

Bulk Fuel Systems Upgrades**FY2002 Request: \$4,950,000****Reference No: 32584**

AP/AL: Appropriation
Category: Health/Human Services
Location: Statewide
House District: Statewide (HD 1-40)
Estimated Project Dates: 07/01/2002 - 06/30/2007

Project Type: Health and Safety
Contact: Robert Poe, Jr.
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Brief Summary and Statement of Need:

This appropriation is requested for expected Federal funds and state match for construction of new consolidated bulk fuel storage tank systems in rural Alaska.

Funding:	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	Total
Fed Rcpts	\$3,350,000	\$3,350,000	\$3,350,000	\$3,350,000	\$3,350,000	\$3,350,000	\$20,100,000
Oil/Haz Fd	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$1,600,000	\$9,600,000
Total:	\$4,950,000	\$4,950,000	\$4,950,000	\$4,950,000	\$4,950,000	\$4,950,000	\$29,700,000

<input checked="" type="checkbox"/> State Match Required	<input type="checkbox"/> One-Time Project	<input type="checkbox"/> Phased - new	<input type="checkbox"/> Phased - underway	<input checked="" type="checkbox"/> On-Going
48% = Minimum State Match % Required		<input type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill	

Operating & Maintenance Costs:

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:

Match Funding: FY 94 2,250,000; FY 95 700,000; FY 96-00 Federal funding was received as part of a larger federal energy program appropriation, which contained several programs. Prior funding history for this larger appropriation: FY 96 1,000,000; FY 97 10,000,000; FY 98 30,000,000; FY 99 0,000; FY 00 30,450,000

Project Description/Justification:**Purpose of the Appropriation**

There are approximately 1100 above-ground tank farms in 161 remote villages in rural Alaska. Most of these tank farms have serious deficiencies that typically include most of the following:

- inadequate dikes to contain fuel spills;
- inadequate foundations, which can lead to gradual tank movement and fuel leakage;
- improper piping systems and joints – the most common source of fuel leaks;
- improper siting near wells, beaches, and buildings, or within a flood plain;
- tanks that are rusted or damaged beyond repair;
- electrical code violations;
- inadequate security.

The U.S. Coast Guard and the Environmental Protection Agency are continuing to issue citations to owners of many substandard facilities in rural Alaska but have thus far refrained from ordering them closed as long as effective measures are underway to bring them into regulatory compliance.

Bulk fuel tank farms are part of the basic infrastructure of rural communities and are necessary for their survival. They need to be durable and secure – oil contamination of soil and groundwater can be a serious threat to public health as well

Bulk Fuel Systems Upgrades

FY2002 Request: \$4,950,000

Reference No: 32584

as fish and wildlife, and is always far more costly to clean up than to prevent. Yet, in most cases, the resources needed to upgrade and replace the dilapidated tank farms of rural Alaska are not locally available. At present, the Authority's best estimate of the total cost to upgrade and replace tank farms as necessary throughout rural Alaska is \$450 million, based on the actual costs of tank farm construction incurred over the last several years and the total storage capacity needed to meet current energy demand.

Relying primarily on federal funds, the State has conducted a program over the last several years to replace these tank farms with new or refurbished facilities that meet all applicable safety and environmental codes. Most of these projects seek to consolidate several tank farms into a single facility so that the potential for adverse impacts is no longer spread among several tank farm sites around the community. Consolidation also helps to avoid the inconsistent maintenance and operations practices that can result from multiple projects operated by multiple owners. A typical rural village may presently have separate tank farms owned and operated by the City government, the tribal government, the village corporation, the local school, the electric utility, and other public or private entities.

The primary contributor of federal funding to the rural tank farm program is the Denali Commission which has committed \$20.2 million for 16 rural tank farm projects over the last two years. By working diligently with local communities and other State and federal agencies on funding alternatives, the Authority has been able to obtain \$11.8 million of supplemental funds bringing the total funding commitment for these 16 projects to \$32.0 million as shown in the next table.

Supplemental funds were obtained from the U.S. Environmental Protection Agency, the U.S. Department of Housing and Urban Development, the Alaska Department of Environmental Conservation, the Community Development Block Grant program administered by the Department of Community and Economic Development, the Authority's Power Project Loan Fund, the state's Capital Matching Grant program, direct State capital appropriations, and local contributions.

The direct State capital appropriations to the Authority and the appropriations to the Department of Environmental Conservation (DEC) both come from the State Oil and Hazardous Substance Release, Prevention and Response Fund (hereinafter the "Prevention and Response Fund.") The DEC funds were provided to the Authority specifically to upgrade and replace tank farms that are owned by the Alaska Department of Education and Early Development and that are operated by rural school districts.

