

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672
6517 SENATE RESOURCES

921

ADEC REQUESTING RSA'S
VALDEZ OIL SPILL
ACTIVITY THROUGH 01/15/90

NUMBER	FY	SERVICING AGENCY	TOTAL	LIQUIDATION	BALANCE
1892050	89	LAW	50,900.00	-44,899.15	6,000.85
1892057	89	MARINE HIGHWAYS M/V AURORA	647,080.00	-487,559.35	159,520.65
1892058	89	MARINE HIGHWAYS M/V BARTLETT	122,700.00	-45,622.14	77,077.86
1892066	89	FISH AND GAME	1,379,100.00	00.00	1,379,100.00
1803003	90	ADMINISTRATION TELECOM.	3,000.00	-3,000.00	00.00
1803010	90	DNR	1,513,000.00	00.00	1,513,000.00
1803016	90	FISH AND GAME	2,446,500.00	00.00	2,446,500.00
1803020	90	ADMINISTRATION TELECOM.	450,000.00	00.00	450,000.00
1803021	90	ADMINISTRATION TELECOM.	1,198,000.00	00.00	1,198,000.00
1803025	90	ADMINISTRATION TELECOM.	9,000.00	-9,000.00	00.00
1803030	90	ADMINISTRATION OIL SPILL COMM.	490,000.00	-59,911.15	430,188.85
1803031	90	ADMINISTRATION TELECOM.	111,800.00	00.00	111,800.00
1803035	90	GOV. OFFICE ADMINISTRATION	185,200.00	-22,576.44	162,623.56
1803037*	90	ADMINISTRATION TELECOM	39,700.00	00.00	39,700.00
1803040	90	ADMINISTRATION GEN. SVC & SUPPLY	35,700.00	00.00	35,700.00
1803053	90	LABOR OCCUPATIONAL SAFETY	257,000.00	00.00	257,000.00
1803066	90	HEALTH AND SOCIAL SERVICES HUMAN SERVICES DEVELOPMENT	13,500.00	00.00	13,500.00
SUBTOTAL OTHER AGENCY:			8,952,180.00	-672,468.23	8,279,711.77

**OIL & HAZARDOUS SUBSTANCE RELEASE RESPONSE FUND
COMMUNITY RESPONSE
JANUARY 30, 1990 STATUS**

I. INITIAL AGREEMENTS

-- signed in early April 1989

COMMUNITY	AGREEMENT \$	PAID OUT	BALANCE CARRIED FORWARD
Valdez	500,000	15,000	0
Cordova	500,000	205,618	0
Chignik	50,000	0	0
Kenai Pen. Bor.	500,000	0	500,000
Kodiak Is. Bor.	500,000	332,354	167,646
Homer	100,000	44,992	0
Whittier	50,000	0	0
Chenega	50,000	50,000	0
TOTAL	\$2,250,000	\$647,964	\$667,646

WHAT DID THE MONEY BUY?

Cordova -- booming and protective measures of hatchery

Chenega -- support services in the port and harbor area in support of defense of hatchery and in water oil recovery. (community building, laundry, bank of telephones, water & power, 24 hour dock attendant, storage of materials dropped on beach, fax & copying)

Kodiak Is. Bor. -- baseline sampling of subsistence beaches (350K)
-- clean up on Tugidak Island (100K)

Homer -- supported HARC volunteer cleanup at Mars Cove

II. LOCAL RESPONSE PROJECTS - WINTER PLAN TO ADDRESS LOCAL PRIORITY BEACHES

- beach cleanup using type A techniques
- safety, planning, and implementation
- coordination of community response activities
- administration and overhead

COMMUNITY	AGREEMENT \$
Kodiak Is Bor.	2,060,000
Kenai Pen. Bor.	1,831,000
Valdez	485,000
Cordova	1,209,382
Chenega	572,000
Tatitlek	172,000
Chignik	222,000
Whittier	336,000
TOTAL	\$6,887,382

NOTE: TOTAL TO BE SPENT BY COMMUNITIES OF 470 FUNDS = \$8,202,992 (both agreements)



Alaska State Legislature

Senator Mike Szymanski

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April 2, 1990

TO: Senator Bettye Fahrenkamp
Chair, Senate Resources Committee

FROM: Senator Mike Szymanski *MS*

SUBJECT: CSSSSB 359 (Oil and Gas) Amendments

I am enclosing five amendments which I would like the Senate Resources Committee to consider this Friday and to urge their passage.

For your information, these amendments would accomplish the following:

1) Creates a separate municipal impact fund in the Department of Community and Regional Affairs, in the amount of \$10 million. Raises the cap on the \$.05 per barrel surcharge from \$50 million to \$60 million. Includes the provisions that were in last year's SB 260 which set up the \$.05 per barrel surcharge, such as the on-again-off-again clause and the blackmail clause.

This would delete the present language of the Oil and Gas CS which provides for up to \$10 million to be used of the existing \$.05 per barrel surcharge fund for municipal impact assistance. This particular fund has a maximum cap of \$50 million.

2) Eliminates the trigger mechanism in the bill which would require a declaration of a disaster emergency before the municipal impact monies would be made available. The thought here and in the original sponsor substitute is that the criteria set out for the grant applications and approval are sufficient "trigger".

3) Establishes a grant program in Department of Environmental Conservation for emergency first response and deletes the language which would make these funds advancements or reimbursements.

4) Deletes the provision in the the Oil and Gas CS for an impact assessment to be done by the Department of Community and Regional Affairs and puts the impact assessment under the Department of Environmental Conservation. This way there would be one impact assessment rather than having each community providing an assessment;

5) Retroactivity language is included to clarify that damages mean

"the incremental costs of providing services and the costs of providing additional services" and this would be retroactive to the date of the oil spill.

Thank you for your consideration of these amendments.

MS:pt
attachments

SECTIONAL ANALYSIS - SPONSOR SUBSTITUTE SENATE BILL 359

This legislation is based on proposals first offered by mayors of municipalities whose communities bore the brunt of the Exxon Valdez disaster. To a great extent, the document follows a suggested model prepared by Perkins Coie, an Anchorage-based law firm, to broaden the ability of municipalities and village councils to address and receive compensation for their efforts to contain and clean up spilled oil and hazardous substances. The earlier draft was then revised by eliminating selected elements in order to limit the sources from which municipalities and village councils may receive compensation.

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

MUNICIPAL EXTRA-JURISDICTIONAL AUTHORITY:

These changes, part of the Perkins Coie memo that resulted in an early draft, were sought by mayors and officials of municipalities who bore the burden of the Exxon Valdez spill and clean up.

Sections 1-3, amendments to various sections of AS 29.35, extend the authority of municipalities to exercise containment and clean up of spilled oil and hazardous substances if the spill occurs outside the municipal boundaries. The change made by Section 1 specifically prescribes how extrajurisdictional containment and clean up authority may be legally assumed by a municipality while the changes made by Sections 2 and 3 authorize the exercise of extrajurisdictional containment and cleanup authority for second and third class boroughs, respectively. (First class boroughs already enjoy general authority; home rule boroughs (e.g. North Slope Borough) and unified municipalities (e.g. Anchorage, Juneau,

Sitka) already enjoy that authority under existing law, so it is not necessary to amend the law in any way to authorize the municipalities of those classes to so act.)

STATE FINANCIAL ASSISTANCE TO MUNICIPALITIES FOR MUNICIPAL SERVICES.

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

There is a codified statement of policy and purpose (AS 29.,60.500) underpinning the municipal impact assistance program. Sections establish the fund and spell out its general purpose ("to make grants under AS 29.60.530 for actual expenses incurred by municipalities and village councils" - AS 29.60.510) and authorize appropriations by the legislature to the fund (AS 29.60.520).

The principal provision applicable to the new "impact assistance fund" is AS 29.60.530. The legislation would permit the Commissioner of Community and Regional Affairs to make grants to a municipality or village council that is

...affected by release of oil or a hazardous substance and demonstrating extraordinary expenditures that are beyond the reasonable capability of the municipality or village council to meet from the municipality's or council's current revenue sources." (page 3, lines 17-21).

The municipal expenditures that may qualify for grant assistance are those affected by prevention, containment, and clean up efforts related to functions or services and incidental administrative costs related to these functions or services in eight general areas (pages 3-4.

Grant approval would be based on the determination by the commissioner by application of the three factors specifically identified in subsection (c) together with any "other criteria the department considers appropriate." (page 4, line 23). To better assure that the grants are used to offset extraordinary municipal initiatives in response to a spill emergency, the section includes language prohibiting the municipality receiving the grant from using the grant to reduce municipal tax rates or retire its bonded indebtedness (subsection d).

Subsection (e) authorizes the commissioner to prioritize or rank grant applications and specifies the ranking criteria.

The remainder of the new sections in Section 4 are intended to provide for smooth operation of the fund.

AS 29.60.540 establishes a record-keeping requirement.

AS 29.60.550 directs preparation and submission of an annual report.

AS 29.60.560 permits the commissioner to adopt necessary regulations.

AS 29.60.590 sets out pertinent definitions.

For the purposes of this Section, a village council may apply for a municipal impact fund grant, a) independently, if the community is part of the unorganized borough, or b) through the organized borough if the community is part of the organized borough and the borough exercises the function or service for which the grant application is submitted or c) independently even if the village is part of the organized borough, if the borough does not exercise the function or service for which the grant application is submitted.

FINANCING THE NEW MUNICIPAL IMPACT ASSISTANCE FUND.

SECTIONS 5-10 identify a source of money for the new fund. That source is the same nickel-per-barrel addition or surcharge to the state severance tax (technically, the oil and gas "properties production tax" as it applies only to produced oil) first imposed during the 1989 legislative session to support the oil and hazardous substance release response fund in AS 46. The proposed legislation contemplates that the proposed fund will have a normal operating balance of \$25 million available to assist municipalities.

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

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

SECTIONS 7 and 8 increase the benchmark figure applicable to the trigger mechanism from \$50 million to \$75 million.

SECTION 9 revises the mechanism so that, as a condition of surcharge imposition, the legislature must appropriate not only to restore the balance of the existing oil and hazardous substance release response fund to \$50 million, but also must restore the balance of the proposed municipal impact fund to \$25 million.

SECTION 10. The amendment proposed by this section, an uncodified provision, is intended to assure that, from the inception of the nickel-per-barrel surcharge, its collection is not to be suspended until a total of \$75 million is

received in order to meet the normal operating balances of the two funds -- \$50 million in the existing oil and hazardous substance release response fund and \$25 million in the proposed municipal impact fund.

The section also amends the existing statute to require the commissioner of administration to include the Commissioner of Community and Regional Affairs in its certification procedures.

OTHER TECHNICAL AND CORRECTIVE CHANGES.

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

SECTION 11, an amendment to AS 46.03.822(a) defines the scope of a person's liability under the "Strict Liability" provisions of that section. That liability is extended to "incremental costs of providing public services that are incurred by state or a municipality or a village council

SECTION 12, amends the strict liability provisions to protect a village council, as well as the state or a municipality from liability for costs or damages incurred in response to release or threatened release of a hazardous substance.

SECTION 13 limits the amount a municipality or a village council may recover under the strict liability statutes if it also receives impact grant funds.

SECTION 14 offers a new definition of those "public services".

SECTIONS 15-18 AS 46.04 generally addresses oil discharge and cleanup.

SECTION 15 AS 46.04.020(e) establishes a basis for agreements between parties to facilitate containment and cleanup. Amends the reimbursement agreement provision of AS 46.020(e), adds to the parties with whom the Department of Environmental Conservation may enter into cooperative agreements to include municipalities and village councils. (The change supports a compensation arrangement modified by amendments made in section 19, later in the bill.)

SECTION 16 Oil discharge contingency plans are documents important to the protection of the environment. The amendment made by addition of subsection (h) directs the commissioner of

environmental conservation to consult with a larger number of groups and to disseminate the draft contingency plans to the public for review and comment.

SECTION 17 amends the definition of "containment and cleanup" applicable to AS 46.04 to add "discharged oil" as a legitimate object of containment and cleanup efforts. More significantly for our purposes, the amendment of the definition of the term incorporates reference to certain incremental and additional public services costs "incurred in response to the actual discharge of the oil or a pollutant" as an expense qualifying within the definition.

SECTION 18 sets out additional definitions for two terms, "public services" and "village council," that are added by the changes made to provisions of AS 46.04 in the bill. The definition of "public services" is limited to STATE public services; incremental municipal public services would be compensable under AS 29.60, the municipal impact assistance fund.

The definition of village council is consistent with the definitions in previous sections of the bill
SECTIONS 19-23 amend the scope of expenses incurred that are compensable from the oil and hazardous substance release response fund, the \$50 million dollar fund.

SECTION 19 amendments would 1) permit the money in the fund to be used for "assessments," including assessments of social and economic effects of a discharge or threatened discharge; 2) authorize compensation of costs incurred by a village council as a result of a discharge or threatened discharge; and 3) serve as a source of grants.

SECTION 20 incorporates amendments substituting mandated payment of compensation for actual abatement expenses incurred, whether by a municipality or by a village council under an oil spill cleanup agreement, and further broadens authorized payment by the state from the fund if the response of the municipality or village council was an "appropriate" response, not just a "necessary emergency first response" to a release or threatened release.

SECTION 21. The grant provision of this section is new. The section spells out, in much greater detail than in existing law, how municipalities and village councils may receive "grants...to enable [them] to carry out an emergency first response to a release or threatened release." The grants would be payable on application, based on short deadlines under regulations approved by the Commissioner of Environmental Conservation.

SECTIONS 21 and 22 make the same amendments to the definition of "containment and cleanup" and add definitions of "public

services" and "village council" to AS 46.08 that are described earlier with reference to the changes made to AS 46.04.

SECTION 23. AS 46.09 is a chapter that addresses release of hazardous substances. This section is a technical amendment to AS 46.09.060(b) which gives municipalities, for the purposes of environmental protection, the broadest possible authority under all pertinent environmental-related chapters of AS 46 exercisable within the municipality's boundaries. (This change complements the amendments proposed in SECTIONS 1-3 applicable to extra-jurisdictional authority outside the municipality's boundaries.)

