

HCR

2

COMMITTEE REPORT

HOUSE

FURTHER:

February 7, 1979

Date: 12 Feb 79

Mr. Speaker:

The Committee on STATE AFFAIRS has had HCR 2

Approving certain recommendations of the Salary Commission.

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for HCR 2 same title
 new title
- and recommends HCR 2 Do Pass
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

**MEMBERS SIGNING
DO PASS**

[Signature]

[Signature]

[Signature]

[Signature]

**MEMBERS HAVING
OTHER RECOMMENDATIONS:**

[Signature]

[Signature]

[Signature]
CHAIRMAN

MEMORANDUM

TO: The Honorable Mike Miller
Chairman
House State Affairs Committee
Alaska State Legislature

DATE: February 9, 1979

FILE NO:

TELEPHONE NO:

FROM: Commissioner B. B. Allen *BA*
Department of Administration

SUBJECT: HCR 2

Comparison of subject resolution with the text of the Salary Commission's final report to the Legislature shows some substantive differences in language. Although these changes may have been intentional, I am calling them to your attention on the chance they were not.

Language in HCR 2:

"Whereas Recommendation Number (5)(A) proposes that there be no change in the salary level of division directors; the Salary Commission recognizes that promotions from deputy director of a division may sometimes necessitate that those receiving a promotion move into a step other than 'A' in order to be assured a salary increase; in such cases, that person receiving the promotion should enter at the lowest step necessary to receive a salary increase;"

Language in Salary Commission Recommendation (5)(A):

"Directors remain on state pay plan (AS 39.27.011). We continue to recommend entry level of new Directors be in the 'A' step of the salary range at which they are hired. We recognize that promotions to Director may sometimes necessitate that those receiving the promotion move into a step other than 'A' in order to be assured a salary increase. In such cases, that person receiving the promotion should enter at the lowest step necessary to insure a salary increase."

It looks as if some lines may have been omitted when the Resolution was typed. Also, in the era of magnetic card typing capability it appears some language from the 1977 Resolution was used in preparing HCR 2. For example, the 1977 Resolution listed promotions from "deputy director." After hearing about our problems in promoting anyone else to division director, the Salary Commission removed all reference to class titles in preparing its recommendations to the Legislature.

Language in HCR 2:

"Whereas Recommendation Number (5)(C) proposes that directors who, as of December 31, 1978, have their salaries frozen [emphasis added] shall, as of January 1, 1979, be placed within the state salary schedule in AS 39.27.011 at the range

The Honorable Mike Miller
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closest to, but not less than, their current salary and their salary progression shall follow the steps outlined in the salary schedule to a maximum of \$50,000 annually;"

Language in Salary Commission Recommendation (5)(C):

"All Division Directors who, as of December 31, 1978, are on frozen salary [emphasis added] shall, as of January 1, 1979, be placed within the salary schedule at the appropriate range closest to but not less than their current salary and shall progress in step according to the schedule within that salary range, provided that their salary shall not exceed a maximum of \$50,000/year."

This recommendation was designed to correct situations whereby non deputy directors who are promoted to director had their salaries frozen rather than cut to achieve step 'A' of the higher salary range. Recommendation (5)(B) provides that director salaries above \$50,000 will be frozen without further increase. To substitute the words "have their salaries frozen" for "are on frozen salary" for Recommendation (5)(C) would contradict Recommendation (5)(B).

I am available at your convenience to discuss these topics.

BBA/bc
P2-N

February 5, 1979

Mr. Myrton R. Charney
Executive Director
Legislative Affairs Agency
Pouch Y
Juneau, Alaska 99811

Dear Mr. Charney:

I understand there are interpretive problems with Item 12C of the Salary Commission's 1979 Final Report:

"Legislators receive an annual allowance to a maximum of \$4,320."

Please be assured that it was not the intent of the Salary Commission to imply a requirement to voucher expenses. The words ". . . to a maximum . . ." only allow a Legislator to accept an amount less than \$4,320 for expenses if that is his/her desire.

Sincerely,



Kathleen (Kay) Diebels, Chairman
Alaska Salary Commission

KD/bc
cc: Salary Commission Members
Pl-K

Embargoed for 12:00 Noon Release

WAGE AND PRICE STANDARDS

Revised
Council on Wage and Price Stability
December 13, 1978

INTRODUCTION

These standards amend the regulations of the Council on Wage and Price Stability to implement the President's anti-inflation program by adding a new part 705 to title 6 and an appendix to that part specifying voluntary standards for noninflationary wage and price behavior. These standards supersede those released by the Council on October 31, 1978, published in the Federal Register November 7, 1978.

§705.1 Authority. The provisions of this part are promulgated under the Council on Wage and Price Stability Act, P.L. 93-387, as amended by P.L. 94-78, and P.L. 95-121 (12 U.S.C. 1904 note), and particularly in furtherance of §2(c), §3(a)(4), and §3(a)(5) of that Act.

705A Price Standard

705A-1 General Applicability of the Price Standard. The price standard applies to all goods and services (products) sold in the United States and its territories and possessions, including goods and services sold by Federal, State, and local government entities.

705A-2 Price Deceleration Standard. A company complies with the general price deceleration standard if its program-year rate of price change is no greater than (1) the base-period rate of price change minus the deceleration percentage or (2) 9.5 percent, whichever is less. However, a company with a program-year rate of price change of 1.5 percent or less will be considered to be in compliance with the price deceleration standard regardless of its base-period rate of price change. For purposes of this standard:

- (a) The program-year rate of price change is the sales-weighted average of the percentage changes of a company's product prices measured from the last calendar or fiscal quarter completed prior to October 2, 1978, through the same quarter of 1979.
- (b) The base-period rate of price change is the sales-weighted average of the percentage changes of a company's product prices from the last calendar or complete fiscal quarter of 1975 to the corresponding quarter of 1977, expressed at annual rates.
- (c) The deceleration percentage is 0.5 percentage points unless a company experiences pay deceleration that is greater than 0.5 percentage points, in which case full passthrough of the additional pay deceleration is required for compliance with the general price deceleration standard. In such instances, the total price deceleration percentage is 0.5 percentage points plus the multiple of the company pay share and the rate of pay deceleration that is in excess of 0.5 percentage points.

705A-3 Exclusions from Company Price Calculations. Sales by producers of goods and services included in the following categories are excluded from the calculation of a company's average price change:

- (a) Agricultural, fishing, forestry and mineral products included in the 1972 Standard Industrial Classification Manual, Major Groups 01, 02, 08 (except 085), 09, 10 (except 108), 11 (except 1112), 12 (except 1213), 13 (except 1321 and 138), and 14 (except 148).
- (b) Recyclable scrap materials including, but not limited to, ferrous and nonferrous metal scrap, waste paper, textile waste, scrap rubber, scrap plastics, and glass cullet.
- (c) Commodities whose historical and current price changes are closely tied to price movements on an organized open exchange market, either domestic or foreign.
- (d) Exports of goods and services.
- (e) Products delivered at prices determined by contracts existing before October 2, 1978. If the contract allows for seller discretion to adjust prices, the product is not excluded. Products delivered under preexisting contracts that do not specify delivery prices are not excluded.
- (f) Products exchanged in other than open and arms-length transactions.
- (g) New or discontinued products. For the purpose of this exclusion, new and discontinued products are those products that were introduced or discontinued during either the base period or the program year. That is, products that existed throughout the base period or that exist throughout the program year should be included in the calculations of the respective rates of price change for those periods. A product does not become new or discontinued merely because of altered specifications, style, packaging, or quality changes. Such changes should be reflected in price changes (for example, quality decreases should be reflected as price increases and quality increases should be reflected as price decreases).

- (h) Custom or one-time product sales (products specially produced to particular-buyer specifications). Such products must have characteristics that are substantially different from any other products previously sold by the company. To qualify for the exclusion, custom products must meet the same criteria as those for new products. If the custom product is produced and delivered over the duration of the entire base period or program year, it does not qualify for exclusion.
- (i) Interest rates.

705A-4 Six-month Standard for Price Increases. During the first half of the program year, the average rate of price change for a company should not exceed 50 percent of the allowable program-year rate of price change, as defined in Section 705A-2. However, a company need not comply with this six-month limit if it can demonstrate that the increases in excess of 50 percent of the allowable program-year change can be justified on grounds of seasonal variations in business operations, historical business practices, or unusual business conditions; and will not prevent compliance with the general price deceleration standard by the end of the program year. However, if a company exceeds the six-month price standard, a company must also be able to show that its pricing actions are consistent with adherence to the profit margin limitation (for the program year), defined in Section 705A-6(a).

705A-5 Insufficient Company Coverage.

- (a) If adjusted revenues during the four quarters prior to the program year are less than 25 percent of the total company revenue, the company need not comply with the price standard or the profit margin limitation.
- (b) If products excluded under 705A-3(f)-(i) account for one-third or more of a company's adjusted revenue for the program year, the company need not comply with the general price deceleration standard but should comply with the profit margin limitation described in section 705A-6(a).

For the purpose of this section, the adjusted revenues are defined as the company's revenues minus revenues from the sale of products identified in Section 705A-3(a)-(e).

705A-6 Exceptions

(a) Profit Margin Limitation. (1) If a company is unable to comply with the price deceleration standard because it is impossible to calculate its average price change or because of uncontrollable price increases in goods and services it buys, it should satisfy the following two-part profit limitation.

- (i) The program-year profit margin should be no higher than the average profit margin for any two of the company's last three fiscal years prior to October 2, 1978.
- (ii) Program-year profit should not exceed base-year profit by more than 6.5 percent plus any positive percentage growth in physical volume from the base year to the program year. Base-year profit can be either profit earned during the four complete fiscal or calendar quarters prior to the program year, or the average profit margin determined in (i) above multiplied by sales or revenues in the last four complete fiscal quarters prior to the program year.

