

**ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672**  
**7630 SENATE RESOURCES**

for economic development and creation of new jobs is through development of mineral resources. If in place minerals are taxed, local communities will be hurt without even knowing it because the mining companies that have the expertise to find and develop the minerals will not even go out and explore for them.

A fourth problem involves the taxation of non-tangible natural resources that exist due to location or setting. For the city lot this non-tangible value is determined and under the doctrine of equal treatment, the value of non-tangible natural resources such as wilderness character, wilderness proximity, scenic values, proximity to rivers for rafting or floating, etc. would have to be taxed. Hunting and fishing lodges would have to be taxed for the fish and wildlife resources that are in their area.

A fifth problem involves how will the fish resources available to fishing sites be taxed? The fish are clearly a natural resource and the fish site has a measurable market value but it also has an opportunity value by virtue of the fish that pass the site.

A sixth problem is whether or not it would be cost effective to attempt taxation of in place resources. The above examples show some of the difficulties that will be encountered.

A seventh problem will arise when a company that has been taxed for several years on the in place natural resources decides that the project is not economic and asks for reimbursement of the taxes that had been paid. This could be a lodge developer that sees his potential market change or it could be a mining company that concludes that the metallurgy of the ore is too complex and costly for a mine to be profitable.

For all of the above reasons, a permanent exemption for taxation of natural resources in place is necessary during this session of the Legislature.

Thank you again and please feel free to contact me if you have any questions.

STATE OF ALASKA  
LEGISLATIVE SESSION

BILL NO. SB 330

Revision Date: \_\_\_\_\_ Department Affected: Revenue  
 Title: Exemption from Municipal Property Taxation for Natural Resources BRU: Revenue Operations  
 Component: Oil and Gas Audit Division  
 Sponsor: Senator Adams  
 Requestor: Senate Resources Committee COMPONENT SERIAL NO. 

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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	\$0	0	0	0	0	0

CAPITAL						
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REVENUE FUND SOURCE:						
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FUNDING: (Thousands of Dollars)

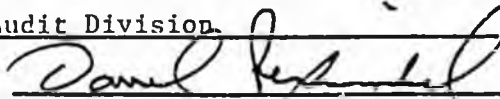
GENERAL FUND						
FEDERAL FUNDS						
OTHER FUND SOURCE:						
<b>TOTAL</b>	0	0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Robert L. Doss, Director Phone: 277-5627  
 Division: Oil and Gas Audit Division Date: January 21, 1992  
 Approved by Commissioner:  Date: January 21, 1992  
 Agency: Department of Revenue

# STATE OF ALASKA

## DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

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January 2, 1992

The Honorable Lloyd Jones  
Alaska State Senator  
State Capitol  
Room 30 - Capitol Building  
Juneau, AK 99801-1182

Dear Senator Jones:

With this letter I transmit to you our report on the **Taxation of Natural Resources in Place**. The study was mandated by HB 159 (CH 127 SLA 1990) and conducted by the Department of Community and Regional Affairs in conjunction with the Alaska Municipal League and the Department of Revenue.

The report concludes that there is a statewide consensus in support of a total exemption from local property taxation for natural resources in place — defined in the report as "any material in it's natural state before it has been harvested or extracted."

The study went through a long public process that involved technical and policy working groups, a working group from the Alaska Municipal League, a survey of the practices of other states and provinces, and public presentations at the Southeast Conference in Juneau, at the Alaska Forest Association Convention in Sitka, during the Alaska Federation of Natives Convention in Anchorage, at the Alaska Miners Association Convention in Anchorage, and at the Alaska Municipal League Convention in Fairbanks. Earlier drafts of the report were mailed to 120 interested parties across the state for comment.

Considerable written correspondence was received in support of a total exemption from local property taxation for natural resources in place. Because of the statewide consensus, and in an attempt to conserve resources, the correspondence was not summarized as an addendum to the report. It is available and will be transmitted to the relevant committees upon request.

If you have any questions about the report or the study process, please contact Sandra Wicks, Deputy Director and Legislative Liason, Municipal and Regional Assistance Division, Department of Community and Regional Affairs, 150 Third Street, Room 310, Juneau, Alaska 99801, or phone 465-4750.

Sincerely,

Edgar Blatchford  
Commissioner

Enclosure

**Report to the Alaska Legislature  
on  
The Taxation of Natural Resources In Place**

**January 1992**

**by  
The Department of Community  
and Regional Affairs**

**Walter J. Hickel, Governor  
State of Alaska**

**Edgar Blatchford, Commissioner  
Department of Community and Regional Affairs**



**Report to the Alaska Legislature  
on  
The Taxation of Natural Resources In Place**

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in the States and Provinces



**REPORT TO THE ALASKA LEGISLATURE  
ON  
THE TAXATION OF NATURAL RESOURCES IN PLACE**

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**I. Introduction**

In 1990, the Alaska Legislature passed an act creating a temporary exemption from property taxation for natural resources in place. (HB 159, enacted as CH 127 SLA 1990, hereafter "the Act".) The temporary exemption in the Act expires July 1, 1992.

In the Act, the Legislature required the Department of Community and Regional Affairs (DCRA) to conduct a study of the potential effects of various natural resource taxation options. This report represents DCRA's effort to fulfill this directive. The purpose of this report is to raise the relevant policy issues and highlight some of the major ramifications for local governments, the state, and resource industries of various taxation strategies. Volumes could be written on the pros and cons of the various taxation strategies to be considered and how they might impact the various resource industries and the various municipalities. However, this study does not purport to be an in-depth discussion of all the possible implications of the taxation strategies examined. If the Legislature determines there is sufficient interest in, or need to further examine the questions raised, it may choose to allocate additional resources to studying those questions. However, at this time there appears to be a statewide consensus in support of totally exempting natural resources in place from local taxation.

Alaska statutes pertaining to property taxation by local governments, while presently exempting certain kinds of property from taxation, do not (except for the temporary exemption in the Act) exempt natural resources in place from taxation. Consequently, natural resources in place are required to be taxable property. As long as the resources remain in place, they could only be taxed through the method of property taxation. Thus, the basic issue of this study was:

**Should natural resources in place be taxable by municipalities? Or, in other words, should natural resources be subject to municipal property taxation?**

The Legislature also asked DCRA to examine natural resource taxation options other than total taxability of natural resources in place or total exemption of natural resources in place from municipal property taxation. Consequently, the study also examined the following questions:

1. **Should natural resources in place be partially exempt from local taxation?**
2. **Should natural resources in place be totally or partially exempt from local taxation at the option of the local government?**
3. **What other forms of taxation, if any, should municipalities be able to apply to natural resources?**

To answer these questions the study examined several major policy concerns:

- ✓ Fairness among taxpayers
- ✓ Fairness among municipalities
- ✓ Stimulation of economic development
- ✓ Cost-effectiveness of taxation methods
- ✓ Municipal revenue needs/sources

In particular, the study looked at the consequences of various options for taxation of natural resources on municipalities, the resource industries, and the state government (in particular the State Assessor's Office). A survey of other states and provinces was also conducted. An addendum at the end of this report discusses the results of the questionnaire on the subject of natural resources taxation in the other states and provinces.

The Act mandated that DCRA conduct the study in concert with the Department of Revenue (DOR) and the Alaska Municipal League (AML), and with the participation of representatives of municipalities and unincorporated communities in boroughs and in the Unorganized Borough. After initial meetings with technical and more broadly based working groups in 1990 and early 1991, and teleconferences specifically with the AML working group in August and September 1991, DCRA issued a Preliminary Report on The Study of Taxation of Natural Resources in Place on September 13, 1991. The report was sent to all members of the technical and other working groups for comment. Presentations on the approach to the study and its tentative results were made at the Southeast Conference in Juneau, the Alaska Forest Association convention in Sitka, during the Alaska Federation of Natives convention in Anchorage, at the Alaska Miners Association convention in Anchorage, and at the Alaska Municipal League conference in Fairbanks during the fall of 1991. Before the AML conference, a Draft Report on The Taxation of Natural Resources in Place, dated November 1, 1991, was circulated to all of the members of the various working groups and the people who expressed interest in being on the mailing list as a result of the live presentations on the study. The result of the study process is a consensus that natural resources in place should be totally exempted from local property taxation. Without legislative action during the 1992 legislative session, however, the temporary exemption from municipal taxation for natural resources in place will expire July 1, 1992, and natural resources in place will once again be taxable.

To encourage reasoned discussion of the focal issues of the study, the draft report and the live presentations discussed the existing framework of municipal taxation in Alaska, the potential effect of the assessed value of resources in place (if deemed taxable) on the state education foundation aid and state revenue sharing monies to be received by local governments, and the local revenue generation required in order to qualify for those monies under the existing formulas. Both of these formula-based programs are tied to the full and true value of real and personal property within municipalities. Certain aspects of these programs and their terminology had to be understood to lay the groundwork for discussion of the central issue of taxation of resources in place.

The balance of this report follows the format and provides the information circulated to the public as part of the study. It explains the framework for municipal taxation in Alaska, the state foundation aid program for schools, and the state revenue sharing program before returning to the specific issue of the taxation of natural resources in place. The report also examines assessing issues and the policy concerns listed above in relation to the taxation options DCRA was directed to study. This final report will also be circulated to the public before the 1992 legislative session begins.

## II. The Legal Framework for Municipal Taxation in Alaska

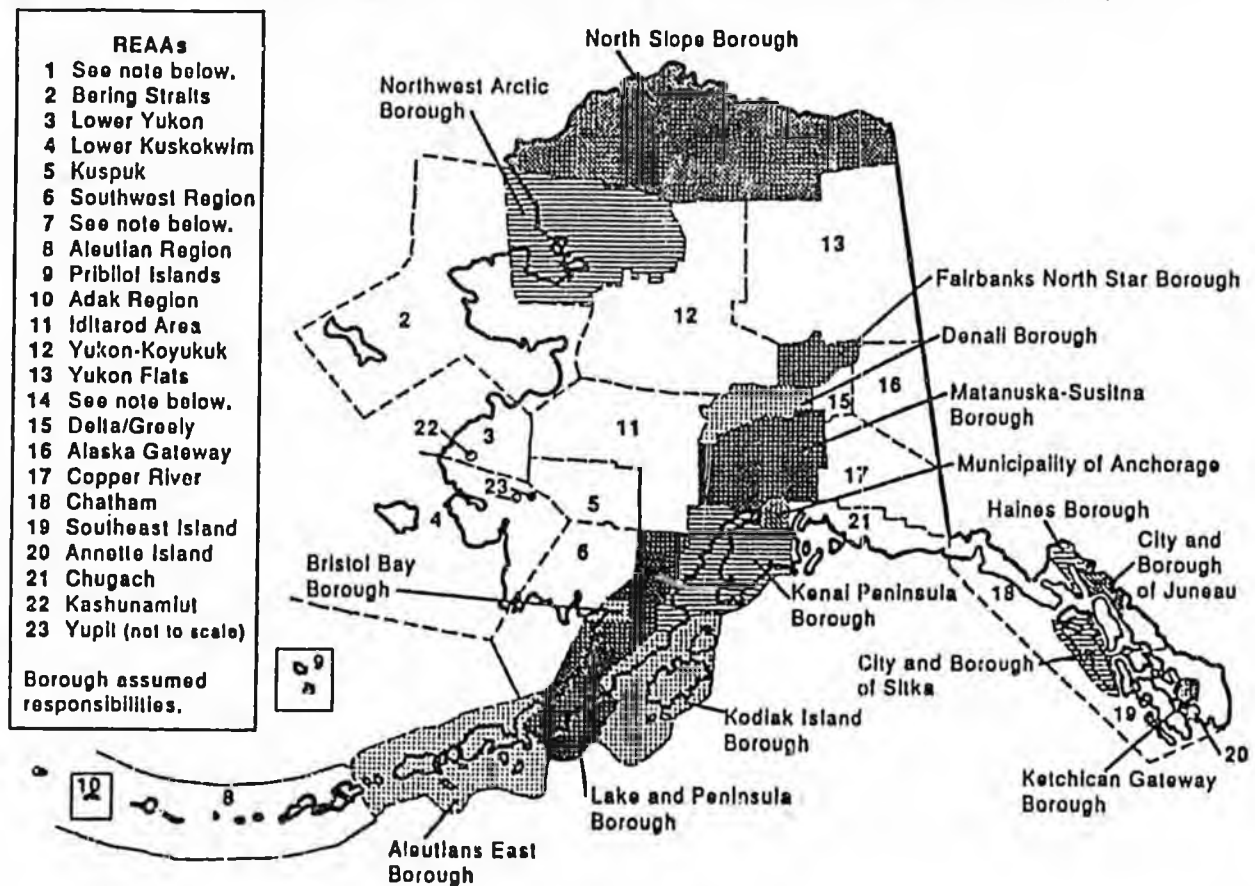
Articles IX and X of the Alaska Constitution and Title 29 of the Alaska Statutes establish the framework for municipal taxation in Alaska. Home rule municipalities are granted broad governmental powers by the Alaska Constitution, while general law municipalities are, among other specified powers, granted the right to levy a tax or special assessment, and impose a lien for its enforcement (AS 29.35.010). Home rule and general law municipalities are subject to limita-

tions on their taxing powers found in Chapter 29.45 of the Alaska Statutes. Within Chapter 29.45 there are provisions on property taxes, sales taxes and use taxes. Section 29.45.010 authorizes cities, boroughs, and unified municipalities to levy a property tax. If a tax is levied on real or personal property, it must be assessed, levied, and collected as provided in Chapter 29.45. Nowhere in Chapter 29.45, however, is there a statement of what is taxable. Instead, the assumption is that all real and personal property is taxable unless it is exempted from property taxation. That assumption is supported by Section 1 of Article X of the Alaska Constitution, which provides that "a liberal construction shall be given to the powers of local government." The following two sections describe the geographic distribution of municipal taxing powers and discuss the concept of taxability. Part IX of this report discusses various property taxation options and other taxation options that the Legislature directed DCRA to study.

**A. The geographic distribution of municipal taxing powers**

Natural resources in place, in order to be subject to municipal property taxation, have to be located within a city, borough or a unified municipality. The map below indicates the boroughs, the unified municipalities, and the unorganized borough. Not shown on the map are many cities located within the Unorganized Borough. Most cities do not contain many natural resource properties because of the limited area included within their boundaries. Nevertheless, any natural resource properties located within their boundaries could be affected by legislation (or lack thereof) pertaining to the taxation of resources in place. The issue of taxation of resources in place is also of significance to residents and property owners in the Unorganized Borough because, upon borough formation, whatever is taxable under state law will be taxable by the new borough, whether or not the new borough elects to levy a property tax.

**Borough and Rural Education Attendance Areas (REAA)**



## B. What is taxable?

The focal issue of this study is: should natural resources in place be taxable by municipalities? As explained above, under the statutory framework for municipal taxation in Alaska, all real and personal property is taxable unless it is exempted from property taxation. Required exemptions from municipal property taxation are specified in AS 29.45.030. Examples from the laundry list of property exempted from property taxation by AS 29.45.030 are household furniture and personal effects of members of a household, and property used exclusively for nonprofit religious, charitable, cemetery, hospital, or educational purposes. Property owned by ANCSA Native corporations is also exempt from municipal taxation until development occurs or it is leased to a third party. In addition to these exemptions from property taxation, AS 43.56 provides for certain exemptions of oil and gas production and pipeline property, including oil and gas in place. All of the exemptions discussed in this paragraph are mandatory exemptions. In other words, the property mentioned in the above-referenced statutes is simply not taxable at all.

Section 29.45.050 of the Alaska Statutes provides for optional exemptions and exclusions from local property taxation. The exemptions and exclusions are at the option of the local government which levies the property tax. Two examples of optional exemptions are the exemption from property taxation of personal property and the exemption of up to \$10,000 of value in a residence. The exemptions in AS 29.45.050 require action by the local government and they sometimes also require approval of the voters.

Since there are existing mandatory exemptions and optional exemptions, and since there is a mandatory exemption from property taxation for oil and gas in place in particular, it is reasonable to consider some form of exemption for some other, or all natural resources in place. If a mandatory or optional exemption is to be considered, however, we must have a working definition of the term "natural resource in place."

