2,078	1,872	2.02
Indiana.....	1,381	704	1,718	1,561	1.67
Iowa.....	1,724	140	1,677	1,511	1.63
Kansas.....	1,856	44	1,892	1,697	1.84
Kentucky.....	1,870	0	1,718	1,574	1.67
Louisiana.....	1,997	280	2,036	1,718	1.98
Maine.....	1,048	268	1,152	1,024	1.12
Maryland.....	987	0	1,018	918	0.99
Massachusetts.....	1,292	100	915	828	0.89
Michigan.....	4,427	733	3,713	3,310	3.61
Minnesota.....	2,675	231	2,859	2,571	2.78
Mississippi.....	1,606	36	1,666	1,492	1.62
Missouri.....	3,792	60	2,767	2,444	2.69
Montana.....	2,571	402	2,828	2,537	2.75
Nebraska.....	1,463	813	1,615	1,449	1.57
Nevada.....	2,310	1,885	1,831	1,623	1.78
New Hampshire.....	663	0	597	533	0.58
New Jersey.....	1,122	0	926	845	0.90
New Mexico.....	2,755	183	2,222	1,964	2.16
New York.....	3,132	205	3,209	2,840	3.12
North Carolina.....	4,120	0	2,067	1,843	2.01
North Dakota.....	1,439	38	1,378	1,239	1.34
Ohio.....	2,747	710	2,273	2,020	2.21
Oklahoma.....	1,889	29	1,862	1,713	1.81
Oregon.....	2,514	1,078	2,520	2,228	2.45
Pennsylvania.....	4,120	0	4,155	3,727	4.04
Rhode Island.....	623	169	597	533	0.58
South Carolina.....	1,807	178	1,255	1,071	1.22
South Dakota.....	1,610	934	1,656	1,419	1.61
Tennessee.....	2,488	52	2,561	2,332	2.49
Texas.....	4,294	1,326	4,824	4,295	4.69
Utah.....	1,848	0	1,892	1,696	1.84
Vermont.....	601	7	597	533	0.58
Virginia.....	2,254	26	2,242	2,049	2.18
Washington.....	2,238	1,049	2,047	1,821	1.99
West Virginia.....	1,418	0	1,306	1,180	1.27
Wisconsin.....	3,022	976	3,158	2,822	3.07
Wyoming.....	1,885	162	1,934	1,670	1.88
American Samoa.....	215	175	175	153	0.17
Guam.....	176	123	175	153	0.17
Northern Mariana Islands.....	217	84	175	153	0.17
Puerto Rico.....	450	0	432	385	0.42
Trust Territory (excluding NMI)....	0	0	0	0	0.00
Virgin Islands.....	167	0	175	153	0.17
Indian Tribe Set Aside.....	0	0	0	0	0.00
Undistributed.....	6,823	843	7,534	8,200	
Total.....	\$115,605	\$18,613	\$110,387	\$100,000	100.00%

HJR

41

HOUSE COMMITTEE REPORT

(9)

Date Referred: April 5, 1989

FURTHER REFERRALS: TRANSPORTATION

Date of Committee Action: 4-19-89

The RESOURCES Committee considered:

HJR 41

HOUSE JOINT RESOLUTION NO. 41

[CONGRESSIONAL OVERSIGHT OF TANKER SAFETY]

Relating to the safety of oil tanker traffic into and out of the Port of Valdez.

RECOMMENDATIONS:

- [] be replaced with CS HJR 41 (RES) [] the same title
[] have 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):
(Dept)

APPROVES PREVIOUS: _____
(Date/Dept)

- [] fiscal impact _____ [] fiscal note(s) _____
[] zero fiscal note _____ [] zero fiscal note(s) _____
[] zero with analysis _____ [] zero fn/analysis _____

SIGNING DO PASS:

SIGNING:
(Check approp. column)

Do Not
Pass
No Rec
Amend

[Signature]
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[Signature]
[Signature]

	Do Not Pass	No Rec	Amend
<u>[Signature]</u>			

[Signature]
Chairman's Signature

6-1172E ✓
Chenoweth
4/18/89

Original sponsors: M.Davis, Goll,
Brown, and Menard

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE JOINT RESOLUTION NO. 41 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 Relating to the safety of oil tanker
6 traffic into and out of the Port of
7 Valdez.

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

9 WHEREAS the wreck of the oil tanker Exxon Valdez in Prince William
10 Sound has resulted in the largest oil spill in United States history; and

11 WHEREAS the tanker ran aground on a well known and well charted navi-
12 gation hazard; and

13 WHEREAS an investigation by the National Transportation Safety Board
14 determined that the captain of the vessel had a blood alcohol content above
15 the allowable limit for piloting the craft; and

16 WHEREAS the spill will have a significant long-term effect on the
17 environment and economy of the State of Alaska; and

18 WHEREAS the responsible parties were unable to contain the more than
19 250,000 barrels of crude oil that escaped the tanker hold; and

20 WHEREAS equipment and personnel promised by Alyeska Pipeline Service
21 Company in its oil spill contingency plan were not immediately available
22 during the crucial early hours of the spill; and

23 WHEREAS further development of the state's oil resources is dependent
24 on environmentally sound practices of extraction and transport; and

25 WHEREAS profits generated for the oil industry can compensate for the
26 cost of increased safety;

27 BE IT RESOLVED that the Alaska State Legislature supports the United
28 States Congress in its oversight hearings on the safety of oil tanker
29 traffic in the Prince William Sound area; and be it

1 FURTHER RESOLVED that the Congress is urged to examine the ability of
2 the United States Coast Guard under its current budget to maintain secure
3 traffic through Prince William Sound, the criteria for certifying oil
4 tanker crews and officers, the oil spill containment equipment that should
5 be available on each tanker, and any changes in enforcement that can help
6 prevent this type of tragedy from occurring in the future; and be it

7 FURTHER RESOLVED that the Congress is urged to examine the best avail-
8 able technology for the design of oil tankers allowed into Prince William
9 Sound, including tanker size and the use of double hulls; bow thrusters,
10 and navigational and radar systems; and be it

11 FURTHER RESOLVED that the Congress is urged to examine the need for
12 adequate bonding for tanker owners and the need to require the mandatory
13 retirement of aging tankers.

14 COPIES of this resolution shall be sent to the Honorable Dan Quayle,
15 Vice-President of the United States and President of the U.S. Senate; the
16 Honorable Jim Wright, Speaker of the U.S. House of Representatives; the
17 Honorable George Mitchell, Majority Leader of the U.S. Senate; the Honor-
18 able Ernest F. Hollings, Chairman, U.S. Senate Committee on Commerce,
19 Science and Transportation; the Honorable Bennett Johnston, Chairman, U.S.
20 Senate Committee on Energy and Natural Resources; the Honorable Dale
21 Bumpers, Chairman, Subcommittee on Public Lands, National Parks and Forests
22 of the U.S. Senate Committee on Energy and Natural Resources; the Honorable
23 Quentin Burdick, Chairman, U.S. Senate Committee on Environment and Public
24 Works; the Honorable Walter P. Jones, Chairman, U.S. House of Representa-
25 tives Committee on Merchant Marine and Fisheries; the Honorable Morris K.
26 Udall, Chairman, U.S. House of Representatives Committee on Interior and
27 Insular Affairs; the Honorable George Miller, Chairman, Subcommittee on
28 Water and Power Resources of the U.S. House of Representatives Committee on
29 Interior and Insular Affairs; the Honorable Brock Adams and the Honorable

1 Slade Gorton, U.S. Senators from the State of Washington; the Honorable Rod
2 Chandler, the Honorable Norman D. Dicks, the Honorable Thomas S. Foley, the
3 Honorable Jim McDermott, the Honorable John Miller, the Honorable Sid
4 Morrison, the Honorable Al Swift, and the Honorable Jolene Unsoeld, members
5 of the U.S. House of Representatives from the State of Washington; the
6 Honorable Joel Pritchard, President of the Senate of the State of Washing-
7 ton; the Honorable Joseph E. King, Speaker of the House of Representatives
8 of the State of Washington; and to the Honorable Ted Stevens and the Honor-
9 able Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S.
10 Representative, members of the Alaska delegation in Congress.

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FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: Congressional Oversight of Tanker
 Safety
 Sponsor: _____
 Requestor: House Resources Committee

Agency Affected: _____
 BRU: _____
 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	-0-	-0-	-0-	-0-	-0-
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-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 : (Attach a separate page if necessary)

Prepared by: House Resources Committee
 Division: Representative Cliff Davidson, Chairman

Phone: 465-2487
 Date: 4/18/89

Approved by Commissioner: _____
 Agency: _____

Date: _____

Distribution (by preparer):

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

AMENDMENTS TO HJR 41

- page 1, line 27: after "legislature" delete [RESPECTFULLY
REQUESTS] AND add "SUPPORTS"
- page 1, line 28: after "Congress" delete [TO CONDUCT] and
add "IN ITS"
- page 2, line 4: after "sound" add [INCLUDING REQUIREMENTS
FOR DOUBLE HULLS AND BOW-THRUSTERS]



Alaska Center for the Environment

700 H Street, Suite 4 • Anchorage, Alaska 99501 • (907) 274-3621

Recommendations For Regulatory Change

I. Overview

II. Issues that need to be examined

A. Safety and vessel construction regarding marine transportation of oil.

The federal Ports and Waterways Safety Act (PWSA) regulates the design, construction, operation, and movement of bulk cargo vessels that carry oil and hazardous substances. The current regulations adopted under the PWSA are inadequate regarding the protection of the marine environment from spills. More stringent regulations must be adopted.

Strengthened vessel construction regulations should include:

1. Vessels that transport oil and hazardous substances must be double-hulled.

2. Vessels that transport oil and hazardous substances must be equipped with bow thrusters for maximum maneuverability.

3. Tanker size must be limited to a volume no larger than that which can be dealt with in a worst-case spill, as demonstrated by successful completion of simulation drills and attested to by impartial spill cleanup experts not associated with the oil companies, or running larger tankers at less than maximum capacity to achieve that result.

B. Bonding

The state and federal governments should require the posting of adequate bonds from terminal, pipeline and tanker operators which can be immediately used to initiate government-directed containment and cleanup operations. There are numerous precedents for this sort of bonding in other environmental regulatory statutes.

C. Oil Spill Contingency Plans

As the Exxon-Valdez incident indicates, there is a huge discrepancy between the response capability stated in contingency plans and the real operational performance when a spill actually occurs. Plans are drafted to comply with regulations, but unless the regulations require periodic compliance monitoring and enforcement, they are of minimal value. Similarly, the requirements become meaningless unless the responsible agencies are adequately funded to carry out their mandates.

We endorse the California Coastal Commission's use of a compliance representative who calls surprise drills to test contingency plan claims.

It is imperative that the government require successful completion of simulation drills, including immediate revision to upgrade any deficiencies and rerunning the drills until all kinks are worked out.

Backup equipment should be mandatory, so that when, as here, a barge is down for repairs, there is no interruption in response capability.

Mandatory stockpiles of all necessary equipment for containing the spill and cleaning oiled wildlife should be located around the state. Any contingency plan that calls for flying in equipment is inadequate and should be rejected.

Individual tankers should be required to have their own Spill Prevention, Control and Countermeasure Plans that include a spill response plan effective during the critical 24-48 period immediately following a spill.

Regulations should provide for public comment on SPCC plans so that local expertise can be incorporated into the plan.

D. Evaluation of Cleanup Capability

In order to assess the existing oil spill response capability of potential polluters, a systematic evaluation of available cleanup resources needs to be done. This evaluation should inventory the equipment necessary for each stage of a complete response from the point of the spill to the point of disposal of the recovered oil and contaminated sand, vegetation, etc.

E. Research fund

A federal and industry-supported fund should be established to study habitat recovery and research the long-term effects on wildlife. Studies should be conducted by a qualified, independent institution.

F. Revitalization of Test Tank

Congress should provide funding for the currently defunct Oil and Hazardous Materials Simulated Test Tank to test the effectiveness of oil spill cleanup equipment.

G. Compensation and Liability

Congress should enact a comprehensive oil spill liability and compensation regime that includes international, national, and state components. This program should:

1. Fairly assign risks and internalize cost of handling and transporting oil among potential spillers.

2. Ensure rapid repair, restoration, and rehabilitation of damaged or destroyed natural resources. (See Superfund law for analog.)