(2) A company's profit margin is the ratio of profit to net sales and/or revenues.

- (i) Profit is defined as the sum of item 14 and items 11 through 13 minus items 7 through 10 in 17 CFR Section 210.5-03. Briefly, profit is "income or loss before income tax expense" minus dividend income, interest or profit on securities, and miscellaneous other income, plus interest expense and amortization of debt discount and expense, losses on securities, and miscellaneous income deductions.
- (ii) Net sales and/or revenues consist of (1) net sales of tangible products (gross sales less discounts, returns, and allowances); (2) operating revenues of public utilities; and (3) other revenues such as royalties, rents, and the sale of services and intangible products (e.g., engineering, research and development, and other professional services). This definition is consistent with 17 CFR Section 210.5-03, items 1A, 1B, and 1C.

(b) Undue Hardship and Gross Inequity. The Council may except a company from the application of the price deceleration standard, make adjustments to the base-period rate of price change, or alter application of the profit margin limitation to avoid extreme situations of hardship or gross inequity. Procedures for such exceptions and adjustments are set forth in Part 706 of this Chapter.

705B Pay Standard

705B-1 Pay Standard. For each employee unit, the annual increase in average pay rates should be 7 percent or less.

705B-2 Employee Units. For the purpose of establishing compliance with the pay standard, a company must identify three types of employee units:

- (a) Each group of the company's employees subject to a particular collective bargaining agreement to which the company is a party constitutes a separate employee unit.
- (b) All management employees (not under a collective bargaining agreement) constitute an employee unit.
- (c) All other employees constitute an employee unit.

A company need not identify separately collective bargaining units accounting for less than 5 percent of its employees. However, if a collective bargaining unit is not separately identified, the workers must be included in the "all other employees" category.

705B-3 Application of the Pay Standard to Collective Bargaining Agreements.

- (a) A company complies with the pay standard if the annual rate of pay-rate change over the life of each collective bargaining agreement negotiated during the program year is 7 percent or less.
- (b) In addition, the annual pay-rate increase may be no greater than 8 percent in any year of a multi-year agreement.
- (c) For purposes of determining whether the annual rate of pay-rate change complies with the pay standard, formulas for cost-of-living adjustments should be computed on the assumption of a 6-percent annual rate of inflation in the Consumer Price Index over the life of the contract.

- (d) The cost of private fringe benefit programs should be measured by employer contribution rates.
- (e) Pay-rate increases dictated by agreements signed prior to October 25, 1978, are exempted from the pay standard.
- (f) A contract that includes a provision for a future wage reopening will be assumed to be terminating on that date.

705B-4 Application of the Pay Standard to Employees Not Under Collective Bargaining Agreements.

- (a) A company complies with the pay standard if, for each employee unit, the pay rate in the last quarter of the program year does not exceed the pay rate in the base quarter by more than 7 percent.
- (b) Compliance may be determined by computing pay-rate changes for the fixed population of continuing employees employed in the beginning and end of the program year. In this case pay-rate increases may exclude the effects of legitimate promotions and qualification increases.
- (c) If pay-rate increases for recognized employee groups are dictated by the continuation of a formal annual pay plan in operation as of October 1, 1978, and, solely due to the continuation of this plan, the dictated pay components for the employee group increase by more than 7 percent during the program year, then the dictated increase in these components above 7 percent may be excluded in determining compliance.
- (d) If companies communicated to recipient employees prior to October 25, 1978, the details of a formal annual plan to take effect during the program year, the pay rate increases dictated by this plan will be treated as in (c). However, the company should be prepared to demonstrate that it is an established practice to announce pay-plan changes in this time period and should continue this practice by communicating a subsequent annual pay plan in compliance with the pay standard prior to October 25, 1979.

- (e) In determining compliance, adjustments may be made for shifts in the composition of the work force among distinct functional employee subgroups within the employee unit.

705B-5 Pay Standard for Future Value Incentive Plans.

- (a) A future value incentive plan is any long-term plan under which the compensation value of the units (such as shares, stock options, and awards) granted or issued will not be known until some future time.
- (b) Any such units granted or issued prior to October 25, 1978 under such plans are not subject to the pay standard.
- (c) The number of units granted or issued in the program year under any continuation of, or modification to, existing plans or creation of successor plans may not exceed 107 percent per recipient of the number granted or issued in the twelve-month period prior to the program year or the annual average of the units granted over the last five years.
- (d) With respect to plans covered by (c), any spread between an option or purchase price and fair market value at the time of the grant is included as pay.
- (e) For any new plans introduced during the program year for which there is no historical precedent, companies should place a value on units granted or issued in the program year consistent with generally accepted accounting practices and include these amounts in pay.

705B-6 Maintenance of Health Plan Benefits. In the program year or over the life of a new collective bargaining agreement, changes in the costs of maintaining existing health benefits should be charged against the pay standard up to a 7 percent annual increase in such costs; any increases above 7 percent are excluded from computations for purposes of measuring compliance with the standard. Any changes in costs due to changes in benefits should be fully included as pay-rate changes.

705B-7 Changes in Pension Funding Costs. For pension plans that pay specified benefits at retirement (qualified defined benefit plans), changes in employer costs due to (1) changes in funding methods, (2) changes in amortization periods, (3) changes in actuarial assumptions, and (4) plan experience (other than year-to-year wage or salary changes) are not included as pay-rate changes. Changes in employer costs due to plan amendments, changes in the benefit structure, or changes in benefit levels due to wage or salary changes are included as pay-rate changes.

705B-8 Low-Wage Exemption. Employees earning \$4.00 or less per hour in straight-time hourly wages on October 1, 1978, must be excluded from each employee unit in making pay-rate computations.

705B-9 Tandem Pay Rate Changes. Pay-rate changes in one employee unit that have been regularly linked to pay-rate changes in another employee unit in a leader-follower relationship can be excepted either where pay-rate increases in the leader unit were agreed to prior to October 25, 1978, or where pay-rate increases agreed to for the leader unit after October 24, 1978 are in compliance with the pay standard. Employee units need not be in the same company. In order to establish such a linkage, the parties must demonstrate that the past pay-rate increases of the two employee units have been equal in value and directly related in timing.

705B-10 Pay-Rate Increases Traded for Productivity-Improving Work-Rule Changes. In determining compliance, that part of a pay-rate change that is in return for changes in contractual work-rules and practices that alter productivity may be deducted from the total pay-rate change. In order to comply in this manner, it must be demonstrated that the cost reductions generated by the work-rule changes are equal to or greater than the excess of the pay-rate change over the pay standard.

705B-11 Pay-Rate Increases Attributable to Acute Labor Shortages. Where pay-rate increases in excess of the standard are necessary to attract or retain employees in a particular job category because of an acute labor shortage, the amount of such excess may be excepted if the following conditions for these job categories are met:

- (a) the proportion of vacancies during the preceding quarter has increased abnormally over that experienced during the past two years;
- (b) the time required to fill vacancies has increased abnormally over that required during the past two years, despite intensive recruiting;
- (c) pay rates for entry-level employees in these categories have increased abnormally over the past two years; and
- (d) the local Employment Service Agency has certified that such an acute labor shortage exists.

705B-12 Undue Hardship or Gross Inequities. The Council may grant an exception from the application of the pay standard or may make appropriate adjustments in the standard to avoid situations of undue hardship or gross inequity.

705C Alternatives to the Price Standard
for Selected Industries

705C-1 General. This subpart provides alternatives to the price standard for industries that have special problems in meeting the general price standard. Companies that cannot comply with these alternatives are eligible for exceptions under the conditions specified in 705A-6.

705C-2 Margin Standards for Wholesale and Retail Trade and for Food Manufacturing and Processing.

(a) Eligibility. A percentage margin standard is available as an alternative to the price standard to the entire wholesale and retail trade sector, including food service operations (SIC 50-59). A separate margin standard is available as an alternative to the price standard for all firms in the food manufacturing and processing industries (SIC 20, excluding 2082, 2083, 2084 and 2085). This includes nonalcoholic but excludes alcoholic beverage industries. Any company or subsidiary or operating division of a company doing more than one-half of its business within one of the above industries may apply the appropriate margin standard for those operations. However, any company in these industries that is able to comply with the general price standard prescribed in 705A-2 is encouraged to do so.

(b) Definitions

- (1) The gross margin is equal to net sales adjusted for discounts, returns, coupons, and other allowances, less the cost of food products purchased, and the cost of goods purchased for resale.
- (2) The average percentage gross margin for a year is the total gross margin divided by net sales for the year.
- (3) The base year is the four calendar or fiscal quarters ending prior to October 2, 1978.
- (4) The program year is the year immediately following the base year.
- (5) The margin trend is the compound annual rate of growth of the average percentage gross margin between the base year and the comparable year prior to October 2, 1976.

(c) Percentage Margin Standard for Wholesale and Retail Trade. A company satisfies the percentage margin standard if

- (1) the growth in its average percentage gross margin between the base year and the program year is no greater than its margin trend minus 0.5 percentage points, or
- (2) the average percentage gross margin for the program year does not exceed that of the base year.

(d) Margin Standard for Food Manufacturing and Processing Industries.

- (1) A company satisfies the margin standard if the rate of increase in the company's dollar margins between the base quarter (the last complete calendar or fiscal quarter ending prior to October 2, 1978) and the corresponding quarter of 1979 does not exceed 6.5 percent plus any positive percentage growth in physical volume over the same period.
- (2) The company may substitute for the base-quarter margin the base-quarter sales multiplied by the average percentage gross margin for the base year.
- (3) Physical volume increases to be used in justifying increases in gross margins may be computed by deflation of revenues using a measure of price increases as the deflator, or by computing changes in units or tonnage sold when such units are price weighted by major product categories.