## III. What is a "Natural Resource in Place"?

The term "natural resources in place" does not correspond to any commonly used assessment terminology and appears to be very broad. The term "natural resources in place" is used several times in the Act, but only Section 2 gives an indication of what the term means. Section 2 of the Act reads as follows:

Sec.2. Temporary Tax Exemption. Natural resources in place, including proven or unproven mineral and other deposits of valuable materials and timber stumpage, are exempt from property taxation by a municipality. (emphasis added)

By the language of Section 2, the term "natural resources in place" covers 1) unproven mineral and other deposits of valuable materials, 2) proven mineral and other deposits of valuable materials, 3) timber stumpage, 4) and a category best described as "other." The "other" category arises from the wording of the Act that says natural resources in place "including" the named categories that are listed. Apparently, something in addition to the named categories in the Act was contemplated by the Legislature. Another ambiguous term in the Act is the phrase "other deposits of valuable materials." This term probably includes sand and gravel, but does it include glacial ice, for instance?

For the purposes of the study, the term "natural resources in place" was defined as:

**Any material in its native state before it has been severed or extracted.**

With that working definition of "natural resources in place," we looked at the effect of having natural resources in place taxable, as they were before the temporary exemption went into place in 1990. An important effect of taxability of a natural resource in place is that its market value must be included in the "full value determination" for the municipality in which the resource is located. The value of all taxable real and personal property in a municipality is included in its full value determination. The obvious question, then, is: What is a full value determination?

#### **IV. What is a "Full Value Determination" ?**

In brief, a full value determination is the sum total for a municipality of the full and true value established for each piece of taxable real and personal property within a municipality. AS 29.45.110 (a) specifies that the full and true value (FTV) is "the estimated price that the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer both conversant with the property and with prevailing general price levels." AS 29.45.110 (a) also requires the assessor to assess property at its full and true value as of January 1 of the assessment year.

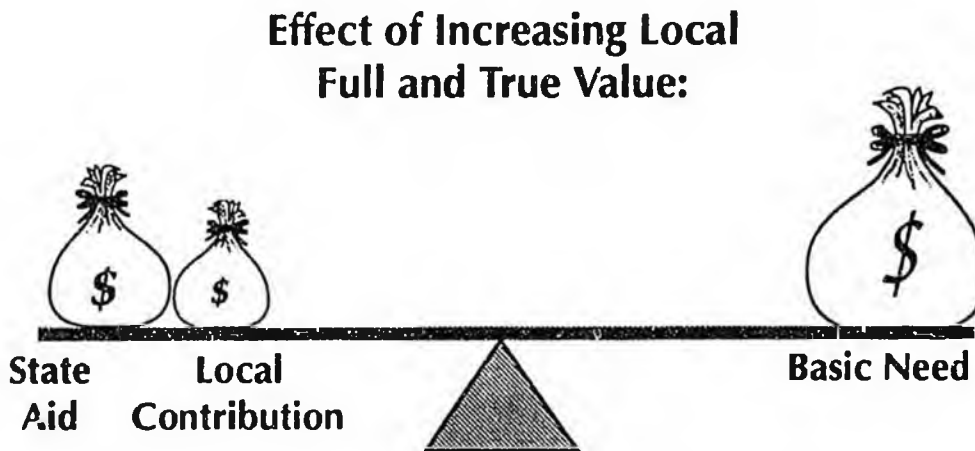
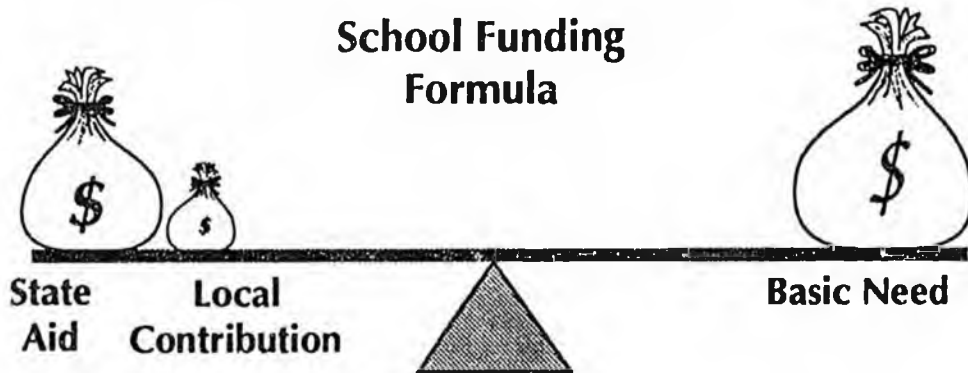
The education title of the Alaska Statutes, specifically AS 14.17.140, requires the Department of Community and Regional Affairs, in consultation with the assessor for each school district, to establish the full value of the taxable real and personal property in each city and borough school district. Not all cities and boroughs have property taxes, however, and, consequently, not all cities and boroughs have assessors. For those that do not, the State Assessor, located in the Department of Community and Regional Affairs, must estimate the full value of the taxable real and personal property without the consultation of a local assessor.

The State Assessor then compiles the full value determination for each municipality annually and notifies each municipality. As discussed below, the full value determination plays a significant role in the calculation of both the state foundation aid for education and the state revenue sharing programs. It is critical to municipalities, as well as property owners, whether natural resources in place are taxable (i.e., whether the value of natural resources in place will be added to the full and true value of the property in or on which these resources are located). The full and true value of all taxable property, whether the property is actually taxed or not, must be included in the full value determination for the municipality.

#### **V. How does the Full Value Determination Affect State Foundation Aid?**

Chapter 14.17 of the Alaska Statutes establishes the Public School Foundation Program. Under that program, a school is determined to have a "basic need" determined according to a formula spelled out in AS 14.17.021 (b). The local government is required to make a "local contribution" toward this basic need. The local contribution is defined in AS 14.17.025 as at least the equivalent of a 4 mill tax levy on the full and true value (FTV) of the taxable real and personal property in the district, unless a 4 mill tax levy on the FTV exceeds 35% of the district's basic need. A municipality will not receive its school foundation aid payment unless it makes its local contribution. AS 14.17.025 (e).

In other words, the higher the municipality's FTV, the greater the amount of money the municipality must raise to satisfy the local contribution requirement, up to the point where a 4 mill levy on the FTV exceeds 35% of the district's basic need. Historically, only in the North Slope Borough and the City of Valdez has the 4 mill equivalent exceeded 35% of basic need. This year, for the first time, a 4 mill levy on the FTV in the City of Unalaska will also exceed 35% of basic need. The following illustrations depict the relationship between state aid, local contribution and basic need, and demonstrate the effect on this relationship of increasing the local full and true value.



To further illustrate the point, assume that the FTV of the municipality is presently \$1 million. A 4 mill levy on \$1 million is \$4,000. If the FTV for the municipality increases to \$2 million, then the equivalent of a 4 mill levy will require the municipality to raise \$8,000. This may or may not be a problem for the municipality depending on the basis for the increase in FTV.

In summary, under the public school foundation program, assuming that basic need remains constant, as the FTV increases, the amount of the local contribution increases, and the amount of state foundation aid decreases. The question for the municipality is then: how will it raise the additional money to meet its local contribution requirement if the municipality's FTV increases?

**VI. How does the Full Value Determination Affect State Revenue Sharing?**

Sections 29.60.010–29.60.080 establish a program for municipal tax resource equalization. This tax equalization program is part of what is commonly referred to as the state revenue sharing program. Its purpose is to even out differences in taxable wealth among the municipalities in the state by paying relatively more shared revenues to those municipalities that have little taxable property.

The formula for determining a municipality's tax equalization entitlement is fairly complex. It is based on the municipality's population, actual generation of revenue, and the local tax base. The formula requires the equivalent of a local contribution. In this case, it is called "locally generated revenue."

The formula multiplies the population by the product of the locally generated revenue (LGR,) divided by one-tenth of one percent of the full and true value of the assessed property in the municipality. The formula for the product to be multiplied by the population is as follows:

$$\left( \frac{\text{LGR}}{0.1\% \text{ of FTV}} \right)$$

If we plug in some numbers, the formula looks like this:

$$\frac{100}{0.1\% \text{ of } 1,000} = 100$$

Obviously, the product will decrease if the FTV is increased unless the LGR is also increased. For example:

If local revenues are unchanged:

$$\frac{100}{0.1\% \text{ of } 2,000} = 50$$

If local revenues are increased to the same degree as the FTV:

$$\frac{200}{0.1\% \text{ of } 2,000} = 100$$

If local revenues are increased to a greater degree than the FTV:

$$\frac{400}{0.1\% \text{ of } 2,000} = 200$$

With this background in the two major funding formulas by which municipalities obtain state shared revenues, we can return to the focal issue of this study:

**Should "in place" natural resources be taxable by municipalities?**

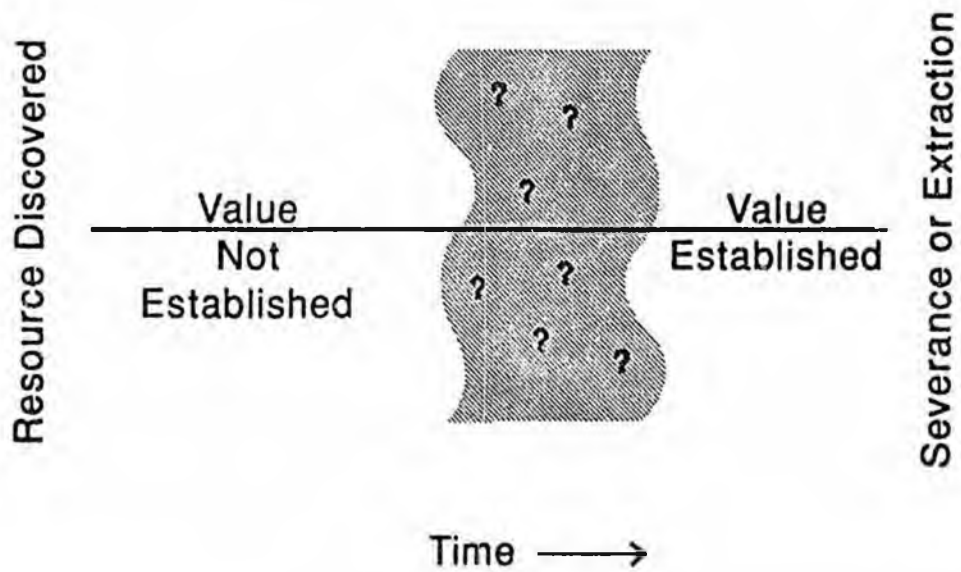
If natural resources in place — meaning resources that are not severed or extracted — are taxable, then the value of those resources in place must be added to the full and true value of the property in or on which they are located. As a consequence, the full value determination for the municipality will increase. The value of natural resources in place, however, can only be added to the assessment rolls at the point when an assessor using standard assessing practices could defensibly establish that value.

**VII. The Problem of Assessing Natural Resources in Place.**

Under the present temporary exemption from local property taxation, or if a permanent exemption from local property taxation is enacted, there is no issue of assessing natural resources in place. It is only an issue if the present temporary exemption expires and we return to the pre-existing status, which was that all taxable real and personal property must be assessed and included in the full value determination for the municipality in which the property is located.

When we speak of assessing natural resources in place, however, it should be clearly understood that the value of every resource in place would not be added to the assessment rolls on January 1, 1993. Assessors only put property on an assessment roll when a value for that property can be established according to commonly accepted standards and practices.

The figure below illustrates this point. The passage of time is indicated by the arrow at the bottom of the illustration. On the left of the illustration is the indication that a resource has been discovered. At the time of discovery so little is probably known about its dimensions, marketability and costs of production, that no value can yet be placed on the resource by the assessor. On the right hand side of the illustration is the indication severance or extraction. At the point of severance or extraction, we are no longer talking about assessment of a natural resource in place because the resource is no longer in place.



Logically, at some time before severance or extraction, it was possible to put a value on the resource in place according to standard assessing practices. The point at which a defensible value can be determined is the point at which the value should go on the assessment roll. Actually, the property may have already been on the assessment roll but with a minimal value based on use of the surface only. What we are really talking about is the point at which the in place resource value will be added to the assessed value of the property.

Assessors determine value by one of three methods: direct sales comparison, the cost approach, and the income (or income capitalization) approach. The cost approach is normally not applicable to valuing raw land. The direct sales comparison approach may be applicable to the valuation of natural resource properties in the rare instances where comparable sales of mineral properties can be found or where comparable timber stumpage values can be established. The third approach, the income approach to value, is the only realistic approach by which resources in place could routinely be valued, and it has certain inherent problems when one is dealing with income that has not yet been generated. The income approach to value involves developing an estimated net income (gross income less operating expenses) which is then capitalized using an appropriate capitalization (discount) rate. The following example illustrates the problem involved when an ore body, for instance, has not yet been developed.

In attempting to value an undeveloped ore body, it is first necessary to know, or estimate, the type and grade of ore, its volume, and its configuration. If the ore body has been discovered, but has not been extensively drilled, it would most likely be impossible to know these things. If the ore body has been adequately drilled, the information from the drilling may or may not be made available to the appraiser. (There is no requirement in Alaska for such information to be made available to state or local governments.) If the information were made available, the geologist/appraiser would still be facing the problems of estimating a potential income stream from development of the ore body, while considering fluctuations in the world market for that aggregate of ores. In addition, the appraiser would have to estimate the cost of extraction, including road construction, the actual extraction process, cost of drilling, separation of the metal from the host rock, shipping, and so forth. This exercise would be extremely subjective and speculative in nature.

A great deal of feedback has been received by the DCRA staff conducting this study about the difficulty and the cost of attempting to value natural resources in place so that their value can be added to the surface value of property for property tax purposes. Indeed, cost-effectiveness of having resources in place taxable is one of the important policy issues to be considered by the Legislature in determining the action to take with regard to the taxability of natural resources in place. The issue is: will it cost more than it is worth to permit the taxation of natural resources in place by local governments? This question is examined more fully in the discussion of the policy issues in Section IX. If the Legislature decides that natural resources in place should be taxable, another question that must be addressed is who should perform the assessment? That question is discussed in Section XIII, immediately following. There is general agreement that many assessments of natural resources in place would have to be performed by assessors with special expertise different than the expertise of most assessors.

### VIII. Who Should Assess Natural Resources in Place?

If natural resources in place are taxable by local governments, their value must be included in the full value determination for the municipality in which they are located. To do that, natural resources in place must be assessed by someone. Before looking into the question of who should assess natural resources in place, it is useful to look at the present process of property tax assessment by the municipalities.

Municipalities that levy a property tax either have a staff assessor or hire a contract assessor to perform the assessments for the municipality. The State Assessor then reviews the municipal assessments and makes any necessary adjustments, including addition of the value of property optionally exempted by the municipality from property taxation. The value of all taxable real and personal property, as adjusted by the State Assessor, is included in the full value determination for that municipality.

Not all municipalities empowered to levy a property tax actually do so. Those that do not levy a property tax do not assess the property within their jurisdiction. Nevertheless, by statute, the State Assessor must establish the full and true value of that municipality for purposes of the state foundation aid program and the tax equalization (revenue sharing) program. Therefore, the state has to be prepared to assess all taxable real and personal property within the municipalities in the state. If natural resources in place are taxable, the State Assessor will have to be prepared to assess them whether or not the municipality does so.

Before the temporary exemption went into effect in 1990, the municipalities did not routinely include in their assessments the value of natural resources in place and the State Assessor did not routinely add their value to the full value determinations of the municipalities. Now, however, if the temporary exemption is allowed to expire and the pre-existing law is again in effect, the full and true value of each municipality will have to include the value of natural resources in place within its boundaries because awareness of this issue has now been heightened statewide. Someone will have to establish that in place natural resource value. Under our present statutory structure, either the value will be established initially by the municipal assessor and reviewed by the State Assessor or, if the municipality does not levy a property tax, and therefore does not establish an assessment roll, the State Assessor will have to establish an estimated assessment in order to arrive at the full value determination for the municipality.

Municipal assessors are not generally trained to assess the value of mineral ore, coal, gravel, rock or timber in place. The two appraisers presently working in the State Assessor's office do not possess the necessary qualifications or experience either.

Typically, an economic geologist is hired by a mining company to determine the value of an ore body. Specially qualified forest appraisers are hired by timber companies to value timber resources. People with comparable skills will be necessary at the local and/or state level to assess natural resources in place, whether those people be hired as staff or hired under contract to provide assessing services.

