MINUTES
SENATE FINANCE COMMITTEE
April 01, 2004
9:07 AM

TAPES

SFC-04 # 65, Side A
SFC 04 # 65, Side B
SFC 04 # 66, Side A

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 9:07 AM.

PRESENT

Senator Lyda Green, Co-chair
Senator Gary Wilken, Co-chair
Senator Con Bunde, Vice Chair
Senator Ben Stevens
Senator Fred Dyson
Senator Donny Olson
Senator Lyman Hoffman

Also Attending: SENATOR GARY STEVENS; KEVIN JARDELL, Assistant Commissioner, Department of Administration; ART CHANCE, Director, Labor Relations, Department of Administration; JOAN BROWN, Chief Budget Analyst, Office of Management and Budget, Office of the Governor; LINDA HALL, Director, Division of Insurance, Department of Community and Economic Development; DENNIS MICHEL, Staff to Senator Gene Therriault; TOM LOVIS, Chief Executive Officer, Four Dam Pool Power Agency

Attending via Teleconference: From Offnet Sites: AL STOREY, Lieutenant, Alaska State Troopers, Department of Public Safety; BOB LERESCHE, Financial Adviser, Four Dam Pool Power Agency, From Kenai: MIKE TILLY, Assistant Fire Chief, City of Kenai Fire Department

SUMMARY INFORMATION

Monetary Terms of Collective Bargaining Units

The Committee heard a presentation from the Department of Administration regarding three bargaining units.

SB 357-INSURANCE

The Committee heard from the Division of Insurance. One amendment was offered but withdrawn from consideration. The bill was held in Committee.

SB 255-ILLEGAL USE TRAFFIC PREEMPTION DEVICE

The Committee heard from the sponsor, the Department of Public Safety, and fire department personnel. The bill was held in Committee.

SB 350-4 DAM POOL JOINT ACTION AGENCY

The Committee heard from the sponsor and representatives from the Four Dam Pool Power Agency. The bill was held in Committee.

SB 366-STATE SALES TAX

The Committee heard from the sponsor, reviewed a draft committee substitute, and held the bill in Committee.

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Monetary Terms of Collective Bargaining Units
Presentation

Co-Chair Wilken announced that the Department of Administration would be presenting information regarding the monetary work rule/workplace operational terms of the three collective bargaining unit contracts that have been tentatively agreed upon.

KEVIN JARDELL, Assistant Commissioner, Department of Administration, explained that the tentative contract terms of the Labor, Trades, & Crafts (LTC) bargaining unit include a zero wage increase in the first year and a two-percent wage increase in both the second and third year. The tentative two-year contract pertaining to the Alaska State Troopers/Airport, Fire & Police Officers (AST & ASO) and the Correctional Officers, which are both represented by the Public Safety Employees Association (PSEA), would provide a two-percent wage increase in both the first and second year.

Mr. Jardell shared that in each of the three agreements, the employer contribution rates have been tied "to the State's experience with selective benefits" in that employees would be held

harmless for increased costs. Therefore, the State is projected to incur a Select Benefits health insurance premium increase of approximately $40 per employee.

Senator Dyson asked whether the $40 increase would be a monthly, quarterly, or annual increase.

Mr. Jardell clarified that it would be on a monthly basis. The State's current health insurance contribution of $705 per employee per month would be increased to approximately $745 per month.

Senator Dyson asked regarding an employee's contribution obligation.

Mr. Jardell explained that, as currently is the case, were an employee to select the health insurance Economy Plan, no employee contribution would be required as the State's contribution would cover that plan's cost in its entirety. Were the Standard or Premium Plan elected, the employee's current contribution level would continue, and the proposed State contribution would cover the premium increase.

Senator Olson asked regarding the amount of each plan's premium.

Mr. Jardell stated that this information would be forthcoming.

In response to a question from Senator Olson, Mr. Jardell clarified that the proposed State health insurance premium contribution would be $745 per employee, per month. Were an employee to continue the coverage they have today, their contribution level would not increase, as the State's increased contribution amount would provide for the premium increase.

Co-Chair Wilken voiced disappointment that more updated information had not been provided in this presentation as the majority of what is being discussed is included in a letter [copy on file] dated March 4, 2004 from Commissioner Mike Miller, Department of Administration, and addressed to Senate President Gene Therriault. In addition, he asked that the letter's accompanying LTC contract outline [copy on file} be revised to reflect detailed information regarding FY 05, FY 06, FY 07 expenses.

Mr. Jardell replied that that information is available and would be distributed.

ART CHANCE, Director, Labor Relations, Department of Administration, characterized the three bargaining units being discussed as "the most mature and in many ways the most

sophisticated" contracts. He reviewed the history of the units and noted that the Correctional Officers bargaining unit was, until 1997, included in the General Government Unit (GGU). He shared that while there are relatively no changes in the AST/ASO contracts, there are changes in the Correctional Officers (CO) contract with the intent of making "it more like a law enforcement contract" rather than a GGU contract; specifically changes in the management rights clause and the union securities clause.

Senator Dyson understood that there is "a perceived problem" resulting from the CO job bid process; specifically that urban officers with seniority are bidding on higher paid Rural jobs and thereby precluding the opportunity for Rural resident employment. In addition to these jobs being at a higher pay scale and thereby enhancing retirement benefits, the week-on/week-off work schedule allows the urban COs to work and then go home. Thus, they do not have a vested commitment or involvement in the community in which they work.