3. Completely and quickly reimburse victims and compensate the public for loss of use and enjoyment of natural resources.

4. Provide more effective incentives to prevent oil discharges.

H. Other Concerns

1. There should be a fully equipped federal response center in or adjacent to Prince William Sound. Currently, the closest one is hours away by plane in Stockton, California.

The government should require the oil companies in Alaska to fund such a center, including establishment and training of a dedicated oil spill response team whose responsibility it would be to respond to spills throughout Alaska.

2. The Vessel Traffic System (VTS) for the Sound needs to be re-examined. Specifically, the VTS should incorporate an alarm feature that would sound when a vessel goes outside authorized lanes. The Coast Guard should be authorized, and required, to close the shipping lanes to all traffic when ice or other obstructions are reported. The Coast Guard should not allow deviation from the safe shipping lanes.

3. EPA Region X, and possibly EPA Headquarters, has decided in the last few years to put enforcement of Clean Water Act requirements for SPCC plans on a low priority when they react to cleanups. We need to focus on both preventive and response actions; and EPA must strictly enforce SPCC plan regulations.

4. EPA must take a stronger position with Alyeska. Historically, Alyeska is one of the worst polluters of air and water in Alaska, which renders the Sound even more susceptible to oil spill damage. EPA should revise the draft NPDES permit to match the more stringent state permit for allowable surface water discharges. In addition, EPA must step in and enforce the Clean Air Act as it applies to emissions from tankers and the terminal.

5. Seasonal drilling restrictions should be codified in federal law to protect endangered species and ensure effective spill cleanup. Specifically, exploration, drilling and transportation of oil should be prohibited during bowhead whale migration and during broken ice season unless industry can demonstrate (and independent experts are willing to confirm) its ability to detect, contain, clean up and dispose of oil spills in ice-laden waters.

6. Criteria should be established for effective oil spill response to be taken by the state, Coast Guard and/or EPA if a spiller fails to comply with containment and cleanup standards.

7. EPA should prepare an environmental impact statement to evaluate the impact of in-situ burning and chemical dispersants used as part of an oil spill response.

-- Draft --

Exxon Valdez-Related Actions/Demands

1. Ecologically sound and effective cleanup initiatives need to be carried out by federal and state government officials, Exxon/Alyeska, and private/non-profit concerns -- now and in the coming months/years. In addition, intensive scientific efforts are needed in two other related areas: (1) damage assessments of the impacted natural resources (the ecosystem and critters); and (2) in-depth ecological research into the long-term effects of the spill on the waters, ocean beds, marine life and their food chains, the beaches, coastlines and other affected areas.
2. There should be no exploration for or production of oil or gas in the Arctic National Wildlife Refuge. In addition to the Refuge, the Secretary of Interior needs to remove highly sensitive and controversial offshore areas from the Department of Interior's Outer Continental Shelf (OCS) Oil and Gas Leasing Program that are located offshore southern and northern California, in Georges Banks off the New England coast, the Florida Keys, Bristol Bay off Alaska, off the North Carolina coast, and in the coastal and nearshore waters, submarine canyons and the shelf-break zone of the mid-Atlantic.
3. Improvements are needed in oil tanker design, operating requirements and personnel/manning standards. Such improvements might well include: double bottoms for tankers; increased vessel space allocated to protectively located segregated ballast tanks (PL/SBT); upgraded vessel traffic service (VTS) in Prince William Sound, and other congested U.S. ports, harbors and traffic fairways; and increased Coast Guard inspection of Alaskan pipeline trade vessels. Complementing those measures, current personnel policies need to be significantly improved in order to reduce the risk of human error. These include: restrictions on eligibility for masters' licenses that would exclude anyone with a "driving while intoxicated" conviction or a history of alcoholism; more stringent and more frequent physical exams; more frequent license renewals; increased minimum manning requirements for vessels (e.g., a dedicated radar aide); more stringent retraining and refresher courses, as well as monitoring for alcohol and drug abuse on the job. Despite all of these types of measures, given that oil spills are still likely to occur, oil and other hazardous spill contingency plans need to be routinely tested (to determine response time, ability to deploy personnel, and working condition of necessary equipment). In addition, industry using the Port of Valdez and all other ports with heavy oil and other hazardous cargo traffic should be required to maintain an adequately staffed, full-time emergency response team.
4. A comprehensive regime for oil spill liability and compensation is needed, including legislative reform to prohibit Exxon from deducting oil-spill cleanup expenses.

5. Special measures should be taken to protect the health and welfare of Native Americans.

6. Reagan-Bush budget/Coast Guard budget - The environmental protection budget of the Coast Guard should be fully restored.

7. RCRA - oil industry exemption from RCRA regulation should be dropped...other oil-related spinoffs

8. "Worst case" scenario analyses should be conducted in all EISs under NEPA. This provision, which was dropped by the Reagan administration, should be restored.

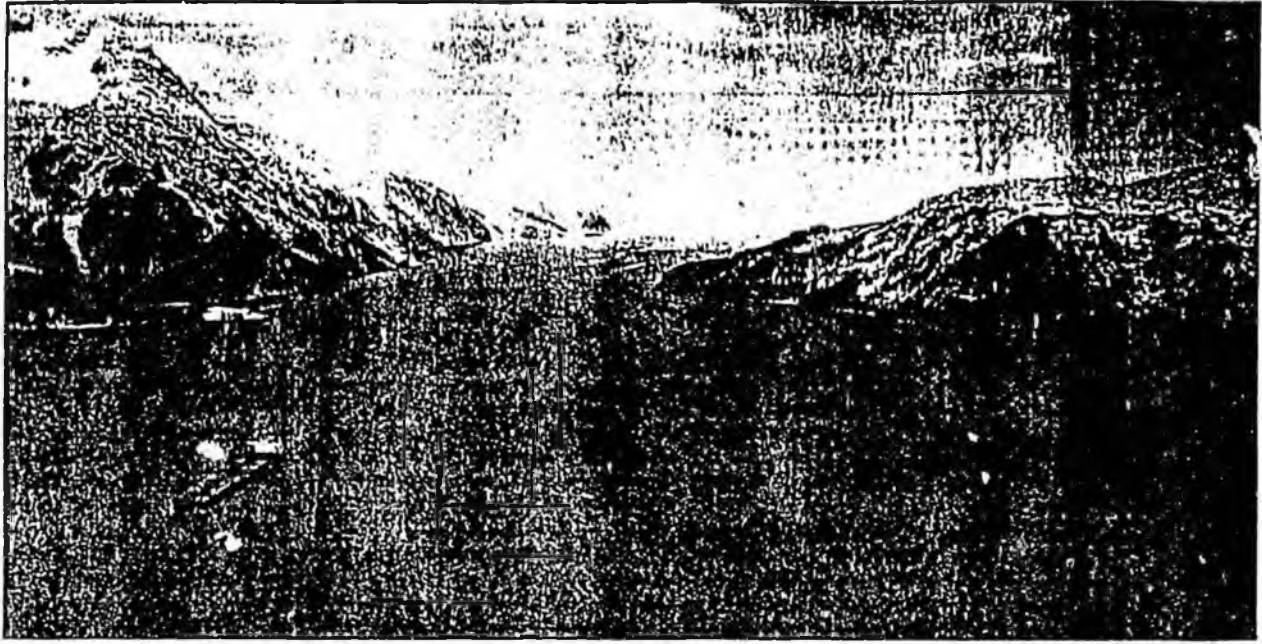
9. Energy Efficiency/CAFE standards.

PROVIDES
AK STATE
POUCH
JUNEAU AK

GES

ANCHORAGE, ALASKA, SUNDAY, MARCH 5, 1989

VALDEZ TANKER FLEET HAS TAKEN A BEATING



The oil tanker Exxon Long Beach sails through the Valdez Narrows for Prince William Sound after loading at the port facility in Valdez. Anchorage Daily News/Paul Souders



And Daily News map

Rough seas leave mark on vessels laden with oil

By PATTI EPLER
Daily News reporter
© Copyright 1989 Anchorage Daily News

A decade of sailing the world's roughest seas has taken its toll on the giant tankers that carry millions of gallons of North Slope crude oil from Valdez to the Lower 48. The Valdez fleet now includes some of the world's worst tankers, according to one ranking, and a rising frequency of spills and hull cracks is causing concern about how safe Alaska waters are from a devastating oil spill. The January oil spills in Port Valdez have sharpened focus on the issue of the tanker fleet's soundness and prompted shipping industry scrutiny of the vessels.

Records and reports obtained under the Freedom of Information Act, a search of state files and interviews with shippers and government officials reveals:

- An increasing number of structural failures — mainly hull cracks — has prompted the Coast Guard and the American Bureau of Shipping to put the Alaska fleet under closer review. Coast Guard records show the number of hull cracks in tankers has doubled since 1984.
- About 20 percent of the fleet is rated undependable by a former tanker officer who provides the only rating service for potential charterers.

Please see Page A-9, TANKERS

merger media giant

The deal would create a media giant, making it a substantial force in both the production and distribution of movie and television programming, as well as in magazines and book publishing. The merger would insure Time Warner as one of a handful of global media giants able to produce and distribute information in virtually any medium. The agreement is subject to regulatory review.

Please see Back Page, GIANT

WEATHER

	Sunny today with north winds to 20 mph; stronger gusts likely near the hills. High near 25. Clear tonight and not as windy. Low tonight near 10, above to 5 below zero. Outlook for Monday: Continued sunny. High near 25.
High Saturday.....	25
Low Saturday morning.....	14
9 p.m. temperature.....	29.82
Barometer.....	29.82
Humidity.....	43%
Wind.....	11-15
Normal high March 4.....	29
Normal low March 4.....	13
Record high March 4 (1884).....	40
Record low March 4 (1884).....	10

STATE, NATIONAL WEATHER FORECASTS PAGE A-2

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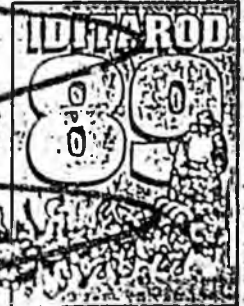
FOR HOME DELIVERY CALL 257-4100 For Sunday delivery missed please call before 10 a.m.

ase raises issue of computer security

Protecting computer data has become a \$3 billion-a-year industry. The problem is that each dollar spent locking up data threatens to undermine the information these conflicting concerns. Private companies are also moving more assertively to protect their important computer systems. Some come the West Coast

The first day is a tough one

Libby Riddles parked her truck on Fourth Avenue to await the start of the Iditarod. She had an early Saturday morning and tried to remember if she'd ever been so calm on a March day in Anchorage. "I had the first day so much and in the past it's been a real headache," said Riddles, the 1985 champ from Bonner Creek. "So this year I really concentrated on preparing and making the pre-race less neurotic. I think it worked." Riddles slowly sipped coffee out of a Styrofoam cup. Conversation had to be yelled over the din of hundreds of barking dogs, but she was at ease to the last drop. "The last cup of cappuccino before I hit the trail," said Riddles, who was carrying her fifth Iditarod. For others, particularly rookies, tension brewed. What had they forgotten? What would the trail conditions be like? How would their dogs respond to





A tugboat trails the tanker Exxon Long Beach through the Valdez Narrows, about three-quarters of mile wide at its narrowest. The tug is required in case the tanker loses power.

TANKERS: Wear of rough seas shows in the cracks of steel hulls

Continued from Page A-1

Tanker owners and operators have paid only token fines for oil spills caused by hull cracks, equipment problems or general sloppiness. The Coast Guard, which has the main authority over tankers, hasn't fined a tanker more than \$1,000 in at least four years. And the state Department of Environmental Conservation has issued more than 150 notices of violation to tankers in the past five years but only once has tried to collect money for more oil cleanups.

Alaska tankers have a higher rate of structural failure than any other class of U.S. commercial ship, mainly due to the rough weather they encounter. The Gulf of Alaska, a place the textbooks call "the mother of storms," can generate seas as tall as a five-story building and winds up to 150 miles per hour. Even the relatively benign 28-foot swells that are routinely storm driven shoreward across the vast North Pacific can bend the steel hull of a heavily loaded tanker like a wire coat hanger.