The difficulty of assessing an ore body is illustrated by the Red Dog mine example where the State and the Northwest Arctic Borough hired a geologist and appraisal consultant at the rate of \$150 per hour to use the income approach and estimate the value of the entire mining operation, including the ore body under development. Under a separate agreement, the Borough contracted with the same geologist/appraiser for an appraisal of the mine utilizing the cost approach. The cost

approach appraisal was conducted in order to estimate the value of the mine improvements without the value of the ore body. By comparing the two appraisals, the consultant concluded that the value of the ore body was approximately \$30,000,000. The same consultant stated, however, that before certain metallurgical problems with smelting the ore were encountered, the value of the ore body had been \$100,000,000. He expected that within two to three years, when the metallurgical problem was solved, the value of the ore body would then again be \$100,000,000, absent some dramatic change in the world price for the mineral. This example illustrates the dramatic increases and decreases in the value of an ore body which often occur because of variable factors beyond the control of the industry.

Municipal assessors are not typically knowledgeable about the geology of mineral ores, smelting and metallurgy, world mineral prices and the other factors that go into appraising a mining property. In fact, the economic geologist who performed the Red Dog mine appraisal has stated it is easier to train a geologist to become a mining appraiser than to train an appraiser to become a mining geologist. Likewise, appraisers of timber resources must have the training to estimate types and grades of timber, calculate the costs of road construction, harvesting, transportation, storage and loading, among other things, as well as world timber prices. Again, it is not expected that a municipal assessor will have had this training and experience.

At least two other states in which natural resources in place are taxable have gone to a centralized assessment of natural resource properties by the state. (More details on the practices of other states are found in the addendum.) If natural resources in place are to be taxable, the issue of who is going to perform the assessments of those properties will need to be resolved. If the assessments are to be performed by the State Assessor's office, additional staff with the required expertise will have to be hired or, in the alternative, funding for contract assessors with the necessary training will have to be allocated.

### IX. Taxation Options and Policy Considerations

The act mandating the study asked DCRA to examine five taxation options:

1. Total exemption from municipal property taxation.
2. Partial exemption from municipal property taxation.
3. No exemption from municipal property taxation.
4. Total or partial exemption from municipal property taxation at the option of each municipality.
5. Taxation other than property taxation.

A discussion of these options pertaining to natural resource taxation must include a discussion of at least the following policy considerations:

- ✓ Fairness among taxpayers
- ✓ Fairness among municipalities
- ✓ Stimulation of economic development
- ✓ Cost-effectiveness of taxation methods
- ✓ Municipal revenue needs/sources

These policy considerations are examined, followed by a discussion of the five taxation options in the context of the present legal framework for municipal taxation and the policy considerations.

## A. Policy Considerations

### Fairness Among Property Owners

This policy consideration raises the issue of fairness among owners of various types of property. Upon whom should the tax burden to support government services within a municipality fall? Upon only the owners of personal property? Upon only the owners of real property? Upon only the owners of zoned real property? Should the owners of real property that is zoned have their assessment reflect the value of the particular zoning classification? Should owners of natural resource property have their assessment reflect the value of the resource in place? How can you be fair to all potential taxpayers? If one group of potential taxpayers is eliminated, does the burden fall unfairly on the remaining groups of taxpayers?

### Fairness Among Municipalities

Fairness among municipalities is an issue because not all municipalities in Alaska are equally endowed with a tax base from which to raise revenues. Should those municipalities with a potential tax base of natural resources in place be permitted to not include the value of those natural resources in their full value determinations? If they are not required to include the value of those natural resources in their full value determinations, those municipalities will not have to increase their local contribution to schools, even though they actually have a tax base from which they could generate local revenue. As a consequence, municipalities that could raise more local revenue will still get their same share of the school foundation aid from the state. Municipalities that have no possibility of raising more revenue for their schools would be disadvantaged under this scenario in which municipalities with resources in place are not required to make a local contribution commensurate with their actual wealth.

### Stimulation of Economic Development

With this policy consideration, the issue is whether or not making natural resources in place taxable would be a disincentive for economic development. It is necessary to keep in mind that taxability of natural resources in place does not necessarily mean that the taxing jurisdiction will choose to levy a property tax. If a property tax is levied, however, it must be levied equally against all taxable property. Consequently, one must contemplate whether levying a property tax on the assessed value of resources in place will act as a deterrent to economic development. What specific impacts might such a tax have on economic development? Will it discourage exploration for minerals? Will it encourage the exploitation of only the highest grades of ore? Will it encourage the rapid cutting of forests in order to eliminate the source of a higher property tax? DCRA was told by the resource industries and the Department of Commerce and Economic Development that the impact of making natural resources in place taxable will be uniformly detrimental to economic development. No contrary evidence was provided and DCRA does not have the means to hire economists to make an independent assessment of these assertions.

### Cost-Effectiveness

Cost-effectiveness is an important policy consideration because assessment of natural resources in place is expected to be much more complicated and costly than the municipal property assessments typically performed now. All sources indicate that ore bodies are extremely difficult to evaluate, even for the professionals hired by mining companies to perform evaluations on the

basis of which millions of dollars may or may not be invested. Assessment of timber stumpage is also a highly specialized skill not normally possessed by municipal assessors or state assessors whose job it is to review standard municipal assessments. Assessments of both of these categories of natural resources in place would have to be accomplished either by extensive particularized investigations of specific resource properties, or through elaborate computer modeling for which both the data and the programs are not now available either to municipal assessors or to the state assessor.

If such assessments of natural resources in place are performed by the municipalities, they might sometimes have to be confirmed by the State Assessor's Office. In that case, presumably both the municipalities and the State Assessor's Office will face additional costs for contracted expert help or additional staff possessing the necessary expertise. If the municipality does not intend to levy a property tax and, therefore, does not assess property, the State Assessor's Office would still have to assess the natural resources in place in order to add their value to the full value determination for the municipality.

Several agencies and the Alaska Miners Association have commented that because of the difficulty of assessing ore bodies, serious disputes over assessed values of minerals in place can be expected, with the associated probability of litigation. At least two states have attempted to deal with the problem of assessing resources in place by centralizing the function in a state agency. (See the addendum on the results of the survey of states and provinces.) It is a policy question for both local governments and the state as to whether it would be cost-effective to have to assess natural resources in place in order to have the possibility of taxing them.

#### Municipal Revenue Needs and Sources

Municipalities are being required by the federal and state governments to assume more responsibilities. Most often these additional responsibilities are not accompanied by sufficient funds to cover the cost of the new activity. At the same time, municipalities are seeing the state cut the amount of money allocated to state revenue sharing and municipal assistance. While municipalities are facing these problems, they may also face the impacts of natural resource development in their area. Natural resource development may provide long-term economic benefits, but it may also require extension of roads, water lines, sewer lines, and power lines as well as the development of additional housing, schools and commercial infrastructure. In this situation, municipalities might be hesitant to give up a taxing power that would potentially provide a present revenue stream for the payment of present infrastructure costs.

Several state agencies and natural resource owners have stated that if there must be taxation of natural resource development, the taxation should not begin before severance or extraction of the resource takes place. While this may be preferable for the natural resource industries, it could leave the municipalities without the revenue needed to develop the infrastructure necessary to deal with impacts and provide support for economic development that is needed before the natural resource industry is in production. In the worst case, a community might experience impacts for many years during pre-production activities and the enterprise might never go into production with the consequence that there is never any revenue derived from a severance tax.

With these five policy considerations in mind, the five taxation options the Legislature asked to have studied were examined. A synopsis of the thinking developed on each option during the study is provided below.

## B. Taxation Options

### Option One: Total Exemption from Municipal Property Taxation

Total exemption from municipal property taxation means that natural resources in place would not be taxable by local governments. This is the option for which there appears to be a statewide consensus.

Those who commented in favor of this option include the Department of Natural Resources, the Department of Commerce and Economic Development, the Department of Revenue, and the State Assessor, among state agencies. Support for this option was also voiced by the Alaska Miners Association, Sealaska Corporation, Chugach Forest Products, Afognak Native Corporation, Konkor Forest Products Corporation and NANA Corporation, among other individuals and organizations.

At the Alaska Municipal League conference, the AML unanimously adopted a resolution in support of a total exemption. In the view of the local governments, the value to be derived from having natural resources in place taxable is not worth the cost and difficulties arising from the need to assess natural resources in place, municipalities would have to increase their local contribution and locally generated revenue to obtain state monies, and, finally, the municipalities do not want to risk impeding economic development that might benefit their communities.

One potential benefit to local governments from a total exemption is that municipalities will not be required to assess natural resources in place, and they will not face possibly dramatic changes in their full value determinations that might result if natural resources in place are assessed. (For example, based on Robert Paschall's studies, the Northwest Arctic Borough could face an increase in its full value determination from \$30,000,000 to \$100,000,000 as soon as metallurgical problems at the Red Dog Mine are resolved.) Dramatic changes in full value determinations for some municipalities arising from the taxability of natural resources in place would require that those municipalities increase the absolute amount of their local contribution to the basic need for their schools. (Remember the required local contribution under the school foundation aid formula is the equivalent of a four mill levy or 35% of basic need.)

On the one hand, a property tax provides a revenue stream as soon as a value can be placed on property. It avoids the situation described above where a community may have had to deal with resource development impacts for years and then have production never start so that reliance on a severance tax would provide no revenue. (See, however, the discussion below under Option Five.)

On the other hand, owners of natural resource properties point out that a property tax is the worst possible tax for stimulating economic development. They say a property tax on resources in place will discourage exploration and encourage cutting trees prematurely. It will also encourage closing mines when only the highest grade ore has been extracted.

### Option Two: Partial Exemption from Municipal Property Taxation

The Legislature asked that a partial exemption from municipal property taxation be one of the options considered in this study. The Legislature did not indicate, however, what it meant by partial.

A partial exemption could mean that some natural resources are exempted from property taxation while others are not. Alternatively, a partial exemption could mean that a portion of the assessed value of the natural resource in place would be exempted from property taxation. The former interpretation raises serious questions of taxpayer equity. The latter interpretation triggers serious concerns about the cost-effectiveness of a partial exemption.

An exemption of some natural resources in place but not others would obviously have a differential impact on potential taxpayers. Owners of timber land might question whether it was fair to exempt mineral land from taxability but not their timber land, for example. There would also be a differential impact on municipalities since natural resources are not all distributed evenly across the state. Municipalities whose resources were exempted from taxability would no longer be able to raise revenue by levying a property tax on the value of those resources in place. On the other hand, municipalities whose natural resources were not exempted would have to add the assessed value of those natural resources in place to their full and true value. The consequent increase in the full value determination means those municipalities would have to raise more revenue in order to meet their local contribution requirement for state foundation aid. Those municipalities might not have a large tax base from which to raise revenue other than by a property tax, and yet they might feel that levying a property tax would be detrimental to economic development and also to their residents who might live a largely subsistence life style.

The cost-effectiveness issue discussed above is even more persuasive against the other interpretation of "partial exemption," by which a portion of the assessed value of all natural resources in place would be not taxable. The same difficult and costly assessing work would be required to correctly assess the property, but in return only a certain portion of the assessed value would be put on the tax rolls. Under this scenario, the revenue to be derived from a property tax would be lower, while the amount and cost of the assessment work would remain the same.

#### Option Three: No Exemption from Municipal Property Taxation

The option of no exemption from municipal property taxation will be the conscious or unconscious result if the Legislature takes no action on the issue of the taxation of natural resources in place during the coming legislative session. As mentioned above, the temporary exemption in the Act expires July 1, 1992. On that date, if no legislation has changed the law on taxability, natural resources in place will once again be taxable. The difference is that now people are very conscious of this issue and there is a statewide consensus that natural resources in place should not be taxable.

If there is no exemption from taxation for natural resources in place after July 1, 1992, it is unlikely that resources in place that have an assessable value will be kept off the assessment rolls. Taxpayers who feel they are unfairly carrying the tax burden in their municipality might sue to put assessable resource properties on the tax rolls. If the municipality does not put assessable resource properties on the assessment rolls, the State Assessor will still be obligated to include the full and true value of those properties in the full value determination for the particular municipality. That will have differential impacts on the municipalities' shares of education and state revenue sharing funds depending on whether the municipalities have or do not have assessable natural resources in place. Taxability of natural resources in place will also impact the staffing and funding necessary for municipal assessing offices and the State Assessor's Office.

The resource industries have commented that if natural resources in place are taxable, that will have a detrimental impact on economic development within the state. The cost of the property

tax, if one is levied, will have to be factored into the cost of development in a situation where fluctuating market prices and high development costs make long term investment risky. It will not be enough to say that although the natural resource in place is taxable, the local government will not levy a tax, because the next council or assembly could change that policy, particularly since the value of the resource in place will be included in the municipality's full value determination with the resultant impact on state program formula requirements to raise the local contribution and locally generated revenue. In addition, the resource industries have commented that the next worst thing to taxation is instability in taxation policies. Since they have to plan for long term investment, they need to know what to factor into their plans.

At the same time, it should be pointed out that as long as the natural resource in place is not assessable according to standard assessing techniques, it will not go onto the assessment rolls. Furthermore, much of the natural resource land that might be susceptible to property taxation is held by Native corporations that are insulated from taxation by federal law until development occurs. Leases of Native corporation land are not so protected, however. Nor are leases of state or federal land.

Option Four: Total or Partial Exemption from Municipal Property Taxation at the Option of Each Municipality

The discussion of the framework for municipal taxation found at the beginning of this report explained that the present statutory scheme contains provision for local option with regard to property tax exemptions. The local option exemptions are found in AS 29.45.050. It is conceivable, therefore, to enact an optional exemption, either total or partial, for natural resources in place. That decision should not be made, however, without consideration of all of the consequences.

On the one hand, local option is often favored because it allows local governments maximum control. Local option exemptions, however, do not exclude the property exempted from a municipality's full value determination. A local decision to exempt natural resources in place from taxation would still leave them taxable as far as the State Assessor is concerned. An increase in the full value determination would mean an increase in the absolute amount of the local contribution and the locally generated revenue required. If natural resources in place were locally exempted from property taxation, the local contribution and the locally generated revenue would have to be raised from other property tax payers or through sales and/or excise taxes. This, of course, raises the issue of fairness among tax payers. It also raises the issue of cost-effectiveness. Is it cost-effective to create a situation where the State Assessor must assess natural resources in place, while the municipality may optionally exempt resources in place from taxation?

Option Five: Taxation other than Property Taxation

In the Act, the Legislature asked that the study examine options for taxation of natural resources other than the property tax. As discussed above, of the types of tax that can be levied by a local government, only a property tax can be levied against the value of a natural resource in place. As long as it remains in place, the natural resource is part of the property. This section looks at other forms of taxation that local governments might levy against some aspect of natural resource production.

At the time a natural resource is severed or extracted, a local government can levy a severance tax. In fact, two boroughs (the Denali Borough and the Kodiak Island Borough) have already done so since the temporary exemption from property taxation went into effect. These boroughs levy a tax against the value or tonnage of the resource that has been severed or extracted.

The Kodiak Island Borough adopted what it feels is a long term progressive tax policy that levies against the gross production value of natural resources that have been severed or extracted. While this tax currently targets timber and fish harvesting operations, it can accommodate any resource development activity where a value-by-unit can be established. The value of the severed or extracted resource is multiplied by the local property tax mill levy as determined annually by the borough assembly. The borough maintains that this assures consistency and equity of taxation between natural resource property owners and the owners of other property within the borough that is taxable by the property tax method.

The Denali Borough has also adopted a natural resource severance tax. This tax targets coal, limestone or gravel that has been extracted. The tax is based on a flat rate per unit of production. The tax levy for coal and limestone is \$0.05 per ton of gross production. For gravel the tax is \$0.05 per cubic yard of production.

A severance tax is but one form of excise tax. Other forms of excise tax that might be levied include a tax on exploration activities, transportation activities, processing activities, storage activities, and the like. While a severance tax is recommended by the natural resource industries in lieu of a property tax on natural resources in place, it should be pointed out that excise taxes and property taxes are not mutually exclusive and could be levied at the same time.

Under the Alaska Constitution, Title 29, and the Alaska Supreme Court cases, local government authority to tax is very broad. According to a 1986 Attorney General's opinion, interpreting the above authorities in the context of a question about severance taxation, the provisions of Title 29, other than AS 29.45.010, are limitations on local government authority to tax. Following that interpretation, one concludes that there are no statutory or case law limitations on the power of local governments to enact excise taxes. Only property taxes and sales and use taxes are covered by Title 29 and Alaska Supreme Court cases.