Mr. Jardell responded that this is an operational issue that "is resolving itself" as Tier One employees retire. In order for the Rural higher wage years to count toward Tier Two employees' retirement benefits, 50-percent of their work history time must be attributed to Rural area employment. The 50-percent requirement is recognized as "a good tool" through which to get employees to live in Rural areas for longer periods of time.

Senator Dyson inquired to the history of the week-on/week-off CO work schedule.

Mr. Chance communicated that this work schedule began in the 1980s when, as a result of many things including the relaxation of the federal Fair Labor Standards Act (LSA) and changes in how correctional facilities were staffed and compensated, it evolved away from the typical 37.5 hour per week GGU employee work schedule. During 1989 and 1990 labor negotiations, "sweeping changes" were enacted that included the implementation of a LSA law enforcement exemption allowing for a seven-day/twelve hour shift schedule. This work schedule is less expensive than a traditional three-shift operation. The reason for this work schedule is "purely" financial, as the State is not required to pay graveyard shift differentials. Other shift pay differentials are minimal. Were personal leave approvals "properly administered," the week on/week off work environment should save the State money.

Senator Dyson understood therefore that this schedule provides more management flexibility than other options and saves money.

Senator Dyson asked the status of elective health care procedures in these contracts as he reminded that, in the previous year, certain members of the Legislature had submitted a letter to Governor Frank Murkowski professing that elective procedures, specifically elective abortions, should not be paid for by the State. "Public money should not be used in support of medical procedures that were not medically necessary."

Mr. Jardell responded that while this issue has been discussed and attempts have been made to further it by the Department, it has not been negotiated out of union contracts as the Administration has decided that, in terms of reaching contract agreements, the issue should not be one "to fight over."

Senator Dyson acknowledged that accomplishing the request "would be difficult." He asked whether a labor law issue might be involved, as to take away something that has been provided might require something else being sacrificed.

Mr. Jardell responded that it would be more of an issue involving the Unions' various member Health Trust plans, as the Administration determined that attempting to influence how Trustees manage the plans was not something that could be successfully accomplished at a bargaining session. It would be a detriment "to achieving a contract that would be in the best interest of the State."

Senator Olson commented that, while the CO bid process in which out-of-town employees preempt local hire has not been a significant issue in his Rural district, further observation in this regard would be administered.

Senator Dyson asked whether any bargaining unit's work rules agreements might be negatively affecting employee production.

Mr. Jardell believed that these contracts "would produce an environment that would allow the State to move forward in a productive manner." While there might be some contract components the State might consider to interfere with its goals, likewise there might be some components that the Union considers to interfere with its endeavors. However, the result of the bargaining efforts is a compromise of terms approved by both entities.

Co-Chair Wilken thanked the Department for providing the updated spreadsheet titled "Bargaining Unit Summary", dated April 1, 2004, [copy on file], that reflects the total associated costs of the three contracts for the next three years.

Mr. Jardell explained that as reflected in the chart under the heading of "Fiscal Year Cost Increases by Fiscal Year as Compared to FY 05 Gov Amd," lines three, four, and five reflect the total General, Federal, and Other Funds monetary requirements that would be necessary to support the LTC, AST/ASO, and CO contracts for FY 05. Line six under that heading specifies the total funding requirements for FY 05.

Co-Chair Wilken observed that of the total three million dollar FY 05 contract expense relating to these three contracts, $2.37 million would be a General Fund obligation.

Mr. Jardell concurred.

Mr. Jardell expressed that the total FY 06 expense, as identified on line ten of that heading, would be $6.7 million with $4.8 million being General Funds.

Co-Chair Wilken asked for confirmation that the $3,691,900 amount denoted under the heading "Funding Increase Needed by Fiscal Year" on line ten reflects the amount that would be required in the FY 06 budget to support the contracts, and that the $6,718,900 amount denoted under the "Fiscal Year Cost Increases by Fiscal Year as Compared to FY 05 Gov Amd" reflects the two-year FY 05 and FY 06 cumulative total.

Mr. Jardell affirmed.

Mr. Jardell noted that while page two of the spreadsheet projects a total year cost for the LTC FY 07 contract, the LTC contract, in reality, is a two and a half year contract as the result of the Administration's efforts to better allocate its resources by not having all employee contracts terminate at the same time. The LTC contract would, therefore, terminate halfway through the FY 07 fiscal year.

Senator Hoffman asked regarding the projected inflation factors for FY 05, FY 06, and FY 07.

Mr. Jardell responded that he could not provide an answer "in terms of general economics;" however, "both sides of these negotiations" agreed that the agreements would be "fair for all."

Co-Chair Wilken asked how the LTC contract Step A and Step B two-percent wage schedule increases that would be in affect as of July 1, 2005, as specified on the aforementioned March 4, 2004 outline provided by Commissioner Mike Miller, are reflected on the spreadsheet.

Mr. Jardell responded that these two pay schedules are reflected on page one line seven, in the second year of the LTC contract.

Co-Chair Wilken understood therefore that, as depicted on the spreadsheet, the acronym "COLA", would be defined as being an automatic wage increase rather than being the more commonly known acronym for a cost-of-living-allowance.

Mr. Chance explained that the LTC Local 71 contract wage scale is different than the traditional "white collar" Step increase scale. An LTC employee would be hired at the entry level, Step A, and after a defined probation period would be classified as a Step B, or journeyman level. There is no annual Step progression after the Step B wage scale in the LTC contract.