(e) Application of the Margin Standards. A company may compute its margin after adjustment for changes in the composition of sales at any reasonable level of aggregation, such as division, department, product category, or individual products, as long as such adjustments are consistently applied.

705C-3 Price Standards for Professional Fees

(a) Coverage. These standards apply to fees and charges for the services of physicians, dentists, lawyers, accountants, engineers, architects, and other professionals. They include

all activities included in Major Groups 80 (except 805, 806, 808 and 809), 81, 891, and 893 of the 1972 Standard Industrial Classification Manual.

All companies that provide professional services on a fee-for-service basis, regardless of the proportion of total company revenue that is derived from professional services, are expected to comply with the professional fee standard. If a company is unable to comply with this professional fee standard, it should satisfy the profit margin limitation exception.

(b) Standards. A company complies if the following two-part price standard is met: (1) the program-year average rate of change in fees charged, weighted by sales and/or revenues, does not exceed 6.5 percent and (2) the increase in the fee for any single service does not exceed 9.5 percent. The period used to determine dollar volume weights should be based on a period of time that is representative of normal business operations.

705D Definitions

Base-period rate of price change. The base-period rate of price change is a sales-weighted or revenue-weighted average of the percentage price change over the two-year period, 1976-1977, expressed at an annual rate. If desired, it may be using the following formula:

$$\text{BPRC} = \left(\sqrt{\sum_i S_i \frac{P_i(77)}{P_i(75)}} - 1 \right) \times 100$$

where

- BPRC = the base-period rate of price change;
- $P_i(77)$ = price of the i th product in the last complete fiscal or calendar quarter in 1977;
- $P_i(75)$ = price of the i th product in the last complete fiscal or calendar quarter of 1975;
- S_i = i th-product sales or revenue share (i.e., the i th-product sales or revenue divided by total sales or revenue) in the last complete fiscal or calendar quarter in 1975; and
- \sum = the summation operator, where the subscript i runs over all products not excluded by section 705A-3.

The choice of fiscal or calendar quarters must be consistent throughout the company's calculations. If seasonal factors are important, the weights, S_i , can be calculated using data for the entire base period.

Base quarter. The base quarter is either (1) the company's last complete fiscal quarter prior to October 1, 1978, or (2) the calendar quarter July 1, 1978, to September 30, 1978.

Company -- The term "company" is defined as any person, sole proprietorship, partnership, corporation, association, joint venture, estate, trust, or any other entity, however organized, including Federal, State, and local government entities. Entities that are consolidated should be consolidated in accordance with 17 CFR Section 210.4-01 to -09 prescribed by the Securities and Exchange Commission. The term "company" applies only to domestic business operations.

One or more parts contained within a consolidated company may be treated as a separate, single company, in which case the standards apply separately to each of those unconsolidated companies. However, this option is available only if:

- (1) the unconsolidated companies maintain accounting records which permit the Council to ascertain whether the prices and profits of the unconsolidated companies accurately reflect the economic realities of their operations;
- (2) allocation of overhead is made in a consistent and reasonable manner, as if the unconsolidated companies were not commonly owned;
- (3) transfers between unconsolidated companies are valued as if they were arms-length transactions; and
- (4) internal accounting procedures adhere to generally acceptable accounting principles and procedures, consistently and historically applied.

In situations involving acquisition and divestitures, the following procedures should be used. If historical financial records exist for companies acquired after September 30, 1975, and prior to the base quarter, the data for the acquisition may be combined with data of the acquiring company or treated as a separate company. In either case, the acquisition should be treated as if it had been acquired on September 30, 1975.

Companies acquired between September 30, 1975, and prior to the base quarter, for which historical financial records do not exist should be included in the calculations for the program year. That is, products of the acquired company should be treated in much the same manner as a new product.

In the case of companies acquired during the base quarter or program year, they should be treated as a separate company for the entire program year for price and profit calculations.

For divestitures, the parent company should exclude the divested entity from all calculations made with respect to the price standard.

Company Pay Share. The company pay share is the pay for all employees in the base quarter divided by company net sales and/or revenues in the base quarter. For purposes of this calculation, pay and net sales and/or revenues should represent total domestic operations unless the company cannot determine pay for domestic operations, in which case total pay and total sales should be used.

Employee. An employee is any individual residing in the United States who is either an employee within the meaning of Section 3121(d) of the Internal Revenue Code 26 U.S.C. or the National Labor Relations Act, as amended, 29 U.S.C. Sec. 151 et seq.

Future-Value Incentive Plans. Future-value incentive plans include any long-term plans under which units (shares, stock options, awards, shares subject to option or investment amounts) are granted or issued, the compensation value of which will not be known until some future time. Examples of these include qualified and nonqualified stock options, performance share plans, performance unit plans, stock appreciation rights, restricted stock or property plans, phantom stock plans, and book value plans.

Pay. Pay includes the following items:

- (a) The straight-time wage and salary paid during the company's customary pay period, including, where applicable, payments for shift differentials, skill differentials, and cost-of-living adjustments.
- (b) Incentive pay and other forms of income such as
 - (1) sales commissions and production incentive pay;
 - (2) bonuses and other annual incentive compensation charged when earned (that is, when the services are performed that generate the compensation);
 - (3) compensation from long-term incentive plans (other than those covered under 705B-5), new future-value incentive plans, or other similar compensation arrangements when accrued;
 - (4) job perquisites and other forms of compensation not covered elsewhere in this definition but reported as income under the Internal Revenue Code and its interpretive regulations and rulings.

(c) Employer contributions or costs for the following fringe benefit items:

- (1) pay for time not worked (e.g., paid vacations and holidays, sick leave and other paid leave);
- (2) saving and thrift plans such as qualified stock bonus plans, qualified profit sharing plans, employee stock ownership plans, and other qualified defined contribution plans;
- (3) qualified defined benefit retirement plans;
- (4) health benefit plans;
- (5) life insurance, accident insurance, legal assistance, educational assistance, and other plans resulting in benefits to employees but not treated as income until a later time.

Pay does not include overtime wages as long as the conditions of that pay are unchanged. Also, pay does not include employer contributions for legally mandated benefit programs.

Pay rate. An employee unit's pay rate in any quarter should be determined in a manner consistent with the employer's accounting practices. Pay rates should be constructed as pay per straight-time hour worked. Pay rates should be the average rates for the employee unit over the quarter or as of the last customary pay period within the quarter. When employer costs for certain pay elements are incurred irregularly (for example, bonus payments and vacation pay) these items should be included according to the pay programs in effect at the end of the quarter and should be included in pay-rate computations as though they were incurred evenly overtime. For employees not compensated on an hourly basis, an estimate of straight-time hours worked should be made and consistently applied.

The method used to compute pay rates should be consistently applied in all measurement periods.

Product. A product is any aggregation of goods (or services) established by the company for purposes of complying with the price deceleration standard, which reflects the company's customary pricing unit. In establishing the product grouping

within a company, the price changes for each product group must reasonably reflect the changes in the prices of the products contained within the category. The method of establishing product groups must be consistently applied during the base period and the program year.

Product price. The price of a product during a quarter is computed by dividing the revenues from sale or lease of the product by the number sold or leased. Sampling of products may be used by a company provided that the methods used comply with sound statistical procedures. Changes in list prices may be used only if percentage changes in them are representative of percent changes in actual transaction prices. Furthermore, prices may be measured at the end of the calendar or fiscal quarter provided that prices do not fluctuate substantially during the quarter.

Program year. For a company, the program year is the twelve-month period immediately following the company's base quarter.

Program-Year Rate of Price Change. The program-year rate of price change is a sales-weighted or revenue-weighted average of percentage changes in prices of products. If desired it may be computed using the following formula:

$$PRPC = \left(\sum_i S_i \frac{P_i(79)}{P_i(78)} - 1 \right) \times 100$$

where

PRPC = the program-year rate of price change;

$P_i(79)$ = the price of the i th product in the 1979 quarter corresponding to the base quarter;

$P_i(78)$ = the price of the i th product in the base quarter;

S_i = i th product sales or revenue share in the base quarter; and

\sum = the summation operator, where the subscript i runs over all products not excluded in 705A-6.

The choice of fiscal or calendar quarters must be consistent throughout the company's calculations. If seasonal factors are important, the weights, S_i , can be calculated using data for the entire base year. Alternatively, the same weights as used to calculate the base-period rate of change can be used.

Rate of pay deceleration. The rate of pay deceleration is the difference between the base rate of change of the company pay rate and the program-year rate of change of the company pay rate where

- (a) the base rate of change of the company pay rate is the annual rate of change of the company pay rate over the two-year period starting in the last complete fiscal or calendar quarter of calendar 1975 and ending in the last complete fiscal or calendar quarter of calendar 1977,
- (b) the program-year rate of change of the company pay rate is the percentage change in the company pay rate from the base quarter to the last quarter of the program year, and
- (c) the company pay rate in any quarter is its employment cost per hour worked for all employees, including all legally mandated costs excluded from the definition of pay.

QUESTIONS AND ANSWERS

The following questions and answers are substantive interpretations of the price and wage standards as they apply to individual situations. They can be used as guidance for actions in similar situations that would be consistent with the intent of the program. But companies and employee units will need to examine their own situations in light of the program to determine how they can best comply with its objectives. Since the burden of interpretation must lie with private parties, actions taken under a good faith interpretations of the wage and price standards will generally be considered in compliance.

I. THE PRICE STANDARD

A. Coverage of Standards

Q1. Are farmers' prices covered?

