

To: The Honorable Stephanie Scott
The Haines Borough Assembly
Mark Earnest, Borough Manager

From: Brad Gilman & Sebastian O'Kelly

Re: Washington Update

Date: December 21, 2011

1. FY 2012 Federal Budget/Appropriations – Congress was able to complete all of its FY 2012 spending bills by Christmas. Overall Federal appropriations declined about 1 percent when compared to FY 2011 levels after war and emergency spending are exempted. The Deficit Reduction Supercommittee failed to develop a plan for further cuts of \$1.2 trillion over 10 years as required by the debt legislation enacted earlier this year. As a result, across the board automatic cuts (referred to as “sequestration”) are required, but will not take place until January of 2013. We saw concern over fiscal issues play out in debates this year on a number of programs with particular importance to Alaska. A few lower 48 Members who have traditionally opposed elements of these programs actively stepped up their opposition in this climate, with bills, hearings and amendments aimed at either eliminating or significantly reducing programs that benefit Alaskan communities. The list includes -- Essential Air Service, Bypass Mail, Payment-In-Lieu-Of-Taxes, and the Economic Development Administration. We expect these attacks will continue next year.

2. FY 2013 Community Priorities And Projects – While there were no Congressional earmarks in the FY 2012 appropriations bills due to the moratorium, the Delegation has continued to ask communities to submit early next year their Federal spending priorities for FY 2013 – both for projects and programs. We are working on recommendations to the Borough Manager for the 2012 agenda.

3. Scenic Highways Funding/Picture Point: The Federal Highway Administration (FHWA) has announced its FY 2012 grant application process for the Scenic Byways Program. All three Delegation Members supported the Picture Point project with letters to the FHWA this year.

4. Boat Harbor: The FY 2012 Energy & Water Appropriations Bill includes money for Army Corps construction projects that have not been included in the President’s budget package. The Congress has instructed the Army Corps to develop and submit a spending plan to Congress within 45 days on projects the agency intends to fund with the discretionary money. We are moving forward to ask the Delegation to request that the Corps include the Haines Harbor project in that submission.

5. Secure Rural Schools (SRS): The SRS Program was not reauthorized this year and will be pushed to the 2nd session of this Congress. A positive development was the

introduction since our last report of a reauthorization bill in the Senate with large bipartisan backing (including the two Alaska Senators). This bill would also reauthorize Payment-In-Lieu-of-Taxes Program. A major unresolved issue is finding the budget offset to pay for the extension of both programs. The Senate bill does not identify an offset. The House version is paid through policy changes that would result in increased public lands resource production that is opposed by the Obama Administration. The community's next payment (and final payment unless the program is reauthorized) will be in January of 2012.

6. Payment In Lieu Of Taxes (PILT): Reauthorization of PILT has also been pushed to next year. The Haines Borough's next payment (and final payment unless the program is reauthorized) will be in June of 2012.

7. Bypass Mail: The Senate Homeland Security & Governmental Affairs Committee marked up comprehensive postal reform legislation. Counterpart legislation was also introduced in the House. The U.S. Postal Service (USPS), facing loss of revenues due to growing Internet commerce and communications combined with high operating costs, is facing large multi-year operating deficits that threaten its viability. Congress is attempting to pass reform legislation to give the Postal Service greater flexibility to restructure its operations, reduce its costs and reform its workforce while also ensuring protection of the Service's mandate to provide universal service.

This has created greater scrutiny of programs such as Bypass Mail that some critics perceive as a wasteful and unnecessary. Prior to Committee markup, Senators McCain (R-AZ) and Coburn (R-OK) threatened to offer amendments to shift the entire cost (\$70 million/yr) of Bypass Mail to the State of Alaska. These amendments were withdrawn in committee, but we anticipate that they will again be offered on the Senate Floor. The Postal Service's Inspector General subsequently issued a critical report that recommended a number of changes to the program, including: shifting its cost to the State of Alaska; allowing the USPS to charge priority mail rates for items now traveling at parcel post rates; increasing mainline and bush air carrier service competition; and forcing commodity goods to be shipped to merchants through the private sector freight market. The Alaska Delegation sent a forceful letter questioning IG's findings. We believe there is a strong likelihood that this issue will receive significant attention when the bills make it to the House and Senate floors.

8. Miscellaneous.

- **Essential Air Service (EAS):** Congress ended up funding EAS in FY 2012 with relative modest cuts to the program, despite a number of efforts over the past year to either terminate or substantially cut the program back. The debate over the program will continue as part of the long-term reauthorization of the FAA.
- **Genetically Modified Salmon:** Rep. Young's amendment to ban the domestic sale of GM salmon was stripped from the final version of the FY 2012 Agriculture Appropriations Bill due to vigorous lobbying by the biotechnology

industry. The Alaska Delegation remains engaged on this issue, with Senators Begich and Murkowski introducing legislation to implement a ban on the product. Hearings were held in the Senate in December. We can expect this issue to remain active next year.