Co-Chair Wilken understood therefore that as reflected in Column "K" on line seven under the "funding Increase Needed by Fiscal Year" heading, the total funding requirement for LTC would amount to $1,917,400 as a result of the two-percent wage increase. He asked whether the State's insurance increase is included in this amount.

JOAN BROWN, Chief Budget Analyst, Office of Management and Budget, Office of the Governor, explained that the $1,917,400 amount includes both health insurance and the two-percent wage increases.

Co-Chair Wilken asked whether the State's $40 health benefit increase would continue in the second year of the contracts.

Ms. Brown responded that since the actual health care premium for Year Two is an unknown, the $40 employer insurance increase that was implemented in the first year would be continued through the second year of the contract.

Co-Chair Wilken asked for further clarification regarding the LTC contract language, as denoted on line seven, that specifies that the health insurance increase is "unknown."

Ms. Brown clarified that due to the fact that the health insurance premium increase for the second year of the contract is unknown, the $745 per person per month obligation of the State would continue into Year Two.

Co-Chair Wilken understood therefore that the spreadsheet reflects a flat $40 increase per month for the entire term of the contract. With that understanding, he determined that the cumulative three-year total of $14,346,800, as reflected on line 13, column "G" of

the spreadsheet, would not accurately depict the true cost of the contracts.

Mr. Jardell agreed that any "potential increases" in the health care premiums are not depicted for the second year. He explained that the proposed contracts include a provision to "tie future increases to the Select Benefits rate."

Co-Chair Wilken asked for further clarification.

Mr. Jardell stated, "that many of these [unions] have their own health trusts," which might be managed in a different manner and their costs "could be significantly higher" than the State's Select Benefit plans. In order to reach a compromise on the contracts, the State's commitment to an exact dollar amount in this regard was imperative. An analyses of the State's Select Benefit plan indicates that it is operated "in a very efficient manner" and, based upon analyses and experience, it was determined that the State Select Benefit plan rate of increase "would be at the low end of the spectrum." Since it is unknown what the Health Trusts experiences would be in this regard, the State negotiated that any health insurance increase obligation of the State would be tied to "the rate of increase" for the State's Select Benefits plan. To summarize, he stated that after Year One, the State would "agree to increase the employer obligation the same as we do for Select Benefits."

Co-Chair Wilken understood, therefore, that the costs reflected for FY 06 are based on the State continuing to pay $745 per employee per month toward health insurance premiums. He asked what the anticipated additional amount would be.

Mr. Jardell expected that the FY 06 premium increase would be approximately $40.

Co-Chair Wilken declared, therefore, that while the employer's FY 06 monthly premium contribution might be $785 per employee, $745 is reflected in the spreadsheet. He asked whether a $40 increase could also be expected for FY 07.

Mr. Jardell affirmed.

Co-Chair Wilken asked how much the expenses would amount to, were these increases factored in.

Ms. Brown replied that, based on the $40 health insurance increase as reflected in the chart on line three, column ""D", the general funds requirement would amount to an additional $325,700 per year

with a total increase of all funds of $727,700 per year, as reflected in column "G".

Co-Chair Wilken understood that a little less than half of the $727,700 would be funded by general funds and that, over the term of contracts, this amount would be tripled.

Senator Hoffman pointed out that both the health insurance increases and COLA are reflected in the total amount of $1,210,000 as reflected on page one, line seven, column "D."

Ms. Brown affirmed.

Mr. Jardell clarified that no health care premium increase beyond the $40.00 amount is reflected in that amount.

Co-Chair Wilken understood that, in its entirety, "this package could cost an additional million or less" dollars were two years of $40 per month, per employee health premium increases factored in.

Mr. Jardell clarified that "it would be greater than that" as the numbers being utilized are specific to the LTC contract only. He apologized for not providing a spreadsheet detailing these expenses and stated that a revised spreadsheet would be developed.

Co-Chair Wilken requested that this spreadsheet format be utilized when other bargaining unit contracts are presented to the Committee.

Mr. Jardell agreed.

Senator Dyson, referring to the CO seniority work bid process, asked how much expense is incurred by high seniority employees working in places where there is a large regional wage differential. He also asked that any resulting increase in retirement benefits be calculated.

Mr. Jardell responded that this information would be provided.

Senator Dyson ventured that this might be a cumbersome process due to the fact that this practice has been permissible for a long time. He asked whether the cost differential is based on a percentage or fixed amount calculation.

Mr. Chance explained that the methodology used varies from contract to contract. Some are determined by increasing a wage for a region by "X number of Steps." Others such as Nome or Bethel are increased by approximately 38-percent. He clarified "that only the State

Trooper contract is driven by seniority bidding." CO and LTC contracts do not contain seniority bidding provisions, and therefore, whether an employee works in another locale is determined by the applicants applying for the position and whom management hires as opposed to being a seniority issue.

Senator Dyson understood therefore that were the pay differential calculated as a percent of an individual's salary, it would cost more to assign a person with high seniority to one of these areas.

Mr. Chance affirmed that the pay would be determined by tacking on a specified percentage to someone's existing salary.

Senator Dyson expressed that it would be more expensive to pay the extra percentage to a person who has high seniority than to someone who might live in the area and be at a lower pay scale.

Mr. Chance clarified that the pay differential would apply whether a person lived in the area or not. Therefore, the only savings that might be experienced would result from hiring a person with lower seniority.

Senator Dyson acknowledged.