A. Prices of individual farm products are excluded from a company's price calculations. However, major farm commodity prices will be monitored jointly by the Department of Agriculture and the Council on Wage and Price Stability. Where sustained price increases for major commodities in excess of the overall inflation rate are not justified by changes in costs, administrative actions to expand supply and moderate price increases will be considered. The potential actions would depend upon the specific situation.

Q2. Are food middlemen -- meat packers, canners, super-market chains, etc., -- covered?

A. Yes. Because these industries have special problems in meeting the general price standard, they may instead comply with a margin standard.

Q3. Are cooperatives covered?

A. Yes. They are expected to comply with pay and price standards.

Q4. Are U.S. operations of foreign companies included?

A. Yes. U.S. subsidiaries of foreign companies are covered.

Q5. Are foreign operations of U.S. companies included?

A. No. The standards apply only to domestic operations of these companies.

Q6. Do the standards apply to United States territories and possessions?

A. Yes. The standards apply to operations of domestic or foreign companies in Puerto Rico, Guam, American Samoa, and the Virgin Islands. They do not, however, apply to operations in United Nations Trust Territories administered by the United States.

Q7. Does the program apply to tuition and fees?

A. Yes. Schools, colleges, and other nonprofit organizations are expected to comply with the pay and price standards. Increases in tuition and fees are, however, averaged in with other charges, such as room and board.

Q8. Are utility rates and other regulated fees covered by the anti-inflation program?

A. Yes. Prices determined through a Federal, State, or local government regulatory process are covered by the program. The regulatory agencies are asked to assure compliance to the fullest extent possible.

Q9. How are joint ventures to be treated?

A. A joint venture may be aggregated only if a firm owns more than 50% of that venture's equity. If no one firm owns greater than 50% of a joint venture, then this joint venture should comply with the program as a separate company.

Q10. May a firm aggregate a nonconsolidated subsidiary?

A. No. The standards call for the aggregation only of entities which normally would be aggregated in accordance with SEC reporting requirements (17 CFR, Section 210.4-01 to 09). The Council wishes to avoid abnormal accounting practices.

Q11. Does the fact that the price standard applies to the average rate of price increase for all goods and services sold by a company mean that there is no constraint on individual product prices?

A. Price increases for individual products can exceed the price deceleration standard so long as these increases are offset by lower rates of price increase for other products. The Council, however, will monitor individual product prices and will investigate the causes of sustained increases in major categories of the price indexes that exceed an annual rate of 10 percent.

Q12. Are crude oil, natural gas, and coal included in the calculation of a company's average price change?

A. No. The prices of these products will be monitored by the Council at the overall market level.

Q13. Is it possible to be more precise about the exclusion of commodities "whose historical and current price changes can be shown to have been closely tied to price movements on an organized open exchange market, either domestic or foreign"?

A. This exclusion applies to any commodity for which there is an active organized spot market and the producer price moves closely with the exchange price. If a firm excludes a product in this category, it should be prepared to explain to CWPS the basis for that decision. The exclusion would not ordinarily apply to commodities for which there is only a futures market, nor where customer discounts are given.

Q14. How do custom products differ from new products in applying the price standards?

A. The main difference is that custom products are one-time sales of products built to the specifications of a particular buyer. Custom and new products are treated identically under the standards.

Q15. Are imports covered?

A. Goods sold to a domestic company by a foreign entity are not included in the program. Subsequent sales of imported goods by domestic companies are covered, regardless of where the goods are when title changes.

Q16. Export prices are excluded. What about goods intended for export that are first sold to a domestic firm --for example a broker?

A. As a company cannot know for sure whether a broker will resell a product abroad or domestically, these sales are included in the price calculations.

Q17. Are air fares U.S. citizens pay to foreign carriers covered?

A. As imports, they are excluded.

Q18. Is a public utility that distributes natural gas exempt?

A. No.

Q19. Does the program apply to utility rates?

A. Yes.

Q20. Does the program apply to taxes?

A. No. But government service fees and charges are included.

Q21. Does the program apply to rents?

A. Yes. The landlord's average rent increase for all of his units should be consistent with the price standards.

Q22. Does the program apply to companies that build and sell new houses.

A. Yes. But in most cases such firms will not be able to compute a measure of price change because of the customized nature of their products. Thus, they will be expected to comply with the profit limitation.

Q23. Does the program apply to insurance premiums?

A. Yes. But, because there are some difficulties in measuring prices in this sector, some special standards may need to be developed. These will be developed and issued in the near future.

Q24. Are interest rates covered by the program? Are banks covered?

A. Interest rates are excluded from the price calculation. But banks must meet the profit margin limitation and the pay standard. There are some special problems of computing the profit margin for financial institutions. These issues will be examined and an interpretation of the profit margin limitation as it applies to their situation will be issued in the near future.

B. Compliance

- Q1. Suppose a company is forced to accept a union contract in excess of the standards. Must it still comply with the price standard?
- A. Yes. If these higher labor costs preclude meeting the price deceleration standard, the firm should comply with the profit margin limitation. In any case, the company is out of compliance with the pay standard.
- Q2. Does the exclusion of some product prices from the price calculations under 705A-3(a)-(e) cause problems for companies that use large amounts of these products as inputs?
- A. If a company cannot comply with the price deceleration standard because of increases in the prices of these products, it may comply with the profit margin limitation.
- Q3. If a company has just (after October 1) raised prices and is now not in compliance, must the company roll back prices to be in compliance?
- A. Yes.

C. Computation of the Price Standard

Q1. When does the program year begin for price increases? What is the base quarter?

A. If the company's fiscal quarter corresponds to the calendar quarter, the "base quarter" is the third quarter of 1978 (July through September) and the program year runs through the third quarter of 1979.

If a company has fiscal quarters that do not correspond with calendar quarters it may use as a base quarter the most recent fiscal quarter which ended before October 2, 1978. The program year for the company then includes the next four fiscal quarters.

Q2. If business is done on a contract basis, in making price calculations, should prices be included when contracts are signed or when payment is received?

A. At the time of payment. However, delivery prices determined by contracts signed before October 2, 1978, are excluded unless the contract allows for seller discretion to adjust prices, thereby allowing the seller to meet the price standard.

Q3. Must a consolidated company, which decides to separate its entities, use the same separation for compliance with the pay and with price standards?

A. Yes.

Q4. One company has many operating subsidiaries and divisions. Another company is equally complex, but it is not divided into subsidiaries and divisions. Can both of these companies disaggregate units for compliance purposes?

A. Yes, but it would be easier for the first company. At the option of the company, but subject to review by the Council on Wage and Price Stability, one or more subsidiaries or divisions may be treated as a separate, single company. Such separate entities are allowed if an accounting basis exists for separating them from the parent firm. Two separate kinds of allowable cases should be distinguished. First, if a company has followed an historical practice of separate accounting

treatments with regard to the entities it wants to treat separately, such practices may be continued for purposes of measuring compliance with the program. Second, if a firm has maintained records which allow it to disaggregate historical accounting data into separate entities, such data may be used as a basis for disaggregating its entities. Newly adopted accounting procedures cannot be used to rework accounting data into new formats for purposes of separating units.

Q5. Can a diversified company comply by meeting the price standard on some operations (separate subsidiaries of operating divisions) and the profit limitation on others?

A. Yes. If the company decides to treat subsidiaries or divisions as separate entities, those units unable to meet the price standard can comply by meeting the profit margin limitation.

Q6. Should I use list or transaction prices in making price deceleration calculations?

A. Transaction prices are preferred. If, however, list prices move closely with transaction prices, they may be used.

Q7. The price standard requires full pass through of pay deceleration in excess of 0.5 percentage points. How can a firm calculate its rate of pay deceleration or pay share before the end of the program year?

A. The principle described in Section 705A-2(c) is that a company should pass through pay deceleration in excess of 0.5 percentage on the basis of expected changes or actual changes as they occur. If a company follows a reasonable and good-faith procedure, actual departure from the standard would not be treated as a failure to comply with the program.

D. Profit Margin Limitation

- Q1. What recourse from the profit margin limitation is available if the best two out of the last three years is abnormally low?
- A. No specific provisions have been made to cover this situation. You may have a basis for claiming undue hardship under 705A-6.
- Q2. Can the profit margin limitation be applied to the domestic market only, or must it be applied to all operations, domestic and international?
- A. Foreign operations should be excluded from calculations of prices, profits, and revenues.
- Q3. Are revenues and costs from new and/or discontinued products included in the computation of profit margins for the profit margin limitation?
- A. Yes.
- Q4. How should a change in depreciation accounting methods affecting profits be treated?
- A. If a company has changed methods between the last 3-year period and the program year, it should recompute its profits for the two periods on a consistent basis.
- Q5. Are any firms selling goods and services in the United States exempt from both the price standard and the profit limitation?
- A. Yes. If products excluded under 705A-3(a)-(e) account for more than 75 percent of the company's total revenues during the four quarters prior to the program year, the company need not comply with the price standard or the profit limitation. The company would, however, be expected to comply with the price standard.
- Q6. How does the profit margin limitation apply to non-profit organizations?
- A. Instead of a profit margin limitation, a nonprofit organization would be expected to comply with an operating surplus limitation. Operating surplus is defined as operating funds less total costs and expenses including wages. The operating margin is operating surplus divided by operating funds.

II. THE PAY STANDARD

A. General Standard

- Q1. Does the pay standard mean that the average pay rates of all employee units should rise by 7 percent?
- A. No. The 7-percent standard represents a ceiling for pay-rate increases. It is not a suggested target. A firm which grants 7-percent increases or less is in compliance with the standard.
- Q2. Does the standard mean no one can receive more than a 7-percent raise?
- A. No. In general, the pay standard imposes no limit on individual employee pay rates. Instead the standard applies to average pay rates for employee units.