SECTIONS 24 and 25 make the same amendment to the definition of "containment and cleanup" and add the definition of "public service" to AS 46.09 that are described earlier with reference to the changes made to AS 46.04 and AS 46.08.

SECTION 26 immediate effective date.

FEB 20 1990

PRINCE WILLIAM SOUND

COMMUNITY COLLEGE

February 7, 1990

The Honorable Drue Pearce
Alaska State Senate
Box V
Juneau, AK 99811

Dear Senator Pearce:

I realize the Alaska State Legislature will be considering a number of bills regarding the Exxon Valdez Oil Spill. Last week I attended a Senate Oil and Gas Committee meeting regarding SB 359 and today I testified on this bill via audioconference.

The attached materials may help give you insight into the many problems faced by the affected Alaskan communities. As mayor of Valdez at the time of the spill and as president of Prince William Sound Community College, I was very aware of the problems Valdez faced. As one of the Oiled Mayors, I learned of the many and varied problems faced by the other communities.

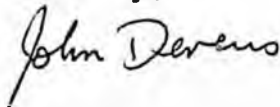
There is no community in our state that is totally immune from a disaster such as we faced. Earthquakes, mechanical failures, and human error can place any Alaskan community in jeopardy. A source of immediate financial aid is extremely important. During the Exxon Valdez spill, our only source of funding was our own reserves or Exxon. Going to Exxon with every one of our needs for community services placed us in a very difficult position.

The Exxon Valdez spill was a best case example. Exxon paid for more than many of us expected but they did not pay all of the costs the communities experienced. Another company may have refused to pay for any costs.

As you can see from the attached materials, our communities were faced with a number of problems that were either directly caused or aggravated by the financial situation and this was with a company that spent more than one billion dollars. The next time it could be a foreign-owned tanker or other type of disaster that will leave Alaskan communities without adequate resources to protect themselves.

I would encourage you to pass either SB 359 or a comparable bill to provide our communities with the protection they need.

Sincerely,



John Devens, Ph.D.
President
Prince William Sound Community College

cc: Mayor Robert Brodie, Chair, Oiled Mayors
Mayor Willie Goodman, President, Conference of Mayors

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The Exxon Valdez Oil Spill - A Community's Perspective

by John Devens, Ph.D.

Dr. Devens is President of Prince William Sound Community College and former Mayor of Valdez.

In the aftermath of the Exxon Valdez oil spill and other recent spills which have occurred since March 1989 in Morocco and Long Island, many people throughout the world are concerned about the environmental effects of oil spills. They question the immediate and long-term ecological impact. An area that is seldom addressed, however, is the effect that a major oil spill has upon the involved communities.

Since the Exxon Valdez spill, I had an opportunity to visit the Brittany coast and talk to the mayors of those communities devastated by seven oil spills in the last twenty years. The consistency in problems experienced by communities in both Alaska and France was evident, and I suspect this is the case with other areas of the world. As mayor of the community closest to the Exxon Valdez oil spill, I spent a considerable amount of time coping with the problems associated with this oil spill from March 1989 through October 1989.

First, I would like to give you a brief overview of Valdez. Valdez is unlike many other Alaskan communities in that our major tax revenue comes from the oil industry. Valdez is a very pro-development community with a long history of boom-and-bust economic activity. In 1972 we were in one of our bust phases when several of our business leaders met with the builders of the Trans Alaska Pipeline (TAPS) and offered to provide up to two billion dollars of taxfree revenue bonds to build the terminal in Valdez. Based on the offer of the City of Valdez, a decision was made to build TAPS to Valdez and place the terminal in our community.

Placing the terminal of the TransAlaskan pipeline in our community resulted in another boom phase, with additional population and an outstanding tax base. Shortly after the completion of TAPS, the community leaders of Valdez recognized the finite nature of the oil industry and the importance of using the new tax base to diversify our economy and provide for our future. At that time, we invested some of the tax revenues in developing our fisheries industry, promoting tourism, building our transportation infrastructure, and further developing our human service industries. At the same time, we decided to begin to diversify our industrial base while recognizing the need to protect these new industries from the problems caused by oil spills. Eight years ago, the mayor and city council considered building a major oil spill depot and having available the equipment and supplies that would be needed in a major oil spill.

The city's concerns regarding the potential of having a major oil spill came from comments made by individuals in our community, many who had worked in the oil industry.

Unfortunately, the city leaders' plan to build a warehouse and stock it with needed oil spill response materials was never completed due to assurances expressed by the oil industry. Despite the promises made by the oil industry regarding their readiness in dealing with a major oil spill, many citizens of our community were not convinced of their capability in dealing with a major spill. Three years ago, the city imposed an additional three mills of tax to provide additional services to the oil industry, including the building and maintenance of an oil spill response program. Unfortunately, the state of Alaska challenged the city's authority to impose a differential tax on the oil industry. Approximately six months before the oil spill, the city council of Valdez appointed an ad hoc committee to investigate the impact the oil industry was having on other industries in our community. Four hours before the Exxon Valdez oil spill, the ad hoc committee listened to a teleconference in which a geologist told us it was not a matter of "if" we had a major oil spill, but of "when" the oil spill would occur.

As mayor of Valdez, my initial reaction to the Exxon Valdez oil spill was to offer the city's help in dealing with the problems confronting the Exxon corporation. During the days following the spill, I made numerous calls to Exxon and Alyeska offering the city's help and cooperation in dealing with the critical situation. At the same time, I also requested that our city attorneys contact other cities that had similar oil spills. Our intention was to acquire information regarding the problems other communities had experienced. In general, other communities warned us that the oil industry had a reputation of not treating the local communities and affected businesses in a responsible manner. We were warned to be ready for litigation, to document everything that occurred regarding the oil spill, and to warn our business community of their potential losses.

Although the city of Valdez never had oil on its beaches, we were the most affected community in regard to "people pressure". Within hours of the oil spill, we were faced with a wave of people coming to Valdez, including the press, agency people, Exxon, and other industry people and individuals seeking employment. Our community which normally has about 3,500 people living on a permanent basis suddenly grew to over 10,000. Our local resources including housing were stretched beyond their capacity. Sometime during the first week of the oil spill, I became quite concerned about how Exxon would respond to both the community's needs and those of our businesses. At that time, I attempted to get a federal declaration of disaster for our area to assure that our businesses and the affected communities would receive financial aid. I believe many of my concerns were due to lack of information between the decision makers in the Exxon corporation, federal and state government representatives, and the city of Valdez. The federal government did provide some small business

administration loans to the people affected by the spill. However, a declaration of disaster was never given by the President of the U.S.

As I look back on it now, it appears that Exxon responded in a more responsible manner than predicted. A recent article in the Alaska Resource Development Council publication indicates that Exxon spent more than one billion dollars in the summer of 1989 on the oil spill. Of that money, more than two hundred million dollars was spent for chartering fishing boats and seventy-five million was paid to settle claims, especially to the commercial fishing industry. The article indicates that approximately sixty-one miles of booming material was purchased, eleven thousand, five-hundred people were hired, thirteen hundred barge and other floating hotel accommodations were provided, more than one hundred aircraft were chartered, and forty-four million pounds of equipment were placed on the beaches to clean the spilled oil. In retrospect, I believe most communities received more reimbursement than anticipated. However, it should be pointed out that Exxon did not reimburse communities for all of their costs.

Considering the amount of money spent on this cleanup, the number of individuals hired, and the number of fishermen and fishing boats used in the cleanup effort, I am certain there are Exxon officials who are quite confused with the reaction of the majority of affected Alaskans. There are probably groups of Exxon executives who have talked about the lack of appreciation and gratitude on the part of the affected communities.

However, I believe that Exxon does not fully grasp some of the perceptions and some of the problems associated with this summer's oil spill. From the beginning, many of the mayors and village leaders of the affected communities tried to tell Exxon that they wished to be kept within the information and decision-making loop. We felt we were losing control of our communities. This loss of control ranged from the attitudes of people placing temporary structures in our communities to the granting procedures used by Exxon. Although Exxon was frequently generous in providing grants to communities to pay for needed services, it was always at their discretion which services should be purchased and there were some needed services that the communities were never able to purchase with Exxon grants.

Many of the communities received what would appear to be an economic boom from money spent in the clean-up. It is important to note, however, that there was an unequal distribution of both benefits and losses within the communities. While some people who either owned restaurants or hotels or had boats for lease may have had an unexpected profit this summer, there were other individuals in all communities who suffered from lack of work, lack of tourists, lack of services, and general economic decline on our communities.

One of the things that Exxon could have avoided was in raising expectations in the minds of the people living in Alaska.

Our experience with oil spills was relatively limited and when we were told by Exxon that our beaches would be clean by the end of September, many Alaskans felt that the beaches would be returned to their natural state. As the summer wore on, we realized that Exxon had changed their terminology from "cleaned" to "treated" and finally used the expression "environmentally stable". Those individuals who anticipated having cleaned beaches by the end of the summer were obviously disappointed when they found out their beaches were only "treated" with oil residues still remaining.

A major problem was caused by some of the early communications from Exxon officials related to the amount of financial responsibility that Exxon would accept. Early in the spill, Exxon representatives indicated at press conferences that they took full financial responsibility for the oil spill and would pay any reasonable claim. Later, the claims were divided into primary, secondary and tertiary, with the primary claims being fishermen and the tertiary claims being individuals having businesses that were indirectly affected by the oil spill. Exxon did not seem generally well disposed toward paying any of the businesses that fell in the tertiary area, and many of the individuals that fell in the primary and secondary areas found it very frustrating to deal with the clerks hired to settle the claims. Associated with this frustration was the added difficulty in dealing with various individuals who were rotated about every three weeks. While the Exxon executive staff who made the promises in public meetings appeared to be honest and reasonable, the company representatives who the communities and the businesses dealt with often did not have public relations or, for that matter, the best interests of the business or community in mind.

Due to the problems that some of the communities were facing and a growing concern on the part of some communities that Exxon may not treat all of them consistently, a group was formed which later became known as the "oiled mayors of Alaska". This group was made up of representatives from twenty-nine communities, and met nearly every week to discuss common problems and communicate information that would help particularly the smaller communities. One of the initial goals of the "oiled mayors" was to develop an agreement between the Exxon corporation and all the affected communities that would guarantee a consistent treatment of all communities. After many efforts and numerous meetings, the "oiled mayors of Alaska" gave up their attempt to reach agreement with Exxon.

Each community faced its own particular set of problems. As I mentioned earlier, the city of Valdez never had oil on its beaches. However, we had a serious problem handling the numbers of people moving to Valdez to assist in the oil spill cleanup. Other communities were faced with oil on their beaches and the total disruption of their economies, and in some instances, a disruption of their traditional cultures. Many of the villages in the affected region had few permanent jobs or economic activities in their communities. The inhabitants have a subsistence lifestyle which requires using the summer months to gather much of their food from the sea and the tidelands that they consume.

during the winter months. Recent articles in Alaskan newspapers warn native communities not to eat oil-tainted shellfish that have been a major part of their diet for centuries. The influx of people and new sources of revenue caused a major disruption of the culture of these villages. Early in the oil spill, the village food supply was said to be safe if you could neither see nor smell crude oil in the fish or shellfish. More recently, native villages have been warned that the sight or smell test is not adequate and they should be extremely careful in consuming shellfish in oil contaminated areas.

The larger communities of Valdez, Cordova and Kodiak were faced with problems of waste disposal, sewer and water problems, competition for harbor space, child care, housing, sanitary conditions and other community services. In Valdez, we observed the use of our airport to increase from about twenty to four hundred takeoffs and landings per day. We saw a great increase in crime and mental health problems and were constantly faced with a shortage of labor since many of the potential workers were used in the oil spill cleanup. Many of the same communities were faced with a loss of revenue from their fish tax, and some of us found that projects which we had been developing for years were cancelled because of unreasonable fear of what the oil spill was going to do to our communities. For instance, we had a prospective brewery cancelled because of investors' fear of the public's attitude towards Valdez and Prince William Sound. We also lost several projects with a Japanese corporation to import glacier ice and mineral water from Valdez.

It is important to recognize that the Alaskan fisheries industry is market-driven. The state of Alaska is concerned with the reputation of Alaskan seafood and placed a zero tolerance regulation on our seafood as it relates to oil contamination. What this means is that any fish or shellfish that had as much as one tar ball in the catch would be destroyed. That resulted in the closure of many fisheries and the loss of considerable fishing revenue for the Prince William Sound, Kodiak and Kenai areas. If Alaska had not adopted the zero tolerance regulation, it was feared that the entire market price for Alaskan fish and seafood would have been reduced.

The final problem which I will discuss relates to the affected communities trying to obtain reimbursement for many of the additional costs resulting from the oil spill. I mentioned earlier that Exxon paid many, but not all claims. Exxon, for example, would not pay claims associated with attorney fees and other items associated with litigation. They also seemed to be particularly reticent about paying for any programs related to social problems resulting from the oil spill. Requests for funding additional mental health counselors were generally refused. Another area that was not consistently funded was research related to social and economic problems resulting from the spill. Although Exxon did pay for some public relations activities to help with the overall image of the state of Alaska, little funding has been made available to improve the damaged public image of Prince William Sound, Kodiak and Kenai - communities whose economies are based upon the tourism

industry. Finally, it is important to realize that Exxon had its own set of priorities which may not have been and, in many cases, were not consistent with the communities' priorities. If one watches the briefing program Exxon provided during the summer months, it can be seen that Exxon lists its highest priority as lightering the Exxon Valdez. I believe everyone will admit that Exxon did an outstanding job of removing the oil and saving the ship. Their second priority was protection of the hatcheries in Prince William Sound. Most Alaskans will recall that the initial protection provided the hatcheries was that of fishermen from communities such as Cordova and Homer. However, Exxon did provide booming material to help protect these hatcheries. Exxon's third priority was to protect the workers, and when one considers that Exxon had very little loss of life and injury it is reasonable to assume a good job was done with regard to the third priority. Removing the oil from the water was Exxon's fourth priority.