Senator Dyson, referencing his earlier remarks about elective medical procedures, asked whether the State receives reports regarding how funds are spent by the Union Health Trusts.

Mr. Jardell responded that currently no reports are provided to the State from the Medical Trusts; however, action in this regard has occurred due to the question of whether the Division of Insurance should regulate Trusts that operate as health insurance providers. One outcome of this determination could be that some type of reporting might be required in the future.

Co-Chair Green asked why "Day 60" of each Legislative Session is considered to be an important milestone.

Mr. Jardell explained that according to AS 23.40.215, the Legislature is obligated to consider tentative contracts that are submitted by the sixtieth day of a Legislative Session. Since only the three contracts being discussed today were received by that date, they are the only ones on which action must occur. While any tentative agreement that is negotiated after that day must be submitted to the Legislature, the Legislature would not be required to address them during that Session.

Co-Chair Green understood therefore that action in regards to

contracts received after "Day 60" could be delayed until the following Session.

Mr. Jardell affirmed. The contract would be neither "enforceable nor invalid "until it were considered by the Legislature. Only at that time, were the Legislature to agree to, and fund, the contract during the next Session, would the terms be validated.

Co-Chair Green inquired to the status of the Alaska Marine Highway System's International Organization of Masters, Mates, and Pilots, PMR contract.

Mr. Jardell stated that negotiations are continuing. "We are still a long ways apart." He exampled that one component of the discussion is the terms regarding a ship's Master. A Master currently earns an annual salary of $95,000 for a 182-day work year. The union has proposed that the wage for a Master should be approximately $500,000.

Mr. Chance interjected that during the previous night's negotiations, the union decreased this salary request to $255,000 a year.

Co-Chair Green declared therefore that the Master's annual salary would therefore range between $95,000 and $255,000.

Mr. Jardell affirmed, and reiterated that, while it is "hopeful" that an agreement would be reached, a lengthy process is anticipated.

Senator B. Stevens asked whether the Master's salary is an annual salary or pro-rated for the time at sea.

Mr. Chance clarified that this is an annual wage-only salary and does not include paid time off which would amount to an additional $20,000 to $30,000. In this regard, the Union has proposed that the Master's $255,000 annual salary consist of a 182 workday agreement minus 53 days of leave. The State's counter offer consisted of an annual salary of $95,000 with an anticipated 182-day work year and an additional two seven-day workweeks of paid vacation. The State's offer was unacceptable.

Co-Chair Wilken observed that this contract "has a ways to go."

Senator Bunde, referencing the level of Skippers' salaries, observed that teachers' salaries that might range between $40,000 and $50,000 for a 180-day work year are often subject to criticism.

Co-Chair Wilken pointed out that, while Members' packets contain the University of Alaska proposed contract, either a summary or a subcommittee report would be forthcoming in its regard.

Co-Chair Wilken announced that the Presentation is concluded.

#sb357

CS FOR SENATE BILL NO. 357(L&C)
"An Act relating to the regulation of insurance, insurance licenses, qualifications of insurance producers, surplus lines, fraud investigations, electronic transactions, and compliance with federal law and national standards; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken stated that this legislation which is referred to as "the insurance omnibus bill," would make numerous changes to current language in order to ensure that State statutes remain in compliance with federal law and Model Act standards and guidelines.

Amendment #2: This amendment inserts the word "genetic" after the word "Medical" in Section 2 subsection (a) on page two, line 13.

In addition, on line 16 of that same section, the word "public" is deleted and, following the word "disclosure", the words "without the expressed consent of the enrollee or applicant" are inserted.

Senator Olson moved for the adoption of Amendment #2.

Co-Chair Green objected.

Senator Olson voiced that this amendment would address concerns relating to medical confidentiality as identified in Section 2, subsection (a) beginning on page two, line 13.

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Senator Olson stated that, in addition, there is concern regarding the bill's repealing of AS 21.34.280 as specified in Section 52, on page 29, beginning on line 13. [NOTE: Senator Olson inadvertently referenced line nine in his testimony.] He noted that Members' packets contain a copy of the language pertaining to Sec.

21.86.280. Confidentiality of medical information. [copy on file] as currently mandated in State statute. He noted that as a result of technological advances, the confidentiality of such things as genetic information should be addressed. Therefore, inserting the word "genetic" into Section 2, subsection (a) would address this concern. Inserting the language "without the expressed consent of the enrollee or applicant" would further address public disclosure concerns in the absence of AS 21.86.280.

LINDA HALL, Director, Division of Insurance, Department of Community and Economic Development, stated that the Division is not opposed to the amendment. The intent of the bill's language in Section 2 and the repealing of AS 21.86.280 were "to bring consistency to privacy regulations" pertaining to medical records. The repealing of AS 21.86.280 is included because other sections in the bill provide the same coverage, specifically in addressing regulation pertaining to Health Management Organizations [HMOs]. In addition, the Division recently underwent "a regulatory project and adopted regulations dealing with privacy with input from all consumers." These regulations are currently under review by the Department of Law. She stressed that the State has adopted privacy regulations that would require that the consumer "opt in" to approve the sharing of their medical information. She stressed that while the Division supports the ability of insurance companies being able to collect medical information, it also upholds the position that insurance companies should be prohibited from sharing the information, "generally." The understanding is that this is the concern being addressed by Amendment #2.