B. Employee Coverage

- Q1. How do you distinguish the nonunion management group of employees from the nonunion nonmanagement group?
- A. Companies can determine this in a fashion consistent with their past practices. In general, management employees should be those whose duties are primarily of a supervisory nature. For example, the Fair Labor Standards Act distinction between exempt and nonexempt employees could be used. Firms should not, however, alter or stretch previously used categories in order to permit pay increases above the standard for some workers at the expense of others. The intent of this provision is to ensure that nonmanagement personnel are not treated inequitably. If firms can provide alternative verification of equitable treatment of employees, they may combine these groups for purposes of determining their compliance.
- Q2. Can a company define smaller employee units than management and nonmanagement?
- A. Yes. Any further breakdown consistent with a company's accounting procedures is acceptable. To determine overall compliance, the firm may compute a weighted average of the pay-rate increases for these groups, using as weights the percentages of the total pay bill paid to each group.

Q3. Does the 7-percent limit on the pay increase apply to new employees?

A. The limit does not apply to individual workers, whether they are new or old employees. But the average rate paid by a firm should not rise by more than 7 percent during the year, regardless of turnovers or increases in its workforce.

Q4. In the case of mergers, can the parent company treat its newly acquired companies as separate entities for pay standard computations?

A. Yes, if this is the method applied to price computations as well.

Q5. Are U.S. employees assigned to work in other countries subject to the pay standard?

A. No, they should be excluded from the employee groups.

Q6. Does the pay standard apply to Federal, State, and local government workers?

A. Yes.

Q7. Are pay increases mandated by State and local government regulations exempt from the pay standard?

A. Public sector employees are covered by the pay standard. If legally mandated pay increases determined under regulations existing prior to October 25, 1978 exceed 7 percent, the amount above 7 percent is excluded from the pay calculations.

C. Pay and Pay Rates

Q1. Increased employer contribution costs for legally mandated employee benefits are not charged against the 7-percent pay standard. Which employer costs are excluded?

A. Excluded are costs of legally mandated payroll taxes such as Social Security, Worker's Compensation, and Unemployment Insurance. In addition, the increased costs during the program year of new legally required benefits, such as paid maternity leave, changes in benefits under the recently amended Age Discrimination Act, and remaining ERISA mandated pension plan amendments should not be charged against the 7-percent standard.

Q2. With respect to the exclusion of overtime pay, what does the language "as long as the conditions of that pay are unchanged" mean?

A. A change in the conditions of overtime pay occurs when the overtime premium pay rate is changed or when the timing requirements are altered (for example by defining overtime as work beyond 38 hours rather than 40 hours). When such a change occurs during the program year, an estimate of the increased pay due to the change must be included as a pay-rate increase.

Q3. Are cost-of-living differentials received if an employee is transferred to a higher cost-of-living area included as pay-rate increases?

A. Not if they represent continuation of an established practice to pay such differentials.

Q4. Should moving expense reimbursements be included as a component of pay?

A. No.

7. Collective Bargaining Units

Q1. If workers in one union in a company are out of compliance, is the company out of compliance?

A. Yes. Each collective bargaining contract should meet the pay standard; a firm is out of compliance if any of its collective bargaining agreements exceed the pay standard. However, if this group represents less than 5 percent of of the firm's work force, the group can (at the company's discretion) be included within the category of nonunion employees.

Q2. What about a small firm that is a party to a large collective bargaining agreement?

A. If the firm is a participant in the collective bargaining negotiations or a member of the employer association that negotiates the agreement and the agreement exceeds the standards, the firm is not in compliance.

Q3. Does the pay standard apply to collective bargaining settlements which were being negotiated prior to the President's announcement on October 24, but in which no formal agreement was signed?

A. The pay standard does not apply under any of the following circumstances:

- (1) there was a written memorandum of agreement covering wages and benefits prior to October 25;
- (2) there was a written management offer outstanding on October 24, and the contract is later signed with wage and benefit terms that are no higher; or
- (3) there was evidence of an oral agreement covering wages and benefits prior to October 25.

Q4. Is there any power to invalidate contracts that exceed the standard?

A. No, the government has no authority or intention to invalidate labor contracts.

E. Nonunion Standard

Q1. When does the program year begin for wage increases?

A. For nonunion and supervisory workers, the program year is the same for wage increases as for price increases -- typically from the third quarter of 1978 through the third quarter of 1979. If a company uses a fiscal year other than the calendar year, it may use as a base quarter the last complete fiscal quarter prior to October 2, 1978.

Q2. The pay standard for nonunion employee groups compares the base-quarter pay rate with the pay rate in the last quarter of the program year. Does this mean the company is unconstrained over the first three quarters of the program year?

A. No. Having an annual compliance standard minimizes the administrative burden placed on firms and eliminates some compliance problems which might be caused by seasonal factors and the timing of pay-rate changes. However, at

any time during the program year, companies should be prepared to demonstrate that their pay situation is consistent with the 7-percent annual standard.

- Q3. If a pay plan is communicated to pay-plan supervisors prior to October 25, but it is not in operation prior to that date, are increases in excess of 7 percent under this plan excluded from the pay standard?
- A. No. It must either be in operation or communicated to the employees.
- Q4. Section 705B-5(e) says that companies may make adjustments for shifts in the composition of the work force among distinct functional employee subgroups. What does this mean?
- A. Under this option, a separate pay-rate increase may be calculated for each functional employee subgroup. If a weighted average of the resulting pay-rate increases is 7 percent or less, the employee unit is in compliance. For purposes of computing this weighted average, the subgroups' base-quarter shares of total employee-unit pay may be used as weights.
- Q5. What is the effect of these adjustments on the nonunion pay standard?
- A. Under the general standard as applied to nonunion groups, changes in the composition of the work force toward higher-paid employee subgroups could carry the employee unit as a whole over 7 percent even though the 7-percent limitation is satisfied for each job category. This adjustment provides nonunion groups with treatment similar to that allowed for collective bargaining units by permitting companies to assume no changes in the composition of the work force during the program year.
- Q6. What is a distinct functional employee subgroup?
- A. Within an employee unit, a distinct functional subgroup would be identified by type of work (for example, engineers, accountants, secretaries, production workers, etc.). As a rule, these subgroups should be those regularly identified in the company's accounting practices and pay plans as separate employee groups.

Q7. Section 705B-4(b) says that compliance may be determined on the basis of the average pay rates for continuing employees. What is the implication of this option?

A. This option allows the company to follow pay rates for the fixed population of continuing employees employed throughout the program year. This approach may be especially useful to small businesses that have changes in the composition of the work force but do not typically perform the cost-accounting analyses needed to adjust for these compositional shifts.

When excluding promotion and qualification increases under this method, the company should be prepared to demonstrate that such increases granted during the program year are consistent with historical practices.

Q8. Are step-rate increases or longevity increases legitimate promotions?

A. No. In all cases, step-rate or other similar pay-rate increases that represent moves through a pay hierarchy for work that is not substantially changed are included as pay-rate increases.

Q9. What is a qualification increase, and is it included in determining compliance with the pay standard under 705B-4(b)?

A. Qualification increases include automatic progression increases from entry levels to job-rate levels and other increases associated with discrete improvements in an employee's job-related credentials, such as completion of an educational or vocational training program. Such increases are not included in determining compliance.

Q10. Can a company demonstrate compliance with the pay standard for nonunion employee groups on a prospective basis?

A. Yes. If a company bases its pay projections on its standard budgetary practices and assumes continuation of well-established historical relationships, then it can demonstrate compliance on a prospective basis for nonunion units.

Compliance must still be determined retrospectively by comparing the last quarter of the program year with the base quarter. However, failure to meet the 7-percent

standard will not constitute noncompliance if there has been a good-faith effort to comply, but unforeseen events beyond the company's control have caused the failure.

Q11. Can a nonunion unit make multi-year agreements?

- A. Yes, provided they are binding on both parties. The rules for multi-year collective bargaining agreements should be applied in evaluating compliance of such agreements with the standards.

F. Variable Compensation

Q1. How are sales commission and production incentive plans treated under the standard?

- A. Employees operating under these plans are subject to the standard. If the unit's compensation exceeds the standard, companies must be able to demonstrate that they would have been in compliance had the unit's sales or production experience, based on physical volume, been the same as in the year prior to the program year.

Q2. Is compensation from annual incentive plans included as pay?

- A. Yes. Pay from annual incentive plans, such as annual bonuses, is included as pay in the base quarter and during the program year.

Q3. How are annual incentive awards to be treated in computing pay rates?

- A. This depends on whether the awards are made pursuant to a plan or on a discretionary basis. Annual bonuses or awards made according to a plan previously announced, consistently administered, and based on past practice, should be treated as pay over the period earned. For example, a bonus paid in early 1979 depending on performance over calendar-year 1978 should be treated as pay received evenly over 1978.

If the bonus payment is discretionary (not under a plan) and there is no demonstrable objective performance criterion, it should be treated as pay when payment is made (or when accrued if it is deferred). For example, all discretionary bonuses paid (or accrued) in the program year should be included as pay received evenly over the program year. Similarly, one-fourth of all bonuses paid (or accrued) in the preceding year should be treated as pay in the base quarter.

Q4. In determining the bonus amount to be included in the base rate of pay, must the company use the amortized bonus amount which was earned in the base quarter?

A. No. In determining the bonus amount to be included in the base rate of pay, the company may choose either the amortized bonus amount earned in the base quarter or the average of the corresponding amounts earned in any two of the five most recent years.

Q5. How is deferred compensation treated under the standard?

A. Deferred forms of compensation are treated as pay in the period earned regardless of when payment actually occurs. This applies to deferred compensation earned over, or averaged into, the base quarter as well as to compensation earned in the program year.

G. Future-Value Compensation

Q1. How are future-value incentive plans treated under the pay standard?