CURRENT PROJECTS

<u>Projected Community</u>	<u>Cost (\$000s)</u>
Arctic Village	\$1,850.0
Buckland	2,300.0
Chefornak	3,215.0
Chignik Bay / Lake / Lagoon	3,600.0
Emmonak	2,440.0
Kiana	2,700.0
Kotlik	1,000.0
Lower Kalskag	236.5
Napaskiak	1,500.0
Nikolski	1,300.0
Noorvik	2,650.0
Port Graham	1,020.0
Tanana	2,600.1
Toksook Bay	2,900.5
Tuntutuliak	2,341.6
Upper Kalskag	<u>362.5</u>
Total Projected Cost	\$32,016.2

The breakdown of the \$11.8 million of supplemental funding obtained by the Authority for current projects is as follows:

Bulk Fuel Systems Upgrades**FY2002 Request: \$4,950,000**
Reference No: 32584

<u>Supplemental Funding</u>	<u>Amount (\$millions)</u>
State "Prevention and Response Fund"	4.9
Other federal funds	5.8
Local funds	<u>1.1</u>
TOTAL	\$11.8

In anticipation of future federal funding and to better define project costs, the Authority has completed conceptual designs and cost estimates for the next 12 projects to be presented to the Denali Commission. These are listed below. Detailed design and construction will be initiated for these projects in FY02 if adequate funding is secured.

PROPOSED FOR FY02

<u>Community</u>	<u>Projected Cost (\$000s)</u>
Nikolai	\$ 1,200.0
Kotlik	3,300.0
Chalkyitsik	1,700.0
Venetie	1,600.0
Rampart	1,700.0
Port Protection	450.0
Takotna	3,000.0
Point Baker	500.0
Larsen Bay	1,000.0
Old Harbor	1,200.0
Kongiganak	3,800.0
Atka	<u>2,100.0</u>
Total Projected Cost	\$21,550.0

To make significant progress on the overall problem of substandard tank farms in rural villages, the current program of tank farm upgrade and replacement will have to be a continuing, multi-year effort. New projects will have to be brought into the project development "pipeline" each year, and the starting point for each project is to prepare the conceptual design. With this multi-year perspective in mind, the Authority's plan for FY02 includes the preparation of conceptual designs for the following 10 additional projects, with the expectation that they will then be ready to proceed into detailed design and construction in FY03:

FY02 Concept Design

Clarks Point
 Chuathbaluk
 Koyuk
 Gambell
 Sand Point
 Koyukuk
 Nulato
 Kokhanok
 Egegik
 Kasigluk

The estimated cost to prepare these 10 conceptual designs is \$300,000. The total funding proposed from all sources for FY02 is therefore \$21,850,000 as follows:

Bulk Fuel Systems Upgrades**FY2002 Request: \$4,950,000**
Reference No: 32584

Detailed Design and Construction – 12 new projects	\$21,550,000
Conceptual Design – 10 new projects	<u>300,000</u>
TOTAL FY02 PROPOSED FUNDING	<u>\$21,850,000</u>

The FY02 workplan for the Denali Commission includes \$15.35 million for rural tank farm projects. This is shown below along with other federal funds that the Authority anticipates will be made available for this purpose:

<u>Federal Source</u>	<u>FY02 Amount</u>
Denali Commission	\$15,350.0
EPA	3,000.0
ICDBG - HUD	1,500.0
CDBG	<u>400.0</u>
Total	<u>\$20,250.0</u>

The Authority's request for \$1.6 million from the Prevention and Response Fund for FY02 is equal to the remaining gap between the project budgets and anticipated federal funding:

Total FY02 Proposed Funding	\$21,850,000
MINUS Anticipated federal funding	<u>20,250,000</u>
REQUEST FROM PREVENTION & RESPONSE FUND	<u>\$1,600,000</u>

The following table summarizes the proposed funding for FY02 and shows the percentage contribution from each funding source:

<u>Source of Funds</u>	<u>Amount (\$000s)</u>	<u>Percent of Total Project Costs</u>
Denali Commission	\$15,350.0	70 %
EPA Grant	3000.0	14 %
ICDBG-HUD Grants	1,500.0	7 %
CDBG Grants	400.0	2 %
State Prevention and Response Fund	<u>1,600.0</u>	7 %
TOTAL	\$21,850.0	100 %

SUMMARY OF REQUEST

Based on the plans and expectations outlined above, the Authority requests the following:

- \$1.6 million from the State Prevention and Response Fund.
- Authority to receive and expend federal funds in the amount of \$3.35 million. This projected need for receipt and expend authority is estimated as follows:
 - In each of the last several years, the Legislature has approved additional receipt and expend authority for AEA and its predecessor, the Division of Energy. We anticipate that approximately \$15.0 million of this authority will still be available and unused at the close of FY01.