Co-Chair Green asked whether the definition of "genetic" is included in State Statute. Furthermore, she asked whether the confidentially of medical genetic information and financial information is recognized "at the same level of seriousness." In addition, she asked whether there is "a technical method" whereby information would be considered "routine" as opposed to being considered "invasive or intrusive" personal information.

Ms. Hall responded that the definition of the term "genetic" has not been addressed in the Insurance chapter of State regulations. It is unknown as to whether the term might already be included under medical information.

Ms. Hall informed that the privacy of financial information is treated differently than medical information in that individuals are provided "an opt-out standard" for financial information rather than "an opt-in standard" for medical information. The Opt-In Standard would prohibit the sharing of medical information unless an individual actively agreed. The Opt-Out standard would allow a

person's financial information to be shared with affiliates rather than the public, unless the person actively elected to prohibit it.

Co-Chair Green voiced concern regarding the lack of a "genetic" definition in State Statute, as the words "medical", "genetic," and "financial" have very different levels of meanings, "intensity and seriousness." She voiced being unsure that addressing these issues in this manner is appropriate. She also acknowledged that the procedures required to distribute and acquire consent forms in this regard is "cumbersome" for both the provider and the individual. She voiced concern that action relating to this bill might further create inefficiencies in this regard.

Ms. Hall agreed that the requirement of any consent form would create an additional step on the part of providers and insurers, both of whom have requested that the State refrain from implementing any steps that would make the consent form process for Alaska different from the national standard, as this would require an additional expense and burden and would prevent business efficiency.

Co-Chair Green declared, "that this is a bigger issue than it might appear at first glance." Therefore, she would oppose the amendment.

Senator Olson moved to withdraw Amendment #2.

There being no objection, Amendment #2 was WITHDRAWN from consideration.

Co-Chair Wilken noted that Amendment #2 is being withdrawn with the understanding that Senator Olson, Co-Chair Green, and the Division of Insurance would work together to address Committee concerns in its regard.

Co-Chair Wilken ordered the bill HELD in Committee.

#sb255

CS FOR SENATE BILL NO. 255(STA)
"An Act relating to traffic preemption devices."

This was the first hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken explained that this legislation "would reserve the use of traffic preemption devices for legitimate, authorized users" including emergency response providers, road maintenance vehicles,

and public transit vehicles.

DENNIS MICHEL, Staff to Senator Gene Therriault, the bill's sponsor, stated that there is concern that continuing to allow widespread possession of traffic preemptive devices might pose a problem in that people could use these devices to "disrupt traffic flow and create dangerous situations" at traffic intersections. Currently possession of these devices, which can be purchased via the Internet, is legal. At the request of the Department of Transportation and Public Facilities, the original bill language that limited the authorized use of these devices to emergency vehicles, was expanded to include municipal transit buses and road maintenance vehicles such as snowplows. These vehicles were requested for inclusion as repetitive stop and start actions has a negative affect on them. In addition, inclusion of this language would assist the Department of Transportation and Public Facilities in the requirement that Anchorage roads must be cleared within a 24-hour period after a snowstorm.

Co-Chair Wilken clarified that CS SB 255(STA), Version 23-LS1397\Q, is before the Committee.

Senator Dyson communicated that the community of Eagle River must also have it roads cleared within 24 hours. Continuing, he asked for confirmation that when the device is activated, traffic signals must cycle through the yellow phase before the signal changes to red.

Mr. Michel affirmed that opposing traffic would experience the full green to yellow to red signal cycle.

Senator Dyson surmised that due to the fact that snowplows typically clear roads at night when there is low volume traffic, utilization of the device would enhance operations by allowing them to avoid waiting for lights.

Mr. Michel affirmed, but pointed out that transit buses might utilize the device during high traffic times in order to stay on schedule.

Senator Dyson voiced being unconvinced that the inclusion of transit buses in this legislation is necessary.

Senator Bunde noted that in his community, snowplow employees retain their jobs based on their ability to perform their jobs in an allotted time.

Senator Olson expressed that one positive element about synergized

road signals, is that they often allow for a traffic pattern at a certain speed to be maintained. Therefore, he asked how these devices would affect that synchronicity.

Mr. Michel responded that the use of these devices in regards to transit buses would be a coordinated effort in that a central monitoring station (CMS), as opposed to the individual bus driver, would control the utilization of the devices. The CMS would determine whether utilization of the device would be necessary to keep buses on schedule. In addition, the intent of the Municipality of Anchorage transit authority is to implement a bus corridor system in which "the lights would preempt a series of lights down the road" in order to continue a traffic flow.

Senator Olson asked for confirmation that emergency vehicles would be able to individually manage their traffic preemptive devices.

Mr. Michel affirmed that that would be the case.

In response to a question from Senator Olson, Mr. Michel clarified that while each bus would be equipped with an individual device, they could not be activated on an individual basis in the manner that the fire department or other emergency vehicles could.

Co-Chair Wilken reiterated that the inclusion of transit buses was incorporated into Senate State Affairs Committee version of the bill.

Senator Hoffman inquired to the cost of the device.

Mr. Michel responded that the cost of an official traffic preemptive device is approximately $1,000; however, no fiscal note accompanies the bill in this regard as the devices have already been purchased. However, the personal use devices being addressed by this legislation are available on the Internet for as low as $400.

Senator Hoffman asked regarding the penalties and enforcement efforts that would be enacted by this legislation.

Mr. Michel responded that enforcement of the possession or use of this device in a vehicle would be fairly easy as the device, which is contained in a seven by five inch box, must be located on the dashboard or other visible location in a vehicle in order to properly work.