"If you bend a coat hanger once a day, it's going to take a long time to break," says Coast Guard Lt. Cmdr. Tom Purcell, author of a recent report on the structural soundness of American shipping. "But if you bend it once a month, you might get it to fail in a day."

"It's the same stresser for a ship. How many times can you flex a piece of steel before whatever imperfections are in it come to fail? A ship exposed to the extremes of the environment is going to suffer a higher frequency of failure."

Tankers have made more than 11,000 voyages up and down the West Coast since the first Alaska pipeline began operating in 1977, creating the so-called TAPS trade. Despite early fears of catastrophic oil spills, the shipping environmental record has been "very good." Two major spills happened when tankers ran aground — one off the coast of Washington in 1980 and one last week near Honolulu — and two in the Gulf of Alaska from hull cracks, both involving the same tanker, the Silvermist.

Since 1977, there have been about 60 oil spills in the Valdez area, nearly all less than a barrel in size, according to oil company and state records. Clear time, the worst ships are being scrapped from the fleet because, at Alaska oil production declines and operators carry more oil from the West Coast to the east, fewer ships are needed, shippers say.

Not with us now tankers

"How many times can you flex a piece of steel before whatever imperfections are in it come to fail?"

— Coast Guard Lt. Cmdr. Tom Purcell



U.S. Coast Guard Cmdr. Steve McCarr says that overall the Valdez tanker fleet is still in good shape.

being built, state and federal officials and some tanker owners are concerned repeated stress on remaining tankers could result in more major spills.

"Overall, I think the fleet is in very good condition," says Cmdr. Steve McCarr, head of the Coast Guard's Valdez office. "Whether or not another 10 years from now it'll be a real problem, we don't know."

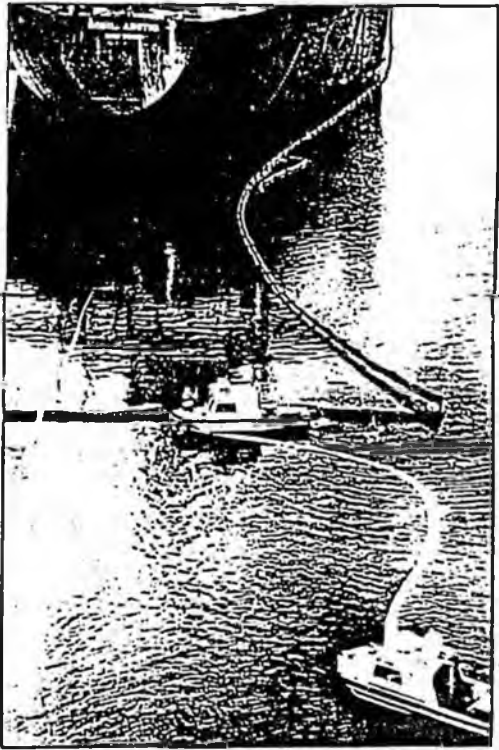
Now the New York-based Tanker Advisory Center gives about 20 percent of the Valdez tanker fleet its lowest rating, and another 10 percent rank only fair. More than 50 percent are rated very high.

Arthur McKeone, a former tanker officer who runs the service in Seattle, points out that many of a tanker's problems do have problems, generally considers the Alaska tankers to be in good shape.

Still, about 10 of the 80 tankers that regularly call at Port Valdez have earned his lowest rating, based mainly on their age, ownership and the number of casualties — collisions, strandings, groundings, machinery and structural problems — they've had.

According to his 1987 rating guide, which includes information on 1,200 tankers worldwide and requires visits to Port Valdez — the Coast Guard, which spilled 2500 gallons of crude into the port water this year — had more casualties on its record than all but one other tanker. Two other Coast Guard tankers that frequent the Valdez trade also had higher numbers of casualties than most other ships in the guide.

Last April, the Coast Guard denied a bid for any funds of structural problems in the U.S. Greenpeace commercial fleet,



Crews on two small boats clean up oil spilled into Valdez harbor while the tanker Arctic loads oil. Alyaska officials said the oil may have been left over from a January spill.

much the same as the Federal Aviation Administration is trying to pinpoint a pattern of problems with the nation's airlines. The Coast Guard examined the records of 613 ships, including 213 freighters and 200 tankers, and reviewed casualty reports from 1981 through 1986.

Purcell, who headed the study, and his investigators noted a "strong trend" in the number of cracks being reported to tankers plying the North Pacific. "While TAPS tankers make up only 12 percent of the entire fleet, they accounted for 51 percent of all the structural failures during 1984 through 1986," their report said.

The investigators were surprised to find that younger ships actually had three times as many structural failures as ships more than 25 years old. The age generally is considered "old" by the Coast Guard. Most of the

Alaska tankers were built in the past 20 years. "The real intention of that report is to stimulate the TAPS trade as an extreme service that really requires a higher degree of attention," says Purcell.

As a result of the study, Coast Guard headquarters has told all offices to give "special consideration" to the TAPS tankers. When in dry dock, the ships are to be given an especially thorough structural inspection and checked for internal fractures that could spread to the hull. Requests to stop longer in dry dock by tanker operators could signal a problem.

In January, two tankers calling at Port Valdez sprung leaks from hull cracks within a two-week period. Even before that, if the tanker had not been getting old, and the American Bureau of Shipping decided to investigate.

"In this case, we looked into it rather thoroughly," says Tom Tucker, vice president of the New Jersey-based organization that oversees design and construction standards for the U.S. shipping industry. "We determined it was a problem unique to the Alaskan service."

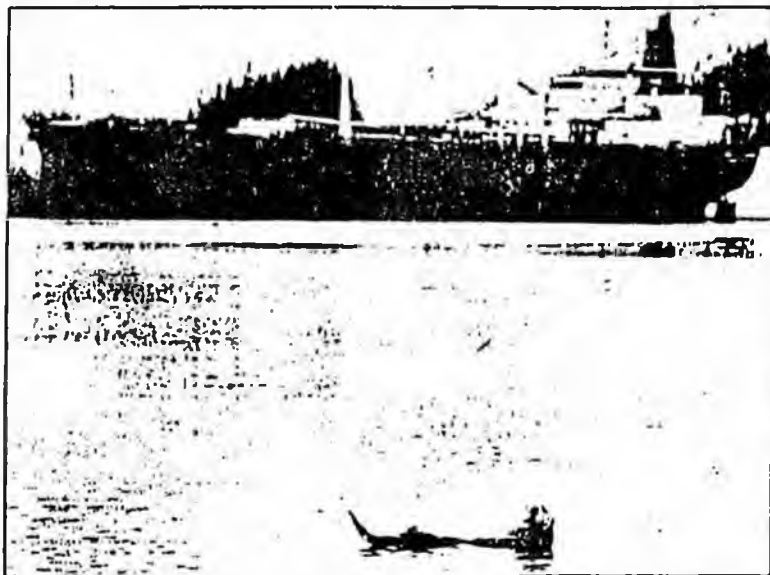
The bureau has alerted its West Coast surveyors and inspectors to be on the watch for stress problems with the fleet. Bureau inspectors examined the two ships, the Thompson Post and the Cave Leader, researching original design and performance records. They noted out construction flaws, he says.

Instead, the bureau believes natural stress and strain in TAPS tankers comes from the Gulf of Alaska storms hitting the tanker fleet as it gets old, and the American Bureau of Shipping decided to investigate.

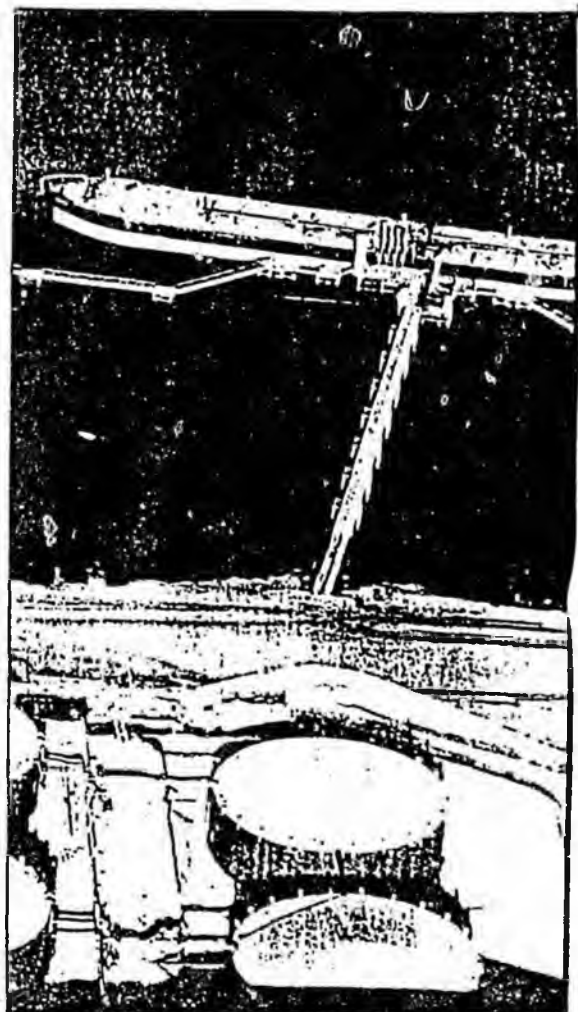
From our Page A-11



Three huge booms load an Arco tanker at the rate of 85,000 barrels of oil an hour at the Alyeska Port Facility in Valdez.



A sea otter floats in Valdez Harbor. In background an oil tanker sits in port.



A tanker finishes loading North Slope crude stored at Alyeska.

TANKERS: Fleet shows the wear

Continued from Page A-9

cane-force winds are common, and the Navy has measured seas up to 40 feet high, says Gary Hufford, chief regional scientist for the National Weather Service.

Geographic and oceanographic conditions also combine to produce long, rolling swells, 12 feet high in winter, eight feet in summer. "That's a phenomenal height," Hufford says.

Across this environment sails the oil tanker, unable to venture too far off course to avoid the weather. The tankers "are taking all those big waves right on the beam," notes Hufford. "They're always getting pounded from the side."

Tanker operators describe a process called "hogging and sagging" to explain what happens to the long, heavy tankers when a wave passes under. As the wave lifts the ship, bow and stern "hog" — go down in the water. When the wave passes, the middle "sags" as the bow and stern come back up.

Tankers are designed to be flexed over and over again without failing, but the repetition of stress or concentration of stresses in one area seems to be causing cracks to appear more frequently than anticipated, much as in the wire coat hanger analogy, according to tanker operators, the Coast Guard and others.

"The trouble with any trade route that is basically north to south," says Roger Gale, BP Oil Co.'s manager of marine operations, "is how do you dodge something

that is crossing over you? You either have to stop and wait until it passes or go like hell. And most of the ships don't have that kind of speed."

The key to lessening stress on a tanker is the skill of the ship's master in steering through the rough seas. "The real issue here is do the people on board the ship know when to slow down a little bit, change the course a little bit," says Gale. "It's amazing how a few degrees change in course to shift the wind can make the ship ride a little bit easier."

About 75 tankers a month call at Alyeska's pipeline terminal in Port Valdez. The two largest — the ARCO Independence and the ARCO Spirit — are as long as an aircraft carrier and twice as heavy when loaded. At 282,000 deadweight tons each — the sum of cargo and fuel — those two are medium-sized in terms of today's supertankers; the biggest now runs more than 500,000 tons.

Each of the two ARCO ships can carry 2 million barrels, or 84 million gallons, of crude oil. The 21 cargo tanks on each ship are so big that the crew sometimes paddles around in rafts to inspect the tanks.

The Coast Guard requires tankers to be dry-docked and inspected about every two years. A Coast Guard inspector as well as an American Bureau of Shipping surveyor examines each tanker while it's out of the water.

The big tanker operators

— Arco, Exxon Corp. and BP — say catching small cracks before they become big ones is the best way to prevent oil spills. The companies spend millions of dollars a year on inspection and maintenance, and have staffs of marine engineers and inspectors to keep their fleets in good shape.

BP is Alaska's largest oil producer and its biggest shipper. Arco and Exxon each own about 10 tankers that sail to Valdez; BP, which is prohibited from owning ships under the Jones Act because it's a British company, charters 22 tankers that move its Alaska crude to the West Coast and Panama.

BP keeps abreast of its rented fleet through its port captains, former tanker officers who check the ships at most ports they enter. A staff of marine superintendents and engineers inspect the tankers about once a year to look for cracks and pits and other potential problems, according to Gale and Fred Garibaldi, vice president of transportation for BP Oil.