## X. CONCLUSIONS

The study on the issue of taxation of natural resources in place has been concluded and it is now clear that the Legislature must provide an explicit resolution to this taxation issue during the coming legislative session. The temporary exemption for resources in place expires July 1, 1992. Unless the Legislature totally exempts natural resources in place from local taxation during this session, a state of confusion will ensue for the municipalities, the State Assessor's Office and the resource industries. The study raised the consciousness of these interested parties about the meaning of taxability of natural resources in place and the implications which this taxability holds for all concerned. There is a statewide consensus that the Legislature should adopt an amendment to AS 29.45.030 totally exempting natural resources in place from local property taxation.

**Appendix A:  
Property Taxation of Natural Resources  
in the States and Provinces**

The Department of Community and Regional Affairs surveyed Alaska, the other forty-nine states, and the Canadian provinces regarding property taxation of natural resources. The survey questionnaire was formulated into technical and policy sections and was intended to identify resource taxation policies and procedures currently in use throughout North America. The questionnaire was mailed to state and provincial property tax officials in the spring of 1991 and responses were received over a several month period. No questionnaires were mailed to local assessors or to tax officials at the city or county level, as we thought state and provincial agencies would have a better overall picture of what is taking place, in terms of resource taxation, within their jurisdictions.

Many responses to the questionnaires were inadequate or simply raised more questions. Also, some states did not respond at all to the questionnaire. Therefore, we often made follow-up contact by phone. It was interesting, although not altogether surprising, that the phone interviews revealed that resource property taxation practice does not always conform to law or stated policy. Officials were occasionally more candid on the phone than they were in completing the questionnaire and admitted that property taxation on natural resources may not always be administered to the letter of the law. The primary reason for this was that natural resource taxation was not a significant issue in their jurisdiction because of limited resources and, therefore, the time and expense to administer such a tax aggressively could not be justified.

Through the use of the questionnaire, we also hoped to discover specific resource taxation problems or successes that may be shared by various taxing jurisdictions. After our review of the questionnaires and as a result of our phone interviews we found that problems which taxing jurisdictions share are usually of a technical nature. It is generally the old story of lack of market data and lack of comparability between subject properties that makes the job difficult for the appraiser. Lack of adequate training in the appraisal of special purpose properties such as mines and quarries is also a common problem among taxing agencies.

The policy similarities between states and provinces are simply that severance taxes and property taxes are the two most common forms of natural resource taxation. They are used, in some form, in nearly every state and province. This is really where the policy similarities end between states and provinces, however, because the extent and manner in which these two forms of taxation are implemented in each taxing jurisdiction varies so much as to make each unique.

One survey question asked if states and provinces levied taxes against natural resources that are "completely undeveloped." The term "completely undeveloped" was not defined in the questionnaire, however, generally the answer that we received on this question was no. Only eight of the states that responded to the questionnaire answered yes to this question and two of those assess undeveloped resources at a flat rate per acre; \$75 per acre in Illinois and \$60 per acre in Indiana. Four of the states that answered yes to this question only assess against mineral rights that have been severed from the fee ownership. Although several other states answered no to this question, they do in fact assess standing forest lands to some degree (generally some set amount on a per acre basis.)

For those states and provinces that stated they did not assess against undeveloped resources, a follow up question asked officials to describe at what point in the production process was taxability triggered. Most stated that taxability was triggered at the point of production or harvest. The terms to describe this point of taxability vary. For example, taxation is triggered in the Yukon Territory "when production starts" in Wyoming resources are taxable "when the mineral reaches the mouth of the mine," and in Michigan, "sometimes, the trigger is severance."

A general summary and some specific highlights of the survey follow.

**General Summary:**

- Thirty-one states can legally tax natural resources in place, but only twelve states actually do to varying degrees. Those states are: Arizona, Colorado, Indiana, Kentucky, Michigan, Mississippi, Missouri, South Dakota, Texas, Virginia, West Virginia and Wisconsin. Of the states that currently include in place natural resource value in real property assessments, only a few do so aggressively. This may be due to the lack of expertise at the local and state level to reliably value and defend assessed values for resources. It may also be that where there is little natural resource value, it is not cost effective to undertake the valuation of natural resources that do exist.
- Nineteen states statutorily exempt the in place natural resource value from the assessment of real property.
- The states with the most advanced programs of natural resource assessment are those resource rich states that can generate enough tax revenue to justify the staff to assess resource properties. Arizona and Kentucky are both very active in resource assessment, and both centralize the assessment activity. Assessments are made by state agencies, and tax collection can either take place at the state level with revenues being passed through to local governments, as is the case in Kentucky, or, assessed values can be provided by the state to local governments for local tax collection, which is the current policy in Arizona.
- Taxing agencies in other states that indicated they do assess and tax natural resources apply several different approaches. Many rely on the market data or sales comparison approach to value. Officials stated, however, that actual sales of resource properties are rare, hard to verify, and are often not very comparable to other properties being assessed. This results in a general disregard for assessing this type of property or at least minimizes their value estimates. Many states are aided by mandatory sales disclosure laws which require sales information on all transactions to be provided to assessment officials. Unfortunately sales information is still generally inadequate to result in reliable assessments for resource properties. Alaska does not have any mandatory sales disclosure law at this time.
- The general nature of natural resource taxation in Canada is similar to ours in the United States. Active natural resource developments are subject to federal, provincial and local government taxes mostly in the form of income and severance taxes. In British Columbia minerals are not subject to property tax, and other natural resources, such as water and timber, are taxed at the time of use or harvest.

**Specific Highlights:**

- Within the area of property taxation there are nearly as many different levels of assessments and applications of millage rates as there are states and provinces.
- Policies for taxation of natural resources also vary from state to state since different states have different types of resources. Taxing jurisdictions adopt taxing policies that best suit their individual needs, kinds of resources, and resource availability. Arizona assesses all recoverable minerals in the ground, Indiana values mineral ownership at \$60 per acre, Michigan exempts ore bodies up to 10 years or until they become part of an operating mine, and Montana values unproductive mining claims as agricultural grazing land.
- Across the country, in states which have elected to levy property taxes against natural resource properties, varying degrees of sophistication exist within agencies responsible for resource assessment. Kentucky has developed an elaborate geographical information system (GIS) for its resource management. They have identified and quantified their natural resources and have developed an assessment scheme that considers current economic and market conditions. The GIS is designed to manipulate resource data to create a three dimensional geographic map of the state which allows for the assessment of each coal seam or mineral deposit of taxable value parcel by parcel. Kentucky was actually forced into developing this assessment system as a result of a state supreme court case. The case determined that state constitutional restrictions did not allow the State Department of Revenue to assess natural resources at levels lower than other types of property. State officials found themselves in the position of being required to assess the resources of the state at full value with very limited resource information. They now have the GIS and a staff of 35 to value natural resources.
- Other states such as Hawaii and Rhode Island have limited mineral deposits and as a result have no specific statutes pertaining to the taxation of these resources and no resource assessment staff. Some states that exempt natural resources from property taxation levy other kinds of taxes on these resources. For example, most states levy some type of excise tax based on the production value of a severed resource or on its production unit (i.e. tax per ton.) In addition, it is common for states to levy income taxes on the resource industry.

S B

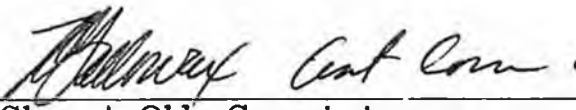
3 4 5

SB 345 (346): "An Act relating to Fisheries Development Endowment Loans."

SB 345 establishes a new program that allows the department to make loans to establish endowments for support of commercial fisheries development research projects in the state. The loans would be made to nonprofit corporations incorporated for the purpose of promoting the development of commercial fisheries in the state. The loans would be ten-year, zero interest, unsecured loans due in full at maturity. Recipients would be required to provide financial information relating to the endowment and would be subject to audit by the legislative auditor.

SB 346 would appropriate \$5,000,000 to the department for the purpose of making a loan under this program to the Alaska Fisheries Development Foundation.

The department is neutral on this legislation.

  
\_\_\_\_\_  
Glenn A. Olds, Commissioner *for*

Date: 2-3-92



**SENATOR FRED F. ZHAROFF**  
**ALASKA STATE LEGISLATURE**

P. O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259

DURING SESSION:

P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

**SECTIONAL ANALYSIS**

Senate Bill No. 345

"An Act making an appropriation for a loan to the Alaska Fisheries Development Foundation for a commercial fisheries development endowment; and providing for an effective date."

SECTION 1

LEGISLATIVE FINDINGS.

Explains the purpose of the bill.

SECTION 2

Appropriates \$5 million from the general fund to the Department of Commerce and Economic Development for a commercial fisheries development endowment loan to the Alaska Fisheries Development Foundation. This is contingent on the passage of SB 345 or similar legislation.

SECTION 3

Immediate effective date.

STATE OF ALASKA  
1992 LEGISLATIVE SESSION

FISCAL NOTE

BILL NO. SB 345

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

Department Affected: Commerce & Econ. Dev.

Title: An Act relating to Fisheries Development  
Endowment Loans

BRU: Investments

Sponsor: Senators Zharoff, Duncan

Component: \_\_\_\_\_

Requestor: Resources

COMPONENT SERIAL NO. 

0	3	8	4
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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE FUND RESOURCE:	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS						
OTHER FUND SOURCE:						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: \_\_\_\_\_

**ANALYSIS** (Attach a separate page if necessary.)  
SB 345 creates a new loan program for nonprofit corporations that promote the development of commercial fisheries in the state. Companion bill, SB 346, would appropriate \$5,000,000 for the purpose of making a loan to Alaska Fisheries Development Foundation. It is anticipated that this is the only loan that would be made in the near future and, thus, no new funds would be needed to implement this bill.

Prepared By: Martin J. Richard, Director *[Signature]* Phone: 465-2510

Division: Investments Date: 1/31/92

Approved by Commissioner: Glenn A. Olds *[Signature]* Com.

Agency: Department of Commerce & Economic Development Date: 2-3-92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Lecls. Ofc., and Impacted Agency(ies).

Changes in SSB 345 (RES)  
have no fiscal impact. This  
fiscal note is appropriate.

Page 1 of 1

BC(dg)1-3530-1/013192a

Feb. 10, 1992 Terry Olds P.C.O.  
date Comte Aide (initial)

SENATE COMMITTEE REPORT  
FIRST COMMITTEE OF REFERRAL

DATE: 1/13/92

FURTHER: Finance

Date of 5-Day Notice: Waived  
(in accordance with Uniform Rule 23)

DATE TURNED  
INTO OFFICE: Feb 11, 1992

Resources Committee considered SENATE BILL NO. 345

"An Act relating to loans for the establishment of commercial fisheries development endowments, and providing for an effective date."

and recommends:

replace with \_\_\_\_\_ CS SB 345 (RES)

same title  
 new title  
 technical title change (HB only)

attaches amendment(s)

adopts \_\_\_\_\_ Letter of Intent

further referral to the \_\_\_\_\_

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES: Dept/Date

zero fiscal notes \_\_\_\_\_

fiscal notes \_\_\_\_\_

appropriation--no fiscal note

PREVIOUS FISCAL NOTES: Dept/Date

Governor's bill with fiscal notes:

zero fiscal notes \_\_\_\_\_

fiscal notes \_\_\_\_\_

DO PASS:

OTHER RECOMMENDATIONS:

[Signatures]

\_\_\_\_\_

[Signature]  
Chair: Signature and Recommendation

FISCAL NOTE

STATE OF ALASKA  
1992 LEGISLATIVE SESSION

BILL NO. SB 345 and SB 34

Revision Date: 1/27/92 Department Affected: Fish and Game  
 Title: Commercial Fisheries Development BRU: Commercial Fisheries  
 Endowments \_\_\_\_\_ Component: Commercial Fisheries  
 Sponsor: Senator Zharoff  
 Requestor: Senate Resources Committee COMPONENT SERIAL NO. 

4	5	9
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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0					
TRAVEL	0					
CONTRACTUAL	0					
SUPPLIES	0					
EQUIPMENT	0					
LAND & STRUCTURES	0					
GRANTS, CLAIMS	0					
MISCELLANEOUS	0					
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
FUND SOURCE:						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
FUND SOURCE:						
TOTAL	0	0	0	0	0	0

POSITIONS:

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

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

Changes in CS SR 345 (RES) have no fiscal impact. This fiscal note is appropriate.

Feb 10, 1992 date T.C.O. Terry Ohms Compt Aide (initial)

Prepared By: Bob Clasby Phone: 465-4210  
 Division: Commercial Fisheries Date: 1/27/92  
 Approved by Commissioner: [Signature]  
 Agency: Dept. of Fish and Game Date: [Signature]

**CS FOR SENATE BILL NO. 345 (RESOURCES)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
SEVENTEENTH LEGISLATURE - SECOND SESSION**

**BY THE SENATE RESOURCES COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): SENATORS ZHAROFF, Duncan, Sturgulewski**

**A BILL**

**FOR AN ACT ENTITLED**

**1 "An Act relating to loans for the establishment of commercial fisheries development  
2 endowments; and providing for an effective date."**

**3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

**4 \* Section 1. AS 16.10 is amended by adding a new section to read:**

**5 ARTICLE 9A. COMMERCIAL FISHERIES DEVELOPMENT ENDOWMENT LOANS.**

**6 Sec. 16.10.601. COMMERCIAL FISHERIES DEVELOPMENT ENDOWMENT LOANS.**

**7 (a) Subject to the availability of funds appropriated by the legislature for commercial fisheries  
8 endowment loans, the Department of Commerce and Economic Development may make loans  
9 to establish endowments for the support of commercial fisheries development research projects  
10 in the state to nonprofit corporations incorporated for the purpose of promoting the development  
11 of commercial fisheries in the state.**

**12 (b) A loan made under this section is**

**13 (1) for a period of 10 years unless another period is specified by the legislature;**

**14 (2) made without interest;**

1 (3) not subject to repayment until the expiration of the period of the loan;  
2 however, the principal of the loan shall be repaid in full at the expiration of the period of the  
3 loan.

4 (c) The recipient of a loan made under this section may invest the principal of the loan  
5 only in the following financial instruments or investments:

6 (1) United States Treasury securities with a maturity of three years or less;

7 (2) bonds or notes that are issued by a state or political subdivision that are  
8 graded A or higher by Moody's Investor's Service, Inc., or Standard and Poor's Corporation and  
9 that have a maturity of three years or less;

10 (3) prime commercial paper that is graded A-1 or higher by Moody's Investor  
11 Service, Inc., or P-1 or higher by Standard and Poor's Corporation and that has a maturity of 270  
12 days or less;

13 (4) prime bankers acceptances that are offered by the 50 largest international  
14 banks and that have a maturity of 180 days or less;

15 (5) money market mutual funds with a portfolio consisting entirely of United  
16 States government obligations or United States government guaranteed obligations;

17 (6) uncollateralized deposits, with a maturity of three years or less, at banks and  
18 savings and loan associations to the extent that the deposits are insured by the Federal Deposit  
19 Insurance Corporation or the Federal Savings and Loan Insurance Corporation; or

20 (7) certificates of deposit and other deposits with a maturity of five years or less  
21 at banks and savings and loan associations where the entire amount of principal and interest is  
22 payable upon maturity of the deposit and the deposit is collateralized by one or more of the  
23 following:

24 (A) insurance issued by the Federal Deposit Insurance Corporation or the  
25 Federal Savings and Loan Insurance Corporation;

26 (B) United States Treasury securities;

27 (C) obligations guaranteed by the United States government or its agencies  
28 or instrumentalities;

29 (D) obligations of the State of Alaska or its political subdivisions that are  
30 secured by the full faith, credit, and taxing power of the state or political subdivision and  
31 that are rated A or higher by Moody's Investor's Service, Inc., or Standard and Poor's

1 Corporation.

2 (d) The recipient of a loan to establish an endowment under this section shall provide  
3 copies of annual reports and financial audits regarding the endowment, if any, to the  
4 commissioner of commerce and economic development and the legislature by January 15 of each  
5 year.