Co-Chair Wilken noted that the penalty for unlawfully possessing or owning one of these devices would be a Class A misdemeanor as

specified in Section 1, subsection (d) on page two, lines 11 and 12.

Co-Chair Green inquired as to whether the word "possesses" is necessary to this legislation, as it would be "troublesome" were it to apply to someone who might possess the device in their home.

Co-Chair Wilken asked therefore whether further clarification as to "where the possession occurs" should be considered.

Co-Chair Green opined that "simple possession" of this device should not make a person eligible for a Class A misdemeanor, as there is a difference in the fact that someone might be in possession of such as device as opposed to utilizing the device to affect traffic.

Co-Chair Wilken understood therefore that possessing this device in the trunk of a car, for instance, should be exempt from the penalty.

Co-Chair Green affirmed. Possession of it in a home should also be exempt.

Senator Dyson agreed. He suggested that the word "or" in Section 1, subsection (a) on page one, lines five, six, and seven be replaced with the word "and" in order to clarify that "possession and use" of the device would be considered a crime, as opposed to the current language that would make it illegal to either possess or use the device.

Co-Chair Green stated that the language in question is located in numerous areas of the bill and therefore further review of the language should be conducted before further action ensues.

Co-Chair Wilken agreed and stated that this issue would be addressed via a forthcoming committee substitute.

Senator Dyson reiterated his concern regarding allowing transit buses to utilize the device.

Senator Dyson voiced, for the record, that the definition of a "traffic exemption device" as explained in Section 1, subsection (c)(2) page two, beginning on line seven "is tight enough" as to not defeat the ability of law enforcement officers to utilize photo radar nor preclude someone from utilizing a device to defeat traffic or photo radar.

Mr. Michel stated that is correct.

Senator Bunde suggested that an amendment be considered that would delete the words "or public transit that has been authorized by the Department of Transportation and Public Facilities or a municipality" in the bill as denoted in Section 1, subsection (a) (2) on page one, beginning on line 13 that currently reads as follows.

> (2) a person operating a motor vehicle involved in highway maintenance or public transit that has been authorized by the Department of Transportation and Public Facilities or a municipality to possess or use a traffic preemptive device.

Co-Chair Wilken ascertained that Senator Bunde is suggesting that the language included in the original bill be considered.

Senator Bunde affirmed. There is particular concern that the inclusion of this language would enhance efforts to further expand public transportation endeavors in the Anchorage area which, he declared is "a very expensive and subsidized operation."

Co-Chair Wilken asked that the bill's sponsor contact the Municipality of Anchorage and ask how this would affect the Anchorage public transportation system.

Senator Dyson asked that representatives of Anchorage's public transportation system be available during the next hearing on this legislation.

Co-Chair Wilken agreed that testimony in this regard would be required in order to retain public transportation in the legislation.

Senator Olson asked whether any consideration has been provided to including physicians in the authorized use list.

Co-Chair Wilken stated that their inclusion would be under review.

AL STOREY, Lieutenant, Alaska State Troopers, Department of Public Safety, testified via teleconference from an offnet site and stated that the Department of Public Safety considers this to be a "good bill" as it would assist public safety employees and emergency vehicles "in getting to where they need to be in a timely fashion." "Widespread chaos" would erupt were private citizens allowed to utilize these devices.

MIKE TILLY, Assistant Fire Chief, City of Kenai Fire Department, testified via teleconference from Kenai, and spoke in favor of

bill. The key to the use of these devices is to have a safe and efficient response of emergency vehicles to their destination. The availability of these devices to private citizens "is rather frightening" in that a competition between private citizens and emergency responders to control intersections could result. Proper use of these devices would allow authorized responders safe passage through intersections.

Mr. Michel, responding to Co-Chair Green's concerns regarding "possession and use" of the device, informed that the Department of Law has reviewed the bill's language and determined that in order to prosecute someone, "use alone would be very hard to prove" as a police officer would, in that case, be required to actually watch someone activate the device and change a light. He stressed that there is no other use for the device than to change lights. A person could stand beside an intersection and control the signal.

Co-Chair Wilken asked that a Department of Law memorandum be provided in this regard.

Co-Chair Wilken ordered the bill HELD in Committee to order to address concerns and develop a committee substitute.

#sb350

CS FOR SENATE BILL NO. 350(L&C)
"An Act allowing a joint action agency to encumber property interests for security purposes; declaring certain joint action agencies to be political subdivisions for certain purposes; restricting the sale of property of the joint action agency; allowing the joint action agency to transfer property to security interest holders under a security interest or to other parties without legislative approval; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken stated that this legislation would enable the Four Dam Pool Power Agency (FDPPA) to refinance approximately $73 million in a loan owed to the Alaska Industrial Development & Export Authority (AIDEA).

SENATOR GARY STEVENS, the bill's sponsor, characterized the legislation as "a highly technical bill" in that, in addition to providing FDPPA the ability to refinance a $73 million AIDEA loan and thereby to return that money to AIDEA for use in other areas,

the refinancing would assist FDPPA in providing consumers in the communities of Ketchikan, Petersburg, Wrangell, and the Kodiak and Valdez-Glennallen areas by lowering interest, arbitrage, and administration costs associated with that loan. In addition, it would "enhance the options that are available to the FDPPA" and the aforementioned communities "regarding inter-ties and other activities."