- **Retirement of John Katz:** The long-time head of the State's Washington, DC office, John Katz, has announced his retirement effective January. John has served eight different Governors from both political parties during his long tenure. He has always been willing to meet with Alaska community officials during their DC visits, offer guidance and counsel, and when warranted reach out to State agencies on issues with a strong Federal-State nexus.
- **Sealaska Lands Withdrawal Legislation:** The legislation failed to pass this year and will be considered next year. Differences remain over public access, withdrawal areas, and preservation of sacred sites.
- **Coast Guard Reauthorization:** The Coast Guard Reauthorization Bill passed the House but will not be considered by the Senate until next year. The bill would prohibit maritime liens against fishing permits and individual quota shares. A provision sponsored by Rep. Young and Senator Begich that would allow the Ketchikan Shipyard to use a foreign-built dry dock was inserted into a separate piece of legislation and passed by the Congress.
- **Salmon Anemia:** The detection of the infectious salmon anemia virus in British Columbia wild salmon has raised increased concerns about farmed fish. Congress included a provision in Department of Commerce's appropriations establishing a formal study of the issue. ADF&G will be involved in the conduct of the study.
- **Wild Lands Designation:** The FY 2012 Interior Appropriations Bill carries over prior year restrictions prohibiting implementation of the Administration's wild lands Executive Order without Congressional approval.
- **International Pacific Halibut Commission:** Senator Murkowski earlier in December objected to the IPHC's 2012 recommended halibut catch limits. She questioned the manner in which the Commission has presented and explained its findings on the sport charter and commercial fishing industry in Alaska.
- **Pirate Fishing Legislation Introduced In Senate:** Senators Begich and Murkowski have signed on as cosponsors to legislation introduced by Senator Inouye (D-HI) that would prohibit foreign fishing vessels that have engaged in illegal fishing practices from entering U.S. ports and offloading their catch. The legislation implements many of the recommendations of the recent U.N. international agreement that seeks to reduce illegal, unreported and unregulated fishing across the globe.

- **EPA Enforcement And Fine Reform Legislation:** Rep. Young has introduced legislation that would funnel enforcement fines collected by the EPA into grant programs that would help communities comply with environmental regulations. The bill has been referred to committee and awaits further action.

To: Mark Earnest

From: Brad Gilman and Sebastian O'Kelly

Re: Haines Borough 2012 (FY '13) Federal Agenda

Date: January 18, 2012

Senator Begich has requested that the Alaska communities submit their top three capital project priorities, and provide views and comments on other priority Federal programs. We believe that Senator Murkowski and Congressman Young will also be interested in the views of the Haines Borough on these issues. The due date for the submission of these priorities to Senator Begich's office is February 25, 2012.

Programs that Alaskans have taken for granted for the last three decades are at greater risk of funding reductions or elimination as the Congress struggles to balance the federal budget. Certain lower 48 Members who have traditionally opposed elements of programs benefiting Alaska have more actively stepped up their opposition in this climate, with bills, hearings and amendments aimed at either eliminating or significantly reducing in a targeted way the benefits to the State and its communities.

The Deficit Reduction Super Committee established by Congress failed to provide a consensus recommendation on cutting an additional \$1.2 trillion from the Federal budget over the next ten years. Under the new deficit reduction law, defense and discretionary programs will have to fill the gap with additional budget reductions in FY '13, putting all existing programs at risk. The Alaska Delegation will need reinforcement as they make decisions on where to expend their political capital in an increasingly volatile fiscal environment.

We are recommending the following projects and programs for calendar year 2012—

- 1. Haines Harbor:** The Congress again failed to fund any "new start" harbor projects for 2012 as part of the year-end Omnibus appropriation bill. The Congress did, however, include \$30 million in Army Corps operations & maintenance funding for "small, rural, or subsistence" harbors. Last year we advocated for a set aside of ACOE Civil Works construction funding for the Pacific Ocean Division. We recommend this effort continue with a broad based community coalition, organized through the Alaska Municipal League. The initiative would be modified to seek dedicated Civil Works construction funding for "small, rural, or subsistence" harbors.
- 2. Pt. Lutak:** The Economic Development Administration's rural community grant program is currently the only source of federal funding for port infrastructure other than breakwaters or wave barriers. The EDA was a target of House budget cutters last year, but largely escaped taking major reductions. The perception of this group is that EDA funds only pork or wasteful projects (despite that fact that the EDA's budget has not included earmarks for nearly a decade). Haines has been a major beneficiary of EDA grants over the years. Eligibility changes from year to year based on the national average unemployment rates, and there will be years when Haines qualifies for development grants and years when it falls below the eligibility threshold. We are concerned that the budget cutting will become so severe that the EDA rural community grant program will disappear. We are therefore recommending that Haines identify the EDA grant program as a federal priority.