6 (e) The financial records of an endowment established with a loan made under this  
7 section may be audited by the legislative auditor or by a certified public accountant approved by  
8 the legislative auditor if the audit is requested by the Legislative Budget and Audit Committee.

9 (f) The commissioner of commerce and economic development shall adopt regulations  
10 necessary to implement this section.

11 \* Sec. 2. AS 16.10.601, added by sec. 1 of this Act, is repealed June 30, 2003.

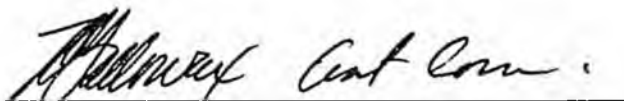
12 \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

SB 345 (346): "An Act relating to Fisheries Development Endowment Loans."

SB 345 establishes a new program that allows the department to make loans to establish endowments for support of commercial fisheries development research projects in the state. The loans would be made to nonprofit corporations incorporated for the purpose of promoting the development of commercial fisheries in the state. The loans would be ten-year, zero interest, unsecured loans due in full at maturity. Recipients would be required to provide financial information relating to the endowment and would be subject to audit by the legislative auditor.

SB 346 would appropriate \$5,000,000 to the department for the purpose of making a loan under this program to the Alaska Fisheries Development Foundation.

The department is neutral on this legislation.

  
\_\_\_\_\_  
Glenn A. Olds, Commissioner

Date: 2-3-92

GAO/BC/dgl1363D-3  
013192a

Position Paper  
Commerce & Economic Development



SENATOR FRED F. ZHAROFF  
ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99815 (907) 488-5259

DURING SESSION:

P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 485-3473 • 485-3474

1

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

SECTIONAL ANALYSIS

Senate Bill No. 345

"An Act relating to loans for the establishment of commercial fisheries development endowments; and providing for an effective date."

SECTION 1

COMMERCIAL FISHERIES DEVELOPMENT ENDOWMENT LOANS.

- (a) Gives the Department of Commerce and Economic Development the authority to make loans to establish endowments -- subject to the availability of funds appropriated by the legislature -- to nonprofit corporations for commercial fisheries development research projects. The nonprofit corporation must be incorporated for the purpose of promoting commercial fisheries development in Alaska.
- (b) Establishes the terms of the loan. The loan is for 10 years, made without interest, and the principal is to be repaid in full when due.
- (c) Requires distribution of annual reports and financial audits.
- (d) Makes the financial records of an endowment loan subject to inspection and audit by the Division of Legislative Audit.
- (e) Requires the commissioner of commerce and economic development to adopt regulations to implement this section.

SECTION 2

Sunset clause. The statute is repealed upon the expiration of an endowment loan to the Alaska Fisheries Development Foundation.

SECTION 3

Immediate effective date.

ALASKA FISHERIES DEVELOPMENT FOUNDATION ENDOWMENT

What Is The Foundation And What Is Its Goal?

\* The Alaska Fisheries Development Foundation (AFDF) is a private non-profit corporation formed in 1978 by the Alaska seafood industry to satisfy the research and development needs of Alaska's commercial fishing industry.

\* The Foundation acts as a catalyst for all segments of the seafood industry, including the scientific and research communities, to demonstrate new technologies and ideas for the benefit of Alaskan seafood producers, users, consumers and fishery managers.

What Does The Foundation Do?

\* AFDF conceptualizes and acquires funding for demonstration projects which allow the Alaskan seafood industry to test and apply new technologies in plants or aboard vessels that expand opportunities, increase yields and make better use of Alaska's fish resources. These are projects that few companies could afford or have the ability to conduct on their own.

\* AFDF demonstration projects have helped Alaskan fishermen and processors develop new harvesting and processing techniques, create new markets for seafood products, experiment with new product forms, create economic opportunities for coastal communities, reduce fisheries waste, increase yields and pioneer technologies that return the maximum benefit to Alaskans and the people of the United States.

\* In its first 14 years, AFDF brought over \$13 million in federal Saltonstall-Kennedy research and development funds to Alaska, and conducted hundreds of successful projects--many of which brought multi-million-dollar benefits to the Alaska seafood industry and to seafood-dependent communities.

What Has AFDF Accomplished?

- \* In the past, AFDF projects have:
  - Pioneered surimi and pollock production technology on shore in Alaska, resulting in a \$500 million/year industry in Alaska;
  - Developed a whole new fishery based on Alaskan flatfish species, a bountiful resource that was not commercially used before AFDF'S project. In the first three years since AFDF'S flatfish development project, commercial flatfish fillet production has already brought \$12 million/year into Alaska's economy and has not yet realized its full potential;
  - Led ground-breaking research into surimi production from arrowtooth flounder, a development that could lead to a second raw material source for surimi in Alaska;
  - Spearheaded the development of new, profitable uses for

seafood processing byproducts to help seafood producers turn waste into marketable products;

- AFDF demonstration projects have resulted in over 2,000 full-time year-round jobs, which are a permanent addition to the Alaska economy; and

- Identified and realized hundreds of opportunities for fishermen, processors and secondary processors to make fuller use of the protein from Alaska's fish, to reap more long-term, year-round benefits from Alaska's fisheries, and to return more benefits to the state of Alaska and the public.

#### Why is AFDF Pursuing A State-Funded Endowment?

- \* AFDF has obtained a vast majority of its project funding from the federal Saltonstall-Kennedy program, which was set-up to fund industry conceived and directed development projects.

- \* The Saltonstall-Kennedy program, like many federal programs, has suffered considerable funding cuts. These reductions accurately reflect the fully developed status of commercial fisheries opportunities in most of the United States. But, Alaska has only recently begun to develop its commercial fishing resources beyond traditional species such as salmon and crab, and these federal budget reductions are limiting one of the greatest economic development opportunities in the country.

- \* AFDF is now seeking a fisheries development endowment to ensure that Alaska can continue to reap economic benefit from successful research and development, and to ensure that such development projects remain within the control of Alaskan fishermen and processors, and the citizens of Alaska, and are not controlled by the whims of federal funding and/or national politics.

- \* Fisheries make up Alaska's second most important private industry, and its largest private employer. AFDF has contributed, directly and indirectly, to the growth, stability and competitiveness of this industry. Alaska cannot afford to allow such an effective force to be lost due to a lack of federal fisheries funding priorities.

#### Why Doesn't Industry Pay For The Endowment?

- \* Industry already provides more than \$350,000 dollars each year to the operations and projects of the Foundation.

- \* The Foundation is also soliciting endowment funds from private industry and already has made a deposit to the endowment.

- \* The benefits of high risk industry research and development accrue to all sectors of Alaska and is therefore an investment within the purview of State expenditures.

FISHERIES DEVELOPMENT PROJECTS  
OF THE  
ALASKA FISHERIES DEVELOPMENT FOUNDATION

1. Analysis of Factors That Affect Groundfish Quality

This project produced the first solid baseline of data on the quality characteristics of Alaska groundfish through the entire year. This information allows processors to structure their production to achieve the highest quality product, and to respond with factual information to speculation about how intrinsic characteristics of Alaskan species compare to North Atlantic species. AFDF worked with International Seafoods of Alaska, National Marine Fisheries Service (NMFS), All Alaskan Seafoods and Oregon State University to analyze groundfish product samples for an entire annual cycle. Samples were analyzed for moisture content, yield, taste acceptability, storage stability, and enzyme activity. The resulting data on quality and flesh characteristics is available in both a poster and a full report.

2. Development of Improved Techniques for Bone and Parasite Removal

In a project involving many shore-based cod processors, the Foundation has been working with the University of Alaska Fishery Industrial Technology Center (FITC) to improve current methods of bone and parasite removal, and to develop new, better methods. First, we studied the use of light filters and how variations in light intensity affect candling efficiency. Other studies involved mechanical vision systems, and may include testing bioelectrical methods as well. The goal is to develop a less labor-intensive, more accurate way to remove fish parasites. This may eventually lead to completely automated parasite detection and removal.

3. Development of Surimi Process Quality Assurance

This project has given surimi producers better quality information and expanded market opportunities. It also helped pave the way for U.S. Department of Agriculture approval for HACCP-produced surimi to be used in processed meats--a first for any seafood product. AFDF, Alaska Pacific Seafoods and the FITC together introduced a cutting-edge Hazard Analysis and Critical Control Point (HACCP) program, a quality assurance technique at the food industry forefront. A complete multi-seasonal microbiological analysis of production samples was done, and critical control points in the surimi process were identified. This effort has resulted in much better quality control. USDA approval for HACCP-produced surimi in processed meats, a direct result of this program, has created a

multi-million-dollar opportunity for surimi producers. We are applying the HACCP concept into other Alaska seafood processing lines so that broader microbiological data will be available to industry. This information will help prepare the Alaska seafood industry for the expected mandatory federal seafood inspection program.

#### 4. Flatfish Processing Line Yield Improvements

During the AFDF flatfish project in 1988, we recognized the need to reduce waste and increase profits by improving yields during processing. This project demonstrated a process that would recover the flesh left on filleted flatfish frames. The process used available technology transferred from the poultry deboning industry to the Alaska seafood industry. Results indicate that we can increase recoveries and returns to processors and fishermen. We are also testing a similar process to increase yields from other groundfish, especially gray cod and pollock.

#### 5. Development and Demonstration of Seafood By-Product Hydrolysis

The Foundation, working with North Pacific Processors and Advanced Hydrolyzing Systems, addressed the crucial question of seafood processing by-product utilization. Conventional meal and oil processing, though effective enough in large plants, offered little opportunity for most of Alaska's smaller or seasonal processors because of high capital costs. We tested a prototype 1,000/lb. per hour automated hydrolyzer machine and produced more than 12,000/lbs. of meal from material that would normally be discarded as waste. The hydrolyzed product was analyzed for use in piglet starter feeds at the University of Alaska Fairbanks, salmon fry feeds at the Fort Richardson State Hatchery, and as foliar feeder/insecticide for commercial fruit trees in Oregon. If successful, this hydrolyzing technology will allow processors to use more of the raw material they buy from harvesters, and to minimize problems with effluent regulations. This project has been continued for one more year to further explore the hydrolyzing options available to Alaska processors and the applications for hydrolyzed products.

#### 6. Coordinate an International Seafood By-Product Conference

The Foundation, together with The University of Alaska Sea Grant Program, Icicle Seafoods, and several other members of the seafood industry hosted this international conference in 1990. The conference featured speakers from major fish by-product producers, researchers and buyers, and attendance topped 200 people from 13 countries. The purpose of the conference was to expose the Alaska industry to the worldwide demand and opportunities for seafood by-products, and to expose the international seafood by-products industry to growing opportunities in Alaska. In the past, dominance of Alaska's industry by salmon and crab producers had led to a widely held belief that Alaska had little to offer in the way of high quality whitefish by-products. The fact that our waste

streams had changed and our by-product handling facilities had been upgraded was not widely known. The conference was very successful in achieving these goals.

#### 7. Testing an Automated Vision-Based Flatfish Sorting System

During our recently completed flatfish production demonstration project, we discovered that one obstacle to profitable flatfish filleting was the sorting problem caused by the large size range of flatfish species. Hand sorting is extremely time consuming and expensive, but is necessary to effectively machine fillet the fish. A prototype vision-based sorting machine from Eastern Canada is being tested at All Alaskan Seafoods for its ability to correctly sort Alaska flatfish species. If the machine is successful, as it is with Atlantic flatfish species, we will have solved a major problem for automated flatfish filleting in Alaska.

#### 8. Developing a Flatfish Gutting Machine

A second obstacle to flatfish industry development the presence of rocks and grit in the gut cavity of Alaska flatfish, which damages the blades of automated filleting equipment. To solve this problem, we have begun to develop a prototype machine that would clean the belly cavity before the fish is filleted. If successful, this machine would increase efficiency, profitability, and feasibility of flatfish processing in Alaska.

#### 9. Researching Feasibility of Producing Arrowtooth Flounder Surimi

Working with the National Marine Fisheries Service (NMFS), Eagle Fisheries, Alaska Dragger's Association, Alaska Pacific Seafoods, and All Alaskan Seafoods, the Foundation is attempting to document the feasibility of commercial production of surimi from arrowtooth flounder. Arrowtooth flounder have an intrinsic flesh softening problem that renders them useless for seafood processors. The Gulf of Alaska population is at very high levels, and both harvesters and processors go to considerable trouble to avoid--or, when encountered, discard--this species. Dr. Diana Wasson, a scientist with NMFS, identified an additive which, when applied in the laboratory to arrowtooth flounder flesh, effectively eliminated the flesh softening problem. This incredible breakthrough led to a production test of the additive, which demonstrated successful application. The additive seems to retain its effectiveness through frozen storage. Final results from this project have been released. The next step will be a full-scale demonstration project in 1992 so that the industry will be able to collect the information required to make educated decisions about the feasibility of arrowtooth flounder surimi processing on an industrial scale.

#### 10. Modification of Crab Pots to Harvest Pacific Cod

In response to the recent development of modified crab pots for the harvest of gray cod, the Foundation--together with the Alaska Department of Fish and Game, Neptune Trap and Trigger, Gotyas and the M/V Enterprise--completed research into the effectiveness of pot gear in harvesting cod and avoiding halibut. Both processors and harvesters have been hard hit by the closure of groundfish fisheries when halibut limits have been reached. The use of inclusion devices, together with vertical dividers in pot entrances, offers a logical method to continue the harvest of gray cod while eliminating most halibut. This harvesting method could also allow many small crab vessels to enter the groundfish fishery without large capital investments. The field research for this project has been completed and a final report is available. The results give harvesters an objective look at the production possibilities of this new gear type. We are also planning to study various modifications of bottom trawl gear in an effort to identify changes that will reduce trawlers' catches of halibut in 1992.

#### 11. Ongoing Program Development

Each year the Foundation's program development committee, board of directors and staff complete an effort to identify and select projects for funding proposals. This year's effort is just beginning and will be completed in late March. At the present time the following ideas are under consideration: expanded arrowtooth flounder surimi studies, continued trawl bycatch reduction studies, pink salmon surimi, mince and secondary processing studies, squid surimi production demonstration, recovery of proteins from surimi wastewater, continued byproduct processing efforts, a bycatch workshop, and automated removal of cod pin bones.

4

A Proposal  
To Establish an Endowment to Perpetuate  
Industry-Directed Fisheries Development  
In Alaska

Submitted for Consideration to the  
Alaska State Legislature  
January 1992

by

Alaska Fisheries Development Foundation, Inc.  
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Anchorage, Alaska 99501  
Phone: (907) 276-7315  
Fax (907) 271-3450

## Abstract

The commercial seafood industry of Alaska proposes that the Alaska Legislature establish an endowment for commercial fisheries development in Alaska.

The Alaska Fisheries Development Foundation since 1978 has initiated and led seafood industry development projects that have helped create new fisheries in Alaska, have greatly expanded the state's seafood processing and exporting capacity, and have contributed significantly to Alaska's economic growth and diversification.

Alaska Fisheries development Foundation is the force behind the successful demonstration of large-scale shore-based groundfish processing, the nation's first surimi processing plant, and a full-scale flatfish filleting plant. Over the last 14 years, AFDF has brought nearly one million dollars per year of federal research funds into Alaska.

Now, budget restrictions and priority changes in the federal fisheries industry grants program have caused severe reductions in federal funding for fisheries development projects. These changes have closed at least four of the original seven industry-directed fisheries development foundations in the U.S.

But many of the commercial fisheries of Alaska remain dramatically underdeveloped. It is vitally important that the State of Alaska continue to pursue industry-directed fisheries development research focusing on new species and on new processing technologies. It is also crucial that these development efforts be directed by the seafood industry--and designed with resource concerns in mind--and remain independent of the caprices of the federal budgetary process. An endowment of five million dollars from the State of Alaska, to be matched with industry contributions, is proposed as a means to perpetuate the administration and funding of crucial industry-directed seafood research and development in Alaska.

## I. AFDF: A proven leader in fisheries development for Alaska

Alaska Fisheries Development Foundation (AFDF) opened in March 1978, after Alaskan fishermen and processors joined together to bring federal fisheries development grants to Alaska and apply them toward needed development projects. The Foundation was formed, along with other regional foundations across the U.S., to bring home research funds from the federal Saltonstall-Kennedy (S-K) program, which was set up by Congress to fund domestic seafood industry research and development activities.