I cannot help wondering if we had another agency that would have placed removing the oil from the water as their highest priority, would not some of the damage to the beaches been avoided? It is possible that we are requesting the oil companies to respond to an emergency at a level of responsibility we would not ask of any other industry? As we have an opportunity to evaluate the Exxon Valdez spill, I am certain we will develop plans and procedures that will better protect us from similar catastrophes. Even though the spill took place in my community, there was nothing unique about the circumstances or the Alaskan environment which could explain the events of March 24, 1989 as an "Alaskan phenomenon". Human error, loose industry practices, and lack of state and federal oversight produced the most devastating environmental catastrophe in the history of the United States. For these same reasons, however, the Exxon Valdez oil spill could have occurred off the coast of Washington, Oregon, Maine, California, Massachusetts, Florida, Texas, or any state with tanker traffic off its coast or on its inland waterways. Prevention is clearly our only answer in dealing with future spills - i.e. double hulled tankers, escort vessels, tested contingency plans, better monitoring and tracking by the Coast Guard, a quasi-governmental agency for spill clean up, and stockpiles of materials and equipment near major shipping lanes. As a group of Prince William Sound citizens was told four hours before the spill, "it is not a matter of 'if' an oil spill occurs, but 'when' it will occur." It is imperative that the oil industry and the nation pick up the pieces from this disaster and proceed constructively in developing safeguards to protect against future calamities.

REPORT TO THE VALDEZ CITY COUNCIL
1 9 8 9 A N N U A L R E P O R T

Pursuant to Section 2-4(c) of the Valdez City Code which states, in part, that the City Manager shall "once a year present a detailed statement of what he has done during the year covered by the report." I have interpreted this to mean a report on what the City has done under the direction of the City Manager. The following is this detailed report for 1989:

SUMMARY:

The City of Valdez thought that the highlight of the year would be the violent wind and cold storm we experienced in January which froze a lot of water pipes and did damage mainly to the library (it would have been more extensive had it not been for a quick response from City and contractor personnel).

That potential assessment of the year all changed on March 24 with the grounding of the EXXON VALDEZ and the subsequent oil spill; media feeding frenzy; wildlife cleaning; invasion of all fashion of laborer, vendor, bureaucrat, scientist, dignitary, fast-buck artist, social scientist, EXXON/VECO/NORCON executive, etc. The City was in the middle of a world class "Chinese fire drill" which placed incredible and almost indescribable burdens on City services. The maintenance of basic sanitation, safety, and health was the immediate problem during April, and as the oil spill response evolved with a population peaking at an estimated 11,000 the demands on the City changed. The City of Valdez staff performed exceedingly well in meeting the dynamic situation that occurred.

The oil spill prevented the City from addressing many other planned activities for 1989. However, even in the year of the spill many of the priorities identified for 1989 were successfully handled. The highlights of these other accomplishments include:

- . Local taxing stability through the City's efforts to work effectively with the Senate Select Advisory Committee on Municipal Taxation of Oil and Gas properties which produced recommendations highly favorable to the City.
- . More efficient performance due to the installation of MENTOR software and training for Finance Department staff to effectively use this standardized software to replace a high maintenance customized system. Similarly new CHIEF software allows the Buildings and Grounds Department to more effectively track and account for maintenance work orders.
- . Improved public safety service due to the successful reorganization of the Department of Emergency Services as requested by City Council. The separate Police and Fire Departments are functioning well under the leadership of their new respective chiefs.
- . Improved quality of life due to successful paving of hospital parking lot, bus turnaround area, and several streets and pav-

-ing overlays of other critical areas.

The priorities identified for 1989 where the City did not perform as hoped include:

- . Preparation of the Comprehensive Development Plan.
- . Review of salaries and personnel ordinances and regulations.
- . Preparation of a comprehensive flood mitigation program.
- . Completion of municipal land selection entitlements.

After consultation with the City Council, these unmet priorities will be included, as directed, in the 1990 Work Plan.

In order to provide a simplified presentation of accomplishments for 1989, several departments have been merged into one of seven categories.

ADMINISTRATION/CITY CLERK/FINANCE

The oil spill responsibilities placed considerable demands on the City Manager's office to address the operational, governmental liaison, media, negotiation, and managerial demands of a seven-month crisis. The City Clerk's office was also affected by the need to provide support to the Mayor and City Council in working with the media, hosting dignitaries, sponsoring events, and responding to the mail and calls that poured into the City (including setting up a mechanism to accept donations).

The Finance Department drafted new purchasing and property control procedures which were formally adopted by the City in May 1989. Oil spill responsibilities it assumed included setting up a reimbursement program from Exxon for additional City services, increased billings for City services, and payroll for temporary hires to service oil spill demands. Exxon has been billed \$1,393,202 for local government services and has reimbursed the City to the tune of \$1,379,056. Additional funding of \$842,149 in capital projects for the City have also been added by Exxon.

Besides successfully addressing oil spill demands, Administration and Finance (with a great deal of technical/legal support from our attorneys and logistical help from Parks and Recreation Director Nancy Peterson) were able to successfully address the State Assessor's attempt to limit the amount of oil and gas property available for local taxation.

PUBLIC SAFETY

The major accomplishments of the Police and Fire/EMS Departments were the separation and reorganization of the former Department of Emergency Services back into more traditional public safety departments. Acting DES Chief Joe Michaud, Police Chief Bert Cottle, and Bob Preston, who held together the fire service side, deserve a lot of credit for making this reorganization successful. I be-

lieve the separation of the public safety service has accomplished what the City Council wanted: improved morale, increased technical expertise through greater specialization, increased emphasis on fire protection/prevention, growth and improved training of volunteer firefighters. The addition of Fire Chief Charlie Lundfelt provided renewed focus in the area of fire protection for the City.

The Police and Fire Departments were both impacted a great deal by the oil spill response activities. Overtime (reimbursed by Exxon) was required of the personnel to keep up with the demand. The statistical comparison between 1976 (peak of pipeline days), 1988, and 1989 graphically demonstrates the increased activity.

POLICE DEPARTMENT

	<u>1976</u>	<u>1988</u>	<u>1989</u>
Assaults	96	34	58
Accidents	469	112	298
Bar Disturbances	205	56	130
Disturbances	54	149	359
Driving While Intoxicated .	unavailable	76	153
Man-Days in Jail	520	1,845	2,660
Traffic Tickets	1,079	200	456
Arrests	346	301	673
Officer Responses	4,762	4,111	6,734

FIRE/EMS DEPARTMENT

	<u>1988</u>	<u>1989</u>
Ambulance Callouts	151	325
Fire Callouts	63	95
Fire Alarm Callouts	60	113

Animal Control operations experienced an estimated increase of 20% in demands for service. Direct and peripheral support to oil spill cleanup participants levied an especially heavy burden during June, July, and August. Animal Control capital resources were severely strained; the pathological incinerator, used to dispose of oil spill carcasses, was heavily damaged and will need replacement.

ANIMAL CONTROL

	<u>1988</u>	<u>1989</u>
License Fees	\$3,652	\$5,326
Impound Fees	\$4,410	\$9,408
Dogs/Cats Impounded	333/222	457/136
Dogs/Cats Adopted	45/77	52/33
Citations	36	34
Medical Assists	87	104
Agency Assists (Burns)	48	118
Misc. Animals (Deer, Birds, Ducks, etc.)	38	123

LIBRARY/MUSEUM

1989 was a year of destruction for the Valdez Library and construction for the Valdez Museum. The Library suffered the worst damage of any City operation from the "big blow" in late January. The freezing of fire suppression sprinkler pipes flooded the Library and damaged some equipment. Speedy response aided in keeping permanent damage to a minimum. The Library was closed for 7 days but reopened almost as good as new. The Library later set records due to the rapidly growing population of Valdez in response to the oil spill. 1,488 new library cards were issued, nearly doubling the old record of 795 in 1981. The gate count of 54,168 patrons topped the old count record (we have only had a gate since 1987) of 49,206 by 10%. The down side of oil spill is a higher than normal loss rate of Library materials. At year end 223 items valued at \$2,208 were overdue. The Library staff is in the process of reviewing policies regarding library card eligibility requirements and circulation.

The Valdez Museum saw the successful completion of the Egan Commons. This new addition provides much needed exhibit space for some of our more valuable larger pieces, like our vintage fire apparatus, and also gives the Museum a more conspicuous entry into our facility. Museum operations were somewhat hampered by the construction, but in most respects it was a normal year. Patron counts were down significantly, only 24,183 in 1989, compared to 37,693 in 1988. Donated revenue also declined by about \$6,700. This can be attributed to a reduced number of summer visitors, by some estimates tourist traffic in Valdez was down 40%, and construction disruptions. Buses from the tour ships did not let visitors off in front of the Museum as they had in the past.

ENGINEERING/COMMUNITY DEVELOPMENT/UTILITIES

The Engineering Department was drastically impacted by oil spill demands in the areas of building code enforcement, mobile home installation, building permit requests, sewer treatment plant operations, water demand, and supervision of City "force account" workers. In spite of the oil spill chaos, the major projects on the capital improvement projects agenda - Phase II of the Commercial Fisherman's Dock, Egan Commons, and various asphalt paving projects - were successfully completed. Some projects, like major maintenance at the Valdez Container Terminal, were delayed due to conflicts with oil spill activity. The biggest disappointment proved to be the picnic shelter. Its costs were underestimated and it could not be completed this year due to labor problems. Building also boomed. 217 commercial and residential construction permits were issued compared to 104 for 1988. The value of this construction is estimated to be at least \$5 million compared to \$3.6 million in 1988. The Department had the City Engineer and engineering secretary resign in June, and a new City Engineer has not yet been successfully recruited. Carol Smith

stepped in to cover the secretarial needs for both departments until a new secretary could be hired. Charlotte Burrill deserves much credit for keeping the operation on an even keel. Temporary staff was added to handle the increased activity, and Vern Ellwein remains as the building official.

The Community Development Department was also hammered by oil spill activity. New businesses, itinerant merchants, zoning questions, temporary structures, land leases, land use permits, myriad issues presented by a rapidly growing population, and the need to coordinate with State and Federal agencies on various subjects greatly hampered work on the Comprehensive Development Plan and the Air Service Study. These demands also made it impossible to service many requests for assistance from Valdez residents. Some additional contractual help was hired and a summer intern was hired to assist with population counts so we could keep track of our dynamic town. As a result of the work of the Community Development Department in this area, the Department of Community and Regional Affairs certified a population of 7,193 for 1989, about double our normal population. While this does not mean our State Revenue Sharing and Municipal Assistance payments, which totalled just over \$1 million in 1989, will double in 1990, they should increase significantly; the City is conservatively budgeting a 45% increase or \$450,000 more from these State aid programs. The inability to make further progress on the Comprehensive Development Plan was the biggest disappointment of the year. We also did not make as much progress as earlier projected on the flood mitigation plan for the City and municipal land selections. Even if staff time had been available for these projects, it is unlikely we would have received the community input and participation necessary to make these planning programs meaningful. People were simply too busy with the events surrounding the oil spill. The business survey and preliminary data gathering were accomplished for the Comprehensive Plan. Through the assistance of several consultants, work was begun on high priority projects such as Valdez Air Service Study, Gravel Management Plan, Municipal Land Selection, and the next phase of the Comprehensive Plan; and some work has begun on the other projects as well.

Gary Hennigh, the Community Development Director, resigned in November to pursue new opportunities after only a year in the position. Pamela Ulvestad was called upon throughout the summer and fall to carry much of the load of the Community Development office while Mr. Hennigh assisted with special oil spill projects and during the interim between directors. The City was able to recruit a highly qualified replacement in Mr. Dave Dengel. Dave started work on January 29, 1990.

1989 proved to be a test for some of the City's infrastructure. Both water and sewer capacities were stretched to the limits and many times almost overloaded. Under normal circumstances, the in-town system's water demands during the second and third quarters

are mainly affected by the local seafood processing activity. During 1989, these demands were compounded by the oil spill activity and showed an average increase of .5 million gallons per day (MGD). Listed below are the average demands and the peak flows the systems experienced this summer:

Potable Water Usage

1989 Peak Flow: 3.6 MGD
 Previous Peak Flow: 2.5 MGD

Average 2nd and 3rd Quarter demands:
 1988: 1.6 MGD
 1989: 2.1 MGD

The sewage treatment plant began showing signs of overloading around the end of May due to oil spill impact. It did not return to satisfactory operation until the middle of August. The plant could have possibly handled the 1989 loading better if it had not been for the sludge build-up in the first lagoon.

	<u>Hydraulic Loading</u> million gallons per day		<u>Solids Loading</u> pounds per day	
	<u>1988</u>	<u>1989</u>	<u>1988</u>	<u>1989</u>
April	.550	.810	367	980
May	.670	.830	525	1,322
June	.490	.750	417	1,532
July	.490	.690	699	1,266
August	.600	.600	676	1,006
September	.610	.900	930	1,208

PARKS AND RECREATION

The Parks and Recreation Department played an important role in the oil spill response. The Department continued to provide extensive recreation opportunities for the residents, visitors, and transients of Valdez, but over and above its normal activities the Department made other contributions. The Department played a leading role, in concert with the Public Works, Engineering, and Community Development Departments, in establishing temporary campgrounds with showers and toilets. The Parks and Recreation Department also provided an extended activity period under its Summer Fun program so that older children, whose parents were probably involved in oil spill cleanup jobs, could receive additional supervision.

The Civic Center was also the focus of much activity related to the oil spill. Early on it hosted press conferences for media from all over the world and later it entertained a congressional hearing. There were meetings held at the facility every day related to scientific examination of the effects of the oil spill on wildlife and the environment. The Civic Center policies and procedures, includ

ing a return to an exclusive catering contract, were revised and adopted by the City Council. These will greatly assist in the management of the facility.

The Parks and Recreation Department had a successful season running the Glacier Campground as receipts from the camping fees collected paid for the operation of the facility. This Department provided much of the assistance in the production of a newsletter for Valdez residents. It also sponsored cleanup days and the City beautification program.