They point out that no oil company wants to see its oil spilled into the ocean — the loss of the cargo as well as cleanup costs run into the millions of dollars before it's settled.

Several independent tanker companies own ships regularly hired under short-term or one-time charters for the Valdez trade. And some operators and of-



Dan Lawn, district office supervisor for the Department of Environment.

Please see Page A-11, / TANKERS

is hard on the hulls

Continued from Page A-10

Officials are concerned that the smaller companies, with less money to spend on expensive inspection and maintenance programs, may need more of a push from regulators like the Coast Guard to maintain sound ships.

A check of state Department of Environmental Conservation records shows the state issued more than 150 "notices of violation" to tanker operators in the past five years for oil spills caused by general sloppiness in operations as well as hull fractures. But in that time, the state has only once — in August 1984 — followed through with its threat to seek monetary penalties for oil spills. That case involved a 2,500-gallon spill from the ARCO Anchorage and the state collected its costs of \$3,495.

Usually, DEC sends the notice to the tanker operator, waits for an explanation of why the spill occurred, then suspends the case, threatening to reopen cases should similar incidents occur.

Although similar incidents involving the same tanker have occurred, according to DEC's records, the DEC has never reopened a case.

For instance, the Thompson Pass, which in January was responsible for the largest oil spill in Port Valdez history, had received nine notices of violation from DEC prior to the most recent spill. Four of those were for hull cracks — the same problem that occurred in January and allowed 70,000 gallons of crude oil to spill. In 1981, according to a letter in DEC's files, the Coast Guard was especially concerned because similar fractures were found in all six sister ships to the Thompson Pass.

DEC records show the state used to collect at least its costs for investigating an oil spill, but hasn't routinely attempted to do even that since the early 1980s.

De Lawn, head of the DEC's Valdez office, says he doesn't have the staff, money or time to pursue cases

against companies when most spills are so small. He thinks the tanker companies pay attention to the notices and are bothered by them, even though the state takes no follow-up action.

Larry Dietrick, the DEC's director of environmental quality, says even though state law allows for hundreds of thousands of dollars in penalties, the DEC's oil spill regulations have limited fines to a "dollars-per-barrel" penalty rate, with \$63 per barrel about the most the state can assess. So, he says, the state wouldn't have been able to collect much money from the tanker spills, unless it could prove negligence or some serious disregard for the environment.

The DEC had not been aware of the recent Coast Guard report on hull cracks in the TAPS tankers until the Coast Guard supplied it to the Daily News.

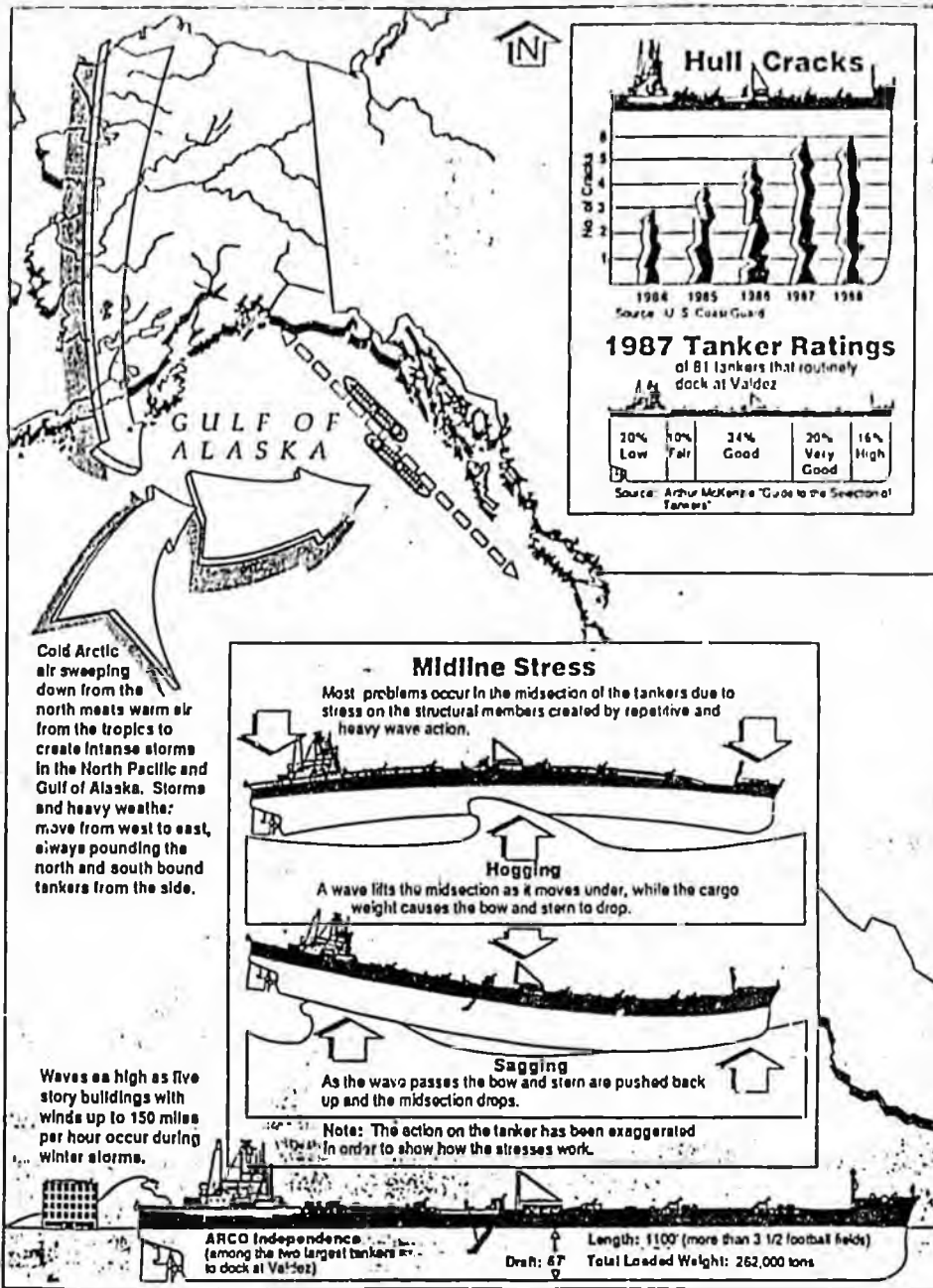
Dietrick says the DEC will review the report and likely pay more attention to tankers that sustain hull cracks. However, no increase in staff or funding is planned for the Valdez office, he says.

The Coast Guard is required by law to assess a fine for an oil spill. Coast Guard records show that for the past four years the fines have averaged only a few hundred dollars per incident, and none has been more than \$1,000.

In fact, tanker operators pay as big a penalty for hydraulic fluid being washed overboard in a heavy rain as they do for a hull crack. Coast Guard officials say they are limited to a \$5,000 penalty under the federal Water Pollution Control Act.

Cmdr. Craig Eisenbeiss, a Coast Guard hearing officer who spent four years as head of the Valdez office, says structural problems historically may have been viewed as something beyond the control of the operator.

McCall, the Coast Guard's current Valdez commander, notes that companies pay a heavy price to clean up spills, a penalty in itself.



Major oil spill here would stump pros

Experts cite lack of united plan, gear

By John de Yonge

PI Reporter

No coordinated contingency plan exists to fight an Exxon Valdez-sized oil spill in Puget Sound, even in treacherous Rosario Strait, where a giant spill would foul the beaches of the San Juan and other islands.

Under its own detailed plan for responding to oil spills, the Coast Guard will take charge of containment and clean-up efforts unless the spiller of the oil refuses to do the work, dithers too long starting the work or is unknown.

Coast Guard officials say their preferred role is to oversee rather than direct cleanup work by private contractors.

Containment and cleanup here would fall largely into the hands of an oil-company-dominated consortium, Clean Sound Cooperative, whose manager says that Clean Sound's "response manual" is not open to public scrutiny.

Washington state's thick contingency plan for oil spills contains no step-by-step plan for answering an oil-spill emergency.

The lines of authority and communication between all the agencies empowered to deal with oil spills here seem as fuzzy as those that have frustrated efforts to fight the spill in Alaska's Prince William Sound.

There, the U.S. Coast Guard wanted three weeks before deciding to assume authority over Exxon's cleanup efforts, which have been bitterly criticized by

■ **Cleanup plan:** The Coast Guard says Exxon's proposal might take three weeks to get under way. Page A3

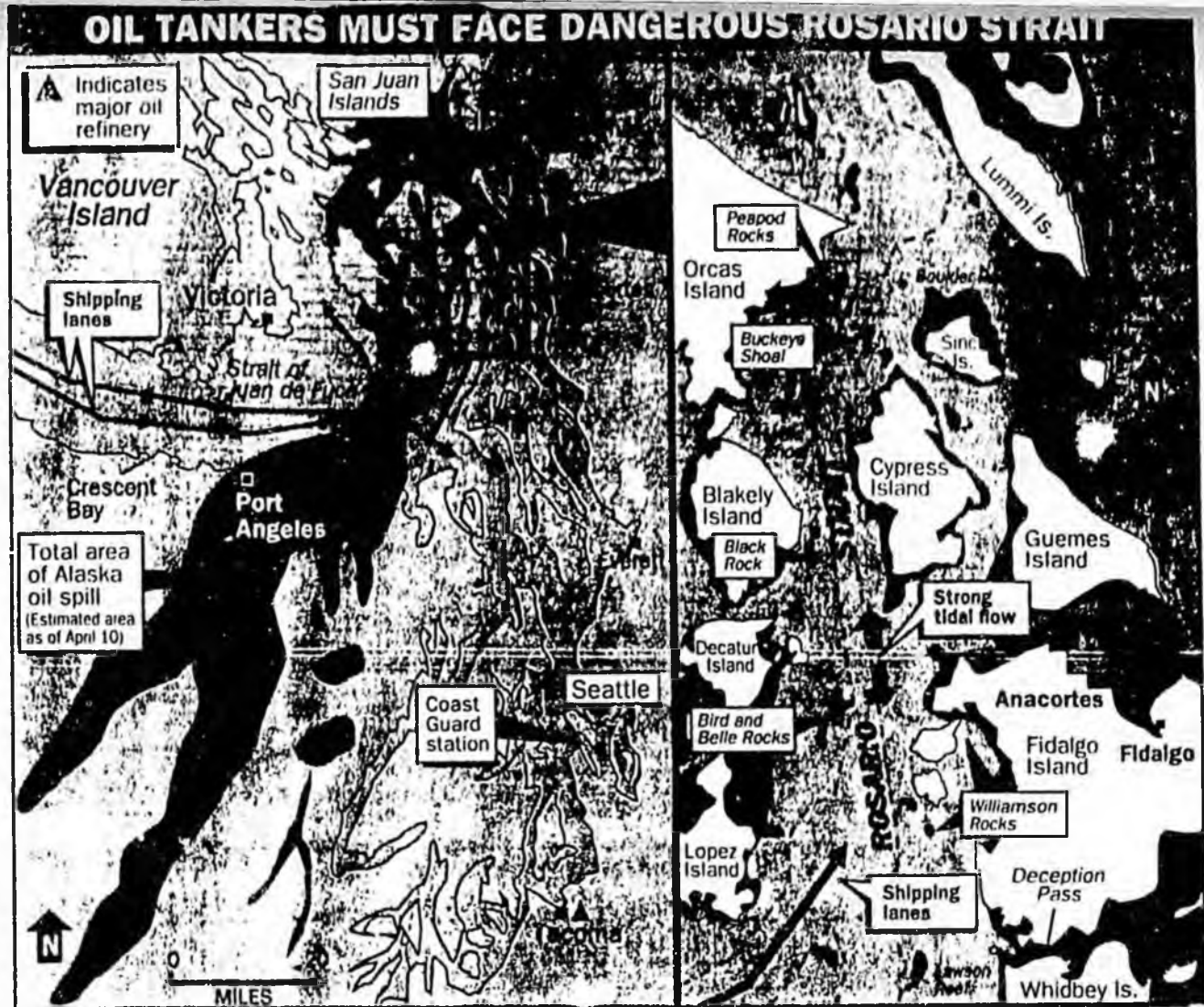
Alaska state officials. Coast Guard Commandant Paul Yost is now reviewing an Exxon cleanup plan he ordered the company to produce last week.