Bulk Fuel Systems Upgrades

FY2002 Request: \$4,950,000
Reference No: 32584

- As discussed above, the Authority anticipates receipt of \$18.5 million in federal funds during FY02 from the following sources:

Denali Commission	\$15.35 million
EPA	3.00 million
- During FY02, the Authority also anticipates that ICDBG and CDBG funding will be made available for tank farm projects as discussed above. However, although these funds will be used for project costs and will be managed by the Authority, they will be issued directly to the local grantee by the granting agency. As a result, AIDEA/AEA does not need receipt and expend authority in connection with ICDBG and CDBG funds.
- We therefore request new receipt and expend authority for FY02 amounting to \$3.35 million, representing the difference between the \$18.35 million anticipated from the Denali Commission and EPA minus the \$15.0 million in existing receipt and expend authority that we believe will still be available to us at the start of FY02.

MATCHING DENALI COMMISSION FUNDS

The Denali Commission has adopted a policy requiring a minimum 30% match from other funding sources for rural energy projects. The matching funds can come from any source including other federal funds, state funds, local funds, or local in-kind contributions. As stated in its FY02 work plan, the Denali Commission intends to issue funds for rural energy projects in the following amounts:

Bulk fuel tank farm upgrade and replacement	\$15.35 million
Electric utility upgrades	<u>10.00 million</u>
TOTAL	\$25.35 million

Of this amount, \$7.6 million is estimated to come from the Trans Alaska Pipeline Liability Fund (TAPL). It is the Authority's position that TAPL funds should be considered State funds even though they are passed through the Denali Commission. This is because the State contributes to the TAPL fund as an owner of oil. By federal statute, these funds must be returned to the State and must be used for rural tank farm improvements.

Based on this assumption, the 30% match sought by the Denali Commission would apply only to the remaining funds after deducting the TAPL funds as follows:

Denali Commission grants for rural energy projects	\$25.35 million
MINUS TAPL funds	<u>- 7.60 million</u>
TOTAL – Basis for calculating match	\$17.75 million

The 30% match does not apply separately to the tank farm program and to the electric utility program but rather to both programs in the aggregate. In other words, it is acceptable if supplemental funding for one of the two programs falls short of 30% as long as it exceeds 30% for the other program, and as long as the 30% target is met for the two programs combined. The 30% target for both programs combined is \$7.6 million calculated as follows:

\$17.75 million = 70% of \$25.4 million

\$25.4 million X 30% = \$7.6 million

The Authority proposes to meet the \$7.6 million match in FY02 for the two combined programs as follows:

Tank Farm Program	
EPA grant	\$3.0 million
ICDBG-HUD grants	1.5
CDBG grants	.4
State of Alaska Capital Project Summary	Department of Commerce, Community, and Economic Development
FY02 Final Capital Budget	Reference No: 32584
9/7/10 8:28:21 AM	Page 5

Bulk Fuel Systems Upgrades

FY2002 Request: \$4,950,000
Reference No: 32584

State Prevention and Response Fund	1.6
Electric Utility Program	
CDBG grants	.4
State Funds	<u>.5</u>
Total Cash Match	\$7.4 million
Local In-Kind Contributions	<u>.2</u>
TOTAL MATCH	<u>\$7.6 million</u>

Impact on the State Operating Budget

Ownership and operating responsibility for these projects is placed entirely with local grantees. The State has no continuing role in connection with the projects after construction is complete. As a result, upgrade and replacement of these tank farms has no upward impact on the State operating budget. In the absence of these projects, the potential for oil spills and leaks in rural Alaska would be higher and the State's potential exposure to clean-up costs would also be higher. Prevention of additional leaks and spills is ultimately in the State's financial interest as the costs of remediation are generally far more expensive than the costs of preventing spills and leaks before they occur.

Project Selection Criteria

AEA's project selection process gives priority to those communities whose tank farms are in the worst condition. Over the last four years, AEA has built a detailed database of tank farm conditions and characteristics in 161 rural villages. Deficiencies in each tank farm have been scored with respect to site location, secondary containment, foundations, condition of tanks, condition of piping, electrical wiring, and overall health and safety risk. Based on this information, rural communities have been ranked according to the level of these deficiencies.

An additional factor in project selection is the availability of outside funding. For example, a number of communities and tank farm owners have been able to acquire federal funds for tank farm upgrades through the Indian Community Development Block Grant program (ICDBG) and Community Development Block Grant (CDBG) program. As long as significant repair or replacement of bulk fuel storage facilities is needed, AEA tries to take advantage of these funding opportunities when they arise.

Other factors are also considered depending on their significance, including average income level, community contribution and commitment, and the prospective owner's capability to provide adequate long-term maintenance.