TOM LOVIS, Chief Executive Officer, Four Dam Pool Power Agency, stated that the Agency represents five communities throughout Alaska and consequently, a large number of electric consumers. These members were "the fortunate participants" in FDPPA's acquisition of four hydroelectric projects from the State in January 2002 that was funded by a $77 million loan from AIDEA via a Memorandum of Understanding (MOU) with AIDEA at a specified 6.5 percent interest rate. Now that FDPPA is a "fully operational organization" it is now able to secure funding that was not previously available to it. This alternative would allow FDPPA to refinance its AIDEA debt by means "of the bond market, using tax-exempt debt." Lowering the interest rate would result in savings of between $600,000 and $1.5 million a year on what is currently a $6.3 million debt service. FDPPA members would benefit from experiencing this ten to twenty percent debt savings on the current debt service. He noted that FDPPA members and its electric consumers support this proposal.

Mr. Lovis reiterated that AIDEA would receive approximately $73 million that it could utilize to support other endeavors. The technical corrections included in the bill might appear complicated but "are relatively straightforward" as they would allow FDPPA to mortgage the properties, use the properties as security in a note with the private market, clarify FDPPA's ability to issue tax exempt debt for the acquisition of projects, retain the ability of the projects to continue to service member communities, and would allow FDPPA to lower costs to its consumers due to the resulting savings incurred by the refinancing.

Co-Chair Wilken asked how much consumer rates might lower, in, for instance, the City of Petersburg, were this legislation approved.

Mr. Lovis responded that wholesale power expenses might decrease by four or five percent. This might translate to a three-percent reduction for the consumer.

Senator Dyson understood that, as reflected in Section 2, subsection (h) on page two, line 23, in order to accomplish the goal of the legislation, the FDPPA must be recognized as a political subdivision, similar to that of being a city.

Mr. Lovis responded that in order to further the original loan between AIDEA and FDPPA, it was required that FDPPA be identified as a political subdivision in order to transfer State property to it. The intent of the definition language is to continue the use of that definition in order to provide security for the project and to allow for the issuance of the tax-exempt debt. The definition would be limited to the terms of the original Memorandum of Understanding (MOU) regarding those specific projects. Furthermore, continuance of the language would be a vehicle through which FDPPA could avoid registration and other expenses that might otherwise be required by the Securities and Exchange Commission.

Senator Dyson understood therefore that this is a continuance of a definition that has been in practice rather than being new language.

Mr. Lovis affirmed. For further clarification, Section 2, subsection (h) includes language that limits how FDPPA would be recognized as a political subdivision by incorporating the language, "Except as provided in this subsection, the agency is not a political subdivision of the state."

Senator Dyson asked how this legislation might benefit the power intertie project.

Mr. Lovis responded that the intertie project and other FDPPA projects would benefit from being provided alternative financing options.

Co-Chair Wilken asked regarding FDPPA'a ability to use leased assets as security for such things as bonds as specified in Section 1, subsection (c) (6) on page two, line 17, as this is contrary to the ability of other authorities.

> (6) to use facilities, projects, and related assets owned, leased, operated by the joint action agency as security for bonds, notes, mortgages, enhancement devices, or other obligations.

Mr. Lovis responded that, "there are such things as capitalized leases and other such arrangements … that can be used as fixed assets in the course of an operation." Long-term leases for certain maintenance equipment and other equipment would be recognized as collateral.

Co-Chair Green countered that "a long-term lease should be recognized as a debt."

Mr. Lovis expressed that while there would be a debt obligation attached to it; a piece of leased equipment on the premises would be recognized as security.

Co-Chair Green asked for further clarification as to how the term "or operated" as specified in subsection (c)(6) would qualify as security.

Mr. Lovis exampled that facilities utilized by the agency "in the course of an operation that might be provided by members of the agency or participants in the power sales agreement" would qualify as security.

Co-Chair Green asked that an example be provided.

BOB LERESCHE, Financial Adviser, Four Dam Pool Power Agency, testified via teleconference from an offnet site, and stated that this is standard language written by underwriters that appears in most mortgages. An example would be a dispatch center that belongs to a local utility but which is operated by the FDPPA. Were an entity to replace the FDPPA, they would have the right to operate that center in order to operate the dam.

Co-Chair Green asked for verification that operated property could act as security.

Mr. LeResche confirmed that the right to operate that leased facility would be recognized as an asset as it has value to the operation.

Senator B. Stevens posed a hypothetical situation in regards to the leased asset question as follows: a power grid transmission is owned by an association, but leases capacity on that power grid to an energy trading company. The energy trading company recognizes that leased power capacity as an asset and uses it as security with which to borrow money. He asked how that leased capacity on a power line could be considered an asset.

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Mr.LeResche responded that the rights that accompany that lease, whether it is a capitalized lease or an operating lease, would be recognized as an asset and could be used a collateral as "it is something of value that the organization is paying for."

Senator B. Stevens understood therefore that in a situation in which a Joint Action Agency, such as the FDPPA, leased twenty percent of a power transmission grid that had a line capacity valued at $100 million dollars, the joint action committee could acquire a $20 million line of credit.

Mr. LeResche responded that were he a banker he would not issue a $20 million line of credit in that situation.

Senator B. Stevens argued that that is how the language could be interpreted.

Mr. LeResche countered that the right to transmit twenty percent of the power available on that line for a certain amount of time would be recognized as an asset as it is worth something.