Parks And Recreation Year-End Participant Totals

	<u>1988</u>	<u>1989</u>
Black Gold Rec. Hall	18,988	17,854*
Teen Center	16,802	20,152
Gym Activities	11,578	15,929
Senior High Pool	20,560	15,850**
Hydro Pool	3,643	4,630
Special Events	3,656	2,913
Summer Programs	<u>2,169</u>	<u>2,474</u>
TOTALS	77,396	79,802

*Rec. Hall Statistics for May and June:	<u>1988</u>	<u>1989</u>
May	1,472	2,210
June	1,026	2,095

**High School Pool was closed for 1-1/2 months.

Civic Center

	<u>#Events</u>	<u>Attendance</u>	<u>Rental Revenues</u>	<u>Catering Revenues</u>	<u>Movie Revenues</u>	<u>TOTAL REVENUES</u>
1988	398	26,699	\$14,227	\$ 8,855	\$ 0	\$23,082
1989	725	47,804	54,134	10,050	8,340	72,524

COUNSELING CENTER/HOSPITAL

The Counseling Center underwent significant changes this year as a result of the EXXON VALDEZ oil spill. Increased state grants were obtained to hire an additional counselor and a secretary to address the increased caseloads that started appearing at the Counseling Center. The Counseling Center also initiated a project to survey a statistically valid sample of residents from Valdez and Cordova for measuring psychological impacts of the tanker grounding and the subsequent oil spill cleanup activity. This project is approximately two-thirds complete and should provide some useful information on how people are affected by this type of event.

Valdez Counseling Center New Clients

	<u>1987</u>	<u>1988</u>	<u>1989</u>
New Clients	64	82	149
New ASAP Cases	105	0*	263
Average New Clients/Mo. ...	5.33	6.83	12.42
Average New ASAP Cases/Mo..	8.75	0.00*	21.90

*No Alcohol Safety Action Program during 1988.

The Valdez Community Hospital, managed under contract by Lutheran Health Services, also was dramatically impacted by oil spill activities.

	<u>1988</u>	<u>1989</u>
Outpatient Procedures	5,000	10,000
Emergency Room Visits	1,505	3,371
Revenues	\$ 871,635	\$1,279,194 est.
Expenses	\$1,381,727	\$1,799,040 est.
Percent of Occupancy	21.53%	23.90% est.

The Hospital carries over into 1990 a large accounts receivable balance that needs to continue to be worked. This large balance is attributable in large part, either directly or indirectly, to the oil spill.

On the positive side, the Hospital received more donations than ever before:

- | | |
|------------------------------|--|
| Exxon: | <ul style="list-style-type: none"> . 3 hand-held radios . computer upgrade system . hypothermia blanket system . 1/2 the cost of the Laboratory equipment for processing CBC's |
| Fairbanks Memorial Hospital: | <ul style="list-style-type: none"> . Ultrasound Machine |
| United Way: | <ul style="list-style-type: none"> . TV's for patient rooms |

PUBLIC WORKS

The Public Works Department contributed in numerous ways to oil spill response. The Department assisted in providing services for temporary campgrounds, kept the water and sewer functioning under unprecedented demand, managed the collection and disposal of solid waste four to five times the normal volume, and provided support for the wide range of services provided by the City. There was some turnover in staff which can be attributed to oil spill related opportunities, but the Department has largely been successful in finding qualified replacement personnel.

The installation and use of the CHIEF software system has greatly assisted in keeping track of work orders by the Buildings and Grounds section of the Department.

The Department was criticized for its oversight of the lawn maintenance contract. The criticism was proven unwarranted by a horticultural expert, but the vociferousness of the criticism continued unabated. This responsibility will be transferred to the Parks and Recreation Department for oversight so it can be managed in concert with the City beautification program. The Parks and Recreation Commission will also provide an additional level of appeal to address complaints.

The very wet December of 1989 proved to be quite a test for the snow removal forces of the Department. The crews were challenged and a few rough edges were smoothed, but on the whole the snow crew responded well.

Initial work was begun to bring the City's sanitary landfill into compliance with Department of Environmental Conservation standards. Improvements in landfill operations, including controlled access, increased attendant coverage, and improved litter control have also been instituted. Analysis of the existing landfill site, focusing primarily on problems attributable to a high water table, was conducted by the environmental engineering firm of Hart Crowser.

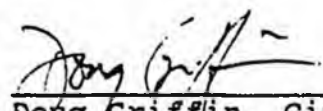
PORTS/HARBOR

No area of City operations was more severely impacted by the oil spill response than our ports, docks, harbor, and airport. The Valdez Container Terminal was a valuable asset shared with Exxon and its subcontractors. It provided staging area, storage space, and flexible dock facilities to support the armada of barges, ships, flotels, and boats used to clean up oil and support the effort. The Old City Dock also was used in various ways to service vessels and provide moorage for the Hotel Ship Prince George, along with its normal function of servicing some fishing boats and providing moorage for Alaska state ferries and a tour ship.

The boat harbor also served as a nerve center for oil spill cleanup operations. Cleanup vessels and crew boats were dispatched from the harbor and the facilities operated at full capacity all summer long. The harbor operated extended hours and generated enough revenue to pay for its operation this year.

The airport was incredibly busy this year in supporting aircraft activity and providing office space in the terminal. Normal flight operations of 12 per day rose to an average exceeding 300 operations per day. A portion of the airport roof was torn off by high winds on day four of the oil spill. This required immediate repair. Other, long overdue, maintenance and repair were needed as our building received some use.

This report of activities by the City Valdez and its dedicated employees is, hereby, respectfully submitted.


Doug Griffin, City Manager

1-30-90

STATE OF ALASKA 1990 - 16TH LEGISLATURE
SECOND SESSION
FISCAL NOTE

Bill Number: Sponsor Substitute for Senate Bill 359

Title: "An Act relating to municipal assistance: oil spills"

While this bill will have a specific fiscal impact upon the department, the impact will occur only if the release of oil or other hazardous substance triggers the operation of the fund. Because of the conditional nature of this impact, no fiscal impact is indicated in a specific fiscal year. It would be the intention of the department to take funding for these positions from the fund itself once the fund became operational. The anticipated impact would include positions and funds to manage the operation of the grant program.

DCN

TESTIMONY TO THE SENATE JOINT COMMITTEE ON OIL AND GAS
SP 888 - OIL AND GAS REVENUE FROM THE VALDEZ SPILL

W. Monte Taylor, Community Liaison Manager

Wednesday, February 7, 1990

The intent of my testimony today is to clarify the actions taken by Exxon since last spring to assist the municipal and village governmental entities that may have been impacted by the Exxon Valdez oil spill. I have been in charge of Community Liaison activities since April 1, 1989, and I would be glad to answer any questions you have on this subject, either during, or after my remarks this morning.

Within a few days of the spill, we recognized the emergency situation created for the municipalities that would be impacted by the advancing oil. We also recognized that the impact on each community would be different, depending on the location of that community and the status and diversity of the local economy, so that our approach to helping each community would be different and should be responsive to the community's unique circumstances.

Our objective then was straight forward and easily stated. It was to help the individual communities by working with their leadership in determining their immediate and longer term concerns and then to seek appropriate and realistic solutions.

In order to address these problems in a responsible manner, we rapidly mobilized a community liaison group to be located in the major affected communities and to be, in effect, the ombudsman for the community. We established community liaison presence in all of the major affected communities within a few days and had established full time representatives in Cordova, Valdez, Seward, Homer and

Kodiak. Within those weeks, we were offered a total of \$100,000 to help us reach the small native communities. During those first few weeks, we spent most of our time helping the communities minimize the impacts by protecting their critical resources, assisting in the prioritizing of their needs and helping them prepare for the influx of people and equipment.

On about May 15th, we heard about the formation of the so-called "Oiled Mayors Subcommittee" of the Alaska Conference of Mayors. We first heard about this organization when they presented us with a proposed expense reimbursement agreement in which they wanted us to advance them money based on their estimate of eligible expenses, to be spent for any purpose that "would not have been incurred but for the oil spill." Early in April, we had entered into Memoranda of Agreement with both the Kenai Peninsula Borough and the Kodiak Island Borough to reimburse expenditures for spill response activities, including boom deployment, spill tracking and reconnaissance, beach surveillance and baseline information. Therefore, the concept of advances or of entering into reimbursement agreements was not a new or objectionable approach to us.

After we analyzed the proposed agreement, however, we concluded the wording was too general and lacked a reasonable and fair role for Exxon. In essence, it called for us to advance funds without having any input or knowledge about the types of expenses that might be involved. We, therefore, counter-proposed an agreement and attempted to enter into negotiations to come up with an acceptable compromise. I won't go into the details of our negotiations but the Mayor's group had three major issues that they considered critical to the negotiations. They were: 1) a definition of the type of expenses that Exxon is willing to reimburse, 2) acceptance by Exxon of the concept of advance funding and, 3) the reimbursement of straight-time pay for the portion of regular employees time that is spent on the oil spill.

We agreed, however, to wait until we had more information to that effect that we could not continue to pay for the cleanup, over the formal advice of the State and agree with them to pay for the advance on the types of expenses we were being asked to cover. We thought it would be to our mutual advantage to come to agreement, before the advance, that the activity was appropriate for us to be paying for rather than leaving that to a later determination. On the other hand, the Mayor's Subcommittee wanted advance funding with at least the initial determination of justifiable expenditures of those funds to be under their absolute control. This disagreement on the procedure to be used for advances turned out to be the irreconcilable difference that terminated our negotiations with the Subcommittee, even though we had reached a general consensus on the major issues.

The net result was that on June 14th, we wrote each of the mayors and village council presidents, offering to reimburse or advance funds under the criteria that had been set forth in our latest proposal to the Subcommittee. I have attached copies of that letter and proposal to my written testimony for your information. You will see that we addressed the three major issues both in the letter and in the agreement.

Both prior to and since that time, we have attempted to advance or reimburse funds to the affected communities for all reasonable and necessary incremental expenses created by the oil spill. In fact, for expenses incurred prior to June 14th, while the guidelines were being defined in our negotiations, we reimbursed the communities for any reasonable expense they submitted, even if it was in one of the categories that we specifically excluded in our June 14th letter. We

felt that a high level of cooperation with the community, to address their unique needs, was important and earned extra given the emergency situation in those early days after the spill.

The net result is that we spent over \$12M on our various community assistance programs during 1989. This includes advances of over \$4M, reimbursements of another \$6M, about \$1M spent on our Community Employment Assistance Program, provision of conventional food and fuel to two of the villages (Tasitler and Cheeega) and assistance in the collection and transportation of over 100 thousand pounds of subsistence food to 10 native villages. We also spent over \$1M on a winter monitoring and discretionary clean-up program which allowed each of 16 communities to determine, for themselves, whether any clean-up of their local shorelines was warranted this winter and to do what they felt necessary.

As I understand it, one of the specific items your Committee wanted to know is what we did and did not reimburse under our guidelines.

The agreement I have attached is, as I mentioned, the basic guideline we have used to evaluate whether it was appropriate, or not appropriate, to reimburse. Paragraph 2 of that proposed agreement summarizes this. It defines reimbursable costs as those costs either:

1. "incremental to normal local government operations such as overtime, temporary personnel, office equipment, office supplies, travel expenses, or other out-of-pocket expenditures which were directly related to the oil spill and,
2. straight-time pay for the portion of any regular employee's time that can be specifically shown to result in incremental costs directly related to the oil spill."

Another section of the same paragraph 2 of the agreement disclosed those items of expense which we for the most part have not considered it appropriate to reimburse. The costs outlined in that section are:

1. "Costs for services that merely duplicate the activities of Exxon or its contractors.
2. Costs for environmental, socioeconomic, mental health, or other broad studies of a similar nature.
3. Costs for advertising or public relations programs.
4. Costs for attorneys."

I should note that Exxon gave \$4M to the Alaska Visitors Association and \$1.2M to the Alaska Seafood Marketing Association, neither of which are included in any of my numbers. This was the main reason we did not think it appropriate to reimburse costs of advertising or public relations to the individual communities. One other cost I should mention is damage assessment expenses.

Although it was not covered in paragraph 2 of the proposed agreement, paragraph 1 makes it clear that damage assessment expenses also would not be reimbursed, since those expenses would be covered by the NRDA Trustees Fund to which we are providing \$15M.

The emergency situation which we faced last year is now behind us. We will be reviewing and working with the communities to assess whatever residual impacts may still exist and the appropriate responses. However, the situation is such that the needs are anticipated to be considerably less than last year.

I would be glad to answer any questions you have regarding our community assistance activities.

EXXON COMPANY, U.S.A.

POST OFFICE BOX 670 • VALDEZ, ALASKA 99686-0670

June 14, 1989

Dear Mayor _____:

At the meeting on June 12, 1989 with the representatives of the Oil Spill Subcommittee of the Alaska Conference of Mayors, Exxon presented a proposal for consideration. After a thorough review of Exxon's proposal, it was decided by the Mayor's representatives that there were still areas of difference that made it unlikely that an agreement that would be acceptable to all Mayors was close at hand.

Exxon stated at the meeting that we were willing to operate under the general guidelines of our proposal in the absence of a formal agreement. Our proposal addressed the three major issues that the Mayor's considered critical to the negotiations, namely:

- 1) A definition of the type of expenses that Exxon is willing to reimburse,
- 2) acceptance by Exxon of the concept of advance funding, and
- 3) the reimbursement of straight time pay for the portion of regular employee's time that is incremental to the oil spill.

To follow up on those commitments, we are attaching a copy of our proposed agreement so that you understand our criteria for advance funding and reimbursement. We will accept invoices either through our local Community Liaison representative _____ or _____ at the Exxon Command Center at _____ or directly to me at my Valdez address. Advance funding will also be considered based on appropriate justification as more fully described below and in the agreement.

The essential operating elements are summarized below with references to the appropriate paragraph of the attached Expense Reimbursement Agreement:

- o The local Government may submit invoices to Exxon for incremental costs to normal Local Government operations along with appropriate documentation. Exxon reserves the right to limit payment of any invoice.