The S-K grants program was created to strengthen the U.S. fishing industry in the face of increasing foreign competition and fluctuating resources. S-K funds come from a portion of tariffs on imported seafood and seafood products. These funds have been made available annually via a nationwide competitive process.

When the S-K program began, members of the Alaska seafood industry collectively decided that, to direct these funds toward projects with the broadest benefit and a realistic chance of success, it would be best to maximize the industry's control of the projects and minimize the government's. The Foundation was organized to represent the industry; its members include harvesters, processors, and support industry representatives. Every year AFDF members and the Board of Directors, with input from all levels of the industry, set the Foundation's priorities and the staff designs project proposals for the S-K funding competition based on these priorities. This combination of strong industry participation and the compelling seafood development opportunities in the North Pacific have produced an outstanding record of accomplishment for AFDF.

## II. AFDF's fisheries development approach and accomplishments

Alaska Fisheries Development Foundation's projects, from salt cod to surimi to flatfish filleting to new byproducts processing techniques, laid the groundwork for a good part of Alaska's current groundfish industry. The success of these projects also demonstrates the foresight and efficiency that industry direction provides. The Foundation has pioneered new methods of groundfish processing and harvesting, byproduct utilization, and salmon product development. Nearly all of AFDF's projects have brought significant new opportunities to Alaskan businesses.

AFDF's projects are straightforward and involve private industry to a great degree. Most Foundation projects are technology demonstrations. The most dramatic example of this approach was the Foundation's five-year Surimi Industry Development Project, which began in the early 1980s. Troubled former crab harvesters and struggling shore-based processors began to focus on the bounty of pollock off Alaska's coast, which was not then harvested or processed domestically. Foreign fleets dominated the groundfish fisheries at the time, but much of their finished products--surimi

and pollock fillets--were being marketed successfully in the U.S. and abroad. It was apparent that the Alaska seafood industry was missing out on a huge opportunity, but no information--certainly no assistance--was available to aid the domestic industry in exploring the pollock opportunity. The Foundation stepped in to provide the information, guidance and opportunity for Alaska to prove to world markets that pollock-based surimi could be successfully produced on shore by Alaskan producers. AFDF designed a demonstration project to set up and operate the first U.S. surimi plant, which, after a competitive process, was sited at Alaska Pacific Seafoods in Kodiak. Through our international industry network, we built a surimi processing line and continued to improve it over the course of the project. We even introduced innovations to the Japanese, who invented surimi processing. So much improvement was made that for the first time the Japanese buyers, who previously contended that high-quality surimi could only be produced at sea, admitted that shoreside surimi production in Alaska could indeed be successful.

One of the most crucial elements of the Foundation's work is our production and distributing of usable information that results from our projects. During the surimi project the Alaska Pacific Seafoods plant was open to other processors, buyers and researchers to tour and observe. This gave the whole industry a chance to get first-hand information from the project. The Foundation also produced numerous reports containing hard data on production, yields, quality control, equipment, process improvements, economics and every other aspect related to the processing of surimi. This information was widely applied by the entire industry, and is a prime example of the benefit of the collective ability of the seafood industry when compared to the limited benefits of privately conceived and executed research and development efforts.

AFDF has also conducted other demonstration projects that have resulted in industry innovations now widely accepted. Many of them also have brought widespread benefits to the state of Alaska by improving the industry's year-round stability, employment base, industry profitability and responsible use of fisheries resources. Examples of such projects are:

1. Refrigerated sea water for storing pollock and cod before processing. During the surimi project, studies documented that sea water storage allowed round fish to be held for several days, on board or in the plant, without loss of quality. This knowledge was key to the establishment of the shore-based surimi processing in Alaska, and provided a crucial method to improve product quality and decrease waste.

2. The Baader 182 pollock filleting machine. This then-new technology was demonstrated in a production situation for the first time during the surimi project. Its ability to automatically and quickly handle pollock of varying sizes dramatically enhanced the feasibility of both pollock fillet and surimi production in Alaska. These machines are now used by virtually every pollock producer.

3. Objective surimi quality measurements. The Japanese system of determining surimi quality was based on broad categories such as vessel versus shore-based production and producer experience. AFDF pioneered objective quality and functional measurements that have allowed domestic producers to compete in the worldwide, especially in the large Japanese market.

4. USDA approval for fish in meat products. The microbiology of surimi, data generated in an AFDF study, was documented and incorporated into the first U.S. Department of Agriculture-approved Hazard Analysis and Critical Control Point (HACCP) plan for seafood. This breakthrough resulted in the first USDA-approved processed food product containing a blend of seafood and red meat. The potential of surimi to expand into the processed meat industry represents a tremendous domestic market for Alaska's fish products, especially with the recent focus on reduced fat and cholesterol in the diet. The potential of fish materials to be used in blended meat products represents an unmeasurable opportunity in the future.

5. The first documented demonstration of sole and flounder fillet production in Alaska introduced Alaskan product to a market starving for high-quality product. The Alaska flatfish resource is nearly untouched, and AFDF's project applying North Atlantic processing equipment to Alaskan flatfish has focused worldwide attention on Alaska as a source for quality flatfish. Since the start of AFDF's flatfish demonstration project, Alaska has increased flatfish production fourfold.

6. Innovative uses of fish byproducts. AFDF has demonstrated the use of Alaska's first automated, continuous-flow seafood waste hydrolyzer. The hydrolyzed product is already being tested for food for Alaska's salmon hatcheries, food for livestock, and fertilizer/insecticide on tree fruit crops. If fully successful, this process has the potential to greatly reduce processing wastes and increase industry profitability.

7. Conversion of a small salmon vessel to a cod longliner, and production of salt cod at remote sites. Information from this project has been used by many coastal communities to help expand economic development, and has led to the use of many small salmon vessels as longliners.

8. Spearheaded two efforts to find ways to process arrowtooth flounder, a species known for its flesh softening problems. Both efforts are producing positive results, which may lead to successful processing methods. This is especially important when one considers the size of the resource, which is expected to support annual harvests of nearly 500,000 metric tons.

9. Spearheaded demonstration of poultry deboning technology on pink salmon frames. This demonstration produced usable salmon mince from previously discarded frames, a product that is valuable and in high demand. This mincing technology may someday be applied to recover edible protein from the increasing number of spawned-out

carcasses at our private-non-profit hatcheries.

10. Development and testing of a prototype salmon head splitter to recover salmon flesh from the collars usually discarded with the heads. This high quality salmon "chunk" has an immediate application in salmon canning, and perhaps could be developed into a specialty product with a high value similar to halibut cheeks.

These brief project descriptions give just a small idea of the benefits the State of Alaska has received from Foundation activities. The complete chart of projects is considerably longer and can only be fully appreciated after reviewing the more than seventy-five project-related reports the Foundation distributes.

### III. Why An Endowment?

The Foundation has been able to accomplish these development projects because of the Saltonstall-Kennedy program and its mandate for industry-directed research and development. Although this program is still in effect, its funding and intent have been severely compromised over the past two to three years.

Because of the considerable stress on the federal budget and the funding of vital programs, the industry-directed portion of the Saltonstall-Kennedy program has been steadily reduced. The funding level in 1992 is only \$500,000.00 for the entire country, nearly \$7.0 million below the annual average for the last decade. The rest of the S-K funds have been redirected to fund general government operations. From the Alaska seafood industry's perspective, this reduction in Saltonstall-Kennedy funding reflects the fact that in most other areas of the United States the commercial fishing industry is much more developed--in most cases to the point of diminished resources. Our situation in Alaska is considerably different.

With the relatively recent development of most of our fisheries, opportunities, (especially groundfish) and with the rapid changes in established fisheries, (increasing pink salmon supplies and farmed salmon competition) we have before us dramatic opportunities to turn small investments in research and development into large benefits for the commercial fishing industry and the people of Alaska.

As with many other areas of endeavor, Alaska finds itself in a dramatically different stage than the rest of the country when it comes to fisheries development needs. We cannot afford to lose the opportunities that are now available because of a reduction in the Saltonstall-Kennedy Program. The Alaska Fisheries Development Foundation's Board of Directors has responded to this challenge by initiating an endowment to fund the operations of the organization. This endowment would allow the Foundation to operate independently of the reductions in federal industry grants, and continue to provide the fisheries development breakthroughs that foster

industry success.

The Foundation is pursuing private and public sources of funding for the endowment. The endowment revenues will be applied toward long-term funding of the Foundation so it may continue its integrated, cooperative approach toward fisheries development research. The total amount of funding needed to keep AFDF's efforts going is ten million dollars. Our request for State of Alaska funds is five million dollars. We are seeking matching funds from the food and seafood industry.

This level of endowment funding will allow the Foundation to maintain the optimum organizational structure, and to continue its tradition of gleaning maximum benefits from minimal administrative costs. The return on this investment for the people of Alaska can only be projected based on the past 14 years of accomplishments at the Foundation. These include bringing in more than \$13 million in federal grant funds and initiating demonstration projects that have increased Alaska's fisheries wholesale value by at least \$240 million annually.

The endowment is a small investment when one considers the benefit it will bring to Alaska.

FISCAL NOTE

STATE OF ALASKA  
1992 LEGISLATIVE SESSION

BILL NO. SB 345

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

Department Affected: Commerce & Econ. Dev.

Title: An Act relating to Fisheries Development

BRU: Investments

Endowment Loans

Component: \_\_\_\_\_

Sponsor: Senators Zharoff, Duncan

Requestor: Resources

COMPONENT SERIAL NO. 

0	3	8	4
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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND RESOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS						
OTHER FUND SOURCE:						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: \_\_\_\_\_

**ANALYSIS** (Attach a separate page if necessary.)  
 SB 345 creates a new loan program for nonprofit corporations that promote the development of commercial fisheries in the state. Companion bill, SB 346, would appropriate \$5,000,000 for the purpose of making a loan to Alaska Fisheries Development Foundation. It is anticipated that this is the only loan that would be made in the near future and, thus, no new funds would be needed to implement this bill.

Prepared By: Martin J. Richard, Director Phone: 465-2510

Division: Investments Date: 1/31/92

Approved by Commissioner: Glenn A. Olds for [Signature]

Agency: Department of Commerce & Economic Development Date: 2-3-92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Ofc., and Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA  
1992 LEGISLATIVE SESSION

BILL NO. SB 345 and SB 34

Revision Date: 1/27/92  
 Title: Commercial Fisheries Development  
 Endowments \_\_\_\_\_  
 Sponsor: Senator Zharoff  
 Requestor: Senate Resources Committee

Department Affected: Fish and Game  
 BRU: Commercial Fisheries  
 Component: Commercial Fisheries  
 COMPONENT SERIAL NO. 

	4	5	9
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EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0					
TRAVEL	0					
CONTRACTUAL	0					
SUPPLIES	0					
EQUIPMENT	0					
LAND & STRUCTURES	0					
GRANTS, CLAIMS	0					
MISCELLANEOUS	0					
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

REVENUE FUND SOURCE:	0	0	0	0	0	0
-------------------------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Bob Clasby Phone: 465-4210  
 Division: Commercial Fisheries Date: 1/27/92  
 Approved by Commissioner: [Signature]  
 Agency: Dept. of Fish and Game Date: 1/27/92

KODIAK REDUCTION, INC.

911 GIBSON COVE ROAD  
KODIAK, ALASKA 99615  
TELEPHONE (907) 486-3171

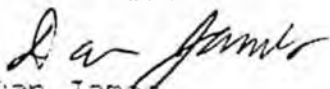
January 31, 1992

Senator Lloyd Jones  
State Capitol  
Juneau, Ak. 99801-1182

Dear Senator:

I am writing to urge you to support Senate Bills 345 & 346 appropriating a loan to the Alaska Fisheries Development Foundation for a commercial fisheries development endowment. The "Foundation" has done alot for the betterment of fisheries throughout Alaska using the Saltonstall-Kennedy federal grant monies they have appropriated. However, with the "drying up" of federal funding in general, the Foundation is in dire straits in regard to funding its research projects. Without help from the State of Alaska in the form of the above loan, this fine Foundation will succumb and future projects parallelling the surimi project in Kodiak (which has resulted in a \$500 million/year industry in Alaska) will never come to fruition. Your support will be greatly appreciated by all of coastal Alaska.

Sincerely,



Dan James  
General Manager

## ALASKA FISHERIES DEVELOPMENT FOUNDATION, INC.

## INVESTMENT POLICY

May 10, 1990

## INVESTMENT POLICY AND OBJECTIVES

- A. This policy applies to the investment of all moneys of the Alaska Fisheries Development Foundation, Inc. (AFDF), unless otherwise stated. AFDF moneys accounted for in the following funds shall be invested only in accordance with this policy:

## Unrestricted Funds - Merrill Lynch Cash Management

- B. All persons having responsibility for making decisions regarding the investments of AFDF moneys shall utilize the same judgment and care, under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of capital as well as the probable income to be derived in accordance with the objectives established in subsection C of this policy.
- C. The AFDF investment portfolio shall be managed so that the portfolio, as a whole, meets the objectives set forth in this subsection. All persons selecting investments shall adhere to these objectives, which are listed in order of relative importance.
1. Safety of principal is the most important objective of the AFDF investment program;
  2. Maintaining sufficient liquidity to meet the AFDF cash flow requirements is the second most important objective of the AFDF investment program; and
  3. Achieving a reasonable market rate of return is the final objective of the AFDF investment program.
- D. Notwithstanding the above objectives, no person shall invest AFDF moneys in a manner which violates any provision of this policy.

## PERSONS AUTHORIZED TO INVEST

The Executive Director is authorized to invest AFDF moneys in accordance with this policy, and shall ensure that no person invests AFDF moneys other than in accordance with this policy and the administrative procedures established under this

policy. The Executive Director may delegate daily management authority over the AFDF investment program, in writing, to the Controller. Whenever this policy assigns responsibility or gives authority to the Executive Director, such responsibility or authority may be exercised by any person to whom the Executive Director has delegated the responsibility or authority, unless otherwise provided in this policy.

#### AUTHORIZED INVESTMENTS

- A. AFDF money shall be invested only in the following instruments: all securities purchased, and all other investments, must mature not later than the time indicated below, measured from the date of the investment transaction.
1. U.S. Treasure Securities - three (3) years;
  2. Certificates of Deposit and other deposits at banks and savings and loan associations collateralized as provided in the section "COLLATERALIZATION" of this policy - five (5) years;
  3. Uncollateralized deposits at banks and savings and loan associations, to the extent that the deposits are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation - three (3) years;
  4. Bonds and notes which are issued by any State or subdivision thereof, and which are graded A or higher by Moody's Investor's Service, Inc. or Standard and Poor's Corporation - three (3) years;
  5. Prime commercial paper graded A-1 or higher by Moody's Investor's Service, Inc. or P-1 or higher by Standard and Poor's Corporation - two hundred seventy (270) days;
  6. Prime bankers acceptances offered by the fifty (50) largest international banks - one hundred eighty (180) days;
  7. Money market mutual funds whose portfolios consist entirely of instruments - maturity date not applicable which are U.S. Government, or U.S. Government guaranteed obligations.
- B. No person shall invest any AFDF moneys in any instrument which is not listed in subsection A. of this section. This prohibition includes, but is not limited to: investment of AFDF moneys in any mutual fund, except as otherwise provided in subsection A; common or preferred stock;

precious metal; zero coupon bond; corporate bond; option contract; future contracts or negotiable instruments with a variable interest rate.

- C. The Executive Director may enter into a short term repurchase agreement, certificate of deposit, or other authorized investment with the bank in which the AFDF daily operating moneys are deposited, for the purpose of investing any excess operating moneys which will be needed in the immediate future to fund AFDF operations, but which are not needed for such purpose at the time of investment. This investment may be continuing in nature, such that excess AFDF operating moneys are continually invested. This short term investment shall be governed by the provisions of this policy relating to similar long-term investments of Section "COLLATERALIZATION" with respect to this short-term investment, if it is determined that such action is reasonably necessary to obtain and secure the investment. For purposes of this policy, short term investment means one year or less.
- D. Moneys may be invested with a bank which does not maintain a business office in the United States on a regular and permanent basis, only when investment with an "international bank" is expressly authorized by this policy.