Even with clear, precise response plans detailing who is in charge of what, it's unlikely any available gear or group on Puget Sound could contain or clean up a Valdez-sized oil spill here, experts say, especially if it happened in Rosario Strait.

Oil tankers, many laden with Alaskan crude picked up at Valdez, daily run the narrow, rock-strewn strait through the San Juan Islands. Because of its narrowness and the heavy currents pouring through it on most tides, mariners consider it to be the most dangerous passage in these parts, a place where tankers and other great ships that need a mile to turn and two miles to stop don't want to lose power and steering.

"The currents move through Rosario Strait so rapidly that it would be virtually impossible to set up a defensive position there against moving oil," says Cmdr. Greg Yaroch, who would be the Coast Guard commander called to the scene should a tanker go on the rocks in the heavily used passage less than a mile wide. "The oil

See OIL SPILL, Page A5



Congressmen say Alaska spill is a 'warning'

By Larry Lange

PI Reporter

Puget Sound isn't any better prepared for a major oil spill today than Alaska was a month ago when a huge tanker ran aground and spilled more than 10 million gallons of crude oil, two Washington state congressmen said yesterday.

In a news conference at Seattle-Tacoma International Airport after a tour of the giant Alaska spill, Rep. John Miller, R-Seattle, and Rep. Norm Dicks, D-Tacoma, said they want better planning,

more equipment and more money set aside to adequately battle an Alaska-size Puget Sound oil spill.

"The planning and equipment that is ready in Puget Sound is no better than the planning and equipment that was ready — or not ready — up in Alaska," Miller said. "I think we have to look at this spill as a warning, as a lesson."

Dicks and Miller, returning to Washington, D.C., last night, said hearings on the spill will be held in Seattle. Both said they'll try to get federal legislation to quicken response to spills and require oil

companies to set money aside for cleanup work and equipment, possibly from a per-barrel oil tax ultimately paid by oil company stockholders and consumers.

They said there wasn't enough cleanup equipment to handle the March 24 Alaska spill. Cleanup was bogged down by bickering between Exxon, the Coast Guard and the state of Alaska over removal of oil by use of "dispersants" versus burning it in the water, they said.

That delayed cleanup work until the first weekend after the spill, when a storm made it

impossible to use either technique and spread the oil further into Prince William Sound.

Even now, with the Coast Guard placed in command by President Bush, the system is weakened by the fact that Exxon is paying for the cleanup and must approve expenses, they said.

"You've got command and equipment problems," Miller said. "You've got too many cooks stirring the broth."

Miller and Dicks said they'll work for legislation placing the

See WARNING, Page A8

Back Page

Oil spill: 'Prevention is the best response'

From Page 1

would go where it wants to go."

In all, the Coast Guard says tanker movements in and out of the Sound average 1,500 a year. By law, no tanker larger than 125,000 dead-weight tons — with a capacity of up to 42 million gallons of oil — may enter the Sound. About half of the tanker trips are by vessels of 40,000 tons or less.

One of the oil-spill fighters Yaroch would call, Jon Neel, Washington state's oil-spill coordinator, agrees that not much can be done to stop a great spill: "As far as the adequacy of our response to an event as large as the Exxon Valdez spill is concerned, I'm not sure anybody is prepared. Prevention is the best response."

On March 24, the 211,000-dead-weight-ton Exxon Valdez, under the command of a skipper accused of being drunk, impaired itself on Bligh Reef just outside Valdez Arm and gushed more than 10 million gallons of thick, poisonous, black Prudhoe Bay crude into the pristine waters of Prince William Sound. Since then, in the worst oil disaster in North America, the still-spreading oil has covered an island-filled area larger than Delaware.

Yost, who was once Coast Guard commander on Puget Sound, told Congress that "there isn't a contingency plan in the world to deal with a spill of this size." Equipment available around Puget Sound for fighting such a large spill amounts to a "Band-Aid," he said.

The main "Band-Aid" — \$9 million worth of containment booms, skimmer vessels, response boats, communications and storage trailers and other gear — is in the hands of Clean Sound. The consortium is primarily financed by oil companies with refineries at Cherry Point, Ferndale, Anacortes and Tacoma.

Clean Sound's manager, John Wiechert, a former Coast Guard officer, exudes confidence that

equipment stored at various refineries and other sites around the Sound can reach a spill site in four to six hours, depending on the weather. The gear would be put into operation by a contractor, Foss Maritime Co., which agrees to begin responding to a spill within an hour after a call from Clean Sound, Wiechert says.

Also responding would be refinery and oil-company personnel trained to handle some of the gear. Clean Sound itself, with a \$750,000-a-year budget, has four employees: Wiechert, a secretary and two maintenance people.

"In the case of a major spill," says Wiechert, "we are the only act in town, because we have the major pieces of equipment."

Would that be enough to handle a Valdez-size spill?

No, says Wiechert. "With that much oil . . . the prospect of containing it before it hits land is quite slim."

Equipment and manpower would have to be called in from all over the West Coast, including British Columbia, he said. "And that takes time."

Since Clean Sound is the main line of defense against a Puget Sound oil spill, does it have a contingency plan known by all players for responding to an oil spill when the call comes?

No, says Wiechert. "Our experience has been that people don't read the plan until a spill occurs."

Clean Sound, he says, has a written "Spill Response Manual" that he refuses to let anyone outside of Clean Sound possess or read, because the document is always out of date. Furthermore, he says, since Clean Sound is a private organization, its plans are not subject to public review. He says the organization now keeps its response information updated and detailed in a computer system available to its members.

The Coast Guard, according to

Yaroch, is not hooked up to Clean Sound's computer. And because the Coast Guard has no authority over Clean Sound, it has not approved the response manual.

Under federal law the Coast Guard has the overall responsibility for ensuring that marine oil spills are cleaned up.

But even that responsibility is clouded in the fog of bureaucracy that manifested itself in Valdez after the oil spill.

By federal law an oil spiller has the responsibility to contain, clean up and pay for the spill and its results. But the Coast Guard prefers to oversee what the spiller does, rather than issue orders.

The Coast Guard's Puget Sound response plan instructs the officer sent to the spill scene to "advise and assist the responsible party, but under no circumstances is he to order and direct."

"We will order and direct if we must, if a spiller is not responding satisfactorily," says Yaroch, but he points out that if the Coast Guard begins issuing orders, that "federalizes" the cleanup and puts the operations burden on the Coast Guard, with its limited personnel and gear and budget.

The state, too, has a thick oil-spill contingency plan, issued in May 1988 and written in bureaucratic jargon that makes it more difficult to read than the Coast Guard plan. Furthermore, the state manual lacks a specific plan of action for spill response.

"That section is under preparation right now," says Neel, adding that the delay stems from trying to incorporate into the plan what the state learned from last winter's oil spill off Grays Harbor.

Preventing tanker accidents here is the main responsibility of

there is little radar coverage in the south Sound once ships head for Tacoma past Three Tree Point near Des Moines.

Dr. Alyn Duxbury, a University of Washington oceanographer with many days at sea, predicts that chances are good of a tanker losing power and going on the rocks in Rosario Strait.

"The best we can say," he says, "is that we've been lucky."

the Coast Guard's radar-operated Puget Sound Vessel Traffic Service, which tracks tankers after they enter the Strait of Juan de Fuca and enter charted zones to keep them apart.

The service consults with skippers as ships proceed along the system, particularly as they enter Rosario Strait, where the Coast Guard wants only one tanker at a time in the rocky passage.

Tankers are required to have a federally licensed pilot on board once they pass Port Angeles. Most of them stop there to pick up

a state pilot — but not all.

A ship's master possessing a federal piloting license for Puget Sound may decide to go in without another pilot, no matter how long it's been since the master has been into Puget Sound and no matter how tired he might be.

Having a state pilot on board is no guarantee of safe passage. In December 1985 the Arco Anchorage grounded inside Port Angeles harbor under the direction of a state pilot, Capt. Raymond Leson, who was charged with pilot error and had his federal license sus-

pending for several months.

Having a ship on the traffic service's scopes does not guarantee radar operators can warn a ship of danger. Last year a Japanese tanker, with its second mate alone and asleep on the bridge, ran hard aground near Crescent Bay west of Port Angeles.

In that area, as in Rosario Strait, there are blind spots in the Coast Guard radar coverage. And

Warning: Tracking of tankers urged

From Page 1

Coast Guard directly in command of all spill cleanups and arming them with cash from a federal cleanup fund.

Dicks, a member of the House Appropriations Committee, pledged to get money for upgrading the Coast Guard Vessel Traffic Control Centers, particularly to eliminate a weak spot in the Puget Sound control system south of

Normandy Park.

"Because oil tankers go into Tacoma, we need to have coverage from Vashon Island into Tacoma and even possibly down to Olympia," Dicks said.

Tracking of tankers by radar-equipped centers could help prevent accidents, Dicks said.

The Exxon Valdez, for example, was out of range of the control center in Valdez when it ran aground.

"If someone had picked up the phone that night and called the tanker, that accident could have been avoided," Dicks said.

Dicks, who spent two years fishing in Alaska waters, said he was "stunned" by the prospect that it may take several years to clean up the spill there.

"If there's one lesson to be learned from this tragedy . . . that is prevention, prevention, prevention," he said.

H J R

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HOUSE COMMITTEE REPORT

(9)

Date Referred: April 27, 1989

FURTHER REFERRALS: JUDICIARY
FINANCE

Date of Committee Action: 3/16/90.

The RESOURCES Committee considered:

HJR 50

HOUSE JOINT RESOLUTION NO. 50 [ENVIRONMENTAL DAMAGES MITIGATION FUND]
Proposing amendments to the Constitution of the State of Alaska relating to
an environmental damages mitigation, abatement, and control fund.

RECOMMENDATIONS:

- [] be replaced with CS HJR 50 (Resources) [] the same title [] a new title
- [] have attached amendment(s)
- [] do pass
- [] do not pass
- [] no recommendation
- [] individual recommendations
- [] additional referral to the _____ Committee

ADOPTS: _____ letter of intent

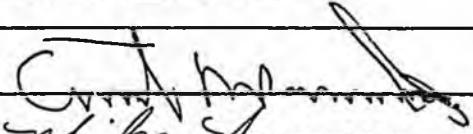
ATTACHES NEW FISCAL NOTE(s):
(Dept)

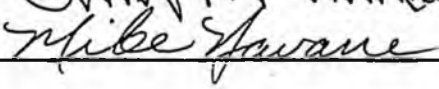
APPROVES PREVIOUS: (Date/Dept)

- [] fiscal impact _____
- [] zero fiscal note DEC
- [] zero with analysis _____

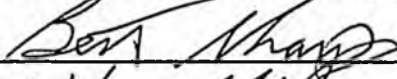
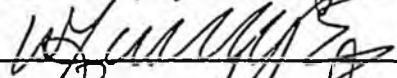
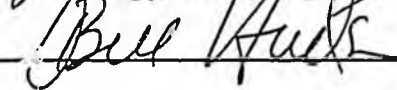
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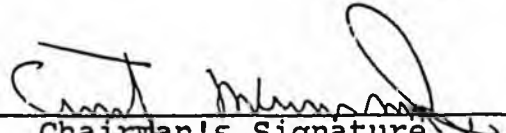
SIGNING DO PASS:





SIGNING:
(Check approp. column)

	Do Not Pass	No Rec	Amend
	<input checked="" type="checkbox"/>		
	<input checked="" type="checkbox"/>		
	<input checked="" type="checkbox"/>		



 Chairman's Signature

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION : HJR 50
PUBLISH DATE : 4/27/89

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Environ. Conservation
 Title: Proposing amendments to the BRU: Environmental Quality
Constitution of the State of AK relating to an environmental damages
 Sponsor: Reps. Navarre, Brown, et al. Components: _____
 Requestor: House Resources

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND&STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS,CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

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

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME	0.0	0.0	0.0	0.0	0.0	0.0
PART-TIME	0.0	0.0	0.0	0.0	0.0	0.0
TEMPORARY	0.0	0.0	0.0	0.0	0.0	0.0

ANALYSIS: (Attach a separate page if necessary)

The revenue impacts are not addressed by this fiscal note.