REFERRALS TO ATTACHED AGREEMENT:

- + Para. 1, page 1 excludes "damage assessment expenses".
- + Para. 2, page 1, second paragraph describes specifically defined "reimbursable costs"

- + Para. 2, page 2, second paragraph starting with "Although" describes expenses Exxon does not presently contemplate reimbursing.
- + Para. 3, page 2, first paragraph describes how Exxon will respond to invoices submitted.

- o It should be understood that any invoice we pay will not be included in any future claim and that any equipment paid for by Exxon will become Exxon's property.

REFER TO:

- + Para. 5, page 3, last three lines.
- + Para 3, page 2, last four lines.

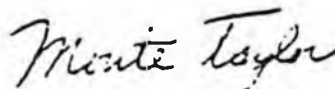
- o If a Local Government is prepared to provide appropriate justification, we will attempt to reach agreement to describe the services and amounts involved in some written form, and make advances on the agreed amounts.

REFER TO:

- + Para. 4, page 2 and 3.

As stated above, we are willing to work with the various Local Governments to reimburse documented incremental costs directly related to the spill and make appropriate advances where justified. We are prepared to be responsive to your needs and mitigate cash flow problems caused by the spill. We need your help to provide appropriately detailed documentation so that we can accomplish that objective.

Sincerely,



Monte Taylor
Community Liaison Manager
c/o Exxon Command Center
P. O. Box 670
Valdez, Alaska 99686

**LOCAL GOVERNMENTS-EXXON SHIPPING COMPANY
EXPENSE REIMBURSEMENT AGREEMENT**

THIS AGREEMENT is between Exxon Company U.S.A. (a division of Exxon Corporation) as contractor for Exxon Shipping Company (hereinafter referred to collectively as "Exxon"), and the following local governments and village entities:

City of Cordova, Alaska
City of Homer, Alaska
City of Kenai, Alaska
City of Kodiak, Alaska
Larsen Bay Tribal Council, Alaska
Port Graham, Alaska
City of Sand Point, Alaska
City of Seldovia, Alaska
City of Seward, Alaska
City of Valdez, Alaska
City of Whittier, Alaska
Aleutians East Borough, Alaska
Kenai Peninsula Borough, Alaska
Kodiak Island Borough, Alaska
Lake & Peninsula Borough, Alaska

1. Any local government or village entity which is signatory to this agreement (hereinafter referred to as "Local Government" or collectively as "Local Governments") may submit invoices to Exxon as the Local Government incurs expenses, debts, or obligations of any type, except damage assessment expenses (collectively "invoices") due to the oil spill from the M/V EXXON VALDEZ.

2. Each Local Government may submit invoices to Exxon for direct reimbursement. Subject to the terms of this agreement, invoices will be reimbursable as defined in the next paragraph.

"Reimbursable costs" are specifically defined as those costs (1) incremental to normal Local Government operations such as overtime, temporary personnel, office equipment, office supplies, travel expenses, or other out of pocket expenditures which were directly related to the oil spill and (2) straight time pay for the portion of any regular employees time that can be specifically shown to result in incremental costs directly related to the oil spill.

Other costs will be advanced or reimbursed pursuant to paragraph four of the Agreement.

Although the parties have agreed to discuss any item of expense, Exxon does not presently contemplate reimbursing Local Governments for the following types of expenses: 1) costs for services that merely duplicate the activities of Exxon or its contractors, 2) costs for environmental, socioeconomic, mental health or other broad studies of a similar nature, 3) costs for advertising or public relations programs, or 4) costs of attorneys.

The Local Governments use a variety of accounting systems and this Agreement is not intended to impose or require changes to those systems. If the Local Government is currently using an accounting system that provides for the charging of local government payroll, and other expenses to capital or grant projects (for example, State of Alaska capital improvement grant projects), the Local Government may use that system for record keeping. Each Local Government shall provide Exxon monthly, along with its invoice(s), documentation (including but not limited to) summaries of expenses for which reimbursement is sought plus copies of payroll summary sheets backed up by time records, and invoices for third party services and supplies. Each Local government and Exxon will attempt to agree on any further supporting documentation needed to substantiate expenses submitted by a Local Government.

3. Exxon agrees that it will within thirty (30) days from the date Exxon receives an invoice from the Local Government, either: a) reimburse the Local Government or b) notify the Local Government that Exxon will not pay the invoice in whole or in part. Each Local Government reserves the right to assert a claim against Exxon for any portion of an invoice that Exxon declines to pay. Any equipment, supplies, or other assets paid for by Exxon, directly or by way of reimbursement, shall unless consumed in the operation be turned over to Exxon upon the termination of this Agreement.

4. At such time as a Local Government is prepared to provide justification on the need, scope, and amount of expenses and services (hereinafter collectively referred to as Services), Exxon and such Local Government will then attempt to reach agreement on such Services and if successful will incorporate an initial list of the agreed upon Services along with the agreed upon maximum monthly amount (limit) for each as Attachment "A" to this Agreement. Attachment "A" may also contain the cost of agreed upon Services already incurred by each Local Government. Should a Local Government and Exxon subsequently agree upon a new list of Services, they will execute a revised Attachment "A" to be

incorporated into this Agreement. Once a Local Government and Exxon have reached such an agreement and incorporated an Attachment "A" to this Agreement, Exxon agrees that, upon written request, it will advance funds to such Local Government for the agreed upon estimated cost of anticipated Services for the upcoming month subject to refund as specified below. Each Local Government shall account monthly for all advance funding by providing specific invoices and documentation. Any advance funds not used for agreed upon Services and only to the extent of the agreed Attachment "A" limit for each such Service shall be credited to the following month's advance funding, or, to the extent such surplus funding exceeds the amount necessary for the following month's advance funding for each such Service, shall be repaid to Exxon.

5. By entering into this agreement, the Local Governments do not waive, release or acknowledge satisfaction of any claim or cause of action they may have against Exxon or any other party for damages or costs attributable to the oil spill from the M/V EXXON VALDEZ. The Local Governments specifically reserve the right to bring any action they may have against Exxon or other party. The Local Governments agree that they will not include any invoice paid by Exxon under this agreement as part of any future claim or demand on Exxon.

6. By entering into this agreement, Exxon does not admit any violation of law nor does it admit liability for any penalties, civil assessments, damages or costs attributable to the M/V EXXON VALDEZ oil spill or obligate itself to pay any invoices submitted by the Local Governments. However, Exxon is obligating itself to process all such invoices submitted by each Local Government hereunder in accordance with this Agreement.

7. Each Local Government agrees that Exxon may audit the Local Government's contracts, records and other documentation (including the Local Government's vendors' records and documentation) associated with any expense or invoice which Exxon reimburses the Local Government. Each Local Government agrees to reimburse Exxon for any overpayment made to such Local Government. Exxon and each Local Government agree to expend their best efforts to resolve by mutual agreement any overpayments made to reimburse the Local Government's expenses that may be revealed by audits conducted pursuant to this paragraph.

8. In the event that a court or other judicial or administrative body should determine that Exxon was not liable for any penalties, civil assessments, damages, or costs attributable to the M/V EXXON VALDEZ oil spill, Exxon's right to recover from

a Local Government funds paid pursuant to this agreement shall be limited to that specified in paragraph 7 above.

9. This Agreement shall cover Services not already reimbursed by Exxon that were incurred between March 24, 1989 and September 30, 1989, and thereafter on a monthly basis (term of this Agreement), provided the parties mutually agree such an extension is necessary. This Agreement will be interpreted under the laws of the State of Alaska. Exclusive venue for any claims or disputes arising under this Agreement shall be at Anchorage, Alaska.

This Agreement replaces prior agreements between the parties with respect to submittal and payment of expenses that are the subject of this Agreement, except to the extent a final accounting has not been made under any such agreement. In the event a final accounting has not been made under any such existing agreement, this Agreement shall only become effective as to such Local Government once a final accounting and settlement under such existing agreement has occurred.

This agreement may be executed in counterparts, each of which shall be an original, but all of which, when taken together, shall constitute one and the same instrument. This Agreement shall be effective as a separate agreement between Exxon and each Local Government that executes it even if all the listed Local Governments and village entities do not ultimately approve it. However, this Agreement is not intended to benefit or create any rights in any person or entity not a signatory hereto.

Dated: _____

EXXON COMPANY U.S.A. (a division of
Exxon Corporation) as a contractor
for EXXON SHIPPING COMPANY

MEMORANDUM

TO : Matt Jamin
FROM : Allen Field
DATE : February 1, 1990
RE : Retroactive Application of a Civil Statute: The WPPS Example.

While the WPPS litigation was in progress, the Washington Legislature, in 1985, passed an amendment raising the standard of fault applicable to municipal entities and officials from a negligence standard to scienter. The amendment, however, made no mention of retroactive effect. Consequently, a Washington federal district court ruled the statute (RCW sect. 21.20.430(7)) was only prospective in application. Within two weeks, the legislature introduced and later passed an amendment making the statute explicitly retroactive. Legislature history revealed that the sole purpose of the amendment was to effect the instant litigation to protect local ratepayers.

The Washington Supreme Court in related litigation upheld the legislature's actions and the retroactive application of the statute against a variety of constitutional challenges. Haberman v. Public Power Supply System, 744 P.2d 1032 (Wash. 1987).

1. Equal Protection

Notwithstanding that plaintiffs and intervenors lacked standing to assert this claim within the context of the particular statute, the court held there was a rational basis to the legislature's

purpose and the statute was a means reasonably related to this purpose. The court emphasized that "such a rational basis for a legislative decision need not have actually motivated the Legislature's decision." 744 P.2d at 1056. Under a rational basis test "a statutory classification will be upheld if any state of facts may reasonably be conceived to substantiate it." Id.

For similar reasons, the court rejected the argument that the statute violated the prohibition against special legislation, Wash. Const. art. 2 sect. 28(17).

2. Due Process

The court did not even reach the merits of the intervenors' federal and state due process claims, holding that claimants had not first established a legitimate claim of entitlement. Under Washington law, statutory tort claim rights do not vest until a final, unreviewable judgement. The intervenors had no claim of entitlement to the pre-amendment terms and, therefore, the retroactive application of the statute did not implicate any interest protected by state or federal due process guarantees. 744 P.d at 1058.

3. Separation of Powers

The court ruled that a statute which prescribes new rules to be applied to pending litigation does not infringe upon a judicial function and, therefore, does not violate the separation of powers clause. The court noted that it disagreed with the federal district court's initial ruling discussed supra. 744 P.2d at 1058 n.1.

4. Impairment of Contracts

The contracts clause does not prohibit generally states from enacting legislation with retroactive effects. 744 P.2d at 1059. Moreover, the negligence standard of the former statute was not expressly incorporated into the bond contract. Therefore, the amendment did not unconstitutionally impair any of the plaintiff's contractual rights.

TESTIMONY OF OILED MAYORS BEFORE THE SENATE OIL AND GAS COMMITTEE
ON SSSB 359.

FEBRUARY 1, 1990

MAYOR ROBERT BRODIE: GOOD AFTERNOON SENATOR PEARCE AND MEMBERS OF THE COMMITTEE.

THANK YOU FOR THE OPPORTUNITY TO BE HERE TODAY TO SPEAK WITH YOU ABOUT OUR LEGISLATIVE CONCERNS. I AM THE MAYOR OF THE CITY OF KODIAK. WITH ME TODAY ARE SEVERAL MEMBERS OF THE ALASKA CONFERENCE OF MAYORS, AND ITS OILED MAYORS SUBCOMMITTEE. LET ME FIRST INTRODUCE MAYOR VAN BROCKLIN FROM CORDOVA IN PRINCE WILLIAM SOUND, AND MAYOR DON GILLMAN, FROM KENAI PENINSULA BOROUGH. WE ALSO HAVE AVAILABLE MEAD TREADWELL WHO IS OIL SPILL COORDINATOR FOR THE CITY OF CORDOVA, AND MATT JAMIN, AN ATTORNEY WORKING WITH THE OILED MAYORS TO ANSWER TECHNICAL QUESTIONS YOU MAY HAVE ABOUT SB 359, AND OUR POSITION ON IT.

TO UNDERSTAND OUR POSITION, IT IS NECESSARY TO GIVE YOU A QUICK SYNOPSIS OF OUR PROBLEMS. THE OILED MAYORS HAVE BEEN MEETING SINCE ABOUT ONE MONTH AFTER THE EXXON VALDEZ OIL SPILL LAST MARCH. THE PROBLEMS WE HAVE FACED HAVE BEEN COMMON; SO TOO HAVE BEEN OUR FRUSTRATIONS. IF MY TESTIMONY OCCASIONALLY SEEMS HARSH, I DO NOT DO SO INTENTIONALLY. WE ARE FRUSTRATED; OUR CITIZENS ARE FRUSTRATED.

AS TO EXXON, WE WERE FIRST PRESENTED WITH A CORPORATE ACKNOWLEDGMENT OF ITS RESPONSIBILITY FOR THE CLEANUP. WE WERE PERHAPS TOO QUICK TO TRUST THAT PROMISE, FOR TOO SOON IT WAS BROKEN. WE LEARNED ALMOST IMMEDIATELY THAT EXXON WAS MORE INTERESTED IN THROWING MONEY AT THE SPILL FOR THE BENEFICIAL

EFFECTS OF PUBLICITY THAN IT WAS TO REALLY CLEAN UP THE ENVIRONMENT AND DEAL WITH THE ECONOMIC, SOCIAL AND PSYCHOLOGICAL EFFECTS OF THE SPILL WE EXPERIENCED.

WE HAD FRUSTRATIONS AS WELL WITH THE STATE. THE LEGISLATURE AUTHORIZED \$35,700,000 TO DEAL WITH THE SPILL, BUT NONE WAS EARMARKED FOR MUNICIPALITIES. WE HAVE TRIED TO GET MONEY RELEASED THROUGH THE DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS AND THROUGH THE DEPARTMENT OF ENVIRONMENTAL CONSERVATION, BUT IT HAS BEEN A FIGHT AT EVERY JUNCTURE. WE DO NOT SAY THERE HAS BEEN BAD FAITH FROM THE STATE, BUT WE NEED A REGULATORY STRUCTURE IN PLACE TO DEAL WITH DISTRIBUTION OF FUNDS TO US IN A RESPONSIBLE AND RESPONSIVE MANNER.