A. Future-value incentive plans are long-term plans under which units are granted whose value will not be known until some future time. The plans involve qualifications or contingencies which make their exact valuation uncertain, but increases in their value can be subjected to a rough 7-percent limit by limiting the number of units granted during the program year to a 7-percent increase per recipient.

During the program year, changes in the number of recipients eligible to receive units under these plans must be based on plans in existence prior to October 25, 1978 or on the continuation of well established past eligibility practices.

Q2. What constitutes a unit of future-value incentive compensation?

A. A unit includes shares, awards, shares subject to option, or investment amounts. In most cases, units under these plans are the number of shares under options or shares awarded. Where plans involve investment amounts, this means the number of shares times the share price at the time of award.

- Q3. How do stock splits affect the limitation on the number of units to be issued under future-value plans?
- A. The number of units should be adjusted to reflect stock splits and stock dividends.
- Q4. Some long-term incentive plans do not run on an annual basis and have not been in place five years but do have a regular grant cycle -- for example, every other year. How should the percent-increase limitation be applied to continuation of these plans?
- A. The percent-increase limitation should be applied to the number of units issued in the last regular grant period under the plan.

H. Health and Welfare Benefits

- Q1. If, based on actual experience, the cost of maintaining existing health benefits increases by less than 7 percent, does this mean that more than a 7-percent increase in other pay components may be granted?
- A. Yes.
- Q2. If new health benefits are added, are these included in pay-rate computations?
- A. Yes. For example, if the cost of maintaining the old benefit package increases by more than 7 percent and the new benefits add an additional 3 percent, the combination of the two should be treated as a 10-percent increase on the health-benefit cost base.
- Q3. Is it necessary to separate health insurance costs from a general health and welfare benefit package in order to apply the 7-percent maintenance rule?
- A. No. In this case, the 7-percent maintenance assumption may be applied to all benefit items in the health and welfare package.
- Q4. Can individual items in a health benefit package be considered separately, counting some item increases at 7 percent and others at their actual increase?
- A. No. The 7-percent maintenance exclusion must be applied to the health benefit package as a whole.

I. Pensions

- Q1. What is a pay-related pension plan?
- A. These include final-average pay plans, career-average earnings plans, and other similar plans in which the level of benefits provided by the plan is related to earnings or salaries over a specified period of employment.
- Q2. What is a non pay-related pension plan?
- A. These include plans where the benefit level is a flat dollar rate which is independent of earnings or salaries over the period employed.
- Q3. For pay-related pension plans, how does one determine the employer costs attributable to increased benefits due to changes in salary levels during the program year or over the life of a new collective bargaining agreement?
- A. Using standard company accounting procedures, calculate costs for the pension plan at the end of the program period at both the base-quarter and program-year salary rates; the difference between the two is the employer cost attributable to the change in pay levels and is included in the pay-rate change in determining compliance with the pay standard.
- Q4. For pay-related pension plans, is it necessary to perform detailed calculations to sort out employer costs for increased benefits related to salary changes, as set forth in the preceding question?
- A. No. In those cases where the pension plan is not amended during the program period and the benefit structure remains unchanged, it is consistent with the intent of the pay standard to exclude pension funding costs from all pay-rate calculations. This means that pension funding costs would not be included in the base pay rate nor in the program-year pay rate in determining compliance with the pay standard.
- Q5. Why is an increase in benefit levels in a pay-related pension plan charged as a pay-rate increase when there has not been any amendment to the plan?

A. In order to treat pay-related and non pay-related pension plans equitably. For example, a non pay-related plan that provides a pension benefit of \$10 per month per year of service would have to be amended in order to increase the pension benefit. In a pay-related plan, however, the amount of pension benefit automatically changes as salary levels change. If no distinction were made, this would generally result in benefit changes in the non pay-related plans being charged as pay-rate increases while the changes in the pay-related plans would not be charged as pay-rate increases.

Q6. For non pay-related plans, if the benefit level remains unchanged, does this mean that more than a 7-percent increase is allowable on the other components of pay?

A. Yes, since under these conditions the company may include the same dollar pension cost per hour in both the base-quarter pay rate and the program-year pay rate.

J. Low-Wage Exemption

Q1. Should employees with wage rates of \$4.00 per hour or less at the beginning of the program year be removed completely from all employee units?

A. Yes. They are excluded from each employee unit for the entire program year, even if wage-rate increases carry them over the \$4.00 limit during the program year. Further, employees hired during the program year at a wage rate of \$4.00 per hour or less are also excluded.

Q2. Is there any ceiling on the pay-rate increases granted to employees exempted under the low-wage provision?

A. No.

Q3. Will employees whose straight-time wage rate is less than or equal to \$4.00 an hour, but who earn more due to incentive pay, be excluded from pay-rate computations?

A. Determination of the employee's straight-time hourly wage is based on average straight-time earnings, including incentive pay.

Q4. Should employees exempted under the low-wage provision be included in their respective employee units for the purpose of calculating additional price deceleration required by pay deceleration in excess of 0.5 percentage points?

A. Yes.

K. Tandem Pay-Rate Exception

Q. In what circumstances can the tandem pay-rate exception apply?

A. In any of the following circumstances:

- (i) to maintain historical supervisory differentials;
- (ii) for union and nonunion groups of the same company;
- (iii) for union and nonunion groups in a local labor market, irrespective of whether they belong to the same company; and
- (iv) for two separate collective bargaining units.

However, in each of these circumstances, there must be a clear leader-follower relationship and the pay increases must be equal in value and directly related in timing.

L. Productivity Work-Rule Exception

Q1. Is the principle of trading newly negotiated work-rule changes for wage increases to be applied to contract changes that make work rules more restrictive as well as relaxations in work rules or manning requirements?

A. Yes; if such changes produce a demonstrable and measurable decline in productivity growth, they should be deducted from the allowable pay-rate increase.

Q2. Can the principle of productivity increases related to work-rule changes be applied to nonunion units?

A. No. The work-rule exception is intended to apply in those limited situations where companies have no alternative means of eliminating contractual work-rule restrictions that prevent improvements in productivity. This provision does

unfairly discriminate against employee groups that have, in the past, cooperated with management to promote improvements in productivity. Yet, in some circumstances there are no practical alternatives to eliminating previously agreed-to restrictions except through an additional wage increase. In some cases, the unions may have previously foregone a wage increase to obtain the restriction.

Q3. Can wage increases exceed 7 percent for firms that achieve productivity gains in excess of the economy-wide average.

A. No.

III. Special Sectors

A. Food Manufacturers, Retailing and Wholesaling

Q1. Are retail food stores covered?

A. Yes. But, because such stores have severe data problems and may not be able to calculate an adequate measure of price change for the wide range of products that they sell, an alternative standard, based on controlling margins has been provided. However, a retail store is encouraged to comply with the general price standard, if able to do so.

Q2. Must food manufacturers comply with the gross margin limitation?

A. No. They may choose to comply with the general price deceleration standard. If they cannot meet either of these standards, they should, of course, comply with the profit margin limitation.

Q3. May a company elect to comply with the margin standards by controlling markups rather than margins themselves?

A. Yes. A company may choose any alternative method of compliance that is consistent with the manner in which it conducts its business, sets its prices, and keeps its records, as long as the end result yields margins that meet the standard.

Q4. How do food processors and food manufacturers meet their target dollar gross margins during the program year given the seasonal nature of the industry?

A. Food processors and food manufacturers should first calculate their base-quarter dollar gross margin. Next, they should estimate their expected average rate of increase in margin over the next 4 quarters (6.5 percent plus expected increase in physical volume). That overall increase may be divided among the 4 quarters in such a way that seasonality and normal trading patterns are observed. The targets set for each quarter are to be adjusted quarter-by-quarter after observing operating results for each quarter. If a company overshoots its target in one program quarter, it should compensate by undershooting in the next quarter

or quarters, and so on, to achieve a rolling adjustment on a cumulative basis.

Q5. How do I compute the allowable percentage gross margin for a retail company?

A. Assume the percentage gross margin for the 4 quarters prior to October 2, 1978, was 44 percent, and 40 percent for the corresponding four quarters prior to October 2, 1976. The 2-year overall increase is 10 percent and the annual average rate of change is 4.88 percent. Subtract the 0.5 percentage point deceleration (4.88 - 0.5) to get the allowable percentage increase in the margin of 4.38 percent. The allowable percentage margin in the program year is 45.93 percent (44×1.0438)

B. Professional Fees

Q1: Does the program apply to doctors' fees, hospital charges and other medical care prices?

A. Yes. Physician, dentist and other health professional fees are covered under the professional fee standard. Drugs, pharmaceuticals, eyeglasses and other health care products are covered under the general price standards.

Hospital and nursing home care are covered under the program but standards for their services have not yet been completed. This is partly due to the more complex nature of payment mechanisms for these services and the need to coordinate the standards with Administration legislative proposals.

Health insurance is also covered under the program and price standards for health insurance as well as other types of insurance will be issued shortly.

Q2. How is the professional fee standard applied by firms which have sales of products for which the general price standard applies?

A. Companies that provide services for which the professional fee standard applies as well as goods or services for which the general price standard applies, should comply with the appropriate standard for each segment of their business separately.

- Q3. Why is a 6.5 percent fixed price standard being used for professionals rather than the 0.5 percent deceleration standard applicable to firms in most other sectors?
- A. Many professionals do not have the necessary information to calculate weighted average price increases to determine compliance with the general price standards.

For health professions, fee inflation has tended to be considerably higher during recent years than 6.5 percent so that the implementation of this standard should contribute to a more substantial deceleration in medical care costs.