Prepared by: Gail Gatton

Division: Commissioner's Office

Phone : 465-2600

Date : 3/20/90

Approved by Commissioner: *A. D. Kelly*

Agency: Environmental Conservation

Date: 3/20/90

Distribution (by preparer) :

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

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Department of Revenue
 Title: Relating to an Environmental Damages BRU: Treasury
Mitigation, Abatement, and Control Fund
 Sponsor: Navarre Components: _____
 Requestor: Resources, Judiciary, & Finance

EXPENDITURES/REVENUES: (Millions of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
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
CAPITAL	0	0	0	0	0	0
REVENUE	0	24.2	24.4	24.6	23.8	22.1

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: Figures reflect the one percent of General Fund unrestricted revenues (based on the Fall 1989 forecast) which would be dedicated to the fund.

Prepared By: Bob Elliott ^{BE}
 Division: Treasury

Phone: 465-2350
 Date: March 21, 1990

Approved by Commissioner: _____
 Agency: Department of Revenue

Date: 3/21/90

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

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Proposing Amendment to Constitution to Establish an Alaska Environmental Trust Fund
Sponsor: Hudson & Ulmer
Requestor: Resources, Judiciary, & Finance

Agency Affected: Department of Revenue
BRU: Treasury

Components: (See Analysis)

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
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
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

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: Zero fiscal effect to General Fund. Amounts deposited in the Alaska Environmental Trust Fund cannot be currently estimated since claim amounts are unknown.

Prepared By: Bob Elliott *BE*
Division: Treasury
Approved by Commissioner: [Signature]
Agency: Department of Revenue

Phone: 465-2350
Date: March 21, 1990
Date: 3/21/90

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

Alaska State Legislature



WHILE IN SESSION:
PO BOX V
JUNEAU, ALASKA 99811
907/465-3779

HOUSE MAJORITY LEADER

HOME ADDRESS
PO BOX 169
KENAI ALASKA 99541
907/262-9366

DISTRICT 5

Representative Mike Navarre

March 5, 1990

MEMORANDUM

TO: Rep. Cliff Davidson, Co-Chair
Rep. Curt Menard, Co-Chair
All members, House Resources Committee

FROM: Rep. Mike Navarre *Mike Navarre*

SUBJECT: HJR 50, relating to an environmental mitigation fund

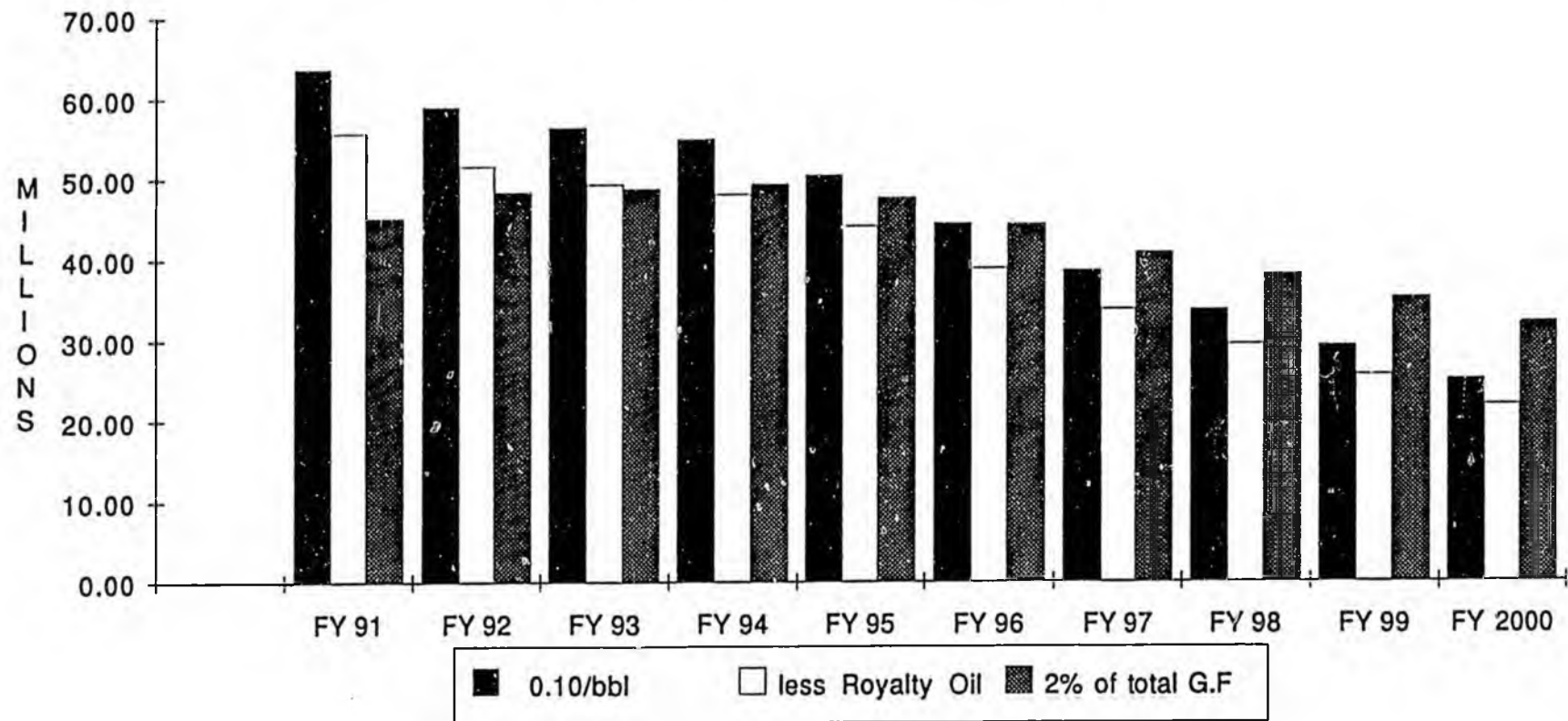
This measure would place the question on the ballot to modify the Alaska Constitution, establishing a dedicated fund for the purpose of mitigation, abatement, and control of environmental damage. A dedicated fund would eliminate funding uncertainty, and help assure that Alaska continues to move forward in the area of environmental responsibility.

Attached is some information that shows what a flat \$0.10 per barrel tax would raise, along with a possible alternative funding source of 2% of all unrestricted general fund revenues. There are many other possible funding scenarios, some of which I plan to discuss with the committee.

Thank you.

POTENTIAL FUNDING - ENVIRONMENTAL MITIGATION FUND			
	0.10/bbl	less Royalty Oil	2% of total G.F
	(\$ millions)	(\$ millions)	Unrestricted Revenues
FY 91	63.59	55.64	45.11
FY 92	58.88	51.52	48.32
FY 93	56.33	49.29	48.70
FY 94	54.83	47.98	49.21
FY 95	50.35	44.06	47.52
FY 96	44.35	38.81	44.18
FY 97	38.50	33.69	40.63
FY 98	33.57	29.38	37.93
FY 99	29.20	25.55	35.06
FY 2000	24.95	21.83	31.95

ENVIRONMENTAL MITIGATION FUND REVENUES



HJR

72

HOUSE COMMITTEE REPORT

(9)

Date Referred: January 31, 1990

FURTHER REFERRALS:

Date of Committee Action: 2/1/90

The RESOURCES Committee considered:

HJR 72

HOUSE JOINT RESOLUTION NO. 72

DOUBLE HULLED OIL TANKERS

Relating to requirements for the carriage of oil in double-hulled tankers.

RECOMMENDATIONS:

- be replaced with CS HJR 72 the same title
 have 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):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact _____ fiscal note(s) _____
 zero fiscal note Transportation zero fiscal note(s) _____
 zero with analysis _____ zero fn/analysis _____

SIGNING DO PASS:

[Signature]
[Signature]
[Signature]

SIGNING:

(Check approp. column)

	Do Not Pass	No Rec	Amend
<u>[Signature]</u>			
<u>[Signature]</u>		<input checked="" type="checkbox"/>	

[Signature]
Chairman's Signature

FISCAL NOTE

REQUEST: House Transportation Committee

Revision Date: _____

Agency Affected: Revenue Dept.

Title: requirements relating to

BRU: _____

the carriage of oil in double hull tankers

Sponsor: Corren Kubina, Menard, Davis

Components: _____

Requestor: House Transportation Committee

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-0	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

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

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Walter Miller, House Transportation Committee Phone: 465-4858
Division: House Transportation Committee Date: 1/30/90

Approved by Commissioner: Richard J. [Signature] Date: 1/30/90
Agency: _____

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

BLUEPRINT**FOR DISASTER**

The oil spill that didn't have to happen

The Coast Guard talked tough in the 1970s about its role in preventing oil spills, but over the years those words never translated into action as the service grew closer to the industry it was supposed to regulate.

EMPTY PROMISES



The Coast Guard cutter Rush was on hand when the Exxon Valdez was moved off Bligh Reef in April.

Coast Guard bowed to industry pressure

By STAN JONES

Daily News reporter
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In the 1970s, the oil industry and its friends in government were ready to promise almost anything in return for permission to turn on the pumps at Prudhoe Bay.

One of those promises was that, under tough U.S. Coast Guard oversight, tankers that would haul up to 2 million barrels of oil a day through Prince William Sound would be the safest in the world.

"I consider our primary concern with regard to Valdez-Prince William Sound to be the prevention of a catastrophic oil spill," said Coast Guard Rear Adm. John B. Hayes to a fishermen's convention in Cordova in April 1977.

Hayes said the Coast Guard

■ **TOO COZY:** Many agencies end up serving the industries they are supposed to regulate. A-10

would — among other things — propose that double bottoms be required on tankers to reduce the chances of their poisonous cargo fouling the Sound in a grounding.

Lt. Cmdr. Ken Thompson, a Hayes subordinate, told the conference that a Coast Guard traffic system would ensure the tankers didn't collide with each other or with the rocks and reefs lining the route into the Gulf of Alaska.

"Valdez Narrows and Arm will be covered by a radar at Potato Point," Thompson said. "The radar to be installed is among the most sophisticated available."

But these and other Coast Guard commitments were abandoned soon after oil began flowing through the pipeline in August 1977.

When the Exxon Valdez hit Bligh Reef on March 24 it had one bottom, not two. The resulting 11-million-gallon spill, the Coast Guard itself recently estimated, was up to 2½ times larger than it would have been if the ship had had a double bottom.

And the operators on duty in the Coast Guard's Valdez Vessel Traffic Center said the 987-foot vessel didn't even register on their radar screens as it plowed toward disaster, although Bligh Reef is only 13 miles from the "sophisticated" radar at Potato Point.

The Coast Guard's mission is to protect the safety of ships and

sailors, and to prevent pollution of the oceans. To do so, it regulates ship design, manning standards, crew qualifications and vessel operating practices.

The agency portrays itself as chronically underfunded but heroically dedicated, willing to tackle almost any job with almost no money, but a Daily News investigation suggests that its failure to prevent or lessen the severity of last spring's catastrophe stemmed more from its coziness with the oil industry than from any lack of resources.

Judged on its record, the Coast Guard is more often partner than policeman to the shipping companies it is supposed to regulate.

Please see Page A-8. COAST GUARD

SPECIAL REPORT

COAST GUARD

Continued from Page A-1

Single bottoms and a feeble Vessel Traffic Service are only two of many examples of how the Coast Guard sliced away at the safety net that had been promised for the Sound.

Usually, as in the matter of double bottoms, it was because the Coast Guard bowed to industry pressure.

Less often, as in the case of the Vessel Traffic Service, it was because the Coast Guard lacked — or didn't want to spend — the money to do its job properly.

Over the years the Coast Guard has also:

- Routinely approved reductions in the number of sailors required on oil tankers, to the point that crew fatigue apparently played a part in the Exxon Valdez disaster;
- Reduced the level of experience required to drive oil tankers through the Sound, allowing oil shippers — including Exxon — to cut costs by not sending crew members to training courses in which they "sailed" a tanker simulator in and out of the Sound for practice;
- Turned an Alyeska Pipeline Service Co whistleblower in to his boss after the whistleblower informed Coast Guard officials in Valdez about possible pollution violations at the Alyeska tanker terminal there; and
- Allowed a well-trodden career path to develop from itself to the industry it purports to regulate.

Citing these and other actions, Coast Guard critics contend it set up Alaska for a spill like the Exxon Valdez.