#### COLLATERALIZATION

- A. If AFDF moneys are invested in certificates of deposit or other deposits in a bank or savings and loan association, the entire amount of principal and interest which will be payable to the AFDF upon maturity of the investment must be collateralized by any combination of the following, unless otherwise noted:
1. Insurance issued by the Federal Deposit Insurance Corporation (FDIC) or Federal Savings and Loan Insurance Corporation (FSLIC);
  2. U.S. Treasury Securities;
  3. Obligations guaranteed by the U.S. Government or its agencies and instrumentalities; and
  4. Obligations of the State of Alaska or its political subdivisions which are secured by the full faith, credit and taxing power thereof, and which are rated A or higher by Moody's Investor's Service, Inc., or Standard and Poor's Corporation.

No security pledged as collateral for an AFDF investment

shall mature longer than five years after the date of the investment transaction.

- B. At all times during the term of the investment in a certificate of deposit or other deposit, the bank or savings and loan association with which AFDF moneys are so invested, shall pledge and maintain collateral, in accordance with this policy, which has a then-current market value equal to the following percentage (margin requirement) of the total amount of principal and interest which will be due and owing to the AFDF at the maturity date of such certificate of deposit or other deposit. At all times during the term of such investments the collateral pledged as security, for each investment shall have market value at least equal to the applicable margin requirement, which requirement shall vary with the type of instrument pledged as security, according to the schedule set out in this subsection. The margin requirements contained herein are minimums. The Executive Director may require higher margins if he determines that such action is reasonably necessary to protect the security of investments.

<u>Collateral Type</u>	<u>Margin Requirements</u>
U.S. Treasury Securities Maturity date 1 year or less from the date of investment transaction	102%
Maturity date between 1 and 5 years from the date of AFDF investment transactions	105%
Actively traded U.S. Government agency or instrumentality securities, except mortgage pass-through securities.	
Maturity date 1 year or less from the date of AFDF investment transaction	103%
Maturity date between 1 and 5 years from the date of AFDF investment transaction	107%
Government National Mortgage Association mortgage pass-through securities	120%
All other U.S. Government agency or instrumentality mortgage pass-through	

securities, and U.S. Government agency or instrumentality securities which are not actively traded 125%

Obligations of the State of Alaska and its political subdivisions secured by the full faith, credit and taxing power thereof

Maturity date 1 year or less from the date of AFDF investment transaction 102%

Maturity date between 1 and 5 years from the date of AFDF investment transaction 107%

FDIC, FSLIC and SPIC insurance 100%

#### PORTFOLIO DIVERSIFICATION

- A. AFDF investments shall be diversified to minimize the risk of loss resulting from over concentration of investments in a specific maturity, a specific issuer, a specific class of security or a specific financial institution.
- B. The total amount of principal and accumulated interest which will be paid to the AFDF at maturity of all certificates of deposit, other deposits and/or repurchase agreements invested with any one financial institution shall not at any time exceed twenty percent (20%) of the total net worth of the financial institution, as shown on said financial institution's most current annual financial statement. At no time shall the total value of AFDF moneys invested in repurchase agreements, certificates of deposit and/or other deposit agreements, at any one financial institution, including interest which will be payable to the AFDF at the maturity of each investment, exceed thirty percent (30%) of the total principal value of the entire AFDF investment portfolio. The short-term investments authorized shall not be included in calculating compliance with this thirty percent (30%) limitation.

#### INTERNAL CONTROLS

The Executive Director shall adopt and establish a system of internal controls to provide checks and balances within the process by which AFDF moneys are invested. The internal controls shall be designed to minimize the risk of loss of funds resulting from fraud, employee error, misrepresentation by third parties, anticipated changes in financial markets or imprudent actions by an AFDF employee. The AFDF external auditors shall review and evaluate, at least annually, the system of internal controls to ensure that they are adequate

for accomplishing the purposes in this policy.

#### FINANCE COMMITTEE

The Finance Committee shall review the investment reports annually and make recommendations and suggestions to the Executive Director for the conduct and improvement of the AFDF investment program. The Committee shall report to the board of directors on the status of AFDF's investment program, its compliance with this policy and the outlook for future investments. The Committee may also consult with the Executive Director concerning the adoption of administrative procedures and internal controls to implement this policy.

#### EMERGENCY POWERS

Notwithstanding any other provision of this policy, if the Executive Director determines that a reasonable possibility exists that the principal and interest of an AFDF investment are not adequately secured for any reason, the Executive Director may take any or all of the following actions in order to protect the principal and interest of such AFDF investment.

1. Rescind or otherwise terminate the investment without regard to interest or other penalties which may arise because of such action;
2. Demand from the financial institution additional substitute collateral; or
3. Notify State or Federal regulatory agencies of the nature and reasons for such insecurity and seek assistance in remedying the insecurity.

#### CONFLICT OF INTEREST

- A. No AFDF employee, board member or Finance Committee member shall:
1. Take any action, make any decisions, or exercise his official judgment or discretion with respect to an AFDF investment with the intent to confer a benefit upon, or provide a material advantage to himself, to a member of his immediate family, or to any financial institution in connection with the investment of AFDF moneys.
  2. Accept any gift, gratuity or other inducement offered by any person for the purpose of influencing his opinion, judgment, action, decision or exercise of official discretion in connection with the investment of AFDF moneys. Prohibited gifts and gratuities include, but are not limited to: payment of money, gifts of real or

personal property, reduced commission on investments for the person's own account, reduced interest rate, waiver of penalties and forgiveness of delinquency or default on a loan;

3. Participate in a decision regarding the investment of AFDF money, if the decision concerns or relates to the investment or potential investment of money in, or the purchase or potential purchase of, a security from or offered by any financial institution or other entity of which the person, or a member of the person's immediate family, is an officer, director or employee, or in which the person or family member has a substantial financial interest.

- B. Violation of the prohibitions contained in subsection A of this section shall constitute cause for terminating employment with AFDF.

#### INTERPRETATION AND CONSTRUCTION

This policy represents the maximum amount of authority and discretion which the Executive Director may utilize in investing AFDF moneys. Nothing in this policy shall be construed, however, to prohibit the Executive Director from adopting standards, rules, policies and procedures which are more restrictive than those contained in this policy. The enumeration in this policy of instruments which are authorized for AFDF investment shall not be construed as requiring the Executive Director to invest in all or any particular instrument contained in such list at any given time. The Executive Director may invest in some or all of such instruments as he deems appropriate. Similarly, this policy shall not be construed as requiring the Executive Director to accept all, or any particular, instrument contained in such list at any given time. The Executive Director may accept some of such instruments, and reject others in his discretion.

#### DEFINITIONS IN THIS POLICY

- A. "Actively traded" means securities which are regularly bought and sold on the secondary market on a daily basis for which price information is available on a regular basis in the Wall Street Journal.
- B. "Bank" means an institution which is chartered or otherwise authorized to conduct business as a bank by, and regulated by an agency of the United States government or of any state, which is insured by the Federal Deposit Insurance Corporation, and which maintains a main or branch office within the United States on a regular and permanent basis.

- C. "Financial Institution" means a bank, savings and loan association, international bank, or securities dealer.
- D. "Immediate Family" of a person means the person's wife or husband, son or daughter, mother or father, brother or sister, aunt or uncle, niece or nephew, grandmother, grandfather or grandchild, and anyone residing in the person's household on a regular basis.
- E. "International Bank" means a bank as defined in this policy, and any other institution chartered or otherwise authorized to provide banking services by the government of any foreign country, or political subdivision thereof, whether or not said institution maintains an office within the United States.
- F. "Money Market Mutual Fund" means a mutual fund which maintains a constant share price regardless of market fluctuations and which has an average maturity of its entire portfolio of sixty (60) days or less.
- G. "Savings and Loan Association" means an institution chartered or otherwise authorized to do business as a savings and loan association by, and regulated by an agency of the United States Government or of any state and insured by the Federal Savings and Loan Insurance Corporation, which maintains a main branch of office within the United States on a regular and permanent basis.
- H. "Securities Dealer" means a person, partnership, corporation or other entity licensed by the Securities and Exchange Commission to deal in secondary financial markets, which is a member of the New York Stock Exchange, and which maintains a main or branch office within the United States on a regular and permanent basis.
- I. "U.S. Government Agency or Instrumentality Securities" means securities issued by an Asian Development Bank, District of Columbia Armory Board (D.C. Stadium), Export-Import Bank of the United States, Farmers Home Loan Mortgage Corporation, Federal Housing Administration (FHA), Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), Interamerican Development Bank, International Bank of Reconstruction and Development (World Bank), Maritime Administration, Small Business Administration (SBA), Student Loan Market Association (SLMA), Tennessee Valley Authority (TVA), United States Postal Service, and Washington Metropolitan Area Transit Authority.

- J. "U.S. Treasury Securities" means bills, notes and bonds issued directly by the United States Treasury through the Federal Reserve System, and guaranteed by the full faith and credit of the United States Government.
- K. "Local Financial Institution" means a financial institution which maintains an office in the state of Alaska on a regular and permanent basis. However, an investment shall not be placed with or through such local institution if the placement would result in any decrease in or impairment of AFDF's ability to meet the objectives of this policy.



Alaska Fisheries Development Foundation, Inc.

February 5, 1992

RECEIVED FEB 6 1992

Senator Fred Zharoff  
Senate Capitol Building  
Room 121  
Juneau, Alaska 99801

Attn: Karl Ohls

Dear Senator Zharoff:

In response to Karl Ohls' request, enclosed are copies of audited financial statements along with letters to management for the Alaska Fisheries Development Foundation for the last three years.

Also enclosed is a copy of the Foundation's investment policy which was sent by facsimile to you yesterday.

Please let us know if we can provide any other information.

Sincerely,

A handwritten signature in cursive script that reads 'Barbara Culver'.

Barbara Culver  
Controller

Enclosures

ALASKA FISHERIES DEVELOPMENT FOUNDATION, INC.

INVESTMENT POLICY

May 10, 1990

INVESTMENT POLICY AND OBJECTIVES

- A. This policy applies to the investment of all moneys of the Alaska Fisheries Development Foundation, Inc. (AFDF), unless otherwise stated. AFDF moneys accounted for in the following funds shall be invested only in accordance with this policy:

Unrestricted Funds - Merrill Lynch Cash Management

- B. All persons having responsibility for making decisions regarding the investments of AFDF moneys shall utilize the same judgment and care, under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of capital as well as the probable income to be derived in accordance with the objectives established in subsection C of this policy.
- C. The AFDF investment portfolio shall be managed so that the portfolio, as a whole, meets the objectives set forth in this subsection. All persons selecting investments shall adhere to these objectives, which are listed in order of relative importance.
1. Safety of principal is the most important objective of the AFDF investment program;
  2. Maintaining sufficient liquidity to meet the AFDF cash flow requirements is the second most important objective of the AFDF investment program; and
  3. Achieving a reasonable market rate of return is the final objective of the AFDF investment program.
- D. Notwithstanding the above objectives, no person shall invest AFDF moneys in a manner which violates any provision of this policy.

PERSONS AUTHORIZED TO INVEST

The Executive Director is authorized to invest AFDF moneys in accordance with this policy, and shall ensure that no person invests AFDF moneys other than in accordance with this policy and the administrative procedures established under this

policy. The Executive Director may delegate daily management authority over the AFDF investment program, in writing, to the Controller. Whenever this policy assigns responsibility or gives authority to the Executive Director, such responsibility or authority may be exercised by any person to whom the Executive Director has delegated the responsibility or authority, unless otherwise provided in this policy.

#### AUTHORIZED INVESTMENTS

- A. AFDF money shall be invested only in the following instruments: all securities purchased, and all other investments, must mature not later than the time indicated below, measured from the date of the investment transaction.
1. U.S. Treasury Securities - three (3) years;
  2. Certificates of Deposit and other deposits at banks and savings and loan associations collateralized as provided in the section "COLLATERALIZATION" of this policy - five (5) years;
  3. Uncollateralized deposits at banks and savings and loan associations, to the extent that the deposits are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation - three (3) years;
  4. Bonds and notes which are issued by any State or subdivision thereof, and which are graded A or higher by Moody's Investor's Service, Inc. or Standard and Poor's Corporation - three (3) years;
  5. Prime commercial paper graded A-1 or higher by Moody's Investor's Service, Inc. or P-1 or higher by Standard and Poor's Corporation - two hundred seventy (270) days;
  6. Prime bankers acceptances offered by the fifty (50) largest international banks - one hundred eighty (180) days;
  7. Money market mutual funds whose portfolios consist entirely of instruments - maturity date not applicable which are U.S. Government, or U.S. Government guaranteed obligations.
- B. No person shall invest any AFDF moneys in any instrument which is not listed in subsection A. of this section. This prohibition includes, but is not limited to: investment of AFDF moneys in any mutual fund, except as otherwise provided in subsection A; common or preferred stock;

precious metal; zero coupon bond; corporate bond; option contract; future contracts or negotiable instruments with a variable interest rate.

- C. The Executive Director may enter into a short term repurchase agreement, certificate of deposit, or other authorized investment with the bank in which the AFDF daily operating moneys are deposited, for the purpose of investing any excess operating moneys which will be needed in the immediate future to fund AFDF operations, but which are not needed for such purpose at the time of investment. This investment may be continuing in nature, such that excess AFDF operating moneys are continually invested. This short term investment shall be governed by the provisions of this policy relating to similar long-term investments of Section "COLLATERALIZATION" with respect to this short-term investment, if it is determined that such action is reasonably necessary to obtain and secure the investment. For purposes of this policy, short term investment means one year or less.
- D. Moneys may be invested with a bank which does not maintain a business office in the United States on a regular and permanent basis, only when investment with an "international bank" is expressly authorized by this policy.

#### COLLATERALIZATION

- A. If AFDF moneys are invested in certificates of deposit or other deposits in a bank or savings and loan association, the entire amount of principal and interest which will be payable to the AFDF upon maturity of the investment must be collateralized by any combination of the following, unless otherwise noted:
1. Insurance issued by the Federal Deposit Insurance Corporation (FDIC) or Federal Savings and Loan Insurance Corporation (FSLIC);
  2. U.S. Treasury Securities;
  3. Obligations guaranteed by the U.S. Government or its agencies and instrumentalities; and
  4. Obligations of the State of Alaska or its political subdivisions which are secured by the full faith, credit and taxing power thereof, and which are rated A or higher by Moody's Investor's Service, Inc., or Standard and Poor's Corporation.

No security pledged as collateral for an AFDF investment

shall mature longer than five years after the date of the investment transaction.

- B. At all times during the term of the investment in a certificate of deposit or other deposit, the bank or savings and loan association with which AFDF moneys are so invested, shall pledge and maintain collateral, in accordance with this policy, which has a then-current market value equal to the following percentage (margin requirement) of the total amount of principal and interest which will be due and owing to the AFDF at the maturity date of such certificate of deposit or other deposit. At all times during the term of such investments the collateral pledged as security, for each investment shall have market value at least equal to the applicable margin requirement, which requirement shall vary with the type of instrument pledged as security, according to the schedule set out in this subsection. The margin requirements contained herein are minimums. The Executive Director may require higher margins if he determines that such action is reasonably necessary to protect the security of investments.

<u>Collateral Type</u>	<u>Margin Requirements</u>
U.S. Treasury Securities	
Maturity date 1 year or less from the date of investment transaction	102%
Maturity date between 1 and 5 years from the date of AFDF investment transactions	105%
Actively traded U.S. Government agency or instrumentality securities, except mortgage pass-through securities.	
Maturity date 1 year or less from the date of AFDF investment transaction	103%
Maturity date between 1 and 5 years from the date of AFDF investment transaction	107%
Government National Mortgage Association mortgage pass-through securities	120%
All other U.S. Government agency or instrumentality mortgage pass-through	

securities, and U.S. Government agency or instrumentality securities which are not actively traded 125%

Obligations of the State of Alaska and its political subdivisions secured by the full faith, credit and taxing power thereof

Maturity date 1 year or less from the date of AFDF investment transaction 102%

Maturity date between 1 and 5 years from the date of AFDF investment transaction 107%

FDIC, FSLIC and SPIC insurance 100%

#### PORTFOLIO DIVERSIFICATION

- A. AFDF investments shall be diversified to minimize the risk of loss resulting from over concentration of investments in a specific maturity, a specific issuer, a specific class of security or a specific financial institution.
- B. The total amount of principal and accumulated interest which will be paid to the AFDF at maturity of all certificates of deposit, other deposits and/or repurchase agreements invested with any one financial institution shall not at any time exceed twenty percent (20%) of the total net worth of the financial institution, as shown on said financial institution's most current annual financial statement. At no time shall the total value of AFDF moneys invested in repurchase agreements, certificates of deposit and/or other deposit agreements, at any one financial institution, including interest which will be payable to the AFDF at the maturity of each investment, exceed thirty percent (30%) of the total principal value of the entire AFDF investment portfolio. The short-term investments authorized shall not be included in calculating compliance with this thirty percent (30%) limitation.