FISCAL NOTE (2d REVISION)

I. REQUEST

Bill/Resolution No. HOUSE CONCURRENT RESOLUTION NO. 2
 Title Approving Certain Recommendations of the Salary Commission
 Requested by State Affairs Date 4/19/79

II. FISCAL DETAIL

Agency Affected Legislative Affairs
 Program Category Affected General Government
 BRU, Program, or Subprogram(s) Affected _____

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
100 PERSONAL SERVICES	35.6	73.6	76.0			
200 TRAVEL	17.4	17.4	17.4			
300 CONTRACTUAL	19.2	19.2	19.2			
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	72.2	110.2	112.6			

FUNDING (Thousands of Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
GENERAL FUND	72.2	110.2	112.6			
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
FULL TIME	-0-					
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Recommendations: (12) (A) - Personal Services (100) ----- \$ 35,532
 Assumes 7% increase effective 1/1/80
 (12) (B) - No change
 (12) (D) - Contractual (300) ----- 19,200
 (12) (E) - No change
 (12) (G) - Travel (200) ----- 17,400
 Round-trip travel for 60 legislators to home districts

IV. DATE Revised 4/19/79 PREPARED BY Warren W. Endicott, Director
 AGENCY Legislative Affairs Agency
 PHONE 465-3850
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

THE LEGISLATURE OF THE STATE OF ALASKA
ELEVENTH LEGISLATURE

FISCAL NOTE (REVISED)

I. REQUEST

Bill/Resolution No. HOUSE CONCURRENT RESOLUTION NO. 2
 Title Approving Certain Recommendations of the Salary Commission
 Requested by State Affairs Date 3/21/79

II. FISCAL DETAIL

Agency Affected Legislative Affairs
 Program Category Affected General Government
 Budget Request Unit(s) Affected _____

EXPENDITURES (Thousands of Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
100 PERSONAL SERVICES	35.6	73.6	76.0			
200 TRAVEL	11.4	11.4	11.4			
300 CONTRACTUAL	19.2	19.2	19.2			
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL	66.2	104.2	106.6			

FUNDING (Thousands of Dollars)

GENERAL FUND	66.2	104.2	106.6			
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME	-0-					
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Recommendations (12) (A) - Personal Services (100) ----- \$ 35,532
 Assumes 7% increase effective 1/1/80
 (12) (B) - No change
 (12) (D) - Contractual (300) ----- 19,200
 (12) (E) - No change
 (12) (G) - Travel (200) ----- 11,400

IV. DATE Revised 3/21/79 PREPARED BY Warren W. Indicott, Director
 AGENCY Legislative Affairs Agency
 PHONE 465-3850
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

ALASKA SALARY COMMISSION

FINAL REPORT

1979

COMMISSION MEMBERS:

KATHLEEN DIEBELS, CHAIRMAN
WILLIAM FELL
CLIFFORD HARTMAN
KARL JOHNSTONE

January 23, 1979

President of the Senate of the State of Alaska

Speaker of the House of the State of Alaska

In accordance with AS 39.23, the Alaska Salary Commission is submitting this report to you. Copies may be obtained from the Division of Personnel and Labor Relations, Department of Administration.

Sincerely,



Kathleen (Kay) Diebels
Chairman
Alaska Salary Commission

KD/mlh

PURPOSE OF THE SALARY COMMISSION

The written policy as expressed in House and Senate Committee Substitute for Senate Bill #499, "An Act relating to compensation, benefits and classifications of public officers and employees; creating the Alaska Salary Commission; and providing for an effective date" states that the Commission is to determine salary and retirement benefits for public officers based upon equitable relationships being maintained among various positions.

Employees covered by Salary Commission recommendations are the Governor, Lieutenant Governor, Department Commissioners, Deputy Commissioners, Directors, the Judiciary, Legislature and three of the four Regulatory Commissions (the Alaska Transportation Commission was removed from review by the Legislature in 1978.)

FOREWARD

The Act establishing the Salary Commission calls for a biennial report, with submission of a preliminary report by November 15, and the necessity for soliciting public comments prior to submission of final recommendations within 10 days of the opening of the Legislature.

The Salary Commission met in January and March 1978, to elect a Chairman and reach agreement on a schedule of meetings to develop salary and benefit recommendations for submission to the Legislature in January 1979. The agenda also included a policy question as to whether the Salary Commission should consider submission of 1978 amendments to its recommendations, issued January 18, 1977, (as amended on March 2, 1977) in response to Administration and Court System requests for clarification of certain recommendations, and revision of others. By majority vote, the Salary Commission decided not to issue amendments, but limit itself to developing recommendations for 1979, which would include any clarification or revision of the 1977 recommendations deemed necessary.

During 1978, and 1979, the Commission met a total of 13 days.

As provided in AS 39.23, the Division of Personnel and Labor Relations, Department of Administration, provided staff assistance, and the Commission wishes to thank those men and women for their support. Also, as provided by the enabling legislation, the Commissioner of Administration did provide the Commission with recommendations regarding compensation and retirement benefits.

During its organizational meeting, the Commission immediately established:

1. An overall plan for achieving its objective;
2. A timetable consistent with provisions of the Act;
3. Staff liaison and support personnel and facilities;
4. A method of gathering data necessary to meet Commission requirements;
5. Meeting dates.

Again, as provided by the AS 39.23, the Commission called upon various State agencies for information, and the information was provided in a prompt manner. The Salary Commission, therefore, wishes to acknowledge the valuable assistance of numerous individuals and divisions within State government.

The Commission made time available for those who wished to present information to the Commission.

Some of the resource materials utilized include Department of Labor Cost of Living Statistics, comparative data from "The Book of the States," comparative data from the Council of State Governments, statistical data

from the Department of Administration, comparative data from the "1975 Citizens' Conference on State Legislators," returns from research requested by the Commission of certain salaries and benefits from selected states, position paper and analysis provided by the Judicial System. The "Survey of Salaries and Benefits" compiled and published in December, 1977, by the Division of Personnel and Labor Relations also provided valuable aid for the Commission.

A combination of factors was considered in arriving at salary recommendations; among them were: inflation and its affect on cost-of-living, salaries and benefits paid in other states, salary relationships to other State employees and the fact that recommended salaries would prevail for two years without further review. Additionally, on October 13, 1978, President Carter's Council on Wage and Price Stability issued guidelines which established maximum wage levels allowable for both private and public sector employees.

The Commission made a conscious compromise decision in 1976 to bring salaries only to 1977 levels, even though they would be in effect for two (2) years. This was done because the significant raises voted in 1975 by the Legislature were nullified by the August, 1976 referendum and the mood of the taxpayer about those raises was perceived to continue to prevail after the referendum.

The Salary Commission also reviewed substantial public input on its preliminary recommendations received in the form of written comments addressed to the Commission.

Giving due regard to the public input, considering the factors outlined above, and following regulations established by the President's Council on Wage and Price Stability, the Commission recommends salary adjustments listed on the following pages of this report.

RECOMMENDATIONS

1) GOVERNOR

The Salary Commission recommends:

- A. A salary of \$57,231 annually for the Governor of Alaska.
- B. Beginning January 1, 1980, the above salary of the Governor shall be increased in an amount equal to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.
- C. The Governor remain in the Public Employees Retirement System.

2) LIEUTENANT GOVERNOR

The Salary Commission recommends:

- A. The salary of \$51,088 annually for the Lieutenant Governor of Alaska.
- B. Beginning January 1, 1980, the above salary of the Lieutenant Governor shall be increased in an amount equal to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.
- C. The Lieutenant Governor remain in the Public Employees Retirement System.

3) DEPARTMENT COMMISSIONERS

The Salary Commission recommends:

- A. A salary of \$51,088 annually for Department Commissioners.
- B. Beginning January 1, 1980, the above salary for Department Commissioners shall be increased in an amount equal to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.

C. The Department Commissioners remain in the Public Employees Retirement System.

4) DEPUTY COMMISSIONERS

The Salary Commission recommends:

A. A salary of \$45,762 annually except that those State employees who accept appointment as Deputy Commissioner whose annual salary exceeds \$45,762 shall continue to receive that higher salary.

B. Beginning January 1, 1980, the above salary for Deputy Commissioners shall be increased in an amount equal to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.

C. The Deputy Commissioners remain in the Public Employees Retirement System.

5) DIRECTORS

The Salary Commission recommends:

A. Directors remain on State pay plan (AS 39.27.011). We continue to recommend entry level of new Directors be in the 'A' step of the salary range at which they are hired. We recognize that promotions to Director may sometimes necessitate that those receiving the promotion move into a step other than 'A' in order to be assured a salary increase. In such cases, that person receiving the promotion should enter at the lowest step necessary to insure a salary increase.

B. Salary progression follow the steps outlined in the State salary schedule in AS 39.27.011 to a maximum of \$50,000 annually. Directors whose salaries exceed \$50,000 annually on December 31, 1978, remain at that salary without further increases.

C. All Division Directors who, as of December 31, 1978, are on frozen salary shall, as of January 1, 1979, be placed within the salary schedule at the appropriate range closest to but not less than their current salary and shall progress in step according to the schedule within that salary range, provided that their salary shall not exceed a maximum of \$50,000/year.

D. Any State employee who, without a break in continuous service, is appointed to a position of Division Director after December 31, 1978, shall be placed at the time of appointment within the salary schedule at the appropriate range and step closest to but not less than his current salary, and shall progress in step according to

schedule within that salary range, provided his salary shall not exceed \$50,000/year.

E. Directors remain in the Public Employees Retirement System

F. These recommendations apply to base salaries, exclusive of geographic differential payments.

6) ALASKA PUBLIC UTILITIES COMMISSION

The Salary Commission recommends:

A. That members of the Commission be paid \$44,353 annually.

B. The Chairman of the Commission be paid an additional \$500 annually, prorated as part of the regular salary.

C. Beginning January 1, 1980, the above salary of each Alaska Public Utilities Commissioner shall be increased in an amount equal to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.