One of those critics is Canadian David Anderson. In the 1970s, as the transportation system through the Sound was being designed, Anderson was a member of the Canadian parliament and served in the British Columbia Legislature.

Eventually, Anderson joined a group of environmental organizations in a lawsuit that held up the trans-Alaska pipeline until Congress passed a special law to get it going.

Today, Anderson is a consultant on the Valdez spill to the British Columbia government.

In his view, the Exxon Valdez crash wasn't so much an accident as a conscious choice made long ago.

"In this area, there's a systems failure of the regulatory agency," Anderson said. "We must face the fact that those who made those decisions deliberately chose to have an accident."

"It's all very well for Coast Guard admirals in splendid uniforms to turn up in helicopters and say, 'We're going to get to the bottom of this; we're going to go after that rascal Hazelwood,'" Anderson said. "But he's the goat. It's the system that's at fault."

DOUBLE-BOTTOM DEBATE

Hayes was not the first federal official to lead the public to believe that tankers traversing the Sound would have double bottoms. The discussion had gone on for years.

"Newly constructed American flag vessels carrying oil from Port Valdez to United States ports will be required to have segregated ballast systems incorporating double bottoms," Interior Secretary Rogers Morton told Congress in 1972.

Morton appears to have been sincere, but within a year the Coast Guard was backing away from that commitment.

Other countries opposed double bottoms at a 1973 convention of the Inter-Governmental Maritime Consultative Organization, a United Nations agency set up to promote marine safety and international cooperation on technical shipping matters.

The Coast Guard soon dropped its proposal to require double bottoms, saying it wouldn't impose standards on U.S. vessels that weren't accepted internationally.

The Coast Guard's about-face drew squawks from Morton, from the Environmental Protection Agency, from environmentalists, from the governors of Washington and Alaska, and from Sens. Edmund Muskie of Maine and Warren Magnuson of Washington.

The new regulations had been formulated with the help of a study group organized by the American Petroleum Institute, an oil industry trade association, formed without public notice, chaired by an opponent of double bottoms, and meeting in secret, according to an article in Audubon magazine.

The Coast Guard wouldn't budge.

"We collected new data, and we changed our mind," Rear Adm. William Benkert told the National Observer in early 1975. "We don't think groundings are as serious a problem as we once thought, and ... they cost a hell of a lot more money."

But double bottoms cost only a little more money, according to a report published by the congressional Office of Technology Assessment in mid-1975.

The technology office examined the figures on double-bottom tankers built in the early 1970s and concluded they cost 2½ to 4 percent more than single bottoms.

A more recent study, done by the Coast Guard after the Exxon Valdez spill, concluded that double bottoms might add 5 percent to the cost of a tanker — in the case of the Exxon Valdez, about \$6 million.

Exxon has estimated the disaster in Prince William Sound will cost it \$1.3 billion, enough to put double bottoms on more than 200 tankers like the Valdez.

Although the Coast Guard scuttled double bottoms in 1974, the issue quickly resurfaced.

In December 1976, the tanker Argo Merchant ran aground off Massachusetts and dumped 7.6 million gallons of fuel oil into the sea. In less than four months, there were 14 more tanker spills off U.S. coasts.

In March 1977, newly elected President

Jimmy Carter proposed a host of tanker reforms, including double bottoms. It was that position that Hayes reported to the Cordova conference in 1977.

As before, though, the Coast Guard soon fell back into line with industry. After another meeting of the Inter-Governmental Maritime Consultative Organization in 1978, the Coast Guard dropped double bottoms again, and tankers — including the Exxon Valdez, built in 1986 — were allowed to sail in and out of Valdez without them.

"It was commonly accepted by those who worked on the problem that when you go up against the industry, you go up against the Coast Guard," said Walt Parker, an Alaskan who has been deep in the oil policy debate for more than a decade.

Parker, now chairman of a state commission investigating the Valdez spill, worked for the state in planning the pipeline system in the 1970s and was an observer at the 1978 maritime organization meeting at which double bottoms went down for the second time.

The Coast Guard's abandonment of double bottoms came despite studies confirming their effectiveness in limiting spills.

In early 1975, Lt. Cmdr. James Card — who worked under Benkert in the Coast Guard's Office of Merchant Marine Safety — published an analysis of 30 tanker groundings from 1969 to 1973 in which oil leaked into U.S. waters.

He concluded that in 27 of the cases, double bottoms would have prevented any oil loss, because the ships weren't penetrated far enough to have reached the inner bottom.

In the other three cases, Card concluded, double bottoms would have reduced oil loss by 30 percent.

Shippers — including Exxon — had mentioned generally that under some circumstances double bottoms might endanger a ship in an accident but produced little hard data to back up their claims.

Both the Office of Technology Assessment study in 1975 and the post-Valdez study this spring concluded there was no reason to believe double bottoms threaten ship safety.

Even in the mid-1970s, double bottoms were required on tankers carrying liquefied natural gas and other chemicals deemed more hazardous than oil. The technology office study found that their double bottoms had caused no safety problems.

The agency reported that ships carrying bulk flammable liquids above a double bottom void had not "exhibited any explosion record in these spaces."

The technology office did look at 13 tanker explosions in 1973 and 1974; none involved a double bottom.

The OTA also studied the claim that a double bottom might cause a ship to sink in a grounding and found that the opposite was true.

"In fact, sinking rates due to groundings are less for these types of ships," the technology office reported.

Despite the conclusions of double-bottom studies going back more than a decade, Coast Guard Commandant Paul Yost still offers the same anti-double bottom arguments the industry and Coast Guard made in the mid-1970s.

In an interview a few weeks ago, he said the Coast Guard is having another study done.

Then he cited the higher cost of double bottoms, repeated industry claims that double bottoms might somehow jeopardize ship safety, and maintained the U.S. shouldn't pass tanker requirements unacceptable to shippers in other countries.

"It is a great idea as long as you've got guys like Stan Jones and Paul Yost who don't mind paying for it at the gas pump," Yost said. "Everything you do in this regard adds cost to the transportation. As you add cost to it, you have a little more trouble getting the international community to accept it."

"For thousands of voyages, they shipped oil in and out of there when those double bottoms would have been a waste of money," said Jim Simpson, Yost's press aide.

Double bottoms would cost the public somewhere between half a cent and a cent per gallon — as much as \$1.5 billion a year — according to estimates from marine consultants.

Clyde Robbins, the Coast Guard vice admiral overseeing this summer's effort to clean up the Exxon Valdez spill, said much of the pressure on the agency comes from inside the federal government, not just from officials of the affected industry.

Members of Congress get pressure from their constituents and pass it along to the Coast Guard, he said. The state department, juggling a host of diplomatic issues, worries about how other countries will react to U.S. maritime regulations.

And the Office of Management and Budget demands that regulators show that the benefits of new regulations exceed the cost.

"You have to react to all of those pressures to meet some sort of compromise in your regulations," he said. "One of the largest pressures is from OMB. That economic analysis that has to go on is crucial to a regulatory process."

'SERVICE REVOLVERS'

After the Coast Guard's second about-face on double bottoms, in 1978, a New York maritime consultant and arbitrator named George Reinhard wrote an indignant letter to Benkert, the head of the Coast Guard's Office of Marine Safety.

Reinhard demanded to know if the Coast Guard was "really a subsidiary of the oil industry."

An equally indignant Benkert wrote back that Reinhard was "ill informed and completely out of line" to even suggest such a thing.

Coast Guard policies and people, Benkert informed Reinhard, were directed only toward accomplishing "the very best we can for our country insofar as vessel safety and pollution prevention are concerned."

Five months later, Benkert had retired from the Coast Guard and become president of the American Institute of Merchant Shipping, an advocacy group representing tanker owners. He did not respond to a recent request for an interview passed through the Coast Guard's retirement office.

Benkert's case may be extreme, but it is only one of many examples of the ease and apparent lack of misgivings with which Coast Guard officials, often from the service's top echelons, move into jobs with the companies and industries the public had been paying them to regulate.

Indeed, the industry is liberally sprinkled with former Coast Guard employees, sometimes called "service revolvers" by critics of the Coast Guard.

Among the revolvers is Exxon Shipping Co. President Frank Iarossi.

Iarossi graduated from the Coast Guard academy and spent eight years in the Coast Guard, four of them as head of the marine engineering section. In 1968, he left the Coast Guard and joined Exxon.

Jim Woodle, who commanded the Valdez Coast Guard station from 1979-82, recalls several former subordinates who resigned and went to work at the Alyeska tanker terminal.

In 1982, Woodle crossed over himself. When he took a job as Alyeska's marine superintendent, his pay leaped from about \$40,000 a year to more than \$80,000.

"Certainly, at that time a job with Alyeska was considered the plum," Woodle said.

While federal laws and regulations are fairly tight for officials in positions to influence purchasing or contracting — Defense Department employees who order weapons systems, for example — there is little scrutiny of regulators who go to work for the industry they've been regulating, despite the fact that regulatory actions can cost or save an industry millions of dollars.

John Hillman, a member of the Exxon Seamen's Union governing board, thinks there should be a cooling-off period for ex-Coast Guard employees.

"We need to get some legislation down the road that says, 'Hey, you can't suck these people over into the shipping companies and give them jobs until they've been retired for a certain number of years,'" Hillman said.

Most Coast Guard officials interviewed for this story not only don't see any problem with all the traffic on the lucrative path from the Coast Guard to the shipping industry, they think it's desirable. Their theory is that having Coast Guard members enter the private sector will make industry cleaner, more careful and more competent.

"At the early onset, I was hoping to get some additional Coast Guard people over there," said Woodle of his time with Alyeska. "I recognized their talents."

Woodle lasted two years with Alyeska, eventually becoming a critic of the company's cutbacks in oil-spill response.

Steve McCall, who commanded the Valdez Coast Guard station at the time of the Exxon Valdez crash, said he doesn't think the prospect of someday applying for a job with industry leads Coast Guard personnel to go easy on regulators.

"If you're too easy with them, they're not going to hire you," McCall said. "They want somebody who's going to be a company man, whether it's your company or their company."

McCall's boss in Washington, Coast Guard Commandant Yost, said it's only natural for industry to want to hire experts from the Coast Guard.

"When a Coast Guard officer has been working in an area for a very long time, he

Please see Page A-10. COAST GUARD

COAST GUARD: Officers often move from service to industry

Continued from Page A-8

becomes one of the more knowledgeable people in that area," Yost said. "I don't see the conflict."

Simpson, Yost's aide, said the Coast Guard could be hurt by a ban on cross-overs.

"I would argue that's a pretty extreme position," Simpson said. "If you take that, you'll be hard-pressed to find regulators."

Hayes, the Coast Guard admiral who told the Cordova fishermen about double-bottom tankers in 1977, and who was commandant of the U.S. Coast Guard from 1978-82, is another revolver. This summer, Alyeska Pipeline Service Co. paid him to work with spill-affected communities.

Hayes said he's seen a few crossovers he disapproved of — though he wouldn't be specific — but basically agrees with Yost.

"There's just so much talent in government in all kinds of places," Hayes said. "It would be just a shame if our nation could not take advantage of it in the next career that person might pursue."

NEARSIGHTED RADAR

In the 1970s, the Coast Guard seemed to be saying its Vessel Traffic Service in Valdez would be a kind of mother hen, watching over the tanker captains in case they went astray.

In a 1975 Environmental Impact Statement, the Coast Guard said the VTS would "monitor progress of participating vessels and give timely direction when needed, thus providing checks against error."

State officials thought that could best be achieved by combining radar with a system — called Loran-C retransmission — under which each tanker would continuously and automatically radio its position to the VTS.

The Coast Guard estimated retransmission would cost shipping companies \$3,000 a tanker and that its own cost, for equipping the VTS to receive that information, would be about \$38,000.

For a time, the Coast Guard supported retransmission as a cheaper alternative to building enough radar sites to cover the whole Sound, as demanded by fishermen.

"I believe that Loran-C retransmission may provide approximately the same level of protection to the environment as radar coverage and at far less expense to the taxpayer/consumer," Hayes told Sen. Ted Stevens in an April 1977 letter.

But nobody in the Valdez VTS was monitoring the Exxon Valdez on any system when it veered out of standard traffic

lanes and blundered into the reef only a few miles from a Coast Guard radar site.