3. **National Scenic Byway Grant Program:** Efforts were made in December to terminate the National Scenic Byway Grant Program on the Senate Floor during consideration of the FY '12 Transportation appropriation bill. While this amendment was defeated, we anticipate a similar challenge in this budget cycle as Congress seeks to conform the FY '13 budget to the new deficit reduction caps. We recommend that Haines identify the National Scenic Byway Program as a federal priority.

4. **Water/Wastewater Improvements:** Haines has been successful in obtaining funding for sewer and water improvements in prior budgets. In the past, an EPA program entitled the "State and Tribal Assistance Grants" (referred to as "STAG") was funded in the Interior Appropriations bill. This program was significantly earmarked by the Congress, which is no longer happening during the earmark moratorium period. Senator Murkowski is the Ranking Republican on the Interior Appropriations Committee which funds this program. We think there is a possibility that this program could be revived as a competitive grant program if enough communities indicate a need for federal matching grants for water/wastewater projects. We recommend that Haines identify reconstituting STAG as a competitive federal program.

5. **Secure Rural Schools:** The reauthorization of the Secure Rural Schools Act is at a critical juncture. The program is set to expire after the next payment in January. Senator Murkowski has joined with the Senate Chairmen of the Finance Committee and the Energy Committee to propose a reauthorization of the program, but this is contingent on finding a budget offset which would fund the next five years as entitlement spending. In the absence of an approved offset, Senator Murkowski has publicly stated that she may withdraw her support for the reauthorization. Many Members of Congress are pushing for increased timber harvesting activity as a means of minimizing the impact of the loss of the Secure Rural Schools payments should the program not be reauthorized, but even dramatic increases in timber harvests won't make up the loss of the SRS revenues to communities such as Haines. We recommend that the SRS reauthorization be identified as a federal program priority.

6. **Payment-In-Lieu-of-Taxes:** There are two issues surrounding PILT in the current fiscal climate. The most important issue is the need to reauthorize the PILT Program for another five years. The current program is funded as an entitlement, meaning that it is not subject to the annual appropriation process. We have one more year of PILT payments before this authorization expires, with the last payment in June of this year. The second issue involves the PILT Program being targeted by the urban Members of Congress on the House Floor in the annual appropriation process. PILT has strong House Republican support, especially in the western states. The House Floor has become a free-for-all, with Members being able to offer amendments to cut spending with very little notice. Some Democratic House Members targeted the PILT Program in an attempt to counter Republican Member challenges to programs popular with Democrats. We recommend that Haines identify PILT as a programmatic funding priority for next year, both in support of a new authorization and defensively should the program again be challenged on the House Floor.

7. **Bypass Mail:** The Congress is currently working on legislation to reform the U.S. Postal System in an effort to stem the financial losses currently being incurred by the U.S. Postal Service. A number of Members of Congress have used this legislative initiative to advocate for the curtailment or elimination of the postal rate subsidies for rural Alaska. The current Bypass Mail system allows the shipment of up to 2,500 lbs of bulk products by air freight to Alaskan communities, including all of the Southeast communities in Alaska. Customers pay the USPS parcel post rate for air freight, but Alaskan air carriers receive a "Bush Rate" which is based on the actual costs of flying in Alaska and is higher than

the national parcel post rate. This subsidized cost for moving goods air freight to rural Alaska is estimated at roughly \$70 million. The Postal Service Inspector General has just come out with a very negative report on the Bypass Mail Program, triggering an equally aggressive response from the Alaska Delegation. The Bypass Mail system was, in part, created in order to encourage air carriers to continue passenger service to rural Alaska. Elimination of the Bypass Mail System would cost rural Alaskans more for air freight movements; would likely result in a curtailment of air passenger service; and could possibly threaten the viability of the Essential Air Service Program in Alaska (Bypass Mail is one of the key cargoes carried by EAS aircraft). This issue stands to impact all Haines residents in one form or another. We recommend that you identify the preservation of the Bypass Mail Program as a federal priority.

Format

Once Haines has finalized its views on the Federal agenda for 2012, we will draft a letter for the Mayor's signature which lists and explains both the capital project priorities and the Federal program priorities. We will also comply with the instructions of each of the Alaska Delegation Members (all three offices are different) on filing these priorities via their designated websites. Please let us know if you have any questions or want us to do additional research on other issues.