#### INTERNAL CONTROLS

The Executive Director shall adopt and establish a system of internal controls to provide checks and balances within the process by which AFDF moneys are invested. The internal controls shall be designed to minimize the risk of loss of funds resulting from fraud, employee error, misrepresentation by third parties, anticipated changes in financial markets or imprudent actions by an AFDF employee. The AFDF external auditors shall review and evaluate, at least annually, the system of internal controls to ensure that they are adequate

for accomplishing the purposes in this policy.

#### FINANCE COMMITTEE

The Finance Committee shall review the investment reports annually and make recommendations and suggestions to the Executive Director for the conduct and improvement of the AFDF investment program. The Committee shall report to the board of directors on the status of AFDF's investment program, its compliance with this policy and the outlook for future investments. The Committee may also consult with the Executive Director concerning the adoption of administrative procedures and internal controls to implement this policy.

#### EMERGENCY POWERS

Notwithstanding any other provision of this policy, if the Executive Director determines that a reasonable possibility exists that the principal and interest of an AFDF investment are not adequately secured for any reason, the Executive Director may take any or all of the following actions in order to protect the principal and interest of such AFDF investment.

1. Rescind or otherwise terminate the investment without regard to interest or other penalties which may arise because of such action;
2. Demand from the financial institution additional substitute collateral; or
3. Notify State or Federal regulatory agencies of the nature and reasons for such insecurity and seek assistance in remedying the insecurity.

#### CONFLICT OF INTEREST

- A. No AFDF employee, board member or Finance Committee member shall:
1. Take any action, make any decisions, or exercise his official judgment or discretion with respect to an AFDF investment with the intent to confer a benefit upon, or provide a material advantage to himself, to a member of his immediate family, or to any financial institution in connection with the investment of AFDF moneys.
  2. Accept any gift, gratuity or other inducement offered by any person for the purpose of influencing his opinion, judgment, action, decision or exercise of official discretion in connection with the investment of AFDF moneys. Prohibited gifts and gratuities include, but are not limited to: payment of money, gift of real or

personal property, reduced commission on investments for the person's own account, reduced interest rate, waiver of penalties and forgiveness of delinquency or default on a loan;

3. Participate in a decision regarding the investment of AFDF money, if the decision concerns or relates to the investment or potential investment of money in, or the purchase or potential purchase of, a security from or offered by any financial institution or other entity of which the person, or a member of the person's immediate family, is an officer, director or employee, or in which the person or family member has a substantial financial interest.

- B. Violation of the prohibitions contained in subsection A of this section shall constitute cause for terminating employment with AFDF.

#### INTERPRETATION AND CONSTRUCTION

This policy represents the maximum amount of authority and discretion which the Executive Director may utilize in investing AFDF moneys. Nothing in this policy shall be construed, however, to prohibit the Executive Director from adopting standards, rules, policies and procedures which are more restrictive than those contained in this policy. The enumeration in this policy of instruments which are authorized for AFDF investment shall not be construed as requiring the Executive Director to invest in all or any particular instrument contained in such list at any given time. The Executive Director may invest in some or all of such instruments as he deems appropriate. Similarly, this policy shall not be construed as requiring the Executive Director to accept all, or any particular, instrument contained in such list at any given time. The Executive Director may accept some of such instruments, and reject others in his discretion.

#### DEFINITIONS IN THIS POLICY

- A. "Actively traded" means securities which are regularly bought and sold on the secondary market on a daily basis for which price information is available on a regular basis in the Wall Street Journal.
- B. "Bank" means an institution which is chartered or otherwise authorized to conduct business as a bank by, and regulated by an agency of the United States government or of any state, which is insured by the Federal Deposit Insurance Corporation, and which maintains a main or branch office within the United States on a regular and permanent basis.

- C. "Financial Institution" means a bank, savings and loan association, international bank, or securities dealer.
- D. "Immediate Family" of a person means the person's wife or husband, son or daughter, mother or father, brother or sister, aunt or uncle, niece or nephew, grandmother, grandfather or grandchild, and anyone residing in the person's household on a regular basis.
- E. "International Bank" means a bank as defined in this policy, and any other institution chartered or otherwise authorized to provide banking services by the government of any foreign country, or political subdivision thereof, whether or not said institution maintains an office within the United States.
- F. "Money Market Mutual Fund" means a mutual fund which maintains a constant share price regardless of market fluctuations and which has an average maturity of its entire portfolio of sixty (60) days or less.
- G. "Savings and Loan Association" means an institution chartered or otherwise authorized to do business as a savings and loan association by, and regulated by an agency of the United States Government or of any state and insured by the Federal Savings and Loan Insurance Corporation, which maintains a main branch of office within the United States on a regular and permanent basis.
- H. "Securities Dealer" means a person, partnership, corporation or other entity licensed by the Securities and Exchange Commission to deal in secondary financial markets, which is a member of the New York Stock Exchange, and which maintains a main or branch office within the United States on a regular and permanent basis.
- I. "U.S. Government Agency or Instrumentality Securities" means securities issued by an Asian Development Bank, District of Columbia Armory Board (D.C. Stadium), Export-Import Bank of the United States, Farmers Home Loan Mortgage Corporation, Federal Housing Administration (FHA), Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), Interamerican Development Bank, International Bank of Reconstruction and Development (World Bank), Maritime Administration, Small Business Administration (SBA), Student Loan Market Association (SLMA), Tennessee Valley Authority (TVA), United States Postal Service, and Washington Metropolitan Area Transit Authority.

- J. "U.S. Treasury Securities" means bills, notes and bonds issued directly by the United States Treasury through the Federal Reserve System, and guaranteed by the full faith and credit of the United States Government.
- K. "Local Financial Institution" means a financial institution which maintains an office in the state of Alaska on a regular and permanent basis. However, an investment shall not be placed with or through such local institution if the placement would result in any decrease in or impairment of AFDF's ability to meet the objectives of this policy.



ALASKA FISHERIES DEVELOPMENT

FOUNDATION. INC.

STATEMENT OF ASSETS AND FUND BALANCES

ARISING FROM CASH TRANSACTIONS AND

STATEMENTS OF REVENUE COLLECTED AND

EXPENSES PAID AND

CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 1990

WITH REPORTS OF INDEPENDENT ACCOUNTANTS

ALASKA FISHERIES DEVELOPMENT FOUNDATION, INC.

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SEPTEMBER 30, 1990

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*Price Waterhouse*



REPORT OF INDEPENDENT ACCOUNTANTS

November 16, 1990

To the Board of Directors of  
Alaska Fisheries Development Foundation, Inc.

We have audited the accompanying statement of assets and fund balances arising from cash transactions of Alaska Fisheries Development Foundation, Inc. (the Foundation) as of September 30, 1990 and the related statements of revenues collected and expenses paid and changes in fund balance for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, the financial audit requirements of Governmental Auditing Standards, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-110. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of revenue collected and expenses paid and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the financial statements audited by us present fairly, in all material respects, the assets and fund balances arising from cash transactions of Alaska Fisheries Development Foundation as of September 30, 1990 and its revenues collected and expenses paid and the changes in fund balances during the year then ended, on the basis of accounting described in Note 1.

*Price Waterhouse*

ALASKA FISHERIES DEVELOPMENT FOUNDATION, INC.STATEMENT OF ASSETS AND FUND BALANCESARISING FROM CASH TRANSACTIONSSEPTEMBER 30, 1990

	<u>Restricted Fund</u>	<u>Unrestricted Fund</u>
Assets:		
Cash	\$28,145	\$ 13,078
Investments	<u>          -</u>	<u>104,993</u>
Total Assets	<u>\$28,145</u>	<u>\$118,071</u>
Fund Balance:		
Fund balance	<u>\$28,145</u>	<u>\$118,071</u>

The accompanying notes are an integral part  
of these financial statements.

ALASKA FISHERIES DEVELOPMENT FOUNDATION, INC.  
STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID  
AND CHANGES IN FUND BALANCE  
RESTRICTED FUND

	Year Ended <u>September 30, 1990</u>
Revenues Collected:	
Federal grants	\$ 666,505
State of Alaska grants	48,868
Publication income	<u>6,320</u>
Total revenues collected	<u>721,693</u>
Expenses Paid - Program:	
Pollock industry development	3,265
Full utilization	140,620
Flatfish I	15,031
Refining Surimi	29,419
Multi species waste utilization	1,926
Flatfish II	60,091
Waste utilization II	90,828
Flatfish III	350
Groundfish quality enhancement	101,015
Arrowtooth surimi demonstration	<u>20,050</u>
Total program expenses paid	<u>462,595</u>
Expenses Paid - Administration:	
Salaries	195,358
Employee benefits	46,714
Business insurance and taxes	8,175
Office expense and maintenance	7,782
Supplies	5,777
Rent	17,776
Phone	6,575
Postage and courier	6,196
Consulting fees	12,327
Staff travel and expenses	11,583
Board travel	12,205
Public information	48,457
Accounting	5,560
Other	<u>10</u>
Total administration expenses paid	<u>384,495</u>
Total expenses paid	<u>847,090</u>
Excess of expenses paid over revenue collected	(125,397)
Fund balance, beginning of year	66,042
Transfer from unrestricted fund	<u>87,500</u>
Fund balance, end of year	<u>\$ 28,145</u>

The accompanying notes are an integral part  
of these financial statements.

ALASKA FISHERIES DEVELOPMENT FOUNDATION, INC.  
STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID  
AND CHANGES IN FUND BALANCE  
UNRESTRICTED FUND

	Year Ended <u>September 30, 1990</u>
Revenues Collected:	
Membership dues, contributions and other	\$ 21,295
Interest	<u>16,862</u>
Total revenues collected	<u>38,157</u>
Expenses Paid:	
Office expenses	1,491
Bank charges	150
Travel and entertainment	4,822
Professional services	8,924
Office of Inspector General audit settlement	6,809
Video equipment settlement/NOAA	<u>2,132</u>
Total expenses paid	<u>24,328</u>
Excess of revenues collected over expenses paid	13,829
Fund balance, beginning of year	191,742
Transfer to restricted fund	<u>(87,500)</u>
Fund balance, end of year	<u>\$118,071</u>

The accompanying notes are an integral part  
of these financial statements.

ALASKA FISHERIES DEVELOPMENT FOUNDATION, INC.NOTES TO FINANCIAL STATEMENTSSEPTEMBER 30, 1990NOTE 1 - SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES:Operations -

The Alaska Fisheries Development Foundation, Inc. (AFDF) is an Alaska non-profit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. AFDF (incorporated March 6, 1978 as Alaska Fisheries Development Corporation) was organized to serve as coordinator with the commercial fishing industry in Alaska for research and development projects aimed at developing under-utilized marine resources. The majority of funding received from these activities comes from the National Marine Fisheries Service (NMFS). Funding is also provided by membership dues and contributions.

Basis of Accounting -

AFDF maintains its accounting records and has prepared its financial statements on the basis of revenues collected and expenses paid (cash basis); consequently, revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when the related obligation is incurred.

For financial statement purposes, AFDF reports proceeds from the sale of products produced by grant funded programs, as program income. Administrative expenses such as telephone, fax use, travel and postage are offset by incidental reimbursements to the Foundation by those outside the Foundation.

Fund Types -

Two basic fund types are maintained by AFDF. They are the Restricted Fund and the Unrestricted Fund. A brief description of each follows:

Restricted Fund -

This fund accounts for certain grants provided by the State of Alaska and amounts received under a letter of credit granted by the National Oceanic and Atmospheric Administration, National Marine Fisheries Service to provide funding for the various research and development activities undertaken by AFDF and to cover administrative costs.

Unrestricted Fund -

This fund accounts for all other revenues and expenses not related to grants or contracts. Revenues consist of membership dues, contributions, interest earnings and other miscellaneous receipts. Disbursements are made at the discretion of the Board of Directors.

**NOTE 2 - INVESTMENTS:**

AFDF maintains an investment account with Merrill Lynch, which provides interest earnings on funds included in the unrestricted account. Total interest received for the year ended September 30, 1990 was \$16,862. At September 30, 1990 the account consisted of \$70,000 of bank certificates of deposit; \$34,993 invested in government bonds through the Metropolitan Life State Street Fund stated at cost, which approximates market; and \$13,078 in money market funds.

**NOTE 3 - REVENUES:**

The following amounts were received under contracts from the National Oceanic and Atmospheric Administration:

86-ABH-00044	\$146,253
87-ABH-SK020	15,281
88-ABH-00007	97,346
89-ABH-00008	341,745
90AA-H-SK165	12,781
90AA-D-SK241	20,456
90AA-D-SK242	<u>32,643</u>
	<u>\$666,505</u>

AFDF must also meet certain cost sharing provisions which require that non-federal funds comprise 31% to 39% of total funds received on each contract. However, non-federal funds may be received in the form of in-kind contributions as well as cash.

**NOTE 4 - RELATED PARTY TRANSACTIONS:**

As part of its normal operations, AFDF enters into various contractual arrangements with companies in the fisheries industry. Certain of these companies are represented by persons related to members of AFDF's Board of Directors. Contracts with these companies during the current year resulted in payments totaling \$63,593.

**NOTE 5 - RESOLUTION OF CONTINGENT LIABILITY:**

The federal government may, at its option, request the Inspector General of the United States to audit AFDF's compliance with federal government contracts. An audit of cooperative agreement 85-ABH-00044 was conducted by the Department of Commerce, Office of Inspector General for the period September 30, 1985 through December 31, 1987. The audit findings were resolved in June, 1990 and resulted in the Foundation returning \$6,809 to the National Oceanic and Atmospheric Administration.

*Price Waterhouse*



REPORT OF INDEPENDENT ACCOUNTANTS

November 16, 1990

To the Board of Directors of  
Alaska Fisheries Development Foundation, Inc.

We have audited the cash basis financial statements of Alaska Fisheries Development Foundation as of and for the year ended September 30, 1990, and have issued our report thereon dated November 16, 1990.

We conducted our audit in accordance with generally accepted auditing standards, the financial audit requirements of Governmental Auditing Standards, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-110. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the cash basis financial statements are free of material misstatement.

In planning and performing our audit of the cash basis financial statements of Alaska Fisheries Development Foundation as of and for the year ended September 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the cash basis financial statements and not to provide assurance on the internal control structure.

The management of Alaska Fisheries Development Foundation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objective of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the cash basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future

November 16, 1990  
To the Board of Directors of  
Alaska Fisheries Development Foundation, Inc.  
Page 2



periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal structure policies and procedures in the following categories:

- o Cash receipts
- o Cash disbursements

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the cash basis financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Alaska Fisheries Development Foundation in a separate communication dated November 16, 1990.

This report is intended for the information of the board of directors, management, and the United States Department of Commerce, National Oceanic and Atmospheric Administration. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

*Price Waterhouse*

**KPMG** Peat Marwick

ALASKA FISHERIES DEVELOPMENT FOUNDATION, INC.

Letter to Management

November 15, 1991



# Peat Marwick

Certified Public Accountants

601 West Fifth Avenue  
Suite 700  
Anchorage, AK 99501-2258

November 15, 1991

CONFIDENTIAL

The Board of Directors  
Alaska Fisheries Development Foundation, Inc.

Dear Members:

We have audited the cash basis financial statements of Alaska Fisheries Development Foundation, Inc. (Foundation) for the year ended September 30, 1991, and have issued our report thereon dated November 15, 1991. In planning and performing our audit of the cash basis financial statements of the Foundation, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the cash basis financial statements and not to provide assurance on the internal control structure. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Directors, management and others within the Foundation.

Very truly yours,

*KPMG Peat Marwick*



Member Firm of  
KPMG Peat Marwick Coopers & Lybrand



ALASKA FISHERIES DEVELOPMENT  
FOUNDATION, INC.  
RECOMMENDATION TO IMPROVE  
ADMINISTRATIVE EFFICIENCY AND  
INTERNAL ACCOUNTING CONTROL  
NOVEMBER 1990