The Loran-C retransmission system was never put in and neither was the full-range radar net the fishermen wanted. Gordon Taylor, the VTS watch stander who last saw the Exxon Valdez on radar before it hit Bligh Reef, said it faded from the screen when it was about nine miles from the radar site at Potato Point, possibly because a drizzling rain that night limited the radar's range.

Simpson, Yost's aide, said Loran-C retransmission was dropped because it wasn't effective in Valdez Narrows, which everybody then considered the likeliest spot for a tanker crash because of stone pinnacles called Middle Rock.

Yost said many things were discussed in the 1970s that didn't turn out to be feasible or economical, including Loran-C retransmission.

"A lot of practicality and realism crept into the original rather idealistic view of how we ought to treat this," Yost said.

But if Coast Guard higher-ups had listened to the advice of their own field personnel, the VTS might have been able to track the Exxon Valdez even without Loran-C retransmission.

In early 1984, Pat Levy was a civilian technician maintaining the Coast Guard's Valdez radars, manufactured by AIL-Eaton. He learned that the agency, in an effort to save money, planned to replace them with Raytheon radars he didn't consider as potent or reliable.

"I still can't help feeling that this is bringing an oil tanker disaster in the Sound closer to a reality," he wrote Congressman Don Young on Feb. 29, 1984.

Young passed on Levy's concerns to the Coast Guard. Its commandant, Adm. James Gracey, wrote back to say the new radar would be as good as the old, and safety wouldn't be compromised. A Coast Guard radar expert made the same claim this spring at a hearing on the Exxon Valdez disaster.

But, within a year of the Raytheon radar going in, the Coast Guard commander in Valdez, Michael Cavett, was complaining about poor reception in the bad weather common to the Sound and asking for an upgrade of the radar at Potato Point.

"The installation of a 10-centimeter radar system could improve tracking ability in rain, wind, and snow," Cavett wrote in April 1985. "I request one of the 3-centimeter radar systems at Potato Point be replaced with a 10-centimeter system."

Centimeters are used to measure the

length of the electromagnetic waves that make up radar signals; the longer the wave length, the better the radar can see through rain and other precipitation.

Valdez never got its 10-centimeter radar, however, and the 3-centimeter system was still in use when the Exxon Valdez hit Bligh Reef.

Simpson said Cavett's request was turned down because the big concern in the Coast Guard was resolution, not range. Resolution refers to how small a target a radar beam can pick out, Simpson said, and how well it can distinguish different-size targets.

He said the radar operators in Valdez didn't want the 10-centimeter radar because of its poorer resolution, so Cavett's request was turned down by Coast Guard technicians without even estimating the cost.

"They went with the recommendation of the users over the commanding officer," Simpson said.

The failure to use Loran-C retransmission or ensure better radar coverage was not the only Coast Guard decision on the Vessel Traffic Service that may have contributed to the spill.

When the Valdez VTS began, three people stood watch at the radar scopes. By the time Steve McCall took over as commander in Valdez in 1985, staffing was down to two per watch.

Even that was too many, he decided. "The inefficiency I see here can be summed up simply: Too many people for the tasks to be performed," McCall wrote his Washington superiors in August 1986.

His bosses took him up on the suggestion and cut staffing. Valdez was still under his command and only one person was on duty when the tanker hit the reef.

While there's no guarantee that two heads would have been better than one, it is a fact that Bruce Blandford, the only watch stander on duty in the radar room at the time, said he was doing paperwork and other shift-change chores when the Exxon Valdez wrecked shortly after midnight.

Blandford also said that when he adjusted the radar and looked at the Bligh Reef area after learning of the crash by radio, the tanker, by that time broadside to the beams and presenting a larger target, was clearly visible.

All this suggests that, if a second watch stander had been on duty with Blandford and adjusting the settings of the radar, the Valdez might have been visible before the crash, in time for it to have warned off the reef.

"I'm not satisfied with the situation in

our VTS before this accident," said Yost, commandant of the Coast Guard. "I think it's at least possible that that ship could have been tracked out that far."

Since the crash, staffing at the radar scopes has been increased to two people.

"Perhaps if we'd tried a little harder for funds for the VTS's, perhaps if we would have kept after it, we would have had better control of the ships going in and out," said Robbins, the Coast Guard official who oversaw the cleanup effort. "We cut back on people here a few years ago and perhaps we shouldn't have done that."

LESS PILOTING PRACTICE

In the 1970s, the Coast Guard seemed to be promising tough pilotage requirements for Prince William Sound, just as it seemed to be promising tough tanker design standards, a vigilant VTS and other safety measures.

"Properly trained pilots are probably the single most important factor in building a safe tanker transportation system for Prince William Sound," Hayes, the Coast Guard admiral, told Cordova fishermen at the 1977 conference. "To this end, we have implemented local qualification standards that represent a quantum step in upgrading Coast Guard pilotage requirements."

The standards that Hayes bragged about in 1977 required that a crewman who wanted certification to pilot a big tanker into the Sound have — in addition to detailed knowledge of the Sound's waters and hazards — experience on big ships. The standards set up a tiered system for obtaining that experience.

Sailors with experience on ships of 20,000 gross tons or less could become certified to pilot ships up to 20,000 tons; those with experience on ships of 20,000 to 40,000 tons could handle ships up to 40,000 tons; and so on.

The final tier was 60,000 tons — those with experience on ships larger than that could be certified to pilot vessels of any size, such as the Exxon Valdez at 95,000 gross tons.

Coast Guard standards allowed part of the experience to be obtained on tanker simulators. Because of the difficulty and expense of obtaining real experience on large ships, some of the companies running tankers through the Sound — including Exxon — employed the simulators.

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COAST GUARD: Service relents on reducing tanker crews

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One company they used was Marine Safety International, in Kings Point, N.Y. "We had a complete computer model of Prince William Sound and Valdez, the Narrows, all the way in to the dock," said Thomas Garrigan, a Marine Safety official.

About 20 Alaska-trade crew members took the simulator course each year at a total cost to the shippers of about \$80,000 a year, Garrigan said.

Four to six of those crewmen each year came from Exxon at an annual cost of \$20,000 to \$30,000.

In October 1988, the Coast Guard relaxed pilotage standards so that a crewman need have experience only on a ship of 1,600 gross tons or more — about 1/80th the cargo capacity of the Exxon Valdez — to obtain an unlimited pilotage endorsement.

Pilotage requirements for Prince William Sound were lowered to match the new national standards, which at the same time were raised slightly for the rest of the country.

Because most ocean-going mariners already have experience on ships of 1,600 tons or more, the tanker companies no longer needed Marine Safety's Prince William Sound simulator.

"When the companies that did training with us heard that, they stopped training," Garrigan said.

Greg Cousins, the third mate in charge of the bridge when the Exxon Valdez slammed into Bligh Reef, did not have a pilotage endorsement for the waters where Joe Hazelwood, the Valdez's skipper, turned the ship over to him.

Nor, said Garrigan, had Cousins ever trained on Marine Safety's Prince William Sound simulator in New York.

SHRINKING CREWS

Thirty years ago, the average American tanker carried a lot less oil and a lot more people than it does today.

Arthur McKenzie, who runs an independent rating service called the Tanker Advisory Center in New

York City, estimates the typical tanker in the late 1950s carried a cargo of about 6.3 million gallons and a crew of 40 to 43.

When the Exxon Valdez hit Bligh Reef with 53 million gallons of oil aboard, it carried a crew of 20.

Even so, it was more than 30 percent over staffed by Coast Guard standards. Exxon had the agency's approval to operate with as few as 15 people aboard.

As the size of crews required by the Coast Guard has dwindled in recent decades, the Coast Guard and shipping industry have justified the reductions on several grounds.

One is that the cost savings are needed to keep American shippers competitive with foreign operators, who have reduced their crews. According to industry and union officials, the savings are about \$120,000 a year per crew position eliminated.

Another justification is that a modern ship simply requires fewer people.

Automation of major systems — such as engines and steering — requires fewer hands, the industry and Coast Guard say. The increased reliability of modern equipment means fewer people needed for maintenance, they say.

McKenzie favors double bottoms and other tanker reforms opposed by the industry, but sides with the shippers on crew size.

His reasoning: Since most accidents involve human error, fewer humans mean fewer accidents.

"If you get rid, as much as you can, of the people and depend more on machinery, provided that machinery is designed and run properly, you're probably going to do better," McKenzie said.

Nonetheless, there are signs that even a crew of 20 on the Exxon Valdez wasn't large enough to prevent overload and fatigue when the ship came into Valdez to take on its cargo of North Slope crude.

Greg Cousins, the third mate in charge of the bridge when the Valdez hit the rocks, told the National Transportation Safety Board that he had been on duty from 8 a.m. March 23 until the crash 16 hours later,

except for a 3½-hour nap in early afternoon.

Cousins said he wouldn't have been on the bridge at all, except that he let his relief, Second Mate Lloyd LeCain, sleep in after his own long day at work. James Kunkle, the ship's first mate, told the board he frequently was up 24 hours at a time during cargo loading.

Federal law prohibits a shipowner or operator from permitting an officer to take over the bridge of a ship leaving port unless he's been off duty for at least six of the preceding 12 hours.

Cousins and the other mates denied being too tired to work properly and no official determination has yet been made on whether fatigue was a cause of the crash.

But sleep experts say it fits the pattern of sleep-related accidents.

"It's not unreasonable to suspect either that they were not able to detect how sleep deprivation was affecting their performance or they were unwilling to admit it," said Donald Tepas, an industrial psychologist at the University of Connecticut.

Despite the long history and high stakes of de-manning, the Coast Guard still has no agency-wide standard for setting minimum crew size.

Instead, the shipowner proposes a minimum crew size, then local Coast Guard officials evaluate and approve, subject to review by Coast Guard headquarters in Washington.

In the case of the Exxon Valdez, local Coast Guard officials — concerned about Exxon's bottom line — allowed their approval of smaller crews to continue even after headquarters told them they had done it improperly.

In September 1987, R.A. Janacek, the officer in charge of marine inspections at the Coast Guard station in Long Beach, Calif., wrote headquarters in Washington to request that the Exxon Long Beach — the Valdez's sister ship — be allowed to cut three positions in the engine room.

"Exxon is of course requesting prompt action to eliminate the cost of retaining these men on board."

Janacek wrote. "The Exxon Valdez is already operating satisfactorily with reduced manning."

Fred Grady, the Coast Guard's chief of Merchant Vessel Personnel in Washington, wrote back two months later to say that not only was the proposed cut of the Long Beach crew inadequately documented, but that approval of crew reductions aboard the Valdez had never been reviewed by headquarters.

Nonetheless, the California office let it stand.

Paul Larson, the Janacek subordinate who had actually handled the Valdez evaluation, wrote Exxon on Jan. 26, 1988, to say the erroneously allowed crew cuts would stand because the ship had operated for six months with no problems.

"I certainly understand your vested interest in gaining approval in a timely fashion to reduce the crew and cut costs," Larson wrote. "The best I can do is apologize and assure you I will urge MVP's (headquarters') handling of your case as a priority rather than a routine matter."

Simpson, Yost's aide, defended Larson's decision to let approval for the Valdez's crew cuts stand, despite the letter from headquarters saying it had not been properly reviewed.

"The bottom line is that what he did was perfectly legal," Simpson said. "If you want to find fault or error, the error was his in not clearing it through headquarters before he did it."

Hillman, the Exxon Seamen's Union official, thinks the Coast Guard should worry more about safety and less about Exxon's bottom line.

"You and I have this regulatory agency called the U.S. Coast Guard. It does not belong to the shipowners," said Hillman. "It was set up for a purpose: to see that these ships are operated safely and that the seamen are not abused by the shipowners."

Despite industry and Coast Guard insistence that crew cuts haven't jeopardized safety, people who have to bet money on it are beginning to think otherwise.

Harry Keefe is vice president of a marine insurance company called GRE America and vice chairman of an industry group called the American Institute of Marine Underwriters.

At a marine insurers conference in Belgium last month, Keefe warned that modern shipping practices — including smaller crews and less crew training — are creating hazards at sea.

"We have had a revolution in technology accompanied by a de-emphasis on marine training," Keefe said in a speech to the conference. "In this scenario, who cares about safety?"

"True efficiency must incorporate a level of safety tolerable to society."