Mr. Lovis interjected that in this instance, "the ability of the asset to continue to provide the services expected under the operation of the agency" does have value. "The use of the line, the ability to secure for the purposes of a mortgage, and the ability to continue to provide the services associated with the projects through equipment that may be leased" in order "to continue to use the power productive capabilities of the agency" could be recognized as security for a note. This is the intent of the language.

Senator B. Stevens voiced being uncomfortable in recognizing leased assets as security as "the assumption is being made that the rights of the lease could be transferable."

Mr. LeResche responded that "the lease hold interest" rather than the leased asset, is what would be identified as the collateral. He stressed that "this legislation does not provide any new rights to the lessee" and that this kind of collateralization must be specified in the lease. Many leases include language that specifies that the lease could be reassigned upon permission of the leaser.

Senator Bunde accepted that there would be value in a lease that involved transmission. Furthermore, he noted that stranded power and stranded gas are undervalued because no transportation of that energy is currently available. Therefore, were a lease written with agreement that the lessee's rights could be transferred would have financial value.

Co-Chair Wilken furthered that a lease "would provide the ability to realize a revenue stream that supports the bond."

Mr. Lovis concurred that it is "a vehicle to ensure the continued

capability and operability of the other assets associated with the hydroelectric project."

Co-Chair Wilken stated that "therein is the value."

Senator B. Stevens continued to voice concern that an entity could specify that a leased asset could provide collateral for borrowing more money. He suggested that the word "leased" be eliminated from the legislation.

Co-Chair Wilken stated that further discussion in this regard would transpire before Committee action on the bill occurs.

Co-Chair Green requested that further clarification be provided in regard to new language in Section 3, subsections (J) and (K).

Co-Chair Wilken stated that the bill would be HELD in Committee in order to address these concerns.

#sb366

SENATE BILL NO. 366
"An Act relating to the levy and collection of sales and use taxes, to the levy and collection of municipal sales and use taxes, and to municipal sales and use taxes on alcoholic beverages; and providing for an effective date."

This was the third hearing for this bill in the Senate Finance Committee.

Senator B. Stevens informed the Committee that new language in the Version 23-LS1051\W working draft includes the addition of coal and district heat in the exemption language in Section 17, Sec. 43.44.020. Exemptions. subsection (5) on page six, lines five and six. In addition, the exemption pertaining to wages as specified in Section 17, Sec. 43.44.020. Exemptions. subsection (8) on page six, lines 19 through 21 was required in order to comply with the federal Internal Revenue System code system.

Senator B. Stevens stated that other changes in Version "W" pertain to clarification language regarding the collection of sales and use tax as it applies to "sales from certain coin-operated or currency-operated machines, sales of drinks in a bar, sales on the dock, sales from street vending carts, admission fees, and other sales as determined by regulation by the department." as specified in Section 17, Sec. 43.11.030. on page seven, lines 10-13. Language regarding deductions and procedures pertaining to bad debts has

been added as specified in Section 17, Sec. 43.44.035. on page eight, lines seven through 23. Further clarifying language has been added in Section 17, Sec. 43.44.199. subsection (2) on page 13 regarding a manufacturing definition clarification as specified on line four as follows.

> (2) "manufacturing" means combining or processing components or materials, including the processing of ores in a mill, smelter, refinery, or reduction facility, to increase the value of the components or materials for sale in the ordinary course of business; "manufacturing" does not include construction;

Senator B. Stevens stated that the Department of Law fiscal note, dated March 31, 2004 in the amount of $323,900 portrays the projected cost of adding two attorneys for the enforcement division.

Senator B. Stevens referenced language on pages two and three of the Department of Revenue fiscal note, dated March 31, 2004 that projects that, after exemptions, the State sales tax base would be approximately $12,900,000,000 for a total projected revenue of $516,000,000. However, were a sales tax limitation implemented that would apply "only to the first $500 of each separate sale, rent, or service transaction with some exceptions" as currently utilized by the Kenai Peninsula Borough, there would be a projected Statewide sales tax base of $8.4 billion and a projected sales tax revenue of approximately $336,000,000. Furthermore, were all communities to adopt a three percent or higher local sales tax, $84 million would be rebated to those communities and the net sales tax to the State could range between $252,000,000 and $320,000,000.

Senator B. Stevens, referencing language on page three of the Department of Revenue fiscal note, stated that, "At the four percent statewide rate in HB 366, the cap would be $1,500, but we believe if Juneau kept its rate at five percent than a single $670 sale would exceed the cap." He explained that currently, the City and Borough of Juneau (CBJ) receives $33.50 on a $670 sale at the five-percent local tax rate. Were a nine-percent tax implemented as a result of the State imposing a four-percent tax in addition to the CBJ five-percent tax, the resulting tax paid on a $670 sale would be $60.00. This is the tax limitation specified in SB 366. Under the guidelines of the bill, the CBJ would receive $39.60 or 66 percent of the revenue. Were the CBJ to lower its current tax rate to four-percent, a combined CBJ/State sales tax rate of eight-percent would be charged and a $670.00 sale with an eight-percent tax rate would garner the CBJ $33.23 or 62-percent of the total sales tax revenue. In addition, the maximum sale amount through

which to obtain the $60.00 tax limitation factored by an eight-percent sales tax would be $750.00. Of that amount, the CBJ would receive 62-percent or a $67.00 return. Therefore, the CBJ would receive more money, on a maximum purchase, were it to lower the local tax rate one percent.

Co-Chair Wilken ordered the bill HELD in Committee.

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ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 10:59 AM.