THE COSTS WE HAVE SUSTAINED, AND THE EFFECTS ON OUR MUNICIPALITIES ARE REAL. FOR EXAMPLE, CORDOVA SPENT \$200,000 ON BOOM WITHOUT ANY IDEA WHERE THE MONEY WOULD COME TO PAY FOR IT. WE IN KODIAK EXPERIENCED A 600 % INCREASE IN MENTAL HEALTH SERVICE DEMAND. THESE ARE JUST REPRESENTATIVE. WE HAD SHORTAGES IN HOUSING, INADEQUATE DAY CARE, AND A FULL RANGE OF NEW INFRASTRUCTURE SERVICES WE HAD TO PROVIDE. PEOPLE AND VILLAGES WHOSE LIFE DEPENDS ON SUBSISTENCE AND ITS RELATED LIFESTYLE SAW WHAT CHIEF MEGANICK HAS CALLED THE DEATH OF THE WATER.

ALMOST ALL OF US EXPERIENCED DECREASES IN OUR REVENUES. BY WAY OF EXAMPLE, OUR COMMUNITIES DEPEND ON RAW FISH TAX FOR FROM 25% TO 90 % OF THEIR REVENUES. CLOSED AND TRUNCATED SEASONS HAS MEANT WE CANNOT EXPECT THOSE REVENUES TO BE DISTRIBUTED THIS YEAR BASED ON LAST YEAR'S FISH REVENUES.

THE BUSINESSES OF OUR CITIZENS -- THE BASIS FOR OUR MUNICIPAL

ECONOMIES -- WERE OFTEN DEVASTATED. FISHERMEN LOST ENTIRE SEASONS, BUSINESSES LOST NORMAL REVENUES, PROCESSORS HAD NO FISH TO PROCESS. THE FALLOUT THROUGHOUT OUR COMMUNITIES WAS EXTREME. YOU MAY HEAR THAT THERE WERE "SPILLIONAIRES" WHO MADE THE BIG VECO MONEY AND THE LIKE, AND THERE WERE SOME, BUT EVEN THAT APPARENT BENEFIT WAS OFTEN NEGATIVE: IT MEANT SIGNIFICANT DISPLACEMENTS WITHIN OUR ECONOMIES. WE DO NOT YET KNOW HOW THE REST OF THE WORLD NOW PERCEIVES THE QUALITY OF ALASKA FISH PRODUCTS ON WHICH WE BASE OUR LIVELIHOODS. WE DO KNOW ALREADY THAT THE FISHING WE WERE ABLE TO DO LAST YEAR -- BECAUSE IT WAS OFTEN CLOSER TO THE STREAMS WHERE THEY SPAWN -- LED TO LOWER QUALITY FISH, AND THAT MEANS LOWER PRICES. THOSE LOWER PRICES AFFECT OUR ECONOMIES AS EVERY LEVEL.

EXXON TOLD US THEY HAD NO RESPONSIBILITY FOR THOSE EFFECTS OF THE SPILL, AND REFUSED TO HONOR THEIR COMMITMENT TO "MAKE US WHOLE." THOUGH WE ARE UNABLE EVEN NOW TO QUANTIFY THE LOSSES WE HAVE SUSTAINED BECAUSE THE FALLOUT IS STILL OCCURRING, WE CAN INFORM YOU THAT WE EXPECT LONG RANGE EFFECTS ON OUR INFRASTRUCTURES AS THEY ATTEMPT TO DEAL WITH THE EFFECTS OF THE SPILL, AND THE EFFECTS OF THE CLEANUP.

UNCERTAINTY WAS AND HAS BEEN THE NORM; TURMOIL WAS AND HAS BEEN THE NORM. OUR PEOPLE ASK: "WHERE IS MY NEXT DOLLAR COMING FROM? CAN I MAKE MY BOAT PAYMENT? WILL I BE ABLE TO PAY THE LIGHT BILL? WILL THE FISHERY BE CLOSED FOR ONE YEAR OR FOR FIVE YEARS?" ANSWERS WERE NOT CLEAR, AND ARE NOT CLEAR TO THIS DAY.

SO WE COME TO YOU FOR HELP. BEFORE YOU TODAY IS SENATE BILL 359 WHICH IS ONE STEP TOWARD THE GOAL OF RECOGNIZING THE EXTRA -- AND UNFUNDED -- COSTS THAT WE HAVE INCURRED AS CITIES AND TOWNS.

LET'S LOOK AT HOW IT SOLVES SOME OF THE PROBLEMS WE HAVE EXPERIENCED.

FIRST, THE BILL WOULD PUT INTO PLACE A SYSTEM WHEREBY A MUNICIPALITY IN AN EMERGENCY WOULD HAVE THE FUNDS AVAILABLE TO MEET THE CHALLENGES WE HAVE EXPERIENCED. IT CREATES A FUND OF \$25,000,000 FROM THE NICKEL A BARREL SURCHARGE TO DEAL WITH THE SORT OF MUNICIPAL IMPACTS WE HAVE SUSTAINED, AND I HAVE DISCUSSED.

SECOND, IT CLARIFIES THAT ALL KINDS OF LOCAL GOVERNMENTS HAVE THE FULL RANGE OF POWERS NEEDED TO ADDRESS A DISCHARGE OF HAZARDOUS SUBSTANCE SUCH AS THAT WE HAVE ENCOUNTERED, AND THAT THEY MAY DO IT BOTH WITHIN AND OUTSIDE OF THEIR BOUNDARIES.

THIRD, IT CLARIFIES THE STRICT LIABILITY SECTION OF TITLE 46 TO MAKE IT CLEAR THAT "ALL ECONOMIC DAMAGE" INCLUDES THE FULL RANGE OF COSTS WE HAVE SUSTAINED.

FOURTH, IT PROVIDES A STRUCTURE FOR QUICK ACCESS BY COMMUNITIES TO THE STATE FUND CREATED LAST YEAR FOR "FIRST RESPONSE" TO OIL AND OTHER HAZARDOUS SUBSTANCE SPILLS.

WE WANT YOU TO KNOW THAT WE HAVE ATTEMPTED TO WORK CLOSELY WITH OTHER GROUPS, NOTABLY THE GOVERNOR'S OIL SPILL COMMISSION AND THE ALASKA CONFERENCE OF MAYORS WHO SHARE OUR CONCERNS THROUGHOUT THE STATE ON THESE PROBLEMS.

WE'D LIKE TO QUOTE FROM THE SUMMARY OF THE RECOMMENDATIONS FROM THE OIL SPILL COMMISSION LAST MONTH. RECOMMENDATION 53, RELATING TO LOCAL SERVICE IMPACT FUNDING PROVIDES AS FOLLOWS:

"A DECLARATION OF EMERGENCY SHOULD TRIGGER THE ABILITY OF THE GOVERNOR OR OTHER APPROPRIATE OFFICIALS TO RELEASE FUNDS COLLECTED FROM STATE OIL REVENUES TO COVER ALL IMPACT COSTS,

INCLUDING ECONOMIC MAINTENANCE PROGRAMS AND LOCAL IMPACTS WHICH BECOME AN EXTRA BURDEN ON LOCAL SERVICES, WHETHER PROVIDED BY STATE OR LOCAL GOVERNMENT."

THE COMMISSION WENT ON TO EXPLAIN THE REASONS FOR ITS RECOMMENDATIONS, WHICH WE POINT OUT OVERLAP ALMOST COMPLETELY WITH BILL BEFORE THE COMMITTEE TODAY. THE COMMISSION SAID:

"INDIRECT GOVERNMENT SERVICE COSTS CAN BE AS IMPORTANT AS DIRECT SPILL EXPENDITURES IN MEETING A SPILL EMERGENCY. LOCAL GOVERNMENTS IN PARTICULAR WERE HARD HIT BY LACK OF FUNDING FOR INCREASED BURDENS WHICH HIT EVERYTHING FROM PHONE SERVICE TO MENTAL HEALTH DURING THE CRISIS FOLLOWING THE EXXON VALDEZ SPILL. "

WE'VE ATTACHED AS PART OF YOUR PACKET THE RESOLUTION PASSED BY THE ALASKA CONFERENCE OF MAYORS SUPPORTING OUR POSITION. ALL REALIZE THAT "SIMILAR DISASTERS COULD OCCUR BOTH ON LAND AND AT SEA IN OTHER PARTS OF THE STATE WITH SIMILAR EFFECTS."

WE DO HAVE SOME VERY LIMITED, BUT NONETHELESS IMPORTANT MODIFICATIONS, TO THE SPONSOR SUBSTITUTE WE WANT YOU TO CONSIDER AS A COMMITTEE TODAY.

FIRST, IT IS OUR PREFERENCE THAT YOU MAKE SECTIONS 11 THROUGH 13 RETROACTIVE TO THE DATE OF THE EXXON VALDEZ SPILL. THESE CLARIFY THE REMEDY THAT IS AVAILABLE TO LOCAL GOVERNMENTS, AND ARE CONSISTENT WITH YOUR INTENT LAST YEAR: TO PERMIT LOCAL GOVERNMENTS TO BE ABLE TO RECOVER THE FULL COST OF A SPILL FROM THE TORT FEASOR.

SECOND, WE THINK THAT THE LIST OF "SERVICES AND FUNCTIONS" WHICH CAN BE COMPENSABLE UNDER THE NEW FUND SHOULD INCLUDE THE COST OF LEASING HARBOR AND OTHER PUBLIC FACILITIES. WE DON'T WANT TO

USE THE FUND FOR CAPITAL CONSTRUCTION, BUT THOSE HARBOR AND FACILITIES COSTS CAN BE AN IMPORTANT PART OF OUR INCREMENTAL RESPONSE TO A SPILL.

THIRD, WE THINK THE WORDS "INCLUDING THOSE NOT USUALLY PERFORMED" SHOULD BE INCLUDED TO DESCRIBE THOSE SERVICES THAT ARE COMPENSABLE. LOCAL GOVERNMENTS MAY NOT HAVE EXERCISED A POWER PREVIOUS TO A TOXIC SPILL, BUT IT MAY BE ABSOLUTELY NECESSARY TO DEAL WITH ITS EFFECTS.

WE WANT TO EMPHASIZE THAT THOUGH WE HAVE THESE MINOR SUGGESTIONS, WE ARE VERY SUPPORTIVE OF THE CURRENT BILL, AND HOPE TO WORK WITH YOU, SENATOR PEARCE, AND ALL THE COMMITTEE MEMBERS, IN ACHIEVING ITS PASSAGE. THANK YOU FOR THE OPPORTUNITY TO SPEAK WITH YOU TODAY. ARE THERE ANY QUESTIONS YOU MAY HAVE FOR OUR CONTINGENT?

MEMORANDUM

State of Alaska

Department of Law

TO: Garrey Peska
Chief of Staff
Office of the Governor

DATE: September 12, 1989

FILE NO.:

TEL NO: 465-3600

SUBJECT: Oil and Hazardous
Substance Response Fund

FROM:

Douglas K. Mertz *DM*
Assistant Attorney General
Natural Resources Section-Juneau

You asked for our quick review of what we considered to be permissible expenditures under AS 46.08.005--46.08.900, the Oil and Hazardous Substance Release Fund.

The Fund was first established in 1980, as an appropriation line item to fund the Department of Environmental Conservation's new program on oil spills. The original appropriation merely noted "prevention & control/oil spills" as the purpose without elaboration. Since then the legislature has broadened the coverage of the Fund to include hazardous substances in addition to oil, and has set out in more detail the purposes of the Fund. (Section 1, ch. 59, SLA 1986). The Fund's statutory basis was amended as recently as last legislative session (sec. 2, ch. 113, SLA 1989).

AS 46.08.040 sets out four basic purposes:

- 1) "contain, clean up, and take other necessary action, such as monitoring, assessing, investigating, and evaluating the release or threatened release of oil or a hazardous substance that poses an imminent and substantial threat to the public health or welfare, or to the environment";
- 2) establish and maintain the oil and hazardous substance response corps and response depots;
- 3) provide matching funds for federal oil spill cleanups under CERCLA (42 U.S.C. § 9601-9657); and
- 4) recover the cost to the state or municipalities of containment and cleanup.

This language is quite broad and authorizes a wide range of responses to spill-related problems. It is clear that any response involving "containment and cleanup" activities is permissible; in fact, AS 46.08.900(3) defines "containment and cleanup" to include "direct and indirect" efforts "associated with

the prevention, abatement, containment, or removal of oil or a hazardous substance, the restoration of the environment, and incidental administrative costs." This language can be read as covering virtually any response costs related to a spill, including both preventative work in advance of a spill and restoration work after it. The preventative aspect is confirmed by the second purpose listed, establishment and maintenance of the response corps and depots, whose sole purpose is to maintain readiness for a major spill. (Chapter 113, SLA 1989). We believe it would also include scientific assessment work, either for the purpose of improving cleanup, designing restoration work, or assisting in recoument to the state of damages. Since cost recovery is specifically mentioned in purpose 4), we believe litigation efforts, including scientific assessments, can also be funded from this source.

We also believe that the reference to "other necessary action" also supports use of the fund for indirect purposes associated with spill response, but which are one step removed from actual containment or cleanup work at the site of the spill. For example, disposal of oily waste material left behind after cleanup would be eligible. Likewise, the logistical support necessary to combat a major spill would be eligible. The Fund's purposes probably also include any increased costs in management of fish and game or other natural resources as a result of the spill. In short, the Fund was, we believe, intended to be available for payment of virtually all costs that relate to and result from an oil or hazardous substance spill, with few exceptions.

One of the exceptions is explicit: the fund cannot be used for capital improvements (except for dikes and retaining walls) (AS 46.08.010(c); AS 46.08.900(1)). We also believe the funds may not be used for expenses of entities other than the state, except to the extent that the entity contracts with the state to work on behalf of the state, or to reimburse an emergency response by a municipality (AS 46.08.070(c)). (And the exception for joint federal/state efforts under CERCLA is explicit.) There is nothing in the law that prevents efforts of state departments other than ADEC from being eligible for use of the Fund, however. The commissioner of ADEC, as manager of the Fund, may utilize and pay for the services of any state agency that fits within the stated purposes.