D. Alaska Public Utilities Commission members remain in the Public Employees Retirement System.

7) ALASKA COMMERCIAL FISHERIES ENTRY COMMISSION

The Salary Commission recommends:

A. A salary of \$44,353 annually for members of the Alaska Commercial Fisheries Entry Commission.

B. The Chairman of the Commission be paid an additional \$500 annually, prorated as part of the regular salary.

C. Beginning January 1, 1980, the above salary of each Alaska Commercial Fisheries Entry Commissioner shall be increased in an amount equal to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.

D. Commissioners remain in the Public Employees Retirement System.

8) ALASKA PIPELINE COMMISSION

The Salary Commission recommends:

A. A salary of \$44,353 annually for members of the Pipeline Commission.

B The Chairman of the Commission be paid an additional \$500 annually, prorated as part of the regular salary.

C. Beginning January 1, 1980, the above salary of each Alaska Pipeline Commissioner shall be increased in an amount equal to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.

D. Commissioners remain in the Public Employees Retirement System.

9) SUPREME COURT JUSTICES

The Salary Commission recommends:

A. Annual salary of \$57,231 for Supreme Court Justices.

B. Beginning January 1, 1980, the above salary of each Supreme Court Justice shall be increased in an amount equal to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.

C. No change in the retirement benefits now applicable to Supreme Court Justices.

10) SUPERIOR COURT JUDGES

The Salary Commission recommends:

A. Annual salary of \$52,462 for Superior Court Judges.

B. Beginning January 1, 1980, the above salary of each Superior Court Judge shall be increased in an amount equal to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.

C. No change in retirement benefits now applicable to Superior Court Judges.

11) DISTRICT COURT JUDGES

The Salary Commission recommends:

A. Annual salary of \$44,353 for District Court Judges.

B. Beginning January 1, 1980, the above salary of each District Court Judge shall be increased in an amount equal to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.

C. No change in retirement benefits now applicable to District Court Judges.

12) LEGISLATORS

The Salary Commission recommends:

A. A salary of \$12,690 annually for State Legislators.

B. The Senate President and House Speaker each receive an additional \$500 per year payable on the opening day of each regular session of the Legislature or upon confirmation by the House or Senate after the opening of a regular session of the Legislature.

C. Legislators receive an annual allowance to a maximum of \$4,320.

D. Beginning January 1, 1980, the above salary of each Legislator shall be increased in an amount equal to the to the increase, expressed in terms of percentage, in the United States Department of Labor Consumer Price Index (Urban and Clerical Workers) for Anchorage, Alaska from January, 1979, to January, 1980. Any salary adjustment shall be made in an amount calculated to the nearest tenth of a percentage point increase in the Consumer Price Index.

E. Participation in the Public Employees Retirement System remain voluntary for Legislators.

F. Legislators receive per diem at the same rate as State employees, including regional variations where applicable. (See per diem rate schedule for administrative State employees. Appendix II.) Legislators who do not live in their city of residence during regular or special legislative sessions will receive per diem at the short-term rate; interim committee work should be paid at the short-term per diem rate; however, per diem is to be paid at

the long-term (lower) rate if Legislators are able to stay in their city of residence while on legislative business.

G. We concur with action by 1978 legislative session adopting a 1977 Salary Commission recommendation that each Legislator shall be reimbursed at cost, and upon presentation of proof, for one round-trip to his home district during each regular session.

APPENDIX I

<u>POSITION</u>	<u>SALARIES EFFECTIVE JANUARY 1, 1977</u>	<u>SALARIES RECOMMENDED FOR JANUARY 1, 1979</u>
Governor	\$52,992.00	\$57,231.00
Lieutenant Governor	47,304.00	51,088.00
Chief Justice	52,992.00	57,231.00
Associate Justice	52,992.00	57,231.00
Superior Court Judge	48,576.00	52,462.00
District Court Judge	41,068.00	44,353.00
House Speaker	12,250.00	13,190.00
Representative	11,750.00	12,690.00
Senate President	12,250.00	13,190.00
Senator	11,750.00	12,690.00
Commissioner	47,304.00	51,088.00
Deputy Commissioner	42,372.00	45,762.00
Chairman, ACFEC	39,872.00	44,853.00
Commissioner, ACFEC	39,372.00	44,353.00
Chairman, APUC	39,872.00	44,853.00
Commissioner, APUC	39,372.00	44,353.00
Chairman, APC	39,872.00	44,853.00
Commissioner, APC	39,372.00	44,353.00
Division Director	38,868.00 (min.)	50,000.00 (max.)*

* Directors to remain on the State Pay Plan to a maximum of \$50,000.00.

~~12,690~~
~~11,750~~ / ~~11,750~~
~~11,750~~ / ~~11,750~~
~~2250~~

~~12,690~~ / ~~11,750.00~~
~~11,750~~
~~84000~~

~~12,690~~
~~11,750~~
~~11,750~~
~~84000~~

APPENDIX II

PER DIEM RATES

(In Effect November, 1978)

<u>LOCATION</u>	<u>HOUSE ELECTION DISTRICT</u>	<u>SHORT-TERM PER DIEM RATE</u>	<u>LONG-TERM PER DIEM RATE</u>
Outside Alaska - U.S. & Canada	0	\$50.00	\$35.00
Ketchikan - Prince of Wales	1	50.00	35.00
Wrangell - Petersburg	2	52.00	35.00
Sitka	3	52.00	35.00
Juneau	4	55.00	35.00
Lynn Canal - Icy Straits	5	54.00	35.00
Cordova - Valdez	6	58.00	35.00
Palmer - Wasilla - Talkeetna	7	52.00	35.00
Anchorage	8	55.00	35.00
Seward	9	54.00	35.00
Kenai - Cook Inlet	10	54.00	35.00
Kodiak	11	54.00	35.00
Aleutian Islands	12	63.00	38.00
Bristol Bay	13	63.00	38.00
Bethel	14	65.00	39.00
Yukon - Kuskokwim	15	67.00	40.00
Fairbanks - Fort Yukon (South of Arctic Circle)	16-S	58.00	35.00
Fairbanks - Fort Yukon (North of Arctic Circle)	16-N	67.00	40.00
Barrow - Kobuk	17	96.00	58.00
Kotzebue	17	84.00	50.00
Nome	18	82.00	49.00
Wade Hampton	19	65.00	39.00
*Pipeline Corridor (South of Arctic Circle)	PC-S	58.00	35.00
*Pipeline Corridor (North of Arctic Circle)	PC-N	67.00	40.00
City of New York	----	65.00	39.00
City of Washington, D.C.	----	65.00	39.00

* In all communities along the Pipeline Corridor from Valdez to Prudhoe Bay, except the communities of Valdez and Fairbanks, the State will pay either the established per diem or actual costs for lodging and meals. Actual costs must be supported by paid receipts or billings.

MEMORANDUM

TO: The Honorable Mike Miller
Chairman
House State Affairs Committee
Alaska State Legislature

DATE February 9, 1979

FILE NO:

TELEPHONE NO:

FROM: Commissioner B. B. Allen *BA*
Department of Administration

SUBJECT HCR 2

Comparison of subject resolution with the text of the Salary Commission's final report to the Legislature shows some substantive differences in language. Although these changes may have been intentional, I am calling them to your attention on the chance they were not.

Language in HCR 2:

"Whereas Recommendation Number (5)(A) proposes that there be no change in the salary level of division directors; the Salary Commission recognizes that promotions from deputy director of a division may sometimes necessitate that those receiving a promotion move into a step other than 'A' in order to be assured a salary increase; in such cases, that person receiving the promotion should enter at the lowest step necessary to receive a salary increase;"

Language in Salary Commission Recommendation (5)(A):

"Directors remain on state pay plan (AS 39.27.011). We continue to recommend entry level of new Directors be in the 'A' step of the salary range at which they are hired. We recognize that promotions to Director may sometimes necessitate that those receiving the promotion move into a step other than 'A' in order to be assured a salary increase. In such cases, that person receiving the promotion should enter at the lowest step necessary to insure a salary increase."

It looks as if some lines may have been omitted when the Resolution was typed. Also, in the era of magnetic card typing capability, it appears some language from the 1977 Resolution was used in preparing HCR 2. For example, the 1977 Resolution listed promotions from "deputy director." After hearing about our problems in promoting anyone else to division director, the Salary Commission removed all reference to class titles in preparing its recommendations to the Legislature.

Language in HCR 2:

"Whereas Recommendation Number (5)(C) proposes that directors who, as of December 31, 1978, have their salaries frozen [emphasis added] shall, as of January 1, 1979, be placed within the state salary schedule in AS 39.27.011 at the range

The Honorable Mike Miller
Page 2
February 9, 1979

closest to, but not less than, their current salary and their salary progression shall follow the steps outlined in the salary schedule to a maximum of \$50,000 annually;"

Language in Salary Commission Recommendation (5)(C):

"All Division Directors who, as of December 31, 1978, are on frozen salary [emphasis added] shall, as of January 1, 1979, be placed within the salary schedule at the appropriate range closest to but not less than their current salary and shall progress in step according to the schedule within that salary range, provided that their salary shall not exceed a maximum of \$50,000/year."

This recommendation was designed to correct situations whereby non deputy directors who are promoted to director had their salaries frozen rather than cut to achieve step 'A' of the higher salary range. Recommendation (5)(B) provides that director salaries above \$50,000 will be frozen without further increase. To substitute the words "have their salaries frozen" for "are on frozen salary" for Recommendation (5)(C) would contradict Recommendation (5)(B).

I am available at your convenience to discuss these topics.

BBA/bc
P2-N