We do have one caution, however. Certain response costs to a major spill may include attending to problems in the human environment, as opposed to the natural environment. There may be an increased need for mental health services, law enforcement services, and social services of various kinds. The language of AS 46.08.040(1) is certainly broad enough to encompass such additional costs: ". . . take other necessary action . . . [regarding] . . . a release or threatened release of

oil . . . that poses an imminent and substantial threat to the public health or welfare, or to the environment." This language can be read as authorizing expenditures to deal with social problems that result from a spill as well as problems of the natural environment. But there is no indication in the legislative history that the legislature actually considered expenditures of this type when it passed the statute. Lack of explicit legislative history, one way or the other, certainly does not disqualify such expenditures, particularly in view of language that appears to authorize expenditures for purposes other than protecting the environment, i.e., the public health or welfare. But the fact that the use of the Fund was left to the discretion of the commissioner of environmental conservation, whose own statutory authority does not reach to social problems, rather than the Governor or some other interagency coordinating office, may suggest a more limited legislative purpose. The best advice we can offer is that, although payment from the Fund of expenditures for social problems resulting from a spill may be sustained, the legality of such expenditures is not nearly as clear as expenditures for the natural environment. Therefore we urge caution.

Finally, we note that the commissioner of environmental conservation, as manager of the Fund, does have a duty to manage with more than the expenses of the immediate spill in mind. When faced with a wide range of claims on the Fund, the commissioner may legitimately withhold monies in the Fund in order to have them available for responses to other spills; and the commissioner may legitimately reserve monies for setting up and maintaining the emergency response corps and depots as directed by ch. 113, SLA 1989.

This has necessarily been a hasty review of the subject. Please let us know if you have further questions.

cc: Douglas B. Baily, Attorney General
Department of Law

Dennis Kelso, Commissioner
Department of Environmental Conservation

D. Collinsworth, Commissioner
Department of Fish and Game

Lennie Boston-Gorsuch, Commissioner
Department of Natural Resources

Robert E. LeResche, Executive Director
Oil Spill Coordinating Office
Office of the Governor



FEB 26 1990

February 22, 1990

Senator Drue Pearce
Room 510, Capitol
P. O. Box V
Juneau, Alaska 99811

Dear Senator Pearce:

Enclosed for your consideration is Resolution No. 9007 which was adopted by the Valdez City Council on February 20, 1990.

This resolution urges the Alaska Legislature to adopt the Sponsor Substitute for Senate Bill 359 and the revisions thereto proposed by the Oiled Mayors Subcommittee of the Alaska Conference of Mayors.

Thank you for your consideration of this resolution.

Yours truly,

Jeanne Donald
City Clerk

Enclosure

CITY OF VALDEZ

RESOLUTION NO. 9007

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA, AUTHORIZING LOBBYING IN FAVOR OF SPONSOR SUBSTITUTE FOR ALASKA STATE SENATE BILL 359

WHEREAS, the release of oil and hazardous substances into the environment has presented and can present in the future a real and substantial threat to the health, safety and welfare of the citizens of Valdez; and

WHEREAS, the release of oil and hazardous substances into the environment has presented and can present in the future a real and substantial threat to the economy of the City of Valdez; and

WHEREAS, the release of oil and hazardous substances into the environment has presented and can present in the future a real and substantial impact upon the delivery of public services and performance of public functions by the City of Valdez; and

WHEREAS, the City Council of the City of Valdez desires to have future releases of oil and hazardous substances prevented; and

WHEREAS, the City Council of the City of Valdez desires to containment and cleanup authority outside municipal boundaries; and

WHEREAS, the costs incurred by the City of Valdez in responding to cleanup and containment of oil and hazardous substances and in providing increased public services as a result of a past or future release of oil or a hazardous substance should be paid to the City by means of either grants or reimbursement from the State of Alaska or from the person responsible for the release; and

WHEREAS, Alaska State Senate Bill 359 clarifies a municipality's exercise of extraterritorial authority for containment and cleanup, clarifies a municipality's right of recovery against the responsible person for the increased costs of providing public services, creates two separate and distinct grant programs to aid a municipality in responding to a release, establishes an oil and hazardous substance municipal impact fund, clarifies the municipality's right to reimbursement from the State, and clarifies the State's obligation to consult with a municipality in preparing contingency plans; and

WHEREAS, Sponsor Substitute for Alaska State Senate Bill 359 amends Alaska State Senate Bill 359 by treating village councils the same as municipalities, increases the list of needs eligible for municipal impact fund grants, prohibits a municipality from recovering twice for the same costs without limiting the ability of a municipality to recover for all damages caused by the release of oil or a hazardous substance and contains miscellaneous technical revisions; and

WHEREAS, the Oiled Mayors group has proposed additional revisions to Alaska State Senate Bill 359, including expanding the list of needs eligible for grants and making the bill retroactive to March 1, 1989; and

WHEREAS, the City Council of the City of Valdez finds that it is in the public interest as well as the interest of the City of Valdez to support Sponsor Substitute for Alaska State Senate Bill 359 and support the revisions proposed by the Oiled Mayors group;


NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF VALDEZ, that

Section 1. The City of Valdez strongly urges the Alaska Legislature to adopt the Sponsor Substitute for Alaska State Senate Bill 359 and the revisions thereto proposed by the Oiled Mayors Subcommittee of the Alaska Conference of Mayors.

Section 2. A copy of this resolution, properly certified, shall be sent to Governor Steve Cowper, Senator Jay Kerttula, Senator Mike Szymanski, Representative Gene Kubina, Senator Drue Pearce, and the Alaska Municipal League.

PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF VALDEZ, this 20th day of February, 1990, at Valdez, Alaska.

CITY OF VALDEZ, ALASKA



Lynn Chrystal, Mayor

ATTEST:



Jeanne D. Donald, City Clerk

Sec. 26.23.210. Relationship to civil defense statute. The Alaska civil defense statute (AS 26.20), applies to preparedness, response, and recovery from disasters caused by enemy attack and other hostile military or paramilitary action. The provisions of this chapter, other than AS 26.23.130, apply to preparedness, response, and recovery in cases of natural and nonmilitary manmade disasters. (§ 3 ch 104 SLA 1977)

Sec. 26.23.220. Administration. This chapter shall be administered by the Department of Military and Veterans' Affairs, which is responsible to, and which may receive delegations of authority from, the governor. (§ 3 ch 104 SLA 1977; am E.O. No. 58, § 17 (1984))

Effect of amendment. — The 1984 amendment inserted "and Veterans'."

Sec. 26.23.230. Definitions. In this chapter

(1) "disaster" means the occurrence or imminent threat of widespread or severe damage, injury, or loss of life or property resulting from any natural or nonmilitary man-made cause including, but not limited to, fire, flood, earthquake, landslide, mudslide, avalanche, wind-driven water, weather condition, tsunami, volcanic activity, epidemic, air contamination, blight, infestation, explosion, riot, equipment failure, or shortage of food, water, fuel, or clothing, or the release of oil or a hazardous substance requiring prompt action to avert environmental danger or damage;

(2) "disaster emergency" means the condition declared by proclamation of the governor or declared by the principal executive officer of a political subdivision to designate the imminence or occurrence of a disaster;

(3) "emergency" has the meaning given in 42 U.S.C. 5122 (Disaster Relief Act of 1974);

(4) "major disaster" has the meaning given in 42 U.S.C. 5122;

(5) "political subdivision" means a home rule or general law borough or city including a unified municipality, an unincorporated village, or other unit of local government;

(6) "temporary housing" has the meaning given in the federal Disaster Relief Act of 1974 (P.L. 93-288, 88 Stat. 143);

(7) "unorganized militia" means all able-bodied persons between the ages of 17 and 59 years, inclusive, who reside in the state. (§ 3 ch 104 SLA 1977; am § 49 ch 74 SLA 1985; am § 4 ch 59 SLA 1986)

Revisor's notes. — With regard to (6) of this section, provisions related to temporary housing assistance can be found at 42 U.S.C. 5174 and in 44 C.F.R. 205.52 implementing that section.

Effect of amendments. — The 1985 amendment rewrote paragraph (5).

The 1986 amendment, in paragraph (1), deleted "oil spill or other water contami-

avert danger or damage" preceding "volcanic activity" and added the language be-

Chapter 25. National Guard Mutual Compact.

Section
10. Entry into Compact
20. Terms and provisions of Compact

Section
30. Rights and b-

Sec. 26.25.010. Entry into Compact. The National Assistance Compact is enacted into law and entered into by the State of Alaska with all other states and jurisdictions joining in it in a form substantially as contained in ch 77 SLA 1968)

Sec. 26.25.020. Terms and provisions of Compact. The terms and provisions of the Compact referred to in AS 26.25.010 are as follows:

ARTICLE I. PURPOSES.

The purposes of this Compact are to:

- (1) provide for mutual aid among the party states of the National Guard to cope with emergencies;
- (2) permit and encourage a high degree of deployment of National Guard forces in the interdependence of the party states;
- (3) maximize the effectiveness of the National Guard units that call for its utilization under this Compact;
- (4) provide protection for the rights of National Guardsmen when serving in other states on emergency duty.

ARTICLE II. ENTRY INTO FORCE AND WITHDRAWAL.

(a) This Compact shall enter into force when enacted by any two states. Thereafter, this Compact becomes effective in any other state upon its enactment in that state.

(b) A party state may withdraw from this Compact by statute repealing it, but the withdrawal does not take effect until one year after the governor of the withdrawing state has signed a writing of the withdrawal to the governors of all other party states.

ARTICLE III. MUTUAL AID.

(a) In this Article:

- (1) "emergency" means an occurrence or condition of a nature, in which police and other public safety officers are required to be on duty.

Emergency Management Agency, see sections 4-201 and 4-203 of Ex.Ord. No. 12148, July 20, 1979, 44 F.R. 43239, set out as a note under section 2251 of Title 50, Appendix, War and National Defense.

References to Disaster Relief Act of 1970. Section 602(m) of Pub.L. 93-288 provided that: "Whenever reference is made in any provision of law (other than this Act [the Disaster Relief Act of 1974, see Short Title note

above]), regulation, rule, record, or document of the United States to provisions of the Disaster Relief Act of 1970 (84 Stat. 1744) repealed by this Act such reference shall be deemed to be a reference to the appropriate provision of this Act."

Legislative History. For legislative history and purpose of Pub.L. 93-288, see 1974 U.S. Code Cong. and Adm. News, p. 3070.

EXECUTIVE ORDER NO. 11749

Ex.Ord. No. 11749, Dec. 10, 1973, 38 F.R. 34177, which related to the consolidation of functions assigned to the Secretary of Housing and Urban Development, was revoked by

Ex.Ord. No. 12148, July 20, 1979, 44 F.R. 43239, set out as a note under section 2251 of the Appendix to Title 50, War and National Defense.

EXECUTIVE ORDER NO. 11795

Ex.Ord. No. 11795, July 11, 1974, 39 F.R. 25939, as amended, which related to the delegation of certain functions of the President of the United States, was revoked by Ex.Ord.

No. 12148, July 20, 1979, 44 F.R. 43239, set out as a note under section 2251 of the Appendix to Title 50, War and National Defense.

Library References

United States 82(5).

C.J.S. United States § 122.

§ 5122. Definitions

As used in this chapter—

(1) "Emergency" means any hurricane, tornado, storm, flood, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, drought, fire, explosion, or other catastrophe in any part of the United States which requires Federal emergency assistance to supplement State and local efforts to save lives and protect property, public health and safety or to avert or lessen the threat of a disaster.

(2) "Major disaster" means any hurricane, tornado, storm, flood, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, drought, fire, explosion, or other catastrophe in any part of the United States which, in the determination of the President, causes damage of sufficient severity and magnitude to warrant major disaster assistance under this chapter, above and beyond emergency services by the Federal Government, to supplement the efforts and available resources of States, local governments, and disaster relief organizations in alleviating the damage, loss, hardship, or suffering caused thereby.

(3) "United States" means the fifty States, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, American Samoa, the Canal Zone, and the Trust Territory of the Pacific Islands.

(4) "State" means any State of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, American Samoa, the Canal Zone, or the Trust Territory of the Pacific Islands.

(5) "Governor" means the chief executive of any State.

(6) "Local government, or other political or tribal organization, includes any rural community public entity for which political subdivision thereof

(7) "Federal agency" means government corporation, Federal Government, and does not include the American

Pub.L. 93-288, Title I, § 1

References in Text. This chapter in text, in the original reading meaning Pub.L. 93-288, May Stat. 143. For complete classification to the Code, see Short Title under section 5121 of this title volume.

For definition of Canal Zone pars. (3) and (4), see section 322; Foreign Relations and Int

Major disaster as defined in the Disaster housing mortgage Dollar or percentage limit tional Housing Act Local educational agency section 646 of Title Local educational agency section 241-1 of T

1. Emergency

Definition of "emergency" did not support the application to Cuban and Haitian refugee Florida; the definition encom

SUBCHAPTER

§ 5131. Federal

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Impact Assessment, Inc.

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

INTERIM REPORT #1

ANALYSIS OF FISCAL IMPACTS TO LOCAL JURISDICTIONS

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

March 1, 1990

Grant #AK-OSG 90-5
Socioeconomic Impact Study

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

Dear Mr. Gould:


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

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

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

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

Sincerely,


John S. Petterson, Ph.D.
President



Impact Assessment, Inc.

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

INTERIM REPORT #1

ANALYSIS OF FISCAL IMPACTS TO LOCAL JURISDICTIONS

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CORRECTION

**THIS DOCUMENT
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EXECUTIVE SUMMARY

Introduction

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

Local Government Revenues

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

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

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

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

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

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

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

Local Government Expenditures

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

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

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

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

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

Oil Spill Related Revenues and Expenditures

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

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

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

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

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

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

Raw Fish Tax Impacts

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

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

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

1.0 INTRODUCTION

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

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

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

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

Kenai Peninsula Borough
Homer
Kenai City
Seward
Soldotna

Kodiak Island Borough
Kodiak City

Cordova
Valdez

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

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

1.1 Organization

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

1.2 Overview of Analytical Approach

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

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

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

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

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

1.3 Acknowledgements

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

2.0 LOCAL GOVERNMENT REVENUES

2.1 Introduction

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

2.2 Revenue Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.3 Revenue Impacts

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

Impact Linkages

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

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

Overview of Impacts

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

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

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

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

Demographic and Private Sector Business Impacts

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

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

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

Local Government Revenue Impacts

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

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

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

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

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

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

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

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

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

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

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

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

Observations and Findings

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

Taxes

Two sources of tax revenue should reflect oil spill impacts during calendar year 1989. These are sales tax and hotel/motel tax.

Sales tax impacts of events after March 24, 1989 could not be expected to be observed in FY 1989, however, due to the lag between sales and receipt of revenue. On the other hand, Homer reports on a calendar year basis and their data on the sales tax table shows 1989 sales tax revenues to be significantly higher than their 1986-88 trend, as shown in Table 2-1. Their 1988-89 increase of 35 percent exceeded their three percent average annual growth rate for 1986-88.

Preliminary comparison of 1989 and 1988 monthly sales tax revenues reported by five jurisdictions confirms that revenues increased following the spill, as shown in Table 2-2. The \$11 million total sales tax received by those entities during the second half of 1989 representing the post-spill period was 49 percent higher than what they received during the first half of 1989 representing the pre-spill period. This increase was more than the 39 percent increase for the 1988 second half over the 1988 first half. The second half total of 1989 also exceeded the \$9.4 million second half total of 1988 by 18 percent; in contrast, the total sales tax revenues received by those same jurisdictions during the first half of 1989 exceeded the \$6.8 million first half of 1988 total by only ten percent. Each entity reporting these data showed total July to December 1989 sales tax revenues greater than for the comparable 1988 period and for the first half of both years. Monthly sales tax revenues tended to be lower in 1989 than in 1988 for the six months representing the pre-spill period, and tended to be higher more often in 1989 during the six post-spill months.

To the extent this increase resulted from direct purchases of spill cleanup equipment, goods and services as well as purchases of consumer goods by people employed in cleanup activity, local jurisdictions should anticipate a dramatic reduction in sales tax revenues in 1990 coincident with the phase-out of the cleanup activity in fall 1989.

Hotel/motel tax revenues were reported separately by the Valdez and City of Kodiak, and included in sales tax revenues by other entities. Calendar year 1989 revenues from this source in Valdez, which keeps their financial records on a calendar year basis, were 64 percent higher than for CY 1988, while the average annual rate of change from CY 1986 to CY 1988 showed a ten percent decline. Comparison of the 1988 and 1989 monthly data appear to show total July to December 1989 revenues for this source considerably higher than for either the second half of 1988 or the first half of both years. Revenue from this source is also likely to decline in 1990 reflecting the late 1989 cutback in spill cleanup activity.

TABLE 2-1 SALES TAX REVENUES BY LOCAL GOVERNMENT JURISDICTION
 Fiscal Year 1986 - Fiscal Year 1990 (First Six Months)
 (Thousands of Dollars)

YEAR	COROOVA	VALDEZ	KENAI BOROUGH	HOMER	CITY OF KENAI	SEWARD	SOLDOTNA	KODIAK BOROUGH	CITY OF KODIAK	TOTALS
FY 86	\$1,171	\$0	6,961	\$1,297	\$2,152	\$234	\$2,635	\$0	\$3,792	\$18,242
FY 87	1,142	0	6,589	1,124	1,978	448	2,509	0	3,776	17,566
FY 88	1,208	0	6,614	1,378	2,127	783	2,396	0	3,325	17,831
FY 89	1,444	0	7,114	1,859	2,277	918	2,522	0	3,657	19,791
FY 90			4,635		1,253		1,451		2,758	10,097

SOURCE OF DATA: Template # 2 for all communities

TABLE 2-2 COMPARISON OF 1989 AND 1988 SALES TAX REVENUES BY LOCAL GOVERNMENT JURISDICTION
 By Six Month Periods
 (Thousands of Dollars)

	CITY OF CORDOVA	KENAI BOROUGH	CITY OF HOHER	CITY OF KENAI	CITY OF KODIAK	TOTAL
JULY - DEC. 89	1092	4635	1284	1253	2758	11022
JAN. - JUNE 89	426	3226	575	1065	2128	7420
DIFFERENCE	666	1409	709	188	630	3602
PERCENT CHANGE	156%	44%	123%	18%	30%	49%
JULY - DEC. 88	922	3888	924	1212	2436	9382
JAN. - JUNE 88	414	2950	454	1039	1899	6756
DIFFERENCE	508	938	470	173	537	2525
PERCENT CHANGE	123%	32%	104%	17%	28%	39%
JAN. - JUNE 89	426	3226	575	1065	2128	7420
JAN. - JUNE 88	414	2950	454	1039	1899	6756
DIFFERENCE	12	276	121	26	229	664
PERCENT CHANGE	3%	9%	27%	3%	12%	10%
JULY - DEC. 89	1092	4635	1284	1253	2758	11022
JULY - DEC. 88	922	3888	924	1212	2436	9382
DIFFERENCE	170	747	360	41	322	1640
PERCENT CHANGE	18%	19%	39%	3%	13%	17%

SOURCE OF DATA: Templates # 3a and # 3b for all communities

Charges for Services

Water/sewer revenues were reported by eight jurisdictions, as shown in Table 2-3. The \$6.1 million FY 1989 total was four percent higher than their \$5.9 million FY 1988 total; however this growth was less than the FY 1986-88 average annual rate of growth of nine percent. Five entities showed FY 1988-89 increases. Preliminary comparison of monthly data reported by six jurisdictions suggest that 1989 water/sewer revenues may have exceeded 1988 revenues during some post-spill months in Cordova, Valdez and City of Kodiak. The 1989 monthly revenues appear to reflect the 1988 pattern in Homer, City of Kenai and Kodiak Island Borough.

Harbor/port revenues were reported by six entities (Table 2-3). Their \$6.3 million percent FY 1989 total was 22 percent higher than their \$5.2 million FY 1988 total. This growth exceeded the ten percent FY 1986-88 average annual rate of growth. Five of the six entities had FY 1988-89 increases, which the changes ranging from a 110 percent increase in Valdez to a two percent decrease in City of Kodiak. The monthly data for harbor/port revenues reported by four jurisdictions appear to suggest increased use activity during the post-spill months in each entity.

Airport revenues were reported by three jurisdictions (Table 2-3). Their \$322,000 FY 1989 total was four percent less than their \$334,000 FY 1988 total, which had remained fairly level since FY 1986. Valdez had a FY 1988-89 increase of 73 percent and Soldotna had a one percent increase, while City of Kenai had an 18 percent FY 1988-89 decrease.

Hospital revenues were reported by four jurisdictions in FY 1989 (Valdez showed hospital revenues in the previous years.) All four showed FY 1988-89 increases in revenues ranging from nine percent in Cordova to less than one percent in Kodiak Island Borough. However, the monthly data reported by Kodiak Island Borough shows a 27 percent increase for CY89, with ten months where revenues in 1989 exceeded those in 1988 in both the pre-spill and post-spill months.

Eight jurisdictions reported charges for services in the "All Other" category. These totaled \$10.4 million in FY 1989 which was four percent higher than their \$9.9 million total in FY 1988, compared with a nine percent average annual FY 1986-88 growth rate. Seven entities showed an FY 1988-89 increase in this revenue source. Five jurisdictions reported 1988 and 1989 monthly data for this category. It appears that the 1989 revenues were higher than those in 1988 during most months in all five entities, but to a greater extent during the post-spill months in most jurisdictions.

TABLE 2-3 CHARGES FOR SERVICE REVENUES BY LOCAL GOVERNMENT JURISDICTION
 Fiscal Year 1986 - Fiscal Year 1990 (First Six Months)
 (Thousands of Dollars)

	CORDOVA	VALDEZ	KENAI BOROUGH	HOMER	CITY OF KENAI	SEWARD	SOLDOTNA	KODIAK BOROUGH	CITY OF KODIAK	TOTALS
FY 86										
WATER/SEWER	\$399	\$238	\$0	\$830	\$678	\$603	\$424	\$190	\$1,636	\$4,998
HARBOR/PORT	506	204	0	1,398	0	793	0	0	1,396	4,297
AIRPORT	0	29	0	0	233	0	66	0	0	323
HOSPITAL	1,445	616	13,755	0	0	1,552	0	5,261	0	22,629
ALL OTHER	410	0	283	1,049	90	5,244	477	105	721	8,379
TOTAL	\$2,759	\$1,086	\$14,038	\$3,276	\$1,001	\$8,192	\$967	\$5,655	\$3,753	\$40,727
FY 87										
WATER/SEWER	\$408	\$256	\$0	\$885	\$711	\$625	\$432	\$436	\$1,763	\$5,516
HARBOR/PORT	448	227	0	1,597	1	834	0	0	1,551	4,658
AIRPORT	0	40	0	0	224	0	76	0	0	340
HOSPITAL	1,735	731	13,730	0	0	1,612	0	5,009	0	22,817
ALL OTHER	148	0	1,782	571	78	5,042	613	258	650	9,142
TOTAL	\$2,740	\$1,254	\$15,511	\$3,054	\$1,014	\$8,113	\$1,120	\$5,703	\$3,964	\$42,473
FY 88										
WATER/SEWER	\$418	\$242	\$0	\$958	\$709	\$648	\$519	\$422	\$1,966	\$5,392
HARBOR/PORT	519	303	0	1,722	91	885	0	0	1,648	5,153
AIRPORT	0	37	0	0	226	0	71	0	0	334
HOSPITAL	1,848	818	14,173	0	0	1,488	0	6,088	0	24,415
ALL OTHER	357	0	1,850	572	60	5,263	676	553	611	9,542
TOTAL	\$3,143	\$1,400	\$16,023	\$3,253	\$1,085	\$8,284	\$1,266	\$7,062	\$4,226	\$45,742
FY 89										
WATER/SEWER	\$437	\$384	\$0	\$937	\$691	\$713	\$523	\$415	\$2,003	\$6,103
HARBOR/PORT	538	637	0	2,324	205	986	0	0	1,620	6,310
AIRPORT	0	64	0	0	186	0	72	0	0	322
HOSPITAL	2,018	0	15,492	0	0	1,590	0	6,106	0	25,206
ALL OTHER	361	0	296	1,679	66	5,609	848	873	644	10,376
TOTAL	\$3,354	\$1,085	\$15,787	\$4,977	\$1,149	\$8,898	\$1,444	\$7,393	\$4,267	\$48,354
FY 90										
WATER/SEWER					\$351		\$211	\$220	\$1,113	\$1,395
HARBOR/PORT					76		0	0	753	829
AIRPORT					89		48	0	0	137
HOSPITAL					0		0	3,503	0	3,503
ALL OTHER			382		72		294	809	305	1,362
TOTAL			\$382		\$588		\$552	\$4,532	\$2,171	\$8,225

SOURCE OF DATA: Template # 2 for all communities

Miscellaneous Revenues

Rents & leases revenues were reported by five jurisdictions, of which three showed a FY 1988-89 increase. The FY 1988-89 changes ranged from a 59 percent increase by the Valdez to a 96 percent decrease by the City of Soldotna. The five jurisdictions reporting monthly data showed a 1989 second half total of \$1 million, which was a 15 percent increase over the 1989 first half total of \$873,000. The 1989 second half total was nine percent less than the \$1.1 million second half total of 1988, while the 1989 first half total was 23 percent less than the \$1.14 million first half total for 1988. To the extent the 1989 second half increases were related to spill cleanup activity, the jurisdictions might expect this revenue source to decline in 1990.

Investment income revenues were reported by all nine jurisdictions, of which seven showed FY 1988-89 increases. The FY 1988-89 changes ranged from a 48 percent increase in the City of Kodiak to a 24 percent decrease in Kodiak Island Borough. Seven jurisdictions reported monthly data on investment income. Preliminary comparison of these monthly data indicate that during the nine post-spill months, 1989 investment income tended to exceed that for the 1988 months in four jurisdictions, but not during the three pre-spill months. In three other entities, 1989 investment income appeared to be higher in 1989 than in 1988 during the pre-spill months and to be lower during the post-spill months in 1989 than in 1988.

Other Revenue Sources

Licenses and permits revenues reported by eight jurisdictions totaled \$1.1 million in 1989, a 16 percent increase over their \$977,000 total for 1988, which compared with a 19 percent average annual rate of decline for the 1986-88 period, as shown in Table 2-4. Only four entities showed increases in 1989 over 1988, and the percentage increase for each exceeded their average annual rate of growth for 1986-88. In addition, the 1988-89 declines for two entities were less than their average annual rate of decline for 1986-88. Initial comparison of the 1988 and 1989 monthly data reported by five entities show monthly revenues tended to be lower in 1989 than in 1988 for the three months representing the pre-spill period, but tended to be lower less often in 1989 during the nine post-spill months. Three of the entities showed total April - December 1989 licenses and permits revenues higher than for the comparable 1988 period.

TABLE 2-4 LICENSE AND PERMIT REVENUE BY LOCAL GOVERNMENT JURISDICTION
 Fiscal Year 1986 - Fiscal Year 1990 (First Six Months)
 (Thousands of Dollars)

YEAR	CORDOVA	VALDEZ	KENAI BOROUGH	HOMER	CITY OF KENAI	SEWARD	SOLDOOTNA	KODIAK BOROUGH	CITY OF KODIAK	TOTALS
FY 86	\$35	\$27	\$0	\$99	\$52	\$187	\$90	\$957	\$38	\$1,485
FY 87	36	25	0	36	36	62	40	1,803	41	2079
FY 88	47	35	0	45	16	73	39	677	45	977
FY 89	0	83	0	41	15	132	40	779	41	1131
FY 90					7		5	59	34	105

SORCE OF DATA: Template # 2 for all communities